

Attachment A
FY 2017 Recommended Budget Revenues and Appropriations

Revenues by Category

	Fiscal Year 2017 Recommended Budget	
	General Fund	Total All Funds
	-----\$'s in thousands-----	
Property Tax	56,675	64,052
Sales Tax	35,469	37,672
Transient Occupancy Taxes	14,639	14,639
Utility Taxes	30,400	30,400
Franchise Taxes	2,469	6,809
Other Taxes	17,225	25,650
Taxes Subtotal	156,877	179,222
Licenses and Permits	3,486	12,540
Intergovernmental	17,496	60,119
Charges for Services	23,006	41,062
Fines and Forfeitures	6,996	6,996
Investment Earnings	746	7,225
Rental Income	1,190	17,000
Miscellaneous and Non-Operating Revenue	1,418	14,141
Anticipated FY 2017 One-Time Revenues	6,200	6,200
Operating Income	-	343,740
Operating Transfers In	20,212	52,426
Revenue Subtotal	237,627	740,671
Capital Improvement Program		71,749
Affiliated Agencies		
Pasadena Center Operating Company	-	22,968
Pasadena Community Access Corporation	-	1,313
Rose Bowl Operating Company	-	41,712
Affiliated Agencies Subtotal		65,993
Total Revenues	237,627	878,413

Attachment A

FY 2017 Recommended Budget Revenues and Appropriations

Appropriations by Department and FTEs

	Fiscal Year 2017 Recommended Budget		
	General Fund	Total All Funds	FTEs
	-----\$'s in thousands-----		
Operating Departments			
City Attorney	6,703	7,117	32.50
City Clerk	3,035	3,036	13.00
City Council	2,490	2,490	18.00
City Manager	6,240	6,240	25.43
Finance	10,339	12,298	68.25
Fire	43,768	44,642	181.00
Housing and Career Development	-	25,326	48.96
Human Resources	4,144	7,106	33.75
Human Services & Recreation	10,662	10,662	106.69
Dept of Information	-	17,297	84.50
Library and Information Services	-	14,689	107.95
Non-Departmental	39,859	55,417	0.00
Planning and Community Development	8,072	19,189	80.75
Police	71,668	77,476	371.75
Public Health	-	10,908	79.84
Public Works	23,810	72,235	319.60
Transportation	6,020	33,541	51.00
Water and Power	-	272,815	443.00
Department Total	236,810	692,484	2,065.97
Successor Agency to the PCDC	-	7,376	1.00
City Sub-Total	236,810	699,860	2,066.97
Capital	-	(9,664)	0.00
Transfers	-	(66,923)	0.00
City Operating Total	236,810	623,273	0.00
Pasadena Center Operating Company	-	22,549	98.00
Pasadena Community Access Corporation	-	1,260	14.00
Rose Bowl Operating Company	-	41,798	33.00
Affiliated Agencies Appropriations Sub-Total	-	65,607	145.00
Total Operating Appropriations	236,810	688,880	2,211.97

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 9, 2016

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

Presented for your consideration is the Fiscal Year (FY) 2017 Recommended Budget for the City of Pasadena. The budget is best thought of as a financial plan for the coming fiscal year which addresses both the City's current operational and long-term needs.

The Recommended Operating Budget is developed using the City Council's Strategic Plan goals as a guide. These goals are to:

- Maintain fiscal responsibility and stability
- Improve, maintain, and enhance public facilities and infrastructure
- Increase conservation and sustainability
- Improve mobility and accessibility throughout the city
- Support and promote the local economy
- Ensure public safety

Overall, the Operating Budget anticipates modest revenue growth that will enable the City to make some very minor enhancements to programs and services. The Capital Budget furthers investments in the City's infrastructure, particularly as it relates to the City's water and power utilities.

While the financial stability of the City is sound for the coming fiscal year, there are trends that could adversely affect the City's fiscal health. As discussed further in greater detail, current projections indicate that beginning in FY 2018 the City's General Fund will spend more than it receives in revenues thereby creating a structural deficit that will grow larger if not addressed. In order to reverse this and ensure the City's long term financial stability, a key strategic goal, staff is recommending that a comprehensive effort be

undertaken: (1) to determine the appropriate and sustainable level of City services; (2) to ensure that any realignment or reduction in services be managed to minimize negative impact, and (3) to take every reasonable measure to enhance City revenues.

FY 2017 RECOMMENDED BUDGET SUMMARY

The FY 2017 Recommended Budget totals \$760.7 million overall. This includes an operating budget of \$623.3 million, capital appropriations of \$63.5 million and appropriations of \$65.6 million for the City's three operating companies—Rose Bowl Operating Company, Pasadena Center Operating Company and Pasadena Community Access Corporation.

The City's General Fund is the most important fund in that it provides for most basic City services including public safety, public works, parks and recreation. The Recommended Budget for the General Fund for FY 2017 is \$236.8 million with estimated revenues of \$237.6 million.

The Recommended Operating Budget includes \$8.2 million of proposed enhancements, primarily in the Water, Power and Building Services funds where corresponding revenues are available to offset the increases.

