

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

Members of the Committee:

Subject: Supplemental Material – First Quarter 2007-08 Budget Review

The following changes need to be made to the First Quarter 2007-08 Budget Review Report:

Executive Summary Tab

Page 5 - Finance

Delete Reallocate 1.0 Typist Clerk to 1.0 Account Clerk

General Services

Delete the program modification, this was inadvertently listed

Public Works

Promote Reallocate 2.0 Semi Skilled Laborers to 2.0 Water Tech 1

Promote Reallocate 1.0 Sr. Tree Trimmer to 1.0 Public Works **Supervisor**

Transit

Eliminate Add 0.8 Customer Services Representative

Year End 2006-07 Tab

Page 24 - Under **Program Modifications**

The following items were not discussed specifically in the Executive Summary but were discussed in the 2006-07 Year End section in where the City Manager recommends the use of year end carryover and funding of reserves (pages 24 & 25):

- CAC Endowment Fund reserve:
During the budget process last May, the City agreed to look into the feasibility of assisting the Cultural Arts Foundation by setting up an endowment fund. At this time, the City Manager would like to set aside \$250,000 to be used as a City match to donations to a Cultural Arts Center Endowment Fund. Discussions with the Foundation and details to any endowment fund still need to take place but the City Manager would like to reserve funds at this time for this program. It is the City's intent to match endowment donations up to \$50,000 annually and only the interest earned from such donations would be used for Cultural Arts Center activities. The principal would be permanently preserved.

- Additional funding for the acquisition of the property located at 465 Crenshaw Boulevard (formerly Regional Public Safety Training Center). During the May budget process, the City Council agreed to set aside \$750,000 in working capital to assist in bringing this project forward. The City Manager is recommending supplementing this project by an additional \$250,000.

- Allocate the additional funds for the following reserves:
 - Economic Anomaly \$500,000
 - Program Innovation 150,000
 - Proposition A exchanges 300,000
 - Economic Development 300,000
 - Capital/FEAP projects 274,470

Schedules B-2 and D are attached as they were not included in the report.


We apologize for the inconvenience.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:


LeRoy J. Jackson
City Manager

Attachments:

- A. Revised Executive Summary
- B. Schedule B-2
- C. Schedule D

Committee Meeting of
November 6, 2007

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

Members of the Committee:

Subject: First Quarter 2007- 08 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 First Quarter 2007-08 Budget Review Report
- Accept the City Treasurer's Investment Report
- Approve the program modifications for the following departments: Community Services, Finance, Human Resources, Public Works and Transit
- Approve the capital projects program modifications for the following departments: City Manager, Community Development, Community Services, General Services and Human Resources.

EXECUTIVE SUMMARY

Revenues for the first quarter are projected to meet budget estimates and expenditures for all City departments are within budget guidelines. There has been a change in reporting for general fund revenues. To provide a more accurate picture of revenues, the major revenues are being budgeted monthly to reflect seasonal activity. By displaying seasonal activity, the budget reflects how much revenue is planned to be received instead of a straight percentage of the expired fiscal year. The City has received approximately 18% of fiscal year 2007-08 revenues compared to 19% for the 2006-07 year. The seasonal budget is projected to be \$27,689,998 at September 30, 2007 and actual revenues received were slightly higher at \$29,213,317.

Torrance continues to have a solid underlying economy. The City's tax and economic base includes a mix of high-end residential properties and a sizable commercial and retail component. The City had a large property tax base of \$22.2 billion in fiscal year 2007. The \$22.2 billion reflects a 7.1% increase over last year. The unemployment rate in the City of Torrance is 2.5% as of 09/30/07. The City's unemployment rate has historically fallen under both State and National averages of 5.1% and 4.7% respectively. Taxable sales for both the State of

A Snapshot of Torrance

Population: 147,405
Peak Daytime Population (2 p.m.): 203,011
Area: 21 Square Miles
1453 Full-time Employees
6 Fire Stations
1 Police Station, 1 Police Substation &
3 Police Community Centers
241 Sworn Police Employees
159 Sworn Fire Employees
6 Public Libraries
90,000 Street Trees
550 Miles of Sidewalks
46 Parks & Recreation Amenities

California and the City of Torrance have continued to increase and are projected to reflect a modest growth through the fourth quarter of calendar year 2008.

