May 13, 2013

HONORABLE MAYOR AND CITY COUNCIL MEMBERS:

It is my pleasure to present the Fiscal Year (FY) 2014
Recommended Budget. This budget represents the City's financial plan for the coming fiscal year and was developed to further the City's mission of delivering exemplary municipal services responsive to our entire community and consistent with the City's history, culture, and unique character.

FY 2014 RECOMMENDED BUDGET SUMMARY

The FY 2014 Recommended Budget totals \$681.2 million. This figure includes an operating budget of \$531.1 million, capital appropriations of \$98.2 million, and appropriations of \$51.9 million for the City's three operating companies - Rose Bowl Operating Company, Pasadena Center Operating Company, and Pasadena Community Access Corporation. Included in the recommended operating budget are General Fund appropriations of \$202.6 million and estimated General Fund revenue of \$202.7 million.

A comparative summary of appropriations and Full Time Equivalent (FTEs) positions are reflected in Tables 1.1 and 1.2 below. In order to provide a meaningful comparison across fiscal years, transfers to and from the City's General Fund relating to its former redevelopment agency, the Pasadena Community Development Commission which occurred prior to the dissolution of redevelopment in Fiscal Year 2012, do not appear in the table. An illustration of the net recommended operating revenues and expenditures are included in Chart 1.1 and 1.2.

THE CURRENT ECONOMIC CLIMATE

As the City of Pasadena prepares to adopt its FY 2014 operating budget, the economy of the United States continues its slow recovery. At the national level, the Gross Domestic Product grew 2.2 percent in calendar year 2012 and is projected to increase an average of 1.5 percent per year over

Table 1.1

Total Appropriations

	FY 2012 Actual	FY 2013 Adopted	oted FY 2014 Recommended		
All Funds	\$867.5 million	\$727.0 million	\$681.2 million		
General Fund	\$205.7 million	\$197.2 million	\$202.6 million		

Table 1.2

Total Full-time Equivalents

	FY 2012 Adopted	FY 2014 Recommended	
All Funds	2,146	2,125	2,145
General Fund	964	949	937

Chart 1.1 FY 2014 Operating Revenues by Category

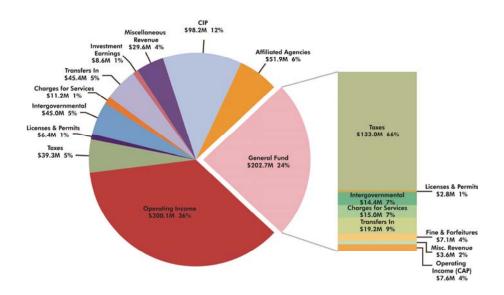
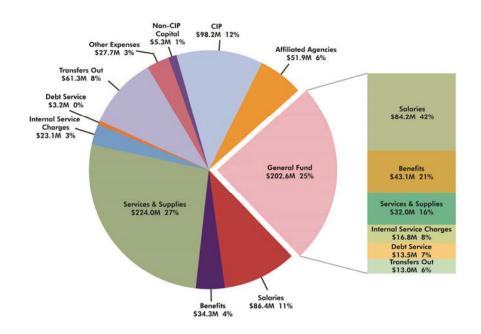


Chart 1.2
FY 2014 Operating Appropriations by Category



Note: Pie Charts include inter-fund transfers totaling \$109.4 million.

the next several years according to the US Department of Commerce. However, actual growth will certainly be influenced by the approach to the Federal budget and the nation's deficit, which is currently being debated in Washington. Recent impacts from the Federal sequestration budget reductions on the City's Federally-funded housing, Community Development Block Grant (CDBG), and other programs are a reminder that there are local impacts to what occurs at the Federal level.

This past fall the Legislative Analyst's Office (LAO),
California's non-partisan fiscal and policy advisor stated that
California's budget situation had improved sharply, as a result
of the state's economic recovery, prior budget cuts, and the
additional, temporary taxes provided by the passage of
Proposition 30. The LAO went so far as to consider the
possibility that California may, provided continued fiscal
discipline, enjoy a budgetary surplus in the next few years.
However, the same message warned that the state was
facing a projected \$1.9 billion deficit in FY 2013 and that the
assumed end of year reserve of \$948 million was forecast to
become a \$943 million deficit, due to the net impact of lower
revenues, and higher expenditures including \$1.8 billion in
lower than budgeted savings related to the dissolution of
redevelopment agencies.

