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**BUDGET MESSAGE FOR CITY MANAGER'S  
FISCAL YEAR 2013-2014 ADOPTED BUDGET**

The Adopted Budget for Fiscal Year 2013-2014 presents a balanced General Fund budget, maintains reserves which increased from \$6.9 million at June 30, 2012 to \$7.5 million during Fiscal Year 2012-2013, and maintains, or even enhances service levels. The Adopted Budget is the culmination of decisions made to address what has always been my top priority, to provide quality services to the residents of Redlands. These decisions take into account fiscal constraints largely out of our control, particularly those resulting from fluctuating revenues, assumptions about these revenues that could prove challenging during the year, and decisions made by the State of California that may adversely affect the City's finances, such as the decision to eliminate Redevelopment Agencies.

The Adopted Budget for Fiscal Year 2013-2014 includes a General Fund ending unreserved fund balance of \$7,416,949, increasing from the estimated June 30, 2013 ending fund balance by only \$7, but reflecting a balanced budget. At first glance, the budget appears to show a decline in overall revenues of \$305,490, however when an anomalous one-time reimbursement of \$712,563 from the County of San Bernardino for improperly charged property tax administration fees is factored out, along with a one-time payment of excess property taxes of \$161,408, the increase in revenues from prior year is \$568,481 or a modest 1.1%. Property taxes, the single greatest revenue source in the General Fund, are expected to decline 1.1% in Fiscal Year 2013 - 2014 after taking into account these one-time receipts. Many other revenues are projected to remain flat in Fiscal Year 2013-2014 or even decline slightly, although the Fire Department expects some increases resulting from cost recovery revenues, sale of surplus property, and donations, and MUED expects an increase of \$80,000 in NPDES fees. Noteworthy increases have been reflected in sales taxes and development revenues, and have contributed to the balanced budget. Sales taxes at June 30, 2013, are expected to exceed budget by 5% and in Fiscal Year 2013-2014 they are expected to increase by another \$290,631 or 2.1%. Development Services staff has projected a very significant increase in development revenues, \$337,158 or 27.6%, based on anticipated development projects. The assumption that these projects will occur and bring in significant revenues is one that will need to be closely monitored due to the adverse impact on the budget that could occur should the projects fail to materialize.

Transfers into the General Fund from other funds include an increase from Traffic Safety Fund for an increase in parking fines collected as a result of the first full year of additional staffing approved in Fiscal Year 2012-2013, transfers from Solid Waste, Water and Sewer which represent the second year of transfers associated with pavement damage caused by heavy solid waste and utility vehicles, transfers from Water and Wastewater representing the second and



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final repayment for street repairs required as a result of previous street cuts made when pipelines were repaired, as well as a transfer from the Water Fund to pay for a pot hole crew that provides street repairs, as needed, following pipeline repairs.

Expenditures for Fiscal Year 2013-2014 are projected at \$273,590 less than prior year or essentially flat at 0.5%. This nominal decrease reflects a combination of increases and decreases in various department expenditures, including the following:

- o City Manager's department reflects a reduction primarily due to the inclusion of a credit amount of \$175,000 for contingency for vacancies; increases in the department's budget include \$13,350 for a part-time administrative position and \$37,597 or 35% funding for a full-time Emergency Operations Manager, with the remainder of the position funded equally by each of the Water, Wastewater and Solid Waste Funds (the position was approved and funded for three months in FY 2012-2013, but was not hired)
- o Human Resources is increasing by \$492,337 or 15.8% primarily as a result of an expected increase in retiree health expenses of \$365,500
- o Development Services is increasing by \$389,200 or 21% largely due to reallocation of staff and other costs not allowable for the Successor Agency to the Former Redevelopment Agency, as well as the addition of a part-time One-Stop Planner at \$36,000
- o Quality of Life and Community Services, together, are increasing by \$278,326 or 4.6%, partly due to the following personnel changes:
  - Two part-time Recreation staff at \$11,395 each, which are intended to eliminate the need for temporary staffing
  - Full-time Natural Resources Manager funded for 6 months at \$58,477 to be dedicated to the City's natural resources and to work in coordination with conservation groups
  - Two full-time Parks Maintenance Workers at \$52,556 each
- o Engineering is decreasing by \$397,732, or 30%, because in Fiscal Year 2012-2013 fixed assets included an additional \$350,000 for storm drains and \$270,000 for a building for Police IT Infrastructure/Security Gates; in Fiscal Year 2013-2014 approximately \$250,000 has been included for storm drains, with \$100,000 in professional services for the storm drain master plan and the remainder in fixed asset improvements
- o Library is decreasing by \$57,655 or 3.2%, in part due to the retirement of the former Library Director, however it includes the addition of an Information Technology position funded at approximately \$89,000, partially offset by a reduction in internal IT charges of \$75,695, and the addition of approximately \$29,000 in additional part-time staff hours
- o Police Department expenditures are decreasing by \$328,629 or 1.5%, primarily due to a decision to reduce banked leave buyback by more than \$300,000, and homicide overtime by \$65,000; a decision that is not without risk
- o A decrease in Fire expenditures of \$377,901 primarily due to MOU savings realized from negotiations with the Firefighters' associations is offset overall, by an increase of \$147,160 in the General Fund transfer to the Emergency Services (Paramedic) Fund. The net Fire decrease of \$230,741 reflects MOU negotiated savings offset by increases, including a 2% increase in PERS rates, increases in medical premium rates ranging from 4% - 16%, merit increases and the addition of a quality assurance nurse in the Emergency

