

CITY HALL

031

2021-22 FIRST QUARTER BUDGET REPORT

CITY OF TORRANCE – FINANCE DEPARTMENT

Agenda

- ▶ **FY 2021-22 1st Quarter Budget**

Sheila Poisson, Finance Director

- ▶ **Program Modifications**

Sheila Poisson, Finance Director

- ▶ **Investment Summary**

Kristopher Awshee, Interim Deputy City Treasurer

- ▶ **Conclusion and Recommendation**

Aram Chaparyan, City Manager

- ▶ **Questions**

Committee Members



5-Year General Fund Financial History

Controlled for one-time/non-cash events

- ▶ General Fund Expenditure growth outpacing revenue growth for the five year period leading up to pandemic
- ▶ Unassigned fund balance (where reserves are included) deteriorated from \$29.4 million in FY2014-15 to \$16.7 million in FY2018-19.
- ▶ COVID-19 pandemic depleted unassigned fund balance to \$581,449 in FY2019-20.

5-Year General Fund Financial History

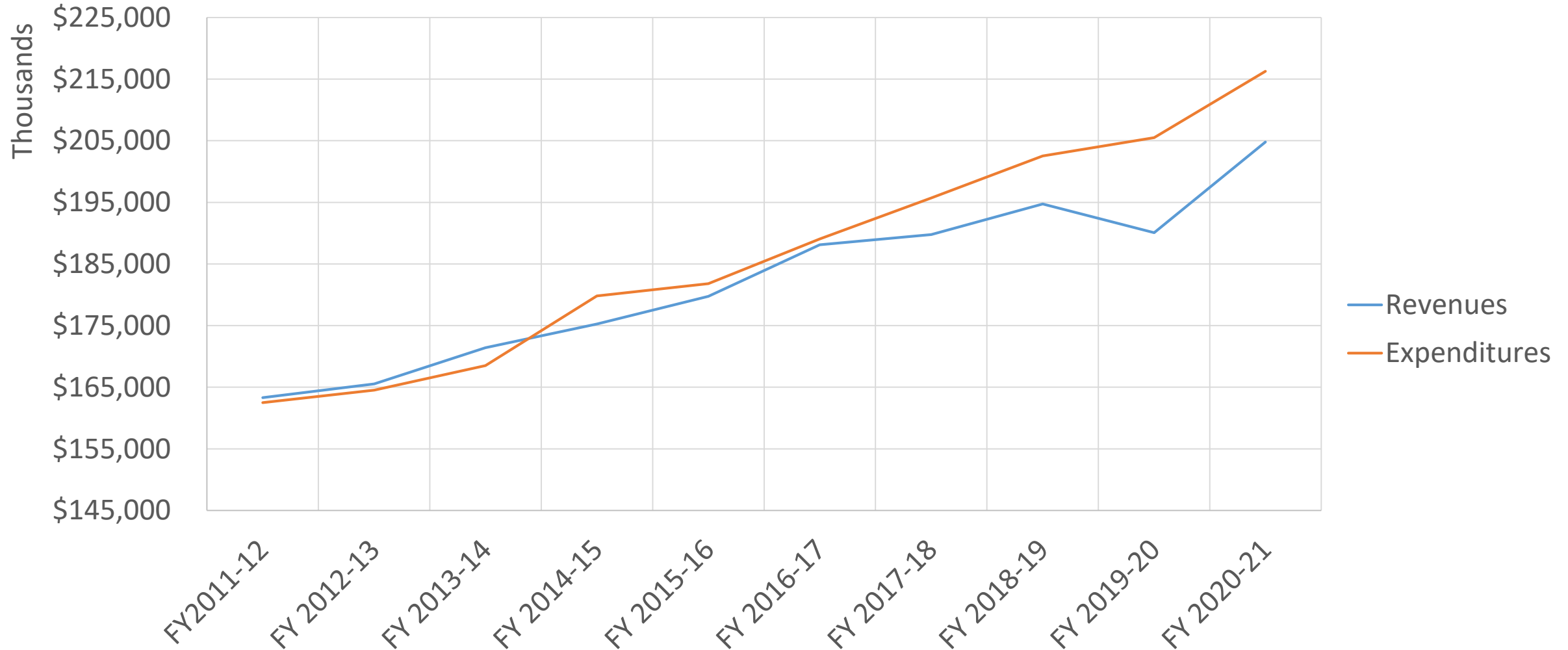
Controlled for one-time/non-cash events

Increase/(Decrease) in Revenues & Expenditures in % (controlled for one-time)					
	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Revenues	3.9%	2.7%	2.9%	0.9%	2.6%
Expenditures	6.7%	4.5%	1.9%	2.2%	3.5%
	Average Revenue Increase (5-Year Pre-Pandemic)				2.6%
	Average Expense Increase (5-Year Pre-Pandemic)				3.8%

► Fund balance was utilized in these years to offset losses.

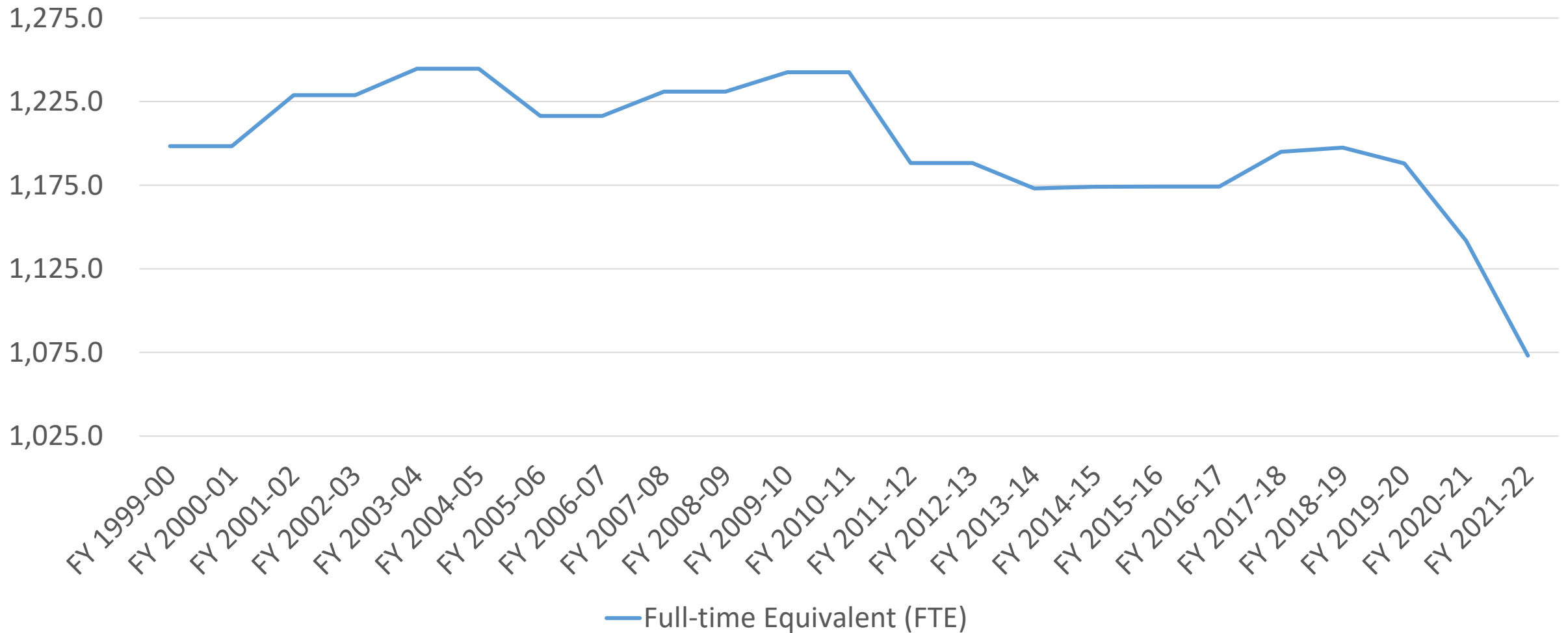
10-Year General Fund Financial History

Controlled for one-time/non-cash events - \$ in thousands



20-Year General Fund Staffing Levels

Controlled for one-time/non-cash events - \$ in thousands



General Fund Staffing Levels

Department	FY 2010-11	FY 2021-22	FTE Change	% Change	FY 2022-23*
City Attorney	14.0	13.0	(1.0)	-7%	13.0
City Clerk	8.5	8.0	(0.5)	-6%	8.0
City Council	7.0	7.0	-	0%	7.0
City Manager	32.3	36.6	4.3	13%	36.6
City Treasurer	7.0	2.0	(5.0)	-71% (B)	2.0
Civil Service	2.8	3.8	1.0	36%	3.8
Communication & IT	40.5	36.5	(4.0)	-10%	36.5
Community Development	66.5	53.5	(13.1)	-20%	53.5
Community Services	271.5	227.4	(44.1)	-16%	227.4
Finance	40.3	35.3	(5.0)	-12% (B)	35.3
Fire	171.0	164.5	(6.5)	-4% (A)	156.5
General Services	88.3	76.1	(12.2)	-14%	76.1
Human Resources	27.5	11.0	(16.5)	-60%	11.0
Police	361.8	342.0	(19.8)	-5%	305.0
Public Works	103.5	96.6	(7.0)	-7% (C)	76.6
Total FTE	1,242.5	1,093.1	(149.4)	-10%	1,048.1

* Reflects deferred Police and Fire reductions

(A) Does not include the addition of 25.0 related to new EMS Transport program (implemented April 2021)

(B) 3.0 net FTE transferred from City Treasurer to Finance.

(C) In FY 2010-11, positions funded by other sources were fully reflected in this table and offset by reimbursements. Beginning in FY 2021-22 all positions are directly allocated (i.e. approximately 20 FTE are directly allocated to Capital Improvement Projects in Public Works in FY22 and added back to this table for presentation purposes)

Budget Actions to Date

- ▶ In Fiscal Year 2020-21, **\$15.7 million** in actions were implemented to help balance the budget.
- ▶ In Fiscal Year 2021-22, **\$6.3 million** in actions were implemented to help balance the budget.
 - ▶ Additional \$8.2 million in Police & Fire reductions deferred to July 1, 2022.

