

May 19, 2008

To the Honorable Mayor and City Council Members of the City of Pasadena:

INTRODUCTION

It is my pleasure to submit to you the recommended fiscal year 2009 Operating Budget for the City of Pasadena. The tables below provide a comparison of the budget for the General Fund and all City Funds, as well as a summary of full-time equivalent positions for the City. The information is provided for the adopted fiscal year 2008 budget, the revised fiscal year 2008 budget that reflects budget amendments approved by the City Council, and the recommended fiscal year 2009 budget.

Total Appropriations

	Adopted Fiscal Year 2008	Revised Fiscal Year 2008	Recommended Fiscal Year 2009
Operating Budget			
All Funds	\$561,805,997	\$565,603,649	\$613,192,094
General Fund	\$212,338,420	\$216,453,278	\$230,308,674

Total Full-Time Equivalent Positions

	Adopted Fiscal Year 2008	Revised Fiscal Year 2008	Recommended Fiscal Year 2009
Operating Budget			
All Funds	2,407.245	2,417.245	2,426.045
General Fund	1,087.325	1,091.325	1,098.445

THE FISCAL CLIMATE

After several years of sustained economic growth, the U. S. economy is showing signs of weakness and likely recession exacerbated by the failure of the sub-prime mortgage industry and high oil prices. Events such as these in the broader economy have a direct impact on the City of Pasadena. High fuel costs are driving up the cost of operating the City's fleet of vehicles. Recently a number of City bond issues have been impacted by the reluctance of investors to purchase municipal bonds insured by the monoline insurance companies (Insurance companies that provides guarantees to issuers, often in the form of credit wraps, that enhance the credit of the issuer) tainted by the sub-prime mortgage crisis. The result was a dramatic increase in interest costs most notably on the City's \$135 million Auction Rate Certificates issued for the expansion of the Pasadena Conference Center.

While the disturbance in the bond market was unforeseen until damage was done, once the problem was identified the City quickly evaluated its options and implemented a plan to effectively address the issue; in this case refunding bonds and eliminating interest rate spikes.

The challenges facing the City as it prepares to enter fiscal year 2009, in addition to the downturn in the economy; include once again the potential impact of the State budget, this time particularly on the City's Public Health Department, the need to address a growing gap between General Fund revenues and expenses and perhaps most importantly charting the future course for the City.

The State of California finds itself once more facing a significant budget shortfall. Initial estimates placed the deficit in the range of \$14.5 to \$16 billion. This is less than the record \$34.5 billion deficit of 2004; however, to close that gap the State relied heavily on borrowing, which is less of an option today. California needs to reexamine its entire approach to budgeting; currently there is too much reliance on revenues such as personal income tax receipts that can vary greatly from year to year. Unfortunately, a comprehensive budget overhaul is not likely in the near term and to address the current situation the Governor has ordered immediate across the board reductions of 10% from all State departments and has proposed the same in his recommended budget for next fiscal year.

The Pasadena Public Health Department is a recipient of funding from the State Department of Health. The State Department has indicated that it will pass the current year reductions and any reductions included in next year's budget along to local agencies. For Pasadena this translates to a reduction of \$400,000 in the current year and potentially \$500,000 next year. Compounding the problem, other budgeted revenues are lagging while expenses have not abated. Consequently, the City's Public Health Department is likely to end the current fiscal year in a deficit position with a growing deficit projected thereafter.

In order to maintain these vital services in light of State reductions, the recommended operating budget includes the transfer of \$850,000 of General Fund dollars to the Health

Fund. Pasadena is one of only three cities in California with its own Public Health Department. The Department provides numerous services that are vital to the health and wellbeing of the community including epidemiological investigations and outbreak control for known and suspected cases of communicable diseases; immunizations; prenatal care for at-risk populations and planning/response for bioterrorism and emergencies.

