

CITY OF PASADENA
CITY MANAGER'S TRANSMITTAL LETTER

June 16, 2025

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

I hereby transmit the Recommended Fiscal Year 2026 (FY 2026) 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 and others.

Total Budgeted Appropriations
(including Affiliated Agencies and CIP)

in millions

	FY 2024 Actuals	FY 2025 Adopted	FY 2026 Recommended
General Fund	\$357.3	\$341.8	\$361.5
All Funds	\$1,251.9	\$1,156.5	\$1,499.4

Full-Time Equivalent Positions
(including Affiliated Agencies)

	FY 2024 Adopted	FY 2025 Adopted	FY 2026 Recommended
General Fund	1,062.15	1,084.03	1,082.41
All Funds	2,356.23	2,406.88	2,408.76

Pasadena entered the last fiscal year with an expectation of a stable economy with slow growth for the second year in a row. Interest rates remained elevated, but with hopes that inflationary pressures would continue to lessen, and interest rates would follow that lowering trend in the longer term.

Looking toward to FY 2026, the recommended budget was developed recognizing that General Fund tax growth has continued to be slow, inflationary pressure continue to impact certain sectors of the economy, changes in Washington DC raising concern of potential revenue loss of federal funds, tariffs increasing expenditure forecasts, and recovery from the Eaton Fire placing demands on the City that will last several years. The risk of a slowing economy and a recession has grown in recent months with the imposition of tariffs and other directives from the federal government. Revenue growth from the City's two largest General Fund sources, property tax

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and sales tax, has continued the slower growth trend, with projected growth at 4.0% and 1.3% respectively. As identified in the Total Budget Appropriations table, increases to both the General Fund and All Funds data are significant when comparing FY 2025 to FY 2026. For the General Fund, the roughly \$22 million in estimated growth reflects increases in some key areas. Property tax revenue has increased \$5.2 million for FY 2026 where growth is driven by the 2.0% assessed value increase based on the consumer price index, plus increases in assessed value on residential properties sold during the year. On average, assessed value growth on a residential sale provides a commensurate gain in value on the tax roll. Real estate sale volume continues to be far lower than what was experienced for more than a decade prior to 2023. Sales tax growth is a modest \$1.0 million after limited growth of \$1.8 million in the prior year. Utility users tax revenue has increased by \$1.2 million or 3.5%, largely due to higher energy costs, but far less than the increase of 18.7% in the prior year. Lastly, the General Fund Transfer from the Light and Power Fund will be made at the Charter-required 12% as the electric utility is in a significantly better financial position, which provides for a \$10.5 million increase to the General Fund. Altogether this revenue growth is sufficient to maintain a balanced Operating Budget for FY 2026 to address previously approved priorities in the General Fund but is insufficient to add any significant new ongoing programs, services, or staffing.

The Current Economic Climate

The national and global economies continue to face inflationary pressure not seen for several decades, but with added volatility since January due to numerous Executive Orders from the President related to tariffs and trade. Year-over-year inflation has remained stubborn with little movement in the last year despite the Federal Funds Rate being reduced by 100 basis points to 4.5%, compared to 5.5% a year ago. Two rate cuts are projected before the end of 2025, and the inflation target remains at 2.0%. Real Gross Domestic Product (GDP) decreased at an annual rate of 0.3% for the first quarter of 2025 (January – March), according to the advance estimate released by the U.S. Bureau of Economic Analysis. The decrease in real GDP primarily reflected an increase in imports, a decrease in government spending, and a deceleration in consumer spending that were partially offset by increases in investment and exports.

The City of Pasadena's diverse revenue and tax base is not overly reliant on any one industry. It continues to be an asset to the General Fund and to overall economic health. While the General Fund is not projected to decline, the slowing of revenue growth is being impacted by the same factors that resulted in a decrease in the GDP during the first quarter of 2025. Slowing automobile sales, especially electric vehicles, and a decrease in consumer spending is having a negative impact on Pasadena's revenues. Fuel prices are forecasted to increase in the coming year, which should generate some additional sales tax for that category, but will further constrain other sales tax categories because there will be less discretionary income to spend on those categories. Restaurants and hotels are the only other local category forecasted for growth of more than 2.0%. All these local factors appear to mirror the guarded forecast of real GDP growth of 2.0% for FY 2026.

