

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 11, 2020

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

I hereby transmit the Recommended Fiscal Year 2021 (FY 21) Budget for the City of Pasadena. The Budget, both Operating and Capital, make possible the many services and amenities provided by the City which contribute to the high standard of living in Pasadena. Our residents choose to live in Pasadena, because it offers a better quality of life than other Los Angeles County cities. The City provides a wide variety of services and programs either directly or through partnerships with local non-profits, for virtually every age and lifestyle. While the Recommended Operating Budget continues the essential services that protect residents' quality of life, such as neighborhood police patrols, keeping our roads and parks in good condition, supporting local youth and senior programs, and other services that make our City a great place to live and work, it has been impacted by the COVID-19 pandemic and its associated economic shock. This Transmittal Letter focuses on this impact and outlines both the near and longer-term financial strategy to maintain the City's fiscal health and preserve essential services into the future.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

	FY 2019 Actuals	FY 2020 Adopted	FY 2021 Recommended
General Fund	\$249.8	\$274.4	\$273.0
All Funds	\$847.9	\$871.0	\$878.6

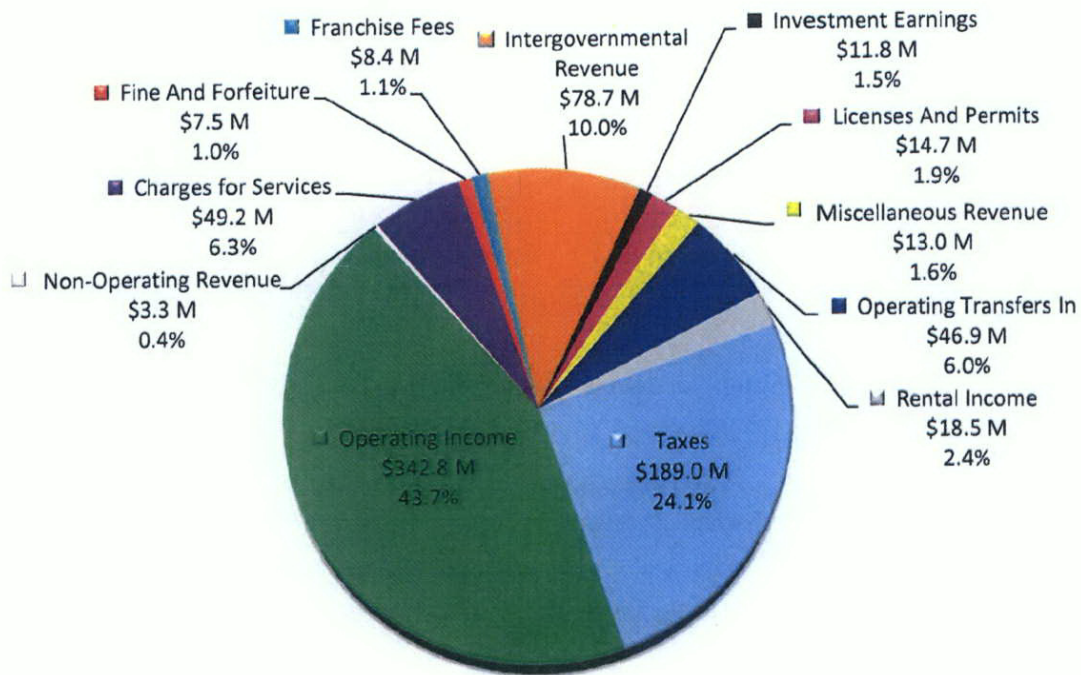
Full-Time Equivalent Positions
(including Affiliated Agencies)

	FY 2019 Adopted	FY 2020 Adopted	FY 2021 Recommended *
General Fund	974.91	1,002.80	1,014.59
All Funds	2,181.57	2,275.95	2,274.49

