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**CITY MANAGER'S BUDGET MESSAGE
FY 2025 & 2026**

The City has made significant strides to reinvest in community needs such as public safety, deferred maintenance of public infrastructure, and improvements to overall service levels. To plan responsibly through shifting economic patterns and resulting impacts, this budget prioritizes sustainable investments that set us up for continued stability – from supporting our City workforce through innovative collective bargaining agreements, to multiple-year planning efforts to address long-deferred maintenance needs, to developing strategies to invest in large-scale expenditures for new Police and Fire facilities.

This letter transmits the City Manager's Proposed Biennial Budget for Fiscal Years 2025 and 2026. As in previous years, this budget proposal continues to prioritize and support the efficient delivery of core municipal services in the areas of public safety, quality of life and infrastructure maintenance. It does so by identifying the financial resources needed for the coming two fiscal years while also responsibly anticipating and ensuring the sustainability of resources to meet our community needs in the years ahead.

BACKGROUND

The biennial budget is developed through the collaborative efforts of the City Manager, the Management Team, City Departments, budget preparation staff, the City Council and the public. The process begins in January as long-range fiscal planning guides are updated to serve as the framework for the development of the biennial budget plan for the General Fund.

In February, the City Council convened a Special Budget Priorities Workshop to discuss and set priorities intended to guide the development of the biennial budget for Fiscal Years 2025 & 2026. Following a robust discussion among the Council, City staff and the public, a list of the top ten priorities was established to inform the proposed biennial budget. Other key inputs into the budget development process include the National Community Survey (NCS) report, a report that has been provided annually since 2021. The NCS measures resident satisfaction levels and perceptions about the quality of local government services. These findings also influence the areas of emphasis during budget planning.

In March, departments prepared their budget request in two parts: a minimal operating budget and a list of supplemental funding requests. The first involves preparing a budget for the next two fiscal years that includes only the minimum amount of resources needed to maintain existing service levels, with no additional funding to address new programs, new equipment, or additional employees. The second is to create a list of critical operating, capital, and additional staffing needs that would address deferred maintenance, retire aged and inadequate equipment and facilities, and enhance service levels.

In April, budget requests were compiled and summarized. In early May, department heads presented their budget requests to the City Manager. After assessing the minimal operating needs of each department, each list of supplemental requests was evaluated for its relevance to, first, addressing deferred maintenance and, second, to expanding services, capacity or capital replacement. The Management Team

and I made decisions based on the priorities mentioned above, and weighed these against revenue forecasts, and now submit this budget document on that basis.

The City Manager’s Proposed Biennial Budget for Fiscal Years 2025 and 2026 advances the City Council’s budget priorities by dedicating resources to address Police Department staffing levels, create a full time position for Sustainability & Climate Action, augment existing Code Enforcement staffing levels, carry out improvements to various park facilities, invest in the replacement of aging infrastructure, build a new public safety facility, and address the need to plan for affordable housing stock.

The following sections summarize and provide further detail on the City Manager’s General Fund budgets for FY 2024, 2025, & 2026. Included in these sections is an overview of Measure T spending for FY 2025 & 2026. These sections are followed by a short discussion of other major funds.

FISCAL YEAR 2024 SUMMARY

As the current fiscal year (2024) draws to a close, there are noteworthy differences between the adjusted budget for this period and the 12-Month Estimate. The 12-Month Estimate is prepared for the current fiscal year as it draws to a close and the City begins planning for the next two fiscal years. During the Mid-Biennium Update in November 2023 and the Mid-Year Update in March 2024, the General Fund was thought to require the use of roughly \$8 - 9 million in prior year surplus in order to meet its spending requirements. Before the 12-Month Estimates were prepared by staff, total financial resources for the General Fund were estimated at \$139 million and total financial requirements at \$147 million.

As of May 2024, new revenue forecasts indicate an increase of roughly \$3.6 million in revenues, transfers in, or the use of reserves. This, coupled with a decrease in estimated spending, results in a difference of \$15.4 million between the bottom line in the General Fund from the Adjusted Budget to the 12-Month Estimate.

