

SOUTH PASADENA FINANCE COMMISSION

SPECIAL MEETING AGENDA
March 28, 2019, 7:30 pm
South Pasadena City Hall
City Manager's Conference Room
1414 Mission St.
South Pasadena, CA 91030

1. ROLL CALL

Commission Chair Wood, Vice Chair Adrian, Commissioners Choi, Findley, and Zhen, City Treasurer Pia, Staff Liaison/Finance Director Koehler, and City Council Liaison Mahmud.

2. PUBLIC COMMENT

Time reserved for public input from those who wish to address the Commission. Public input will also be taken on all agenda items. Public input is limited to 5 minutes per speaker.

3. APPROVAL OF MINUTES

None.

4. NEW BUSINESS

A. Review Mid-Year Financial Report for Fiscal Year 2018-19

B. Review Five-Year Financial Forecast

5. CONTINUING BUSINESS

6. COMMISSIONER COMMENTS

7. COUNCIL LIAISON COMMENTS

8. STAFF LIAISON COMMENTS

9. NEXT MEETING – Regular Meeting April 25, 2019

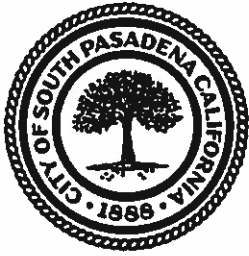
3/25/19

Date



Signature

I declare under penalty of perjury that I am an employee of the City of South Pasadena and that I posted this Agenda on the bulletin board in the courtyard of the City Hall at 1414 Mission Street, South Pasadena, CA 91030, as required by law.



Finance Commission Agenda Report

ITEM NO. 4A

DATE: March 28, 2019
FROM: Craig Koehler, Finance Director
SUBJECT: Review of Mid-Year Financial Report for Fiscal Year 2018-19

Recommendation

It is recommended that the Finance Commission review, and receive and file the Mid-Year Financial Report for Fiscal Year 2018-19.

Discussion/Analysis

The Mid-Year Financial Report for Fiscal Year 2018-19 was presented to Council on February 20, 2019.

Background

The attached staff report and Power Point that were presented to Council on February 20, 2019, are included in the agenda packet for your reference.

Fiscal Impact

There is no fiscal impact.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachments:

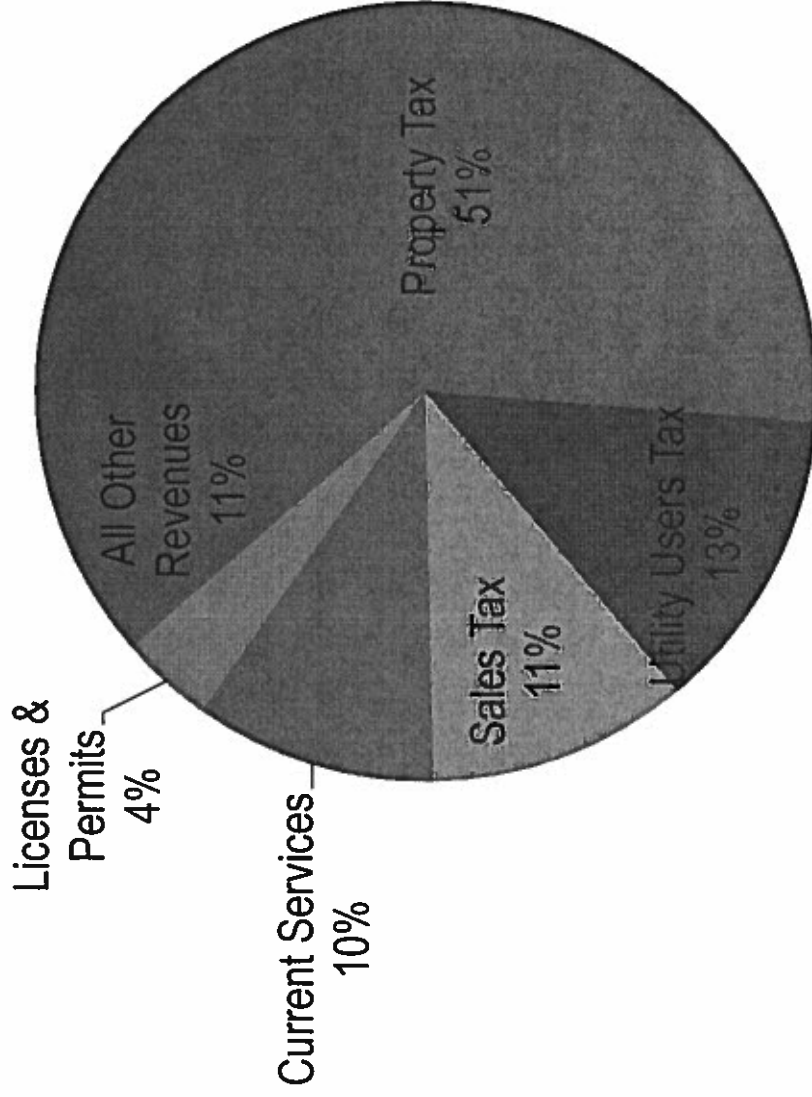
1. PowerPoint – Mid-Year 2018-2019
2. Staff Report to Council – Mid-Year Financial Report for Fiscal Year 2018-19, dated February 20, 2019

Mid-Year FY 2018/19

**City of South Pasadena
February 20, 2019**



General Fund Revenues



FY 2018/19 General Fund Budget = **\$27,049,618**

General Fund Revenues

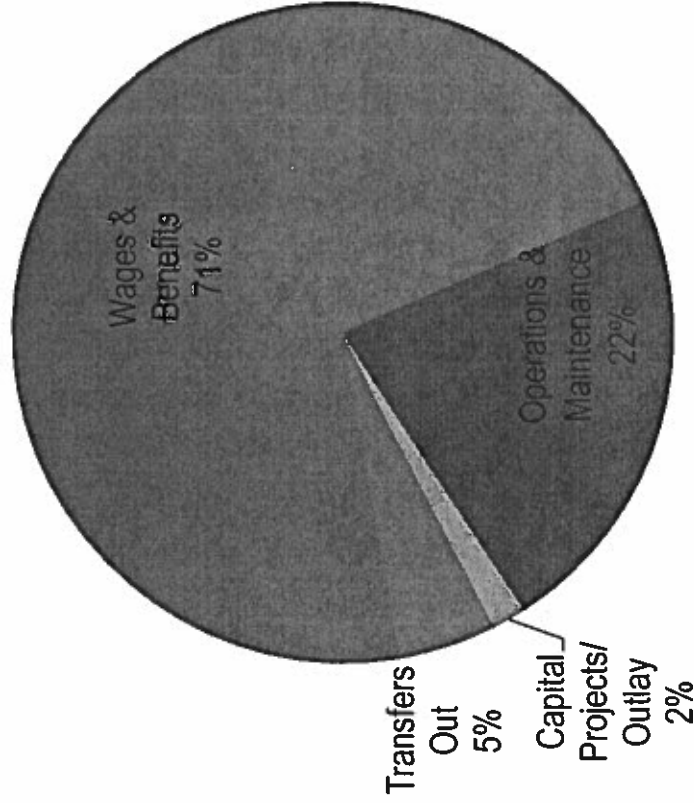
Category	Actual 2016/17	Adopted 2017/18	FY 2018/19 Budget	Mid-Year Revenues	Percent Received
Property Taxes	\$13,236,932	\$13,664,979	\$13,855,000	\$4,945,685	35.7%
Sales Taxes	2,456,666	2,625,000	2,925,000	896,753	30.7%
Utility Users Taxes	3,381,948	3,430,000	3,430,000	1,651,692	48.2%
Franchise Fees	818,724	840,000	830,000	412,746	49.7%
Licenses & Permits	1,054,463	1,006,440	1,041,400	417,463	40.1%
Fines & Forfeitures	397,738	367,000	380,000	152,272	40.1%
Use of Money & Property	541,749	632,671	666,136	252,102	37.9%
Other Agencies	76,385	670,000	45,000	-	0.00%
Current Services	2,915,875	2,386,050	2,703,700	1,434,840	53.1%
All Other Revenues	1,475,703	1,112,502	1,173,382	373,069	31.8%
TOTAL GENERAL FUND	26,356,183	\$26,734,642	\$27,049,618	\$10,536,623	39.0%



