

Agenda Report

January 5, 2004

TO: City Council
FROM: City Manager
SUBJECT: BUDGET UPDATE

RECOMMENDATION

No action requested. This item is for information only.

BACKGROUND

The State of California finds itself in a fiscal crisis which is impacting local finances. The largest impact is the possibility of not providing the constitutionally approved local funds from vehicle license fees (VLF). The General Fund would lose approximately \$6 million per year in revenue as a result of this action. Other funds are also in jeopardy, especially library, health and redevelopment funds.

The City Council adopted the City's fiscal year 2004 operating budget in June of 2003. At that time, there existed the possibility of loss revenue due to the State's budget crisis. In response, the City Council added funds to the Stabilization Reserve and then authorized the City Manager to use up to \$4 million in fiscal year 2004 and the remaining \$4 million in fiscal year 2005 to minimize the full impact of any action taken by the State. Since that time, the State has taken several actions briefly described below:

- a. Governor Davis' administration restored the vehicle license fee (VLF) to 2%, with an effective date of October 1, 2003;
- b. The legislature discontinued the VLF backfill, shorting local government one quarter's worth of VLF revenue but promising to pay it in fiscal year 2006. This action reduced City of Pasadena revenues by \$1.3 million for fiscal year 2004;
- c. Governor Gray Davis was recalled and Governor Arnold Schwarzenegger was elected and sworn in;
- d. Governor Schwarzenegger rescinded the VLF increase citing that the fee was inappropriately raised by the previous administration; and
- e. Governor Schwarzenegger instructed the legislature to honor its commitment to fund the VLF backfill from October 1, 2003 through June 30, 2004. When the legislature could not agree on the backfill the Governor declared a financial emergency and approved emergency payments to cities and counties restoring the VLF.

MEETING OF 01/05/2004

AGENDA ITEM NO. 7.B.(1)

Through all of this drama, the State continues to have serious budget problems.

Even without the possibility of the State effecting revenues, the City needs to take steps to controls expenditures as many costs are rising at rates much higher than inflation, including health care, workers' compensation and retirement costs.

With this as a backdrop, staff will present to the Council revised five-year financial plans and begin the discussion regarding the next steps the City will need to take to ensure it maintains its fiscal strength. There will be no specific recommendations made nor action requested of the City Council. Staff will bring back budget amendment recommendations within the next 30 to 45 days, after reviewing the potential cuts discussed during the fiscal year 2004 budget deliberations and holding further meetings with employees and unions.

DISCUSSION

Attached for your review are the following documents:

1. The Five Year Financial Plan reviewed by the Finance Committee and the City Council as part of the fiscal year 2004 budget process. The fiscal year 2003 numbers have been changed to reflect actual operating results for fiscal year 2003.
2. A revised Five Year Financial Plan that incorporates all known changes to the City's budget or financial forecast that have occurred during the first six months of the fiscal year, that includes the VLF that was removed (and is to be repaid in '06 - \$1.3 million), higher PERS rates (approximately \$1.7 million), workers' compensation costs (approximately \$300,000), projected Fire and Police Retirement System supplemental contributions (approximately \$2 million), and negotiated salary increases (approximately \$2.0 million).
3. A revised Five Year Financial Plan that incorporates the items described in point number 2, above, as well as assumes the total loss of the VLF backfill beginning in fiscal year 2005 and the loss of the VLF backfill for VLF funds provided to the Health Fund, also beginning in fiscal year 2005.
4. A copy of the possible budget reductions submitted to the City Council last May. Please note that all items listed under Column "A" have been implemented.
5. A memo describing other funds that may be impacted because of the State's fiscal crisis
6. A memorandum discussing the key factors driving the City's personnel costs.

FISCAL IMPACT

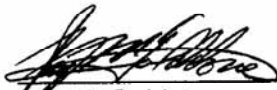
This report is for information only.

Respectfully submitted,



Cynthia J. Kutz
City Manager

Approved by:



