Agenda Report

TO: CITY COUNCIL DATE: JANUARY 26, 2009
THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: SECOND QUARTER BUDGET UPDATE

RECOMMENDATION:

The following report is for information only; no City Council action is required.

BACKGROUND:

On November 11, 2008 staff reported to the City Council how the current economic downturn, coupled with rising operating costs, was expected to impact the financial condition of the City. An update, based on revenues and expenses through the first four months of the fiscal year, was provided on December 15, 2008.

Recently the Department of Finance completed the accounting for the first half of the fiscal year. Many of the revenue trends identified in the prior reports are continuing, as illustrated by the following chart.

Comparison of General Fund Revenues FY08 to FY09 as of Dec. 31			
	FY08 Actual - thru 2nd Qtr	FY09 Actual - thru 2nd Qtr	Difference
Sales Tax	9,339,083	8,335,521	-10.7%
Transient Occupancy Tax (TOT)	4,539,852	4,085,820	-10.0%
Utility Users Tax (UUT)	12,492,763	15,247,037	22.0%
Construction Tax	3,025,485	1,494,318	-50.6%
Property Tax	15,254,895	16,878,509	10.6%
Other Taxes	7,172,548	7,926,648	10.5%
Subtotal - Tax Revenue	51,824,626	53,967,853	4.1%
All other General Fund Revenue	45,854,835	41,139,909	-10.3%
Total General Fund Revenue	**97,679,461**	**95,107,762**	**-2.6%**

MEETING OF 1/26/2009 AGENDA ITEM NO. 5.B.4.

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Sales Tax and Transient Occupancy Tax, which are both very sensitive to economic conditions, are down 10% from the same period last year. And Construction Tax has been dramatically impacted, down more than 50%. It has long been anticipated that this revenue source would decline over the next few years as building activity slowed, however, the current economic crisis and related credit crunch has accelerated this drop off considerably.

On the positive side, while market values for real estate have been significantly reduced over the past year, assessed values remain strong. As a result Property Tax revenues increased more than 10% over the same period last year. The strongest growth in tax revenues is related to Utility Users Tax (UUT). This category, which covers electricity, water, natural gas, cable TV and telephones, was 22% higher than the same period last year. Some of this increase may be attributable to timing differences in when UUT revenues were posted this year as compared to last, but overall UUT revenue has continued to grow. Differences such as timing aside, total revenues from taxes were up more than $2.1 million (4.1%) as compared to December of last fiscal year.

Nonetheless, the General Fund has hundreds of individual revenue line items many of which are impacted by the recession. Taken as a whole, General Fund revenues are continuing a downward trend as compared to last fiscal year. In December, staff reported that through the first four months of the fiscal year General Fund revenues were down 2.1%. Now, through the first half of the fiscal year they are down 2.6% which translates to roughly $2.5 million. Staff, most notably the City's new Finance Director, is currently analyzing these mid-year results and using trend analysis to estimate the likely outcome for the balance of the fiscal year.

As reported in the prior updates, in order to address this challenge, the City Manager directed all departments to develop managed savings plans. As part of these managed savings plans departments will absorb the impact of salary/benefit increases, and target spending no more than 95% of their adopted budget appropriations. To assist departments in tracking expenditures the monthly budget and expense reports have been modified to indicate how expenses are tracking against the 95% target, and a new report that compares expenses for the same period over the past several fiscal years has been developed.

Since personnel-related expenses account for approximately 78% of departmental expenditures, holding positions vacant is the approach most departments are taking to reach the managed savings goal in the current fiscal year. Reducing funds for contract services, delaying equipment replacement, eliminating travel and asking vendors to reduce billing rates are other efforts currently being employed. While these efforts are expected to help reduce the projected budgetary gap, the problem will not be solved in the current fiscal year and the City will be required to use a portion, potentially in the range of $6 to $10 million of the roughly $30 million General Fund undesignated fund balance this year to balance the budget.

Moreover, the problem will become even more acute for the General Fund in Fiscal Year 2010 as expenses rise most notably in the areas of personnel, where salary/benefits are anticipated to increase roughly $5 million and debt service will increase approximately $7 million based on the amortization of existing debt, for which there is no economic benefit to restructuring. With the economy likely to remain sluggish, these increasing expenses are not likely to be offset by the level of revenue growth that has characterized previous years.

