



MID-YEAR **FY 2022 - 2023**
BUDGET REVIEW REPORT

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EXECUTIVE SUMMARY



MID-YEAR

BUDGET REVIEW REPORT

Executive Summary

Introduction

The purpose of the Fiscal Year 2022-23 Mid-Year Budget Review Report is to provide City Council and the public with a summary of the City’s overall financial performance for the first six months ending December 31, 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 December 31st.

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.

Citywide Mid-Year Results

As of December 31, 2022, across **all** funds (General Fund, Internal Service, and Enterprise), the City realized revenues of \$187.1 million and expenditures of \$205.3 million, achieving 41.9% and 46.7% of annual budget, respectively. During the same period in the prior year ending December 31, 2021, the City realized \$142.9 million of revenues, representing 39.9% of annual budget and expended \$176.2 million, or 48.2% of the annual prior year expenditure budget.

The following two tables summarize:

- 1) Revenues received as of December 31, 2022 compared to December 31, 2021 (broken down by General Fund, Internal Service Funds, and Enterprise Funds; and
- 2) Expenditures as of December 31, 2022 compared to December 31, 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		Percent of Budget	2022-23		Percent of Budget	Projected Actual
	Amended Budget	December 2021-22 Actual		Amended Budget	December 2022-23 Actual		
General Fund - Operating Fund	\$ 224,326,947	\$ 80,934,080	36.1%	\$ 258,539,114	\$ 100,968,077	39.1%	\$ 273,729,780
General Fund - Measure SST Fund	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 2,163,065	16.0%	\$ 17,575,521
General Fund - Rest/Assigned	\$ 4,012,274	\$ 3,536,748	88.1%	\$ 5,444,841	\$ 3,660,670	67.2%	\$ 5,542,559
General Fund - Unassigned	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -
General Fund - Total	\$ 228,339,221	\$ 84,470,828	37.0%	\$ 277,483,955	\$ 106,791,812	38.5%	\$ 296,847,860
Self Insurance	\$ 6,740,000	\$ 4,780,466	70.9%	\$ 17,347,600	\$ 10,588,530	61.0%	\$ 26,177,060
Fleet Services	\$ 6,067,803	\$ 3,179,215	52.4%	\$ 9,628,182	\$ 4,142,469	43.0%	\$ 17,869,319
Internal Service Fund - Total	\$ 12,807,803	\$ 7,959,681	62.1%	\$ 26,975,782	\$ 14,730,999	54.6%	\$ 44,046,379
Airport	\$ 14,999,188	\$ 7,213,842	48.1%	\$ 23,264,106	\$ 14,420,570	62.0%	\$ 23,032,773
Sanitation	\$ 15,562,692	\$ 6,038,925	38.8%	\$ 15,680,878	\$ 5,997,172	38.2%	\$ 20,758,354
Sewer	\$ 6,439,225	\$ 2,585,470	40.2%	\$ 6,165,910	\$ 2,466,082	40.0%	\$ 7,089,546
Transit	\$ 32,376,518	\$ 12,595,539	38.9%	\$ 45,232,700	\$ 18,171,379	40.2%	\$ 43,082,197
Water	\$ 47,897,500	\$ 22,046,288	46.0%	\$ 52,170,884	\$ 24,550,433	47.1%	\$ 56,636,902
Enterprise Fund - Total	\$ 117,275,123	\$ 50,480,064	43.0%	\$ 142,514,478	\$ 65,605,635	46.0%	\$ 150,599,773
Total Revenues	\$ 358,422,147	\$ 142,910,573	39.9%	\$ 446,974,215	\$ 187,128,446	41.9%	\$ 491,494,012

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

Expenditures	2021-22		Percent of Budget	2022-23		Percent of Budget	Projected Actual	Projected Rev minus Exp
	Amended Budget	December 2021-22 Actual		Amended Budget	December 2022-23 Actual			
General Fund - Operating Fund	\$ 224,138,476	\$ 109,269,479	48.8%	\$ 255,646,063	\$ 125,172,146	49.0%	\$ 260,172,795	\$ 13,556,985
General Fund - Measure SST Fund	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 6,569,747	48.7%	\$ 17,575,521	\$ -
General Fund - Rest/Assigned	\$ 2,088,880	\$ 1,557,521	74.6%	\$ 1,500,354	\$ 652,133	43.5%	\$ 2,446,868	\$ 3,095,691
General Fund - Unassigned	\$ 146,776	\$ 146,776	100.0%	\$ -	\$ -	0.0%	\$ -	\$ -
General Fund - Total	\$ 226,374,132	\$ 110,973,776	49.0%	\$ 270,646,417	\$ 132,394,026	48.9%	\$ 280,195,184	\$ 16,652,676
Self Insurance	\$ 12,353,059	\$ 7,542,330	61.1%	\$ 25,634,485	\$ 8,770,396	34.2%	\$ 17,199,953	\$ 8,977,108
Fleet Services	\$ 6,655,930	\$ 3,210,053	48.2%	\$ 6,907,859	\$ 2,716,005	39.3%	\$ 5,482,798	\$ 12,386,521
Internal Service Fund - Total	\$ 19,008,989	\$ 10,752,383	56.6%	\$ 32,542,344	\$ 11,486,401	35.3%	\$ 22,682,751	\$ 21,363,629
Airport	\$ 15,787,136	\$ 6,841,050	43.3%	\$ 23,457,753	\$ 15,531,885	66.2%	\$ 22,901,561	\$ 131,212
Sanitation	\$ 16,135,499	\$ 6,897,446	42.7%	\$ 15,866,751	\$ 6,457,602	40.7%	\$ 14,274,489	\$ 6,483,865
Sewer	\$ 7,270,851	\$ 3,999,125	55.0%	\$ 6,175,601	\$ 3,085,766	50.0%	\$ 5,053,942	\$ 2,035,605
Transit	\$ 37,517,253	\$ 13,639,919	36.4%	\$ 38,642,171	\$ 12,507,880	32.4%	\$ 26,739,796	\$ 16,342,401
Water	\$ 43,692,503	\$ 23,090,801	52.8%	\$ 52,114,173	\$ 23,832,906	45.7%	\$ 50,382,644	\$ 6,254,258
Enterprise Fund - Total	\$ 120,403,242	\$ 54,468,341	45.2%	\$ 136,256,449	\$ 61,416,039	45.1%	\$ 119,352,432	\$ 31,247,341
Total Expenditures	\$ 365,786,363	\$ 176,194,500	48.2%	\$ 439,445,210	\$ 205,296,465	46.7%	\$ 422,230,367	\$ 69,263,645
Revenues Less Expenditures	\$ (7,364,216)	\$ (33,283,927)		\$ 7,529,005	\$ (18,168,019)		\$ 69,263,645	

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 **\$13.6 million** projected additional available funding primarily driven by revenues exceeding budget of \$15.2 million and a planned addition to unassigned fund balance of \$3.1 million from Measure SST and a currently projected expenditure deficit of about \$4.5 million (before the recommended budget increase of \$8.0 million);
 - **General Fund – Measure SST Fund** will **break even**; as a result of a recommended increase in transfers out to further rebuild the General Fund Unassigned fund balance by \$3.7 million more than budgeted (total contribution to fund balance increase of \$6.8 million).
 - **General Fund - Restricted/Assigned** will operate at a **\$3.1 million** projected additional available funding primarily driven by the City’s contribution to the CEPPT Fund of approximately \$2.0 million, contributions to various replacement funds for future purchase, and a transfer out of \$1.5 million from the Fire Apparatus Replacement Fund to the City’s Fleet Services Fund to consolidate those replacement funds with all others in Fleet Services (maintains consistency);
 - **Self-Insurance Fund** will operate at a **\$9.0 million** projected additional available funding as a result of a significant one-time contribution (\$9.0 million);
 - **Fleet Services Fund** will operate at a **\$12.4 million** projected additional available funding primarily driven by additional contributions to the City’s Fleet Services Replacement fund (\$6.5 million) for future vehicle purchases, consolidation of the Fire Apparatus Replacement Fund, as well as a contribution from General Fund to address the negative cash balance in the Fleet Operations Fund (\$5.9 million);
 - **Enterprise Funds** will operate at an overall **\$31.2 million** projected additional available funding led by Sanitation, Water and Transit (\$5.0 million one-time transfer into Sanitation to replenish FISCAL YEAR2017-18 legal settlement; \$11.3 million in revenues for Transit Fund due to one-time grant funding, \$9.0 million of vacancy savings).

The forthcoming sections will detail the above results, with particular focus on the General Fund Operating Fund, which constitutes 94.4% of the General Fund Budget and 58.2% 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 Mid-Year Results

As of December 31, 2022, the General Fund Operating Fund realized revenues of \$101.0 million and expenditures of \$125.2 million, achieving 39.1% and 49.0% of annual budget, respectively. During the same period in the prior year ending December 31, 2021, the City realized \$80.9 million of revenues, representing 36.1% of annual budget and expended \$109.3 million, or 48.8% of the annual

prior year expenditure budget. At the end of Fiscal Year 2022-23, it is projected that revenues will exceed expenditures by \$13.6 million.

General Fund Operating Fund Revenue and Expenditure Summary

	2021-22 Amended Budget	December 2021- 22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022- 23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 224,326,947	\$ 80,934,080	36.1%	\$ 258,539,114	\$ 100,968,077	39.1%	\$ 273,729,780	\$ 15,190,666	105.9%
Total Expenditures	\$ 224,138,476	\$ 109,269,479	48.8%	\$ 255,646,063	\$ 125,172,146	49.0%	\$ 260,172,795	\$ (4,526,732)	101.8%
Rev Less Expenditures	\$ 188,471	\$ (28,335,399)		\$ 2,893,051	\$ (24,204,069)		\$ 13,556,985		
Fund Bal Dec/(Increase)	\$ (188,471)			\$ (2,893,051)			\$ (13,556,985)		
Net Budget Balance	\$ -			\$ -			\$ -		

As shown above, it is projected that General Fund Operating Fund revenues will exceed budget by nearly **\$15.2 million**, which is mainly driven by increases in the **Taxes, Operating Transfers In** and **Charges for Services** classifications, and partially offset by reductions in **Other Revenues** and **Intergovernmental** classifications.

On the expenditure side of the General Fund Operating Fund Budget, it is projected that expenditures will exceed budget by \$4.5 million due to the following recommended transfers: a one-time transfer from the General Fund to the Self-Insurance Fund of \$9.0 million to assist in addressing the fund balance in this area of Focus, an \$8.0 million transfer to resolve a previously highlighted Area of Focus in the Fleet Services Fund, and a \$5.0 million transfer to Sanitation to replenish the fund for a Fiscal Year 2017-18 legal settlement that had previously been funded there at the time. After controlling for these one-time transfers, the General Fund Operating Fund would be expected to generate a **\$17.5 million expenditure surplus**. This is primarily the direct result of departmental vacancies across the General Fund. As of December 31, 2022, the General Fund had 169.7 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, however has found the labor market extremely challenging. With the significant number of vacancies, coupled with the trend in retirements and resignations, staff is working hard to address these gaps with many recruitments underway.

To leverage the additional unanticipated budget savings, staff is recommending multiple budget adjustments in the General Fund Operating Fund to further rebuild the unassigned fund balance (reserves) and resolve a previously highlighted Area of Focus in the Fleet Services Fund.

Staff continue to explore opportunities to adjust staffing levels and program delivery, with the following Program Modifications recommended for approval. Additional details are included in the **Program Modifications** section of this book.

#	Department	Proposed Modification	Fiscal Impact	Source	Note
1	Fire	Add 6.0 FTE Ambulance Operators; market adjustment to Ambulance Operator pay grid; add three 10% Field Training Officer premiums for Ambulance Operator; purchase additional used Ambulance	\$ 713,086	General Fund	Offset by additional net revenues to Fire Department
2	General Services	Delete 1.0 Facilities Operations Attendant, Delete 1.0 Office Assistant and Add 1.0 Storekeeper	\$ (20,710)	Non-General Fund	
		Total Proposed Amendments	\$ 692,376	Net Cost / (Savings)	
		Total General Fund Impact	\$ 713,086	Net Cost / (Savings)	
		Total Non-General Fund Impact	\$ (20,710)	Net Cost / (Savings)	

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 represent about 63% of the total budget. Including business license and occupancy taxes, these five revenue sources make up approximately 71% 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).

General Fund Operating Fund Revenue by Classification

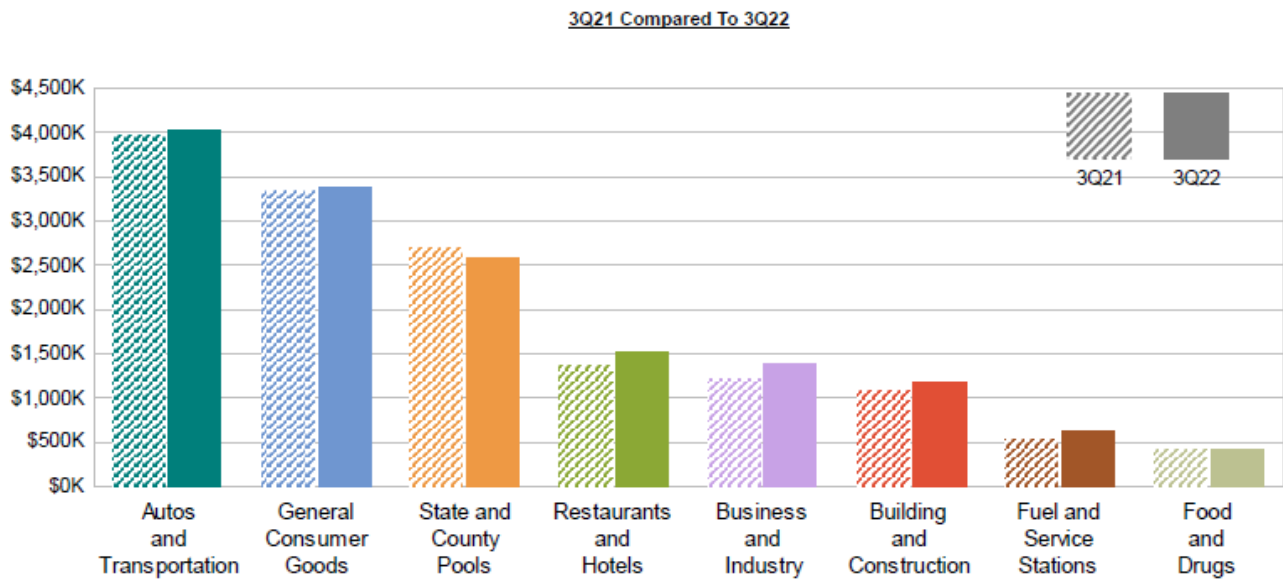
Revenues	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Taxes	\$ 175,114,158	\$ 61,131,440	34.9%	\$ 194,836,318	\$ 65,578,463	33.7%	\$ 203,684,397	\$ 8,848,079	104.5%
Licenses, Fees & Permits	\$ 4,575,836	\$ 2,403,545	52.5%	\$ 4,767,606	\$ 2,542,427	53.3%	\$ 5,605,609	\$ 838,003	117.6%
Fines, Forfeitures & Penalties	\$ 742,003	\$ 241,089	32.5%	\$ 735,144	\$ 241,470	32.8%	\$ 742,119	\$ 6,975	100.9%
Use of Money and Property	\$ 2,123,339	\$ 1,285,628	60.5%	\$ 3,200,594	\$ 2,408,704	75.3%	\$ 4,263,400	\$ 1,062,806	133.2%
Intergovernmental	\$ 471,344	\$ 176,048	37.4%	\$ 559,241	\$ 100,746	18.0%	\$ 342,648	\$ (216,593)	61.3%
Other Revenues	\$ 12,523,290	\$ 171,983	1.4%	\$ 505,598	\$ 130,879	25.9%	\$ 259,629	\$ (245,969)	51.4%
Charges for Services	\$ 16,454,206	\$ 9,094,173	55.3%	\$ 19,724,668	\$ 10,587,576	53.7%	\$ 21,703,294	\$ 1,978,626	110.0%
Operating Transfers In	\$ 12,322,771	\$ 6,430,174	52.2%	\$ 34,209,945	\$ 19,377,812	56.6%	\$ 37,128,685	\$ 2,918,740	108.5%
Other Financing Sources	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 224,326,947	\$ 80,934,080	36.1%	\$ 258,539,114	\$ 100,968,077	39.1%	\$ 273,729,780	\$ 15,190,666	105.9%

Sales & Use Tax

Sales tax receipts of \$21.2 million for the first six months are tracking above prior year actuals by \$754,000, or 3.7% higher. Staff expects the projected annual amounts to exceed the budget by \$719,000, for a total of \$64.7 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 anticipates a 1.6% growth rate on those latest

results. As of the latest available data from the California Department of Tax & Fee Administration (CDTFA), sales tax revenues are experiencing an increase in all significant categories, with the exception of State and County Pools (3.6% reduction). The categories with the largest growth are Business and Industry (13.6%), Restaurants and Hotels (11.5%), and Building and Construction (8.1%). Overall, for the third calendar quarter of 2022, receipts are up 3.3% when comparing to the year prior.

