

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

May 8, 2023

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

I hereby transmit the Recommended Fiscal Year 2024 (FY 2024) 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. The City provides a wide variety of services and programs for virtually every age and lifestyle either directly or through partnerships with local non-profits.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

	FY 2022 Actuals	FY 2023 Adopted	FY 2024 Recommended
General Fund	\$294.7	\$295.9	\$323.2
All Funds	\$959.6	\$955.7	\$1,243.0

Full-Time Equivalent Positions
(including Affiliated Agencies)

	FY 2022 Adopted	FY 2023 Adopted	FY 2024 Recommended
General Fund	1,011.30	1,028.10	1,058.65
All Funds	2,253.67	2,321.36	2,351.23

Pasadena entered the last fiscal year with expectations that programs, services, and events would return to their more normal patterns and the economy would remain healthy. Inflationary pressures had started to materialize and, with rising interest rates, there was concern that a recession could be looming. Even so, there was guarded optimism that the worst periods of COVID-19 were over and the elimination of in-person restrictions could be on the horizon.

Looking toward FY 2024, the recommended budget was developed with an expectation that the demand for programs, services, and events will continue to increase and some revenues will continue to show solid growth due to both inflation and a relatively healthy local economy. There is a recognition that the pace of post-pandemic revenue growth is slowing and will return to a more normal economic cycle. As identified in the Total Budget Appropriations table,

increases to both the General Fund and All Funds data are significant when comparing FY 2023 to FY 2024. For the General Fund, the roughly \$27 million in estimated growth is far larger than normal and reflects increases in some key areas. Property tax revenue has increased almost \$10.0 million for FY 2024, bolstered by a \$2.8 million increase in Successor Agency tax revenue from the payoff of a pass-through agreement related to the dissolution of the City's former redevelopment commission. Additional growth was driven by several new development projects that were recorded on the tax rolls. Sales tax also realized larger-than-normal growth of approximately \$4.1 million from the robust economic rebound of our local businesses and from increased revenue from the county pool. Lastly, charges for services increased due to increased call volume from the Fire Department for Emergency Medical Services (EMS). Altogether this revenue growth provides the capacity to support rising costs across a wide range of expenses – personnel, insurance, and contracts with service providers (detailed further below in "Looking Forward" section).

The All-Funds total growth is more significant at \$287.3 million. Since this figure includes both Operating and Capital Improvement budget appropriations, this amount includes the \$181.4 million of Los Angeles County Metropolitan Transportation Authority Measure R funding awarded in February 2023 for mobility improvement projects. Additionally, the power and water utilities fund has increased by \$40.52 million, primarily due to the cost of procuring and producing both electricity and water. The Refuse Fund has also increased by \$4.5 million, largely due to increased disposal costs and the procurement of refuse vehicles. Other fund increases include \$2.38 million in rental assistance funding, \$3.78 million in Public Health programming funds, and \$1.69 million in transportation special revenues.

The Current Economic Climate

The national and global economies continue to face inflationary pressure not seen for several decades. These inflationary pressures were initially 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, increasing the Consumer Price Index (CPI) across all sectors of the economy to varying degrees. This upward pressure has continued to move its way through various sectors, including the food and service industries. Additionally, gasoline and energy prices have been volatile, with record natural gas prices during the peak of the early 2023 winter season. Year-over-year CPI rose 5.0% in March 2023, which is lower than one year ago and continues to trend downward. This, however, is well above the 2.1% three-year average before the pandemic and the 2.0% goal of the Federal Reserve Board (Fed).

Furthermore, the Fed has continued to raise interest rates, including a 0.25% increase in March 2023 that brought the overnight Fed Funds rate to the 4.75 – 5.0% target range. Following the release of the March CPI figures, market data continued to point towards an additional likely Fed rate increase of 0.25% in May, but with a possible cut in rates before the end of the calendar year. It is worth noting that these forecasts shift constantly as they are based on the

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release of new economic data. While rising interest rates have positively affected our long-term investment income, it also means the cost of borrowing in the future will increase and could deter future operational expansions and construction projects if the cost of financing becomes cost prohibitive.