Jay M. Goldstone
Director of Finance

Attachments

A	B	C	K	L	N	O	P	Q	R	S	T
General Fund - Financial Plan Recommended Budget											
As of Sept. 16th		FY 2002 Actual	FY 2003 Adopted	FY 2003 Actual	FY 2004 Adopted	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected		
6	Beginning General Fund Balance	16,677,615	9,817,144	11,108,637	8,303,716	6,530,407	803,303	(11,211,803)	(26,841,947)		
7	By Major Revenue Category										
9	Property Taxes	22,881,005	23,854,245	24,150,757	25,013,796	26,603,141	27,450,370	28,321,150	27,591,317		
10	Sales Tax	28,181,761	29,434,000	31,907,048	30,585,000	31,349,625	31,976,618	32,616,150	33,268,473		
11	Utility User Tax	24,747,433	24,323,720	24,142,225	24,147,826	24,558,284	24,975,941	25,400,928	25,833,370		
12	Other Taxes	21,032,676	20,911,752	20,852,354	21,676,847	21,712,609	22,130,587	22,530,925	22,913,769		
13	Licenses & Permits	897,536	869,731	966,514	851,793	856,450	869,287	882,336	895,571		
14	Federal/State Revenues	8,771,385	8,862,017	8,977,856	8,577,994	8,735,059	8,895,195	9,058,461	9,224,918		
15	Local Agencies	143,908	98,500	87,698	98,500	98,228	98,228	98,228	98,228		
16	Charges for Services	5,495,476	5,880,011	6,401,346	6,528,136	6,437,143	6,330,085	6,624,422	6,520,173		
17	Inter-fund Transfers	8,930,370	9,601,852	9,642,663	10,189,730	10,597,319	10,915,238	11,133,543	11,356,214		
18	Fines & Forfeitures	4,378,805	4,546,540	4,120,322	4,842,500	4,902,500	4,963,400	5,025,214	5,087,954		
19	Investment/Interest Earnings	12,322,785	10,436,802	14,166,034	12,877,992	13,185,820	13,593,059	14,007,296	14,440,747		
20	Rental Income	1,234,188	1,499,539	1,045,773	1,154,950	1,048,452	1,052,008	1,055,614	1,069,275		
21	Miscellaneous	722,044	622,521	4,971,376	1,472,000	767,000	767,000	767,000	767,000		
22	Enterprise Contributions	7,815,183	13,286,900	13,592,151	12,288,644	12,288,644	12,288,644	12,155,311	11,188,644		
23	Transfers from Other Funds	1,431,318	2,594,700	1,338,272	3,442,633	924,406	924,406	924,406	924,406		
25	Withdrawal from Reserves (Paseo)	0	0	0	1,939,795	1,633,884	2,125,661	1,225,660	0		
26	Withdrawal from Reserves (FPRS)	0	0	0	3,500,000	4,700,000	6,300,000	2,000,000	2,000,000		
27	TOTAL	148,985,873	166,872,830	166,362,389	169,096,136	170,398,564	175,655,734	173,826,640	173,180,061		
29	By Major Expense Category										
30	Personnel	80,098,294	86,043,617	85,348,348	91,757,218	94,968,721	98,292,626	101,732,868	105,293,518		
33	Services & Supplies	16,832,461	17,354,060	19,394,979	16,874,130	17,636,613	17,555,845	17,906,962	18,285,101		
34	Equipment	876,368	1,057,020	615,074	890,647	917,366	935,714	954,428	973,517		
35	Internal Services	11,370,302	11,986,342	12,935,903	12,128,146	12,370,709	12,741,830	12,996,667	13,256,600		
36	Non Departmental										
37	Reserve for "B" adds FY '03		1,020,898								
38	FPRS Supplemental Contributions	0	0	0	3,500,000	4,700,000	6,300,000	7,300,000	7,300,000		
39	H&D Contribution	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000		
40	RBOC Funding Restoration	2,833,778	0	0	0	0	0	0	0		
41	PCOC	3,895,000	3,746,109	3,962,451	3,944,055	4,030,824	4,119,502	4,210,131	4,302,754		
42	Debt Service	18,634,349	18,730,261	23,912,369	22,332,561	22,785,496	23,093,557	23,174,923	23,373,790		
43	Contributions to Other Funds/Misc	3,075,414	12,187,659	13,016,380	11,292,212	12,238,551	13,304,939	8,980,165	7,892,570		
44	Library Services Fund	7,110,848	7,381,806	7,381,806	7,583,626	8,209,396	9,022,862	10,041,072	11,282,215		
46	TOTAL Non-Departmental	36,349,389	43,866,733	49,073,006	49,452,454	52,764,267	56,640,860	54,506,290	54,951,328		
47	Transfer to Capital Budget	3,733,989	0	0	0	0	0	0	0		
48	TOTAL	149,260,803	160,307,772	167,367,310	171,102,695	178,667,675	186,166,875	188,097,214	192,740,064		
50	Net Income	(274,930)	(3,434,942)	(1,004,921)	(2,006,458)	(8,259,111)	(10,511,141)	(14,270,574)	(19,560,003)		
52	Designated for Reserves (deposit)/withdrawal										
53	Budget Stabilization Reserve		(1,800,000)	(1,800,000)	(2,903,266)	(1,467,992)	(1,503,965)	(1,359,570)	(1,126,591)		
54	General Fund Emergency Reserve				4,000,000	4,000,000					
55	Withdrawal from Stabilization Reserve										
56	TOTAL	0	(1,800,000)	(1,800,000)	233,149	2,632,008	(1,503,965)	(1,359,570)	(1,126,591)		
59	Ending Fund Balance	16,402,685	4,582,202	8,303,716	6,530,407	803,303	(11,211,803)	(26,841,947)	(47,528,540)		