FY 2024 General Fund Budget Summary		
	2023-24 ADJUSTED BUDGET	2023-24 12 MONTH ESTIMATED
TOTAL AVAILABLE FINANCIAL SOURCES	\$ 139,005,393	\$ 142,671,505
FINANCIAL REQUIREMENTS:		
Total Appropriations	131,254,456	118,287,584
Total Interfund Transfers To Other Funds	15,821,774	16,983,070
TOTAL FINANCIAL REQUIREMENTS	\$ 147,076,230	\$ 135,270,654
USE OF PRIOR YEAR SURPLUS	\$ 8,070,837	\$ -
SOURCES OVER/(UNDER) REQUIREMENTS	-	7,400,851
ENDING FUND BALANCE-UNRESERVED	\$ 28,344,867	\$ 43,816,555

During this fiscal year, the economy continued to experience inflationary pressures not seen for several decades. Price pressures constrain the City's purchasing power, increase its labor costs and increase the costs of borrowing. While year-over-year inflation has dropped from the prior year, inflation has been stubborn and slower than anticipated in its decline. Even so, sales tax revenue estimates have been adjusted upwards by \$400,000 and property tax by \$400,000, and franchise fees and investment income have the largest increases among each revenue category at \$1.9 million and \$1.5 million, respectively.

For the expenditures side, as departments near the end of the first biennial budget that covered FY 2023 & 2024, large capital expenditures that have not yet been initiated are required to be re-budgeted into the new two-year budget. The majority of the difference between the Adjusted Budget amounts for spending and the 12-Month Estimate can be attributed to this process as well as a large amount of salary savings.

FISCAL YEAR 2025 OVERVIEW

The Proposed FY 2025 General Fund Budget represents a continuation of the significant investments made by the Council in the last budget while reflecting a need to manage those investments with cautious optimism, focusing on organizational resilience and providing innovative service delivery. The total General Fund budget is \$127.5 million, an increase of \$9.1 million, or 7.7%, compared to the FY 2024 General Fund Budget when adjusting for carryovers and encumbrances. This is due primarily to increased costs of services, goods and insurance attributed to the effects of inflation, increases in personnel costs due to agreed-upon wage increases and normal payroll growth, continued investments to expand programs and improve public infrastructure, and the addition of several critical positions, including 5 Police Officers.

The proposed budget for FY 2025 advances the City Council's budget priorities by investing in key actionable and time-bound efforts that deliver community services, looks toward the future by addressing climate action and sustainability targets, and furthers critical needs in the areas of infrastructure, quality of life and safety. It also recognizes the importance of our employees and makes adjustments to account for changes in the job market to compensate positions appropriately. This strategy aids in recruitment and retention efforts to ensure high quality services for the public.

Measure T, a local sales tax measure, represents a substantial contribution towards supporting core City services, including public safety & public infrastructure. Since its passage in November 2020, the City has made significant investments in addressing deferred maintenance in the areas of our urban forest, traffic signal infrastructure, community & senior center facilities, public safety facilities and public safety equipment replacement. Measure T has also allowed the City to restore and add positions in the Police Department and Fire Department, as well as in other areas that provide enhanced service levels to the community.

In FY 2025 we look forward to the following Measure T spending plan:

Fiscal Year 2025

Projected Measure T Sales Tax Revenue \$20,142,000

Proposed *Spending* for Fiscal Year 2025

Ongoing Costs from Service Level Enhancements funded previously by Measure T –
Police Department: Equipment Leases, IT Services & Contract Services
Capital leases & contractual services for maintenance (Parks, Streets, Trees)
Expansion of Recreational & Community Center Programming
Increased EMS Transfer to cover expanded Fire staffing
Fire Capital Equipment Leases

\$ 3,303,995

Ongoing Costs of Additional Staffing funded previously by Measure T –
Police Department (31 positions, including 7 police officers)
Fire Department (9 positions, incl. Battalion Chief, 3 Fire Engineers)
Facilities & Community Services (15 positions, recreation, maintenance, etc.)
Library (6 full time & 3 part time, incl. library specialist, maintenance workers)

\$ 5,586,376

Costs of New Staffing Added in FY 2025 –
Police Department (6 positions, including 5 police officers)
Facilities & Community Services (3 positions, recreation, maintenance, etc.)

