



August 29, 2022

To the Honorable Mayor, City Council, and Citizens of the City of Hesperia:

It is a pleasure to present the City of Hesperia's Fiscal Year (FY) 2022-23 Adopted Budget for the City of Hesperia, Hesperia Community Development Commission, Hesperia Housing Authority, Hesperia Fire Protection District, and Hesperia Water District. This budget was developed with the guidance provided by the City Council to provide the highest level of service to the residents and business community within the City's fiscal constraints.

Importantly, the FY 2022-23 General Fund of the City is structurally balanced, with operational revenue funding operational expenditures and the difference between total resources (revenue, budgeted reserves, and transfers), and total expenditures resulting in a surplus. The City Council's prudent fiscal management has provided for the efficient use of City funds, with an emphasis on the delivery of services to the community, while also maintaining the City's fiscal health.

Local Economy

The FY 2022-23 total revenue is up 9% or \$12.5 million over the FY 2021-22 Budget. The two primary contributing factors for the overall increases are the General Fund Sales Taxes and the American Rescue Plan Act (ARPA) distribution. While discussed later in this letter, the FY 2022-23 Budget includes the second distribution totaling approximately \$11 million of a total \$22 million allocation.



Sales Tax revenue serves as a barometer of the local economy. As displayed in the chart, Hesperia has seen a growth of sales taxes despite the lingering impacts of the global pandemic. As the largest General Fund revenue source, sales tax revenue is anticipated to experience an increase of 64% over the past ten years from FY 2013-14 of \$8.5 million to the FY 2022-23 Budget of \$13.9 million. The increases realized during this time are attributed to fuel sales, which is the largest sales tax producing sector of the City, as well as strong demand of the City's consumer retail stores. Additionally, in recent years, the Sales Tax revenue received from the State and County pool has increased.

Brigit Bennington, Mayor
William J. Holland, Mayor Pro Tem
Larry Bird, Council Member
Cameron Gregg, Council Member
Rebekah Swanson, Council Member

Nils Bentsen, City Manager

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Further, when reviewing the historical trend of sales tax, one can see stark growth occurring after FY 2019-20. While many cities experienced dire negative impacts from the global pandemic, Hesperia's sales tax revenue continued to grow. The reason for this growth is directly related to the growth of sales taxes from the State and County Pool. More plainly, the increase of sales taxes is from online sales. During the pandemic many people altered their shopping habits from visiting traditional stores to ordering online. Prior to the pandemic, the State and County Pool accounted for approximately less than 10% of all sales tax. Since 2020, the percentage has grown to 15% of all sales taxes. As restrictions have relaxed with nearly all establishments open, there has been virtually no change to the pool's percentage over the past year.

City Council Priorities

The City's financial picture going into FY 2022-23 continues to build upon that of FY 2021-22, with both adhering to the City Council's priorities and financial policies of conservatism. All operating expenditures are funded with operating revenue. Additionally, this budget looks to maintain a General Fund cash balance of at least two months of operating expenditures; which should all projections hold, FY 2021-22 will end at 3.8 months of cash and FY 2022-23 will grow to 3.9 months. In addition to the City Council's fiscal policies, the FY 2022-23 Budget addresses each of the six priorities.

On February 11, 2014, the City Council hosted an agendaized Goal Setting Workshop where a consultant facilitated the integration of multiple goals into a list of the top six City Council Priorities. The goals, which were formally adopted by the Council on February 18, 2014, are as follows:

1. Public Safety – Ensure adequate public safety resources are available for our citizens, families, children, businesses, and visitors.
2. Financial Health – Hesperia will assure its financial health by continuing to provide structurally balanced budgets for its operating funds.
3. Future Development – Actively manage growth to ensure cohesive development including Industrial, Commercial, Residential, Freeway, Main Street and Rancho Corridors.
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).
5. Organizational Health – Establish and maintain a healthy and efficient organization to provide City services.
6. Capital Improvement – Create Capital Improvement Funding after Redevelopment's elimination.

Each year the City Council works with staff to establish planning goals within the framework of these six City Council Priorities which then, based upon funding availability, are incorporated into the annual budget process. In addition to the Financial Health priority, which has been demonstrated, the following highlights specific projects or expenditures that emphasize the other City Council Priorities in the FY 2022-23 Budget:

- Public Safety – Adhering to the first goal of the City Council, the FY 2022-23 Budget adds four new contracted law enforcement personnel: one Detective and three Deputies.