Budget Actions to Date

Budget Action	Category of Reduction	Recurring 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

First Quarter Results – All Funds

Operating Surplus (Deficit)

All Funds	2020-21 Amended Budget	September 2020-21 Actual	2021-22 Amended Budget	September 2020-21 Actual	Projected Total
Total Revenues	\$346,787,669	\$60,892,395	\$350,415,362	\$62,236,353	\$378,212,221
Total Expenditures	\$370,387,900	\$90,324,069	\$357,209,813	\$103,750,778	\$366,808,185
Revenues Less Expenditures	(\$23,600,231)	(\$29,431,674)	(\$6,794,451)	(\$41,514,425)	\$11,404,035

- ▶ **One-time Sources** included in Amended Budget and Projected Totals:
 - ▶ American Rescue Plan Act: **\$12.0 million** in General Fund Operating Fund
 - ▶ Transit COVID Grants: **\$7.5 million** in Transit Fund

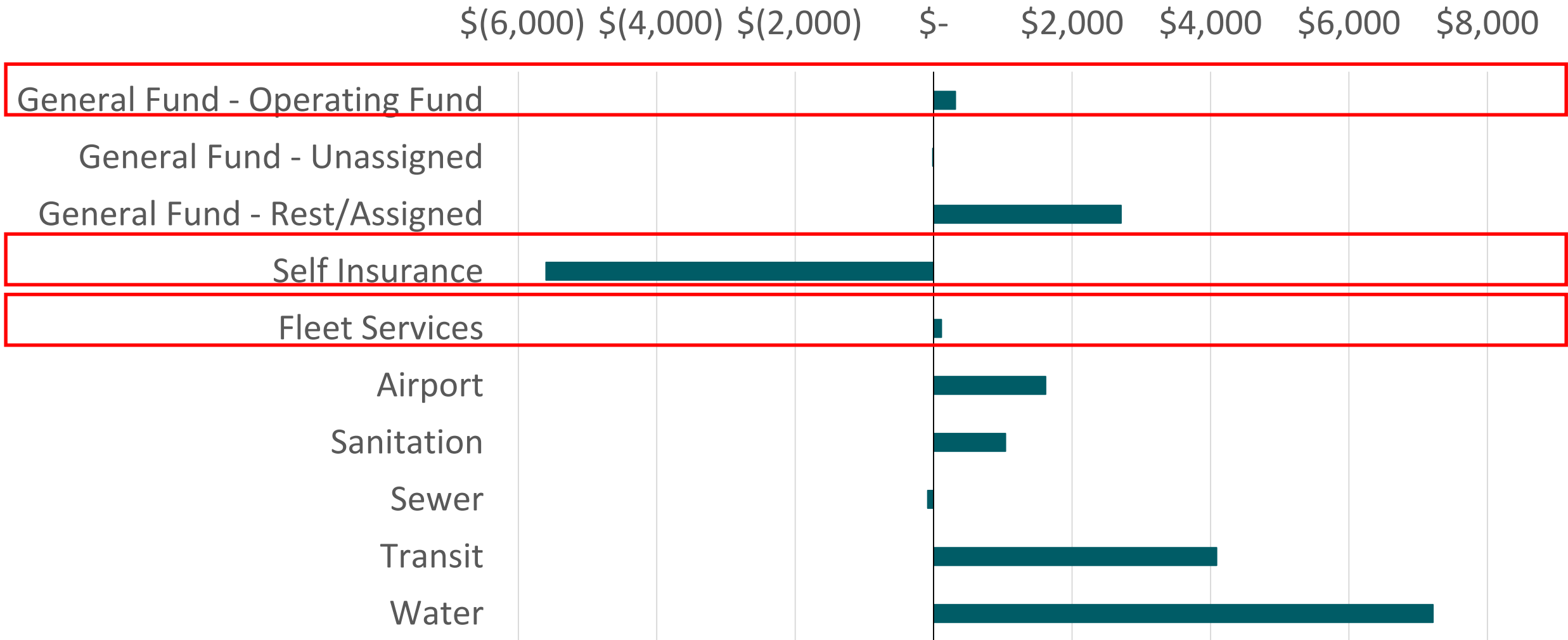
Projected Surplus/(Deficit) by Fund

Projected Year- End Results (estimates)

- ▶ General Fund Operating Fund: **\$314,000 surplus**
- ▶ General Fund – Rest/Assigned Fund: **\$2.7 million surplus**
(primarily driven by the \$1.8M CEPPT contribution)
- ▶ Self-Insurance Fund: **\$5.6 million loss** despite a significant \$15.8M one-time contribution.
- ▶ Fleet Services Fund will **break even**, however a **structural deficit** exists in Operations Fund
- ▶ Enterprise Funds: **\$13.9 million surplus** led by Water and Transit Fund
 - ▶ \$7.5M in Transit revenues are one-time COVID-19 grants

Projected Surplus/(Deficit) by Fund

Projected Year- End Results – \$ in thousands



First Quarter Results – General Fund Operating Fund

Operating Surplus (Deficit)

General Fund Operating Fund	2020-21 Amended Budget	September 2020-21 Actual	2021-22 Amended Budget	September 2020-21 Actual	Projected Total
Total Revenues	\$192,972,445	\$28,550,319	\$216,530,361	\$34,843,126	\$224,183,290
Total Expenditures	\$208,763,379	\$49,882,699	\$216,363,515	\$61,237,941	\$223,869,555
Revenues Less Expenditures	(\$15,790,934)	(\$21,332,380)	\$166,846	(\$26,394,815)	\$313,735

▶ One-time Sources included in Amended Budget and Projected Totals:

▶ American Rescue Plan Act: **\$12.0 million**

Core Revenues

23%

SALES TAX

The largest General Fund revenue source, derived from point-of-sale transactions and Los Angeles County and State pool allocations.

19%

PROPERTY TAX

FY 2020-21 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).

15%

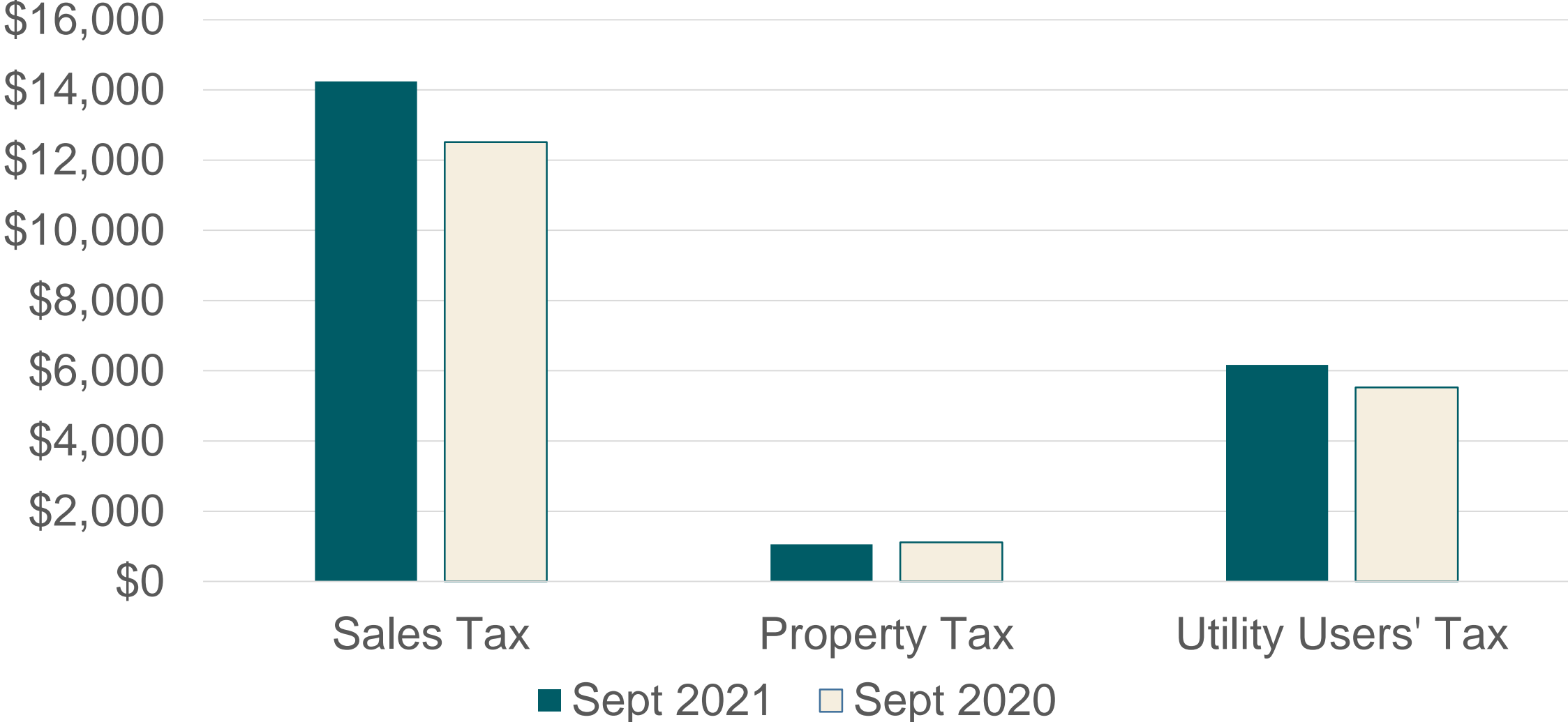
UTILITY USERS' TAX

The 3rd largest revenue source, is a 6.5% consumption tax applied on the usage of utilities such as electricity, gas, and water.



Core Revenues

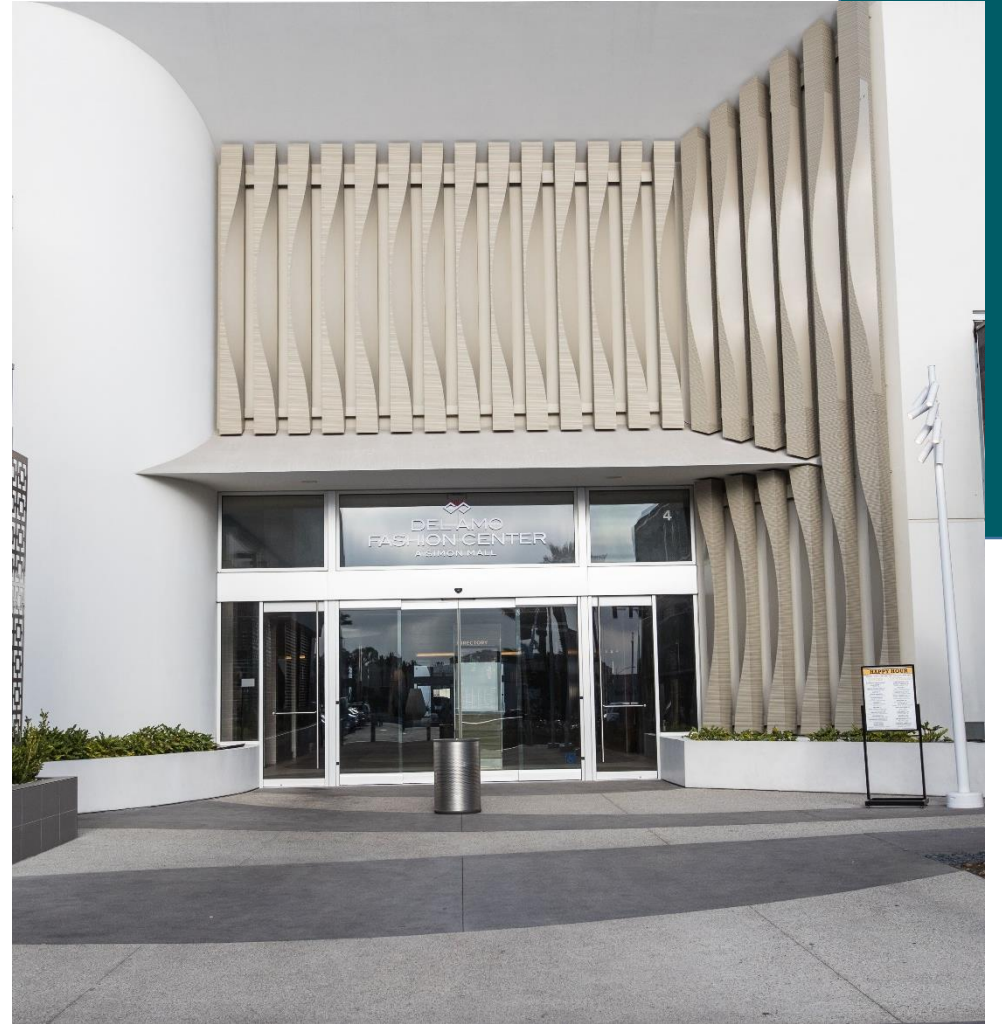
First Quarter Results
\$ in thousands



Sales Tax

First Quarter Results

- ▶ Receipts of \$14.2 million for the first fiscal quarter are **tracking above** prior year actuals by \$1.7 million.
- ▶ Largest factor driving growth is new car sales, increasing by approximately \$1.1 million in Q2 2021, a 62% increase, driven by a buying frenzy and a new auto brand in the City.
 - ▶ Cautious on the sustainability of these figures given global chip shortages.
- ▶ Next largest increases in general consumer goods, restaurants & hotels, and fuel & service stations.
 - ▶ These groups were those that experienced the largest declines in 2020.



