

To: Honorable Mayor and Members of the City Council:
From: City Manager Michael Warren

Introduction and Overview

It is my pleasure to transmit to you, along with this narrative, the Biennial Budget for the fiscal years 2003-04 and 2004-05 for the City of Redding. This recommended budget is the culmination of approximately six months of effort beginning with the staff and ending with the work of our Citizens Budget Committee. The budget is sound and is recommended based on the following: 1) It is balanced; 2) it provides funding to continue providing quality service; 3) it increases service levels in some areas; and 4) it provides adequate funding to complete capital projects to which we are already committed.

Overall, the City of Redding Biennial Budget totals \$196,588,680 for fiscal year 2003-04 and \$199,927,110 for fiscal year 2004-05. This can be compared to the amended budget for fiscal year 2002-03 of \$277,500,030. The large decrease from the fiscal year 2002-03 amended budget is due to the large number of capital projects included in the 2002-03 fiscal year.

The recommended budget is a testament to the hard work and excellent financial planning this City Council and previous City Councils have done through the years. Consider, for example, this budget is predicated on the assumption the City will not receive several important State revenues, including mandated reimbursement claims and Police Officer Standards and Training (POST) reimbursement and booking fees. These revenues total \$450,000 annually. Yet, despite the mismanagement at the State level, the City's financial plan requiring 5 percent minimum reserves is on-track, projects are funded, and there is a slight increase in staffing. The groundwork the City Councils have done in assuring that infrastructure is in place, projects are completed properly, and our economic development program stays intact, have made a difference in our quality of life, how we grow, and the region's economy.

Besides the State's challenges, we also had some large expenditure increases that we needed to fund. For instance, the City is projecting to spend over \$8.4 million more on our retirement contribution in fiscal year 2004-05 than was spent just two years earlier. Likewise, rising medical costs have made it necessary to spend additional funds on medical claims. Lastly, the City has budgeted funds to operate and maintain capital projects completed, or expected to be completed, within the budget cycle, such as the Aquatic Center and Clover Creek Preserve.

On the positive side, all of the City's major General Fund local revenue sources continue to perform well. Revenue from economically-sensitive areas, such as sales tax, transient occupancy tax, and construction-related fees, has been particularly strong over the past couple of years, increasing approximately 7 percent annually.

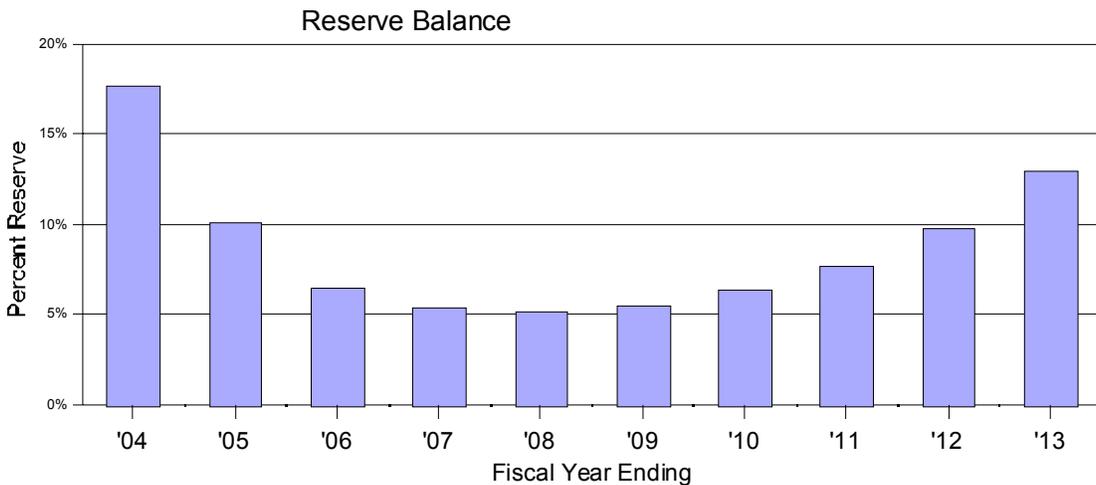
The City is required by State law to calculate and publish any "appropriations limit" each fiscal year, which is commonly known as the "Gann Limit." Because of revenue limitations, this limit has little practical meaning as the City of Redding does not even come close to being constrained by the Gann Limit. For the 2003-04 fiscal year, the limit would be \$130.5 million, while the applicable budget figure for comparison is \$53 million. This shows the City is spending less than half of what would legally be allowed, if resources permitted.

