

Agenda Report

TO: CITY COUNCIL

DATE: DECEMBER 15, 2008

FROM: CITY MANAGER

SUBJECT: OPERATING BUDGET UPDATE

RECOMMENDATION:

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

BACKGROUND:

On November 11th staff presented a mid-year budget update to the City Council which outlined the fiscal challenges facing the City, specifically a widening structural deficit and a down economy, coupled with the need to make significant capital investments in the community in order to maintain and improve quality of life.

Since staff's original presentation, the U.S. economy has continued to deteriorate and is now officially in recession. Job losses continue to rise, with November witnessing the largest one-month decline in employment in more than 30 years. Employers cut a total of 533,000 jobs in November, bringing total losses to more than 1.2 million over the last three months. A record, one in 10 American homeowners with a mortgage was either at least a month behind on their payments or in foreclosure at the end of September. Additionally retail sales, as measured by the same-store sales index, fell 2.7% in November, the worst month ever since creation of the index roughly 40 years ago.

Pasadena's diverse economy and desirable housing market gives the City a comparative advantage relative to other communities during times such as these; nevertheless, the City's General Fund revenues are being significantly impacted by the current downturn. The following table highlights the change in tax revenue from October 2007 to October 2008; the most recent period for which data is available.

Comparison of General Fund Revenues FY08 to FY09 as of Oct. 31			
	FY08 Actual 1st Qtr	FY09 Actual 1st Qtr	Difference
Sales Tax	4,347,395	3,914,439	-10.0%
Transient Occupancy Tax (TOT)	2,989,125	2,719,128	-9.0%
Utility Users Tax (UUT)	8,062,114	10,233,887	26.9%
Construction Tax	1,964,894	1,354,569	-31.1%
Property Tax*	1,793,049	1,794,512	0.1%
Other Taxes	7,091,936	6,705,189	-5.5%
Total Tax Revenue \$ as of Oct. 31	26,248,513	26,721,724	1.8%
Total General Fund Revenue \$ as of Oct. 31	52,875,370	51,741,299	-2.1%

In total, General Fund revenues were down more than \$1 million or 2.1% thru October 31st as compared to the same period last fiscal year.

As compared against a total General Fund budget in excess of \$230 million a reduction in revenue of this magnitude may not appear overly significant. That is, until placed in context with the assumptions of the adopted budget.

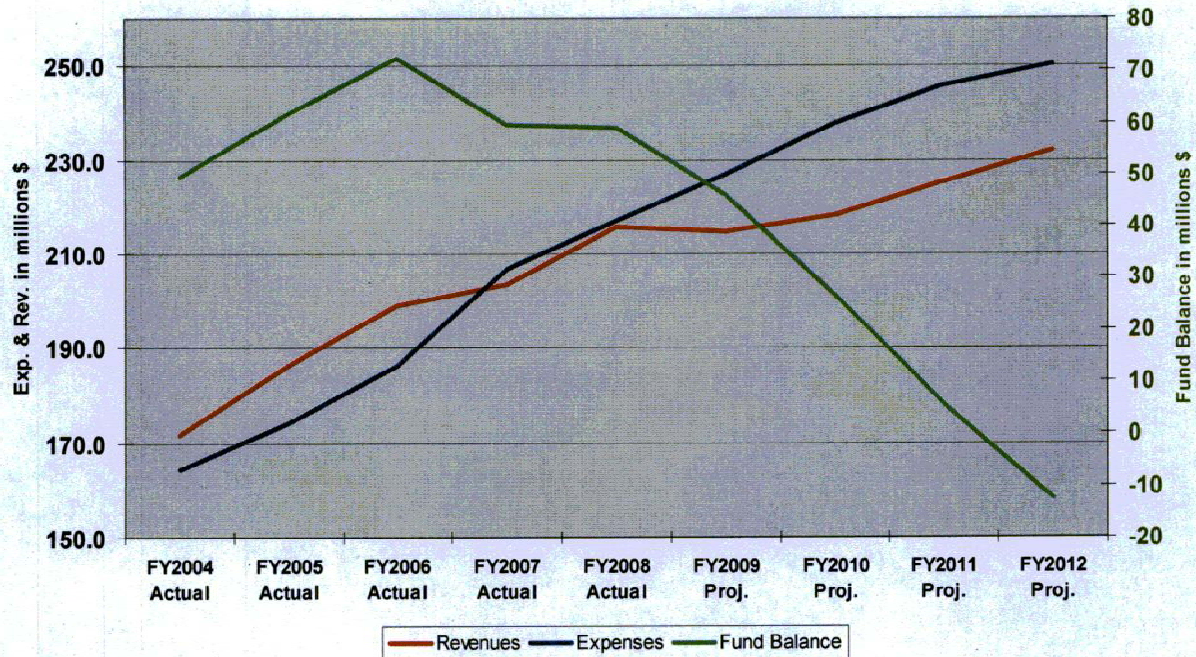
Historically, the City's budget assumptions have been conservative and actual results have been better than anticipated, with revenues generally higher at year end and expenses generally lower. For example, in fiscal year 2008 total expenses were 1.5% less than budgeted and total revenues exceeded budget by 3.5%. In combination this narrowed a projected gap of \$11.3 million to \$1.8 million, excluding transfers to reserves.