Sales Tax by Industry Group

Quarter ending June 2021

**Allocation aberrations have been adjusted to reflect sales activity*

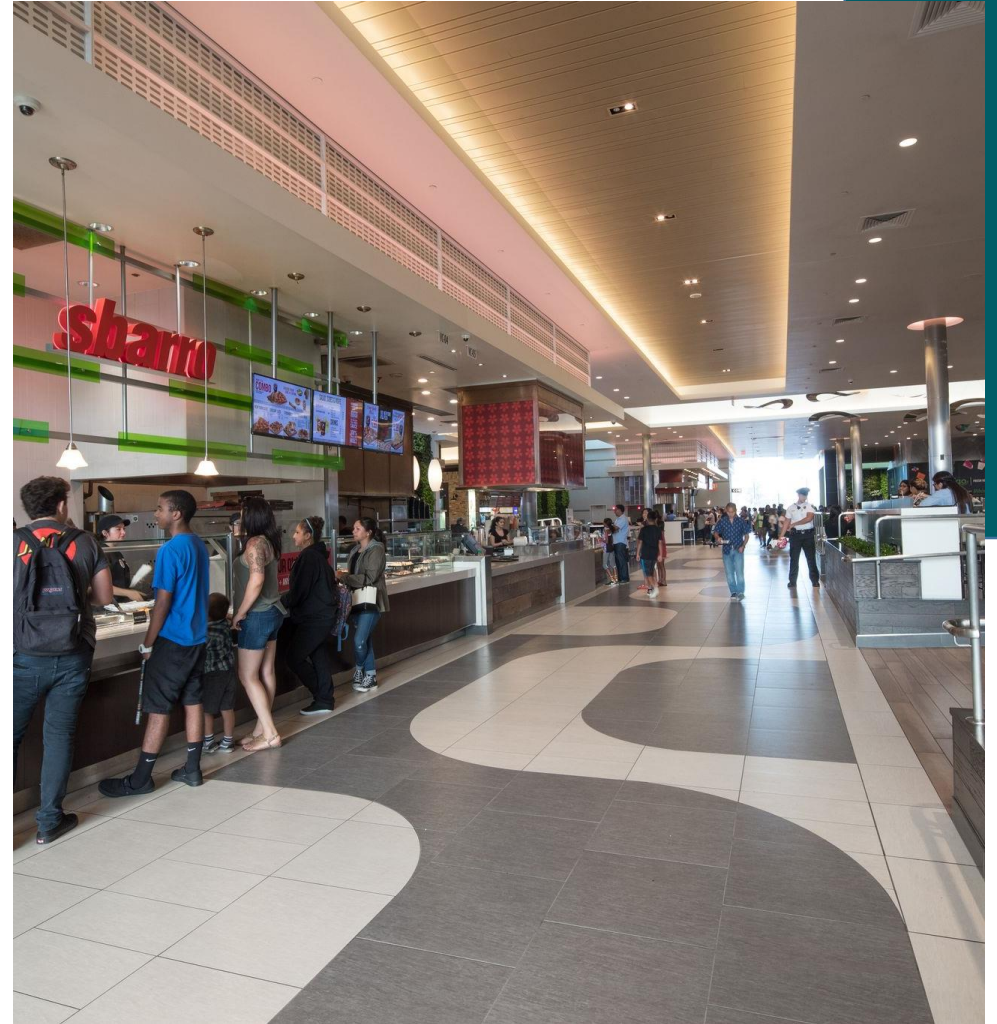
SALES TAX BY MAJOR BUSINESS GROUP



Sales Tax

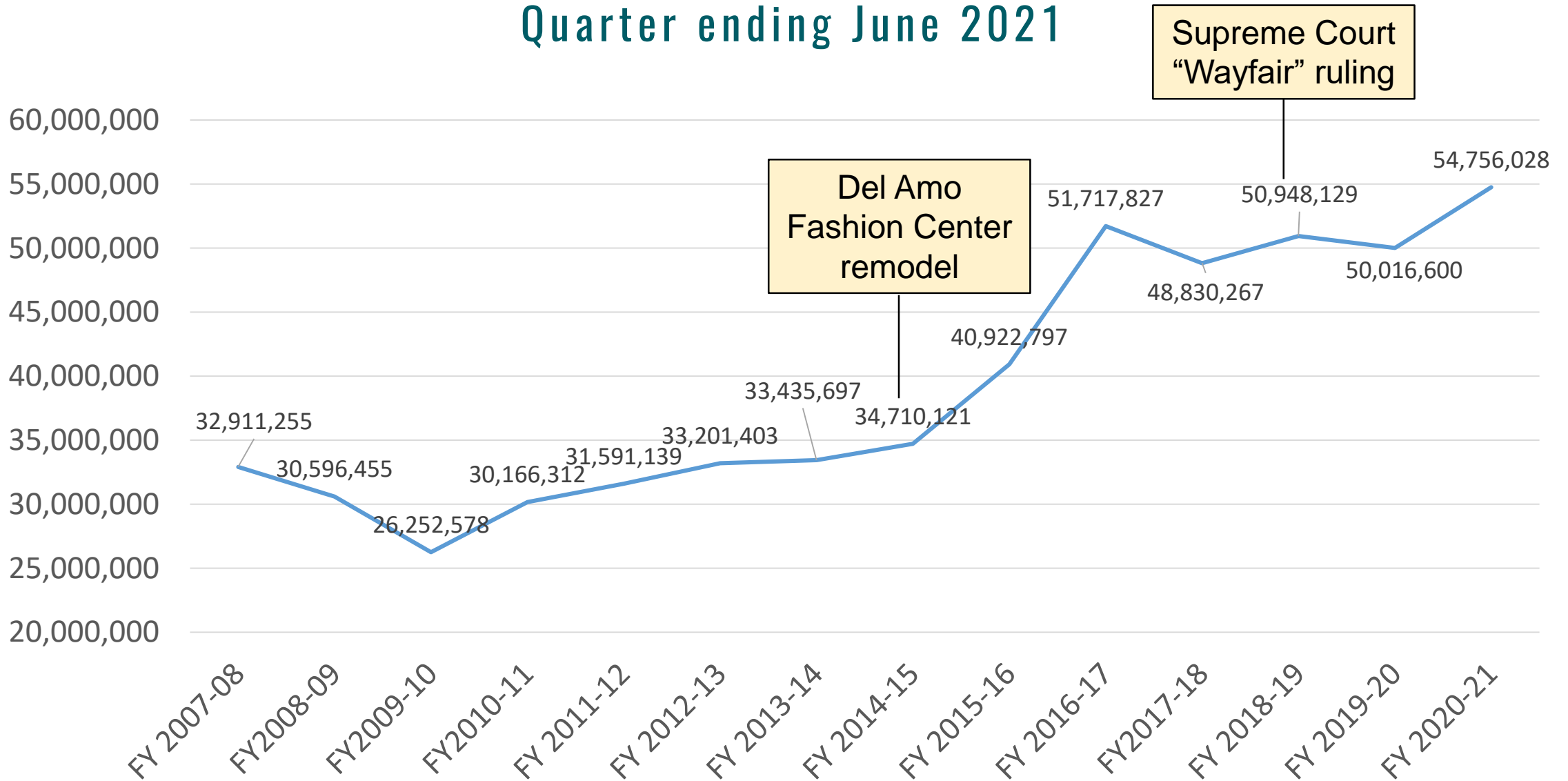
First Quarter Results

- ▶ Staff continues to be cautious with forecasting.
 - ▶ Latest news of thin inventories due to the global chip shortage earlier in the year may result in a headwind going into 2022.
 - ▶ Auto dealers expect inventory to return to normal levels in 2023.
- ▶ Upward **inflationary pressure** on prices may begin to consume more disposable income and tighten growth by the start of 2022.



Sales Tax Trends

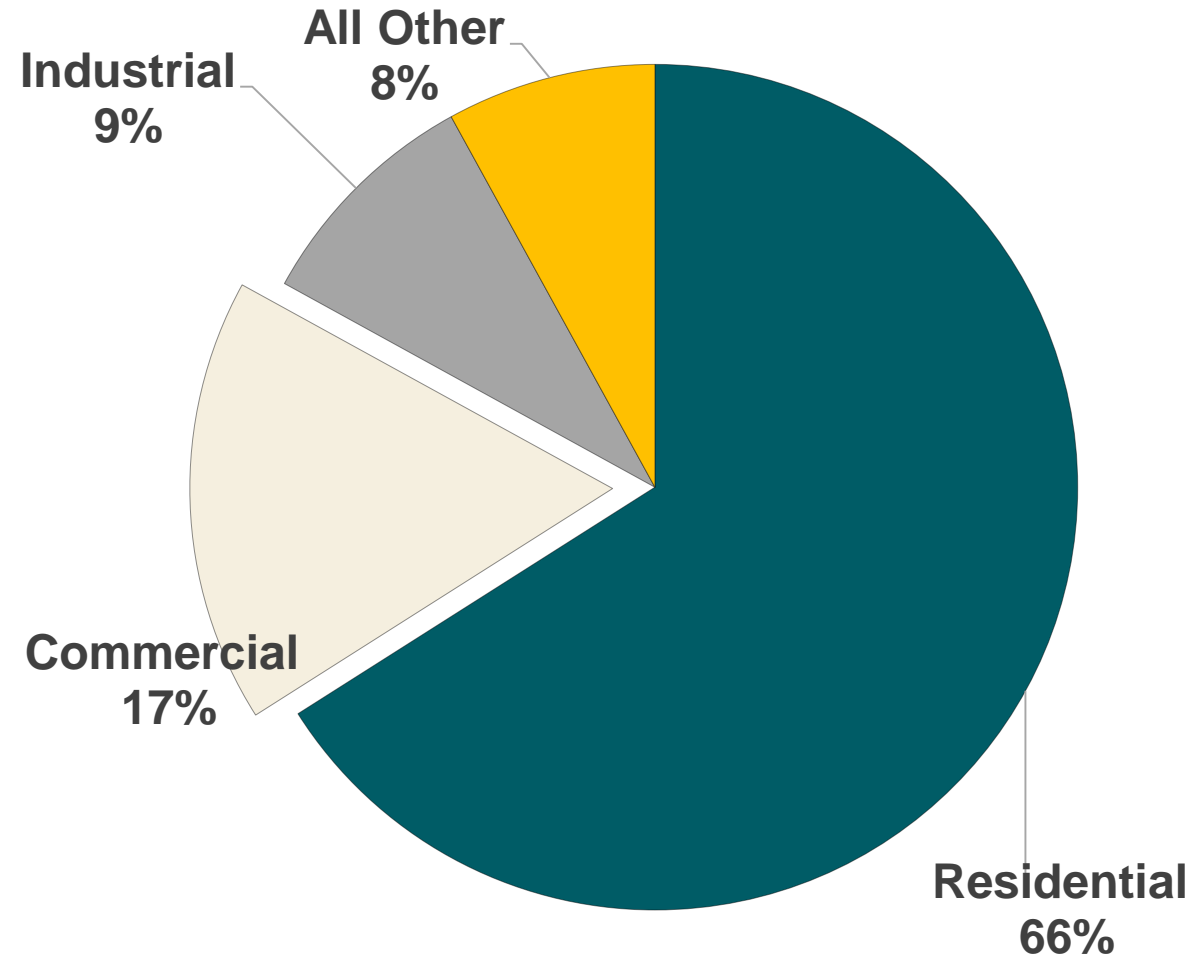
Quarter ending June 2021



Property Tax

Land Use Composition by Taxable Value

- ▶ Healthy mix of residential, commercial, and industrial properties.
- ▶ Prices have continued to rise in response to lower inventory and lower interest rates.
 - ▶ The median sale price of a detached single family residential home in Torrance as of Q3 2021 was \$1,122,500; a \$172,500 (18.2%) increase in median sale price from Q3 2020.