General Fund

The General Fund contains basic municipal services, such as Police, Fire, Administration, Recreation and Parks. The General Fund budget totals \$52,436,800 for fiscal year 2003-04 and \$56,503,250 for fiscal year 2004-05. This can be compared to the adopted budget for fiscal year 2002-03 of \$45,857,210 (before amendments). The recommended budget has increased over the two-year budget period by \$10.6 million (an average 11.6 percent annual increase) from the adopted budget in fiscal year 2002-03. This large increase is due primarily to increases in the Fire Department, with an average annual increase of 21.4 percent, and the Police Department, with an average annual increase of 17.3 percent. The rest of the General Fund departments overall average increase was only 3.5%. Over the two-year budget period, the Fire Department's budget increased by \$3.8 million, the Police Department's budget increased by \$5.4 million and the rest of the General Fund's budget increased by \$1.5 million. Fire and Police represented 53 percent of the adopted 2002-03 budget and represent 59 percent of the recommended 2004-05 budget. The large increase in the Fire and Police Departments' budgets is due primarily to increases in personnel and benefit costs, particularly in PERS costs. Of the \$9.1 million increase in the Fire and Police budgets for the two-year period, \$4.9 million are due to PERS increases, \$2.9 million are related to increases in wages and overtime, and \$1.3 million are related to other Fire and Police costs. These large increases in Police and Fire personnel costs consumed resources that could have been used to maintain and/or improve service levels and made the task of presenting a balanced General Fund and Ten Year plan difficult.

The General Fund 10-Year Financial Plan illustrates how this recommended biennial budget fits into the City's long-term financial picture. If adopted as presented, the plan will show reserve levels for the next 10 years of at least the minimum 5 percent target. As can be seen from the chart below, the plan shows a projected reserve ranging from a high of 17.7 percent in fiscal year 2003-04 to a low of 5.1 percent in fiscal year 2007-08. This plan uses the best projections available at this time, but it will be updated regularly as economic and budgetary conditions change.

General Fund Ending Cash Balance



Other Funds

Although we tend to place significant emphasis on the General Fund 10-Year Financial Plan due to the fluctuations that can occur in its revenue, all other major funds of the City maintain similar plans and, with the exception of the Airport Fund and Storm Drainage Fund, are balanced. The Airport Fund is still requiring short-term advances from the General Fund, but is balanced by the end of the five-year planning horizon and has now begun a long-term plan to begin repayment of prior advances from the General Fund. The Storm Drainage Fund is balanced in the two-year period and with the plan discussed below it will be balanced in the 10-year plan. (See below for further discussion on the Airport and Storm Drainage Funds.)

It should also be noted that in the case of the Water Utility and Wastewater Utility, new master plans are nearing completion that will outline the capital needs for the next 20 years. It is probable that funding the needs identified in the plans will have major impacts on their existing financial plans. If so, the City Council will be faced with the need to make revenue adjustments or adjustments to the plans in order to keep the long-term financial health of the funds intact.

Expenditures

A good business begins its budget by looking at available resources or revenues before even discussing expenditures. They then continually review their projections for revenues to compare it with their long-term plan or, in the city's case, the 10-year Financial Plan. As you know, the city of Redding does this on a monthly basis. When we see a change of note in our revenues, we adjust our expenditures accordingly.

Since our assumption is that the State will be eliminating funding for the items mentioned earlier, there are only a few additions or substantive changes to the expenditure side of the budget. The following are the changes worthy of note:

Personnel

There is a net increase of seven positions recommended in this budget for fiscal year 2003-04 and an additional two positions in fiscal year 2004-05. The net addition of nine positions over the two-year period is about one-half percent annual growth in our work force. In the General Fund there are three new full-time positions and two full-time positions being upgraded from part-time for fiscal year 2003-04. The proposed budget also eliminates one position and does not include funding for four existing full-time positions in the General Fund. The net effect is a 1.25 decrease in full-time equivalent positions in the General Fund in fiscal year 2003-04. The table below shows the new positions and the ones being eliminated or not funded for all Funds of the City.

Division	Position	No.	Comments
Police*	Police Officer	1	3/4 funded by RABA
Fire	Fire Prevention Inspector	1	Funded by new fee charged for inspection
Purchasing	Management Analyst	1	Upgrade from 3/4 time.