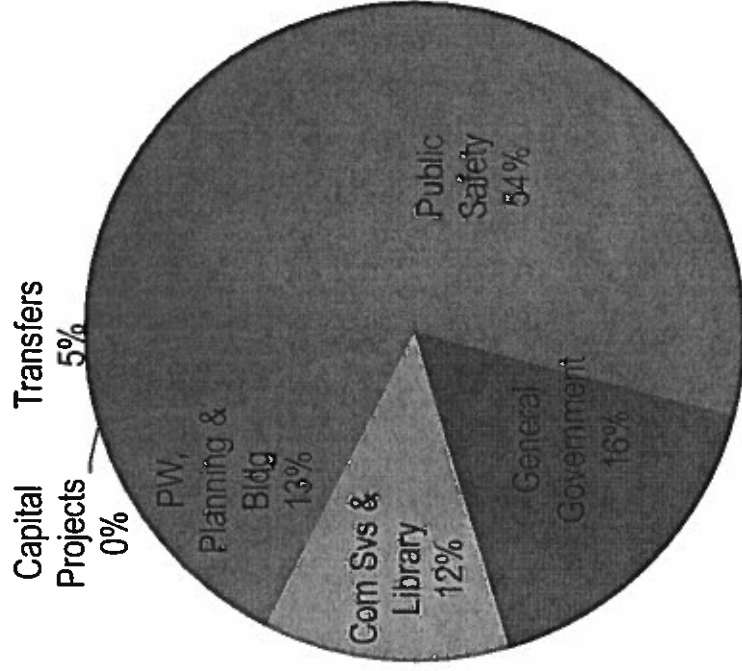
General Fund Expenses



Expenditure by Category



Expenditure by Function



FY 2018/19 General Fund Budget = **\$26,286,835**

Mid-Year Expenditures

Department	FY 2018/19 Budget	Mid-Year Expenses	Percent Expended
City Council/Treasurer	\$ 67,678	19,988	29.5%
Management Services	2,464,984	1,131,370	45.9%
Finance	834,879	534,395	64.0%
Non-Departmental	918,290	393,855	42.9%
Police	8,815,924	3,994,791	45.3%
Fire	5,388,170	2,391,859	44.4%
Public Works	2,149,141	726,097	33.8%
Planning & Building	1,225,953	432,780	35.3%
Library	1,754,789	708,348	40.4%
Community Services	1,422,027	617,912	43.5%
Capital Projects	-	542,172	-
Transfers Out	1,245,000	-	-
TOTAL	\$26,286,835	11,493,567	43.7%



Recommendation Action

- Appropriate from General Fund Reserves: \$32,000 to Account #101-6010-6601-8140-000 for the City's move to 100% Renewable Energy Mix for the Clean Power Alliance.
- Receive and File the Mid-Year Financial Report for Fiscal Year 2018-19.





Questions?



City Council Agenda Report

ITEM NO. 19

DATE: February 20, 2019
FROM: Stephanie DeWolfe, City Manager *SD*
PREPARED BY: Craig Koehler, Finance Director *CK*
SUBJECT: Mid-Year Financial Report for Fiscal Year 2018-19

Recommendation Action

It is recommended that the City Council:

1. Appropriate from General Fund Reserves: \$32,000 to Account #101-6010-6601-8140-000 for the City's move to 100% Renewable Energy Mix with the Clean Power Alliance and;
2. Receive and File the Mid-Year Financial Report for Fiscal Year 2018-19.

Executive Summary

General Fund revenues and expenditures are currently in line with budget projections and are not expected to deviate significantly during the second half of the fiscal year. One request is being presented for mid-year appropriations from the General Fund Reserves to cover the increased costs of the City's choice to select 100% renewable energy for all city facilities.

Discussion/Analysis

As of February 1, 2019, the City's residents have the option of purchasing power through the new Clean Power Alliance. Each resident has the option to select a percentage of clean power or to remain with Southern California Edison. On October 17, 2018, the City Council voted to adopt 100% clean power as the default option for residents who do not make a choice. At the same time, the Council directed staff to return with a recommendation in the mid-year budget report to move to 100% Renewable Energy Mix for all City facilities. This choice will result in an approximate increase of 7-9% over Southern California Edison rates. Of this, approximately \$28,000-\$36,000 will impact the water enterprise funds, while an estimated increase of \$25,000-\$32,000 will impact the General Fund.

General Fund Revenues \$27,049,618

Revenue projections are prepared using a conservative methodology based primarily on historical trends and adjustments for known or anticipated factors that affect the City's General Fund. FY 2018-19, year-end revenues are not expected to differ significantly from budgeted estimates. The General Fund anticipated revenues includes a three percent increase over last year due to sustained increases in property taxes, the City's largest revenue source. The City's top

revenue sources include Property Tax (51%), Utility User Tax (12%), Sales Tax (11%), and User Fees (4%).

The \$13.9 million in projected property tax revenues make up 51.1% of total General Fund revenues. Property taxes are less than 50% at mid-year since the majority of this revenue is received in the second half of the fiscal year; current revenues are 1.75% higher than at this same point last year. These revenues continue to grow along with assessed valuations, which increased by 5.0% over the prior fiscal year.

Sales taxes throughout the State of California have been increasing over the last several years, with receipts for many municipalities, including South Pasadena surpassing pre-recession levels. Currently, sales taxes make up 9.8% of General Fund revenues. The most recent quarterly adjusted sales tax receipts for the City were 3.5% higher than the same quarter one year ago, due primarily to an increase in fuel and service stations. Gasoline service stations, restaurants and supermarkets make up the majority of the top 25 sales tax producing businesses in the City, but it should be noted that fewer than 15 businesses within the City generate 50% of the City's total sales tax revenues. As with property taxes, the majority of sales taxes are received after mid-year, and current revenues are higher than at this point last year. Los Angeles County adjusted receipts increased by 4.0% within the same timeframe.

Utility User Taxes (UUT) are not expected to exceed projections as increased conservation efforts, and changes in the way customers manage their telephone plans are limiting the amount of growth in this revenue source. The amount of taxes received by the end of December only represent the first five months of the year since these taxes are not paid until the following month. Overall, UUT revenues make up 13% of total General Fund revenues.

Franchise fees for gas and electric service are not received until the second half of the fiscal year; however, current revenues for the refuse and cable TV franchises are higher than at this point last year. Revenue from the use of money and property includes unrealized losses on the City's managed investment portfolio. Since it is not the City's policy to realize losses, this artificially lowers the apparent earnings. Because overall annual revenue increases are gradual, the City must rely more on enterprise funds, local return funds, and grants to support the increasing cost of service delivery.

	Actual	Actual	Adopted	Adopted	Mid-Year	Mid-Year
Revenue Category						
Property Taxes	12,632,984	13,236,932	13,664,979	13,855,000	4,945,685	35.70%
Sales Taxes	2,635,968	2,456,666	2,625,000	2,925,000	896,753	30.66%
Utility Users Taxes	3,414,827	3,381,948	3,430,000	3,430,000	1,651,692	48.15%
Franchise Fees	875,303	818,724	840,000	830,000	412,746	49.73%
License & Permits	1,028,583	1,054,463	1,006,440	1,041,400	417,463	40.09%
Fines & Forfeitures	444,556	397,738	367,000	380,000	152,272	40.07%
Use of Money & Property	681,073	541,749	632,671	666,136	252,102	37.85%

Other Agencies	136,328	76,385	670,000	45,000	-	0.00%
Current Services	2,805,481	2,915,875	2,386,050	2,703,700	1,434,840	53.07%
All Other Revenues	1,834,950	1,475,703	1,112,502	1,173,382	373,069	31.79%
Total GF Revenues	26,490,054	26,356,183	26,734,642	27,049,618	10,536,623	38.95%

General Fund Expenditures \$26,286,835

The FY 2018-19 adopted annual budget represents a three percent increase in general fund expenditures. The City's main expenditures can be attributed to personnel (72%) and operations and maintenance (22%). The City did not increase wages as part of the approved 2017-2019 Memorandums of Understanding with the represented labor groups. The increase in expenditures is largely due to increases in mandated pension liability, workers' compensation, and health insurance costs.