Property Tax

First Quarter Results

- ▶ Property tax receipts are consistent compared to last year at \$1.1 million versus \$1.1 million in September 2020.
- ▶ Presently, the **City expects to exceed budget** for fiscal year 2021-22 by \$2.3 million.
 - ▶ An increase in the volume of sales in 2021 is anticipated to result in increased growth, transfer tax, and supplemental assessment revenue in fiscal year 2022-23.
 - ▶ Cautious on the sustainability of these figures given rapid increase in prices.





Utility Users' Tax

First Quarter Results

- ▶ UUT receipts are tracking **above prior year** by \$641,000, or 11.6%.
- ▶ Presently, the **City expects to exceed budget** for fiscal year 2021-22 by \$1.1 million.
 - ▶ An increase in the electricity and gas rates are driving this projected increase.
- ▶ Cellular and Telecom receipts continue to decline due to the trend in non-taxable data usage over voice/minutes.

Other Major Revenues

First Quarter Results

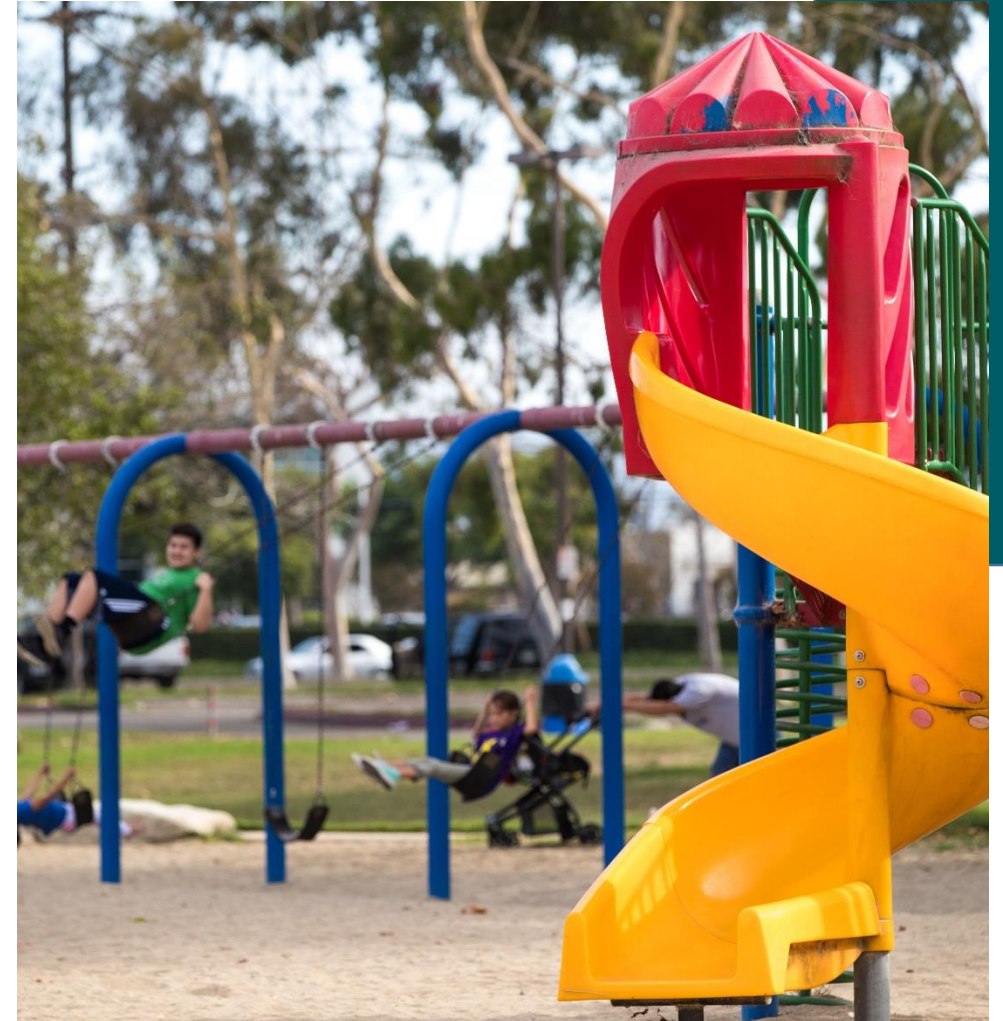
- ▶ Occupancy tax and Business License Tax represent 7% of the total General Fund revenue budget.
- ▶ Business license tax receipts begin to arrive in January 2022 and are presently expected to meet budget.
- ▶ Occupancy tax **increased \$1.4 million** or 103% compared to prior year's \$1.3 million.
 - ▶ Occupancy rate percentage increased from 51% in Jan-Sept 2020, to 68% in 2021 (still under pre-pandemic levels of 80%+)
 - ▶ Average daily rate per room also increased by \$5 compared to prior year.
 - ▶ If this trend continues City expects a budget surplus of approx. \$1.5 million, though still ending the year \$4.5 million below pre-pandemic levels



Other Major Revenues

First Quarter Results

- ▶ Charges for Services now represents 7% of the total General Fund revenue budget.
 - ▶ Consolidation of Cultural Arts Center, Emergency Medical Services, Parks and Recreation and Animal Control Funds drove this budget increase.
- ▶ Charges for Services **increased \$2.6 million** or 178% compared to prior year's \$1.5 million.
 - ▶ Fire's Emergency Medical Services Transport program projected to exceed budget ~\$485k.
 - ▶ Community Services (Parks & Rec) projected to exceed budget as programs return ~\$600k.
 - ▶ Community Development and General Services (Cult Arts Center) projected to exceed budget ~\$412k as development continues to be strong and programs return





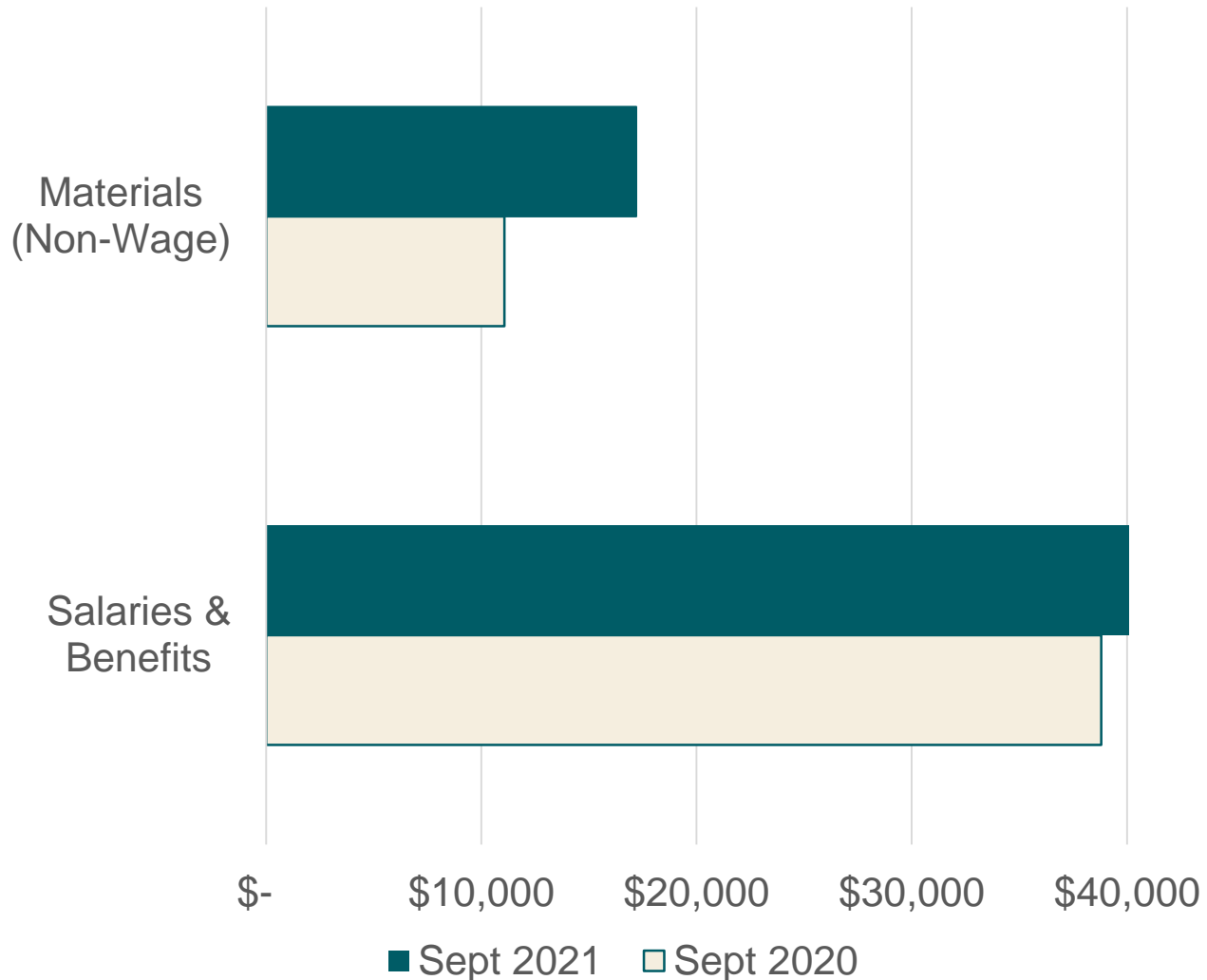
Projected Revenues

- ▶ Overall, the City expects to exceed the annual amended budget by **\$7.6 million**, primarily driven by:
 - **+\$5.1M** in Sales Tax
 - **+\$2.3M** in Property Tax
 - **+\$1.5M** in Occupancy Tax
 - **+\$1.1M** in UUT
 - **-\$250k** in Franchise Tax
 - **-\$575k** in Construction Tax
 - **-\$1.1M** in Use of Money and Property
 - **+\$1.5M** in Charges for Services
 - **-\$2.2M** in Operating Transfers In

- ▶ Recommend to increase General Fund Operating Fund revenue budget by \$7.6 million to offset projected deficit in expenditures (overtime, Self-Insurance)

Expenditures

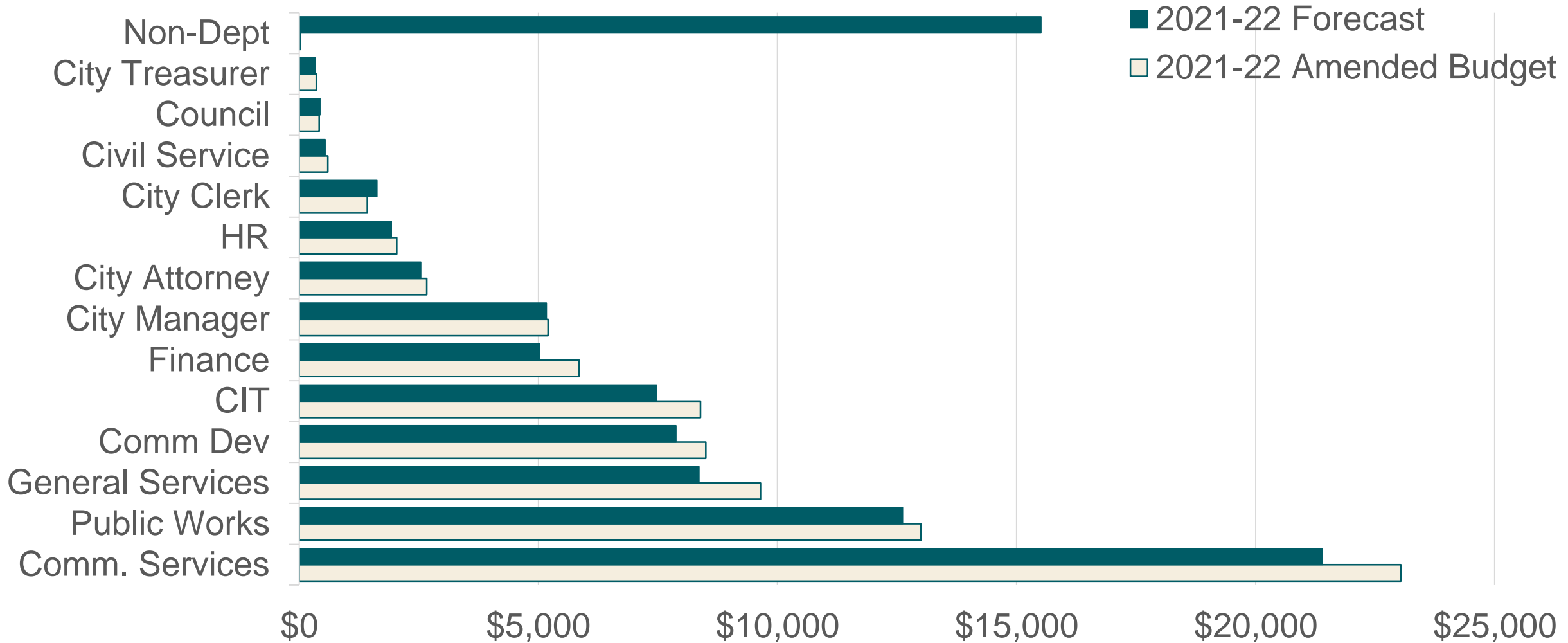
First Quarter Results (\$ in thousands)



