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**BUDGET MESSAGE FOR CITY MANAGER'S
FISCAL YEAR 2014-2015 ADOPTED BUDGET**

The Adopted Budget for Fiscal Year 2014-2015 presents a balanced General Fund budget with a projected ending fund balance of \$7.7 million, beginning reserves of \$7.8 million, with recommendations to increase certain reserves using one-time revenues, and the maintenance, or in some cases the enhancement, of service levels. The Adopted Budget is the culmination of decisions made following a review with the budget subcommittee, the City Manager, Finance, and departmental staff, as well as additional reviews by the City Manager and staff, and finally, the City Council. These decisions were made by addressing what has always been a top priority, the provision of quality services to the residents of Redlands, and by focusing on sizing the organization so that continued progress will be made toward that end. The success of prioritization and commitment to quality services for the City's residents was evidenced in a recent poll in which 83.4% of respondents indicated that they were satisfied or very satisfied with the job the City was doing in providing services.

Balancing the Fiscal Year 2014-2015 Adopted Budget on recurring revenues proved challenging due to the need to absorb increased costs resulting from the elimination of furloughs in the Police department, an increase in retirement and health rates, despite some relief provided by employee-sharing of these costs, the elimination of more than \$780,000 in waste import fee revenue, and the end of almost \$1.7 million of prior year transfers from Solid Waste, Water and Wastewater that were associated with pavement damage caused by heavy solid waste and utility vehicles and street repairs required as a result of pipeline repair street cuts.

As noted, the Fiscal Year 2014-2015 Adopted Budget provides funding to maintain service levels, with some enhancements, including various IT projects such as Electronic Agenda, Microsoft Office upgrades and standardization, reimplementation and network support of Cityworks, to reduce permit time and increase counter efficiency, a first-phase asset management system for Quality of Life, a pilot program for document storage, and Police department Outlook software and server upgrades, a Spillman server, replacement of 8-year SAN used for storage of "big data" (video streaming), and electronic time-card entry/scheduling; equipment for Redlands T.V, to be paid for with available PEG fees, Council Chamber security improvements, and additional staff positions, including a part-time to full-time Administrative Assistant in the City Manager's office, a Human Resources Analyst and Human Resources Administrative Technician from savings achieved through a reorganization of Human Resources that will result in no net increased costs, an Accounting Technician in Finance – Accounting and Administration, and a Customer Service Technician in Finance - Customer Service, which is funded by the enterprise utilities. These positions have been recommended for inclusion in the budget because these departments serve all

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other City departments and as activities increase City-wide, so does the additional support required from these departments. Additionally, a Maintenance Worker position has been added to Quality of Life to compliment existing maintenance downtown and provide additional beautification as coordinated with Development Services, and a Police Operations Coordinator has been added in place of two of the five existing Part-time Background Investigators. In the Solid Waste Fund, a Project Assistant has been added and a Solid Waste Truck Driver position deleted. Finally, a part-time Adult Literacy Coordinator at the Library has been added at the direction of City Council. Although these enhancements have been included, over \$6 million of supplemental requests by departments were not funded in the Fiscal Year 2014-2015 Adopted Budget. Some of the supplemental requests not funded in the operating budget included 8 police vehicles, a fire inspection truck, various other vehicles and equipment, including 6 trucks requested for Parks and Streets, as well as a front end loader and wheel loader, building and facility improvements, phase 1 of the General Plan update, and storm drain repairs and LED and wire replacements. (Exhibit A provides a comprehensive list of unfunded supplemental requests submitted by City departments).

