

**CITY OF HESPERIA
CITY PROFILE SUMMARY SHEET**

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Date of Municipality Formation: July 1, 1988

Redevelopment Agency: Yes

City of Hesperia Redevelopment Agency, Area 1, 35.39 square miles,
Adopted, July 15, 1993, Ordinance No. 178
City of Hesperia Redevelopment Agency, Area 2, 4.56 square miles
Adopted, December 29, 1993, Ordinance No. 189
Both Redevelopment Areas were revised on July 15, 1999.

Governing Body:

Five member City Council elected at-large

Membership:

Rita Vogler, Mayor
Mike Leonard Mayor Pro-Tem,
Tad Honeycutt, Council Member
Ed Pack, Council Member
Thurston "Smitty" Smith, Council Member

Public Meetings: The City Council meets on the first and third Wednesdays of the month, beginning at 6:30 p.m., City Council Chambers, 9700 Seventh Avenue.

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LAFCO

Sphere of Influence Established:

<u>LAFCO #</u>	<u>Resolution #/Date</u>	<u>Location</u>
LAFCO 2479	Res. 2155	Golden Triangle/Oak Hills East
LAFCO 2763	Res. 2445	Oak Hills West
LAFCO 2554	Res. 2223	Summit Valley
LAFCO 2479A	Res. 2261	Summit Valley (South of RLF)
LAFCO 2677	Res. 2338	Golden Triangle Reduction

Totally Surrounded Islands within Boundary:

No areas are totally surrounded. There are two areas that meet the current provisions of 56375.3 and will require further action. Both are within the Oak Hills Sphere of Influence.

Budgetary Information: See the attached 2007-08 Fiscal Year Budget.

SERVICES PROVIDED:

Area served: 74.77 square miles, 47,852 acres

Population: 62,852, (2000 Census)
85,876 (2007 State Department of Finance estimate)

Services provided directly to its public:

Land Use Planning, Code Enforcement, Animal Control, Building & Safety, Road Maintenance, Police Protection (through the County Sheriff's Department) general government administration (City Council, finance, etc.)

Services provided to the City through a contractual relationship:

<u>Service</u>	<u>Provided by Whom</u>	<u>Contract Date</u>	<u>Sunset date</u>
Police	San Bernardino County	1998	Revised annually
Trash Disposal	Advance Disposal	April 20, 2000	
Sewer Service (Disposal)	VWRA	1978 (County), 1997 (City)	
Fire Protection	San Bernardino Co.	2004	

Services provided outside agency boundaries:

<u>Service</u>	<u>Provided to Whom</u>	<u>Contract Date</u>	<u>Sunset date</u>
Fire Protection		2004	
	Adjacent Cities as well as the sphere of influence through mutual aid agreements.		

Special Charges for services outside boundaries: None Identified

Subsidiary Districts: Yes

Hesperia Water District
Hesperia Fire Protection District

**MANDATORY FIVE YEAR
SPHERE OF INFLUENCE REVIEW**

(Government Code Section 56425)

1. **Agency:** City of Hesperia
2. **Serving Entities:** Hesperia Fire Protection District (subsidiary to City), Hesperia Water District (subsidiary to City), Hesperia Recreation and Park District, County Service Area (CSA) 70, Zone J, (water, roads), CSA 60 (Apple Valley Airport), CSA 38 (fire protection), Victor Valley Wastewater Reclamation Authority (sewage processing and disposal), Advance Disposal, (private trash pick-up and recycling), Hesperia Unified School District (K-12) Snowline School District (K-12)
3. **Alterations to Sphere:** The City, or its subsidiary Fire and Water Districts, do not anticipate any expansions to the Sphere of Influence during the next five-year review period. The Hesperia Water District is requesting out-of-agency service agreements with CSA 70, Zone J, to provide water and sewer service to two new schools located within the Oak Hills Sphere of Influence. The Water District is also seeking out of agency agreements to serve planned and existing subdivisions located west of Maple Avenue, within CSA 70, Zone J.
4. **Negotiations Regarding Sphere:** As part of the adoption of the Oak Hills Community Plan, the City entered into agreements with the County to develop and implement a separation plan for the Zone J water system. The intent is to maintain the functionality of Zone J, while augmenting the capacity of the City's system to accommodate additional commercial, industrial and residential uses, in accordance with the City's plan. The City has three years to design and implement these revisions. These agreements were completed as part of the proceedings for LAFCO 2952 and 2953. In addition, the City has begun an update of the land use plan for the Main Street and Freeway

Corridors. The intent of this plan is to develop criteria for new growth and to fully realize the potential of these areas.

5. **General Plan Adoption & Updates:**

General Plan	1991
Land Use	2002
Conservation	1994
Open Space	1991
Noise	1991
Circulation	2001
Housing	2002

The City is currently working on three planning efforts. First is the City's Civic Plaza, including the City Hall, Hesperia Branch Library and downtown park area. This area will also feature mixed commercial and residential uses integrated into a walkable environment. Second is the Main Street and Freeway Corridor Specific Plan. This plan covers Main Street from the Freeway to "I" Avenue as well as the Freeway Corridor between Oak Hill Road and Bear Valley Road. Plans for this area include regional commercial and industrial uses along the freeway as well as mixed housing, commercial and office uses along Main Street. This plan should be completed by March of 2008. Third, the City is beginning a General Plan update for the entire City and Sphere. This update will account for changes to the City's boundaries, its Sphere of Influence and will also incorporate the ongoing downtown and freeway corridor plan. The update will review all seven elements, the circulation plan and the land use plan. Ultimately, the plan will result in a one-map system to bring consistency to the City's current zoning and land use maps. This effort should take about 18-24 months.