In reviewing Department/Program Expenditures, most departments are in line with budgeted expenditures, at approximately 60% or less spent at mid-year. However, Transportation Planning is at 70.15%, and is primarily due to higher professional fees in connection with an additional \$25,000 for potential Ramona Street Traffic congestion costs. In addition, Finance, at 64.01%, is due to increased professional and contract costs for augmented staffing costs due to staff vacancies. Overall, Fiscal 2018-19 is lower at 43.7% mid-year, compared to 45.89% at the same time last fiscal year.

	Actual	Actual	Adopted	Adopted	Mid-Year	Mid-Year
Department/Program Exp						
City Council	53,999	42,195	66,388	58,429	15,369	26.30%
Management Services						
City Manager	743,916	918,114	971,844	817,000	466,939	57.15%
City Clerk	393,222	444,655	463,822	478,184	169,492	35.44%
Elections	64,149	19,457	8,600	65,050	5,518	8.48%
Human Resources	113,228	247,127	219,400	284,950	124,710	43.77%
Transportation Planning	205,599	54,926	187,000	90,000	59,629	66.25%
Legal Services	261,455	257,586	265,000	265,000	151,683	57.24%
Information Systems	407,339	487,296	490,045	464,800	153,399	33.00%
Finance						
Finance	619,109	643,953	708,802	834,879	534,395	64.01%
City Treasurer	9,295	9,380	9,249	9,249	4,619	49.94%
Non-Dept./Overhead	886,536	947,865	918,378	918,290	393,855	42.89%
Police	7,529,818	8,419,495	8,620,012	8,815,924	3,994,791	45.31%
Fire						
Fire	4,626,740	5,031,694	4,592,889	4,948,250	2,251,813	45.51%
Emergency Services	36,516	23,505	35,000	439,920	140,046	31.83%
Public Works						
Administration & Engineering	485,049	372,784	499,453	781,588	235,821	30.17%
Environmental Services	176,958	210,595	304,166	-	24,433	0.00%

Mid-Year Financial Report for Fiscal Year 2018-19
 February 20, 2019
 Page 4 of 5

Park Maintenance	409,997	414,864	532,230	547,550	216,850	39.60%
Facilities Maintenance	654,372	683,017	739,674	820,003	248,993	30.36%
Planning & Building	1,002,540	1,158,096	1,099,492	1,225,953	432,780	35.30%
Library	1,473,447	1,525,469	1,716,477	1,754,789	708,348	40.37%
Community Services						
Senior Services	244,462	291,590	349,487	354,820	132,117	37.23%
Community Services	280,051	285,448	246,836	208,098	75,956	36.50%
Recreation and Youth Services	660,451	679,960	856,063	859,109	409,839	47.71%
Capital Projects	2,728,182	483,614	1,620,000	-	542,172	0.00%
Misc/Transfers Out	676,460	5,473,409	1,900,000	1,245,000	-	0.00%
Total GF Expenditures	25,268,692	29,126,094	27,420,307	26,286,835	11,493,567	43.72%

Next Steps

The Mid-Year Financial Report will be presented to the Finance Commission at its next regularly scheduled meeting.

Legal Review

The City Attorney has not reviewed this item.

Fiscal Impact

New appropriations in the amount of \$32,000 are being requested to cover the increased energy costs as a result the City's move to 100% Renewable Energy Mix with the Clean Power Alliance.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.



Finance Commission Agenda Report

ITEM NO. 4B

DATE: March 28, 2019

FROM: Craig Koehler, Finance Director

SUBJECT: **Review of Five-Year Financial Forecast and Community Engagement Regarding Long-Range Financial Sustainability Plan**

Recommendation

It is recommended that the Finance Commission review the Five-Year Financial Forecast and provide input in connection with community engagement regarding the Long-Range Financial Sustainability Plan.

Discussion/Analysis

The Five-Year Financial Forecast and initiation of community engagement in connection with the Long-Range Financial Sustainability Plan were presented to Council on March 6, 2019. Following the March 6 Council Meeting, and throughout the month, staff has been engaged in community outreach meetings with various employee and community groups, to solicit and gather feedback regarding strategies for a long-range financial sustainability plan.

Background

The attached staff report was presented to Council on March 6, 2019, and the Five-Year General Fund Forecast and survey being presented to the community, are included in the agenda packet for your reference. The presentation and survey are also on the City's website.

Fiscal Impact

There is no fiscal impact.

Public Notification of Agenda Item

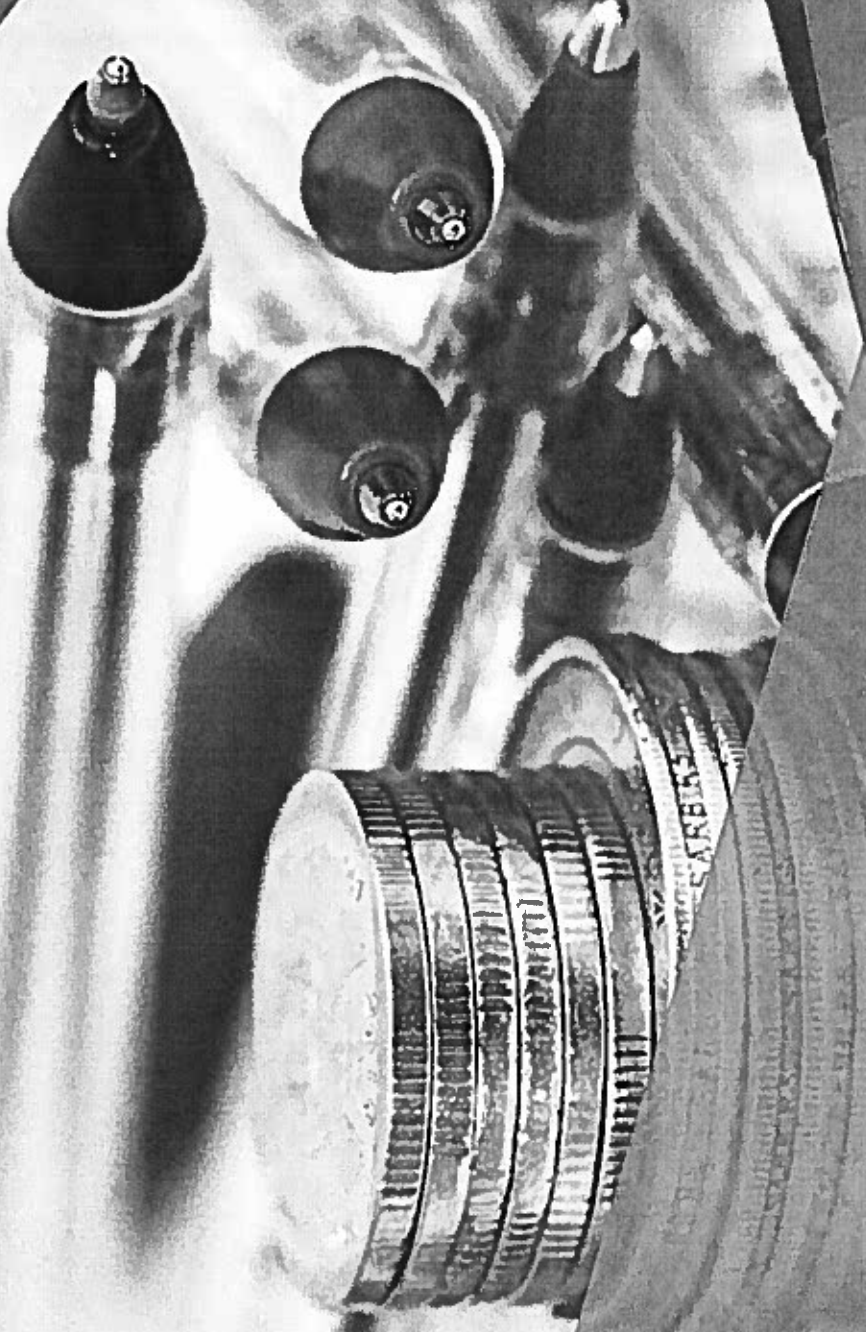
The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