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



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 again to a range of 4.50-4.75% as of February 2023. The federal policy to slow inflation will slow short-term borrowing and can affect automobile sales and other broader economic activity. The December 2022 year-over-year change in Consumer Price Index for All Urban Consumers (CPI-U) for the Los Angeles area was 4.9%, which has improved in recent months. 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

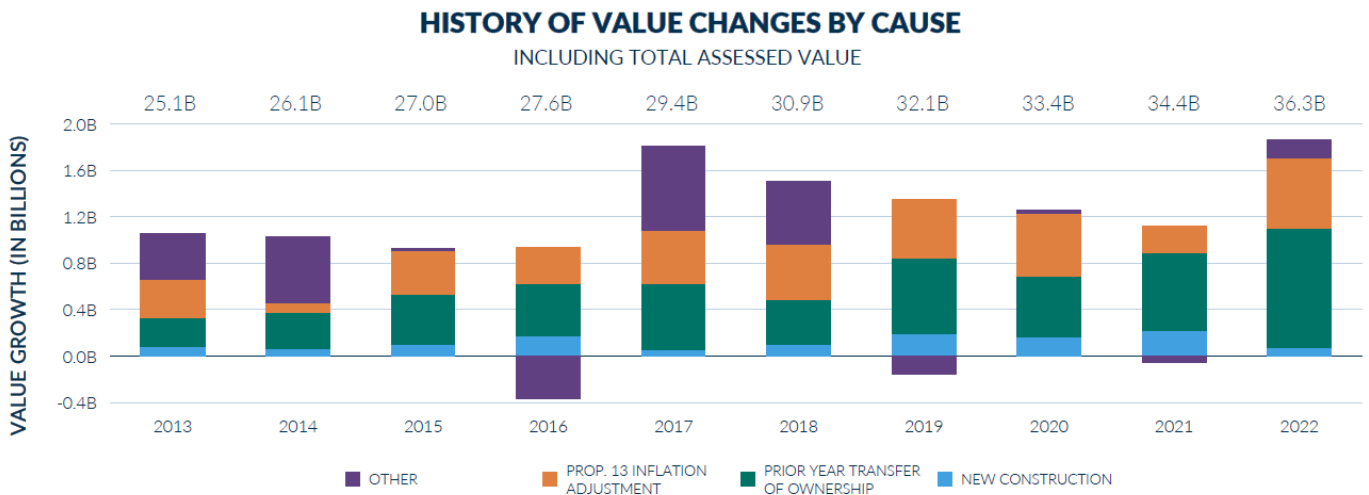
Property tax revenues are primarily received in December and April each year. As of December 31, 2022, property tax receipts (across all three areas) of \$18.6 million are up about 3.5% compared to

last year. Presently, the City projects that total year-end revenue will exceed budget by \$215,000 across the three categories, or 0.3% higher than budget. 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



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%. Staff are closely monitoring activity in 2022, which experienced an increase of 5.05% in Q1 2022, a 9.3% increase in Q2 2022, and a drop of 12.8% in Q3 2022. This drop was directly correlated to the interest rate hikes implemented by the Federal Reserve. However, since that time, data for Q4 2022 show that prices have already stabilized with a 0.4% increase in that quarter over the previous quarter. This trend will be monitored closely as 2022 sales volume and activity will affect the secured and unsecured rolls for Fiscal Year 2023-24.

The largest notable assessed value changes 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 \$1.7 million, or 10.7%. Overall, the increase was mainly due to UUT collected from electricity and gas (most notably at the Refinery), offset by declines in Cable, Cellular, and Telecom. 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 \$4.9 million, or 13.1%.

Other Major Revenue Sources

Other major revenue sources of the General Fund include business license tax, whose receipts will mostly 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 December 31, 2022, the City has received \$3.8 million, an increase of \$770,000 compared to December 31, 2021.

Based on information from data and analytics company STR, LLC, the average occupancy rate for the first six months ending in December increased from an average of 78.0% in 2021 to 81.8% in 2022. Additionally, the average daily rate per room increased by \$13.50 during this same period. The City projects occupancy tax to exceed budget by about 10.9%. If these estimates are realized, Fiscal Year 2022-23 will be the first year this classification has exceeded pre-pandemic levels (\$11.6 million).

General Fund Operating Fund Expenditure Analysis

As of December 31, 2022, the General Fund Operating Fund expended \$125.2 million, or 49.0% of annual budget, an increase of \$15.9 million (14.6%) from the prior year.

General Fund Operating Fund by Department

Expenditures	2021-22 Amended Budget	December 2021- 22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022- 23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Council	\$ 417,157	\$ 211,600	50.7%	\$ 428,713	\$ 249,903	58.3%	\$ 398,926	\$ 29,787	93.1%
City Manager	\$ 5,334,638	\$ 2,522,058	47.3%	\$ 6,134,097	\$ 2,896,311	47.2%	\$ 5,795,470	\$ 338,627	94.5%
City Attorney	\$ 2,674,293	\$ 1,262,473	47.2%	\$ 2,815,838	\$ 1,267,135	45.0%	\$ 2,749,718	\$ 66,120	97.7%
City Clerk	\$ 1,427,073	\$ 472,222	33.1%	\$ 1,074,052	\$ 463,065	43.1%	\$ 990,127	\$ 83,925	92.2%
City Treasurer	\$ 356,017	\$ 158,969	44.7%	\$ 364,841	\$ 123,319	33.8%	\$ 299,475	\$ 65,366	82.1%
Finance	\$ 6,193,572	\$ 2,431,951	39.3%	\$ 5,989,884	\$ 2,329,346	38.9%	\$ 5,460,226	\$ 529,658	91.2%
Human Resources	\$ 2,043,751	\$ 822,195	40.2%	\$ 2,192,036	\$ 983,912	44.9%	\$ 2,093,057	\$ 98,979	95.5%
Civil Service	\$ 598,794	\$ 276,595	46.2%	\$ 629,901	\$ 320,235	50.8%	\$ 603,350	\$ 26,551	95.8%
Community Development	\$ 8,730,072	\$ 3,855,756	44.2%	\$ 9,815,615	\$ 3,890,250	39.6%	\$ 8,846,378	\$ 969,237	90.1%
CIT	\$ 8,500,829	\$ 3,768,964	44.3%	\$ 8,951,621	\$ 3,963,370	44.3%	\$ 7,339,206	\$ 1,612,415	82.0%
General Services	\$ 9,659,503	\$ 3,861,325	40.0%	\$ 10,142,744	\$ 4,280,945	42.2%	\$ 9,273,741	\$ 869,003	91.4%
Non-Departmental	\$ 530,413	\$ 5,022,902	947.0%	\$ 13,910,722	\$ 16,507,073	118.7%	\$ 34,063,253	\$ (20,152,531)	244.9%
Police	\$ 89,031,719	\$ 43,038,374	48.3%	\$ 94,207,613	\$ 42,682,530	45.3%	\$ 87,172,672	\$ 7,034,941	92.5%
Fire	\$ 52,247,241	\$ 25,148,084	48.1%	\$ 56,420,842	\$ 27,363,622	48.5%	\$ 56,961,265	\$ (540,423)	101.0%
Public Works	\$ 13,131,775	\$ 6,250,268	47.6%	\$ 18,179,445	\$ 7,558,381	41.6%	\$ 16,352,370	\$ 1,827,075	89.9%
Community Services	\$ 23,261,629	\$ 10,165,743	43.7%	\$ 24,388,099	\$ 10,292,749	42.2%	\$ 21,773,560	\$ 2,614,539	89.3%
Total Expenditures	\$ 224,138,476	\$ 109,269,479	48.8%	\$ 255,646,063	\$ 125,172,146	49.0%	\$ 260,172,795	\$ (4,526,732)	101.8%

The General Fund's increase in expenditures to date is primarily driven by increases in the Non-Departmental area, which has increased \$11.5 million. This is driven by reduced indirect reimbursements from vacancies in various enterprise funds (\$567,000), increased debt service payments (\$1.8 million), additional contributions to capital projects (\$4.2 million), increased replacement fund contributions (\$1.4 million), increased transfers to the Self Insurance Fund (\$2.0 million), 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 \$2.2 million. This is driven mainly by increased Self-Insurance allocations along with general growth in wages and materials expenditures.

As mentioned earlier in this report, projections include the following recommended transfers: a one-time transfer from the General Fund to the Self-Insurance Fund of \$9.0 million to assist in addressing the fund balance in this area of Focus, an \$8.0 million transfer to resolve a previously highlighted Area of Focus in the Fleet Services Fund, and a \$5.0 million transfer to Sanitation to replenish the fund for a Fiscal Year 2017-18 legal settlement that had previously been funded there at the time. A recommended budget increase of \$8.0 million is being proposed in this Mid-Year Budget Review Report to allow for these transfers to occur. After controlling for these additional transfers, the expenditure budget would be projected to end the fiscal year with an \$17.5 million surplus, which is largely driven by vacancies. As shown below, there are 169.7 full-time equivalent (FTE) vacancies related to the General Fund Operating Fund, which translates to an estimated \$13.0 million in annualized savings.

Below is a summary status of vacancy levels, as of December 31, 2022:

Department	General Fund	Enterprise Funds	Internal Service Funds	Total (All Funds)	General Fund	Enterprise Funds	Internal Service Funds	Total (All Funds)
City Council	-	-	-	-	\$ -	\$ -	\$ -	\$ -
City Manager	-	-	-	-	\$ -	\$ -	\$ -	\$ -
City Attorney	-	-	-	-	\$ -	\$ -	\$ -	\$ -
City Clerk	1.0	-	-	1.0	\$ 43,553	\$ -	\$ -	\$ 43,553
City Treasurer	-	-	-	-	\$ 56,835	\$ -	\$ -	\$ 56,835
Finance	4.0	-	4.0	8.0	\$ 476,172	\$ -	\$ 302,630	\$ 778,801
Human Resources	2.0	-	-	2.0	\$ 191,315	\$ -	\$ -	\$ 191,315
Civil Service	-	-	-	-	\$ (4,236)	\$ -	\$ -	\$ (4,236)
Community Development	10.4	0.8	-	11.3	\$ 766,704	\$ 64,704	\$ -	\$ 831,408
CIT	10.0	-	-	10.0	\$ 958,668	\$ -	\$ -	\$ 958,668
General Services	9.5	-	10.7	20.2	\$ 527,882	\$ -	\$ 549,030	\$ 1,076,912
Non-Departmental	-	-	-	-	\$ -	\$ -	\$ -	\$ -
Public Works	18.7	24.5	-	43.2	\$ 853,615	\$ 2,080,563	\$ -	\$ 2,934,178
Community Services	23.0	-	-	23.0	\$ 1,841,439	\$ -	\$ -	\$ 1,841,439
Transit	-	83.0	-	83.0	\$ -	\$ 6,900,836	\$ -	\$ 6,900,836
Subtotal Misc Depts	78.7	108.3	14.7	201.7	\$ 5,711,947	\$ 9,046,103	\$ 851,660	\$ 15,609,710
Police	67.0	-	-	67.0	\$ 7,777,034	\$ -	\$ -	\$ 7,777,034
Fire	24.0	-	-	24.0	\$ (489,898)	\$ -	\$ -	\$ (489,898)
Subtotal Public Safety	91.0	-	-	91.0	\$ 7,287,136	\$ -	\$ -	\$ 7,287,136
Total Citywide Vacancies	169.7	108.3	14.7	292.7	\$ 12,999,083	\$ 9,046,103	\$ 851,660	\$ 22,896,846

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 **\$8.0 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, the fund balance is (-\$62.2) million. This is driven by existing outstanding liabilities in workers' compensation of \$49.7 million and Liability Claims of \$22.3 million. As of June 30, 2022, the cash balance in this fund stands at only \$14.8 million.

Given the aforementioned trends, an additional transfer of \$9.0 million is included in the General Fund expenditure projection as a contribution to the Self Insurance Fund. It is projected that Self-Insurance fund balance will increase \$9.0 million, but this is largely driven due to deferring an actuarial study by one year. In recent years, the City obtained an actuarial study annually (only legally required every 3 years), which prompted expenditures at fiscal year-end due to increasing liabilities. With the transition of workers' compensation claims partially shifting to a third party administrator (TPA) in Fiscal Year 2022-23, staff will be delaying the year-end actuarial study to Fiscal Year 2023-24, to allow for workers' compensation claims to be "trued-up" before the next actuarial study. 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, the fund balance was (-\$5.8) million. In Fiscal Year 2022-23, labor rates were increased by 85% to address the structural imbalance, which has proven effective in the latest projections. Based on the latest revenue trends, staff are recommending a budget amendment for the General Fund to correct this negative balance in Fiscal Year 2022-23 by transferring \$6.0 million to this fund.

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 \$2.0 million. Based on the latest revenue trends, staff are recommending a budget amendment for the General Fund to correct this negative balance in Fiscal Year 2022-23 by transferring \$2.0 million to this fund.

In total, \$8.0 million will be transferred into this fund, and will resolve both areas of focus in the Fleet Fund. Staff will monitor these balances each year and adjust accordingly keeping this off the Areas of Focus listing.

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:

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 has a cash balance of \$33.7 million. This represents a small portion of the City’s pooled cash utilized for investments during 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 61.6% 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 for Fiscal Year 2021-22 totaled \$44.7 million. This represents approximately 20.0% 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 nine months of operating costs, which translates to 75%, or \$191.7 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 six months of operating costs, which translates to 50%, or \$127.8 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 December 2022, 220 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			6-months
	2020	2021	2022	2023
Retirements	42	57	72	43
Voluntary Resignations	46	42	133	60
Departures or Death	11	11	13	10
	99	110	218	113

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. Three of the miscellaneous groups (TCEA, 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 months 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. At the November 15, 2022 City Council meeting, City Council approved an item which provides the necessary funding for General Services to 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 Fiscal Year 2026-27 to up to \$21 million in Fiscal Year 2031-32. 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 Fiscal Year 2026-27. The assumptions used in the 10-Year forecast will be refreshed semi-annually to use the most recent returns data from CalPERS.

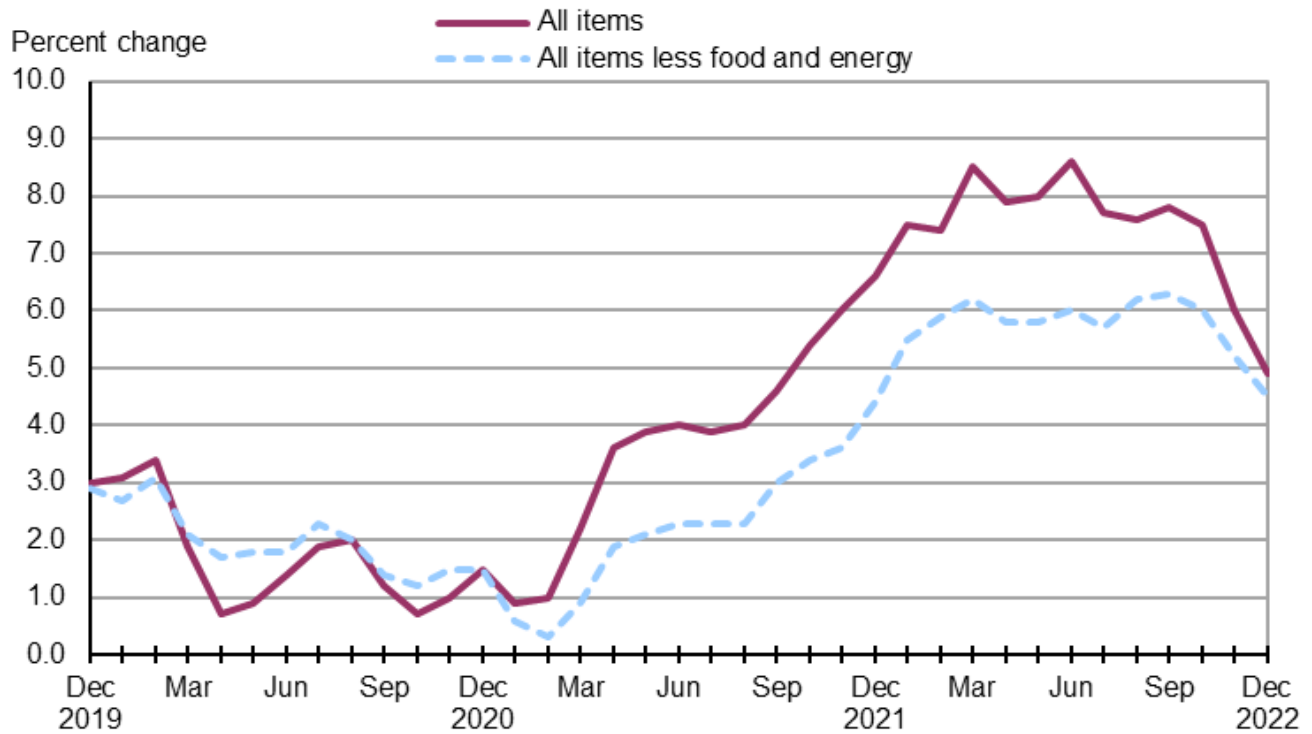
Economic Outlook

Consumer Price Index (Inflation)

During the COVID-19 pandemic peak, the Federal Reserve lowered interest rates to near zero in an effort to incentivize economic activity as much as possible. As a result of this action, and as vaccinations became widely available allowing restrictions to be lifted, this sparked high levels of economic activity. As economic activity returned and supply chains were challenged keeping pace with the demand, this had an adverse effect on the inflation rate (Consumer Price Index; CPI). The CPI-U tracks cost increase of goods, with the chart below more specifically focusing on our local region. As seen below, during 2021 and into 2022, the CPI-U climbed to a peak of 8.6% in June 2022. As a result of the federal funds rate increases, this has had a positive effect slowing economic activity and returning CPI to more "normal" levels reaching 4.9% as of December 2022. This will be closely

monitored along with all other economic indicators to ensure projections weigh all factors. The full detail for the last three years can be seen below:

Chart 1. Over-the-year percent change in CPI-U, Los Angeles-Long Beach-Anaheim, CA, December 2019–December 2022



Source: U.S. Bureau of Labor Statistics.

