

April 29, 2019

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

It is my pleasure to present the Recommended Fiscal Year 2020 (FY20) Budget for the City of Pasadena. The Budget, both Operating and Capital, make possible the many services and facilities 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. The budget seeks to continue 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.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

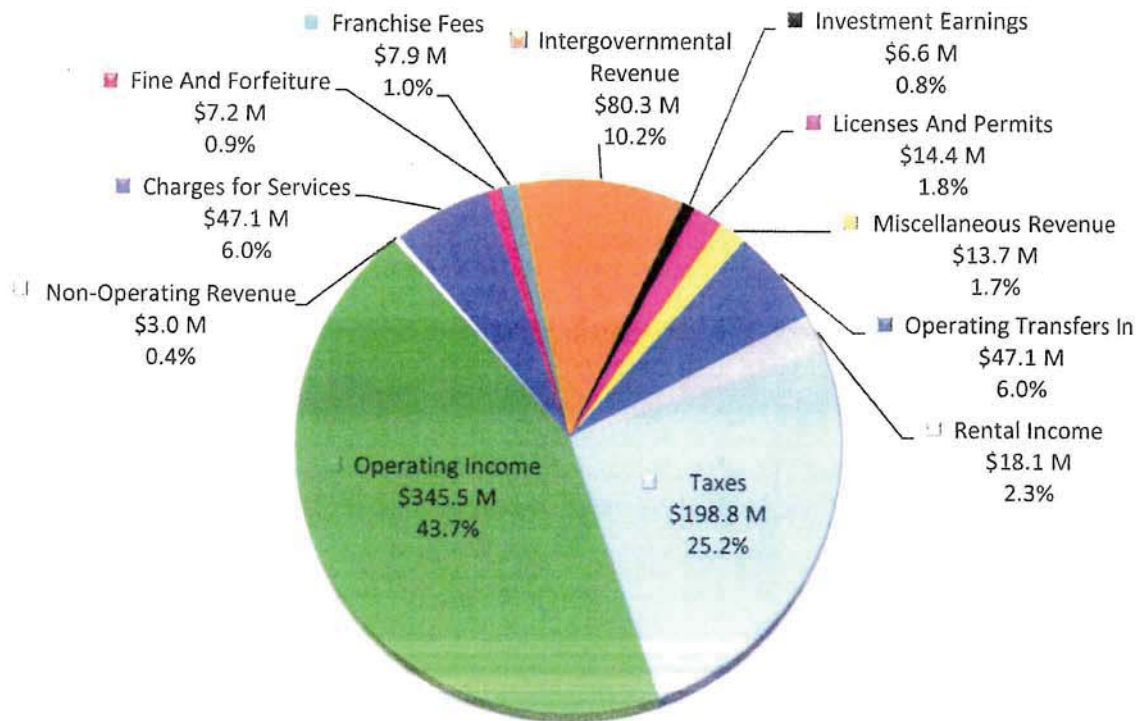
	FY 2018 Actuals	FY 2019 Adopted	FY 2020 Recommended
General Fund	\$259.1	\$246.1	\$274.4
All Funds	\$811.9	\$816.7	\$872.5

Full-Time Equivalent Positions
(including Affiliated Agencies)

