



FIRST QUARTER **FY 2022 - 2023**
BUDGET REVIEW REPORT

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EXECUTIVE SUMMARY



FIRST QUARTER

BUDGET REVIEW REPORT

Executive Summary

Introduction

The purpose of the Fiscal Year 2022-23 First Quarter Budget Review Report is to provide City Council and the public with a summary of the City’s overall financial performance for the first three months ending September 30, 2022. This report provides an update on all major funds (with an emphasis on major General Fund revenues and expenditures), reserve balances, projected year-end forecasts and summary of economic trends.

Throughout the course of the fiscal year, additional expenditures are appropriated from what was originally adopted during the Budget Hearing process, either under the discretion of the City Manager or City Council, in accordance with Council Policy 3. For this reason, the amounts presented under Amended Budgets will fluctuate throughout the year. It is also important to note that certain major General Fund revenues are seasonal (e.g. property tax and business license tax); therefore, the majority of receipts in those revenue classifications have not yet been collected as of September 30th.

This budget report is prepared in collaboration with City departments using actual (unaudited) activity for Fiscal Year 2022-23. Moreover, statistical data and economic analyses were gathered from consultants and other resources to project year-end revenue. The projections presented in this report are based on the most recent available data at the time of publication; however, data projections are subject to change. As such, City staff will continue to monitor actual activity and provide updates in subsequent quarterly budget reviews.

Recap – Fiscal Impacts of the Pandemic and the City’s Recovery

Fiscal Year 2022-23 is the first year since the pandemic that the General Fund Operating Fund will not be relying on one-time monies and Federal assistance, and the last year that the Transit Fund will be relying on Federal assistance related to COVID-19. Two years ago, in the year ending June 30, 2020, the City was required to utilize nearly all of its General Fund reserves, reducing the Unassigned Fund Balance to \$581,449. During fiscal years 2020-21 and 2021-22, through a combination of one-time funds of \$35.6 million (\$1.8 million CARES Act, \$9.7 million of closed capital projects and reimbursement from the Transit Fund for land acquisition, \$24.1 million ARPA funds) and held vacancies, the City has been able to rebuild the Unassigned Fund Balance to \$45.7 million as of June 30, 2022 (unaudited).

On June 7, 2022, Torrance voters approved Measure SST, a ½ cent increase to sales tax, which is estimated to generate at least \$18 million in annual revenue. The new sales tax rate of 10.00% became effective on October 1, 2022, with the first remittance to be received in December 2022. Prior to Measure SST being approved, City Council adopted an FY2022-23 budget that included \$10.4 million in cuts to Police and Fire personnel. Given that non-public safety departments had already cut 12% of their budgets in FY 2020-21, this action was required to balance the FY2022-23 budget. With SST subsequently approved by voters, the majority of these funds will be utilized primarily towards maintaining the City’s public safety levels and restoring those positions. The remainder of the estimated balance is proposed to be prioritized for the following:

| | |
|---|-----------------------------|
| Quality of Life | \$ 11,000,000 |
| 1 Restore/Maintain Public Safety | 10,000,000 |
| 2 Homelessness Response Efforts | 1,000,000 |
| Fiscal Sustainability | \$ 5,000,000 |
| 1 Rebuild Reserves / Rainy Day Fund | 5,000,000 |
| Deferred Maintenance & Community Services/Programs | \$ 1,000,000 |
| 1 Buildings and Equipment/Community Services | 1,000,000 |
| Emergency Responsiveness | \$ 1,000,000 |
| 1 Cyber Security Upgrades | 1,000,000 |
| Total Priorities Identified | <u>\$ 18,000,000</u> |

Looking forward, the City expects to maintain a balanced budget for the next 5 years, though several concerns are being monitored and will be addressed in future budget cycles. These concerns include **negative** fund balances in the Self-Insurance and Fleet Services Funds of \$58.7 and \$8.1 million respectively, status of labor agreements that have been expired over two years, significant recruitment challenges, recessionary impacts, and increases in CalPERS investment returns. In Fiscal Year 2021-22, CalPERS sustained an estimated loss of 6.1%. This translates to a significant increase in unfunded liabilities and the amortized repayment over the next 20 years, beginning in Fiscal Year 2024-25. For example, the annual UAL payment increases from \$10 million in FY 2026-27 to up to \$21 million in FY2031-32. The impact of these recent returns has been incorporated into the City’s 10-Year forecast, which also includes the utilization of savings from the Section 115 Fund, which the City funds on an annual basis. It is anticipated that the City will need to make its first drawdown in FY 2026-27. The assumptions used in the 10-Year forecast will be refreshed semi-annually to use the

most recent returns data from CalPERS. Further information is discussed in the **Areas of Focus** section of this Executive Summary.

Citywide First Quarter Results

As of September 30, 2022, across **all** funds (General Fund, Internal Service, and Enterprise), the City realized revenues of \$70.7 million and expenditures of \$113.8 million, achieving 16.2% and 26.8% of annual budget, respectively. During the same period in the prior year ending September 30, 2021, the City realized \$55.0 million of revenues, representing 14.4% of annual budget and expended \$105.5 million, or 27.0% of the annual prior year expenditure budget.

The following two tables summarize:

- 1) Revenues received as of September 30, 2022 compared to September 30, 2021 (broken down by General Fund, Internal Service Funds, and Enterprise Funds; and
- 2) Expenditures as of September 30, 2022 compared to September 30, 2021 (also broken down by Fund), and projected additional available funding in the “**Projected Rev minus Exp**” column.

Citywide Revenues – All Funds

| Revenues | 2021-22 | | | 2022-23 | | | |
|--------------------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|----------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Actual |
| General Fund - Operating Fund | \$ 224,326,947 | \$ 22,227,596 | 9.9% | \$ 252,756,117 | \$ 31,820,601 | 12.6% | \$ 264,119,180 |
| General Fund - Unassigned | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - |
| General Fund - Rest/Assigned | \$ 4,001,768 | \$ 2,925,881 | 73.1% | \$ 18,789,474 | \$ 2,700,965 | 14.4% | \$ 20,809,328 |
| General Fund - Total | \$ 228,328,715 | \$ 25,153,477 | 11.0% | \$ 271,545,591 | \$ 34,521,566 | 12.7% | \$284,928,508 |
| Self Insurance | \$ 6,740,000 | \$ 3,043,433 | 45.2% | \$ 17,347,600 | \$ 4,290,353 | 24.7% | \$ 27,161,413 |
| Fleet Services | \$ 6,067,803 | \$ 1,492,566 | 24.6% | \$ 9,628,182 | \$ 1,775,457 | 18.4% | \$ 8,874,536 |
| Internal Service Fund - Total | \$ 12,807,803 | \$ 4,535,999 | 35.4% | \$ 26,975,782 | \$ 6,065,810 | 22.5% | \$ 36,035,949 |
| Airport | \$ 14,999,188 | \$ 3,395,473 | 22.6% | \$ 17,481,109 | \$ 10,001,580 | 57.2% | \$ 22,782,822 |
| Cultural Arts Center | \$ 2,402,981 | \$ 258,824 | 10.8% | | | 0.0% | |
| Emergency Medical Services | \$ 14,801,293 | \$ 4,157,058 | 28.1% | | | 0.0% | |
| Parks & Recreation | \$ 7,830,309 | \$ 992,487 | 12.7% | | | 0.0% | |
| Sanitation | \$ 15,475,999 | \$ 2,324,496 | 15.0% | \$ 15,680,878 | \$ 1,634,294 | 10.4% | \$ 15,641,790 |
| Sewer | \$ 6,439,225 | \$ 1,158,616 | 18.0% | \$ 6,165,910 | \$ 811,939 | 13.2% | \$ 6,052,831 |
| Transit | \$ 32,376,518 | \$ 3,535,136 | 10.9% | \$ 45,232,700 | \$ 7,156,278 | 15.8% | \$ 42,860,111 |
| Water | \$ 47,897,500 | \$ 9,517,688 | 19.9% | \$ 52,170,884 | \$ 10,515,977 | 20.2% | \$ 54,675,434 |
| Enterprise Fund - Total | \$ 142,223,013 | \$ 25,339,778 | 17.8% | \$ 136,731,481 | \$ 30,120,068 | 22.0% | \$142,012,988 |
| Total Revenues | \$ 383,359,531 | \$ 55,029,254 | 14.4% | \$ 435,252,854 | \$ 70,707,444 | 16.2% | \$462,977,445 |

Citywide Expenditures and Projected Net Surplus / (Deficit) – All Funds

| Expenditures | 2021-22 | | | 2022-23 | | | Projected Actual | Projected Rev minus Exp |
|--------------------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|-------------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | |
| General Fund - Operating Fund | \$ 223,963,515 | \$ 61,238,011 | 27.3% | \$ 249,806,066 | \$ 68,121,948 | 27.3% | \$ 247,477,929 | \$ 16,641,251 |
| General Fund - Unassigned | \$ 70,000 | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - |
| General Fund - Rest/Assigned | \$ 2,165,656 | \$ 1,263,606 | 58.3% | \$ 14,995,354 | \$ 428,382 | 2.9% | \$ 14,668,243 | \$ 6,141,084 |
| General Fund - Total | \$ 226,199,171 | \$ 62,501,617 | 27.6% | \$ 264,801,420 | \$ 68,550,330 | 25.9% | \$ 262,146,172 | \$ 22,782,336 |
| Self Insurance | \$ 11,661,659 | \$ 5,334,644 | 45.7% | \$ 22,661,485 | \$ 6,015,036 | 26.5% | \$ 27,256,614 | \$ (95,201) |
| Fleet Services | \$ 6,655,930 | \$ 1,978,863 | 29.7% | \$ 6,939,264 | \$ 1,494,868 | 21.5% | \$ 6,050,720 | \$ 2,823,815 |
| Internal Service Fund - Total | \$ 18,317,589 | \$ 7,313,507 | 39.9% | \$ 29,600,749 | \$ 7,509,904 | 25.4% | \$ 33,307,334 | \$ 2,728,615 |
| Airport | \$ 15,787,136 | \$ 3,672,856 | 23.3% | \$ 17,620,539 | \$ 11,776,461 | 66.8% | \$ 22,614,408 | \$ 168,414 |
| Cultural Arts Center | \$ 2,435,798 | \$ 389,529 | 16.0% | | | 0.0% | | \$ - |
| Emergency Medical Services | \$ 15,607,293 | \$ 3,903,906 | 25.0% | | | 0.0% | | \$ - |
| Parks & Recreation | \$ 8,294,755 | \$ 1,210,700 | 14.6% | | | 0.0% | | \$ - |
| Sanitation | \$ 16,084,416 | \$ 3,441,983 | 21.4% | \$ 15,866,751 | \$ 2,999,711 | 18.9% | \$ 13,311,006 | \$ 2,330,784 |
| Sewer | \$ 7,270,851 | \$ 2,855,747 | 39.3% | \$ 6,175,601 | \$ 2,266,716 | 36.7% | \$ 5,031,862 | \$ 1,020,969 |
| Transit | \$ 37,517,252 | \$ 7,052,199 | 18.8% | \$ 38,642,171 | \$ 5,996,629 | 15.5% | \$ 27,089,036 | \$ 15,771,076 |
| Water | \$ 43,689,803 | \$ 13,160,752 | 30.1% | \$ 51,968,333 | \$ 14,687,397 | 28.3% | \$ 49,812,337 | \$ 4,863,096 |
| Enterprise Fund - Total | \$ 146,687,304 | \$ 35,687,672 | 24.3% | \$ 130,273,395 | \$ 37,726,913 | 29.0% | \$ 117,858,650 | \$ 24,154,339 |
| Total Expenditures | \$ 391,204,064 | \$ 105,502,796 | 27.0% | \$ 424,675,564 | \$ 113,787,147 | 26.8% | \$ 413,312,156 | \$ 49,665,289 |
| Revenues Less Expenditures | \$ (7,844,533) | \$ (50,473,542) | | \$ 10,577,290 | \$ (43,079,703) | | \$ 49,665,289 | |

As shown above in the “**Projected Rev minus Exp**” column, the following results are projected. In the General Fund and Enterprise Funds, results are largely due to a significant number of vacancies. As explained further in the Expenditure section, several positions have proven extremely challenging to recruit and fill as candidates are looking for increased flexibility and competitive/higher pay.

- **General Fund Operating Fund** will operate at a **\$16.6 million** projected additional available funding primarily driven by revenues exceeding budget of \$11.4 million, a planned addition to unassigned fund balance of \$3.1 million from Measure SST and overall expenditure savings of about \$2.3 million;
- **General Fund - Restricted/Assigned** will operate at a **\$6.1 million** projected additional available funding primarily driven by the City’s contribution to the CEPPT Fund of approximately \$2.0 million, revenues projected to exceed budget in the Measure SST fund of approximately \$2.0 million, and contributions to various replacement funds for future purchase;
- **Self-Insurance Fund** will **break even** despite a significant one-time contribution (\$10.0 million) to offset the projected actuarial entry recorded at year-end (non-cash);
- **Fleet Services Fund** will operate at a **\$2.8 million** projected additional available funding primarily driven by contributions to the City’s Fleet Services Replacement fund (\$2.3 million) for future vehicle purchases as well as a contribution from General Fund to begin addressing the negative cash balance in the Fleet Operations Fund (\$975k);

- **Enterprise Funds** will operate at an overall \$24.2 million projected additional available funding led by Water and Transit (\$10.0 million in revenues for Transit Fund due to one-time grant funding).

The forthcoming sections will detail the above results, with particular focus on the General Fund Operating Fund, which constitutes 94.3% of the General Fund Budget and 62.4% of the Citywide budget. Additional information is also included in the **Areas of Focus** section of this document to elaborate on important topics being monitored by staff that need to be addressed.

General Fund Operating Fund First Quarter Results

As of September 30, 2022, the General Fund Operating Fund realized revenues of \$31.8 million and expenditures of \$68.1 million, achieving 12.6% and 27.3% of annual budget, respectively. During the same period in the prior year ending September 30, 2021, the City realized \$22.2 million of revenues, representing 9.9% of annual budget and expended \$61.2 million, or 27.3% of the annual prior year expenditure budget. At the end of Fiscal Year 2022-23, it is projected that revenues will exceed expenditures by \$16.6 million.

General Fund Operating Fund Revenue and Expenditure Summary

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--------------------------------|------------------------------|-----------------------------|-------------------------|------------------------------|-----------------------------|-------------------------|----------------------|-------------------------------------|----------------------|
| Total Revenues | \$ 224,326,947 | \$ 22,227,596 | 9.9% | \$ 252,756,117 | \$ 31,820,601 | 12.6% | \$ 264,119,180 | \$ 11,363,063 | 104.5% |
| Total Expenditures | \$ 223,963,515 | \$ 61,238,011 | 27.3% | \$ 249,806,066 | \$ 68,121,948 | 27.3% | \$ 247,477,929 | \$ 2,328,137 | 99.1% |
| Rev Less Expenditures | \$ 363,432 | \$ (39,010,415) | | \$ 2,950,051 | \$ (36,301,347) | | \$ 16,641,251 | | |
| Fund Bal Dec/(Increase) | \$ (363,432) | | | \$ (2,950,051) | | | \$ (16,641,251) | | |
| Net Budget Balance | \$ - | | | \$ - | | | \$ - | | |

As shown above, it is projected that General Fund Operating Fund revenues will exceed budget by nearly \$11.4 million, which is mainly driven by increases in the **Taxes, Operating Transfers In and Charges for Services** classifications, and partially offset by reductions in **Fines, Forfeitures & Penalties** and **Intergovernmental** classifications. Staff anticipate seeking a budget adjustment at the Mid-Year Budget Review Report once trends are confirmed with more of the fiscal year elapsed.

On the expenditure side of the General Fund Operating Fund Budget, it is projected that expenditures will fall below budget by \$2.3 million. This includes a one-time transfer from the General Fund to the Self-Insurance Fund of \$10.0 million to assist in balancing the current year's projection. After controlling for this one-time transfer, the General Fund Operating Fund is expected to generate a \$12.3 million surplus. This is primarily the direct result of departmental vacancies across the General Fund. As of September 30, 2022, the General Fund has 155.9 FTE in vacancies. In the year prior, the

City was holding many vacancies to generate savings and navigate the fiscal challenges of the COVID-19 pandemic. Since that time, and with the passage of Measure SST in June 2022, the City has released vacancies to be filled. With a city the size of Torrance and the significant number of vacancies held, coupled with the trend in retirements and resignations, staff is working to address these gaps with many recruitments underway.

Given the challenges experienced in the labor market, and continued assessments of departmental needs, the Finance Director recommends that the Finance and Governmental Operations Committee authorize staff to bring forward to City Council at a future date, the following Program Modifications for consideration and approval. Additional details are included in the **Program Modifications** section of this book.

| # | Department | Proposed Modification | Fiscal Impact | Source |
|--------------------------------------|--|--|---------------------|--------------------|
| 1 | City Clerk | Convert 2.0 Office Assistants to 2.0 Administrative Assistants | \$ 28,082 | General Fund |
| 2 | City Manager | Convert 1.0 Assistant to the City Manager to 1.0 Deputy City Manager; adjust non-wage budget | \$ 62,682 | General Fund |
| 3 | City Manager | Add 1.0 Staff Assistant | \$ 87,973 | Non-General Fund |
| 4 | Communications & Information Technology (IT) | Delete 1.0 Communications Manager, Delete 1.0 IT Specialist, Delete 1.0 IT Analyst, Add 2.0 IT Managers, Add 1.0 Systems Analyst | \$ 135,016 | General Fund |
| 5 | Community Development | Convert 5.0 Environmental Quality Officers to 5.0 Code Enforcement Officers and Convert 2.0 Senior Environmental Quality Officers to 2.0 Senior Code Enforcement Officers | \$ - | General Fund |
| 6 | Community Services | Convert 1.0 Senior Administrative Assistant to 1.0 Supervising Administrative Assistant | \$ 16,405 | General Fund |
| 7 | Community Services | Delete 1.0 Senior Recreation Supervisor, Add 0.2 Program Coordinator, and add 0.3 Program Specialist | \$ (104,247) | General Fund |
| 8 | Community Services | Delete 1.0 Office Assistant, Add 1.0 Administrative Assistant | \$ 14,041 | General Fund |
| 9 | Finance | Transfer 1.0 Account Clerk and 1.0 Accounting Technician to City Treasurer | \$ - | General Fund |
| 10 | Fire | Increase Budget to Fund Enrollment in California Department of Healthcare Services' Ground Emergency Medical Transport Intergovernmental Transfer Program for Public Providers | \$ (350,885) | General Fund |
| 11 | Public Works | Convert 4.0 Maintenance Works to 4.0 Sanitation Equipment Operators | \$ 69,447 | Non-General Fund |
| 12 | Transit | Convert 1.0 Senior Business Manager – Transit Planning to 1.0 Transit Planning Manager | \$ 35,118 | Non-General Fund |
| Total Proposed Amendments | | | \$ (6,368) | Net Savings |
| Total General Fund Impact | | | \$ (198,906) | Net Savings |
| Total Non-General Fund Impact | | | \$ 192,538 | Net Cost |

General Fund Operating Fund Revenue Analysis

The three core revenue sources of the General Fund Operating Fund are sales tax, property tax and utility users' tax, which typically represent about 65% of the total budget. Including business license and occupancy taxes, these five revenue sources make up approximately 73% of the total budget. However, certain receipts are seasonally collected, such as property taxes (December through April), business license renewal taxes (January/February), and sales taxes from the holiday season (Black Friday, Cyber Monday, Christmas). Thus, revenue receipts for the first quarter do not provide a "clear" representation of fiscal year results since they are not received until the second and third quarter of the fiscal year.

General Fund Operating Fund Revenue by Classification

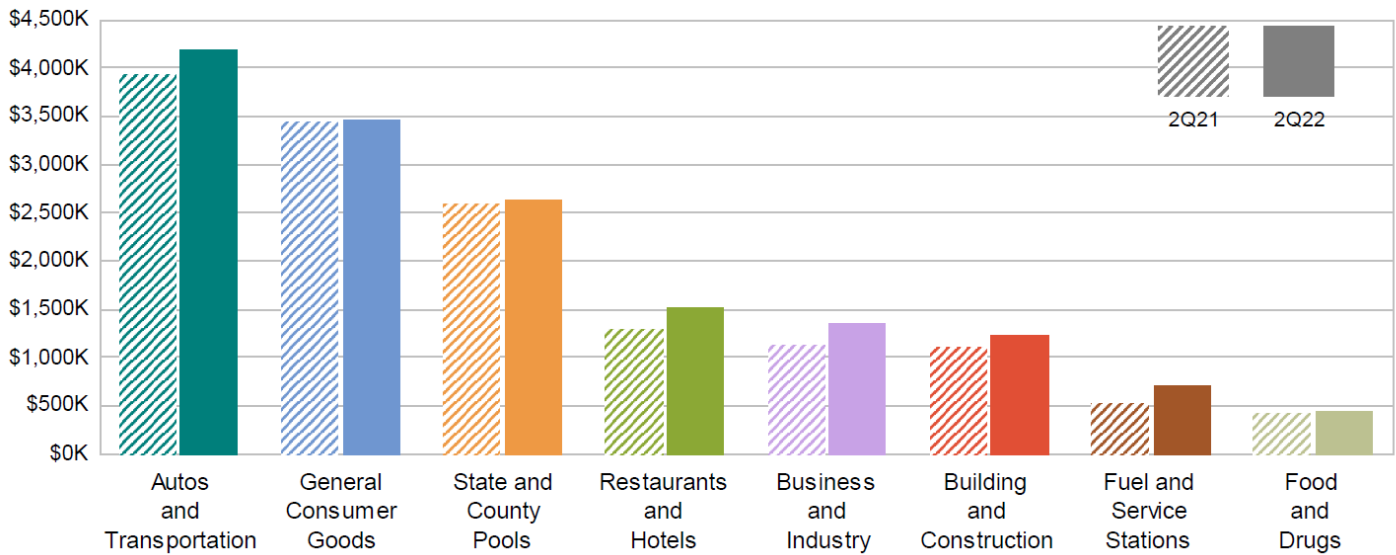
| Revenues | 2021-22 | | | 2022-23 | | | Projected | | |
|--------------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|----------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Total | Surplus / (Deficit) | Percent of Budget |
| Taxes | \$ 175,114,158 | \$ 13,122,781 | 7.5% | \$ 194,836,318 | \$ 14,723,374 | 7.6% | \$ 201,417,745 | \$ 6,581,427 | 103.4% |
| Licenses, Fees & Permits | \$ 4,575,836 | \$ 1,012,699 | 22.1% | \$ 4,767,606 | \$ 1,465,713 | 30.7% | \$ 5,564,368 | \$ 796,762 | 116.7% |
| Fines, Forfeitures & Penalties | \$ 742,003 | \$ 92,611 | 12.5% | \$ 735,144 | \$ 77,663 | 10.6% | \$ 666,854 | \$ (68,290) | 90.7% |
| Use of Money and Property | \$ 2,123,339 | \$ 644,695 | 30.4% | \$ 3,200,594 | \$ 894,121 | 27.9% | \$ 3,200,594 | \$ (0) | 100.0% |
| Intergovernmental | \$ 471,344 | \$ 96,655 | 20.5% | \$ 559,241 | \$ 52,030 | 9.3% | \$ 479,006 | \$ (80,235) | 85.7% |
| Other Revenues | \$ 12,523,290 | \$ 76,050 | 0.6% | \$ 505,598 | \$ 34,237 | 6.8% | \$ 505,598 | \$ - | 100.0% |
| Charges for Services | \$ 16,454,206 | \$ 4,131,450 | 25.1% | \$ 19,724,668 | \$ 5,280,811 | 26.8% | \$ 20,821,504 | \$ 1,096,836 | 105.6% |
| Operating Transfers In | \$ 12,322,771 | \$ 3,050,655 | 24.8% | \$ 28,426,948 | \$ 9,292,652 | 32.7% | \$ 31,463,512 | \$ 3,036,564 | 110.7% |
| Other Financing Sources | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Revenues | \$ 224,326,947 | \$ 22,227,596 | 9.9% | \$ 252,756,117 | \$ 31,820,601 | 12.6% | \$ 264,119,180 | \$ 11,363,063 | 104.5% |

Sales & Use Tax

Sales tax receipts of \$5.3 million for the first fiscal quarter are tracking above prior year actuals by \$789,000, or 17.7% higher. Staff expects the projected annual amounts to exceed the budget by \$2.2 million, for a total of \$66.2 million. When developing the Fiscal Year 2022-23 budget, staff's projection was that sales tax would grow by 6.2% above the then projected Fiscal Year 2021-22 result of \$60.2 million. Since that time, Fiscal Year 2021-22 ended the year at \$63.6 million. In examining trends with the City's sales tax consultant, HdL, staff anticipate a 4.0% growth rate on those latest results. As of the latest available data from the California Department of Tax & Fee Administration, sales tax revenues are experiencing an increase in all significant categories, with the autos and transportation; restaurants and hotels; business and industry; and fuel and service stations experiencing the largest increases during the period. In addition to the recovery from brick-and-mortar locations, online shopping has brought increased revenue through the county pool allocations.

The below chart is based on the latest available data from the CDTFA and reflect quarter-over-quarter (3-month) results as of June 30. Quarterly data typically becomes available after a 4-month delay and staff adjusts forecasts accordingly.

2Q21 Compared To 2Q22



Source: HdL Companies

While sales tax revenues are positively trending, staff continue to be cautious with forecasting for several reasons. The Federal Reserve increased the Federal Funds Rate to a range of 3.75-4.0% as of November 2022. Many economists anticipate another 50 basis point increase in December (bringing the range to 4.25% to 4.5%). The federal policy to slow inflation will slow short-term borrowing and can affect automobile sales and other broader economic activity. The September 2022 year-over-year change in Consumer Price Index for All Urban Consumers (CPI-U) was 8.2%. The inflation rate is continuing to drive up the cost of many taxable products and is anticipated to slow consumer spending through the following calendar year.

Property Tax, Property Transfer Tax, and VLF Swap & Repayment

Property tax revenues are primarily received in December and April each year. As of September 30, 2022, property tax receipts of \$1.0 million remain relatively flat compared to last year. Presently, the City projects that total year-end revenue will exceed budget by \$418,000 across the three categories, or 0.7% higher. The City’s property tax base consists of a healthy mix of residential, commercial and industrial properties, with the residential side comprising the majority of total assessed value. Based on data from property tax consultants HdL Coren & Cone, Fiscal Year 2022-23 net taxable assessed values (based on calendar year 2021 activity) increased 5.4% from the prior year to \$36.3 billion, placing Torrance in the top 10 highest value cities in Los Angeles County (8th place).

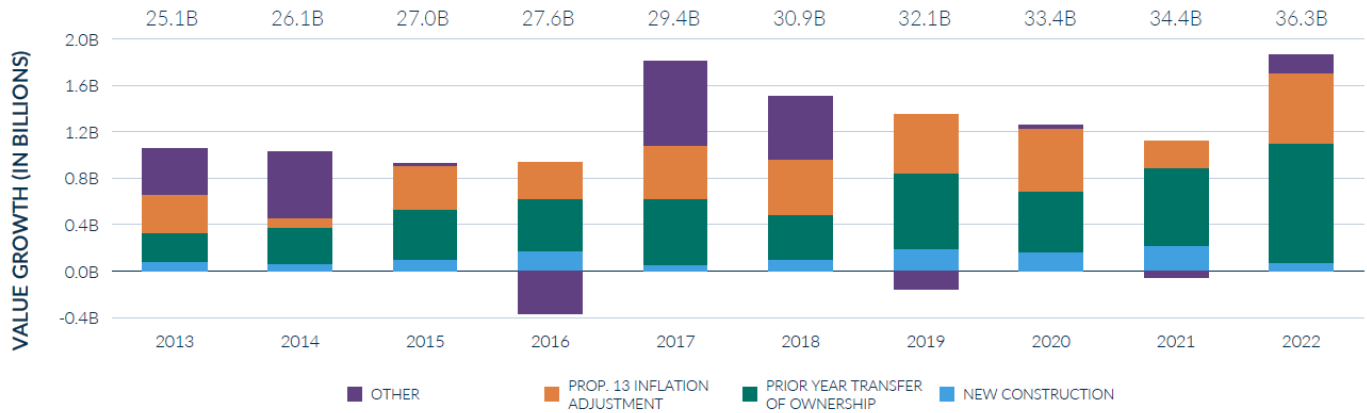
TAXABLE ASSESSED VALUE
\$36.3 BILLION

+5.4% ↑
TORRANCE

+7.0% ↑
COUNTY

HISTORY OF VALUE CHANGES BY CAUSE

INCLUDING TOTAL ASSESSED VALUE



The Other change category may include effects of assessment appeals, multi parcel sales, and changes to secured exemptions, personal property, or utility-owned property values

Source: HdL Companies

As shown above, prior year transfer of ownership is the largest driver of change in the overall assessed value, with the Prop 13 inflation adjustment second, and new construction trailing in third. If we look at the different categories of property, we show residential adding nearly \$1.4 billion in assessed value of the total \$1.9 billion added comparing year over year. The median sale price of a detached single family residential (SFR) home in Torrance during 2020 was \$930,000, a 7.5% increase from 2019, with 2021 increasing to \$1.1 million, an increase of 18.3%, and 2022 (through August 2022) increasing to \$1.225 million, another increase of 11.4%. However, staff have begun to see an inflection point, dropping from \$1.3 million in Q2 2022 (calendar year) to \$1.130 million in Q3 2022, a decrease of 13%. This is the first decrease since the pandemic started in 2020 and is an important variable to monitor as transfer of ownership is such a larger driver in assessed value changes.

The largest notable assessed value change occurred on an industrial parcel that recently sold to Rexford Industrial 4240 190th LLC (\$65 million increase in assessed value), the change in ownership to Rexford Industrial 3100 Lomita Blvd LLC (\$51.7 million increase in assessed value), and the sale of Skyline Mobile Home Park which sold to Skyline Park LLC (\$35 million increase in assessed value).