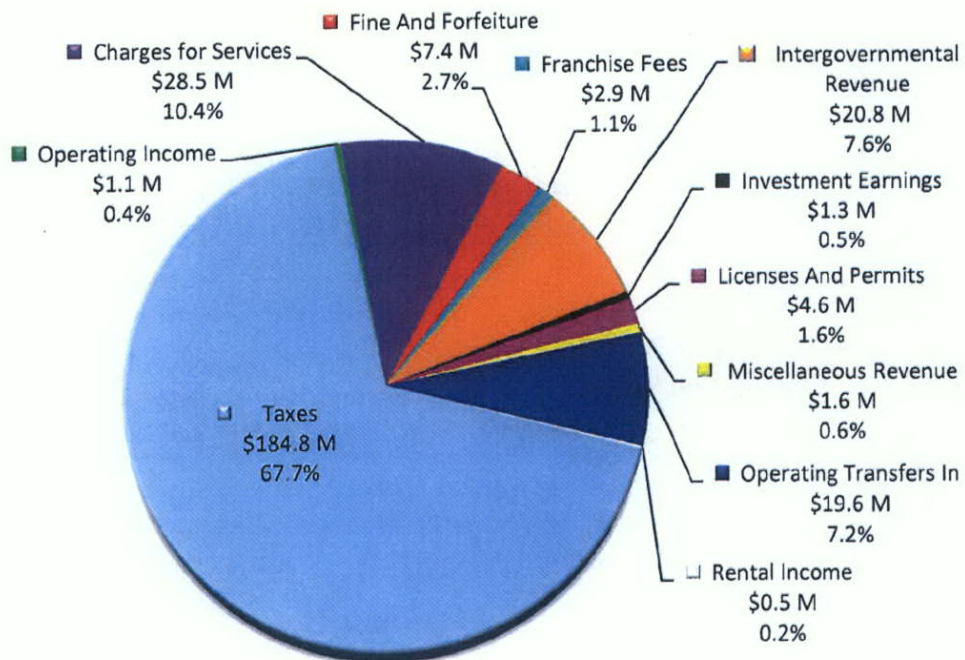
*As of FY 21, the City's FTE total includes previously "non-budgeted" positions (56.00 FTE MASH trainees, 8.00 FTE Firefighter trainees, 19.32 FTE Retirees). There are no appropriations budgeted for these positions, only the FTE authorization to meet ERP system requirements. An extra 6.9 FTE Retirees have been added in FY 21 to meet departmental needs for temporary work.

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FY 2021 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)

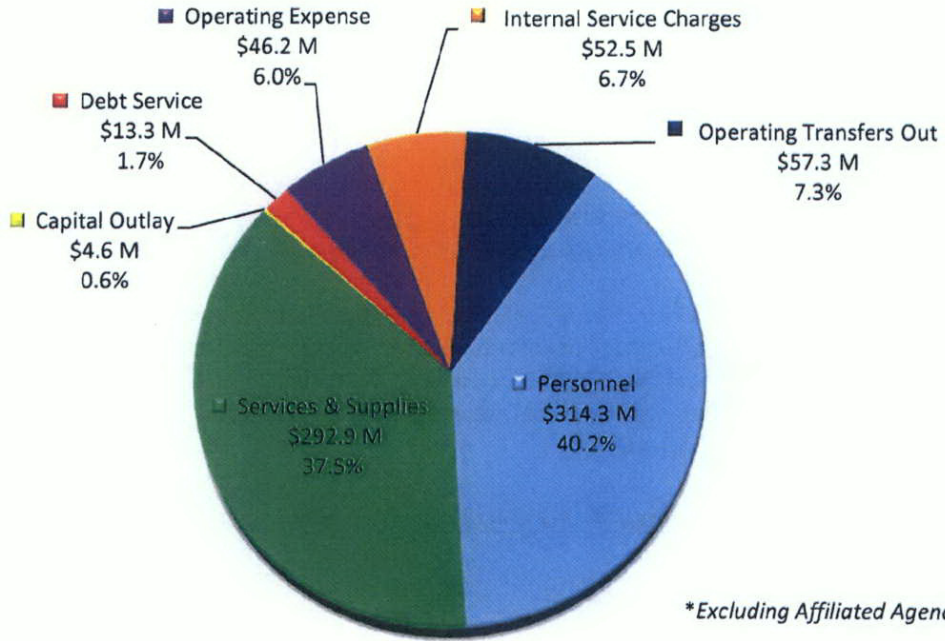


FY 2021 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)