		A	B	C	K	L	N	O	P	Q	R	S	T
		FY 2002 Actual	FY 2003 Adopted	FY 2003 Actual	FY 2004 Adopted	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected				
General Fund - Financial Plan Recommended Budget													
1													
2	FY 06 - Updated Personnel & some S&S	16,677,615	9,817,144	11,108,637	8,440,271	3,763,913	(5,877,445)	(27,502,701)	(51,018,586)				
3	Beginning General Fund Balance												
4													
5													
6													
7													
8	By Major Revenue Category												
9	Property Taxes	22,881,005	23,854,245	24,150,757	25,013,796	26,603,141	27,450,370	28,321,150	27,591,317				
10	Sales Tax	28,181,761	29,434,000	31,907,048	30,585,000	31,349,625	31,976,618	32,616,150	33,268,473				
11	Utility User Tax	24,747,433	24,323,720	24,142,225	24,147,828	24,558,284	24,975,941	25,400,926	25,833,370				
12	Other Taxes	21,032,676	20,911,752	20,852,354	21,676,847	21,712,609	22,130,587	22,530,925	22,913,769				
13	Licenses & Permits	897,536	889,731	966,514	851,793	856,450	869,297	882,336	895,571				
14	Federal/State Revenues	8,771,385	8,882,017	8,977,856	8,577,994	8,735,059	8,895,195	9,058,461	9,224,918				
15	Local Agencies	143,908	98,500	87,698	98,500	98,228	98,228	98,228	98,228				
16	Charges for Services	5,495,476	5,880,011	6,401,346	6,526,136	6,437,143	6,330,085	6,624,422	6,520,173				
17	Inter-fund Transfers	8,930,370	9,601,852	9,642,663	10,189,730	10,597,319	10,915,238	11,133,543	11,356,214				
18	Fines & Forfeitures	4,378,805	4,546,540	4,120,322	4,942,500	4,963,400	5,025,214	5,087,954	5,087,954				
19	Investment/Interest Earnings	12,322,785	10,436,802	14,166,034	12,787,992	13,185,820	13,583,059	14,007,296	14,440,747				
20	Rental Income	1,234,188	1,498,539	1,045,773	1,154,950	1,048,452	1,052,006	1,055,614	1,069,275				
21	Miscellaneous	722,044	622,521	497,137	1,472,000	787,000	787,000	787,000	787,000				
22	Enterprise Contributions	7,815,183	13,296,900	13,592,151	12,288,644	12,288,644	12,288,644	12,155,311	11,188,644				
23	Transfers from Other Funds	1,431,318	2,594,700	1,474,827	3,442,633	924,406	924,406	924,406	924,406				
24	Withdrawal from Reserves (Passes)	0	0	0	1,939,795	1,633,884	2,125,661	1,225,660	0				
25	Withdrawal from Reserves (FPRS)	0	0	0	6,038,106	9,198,558	3,000,000	3,000,000	3,000,000				
26													
27	TOTAL	148,985,873	156,872,830	166,498,944	171,634,242	174,897,122	172,366,734	174,826,640	174,180,061				
28													
29	By Major Expense Category												
30	Personnel	80,088,294	86,043,617	85,348,348	91,757,218	98,977,083	102,441,281	106,026,726	109,737,661				
31	Services & Supplies	16,832,461	17,354,060	19,394,979	16,874,130	17,539,995	17,457,295	17,808,441	18,162,570				
32	Equipment	876,368	1,057,020	615,074	890,647	538,383	549,151	560,134	571,336				
33	Internal Services	11,370,302	11,986,342	12,935,903	12,128,146	12,129,031	12,492,902	12,742,760	12,997,615				
34	Non Departmental												
35	Reserve for "B" adds FY '03		1,020,898										
36	FPRS Supplemental Contributions	0	0	0	6,038,106	9,198,558	11,228,118	12,170,410	11,700,413				
37	H&D Contribution	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000				
38	RBOC Funding Restoration	2,833,778	0	0	0	0	0	0	0				
39	PDOC	3,895,000	3,746,109	3,962,451	3,944,055	4,030,824	4,119,502	4,210,131	4,302,754				
40	Debt Service	18,634,349	18,730,261	23,912,369	22,332,561	22,785,496	23,083,557	23,174,923	23,373,790				
41	Contributions to Other Funds/Misc	3,075,414	12,167,659	13,016,380	11,292,212	12,238,551	13,304,939	8,980,165	7,892,570				
42	Library Services Fund	7,110,848	7,381,806	7,381,806	7,583,626	8,209,396	9,022,862	10,041,072	11,282,215				
43	TOTAL Non-Departmental	36,349,389	43,866,733	49,073,006	51,990,560	57,262,825	61,568,978	59,376,700	59,351,741				
44	Transfer to Capital Budget	3,733,989	0	0	0	0	0	0	0				
45													
46	TOTAL	149,260,803	160,307,772	167,367,310	173,640,701	186,447,317	194,509,606	198,512,760	200,820,923				
47													
48													
49													
50	Net Income	(274,930)	(3,434,942)	(868,366)	(2,006,459)	(11,550,195)	(22,153,872)	(21,686,120)	(26,640,862)				
51													
52	Designated for Reserves (deposit)/withdrawal												
53	Budget Stabilization Reserve		(1,800,000)	(1,800,000)	(2,903,265)	(2,091,464)	(2,174,384)	(1,829,765)	(1,149,889)				
54	General Fund Emergency Reserve				1,300,000	4,000,000	2,700,000						
55	Withdrawal from Stabilization Reserve												
56													
57	TOTAL	0	(1,800,000)	(1,800,000)	(2,669,899)	1,908,936	528,616	(1,929,765)	(1,149,889)				
58													
59	Ending Fund Balance	16,402,685	4,692,202	8,440,271	3,763,913	(5,877,445)	(27,502,701)	(51,018,586)	(78,809,337)				

General Fund - Financial Plan Recommended Budget											
A	B	C	K	L	N	O	P	Q	R	S	T
FY 05 - Updated Personnel & some S&S - worst case scenario		FY 2002 Actual	FY 2003 Adopted	FY 2003 Actual	FY 2004 Adopted	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected	FY 2008 Projected		
6	Beginning General Fund Balance	16,677,615	9,817,144	11,108,637	8,440,271	3,763,913	(11,884,645)	(39,637,245)	(68,403,021)		
7											
8	By Major Revenue Category										
9	Property Taxes	22,881,005	23,854,245	24,150,757	25,013,796	26,603,141	27,450,370	28,321,150	27,591,317		
10	Sales Tax	28,181,761	29,434,000	31,907,048	30,585,000	31,349,625	31,976,618	32,616,150	33,268,473		
11	Utility User Tax	24,747,433	24,323,720	24,142,225	24,147,826	24,558,284	24,975,941	25,400,926	25,833,370		
12	Other Taxes	21,032,676	20,911,752	20,852,354	21,676,847	21,712,609	22,130,587	22,530,925	22,913,769		
13	Licenses & Permits	897,536	869,731	966,514	851,793	856,450	869,297	882,336	895,571		
14	Federal/State Revenues	8,771,385	8,982,017	8,977,856	8,577,994	3,879,859	3,942,891	4,007,110	4,072,541		
15	Local Agencies	143,908	98,500	87,698	98,500	98,228	98,228	98,228	98,228		
16	Charges for Services	5,495,476	5,880,011	6,401,346	6,526,136	6,437,143	6,330,085	6,624,422	6,520,173		
17	Inter-fund Transfers	8,930,370	9,601,852	9,642,663	10,189,730	10,587,319	10,915,238	11,133,543	11,356,214		
18	Fines & Forfeitures	4,378,805	4,546,540	4,120,322	4,842,500	4,963,400	4,963,400	5,025,214	5,087,954		
19	Investment/Interest Earnings	12,322,785	10,436,802	14,166,034	12,787,992	13,185,820	13,593,059	14,007,296	14,440,747		
20	Rental Income	1,234,188	1,498,539	1,045,773	1,154,950	1,048,452	1,052,006	1,055,614	1,069,275		
21	Miscellaneous	722,044	622,521	4,971,376	1,472,000	767,000	767,000	767,000	767,000		
22	Enterprise Contributions	7,815,183	13,296,900	13,592,151	12,288,644	12,288,644	12,288,644	12,155,311	11,188,644		
23	Transfers from Other Funds	1,431,318	2,594,700	1,474,827	3,442,633	924,406	924,406	924,406	924,406		
25	Withdrawal from Reserves (Paseo)	0	0	0	1,939,795	1,633,884	2,125,661	1,225,660	0		
26	Withdrawal from Reserves (FPRS)	0	0	0	6,038,106	9,198,558	3,000,000	3,000,000	3,000,000		
27	TOTAL	148,985,873	156,872,830	166,498,944	171,634,242	170,041,922	167,403,430	169,775,290	169,027,684		
28											
29	By Major Expense Category										
30	Personnel	80,098,294	86,043,617	85,348,348	91,757,218	98,977,083	102,441,281	106,026,726	109,737,661		
33	Services & Supplies	16,832,461	17,354,060	19,394,979	16,874,130	17,539,995	17,457,295	17,808,441	18,162,570		
34	Equipment	876,368	1,057,020	615,074	890,647	538,383	549,151	560,134	571,336		
35	Internal Services	11,370,302	11,986,342	12,935,903	12,128,146	12,129,031	12,492,902	12,742,760	12,997,615		
36	Non Departmental										
37	Reserve for "B" adds FY '03		1,020,898								
38	FPRS Supplemental Contributions	0	0	0	6,038,106	9,198,558	11,228,118	12,170,410	11,700,413		
39	H&D Contribution	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000		
40	RBOC Funding Restoration	2,833,778	0	0	0	0	0	0	0		
41	PCOC	3,895,000	3,746,109	3,962,451	3,944,055	4,030,824	4,119,502	4,210,131	4,302,754		
42	Debt Service	18,634,349	18,730,261	23,912,369	22,332,561	22,785,496	23,093,557	23,174,923	23,373,790		
43	Contributions to Other Funds/Misc	3,075,414	12,187,659	13,016,380	11,292,212	13,305,218	14,392,939	10,089,925	9,024,525		
44	Library Services Fund	7,110,848	7,381,806	7,381,806	7,583,626	8,209,396	9,022,862	10,041,072	11,282,215		
46	TOTAL Non-Departmental	36,349,389	43,866,733	49,073,006	51,990,560	58,329,491	62,656,978	60,486,460	60,483,696		
47	Transfer to Capital Budget	3,733,969	0	0	0	0	0	0	0		
48	TOTAL	149,260,803	160,307,772	167,367,310	173,640,701	187,513,984	195,597,606	197,622,620	201,962,878		
50	Net Income	(274,930)	(3,434,942)	(866,366)	(2,006,459)	(17,472,062)	(28,194,176)	(27,847,230)	(32,925,194)		
51											
52	Designated for Reserves (deposit)/withdrawal										
53	Budget Stabilization Reserve		(1,800,000)	(1,800,000)	(2,903,265)				0		
54	General Fund Emergency Reserve			(1,066,634)	(2,176,497)				(1,918,546)		
55	Withdrawal from Stabilization Reserve			1,300,000	4,000,000				2,700,000		
56											
57	TOTAL	0	(1,800,000)	(1,800,000)	(2,669,899)	1,823,503	441,576	(1,918,546)	(1,155,112)		
58											
59	Ending Fund Balance	16,402,686	4,682,202	8,440,271	3,763,913	(11,884,645)	(39,637,245)	(69,403,021)	(103,483,327)		