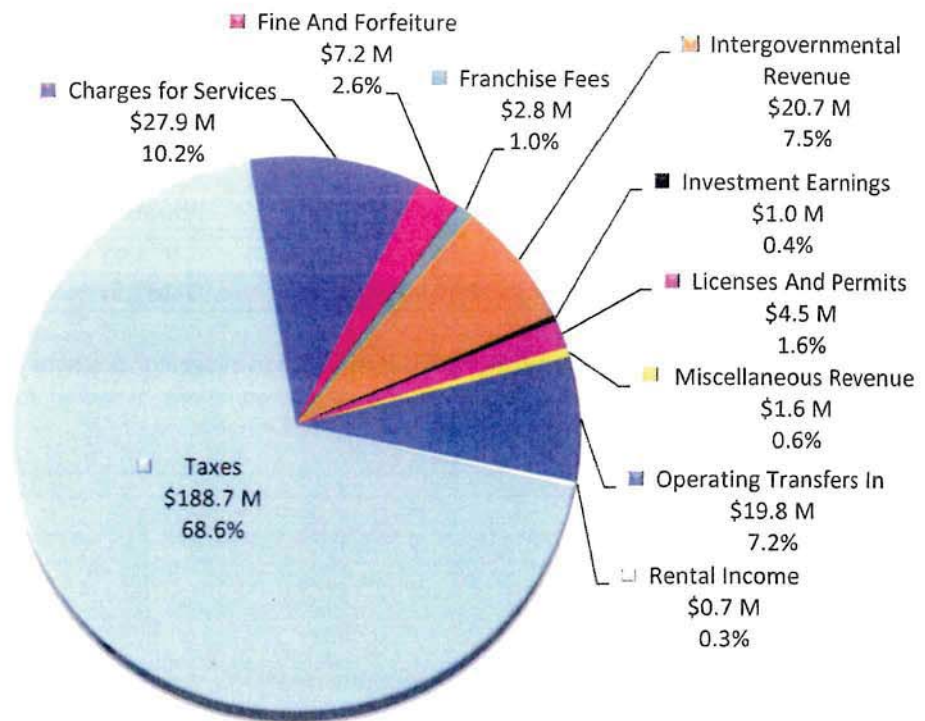
	FY 2018 Adopted	FY 2019 Adopted	FY 2020 Recommended *
General Fund	983.75	974.91	1,002.80
All Funds	2,171.26	2,181.57	2,272.70

*As of FY 2020, the City's FTE total now includes previously "non-budgeted" positions (56.00 FTE MASH trainees, 8.00 FTE Firefighter trainees, 12.42 FTE Retirees). There are no appropriations budgeted for these positions – only the FTE authorization to meet ERP system requirements.

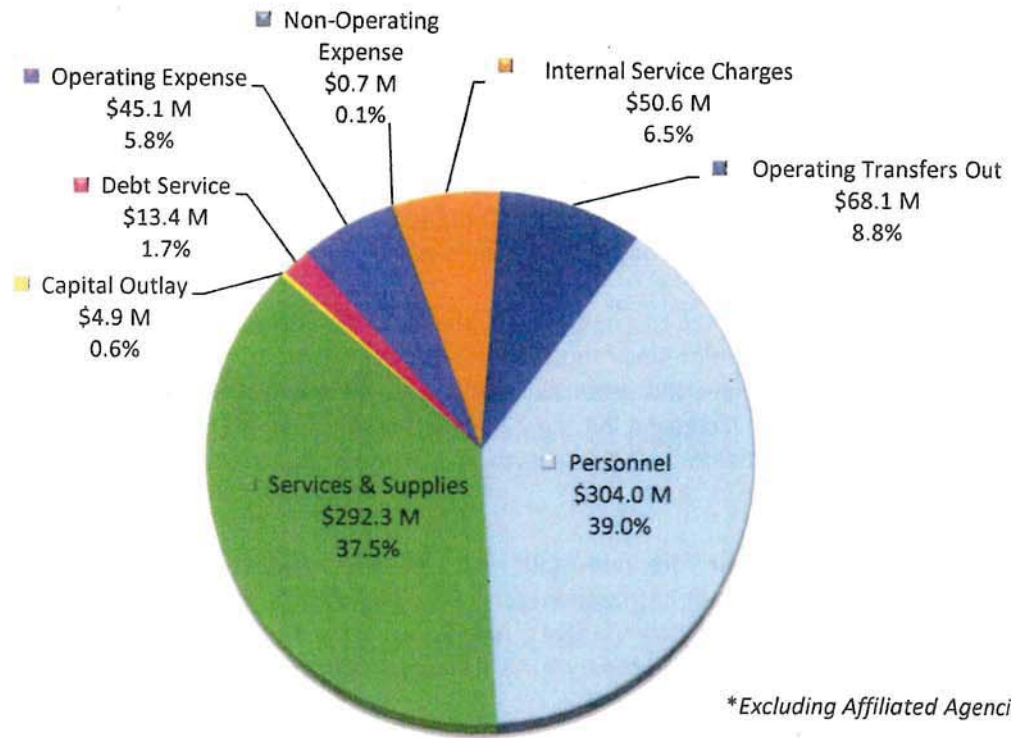
FY 2020 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)



