

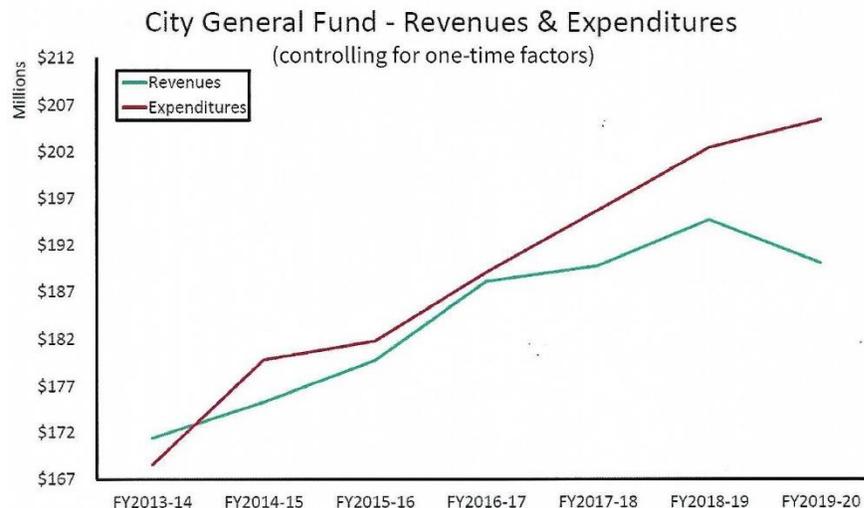
White Paper Torrance's Fiscal Condition and a Path Forward

Torrance's financial condition is in its worst condition in decades. The California State Auditor [determined](#) that Torrance is in the fourth worst financial condition of any City in the State.