The adopted fiscal year 2009 budget anticipated that revenues would be 3.5% higher, approximately \$7.3 million, than the fiscal year 2008 budget. However, a budgetary gap of roughly \$13 million excluding transfers to capital projects appeared to exist due mainly to continued growth in expenditures, mostly in the personnel category. Historically, however, these projections tend to be conservative and although some operating deficit would be expected, there was every reason to believe that it would narrow by the end of the fiscal year and that the structural deficit issue could be addressed without significant service reductions. This now seems unrealistic given the current economic climate as growth in revenue appears unlikely until the broader economy moves into recovery. Consequently, unless actions are taken the City is likely facing an operating deficit exceeding \$10 million in the current fiscal year and the anticipated gap for next fiscal year is projected to be even wider with personnel costs expected to rise close to \$5 million and debt service requirements increasing by \$7 million.

Reducing expenses is the only way to mitigate the impact of the current recession and correct the structural deficit that if allowed to continue, will jeopardize the City's long-term financial stability.

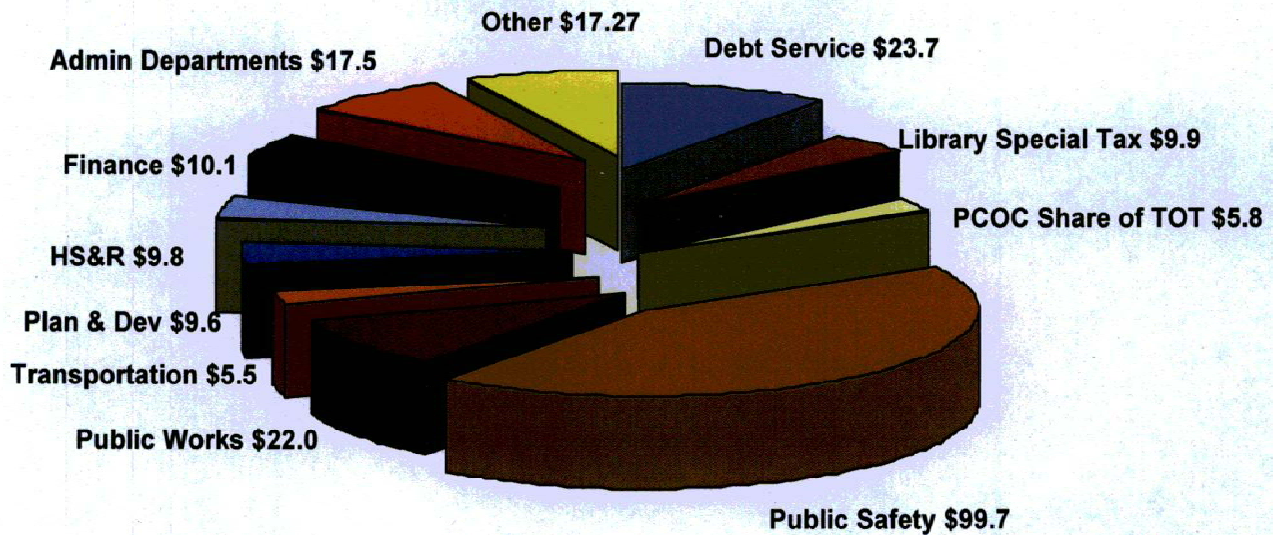
At the end of fiscal year 2008 the General Fund had a total unreserved fund balance of \$59 million, including the 10% General Fund reserve. To the extent that expenditures remain unchecked and revenues fail to meet projections, this fund balance will be reduced.