FY 2004 - Operating Budget / Recommended Reductions

	Possible Further Reductions					Comments
	A	B	C	D*	E*	
Citywide	30,000					Frequently the City has purchased a booth at various events. This would eliminate General Fund purchase. In some cases, Water & Power Funds might be substituted so the City can still have a presence.
Citywide	43,914					The City will be implementing an automated web-based time and labor management system during 2003-04. This new system is intended to streamline the data-entry process for timecards and provide improved access to labor information for all users. The improved efficiency provided by the system is expected to reduce the need for support positions throughout the City. The dollar reduction represents the elimination of two positions halfway through the year.
Citywide	58,436					Figure represents General Fund portion but all funds would be cut by 1/3.
Citywide	120,000					Require all employees who use City cell phones for non-City use to pay 1/2 of monthly bill.
Citywide	232,662					Although these reductions will reduce departmental resources, it has been determined that they can be made without impacting service levels.
City Manager	243,288					The Assistant City Manager would provide important liaison with the community and the City Manager's Office. Existing staff will continue community involvement to the extent possible.
Finance	15,536					The Finance Department's IT group currently provides support to the Workers' Compensation Section. Accordingly, it is appropriate that some of the cost for the group be charged against the Workers' Compensation Fund.
Finance	71,463					Based on survey early morning and late evening hours are the least used and would be eliminated.
Finance	76,512					The current staffing level in the Budget Office is down by one Budget Analyst from fiscal year 2002. The reduction of this position will put the office down two positions from its prior complement. The lack of staff resources may result in the office performing less analytical work such as revenue analysis, budget to actual variance analysis, analysis of various payroll components and taking more time to complete work.

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

FINAL

		Reductions effective July 1, 2003	Possible Further Reductions					
		A	B	C	D	E*	Comments	
Finance	Eliminate Management Analyst III position in Purchasing	76,512					As a result of internal reorganizations and the application of technology, Purchasing will not need to fill a Management Analyst position which is currently vacant.	
Finance	Fund Safety Office from Workers' Compensation Fund	140,952					The work of the Safety Office has a direct bearing on the City's Workers' Compensation Program and has been merged with the Workers' Compensation Section from an organizational standpoint due to related objectives. Consequently, it is appropriate to charge the related costs to the Workers' Compensation Fund.	
Fire	Fund Senior Plans Examiner in the Fire Department from the Building Services Fund	40,669					Currently 40% of Sr. Plans Examiner is charged to General Fund. It is appropriate that the full-cost of this position be charged to the Building Services Fund.	
Fire	Reclassify vacant Captain II to IT Analyst I. Depending on state impacts the position may be eliminated	53,920	81,665				The Fire Department has determined that the department is in greater need of an IT Analyst than a Captain II. However, should additional reductions be necessary the position would not be filled.	
Human Services	Reduce funding for the domestic violence counseling program and eliminate emergency vouchers.	24,300					Funding for domestic violence counseling and emergency shelter vouchers were added as part of the fiscal year 2003 budget, however, since that time a non-profit service provider has yet to be identified.	
Human Services	Eliminate funding for the Pasadena School Age Partnership	25,000					The City has previously provided a contribution of \$25,000 to match a similar contribution made by PUSD to the Pasadena School Age Partnership. PUSD intends to eliminate its contribution in FY '04.	
Human Services	Reduce Neighborhood Connections mailing from biweekly to monthly and reduce Jackie Robinson Center newsletter from bimonthly to quarterly.	11,775					City will attempt to keep information timely through other means.	
Information Services	Reduce database management & technology support	59,571					New technology is being added in the Library which will reduce the need for certain current levels of database management & technology support. Impacts 1.25 vacant positions.	
Planning & Development	Reclassify Management Analyst IV to Management Analyst III - Filming & Public Events	10,825					As a result of a pending retirement this position has been reviewed and a determination made that a reclassification is appropriate given the expected duties.	
Planning & Development	Administrative costs in Cultural Affairs related to capital will be charged to that fund (1% for the Arts)	50,000					No service cut. Changes funding source.	