\$ 1,568,435

One-Time Service Level Enhancements -

Replace & upgrade various park facilities (Texonia, Community Field, etc) 1,792,891
Upgrade & enhance Redlands Bowl and Recreation/Senior Center Facilities 710,193
Address Building & Facilities deferred maintenance 100,000
Replace aged and outdated maintenance equipment 295,000
Downtown & Gateway Improvements 90,000
Police Department specialized IT software, hardware, tools 116,690
Specialized Law Enforcement equipment 87,500
Fire Department vehicle purchases 306,285

\$ 3,498,559

Ongoing Service Level Enhancements -

Annual City contribution for Project Homekey Homelessness Solutions grant 1,000,000
Additional programs for Community & Senior Center Facilities 100,000
Citywide Sidewalk/ADA Replacement 500,000

\$ 1,600,000

Capital Improvement / Additions to Reserves -

Tree trimming for 25% of City Trees 1,000,000
Remodel of Fire Station 262 2,160,000
Fire Department – Apparatus Bay Storage Structure 600,000
Fire Station Bay Door Replacements 500,000
Traffic Signal Cabinets & Components 325,000

\$ 4,585,000

Projected Total Measure T *Spending* \$ 20,142,365

As you'll note throughout the document, departments have numerous goals that they have outlined in their respective sections. Many of these objectives relate in some way to the City Council budget priorities, while others are more operational and internally focused.

The Proposed FY 2025 General Fund Budget includes adding several key positions, including one new Police Sergeant and four Police Officers that will form a dedicated team focused on homelessness. These officers, together with County employees and the City's Homeless Solutions Manager, will implement strategies to effectively serve and support persons experiencing homelessness within the community and address public concerns about the same without encumbering already limited police resources in patrol operations. Other noteworthy positions include a Police Support Services Supervisor who will be responsible for helping the department comply with new federal and state mandates that have exponentially increased the workload of the Support Services Bureau in the Police Department. As well, a new Senior Community Service Officer (CSO) in the Police Department will assist with the workload and supervision of the existing 10.5 CSO positions, effectively enabling them to focus more on parking enforcement as the City ramps up efforts to improve downtown parking availability.

Other new positions include a Sustainability Coordinator in the Development Services Department that will focus on working to coordinate the implementation of the City's Climate Action Plan that is currently under development. In the Facilities and Community Services Department, three positions are proposed, including a Senior Manager to more efficiently oversee essential services provided to the community and to implement projects more effectively; a Recreation Coordinator to enhance and expand the program offerings of the Community and Senior Centers; and a Building Maintenance Worker to focus on preventative maintenance of the City's expanding inventory of facilities, including the new Citrus Center. The Building Maintenance Division currently has four employees whose charge is to maintain roughly 500,000 square feet of public offices and facilities.

In terms of aging infrastructure and park improvements, the following are several key investments included in the Proposed FY 2025 General Fund Budget: \$425,000 towards traffic signal maintenance, \$150,000 in traffic signal conduit boring, \$170,000 in guard rail repairs, \$125,000 in crosswalk restriping, \$325,000 in traffic signal cabinet and sensor equipment replacement, \$650,000 in parking structure repairs, \$400,000 for the construction of the Ford Park Lower Restrooms, \$1.7 million in renovations for Texonia Park, \$500,000 in City sidewalk and ADA Ramp replacements, and \$105,000 to replace flooring in the Conservatory of the Library, among several other projects.

The Proposed FY 2025 General Fund Budget also includes noteworthy appropriations for expanding recreation programming and special events, restoring adult sports leagues and introductory youth sports programming, instructor-led emergency management training & exercises, the lease purchase of 27 police vehicles, the first payment for the purchase of 100 new tasers to replace outdated equipment for police, and contract code enforcement services to augment existing efforts to investigate public concerns regarding violations of the municipal code by existing commercial and residential properties.

