

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 2, 2022

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

I hereby transmit the Recommended Fiscal Year 2023 (FY 2023) 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.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

	FY 2021 Actuals	FY 2022 Adopted	FY 2023 Recommended
General Fund	\$276.3	\$286.7	\$295.5
All Funds	\$886.4	\$898.5	\$955.3

Full-Time Equivalent Positions
(including Affiliated Agencies)

	FY 2021 Adopted	FY 2022 Adopted	FY 2023 Recommended
General Fund	1,007.59	1,011.30	1,028.10
All Funds	2,268.52	2,253.67	2,322.36

Pasadena entered last fiscal year with a guarded sense of optimism with the hope that summer youth programs would return, football and special events would be held at the Rose Bowl Stadium, conferences and expos would return to the Civic Auditorium and convention center, and in-person activities such as shopping and dining would continue. Thankfully, while FY 2022 encountered the COVID-19 related challenges of the Delta and Omicron variants, some sense of normalcy has returned. Looking towards FY 2023, the budget has been developed with an expectation that programs, services and events will continue on a recovery trajectory with the related revenues sources also seeing improvement. It would be naïve to suggest that everything is back to normal, but from a budgetary and operational perspective, the development of this

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budget includes the expectation that we must plan for a new baseline through resetting both revenue and expenditure forecasts with today's realities.

The Current Economic Climate

The national and global economies are facing inflationary pressure not seen for several decades that has been caused by a variety of factors including ongoing supply chain shortages and the war in Ukraine. Upward price pressure on energy, raw materials and finished goods translates to inflation and increases to the Consumer Price Index (CPI) across all sectors of the economy. The year-over-year CPI rose 8.5% in March 2022, which was the highest figure in four decades and the sixth month in a row that the 12-month change had been over 6.0%.

Furthermore, the current consensus of most market analysts is that the Fed will trigger five to seven rate hikes in calendar year 2022 to control inflation potentially raising the overnight Fed Funds rate from 0.08% to 2.0% by the end of 2022. While rising interest rates will positively affect our investment income long-term, it also means that the cost of borrowing in the future will increase and could deter future business expansions and construction projects if the cost of financing becomes cost prohibitive. Additionally, some banks and economists have begun to trigger warnings of a recession in the next twelve to eighteen months.

In March 2021, Congress passed and the President signed into law the American Rescue Plan Act, a \$1.9 trillion dollar economic stimulus. The Plan provides direct funding for local governments (\$360 billion) along with programmatic funding for homeless assistance, rental assistance, public transit and utility assistance. Based upon the modified Community Development Block Grant allocation method being used to allocate funding, Pasadena received \$52.2 million in direct support.

In order to achieve a balanced budget for FY 2022, \$10.8 million of American Rescue Plan Act (ARPA) funds were used to replace revenue losses. These funds provided stability to the General Fund and Parking Fund and prevented a depletion of reserves or expenditure reductions. Additionally, \$10.9 million in ARPA funds were used to fund previously postponed capital improvement projects from FY 2021 including seismic upgrades and tenant improvements at several fire stations.

Throughout the fiscal year, the Finance Department carefully monitored revenue and expenses, reported regularly to the City Council Finance Committee and updated the City's General Fund Five-Year Financial Forecast. As the City approaches the end of FY 2022, many of the largest sources of General Fund revenue: property tax, sales tax, utility users tax and transient occupancy tax, continue to show resiliency and recovery. This added revenue along with expenditure savings should provide for a stronger fiscal position heading into FY 2023.

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As noted above, the City used approximately \$21.7 million in FY 2022 for revenue loss replacement and approved another \$4.6 million to support various public health, housing and direct COVID-19 response efforts. Included in the Recommended FY 2023 Operating Budget is the additional appropriation of \$3.8 million of APRA funds for key projects in the City.