- ▶ As of September 30, 2021, the General Fund Operating Fund expended \$61.2 million, or 28.3% of annual budget, an increase of \$11.3 million (22.8%) from the prior year.
- ▶ The increase is attributable to the consolidation of Animal Control, Cable, Cultural Arts Center, Emergency Medical Services, and Parks & Recreation Funds along with the timing of the newly issued 2020 Lease Revenue Bond payment (\$12.4M as of Sept 30).

Expense by Department

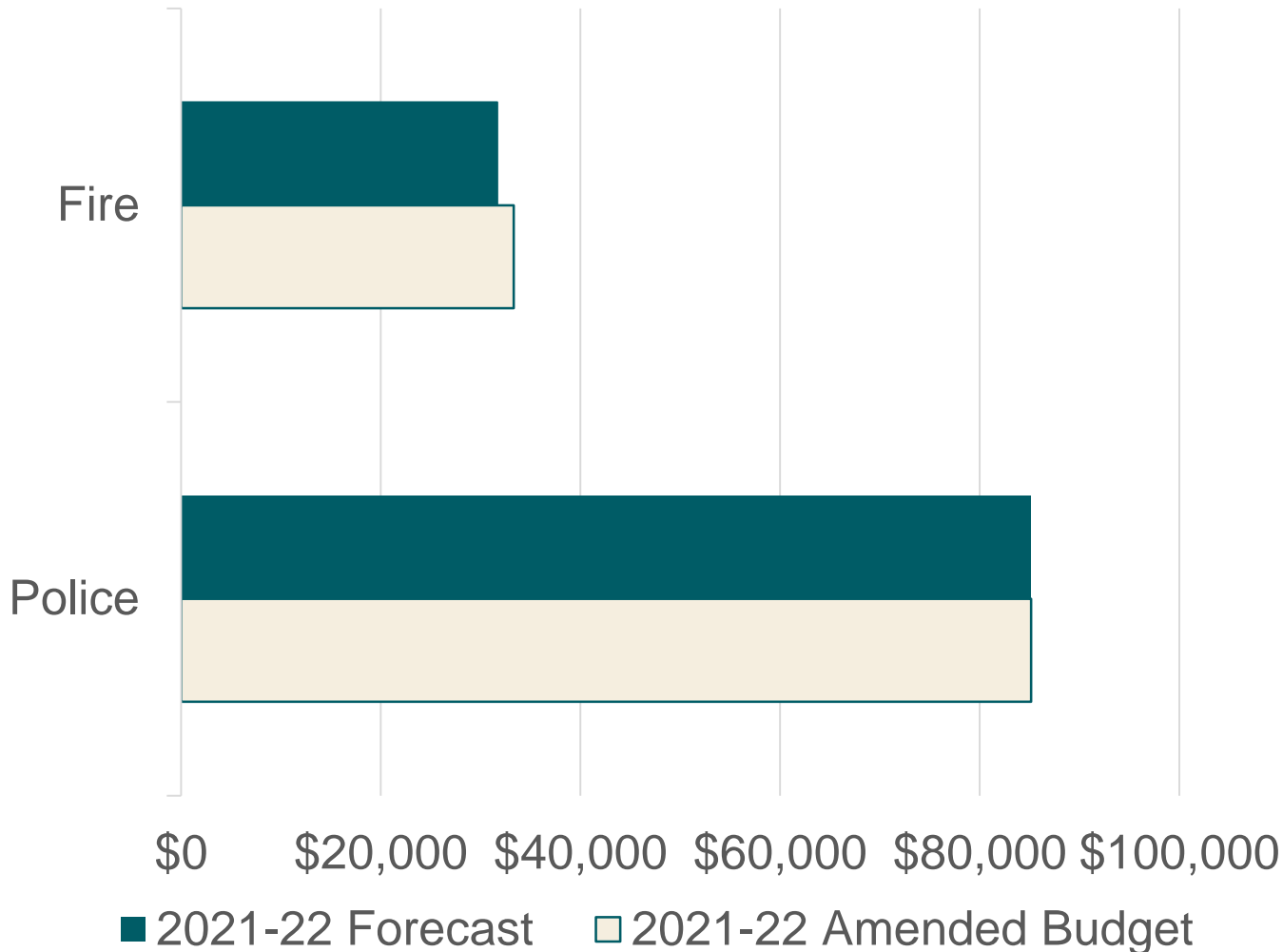
First Quarter Results – Miscellaneous Departments
\$ in thousands



► Non-departmental includes a **\$15.8 million contribution** to Self-Insurance Fund.

Expense by Department

First Quarter Results – Safety
\$ in thousands



- ▶ Formal action was deferred on \$8.2 million of safety (Police & Fire) budget reductions.
- ▶ Savings incurred from both vacancies and materials
 - ▶ Police is projected to yield savings of \$920,000.
 - ▶ Fire is projected to yield savings of \$1.3 million.



Projected Expenditures

- ▶ Overall, the City projects a **\$7.5 million overage**, as a result of:
 - ▶ Projected one-time contribution to the City's Self-Insurance Fund (\$15.8M) to cover projected expenditures.
- ▶ Recommend an increase in the General Fund Operating Fund (aligning with the recommended revenue budget increase):
 - \$6.75 million to correct budgeting practices with overtime.
 - \$750k in Transfers to Self-Insurance Fund to partially offset the \$15.8 one-time contribution.

Areas of Concern

- ▶ Multiple areas that staff are tracking closely that will require attention in the near term and over the coming budget cycles:
 - ▶ Overtime
 - ▶ Self-Insurance Fund
 - ▶ Fleet Services Fund
 - ▶ Cash Balances by Fund
 - ▶ Labor Trends



Areas of Concern: Overtime

Fiscal Year	General Fund OT Budget	General Fund OT Expenditures	Surplus / (Deficit)
FY2014-15	\$ 6,932,750	\$ 13,001,733	\$ (6,068,983)
FY2015-16	\$ 7,124,170	\$ 13,635,725	\$ (6,511,555)
FY2016-17	\$ 7,291,439	\$ 14,976,675	\$ (7,685,236)
FY2017-18	\$ 7,189,270	\$ 14,782,708	\$ (7,593,438)
FY2018-19	\$ 7,281,550	\$ 15,179,916	\$ (7,898,366)
FY2019-20	\$ 7,455,141	\$ 14,577,539	\$ (7,122,398)
FY2020-21	\$ 7,560,163	\$ 15,170,064	\$ (7,609,901)
FY2021-22 (est)	\$ 9,477,097	\$ 16,243,166	\$ (6,766,069)

- ▶ Historically, the City has under-budgeted its overtime costs
- ▶ Staff recommend increasing the General Fund Operating Fund overtime budget by \$6.75 million to resolve this longstanding budget deficit
 - ▶ Police \$3.9 million, Fire \$2.1 million, Misc \$0.7 million

Areas of Concern: Self-Insurance

- ▶ Self-Insurance cash balance at June 30, 2021 was \$12.2 million; however it has a **(\$-55.7) million fund balance**
- ▶ Projected to operate at an estimated **\$21.4 million deficit: 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.
- ▶ Average annual cost approximately \$8.0 million.

Deficit Area	Amount	Notes
Workers Comp Cases >4 years	\$ 3,700,000	1 settled case; 3 open cases and expected settlements
Litigated; Settlements >\$50k	\$ 11,000,000	
Litigated; External Attorney Fees	\$ 1,100,000	Estimated year-end actuarial adjustment for outstanding liabilities
Actuarial Entry (non-cash)	\$ 5,600,000	
Total	\$ 21,400,000	

Areas of Concern: Fleet Services



Replacement Fund

- ▶ Fleet's Vehicle Replacement Fund serves to set aside funds for all City Vehicles except Fire Apparatus, Sanitation, Sewer, Water, and Transit
- ▶ Staff project balance in this fund is **\$3.5 million lower** than it should be to have sufficient funding to replace accrued vehicles
 - ▶ \$690,000 in annual recurring costs to keep on track
- ▶ Staff also project the balance for enterprise funds to be **\$9.1 million lower** than it should be to have sufficient funding to replace accrued vehicles
 - ▶ \$735,000 in annual recurring costs to keep on track

Areas of Concern: Fleet Services

Operations Fund

- ▶ Fleet's Operations Fund Cash Balance at June 30, 2021 was **(\$-5.2) million** and has a Fund Balance of **(-\$4.6) million**
- ▶ Structural deficit of **\$1-2 million annually**
- ▶ Staff calculating models to address this structural deficit and return fund to a positive position



Cash Balances

Fund Category	End Cash Bal - FY2020-21	Example Funds
Enterprise Funds	\$ 5,163,060	Airport, Sanitation, Sewer, Water, Transit
Nonmajor Governmental Funds	\$ 45,316,425	Measure R; Measure M; Prop A; Prop C; Measure W; Gas Tax
Internal Svc - Self-Insurance Fund	\$ 12,212,043	
Internal Svc - Fleet Services Fund	\$ 12,119,912	
General Fund	\$ 11,563,792	
Capital Improvement Fund	\$ 10,719,544	General Fund CIP
Fiduciary Funds	\$ 8,892,576	INSB; Area G; LowMod/RDA/Succesor
Internal Svc - OPEB Fund	\$ 5,265,815	
Total	\$161,253,167	* Represents City's full cash portfolio

