

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

Members of the Council:

**Subject: Finance and Governmental Operations Committee – Accept 2<sup>nd</sup> Quarter 2010-2011 Budget Review Report, Investment Report, and approve program modifications.**

**RECOMMENDATION**

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

- 1) Accept the 2<sup>nd</sup> Quarter (Mid Year) 2010-11 Budget Review Report;
- 2) Accept the City Treasurer's Investment Report; and
- 3) Approve the program modification Community Development and Human Resources departments.

**BACKGROUND/ANALYSIS**

On Tuesday, April 19, the Finance and Governmental Operations Committee heard a presentation from staff on the Second Quarter 2010-11 Budget Review.

The Committee voted and accepted unanimously the Second Quarter 2010-11 Budget Review Report, the City Treasurer's Investment Report, and the program modifications.

Respectfully submitted,

Finance and Governmental Operations Committee



\_\_\_\_\_  
Councilman Bill Sutherland, Chair

Absent from meeting

\_\_\_\_\_  
Councilman Cliff Numark, Member



\_\_\_\_\_  
Councilwoman Susan Rhilinger, Member

Attachments:

- A. Executive Summary
- B. City Treasurer's Investment Report
- C. Program Modifications



Committee Meeting of  
April 19, 2011

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

Members of the Committee:

**Subject: Mid Year 2010-11 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 2010-11 Budget Review Report
- Accept the City Treasurer's Investment Report
- Approve the program modification for the following departments: Community Development and Human Resources

### **EXECUTIVE SUMMARY**

The General Fund expenditures are slightly higher than years past but are well within budget at 56.2%, compared to 55.4% and 54.7% in the prior two years. All non-safety departments (General Fund) are well within budget, while Police and Fire are projected to be fully expended by fiscal year end. Revenues at mid-year through January 31, 2011 are at 47.6 % compared to 48.7% and 52.3% in the prior two years. City revenues are lagging and are projected to be below budget by \$3.0 to \$3.5 million by fiscal year end.

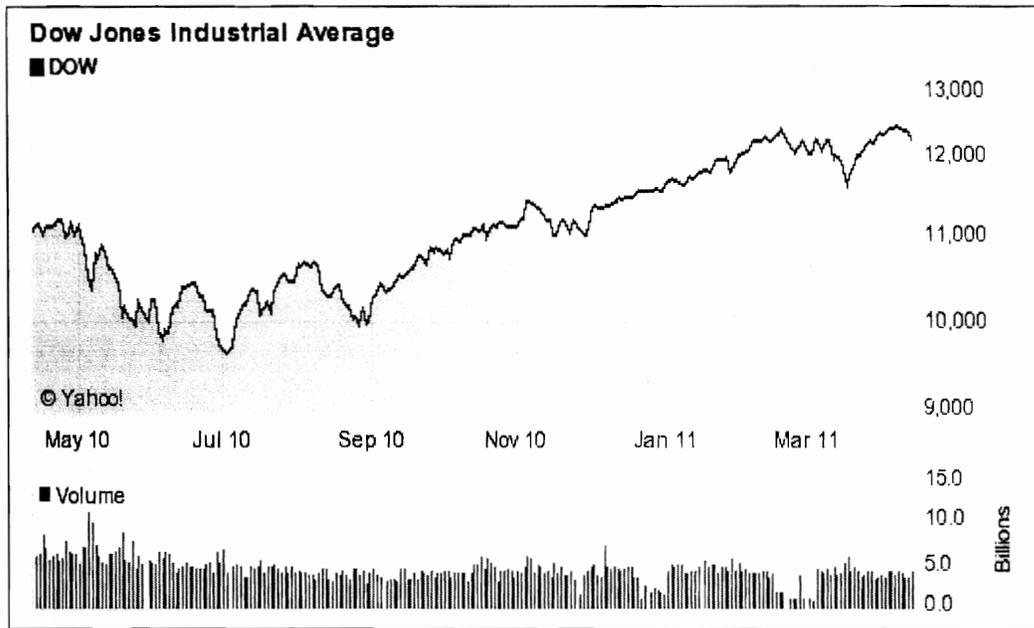
The Gross Domestic Product (GDP) for the United States for the 3<sup>rd</sup> Quarter grew at 2.2%, the most it has in two years. The recession technically ended in June 2009, but for many, that's just a technicality, especially the unemployed and under employed. The economic recovery has been very slow and will continue to be sluggish until jobs are created. As the recovery continues, revenue streams to the City should improve. The budgetary outlook for the City remains somewhat optimistic.