While the Proposed FY 2025 General Fund Budget has incorporated the vast majority of Council and Measure T priorities, choices still had to be made. As a result, there are needs during this fiscal year that were not able to be funded: the design and engineering of a new fire station, the design and engineering

of the expansion of the Animal Shelter facility, additional alley paving projects and additional sidewalk and ADA ramp replacement efforts.

The management team expects to adjust and revise the budget accordingly upon the mid-biennium review, scheduled for spring of 2025.

FISCAL YEAR 2026 OVERVIEW

The Proposed FY 2026 General Fund budget continues with the investments planned in FY 2025. Funding for deferred maintenance, replacing aging infrastructure, contract code enforcement services, and expanding recreation programming continues, along with funding for the positions added during FY 2025.

To address aging infrastructure, the Proposed FY 2026 General Fund Budget includes many of the maintenance and repair programs mentioned above in addition to a total of \$170,000 towards the replacement of playground structures and park furnishings and \$50,000 for downtown State Street renovations to beautify landscaping, planters and bollards.

Other items of note include the continuation of expanded recreation programs, sports, and events; the second payment for the purchase of new tasers for police; and contract code enforcement. The budget also includes the capital replacement of Fire apparatus and equipment (a water tender to supply water in remote areas and a Type 3 Brush Engine for wildfire firefighting – both of which are 20 years old), the addition of the Meridian Gate System to add security to special events and aid in road closures, and the purchase of a heavy-duty dump truck for the Streets Division.

In FY 2026 we look forward to the following Measure T spending plan:

Fiscal Year 2026

Projected Measure T Sales Tax Revenue \$20,763,000

Proposed *Spending* for Fiscal Year 2026

Ongoing Costs from Service Level Enhancements funded previously by Measure T –

Police Department: Equipment Leases, IT Services & Contract Services
Capital leases & contractual services for maintenance (Parks, Streets, Trees)
Expansion of Recreational & Community Center Programming
Increased EMS Transfer to cover expanded Fire staffing
Fire Capital Equipment Leases

\$ 4,442,617

Ongoing Costs of Additional Staffing funded previously by Measure T –

Police Department (31 positions, including 7 police officers)
Fire Department (9 positions, incl. Battalion Chief, 3 Fire Engineers)
Facilities & Community Services (15 positions, recreation, maintenance, etc.)
Library (6 full time & 3 part time, incl. library specialist, maintenance workers)

\$ 5,750,681

Costs of New Staffing Added in FY 2025 –	
Police Department (6 positions, including 5 police officers)	
Facilities & Community Services (3 positions, recreation, maintenance, etc.)	
	<u>\$ 1,631,172</u>
One-Time Service Level Enhancements -	
Replace & upgrade various park facilities (restrooms, lighting, playgrounds)	170,000
Address Building & Deferred Maintenance	250,000
Replaced aged & outdated maintenance equipment	225,600
Police Department specialized tool, software & hardware, equipment	147,386
Downtown Gateway Improvements & Programs	315,557
Fire Vehicles & Equipment	306,285
	<u>\$ 1,414,828</u>
Ongoing Service Level Enhancements -	
Annual City contribution for Project Homekey Homelessness Solutions grant	1,000,000
Citywide Sidewalk/ADA Replacement	500,000
	<u>\$ 1,500,000</u>
Capital Improvement / Additions to Reserves -	
Tree trimming for 25% of City Trees	1,200,000
Fire Department Water Tender replacement	400,000
Fire Department Type 3 Brush Engine replacement	700,000
Police Department – Safety Hall Debt Service	3,730,000
	<u>\$ 6,030,000</u>
Projected Total Measure T <i>Spending</i> \$ 20,769,298	

A major accomplishment in the Proposed FY 2026 General Fund is the set aside of roughly \$3.73 million in funds dedicated to servicing the debt on a new Police Department Safety Hall facility – a once-in-a-generation investment to ensure that law enforcement operations have a facility that is sustainable and well-functioning for decades to come. The existing police facility locations were considered an “interim location plan” in January of 2009. Over the last 15 years, the functional areas of patrol, dispatch, the detainee processing center, and the public counter for police records have been located in one location; the office of the Chief, detectives bureau, administrative services, community services and the support services bureau are in another location; property and evidence is in a third location; and the remainder of police records are in yet a fourth location. These conditions have complicated department operations and invariably caused inefficiencies in day-to-day process, as well as confusion to the public seeking police services. Additionally, the existing facilities have deteriorated over time and now present issues related to safety, health and equal access. Lastly, there is a lack of space within these facilities to share with the public, and that has lead to less than ideal conditions for providing service, especially given the sensitive nature of certain interactions.