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6. **Master Planning:** In addition to the planning efforts mentioned above, the Hesperia Water District is in the process of updating its master plans for water and sewer service. This should be completed in late 2007. The Urban Water Management Plan was adopted in December 2005. As of 2004, the City now contracts with the County of San Bernardino for fire protection services. The County is upgrading existing facilities in the City's sphere of influence including Station 48 in Summit Valley and Station 40 in Oak Hills. The City of Hesperia also owns land in the vicinity of the I-15/Main Street interchange and plans on constructing a new fire station there. The City Water District and Fire Protection District are also working with Rancho Las Flores and Sun Cal to develop water, sewer and fire protection facilities to serve two specific plans in Summit Valley.
7. **Not Required**
8. **Sphere of Influence Review Factors:**
 - a. Land uses in the Oak Hills Sphere are shown and described in the Oak Hills Community Plan, adopted in 2002. This plan established a Freeway Corridor to be developed with retail and job producing industrial and office uses on the large parcels adjacent to the freeway. The plan also delineates open space areas within the Oro Grande Wash as well as another wash on the east side of the freeway. These washes form buffer zones for the rural areas lying outside the freeway corridor. The primary intent for this area is to continue to develop homes on 2 ½ acres lots and encourage animal keeping and other agricultural uses. In addition, the City has begun a specific plan for the Main Street and Freeway Corridors. The intent of this plan is to develop criteria for new growth and to fully realize the land use potential of these areas.

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The Summit Valley Sphere of Influence is expected to be developed with large, master planned communities. This area is noted for its varied terrain and natural vegetation. The Mojave River has its origins here in Silverwood Lake. As the area has few paved roads and little or no infrastructure, the preferred method of development is through the specific plan or planned development process.

- b. As noted above, the Freeway Corridor and Summit Valley lack the necessary infrastructure to support growth. In addition, large-scale residential projects will require the development of schools, parks, recreational trails, medical facilities, police and fire facilities, and other governmental services. The City and its sphere are experiencing its share of growth during the current economic cycle. The City has grown in population by 70% from 1990 to 2007.
- c. Within the Oak Hills Sphere, CSA 70, Zone J is developed to provide domestic water service to residential use on 2 ½ acre lots. There are limited commercial uses present that would demand higher fire protection requirements. No sewer service is present. As noted above, the City has agreed to develop new facilities for the freeway corridor in anticipation of new growth. The School District is developing three schools adjacent to Oak Hills. However, District has grown by 5% last year and new school sites are being sought in conjunction with new development proposals.

Within Summit Valley, there are little or no developed water systems and existing residences utilize private wells. No sewer service is present. As noted above, master-planned communities will develop and finance new infrastructure and services to serve the new residents.

- d. The Oak Hills Plan acknowledged the existence of the Community through the appointment of an Advisory Committee that oversaw the development of the Community Plan. The Committee consisted of both landowners and residents, and was jointly appointed by the City and

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County. The Committee's final recommendation was ultimately adopted by both the City and County to guide growth and development in Oak Hills.

In Summit Valley, a much smaller community exists. There are several residents living on large lots along Highways 138 and 173, and two small stores serve the highway traffic. Ultimately, large-scale planned developments and specific plans will form the basis of the community in Summit Valley.

Certification:

I hereby certify that the statements furnished above and in the attached supplements, exhibits and documents present the date and information required for this mandatory review to the best of my ability, and that the facts statements and information presented herein are true and correct to the best of my knowledge and belief.

Date: September 18, 2007


Mike Podegracz, City Manager

**MUNICIPAL SERVICE REVIEW – City of Hesperia
(Government Code Section 56430)**

I. Infrastructure Needs and Deficiencies

1. Capital Improvement Plans/Studies

The City has identified capital improvements within its current 2007-08 Fiscal Year budget. These include streets, storm drainage and City facilities. The majority of the 33 projects have been continued from previous years. The most significant projects include:

Ranchero Road Underpass and Grade Separation – This project will create a new east-west access along Ranchero Road, improving commute times for residents in southern Hesperia and Apple Valley. The project will also relieve congestion and improve emergency response times on both sides of the railroad tracks that bisect the City.

Residential Street Improvements – From Fiscal Year 2001-02 through Fiscal Year 2005-06, the City expended \$15.56 million, an average of \$3.1 million per year on street maintenance. 122 miles were given corrective maintenance with new paving and 26.6 miles were given preventive maintenance by slurry-seal. In Fiscal Year 2006-07; \$11.4 million was expended for another 68 miles of repairs. This year, the City budgeted over \$56.8 million and will pave an additional 61 miles, including crack and slurry seal repairs.