There are many signs and economic indicators that reflect a growing economy: the rebound in the stock markets, positive growth in retail sales, decline in business inventories, and some improvement in unemployment.

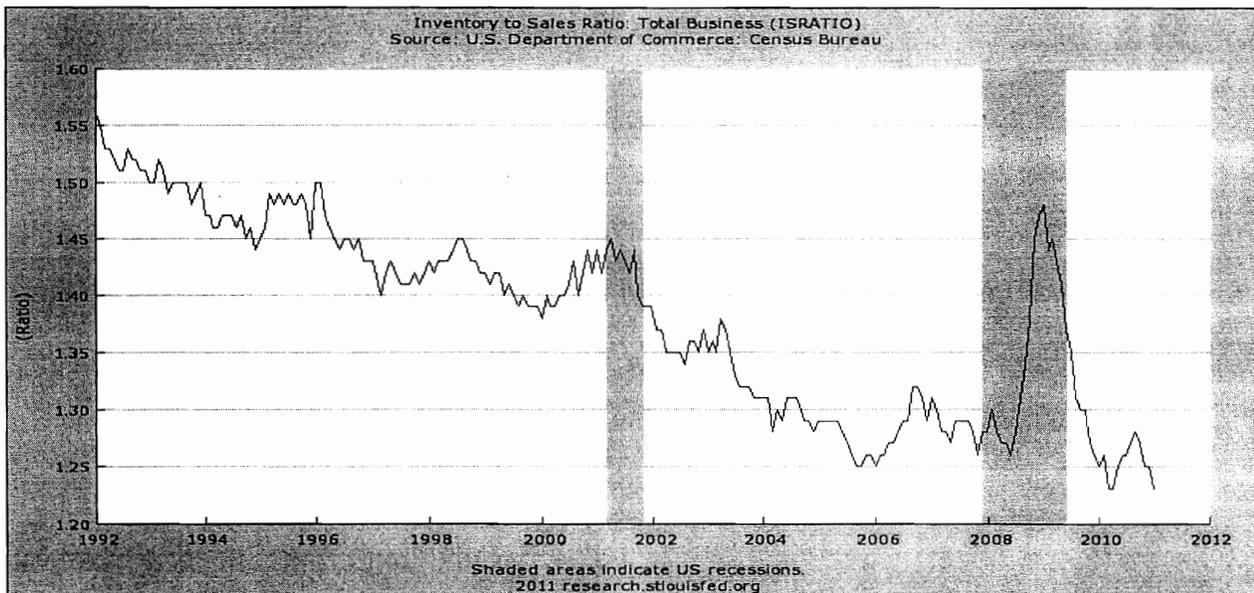
The Dow Jones Industrial Average is trading above the 12,200 level near the 52 week high and back to June 2008 levels (see chart). A favorable sign since the Dow was at 6,547 in March of 2009 but nowhere near the 14,000 level that was achieved in October 2007.

#### **A Snapshot of Torrance**

Population: 149,717  
Peak Daytime Population (2 p.m.): 203,011  
Area: 21 Square Miles  
1297 Full-time Employees  
6 Fire Stations  
1 Police Station &  
1 Police Community Center  
224 Sworn Police Employees  
148 Sworn Fire Employees  
6 Public Libraries  
47,000 Street Trees  
550 Miles of Sidewalks  
46 Parks & Recreation Amenities



Business inventories at January 2011 are at 1.23 inventories to sales ratio which is slightly lower than the 1.25 one year ago and is at a 10-year low. As inventories drop, companies will need to increase production by adding work hours to the existing work force or hire additional workers.



The unemployment rate continues to be a drag on the economy. Even though the unemployment rate is a lagging economic indicator it remains a major concern. Unemployment or under employment directly effects consumer spending which makes up 2/3rds of the economy. The Federal and State unemployment rates are improving, February 2011 is 8.9% and 12.2% after reaching a high of 10.1% and 12.5% respectively back in late 2009 early 2010. The unemployment rate for Torrance is at 6.2% which is down 0.4% from January 2010 and is well below the National, State, and County of Los Angeles averages as well as some of our neighboring cities. The unemployment rate can be deceiving since it only measures those actively seeking employment. The drop in some areas could be attributable to those job seekers who are underemployed or have simply stopped looking.

