ATTACHMENT A

SUMMARY OF APPROPRIATIONS BY DEPARTMENT

	FY 2016 Actuals	FY 2017 Adopted	FY 2017 Revised	FY 2018 Recommended
City Departments				
City Attorney	6,988	7,137	7,137	7,245
City Clerk	2,656	3,036	3,041	2,450
City Council	2,326	2,490	2,485	2,397
City Manager	5,025	6,240	6,043	5,003
Information Technology	14,619	17,297	17,297	17,833
Finance	11,793	12,299	12,195	12,190
Fire	43,717	44,642	44,807	46,551
Housing and Career Services	52,350	25,326	26,046	24,638
Human Resources	6,685	7,106	7,238	7,455
Human Services & Recreation	9,439	10,662	10,549	11,027
Library and Information Services	13,491	14,689	14,689	14,544
Non-Departmental	207,599	56,744	79,312	58,768
Planning	13,743	19,334	19,308	18,018
Police	72,345	77,476	77,739	78,656
Public Health	11,548	10,908	11,737	11,934
Public Works	61,518	72,235	72,387	72,515
Transportation	32,248	33,589	35,069	35,209
Water and Power	241,433	241,433	241,433	241,433
Department Total	**809,523**	**694,025**	**720,866**	**694,397**
Successor Agency to PCDC	53,428	7,377	7,377	7,527
City Sub-Total	**862,952**	**701,40**	**728,24**	**701,923**
Inter-Departmental Transfers	(185,497)	(66,983)	(84,151)	(62,401)
City Operating Total	**677,455**	**634,41**	**644,09**	**639,523**
Affiliated Agencies				
Pasadena Center Operating Company	19,111	22,450	22,450	21,630
Pasadena Community Access Corporation	1,097	1,260	1,260	1,191
Rose Bowl Operating Company	45,025	34,011	34,011	44,301

SUMMARY OF APPROPRIATIONS BY DEPARTMENT

	FY 2016 Actuals	FY 2017 Adopted	FY 2017 Revised	FY 2018 Recommended
Affiliated Agencies Sub-	**65,233**	**57,721**	**57,721**	**67,122**
Total Operating Appropriations	**742,688**	**692,140**	**701,813**	**706,645**
Capital Appropriations				
Information Technology	2,598	2,610	2,610	1,563
Pasadena Center Operating Company	600	1,600	1,600	1,225
Planning	900	1,629	1,629	511
Public Works	9,926	14,558	14,558	16,745
Rose Bowl Operating Company	4,442	1,874	1,874	2,671
Transportation	7,179	8,920	8,920	6,703
Water and Power	59,899	34,175	34,175	49,970
Capital Improvement Program	**85,544**	**65,366**	**65,366**	**79,388**
Total Citywide Appropriations	**828,232**	**757,506**	**767,179**	**786,033**

ATTACHMENT B

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 8, 2017

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

Presented for your consideration is the Fiscal Year (FY) 2018 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

The City's General Fund, which pays for Police, Fire, Parks, Recreation and other municipal services is its most important Fund The General Fund's Recommended Operating Budget for FY18 is balanced, does not rely on the use of reserves and is expected to result in positive net income at the end of the fiscal year. The Capital Budget includes investments in the City's infrastructure exceeding $76 million for FY18 and continues the City's efforts to maintain and enhance its physical plant.

During the FY17 Operating Budget process certain negative trends were identified regarding the financial forecast for the General Fund. In order to address these trends, in October 2016, the City Council approved expenditure reductions totaling $2 1 million. The FY18 Operating Budget furthers this effort by reducing an additional $2.0 million These reductions, coupled with moderate projections of revenue growth, have greatly reduced the size of projected future operating deficits. In order to ensure that the City achieves positive net income in future years, additional attention must be paid to managing expenses within existing resources. As indicated above, maintaining fiscal responsibility and stability is a key goal of the City Council and given Pasadena's long history of sound financial management, there is every reason to believe that the City will continue to successfully address budgetary issues while continuing to provide quality services to the community it serves.