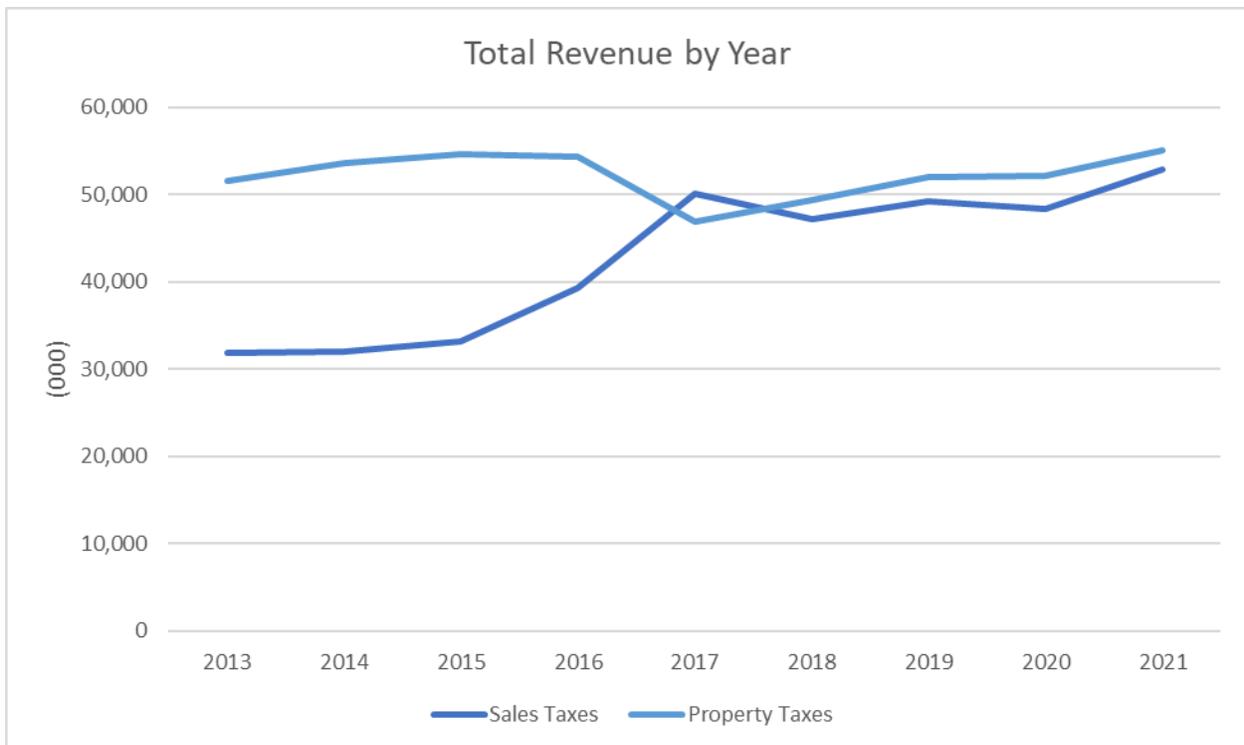
The Problem

- Expenses have exceeded revenues for nearly all years since 2016.



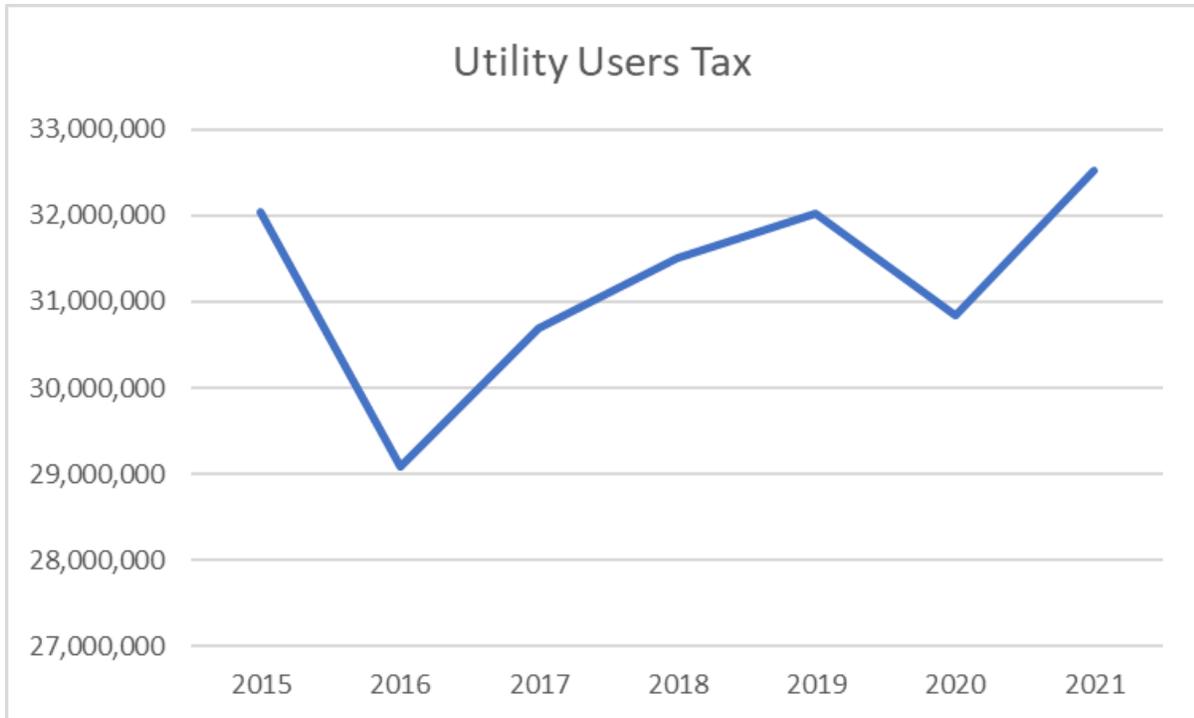
Source: City Mailer: Protecting Torrance's Top Priorities

- Overall, “For the 5-year period preceding FY 2019-20, General Fund operating revenues grew at an average rate of 2.6%, while General Fund operating expenditures grew at an average rate of 3.8% (after controlling for one-time factors).” (Source: Oct. 2021 Council Meeting, Item 9G, p. 1.)
https://torrance.granicus.com/MetaViewer.php?view_id=8&clip_id=13811&meta_id=334001
- More than half of the general fund – which pays for public safety, libraries and parks – is financed by property tax, sales taxes, and utility users tax.
- Property tax has typically been a steady source of revenue, typically growing less than 1% per year.
- Sales tax was the major growth engine for Torrance, due to the mall and car sales but from 2016-17 - 2019-20, and especially during COVID, these sources have been flat or declining. More online shopping means less in person shopping – the City receives less from online sales but \$1 for every \$100 spent at the mall and other retail establishments.