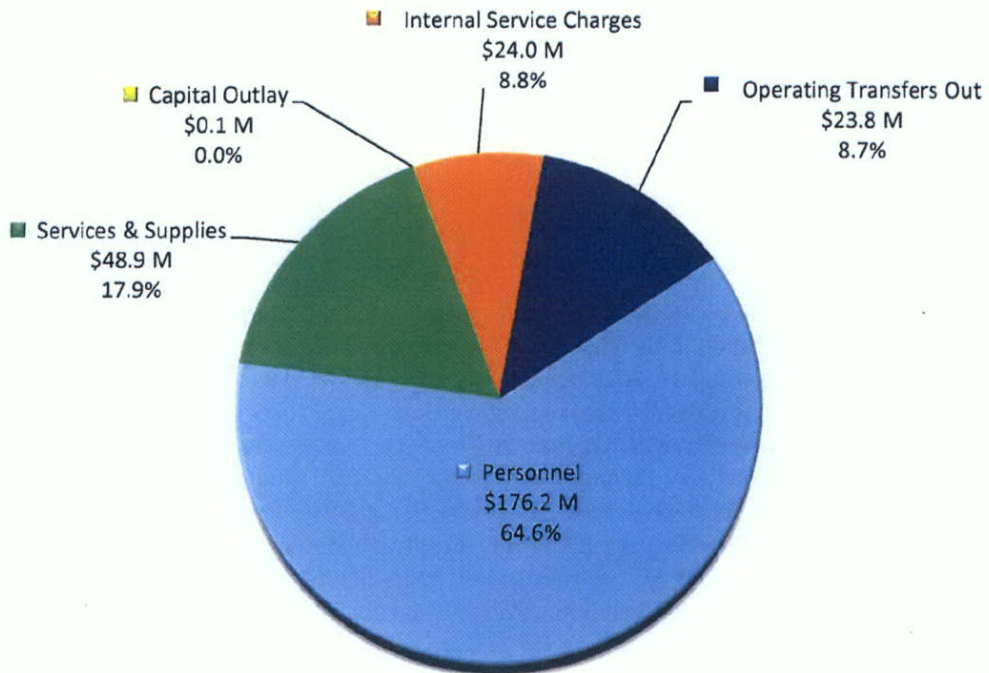


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FY 2021 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2021 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)



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PASADENA'S FISCAL POSITION PRIOR TO THE COVID-19 PANDEMIC

The City entered the current Fiscal Year 2020 (FY 20) in a strong financial position having reduced expenses in excess of \$6 million over the preceding three fiscal years to ensure a balanced budget. Not wanting to make further reductions to essential services and mindful of the need to reinvest in critical infrastructure, in November 2018, Pasadena voters approved Measure I, a ¾-cent local sales tax measure. Associated with Measure I was an advisory measure, Measure J, which advised the City Council to share 1/3 of the revenue derived from Measure I with the Pasadena Unified School District (PUSD). Pursuant to a Memorandum of Understanding between the City and School District that operationalized Measure J, attached hereto is a report from the District outlining how it utilized the first fiscal year's Measure J proceeds and how it intends to use those dollars for the upcoming fiscal year.

Prior budget actions combined with a strong local economy and a commitment to fiscal responsibility and stability has enabled the City to build and maintain a healthy General Fund, fund balance and key reserves. Importantly, while the nature of the COVID-19 crisis was unknown until recently, it is knowledge that disaster can strike at any time whether it be natural or economic, that reinforces the importance of maintaining strong financial reserves.

General Fund - Fund Balance Summary	
Unassigned	\$ 19,136,361
5% Reserve	12,693,700
15% Reserve	38,081,100
Section 115 Pension Trust	10,700,000
	\$ 80,611,161

FINANCIAL IMPACTS OF THE COVID-19 PANDEMIC

Total General Fund revenue losses between FY 20 and FY 21 are projected at \$29.7 million. The losses in FY 20 will be partially offset by underspending compared to the budget, but are forecasted for a net loss of \$7.6 million. Revenue losses for FY 21 are forecasted at \$8.5 million and are planned to be offset by postponing all General Fund Capital Improvement projects in FY 21.