Revenues, Expenses and Fund Balance



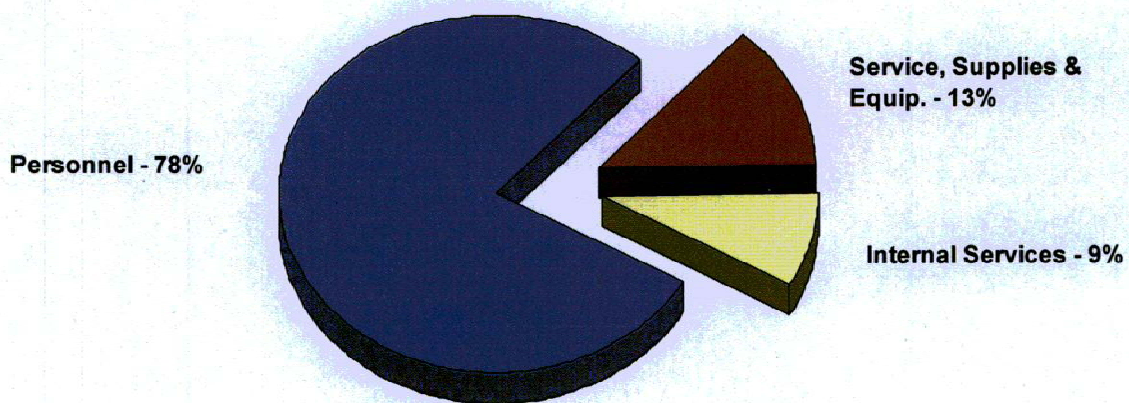
As discussed in November, certain elements of the budget such as debt service and the General Fund portion of the Library Special Tax are not discretionary; consequently savings will have to be achieved within the other departments.

General Fund Operating Budget



City departments have been directed to identify managed savings plans, the goal of which is to keep total expenditures for the current fiscal year at no more than 95% of appropriations. While the General Fund is the primary focus of this effort, other funds which are impacted by the current downturn as well as internal service funds which pass a portion of their costs to the General Fund, are also being asked to meet this target.

Since personnel accounts for the majority of departmental expenditures much of the focus, at least in the near term, will be managing vacant positions in order to achieve budgetary savings.



Holding open all positions in the General Fund that are currently vacant for the balance of the fiscal year would generate roughly \$5.2 million in savings. However, in order to maintain service levels in key areas some positions will need to be filled. Within departments and across the organization efforts aimed at reducing costs and improving efficiency will be undertaken. Some efforts already underway or suggested for further analysis include analyzing the delivery of information technology services, modifying replacement schedules for large equipment such as fire apparatus, redirecting costs where appropriate from the General Fund to enterprise funds; an example of this is shifting street sweeping to the refuse fund.

To assist in this effort, the Public Strategies Group, with whom the City contracted this past summer, will return to aid departments in identifying strategic opportunities for improvement.

It must be recognized that these efforts will take time and that bringing expenses fully in-line with revenues will take more than one year given the economic climate and we are already half way through this fiscal year. As part of the Fiscal Year 2010 operating budget process, which is currently underway, departments will be developing options for maintaining the 5% managed savings as well as achieving an additional 5% to 10% reduction.

Although the main focus of this discussion has been the General Fund, the Public Health Department is at present potentially facing an existential threat. As a result of state actions funding for the Public Health Department was reduced by approximately \$1.2 million or more than 10% in the current fiscal year. Given the state's bleak fiscal outlook, additional funding cuts are very likely, which if implemented call into question the ability of the Public Health Department to continue to serve the community in a meaningful way.


In addition to the challenges facing the operating budget, staff is also trying to address the capital infrastructure needs as identified by the City Council in the Unfunded Priorities and Key Projects and Initiatives reports. Together these two reports have listed approximately \$733 million in needs that would make important capital investments to city parks, bridges, transit expansion, and traffic improvements.

During Monday night's presentation, staff will be prepared to discuss proposed reductions, service level impacts, and revenue increases that would allow us to meet the operating budget deficit and begin addressing the infrastructure needs. We will also be prepared to review our reserve levels to determine what the appropriate level to maintain is and what is the capacity for the City to issue Certificates of Participation as a potential funding source for the infrastructure needs.

FISCAL IMPACT:

Staff will continue to monitor the revenues and expenses for the fiscal year 2009 budgets and return to City Council with budget amendments needed to maintain the fiscal health of this city.

Respectfully submitted


for MICHAEL J. BECK
City Manager

Prepared by:



Steve Mermell
Acting Director of Finance.

