Agenda Report

December 1, 2026

TO: Honorable Mayor and City Council

FROM: Assistant City Manager

SUBJECT: **CITY COUNCIL BUDGET WORKSHOP**

It is recommended that the City Council:

1. Provide direction to staff on City Council budget priorities, funding strategies, and policy considerations to be evaluated in preparing the Fiscal Year 2028 Capital and Operating Budgets.

BACKGROUND:

The budget workshop will begin the City Council's policy discussion for development of the Fiscal Year 2028 Capital and Operating Budgets. It is intended to establish a common understanding of the City's financial outlook and provide early direction before departments prepare detailed budget proposals.

The City Council established five budget priorities during its December 1, 2025, budget workshop and reaffirmed them on April 6, 2026:

- Modernize Fire Department facilities and enhance fire prevention;
- Improve roadways and implement pedestrian and bicycle safety;
- Invest in year-round shelter and transitional housing;
- Move Pasadena decisively toward a carbon-free future; and
- Implement the Economic Development Strategic Plan with a focus on placemaking.

The City has made progress in each area. The remaining needs, however, are substantial and exceed the funding presently available within the General Fund forecast. The workshop is intended to allow the Council to consider the fiscal outlook and priority needs together, rather than evaluate initiatives separately from the resources required to support them.

General Fund Condition and Five-year Forecast

As shown in Attachment A, the General Fund faces an ongoing imbalance between revenues and expenditures. Revenues are generally projected to grow approximately 2% to 3% annually, while expenditures are projected to grow approximately 4% to 5%. Personnel costs, including labor agreements, insurance premiums, and pension costs, remain a principal driver of expenditure growth. Inflation and other operating costs also continue to place pressure on the General Fund.

For Fiscal Year 2028, the forecast currently estimates approximately $392.4 million in General Fund revenues and $407.2 million in expenditures, a forecasted difference of approximately $14.8 million. The budget forecast is based on historical revenue and expenditure trends and has not been adjusted for one-time uses of fund balance or potential revenue recovery efforts. While further refinement of assumptions and implementation of budget strategies are expected to reduce the projected shortfall, the City continues to face an ongoing General Fund structural deficit, as expenditures have exceeded recurring revenues in recent years, resulting in the use of fund balance to support operating programs and capital needs.

For planning purposes, staff currently estimates the minimum recurring correction needed to better align ongoing revenues and expenditures at approximately $5 million to $8 million. The distinction among the principal figures is important:

- The forecasted annual difference reflects the full set of assumptions and projected activity in the five-year model, including current employee salary and benefit trends, inflation trends on non-personnel costs, and sustained capital investment
- The structural deficit is staff's current estimate of the minimum recurring correction needed to align ongoing revenues and expenditures.
- Funding for new or expanded priority initiatives would require resources beyond those needed to address the structural deficit.

The forecast is not a prediction that these outcomes must occur. It illustrates the likely result if the City continues its current financial course without adjusting expenditures, increasing ongoing revenues, or making other structural changes. Addressing the imbalance early will help preserve reserves, maintain fiscal flexibility, and reduce the likelihood that more difficult corrective actions will be required in later years.

City Budget Priorities and Potential Initiatives

Staff will review progress, remaining needs, and potential funding approaches for each priority. The workshop presentation included as Attachment B provides additional detail.

<u>Fire Department Facilities and Fire Prevention</u>

The City has completed minor improvements at Fire Stations 32 and 34 and continues work related to facility modernization, inspections, wildfire preparedness, and risk

reduction. The remaining long-term needs is estimated at approximately $200 million. Potential Fiscal Year 2028 initiatives include $6-7 million for redesign planning for Fire Stations 33 and 37 and approximately $1 million annually for year-round weed and brush clearance.

Roadways and Pedestrian and Bicycle Safety

The City has invested approximately $11 million in street resurfacing and is advancing grant-funded safety projects and traffic enforcement. The remaining roadway need is estimated at more than $125 million. Potential initiatives include more than $12 million annually for street repaving and approximately $1.5 million for roadway safety improvements outside normal grant cycles.

Year-Round Shelter and Transitional Housing

The City is evaluating requirements and feasibility for a year-round shelter while continuing outreach and coordinated services. Preliminary needs are estimated at more than $10 million in capital funding and approximately $2 million to $4 million in annual operating costs. Additional ongoing homelessness services could require approximately $2 million to $5 million annually. Potential funding sources include grants, County partnerships, and use of City-owned property.

Carbon-Free Future

Resolution No. 9977 established the policy direction to complete the transition to carbon-free energy by the end of 2030. Pasadena Water and Power will provide additional analysis regarding the investments, operating implications, and funding needed to achieve that direction.