In contrast, Pasadena anticipates ending the current fiscal year with positive General Fund net income, as anticipated when the City Council adopted the FY 2013 operating budget, and consistent with the General Fund 5-Year Financial Plan, which was adopted in Fiscal Year 2009 in order to address the challenges brought on by the economic downturn.

Pasadena's local economy continues to perform well and there are signs of renewed economic activity. Local unemployment, while still trending higher than historical norms, remains one of the lowest in the region and a testament to the City's diverse economic base. The California Employment Development Department reports that as of March 2013 Pasadena's unemployment rate was 7.6 percent versus 8.6 percent in neighboring Glendale, 8.0 percent in Burbank, 9.9 percent in LA County, and 9.4 percent for the state of California.

Recovery of the Housing market appears to be well underway. In Los Angeles County, the California Association of Realtors reported that home sales rose 10.8 percent for the period of January 2012 through December 2012 over the same period in 2011. Home prices are also seeing increases. In Los Angeles County the median home price increased 17.9 percent over the last year. As Pasadena remains a desirable location, both geographically and due to its many cultural amenities, home values locally are expected to remain strong. It's notable that throughout the recession, while market prices dropped, Pasadena's overall assessed property values did not decrease.

From an economic development perspective, the City is seeing renewed interest in numerous projects, particularly multi-unit housing. In addition, hotel and office projects are moving forward.

And recently, the City completed an Economic Development Strategic Plan which assessed Pasadena's comparative advantages, economic strengths, weaknesses, opportunities, and threats to help guide future economic activity. To maximize the value of this process, an Economic Development Task Force was assembled consisting of prominent community members drawn from a broad range of professional interests and backgrounds. The Task Force developed an implementation strategy for the Strategic Plan. The Plan goals are: support investment in our community that creates new jobs, enhance commercial districts to create quality shopping and dining experiences, cultivate an

entrepreneurial and academic environment that fosters innovation, and encourage activities that attract visitors and conventioneers. Information about the Economic Development Strategic Plan and Task Force is posted on the City's website at:

www.cityofpasadena.net/EconomicDevelopment/Economic Development St rategy

FISCAL YEAR 2014 RECOMMENDED BUDGET OVERVIEW

The Recommended Budget anticipates that key City revenues including property tax, sales tax, and utility users tax will return to pre-recession levels during FY 2014. In some cases, such as Transient Occupancy Tax (TOT) and Construction Tax, revenue growth is expected to be considerably stronger than in recent years, as the economic recovery continues. The FY 2014 Budget anticipates that TOT revenues will be approximately 15.8 percent higher than FY 2013, a full 36 percent higher than FY 2009. Construction Tax is anticipated to grow 63% over the FY 2013 budget estimate, from \$1.35 million to \$2.2 million. Positive economic trends and recovering revenues are signs that the economic shocks of the past several years are fading, however, the impacts remain. Through sound financial planning, prior to the recession, the City's General Fund had built-up a fund balance of \$25 million in excess of the 10% designated reserve the City maintains.

As part of the General Fund 5-Year Financial Plan, these funds were drawn down over the past few years in order to minimize the impact of the recession on City services and employees. Given the cyclical nature of the economy, and the reality that unexpected events can occur at any time, such as the windstorm which struck Pasadena in 2011 leaving over \$14 million of damage in its wake, it is vital that the City rebuild these reserves.

Adding to the challenge are cost increases, particularly the cost of City provided medical benefits and contributions to the state's CalPERS pension system. Between July 2007 and July 2013 the City's pension contribution rates have increased 57 percent for miscellaneous employees (from 11.072 percent of salaries to 17.377 percent) and 24 percent of sworn employees (22.048 percent of salaries to 27.226 percent). Since FY 2009 the cost of City provided medical benefits have risen 25 percent (\$4.7 million) and pension costs have increased 63 percent (\$11.9 million). CalPERS recently advised member agencies to expect additional increases over the next several years as the pension system works to more accurately reflect expected payouts and investment portfolio performance. Working cooperatively with the City's labor groups, a portion of increased pension costs have been partially off-set through agreements whereby employees pay the full eight-percent employee CalPERS contribution. These cost drivers are incorporated in the 5 year Financial Plan. The updated General Fund 5 year Financial Plan is summarized in Table 1.3 on the following page.

