

City of Torrance

Mid-
Year

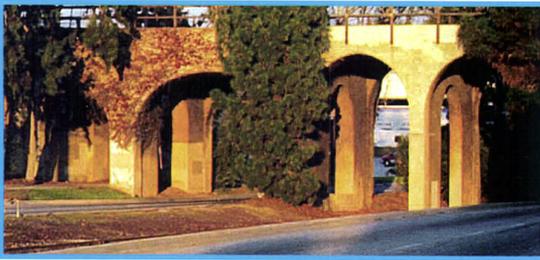
Budget
Review



FINANCE DEPARTMENT

3031 Torrance Blvd. • Torrance, CA 90503
310.618.5850
finance@torrnet.com
www.torrnet.com

2007 ~ 08



A SNAPSHOT OF TORRANCE

Population:	148,558 ¹
Peak Daytime Population (2 pm):	203,011
Area:	21 Square Miles
Full Time Employees:	1,350
Fire Stations:	6
Police Station:	1
Police Substation:	1
Police Community Centers:	3
Sworn Police Employees:	241
Sworn Fire Employees:	157
Public Libraries:	6
Street Trees:	90,000
Miles of Sidewalks:	550
Parks & Recreation Amenities:	46

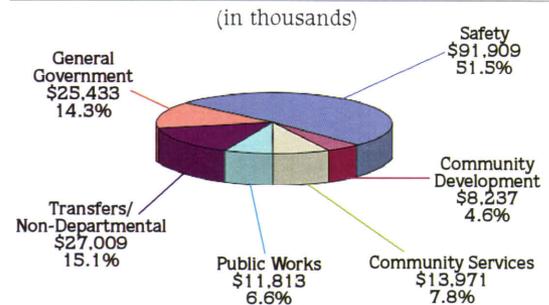
¹California Department of Finance, California Demographic Research Unit Price and Population Data for Local Jurisdiction, dated May 2007.



Executive Summary

- ❖ Factors related to the sluggish housing market and high fuel prices are slowing the economy, which is resulting in a decline in retail sales.
- ❖ The downturn in the housing market, credit crunch, and high fuel costs are having an adverse effect on the economy; however, Torrance's economy is reflecting the impact at a lesser rate.
- ❖ For home sales in the five zip codes in Torrance only one area is reflecting a decline, over the 2006 calendar year, of 3% in median home value.
- ❖ The unemployment rate in the City is 2.5% (as of 12/31/07), under both State and national averages of 5.3% and 4.6%, respectively.
- ❖ 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 FY2007, increasing in assessed value by 7.1% over the previous year.
- ❖ The City has received approximately 40.6% of fiscal year 2007-08 revenues compared to 41.4% for the 2006-07 year.
- ❖ Taxable sales for both the State of California and the City of Torrance declined by approximately 3.8% at the end of the calendar year in 2007.

General Fund Operating Budget by Function 2007-08



State Budget Outlook

- ❖ The slowing of the economy is being caused by the downturn of the housing market, lack of liquidity in the markets as a whole, and higher fuel costs.
- ❖ The demand for housing is down in Los Angeles County by 20%.
- ❖ As reported in the Mercury News, more than 57,000 homes in California faced foreclosure in January 2008, representing a 120% increase over last year and an 8% increase over December 2007.

**TABLE 1
Second Quarter Revenue Results
2007-08**

	2007-08 Budget	2007-08 Actual*	2007-08 Percent*	2006-07 Percent**
TOTAL REVENUES				
Property Tax	\$ 35,862,200	\$ 12,651,617	35.3%	6.2%
Sales & Use Tax***	45,124,836	16,492,445	36.5%	32.8%
Utility Users Tax	35,664,980	17,643,502	49.5%	38.8%
Business License/Permit Tax	7,582,000	321,595	4.2%	3.9%
Occupancy Tax	7,445,870	4,126,263	55.4%	51.5%
Other Taxes	6,731,735	1,728,419	25.7%	31.1%
Total Taxes	\$138,411,621	\$ 52,963,841	38.3%	27.5%
Licenses & Permits	2,060,042	934,183	45.3%	56.0%
Fines & Forfeitures	1,348,000	825,186	61.2%	61.7%
Use of Money/Property****	2,961,742	2,408,747	81.3%	53.3%
Revenues from Other Agencies	1,849,625	440,387	23.8%	17.3%
Charges from Services	4,199,222	2,883,395	68.7%	62.8%
Other Revenues	27,542,108	5,999,503	21.8%	51.7%
TOTAL GENERAL FUND REVENUES	\$178,372,360	\$ 66,455,242	37.3%	30.8%
Other Funds				
Internal Service Funds	12,341,369	7,826,655	63.4%	49.7%
Total Enterprise Funds	89,922,364	46,508,032	51.7%	44.8%
TOTAL REVENUES	\$280,636,093	\$120,789,929	43.0%	36.5%