Year-end operations for the General Fund, fiscal year ended June 30, 2007, generated available carry-over of approximately \$11.7 million prior to commitments. The carry-over was generated from a positive revenue variance of \$7.7 million caused primarily from higher than projected property tax revenue derived from increases in real estate values, continued strong construction activity, and better than expected investment portfolio earnings. Approximately \$4.0 million was generated from expenditures of which \$3.3 million was due primarily from position vacancies and \$600,000 from unused material and professional services budgets.

Fiscal Year ended June 30, 2007			
	Sources	Uses	Variance Favorable (Unfavorable)
General Fund	\$ 162,812,127	\$ 151,096,257	\$ 11,715,870
Enterprise Funds:			
Airport	11,070,853	8,518,905	2,551,948
Transit	20,242,457	18,087,709	2,154,748
Water	23,223,435	22,140,372	1,083,063
Emergency Medical	8,177,245	8,127,220	50,025
Sanitation	10,782,998	10,135,554	647,444
Cultural Arts	1,767,537	1,767,537	0
Sewer	2,914,034	1,626,340	1,287,694
Parks & Recreation	7,325,010	7,296,849	28,161
Internal Services			
Fleet -Operation	6,858,908	4,519,179	2,339,729
Self Insurance	4,286,566	4,965,155	(678,985)

Budget Outlook/Budgetary concerns

The economic forecast for California continues to project an overall growth in payroll by 1.2%. The 1.2% growth represents increases and decreases in various job categories with the net change resulting in a modest 1.2% overall growth. The economy's slowing is caused by the

LAO Forecast	2006	2007	2008
Personal Income	6.4	4.2	4.7
Wage Growth	2.8	0.8	1.6
Taxable Sales	5.3	4.4	4.8
Permits	163,300	130,000	134,100
CPI	3.9	2.8	2.0

lagging housing market, foreclosures and the lack of liquidity in the markets as a whole. The demand for housing is down in Los Angeles County, which is reflected by the drop in home sales by 20%. Typically, as demand decreases, inventories will build which will then put downward pressure on price. On October 31, 2007, the Federal Reserve lowered the federal funds rate by 25 basis points (0.25%) to 4-1/2%. Per the Federal Reserve,

"Economic growth was solid in the third quarter (calendar), and strains in the financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow down in the near term, partly reflecting the intensification of the housing correction. Today's action, combined with the policy taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth overtime". Essentially the Federal Reserve feels the upside risks to inflation have been trumped by the downside risks to growth.

The decline in housing prices is concerning. Many counties in California, including Los Angeles are bracing for requests for re-assessment and the decline in value of the property tax rolls. Torrance has not seen month over month last year home values decline, in contrast the August 2007 compared to August 2006 increased by over 7.8%. Over the past couple of years, property taxes have been projected to grow by about 4%. Property tax is the City's third largest revenue source for the General Fund and will be monitored closely in case actual receipts begin to fall below current year projections.

Another area of concern exists that relates to retail sales. As the economy softens and consumer confidence erodes the large ticket items and holiday sales may be adversely affected. In addition, holiday sales will most likely take another hit due to possible inventory shortages and product safety concerns for toys manufactured outside the United States.

Lastly, as reported at the mid-year 2006-07 Finance and Governmental Operations Committee meeting, concerns exist in the collection of Utility Users' Tax (UUT) on long distance telephone calls. The Federal Government implemented a policy which eliminated the Federal Excise Tax. Some telephone utility users' tax suppliers have made inquiries with regards of continuing to apply the City's UUT on long distance service. The City believes that the City's UUT ordinance still applies to long distance service. Staff has been in discussions with the League of California Cities, as well as legal counsel, on the potential impact of the Federal Government's change in policy. Recently, some cities have elected to change their existing UUT ordinance (by city council action) enhancing and redefining the intent of the telephone UUT with respect to long distant phone calls. Other cities (Hermosa Beach, Los Angeles and Pasadena) are placing the telephone tax on a ballot seeking voter's approval of the telephone UUT tax. Staff is exploring the best alternative for the City of Torrance and will keep your Honorable Body informed. As a reminder, the loss of revenue to the City's General Fund for the long distance component of the telephone UUT is projected to be approximately \$5-6 million annually.

Program Modifications: The following is a summary of the program modifications which is being submitted for your Honorable Body's approval. The specific detail of each modification request is included in the 1st quarter 2007-08 Budget Review Report (see Program Modifications Tab).