Other Street Projects – The City has also budgeted for the project study report and preliminary engineering and environmental reports for the Ranchero Road interchange at Interstate-15. The City, in cooperation with the County, has included the paving of Mesquite Street from Maple Avenue to Escondido Avenue.

Main Street Drainage Crossing - The City will design and construct a box culvert to convey major storm flows under Main Street along a significant drainage course. (H-01 Line)

These Capital improvements planned for the City will benefit the City and sphere as future residents in Oak Hills and Summit Valley are expected to utilize services available in the City. A summary of the Capitol Improvement Projects expenditures by project is included in the attached Fiscal Year 2007-08 budget.

2. Plans/Studies

The City of Hesperia is conducting two planning efforts. The Main Street/Freeway Corridor Specific Plan covers approximately 10,000 acres along the City's two main thoroughfares. This plan will establish land use designations and design standards for new commercial, industrial and residential development in the most

critical areas of the City. The plan will include recommendations for open space and recreational trails and bike paths to enhance non-motorized transportation. New mixed uses and live-work units will be encouraged, as well as higher density developments. A draft text of the plan as well as two alternatives has been prepared and the draft EIR is underway. Completion of this plan is expected in early 2008.

The City has also initiated a General Plan update to comprehensively bring current the City's policy document. This will cover the entire City and include all required elements of the General Plan text, as well as the land use map, circulation plan and other maps and plans. Completion of the document is expected in the Summer of 2008.

4. Age and Condition of Facilities

The City's primary administrative functions were recently moved to the new Civic Plaza located at 9700 Seventh Avenue. This facility opened in October of 2006. The site also contains the new Hesperia Branch Library. The City is also planning on a downtown park and other revitalization efforts for the surrounding neighborhoods and commercial areas.

The City's public works, warehouse and building maintenance facility is located at 17282 Mojave Street. This location houses street maintenance personnel and equipment but also water and sewer equipment for the Hesperia Water District as well. The main warehouse building is currently being enlarged to hold the City's archives as well as to accommodate growth in the City. A new administrative building and a new wastewater building are also being constructed.

The City's Code Compliance Division is located at 11011 Santa Fe Avenue. This division was recently consolidated in Fiscal Year 2005-06 from the Animal Control and Code Enforcement divisions, to allow for greater efficiency, communication and managerial control.

The City added 11 positions in the 2007-08 Fiscal Year budget for a total of 141 full-time employees. In addition, the City funded 9 additional positions to the Sheriff's Department for a total of 73.5 full-time employees. Many of these positions were to account for overall growth. The City also added new positions over the last two budget years to keep City Hall open every Friday under the 9/80 work schedule.

5. Future Development

a) The City of Hesperia has plans for storm drains and roads, as outlined in its Capital Improvement Program, as well as the Circulation Element of the

General Plan. The 2007-08 Fiscal Year budget lists capital improvements for streets, storm drains and other City facilities. The most significant projects affecting the Sphere of Influence include:

- Rancho Road improvements from Seventh Avenue to Mariposa Road,
- Project study reports for the Muscatel freeway interchange, and Joshua freeway overpass/offramp,
- The Rancho Road Underpass and Grade Separation
- The Rancho Road freeway interchange
- Main Street corridor design from 11th Avenue to Highway 395

The City has also recently completed several projects including:

- The Main Street freeway interchange
- Summit Valley Road paving (in conjunction with the County)
- Paving Mesquite from Maple to Escondido (with the County)

b) The City of Hesperia includes in its annual capital improvement program a schedule for reconstruction and repaving of streets, based on use and condition. This year, 61 miles of roadway are scheduled for improvements as a cost of \$56.8 million. Finally, as new development is constructed, additional water, sewer and road ways are constructed, based on each development's impacts to the City's infrastructure.

c) The City also has a number of drainage projects underway. The one most directly related to the sphere of influence is the H-01 drainage design from Maple Avenue to Main Street. This will help control storm flows emanating from Oak Hills. Finally, the City is planning to relocate the sheriff's station from its current location on Santa Fe Avenue East to near City Hall. The current station is technologically outdated and the size of the facility is inadequate for the needs of the City's current and expanding police force.

d) Funding for street and drainage facilities is from a combination of sources, including property taxes, redevelopment agency funds as well as state and Federal sources.

II. Growth and Population

1. Population Information

The City's population has grown from about 50,000 in 1990 to about 85,876 in 2007 (State Department of Finance estimate, January 1, 2007) the City has added an additional 400 dwelling units this calendar year which add about 3.3 persons per household. Thus, the City's population is about 87,000 today.

2. General Plan

The City's Sphere of Influence includes Oak Hills and Summit Valley. Oak Hills is largely developed with single-family homes on lots of 2.5 acres or larger. Exceptions to this include the freeway corridor, annexed to the City in 2004. The Oak Hills Community Plan, adopted in 2002, designates the freeway corridor for commercial, industrial and mixed uses. Overall, the Oak Hills Community Plan sphere area could add an additional 12,000 persons by 2030.

