

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

Members of the Council:

Subject: 2nd Quarter 2008-09 Budget Review

RECOMMENDATION

Recommendation of the Finance and Governmental Operations Committee that Your Honorable Body concur with the following recommendations:

- Accept and file the Second Quarter 2008-09 Budget Review Report
- Accept the City Treasurer's Investment Report
- Approve the program modifications for the following departments: City Manager's Office/Cable Television, Community Development and Public Works.

BACKGROUND/ANALYSIS

On Tuesday, April 21, 2009, the Finance and Governmental Operations Committee heard a presentation from staff on the Second Quarter 2008-09 Budget Review.

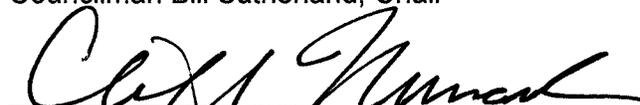
The Committee voted and accepted unanimously the Second Quarter 2008-09 Budget Review Report, the City Treasurer's Investment Report, and the program modifications for the City Manager's Office/Cable Television, Community Development and Public Works departments.

Respectfully submitted,

Finance and Governmental Operations Committee



Councilman Bill Sutherland, Chair



Councilman Cliff Numark, Member



Councilwoman Susan Rhilinger, Member

Attachments:

- A. Executive Summary
- B. City Treasurer's Investment Report
- C. Program Modifications
- D. 2nd Quarter Budget Review Report (Limited Distribution. A copy is available for review in the City Clerk's Office.)

Committee Meeting of
April 21, 2009

Honorable Chair and Members
of the Finance and Governmental Operations Committee
City Hall
Torrance, California

Members of the Committee:

Subject: Mid Year 2008- 09 Budget Review

RECOMMENDATION

The City Manager and the Finance Director recommend that the following items be approved by the Finance and Governmental Operations Committee and recommended to City Council for action:

- Accept the Mid Year 2008-09 Budget Review Report
- Accept the City Treasurer's Investment Report
- Approve the program modifications for the following departments: City Manager's Office/Cable, Community Development and Public Works.

EXECUTIVE SUMMARY

On January 27, 2009 staff presented to the Committee an update to the 1st Quarter 2008-09 Budget Review Report. At the January meeting, staff reported on the latest revenue collections (January 2009) for the general fund. Staff stated that sales tax receipts for the 3rd Quarter (calendar) came in below original budget estimates and that receipts in this area would continue to reflect the direction of the economy. The two triple flip amounts received were slightly less than budgeted, but the annual projected variance is not material. The first major installment of property taxes, which represents 40% of the annual amount, was slightly higher than originally projected.

Several of the top five major revenues sources, which represent 80% of the general fund, Sales Tax, Utility Users' Tax, Property Tax, Occupancy Tax and Business License taxes are impacted by the economy.

As of January 31, 2009 the overall general fund revenues collected is tracking slightly below last year; 55.5% or \$93.9 million of the budget has been realized as compared to 56.1% or \$92.4 million for the same time period last year.

The City's economy driven revenues continue to under-perform. Job losses and unemployment continue to increase in Los Angeles County as the unemployment rate for February reached 11.0%. Torrance's unemployment rate of 5.5% continues to trend below Los Angeles County and the National unemployment rate of 8.1% for the same period.

While the economic recession is not over, more economists are projecting that the economy is "leveling off". Whether those projections are accurate or not, more importantly is that the

financial markets are performing as if there is more “certainty” than “uncertainty”, which has a stabilizing effect.

The financial markets have been in turmoil. As reported in the 1st Quarter 2008-09 Budget Review (November 20), the Dow Jones Industrial (DJI) closed at 7,552 down close to 3,300 points from September 30, a drop of 30%. The market dropped as low as 6,547 on March 9 but has come back to close at 8,125 today.