Proposed enhancements in the General Fund are more modest, totaling \$1.3 million, which accounts for roughly 0.56% of the overall recommended General Fund budget.

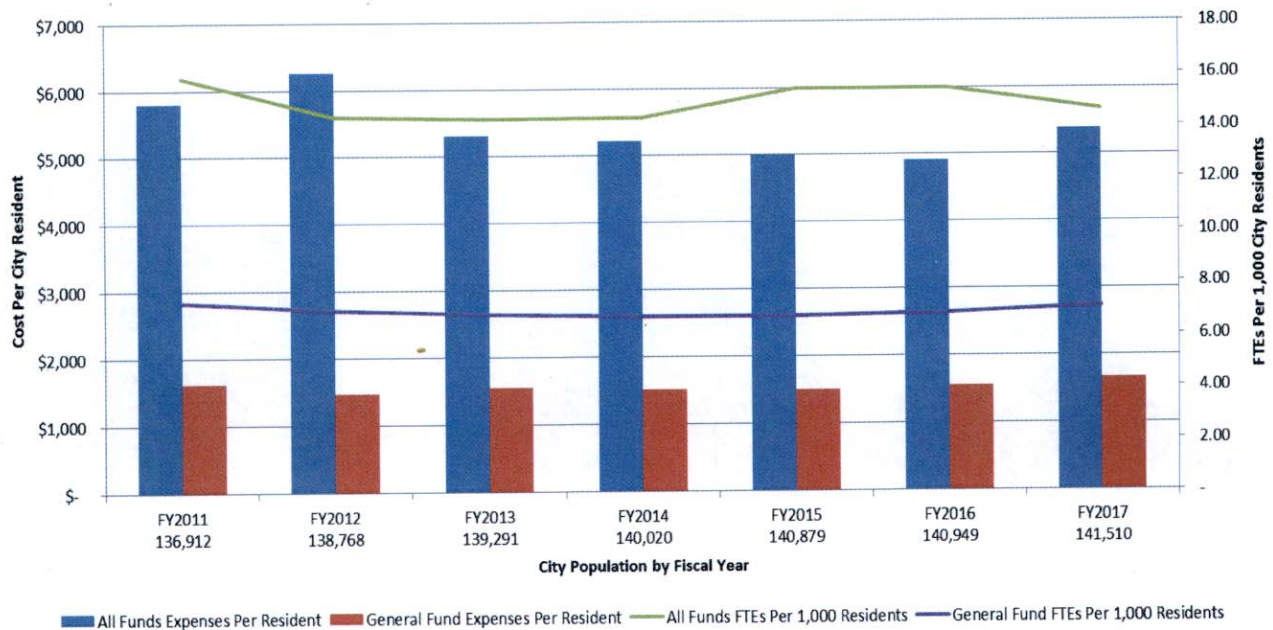
Total Budgeted Appropriations (Including Affiliated Agencies and CIP)

	FY 2015 Actual	FY 2016 Adopted	FY 2017 Recommended
All Funds	\$953.9 Million	\$746.6 Million	\$760.7 Million
General Fund	\$213.4 Million	\$219.5 Million	\$236.8 Million

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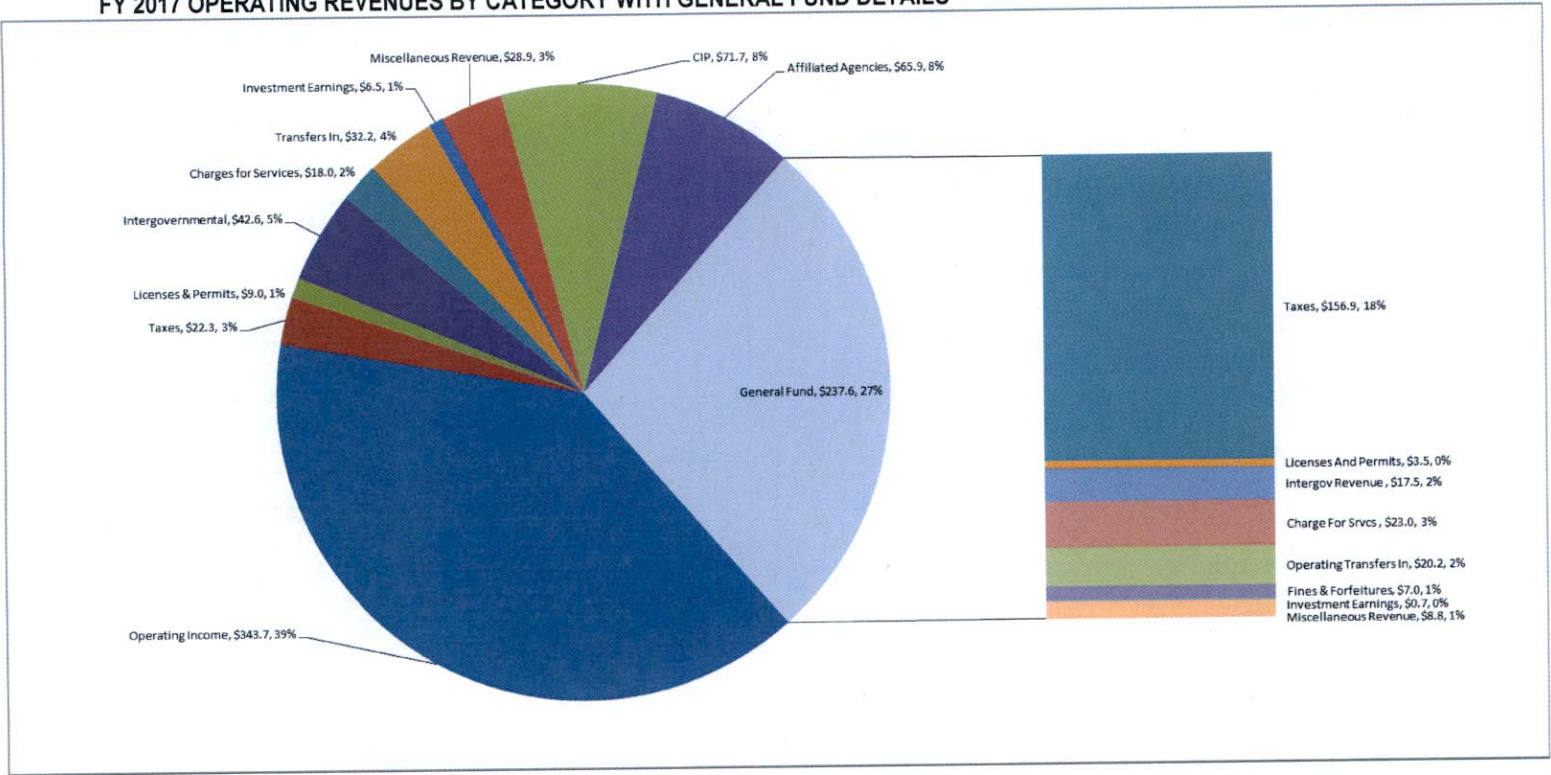
Full Time Equivalent Positions (Including Affiliated Agencies)