- \$3.0 million to the Housing Department for the future acquisition of homes for affordable housing.
- \$500,000 for the completion of a Historic Resources Survey. The City is part of a select group of cities within Los Angeles County to be designated as a Certified Local Government (CLG). Amendments to the National Historic Preservation Act of 1966 provided for the establishment of a CLG Program to encourage the direct participation of local governments in the identification, evaluation, registration, and preservation of historic properties within their jurisdictions. Given the City's historical and cultural heritage, it is critical to protect those resources which give each community its individual character and sense of place. A historic resources survey is an essential tool for understanding, identifying, evaluating, and integrating preservation into local planning and decision-making processes, and is also important in maintaining the City's CLG status. The total budget for this enhancement is \$500,000 and will be supported with ARPA funds. The survey will span two years.
- \$250,000 to implement a road safety program focused on driver and pedestrian awareness in light of recent pedestrian fatalities. This funding will provide for a year-long campaign including three to four distinct messages and campaigns targeting unique audiences based on the data the City has collected to increase road safety awareness and education. This includes multi-media messaging via social media, bus shelters, in-person events and other targeted outreach.

Following the adoption of the FY 2023 budget and the placement of the permanent City Manager, a process will be developed for future recommendations on how to allocate the roughly \$22.0 million remaining ARPA funds.

Looking Forward

The local and national economies are realizing strong recovery in some areas, while other sectors have been slower to recover, continuing the "K" type of economic recovery. The travel and tourism industry has shown significant improvement from a year ago; however, a full recovery to 2019 levels is not expected until 2024. International travel, especially related to business, is still down significantly and a recovery in this sector will provide additional benefit to Pasadena's economy. Locally, while business closures, including many restaurants, may take years to recover, new business openings and activity in the City's various business districts as a whole have improved from one year ago.

Fortunately, the City has also benefited from the upside of the recovery. Sales tax categories, such as automobile sales and online purchases, have continued to be robust, property tax has

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remained stable, and development activity for new residential and commercial space continues. Additionally, both the Rose Bowl Operating Company and the Pasadena Center Operating Company have strong event calendars booked for the upcoming year.

The budget for FY 2023 is a reset of sorts as both the FY 2021 and 2022 budgets were held relatively flat with the expectation that departments would need to hold the line on expenditures and personnel costs. This year's budget includes an accounting of all current personnel related costs, revised cost allocation methodology for the City's General Liability, Workers Compensation, Benefit funds and Cost Allocation Plan, along with resetting service and supply allocations to be in-line with contractual obligations. Since the City has historically leaned slightly conservative on the expenditure forecast side, departments should continue to have the financial capacity to maintain current operations, absorb some increases due to CPI growth along with taking on a few key enhancements outlined below.

Enhancing the Pasadena Fire Department's local area recruitment initiatives through a Paramedic Internship Program

The Pasadena Fire Department has taken an aggressive approach to local area recruitment and will enhance those efforts through the creation of six 0.5 Full-time Equivalent Positions (FTE) for Paramedic Interns. Recruitment for interns will include a local Pasadena preference with a target age range of 18 – 25 years. Individuals will be hired and enrolled in an approved California paramedic training program and be required to complete a field internship to become eligible for a California paramedic license. Interns will be highly eligible for upcoming Pasadena Fire Department Academies. The total budget for this enhancement is \$141,000.

Ongoing Funding for the Pasadena Outreach Response Team

Created in 2017, the Pasadena Outreach Response Team (PORT) is a program managed by the Pasadena Public Health Department (PPHD) supported by grant funding ending in September 2022. The team provides field-based support and advocacy for people experiencing homelessness who are living with chronic health conditions, experiencing mental health and/or substance use disorders. The team is made up of a firefighter, a PPHD social worker/case manager and a housing resources navigator from Union Station Homeless Services. PORT uses a proactive approach to build trust over time with participants that allows the team to facilitate connections to needed services that include stable housing. In FY 2022 the City Council approved the creation of a second PORT team funded for three years with ARPA funds. This enhancement provides ongoing funding for the first PORT team through the General Fund for the remaining nine months of the fiscal year. The total budget for this enhancement is \$224,000.

