

INTRODUCTION

- *Summary of Total City Revenue and Expenditures*
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INTRODUCTION

Summary of Total City Revenue and Expenditures

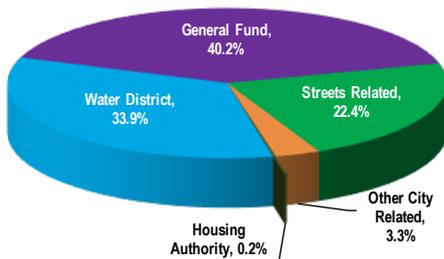
The Coronavirus (COVID-19) and the subsequent pandemic has financially impacted the City. The City started to experience the fiscal impacts during mid-March 2020. With the closure of businesses and the drastic reduction of travel, the City's revenue base eroded. Unfortunately, revenues reduced at such a great pace that the use of reserves, or savings from prior fiscal years was needed. The City has made every effort to minimize the use of reserves by reducing operating expenditures, which are detailed throughout this budget; however, as revenues eroded at such a fast pace, the City must use reserves to balance the operating budget. For Fiscal Year (FY) 2020-21, the General Fund is projected to utilize \$1,423,478 of reserves, while the Streets Maintenance Fund will utilize \$677,911 of reserves. The City will continue to identify savings and reductions throughout the year to lessen the need for reserve funding, all the while continuing to monitor the revenue for a return to pre-pandemic levels. The following is a listing of reductions caused by the financial impacts of the pandemic.

1. The City Council and the City Manager have voluntarily elected to reduce their salary by ten percent (10%).
2. Furloughs, which equate to a 10% salary reduction for non-represented employees, will be implemented during the first full period in July 2020.
3. The freezing of merit step increases, as well as merit bonuses for the non-represented employees.
4. The FY 2020-21 Budget does not include a cost of living adjustment (COLA) for the non-represented employees.
5. Reducing office and travel related expenses by 15% for each department.
6. Twelve vacant positions, of which seven are full-time and five are part-time positions, will not be budgeted. For the purpose of allocating budgeted funds, the City will show full-time equivalents (FTE) reduction; however, these positions are not recommended for elimination by resolution of the City Council.
7. Detailed review of all operating contracts and request of current vendors to either reduce prices where feasible or hold costs into FY 2020-21.

The following information summarizes and highlights the planned major changes in the 2020-21 Budget:

Resources	2019-20	2020-21	Change From 2019-20	
	Budget	Budget	Amount	Percent
Revenue	\$ 86,034,127	\$ 85,872,122	\$ (162,005)	0%
Loan Proceeds	4,500,000	1,660,866	(2,839,134)	-63%
Budgeted Reserves	9,752,653	11,114,697	1,362,044	14%
Net Transfers	0	0	0	0%
Total Resources	100,286,780	98,647,685	(1,639,095)	-2%
Expenditures	\$ 98,496,938	\$ 90,777,651	\$ (7,719,287)	-8%
Difference	\$ 1,789,842	\$ 7,870,034		

Revenue:



A comparison between FY 2019-20 Budget of \$86.0 million and FY 2020-21 Budget of \$85.9 million indicates that overall revenue is anticipated to decrease by 0% (\$0.2 million).

Overall resources are anticipated to reduce by 2%. While the following will summarize the major changes, for a detailed discussion, refer to Section C – Revenue Summaries and Section I – Fund Balance Summary.

The General Fund revenue is decreasing by 0% or \$26,944, primarily due to pandemic related reductions to sales tax and Development related revenue, mitigated by expected increases in Vehicle License Fees (VLF).

Streets Related revenue is anticipated to have a slight increase over the FY 2019-20 Budget by \$45,272. The pandemic created negative effects on the various street related revenues of the City including Measure I (sales tax based), Gas Tax, Gas Tax Swap, and Local Transportation Fund (LTF), offset by revenue increases from grant funded and other reimbursable projects.

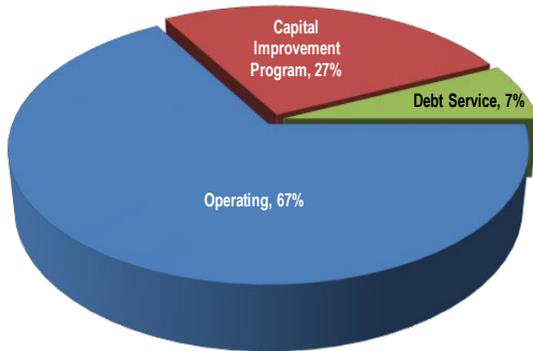
The Water District revenue is anticipated to remain nearly neutral to the FY 2019-20 Budget, but with a 6% increase over the FY 2019-20 Revised. This increase can be attributable to increases in water sales and water availability charges offset by decreases in water capital.

