



August 31, 2021

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) 2021-22 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.

Impacts of the Pandemic

Looking back at the FY 2020-21 Budget, there was a large degree of uncertainty during the preparation of the document, as the City, along with the world was just beginning to experience the onset of the pandemic. To attempt to slow the spread of the COVID-19 virus, the State of California initiated pandemic-related shutdowns or restrictions to businesses during March 2020. Much of these restrictions remained in place for the City of Hesperia until May 2021. With the adoption of the FY 2020-21 Budget, the City anticipated revenues, particularly those related to sales and gas taxes, to decrease, along with a flattening of development related revenue.

As FY 2020-21 progressed, the City was surprised to see that revenues did not decrease by the levels originally anticipated. Sales tax, which is one of the largest sources of total General Fund resources, was originally budgeted at \$9.0 million. Due to changes in consumer habits, the FY 2020-21 Revised is \$11.1 million. Prior to the pandemic, fuel sales were the predominant component of the City's sales tax. While fuel sales continue to be the single largest component of sales tax, comprising approximately 23% of the total taxable sales, the County Pool (15% of the total) and sales of consumer goods (18% of the total) have grown. In particular, online sales are placed into a County Pool and redistributed to the City based on a pro-rata share. With the pandemic restrictions, online sales substantially increased, resulting in an overall increase in sales tax revenue for the City.

Much like the increases to sales tax, General Fund development-related revenue outpaced projections. The FY 2020-21 Budget anticipated General Fund development-related revenue of \$1.9 million. The primary barometer for development is the issuance of single family residential (SFR) permits, which the FY 2020-21 Budget anticipated 165 permits. As shown in the FY 2021-22 Budget, the General Fund ended FY 2020-21 by issuing 295 SFR permits with an approximate revenue of \$3.7 million. In addition to the shortage of housing in California, Hesperia is experiencing an increase in SFR development, which is anticipated to continue into FY 2021-22.



City Council Priorities

While the City's financial picture is much more optimistic than this time in FY 2020-21, this budget adheres 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 two months of operating expenditures. In addition to the City Council's fiscal policies, the FY 2021-22 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 2021-22 Budget:

- Public Safety – By resolution, the City Council has adopted the Financial Policies, which include a provision that 53% of the General Fund Expenditures shall be utilized for law enforcement. By adhering to this policy, the FY 2021-22 Budget adds two new contracted law enforcement personnel: one Sergeant and one Deputy.
- Capital Improvement – The FY 2021-22 Budget includes a robust capital improvement program (CIP) with expenditures projected to be approximately \$59.8 million. While the CIP Budget includes projects such as signals and pipeline, the marquee project is the Rancho Road Corridor. This project will expand Rancho Road from two lanes to five lanes for five miles between Mariposa Road and Seventh Avenue. Additionally, 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.

The City will serve as lead agency and work with the County of San Bernardino and the San Bernardino County Transportation Authority (SBCTA). It is anticipated that construction will start prior to the end of calendar year 2021 and span into FY 2022-23.



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

Issues on the Horizon

The noted revenue increases provide optimism that improvement continues, but the City's optimism is tempered with reasonable caution and fiscal conservatism. While proactive measures have been taken to successfully maintain the City's fiscal health, 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. CalPERS is attempting to find solutions to reduce its \$150.8 billion unfunded liability, of which the Hesperia unfunded liability, including the Hesperia Water District and the former Hesperia Fire Protection District, is approximately \$33.1 million. As CalPERS continues to implement these changes, the annual funding requirements of the member agencies will increase over the next several years. Based upon 2021 CalPERS estimates, just the Unfunded Accrued Liability (UAL) portion of the City's annual payment to CalPERS for the City, former Fire District, and Water District's plans could reach as high as \$3.5 million by FY 2024-25, a 13% increase over the FY 2021-22 required contribution of \$3.1 million. After FY 2024-25, the UAL is anticipated to drop to \$3.2 million reflecting the complete phasing-in of the reduced amortization period.

In making the annual required contribution, CalPERS offers each agency the option of making monthly installment payments for the full required contribution amount, or an opportunity to make one lump sum payment at the beginning of each fiscal year for a discounted amount, enabling CalPERS to invest the full amount for nearly the entire fiscal year. By making the lump sum payment at the beginning of the fiscal year, for FY 2021-22 the City achieved a savings of approximately \$103,000, which will be reapplied as a prepayment to the UAL to create further savings in the future.



Other Postemployment Benefits (OPEB) – Governmental Accounting Standards Board (GASB) Statement No. 45 and its successor No. 75 require public-sector employers to recognize the cost of postemployment benefits, such as postemployment 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. The resulting unfunded liability is reported in the Comprehensive Annual Financial Report. In order to help address this growing liability, a section 115 trust fund is being evaluated to put in place steady and consistent funding that will generate investment income, thereby reducing future long term cash flow requirements.

