



Pasadena

INITIAL PRESENTATION ON CITY BUDGET PROCESS, OVERVIEW OF CURRENT FINANCIAL STATUS, AND DISCUSSION ON CITY COUNCIL PRIORITIES

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Finance Committee – Item 4

City Council Meeting - Item 12

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Key Fund Types

- General Fund – Only fund with **NO** restrictions on how funds are spent
- Special Revenue Funds – Funding from special tax or other governments with specific restrictions (Gas Tax, Transportation Taxes)
- Enterprise Funds – Funding from customers with specific restrictions (Water, Electric, etc.)
- Internal Service Funds – Funding from internal customers/departments to support services or benefits (I.T., Fleet Maint., Benefits)



Where Does Our Money Come From?

- General Fund
 - Taxes
 - Franchise fees
 - Permit fees
 - Charges for Service
 - Intergovernmental
- Gas Tax
- Utility rates
- Sewer fees
- Development fees
- Transportation Sales Tax
- Parcel Tax
- Special Revenues & Assessments
- Bonds

Where's Income Tax?

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Revenues – Two Major Categories

➤ Taxes, Fees and Charges

- Revenue generating purpose
- Not directly related to the cost of a service
- Some are adjusted annually by CPI
- Impact Fees, Business License, In-Lieu Fees, UUT & TOT

➤ General Fee Schedule

- Cost recovery purpose
- Directly related to the cost of a service
 - Must be able to support the cost
- Some are adjusted by CPI
- More than 1,400 unique fees



Revenues – The Big 4

Property Tax - \$112m

- Pasadena gets roughly 21 cents on the dollar

Sales Tax – 10.25% - \$76.6m

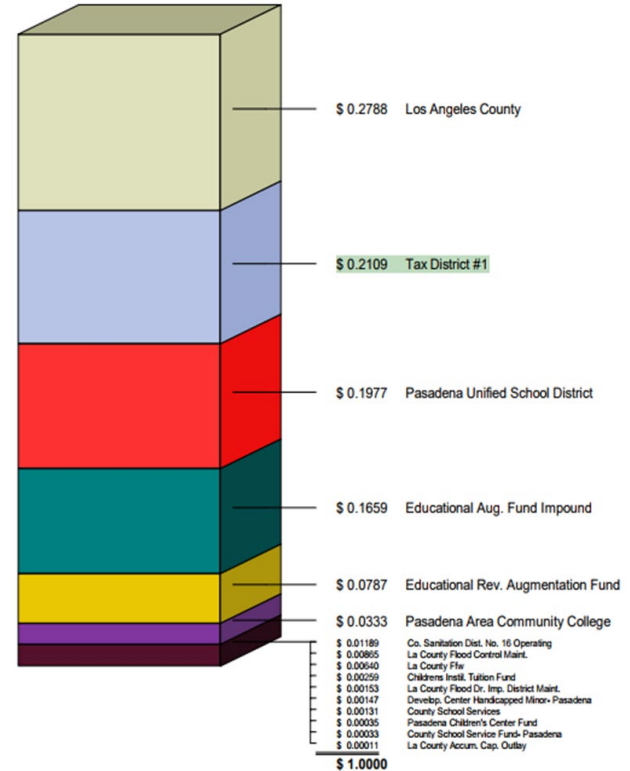
- Local Sales - Pasadena gets 1% of the 9.5%
- County Pool – Pasadena gets 2% of the 1%
- Measure I – Pasadena keeps the full 0.75% (1/3 goes to PUSD per MOU)

Utility Users Tax - \$34m

- Tax varies based on the utility type 7.5% - 9.4%

Transient Occupancy Tax - \$19.3m

- City keeps the 12.11%
- About 66% goes to PCOC for debt service



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Measures I and J

- Initial Forecast of \$21 million annually, FY 24 - \$32.2m, FY 25 Forecast - \$33.1m
- Measure J supports the City giving 1/3 to PUSD
 - More than \$10.0m annually
- Tax became effective April 1, 2019
- Requires out-of-state vendors to charge sales tax on ALL purchases if vendor does \$100k or 200 transactions annually.
- California requires collection of Special Transaction Taxes for in-state and out-of-state (\$500k of transactions annually) per same parameters