<b>February Unemployment Rate</b>	<b>2011</b>	<b>2010</b>
Federal Gov	8.9%	9.7%
State of California	12.2	12.5
Los Angeles County	12.3	12.5
Carson	12.6	12.5
Gardena	11.5	11.7
Glendale	10.7	10.9
Hawthorne	15.9	16.1
Inglewood	15.3	15.5
Santa Monica	10.2	10.3
Torrance	6.2	6.6

As mentioned above, the overall General Fund revenues are projected to be short of budget by approximately \$3.0 to \$3.5 million. The shortfall in revenues is directly related to revenues that are sensitive to the economy. The major revenues that have been impacted by the sluggish economy are Sales Tax, Utility Users' Tax and the Sales Tax backfill from the State (Triple Flip), as well as business license, occupancy and franchise taxes.

Sales tax revenue generates approximately \$35 million annually and is the General Fund's second largest revenue source.

Actual sales tax receipts lag by about one quarter.

In December, the City received final sales tax receipts for the July – September Quarter and in March, the City received final sales tax for the holiday season (October – December).

<b>Retail Sales</b>				
<b>Top 5 Sales Tax Producers by Economic Segment (by 000's)</b>				
Description	Year End 09/30/10	Year End 09/30/09	Variance	%
Auto Sales New	\$ 5,203	\$ 4,976	\$ 227	4.6 %
Department Stores	\$ 4,230	\$ 4,303	\$ (73)	-1.7 %
Restaurants	\$ 3,442	\$ 3,446	\$ (4)	-0.1%
Misc Retail	\$ 2,914	\$ 2,978	\$ (64)	-2.1%
Leasing	\$ 2,101	\$ 2,311	\$ 54	2.6%

Actual sales tax receipts received through January 2011 are \$1.3 million higher than last year which is a positive sign of the economy recovering as 2/3rds of the economy is driven by consumer spending. New car sales, which are considered large durable goods, are improving which is another sign that the economy is recovering. At this time, staff is projecting sales tax to be slightly better than budget projections inclusive of the State's sales tax flip monies.

As sales tax revenues recover, other General Fund revenues are not recovering as well. The following charts list the City's General Fund's budgeted revenues along with staff's year-end projection for the various revenue classifications.

Revenue receipts for the General Fund are up \$1.7 million over the same time last year. Staff has analyzed the receipts to date and has updated year-end projections as summarized in the chart.

The projection, as presented, is based on revenues received from July through January, 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 February and March. The bulk of the franchise fees are received in April and the 2<sup>nd</sup> installment of property taxes in May.

At this time, staff is projecting General Fund revenues to be approximately \$3.0 to \$3.5 million short of the adopted budget estimates. The main area of concern is in utility users' tax (UUT) for electricity and investment earnings. As mentioned above, the positive news is in sales tax revenues.

The projection of the revenue shortfall of approximately \$3.0 - \$3.5 million, while "material", is not unmanageable. Currently, expenditures for the General Fund through January 31, 2011 are tracking about 2.1% below budget or about \$3.5 - \$4.0 million in projected expenditure savings. As these expenditure trends continue, these expenditure "savings" would 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 is being determined by staff and so far the revenue data is positive. In particular, labor market reports and sales tax receipts for the holiday season continue to improve. Unfortunately, while revenues are slowly improving they will remain below what was forecasted for the 2011-12 and 2012-13 fiscal years. The upcoming budget proposals for the next two year budget cycle will include additional program and service level reductions.