Community Services

- Convert Senior Aide to Library Page
- Day Camp
- Benstead Plunge

Finance

- Reallocate 1.0 Typist Clerk to 1.0 Account Clerk

Human Resources

- Add 1.0 Human Resource Analyst
- Workers' Compensation

Public Works

- Reallocate 2.0 Semi Skilled Laborers to 2.0 Water Tech I
- Reallocate 1.0 Sr. Tree Trimmer to 1.0 Public Works Supervisor

Transit

- Add 0.8 Customer Service Representative

Capital Projects Program Modifications: The following is a summary of the capital projects program modifications which is being submitted for your Honorable Body's approval. These specific projects require consideration for funding at this time due to:

- the sensitivity of the projects
- mandated programs
- adversely affecting City operations
- priority of the City Council and/or
- supplementing an existing projects

The specific detail of each modification request is included in the 1st quarter 2007-08 Budget Review Report (see Capital Projects-Pgm Modifications Tab).

City Manager

- Community Redevelopment

Community Development

- One-Stop Center

Community Services

- Development of Lomita Right of Way
- Wilson Park Maintenance and Storage Building (FEAP 340)
- Replace branch libraries shelving-replace stacks (FEAP 623)
- Turf improvements at various City parks

General Services

- Police Department Communications electrical upgrade (FEAP 567)
- Underground storage tanks and related systems (FEAP 445)
- Automated Fuel Focus Management System

Human Resources


- ADA access compliance survey of City facilities
- Retrofit Police Department for ADA accessibility

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:



LeRoy J. Jackson
City Manager

EXPENDITURES DETAIL BY FUND - BUDGET TO ACTUAL-ALL FUNDS WITH ANNUALLY ADOPTED BUDGETS
MATERIALS, SERVICES AND OTHER EXPENDITURES Schedule B-2
FOR THIRTEEN PERIODS ENDED, JUNE 30, 2007 - 100% EXPIRED