Expenditures

➤ Personnel

- FY 25 growth factor was 5.7%.
- CalPERS Pension – FY 25 Contribution Rates
 - Non-Safety – 35.98%
 - Safety – 57.78%
- Benefits & Workers Comp self-funded

➤ Services & Supplies

- Based on contracts and work plans
- Most growth based on CPI, PPI or Inflation
- Includes transfers to PCOC and PUSD



Expenditures

➤ Internal Service Funds

- I.T. Services
- Building Maintenance
- Fleet Maintenance
- Fleet Replacement

➤ Capital Outlay

- GF historically provided little funding for Capital

➤ Not Included

- Bldg. replacement or major renovations
- Infrastructure
- Major equipment
- Enterprise funds manage own replacements – Water, Electric, Refuse, Transportation



Budget Outlook – General Fund

- Property tax is up 4.6% through Feb. 2025, which is slightly better than the budget (4.2%). Slower growth is anticipated into FY 26 of 3.5%. Total property tax related revenue approx. \$116 million.
- Sales tax has been flat for more than a year. The FY 25 forecast is approx. \$2 million lower than budget. Future growth is projected at 3.6% for FY 26 and 3.2% for FY 27.
 - Recent federal actions such as tariffs, plus ongoing inflationary challenges may negatively impact these forecasts.
- Transient occupancy tax will get a one-time boost for increased stays related to the fire and windstorm. Normalized year-over-year growth is expected to be minimal with stagnant occupancy levels and average daily rates.



Budget Outlook – General Fund

- Utility user tax revenues vary. Water and electricity up about 6%, other categories are flat or declining. Overall – projecting an increase of 3.46% for FY 26.
- Taxes and franchise fees account for \$265.7 million of the \$340.8 million General Fund budget, but we must also focus on areas where we can recover or generate new or additional revenue.
- Initial forecasts for many fees, permits, and charges are reflecting flat or declining revenue.



Budget Outlook – Other Funds

- Cost of service studies and rate approvals in FY 24 are providing improved Refuse and Sewer/Storm Water programs. Future studies will be staggered.
- Some special revenue funds, such as Gas Tax, are based on revenue methodologies that do not keep up with the service needs and construction costs.
- Other special revenue funds are not able to recoup all costs due to state law or other regulatory requirement limits
 - Prior Council decisions have determined how funds are used.
- Grant funded program revenues are not increasing at the same rate as expenses, and rarely provide sufficient funding to pay for overhead costs
 - Cost allocation plan gap of more than \$5.5 million



Budget Guidance

- **Every budget cycle is challenged with how to balance the budget**
 - Due to economic uncertainty and fiscal pressures on the budget, we continue to evaluate our spending and tighten our belts wherever possible
- The base budget largely reflects ongoing commitments that consist of Charter/PMC requirements, prior policy decisions, and contractual obligations.
 - Leaves minimal financial capacity for new programs
- Short-term solutions are okay, but we need to think about longer-term, strategic solutions to address any structural imbalance
 - Not only about the General Fund
 - Pursuit of new revenue opportunities and cost recovery
 - How do we stop doing something?
 - Legislative advocacy may be necessary as some state and county funding is based on older methodologies



FY 25 Operating Budget by Department

City Departments

Water and Power	\$ 345,312,250
Police	111,078,762
Public Works	93,537,291
Fire	69,634,048
Transportation	50,942,703
Housing	46,327,327
Parks, Recreation and Community Services	27,300,063
Information Technology	25,259,791
Planning and Community Development	23,000,982
Public Health	21,184,489
City Manager	19,442,646
Library and Information Services	16,784,344
Finance	15,778,287
City Attorney	12,542,216

Human Resources	7,535,382
Rent Stabilization	4,696,732
City Clerk	3,542,982
City Council	3,473,450
Department Total	<u>\$ 897,373,745</u>