Utility Users’ Tax (UUT)

UUT receipts are also tracking above the prior year by \$627,000, or 10.2%. Overall, the increase was mainly due to UUT collected from electricity and gas (including the Refinery), offset by small declines in Cable. In recent publications by the United States Energy Information Administration, California’s

electricity prices are among the highest in the country with only Hawaii coming in higher, when looking at all sectors. The City expects to exceed budget by \$2.4 million, or 6.5%.

Other Major Revenue Sources

Other major revenue sources of the General Fund include business license tax, whose receipts will begin to arrive in January 2023, and occupancy tax.

Occupancy tax was the hardest hit during the pandemic as a result of reduced tourism, air travel and business conferences, especially since the majority of Torrance hotel/motel guests are business travelers and airline crews. As of September 30, 2022, the City has received \$823,000, an increase of \$214,000 compared to September 30, 2021 receipts of \$609,000. This increase is a direct result of the sporting events, concerts and business conferences returning to full capacity without restrictions compared to the prior year.

Based on information from data and analytics company STR, LLC, occupancy rate percentage for the three months ending in September increased from an average of 78% in 2021 to 86% in 2022. Additionally, the average daily rate per room increased by \$17 during this same period. The City projects occupancy tax to slightly exceed budget by about 1.8%.

General Fund Operating Fund Expenditure Analysis

As of September 30, 2022, the General Fund Operating Fund expended \$68.1 million, or 27.3% of annual budget, an increase of \$6.9 million (11.2%) from the prior year.

General Fund Operating Fund by Department

| Expenditures | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|---------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Council | \$ 417,157 | \$ 126,055 | 30.2% | \$ 428,713 | \$ 157,693 | 36.8% | \$ 378,759 | \$ 49,954 | 88.3% |
| City Manager | \$ 5,208,612 | \$ 1,169,576 | 22.5% | \$ 6,094,097 | \$ 1,316,996 | 21.6% | \$ 5,849,676 | \$ 244,421 | 96.0% |
| City Attorney | \$ 2,674,293 | \$ 605,195 | 22.6% | \$ 2,815,838 | \$ 608,226 | 21.6% | \$ 2,781,885 | \$ 33,953 | 98.8% |
| City Clerk | \$ 1,427,073 | \$ 229,435 | 16.1% | \$ 1,074,052 | \$ 213,584 | 19.9% | \$ 1,002,197 | \$ 71,855 | 93.3% |
| City Treasurer | \$ 356,017 | \$ 78,217 | 22.0% | \$ 364,841 | \$ 45,863 | 12.6% | \$ 305,282 | \$ 59,559 | 83.7% |
| Finance | \$ 5,928,559 | \$ 1,018,343 | 17.2% | \$ 5,989,884 | \$ 1,057,374 | 17.7% | \$ 5,394,792 | \$ 595,092 | 90.1% |
| Human Resources | \$ 2,043,751 | \$ 399,840 | 19.6% | \$ 2,192,036 | \$ 462,843 | 21.1% | \$ 1,955,472 | \$ 236,564 | 89.2% |
| Civil Service | \$ 598,794 | \$ 148,212 | 24.8% | \$ 629,901 | \$ 140,954 | 22.4% | \$ 558,544 | \$ 71,357 | 88.7% |
| Community Development | \$ 8,705,072 | \$ 1,843,563 | 21.2% | \$ 9,815,615 | \$ 1,942,547 | 19.8% | \$ 8,958,282 | \$ 857,333 | 91.3% |
| CIT | \$ 8,500,829 | \$ 2,030,383 | 23.9% | \$ 8,951,621 | \$ 2,096,703 | 23.4% | \$ 7,498,359 | \$ 1,453,262 | 83.8% |
| General Services | \$ 9,659,503 | \$ 1,931,641 | 20.0% | \$ 10,142,744 | \$ 2,017,225 | 19.9% | \$ 9,417,768 | \$ 724,976 | 92.9% |
| Non-Departmental | \$ 873,452 | \$ 10,198,811 | 1167.6% | \$ 8,172,725 | \$ 13,761,637 | 168.4% | \$ 18,683,992 | \$ (10,511,267) | 228.6% |
| Police | \$ 89,031,719 | \$ 21,258,952 | 23.9% | \$ 94,164,613 | \$ 21,599,071 | 22.9% | \$ 88,580,241 | \$ 5,584,372 | 94.1% |
| Fire | \$ 52,245,241 | \$ 11,874,334 | 22.7% | \$ 56,420,842 | \$ 13,962,730 | 24.7% | \$ 56,744,840 | \$ (323,998) | 100.6% |
| Public Works | \$ 13,125,775 | \$ 3,136,440 | 23.9% | \$ 18,179,445 | \$ 3,662,409 | 20.1% | \$ 17,190,877 | \$ 988,568 | 94.6% |
| Community Services | \$ 23,167,668 | \$ 5,189,014 | 22.4% | \$ 24,369,099 | \$ 5,076,093 | 20.8% | \$ 22,176,962 | \$ 2,192,137 | 91.0% |
| Total Expenditures | \$ 223,963,515 | \$ 61,238,011 | 27.3% | \$ 249,806,066 | \$ 68,121,948 | 27.3% | \$ 247,477,929 | \$ 2,328,137 | 99.1% |

The General Fund’s increase in expenditures to date is primarily driven by increases in the Non-Departmental area, which has increased \$3.6 million. This is driven by reduced indirect reimbursements from vacancies in various enterprise funds (\$350,000), increased debt service payments (\$425,000), additional contributions to capital projects (\$1.0 million), increased replacement fund contributions (\$425,000), and transfers to the City’s Low Mod Housing Fund for the purchase of 1316-1320 Cabrillo Ave (\$1.25 million). The second largest increase relates to the Fire Department, which has increased by \$2.1 million. This is half driven by increases in overtime expenditures and CalPERS costs with the remaining increase driven by increased Self-Insurance allocations as well as reduced reimbursements for strike team deployments.

At fiscal year end, it is projected that the General Fund Operating Fund will experience a surplus of \$2.3 million. This is inclusive of a \$10.0 million transfer from the General Fund to the Self-Insurance Fund to balance out the current year’s projected actuals. After controlling for this additional transfer, the expenditure budget would be projected to end the fiscal year with an \$12.3 million surplus. This is largely driven by vacancies. As shown below there are 155.9 full-time equivalent (FTE) vacancies related to the General Fund Operating Fund, which translates to an estimated \$10.3 million in annualized savings.

Below is a summary status of vacancy levels, as of September 30, 2022:

| Fund Category | General Fund | Enterprise Funds | Internal Service Funds | Total - All Funds | Fund Category | General Fund | Enterprise Funds | Internal Service Funds | Total - All Funds |
|-----------------------|--------------|------------------|------------------------|-------------------|-----------------------|---------------------|---------------------|------------------------|---------------------|
| City Council | - | - | - | - | City Council | \$ - | \$ - | \$ - | \$ - |
| City Manager | 3.0 | - | - | 3.0 | City Manager | \$ 99,586 | \$ - | \$ - | \$ 99,586 |
| City Attorney | 1.0 | - | - | 1.0 | City Attorney | \$ (4,208) | \$ - | \$ - | \$ (4,208) |
| City Clerk | 1.0 | - | - | 1.0 | City Clerk | \$ 24,843 | \$ - | \$ - | \$ 24,843 |
| City Treasurer | 1.0 | - | - | 1.0 | City Treasurer | \$ 56,835 | \$ - | \$ - | \$ 56,835 |
| Finance | 5.0 | - | 3.0 | 8.0 | Finance | \$ 413,501 | \$ - | \$ 280,540 | \$ 694,041 |
| Human Resources | 2.0 | - | - | 2.0 | Human Resources | \$ 191,315 | \$ - | \$ - | \$ 191,315 |
| Civil Service | - | - | - | - | Civil Service | \$ - | \$ - | \$ - | \$ - |
| Community Development | 11.9 | 1.1 | - | 13.0 | Community Development | \$ 659,425 | \$ 126,065 | \$ - | \$ 785,490 |
| CIT | 6.0 | - | - | 6.0 | CIT | \$ 720,098 | \$ - | \$ - | \$ 720,098 |
| General Services | 9.5 | - | 8.0 | 17.5 | General Services | \$ 403,825 | \$ - | \$ 379,346 | \$ 783,172 |
| Non-Departmental | - | - | - | - | Non-Departmental | \$ - | \$ - | \$ - | \$ - |
| Police | 59.0 | - | - | 59.0 | Police | \$ 5,791,950 | \$ - | \$ - | \$ 5,791,950 |
| Fire | 20.0 | - | - | 20.0 | Fire | \$ (249,123) | \$ - | \$ - | \$ (249,123) |
| Public Works | 16.1 | 23.3 | - | 39.3 | Public Works | \$ 649,753 | \$ 2,102,566 | \$ - | \$ 2,752,319 |
| Community Services | 20.5 | - | - | 20.5 | Community Services | \$ 1,560,050 | \$ - | \$ - | \$ 1,560,050 |
| Transit | - | 78.3 | - | 78.3 | Transit | \$ - | \$ 6,704,117 | \$ - | \$ 6,704,117 |
| Total | 155.9 | 102.6 | 11.0 | 269.6 | Total | \$10,317,852 | \$ 8,932,747 | \$ 659,886 | \$19,910,486 |

Areas of Focus

There are multiple areas that staff are tracking closely that will require attention in the near term and over the coming budget cycles, including:

- Self-Insurance Fund: Approximately **\$58.7 million underfunded**
- Fleet Services Fund: Approximately **\$8.1 million underfunded**
- Cash Balances by Fund
- Labor Trends
- Expiring Labor Agreements
- Aging Infrastructure and City Facilities/Parks
- Pension/OPEB Benefits Liability Management

Self-Insurance Fund

The City's Self Insurance Fund covers expenditures in the following areas: non-litigated claims, liability claims, payments above \$50k/case, workers' compensation cases, and unemployment insurance payments. The fund is funded by contributions from the General Fund, Enterprise Funds and Internal Service Funds, and over the last several years has experienced a deterioration of its fund balance. As of June 30, 2022 (unaudited), the fund balance is approximately (-\$58.7) million. This is driven by existing outstanding liabilities in Workers Compensation of \$50.7 million and Liability Claims of \$22.3 million. As of June 30, 2022 (unaudited), the cash balance in this fund stands at only \$15.0 million.

Given the aforementioned trends, an additional transfer of approximately \$10.0 million is included in the General Fund expenditure projection as a contribution to the Self Insurance Fund. However, this contribution merely offsets projected actual expenditures for the current year and does not make progress on the unfunded status of this fund (negative fund balance). This will be of continued focus in coming Budget updates to ensure the City is prepared for funding its exposure.

Fleet Services Fund

The City's Fleet Services Fund is broken into two main areas: Operations and Replacement, both of which are an area of focus.

The Operations side has experienced a deterioration of its fund balance driven by structural deficits over the years. As of June 30, 2022 (unaudited), the fund balance was (-\$5.8) million and the cash balance was at (-\$6.5) million. In Fiscal Year 2022-23, labor rates were increased by 85% to address the structural imbalance. As a result, current year projections for the Fleet Services Operations Fund show a \$562,000 surplus. Based on the latest revenue trends, it is anticipated that staff will recommend a budget amendment to correct this negative balance in Fiscal Year 2022-23.

The Replacement side has grown a cash balance to fund future replacement of city vehicles tracked in the Fleet Services Replacement Fund. However, this area was historically underfunded, meaning departments did not have sufficient balances to replace vehicles at the end of their useful life. To address this, beginning in Fiscal Year 2022-23, staff updated the replacement fund model to ensure adequate amounts are available when needed. However, there is still a current cash balance shortfall of approximately \$2.3 million.

In total, if \$8.1 million were transferred into this fund, it would resolve both areas of focus in the Fleet Fund. Therefore, it is anticipated the projected revenues above budget for Fiscal Year 2022-23 will partially be recommended to fund that transfer.

Cash Balances by Fund

As a result of the COVID-19 pandemic and the other areas discussed in this section (Self Insurance and Fleet Services), the current cash balance as of June 30, 2022, in the below fund categories are relatively low for operations of their sizes. The table below highlights the current distribution (unaudited):

| Fund Category | End Cash Bal - | |
|------------------------------------|-----------------------|---|
| | FY2021-22 | Example Funds |
| Enterprise Funds | \$ 81,453,582 | Airport, Sanitation, Sewer, Water, Transit |
| Nonmajor Governmental Funds | \$ 56,612,802 | Measure M; Prop A; Prop C; Measure W; Gas Tax |
| General Fund | \$ 33,737,237 | |
| Internal Svc - Self-Insurance Fund | \$ 14,995,703 | |
| Internal Svc - Fleet Services Fund | \$ 14,040,160 | |
| Capital Improvement Fund | \$ 13,900,075 | General Fund CIP |
| Fiduciary Funds | \$ 9,386,744 | INSB; Area G; LowMod/RDA/Succesor |
| Measure R Fund | \$ 5,715,689 | |
| Internal Svc - OPEB Fund | \$ 4,845,259 | |
| Total | \$ 234,687,251 | |

As shown above, the City’s main operating fund (General Fund) only sits at a cash balance of \$33.7 million. This represents a small portion of the City’s pooled cash utilized for investments during the course of the fiscal year. For reference, the current General Fund cash balance represents 14.4% of all cash on hand, while the total General Fund expenditure budget represents 62.4% of the City’s total Fiscal Year 2022-23 Amended Budget. As the City focuses to replenish fund balances in the General Fund, Self-Insurance Fund, and Fleet Services fund this will improve the overall distribution of its cash balances.

The City’s General Fund Unassigned Fund balance is projected to end Fiscal Year 2021-22 at \$45.7 million. This represents approximately 20.4% of the General Fund Operating Fund’s Fiscal Year 2021-22 expenditure appropriation. By reaching the 20% mark, this means the City’s General Fund Reserves Key Performance Indicator will be in the Low Risk “green” category.

However, Staff notes that the State Auditor’s High-Risk Dashboard recommends reserves greater than 9 months of operating costs, which translates to 75%, or \$187.4 million based on the current General Fund Operating Fund appropriation. To be considered “Low Risk” on the State Auditor’s High-Risk Dashboard in this category requires 6 months of operating costs, which translates to 50%, or \$124.9 million. In examining the Fiscal Year 2020-21 results of the State Auditor’s Report, published in October 2022 (latest available), approximately 75% of California cities fall in this category.

In the future, staff may recommend adjustments to increase the City’s General Fund reserve goals and fund balance levels to improve the City’s ranking on the State Auditors report and further improve fiscal resiliency.

Labor Trends

Changing demographics, technological change and a re-evaluation of the contract between employer and worker continues to reflect in the tightest labor market of modern times. During fiscal years 2021 and 2022, the City held positions vacant to weather the COVID-19 pandemic. With the pandemic largely contained, and the passage of Measure SST allowing public safety positions to remain whole, the City is now working hard to attract and retain high quality talent. As previously shown with the vacancy counts citywide, it is an extremely challenging time to fill positions and will be the focus for months to come to stabilize the workforce.

As of November 2022, 237 employees are eligible for retirement (based 55 years of age; Employee Classification A). As the workforce ages, City staff will continue to monitor retirement eligibility for proper succession planning. Beginning in Fiscal Year 2021-22, the City has sustained a significant spike in retirements and voluntary resignations. The most common cited reasons for recent departures have been **better salaries and benefits**, and **flexibility**. Based on these recent trends, employee retention will continue to be a challenge in the coming years as the City works to settle labor contracts that have been expired for multiple years.

| | Fiscal Years Ending | | | 4-months |
|------------------------|---------------------|------|------|----------|
| | 2020 | 2021 | 2022 | 2023 |
| Retirements | 42 | 57 | 72 | 23 |
| Voluntary Resignations | 46 | 42 | 133 | 46 |
| Departures or Death | 11 | 11 | 13 | 8 |
| | 99 | 110 | 218 | 77 |

Expiring Labor Agreements

The City's labor agreements with the various union groups follow different terms. The City's Miscellaneous labor groups expired June 2020, however are currently under negotiations. Two of the miscellaneous groups (TPSA & TFEA) have settled with an expiration date of June 2024. The Police & Fire safety labor agreements are currently set to expire in December 2023. In the coming month it will be important to focus on multi-year collective bargaining agreements for the City. For reference, it is estimated that it costs the city, across all Funds, approximately \$1.9 million for every 1% in negotiated wage increase for all of our different unions/bargaining units. In order for the City to attract the necessary talent to combat the aforementioned departures, adjustments to salaries and benefits will be an important focus.

Aging Infrastructure and City Facilities/Parks

The City of Torrance owns and operates over \$500 million worth of buildings, public facilities and infrastructure. With every year passing these buildings age and deteriorate, many of which are still in its original condition. Currently the City's capital assets, as a whole, have reached their half-life mark, requiring heavy maintenance and upgrade. The City Council approved an item at its November 15, 2022 Council meeting, which provides the necessary funding for General Services to complete a Request For Proposals and hire a consultant to index and assess each building and establish criteria for rating its condition. This project will help inform the City's Capital Improvement Plan and prioritize the highest need areas. Additionally, Measure SST was approved by the voters, which will provide a dedicated stream of funding to improve City parks and other areas throughout the community beginning in Fiscal Year 2023-24. City staff presented an initial listing of projects that will be merged with the City's overall Capital Improvement Plan, focused on investing in the City's aging infrastructure, facilities, and parks.

Pension/OPEB Benefits Liability Management

In Fiscal Year 2021-22, CalPERS sustained an estimated loss of 6.1%. This translates to a significant increase in unfunded liabilities and the amortized repayment over the next 20 years, beginning in Fiscal Year 2024-25. For example, the annual UAL payment increases from \$10 million in FY 2026-27 to up to \$21 million in FY2031-32. The impact of these recent returns has been incorporated into the City's 10-Year forecast, which also includes the utilization of savings from the Section 115 Fund, which the City funds on an annual basis. It is anticipated that the City will need to make its first drawdown in FY 2026-27. The assumptions used in the 10-Year forecast will be refreshed semi-annually to use the most recent returns data from CalPERS.

Economic Outlook

Since the peaks of the COVID-19 pandemic in 2020, early 2021 began with restrictions being lifted in phases and schools re-opening and 2022 has returned to a “new normal”. As a result, the economy has experienced improvements and a broad recovery in key economic indicators though is currently facing headwinds with the Federal Reserve working to combat very high inflation levels with a series of federal funds rate increases. As described in this section, as of the third calendar quarter of 2022, we are seeing a leveling of Real GDP growth, headwinds created by the increases to the federal funds rate to combat inflation, solid unemployment figures, and a decline in consumer confidence levels falling below pandemic levels. With three of the four main areas signaling economic pressure, staff continue to monitor these broader trends as a guide to determine Torrance’s financial path forward.

Federal Funds Rate

As a result of spikes in inflation nationwide, the Federal Reserve has been leveraging policy decisions to try and temper the economy and “cool” these trends. As a result, beginning in early 2022, the Federal Open Market Committee has adjusted the federal funds target rate several times. This is the benchmark borrowing rate from which fixed income instruments, auto loans, mortgages, and credit card rates are all based. The increases implemented have been aggressive in an effort to return the economy and price inflation to “normal” levels. These increases on borrowing rates, create a significant headwind for the broader economy, adversely affecting cost of investment for business and the cost of home ownership much higher as well. We are seeing the effects of these actions currently affecting home sales prices in Torrance, as explained later in this document. Below is a summary of the actions taken during 2022:

| Federal Reserve Meeting | Action Taken | Fed Fund Rate |
|-------------------------|------------------|---------------|
| November 2, 2022 | +75 basis points | 3.75% - 4.00% |
| September 21, 2022 | +75 basis points | 3.00% - 3.25% |
| July 27, 2022 | +75 basis points | 2.25% - 2.50% |
| June 16, 2022 | +75 basis points | 1.50% - 1.75% |
| May 5, 2022 | +50 basis points | 0.75% - 1.00% |
| March 17, 2022 | +25 basis points | 0.25% - 0.50% |

Inventories to Sales Ratio

The Inventory to Sales Ratio metric measures the amount of inventory being carried compared to the number of sales orders being fulfilled. Business inventories spiked in the peak of the COVID-19 pandemic at 1.74 briefly when the economy came to an immediate halt. As the economy partially re-opened in 2021 and business resumed, the nation experienced a significant spike in demand and economic activity as restrictions continued to be lowered and interest rates dropped. This in turn

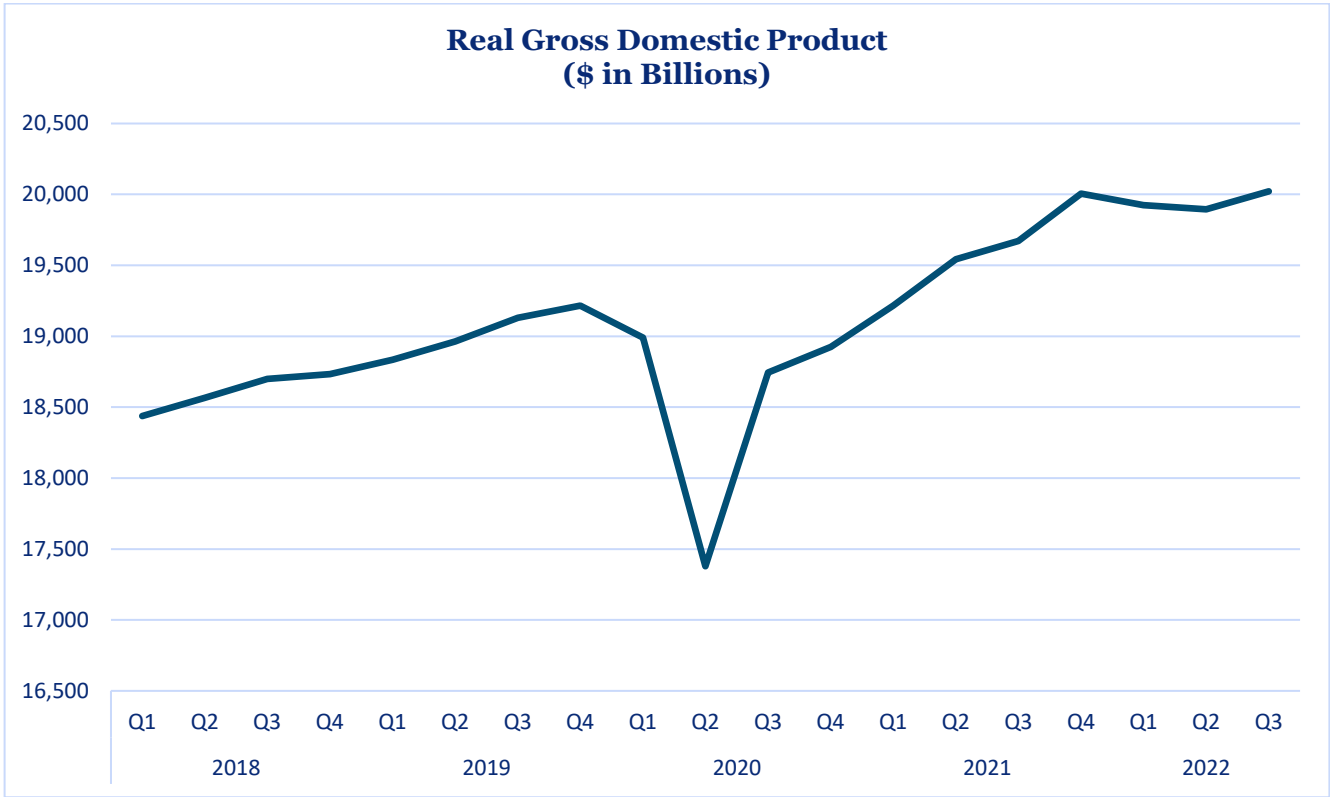
placed great strain on the overall supply chain. The inventories to sales ratio hit a low of 1.26 in November 2021, which has had an impact on price of goods and overall inflation rates. Since that time, in recent months the balance has improved and begun to return to pre-pandemic levels ending August 2022 at 1.33. From an economist perspective, an upward trend reflects a deceleration of sales, or an increase of inventory on hand. Although this ratio displays an uptick, it is lower than the pandemic peak of 1.74 in April 2020 and 1.48 in 2009's Great Recession.



Real Gross Domestic Product (GDP)

Real Gross Domestic Product is a measure that reflects the value of all goods and services produced by an economy in a given year (controlled for annual inflation figures). Essentially, it measures a country's total economic output. Real GDP metrics are used for analyzing economic growth over time. Most recent data available from United States (U.S.) Bureau of Economic Analysis (BEA) shows that at the national level, GDP increased by 3.4% in the first calendar quarter of 2022 (compared to the same period the year prior), followed by more moderated growth of 1.8% increase in the second quarter, and 1.8% in the third quarter. The increase in the second and third quarter GDP figures reflect the outcome of some of the policy decisions being made at the federal reserve level to temper economic activity.

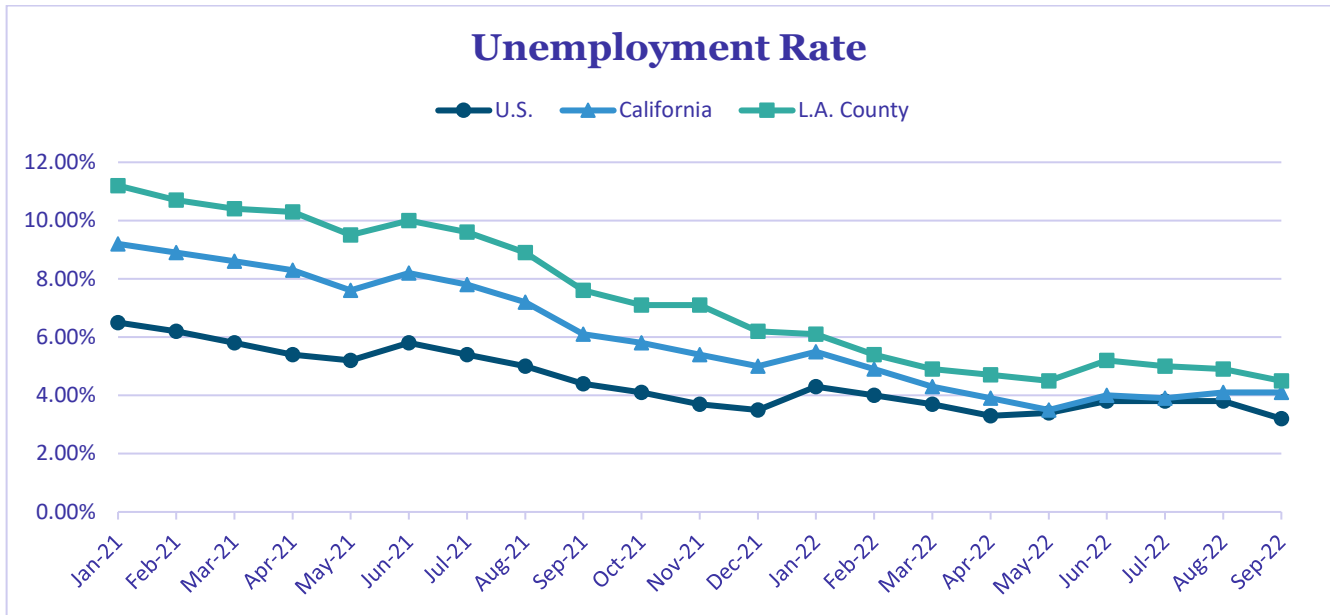
Spikes in demand and constrained supply (though improving) have driven prices up in many areas of the broader economy. Fuel prices continue to hold elevated levels in California. As of November 8, 2022, the Automobile Club of America (AAA) quotes the national average for fuel prices at \$3.80 per gallon, with California coming in at \$5.42 per gallon.



Source: Bureau of Economic Analysis

Labor Market

As of September 2022, the U.S. unemployment rate was 3.2%, California was 4.1% and Los Angeles (L.A.) County was 4.5% respectively. As shown in the chart below, the September 2022 unemployment figures continue to improve significantly. At this point the national and state unemployment levels are better than they were pre-pandemic and LA County is within 20 basis points. Recessionary factors may place pressure on companies that lead to layoffs and increases in the unemployment rate from current levels. This metric will be monitored by staff in the coming months as an indicator of the broader economy and impacts to sales tax and property tax.