	FY 06-07				FY 05-06			
	MATERIALS, REVISED BUDGET	SERVICES, OTHERS ACTUAL EXP WITHOUT ENC	ACTUAL REIMB	ACTUAL EXPENSE NET OF REIMB	% OF BUD W/O ENC	ACTUAL EXPENSE WITHOUT ENC	% OF BUD W/O ENC	
GENERAL FUND								
BY DEPARTMENT:								
Council/Commissions	\$ 397,703	\$ 319,720	\$ -	\$ 319,720	80.4%	\$ 273,310	75.4%	
City Manager	817,390	437,975	-	437,975	53.6%	432,174	69.7%	
City Attorney	447,730	392,890	-	392,890	87.8%	457,766	94.5%	
City Clerk	212,226	152,094	-	152,094	71.7%	292,655	88.7%	
City Treasurer	150,349	132,273	-	132,273	88.0%	104,846	70.9%	
Finance	1,735,582	1,920,272	(374,590)	1,545,682	89.1%	1,263,583	66.9%	
Human Resources	907,059	821,790	(11,228)	810,562	89.4%	683,111	71.0%	
Civil Service	95,857	61,770	-	61,770	64.4%	79,798	88.1%	
Community Development	1,395,889	952,826	-	952,826	68.3%	798,207	63.0%	
Comm & Info Tech	749,729	1,542,160	(981,075)	561,085	74.8%	735,591	83.0%	
General Services	1,807,124	2,412,572	(823,293)	1,589,279	87.9%	1,691,544	88.4%	
Police	5,233,186	4,818,015	(9,691)	4,808,324	91.9%	4,392,902	90.9%	
Fire	2,023,758	1,923,270	(229,652)	1,693,618	83.7%	1,718,678	86.4%	
Public Works	3,892,833	4,015,675	(712,038)	3,303,637	84.9%	3,483,154	88.5%	
Community Services	3,856,787	3,712,945	(9,308)	3,703,637	96.0%	3,691,944	95.0%	
Non-Departmental (1001 only):								
Insurance	28,568	14,860	-	14,860	52.0%	15,172	53.5%	
Hazardous Waste	68,423	115,006	(50,000)	65,006	95.0%	(5,423)	109.5%	
Community Promotion	386,890	323,116	-	323,116	83.5%	248,810	75.2%	
Non-Departmental	5,809,345	4,937,217	-	4,937,217	85.0%	3,681,513	99.0%	
Leaseback	2,857,725	2,832,529	-	2,832,529	99.1%	2,789,121	99.8%	
Community Improvements	147,000	31,350	-	31,350	21.3%	16,954	12.6%	
Transfers	16,037,721	16,031,574	-	16,031,574	100.0%	14,124,609	99.4%	
HEOP ET	10,000	-	-	-	N/A	-	N/A	
Total General Fund	49,068,874	47,901,899	(3,200,875)	44,701,024	91.1%	40,970,019	91.3%	
Fleet Svcs - Oper & Maint	676,548	595,012	(951)	594,061	87.8%	590,668	85.7%	
Fleet Svcs - Replacement	1,842,740	1,101,061	-	1,101,061	59.8%	2,413,706	129.1%	
Self Insurance	4,568,270	4,321,127	-	4,321,127	94.6%	3,740,192	98.2%	
Total Internal Service	7,087,558	6,017,200	(951)	6,016,249	84.9%	6,744,566	105.9%	
Airport	7,354,829	7,094,490	-	7,094,490	96.5%	6,022,449	97.5%	
Transit	9,748,251	8,917,611	-	8,917,611	91.5%	9,322,384	97.5%	
Water	19,219,061	18,501,027	(10,266)	18,490,761	96.2%	17,441,547	98.7%	
Emergency Medical Svc	388,357	355,692	-	355,692	91.6%	337,792	103.6%	
Sanitation	6,652,447	6,439,438	(54,601)	6,384,837	96.0%	6,162,549	95.4%	
Cultural Arts	562,701	522,180	-	522,180	92.8%	440,074	77.5%	
Sewer	1,360,438	1,118,618	-	1,118,618	82.2%	1,131,604	84.1%	
Parks & Recreation	2,849,767	2,730,022	-	2,730,022	95.8%	2,784,010	98.0%	
Total Enterprise & CATV	48,135,851	45,679,078	(64,867)	45,614,211	94.8%	43,642,409	97.1%	
Employment & Training (WIN)	909,649	909,649	-	909,649	100.0%	1,009,062	67.6%	
Home Improv Empl. Program	-	809	(70,416)	(69,607)	N/A	-	N/A	
Section 8 Rental Assistance	4,992,738	4,449,680	-	4,449,680	89.1%	4,415,821	89.8%	
Rehab Loan Program (HCD)	200	-	-	-	N/A	-	N/A	
Redevelopment Agency	11,627,608	11,725,698	-	11,725,698	100.8% (A)	10,115,031	89.4%	
Cable & Comm Relations	371,884	355,486	(22,200)	333,286	89.6%	347,289	95.3%	
Cable TV Public Access	96,957	83,331	-	83,331	85.9%	76,730	89.0%	
Air Quality Mgmt. District	147,220	128,665	-	128,665	87.4%	127,303	86.5%	
Animal Control Fund	112,369	86,857	-	86,857	77.3%	91,176	64.3%	
Vanpool/Rideshare	176,578	140,566	-	140,566	79.6%	144,561	90.2%	
Gas Tax (Transfers only)	840,000	840,000	-	840,000	100.0%	2,840,000	100.0%	
Street Lighting District	2,084,819	1,949,408	-	1,949,408	93.5%	1,806,829	90.9%	
Torrance Pub Fin Auth Debt Svc	3,316,408	3,316,408	-	3,316,408	100.0%	3,310,042	100.0%	
Total External Funds	24,676,430	23,986,557	(92,616)	23,893,941	96.8%	24,283,844	90.8%	
Grand Total	\$128,968,713	\$123,584,734	(\$3,359,310)	\$120,225,425	93.2%	\$115,640,838	94.0%	

(A) The Downtown and Industrial redevelopment debt service funds expenditures include payment of principal on advances from the City that were not included in the budget.

Schedule D

FLEET SERVICES - COMBINED**BALANCE SHEET**
June 30, 2007

	Operations and Maintenance June 30, 2007	Vehicle Replacement June 30, 2007	Total
ASSETS			
Pooled cash and investments	\$ (31,241)	\$ 11,334,155	\$ 11,302,914
Accounts receivable	-	23,650	23,650
Accrued interest receivable	-	147,239	147,239
Inventories	907,805	-	907,805
Total Current Assets	876,564	11,505,044	12,381,608
Property, plant and equipment, net	9,603	5,766,558	5,776,161
Total Assets	\$ 886,167	\$ 17,271,602	\$ 18,157,769
LIABILITIES AND FUND EQUITY			
Current Liabilities			
Accounts payable	\$ 1,365	\$ -	\$ 1,365
Accrued Liabilities	202,802	79,789	282,591
Accrued salaries and benefits	369,016	-	369,016
Total Liabilities	573,183	79,789	652,972
Fund Equity			
Retained earnings - reserved	-	17,191,813	17,191,813
Retained earnings - unreserved	312,984	-	312,984
Total Liabilities and Fund Equity	\$ 886,167	\$ 17,271,602	\$ 18,157,769