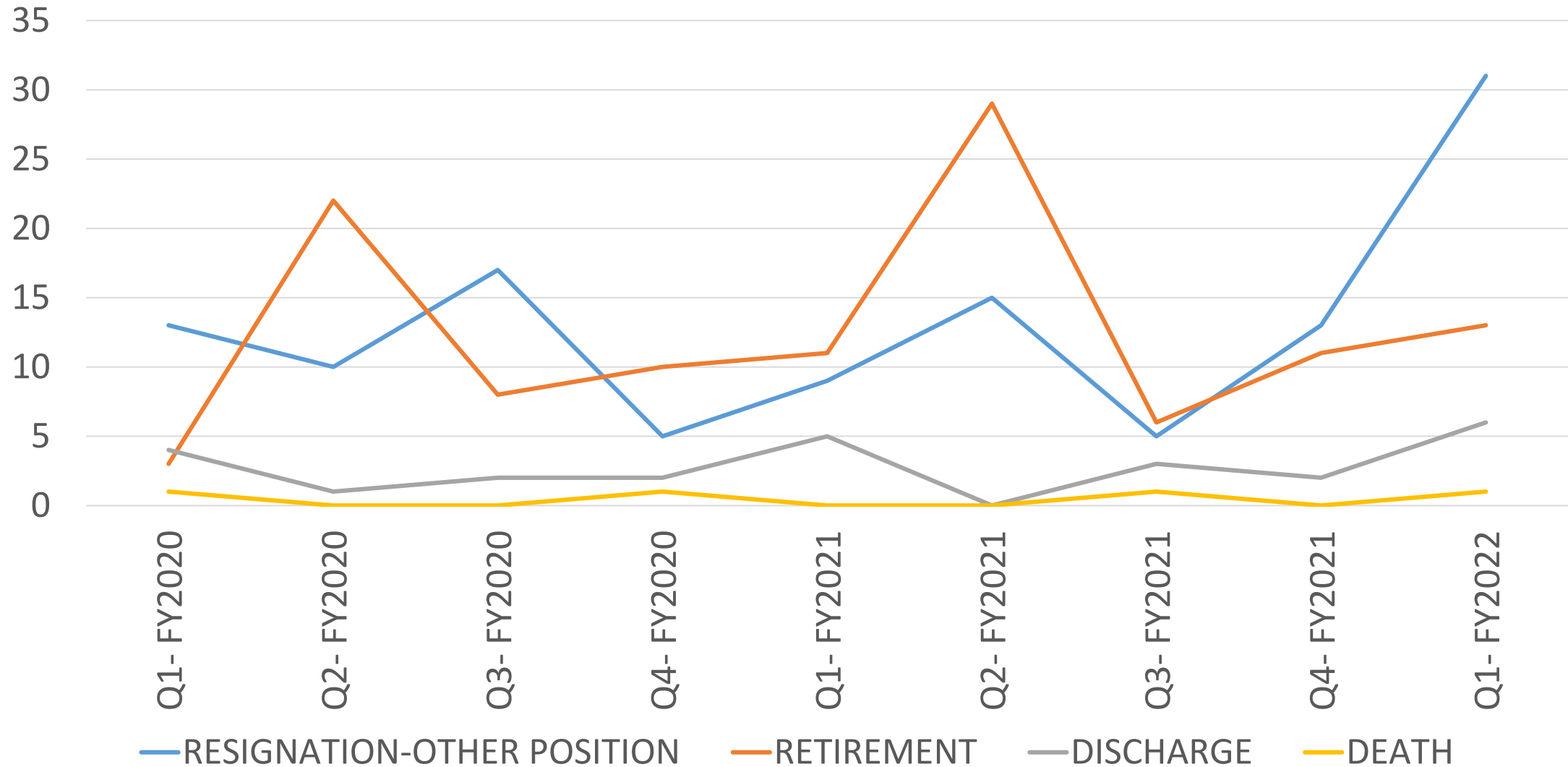
- ▶ General Fund expenditure budget accounts for 61.2% of the City's Fiscal Year 2021-22 Amended Budget but its cash balance at year-end represents 7.2% of the City's total.
- ▶ It is for this reason that the **California State Auditor**, through its high-risk city program, gave Torrance **zero points** in the category of Liquidity.

Labor Trends

▶ **The Great Resignation**

- ▶ The tightest labor market of modern times
 - ▶ Changing demographics, technological change and a reevaluation of the contract between employer and worker
- ▶ As of November 2021, 265 employees are eligible for retirement (based 55 years of age).
- ▶ During this first fiscal quarter of 2022, there has been a spike in resignations (for other positions), with 31 in the 3-month period alone, compared to 42 and 45 in the 12-month periods ending fiscal year 2021 and 2020.

Employee Departures



Employee Departures

	Fiscal Years Ending		3-months
	2020	2021	2022-Q1
Retirements	43	57	13
Voluntary Resignations	45	42	31
Departures or Death	11	11	7
Total Separations	99	110	51

- ▶ The most common cited reasons for recent departures have been **better salaries and benefits, and flexibility**.
- ▶ Employee retention will continue to be a challenge, especially with certain groups being out of contract for several years.

Unassigned Fund Balance

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 Unrestricted	\$ -	\$ 15,893,238	\$ 15,893,238	\$ 313,735	\$16,206,973
Total	\$ 581,449	\$ 23,393,238	\$ 23,974,687	\$ 313,735	\$24,288,422

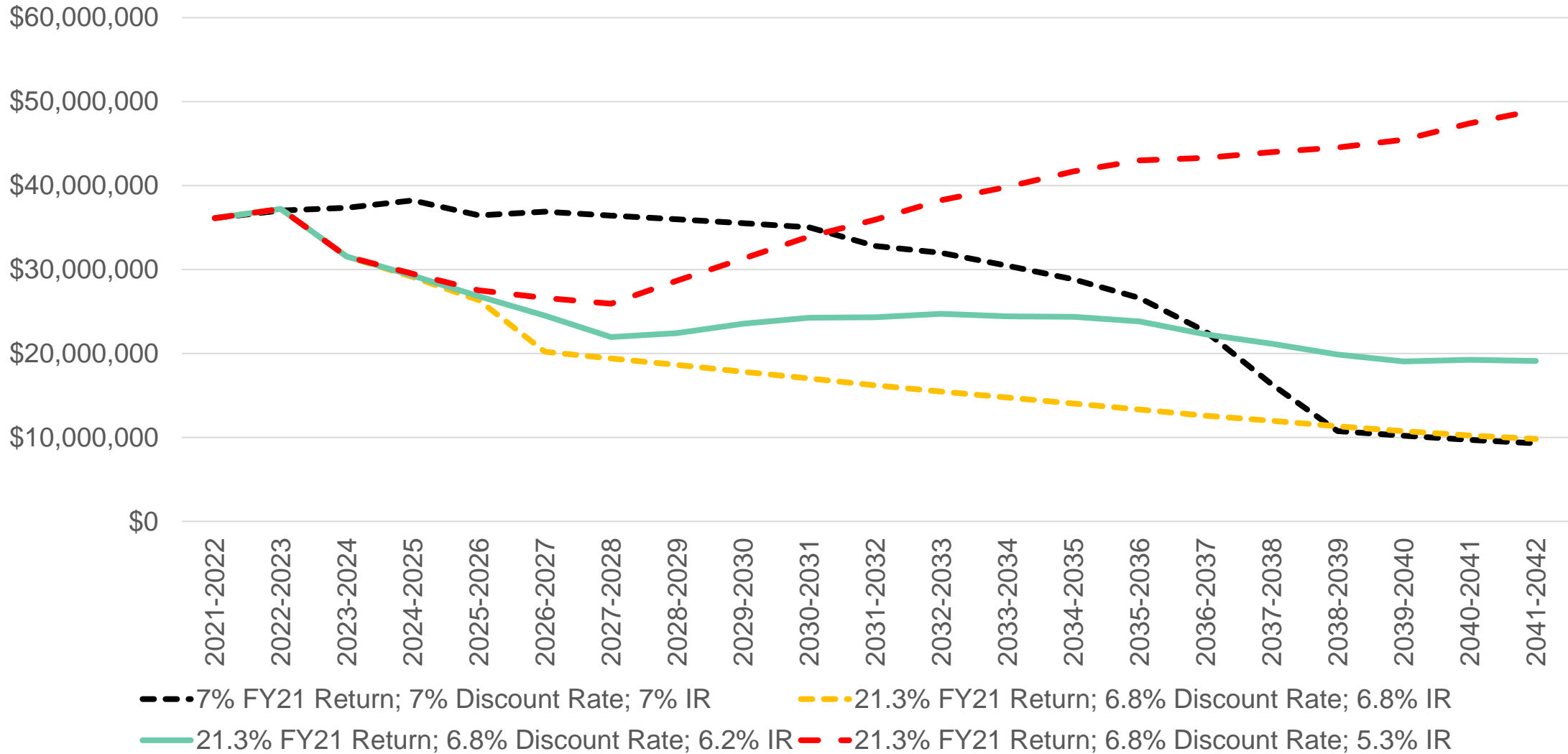
- ▶ City projects its unassigned fund balance to reach \$24.3 million by the end of Fiscal Year 2021-22.
- ▶ GFOA recommends a minimum of 20% (or 2.5 months) of unassigned fund balance, which currently equates to **\$43.2 million**.



CalPERS

- ▶ CalPER's portfolio earned a 21.3% return triggering the CalPERS Funding Risk Mitigation Policy.
 - ▶ In November 2021, CalPERS approved a new discount rate of 6.8%.
- ▶ Based on this new discount rate assumptions, it is projected that:
 - ▶ Normal Cost increases \$1M annually
 - ▶ Unfunded Actuarial Liability decreases about \$6-7M beginning in Fiscal Year 2023-24
- ▶ Staff are cautious about the likelihood of reaching these returns. Latest Capital Market Assumptions on the old portfolios projected a 10-year return of 5.3% and 20-year return of 6.2%.

Total Employer Contribution



* Does not include Lease Revenue Bond payment of \$18.3 million

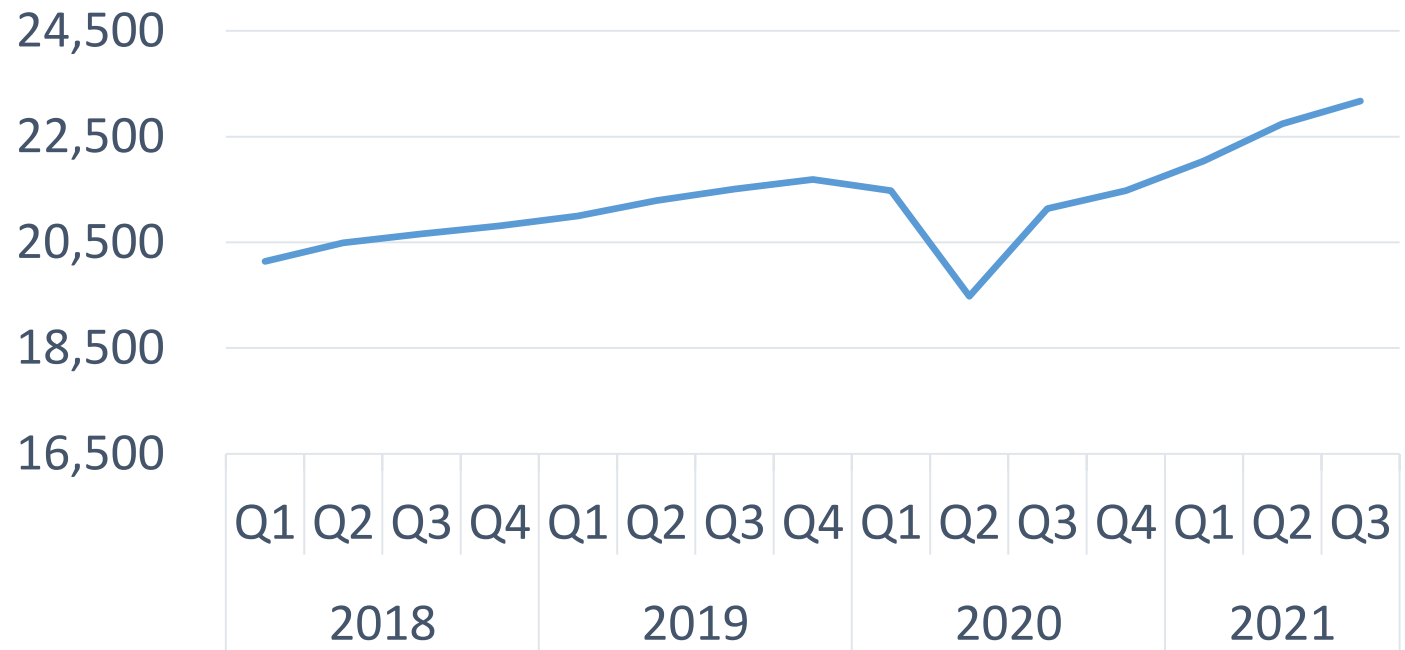
10-Year Forecast (Updated based on Q1 results)