Source: National Conference of State Legislatures, State of California - EDD

Similar to National, State, and County results, we see that the local unemployment rates have improved significantly. In Torrance, pre-pandemic unemployment levels held at 3.3% percent as of the end of 2019. As of calendar Q3 2022, Torrance’s unemployment sits at 3.2%.

| Local Unemployment Rate Trends | | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2020</u> | <u>2021</u> | | | | <u>2022</u> | | |
| | <u>Q4</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> |
| National | 6.7% | 6.0% | 5.9% | 4.8% | 3.9% | 3.6% | 3.6% | 3.5% |
| California | 9.2% | 8.4% | 7.9% | 6.4% | 5.8% | 4.8% | 4.2% | 3.9% |
| Los Angeles County | 11.3% | 10.5% | 9.7% | 7.6% | 6.8% | 5.7% | 5.1% | 4.8% |
| Carson | 12.7% | 6.5% | 8.7% | 10.8% | 11.6% | 5.2% | 5.2% | 4.8% |
| Gardena | 13.4% | 5.6% | 8.8% | 11.4% | 11.5% | 5.0% | 5.6% | 4.8% |
| Glendale | 10.3% | 5.4% | 8.0% | 10.6% | 9.9% | 4.9% | 4.9% | 4.3% |
| Hawthorne | 13.5% | 6.6% | 9.1% | 11.5% | 11.4% | 5.0% | 5.3% | 4.4% |
| Inglewood | 14.8% | 7.3% | 10.0% | 12.2% | 12.6% | 5.8% | 6.1% | 5.3% |
| Santa Monica | 8.7% | 4.7% | 6.1% | 7.8% | 7.7% | 4.5% | 4.7% | 4.3% |
| Torrance | 8.6% | 4.0% | 5.8% | 7.9% | 8.0% | 3.5% | 3.7% | 3.2% |

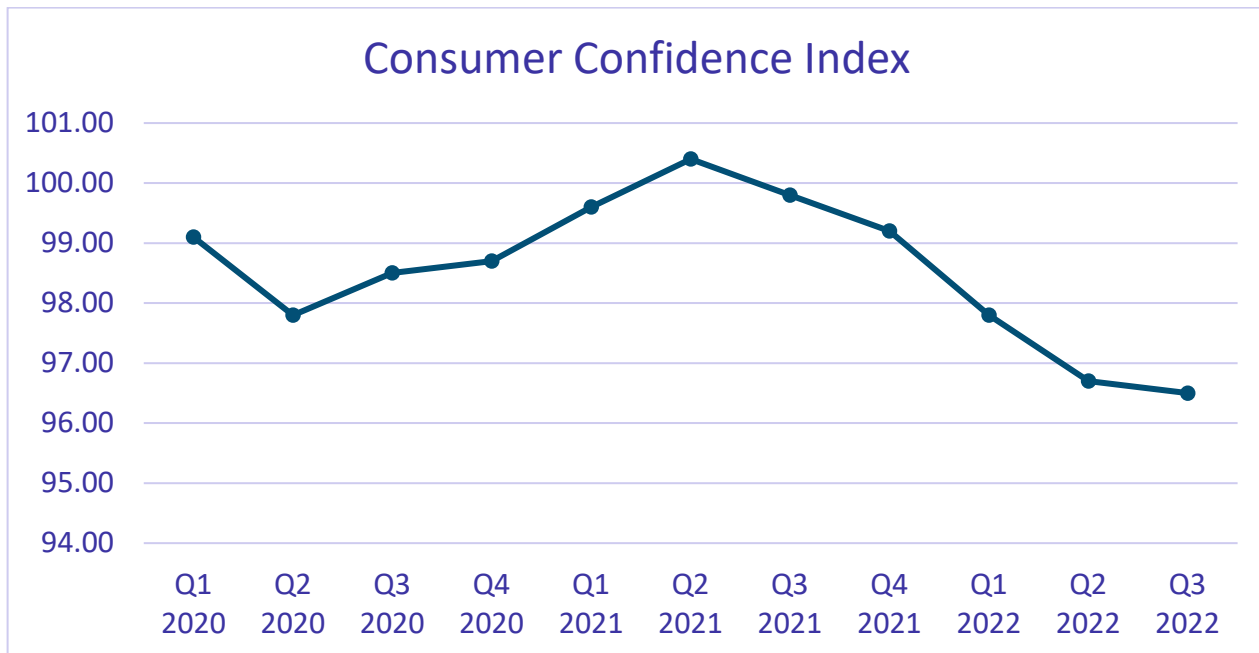
Source: National Conference of State Legislatures, State of California - EDD

Consumer Spending

Consumer demand is a critical engine of the U.S. and local economy. The Consumer Confidence Index (CCI) provides an indication of household consumption and saving, based upon answers

regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings. An indicator above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to spend money on major purchases in the next 12 months. Values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less.

According to the CCI survey sourced from the Organization for Economic Cooperation and Development, consumer optimism has seen some significant improvements for many quarters since the peak of the pandemic in calendar Q2 2020 though in recent quarters has fallen below these levels. The details of this trend can be seen below:



Source: Organization for Economic Cooperation and Development

Beginning in calendar Q2 2022, we have seen consumer confidence fall below peak pandemic levels (97.8) with outcomes of 96.70 and 96.50 in Q3 2022. This is a metric the City will continue to monitor closely as sales and use tax the City's largest core revenue source, followed by property tax. With these figures falling below pandemic levels, it is anticipated that the City will experience a change in its sales tax growth trajectory.

Reserve Balances

At the onset of the COVID-19 pandemic in Fiscal Year 2019-20, the City was required to utilize nearly all of its reserves and unassigned fund balance. At that time, the City was left with an unassigned

fund balance of \$581,449 at June 30, 2020. Beginning last year, staff recommended a target of 20% of expenditures, as recommended by the Government Finance Officers' Association (GFOA) as a minimum balance. Staff projects the General Fund Operating Fund to reach this figure as of Fiscal Year ending 2021-22, which sits at 20.3%.

| Unassigned Fund Balance | Beg Bal - FY2021-22 | Additions/ (Uses) | End Bal - FY2021-22 (unaudited) | Projected Additions/ (Uses) | Proj End Bal FY2022-23 |
|--------------------------------|------------------------|----------------------|---------------------------------------|-----------------------------------|---------------------------|
| Economic Anomaly | \$ 8,081,449 | \$ - | \$ 8,081,449 | \$ - | \$ 8,081,449 |
| Litigation | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other Unrestricted | \$ 14,551,613 | \$ 23,026,032 | \$ 37,577,645 | \$ 16,641,251 | \$ 54,218,896 |
| Total | \$ 22,633,062 | \$ 23,026,032 | \$ 45,659,094 | \$ 16,641,251 | \$ 62,300,345 |

The Other Unrestricted line represents fund balance created by the actions approved by Council to date since the onset of the COVID-19 pandemic. This amount is contributing to the General Fund's overall fund balance, but has not been reserved at this time, to ensure the City has sufficient working capital. At any point in the future, a portion of these funds can be placed into the Economic Anomaly or Litigation reserves for future long-term needs.

In addition to the above reserves, the City has implemented a Section 115 Trust through CalPERS (California Employers' Pension Prefunding Trust, or CEPPT) and began making annual contributions in Fiscal Year 2021-22. Annual contributions represent 20% of the projected savings from the issuance of the 2020 Lease Revenue Bonds that were used to pay down a majority of its CalPERS Unfunded Actuarial Liability (UAL). The City's General Fund Operating Fund budget will include a 20% savings contribution each year to build a pension prefunding reserve trust as a minimum contribution for the foreseeable future. For context, the City's second deposit was \$1.95 million.

California Public Employees' Retirement System Update

On October 22, 2020, the City successfully closed the sale of \$349.5 million of lease revenue bonds, as part of approved budget mitigations in June 2020. Upon the close of the transaction, the City paid down \$338.4 million of its Unfunded Actuarial Liability (UAL), increasing the City's funded status with the California Public Employees' Retirement System (CalPERS) from approximately 65% to 92%. It is estimated this action will yield total savings of approximately \$172.2 million savings over the life of the bonds through fiscal year 2043-44, which is the same average life as the UAL that was paid off (no maturity extension). These savings are achieved by effectively "refinancing" the CalPERS rate of 7.0% to the new bond interest rate of 3.43%.

Subsequent to this action, CalPERS portfolios yielded a 21.3% investment return as of the fiscal year ending June 30, 2021, a positive outcome particularly with the large payment provided to CalPERS in the middle of the fiscal year. This investment return exceeds the current discount rate of 7.0% and based on the current Funding Risk Mitigation Policy with CalPERS triggered a change in the discount rate down to 6.8%. Subsequently, in Fiscal Year 2021-22, CalPERS sustained an estimated loss of 6.1%. This translates to a significant increase in unfunded liabilities and the amortizes repayment over the next 20 years, beginning in Fiscal Year 2024-25. The impact of these recent returns has been incorporated into the City's 10-Year forecast, which also includes the utilization of savings from the CEPPT Fund. During the development of the Fiscal Years 2023-2025 Operating Budget, Staff will be recommending program changes or enhancements to address future losses.

Conclusion

Over the next year, the economy will reflect a rebalancing of demand and supply. On the one hand, household spending on retail and e-commerce will slow as high inflation continues and a recession is anticipated. On the other hand, supply shortages will be relieved because of fewer shipping delays and potentially higher vacancy rates in warehouses. Both e-commerce and brick-and-mortar retail markets cooled in early 2022 due to high inflation, Fed action on interest rates, and the end of pandemic-related government assistance. Retailers have absorbed some cost increases and big retailers like Target, Walmart, and Amazon are facing overstocking problems and using promotions to reduce inventories. As a result, major retailers have raised concerns about further margin contraction into the second half of 2022.

The question is not whether we are in a recession, but rather what kind of recession will we be in. The 2001 recession was caused by a structural problem (the "dot com" bubble) and was relatively mild and short (only 8 months) as strong fiscal and monetary responses proved to be effective to pull the country out of the recession relatively quickly. The 2008 recession was also caused by structural problems (the subprime mortgage crisis) and was widely felt in most industries. It lasted 18 months, but the subsequent recovery was impressive, leading to more than 10 years of consecutive monthly job gains, the longest economic recovery since the 19th century. However, it took 10 years for the unemployment rate to get back to prerecession levels. The 2020 recession (February – April 2020) was caused by a shock from the COVID-19 pandemic. Despite the work and travel restrictions, it was sharp but short. Substantial quantitative easing, Federal Funds rates close to zero, and trillions of dollars in pandemic relief pulled the country of recession quickly. Those same measures are playing a role in current economic conditions.

Currently, inflation remains stubbornly high and continues to eat up consumers' wage gains and savings. Despite aggressive Fed interest rate hikes inflation might not be contained fast enough if

consumers continue to spend at current levels. If the Federal Reserve responds by continuing to raise rates, this might increase the chances of having a longer-than-expected recession.

Though the previously discussed indicators and Federal actions indicate further cooling of the national economy, our regional economy is clearly resilient, competitive, and innovative, and these qualities will allow us to navigate challenging times. Resilience was demonstrated in numerous ways through the COVID-19 pandemic, which forced many companies to pivot towards other operations. New developments and investments picked up in the business community, including Torrance itself. Below are a handful of developments in Torrance, amongst hundreds of active building permit applications:

- **Sares-Regis / Former Toyota Campus** - The first phase consisting of three office warehouse buildings has been completed. The second phase, consisting of three of four office warehouse buildings have since been completed. Phase Three, the demolition of several existing buildings will be completed by Dec 2022.
- **Kearney Development: 19501 Priarie Ave.** - Two office warehouse buildings under construction and scheduled to be completed early Spring 2023.
- **Gable House Site: Proposed Mixed Use Project** - Retail and 218 residential units with tentative start of construction in early 2023.
- **Del Amo Blvd and Van Ness Ave.** - Two office warehouse buildings under construction and scheduled for completion early 2023.
- **Del Amo Fashion Center** - Three restaurant spaces on the Hawthorne Blvd frontage are undergoing major renovations and being converted to new restaurants including North Italia, MB Grille, and Sweet Greens.

As evident in the first quarter overall results, the City of Torrance team remains vigilant in monitoring its financial situation and continues to work in partnership to ensure essential services are maintained. The strength of Torrance leadership and the dedication and talent of our staff has been proven throughout these challenging times. My appreciation goes out to all the Departments who continue to serve the community, while helping us navigate towards a balanced budget, as well as the Mayor and City Council for their continued leadership.

Recommendation

Based on the information provided in this summary, it is the recommendation of the Finance Director that the Finance and Governmental Operations Committee accept and file the First Quarter Budget Review Report, and authorize staff to bring forward to City Council at a future date, the proposed Program Modifications consideration and approval.

Respectfully Submitted,



Sheila Poisson
Finance Director

CONCUR:



Aram Chaparyan
City Manager

PROGRAM MODIFICATIONS



FIRST QUARTER

BUDGET REVIEW REPORT

Program Modifications and Other Updates

This section summarizes Program Modifications that will be brought forward to City Council for approval.

Program Modifications

City Clerk – Convert 2.0 FTE Office Assistants to 2.0 FTE Administrative Assistants – \$28,082 (General Fund)

The City Clerk Department is seeking to convert 2.0 FTE Office Assistants into 2.0 FTE Administrative Assistants. Historically, Office Assistants have been staffed for carrying out clerical support tasks, however, the limited job specifications for the position no longer meet the administrative needs of the department. Upgrading the Office Assistant positions to Administrative Assistant positions will provide increased flexibility in assigning tasks, facilitate staff development and allow for cross-training across the department’s three divisions including the Administration Division, Records & Electronic Content Management System (ECMS) Division, and Legislative/Elections Division.

City Manager – Convert 1.0 FTE Assistant to the City Manager to 1.0 FTE Deputy City Manager and adjust non-wage budget – \$62,682 (General Fund)

The City Manager's Office is seeking to convert 1.0 FTE Assistant to the City Manager to a newly establish classification of 1.0 FTE Deputy City Manager. Due to the efforts put forth by the staff in this position, their value to the city, and the need to retain them, the City Manager is recommending the creation of a new job classification of “Deputy City Manager” with a salary reference point between the existing classifications of “Assistant to the City Manager” and “Assistant City Manager”. The current reference point for Assistant to the City Manager is \$13,584 and this newly proposed classification is recommended for \$17,167 as the midpoint between the existing classification and the Assistant City Manager classification. This change will allow for continued advancements in homelessness response and an expanded emphasis on workforce professional development. The cost impact of this changes is \$45,682.

In July of 2021 City staff received approval from the City Council to establish a Friendship City program. A Friendship Cities designation is an established relationship between two cities that is mutually beneficial. In some cities, a “Friendship City” is often used as a first step in building a long-term relationship and is less formal than a Sister City relationship. Friendship Cities are used to

develop a cooperative agreement to make substantial progress in economic development, trade, culture, education, climate action and many other fields to promote collaboration. The Friendship Cities program is also a way for the cities to initiate a ceremonial relationship with foreign municipalities. These relationships foster increased global cooperation and communication at the municipal level for the benefit of participating cities. Friendship City relationships may include the exchange of correspondence between Elected Officials and business leaders regarding areas of mutual interest. Friendship Cities provide business opportunities, commerce, trade, and mutual exchange programs to create a relationship built on common interests. Over the years a few international cities have expressed interest in developing relationships with the City of Torrance. The concept of Friendship City relationships is appealing in that it offers a less formal opportunity for two cities to explore similarities and differences and can easily be terminated if need be. Mayor Chen has been contacted by representatives of the city of Changhua in Taiwan and also by the Consulate General of the Republic of Korea in Los Angeles with both expressing interest in establishing a relationship with Torrance. The cost impact of implementing this program is \$5,000.

City Council has requested the city expand efforts to lure and retain businesses. Staff expects to complete a Request for Qualifications in the second quarter and present an item with recommended selections to City Council in the third quarter with proposed criteria for selected vendors to be eligible for draft compensation schedules. The cost impact of this program is about \$40,000, but staff have identified surplus areas meaning an additional \$12,000 is only needed to fund this effort.

City Manager – Add 1.0 FTE Staff Assistant (Homeless Services) – \$87,973 (Non-General Fund)

In recent years, the number of individuals experiencing homelessness in California and Los Angeles County has increased significantly. The City Manager’s Office has worked to develop strategic solutions for a coordinated response to this issue to address specific community concerns. At the beginning of 2021, the City retained a dedicated homeless outreach worker through an agreement with Harbor Interfaith Services to assist those experiencing homelessness with the necessary resources and support for obtaining permanent housing. Additionally, in June 2021, the Torrance City Council approved a temporary housing pilot program intended to provide housing stability for unsheltered individuals in Torrance while they move towards permanent housing.

Today, the 3290 Temporary Housing Village has 40 residents living in “tiny homes” with access to shared restrooms, showers, and three meals per day. To ensure the City continues to provide high quality wraparound services, the City Manager's Office is seeking to add 1.0 FTE Staff Assistant to carry out dedicated outreach coordination, case management, housing navigation, documentation assistance, and community education. To offset the associated costs for adding this new position, the City has secured funding through the HOME Investment Partnerships American Rescue Plan

Program (HOME-ARP), a federal program established to reduce homelessness and increase housing stability across the country.

Communications & Information Technology – Delete 1.0 FTE Communications Manager, Delete 1.0 FTE Information Technology Specialist, Delete 1.0 FTE Information Technology Analyst, Add 2.0 FTE Information Technology Manager, and Add 1.0 FTE Systems Analyst – \$135,016 (General Fund)

In 2021, the City Manager leveraged vacancy savings to complete a comprehensive assessment of the Communications & Information Technology (CIT) Department which identified several program deficiencies. To address these deficiencies, CIT is seeking to reorganize the department to better serve the City and the community in a fast-changing technological world. More specifically, the proposed reorganization will allow the department to establish well-balanced areas of responsibilities and improve cybersecurity posture to ensure the City follows and complies with industry security standards.

The proposed restructuring within the CIT Department consists of the following:

- Delete 1.0 FTE Communications Manager (currently vacant) and add 1.0 FTE Information Technology (IT) Manager to oversee Centralized Customer Support, as well as radio shop and communications operations – (\$6,689) savings
- Delete 1.0 FTE IT Analyst (currently vacant) and add 1.0 FTE IT Manager to oversee Enterprise Applications & Analytics – \$77,293
- Delete 1.0 FTE IT Specialist and add a Systems Analyst dedicated to Infrastructure & Cybersecurity – \$64,412

This proposed program modification results in a total budget increase of \$135,016 within the CIT Department. However, the City Manager recommends funding the Cybersecurity System Analyst (\$175,288) through SST revenue so as to not impact the department's General Fund Operating Fund budget. The net budget impact (to the General Fund Operating Fund) of these changes after accounting for contributions through SST revenue is a budget decrease of \$40,272. The CIT Department reorganization is an effort to realize the full potential of its resources that align with the City's technological needs. All CIT operations will adhere to the Information Technology Infrastructure Library (ITIL) methodology adopted by most fortune 500 businesses and large municipal agencies. Furthermore, the efficiency of the department will be measured by the new IT Service Management (ITSM) system, which is anticipated to go live by the end of the 2022.

Community Development – Convert 5.0 FTE Environmental Quality Officers and 2.0 FTE Senior Environmental Quality Officers to 5.0 FTE Code Enforcement Officers and 2.0 FTE Senior Code Enforcement Officers – \$0

The Community Development Department has worked with Labor Relations and the employee group to establish a new classification titled Code Enforcement Officer and Senior Code Enforcement Officer. This new classification will be approved by Civil Service and Council in parallel to this budget action. Staff is recommending all FTE in the current Environmental Quality Officer and Senior Environmental Quality Officer be converted to Code Enforcement Officer and Senior Code Enforcement Officer. As positions turn over and become vacant, staff will recruit under the new classification to improve enforcement efforts throughout the community.

Community Services – Convert 1.0 FTE Senior Administrative Assistant to 1.0 FTE Supervising Administrative Assistant – \$16,405 (General Fund)

The Community Services Department is seeking to convert 1.0 FTE Senior Administrative Assistant into 1.0 FTE Supervising Administrative Assistant to allow for a higher level of responsibilities to be assigned to this position and designate the incumbent to oversee the administrative functions for each of the five (5) divisions within the Community Services Department. The point person will ensure accurate and consistent review of work and coordinate complex processes that come from each of the five divisions within the Community Services Department (i.e. City Council Agenda Items; Correspondence and Interoffice Communication; Grant and Funding Proposals, etc.)

The current Senior Administrative Assistant currently controls the potential for greater impact of erroneous mistakes that can happen and operates under the same scope of responsibilities and authority as a Supervising Administrative Assistant, except without having supervisory authority. The position is considered the final review and check point for all City Council Agendas and Reports and City Manager Reports from the Director for the Community Services Department and is vital to ensuring consistency of all reporting through the department.

In order to increase organizational efficiencies within their department, the Community Services Department proposes the following modifications:

- Upgrade the current Senior Administrative Assistant to a Supervising Administrative Assistant and provide appropriate funding to accomplish this upgrade.
- Re-assign the current Office Assistant and 3 Administrative Assistants to be supervised directly by the Senior Administrative Assistant who will offer guidance and training while delegating work assignments and implement the assessment of goal and objective development as well as annual performance evaluations.

-
- Provide supervision for each divisional Administrative Assistant by continually evaluating their performance providing honest feedback to each Divisional Manager ensuring Administrative Staff act in accordance with department and City policies. This individual will provide appropriate recommendations for resolving issues and making improvements regarding the quality and quantity of work.

As the Administrative Assistants cannot be directly supervised by the Supervising Administrative Assistant due to their satellite locations, the Supervising Administrative Assistant will work collaboratively with the Division Manager to identify areas of weakness and department inefficiencies, perform the annual Employee Appraisal Review, ensure accurate and consistent reviews, and help establish performance goals and objectives.

Community Services – Delete 1.0 FTE Senior Recreation Supervisor, Add 0.2 FTE Program Coordinator and Add 0.3 FTE Senior Program Specialist – (\$104,247) Savings (General Fund)

The Cultural Services Division is seeking a reduction of redundant supervisory staff to increase availability and scope of direct program delivery staff. The department has potential internal candidates to help address the increased FTE for the part-time positions listed and the Senior Recreation Supervisor position proposed to be deleted is currently vacant.

Community Services – Delete 1.0 FTE Office Assistant, Add 1.0 FTE Administrative Assistant – \$14,041 (General Fund)

The Cultural Services Division is seeking to reduce 1.0 FTE in the Office Assistant classification and replace it with 1.0 FTE in the Administrative Assistant classification. The current scope of the position in this area exceeds the job specifications of Office Assistant and changing to Administrative Assistant is necessary. This will allow for more independent work to be completed as well as coverage levels for the new streamlined staffing under the overall reorganization being proposed.

Finance – Transfer 1.0 FTE Account Clerk and 1.0 FTE Accounting Technician from Finance Department to City Treasurer Department – \$0

The Finance Department and City Treasurer’s Office are seeking to move the funding of 1.0 FTE Account Clerk and 1.0 Accounting Technician from the Finance Department budget to the City Treasurer’s Office budget. Due to the recent election of the new City Treasurer and the recruitment of a new Deputy City Treasurer, the Finance Department and City Treasurer’s Office are seeking to unwind some of the operational consolidation that was undertaken during the prior City Treasurer’s

leave of absence. This movement is a step towards restoring the separation of duties between the two departments now that adequate staffing in the City Treasurer's Office has been restored.

Fire – Increase Budget to Fund Enrollment in California Department of Healthcare Services' Ground Emergency Medical Transport Intergovernmental Transfer Program for Public Providers – (\$350,885) Savings (General Fund)

The Torrance Fire Department (TFD) Emergency Medical Transport (EMT) program is currently enrolled in California Department of Healthcare Services' (DHCS) Ground Emergency Medical Transport (GEMT) Quality Assurance Fee (QAF) program, which provides supplemental Medi-Cal payments to GEMT providers. The GEMT QAF program currently imposes a fee of \$34.02 per each transport (regardless of the payor category), but results in a reimbursement per Medi-Cal transport of \$220.80 (1,318 transports per year). The TFD EMT program FY2022-23 expense budget needs to be increased by an estimated amount of \$158,125 in order to pay the estimated QAF program fees for the first two quarters of the fiscal year (based on 2,324 transports done by TFD EMT for the period of July 2022 – September 2022). The Fire Department's Revenue budget will also need to be increased to reflect the revenue generated from this program. Using the reimbursement rate of \$220.80 and 659 estimated transports for half of a year, the revenue budget is recommended to increase by \$145,507

The GEMT QAF fee program is expected to end December 2022 and be replaced by the new Medi-Cal program – Public Providers-GEMT Intergovernmental Transfers (PP-GEMT IGT) - for the public providers only. This new program seeks to ensure that all public GEMT providers that service Medi-Cal beneficiaries receive sufficient reimbursement. The new PP-GEMT IGT program will eliminate the per-transport fee of \$34.02 and will instead result in quarterly payments of approximately \$130,258. Although the expenditures are higher under the new program, the expected reimbursement is also higher. Reimbursements per Medi-Cal transport under the new program are expected to be \$946.92. If this program is approved and starts as anticipated in January 2023, and if the City enrolls, an additional \$260,517 will need to be added to the TFD EMT program FY2022-23 expense budget to pay the quarterly contributions for the last two quarters of the fiscal year. In addition to this increased expenditure budget, the revenue budget will need to be increased assuming the same 659 transports receiving \$946.92 in reimbursement for January 2023 through June 2023. This translates to an increase in the revenue budget of \$624,020.

The total modification requested to the TFD EMT program FY2022-23 expense budget for both the old and new program is \$418,642. The total modification for the revenue budget for both the old and new program is \$769,527.

In subsequent fiscal years, the TFD EMT expense budget will need to be increased to \$521,034 annually to support the contribution costs of the PP-GEMT IGT program for the whole fiscal year. This will also generate an anticipated revenue of \$1,248,041 annually as well. The PP-GEMT IGT program is mandatory for public providers, although enrolling as a funding entity is voluntary. However, since the non-federal share of the PP-GEMT IGT Program is intended to be funded through voluntary contributions by public providers, if DHCS determines that the projected amount of voluntary contributions is not sufficient to support the implementation of the program, the program will not continue in future periods.

Public Works – Convert 4.0 FTE Maintenance Worker to 4.0 FTE Sanitation Equipment Operator – \$69,447 (Non-General Fund)

The Sanitation Division is seeking to convert 4.0 FTE Maintenance Worker (MW) positions to 4.0 FTE Sanitation Equipment Operator (SEO) positions to maintain adequate service levels. The Sanitation Division currently has a total of 33 budgeted positions assigned to waste collection, comprised of 25 SEO positions and 8 MW positions. SEOs operate a variety of vehicles for the daily collection of: (1) residential refuse, recycling and organics; (2) residential large items; and (3) illegally-dumped items. Additionally, SEOs are responsible for collecting containers at all City facilities.

Although we have 25 SEO positions, there are regular and daily occurrences of scheduled and unscheduled absences in the SEO position. This requires the department to “move-up” 4 MW on a daily basis to provide adequate daily collection services and ensure we comply with LA County health regulations.

This operational impact initiated a management review of current budgeted staffing levels to re-evaluate and determine the appropriate number of budgeted positions needed to address the impact of scheduled and unscheduled absences. Staff determined that minimum daily staffing requires 29 SEO’s and 4 MW’s to mitigate scheduled and unscheduled absences, and also ensure we continue to provide a high level of service to the community.

Accordingly, Public Works is requesting to convert 4 MW’s to 4 SEO’s. This would increase SEO positions from 25 to 29 and decrease MW positions from 8 to 4, while keeping the total of 33 budgeted position unchanged. The remaining 4 MW’s will be assigned to deliver, build and collect waste collection containers and assist with large item and illegally dumped collection, as they do now.

The cost to convert four MW’s to SEO is approximately \$69,447 per fiscal year, including benefits, and will be paid through the Sanitation Operating Fund (Enterprise Fund). This amount will be included in the upcoming Solid Waste rate study and Proposition 218 hearing in early 2023.

Transit – Convert 1.0 FTE Senior Business Manager – Transit Planning to 1.0 FTE Transit Planning Manager – \$35,118 (Non-General Fund)

In 2021, the Senior Business Manager - Transit Planning position was created in the Transit Department. This position focused on run-cutting, continuous schedule development as well as planning and preparation for route restructuring in anticipation of the opening of the Mary K. Giordano Regional Transit Center, the launch of Line 13 (Metro's former Line 130) and the expansion of Line 10. When the position was created, the compensation was set at a rate comparable to a Senior Transportation Planner; however, a review of the responsibilities and the requirements of the position indicates a need to upgrade the position to a Transit Planning Manager.

The on-going expansion of service, coordination of short-range and long-range planning projects such as the integration with Metro-C-Line extension to the South Bay, expansion of service to the Mary K. Giordano Regional Transit Center and micro-transit service. An upgrade of the position is appropriate in comparison to positions in other agencies with similar scope and compensation. In addition, this position would coordinate with internal City departments, transit agencies and other partner organizations, and civic and community groups to promote Torrance Transit.

A survey of comparable positions shows that the current pay range is 24.6% below average at Minimum and 44.7% below average at Maximum. The Transit Director recommends that the current Senior Business Manager - Transit Planning position is upgraded to a Transit Planning Manager and the compensation be set at the same range as other Transit Managers. This pay range would be within 1% of the Max. pay range for comparable Transit Planning Manager positions and allow for internal equity among Transit Management staff.

Other Updates

The Transit Department has had challenges recruiting and retaining staff for their core positions of Bus Operator, Relief Bus Operation and Apprentice Relief Bus Operator. As such, a program is being implemented to provide incentives in an effort to improve recruitment and retention efforts. For Apprentice Relief Bus Operators a total of \$500 can be awarded for a referral. The first \$150 is granted at the beginning of employment and when a Class B license (including passenger endorsement and air brake certification) is obtained. Another \$150 is granted when the employee begins assignment as a Relief Bus Operator and another \$200 is granted when the employee is assigned as a Bus Operator. If someone refers a Relief Bus Operator, they are entitled to \$250 once the employees begins driving as a Relief Bus Operator and another \$250 when they are assigned as a Bus Operator. Transit is also implementing an overtime incentive program, which will provide employees with

additional vacation accruals after working various numbers of biddable assignments. Five to nine biddable assignments translates to 5 hours, 10 to 14 assignments to 10 hours, 15 to 19 assignments to 15 hours, and 20 plus assignments to 20 hours. This program will apply to Bus Operators and hours will be evaluated/awarded at the close of each quarter. The final program being offered by Transit is a Workplace Safety and Attendance Incentive Program. This program provides Relief Bus Operators and Bus Operators financial incentives for drivers with no preventable safety events or attendance violations. Drivers will be eligible for \$150 payments each quarter they don't have a preventable safety event. Further, drivers will be eligible for up to \$150 per quarter if they have no attendance violations. If there is one, they are eligible for \$100, if there are two, \$50, with three or more providing no financial incentive.

GENERAL FUND



FIRST QUARTER

BUDGET REVIEW REPORT

General Fund

Overall Status

The City’s General Fund, as reported annually in the Annual Comprehensive Financial Report (Annual Report), is comprised of multiple sub-funds within its overall structure. This includes the City’s main operating fund, often referred to simply as the General Fund, the City’s General Fund, - Restricted/Assigned subfunds, as well as the City’s General Fund – Unassigned subfunds. All of these areas are consolidated under the overall General Fund umbrella when reported through the City’s Annual Report. The activities that occur in all of these funds affect the overall performance of the General Fund, when published in the Annual Report, so this is reviewed in total and then broken down by each of its components in this section.