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

FINAL

Reductions effective July 1, 2003 Possible Further Reductions

Comments

	A	B	C	D*	E*	
Planning & Development	50,373					Not filling this position will result in a reallocation of workload to the other support staff.
Planning & Development	60,370					Reduction of a Graduate Management Intern position will reduce assistance with administrative functions of the division.
Planning & Development	158,804					The Director of Planning & Permitting was replaced by the Director of Planning & Development. The salary savings from the former have been used to fund various consultant services. The Planning & Development Department will absorb this reduction without seriously affecting current operations.
Police	670,984					The second Neighborhood Action Team has not yet been implemented because of recruiting difficulties, consequently not filling the team would not impact current levels of service, but would prevent the expansion of the program.
Public Works	6,200					Illegal signage will be removed during regular business hours by work crews in their regularly assigned areas.
Public Works	61,806					As this position will be responsible for issuing utility permits related to the implementation of the utility it is appropriate that the Water and Power Fund cover these costs.
Public Works	72,224					Longer periods without lighting raises concern about safety but it is believed to be minimal.
Public Works	96,383					This is a reduction in electric energy costs as a result of W&P rate restructuring to reduce KWPH charges (Jan. 2003).
City Council		6,630				Dates yet to be determined, possibly the final Monday in all months which have 5 or summer break.
Finance			50,000			Eliminating this funding may result in the inability to perform specific internal audits, however, funding for the Internal Auditor position is included in the Recommended Budget.
Human Resources			52,801			As a result of this reduction only required training courses (Sexual Harassment and Discrimination in the Workplace) will be provided. Elective courses will be eliminated.

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

FINAL		Reductions effective July 1, 2003	A	B	C	D	E	Comments
		Possible Further Reductions						
Human Resources	Reduce a filled Management Analyst II in Employment Services Division		66,631					This position is responsible for supporting the Human Relations Commission. This work will be transferred to other staff thereby impacting their workload.
Human Services	Reduce support services at community centers		42,324					This action will reduce support for the Consumer Action program and various special events. In addition telephone and front desk coverage will be impacted.
Human Services	Reduce hours of operation at community centers and staffing for special recreation programs		86,112					Robinson Park would close 3 hours earlier on Saturdays (2 pm). Villa Parke would close an hour earlier (9 pm) Monday -Thursday, 2 hours earlier on Fridays (8 pm) and open one hour later on Saturdays (9 am) and close three hours earlier (2 pm). Victory Park would open 1/2 hour earlier on Saturdays (9 am) and close 2 1/2 hours earlier (2 pm). The Center would be closed all day Sunday as is Villa and Robinson. These hours are the least used by the community.
Information Services	Extend the time period for reshelving books from approximately 24 hours to 26 hours		13,174					Pages are used to reshelve books. This reduction would eliminate one Page position and consequently extend the time it takes to reshelve books.
Information Services	Reduce hours at branch libraries from 56 to 52 per week at LaPintoresca & Hastings and 44 to 40 at all others		125,198					These reductions would target the least used hours at each of the branch libraries.
Planning & Development	Perform five year reviews on Master Plans, Specific Plan implementation review and specialty design studies with in-house staff rather than use consultant services.		94,736					Performing this work with in-house staff will delay other projects. Staff may not have the skill set for some of the specialty studies so they could not be performed. Consequently, the level of detail and analysis on development projects would be effected.
Police	Eliminate one Citizens' Police Academy session per year		12,852					Two sessions are held per year serving a total of 100 people. This reduction would halve the number of people served.
Public Works	Eliminate Phase III of the Park Enhancement Program		283,042					Phase III is the final phase of the Park Enhancement Maintenance program which began in January 2003. Phase III includes the staff and equipment to prune trees and shrubs in the Arroyo on a five year schedule. \$165,000 for brush removal has not been included in this reduction.
Public Works	Eliminate Parkway and Library landscaping projects		22,000					Eliminates special project requests for improvements such as planting additional trees, medians, walkways and flowerbed enhancements.

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

FINAL		Reductions effective July 1, 2003	A	B	C	D*	E*	Comments
		Possible Further Reductions						
Public Works	Reduce the level of the Pesticide Control Program		61,277					
Police	Eliminate Park Safety program		486,816					At present there are two staff assigned to the insect control program. This level of staffing allows for the proactive spraying of trees to prevent the presence of harmful insects. The proposed reduction will shift the program into a reactive mode.
Public Works	Eliminate Phase II of the Park Enhancement Program		247,157					This would eliminate 8 Security Rangers, however, a sworn Sergeant position would be preserved. This reduction would impact the safe and family-friendly environment in City parks and would result in increased calls for service for patrol officers.
Non-departmental	Convert Crossing Guard program to volunteers		155,000					This reduction would reduce the Park Enhancement Maintenance Program back to the Phase I level. Phase I includes: reseeding once per year, aeration three times per year, mowing once per week, fertilizing four times per year, pruning once every three years. Phase II includes increase of aeration to four times per year, weed and pest control being done on a preventative basis, pruning being done annually and sport courts being cleaned once per month.
City Manager	Eliminate Technical Specialist position			54,802				Management of the Crossing Guards was transferred from the City to PUSD sometime ago, however, the City continues to fund the program. Staff believes that a volunteer program could be just as effective at providing safety while eliminating cost.
Finance	Eliminate a filled Accountant position in General Accounting			66,582				This position performs layout and design work for the many communications prepared by the Public Information Office. Eliminating this position would reduce the quality of City communications and the number thereby negatively impacting the City's contact with residents.
Human Services	Eliminate one vacant part-time Program Coordinator I position in Human Services Coordination			34,008				Eliminating this position would delay processing and accounting cycles thereby extending the time necessary to provide financial data to management in support of City operations and reduce effective fiscal management.
Human Services	Eliminate a Staff Assistant III at Villa Parke and downgrade another position			25,216				This reduction would significantly undercut support for projects funded by the Human Services Endowment Fund.