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Parks	Gardner	1	Needed for new Clover Creek Preserve Project.
Parks	Public Works Maint. Worker	1	Upgrade from 1/2 time - Needed for Aquatic Center.
Water	Working Supervisor	1	Water positions are being added due to workload
Water	Water Maintenance Worker	1	Increase since 1988 when last positions were added.
Electric	Lineman	4	Needed to meet reliability standards
Electric	Custodian	1	Upgrade from 3/4 time
Electric	Clerk II	1	Upgrade from 3/4 time
Customer Service	System Analyst/Programmer	1	Funded through contract cost reductions
Customer Service	Customer Service Rep	1	Upgrade of 1/2 time Clerk position
Electric	Dir of Customer Serv.	(1)	Position eliminated
Police	Officer	(1)	Funding source for position eliminated
Solid Waste	Truck Driver	2	The Solid Waste positions are funded through
Solid Waste	Transfer Station Operator	1	Reduction in expenses and increased revenues
Solid Waste	Truck Driver	1	Exchanged for two 1/2 time positions
Reprographics	Reprographics Tech	1	Upgraded from 3/4 time position
City Manager	Economic Development Dir.	(1)	Position not funded during budget cycle
Finance	Accounting Specialist	(1)	Position not funded during budget cycle
Municipal Services	Public Works Director	(1)	Position not funded during budget cycle
Engineering	Engineering Tech.	(1)	Position not funded during budget cycle
	Part-time positions	(5)	Elimination of up-graded part-time positions
Total net positions added		9	

* The City is also applying for two new officer positions through a Federal Universal Hiring Grant. The grant will pay approximately 50% of the costs of the officers over a three-year period. The City's matching funds required by the grant have been included in this budget.

PERS

As mentioned earlier, the PERS increase is significant. It is caused by both higher PERS rates due to the sluggish State economy and lower stock prices, resulting in investment losses at CalPERS, and the improved public safety retirement plan. This one issue had the most significant effect on presenting a balanced budget.

Economic Development

As noted above, the Economic Development Director's position is not funded in this budget. The position is vacant and not anticipated to be filled during this budget cycle. However, included in this budget is \$75,000 per year for consulting services related to economic development. It is staff's belief that by using a consultant for specific projects, the City will be able to accomplish more in this area than in past years.

Open Space/Right-of-Way/Land Acquisition

This biennial budget includes \$100,000 each fiscal year for the acquisition of property to be used for open space purposes. Occasionally desirable property for this purpose becomes available on the market at a good price. When this happens these funds can be used to purchase the property without the need for amending the budget. Often, if the City does not have funds set aside, opportunities to purchase open space are missed. This budget also includes \$200,000 each year for right-of-way purchases. One of the important things the City can do to prepare for the future is to purchase future right-of-way parcels as they become available.

Art in Public Places

In the past, the City has encouraged art in public places by offering places to display art. The City has also included art works in some of its projects. Included in this budget is \$50,000 each year to use in partnership with citizens willing to invest in art in places available for public viewing. This program will augment the City's efforts to beautify and improve the City.

Increased Funding for Parks and Recreation

This budget reflects additional funds necessary to operate the new Redding Aquatic Center and to maintain both the Clover Creek Preserve project and the new pedestrian bridge when they are completed. A total of 1.5 full-time equivalent positions have been added to the Park Maintenance Division to help maintain these new facilities.

New Fire Station Staffing

Included in this budget is \$300,000 to pay for contract fire services at the Municipal Airport. Contracting for the services at the Airport will allow the fire crews currently assigned to the Airport to be transferred to a new station being constructed in the northeastern part of the City. This will help improve coverage for the City and improve response times.

Communication System

The City's current 800 MHz radio system is outdated and parts are no longer being manufactured for repairs. To replace the system and radios would cost between \$2 and \$3 million. In each fiscal year of the proposed budget there is \$150,000 for future replacement of the City's public safety communications system. In addition, there is \$70,000 in fiscal year 2003-04 for the purchase of a general City communication system. When purchased, it would be used as the main system for City divisions using the 800 MHz system, other than Police. It also could, potentially, be used as a backup for the Police communication system.

Mall Repairs

In the fiscal year 2003-04, \$155,000 has been included for roof and skylight repairs at the Downtown Mall. These repairs are absolutely necessary to avoid further decay and even larger expenses in the future. This is a short-term repair option in order to make the roof last another five years. The cost of roof and skylight replacement, if the City decides to keep the Downtown Mall enclosed beyond the five-year period would be approximately \$2 million.