In this section, we will break this down into three main sections:

- **General Fund Operating Fund:** Focuses on the main General Fund Operating Fund
 - **Revenue Overview:** Focuses on the revenues of the General Fund Operating Fund
 - **Expenditure Overview:** Focuses on the expenditures in General Fund Operating Fund
- **General Fund – Restricted/Assigned:** Focuses mainly on the City’s various General Fund Replacement Funds, including associated Capital Project Funds, the City’s Measure SST Fund, the City’s CEPPT Fund (pension prefunding), Cable’s PEG Funds, and other assigned/restricted sub-funds of the overall General Fund
- **General Fund – Unassigned:** Focuses mainly on the City’s General Fund Reserve Fund and any other unassigned (as reported in the Annual Report) sub-funds of the overall General Fund.

The City’s overall General fund (including all sub-funds) performance for the first quarter of Fiscal Year 2021-22 is summarized below:

General Fund Revenue and Expenditure Summary

| | 2021-22 | | | 2022-23 | | | Projected | | |
|---------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-------------------|-----------------|---------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Surplus / (Deficit) | Percent of Budget |
| Total Revenues | \$ 228,328,715 | \$ 25,153,477 | 11.0% | \$ 271,545,591 | \$ 34,521,566 | 12.7% | \$ 284,928,508 | \$ 13,382,917 | 104.9% |
| Total Expenditures | \$ 226,199,171 | \$ 62,501,617 | 27.6% | \$ 264,801,420 | \$ 68,550,330 | 25.9% | \$ 262,146,172 | \$ 2,655,248 | 99.0% |
| Rev Less Exp | \$ 2,129,544 | \$ (37,348,140) | | \$ 6,744,171 | \$ (34,028,764) | | \$ 22,782,336 | | |

The Fiscal Year 2022-23 Adopted Budget had a balanced budget for the City’s General Fund Operating Fund and a planned increase for the other subfunds. The budgeted additions to the fund balance of

the General Fund are driven by contributions to the City’s replacement funds as well as another deposit to the City’s CalPERS CEPPT Fund (both fall under the General Fund – Restricted/Assigned category).

When comparing the first quarter in Fiscal Year 2022-23 to the same period the year prior, the percentage of budgeted revenues received to date has increased. As of September 30, 2022, a total of 12.7% of budgeted revenues were received to date compared to 11.0% of budgeted revenue being received the year prior. Overall, year-to-date revenues are up \$9.4 million when comparing year to year and as a result the General Fund is projected to operate at a surplus of \$13.4 million due to the following main factors:

- Sales Tax above budgeted expectations by \$2.2 million in the General Fund Operating Fund and \$2.0 million above budgeted expectations in the Measure SST Fund
- Utility Users Tax above budgeted expectations by \$2.4 million
- Other Tax categories such as Franchise Tax (\$633k) and Business License (\$617k)
- Charges for Services above budgeted expectations by \$1.1 million; driven by CDD
- Transfers In above budget by \$3.0 million; driven by one-time Airport Land Lease signing revenues net Gas Tax shortfalls due to vacancies

It is projected that General Fund Revenues will be \$284.9 million, exceeding budgeted values by \$13.4 million. This is examined further in the **Revenue Overview** section of the document.

On the opposite side of the budget, the rate of expenditures relative to budgeted amounts has decreased. As of September 30, 2022, a total of 25.9% of budgeted expenditures were utilized to date compared to 27.6% of budgeted expenditures being utilized the year prior. Overall, it is projected that General Fund Expenditures will be \$262.1 million, generating a \$2.7 million budget surplus. As a result of the projected revenue surplus, staff anticipated recommending an adjustment during the Mid-Year Budget Review Report once trends are confirmed to continue. The details of these expenditure impacts are examined further in the **Expenditure Overview** section of the document.

This is discussed in greater detail in the following sections, broken down by the main categories discussed earlier.

General Fund Operating Fund

In this section, we highlight the City’s main operating fund (often simply referred to as the “General Fund”) which is the majority of the reported General Fund in the overall Comprehensive Annual Financial Report (Annual Report). Below is a summary of this Fund as of First Quarter:

General Fund Operating Fund Revenue and Expenditure Summary

| | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--------------------------------|---------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|------------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Total Revenues | \$ 224,326,947 | \$ 22,227,596 | 9.9% | \$ 252,756,117 | \$ 31,820,601 | 12.6% | \$ 264,119,180 | \$ 11,363,063 | 104.5% |
| Total Expenditures | \$ 223,963,515 | \$ 61,238,011 | 27.3% | \$ 249,806,066 | \$ 68,121,948 | 27.3% | \$ 247,477,929 | \$ 2,328,137 | 99.1% |
| Rev Less Expenditures | \$ 363,432 | \$ (39,010,415) | | \$ 2,950,051 | \$ (36,301,347) | | \$ 16,641,251 | | |
| Fund Bal Dec/(Increase) | \$ (363,432) | | | \$ (2,950,051) | | | \$ (16,641,251) | | |
| Net Budget Balance | \$ - | | | \$ - | | | \$ - | | |

When comparing Fiscal Year 2022-23 to the same period the year prior, the percentage of budgeted revenues received to date has increased. As of September 30, 2022, a total of 12.6% of budgeted revenues were received to date compared to 9.9% of budgeted revenue being received the year prior. Overall, year-to-date revenues are up \$9.6 million when comparing year to year and as a result the General Fund is projected to operate at a surplus of \$11.4 million due to the following main factors:

- Sales Tax above budgeted expectations by \$2.2 million in the General Fund Operating Fund
- Utility Users Tax above budgeted expectations by \$2.4 million
- Other Tax categories such as Franchise Tax of \$633k and Business License of \$617k
- Charges for Services above budgeted expectations by \$1.1 million; driven by Community Development
- Transfers In above budget by \$3.0 million; driven by one-time Airport Land Lease signing revenues net Gas Tax shortfalls due to vacancies

On the opposite side of the budget, the rate of expenditures relative to budgeted amounts has remained stable. As of September 30, 2022, a total of 27.3% of budgeted expenditures were utilized to date compared to 27.3% of budgeted expenditures the year prior. The rate of spending is slightly above the amount of the year completed (25.2%), which is largely driven by the timing of debt-service payments for the 2020 Lease Revenue Bonds utilized to pay down a large portion of the City's CalPERS Unfunded Actuarial Liability (Non-Departmental). This will be explained further in the **Expenditure Overview** section of the document.

The City's General Fund Operating Fund was originally adopted as a balanced budget. As of the First Quarter Budget Review Report, the fund has a budgeted surplus of approximately \$3.0 million, which is a direct result of the transfer from the City's Measure SST fund (General Fund - Restricted/Assigned) to the General Fund Operating Fund to improve fund balance (as part of rebuilding reserves).

Revenue Overview – General Fund Operating Fund

This section highlights revenues of the main General Fund Operating Fund (General Fund). The City’s budget for General Fund revenues for fiscal year 2022-23 increased \$28.4 million, or 12.7%, to \$252.8 million largely due to the sustained consumer spending from state and county orders to reopen businesses, the enacted transaction and use tax starting October 1, 2022 and the increase of rates from utility providers flowing through to the City’s utility user’s tax receipts. Detail of the first quarter revenue activity is covered in the following section.

All Revenues by Classification

| Revenues | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|----------------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Taxes | \$ 175,114,158 | \$ 13,122,781 | 7.5% | \$ 194,836,318 | \$ 14,723,374 | 7.6% | \$ 201,417,745 | \$ 6,581,427 | 103.4% |
| Licenses, Fees and Permits | \$ 4,575,836 | \$ 1,012,699 | 22.1% | \$ 4,767,606 | \$ 1,465,713 | 30.7% | \$ 5,564,368 | \$ 796,762 | 116.7% |
| Fines, Forfeitures and Penalties | \$ 742,003 | \$ 92,611 | 12.5% | \$ 735,144 | \$ 77,663 | 10.6% | \$ 666,854 | \$ (68,290) | 90.7% |
| Use of Money and Property | \$ 2,123,339 | \$ 644,695 | 30.4% | \$ 3,200,594 | \$ 894,121 | 27.9% | \$ 3,200,594 | \$ (0) | 100.0% |
| Intergovernmental | \$ 471,344 | \$ 96,655 | 20.5% | \$ 559,241 | \$ 52,030 | 9.3% | \$ 479,006 | \$ (80,235) | 85.7% |
| Other Revenues | \$ 12,523,290 | \$ 76,050 | 0.6% | \$ 505,598 | \$ 34,237 | 6.8% | \$ 505,598 | \$ - | 100.0% |
| Charges for Services | \$ 16,454,206 | \$ 4,131,450 | 25.1% | \$ 19,724,668 | \$ 5,280,811 | 26.8% | \$ 20,821,504 | \$ 1,096,836 | 105.6% |
| Operating Transfers In | \$ 12,322,771 | \$ 3,050,655 | 24.8% | \$ 28,426,948 | \$ 9,292,652 | 32.7% | \$ 31,463,512 | \$ 3,036,564 | 110.7% |
| Other Financing Sources | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Revenues | \$ 224,326,947 | \$ 22,227,596 | 9.9% | \$ 252,756,117 | \$ 31,820,601 | 12.6% | \$ 264,119,180 | \$ 11,363,063 | 104.5% |

As of September 30, 2022, \$31.8 million or 12.6%, was received compared to \$22.2 million or 9.9% of the prior fiscal year 2021-22 budget. It is important to note that certain General Fund revenues are not realized until after December, including property tax, business license taxes and most franchise fees. Timing of these receipts and current economic factors result in variances from the annual budget which are discussed in more detail below.

The majority of General Fund revenue sources are collected under the Tax classification, which include areas like Sales and Use taxes, Property taxes, Utility Users’ taxes, Occupancy taxes, Business License taxes and Vehicle License Fee Swap taxes. The Taxes classification accounts for approximately 77% of the City’s General Fund Operating Fund revenue budget for Fiscal Year 2022-23.

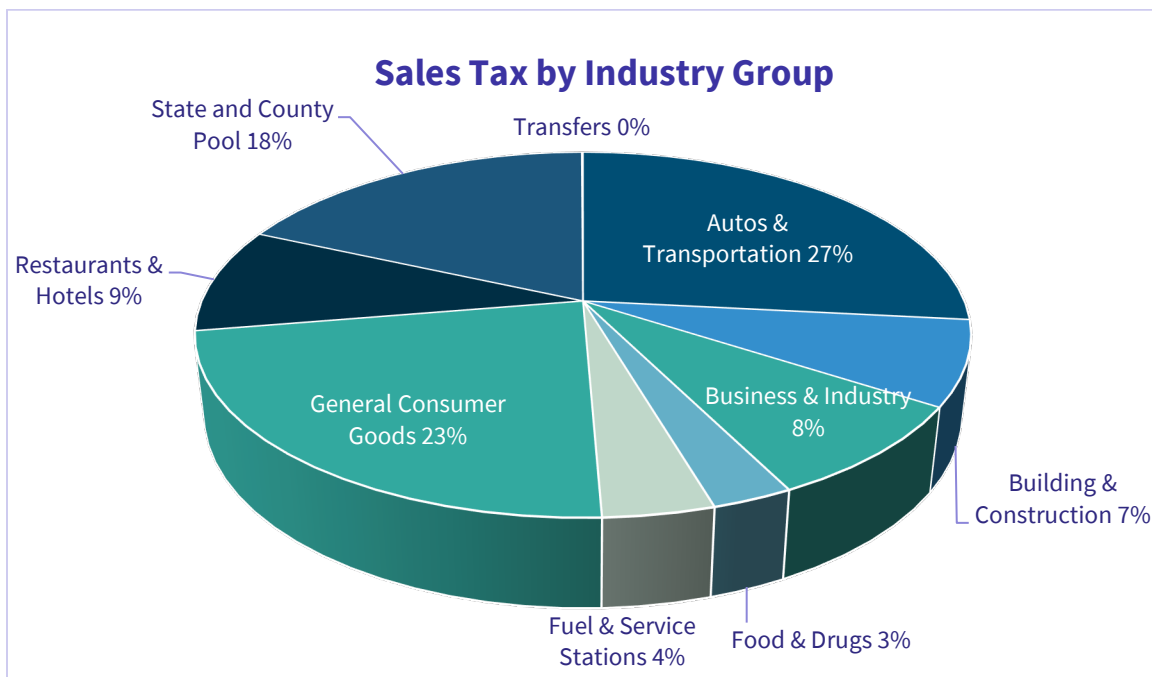
Tax Revenues by Classification

| Revenues | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Sales and Use Tax | \$ 55,261,835 | \$ 4,471,507 | 8.1% | \$ 63,940,625 | \$ 5,261,002 | 8.2% | \$ 66,179,966 | \$ 2,239,341 | 103.5% |
| Property Tax | \$ 42,701,064 | \$ 1,059,171 | 2.5% | \$ 44,427,885 | \$ 1,049,766 | 2.4% | \$ 44,728,100 | \$ 300,215 | 100.7% |
| Property Transfer Tax | \$ 1,000,000 | \$ 108,829 | 10.9% | \$ 1,469,471 | \$ 127,317 | 8.7% | \$ 1,200,227 | \$ (269,244) | 81.7% |
| VLF Swap & Repayment | \$ 16,130,707 | \$ - | 0.0% | \$ 16,615,651 | \$ - | 0.0% | \$ 17,002,357 | \$ 386,706 | 102.3% |
| Utility Users Tax | \$ 32,926,251 | \$ 6,165,976 | 18.7% | \$ 37,207,940 | \$ 6,792,861 | 18.3% | \$ 39,611,250 | \$ 2,403,310 | 106.5% |
| Business License Tax | \$ 9,179,377 | \$ 282,439 | 3.1% | \$ 8,992,906 | \$ 233,581 | 2.6% | \$ 9,609,583 | \$ 616,677 | 106.9% |
| Occupancy Tax | \$ 7,119,224 | \$ 609,426 | 8.6% | \$ 11,601,755 | \$ 823,574 | 7.1% | \$ 11,815,000 | \$ 213,245 | 101.8% |
| Franchise Tax | \$ 8,930,800 | \$ 252,798 | 2.8% | \$ 8,828,324 | \$ 206,054 | 2.3% | \$ 9,461,630 | \$ 633,306 | 107.2% |
| Construction Tax | \$ 1,857,400 | \$ 172,635 | 9.3% | \$ 1,745,904 | \$ 229,219 | 13.1% | \$ 1,801,432 | \$ 55,528 | 103.2% |
| Oil Severance Tax | \$ 7,500 | \$ - | 0.0% | \$ 5,857 | \$ - | 0.0% | \$ 8,200 | \$ 2,343 | 140.0% |
| Total Revenues | \$ 175,114,158 | \$ 13,122,781 | 7.5% | \$ 194,836,318 | \$ 14,723,374 | 7.6% | \$ 201,417,745 | \$ 6,581,427 | 103.4% |

Overall, the City expects to exceed the annual amended budget for the Taxes classification by \$6.6 million, primarily driven by an increase in projected revenues from sales and use taxes of \$2.2 million, utility users' tax of \$2.4 million, franchise tax of \$0.6 million and business license tax of \$0.6 million. Details of the increases are discussed in the following sections.

Sales & Use Tax

Sales and use tax is the City's largest General Fund revenue source, derived from point-of-sale transactions and Los Angeles County pool allocations. The City receives sales tax from a wide range of industries, as shown below.



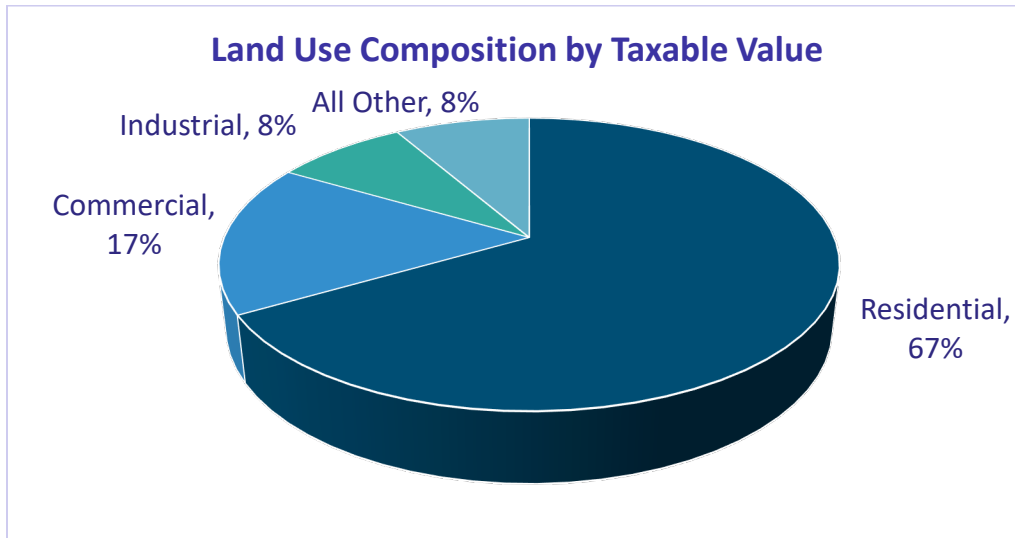
Receipts of \$5.3 million for the first fiscal quarter are tracking above prior year actuals by \$789,000 and the projected annual amounts exceeding budget by \$2.2 million is mainly due to sustained economic recovery since the pandemic. The forecast is projecting an increase of 4% from prior year with sustained auto sales, fuel and service stations trending upward with the increase in gasoline sales and the effect of the gasoline increase on logistics and manufacturing.

As of the latest available data from the California Department of Tax & Fee Administration, sales tax revenues are experiencing an increase in all significant categories, with the autos and transportation; restaurants and hotels; business and industry; and fuel and service stations experiencing the largest increases during the period.

While sales tax revenues are positively trending, staff continues to be cautious with forecasting for several reasons. The Federal Reserve increased the Federal Funds Rate to a range of 3.75-4.0% as of November, 2022. Many economists anticipate another 50 basis point increase at the December (bringing the range to 4.25% to 4.5%). The federal policy to slow inflation will slow short-term borrowing and can affect automobile sales, although the industry is seeing an upward trend with luxury vehicle purchases. The September 2022 year-over-year change in Consumer Price Index for All Urban Consumers (CPI-U) was 8.2%. The inflation rate is continuing to drive up the cost of many taxable products and is anticipated to slow consumer spending through the following calendar year.

Property Tax, Property Transfer Tax, and VLF Swap & Repayment

The City's property tax base consists of a healthy mix of residential, commercial and industrial properties, with the residential side comprising the majority of total assessed value. Based on data from property tax consultants HdL Coren & Cone, Fiscal Year 2022-23 net taxable assessed values increased 5.4% from the prior year to \$36.3 billion, placing Torrance in the top 10 highest value cities in Los Angeles County (8th place).



Property tax revenues are primarily received in December and April each year. As of September 30, 2022, property tax receipts remain relatively flat at \$1.0 million compared to last year. Presently, the City projects the total year-end revenue to be in line the property tax budget for fiscal year 2022-23.

In 2004, the California Legislature approved a property tax swap of Vehicle License Fees as part of a state/local budget agreement. As a result of the swap, more than 90% of the city Motor License Vehicle Fund was swapped for property taxes. The centerpiece of this legislation was the permanent reduction of the VLF rate. This revenue is received from the County twice a year in January and May, and therefore not realized in the 1st quarter.

Utility Users' Tax

Utility Users' Tax ("UUT"), the City's 3rd largest revenue source, is a 6.5% consumption tax applied on the usage of utilities such as electricity and gas, with a 6.0% tax applied to water.

Utility Users' Tax Classification by Type

| Revenues | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------|----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Electricity | \$ 15,114,624 | \$ 3,432,029 | 22.7% | \$ 18,168,950 | \$ 3,625,609 | 20.0% | \$ 18,060,750 | \$ (108,200) | 99.4% |
| Gas | \$ 4,050,989 | \$ 583,273 | 14.4% | \$ 4,995,440 | \$ 613,231 | 12.3% | \$ 4,656,690 | \$ (338,750) | 93.2% |
| Refinery: Co-gen | \$ 553,259 | \$ 87,393 | 15.8% | \$ 530,230 | \$ 111,692 | 21.1% | \$ 581,580 | \$ 51,350 | 109.7% |
| Refinery: Gas | \$ 5,221,642 | \$ 501,492 | 9.6% | \$ 5,072,350 | \$ 805,089 | 15.9% | \$ 6,577,590 | \$ 1,505,240 | 129.7% |
| Water | \$ 2,927,471 | \$ 682,084 | 23.3% | \$ 3,246,210 | \$ 720,447 | 22.2% | \$ 3,993,620 | \$ 747,410 | 123.0% |
| Cable | \$ 1,848,936 | \$ 326,425 | 17.7% | \$ 2,101,270 | \$ 274,181 | 13.0% | \$ 1,726,980 | \$ (374,290) | 82.2% |
| Cellular | \$ 1,010,492 | \$ 189,046 | 18.7% | \$ 1,129,710 | \$ 209,572 | 18.6% | \$ 1,244,450 | \$ 114,740 | 110.2% |
| Telecom | \$ 2,198,838 | \$ 364,234 | 16.6% | \$ 1,963,780 | \$ 433,040 | 22.1% | \$ 2,769,590 | \$ 805,810 | 141.0% |
| Total Revenues | \$ 32,926,251 | \$ 6,165,976 | 18.7% | \$ 37,207,940 | \$ 6,792,861 | 18.3% | \$ 39,611,250 | \$ 2,403,310 | 106.5% |

Current period receipts of \$6.8 million exceed prior year receipts by \$627,000, or 10.2%. Overall, the increase was mainly due to UUT collected from the Refinery gas and co-generation electricity. With the exception of cable, all the UUT revenue sources experienced an increase from the prior year. The increase in both Refinery UUT revenue sources are due to increased production for the period.

Business License Tax

The City of Torrance typically serves approximately 12,500 businesses, including outside contractors. Annual renewals for this revenue source are billed in December, due on January 1 and delinquent on February 1. As of September 30, 2022, business license tax receipts are consistent with prior year and are expected to exceed budget estimates by 7%.

Occupancy Tax

Occupancy tax is an 11% tax on room charges to guests staying at hotel/motels and short-term rentals. As of September 30, 2022, the City has received \$823,000, an increase of \$214,000 compared to September 30, 2021 receipts of \$609,000. A majority of Torrance hotel/motel guests are business travelers and airline crews, whom were affected by the reduced tourism and air travel. This increase is a direct result of the sporting events, concerts and business conferences returning to full capacity without restrictions compared to the prior year.

Based on information from data and analytics company STR, LLC, occupancy rate percentage for the three months ending in September increased from an average of 78% in 2021 to 86% in 2022. Additionally, the average daily rate per room increased by \$17 during this same period. The City projects occupancy tax to slightly exceed budget by about 1.8%.

Licenses, Fees & Permits

This revenue source accounts primarily for development-related fees such as building and inspection fees. As of September 30, 2022, actual receipts of \$1.5 million represent a 44.7% increase from prior year receipts and is projected to exceed budget expectations by 16.7%. This revenue source is cyclical and can fluctuate based on the timing of payments for individual projects.

Use of Money and Property

This revenue source includes investment earnings, interest income and rental income. As of September 30, 2022, actual receipts of \$894,100 represent a 38.7% increase from prior year receipts of \$644,700, due to increases in interest income from steadily rising interest rates and rental income from the newly negotiated Toyota Sports Complex lease. It is anticipated that this revenue source will meet budget expectations by fiscal year end.

Fines and Forfeitures

This revenue source includes general court, traffic fines and parking citation revenues. As of September 30, 2022, actual receipts of \$78,000 represent a decrease from last year's receipts of \$93,000. The decrease is mainly due to prior year parking citations being higher than expected due to the resumption of street sweeping and residential permit parking citations which were suspended during the City Manager's Public Order authority under the COVID-19 emergency proclamation. These receipts are expected to fall slightly under budget by about \$68,300 or 9.3%.

Charges for Services

This revenue source includes a number of user fees, construction related fees (e.g. plan checks), engineering fees, library fees, emergency transport fees and fire inspection fees. As of September 30, 2022, actual receipts of \$5.3 million exceed the prior year by \$1.2 million (27.8%).

Charges for Services Classification by Department

| Revenues | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------|------------------------|--------------------------|-------------------|------------------------|--------------------------|-------------------|-------------------|-------------------------------|-------------------|
| City Manager | \$ 130,000 | \$ 315 | 0.2% | \$ 888,099 | \$ 159,586 | 18.0% | 863,645 | (24,454) | 97.2% |
| City Clerk | \$ 24,236 | \$ 3,915 | 16.2% | \$ 16,004 | \$ 587 | 3.7% | 3,694 | (12,310) | 23.1% |
| Community Development | \$ 4,053,469 | \$ 1,117,556 | 27.6% | \$ 4,499,158 | \$ 1,872,020 | 41.6% | 5,637,658 | 1,138,500 | 125.3% |
| General Services | \$ 635,896 | \$ 174,488 | 27.4% | \$ 853,856 | \$ 256,766 | 30.1% | 935,366 | 81,510 | 109.5% |
| Non-Departmental | \$ 30,585 | \$ 5,247 | 17.2% | \$ 22,175 | \$ 4,171 | 18.8% | 23,978 | 1,803 | 108.1% |
| Police | \$ 259,370 | \$ 49,144 | 18.9% | \$ 212,961 | \$ 45,508 | 21.4% | 237,637 | 24,676 | 111.6% |
| Fire | \$ 7,783,935 | \$ 1,160,086 | 14.9% | \$ 8,286,291 | \$ 1,107,570 | 13.4% | 8,100,000 | (186,291) | 97.8% |
| Public Works | \$ 231,930 | \$ 181,587 | 78.3% | \$ 232,182 | \$ 203,613 | 87.7% | 260,068 | 27,886 | 112.0% |
| Community Services | \$ 3,304,785 | \$ 1,439,112 | 43.5% | \$ 4,713,942 | \$ 1,630,990 | 34.6% | 4,759,457 | 45,515 | 101.0% |
| Total Revenues | 16,454,206 | 4,131,450 | 25.1% | 19,724,668 | 5,280,811 | 26.8% | 20,821,504 | 1,096,836 | 105.6% |

This increase is mainly due to increased receipts collected by the Community Development department for inspection, building and zoning fees, partially offset by a decrease collected by the Fire department with fire inspection fees. This decrease is largely a timing difference as many fire inspection fees were collected in the beginning of Fiscal Year 2021-22 due to delayed timing with the COVID-19 pandemic the year prior.

Additional increases are seen in the General Services and Community Services departments with the production and recreation offerings having no COVID-19 restrictions. This overall classification is expected to exceed budget by \$1.1 million or 5.6% by fiscal year end.

Operating Transfers In

This revenue source includes transfers from other funds that help support operations of the General Fund, with the main sources being the Airport Fund and Gas Tax Funds. As of September 30, 2022,

actual receipts of \$9.3 million exceed the prior year by \$6.2 million. The increase is mainly attributable to a \$6.4 million transfer from Non-Aeronautical Airport operations relating to non-recurring lease renewal payment, partially offset by a decrease to the PC Replacement fund from a prior year transfer related to software purchases. Transfers-in is expected to exceed budgeted expectations by \$3.0 million or 10.7% by fiscal yearend. The budget adjustment from the November 8, 2022 Council Item will adjust the budget in this classification to include the additional transfers from the Airport Fund.

Expenditure Overview – General Fund Operating Fund

In this section, we highlight the expenditures of the main General Fund Operating Fund (General Fund). Overall, as of September 30, 2022, the City’s General Fund expenditure budget is projected to generate a surplus of \$2.3 million at the end of the fiscal year. When comparing the City’s rate of spending this year, against last year, we remained constant, expending 27.3% of the City’s General Fund to date, same as 27.3% in the year prior.

While the expenditures to date are higher than the percentage of the fiscal year completed, this is expected due to the timing of the City’s Debt Service payments for the 2020 Lease Revenue Bonds (used to pay down CalPERS UAL) included in the Non-Departmental expenditures. Examining expenditures over the course of the full fiscal year, this ultimately balances out at fiscal year-end. The General Fund Non-Departmental area includes a projected deficit mainly driven by a one-time transfer to the City’s Self-Insurance Fund for \$10.0 million to cover projected deficits in this Internal Service Fund.

Below is the breakdown of General Fund Operating Fund expenditures by department.