The commitment to build a Safety Hall to serve as the Police Department Building was made very clear as Council gave direction to staff over the years to dedicate funds and resources to studying the best course of action. Those efforts culminated with the purchase of 1625 West Redlands Boulevard (formerly the Kmart building) in early 2022 to serve as the future home of Safety Hall. Since then, work has started to plan the facility that will be designed to house all sworn, support, executive and volunteer personnel while accommodating future growth. The City anticipates completing the planning, schematic design, entitlement process, design development, construction documents and plan check processes by the end FY 2025. Construction is planned to commence in FY 2026 and will be debt financed. The cost of the building is estimated at \$85 million. The City intends to contribute \$15 million from reserves to this amount and debt finance the balance over a 40-year period. The first annual debt service payment is included in this fiscal year to initiate repayment as soon as possible to reduce borrowing costs over the life of the debt.

Lastly, and although not specifically included in the FY 2025 or FY 2026 Proposed Budget, the City is also factoring in the design and construction of a new fire station into its long-range financial model. If the design and engineering of the facility is funded in FY 2027, we anticipate the new station will open sometime in FY 2029. If the design and engineering can be funded sooner, at the mid-biennium review in spring of 2025, the fire station may open as soon as FY 2028. Much remains to be seen as FY 2024 comes to a close and the economy progresses along an unknown trajectory.

OTHER FUNDS

While emphasis in this message is placed on the capital improvement projects and service level enhancements funded by the City's General Fund, the services delivered to the community and its residents through the City's Enterprise Funds are of significance as well and warrant discussion here.

In addition to a General Fund Budget of \$119.7 and \$123.7 million in fiscal years 2025 & 2026 respectively, the City's budget includes Enterprise Funds totaling approximately \$80.3 and \$125.4 million for fiscal years 2025 & 2026. In the Water Fund, appropriations for FY 2025 and 2026 total roughly \$43 and \$42.2 million, with about \$15 million dedicated to capital improvement projects (CIP) in FY 2025 and \$14 million dedicated in FY 2026. These projects include plans for a combined total of roughly \$13.5 million of pipeline replacement, expansion of treatment and distribution facilities, laboratory improvements, security improvements, fleet & heavy-duty equipment replacements, and a filter press to dewater sludge at the Hinckley Water Treatment Plant.

In the Wastewater Fund, appropriations total approximately \$18.5 and \$64 million for FY 2025 & 2026, with \$3 million in pipeline replacement budgeted to replace a combined total of roughly 5 to 6 miles of sewer pipeline. It is worth noting that the Wastewater Fund's largest project, the Wastewater Treatment Plant Capital Modifications Phase 2 (~\$45 million) is included in the FY 2026 Proposed Budget request at this time. Municipal Utilities and Engineering staff were notified that the City has been awarded a State Revolving Fund loan in order to finance the construction of the project. The funding process will still take 12 to 24 months to complete. The Clean Water State Revolving Fund is a federal-state partnership that

provides low-cost financing to communities for a wide range of water quality infrastructure projects, including municipal wastewater facilities. The project will completely rebuild the existing facility, which was originally constructed in 1962, and expanded in 1972, 1988 and 2004.

Lastly, in the Solid Waste Fund, annual appropriations total roughly \$18.8 and \$19.3 million for FY 2025 & 2026. Included in these appropriations is approximately \$1.5 million of capital spending in each respective year, representing the purchase of new solid waste collection vehicles to service 3 to 5 additional residential and commercial routes added as a result of new development activity. Large capital investments are on the horizon for the Solid Waste fund, including the construction of a new landfill cell and the implementation of state mandates on zero-emission vehicles and its implication on collection trucks.