TOTAL BUDGETED APPROPRIATIONS (INCLUDING AFFILIATED AGENCIES AND CIP)

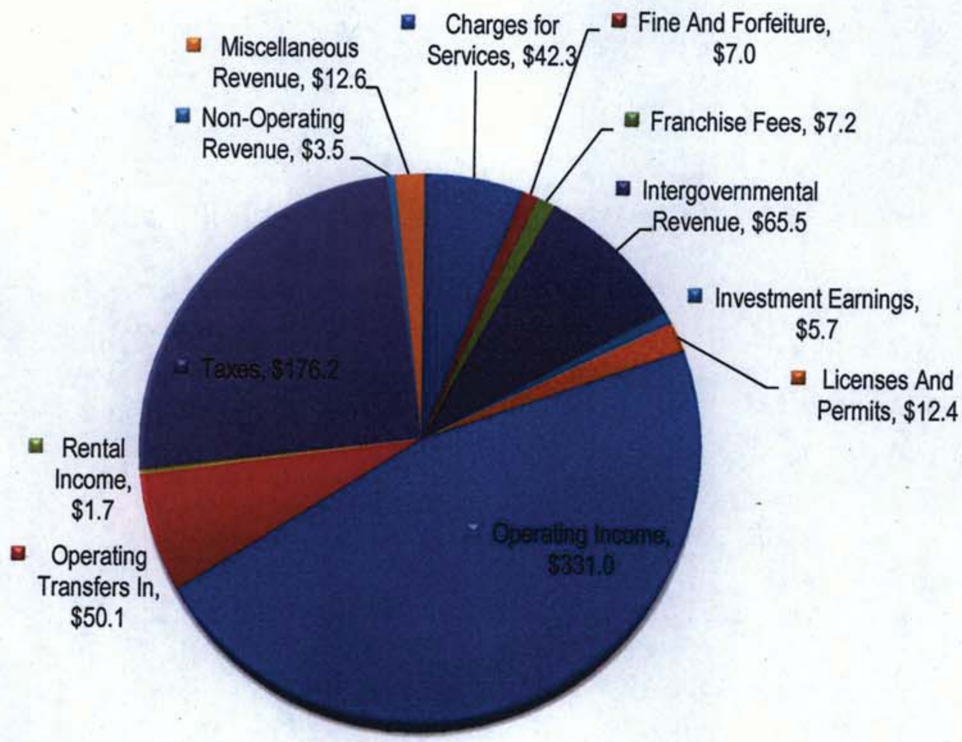
in millions

	FY 2016 Actuals	FY 2017 Adopted	FY 2018 Recommended
General Fund	$231.6	$237.8	$236.7
All Funds	$948.5	$757.5	$786.0