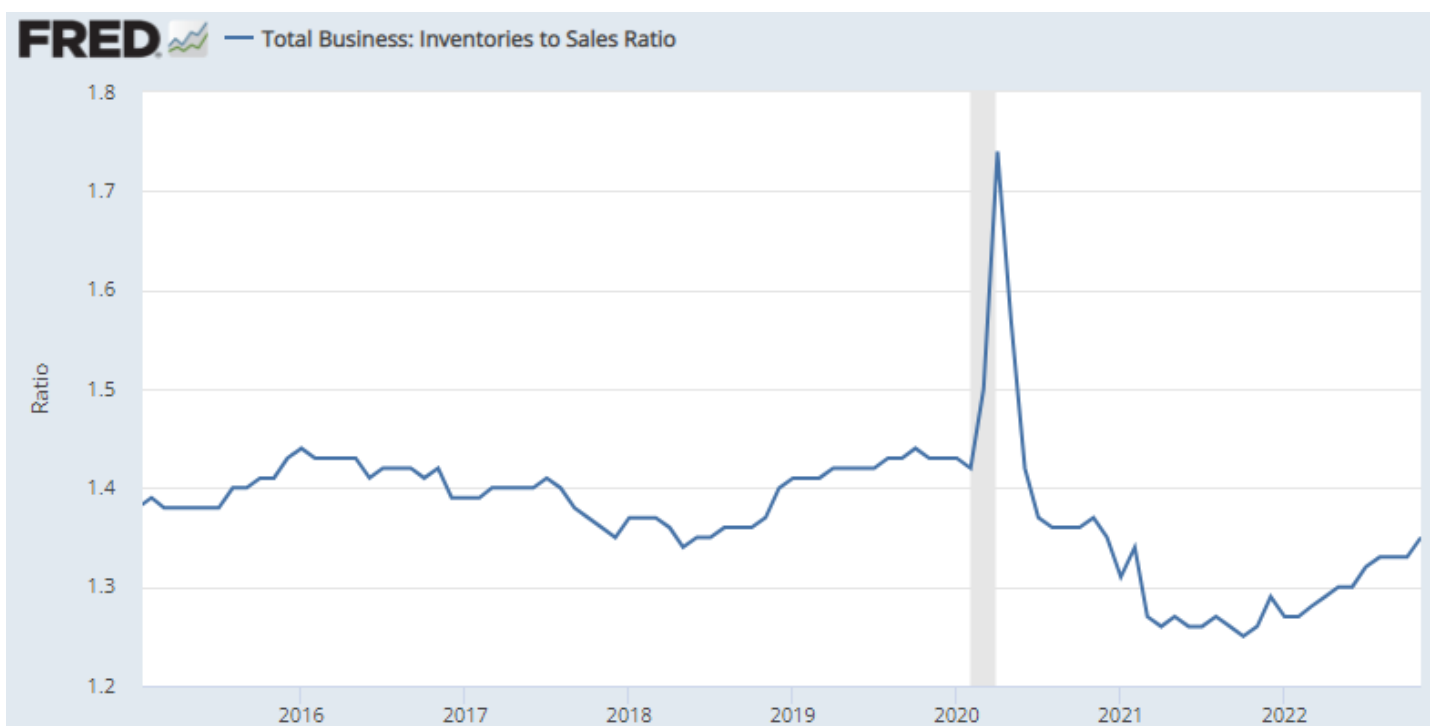
Federal Funds Rate

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 the cost of investment for business as well as the cost of home ownership. We witnessed these actions affect home sales prices in Torrance during calendar Q3 2022 though have since seen prices stabilize in calendar Q4 2022, as explained later in this document. Below is a summary of the actions taken during 2022 and so far in 2023:

Federal Reserve Meeting	Action Taken	Fed Fund Rate
February 1, 2023	+25 basis points	4.50% - 4.75%
December 14, 2022	+50 basis points	4.25% - 4.50%
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 1.25 in October 2021, which has had an impact on price of goods and overall inflation rates. Since that time, the balance has improved and begun to return to pre-pandemic levels as of the period ending November 2022 at 1.35. 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 still lower than the 5-year average (2015-2019) of 1.40.



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 3.7% 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, 1.9% in the third quarter, and 1.0% in the fourth quarter. The increase in the second, third, and fourth 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 February 10, 2023, the Automobile Club of America (AAA) quotes the national average for fuel prices at \$3.43 per gallon, with California coming in at \$4.63 per gallon.

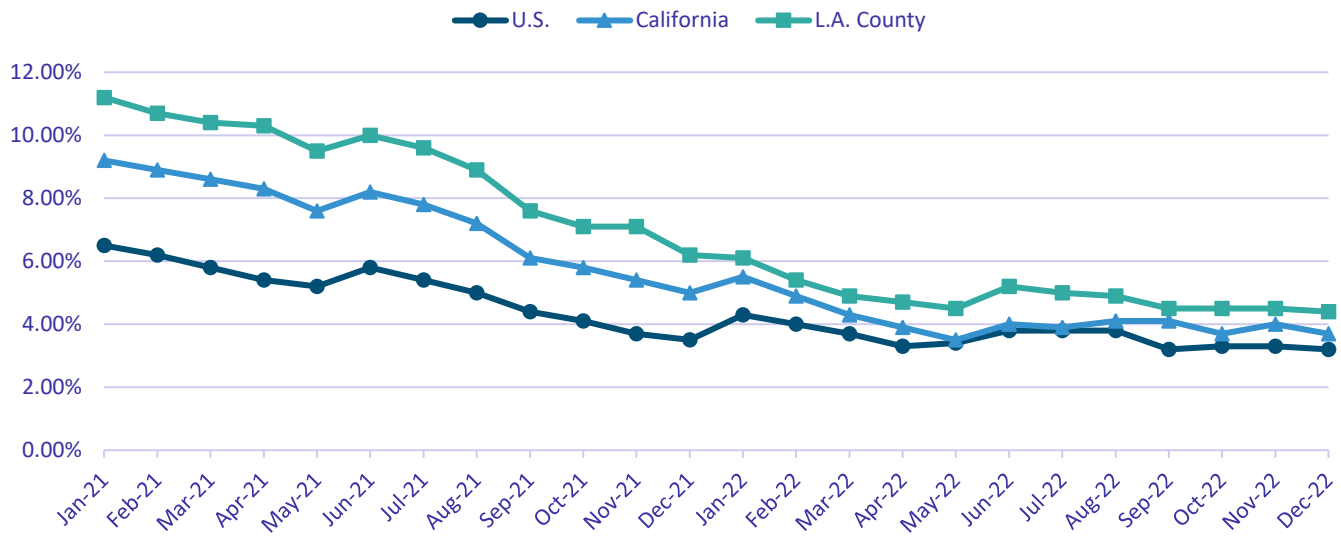


Source: Bureau of Economic Analysis

Labor Market

As of December 2022, the U.S. unemployment rate was 3.2%, California was 3.7%, and Los Angeles (L.A.) County was 4.4%. As shown in the chart below, the December 2022 unemployment figures are at record lows. Recessionary factors have already placed pressure on companies to implement layoffs which will likely increase 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.

Unemployment Rate



Source: California Center for Jobs & The Economy

Similar to National, State, and County results, we see that the local unemployment rates are very favorable. In Torrance, as of Q4 2022, unemployment sits at 3.4%. This is more favorable than our surrounding cities are shown in the below table:

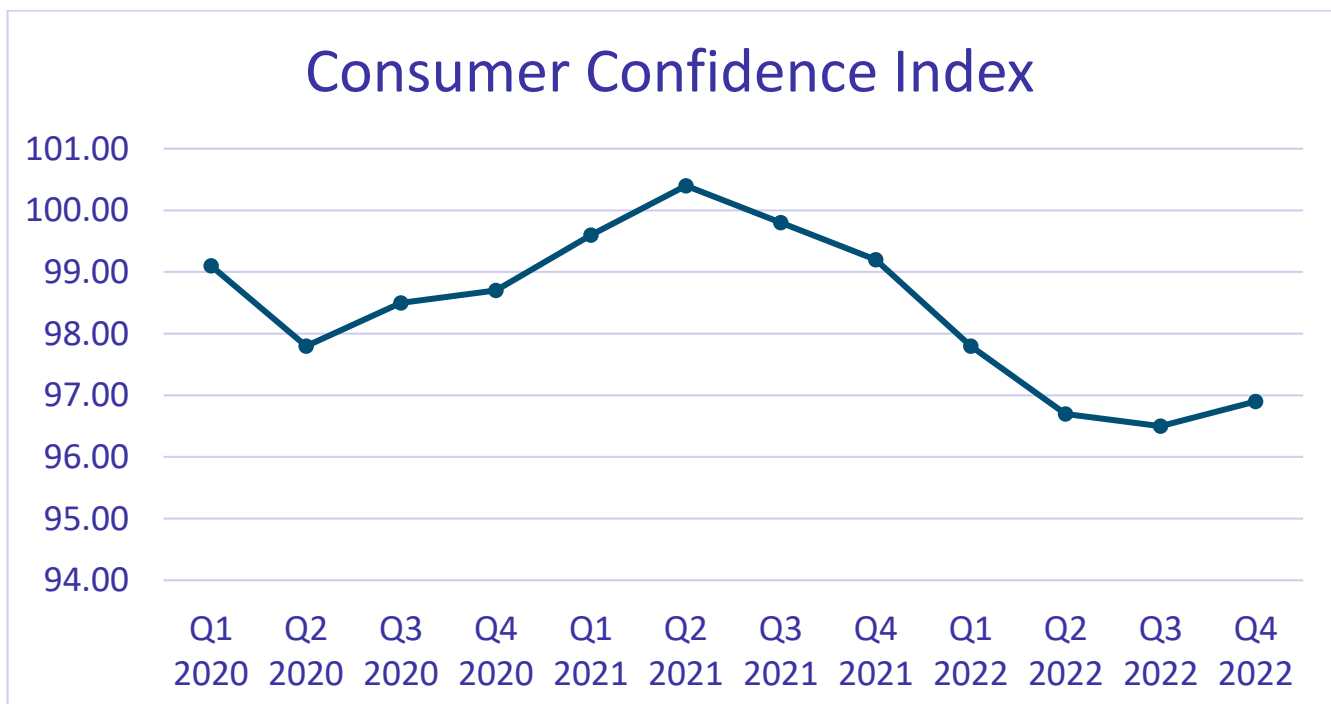
Local Unemployment Rate Trends								
	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
National	6.0%	5.9%	4.8%	3.9%	3.6%	3.6%	3.5%	3.5%
California	8.4%	7.9%	6.4%	5.8%	4.8%	4.2%	3.9%	4.1%
Los Angeles County	10.5%	9.7%	7.6%	6.8%	5.7%	5.1%	4.8%	4.7%
Carson	6.5%	8.7%	10.8%	11.6%	5.2%	5.2%	4.8%	4.9%
Gardena	5.6%	8.8%	11.4%	11.5%	5.0%	5.6%	4.8%	4.5%
Glendale	5.4%	8.0%	10.6%	9.9%	4.9%	4.9%	4.3%	4.2%
Hawthorne	6.6%	9.1%	11.5%	11.4%	5.0%	5.3%	4.4%	4.3%
Inglewood	7.3%	10.0%	12.2%	12.6%	5.8%	6.1%	5.3%	5.0%
Santa Monica	4.7%	6.1%	7.8%	7.7%	4.5%	4.7%	4.3%	4.4%
Torrance	4.0%	5.8%	7.9%	8.0%	3.5%	3.7%	3.2%	3.4%

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 in 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 fallen below the peak of the pandemic in calendar Q2 2020. 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, though we have seen a slight uptick with Q4 2022 ending at 96.9. According to Ataman Ozyildirim, Senior Director, Economics at The Conference Board, “Consumers were less upbeat about the short-term outlook for jobs. They also expect business conditions to worsen in the near term. Despite that, consumers expect their incomes to remain relatively stable in the months ahead. Meanwhile, purchasing plans for autos and appliances

held steady, but fewer consumers are planning to buy a home—new or existing. Consumers’ expectations for inflation ticked up slightly from 6.6 percent to 6.8 percent over the next 12 months, but inflation expectations are still down from its peak of 7.9 percent last seen in June.”

This is a metric the City will continue to monitor closely as sales and use tax is 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. In 2021, staff recommended a target level of 20% of expenditures, as recommended by the Government Finance Officers’ Association (GFOA) as a minimum balance. Staff have confirmed the General Fund Operating Fund reached this figure as of the end of Fiscal Year 2021-22, which sits at 20.0%.

Unassigned Fund Balance	Beg Bal - FY2021-22	Additions/ (Uses)	End Bal - FY2021-22	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	\$ 22,094,180	\$ 36,645,793	\$ 13,556,985	\$ 50,202,778
Total	\$ 22,633,062	\$ 22,094,180	\$ 44,727,242	\$ 13,556,985	\$ 58,284,227

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.

Conclusion

Over the last few months, slight inflation improvements materialized; however, real change has yet to take hold. Households remain nervous about the economy sliding into a recession. Nevertheless, customer spending remained strong through the holiday season. Experts vary on whether a recession will occur and to what extent. Unemployment rates remain a key indicator of whether an adverse economic situation will occur. From a sales tax perspective, the forecast does reflect a slowdown in taxable merchandise spending in Fiscal Year 2023-24 as the higher cost of utilities, food and other necessities limit dollars available for discretionary and non-essential items.

Sustained price increases and interest rate hikes certainly have consumers contemplating where to spend their dollars. However, historically low statewide unemployment rates and the recovery of the national stock markets from declines earlier this year leave modest optimism heading into 2023. All these factors will be weighed when developing the Fiscal Year 2023-25 operating and capital budgets.

Though the previously discussed indicators and Federal actions indicate further cooling of the national economy, Torrance development remains strong. 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, building plans for five new office warehouse buildings have been submitted for plan check.
- **Kearney Development: 19501 Priarie Ave.** - Two office warehouse buildings are in the final phases of construction and to be completed in late Spring 2023.
- **Gable House Site: Proposed Mixed Use Project** - Plans for retail and 218 residential units have been submitted for plan check.
- **Del Amo Blvd and Van Ness Ave.** - Two office warehouse buildings in the final phases of construction and scheduled for completion late Spring 2023.
- **Del Amo Fashion Center** - Three restaurant spaces on the Hawthorne Blvd frontage are now completed and open for business including North Italia, MB Grille, and Sweet Greens.

Additionally, looking forward to next year's budget, staff have already initiated the process assembling the next five-year Capital Improvement Plan and developing the operating budget. In addition to exploring various efficiency alternatives, staff are assessing and analyzing revenue areas including:

- Community Facilities District
- Short-Term Rental Compliance

-
- Citywide Fee Study
 - Comprehensive land use study
 - Documentary Transfer Tax
 - Business License Tax
 - Utility Users' Tax
 - Occupancy Tax
 - Stormwater Tax

More information on the finding of these analyses and potential options to explore will be shared during the coming two-year operating budget process.

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 Mid-Year Budget Review Report, and authorize staff to bring forward to City Council at a future date, the proposed Program Modifications and other budget adjustments for consideration and approval.

Respectfully Submitted,



Sheila Poisson
Finance Director

CONCUR:



Aram Chaparyan
City Manager

PROGRAM MODIFICATIONS



MID-YEAR

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

Fire -Add 6.0 FTE Ambulance Operators, Market adjustment for Ambulance Operator pay grids, Add three 10% Field Training Officer premiums, appropriate additional funding to purchase used ambulance - \$713,086 (General Fund)

The Fire Department is seeking approval to increase the Ambulance Operator pay grid, add an additional 6.0 FTE Ambulance Operators, add three 10% Field Training Officer premiums and appropriate additional funding to facilitate the purchase of a used ambulance.

In calendar 2022, the Fire Department responded to 12,433 EMS calls, which resulted in 9,033 transported patients (9,027 transported by TFD staffed ambulances). This is the highest ever annual number of responses in the department's history and 12% more than in 2021. During the first half of Fiscal Year 2022-23 (Jul-Dec 2022), the TFD staffed ambulances transported 20% more patients than during the first half of Fiscal Year 2021-22 (4,699 vs 3,932). These service increases are the main driver behind the recommended program modifications.

The Fire Department has completed a salary survey that provides a cross section of public and private ambulance operator wages in Los Angeles and Orange County. It is recommended that the starting step (Step 1) of our Ambulance Operator grid be increased from \$15.60 to \$17.20 per hour (each step then set 5% higher). This 10% increase will place Torrance at the average of the salary survey. The annual cost impact of this adjustment totals \$59,538.

As a result of the response volumes previously noted, the department is requesting an additional six (6.0 FTE) Ambulance Operators. Currently, the program employs twenty-nine Ambulance Operators across four 24-hour ambulances, two peak-staffed ambulances and one peak-staffed Ambulance Patient Offload Time (APOT) unit. The current two peak-staffed ambulances operate 40 hours each week, over four days. The days of the week for the two units are alternated to provide 7-day per week coverage of one peak-staffed ambulance. Four of the additional six Ambulance Operators will be

utilized to staff both peak-staffed units 7-days per week. Monday through Saturday both units will be in service for twelve hours, overlapping to provide 14-hour coverage. Both units will be in service on Sundays for eight hours, overlapping to provide 12 hour coverage. The remaining two additional Ambulance Operators will be utilized to enhance the APOT unit to 24-hour coverage. The three Ambulance Operators assigned to this unit will also receive a ten percent premium to fill the role of Field Training Operators (FTO). FTO's will provide APOT services to Torrance units and manage training for all Ambulance Operators and provide oversight for the units in the field. The annual cost impact of the additional ambulance operators totals \$415,998 and the annual cost impact of the three 10% premiums is \$17,861.

Finally, to cover these additional transports it is recommended that the City purchase a used ambulance. Staff worked with Emergency Vehicle group, who informally quoted a Medix ambulance (identical to our current basic life support units) at \$275,000, with a two year lead time before taking delivery. The purchase of this additional, used ambulance will allow the department to address the increased volume more timely and plan for this expansion to the fleet in coming budget cycles. The purchase price is approximately \$100,000 and the replacement charges for these vehicles will be included in next year's budget, estimated at \$82,986 for the remaining 3 years of useful life for the vehicle. Finally, an additional \$36,703 is needed annually to cover maintenance and fuel costs.

The costs for these program modifications will be absorbed in the Fiscal Year 2022-23 budget appropriation and additional funding included in the Fiscal Year 2023-24 budget process, if approved. The increase in cost will be offset by the previously approved program modification presented in the First Quarter Budget Review Report, which anticipates a net benefit (revenues minus expenditures) of \$727,007 per year. As previously described during the First Quarter Budget Review Report, the California Department of Healthcare Services' is implementing an enhanced Medi-Cal reimbursement program. This new program titled the Ground Emergency Medical Transport Intergovernmental Transfer Program for Public Providers is effective January 1, 2023 and will yield improved net revenues to the City over the prior program. Between the additional revenues and expenditures, this new program will enhance the bottom line by \$727,000 annually and will offset this program modification making it cost neutral to the City overall.

General Services – Delete 1.0 FTE Office Assistant, Delete 1.0 FTE Facilities Operations Attendant, Add 1.0 FTE Storekeeper – (-\$20,710) (Non-General Fund)

The General Services Department is seeking approval to remove 1.0 Facilities Operations Attendant and remove 1.0 Office Assistant and add 1.0 Storekeeper. General Services staff have evaluated the functions of the Warehouse to determine if staffing in a different manner would improve efficiency. Beginning in October 2022, a temporary Storekeeper was hired to evaluate a new staffing model.

Under the current staffing model, the following deficiencies exist when staffing with an Office Assistant:

- Posting invoices from approximately 100 vendors into computerized systems
- Issuing parts for automotive, custodial, and water system repairs and maintenance
- Monitoring inventory levels and organizing stock on the shelf
- Preparing parts for returns/credits and disposal of obsolete stock
- Providing customer service at various Warehouse counters, by phone, and via e-mail

By funding a Storekeeper, a new cycle count system has been implemented to reduce inventory variances and overtime associated with fiscal year-end reconciliations with the Finance Department. Additionally, the Warehouse has been able to better sustain invoice processing and assigning parts to work orders without delay. With the addition of the temporary Storekeeper, parts are handled more quickly, enabling time-sensitive work orders to be finished on schedule while covering staff shortages when they have occurred. This position is also helping to achieve the modernization and streamlining of the Warehouse as part of the goals and objectives outlined by the City Manager.