Other news that shows the economy is leveling off is that several banks are reporting profits and money is moving into consumer products, as well as financial companies, as there are signs that the recession could be easing. Money is flowing into companies like Proctor and Gamble, as well as technology companies, which some economists believe is an indicator that perhaps the economy is leveling.

Even though both the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) and the Producers Price Index (PPI) in Los Angeles are in decline, the talk of deflation has been discounted and inflation is projected to be moderate in the near term.

Index	Apr-08	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan-09	Feb	Mar
CPI - L.A. County	3.7%	4.1%	6.1%	6.6%	5.7%	5.0%	3.5%	0.6%	-0.6%	-0.6%	-0.5%	-1.6%
CPI - National	4.2%	4.5%	5.6%	6.2%	5.9%	5.4%	3.8%	0.7%	-0.5%	-0.5%	-0.3%	-0.9%
PPI	11.4%	13.3%	15.5%	17.6%	16.0%	13.7%	6.9%	-1.1%	-4.1%	-5.4%	-7.1%	-10.6%

The housing market may be stabilizing as the most recent home sales data for March in Los Angeles County shows significant gains for the 3rd consecutive month. Median home prices rose \$10,000 over February 2009 but are still down 32% from the prior year. Foreclosures and short sale activity spiked dramatically in March and this may cause downward pressure on prices in those areas with strong foreclosure resale activity, such as the Inland Empire. California has the 3rd highest foreclosure rate in the nation at 1 in 58 homes behind Nevada (1 in 27) and Arizona (1 in 54).

For Torrance, the median home price ranges from \$446,000 to \$670,000.

Name	Zip Code	Sale of Single Family Homes	Price Median 000's omitted	Price % Change from February 2008
Torrance	90277	3	\$650	-44.9%
Torrance	90501	7	\$446	-9.9%
Torrance	90503	15	\$595	-8.5%
Torrance	90504	8	\$450	-19.6%
Torrance	90505	15	\$670	-0.7%

Expenditures

All General Fund departments are within their overall budget as of period ending January 31, 2009 with the exception of the Police Department. The Police Department is projected to exceed budget by approximately \$700,000 by the end of the fiscal year. The largest variance is overtime for sworn personnel, projected to exceed budget by \$3.3 million which is comparable to \$3.2 million last year and \$2.4 million in 2006-07. Overtime is driven by activity in the City and by the number of vacancies in the department. Overtime is

constantly monitored by management for its effectiveness and efficiency. In previous years, the department was able to use other areas of the budget to offset overtime costs. However, due to rising costs for materials and professional services without corresponding increases to budget, the amount available to offset overtime costs has dwindled. As the department shifts to "Team Policing," which will enhance how police personnel are deployed throughout the City, the Police Department will work toward reductions in overtime costs in future years.

Overall expenditures for the General Fund for the period ending January 31, 2009 is \$96,539,709 which represents 54.7% of the annual budget of \$176,463,903. This is slightly better of 56.5% and 55.7% when compared to the prior two fiscal years respectively.

Revenues

The key revenue receipt, since our last report, was on March 20, 2009 for sales tax for the 4th quarter (calendar), while receipts for the 2nd and 3rd quarter were relatively flat of <0.2%> and <1.0%> from the previous year. The receipts for 4th quarter receipts declined dramatically, as expected, by <15%> from a year ago. As mentioned during 1st Quarter, the Natural Gas (refinery) component of the City's UUT is tracked closely with the price of oil and as oil has dropped, so has the natural gas commodity costs. Since January, the cost of natural gas has dropped from \$5.37 mmbtu to \$3.55, a drop of 34%. Due to this dramatic drop in the commodity costs the projection for UUT has been revised accordingly.

