

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 6, 2024

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

I hereby transmit the Recommended Fiscal Year 2025 (FY 2025) Budget for the City of Pasadena. The Budget, both Operating and Capital, make possible the many services and amenities provided by the City, which contribute to the high standard of living in Pasadena. The City provides a wide variety of services and programs for virtually every age and lifestyle either directly or through partnerships with local non-profits and others.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

	FY 2023 Actuals	FY 2024 Adopted	FY 2025 Recommended
General Fund	\$304.7	\$323.7	\$340.7
All Funds	\$1,000.9	\$1,240.5	\$1,147.5

Full-Time Equivalent Positions
(including Affiliated Agencies)

	FY 2023 Adopted	FY 2024 Adopted	FY 2025 Recommended
General Fund	1,028.10	1,062.15	1,080.27
All Funds	2,321.36	2,356.23	2,403.38

Pasadena entered the last fiscal year navigating ongoing inflation concerns, normalized operational patterns after COVID-19, and the expectation of a stable economy with slowing growth. Interest rates had increased significantly and there was a general belief that rates were close to peaking.

Looking toward FY 2025, the recommended budget was developed with an expectation that the demand for programs, services, and events will continue, as they do regardless of the economy, and a recognition that the slower growth in revenue and the overall economy is a reality. Interest rates are believed to be at the top for this economic cycle; however, inflation has been stubborn and slower than anticipated in its decline, resulting in a belief that a reduction in interest rates will take longer than initially expected. Revenue growth from the City's two largest General Fund sources, property tax and sales tax, has significantly slowed in comparison

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to the last few years, with projected growth at 3.0% and 2.0% respectively. As identified in the Total Budget Appropriations table, increases to both the General Fund and All Funds data are significant when comparing FY 2024 to FY 2025. For the General Fund, the roughly \$17 million in estimated growth reflects increases in some key areas. Property tax revenue has increased \$3.3 million or 3.0% for FY 2025, significantly less than the \$10.0 million increase realized in FY 2024. While \$2.8 million of the FY 2024 increase was related to Successor Agency tax revenue from the payoff of a pass-through agreement related to the dissolution of the City's former redevelopment commission, the remaining growth was due to new construction and property sales. Real estate sales have slowed significantly in the last year, with the January to March 2024 transaction volume for detached single family residential having its lowest volume since January to March 2008 during the Great Recession. Fortunately, in 2024, the average and median sales price have been far more resilient than 2008. Sales tax growth is a modest \$1.8 million or 2.1% after being flat in the prior year. Utility users tax revenue has increased by \$2.0 million or 18.7%, largely due to higher energy costs and a slightly conservative estimate in the prior year. Lastly, charges for services increased due to increased call volume from the Fire Department for Emergency Medical Services (EMS) and the addition of a sixth rescue ambulance. Altogether this revenue growth provides the capacity to support rising costs across a wide range of expenses categories such as personnel, insurance, and contracts with service providers (detailed further below in "Looking Forward" section).

Excluding the Capital Improvement Program and affiliated agencies, the All-Funds total growth is more significant at \$56.5 million. This figure includes approximately \$8 million in the power utility fund for the increasing costs of purchased power and transmission. The Rent Stabilization Fund will add \$4.9 million to support the new department's first full year of operations. Other notable fund increases include \$3.2 million in rental assistance funding and \$2.0 million in Metro funding to expand Pasadena Transit's bus service.

The Current Economic Climate

The national and global economies continue to face inflationary pressure not seen for several decades. While year-over-year inflation has dropped from the prior year, inflation remains over 3.0% and the Federal Funds Rate remains at 5.25% to 5.5%. In early 2024 it was generally believed there would be several rate cuts during the calendar year, but rate cuts now appear less likely as inflation remains high. Some economists have suggested the Fed may even consider additional rate increases if inflation remains higher than its 2.0% target. Looking back at the April 2023 consensus economic forecast for U.S. quarterly Gross Domestic Product Growth (GDP), the forecast was for negative GDP in the first quarter of FY 2024, flat in the second quarter, and then slow growth of less than one percent for the remainder of the year. Actual GDP for the first three quarters of FY 2024 were 4.9%, 3.4%, and 2.9%, all well above the estimates. Fuel prices are an example of a commodity that realized decreases in 2023 but have risen again in 2024.