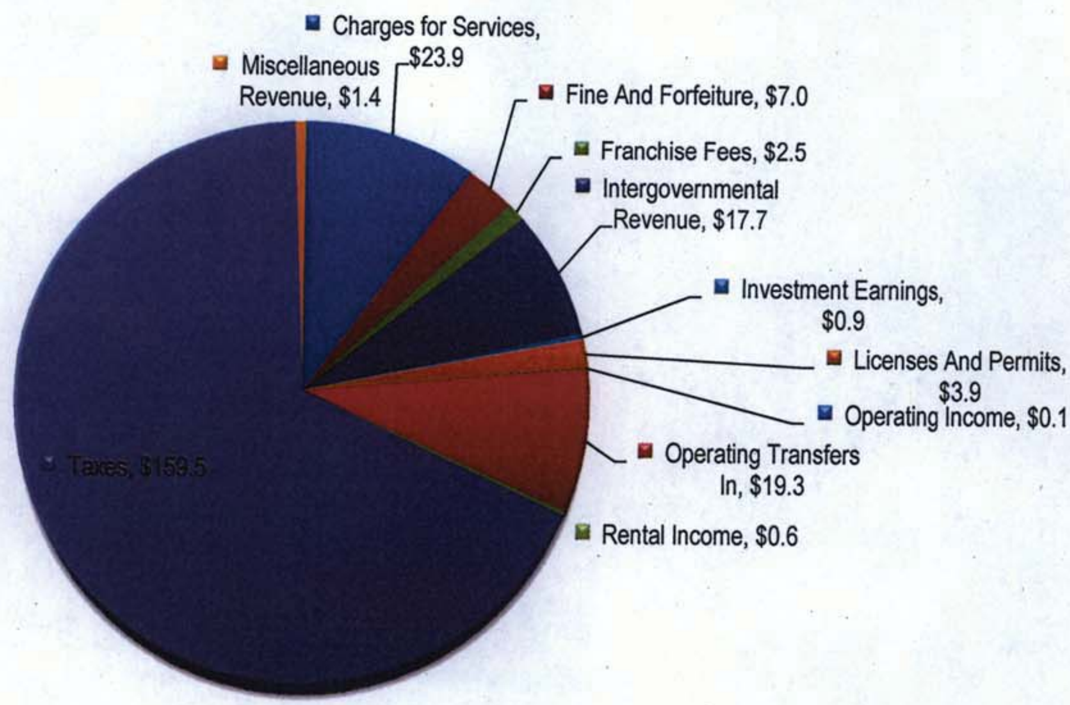
FULL TIME EQUIVILENT POSITIONS (INCLUDING AFFILIATED AGENCIES)

	FY 2016 Actuals	FY 2017 Adopted	FY 2018 Recommended
General Fund	977.4	996.8	982 8
All Funds	2,145.1	2,224.4	2,170.3

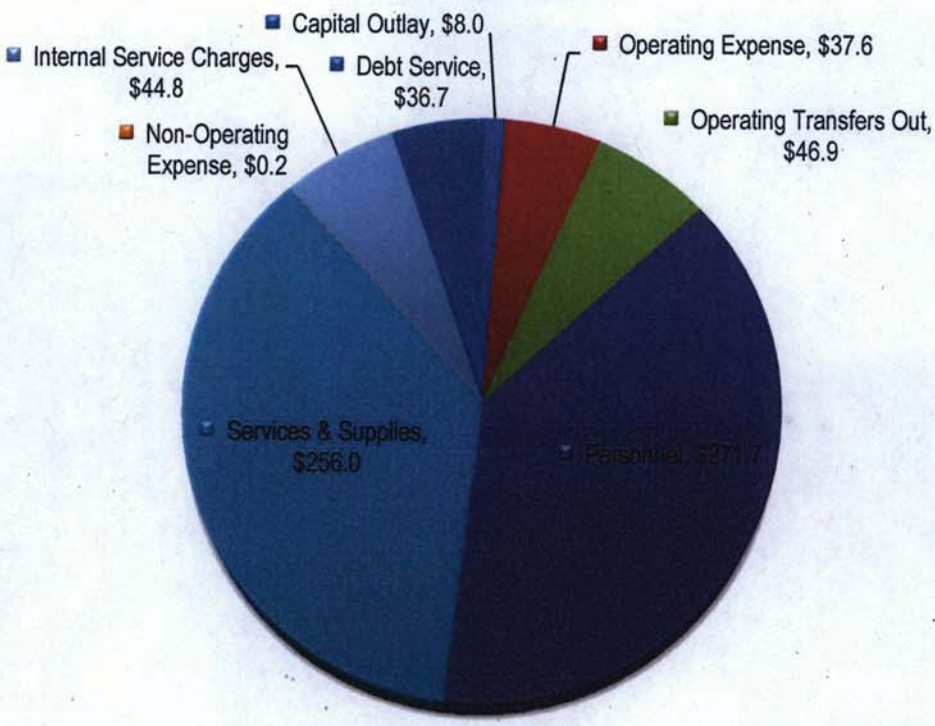
FY2018 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)