While it appears that the affects of the State budget will be felt mostly by the Public Health Department, there are other real and potential impacts on the City. To improve the State's cash flow, gas tax remittances to local governments for April through August will be delayed until September 2008. For Pasadena this means a delay in receiving just over \$1.1 million. The delay will cost approximately \$11,000 in lost investment earnings, but will not affect the City since it possesses sufficient cash to meet its obligations. The Legislature's Chief Legislative Analyst has offered her own suggestions for closing the deficit, which if enacted would cost the City approximately \$1.75 million in funding for public safety. And, recently there has been talk in Sacramento of invoking provisions of Proposition 1A, which would enable the Legislature to "borrow" up to 8 percent of total local property tax revenue. Traditionally, submittal of the Governor's May Revised Budget signals the beginning of serious budget negotiations and staff will continue to monitor the situation closely, for when it comes to shifting local revenues, the State has proven itself to be quite creative. It may be sometime before the Governor and the Legislature agree on a budget; consequently, the worst impacts may not be felt until next year.

OTHER FACTORS IMPACTING THE BUDGET

In addition to the potential threats from the State, the City faces the challenge of maintaining service levels while controlling operating costs. In recent years the General Fund has enjoyed strong fund balances as illustrated by the following table:

FUND BALANCE (\$ Millions)					
General Fund	FY03	FY04	FY05	FY06	FY07
Reserved	14.88	9.91	7.09	7.07	6.97
Unreserved	35.57	49.39	62.00	72.44	59.52
Total	50.45	59.30	69.09	79.51	66.49

Based on this and other key indicators, Standard & Poor's recently upgraded the City's credit rating to AAA, the highest rating possible.

The General Fund five-year financial plan is the mechanism by which the future health of the City's largest and most important fund is analyzed. By tracking and trending current and anticipated revenues and expenses, the plan provides a tool for the City's policymakers. These projections tend to be conservative and in recent years revenues have generally exceeded budget estimates and actual expenditures have been less than originally anticipated. When the City adopted its Fiscal Year 2008 operating budget, the five-year financial plan projected that there would be a negative gap of approximately

\$12 million between revenues and expenditures for the fiscal year. Recent estimates indicate that by the end of the current fiscal year this gap will narrow considerably to approximately \$4.2 million, but nonetheless represents an operating loss which will necessitate a draw on fund balance to fill the gap. Moreover, given that fiscal year 2007 ended in much the same way, with a gap of approximately \$3.9 million the General Fund is showing signs of a structural deficit.

Unless addressed, operating losses such as these will undermine the financial health of the General Fund and jeopardize the ability of the City to meet the needs of the community over the long term. The time has come for the City to analyze the services it provides and how they are delivered to determine whether these should be maintained or service levels adjusted and, if so, whether they could be delivered more cost-effectively. Undertaking a zero-based budget initiative prior to the submission of the Fiscal Year 2010 Recommended Operating Budget would do much to facilitate this process as would the development of a management audit function capable of performing financial and operational audits. Since it is the City Council that establishes the City's goals and objectives any reassessment of the services provided by the municipal organization would be incomplete without consideration of the Council's goals.

Additionally, the City has a policy of maintaining a cash reserve equal to 8% of appropriations to be used in the event of fiscal emergency. Currently, this reserve totals \$15.9 million, which represents slightly less than the 8% required by policy. To help ensure the long-term stability of the General Fund it is recommended that this reserve be increased to 10%. To achieve this, the reserve established, prior to successful passage of the UUT Continuation Measure (Measure D) this past November, to address the potential loss of Utility Users Tax (UUT) on Telecommunications would be combined into the General Fund cash reserve. The UUT reserve currently totals \$6.2 million. Combining this into the General Fund emergency reserve will, with the addition of \$247,306 bring the reserve to a level of 10% of the Recommended Operating Budget.