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While the City of Pasadena's revenue or tax base is not overly reliant on any one industry, the City is impacted by the fluctuations of large industries. Automobile sales in 2020–2022 were robust, driven by relatively low interest rates and limited supply. Car prices increased significantly due to demand, and it was generally believed that increased interest rates would slow down both new and used car sales. During the second half of 2023 and into 2024, dealership inventory has risen, auto loan access has declined, and demand for electric vehicles has slowed. As of January 2024, year-over-year pricing for non-luxury vehicles declined 2.1%, luxury vehicles prices declined 9.7%, and electric vehicle prices declined 10.8%. The outlook for auto sales is that lower prices, higher dealership incentives, higher interest rates, and lower access to credit will result in lower sales tax receipts. Some improvement could be realized as interest rates come down and as the average age of owned vehicles remains high.

Although the general economy on a state and national level has remained positive based on economic benchmark measurements such as Gross Domestic Product, median home values, and sales tax data, both the state and federal government face significant budgetary obstacles. The State of California is facing a deficit that has been estimated as high as \$73 billion in FY 2025, and the State's two-year financial outlook reflects an ongoing structural deficit. Governor Newsom's January outlook called for delays in funding programs, fund shifts, borrowing, and some program reductions that would impact funding opportunities the City had expected to pursue for grants and capital needs. Fortunately, very little of the State's proposed reductions would impact direct revenue Pasadena receives for its operational programs. The State Legislature and Governor recently announced and passed some bills that are early action items to reduce the deficit and mirror the reduction actions noted above.

The political challenges at the federal level have been more significant. It has been many years since Congress has passed and the President has signed a federal budget into law. Instead, the federal government has been operating on the basis of continuing resolutions that lock funding in at prior year levels. While continuing to receive funding is positive, maintaining funding at prior year levels exacerbated challenges to managing inflationary pressures and increasing costs. With FY 2025 being a Presidential election year, it is unlikely that much if any progress will be made towards adopting a federal budget on time for the next fiscal year.

Looking Forward

The City will be challenged on many fronts in FY 2025 and beyond. Proposition 13 in 1978 was the first significant legislation to limit the City's ability to generate revenue, and limits since then, such as Proposition 62 in 1986 and Proposition 218 in 1996, have further restricted when and how the City can generate revenue and recover costs. When state mandates, such as Senate Bill 1383 that required organic waste collection, impose further city-delivered services necessitating offsetting revenue, the City's financial position is stable but strained. Increasing fees and charges requires detailed work that can take more than a year to develop; however, it is critical to recoup the full cost of services provided whenever possible to avoid diverting

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scarce dollars from other already under-resourced City priorities, such as police, fire, libraries, and parks.

This November voters will consider the "Taxpayer Protection and Government Accountability Act" that would further restrict the City's ability to recover costs and generate revenue. That proposed measure includes vague but demanding requirements for annual cost of service studies for virtually every fee and charge assessed by the City. Many amounts currently assessed as fees would be considered taxes, requiring voter approval. Additionally, fees associated with revenue generation, such as those associated with the operation of the Pasadena Convention Center, Rose Bowl Stadium, and Brookside Golf Course, would also fall under the category of cost recovery only to support the "reasonable cost of providing the service." The workload to comply with these new requirements would be extreme due to the annual fee setting work, determining what a reasonable cost is, and the requirement to regularly place increases on the ballot each election cycle. If the Act is passed, it is reasonable to assume the City would be faced with the difficult decision to cease operating some programs and services. The California Supreme Court has taken up a pre-election challenge to the Act but it is not expected to make its ruling until sometime in the July/August timeframe, leaving significant uncertainty this year's balanced budget is prepared.

Despite the financial pressures on the City, there is tremendous opportunity in the future. The future development of the 710 Stub, working towards the City Council's 2030 policy goal of sourcing 100% of our energy from carbon-free sources, working on development of the recently acquired site at Villa and Lake for affordable housing and other uses, and the exciting changes coming to college football as the Rose Bowl hosts teams from the Big 10 and the College Football Playoffs are all in the works. The recommended budget for FY 2025 also incorporates multi-year labor contracts the City has negotiated with almost all of its labor partners, and the inflationary impacts on contracts and purchases. Continued factors, such as the ongoing hardening of the broader insurance market, have brought additional funding challenges to a tight budget. Additionally, City vendors, both for-profit and non-profits, have begun to express challenges with acquiring required insurance levels or the affordability of required coverage.