The Fiscal Year 2010 operating budget, which is currently in development, is key to maintaining the fiscal health of the City. And while the focus is mainly on the General Fund this is a citywide issue that involves all departments. Each department is in the process of formulating budget reduction proposals which would bring their FY2010 appropriations to levels equal to 90% of what they are for Fiscal Year 2009. This is more than a 10% reduction, since approved/anticipated salary and benefit adjustments would otherwise increase personnel expenses approximately 4-5% from one year to the next.

The goal is to balance the Fiscal Year 2010 budget with limited impact on service delivery as well as avoid layoffs. This will be a challenge since for most, if not all departments, achieving the targeted level of reduction would involve the elimination of filled positions. Already the Public Health Department has had to release two limited term staff funded through grants that have been significantly reduced or eliminated and that could be reassigned. Eliminating filled positions, particularly during a period of rising unemployment, is not an appealing option and should be avoided if at all possible.

Soliciting input and suggestions from staff, who are often best placed to identify potential efficiencies, is another important approach to the budget. A *budget ideas* e-mail box has been established with each submission reviewed by the City Manager's Office and Department of Finance. Additionally, informal discussions are taking place with represented employee groups/organizations to seek their suggestions and feedback on ways to reduce or defer personnel costs for next year.

Understanding that the budgetary choices facing the City Council this year will be difficult ones, staff intends to submit the operating budget in April, well ahead of the third Monday in May deadline established by the City Charter. This will provide the City Council, meeting jointly with the Finance Committee, more time for deliberations and decision making.

The current economic situation is but one of many challenges facing the City as it seeks to meet the evolving needs of the community. From a fiscal perspective there are other key challenges which are interrelated.

In December, the City made an annual supplemental contribution to the Fire and Police Retirement System (FPRS). At that time it was reported that the System's investment portfolio had been reduced significantly as a result of market losses, and that future supplemental contributions were likely to range into the multimillions of dollars for many years to come. These annual supplemental contributions as well as the debt service on the $140 million in pension obligation bonds issued to support the System comes from the tax increment generated by the Downtown Redevelopment Project Area pursuant to the provisions of Senate Bill SB481.

The Plan Effectiveness Date of the project area is December 29, 2010. However, SB481 has a sunset date of December 31, 2014 and it is unclear as to whether tax increment will be an available source of funding the System after this date. The amortization of the pension bonds includes a mandatory tender of $81 million in the year 2015. The original plan of finance assumed that sufficient tax increment revenues would be available in the pension bond reserve fund to satisfy this obligation at the time. However, due to the size of past and anticipated future supplemental contributions, such funding will not be available and a restructuring of the bonds to extend the payments over future years, where tax increment funding may not be available, will be required. Additionally, the obligation to FPRS continues as long as members are eligible to receive benefit payments. The most recent actuarial analysis of the FPRS projects payments exceeding $10 million and ranging as high as $16 million through the year 2035.

The impact of all this on the General Fund has yet to be determined; however, staff is undertaking the necessary analysis now in order to provide time to formulate an approach prior to the expiration of SB481. Attachment A illustrates the flow of funds based on what is known at this time.

There is a pressing need for reinvestment in City facilities, as illustrated by the long list of projects identified as Unfunded Priorities and Key Projects (Attachment B), which itself excludes the required investments in water and electric (utility) infrastructure highlighted in the respective master plans. The challenge is how to fund these needed improvements during fiscally difficult times. The first order must be to resolve the operating budget deficit. Second, we must ensure that the commitment to members of the Fire and Police System is kept while limiting to the extent possible, the impact on the General Fund. Once these issues are resolved, it is expected that the City would be in a position to issue bonds that will provide for a significant reinvestment in its public facilities and infrastructure. In the meantime staff will continue to pursue various means of funding individual projects including securing grant funds, entering into public-private partnerships, and leveraging City funds to obtain other outside resources.

Summary of funding needs for Unfunded Priorities, Key Projects and Initiatives:

- Parks, Recreation and Community Services - $101 m
- Infrastructure and Facility Improvements - $75 m
- Public Safety - $34 m
- Transportation - $100 m

FISCAL IMPACT:

Based on current estimates it is anticipated that the General Fund will end the current fiscal year with an operating budget deficit somewhere in the range of $6 to $10 million. Staff continues to monitor revenues and expenses in an effort to further refine these estimates.

