

FY 2021 - 22

MID-YEAR BUDGET REVIEW REPORT



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Executive Summary

Mid-Year Budget Review Report

Executive Summary

Introduction

The purpose of the Fiscal Year 2021-22 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 seven months ending January 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 held annually in May, 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, you will see differences in collection rates throughout the year.

This budget report is prepared in collaboration with City departments using actual (unaudited) activity for Fiscal Year 2021-22. 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 or as part of the upcoming two-year budget process.

Citywide Mid-Year Results

As of January 31, 2022, across **all** funds (General Fund, Internal Service, and Enterprise), the City realized revenues of \$196.9 million and expenditures of \$198.5 million, achieving 54.9% and 54.2% of annual budget, respectively. During the same period last year (ending January 31, 2021), the City realized \$185.4 million of revenues, representing 53.4% of annual budget and expended \$201.5 million, or 54.4% of the annual prior year expenditure budget. At the end of Fiscal Year 2021-22, it is projected that citywide revenues will exceed expenditures by \$24.6 million.

Citywide Revenues and Expenditures Summary – All Funds

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Actual
Total Revenues	\$ 346,983,882	\$ 185,390,479	53.4%	\$ 358,427,467	\$ 196,936,349	54.9%	\$ 388,947,862
Total Expenditures	\$ 370,574,867	\$ 201,502,205	54.4%	\$ 366,092,948	\$ 198,530,672	54.2%	\$ 364,359,840
Revenues Less Expenditures	\$ (23,590,985)	\$ (16,111,726)		\$ (7,665,481)	\$ (1,594,323)		\$ 24,588,022
Fund Bal Decrease/(Increase)	\$ 23,590,985	\$ 16,111,726		\$ 7,665,481	\$ 1,594,323		\$ (24,588,022)
Net Budget Balance	\$ -	\$ -		\$ -	\$ -		\$ -

The above projected surplus is driven by a \$16.5 million projected surplus in the General Fund (driven by revenues exceeding budget and the City’s contribution to the CalPERS California Employers' Pension Prefunding Trust Fund), a (-\$5.4) million deficit in the Internal Service Funds (from increased litigation costs), and a \$13.4 million surplus in the Enterprise Funds (from increased one-time revenues and salary savings primarily from vacancies in Transit). Also, the Cultural Arts Center, Emergency Medical Services and Parks & Recreation Funds reflect no activity in Fiscal Year 2021-22 since they were consolidated under the General Fund Operating Fund effective February 2021. The specifics of all revenues and expenditures for their respective funds are discussed in more detail later in this document.

Citywide Revenues – All Funds

Revenues	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Actual
General Fund - Operating Fund	\$ 192,972,445	\$ 104,602,256	54.2%	\$ 224,332,267	\$ 123,492,827	55.0%	\$ 236,800,876
General Fund - Unassigned	\$ 2,635,023	\$ 786,672	29.9%	\$ -	\$ -	0.0%	\$ -
General Fund - Rest/Assigned	\$ 2,155,777	\$ 1,605,351	74.5%	\$ 4,012,274	\$ 3,725,785	92.9%	\$ 4,777,345
General Fund - Total	\$ 197,763,245	\$ 106,994,279	54.1%	\$ 228,344,541	\$ 127,218,612	55.7%	\$ 241,578,221
Self-Insurance	\$ 5,554,153	\$ 3,395,024	61.1%	\$ 6,740,000	\$ 5,377,577	79.8%	\$ 21,745,759
Fleet Services	\$ 5,840,572	\$ 3,494,497	59.8%	\$ 6,067,803	\$ 3,617,722	59.6%	\$ 5,956,358
Internal Service Fund - Total	\$ 11,394,725	\$ 6,889,521	60.5%	\$ 12,807,803	\$ 8,995,299	70.2%	\$ 27,702,117
Airport	\$ 13,917,300	\$ 8,703,101	62.5%	\$ 14,999,188	\$ 8,580,932	57.2%	\$ 15,609,550
Cultural Arts Center	\$ 2,402,981	\$ 527,998	22.0%			0.0%	
Emergency Medical Services	\$ 14,801,293	\$ 8,265,828	55.8%			0.0%	
Parks & Recreation	\$ 7,913,522	\$ 1,995,789	25.2%			0.0%	
Sanitation	\$ 14,238,096	\$ 7,080,103	49.7%	\$ 15,562,692	\$ 7,032,163	45.2%	\$ 16,095,071
Sewer	\$ 6,253,380	\$ 3,304,011	52.8%	\$ 6,439,225	\$ 2,974,183	46.2%	\$ 6,225,090
Transit	\$ 31,645,340	\$ 14,835,072	46.9%	\$ 32,376,518	\$ 15,228,090	47.0%	\$ 31,990,156
Water	\$ 46,654,000	\$ 26,794,777	57.4%	\$ 47,897,500	\$ 26,907,071	56.2%	\$ 49,747,657
Enterprise Fund - Total	\$ 137,825,912	\$ 71,506,679	51.9%	\$ 117,275,123	\$ 60,722,438	51.8%	\$ 119,667,524
Total Revenues	\$ 346,983,882	\$ 185,390,479	53.4%	\$ 358,427,467	\$ 196,936,349	54.9%	\$ 388,947,862

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

Expenditures	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Actual	Projected Rev minus Exp
General Fund - Operating Fund	\$ 208,818,700	\$ 119,277,291	57.1%	\$ 224,138,476	\$ 124,335,265	55.5%	\$ 223,010,007	\$ 13,790,869
General Fund - Unassigned	\$ 3,169,663	\$ 1,509,008	47.6%	\$ 146,776	\$ 146,776	100.0%	\$ 146,776	\$ (146,776)
General Fund - Rest/Assigned	\$ 1,535,034	\$ 837,925	54.6%	\$ 2,147,465	\$ 1,625,075	75.7%	\$ 1,914,365	\$ 2,862,980
General Fund - Total	\$ 213,523,397	\$ 121,624,224	57.0%	\$ 226,432,717	\$ 126,107,116	55.7%	\$ 225,071,148	\$ 16,507,073
Self-Insurance	\$ 10,042,828	\$ 4,025,918	40.1%	\$ 12,601,059	\$ 7,920,794	62.9%	\$ 27,261,207	\$ (5,515,448)
Fleet Services	\$ 6,065,351	\$ 3,180,781	52.4%	\$ 6,655,930	\$ 3,603,067	54.1%	\$ 5,800,135	\$ 156,223
Internal Service Fund - Total	\$ 16,108,179	\$ 7,206,699	44.7%	\$ 19,256,989	\$ 11,523,861	59.8%	\$ 33,061,342	\$ (5,359,224)
Airport	\$ 14,435,541	\$ 8,078,334	56.0%	\$ 15,787,136	\$ 7,997,843	50.7%	\$ 13,726,906	\$ 1,882,644
Cultural Arts Center	\$ 2,435,798	\$ 830,842	34.1%			0.0%		\$ -
Emergency Medical Services	\$ 15,607,293	\$ 8,201,194	52.5%			0.0%		\$ -
Parks & Recreation	\$ 8,377,968	\$ 2,517,203	30.0%			0.0%		\$ -
Sanitation	\$ 14,656,518	\$ 8,122,169	55.4%	\$ 16,135,499	\$ 8,116,833	50.3%	\$ 14,655,788	\$ 1,439,282
Sewer	\$ 6,600,231	\$ 4,248,097	64.4%	\$ 7,270,851	\$ 4,348,591	59.8%	\$ 6,631,415	\$ (406,325)
Transit	\$ 35,089,532	\$ 15,761,661	44.9%	\$ 37,517,253	\$ 16,039,581	42.8%	\$ 26,499,247	\$ 5,490,909
Water	\$ 43,740,410	\$ 24,911,782	57.0%	\$ 43,692,503	\$ 24,396,847	55.8%	\$ 44,713,993	\$ 5,033,664
Enterprise Fund - Total	\$ 140,943,291	\$ 72,671,282	51.6%	\$ 120,403,242	\$ 60,899,695	50.6%	\$ 106,227,350	\$ 13,440,174
Total Expenditures	\$ 370,574,867	\$ 201,502,205	54.4%	\$ 366,092,948	\$ 198,530,672	54.2%	\$ 364,359,840	\$ 24,588,022
Revenues Less Expenditures	\$ (23,590,985)	\$ (16,111,726)		\$ (7,665,481)	\$ (1,594,323)		\$ 24,588,022	

As shown above in the “Projected Rev minus Exp” column, it is projected that the:

- General Fund Operating Fund will operate at a **\$13.8 million surplus** primarily driven by extraordinary revenue recovery;
- General Fund - Restricted/Assigned will operate at a **\$2.9 million surplus** primarily driven by the City’s first contribution to the CalPERS California Employers' Pension Prefunding Trust Fund (CEPPT) of approximately \$1.8 million;
- Self-Insurance Fund will operate at a **\$5.5 million loss** despite significant one-time contributions, driven by the projected actuarial entry recorded at year-end (non-cash);
- Fleet Services Fund will **break even**; however, a **structural deficit** exists in the Operations Fund;
- Enterprise Funds will operate at an overall **\$13.4 million surplus** led by Water and Transit (\$7.5 million in revenues for Transit Fund due to one-time grant funding).

The forthcoming sections will detail the above results, with particular focus on the General Fund Operating Fund, which constitutes 99.0% of the General Fund Budget and 61.2% of the citywide budget. Additional information is also included in the **Areas of Concern** section of this document to elaborate on important topics being monitored by staff that need to be addressed.

The Fiscal Year 2021-22 Mid-Year Budget Review Report includes the Finance Director’s recommendation that the Finance and Governmental Operations Committee authorize staff to bring forward to City Council at a future date, the following items for consideration and approval:

1. Accept and file the Fiscal Year 2021-22 Mid-Year Budget Review Report
2. Increase Water Fund Operating Fund expenditure budget by \$2,775,000
3. Program Modification (General Fund and Non-General Fund): Approve reorganization of the City Manager’s Office, Communications and Information Technology Department, Finance Department, and Human Resources Division for an increase of \$155,642
 - a. Increase General Fund Operating Fund revenue budget by \$145,388
 - b. Increase General Fund Operating Fund expenditure budget by \$145,388
 - c. Increase Self-Insurance expenditure budget by \$10,254
4. Program Modification (General Fund): Approve addition of 7.0 Ambulance Operators, Staff Assistant position upgrade to Business Manager, and EMS Coordinator Salary Grid modifications in the Fire Department for a reduction of \$4,571
5. Program Modification (General Fund): Approve deletion of 1.0 Staff Assistant and Salary Grid modifications in the Finance Department for a reduction of \$652 (subject to Meet & Confer)

General Fund Operating Fund Mid-Year Results

As of January 31, 2022, the General Fund Operating Fund realized revenues of \$123.5 million and expenditures of \$124.3 million, achieving 55.0% and 55.5% of annual budget, respectively. During the same period last year (ending January 31, 2021), the City realized \$104.6 million of revenues, representing 54.2% of annual budget and expended \$119.3 million, or 57.1% of the expenditure budget. At the end of Fiscal Year 2021-22, it is projected that revenues will exceed expenditures by \$13.8 million.

General Fund Operating Fund Revenue and Expenditure Summary

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 192,972,445	\$ 104,602,256	54.2%	\$ 224,332,267	\$ 123,492,827	55.0%	\$ 236,800,876	\$ 12,468,609	105.6%
Total Expenditures	\$ 208,818,700	\$ 119,277,291	57.1%	\$ 224,138,476	\$ 124,335,265	55.5%	\$ 223,010,007	\$ 1,128,469	99.5%
Revenues Less Expenditures	\$ (15,846,255)	\$ (14,675,035)		\$ 193,791	\$ (842,438)		\$ 13,790,869		
Fund Bal Decrease/(Increase)	\$ 15,846,255			\$ (193,791)			\$ (13,790,869)		
Net Budget Balance	\$ -			\$ -			\$ -		

As shown above, it is projected that General Fund Operating Fund revenues will exceed budget by nearly \$12.5 million, which is mainly driven by increases in the Taxes and Charges for Services classifications, and partially offset by reductions in the Use of Money and Property classification.

Within the Taxes classification, the areas most exceeding budget are Sales and Use Tax (\$5.0 million), Utility Users' Tax (\$3.5 million), and Occupancy Tax (\$2.2 million).

On the expenditure side of the General Fund Operating Fund Budget, it is projected that there will be an expenditure surplus of \$1.1 million. The City would project a greater surplus, due to held vacancies, however the projection includes an additional one-time transfer of \$10.7 million to Self-Insurance to cover increased costs related to workers compensation and litigation, which directly offsets the savings across the departments.

While these year-to-date revenue increases are very much welcomed, staff continues to remain cautious in our long-term projections. The additional sales tax increases may be short-lived as a result of significant pent up demand and low interest rates. At this point, inflation has risen significantly and the Federal Reserve is poised to increase the federal funds rate multiple times in the coming 12 months. Additionally, with geopolitical concerns abroad, we have experienced a significant spike in fuel costs.

Several areas of the budget require significant additional funding for long-term sustainability, most notably the Self Insurance Fund, with expenditures currently projected to top \$27.3 million due to insurance premiums, workers' compensation claims and litigation trends. Other areas of concern discussed in further detail in forthcoming sections include the Fleet Services Fund, low cash balances, status of labor agreements, replacement funds, and deferred capital projects. While the budget presents as balanced at this time, it is important to highlight that this was made possible through the one-time American Rescue Plan Act (ARPA) funding source of \$12.0 million. Since the ARPA funds will not recur going forward, either additional reductions or newly identified revenue sources are needed to balance the budget in the years to come.

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 66% of the total budget. Including business license and occupancy taxes, these five revenue sources make up approximately 73.2% 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 (from Black Friday to New Years). Thus, revenue receipts for the Mid-Year Report finally begin to provide a more "clear" representation of fiscal year results though significant portions of revenue are still collected in the third quarter of the fiscal year.

General Fund Operating Fund Revenue by Classification

Revenues	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Total	Surplus / (Deficit)	Percent of Budget
Taxes	\$ 163,388,392	\$ 87,403,251	53.5%	\$ 175,114,158	\$ 100,155,906	57.2%	\$ 185,478,761	\$ 10,364,603	105.9%
Licenses, Fees & Permits	\$ 4,164,905	\$ 1,885,991	45.3%	\$ 4,588,586	\$ 2,952,746	64.3%	\$ 5,329,442	\$ 740,856	116.1%
Fines, Forfeitures & Penalties	\$ 712,000	\$ 259,421	36.4%	\$ 742,003	\$ 288,200	38.8%	\$ 720,729	\$ (21,274)	97.1%
Use of Money and Property	\$ 3,087,703	\$ 1,280,281	41.5%	\$ 2,123,339	\$ 1,477,253	69.6%	\$ 2,002,104	\$ (121,235)	94.3%
Intergovernmental	\$ 435,000	\$ 117,138	26.9%	\$ 469,994	\$ 413,038	87.9%	\$ 559,241	\$ 89,247	119.0%
Other Revenues	\$ 518,189	\$ 2,124,556	410.0%	\$ 12,517,210	\$ 204,759	1.6%	\$ 12,517,210	\$ -	100.0%
Charges for Services	\$ 6,352,002	\$ 4,029,269	63.4%	\$ 16,454,206	\$ 10,417,692	63.3%	\$ 17,607,723	\$ 1,153,517	107.0%
Operating Transfers In	\$ 13,429,099	\$ 7,502,349	55.9%	\$ 12,322,771	\$ 7,583,233	61.5%	\$ 12,585,665	\$ 262,894	102.1%
Other Financing Sources	\$ 885,155	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 192,972,445	\$ 104,602,256	54.2%	\$ 224,332,267	\$ 123,492,827	55.0%	\$ 236,800,876	\$ 12,468,609	105.6%

Sales & Use Tax

Sales tax receipts of \$36.4 million through January 31, 2022 is tracking above prior year actuals by \$6.1 million, or 20.0%. Staff expects the projected annual amounts to exceed the budget by at least \$5.0 million, for a total of \$60.2 million. When developing the Fiscal Year 2021-22 budget, staff's conservative expectation was that sales tax receipts would return to pre-pandemic levels within the current fiscal year, considering that indoor capacity limits for all sectors were not removed until June 15, 2021. Originally forecasted to take an extended amount of time to recover, sales tax generated during the summer months exceeded amounts from pre-pandemic 2019.

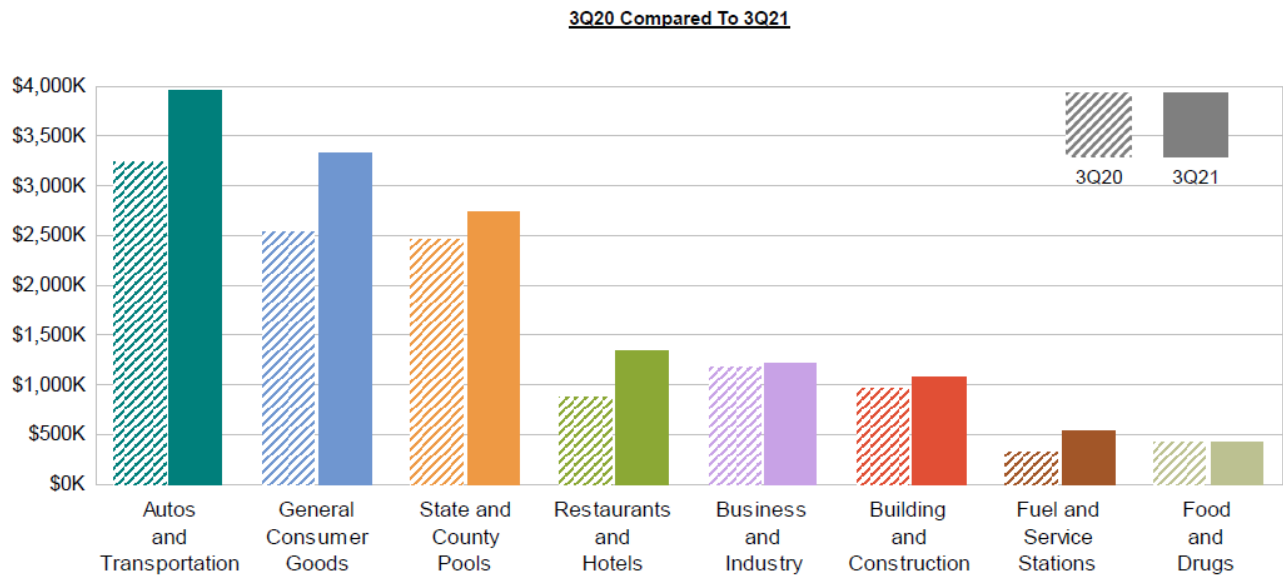
With the vaccine rollout during early 2021, the easing of state and county COVID-19 restrictions and the reopening of schools, we began a cautious and gradual return to "normal" life and economic activity. A combination of pent-up demand and government stimulus checks encouraged consumer spending, both online and in brick-and-mortar locations. As of the latest available data from the California Department of Tax & Fee Administration (CDTFA), sales tax revenues for the quarter ending September 30, 2021, experienced an increase in all significant categories compared to the same quarter ending 2020. General consumer goods, autos and transportation, and restaurants and hotels experienced the largest increases during the period.

This strong gain signifies the continued rebound from the pandemic impacts of a year ago. High demand and limited inventory for vehicles caused elevated pricing for buyers and contributed to extraordinary returns from new and used auto dealers, while dramatic improvement from multiple retailers including family apparel, department and specialty stores were largely responsible for the general consumer growth. Minimal mask requirements, available indoor and outdoor options and continued pent up demand to dine out, pushed restaurant receipts back to pre-pandemic levels.

Allocations from the Los Angeles county-wide pool continue to be strong, despite the increases experienced in General Consumer Goods in this same period. At the onset of the pandemic these two sources operated in an inverse manner as consumers shifted to online shopping. Despite the re-

opening of brick-and-mortar retailers, online sales continue to hold strong. In the third (calendar) quarter 2021, the State and County Pool allocation increased \$262,000, or 10.6%, over the year prior.

The below chart is based on the latest available data from the CDTFA and reflects 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 continues to be cautious with forecasting over the longer term for several reasons. Looking ahead, sustained sales tax growth is still anticipated through the end of the fiscal year; although the significant surge of new and used car dealer sales has come as welcomed relief, the latest news of stretched thin inventories due to global chip shortages persists. Moreover, expected interest rate hikes resulting in more costly financing for automobiles is anticipated to result in a headwind going into fiscal year 2022-23. Inflationary effects are also impacting the cost of many taxable products; pent up demand for travel and experiences, the return of commuters with more costly fuel and labor shortages having upward pressure on prices is anticipated to consume more disposable income next fiscal year.

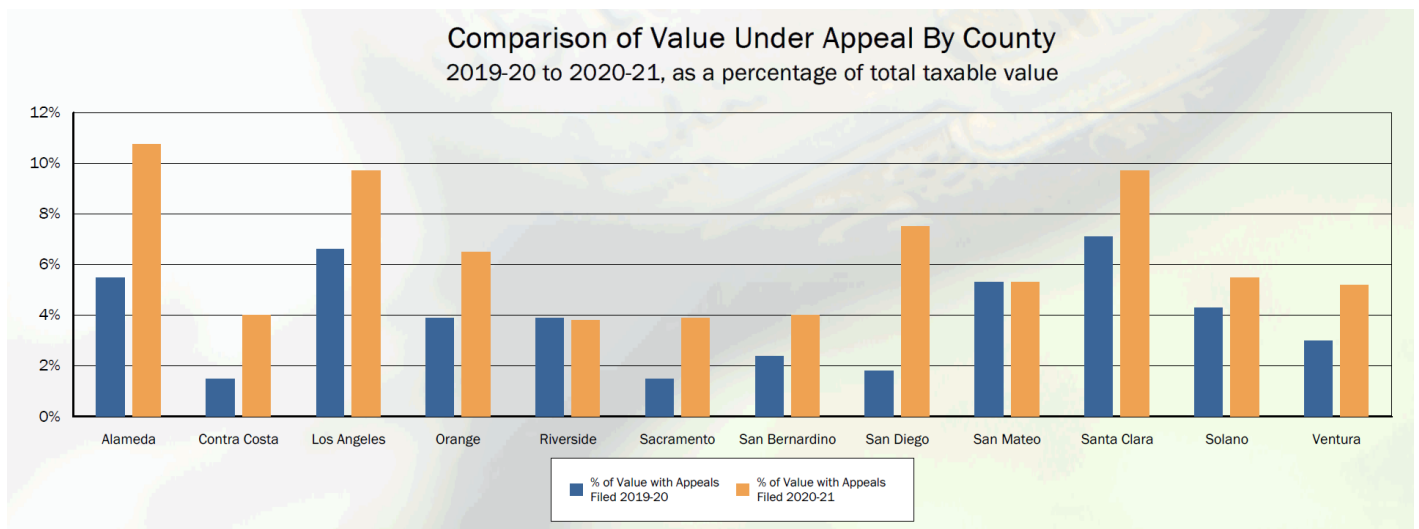
Inflation rates, increases to the federal funds rate, and geopolitical uncertainty are anticipated to factor into trends for next year as well. A decline in auto sales along with stabilized growth rates across industry groups is anticipated to result in muted growth overall for next year.

Property Tax, Property Transfer Tax, and Vehicle License Fee Swap & Repayment

Property tax revenues are primarily received in December and April each year. As of January 31, 2022, property tax receipts of \$30.2 million remain relatively flat compared to last year. Presently, the City projects that total year-end revenue will meet budget, and exceed last year's receipts by approximately \$2.7 million, or 4.8%.