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Expenditures:

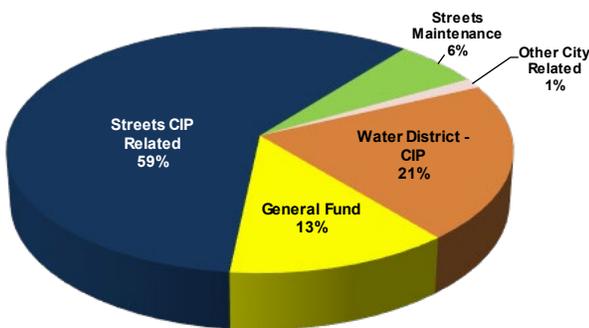
The FY 2020-21 Budget proposes expenditures of \$90.8 million, which is an 8% reduction from the FY 2019-20 Budget of \$98.5 million.

The largest reductions are with the Capital Improvement Program (CIP) projects, as projects were either completed during FY 2019-20 or placed on hold due to funding impacts of the pandemic. Similarly, the operating budget is remaining nearly neutral, as the City is attempting to mitigate the loss revenue from the pandemic. For a complete discussion of budget-to-budget changes, refer to Section D – Expenditure Summaries and Section F – Department & Program Expenditures.



Budgeted Reserves:

Much like a savings account, Budgeted Reserves are excess resources saved from prior fiscal years. It is the policy of the City to only use these savings for one-time purchases. However, due to the Coronavirus (COVID-19) pandemic, revenues eroded at a fast pace and the City must use reserves to balance the operating budget.



The FY 2020-21 Budget contains the use of reserves totaling \$11.1 million, of which, \$1.4 million will be utilized by the General Fund and \$0.7 million for the Streets Maintenance Fund related to the pandemic. The remaining \$9.0 million of reserve usage will be used to primarily fund projects.

The following table details the use of reserves:

Balanced Budget Policy

The \$11,114,697 of Budgeted Reserves is comprised of the following:

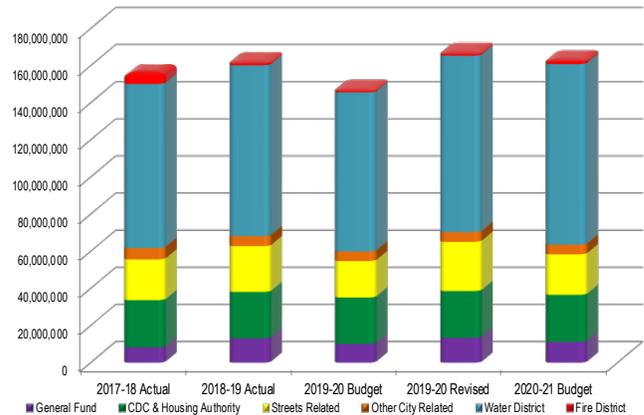
Operating Funds Use of Reserves

General Fund	\$ 1,423,478
Streets Maintenance	677,911
Subtotal Operating Funds Use of Reserve	2,101,389

Other Funds Use of Reserves

Streets Capital Improvement Projects Funds (Measure I, Gas Tax Swap, DIF-Streets, DIF-Storm Drain, Gas Tax RMRA, LTF)	\$ 6,562,881
Other City Related (AB 3229, Beverage Recycling, CDBG-NSP, & DIF Public Service)	144,967
Water District - Sewer Capital	2,305,460
Subtotal Other Funds Use of Reserve	9,013,308
Total Budgeted Reserves	\$ 11,114,697

Fund Balance:



After accounting for all proposed resources and expenditures, the FY 2020-21 Fund Balance will be approximately \$162.7 million, which is an increase of 11% or \$16.1 million from the FY 2019-20 Budget of \$146.6 million.

Fund Balance	2019-20 Budget	2020-21 Budget	Amount Difference	Percent Change
General Fund	\$ 10,101,930	\$ 11,195,078	\$ 1,093,148	11%
CDC & Housing Authority	25,008,228	25,345,451	337,223	1%
Streets Related	19,612,766	21,824,154	2,211,388	11%
Other City Related	5,168,779	5,219,783	51,004	1%
Water District	85,749,210	97,271,574	11,522,364	13%
Fire District	950,444	1,831,425	880,981	93%
Ending Fund Balance	\$ 146,591,357	\$ 162,687,465	\$ 16,096,108	11%

Balanced Budget:

A balanced budget uses operational revenue to fund operational expenditures, which means that one-time revenue is reserved for one-time costs, such as purchasing a large piece of equipment. Due to the COVID-19 pandemic, the City must use reserves to balance the operating budget.

