



N. ENRIQUE MARTINEZ  
City Manager

City of  
**REDLANDS**

Incorporated 1888  
35 Cajon Street, Redlands, CA 92373  
909-798-7510  
nemartinez@cityofredlands.org

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**FOR CITY MANAGER'S BUDGET MESSAGE  
FISCAL YEAR 2012-2013 ADOPTED BUDGET**

The Adopted Budget for Fiscal year 2012-2013 presents a balanced General Fund budget while maintaining staffing levels and quality services to the residents of Redlands. The decisions made to achieve this, however, rely on certain assumptions that may present challenges throughout the Fiscal Year. These assumptions include noteworthy increases in several revenue categories, such as sales tax, development revenues and franchise fees, while other categories remain flat or decline. Property taxes, the single largest revenue source to the General Fund, are reduced from prior year, the result of several years of declining property values. In order to more closely monitor the soundness of these and other assumptions, it is likely that the City will need to revisit the budget more frequently than the customary mid-year review.

Overall, revenues for Fiscal Year 2012-2013 are expected to increase by approximately \$1 million, (excluding fire truck grant revenue of \$670,000 and related donations of \$254,000 received in Fiscal Year 2011-2012) with a \$601,000 increase estimated for sales taxes, \$234,000 in franchise fees and \$95,000 in development revenues. These follow already significant anticipated increases in sales tax and development revenues for Fiscal Year 2011-2012. Information from the City's sales tax consultant supports the upward trend and Development Services staff is continuing to see a rise in development activity. However, all revenue projections are subject to the fluctuations of the global and national economies and the significant impacts of measures by the State to balance its budget. Gas franchise fees, the greatest contributor to the City's franchise fee revenues, will vary with the price of natural gas and gas consumption, particularly that of the local Edison (Mountainview) Power Plant. For Fiscal Year 2012-2013, the Gas Company expects a modest increase in its fees. Franchise fee revenue projections also assume implementation of an additional 1% fee to the cable companies as allowed under recent state legislation.

Like revenues, General Fund expenditures are also expected to increase – an estimated \$2.1 million (excluding the Fiscal Year 2011-2012 grant/donation funded fire truck/equipment expenditures). Included in these expenditures are priorities identified by the City Council at its June 19, 2012 meeting. At that time, the City Council unanimously approved the City Manager's recommended Fiscal Year 2012-13 Budget, contingent on the City Manager identifying additional funding of \$226,000 to cover the costs of the following City Council priorities: General Plan Housing Element (\$95,000), league memberships (\$26,000), additional tree trimming (\$25,000), and elimination of a portion of the \$125,000 credit included as a contingency for fee waivers (\$80,000). Funding sources identified to cover the \$226,000 in expenditures include a reduction in City garage charges of \$96,300, \$62,700 in salaries and

benefits, and \$67,000 in various services and supplies. (see *General Fund Adopted Budget Schedule of 6/19/12 Changes*)

Contributing to the overall increase in expenditures were the end of furlough agreements with all employee bargaining units, except Police, in June 2012, which eliminates the significant salary and benefit savings realized over the past four years. Despite continuation of furloughs for Police, and the corresponding savings, the Police Department has the largest increase in expenditures, \$1.4 million, primarily as a result of significant increases for Internal Service Fund charges, both for Worker's Compensation, as well as Information Technology, in support of the department's numerous and increasingly sophisticated software systems and technologies. Like Police, Fire Department expenditures (excluding grant/donation funded) increased by approximately \$141,000, largely due to a significant increase in Worker's Compensation charges. The increase in Fire occurred despite a \$75,000 decrease in banked leave buyback and a significant reduction in overtime that leaves the overall budget for Fire, including Paramedics, at \$1.4 million, down approximately \$200,000 from the average over the three fiscal years, 2008-2009 through 2010-2011. Buyback and overtime provisions in employee contracts, including constant staffing requirements in the firefighters' contract, often drive an increase in overtime costs that may result in actual overtime costs exceeding budget. Other departments experiencing significant expenditure increases include Development Services at \$459,000, primarily a result of absorbing costs following the State's elimination of redevelopment agencies, as well as the cost of the General Plan Housing Element; \$214,000 in MUED Engineering, which includes \$100,000 for the LED lighting project and a reallocation of staff time into the Engineering division; \$193,000 in Human Resources, resulting mostly from an increase in retiree health care premiums; and \$96,000 in the City Clerk's office as a result of election costs. The impact of increases in these departments was partly mitigated by decreases in some other departments, including the City Manager's Office, which reflects a credit, or reduction in expenditures, as a result of a contingency for anticipated savings of \$150,000 for employee vacancies turnover and \$25,000 for City Hall holiday closure.