Capital Projects

Recently, the City Council had a priority work session and 55 projects were identified as priorities for City Council and City Staff. The projects are listed below with some, such as Blue Shield, Aquatic Center and Sports complex, almost completed. Projects such as the Veterans Home, Fire Station #8, and North Market Street Landscaping are barely underway. A major portion of the money for these projects is identified in our various financial plans, but some will require creative thinking, grants and other resources.

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Priority Projects
Affordable Housing Projects
Annual Polybutylene Replacement Program
Aquatic Center/Plunge
Blue Shield Project
Boat Ramp Renovations
Browning Street
Caldwell Park Enhancements – Playground, Memorial Picnic Area, Art Walk, and Renovations to Teen Center and Carter House
Caterpillar Road Water Main Extension to Oasis Road/Road
Clear Creek Wastewater Treatment Plant Design and Expansion
Clover Creek Preserve
Communication Master Plan
Cypress Bridge Widening/ Undergrounding Electric Lines
Cypress Street Widening/ Undergrounding Electric Lines
Downtown Specific Plan Implementation
Downtown Street Improvements (north of Mall)
Enterprise Well #13 Arsenic Removal Treatment Facility
Enterprise Well #15 Construction
Extend automated recycling to small businesses and apartments
Fire/Police Master Plans Funding
Fire Station No. 7 Outsourcing
Fire Station No. 8
Fish Protection Alternatives (study only)
Foothill WTP Chlorine Scrubber
Foothill WTP Maintenance Building
Highway 44 Bridge Widening
Housing Element Update
Library (new)
Martin Luther King, Jr. Neighborhood Revitalization
Master Plans for Water, Sewer, and Storm Sewer, and Review
Moore Road Substation Expansion
Municipal Airport Crosswind Runway Rehab
Municipal Airport and Benton Airpark Master Plans
Municipal Airport Specific Plan
Municipal Airport Taxiway Construction/Reconstruction
Municipal Airport Terminal Bldg. Remodel
North Market Street Landscape
NPDES– Implementation Plan (Phase II Clean Water Act)
Oasis Specific Plan and Infrastructure
Overlay Program - pave 2 to 3 miles
Parks, Trails, and Open Space Master Plan
Pump Station #1 Fish Screens Environmental Impact Report
Parkview Revitalization
RABA Expansion – Intermodal and Maintenance Buildings
Railroad Overcrossing/Downtown Mall
Shasta View Drive
Shasta View Drive Water Main
Slurry Seal Program - seal 10 miles
Sports Park
Stillwater Business Park
Theater District

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Tiger Field Renovation
Trail Construction
Turtle Bay Museum, Arboretum, Bridge, and Operations
Veterans Home

Unfunded Needs

In each department's budget overview is a section in which unmet needs are listed. As mentioned previously, although the budget is healthy, it simply cannot include all of the well-justified needs. Some of the more significant items that are not included or adequately funded in this proposed budget are addressed below.

Library Funding

It should be noted that the budget does not include any additional capital or operating funds for the Shasta County Library beyond \$218,333 for operations in fiscal year 2003-04 and \$245,000 in fiscal year 2004-05 for operations of the current Library. That amount includes the \$160,000 the City has historically contributed, as well as an additional \$58,333 in fiscal year 2003-04 that is the City's share of the joint effort between the City, County, and Friends of the Library to increase the Library's hours of operation. In fiscal year 2004-05 the \$58,333 increases by \$24,167 to cover one-half of what previously had been contributed by Friends of the Library as their five-year commitment to support additional Library hours will end. The City has contributed a great deal of staff time in working with the County to obtain a grant for construction of a new Library. The City has committed another \$250,000 annually for operational costs of a larger and more modern facility, if the grant is successful. This funding is not included in this budget nor is it specifically earmarked in the General Fund 10-Year Financial Plan and would, therefore, have to come out of existing programs or reserves, if the City and County are successful in their grant application for a new Library.

Riverfront Playhouse Funding

Recently the City Council has discussed the idea of assisting the Riverfront Playhouse to relocate to the Downtown area. No funds have been included in this budget for such assistance.

Zucker Recommendations

The Zucker Report and the recommendations of the Zucker Report Implementation Committee included major items affecting personnel costs and capital costs, which have not been included in this budget. Development Services estimates that three new positions need to be added at a cost of approximately \$185,000 per year to fully implement the recommendations. In addition, one-time capital outlay costs would be between \$150,000 and \$250,000 with ongoing annual support and maintenance costs of approximately \$30,000.