In March 2021, Congress passed—and the President signed into law—the American Rescue Plan Act (ARPA), a \$1.9 trillion-dollar economic stimulus. ARPA provided direct funding for local governments (\$360 billion) along with programmatic funding for efforts relating to homeless, rental assistance, public transit, and utility assistance. Based upon the modified Community Development Block Grant allocation methodology being used to allocate direct ARPA funding, Pasadena received \$52.2 million in direct support. In FY 2022 and 2023, the City Council committed approximately \$32 million of these funds to, among other things: (1) offset revenue losses, (2) fund critical capital improvement projects, (3) provide funds for the acquisition of affordable housing, (4) expand housing services, and (5) bolster the City's public health services regarding COVID-19 response and health equity. The following is an outline of the recommended spending plan for the remaining funds:

- Pasadena voters approved Measure H in November 2022, a charter amendment that established the Rental Housing Board (Board) and rent control for eligible properties. The City Council is expected to appropriate \$500,000 of ARPA funds in May 2023 as start-up funding for the Board with the expectation that, like the City of Mountain View, we will be able to recoup expenses quickly. However, the City is prepared to provide additional start-up funding as necessary using ARPA dollars.
- \$12.0 million for the acquisition of property to, among other things that are yet to be determined, develop affordable housing, provide medical and mental health outpatient services, and provide other County and City services and office space. The County of Los Angeles is a partner in this property acquisition is expected to provide up to \$6.0 million in funding toward the purchase.
- \$6.0 million to expand the annual street resurfacing and pavement program with the goal of improving the City's current pavement conditions and road infrastructure.
- \$1.25 million to (1) provide one-time or limited-term funding for PORT Team operations until grant funding becomes available in FY 2025, (2) fund an additional HOPE Team case manager work not covered by grants, (3) provide funding for an inclement weather shelter, (4) fund emergency repairs at unoccupied City facilities, (5) procure safety equipment for new rescue ambulance staffing, and (6) provide funding to the Public Health Department to offset shortfalls between grant funding and overhead costs.

Looking Forward

The rebound in our local, state, and national economies from COVID-19 has largely subsided and most revenue growth is normalizing to more traditional levels. Inflation will continue to have a growth impact on some tax revenues, such as sales tax growth due to higher prices being taxed. It is important to recognize that while some revenues may increase, the cost of doing business has also increased. Tourism and travel related to business meetings and conferences has continued its strong return, but international travel, especially travel related to business, is still down.

Fortunately, the City has also benefited from having a diverse economy that is not over-reliant on one industry or tax base. A solid mix of automotive dealers, general and consumer goods businesses, restaurants, and hotels provides a relatively stable tax base. When combined with the growing technology and health/life sciences sectors, the overall economic blend provides more stability. Additionally, interest in the City by businesses in many of these key sectors continues to grow, as shown by the recent additions of Lucid Motors, Build Your Dreams, Xencor, General Motors Design Studio, Doheney Eye Institute, and the renewed lease through 2035 of Western Asset.

The recommended budget for FY 2024 also incorporates new labor contracts the City has negotiated with many of its labor partners. It also takes into account the inflationary impacts on contracts and purchases. Other factors, such as the hardening of the broader insurance market, have brought additional funding challenges to a tight budget. Insurance premiums, for example, have increased by 50% year-over-year. In FY 2020, insurance premiums totaled \$3.1 million. In FY 2024, premiums are projected to exceed \$9.1 million.

Addition of a Sixth Rescue Ambulance for Paramedic Response

In FY 2023, the City Council approved the remounting of two rescue ambulances to expand the City's ambulance fleet, in anticipation of placing in service a sixth unit. The FY 2024 Recommended Operating Budget includes the addition of six Firefighter-Paramedic positions and the related equipment to begin operations in July 2023. The rescue ambulance will initially be staffed through voluntary overtime, with the anticipation of filling the new positions permanently after the next recruitment academy. The total budget for this enhancement is \$1.2 million. This cost is anticipated to be close to cost neutral through increased emergency medical response billing and the paramedic subscription program.

