

Agenda Report

December 1, 2014

TO: Honorable Mayor and City Council
FROM: City Manager's Office
SUBJECT: BUDGET WORKSHOP TO CONSIDER PRIORITIES FOR FISCAL YEAR 2016 BUDGET PREPARATION

RECOMMENDATION:

It is recommended that the City Council:

1. Receive a report on the City's overall financial position in advance of preparation of the Recommended Fiscal Year 2016 Operating and Capital Budgets; and,
2. Consider establishing general programmatic priorities for the Fiscal Year 2016 budget preparation process.

BACKGROUND:

Recently, City staff began the budget process for Fiscal Year 2016. Fortunately, as the City stands poised to enter the next fiscal year, the financial position continues to improve following the dramatic reductions in revenues brought on by the Great Recession and the necessary corresponding reductions in expenditures.

Today, nearly all funds across the City are predicted to end the current year in a positive position; albeit modestly. However, many remain well below their pre-recession levels in terms of both revenues and expenditures. The most notable example is the City's General Fund. In Fiscal Year 2009, actual expenditures for the General Fund totaled \$225 million, whereas the revised budget for Fiscal Year 2015 stands at \$210 million and actual expenditures are predicted to be less than this full amount. Given increases in overhead costs such as employee medical and retirement contributions, the \$15 million reduction over a six year period is very significant. Also significant is the fact that through the leadership provided by the City Council, the City has been able to bring expenditures in-line with revenues and create a new equilibrium wherein positive net income has returned and fund balances are once again growing.

The General Fund 5-year Forecast serves as the guide in the development of the Recommended Operating Budget. The Forecast has been updated to reflect lower revenues from sales taxes and utility users' taxes and higher costs associated with personnel benefits. All other revenue and expense lines have also been carefully reviewed in order to provide the best possible prediction for the next several fiscal years.

Based on the updated Forecast, it is estimated that the General Fund could have approximately \$1 million in net income for Fiscal Year 2016 and the positive trend is expected to continue over the current 5-Year forecast. This projection is consistent with the trends identified in the Financial Status Report that was presented to the City Council Finance Committee on October 27th (Attachment A).

As indicated in that same report, other major City funds continue to perform largely as anticipated by the Fiscal Year 2015 budget, with some exceptions. The Light and Power Fund is currently forecast to have a negative variance, expenditures exceeding revenues, by roughly \$2 million. This is largely a timing issue related to the settlement of purchased power transactions and is not indicative of any overall negative trend. The City's Housing & Career Services Funds are trending in a more positive direction, however, it should be noted that beginning in Fiscal Year 2014, the General Fund began providing an annual subsidy of approximately \$1 million which has continued into Fiscal Year 2015 and is anticipated to continue over the term of the current General Fund 5-year Financial Forecast, to make up for revenues lost through federal cuts and reduced local inclusionary housing fees.

The Building Services Fund, which accounts for revenues and expenditures associated with building activity, has rebounded strongly from the deficit position it was in during the recession. The Fund is currently forecast to end the current year with positive net income of \$1.7 million or more, greater than twice that originally estimated when the budget was adopted. Moreover, the increase in local development, specifically, multiunit housing is expected to improve revenues in the Housing Fund as some developers choose to pay the Inclusionary fee rather than develop onsite affordable units.

The Public Health Fund ended Fiscal Year 2014 with negative net income of \$2 million. Much of this is related to the lack of timely invoicing for grants. The problem has been successfully addressed and in the current fiscal year \$1.6 million, which should have been received in Fiscal Year 2014, has now been received. As a result the Fund is expected to end the current year with more than \$2 million in positive net income. Nevertheless, this fund remains somewhat fragile as its fund balance includes receivables that are unlikely to be collected and will therefore need to be written off. As this occurs, the overall fund balance will be reduced. Staff is currently engaged in this exercise to determine the amount of uncollectable receivables as well as taking appropriate steps to ensure the continued viability of the Public Health Department.

Taken as a whole, when combined with other positive net income in other City funds, Fiscal Year 2016 presents the City Council with its first opportunity in several years to consider establishing priorities on where to invest available funding which is in excess of that necessary to meet current operations.

Pasadena is a unique and special community with services and programs that would be the envy of many other cities. These unique programs and services make Pasadena the quality city that it is. Unfortunately, the demand for new and enhanced programs and services far exceeds the current staff and fiscal resources of the City, despite the improvement in fiscal position.

Consequently, the objective of the budget workshop, in addition to providing an overview of the City's overall financial position, and future fiscal challenges, is to provide the City Council an opportunity to establish budget priorities and identify key initiatives at the outset of the budget process. For example, the Council may wish to prioritize rebuilding the General Fund reserve, which remains nearly \$9 million below the policy level of 20% of appropriations; invest in new programs and services that address current or future needs or expand existing programs, which could consist of one-time projects or on-going programs.

In hopes of facilitating this discussion, staff has identified various initiatives consistent with the City Council Goals that the City Council could consider and prioritize. The initiatives are listed on Attachment B and organized according to the established City Council Strategic Plan Goals:

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

The City Council may choose to prioritize items on the list, and/or add or remove initiatives depending on their level of importance, recognizing that only a few of the initiatives will be able to be achieved based on current personnel resources and available funding. Once the top City Council priorities are identified, staff will work to identify possible funding methods that will be presented during the budget hearings in May 2015.

Through the budget process, staff will seek creative ways to identify funding to support the City Council priorities, which might cross multiple departments and/or Funds. The importance of establishing priorities is that there are a limited amount of human and financial resources to apply to new or expanded initiatives so a process for narrowing down the options is necessary. Funding alternatives might include increases to rates

and fees, grants, or the creation of new funding sources. Some initiatives may not be possible at this time based in limitations in identifying funding sources.

COUNCIL POLICY CONSIDERATION:

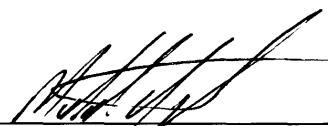
Prioritizing initiatives in preparation for the budget process is an essential part of strategic planning. Each initiative is intended to enhance the City Council Strategic Planning Goals—noted below.

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

FISCAL IMPACT:

The budget workshop is not intended to have recommendations resulting in a direct fiscal impact, although the initiatives will have a fiscal impact if they are pursued through the Fiscal Year 2016 budget process and such impact will be identified at that time. It is important to note there are limited opportunities to create new or enhance existing initiatives without the identification of new funding sources.

Respectfully submitted,



MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Financial Status Report FY 2015 through September 2014
Attachment B – FY2016 Budget Priority Considerations