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Both the state and federal government face significant budgetary obstacles. The State of California is facing a deficit again that was estimated at \$12.0 billion for FY 2026 in the Governor's May Revise. This comes on the heels of adjustments of more than \$28 billion that were included in the January forecast to initially balance the budget. Governor Newsom acknowledged, "We've got a spending problem," in his presentation of the May budget, noting that cuts to spending will be required. Similar to last year, very little of the State's proposed reductions would impact direct revenue Pasadena receives for its operational programs.

The political challenges at the federal level have been more significant than any year in recent memory. Congress and the President have continued to approve Continuing Resolutions to support the annual budget requirement, and in the current year, the President has made numerous attempts through Executive Orders to cut or eliminate funding the City is currently receiving. Additional Executive Orders and federal actions have imposed new language on contracts provided to the City in order to accept funding. Thus far, courts have thwarted these efforts related to funding cuts; however, that fight is likely to continue for some time and may ultimately be decided by the United States Supreme Court. It seems that the best-case scenario is for another Continuing Resolution and level federal funding, recognizing that proposals to reduce funding critical to Pasadena's programs could be significant, well in excess of \$10 or \$20 million.

Looking Forward

The City will be challenged on many fronts in FY 2026 and beyond. Proposition 13 in 1978 was the first significant legislation to limit the City's ability to generate revenue, and limits since then, such as Proposition 62 in 1986 and Proposition 218 in 1996, have further restricted when and how the City can generate revenue and recover costs. When state mandates, such as Senate Bill 1383 that required organic waste collection, impose further city-delivered services necessitating offsetting revenue, the City's financial position is stable but strained. Increasing fees and charges requires detailed work that can take more than a year to develop; however, it is critical to recoup the full cost of services provided whenever possible to avoid diverting scarce dollars from other already under-resourced City priorities, such as police, fire, libraries, and parks. The response and recovery from the Eaton Fire has brought new demands on the City to support its residents, provided mandates related to recovery, placed new pressures to create more housing, and to fund plans or programs to make the City more prepared and resilient in the event of a future fire.

Despite the financial pressures on the City, there are tremendous expectations and opportunity for the future, such as the planning and future development of the 710 Stub, continuing work towards the City Council's 2030 policy goal of sourcing 100% of our energy from carbon-free sources, awarding a development contract for the property at Villa and Lake for housing and other uses, and preparing for LA28 Games. The recommended budget for FY 2026 incorporates

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multi-year labor contracts the City has negotiated with all its labor partners, and the inflationary impacts on contracts and purchases. This is the final year for four of the labor contracts, and the City will return to the bargaining table with an effort to build upon the positive labor relations that have enabled the City to thrive the last few years.

Contribution of General Fund to Offset Grants

For the last couple of years, the City has been faced with declining grant revenue to support programs the community has become to expect despite knowing that these funds were originally awarded on a limited-term basis. Budgetary challenges and deficits at both the state and federal level have also meant that there are fewer new grant programs from which to seek funding. Positions funded by grants, especially limited-term grants, are classified as limited term with the understanding that the position and program may cease operating when grant funding stops. However, due to demand or service level needs in the City, some programs may be recommended for ongoing funding support. In years past, the General Fund has been able to absorb some of these programs, but that is not the case for the recommended FY 2026 Operating Budget. Programs in Public Health and Housing are losing funding and now placing difficult choices in front of us. Other difficult choices will need to be made in the coming year prior to the next budget.