	Projected	Forecast									
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Revenues	224,183	221,172	227,442	233,257	239,228	245,359	251,655	258,120	264,759	271,577	278,579
Expenses	223,870	222,587	221,358	221,481	221,499	221,775	221,951	223,629	225,758	227,645	228,490
Rev Less Exp - before adj	\$ 313	\$(1,415)	\$ 6,084	\$11,776	\$17,729	\$23,584	\$29,704	\$34,491	\$39,001	\$43,932	\$50,089
Adjustments											
Cost of 2% Raises (beg FY24)	-	-	3,128	6,282	9,465	12,677	15,923	19,204	22,508	25,842	29,209
Econ Anomaly Reserve											
Contribution	-	-	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Overtime Budget Correction	-	6,885	7,092	7,304	7,523	7,749	7,982	8,221	8,468	8,722	8,983
Litigation Reserve Contribution	-	-	-	1,500	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Fleet Replacement Fund											
Contribution	-	-	690	690	690	690	690	690	690	690	690
Rev Less Exp - after adj	\$ 313	\$(8,300)	\$(8,326)	\$(7,500)	\$(7,449)	\$(5,032)	\$(2,391)	\$(1,124)	\$ (165)	\$ 1,178	\$ 3,707
Projected Police & Fire											
Reductions	-	(8,234)	(8,481)	(8,735)	(8,997)	(9,267)	(9,545)	(9,831)	(10,126)	(10,430)	(10,743)
Additional Reserve Contribution	-	-	-	1,200	1,500	4,200	7,100	8,700	9,900	11,600	14,400
Rev Less Exp - after Police & Fire	\$ 313	\$ (66)	\$ 155	\$ 35	\$ 48	\$ 35	\$ 54	\$ 7	\$ 61	\$ 8	\$ 50

Gross Domestic Product (GDP)

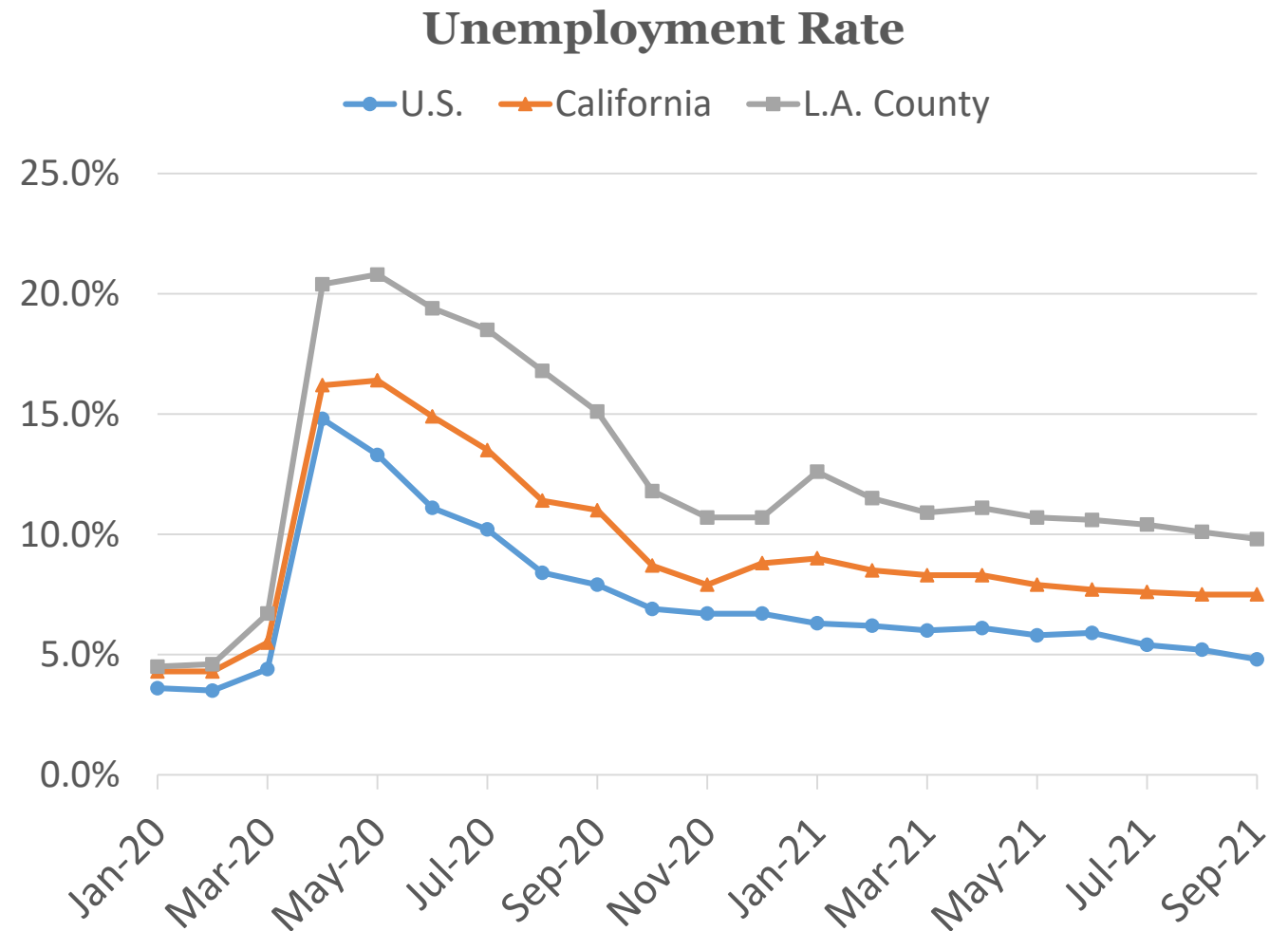
- ▶ GDP reflects the value of all goods and services produced by an economy in a given year.
- ▶ Global economy is experiencing a supply chain crunch, which will last into 2022.
- ▶ Inflation continues to be on the rise with gas prices topping the \$4.70 mark and SSA grants 5.9% COLA

Gross Domestic Product
(\$ in Billions)



Labor Market

- ▶ As of September 2021, the U.S. unemployment rate was 4.8%, California was 7.5% and L.A. County was 9.8% respectively.
- ▶ Since peak of pandemic 17.4 million jobs added back by Sept 2021.
- ▶ This laggard indicator highlights improvements in substantial resumption of economic activity that was curtailed in an effort to contain the pandemic. However, LA County is behind national trends.



Labor Market

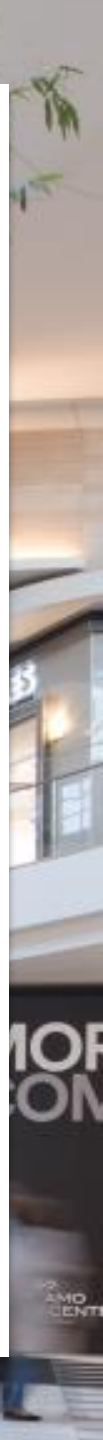
Local Unemployment Rate Trends

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

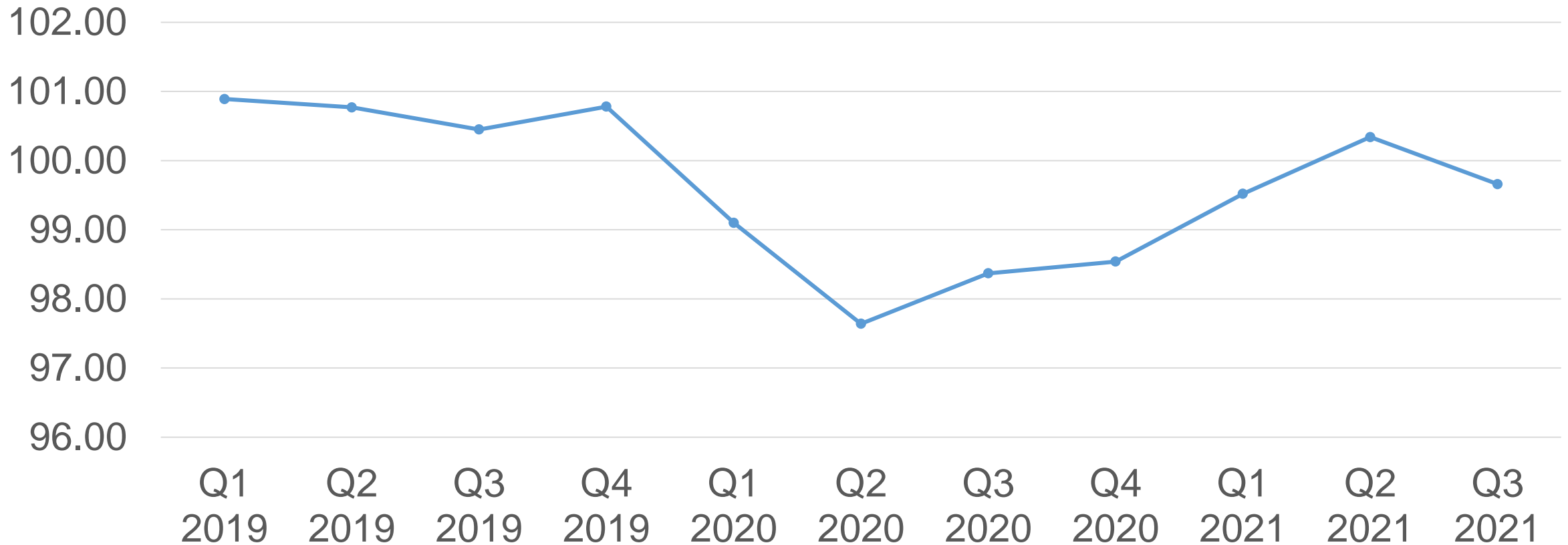


Consumer Spending

- ▶ Consumer demand is a critical engine of the U.S. and local economy.
- ▶ Consumer confidence has been extremely volatile since the pandemic.



Consumer Confidence Index



Consumer confidence returned to 100.34 as of Q2 2021, its highest level since the pandemic, though this figured dropped in Q3 2021 to 99.6.



Consumer Spending

- ▶ California's overall economy is rebounding positively, though we are cautious on the sustainability of this recovery with much of these increases the result of pent up demand from the COVID-19 pandemic's shutdowns.
- ▶ New COVID-19 strains, such as Delta and Omicron, continue to create uncertainty in the overall recovery leaving future years a bit unclear.

Program Modifications

City Manager

Convert 1.0 Operations Assistant to 1.0 TCTV Supervisor - \$10,176

- ▶ The current position oversees the public access function in the Cable Division of the City Manager's Office and corresponding staff, which include Production Assistants, Interns and an Administrative Assistant.
- ▶ Additional responsibilities include conducting workshops, providing engineering support, working closely with the community, and daily oversight of functions of public access television.
- ▶ This position has evolved over the years and responsibilities have increased, with duties being performed in this area in line with coordinators/supervisors.
- ▶ This position is similar in scope and responsibility to the current CATV Production Supervisor, which served as the basis for this proposed budget change.