General Fund Taxes

Based on continued discussions with the City's property tax consultant, the revenue impacts for property tax for FY 20 and 21 are expected to be minimal. In the near term, any immediate impacts would be due to late payments beyond the April 10, 2020 deadline. Longer term impacts such as reassessments by the County could occur, but only if the real estate market contracts or collapses and there are no signs of that at this point. Furthermore, due to the annual tax assessment cycle, major downward shifts in property tax would probably not affect the City's revenues until Fiscal Year 2022. The growth forecast in the longer term will need to be adjusted downward if development projects currently underway are halted or postponed due to the financial market turmoil. Should the City begin to see the real estate market collapse due to business closures, bankruptcies or other issues, it would have a significant impact on the City's revenues as property tax revenue has been the strongest revenue source since the Great Recession.

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Sales Tax revenue will be negatively affected in both the short and long-term. As previously reported to the City Council through the quarterly sales tax newsletters, some business sectors were already struggling prior to March 2020. That preexisting market stress combined with the current economic environment may lead to a longer recovery cycle. Following, is a table by category regarding estimates of both immediate changes along with the 12 to 24-month outlook.

Category	Jan-Mar 2020	Apr-June 2020	Fiscal Year 21
Autos/Transportation	-12.0%	-55.0%	-6.3%
Building/Construction	-7.0%	-40.0%	-0.1%
Business/Industry	-15.0%	-30.0%	-5.4%
Fuel/Service Stations	-10.0%	-50.0%	0.0%
Food/Drugs	5.0%	5.0%	2.0%
General Consumer Goods	-15.0%	-45.0%	-2.5%
Restaurants/Hotels	-10.0%	-60.0%	-6.5%
State/County Pools	15.0%	10.0%	7.3%

If Pasadena's sales tax follows these trends, FY 20 revenues will be \$4.3 million less than forecasted and FY 21 will be at least \$2.2 million lower than the 5-year forecast projections. However, Pasadena's heavy dependence on the Autos/Transportation, Restaurant/Hotel, and General Consumer Goods categories will provide greater volatility. We are aware of layoffs occurring in Pasadena and it is unrealistic to expect businesses will return to 100% immediately following the Safer at Home measures.

In regards to the tax generated by Measure I, the locally generated taxes should mirror the table above with FY 21 being \$3.9 million lower than the 5-year forecast. The original forecast reflected strong growth above the originally forecasted \$21 million; therefore the projected reduction is greater. Measure I is still forecasted to generate \$22.3 million in FY 21. The primary variance will be from online sales as those retailers remit the Measure I tax directly to the City rather than through the State or County pools. Therefore, retailers such as Amazon will have increased growth similar to the County pool rather than their regular business category of General Consumer Goods.

On April 2nd Governor Newsom announced sales tax deferment measures to help small businesses with cash flow issues. The first measure is immediate and extends the payment deadline by 90 days for the first quarter of calendar year 2020 to the end of July. This extension will delay revenue received by the City for several months and may result in \$3.3 million in revenue being recorded in FY 21 instead of FY 20. This payment delay may create an additional revenue shortfall in FY 20, but would help offset losses in FY 21. The second measure announced is a \$50,000 tax deferment of up to 12 months for small businesses. This measure will allow small businesses to delay payment of up to \$50,000 in sales tax for up to 12 months without penalty. Initial information shows that any deferments will be spread out against all tax rates and will include the City's base 1% Bradley-Burns tax and the Measure I tax. While these deferments will not be a permanent loss of revenue, it will negatively affect the City's cash flow and shift up to \$2.5 million.

IMMEDIATE AND FUTURE ACTIONS

To offset the immediate loss of revenue in the current fiscal year the plan is to utilize approximately \$16.3 million of unassigned fund balance. This, along with projected underspending of \$9 million and proceeds from the impending sale of the Concord Senior Apartments will offset the projected \$18.9 million loss.

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Thanks to Measure I, prior to the current crisis, staff had intended to recommend the appropriation of \$8.5 million in General Fund dollars to the City's Capital Improvement Program budget for FY 21. However, given the currently projected loss of \$10.8 million in FY 21, rather than jeopardize the City's ability to provide essential services, these dollars have been reprogrammed to balance the Operating Budget. Through this action the Recommended Operating Budget for FY 21 is balanced without the use of reserves.