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

		Reductions effective July 1, 2003					Comments
		A	B	C	D	E*	
Information Services	Reduce circulation services support				47,576		This would reduce the level of service provided at the circulation desk. There would be slower return of materials to shelves. The circulation desk will no longer answer incoming service calls from the public during peak times. Patrons wishing to renew books will have to deal with the automated telephone renewal system exclusively.
Public Works	Reduce contract services for streetlight restoration projects				15,000		Reduces the number of streetlight standards tested for structural integrity, sandblasted, & re-painted from 300 per year to 150 per year. Maintaining this service is important to ensure that street lights are safe.
Public Works	Eliminate steam cleaning for sidewalks on North Lake, South Lake & other commercial areas.				12,000		Eliminating steam cleaning would undermine the City's efforts to promote a city that is clean and inviting.
Public Works	Reduce purchase of street litter containers				2,500		Reduces by 50% the number of street containers purchased for replacement and eliminates new containers for placement near schools. Reducing the number of containers is likely to result in additional trash being thrown in the street making neighborhoods less attractive and negatively impacting storm drains.
Public Works	Eliminate use of thermoplastic contractor to reinforce school crosswalk legends, painting, & stencil work				20,000		Eliminating the use of thermoplastic and going back to water-based paint is ultimately less cost-effective since the thermoplastic lasts significantly longer than paint. Moreover, because the thermoplastic wears better safety is enhanced.
Public Works	Reduce number of backup traffic signal controller cabinets and related equipment.				10,000		Maintaining sufficient stock of controls is necessary to ensure that traffic signals that have been knocked down by traffic accidents can be restored to service in a timely manner. If a signal can't be repaired in a timely manner, it increases congestion and risk of additional accidents.
Public Works	Reduce one worker from the customer service telephone line in Street Maintenance & Integrated Waste Management Division				52,865		This reduction would increase significantly the amount of time customers must wait on the phone for service. This could have a negative impact on revenue in the event commercial customers seek improved service by switching from the City to private waste haulers. Also this would impact the City's bulky and abandoned item pickup programs.

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

FY 2004 - Operating Budget / Recommended Reductions

FINAL		Possible Further Reductions					Comments	
		Reductions effective July 1, 2003						
Citywide	Eliminate Commission Food	A	B	C	D*	E*		
					15,000		While we hope to reduce this cost by limiting the number of meals ordered, the timing of evening meetings may make it impossible for Commissioners and staff to have dinner if not provided by the City. The contributions of our Commissioners cannot be measured and the cost of these dinners and snacks is minimal in comparison to the value of their work.	
Human Services	Reduce materials and supplies for direct service programs/centers					60,056	This reduction would reduce the number of youth sports teams, league games and activities; eliminate the purchase of trophies, awards, shirts, balls, and other related items for youth sports programs, and eliminate the use of specialists for youth volleyball, drama, arts, crafts, and other activities.	
Public Works	Eliminate a Public Works Maintenance Worker III and a Public Works Maintenance Worker II in the Street Cleaning program					116,953	Eliminating these positions would reduce alleyway maintenance and litter removal from freeway frontage as well as bus route maintenance and cleanup from once per week to twice per month. These services are important to maintaining quality neighborhoods.	
Public Works	Reduce contract services related to tree maintenance					153,907	This reduction would significantly reduce funding for tree pruning, the care of immature trees and the removal of hazardous/sick trees. Each case represents preventative measures which if not taken can result in significant additional expenditures. Consequently, reducing this funding is not likely to be cost-effective over the long term.	
Citywide - Non-quantifiable	Institute voluntary furlough policy						A number of employees have indicated a desire for a voluntary furlough program. Such programs provide savings, how much is dependent on the structure of the program.	
Citywide - Non-quantifiable	Eliminate the purchase of Personnel Digital Assistants (PDAs)						The City has purchased these devices for some staff members. While their use provides benefits such as electronic calendars, it is more appropriate that these items be considered personal property and purchased by individuals with their own funds.	
Totals		2,562,509	978,542	888,973	355,550	330,918		
Total Columns A & B		3,541,051						
Total Columns A, B & C		4,430,024						
Total Columns A, B, C & D		4,785,574						
Total All Columns		5,116,490						
				Total D & E		686,466		

* D and E possible reductions were identified in response to the possibility of providing funding the Pasadena Learns Program.

MEMORANDUM

**CITY OF PASADENA
Department of Finance**

January 5, 2004

TO: Cynthia J. Kurtz, City Manager

FROM: Jay M. Goldstone, Director of Finance



SUBJECT: Possible Fiscal Impacts to City of Pasadena

While there has been much discussion regarding the fiscal plight of the State of California and the potential impact on the City's General Fund, it should be noted that other City funds are at risk also. Below is a brief discussion based upon the information currently known.

Health Fund

Similar to the General Fund, the State provides a dedicated allocation of Vehicle License Fee revenue to health departments throughout the State. Historically, the Pasadena Health Department receives approximately \$1.6 million annually in VLF revenue. If the State discontinues backfilling this source, the Health Fund stands to lose approximately \$1 million.

Library Fund


Each year there is discussion in Sacramento regarding reducing or eliminating Public Library Funds. For fiscal year 2004, the City budgeted \$73,000 from this source. This source has steadily declined each year with a high of \$271,000 being received in fiscal year 2000. As of this moment, staff is unaware of any proposal to further reduce or eliminate this source; however, fiscal year 2005 is going to be another challenging year for the State and there is no telling what proposals will be suggested this coming year.

Pasadena Community Development Commission

For the past several years, the State has shifted tax increment dollars from local redevelopment agencies into the State's Educational Relief Augmentation Fund (ERAF). This amount totaled over \$900,000 for the Pasadena Community Development Commission during fiscal year 2004 and most likely will continue at some level into fiscal year 2005.