Other than the enterprise funds discussed above, another fund also bears examination. With this biennial budget, a new fund is being established – the Inclusionary Housing Fund (Fund 255). This fund is meant to track and record activity (revenue & expenses) related to the City’s in-lieu fee established as a part of Ordinance No. 2959 – an Ordinance Amending Title 18 (Zoning Regulations) of the Redlands Municipal Code by Adding Chapter 18.230 for an Inclusionary Housing Program for the City of Redlands and Resolution No. 8528 – a Resolution Adopting a Fee Schedule for the Inclusionary Housing In-Lieu Fee pursuant to Ordinance No. 2959. Most California jurisdictions have a severe shortage of housing units affordable to low- and very low-income households, and the City of Redlands is no exception. The City’s ordinance requires that a certain percentage of affordable units be provided by housing developers. Payment of an In-lieu fee is one of the alternative means of compliance provided for by the Inclusionary Ordinance. The projected revenues for the first year of this fund total \$1.8 million for FY 2025. A small percentage of these funds will be used initially for the program creation and infrastructure, with the majority of funds intended to directly fund the construction of affordable units. The City is working with Keyser Marston Associates for development and implementation of the program including, but not limited to, the following:

- Preparing Administrative Procedures Manuals to be provided to the developers of apartment and ownership housing projects
- Creating draft agreements between the City and developers of projects that are subject to the Ordinance requirements
- Preparing household income qualification and affordable sales price / rents tables
- Preparing in-lieu fee calculations and annual updates
- Providing technical assistance to developers of projects that are subject to the Ordinance requirements
- Assist in evaluating development projects that propose to use the Government Code Section 65915 et seq. (Section 65915) for a density bonus

ECONOMIC OUTLOOK AND RISKS TO THE BUDGET

Balancing the FY 2025 & 2026 Budgets on recurring revenues proved challenging due to the need to absorb increased costs resulting from higher personnel expenses, the higher cost of goods, services, and insurance, and the reduced pace of revenue growth as the economy begins to cool in response to tighter monetary conditions. The funding of supplemental requests and Council priorities also needed to be included in the funding plans. While shortfalls in the forecast are not ideal, the amount is manageable because the projected ending unassigned fund balance in the General Fund has grown considerably as a result of prior fiscal years with higher than forecasted revenues, salary savings from vacancies and unspent project funds that were not carried over. Thanks to thoughtful long-term financial planning the gap between revenues and expenditures represents drawdown of past revenues for current investments in our community.

General Fund Budget Summary				
	2022-23	2023-24	2024-25	2025-26
	AUDITED	12-MONTH	CITY MANAGER	CITY MANAGER
	ACTUAL	ESTIMATED	RECOMMENDED	RECOMMENDED
TOTAL AVAILABLE FINANCIAL SOURCES	\$ 133,432,112	\$ 142,671,505	\$ 120,341,105	\$ 123,740,012
FINANCIAL REQUIREMENTS:				
Total Appropriations/New Reserves	114,622,187	118,287,584	115,899,075	121,177,389
Total Interfund Transfers To Other Funds	8,937,560	16,983,070	11,642,556	11,997,496
TOTAL FINANCIAL REQUIREMENTS	\$ 123,559,747	\$ 135,270,654	\$ 127,541,631	\$ 133,174,885
USE OF UNASSIGNED FUND BALANCE	\$ -	\$ -	\$ 7,200,526	\$ 9,434,873
SOURCES OVER/(UNDER) REQUIREMENTS	9,872,365	7,400,851	-	-
ENDING FUND BALANCE-UNASSIGNED	\$ 36,415,705	\$ 43,816,556	\$ 36,616,030	\$ 27,181,157

The City’s financial health is projected to remain strong in fiscal years 2025 and 2026. However, the US economy’s outlook remains uncertain for the near future. Fluctuating key indicators lead many experts to draw mixed conclusions regarding the economy’s future course. In order to better understand this complex economic climate, the City reviews economic analyses from various sources including the City’s sales and property tax consultants, HdL Companies, and the UCLA Anderson School of Business economic forecasts. Certain data suggests that inflation will remain persistent in the year ahead and this is likely to delay any reductions in interest rates. The general economy on a state and national level has remained positive based on economic benchmark measurements such as Gross Domestic Product, median home values, and sales tax data. Most experts do not view a recession as a foregone conclusion; however, the City recognizes that certain choices by national policymakers in the months ahead could influence the economic cycle negatively.