Other Updates

As a result of anticipated budget outcomes, the following budget adjustments are recommended:

1. Increase General Fund Operating Fund revenue budget by \$12,050,521
 - a. Recognize a portion of projected revenues exceeding budget to offset increase expenditure budget requested to transfer \$8.0 million to Fleet Fund and resolve outstanding Area of Focus.
 - b. Recognize the \$4,050,521 in additional revenue transferring in from the Measure SST Fund to increase General Fund Unassigned Fund Balance (reserves).
2. Increase General Fund Operating Fund expenditure budget by \$8.0 million
 - a. Transfer \$8.0 million to Fleet Fund and resolve outstanding Area of Focus.
3. Increase General Fund – SST Fund revenue budget by \$4,050,521
 - a. Recognize projected revenues exceeding budget to offset increase transfer to General Fund Operating Fund to rebuild unassigned fund balance (reserves).
4. Increase General Fund – SST Fund expenditure budget by \$4,050,521
 - a. Increase transfer to General Fund Operating Fund to rebuild unassigned fund balance (reserves).
5. Increase General Fund – Restricted/Assigned expenditure budget by \$1,493,861
 - a. Facilitates transfer of Fire Apparatus Replacement Fund to Fleet Services Fund to consolidate the accounting of vehicle replacements.

GENERAL FUND



MID-YEAR

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 newly establish General Fund – SST 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 – SST Fund:** This fund was established upon approval of Measure SST, which is a 0.50% Transactions and Use Tax approved by Torrance voters in June 2022. This is setup as a separate subfund of the General Fund to track revenues and expenditures in compliance with audit requirements and the Measure SST Oversight Committee.
- **General Fund – Restricted/Assigned:** Focuses mainly on the City's various General Fund Replacement Funds, including associated Capital Project Funds, 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 as of the Mid-Year for Fiscal Year 2022-23 is summarized as follows:

General Fund Revenue and Expenditure Summary

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Total Revenues	\$ 228,339,221	\$ 84,470,828	37.0%	\$ 277,483,955	\$ 106,791,812	38.5%	\$ 296,847,860	\$ 19,363,905	107.0%
Total Expenditures	\$ 226,374,132	\$ 110,973,776	49.0%	\$ 270,646,417	\$ 132,394,026	48.9%	\$ 280,195,184	\$ (9,548,767)	103.5%
Rev Less Exp	\$ 1,965,089	\$ (26,502,948)		\$ 6,837,538	\$ (25,602,214)		\$ 16,652,676		

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 Measure SST’s contributions to rebuilding fund balance (reserves), contributions to the City’s replacement funds, as well as another deposit to the City’s CalPERS CEPPT Fund.

When comparing the mid-point in Fiscal Year 2022-23 to the same period the year prior, the percentage of budgeted revenues received to date has increased. As of December 31, 2022, a total of 38.5% of budgeted revenues were received to date compared to 37.0% of budgeted revenue being received the year prior. Overall, year-to-date revenues are up \$22.3 million when comparing year to year and as a result the General Fund is projected to operate at a surplus of \$16.7 million due to the following main factors:

- Sales Tax above budgeted expectations by \$719k in the General Fund Operating Fund and \$4.1 million above budgeted expectations in the Measure SST Fund
- Utility Users Tax above budgeted expectations by \$4.9 million
- Occupancy Tax above budgeted expectations by \$1.3 million
- Other Tax categories such as Franchise Tax (\$847k) and Business License (\$686k)
- Use of Money and Property above budgeted expectations by \$1.1 million
- Charges for Services above budgeted expectations by \$2.0 million
- Transfers In above budget by \$2.9 million; driven additional transfer from Measure SST Fund

It is projected that General Fund Revenues will be \$296.8 million, exceeding budgeted values by \$19.4 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 is consistent compared with the year prior. As of December 31, 2022, a total of 48.9% of budgeted expenditures were utilized to date compared to 49.0% of budgeted expenditures being utilized the year prior. Overall, it is projected that General Fund Expenditures will be \$280.2 million, generating a \$9.5 million budget deficit. A series of budget appropriations are included in the Mid-Year Budget Review Report to address this deficit and facilitate the projected expenditures included. The details

of these expenditure impacts are examined further the following sections of this document, 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 the Mid-Year:

General Fund Operating Fund Revenue and Expenditure Summary

	2021-22 Amended Budget	December 2021- 22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022- 23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 224,326,947	\$ 80,934,080	36.1%	\$ 258,539,114	\$ 100,968,077	39.1%	\$ 273,729,780	\$ 15,190,666	105.9%
Total Expenditures	\$ 224,138,476	\$ 109,269,479	48.8%	\$ 255,646,063	\$ 125,172,146	49.0%	\$ 260,172,795	\$ (4,526,732)	101.8%
Rev Less Expenditures	\$ 188,471	\$ (28,335,399)		\$ 2,893,051	\$ (24,204,069)		\$ 13,556,985		
Fund Bal Dec/(Increase)	\$ (188,471)			\$ (2,893,051)			\$ (13,556,985)		
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 December 31, 2022, a total of 39.1% of budgeted revenues were received to date compared to 36.1% of budgeted revenue being received the year prior. Overall, year-to-date revenues are up \$20.0 million when comparing year to year and as a result the General Fund is projected to operate at a surplus of \$13.6 million due to the following main factors:

- Sales Tax above budgeted expectations by \$719k in the General Fund Operating Fund
- Utility Users Tax above budgeted expectations by \$4.9 million
- Occupancy Tax above budgeted expectations by \$1.3 million
- Other Tax categories such as Franchise Tax (\$847k) and Business License (\$686k)
- Use of Money and Property above budgeted expectations by \$1.1 million
- Charges for Services above budgeted expectations by \$2.0 million
- Transfers In above budget by \$2.9 million; driven additional transfer from Measure SST Fund

On the opposite side of the budget, the rate of expenditures relative to budgeted amounts has remained stable. As of December 31, 2022, a total of 49.0% of budgeted expenditures were utilized to date compared to 48.8% of budgeted expenditures the year prior. The rate of spending is slightly below the amount of the year completed (50.4%). 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 \$2.9 million, which is a direct result of the budgeted transfer from the City’s Measure SST fund (General Fund – SST Fund) to the General Fund Operating Fund to improve fund balance (as part of rebuilding reserves). Based on trends in the Measure SST Fund it is projected an additional \$3.7 million will also be transferred to further rebuild unassigned fund balance (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 \$34.2 million, or 15.3%, to \$258.5 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, the increase of rates from utility providers flowing through to the City’s utility user’s tax receipts, and additional one-time transfers from the City’s Airport Fund related to one-time land lease signing revenues. Detail of the revenue activity for the two quarters 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	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Taxes	\$ 175,114,158	\$ 61,131,440	34.9%	\$ 194,836,318	\$ 65,578,463	33.7%	\$ 203,684,397	\$ 8,848,079	104.5%
Licenses, Fees and Permits	\$ 4,575,836	\$ 2,403,545	52.5%	\$ 4,767,606	\$ 2,542,427	53.3%	\$ 5,605,609	\$ 838,003	117.6%
Fines, Forfeitures and Penalties	\$ 742,003	\$ 241,089	32.5%	\$ 735,144	\$ 241,470	32.8%	\$ 742,119	\$ 6,975	100.9%
Use of Money and Property	\$ 2,123,339	\$ 1,285,628	60.5%	\$ 3,200,594	\$ 2,408,704	75.3%	\$ 4,263,400	\$ 1,062,806	133.2%
Intergovernmental	\$ 471,344	\$ 176,048	37.4%	\$ 559,241	\$ 100,746	18.0%	\$ 342,648	\$ (216,593)	61.3%
Other Revenues	\$ 12,523,290	\$ 171,983	1.4%	\$ 505,598	\$ 130,879	25.9%	\$ 259,629	\$ (245,969)	51.4%
Charges for Services	\$ 16,454,206	\$ 9,094,173	55.3%	\$ 19,724,668	\$ 10,587,576	53.7%	\$ 21,703,294	\$ 1,978,626	110.0%
Operating Transfers In	\$ 12,322,771	\$ 6,430,174	52.2%	\$ 34,209,945	\$ 19,377,812	56.6%	\$ 37,128,685	\$ 2,918,740	108.5%
Other Financing Sources	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 224,326,947	\$ 80,934,080	36.1%	\$ 258,539,114	\$ 100,968,077	39.1%	\$ 273,729,780	\$ 15,190,666	105.9%

As of December 31, 2022, \$101.0 million or 39.1%, was received compared to \$80.9 million or 36.1% 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 (including Vehicle License Swap), Utility Users’ taxes, Occupancy taxes, and Business License taxes. The Taxes classification accounts for approximately 75% of the City’s General Fund Operating Fund revenue budget for Fiscal Year 2022-23.

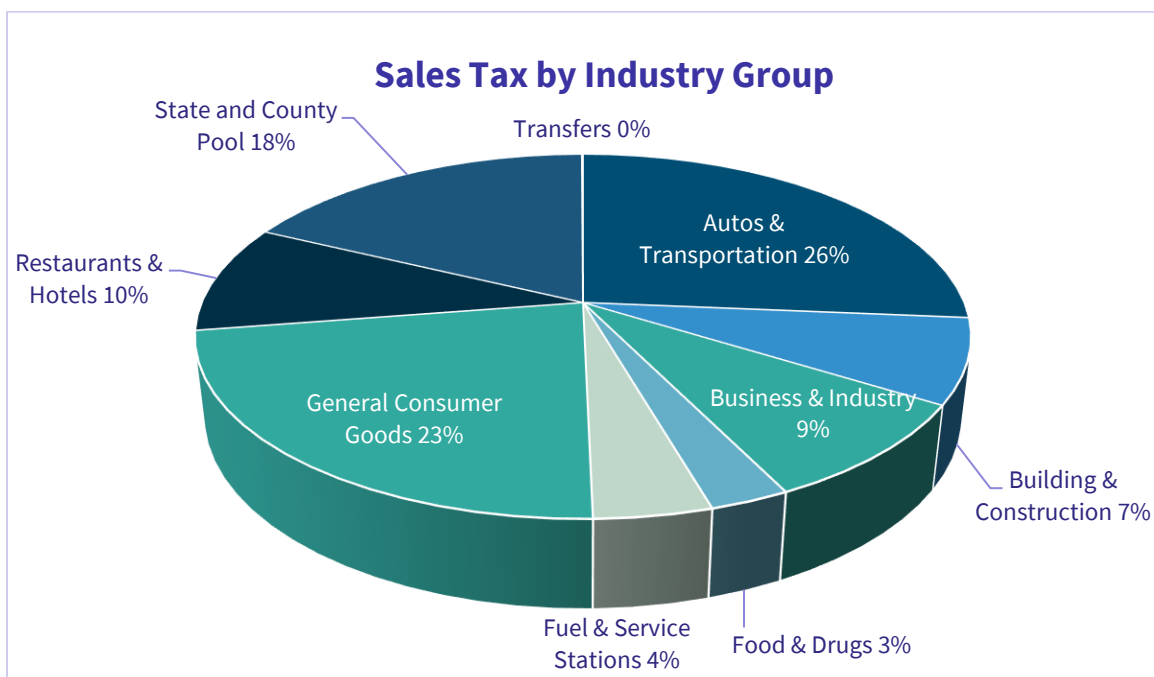
Tax Revenues by Classification

Revenues	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Sales and Use Tax	\$ 55,261,835	\$ 20,399,774	36.9%	\$ 63,940,625	21,153,589	33.1%	\$ 64,659,610	\$ 718,985	101.1%
Property Tax	\$ 42,701,064	\$ 17,410,108	40.8%	\$ 44,427,885	\$ 18,280,187	41.1%	\$ 44,925,100	\$ 497,215	101.1%
Property Transfer Tax	\$ 1,000,000	\$ 573,818	57.4%	\$ 1,469,471	\$ 325,314	22.1%	\$ 800,522	\$ (668,949)	54.5%
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	\$ 15,724,029	47.8%	\$ 37,207,940	\$ 17,411,909	46.8%	\$ 42,085,373	\$ 4,877,433	113.1%
Business License Tax	\$ 9,179,377	\$ 1,736,137	18.9%	\$ 8,992,906	\$ 2,435,674	27.1%	\$ 9,678,970	\$ 686,064	107.6%
Occupancy Tax	\$ 7,119,224	\$ 3,048,888	42.8%	\$ 11,601,755	\$ 3,818,612	32.9%	\$ 12,869,343	\$ 1,267,588	110.9%
Franchise Tax	\$ 8,930,800	\$ 1,664,312	18.6%	\$ 8,828,324	1,679,830	19.0%	\$ 9,675,100	\$ 846,776	109.6%
Construction Tax	\$ 1,857,400	\$ 572,926	30.8%	\$ 1,745,904	\$ 470,918	27.0%	\$ 1,974,256	\$ 228,352	113.1%
Oil Severance Tax	\$ 7,500	\$ 1,448	19.3%	\$ 5,857	\$ 2,430	41.5%	\$ 13,766	\$ 7,909	235.0%
Total Revenues	\$ 175,114,158	\$ 61,131,440	34.9%	\$ 194,836,318	\$ 65,578,463	33.7%	\$ 203,684,397	\$ 8,848,079	104.5%

Overall, the City expects to exceed the annual amended budget for the Taxes classification by \$8.8 million, primarily driven by an increase in projected revenues from utility users' tax of \$4.9 million, occupancy tax of \$1.3 million, franchise tax of \$0.8 million and sales and use tax of \$0.7 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.



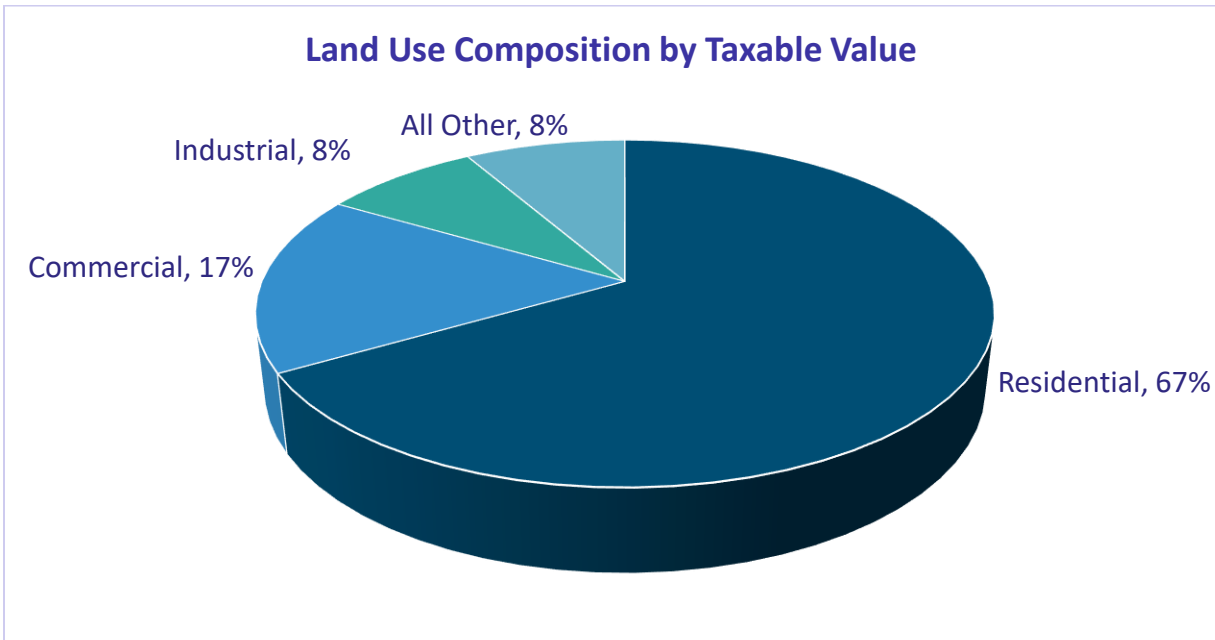
Receipts of \$21.2 million through the second fiscal quarter are tracking above prior year actuals by \$754,000 and the projected annual amount exceeding budget by \$720,000 is mainly due to sustained economic recovery since the pandemic, offset by the Federal Reserve slowing inflation by increasing the Federal Funds Rate. The forecast is projecting an increase of 1.6% from prior year actuals (\$63.6 million) which is a net result of continued increases in Restaurants & Hotels and Business & Industry classifications offset by projected decreases in auto sales (including auto financing) and fuel & service stations.

As of the latest available quarterly data from the California Department of Tax & Fee Administration (quarter ending September 2022), sales tax revenues are experiencing increases in the autos and transportation (1.7%); restaurants and hotels (11.5%); business and industry (13.6%); and fuel and service stations (11.2%) categories during the period. State and County Pool allocations experienced a decrease (-3.6%) and have been declining due to the change in logistics from online retailers and market place facilitators.

While sales tax revenues are up 3.3% from the prior year quarter, staff continues to be cautious with forecasting for several reasons. The Federal Reserve increased the Federal Funds Rate to a range of 4.50-4.75% as of February 2023. The federal policy to slow inflation will continue to slow short-term borrowing and can affect automobile sales, although the industry has seen an upward trend with luxury vehicle purchases. The December 2022 year-over-year change in Consumer Price Index for All Urban Consumers (CPI-U) was 6.5%, which is lower than the September 2022 year-over-year increase of 8.5%. The sustained inflation will continue 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 December 31, 2022, property tax receipts were \$18.3 million and increased 5.0% compared to last year. The forecast is projecting an increase of 6.7% from prior year actuals (\$42.1 million) driven by increases in net taxable value for the residential category (+6.1%), commercial (+5.0%), and unsecured category (+13.4%) for an overall increase in net taxable value of 5.4%. Presently, the City projects the total year-end revenue to exceed the property tax budget for Fiscal Year 2022-23 by 1.1%.

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 second quarter. This is projected to increase by 5.4% above the prior year’s actuals (\$16.1 million) and exceed the budget by 2.3%.