3. Significant Growth Areas

Summit Valley is a largely undeveloped area south of the City. The area has almost no infrastructure and only two paved roads (Highway 138 and Summit Valley Road). The City's General Plan for this area requires comprehensively planned development. Since incorporation, three Specific Plans have been approved in Summit Valley. The largest two of these, Rancho Las Flores and Summit Valley Ranch, combine for a total of about 19,000 dwelling units. A new Specific Plan, Majestic Hills, has been submitted and proposes an additional 4,000 dwelling units. Should these specific plans go forward, they could add about 66,000 of additional population to the City and Sphere of Influence.

III. Financing Opportunities and Constraints

1. Finance Plans/Service and Capacity Upgrades

As indicated in Section I, the City has a number of water, sewer, street and drainage projects programmed to this fiscal year. In all, there are over \$77 million of new and continued capitol improvement projects.

Under public safety, the City is initiating a Neighborhood Enhancement Program. This will focus on the neighborhoods with the highest police call volumes. In addition, the City is adding nine new Sheriff's positions. The combined new positions will total one sergeant, five deputies, two services specialists and clerical support.

The City's Redevelopment Agency will contribute over \$13 million to the City's capital improvement program. In addition, there is over \$11 million for various owner participation agreements to support economic development and low-moderate income projects. Finally, Community Development Block Grants include about \$12 million in support for affordable housing and down payment assistance programs.

To support continued growth, the 2007-08 budget increases full-time City staffing by 8.4%, or 11 positions, from 130 to 141 full-time positions. This is in addition to the 61 positions approved during Fiscal Year 2006-07.

2. Bond Rating

The City has variable rate financings outstanding that are backed by a letter of credit. Each financing is rated, based on a letter of credit.

3. Joint Financing Projects

As noted above, the City will participate with the County to pave roads that improve circulation to the City and the Sphere of Influence. The City also cooperates with CSA 70, Zone J to provide water to portions of the Oak Hills Sphere of Influence.

4. Revenue Sources

Total City revenues will increase by about 4% from last fiscal year to over \$127 million. The major source of these revenues is funded by increased development activity, which increases the general fund, Redevelopment Agency fund, and income from development impact fees. Major revenue sources include sales and use taxes, vehicle license fees, development impact fees and franchise fees. Redevelopment Agency revenues primarily consist of the property tax increment. Street related funds include Measure I, gas taxes, local transportation funds and development impact fees. Water District operating and capitol funds are derived from water rates. Fire District revenues come from property taxes and ambulance service fees.

The City is seeking an agreement with the County for an increase in the share of property tax under the County's Revenue Enhancement Program. Currently the City only receives 1.59%. Previous agreements for annexations in Summit Valley and Oak Hills have yielded a 7% share. The City is currently negotiating a new tax share agreement for undeveloped property in the City.

IV. Cost Avoidance Opportunities

This determination is intended to identify opportunities for cost savings or for eliminating duplicative services or costs. At present, the City Council also sits as the Board of Directors for the Hesperia Fire Protection District, the Hesperia Water District as well as the Hesperia Redevelopment Agency. The City also provides administrative services such as budget, accounting, personnel and legal services to these other agencies.

Where possible, the City participates in joint ventures with other agencies to provide services or to construct public facilities. Examples include working with the County of San Bernardino to pave Mesquite Street and Summit Valley Road. The City also cooperates with CSA 70, Zone J to provide water to portions of the Oak Hills Sphere of Influence.

The City will also coordinate construction of master planned facilities with private developers to achieve savings. Examples include the storm drain and paseo linking Hesperia Community Park with several residential tracts located to the north and east. A 10-acre park/retention basin site was developed as part of one of the tracts along the paseo/storm drain. The City also facilitated development of a combined Park/School site on 15 acres within the Mission Crest tract.

The City and Hesperia Recreation and Park District occupy over 88% of the same territory. Both entities have constructed and/or plan for construction of new park facilities. Similar to the City's Fire and Water districts, the City could provide administrative and other service functions, and share costs for maintenance of park facilities. Property taxes collected for the Park District could continue to be used for park development, maintenance and acquisition of open space. At the present time, no formal position has been taken by either the City Council or the District Board to pursue this opportunity.

V. Opportunities for Rate Restructuring

The City has raised its Development Impact Fee (DIF) considerably since incorporation. In 1992, the DIF was \$1,000 for a single-family residence. It was lowered during the prolonged recession in an effort to spur development. In 2002, it was raised to \$2,907 with three annual increases to \$4,707 in 2004. In 2005, the DIF was raised again, to \$10,220 in January of 2007. In order to comply with the San Bernardino Associated Governments (SANBAG's) nexus study requirements, as well as the increase in the public safety fee, the DIF is now \$13,198. Portions of this fee continue to fund construction for expansion of streets, drainage, fire, police and public services.

In 1992 Advance Disposal, in conjunction with the City, opened a Material Recovery Facility (MRF). This facility receives all of the City's waste stream and recycles all available commodities. The City is in compliance with AB 939, which mandated that Cities reduce by 50%, the waste going to the landfills. Last year, the City recycled 57% of its waste stream, after initiating a construction debris program with local builders. The rates were raised 1.2% in 2007, and are driven by labor and other costs.