SETTING A COURSE FOR THE FUTURE

The Recommended Operating Budget continues to fund programs and initiatives that further the City Council's seven goals, as detailed in Attachment A:

- Assure a Safe and Secure Community
- Foster Economic Prosperity
- Protect and Enhance Neighborhood Vitality and Livability
- Focus on Planning, Programming and Reinvesting in Pasadena's Parks and Open Space
- Maintain and Reinvest in the City's Physical Assets to Assure Their Availability for Future Generations
- Operate an Effective and Cost Efficient Government
- Protect and Enhance Pasadena's Economic, Ethnic and Cultural Diversity

These goals have helped guide the development of the operating budget and set City priorities for a number of years. Much has happened in that period and Pasadena, being a

dynamic community, has undergone change. It is therefore appropriate that the City Council has signaled an interest in holding a retreat later this year to consider the City's goals and future direction. Presently the City Council will also have an opportunity to select a new City Manager to carryout its vision. These activities are well timed as they occur coincidentally with the update of various elements of the City's General Plan. In fact, the seven Principles established by the General Plan are themselves worthy goals which each City department has been asked to consider in formulating budgets requests for fiscal year 2009. The General Plan Principles are:

- Growth will be targeted to serve community needs and enhance the quality of life.
- Change will be harmonized to preserve Pasadena's historic character and environment.
- Economic vitality will be promoted to provide jobs, services, revenues and opportunities.
- Pasadena will be promoted as a healthy family community.
- Pasadena will be a city where people can circulate without cars.
- Pasadena will be promoted as a cultural, scientific, corporate, entertainment and educational center for the region.
- Community participation will be a permanent part of achieving a greater city.

Additionally, as detailed in Attachments B and C the Recommended Operating Budget includes funding for a number of important programs and initiatives that support the City's commitment to children and youth, the Pasadena Unified School District, and protecting our environment.

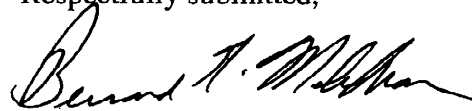
UNFUNDED PRIORITIES

In addition to those priorities funded through the Operating and Capital Budgets, the City has identified a number of important Unfunded Priorities including reinvesting in the City's infrastructure, increasing public safety, developing both active and passive parkland and creating more affordable housing. Further analysis of these potential initiatives is expected to be presented concurrent with the City Council's goal setting workshop.

CONCLUSION

The City of Pasadena continues to be a vibrant, thriving community that will continue to shape its own future through a style of government that promotes citizen participation and proactive management.

Respectfully submitted,



Bernard K. Melekian
City Manager

City Council Goals - Attachment A

Assure a Safe and Secure Community:

Safety is the most important service provided to citizens and visitors. In fiscal year 2008 the City deployed a School Safety Team when financial pressures forced the Pasadena Unified School District (PUSD) to eliminate its police force. The City continues to provide the School Safety Team to ensure a safe and secure environment for learning. In addition, a new position was added to the Police Department to enhance community policing efforts, provide additional protection at City facilities and assure timely responses to calls for service.

Over the next four years the City will begin replacing its fleet of Police helicopters. The first replacement for a ten year old helicopter begins this year. In addition to enabling the Police Air Operations Section to continue to provide aerial patrol, response to emergency calls for service and to monitor day-to-day traffic throughout the City, the new helicopters will be quieter than the older equipment thus enhancing neighborhood livability.

Traffic safety remains a priority and the City continues work on the Neighborhood Traffic Management Program (NTMP). The budget includes funds to study traffic-calming measures on Los Robles/Elizabeth, San Pasqual/El Nido, South Oak Knoll Avenue and South Allen streets. The budget also includes a position to address real-time traffic incident response related to time-based congestion. In addition funds have been included to update the Mobility Element of the General Plan.

The budget includes funding for the Interagency Communications Interoperability System (ICIS). The ICIS is a digital radio system that allows inter-city and inter-agency radio communication between members of the Verdugo Fire System, including Burbank, Glendale, Montebello, Pomona, Beverly Hills and Culver City, plus non-member cities and agencies who use the system including the Red Cross. The capabilities the system provides will allow the City to have a single tactical frequency for communications in daily operations and emergencies.