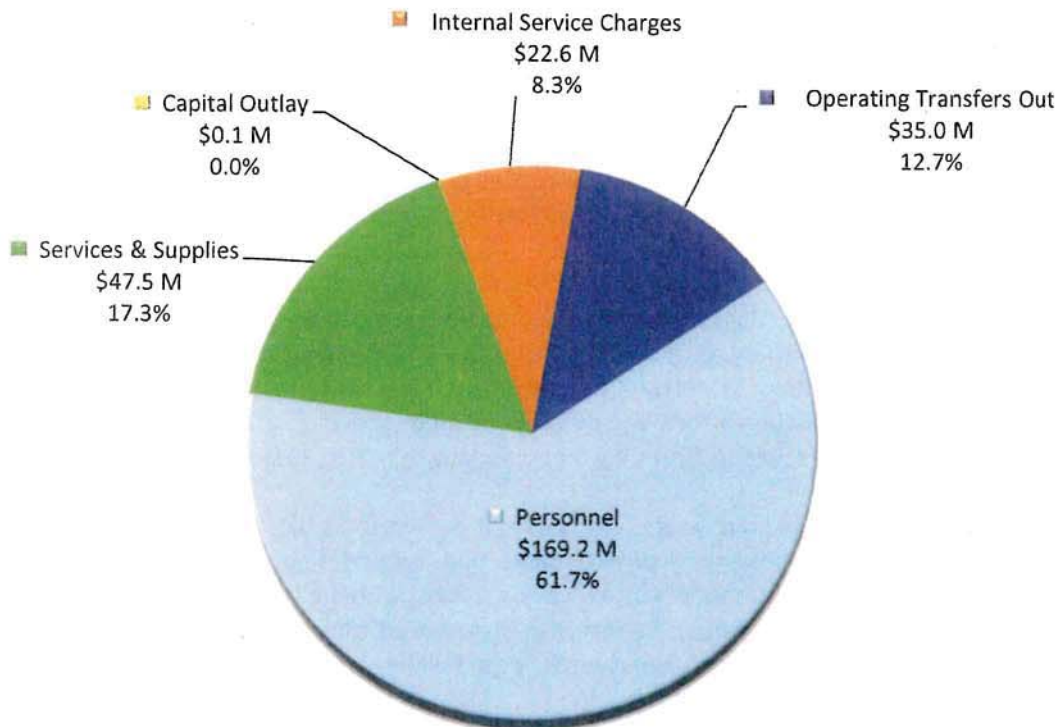
FY 2020 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



FY 2020 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2020 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)



THE CURRENT ECONOMIC CLIMATE

STATE AND FEDERAL LEVEL

As the City of Pasadena prepares to enter Fiscal Year 2020 it does so against a national economic backdrop of slow but steady growth. The real Gross Domestic Product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2018. The increase in real GDP for the fourth quarter reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, private inventory investment and federal government spending. Those gains were partly offset by negative contributions from residential fixed investment, and state and local government spending.

Nationally, job growth screeched to a halt in February, with nonfarm payrolls up only 20,000. This marked the worst month for job creation since September 2017, when two major hurricanes hit the employment market. Many analysts believe this was a fluke and time will tell in the coming months. In California, layoff-warning filings have increased, hitting 30% more workers compared to the prior year. While the layoffs may be averted, California's job growth of 1.9% over the past 12 months is at its lowest since 2012.

The year-over-year Consumer Price Index (CPI) rose 1.5% in February 2019, which is the third month in a row that the 12-month change has been under 2.0%. Meanwhile, the year-over-year Core CPI Index, which excludes food and energy components, rose 2.1% for the 12 months ending February 2019. Over the past year, the food index increased by 2.0%, its largest 12-month increase since April 2015 while the energy index declined 5.0%.

THE LOCAL ECONOMY

Pasadena's local economy continues to perform well with the latest unemployment rate at 4.0% compared to Los Angeles County as a whole which was at 4.7%.

Commercial development continues to be robust. The Constance Hotel completed its final phase which includes a pool deck, dining and special event space. The 179 room Hyatt Place hotel celebrated a ribbon cutting and welcomed new guests in mid-December 2018 bringing a welcome addition to the Paseo block, just in time for New Year's. And, there are potential plans for up to as many as four other new hotels in the City. Additionally, Transient Occupancy Tax related to short-term rentals has performed slightly better than expected, with annual receipts of roughly \$700,000.