- Financial Health – With the City Council’s guidance, the FY 2021-22 Budget sought to not only enhance the cash reserves within the operating funds (General Fund, Water Operating, and Sewer Operating), but the debt service funds as well. Many of these debt related funds hold a minimum of two years’ worth of payments that can be used as ‘rainy day’ fund or allow for early retirement.

Building upon these strategies, the City Council allocated \$4.0 million of the General Fund to create a Section 115 Trust to mitigate the CalPERS (pension) unfunded liability.

- Capital Improvement – The FY 2022-23 Budget includes a Capital Improvement Program (CIP) with expenditures projected to be approximately \$54.1 million. While the CIP Budget includes projects such as signals and pipeline, there are two projects that have the potential to change the landscape of Hesperia: the Rancho Road Corridor and the Hesperia Wastewater Treatment Plant (HWTP).

The Rancho Road project will serve as a major east to west thoroughfare and looks to increase from two lanes to five lanes for five miles between Mariposa Road and Seventh Avenue. As part of the project, a bridge will be constructed over the California Aqueduct and this project encompasses both the City and unincorporated area in the County of San Bernardino.

In an effort to control water resources well into the future, the FY 2022-23 Budget includes funding for the HWTP. This will be a multi-year design-build project starting with request for qualifications which was released during June 2022. While there will be an array of funding mechanisms, the City does plan to use its American Rescue Plan Act (ARPA) allocation of \$22 million, of which, \$11 million was received after the completion of the FY 2021-22 Budget. The second installment of \$11 million is anticipated to be received during the First Quarter of FY 2022-23.

More information about the specific priorities for each division, as well as significant changes and expenditure information can be found in Section F – Department & Program Expenditures Section of this budget document and for the capital projects, refer to Section G – CIP.

Issues on the Horizon

While revenue increases provide optimism that improvement continues, the City’s optimism is tempered with reasonable caution and fiscal conservatism. As such, proactive measures have been taken to successfully maintain the City’s fiscal health, however, challenges still remain, such as:

Employee Retirement Costs – The City is a member of the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan for its personnel.

In anticipation of increased rates, based upon actions by the CalPERS Board to change its amortization and smoothing policies, the City Council gradually, but purposefully moved away from the City bearing the cost of the full 8% employee contribution, to placing that cost reasonably with employees. Initiated well before the California Public Employees’ Pension Reform Act of 2013, this funding shift began in FY 2007-08 and by FY 2012-13, employees were paying the full 8% employee contribution.



While this step was important, the City negotiated with employees to go even farther. To further advance the City Council's Financial Health Priority, in addition to paying the full CalPERS member contribution, employees also began paying 1% of reportable earnings as cost sharing of the City's normal costs starting in July 2015.

Despite these steps to help mitigate the City's pension costs, CalPERS has announced additional policy changes designed to improve the plans' funded status, which will increase the City's pension costs. These policy changes include reducing the amortization period from 30 to 20 years for future unfunded liabilities and reducing the discount rate from 7.25% for FY 2018-19 to 7.00% for FY 2019-20 and again, from 7.00% to 6.80% announced in November 2021, with an expected implementation of FY 2023-24. CalPERS is continually attempting to find solutions to reduce its \$163 billion unfunded liability; of which the Hesperia unfunded liability, including the Hesperia Water District and the former Hesperia Fire Protection District, is approximately \$35.6 million.

Other Post-employment Benefits (OPEB) – Governmental Accounting Standards Board (GASB) Statement No. 45 and its successor No. 75 require public-sector employers to recognize the cost of post-employment benefits, such as post-employment healthcare, over the active service life of their employees rather than on a pay-as-you-go basis and identify the methods and assumptions that are required to be used to project benefit payments.

As mentioned, the City Council has set aside \$4.0 million to create a section 115 trust fund to mitigate these growing unfunded liabilities. This prudent action is intended to generate investment income, thereby reducing future long term cash flow requirements.