Foster Economic Prosperity:

The City's economic viability and vitality are crucial to its continued success. As such, the City works to create and maintain an environment which fosters economic prosperity.

The Library through the City's website links citizens to government, educational sites, social services and job information. The website provides specific information pages targeting both the business community and visitors to Pasadena. The Business web page offers specific information on business assistance, economic development and business opportunities with the City. The visitors' page offers a variety of relevant information on city attractions and events. Over four million "virtual" users visit the City's website annually. The budget includes \$200,000 to upgrade and redesign the website.

The City has strong partnerships with Old Pasadena, Playhouse, and South Lake Business Improvement Districts as well as many other neighborhoods serving commercial districts. Marketing and promotion of these districts are key to maintaining prominence as one of the top 20 visitor destinations in Southern California. In fiscal year 2009, in conjunction with the Old Pasadena Management District, funds in the amount of \$1 million are included to facilitate streetscape improvements and upgrades to maintain the sense of place and continue to keep Pasadena a prime shopping, dining and entertainment destination.

Protect and Enhance Neighborhood Vitality and Livability:

The City continues to take action to mitigate climate change and be environmentally sensitive by adopting policies and implementing programs designed around the United Nations Urban Environmental Accords. The City acquired a Gold Leadership in Energy and Environmental Design (LEED) Certification for its renovated City Hall. Other "green" programs and initiatives are listed on Attachment B.

The City will continue to maintain and improve the water system infrastructure through the Capital Improvement Program Budget to ensure the reliability of the distribution system and maintain high quality water through the ongoing implementation of the Water Master Plan. In addition work will commence to upgrade water storage facilities such as the Windsor and Sheldon reservoirs.

Focus on Planning, Programming and Reinvesting in Pasadena's Parks and Open Spaces:

The City's adopted Park Master Plan identifies the need to acquire open space and parkland for recreational uses, and efforts continue to acquire Annandale Canyon for open space.

In fiscal year 2006 the City partnered with the Pasadena Unified School District (PUSD) to provide site improvements at eleven school locations. These sites will provide park amenities for neighborhoods that are not in close proximity to parks. Joint-use agreements allow residents to use these sites during non-school hours. The fiscal year 2009 the budget includes \$19,682 to maintain park amenities at the Linda Vista School site and the 2009-2014 Capital Improvement Program Budget includes \$2.5 million towards the implementation of the Robinson Park Master Plan.

Maintain and reinvest in the City's physical assets to assure their availability for future generations:

In January, 2007 the City adopted sections one through six of the Master Sewer Plan to ensure that the sewer system has the capacity to provide reliable sewer service for current and projected needs. The budget includes an additional crew to inspect the entire sewer system on a 6.6 year frequency. This frequency assumes that an additional 300,000 feet of sewer will be televised annually.

An Asset Maintenance Management System is included in the budget to track service requests, work orders, customer contacts and will include a module that will be used to

manage assets and infrastructure. The system will greatly improve reporting and will integrate with the City's Geographic Information System.

The County of Los Angeles Flood Control District, along with the cities bordering the Arroyo Seco, has been working cooperatively for several years under the Council of Arroyo Seco Agencies (CASA), to look for solutions to water resources and environmental issues in the Arroyo Seco Watershed. In fiscal year 2009 the City will provide the first of two contributions, \$74,267 to participate in a cost sharing agreement to provide funds which will be used for the U.S. Army Corp of Engineers Watershed Feasibility Study.

Operate an Effective and Cost Efficient Government:

The City continually looks for ways to improve the way in which it delivers service in order to reduce costs, increase effectiveness and enhance efficiency.

Funding has been included in the budget for the purchase of a new budget planning system to replace the existing outdated system. This system will include a WEB-based browser environment which does not require software to be loaded on individual computers and therefore would keep the system requirements on departmental computers to a minimum.