Assessed values, based on calendar 2020 activity, are finalized in September 2021. Last year, new construction activity in Torrance contributed to 3.2% growth in current secured property valuation. In addition to increased assessed values, supplemental taxes are expected to reach about \$1.1 million, and growth in home sales strengthened during the summer of 2020. Sale prices grew due to low inventory and declining mortgage rates. 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. These conditions have continued to cause prices to rise in 2021. The median sale price of a detached SFR home in Torrance reached \$1,133,000 in the Fourth (calendar) Quarter of 2021; a \$203,000 (21.8%) increase in median sale price from 2020.

While assessed values on the 2020-21 property tax rolls were not impacted by the pandemic, the effects of the pandemic are reflected by large increases in assessment appeals activity for that fiscal year. The chart below reflects 2019-20 and 2020-21 values under appeal by property owners in select counties as a percentage of total taxable values reported in each year. Results of these appeals may potentially impact the 2022-23 property tax roll.



Source: HdL Companies

Utility Users' Tax (UUT)

UUT receipts are also tracking above the prior year by \$2.4 million, or 14.6%. Overall, the increase is mainly due to UUT collected from electricity and gas, offset by declines in telecom and the Torrance Refinery co-generation electricity. The increases experienced in electricity and gas UUT receipts are partially driven by rate increases approved by the California Public Utilities Commission (CPUC). In August 2021, the CPUC approved Southern California Edison's (SCE) General Rate Case, authorizing an increase to the utility's revenue requirement that translates to an 8.9% increase in typical residential bills. Approved rates for Southern California Gas (SCG) increased average residential rates by about 6% and average commercial rates by about 14%.

Other Major Revenue Sources

Other major revenue sources of the General Fund include business license tax 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 January 31, 2022, the City has received \$5.6 million, an increase of \$2.6 million compared to January 31, 2021 receipts of \$3.0 million. This increase is a direct result of the softening of restrictions around travel, large gatherings, and vaccination status. Sporting events, concerts, and business conferences have also returned during this fiscal year.

Based on information from data and analytics company STR, LLC, the occupancy rate percentage for the 7 months ending January 31, 2022 increased from 49.5% in fiscal year 2020-21 to 77.1% in fiscal year 2021-22. Additionally, the average daily rate per room increased by \$29 during this same period. The City projects occupancy tax receipts to recover significantly finishing the year with \$9.3 million in receipts, which is 80% of pre-pandemic levels.

Lastly, in the current year, the City is expected to receive its last \$12.0 million allocation of American Rescue Plan Act funds in June 2022.

General Fund Operating Fund Expenditure Analysis

As of January 31, 2022, the General Fund Operating Fund expended \$124.3 million, or 55.5% of annual budget, an increase of \$5 million (4.2%) from the prior year.

General Fund Operating Fund by Department

Expenditures	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Council	\$ 524,937	\$ 278,778	53.1%	\$ 417,157	\$ 225,031	53.9%	\$ 410,717	\$ 6,440	98.5%
City Manager	\$ 2,692,940	\$ 1,435,680	53.3%	\$ 5,348,538	\$ 2,986,712	55.8%	\$ 5,269,523	\$ 79,015	98.5%
City Attorney	\$ 2,615,175	\$ 1,544,161	59.0%	\$ 2,674,293	\$ 1,474,307	55.1%	\$ 2,614,820	\$ 59,473	97.8%
City Clerk	\$ 1,045,585	\$ 587,694	56.2%	\$ 1,427,073	\$ 559,214	39.2%	\$ 1,702,721	\$ (275,648)	119.3%
City Treasurer	\$ 343,481	\$ 213,082	62.0%	\$ 356,017	\$ 185,739	52.2%	\$ 329,370	\$ 26,647	92.5%
Finance	\$ 6,089,510	\$ 3,145,524	51.7%	\$ 6,193,572	\$ 2,780,463	44.9%	\$ 5,238,513	\$ 955,059	84.6%
Human Resources	\$ 1,926,592	\$ 985,146	51.1%	\$ 2,068,751	\$ 999,441	48.3%	\$ 1,956,550	\$ 112,201	94.6%
Civil Service	\$ 583,389	\$ 296,392	50.8%	\$ 598,794	\$ 322,229	53.8%	\$ 546,071	\$ 52,723	91.2%
Community Development	\$ 8,378,854	\$ 5,152,349	61.5%	\$ 8,730,072	\$ 4,435,215	50.8%	\$ 7,837,968	\$ 892,104	89.8%
CIT	\$ 5,047,848	\$ 2,959,450	58.6%	\$ 8,500,829	\$ 4,561,200	53.7%	\$ 8,016,764	\$ 484,065	94.3%
General Services	\$ 4,386,139	\$ 2,375,765	54.2%	\$ 9,659,503	\$ 4,555,477	47.2%	\$ 8,395,481	\$ 1,264,022	86.9%
Non-Departmental	\$ 23,537,737	\$ 12,971,669	55.1%	\$ 669,925	\$ 3,066,300	457.7%	\$ 10,581,531	\$ (9,911,606)	1579.5%
Police	\$ 89,217,873	\$ 51,389,597	57.6%	\$ 89,031,719	\$ 50,091,717	56.3%	\$ 85,630,099	\$ 3,401,620	96.2%
Fire	\$ 33,311,356	\$ 20,093,598	60.3%	\$ 52,247,241	\$ 29,344,894	56.2%	\$ 51,101,950	\$ 1,145,291	97.8%
Public Works	\$ 12,532,343	\$ 6,848,239	54.6%	\$ 13,131,775	\$ 7,092,873	54.0%	\$ 12,223,622	\$ 908,153	93.1%
Community Services	\$ 16,584,941	\$ 9,000,167	54.3%	\$ 23,083,217	\$ 11,654,453	50.5%	\$ 21,154,309	\$ 1,928,908	91.6%
Total Expenditures	\$ 208,818,700	\$ 119,277,291	57.1%	\$ 224,138,476	\$ 124,335,265	55.5%	\$ 223,010,007	\$ 1,128,469	99.5%

As shown in the table above, the General Fund expenditure budget is anticipated to operate at a \$1.1 million, or 0.5% surplus at the end of the fiscal year. This is mainly through the effort of each department holding several vacancies (over 100) in an effort to help the City's overall financial position. Although the departments are expected to save \$9.7 million in salary expenditures and \$2.1 in non-wage savings, these savings are offset by a one-time contribution to the Self-Insurance Fund (Non-Departmental) of \$10.7 million resulting from workers' compensation trends and anticipated and realized settlements. Further details are included in the Areas of Concern section of this document.

Below is a summary status of vacancy levels, as of January 31, 2022 (including the staffing reductions approved by Council on October 12, 2021):

Department	General Fund	Enterprise Fund	Internal Service Fund	Capital Improvement Fund	Total All Funds
City Attorney	2.0	-	-	-	2.0
City Clerk	1.0	-	-	-	1.0
City Manager	3.6	-	-	-	3.6
City Treasurer	1.0	-	-	-	1.0
Communications & Information Technology	1.5	-	-	-	1.5
Community Development	10.7	1.4	-	-	12.0
Community Services	18.5	-	-	-	18.5
Finance	8.0	-	2.0	-	10.0
Fire	25.5	-	-	-	25.5
General Services	9.5	-	2.5	-	12.0
Human Resources	1.3	-	-	-	1.3
Police	36.0	-	-	-	36.0
Public Works	14.7	24.2	-	3.1	42.0
Transit	-	68.0	-	-	68.0
Total	133.2	93.6	4.5	3.1	234.4

Areas of Concern

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: \$55.8 million underfunded (one-time); \$10.0 million annual shortfall
- Fleet Services Fund: \$10.8 million underfunded (one-time); \$2.6 million annual shortfall
- Cash Balances by Fund
- Labor Trends
- Status of Labor Agreements
- Other Replacement Funds: \$1.3 million annual shortfall
- Deferred Capital Projects

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 older than 4 years, and unemployment Insurance payments. The fund is funded by contributions from the General Fund and Enterprise Funds, and over the last several years has experienced a deterioration of its fund balance. As of June 30, 2021, the fund balance was (-\$55.8) million. This is driven by existing outstanding liabilities in Workers Compensation of \$48.2 million and Liability Claims of \$16.7 million. The City is in the process of conducting an actuarial analysis (annually revised) and expects these values to grow as a result of recent events, further increasing the City's unfunded liability. As of June 30, 2021, the cash balance in this fund stands at only \$12.2 million, which continues to erode this fiscal year as expenditures have exceeded revenues by \$2.5 million.

Absent of large settlements that required the City to expend the \$5.0 million insurance deductible, average annual expenditures for the latest five years were \$11.8 million. To date, through the first 7-months of Fiscal Year 2021-22, actual expenditures totaled \$7.9 million of a total budgeted \$12.6 million. Based on current year trends, and including estimated upcoming settlements, the Self-Insurance Fund is projected to spend \$27.3 million, leading to a projected operating deficit of \$16.5 million. Below is a breakdown of the estimated deficit, caused by upward trends in workers' compensation costs and litigation, particularly for civil rights, catastrophic injury and wrongful death matters of which the City currently has several lawsuits. For Worker's Compensation, the Police and Fire Departments are the main drivers for the increases in claims greater than four years old. The main categories of increase in the Police and Fire departments are medical treatment expense, hospital expense, and permanent disability benefits.

Deficit Area	Amount	Notes
Workers Comp Case >4 years Litigated; Settlements >\$50k	\$ 1,800,000	6 settled cases; 1 open case and expected settlement
Litigated; External Attorney Fees	\$ 1,100,000	
Actuarial Entry (non-cash)	\$ 5,600,000	Estimated year-end actuarial adjustment for outstanding liabilities
Total	\$ 16,500,000	

Given the aforementioned trends, a one-time additional transfer of \$10.7 million is included in the General Fund expenditure projection as a contribution to the Self Insurance Fund to reduce the deficit. However, this contribution merely offsets projected actual expenditures for the current year and does not make progress on the unfunded status of this fund (negative fund balance). This will be of continued focus in coming budget updates to ensure the City is prepared for funding its exposure.

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

On Operations side actual revenues to date are slightly improving compared with the year prior, though it is projected that the revenues will end the year \$85,900 short of budgeted amounts. Further, the Operations side of the fund is projected to operate at a \$1.9 million loss this year. Increasing revenues to the Fleet Services – Operations fund is a critical focus of Fiscal Year 2021-22 and going forward to correct the recurring structural deficit that has existed for multiple years. To correct the fund’s recurring revenue stream, staff have evaluated the rates charged by the Fleet Services Fund for services provided to all City Departments. These rates have remained static for multiple years and increases will be incorporated into the City’s Fiscal Year 2022-23 budget to provide stability for this Fund and restore its fund balance to a positive position. As of January 31, 2022, the Fleet Services – Operations fund balance is (-\$6.0) million.

The Replacement side has grown a cash balance to fund future replacement of city vehicles tracked in the Fleet Services Replacement Fund. However, based on an analysis this fiscal year it is estimated the balance in this fund is less than the projected needs. This is the result of setting aside amounts to fund future purchases and projected replacement costs exceeding these figures. Staff estimates this difference in the area of \$4.8 million (based on a 5% CPI), which will need to be funded by the General Fund (since Public Works Enterprise funds have their own separate replacement funds). In addition to this one-time “catch-up” difference, it would cost an estimated \$1.4 million annually to help ensure current contributions match projected future needs.

While outside of the Fleet Services Fund, it is important to note similar situations exist with the Public Works Enterprise Fund Replacement Funds. For the Sanitation Fund, it is projected this Replacement

Fund’s cash balance is less than the projected needs by \$4.0 million. For the Sewer Fund, it is projected that this Replacement Fund’s cash balance is less than the projected need by \$1.4 million. Further it is projected that contributions will need to increase approximately \$125,000 annually to keep pace with projected needs. For the Water Fund, it is projected that this Replacement Fund’s cash balance is less than the projected need by \$340,000. Further it is projected that contributions will need to increase approximately \$140,000 annually to keep pace with projected needs.

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 audited cash balances as of June 30, 2021 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 - FY2020-21 (audited)	Example Funds
Enterprise Funds	\$ 55,163,060	Airport, Sanitation, Sewer, Water, Transit
Nonmajor Governmental Funds	\$ 47,288,704	Measure R; Measure M; Prop A; Prop C; Measure W; Gas Tax
Internal Svc - Self-Insurance Fund	\$ 12,218,569	
Internal Svc - Fleet Services Fund	\$ 12,119,912	
General Fund	\$ 11,549,932	
Capital Improvement Fund	\$ 10,719,544	General Fund CIP
Fiduciary Funds	\$ 6,934,157	INSB; Area G; RDA/Successor
Internal Svc - OPEB Fund	\$ 5,265,815	
Total	\$161,259,693	

As shown above, the City’s main operating fund (General Fund) only sits at a cash balance of \$11.5 million. This represents a very small portion of the City’s pooled cash utilized for investments during the course of the fiscal year. For reference, the current General Fund cash balance represents 7.2% of all cash on hand, while the total General Fund expenditure budget represents 61.2% of the City’s total Fiscal Year 2021-22 Amended Budget. **It is for this reason that the California State Auditor, through its high-risk city program, gave Torrance zero points in the category of Liquidity.** 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.

Labor Trends: A complex state of trends, including changing demographics, technological change and a reevaluation of the contract between employer and worker, has brought about the tightest labor market of modern times.

These shifts are being experienced in the City of Torrance workforce as well, as shown in the chart below.



As of December 2021, 247 employees are eligible for retirement (permanent; full-time; based on 55 years of age). As the workforce ages, City staff will continue to monitor retirement eligibility for proper succession planning. Lastly, during the first half of fiscal year 2022, there has been a spike in resignations for other positions with 59 in the 6-month period, compared to 42 and 45 in the 12-month periods ending fiscal year 2021 and 2020, respectively. While staff has just begun gathering more detailed reasons for departure, the most common cited reasons for recent departures have been **better salaries and benefits**, and **flexibility**. Until the City’s budget situation is significantly improved, employee retention will continue to be a challenge, especially with certain groups being out of contract for several years.

	Fiscal Years Ending		6-months
	2020	2021	2022-Q1
Retirements	43	57	42
Voluntary Resignations	45	42	59
Departures or Death	11	11	9
Total Separations	99	110	110

Status of Labor Agreements: The City’s labor agreements with the various union groups follow different terms. The City’s Miscellaneous labor groups have been expired since June 2020, with the City’s Fire Safety labor agreements poised to expire June 2022, and the Police Safety labor agreements expiring in December 2023. With many contracts having expired for multiple years or on the brink of reaching their end, 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 \$1.7 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.

Other Replacement Funds: Staff have been analyzing replacement funds outside of Fleet Services and the various enterprise funds to ensure the City is adequately funding future needs. Staff have confirmed underfunding as a concern in these areas, with the major adjustments (amounts provided below are specific to the General Fund) highlighted below:

- **Fire Apparatus Replacement:** Current contribution of \$400,000 annually, should be adjusted to about \$875,000 annually (\$475,000 annual shortfall)
- **Telephone Replacement:** Current contribution of \$102,000 annually, should be adjusted to about \$240,000 annually (\$138,000 annual shortfall)
- **Data Communications Replacement:** Current contribution of \$90,000 annually, should be adjusted to about \$242,000 annually (\$152,000 annual shortfall)
- **Radio Communications Replacement:** Current contribution of \$210,000 annually, should be adjusted to about \$740,000 annually (\$530,000 annual shortfall)
- **Defibrillators Replacement:** Current contribution of \$89,000 annually, should be adjusted to about \$101,000 annually (\$12,000 annual shortfall)

In summary, the above adjustments total an estimated **\$1.3 million annually**. In addition to the above annual funding differences, staff are evaluating if the current balances are sufficient to fund replacements that are forthcoming. It is important to set these contributions appropriately to avoid funding deficits to address in future periods.

Deferred Capital Projects: Staff are working closely with Departments to ensure the City’s Capital Improvement Plan (CIP) is representative of all known needs, whether funded or not, to ensure that amounts of capital investment being deferred are quantified. This process is underway and takes time to complete in a comprehensive manner. It has already been determined that the fiscal Year 2022-23 Capital Improvement Plan needs are exceeding original financing plans, a function of deferred capital needs coming to light. Most notably, the Fire Department’s Self-Contained Breathing Apparatus (SCBA) equipment is past its useful life and no replacement fund cycle had been

setup to ensure proper funding of a known replacement on a regular cycle. This project is anticipated to cost approximately \$1.8 million and is critical to day-to-day operations and safety of our Fire Department personnel. Staff also plan to establish a replacement contribution annually to ensure this type of strain is avoided in future CIP cycles since this is a known and recurring replacement of significant equipment value. This is anticipated to cost \$294,000 annually as well (including a 5% CPI). While this is the largest single item, it is a representation of the broader picture.

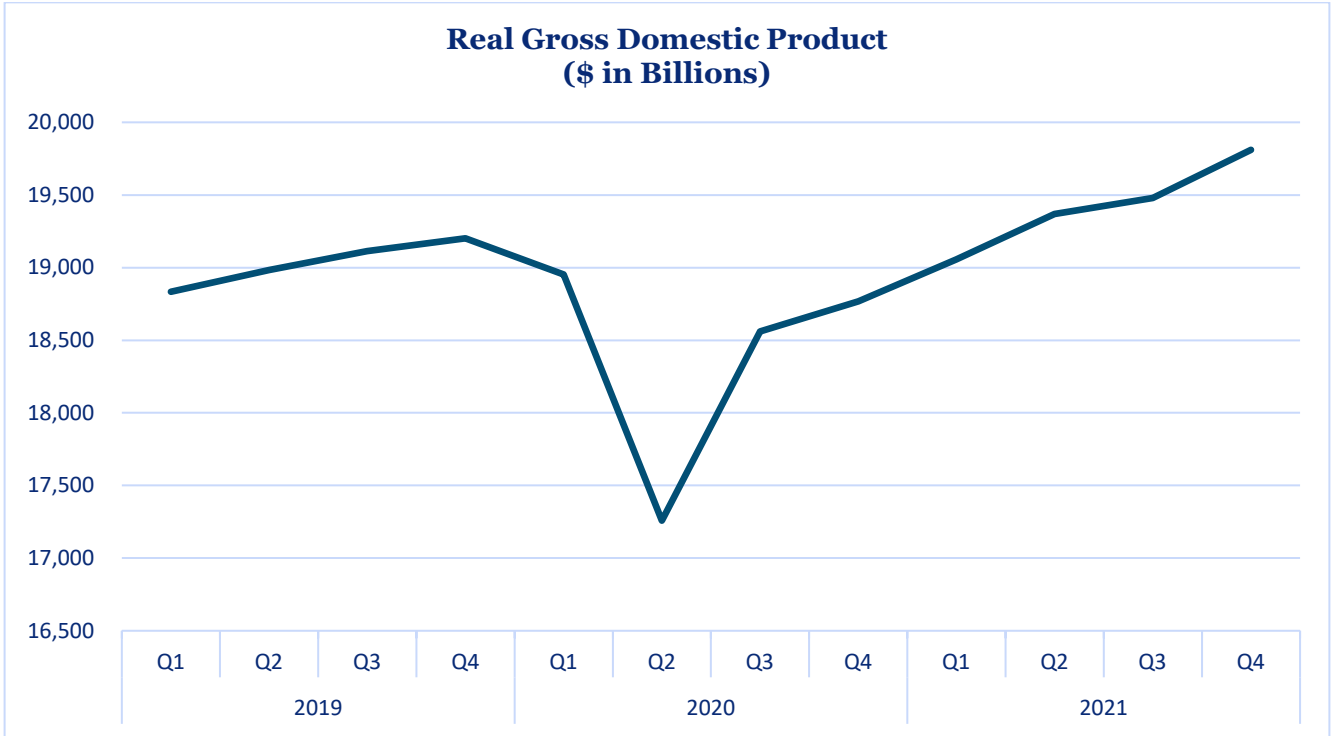
Economic Outlook

This year, our economy is in a period of transition and 2022 signifies a year of change as our economy continues to recover from, and adapt to, the disruption caused by the COVID-19 pandemic. The U.S., California, and Los Angeles County economies have significantly recovered since the depths of the pandemic-induced downturn in early 2020. Nevertheless, a number of important economic indicators still remain below their pre-pandemic levels.

As described in this section, as of the fourth quarter of 2021, we have seen improvements in Gross Domestic Product (GDP), unemployment, and consumer spending. Nevertheless, while we have seen significant improvements in all of these areas, unemployment and consumer confidence still remain below pre-pandemic levels and confidence and consumer spending will continue to face headwinds from rising prices in the coming months. Staff continue to monitor these broader trends as a guide to determine Torrance's financial path forward.

Real Gross Domestic Product (Real GDP) & Inflation Concerns

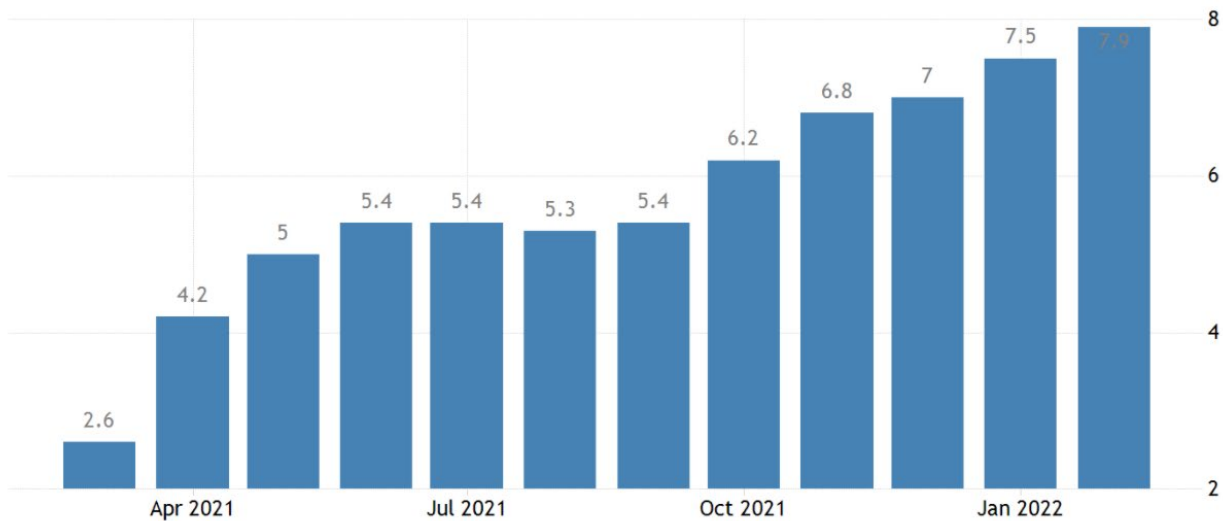
Real gross domestic product is a measure that reflects the value of all goods and services produced by an economy in a given year, controlled for inflation over time. Essentially, it measures a country's total economic output. GDP metrics are used for analyzing economic growth over time. Most recent data available from United States (U.S.) Bureau of Economic Analysis (BEA) shows at the national level, Real GDP increased by 5.6% in the fourth calendar quarter of 2021 (compared to the same period the year prior). The acceleration in Real GDP primarily reflected upturns in exports and residential investment, and accelerations in private inventory investment and consumer spending, that were partly offset by a downturn in state and local government spending. The increase in private inventory investment was led by retail and wholesale trade industries. Within retail, inventory investment by motor vehicle dealers was the leading contributor. The increase in exports reflected increases in both goods and services. The increase in exports of goods was widespread, and the leading contributors were consumer goods, foods, feeds, and beverages, as well as industrial supplies and materials. The increase in exports of services was led by travel.