Pasadena's economic base includes many successful businesses particularly in the fields of finance, healthcare and technology. High tech company Gemalto signed a lease for 56,000 square feet at 3100 New York Drive; First Financial Credit Union is moving its headquarters into Pasadena bringing 120 jobs; GM Cruise (General Motors self-driven car subsidiary) just leased 48,000 square feet vacated by Community Bank; and Bluebeam software outgrew its office space on Lake Avenue and moved into the historic Royal Laundry building on South Raymond Avenue in March 2019.

Lincoln Properties broke ground on its first phase of the Parson's block which will include nearly 400 housing units, 200,000 sf of new office space, and ground floor retail space along Fair Oaks Avenue. Education and health services also received a boost with the start of Kaiser Permanente's School of Medicine on Los Robles Avenue. Caltech has also moved forward with significant investments on campus, the most recent being the Chen Neuroscience building which broke ground in the fall.

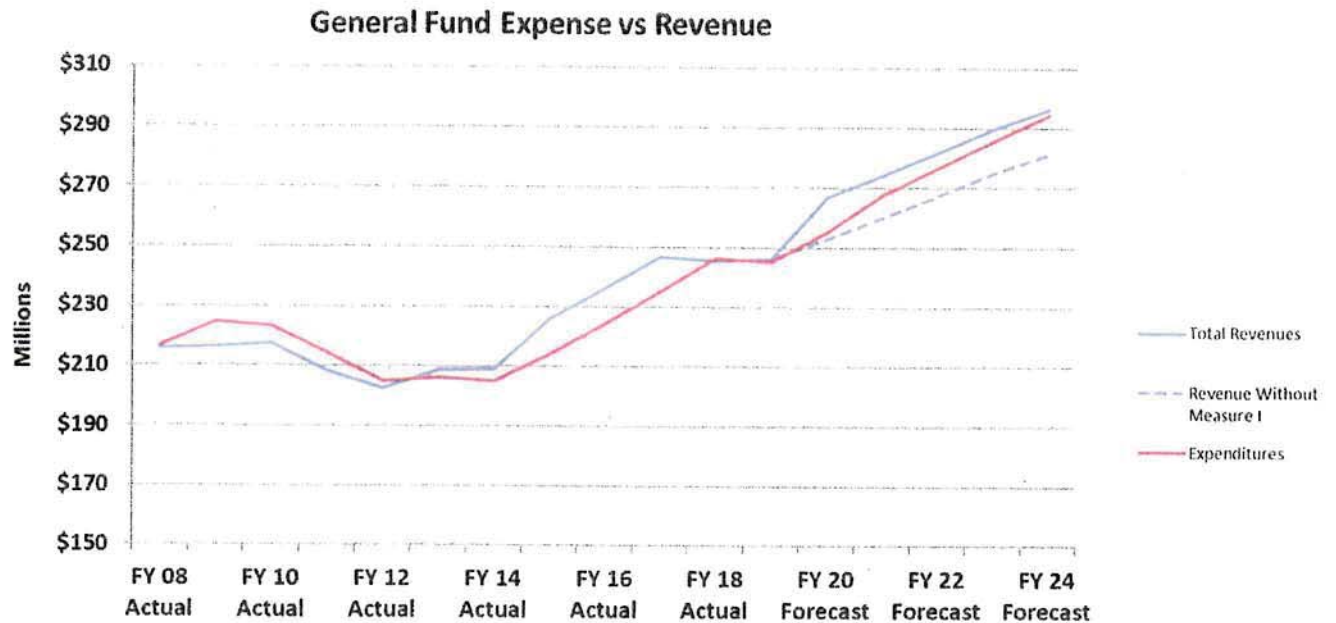
Home Depot purchased the property previously occupied by Avon Corporation and is working towards opening a store at that location within the next two years, which will generate significant local sales tax. In June, 2018 Pasadena voters approved land-use regulations to permit a number of cannabis operations as well as a related excise tax. It is anticipated that in early FY20 the City will begin to receive revenue as a result.