- Funding of \$303,000 from the General Fund related to firefighter positions that support the two Pasadena Outreach Response Teams (PORT) where federal earmarks have expired.
- Funding \$228,000 of the Municipal Assistance, Solutions, and Hiring (MASH) program from the General Fund due to the inability to charge personnel and supplies against Community Development Block Grant (CDBG) funds. This recommendation comes from one-time funds with a plan to evaluate the program during FY 2026 and determine how it can again operate on a cost recovery basis.
- Funding \$75,000 to support the Housing Right Center for continued housing assistance work that is no longer eligible for CDBG funding.
- Funding of \$865,265 for the Health Officer, a Public Health Program Coordinator II, a portion of the Public Health Records System, and general overhead costs related to facilities and technology that exceed the allowed billable amounts from various public health grants.

Fire Battalion Chief

Also included in the recommended budget is the addition of a 1.0 FTE Battalion Chief to begin to address span of control and additional operational needs in support of the one Battalion Chief assigned for each of the three shifts. The Fire Department has provided data and industry best practice data to support adding three Battalion Chiefs, one per shift; however, the City's Operating Budget this year cannot support the costs of such personnel and related equipment.

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The initial estimate of the three additional positions, shift coverage, vehicles and equipment exceed \$1.3 million annually.

General Fund Outlook

The FY 2026 Recommended Operating budget is balanced from an ongoing revenue versus expenditure perspective. It includes limited funding to address some needs, including increased costs of personal protective clothing and equipment related to fire, parks, and graffiti removal. As illustrated in the General Fund Five-year Forecast, small deficits are forecast the last two years of the forecast. Property tax and sales tax growth forecasts are moderate at 4.5% and 3.0 - 3.5% respectively, and two significant increases towards CalPERS pensions in FY 2027 and 2029 based upon the current unfunded liability payment schedule. Additionally, there is great uncertainty in the economy due to concerns related to tariffs, taxes, inflation, and consumer spending; local concerns about fire hardening to prevent or prepare for future emergencies; and the City's need to negotiate new labor contracts with all bargaining groups over the next two years.

General Fund Five-Year Forecast

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
	Final	Revised Budget	Recommended	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	18,086,075	16,215,712	4,342,570	5,681,275	5,668,811	5,720,483	1,996,074
Revenues							
Tax Revenues	262,958,941	265,657,100	274,625,007	283,775,540	294,851,749	305,997,986	317,615,437
Other Revenues	66,399,883	58,630,086	57,530,513	58,912,162	60,345,485	61,815,299	63,322,550
Contributions/Svs. From Other Funds	20,140,438	20,140,438	30,640,438	34,601,061	37,043,365	39,617,879	42,325,266
Total Revenues	349,499,262	344,427,624	362,795,958	377,288,764	392,240,599	407,431,164	423,263,252
Expenses							
Personnel	206,097,494	216,135,006	231,753,822	244,209,487	256,609,622	271,938,048	284,481,000
Debt Service	11,619,669	12,318,397	12,323,128	12,317,139	11,290,184	11,288,643	11,287,860
Contributions To Other Funds	25,269,239	14,350,877	14,427,375	14,715,923	15,010,241	15,310,446	15,616,655
Other Expenses	112,156,731	107,425,486	102,952,928	106,058,679	109,278,879	112,618,435	116,082,481
Total Expenses	355,143,133	350,229,766	361,457,253	377,301,228	392,188,927	411,155,572	427,467,996
Operating Income/(Loss)	(5,643,871)	(5,802,142)	1,338,705	(12,464)	51,673	(3,724,408)	(4,204,744)
Ending Amount Available for Appropriations	12,442,204	10,413,570	5,681,275	5,668,811	5,720,483	1,996,075	(2,208,669)
Contributions to Capital Projects	(341,750)	(6,071,000)	-	-	-	-	-
Reserve for Capital & Other Funds	10,247,300	-	-	-	-	-	-
Reduction/(Contribution) to Policy Reserve	(6,132,042)	-	-	-	-	-	-
Net Income/(Loss) with Reserve Contribution	16,215,712	4,342,570	5,681,275	5,668,811	5,720,483	1,996,075	(2,208,669)

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General Fund – Fund Balance Summary