MEMORANDUM**CITY OF PASADENA
Office of the City Manager**

January 5, 2004

TO: Cynthia J. Kurtz, City Manager**FROM:** Jay M. Goldstone, Director of Finance **SUBJECT:** HISTORICAL PERSONNEL COST ANALYSIS**RECOMMENATION**

The following report is for information only, no Council action is requested.

BACKGROUND

As with most organizations, labor related costs for most City departments represent nearly 70% of their annual operating expenses. In January 2003, prior to the submission of the City's operating budget for fiscal year 2004, a report was presented to the City Council outlining several factors, in addition to the state budget crisis, that were putting pressure on the City's financial resources. One of the factors discussed in the report was the escalating growth in personnel-related expenses over the past several years. This issue was raised again during the deliberations on the recommended operating budget. This report has been prepared in order to provide further details concerning specific personnel line items. For the purpose of simplicity this report focuses on the City's General Fund; however, the information applies throughout the organization.

I. What comprises the personnel category of expenses?

The Personnel category includes all City expenses related to salary, benefits and overhead for City employees. In fiscal year 2003 the City's General Fund expended \$85,348,348 in this category, as follows.

Account #	Description	FY03 Expenditure \$
8005	Regular pay for PERS miscellaneous employees	25,224,681
8007	Regular pay for Fire and Police Retirement System (FPRS) members	2,077,835
8008	Regular pay for safety personnel in SPERS	21,387,180
8010	Non Benefit Employees	127,715
8011	Overtime pay	2,653,704
8012	Overtime pay subject to PERS	111,068
8013	Fire and Police post-retirement medical benefit	559,749

Cynthia J. Kurtz – Historical Personnel Cost Analysis
 January 5, 2004 – page 2

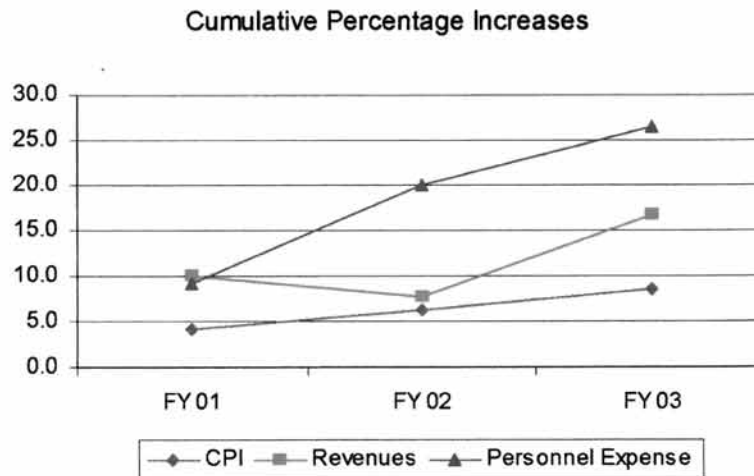
8014	Position coverage for Police and Fire	2,681,717
8015	Holiday schedule pay for FPRS members	52,972
8016	Holiday schedule pay for SPERS members	498,316
8018	Regular pay for part-time employees subject to PARS	1,860,224
8019	Grievance Settlements	662
8020	Management Benefit	2,855
8023	Auto allowance	127,555
8024	Personnel development allowances	176,163
8027	Workers compensation	4,477,700
8031	General liability	826,490
8033	Guaranteed Comp. Time Off	692
8037	Miscellaneous Pay	26,705
8038	Employee portion – PERS	1,765,064
8039	Employee portion – SPERS	2,143,545
8040	City portion – PERS	3,680
8041	City portion – PARS	70,409
8042	City portion – SPERS	577,780
8043	City portion – FPRS	0
8044	Life insurance	47,284
8045	Dental insurance	511,889
8046	Medicare – City portion	561,797
8047	Long term disability	354,936
8048	Childcare Subsidies	1,495
8049	PERS medical – Employee Options Benefit Fund	5,229,375
8050	Benefits (Vacation, Holiday, Sick)	10,893,540
8051	Retirement – FPRS	313,334
8054	Vision Care	162
8055	Health Care Spending	75
Total General Fund Personnel Expenses fiscal year 2003		\$85,348,348

II. How have personnel costs grown over the past few years?

Since fiscal year 2000 the General Fund's personnel-related expenditures have increased approximately \$19 million or 26.5%.

FY00 Actual \$	FY01 Actual	FY02 Actual	FY03 Actual	Total Increase FY00 – 03
66,281,227	72,313,795	80,098,294	85,348,348	–
Increase over prior year	6,032,568 9.1%	7,784,499 10.8%	5,250,054 6.6%	19,067,121 26.5%

Over the same period of time, General Fund revenues have grown 16.7%. This level of expansion is impressive; notwithstanding the fact that it was outpaced by increases in personnel costs, particularly when compared against the change in the consumer price index for the LA-Riverside-Orange County metropolitan area, which increased 8.5% between July 2000 and June 2003.



III. Which areas have driven the increase in personnel costs?

A number of factors have contributed to the increase in personnel costs over the past few years. The more prominent factors include increases in positions, wages, PERS rates, health care, and workers' compensation costs. Based on anecdotal information Pasadena's experience is not markedly different than that of other cities in California, many of which are presently grappling with these same issues.

- **Increases in FTEs**

In fiscal year 2000 the General Fund had approximately 976 full-time equivalents (FTEs). The revised fiscal year 2003 operating budget included 1,068. This total was reduced to 1,063 for fiscal year 2004 as a net result of eliminating several positions, the addition of a few others and the shifting of some to cost centers outside the General Fund. In addition, although they still appear in the total FTEs count, approximately twelve positions were de-funded in order to achieve the desired level of budget reductions for fiscal year 2004, bringing the total funded positions to 1,051. It should be pointed out, however, that in fiscal year 2002, approximately 12.5 FTE's were added to the General Fund when it was determined that on-going work being performed by temporary agency workers was more appropriately performed by regular employees.

The City has been careful about adding new positions, particularly in the General Fund. Where positions have been added it is usually as a result of a clearly identifiable need for expanded services to the community or the ability to generate revenue that fully offsets the cost of the position. The parks safety program in the Police Department, which encompasses 8 FTEs is a good example of expanded community service.