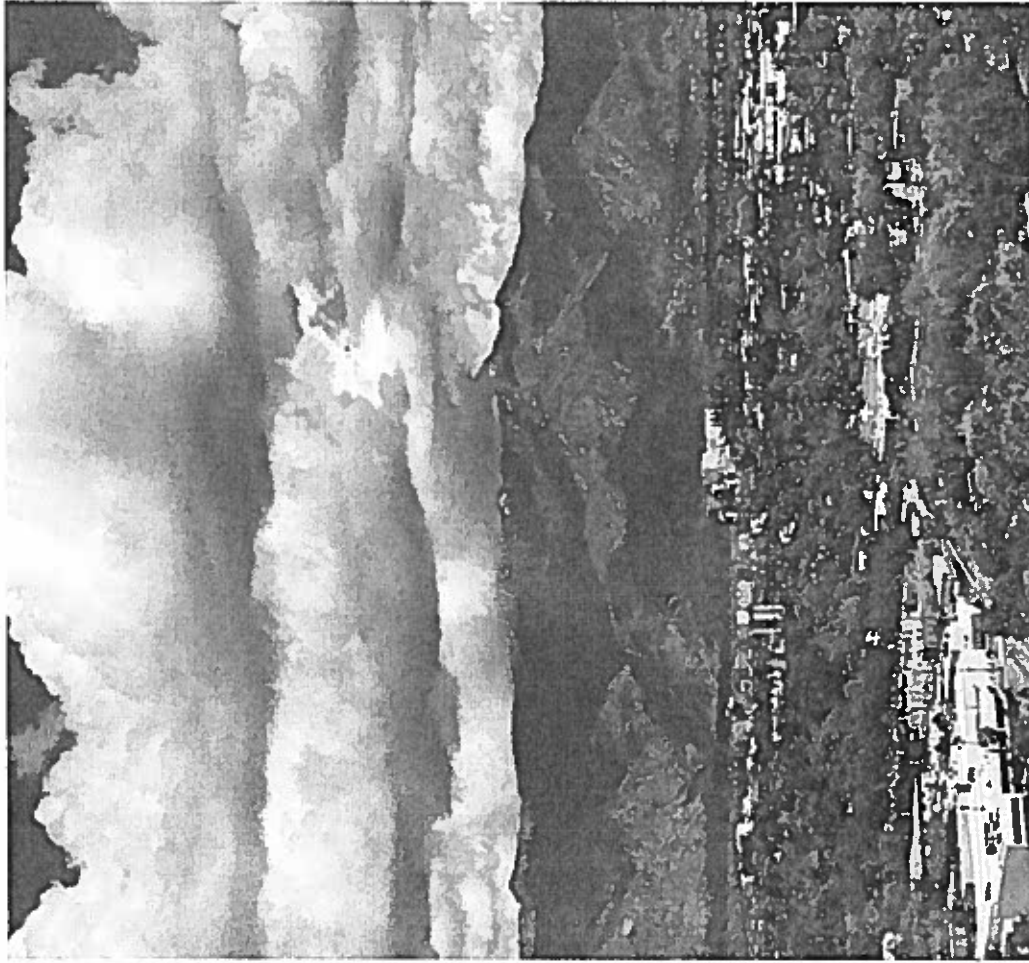
Attachments:

1. PowerPoint – Five Year General Fund Forecast
2. Staff Report to Council – Review of Five-Year Financial Forecast and Initiation of Community Engagement Regarding Long-Range Financial Sustainability Plan, dated March 6, 2019
3. South Pasadena City Budget Survey March 2019

City of South Pasadena

Five Year General Fund Forecast





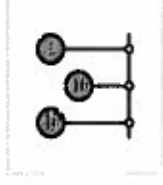
Financial Sustainability



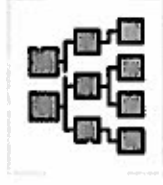
Pension CalPERS



Capital Improvements

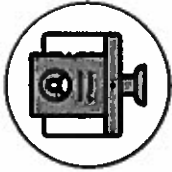


Organizational Sustainability



Strategic Plan

TIMELINE



ANALYZE

Analyze the City's Financial Condition in a Transparent Manner



REVIEW

Review Past Financial Performance



TRENDS

Analyze Revenue and Expenditure Trends



PROJECTIONS

Use Trends to Project Future Financial Activity



PRESENT TO COUNCIL

Present Information to Council to Assist in Determining Best Financial Decisions Moving Forward



COMMUNITY INPUT

Develop Suggestions with Community Input for Increase Revenue



GENERAL FUND BALANCE



Capital Project Reserves:	Non-Capital Reserves:	Emergency Reserves:	Total Fund Balance:
\$2.1M	\$3.7M	\$6.5M	\$12.3M

FIVE YEAR GENERAL FUND HISTORY

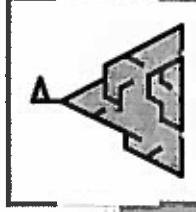
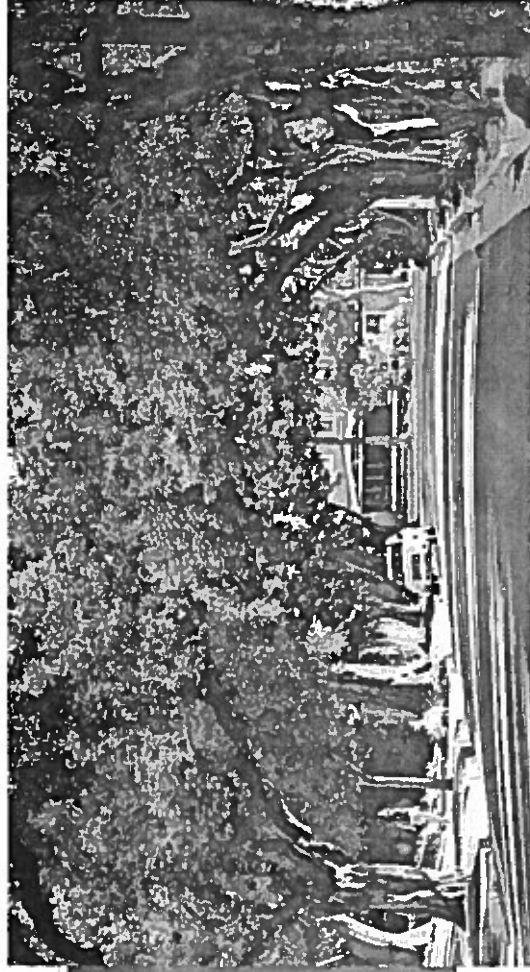
	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue	\$22.7 M	\$23.6 M	\$24.5 M	\$24.4 M	\$25.1 M
Operating Expenses	\$19 M	\$20.5 M	\$21.3 M	\$23.3 M	\$23.5 M
Capital Projects	\$3.1 M	\$2.8 M	\$2.7 M	\$3.9 M	\$2.8 M
Revenue Less Expense	\$518 K	\$221 K	\$423 K	(\$2.7 M)	(\$1.2 M)

REVENUE HISTORY



Increases

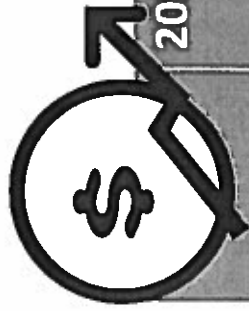
Property Tax
Franchise Fees
Use of Property