In addition to minimizing the number of supplemental expenditure requests included in the operating budget, projected increases in major revenue categories have contributed to this year's balanced budget. Property Taxes are expected to increase by approximately 4% in Fiscal Year 2013-2014, after factoring out some one-time property taxes and fees received in the prior year, and again in Fiscal Year 2014-2015, by 3.8%, or \$797,000. Sales Taxes are projected to increase by approximately 2% in Fiscal Year 2013-2014 and 2.6%, or \$373,000, in Fiscal Year 2014-2015. Additionally, Development Services staff has estimated increased revenues for Fiscal Year 2013-2014 in excess of the original budget projections, which at the time projected represented an increase of approximately 34% over Fiscal Year 2012-2013 and created concern or even skepticism by some that these would materialize. However, with the increased development activity that has already occurred, as well as anticipated future projects, staff is confident that an increase in development revenues of almost 50% in Fiscal Year 2013-2014, and another increase of 22%, or \$377,441, in Fiscal Year 2014-2015 is a realistic projection.

The increase in development activity has also been reflected in an increase in development impact fees which has also had a positive impact on balancing the budget. When impact fees collected in the Public Facilities Fund have been insufficient to pay its half-share of debt service on the City's Certificates of Participation, the General Fund has historically loaned monies to the Public Facilities Fund to cover this share, which recently has been in excess of \$900,000, annually. The required loan amounts estimated for Fiscal Year 2013-2014 and in Fiscal Year 2014-2015 have been significantly reduced to \$420,000 and \$487,085, respectively.

Another factor in balancing the budget for Fiscal Year 2014-2015 has been the treatment of the required General Fund transfer to the Liability Self-Insurance Fund. During recent difficult budget years, the amounts transferred to the Liability Fund have been kept at a minimum, however transfers from the General Fund to the Liability Fund are necessary, not only to cover the costs of the Liability Fund, but also to ensure that a \$1 million self-insured retention exists in the Fund. As a result, the Fiscal Year 2014-2015 Adopted Budget

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includes a large transfer in Fiscal Year 2013-2014 of \$2.8 million, and a smaller transfer, \$660,000, in Fiscal Year 2014-2015.

Many of the supplemental requests that could not be funded in the operating budget based on recurring revenues were for capital items, while others, such as deferred maintenance, the General Plan Update, and tree trimming, have long been recognized as important, but due to fiscal constraints, have been sorely neglected over many years. There is an opportunity to fund some of these priority items with \$1.9 million of available one-time revenues that have accumulated over more than 27 years in the Measure "O" General Obligation Fund. This fund was established to account for payment of debts service on a General Obligation approved by voters in 1987 to fund open space. Each year over the life of the bond, which matured February 1, 2014, the City Council approved a resolution indicating the amount of principal, interest and fiscal agent charges required for the given year, so that the County could set a tax rate sufficient to fund these amounts. Funds have accumulated over these years as a result of rates set to take into account potential delinquencies and associated penalties, as well as interest. The City Attorney and bond counsel have reviewed the Official Statement confirming that these funds are available to be used at the discretion of the City Council, based on language contained in the document which states, "Any moneys remaining in the Debt Service Fund when there are no longer Bonds outstanding will be transferred to the general fund of the City." Accordingly, I have recommended that these one-time funds be used to fund the following:

• Replace 13 police vehicles with 100,000 + mileage	\$455,000
• Fire Engines, net overlapping lease payments	\$125,000
• Reserve for General Fund Fleet Replacement	\$350,000
• Reserve for General Plan Update – Year 1	\$350,000
• Tree Trimming	\$ 70,000
• Reserve for Deferred Maintenance:	
- Buildings & Improvements	\$200,000
- Parks: Playgrounds, Equipment & Facilities	\$150,000
• Reserve for Capital Replacement:	
- HVAC, IT Equipment	<u>\$200,000</u>
TOTAL	\$1,900,000

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 made during these years, including continuation of successful economic development initiatives in the expanded downtown area; comprehensive street rehabilitation projects throughout the City, made as a result of the Pavement Management Program, which for the first time provides a measured and systematic approach to maintaining and improving the City's streets; inception of the Redlands Blvd./Alabama Street project, which has been in the planning stages for many years, but which is expected to be completed in the Fall of 2014; development of a Community Based Bicycle Master Plan and bike lanes throughout the City through utilization of available grant funding; and a growing nationally recognized volunteer

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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 2014-2015, especially staff in the Finance Department.

N. Enrique Martinez
City Manager