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	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Electricity	\$ 15,114,624	\$ 7,925,321	52.4%	\$ 18,168,950	\$ 9,232,899	50.8%	\$ 19,917,137	\$ 1,748,187	109.6%
Gas	\$ 4,050,989	\$ 1,442,806	35.6%	\$ 4,995,440	\$ 1,538,062	30.8%	\$ 4,721,628	\$ (273,812)	94.5%
Refinery: Co-gen	\$ 553,259	\$ 288,294	52.1%	\$ 530,230	\$ 375,597	70.8%	\$ 757,698	\$ 227,468	142.9%
Refinery: Gas	\$ 5,221,642	\$ 2,145,110	41.1%	\$ 5,072,350	\$ 2,696,931	53.2%	\$ 7,549,515	\$ 2,477,165	148.8%
Water	\$ 2,927,471	\$ 1,632,520	55.8%	\$ 3,246,210	\$ 1,712,061	52.7%	\$ 3,965,185	\$ 718,975	122.1%
Cable	\$ 1,848,936	\$ 835,195	45.2%	\$ 2,101,270	\$ 556,878	26.5%	\$ 1,658,300	\$ (442,970)	78.9%
Cellular	\$ 1,010,492	\$ 462,556	45.8%	\$ 1,129,710	\$ 411,912	36.5%	\$ 1,235,050	\$ 105,340	109.3%
Telecom	\$ 2,198,838	\$ 992,227	45.1%	\$ 1,963,780	\$ 887,569	45.2%	\$ 2,280,860	\$ 317,080	116.1%
Total Revenues	\$ 32,926,251	\$ 15,724,029	47.8%	\$ 37,207,940	\$ 17,411,909	46.8%	\$ 42,085,373	\$ 4,877,433	113.1%

Current period receipts of \$17.4 million exceed prior year receipts by \$1.7 million, or 10.7%. Overall, the increase was mainly due to UUT collected from the Gas use at the Refinery and Electricity. With the exception of cable, cellular and telecom, all other 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. The increase in Electricity UUT is mainly due to the increased rates from utility service providers.

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 December 31, 2022, business license tax receipts are higher than prior year due to more businesses renewing online. It is projected that this classification will exceed budget estimates by 7.6%.

Occupancy Tax

Occupancy tax is an 11% tax on room charges to guests staying at hotel/motels and short-term rentals. As of December 31, 2022, the City has received \$3.8 million, an increase of \$770,000 or 25.2%. 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, the average occupancy rate for the first six months ending in December increased from an average of 78.0% in 2021 to 81.8% in 2022. Additionally, the average daily rate per room increased by \$13.50 during this same period. The City projects occupancy tax to exceed budget by about 10.9%. If these estimates are realized, Fiscal Year 2022-23 will be the first year this classification has exceeded pre-pandemic levels (\$11.6 million).

Licenses, Fees & Permits

This revenue source accounts primarily for development-related fees such as building and inspection fees. As of December 31, 2022, actual receipts of \$2.5 million represent a 5.8% increase from prior year receipts and is projected to exceed budget expectations by 17.6%. 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 December 31, 2022, actual receipts of \$2.4 million represent a 87.4% increase from prior year receipts of \$1.3 million, due to increases in interest income from steadily rising interest rates, rental income from the newly negotiated Toyota Sports Complex lease, and interest income recognized from repayment of the advance from the General Fund to the Successor Agency Fund. It is anticipated that this revenue source will exceed budget expectations by 33.2% at fiscal year-end.

Fines and Forfeitures

This revenue source includes general court, traffic fines and parking citation revenues. As of December 31, 2022, actual receipts remained flat compared to the same period last year. These receipts are expected to meet budget by at fiscal year-end.

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 December 31, 2022, actual receipts of \$10.6 million exceed the prior year by \$1.5 million or 16.4%.

Charges for Services Classification by Department

Revenues	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
City Manager	\$ 130,000	\$ 60,783	46.8%	\$ 888,099	\$ 368,423	41.5%	821,680	(66,419)	92.5%
City Clerk	\$ 24,236	\$ 7,426	30.6%	\$ 16,004	\$ 3,230	20.2%	4,301	(11,703)	26.9%
Community Development	\$ 4,053,469	\$ 2,333,540	57.6%	\$ 4,499,158	\$ 2,900,752	64.5%	5,995,050	1,495,892	133.2%
General Services	\$ 635,896	\$ 337,697	53.1%	\$ 853,856	\$ 450,349	52.7%	1,187,300	333,444	139.1%
Non-Departmental	\$ 30,585	\$ 9,363	30.6%	\$ 22,175	\$ 8,232	37.1%	14,465	(7,710)	65.2%
Police	\$ 259,370	\$ 86,577	33.4%	\$ 212,961	\$ 130,625	61.3%	421,812	208,851	198.1%
Fire	\$ 7,783,935	\$ 3,564,159	45.8%	\$ 8,286,291	\$ 3,908,887	47.2%	8,619,200	332,909	104.0%
Public Works	\$ 231,930	\$ 221,324	95.4%	\$ 232,182	\$ 230,762	99.4%	235,123	2,941	101.3%
Community Services	\$ 3,304,785	\$ 2,473,304	74.8%	\$ 4,713,942	\$ 2,586,316	54.9%	4,404,363	(309,579)	93.4%
Total Revenues	16,454,206	9,094,173	55.3%	19,724,668	10,587,576	53.7%	21,703,294	1,978,626	110.0%

This increase is mainly due to increased receipts collected by the Community Development department for inspection, building and zoning fees, an increase collected by the Fire department with emergency transport fees, and an increase in the City Manager’s department from the Refinery.

An increase is seen in the General Services and Community Services departments with the production and recreation offerings having no COVID-19 restrictions. The General Services year-end projection is 35.8% above prior year actuals (\$874k) and 39.1% above budget. The Community Services year-end projection is 4.6% above prior year actuals (\$4.2 million), but is projected to be under budget by 6.6%. This overall classification is expected to exceed budget by \$2.0 million or 10.0% 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 December 31, 2022, actual receipts of \$19.4 million exceed the prior year by \$12.9 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 and reduced transfers from Gas Tax due to increased vacancy rate in Public Works. Transfers-in is expected to fall short of budgeted expectations by \$807,000 or 2.4% by fiscal year-end.

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 December 31, 2022, the City’s General Fund expenditure budget is projected to operate at a deficit of \$4.5 million at the end of the fiscal year. This will be offset by the recommended budget increase of \$8.0 million proposed in the Mid-Year Budget Review Report. When comparing the City’s rate of spending this year, against last year, we remained consistent, expending 49.0% of the City’s General Fund to date, compared to 48.8% the year prior.

When reviewing all departments, year-to-date expenditures fall below the fiscal year expired (50.4% through December 2022) for most departments, with a notable exception for Non-Departmental. Most departments have experienced high vacancy rates, which is offsetting the Non-Departmental budget deficit. This deficit is a direct result of contributions to the Self-Insurance Fund (\$9.0 million) required to address the funding shortfall, a one-time transfer to Fleet Services Fund (\$8.0 million) to resolve a highlighted Area of Focus in prior budget reports, and a one-time transfer to the Sanitation Fund (\$5.0 million) to replenish the fund for a Fiscal Year 2017-18 payment that was funded by the Sanitation Fund for a legal settlement during that time. Upon approval of the recommended budget appropriation of \$8.0 million for the General Fund Operating Fund Non-Departmental budget, there will be an estimated surplus of \$3.5 million.

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

General Fund Operating Fund – All Expenditures by Department

Expenditures	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Council	\$ 417,157	\$ 211,600	50.7%	\$ 428,713	\$ 249,903	58.3%	\$ 398,926	\$ 29,787	93.1%
City Manager	\$ 5,334,638	\$ 2,522,058	47.3%	\$ 6,134,097	\$ 2,896,311	47.2%	\$ 5,795,470	\$ 338,627	94.5%
City Attorney	\$ 2,674,293	\$ 1,262,473	47.2%	\$ 2,815,838	\$ 1,267,135	45.0%	\$ 2,749,718	\$ 66,120	97.7%
City Clerk	\$ 1,427,073	\$ 472,222	33.1%	\$ 1,074,052	\$ 463,065	43.1%	\$ 990,127	\$ 83,925	92.2%
City Treasurer	\$ 356,017	\$ 158,969	44.7%	\$ 364,841	\$ 123,319	33.8%	\$ 299,475	\$ 65,366	82.1%
Finance	\$ 6,193,572	\$ 2,431,951	39.3%	\$ 5,989,884	\$ 2,329,346	38.9%	\$ 5,460,226	\$ 529,658	91.2%
Human Resources	\$ 2,043,751	\$ 822,195	40.2%	\$ 2,192,036	\$ 983,912	44.9%	\$ 2,093,057	\$ 98,979	95.5%
Civil Service	\$ 598,794	\$ 276,595	46.2%	\$ 629,901	\$ 320,235	50.8%	\$ 603,350	\$ 26,551	95.8%
Community Development	\$ 8,730,072	\$ 3,855,756	44.2%	\$ 9,815,615	\$ 3,890,250	39.6%	\$ 8,846,378	\$ 969,237	90.1%
CIT	\$ 8,500,829	\$ 3,768,964	44.3%	\$ 8,951,621	\$ 3,963,370	44.3%	\$ 7,339,206	\$ 1,612,415	82.0%
General Services	\$ 9,659,503	\$ 3,861,325	40.0%	\$ 10,142,744	\$ 4,280,945	42.2%	\$ 9,273,741	\$ 869,003	91.4%
Non-Departmental	\$ 530,413	\$ 5,022,902	947.0%	\$ 13,910,722	\$ 16,507,073	118.7%	\$ 34,063,253	\$ (20,152,531)	244.9%
Police	\$ 89,031,719	\$ 43,038,374	48.3%	\$ 94,207,613	\$ 42,682,530	45.3%	\$ 87,172,672	\$ 7,034,941	92.5%
Fire	\$ 52,247,241	\$ 25,148,084	48.1%	\$ 56,420,842	\$ 27,363,622	48.5%	\$ 56,961,265	\$ (540,423)	101.0%
Public Works	\$ 13,131,775	\$ 6,250,268	47.6%	\$ 18,179,445	\$ 7,558,381	41.6%	\$ 16,352,370	\$ 1,827,075	89.9%
Community Services	\$ 23,261,629	\$ 10,165,743	43.7%	\$ 24,388,099	\$ 10,292,749	42.2%	\$ 21,773,560	\$ 2,614,539	89.3%
Total Expenditures	\$ 224,138,476	\$ 109,269,479	48.8%	\$ 255,646,063	\$ 125,172,146	49.0%	\$ 260,172,795	\$ (4,526,732)	101.8%

As shown above, most departments are projected to end the fiscal year within budget, while Non-Departmental budget shows a budget deficit of \$20.2 million. This deficit is driven by the previously

described planned one-time transfers of \$9.0 million to the City’s Self-Insurance Fund, \$8.0 million to the Fleet Services Fund, and \$5.0 million to the Sanitation Fund. This is explained in further detail in each Fund’s section of this document. As a result of improved revenues, it is recommended that the revenue and expenditures budget for the General Fund Operating Fund be increased by \$8.0 million to facilitate the transfer to the Fleet Services Fund and resolve this Area of Focus previously described in prior budget reports.

After controlling for these one-time transfers, the budget projects \$18.5 million (before the recommended budget amendment) in savings for Fiscal Year 2022-23. This is primarily the direct result of departmental vacancies across the General Fund. As of December 31, 2022, the General Fund has 169.7 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			2022-23			Projected		
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Council	\$ 93,980	\$ 45,747	48.7%	\$ 93,497	\$ 61,513	65.8%	\$ 91,821	\$ 1,676	98.2%
City Manager	\$ 4,351,058	\$ 2,184,312	50.2%	\$ 4,787,661	\$ 2,382,477	49.8%	\$ 4,783,548	\$ 4,113	99.9%
City Attorney	\$ 2,402,978	\$ 1,184,754	49.3%	\$ 2,498,585	\$ 1,138,843	45.6%	\$ 2,417,221	\$ 81,364	96.7%
City Clerk	\$ 868,358	\$ 424,071	48.8%	\$ 914,313	\$ 399,880	43.7%	\$ 849,958	\$ 64,355	93.0%
City Treasurer	\$ 321,200	\$ 145,357	45.3%	\$ 324,782	\$ 100,301	30.9%	\$ 263,709	\$ 61,073	81.2%
Finance	\$ 4,627,901	\$ 1,744,313	37.7%	\$ 4,556,806	\$ 1,771,928	38.9%	\$ 3,979,639	\$ 577,167	87.3%
Human Resources	\$ 1,314,634	\$ 551,984	42.0%	\$ 1,504,767	\$ 702,592	46.7%	\$ 1,340,171	\$ 164,596	89.1%
Civil Service	\$ 481,999	\$ 253,621	52.6%	\$ 506,633	\$ 266,283	52.6%	\$ 514,309	\$ (7,676)	101.5%
Community Development	\$ 7,909,704	\$ 3,544,416	44.8%	\$ 8,730,520	\$ 3,485,718	39.9%	\$ 7,892,954	\$ 837,566	90.4%
CIT	\$ 6,243,400	\$ 2,920,172	46.8%	\$ 6,144,190	\$ 2,744,287	44.7%	\$ 5,134,506	\$ 1,009,684	83.6%
General Services	\$ 6,918,996	\$ 2,993,034	43.3%	\$ 6,873,403	\$ 2,865,206	41.7%	\$ 6,152,312	\$ 721,091	89.5%
Non-Departmental	\$ 81,500	\$ 80,017	98.2%	\$ 199,717	\$ 57,208	28.6%	\$ 82,688	\$ 117,029	41.4%
Police	\$ 82,157,725	\$ 39,553,834	48.1%	\$ 83,604,890	\$ 37,691,064	45.1%	\$ 76,956,973	\$ 6,647,917	92.0%
Fire	\$ 48,241,843	\$ 23,904,414	49.6%	\$ 49,594,765	\$ 24,409,562	49.2%	\$ 49,630,573	\$ (35,808)	100.1%
Public Works	\$ 7,284,209	\$ 3,537,424	48.6%	\$ 8,919,845	\$ 4,061,319	45.5%	\$ 8,517,071	\$ 402,774	95.5%
Community Services	\$ 16,774,213	\$ 7,595,327	45.3%	\$ 16,406,007	\$ 6,597,315	40.2%	\$ 14,025,285	\$ 2,380,722	85.5%
Total Expenditures	\$ 190,073,698	\$ 90,662,797	47.7%	\$ 195,660,381	\$ 88,735,496	45.4%	\$ 182,632,738	\$ 13,027,643	93.3%

The trends in salary expenditures are favorable this year relative to budget when compared with the year prior, and the level of expenditures to date is below last year's amount by \$1.9 million. As of December 31, 2022, the City has expended 45.4% of its budget, compared to 47.7% the year prior. Both of these values are within the current timing of the fiscal year, of which 50.4% has expired. As a result, it is projected that the salaries portion of the expenditure budget will generate \$13.0 million in savings, driven by vacancies in most departments.

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 December 31, 2022, City Treasurer has no vacancies, as 1.0 FTE vacancy was filled in October. Overall, this department is projected to generate budgetary savings of \$61,000 from the timeframe that this position was vacant.

Finance

As of December 31, 2022, Finance has total vacancies of 4.0 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 \$577,000.

Human Resources

As of December 31, 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 \$165,000.

Community Development

As of December 31, 2022, Community Development has total vacancies of 10.4 FTE (portion of the Department affecting General Fund), of which 3.0 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 \$838,000.

Communications and Information Technology (CIT)

As of December 31, 2022, CIT has total vacancies of 10.0 FTE, of which 7.0 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 \$1.0 million.

General Services

As of December 31, 2022, General Services has total vacancies of 9.5 FTE, of which 4.5 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Additional savings are generated through reduction in seasonal/recurrent staffing as the Cultural Arts Center program area operates below pre-pandemic levels. Overall this department is projected to generate budgetary savings of \$721,000.

Police

As of December 31, 2022, Police has total vacancies of 67.0 FTE, of which 27.0 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 \$6.6 million.

Fire

As of December 31, 2022, Fire has total vacancies of 24.0 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). Overall this department is projected to generate budgetary deficit of \$36,000.

Public Works

As of December 31, 2022, Public Works has total vacancies of 18.7 FTE (portion of the Department affecting General Fund), of which 7.4 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 \$403,000.

Community Services

As of December 31, 2022, Community Services has total vacancies of 23.0 FTE (excluding seasonal/recurrent), of which 16.5 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 Recreation & Cultural Services program area remains below pre-pandemic levels. Overall this department is projected to generate budgetary savings of \$2.4 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 Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Council	\$ 323,177	\$ 165,853	51.3%	\$ 335,216	\$ 188,390	56.2%	\$ 307,105	\$ 28,111	91.6%
City Manager	\$ 983,580	\$ 337,746	34.3%	\$ 1,346,436	\$ 513,834	38.2%	\$ 1,011,922	\$ 334,514	75.2%
City Attorney	\$ 271,315	\$ 77,719	28.6%	\$ 317,253	\$ 128,292	40.4%	\$ 332,497	\$ (15,244)	104.8%
City Clerk	\$ 558,715	\$ 48,151	8.6%	\$ 159,739	\$ 63,185	39.6%	\$ 140,169	\$ 19,570	87.7%
City Treasurer	\$ 34,817	\$ 13,612	39.1%	\$ 40,059	\$ 23,018	57.5%	\$ 35,765	\$ 4,294	89.3%
Finance	\$ 1,565,671	\$ 687,638	43.9%	\$ 1,433,078	\$ 557,418	38.9%	\$ 1,480,587	\$ (47,509)	103.3%
Human Resources	\$ 729,117	\$ 270,211	37.1%	\$ 687,269	\$ 281,320	40.9%	\$ 752,886	\$ (65,617)	109.5%
Civil Service	\$ 116,795	\$ 22,974	19.7%	\$ 123,268	\$ 53,952	43.8%	\$ 89,041	\$ 34,227	72.2%
Community Development	\$ 820,368	\$ 311,340	38.0%	\$ 1,085,095	\$ 404,532	37.3%	\$ 953,423	\$ 131,672	87.9%
CIT	\$ 2,257,429	\$ 848,792	37.6%	\$ 2,807,431	\$ 1,219,083	43.4%	\$ 2,204,700	\$ 602,731	78.5%
General Services	\$ 2,740,507	\$ 868,291	31.7%	\$ 3,269,341	\$ 1,415,739	43.3%	\$ 3,121,430	\$ 147,911	95.5%
Non-Departmental	\$ 448,913	\$ 4,942,885	1101.1%	\$ 13,711,005	\$ 16,449,865	120.0%	\$ 33,980,565	\$ (20,269,560)	247.8%
Police	\$ 6,873,994	\$ 3,484,540	50.7%	\$ 10,602,723	\$ 4,991,466	47.1%	\$ 10,215,699	\$ 387,024	96.3%
Fire	\$ 4,005,398	\$ 1,243,670	31.0%	\$ 6,826,077	\$ 2,954,060	43.3%	\$ 7,330,693	\$ (504,616)	107.4%
Public Works	\$ 5,847,566	\$ 2,712,844	46.4%	\$ 9,259,600	\$ 3,497,062	37.8%	\$ 7,835,299	\$ 1,424,301	84.6%
Community Services	\$ 6,487,416	\$ 2,570,416	39.6%	\$ 7,982,092	\$ 3,695,434	46.3%	\$ 7,748,275	\$ 233,817	97.1%
Total Expenditures	\$ 34,064,778	\$ 18,606,682	54.6%	\$ 59,985,682	\$ 36,436,650	60.7%	\$ 77,540,056	\$ (17,554,374)	129.3%

As shown above, the level of expenditures to date is exceeding last year's amount by \$17.8 million. To date, 60.7% of the non-wage General Fund budget has been expended as of December 31, 2022, compared to the same period the year before at 54.6%. This is largely driven by the timing of the 2020 Lease Revenue Bonds annual payments being front loaded in the fiscal year.