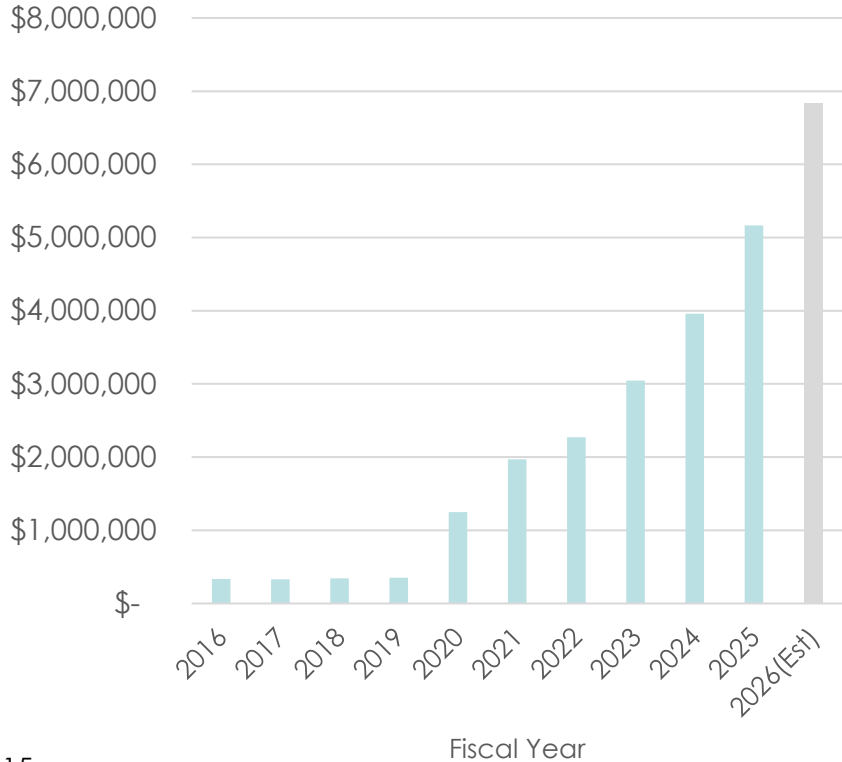
Obligations and Commitments

- Pensions - \$42m from GF
- Debt service - \$25m (City & PCOC)
- Library GF contribution - \$12.6m
- Measure I to PUSD - \$10.7m
- Insurance/General Liability - \$10.2m GF, \$15.9m overall
- Animal control - \$1.75m
- Tree/Brush maintenance – over \$1.2m
- Consolidated elections - \$551k
- Crossing guards - \$350k
- Direct GF Non-profit support
 - Aquatics Center - \$180k
 - Norton Simon - \$337k
- State mandated programs - limited cost recovery

