



# Agenda Report

February 8, 2021

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee (February 3, 2021)

**FROM:** City Manager

**SUBJECT: PROPOSED AMENDMENTS TO BALANCE THE FISCAL YEAR  
2021 GENERAL FUND OPERATING BUDGET**

## **RECOMMENDATIONS:**

It is recommended that the City Council:

1. Find that the action proposed herein is not a "project" as defined in State CEQA Guidelines Section 15378(b);
2. Approved the proposed amendments to the Fiscal Year (FY) 2021 Operating Budget; and
3. Amend the City Council Department's FY 2021 Operating Budget by adding a 1.0 Full-time Equivalent (FTE) City Council District Liaison and appropriating \$60,000 from the unappropriated General Fund balance, and
4. Amend the City Attorney's Office FY 2021 Operating Budget by adding a 1.0 FTE Management Analyst II and appropriating \$38,500 from the unappropriated General Fund balance.

## **BACKGROUND:**

Since the outset of the COVID-19 pandemic, staff has been carefully monitoring the impact of the associated economic shutdown on City revenues and reporting regularly to the City Council Finance Committee.

As previously discussed with the Finance Committee and City Council, the fiscal impacts of COVID-19 are very significant, leading to a sharp decline in several key City revenues most notably Sales Tax and Transient Occupancy Tax. Fortunately, many economists including the most recent UCLA Anderson Forecast, are predicting that following a difficult winter, once COVID-19

vaccine is widely available, economic growth will be robust. Specifically, the Anderson forecast is predicting growth as follows:

Period	Projected GDP Growth
4 <sup>th</sup> Quarter 2020	1.2%
1 <sup>st</sup> Quarter 2021	1.8%
2 <sup>nd</sup> Quarter 2021	6%
3 <sup>rd</sup> Quarter 2021	3%

Given the likelihood of a "V" shaped economic trend, staff believes that the City's fiscal strategy should be one that focuses on managing through this difficult period until economic activity begins returning to normal, without making difficult and permanent service reductions.

In November, staff reported to the Finance Committee that the then current General Fund financial forecast indicated a projected revenue shortfall of approximately \$8.4 million, partially offset by an expenditure savings of \$7.0 million; leaving a shortfall of approximately \$1.4 million for the current fiscal year.

Unfortunately, more recent analysis reveals that the hotel industry continues to struggle, compounded by impacts of the recent Stay At Home Order. Hotel occupancy around the Thanksgiving holiday was less than 40% for that week and the Average Daily Rate (ADR) continued to drop to \$114. Occupancy for the same week in 2019 was 68% with an ADR of almost \$170. The combination of the two data points dropping resulted in a 68% reduction in revenues for hotels. Consequently, projections have been revised downward resulting in an additional \$1 million net loss to the General Fund for the current fiscal year, bringing the total projected gap for the current fiscal year to \$2.4 million.

Consistent with the aforementioned fiscal strategy, staff has identified a series of one-time actions to balance the General Fund operating budget. Additionally, as has been discussed previously, the Rose Bowl Operating Company (RBOC) and the Pasadena Center Operating Company (PCOC), have seen their respective revenues significantly impacted as a result of not being able to host large scale events. In June, 2020 the City Council appropriated \$8.2 million from the City's 5% General Fund contingency reserve to cover the RBOC's debt service in the current fiscal year. It is anticipated that for next fiscal year, the General Fund will need to do similarly as the Rose Bowl's ability to stage large events will be limited at best. At present, the PCOC has sufficient reserves to make it through FY22.

Therefore, staff is recommending the City Council accept the full list of actions proposed herein and set aside (in the General Fund 5% reserve) those dollars exceeding what is necessary to balance the General Fund operating budget (approximately \$2.4 million), to be used to offset any further revenue loss not

already accounted for, offset COVID 19-related expenses or to be appropriated as part of the FY22 Operating Budget to help meet the debt service needs of the RBOC.

### ***Proposed One-Time Budget Amendments***

1. **Recognize \$1.89 million in Construction and Demolition program deposit forfeitures.** At the direction of the City Manager, staff is currently auditing the Construction and Demolition program managed by the Department of Public Works pursuant to the Construction and Demolition Waste Management ordinance, P.M.C. Chapter 8.62. Under this program, those undertaking construction projects are responsible for recycling a portion of the project waste. Contractors/developers pay deposits to the City to help ensure compliance with the program requirements. Contractors/developers who meet their obligations may apply for rebate of their deposits.

At the end of FY20 the City was holding more than \$10 million in deposits for projects that go back as far as 2004. While the majority of these funds, \$7.3 million, are for projects with building permits issued in 2016 to present, there are funds that should have been forfeited or escheated to the City, but have not. One of the purposes of the current audit is to determine just how much should be transferred to the General Fund. It is anticipated that either through forfeiture or escheatment, at least \$1.89 million will be recorded as revenue in the General Fund this fiscal year.