Program Modifications

Community Services

Reinstate Administrative Assistant (offset by non-wage reduction) - \$0

- ▶ This position is proposed for reinstatement in the Library Services Division of the Community Services Department.
- ▶ Staff have identified further non-wage reductions that will allow for this needed position to be reinstated and keep it budget neutral.
 - ▶ The city implemented a floating collection in the fall of 2021, which will generate recurring savings since the Department will no longer need to purchase multiple copies of the same items for each branch.
 - ▶ Additional savings is projected on electronic and digital resources as the State Library will provide, including learning databases and Press Reader digital magazines

Program Modifications

Finance

Convert 2.0 Intern to 1.0 Administrative Assistant – (\$7,374)

- ▶ This is a proposal to eliminate 2.0 Intern positions currently budgeted in the Finance Department's General Fund and convert these vacant positions to a 1.0 Administrative Assistant in the Risk Management Division funded by Self-Insurance.
 - ▶ Saves \$87,606 in General Fund, Costs \$80,232 in Self-Insurance
- ▶ The proposed position plays an important role in the workers compensation benefits administration process including the following functions:
 - ▶ Scan and index medical, legal and other documents
 - ▶ File and serve legal correspondence
 - ▶ Prepare and send workers compensation benefit notices
 - ▶ Respond to phone calls and inquiries from medical and legal offices

Program Modifications

Fire

Convert 1.0 Fire Prevention Specialist to Senior Fire Prevention Specialist - \$1,732

- ▶ In October 2017, the final CalARP Program 4 regulations were adopted aimed to improve public and worker safety through enhanced oversight of refineries, and to strengthen emergency preparedness in anticipation of any future incident.
- ▶ Torrance Fire Department is the local government agency responsible for providing regulatory oversight of the Torrance Refining Company and ensure CalARP P4 regulation are followed.
- ▶ In order to meet the regulatory impact affecting the City, the Fire Department seeks to upgrade this position. This position will have responsibility of regulatory oversight of the Cal ARP Program 4. It is estimated 75% of this position's time will be working directly with the refinery to maintain compliance.

Program Modifications

Fire

Delete 1.0 Admin Assistant and Upgrade Senior Admin Analyst to Policy & Resources Specialist – \$0

- ▶ Torrance Fire Department has evolved considerably over the years with rescue and medical emergencies representing 72% of the department's responses.
- ▶ In response to this growth, the Sr. Administrative Analyst position has carried increase levels of responsibility, including:
 - ▶ Budget preparation including capital planning and revenue/expenditure forecasts
 - ▶ Management reports and analyses
 - ▶ Complex response time and performance analyses
 - ▶ Cost studies and estimates
 - ▶ Legislative tracking
 - ▶ Grant application and management

Program Modifications

Transit

Convert 1.0 Human Resources Analyst to HR Sr. Management Associate - \$31,408

- ▶ The Transit Department is seeking to upgrade this vacant position to more actively engage in the recruitment and selection process, an increase in scope of responsibility from the prior role. These duties have been covered by the Transit Services Manager at this time.
- ▶ The Transit Department's operations continue to expand with the Regional Transit Center opening in 2022 along with the Department taking over routes and expanding overall service, prompting expanded recruitment and selection efforts.
- ▶ This will allow the Transit Services Manager, hired to oversee the daily operations of the RTC to focus on those functions and reduce focus on recruitment efforts.

INVESTMENT PORTFOLIO REPORT

December 7, 2021



Investment Portfolio Report

- ▶ Portfolio Objective
- ▶ Portfolio Performance
- ▶ Compliance
- ▶ Market Summary
- ▶ Wrap Up



The background of the slide is a blurred image of a financial trading terminal. It features multiple windows: a top window with a table of market data for EURUSD, a middle window with a line chart for EURUSD, a bottom-left window with a candlestick chart for Gold spot, and a bottom-right window with a quote list. The interface includes various UI elements like search bars, alert buttons, and settings menus.

Portfolio Objective

The City's investment objectives are the following:

- ▶ First, to provide safety of principal to ensure preservation of capital in the overall portfolio;
- ▶ Second, to provide sufficient liquidity to meet all operating requirements;
- ▶ Third, to earn a commensurate rate of return consistent with the constraints imposed by the safety and liquidity objectives.

Portfolio Performance Quarter-Over-Quarter Analysis

	<u>Sep-20</u>	<u>Sep-21</u>
▶ Total Funds	\$110.2M	\$122.1M
▶ Cash in Bank	\$8.0M	\$8.2M
▶ Investments per Portfolio	\$102.2M	\$113.9M
▶ Yield	1.519%	0.890%
▶ Effective Rate of Return (YTD)	1.610%	0.870%
▶ Interest Earnings (YTD)	\$436.5k	\$272.1k
▶ Days to Maturity	1.2 Years	1.0 Years

Investment Policy Compliance

September 30, 2021

Securities:	<u>% Portfolio</u>	<u>% Permitted</u>
■ Treasuries	9.9	100.0
■ Agencies	12.8	75.0
■ Medium Term Notes	11.6	30.0
■ Muni Bonds	0.5	10.0
■ Negotiable CD's	8.8	30.0
■ LAIF	63.5M	(75 mil per account)
■ Money Market	0.7	100.0

Investment Liquidity Compliance

September 30, 2021

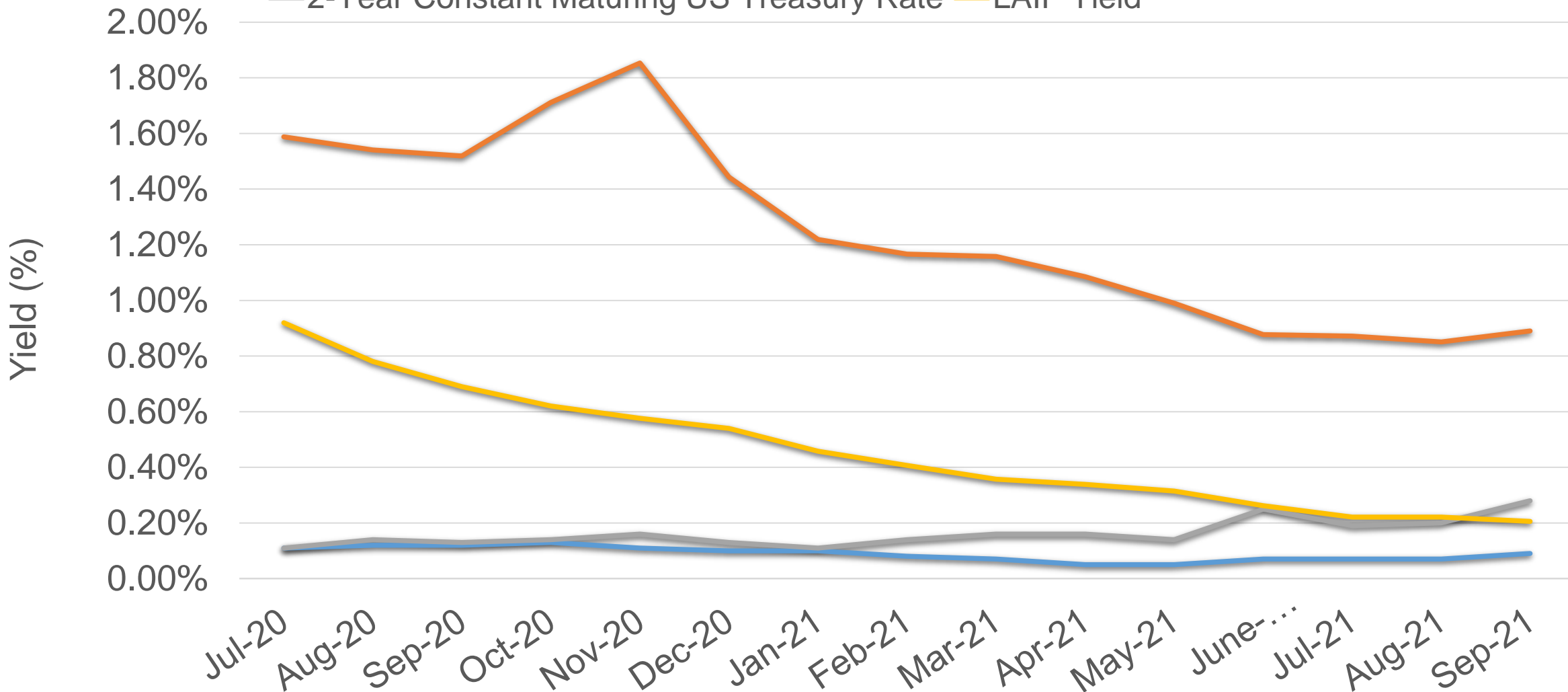
- ▶ The City is in compliance with California Government Code Section 53646 which requires local agency to report its ability to meet pooled expenditure requirements for the next six (6) months.
- ▶ Over the next 6 months, cash, cash equivalents (LAIF) and inflows including maturities exceed cash outflows by \$75.7M.

Cash Activity/Balances over next 6 months:

Cash Balance as of September 30, 2021	\$8.2M
LAIF Balance as of September 30, 2021	\$63.4M
Cash Inflows	\$166.4M
Cash Outflows	<u>(\$162.3M)</u>
Net Cash Balance	\$75.7M

City's Yield Comparison

— 1-Year Constant Maturing US Treasury Rate — Portfolio Yield
— 2-Year Constant Maturing US Treasury Rate — LAIF Yield



Market Summary

- ▶ Interest rates trended downward towards first half of calendar year 2021, however, interest rates started to increase in August 2021 through November 2021, until the news came out regarding the new COVID-19 strain Omicron, which creates uncertainty.
- ▶ Federal Reserve projects to keep interest rates low close to zero (currently 0.25%) through the summary of 2022.
- ▶ Interest income projected to be lower through fiscal year 2021-22 due to less funds invested in the City's investment pool and lower market interest rates due to economic uncertainties.

INVESTMENT QUESTIONS & DISCUSSION



Conclusion / Recap

- ▶ 2021 was the year of reopening with widespread vaccination rollouts, easing of restrictions, and schools reopening.
- ▶ While positive revenues are certainly welcomed, there are several **problem areas** that need to be addressed immediately:
 - ▶ Overtime overages **~\$6.75 million**
 - ▶ Significant rise in litigation costs – **additional \$15.8M** contribution to Self Insurance
 - ▶ Fleet Services Fund underfunded, **structural operating deficit**
 - ▶ **Low cash** balances
 - ▶ Significant levels of retirements and **employee departures**

Conclusion

▶ Continued state of uncertainty

- ▶ High demand has created supply chain constraints not experienced before → driving up inflation → constrict spending
- ▶ New variants causing declines to consumer confidence
- ▶ Global economic factors:
 - ▶ Geopolitical pressures;
 - ▶ Stock market volatility;
 - ▶ Housing market slowdown?
- ▶ Litigation exposure and cost of defending City
- ▶ Drought conditions and water consumption reduction measures

Conclusion

- ▶ The Torrance team remains vigilant in monitoring its financial situation and continues to work in partnership to ensure essential services are maintained.
- ▶ Torrance continues to experience economic development:
 - Hannam Grocery Market on Hawthorne in process (Q2 2022)
 - 177 Senior Living Apartments permits to be issued (December 2021)
 - Rivian headquarters to be on California Ave
 - Polypeptide expansion and upgrading of facilities on Maple Ave into the following year
 - Bachem expansion and upgrade to existing facility over the next 3-5 years

Recommendations

1. Accept and file the First Quarter 2021-22 Budget Review Report
2. Increase General Fund Operating Fund revenue budget by **\$7,600,000**
3. Increase General Fund Operating Fund expenditure budget by **\$7,600,000**
4. Approve proposed Program Modifications
 - **City Manager:** Operations Assistant to TCTV Supervisor Conversion
 - **Community Services:** Reinstate Administrative Assistant position
 - **Finance:** Convert 2.0 Intern positions to 1.0 Administrative Assistant position
 - **Fire:** Convert Fire Prevention Specialist to Sr. Fire Prevention Specialist
 - **Fire:** Delete Administrative Assistant position and upgrade Sr. Administrative Analyst to Policy & Resources Specialist
 - **Transit:** Convert 1.0 Human Resources Analyst to 1.0 HR Senior Management Associate

QUESTIONS & DISCUSSION