Source: Bureau of Economic Analysis

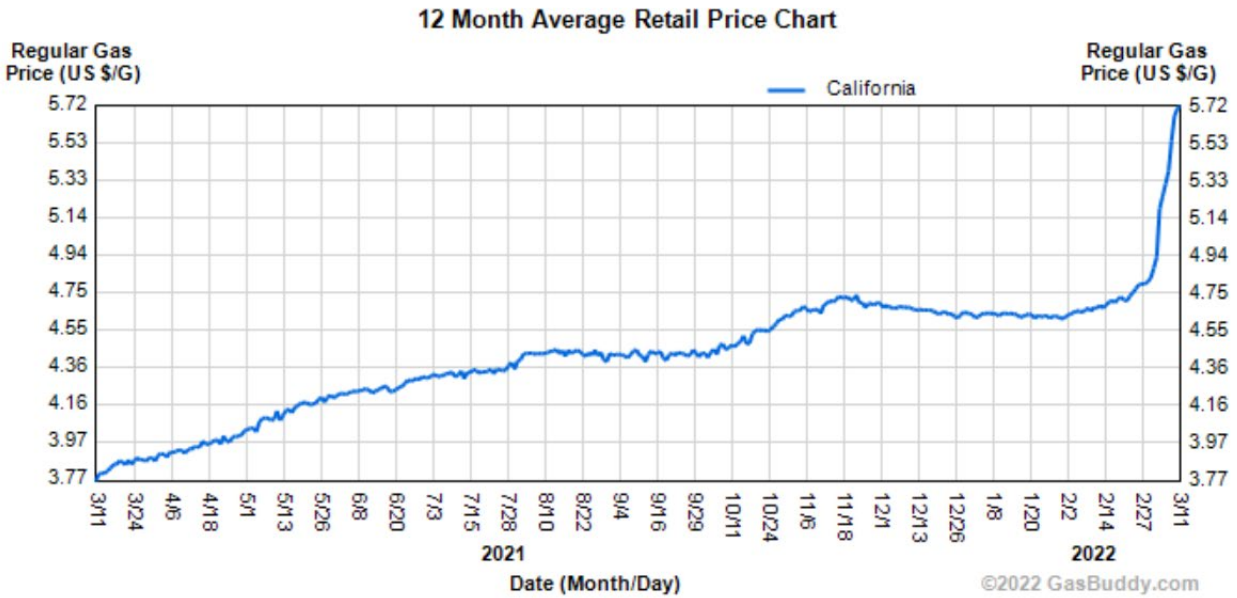
While Real GDP figures have surpassed pre-pandemic levels, prices climbed at the fastest pace in decades in the month leading up to the war in Ukraine, bringing the annual inflation rate to 7.9% in February of 2022, the highest since January of 1982.

Annual Inflation Rates



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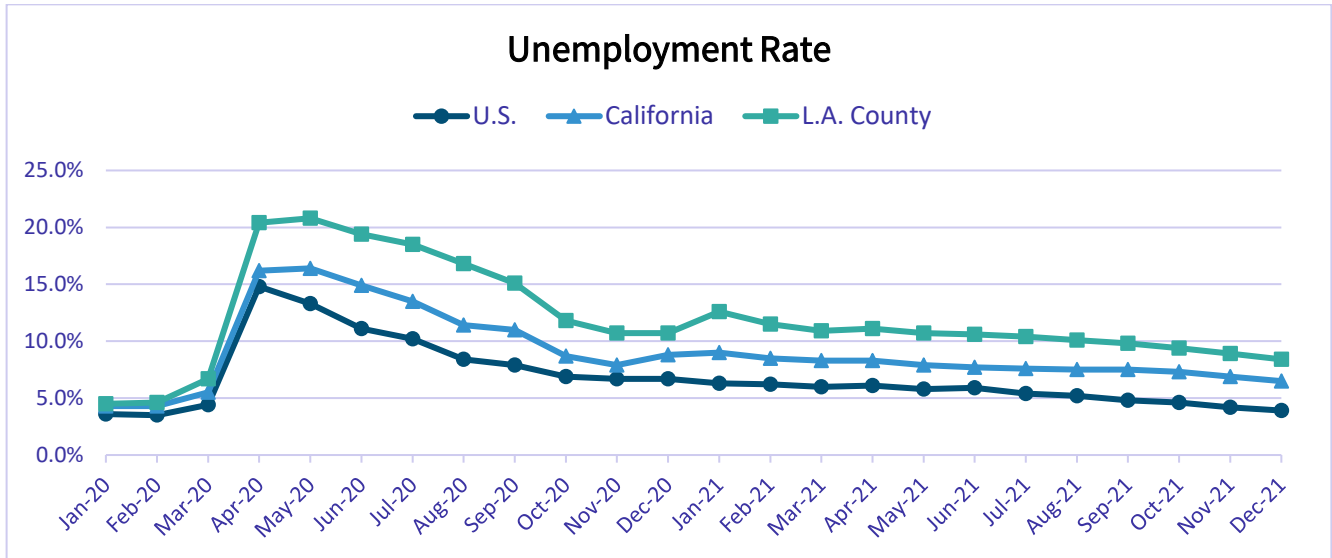
The February report caught only the start of the surge in gas prices that came in response to Russia’s invasion of Ukraine in late February. Economists expect inflation to pick up even more because prices at the pump have since jumped to record-breaking highs. According to AAA, as of March 11, the average price for a gallon of gas in Los Angeles County was \$5.72, up 52% from \$3.77 a year ago.



Rapidly climbing costs are hitting consumers in the pocketbook, causing confidence to fall and stretching household budgets. Rising wages and savings amassed during the pandemic have helped many families continue spending despite rising prices, but the burden is falling most intensely on lower-income households, which devote a big amount of their budgets to daily necessities that are now swiftly becoming more expensive.

Labor Market

As of December 2021, the U.S. unemployment rate was 3.9%, California was 6.5% and Los Angeles (L.A.) County was 8.4%. As shown in the chart below, the December 2021 unemployment figures are a significant improvement from the peak of the pandemic in April and May of 2020 when L.A. County reported unemployment of 20.8%. Although the labor market is showing steady signs of improvement, unemployment rates in L.A. County are still well above pre-pandemic levels and lagging behind nationwide unemployment levels. As shown in the trend lines below, L.A. County unemployment rate is currently at 8.4% compared to the 4.6% in February 2020, indicating employment is still far from returning to “normal” pre-pandemic levels.



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

Similar to National, State, and County results, we see that the local unemployment rates remain above pre-pandemic levels as well. In Torrance, pre-pandemic unemployment levels held at 3.3% percent as of the end of 2019. As of calendar fourth quarter 2021, Torrance’s unemployment sits at 4.5%. Though above pre-pandemic levels, this quarter sees the lowest unemployment rate for Torrance since the onset of the pandemic.

Local Unemployment Rate Trends									
	<u>2019</u>	<u>2020</u>				<u>2021</u>			
	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
National	3.3%	4.4%	11.1%	7.9%	6.7%	6.0%	5.9%	4.8%	3.9%
California	3.9%	5.5%	14.9%	11.0%	8.8%	8.3%	7.7%	7.5%	6.5%
Los Angeles County	4.3%	6.7%	19.4%	15.1%	10.7%	10.9%	10.6%	9.8%	8.4%
Carson	4.5%	6.9%	19.9%	16.2%	12.1%	12.0%	11.2%	9.5%	7.2%
Gardena	4.1%	6.7%	21.4%	17.1%	12.9%	12.0%	11.7%	9.8%	6.2%
Glendale	3.6%	6.0%	21.1%	15.8%	9.9%	10.3%	10.7%	8.5%	6.0%
Hawthorne	4.0%	6.5%	22.8%	18.5%	13.0%	11.9%	11.6%	9.3%	7.2%
Inglewood	4.7%	7.6%	24.2%	20.2%	14.5%	13.4%	12.6%	10.8%	8.2%
Santa Monica	3.8%	6.1%	16.9%	11.6%	8.3%	7.9%	8.1%	6.3%	5.2%
Torrance	3.3%	5.3%	16.5%	12%	8.2%	8.2%	8.2%	6.4%	4.5%

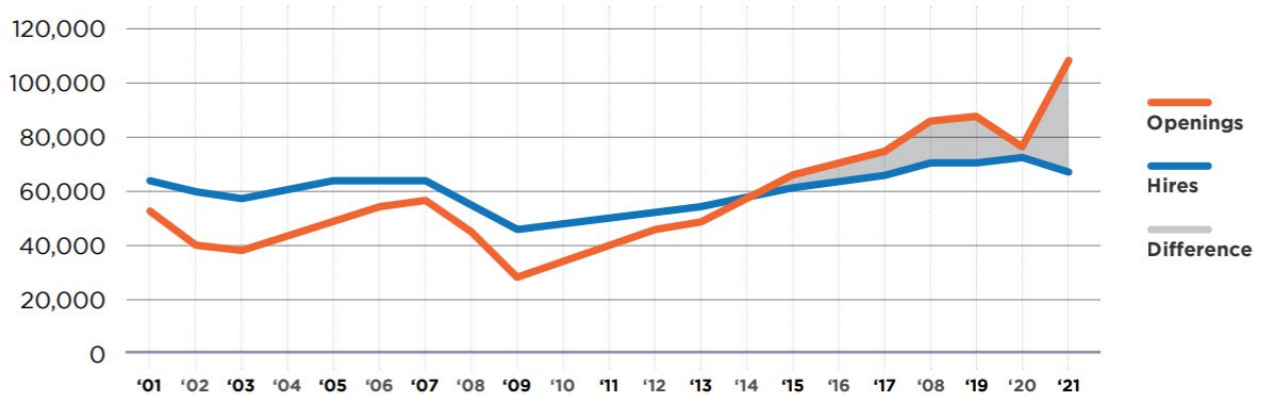
Source: National Conference of State Legislatures, State of California - EDD

One key metric to watch going forward, and will be an important determinant of overall economic performance, is the labor force participation rate. This rate is an estimate of an economy’s active workforce - either employed or actively seeking employment. The labor force participation rate hit 61.9% in November and December 2021, which is the highest it has reached during recovery,

indicating that workers are returning to the workforce. However, the rate is still at its lowest since 1977. If workers do not fully return to the labor force in the coming years, the U.S. economy will have to make significant adjustments in response to the new labor picture.

Calendar year 2021 was characterized by an extremely tight labor market with a record high number of job openings combined with unprecedented difficulty filling those openings. According to the U.S. Bureau of Labor Statistics, as of November 2021, job openings exceeded 10 million per month for six straight months during 2021. In 2021, the gap between job openings and hires hit an all-time high.

Figure 9: **Gap Between Job Openings and Hires**

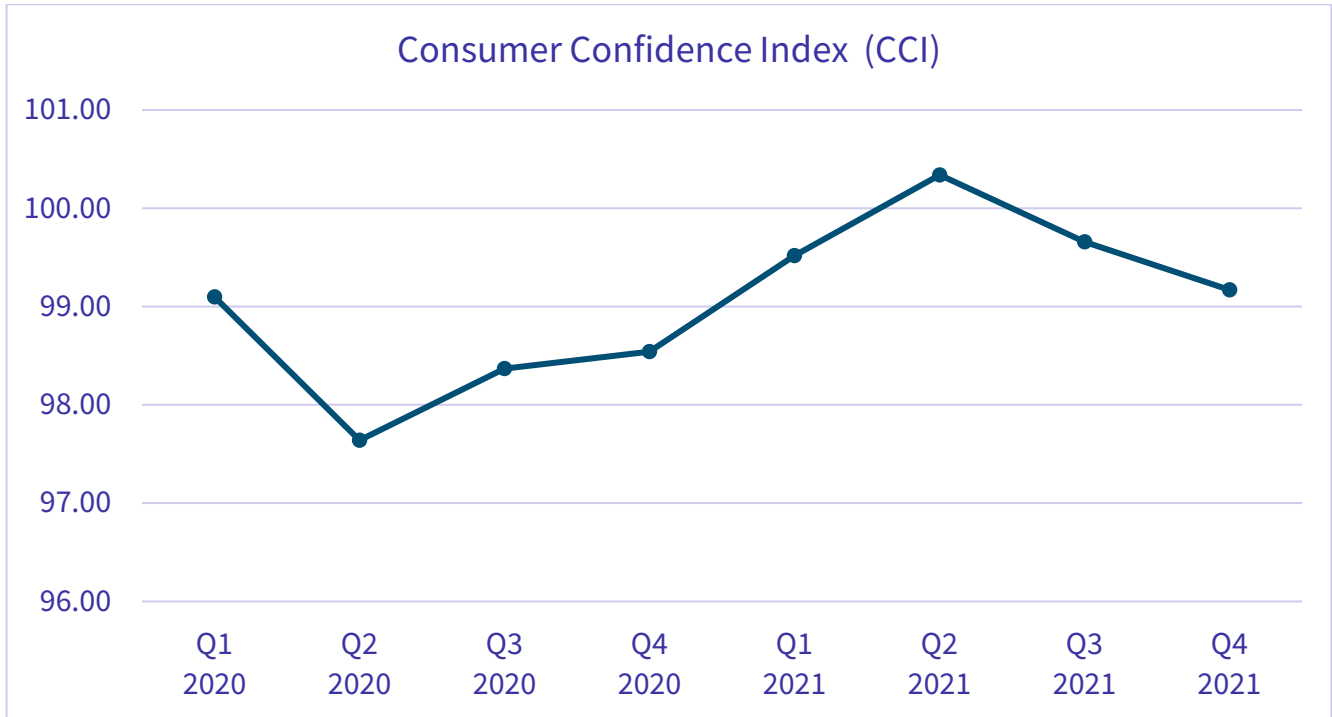


Source: LAEDC Economic Forecast

Consumer Spending

Consumer demand is a critical engine of the U.S. and local economy. The Consumer Confidence Index (CCI) provides an indication of household consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings. An indicator above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to spend money on major purchases in the next 12 months. Values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less.

According to the CCI survey sourced from The Conference Board, consumer optimism has seen some significant improvements since 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

Since the peak of the pandemic and the lowest CCI levels, consumer confidence saw a steady improvement for 12 months. However, CCI levels have been declining since June 2021 and still remain below pre-pandemic levels. “Consumer confidence was down slightly for a second consecutive month in February,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “Expectations about short-term growth prospects weakened further, pointing to a likely moderation in growth over the first half of 2022. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all fell.”

This is an area the City will monitor closely over the coming months to see if consumer confidence is regained and trends upward or if it will plateau with inflation concerns.

Reserve Balances

When the COVID-19 pandemic first started in Fiscal Year 2019-20, the City was required to utilize nearly all of its reserves and unassigned fund balance. As shown below, this figure ended at \$581,449, which is all that was available heading into Fiscal Year 2020-21, taking a toll on the City’s finances. Staff recommends to adhere to the GFOA minimum recommendation of **20%, or approximately 2.5 months**, of operating expenditures. This equates to **\$44.8 million** based on the current General Fund appropriation level.

Unassigned Fund Balance	Beg Bal - FY2020-21	Additions/ (Uses)	End Bal - FY2020-21	Projected Additions/ (Uses)	Proj End Bal FY2021-22
Economic Anomaly	\$ 581,449	\$ 7,500,000	\$ 8,081,449	\$ -	\$ 8,081,449
Litigation	\$ -	\$ -	\$ -	\$ -	\$ -
Other Unassigned	\$ -	\$ 14,551,613	\$ 14,551,613	\$ 13,644,093	\$ 28,195,706
Total	\$ 581,449	\$ 22,051,613	\$ 22,633,062	\$ 13,644,093	\$ 36,277,155

As shown above, the City’s Unassigned Fund Balance for the General Fund has increased from \$581,449 to \$22,633,062, an increase of \$22,051,613 in total, in fiscal year 2020-21. Of this increase \$7,500,000 was transferred to the City’s Reserve Fund to begin replenishing reserves with the remainder staying in the Other Unassigned area. 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 in the coming budget cycles due to uncertainty around the sales tax ballot measure and pending reductions in the Police and Fire departments. At any point in the future, a portion of these funds can be placed into reserves for future long-term needs. The \$22,051,613 increase to the Unassigned Fund Balance represents fund balance created by the actions approved by Council described in the **Budget Actions in Response to COVID-19 Pandemic** section of the **Executive Summary** along with the below summary of one-time revenues received by the City:

- CARES Act (COVID-19 grant): \$1,797,078
- Closed Capital Improvement Projects: \$4,188,826
- Transit Transfer – Regional Transit Center Land: \$4,744,194
- American Rescue Plan Act (1st of 2 payments; COVID-19 grant): \$12,037,139
- **Total: \$22,767,237**

While significant progress was made to reduce expenditures and enhance revenues highlighted in the **Budget Actions in Response to COVID-19 Pandemic** section on a recurring basis, if the City’s General Fund hadn’t received the above one-time revenue sources, it would have operated at a structural deficit (since one-time revenues exceed the Unassigned Fund Balance increase).

In addition to the above reserves, the City has implemented a Section 115 Trust (through CalPERS California Employers' Pension Prefunding Trust) and began making annual contributions in Fiscal Year 2021-22. The first deposit made by the City in July of 2021 was \$1,837,403. This represents 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.

Budget Actions in Response to COVID-19 Pandemic

The City has taken multiple actions to date to address the financial impacts of the COVID-19 pandemic dating back to the Spring of 2020. Below is a summary listing, along with the estimated dollar impact, of these approved changes to date:

Budget Action	Category of Reduction	Dollar Impact
Fiscal Year 2020-21		
Lease Revenue Bonds (net of CEPPT cont)	Expenditure	\$ 6,162,597
Miscellaneous Department Reductions - Round 1	Expenditure	\$ 6,000,204
Fire Department EMT Program	Revenue & Expenditure	\$ 2,296,044
Enterprise Fund Franchise Fees	Revenue	\$ 1,200,000
Fiscal Year 2021-22		
Interim Fee Study, Revenue Adjustments	Revenue	\$ 573,176
Miscellaneous Department Reductions - Round 2	Expenditure	\$ 3,525,068
Police Department Civilianization Conversions	Expenditure	\$ 2,161,823
Total		\$ 21,918,912

In addition to the above formal reductions, departments have also been required to hold vacancies as a cost saving measure with each vacancy filled on a case-by-case basis approved in collaboration between the City Manager, Finance, and all departments. Additional one-time savings were also experienced by refunding the City's 2014 Certificates of Participation (COP) through the issuance of the 2021 Lease Revenue Bonds (LRB), saving approximately \$3.5 million that benefited Fiscal Years 2020-21 and 2021-22.

Finally, the second round of reductions for the Fire Department, totaling \$1,807,785, and the Police Department's reductions, totaling \$6,425,772, have been deferred to July 1, 2022 pending the outcome of the sales tax ballot measure.

Conclusion

The U.S., California, and Los Angeles County economies have significantly recovered since the depths of the pandemic-induced downturn in early 2020. The introduction of vaccinations against COVID-19 likely muted the severity of the virus in 2021 compared to what would have otherwise occurred. As time has progressed, it has become abundantly clear that the pandemic has triggered long lasting changes within industries and has accelerated changes that have been taking place over time such as remote work, increased digitization of service provision, labor market supply shifts, and the shift towards e-commerce. Nonetheless, development in Torrance has remained strong

throughout this period of change and recovery. Below are a handful of developments in Torrance, amongst hundreds of active building permit applications:

- **Lucid Motors** – new luxury electric car dealership on 22715A Hawthorne Blvd (opened December 2021)
- **Sares-Regis/Phase Two** – four new office/warehouse buildings at 195th and Western Ave. with anticipated completion and occupancy by Summer 2022.
- **Torrance Industrial Exchange** – two new office/warehouse buildings on the former BD White Top Soil company site on Prairie Ave. Target completion date of Fall 2022.
- **Epirus, Inc.** – New company headquarters relocated to 19145 Gramercy Place. Research and development offices for high tech defense related projects.
- **New Mixed Use Building** – New mixed use building on Carson St. with anticipated completion in Spring 2022. Retail and parking on the first level and 44 apartment units on second and third stories.
- **Hannam Grocery Market** - new grocery market with an interior food court on 21305 Hawthorne Blvd. (anticipated Apr-June 2022)
- **New 177 Senior Living Apartments** – 21507 Hawthorne Blvd. Building permits issued at the end of calendar year, 2021.
- **New Market (confidential)** – new market to replace the former Smart & Final store at Hawthorne and Torrance Blvd.

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

Recommendation

Based on the information provided in this summary, it is the recommendation of the Finance Director that the Finance and Governmental Operations Committee authorize staff to bring forward to City Council at a future date, the following items for consideration and approval:

1. Accept and file the Fiscal Year 2021-22 Mid-Year Budget Review Report
2. Increase Water Fund Operating Fund expenditure budget by \$2,775,000
3. Program Modification (General Fund and Non-General Fund): Approve reorganization of the City Manager’s Office, Communications and Information Technology Department, Finance Department, and Human Resources Division for an increase of \$155,642

-
- a. Increase General Fund Operating Fund revenue budget by \$145,388
 - b. Increase General Fund Operating Fund expenditure budget by \$145,388
 - c. Increase Self-Insurance expenditure budget by \$10,254
4. Program Modification (General Fund): Approve addition of 7.0 Ambulance Operators, Staff Assistant position upgrade to Business Manager, and EMS Coordinator Salary Grid modifications in the Fire Department for a reduction of \$4,571
 5. Program Modification (General Fund): Approve deletion of 1.0 Staff Assistant and Salary Grid modifications in the Finance Department for a reduction of \$652 (subject to Meet & Confer)

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, if approved by the Finance and Governmental Operations Committee, will be brought forward to City Council for approval. It also includes Other Updates staff would like to provide to the Finance and Government Operations Committee.

Program Modifications

City Manager's Office – Approve reorganization of the City Manager's Office, Communications and Information Technology Department, Finance Department, and Human Resources Division for an increase of \$155,642 (General Fund and Non-General Fund)

Finance Department

The City Manager proposes the creation of Deputy Finance Director, an at-will position covered under the Executive and Management Salary Resolution. This proposed position expands the role of the existing Audit Manager, who is currently responsible for internal audits, compliance review, and risk management. The position will report primarily to the Finance Director, and the expansion of the role will include the following:

- Chief Information Security Officer: In March 2020, the City's operations were significantly impacted due to a cyber-incident. An internal review and an external assessment identified the need to establish a lead position for information security. The proposed Deputy Finance Director's responsibilities are expanded to include developing and implementing data and information security program, and leading governance of procedures and policies to protect City communications and systems from threats. In this capacity, the proposed position will report to the City Manager and partner with the Communication and Information Technology Director.
- Office of Emergency Services Management: Over the years, the responsibility of emergency services management has been assigned first to the Torrance Police Department, and currently to the Torrance Fire Department. The cyber incident of 2020 and COVID19 had citywide impact and demonstrated the opportunity for stronger coordination of all city resources (personnel, information, materials and supplies). The Deputy Finance Director will lead the Office of Emergency Services and coordinate emergency preparedness and recovery;

emergency operations; and community outreach and engagement. In this capacity, the position will report to the City Manager and partner with the Fire Chief and Police Chief.