General Fund Operating Fund – All Expenditures by Department

| Expenditures | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|---------------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Council | \$ 417,157 | \$ 126,055 | 30.2% | \$ 428,713 | \$ 157,693 | 36.8% | \$ 378,759 | \$ 49,954 | 88.3% |
| City Manager | \$ 5,208,612 | \$ 1,169,576 | 22.5% | \$ 6,094,097 | \$ 1,316,996 | 21.6% | \$ 5,849,676 | \$ 244,421 | 96.0% |
| City Attorney | \$ 2,674,293 | \$ 605,195 | 22.6% | \$ 2,815,838 | \$ 608,226 | 21.6% | \$ 2,781,885 | \$ 33,953 | 98.8% |
| City Clerk | \$ 1,427,073 | \$ 229,435 | 16.1% | \$ 1,074,052 | \$ 213,584 | 19.9% | \$ 1,002,197 | \$ 71,855 | 93.3% |
| City Treasurer | \$ 356,017 | \$ 78,217 | 22.0% | \$ 364,841 | \$ 45,863 | 12.6% | \$ 305,282 | \$ 59,559 | 83.7% |
| Finance | \$ 5,928,559 | \$ 1,018,343 | 17.2% | \$ 5,989,884 | \$ 1,057,374 | 17.7% | \$ 5,394,792 | \$ 595,092 | 90.1% |
| Human Resources | \$ 2,043,751 | \$ 399,840 | 19.6% | \$ 2,192,036 | \$ 462,843 | 21.1% | \$ 1,955,472 | \$ 236,564 | 89.2% |
| Civil Service | \$ 598,794 | \$ 148,212 | 24.8% | \$ 629,901 | \$ 140,954 | 22.4% | \$ 558,544 | \$ 71,357 | 88.7% |
| Community Development | \$ 8,705,072 | \$ 1,843,563 | 21.2% | \$ 9,815,615 | \$ 1,942,547 | 19.8% | \$ 8,958,282 | \$ 857,333 | 91.3% |
| CIT | \$ 8,500,829 | \$ 2,030,383 | 23.9% | \$ 8,951,621 | \$ 2,096,703 | 23.4% | \$ 7,498,359 | \$ 1,453,262 | 83.8% |
| General Services | \$ 9,659,503 | \$ 1,931,641 | 20.0% | \$ 10,142,744 | \$ 2,017,225 | 19.9% | \$ 9,417,768 | \$ 724,976 | 92.9% |
| Non-Departmental | \$ 873,452 | \$ 10,198,811 | 1167.6% | \$ 8,172,725 | \$ 13,761,637 | 168.4% | \$ 18,683,992 | \$ (10,511,267) | 228.6% |
| Police | \$ 89,031,719 | \$ 21,258,952 | 23.9% | \$ 94,164,613 | \$ 21,599,071 | 22.9% | \$ 88,580,241 | \$ 5,584,372 | 94.1% |
| Fire | \$ 52,245,241 | \$ 11,874,334 | 22.7% | \$ 56,420,842 | \$ 13,962,730 | 24.7% | \$ 56,744,840 | \$ (323,998) | 100.6% |
| Public Works | \$ 13,125,775 | \$ 3,136,440 | 23.9% | \$ 18,179,445 | \$ 3,662,409 | 20.1% | \$ 17,190,877 | \$ 988,568 | 94.6% |
| Community Services | \$ 23,167,668 | \$ 5,189,014 | 22.4% | \$ 24,369,099 | \$ 5,076,093 | 20.8% | \$ 22,176,962 | \$ 2,192,137 | 91.0% |
| Total Expenditures | \$ 223,963,515 | \$ 61,238,011 | 27.3% | \$ 249,806,066 | \$ 68,121,948 | 27.3% | \$ 247,477,929 | \$ 2,328,137 | 99.1% |

As shown above, most departments are projected to end the Fiscal Year within budget, while Non-Departmental budget shows a budget deficit of \$10.5 million. This deficit is driven by a planned one-time transfer of \$10.0 million to the City's Self-Insurance Fund. This is explained in further detail in each Fund's section of this document.

If you control for this one-time additional transfer of \$10.0 million, the budget projects \$12.3 million in savings for Fiscal year 2022-23. This is primarily the direct result of departmental vacancies across the General Fund. As of September 30, 2022, the General Fund has 155.9 FTE in vacancies. In the year prior, the City was holding many vacancies to generate savings and navigate the fiscal challenges of the COVID-19 pandemic. Since that time, and with the passage of Measure SST, the City has released vacancies to be filled. With a City the size of Torrance and the significant number of vacancies held, coupled with the trend in retirements and resignations, staff is working to address these gaps with many recruitments underway.

The General Fund Expenditure budget is helpful to break down into its two main components to better understand trends and cost drivers:

- Salaries & Salaries Reimbursements
- Materials and other non-wage spending

As shown below, you can see a summary of expenditures, by department, for all wage-related expenditures.

General Fund Operating Fund – Salaries & Employee Benefit Expenditures by Department

| Expenditures | 2021-22 Amended | | | Percent of Budget | 2022-23 Amended | | | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|---------------------------|-----------------------|--------------------------|--------------|-----------------------|----------------------|--------------------------|-----------------------|----------------------|-----------------|-------------------------------|-------------------|
| | Budget | September 2021-22 Actual | | | Budget | September 2022-23 Actual | | | | | |
| Council | \$ 93,980 | \$ 17,942 | 19.1% | \$ 93,497 | \$ 24,993 | 26.7% | \$ 88,232 | \$ 5,265 | 94.4% | | |
| City Manager | \$ 4,351,058 | \$ 1,062,900 | 24.4% | \$ 4,787,661 | \$ 1,161,715 | 24.3% | \$ 4,886,750 | \$ (99,089) | 102.1% | | |
| City Attorney | \$ 2,402,978 | \$ 567,258 | 23.6% | \$ 2,498,585 | \$ 539,084 | 21.6% | \$ 2,466,750 | \$ 31,835 | 98.7% | | |
| City Clerk | \$ 868,358 | \$ 205,998 | 23.7% | \$ 914,313 | \$ 191,667 | 21.0% | \$ 870,618 | \$ 43,695 | 95.2% | | |
| City Treasurer | \$ 321,200 | \$ 66,847 | 20.8% | \$ 324,782 | \$ 31,943 | 9.8% | \$ 269,288 | \$ 55,494 | 82.9% | | |
| Finance | \$ 4,627,901 | \$ 785,768 | 17.0% | \$ 4,556,806 | \$ 827,954 | 18.2% | \$ 4,114,259 | \$ 442,547 | 90.3% | | |
| Human Resources | \$ 1,314,634 | \$ 270,515 | 20.6% | \$ 1,504,767 | \$ 347,412 | 23.1% | \$ 1,328,147 | \$ 176,620 | 88.3% | | |
| Civil Service | \$ 481,999 | \$ 135,510 | 28.1% | \$ 506,633 | \$ 131,311 | 25.9% | \$ 505,405 | \$ 1,228 | 99.8% | | |
| Community Development | \$ 7,972,166 | \$ 1,697,607 | 21.3% | \$ 8,830,520 | \$ 1,757,474 | 19.9% | \$ 8,024,937 | \$ 805,583 | 90.9% | | |
| CIT | \$ 6,243,400 | \$ 1,423,836 | 22.8% | \$ 6,144,190 | \$ 1,405,978 | 22.9% | \$ 5,305,609 | \$ 838,581 | 86.4% | | |
| General Services | \$ 6,918,996 | \$ 1,476,281 | 21.3% | \$ 6,873,403 | \$ 1,362,084 | 19.8% | \$ 6,335,742 | \$ 537,661 | 92.2% | | |
| Non-Departmental | \$ 81,500 | \$ 41,976 | 51.5% | \$ 199,717 | \$ 35,542 | 17.8% | \$ 97,928 | \$ 101,789 | 49.0% | | |
| Police | \$ 82,157,725 | \$ 19,285,505 | 23.5% | \$ 83,904,890 | \$ 18,905,023 | 22.5% | \$ 78,260,906 | \$ 5,643,984 | 93.3% | | |
| Fire | \$ 48,241,843 | \$ 11,430,918 | 23.7% | \$ 49,594,765 | \$ 12,459,233 | 25.1% | \$ 50,129,466 | \$ (534,701) | 101.1% | | |
| Public Works | \$ 7,284,209 | \$ 1,717,566 | 23.6% | \$ 8,977,345 | \$ 2,004,455 | 22.3% | \$ 8,584,186 | \$ 393,159 | 95.6% | | |
| Community Services | \$ 16,822,340 | \$ 3,857,015 | 22.9% | \$ 16,406,007 | \$ 3,362,331 | 20.5% | \$ 14,503,793 | \$ 1,902,214 | 88.4% | | |
| Total Expenditures | \$ 190,184,287 | \$ 44,043,442 | 23.2% | \$ 196,117,881 | \$ 44,548,199 | 22.7% | \$ 185,772,016 | \$ 10,345,865 | 94.7% | | |

The trends in salary expenditures are favorable this year relative to budget when compared with the year prior. As shown above, as of September 30th, the City has expended 22.7% of its budget, compared to 23.2% the year prior. Both of these values are within the current timing of the fiscal year, of which 25.2% has expired. As a result, it is projected that the salaries portion of the expenditure budget will generate approximately \$10.3 million in savings, driven by vacancies in each Department.

Overall, projected savings are reflected in almost all departments. This aligns with the expectations based on the current vacancy levels, though is discussed in greater detail in the following section.

City Treasurer

As of September 30, 2022, City Treasurer has total vacancies of 1.0 FTE, of which 1.0 was filled in October. Overall this department is projected to generate budgetary savings of \$55,000 from the timeframe that this position was vacant.

Human Resources

As of September 30, 2022, Human Resources has total vacancies of 2.0 FTE, of which 2.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Overall this department is projected to generate budgetary savings of \$177,000.

Community Development

As of September 30, 2022, Community Development has total vacancies of 11.9 FTE (portion of the Department affecting General Fund), of which 5.3 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Community Development is projecting budgetary savings of \$806,000.

Communications and Information Technology (CIT)

As of September 30, 2022, CIT has total vacancies of 6.0 FTE, of which 5.0 are expected to be unfilled for the rest of the year in this projection based on approved recruitments. Overall this department is projected to generate budgetary savings of \$839,000.

General Services

As of September 30, 2022, General Services has total vacancies of 9.5 FTE (excluding seasonal/recurrent), of which 6.5 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Additional savings are generated through reductions in seasonal/recurrent staffing as the Cultural Arts Center program area operates below pre-pandemic levels. General Services is projecting budgetary savings of \$538,000.

Police

As of September 30, 2022, Police has total vacancies of 59.0 FTE, of which 25.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Police is projecting budgetary savings of \$5.6 million.

Fire

As of September 30, 2022, Fire has total vacancies of 20.0 FTE, of which 5.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. It's important to note that the Fire Department experiences zero savings from vacancies in the Fire Fighter, Fire Engineer, and Fire Captain ranks due to constant staffing requirements. Whenever a position is vacant, it is required that it be filled, except for the two full positions daily approved in the latest round of negotiations (there are additional partial vacancies that periodically remain unfilled as well). Fire is projecting budgetary deficit of \$535,000.

Public Works

As of September 30, 2022, Public Works has total vacancies of 16.1 FTE (portion of the Department affecting General Fund), of which 8.5 is expected to be unfilled for the rest of the year in this

projection based on approved recruitments. Public Works is projecting budgetary savings of \$393,000.

Community Services

As of September 30, 2022, Community Services has total vacancies of 20.5 FTE (excluding seasonal/recurrent), of which 15.5 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Additional savings is generated through reductions in seasonal/recurrent expenditures as the Parks & Recreation program area remains below pre-pandemic levels. Community Services is projecting budgetary savings of \$1.9 million.

In addition to examining the General Fund budget by department for salaries it is also essential to review the materials budget. This includes all other non-wage related expenditures for the City's General Fund, shown below:

General Fund Operating Fund – Materials (Non-wage) Expenditures by Department

| Expenditures | 2021-22 | | | 2022-23 | | | Projected | | |
|---------------------------|----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|-----------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Surplus / (Deficit) | Percent of Budget |
| Council | \$ 323,177 | \$ 108,113 | 33.5% | \$ 335,216 | \$ 132,700 | 39.6% | \$ 290,527 | \$ 44,689 | 86.7% |
| City Manager | \$ 857,554 | \$ 106,676 | 12.4% | \$ 1,306,436 | \$ 155,281 | 11.9% | \$ 962,926 | \$ 343,510 | 73.7% |
| City Attorney | \$ 271,315 | \$ 37,937 | 14.0% | \$ 317,253 | \$ 69,142 | 21.8% | \$ 315,136 | \$ 2,117 | 99.3% |
| City Clerk | \$ 558,715 | \$ 23,437 | 4.2% | \$ 159,739 | \$ 21,917 | 13.7% | \$ 131,579 | \$ 28,160 | 82.4% |
| City Treasurer | \$ 34,817 | \$ 11,370 | 32.7% | \$ 40,059 | \$ 13,920 | 34.7% | \$ 35,994 | \$ 4,065 | 89.9% |
| Finance | \$ 1,300,658 | \$ 232,575 | 17.9% | \$ 1,433,078 | \$ 229,420 | 16.0% | \$ 1,280,533 | \$ 152,545 | 89.4% |
| Human Resources | \$ 729,117 | \$ 129,325 | 17.7% | \$ 687,269 | \$ 115,431 | 16.8% | \$ 627,325 | \$ 59,944 | 91.3% |
| Civil Service | \$ 116,795 | \$ 12,702 | 10.9% | \$ 123,268 | \$ 9,643 | 7.8% | \$ 53,139 | \$ 70,129 | 43.1% |
| Community Development | \$ 732,906 | \$ 145,956 | 19.9% | \$ 985,095 | \$ 185,073 | 18.8% | \$ 933,345 | \$ 51,750 | 94.7% |
| CIT | \$ 2,257,429 | \$ 606,547 | 26.9% | \$ 2,807,431 | \$ 690,725 | 24.6% | \$ 2,192,750 | \$ 614,681 | 78.1% |
| General Services | \$ 2,740,507 | \$ 455,360 | 16.6% | \$ 3,269,341 | \$ 655,141 | 20.0% | \$ 3,082,026 | \$ 187,315 | 94.3% |
| Non-Departmental | \$ 791,952 | \$ 10,156,835 | 1282.5% | \$ 7,973,008 | \$ 13,726,095 | 172.2% | \$ 18,586,063 | \$ (10,613,055) | 233.1% |
| Police | \$ 6,873,994 | \$ 1,973,447 | 28.7% | \$ 10,259,723 | \$ 2,694,048 | 26.3% | \$ 10,319,335 | \$ (59,612) | 100.6% |
| Fire | \$ 4,003,398 | \$ 443,416 | 11.1% | \$ 6,826,077 | \$ 1,503,497 | 22.0% | \$ 6,615,375 | \$ 210,702 | 96.9% |
| Public Works | \$ 5,841,566 | \$ 1,418,874 | 24.3% | \$ 9,202,100 | \$ 1,657,954 | 18.0% | \$ 8,606,690 | \$ 595,410 | 93.5% |
| Community Services | \$ 6,345,328 | \$ 1,331,999 | 21.0% | \$ 7,963,092 | \$ 1,713,762 | 21.5% | \$ 7,673,170 | \$ 289,922 | 96.4% |
| Total Expenditures | \$ 33,779,228 | \$ 17,194,569 | 50.9% | \$ 53,688,185 | \$ 23,573,749 | 43.9% | \$ 61,705,913 | \$ (8,017,728) | 114.9% |

As shown above, the level of expenditures to date is exceeding last year's amount by \$6.4 million. To date, 43.9% of the non-wage General Fund budget has been expended as of September 30, 2022, compared to the same period the year before at 50.9%. This is largely driven by the timing of the 2020 Lease Revenue Bonds annual debt payments, which occur in the first quarter. After controlling for this payment by excluding Non-Departmental, the trend is fairly consistent at 21.5% to date as of September 30, 2022, compared with 21.3% in the year prior.

Overall, the projected total shows a deficit (in non-wage only) of \$8.0 million, which is largely driven by the projected one-time contribution to the City’s Self-Insurance Fund of \$10.0 million. Absent this one-time contribution, this table demonstrates departments effectively working hard to reduce their overall spending as there would be a \$2.0 million surplus.

The majority of this projected savings is reflected in Communications and Information Technology (CIT), City Manager, Community Services, and Public Works departments, which would be expected, given the size of their respective departments and limited program activity. Conversely, the Police Department is projected to exceed their budget. Below highlights certain departments and their Materials/Non-Wage expenditure trends:

Communications and Information Technology (CIT)

In the CIT Department, year to date non-wage expenditures are below the amount of the year expired (25.2%) with 24.6% of materials expended. The Department continues to expand its efforts in the cybersecurity space, implementing various components over time. As shown in the table, at year-end, the department’s materials budget is projected to generate \$615,000 in savings.

Non-Departmental

In Non-Departmental, the non-wage budget is projected to be exceeded by \$10.6 million. This is driven by the aforementioned one-time \$10.0 million transfer to the Self-Insurance Fund. This transfer is not included in the amended budget but is able to be achieved through expenditure savings across City Departments. This transfer will help ensure overall fund balance is not depleted as a result (net of projected actuarial entries). Additionally, due to high vacancy levels in the City’s enterprise funds, there is a shortfall in the indirect cost rate reimbursement area of the Non-Departmental budget.

Police

In the Police Department, the non-wage budget is projected to be exceeded by \$60,000. This does happen in some years and savings generated from salaries and wages is utilized to offset this shortage in non-wage spending. Staff continue to evaluate budget levels in the non-wage area of Police to align with actual needs and have improved this variance in recent years. As shown earlier, the Department is projected to end the year within their allocated expenditure budget.

Public Works

In the Public Works Department, year to date non-wage expenditures are below the amount of the year expired (25.2%) with 18.0% of materials expended. Due to high levels of vacancies in the

departments, this adversely affects the ability of the department to complete work, which requires various materials purchases throughout the year. As shown in the table, at year-end, the department's materials budget is projected to generate \$595,000 in savings.

Finally, it is essential to review expenditures by the classifications within the City's chart of accounts. This gives a broader perspective of the trends in expenditures by type, ignoring the different departments.

General Fund Operating Fund – All Expenditures by Expenditure Classification

| Expenditures | 2021-22 | | | 2022-23 | | |
|--|----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget |
| Salaries and Employee Benefits | 190,722,592 | 44,427,317 | 23.3% | 196,169,175 | 44,664,935 | 22.8% |
| Salaries and Benefits Reimbursements | (538,305) | (383,872) | 71.3% | (51,294) | (116,737) | 227.6% |
| Reimbursements-Indirect Costs | (7,947,803) | (1,855,828) | 23.4% | (7,813,890) | (1,507,796) | 19.3% |
| Materials, Supplies & Maintenance | 14,135,988 | 2,471,603 | 17.5% | 16,628,496 | 3,011,519 | 18.1% |
| Materials Reimbursements | (761,712) | (134,837) | 17.7% | (221,351) | (56,642) | 25.6% |
| Professional/Contract Services & Utilities | 12,597,719 | 2,270,055 | 18.0% | 15,275,675 | 3,217,746 | 21.1% |
| Training, Travel & Membership Dues | 960,085 | 304,414 | 31.7% | 1,086,766 | 375,254 | 34.5% |
| Liabilities, Settlements & Insurance | 969,945 | 67,452 | 7.0% | 967,843 | 86,916 | 9.0% |
| Interdepartmental Charges | 5,394,653 | 1,840,213 | 34.1% | 12,698,048 | 3,174,510 | 25.0% |
| Debt Service | 19,371,708 | 12,357,296 | 63.8% | 22,360,355 | 12,900,266 | 57.7% |
| Debt Service Reimbursements | (18,097,064) | (4,428,071) | 24.5% | (18,337,744) | (4,542,772) | 24.8% |
| Capital Acquisitions | 298,513 | 57,132 | 19.1% | 358,874 | 56,337 | 15.7% |
| Other Operating Transfers Out | 6,856,196 | 4,245,137 | 61.9% | 10,684,113 | 6,858,412 | 64.2% |
| Bad Debts and Other Losses | 1,000 | - | 0.0% | 1,000 | - | 0.0% |
| Total Expenditures | \$223,963,515 | \$61,238,011 | 27.3% | \$249,806,066 | \$68,121,948 | 27.3% |

As shown above, the City's General Fund shows increase in actual expenditures of approximately \$6.9 million year to date. The main driver in this increase is \$2.6 million increase in Operating Transfers Out and a \$1.3 increase in Interdepartmental Charges. The increase in Operating Transfers Out is largely driven by the transfer to the City's Low Mod Fund to purchase 1316-1320 Cabrillo Ave as well as increased transfers to the Capital Improvement Fund. The increase in Interdepartmental Charges is a result of increasing the citywide contributions to the Self-Insurance Fund, which will continue in future budget cycles.

General Fund – Restricted/Assigned

The General Fund – Restrict/Assigned is a series of sub-funds of the overall General Fund when reported in the Annual Comprehensive Finance Report (Annual Report). This is accounted for separately to track balances in these different areas that are deemed restricted by the source or assigned for a particular purpose (this does not include the City’s Reserve Fund).

For example, this includes multiple replacement funds created by the City to set funds aside each year for anticipated future replacement. This helps smooth spending over multiple years and creates a dedicated source for these different replacement activities, which include:

- Copier Replacement Fund
- Data Communications Replacement Fund
- Defibrillator Replacement Fund
- Drone/ALPR Replacement Fund
- Fire Turnout Coats Replacement Fund
- Fire Apparatus Replacement Fund
- PC Replacement Fund
- Radio Communications Replacement Fund

In addition to the above-mentioned replacement funds, the Restricted/Assigned area also includes the City’s newly established CalPERS Employer Pension Prefunding Trust (CEPPT), Measure SST Fund, Cable’s PEG Funds and the El Camino Training Funds for Fire and Police.

General Fund – Restricted/Assigned

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|----------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Taxes | \$ - | \$ - | 0.0% | \$ 13,500,000 | \$ - | 0.0% | \$ 15,525,000 | \$ 2,025,000 | 115.0% |
| Use of Money and Property | \$ 365,550 | \$ (22,808) | -6.2% | \$ 365,550 | \$ 5,278 | 1.4% | \$ 359,405 | \$ (6,146) | 98.3% |
| Operating Transfers In | \$ 3,636,218 | \$ 2,948,689 | 81.1% | \$ 4,923,924 | \$ 2,695,687 | 54.7% | \$ 4,924,923 | \$ 999 | 100.0% |
| Total Revenues | \$ 4,001,768 | \$ 2,925,881 | 73.1% | \$ 18,789,474 | \$ 2,700,965 | 14.4% | \$ 20,809,328 | \$ 2,019,854 | 110.7% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ - | \$ 69 | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Materials, Supplies & Maintenance | \$ 65,000 | \$ 2,006 | 3.1% | \$ 66,800 | \$ 1,996 | 3.0% | \$ 71,651 | \$ (4,851) | 107.3% |
| Professional/Contract Services & Utilities | \$ 337,066 | \$ 30,629 | 9.1% | \$ 255,945 | \$ - | 0.0% | \$ 224,361 | \$ 31,584 | 87.7% |
| Training, Travel & Membership Dues | \$ - | \$ 395 | 0.0% | \$ - | \$ 1,290 | 0.0% | \$ 1,290 | \$ (1,290) | 0.0% |
| Debt Service | \$ - | \$ 241 | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Other Expenditures | \$ - | \$ 467 | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Capital Acquisitions | \$ 611,275 | \$ 80,376 | 13.1% | \$ 797,609 | \$ 50,096 | 6.3% | \$ 495,941 | \$ 301,668 | 62.2% |
| Other Operating Transfers Out | \$ 1,152,315 | \$ 1,149,423 | 99.7% | \$ 13,875,000 | \$ 375,000 | 2.7% | \$ 13,875,000 | \$ - | 100.0% |
| Total Expenditures | \$ 2,165,656 | \$ 1,263,606 | 58.3% | \$ 14,995,354 | \$ 428,382 | 2.9% | \$ 14,668,243 | \$ 327,111 | 97.8% |
| Revenues Less Expenditures | \$ 1,836,112 | \$ 1,662,275 | | \$ 3,794,120 | \$ 2,272,583 | | \$ 6,141,084 | | |

Due to the fluctuating nature of these sub-funds, one must be mindful when examining the budget to actual performance. Often the City is setting aside funds each year for the replacement of, for example, a fire truck then expends a large sum in one given fiscal year utilizing the dedicated resources. Additionally, some of these purchases are made through project-focused funds where the budget is set on the project itself and does not reflect in the general ledger table above. These purchases ensure budget compliance on the project level.

As of September 30, 2022, receipts are below last year by \$225,000 due to reduced transfers from the City's PEG operating fund to the City's PEG Capital fund based on the Capital Improvement Plan's needs. Additionally, a new budget was created for Tax revenues in the Measure SST Fund. The first sales tax remittance is expected in December 2022.

On the expenditure side, as of September 30, 2022, year to date expenditures have decreased by \$835,000. This is mainly driven by reduced transfers from the City's PC Replacement Fund to the General Fund Operating Fund as well as reduced transfers from the City's PEG operating fund to the City's PEG Capital fund. The transfer from the City's PC Replacement Fund was one-time in nature when the City switched from purchasing Microsoft Office licenses to an annual subscription model under Office365, which is now a recurring operating budget cost in CIT. Overall, it is projected revenues will exceed expenditures by \$6.1 million contributing to the General Fund's overall fund balance.

General Fund – Unassigned

The City has a Reserve and other miscellaneous sub-funds that do not qualify for the restricted/assigned category of the overall General Fund when reported in the Annual Comprehensive Finance Report (Annual Report). The sub-fund related to Reserves helps plan for economic downturns, such as COVID-19 and the Great Recession, or sets asides funds for natural disasters such as earthquakes, to ensure financial stability during times of need. The overall budget for this group of sub-funds can be found below:

General Fund – Unassigned

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Operating Transfers In | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Revenues | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Materials, Supplies & Maintenance | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Professional/Contract Services & Utilities | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Liabilities, Settlements & Insurance | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Capital Acquisitions | \$ 70,000 | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Other Operating Transfers Out | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Expenditures | \$ 70,000 | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Revenues Less Expenditures | \$ (70,000) | \$ - | | \$ - | \$ - | | \$ - | | |

Due to the fluctuating nature of these sub-funds, one must be mindful when examining the budget to actual performance. Often the City is setting aside funds for future economic downturns then expends a large sum in one given fiscal year to balance the City's General Fund Operating Fund.

As shown above, there is no activity in Fiscal Year 2022-23. The City's General Fund Operating Fund does not have a planned or projected contribution into the City's Reserve Fund at this time but should excess revenues be available staff can recommend a transfer to City Council for approval.

Below is a summary of the City's Unassigned Fund balance at the beginning of Fiscal Year 2021-22, the unaudited ending balance for Fiscal Year 2021-22 and the projected ending balance for Fiscal Year 2022-23 based on the tables previously presented.

| Unassigned Fund Balance | Beg Bal - FY2021-22 | Additions/ (Uses) | End Bal - FY2021-22 (unaudited) | Projected Additions/ (Uses) | Proj End Bal FY2022-23 |
|--------------------------------|------------------------|----------------------|---------------------------------------|-----------------------------------|---------------------------|
| Economic Anomaly | \$ 8,081,449 | \$ - | \$ 8,081,449 | \$ - | \$ 8,081,449 |
| Litigation | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other Unrestricted | \$ 14,551,613 | \$ 23,026,032 | \$ 37,577,645 | \$ 16,641,251 | \$ 54,218,896 |
| Total | \$ 22,633,062 | \$ 23,026,032 | \$ 45,659,094 | \$ 16,641,251 | \$ 62,300,345 |

It is projected that Fiscal Year 2022-23 will end with an Economic Anomaly reserve balance of \$8.1 million and a non-reserved balance of \$54.2 million for an overall unassigned fund balance total of \$62.3 million.

The GFOA recommends a 20% unassigned fund balance which translates to approximately \$50.6 million based on the currently approved expenditure appropriation for the General Fund Operating Fund. The State Auditor’s High Risk Dashboard recommends greater than 9 months of operating costs, which translates to 75%, or \$190.0 million based on the current General Fund Operating Fund appropriation. The Low Risk category on the High Risk Dashboard in this category requires 6 months of operating costs, which translates to 50%, or \$126.4 million. In examining the Fiscal Year 2020-21 results of the State Auditor’s Report, published in October 2022, approximately 75% of California cities fall in this category.

In the future, staff may recommend adjustments to our fund balance levels to improve the City’s ranking on the State Auditors report and further improve fiscal resiliency.

INTERNAL SERVICE FUNDS



FIRST QUARTER

BUDGET REVIEW REPORT

Internal Service Funds

Internal Service Funds are used to account for financing of goods or services provided by one City department to other departments of the City and to other governmental units on a cost-reimbursement basis. The City currently has two Internal Service Funds: Self-Insurance and Fleet Services.

Self-Insurance Fund

The Self Insurance Fund is used to finance and account for the City’s workers compensation, liability claims and unemployment claims self-insurance programs.

Self-Insurance – Overall

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|------------------------------|-----------------------------|-------------------------|---------------------------|-----------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|
| Total Revenues | \$ 6,740,000 | \$ 3,043,433 | 45.2% | \$ 17,347,600 | \$ 4,290,353 | 24.7% | \$ 27,161,413 | \$ 9,813,813 | 156.6% |
| Total Expenditures | \$ 11,661,659 | \$ 5,334,644 | 45.7% | \$ 22,661,485 | \$ 6,015,036 | 26.5% | \$ 27,256,614 | \$ (4,595,129) | 120.3% |
| Revenues Less Expenditures | \$ (4,921,659) | \$ (2,291,211) | | \$ (5,313,885) | \$ (1,724,683) | | \$ (95,201) | | |

As shown above, the Self-Insurance Fund’s revenues have increased when compared with the year prior. As of September 30, 2022, 24.7% of budgeted revenues have been collected compared with 45.2% the year prior. On the expenditures side, there is also significant decrease with 26.5% of budgeted expenditures spent to date, compared with 45.7% the year prior. The fund’s overall budgeted expenditures continue to exceed budgeted revenues; therefore, setting the City up to deplete fund balance each year without any additional intervention. This will be examined in more detail in the following sections.