Overall, the projected total shows a deficit (in non-wage only) of \$12.6 million, which is largely driven by the projected one-time contributions to the City's Self-Insurance Fund of \$9.0 million and contribution to Fleet Services Fund of \$8.0 million. Absent these one-time contributions, this table demonstrates departments effectively reducing their overall spending as there would be a \$4.4 million surplus.

The majority of this projected savings is reflected in City Manager, Communications and Information Technology (CIT) and Public Works. For Public Works, the largest projected surplus, this is primarily driven by suppressed non-wage spending due to high vacancy rates. Conversely, the City Attorney, Finance, Human Resources, and Fire departments are projected to exceed their budgets. 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 (50.4%) with 43.4% of materials expended. The Department continues to expand its effort 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 \$603,000 in savings.

Non-Departmental

In Non-Departmental, the non-wage budget is projected to be exceeded by \$20.3 million. This is driven by the aforementioned one-time \$9.0 million transfer to the Self-Insurance Fund , \$8.0 million projected transfer to the Fleet Services Fund, and \$5.0 million transfer to the Sanitation Fund. As a result of improved revenues, staff is recommending that the General Fund revenue and expenditure budget be increased by \$8.0 million to create budget to support the Fleet Services Fund transfer. The transfer to Self-Insurance ensures the City continues to prioritize this long-term Area of Focus. The transfer to Fleet Services Fund resolves a negative cash and fund balance in the Fleet Operations Fund and cash balance shortage in Fleet Replacement Fund. The transfer to the Sanitation Fund replenishes the Fund for a Fiscal Year 2017-18 payment for a legal settlement during that time.

Police

In the Police Department, year to date non-wage expenditures are below the amount of the year expired (50.4%) with 47.1% of materials expended. The Department generated savings from salaries and wages, which was utilized to increase non-wage budget by \$300,000. Staff continue to evaluate budget levels in the non-wage area of Police to align with actual needs and have continued to improve this variance in recent years. As shown earlier, the Department is projected to end the year within their allocated expenditure budget.

Fire

In the Fire Department, year to date non-wage expenditures are below the amount of the year expired (50.4%) with 43.3% of materials expended. The Department is projecting budgetary non-wage deficit of \$505,000, primarily due to the newly implemented PP-GEMT IGT program. The City Council approved the First Quarter Budget Review Report program modification at the February 7, 2023 Council Meeting, which will address this budget shortfall.

Public Works

In the Public Works Department, year to date non-wage expenditures are below the amount of year expired (50.4%) with 37.8% of materials expended. Due to high levels of vacancies in the department, 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 material budget is projected to generate \$1.4 million 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		Percent of Budget	2022-23		Percent of Budget
	Amended Budget	December 2021-22 Actual		Amended Budget	December 2022-23 Actual	
Salaries and Employee Benefits	190,612,003	91,274,760	47.9%	195,711,675	89,073,023	45.5%
Salaries and Benefits Reimbursements	(538,305)	(611,963)	113.7%	(51,294)	(337,527)	658.0%
Reimbursements-Indirect Costs	(7,947,803)	(3,582,777)	45.1%	(7,813,890)	(3,016,268)	38.6%
Materials, Supplies & Maintenance	13,989,279	5,222,133	37.3%	16,618,338	6,450,375	38.8%
Materials Reimbursements	(761,712)	(303,324)	39.8%	(221,351)	(122,960)	55.5%
Professional/Contract Services & Utilities	13,041,356	5,173,375	39.7%	15,547,774	6,967,909	44.8%
Training, Travel & Membership Dues	935,685	451,210	48.2%	1,356,726	652,148	48.1%
Liabilities, Settlements & Insurance	969,945	149,583	15.4%	967,843	208,604	21.6%
Interdepartmental Charges	5,394,653	3,025,033	56.1%	12,698,048	6,349,020	50.0%
Debt Service	19,371,708	13,218,415	68.2%	22,360,355	14,301,339	64.0%
Debt Service Reimbursements	(18,097,064)	(9,508,528)	52.5%	(18,337,744)	(8,826,102)	48.1%
Capital Acquisitions	305,675	80,502	26.3%	380,774	93,000	24.4%
Other Operating Transfers Out	6,862,056	4,681,009	68.2%	16,427,809	13,379,585	81.4%
Bad Debts and Other Losses	1,000	51	5.1%	1,000	-	0.0%
Total Expenditures	\$224,138,476	\$109,269,479	48.8%	\$255,646,063	\$125,172,146	49.0%

As shown above, the City's General Fund shows increase in actual expenditures of approximately \$15.9 million year to date. The main driver in this increase is \$8.7 million increase in Operating Transfers Out and \$3.3 million 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, the transfer to the Self-Insurance Fund, and 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 budgeted cycles.

General Fund – Measure SST Fund

The General Fund – Measure SST Fund is a sub-fund of the overall General Fund when reported in the Annual Comprehensive Finance Report (Annual Report). It was established in Fiscal Year 2022-23 with the passage of the Measure SST in June 2022 with the budget approved by City Council on July 12, 2022. This subfund of the General Fund is created to separately to track revenues and expenditures in compliance with the audit requirements outlined in the ballot measure.

General Fund – Measure SST Fund

	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Taxes	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 2,166,731	16.0%	\$ 17,550,521	\$ 4,050,521	130.0%
Use of Money and Property	\$ -	\$ -	0.0%	\$ -	\$ (3,666)	0.0%	\$ 25,000	\$ 25,000	0.0%
Total Revenues	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 2,163,065	16.0%	\$ 17,575,521	\$ 4,075,521	130.2%
Expenditures									
Materials, Supplies & Maintenance	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ 350,000	\$ (350,000)	0.0%
Other Operating Transfers Out	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 6,569,747	48.7%	\$ 17,225,521	\$ (3,725,521)	127.6%
Total Expenditures	\$ -	\$ -	0.0%	\$ 13,500,000	\$ 6,569,747	48.7%	\$ 17,575,521	\$ (4,075,521)	130.2%
Revenues Less Expenditures	\$ -	\$ -		\$ -	\$ (4,406,682)		\$ -		

As of December 31, 2022, revenues collected to date is 16.0% for the current year. Measure SST was approved with an effective date of October 1, 2022 with the first receipt in December 2022. As a result the year-to-date receipts for this first year will be suppressed. At fiscal year-end, projected revenues are expected to generate a budgetary surplus of \$4.1 million.

On the expenditure side, as of December 31, 2022, year to date expenditures is 48.7% for the current year. This represents Transfers Out to General Fund for \$3.5 million (projected to be \$10.4 million by the end of the year) to reinstate Police & Fire positions in the General Fund Operating Fund. Additionally, \$3.1 million has been transferred to General Fund to improve the unassigned fund balance (reserves) of General Fund Operating Fund. It is recommended an additional \$3.7 million be transferred to the General Fund Operating Fund based on current trends in Measure SST revenues to further rebuild the fund balance (reserves). These expenditures align with the actions approved by Council on July 12, 2022. Overall, staff projects no surplus in the General Fund – SST Fund.

As a result of this analysis, staff recommends increasing the revenue and expenditure budget by \$4.1 million to align with projected revenues. This increase is recommended to support additional cybersecurity expenditures (consistent with Measure SST priorities) along with an increased transfer to the General Fund Operating Fund to further rebuild the unassigned fund balance (reserves).

General Fund – Restricted/Assigned

The General Fund – Restricted/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 (phasing out in Fiscal Year 2022-23)
- Fire Apparatus Replacement Fund (phasing out in Fiscal Year 2022-23)
- 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), Cable’s PEG Funds and the El Camino Training Funds for Fire and Police.

General Fund – Restricted/Assigned

	2021-22	December	Percent	2022-23	December	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	\$ 365,550	\$ 125,434	34.3%	\$ 365,550	\$ (151,934)	-41.6%	\$ 243,018	\$ (122,532)	66.5%
Other Revenues	\$ -	\$ 12,035	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 3,646,724	\$ 3,399,279	93.2%	\$ 5,079,291	\$ 3,812,604	75.1%	\$ 5,299,541	\$ 220,250	104.3%
Total Revenues	\$ 4,012,274	\$ 3,536,748	88.1%	\$ 5,444,841	\$ 3,660,670	67.2%	\$ 5,542,559	\$ 97,718	101.8%
Expenditures									
Salaries and Employee Benefits	\$ -	\$ 69	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 65,000	\$ 9,353	14.4%	\$ 66,800	\$ 4,739	7.1%	\$ 36,304	\$ 30,496	54.3%
Professional/Contract Services & Utilities	\$ 337,066	\$ 76,793	22.8%	\$ 255,945	\$ 3,280	1.3%	\$ 9,127	\$ 246,818	3.6%
Training, Travel & Membership Dues	\$ -	\$ 395	0.0%	\$ -	\$ 2,625	0.0%	\$ 11,264	\$ (11,264)	0.0%
Liabilities, Settlements & Insurance	\$ -	\$ 1,223	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Debt Service	\$ 5,000	\$ 604	12.1%	\$ 5,000	\$ 613	12.3%	\$ 1,291	\$ 3,709	25.8%
Other Expenditures	\$ -	\$ 1,171	0.0%	\$ -	\$ 1,187	0.0%	\$ 2,498	\$ (2,498)	0.0%
Capital Acquisitions	\$ 529,499	\$ 318,515	60.2%	\$ 797,609	\$ 265,845	33.3%	\$ 518,680	\$ 278,929	65.0%
Other Operating Transfers Out	\$ 1,152,315	\$ 1,149,398	99.7%	\$ 375,000	\$ 373,844	99.7%	\$ 1,867,705	\$ (1,492,705)	498.1%
Total Expenditures	\$ 2,088,880	\$ 1,557,521	74.6%	\$ 1,500,354	\$ 652,133	43.5%	\$ 2,446,868	\$ (946,514)	163.1%
Revenues Less Expenditures	\$ 1,923,394	\$ 1,979,227		\$ 3,944,487	\$ 3,008,537		\$ 3,095,691		

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 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 December 31, 2022, receipts are above last year by \$124,000, primarily due to increase in transfers from the General Fund Operating Fund to the City's Radio Communications Replacement Fund and Fire Apparatus Replacement Fund. This increase was partially offset due to the investment loss recognized to date in current year in the City's CEPPT Fund.

On the expenditure side, as of December 31, 2022, year to date expenditures have decreased by \$905,000. 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 \$3.1 million contributing to the General Fund's overall fund balance.

Staff recommends an appropriation of \$1.5 million in the City's Fire Apparatus Fund in order to transfer this balance to the City's Fleet Services Fund. In an effort to continue consolidating and simplifying the funding structure of the City, and improve budget flexibility, the Fire Apparatus Fund's balance will shift to the City's Fleet Services and these vehicles will be tracked with all other vehicles improving consistency.

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	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 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	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 146,776	\$ 146,776	100.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Expenditures	\$ 146,776	\$ 146,776	100.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Revenues Less Expenditures	\$ (146,776)	\$ (146,776)		\$ -	\$ -		\$ -		

Due to the fluctuating nature of these sub-funds, one must be mindful when examining the budget to actual performance. In a given year, the City may set aside funds for future economic downturns then expend 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 audited 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	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	\$ 22,094,180	\$ 36,645,793	\$ 13,556,985	\$ 50,202,778
Total	\$ 22,633,062	\$ 22,094,180	\$ 44,727,242	\$ 13,556,985	\$ 58,284,227

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 \$50.3 million for an overall unassigned fund balance total of \$58.4 million.

The GFOA recommends a 20% unassigned fund balance which translates to approximately \$51.2 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 \$192.1 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 \$128.1 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



MID-YEAR

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			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Total Revenues	\$ 6,740,000	\$ 4,780,466	70.9%	\$ 17,347,600	\$ 10,588,530	61.0%	\$ 26,177,060	\$ 8,829,460	150.9%
Total Expenditures	\$ 12,353,059	\$ 7,542,330	61.1%	\$ 25,634,485	\$ 8,770,396	34.2%	\$ 17,199,953	\$ 8,434,532	67.1%
Revenues Less Expenditures	\$ (5,613,059)	\$ (2,761,864)		\$ (8,286,885)	\$ 1,818,134		\$ 8,977,108		

As shown above, the self-Insurance Fund’s revenues are lagging when compared with the year prior. As of December 31, 2022, 61.0% of budgeted revenues have been collected compared with 70.9% the year prior. On the expenditures side, 34.2% has been spent to date, compared with 61.1% the year prior. This will be examined in more detail in the following sections.

Self-Insurance – Operations

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Revenues									
Charges for Services	\$ 6,740,000	\$ 4,780,466	70.9%	\$ 17,347,600	\$ 8,588,530	49.5%	\$ 17,177,060	\$ (170,540)	99.0%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ 2,000,000	0.0%	\$ 9,000,000	\$ 9,000,000	0.0%
Other Revenues	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 6,740,000	\$ 4,780,466	70.9%	\$ 17,347,600	\$ 10,588,530	61.0%	\$ 26,177,060	\$ 8,829,460	150.9%
Expenditures									
Salaries and Employee Benefits	\$ 974,532	\$ 468,234	48.0%	\$ 1,046,209	\$ 387,772	37.1%	\$ 662,429	\$ 383,780	63.3%
Materials, Supplies & Maintenance	\$ 30,683	\$ 5,884	19.2%	\$ 30,683	\$ 3,081	10.0%	\$ 8,956	\$ 21,727	29.2%
Professional/Contract Services & Utilities	\$ 133,279	\$ 47,660	35.8%	\$ 783,279	\$ 39,366	5.0%	\$ 541,518	\$ 241,761	69.1%
Training, Travel & Membership Dues	\$ 8,500	\$ 1,835	21.6%	\$ 8,500	\$ 2,277	26.8%	\$ 2,840	\$ 5,660	33.4%
Liabilities, Settlements & Insurance	\$ 11,196,340	\$ 7,013,851	62.6%	\$ 15,558,863	\$ 8,334,426	53.6%	\$ 15,977,258	\$ (418,395)	102.7%
Interdepartmental Charges	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 9,725	\$ 4,866	50.0%	\$ 6,951	\$ 3,474	50.0%	\$ 6,951	\$ (0)	100.0%
Bad Debts and Other Losses	\$ -	\$ -	0.0%	\$ 8,200,000	\$ -		\$ -	\$ 8,200,000	0.0%
Total Expenditures	\$ 12,353,059	\$ 7,542,330	61.1%	\$ 25,634,485	\$ 8,770,396	34.2%	\$ 17,199,953	\$ 8,434,532	67.1%
Revenues Less Expenditures	\$ (5,613,059)	\$ (2,761,864)		\$ (8,286,885)	\$ 1,818,134		\$ 8,977,108		

As noted earlier, revenues received to date as a percentage of budget has declined, compared to the year prior. However, actual revenues to date have increased by \$5.8 million, or 121.5%, 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 decade. Based on recent trends and total projected expenditures an additional \$9.0 million is projected to be transferred into Self-Insurance as a one-time transfer from the General Fund to continue addressing the funding shortfall. This is made possible by one-time savings through vacancies and other expenditures savings in the General Fund.

On the expenditure side, the City is projecting a decrease compared to the prior year. As of December 31, 2022, 34.2% of budgeted expenditures have been expended, with a projected surplus of \$8.4 million. This is mainly due to the decrease in projected expenditures for year-end actuarial entry by \$8.2 million. In recent years, the City obtained an actuarial study annually (only legally required every 3 years), which prompted expenditures at fiscal year-end due to increasing liabilities. With the transition of workers' compensation claims shifting to an outside vendor in Fiscal Year 2022-23, staff will not be conducting the year-end actuarial study this year but will resume the annual process in Fiscal Year 2023-24. In addition, the City is projecting a slight decrease in expenditures in the Liability program. In the Liability program, the projected total includes potential settlements for the remainder of the fiscal year. The additional \$9.0 million contribution is projected to help reduce the negative fund balance of the Self-Insurance Fund (-\$62.2 million at the end of Fiscal Year 2021-22).

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 contribution 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	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 6,067,803	\$ 3,179,215	52.4%	\$ 9,628,182	\$ 4,142,469	43.0%	\$ 17,869,319	\$ 8,241,137	185.6%
Total Expenditures	\$ 6,655,930	\$ 3,210,053	48.2%	\$ 6,907,859	\$ 2,716,005	39.3%	\$ 5,482,798	\$ 1,425,061	79.4%
Revenues Less Expenditures	\$ (588,127)	\$ (30,838)		\$ 2,720,323	\$ 1,426,464		\$ 12,386,521		

As shown above, the Fleet Services Fund's revenues are lagging when compared with the year prior. As of December 31, 2022, 43.0% of budgeted revenues have been collected compared with 52.4% the year prior. On the expenditure side of the operation, 39.3% has been spent to date, compared with 48.2% the year prior. This will be examined in more detail in the following sections.