To support the Office of Emergency Services Management, the City Manager proposes to transition the existing Emergency Services Manager position to one Management Associate position, an at-will position. The primary role of this Management Associate is to engage the community in emergency awareness, run the day-to-day responsibilities of the emergency office, interface with external agencies and neighboring communities, and develop preparedness and recovery plans. A secondary role of this Management Associate is to provide support to the Chief Information Security Officer in advancing emergency readiness of City systems and communications infrastructure.

Human Resources Division

The City Manager proposes the restoration of Human Resources Director, a Civil Service position covered under the Executive and Management Salary Resolution.

In March 2011, the Human Resources Director retired, and as a cost savings measure, the City downgraded the position to Human Resources Administrator (equivalent of a Division Manager). The Human Resources Department became a Division of the City Manager's Office and reported directly to the City Manager or his designee. At the time the Director position was converted to an Administrator position, the City Manager intended to restore the Director position at a future time when funding became available.

In 2019, the incumbent Human Resources Administrator resigned from the position. The City Manager identified funding to restore the Administrator position to Director, and temporarily assigned the function of Human Resources to the Assistant to the City Manager. The City Manager's intention was to restore the Human Resources Director position and open the recruitment for the position as part of the 2020/21 budget process. With the uncertainty of financial impacts related to COVID19, as a cost savings measure, the City Manager eliminated the position of Human Resources Administrator in May 2020, and retained the Assistant to the City Manager to lead the Human Resources Division until funding could be secured to restore the Director position.

City Manager's Office

The City Manager's Office proposes to create a part-time Staff Assistant, an at-will position covered by the Certain Full-Time Salaried and Hourly Employees Salary Resolution. This position will provide support to the City Council agenda process, coordinate the City's response to Federal and State

legislation, and coordinate ADA implementation and review. This position will also be the City Manager’s designee for the review of business travel and business expense reimbursement.

This part-time position is necessary because in recent years, the City Manager’s Office has taken on increasing responsibility related to homelessness, including leading outreach efforts, coordinating clean ups of encampments, applying for funding, and establishing interim housing. These responsibilities are expected to increase with time to address the growing number of people experiencing homelessness. The part-time Staff Assistant provides the necessary support for existing City Manager staff to focus on addressing homelessness.

Finally, as part of a second phase effective Fiscal Year 2022-23, it is proposed that the City Manager’s Office delete 1.0 Management Assistant to partially offset restoring a 1.0 Management Associate that was originally anticipated to be deleted in Fiscal Year 2022-23. This will cost \$94,057 (General Fund) and will be brought forward as part of the upcoming Fiscal Year 2022-23 budget hearings.

Funding and Timing

As shown in the table below, the proposed Phase I changes cost the General Fund \$145,388 and the Self-Insurance Fund \$10,254 and will require an additional appropriation in Fiscal Year 2021-22. Additional revenue has been identified through negotiations with the Torrance Refining Company that can be indirectly used to offset these General Fund costs. It is recommended the Phase I changes be made immediately.

Phase I Summary

Phase I - Immediate		1001	7000	
Action	Position	General Fund	Self Insurance	FTE Total
Delete	Human Resources Manager	(188,968)	-	(188,968)
Add	Human Resources Director	246,022	-	246,022
Delete	Audit Manager	(102,523)	(102,523)	(205,046)
Add	Deputy Finance Director	112,778	112,778	225,555
Delete	Emergency Services Manager	(128,190)	-	(128,190)
Add	Management Associate	149,521	-	149,521
Add	Staff Assistant (0.675 FTE)	56,748	-	56,748
Dollar Impact		145,388	10,254	155,642

Fire – Approve addition of 7.0 Ambulance Operators, Staff Assistant position upgrade to Business Manager, and EMS Coordinator Salary Grid modifications in the Fire Department for a reduction of \$4,571 (General Fund)

The Emergency Medical Services Transportation (EMT) program as approved by Council on January 12, 2021 included a Staff Assistant position. As the department analyzes the EMT program performance, the functions and responsibilities of each role within the program are analyzed to continue to develop the new positions and existing positions within the division. This is a request to upgrade/reclassify one Staff Assistant (working title BLS Coordinator) position to a Business Manager position and the addition of 3 salary steps to the EMS Coordinator position salary grid.

The Staff Assistant (BLS Coordinator) job duties and tasks were created to support the EMS Transportation program implemented by the Torrance Fire Department. Initially, the BLS Coordinator was not responsible for supervision or evaluations of the Ambulance Operators as this duty was held by station Captains. Over the course of the program implementation it became apparent that the BLS Coordinator is the position that should be tasked with supervision of the Ambulance Operators. Currently, the department deploys peak staffed ambulances. The Ambulance Operators assigned to the peak staffed units do not work with the same station captain on a daily basis. It is logical that the BLS Coordinator has the most interaction with these employees and is the constant supervisor that should complete their evaluations. To provide our Ambulance Operators with exposure to various call types, station assignments, and local area knowledge, the decision was made to rotate Ambulance Operator crews to a different assignment every two months. Station Captains rarely see the Ambulance Operators due to their call load, and will be less familiar with the personnel when rotated every two months. The BLS Coordinator is the appropriate person to supervise and evaluate these personnel.

The EMS Coordinator position is an existing position within the department and has recently assumed new responsibilities as result of shifts in roles and responsibilities of the EMS division. With the approval and implementation of the EMT program in the beginning of 2021 and the COVID pandemic, the TFD EMS services expanded further and the EMS Coordinator assumed more and higher levels of responsibilities. In addition to the position's regular duties, the EMS Coordinator assumed all EMS continuing education requirements for all Ambulance Operators in addition to safety personnel, serves as the Program Director and Clinical Director for the Continuing Education Provider Program, clinical management of the department's COVID vaccination program, Los Angeles County medical policy and directive education and notifications, coordination of departmental medical pilot programs, AED Program clinical oversight for TFD and TPD with annual submissions to LA County, serves as the department's Designated Infection Control Officer, Program

Director and Clinical Coordinator of the EMT Skills Competency Verification Program, EMS representation for the department Emergency Medical Dispatch program, EMS supply clinical advising on new devices/items regarding implementation of new devices and education dissemination. Additionally, a salary survey was conducted for the EMS Coordinator position. The current salary grid was compared to like positions of other agencies in the area. The salary survey found that the current salary grid was low when compared to other area agencies. The salary increase with the addition of 3 steps (5% per step) to the salary grid is necessary to be competitive with area agencies and to retain highly qualified personnel.

The Emergency Medical Services Transportation (EMT) program as approved by Council on January 12, 2021 included 22 Ambulance Operators (AO) to staff 3 full and 2 peak staffed ambulances when the program is fully implemented with all units phased in. This is a request to convert 1.0 Peak staffed ambulance unit with 2 AOs to 1.0 Full staffed unit with 6 AOs (adding 4.0 AOs) and for additional 3.0 AOs needed for wall unit support, for a total of 7.0 Ambulance Operators. On April 1, 2021 Torrance Fire Department launched the City operated EMT program with two of our TFD ambulances. Since launching the program our leadership team has adjusted and navigated the program around some challenges and learning opportunities. Each day we are learning and adjusting to ensure we are meeting our community's expectations. One of the added values of our accreditation journey is our ability to forecast and make informed decisions based on analytics and facts. We recognize that data does not always share the full story, but it does allow us to temper the emotional decisions. Two key tracking tools we have implemented or incorporated into our EMS transportation program is Unit Hour Utilization (UHU) and Ambulance Patient Offload Times (APOT). During the past couple of months, we have been tracking our UHU for each BLS ambulance unit. We have reached a threshold that requires the department to adjust and upgrade one of our peak staffed units to a 24 hour unit. The addition of the 24 hour unit requires the hiring of additional ambulance operators, however, the cost of the additional AOs is expected to be covered with less roll-over calls going to the ambulance contractor McCormick. One item outside of our control is extended APOT, at local receiving facilities. To ensure ambulances are available to transport our citizens, Torrance Fire/EMS temporarily implemented "wall units", one Ambulance Operator staffing a pick-up truck with a gurney and iPad, to relieve ambulances experiencing extended APOT. This trial has proven effective and our wall units are utilized frequently during call surges. Wall units freeing up Torrance BLS ambulances not only provides more resources for patients in the field, but provides a mechanism to offset the cost of the additional AO's by rolling over less calls to a contracted surge protection provider. The Fire Department is requesting approval to add 7.0 additional ambulance operators moving up from 22 to 29 full-time AOs. It is expected that with the conversion of 1.0 peak staffed ambulance unit to a full staffed unit, the transports completed by TFD staffed units will increase by at least 60 transports per month. At the current, preliminary projected EMT fees payment per transport of at least \$660-\$670

(based on revenues received from Apr-Jun 2021 transports as of February 2022), this will result in an additional revenue ranging \$475,200 - \$482,400, or more.

All of these program modifications, if approved, would take effect July 1, 2022 and incorporated into the Fiscal Year 2022-23 budget accordingly. A summary of the cost impacts can be found in the below table. As demonstrated all of these changes yield a net savings for the General Fund of \$4,571 in total.

	Annual Amount
Residual Savings - Q1 Program Modification	\$ (46,105)
Delete Staff Assistant	\$ (85,068)
Add Business Manager	\$ 113,694
Add Steps to EMS Coordinator (top step costing)	\$ 21,824
Net Cost / (Savings)	\$ 4,345
	Annual Amount
Ambulance Operator (+7.0 FTE)	\$ 466,284
Emergency Medical Transport Revenues	\$ (475,200)
Net Cost / (Savings)	\$ (8,916)
Total Cost / (Savings)	\$ (4,571)

Finance – Approve deletion of 1.0 Staff Assistant and Salary Grid modifications (pending meet and confer) in the Finance Department for a reduction of \$652 (General Fund)

The Finance Department is proposing a restructuring that would include the elimination of a Staff Assistant position, which would be leveraged to fund adjustments to two classifications. In response to recent spikes in turnover beginning in 2020, staff conducted salary surveys for multiple positions in the Finance Department. As a result of these surveys, it has been determined that the position of Senior Account Clerk does not align with other comparable cities and the compensation rate is below market. Since 2020, the Finance Department has had 4 staff (out of 5 budgeted positions) vacate the position of Account Clerk, 3 staff (out of 7 positions) have vacated the position of Senior Account Clerk, and 1 staff (out of 6 positions) have vacated the position of Accountant. Further, recent recruitments have proven challenging to get qualified candidates to apply for positions, aligning with the survey results.

Staff are recommending (subject to meet and confer) that the position of Senior Account Clerk be split into two different classifications – Accounting Technician and Payroll Specialist - with their salary grids adjusted according to the surveys. In most of the comparable cities surveyed, the position closest to encompassing the Senior Account Clerk duties (non-Payroll related) was that of

an Accounting Technician. Staff recommendation for this classification is a 7% increase and an adjustment to the top step to ensure all steps are 5% apart (currently the increase to the last step is 2.5%). This position would remain in the Torrance Fiscal and Engineers Association (TFEA). It should be noted that one Senior Account Clerk position in General Services (under the Airport Fund) would also be included in this change.

The 2nd classification recommended is that of Payroll Specialist. This classification would include the two (2.0 FTE) existing positions assigned to the Payroll Division in Finance (pending Civil Service processing). This newly established classification would follow the Senior Account Clerk grid, and is recommended to be adjusted upwards by 10%, also with the top step adjusted to ensure all steps are 5% apart (currently the increase to the last step is 2.5%). This position would be placed in TFEA. Due to the volume and complexity of employee contracts, the level of acumen required to process payroll in the system, and level of confidentiality, it was found that the market rate for Payroll Specialists is slightly higher than Accounting Technician. Note that the above recommended adjustments place Torrance towards the middle range of the salary surveys, not the top end.

If these recommendations are approved, it would create an overlap in multiple steps of the Accountant grid, whom typically oversee these staff. Therefore, staff are recommending that the first two steps of the position of Accountant (currently an 8 step grid) would be eliminated and the remaining 6 steps would be unchanged. Existing staff would stay on the same step they are today, in the proposed new grid, and those on step 7 or 8 would be assigned to step 6.

Staff believe these adjustments will ensure stability in the Finance Department at a time where staffing levels are incredibly strained as a result of deleted positions over time and recent turnover/vacancies. Recent recruitments have shown the City does not attract the level of employee and qualifications we did in years past. These changes, pending meet and confer, would take effect immediately in the Fiscal Year 2021-22 budget and result in no budget appropriation update.

Other Updates

Public Works – Adjustments to Water Fund Budget - \$2,775,000

Staff are recommending the Water Fund – Operations budget be increased by \$2,775,000 for two reasons: \$775,000 for a grant received to write off bad debt account balances and \$2.0 million for Water Supply Costs. Public Works staff recently submitted a grant application for COVID-19 relief funds from the State of California. Staff were successful and received approximately \$775,000 in grant funds. These monies will allow for past due account balances (as submitted at the time of the grant) to be reduced and/or eliminated since these aligned with and qualified for COVID-19 pandemic

assistance. Since this grant funding was received, it needs to be appropriated so that staff can work with our billing vendor (Minol) to write off these past due balances as bad debt entries (revenue was recognized when invoices were initially issued). Due to the lag in grant application and grant funding receipt, it is possible not all of the account balances originally applied for will be written off as bad debt. If that is the case, the residual balance of the grant will be returned. The second adjustment to the expenditure budget, totaling \$2.0 million, relates to the Water Fund's Water Supply Cost classification. When developing the Fiscal Year 2021-22 Water Fund – Operations budget, it was anticipated the North Torrance Well Field Project (I-108) would be completed, which would lower the purchase cost of water for the City. Due to delays related to supply chain issues, staff are recommending an appropriation of \$2.0 million to cover the unanticipated additional costs.



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 (ACFR), 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, Cable - PEG Fund, as well as certain Capital Project Funds, Replacement Funds and Reserve Funds. All of these areas are consolidated under the overall General Fund umbrella when reported through the City’s ACFR. The activities that occur in all of these funds affect the overall performance of the General Fund, when published in the ACFR, 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 – Unassigned:** Focuses mainly on the City’s General Fund Reserve Fund and any other unassigned (as reported in the ACFR) subfunds of the overall General Fund
- **General Fund – Restricted/Assigned:** Focuses mainly on the City’s various General Fund Replacement Funds, including associated Capital Project Funds, Cable’s PEG Funds, and other assigned/restricted subfunds of the overall General Fund

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

General Fund Revenue and Expenditure Summary

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 197,763,245	\$ 106,994,279	54.1%	\$ 228,344,541	\$ 127,218,612	55.7%	\$ 241,578,221	\$ 13,233,680	105.8%
Total Expenditures	\$ 213,523,397	\$ 121,624,224	57.0%	\$ 226,432,717	\$ 126,107,116	55.7%	\$ 225,071,148	\$ 1,361,569	99.4%
Rev Less Exp	\$ (15,760,152)	\$ (14,629,945)		\$ 1,911,824	\$ 1,111,496		\$ 16,507,073		

The Fiscal Year 2021-22 Adopted Budget included a planned use of fund balance; however at the October 12, 2021 City Council meeting, reductions were approved that result in a budgeted surplus across all General Fund subfunds. A large portion of the reductions related to Police and Fire, were deferred to July 1, 2022, pending the outcome of the sales tax measure. These reductions are necessary absent a newly identified revenue source because the City’s General Fund includes one-

time revenues totaling \$12.0 million in American Rescue Plan Act funds (second and final payment; one-time source) for Fiscal Year 2021-22.

When comparing the mid-year period in Fiscal Year 2021-22 to the same period the year prior, the percentage of budgeted revenues received to date has increased. As of January 31, 2022, a total of 55.7% of budgeted revenues were received to date compared to 54.1% of budgeted revenue being received the year prior. Overall, year-to-date revenues are up \$20.2 million when comparing year to year as a result of economic improvements related to the COVID-19 pandemic, implementation of the City's Emergency Medical Transport program, along with the consolidation of the below funds under the General Fund (which took place in February 2021 of last fiscal year):

- Animal Control Fund
- Cultural Arts Center Fund
- Emergency Medical Services Fund
- Parks & Recreation Fund

It is projected that General Fund Revenues will be \$241.6 million, exceeding budgeted values by \$13.2 million. This is examined further in the **Revenue Overview** section of the document.

On the opposite side of the budget, the rate of expenditures relative to budgeted amounts has decreased. As of January 31, 2022, a total of 55.7% of budgeted expenditures were utilized to date compared to 57.0% of budgeted expenditures being utilized the year prior. Overall, it is projected that General Fund Expenditures will be \$225.1 million, generating a \$1.4 million budget surplus. The details of these expenditure impacts are examined further in the **Expenditure Overview** section of the document.

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 ACFR. Below is a summary of this fund as of Mid-Year:

General Fund Operating Fund Revenue and Expenditure Summary

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 192,972,445	\$ 104,602,256	54.2%	\$ 224,332,267	\$ 123,492,827	55.0%	\$ 236,800,876	\$ 12,468,609	105.6%
Total Expenditures	\$ 208,818,700	\$ 119,277,291	57.1%	\$ 224,138,476	\$ 124,335,265	55.5%	\$ 223,010,007	\$ 1,128,469	99.5%
Revenues Less Expenditures	\$ (15,846,255)	\$ (14,675,035)		\$ 193,791	\$ (842,438)		\$ 13,790,869		
Fund Bal Decrease/(Increase)	\$ 15,846,255			\$ (193,791)			\$ (13,790,869)		
Net Budget Balance	\$ -			\$ -			\$ -		

When comparing Fiscal Year 2021-22 to the same period the year prior, the percentage of budgeted revenues received to date has increased. As of January 31, 2022, a total of 55.0% of budgeted revenues were received to date compared to 54.2% of budgeted revenue being received the year prior. Overall, revenues are up \$18.9 million when comparing year to year as a result of economic improvements related to the COVID-19 pandemic, implementation of the City’s Emergency Medical Transport program, along with the consolidation of the below funds under the General Fund (which took place in February 2021 of last fiscal year):

- Cable & Community Relations – main operating fund
- Animal Control Fund
- Cultural Arts Center Fund
- Emergency Medical Services Fund
- Parks & Recreation Fund

On the opposite side of the budget, the rate of expenditures relative to budgeted amounts has decreased. As of January 31, 2022, a total of 55.5% of budgeted expenditures were utilized to date compared to 57.1% of budgeted expenditures the year prior. This is largely driven by the timing of debt-service payments for the 2020 Lease Revenue Bonds utilized to pay down a large portion of the City’s CalPERS Unfunded Actuarial Liability (Non-Departmental) offset by vacancies held across most departments. This will be explained further in the **Expenditure Overview** section of the document.

The City’s General Fund Operating Fund was originally adopted with a deficit of \$4.7 million, including the one-time American Rescue Plan Act (ARPA) funding source totaling \$12.0 million. Absent this one-time source, the structural deficit was \$16.8 million. The amended budget currently reflects a small operating surplus as a result of the budget reductions approved by Council on

October 12, 2021, which increased the General Fund Operating Fund revenue budget by \$361,000 and decreased the General Fund Operating Fund appropriation by \$5.3 million. While the budget presents as balanced at this time, the one-time funding source from the ARPA will not recur in Fiscal Year 2022-23. Additionally, the October 12, 2021 Council meeting deferred reductions for the Police and Fire Departments to July 1, 2022 pending the outcome of the sales tax measure. Since the ARPA funds will not recur, these reductions or a newly identified revenue source are needed to balance the budget in the years to come.

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 2021-22 increased \$31.4 million, or 16.3%, to \$224.3 million largely due to the state and county orders to reopen businesses, one-time revenues under the American Rescue Plan Act (ARPA), the launch of the City’s Emergency Medical Transport program, along with the consolidation of the below funds under the General Fund (which took place in February 2021 of last fiscal year):

- Cable & Community Relations – main operating fund
- Animal Control Fund
- Cultural Arts Center Fund
- Emergency Medical Services Fund
- Parks & Recreation Fund

All Revenues by Classification

Revenues	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Taxes	\$ 163,388,392	\$ 87,403,251	53.5%	\$ 175,114,158	\$ 100,155,906	57.2%	\$ 185,478,761	\$ 10,364,603	105.9%
Licenses, Fees and Permits	4,164,905	1,885,991	45.3%	4,588,586	2,952,746	64.3%	\$ 5,329,442	\$ 740,856	116.1%
Fines, Forfeitures and Penalties	712,000	259,421	36.4%	742,003	288,200	38.8%	\$ 720,729	\$ (21,274)	97.1%
Use of Money and Property	3,087,703	1,280,281	41.5%	2,123,339	1,477,253	69.6%	\$ 2,002,104	\$ (121,235)	94.3%
Intergovernmental	435,000	117,138	26.9%	469,994	413,038	87.9%	\$ 559,241	\$ 89,247	119.0%
Other Revenues	518,189	2,124,556	410.0%	12,517,210	204,759	1.6%	\$ 12,517,210	\$ -	100.0%
Charges for Services	6,352,002	4,029,269	63.4%	16,454,206	10,417,692	63.3%	\$ 17,607,723	\$ 1,153,517	107.0%
Operating Transfers In	13,429,099	7,502,349	55.9%	12,322,771	7,583,233	61.5%	\$ 12,585,665	\$ 262,894	102.1%
Other Financing Sources	885,155	-	0.0%	-	-	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 192,972,445	\$ 104,602,256	54.2%	\$ 224,332,267	\$ 123,492,827	55.0%	\$ 236,800,876	\$ 12,468,609	105.6%

As of January 31, 2022, \$123.5 million or 55.0%, was received compared to \$104.6 million or 54.2% of the prior fiscal year 2020-21 budget. It’s important to note that certain General Fund revenues are not realized evenly throughout the year, 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 Taxes classification, which include areas like Sales and Use taxes, Property taxes, Utility Users’ taxes, Occupancy taxes, Business License taxes and Vehicle License Fee Swap taxes. The Taxes classification accounts for approximately 78% of the City’s Projected General Fund Operating Fund revenues for Fiscal Year 2021-22.