Respectfully submitted,

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City Manager

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Concurrence:

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Director of Finance

Attachment A - Fire and Police Retirement System Funding

FY	Projected SB481 Tax Increment Revenue To FPRS	Debt Service Payment 99POBs (1)	Debt Serive Payment 2004 POBs(2)	Excess SB481 Funds	Scenario 1 Projected Supplemental Contributions (3)	Projected Reserve Balance	General Fund Obligation
2009	18,300,000	10,333,156	2,500,000	5,466,844	981,689	33,985,155	
2010	18,666,000	10,661,509	2,500,000	5,504,491	4,739,492	34,750,154	
2011	19,039,320	10,994,554	2,500,000	5,544,766	9,516,486	30,778,434	
2012	19,420,106	11,338,106	2,500,000	5,582,000	9,770,485	26,589,949	
2013	19,808,509	11,692,398	2,500,000	5,616,111	10,004,977	22,201,083	
2014	20,204,679	12,054,178	2,500,000	5,650,501	10,217,976	17,633,608	
2015	20,608,772	5,453,714	2,500,000	12,655,058	10,408,343	19,880,323	
2016	0	9,613,326	5,567,000	0	10,575,130	0	5,875,133
2017	0	9,608,788	5,567,000	0	10,717,319	0	25,893,107
2018	0	9,608,098	5,567,000	0	10,834,414	0	26,009,512
2019	0	9,608,689	5,567,000	0	10,926,324	0	26,102,013
2020	0	9,612,997	5,567,000	0	10,416,686	0	25,596,683
2021	0	9,613,090	5,567,000	0	3,273,163	0	18,453,253
2022	0	9,611,401	5,567,000	0	3,509,336	0	18,687,737

(1) $51 million bonds wil be due and payable (mandatory tender) on 5/15/2015. The analysis assumes a refunding of the bonds amortized over 7 years.

(2) Approximately $30 million will be due and payable on the 2004 POBs on 5/15/2015. The analysis assumes a refunding of the bonds over 7 years.

(3) Based on the Actuarial Analysis of The Impact of Adverse Market Conditions on Plan Funding and City Contributions as of 6/30/2008. Scenario 1 is the most optimistic and assumes a negative 15% rate of return for FY2009 and 8% return thereafter.

REVISED ATTACHMENT B

Strategic Investment Program
Conceptual Plan
REVISED Jan 25, 2009

Projects (2010-2015)	Estimated Cost	Current Appropriations	COP	County/State/ Fed	General Fund	Charter Capital Fund	Impact Fees/Other City Funds	Pub/Private Partnership	Unfunded
			Anticipated Source of Funding (Estimated Revenue)						
Parks, Recreation and Community Services									
Allendale Park	1,300,000		1,300,000						0
Annandale Canyon Estates Acquisition for Open Space	6,500,000	2,500,000		500,000			2,036,000	1,464,000	0
Central Park - Implement Master Plan	2,954,400						2,954,400		0
City/School Parks	1,730,000	324,500	1,055,500				350,000		0
Eastside/Westside Greenbelts	10,000,000		2,000,000						8,000,000
Field Lighting at Athletic Fields	3,000,000		3,000,000						0
Grant Park - New Backstop and Player Seating	37,000		37,000						0
Hamilton Park - Installation of Skateboard Park	335,000		335,000						0
Hamilton Park - Various Projects	1,009,779		1,009,779						0
Ice Skating Facility	26,625,000	2,930,000	23,695,000						0
Memorial Park - Implement Master Plan	1,202,233						1,202,233		0
New Park Playground Equipment and Site Amenities at San Rafael and Sunnyslope Parks	675,000		675,000						0
New Parkland in the Central District	17,400,000								17,400,000
Restroom Bldgs (Replace or Construct) at Eaton-Blanche, Grant, Allendale, Memorial & Victory Parks	1,555,000		1,555,000						0
Robinson Park Master Plan	19,500,000	5,805,000	13,695,000						0
Security Light Replacement or Installation at misc. Parks	3,065,000		3,065,000						0
Victory Park Community Center	1,500,000		1,500,000						0
Villa Park - Community Center	5,000,000		5,000,000						0
Villa Park - Synthetic Soccer Field Upgrade & Installation of Soccer Field Bleachers	1,375,000		1,375,000						0
Washington Park - Implement Master Plan	1,000,000	0	1,000,000						0
Total - Parks, Recreation and Community Services	$105,763,412	$11,559,500	$60,297,279	$500,000	$0	$0	$6,542,633	$1,464,000	$25,400,000
Infrastructure and Facility Improvements									
Arroyo Blvd Bridge Seismic Retrofit	1,378,000								1,378,000
Civic Center/Mid-town Public Improvements	19,500,000	3,832,000							15,668,000
Holly Street Bridge Seismic Retrofit	8,037,980								8,037,980
La Loma Bridge Rehabilitation	15,500,000	10,636,165		4,000,000					863,835
Library Irrigation Replacement - Various Locations	240,000								240,000
Library Upgrades & Accessibility Improvements	8,000,000		8,000,000						0
New York Drive Bridges - Preventative Maintenance	2,057,000								2,057,000
Pasadena Humane Society Expansion (requested support)	2,000,000								2,000,000
San Rafael Bridge Seismic Retrofit	2,987,080	34,000		2,688,372					264,708
Sidewalk Repair Program	15,000,000		10,000,000						5,000,000
Urgent Care Facility	4,100,000	500,000				3,600,000			0
Total - Infrastructure and Facility Improvements	$78,800,060	$15,002,165	18,000,000	$6,688,372	$0	$3,600,000	$0	$0	$35,509,523
Public Safety									
Fire Administration Facility	5,000,000						5,000,000		0
Fire Station 33 Upgrade	12,000,000						12,000,000		0
Fire Station ventilation and exhaust systems	536,000						536,000		0
Misc. Fire Station improvement/upgrades	4,500,000						4,500,000		
Police Heliport Reconfiguration	600,000						600,000		0
Public Safety Training Facility	4,000,000						4,000,000		0
Traffic Signal Emergency Preemption	1,900,000	200,000					1,700,000		0
Total - Public Safety	28,536,000	200,000	0	0	0	0	28,336,000	0	0