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Services Fund. Partial savings from MOU negotiations is reflected in the June 30, 2013 estimates with additional savings reflected in Fiscal Year 2013-2014. Savings achieved from negotiations is estimated to be at least \$500,000, but may fluctuate up or down depending on overtime costs and changes in employee behavior associated with the change in how overtime is calculated

Fixed assets budgeted in the General Fund budget include \$5,000 in Economic Development for a trade show booth and accessories; \$30,000 for a service truck, \$15,000 for a riding mower, and \$8,000 for a trailer tow in the Quality of Life (QOL) Parks division, as well as \$76,720 for a Bobcat Planer in QOL Streets; and \$143,500 in MUED Engineering for betterments and improvements to storm drain and \$20,000 for an inspector's vehicle.

Transfers from the General Fund to other funds include \$2.9 million to the Emergency Services Fund, \$959,626 to Redlands Public Improvement Corp. to fund the General Fund's half-share of debt service on the 2003 Certificates of Participation, and \$1.3 million to fund the Liability Self Insurance Fund. Funding to the Liability Fund and other Internal Service Funds has been kept at a minimum in recent years and has been kept flat for Fiscal Year 2013-2014, a decision that is not without risk. Currently, the operations and expenditures of the Information Technology Internal Service Fund are being reviewed and monitored through a contract with Client First, a consultant hired to review and assess the City's Information Technology needs and provide recommendations to the City Council during the upcoming fiscal year.

An additional loan of \$909,311 from the General Fund to the Public Facilities Fund is budgeted to pay Public Facilities' debt service obligation on the 2003 Certificates of Participation because of limited impact fees collected by Public Facilities.

While no increase to the General Fund's reserve for contingencies is budgeted for Fiscal Year 2013-2014, the reserve is expected to be maintained at \$7.5 million, the level it had reached during Fiscal Year 2012-2013. The reserve grew during Fiscal Year 2012-2013 as a result of using a portion of PTAF fees received from the County to make a \$515,966 final repayment on the General Fund's 2009 \$1,000,000 loan, originally made from reserves to operations, as well as the addition of \$92,864 to the reserve from a portion of the excess fund balance achieved at June 30, 2012. In addition to funding the reserve, the City Council also approved the use of excess fund balance achieved at June 30, 2012 in the amount of \$200,000 for the purchase of police vehicles, \$270,000 for a building for Police information technology infrastructure and security gates, \$100,000 for flood control channel maintenance, and \$100,000 to be reserved for the future purchase of a Type I Fire Apparatus.

The \$7.5 million contingency reserve, combined with the \$7.4 million unreserved fund balance, results in an overall fund balance in the General Fund of \$14.9 million or approximately 30% of budgeted expenditures. This amount has increased from only 10% in 2006 when reserves were at only \$1.9 million and unreserved fund balance was \$2.9 million. The 30% exceeds the amount previously recommended by the City's independent auditors, which was 25%.

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While much focus is placed on the General Fund, other funds that account for the full services offered by the City are also important. Municipal Utilities and Engineering is expecting to enhance the services it provides by adding five new positions as follows:

- o Two public works inspector positions will be required to perform inspections relating to paving activities, pipeline installations, encroachments and various construction activities; these will be funded by Water, Wastewater, Local Transportation and encroachment permit fees (10% of each of the two inspectors are included in the General Fund in MUED – Engineering)
- o One Senior Administrative Analyst to support the Construction Manager who oversees construction projects which have increased significantly as a result of the Pavement Management Program; the position will be funded by Water, Wastewater, Local Transportation, and 10% by the General Fund in MUED - Engineering
- o One Electrician and Instrumentation Apprentice is required to assist in maintaining the highly complex systems relating to the City's Water and Wastewater systems and to help ensure regulatory compliance and will be funded by Water and Wastewater
- o One Senior Water Distribution Operator, funded by Water, will allow for preventive maintenance of the City's Water distribution system of which the meter replacement program is vital

Solid Waste is aggressively pursuing the replacement of Solid Waste vehicles and has included three vehicles and hydraulic arms in its Fiscal Year 2013-2014 budget request. The goal is to maintain a sufficient equipment/vehicle replacement fund for the replacement of landfill and solid waste equipment in the future.

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 continuing the successful economic development initiatives in the expanded downtown area; transformative improvements to Heritage Park; several new street rehabilitation projects throughout the City, the first fruits of the comprehensive Pavement Management Program that for the first time provides a measured and systematic approach to maintaining and improving the City's streets; and a growing 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 2013-2014.



N. Enrique Martinez  
City Manager