	FY 2015 Actual	FY 2016 Adopted	FY 2017 Recommended
All Funds	2,171.41	2,168.51	2,211.97
General Fund	946.36	964.98	995.91

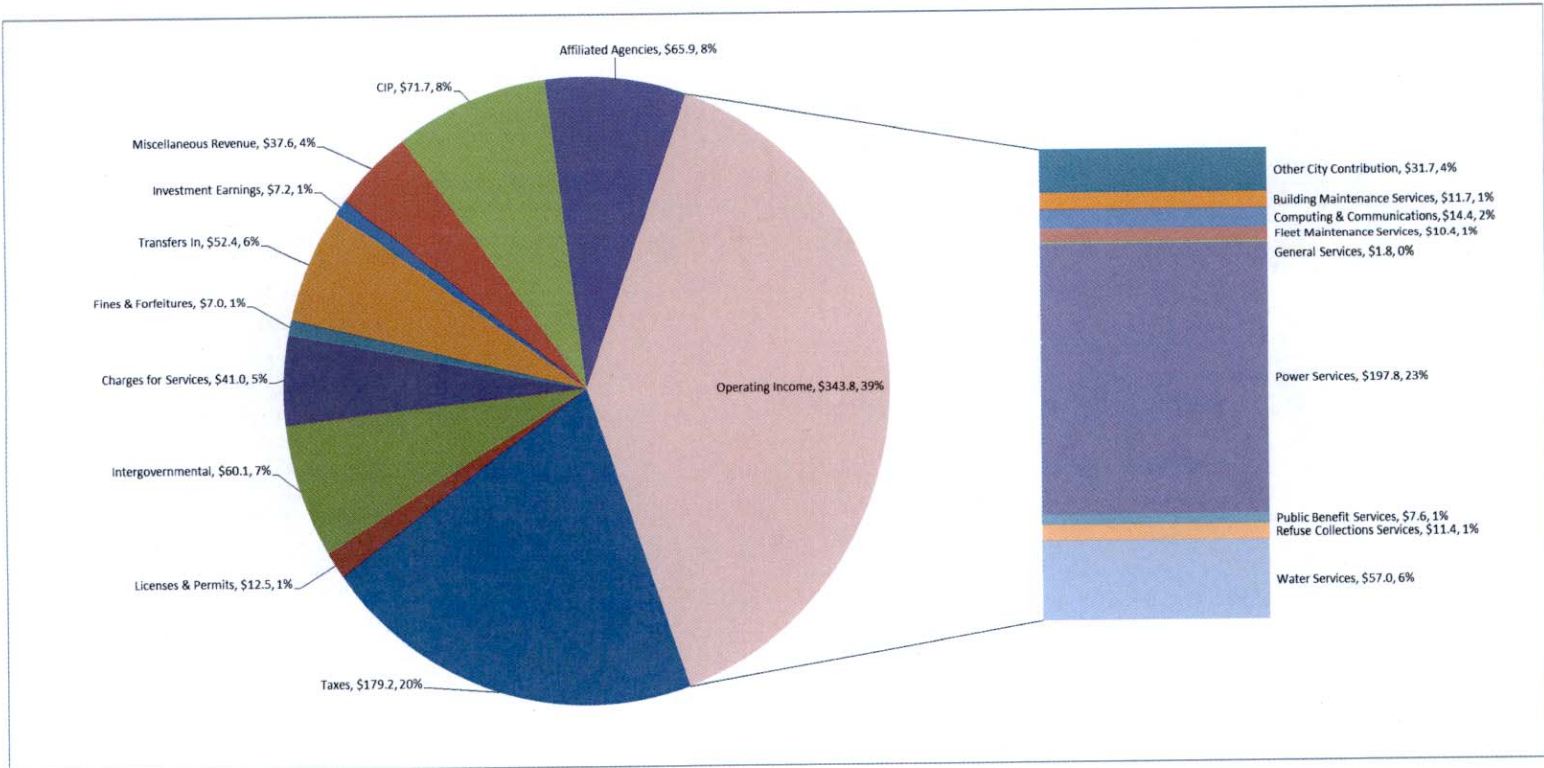


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FY 2017 OPERATING REVENUES BY CATEGORY WITH GENERAL FUND DETAILS

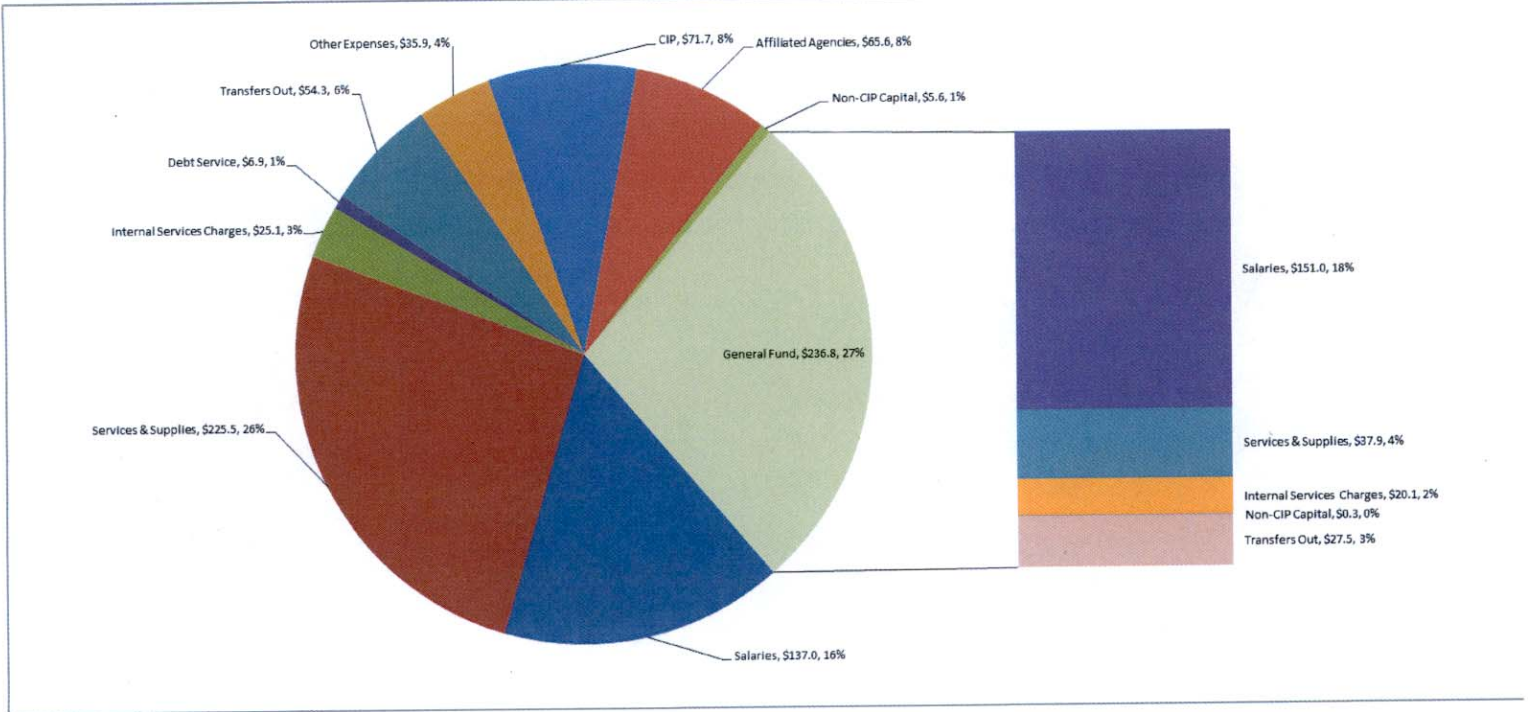


FY 2017 OPERATING REVENUES BY CATEGORY WITH OPERATING INCOME DETAILS

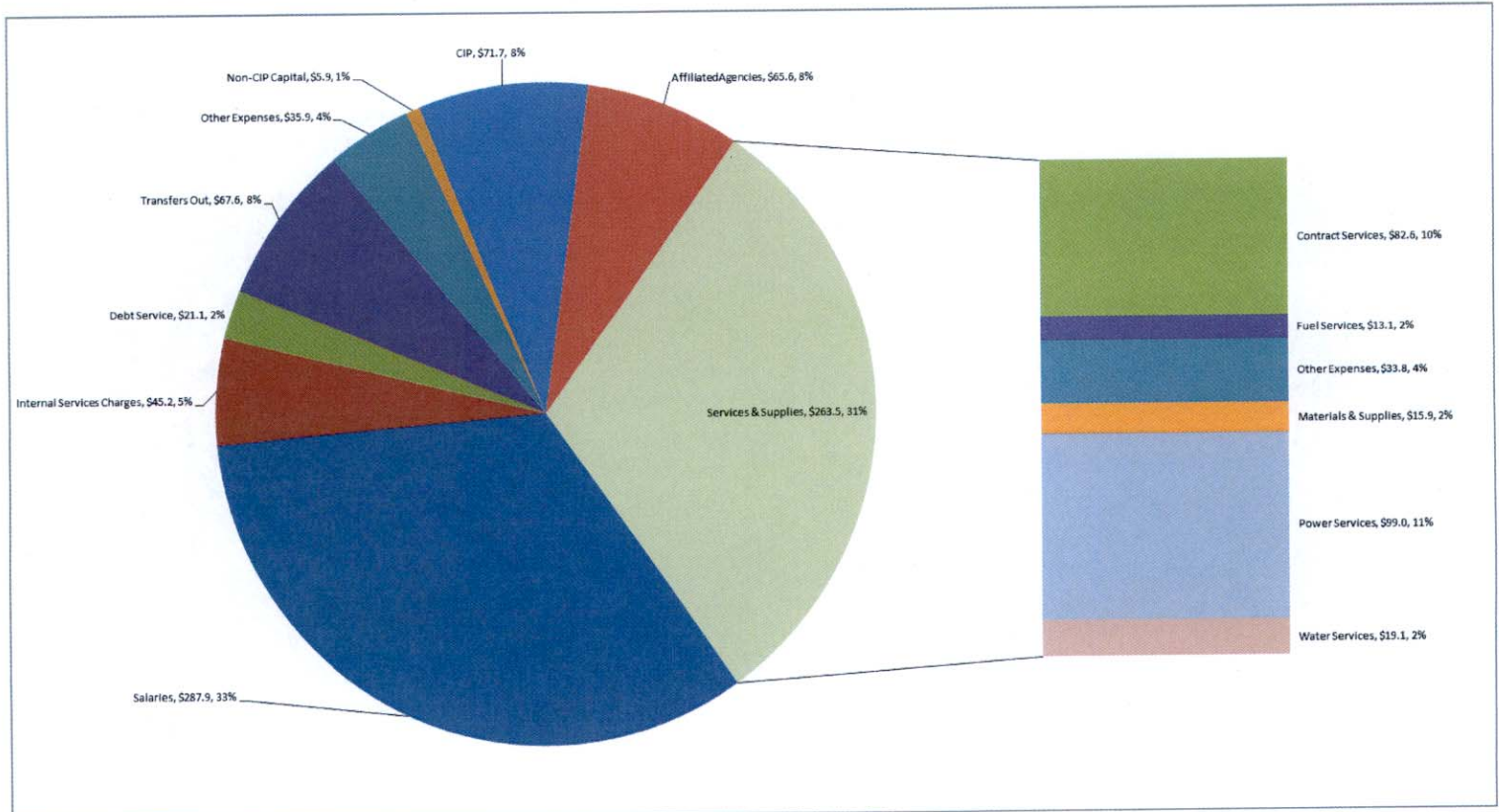


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FY 2017 OPERATING APPROPRIATIONS BY CATEGORY WITH GENERAL FUND DETAILS



FY 2017 OPERATING APPROPRIATIONS BY CATEGORY WITH SERVICES AND SUPPLIES DETAILS



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THE CURRENT ECONOMIC CLIMATE

STATE AND FEDERAL LEVEL

As the City of Pasadena prepares to enter fiscal year 2017 it does so against a national economic backdrop of slow but steady growth. While the U.S. economy grew faster than other developed nations in 2015, the actual rate of growth as measured by the Gross Domestic Product was barely 2%. Expectations for growth throughout the balance of 2016 and 2017 remain in the low 2% range.

The U.S. economy continues to add jobs, as the unemployment rate has held steady at or below 5% for the six month period ending March 31, 2016 according to the Bureau of Labor Statistics. As of April, California's unemployment rate stood at 5.4%.

On January 7th the Governor released his proposed budget for California's 2017 fiscal year. On a positive note the budget message referenced the state's seven straight years of recovery and capital gains tax revenues reaching an all-time high. However, the message was tempered by the acknowledgement that economic recoveries have tended to last only five years and capital gains tax revenues remain a very unpredictable source which falls precipitously during down economic times.