Although the Fiscal Year 2012-2013 budget does not allow for any repayment of the outstanding loan made several years ago from General Fund reserves, an early repayment, \$250,000, was made using excess fund balance achieved at June 30, 2011 as discussed and approved at the mid-year budget review in February, 2012. No use of reserves has been proposed in the current year, leaving reserves of \$6.6 million intact at June 30, 2013.

Also contributing to the balanced budget for Fiscal Year 2012-2013 is an increase in transfers from other funds to the General Fund, proposed as a result of the findings of a study by TKE Engineering, which identified the significant pavement impacts to City streets caused by the City's heavy solid waste and utility trucks. Annual impacts were identified at \$3.6 million for Solid Waste and \$119,500 for Water and Wastewater. Approximately 25% of these amounts has been included in the budget for engineering design and administration associated with the necessary street maintenance and improvements. The remaining 75% of identified annual pavement impacts, or \$2.8 million, will be set aside at June 30, 2012 from the Solid Waste, Water and Wastewater ending fund balances and then in Fiscal Year 2012-2013 these amounts, \$2.7 million, \$77,000 and \$13,000, respectively, will be transferred to Fund 209 Local

Transportation to account for the project expenditures. A transfer of \$750,000 has also been included as repayment from Utilities for necessary street repairs resulting from previous street cuts required to make pipeline repairs.

As discussed, the Fiscal Year 2012-2013 budget reflects numerous challenges facing the City. These include virtually no funding for capital, elimination of all but 3 months of a new Emergency Services Coordinator position, the end of most employee furloughs and the corresponding savings, and the impacts from the State's elimination of redevelopment agencies. Furthermore, after several years of minimal funding to the City's internal service funds to provide General Fund savings, these funds now require replenishment to more normal levels. A fee study undertaken over the past year, the results of which have yet to be implemented, may result in increased revenues to help offset some of these challenges or to restore funding in areas that have been cut or eliminated.

Maintaining the best possible service to the residents of Redlands has always been my top priority and that of the Council and City staff. Despite the economic downturn experienced since 2007, City staff continues to perform at a high level of professionalism and to develop and expand on innovations to improve efficiencies and service. We take pride in the achievements of the past year, including the award winning Redlands 311 smart phone app, ambitious economic development initiatives in the expanded downtown area, improvements to State Street and the City's entryways designed to attract and retain business, a Pavement Management Program that for the first time provides a measured and systematic approach to maintaining and improving the City's streets, savings of nearly \$10 million from the original estimate of \$18 million to upgrade the Hinckley Wastewater Treatment Plant to meet new USEPA regulation, as well as \$1 million annually in maintenance and operation costs, and a nationally recognized volunteer program that engages our community in partnership with the City and builds on Redlands' storied history of civic pride and philanthropy.

Once again, I wish to express my sincere thanks to the City Council Budget Subcommittee and the professional Executive and support staff who have been instrumental in the development of a balanced budget for Fiscal Year 2012-2013. Special thanks is extended to Municipal Utilities and Engineering Director Fred Mousavipour, Assistant Utilities Director Chris Diggs, and staff, for their extensive work in development of the Pavement Management Program, and to that end, for the input and support provided by Quality of Life Director Fred Cardenas.

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N. Enrique Martinez  
City Manager