Contribution of General Fund to Offset Grants

Positions funded by grants, especially limited-term grants, are classified as limited term with the understanding that the position and program may cease operating when grant funding stops. However, due to demand or service level needs in the City, some programs may be recommended for ongoing funding support. The proposed FY 2025 Operating Budget includes the continuation of several positions and program funding from the General Fund.

- Maintaining a Victim Witness Advocate position in the City Prosecutor's Office that was previously funded by a limited term grant.

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- Funding fractional portions of several Public Health positions related to environmental health and local enforcement requirements where the fractional portion came from grants or outside funding sources.
- Funding ongoing rental of Bethel Church for laundry trailer and office space for programming to support the Black Infant Health and Social and Mental Health services.
- Funding portions of the Pasadena Outreach Response Teams (PORT) where cost increases have exceeded grant and earmark revenues.
- Tree planting and watering to maintain existing annual tree planting and replacements.
- The transfer funding of two Police Officer positions from the Public Safety Augmentation Fund to ensure expenditures do not exceed revenues.

Parking Enforcement

In order to address parking enforcement needs within the City and to reduce turnover of contracted staff, the proposed budget also includes the addition of 4 full-time Parking Enforcement Representatives that will be offset by a reduction in contracted staff services. Developing in-house City parking enforcement staff will improve customer service and reduce error rates in parking enforcement efforts.

Enterprise Risk Management and Employee Wellness

In FY 2024, an Enterprise Risk Management division was established in the City Manager's Office, which is led by the Deputy City Manager. While many of the positions assigned to this division already existed within the City's structure related to workers compensation, safety, ADA accessibility, liability, and insurance, some new positions and other resources are proposed to ensure the division will succeed. Proposed enhancements to the budget include one Senior Office Assistant, one Management Analyst IV, and funding for office space. The addition of two Risk Management staff will provide for general administrative and professional support for all of the functions that have been brought together. Additionally, one Senior Human Resources Analyst has been proposed as an enhancement for the Human Resources Department to initiate a formal Wellness Program for City staff and to provide additional professional level staff support for the Human Resources Benefits Division.

Fire Engineer 40-Hour Position

Also included in the recommended budget is the addition of a 1.0 FTE Fire Engineer-Paramedic to lead the Fire Department's efforts in training, safety, and professional development. This position will report to the Training Division Battalion Chief and will proactively provide training to fire personnel who operate vehicles. This position will focus on reducing the frequency of vehicle accidents, evaluate trends and target high-risk situations, and will quickly implement training to reduce the risk of further accidents. Additionally, this position will serve as part of the recruit training academy cadre, eliminating the need to reassign an existing Fire Engineer to

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each academy. And because the exam and testing process for the Fire Engineer position is challenging and requires not only fire and equipment-based knowledge but also complicated mathematical equations to properly calculate water availability based on pressure and flow rates, this position will also serve as a mentor and trainer in the Training Division to directly help prepare interested firefighters for future promotional opportunities.

Public Health General Fund

Historically, the City's General Fund has not supported Public Health Department operations, but in FY 2024, \$500,000 from the General Fund was budgeted to offset expenses exceeding grant reimbursement limits for technology and facility-related costs. The Health Fund is supported mainly through grants and, to a lesser extent, service fees. Over the last ten years, the City's internal services charges have significantly outpaced indirect cost rate allowances from grant funders, leading to increasing budget shortfalls. The Department continues to strategically seek grant funding to support new programs aligned with local community health priorities (identified through a community participatory process) as detailed in the 2023 Community Health Improvement Plan. New grants bring important resources to the community, but they also increase the amount of internal service charges necessary to support the Department. And with additional growth, there is a lack of sufficient office space in the Public Health Department building. Additionally, the Public Health Department is increasingly tasked with conducting complaint investigations and enforcement duties related to Title 6 and Title 8 of the Pasadena Municipal Code, where there is no revenue source to offset costs. Lastly, the Department continues to use a paper-based health record system and is seeking an electronic health record system to improve efficiency and reduce potential liability, but there is no outside funding available for such an effort. In FY 2025, there is a commitment to review the availability of funding, assess financial needs, and develop a long-term financial plan to ensure the fiscal sustainability of the Public Health Department.