Protect and Enhance Pasadena's Economic, Ethnic and Cultural Diversity:

Affordable housing continues to be critical in maintaining Pasadena's quality of life and broad diversity. In fiscal year 2008 the construction of 37 affordable housing units was completed. In addition another 132 affordable housing units were completed, under construction or placed under contract in the Inclusionary Housing program. In fiscal year 2009 the City will once again use Federal and State grants and the Housing Trust Fund to provide homeownership opportunities to approximately 14 low/moderate income first time homebuyers. In addition Housing Trust Funds will be used to rehabilitate 12 or more units within the targeted revitalization area and financial assistance from the Housing Opportunity Fund is included to construct, rehabilitate or covenant 25 or more affordable units.

The City will offer rental subsidies for 1,290 very low income households through the Housing Assistance Program and 55 rental subsidies and supportive services to low income persons with disabilities through the Shelter Plus Care program.

Protecting Our Environment - Attachment B

The City of Pasadena is taking local action to mitigate climate change and be environmentally sensitive by adopting policies and implementing effective programs.

In fiscal year 2008 the City provided funds to purchase 100% green power for the City Hall building and in fiscal year 2009 the budget includes funds to purchase green power for the main library as well as all nine branch libraries. The City Hall building has increased energy efficiency 19% above state standards, reduced water use by more than 40%, utilizes a drip irrigation system and meets the LEED (Leadership in Energy and Environmental Design) green building requirements, achieving a LEED rating of Gold.

Green purchasing policies have been implemented beginning with the purchase of alternative fuel vehicles, paper with higher content recycled matter, "green" light bulbs and janitorial supplies that are free of toxins.

The Public Works Department completed the installation of a Compressed Natural Gas (CNG) station at the City Yards. This station includes 20 CNG time-fill dispensers, five fast-fill dispensers, and a storage area for CNG fuel vessels. The Department also retired seven unleaded fuel vehicles and replaced them with hybrid vehicles. This brings the City's fleet total to 65 alternative fuel vehicles (nine percent of the total number of vehicles) including 31 hybrid vehicles, 11 fully electric vehicles, seven dual fuel vehicles (diesel/CNG) and 16 clean natural gas vehicles. In addition, 108 vehicles or 77 percent of the diesel vehicles use bio-diesel fuel.

To conserve water the City continues to implement Plan I of the Water Shortage Procedures ordinance inviting Pasadenans to pledge to reduce water use by 10% and launched a drought tolerant landscape and irrigation upgrade program for parks, medians and all City facilities and buildings. The City continues to incorporate low-flow design and technology in irrigation projects and convert irrigation systems to operate from weather-based data rather than manually adjusted controls. By promoting water efficiency rebate programs an estimated 15,000,000 gallons of water were saved last year.

The City is committed to reducing waste, reducing the use of disposable and toxic products, and to implementing user-friendly recycling and composting programs. Pasadena's Libraries' overdue notifications are being sent via email, saving postcards and postage. The Public Works Department will continue to host electronic waste collection events (over 182,000 pounds of electronic waste has been collected), recycle green waste accumulated by City crews (85% is currently recycled) converting waste into mulch for ground cover in the City's natural areas, parkways and frontage roads.

A limit on the amount of waste haulers which may operate in the City, to reduce air pollution, road damage, noise pollution, and congestion was implemented. The Big Belly came to Pasadena - these environmentally sound trash compactors run off of solar power, require less service pick-ups and reduce greenhouse gas emissions.

Beginning in fiscal year 2009 a pilot food waste recycling program with area restaurants will be implemented and the recycling requirement for construction and demolition debris projects will increase.

To control adverse impacts caused by natural and man-made environmental factors on human health and well being the City implemented an Integrated Pest Management Plan for all City facilities, ensuring that priority is given to using non-chemical pesticides, educated food retailers on the use of organic food during safe food handling classes offered by the Public Health Department and also incorporated information on organic food into Pasadena Public Health nutritional classes. The next step will be to investigate future projects with Pasadena Unified School District for improving childrens' health by including food free of pesticides and extraneous chemicals.