	As of 3/31/25
15% Emergency Reserve	\$ 48,552,000
5% Operating Reserve	\$ 16,184,000
Section 115 Trust – Pension	\$ 13,754,280
Section 115 Trust – OPEB	\$ 2,605,120
Total	\$ 81,095,4007

As presented with the Capital Improvement Budget, the City continues to have a significant need for ongoing infrastructure investments, including roads, fire stations, and the future development of the 710-freeway stub. There is \$11.0 million proposed to be expended on street resurfacing in FY 2026; however, the only General Fund contribution (\$4.3 million) will be from a surplus of one-time revenue in FY 2025. The only other General Fund contribution to capital will be the annual \$1.0 million allocated towards sidewalk repairs.

Conclusion

Under the leadership of the Mayor and City Council and with prudent financial management, the City of Pasadena continues to address challenges already identified as priorities, unexpected challenges with the Eaton Fire and the subsequent recovery, and is preparing for challenges yet to come, such as the LA 28 Olympics. The City has thrived in many areas and is fortunate not to be in the cost reduction mode facing so many other local governments, the state, and federal government, but we must continue being resourceful and creative in continuing to invest in current services, reassessing our service delivery to ensure the most efficient delivery of the most needed services, and maintaining our infrastructure, while adapting to the future needs of the community. The FY 2026 Recommended Operating Budget furthers the City's mission to deliver exemplary municipal services responsive to our entire community consistent with our history, culture, and unique character.