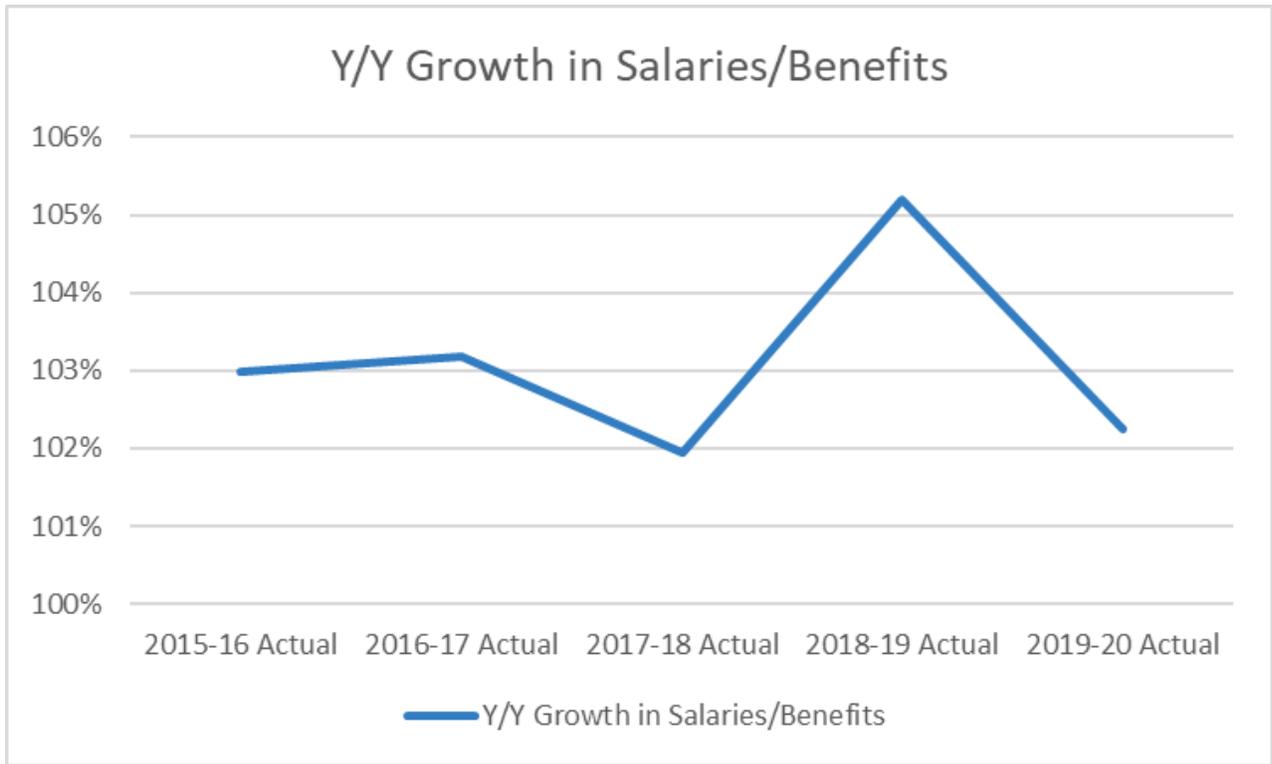
Source: 2020-2021 Annual Report of Financial Condition, p. 154

- As the Torrance business community shifts from heavy industrial to light industrial, technology and service-based firms, the City receives less from utility users tax, which is effectively been flat. In actual dollars, *not* adjusted for inflation, the City collects less from Utility User Tax then it did in 2008 (\$35 million). Source: 2008 Comprehensive Annual Financial Report, p. 28.