Support the City's Violence Prevention Initiative

Through the addition of two 1.0 FTE Park Safety Specialist positions, security at City parks and community centers will be enhanced. These non-sworn positions will be used to provide foot patrol and monitoring services at high use parks and community centers – specifically Jackie Robinson Community Center, Robinson Park, La Pintoresca Park and Villa Parke. The two positions will be stationed at these four locations and available to assist staff and patrons. They

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will enforce all park rules, including the smoking and drinking prohibitions, and all applicable laws and codes. Because they will walk the parks and community center grounds, they will have the opportunity to familiarize themselves with City staff working at these locations as well as regular visitors. Currently, Park Safety Specialists provide patrol services in vehicles for the City's 24 parks and they work late afternoons and evenings. These two new positions will only work at the four locations listed and will work weekdays during daytime/early evening hours when the community centers and La Pintaresca Teen Center are open. The use of these positions will eliminate the need for private security services currently utilized at the Jackie Robinson Community Center. As residents and visitors return to parks and community centers due to safer COVID conditions, it is imperative that everyone feels safe and secure as they enjoy the facilities' amenities and the programming offered by the Parks, Recreation and Community Services Department. Additionally, funding for ongoing consulting services to support the City's Violence Prevention Initiative has been included. The total budget for these enhancements is \$262,000.

In addition to these highlighted enhancements, there are several other administrative type enhancements to clean up prior approved actions by the City Council or add funding for mandated programs. This includes outside legal services, software licensing, homeless encampment clean-up, document scanning, parking enforcement, outdoor dining, and scholarships for community-based youth sports.

All of the proposed enhancements and the resetting of departments' budgets, especially those funded by the General Fund, would not have been fiscally feasible without the financial improvement of the Rose Bowl Operating Company (RBOC). As presented in last year's budget, it was anticipated the RBOC would need ongoing financial assistance to cover a portion of their debt service. Fortunately, as a result of better than expected actuals in both FY 2021 and 2022, the receipt of a \$10.0 million Shuttered Venue grant, and a slightly better future forecast, the RBOC does not require an annual contribution in FY 2023. Additionally, the expected assistance in future years has also decreased and is reflected in the following General Fund Five-Year Forecast.

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General Fund Five-Year Forecast

	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	Budget	Projected	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	0	0	0	698,276	(4,639,634)	(8,086,433)	(12,105,439)
Revenues							
Tax Revenues	216,790,289	221,184,124	233,807,300	241,972,488	249,881,254	257,744,757	265,119,024
Other Revenues	39,993,028	39,993,028	41,694,344	42,713,035	43,757,685	44,828,967	45,927,573
Contributions/Svs. From Other Funds	29,909,283	29,909,283	20,715,438	20,140,438	20,140,438	20,140,438	20,140,438
Total Revenues	286,692,600	291,086,435	296,217,082	304,825,961	313,779,377	322,714,162	331,187,036
Expenses							
Personnel	177,870,499	177,870,499	186,860,271	193,331,299	195,623,957	202,106,702	208,201,534
Debt Service*	21,361,974	21,361,974	11,597,702	16,988,529	18,922,553	19,023,966	19,151,139
Contributions To Other Funds	14,330,434	17,540,434	14,629,784	15,935,573	16,254,285	16,579,370	16,910,958
Other Expenses	73,129,694	73,129,694	82,431,050	83,908,469	86,425,380	89,023,130	91,381,006
Total Expenses	286,692,601	289,902,601	295,518,806	310,163,870	317,226,175	326,733,168	335,644,636
Operating Income/(Loss)	0	1,183,835	698,276	(5,337,909)	(3,446,798)	(4,019,006)	(4,457,601)
Ending Amount Available for Appropriations	0	1,183,835	698,276	(4,639,634)	(8,086,432)	(12,105,439)	(16,563,040)
Reserve for Capital & EOC	-	-	-	-	-	-	-
Reduction/(Contribution) to Policy Reserve	-	-	-	-	-	-	-
Net Income/(Loss) with Reserve Contribution	0	1,183,835	698,276	(5,337,909)	(3,446,798)	(4,019,006)	(4,457,601)

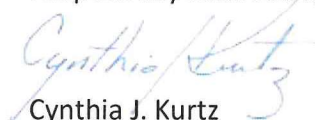
* Forecast includes contributions to RBOC to cover Debt Service in FY 2024 and beyond.