<b>General Fund Revenues</b>		
	<u>Annual Budget</u>	<u>Change</u>
Property Taxes	\$ 28,530,000	No change
VLF Swap	11,070,000	No change
Real Property Tax Transfer	600,000	(200,000)
Sales and Use Taxes	26,000,000	800,000
Sales Tax Flip	8,584,000	No change
Sales Tax - Public Safety County	1,350,000	No change
Utility Users' Tax		
Electricity	15,400,000	(1,200,000)
Gas - natural	9,100,000	(800,000)
Telecom/Cellular	9,000,000	(400,000)
Water	1,900,000	No change
Cable	1,600,000	No change
Business License Tax	7,900,000	No change
Franchise Fees	5,400,000	(300,000)
Occupancy Taxes	7,400,000	No change
Construction Tax/Other	810,000	50,000
In Lieu & Transfers	17,714,655	No change
Investment Earnings	2,000,000	(600,000)
Fines & Forfeitures	1,475,000	(450,000)
Charges for Svc/Misc	9,725,284	100,000
	<u>\$ 165,558,939</u>	<u>\$ (3,000,000)</u>

An area of concern outside the General Fund is the Parks and Recreation Enterprise Fund. This Fund was created to account for fee-related activities for Cultural Arts and Recreation programs. The Fund is supported by user fees and operating transfers from the General Fund. The Parks and Recreation Fund is experiencing difficulty in achieving its 2010-11 revenue budget. It is projected that revenues for the Fund will fall short by about \$400,000 to \$500,000. As part of the budget balancing for fiscal year 2010-11, fees were increased by approximately \$300,000 in order to reduce the General Fund's subsidy requirement. Staff is working to rebalance the Fund for the upcoming budget cycle which would include the much anticipated revisions to the Parks and Recreation Enterprise Fund subsidy policy, realignment and reprioritization of programs and classes.

At this time, staff is working on the rebalancing of the 2010-11 budget through the 2012-13 fiscal year. The City Manager is recommending balancing the 2010-11 budget through reducing expenditures. The budget for the 2011-12 and 2012-13 fiscal years would target expenditure reductions of approximately \$2.5 to \$3.0 million. It is envisioned that the expenditure reductions will focus on

program support and efficiencies rather than across the board reductions to all departments. The City Manager will return to Council in June with his recommendations.

Respectfully submitted,



Eric E. Tsao  
Finance Director

CONCUR:



LeRoy J. Jackson  
City Manager



April 19, 2011

COMMITTEE MEETING

April 19, 2011

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 December 31, 2010 total investments of \$308.7 million consisted of the following categories:

1) Pooled Funds (Investment Portfolio)	\$ 152.9 million
2) Restricted Funds:	
A. Debt issue proceeds	\$ 10.1 million
B. Deferred Compensation	
1) 457	\$ 129.9 million
2) 401(a)	\$ 6.9 million
C. Retirement Health Savings Plan	\$ 3.4 million
D. Public Agency Retirement Services (PARS)	\$ 5.5 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 \$1.4 million and the effective rate of return equaled 1.84%.

The restricted funds, made up of the Debt issue proceeds, Deferred Compensation funds, Retirement Health Savings Plan and PARS 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.
- 4) The PARS Plan is an enhanced benefit plan managed by a third party administrator – Public Agency Retirement Services and held in Trust through Union Bank. The investment Option is chosen by the City Treasurer as the Plan Administrator, however the City Treasurer works in conjunction with the two employee associations (TPSA and Engineers) that negotiated this benefit for their membership. This tax-deferred program has been negotiated with TPSA and Engineers for the purpose of enhancing their retirement benefit.

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

### **Investment Forecast**

As stated by The Federal Open Market Committee: “The committee has maintained the target for the federal funds rate at 0 to .25 percent and continues to anticipate the economic conditions, including low rate of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. “

How does this affect our Investment Portfolio? It means that current and future purchases will be receiving a lower interest rate return. It means there is a greater possibility that higher coupon securities we have purchased with a call feature will be called and reinvested in a lower coupon security. Over all, the effective rate of return on the Portfolio will decline.

### **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 23.5% 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**

Over the last quarter, securities that were either called or redeemed have been re-invested. However, due to the declining market environment all new purchases were re-invested at a lower interest rate. As an example, the securities that were redeemed rolled off with an average rate of return of 2.95% whereas all new purchases were invested with an average rate of return of 1.63%. However, when compared to the Two year Constant Maturing Treasury rolling average of .61%, the Portfolio is still outperforming its benchmark.