The Governor has continued to press the Legislature to resist significant new spending initiatives and instead fund the state's Rainy Day Fund. The constitutional target level for the Fund is 10% of General Fund revenues; however, currently it stands at only 37% of that target. The Governor's proposed budget would bring it to 65% of target, or \$11.5 billion. Once the Fund reaches the full 10% of revenues target, roughly \$17 billion in today's dollars, its ability to offset impacts of a recession will be limited at best. Based on models developed by the State Department of Finance, a recession of average magnitude occurring in fiscal year 2017 would result in revenues losses to the State of \$55 billion.

Historically, when the State has suffered, it has balanced its budget at the expense of local governments. While it is believed that all possible vehicles for further raids on local revenues have either been exhausted, such as the elimination of redevelopment, or walled off constitutionally, should the State find itself in financial peril again, Pasadena and other local agencies may once again be threatened by some yet unknown state action.

THE LOCAL ECONOMY

Pasadena's local economy continues to perform well. The local unemployment rate stood at 4.9% through March, better than Los Angeles County as a whole which was at 5.5%.

Building activities are up with numerous development projects underway or moving through the entitlement process. Since 2009, commercial development has been robust, especially in the hospitality sector. Currently, there are five new hotel projects that are in various stages of development. Recently the Constance Hotel dust-D2, a 136 room hotel opened; the Residence Inn by Marriott, a 144 room hotel, is under construction with a June 2016 anticipated opening date; the City is in negotiations with Kimpton Hotels to renovate the former YWCA property into a boutique hotel; a 179 room Hyatt Place hotel was recently entitled to be constructed on the former Macy's site at Paseo Colorado; and the Final EIR for the Planned Development project with up to 520 hotel rooms located at Colorado Boulevard and Hill Street was completed in April 2016. Moreover, the City recently approved a nearly one million square feet commercial project that consists of 475 housing units and 620,000 square feet of office and retail space on the Parsons Engineering headquarters site. Overall, several mixed use projects including 1,700 residential units are among the various projects under construction or proceeding through the development process in the City.

Pasadena economic base includes many successful businesses particularly in the fields of finance, healthcare and technology. East West Bank, Kaiser Permanente, Open X, Alibaba, Bluebeam, and iRobot, to mention but a few have all experienced positive growth and added jobs in Pasadena. Additionally, the opening of a Tesla Dealership in Old Pasadena has generated significant consumer interest and is considered a top performing location for the company. Given the scope of new development and continued success of local employers, Pasadena's economy remains vibrant.

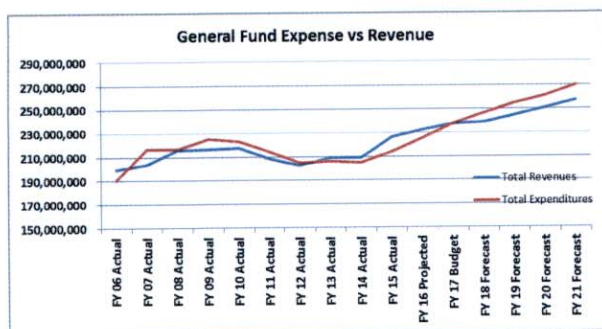
GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

The General Fund five-year financial forecast is the mechanism by which the long-term financial health of the City's most important fund is monitored. By tracking and trending current and anticipated revenues and expenses, the forecast provides a tool for the City's policymakers. The current five-year projection indicates that unless growth in future expenses decrease, anticipated revenues increase or some combination thereof, the City's General Fund will begin

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to spend more than it receives in revenues beginning in FY 2018 thereby creating a structural deficit that will grow if not addressed. In such a situation, the City's fund balance, essentially its savings account, will be drawn down to fill the gap between revenues and expenses.

The fundamental challenge, as indicated by the forecast, and illustrated below, is that while the local economy continues to expand, the growth in overall City revenues is not projected to keep pace with increases in the cost of providing City services. Particularly as it relates to personnel costs which accounts for 63.8% of overall General Fund spending. The following discusses some of the key revenue sources as well as the major expense items in the General Fund.



Major Revenues

The City's major revenue sources include Sales Tax, Utility Users Tax, and Property Tax, which collectively account for 51.6% of the General Fund's overall revenues.

The City's sales tax base has continued to show slow but steady growth. Between March 2015 and March 2016 sales tax revenues grew at 2.5%. Strong automobile sales, including the opening of a Tesla dealership, mentioned previously, have played a significant role in this growth. It is anticipated that in Fiscal Year 2017 sales tax revenues will reach \$35.5 million, which is approximately equal to the pre-recession levels of 2008 and 2009.

Looking forward, however, this key revenue source faces challenges as a result of increased regional shopping competition and the continued shift to on-line sales by consumers. Moreover, in January 2013, as part of a global restructuring, Avon Corporation, announced the intended closer of its distribution center in Pasadena. Avon has continued to operate the facility and, in fact, consolidated other operations into Pasadena with support of a sales tax sharing agreement approved by the City Council. Nevertheless, Avon has recently indicated that it will close the

facility permanently in about a year's time. As one of the City's top sales tax generators, it will be unlikely that the City will be able to fully replace this loss.