In November 2006, the City's voters increased the City's Transient Occupancy Tax from 7% to 10% which is expected to increase that revenue source by 48%.

VI. Opportunities for Shared Facilities

The City already consolidates its Water District management, Redevelopment Agency, and Fire Prevention operations into the recently completed City Hall. The City also consolidated its Animal Control and Code Enforcement Divisions into a Code Compliance Department. This Department operates in the existing Public Works building on Santa Fe Avenue East. The City is also completing its new public works building and corporate yard on Mojave Street. When completed, water, sewer and street maintenance operations, as well as City record archives will be located there. The existing Public Works building will be used as an expanded animal shelter, managed by the Code Compliance Department.

In 2004, the City contracted with the County of San Bernardino to staff the Hesperia Fire Protection District. The City operates four stations within City limits and the County facilities serving the City's Sphere of Influence include Station No. 48 in Oak Hills and Station No. 40 in Summit Valley. The City has plans for a new station southwest of the Main Street freeway interchange and another located south of Ranchero Road, east of the railroad.

The City continues to contract with San Bernardino County Sheriff's Department for police protection. The County operates a station on Santa Fe Avenue. The City is planning a new police station to be located in the vicinity of City Hall. The City relies on County wide services provided by the Sheriff's Department, including crime lab, SWAT, jail, bomb squad, and other specialized resources.

As mentioned above, the City coordinates with the School and Park Districts to establish new schools and parks, in conjunction with new development. The park and school site located within the Mission Crest project operates under a joint-use agreement between the entities. Portions of the park can be used for school activities during school hours and used by the general public at other times. The City desires for other parks and schools to be developed and operated in a similar manner.

VII. Government Structure Options

Currently, the City and its subsidiary districts provide service to the City's incorporated area. County service providers within the Sphere of Influence include County Service Area (CSA) 70, Zone J, for water and CSA 38 for Fire Protection. County Code Enforcement is dispatched from the County's Victorville office and Animal Control is provided from the County's Devore facility. As annexations proceed, the City's local facilities will provide services to these areas.

The Hesperia Recreation and Park District provides services within the City and a portion of its Sphere of Influence. All City annexations to date have included expansion of the Park District where this District did not already serve. The major option for government structure reorganization involves either continuing the current separate operations and administration of the Park District and City, or merge the Park District into the City as subsidiary district. In order for the Park District to become a subsidiary district of the City, at least 70 percent of the registered voters in the District must reside in the City of Hesperia. In addition, at least 70% of the District's land area must also be within the City's boundaries. The Park District currently includes the City's original 1896 town site and township (T4N, R4N) as well as all of the recent residential development occurring west of Maple Avenue and south of Ranchero Road. This area will certainly cover all of the City's registered voters. In addition, the City is currently about 75 square miles. The Park District covers all of this land, plus an additional 10 square miles, which means the City comprises about 88 percent of the Park District's area.

VIII. Evaluation of Management Efficiencies

Currently, the City has two subsidiary districts and the Park District is a separate, board-governed district. As mentioned above, the City already provides administrative functions for these subsidiary districts. The only major organizational efficiency to be gained is by merging the Park District with the City. Currently, the City covers over 88 percent of the Park District's area. The Park District has established Landscape Maintenance Districts which maintain the City right-of-ways as well as fund the power for street lighting. If merged, the City may consolidate these functions within its Public Works Department. The City could also provide administrative services to the Park District's residents and employees for governance, personnel, and legal services.

However, the current separate operation of the Park District would allow the District to pursue annexation of Oak Hills. Currently these residents use the District's facilities, as there are none in this area. The Park District does not restrict access to its facilities or programs to residents of Oak Hills, but the District does not fully recover costs associated with their participation. Annexation of Oak Hills by the Park District alone would enable the District to collect property taxes from this area. In addition, annexation of portions of Oak Hills by the City has previously been opposed by the residents. It is not known whether similar opposition would exist to a proposed Park District annexation.

IX. Local Accountability and Governance

The City Council of the City of Hesperia also serve as the Board of Directors of the Water and Fire District, as well as the Redevelopment Agency. These five seats are elected at-large with three (3) seats up for election at one time (every 4

years) and the remaining seats two years later. The City Council/Board of Directors holds regular meetings on the first and third Wednesdays of each month. The City Council convenes separate meetings as the Council or Board for the City, Redevelopment Agency, Water District and Fire District. For certain items of common interest to all entities, joint meetings are also held. The Council/Board administers all functions of the City and its districts and adopts the Capitol Improvement Program and budget for each Fiscal year.

The Council will hold additional meetings or workshops to conduct business for budgetary purposes or to discuss special planning issues. These meetings generally occur in same place as regular City Council meetings but may occur at different dates or times. All meetings are noticed, published, and conducted in compliance with the Ralph M. Brown Act.

Comments from the public are accepted for all agenda items. In addition, every meeting of the Council/Board includes a portion to receive public comments for discussion of any issue not on the agenda.

The City also solicits comments from the public via the internet, comment cards available at City Hall and other City facilities, as well as letters and e-mail. In addition, the City makes all of its meetings available on its website (www.cityofhesperia.us). The meetings may be viewed live or may be accessed for viewing at any time.