General Fund Outlook

The FY 2025 Recommended Operating budget is balanced from an ongoing revenue versus expenditure perspective. It includes funding some one-time needs, including the purchase of a small tractor for Public Works, Area H tree planting, and new electric vehicles for parking enforcement. As illustrated in the General Fund Five-year Forecast, small deficits are forecast for the remainder of the five-year fiscal outlook due to significant slowing of property tax and sales tax growth, and two consecutive years of investments from CalPERS falling short of their benchmark. While shortfalls in the forecast are not ideal, the amount is manageable. Additionally, there are some positive outlooks on the fiscal horizon, such as increased hotel tax from the AC Hotel scheduled to open in FY 2025, additional property tax growth from large developments under construction, and CalPERS investments trending above their target in FY 2024.

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Finally, the FY 2024 Adopted Operating Budget had included the anticipated use of \$5.0 million of General Fund Operating Reserve due to an expected shortfall of \$5.0 million in the Light and Power Fund transfer to the General Fund. That shortfall was planned to be recouped with a larger transfer of \$23.0 million in FY 2025. Fortunately, the Light and Power Fund finished FY 2023 better than anticipated and can make the full \$18.0 million transfer in FY 2024 and again in FY 2025.

General Fund Five-Year Forecast

	FY 2023	FY 2024	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	Final	Rev. Budget	Forecast	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	0	18,086,075	18,086,075	6,803,101	1,587,157	(382,051)	(3,661,049)	(5,831,290)
Revenues								
Tax Revenues	256,099,426	250,860,100	254,930,304	265,657,100	275,442,388	284,542,670	293,888,284	303,568,090
Other Revenues	46,153,066	58,823,605	58,823,605	54,732,734	56,053,217	57,407,231	58,795,643	60,219,345
Contributions/Svs. From Other Funds	54,527,524	15,190,438	20,190,438	20,140,438	20,140,438	20,140,438	20,140,438	20,140,438
Total Revenues	356,780,016	324,874,143	333,944,347	340,530,272	351,636,043	362,090,339	372,824,365	383,927,873
Expenses								
Personnel	186,024,588	204,966,273	204,966,273	214,778,587	225,493,081	234,312,948	241,929,694	253,055,984
Debt Service	11,426,366	11,692,948	11,692,948	12,318,397	12,323,966	12,317,139	11,290,184	11,288,643
Contributions To Other Funds	18,195,625	25,609,821	25,609,821	14,180,877	14,464,495	14,753,784	15,048,860	15,349,837
Other Expenses	87,921,858	114,997,675	114,997,675	99,468,355	101,323,710	103,985,465	106,725,867	109,547,505
Total Expenses	303,568,437	357,266,717	357,266,717	340,746,216	353,605,251	365,369,337	374,994,605	389,241,969
Operating Income/(Loss)	53,211,579	(32,392,574)	(23,322,370)	(215,944)	(1,969,208)	(3,278,998)	(2,170,240)	(5,314,096)
Ending Amount Available for Appropriations	53,211,579	(14,306,499)	(5,236,295)	6,587,157	(382,050)	(3,661,048)	(5,831,289)	(11,145,385)
Contributions to Capital Projects		(7,137,700)	(7,137,700)					
Reserve for Capital & Other Funds	(33,860,146)	23,247,300	23,247,300	(5,000,000)	-	-	-	-
Reduction/(Contribution) to Policy Reserve	(1,265,358)	5,000,000						
Net Income/(Loss) with Reserve Contribution	18,086,075	6,803,101	10,873,305	1,587,157	(382,050)	(3,661,048)	(5,831,289)	(11,145,385)

General Fund – Fund Balance Summary

	FY 2024
15% Emergency Reserve	\$ 43,952,969
5% Operating Reserve	\$ 14,650,989
Section 115 Trust – Pension	\$ 13,099,495
Section 115 Trust – OPEB	\$ 2,481,744
Total	\$ 74,185,197

As presented with the Capital Improvement Budget, the City has a significant need for ongoing infrastructure investments, including roads, fire stations, the Pasadena Central Library, and the future development of the 710-freeway stub. There is \$5.071 million from the General Fund in the FY 2025 Capital Improvement Budget to fund street resurfacing at minimum levels to maintain pavement condition index levels, Washington Park security improvements, and Jackie Robinson Community Center upgrades. This proposed General Fund allocation to the Capital

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Improvement Budget for these much-needed projects comes from fund balance that exceeded the City's reserve policy requirement.