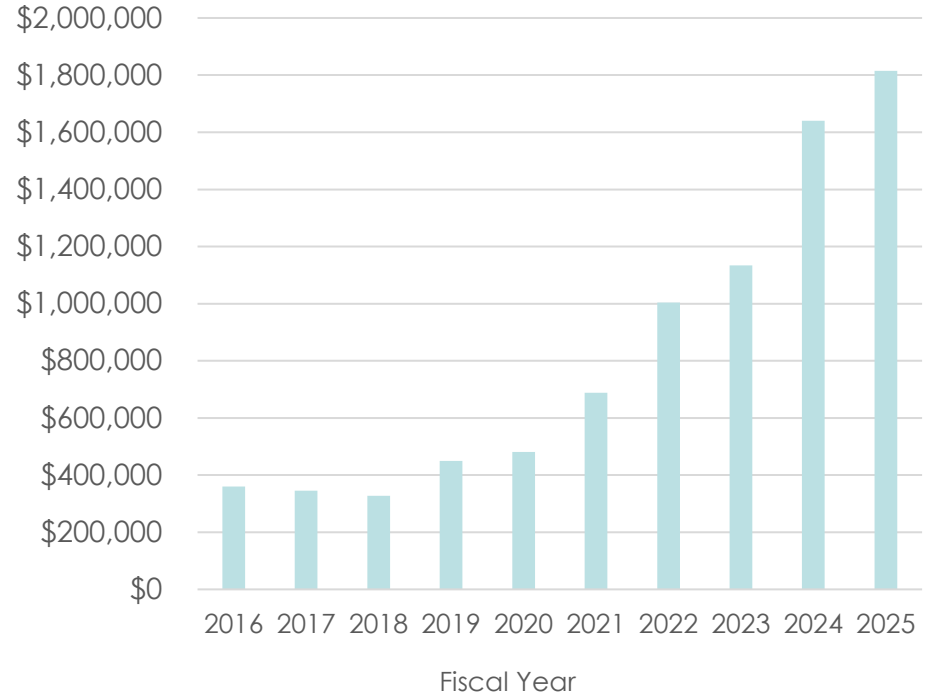


Insurance/General Liability

FY 16-26 Excess GL



FY 16-25 Property Citywide



Fiscal Year

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Budget Highlights

➤ Personnel Budget

- Preliminary estimate: approximate increase of 8.2%
 - Salary – 7.26% (Fewer vacancies, class/comp adjustments, MOU increases)
 - Pension – Non-Safety: 4.6%, Safety: 16.6%
 - Medical – 9.0% (Premium increases, fewer vacancies)

➤ Services & Supplies Budget

- Review contracts (end date, extension clause, escalator %) and apply appropriate increases
- January 2025 CPI **3.3%**
- FY 2019 Palm Tree Pruning - \$64 per tree - \$179,200
- FY 2023 Palm Tree Pruning - \$99 per tree - \$277,200, a 55% increase in 4 years. Price secured through Dec. 2026.



Budget Highlights

➤ Internal Service Charges

- At minimum, Internal Service rate increases keep pace with Personnel growth
- An internal audit review of Fleet Services completed in the last year. A finding that the cost recovery methodology was insufficient to support the necessary maintenance and was not charging enough to the gasoline/diesel users. Should increase by 43%.
- Annual fleet replacement funding should increase by 29% due to inflation and clean fleet transition.
 - 2021 Pierce Fire Engine - \$977,480.15
 - 2025 Pierce Fire Engine - \$1,454,648.26 (49% increase)
 - Manufacturer offering a 12% discount for payment at order. Currently a 42-48 month build time.
 - Price only includes commodities (aluminum/steel) increases up to 5%.
- Ford “F” series trucks reported to be one of the top vehicles to be impacted by the tariffs on aluminum.



General Fund 5-Year – FY 25 Budget Adoption

General Fund Five-Year Forecast

	FY 2023	FY 2024	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	Final	Rev. Budget	Forecast	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	0	18,086,075	18,086,075	6,803,101	1,587,157	(382,051)	(3,661,049)	(5,831,290)
Revenues								
Tax Revenues	256,099,426	250,860,100	254,930,304	265,657,100	275,442,388	284,542,670	293,888,284	303,568,090
Other Revenues	46,153,066	58,823,605	58,823,605	54,732,734	56,053,217	57,407,231	58,795,643	60,219,345
Contributions/Svs. From Other Funds	54,527,524	15,190,438	20,190,438	20,140,438	20,140,438	20,140,438	20,140,438	20,140,438
Total Revenues	356,780,016	324,874,143	333,944,347	340,530,272	351,636,043	362,090,339	372,824,365	383,927,873
Expenses								
Personnel	186,024,588	204,966,273	204,966,273	214,778,587	225,493,081	234,312,948	241,929,694	253,055,984
Debt Service	11,426,366	11,692,948	11,692,948	12,318,397	12,323,966	12,317,139	11,290,184	11,288,643
Contributions To Other Funds	18,195,625	25,609,821	25,609,821	14,180,877	14,464,495	14,753,784	15,048,860	15,349,837
Other Expenses	87,921,858	114,997,675	114,997,675	99,468,355	101,323,710	103,985,465	106,725,867	109,547,505
Total Expenses	303,568,437	357,266,717	357,266,717	340,746,216	353,605,251	365,369,337	374,994,605	389,241,969
Operating Income/(Loss)	53,211,579	(32,392,574)	(23,322,370)	(215,944)	(1,969,208)	(3,278,998)	(2,170,240)	(5,314,096)
Ending Amount Available for Appropriations	53,211,579	(14,306,499)	(5,236,295)	6,587,157	(382,050)	(3,661,048)	(5,831,289)	(11,145,385)
Contributions to Capital Projects		(7,137,700)	(7,137,700)					
Reserve for Capital & Other Funds	(33,860,146)	23,247,300	23,247,300	(5,000,000)	-	-	-	-
Reduction/(Contribution) to Policy Reserve	(1,265,358)	5,000,000		-				
Net Income/(Loss) with Reserve Contribution	18,086,075	6,803,101	10,873,305	1,587,157	(382,050)	(3,661,048)	(5,831,289)	(11,145,385)