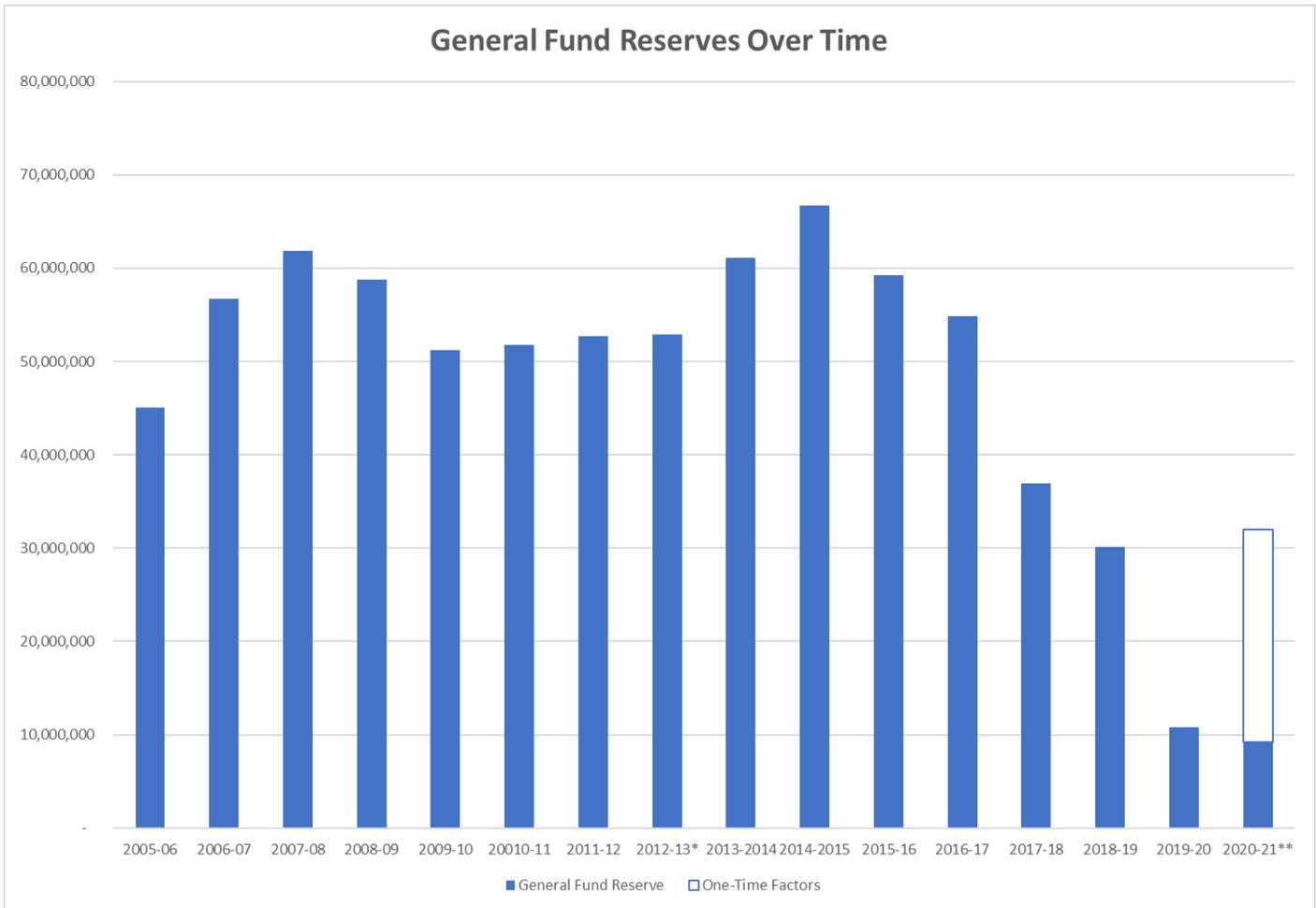
Source: OpenGov

- At the same time, wage and labor expenses for the City have increased on average 3.1%.



Source: OpenGov

- Therefore, the City has had to significantly draw down General Fund reserves, to levels far below the recommended 20% level of approximately \$40 million.



Source: 2014-15 Comprehensive Annual Financial Report, p. 130, 2020-2021 Annual Report of Financial Condition, p. 155.