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Balanced Budget (Continued):

For FY 2020-21, the General Fund will utilize \$1.4 million of reserves (\$0.4 million for one-time equipment expenditures and \$1.0 million to balance the operating budget), while the Streets Maintenance Fund will use \$0.7 million of reserves to balance the operating budget. Management will continue to identify savings and reductions throughout the year to lessen the need for reserve funding, all the while continuing to monitor the revenue for a return to pre-pandemic levels.

Cash Reserve Policy:

The cash reserve policies for the General Fund requires that a minimum of two (2) months of the annual expenditures be held in cash. The FY 2020-21 General Fund Budget includes 2.2 months of cash reserve, which equates to approximately \$6.5 million. Cash reserves is a calculation of the ratio of cash and cash equivalents to the total individual fund annual expenditures. The specific purpose of the reserves is to provide funding to meet operational appropriation requirements in the event that the City experiences shortfalls in the level of anticipated revenues or unanticipated expenses.

Capital Improvement Program (CIP) Summary:

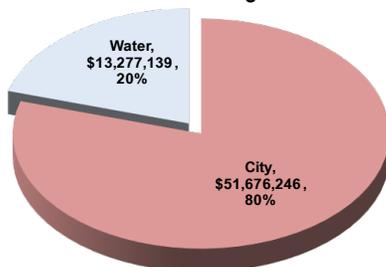
The total allocation for all Capital Projects in all funds in FY 2020-21 is \$24,064,686. These projects include streets, storm drainage, facilities, water, and sewer projects. For an in depth review of all CIP projects, refer to Section G – CIP.

Capital Improvement Program (CIP) Projects

Streets Projects	
2020-21 Street Improvements	\$ 1,588,170
Traffic Signal Projects	1,205,000
Ranchero Road Related Projects	8,538,139
Carryover Streets Related Projects	5,895,401
Total Streets Related Projects	17,226,710
Storm Drainage Projects	1,392,760
Facilities Projects	790,216
Water Projects	2,235,000
Sewer Projects	2,420,000
Total CIP Projects	\$ 24,064,686

Debt Service:

The Debt Service obligation for the City of Hesperia and the Hesperia Water District total \$6,292,837 for FY 2020-21. This represents a decrease of \$72,997 from the FY 2019-20 Debt Service budget of \$6,219,840. It should be noted that the City's debt service obligation is 80%, while the Water District is 20% of the total obligation.



The following is a synopsis of the FY 2020-21 obligation costs:

City Total \$4,767,012

- 2012 Water Rights Lease Revenue Bonds - \$1,441,175
- 2013 Civic Plaza Refunding - \$852,250
- 2014 DIF Loan from General Fund - \$72,000
- Ranchero Rd Interchange Loan from SBCTA - \$2,401,587

Water Total \$1,525,825

- 1998 A Variable Rate Lease Revenue - \$1,225,825
- 2016 State Revolving Fund (SRF) Loan - \$300,000

Positions, Salaries, and Benefits:

In total, the FY 2020-21 Budgeted salaries and benefits are expected to decrease by 3%, or \$0.5 million from the FY 2019-20 Budget. This decrease can be attributed to the freezing of merit step increases, furloughs, and no cost of living adjustment (COLA) for non-represented employees, as well as vacant positions; etc.

The FY 2020-21 Budget proposes 175.90 full-time equivalent (FTE) City employees, which is a decrease of 7.76 FTE from the FY 2019-20 positions of 183.66 FTE. Refer to Section E – City Position Summaries for a complete discussion of position changes, as well as the status of the individual CalPERS plans.

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INTRODUCTION



CITY OF HESPERIA MISSION STATEMENT

Hesperia is dedicated to enhancing our safe, friendly community, while blending a rural lifestyle with progress and responsible growth.

CITY COUNCIL PRIORITIES (GOALS)

To adhere to the City's Mission Statement, the City Council has adopted the following six goals.

1. Public Safety – Ensure adequate public safety resources are available for our citizens, families, children, businesses, and visitors.
 - Refer to the Police Department (page F - 93) budget, as well as the Code Enforcement Program (page F - 42) and the Animal Control Program (page F - 45) budget for discussion of the Public Safety goal.
2. Financial Health – Hesperia will assure its financial health by continuing to provide structurally balanced budgets for its operating funds.
 - The City Manager Department (page F - 6) and Management Services Department, particularly the Finance Division, (page F - 15) budget discusses the Financial Health goal.
3. Future Development – Actively manage growth to ensure cohesive development including Industrial, Commercial, Residential, Freeway, Main Street and Rancho Corridors.
 - The Economic Development Department (page F - 24) focuses on business attraction component of this goal, while the Development Service Department, particularly the Community Development Division (page F - 37 & F - 39), focus on the development component of the goal.
4. Future Vision – Agree on a 'vision' of what Hesperia should be in 5, 15, and 25 years (revisit the 'vision' no sooner than once every 5 years).
 - This goal discussion can be found in the City Council narrative found on page F - 1.