An update to the City's financial model based on more recent revenue projections indicates that although FY 21 is balanced relatively small operating deficits are likely in the following fiscal years. Normally, this would not be cause for alarm; however, at this juncture it is difficult to tell how pronounced the long-term impacts of the COVID-19 pandemic will be on the economy. Moreover, should these current projections come to pass, or become worse, the City would find itself in the position it was prior to the passage of Measure I; spending more annually than it brings in and having no capacity to reinvest in critical infrastructure.

General Fund Five-Year Forecast

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	Final	Projected	Forecast	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	11,162,617	22,718,783	6,394,346	6,497,414	5,448,247	3,081,919	443,841
Revenues							
Tax Revenues	194,366,526	199,297,749	207,566,168	215,304,817	222,019,367	229,220,924	236,741,562
Other Revenues	46,897,874	42,958,455	45,907,984	47,039,998	48,201,144	49,392,187	50,613,912
Contributions/Svs. From Other Funds	20,236,156	20,607,388	19,640,438	20,490,438	20,490,438	20,490,438	20,490,438
Total Revenues	261,500,555	262,863,592	273,114,590	282,835,253	290,710,949	299,103,549	307,845,912
Expenses							
Personnel	155,736,508	163,636,026	176,227,211	183,517,299	190,195,487	196,515,041	198,697,526
Debt Service	13,698,271	10,744,034	10,475,309	11,352,470	11,588,198	11,588,529	12,322,553
Contributions To Other Funds	14,443,772	32,964,673	13,301,473	14,067,502	14,348,853	14,635,830	14,928,546
Other Expenses	62,340,438	71,843,296	73,007,529	74,947,149	76,944,739	79,002,228	81,121,609
Total Expenses	246,118,990	279,188,029	273,011,522	283,884,420	293,077,277	301,741,627	307,070,234
Operating Income/(Loss)	15,381,566	(16,324,437)	103,068	(1,049,167)	(2,366,328)	(2,638,078)	775,678
Ending Amount Available for Appropriations	26,544,183	6,394,346	6,497,414	5,448,247	3,081,919	443,841	1,219,519
Reserve for Capital	-	-	-	-	-	-	-
Contribution to Policy Reserve	3,825,400	-	-	-	-	-	-
Net Income/(Loss) with Reserve Contribution	11,556,166	(16,324,437)	103,068	(1,049,167)	(2,366,328)	(2,638,078)	775,678

Recognizing that such a situation is far from optimal, we are making plans now to ensure a return to the more promising financial picture that existed prior to the COVID-19 pandemic. Even before the current crisis, the Recommended Operating Budget for FY 21 had been developed with very few enhancements. Those that have been included were done to address a particular need or issue. For example:

- Convert all City buildings to "Go Green" by working with the Pasadena Water and Power Department to convert the traditional electricity plans to 100% green energy;
- Lease of 14 defibrillators. Half of the Fire Department's 28 defibrillators, which are on every front line and reserve apparatus, are becoming obsolete and will no longer meet current standards for patient care;

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- 1.0 FTE Fire Captain to manage recruitment, training, and retention activities for firefighters. With current vacancies and retirements on the horizon, hiring and training efforts are critical to ensure sufficient and safe staffing levels of firefighters;
- Tenant rights counseling provided by the Housing Rights Center. Even before COVID-19, the Housing Department had identified a need for counseling services. As the pandemic leads to financial loss and greater economic fallout, the potential for tenant displacement will only grow more and the timeliness of these services will be critical for those in need;
- 1.0 FTE Office Assistant (limited term) to assist with Section 8 open enrollment. The Housing Department is predominantly grant funded, which creates a heavy administrative workload for programmatic staff to bear;
- Fully fund the ROSE (Realizing Opportunities through Summer Employment) Program that supports 165 summer interns;
- 1.0 FTE Management Analyst IV to address internal audit concerns and provide day-to-day oversight of all contracts, vendors and processes in connection with the parking garages, surface lots, and parking meter districts. As equally important, the Parking Division has been in much need of long range planning and this position will help develop the Garage Assessment Study and Parking Strategic Plan; and
- Maintain a reliable fleet by replacing those that have exceeded their useful lives and are in constant need of repair. Replace four refuse side loaders, seven utility vehicles used in responding to power maintenance issues/outages, and four utility vehicles used for daily water customer service, field projects and inspections.