Fleet Services – Operations

	2021-22 Amended Budget	December 2021- 22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022- 23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ -	\$ (28,860)	0.0%	\$ -	\$ (25,971)	0.0%	\$ 46,507	\$ 46,507	0.0%
Other Revenues	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Charges for Services	\$ 2,792,980	\$ 1,364,386	48.9%	\$ 4,693,325	\$ 1,953,005	41.6%	\$ 4,166,598	\$ (526,727)	88.8%
Operating Transfers In	\$ -	\$ -	0.0%	\$ 975,130	\$ -	0.0%	\$ 6,000,000	\$ 5,024,870	615.3%
Total Revenues	\$ 2,792,980	\$ 1,335,526	47.8%	\$ 5,668,455	\$ 1,927,034	34.0%	\$ 10,213,106	\$ 4,544,651	180.2%
Expenditures									
Salaries and Employee Benefits	\$ 3,791,449	\$ 1,664,582	43.9%	\$ 3,772,636	\$ 1,358,419	36.0%	\$ 3,106,207	\$ 666,429	82.3%
Salaries and Benefits Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 297,580	\$ 85,126	28.6%	\$ 334,294	\$ 86,257	25.8%	\$ 215,915	\$ 118,379	64.6%
Parts, Fuel & Lubricants Inventory Purchases	\$ 2,770,000	\$ 1,026,569	37.1%	\$ 2,853,100	\$ 1,021,666	35.8%	\$ 2,732,155	\$ 120,945	95.8%
Parts, Fuel & Lubricants Contra	\$ (2,770,000)	\$ (1,026,569)	37.1%	\$ (2,853,100)	\$ (1,021,666)	35.8%	\$ (2,732,155)	\$ (120,945)	95.8%
Professional/Contract Services & Utilities	\$ 67,532	\$ 57,717	85.5%	\$ 69,558	\$ 59,809	86.0%	\$ 75,896	\$ (6,338)	109.1%
Training, Travel & Membership Dues	\$ 50,300	\$ 3,375	6.7%	\$ 51,809	\$ 10,571	20.4%	\$ 51,809	\$ (0)	100.0%
Liabilities, Settlements & Insurance	\$ 16,388	\$ -	0.0%	\$ 16,880	\$ -	0.0%	\$ 16,880	\$ -	100.0%
Interdepartmental Charges	\$ 138,337	\$ 72,078	52.1%	\$ 405,395	\$ 202,692	50.0%	\$ 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	\$ 713,866	98.1%	\$ 722,227	\$ 404,452	56.0%	\$ 415,561	\$ 306,666	57.5%
Total Expenditures	\$ 5,139,325	\$ 2,596,744	50.5%	\$ 5,422,799	\$ 2,122,200	39.1%	\$ 4,287,664	\$ 1,135,135	79.1%
Revenues Less Expenditures	\$ (2,346,345)	\$ (1,261,218)		\$ 245,656	\$ (195,166)		\$ 5,925,442		

While the percentage of revenues collected to date is lagging compared with the year prior, actual receipts are up by \$592,000 or 44.3%. In the Fiscal Year 2022-23, labor rates were increased by 85% in an effort to balance actual revenues with actual expenditures in the Fleet Operation 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, an additional \$6.0 million is projected to be transferred into the Operations Fund to address the historical underfunding discussed in recent budget cycles. If Council approves the budget appropriation, it will resolve a long-standing issue highlighted in staff's Areas of Focus section.

On the expenditure side of the operation, 39.1% has been spent to date, compared with 50.5% 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, which was "returned" to the Fund and recorded as a credit of \$307,000, and this lowered actual expenditures to date. With the projected transfer of \$6 million from the General Fund to the Operations Fund, it is projected to generate surplus of \$5.9 million for the current year, which is expected to resolve the long-standing Area of Focus surrounding the negative cash and fund balance.

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

Revenues	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Use of Money and Property	\$ 3,194,359	\$ 1,556,012	48.7%	\$ 3,879,263	\$ 1,680,070	43.3%	\$ 3,626,987	\$ (252,276)	93.5%
Other Revenues	\$ 80,464	\$ 287,677	357.5%	\$ 80,464	\$ -	0.0%	\$ -	\$ (80,464)	0.0%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ 535,365	0.0%	\$ 4,029,226	\$ 4,029,226	0.0%
Total Revenues	\$ 3,274,823	\$ 1,843,689	56.3%	\$ 3,959,727	\$ 2,215,435	55.9%	\$ 7,656,213	\$ 3,696,486	193.4%

Expenditures	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
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	\$ 613,309	43.3%	\$ 1,419,000	\$ 593,805	41.8%	\$ 1,195,134	\$ 223,866	84.2%
Debt Service	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Capital Acquisitions	\$ 2,938,361	\$ 35,375	1.2%	\$ 6,855,366	\$ 420,627	6.1%	\$ 6,791,366	\$ 64,000	99.1%
Asset Contra Account	\$ (2,841,956)	\$ (35,375)	1.2%	\$ (6,791,366)	\$ (420,627)	6.2%	\$ (6,791,366)	\$ (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	\$ 613,309	40.4%	\$ 1,485,060	\$ 593,805	40.0%	\$ 1,195,134	\$ 289,926	80.5%

Revenues Less Expenditures	\$ 1,758,218	\$ 1,230,380		\$ 2,474,667	\$ 1,621,630		\$ 6,461,079		
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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.

Revenues collected within these subfunds (Use of Money and Property) are also lagging relative to budget when compared to the year prior. On the expenditure side of the budget, year to date spending totals 40.0% of the budget compared with 40.4% the year prior. With the projected transfer of \$2 million from the General Fund to the Replacement Fund and the \$1.5 million transfer from the Fire Apparatus Replacement Fund, overall, it is projected that revenues will exceed expenditures by \$6.5 million at year-end. If Council approves the budget appropriations, it is expected to resolve the long-standing Area of Focus surrounding the cash balance shortfall and simplify the tracking and make consistent the accounting for Fire Apparatus Replacements.

ENTERPRISE FUNDS



MID-YEAR

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	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 14,999,188	\$ 7,213,842	48.1%	\$ 23,264,106	\$ 14,420,570	62.0%	\$ 23,032,773	\$ (231,333)	99.0%
Total Expenditures	\$ 15,787,136	\$ 6,841,050	43.3%	\$ 23,457,753	\$ 15,531,885	66.2%	\$ 22,901,561	\$ 556,192	97.6%
Revenues Less Expenditures	\$ (787,948)	\$ 372,792		\$ (193,647)	\$ (1,111,315)		\$ 131,212		

As shown above, as of December 31, 2022, 62.0% of budgeted revenues have been collected compared with 48.1% the year prior. On the expenditure side of the operation, 66.2% has been spent to date, compared with 43.3% the year prior. While the budgeted expenditures exceed budgeted revenues, it is expected to generate \$131,000 surplus at year-end. This will be examined in more detail in the subsequent sections.

Airport – Operations

	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ 145,000	\$ 29,395	20.3%	\$ 85,000	\$ 40,270	47.4%	\$ 73,612	\$ (11,388)	86.6%
Other Revenues	\$ -	\$ 0	0.0%	\$ 400,000	\$ 498,255	124.6%	\$ 564,500	\$ 164,500	141.1%
Charges for Services	\$ 14,854,188	\$ 7,184,447	48.4%	\$ 22,779,106	\$ 13,882,045	60.9%	\$ 22,394,662	\$ (384,444)	98.3%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 14,999,188	\$ 7,213,842	48.1%	\$ 23,264,106	\$ 14,420,570	62.0%	\$ 23,032,773	\$ (231,333)	99.0%
Expenditures									
Salaries and Employee Benefits	\$ 1,397,361	\$ 658,577	47.1%	\$ 1,465,638	\$ 697,827	47.6%	\$ 1,441,354	\$ 24,284	98.3%
Salaries and Benefits Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 145,740	\$ 38,639	26.5%	\$ 177,703	\$ 57,431	32.3%	\$ 139,949	\$ 37,754	78.8%
Materials Reimbursements	\$ -	\$ (437)	0.0%	\$ -	\$ (529)	0.0%	\$ (1,058)	\$ 1,058	0.0%
Professional/Contract Services & Utilities	\$ 1,133,962	\$ 77,734	6.9%	\$ 1,170,648	\$ 554,178	47.3%	\$ 952,120	\$ 218,528	81.3%
Training, Travel & Membership Dues	\$ 10,500	\$ 282	2.7%	\$ 10,815	\$ 3,943	36.5%	\$ 5,290	\$ 5,525	48.9%
Depreciation and Amortization	\$ 275,000	\$ 106,279	38.6%	\$ 275,000	\$ 106,710	38.8%	\$ 213,420	\$ 61,580	77.6%
Liabilities, Settlements & Insurance	\$ 14,113	\$ 4,549	32.2%	\$ 14,536	\$ 6,291	43.3%	\$ 14,536	\$ 0	100.0%
Interdepartmental Charges	\$ 376,292	\$ 171,126	45.5%	\$ 508,407	\$ 261,120	51.4%	\$ 533,037	\$ (24,630)	104.8%
Asset Contra Account	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 12,419,168	\$ 5,784,179	46.6%	\$ 19,820,006	\$ 13,832,831	69.8%	\$ 19,587,913	\$ 232,093	98.8%
Bad Debts and Other Losses	\$ 15,000	\$ 122	0.8%	\$ 15,000	\$ 12,083	80.6%	\$ 15,000	\$ 0	100.0%
Total Expenditures	\$ 15,787,136	\$ 6,841,050	43.3%	\$ 23,457,753	\$ 15,531,885	66.2%	\$ 22,901,561	\$ 556,192	97.6%
Revenues Less Expenditures	\$ (787,948)	\$ 372,792		\$ (193,647)	\$ (1,111,315)		\$ 131,212		

When examining the Airport operating fund, we get a better sense of day-to-day operations. As shown above, revenues collected to date is 62.0% for the current year, compared with 48.1% in the year prior. This is primarily mainly driven by the increase in Charges for Services due to one-time non-aeronautical lease signing bonus of approximately \$6.4 million recognized in current year.

Other Revenues shows increase of \$498,000 due to change in accounting for insurance reimbursement related a legal case, 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, 66.2% has been expended, compared with 43.3% the year prior. This is primarily driven by the increase in Other Operating Transfers Out of \$6.4 million to the General Fund resulting from the one-time lease signing bonus. The projected expenditure is expected to generate budgetary surplus of \$556,000 at year-end. Overall, Staff projects a \$131,000 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		
	Amended	December	Percent	Amended	December	Percent	Projected	Projected	Percent
	Budget	2021-22 Actual	of	Budget	2022-23 Actual	of	Total	Surplus /	of
			Budget			Budget		(Deficit)	Budget
Total Revenues	\$ 15,562,692	\$ 6,038,925	38.8%	\$ 15,680,878	\$ 5,997,172	38.2%	\$ 20,758,354	\$ 5,077,476	132.4%
Total Expenditures	\$ 16,135,499	\$ 6,897,446	42.7%	\$ 15,866,751	\$ 6,457,602	40.7%	\$ 14,274,489	\$ 1,592,262	90.0%
Rev Less Exp	\$ (572,807)	\$ (858,521)		\$ (185,873)	\$ (460,430)		\$ 6,483,865		

As shown above, the Sanitation Fund’s revenues are slightly lagging when compared with the year prior. As of December 31, 2022, 38.2% of budgeted revenues have been collected compared with 38.8% the year prior. On the expenditure side of the operation, 40.7% has been spent to date, compared with 42.7% the prior year. The details of these numbers will be examined in more detail in the subsequent sections.

Sanitation – Operations

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ 60,000	\$ (23,054)	-38.4%	\$ (85,000)	\$ (20,098)	23.6%	\$ (48,237)	\$ 36,763	56.7%
Other Revenues	\$ 50,000	\$ 93,501	187.0%	\$ 50,000	\$ 26,637	53.3%	\$ 50,000	\$ (0)	100.0%
Charges for Services	\$ 13,065,359	\$ 4,759,815	36.4%	\$ 13,585,691	\$ 5,090,286	37.5%	\$ 13,939,413	\$ 353,722	102.6%
Operating Transfers In	\$ 409,853	\$ 127,932	31.2%	\$ 297,917	\$ 148,974	50.0%	\$ 5,297,917	\$ 5,000,000	1778.3%
Total Revenues	\$ 13,585,212	\$ 4,958,194	36.5%	\$ 13,848,608	\$ 5,245,799	37.9%	\$ 19,239,093	\$ 5,390,485	138.9%
Expenditures									
Salaries and Employee Benefits	\$ 4,859,791	\$ 2,143,217	44.1%	\$ 4,121,248	\$ 1,939,478	47.1%	\$ 3,946,218	\$ 175,030	95.8%
Salaries and Benefits Reimbursements	\$ -	\$ (4,988)	0.0%	\$ -	\$ (2,472)	0.0%	\$ 0	\$ (0)	0.0%
Materials, Supplies & Maintenance	\$ 3,017,068	\$ 1,346,928	44.6%	\$ 3,612,148	\$ 1,465,337	40.6%	\$ 3,154,752	\$ 457,396	87.3%
Materials Reimbursements	\$ -	\$ (63,205)	0.0%	\$ -	\$ (44,636)	0.0%	\$ (81,507)	\$ 81,507	0.0%
Professional/Contract Services & Utilities	\$ 3,256,045	\$ 1,124,061	34.5%	\$ 3,443,320	\$ 1,142,394	33.2%	\$ 3,194,641	\$ 248,679	92.8%
Training, Travel & Membership Dues	\$ 11,355	\$ 127	1.1%	\$ 31,696	\$ 1,269	4.0%	\$ 6,025	\$ 25,671	19.0%
Depreciation and Amortization	\$ 31,000	\$ 21,966	70.9%	\$ 31,000	\$ 22,889	73.8%	\$ 45,776	\$ (14,776)	147.7%
Liabilities, Settlements & Insurance	\$ 46,683	\$ 429	0.9%	\$ 48,083	\$ 1,127	2.3%	\$ 15,355	\$ 32,728	31.9%
Interdepartmental Charges	\$ 1,605,355	\$ 753,019	46.9%	\$ 1,636,074	\$ 766,037	46.8%	\$ 1,608,013	\$ 28,061	98.3%
Debt Service	\$ 90,000	\$ -	0.0%	\$ 90,000	\$ -	0.0%	\$ -	\$ 90,000	0.0%
Capital Acquisitions	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Asset Contra Account	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 1,900,242	\$ 1,035,566	54.5%	\$ 1,710,222	\$ 711,575	41.6%	\$ 1,423,150	\$ 287,072	83.2%
Bad Debts and Other Losses	\$ 52,860	\$ 184	0.3%	\$ 52,860	\$ -	0.0%	\$ 52,860	\$ -	100.0%
Total Expenditures	\$ 14,870,399	\$ 6,357,304	42.8%	\$ 14,776,651	\$ 6,002,999	40.6%	\$ 13,365,284	\$ 1,411,367	90.4%
Revenues Less Expenditures	\$ (1,285,187)	\$ (1,399,110)		\$ (928,043)	\$ (757,200)		\$ 5,873,810		

When examining the Sanitation Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are slightly improving compared with the year prior. To date, 37.9% of budgeted revenues have been collected compared with 36.5% the year prior. This is primarily due to a collection timing difference related to the CalWater District and a billing file lag. Additionally, included in the projected year-end results, is a one-time transfer from the General Fund for \$5.0 million. This one-time transfer replenishes the Sanitation Fund for a Fiscal Year 2017-18 payment that was funded by the Sanitation Fund for a legal settlement during that time. Overall, staff expect the total projected revenue to be higher than the budget by \$5.4 million, due to the one-time Transfers In from the General Fund.

The Sanitation Fund’s operating expenditures to date are within budgeted levels. To date, 40.6% has been expended, compared with 42.8% the year prior. When examining actual expenditures year to year, we see a decrease of about \$354,000, primarily driven by the transfer of the Street Sweeping program from the Sanitation Fund to the General Fund.

Overall, the Sanitation’s operating fund is projected to end the year with a \$5.9 million surplus, largely driven by the one-time transfer in from the General Fund and expenditure savings among most categories.

Sanitation – Replacement

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ 85,000	\$ 42,327	49.8%	\$ 125,000	\$ 41,276	33.0%	\$ 99,063	\$ -	79.3%
Other Revenues	\$ -	\$ 6,750	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 1,892,480	\$ 1,031,654	54.5%	\$ 1,707,270	\$ 710,097	41.6%	\$ 1,420,198	\$ (287,072)	83.2%
Total Revenues	\$ 1,977,480	\$ 1,080,731	54.7%	\$ 1,832,270	\$ 751,373	41.0%	\$ 1,519,261	\$ (313,009)	82.9%
Expenditures									
Materials, Supplies & Maintenance	\$ 75,000	\$ 74,361	99.1%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Depreciation and Amortization	\$ 1,190,100	\$ 465,781	39.1%	\$ 1,090,100	\$ 454,603	41.7%	\$ 909,206	\$ 180,894	83.4%
Capital Acquisitions	\$ 2,771,561	\$ 771,561	27.8%	\$ 3,661,047	\$ -	0.0%	\$ 2,959,583	\$ 701,464	80.8%
Asset Contra Account	\$ (2,771,561)	\$ (771,561)	27.8%	\$ (3,661,047)	\$ -	0.0%	\$ (2,959,583)	\$ (701,464)	80.8%
Other Operating Transfers Out	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Expenditures	\$ 1,265,100	\$ 540,142	42.7%	\$ 1,090,100	\$ 454,603	41.7%	\$ 909,206	\$ 180,894	83.4%
Revenues Less Expenditures	\$ 712,380	\$ 540,589		\$ 742,170	\$ 296,770		\$ 610,055		

The Vehicle Replacement area of the Sanitation Fund is responsible for receiving funds from Sanitation Operations to purchase vehicles. 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, four CNG Autocar/Heil Collection Trucks, and one Ford F-150 Truck approved by Council on December 7, 2021, December 6, 2022 and December 20, 2022, respectively.

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 2023 through December 2027.