Decreases

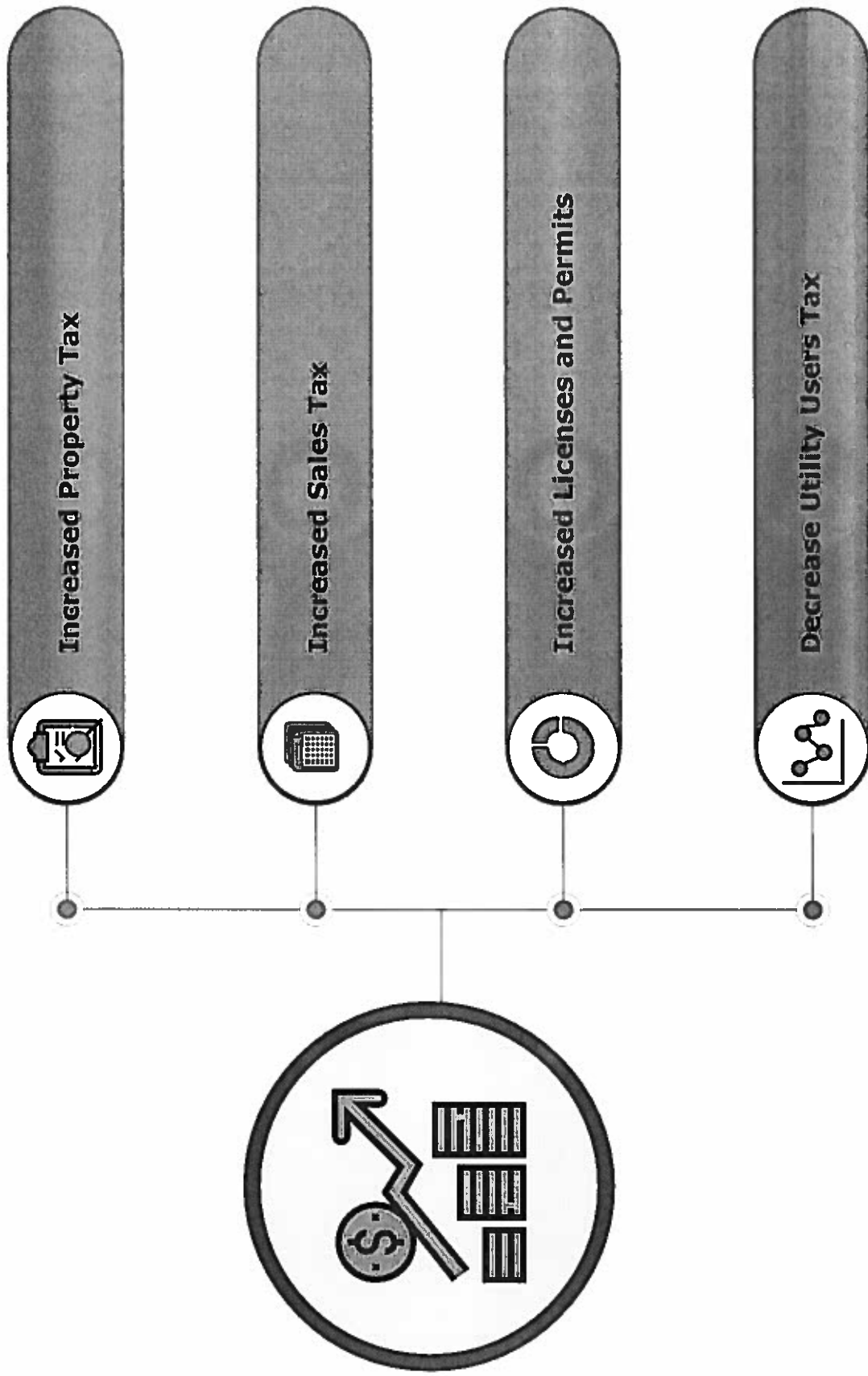
Utility Users Tax
Sales and Use Tax
Library Fees
Fines and Forfeitures

||| FIVE YEAR EXPENSE PROJECTIONS |||



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Avg. Annual Change
Personnel	\$18.8 M	\$20.2 M	\$21.0 M	\$21.7 M	\$22.6 M	\$23.4 M	4.9%
Material, Supplies, Services	\$5.8 M	\$5.8 M	\$5.9 M	\$6.0 M	\$6.1 M	\$6.1 M	1.1%
Capital Projects	\$2.2 M	\$1.9 M	\$2.0 M	\$2.0 M	\$2.0 M	\$2.0 M	N/A
General Fund Total	\$26.8 M	\$28.0 M	\$29.0 M	\$29.7 M	\$30.7 M	\$31.6 M	3.5%
Change From Prior Year	1.8%	4.4%	3.7%	2.3%	3.2%	2.9%	3.1%

REVENUE PROJECTIONS BY CATEGORY



FIVE YEAR GENERAL FUND PROJECTIONS

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue	\$26.9 M	\$27.5 M	\$28.4 M	\$29.1 M	\$29.8 M	\$30.6 M
Operating Expenses	\$24.6 M	\$26.1 M	\$27.0 M	\$27.8 M	\$28.7 M	\$29.6 M
Capital Projects	\$2.2 M	\$1.9 M	\$2.0 M	\$2.0 M	\$2.0 M	\$2.0 M
Revenue Less Expense	\$69K	(\$478K)	(\$662K)	(\$646K)	(\$880K)	(\$975K)

PROJECTED BUDGET GAPS

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
\$69K	(\$478K)	(\$662K)	(\$646K)	(\$880K)	(\$975K)

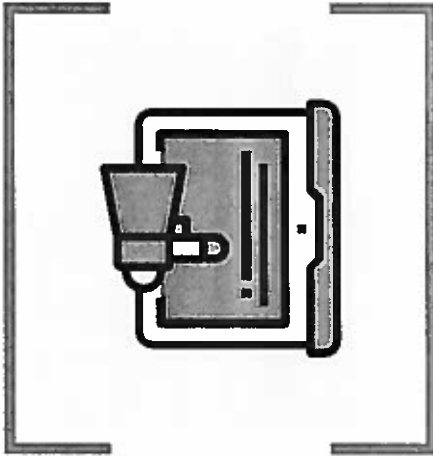
- CalPERS- Pending PERS 2019 Actuarials
- Capital Improvement- Pending 2019-20 CIP
- Organizational Sustainability- Pending Compensation and Labor Negotiations
- Strategic Plan- Pending Presentation and Adoption by City Council



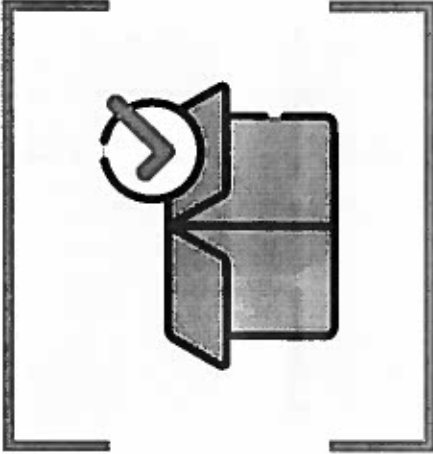
REVENUE ENHANCEMENT SCENARIOS



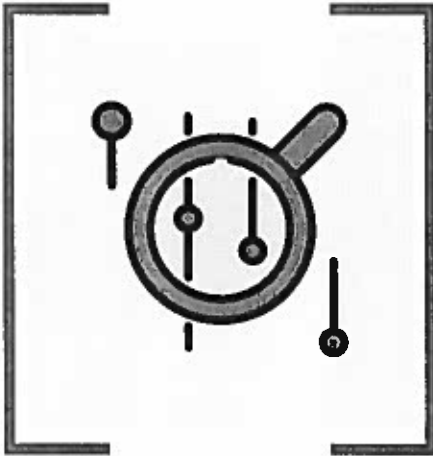
**Land Use &
Administrative
Enhancements**