2. **Reduce the transfer from the General Fund to the Building Maintenance Fund (Preventative Maintenance program) by \$541,000.** Each year the City's various funds contribute a combined total of \$1.0 million to the Building Maintenance Fund for preventative maintenance and repairs of City facilities. This contribution is above and beyond the monthly charges for custodial work, utilities and elective work that is reimbursed separately. Of the \$1.0 million contribution, \$541,000 comes from the General Fund. The preliminary financial figures for FY20 show a healthy fund balance in excess of \$6.0 million in the Building Maintenance Fund, so it could absorb a one-time suspension of payments with little to no impact.
3. **Reduce vehicle replacement contributions from the General Fund to the Vehicle Replacement Fund by \$780,000.** Annual contributions to the Fund for vehicle replacement are budgeted at \$3.13 million for FY21 including General Fund contributions of \$2.66 million. Over the past two fiscal years (FY19 and FY20) the Fleet Maintenance Fund has transferred year-end surpluses totaling \$918,000 to the Fleet Replacement Fund. These transfers are above and beyond the replacement cost allocations and could be used to offset the contribution required in FY21, resulting in a one-time savings to the General Fund of \$780,000. At the end of FY20 the Fleet Replacement Fund is expected to have a fund balance in excess of \$13 million.

4. **Reduce the transfer from the General Fund to the Library Services Fund by \$500,000.** The Library Special Tax requires an annual transfer from the General Fund to the Library Services Fund in order for the tax to be assessed. Section 4.109.185.C of the Library Special Tax ordinance states that, “an ending balance in the library services fund for any fiscal year may be credited the following fiscal year towards the minimum threshold amount from the general fund.” The preliminary FY20 figures show a fund balance in the Library Services Fund in excess of \$6.0 million. The FY21 Budget already considers using \$500,000 of fund balance to offset the required transfer and this would be an additional \$500,000 for a total of \$1.0 million. This action would leave the Library Services Fund with a \$5 million fund balance which is reasonable given that annually the Fund receives annual contributions from the General Fund.

<b>Proposed Amendment</b>	<b>Amount</b>
Recognize revenue from C&D program	\$ 1,885,000
Reduce transfer to Building Maintenance Fund	\$ 541,000
Reduce vehicle replacement contributions	\$ 780,000
Reduce transfer to the Library Services Fund	\$ 500,000
Sub-Total	\$ 3,706,000
Estimated amount needed to balance the budget	\$ (2,400,000)
Allocation to 5% Operating Reserve for future RBOC debt service and/or other COVID 19-related expenses	\$ 1,306,000

These proposed amendments are recommended to be taken as a whole and used to balance the General Fund operating budget and cover any additional General Fund shortfalls due to additional revenue losses or new expenditures related to COVID-19 response.

***City Council Liaison – Addition of 1.0 FTE***

Historically, the Office of the Mayor and each City Council district has had a dedicated City Council District Liaison. Under the direction of a Councilmember or the Mayor, the District Liaisons serve as a representative of each respective Councilmember, liaison with constituents and perform related functions.

As part of the FY 2018 Adopted Operating Budget, the Mayor's District Liaison position (1.0 FTE) was removed from the City Council Department's budget in an effort to help address the City's structural deficit and balance the budget. This left the Executive Assistant to Mayor/Council and the Management Analyst III to the Mayor/Council as the only administrative positions to support the Mayor. On November 3<sup>rd</sup>, 2020, Victor M. Gordo was elected as the Mayor of Pasadena. Mayor Gordo has requested to reconstitute the District Liaison for the Office of the Mayor and amend the City Council Department's operating budget accordingly. Upon approval, personnel changes will be initiated to help with the transition and current flow of business.

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### ***Management Analyst II – Addition of 1.0 FTE***

In October 2020, the City Council established a Community Police Oversight Commission (CPOC) by ordinance. The purpose of the Commission is to enhance, develop, and strengthen community-police relations, and review and make recommendations regarding the ongoing operations of the Police Department to the Chief of Police, City Manager, and/or City Council.

The proposed Management Analyst II position will provide support for the CPOC on an ongoing basis. Duties may include, but not limited to:

- Develop, update, and maintain files specifically related to the CPOC and the Independent Police Auditor (Auditor) using various office systems
- Treat files used by PCOC and Auditor in conformance with confidentiality over personnel records and criminal investigations
- Maintain the CPOC calendar, and facilitate, organize, schedule, and participate in meetings and conference calls; prepares CPOC meeting agenda and takes meeting minutes
- Acts as a liaison with Police Department staff to facilitate CPOC/Auditor requests for records and information
- Provide assistance to members of the public concerning reporting and investigation of complaints regarding Police Department personnel

The estimated cost for this position from March through June 2021 is \$38,500. Ongoing funding for this position will be included in the Fiscal Year 2022 Operating Budget.

### ***Future Financial Outlook***

The City entered the COVID-19 pandemic in a strong financial position, with a combined 20% General Fund reserve, available fund balance over and above these reserves and a Section 115 trust reserve. The impact of COVID-19 has effectively exhausted the available fund balance and eliminated a quarter (5%) of the General Fund reserve.

As discussed above and previously with the Finance Committee and City Council, the City should be able to manage through until economic activity returns to normal. The single greatest challenge going forward is likely the Rose Bowl debt service and the ability of the RBOC to generate revenues to pay all or a portion of that obligation.

**COUNCIL POLICY CONSIDERATION:**

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through approving reductions to balance the FY 2021 Operating Budget.

**FISCAL IMPACT:**

The approval of the proposed reductions will maintain a balanced General Fund operating budget for Fiscal Year 2021 and provide additional financial resources to offset COVID 19-related revenue losses and costs.

The addition of the two FTEs will increase total appropriations; however, the included reductions will offset the personnel increase.

Respectfully submitted,

  
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MATTHEW E. HAWKESWORTH  
Director of Finance  
Department of Finance

Approved by:

  
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STEVE MERMELL  
City Manager

Attachment: (1) General Fund Five Year Financial Plan