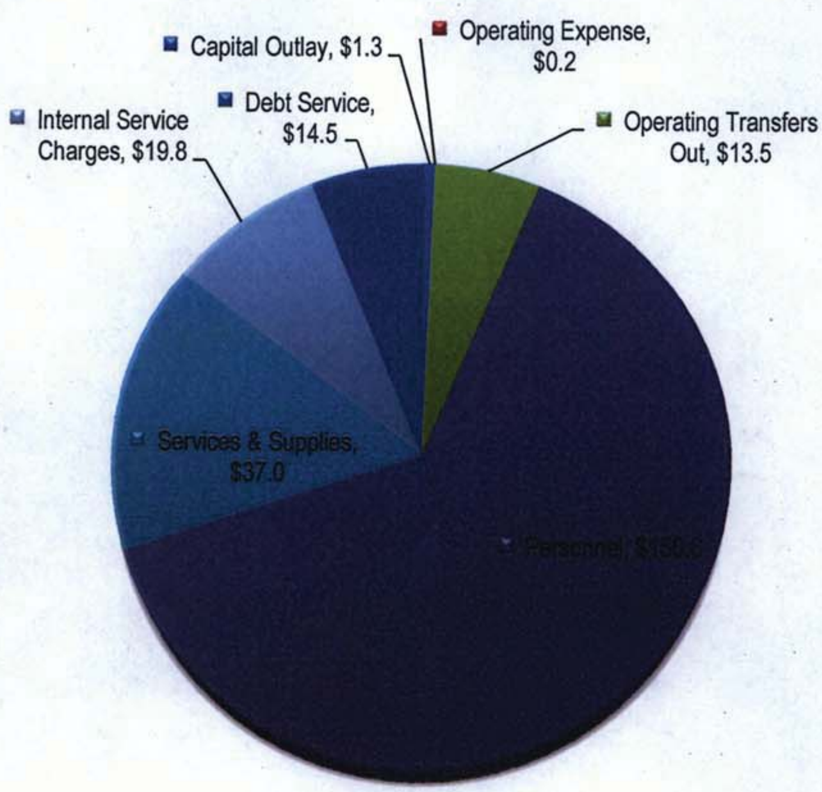
FY2018 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



FY2018 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY2018 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)



THE CURRENT ECONOMIC CLIMATE

STATE AND FEDERAL LEVEL

The national economic climate was positive for much of 2016 with employment and other economic signs continuing to show moderate gains. The economy grew by 1.6% for 2016 compared to a 2.6% growth in 2015. The forecast for future growth for 2017 and 2018 remains in the low 2.0% range.

The U.S. economy continues to add jobs and the close of 2016 marked 75 straight months of job creation. The average hourly earnings rose 2.9% from the prior year, pointing to a further tightening in the labor market. Analysts believe that the nation is close to full employment.

On January 10th the Governor released his proposed budget for California's 2018 fiscal year. As stated in his budget message, the 2018 budget will be the most difficult faced since 2012. The surging tide of revenue increases has ceased and a budget deficit of $2 billion is forecasted. The State continues to rely on capital gains tax as its primary General Fund revenue source, so it should not be a surprise that the State's revenues are shrinking. Despite the projected deficit, the Governor's proposed budget does include increased spending for education, an earned income tax credit for working families, increasing the minimum wage, the extension of health care to millions, and the pay down of long-term liabilities.

Historically the State has balanced its budget largely at the expense of local government. 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 completely, should the State find itself unable to resolve the deficit, 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 4.3% through March, better than Los Angeles County as a whole, which was at 4.6%.

Building activities have tapered a bit in comparison to fiscal year 2015; however, projects continue to move forward with several under construction. The hospitality sector has remained strong with the recently opened Residence Inn by Marriott, a 144 room hotel, in the Old Pasadena area. Additionally, a 179 room Hyatt Place hotel started construction on the former Macy's site at the Paseo in April 2017. Along with these two properties, there are several other developments in various phases of the entitlement process that could bring more than 600 additional hotel rooms to Pasadena. Aside from hotel development, the City has approved a significant number of new housing projects representing hundreds of new units throughout the city.