*Adjustment estimate down (presented amount was \$90.875M reserves) to account for redevelopment fund changes.

**Reserve increased by one-time funds, including \$12 million in federal ARPA funding, \$1.8M CARES grant funding, \$4.2M for closed out capital projects, and \$4.7M for transit funds transferred to general fund due to final payment of land for the Regional Transit Center, as noted on p. 22 of 2020-2021 Annual Report of Financial Condition.

- The City projects continued deficits far into the future.

10-Year Operating Forecast As of June 2021 Note: Figures in millions ('000)

	Adopted Budget			Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2031-32
Revenues	\$ 215.8	\$ 214.4	\$ 221.1	\$ 227.6	\$ 234.3	\$ 240.5	\$ 247.0	\$ 253.6	\$ 260.5	\$ 267.5
Expenses	220.5	222.7	228.4	231.9	232.7	235.3	238.1	241.0	243.3	247.5
Revenues Less Exp	\$ (4.7)	\$ (12.9)	\$ (7.3)	\$ (4.3)	\$ 1.5	\$ 5.2	\$ 8.9	\$ 12.6	\$ 12.1	\$ 20.0
2% Raises			3.3	6.7	10.1	13.7	17.3	21.1	24.8	28.9
Reserve Contr.			3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Net Deficit	\$ (4.7)	\$ (12.9)	\$ (14.1)	\$ (14.6)	\$ (12.1)	\$ (12.0)	\$ (11.9)	\$ (12.0)	\$ (11.1)	\$ (12.3)

Source: 10-12-21 Budget Reductions V2, p 7.

<https://www.torranceca.gov/home/showpublisheddocument/69984/637698010255870000>

- Fundamentally, this requires a realignment of the City’s financial model.

90 Day Plan to Improve Torrance’s Financial Condition

- Accept the challenges to the City’s financial model – and accept that tough and creative decisions must be made to re-frame City finances.
- Embrace a culture of cost reductions, starting with the Mayor and Council.
 - Suspend health insurance for the mayor and councilmembers until the General Fund stabilizes; this could save as much as \$70,000 per year.
 - Suspend the practice of Council meals prior to meetings.
- Work with all parties to reduce expenses.

First 30 Days

- List and prioritize City services with associated costs and relevant key performance indicators. Scrutinize services to ensure they are critical to City

functions (and not provided by other agencies) and are executed with appropriate spans of control.

- Outline detailed table of organization, for all budgeted positions.
- Examine any outsourced costs greater than \$100,000 annually.
- Solicit feedback from all stakeholders, including City team members, to reduce expenses.
- Require Departments to provide recommended reductions, with a premium on reducing costs while minimizing service level reductions. Identify immediate areas of waste or inefficiency.
- Ultimately, develop a zero-based budget, where expenses match revenues.

30 - 60 Days

- Identify paper and manual processes (in particular, duplicate data entry) with the goal of leveraging the City's IT infrastructure and online transactions.
- Assess other Cities, in terms of service levels, expenses, key performance indicators, and staffing associated with the service, paying particularly close attention to comparable agencies, such as Burbank, Glendale and Pasadena.
- Assess comparable City revenue models, determining differences in revenue sources from Torrance.
- Develop revenue enhancement plans focusing on new business attraction, tourism growth and promoting Torrance as a shopping destination. Design action plan with the Chamber to step up actions.
- Assess interaction between general fund and proprietary funds.
- At end of this period, provide initial assessment to Council.

60 - 90 Days

- Council should assess recommendations and vote on specific measures to ensure revenues matches expenses and steps are put in place to improve reserves.
- Developing Key Performance Indicators to ensure ongoing focus for City finances, improved operational outcomes and quality customer service.
- Develop and prioritize project plan for medium to long term process and technology improvements that can decrease expenses or increase revenues.