Description	Budget 2008-09	Actual as of 03/31/2009	Actual As of 03/31/2008	Projection (Jan-09) Surplus/Deficit	Revised Projection Surplus/Deficit
Property Tax	\$ 28,154,100	\$ 17,536,458	\$ 16,757,736	\$ 400,000	(\$300,000)
Vehicle License Fee Swap	10,750,000	5,478,617	5,197,804	-	210,000
Prop Transfer Tax	600,000	332,286	490,517	(200,000)	(150,000)
Sales Tax	32,666,889	22,586,636	24,026,292	(3,300,000)	(3,300,000)
Sales Tax Flip	10,315,000	4,981,929	5,667,103	-	(350,000)
Public Safety Augmentation Fund	1,364,979	988,621	1,054,978	(50,000)	(80,000)
Utility Users' Tax	37,172,922	26,533,491	26,707,568	400,000	(1,400,000)
Business License	7,832,000	7,713,246	7,429,587	-	400,000
Franchise Tax	4,708,580	1,426,611	1,422,723	-	750,000
Occupancy Tax	7,892,629	6,589,831	6,118,313	(450,000)	(250,000)
Other Taxes	935,130	519,102	837,271	-	-
In Lieu & Transfer	14,212,170	11,267,128	10,486,911	-	280,000
Interest Income	3,121,000	2,888,884	2,973,869	1,000,000	1,500,000
Charges for Service	9,506,314	5,655,366	6,684,077	(200,000)	(380,000)
Total	\$169,231,713	\$114,498,206	\$115,854,749	(\$2,400,000)	(\$3,070,000)

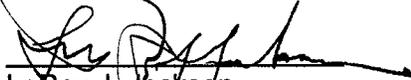
Staff has revised revenues to fall below budget by approximately \$3.0 to \$4.0 million. Based on the City's expenditure pattern to date, staff is projecting expenditure savings to be between \$4 to \$6 million net of year end encumbrances. This would keep the current fiscal year budget balanced.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:


LeRoy J. Jackson
City Manager

April 17, 2009

COMMITTEE MEETING

April 21, 2009

Honorable Chair and Members
 Of the Finance & Governmental Operations Committee
 City Hall
 Torrance, California

The Treasurer's Office and the Investment Advisory Committee have set out to develop and implement investment procedures that insure the City's investment objectives of a high degree of asset safety, an adequate liquidity to meet operating and capital expenditure needs, and a reasonable return of the City's investment assets given the City's foremost goals of safety and liquidity.

Investment Summary

As of January 31, 2009 total investments of \$305.2 million consisted of the following categories:

1) Pooled Funds (Investment Portfolio)	\$188.8 million
2) Restricted Funds:	
a. Debt issue proceeds	\$ 10.1 million
b. Deferred Compensation	
1) 457	\$ 98.7 million
2) 401(a)	\$ 4.1 million
c. Retirement Health Savings Plan	\$ 3.5 million

The pooled Funds consist of surplus funds invested and managed directly by the City Treasurer. To date the fund has generated year-to-date interest earnings of \$4.4 million and the effective rate of return equaled 3.73%.

The restricted funds, made up of the Debt issue proceeds, Deferred Compensation funds and the Retirement Health Savings Plan are invested accordingly:

- 1) Debt issue proceeds are invested through a trustee appointed under the Debt Trust Indenture. The funds are invested at the direction of the City Treasurer.
- 2) Deferred Compensation fund is managed by a third party administrator - Great West Life. Investment options made available to the participants are selected and approved by the Deferred Compensation Committee. The fund is a self-directed program. Participants have the ability to direct their contributions among several different investment options.

- 3) The Retirement Health Savings Plan is managed by a third party administrator – ICMA Retirement. Investment Options are made available to the participants and are selected by ICMA Retirement. Participants can direct their contributions among several different investment options. This tax-deferred program has been offered to employees for the purpose of saving dollars to supplement the cost of health expenses upon retirement.

NOTE: The Deferred Compensation Plans and the Retirement Health Savings Plan are held in a custodial account for the benefit of the Participant or their Beneficiaries and is not an asset of the City of Torrance.