The City publishes a quarterly newsletter, which is mailed to all of its postal addresses in the City. The newsletter is also available at all City facilities. Items of current interest are reported for all City, Redevelopment Agency, Water and Fire District business. The City's activities are also regularly reported or advertised in the Daily Press, Hesperia Star and the Hesperia Resorter.

Attachments:

1. Adopted Fiscal Year 2007-08 Budget

FISCAL YEAR 2008-09 BUDGET SUMMARY

The following information summarizes and highlights policies and planned major changes in the 2008-09 Budget:

Summary of Total City Revenue and Expenditures

	2007-08 Budget	2008-09 Budget	Change From 2007-08 Budget	
			Amount	Percent
Revenue	\$ 127,742,411	\$ 123,660,674	\$ (4,081,737)	-3%
Bond Proceeds (2007 RDA Bond Issue)	46,196,506	0	(46,196,506)	-100%
Budgeted Reserves	59,031,649	99,407,876	40,376,227	68%
Total Revenue, Bond Proceeds, and Budgeted Reserves	232,970,566	223,068,550	(9,902,016)	-4%
Expenditures	\$ 228,988,597	\$ 220,211,511	\$ 8,777,086	-4%
Difference	\$ 3,981,969	\$ 2,857,039		

Revenue

Revenue is slightly lower, with a 3% decrease overall. Revenue increases in the Redevelopment Agency (5%), Water District (3%), and Fire District (2%) were offset by revenue decreases in the General Fund (-4%) and significant decreases in Streets-Related Funds (-25%).

Expenditures

Overall expenditures have decreased by 4%, or \$8,777,086. Each department has reduced budgeted expenditures, with the exception of the Police Department and the Redevelopment Agency. The Police Department expenditures are expected to increase by 6%, which includes the current level of service and the addition of two sworn officers (one Sergeant and one Sheriff's Deputy). The Redevelopment Agency expenditures are expected to increase due to debt service payments, Pass Through payments, and continued spending on capital projects.

Balanced Budget Policy

Operational revenue is funding operational expenditures, not using one-time revenue to fund ongoing expenditures, consistent with City Council policy. The 2008-09 Budget is balanced, with the difference between resources (revenue, budgeted reserves, and transfers), and expenditures at zero, or a surplus, depending upon the fund. The \$99,407,876 in budgeted reserves is comprised of the following:

General Fund	\$ 652,500
Redevelopment Agency	64,513,583
C.D.B.G.	1,859,900
Streets CIP Funds (Primarily Measure I Arterial and Local and DIF)	11,085,040
Fire District	347,285
Water District	14,095,526
Facilities	4,431,093
Other	2,422,949
Total	\$ 99,407,876

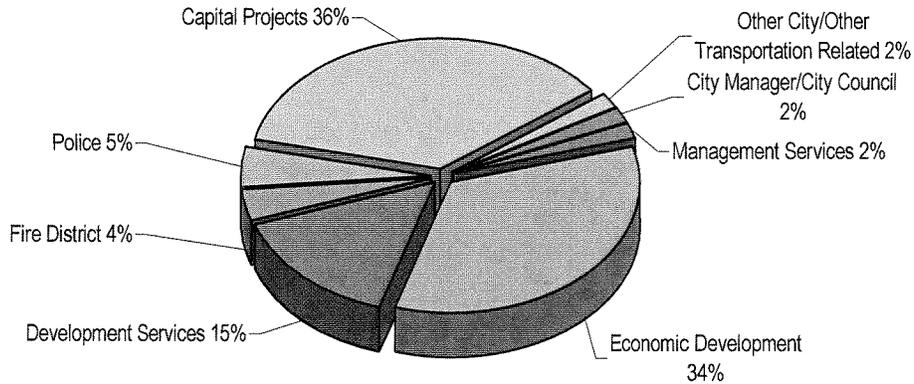
Reserve Policy

Cash reserve levels substantially exceed the City Council policy of 10% in the General Fund and Water District, and Fire District. The City Council's policy of maintaining 10% cash reserves as a percent of expenditures is illustrated below:

	General Fund		Fire District		Water District	
10% Cash Reserves (Council/Board Policy)	\$ 2,689,179	10%	\$ 994,262	10%	\$ 3,237,013	10%
Cash Reserves Above 10% Reserve	7,843,863	29%	821,837	7%	10,491,110	20%
Total Estimated Cash Reserves	\$ 10,533,042	39%	\$ 1,816,099	17%	\$ 13,728,122	30%

FISCAL YEAR 2008-09 BUDGET SUMMARY

EXPENDITURE SUMMARIES
Total Expenditures by Department
2008-09 Budget
\$220,211,511