Subsequent to the development of the Recommended Operating Budget, as the scope of the current economic crisis has become clearer, staff has identified a series of immediate budget reductions, totaling \$2.47 million overall and \$1.85 million in the General Fund, which are recommended for immediate implementation along with the adoption of the budget. These reductions are not expected to impact existing service levels in a significant way.

As the City proceeds into FY 21, opportunities for additional cost savings will be pursued further. This work will be accomplished in a careful methodical fashion that seeks to maintain all essential City services.

The City of Pasadena has existed for 134 years. Over those years the City's institutions have managed through all sorts of calamities and economic disruptions. Once again, our community's strength and resiliency is being tested. As in the past, Pasadena will rise to the challenge.

Respectfully submitted,



Steve Mermell
City Manager

Attachment: PUSD 2019-20 Measure J Expenditure Report



Pasadena Unified School District

Business Services

Dr. Leslie Barnes, Chief Business Officer

To: Dr. Brian McDonald, Superintendent
Steve Mermell, City Manager

From: Dr. Leslie Barnes, Chief Business Officer

Subject: 2019-20 Measure J Expenditure Report

Date: April 30, 2020

In compliance with the memorandum of understanding dated March 25, 2019, between the City of Pasadena and the Pasadena Unified School District with regard to Measure I Revenues, the district is submitting its first annual expenditure report of the use of Measure J funds.

Background

On November 6, 2018, Pasadena voters approved Measure I, establishing a $\frac{3}{4}$ cent transaction and use tax, with a 68.74 percent approval. At the same time, voters also approved Measure J, an advisory vote asking whether one-third of the revenue from Measure I should be used to support Pasadena public schools, which garnered a 72.05 percent yes vote.

Upon approval of the transaction and use tax, a joint committee of city and school district officials was established. This committee recommended three priority areas for the use of Measure J funds, which were approved as part of the MOU between the City and PUSD.

- **Priority One:** Maintain an adequate level of reserves, as required by State law.
- **Priority Two:** Restore and maintain existing educational programming that would otherwise face reduction/elimination, including, but not limited to, the following programmatic areas; International Baccalaureate, Dual-language Immersion, Science/Technology/ Engineering/Arts/Math (STEM/STEAM), Visual & Performing Arts, and International Academy
- **Priority Three:** Other projects and programs that benefit public school students

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Pasadena Unified School District

Business Services

Dr. Leslie Barnes, Chief Business Officer

2019-20 Measure J Revenues

- Measure J revenues represent approximately 4 percent of the District's total unrestricted general fund revenues and approximately 57% of the District's local revenues.
- Measure J revenues were projected in the District's budget and 1st Interim Report to be \$5 million and were increased to \$7 million in the 2nd Interim Report based on monthly cash receipts.

Month	Amount
July	\$ 435,948.87
August	\$ 563,635.59
September	\$ 769,085.08
October	\$ 656,891.24
November	\$ 719,021.16
December	\$ 731,683.10
January	\$ 627,902.92
February	\$ 628,477.12
March	\$1,126,293.87
April	\$ 633,795.49
May	\$
June	\$
*Total	\$ 6,892,734.44

*District records Measure J revenues on a cash basis

Priority One

- *In the 2019-20 Fiscal Year, 94% of the Measure J funds were used in this priority area.*
- The District is required to maintain a 3% Reserve for Economic Uncertainty in the budget year and two subsequent years.
- The first priority for use of Measure J funds was to provide greater fiscal stability by increasing the District's reserve levels.
- The chart below shows that Measure J funds, as well as budget reductions, have successfully increased the reserves from a projected negative in the third year from the 2018 Second Interim Report to a projected surplus of 1.69% from the 2020 Second Interim Report.
- However, District's reserve levels still remain well under that of the median of 16% for a unified school district according to the Legislative Analyst's Office.