Pasadena is committed to ensuring the availability of public parks and recreational open spaces for all residents; protecting and preserving wildlife habitats and native species of plants; as well as expanding tree canopy coverage—lots of trees help cool our neighborhoods. The City adopted the Green Space, Recreation & Parks Element and Master Plan to provide for the efficient stewardship of the City's green spaces, recreation facilities and natural resources, implemented projects to restore and protect native habitat for wildlife and provide recreational and interpretative opportunities in the Arroyo in alignment with the principles of the Arroyo Seco Master Plans.

The City reused gravel, rocks, boulders and fill material that would otherwise be disposed of from local construction projects for Arroyo projects, reducing costs, transportation needs, landfill space, and energy.

Over 200 trees were required to be planted when projects reached their final stages of construction and an additional 600 trees were planted citywide.

Children, Youth and Support for PUSD - Attachment C

The City provides millions of dollars in services annually that benefit children, youth and the Pasadena Unified School District. The following highlights a number of these programs and initiatives.

In March 2007 the City adopted the updated Pasadena Policy on Children Youth and Families which addresses six "Strategies for Action": Good Health; Safety and Survival; Economic Well-Being; Social and Emotional Well-Being; Education and Information and Access.

In fiscal year 2008 the City increased funds for the Summer ROSE program to expand from 185 to 237 jobs for youth. In fiscal year 2009 the City will again increase funds for the Summer ROSE program to expand from 237 to 287 jobs for youth moreover, the City is working with the local business community to provide even more summer youth employment opportunities. In addition funds have been included to provide part-time employment for at-risk youth through the Ambassador Program.

The City in partnership with the Pasadena Unified School District (PUSD) continues to provide joint facility use for youth. These sites provide park amenities for neighborhoods that are not in close proximity to parks. Joint -use agreements allow residents to use these sites during non-school hours. For fiscal year 2009 the budget includes \$19,682 to maintain park amenities at the Linda Vista School site.

The three neighborhood parks (Jefferson, La Pintesca and Washington) provided summer recreation programs to approximately 350 children and youth, while working in close cooperation with local neighborhood associations, businesses, and community based organizations to expand and improve positive park use and park facilities.

Funding has been included to increase materials and supplies for the Pasadena Youth Council and for contract services for the Live Homework Help Project coordinated by the Library.

Launched by the Pasadena Public Health Department, the MAP Campaign is a community-wide effort to improve the health of Pasadena. The goal for MAP is for the greater Pasadena area to be a healthy, thriving community that values and promotes overall wellness. The MAP Campaign aims to create opportunities to strengthen wellness throughout the community.

In fiscal year 2008 the City stepped in and deployed a School Safety Team when financial pressures forced the PUSD to eliminate its police force. The City continues to provide the School Safety Team to ensure a safe and secure environment for learning.

Last year the Adaptive Recreation Program served an average of 375 participants per month in dances, arts and crafts, drama, music, sports, field trips and picnics, and new cooperative agreements with other local service providers support expanded opportunities

for horseback riding, comedy club and more. Summer swimming lessons and open swim hours provided aquatic opportunities for 550 children, youth and adults each summer day at five locations Citywide: Blair and Pasadena High Schools, Robinson Park, Villa Parke and CORAL Center.

An average of 1,200 elementary school-age children participated daily in safe, supervised play and homework time at 13 after school sites Citywide last year.

The Career Services Division has consistently achieved a high level of performance in client enrollments, job placement and retention rates, and earnings for program graduates, including the receipt of incentive awards for meeting or exceeding all performance standards as set forth by the U.S. Department of Labor and State of California Employment Development Department (EDD). In 2007, for youth, 84% completed their diploma or equivalency (GED) upon exiting the program, and 59% of youth were successfully placed in jobs.