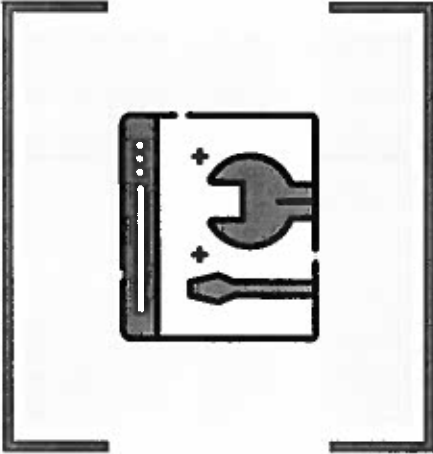
Citywide Taxes



**City
Properties**



**Expense
Reductions**



LAND USE & ADMINISTRATIVE

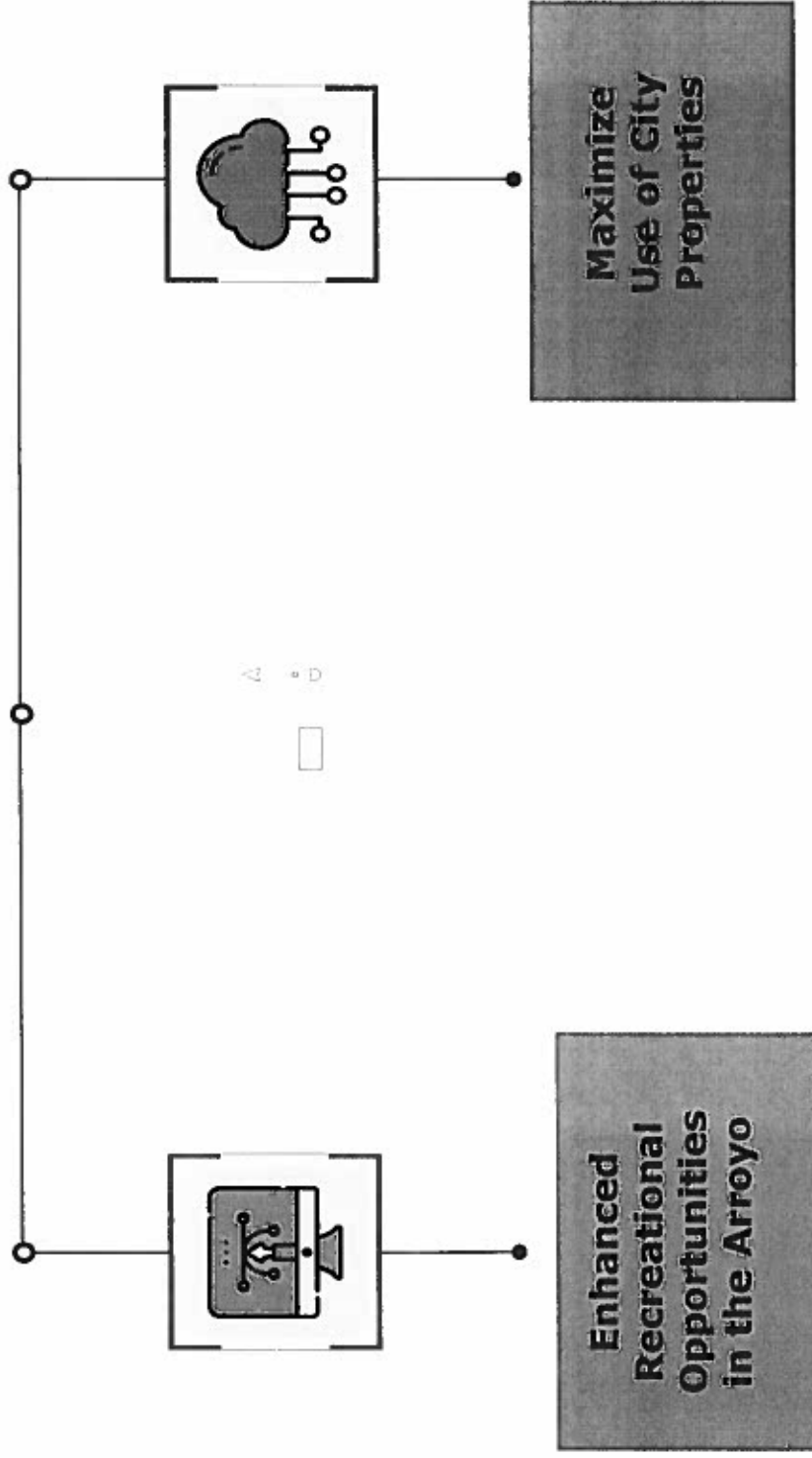
FY	19-20	20-21	21-22	22-23	23-24
BUSINESS DISTRICT PARKING METERS	\$245K	\$245K	\$245K	\$245K	\$245K
RETAIL CANNABIS STORE	\$0	\$48K	\$48K	\$48K	\$48K
SHORT-TERM RENTALS	\$0	\$50K	\$50K	\$50K	\$50K
SMALL HOTEL	\$0	\$0	\$0	\$0	\$700K
USER FEE STUDY	\$150K	\$152K	\$155K	\$158K	\$161K

||| CITYWIDE TAXES (POTENTIAL) |||

FY	19-20	20-21	21-22	22-23	23-24
Increase City Sales Tax (by $\frac{3}{4}$ of a cent)	\$0	\$1.5 M	\$1.5 M	\$1.5 M	\$1.5 M
Public Safety Parcel Tax (\$24-384 per parcel)	\$0	\$957K	\$957K	\$957K	\$957K



CITY PROPERTIES

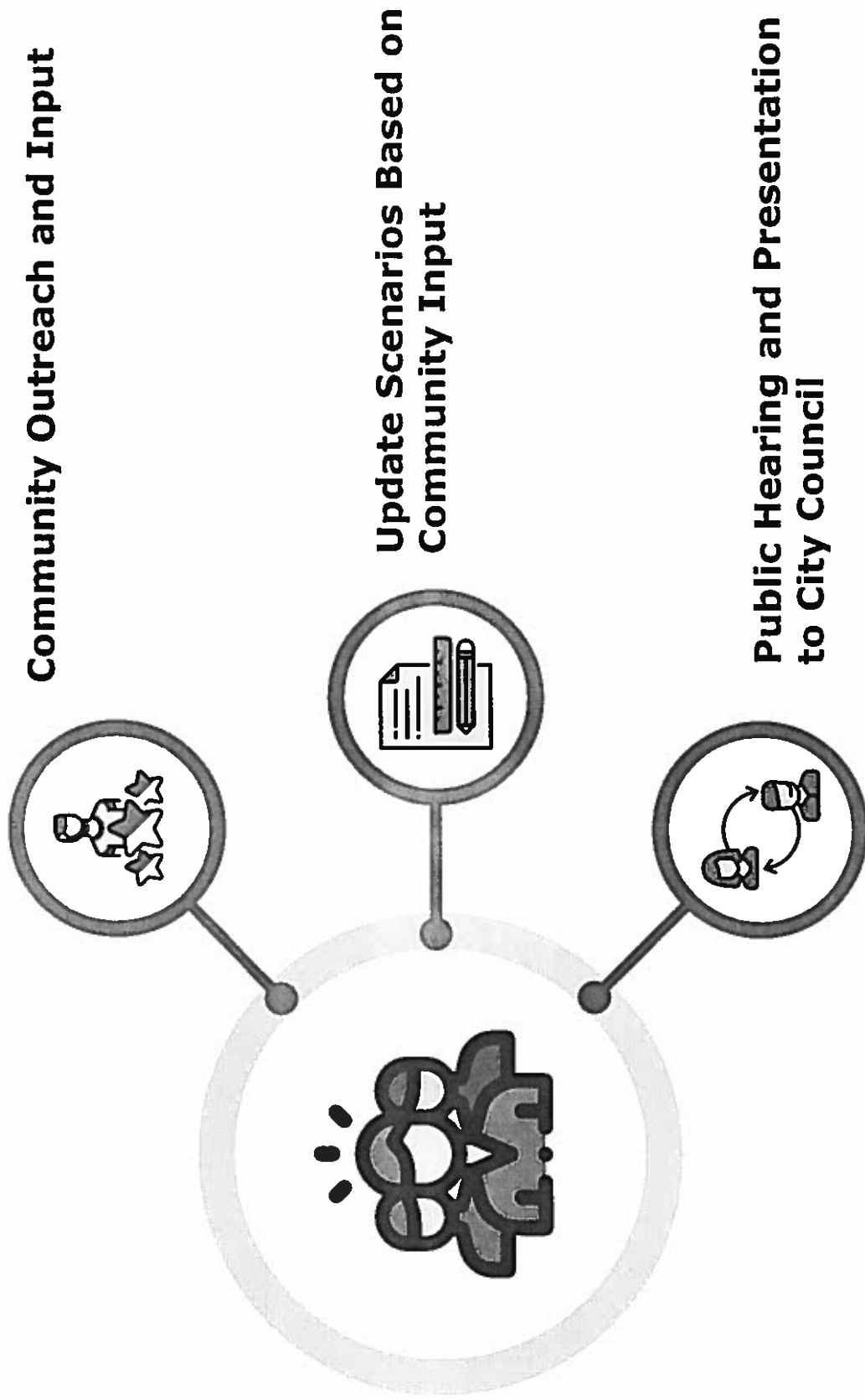


POTENTIAL EXPENSE REDUCTIONS

EXPENSE	TYPE OF REDUCTION	ANNUAL SAVINGS	FIVE-YEAR SAVINGS
Council Chamber Tech Support	Eliminated	\$25K	\$125K
Crime Prevention Programs	Eliminated	\$26K	\$130K
Library Books Purchased	Reduced	\$40K	\$200K
Library Hours	Reduced	\$76K	\$380K
Maintenance at City Facilities	Reduced	\$70K	\$350K
Police Cadet Program	Eliminated	\$60K	\$300K
Special Events	Eliminated	\$36K	\$180K
Teen and Senior Programs	Reduced	\$25K	\$125K