EMS Program Fire Captain

In concert with the addition of a sixth rescue ambulance, an enhancement adding a 1.0 FTE Fire Captain is recommended. This position will provide increased leadership and training for the paramedic program while also providing a dedicated position for major event planning in the department. Over the past two years, the department has made great strides to improve the record and billing practices related to paramedic response as well as improving services.

Improving service delivery and cost recovery has been critical to support the recommendation for the additional rescue ambulance. Additionally, up to half of this position's time will be dedicated to major event planning and staffing. Increased major events in Pasadena provides a boost to the overall economy, but these events also require a tremendous amount of planning and staffing to ensure success.

Operation of Robinson Park Pool Year-Round

Historically, the City has operated its pools only during the summer and has relied on external aquatics programs for year-round activities. The Robinson Park Pool is scheduled to open for the Summer 2023 session. Included in the recommended budget is the expansion of services beginning in September to Monday through Friday from 10:00 a.m. to 7:00 p.m. Programming for the pool will include water aerobics, lessons, and lap swim. This enhancement includes the addition of five full-time equivalent positions and part-time staffing for a total net cost of \$553,000 (prorated 9 months).

Planning and Community Development Staffing Increases

Included in the recommended budget is the addition of a 1.0 FTE Film Coordinator and a 1.0 FTE Code Compliance Officer. Commercial filming and photography have returned in a significant way to Pasadena. Adding a Film Coordinator position responds to this increased demand and the cost will be more than offset by permit-related revenue. The recommended Code Compliance Officer will be split between the General Fund and the Building Services Fund. This position will be focused on short-term rental compliance and building- or construction-related complaints. The additional costs of \$228,000 is expected to be offset by a revenue increase of more than \$350,000 generated by this compliance work.

Tree Infrastructure Maintenance

In FY 2023, the City awarded new contracts for palm tree pruning, hardwood tree trimming, and tree/stump removal. Pasadena has more than 60,000 trees in its tree inventory, which continue to age and grow as more trees are planted than removed each year. Unfortunately, the costs for tree services have increased significantly across the industry necessitating additional funding for the Public Works Department. The total budget increase for this enhancement is \$425,000.

Police Department Records Division Personnel Increases

The records division provides staffing for the public counter at the Police Department, as well as managing all the records and record request for the department. The recommended budget includes 1.0 FTE Police Supervisor – Records and 2.0 FTEs Police Records Technicians. The additional positions will allow for the creation of a Digital Media Evidence Team to process, respond, and gather documents for Public Records Requests and Discovery Requests. The number of requests for records has increased significantly since the passage of Assembly Bill 1421, which amended Penal Code section 832.7 to broadly allow the release of records relating

to officer use-of-force incidents, sexual assaults, and acts of dishonesty. Adding staff will allow the records section to operate seven days per week, which will reduce the backlog of requests and the need for time extensions to respond. To partially offset costs of these new positions, the recommended budget proposed to eliminate the long-term vacant positions of one Community Services Officer and two Police Cadets.

Public Health General Fund

Historically, the City's General Fund has not funded Public Health Department services. The Public Health fund has been supported through grants or fee for service operations. Due to rising costs, grant funding is no longer sufficient to cover administrative costs. The City has always exempted the Public Health Fund from Cost Allocation Plan charges to support general municipal overhead such as human resources, administration, and finance due to grant shortfalls, but grants are no longer sufficient to cover even basic needs like utilities, technology, and building maintenance. Additionally, the Public Health Department is increasingly tasked with conducting complaint investigations and enforcement duties related to enforcing Title 8 of the Pasadena Municipal Code, where there may not be a revenue source to offset costs. The recommended budget includes \$500,000 from the General Fund to offset these shortfalls.

In addition to these enhancements, there are several other administrative-type enhancements to clean-up prior approved actions by the City Council or to add funding for mandated programs. This includes the annual lease of Jefferson School, Section 8 document scanning, software licensing, and parking enforcement.