Increased Public Safety

Over the next 10 to 15 years, significant increases in the Police and Fire Departments for personnel and equipment will be needed. While some of this increase can be absorbed by the General Fund, much of it cannot. The City Council has appointed a citizens committee to review this issue and to help determine the amount of need and possible funding sources.

Airport Land Acquisition

Funds to purchase additional Airport land are not included in this budget. Currently, over 500 acres of land in close proximity of the Municipal Airport has been identified as desirable to purchase. All of the property would be for runway approach protection. It is important to purchase this land now before additional development occurs in this area and significantly increases the cost. The Airport Division is currently working on a \$14 million grant from the FAA for purchase of this land. Matching funds of 10 percent of the grant will be required. These funds have not been included in this budget.

Airport

The Airport Fund will require small advances from the General Fund during this budget cycle. Since the events of 9/11, Airport revenues have decreased and are still recovering. The Budget Committee felt that there were several things the Airport could do to improve its revenues and make the Airport self sustaining. First, the Budget Committee believed better marketing to potential customers, business and airlines could result in increased flight frequency and destination options. This would also increase the revenues. Currently, the Airport has commissioned a study of its current and potential customer base. Once the study is completed, the Airport will aggressively market the services to customers and potential new carriers. The Committee also believed that the Airport should review its current fee structure. There are some hanger types that are continually completely rented and rental rates could be increased without loss of renters. The Airport should increase rental rates where the market will bear such increases. The Airport is currently investigating these revenue-enhancing ideas and will be taking action on these items and other areas to improve its financial position during this budget cycle.

Water, Sewer, Storm Drain Utility and Traffic Projects Related to Growth

The Storm Drain Utility cannot maintain the Council directed 5 percent reserve through its 10-Year Financial Plan and meet State and Federal mandates. Therefore, I have removed Street Sweeping from the Storm Drain Utility, and placed it in the Solid Waste Utility. This change is acceptable to the Solid Waste Utility and would help the Storm Drainage Utility stay solvent. We still must, however, deal with the NPDES requirements. This matter, as well as the funding for the Water and Sewer Master Plan compliance, is being reviewed by a citizens committee and will come before the City Council with a recommendation in the next month or so.

The citizens committee discussed traffic improvements at great length. For growth-related improvements, there are considerable unmet needs on traffic improvement, as well as considerable subsidies from STIP and Redevelopment. The City Council directed that the Council and staff have a discussion on traffic impact fees after the issues of storm drain, water, and sewer are resolved.

Major Budget Issues

Since the budget is balanced for the next two years, it may be difficult to go through the detail and find the major issues. In order to assist the City Council, I have identified some of the major issues that may require your discussion and further consideration.

1. *State Budget Crisis*

As mentioned earlier, the budget has assumed \$ 450,000 of decreased funding from the State.

If, by the time the budget is reviewed on June 30, 2003, there are additional financial consequences to the City of Redding, we will more than likely need to make some adjustments on the recommended budget.

2. *Planning Fees*

The City Council's previously established policy has been to achieve a 20 percent cost recovery for processing planning permits. Currently only about 15 percent of the permit processing costs are being recovered through fees charged. Even though permit fees have been adjusted on a regular basis to reflect the CPI increase, fee increases have not kept pace with cost. The principal reason for fees not keeping pace with costs is additional State and Federal regulations and new litigation that has increased the review time and paperwork involved in issuing a permit. The proposed budget is based on planning fees being increased to cover 20 percent of the associated costs.

3. *Fire Inspection Fees*

The Fire Department is mandated by State law to inspect high life-hazard occupancies, such as hotels, motels and hospitals. To insure inspections are completed within a 12-month period, the Health and Safety Code allows a fee to be charged for these inspections. Staff is proposing that a new fee for these inspections be implemented, and the budget is based on this new fee being implemented. The Fire Department has been lagging behind in these inspections due to manpower issues. The new fire inspection fee will provide funds for a new fire inspection position that will be used to ensure all inspections are performed and are completed in a timely manner.

4. *Parking Meter Fees*

Staff is proposing that the parking meter fees be increased to help offset the cost in the Parking Fund. Parking meter fees have not been increased for a number of years but costs have continued to increase. Even with the proposed increase, the City parking meter fees will be very reasonable in comparison to paid parking in other communities.