The caution exercised before adding positions is well justified given the associated costs. The following is a rough estimate of the annual cost of an “average” position. Using recent payroll data, the hourly pay rates for all employees were added together and then divided by the number of employees to reach an average hourly figure of \$25.08. Annualized, (i.e., multiplied by the average number of hours a fulltime employee works in a year, 2080 hours) this hourly rate converts to \$52,166. Applying the vacancy factor (a factor used to reduce budgeted salaries to account largely for vacancies) for a typical City department and adding the benefit and burden rates, several of which will be discussed later in this report, the result is a total annual cost of \$61,010. Needless to say, this cost will be higher for certain classifications such as those in public safety and less for others such as clerical support.

Multiplying this rough average of \$61,010 per position by the net number of positions added between fiscal year 2000 and 2004, a total of 75, helps to illustrate the cost of an expanding workforce: $\$61,010 * 75 = \$4,575,750$. This amount is equivalent to 5% of the fiscal year 2004 General Fund personnel budget.

- **Salary Increases**

The City has ten bargaining groups representing in excess of 80% of the City's workforce. In recent years, annual salary increases have generally exceeded increases in the cost of living as measured by the change in the consumer price index (CPI). By way of example, base salaries for Fire Fighters increased 18.6% from October 1999 to October 2002, while the CPI increased 12.6% over essentially the same period. In this particular case, one contributing factor to the rise in salaries is that the memorandum of understanding with the City's Fire Fighters Union calls for the City to maintain the salaries of certain benchmark classifications in the top 25th percentile based on an annual market survey of several predetermined jurisdictions.

Additionally, as base pay increases retirement system costs and several overhead rates also increase, and in the case of safety personnel, increases in ‘special pays’ can have a significant impact on overall expenses.

- **PERS Retirement System Rates**

The majority of City employees are covered by the State of California's Public Employee Retirement System, CalPERS. CalPERS retirement benefits are funded through contributions paid by contracting employers, member contributions, and earnings from CalPERS investments. Employer contribution rates are determined by periodic “actuarial valuations” under State law. The actuarial valuations are based on the benefit formulas an agency provides and the employee groups covered, e.g. there is a different rate for the City's safety personnel (police and fire) and all other employees (designated as ‘miscellaneous’). The required contribution amounts are expressed as a percentage of active member payroll reported to CalPERS.

The City's PERS rate for miscellaneous employees has been 0% for several years. PERS has recently indicated, however, that the rate for fiscal year 2005 will be 2.4% and is projected to increase to 5.3% in fiscal year 2006. This translates to an additional cost of approximately \$820,000 and \$1.8 million, respectively.

The City's PERS rate for public safety personnel was just under 2.5% in fiscal years 2002 and 2003. This resulted in actual expenses of \$522,000 and \$578,000, respectively. The rate increased to slightly over 6% in 2004, which is expected to result in an approximate \$1 million increase in cost to the General Fund. Additionally, the approval of the enhanced retirement benefit of 3% at 55 will increase the rate from 6% to just over 13% around January 1 2004. On an annual basis, this will add approximately \$1.9 million. CalPERS has indicated that the public safety PERS rate will increase to 19.96% for 2005 and 22.7% for 2006. Since the value of a 1% change in rate is equal to about \$280,000, using current salaries, a change from 13% to 19.96% will add approximately \$1.95 million to the General Fund budget. Taken as a whole, the City contribution for safety personnel will rise from just under \$578,000 in fiscal year 2003 to more than \$5.9 million in fiscal 2005.

- **Healthcare Costs**

The growing cost of healthcare has been recognized as a national problem and has been a catalyst in several recent private and public-sector labor disputes. On October 29th the Los Angeles Times reported that LA County expects its healthcare costs to increase 35% over the next few years and expects to pass along some of the increase to its workforce.

The City of Pasadena provides its employees a health allowance, designated as the Employee Options Benefit Fund (EOBF), to purchase medical, dental and insurance benefits. The dollar amount of EOBF varies by employee bargaining group. Current EOBF allowances are as follows:

Bargaining/Unit Group	Annual EOBF \$
AFSCME (American Federation of State, County & Municipal Employees)	6,724
Executives	8,279
IBEW (International Brotherhood of Electrical Workers)	7,500/9,558*
IUOE (International Union of Operating Engineers)	9,299
PACTE (Pasadena Administrative, Clerical & Technical Employees, including non-rep hourly and confidential clerical)	7,658
PMA (Pasadena Management Association)	7,814
SEIU (Service Employees International Union)	6,808/9,470
Unrepresented Management	8,279
PPSA (Pasadena Police Sergeants Association)	5,892
PPOA (Pasadena Police Officers Association)	5,437/8,856
PFFA (Pasadena Fire Fighters Association)	9,199
PFMA (Pasadena Fire Management Association)	9,199

*IBEW's benefit has two tiers: those with dependant coverage and those without.

In recent years, as the cost of health care has risen, the City's bargaining groups have sought increases in the EOBFF allowance. These increases are reflected in the line item designated as PERS medical in the City's budget. The following illustrates the historical trend based on actual expenses and estimated expenses for fiscal year 2004.

FY00 Actual	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Estimated
3,841,706	4,128,850	4,622,450	5,229,375	5,853,466
% increase over prior year	7.50%	11.95%	13.13%	11.93%

A number of the City's labor contracts include a provision whereby the amount of EOBFF automatically rises when plan providers increase rates. To the extent that the City's shift to a new medical insurance plan provider results in lower rates, or rates which escalate at a slower pace, increases to the EOBFF allowances should level-off.

- **Workers Compensation Costs**

The City continues to make every effort to reduce Workers' Compensation costs, however, the current no fault system along with enhanced benefits approved by the state greatly limit the City's ability to control costs. The following table illustrates the dramatic increase in Workers Compensation costs over the past few years:

Fiscal Year	WC payments \$	% increase over prior year	Total Open Claims*
1997	2,807,727		567
1998	3,453,992	23%	576
1999	4,026,879	17%	592
2000	3,607,659	-10%	707
2001	4,797,051	33%	681
2002	5,118,172	7%	727
2003	6,563,503	28%	720

*One employee may have multiple claims