Rose Bowl Operating Company

The aforementioned proposed enhancements, especially those funded by the General Fund, would not have been fiscally feasible without the continued financial improvement of the Rose Bowl Operating Company (RBOC). During the FY 2021 and 2022 budget process, 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 actual revenues and expenses during the last few years, the receipt of a \$10.0 million Shuttered Venue grant, and an improved five-year forecast, the RBOC does not require an annual contribution from the City's General Fund in FY 2024 or beyond.

General Fund Transfer from Water & Power

Finally, the rapid rise in energy and fuel prices put tremendous pressure on the power utility during FY 2023. These increases negatively impacted the regional wholesale price of electricity, since natural gas is a cost factor in the production of electric power across the region, which affects wholesale prices in the California Independent System Operation area. While the power utility did implement a Power Cost Adjustment (PCA) of 2.5¢/kWh on March 1, 2023, and an additional 0.5¢/kWh on April 1, 2023, these cost adjustments will not generate sufficient net income in FY 2023 to make the originally forecasted \$18 million General Fund Transfer for FY

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2024 as required by the City's Charter. The proposed budget includes the use of up to \$5 million in General Fund Operating Reserves to account for this shortfall. These funds will be restored to Operating Reserves in FY 2025 through a General Fund Transfer in FY 2025 that includes the amount of these advanced funds in addition to the required annual contribution as required by the Charter.

General Fund Five-Year Forecast

	FY 2022	FY 2023	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
	Final	Budget	Forecast	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	0	2,862,525	1,047,527	500,465	582,948	1,426,696	1,659,353	1,435,939
Revenues								
Tax Revenues	235,450,392	233,807,300	238,636,652	250,636,000	258,650,643	266,786,014	274,424,438	282,328,752
Other Revenues	38,773,949	43,419,712	46,285,810	50,921,413	52,149,695	53,409,206	54,700,758	56,025,181
Contributions/Svs. From Other Funds	30,734,245	20,715,438	20,715,438	16,690,438	26,690,438	21,690,438	21,690,438	21,690,438
Total Revenues	304,958,586	297,942,450	305,637,900	318,247,851	337,490,776	341,885,659	350,815,633	360,044,371
Expenses								
Personnel	172,168,785	186,860,271	185,451,679	203,411,665	209,204,051	216,094,198	222,608,655	227,992,373
Debt Service	20,646,499	11,597,702	11,597,702	11,702,452	12,322,553	12,323,966	12,317,139	11,290,184
Contributions To Other Funds	20,774,735	14,629,784	16,189,784	13,558,017	13,479,177	13,748,761	14,023,736	14,304,211
Other Expenses	79,473,305	82,852,050	84,128,156	94,493,234	96,641,247	99,486,076	102,089,517	104,769,576
Total Expenses	293,063,323	295,939,806	297,367,321	323,165,368	331,647,028	341,653,001	351,039,047	358,356,343
Operating Income/(Loss)	11,895,262	2,002,644	8,270,580	(4,917,517)	5,843,748	232,658	(223,414)	1,688,028
Ending Amount Available for Appropriations	11,895,262	4,865,169	9,318,107	(4,417,052)	6,426,696	1,659,354	1,435,940	3,123,967
Reserve for Capital & Other Funds	(5,616,537)	-	(5,000,000)	-	-	-	-	-
Reduction/(Contribution) to Policy Reserve	(3,416,200)	(3,817,642)	(3,817,642)	5,000,000	(5,000,000)			
Net Income/(Loss) with Reserve Contribution	2,862,525	1,047,527	500,465	582,948	1,426,696	1,659,354	1,435,940	3,123,967

Accounting for the use of up to \$5 million in Operating Reserves, the General Fund is reflecting an estimated surplus of \$582,948 for FY 2024, which is a combination of \$500,465 in anticipated surplus from FY 2023 and an \$82,483 surplus for FY 2024. As the City Council will recall with the passage of Measure I, a portion of that funding was intended to support future capital improvement projects. The long-term goal for the General Fund is to build an operating budget surplus on an annual basis and to support at least \$3 million in ongoing capital improvement project capacity. As presented with the Capital Improvement Budget, the City has a significant need for ongoing infrastructure investments including roads, fire stations, the Pasadena Central Library, and the future development of the 710-freeway stub.