Projects (2010-2015)	Estimated Cost	Current Appropriations	COP	County/State/ Fed	General Fund	Charter Capital Fund	Impact Fees/Other City Funds	Pub/Private Partnership	Unfunded
				Anticipated Source of Funding (Estimated Revenue)					
Transportation									
Arroyo Pkwy & California Blvd Improvements	4,105,000		4,105,000						0
Arroyo Pkwy & Del Mar Blvd Improvements	3,145,000		3,145,000						0
Bungalow Heaven Neighborhood Traffic Management efforts in	765,000		765,000						0
Del Mar Blvd & Hill Ave Improvements	3,331,250		3,331,250						0
East Colorado Blvd. Specific Plan	6,716,960	156,010							6,560,950
East Pasadena Specific Plan	5,129,000	420,398							4,708,602
Electronic Speed Signs	800,000		800,000						0
Fair Oaks/Orange Grove Specific Plan	4,560,000	1,146,100							3,413,900
Foothill Blvd & Rosemead Blvd Improvements	2,360,000		2,360,000						0
Foothill Blvd & Sierra Madre Villa Ave Improvements	1,230,000		1,230,000						0
Lake Ave & Maple Street Improvements	1,125,000		1,125,000						0
Lake Ave & Walnut Street Improvements	9,385,000		9,385,000						0
New York Drive Median Islands	545,000		545,000						0
North Lake Specific Plan	4,700,000	1,869,000							2,831,000
Pasadena Avenue and Bellefontaine Median Landscaping	78,000		78,000						0
Pedestrian Way Finding Signage	1,600,000		1,600,000						0
Rose Bowl Loop Improvements	450,000	50,000	400,000						0
Sierra Madre Blvd Median Island Irrigation Replacement (south to east city limits & Colorado Blvd (Sierra	1,242,000		1,242,000						0
Sound walls along the 210 freeway	40,000,000	1,500,000		38,500,000					0
South Fair Oaks Specific Plan	3,710,000	200,000							3,510,000
South Lake Streetscape Plan Phase II	1,500,000							750,000	750,000
Traffic Signal Modifications near Gold Line Crossings	1,200,000		1,200,000						0
Traffic Signal Synchronization Citywide	900,000	50,000	850,000						0
Union Street Parkway Landscaping	200,000		200,000						0
Total - Transportation	$98,777,210	$5,391,508	32,361,250	$38,500,000	$0	$0	$0	$750,000	$21,774,452
TOTAL	**$311,876,682**	**$32,153,173**	**$110,658,529**	**$45,688,372**	**$0**	**$3,600,000**	**$34,878,633**	**$2,214,000**	**$82,683,975**