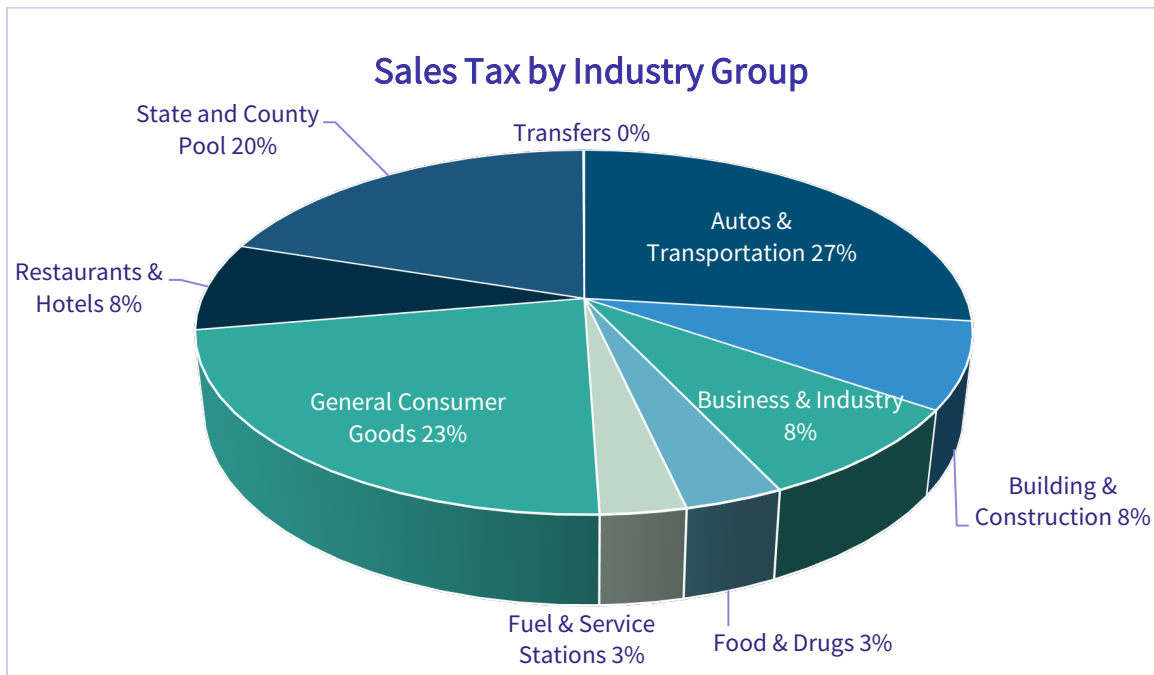
Tax Revenues by Classification

Revenues	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Sales and Use Tax	48,442,800	30,299,608	62.5%	55,261,835	36,402,551	65.9%	\$ 60,222,755	\$ 4,960,920	109.0%
Property Tax	40,423,401	21,040,904	52.1%	42,701,064	21,458,620	50.3%	\$ 42,719,120	\$ 18,056	100.0%
Property Transfer Tax	769,000	410,642	53.4%	1,000,000	664,602	66.5%	\$ 1,426,671	\$ 426,671	142.7%
VLF Swap & Repayment	15,787,000	7,815,877	49.5%	16,130,707	8,065,850	50.0%	\$ 16,131,700	\$ 993	100.0%
Utility Users Tax	\$ 30,330,998	\$ 16,343,838	53.9%	\$ 32,926,251	\$ 18,732,302	56.9%	\$ 36,420,503	\$ 3,494,252	110.6%
Business License Tax	9,209,896	6,534,652	71.0%	9,179,377	6,317,207	68.8%	\$ 8,903,867	\$ (275,510)	97.0%
Occupancy Tax	10,016,297	2,994,412	29.9%	7,119,224	5,646,761	79.3%	\$ 9,281,404	\$ 2,162,180	130.4%
Franchise Tax	5,964,100	1,415,357	23.7%	8,930,800	1,772,707	19.8%	\$ 8,655,213	\$ (275,587)	96.9%
Construction Tax	2,437,400	545,672	22.4%	1,857,400	1,093,301	58.9%	\$ 1,711,671	\$ (145,729)	92.2%
Oil Severance Tax	7,500	2,289	30.5%	7,500	2,005	26.7%	\$ 5,857	\$ (1,643)	78.1%
Total Revenues	\$163,388,392	\$ 87,403,251	53.5%	\$175,114,158	\$ 100,155,906	57.2%	\$185,478,761	\$ 10,364,603	105.9%

Overall, the City expects to exceed the annual amended budget for the Taxes classification by \$10.4 million, primarily driven by an increase in projected revenues from sales and use taxes of \$5.0 million, utility users' tax of \$3.5 million and occupancy taxes of \$2.2 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 \$36.4 million through January 31, 2022 are tracking above prior year actuals by \$6.1 million and the projected annual amounts exceeding budget by \$5.0 million is mainly due to the economic recovery from easing of state and county COVID-19 restrictions.

Based on the latest data from CDTFA (third calendar quarter 2021), the City is experiencing growth in all major industry groups except Food & Drugs though this is having a “de minimis” effect on results. The sector with the largest impact to sales tax revenue growth is General Consumer Goods. When comparing third quarter 2021 to the same period the year prior, we are seeing an increase of \$796,000 or 31.5%. The sector with the second largest impact to sales tax revenue growth is Autos and Transportation. When comparing third quarter 2021 to the same period the year prior, we are seeing an increase of \$713,000 or 22.0%. The sector with the third largest impact to sales tax revenue growth is Restaurants and Hotels. When comparing third quarter 2021 to the same period the year prior, we are seeing an increase of \$466,000 or 52.9%. Overall, when comparing third quarter 2021 against third quarter 2020 for all industry groups, we are showing about a \$2.6M increase, or about 21.1%. It is important to note this is comparing one quarter and is not necessarily indicative of annualized year-over-year performance. Due to COVID-19, each quarter’s performance has varied significantly. On an annualized basis we are anticipating about 10% growth in sales tax overall, which is consistent with overall statewide trends.

Allocations from the Los Angeles county-wide pool continue to be strong, despite the increases experienced in General Consumer Goods in this same period. At the onset of the pandemic these two operated in an inverse manner as consumers shifted to online shopping. Despite the re-opening of brick-and-mortar retailers, online sales continue to hold strong. In third quarter 2021, the State and County Pool allocation increased \$262,000, or 10.6%, over the year prior.

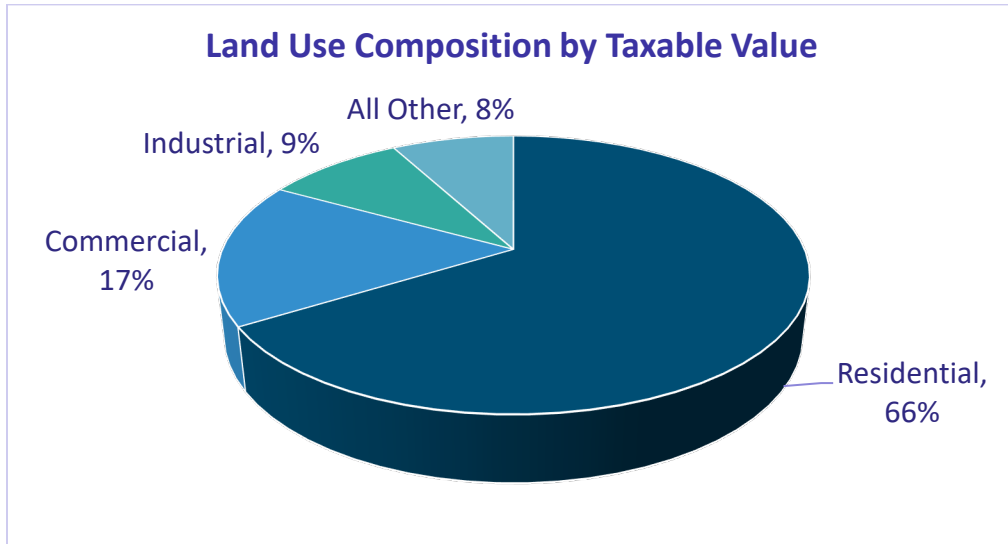
While revenues are positive, staff are cautious in the area of Autos & Transportation among other areas. Autos & Transportation accounts for 27% of sales tax revenue for the City and with supply chain constraints, chip shortages, and purchase activity at current levels, inventories are very tight. We are anticipating this revenue stream will see a decline next year as levels experienced in the last two years are not sustainable.

Inflation rates, increases to the federal funds rate, and geopolitical uncertainty are anticipated to factor into trends for next year. The drop in Autos along with normalized growth rates across industry groups may result in muted growth overall for next 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 2021-22 net taxable assessed values increased 3.2% from the prior year to \$34.4 billion, placing Torrance in the top 10 highest value cities in Los Angeles County (8th place).



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’s 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 half is realized as of this report.

Overall, Property tax revenues are primarily received in December and April each year. As of January 31, 2022, property tax receipts (inclusive of Transfer Tax and VLF Swap) totaled \$30.2 million compared with \$29.3 million last year, an increase of \$900,000. Presently, the City projects the total year-end revenue to be 4.8% above the property tax receipts for fiscal year 2020-21.

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% consumption tax applied to water.

Utility Users' Tax Classification by Type

Revenues	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Electricity	\$ 12,967,133	\$ 8,163,060	63.0%	\$ 15,114,624	\$ 9,239,373	61.1%	\$ 16,517,221	\$ 1,402,597	109.3%
Gas	\$ 2,700,077	\$ 1,480,728	54.8%	\$ 4,050,989	\$ 1,840,105	45.4%	\$ 4,541,308	\$ 490,319	112.1%
Refinery: Co-gen	\$ 967,608	\$ 477,150	49.3%	\$ 553,259	\$ 288,294	52.1%	\$ 530,227	\$ (23,032)	95.8%
Refinery: Gas	\$ 4,801,548	\$ 1,602,846	33.4%	\$ 5,221,642	\$ 2,700,558	51.7%	\$ 5,967,465	\$ 745,823	114.3%
Water	\$ 2,484,198	\$ 1,877,494	75.6%	\$ 2,927,471	\$ 1,935,097	66.1%	\$ 3,417,062	\$ 489,591	116.7%
Cable	\$ 1,652,418	\$ 830,681	50.3%	\$ 1,848,936	\$ 1,006,596	54.4%	\$ 2,040,064	\$ 191,128	110.3%
Cellular	\$ 1,980,385	\$ 536,424	27.1%	\$ 1,010,492	\$ 556,358	55.1%	\$ 1,096,809	\$ 86,317	108.5%
Telecom	\$ 2,777,631	\$ 1,375,455	49.5%	\$ 2,198,838	\$ 1,165,921	53.0%	\$ 2,310,347	\$ 111,509	105.1%
Total Revenues	\$ 30,330,998	\$ 16,343,838	53.9%	\$ 32,926,251	\$ 18,732,302	56.9%	\$ 36,420,503	\$ 3,494,252	110.6%

Current period receipts of \$18.7 million exceed prior year receipts by \$2.4 million, or 14.6%. Overall, the increase is mainly due to UUT collected from electricity and gas, offset by declines in telecom and the Refinery co-generation electricity. The increases experienced in electricity and gas UUT receipts are partially driven by rate increases approved by the CPUC. The decline in telecom has remained consistent with prior periods as consumers increasingly rely on mobile phone services from carriers. The Refinery Co-Generation and Refinery Gas typically have an inverse relationship as the production can shift between electric or gas-powered turbines depending on the market rate from utility providers.

Business License Tax

The City of Torrance typically serves approximately 12,600 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 January 31, 2022, business license tax receipts have declined slightly when compared with prior year and are expected to fall short of budget estimates by \$276,000, or 3.0%.

Occupancy Tax

Occupancy tax is an 11% tax on room charges to guests staying at hotel/motels and short-term rentals. As of January 31, 2022, the City has received \$5.6 million, an increase of \$2.6 million compared to January 31, 2021 receipts of \$3.0 million. 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 decreased restrictions around the COVID-19 pandemic.

Based on information from data and analytics company STR, LLC, the occupancy rate percentage for the 7 months ending January 2022 increased from 49.5% in fiscal year 2020-21 to 77.1% in fiscal year 2021-22. Additionally, the average daily rate per room increased by \$29 during this same period. The City projects occupancy tax receipts to recover significantly finishing the year with \$9.3 million in receipts, which is 80% of pre-pandemic levels.

Licenses, Fees & Permits

This revenue source accounts primarily for development-related fees such as building and inspection fees. As of January 31, 2022, actual receipts of \$3.0 million represent a 56.6% increase from prior year receipts of \$1.9 million and is projected to exceed budget by \$741,000. 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 January 31, 2022, actual receipts of \$1.5 million represent a 15.4% increase from prior year receipts of \$1.3 million, due to an increase in the General Fund’s allocation of investment earnings. It is anticipated that this revenue source will fall short of budget by roughly \$121,000.

Fines and Forfeitures

This revenue source includes general court, traffic fines and parking citation revenues. As of January 31, 2022, actual receipts of \$288,200 represent an increase from last year’s receipts of \$259,000. The increase is mainly due to the resumption of street sweeping and residential permit parking citations which were suspended during the City Manager’s Public Order authority under the COVID-19 emergency proclamation.

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 January 31, 2022, actual receipts of \$10.4 million exceed the prior year by \$6.4 million (159%).

Charges for Services Classification by Department

Revenues	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
City Manager	\$ -	\$ -	0.0%	\$ 130,000	\$ 60,783	46.8%	242,188	112,188	186.3%
City Clerk	\$ 10,994	\$ 2,751	25.0%	\$ 24,236	\$ 7,636	31.5%	15,977	(8,259)	65.9%
Community Development	\$ 3,569,985	\$ 2,411,034	67.5%	\$ 4,053,469	\$ 2,857,301	70.5%	5,141,017	1,087,548	126.8%
General Services	\$ -	\$ -	0.0%	\$ 635,896	\$ 344,818	54.2%	648,316	12,420	102.0%
Non-Departmental	\$ 13,828	\$ 9,018	65.2%	\$ 30,585	\$ 9,448	30.9%	18,045	(12,540)	59.0%
Police	\$ 454,367	\$ 125,790	27.7%	\$ 259,370	\$ 110,179	42.5%	210,358	(49,012)	81.1%
Fire	\$ 1,650,161	\$ 1,232,546	74.7%	\$ 7,783,935	\$ 4,153,999	53.4%	7,386,822	(397,113)	94.9%
Public Works	\$ 176,930	\$ 212,027	119.8%	\$ 231,930	\$ 221,324	95.4%	225,419	(6,511)	97.2%
Community Services	\$ 475,737	\$ 36,103	7.6%	\$ 3,304,785	\$ 2,652,204	80.3%	3,719,581	414,796	112.6%
Total Revenues	6,352,002	4,029,269	63.4%	16,454,206	10,417,692	63.3%	17,607,723	1,153,517	107.0%

This increase is mainly due to the launch of the City’s Emergency Medical Transport program, along with the consolidation of the below funds under the General Fund (which took place in February 2021 of last fiscal year):

- Cable & Community Relations – main operating fund (City Manager Department)

-
- Animal Control Fund (Community Services Department)
 - Cultural Arts Center Fund (General Services Department)
 - Emergency Medical Services Fund (Fire Department)
 - Parks & Recreation Fund (Community Services Department)

The consolidation of the Emergency Medical Services Fund coupled with the implementation of the Emergency Transport program in Fire resulted in \$2.4 million of additional General Fund revenues with the remainder due to an increase of \$510,000 in fire inspection fees. The consolidation and resumption of programs from the Community Services department generated an additional \$2.6 million and General Services (Cultural Arts Center) generated an additional \$345,000 in General Fund revenues. This overall classification was negatively affected in the prior year by the COVID-19 closures; however, is expected to exceed the revised budget by 7% this year.

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 January 31, 2022, actual receipts of \$7.6 million exceed the prior year by \$81,000. Additionally, the Mid-Year Report projection reflects a surplus of \$263,000, driven by one-time transfers across General Fund subfunds.

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 January 31, 2022, the City’s General Fund expenditure budget is projected to generate a \$1.1 million surplus at year-end. When comparing the City’s rate of spending this year, against last year, we expended 55.5% of the City’s General Fund to date, compared to 57.1% in the year prior.

When reviewing all departments, year to date expenditures fall below the fiscal year expired (58.9% through January 2022) with the exception of Non-Departmental. Each department has held multiple vacancies in an effort to help the City’s overall financial position and offset increased contributions to the Self-Insurance Fund (Non-Departmental) resulting from anticipated and realized settlements. It is expected for Non-Departmental expenditures to not be linear throughout the fiscal year for multiple reasons. One main reason is the timing of the City’s Debt Service payments for the 2020 Lease Revenue Bonds (used to pay down CalPERS UAL) included in the Non-Departmental expenditures. Another factor are contributions made in Non-departmental to other funds, such as the City’s contribution to its newly established CalPERS Employer Pension Prefunding Trust (CEPPT) and the City’s Capital Improvement Fund, which happen at the beginning of the year. Examining expenditures over the course of the full fiscal year is important to do in this area. The General Fund expenditure budget includes a projected surplus muted by the Non-Departmental projection which includes a one-time transfer to the City’s Self-Insurance Fund for \$10.7 million to cover projected deficits in this Internal Service Fund.

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

General Fund Operating Fund – All Expenditures by Department

Expenditures	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Total	Surplus / (Deficit)	Percent of Budget
Council	\$ 524,937	\$ 278,778	53.1%	\$ 417,157	\$ 225,031	53.9%	\$ 410,717	\$ 6,440	98.5%
City Manager	\$ 2,692,940	\$ 1,435,680	53.3%	\$ 5,348,538	\$ 2,986,712	55.8%	\$ 5,269,523	\$ 79,015	98.5%
City Attorney	\$ 2,615,175	\$ 1,544,161	59.0%	\$ 2,674,293	\$ 1,474,307	55.1%	\$ 2,614,820	\$ 59,473	97.8%
City Clerk	\$ 1,045,585	\$ 587,694	56.2%	\$ 1,427,073	\$ 559,214	39.2%	\$ 1,702,721	\$ (275,648)	119.3%
City Treasurer	\$ 343,481	\$ 213,082	62.0%	\$ 356,017	\$ 185,739	52.2%	\$ 329,370	\$ 26,647	92.5%
Finance	\$ 6,089,510	\$ 3,145,524	51.7%	\$ 6,193,572	\$ 2,780,463	44.9%	\$ 5,238,513	\$ 955,059	84.6%
Human Resources	\$ 1,926,592	\$ 985,146	51.1%	\$ 2,068,751	\$ 999,441	48.3%	\$ 1,956,550	\$ 112,201	94.6%
Civil Service	\$ 583,389	\$ 296,392	50.8%	\$ 598,794	\$ 322,229	53.8%	\$ 546,071	\$ 52,723	91.2%
Community Development	\$ 8,378,854	\$ 5,152,349	61.5%	\$ 8,730,072	\$ 4,435,215	50.8%	\$ 7,837,968	\$ 892,104	89.8%
CIT	\$ 5,047,848	\$ 2,959,450	58.6%	\$ 8,500,829	\$ 4,561,200	53.7%	\$ 8,016,764	\$ 484,065	94.3%
General Services	\$ 4,386,139	\$ 2,375,765	54.2%	\$ 9,659,503	\$ 4,555,477	47.2%	\$ 8,395,481	\$ 1,264,022	86.9%
Non-Departmental	\$ 23,537,737	\$ 12,971,669	55.1%	\$ 669,925	\$ 3,066,300	457.7%	\$ 10,581,531	\$ (9,911,606)	1579.5%
Police	\$ 89,217,873	\$ 51,389,597	57.6%	\$ 89,031,719	\$ 50,091,717	56.3%	\$ 85,630,099	\$ 3,401,620	96.2%
Fire	\$ 33,311,356	\$ 20,093,598	60.3%	\$ 52,247,241	\$ 29,344,894	56.2%	\$ 51,101,950	\$ 1,145,291	97.8%
Public Works	\$ 12,532,343	\$ 6,848,239	54.6%	\$ 13,131,775	\$ 7,092,873	54.0%	\$ 12,223,622	\$ 908,153	93.1%
Community Services	\$ 16,584,941	\$ 9,000,167	54.3%	\$ 23,083,217	\$ 11,654,453	50.5%	\$ 21,154,309	\$ 1,928,908	91.6%
Total Expenditures	\$ 208,818,700	\$ 119,277,291	57.1%	\$ 224,138,476	\$ 124,335,265	55.5%	\$ 223,010,007	\$ 1,128,469	99.5%

As shown above, most departments are projected to end the Fiscal Year within budget, while Non-Departmental budget shows a budgetary deficit of \$9.9 million and the City Clerk shows a deficit of \$276,000. The Non-Departmental deficit is driven by a planned one-time transfer of \$10.7 million to the City's Self-Insurance Fund and the City Clerk's deficit is driven by the June 2022 election estimate provided by the County. This is explained in further detail in each fund's section of this document.

If you control for the one-time additional transfers of \$10.7 million to Self-Insurance, the budget projects \$11.8 million in savings for Fiscal year 2021-22. This is the direct result of departments holding vacancies across the General Fund. As of January 31, 2022 (including the Council approved reductions from October 12, 2021), the General Fund has 133.18 FTE in vacancies. Since these savings have been identified through held vacancies, staff have included in the projection a one-time additional transfer of \$10.7 million out of the General Fund into the Self-Insurance Fund to offset realized and anticipated expenditures in this fund not part of the original budget.

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	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Council	\$ 92,795	\$ 51,517	55.5%	\$ 93,980	\$ 49,800	53.0%	\$ 90,927	\$ 3,053	96.8%
City Manager	\$ 2,102,516	\$ 1,218,606	58.0%	\$ 4,351,058	\$ 2,572,463	59.1%	\$ 4,325,152	\$ 25,906	99.4%
City Attorney	\$ 2,300,574	\$ 1,391,163	60.5%	\$ 2,342,978	\$ 1,378,171	58.8%	\$ 2,302,404	\$ 40,574	98.3%
City Clerk	\$ 873,403	\$ 509,763	58.4%	\$ 868,358	\$ 507,038	58.4%	\$ 870,132	\$ (1,774)	100.2%
City Treasurer	\$ 297,569	\$ 186,810	62.8%	\$ 321,200	\$ 171,371	53.4%	\$ 303,384	\$ 17,816	94.5%
Finance	\$ 4,474,094	\$ 2,339,955	52.3%	\$ 4,627,901	\$ 2,026,432	43.8%	\$ 3,631,903	\$ 995,998	78.5%
Human Resources	\$ 1,179,693	\$ 701,140	59.4%	\$ 1,314,634	\$ 637,565	48.5%	\$ 1,138,955	\$ 175,679	86.6%
Civil Service	\$ 442,755	\$ 267,225	60.4%	\$ 481,999	\$ 296,371	61.5%	\$ 494,472	\$ (12,473)	102.6%
Community Development	\$ 7,290,142	\$ 4,574,095	62.7%	\$ 7,909,704	\$ 4,053,989	51.3%	\$ 7,034,207	\$ 875,497	88.9%
CIT	\$ 4,204,828	\$ 2,500,498	59.5%	\$ 6,243,400	\$ 3,449,766	55.3%	\$ 5,946,659	\$ 296,741	95.2%
General Services	\$ 3,073,140	\$ 1,953,899	63.6%	\$ 6,918,996	\$ 3,446,838	49.8%	\$ 5,993,766	\$ 925,230	86.6%
Non-Departmental	\$ (352,649)	\$ 121,103	-34.3%	\$ 81,500	\$ 88,742	108.9%	\$ 140,723	\$ (59,223)	172.7%
Police	\$ 83,482,480	\$ 48,229,760	57.8%	\$ 82,157,725	\$ 46,151,085	56.2%	\$ 78,359,269	\$ 3,798,456	95.4%
Fire	\$ 30,877,007	\$ 18,946,655	61.4%	\$ 48,221,843	\$ 27,793,260	57.6%	\$ 47,601,678	\$ 620,165	98.7%
Public Works	\$ 7,637,457	\$ 4,585,240	60.0%	\$ 7,260,209	\$ 4,067,715	56.0%	\$ 6,998,996	\$ 261,213	96.4%
Community Services	\$ 12,292,523	\$ 6,612,284	53.8%	\$ 16,774,213	\$ 8,705,418	51.9%	\$ 15,055,698	\$ 1,718,515	89.8%
Total Expenditures	\$ 160,268,327	\$ 94,189,713	58.8%	\$ 189,969,698	\$ 105,396,024	55.5%	\$180,288,325	\$ 9,681,373	94.9%

The trends in salary expenditures are favorable this year relative to budget when compared with the year prior. As shown above, as of January 31st, the City has expended 55.5% of its budget, compared

to 58.8% the year prior. Both of these values are within the current timing of the fiscal year, of which 58.9% has expired. As a result, it is projected that the salaries portion of the expenditure budget will generate approximately \$9.7 million in savings.