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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 in the past, with no reduction in the quality and level of services provided to the community. The City has thrived in many areas coming out of the pandemic and will need to continue being resourceful and creative in continuing to invest in current services, operations, and infrastructure, while adapting to the future needs of the community. The FY 2024 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.

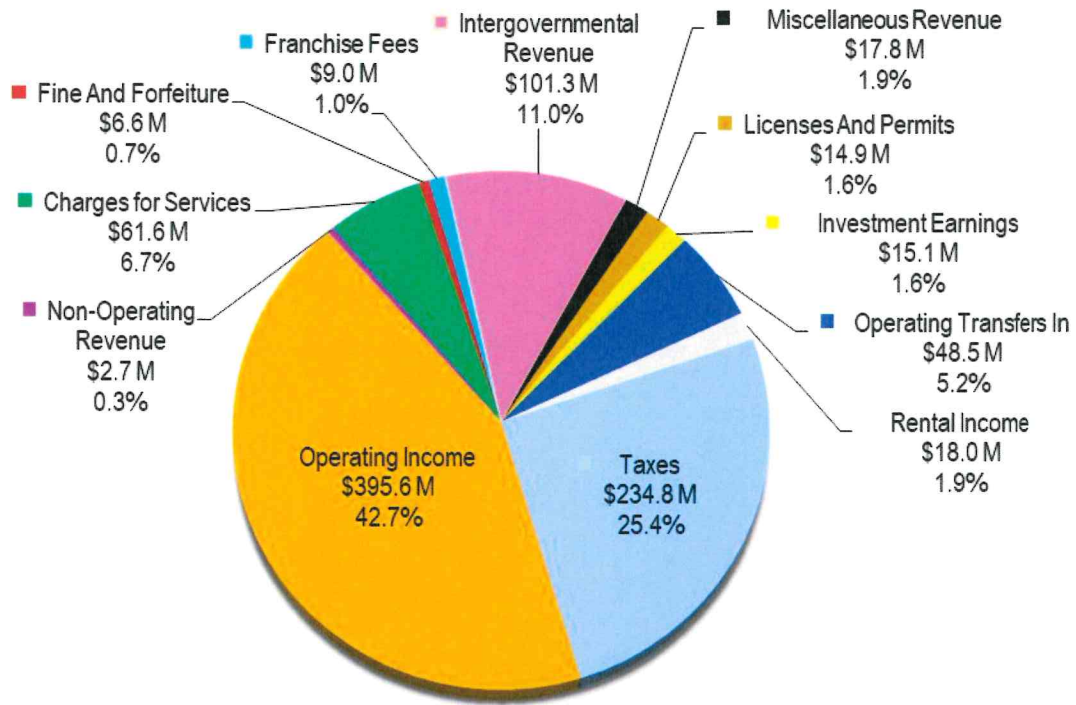
Respectfully submitted,

A handwritten signature in black ink, appearing to read "Miguel Márquez", with a horizontal line extending to the right.