Self-Insurance – Operations

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------------|--------------------------------|-------------------------|---------------------------|--------------------------------|-------------------------|----------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Charges for Services | \$ 6,740,000 | \$ 3,043,433 | 45.2% | \$ 17,347,600 | \$ 4,290,353 | 24.7% | \$ 17,161,413 | \$ (186,187) | 98.9% |
| Operating Transfers In | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ 10,000,000 | \$ 10,000,000 | 0.0% |
| Other Revenues | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Revenues | \$ 6,740,000 | \$ 3,043,433 | 45.2% | \$ 17,347,600 | \$ 4,290,353 | 24.7% | \$ 27,161,413 | \$ 9,813,813 | 156.6% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ 974,532 | \$ 210,401 | 21.6% | \$ 1,046,209 | \$ 206,333 | 19.7% | \$ 740,729 | \$ 305,480 | 70.8% |
| Materials, Supplies & Maintenance | \$ 30,683 | \$ 3,912 | 12.7% | \$ 30,683 | \$ 437 | 1.4% | \$ 1,889 | \$ 28,794 | 6.2% |
| Professional/Contract Services & Utilities | \$ 133,279 | \$ 6,018 | 4.5% | \$ 783,279 | \$ 34,860 | 4.5% | \$ 537,806 | \$ 245,473 | 68.7% |
| Training, Travel & Membership Dues | \$ 8,500 | \$ 1,350 | 15.9% | \$ 8,500 | \$ 250 | 2.9% | \$ 756 | \$ 7,744 | 8.9% |
| Liabilities, Settlements & Insurance | \$ 10,504,940 | \$ 5,110,530 | 48.6% | \$ 12,585,863 | \$ 5,771,420 | 45.9% | \$ 17,768,483 | \$ (5,182,620) | 141.2% |
| Interdepartmental Charges | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Other Operating Transfers Out | \$ 9,725 | \$ 2,433 | 25.0% | \$ 6,951 | \$ 1,737 | 25.0% | \$ 6,951 | \$ (0) | 100.0% |
| Bad Debts and Other Losses | \$ - | \$ - | 0.0% | \$ 8,200,000 | \$ - | - | \$ 8,200,000 | \$ - | 100.0% |
| Total Expenditures | \$ 11,661,659 | \$ 5,334,644 | 45.7% | \$ 22,661,485 | \$ 6,015,036 | 26.5% | \$ 27,256,614 | \$ (4,595,129) | 120.3% |
| Revenues Less Expenditures | \$ (4,921,659) | \$ (2,291,211) | | \$ (5,313,885) | \$ (1,724,683) | | \$ (95,201) | | |

As noted earlier, both revenues and expenditures show significant decrease in actuals as a percentage of budget, compared to the year prior. However, actual revenues to date have increased by \$1.2 million, or 41% compared to the prior year. This is a direct result of the City increasing its budgeted contributions to the Self-Insurance fund to address its funded status over the next 10+ years. Based on recent trends and total projected expenditures, an additional \$10.0 million is projected to be transferred into Self-Insurance as a one-time transfer from the General Fund to help balance the fund's overall position. This is made possible by one-time savings through vacancies and other expenditures savings in the General Fund.

On the expenditures side, the City is projecting an increase compared to the prior year. As of September 30, 2022, 26.5% of budgeted expenditures have been expended, with projected expenditures exceeding budget by \$4.6 million. Historically, the City has not appropriated a budget for litigated claims (until they are actually settled). Staff recommends to create a budget for litigation based on historical averages in future budget cycles. The additional \$10.0 million contribution (\$27.2 million in total contributions) is projected to just cover expenditures when including the anticipated actuarial entry at year-end (\$8.2 million).

Additionally, staff are closely monitoring the overall insurance market, which has been adversely affected by COVID-19, civil unrest, and Hurricane Ian. It is expected that premiums will increase across all lines of insurance (workers compensation, property, liability) in Fiscal Year 2023-24 and beyond. This will require increased budget contributions in coming years to ensure fiscal stability for the Self-Insurance Fund.

Fleet Services Fund

The Fleet Services Fund is used to finance and account for the maintenance, repair and replacement of the City's vehicular assets.

Fleet Services – Overall

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|---------------------|-------------------------------------|-------------------------|
| Total Revenues | \$ 6,067,803 | \$ 1,492,566 | 24.6% | \$ 9,628,182 | \$ 1,775,457 | 18.4% | \$ 8,874,536 | \$ (753,646) | 92.2% |
| Total Expenditures | \$ 6,655,930 | \$ 1,978,863 | 29.7% | \$ 6,939,264 | \$ 1,494,868 | 21.5% | \$ 6,050,720 | \$ 888,544 | 87.2% |
| Revenues Less Expenditures | \$ (588,127) | \$ (486,297) | | \$ 2,688,918 | \$ 280,589 | | \$ 2,823,815 | | |

As shown above, the Fleet Services Fund's revenues are slightly lagging when compared with the year prior. As of September 30, 2022, 18.4% of budgeted revenues have been collected compared with 24.6% the year prior. On the expenditure side of the operation, 18.9% has been spent to date, compared with 29.7% the year prior. This will be examined in more detail in the following sections.

Fleet Services – Operations

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|---------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ - | \$ (12,485) | 0.0% | \$ - | \$ (9,804) | 0.0% | \$ 57,189 | \$ 57,189 | 0.0% |
| Other Revenues | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Charges for Services | \$ 2,792,980 | \$ 687,032 | 24.6% | \$ 4,693,325 | \$ 957,571 | 20.4% | \$ 4,137,024 | \$ (556,301) | 88.1% |
| Operating Transfers In | \$ - | \$ - | 0.0% | \$ 975,130 | \$ - | 0.0% | \$ 975,130 | \$ - | 100.0% |
| Total Revenues | \$ 2,792,980 | \$ 674,547 | 24.2% | \$ 5,668,455 | \$ 947,767 | 16.7% | \$ 5,169,343 | \$ (499,112) | 91.2% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ 3,791,449 | \$ 812,131 | 21.4% | \$ 3,772,636 | \$ 609,805 | 16.2% | \$ 3,380,336 | \$ 392,300 | 89.6% |
| Salaries and Benefits Reimbursements | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Materials, Supplies & Maintenance | \$ 297,580 | \$ 53,860 | 18.1% | \$ 334,294 | \$ 37,156 | 11.1% | \$ 266,977 | \$ 67,317 | 79.9% |
| Parts, Fuel & Lubricants Inventory Purchases | \$ 2,770,000 | \$ 473,477 | 17.1% | \$ 2,853,100 | \$ 302,961 | 10.6% | \$ 1,697,289 | \$ 1,155,811 | 59.5% |
| Parts, Fuel & Lubricants Contra | \$ (2,770,000) | \$ (473,477) | 17.1% | \$ (2,853,100) | \$ (302,961) | 10.6% | \$ (1,697,289) | \$ (1,155,811) | 59.5% |
| Professional/Contract Services & Utilities | \$ 67,532 | \$ 49,094 | 72.7% | \$ 69,558 | \$ 51,971 | 74.7% | \$ 71,947 | \$ (2,389) | 103.4% |
| Training, Travel & Membership Dues | \$ 50,300 | \$ 271 | 0.5% | \$ 51,809 | \$ 2,720 | 5.3% | \$ 49,696 | \$ 2,113 | 95.9% |
| Liabilities, Settlements & Insurance | \$ 16,388 | \$ - | 0.0% | \$ 16,880 | \$ - | 0.0% | \$ 16,880 | \$ - | 100.0% |
| Interdepartmental Charges | \$ 138,337 | \$ 38,946 | 28.2% | \$ 405,395 | \$ 101,346 | 25.0% | \$ 405,395 | \$ (0) | 100.0% |
| Debt Service | \$ 50,000 | \$ - | 0.0% | \$ 50,000 | \$ - | 0.0% | \$ - | \$ 50,000 | 0.0% |
| Other Operating Transfers Out | \$ 727,739 | \$ 706,933 | 97.1% | \$ 722,227 | \$ 398,893 | 55.2% | \$ 415,561 | \$ 306,666 | 57.5% |
| Total Expenditures | \$ 5,139,325 | \$ 1,661,235 | 32.3% | \$ 5,422,799 | \$ 1,201,891 | 22.2% | \$ 4,606,791 | \$ 816,008 | 85.0% |
| Revenues Less Expenditures | \$ (2,346,345) | \$ (986,688) | | \$ 245,656 | \$ (254,124) | | \$ 562,552 | | |

While the percentage of revenues collected to date is lagging compared with the year prior actual receipts are up by \$271,000, or 39.4%. In the Fiscal Year 2022-23 budget, labor rates were increased

by 85% in an effort to balance actual revenues with actual expenditures in the Fleet Operations Fund. In recent years, this fund was operating at a \$1-\$2M structural deficit. While the budget was increased, due to vacancies in the Fleet Services area, billable hours are down over 20% suppressing the results. It is expected this will normalize as vacancies are filled, however, staff will monitor closely to determine if any further labor rate adjustments are needed. Additionally, the Fiscal Year 2022-23 budget included a transfer of \$975,130 from the General Fund to the Fleet Operations Fund to address the negative funds balance. Based on trends in the General Fund, it is anticipated staff will return at the Mid-Year Budget Report to potentially transfer \$8.0 million into the Operations Fund and Replacement Fund to address the historical underfunding discussed in recent budget cycles. If Council approves this action, it will resolve a long-standing issue highlighted in staff's **Areas of Focus** section.

On the expenditure side of the operation, 22.2% has been spent to date, compared with 32.3% the year prior. This is mainly driven by the activity in the Other Operating Transfers Out, which is driven by a contribution to the Fleet Services Capital Fund related to the Capital Improvement Plan. In the current year, excess capital contribution of \$307,000 was identified in existing capital projects. This amount was “returned” to the Fund and recorded as a credit of \$307,000, which lowered actual expenditures to date. Additionally, there will be two (2) one-time transfers to occur during this fiscal year: 1) \$415,000 to cover the replacement cost of heavy-duty vehicle lifts at the Fleet Services garage, and 2) \$975,000 contribution to cover operations and avoid further erosion of fund balance. At year-end, projected revenues are expected to exceed expenditures by \$560,000.

Staff will recommend steps to correct the Operations portion of the Fleet Services Fund during the Mid-Year Budget Review Report. The anticipated recommendation should resolve the long-standing Area of Focus surrounding the Fleet Services Fund Operating Fund.

Another main component of the Fleet Services Internal Service Fund is the capital outlays, largely for vehicle purchases, as show in detail below.

Fleet Services – Replacement

| | 2021-22 | | | Percent of Budget | 2022-23 | | | Percent of Budget | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|---------------------|-----------------------------|-----------------------------|-------------------------|-------------------|-----------------------------|---------------------|-------------------------|-------------------------------------|-------------------------|
| | Amended Budget | September 2021-22 Actual | September 2022-23 Actual | | Amended Budget | September 2022-23 Actual | Projected Total | | | |
| Revenues | | | | | | | | | | |
| Use of Money and Property | \$ 3,194,359 | \$ 795,019 | 24.9% | \$ 3,879,263 | \$ 827,690 | 21.3% | \$ 3,705,193 | \$ (174,070) | 95.5% | |
| Other Revenues | \$ 80,464 | \$ 23,000 | 28.6% | \$ 80,464 | \$ - | 0.0% | \$ - | \$ (80,464) | 0.0% | |
| Operating Transfers In | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | |
| Total Revenues | \$ 3,274,823 | \$ 818,019 | 25.0% | \$ 3,959,727 | \$ 827,690 | 20.9% | \$ 3,705,193 | \$ (254,534) | 93.6% | |
| Expenditures | | | | | | | | | | |
| Salaries and Employee Benefits | \$ 200 | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | |
| Materials, Supplies & Maintenance | \$ 2,000 | \$ - | 0.0% | \$ 2,060 | \$ - | 0.0% | \$ - | \$ 2,060 | 0.0% | |
| Depreciation and Amortization | \$ 1,418,000 | \$ 317,628 | 22.4% | \$ 1,418,000 | \$ 292,977 | 20.7% | \$ 1,347,524 | \$ 70,476 | 95.0% | |
| Debt Service | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | |
| Capital Acquisitions | \$ 2,938,361 | \$ 35,375 | 1.2% | \$ 3,898,903 | \$ 344,109 | 8.8% | \$ 3,898,903 | \$ 0 | 100.0% | |
| Asset Contra Account | \$ (2,841,956) | \$ (35,375) | 1.2% | \$ (3,802,498) | \$ (344,109) | 9.0% | \$ (3,802,498) | \$ (0) | 100.0% | |
| Other Operating Transfers Out | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | |
| Bad Debts and Other Losses | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | |
| Total Expenditures | \$ 1,516,605 | \$ 317,628 | 20.9% | \$ 1,516,465 | \$ 292,977 | 19.3% | \$ 1,443,929 | \$ 72,536 | 95.2% | |
| Revenues Less Expenditures | \$ 1,758,218 | \$ 500,391 | | \$ 2,443,262 | \$ 534,713 | | \$ 2,261,263 | | | |

This area of the Fleet Services Fund is responsible for collecting the charges assessed to departments for the replacement costs of vehicles and accounts for expenditures made to replace these vehicles along with shop equipment replacements.

Revenue collected within these subfunds (Use of Money and Property) are also slightly lagging relative to budget when compared to the year prior. On the expenditure side of the budget, year to date spending totals 19.3% of the budget compared with 20.9% the year prior. Overall, it is projected that revenues will exceed expenditures by \$2.3 million at year-end. Based on trends in the General Fund, it is anticipated staff will return at the Mid-Year Budget Report to adjust budgets and transfer \$8.0 million into the Operations Fund and Replacement Fund to address the historical underfunding discussed in recent budget cycles. If Council approves this action, it will resolve a long-standing issue highlighted in staff's Areas of Focus section.

ENTERPRISE FUNDS



FIRST QUARTER

BUDGET REVIEW REPORT

Enterprise Funds

Enterprise Funds are used to account for fee-supported businesses operated by the City. Net activity of these funds provide working capital for maintenance and betterment of the equipment and fixed assets of the business. This section of the Budget Review Report will cover these enterprise funds alphabetically.

Airport Fund

The Airport Fund accounts for airfield operations and leasing of commercial property outside of the airfield.

Airport – Overall

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|---------------------------|-----------------------------|-------------------------|---------------------------|-----------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|
| Total Revenues | \$ 14,999,188 | \$ 3,395,473 | 22.6% | \$ 17,481,109 | \$ 10,001,580 | 57.2% | \$ 22,782,822 | \$ 5,301,713 | 130.3% |
| Total Expenditures | \$ 15,787,136 | \$ 3,672,856 | 23.3% | \$ 17,620,539 | \$ 11,776,461 | 66.8% | \$ 22,614,408 | \$ (4,993,869) | 128.3% |
| Revenues Less Expenditures | \$ (787,948) | \$ (277,383) | | \$ (139,430) | \$ (1,774,881) | | \$ 168,414 | | |

As shown above, as of September 30, 2022, 57.2% of budgeted revenues have been collected compared with 22.6% the year prior. On the expenditure side of the operation, 66.8% has been spent to date, compared with 23.3% the year prior. While this is an unfavorable trend, the Airport Fund is expected to generate a \$168,000 surplus at year-end. This will be examined in more detail in the subsequent sections.

Airport – Operations

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------|--------------------------|-------------------|------------------------|--------------------------|-------------------|----------------------|-------------------------------|-------------------|
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ 145,000 | \$ 12,054 | 8.3% | \$ 85,000 | \$ 14,213 | 16.7% | \$ 63,358 | \$ (21,642) | 74.5% |
| Other Revenues | \$ - | \$ - | 0.0% | \$ 400,000 | \$ - | 0.0% | \$ 400,000 | \$ - | 100.0% |
| Charges for Services | \$ 14,854,188 | \$ 3,383,419 | 22.8% | \$ 16,996,109 | \$ 9,987,367 | 58.8% | \$ 22,319,464 | \$ 5,323,355 | 131.3% |
| Operating Transfers In | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Revenues | \$ 14,999,188 | \$ 3,395,473 | 22.6% | \$ 17,481,109 | \$ 10,001,580 | 57.2% | \$ 22,782,822 | \$ 5,301,713 | 130.3% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ 1,397,361 | \$ 318,003 | 22.8% | \$ 1,465,638 | \$ 356,578 | 24.3% | \$ 1,422,945 | \$ 42,693 | 97.1% |
| Salaries and Benefits Reimbursements | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Materials, Supplies & Maintenance | \$ 145,740 | \$ 12,673 | 8.7% | \$ 177,703 | \$ 33,316 | 18.7% | \$ 175,562 | \$ 2,141 | 98.8% |
| Materials Reimbursements | \$ - | \$ (223) | 0.0% | \$ - | \$ (315) | 0.0% | \$ (0) | \$ 0 | 0.0% |
| Professional/Contract Services & Utilities | \$ 1,193,941 | \$ 147,260 | 12.3% | \$ 1,170,648 | \$ 152,135 | 13.0% | \$ 1,014,608 | \$ 156,040 | 86.7% |
| Training, Travel & Membership Dues | \$ 10,500 | \$ 49 | 0.5% | \$ 10,815 | \$ 17 | 0.2% | \$ 1,051 | \$ 9,764 | 9.7% |
| Depreciation and Amortization | \$ 275,000 | \$ 53,139 | 19.3% | \$ 275,000 | \$ 53,441 | 19.4% | \$ 213,763 | \$ 61,237 | 77.7% |
| Liabilities, Settlements & Insurance | \$ 14,113 | \$ - | 0.0% | \$ 14,536 | \$ 7,075 | 48.7% | \$ 14,536 | \$ - | 100.0% |
| Interdepartmental Charges | \$ 376,292 | \$ 83,153 | 22.1% | \$ 508,407 | \$ 132,373 | 26.0% | \$ 529,077 | \$ (20,670) | 104.1% |
| Asset Contra Account | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Other Operating Transfers Out | \$ 12,359,189 | \$ 3,058,680 | 24.7% | \$ 13,982,792 | \$ 11,041,145 | 79.0% | \$ 19,227,866 | \$ (5,245,074) | 137.5% |
| Bad Debts and Other Losses | \$ 15,000 | \$ 122 | 0.8% | \$ 15,000 | \$ 696 | 4.6% | \$ 15,000 | \$ (0) | 100.0% |
| Total Expenditures | \$ 15,787,136 | \$ 3,672,856 | 23.3% | \$ 17,620,539 | \$ 11,776,461 | 66.8% | \$ 22,614,408 | \$ (4,993,869) | 128.3% |
| Revenues Less Expenditures | \$ (787,948) | \$ (277,383) | | \$ (139,430) | \$ (1,774,881) | | \$ 168,414 | | |

When examining the Airport operating fund, we get a better sense of day-to-day operations. As shown above, revenues collected to date is 57.2% for the current year, compared with 22.6% in the year prior, primarily due to one-time non-aeronautical lease signing bonus of approximately \$6.4 million recognized in this year. Of this collection, only \$1.25 million is accounted for in this year's budget. As a result, the projected revenues are expected to generate a budgetary surplus of \$5.3 million. On November 15, 2022 Council approved an item that will increase the revenue budget by \$5.8 million, which will bring budget back in line. We are seeing slight increases in multiple areas including aircraft hangar storage and auto/retail rentals.

Additionally, Other Revenues budget and projection in this year represents the estimated insurance reimbursement related to a legal case. The increase in this classification from the year prior is mainly due to a change in accounting, which changed a historically recorded credit to expense as a revenue to the Fund (offset by the gross expenditure being recorded).

On the expenditure side of the operations, to date, 66.8% has been expended, compared with 23.3% the year prior. The projected expenditure is expected to generate budgetary deficit of \$5.0 million at year-end. This is largely driven by increases in Other Operating Transfers Out of \$5.2 million to the General Fund resulting from the unbudgeted portion of one-time signing bonus for \$5.2 million. On November 15, 2022 Council approved an item that will increase the expenditure budget by \$5.8

million, which will bring budget back in line. Staff are also seeing slightly reduced expenditures in most categories. Overall, Staff projects a \$168,000 surplus in the Airport Operating Fund.

Sanitation Fund

The Sanitation Fund accounts for the refuse, recycling, and green waste programs of the Public Works Department. The Fund is supported by user fees and operating transfers from the General Fund to support the senior discount program. Additionally, Council approved a series of annual rate increases over a five year period covering July 2017 through June 2022, meaning July 2021 was the last of the approved rate increases under the most recent Proposition (Prop) 218 hearing process. Staff are currently working with a consultant to conduct another Prop 218 hearing process to establish a new rate structure for five years.

Sanitation – Overall

| | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|---------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-------------------|-----------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Total Revenues | \$ 15,475,999 | \$ 2,324,496 | 15.0% | \$ 15,680,878 | \$ 1,634,294 | 10.4% | \$ 15,641,790 | \$ (39,088) | 99.8% |
| Total Expenditures | \$ 16,084,416 | \$ 3,441,983 | 21.4% | \$ 15,866,751 | \$ 2,999,711 | 18.9% | \$ 13,311,006 | \$ 2,555,745 | 83.9% |
| Rev Less Exp | \$ (608,417) | \$ (1,117,487) | | \$ (185,873) | \$ (1,365,417) | | \$ 2,330,784 | | |

As shown above, the Sanitation Fund’s revenues are lagging when compared with the year prior. As of September 30, 2022, 10.4% of budgeted revenues have been collected compared with 15.0% the year prior. On the expenditure side of the operation, 18.9% has been spent to date, compared with 21.4% the year prior. The details of these numbers will be examined in more detail in the subsequent sections.

Sanitation – Operations

| Revenues | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|-----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Use of Money and Property | \$ 60,000 | \$ (9,422) | -15.7% | \$ (85,000) | \$ (7,051) | 8.3% | \$ (33,574) | \$ 51,426 | 39.5% |
| Other Revenues | \$ 50,000 | \$ - | 0.0% | \$ 50,000 | \$ - | 0.0% | \$ 50,000 | \$ - | 100.0% |
| Charges for Services | \$ 13,065,359 | \$ 1,794,984 | 13.7% | \$ 13,585,691 | \$ 1,198,206 | 8.8% | \$ 13,784,311 | \$ 198,620 | 101.5% |
| Operating Transfers In | \$ 409,853 | \$ 63,966 | 15.6% | \$ 297,917 | \$ 74,487 | 25.0% | \$ 297,917 | \$ 0 | 100.0% |
| Total Revenues | \$ 13,585,212 | \$ 1,849,528 | 13.6% | \$ 13,848,608 | \$ 1,265,642 | 9.1% | \$ 14,098,654 | \$ 250,046 | 101.8% |
| Expenditures | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Salaries and Employee Benefits | \$ 4,859,791 | \$ 1,076,371 | 22.1% | \$ 4,121,248 | \$ 955,413 | 23.2% | \$ 3,764,273 | \$ 356,975 | 91.3% |
| Salaries and Benefits Reimbursements | \$ - | \$ (2,562) | 0.0% | \$ - | \$ (45) | 0.0% | \$ 0 | \$ (0) | 0.0% |
| Materials, Supplies & Maintenance | \$ 3,017,068 | \$ 709,232 | 23.5% | \$ 3,612,148 | \$ 603,060 | 16.7% | \$ 2,473,565 | \$ 1,138,583 | 68.5% |
| Materials Reimbursements | \$ - | \$ (16,856) | 0.0% | \$ - | \$ (118) | 0.0% | \$ (792) | \$ 792 | 0.0% |
| Professional/Contract Services & Utilities | \$ 3,291,592 | \$ 529,481 | 16.1% | \$ 3,443,320 | \$ 491,044 | 14.3% | \$ 2,977,086 | \$ 466,234 | 86.5% |
| Training, Travel & Membership Dues | \$ 11,355 | \$ 127 | 1.1% | \$ 31,696 | \$ 99 | 0.3% | \$ 470 | \$ 31,226 | 1.5% |
| Depreciation and Amortization | \$ 31,000 | \$ 10,983 | 35.4% | \$ 31,000 | \$ 11,444 | 36.9% | \$ 45,775 | \$ (14,775) | 147.7% |
| Liabilities, Settlements & Insurance | \$ 46,683 | \$ 429 | 0.9% | \$ 48,083 | \$ 75 | 0.2% | \$ 15,355 | \$ 32,728 | 31.9% |
| Interdepartmental Charges | \$ 1,605,355 | \$ 384,396 | 23.9% | \$ 1,636,074 | \$ 356,166 | 21.8% | \$ 1,472,627 | \$ 163,447 | 90.0% |
| Debt Service | \$ 90,000 | \$ - | 0.0% | \$ 90,000 | \$ - | 0.0% | \$ 90,000 | \$ - | 100.0% |
| Capital Acquisitions | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Asset Contra Account | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Other Operating Transfers Out | \$ 1,813,612 | \$ 451,078 | 24.9% | \$ 1,710,222 | \$ 355,272 | 20.8% | \$ 1,421,088 | \$ 289,134 | 83.1% |
| Bad Debts and Other Losses | \$ 52,860 | \$ 90 | 0.2% | \$ 52,860 | \$ - | 0.0% | \$ 52,860 | \$ - | 100.0% |
| Total Expenditures | \$ 14,819,316 | \$ 3,142,769 | 21.2% | \$ 14,776,651 | \$ 2,772,410 | 18.8% | \$ 12,312,308 | \$ 2,464,343 | 83.3% |
| Revenues Less Expenditures | \$ (1,234,104) | \$ (1,293,241) | | \$ (928,043) | \$ (1,506,768) | | \$ 1,786,347 | | |

When examining the Sanitation Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are lagging when compared with the year prior. To date, 9.1% of budgeted revenues have been received compared with 13.6% the year prior. This is primarily due to a collection timing difference related to the CalWater District and a billing file lag. Overall, staff expect the total projected revenue to be higher than the budget by \$199,000, due to growth in the Charges for Services classification.

The Sanitation Fund’s operating expenditures to date are within budgeted levels. To date, 18.8% has been expended, compared with 21.2% the year prior. When examining actual expenditures year to year, we see a decrease of about \$370,000. This is primarily driven by the transfer of the Street Sweeping program from the Sanitation Fund to the General Fund, offset by increases in allocated costs for the Fleet Services Fund and Self-Insurance Fund.

Overall, the Sanitation’s operating fund is projected to end the year with a \$1.8 million surplus, largely driven by expenditure savings among most categories.

Sanitation – Replacement

| | 2021-22 | September | Percent | 2022-23 | September | Percent | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|---------------------|-------------------|--------------|---------------------|-------------------|--------------|---------------------|-------------------------------|-------------------|
| | Amended Budget | 2021-22 Actual | of Budget | Amended Budget | 2022-23 Actual | of Budget | | | |
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ 85,000 | \$ 19,096 | 22.5% | \$ 125,000 | \$ 14,118 | 11.3% | \$ 125,000 | \$ - | 100.0% |
| Other Revenues | \$ - | \$ 6,750 | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Operating Transfers In | \$ 1,805,787 | \$ 449,122 | 24.9% | \$ 1,707,270 | \$ 354,534 | 20.8% | \$ 1,418,136 | \$ (289,134) | 83.1% |
| Total Revenues | \$ 1,890,787 | \$ 474,968 | 25.1% | \$ 1,832,270 | \$ 368,652 | 20.1% | \$ 1,543,136 | \$ (289,134) | 84.2% |
| Expenditures | | | | | | | | | |
| Materials, Supplies & Maintenance | \$ 75,000 | \$ 74,361 | 99.1% | \$ - | \$ - | 0.0% | \$ 53,695 | \$ (53,695) | 0.0% |
| Depreciation and Amortization | \$ 1,190,100 | \$ 224,853 | 18.9% | \$ 1,090,100 | \$ 227,301 | 20.9% | \$ 945,004 | \$ 145,096 | 86.7% |
| Capital Acquisitions | \$ 2,771,561 | \$ - | 0.0% | \$ 4,075,298 | \$ - | 0.0% | \$ 889,487 | \$ 3,185,811 | 21.8% |
| Asset Contra Account | \$ (2,771,561) | \$ - | 0.0% | \$ (4,075,298) | \$ - | 0.0% | \$ (889,487) | \$ (3,185,811) | 21.8% |
| Other Operating Transfers Out | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Total Expenditures | \$ 1,265,100 | \$ 299,214 | 23.7% | \$ 1,090,100 | \$ 227,301 | 20.9% | \$ 998,699 | \$ 91,401 | 91.6% |
| Revenues Less Expenditures | \$ 625,687 | \$ 175,754 | | \$ 742,170 | \$ 141,351 | | \$ 544,437 | | |

The Vehicle (and Container) replacement areas of the Sanitation Fund is responsible for receiving funds, generally, from Sanitation Operations to purchase vehicles and containers. It is also where current vehicles are depreciated each month. The funds transferred in during Fiscal Year 2022-23 are to fund the future purchase of vehicles through vehicle replacement charges. The projection above includes the expected purchase of two CNG Refuse Collection Trucks approved by Council on December 7, 2021. Beginning in Fiscal Year 2022-23 the Container Replacement Fund has been consolidated under the Operations Fund and purchases will be made there.

Sewer Fund

The Sewer Fund accounts for sewer discharge fees received for the maintenance and capital improvement expenditures of the City’s sewer system within the Public Works Department. The City Council approved a series of annual sewer rate increases over a five-year period starting in January 2017 through December 2021, meaning January 2021 was the last of the approved rate increases under the most recent Proposition (Prop) 218 hearing process. On October 11, 2022 Council approved a public hearing date of December 6, 2022 for a Prop 218 hearing process to take place and set a new rate structure covering January 1, 2023 through December 31, 2027.

Sewer – Overall

| | 2021-22 | | | 2022-23 | | | Projected | | |
|---------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-------------------|-----------------|---------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Surplus / (Deficit) | Percent of Budget |
| Total Revenues | \$ 6,439,225 | \$ 1,158,616 | 18.0% | \$ 6,165,910 | \$ 811,939 | 13.2% | \$ 6,052,831 | \$ (113,079) | 98.2% |
| Total Expenditures | \$ 7,270,851 | \$ 2,855,747 | 39.3% | \$ 6,175,601 | \$ 2,266,716 | 36.7% | \$ 5,031,862 | \$ 1,143,739 | 81.5% |
| Rev Less Exp | \$ (831,626) | \$ (1,697,131) | | \$ (9,691) | \$ (1,454,777) | | \$ 1,020,969 | | |

As shown above, the Sewer Fund’s revenues are lagging when compared with the year prior. As of September 30, 2022, 13.2% of budgeted revenues have been collected compared with 18.0% the year prior. On the expenditure side of the operation, 36.7% has been spent to date, compared with 39.3% the year prior. The details of these numbers will be examined in more detail in the subsequent sections as the high rate of expenditures is largely a function of transfers across funds related to capital projects funded at the beginning of the fiscal year.