The FY 2014 budget has been developed based on the City Council Strategic Plan goals. All Department performance measures are tied to these goals as virtually all activities of the municipal organization fall under one or more of these goals:

- Maintain fiscal responsibility and stability
- Improve, maintain, and enhance public facilities and infrastructure
- Increase conservation and sustainability
- Improve mobility and accessibility throughout the city
- Support and promote the local economy
- Ensure public safety

Table 1.3
General Fund 5-Year Financial Plan (\$000)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Beginning Amount Available					
for Appropriations	\$5,241	\$5,347	\$5,698	\$5,776	\$7,006
Revenues					
Tax Revenues	132,987	138,794	146,183	152,140	158,350
Other Revenues	69,665	71,318	70,541	72,760	74,734
Total Revenues	202,652	210,112	216,724	224,900	233,084
Expenses					
Personnel	127,364	130,384	135,513	140,068	145,919
Debt Service	13,459	17,377	17,877	17,877	17,877
Contributions to Other Funds/Misc	12,957	12,591	12,944	14,406	15,279
Other Expenses	48,767	49,411	50,313	51,319	52,346
Total Expenses	202,547	209,763	216,647	223,670	231,421
Net Income/(Loss)	105	349	77	1,230	1,663
Ending Amount Available for					
Appropriations	\$5,346	\$5,696	\$5,775	\$7,006	\$8,669

The FY 2014 budget continues the practice of conservative revenue estimates, especially in the General Fund. Overall, the FY 2014 Adopted Budget anticipates modest increases in most revenues.

For FY 2014, to better recover the full cost of providing services, increases are being recommended to a number of City fees and charges based on a recent cost of service study. Fees and charges that were not analyzed as part of the study are being inflated by an amount equal to the change in the Consumers Price Index (2.22 percent) as prescribed in Section 1.08.060 of the City's Municipal Code.

Pursuant to City Charter Sections 1407 and 1408, the City makes annual transfers from the Power & Light Fund to the General Fund to support municipal operations and capital improvements. In combination, the provisions of the City's Charter limit the annual transfer to the lessor of 16 percent of gross revenues or the net income of the Power Utility. Traditionally, the City has transferred well below the full

amount allowed by the Charter. For FY 2014 the recommended operating budget includes a 9 percent transfer.

With the elimination of redevelopment in FY 2012, certain revenues and expenses totaling roughly \$18.5 million, which were previously reported in the General Fund, have been moved to the redevelopment Successor Agency, consistent with the provisions of state law. Consequently, the revenue and expense budgets in the General Fund are significantly reduced when compared to the FY 2013 budget document. As both revenues and expense are affected, there is no net impact to the General Fund.

After adjusting for the loss of redevelopment and the \$18.5 million discussed above, General Fund revenues and expenses are projected to remain relatively flat with a 2.7 percent growth rate compared to the FY 2013 Adopted Budget. Personnel-related expenses account for nearly 72 percent of all General Fund operating expenditures (excluding transfers to other funds and debt service), achieving this low

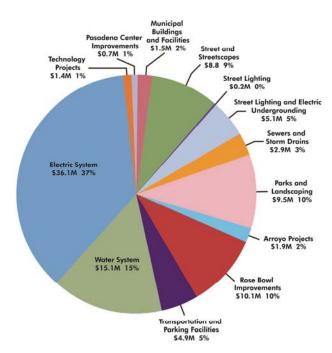
level of expense growth necessitates that increases to controllable personnel costs be minimal. For most employees this will be the fifth consecutive year with no net cost of living increase; however, in contrast to other jurisdictions that have been forced to implement salary reductions, Pasadena has maintained current salary levels in recent years. To-date approximately 90 percent of the City's non-sworn employees now pays the full eight percent employee CalPERS contribution. Previously the City was subsidizing between 45 percent and 58 percent of the miscellaneous employee CalPERS contribution, depending on the bargaining group. Going forward, it is recognized that the City must provide a competitive salary and benefit package to recruit and retain the talent it requires. Accordingly, the five-year financial plan for FY 2015 and beyond anticipates an average annual increase in salary costs (cost of living adjustments, step increases, etc.) of 2 percent.