5. *Turtle Bay Exploration Park Funding*

This budget includes \$400,000 in fiscal year 2003-04 only for funding of the Turtle Bay Exploration Park. Turtle Bay has indicated it needs \$550,000 for fiscal year 2004-05, which is not included in this budget. There is \$400,000 per year available in the 10-Year Plan that has not been budgeted in 2004-05. Funding after 2004 for Turtle Bay would either come from \$400,000 in the 10-Year Financial Plan (after comparing it with other unmet needs) or a reduction to the City's funding of other General Fund functions.

The City Council may want to have its discussion on the future funding of Turtle Bay after the upcoming fiscal year. Two possible approaches would be, the City Council could discuss funding each year after the economic analysis has been completed by the Administrative Services Director; or the City Council could set aside some money, assuming the Administrative Services Director provides a positive recommendation? The second alternative would give some certainty to Turtle Bay, as well as to the City.

6. *Street Maintenance*

The Street Division has identified a large unfunded liability in street maintenance needs of approximately \$30 million. There are, of course, not sufficient General Fund dollars to meet this liability. The budget, through a combination of Transit Development Act funds and City resources, includes approximately \$1.7 million over the two-year period for street maintenance, including overlays, slurry seals and sidewalk repairs. Of the \$1.7 million, \$250,000 per year has been included in the Solid Waste Department's budget to cover the cost of excessive road damage caused by Solid Waste Trucks. The \$1.7 million only scratches the surface, however, and in the budget discussions, it was felt that this was one of the weaknesses of the proposed budget. Ideas that were discussed to augment the street maintenance effort included the following:

- A. Backing out some subsidies from impact fees and using the subsidies to help offset the street maintenance needs.
- B. Add a road maintenance component to the impact fee. The assessments collected could then be used to maintain the new roads and not add to the backlog of road maintenance projects.
- C. Increase revenue sources, such as sales tax, and use funds for both increased public safety purposes and road maintenance projects.
- D. Require better roads initially, especially in new subdivisions. More durable roads would reduce future street maintenance costs and reduce City funds needed for future maintenance. The Street Division will bring a report to Council by the end of September to address this issue.

Budget Committee

Once again, City staff invited two citizens to work on developing the budget recommendations during the meetings between departments and myself. This year's citizens were Ginne Mistal and Deanne Parker, both of whom devoted numerous hours to helping with this budget. In addition to helping make difficult decisions in order to balance the budget, the Citizens Budget Committee had some excellent ideas to pass along to staff. These ideas have been incorporated into this budget document. The Committee members may make other observations and suggestions during the budget hearings with the City Council. I personally want to express my gratitude to both Ms. Mistal and Ms. Parker for their efforts on behalf of all the citizens of Redding.

Budget Summary

Considering all that is happening statewide, the City of Redding is in a relatively good position. We have a strong economy, unemployment is down, and our community looks nicer than ever before. Those working in the construction trades are busier than ever and retail sales continue to increase, as does growth in our community and in Shasta County. Our future looks promising, too. We can see more good-paying jobs coming to our area with the development of a Veterans Home and Stillwater Business Park, and strong development partnerships similar to Blue Shield and Mt. Shasta Mall. The

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community can also look forward to amenities, such as more trails, a Sports Complex, and the Clover Creek Preserve/Park.

If everything was under our control and we did not have the cloud of Sacramento hanging over our heads, this budget and future budgets would be even easier to complete. Unfortunately, the actions of the Legislature and Governor, or inactions, do affect local government, including cities, counties, and school districts. Consequently, not all deserving and needed items were funded. Fortunately, though, our process of planning for the future and prioritizing resources works very well. I believe this budget represents the best use of City resources.

Thanks to the City Council's wisdom in using long-range financial planning, the City of Redding is not in the poor financial condition that many cities in California are facing. However, the efforts of staff and the City Council must focus on ensuring that adequate resources will be available in future years in order to continue providing quality service and maintain the City's infrastructure. Planning for the future can be difficult for elected officials, as well as citizens, but we have done it before and I am confident that we will continue to make these same wise moves in the future. Among the important issues facing the City Council will be the review of development impact fees, purchase of land around the Municipal Airport, ensuring good and sound development partnerships, investing in the future through the purchase of land for open space and right-of-way, developing plans to improve our streets, and continued support for long-range financial planning.

I have not been associated with a city, nor have I heard of a city, that has done any better job in all of these areas. Consequently, barring any future negative developments in Sacramento, we are in the enviable position of adopting a budget that maintains service levels and continues enhancements throughout our City.

Sincerely,

Michael Warren – City Manager

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