Investment Forecast

The Federal Open Market Committee has taken a proactive approach to the current federal funds rate by lowering its target rate 175 basis points to .25 percent over the last four meetings. Financial markets remain under considerable stress, and credit has tightened further for some businesses and households.

What does this mean to rates across the short and intermediate curve? Rates on a whole have declined due to the decision of the FOMC to lower the federal funds rate. The portfolio will experience a decline in the average rate of return due to lower interest rates and will probably continue over the next several months.

GASB 31 Impacts on Investments

GASB 31 took effect June 1997. The intent of GASB 31 is to bring to light potential liquidity problems by requiring municipalities to mark to market their securities with a maturity greater than one year. This paper gain or loss must be booked against investment earnings at year-end.

One way to avoid the gain/loss issue is to limit all purchases to maturities of less than one year. This condition would then preclude a market valuation and allow investments to be carried on a book value basis. This situation could reduce earnings potential in the loss of yield that a security with a longer term would usually offer.

Within our investment policy we adhere to a buy and hold philosophy. Therefore, our current strategy will not change in light of GASB 31. We will continue to place a percentage of the portfolio out longer on the yield curve to take advantage of higher earnings. At the same time we keep in excess of 35% of the portfolio liquid in order to meet current and future obligations.

At the present time the monthly investment report tracks all securities by listing the face value, book value and market value. The portfolio paper gain or loss is the difference between book and market value. The unrealized gain/loss is noted monthly even though it is not physically applied to earnings until year-end.

Investment Strategy

For the past four months, the activity has been positive. All securities that have matured or been called have been re-invested or deposited in the Local Agency Investment Fund. However, due to the declining market environment all new purchases are earning a lower rate of return. The average yield to maturity on purchases made over the last four months was 2.98%.

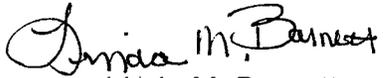
Strategically, we will continue to place money out in the market. Although the market would encourage a very short portfolio, it is not our intent to change our objectives of matching purchases with cash flow needs. We will continue to place investments out on the yield curve to take advantage of a higher rate of return with funds that are not needed on the short term.

To be consistent with the City's objectives of high degree of Asset safety, all investments will be invested in high quality rated instruments or those guaranteed by the "full faith and credit" of the government.

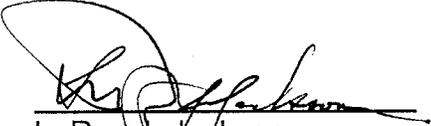
Recommendation

Accept and file the 2nd Quarter Report.

Respectfully submitted,


Linda M. Barnett
City Treasurer

NOTED:


LeRoy J. Jackson
Investment Committee Member

Committee Meeting of
April 21, 2009

Honorable Chair and Members
of the Finance and Governmental Operations Committee
City Hall
Torrance, California

SUBJECT: City Manager's Office – Approve capital budget for Web 2.0.
Expenditure: \$50,000

RECOMMENDATION

Recommendation of the City Manager that the Finance and Governmental Operations Committee appropriate \$50,000 from the Public, Educational, and Government Access (PEG) fund balance for Web 2.0 development and implementation, Phase III Citywide Web Redesign Project.

Funding

Funding is available in the Public, Educational, and Government Access (PEG) fund balance.

BACKGROUND/ ANALYSIS

The CITYWIDE WEBSITE REDESIGN (CWR) PROJECT was initiated in 2003. The overall project includes the following phases: Phase I, the complete reorganization of design and layout; Phase II, the addition of a Calendar; and now Phase III, the addition of Web 2.0 or two-way communication services. Products may include: Social Networking, RSS Feeds, Blogs, Podcast, Subscriptions, and E-newsletters.

The Web 2.0 is an opportunity to improve our ability to communicate with community and support on-going efforts of government transparency through effective and efficient uses of technology such as the internet.