DEPARTMENTS	2005-06 Actual	2006-07 Actual	2007-08 Budget	2007-08 Revised	2008-09 Budget	% of Budget	% Change From 2007-08 Budget
City Council	\$ 835,917	\$ 797,740	\$ 844,800	\$ 770,878	\$ 753,865	1%	-11%
City Manager	\$ 883,716	\$ 1,194,314	\$ 1,612,281	\$ 1,503,852	\$ 1,592,841	1%	-1%
Management Services	\$ 3,263,297	\$ 4,383,314	\$ 4,836,081	\$ 4,260,178	\$ 4,607,070	2%	-5%
Economic Development							n/a
Redevelopment Agency	\$ 16,078,692	\$ 19,969,983	\$ 52,320,642	\$ 44,898,894	\$ 68,526,393	31%	31%
C.D.B.G.	1,361,828	8,606,079	6,318,362	661,427	6,508,968	3%	3%
Total Economic Development	\$ 17,440,520	\$ 28,576,062	\$ 58,639,004	\$ 45,560,321	\$ 75,035,361	34%	28%
Development Services							
Community Development	\$ 4,264,458	\$ 3,319,413	\$ 4,319,019	\$ 3,669,159	\$ 3,521,604	2%	-18%
Code Compliance	0	1,853,093	2,785,014	2,145,053	2,556,752	1%	-8%
Public Works	3,344,346	4,368,290	5,485,663	5,068,769	4,868,044	2%	-11%
Water Operations	12,249,387	15,636,922	19,195,579	15,293,802	18,994,797	9%	-1%
Sewer Operations	884,703	1,096,051	1,260,077	1,224,887	1,537,171	1%	22%
Total Development Services	\$ 20,742,894	\$ 26,273,769	\$ 33,045,352	\$ 27,401,670	\$ 31,478,368	15%	-5%
Police	\$ 7,780,784	\$ 9,235,189	\$ 11,316,421	\$ 10,737,460	\$ 12,036,764	5%	6%
Fire District	\$ 5,857,131	\$ 8,091,306	\$ 9,953,569	\$ 9,942,622	\$ 9,458,504	4%	-5%
Other Transportation Related Expenditures	\$ 1,660,434	\$ 3,129,445	\$ 2,291,729	\$ 2,118,687	\$ 1,769,275	1%	-23%
Other City Related Expenditures	\$ 1,099,574	\$ 945,375	\$ 1,443,333	\$ 4,879,939	\$ 1,076,068	1%	-25%
Capital Improvement Projects							
C I P - Facilities	\$ 18,562,895	\$ 6,849,832	\$ 4,208,833	\$ 218,412	\$ 8,949,500	4%	113%
C I P - Redevelopment Agency	1,081,537	5,030,335	46,196,506	19,287,249	34,025,523	15%	-26%
C I P - Streets	4,980,146	3,730,052	30,640,955	14,762,413	22,715,193	10%	-26%
C I P - Water	10,056,257	9,595,874	23,059,733	15,280,242	14,063,179	6%	-39%
C I P - Sewer	0	10,004	900,000	571,194	2,650,000	1%	194%
Projects	\$ 34,680,835	\$ 25,216,097	\$ 105,006,027	\$ 50,119,510	\$ 82,403,395	36%	-22%
Total City Expenditures	\$ 94,245,102	\$ 107,842,611	\$ 228,988,597	\$ 157,295,117	\$ 220,211,511	100%	-4%