FACTORS AFFECTING THE BUDGET

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 At the time the City Council adopted the FY17 operating budget, the Five-Year Forecast indicated that while the budget was balanced for that year, thanks mainly to one-time revenues, a gap would arise between anticipated revenues and expenses beginning in FY18 and grow more pronounced over time. At that time, the projected gap for FY18 was $7.6 million, widening to more than $12 million by FY21 if left unchecked.

The disparity between revenues and expenses is driven by the rising cost of providing City services, coupled with slow, and in some cases flat, revenue growth. Given the nature of City services, the largest category of expenses in the General

Fund is for personnel salaries and benefits, which comprises 64% of overall expenditures. Within this category, salary increases have remained moderate for the last several years following a number of years where City employees received no increases due to the impact of the economic recession.

The main increase in personnel costs has been in pension contributions. The City is a member agency of CalPERS, which provides defined-benefit pensions to most City employees upon their retirement. 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 pension benefits, has risen dramatically as CalPERS seeks to ensure its ability to meet future obligations.

Starting this past fiscal year, with the implementation of GASB rule 68, the City is required to show on its financial statements the outstanding liability for employee pensions. As of June 30, 2016 the total liability was $386 million. For Fiscal Year 2018 the City's total contribution to CalPERS is budgeted at $44.5 million of which $26.5 million is in the General Fund.

Recently, increased media attention has been given to the issue of public employee pensions, as CalPERS and other pension systems address projected funding deficiencies. Recognizing the risks, at the urging of Governor Brown, Assembly Bill 340 created the Public Employees' Pension Reform Act (PEPRA). Under this legislation all employees enrolled into CalPERS after January 1, 2013 have a less generous pension benefit than those who preceded them and are required to pay a portion of their salaries to fund their benefits. Currently 20% of the City's workforce is covered by the PEPRA formula. Moreover, in Pasadena, all City employees contribute towards their pension costs.

In regard to revenues, despite some improvement, the City is not seeing the same level of overall economic growth across its major revenue categories that would generally be presumed to occur in a relatively healthy national economy.

The City's three major revenue sources: Property Tax, Sales Tax, Utility Users Tax account for 53.2% of the General Fund's overall revenues. These revenues are a mixture of growth and decline going in to FY18.

Pasadena's largest and most stable revenue source continues to be property tax. Property tax proved to be resilient during the Great Recession and has realized strong growth in the past few years. New and infill development has provided for steady increases and when combined with property tax formerly allocated to redevelopment that is now directed to the General Fund, total Property Tax revenue is projected to grow by 8.29% for a total of $64.38 million in FY18. This one source represents 25.9% of total revenues. Continued strong growth is projected for the next few years as several large developments are underway, which will add to the existing total assessed property (both residential and commercial) valuation in the City of more than $27 billion.

Pasadena's Sales Tax base has shown slow growth the past few years and a slight increase is projected for FY18. Some categories, such as automobile sales and repair along with restaurants have shown moderate growth, but that growth has been offset by larger declines in other consumer areas. As more shopping is done online, all of the related sales tax from those purchases is allocated to the County-wide pool, and the City receives generally less than 2.5% of those funds. For example, if a $100 purchase is made at a retail store in Pasadena, the City receives $1 of sales tax revenue; however, if that same purchase is made by a Pasadena resident via Amazon.com, the City receives approximately $0.03 in sales tax revenue. Due to this shift and slow growth environment the projection for FY18 is $35.6 million, which is only $88,000 more than FY17.

Looking forward, the City's sales tax base will continue to be challenged with growing online sales and a repurposing of retail centers. In January 2013, as part of a global restructuring, Avon Corporation announced the intended closure of its distribution center in Pasadena. While this center has continued to operate, it is expected to close in the near future. As one of the City's top sales tax generators, it is unlikely the City will be able to fully replace this loss. The future redevelopment of the Avon site might provide an opportunity to re-establish a significant sales tax producing use.