General Fund 5-Year – Prelim. FY 26

General Fund Five-Year Forecast						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	Final	Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	18,086,075	16,215,712	13,977,945	8,825,143	3,196,690	(213,228)
Revenues						
Tax Revenues	262,958,941	265,657,100	274,585,826	284,084,929	294,152,233	304,603,459
Other Revenues	66,399,883	54,985,734	56,308,747	57,665,316	59,056,309	60,482,618
Contributions/Svs. From Other Funds	20,140,438	20,140,438	20,140,438	20,140,438	20,140,438	20,140,438
Total Revenues	349,499,262	340,783,272	351,035,011	361,890,684	373,348,980	385,226,515
Expenses						
Personnel	206,097,494	215,348,587	228,380,604	236,779,307	244,022,597	254,779,365
Debt Service	11,619,669	12,318,397	12,323,966	12,317,139	11,290,184	11,288,643
Contributions To Other Funds	25,269,239	14,350,877	14,637,895	14,930,652	15,229,265	15,533,851
Other Expenses	112,156,731	99,932,178	100,845,349	103,492,037	106,216,851	109,022,359
Total Expenses	355,143,133	341,950,039	356,187,814	367,519,136	376,758,897	390,624,218
Operating Income/(Loss)	(5,643,871)	(1,166,767)	(5,152,802)	(5,628,452)	(3,409,917)	(5,397,703)
Ending Amount Available for Appropriations	12,442,204	15,048,945	8,825,143	3,196,690	(213,227)	(5,610,931)
Contributions to Capital Projects	(341,750)	(6,071,000)				
Reserve for Capital & Other Funds	10,247,300	5,000,000	-	-	-	-
Reduction/(Contribution) to Policy Reserve	(6,132,042)	-				
Net Income/(Loss) with Reserve Contribution	16,215,712	13,977,945	8,825,143	3,196,690	(213,227)	(5,610,931)



General Fund 5-Year – Prelim. FY 26

	June 2024	December 2024
Tax Revenues	\$275,442,388	\$274,585,826
Other Revenues	56,053,217	56,308,747
Contributions/Other Funds	20,140,438	20,140,438
Total Revenues	351,636,043	351,035,011
Personnel	225,493,081	228,380,604
Debt Service	12,323,966	12,323,966
Contrib. to Other Funds	14,464,495	14,637,895
Other Expenses	101,323,710	100,845,349
Total Expenses	353,605,251	356,187,814
Operating Income/(Loss)	(1,969,208)	(5,152,802)

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General Fund Reserves

- General Fund Reserve is comprised of two parts:
 - Operating Reserve – 5% of Annual Expenditures
 - \$16,184,000
 - Emergency Reserve – 15% of Annual Expenditures
 - \$48,552,000

- The City also has the Section 115 Trust for Pension and OPEB Benefits
 - \$13.6m and \$2.576m respectively as of 12/31/24.