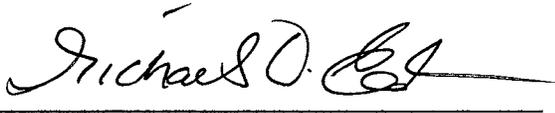
- No additional personnel will be needed. All design and implementation work will be done by existing personnel and an off-site consultant.
- The initial impact to other departments will be to provide the Project Management Team (PMT) with information necessary to efficiently communicate the city's services, products, and events to our audience that consist of: Public (citizen, business, visitors, etc.); peers (other agencies – government, non-profit, etc.); internal (within our City government organization). The on-going impact to departments will be empowering them to directly communicate with our community in a more efficient and cost effective manner.
- The improvements should increase online usage, allow the community to connect to information they desire in a passive manner, locate information more efficiently, and better promote products and events.

- The improvements should also decrease telephone calls and direct email inquiries to the City from the public, peers, and within our city government.

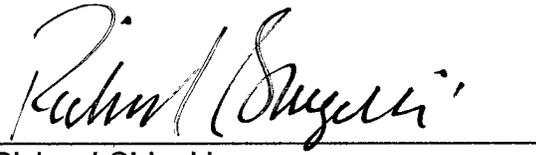
Staff anticipates \$9000 in annual costs for maintenance and software support. The Communication & Information Technology Department will increase the Cable and Community Relations Division annual flat rate to support this program.

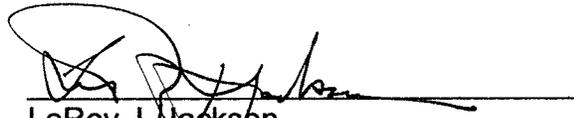
Respectfully submitted,

LeRoy J. Jackson
City Manager

By: 
Michael D. Smith
Cable & Community Relations Manager

CONCUR:


Richard Shigaki
Director, Communication & Information Technology


LeRoy J. Jackson
City Manager

City of Torrance

Capital Improvement Project Request Form

Type of Project:

Equipment Automation Infrastructure Facilities Other

Project Location: Citywide (torrnet.com)

Department: CMO/CIT

Project Title: WEB 2.0

Description: The CITYWIDE WEBSITE REDESIGN (CWR) PROJECT was initiated in 2003. The overall project includes the following phases: Phase I, the complete reorganization of design and layout; Phase II, the addition of a Calendar; and now Phase III, the addition of Web 2.0 or two-way communication services. Products may include: Social Networking, RSS Feeds, Blogs, Podcast, Subscriptions, and E-newsletters.

Justification: The Web 2.0 is an opportunity to improve our ability to communicate with community and support on-going efforts of government transparency through effective and efficient uses of technology such as the internet.

- No additional personnel will be needed. All design and implementation work will be done by existing personnel and an off-site consultant.
- The initial impact to other departments will be to provide the Project Management Team (PMT) with information necessary to efficiently communicate the city's services, products, and events to our audience that consist of: Public (citizen, business, visitors, etc.); peers (other agencies – government, non-profit, etc.); internal (within our City government organization). The on-going impact to departments will be empowering them to directly communicate with our community in a more efficient and cost effective manner.
- The improvements should increase online usage, allow the community to connect to information they desire in a passive manner, locate information more efficiently, and better promote products and events.
- The improvements should also decrease telephone calls and direct email inquiries to the City from the public, peers, and within our city government.

Project Costs**Estimated Project Implementation Cost**

Additional Personnel Requirements:	
# of positions (within department)	_____
Annual labor costs (with benefits)	\$ _____
Additional Personnel Requirements:	
# of positions (support department)	_____
Annual labor costs (with benefits)	\$ _____
Equipment	\$ _____
Materials	\$ 50,000.00
Professional Services	\$ _____
Other	\$ _____
TOTAL	\$ 50,000.00

Status of Land: [] No land involved [] City owned [] Not yet acquired

Estimated Annual Ongoing Operating and Maintenance Costs

None

Additional Personnel Requirements:
 # of position(s) - within department _____
 Annual labor costs (with benefits) _____ \$