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PUSD Second Interim Report	Budget Year	2 nd Year	3 rd Year
March 2018	4.55%	4.16%	-.67%
March 2019	7.13%	5.34%	3.04%
March 2020	8.99%	7.18%	4.69%

Factors Impacting District Reserve Levels

- The District's continued declining enrollment reduces revenues faster than its ability to offset these losses. This is exacerbated when the decline is anticipated to continue into the foreseeable future. Thereby, creating a structural budget deficit.
- The state and federal mandates such as Special Education substantially increase costs annually without additional revenue. Therefore, increasing the structural deficit and eroding budget reduction efforts.
- In an environment of COLA only revenue increases from the state and continual declining enrollment, the district cannot close enough schools or reduce staff sufficient to offset the structural deficit and still meet State and Federal mandates while keeping essential programs intact.
- In 2019-20 the District received a Cost of Living Adjustment (COLA) of 3.26% or approximately \$4 million. However, the COLA was offset by a loss of \$6.2 million due to declining enrollment and \$2.9 million in increased pension costs and other employee benefit costs.

Actions to Mitigate Revenue and Enrollment Declines

- In December 2018 the Board of Education took action to reduce on-going cost by \$10.8 million for the 2019-20 fiscal year.
- In November 2019 the Board of Education voted to close four schools for the 2020-21 school year. This is anticipated to reduce \$3.2 million in personnel savings.
- The District is conducting an advertising campaign to increase enrollment, which includes direct mailers, digital and print advertising in Pasadena Now and Outlook, social media, as well as advertisements on city bus shelters and in city busses.

Priority Two

Importance of Programmatic Offerings

- The District must provide attractive programs to compete with private and charter schools in the area. The cost of these program offerings also contributes to the structural deficit since they require additional staff and materials that are not specifically funded by the state. However, without spending additional funds on such programs, the District runs the risk of further enrollment decline.

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- The residence of Pasadena, Altadena and Sierra Madre value arts and music education and consider visual and performing arts essential to the PUSD educational offerings. Additional funds are not provided for such programs by the state and most public-school districts have eliminated or reduced the programs the District currently maintains.
- ***Because the District used Measure J funds to maintain and build its reserve levels, it was able to maintain each of the following signature programs:***
 - International Baccalaureate (\$710,476)
 - Dual-language Immersion (\$647,877)
 - Science/Technology/ Engineering/Arts/Math [STEM/STEAM] (\$132,768)
 - Visual & Performing Arts (534,168)
 - International Academy (\$307,943)
 - Math Academy (\$126,775)
 - College and Career Pathways (\$516,770)
- The District was also able to restore essential positions that were reduced prior to the passage of Measure J
 - Three Special Education Coordinator Positions (\$436,796)
 - ***This expenditure represents 6% of the 2019-20 Measure J funds***
- Had the District not used Measure J revenues to maintain and build reserves, reductions or elimination of its signature programs as well as other programs such as athletics would have been necessary. Also, reductions in positions such as nurses, counselors, librarians, assistant principals, security officers, as well as additional district office staff would have been necessary

Priority Three

- The District was not able set aside Measure J funds for this particular area due to the need use the funds in Priority One and Two. However, the District regularly provides projects and programs that benefit students through our various funding sources.

Summary 2019-20 Expenditures:

- Measure J funds are estimated to be \$7 million
- 96% of the funds were spent in Priority One to strengthen fiscal stability by increasing PUSD's required reserves.
- 6% of the funds were spent in Priority Two to restore three special education coordinator positions for the high schools
- The District was able to maintain all of the programmatic offerings listed in Priority Two because it was able to increase its reserves

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- Had the District not substantially used the funds to increase reserves it would not only have had to reduce or eliminate the programs listed in Priority Two it would have had to reduce or eliminate other program offers and essential positions in order to meet its reserve requirements.

2020-21 Estimated Expenditures

- It is anticipated that in light of the Coronavirus crisis, state education funds will be significantly reduced and therefore, the district will need to use 100% of the Measure J funds in Priority One to maintain its required reserve levels.

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