Overall, projected savings are reflected in almost all departments. This aligns with the expectations based on the budget reduction efforts and demonstrates departments effectively working hard to reduce their overall spending to balance the budget.

Communications and Information Technology (CIT)

As of January 31, 2022, CIT has total vacancies of 1.5 FTE, of which 1.5 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 \$297,000.

Community Development

As of January 31, 2022, Community Development has total vacancies of 10.7 FTE (portion of the Department affecting General Fund), of which 4.3 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Community Development is projecting budgetary savings of \$875,000.

Community Services

As of January 31, 2022, Community Services has total vacancies of 18.5 FTE (excluding seasonal/recurrent), of which 11.5 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Additional savings is generated through reductions in seasonal/recurrent expenditures as the Parks & Recreation program area operates at partial capacity. Community Services is projecting budgetary savings of \$1.7 million.

Finance

As of January 31, 2022, Finance has total vacancies of 8.0 FTE (portion of the Department affecting General Fund), of which 6.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Finance is projecting budgetary savings of \$996,000.

General Services

As of January 31, 2022, General Services has total vacancies of 9.5 FTE (excluding seasonal/recurrent), of which 3.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Additional savings are generated through reductions in seasonal/recurrent staffing as the Cultural Arts Center program area operates at limited capacity. General Services is projecting budgetary savings of \$925,000.

Police

As of January 31, 2022, Police has total vacancies of 36.0 FTE (before overfills generated by civilianization conversions), of which 22.0 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Police is projecting budgetary savings of \$3.8 million. While there are 22.0 positions projected to be unfilled for the rest of the year some of the savings that would be generated by these position is offset from approximately 5 unbudgeted Police Trainees (these positions are hired utilizing vacancies in the Police Officer ranks).

Fire

As of January 31, 2022, Fire has total vacancies of 25.5 FTE, of which 18.5 is expected to be unfilled for the rest of the year in this projection based on approved recruitments. Fire is projecting budgetary savings of \$620,000. While there are 18.5 positions projected to be unfilled for the rest of the year some of the savings that would be generated by these position is offset from approximately 16 unbudgeted Fire Recruits (these positions are hired utilizing vacancies in the Fire Fighter ranks). Additionally, since the Fire Department operates on a constant staffing model, anytime there are vacancies staff must cover these openings through overtime.

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	2020-21			2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Council	\$ 432,142	\$ 227,261	52.6%	\$ 323,177	\$ 175,231	54.2%	\$ 319,790	\$ 3,387	99.0%
City Manager	\$ 590,424	\$ 217,074	36.8%	\$ 997,480	\$ 414,249	41.5%	\$ 944,370	\$ 53,110	94.7%
City Attorney	\$ 314,601	\$ 152,998	48.6%	\$ 331,315	\$ 96,136	29.0%	\$ 312,415	\$ 18,900	94.3%
City Clerk	\$ 172,182	\$ 77,931	45.3%	\$ 558,715	\$ 52,176	9.3%	\$ 832,589	\$ (273,874)	149.0%
City Treasurer	\$ 45,912	\$ 26,272	57.2%	\$ 34,817	\$ 14,368	41.3%	\$ 25,986	\$ 8,831	74.6%
Finance	\$ 1,615,416	\$ 805,569	49.9%	\$ 1,565,671	\$ 754,031	48.2%	\$ 1,606,610	\$ (40,939)	102.6%
Human Resources	\$ 746,899	\$ 284,006	38.0%	\$ 754,117	\$ 361,876	48.0%	\$ 817,595	\$ (63,478)	108.4%
Civil Service	\$ 140,634	\$ 29,167	20.7%	\$ 116,795	\$ 25,858	22.1%	\$ 51,598	\$ 65,197	44.2%
Community Development	\$ 1,088,712	\$ 578,254	53.1%	\$ 820,368	\$ 381,226	46.5%	\$ 803,762	\$ 16,606	98.0%
CIT	\$ 843,020	\$ 458,952	54.4%	\$ 2,257,429	\$ 1,111,434	49.2%	\$ 2,070,105	\$ 187,324	91.7%
General Services	\$ 1,312,999	\$ 421,866	32.1%	\$ 2,740,507	\$ 1,108,639	40.5%	\$ 2,401,715	\$ 338,792	87.6%
Non-Departmental	\$ 23,890,386	\$ 12,850,566	53.8%	\$ 588,425	\$ 2,977,558	506.0%	\$ 10,440,808	\$ (9,852,383)	1774.4%
Police	\$ 5,735,393	\$ 3,159,837	55.1%	\$ 6,873,994	\$ 3,940,632	57.3%	\$ 7,270,829	\$ (396,835)	105.8%
Fire	\$ 2,434,349	\$ 1,146,943	47.1%	\$ 4,025,398	\$ 1,551,634	38.5%	\$ 3,500,272	\$ 525,126	87.0%
Public Works	\$ 4,894,886	\$ 2,262,999	46.2%	\$ 5,871,566	\$ 3,025,158	51.5%	\$ 5,224,626	\$ 646,940	89.0%
Community Services	\$ 4,292,418	\$ 2,387,883	55.6%	\$ 6,309,004	\$ 2,949,035	46.7%	\$ 6,098,611	\$ 210,393	96.7%
Total Expenditures	\$ 48,550,373	\$ 25,087,578	51.7%	\$ 34,168,778	\$ 18,939,241	55.4%	\$ 42,721,682	\$ (8,552,904)	125.0%

As shown above, the level of expenditures to date is below last year's amount by \$6.1 million. To date, 55.4% of the non-wage General Fund budget has been expended as of January 31, 2022

compared to the same period the year before at 51.7%. This is largely driven by the Non-Departmental budget and the timing of new debt service payments related to the 2020 Lease Revenue Bonds (used to pay down a large portion of the City's CalPERS UAL). After controlling for this impact by excluding Non-Departmental, the trend is fairly consistent at 47.5% to date as of January 31, 2022, compared with 49.6% in the year prior.

Overall, the projected total shows a deficit of \$8.6 million, which is largely driven by the projected one-time contributions to the City's Self-Insurance Fund of \$10.7 million. Absent this one-time contribution, this table demonstrates departments effectively working hard to reduce their overall spending as there would be a \$2.1 million surplus.

The majority of this projected savings is reflected in Fire, General Services, and Public Works departments, which would be expected, given the size of their respective departments. Conversely, the City Clerk, Finance and Police departments are projected to exceed their budgets. Below highlights certain departments and their Materials/Non-Wage expenditure trends:

City Clerk

In the City Clerk Department, non-wage budget is projected to be exceeded by \$274,000. This is mainly due to increase in the estimated election cost. The current projection was provided by the County and is conservative with costs expected to come in below this quoted amount.

Finance

In the Finance Department, non-wage budget is projected to be exceeded by \$41,000. This is mainly due to one-time costs related to open litigation and will be offset by savings generated in salaries and benefits.

Human Resources

In the Human Resources Department, non-wage budget is projected to be exceeded by \$63,000. This is mainly due to projected costs involving COVID-19 testing and anticipated investigations and will be offset by savings generated in salaries and benefits.

Non-Departmental

In Non-Departmental, the non-wage budget is projected to be exceeded by \$9.9 million. This is driven by the aforementioned one-time \$10.7 million transfer to the Self-Insurance Fund. This transfer is able to be achieved through expenditure savings across City Departments. This transfer will help ensure overall fund balance is not depleted as a result (net of projected actuarial entries).

Police

In the Police Department, the non-wage budget is projected to be exceeded by \$397,000 (driven by Training, Utilities, and Fleet Charges). This does happen in some years and savings generated from salaries and wages is utilized to offset this shortage in non-wage spending. As shown earlier, the Department is projected to end the year within their allocated expenditure budget.

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	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget
Salaries and Employee Benefits	\$ 176,735,377	\$ 99,111,983	56.1%	\$ 190,532,003	\$ 106,224,234	55.8%
Salaries and Benefits Reimbursements	\$ (16,467,050)	\$ (4,922,269)	29.9%	\$ (538,305)	\$ (828,210)	153.9%
Reimbursements-Indirect Costs	\$ (7,573,211)	\$ (4,454,257)	58.8%	\$ (7,947,803)	\$ (4,198,615)	52.8%
Materials, Supplies & Maintenance	\$ 14,667,247	\$ 5,296,512	36.1%	\$ 14,149,990	\$ 6,065,546	42.9%
Materials Reimbursements	\$ (3,135,921)	\$ (1,635,018)	52.1%	\$ (761,712)	\$ (370,726)	48.7%
Professional/Contract Services & Utilities	\$ 9,596,526	\$ 4,800,325	50.0%	\$ 13,212,598	\$ 6,239,062	47.2%
Training, Travel & Membership Dues	\$ 1,040,425	\$ 604,080	58.1%	\$ 939,485	\$ 528,308	56.2%
Depreciation and Amortization	\$ 998	\$ -	0.0%	\$ -	\$ -	0.0%
Liabilities, Settlements & Insurance	\$ 1,645,057	\$ 613,786	37.3%	\$ 969,945	\$ 160,007	16.5%
Interdepartmental Charges	\$ 4,449,217	\$ 2,595,362	58.3%	\$ 5,394,653	\$ 3,419,973	63.4%
Debt Service	\$ 3,748,888	\$ 1,635,152	43.6%	\$ 19,371,708	\$ 13,218,415	68.2%
Debt Service Reimbursements	\$ -	\$ -	0.0%	\$ (18,097,064)	\$ (11,085,940)	61.3%
Other Expenditures	\$ 109,440	\$ 4,781	4.4%	\$ -	\$ -	0.0%
Capital Acquisitions	\$ 299,263	\$ 147,558	49.3%	\$ 305,675	\$ 127,147	41.6%
Other Operating Transfers Out	\$ 23,701,444	\$ 15,479,170	65.3%	\$ 6,606,302	\$ 4,836,013	73.2%
Bad Debts and Other Losses	\$ 1,000	\$ 127	12.7%	\$ 1,000	\$ 51	5.1%
Total Expenditures	\$208,818,700	\$119,277,292	57.1%	\$224,138,475	\$124,335,265	55.5%

As shown above, the City's General Fund shows increases in actual expenditures of approximately \$5.1 million year to date. The main driver in this increase is \$11.2 million increase in Salaries and Employee Benefits net of reimbursements, \$825,000 in Interdepartmental Charges, \$2.9 million in non-wage areas such as Materials and Professional Services, and \$10.6 million in reduced Operating Transfers Out. The increase in Salaries and Employee Benefits, net of reimbursements and the reduction in Operating Transfers Out is largely driven by the fund consolidation that took place in February 2021. The increase on non-wage areas like Materials and Professional Services is a function of relaxed COVID restrictions. The increase in Interdepartmental Charges relates to increased contributions to the City's Self-Insurance Fund.

General Fund – Restricted/Assigned

The General Fund – Restricted/Assigned is a series of subfunds of the overall General Fund when reported in the Annual Comprehensive Financial Report (ACFR). 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:

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

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

General Fund – Restricted/Assigned

	2020-21			2021-22			Projected	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ 365,550	\$ 106,525	29.1%	\$ 365,550	\$ 126,602	34.6%	\$ 328,675	\$ (36,875)	89.9%
Other Revenues	\$ -	\$ 12,738	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 1,790,227	\$ 1,486,088	83.0%	\$ 3,646,724	\$ 3,599,183	98.7%	\$ 4,448,670	\$ 801,946	122.0%
Total Revenues	\$ 2,155,777	\$ 1,605,351	74.5%	\$ 4,012,274	\$ 3,725,785	92.9%	\$ 4,777,345	\$ 765,071	119.1%
Expenditures									
Salaries and Employee Benefits	\$ -	\$ 17,323	0.0%	\$ -	\$ 69	0.0%	\$ 69	\$ (69)	0.0%
Materials, Supplies & Maintenance	\$ 60,000	\$ 107,794	179.7%	\$ 65,000	\$ 9,353	14.4%	\$ 54,811	\$ 10,189	84.3%
Professional/Contract Services & Utilities	\$ 292,755	\$ 77,659	26.5%	\$ 337,066	\$ 76,793	22.8%	\$ 140,230	\$ 196,836	41.6%
Training, Travel & Membership Dues	\$ -	\$ 785	0.0%	\$ -	\$ 1,195	0.0%	\$ 0	\$ (0)	0.0%
Liabilities, Settlements & Insurance	\$ -	\$ -	0.0%	\$ -	\$ 1,223	0.0%	\$ 2,076	\$ (2,076)	0.0%
Debt Service	\$ -	\$ -	0.0%	\$ 5,000	\$ 604	12.1%	\$ 1,025	\$ 3,975	20.5%
Other Expenditures	\$ -	\$ -	0.0%	\$ -	\$ 1,171	0.0%	\$ 1,988	\$ (1,988)	0.0%
Capital Acquisitions	\$ 868,489	\$ 277,170	31.9%	\$ 538,084	\$ 332,174	61.7%	\$ 421,478	\$ 116,606	78.3%
Other Operating Transfers Out	\$ 313,790	\$ 357,194	113.8%	\$ 1,202,315	\$ 1,202,493	100.0%	\$ 1,292,687	\$ (90,372)	107.5%
Total Expenditures	\$ 1,535,034	\$ 837,925	54.6%	\$ 2,147,465	\$ 1,625,075	75.7%	\$ 1,914,365	\$ 233,100	89.1%
Revenues Less Expenditures	\$ 620,743	\$ 767,426		\$ 1,864,809	\$ 2,100,710		\$ 2,862,980		

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

As of January 31, 2022, receipts are above last year by \$2.1 million, which is primarily driven by the City's first contribution to the newly formed CalPERS Employer Pension Prefunding Trust. Going forward 20% of the estimated cost savings from the issuance of the 2020 Lease Revenue Bonds, which were used to pay down a large portion of the City's CalPERS UAL, will be deposited into this Section 115 Trust to hedge against future fluctuations in CalPERS rates.

On the expenditure side, as of January 31, 2022, year to date expenditures have increased by \$787,000. This is mainly driven by increased Operating Transfers Out. More specifically, within the City Manager's Office this relates to funding PEG projects and for CIT this relates to transfers from the PC Replacement Fund to the General Fund Operating Fund as we transition to Office 365 and annual operating licensing costs. Overall, it is projected that revenues will exceed expenditures by \$2.9 million contributing to the General Funds overall fund balance.

General Fund - Unassigned

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

General Fund – Unassigned

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Taxes	\$ 1,670,000	\$ 402,086	24.1%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Use of Money and Property	\$ 5,000	\$ 6,438	128.8%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Revenues	\$ 900	\$ 120	13.3%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Charges for Services	\$ 205,000	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 754,123	\$ 378,028	50.1%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 2,635,023	\$ 786,672	29.9%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Expenditures									
Salaries and Employee Benefits	\$ 2,243,471	\$ 1,149,002	51.2%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Salaries and Benefits Reimbursements	\$ (310,000)	\$ (52,942)	17.1%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 81,454	\$ 18,736	23.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials Reimbursements	\$ (22,200)	\$ (12,950)	58.3%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Professional/Contract Services & Utilities	\$ 298,058	\$ 85,447	28.7%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Training, Travel & Membership Dues	\$ 10,600	\$ 1,301	12.3%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Liabilities, Settlements & Insurance	\$ 13,021	\$ 3,864	29.7%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Interdepartmental Charges	\$ 123,798	\$ 72,226	58.3%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Capital Acquisitions	\$ 72,069	\$ 2,054	2.9%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 659,392	\$ 242,270	36.7%	\$ 146,776	\$ 146,776	100.0%	\$ 146,776	\$ -	100.0%
Total Expenditures	\$ 3,169,663	\$ 1,509,008	47.6%	\$ 146,776	\$ 146,776	100.0%	\$ 146,776	\$ -	100.0%
Revenues Less Expenditures	\$ (534,640)	\$ (722,336)		\$ (146,776)	\$ (146,776)		\$ (146,776)		

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

As shown above, there is minimal activity in Fiscal Year 2021-22. The City's General Fund Operating Fund does not have a planned or projected contribution into the City's Reserve Fund at this time.

Below is a summary of the City's Unassigned Fund balance at the beginning of Fiscal Year 2020-21, the audited ending balance for Fiscal Year 2020-21 and the projected ending balance for Fiscal Year 2021-22 based on the tables previously presented.

Unassigned Fund Balance	Beg Bal - FY2020-21	Additions/ (Uses)	End Bal - FY2020-21	Projected Additions/ (Uses)	Proj End Bal FY2021-22
Economic Anomaly	\$ 581,449	\$ 7,500,000	\$ 8,081,449	\$ -	\$ 8,081,449
Litigation	\$ -	\$ -	\$ -	\$ -	\$ -
Other Unassigned	\$ -	\$ 14,551,613	\$ 14,551,613	\$ 13,644,093	\$ 28,195,706
Total	\$ 581,449	\$ 22,051,613	\$ 22,633,062	\$ 13,644,093	\$ 36,277,155

Fiscal Year 2020-21 ended with an Economic Anomaly reserve balance of \$8,081,000 and a non-reserved balance of \$14.6 million for an overall unassigned fund balance total of \$22.6 million.

The GFOA recommends a 20% unassigned fund balance which translates to approximately \$44.8 million based on the currently approved expenditure appropriation of the General Fund Operating Fund.



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 with operating budgets: 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 programs.

Self-Insurance - Overall

	2020-21 Amended Budget	January 2020- 21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021- 22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 5,554,153	\$ 3,395,024	61.1%	\$ 6,740,000	\$ 5,377,577	79.8%	\$ 21,745,759	\$ 15,005,759	322.6%
Total Expenditures	\$ 10,042,828	\$ 4,025,918	40.1%	\$ 12,601,059	\$ 7,920,794	62.9%	\$ 27,261,207	\$ (14,660,148)	216.3%
Revenues Less Expenditures	\$ (4,488,675)	\$ (630,894)		\$ (5,861,059)	\$ (2,543,217)		\$ (5,515,448)		

As shown above, the Self-Insurance Fund's revenues have improved when compared with the year prior. As of January 31, 2022, 79.8% of budgeted revenues have been collected compared with 61.1% the year prior. However, the expenditures also show significant increase with 62.9% of budgeted expenditures spent to date, compared with 40.1% the year prior. The funds overall budgeted expenditures continue to exceed budgeted revenues; therefore, depleting fund balance each year. This will be examined in more detail in the following sections.

Self-Insurance – Operations

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Charges for Services	\$ 2,434,153	\$ 1,567,757	64.4%	\$ 6,740,000	\$ 5,377,577	79.8%	\$ 8,245,759	\$ 1,505,759	122.3%
Operating Transfers In	\$ 3,120,000	\$ 1,820,000	58.3%	\$ -	\$ -	0.0%	\$ 10,700,000	\$ 10,700,000	0.0%
Other Revenues	\$ -	\$ 7,267	0.0%	\$ -	\$ -	0.0%	\$ 2,800,000	\$ 2,800,000	0.0%
Total Revenues	\$ 5,554,153	\$ 3,395,024	61.1%	\$ 6,740,000	\$ 5,377,577	79.8%	\$ 21,745,759	\$ 15,005,759	322.6%
Expenditures									
Salaries and Employee Benefits	\$ 796,100	\$ 409,062	51.4%	\$ 974,532	\$ 538,519	55.3%	\$ 884,355	\$ 90,177	90.7%
Materials, Supplies & Maintenance	\$ 30,683	\$ 9,002	29.3%	\$ 30,683	\$ 6,236	20.3%	\$ 8,940	\$ 21,743	29.1%
Professional/Contract Services & Utilities	\$ 132,779	\$ 56,919	42.9%	\$ 133,279	\$ 49,337	37.0%	\$ 122,465	\$ 10,814	91.9%
Training, Travel & Membership Dues	\$ 7,900	\$ 1,275	16.1%	\$ 8,500	\$ 1,835	21.6%	\$ 1,906	\$ 6,594	22.4%
Liabilities, Settlements & Insurance	\$ 9,039,105	\$ 3,528,293	39.0%	\$ 11,444,340	\$ 7,319,190	64.0%	\$ 20,633,817	\$ (9,189,477)	180.3%
Interdepartmental Charges	\$ 27,276	\$ 15,918	58.4%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 8,985	\$ 5,449	60.6%	\$ 9,725	\$ 5,677	58.4%	\$ 9,725	\$ 0	100.0%
Bad Debts and Other Losses	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ 5,600,000	\$ (5,600,000)	0.0%
Total Expenditures	\$ 10,042,828	\$ 4,025,918	40.1%	\$ 12,601,059	\$ 7,920,794	62.9%	\$ 27,261,207	\$ (14,660,148)	216.3%
Revenues Less Expenditures	\$ (4,488,675)	\$ (630,894)		\$ (5,861,059)	\$ (2,543,217)		\$ (5,515,448)		

As noted earlier, both revenues and expenditures show significant increase in actuals to date, compared to the year prior. Based on recent trends and total projected expenditures, an additional \$10.7 million is projected to be transferred into Self-Insurance as a one-time transfer from the General Fund to help balance the fund's overall position. Projected other revenues include \$2.8 million for the current year, which represents an estimated reimbursement from the insurance carrier related to a liability claim settlement.

On the expenditures side, the City is projecting a significant increase compared to the prior year. As of January 31, 2022, 62.9% of budgeted expenditures have been expended, with actual expenditures exceeding revenues by \$2.5 million. This is a combination of increases in expenditures in the Liability and Worker's Compensation programs. For Worker's Compensation, the Police and Fire Departments are the main drivers for the increases in claims greater than four years old. A portion of the increases are one-time in nature and not expected to recur in the Projected Total area. The main categories of increase in the Police and Fire departments are medical treatment expense, hospital expense, and permanent disability benefits. In the Liability program, the projected total includes potential settlements for the remainder of the fiscal year. Even with the additional \$10.7 million contribution (\$18.9 million in total contributions), it is projected that expenditures will exceed revenues when including the anticipated actuarial entry at year-end (\$5.5 million). This will further increase the negative fund balance of the Self-Insurance Fund (-\$55.8 million at the end of Fiscal Year 2020-21), but will not affect cash flow.

Additionally, staff are closely monitoring the overall insurance market, which has been adversely affected by COVID-19 and civil unrest. It is expected that premiums will increase across all lines of insurance (workers compensation, property and liability) in Fiscal Year 2022-23 and beyond. This will require increased budget contributions in coming years to ensure fiscal stability for the Self-Insurance Fund.

Fleet Services Fund

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

Fleet Services - Overall

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 5,840,572	\$ 3,494,497	59.8%	\$ 6,067,803	\$ 3,617,722	59.6%	\$ 5,956,358	\$ (111,445)	98.2%
Total Expenditures	\$ 6,065,351	\$ 3,180,781	52.4%	\$ 6,655,930	\$ 3,603,067	54.1%	\$ 5,800,135	\$ 855,795	87.1%
Revenues Less Expenditures	\$ (224,779)	\$ 313,716		\$ (588,127)	\$ 14,655		\$ 156,223		

As shown above, the Fleet Services Fund’s revenues are slightly lagging when compared with the year prior. As of January 31, 2022, 59.6% of budgeted revenues have been collected compared with 59.8% the year prior. On the expenditure side of the operation, 54.1% has been spent to date, compared with 52.4% the year prior. This will be examined in more detail in the following sections.