Significant Events of FY 2021-22

- In June 2022, the Hesperia City Council was presented with, approved, and adopted the FY 2022-23 Proposed Budget.
- The City was awarded substantial funding from State and Federal grant programs to enhance infrastructure, environmental conservation, and quality of life programs:
 - The City received a combined allocation of \$192,675 through the Prop 68 Per Capita Program to fund the Golf Course Trails Project.
 - The City received \$38,802 from the Tire Amnesty 6 Grant through CalRecycle to resume Tire Amnesty Day events, in which residents can dispose of old and unwanted tires for free. The Tire Cleanup Grant through CalRecycle is currently pending.
 - The City received \$136,396 from the SB 1383 Local Assistance Grant Program through CalRecycle. This grant program assists local jurisdictions with implementing regulations required through Senate Bill 1383, which aims to reduce organic waste disposal and emissions of short-lived climate pollutants.
- Previously awarded grants that will be used in the upcoming year:
 - The City was awarded a \$75,000 WaterSMART grant through the Bureau of Reclamation to remove steel water lines from service by connecting residential water services to new and currently installed pvc pipelines. The project sites are located along Eighth, Ninth, and Tenth Avenues from Mesa Street to Mauna Loa Street; Ash, Mission, and El Centro Streets from Eleventh Avenue to Seventh Avenue. As a part of the City's 2008 Water Master Plan, this project will reduce water loss and enhance water quality.



City of Hesperia

- The City was awarded \$250,000 as part of CalRecycle's Rubberized Pavement Grant Program to assist with repaving via rubberized asphalt. This rubberized asphalt mix will be used to provide a 2" overlay on the Rancho Road Widening Project.
- The City was awarded a \$30,191 grant from the Department of Justice Tobacco Program to monitor tobacco sale compliance by retail licensed businesses. The Hesperia Police Department will continue to conduct sting operations to investigate and reduce illegal tobacco sales to minors within Hesperia. Public education will also be funded through the grant program.
- The City received a Federal Highway Safety Improvement Program grant for a traffic signal at the intersection of Main Street and Timberlane Avenue. The project will install a traffic signal, widen the roadway to accommodate left turn pockets, and install sidewalks, crosswalks, and lighting. The intersection was identified as a safety priority, with the cost of the project at \$1.4 million, supplemented with \$0.9 million in grant funding.
- The City was awarded \$3.9 million as part of the California Transportation Commission's SB1 Local Partnership Program for the Rancho Road Widening Project, which will widen five miles of Rancho Road from two to five lanes and include features such as construction of a new bridge over the aqueduct, installation of signals and construction of a rail crossing. Construction began along the Rancho Corridor in February 2022 and is projected to be completed in fall of 2023.
- Environmental and water conservation are leading priorities in Hesperia. The City hosts various programs during the year through grant funding and local partnerships. Over the 2021-2022 Fiscal Year, these programs yielded:
 - Neighborhood Beautification: 30.79 tons. This City-funded event allows residents free disposal of bulky items such as mattresses, furniture, and appliances.
 - E-Waste Disposal: 66.51 tons. This City-funded event allows residents free disposal of electronics.
 - Cleanup Day: 12.18 tons. This City-funded event organizes clean ups with community participation at designated locations throughout the City.
 - Tire Amnesty Day: 954 tires. Funded by CalRecycle. Tire Amnesty Day events were postponed after August 2021 but have resumed as of August 2022.
 - HEART Program: 465 tons. The Hesperia Environmental Assistance Response Team (HEART) was formed through a partnership between the City and Advance Disposal, involving a comprehensive sweep of the City to collect trash and debris from neighborhoods throughout Hesperia.
- In compliance with statewide water conservation mandates, the City enacted Stage 2 of the Water Conservation Emergency Plan. Hesperia Water District customers are prohibited from wastefully using water and are required to comply with mandatory water restrictions.
- Hesperia welcomed several new businesses during the past year:
 - Los Pollos Bros on Main Street
 - Castaneda's Mexican Food on Bear Valley Road
 - Big Lots on Main Street
 - Ace Hardware on Main Street
 - Charleys Cheesesteaks on Bear Valley Road



City of Hesperia

- Raising Cane's on Main Street
 - Crumbl Cookies on Main Street
 - Ulta Beauty on Main Street
 - Dollar General on I Avenue
 - Planet Fitness on Bear Valley Road
 - Modway Furniture in Hesperia Commerce Center I
- The City Clerk's Office completed the Hesperia Redistricting Process using 2020 US Census Data and public input over 6 Public Hearings. The new City District Boundaries were adopted on April 5, 2022.

Conclusion

Hesperia remains committed to providing its residents and businesses with a safe, well-managed community. Due to the continued strong, responsible leadership and prudent fiscal policy direction of the City Council, the City of Hesperia is well positioned to leverage federal and state grant funding, with City match requirements, to construct critical City infrastructure improvements for the benefit of the community. I would like to express my sincere appreciation to the City Council, City staff members, and community partners who have contributed to both the budget process and the important work of community-building.

Respectfully submitted,

Nils Bentsen
City Manager