Sewer – Overall

	2021-22			2022-23			Projected		
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 6,439,225	\$ 2,585,470	40.2%	\$ 6,165,910	\$ 2,466,082	40.0%	\$ 7,089,546	\$ 923,636	115.0%
Total Expenditures	\$ 7,270,851	\$ 3,999,125	55.0%	\$ 6,175,601	\$ 3,085,766	50.0%	\$ 5,053,942	\$ 1,121,659	81.8%
Rev Less Exp	\$ (831,626)	\$ (1,413,655)		\$ (9,691)	\$ (619,685)		\$ 2,035,605		

As shown above, the Sewer Fund’s revenues are slightly lagging when compared with the year prior. As of December 31, 2022, 40.0% of budgeted revenues have been collected compared with 40.2% the year prior. On the expenditure side of the operation, 50.0% has been spent to date, compared with 55.0% 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

Revenues	2021-22			2022-23			Projected		
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
Use of Money and Property	\$ 75,000	\$ 25,300	33.7%	\$ 75,000	\$ 21,958	29.3%	\$ 52,699	\$ (22,301)	70.3%
Other Revenues	\$ 6,161	\$ -	0.0%	\$ 6,161	\$ 7,395	120.0%	\$ 13,556	\$ 7,395	220.0%
Charges for Services	\$ 6,130,164	\$ 2,430,611	39.7%	\$ 5,725,220	\$ 2,257,726	39.4%	\$ 6,662,365	\$ 937,145	116.4%
Operating Transfers In	\$ -	\$ 4,254	0.0%	\$ 8,069	\$ 4,032	50.0%	\$ 8,069	\$ (0)	100.0%
Total Revenues	\$ 6,211,325	\$ 2,460,165	39.6%	\$ 5,814,450	\$ 2,291,112	39.4%	\$ 6,736,689	\$ 922,239	115.9%
Expenditures	2021-22			2022-23			Projected		
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
Salaries and Employee Benefits	\$ 2,750,269	\$ 1,125,593	40.9%	\$ 1,813,364	\$ 753,931	41.6%	\$ 1,595,528	\$ 217,836	88.0%
Salaries and Benefits Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 346,478	\$ 113,291	32.7%	\$ 399,167	\$ 129,628	32.5%	\$ 268,433	\$ 130,734	67.2%
Materials Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Professional/Contract Services & Utilities	\$ 997,768	\$ 278,544	27.9%	\$ 1,062,378	\$ 415,130	39.1%	\$ 797,526	\$ 264,852	75.1%
Training, Travel & Membership Dues	\$ 11,114	\$ 506	4.6%	\$ 16,447	\$ 470	2.9%	\$ 1,553	\$ 14,894	9.4%
Depreciation and Amortization	\$ 2,194	\$ 547	24.9%	\$ 101,094	\$ -	0.0%	\$ -	\$ 101,094	0.0%
Liabilities, Settlements & Insurance	\$ 3,667	\$ 3,667	100.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Interdepartmental Charges	\$ 854,555	\$ 380,296	44.5%	\$ 699,785	\$ 312,073	44.6%	\$ 687,815	\$ 11,970	98.3%
Capital Acquisitions	\$ 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%
Other Operating Transfers Out	\$ 2,107,900	\$ 2,001,397	94.9%	\$ 1,886,460	\$ 1,395,122	74.0%	\$ 1,562,801	\$ 323,659	82.8%
Bad Debts and Other Losses	\$ 20,000	\$ 12,165	60.8%	\$ 20,000	\$ -	0.0%	\$ -	\$ 20,000	0.0%
Total Expenditures	\$ 7,100,851	\$ 3,916,006	55.1%	\$ 6,005,601	\$ 3,006,355	50.1%	\$ 4,913,657	\$ 1,091,944	81.8%
Revenues Less Expenditures	\$ (889,526)	\$ (1,455,841)		\$ (191,151)	\$ (715,243)		\$ 1,823,033		

When examining the Sewer Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are slightly lagging compared to the same period the year before. As of December 31, 2022, 39.4% of budgeted revenues have been collected compared with 39.6% the year prior. This is primarily driven by the conservation efforts and reductions experienced on the residential side of the Water Fund (driver for Sewer charges). Overall, the projected revenues are expected to generate a budgetary surplus of \$922,000. This is primarily driven by the increase in the approved rate effective January 2023, partially offset by the reduction due to the conservation efforts.

On the expenditure side of the operation, 50.1% has been spent to date, compared with 55.1% the year prior. When examining actual expenditures year to year, we see a decrease of about \$910,000 overall, primarily due to decrease in Other Operating Transfers Out by \$606,000. This is mainly due to decrease in contribution to the Sewer Capital Fund related to the Capital Improvement Plan by \$345,000. Additionally, in the current year, excess capital contribution of \$307,000 was identified in existing capital projects, which was “returned” to the Fund and recorded as a credit of \$307,000, and this lowered actual expenditures to date.

Overall, the Sewer’s operating fund is projected to end the year operating at a \$1.8 million surplus, primarily driven by projected increase in revenues due to the approved rate increase effective January 2023, as well as reduced expenditures across most categories.

Sewer – Replacement

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ -	\$ 3,908	0.0%	\$ -	\$ 7,291	0.0%	\$ 17,499	\$ 17,499	0.0%
Other Revenues	\$ -	\$ -		\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 227,900	\$ 121,397	53.3%	\$ 351,460	\$ 167,679	47.7%	\$ 335,358	\$ (16,102)	95.4%
Total Revenues	\$ 227,900	\$ 125,305	55.0%	\$ 351,460	\$ 174,970	49.8%	\$ 352,857	\$ 1,397	100.4%
Expenditures									
Depreciation and Amortization	\$ 170,000	\$ 83,119	48.9%	\$ 170,000	\$ 79,412	46.7%	\$ 140,285	\$ 29,715	82.5%
Capital Acquisitions	\$ 100,000	\$ -	0.0%	\$ 2,004,027	\$ -	0.0%	\$ 2,004,027	\$ -	100.0%
Asset Contra Account	\$ (100,000)	\$ -	0.0%	\$ (2,004,027)	\$ -	0.0%	\$ (2,004,027)	\$ -	100.0%
Total Expenditures	\$ 170,000	\$ 83,119	48.9%	\$ 170,000	\$ 79,412	46.7%	\$ 140,285	\$ 29,715	82.5%
Revenues Less Expenditures	\$ 57,900	\$ 42,186		\$ 181,460	\$ 95,559		\$ 212,572		

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. The projection above includes the expected purchase of two Freightliner CNG Chassis Cab, three Ford F-350XL with Utility Body, and one Ford F-150 Truck approved by Council on December 20, 2022.

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	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 32,376,518	\$ 12,595,539	38.9%	\$ 45,232,700	\$ 18,171,379	40.2%	\$ 43,082,197	\$ (2,150,503)	95.2%
Total Expenditures	\$ 37,517,253	\$ 13,639,919	36.4%	\$ 38,642,171	\$ 12,507,880	32.4%	\$ 26,739,796	\$ 11,902,375	69.2%
Rev Less Exp	\$ (5,140,735)	\$ (1,044,380)		\$ 6,590,529	\$ 5,663,499		\$ 16,342,401		

As shown above, the Transit Fund’s revenues are slightly improving compared to the year prior. As of December 31, 2022, 40.2% of budgeted revenues have been collected compared with 38.9% the year prior. On the expenditure side of the operation, 32.4% has been spent to date, compared with 36.4% the year prior.

Transit – Operations

	2021-22 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ 335,927	\$ 49,383	14.7%	\$ 93,337	\$ 95,050	101.8%	\$ 117,752	\$ 24,415	126.2%
Intergovernmental	\$ 15,726,295	\$ 7,800,310	49.6%	\$ 29,427,908	\$ 12,313,869	41.8%	\$ 29,744,099	\$ 316,191	101.1%
Other Revenues	\$ 57,500	\$ 3,550	6.2%	\$ 76,201	\$ 2,467	3.2%	\$ 29,211	\$ (46,990)	38.3%
Charges for Services	\$ 13,582,473	\$ 3,394,437	25.0%	\$ 12,635,254	\$ 4,247,993	33.6%	\$ 10,191,135	\$ (2,444,119)	80.7%
Operating Transfers In	\$ 2,674,323	\$ 1,347,859	50.4%	\$ 3,000,000	\$ 1,512,000	50.4%	\$ 3,000,000	\$ (0)	100.0%
Total Revenues	\$ 32,376,518	\$ 12,595,539	38.9%	\$ 45,232,700	\$ 18,171,379	40.2%	\$ 43,082,197	\$ (2,150,503)	95.2%
Expenditures									
Salaries and Employee Benefits	\$ 20,306,659	\$ 7,975,411	39.3%	\$ 20,758,100	\$ 6,767,034	32.6%	\$ 14,198,812	\$ 6,559,288	68.4%
Materials, Supplies & Maintenance	\$ 3,854,267	\$ 826,029	21.4%	\$ 3,044,787	\$ 709,069	23.3%	\$ 2,294,876	\$ 749,911	75.4%
Materials Reimbursements	\$ -	\$ (90,196)	0.0%	\$ (250,000)	\$ (73,854)	29.5%	\$ (175,692)	\$ (74,308)	70.3%
Parts, Fuel & Lubricants Inventory Purchases	\$ 961,440	\$ 288,641	30.0%	\$ 990,283	\$ 285,950	28.9%	\$ 829,521	\$ 160,762	83.8%
Parts, Fuel & Lubricants Contra	\$ (961,440)	\$ (288,641)	30.0%	\$ (990,283)	\$ (285,950)	28.9%	\$ (829,521)	\$ (160,762)	83.8%
Professional/ Contract Services & Utilities	\$ 3,005,159	\$ 553,447	18.4%	\$ 1,920,836	\$ 774,238	40.3%	\$ 1,964,650	\$ (43,814)	102.3%
Training, Travel & Membership Dues	\$ 154,391	\$ 31,248	20.2%	\$ 159,023	\$ 43,010	27.0%	\$ 90,344	\$ 68,679	56.8%
Depreciation and Amortization	\$ 4,514,089	\$ 2,064,899	45.7%	\$ 5,414,089	\$ 1,603,645	29.6%	\$ 3,207,290	\$ 2,206,799	59.2%
Liabilities, Settlements & Insurance	\$ 211,300	\$ 60,334	28.6%	\$ 217,639	\$ 41,089	18.9%	\$ 82,179	\$ 135,460	37.8%
Interdepartmental Charges	\$ 5,407,942	\$ 2,593,617	48.0%	\$ 7,279,828	\$ 2,831,717	38.9%	\$ 5,820,647	\$ 1,459,181	80.0%
Capital Acquisitions	\$ -	\$ 1,932	0.0%	\$ -	\$ 4,979	0.0%	\$ 9,958	\$ (9,958)	0.0%
Asset Contra Account	\$ -	\$ (411,402)	0.0%	\$ -	\$ (255,054)	0.0%	\$ (851,137)	\$ 851,137	0.0%
Other Operating Transfers Out	\$ 63,446	\$ 34,600	54.5%	\$ 97,869	\$ 62,007	63.4%	\$ 97,869	\$ (0)	100.0%
Total Expenditures	\$ 37,517,253	\$ 13,639,919	36.4%	\$ 38,642,171	\$ 12,507,880	32.4%	\$ 26,739,796	\$ 11,902,375	69.2%
Revenues Less Expenditures	\$ (5,140,735)	\$ (1,044,380)		\$ 6,590,529	\$ 5,663,499		\$ 16,342,401		

As noted earlier, revenues are slightly improving compared to the year prior with 40.2% of budgeted revenues received to date compared with 38.9% the year prior. This increase is primarily driven by the 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 \$4.5 million due to increase in Transportation Development Act (TDA), Measure R, Measure M, and COVID grants. If we review Projected Totals, this is anticipated to exceed budget by \$316,000. 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 charges for use of the services during the COVID-19 pandemic, which resumed starting January 2022. Typically, about \$2.5 million would be collected annually. This year, the Transit Department has collected about \$347,000 in passenger cash fares and \$107,000 in Transit Access Pass Revenue to date. Additionally, this year's projection includes \$2.25 million in the Federal Transit Administration (FTA) grant, which partially offset preventive 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 level with 32.4% spent year to date, compared with 36.4% 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 83.0 FTE in vacancies for the department.

Overall, Transit's operating fund is projected to end the year with a \$16.3 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 Amended Budget	December 2021-22 Actual	Percent of Budget	2022-23 Amended Budget	December 2022-23 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 47,897,500	\$ 22,046,288	46.0%	\$ 52,170,884	\$ 24,550,433	47.1%	\$ 56,636,902	\$ 4,466,018	108.6%
Total Expenditures	\$ 43,692,503	\$ 23,090,801	52.8%	\$ 52,114,173	\$ 23,832,906	45.7%	\$ 50,382,644	\$ 1,731,529	96.7%
Rev Less Exp	\$ 4,204,997	\$ (1,044,513)		\$ 56,711	\$ 717,527		\$ 6,254,258		

As shown above, the Water Fund’s revenues have improved slightly when compared with the year prior. As of December 31, 2022, 47.1% of budgeted revenues have been collected compared with 46.1% the year prior. On the expenditure side of the operation, 45.7% has been spent to date, compared with 52.8% the year prior. These numbers will be examined in more detail in the subsequent sections.

Water - Operations

	2021-22			2022-23			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	December 2021-22 Actual	Percent of Budget	Amended Budget	December 2022-23 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ 675,000	\$ 125,828	18.6%	\$ 675,000	\$ 122,537	18.2%	\$ 294,088	\$ (380,912)	43.6%
Other Revenues	\$ 5,000	\$ 7,746	154.9%	\$ 5,000	\$ -	0.0%	\$ -	\$ (5,000)	0.0%
Charges for Services	\$ 46,978,000	\$ 21,766,229	46.3%	\$ 51,098,504	\$ 24,247,423	47.5%	\$ 55,979,372	\$ 4,880,868	109.6%
Operating Transfers In	\$ -	\$ 6,546		\$ 14,468	\$ 7,236	50.0%	\$ 14,476	\$ 8	100.1%
Total Revenues	\$ 47,658,000	\$ 21,906,349	46.0%	\$ 51,792,972	\$ 24,377,196	47.1%	\$ 56,287,937	\$ 4,494,965	108.7%
Expenditures									
Salaries and Employee Benefits	\$ 6,479,752	\$ 2,661,322	41.1%	\$ 5,890,109	\$ 2,352,882	39.9%	\$ 4,552,265	\$ 1,337,844	77.3%
Salaries and Benefits Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 2,381,048	\$ 868,787	36.5%	\$ 2,717,130	\$ 952,165	35.0%	\$ 2,047,538	\$ 669,592	75.4%
Materials Reimbursements	\$ -	\$ -	0.0%	\$ 5,000	\$ -	0.0%	\$ -	\$ 5,000	0.0%
Parts, Fuel & Lubricants Inventory Purchases	\$ 550,000	\$ 102,116	18.6%	\$ 566,500	\$ 115,589	20.4%	\$ 442,477	\$ 124,023	78.1%
Parts, Fuel & Lubricants Contra	\$ (550,000)	\$ (102,116)	18.6%	\$ (566,500)	\$ (115,589)	20.4%	\$ (442,477)	\$ (124,023)	78.1%
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	\$ 418,670	27.6%	\$ 1,938,864	\$ 583,519	30.1%	\$ 1,553,034	\$ 385,830	80.1%
Water Supply Costs	\$ 25,705,000	\$ 13,583,179	52.8%	\$ 33,787,000	\$ 14,409,312	42.6%	\$ 34,689,873	\$ (902,873)	102.7%
Training, Travel & Membership Dues	\$ 48,500	\$ 3,673	7.6%	\$ 49,955	\$ 4,552	9.1%	\$ 10,617	\$ 39,338	21.3%
Depreciation and Amortization	\$ 2,700	\$ 886	32.8%	\$ 130,000	\$ 1,773	1.4%	\$ 3,546	\$ 126,454	2.7%
Liabilities, Settlements & Insurance	\$ 90,125	\$ 65,885	73.1%	\$ 91,479	\$ 30,624	33.5%	\$ 91,479	\$ -	100.0%
Interdepartmental Charges	\$ 2,680,826	\$ 1,246,862	46.5%	\$ 2,541,123	\$ 1,225,040	48.2%	\$ 2,535,387	\$ 5,736	99.8%
Debt Service	\$ 793,086	\$ 322,258	40.6%	\$ 850,672	\$ 322,258	37.9%	\$ 850,672	\$ -	100.0%
Debt Service Reimbursements	\$ (554,122)	\$ (275,436)	49.7%	\$ (567,277)	\$ (281,975)	49.7%	\$ (567,277)	\$ 0	100.0%
Capital Acquisitions	\$ 56,200	\$ 24,820	44.2%	\$ 56,200	\$ -	0.0%	\$ 31,027	\$ 25,173	55.2%
Asset Contra Account	\$ (56,200)	\$ (24,820)	44.2%	\$ (56,200)	\$ -	0.0%	\$ (31,027)	\$ (25,173)	55.2%
Other Operating Transfers Out	\$ 4,255,168	\$ 4,136,512	97.2%	\$ 4,386,948	\$ 4,171,527	95.1%	\$ 4,343,054	\$ 43,894	99.0%
Bad Debts and Other Losses	\$ 150,000	\$ 43	0.0%	\$ 150,000	\$ -	0.0%	\$ 150,000	\$ -	100.0%
Total Expenditures	\$ 43,549,333	\$ 23,032,641	52.9%	\$ 51,971,003	\$ 23,771,677	45.7%	\$ 50,260,187	\$ 1,710,816	96.7%
Revenues Less Expenditures	\$ 4,108,667	\$ (1,126,292)		\$ (178,031)	\$ 605,519		\$ 6,027,750		

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 primarily 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, \$1.7 million 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 \$781,000 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 \$4.5 million due to the extraordinary increase in refinery production.

The Water Fund's operating expenditures to date are improving compared to the year prior. To date, 45.7% has been expended, compared with 52.9% 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 \$826,000 from the year prior. This increase is mainly due to

the aforementioned change in accounting related to affixed facility charge, which is \$1.7 million to date, as well as timing differences. Prior year included Water Supply Costs through December for purchases from MWD and West Basin, while the current year only included through November due to the billing timing. Controlling for these effects, Water Supply Costs increased, mainly due to increase in Recycled Water Cost (driven by the increase in unit price) and increase in Treated Water Cost (driven by both volume and unit price increases).

Overall, Water’s operating fund is projected to operate at a \$6.0 million surplus, driven by projected increases in operating revenues and overall expenditure savings.

Water – Replacement

Revenues	2021-22	December	Percent	2022-23	December	Percent of	Projected	Projected	Projected	Percent
	Amended	2021-22	of	Amended	2022-23					
	Budget	Actual	Budget	Budget	Actual			(Deficit)		
Use of Money and Property	\$ -	\$ 6,326	0.0%	\$ -	\$ 6,228	0.0%	\$ 14,947	\$ 14,947	0.0%	
Other Revenues	\$ -	\$ 4,939	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	
Operating Transfers In	\$ 239,500	\$ 128,674	53.7%	\$ 377,912	\$ 167,009	44.2%	\$ 334,018	\$ (43,894)	88.4%	
Total Revenues	\$ 239,500	\$ 139,939	58.4%	\$ 377,912	\$ 173,237	45.8%	\$ 348,965	\$ (28,947)	92.3%	
Expenditures	2021-22	December	Percent	2022-23	December	Percent of	Projected	Projected	Projected	Percent
	Amended	2021-22	of	Amended	2022-23					
	Budget	Actual	Budget	Budget	Actual			(Deficit)		
Depreciation and Amortization	\$ 143,170	\$ 58,160	40.6%	\$ 143,170	\$ 61,229	42.8%	\$ 122,457	\$ 20,713	85.5%	
Capital Acquisitions	\$ 400,000	\$ -	0.0%	\$ 518,213	\$ -	0.0%	\$ 518,213	\$ (0)	100.0%	
Asset Contra Account	\$ (400,000)	\$ -	0.0%	\$ (518,213)	\$ -	0.0%	\$ (518,213)	\$ -	100.0%	
Total Expenditures	\$ 143,170	\$ 58,160	40.6%	\$ 143,170	\$ 61,229	42.8%	\$ 122,457	\$ 20,713	85.5%	
Revenues Less Expenditures	\$ 96,330	\$ 81,779		\$ 234,742	\$ 112,008		\$ 226,508			

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. The projection above includes the expected purchase of six Ford F-350XL with Utility Body and two Ford F-150 Trucks approved by Council on December 20, 2022.