Fleet Services – Operations

Revenues	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
Use of Money and Property	\$ -	\$ (51,023)	0.0%	\$ -	\$ (31,610)	0.0%	\$ (36,000)	\$ (36,000)	0.0%
Other Revenues	\$ -	\$ -	0.0%	\$ -	\$ 1,139	0.0%	\$ -	\$ -	0.0%
Charges for Services	\$ 2,792,980	\$ 1,572,308	56.3%	\$ 2,792,980	\$ 1,564,726	56.0%	\$ 2,743,080	\$ (49,900)	98.2%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 2,792,980	\$ 1,521,285	54.5%	\$ 2,792,980	\$ 1,534,255	54.9%	\$ 2,707,080	\$ (85,900)	96.9%
Expenditures	2020-21			2021-22			Projected		
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Surplus / (Deficit)	Percent of Budget
Salaries and Employee Benefits	\$ 3,533,037	\$ 1,830,006	51.8%	\$ 3,791,449	\$ 1,931,501	50.9%	\$ 3,476,141	\$ 315,308	91.7%
Salaries and Benefits Reimbursements	\$ (92,950)	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 336,089	\$ 132,623	39.5%	\$ 297,580	\$ 100,533	33.8%	\$ 180,372	\$ 117,208	60.6%
Parts, Fuel & Lubricants Inventory Purchases	\$ 2,770,000	\$ 937,732	33.9%	\$ 2,770,000	\$ 1,242,948	44.9%	\$ 2,408,245	\$ 361,755	86.9%
Parts, Fuel & Lubricants Contra	\$ (2,770,000)	\$ (937,732)	33.9%	\$ (2,770,000)	\$ (1,242,948)	44.9%	\$ (2,408,245)	\$ (361,755)	86.9%
Professional/Contract Services & Utilities	\$ 73,346	\$ 50,163	68.4%	\$ 67,532	\$ 58,438	86.5%	\$ 61,936	\$ 5,596	91.7%
Training, Travel & Membership Dues	\$ 20,300	\$ 5,269	26.0%	\$ 50,300	\$ 4,106	8.2%	\$ 27,014	\$ 23,286	53.7%
Liabilities, Settlements & Insurance	\$ 23,943	\$ 4,410	18.4%	\$ 16,388	\$ -	0.0%	\$ -	\$ 16,388	0.0%
Interdepartmental Charges	\$ 116,809	\$ 68,138	58.3%	\$ 138,337	\$ 83,122	60.1%	\$ 138,337	\$ (0)	100.0%
Debt Service	\$ 50,000	\$ -	0.0%	\$ 50,000	\$ -	0.0%	\$ -	\$ 50,000	0.0%
Other Operating Transfers Out	\$ 19,218	\$ 11,207	58.3%	\$ 727,739	\$ 716,177	98.4%	\$ 727,739	\$ (0)	100.0%
Total Expenditures	\$ 4,079,792	\$ 2,101,816	51.5%	\$ 5,139,325	\$ 2,893,877	56.3%	\$ 4,611,541	\$ 527,784	89.7%
Revenues Less Expenditures	\$ (1,286,812)	\$ (580,531)		\$ (2,346,345)	\$ (1,359,622)		\$ (1,904,461)		

While actual revenues to date are slightly improving compared with the year prior, it is projected that the revenues will end the year \$85,900 short of budgeted amounts. Increasing revenues to the Fleet Services – Operations fund is a critical focus of Fiscal Year 2021-22 and going forward to correct the recurring structural deficit that has existed for multiple years. To correct the fund’s recurring revenue stream, staff are evaluating the rates charged by the Fleet Services Fund for services provided to all City Departments. These rates have remained static for multiple years and increases will be incorporated into the City’s Fiscal Year 2022-23 budget to provide stability for this fund and restore its fund balance to a positive position.

On the expenditure side of the operation, 56.3% has been spent to date, compared with 51.5% the year prior. The higher percentage in the current year is mainly due to 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. Additionally, projected expenditures exceed projected revenue by \$1.9 million for Fiscal Year 2021-22. After controlling for the one-time transfer of \$700,000 to cover the replacement cost of heavy duty vehicle lifts at Fleet Services garage, this Fund continues to operate at a loss. As of January 31, 2022, the Fleet Services – Operations fund balance is (-\$6.0) million.

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

Fleet Services – Replacement

	2020-21			2021-22		Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual				
Revenues									
Use of Money and Property	\$ 2,967,128	\$ 1,859,404	62.7%	\$ 3,194,359	\$ 1,795,790	56.2%	\$ 2,960,601	\$ (233,758)	92.7%
Other Revenues	\$ 80,464	\$ 113,808	141.4%	\$ 80,464	\$ 287,677	357.5%	\$ 288,677	\$ 208,213	358.8%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 3,047,592	\$ 1,973,212	64.7%	\$ 3,274,823	\$ 2,083,467	63.62%	\$ 3,249,278	\$ (25,545)	99.2%
Expenditures									
Salaries and Employee Benefits	\$ 405,046	\$ 238,424	58.9%	\$ 200	\$ -	0.0%	\$ -	\$ 200	0.0%
Materials, Supplies & Maintenance	\$ 2,000	\$ -	0.0%	\$ 2,000	\$ -	0.0%	\$ -	\$ 2,000	0.0%
Depreciation and Amortization	\$ 1,441,000	\$ 823,523	57.1%	\$ 1,418,000	\$ 709,190	50.0%	\$ 1,188,595	\$ 229,405	83.8%
Debt Service	\$ 30,000	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Capital Acquisitions	\$ 2,927,253	\$ 771,459	26.4%	\$ 2,938,361	\$ 83,498	2.8%	\$ 622,024	\$ 2,316,337	21.2%
Asset Contra Account	\$ (2,830,848)	\$ (765,549)	27.0%	\$ (2,841,956)	\$ (83,498)	2.9%	\$ (622,024)	\$ (2,219,932)	21.9%
Other Operating Transfers Out	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Bad Debts and Other Losses	\$ 11,108	\$ 11,108	100.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Expenditures	\$ 1,985,559	\$ 1,078,965	54.3%	\$ 1,516,605	\$ 709,190	46.8%	\$ 1,188,594	\$ 328,011	78.4%
Revenues Less Expenditures	\$ 1,062,033	\$ 894,247		\$ 1,758,218	\$ 1,374,277		\$ 2,060,684		

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 various shop equipment.

Revenue collected within these subfunds (Use of Money and Property) are also slightly lagging relative to budget when compared to the year prior. On the expenditure side of the budget, year to date spending totals 46.8% of the budget compared with 54.3% the year prior. Overall, it is projected that revenues will exceed expenditures by \$2.1 million at year-end. Despite this performance, staff have identified a funding shortfall in this fund as well. The Replacement Fund has accrued a cash balance to fund future replacement of city vehicles tracked in the Fleet Services Replacement Fund; however, based on an analysis performed during this fiscal year, it is estimated the balance in this fund is less than what is projected to be needed. This is the result of setting aside amounts to fund future purchases and projected replacement costs exceeding these figures. Staff estimates this difference in the area of \$4.8 million (based on a 5% CPI), which will need to be funded by the General Fund (since Public Works Enterprise funds have their own separate replacement funds). In addition to this one-time difference, it would cost an estimated \$1.4 million annually to help ensure current contributions match projected future needs.



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

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 13,917,300	\$ 8,703,101	62.5%	\$ 14,999,188	\$ 8,580,932	57.2%	\$ 15,609,550	\$ 610,362	104.1%
Total Expenditures	\$ 14,435,541	\$ 8,078,334	56.0%	\$ 15,787,136	\$ 7,997,843	50.7%	\$ 13,726,906	\$ 2,060,230	86.9%
Revenues Less Expenditures	\$ (518,241)	\$ 624,767		\$ (787,948)	\$ 583,089		\$ 1,882,644		

As shown above, as of January 31, 2022, 57.2% of budgeted revenues have been collected compared with 62.5% the year prior. On the expenditure side of the operation, 50.7% has been spent to date, compared with 56.0% the year prior. While the budgeted expenditures exceed budgeted revenues, it is expected to generate \$1.9 million surplus at year-end. This will be examined in more detail in the subsequent sections.

Airport – Operations

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ 57,800	\$ 57,401	99.3%	\$ 145,000	\$ 32,873	22.7%	\$ 56,354	\$ (88,646)	38.9%
Other Revenues	\$ -	\$ 317,061	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Charges for Services	\$ 13,859,500	\$ 8,328,639	60.1%	\$ 14,854,188	\$ 8,548,059	57.5%	\$ 15,553,196	\$ 699,008	104.7%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Revenues	\$ 13,917,300	\$ 8,703,101	62.5%	\$ 14,999,188	\$ 8,580,932	57.2%	\$ 15,609,550	\$ 610,362	104.1%
Expenditures									
Salaries and Employee Benefits	\$ 2,041,577	\$ 910,152	44.6%	\$ 1,397,361	\$ 783,774	56.1%	\$ 1,443,462	\$ (46,101)	103.3%
Salaries and Benefits Reimbursements	\$ (29,495)	\$ (18,449)	62.5%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 169,742	\$ 43,200	25.5%	\$ 145,740	\$ 53,641	36.8%	\$ 90,615	\$ 55,125	62.2%
Materials Reimbursements	\$ -	\$ -	0.0%	\$ -	\$ (468)	0.0%	\$ -	\$ -	0.0%
Professional/Contract Services & Utilities	\$ 678,563	\$ 241,692	35.6%	\$ 1,133,962	\$ 81,591	7.2%	\$ 796,331	\$ 337,631	70.2%
Training, Travel & Membership Dues	\$ 10,500	\$ 267	2.5%	\$ 10,500	\$ 322	3.1%	\$ 1,025	\$ 9,475	9.8%
Depreciation and Amortization	\$ 275,000	\$ 129,736	47.2%	\$ 275,000	\$ 123,992	45.1%	\$ 212,557	\$ 62,443	77.3%
Liabilities, Settlements & Insurance	\$ 28,169	\$ 8,197	29.1%	\$ 14,113	\$ 4,549	32.2%	\$ 10,000	\$ 4,113	70.9%
Interdepartmental Charges	\$ 537,360	\$ 281,387	52.4%	\$ 376,292	\$ 200,539	53.3%	\$ 371,755	\$ 4,537	98.8%
Asset Contra Account	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Operating Transfers Out	\$ 10,709,125	\$ 6,481,961	60.5%	\$ 12,419,168	\$ 6,749,781	54.3%	\$ 10,801,040	\$ 1,618,128	87.0%
Bad Debts and Other Losses	\$ 15,000	\$ 191	1.3%	\$ 15,000	\$ 122	0.8%	\$ 122	\$ 14,878	0.8%
Total Expenditures	\$ 14,435,541	\$ 8,078,334	56.0%	\$ 15,787,136	\$ 7,997,843	50.7%	\$ 13,726,906	\$ 2,060,230	86.9%
Revenues Less Expenditures	\$ (518,241)	\$ 624,767		\$ (787,948)	\$ 583,089		\$ 1,882,644		

When examining the Airport operating fund, we get a better sense of day to day operations. As shown above, revenues collected to date is 57.2% for the current year, compared with 62.5% in the year prior. However, the projected revenues are expected to generate a budgetary surplus of \$610,000. This is mainly driven by increases in the Charges for Services classification with an increase of nearly \$219,000 year to date. We are seeing increases in multiple areas including retail rentals, aircraft hangar storage, and industrial rentals.

Overall the Airport operating fund expenditures are within budgeted levels. To date, 50.7% has been expended, compared with 56.0% the year prior. The projected expenditure total is expected to generate budgetary surplus of \$2.1 million at year-end. This is largely driven by reductions in Other Operating Transfers Out of \$1.6 million to the General Fund. Staff are re-aligning transfers from the Airport Fund to align with the projected net revenues of the Airport's Non-Aeronautical division, related to land leases "outside the fence". Staff are also seeing reductions in Professional/Contract Services & Utilities (\$338,000). Overall, staff projects a \$1.9 million operating surplus in the Airport Operating Fund. Staff will re-align the budget next year in the area of Other Operating Transfers Out to align with anticipated actuals.

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 and low income 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.

Sanitation - Overall

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 14,238,096	\$ 7,080,103	49.7%	\$ 15,562,692	\$ 7,032,163	45.2%	\$ 16,095,071	\$ 532,379	103.4%
Total Expenditures	\$ 14,656,518	\$ 8,122,169	55.4%	\$ 16,135,499	\$ 8,116,833	50.3%	\$ 14,655,788	\$ 1,479,711	90.8%
Rev Less Exp	\$ (418,422)	\$ (1,042,066)		\$ (572,807)	\$ (1,084,670)		\$ 1,439,282		

As shown above, the Sanitation Fund's revenues are lagging slightly when compared with the year prior. As of January 31, 2022, 45.2% of budgeted revenues have been collected compared with 49.7% the year prior. On the expenditure side of the operation, 50.3% has been spent to date, compared with 55.4% the year prior. The details of these numbers will be examined in more detail in the subsequent sections.

Sanitation – Operations

Revenues	2020-21 Amended	January 2020-21	Percent of	2021-22 Amended	January 2021-22	Percent of	Projected	Projected	Projected
	Budget	Actual	Budget	Budget	Actual	Budget	Total	Surplus / (Deficit)	Percent of Budget
Use of Money and Property	\$ 60,000	\$ (54,758)	-91.26%	\$ 60,000	\$ (21,510)	-35.85%	\$ (48,318)	\$ (108,318)	-80.53%
Other Revenues	\$ 20,000	\$ 11,809	59.05%	\$ 50,000	\$ 98,996	197.99%	\$ 124,018	\$ 74,018	248.04%
Charges for Services	\$ 12,588,841	\$ 5,879,692	46.71%	\$ 13,065,359	\$ 5,557,046	42.53%	\$ 13,459,330	\$ 393,971	103.02%
Operating Transfers In	\$ 175,468	\$ 102,361	58.34%	\$ 409,853	\$ 149,377	36.45%	\$ 409,853	\$ 0	100.00%
Total Revenues	\$ 12,844,309	\$ 5,939,104	46.2%	\$ 13,585,212	\$ 5,783,910	42.6%	\$ 13,944,883	\$ 359,671	102.6%
Expenditures	2020-21 Amended	January 2020-21	Percent of	2021-22 Amended	January 2021-22	Percent of	Projected	Projected	Projected
	Budget	Actual	Budget	Budget	Actual	Budget	Total	Surplus / (Deficit)	Percent of Budget
Salaries and Employee Benefits	\$ 5,242,281	\$ 2,743,506	52.33%	\$ 4,859,791	\$ 2,517,619	51.81%	\$ 4,396,418	\$ 463,373	90.47%
Salaries and Benefits Reimbursements	\$ (27,503)	\$ (5,440)	19.78%	\$ -	\$ (4,988)	0.00%	\$ (8,469)	\$ 8,469	0.00%
Materials, Supplies & Maintenance	\$ 2,749,904	\$ 1,581,214	57.50%	\$ 3,017,068	\$ 1,590,401	52.71%	\$ 2,869,376	\$ 147,692	95.10%
Materials Reimbursements	\$ (37,600)	\$ (58,947)	156.77%	\$ -	\$ (65,006)	0.00%	\$ (188,417)	\$ 188,417	0.00%
Professional/Contract Services & Utilities	\$ 2,693,883	\$ 1,346,299	49.98%	\$ 3,256,045	\$ 1,348,476	41.41%	\$ 2,822,994	\$ 433,051	86.70%
Training, Travel & Membership Dues	\$ 11,355	\$ 1,079	9.50%	\$ 11,355	\$ 127	1.12%	\$ 157	\$ 11,198	1.38%
Depreciation and Amortization	\$ 31,000	\$ 17,717	57.15%	\$ 31,000	\$ 25,627	82.67%	\$ 43,930	\$ (12,930)	141.71%
Liabilities, Settlements & Insurance	\$ 157,374	\$ 43,848	27.86%	\$ 46,683	\$ 429	0.92%	\$ 909	\$ 45,774	1.95%
Interdepartmental Charges	\$ 1,107,084	\$ 754,937	68.19%	\$ 1,605,355	\$ 877,094	54.64%	\$ 1,581,173	\$ 24,182	98.49%
Debt Service	\$ 90,000	\$ -	0.00%	\$ 90,000	\$ -	0.00%	\$ -	\$ 90,000	0.00%
Capital Acquisitions	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
Asset Contra Account	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%
Other Operating Transfers Out	\$ 1,320,780	\$ 1,058,489	80.14%	\$ 1,900,242	\$ 1,203,740	63.35%	\$ 2,063,557	\$ (163,315)	108.59%
Bad Debts and Other Losses	\$ 52,860	\$ 296	0.56%	\$ 52,860	\$ 184	0.35%	\$ 58,414	\$ (5,554)	110.51%
Total Expenditures	\$ 13,391,418	\$ 7,482,998	55.9%	\$ 14,870,399	\$ 7,493,703	50.4%	\$ 13,640,042	\$ 1,230,357	91.7%
Revenues Less Expenditures	\$ (547,109)	\$ (1,543,894)		\$ (1,285,187)	\$ (1,709,793)		\$ 304,841		

When examining the Sanitation Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are below the same period the year prior. To date, 42.6% of budgeted revenues have been received compared with 46.2% the year prior. This is driven primarily by a \$323,000, or 5.5%, decrease in the Charges for Services revenue classification. The decrease is primarily due to the net effect of 1) billing timing difference and 2) the approved rate increase of 4.5437% for FY2022. The billing timing difference is due to the delay of CalWater related customers’ January billing, which has not been recognized in the current year actuals to date (approximately \$580,000), whereas the prior year’s actuals included it. These are the customers who receive water services from CalWater and sanitation and sewer services from the City. There was a delay in CalWater providing the water consumption information to the City, which is the basis for the sewer billing, and the sanitation and sewer charges are billed together by the City. Thus, this caused a lag for billing and revenue recognition (no impact to the revenues from the customers who receive “full-service” from the City). This decrease was partially offset by the increase due to the approved rate increase of 4.5437% effective July 1, 2021. The projected revenues are expected to generate a budgetary surplus of \$360,000.

The Sanitation Fund’s operating expenditures to date are within budgeted levels. To date, 50.4% has been expended, compared with 55.9% the year prior. When examining actual expenditures year to year, we see a small increase of about \$11,000.

Overall, the Sanitation’s operating fund is projected to end the year with a \$305,000 surplus, which is largely driven by expenditure savings.

Sanitation – Replacement

	2020-21			Percent of Budget	2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual			Amended Budget	January 2021-22 Actual				
Revenues										
Use of Money and Property	\$ 85,000	\$ 83,217	97.9%	\$ 85,000	\$ 42,327	49.8%	\$ 84,654	\$ (346)	99.6%	
Other Revenues	\$ -	\$ 5,250	0.0%	\$ -	\$ 6,750	0.0%	\$ 9,800	\$ 9,800	0.0%	
Operating Transfers In	\$ 1,308,787	\$ 1,052,532	80.4%	\$ 1,892,480	\$ 1,199,176	63.4%	\$ 2,055,733	\$ 163,253	108.6%	
Total Revenues	\$ 1,393,787	\$ 1,140,999	81.9%	\$ 1,977,480	\$ 1,248,253	63.1%	\$ 2,150,187	\$ 172,707	108.7%	
Expenditures										
Materials, Supplies &	\$ 75,000	\$ 38,473	51.3%	\$ 75,000	\$ 74,361	99.1%	\$ 75,000	\$ 0	100.0%	
Depreciation and Amortization	\$ 1,190,100	\$ 600,698	50.5%	\$ 1,190,100	\$ 548,769	46.1%	\$ 940,746	\$ 249,354	79.0%	
Capital Acquisitions	\$ 2,000,000	\$ -	0.0%	\$ 2,771,561	\$ 771,561	27.8%	\$ 2,075,297	\$ 696,264	74.9%	
Asset Contra Account	\$ (2,000,000)	\$ -	0.0%	\$ (2,771,561)	\$ (771,561)	27.8%	\$ (2,075,297)	\$ (696,264)	74.9%	
Total Expenditures	\$ 1,265,100	\$ 639,171	50.5%	\$ 1,265,100	\$ 623,130	49.3%	\$ 1,015,746	\$ 249,354	80.3%	
Revenues Less Expenditures	\$ 128,687	\$ 501,828		\$ 712,380	\$ 625,123		\$ 1,134,441			

The Vehicle and Container replacement areas of the Sanitation Fund are responsible for receiving funds, generally, from Sanitation Operations to purchase vehicles and containers. It is also where current vehicles are depreciated each month. The funds transferred in Fiscal Year 2021-22 were to fund the future purchase of vehicles through vehicle replacement charges.

The Replacement Fund has accrued a cash balance to fund future replacement of Sanitation vehicles; however, based on an analysis performed during this fiscal year, it is estimated the balance in this fund is less than what is projected to be needed. This is the result of setting aside amounts to fund future purchases and projected replacement costs exceeding these figures. Staff estimates this difference in the area of \$4.0 million (based on a 5% CPI), which will need to be funded by the Sanitation Operating Fund.

The projection above includes the expected purchase of two CNG Crosswind Sweepers, two CNG Refuse Collection Trucks and one Elgin CNG Crosswind Sweeper approved by Council on October 20, 2020, October 12, 2021 and December 7, 2021, 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 2017 through December 2021, meaning January 2021 was the last of the approved rate increases under the most recent Proposition (Prop) 218 hearing process.

Sewer - Overall

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 6,253,380	\$ 3,304,011	52.8%	\$ 6,439,225	\$ 2,974,183	46.2%	\$ 6,225,090	\$ (214,135)	96.7%
Total Expenditures	\$ 6,600,231	\$ 4,248,097	64.4%	\$ 7,270,851	\$ 4,348,591	59.8%	\$ 6,631,415	\$ 639,436	91.2%
Rev Less Exp	\$ (346,851)	\$ (944,086)		\$ (831,626)	\$ (1,374,408)		\$ (406,325)		

As shown above, the Sewer Fund’s revenues are lagging when compared with the year prior. As of January 31, 2022, 46.2% of budgeted revenues have been collected compared with 52.8% the year prior. On the expenditure side of the operation, 59.8% has been spent to date, compared with 64.4% the year prior. The details of these numbers will be examined in the subsequent sections.

