

Council Meeting of
March 15, 2011

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

Members of the Council:

Subject: Finance, City Manager – Approval of dates to conduct budget workshops/public hearings on the City’s two-year 2011-13 Operating Budget and the 2011-12 Capital Budget and approval of budget adoption date

RECOMMENDATION

Recommendation of the Finance Director and the City Manager that the City Council approve June 7 and June 14 as dates to conduct two budget workshops/public hearings on the City’s two-year 2011-13 Operating Budget and the 2011-12 Capital Budget and, if needed, budget adoption on June 21.

BACKGROUND/ANALYSIS

We are twenty months into the recovery of the recession that began in December 2007, which officially ended in June 2009. What’s happening? NOT ENOUGH NEW JOBS!

Public sector employment continues to drop as budget deficits are still prevalent, which are caused essentially by reduced consumer spending. Private sector jobs are recovering ever so slightly as earnings for the most part are positive. As of January the National unemployment rate has improve slightly from 9.7% in January 2010 to 9.0% in January 2011; however, unemployment within California continues to hover around 12.5% to 12.4% for the State, 12.5% to 12.9% for Los Angeles County and remaining constant for the City of Torrance at 6.6% in January 2010 compared to 6.6% in January 2011. On the other hand, the Dow Jones and NASDAQ indexes appear to have fully recovered from the recession as the Dow is trading around the 12,200 and the NASDAQ is at 2,750 as compared to January 2007 levels of 12,622 and 2,435 respectively.

Even though performance of the stock market is not a predictor of the economy, it does show that wealth is being created. And as wealth is created, as we saw in previous “bull” markets as well as the housing boom, it does positively affect consumer confidence and consumer spending, which is about two-thirds of the US economy.

Revenue Update

Revenue receipts for the General Fund are up \$2.0 million over the same time last year or 2.6%. Staff has analyzed the receipts to date and have updated year-end projections as summarized below.

The projection as presented is based on revenues received from July through December, essentially six months of the twelve month fiscal year. Some General Fund revenues such as business license taxes and sales tax (holiday sales) will not be recorded until March. The bulk of the franchise fees are received in April and the 2nd installment of property taxes in May.

At this time, staff is projecting General Fund revenues to be in the range of \$2.5 million to \$3.5 million short of the adopted budget estimates, approximately \$3.0 million +/- 15%. The main area of concern is in utility users' tax for electricity and natural gas.

Receipts to date have been tracking about 10% below budget estimates and investment earnings are tracking well below budget estimates due to the very low interest rate environment.

However, the positive news is that both sales tax and construction tax continue to improve. Sales tax figures continue to improve quarter over quarter. 1st quarter (FY) 2011 sales were slightly better than 4th quarter 2010 and 2nd quarter sales tax results continued the upward trend. Receipts for construction taxes and construction related fees (charges for services) are tracking above budget estimates.

| General Fund Revenues | | |
|----------------------------------|-----------------------|-----------------------|
| | <u>Annual Budget</u> | <u>Projection</u> |
| Property Taxes | \$ 28,530,000 | - |
| VLF Swap | 11,070,000 | - |
| Real Property Tax Transfer | 600,000 | (100,000) |
| Sales and Use Taxes | 26,000,000 | 800,000 |
| Sales Tax Flip | 8,584,000 | - |
| Sales Tax - Public Safety County | 1,350,000 | - |
| Utility Users' Tax | | |
| Electricity | 15,400,000 | (500,000) |
| Gas - natural | 9,100,000 | (1,600,000) |
| Telecom/Cellular | 9,000,000 | (400,000) |
| Water | 1,900,000 | 200,000 |
| Cable | 1,600,000 | (100,000) |
| Business License Tax | 7,900,000 | 100,000 |
| Franchise Fees | 5,400,000 | (400,000) |
| Occupancy Taxes | 7,400,000 | - |
| Construction Tax/Other | 810,000 | - |
| In Lieu & Transfers | 17,714,655 | - |
| Investment Earnings | 2,000,000 | (700,000) |
| Fines & Forfeitures | 1,475,000 | (400,000) |
| Charges for Svc/Misc | 9,725,284 | 100,000 |
| | <u>\$ 165,558,939</u> | <u>\$ (3,000,000)</u> |

The projection of the revenue decline of approximately \$2.5 - \$3.5 million, while "material", is not unmanageable. Currently, expenditures for the General Fund through January 31, 2011 are tracking about 2.7% below budget or about \$2.7 million to date. Should expenditure trends continue, expenditure "savings" of approximately \$4.5 million could be used to offset the projected revenue shortfall.

The impact to the City's two-year operating budget for 2011-12 and 2012-13 fiscal years still needs to be determined. If the revenue data the City receives in the following months continue to be positive, in particular labor market reports and sales tax receipts for the holiday season, this would reinforce staff's projection assumptions and would be positive for the upcoming two year budget preparations. Should the revenues forecast trend downwards

resulting in adverse receipts, then the upcoming budget proposals would most likely include additional program and service level reductions and/or eliminations as well as revising fees the City charges.

There are many uncertainties that the City must deal with, not the least being on how the State will balance their budget and its effect on the City. Part of the State's balancing strategies is to abolish redevelopment agencies (RDA) and return RDA tax increment to the Counties, Schools, etc. Ultimately, whether the Governor is successful or not will most likely be decided by the courts. The actual "written" information on the Governor's proposal is "sparse". There has been much discussion between cities, RDA's, attorney's, etc on what would and what would not be considered debt of the agency that would be eligible to be repaid with tax increment. The Council has already taken action to protect the interest of the City by transferring assets from the RDA to the City to insure local control.

The recession has placed a lot of pressure on all sectors (private, public, residential, etc.) of the economy to reduce costs and increase efficiencies which City revenues are experiencing a direct impact. As the business, industrial, and residential communities continue to conserve utility usage (electricity, natural gas, water, etc.) the City's revenues from utility usage will be adversely affected and growth will be minimal.

Staff will be presenting the "Mid-Year" budget report to the Finance and Governmental Operations Committee in late March which will then be presented to the full Council.

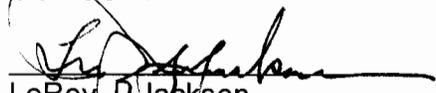
Under ideal circumstances the City Manager prefers to present the budget to the Council in May. However, given the uncertainty of the State Budget and the benefit of waiting for additional revenues to be received, the City Manager plans to present the City's two-year operating budget for 2011-12 and 2012-13 to your Honorable Body in June. Budget preparation has already begun with updating labor projections and interdepartmental charges. Departments have commenced to work on possible reduction scenarios should they become necessary. Along with the operating budget, staff will also present the proposal for capital expenditures for facilities, equipment, automation and infrastructure projects for the 2011-12 fiscal year. By doing this, the Capital Budget will be brought back in cycle during the 2nd year of the Two-Year Operating Budget.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:



LeRoy J. Jackson
City Manager