Several new restaurants have opened in the last year, creating an important balance to the retail sector that has remained relatively flat. Overall, with the scope of new development and continued success of local employers, Pasadena's economy remains healthy.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

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. The current Forecast for FY20 is attached as Exhibit A. By tracking and trending current and anticipated revenues and expenses, the forecast provides a tool for the City's policymakers. In recent years, the five-year projection indicated that increases in operating costs, mostly in the personnel category, coupled with overall flat revenue growth were leading the City to spend more annually than it brings in, thereby creating a structural deficit that would grow if not addressed. In such a situation, the City's fund balance i.e., its reserves would be drawn down to fill the gap. While this might be less of a concern during relatively short periods of economic downturn, it is not sustainable over the long-term.

Consequently, over the past three fiscal years, the City has successfully executed a fiscal strategy which reduced over \$6.1 million in General Fund expenses, including the elimination of 22 vacant staff positions, the de-funding of five other positions and additional reductions. Not wanting to reduce essential City services and acknowledging the need to reinvest in critical infrastructure, the City Council, in November 2018 asked Pasadena voters to approve a ¾-cent sales tax measure. Measure I, which was passed by better than a 2/3rd margin, is anticipated to generate \$21 million annually, beginning in FY20. A separate advisory measure, Measure J, asked voters whether the City Council should share 1/3 of Measure I revenues with Pasadena Public Schools, as the success of the City is tied to the success of its schools. That measure received over 72% support of voters. This past March, the City Council took action to approve a Memorandum of Understanding with the Pasadena Unified School District to operationalize the will of the voters.

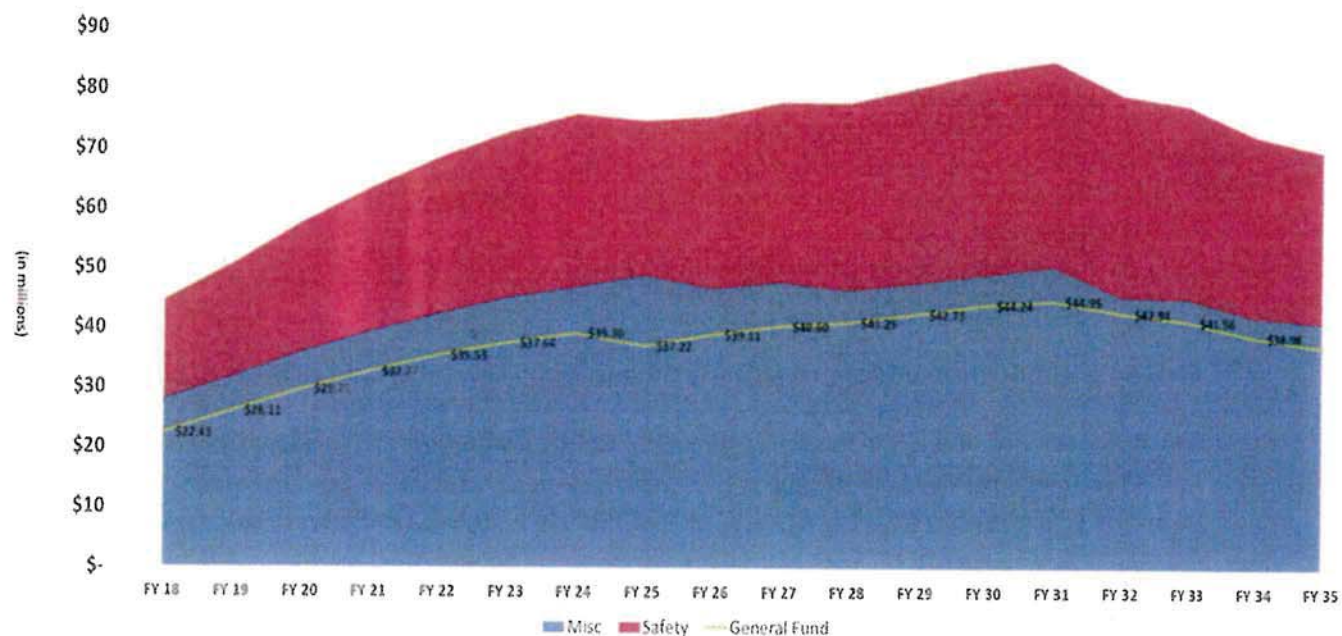


As indicated by the chart above, without the additional revenues provided by Measure I, the Recommended Operating Budget for FY20 would require reductions exceeding \$3.6 million to be balanced without the use of reserves. Thankfully, due to the passage of Measure I, not only is the recommended operating budget for FY20 balanced, revenues are expected to exceed expenses by \$10 million.