Chart 1.3 FY 2014 CAPITAL IMPROVEMENT PROGRAM APPROPRIATIONS

LOOKING TO THE FUTURE

Pasadena has a rich history and a bright future. The City's efforts to overcome recent financial challenges tend to obscure many of the City's recent successes. While it is critically important that the City maintain strong fiscal health, the City must also continue to address a wide variety of infrastructure-related issues and also take time to acknowledge the positive improvements that are continually being made.

During FY 2014, the City will celebrate some significant milestones including, the 125th annual Tournament of Roses Parade, the 100th Rose Bowl game, followed a week later by the Bowl Championship Series (BCS) game, the 125th anniversary of the Pasadena Fire Department, completion of the Rose Bowl Renovation Project Phase III, completion of the retrofit and renovation of Fire Station 39, preparation of the Environmental Impact Report (EIR) for the recently



completed update of the City's General Plan, and implementation of a new Pasadena Unified School District (PUSD)/City of Pasadena Work Plan to align resources to achieve better student outcomes.

In addition to these major activities the City will continue with both major and minor infrastructure improvements through the City's FY 2014 – FY 2018 5-Year Capital Improvement Program (CIP) Budget. The CIP is one of the most important ways the City plans for the future. The CIP is a compilation of new construction and major maintenance projects designed to preserve and expand the City's infrastructure. This five-year plan contains 224 active projects with a total estimated cost of \$918.3 million.

The FY 2014 CIP Budget includes \$98.2 million in appropriations for 98 projects, of which 12 are new projects. Chart 1.3 provides an illustration of the FY 2014 projects by type.

In addition to the City Council's strategic plan goals discussed previously, the following considerations are made for developing and prioritizing the CIP:

- The project is needed to address a particular safety concern;
- The project is necessary because existing maintenance efforts are no longer satisfactory and the cost of repair exceeds the replacement cost; and,
- An existing facility or system is no longer adequate to meet City needs/demand.

Of particular note are projects related to the City's Water and Power utilities. A series of recent increases to the distribution rate have improved the financial health of the Water Fund and positioned the utility to continue to make infrastructure investments as approved in the Water Distribution System Master Plan and the Water Integrated Resources Plan.

These investments will improve water quality, supply, reliability, and well production capacity. The system improvements will also reduce dependency on imported purchased water and meet California's conservation requirements. In FY 2014, completion of the Well Collector Pipeline project is expected, while focus on the Recycled Water project and the seismic retrofit of reservoirs will be ongoing.

The power utility will continue to explore projects and negotiate contracts to cost-effectively augment its renewable portfolio standard, and manage its California Greenhouse Gas ("GHG") obligation through participation in the GHG Cap and Trade program. The local Repowering Project, which includes the construction of a 71 MW combined cycle generating unit to replace the Broadway 3 steam unit, is expected to begin in FY 2014. The City Council recently certified the Environmental Impact Report for the project and issuance of the air quality permits is expected in June/July of 2013, followed by major equipment procurement.

The upgrading of the City's Enterprise Resource Planning (ERP) system also continues to move forward. Technology upgrades will improve city-wide efficiencies through the integration of numerous current systems and provide the public with better accessibility.

The CIP document provides a detailed description of each funded project including a Future Projects section that identifies 186 additional projects with a total estimated cost of \$484.3 million. These future projects are not yet funded; however, identifying these projects as part of the program allows staff to pursue funding opportunities when, and if, they become available. The complete FY 2014 – FY 2018 CIP document is posted on the City's website at:

http://www.cityofpasadena.net/PublicWorks/Capital_Improvement_Program/

An effective CIP will assist the City to provide services which are critical to the future of Pasadena. Staff at all levels is involved in efforts to improve service-delivery and increase efficiency and effectiveness.

CONCLUSION

Over the past five years the City of Pasadena faced the daunting challenge of continuing to provide high-quality public services while addressing the most serious fiscal crisis in recent memory. One positive outcome of these financial challenges has been to reinvigorate the City's emphasis on organizational efficiency, infrastructure investment, and economic development. It also reinforced the City's focus on recognizing the value of our most important resource: the men and women who work for the City and make Pasadena the world-class city that it is. This is a service-oriented organization made up of people serving people. This budget continues to recognize the values which make Pasadena unique and is a testament to the leadership of the City Council and the commitment of all City employees. Through continued partnership with the community that we serve, the City of Pasadena will continue to be a leader in effective municipal governance and maintain its high quality of life.

Respectfully submitted,

Michael J. Beck City Manager