Additional Personnel Requirements:
 # of position(s) - support department _____
 Annual labor costs (with benefits) _____ \$

Professional Services/Contracts _____ \$
 Materials _____ \$
 Equipment _____ \$
 Other: Software Maintenance \$ 9,000

TOTAL \$ 9,000

Project Time Line

Fiscal Year Ending June 30

<i>Description</i>	2008	2009	2010	2011	
Survey/Design		X			
Plans/Specifications		X			
Purchase/Construction		X	X		
Other: _____					

Project Financing

Fiscal Year Ending June 30

<i>Financing Source</i>	2009	2010	2011	2012	2013	TOTAL
PEG Fund	\$50,000					\$50,000
TOTAL	\$50,000					\$50,000
<i>Less offsetting revenue</i>						
Net project request	\$50,000					\$50,000

Vehicle Request Approval (if necessary)

Automation Request Approval (if necessary)

Department Head Signature

Date

Department Head Signature

Date

Requested by:

Department Head Signature

Date

Department Priority # _____

Committee Meeting of
April 21, 2009

Honorable Chair and Members
of the Finance and Governmental Operations Committee
City Hall
Torrance, California

Members of the Committee:

Subject: Community Development – Request to appropriate funds for Housing Assistance payments

Expenditure: \$275,000

RECOMMENDATION

The Community Development Director recommends the Finance and Governmental Operations Committee approve the appropriation of \$275,000 from the Housing Authority's Fund balance to cover the increased costs in rental assistance payments for the remainder of this fiscal year.

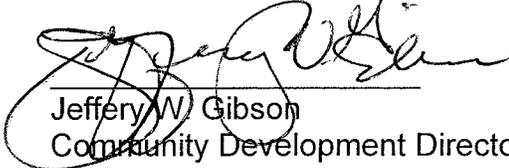
Funding

Funding is available in the Housing Authority's fund balance. The funding is used to subsidize rents for low income elderly, disabled and other families on the Section 8 Rental Assistance Program.

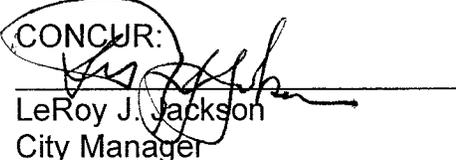
BACKGROUND/ANALYSIS

The U.S Department of Housing and Urban Development (HUD), an agency of the federal government, provides funding for housing assistance payments on a calendar year basis. The housing assistance payments have been steadily rising each month for factors such as increased lease-up and higher rental assistance to program participants; mainly due to the worsening economy. Funding is available from the Housing Authority's fund balance to cover these additional expenses. In maximizing the amount of assistance payments a maximum number of families can be assisted ensuring that all the funds available to the Housing Authority are utilized.

Respectfully submitted,


Jeffery W. Gibson
Community Development Director

CONCUR:


LeRoy J. Jackson
City Manager

Committee Meeting of
April 21, 2009

Honorable Chair and Members
of the Finance and Governmental Operations Committee
City Hall
Torrance, California

SUBJECT: Public Works – Conversion of Small Meters to Automated Meter Reading System (AMR) and Small Meter Retrofit Program.

Expenditure: \$270,000

RECOMMENDATION

Recommendation of the Public Works Director that the Finance and Governmental Operations Committee approve and appropriate \$270,000 for the Conversion of Small Meters to Automated Meter Reading System (AMR) and Small Meter Retrofit program.

Funding

Funding is available from the Water Enterprise fund balance.

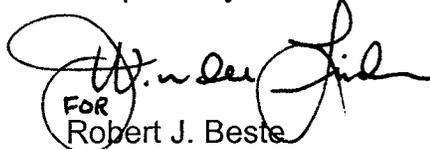
BACKGROUND/ANALYSIS

FEAP 548 for the Conversion of Large Meters to Automated Meter Reading System (AMR) and Large Meter Retrofit Program is complete; with the remaining \$270,000 from this project returned to the Water Enterprise fund balance. It is recommended to allocate these funds for the Conversion of Small Meters to Automated Meter Reading System (AMR) and Small Meter Retrofit Program. The large AMR Retrofit program was phase one of a multi-stage project to convert all meters to full AMR system.