Sewer – Operations

| | 2021-22 | | | Percent of Budget | 2022-23 Amended | | | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|---------------------|--------------------------|--------------------------|---------------------|-----------------------|--------------------------|--------------------------|--------------------------|-------------------|---------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | September 2021-22 Actual | | Amended Budget | September 2022-23 Actual | September 2022-23 Actual | | | | | |
| Revenues | | | | | | | | | | | | |
| Use of Money and Property | \$ 75,000 | \$ 11,135 | 14.8% | \$ 75,000 | \$ 8,342 | 11.1% | \$ 75,000 | \$ 0 | 100.0% | \$ 0 | 100.0% | |
| Other Revenues | \$ 6,161 | \$ 5,088 | 82.6% | \$ 6,161 | \$ - | 0.0% | \$ 6,161 | \$ - | 100.0% | \$ - | 100.0% | |
| Charges for Services | \$ 6,130,164 | \$ 1,080,653 | 17.6% | \$ 5,725,220 | \$ 714,285 | 12.5% | \$ 5,615,008 | \$ (110,212) | 98.1% | \$ (110,212) | 98.1% | |
| Operating Transfers In | \$ - | \$ 2,127 | 0.0% | \$ 8,069 | \$ 2,016 | 25.0% | \$ 8,069 | \$ (0) | 100.0% | \$ (0) | 100.0% | |
| Total Revenues | \$ 6,211,325 | \$ 1,099,003 | 17.7% | \$ 5,814,450 | \$ 724,643 | 12.5% | \$ 5,704,238 | \$ (110,212) | 98.1% | \$ (110,212) | 98.1% | |
| Expenditures | | | | | | | | | | | | |
| Salaries and Employee Benefits | \$ 2,750,269 | \$ 566,049 | 20.6% | \$ 1,813,364 | \$ 443,019 | 24.4% | \$ 1,632,213 | \$ 181,151 | 90.0% | \$ 181,151 | 90.0% | |
| Salaries and Benefits Reimbursements | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | 0.0% | |
| Materials, Supplies & Maintenance | \$ 346,478 | \$ 54,723 | 15.8% | \$ 399,167 | \$ 63,170 | 15.8% | \$ 296,489 | \$ 102,678 | 74.3% | \$ 102,678 | 74.3% | |
| Materials Reimbursements | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | 0.0% | |
| Professional/Contract Services & Utilities | \$ 997,768 | \$ 59,356 | 5.9% | \$ 1,062,378 | \$ 241,771 | 22.8% | \$ 733,291 | \$ 329,087 | 69.0% | \$ 329,087 | 69.0% | |
| Training, Travel & Membership Dues | \$ 11,114 | \$ 410 | 3.7% | \$ 16,447 | \$ 165 | 1.0% | \$ 688 | \$ 15,759 | 4.2% | \$ 15,759 | 4.2% | |
| Depreciation and Amortization | \$ 2,194 | \$ 274 | 12.5% | \$ 101,094 | \$ - | 0.0% | \$ - | \$ 101,094 | 0.0% | \$ 101,094 | 0.0% | |
| Liabilities, Settlements & Insurance | \$ 3,667 | \$ 3,667 | 100.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | 0.0% | |
| Interdepartmental Charges | \$ 854,555 | \$ 191,771 | 22.4% | \$ 699,785 | \$ 163,367 | 23.3% | \$ 633,290 | \$ 66,495 | 90.5% | \$ 66,495 | 90.5% | |
| Capital Acquisitions | \$ 11,606 | \$ - | 0.0% | \$ 11,606 | \$ - | 0.0% | \$ - | \$ 11,606 | 0.0% | \$ 11,606 | 0.0% | |
| Asset Contra Account | \$ (4,700) | \$ - | 0.0% | \$ (4,700) | \$ - | 0.0% | \$ - | \$ (4,700) | 0.0% | \$ (4,700) | 0.0% | |
| Other Operating Transfers Out | \$ 2,107,900 | \$ 1,937,937 | 91.9% | \$ 1,886,460 | \$ 1,313,664 | 69.6% | \$ 1,569,654 | \$ 316,806 | 83.2% | \$ 316,806 | 83.2% | |
| Bad Debts and Other Losses | \$ 20,000 | \$ - | 0.0% | \$ 20,000 | \$ - | 0.0% | \$ - | \$ 20,000 | 0.0% | \$ 20,000 | 0.0% | |
| Total Expenditures | \$ 7,100,851 | \$ 2,814,187 | 39.6% | \$ 6,005,601 | \$ 2,225,156 | 37.1% | \$ 4,865,625 | \$ 1,139,976 | 81.0% | \$ 1,139,976 | 81.0% | |
| Revenues Less Expenditures | \$ (889,526) | \$ (1,715,184) | | \$ (191,151) | \$ (1,500,513) | | \$ 838,613 | | | | | |

When examining the Sewer Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are lagging compared to the same period the year before. This is driven primarily by the conservation efforts and reductions experienced on the residential side of the Water Fund (driver for Sewer charges), along with a revenue collection timing difference. This collection timing difference relates to the CalWater District and a billing file lag. Overall, staff expect the total projected revenue to be lower than the budget by \$110,000.

The Sewer Fund’s operating expenditures to date are above budgeted levels. When examining actual expenditures year to year, we see a decrease of about \$589,000 overall. Expenditures to date exceed budgeted amounts due to one-time Operating Transfers Out occurring at the beginning of the year to fund Capital activities in the Capital Improvement Plan. Controlling for this exception, expenditures are within budgeted levels.

Overall, the Sewer’s operating fund is projected to end the year operating at a \$839,000 surplus, primarily driven by a one-time refund of excess capital project funding of \$370,000 as well as reduced expenditures across most categories.

Sewer – Replacement

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|------------------------------|--------------------------------|----------------------|------------------------------|--------------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ - | \$ 1,676 | 0.0% | \$ - | \$ 1,966 | 0.0% | \$ 7,273 | \$ 7,273 | 0.0% |
| Other Revenues | \$ - | \$ - | | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Operating Transfers In | \$ 227,900 | \$ 57,937 | 25.4% | \$ 351,460 | \$ 85,330 | 24.3% | \$ 341,320 | \$ (10,140) | 97.1% |
| Total Revenues | \$ 227,900 | \$ 59,613 | 26.2% | \$ 351,460 | \$ 87,296 | 24.8% | \$ 348,594 | \$ (2,866) | 99.2% |
| Expenditures | | | | | | | | | |
| Depreciation and Amortization | \$ 170,000 | \$ 41,560 | 24.4% | \$ 170,000 | \$ 41,560 | 24.4% | \$ 166,238 | \$ 3,762 | 97.8% |
| Capital Acquisitions | \$ 100,000 | \$ - | 0.0% | \$ 100,000 | \$ - | 0.0% | \$ - | \$ 100,000 | 0.0% |
| Asset Contra Account | \$ (100,000) | \$ - | 0.0% | \$ (100,000) | \$ - | 0.0% | \$ - | \$ (100,000) | 0.0% |
| Total Expenditures | \$ 170,000 | \$ 41,560 | 24.4% | \$ 170,000 | \$ 41,560 | 24.4% | \$ 166,238 | \$ 3,762 | 97.8% |
| Revenues Less Expenditures | \$ 57,900 | \$ 18,053 | | \$ 181,460 | \$ 45,736 | | \$ 182,356 | | |

The Vehicle Replacement area of the Sewer Fund is responsible for receiving funds, generally from Sewer Operations, to purchase vehicles. It is also where current vehicles are depreciated each month. The funds transferred in Fiscal Year 2022-23 will fund future vehicles. There is currently no capital acquisition plans approved by Council for Fiscal Year 2022-23.

Transit Fund

The Transit Fund is used to finance and account for the City's fixed route transit system and Torrance Community Transit Program within the Transit Department.

Transit - Overall

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|---------------------|------------------------|--------------------------|-------------------|------------------------|--------------------------|-------------------|-----------------|-------------------------------|-------------------|
| Total Revenues | \$ 32,376,518 | \$ 3,535,136 | 10.9% | \$ 45,232,700 | \$ 7,156,278 | 15.8% | \$ 42,860,111 | \$ (2,372,589) | 94.8% |
| Total Expenditures | \$ 37,517,252 | \$ 7,052,199 | 18.8% | \$ 38,642,171 | \$ 5,996,629 | 15.5% | \$ 27,089,036 | \$ 11,553,135 | 70.1% |
| Rev Less Exp | \$ (5,140,734) | \$ (3,517,063) | | \$ 6,590,529 | \$ 1,159,649 | | \$ 15,771,076 | | |

As shown above, the Transit Fund's revenues are trending higher this year when compared with last year. As of September 30, 2022, 15.8% of budgeted revenues have been collected compared with 10.9% the year prior. On the expenditure side of the operation, 15.5% has been spent to date, compared with 18.8% the year prior. This will be examined in more detail in the subsequent section.

Transit - Operations

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|------------------------|--------------------------|-------------------|------------------------|--------------------------|-------------------|----------------------|-------------------------------|-------------------|
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ 335,927 | \$ 12,355 | 3.7% | \$ 93,337 | \$ 29,438 | 31.5% | \$ 117,752 | \$ 24,415 | 126.2% |
| Intergovernmental | \$ 15,726,295 | \$ 1,393,789 | 8.9% | \$ 29,427,908 | \$ 4,427,507 | 15.0% | \$ 29,744,099 | \$ 316,191 | 101.1% |
| Other Revenues | \$ 57,500 | \$ 2,850 | 5.0% | \$ 76,201 | \$ 2,467 | 3.2% | \$ 29,211 | \$ (46,990) | 38.3% |
| Charges for Services | \$ 13,582,473 | \$ 1,452,213 | 10.7% | \$ 12,635,254 | \$ 1,940,866 | 15.4% | \$ 9,969,050 | \$ (2,666,204) | 78.9% |
| Operating Transfers In | \$ 2,674,323 | \$ 673,929 | 25.2% | \$ 3,000,000 | \$ 756,000 | 25.2% | \$ 3,000,000 | \$ (0) | 100.0% |
| Total Revenues | \$ 32,376,518 | \$ 3,535,136 | 10.9% | \$ 45,232,700 | \$ 7,156,278 | 15.8% | \$ 42,860,111 | \$ (2,372,589) | 94.8% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ 20,306,659 | \$ 4,179,672 | 20.6% | \$ 20,758,100 | \$ 3,326,277 | 16.0% | \$ 14,314,145 | \$ 6,443,955 | 69.0% |
| Materials, Supplies & Maintenance | \$ 3,854,267 | \$ 394,931 | 10.2% | \$ 3,044,787 | \$ 244,971 | 8.0% | \$ 2,246,505 | \$ 798,282 | 73.8% |
| Materials Reimbursements | \$ - | \$ (4,789) | 0.0% | \$ (250,000) | \$ (198) | 0.1% | \$ (6,388) | \$ (243,612) | 2.6% |
| Parts, Fuel & Lubricants Inventory Purchases | \$ 961,440 | \$ 105,017 | 10.9% | \$ 990,283 | \$ 140,619 | 14.2% | \$ 977,787 | \$ 12,496 | 98.7% |
| Parts, Fuel & Lubricants Contra | \$ (961,440) | \$ (105,017) | 10.9% | \$ (990,283) | \$ (140,619) | 14.2% | \$ (977,787) | \$ (12,496) | 98.7% |
| Professional/Contract Services & Utilities | \$ 3,009,804 | \$ 194,062 | 6.4% | \$ 1,920,836 | \$ 324,926 | 16.9% | \$ 2,125,659 | \$ (204,823) | 110.7% |
| Training, Travel & Membership Dues | \$ 154,391 | \$ 20,402 | 13.2% | \$ 159,023 | \$ 25,000 | 15.7% | \$ 71,870 | \$ 87,153 | 45.2% |
| Depreciation and Amortization | \$ 4,514,089 | \$ 1,045,991 | 23.2% | \$ 5,414,089 | \$ 801,823 | 14.8% | \$ 3,207,290 | \$ 2,206,799 | 59.2% |
| Liabilities, Settlements & Insurance | \$ 211,300 | \$ 11,349 | 5.4% | \$ 217,639 | \$ 1,671 | 0.8% | \$ 35,299 | \$ 182,340 | 16.2% |
| Interdepartmental Charges | \$ 5,407,942 | \$ 1,441,264 | 26.7% | \$ 7,279,828 | \$ 1,402,321 | 19.3% | \$ 5,847,923 | \$ 1,431,905 | 80.3% |
| Capital Acquisitions | \$ - | \$ - | 0.0% | \$ - | \$ 1,034 | 0.0% | \$ - | \$ - | 0.0% |
| Asset Contra Account | \$ - | \$ (246,210) | 0.0% | \$ - | \$ (175,272) | 0.0% | \$ (851,137) | \$ 851,137 | 0.0% |
| Other Operating Transfers Out | \$ 58,800 | \$ 15,527 | 26.4% | \$ 97,869 | \$ 44,076 | 45.0% | \$ 97,869 | \$ (0) | 100.0% |
| Total Expenditures | \$ 37,517,252 | \$ 7,052,199 | 18.8% | \$ 38,642,171 | \$ 5,996,629 | 15.5% | \$ 27,089,036 | \$ 11,553,135 | 70.1% |
| Revenues Less Expenditures | \$ (5,140,734) | \$ (3,517,063) | | \$ 6,590,529 | \$ 1,159,649 | | \$ 15,771,076 | | |

As noted earlier, revenues are trending higher than the year prior with 15.8% of budgeted revenues received to date compared with 10.9% the year prior. This increase is driven by increase in the

Intergovernmental classification as well as increases in the Charges for Services classification. As shown above, year-to-date receipts in the Intergovernmental classification are up \$3.0 million due to increase in Transportation Development Act (TDA), Measure R, Measure M, and Prop C 40% TSE, and COVID grants. Transit has not collected State Transit Assistance (STA) and Senate Bill 1 (SB1) as of the September 30, 2022, cutoff. The projection for year-end assumes these funds will be received making it a timing difference. Additionally, the Charges for Services classification is showing an increase, though is suppressed below pre-pandemic levels. This classification has been suppressed due to no fares being charged for use of the service during the COVID-19 pandemic, which resumed starting January 2022. Typically, about \$585,000 would be collected by the First Quarter Report, or about \$2.5 million annually. This year, the Transit Department has collected about \$167,000 in passenger cash fares and \$40,000 in Transit Access Pass Revenue. Additionally, this year's projection includes \$2.25 million in the Federal Transit Administration (FTA) grant, which partially offset preventative maintenance costs, compared to \$4.5 million collection in the year prior.

As of this Budget Review Report, Federal Transit Administration grants for the Transit department have not been collected for the preceding three fiscal years (2019-20, 2020-21, 2021-22) in the total amount of \$11.5 million. Of these funds, approximately \$9.2 million would fund capital project activities and \$2.3 million would fund expansionary services related to the opening of the Mary K. Giordano Regional Transit Center (RTC).

Additionally, revenues for the Line 4 expansion totaling \$2.8 million for three years (2017-18, 2018-19, and 2019-20) for capital activities have not been received.

In total, **\$14.3 million remains uncollected** or not officially awarded. Of this amount, \$2.3 million would directly fund operations and \$12.0 million would fund capital projects.

The Transit Fund's expenditures are trending below budgeted levels with 15.5% spent year to date, compared with 18.8% the year prior. This is a result of reduced expenditures across most categories, with Salaries and Employee Benefits seeing the largest reduction. This is driven by the 65.8 FTE in projected vacancies for the department.

Overall, Transit's operating fund is projected to end the year with a \$15.8 million surplus, driven by additional COVID-19 funding from the federal level coupled with expenditure savings.

Water Fund

The Water Fund accounts for water fees received to support the City’s water system and for the maintenance and replacement of vehicles used within the Public Works Department. The City Council approved a series of annual water rate increases over a five year period starting in January 2018 through December 2022. Staff are currently working with a consultant to conduct another Prop 218 hearing process to establish a new rate structure for five years.

Water – Overall

| | 2021-22 | | | 2022-23 | | | Projected | | |
|---------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-------------------|-----------------|---------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Surplus / (Deficit) | Percent of Budget |
| Total Revenues | \$ 47,897,500 | \$ 9,517,688 | 19.9% | \$ 52,170,884 | \$ 10,515,977 | 20.2% | \$ 54,675,434 | \$ 2,504,550 | 104.8% |
| Total Expenditures | \$ 43,689,803 | \$ 13,160,752 | 30.1% | \$ 51,968,333 | \$ 14,687,397 | 28.3% | \$ 49,812,337 | \$ 2,155,996 | 95.9% |
| Rev Less Exp | \$ 4,207,697 | \$ (3,643,064) | | \$ 202,551 | \$ (4,171,420) | | \$ 4,863,096 | | |

As shown above, the Water Fund’s revenues have improved slightly when compared with the year prior. As of September 30, 2022, 20.2% of budgeted revenues have been collected compared with 19.9% the year prior. On the expenditure side of the operation, 28.3% has been spent to date, compared with 30.1% the year prior. These numbers will be examined in more detail in the subsequent sections as the high rate of expenditures is largely a function of transfers across funds within the overall Water operation related to capital projects funded at the beginning of the fiscal year.

Water – Operations

| | 2021-22 | | | 2022-23 | | | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|--|----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|-------------------------------|-------------------|
| | Amended Budget | September 2021-22 Actual | Percent of Budget | Amended Budget | September 2022-23 Actual | Percent of Budget | | | |
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ 675,000 | \$ 50,659 | 7.5% | \$ 675,000 | \$ 42,742 | 6.3% | \$ 674,901 | \$ (99) | 100.0% |
| Other Revenues | \$ 5,000 | \$ - | 0.0% | \$ 5,000 | \$ - | 0.0% | \$ - | \$ (5,000) | 0.0% |
| Charges for Services | \$ 46,978,000 | \$ 9,395,279 | 20.0% | \$ 51,098,504 | \$ 10,383,943 | 20.3% | \$ 53,678,137 | \$ 2,579,633 | 105.0% |
| Operating Transfers In | \$ - | \$ 3,273 | | \$ 14,468 | \$ 3,618 | 25.0% | \$ 14,476 | \$ 8 | 100.1% |
| Total Revenues | \$ 47,658,000 | \$ 9,449,211 | 19.8% | \$ 51,792,972 | \$ 10,430,303 | 20.1% | \$ 54,353,038 | \$ 2,574,542 | 104.9% |
| Expenditures | | | | | | | | | |
| Salaries and Employee Benefits | \$ 6,479,752 | \$ 1,354,527 | 20.9% | \$ 5,890,109 | \$ 1,172,706 | 19.9% | \$ 4,537,320 | \$ 1,352,789 | 77.0% |
| Salaries and Benefits Reimbursements | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Materials, Supplies & Maintenance | \$ 2,426,048 | \$ 428,131 | 17.6% | \$ 2,717,130 | \$ 406,905 | 15.0% | \$ 1,874,835 | \$ 842,295 | 69.0% |
| Materials Reimbursements | \$ - | \$ - | 0.0% | \$ 5,000 | \$ - | 0.0% | \$ - | \$ 5,000 | 0.0% |
| Parts, Fuel & Lubricants Inventory Purchases | \$ 550,000 | \$ 46,168 | 8.4% | \$ 566,500 | \$ 26,648 | 4.7% | \$ 225,628 | \$ 340,872 | 39.8% |
| Parts, Fuel & Lubricants Contra | \$ (550,000) | \$ (46,168) | 8.4% | \$ (566,500) | \$ (26,648) | 4.7% | \$ (225,628) | \$ (340,872) | 39.8% |
| Stored Water Rights Inventory Purchases | \$ 432,000 | \$ - | 0.0% | \$ 457,960 | \$ - | 0.0% | \$ 444,314 | \$ 13,646 | 97.0% |
| Stored Water Rights Contra | \$ (432,000) | \$ - | 0.0% | \$ (457,960) | \$ - | 0.0% | \$ (444,314) | \$ (13,646) | 97.0% |
| Professional/Contract Services & Utilities | \$ 1,517,250 | \$ 160,165 | 10.6% | \$ 1,793,024 | \$ 331,460 | 18.5% | \$ 1,468,590 | \$ 324,434 | 81.9% |
| Water Supply Costs | \$ 25,705,000 | \$ 6,491,296 | 25.3% | \$ 33,787,000 | \$ 8,070,636 | 23.9% | \$ 34,529,954 | \$ (742,954) | 102.2% |
| Training, Travel & Membership Dues | \$ 48,500 | \$ 1,872 | 3.9% | \$ 49,955 | \$ 2,059 | 4.1% | \$ 49,954 | \$ 1 | 100.0% |
| Depreciation and Amortization | \$ - | \$ - | 0.0% | \$ 130,000 | \$ 886 | 0.7% | \$ 3,546 | \$ 126,454 | 2.7% |
| Liabilities, Settlements & Insurance | \$ 45,125 | \$ 12,675 | 28.1% | \$ 91,479 | \$ 2,263 | 2.5% | \$ 91,479 | \$ 0 | 100.0% |
| Interdepartmental Charges | \$ 2,680,826 | \$ 616,857 | 23.0% | \$ 2,541,123 | \$ 584,104 | 23.0% | \$ 2,356,764 | \$ 184,359 | 92.7% |
| Debt Service | \$ 793,086 | \$ - | 0.0% | \$ 850,672 | \$ - | 0.0% | \$ 850,672 | \$ - | 100.0% |
| Debt Service Reimbursements | \$ (554,122) | \$ - | 0.0% | \$ (567,277) | \$ - | 0.0% | \$ (567,277) | \$ - | 100.0% |
| Capital Acquisitions | \$ 56,200 | \$ 24,820 | 44.2% | \$ 56,200 | \$ - | 0.0% | \$ - | \$ 56,200 | 0.0% |
| Asset Contra Account | \$ (56,200) | \$ (24,820) | 44.2% | \$ (56,200) | \$ - | 0.0% | \$ - | \$ (56,200) | 0.0% |
| Other Operating Transfers Out | \$ 4,255,168 | \$ 4,065,904 | 95.6% | \$ 4,386,948 | \$ 4,085,763 | 93.1% | \$ 4,343,048 | \$ 43,900 | 99.0% |
| Bad Debts and Other Losses | \$ 150,000 | \$ 11 | 0.0% | \$ 150,000 | \$ - | 0.0% | \$ 150,000 | \$ - | 100.0% |
| Total Expenditures | \$ 43,546,633 | \$ 13,131,438 | 30.2% | \$ 51,825,163 | \$ 14,656,782 | 28.3% | \$ 49,688,885 | \$ 2,136,278 | 95.9% |
| Revenues Less Expenditures | \$ 4,111,367 | \$ (3,682,227) | | \$ (32,191) | \$ (4,226,479) | | \$ 4,664,153 | | |

When examining the Water Fund's operating fund, we can better examine the core day-to-day operations. As shown above, revenue collection rates are trending slightly higher than the same period the year before. This is mainly due to a change in accounting related to a fixed facility charge to the Torrance Refining Company, which changed a historically recorded credit to expense as a revenue to the Fund (offset by the gross expenditure being recorded). To date, \$680,000 of a fixed facility charge has been recognized in current year, compared to \$0 the year prior. Controlling for this effect, Charges for Services revenue to date increased by \$308,000 from the year prior, mainly due to increase in the Refinery water sales, which was partially offset by the decrease in Metered Sales in residential/commercial areas. Overall, staff expect the total projected revenue to exceed budget by \$2.6 million due to the extraordinary increase in refinery production.

The Water Fund's operating expenditures to date are above budgeted levels. To date, 28.3% has been expended, compared with 30.2% the year prior. When examining actual expenditures year to year,

we see consistent spending overall comparing both years, except for Water Supply Costs, which increased by \$1.6 million from the year prior. This increase is mainly due to the aforementioned change in accounting related to a fixed facility charge, which is \$680,000 to date. Controlling for this effect, Water Supply Costs increased by \$920,000, mainly due to increase in Recycled Water Cost (driven by the increase in volume as well as unit price) and increase in Treated Water Cost (driven by the increase in unit price).

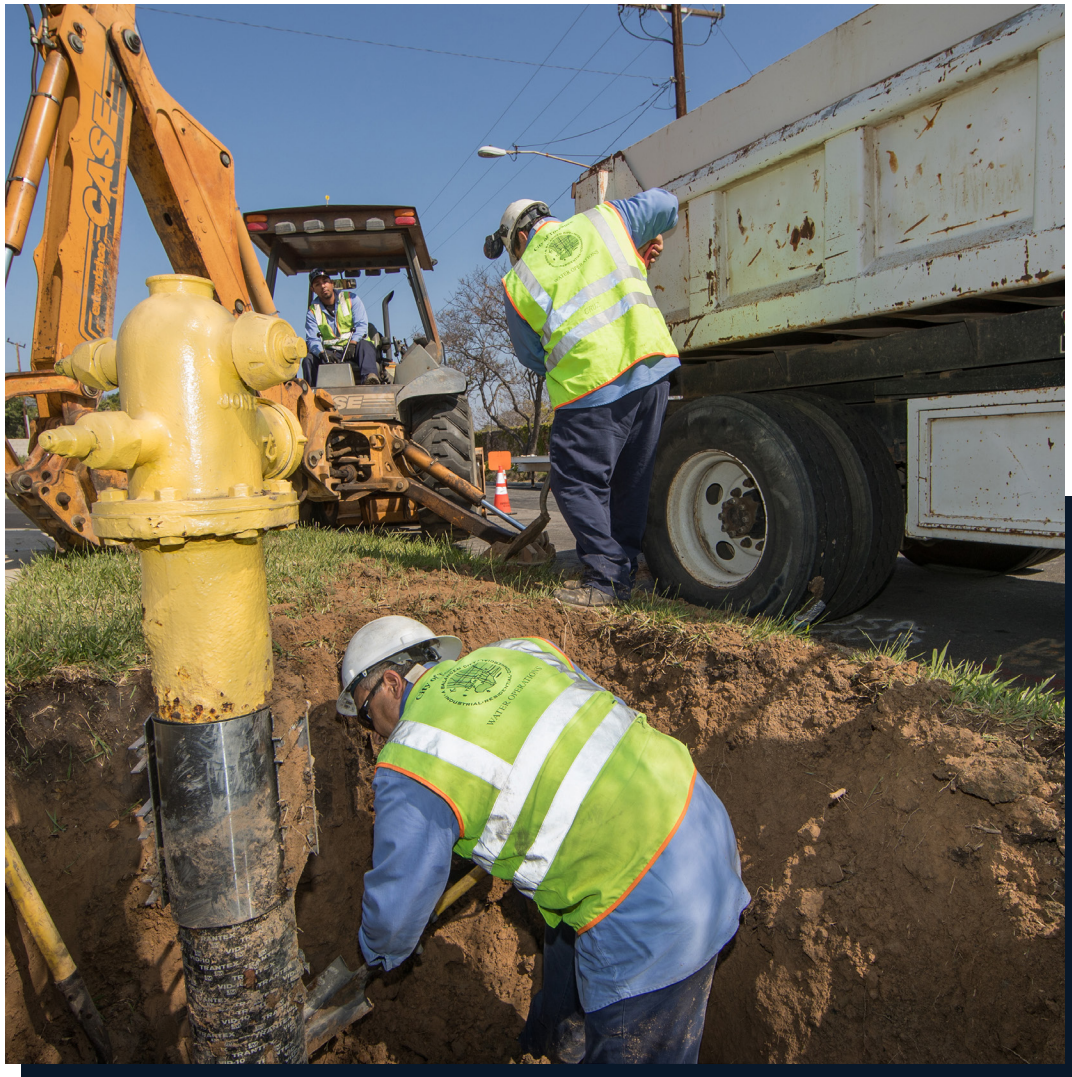
Overall, Water’s operating fund is projected to operate at a \$4.7 million surplus, driven by projected increases in operating revenues and overall expenditure savings.

Water – Replacement

| | 2021-22 Amended Budget | September 2021-22 Actual | Percent of Budget | 2022-23 Amended Budget | September 2022-23 Actual | Percent of Budget | Projected Total | Projected Surplus / (Deficit) | Percent of Budget |
|-----------------------------------|------------------------------|--------------------------------|-------------------------|------------------------------|--------------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|
| Revenues | | | | | | | | | |
| Use of Money and Property | \$ - | \$ 2,744 | 0.0% | \$ - | \$ 2,170 | 0.0% | \$ (11,622) | \$ (11,622) | 0.0% |
| Other Revenues | \$ - | \$ 3,750 | 0.0% | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% |
| Operating Transfers In | \$ 239,500 | \$ 61,983 | 25.9% | \$ 377,912 | \$ 83,504 | 22.1% | \$ 334,018 | \$ (43,894) | 88.4% |
| Total Revenues | \$ 239,500 | \$ 68,477 | 28.6% | \$ 377,912 | \$ 85,674 | 22.7% | \$ 322,396 | \$ (55,516) | 85.3% |
| Expenditures | | | | | | | | | |
| Depreciation and Amortization | \$ 143,170 | \$ 29,314 | 20.5% | \$ 143,170 | \$ 30,614 | 21.4% | \$ 123,453 | \$ 19,717 | 86.2% |
| Capital Acquisitions | \$ 400,000 | \$ - | 0.0% | \$ 400,000 | \$ - | 0.0% | \$ - | \$ 400,000 | 0.0% |
| Asset Contra Account | \$ (400,000) | \$ - | 0.0% | \$ (400,000) | \$ - | 0.0% | \$ - | \$ (400,000) | 0.0% |
| Total Expenditures | \$ 143,170 | \$ 29,314 | 20.5% | \$ 143,170 | \$ 30,614 | 21.4% | \$ 123,453 | \$ 19,717 | 86.2% |
| Revenues Less Expenditures | \$ 96,330 | \$ 39,163 | | \$ 234,742 | \$ 55,060 | | \$ 198,943 | | |

The Vehicle Replacement area of the Water Fund is responsible for receiving funds, generally, from Water Operations to purchase vehicles. It is also where assets are depreciated over their useful lives. As of this report, there are no vehicle purchases for the year.

FISCAL YEAR 2021-22 (UNAUDITED) RESULTS



FIRST QUARTER

BUDGET REVIEW REPORT

Fiscal Year 2021-22 (Unaudited) Results

This section provides citywide summary tables relating to Fiscal Year 2021-22 results. The Finance Department is currently undergoing its annual financial statement audit in preparation for the publication of the Annual Comprehensive Financial Report (Annual Report). The fiscal year 2021-22 Annual Report will be available by the end of calendar year 2022.