Nevertheless, given current revenue and expense trends, there is a risk that in a few years, and not accounting for an economic recession, expenses will once again begin to outpace revenues. This is because despite a local economy that continues to expand, the growth in overall City revenues, even with Measure I, is not projected to keep pace with increases in the cost of providing City services. Particularly as it relates to personnel costs which accounts for 62% of overall General Fund spending for FY20.

Most significant in the personnel cost category has been the dramatic increase in payments to the Public Employee Retirement System (CalPERS), which provides pension benefits to former City employees. The City's total Unfunded Accrued Liability (UAL) stood at \$460 million dollars as of the most recent valuation, as of June 30, 2017. This amount represents the amortized dollar amount needed to fund benefits already earned by current and former City employees. From a budgetary perspective, the City has seen its PERS contributions rise from \$29.3 million in FY14 to over \$57.8 million for FY20. As indicated by the following chart, the issue will become even more pronounced over the next decade or so.

At the state-level there have been pension reforms. In 2013, the Public Employees' Pension Reform Act (PEPRA) went into effect. As a result of this act, persons hired after January 1, 2013 receive a less generous pension formula and will have to contribute to the cost of their pensions. Currently, 30% of the City's workforce are covered by PEPRA. Unfortunately, it will take many years before these changes make a dent in the City's UAL. In addition, in Pasadena 100% of current CalPERS eligible City employees are contributing a combined \$14 million towards their pensions in FY19.



Recognizing the significance of the pension issue, in June 2017 the City Council allocated \$12.5 million towards the establishment of an IRS Section 115 Trust. A 115 Trust is an investment vehicle that allows the City to invest funds to pay for future pension and benefit liabilities. Given the size of the City's UAL, \$12.5 million represents merely a fraction of a single fiscal year's PERS payment; however, if additional dollars are added to the Trust, through the use of one-time revenues and surplus funds at the end of each fiscal year, over the course of the next few years, the City can build up reserves sufficient to reduce the impacts of future General Fund pension contributions. This spring, staff will review various options for maximizing the value of the Trust with the City Council Finance Committee.

Past prudent fiscal management on the part of the City Council has allowed Pasadena to maintain a AAA credit rating on its General Obligation bonds by Standard and Poor's and a AA+ rating from Fitch ratings. Moreover, the City's current General Fund emergency and operating reserve is funded at a combined 20%, which equals \$47 million. Consequently, Pasadena's fiscal position is strong.

To maintain this strength, the key fiscal challenge going forward is to ensure that expenses do not exceed revenues and that there are sufficient funds to reinvest in critical infrastructure; something that has been lacking over the past decade or so. With this in mind, proposed enhancements to the Recommended FY20 Operating Budget are very limited totaling \$505,000 (of which \$357,000 are one-time expenditures), as discussed below, with the vast majority of available funds (\$9.375 million) being recommended to address a number of the City's pressing capital needs.

In the Operating Budget, staff is recommending the following enhancements:

