Council Meeting
April 21, 2009

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: Finance – Revised Dates for Budget Workshops/Public Hearings for Fiscal Years 2009-11

RECOMMENDATION

Recommendation of the Finance Director to approve June 2 and June 9, 2009, as dates to conduct two budget workshops/public hearings on the City's two-year 2009-11 operating budget, inclusive of revisions to address revenue shortfalls and expenditure fluctuations.

BACKGROUND/ANALYSIS

At the February 24, 2009, City Council meeting your Honorable Body scheduled the first budget workshop/hearing for the City's two year 2009-2011 operating budget on May 12 and the second budget workshop/hearing on June 2. The 2nd budget workshop/hearing was to be held after the State's May 19 Special Election.

In addition, the State has reported an additional $8 billion deficit for the upcoming 2009-10 fiscal year, which could become an even greater deficit should the ballot measures not pass. Regardless of the outcome of the State's ballot measures given the additional $8 billion shortfall, the State will not likely have a solution for "balancing" prior to the City's charter requirement to have a proposed budget by June 1 and an adopted budget by June 30. Even though Propositions 1A and 1B would technically not affect the 2009-10 fiscal year, Proposition 1C, 1D, and 1E could. Staff would prefer to take a conservative approach and know the outcome of the ballot measures prior to submitting the City Manager's proposed 2009-11 operating budget to Council.

Staff recommends revising the dates for the 1st budget workshop/hearing from May 12 to June 2, 2009 and the 2nd budget workshop/hearing date from June 2 to June 9, 2009.

Once the budget workshops/public hearings have concluded, your Honorable Body would be requested to formally adopt any modifications to the budget and on June 16 staff would return to Council with the annual appropriations resolution for the 2009-10 fiscal year, the 1st year of the 2009-11 operating budget.

Respectfully submitted,

Eric E. Tsao
Finance Director

CONCUR:

LeRoy J. Jackson
City Manager

Attachment: Council item dated 2/24/09

12B

Council Meeting
February 24, 2009

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: Finance – Operating Budget Issues & Dates for Budget Workshops/Public Hearings for Fiscal Year 2009-11

RECOMMENDATION

Recommendation of the Finance Director to approve May 5 and May 12, 2009, as dates to conduct two budget workshops/public hearings on the City's two-year 2009-11 Operating Budget inclusive of revisions to address revenue shortfalls and expenditure fluctuations.

BACKGROUND/ANALYSIS

The current recession is negatively affecting consumer confidence measures, employment rates, the stock market, and, by extension, CalPERS (Public Employees' Retirement System) rates. To give context to the state of the economy, the Dow Jones Industrial Average (DJIA), one of many barometers of the economy, was valued at 12,832 when the 2008-09 budget was adopted on May 13, 2008. The DJIA has since dropped 38% to 8,000 as of January 30, 2009.

The magnitude of the downturn in the economy can also be seen in the waning Consumer confidence measure – which dropped from 87.3% in January 2007 to 37.7% in January 2009. The unemployment rate is also increasing as unemployment is now 9.3% in the State, 9.5% in Los Angeles County and 4.7% in the City of Torrance. The CPI (Consumer Price Index) and PPI (Producer Price Index) are also indicative of the declining economy with annual percentage decreases of -0.6% and -4.1%, respectively, as of December 2008.

Revenues for the General Fund were pretty much on track for the first quarter of the fiscal year (July – Sept). The 2nd Quarter as expected revenues began falling short of budget estimates. This trend is expected to continue. As a result of this economic upheaval, the expectations for revenues have necessarily changed. The City expects to see a $3.3 million shortfall in Sales Tax revenue due to the sharp drop in consumer spending, offset only partially by increases in investment earnings, utility users tax, and property tax revenue expectations. Charges for Services and Occupancy Tax revenues are also expected to fall short by a similar amount.

CalPERS reported a 25% reduction in value on January 22, 2009. As a result of this drop in value, increased contributions from the City will be needed to offset the investment loss. There is a two year delay between the current rate of investment return and the implementation of rate changes; PERS rates are anticipated to jump in 2011-12.

Staff met with the Finance and Governmental Operations Committee on January 27, 2009 to update the 2008-09 First Quarter Budget Review to include revisions in revenue projections and PERS rates. As part of the proposed 2008-09 budget, the General Fund five year projection reflects a deficit of <$530,137> for fiscal year 2011-12. This figure has been revised to <$7,417,507> due primarily to a projected $4.2 million increase in PERS costs combined with a $3.0 million revenue reduction.

Torrance is in a very manageable situation of having a budget shortfall of about 1.5% to 2% of the General Fund Budget in the upcoming two year budget for 2009-11 and an additional 2% to 2.5% in the 2011-12 fiscal year. The relatively stable financial condition of the City is a direct result of the fiscally conservative approach by the Council for only allocating funds when necessary, looking ahead and planning over a five year period, and funding recurring expenditures with ongoing sources of revenue.

The City Manager, in May will be proposing his 2009-11 two year operating budget which will be balanced and include five year projections for revenues and expenses for each operating fund. In dealing with the economic downturn, the City Manager has been evaluating all personnel requisitions and deferring expenditures where feasible. In addition, the City Manager has requested all departments to provide budget reduction scenarios for the upcoming two year budget, in the amount of 2% and 4% of departmental salary budgets (net of reimbursements). The departments have been asked once again to look at different ways to do business, to re-engineer; look at policies, operating procedures and assess the value being added; and what redundant functions between departments can be eliminated. The reductions at the 2% level could result in potential savings of $2.4 million to $4.9 million at the 4% level or greater as the City implements these proposals.

Budget reduction amounts are based on departmental salary budgets (excluding professional services and materials budgets) in order to avoid disproportionately impacting departments with significant non-labor budgets. This will allow said departments to continue to budget for such expenditures such as vehicle fuel, software maintenance contracts, dumping fees, and pass through costs (cost of water).

As PERS rates are not anticipated to increase significantly until 2011-12, the City has the opportunity to take a phased approach in implementing the budget reductions. However, initial budget reductions will be necessary beginning in 2009-10. It should be noted that when investment markets are doing well, CalPERS rates reflected the benefit to cities. From 1997 thorough 2001 the City's non safety employee rate was zero. However, due to the extreme market conditions, CalPERS efforts to stabilize rates are falling short.

City Charter requirements dictate that the City budget be adopted by the Council no later than June 30. Though the City adopts a two-year budget, Council is required to adopt an appropriations resolution annually.

May 5, 2009 and May 12, 2009, are recommended as the dates to conduct two budget workshops/public hearings to solicit public comment on the City's 2009-11 two-year operating budget. These meetings would be conducted as part of the regularly scheduled council meetings.

Once the budget workshops/public hearings have concluded, Your Honorable Body would be requested to formally adopt any modifications to the budget and on May 17th the Council will be asked to approve the annual appropriations resolution for the year of the 2009-10 fiscal year.

Respectfully submitted,

Eric E. Tsao
Finance Director

CONCUR:

LeRoy J. Jackson
City Manager