Utility Users Tax (UUT) is a tax imposed by the City on the use of telephone service, video or cable service, and the consumption of natural gas, electricity and water. UUT revenue was flat for several years and began declining in FY17. This decline is projected to continue in FY18 as reduced consumption of both water and electricity is expected along with the continued shift away from traditional cable service. Increased usage of cellular telephones does provide some relief; however, carriers continue to lower prices or bundle more services, and more people are eliminating their residential landlines, which provides for limited net new revenue For FY18, revenue is projected at $29.1 million; which is a 4.3% reduction or $1.3 million less than the prior year.

The City's Transient Occupancy Tax (TOT) has become a strong revenue source boosted by increased travel to Pasadena along with new developments that have either opened or are underway. In August 2016, the 144–room Residence Inn in Old Pasadena opened and in April 2017 construction began on the Hyatt Place Hotel at the Paseo. These two hotels will provide strong growth for TOT revenue over the next two years, helping to improve the General Fund five-year Forecast. Additionally, some of the existing hotels in the City are being remodeled and updated, and several additional hotels are in the early development process. If the new hotels are developed, TOT revenue could increase by several million dollars.

A significant internal revenue source for the General Fund has been the transfer from the Power Fund. Per the City Charter, a transfer based upon annual gross electric retail income and the actual net income of the power utility's operations is made each year. Due to the significant reduction in consumption over the past few years combined with increased costs of operation, both the retail income and net income amounts have realized large declines. As a result, the transfer for FY18 is expected to be $450,000 less than FY17, for a total of $17 million. Additionally, the five-year forecast projects an additional reduction of $100,000 in FY19, with slow growth returning in FY20.

ADDRESSING FISCAL CHALLENGES

In fall 2016, following the close of FY16, the five-year Forecast was updated to reflect actual results for that fiscal year. These results indicated that revenues were approximately $5.5 million higher than budgeted, owing to one-time revenues, and expenses were about $2.4 million less than anticipated. This positive variance reduced the projected fiscal gap for FY18 to $4.9 million

Rather than wait until the development of the FY18 operating budget to address this issue, in October 2016, the City Council approved $2.1 million in General Fund reductions, including the elimination of seven vacant staff positions; thereby bringing the projected gap for FY18 to $2.8 million.

To close the gap for FY18, all City departments were directed to identify potential cost reductions. As part of this effort, departments were asked to assess their service line-up to determine if, in some cases, the services were no longer priorities for the community and whether resources could be better applied elsewhere. Additionally, where the cost of providing service supported it, departments also explored additional cost recovery through user fees.

In order to engage the public in the budget process early on, prior to the preparation of the recommended operating budget, three community meetings were held throughout the City. These meetings provided an opportunity for dialogue with residents about the factors impacting the City's budget and what approaches might be considered to address the fiscal challenges in the General Fund. In keeping with management's commitment to increasing communication with employees within the municipal organization, as series of meetings have been held to inform City employees about the City's financial condition and encourage them to share ideas for reducing expenses or increasing revenues.

The result of this effort is that the Recommended Operating Budget for the General Fund for FY18 is balanced, does not rely on the use of reserves and is expected to result in positive net income at the end of the year. To achieve this, just over $2.0 million in budget reductions are being recommended, including the elimination of seven vacant positions. These reductions are in addition to the $2.1 million in reductions approved by the City Council last October and discussed above. Across all funds, the Recommended Operating Budget reduces expenditures $4 5 million and eliminates a total of 53 vacant positions.