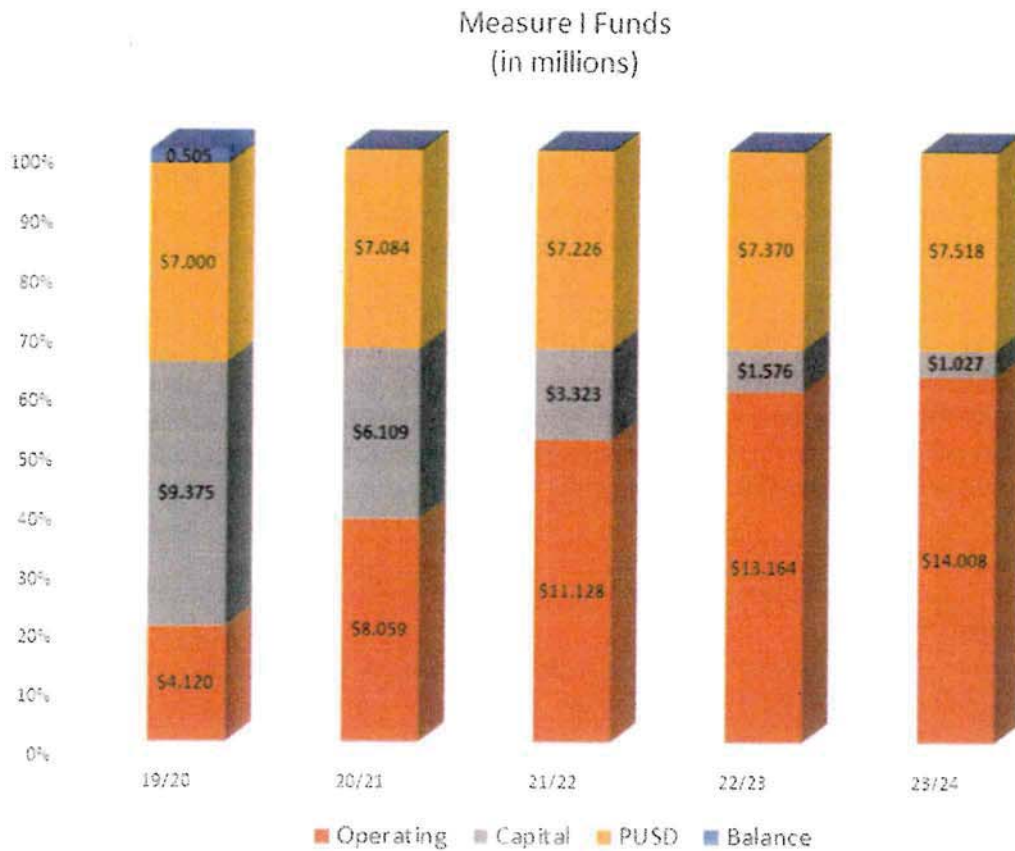
- Paramedic training for Fire Fighter staff. The City's fleet of five Advanced Life Support Ambulances are staffed by Fire Fighter Paramedics. Additionally, it is our goal to have at least one Fire Fighter Paramedic on each Fire Engine and Fire Truck. In order to maintain this level of service additional Fire Fighters need to be trained as Paramedics - \$317,000

- Addition of a Case Manager to further the City's existing Homeless Outreach efforts - \$80,000. Homelessness is arguably the most difficult issue facing the City today as its causes are several, the problem regional and permanent solutions difficult to implement. The City operates a number of effective programs, but given the scale of the problem additional resources are needed
- Addition of 1.0 Recreation Site Coordinator at Washington Park. The neighborhood surrounding this heavily used park in the north-central area of the City would benefit greatly from additional programming - \$68,000
- To ensure the most complete count of Pasadena residents, funds are being recommended for Census outreach - \$40,000

In the Capital Improvement Program Budget staff is recommending the following priorities:

- Replacement of 9-1-1 emergency communications equipment - \$2 million recommended, total project cost estimate \$8 million
- Replacement of Fire Station #37 - \$1.5 million recommended, total project cost estimate \$21.3 million
- Fire Station renovations and improvements - \$1.5 million recommended, total project estimate cost \$3 million
- Citywide facility improvements (Jackie Robinson Community Center and La Pintoresca Library) - \$1 million
- High-voltage street light replacement/conversion - \$1 million, total project cost estimate \$11.5 million
- Colorado Street Bridge suicide prevention barriers - \$750,000, total project cost estimate \$3 million
- City Hall building security management - \$625,000, total project cost estimate \$1 million
- Fire alarm and sprinkler system for Central Library - \$500,000, total project cost estimate \$1,050,000
- ADA sidewalk improvements/replacement - \$500,000 additional funding to be added to \$1 million annual General Fund contribution and \$500,000 in Community Development Block Grant funding.

Given that the City's capital needs exceed \$300 million in identified but yet funded projects, coupled with the reality that over time more proceeds from Measure I will be needed to balance the operating budget, the City will likely need to consider a new debt issuance in two or three years, supported with Measure I funds, to continue re-investment in its capital infrastructure.