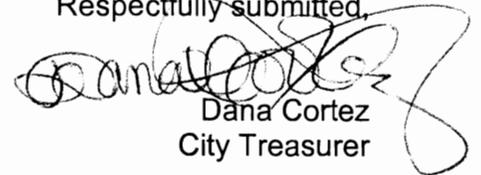
Strategically, we will continue to place money out in the market. Although the market would encourage a very short portfolio, it is not our intent to change our objectives of matching purchases with cash flow needs. We will continue to place investments out on the yield curve to take advantage of a higher 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 2<sup>nd</sup> Quarter Report.

Respectfully submitted,



Dana Cortez  
City Treasurer

NOTED:



LeRoy J. Jackson  
Investment Committee Member



Committee Meeting of  
April 19, 2011

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 from the Section 8 Housing Reserve Fund balance for Administrative and Housing Assistance payments.**

**Expenditure: \$135,000**

**RECOMMENDATION**

The Community Development Director recommends that the Finance and Governmental Operations Committee approve an additional appropriation of \$135,000 from the Section 8 Housing Reserve Fund balance to cover administrative and housing assistance payments.

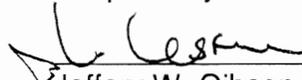
**Funding**

Funding is available in the Section 8 Housing Reserve Fund balance to cover the increased administrative and rental assistance payments. The funding is used to subsidize rents for low income elderly, disabled and other families on the Section 8 Rental Assistance Program.

**BACKGROUND/ANALYSIS**

U. S. Department of Housing and Urban Development (HUD) funding for housing assistance payments is provided on a calendar year basis. At the time of the City's budget adoption on June 15, 2010, the final funding letter from HUD had not been received. The 2010/2011 adopted budget of \$6,030,000 was based on prior year expenditures. Due to increased lease up, decreased income for many program participants and higher rents, the amount of money spent for administrative and housing assistance payments is higher than was anticipated at the beginning of the fiscal year. An additional \$135,000 appropriation is needed to cover expenditures through June, 30, 2011. Funding is available to cover the additional expenses. Maximizing the amount of payments will maximize the number of families we can assist. The funding comes from the Federal government and is used to subsidize rents for low income elderly, disabled and other families on the program.

Respectfully submitted,

  
\_\_\_\_\_  
Jeffery W. Gibson  
Community Development Director

CONCUR:

  
\_\_\_\_\_  
LeRoy J. Jackson  
City Manager

Committee Meeting of  
April 19, 2011

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

**Members of the Committee**

**SUBJECT: Request to Appropriate Funds from the Reserve for Self-Insurance Fund**

**Amount: \$675,000**

**RECOMMENDATION**

Recommendation of the Human Resources Director that City Council approve an appropriation of \$675,000 from the Reserve for Self-Insurance Fund.

Funding

Funds are available in the Reserve for Self-Insurance Fund.

**BACKGROUND AND ANALYSIS**

The City self-insures workers' compensation claims up to \$2,000,000 per occurrence. The City charges claims that are under four-years to department budgets, and claims over four-years to the Self-Insurance Fund. Staff is anticipating a shortfall in the appropriation for FY 2010/11 for claims over four-years. Workers' compensation costs for claims under four-years are within budget.

The reason for the increase in costs for claims over four-years is due to life-time medical care related to these claims, such as medical expenses for medications, tests, surgeries and medical devices/aids. A large percentage of life-time medical care claims involve injured workers age 60 or older, with some claims dating back to the 1970's and 1980's. Because life expectancy is increasing and the medical field continues to make strides in treatment, many injured workers are having multiple procedures and surgeries.

A summary of costs of claims over four years, since FY 2007/08 is as follows:

<u>FISCAL YEAR</u>	<u>OVER FOUR YEARS</u>
2007/08	\$2,166,598
2008/09	\$1,674,233
2009/10	\$2,083,155
2010/11 (Projected)	\$2,175,000

The Self-Insurance Reserve Fund was established and is available for fluctuations in claims costs. Therefore the transfer of \$675,000 is recommended.

Respectfully Submitted

Leyta O. Fuentes  
Acting Human Resources Director

By   
Randall Sellers, Risk Manager

CONCUR:

  
Leyta O. Fuentes  
Acting Human Resources Director

  
Eric E. Tsao  
Finance Director

  
LeRoy J. Jackson  
City Manager