**City of Pasadena
Unfunded Priorities, Key Projects and Initiatives**

Project	Estimated Cost	Current Appropriations
Parks, Recreation and Community Services		
Pasadena Ice Skating Facility	26,625,000	2,930,000
Urgent Care Facility	3,800,000	500,000
Acquisition of Annandale Canyon Estates for Open Space	7,000,000	2,500,000
Rose Bowl Loop Improvements	450,000	50,000
Restroom Bldgs (Replace or Construct) at Eaton-Blanche, Grant, Allendale, Memorial & Victory Parks	1,555,000	0
Replacement or Installation of Security Lights at La Pintoresca, Brenner, Villa, McDonald, Jefferson, Victory, Gwin, Sunnyslope, Eaton-Blanche, Defenders & San Rafael Parks	3,065,000	0
Memorial Park - Implement Master Plan	1,202,233	0
Washington Park - Implement Master Plan	1,000,000	0
Central Park - Implement Master Plan	2,954,400	0
New Park Playground Equipment and Site Amenities at San Rafael and Sunnyslope Parks	675,000	0
School Park Site Improvements	1,365,000	0
Hamilton Park - Various Projects	1,008,779	0
Hamilton Park - Installation of Skateboard Park	335,000	0
Villa Park - Synthetic Soccer Field Upgrade & Installation of Soccer Field Bleachers	1,375,000	0
Grant Park - New Backstop and Player Seating	37,000	0
Robinson Park Master Plan	19,500,000	5,805,000
School Park Site Improvements (PUSD Private Capital - future years FY11-14)	38,500	0
New York Drive Median Islands	545,000	0
Median Island Irrigation Replacement on Sierra Madre Blvd (south to east city limits & Colorado Blvd (Sierra Madre to Kinneloa)	1,242,000	0
Union Street Parkway Landscaping	200,000	0
Library Irrigation Replacement - Various Locations	240,000	0
Pasadena Avenue and Bellefontaine Median Landscaping	78,000	0
School Park Site Improvements (PUSD Private Capital - future years FY11-14)	38,500	0
Third multipurpose field at Hahamongna	8,000,000	0
Completion of Arroyo Seco Master Plan	80,000,000	0
Athletic Field Lighting	3,000,000	0
City/School Parks	1,730,000	324,500
Allendale Park	1,300,000	0
New Parkland in the Central District	17,400,000	0
Pocket Parks	21,700,000	0
Eastside/Westside Greenbelts	10,000,000	0
Total - Parks, Recreation and Community Services	217,460,412	12,109,500
Public Safety		
Traffic Signal Emergency Preemption	1,700,000	200,000
Public Safety Training Facility and Fire Department Admin at 3160 Del Mar	Undetermined	
Total - Public Safety	2,500,000	200,000
Infrastructure and Facility Improvements		
San Rafael Bridge Seismic Retrofit	2,987,080	34,000
Holly Street Bridge Seismic Retrofit	8,037,980	0
Arroyo Blvd Bridge Seismic Retrofit	1,378,000	0
Sidewalk Repair Program	15,000,000	0
Accessibility Improvements at City Libraries, Community and Recreation Centers	4,125,300	0
Reconfiguration of Police Helipad	600,000	0
Pasadena Humane Society Expansion (requested support)	2,000,000	0
Acquisition/rental and rehabilitation of the YWCA building	Undetermined	0
La Loma Bridge Rehabilitation	15,500,000	10,636,165
Civic Center/Mid-town Public Improvements	19,500,000	3,832,000
Conversion of overhead utilities	138,000,000	0
Renovation of the Rose Bowl Stadium	200,000,000	0
Soundwalls along the 210 freeway	38,500,000	0
Total - Infrastructure and Facility Improvements	445,628,360	14,502,165
Affordable Housing		
Affordable Housing	32,500,000	
Total - Affordable Housing	32,500,000	
Transportation		
Arts Bus Expansion	4,600,000	0
Arroyo Pkwy & Del Mar Blvd Improvements	3,145,000	0
Arroyo Pkwy & California Blvd Improvements	4,105,000	0
Del Mar Blvd & Hill Ave Improvements	3,331,250	0
Foothill Blvd & Rosemead Blvd Improvements	2,360,000	0
Foothill Blvd & Sierra Madre Villa Ave Improvements	1,230,000	0
Lake Ave & Maple Street Improvements	1,125,000	0
Lake Ave & Walnut Street Improvements	9,385,000	0
Neighborhood Traffic Management efforts in Bungalow Heaven	765,000	0
Electronic Speed Signs	800,000	0
Traffic Signal Modifications near Goldline Crossings	1,200,000	0
Pedestrian Way Finding Signage	1,600,000	0
Traffic Signal Synchronization Citywide	800,000	50,000
Total - Transportation	34,546,250	50,000
TOTAL	732,635,022	26,861,665