Significant Events of FY 2020-21

- In June 2021, the Hesperia City Council was presented with, approved, and adopted the FY 2021-22 Proposed Budget. The FY 2021-22 adopted budget provides an additional \$59.7 million of funding for annual capital improvement program (CIP), of which \$45.3 million is dedicated to the Rancho Road expansion project.
- During Fiscal Year 2020-21, the City received a combined \$2.4 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act and County of San Bernardino Coronavirus Relief funds (\$1.2 million from the Federal Government and \$1.2 million shared by the County) due to the nationwide COVID-19 pandemic. These funds were used for the remediation of the impact of COVID-19, City infrastructure, as well as Streets and Water mitigation purposes.
- The City was awarded substantial funding from State and Federal grant programs to enhance infrastructure, environmental conservation, and quality of life programs:
 - 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.
 - 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 Congestion Mitigation Air Quality (CMAQ) grant was awarded to the City in the amount of \$782,000 to construct a Park and Ride facility. Park and Ride lots offer a convenient and safe location for commuters to meet and carpool, thereby reducing traffic congestion and improving air quality. The new lot will expand parking at an existing Park and Ride facility located at Joshua Street and Highway 395. Construction is scheduled to begin in September 2021.
 - To reduce illegal tire dumping in Hesperia, CalRecycle awarded the City with \$38,080 through the Tire Amnesty grant and \$23,210 through the Tire Clean-Up grant. In compliance with the Tire Amnesty grant, residents are offered free disposal of used tires. Eight public events were held between September 19, 2019 and August 30, 2021.



Through the Tire Clean-Up grant, Public Works and Code Enforcement staff collect tires within the City to be transferred to a contracted tire hauler for proper disposal.

- Previously awarded grants that will be used in the upcoming year:
 - 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 \$1.2 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 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. It is anticipated that construction will start prior to the end of calendar year 2021 and span into FY 2022-23.
- The Hesperia Environmental Assistance Response Team (HEART) was launched in September 2021 by the City and Advance Disposal to enhance community cleanup and neighborhood beautification. The program is comprised of two full-time Advance Disposal crew members who will conduct a comprehensive sweep of the City to collect items that have been discarded, removing trash and debris from neighborhoods across Hesperia.
- Environmental conservation is a significant priority in Hesperia. The City hosts various programs during the year through grant funding and a partnership with San Bernardino County Fire Department. Over the 2020-2021 Fiscal Year, these programs yielded:
 - Neighborhood Beautification: 13.52 tons. This City-funded event allows residents free disposal of bulky items such as mattresses, furniture, and appliances.
 - E-Waste Disposal: 84.59 tons. This City-funded event allows residents free disposal of electronics.
 - Cleanup Day: 5.44 tons. This City-funded event organizes clean ups with community participation at designated locations throughout the City.
 - Tire Amnesty Day: 3,030 tires. Funded by CalRecycle, the City hosted eight events between September 2019 and September 2021.
- The Hesperia Water District launched a Text-To-Pay billing service in August 2021, as a convenient method for residents to pay their water and sewer bills.
- The City Council approved Ordinance 2021-03 regarding the Residential Truck Parking Permit Program, which places a moratorium on the issuance of Residential Commercial Truck Parking Permits beginning November 3rd, 2021. Hesperia residents who wish to park commercial trucks on their property are required to obtain a permit before the moratorium date. Annual permit fees are waived for up to two tractors and trailers and cost \$100 per additional tractor and \$400 per empty or loaded trailer.
- The City implemented the Rental Housing Business License and Inspection Program to ensure basic habitability at rental properties, hold property owners accountable for their properties, and remove blight and unsafe conditions from neighborhoods. City staff will conduct property inspections during the assigned renewal month. Current rental property owners were required to apply by June 22, 2021, and new property owners must apply for a business license within ninety days of property purchase.



- The Hesperia Animal Shelter installed a medical facility through a donation from the Raymond Pryke Foundation. This donation provided examination tables, surgical instruments and lights, an anesthetic machine with an oxygen concentrator, a heart and oxygen rate monitor, and a dental scaler and polishing unit. Once operating, the medical facility will significantly reduce veterinary expenses and improve health of admitted animals to increase adoption rates.
- In September 2020, the Hesperia Water District approved the early retirement of the 1998A Variable Rate Lease Revenue Refunding Bonds, with an identified savings of approximately \$0.4 million. The 1998A Bonds were defeased and redeemed using the existing Water District funds, nearly six years earlier than the stated maturity.
- Despite an economic downturn over the past year, Hesperia welcomed the following new businesses and housing facilities:
 - Olive Tree Apartments on Third Avenue
 - Kaiser Permanente Medical Offices on Escondido Avenue
 - Aldi Shopping Center on Bear Valley Road
 - Wendy's Restaurant on Bear Valley Road
 - Southland Pipe Corporation on Mojave Street
 - Quick Quack Car Wash on Bear Valley Road
 - AutoZone Auto Parts on Bear Valley Road
- The Hesperia Commerce Center I is under construction near Highway 395. The 3.5 million square foot property, will contain three warehouse buildings and is expected to operate within the next several years.
- Roughly 500 tract homes are under construction from D.R. Horton and Frontier Homes. Tract 17291 is located North of Mojave Street and West of Maple Avenue and Tract 17980 is located at Topaz Avenue and Rancho Road.
- Additional businesses expected to open during the next year include Raising Cane's Restaurant and Planet Fitness gym.

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