Sewer – Operations

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ 55,000	\$ 49,701	90.4%	\$ 75,000	\$ 28,106	37.5%	\$ 23,203	\$ (51,797)	30.9%
Other Revenues	\$ 8,161	\$ 2,007	24.6%	\$ 6,161	\$ -	0.0%	\$ -	\$ (6,161)	0.0%
Charges for Services	\$ 5,990,219	\$ 3,107,779	51.9%	\$ 6,130,164	\$ 2,793,926	45.6%	\$ 5,940,586	\$ (189,578)	96.9%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ 4,963	0.0%	\$ 8,508	\$ 8,508	0.0%
Total Revenues	\$ 6,053,380	\$ 3,159,487	52.2%	\$ 6,211,325	\$ 2,826,995	45.5%	\$ 5,972,296	\$ (239,029)	96.2%
Expenditures									
Salaries and Employee Benefits	\$ 3,191,972	\$ 1,487,962	46.6%	\$ 2,750,269	\$ 1,299,893	47.3%	\$ 2,382,279	\$ 367,990	86.6%
Salaries and Benefits Reimbursements	\$ (606,839)	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 356,911	\$ 129,337	36.2%	\$ 346,478	\$ 137,051	39.6%	\$ 237,602	\$ 108,876	68.6%
Materials Reimbursements	\$ (3,000)	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Professional/Contract Services & Utilities	\$ 1,032,528	\$ 256,487	24.8%	\$ 997,768	\$ 335,636	33.6%	\$ 893,600	\$ 104,168	89.6%
Training, Travel & Membership Dues	\$ 10,614	\$ 569	5.4%	\$ 11,114	\$ 506	4.6%	\$ 1,869	\$ 9,245	16.8%
Depreciation and Amortization	\$ 1,094	\$ 639	58.4%	\$ 2,194	\$ 639	29.1%	\$ 1,095	\$ 1,099	49.9%
Liabilities, Settlements & Insurance	\$ -	\$ -	-	\$ 3,667	\$ 3,666	-	\$ 3,666	\$ -	100.0%
Interdepartmental Charges	\$ 530,593	\$ 415,438	0.0%	\$ 854,555	\$ 438,782	51.3%	\$ 807,247	\$ 47,308	94.5%
Capital Acquisitions	\$ 12,058	\$ 3,982	78.3%	\$ 11,606	\$ -	0.0%	\$ -	\$ 11,606	0.0%
Asset Contra Account	\$ (4,700)	\$ -	33.0%	\$ (4,700)	\$ -	0.0%	\$ -	\$ (4,700)	0.0%
Other Operating Transfers Out	\$ 1,930,000	\$ 1,862,596	0.0%	\$ 2,107,900	\$ 2,023,280	96.0%	\$ 2,125,622	\$ (17,722)	100.8%
Bad Debts and Other Losses	\$ 25,000	\$ 128	96.5%	\$ 20,000	\$ 12,165	60.8%	\$ 12,196	\$ 7,804	61.0%
Total Expenditures	\$ 6,476,231	\$ 4,157,138	64.2%	\$ 7,100,851	\$ 4,251,618	59.9%	\$ 6,465,176	\$ 635,675	91.0%
Revenues Less Expenditures	\$ (422,851)	\$ (997,651)		\$ (889,526)	\$ (1,424,623)		\$ (492,880)		

When examining the Sewer Fund’s operating fund, we can better examine the core day-to-day operations. As shown above, revenues are lagging compared to the year prior. This is driven primarily by \$314,000 or 10.1% decrease in the Charges for Services revenue classification year-to-date. The decrease is primarily due to 1) billing timing difference (similar to the Sanitation Fund’s operating fund as previously discussed) and 2) decrease in water consumption, which is slightly offset by the small increase due to the approved rate increase of 0.67% through December 2021. Billing timing difference is due to the delay of CalWater related customers’ January billing, which has not been recognized in the current year actuals to date (approximately \$270,000), whereas the prior year’s actuals included it. These are the customers who receive water services from CalWater and sanitation and sewer services from the City. Since there was a delay in CalWater providing the water consumption information to the City, which is the basis for the billing, this caused a lag for billing and revenue recognition (no impact to the revenues from the customers who receive “full-service” from the City). Another factor for the revenue decrease is reduction in consumption of water. It is important to note that the effect of a decrease in water consumption is relatively small for the Sewer Fund, when compared to the impacts of a decrease in water consumption for the Water Fund. Sewer revenue is made up of a fixed charge and a consumption-based charge, with the consumption-based charge making up a relatively small portion of the total revenue as compared to the Water Fund’s rate structure. Lastly, while the Sewer had an approved water rate increase of 0.67% effective through December 2021, this did not have material impact on the total sewer revenues. The projected revenues are expected to generate a budgetary deficit of \$239,000.

The Sewer Fund’s operating expenditures to date are above budgeted levels. When examining actual expenditures year to year, we see an increase of about \$95,000 overall. Expenditures to date exceed budgeted amounts due to one-time Operating Transfers Out occurring at the beginning of the year to fund Capital activities in the Capital Improvement Plan. Controlling for this exception, expenditures are within budgeted levels.

Overall, the Sewer’s operating fund is projected to end the year operating at a \$493,000 deficit, driven by projected decreases in operating revenues and capital project investments for the current year.

Sewer – Replacement

	2020-21			2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Revenues									
Use of Money and Property	\$ -	\$ 7,678	0.0%	\$ -	\$ 3,908	0.0%	\$ 7,172	\$ 7,172	0.0%
Other Revenues	\$ -	\$ 4,250		\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Operating Transfers In	\$ 200,000	\$ 132,596	66.3%	\$ 227,900	\$ 143,280	62.9%	\$ 245,622	\$ 17,722	107.8%
Total Revenues	\$ 200,000	\$ 144,524	72.3%	\$ 227,900	\$ 147,188	64.6%	\$ 252,794	\$ 24,894	110.9%
Expenditures									
Depreciation and Amortization	\$ 124,000	\$ 90,959	73.4%	\$ 170,000	\$ 96,973	57.0%	\$ 166,239	\$ 3,761	97.8%
Capital Acquisitions	\$ 500,994	\$ 455,994	91.0%	\$ 100,000	\$ -	0.0%	\$ -	\$ 100,000	0.0%
Asset Contra Account	\$ (500,994)	\$ (455,994)	91.0%	\$ (100,000)	\$ -	0.0%	\$ -	\$ (100,000)	0.0%
Total Expenditures	\$ 124,000	\$ 90,959	73.4%	\$ 170,000	\$ 96,973	57.0%	\$ 166,239	\$ 3,761	97.8%
Revenues Less Expenditures	\$ 76,000	\$ 53,565		\$ 57,900	\$ 50,215		\$ 86,554		

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 2021-22 will fund future vehicles.

The Replacement Fund has accrued a cash balance to fund future replacement of Sewer vehicles; however, based on an analysis performed during this fiscal year, it is estimated the balance in this fund is less than what is projected to be needed. This is the result of setting aside amounts to fund future purchases and projected replacement costs exceeding these figures. Staff estimates this difference in the area of \$1.4 million (based on a 5% CPI), which will need to be funded by the Sewer Operating Fund. In addition to this one-time difference, it would cost an estimated \$125,000 annually to help ensure current contributions match projected future needs.

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

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Total Revenues	\$ 31,645,340	\$ 14,835,072	46.9%	\$ 32,376,518	\$ 15,228,090	47.0%	\$ 31,990,156	\$ (386,362)	98.8%
Total Expenditures	\$ 35,089,532	\$ 15,761,661	44.9%	\$ 37,517,253	\$ 16,039,581	42.8%	\$ 26,499,247	\$ 11,018,006	70.6%
Rev Less Exp	\$ (3,444,192)	\$ (926,589)		\$ (5,140,735)	\$ (811,491)		\$ 5,490,909		

As shown above, the Transit Fund's revenues are slightly improving this year when compared with last year. As of January 31, 2022, 47.0% of budgeted revenues have been collected compared with 46.9% the year prior. On the expenditure side of the operation, 42.8% has been spent to date, compared with 44.9% the year prior. This will be examined in more detail in the subsequent section.

Transit – Operations

	2020-21 Amended Budget	January 2020-21 Actual	Percent of Budget	2021-22 Amended Budget	January 2021-22 Actual	Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
Revenues									
Use of Money and Property	\$ 99,500	\$ 149,284	150.0%	\$ 335,927	\$ 57,012	17.0%	\$ 59,357	\$ (276,570)	17.7%
Intergovernmental	\$ 15,685,025	\$ 9,983,033	63.6%	\$ 15,726,295	\$ 9,878,312	62.8%	\$ 22,213,282	\$ 6,486,987	141.2%
Other Revenues	\$ 57,500	\$ -	0.0%	\$ 57,500	\$ 3,550	6.2%	\$ 8,050	\$ (49,450)	14.0%
Charges for Services	\$ 13,128,992	\$ 3,127,579	23.8%	\$ 13,582,473	\$ 3,714,040	27.3%	\$ 7,035,144	\$ (6,547,329)	51.8%
Operating Transfers In	\$ 2,674,323	\$ 1,575,176	58.9%	\$ 2,674,323	\$ 1,575,176	58.9%	\$ 2,674,323	\$ -	100.0%
Total Revenues	\$ 31,645,340	\$ 14,835,072	46.9%	\$ 32,376,518	\$ 15,228,090	47.0%	\$ 31,990,156	\$ (386,362)	98.8%
Expenditures									
Salaries and Employee Benefits	\$ 19,328,736	\$ 9,955,338	51.5%	\$ 20,306,659	\$ 9,222,252	45.4%	\$ 14,943,808	\$ 5,362,851	73.6%
Materials, Supplies & Maintenance	\$ 3,533,379	\$ 804,060	22.8%	\$ 3,854,267	\$ 1,092,270	28.3%	\$ 2,192,877	\$ 1,661,390	56.9%
Materials Reimbursements	\$ -	\$ (95,014)	0.0%	\$ -	\$ (94,102)	0.0%	\$ (278,152)	\$ 278,152	0.0%
Parts, Fuel & Lubricants Inventory Purchases	\$ 961,440	\$ 356,254	37.1%	\$ 961,440	\$ 293,773	30.6%	\$ 523,181	\$ 438,259	54.4%
Parts, Fuel & Lubricants Contra	\$ (961,440)	\$ (356,254)	37.1%	\$ (961,440)	\$ (293,773)	30.6%	\$ (523,181)	\$ (438,259)	54.4%
Professional/Contract Services & Utilities	\$ 2,879,161	\$ 747,975	26.0%	\$ 3,005,159	\$ 678,548	22.6%	\$ 1,490,471	\$ 1,514,688	49.6%
Training, Travel & Membership Dues	\$ 154,391	\$ 27,960	18.1%	\$ 154,391	\$ 31,401	20.3%	\$ 51,757	\$ 102,634	33.5%
Depreciation and Amortization	\$ 4,514,089	\$ 2,410,533	53.4%	\$ 4,514,089	\$ 2,405,190	53.3%	\$ 4,158,716	\$ 355,373	92.1%
Liabilities, Settlements & Insurance	\$ 408,187	\$ 138,939	34.0%	\$ 211,300	\$ 61,175	29.0%	\$ 122,004	\$ 89,296	57.7%
Interdepartmental Charges	\$ 4,217,321	\$ 2,496,260	59.2%	\$ 5,407,942	\$ 3,006,887	55.6%	\$ 4,822,965	\$ 584,977	89.2%
Capital Acquisitions	\$ -	\$ -	-	\$ -	\$ 7,953	0.0%	\$ 7,953	\$ (7,953)	0.0%
Asset Contra Account	\$ -	\$ (756,138)	0.0%	\$ -	\$ (411,402)	0.0%	\$ (1,076,598)	\$ 1,076,598	0.0%
Other Operating Transfers Out	\$ 54,268	\$ 31,748	58.5%	\$ 63,446	\$ 39,409	62.1%	\$ 63,446	\$ (0)	100.0%
Total Expenditures	\$ 35,089,532	\$ 15,761,661	44.9%	\$ 37,517,253	\$ 16,039,581	42.8%	\$ 26,499,247	\$ 11,018,006	70.6%
Revenues Less Expenditures	\$ (3,444,192)	\$ (926,589)		\$ (5,140,735)	\$ (811,491)		\$ 5,490,909		

As noted earlier, revenues are slightly improving compared to the year prior with 47.0% of budgeted revenues received to date compared with 46.9% the year prior. This increase is primarily driven by the increase in Charges for Services, although it is suppressed below pre-pandemic levels. This classification has been suppressed due to no fares being charged for use of the service during the COVID-19 pandemic.

As shown above, year-to-date receipts in the Intergovernmental classification are down \$100,000 to date due to a number of offsetting activities. In some accounts we are experiencing overall growth, coupled with timing differences of receipts, which is causing about a \$1.7 million increase. This is offset by a reduction in federal COVID grants collected year-to-date (\$1.8 million). If we review Projected Totals, this is anticipated to exceed budget by \$6.5 million, primarily driven by projected usage of one-time federal COVID grant funds. Additionally, the Charges for Services classification is showing an increase, though is suppressed below pre-pandemic levels. This classification has been suppressed due to no fares being charged for use of the service during the COVID-19 pandemic, though this has resumed January 2022. Typically, about \$1.0 million would be collected by the Mid-Year Report, or about \$2.5 million annually. Additionally, the Transit Department has not collected approximately \$2.25 million through the Federal Transit Administration (FTA) to partially offset preventative maintenance costs. Since these FTA grants have not been collected in the last five fiscal years, the projection assumes this revenue will not be realized.

As of this Budget Review Report, Federal Transit Administration grants for the Transit department have not been collected for the preceding five fiscal years (2016-17, 2017-18, 2018-19, 2019-20, 2020-21) in the total amount of \$16.5 million. Of these funds, approximately \$7.9 million would fund Capital Maintenance activities, \$1.2 million would fund expansionary services related to the opening of the Regional Transit Center (RTC). The remaining \$7.4 million would fund capital projects. The portion of these grants originally related to funding operations was \$11.25 million (\$2.25 million per year for five years), however Transit has been able to re-purpose old grant funds with the FTA and drawdown/closeout these grants. This has lowered the amount committed in these outstanding grants for capital maintenance activities from \$11.25 million to \$7.9 million. The difference will shift and fund capital projects. Progress has been made by the Department on these grants, coordinating efforts with SCAG and FTA, and it is anticipated that funding will begin to flow in Fiscal Year 2022-23 to catch up on this backlog.

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. The City was able to collect \$4.4 million in outstanding operating funds for the launch of this program.

In total, \$19.2 million remains uncollected or not officially awarded. Of this amount, \$9.0 million would directly fund operations and \$10.2 million would fund capital projects.

The Transit Fund's expenditures are trending below budgeted levels with 42.8% spent year to date, compared with 44.9% 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 68.0 FTE in vacancies for the department.

Overall, Transit's operating fund is projected to end the year with a \$5.5 million operating 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.

Water - Overall

	2020-21			2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Total Revenues	\$ 46,654,000	\$ 26,794,777	57.4%	\$ 47,897,500	\$ 26,907,071	56.2%	\$ 49,747,657	\$ 1,850,157	103.9%
Total Expenditures	\$ 43,740,410	\$ 24,911,782	57.0%	\$ 43,692,503	\$ 24,396,847	55.8%	\$ 44,713,993	\$ (1,021,490)	102.3%
Rev Less Exp	\$ 2,913,590	\$ 1,882,995		\$ 4,204,997	\$ 2,510,223		\$ 5,033,664		

As shown above, the Water Fund's revenues are slightly lagging when compared with the year prior. As of January 31, 2022, 56.2% of budgeted revenues have been collected compared with 57.4% the year prior. On the expenditure side of the operation, 55.8% has been spent to date, compared with 57.0% the year prior. These numbers will be examined in more detail in the subsequent sections.

Water – Operations

Revenues	2020-21			2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Use of Money and Property	\$ 125,000	\$ 274,588	219.7%	\$ 675,000	\$ 138,051	20.5%	\$ 226,659	\$ (448,341)	33.6%
Other Revenues	\$ 5,000	\$ -	0.0%	\$ 5,000	\$ 782,016	15640.3%	\$ 787,550	\$ 782,550	15751.0%
Charges for Services	\$ 46,377,000	\$ 26,326,207	56.8%	\$ 46,978,000	\$ 25,815,826	55.0%	\$ 48,440,000	\$ 1,462,000	103.1%
Operating Transfers In	\$ -	\$ -	0.0%	\$ -	\$ 7,637	0.0%	\$ 13,092	\$ 13,092	0.0%
Total Revenues	\$ 46,507,000	\$ 26,600,795	57.2%	\$ 47,658,000	\$ 26,743,530	56.1%	\$ 49,467,300	\$ 1,809,300	103.8%
Expenditures	2020-21			2021-22			Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual	Percent of Budget	Amended Budget	January 2021-22 Actual	Percent of Budget			
Salaries and Employee Benefits	\$ 7,554,973	\$ 3,512,862	46.5%	\$ 6,479,752	\$ 3,142,738	48.5%	\$ 5,434,599	\$ 1,045,153	83.9%
Salaries and Benefits Reimbursements	\$ (534,208)	\$ (25,977)	4.9%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Materials, Supplies & Maintenance	\$ 2,559,673	\$ 1,100,091	43.0%	\$ 2,381,048	\$ 1,020,491	42.9%	\$ 1,888,454	\$ 492,594	79.3%
Materials Reimbursements	\$ (8,000)	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Parts, Fuel & Lubricants Inventory Purchases	\$ 550,000	\$ 167,449	30.4%	\$ 550,000	\$ 128,268	23.3%	\$ 439,494	\$ 110,506	79.9%
Parts, Fuel & Lubricants Contra	\$ (550,000)	\$ (167,449)	30.4%	\$ (550,000)	\$ (128,268)	23.3%	\$ (439,494)	\$ (110,506)	79.9%
Stored Water Rights Inventory Purchases	\$ 411,650	\$ 411,611	100.0%	\$ 432,000	\$ 430,781	99.7%	\$ 430,781	\$ 1,219	99.7%
Stored Water Rights Contra	\$ (411,650)	\$ (411,611)	100.0%	\$ (432,000)	\$ (430,781)	99.7%	\$ (430,781)	\$ (1,219)	99.7%
Professional/Contract Services & Utilities	\$ 1,486,550	\$ 602,170	40.5%	\$ 1,517,250	\$ 578,279	38.1%	\$ 1,392,958	\$ 124,292	91.8%
Water Supply Costs	\$ 25,800,000	\$ 13,299,385	51.5%	\$ 25,705,000	\$ 13,840,039	53.8%	\$ 27,932,976	\$ (2,227,976)	108.7%
Training, Travel & Membership Dues	\$ 46,500	\$ 3,700	8.0%	\$ 48,500	\$ 4,378	9.0%	\$ 7,538	\$ 40,962	15.5%
Depreciation	\$ -	\$ -	0.0%	\$ 2,700	\$ 1,182	43.8%	\$ 2,364	\$ 336	87.5%
Liabilities, Settlements & Insurance	\$ 92,109	\$ 29,299	31.8%	\$ 90,125	\$ 66,965	74.3%	\$ 117,888	\$ (27,763)	130.8%
Interdepartmental Charges	\$ 1,515,492	\$ 1,399,861	92.4%	\$ 2,680,826	\$ 1,467,320	54.7%	\$ 2,587,543	\$ 93,283	96.5%
Debt Service	\$ 644,517	\$ 322,258	50.0%	\$ 793,086	\$ 322,258	40.6%	\$ 713,072	\$ 80,014	89.9%
Loan Contra Expenditures	\$ (541,273)	\$ (269,049)	49.7%	\$ (554,122)	\$ (275,436)	49.7%	\$ (554,122)	\$ 0	100.0%
Capital Acquisitions	\$ 56,200	\$ -	0.0%	\$ 56,200	\$ 24,820	44.2%	\$ 24,820	\$ 31,380	44.2%
Asset Contra Account	\$ (56,200)	\$ -	0.0%	\$ (56,200)	\$ (24,820)	44.2%	\$ (24,820)	\$ (31,380)	44.2%
Other Operating Transfers Out	\$ 4,865,077	\$ 4,849,513	99.7%	\$ 4,255,168	\$ 4,160,816	97.8%	\$ 4,275,676	\$ (20,508)	100.5%
Bad Debts and Other Losses	\$ 120,000	\$ 17,084	14.2%	\$ 150,000	\$ 43	0.0%	\$ 798,861	\$ (648,861)	532.6%
Total Expenditures	\$ 43,601,410	\$ 24,841,197	57.0%	\$ 43,549,333	\$ 24,329,073	55.9%	\$ 44,597,807	\$ (1,048,474)	102.4%
Revenues Less Expenditures	\$ 2,905,590	\$ 1,759,598		\$ 4,108,667	\$ 2,414,457		\$ 4,869,493		

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 slightly below the same period the year before. To date, 56.1% of budgeted revenues have been received compared with 57.2% the year prior. This is driven primarily by decreases in the Charges for Services revenue classification. Within this area, we see decreases in Metered Sales to date, which are partially offset due to increase in Torrance Refinery Potable Sales. However, with the approved CPI increase effective January 2022, staff expect the total projected revenue to exceed budget by \$1.8 million.

The Water Fund's operating expenditures to date are under overall budgeted levels. To date, 55.9% has been expended, compared with 57.0% the year prior. When examining actual expenditures year to year, we see a decrease of about \$512,000 or 2.1% overall. This is primarily due to decrease in Other Operating Transfers Out (\$689,000) and salary savings due to vacancies (\$370,000), which partially offset due to increase in water supply costs (\$541,000). Other Operating Transfers Out fluctuates each year depending on the City's Capital Improvement Plan. Increase in water supply cost is mainly triggered by the delay in the North Torrance Well Field Project (I-108) along with an increase in purchase cost from the Goldworthy Desalter. As a result of the delays with the North Torrance Well Field Project (I-108), the City's water purchases have increased approximately \$2.0 million above anticipated levels for Fiscal Year 2021-22. Staff are recommending an appropriation of \$2.0 million to cover these unanticipated additional costs. Additionally, Public Works applied for and received a grant of \$775,000 from the State of California to help residents unable to pay their water utility bills. As a result of receiving this grant, staff are writing off up to an equal amount of bad debt (lowering account balances and revenues previously realized) and need to appropriate this new source to be able to do so. Any balance not applied to an individual account will be returned back to the State.

Overall, Water Fund's operating fund is projected to operate at a \$4.9 million surplus, driven by projected increases in operating revenues partially offset by increases in Water Supply Costs.

Water – Replacement

	2020-21			Percent of Budget	2021-22			Percent of Budget	Projected Total	Projected Surplus / (Deficit)	Percent of Budget
	Amended Budget	January 2020-21 Actual			Amended Budget	January 2021-22 Actual					
Revenues											
Use of Money and Property	\$ -	\$ 11,518	0.0%	\$ -	\$ 6,931	0.0%	\$ 11,882	\$ 11,882	0.0%		
Other Revenues	\$ -	\$ 43,500	0.0%	\$ -	\$ 4,939	0.0%	\$ 8,467	\$ 8,467	0.0%		
Operating Transfers In	\$ 147,000	\$ 138,964	94.5%	\$ 239,500	\$ 151,671	63.3%	\$ 260,008	\$ 20,508	108.6%		
Total Revenues	\$ 147,000	\$ 193,982	132.0%	\$ 239,500	\$ 163,541	68.3%	\$ 280,357	\$ 40,857	117.1%		
Expenditures											
Depreciation and Amortization	\$ 139,000	\$ 70,585	50.8%	\$ 143,170	\$ 67,775	47.3%	\$ 116,185	\$ 26,985	81.2%		
Capital Acquisitions	\$ 400,000	\$ -	0.0%	\$ 400,000	\$ -	0.0%	\$ -	\$ 400,000	0.0%		
Asset Contra Account	\$ (400,000)	\$ -	0.0%	\$ (400,000)	\$ -	0.0%	\$ -	\$ (400,000)	0.0%		
Total Expenditures	\$ 139,000	\$ 70,585	50.8%	\$ 143,170	\$ 67,775	47.3%	\$ 116,185	\$ 26,985	81.2%		
Revenues Less Expenditures	\$ 8,000	\$ 123,397		\$ 96,330	\$ 95,766		\$ 164,171				

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

The Replacement Fund has accrued a cash balance to fund future replacement of Water vehicles; however, based on an analysis performed during this fiscal year, it is estimated the balance in this fund is less than what is projected to be needed. This is the result of setting aside amounts to fund future purchases and projected replacement costs exceeding these figures. Staff estimates this difference in the area of \$340,000 (based on a 5% CPI), which will need to be funded by the Water Operating Fund. In addition to this one-time difference, it would cost an estimated \$140,000 annually to help ensure current contributions match projected future needs.