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### **BUDGET MESSAGE FOR CITY MANAGER'S FISCAL YEAR 2015-2016 ADOPTED BUDGET**

The Adopted Budget for Fiscal Year 2015-2016 again presents a budget balanced on recurring revenue with a projected ending unreserved fund balance of \$7.7 million. In addition, the City begins Fiscal Year 2015-2016 with reserves of \$9.8 million, including \$7.9 million reserved for contingency and the remainder reserved for various capital items. The Adopted Budget reflects decisions made to address the service needs of Redlands residents and the business community, with continued focus on sizing the organization to meet those needs with maximum quality and efficiency. Resident satisfaction with the services provided has been, and remains, a top priority.

The City's financial discipline throughout the economic downturn that began in 2007, and the more recent benefits of a recovering economy resulted in an estimated surplus at the end of Fiscal Year 2014-2015, and a continued course toward adding to reserves when either a surplus or one-time revenues becomes available. The reserves include recommended increases of \$600,000 to close Fiscal Year 2014-2015, with \$100,000 added to the contingency reserve; as well as \$100,000, each to the reserves for Fire Vehicles; General Fund Vehicles; Maintenance: Building & Improvements; Maintenance: Park Playgrounds, Equipment, Facilities; and Capital replacement: HVAC, IT Equipment.

Although revenue projections indicate improvement in Fiscal Year 2015-2016, the effects of a sustained national economic recession continue to require fiscal discipline to maintain services and allow for incremental service enhancements. The Fiscal Year 2015-2016 Adopted Budget recommends enhanced service levels intended to meet the increased needs expected as a result of the recovering economy. Positions recommended for six months of funding during Fiscal Year 2015-2016 are tied to the recovering economy, and include such positions as a Planning Manager and a Fire Safety Specialist-Plan Checker to support anticipated new development projects; two police officers and a dispatcher to support continued new development in the 'donut hole,' estimated to add nearly 800 calls for service that will greatly impact dispatch and require more than 1,000 responses by Police officers; and a new four-man street crew (three full-time and two

part-time) to address the current deficiency in staff hours available to meet the outstanding workload. Currently, the hours spent by City crews on sidewalk repair, storm drain maintenance (NPDES), street striping, tree removal and palm frond pick-up, have not been sufficient to meet the needs expressed by the residents. One of the greatest concerns expressed by residents is the time it takes crews to pick-up palm fronds, not only following a storm but routinely. The addition of this new crew is expected to allow pick-up time of 24 hours following a storm rather than the week it may take currently, and to improve the time to complete routine palm frond pick-up, in addition to work orders relating to storm drains, streets and trees.

For the Library, \$50,000 is recommended for part-time staffing to restore some hours of operation lost during the economic downturn, and provide greater services to the public, both in circulation and at the children's desk.

The Fiscal Year 2015-2016 Adopted Budget includes some significant revenue increases. Property tax revenues are estimated to improve overall by \$1.3 million, or 5.5%. Sales tax revenues are expected at \$1.6 million or 11% higher than prior year. Part of that increase is attributed to anticipated revenues from the new Mountain Grove retail center. Additional sales tax revenues will result from the one-time impact associated with the end of the State's Triple Flip 0.25% deduction, accounting for approximately 5%, or \$762,000, of the overall increase. Increased development revenues of more than \$500,000, or 25%, are also forecast as a result of greater development activity anticipated as the economy continues to improve. While these revenue projections are up, some sources have declined. In particular, gas tax revenues are down by approximately \$522,000 and franchise fees by \$252,000. Franchise fees received from the Gas Company in Fiscal Year 2014-2015 were almost \$2.3 million, driven largely by gas usage at the Mountain View Power Plant, and higher than those in prior years. Revenues at that level may be an anomaly given the inherent volatility of these fees due to the uncertainty of gas prices and usage. As a result, the gas franchise fees estimated for Fiscal Year 2015-2016 have been conservatively rolled back to an amount just above their five-year average. Engineering revenues have declined by more than \$500,000, with the majority of that decline, more than \$300,000, the result of the City's reduction of NPDES fees, and rebates of \$125,000 budgeted in Fiscal Year 2014-2015, but not expected in Fiscal Year 2015-2016. While Quality of Life revenues are declining by more than \$800,000 in Fiscal Year 2015-2016, primarily due to the reduction in miscellaneous receipts, this did not adversely affect the bottom line because revenues in prior year from the Nevada Palmetto Grove proceeds were offset by expenditures that same year. Accordingly, as Quality of Life revenues have declined in Fiscal Year 2015-2016, so too have the department's expenditures.

Fiscal Year 2015-2016 revenues discussed above and all other estimated sources, along with positive Fiscal Year 2014-2015 estimates that allow for a large transfer to fund the Liability Fund in the current year, and a significantly reduced one in Fiscal Year 2015-2016, provide sufficient resources for six months funding of recommended new positions, and to pay for anticipated increases of up to 10% in retiree health care costs, as well as increases in PERS. The anticipated cost increases in PERS are primarily the result