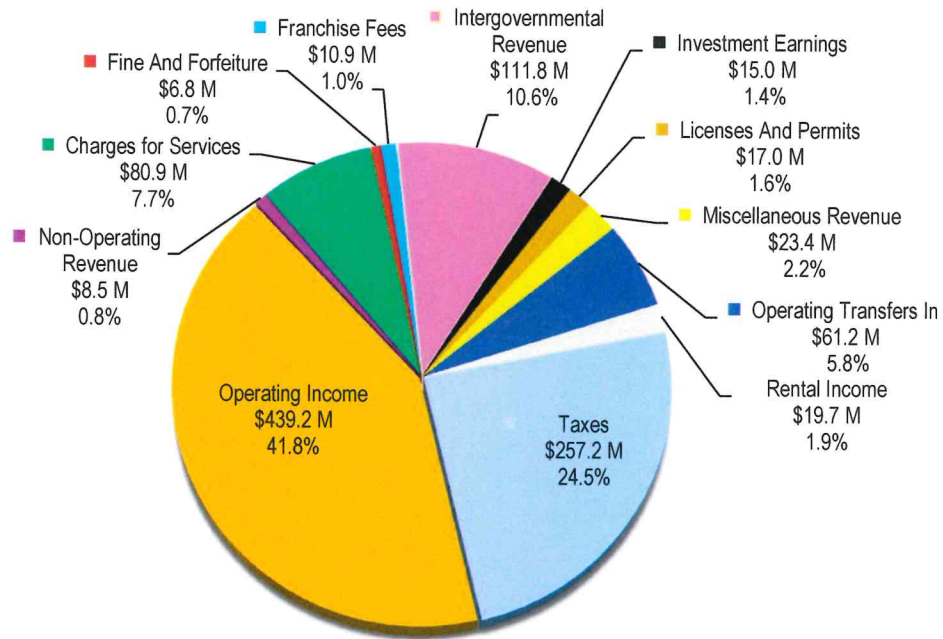
Respectfully submitted,



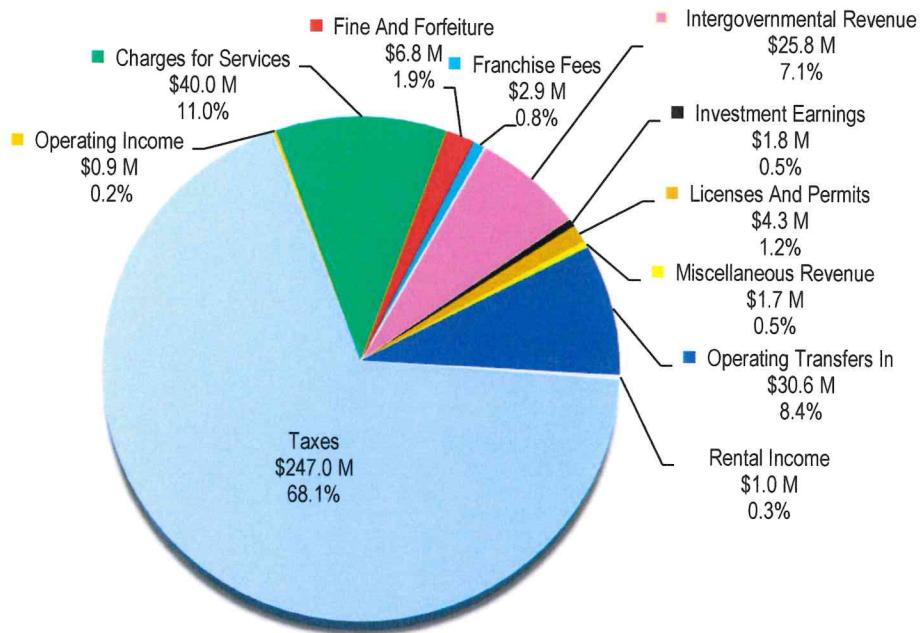
Miguel Márquez
City Manager

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FY 2026 OPERATING REVENUES BY CATEGORY FOR ALL FUNDS (Millions)

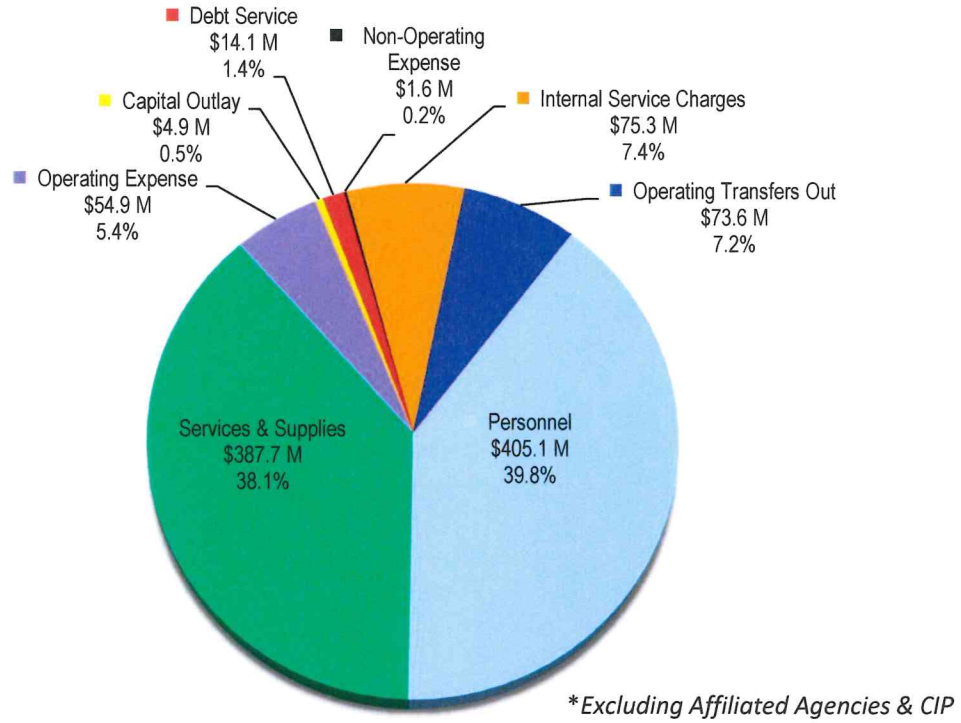


FY 2026 OPERATING REVENUES BY CATEGORY FOR THE GENERAL FUND (Millions)



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FY 2026 OPERATING APPROPRIATIONS BY CATEGORY FOR ALL FUNDS (Millions)



FY 2026 OPERATING APPROPRIATIONS BY CATEGORY FOR THE GENERAL FUND (Millions)