FY 26 Plan to Ensure a Balanced Budget

- Refine both revenue and expenditure forecasts over the coming months.
 - Review tax forecasts and the economic climate.
 - Initial revenue forecasts are lower than previous projections
 - Evaluate the financial viability of implementing full cost recovery in FY 26
 - Review the workload related to rebuilding efforts and where costs may be recovered.
- As required by the Charter and authorized by voters, there is no longer a need make a finding that a transfer of 12% would be detrimental to operations of the electric utility.
 - “the transfer of such amount from the Light and Power Fund would be detrimental to the proper functioning and administration of the power utility during the budget year under consideration”



Examples of Prior Funding Decisions

(Alphabetical)

- Addition of a Sustainability Coordinator
- Creation of the Community Police Oversight Commission
- Enterprise Risk Management focus
- Fund Public Health with General Fund
- Historic Resources Survey
- Increase Fire budget to fund full Paramedic school for existing sworn staff
- Increase FY 25 tree planting budget to increase the number of trees planted due to the windstorm
- Maintain youth sports participation fees at \$10 post COVID
- Operate John J. Kennedy Pool 7-days per week year-round
- Rescue Ambulance – add 6th RA due to call volume



Budgetary and Priority Needs – External Pressure

- Federal Funding - \$51 million in FY 24.
 - Section 8 Housing - \$19.3 million
 - Other Housing programs - \$9 million
 - Foothill Workforce - \$3.9 million
 - Public Health Programs - \$10 million
 - 710 Reconnecting Grant - \$2 million
- Federal cuts not direct City funding – health, medical, education, aerospace
- Inflation, Stagflation and/or Recession
- Tariffs – fleet, homebuilders, technology/electronics, renewable energy



Budgetary and Priority Needs

- Public Health Operating shortfall due to grant eliminations or sunset - \$1.7 million.
 - Reduction of 12 grant funded FTEs
 - Grants ending in FY 25: SAMHSA (PORT), Immunization ,CaVIP, WIC Little by Little
- Additional Health Inspectors for night, weekend, and special event enforcement - \$100,000
- Public Works need for additional Code Enforcement for illegal vending and ROW enforcement - \$116,000



Budgetary and Priority Needs

- Increased tree planting - \$80,000
- Housing buildout of satellite office - \$250,000
- Homeless Court (if ongoing for 32 people) - \$750,000 - \$1 million
- Climate Change / Sustainability goals beyond PWP energy
 - Zero emission fleet
 - Infrastructure
 - Sustainability



Budgetary and Priority Needs

- 710 Master Plan
- Consolidate City office leased space in 2027-28 timeframe.
- Development of City-owned sites: YWCA, Ramona (affordable senior housing), and former Kaiser site (N. Lake Ave.)
- Rebuilding/Recovery from Eaton Fire – fast track work or permitting and desire to reduce fees/permit costs.
- 2028 Olympics preparation



Priority Category Examples

(Alphabetical)

- ADU construction incentives
- Climate Change/Sustainability initiatives
- Code Enforcement (Illegal vending/gas blowers)
- Economic development Strategic Plan implementation
- Emergency Preparedness/Enhanced Fire Prevention
- Homeless Prevention
- Homeless transition/temp housing
- Implement neighborhood specific plans
- Maintain Public Health programs when grants are terminated
- Mental health, crisis counseling, and related support for City personnel
- Modernize PD record keeping/crime analysis (Active Intelligence Center)
- Offset any Federal Reductions with local funds
- Pedestrian and/or Bicycle safety
- Roadways/PCI improvements
- Senior programming (PRCS)
- Traffic Enforcement (PD)
- Urban forest - maintain or improve
- Youth programming (PRCS)



City Council Priority Discussion

The budget reflects past City Council decisions. It's time to review and ensure these align with today's needs.

- Which existing priorities need re-evaluation given current economic and community conditions?
- How can we establish a clear, transparent process for ongoing priority setting and adjustment?
- What criteria should guide decisions on program adjustments or reductions, if necessary? Such as:
 - Data-driven decisions made by policy or City Council action
 - Explore potential for partnerships and contracting out services
 - Evaluate the effectiveness and sustainability of current program subsidies and delivery models
- Suggested framework for evaluating priorities: (a) Impact on the community, (b) Alignment with City Council goals, and (c) Financial sustainability.