NEXT STEPS





Website:

www.southpasadenaca.gov



Contact Numbers:

6264037210



Email Address:


cmoffice@southpasadenaca.gov



City Council Agenda Report

ITEM NO. 12

DATE: March 6, 2019

FROM: Stephanie DeWolfe, City Manager 

PREPARED BY: Frank Catania, Principal Management Analyst

SUBJECT: **Review of Five-Year Financial Forecast and Initiation of Community Engagement Regarding Long-Range Financial Sustainability Plan**

Recommendation

It is recommended that the City Council review the Five-Year Financial Forecast and direct staff to proceed with gathering feedback from the community regarding strategies for a long-range financial sustainability plan.

Commission Review and Recommendation

This matter will be presented to the Finance Commission for comment at City Council's direction.

Executive Summary

Although the City overcame the potential loss of General Fund revenues from the Utility Users Tax (UUT), the City now faces additional financial challenges, prompting the need for a long-range financial sustainability plan. As with all cities in California, South Pasadena is burdened by increasing pension costs from CalPERS (the state pension fund), as well as increasing costs across the board for materials, contractors, and personnel. In addition, the City has aging infrastructure that will require significant additional investment in future years. The five-year forecast demonstrates that City revenues are not projected to keep pace with these rising costs. Further, the UUT will sunset in 2022 if not renewed by voters in 2020. The loss of this \$3.4 million would dangerously escalate the severity of the City's financial position.

South Pasadena has a variety of options available to balance future budgets including, increasing revenue through economic, administrative, and other non-tax alternatives; increasing revenue by restructuring local taxes; and reducing costs through the reduction of personnel and the services they provide. Staff is recommending that the Council direct staff to engage the community in review and discussion of available alternatives to create a framework for the development of a long-range financial sustainability plan. Through this process, the City can be strategic in developing financial structures to maintain the high quality of life currently offered by the City, while also creating stability in the face of future challenges.

Background

The City has a General Fund budget of approximately \$27 million annually. The largest source of revenue to the General Fund is property taxes, at 51%. The UUT contributes 12% and sales taxes make up 11%. User fees and charges are only 9% of the General Fund, with smaller miscellaneous sources making up the rest. The General Fund budget is supplemented by local return funds such as transit dollars, special taxes such as the Library Tax, and grant funds.

Because the City is a provider of services, as opposed to manufactured goods, human resources are the City's largest asset and largest expense. A majority of the City budget, 72%, is expended on personnel line items including salaries, health benefits, and retirement plans. This number increases when factoring in additional funds spent on contract staff who are not counted as personnel expenses, but contribute to the City team. Together these staff enable the City to provide a full suite of services, including our own police, fire and water departments, and manage the infrastructure to create and sustain an unusually high quality of life for a small city.

By department, or service, the majority of funds, 51%, are expended on the staffing and operations of the Police and Fire Departments. The second largest service expenditure is the Public Works Department and repairs to critical infrastructure. The Library and Community Services Departments are also large portions of the budget, but they are heavily subsidized by local return funds and special taxes, rather than General Fund dollars.

The City has always had a balanced budget in years past with revenues exceeding expenditures. However, the five-year forecast shows expenditures exceeding revenues each year beginning next year.

CalPERS Pension Costs

The single largest challenge to the City's budget is the imposition of mandatory new payments to CalPERS. As a result of a number of factors, the CalPERS investment fund is significantly underfunded. In the early 1990s, it was "super-funded," meaning the balance was more than 100% of the value necessary to meet obligations. Today, although the fund balance has increased in recent years, it remains below 70%. Investment experts disagree, but believe it should be funded between 80 and 100%.

CalPERS' investments suffered greatly from the economic recession that began in 2008, when the system suffered a gross impact of nearly 35% loss to its investment funds. As a result, CalPERS has become much more conservative in its estimates of return. Further, CalPERS has shifted policies to account for longer lifespans among retirees and made a significant change in the ratio of working/contributing members to the number of retired/receiving members. While there were two working members for every retired member in 1990, there are now two retired members for less than one working member today. These are just a few of the factors that impact the financial position of CalPERS.

In response to the unstable fund balance, CalPERS has revised a number of assumptions in their pro forma and adjusted their future outlook on earnings to align with the current economic realities. With limited options to generate additional revenue, CalPERS also revised the rates it

charges to municipal member agencies, and significantly increased costs to cities across the State, almost all of whom are struggling to comply with the new demands.

Clearly CalPERS has a structural sustainability issue, as has been found in pension plans across the country. Solutions can be found at the State level in the form of legislative and legal actions. The California Legislature took a significant step to lower future pension costs with the California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013. The legislation changes the way CalPERS retirement and health benefits are applied and places compensation limits on retirees. Further, retirement formulas are reduced and the retirement age increased for all employees hired after its enactment. A new defined benefit formula is imposed at 2% at 62 for all new miscellaneous members and a maximum benefit factor of 2.5% at age 67. In comparison, most cities today pay 2.5% at 55 and higher for public safety personnel. While these are significant and meaningful changes, the effects will not be felt by cities until the generation who was hired in 2013 or thereafter begins to retire, in roughly 20-30 years.

Other attempts to manage pension costs include pending legal challenges against what is known as "The California Rule," a law that currently prevents cities from reducing the amount of benefits to contracted employees without replacing them with something of equal value. Within the constraint of this law, South Pasadena and other cities may not reduce the amount of pension benefits once they have been established by employment contract. If the rule is overturned by the California Supreme Court, cities may have options in the future, however, it is anticipated that legal challenges to a Court decision could delay implementation by a decade or more.

The bottom line is that CalPERS investment funds have fallen to an alarming level and must be stabilized. While this has potentially devastating impacts on local governments, cities have no control over the management of the CalPERS investment funds or the rates that are subsequently charged to member agencies to support the fund. Further, cities have no legal path to reduce the provision of benefits to employees contracted under the pre-PEPRA rules.

It has been suggested that cities should simply exit CalPERS in favor of a 401(k)-type plan for employees, similar to those offered by the private sector. Exiting CalPERS would require each city to prepay all contractual future pension obligations. This is similar to requiring full payment of a mortgage balance all at once, instead of making monthly payments. By law, all obligations must be met and cannot be abandoned. Agencies that have explored this process have found the exit payment to be infeasible, often many times the cost of the entire annual budget. There are further legal complications associated with an exit, however staff has not explored those as the exit payment makes this alternative infeasible for South Pasadena.

City Personnel Costs

Cities can manage their cost of PERS in two primary ways – rate of pay and retirement formula. Because the city must pay a percentage of the employee's salary to PERS, the more an employee makes in salary, the higher the city's payment. South Pasadena has been extremely conservative in establishing pay rates for employees and currently pays among the lowest salaries in the San Gabriel Valley. While this is an effective tool for keeping PERS payments low, it is detrimental to recruiting and retaining high quality staff. The City frequently loses staff to higher paying

cities. And, in a competitive job market, it is difficult for the City to fill vacant positions, particularly when this factor is combined with the fact that the City also pays a lower pension formula as described below. Despite the challenges with CalPERS costs, the City will need to invest in human resources to be able to keep staff positions filled and maintain City services at current levels.

CalPERS offers four retirement formulas: 2.0%, 2.5%, 2.7% and 3.0% for non-public safety employees, with higher rates offered for public safety personnel. The most common retirement formula is the 2.5% at 55 plan. South Pasadena pays 2.0%, the lowest possible option, to its non-PEPRA miscellaneous employees. This was a prudent decision and has kept pension obligations in check, however it does contribute to challenges in attracting employees.