While the focus of this Transmittal Letter is largely on the General Fund, the fiscal health of many of the City's special revenue and enterprise funds continue to be challenged, and the adopted budget includes the use of fund balance (i.e., reserves) for programs supported by some of these funds. The Library and Information Services Department, which is primarily supported by a mandatory General Fund contribution of more than \$11.8 million in order to continue collecting the Library Special Tax, which itself expires in 2023, is using \$204,000 of fund balance to continue existing operations. The five-year forecast for the Library Fund shows that future and substantive reductions will be required to bring expenditures in line with revenues.

The City's Off-Street Parking Garages have historically been self-funding with revenues covering the expenses of operating the garages. However, as operating costs have increased over time and the facilities have aged (most are 30–40 years old) the Off-Street Parking Fund has been expending its reserves on both operational and maintenance expenses. While expenses have grown, revenues have not kept up because the rates charged for parking have not changed in 15-20 years. Moreover, recent trends in travel and retailing are affecting parking demand and are beginning to reduce parking revenues. The five-year forecast for the Off-Street Parking Fund indicates that serious consideration as early as FY20 should be given to updating the rates charged for parking. Without an increase in revenue, which should include shortening or eliminating free periods for parking, it is likely that General Fund support will be needed for the garage system in the next five years.

The City's Rose Bowl Operating Company (RBOC), with an annual budget that exceeds \$50 million, is facing increased competition from smaller venues in the region and the soon to be opened professional football stadium in Inglewood. Additionally, the decline in the popularity of golf has significantly impacted what had traditionally been a significant revenue source for the RBOC. To its credit, by hosting concerts and other special events as well as building a strong relationship with the Legacy Foundation, the RBOC has been able to maintain its operations and manage the debt service on the \$231.7 million in bonds issued by the City in support of the Stadium's 2010 renovation project and past projects, without support from the General Fund. Unfortunately, given the many challenges, this may not always remain the case.

Nevertheless, taken as a whole, the City's financial position looks much better moving into FY20 than it did on the cusp of FY19. The successful passage of Measure I will balance the General Fund Operating Budget in the near-term, provide funds to begin addressing many longstanding capital needs, and afford the City time to think strategically about the services it provides and its various delivery models to ensure sustainability over the long-term. This, coupled with the City Council's continuing commitment to fiscal discipline and sound management, will enable the City of Pasadena to maintain its exceptionally high quality of life.

Respectfully submitted,



Steve Mermell
City Manager

General Fund Five-Year Forecast

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
	Projected	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	11,162,617	8,864,788	7,087,478	7,087,478	7,087,478	7,087,478
Revenues						
Tax Revenues	184,271,100	210,238,000	215,754,889	221,404,579	227,596,061	234,425,553
Other Revenues	45,279,498	44,921,058	46,020,667	47,148,600	48,305,603	49,492,439
Contributions/Svs. From Other Funds	19,990,592	19,757,388	20,719,244	20,719,244	20,719,244	20,719,244
Total Revenues	249,541,190	274,916,446	282,494,800	289,272,423	296,620,908	304,637,236
Expenses						
Personnel	157,633,190	169,180,369	179,279,598	186,487,848	193,088,543	199,324,074
Debt Service	13,598,271	10,744,034	10,601,562	10,756,679	10,989,133	10,991,972
Contributions To Other Funds	15,591,987	24,222,920	14,507,378	14,797,526	15,093,476	15,395,346
Other Expenses	62,844,988	70,259,960	72,117,221	74,029,709	75,999,253	78,027,746
Total Expenses	249,668,436	274,407,283	276,505,759	286,071,762	295,170,405	303,739,138
Operating Income/(Loss)	(127,246)	509,163	5,989,041	3,200,661	1,450,502	898,098
Ending Amount Available for Appropriations	11,035,371	9,373,951	13,076,519	10,288,139	8,537,981	7,985,576
Reserve for Capital	-	-	5,989,041	3,200,661	1,450,502	898,098
Contribution to Policy Reserve	2,170,583	2,286,473				
Net Income/(Loss) with Reserve Contribution	(2,297,830)	(1,777,310)	0	0	0	0