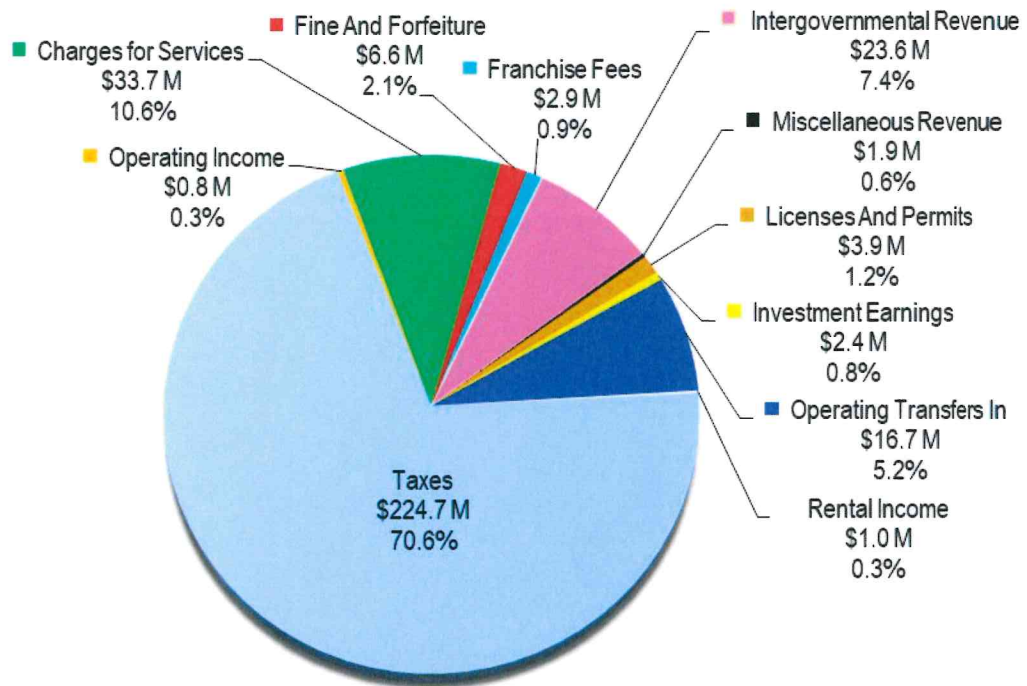
Miguel Márquez
City Manager

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FY 2024 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)

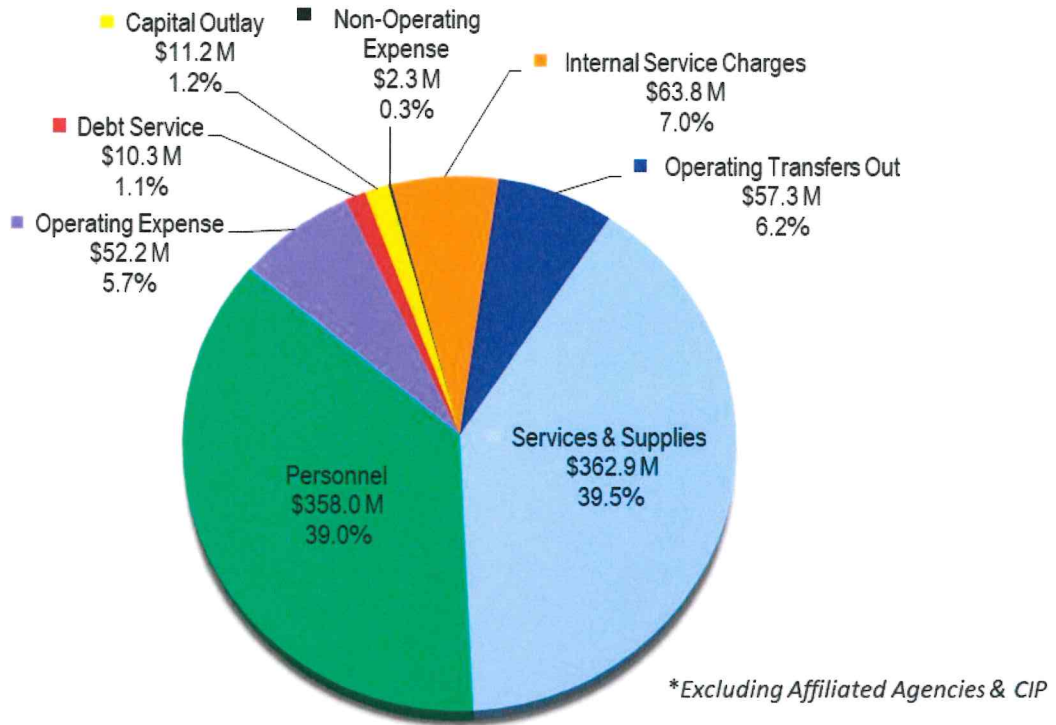


FY 2024 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



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FY 2024 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2024 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)