As presented, the General Fund is reflecting an estimated surplus of approximately \$700,000. There are new projects and programs, such as the Community Police Oversight Commission, where the financial needs are still being established and funding requests outside of the Recommended Operating Budget adoption process will be forthcoming. Additionally, as the Council will recall with the passage of Measure I, a portion of the future sales tax funding was intended to support future capital improvement projects. The long-term goal for the General Fund is to build the operating budget surplus on an annual basis to support at least \$3 million in ongoing capital improvement project capacity. Additionally, with the forecast of resuming debt service payments related to the RBOC, FY 2024 and beyond are reflecting projected deficits.

Conclusion

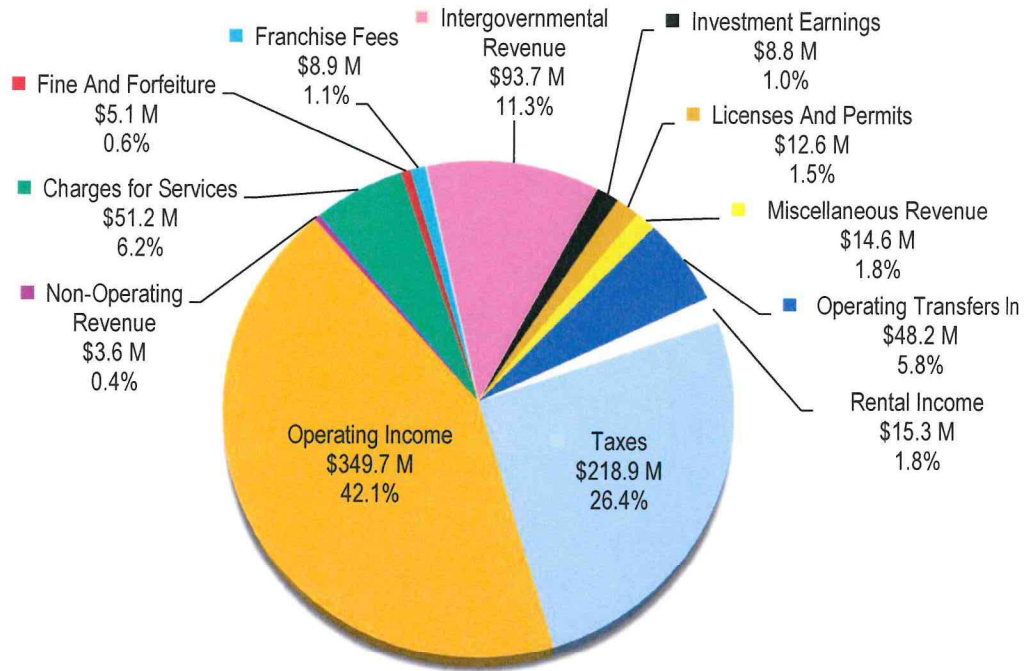
Under the leadership of the Mayor and City Council and with prudent financial management, the City of Pasadena has successfully addressed the unique challenges it has faced over the past 2 ½ years with no reduction in the quality of services provided to the community. The FY 2023 Recommended Operating Budget furthers the City's mission to deliver exemplary municipal services responsive to our entire community and consistent with our history, culture and unique character.