Utility Users Tax (UUT) is imposed by the City on the use of cable television, telephone service, and the consumption of natural gas, electricity and water. UUT revenue has been generally flat for more than five years. Factors impacting this include the transition to bundled television, telephone and internet service at lower price points than individual services, along with the shift to satellite television for which the tax does not apply. Increased cellular telephone usage and the application of UUT to prepaid cellular will provide some offset, however, increased conservation by consumers and ever increasing efficiency will continue to impact this revenue source. For Fiscal Year 2017, revenues are estimated at \$30.4 million.

Pasadena's single largest General Fund revenue source is Property Tax. New and infill development has provided for steady increases in the City's property tax base and current development underway will continue that growth through the next several years. Property tax revenue for Fiscal Year 2017 is projected at \$56.7 million and represents 23.9% of General Fund revenues.

Pasadena's 2015 total assessed property (both residential and commercial) valuation was \$24.23 billion, up 5.48% from the previous year, according to the Los Angeles County Assessor's Office. The increase is part of an overall trend for both residential and commercial property in Pasadena, one of the few regions in Southern California where property values remained strong even during the past recession.

Major Expenses

Fiscal year 2016 saw the adoption of memorandums of understanding with a number of the City's labor unions. As a result, adjustments to salary rates were implemented to ensure the City would continue to attract and retain quality staff. A particular challenge, although not exclusive to Pasadena, has been the recruitment and retention of police officers. To address this, increases in the compensation rates for police officers and a "signing bonus" for those who lateral in from other agencies were put into effect.

The City of Pasadena is a member agency of CalPERS, which provides defined-benefit pensions to most City employees upon their retirement. In addition to state-wide changes that will reduce the benefit formula for new

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employees, as part of the City's efforts to reduce pension-related costs, City employees began paying the employee portion of retirement costs, which previously the City paid on their behalf. Nevertheless, in recent years the contribution rates, i.e., the dollar amount the City must contribute to CalPERS on behalf of its employees in order to fund future pensions, has risen dramatically as CalPERS seeks to ensure its ability to meet future obligations based on the return on its investment portfolio. This year with the implementation of GASB rule 68, the City is required to show on its financial statements the current outstanding liability for employee pensions. As of June 30, 2015 the total liability was \$360.7 million. This liability will be funded through the City's ongoing contributions to CalPERS. For Fiscal Year 2017 the City's total contribution to CalPERS is budgeted at \$43.2 million of which \$24.1 million is in the General Fund.

Unfortunately, continued increases in CalPERS contributions are anticipated for the foreseeable future and may become even more pronounced as the pension system seeks to reduce risk in its portfolio by seeking more stable investments, thus reducing the corresponding discount rate.

The City's Workers Compensation Fund is underfunded and rates charged against departments/funds have been significantly increased to meet current costs and begin rebuilding the fund deficit. In an effort to reduce program costs, the City's Workers Compensation program will be evaluated in Fiscal Year 2017 to determine if additional measures or program management practices can be undertaken to better control costs and return employees to work more quickly. The General Fund increase for workers compensation is \$1.96 million, which represents a 25% increase over the Fiscal Year 2016 budget.

Overall, the General Fund budget for personnel costs for Fiscal Year 2017 totals \$151 million. This represents an increase of 11.1% over Fiscal Year 2016.

ADDRESSING PROJECTED FUTURE FISCAL CHALLENGES

During the great recession the City had to respond quickly to the sudden loss of revenues. It did so through the elimination of vacant and filled positions, the shifting of the employee-portion of pension obligations to City employees and elimination of previously negotiated salary increases for employee bargaining groups.

The current fiscal challenges are significant; however, barring a downturn in the economy or other factor such as a natural disaster, the anticipated gap between revenues and expenses is expected to widen over a more extended period of time. This provides the City the opportunity to establish budget priorities and act strategically on both sides of the fiscal equation; revenues and costs.

There are some immediate actions the City can take, to enhance General Fund revenues. These include redirecting growth in Transient Occupancy Tax revenues, largely from the development of new hotels, to the City's General Fund, and ensuring that all cost of service based fees are fully recovering their costs.

In spring 2012, the City completed an Economic Development Strategic Plan which was followed later that same year by a Task Force report focusing on what economic development efforts the City should give priority to. Reinvigorating this effort will be a priority in Fiscal Year 2017 and beyond.

Based on current projections, relying on potential new revenues alone is unlikely to close the anticipated future gap. This is because continued upward pressure on expenses, largely in the form of personnel costs, is expected to remain. Consequently, under the leadership of the City Council, it is vitally important for the City to establish priorities for its limited financial resources and give thoughtful consideration as to whether some functions/services should be scaled back or discontinued altogether. As an example, last fiscal year the City faced growing financial losses in the Public Health Department's clinical programs. Based on detailed analysis, the situation was determined to be unsustainable and as a consequence the City discontinued offering the programs. However, actual service delivery has continued as a result of creative partnerships with non-profit entities.

Across the entire municipal organization there are a number of programs and services that warrant further analysis to determine their relative cost-benefit. With the City Council's endorsement staff will undertake this effort.