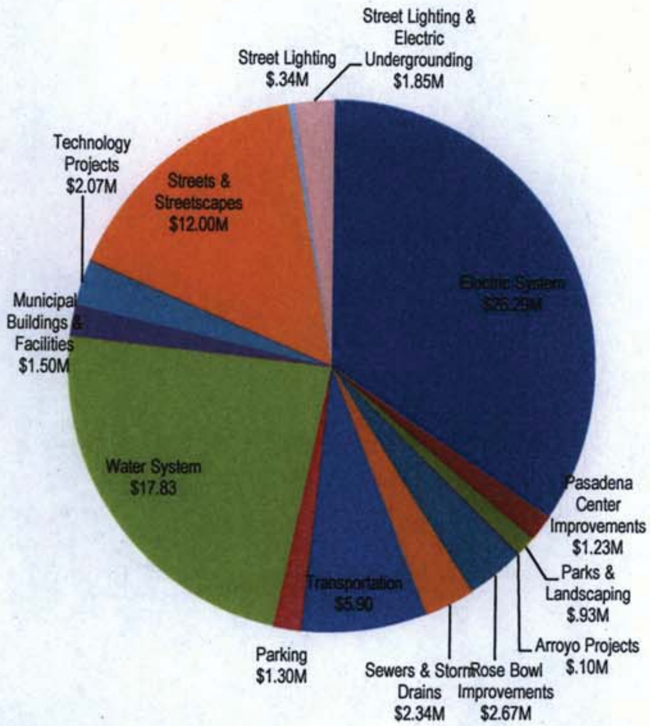
By ensuring the General Fund generates positive net income, the City is able to increase its reserves to guard against inevitable economic downturns, recover from natural disasters and fund much needed capital projects. The City Council has established 20% of appropriations as the desired level of emergency contingency reserve for the General Fund. Currently, the reserve is funded at $36.5 million representing 15.3% of appropriations. Fortunately, beyond the reserve, the General Fund has approximately $19 2 million in additional undesignated fund balance. Furthermore, one-time dollars totaling $9 million have been transferred to the City following the outcome of the City's litigation with the State Department of Finance related to the dissolution of redevelopment. While the City had sought recovery of approximately $40 million for which it believed it was entitled to under the law, the receipt of these funds will provide the Council an opportunity to consider whether to increase the designated reserve or to utilize these funds or some portion thereof, for other important municipal purposes.

FY 2017 CAPITAL IMPROVEMENT PROGRAM

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 with both major and minor infrastructure improvements through the City's FY 2018-2022 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 200 active projects with a total estimated cost of $953 million Addressing major deferred maintenance and upgrades of City-owned infrastructure is one of the City's core responsibilities. The FY 2018 CIP budget contains six new projects, and appropriates $76 4 million to 92 projects. Unfortunately, this level of investment is not sufficient to keep pace with the growing maintenance requirements of the City's extensive infrastructure Identifying funding to meet these requirements is a significant challenge.

The following graph illustrates the FY 2018 appropriations by major project category.



The City has adopted master plans that identify optimal funding levels and work-plans for improving and maintaining streets, parks, sewers, the water system, and the electric distribution system. Over the last several years, due largely to funding limitations, the City has been unable to meet the targets outlined in some of these master plans, Consequently, some of the City's infrastructure has exceeded its useful life. Fortunately, some categories of projects do have reliable funding sources and are tracking better in relation to their work-plans such as Water, Electric and Street Lighting and Electrical System Undergrounding where customer charges for services pay for capital improvements. One area where the City is not keeping pace of the need is maintenance of its streets. Currently, Pasadena allocates $1.5 million per year for street resurfacing. This amount of investment is not sufficient to prevent further deterioration of their overall condition; an investment closer to $4.5 million per year would be needed to do that.

There is some good news for funding street and road projects. The recent passage of SB 1 (Beal) *Road Repair and Accountability Act of 2017* on April 6, 2017 will provide Pasadena with approximately $32 million over the next ten years to invest in its street and road infrastructure. In addition, Los Angeles County voters approved Measure M, the *Los Angeles County Traffic Improvement Plan* in November 2016. This measure increased sales tax by ½ percent and is projected to generate $860 million per year for much needed street, bridge and transit projects throughout the County.

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 2018 Recommended Operating Budget and 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.

Respectfully submitted,

Steven B. Mermell
City Manager