Conclusion

Under the leadership of the Mayor and City Council and with prudent financial management, the City of Pasadena has successfully addressed the many unique challenges it has recently faced with no reduction in the quality and level of services provided to the community. The City has thrived in many areas and is fortunate not to be in the cost reduction mode facing so many other local governments, but we will need to continue being resourceful and creative in continuing to invest in current services, operations, and infrastructure, while adapting to the future needs of the community. The FY 2025 Recommended Operating Budget furthers the City's mission to deliver exemplary municipal services responsive to our entire community consistent with our history, culture, and unique character.

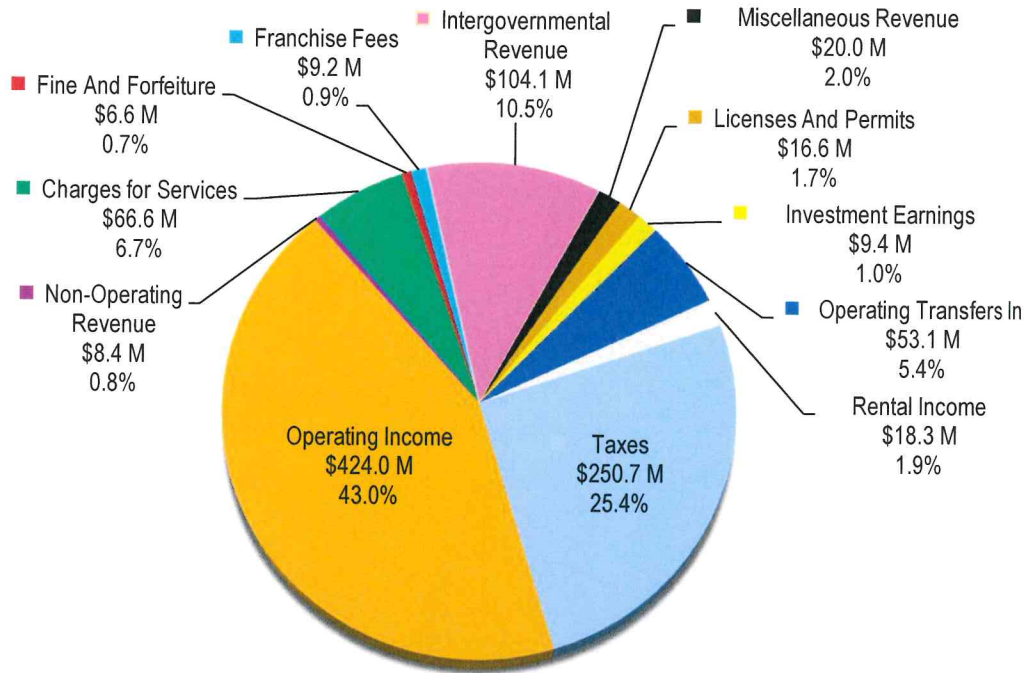
Respectfully submitted,

A handwritten signature in black ink, appearing to read "Miguel Márquez". The signature is fluid and cursive, with a long horizontal stroke at the end.