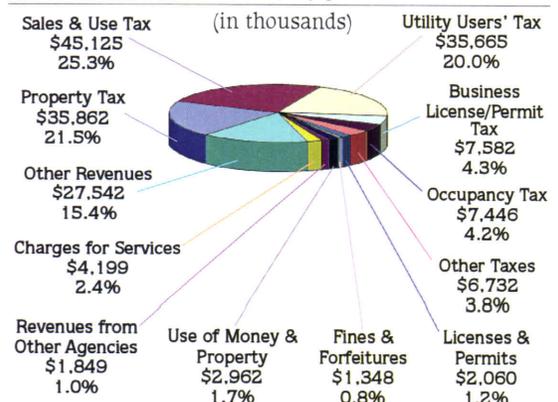
- * Based on actual receipts for six periods ending December 31, 2007.
- ** Based on actual receipts as of December 6, 2006, which causes timing differences in percentage comparisons.
- *** Includes Triple Flip of \$10,815,000. No actual to date, expect receipts in the months of January and June.
- **** Increase over prior year figures is due to a high cash balance from the issuance of tax revenue anticipation notes.

❖ The economic forecast for the nation, as well as the State of California, is still projecting moderate growth of 0.5% to 2.5%. The forecast for Los Angeles County also calls for moderate growth and projects an overall growth in non-farm employment of 0.7%. The 0.7% growth is down from last quarter (September 1.2%) but a growth pattern still continues.

Revenue Overview

- ❖ The General Fund fiscal year 2007-08 budget estimate for revenues is \$163,624,807, of which \$66,455,242, or 40.6%, was received through December 31, 2007.
- ❖ The City's revenue results as of the 2nd Quarter 2007-08 are found in Table 1.

General Fund Revenue Budget Summary 2007-08



**TABLE 2
Second Quarter Expenditure Results*
2007-08**

TOTAL EXPENDITURES	2007-08 Budget	2007-08 (w/o Encumb)**	2007-08 Percent
Salaries and Wages	\$148,980,324	\$ 62,927,079	42.2%
Salaries and Benefits Reimb.***	(27,130,363)	(4,500,710)	16.6%
Materials and Supplies	12,405,544	5,153,967	41.5%
Professional Svcs/Contracts	8,322,052	3,459,942	41.6%
Travel, Training, & Memb. Dues	1,108,253	365,424	33.0%
Liabilities & Other Insurance	1,727,434	523,746	30.3%
Interdepartmental Charges	3,289,185	1,654,573	50.3%
Debt Service	2,921,351	1,660,843	56.9%
Capital Acquisitions	467,707	144,476	30.9%
Reimbursements - From Other Funds	(3,391,112)	(1,597,032)	47.1%
Other Expenditures	121,240	51,534	42.5%
Reimbursements - Indirect Costs	(3,928,799)	(1,810,035)	46.1%
Operating Transfers Out****	32,479,544	22,209,900	68.4%
Advances to Other Funds	1,000,000	503,000	50.3%
TOTAL GENERAL FUND EXPENDITURES	\$178,372,360	\$ 90,746,707	50.9%
Other Funds			
Internal Service Funds	\$ 10,624,830	\$ 5,450,740	51.3%
Total Enterprise Funds	\$ 91,472,140	\$ 44,789,914	49.0%

* Based on actual expenditures as of December 9, 2007.