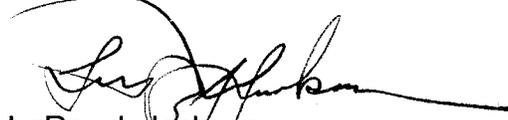
The AMR system, once fully implemented, will permit meter readers to use laptop computers in vehicles to receive radio signals from AMR meters to retrieve consumption data of customers for billing purposes. As a result, the time taken to perform the function of meter reading could be reduced drastically.

AMR has a number of advantages compared to traditional meter reading practices including: a 75% reduction in meter reading time; improved meter reading accuracy/accountability; fewer callbacks for re-reads; detection of possible leaks at the customer's premises.

Respectfully submitted,


FOR
Robert J. Beste
Public Works Director

CONCUR:


LeRoy J. Jackson
City Manager

Attachment: A. FEAP Request Form

City of Torrance
FEAP Project Request Form

Type of Project:

Equipment Automation Infrastructure Facilities Other

Requesting Department:

Public Works / Water Operations

Managing Department: Public Works**Project Leader: Alan Berndt**

**Project Location: Throughout
Municipal Water Service Area**

Project Title: Conversion of Small Meter Project

Project Start Date: May 2009

Estimated Completion Date: March 2010

Description: This project provides for the implementation of a conversion program for residential small meters to an automated metering system (AMR), which will be performed in conjunction with corresponding residential meter change out program.

Justification: Torrance Municipal Water currently has 26,000 meters in service of which 3,500 meters are AMR. Our standard plans for new construction include the installation of AMR meters and Water Operation Staff has recently completed large meter change out program. Residential water meters are reaching the age of there useful life and will be replaced on a phased basis with AMR units over the next 5 years. As a result of this change out we expect to convert another 1,200 meters bringing the total AMR units to approximately 15 percent of our total meters in the system.

Impact of Non-Approval: Due to age of meters, City may experience a loss of revenue due to under registration of water.

Other Alternatives Considered: No

Project Costs**Estimated Project Implementation Cost (ONE TIME COSTS)**

	Within Dept	Support Dept.	Comments:
Personnel Requirements			
# of Positions			
Labor Costs:	\$ 0	\$ 0	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Equipment	\$ 0	\$	
Materials	\$ 270,000	\$	
Professional and contract services	\$ 0	\$	
Other:	\$	\$	
Other:	\$	\$	
TOTAL	\$ 270,000	\$	

**Estimated Annual Ongoing Operating and Maintenance Costs
(UPON PROJECT COMPLETION/IMPLEMENTATION)** Not Applicable

	Within Dept	Support Dept.	Comments:
Personnel Requirements # of positions			
Annual Labor Costs:	\$	\$	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Materials	\$	\$	
Equipment	\$	\$	
Professional and contract services	\$	\$	
Other:	\$	\$	
Other:	\$	\$	
Other	\$	\$	
TOTAL	\$	\$	

Project Time Line

Fiscal Year Ending June 30

<u>Description</u>	2008-09	2009-10	2010-11	2011-12	2012-13
Survey/Design					
Plans/Specifications					
Purchase/Construction		x			
Other: <u>Installation</u>		x			

Project Financing

Fiscal Year Ending June 30

<i>Financing Source</i>	2008-09	2009-10	2010-11	2011-12	2012-13	TOTAL
Water Fund	\$200,000	\$70,000				\$270,000
TOTAL COST	\$200,000	\$70,000				\$270,000

Requested by:	
Department Head	Date

Department Priority # :	High	Medium	Low
	X		

Type an X in the box if project is:
High, Medium or Low