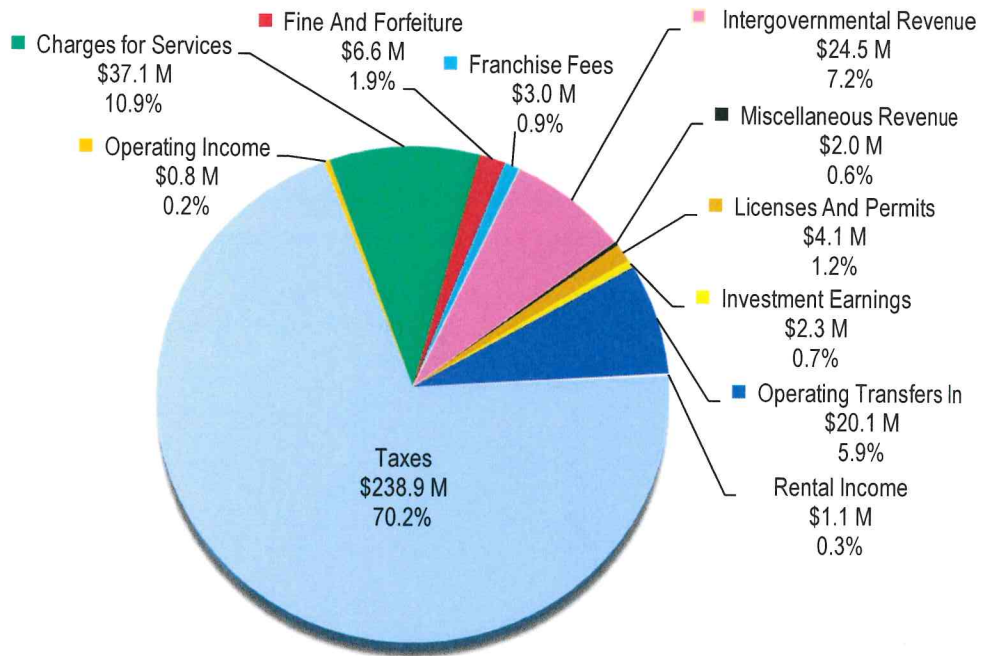
Miguel Márquez
City Manager

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FY 2025 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)

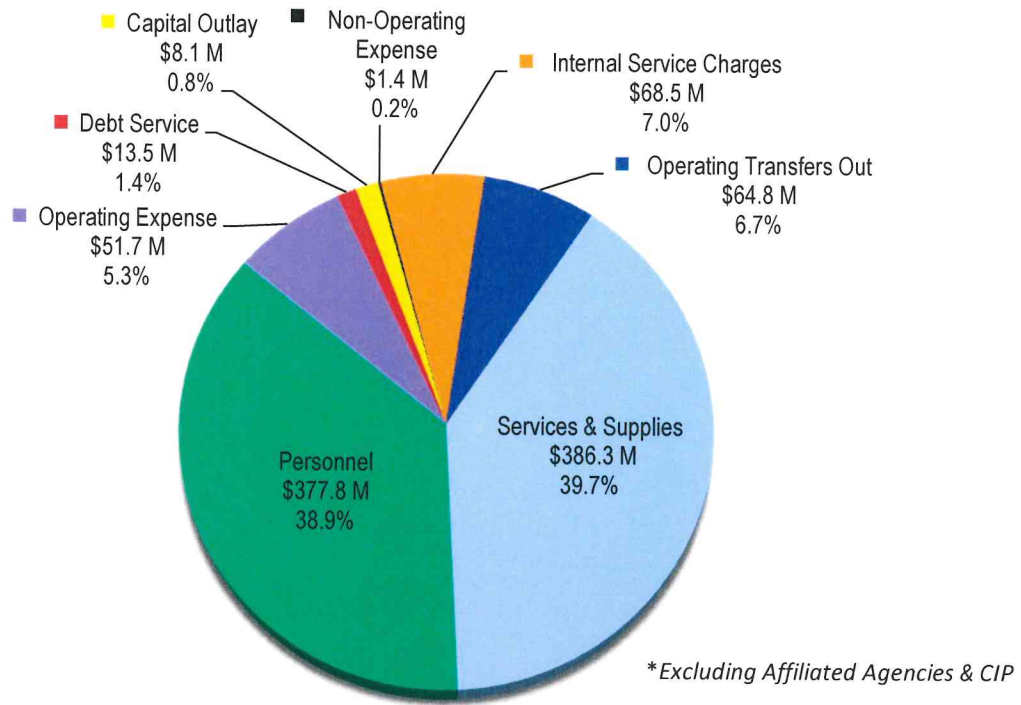


FY 2025 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



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FY 2025 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2025 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)