Position on Sales Tax Measure

Background

- The Council voted on Feb. 15, 2022 to place a measure on the June 7 ballot for voters to vote on a 0.5% use tax.
- Half of the \$50 million in sales tax revenue the city receives come from non-Torrance residents.
- 30% of the proposed use tax would come from non-Torrance residents.
- The measure would provide approximately \$18 million in revenue annually.
- A use tax is a tax on goods (not food or medicine) that are used within the City; consequently, unlike the sales tax, the use tax would not be diminished with online sales – as those funds are guaranteed to return to Torrance.
- Approximately 60% of LA County cities have instituted this tax.
- The ballot measure safeguards the use of local public funds and ensures transparency and accountability through the following measures:
 - Required annual disclosure of public spending
 - Mandatory annual audits
 - Independent citizens' oversight

Position

- I believe the voters should decide this important policy measure, as it will significantly chart the direction of Torrance.
- If elected, I would move forward with the above 90 Day plan – the only difference is that the City would have more time to implement strategic structural cost reductions – rather than haphazardly approached (such as the elimination of community programs) – if the use tax passes. Regardless of whether the sales tax measure passes or not, the City needs to conduct the comprehensive look at its financial condition, as noted above.
- No one likes taxes – but I will be voting for the measure for the following reasons:
 - *Depth of financial challenges.* The City is slated to implement significant cost reductions if the Use Tax does not pass. I believe that I can help lead the City to make the best of the situation – but given how long the financial

challenges have existed, there will likely be very difficult decisions without its passage.

- The City staff have recommended eliminating, as noted below, 50 public safety positions, 42 police and 8 fire positions.

Department Budget Reductions - FTE Changes

Department	FY2020 Budgeted FTE	FY 2021 FTE reductions	2021/2022 Program Mods	FY 2022 FTE reductions	Cumulative Change	% Cumulative Change
Council	7.0	-	-	-	-	0%
City Manager	53.8	(2.7)	2.0	(1.0)	(1.7)	-3%
City Attorney	13.6	-	-	-	-	0%
City Clerk	9.0	(1.0)	-	-	(1.0)	-11%
City Treasurer	2.0	-	-	-	-	0%
Finance	40.5	(2.0)	-	(2.0)	(4.0)	-10%
Comm. Dev.	62.3	(1.0)	-	(0.5)	(5.5)	-9%
CIT	42.0	(1.0)	-	(3.5)	(4.5)	-11%
General Srvc	81.3	(2.5)	-	(1.0)	(5.5)	-7%
Police	352.8	-	(1.8)	(42.0)	(43.8)	-12%
Fire	164.5	-	25.0	(8.0)	17.0	10%*
Public Works	79.2	(6.0)	-	(3.4)	(9.4)	-12%
Comm. Srvc	248.8	(22.8)	3.8	(3.5)	(22.5)	-9%
Total	1,156.8	(43.0)	29.0	(66.9)	(80.9)	-7%

* 18.6% reduction of sworn positions (including conversions to non-sworn) in Police

Source: 10-12-21 Budget Reductions V2, p 12.

<https://www.torranceca.gov/home/showpublisheddocument/69984/637698010255870000>

- *Keep the money in Torrance.* At any time, the County can put another tax measure on the ballot – and the money would be directed to the County, not Torrance. In fact, of the sales tax generated today, 80% of the revenues go to the County and State, according to the City.

Experience/Qualifications to Lead the Plan

- Helped lead the City out of the Great Recession as a Councilman. Actions included making tough decisions to align expenses with revenues; leveraging federal funds to help re-shape City operations; and revamping how City funds were used to provide City services.
- During the Great Recession, advocated that the City seek feedback from staff to reduce costs.

- Continued to maintain and grow reserves at El Camino College, whose current reserves are more than 2 times the City's reserve levels.
- Insisted that El Camino leadership avoid a structural deficit for its post-COVID budget, aligning revenues and expenses.
- At El Camino, advocated and approved a special reserve fund to accommodate the state's constantly changing retirement funding levels.
- As Councilman, approved plans to reduce City's pension obligations.
- In multiple organizations, revamped operations, utilizing IT solutions and lean engineering to solve core business problems.
- Part of the national leadership team at the Red Cross, which reduced annual expenses by \$500 million.
- Directly drove \$100 million in expense reductions, through strategy changes, performance management and improved productivity.
- Professionally, grew revenue by \$200 million over six years, focusing on critical products.
- In business and nonprofit leadership, developed and managed key performance indicators, in operations and customer service, to drive improved results.