While uncertainty remains with regard to future economic conditions involving inflation, consumer spending and housing costs, more concrete challenges continue to be present in the City’s fiscal picture. The following are unfunded needs that have not been considered or included in the City Manager’s Proposed Biennial Budget for Fiscal Years 2025 and 2026.

- The current collective bargaining agreements in place with the City's nine (9) bargaining units expire at the close of FY 2026 (June 30, 2026). The financial impact of future labor negotiations remains unknown at this time. Staff have analyzed possible costs associated with bargaining scenarios and expect the impacts to be in the millions in terms of added costs for the General Fund.
- The City Manager's Proposed Biennial Budget for Fiscal Years 2025 and 2026 assumes no additional personnel, capital or operating spending above and beyond that already included in the budget and for the next four years of its long-term financial forecast.
- As noted in the summaries for FY 2025 & 2026, key priorities remain unfunded in this budget, including the design and engineering of a new fire station, the design and engineering of the expansion of the Animal Shelter facility, additional alley paving projects and additional sidewalk and ADA ramp replacement efforts.

No budget summary would be complete without acknowledging the presence of risks to the forecast. The City Manager's Proposed Biennial Budget for Fiscal Years 2025 and 2026 represents a carefully designed set of plans for financial management during this budget cycle but plans invariably change. That said, the City's budget is built with resiliency in mind to accommodate shifts in spending or revenues. However, there are some risks that loom larger than others. The following is a partial list of such risks.

- The likelihood that interest rates will remain higher for longer persists and interest-sensitive consumer spending may be affected. This may hamper economic activity more than anticipated and lead to a near term recession, thus negatively impacting revenue forecasts.
- The City is self-insured and the budget for payout of claims and lawsuits is based on an average and considers other factors known at the time the budget is developed. There is a risk that litigation and claim payouts exceed this figure.
- The possible lowering of the CalPERS discount rate from 6.8% and modifications to the mortality and investment risk assumptions could worsen the already steep growth in retirement benefit costs for cities. In years when the fund underperforms, the City's unfunded liability grows and in years when the fund overperforms, CalPERS has implemented a policy to reduce the discount rate (thereby raising the City's current costs for retirement plans).

CONCLUSION

The City's biennial budget covering fiscal years 2025 and 2026 invests in community priorities and continues the robust City services that the community expects through balanced, innovative fiscal strategies. This budget allows the City to continue providing high-quality municipal services while adding and expanding programs that reflect the changing times. We are also looking beyond this current budget horizon, with major investments in infrastructure and public facilities that will be enjoyed, not just by current residents, but by future generations. The City has thrived in many areas and is fortunate not to be in the cost reduction mode that many other local governments face, but we will need to continue being resourceful and creative in the way we invest in current services, operations and infrastructure while adapting to the needs of the community.

I want to express my personal thanks to the department heads, their staff, and budget team for their diligent efforts and working together to develop budgets that reflect the needs of their individual departments and their direct service delivery to the City's residents and businesses. A special note of thanks and appreciation should go to the members of the Finance Division staff for their excellent performance in gathering, analyzing and presenting information clearly and accurately during the biennial budget process. Finally, I would be remiss if I did not also make note of the significant and extraordinary efforts our City employees make each and every day delivering the many services and programs that contribute to the overall quality of life in our community. With the City Council's leadership and the help of our community, we can continue to maintain strong fiscal stewardship while ensuring our budget and financial policies reflect spending consistent with the community's values and priorities.

Respectfully submitted,

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Charles M. Duggan, Jr., City Manager
City of Redlands