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CITY COUNCIL PRIORITIES (GOALS) - Continued

5. Organizational Health – Establish and maintain a healthy and efficient organization to provide City services.
 - The City Manager Department (page F - 6) and Human Resources/Risk Management Division within the Management Services Department (page F - 18), ensure that this goal is ascertained.
6. Capital Improvement – Create Capital Improvement Funding after Redevelopment’s elimination.
 - The Development Services Department beginning on page F - 36, as a whole, oversee capital improvement. Furthermore, refer to the Capital Improvement Program (CIP) section, which starts on page G - 3 for a complete discussion of the planned projects.

INTRODUCTION

City of Hesperia History Fiscal Year 2020-21



The history of Hesperia is the history of the American West, as reflected by its name, which is reported to be Greek for “Star of the West”. It is probable that the Native Americans were the first to settle in the area, with the first white man to pass through thought to be a Spaniard called Father Francisco Garces.

During the period of 1826-27, a guide by the name of Jedediah Smith pioneered the Mormon Trail, a route that extended across the desert from what today is Needles, a city at the California and Arizona border. As the trail wound westward toward its terminus at Mission San Gabriel, the Mormon Trail passed through Hesperia and was the route that General John Fremont and Kit Carson took in 1842, when they lead an Army party exploring the west. Fremont's journal specifically tells of the camp at the headwaters of the Mojave River, of the hundreds of Joshua trees everywhere, and of the “disappearing waters” where the river flows underground.

By 1845, the Mormon Trail was a well-established east-west crossing, with records reflecting that as many as 300 to 500 people per year traveled the trail; numbers that only increased as California became a part of the United States.

In 1847, the Atchison, Topeka and Santa Fe Railroad ran the first tracks through the area, and upon completion of the depot in 1885, the area was officially named "Hesperia". Also in 1885, a gentleman named Joseph Widney acquired the township of Hesperia, and shortly thereafter, he formed the Hesperia Land and Water Company for the purpose of creating a town.

Having laid out the Town, Hesperia Land and Water Company moved quickly to establish water rights with the County of San Bernardino, and this initial water appropriation was, ironically, in an amount sufficient to service a population of 56,500 people; only slightly less than the present day population of Hesperia.

During the time between 1870 and 1882, the agricultural crops of early ranchers (Mrs. C.B. Shaw, Mrs. Fleming and Mr. Sefton) received growing interest. The Shaw ranch employed 60 men and harvested 180 acres of grapes, which were tray-dried and shipped as raisins. It was Sefton, however, that brought the most fame to Hesperia with the wine created from his grapes being shipped throughout California and to the east coast.

Aside from grape production, Hesperia's first real industry was established around 1890, when an enterprising businessman saw commercial possibilities in the large Juniper bushes that dotted the Hesperia landscape. Contracting with Los Angeles bakers, he began supplying them with wood as fuel for their bakery kilns, shipping 7 to 10 carloads of Juniper cuttings to Los Angeles daily. Unfortunately, the juniper industry in Hesperia was short-lived, as oil became the principal fuel for baker's kilns in the early 1900's.

During the early 1900's, cross-country automobile travel brought visitors directly through Hesperia, the last major stopping point for automotive needs prior to crossing the dreaded Cajon Pass, with its narrow hairpin turns and steep roads. Unfortunately for local business, Highway ("Route 66") was realigned to the west of Hesperia in 1924.

As it is today, Hesperia became known in the 1950's for its affordable land (lots usually sold in increments of \$50 each), which attracted many investors, and the average dreamer wanting to invest in land. It wasn't until 1988, when voters approved incorporation and the City of Hesperia was born. The first City Council consisted of founding fathers Percy Bakker, George Beardsley, Bruce Kitchen, Howard Roth, and Val Shearer.

Having celebrated twenty years as a City, Hesperia has faced many challenges such as flooding, deteriorating streets, and a small tax base. But throughout the “growing pains” of early cityhood, the residents have continued to show a strong civic pride and community involvement that makes it unique in the High Desert. It is, in fact, during times of adversity that they demonstrate the spirit that carried their forefathers across the Mojave Desert to the place they call home.

Historical references supplied by Myra McGinnis.

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