Respectfully submitted,

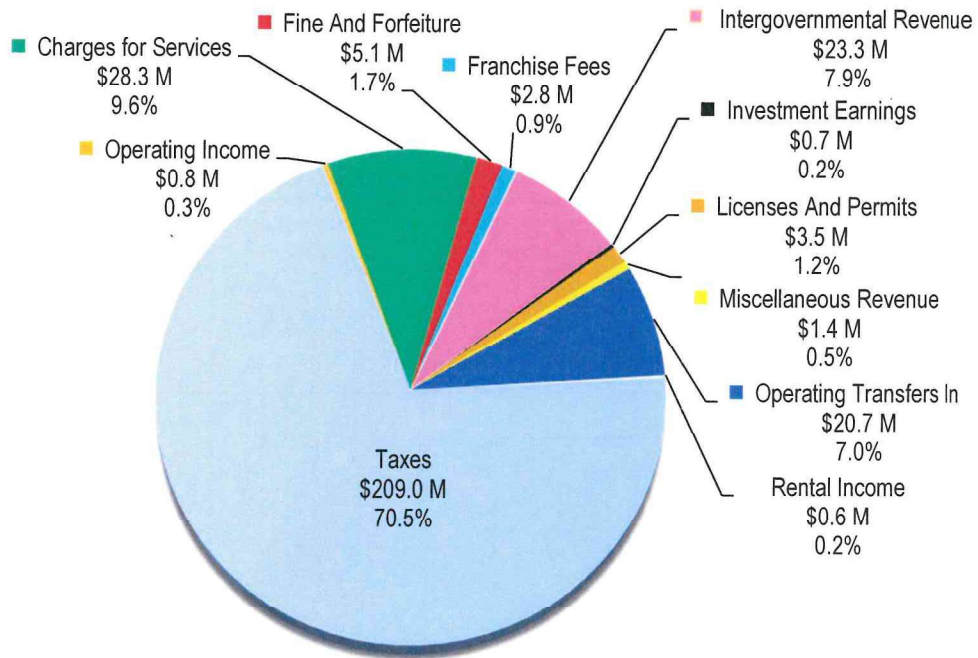

Cynthia J. Kurtz
Interim City Manager

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FY 2023 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)

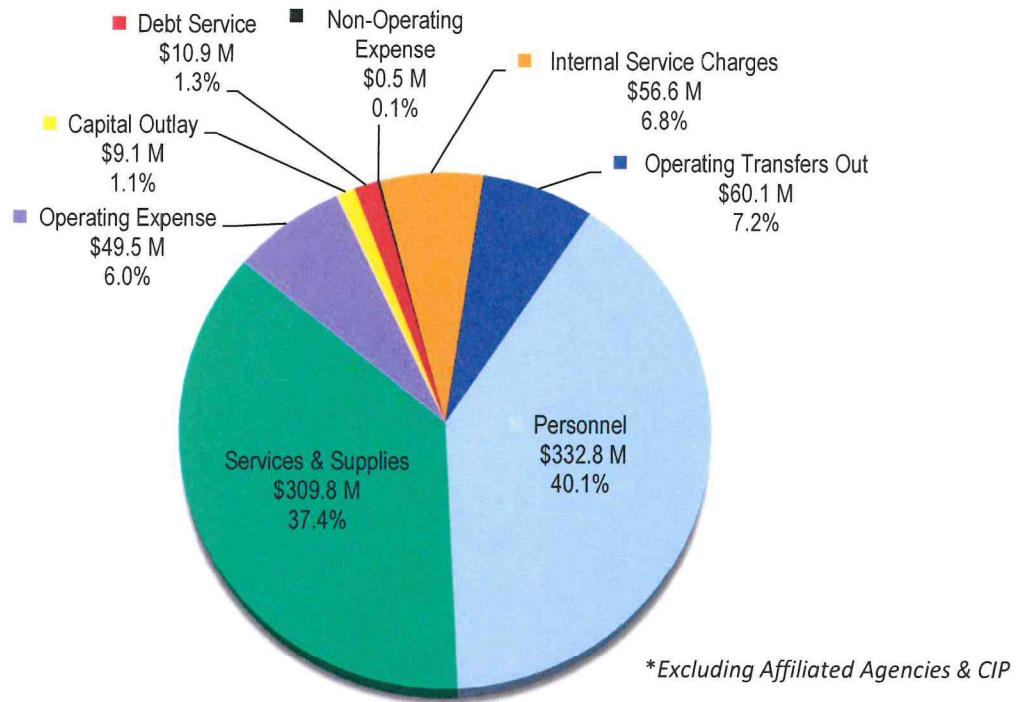


FY 2023 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



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FY 2023 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2023 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)