** Without Encumbrances (committed amount from purchase orders & contracts issued for goods and services).

*** Reimbursements to the General Fund for work performed for other Funds.

**** To offset transfers between funds such as General Fund Subsidy to Parks and Recreation Fund.

Budgetary Concerns

❖ Retail Sales

- Another area of budget concern is retail sales. As the economy softens and consumer confidence erodes, large ticket items and discretionary spending are adversely affected.
- As of December 31, 2007 actual sales tax revenue received was approximately 10% below budget estimate. Should this trend continue, sales tax received for fiscal year 2007-08 is projected to be approximately \$3.5 million below budget estimate.

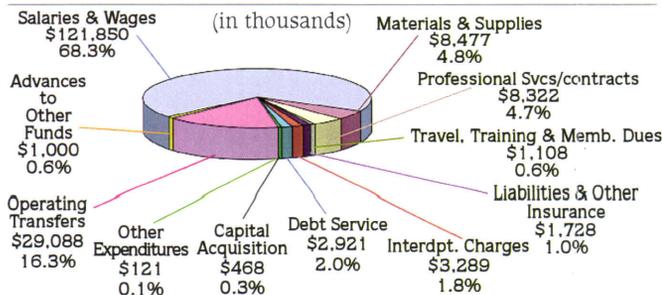
❖ Housing market

- Over the past couple of years, the City of Torrance has been conservative in projecting property tax revenues in anticipation of a

Expenditure Overview

- ❖ At the close of second quarter, December 31, 2007, all funds are within their overall budget.
- ❖ The General Fund budget expenditures, including prior year encumbrances for the fiscal year is \$178,372,360 of which \$90,246,707 has been expended at December 31, 2007. Total expenditures are 50.6% of budget estimate at December 31, 2007, compared to 47.6% in the prior year.
- ❖ The City's expenditure results as of 2nd Quarter 2007-08 are found in Table 2.

**Total Expenditures By Character
2007-08 General Fund \$178,372,360**



slow down in the housing market.

- In its projections, the City maintained a constant growth pattern of approximately 4%, whereas actual revenues received were higher. This approach helped reduce the risk uncertainty associated with the housing market.
- 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.
- ❖ **Utility Users' Tax (UUT)**
- The Federal Government implemented a policy which eliminated the Federal Excise Tax, causing concerns over the collection of Utility Users' Tax (UUT) on long-distance telephone calls.
- Some telephone utility users' tax suppliers have made inquiries in regard to continuing to apply the City's UUT on long-distance service.
- The City believes that it's UUT ordinance still applies to long distance service. Staff has been in discussions with the League of California Cities, as

Important Facts About Measure T

- The Torrance City Council unanimously placed Measure T on the June 2008 ballot to modernize and update the City's utility user's tax (UUT).
- Since 1972, Torrance has used its UUT to fund essential City services such as police, fire street repair, parks, libraries, recreation programs and other services that are vital to our quality of life.
- Due to changing technology, recent court rulings and new Federal regulations, the City is updating its existing but outdated UUT ordinance language.
- **Measure T is not a new tax or rate increase.**
- Measure T simply **replaces outdated** language, in order to protect \$6 – \$8 million in general fund revenues generated by the UUT.
- Measure T gives our community local control over funding and a solution to protect and maintain our vital city services. Every penny is legally required to stay in Torrance – and can't be taken by Sacramento.
- All revenue is subject to annual independent financial audits available for public review.
- **Low-income seniors and disabled residents will remain exempt from paying the UUT.**

well as legal counsel, on the potential impact of the Federal Government's change in policy.

Utility Users' Tax (UUT) (continued)

- The estimated loss of revenue to the City's General Fund for the long distance component of the telephone UUT is projected to be approximately \$6-8 million annually.
- 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-distance phone calls. Other cities (Hermosa Beach, Los Angeles, and Pasadena) have gained voter approval of the telephone UUT tax.
- On January 15, 2008, staff presented to the City Council an agenda item informing the Council of the potential concerns relating to the existing UUT ordinance. At that meeting, staff received direction to bring back the appropriate documents to be placed on the June 3, 2008 ballot.
- Through discussions with the City's legal experts in this matter, staff will be recommending the City Council approve an ordinance to amend the City's existing UUT, bringing it in compliance with all existing laws and also placing a separate ordinance on the June 3, 2008 ballot seeking voter approval.