of a change in actuarial assumptions and methodology for the Safety units. For these units, the employer's PERS rate, normally strictly a percentage of salaries, has been reduced, but beginning with Fiscal Year 2015-2016 will be supplemented by required lump sum payments to PERS, which when estimated by PERS as a percentage of payroll, reflect rate increases over prior year of approximately 3.2% for Police and 5.6% for Fire. An additional 1.50% for Police and 1.65% for Fire are added to the employer rate to fund debt service on their share of the City's Pension Obligation Bonds. In addition, the budget includes funding for negotiated salary increases for all bargaining units, but these have been offset by prior or concurrent pick-up by the employees of their employee share of PERS. Other appropriations in the Fiscal Year 2015-2016 budget include funding of \$100,000 in the City Council's budget to fund special projects recommended throughout the year; \$25,000 to upgrade the City Council chambers; and \$150,000 in Quality of Life – Electrical for traffic signal cabinet replacement. The latter amount is sufficient to replace one of the more than 30 traffic signals throughout the City that are on average over 20 years old. The cabinet to be replaced will be determined based on the most critical need, just like the one recently approved for replacement at Brookside and San Mateo. Additionally, the budget includes \$522,232 in IT for computer components, a portion of which is paid for through costs allocated to the General Fund; and \$965,000 for the General Plan update which will be funded with monies reserved for that purpose. Significant funding for capital has been included at the end of Fiscal Year 2014-2015, including \$190,000 recently approved for five Police patrol units and equipment, as well as another \$113,858 that includes three vehicles in support of other Police functions and one vehicle for Animal Control; \$100,000 recently approved for equipment to support additional striping, storm drain maintenance and tree removal, as well as an additional \$450,000 recommended in Municipal Utilities - Engineering for sidewalk repairs. This capital funding is recommended in the current year so that funding in Fiscal Year 2015-2016 could be minimized and a balanced budget maintained. At June 30, 2016, the General Fund is expected to achieve a surplus of \$14,527 and to retain its \$7.7 million unreserved fund balance.

The needs of the residents and business community will be addressed not only by General Fund staff, but also through enterprise fund staffing. Various positions have been added to improve production and maintenance services in Water and Wastewater, and a Water Conservation Assistant has been added to address the on-going requirements resulting from California's severe drought conditions. Two Associate Engineers are recommended to address an increased workload from a long list of grant-funded and other improvement projects that include the Orange Blossom Trail, a Pipeline Replacement program, and the "PARIS" Pavement Management program. Given the priorities of the City Council's 2014-2017 Strategic Plan and the importance of infrastructure to the residents of Redlands, it is anticipated that as the existing projects are completed, new ones will be undertaken.

The City operates 400 miles of water pipeline, of which approximately 33 miles has been replaced since 2007. Despite this replacement schedule, much more is needed to keep the system in proper operating condition. Given the average age of pipelines in the City, five miles of pipelines should be replaced each year to keep pace with the rate of degradation.

Add to this the nearly 30 miles of pipeline that has reached or exceeded its 65-year life expectancy, and it is clear there is much more work to do. Included in this year's budget is \$3 million in funds to replace another 3.5 miles of pipeline that will be replaced in coordination with the City's "PARIS" program. Still, this funding level is insufficient to meet the stated needs, and staff is developing a plan to address the City's current and future needs.

Over the past three years as a result of the "PARIS" program, the City has resurfaced 110 lane miles of the most used streets in the City. Under construction now is the resurfacing of another nearly 100 lane miles, bringing the total to nearly 210 lane miles. Next year's \$10 million resurfacing project which is slated to resurface another 200 lane miles of streets is currently under design. Once finished, staff will have completed more than 95 percent of the promised resurfacing of two-thirds of all City streets; with the remaining resurfacing to be completed in the following year. This is a significant achievement and one that staff is proud to have completed.

To pay for the significant street impacts caused by its heavy trucks, Solid Waste continues to support the "PARIS" program, contributing \$3.6 million in Fiscal Year 2015-2016, with approximately \$1.9 million in debt service on bonds issued for the program, along with \$1.7 million to the Local Transportation Fund to fund the resurfacing of additional lane miles.

Besides providing funding for the "PARIS" program, the Solid Waste budget for Fiscal Year 2015-2016 recommends funding to address operating and capital needs that include \$350,000 for landfill consulting and repairs, \$308,041 for an automated side loader, \$50,000 for two small truck chassis, and \$150,000 for the removal of a temporary stockpile of concrete construction and demolition debris, as per regulatory requirements. Currently, three pieces of landfill heavy equipment, a D-8 dozer, a landfill water pull, and a compactor are non-operational and must be rented. Funding of \$385,000 has been included in the budget to lease purchase this equipment, a more cost-effective option than continuing to rent, and more appropriate from a cash flow perspective.

Funding has been included in the Cemetery budget to implement the Business Plan developed for the City's Hillside Memorial Park. It includes the remaining funding for the current contracted manager, as well as six months of salary and benefits to hire a full-time manager. Additionally, \$924,600 has been included in capital, with \$564,000 of that for street construction throughout the cemetery and \$330,600 for various improvements recommended per the Plan, such as cremation gardens, bench estates and niches.

Just as addressing the Cemetery's underperformance and deterioration is a priority, so too, is addressing other underperforming assets of the City. To that end, \$85,000 in funding has been recommended in the Airport's budget to hire a consultant to develop a business plan similar to the one developed for the Cemetery. Like the Cemetery, the intent is to ultimately hire a full-time Airport Manager who would follow through with the business plan to ensure the Airport remains a sustainable enterprise.

We take pride in the numerous achievements accomplished by the City, even during the most difficult of economic times, and look forward to the continuation of many of these, including economic development initiatives, comprehensive street rehabilitation projects under the "PARIS" Pavement Management program, and growth in our nationally recognized volunteer program, and in the future, to new achievements that will live up to the City Council's vision statement for the City: "Redlands is a balanced, innovative and healthy community meeting tomorrow's need while protecting the quality and heritage we value."

Finally, I wish to express my sincere thanks to the the professional Executive and support staff who, once again, have been instrumental in the development of a balanced budget for Fiscal Year 2015-2016, especially staff in the Finance Department.



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City Manager