The City can also control its pension liability by simply controlling the number of employees. While it is common for government agencies to see a gradual creep in the number and scope programs, and subsequently in the number of full-time positions, South Pasadena has remained conservative in this area as well. In the last five years, the city has increased the number of full-time staff by only three positions. Those were not the result of an expansion of service or programs; rather they were the conversion of contract employees to regular full-time employees. South Pasadena has roughly .5 employees per 1,000 residents. In comparison, cities with larger budgets, such as Pasadena, have 1.3 employees per thousand residents, or more than twice the ratio of South Pasadena. The scope and scale of South Pasadena's government has remained focused and efficient within the available budget.

In summary, as a result of conservative fiscal management, South Pasadena's pension burden is modest compared to many other cities. According the California Policy Center, South Pasadena's burden ranks 242 out of 459 cities. Cities facing the largest threats, some in the San Gabriel Valley, allocate over 12% of their total revenue toward pension contributions. In comparison, South Pasadena allocates approximately 5% of total revenue. These percentages are anticipated to increase for all cities however, reaching crisis proportions for those hardest hit.

Despite these factors, the City is still facing a financial shortfall over the next five years and must be strategic in building a sustainable long-range financial plan.

City Infrastructure

South Pasadena was founded in 1888 and much of the City infrastructure dates back to the early 20th Century. For many decades, the City did not make the necessary investments to adequately maintain and repair its aging infrastructure and buildings. In addition, the City owns facilities that are historic properties, requiring complex and costly annual maintenance. A lack of timely repair ultimately adds significant higher expenses to most projects.

In 2012, the City Council made a commitment to address deferred maintenance, starting with street and roadway repair projects. The City has also made substantial investments in its aging water infrastructure. Since 2015, the City has taken steps to replace and upgrade three reservoirs built in the early 1900s: Wilson Reservoir was replaced in 2015; Garfield Reservoir was replaced

in 2018; and Graves Reservoir is now being rebuilt after a collapsed roof had rendered it inoperable for several years.

Last year, the Council adopted the City's first Capital Improvement Plan (CIP), a five-year strategy that identified more than \$100 million in critical projects. This is the first time the City has had a comprehensive inventory of capital needs. These projects include larger systems such as roadways and water infrastructure, which are critical to maintaining quality of life, as well as smaller projects such as upgrading electrical systems, plumbing, and drainage mitigation. Less than half of the projects identified in the CIP are funded.

The City must also prepare for unforeseen expenses. Two recent examples include the unexpected War Memorial drainage project and mitigation of the new 1,2,3-TCP water regulations. Both required considerable funds from the City to maintain quality of service for residents.

It is critical that the City plan for the costs of anticipated infrastructure and building maintenance, along unforeseen expenses, within long-term budget strategies. A long-range financial plan will serve as an important tool to ensure the City's future sustainability and resiliency.

Discussion

With no options to control the rates charged by PERS and no current options to reduce the amount of pension benefits provided to employees, the City has several other options to balance the budget, including:

- Cutting costs by:
 - Reducing services and associated personnel such as reducing service hours or eliminating programs;
- Increasing revenue by:
 - Encouraging investment in business districts that generate property and sales taxes;
 - Establishing new fees such as parking meters;
 - Increasing existing City fees for service;
 - Restructuring local taxes;
 - Allowing new land uses and associated taxes such as a cannabis tax or a hotel tax;
 - Redeveloping city properties in a manner that generates more revenue.

Staff recommends a robust community engagement program to review all potential options, identify preferred alternatives, and inform future strategies. A financial model will be presented to the community establishing the baseline gap for each year and outlining the potential budget impact of a variety of budget cuts and revenue enhancements, allowing residents to test a variety of options and scenarios. The model is still being finalized at the time of writing, but will be presented to the City Council along with this report at the March 6th City Council Meeting.

Through the community engagement process, staff anticipates gaining perspective on those options, or combination of options, that receive the greatest support from the community. That feedback will then be used to guide the development of a Long-range Financial Sustainability Plan to be presented to Council as part of the annual budget in June.

The community engagement plan was presented to and approved by City Council on February 20th. It includes community forums, presentations to a variety of community groups, an online engagement tool, and extensive electronic and social media outreach.

Next Steps

1. Staff and officials will present the financial model to the community throughout the month of March;
2. Framed by community feedback, staff will prepare a recommended financial plan for adoption by the City Council in June;
3. Staff will monitor the plan to ensure goals are being met and will update the plan as part of the budget process each year.

Legal Review

The City Attorney has reviewed this item.

Fiscal Impact

The development of a long-range financial sustainability plan is critical to ensure the continued provision of high quality services and to ensure the resiliency of the City in the face of future challenges. Costs for community engagement are factored into the current annual budget.

Environmental Analysis

This item is exempt from any California Environmental Quality Act (CEQA).

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.



South Pasadena City Budget Survey March 2019

The City of South Pasadena is facing budget deficits in the next several years ranging from \$500,000 a year to \$1 million a year or more. Your input will help your elected representatives make decisions on a series of potential solutions to close the deficit and ensure financial sustainability to maintain and improve the quality of life in South Pasadena.

Land Use and Administrative Enhancements

Parking Meters

The installation of parking meters in the business districts of Fair Oaks Avenue and Mission Street would generate about \$245,000 a year. Please indicate your level of support for parking meters in the City's two business districts:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Cannabis Store

A retail cannabis store would bring in about \$48,000 a year in special tax revenue. If the City adequately addressed public safety concerns, please indicate your level of support for a retail cannabis store:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Short-term rentals

Legal, taxed short-term rentals (such as Airbnb) would generate about \$50,000 in annual revenue. While this activity is already occurring in South Pasadena, the City could regulate and tax short-term rentals to bring in additional revenue. Please indicate your level of support for regulating short-term rentals:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Small Hotel

A small hotel in the City could generate about \$930,000 a year in taxes charged to hotel visitors. Please indicate your level of support for a small hotel in South Pasadena:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Enhance recreational opportunities in the Arroyo

Enhancing recreational opportunities in the Arroyo could generate additional revenue and provide community benefits. Would you support enhanced recreational opportunities in the Arroyo?

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Maximize use of City parking lots

The City currently owns several parking lots that are unused or underutilized. Would you support more productive uses for these properties?

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Are there any additional land use and administrative revenue enhancements you would like us to consider?

Citywide Taxes

Increase City Sales Tax by ¾ of a cent

Increased sales tax of ¾ of a cent (75 cents per \$100 of sales) would raise about \$1.5 million a year in revenue. Please indicate your level of support for a sales tax increase:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Public Safety Parcel Tax

A parcel tax to raise funds for public safety could generate \$957,000 a year (at a cost to landowners of \$24-\$384 per parcel, depending on size). Please indicate your level of support for a public safety parcel tax:

Strongly opposed	Opposed	Slightly Opposed	Slightly Supportive	Supportive	Strongly Supportive	No opinion
1	2	3	4	5	6	

Are there any additional citywide taxes you would like us to consider?

Possible Expense Reductions

The City has identified several options to reduce expenses without laying off employees. Please rank the choices based on your order of preference Place the number 1 next to the most preferred, 2 as the second choice and so on. 8 is your least preferred option.

Possible Expense Reduction	Your Ranking (1 is most preferred, 2 is second choice, and so on. 8 is the least preferred option)
Reduce video production quality at City Council meetings (\$25,000 a year savings).	
Eliminate crime prevention programs such as women's self-defense courses and neighborhood watch (\$26,000 a year savings).	
Library books purchase reduction (\$40,000 a year savings).	
Reduce library hours from 57 to 37 hours per week (\$76,000 a year savings).	
Reduce lawn mowing and trash pickup at City facilities from weekly to bi-monthly. (\$70,000 a year savings)	
Eliminate the Police Cadet program, which provides part-time student assistance to the Police Department. (\$60,000 a year savings).	
Eliminate special events such as summer movies, Concerts in the Park, Eggstravaganza, etc. (\$25,000 a year savings).	
Reduce teen center activities and events and classes for seniors (\$25,000 a year savings).	

Are there any additional expense reductions you would like us to consider?

Thank you! Your input is extremely valuable in assisting the City with importance decisions about the future of South Pasadena. We appreciate your participation.