The table below summarizes, the unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Revenues:

| Revenues | 2020-21 | | | 2021-22 | | |
|--------------------------------------|-----------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| General Fund - Operating Fund | \$ 533,426,631 | \$ 566,798,016 | 106.3% | \$ 224,326,947 | \$ 247,019,456 | 110.1% |
| General Fund - Unassigned | \$ 7,710,000 | \$ 7,500,995 | 97.3% | \$ - | \$ - | 0.0% |
| General Fund - Rest/Assigned | \$ 2,155,777 | \$ 2,296,122 | 106.5% | \$ 4,012,349 | \$ 3,900,269 | 97.2% |
| General Fund - Total | \$ 543,292,408 | \$ 576,595,133 | 106.1% | \$ 228,339,296 | \$ 250,919,725 | 109.9% |
| Self Insurance | \$ 5,753,198 | \$ 14,068,155 | 244.5% | \$ 6,740,000 | \$ 23,575,399 | 349.8% |
| Fleet Services | \$ 8,597,905 | \$ 8,879,788 | 103.3% | \$ 6,067,803 | \$ 6,176,488 | 101.8% |
| Internal Service Fund - Total | \$ 14,351,103 | \$ 22,947,943 | 159.9% | \$ 12,807,803 | \$ 29,751,887 | 232.3% |
| Airport | \$ 14,890,368 | \$ 16,531,183 | 111.0% | \$ 14,999,188 | \$ 20,107,973 | 134.1% |
| Cultural Arts Center | \$ - | \$ 466,676 | 0.0% | \$ - | \$ - | 0.0% |
| Emergency Medical Services | \$ - | \$ 88,460 | 0.0% | \$ - | \$ - | 0.0% |
| Parks & Recreation | \$ - | \$ 2,679,273 | 0.0% | \$ - | \$ - | 0.0% |
| Sanitation | \$ 17,867,658 | \$ 18,217,039 | 102.0% | \$ 15,562,692 | \$ 17,818,177 | 114.5% |
| Sewer | \$ 7,983,059 | \$ 8,025,561 | 100.5% | \$ 6,439,225 | \$ 7,460,680 | 115.9% |
| Transit | \$ 37,617,878 | \$ 40,454,748 | 107.5% | \$ 32,376,518 | \$ 35,621,601 | 110.0% |
| Water | \$ 50,845,558 | \$ 53,785,443 | 105.8% | \$ 47,897,500 | \$ 51,617,762 | 107.8% |
| Enterprise Fund - Total | \$ 129,204,521 | \$ 140,248,383 | 108.5% | \$ 117,275,123 | \$ 132,626,193 | 113.1% |
| Total Revenues | \$ 686,848,032 | \$ 739,791,459 | 107.7% | \$ 358,422,222 | \$ 413,297,805 | 115.3% |

Included in Fiscal Year 2021-22 General Fund revenues is a one-time receipt of \$12.0 million in American Rescue Plan Act Funds (second and final payment) along with \$1.6 million received from the debt issued when purchasing ambulances for the Emergency Medical Transport Program (there is a 1 for 1 offset in one-time expenditures to purchase the vehicles with the debt proceeds).

Included in Fiscal Year 2020-21 revenues for all Funds was a one-time transfer from the City's Debt Service Fund as a source to pay down a large portion of the City's Unfunded Actuarial Liability. This transfer matches the additional payment made to CalPERS (except for the \$9.5 million utilized from the bond proceeds for the current year's payment noted below) and simply offsets the corresponding expenditure.

Additionally, in Fiscal Year 2020-21 there were multiple one-time sources noted below:

- Lease Revenue Bond: \$9,500,000
- CARES Act: \$1,797,078
- Closed Capital Projects: \$4,188,826
- Transit Transfer – RTC Land: \$4,744,194
- American Rescue Plan: \$12,037,139
- Total One-Time Sources \$32,267,237

The table below summarizes, the unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Expenditures:

| Expenditures | 2020-21 Amended Budget | June 2020-21 Actual | Percent of Budget | 2021-22 Amended Budget | June 2021-22 Actual | Percent of Budget | Projected Rev minus Exp |
|--------------------------------------|------------------------------|------------------------|----------------------|------------------------------|------------------------|----------------------|----------------------------|
| General Fund - Operating Fund | \$ 547,035,033 | \$ 543,474,045 | 99.3% | \$ 224,121,552 | \$ 223,993,424 | 99.9% | \$ 23,026,032 |
| General Fund - Unassigned | \$ 210,000 | \$ 10,397,177 | 4951.0% | \$ 146,776 | \$ 146,776 | 100.0% | \$ (146,776) |
| General Fund - Rest/Assigned | \$ 1,699,799 | \$ 835,961 | 49.2% | \$ 2,247,465 | \$ 1,335,765 | 59.4% | \$ 2,564,504 |
| General Fund - Total | \$ 548,944,832 | \$ 554,707,183 | 101.0% | \$ 226,515,793 | \$ 225,475,965 | 99.5% | \$25,443,760 |
| Self Insurance | \$ 10,471,711 | \$ 14,738,196 | 140.7% | \$ 21,295,549 | \$ 26,579,760 | 124.8% | \$ (3,004,361) |
| Fleet Services | \$ 9,032,901 | \$ 8,117,285 | 89.9% | \$ 5,695,388 | \$ 5,418,065 | 95.1% | \$ 758,423 |
| Internal Service Fund - Total | \$ 19,504,612 | \$ 22,855,481 | 117.2% | \$ 26,990,937 | \$ 31,997,825 | 118.6% | \$ (2,245,938) |
| Airport | \$ 15,529,253 | \$ 15,223,287 | 98.0% | \$ 16,437,136 | \$ 14,738,399 | 89.7% | \$ 5,369,574 |
| Cultural Arts Center | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - |
| Emergency Medical Services | \$ - | \$ - | 0.0% | \$ - | \$ - | 0.0% | \$ - |
| Parks & Recreation | \$ - | \$ 1,360,683 | 0.0% | \$ - | \$ - | 0.0% | \$ - |
| Sanitation | \$ 17,833,650 | \$ 17,652,162 | 99.0% | \$ 14,831,824 | \$ 16,075,488 | 108.4% | \$ 1,742,689 |
| Sewer | \$ 8,364,010 | \$ 8,060,773 | 96.4% | \$ 7,270,851 | \$ 7,255,005 | 99.8% | \$ 205,675 |
| Transit | \$ 40,930,526 | \$ 37,765,206 | 92.3% | \$ 37,475,511 | \$ 27,424,121 | 73.2% | \$ 8,197,480 |
| Water | \$ 47,839,868 | \$ 46,866,042 | 98.0% | \$ 46,467,503 | \$ 44,797,978 | 96.4% | \$ 6,819,784 |
| Enterprise Fund - Total | \$ 130,497,307 | \$ 126,928,153 | 97.3% | \$ 122,482,825 | \$ 110,290,991 | 90.0% | \$22,335,202 |
| Total Expenditures | \$ 698,946,751 | \$ 704,490,817 | 100.8% | \$ 375,989,555 | \$ 367,764,781 | 97.8% | \$45,533,024 |
| Revenues Less Expenditures | \$ (12,098,719) | \$ 35,300,642 | | \$ (17,567,333) | \$ 45,533,024 | | |

The table below summarizes the General Fund Operating Fund unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Revenues and Expenditures (broken down by revenue type and department):

| Revenues | 2020-21 | | | 2021-22 | | |
|-----------------------------------|------------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Taxes | \$ 165,058,392 | \$ 170,625,939 | 103.4% | \$ 175,114,158 | \$ 192,071,618 | 109.7% |
| Licenses, Fees and Permits | \$ 4,438,905 | \$ 4,305,857 | 97.0% | \$ 4,575,836 | \$ 5,299,398 | 115.8% |
| Fines, Forfeitures and Penalties | \$ 712,000 | \$ 648,759 | 91.1% | \$ 742,003 | \$ 740,948 | 99.9% |
| Use of Money and Property | \$ 4,107,858 | \$ 2,035,499 | 49.6% | \$ 2,123,339 | \$ 1,333,834 | 62.8% |
| Intergovernmental | \$ 438,604 | \$ 351,755 | 80.2% | \$ 471,344 | \$ 598,758 | 127.0% |
| Other Revenues | \$ 807,879 | \$ 14,403,628 | 1782.9% | \$ 12,523,290 | \$ 12,727,547 | 101.6% |
| Charges for Services | \$ 14,862,721 | \$ 10,701,209 | 72.0% | \$ 16,454,206 | \$ 19,058,438 | 115.8% |
| Operating Transfers In | \$ 343,000,272 | \$ 363,725,370 | 106.0% | \$ 12,322,771 | \$ 13,628,387 | 110.6% |
| Other Financing Sources | \$ - | \$ - | 0.0% | \$ - | \$ 1,560,528 | 0.0% |
| Total Revenues | \$ 533,426,631 | \$ 566,798,016 | 106.3% | \$ 224,326,947 | \$ 247,019,456 | 110.1% |
| Expenditures | 2020-21 | | | 2021-22 | | |
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Council | \$ 588,073 | \$ 484,093 | 82.3% | \$ 392,095 | \$ 390,767 | 99.7% |
| City Manager | \$ 8,135,260 | \$ 7,686,987 | 94.5% | \$ 5,149,552 | \$ 5,142,705 | 99.9% |
| City Attorney | \$ 4,682,440 | \$ 4,675,147 | 99.8% | \$ 2,574,293 | \$ 2,557,846 | 99.4% |
| City Clerk | \$ 1,735,988 | \$ 1,717,814 | 99.0% | \$ 1,667,073 | \$ 1,661,122 | 99.6% |
| City Treasurer | \$ 585,633 | \$ 579,323 | 98.9% | \$ 306,017 | \$ 304,785 | 99.6% |
| Finance | \$ 9,660,021 | \$ 9,201,970 | 95.3% | \$ 5,223,572 | \$ 5,217,200 | 99.9% |
| Human Resources | \$ 2,932,265 | \$ 2,841,997 | 96.9% | \$ 1,808,751 | \$ 1,800,664 | 99.6% |
| Civil Service | \$ 985,229 | \$ 915,161 | 92.9% | \$ 538,794 | \$ 537,116 | 99.7% |
| Community Development | \$ 15,981,349 | \$ 15,972,756 | 99.9% | \$ 7,530,072 | \$ 7,525,887 | 99.9% |
| CIT | \$ 9,912,016 | \$ 9,632,101 | 97.2% | \$ 7,650,829 | \$ 7,640,299 | 99.9% |
| General Services | \$ 10,495,546 | \$ 10,137,885 | 96.6% | \$ 8,589,503 | \$ 8,581,550 | 99.9% |
| Non-Departmental | \$ 18,463,556 | \$ 17,877,381 | 96.8% | \$ 11,719,925 | \$ 11,704,739 | 99.9% |
| Police | \$ 262,698,575 | \$ 262,256,436 | 99.8% | \$ 85,011,719 | \$ 85,006,138 | 100.0% |
| Fire | \$ 149,797,024 | \$ 149,654,245 | 99.9% | \$ 52,497,241 | \$ 52,490,598 | 100.0% |
| Public Works | \$ 18,416,904 | \$ 18,157,102 | 98.6% | \$ 12,781,775 | \$ 12,763,675 | 99.9% |
| Community Services | \$ 31,965,154 | \$ 31,683,647 | 99.1% | \$ 20,680,341 | \$ 20,668,333 | 99.9% |
| Total Expenditures | \$ 547,035,033 | \$ 543,474,045 | 99.3% | \$ 224,121,552 | \$ 223,993,424 | 99.9% |
| Revenues Less Expenditures | \$ (13,608,402) | \$ 23,323,971 | | \$ 205,395 | \$ 23,026,032 | |

The table below summarizes the General Fund Operating Fund unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Tax Revenues:

| Revenues | 2020-21 | | | 2021-22 | | |
|-----------------------|-----------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Sales and Use Tax | \$ 48,442,800 | \$ 54,756,028 | 113.0% | \$ 55,261,835 | \$ 63,634,583 | 115.2% |
| Property Tax | \$ 40,423,401 | \$ 40,891,279 | 101.2% | \$ 42,701,064 | \$ 42,087,215 | 98.6% |
| Property Transfer Tax | \$ 769,000 | \$ 1,005,082 | 130.7% | \$ 1,000,000 | \$ 1,412,032 | 141.2% |
| VLF Swap & Repayment | \$ 15,787,000 | \$ 15,631,754 | 99.0% | \$ 16,130,707 | \$ 16,131,699 | 100.0% |
| Utility Users Tax | \$ 30,330,998 | \$ 32,521,999 | 107.2% | \$ 32,926,251 | \$ 37,379,435 | 113.5% |
| Business License Tax | \$ 9,209,896 | \$ 9,210,348 | 100.0% | \$ 9,179,377 | \$ 9,514,438 | 103.7% |
| Occupancy Tax | \$ 10,016,297 | \$ 6,031,651 | 60.2% | \$ 7,119,224 | \$ 10,275,248 | 144.3% |
| Franchise Tax | \$ 7,634,100 | \$ 8,668,584 | 113.6% | \$ 8,930,800 | \$ 9,226,855 | 103.3% |
| Construction Tax | \$ 2,437,400 | \$ 1,902,424 | 78.1% | \$ 1,857,400 | \$ 2,401,910 | 129.3% |
| Oil Severance Tax | \$ 7,500 | \$ 6,790 | 90.5% | \$ 7,500 | \$ 8,203 | 109.4% |
| Total Revenues | \$ 165,058,392 | \$ 170,625,939 | 103.4% | \$ 175,114,158 | \$ 192,071,618 | 109.7% |

The table below summarizes for the General Fund Operating Fund the unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Utility Users Tax Revenues:

| Revenues | 2020-21 | | | 2021-22 | | |
|-----------------------|----------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Electricity | \$ 12,967,133 | \$ 14,858,149 | 114.6% | \$ 15,114,624 | \$ 17,096,441 | 113.1% |
| Gas | \$ 2,700,077 | \$ 3,815,319 | 141.3% | \$ 4,050,989 | \$ 4,429,206 | 109.3% |
| Refinery: Co-gen | \$ 967,608 | \$ 877,568 | 90.7% | \$ 553,259 | \$ 581,580 | 105.1% |
| Refinery: Gas | \$ 4,801,548 | \$ 3,897,948 | 81.2% | \$ 5,221,642 | \$ 6,004,803 | 115.0% |
| Water | \$ 2,484,198 | \$ 3,606,414 | 145.2% | \$ 2,927,471 | \$ 3,780,966 | 129.2% |
| Cable | \$ 1,652,418 | \$ 1,683,538 | 101.9% | \$ 1,848,936 | \$ 1,738,884 | 94.0% |
| Cellular | \$ 1,980,385 | \$ 1,057,511 | 53.4% | \$ 1,010,492 | \$ 1,122,572 | 111.1% |
| Telecom | \$ 2,777,631 | \$ 2,725,552 | 98.1% | \$ 2,198,838 | \$ 2,624,983 | 119.4% |
| Total Revenues | \$ 30,330,998 | \$32,521,999 | 107.2% | \$32,926,251 | \$37,379,435 | 113.5% |

The table below summarizes for the General Fund Operating Fund the unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for Charges for Services Revenues:

| Revenues | 2019-20 Amended | | | 2020-21 Amended | | |
|-----------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Budget | June 2019-20 Actual | Percent of Budget | Budget | June 2020-21 Actual | Percent of Budget |
| City Manager | 205,000 | 128,356 | 62.6% | 130,000 | 225,894 | 173.8% |
| City Clerk | 10,994 | 5,756 | 52.4% | 24,236 | 9,888 | 40.8% |
| Community Development | 3,593,985 | 4,759,976 | 132.4% | 4,053,469 | 5,125,144 | 126.4% |
| General Services | 1,255,723 | 84,899 | 6.8% | 635,896 | 874,461 | 137.5% |
| Non-Departmental | 13,828 | 15,639 | 113.1% | 30,585 | 16,452 | 53.8% |
| Police | 454,367 | 240,658 | 53.0% | 259,370 | 279,573 | 107.8% |
| Fire | 3,316,161 | 3,397,471 | 102.5% | 7,783,935 | 8,089,610 | 103.9% |
| Public Works | 176,930 | 215,950 | 122.1% | 231,930 | 225,507 | 97.2% |
| Community Services | 5,835,733 | 1,852,503 | 31.7% | 3,304,785 | 4,211,909 | 127.4% |
| Total Revenues | 14,862,721 | 10,701,208 | 72.0% | 16,454,206 | 19,058,438 | 115.8% |

The table below summarizes the General Fund Operating Fund unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for **Salaries & Employee Benefits** Expenditures broken down by Department:

| Expenditures | 2020-21 | | | 2021-22 | | |
|---------------------------|-----------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Council | \$ 104,021 | \$ 103,738 | 99.7% | \$ 92,980 | \$ 92,650 | 99.6% |
| City Manager | \$ 7,036,836 | \$ 6,958,033 | 98.9% | \$ 4,351,058 | \$ 4,441,230 | 102.1% |
| City Attorney | \$ 4,367,839 | \$ 4,371,730 | 100.1% | \$ 2,268,778 | \$ 2,267,384 | 99.9% |
| City Clerk | \$ 1,575,806 | \$ 1,575,298 | 100.0% | \$ 868,358 | \$ 858,611 | 98.9% |
| City Treasurer | \$ 541,721 | \$ 541,051 | 99.9% | \$ 281,900 | \$ 281,723 | 99.9% |
| Finance | \$ 7,834,605 | \$ 7,617,504 | 97.2% | \$ 3,564,901 | \$ 3,562,412 | 99.9% |
| Human Resources | \$ 2,185,366 | \$ 2,184,438 | 100.0% | \$ 1,091,634 | \$ 1,098,297 | 100.6% |
| Civil Service | \$ 849,595 | \$ 863,444 | 101.6% | \$ 481,999 | \$ 495,243 | 102.7% |
| Community Development | \$ 14,900,696 | \$ 14,900,355 | 100.0% | \$ 6,824,704 | \$ 6,822,791 | 100.0% |
| CIT | \$ 9,068,996 | \$ 8,993,554 | 99.2% | \$ 5,919,400 | \$ 5,912,815 | 99.9% |
| General Services | \$ 8,496,032 | \$ 8,733,899 | 102.8% | \$ 5,878,996 | \$ 5,873,470 | 99.9% |
| Non-Departmental | \$ (322,095) | \$ 167,436 | -52.0% | \$ 81,500 | \$ 115,656 | 141.9% |
| Police | \$ 256,463,182 | \$ 256,237,930 | 99.9% | \$ 77,617,725 | \$ 77,482,736 | 99.8% |
| Fire | \$ 146,456,064 | \$ 146,417,908 | 100.0% | \$ 48,221,843 | \$ 46,716,531 | 96.9% |
| Public Works | \$ 13,404,018 | \$ 13,911,962 | 103.8% | \$ 6,844,209 | \$ 6,850,540 | 100.1% |
| Community Services | \$ 26,140,254 | \$ 26,041,919 | 99.6% | \$ 14,575,563 | \$ 14,567,000 | 99.9% |
| Total Expenditures | \$ 499,102,936 | \$ 499,620,199 | 100.1% | \$ 178,965,548 | \$ 177,439,089 | 99.1% |

Note: In Fiscal Year 2020-21 the General Fund Operating Fund had a one-time expenditure of \$319,371,518 related to the 2020 Lease Revenue Bond proceeds to pay its Unfunded Actuarial Liability.

The table below summarizes the General Fund Operating Fund unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for **Materials (non-wage)** Expenditures broken down by Department:

| Expenditures | 2020-21 | | Percent of Budget | 2021-22 | | Percent of Budget |
|---------------------------|----------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | | Amended Budget | June 2021-22 Actual | |
| Council | \$ 484,052 | \$ 380,355 | 78.6% | \$ 299,115 | \$ 298,117 | 99.7% |
| City Manager | \$ 1,098,424 | \$ 728,954 | 66.4% | \$ 798,494 | \$ 701,475 | 87.8% |
| City Attorney | \$ 314,601 | \$ 303,417 | 96.4% | \$ 305,515 | \$ 290,462 | 95.1% |
| City Clerk | \$ 160,182 | \$ 142,516 | 89.0% | \$ 798,715 | \$ 802,511 | 100.5% |
| City Treasurer | \$ 43,912 | \$ 38,272 | 87.2% | \$ 24,117 | \$ 23,062 | 95.6% |
| Finance | \$ 1,825,416 | \$ 1,584,466 | 86.8% | \$ 1,658,671 | \$ 1,654,788 | 99.8% |
| Human Resources | \$ 746,899 | \$ 657,559 | 88.0% | \$ 717,117 | \$ 702,367 | 97.9% |
| Civil Service | \$ 135,634 | \$ 51,717 | 38.1% | \$ 56,795 | \$ 41,873 | 73.7% |
| Community Development | \$ 1,080,653 | \$ 1,072,401 | 99.2% | \$ 705,368 | \$ 703,096 | 99.7% |
| CIT | \$ 843,020 | \$ 638,547 | 75.7% | \$ 1,731,429 | \$ 1,727,484 | 99.8% |
| General Services | \$ 1,999,514 | \$ 1,403,986 | 70.2% | \$ 2,710,507 | \$ 2,708,080 | 99.9% |
| Non-Departmental | \$ 18,785,651 | \$ 17,709,945 | 94.3% | \$ 11,638,425 | \$ 11,589,083 | 99.6% |
| Police | \$ 6,235,393 | \$ 6,018,506 | 96.5% | \$ 7,393,994 | \$ 7,523,402 | 101.8% |
| Fire | \$ 3,340,960 | \$ 3,236,337 | 96.9% | \$ 4,275,398 | \$ 5,774,067 | 135.1% |
| Public Works | \$ 5,012,886 | \$ 4,245,140 | 84.7% | \$ 5,937,566 | \$ 5,913,135 | 99.6% |
| Community Services | \$ 5,824,900 | \$ 5,641,728 | 96.9% | \$ 6,104,778 | \$ 6,101,333 | 99.9% |
| | | | | | | |
| Total Expenditures | \$ 47,932,097 | \$43,853,846 | 91.5% | \$45,156,004 | \$46,554,335 | 103.1% |

The table below summarizes the General Fund Operating Fund unaudited results for Fiscal Year 2021-22 compared with Fiscal Year 2020-21 for All Expenditures broken down by Expense Type:

| Expenditures | 2020-21 | | | 2021-22 | | |
|--|--------------------|---------------------|-------------------|--------------------|---------------------|-------------------|
| | Amended Budget | June 2020-21 Actual | Percent of Budget | Amended Budget | June 2021-22 Actual | Percent of Budget |
| Salaries and Employee Benefits | 515,879,987 | 506,983,879 | 98.3% | 179,503,853 | 178,895,239 | 99.7% |
| Salaries and Benefits Reimbursements | (16,777,050) | (7,363,682) | 43.9% | (538,305) | (1,456,150) | 270.5% |
| Reimbursements-Indirect Costs | (7,573,211) | (7,610,489) | 100.5% | (7,947,803) | (7,114,694) | 89.5% |
| Materials, Supplies & Maintenance | 12,438,446 | 10,728,193 | 86.3% | 12,549,704 | 12,167,680 | 97.0% |
| Materials Reimbursements | (3,158,121) | (3,061,504) | 96.9% | (761,712) | (767,891) | 100.8% |
| Professional/Contract Services & Utilities | 11,832,563 | 10,463,792 | 88.4% | 13,799,641 | 14,294,910 | 103.6% |
| Training, Travel & Membership Dues | 875,002 | 569,434 | 65.1% | 934,785 | 854,259 | 91.4% |
| Depreciation and Amortization | 998 | - | 0.0% | - | - | 0.0% |
| Liabilities, Settlements & Insurance | 1,438,863 | 1,174,726 | 81.6% | 618,340 | 500,358 | 80.9% |
| Interdepartmental Charges | 5,495,226 | 5,495,226 | 100.0% | 5,394,653 | 5,394,653 | 100.0% |
| Debt Service | 2,065,616 | 2,048,047 | 99.1% | 1,249,644 | 1,491,730 | 119.4% |
| Other Expenditures | 109,440 | 4,781 | 4.4% | - | - | 0.0% |
| Capital Acquisitions | 506,366 | 389,899 | 77.0% | 838,175 | 2,090,644 | 249.4% |
| Other Operating Transfers Out | 23,899,910 | 23,651,525 | 99.0% | 18,479,576 | 17,642,635 | 95.5% |
| Bad Debts and Other Losses | 1,000 | 216 | 21.6% | 1,000 | 51 | 5.1% |
| Total Expenditures | 547,035,035 | 543,474,043 | 99.3% | 224,121,551 | 223,993,424 | 99.9% |

Note: In Fiscal Year 2020-21 the General Fund Operating Fund had a one-time expenditure of \$319,371,518 related to the 2020 Lease Revenue Bond proceeds to pay its Unfunded Actuarial Liability.

INVESTMENT SUMMARY



FIRST QUARTER

BUDGET REVIEW REPORT

Investment Summary

Investment Summary

As of June 30, 2022 the ending balance of total funds was \$228,878,942, which included investments per portfolio of \$142,240,196 and cash in bank of \$86,638,746. The effective rate of return for the portfolio was 0.89% fiscal year-to-date compared to 1.38% in the previous year. During the fiscal year 2021-22, 25 securities were redeemed (matured or called) and 9 securities were purchased. When compared to the benchmark of the 1-year and 2-year United States (“US”) Constant Maturing Treasury (CMT) yields at 2.80% and 2.92%, respectively, the City’s effective rate of return for fiscal year to date is 0.92%.

As of September 30, 2022 the ending balance of total funds was \$217,701,007, which included investments per portfolio of \$142,462,145 and cash in bank of \$75,238,862. The effective rate of return for the portfolio was 1.280% fiscal year-to-date compared to 0.87% a year ago. For the first quarter of fiscal year 2022-23, 7 securities were redeemed (matured) and no securities were purchased. When compared to the benchmark of the 1-year and 2-year US CMT yields at 4.05% and 4.22%, respectively, the City’s effective rate of return for fiscal year to date is 1.28%.

Market Portfolio Snapshot

| | June 2021 | Sept 2021 | June 2022 | Sept 2022 |
|---|----------------|---------------|----------------|---------------|
| Book Value | \$ 136,728,185 | \$113,931,433 | \$ 142,240,196 | \$142,462,145 |
| Market Value | \$137,689,276 | \$114,655,518 | \$139,939,867 | \$138,955,445 |
| Effective Rate of Return (fiscal year to date) | 1.38% | 0.87% | 0.89% | 1.28% |
| Days to Maturity | 349 Days | 377 Days | 349 Days | 313 Days |

Market Conditions/Investment Forecast

Inflation surged to above 8 percent in late 2021, far above the Federal Reserve’s target of 2%, and remains elevated through 2022, at the highest level since 1981, due to combination of strong demand and restrained supply in the markets for goods, services, and labors. Its pace since mid-2021 has been the fastest in four decades. High inflation continues to create challenges for both consumers and businesses, as unemployment fell sharply over that period. To contain inflationary pressures, the Federal Reserve has continued to aggressively raise the rates counting six hikes so far in 2022 with current target range of 3.75% to 4.00%, highest level since 2008 from between 0% and 0.25% at the start of the year; and suggesting more rate hikes are coming, taking the federal funds rate to range of 4.25% to 4.50% by the end of 2022 and 4.50% to 4.75% by the end of 2023. The Fed still expects inflation to fall towards its 2% target over the next few years.

| Federal Reserve Meeting | Action Taken | Fed Fund Rate |
|--------------------------------|---------------------|----------------------|
| November 2, 2022 | +75 basis points | 3.75% - 4.00% |
| September 21, 2022 | +75 basis points | 3.00% - 3.25% |
| July 27, 2022 | +75 basis points | 2.25% - 2.50% |
| June 16, 2022 | +75 basis points | 1.50% - 1.75% |
| May 5, 2022 | +50 basis points | 0.75% - 1.00% |
| March 17, 2022 | +25 basis points | 0.25% - 0.50% |

During the quarter, the yield of the 1-year Treasury note increased to 4.05% and the 5-year notes increased to 4.06%. The Local Agency Investment Fund (LAIF) daily rate increased from 1.09% to 1.513% during the quarter.

It is projected that by the end of 2022, inflation will fall to 5% range, 3% and 2% range in 2023 and 2024, respectively. It is projected that the unemployment rate will also rise from its current 3.7% to 4.4% by the end of 2023. The markets also expect the Fed to ease rate hike policy starting next spring, as there are concerns that aggressive hikes from the Fed could possibly trigger a deeper recession.

Compliance

The City is in compliance with California Government Code Section 53646 which requires local agencies to report its ability to meet pooled expenditure requirements for the next six (6) months. Throughout fiscal year 2021-22 and through the first quarter of fiscal year 2022-23, cash, cash equivalents (LAIF) and inflows exceeded cash outflows. Over the next six months, the City anticipates large cash inflows consisting of property tax and business license tax receipts typically received December through February and April through May.

Investment Strategy

To be consistent with the City's objectives, the City's funds are invested in high-quality money market instruments and government securities, with a maximum maturity of five years. The City has made 9 purchases of investments during fiscal year 2021-22, as the interest rates began to rise. At this time LAIF interest rate also showed steady upward movement. In addition, to meet the City's large payment obligations, the City continued to invest the majority of its funds into LAIF, as LAIF is liquid and readily available. As the City anticipates large cash inflows from December through February and April through May, staff will continue to monitor interest rates of both fixed income investments and LAIF and fully invest idle funds possible while continuing to meet the City's cash flow needs.

In Q2 of FY 2022-23 the City will make large purchases investing in higher yield securities. In October 2022, a total par value of \$69.4 million of securities was purchased with yields above 4%. As we

continue to see rates increase across the yield curve, the City of Torrance's portfolio will gain higher returns over the coming quarters.