Economic Development and Placemaking

Implementation of the Economic Development Strategic Plan is underway through grants, façade projects, formation of an Enhanced Infrastructure Financing District (EFID), and related development activities. Remaining needs are estimated at more than $25 million. Potential initiatives include approximately $3 million to $5 million for infrastructure associated with the LA 2028 Olympic and Paralympic Games and approximately $1 million annually for placemaking.

The Council will be asked whether these priorities should continue to guide development of the Fiscal Year 2028 budget, whether their scope or emphasis should be modified, and which initiatives should receive more detailed analysis. Direction to analyze an initiative would not constitute an appropriation or commitment to proceed.

Funding Options and Strategic Choices

The General Fund forecast does not provide sufficient ongoing capacity to address the structural deficit and fund all initiatives under consideration. Cost-recovery studies and fee updates may improve revenues, but they are not expected to generate enough resources to support the full range of priorities. Staff will therefore present several approaches for Council consideration.

Address the Structural Deficit

At a minimum, the budget process will need to identify recurring solutions sufficient to address the estimated $5 million to $8 million structural deficit. Options could include expenditure reductions, improved cost recovery, ongoing revenue adjustments, or a combination of actions. This work is necessary regardless of whether the Council elects to advance additional initiatives.

Preserve Existing Services

The Council could direct staff to focus on closing the structural deficit while otherwise maintaining current services. Under this approach, new or expanded initiatives generally would need to be deferred, phased, supported by new revenues, or funded with one-time resources when appropriate. This would limit service changes but also limit the City's ability to accelerate progress on the five priorities.

Targeted Funding Redirection

The Council could direct staff to identify a limited amount of additional ongoing funding for priority initiatives. This could include review of selected programs, service levels, vacancies, delivery models, contracts, and discretionary expenditures. Staff would identify the consequences of each option before any decision is requested.

Broader Structural Review

The Council could direct staff to conduct a broader review to identify a more substantial level of ongoing resources. This would require wider examination of programs, staffing, service levels, organizational structures, and methods of service delivery. A broader review could create greater capacity for priority initiatives, but it would also be more likely to affect existing programs, employees, and community service levels.

Revenue and Alternative Funding

Under any approach, the Council may direct staff to evaluate new or enhanced revenues, appropriate fees and cost recovery, grants, intergovernmental funding, regional and private partnerships, use of City-owned property, infrastructure financing, applicable capital funding, and one-time resources for eligible one-time costs. Potential opportunities may include Measure ER funding, estimated at approximately $2.4M

annually, for eligible public health programs and services, subject to the County's allocation process, applicable restrictions, and resolution of any legal or implementation issues. The City's existing local funding context also includes Measure I revenue and the Measure J advisory framework associated with support for Pasadena public schools, as well as revenues generated through the Pasadena Center Operating Company Transient Occupancy Tax (TOT) arrangement. From time to time, questions regarding the allocation, use, or distribution of existing revenue sources are raised as part of broader fiscal planning discussions. References to these funding sources are provided solely as background and do not propose, assume, or recommend any change to current funding practices or allocations. Any future consideration by the Council would occur separately and would be subject to applicable legal and fiscal analysis, stakeholder consultation, and public process. Other funding approaches may likewise require legal review, voter approval, or extended implementation periods.

Budget Process and Timeline

Following the workshop, staff will incorporate the Council's direction and return in early 2027 with refined options. Those options will identify fiscal, operational, workforce, and community impacts before final decisions are requested. The proposed Fiscal Year 2028 budget is expected to be released in April 2027, followed by public hearings and Council consideration before adoption in June.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic planning goals by providing a framework for responsible long-term financial planning, evaluating funding strategies, and aligning the Fiscal Year 2028 budget with Council priorities for municipal services, public infrastructure, sustainability, economic development, and quality of life in Pasadena.

ENVIRONMENTAL ANALYSIS:

The workshop is for discussion purposes only, and no approval or commitment to a specific course of action is requested. The discussion would not cause a direct physical change in the environment or a reasonably foreseeable indirect physical change. Therefore, it is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines, and no environmental document is required.

FISCAL IMPACT:

There is no direct fiscal impact associated with conducting the workshop. Any future funding, revenue, or service recommendations will be presented separately for City Council consideration through the public budget process.

Respectfully submitted,

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Approved by:

FOR MATTHEW E. HAWKESWORTH
Interim City Manager

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Attachment A – General Fund Five-Year Forecast
Attachment B – City Council Workshop Presentation