FY 2017 CAPITAL IMPROVEMENT PROGRAM APPROPRIATIONS

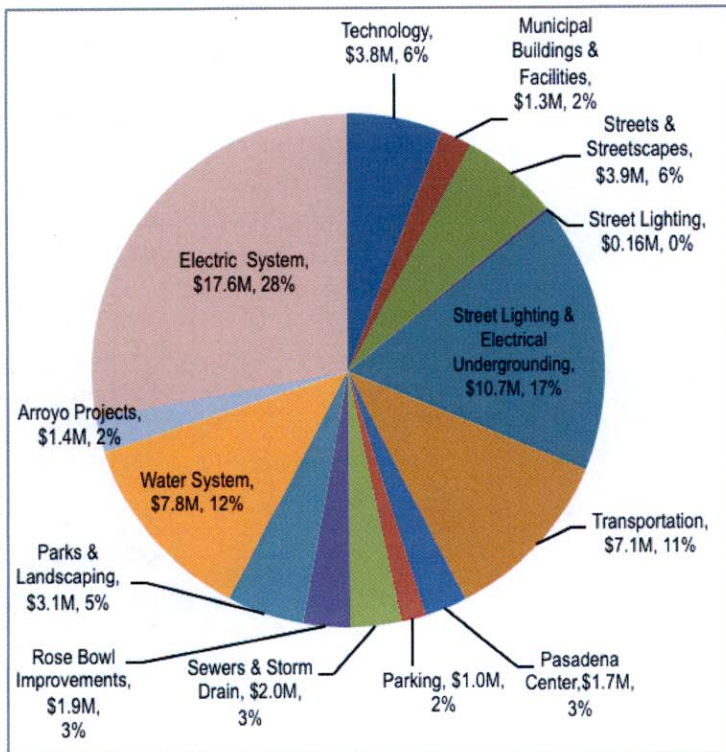
Protecting, maintaining and replacing the City's infrastructure such as roads, bridges, parks, public buildings, utility systems and parking facilities is one of the most important aspects of running an efficient, responsible City. Pasadena will continue

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with both major and minor infrastructure improvements through the City's FY 2017– 2021 Capital Improvement Program (CIP) Budget. The CIP is the blueprint for new construction and major maintenance projects designed to protect and preserve Pasadena's outstanding quality of life.

The current Capital Improvement plan includes 230 identified projects with a total estimated cost of \$1.05 billion. Additionally, there are 71 identified projects totaling \$302 million in the Future Projects section that do not have funding. Identifying these projects as part of the program allows staff to pursue funding opportunities when, and if, it becomes available.

For FY 2017, the CIP includes \$63.5 million in appropriations for 87 projects, including 19 new projects. The following graphic illustration shows FY 2017 appropriations by major project category.



In addition to the City Council's Strategic Plan goals previously noted, the following criteria is also used for developing and prioritizing the CIP:

- Public safety concerns
- If costs of existing maintenance exceed projected replacement costs

- Whether the existing facility or system no longer meets City needs/demands

One of the most significant categories of capital improvements are projects related to the City's water and power utilities. The City's Water and Power Department (PWP) continues to be proactive in making infrastructure investments as approved under the Water Distribution System Master Plan and the Water Integrated Resources Plan.

These investments not only protect the City's valuable investment in its utility infrastructure, but also help to improve water quality, supply, and reliability for customers. The system improvements also reduce dependency on imported purchased water and help meet California's conservation requirements.

For FY 2017, staff is recommending that the City Council appropriate \$25.4 million to its water and electric systems, \$7.1 million to transportation projects, \$16.8 million to streets and streetscapes/street lighting/sewer and storm drains/street lighting and electrical undergrounding, \$4.4 million to parks (including the Arroyo) and \$3.8 million to technology projects. Additionally, the respective operating companies are recommending \$1.9 million for Rose Bowl Improvements and \$1.67 million to the Pasadena Center projects.

Infrastructure priorities for 2017 include:

- Integrating technology and leveraging industry best prices to build a strong infrastructure and increase investment in sustainable, renewable resources;
- Replacing 3.0 miles of water distribution mains;
- Upgrading the Santa Anita Booster Station and completing the rehabilitation of Monte Vista Well;
- Expanding water conservation program offerings;
- Completing the rehabilitation of La Loma Bridge;
- Implementing the human resources and payroll modules of the Enterprise Resource Project; and
- Investing \$1.25 million in the Citywide Sidewalk Improvements Project.

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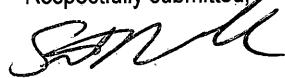
The complete FY 2017 – FY 2021 CIP document is posted on the City's website under the Public Works Department pages at: www.cityofpasadena.net/PublicWorks

CONCLUSION

Pasadena is a destination city that blends its rich history and traditions with innovation and culture. The employees of the City take great pride in providing quality public services to those they serve. The Fiscal Year 2017 Recommended Operating Budget and proposed Capital Improvement Program Budget further the City's mission to deliver exemplary municipal services responsive to the entire community and consistent with our history, culture and unique character.

Under the City Council's leadership, Pasadena has achieved remarkable success and has overcome many obstacles. There is every reason to believe that despite the challenges discussed herein, the City will continue to thrive and serve as a model for other communities to emulate.

Respectfully submitted,



Steven B. Mermell
Interim City Manager