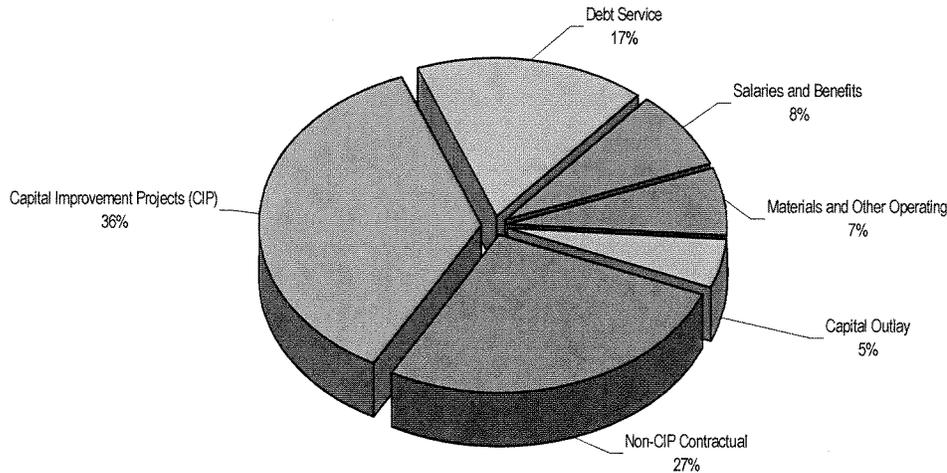
FISCAL YEAR 2008-09 BUDGET SUMMARY

EXPENDITURE SUMMARIES

Total Expenditures by Major Expenditure Classification

2008-09 Budget

\$220,211,511

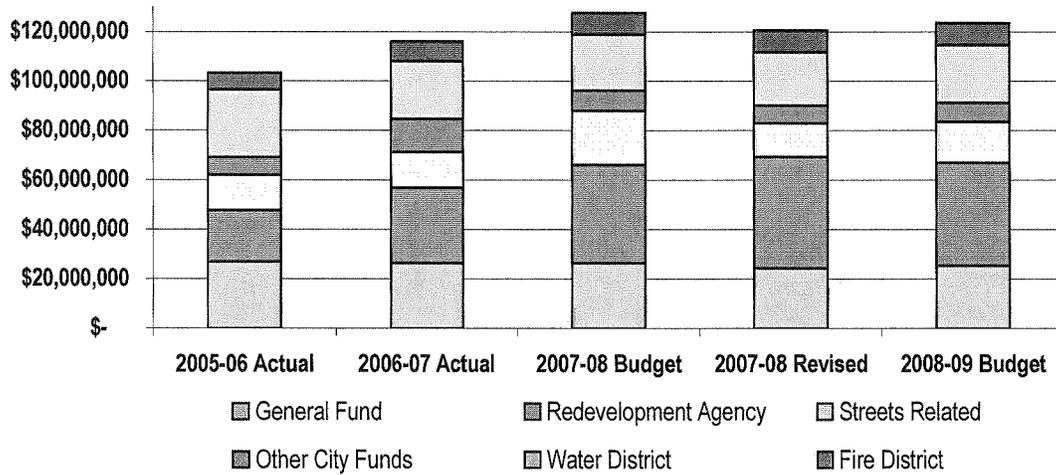


DEPARTMENTS	2005-06 Actual	2006-07 Actual	2007-08 Budget	2007-08 Revised	2008-09 Budget	% of Budget	% Change From 2007-08 Budget
Salaries and Benefits	\$ 10,037,934	\$ 13,018,764	\$ 16,796,310	\$ 15,587,807	\$ 17,628,649	8%	5%
Materials and Other Operating	8,299,204	11,599,034	14,697,029	10,912,058	14,627,930	7%	0%
Capital Outlay	5,183,527	6,404,840	10,739,263	16,684,415	11,067,500	5%	3%
Non-CIP Contractual							
Contractual	6,503,612	13,654,009	14,218,549	6,647,131	12,765,562	6%	-10%
Police Contractual	7,154,292	8,926,462	10,638,425	10,400,000	11,119,192	5%	5%
Fire Contractual	5,584,008	7,417,621	8,091,789	8,091,789	9,217,872	4%	14%
Redevelopment Agency (RDA) Contractual	610,083	573,076	23,121,291	7,568,847	26,818,630	12%	16%
Total Non-CIP Contractual	\$ 19,851,995	\$ 30,571,168	\$ 56,070,054	\$ 32,707,767	\$ 59,921,256	27%	7%
Capital Improvement Projects (CIP)							
C I P - Facilities	\$ 18,562,895	\$ 6,849,832	\$ 4,208,833	\$ 218,412	\$ 8,949,500	4%	113%
C I P - Redevelopment Agency	1,081,537	5,030,335	46,196,506	19,287,249	34,025,523	15%	-26%
C I P - Streets	4,980,146	3,730,052	30,640,955	14,762,413	22,715,193	10%	-26%
C I P - Water	10,056,257	9,595,874	23,059,733	15,280,242	14,063,179	6%	-39%
C I P - Sewer	0	10,004	900,000	571,194	2,650,000	1%	194%
Total CIP	\$ 34,680,835	\$ 25,216,097	\$ 105,006,027	\$ 50,119,510	\$ 82,403,395	36%	-22%
Debt Service							
Debt Service	4,330,868	5,237,273	5,547,111	8,964,456	5,067,907	3%	-9%
RDA - Debt Service	3,466,721	3,469,084	3,507,036	7,307,207	13,282,026	6%	279%
RDA - Contractual Pass-Through	8,394,018	12,326,351	16,625,767	15,011,897	16,212,848	8%	-2%
Total Debt Service	\$ 16,191,607	\$ 21,032,708	\$ 25,679,914	\$ 31,283,560	\$ 34,562,781	17%	35%
Total Expenditures	\$ 94,245,102	\$ 107,842,611	\$ 228,988,597	\$ 157,295,117	\$ 220,211,511	100%	-4%

FISCAL YEAR 2008-09 BUDGET SUMMARY

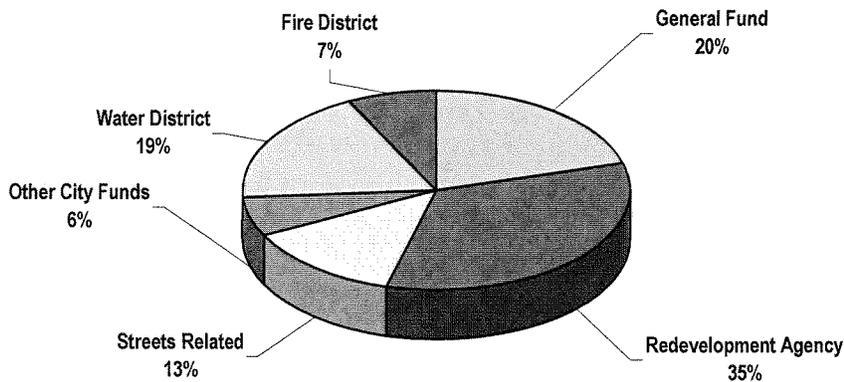
Revenue

**City of Hesperia
Total City Revenue Trend**



	2005-06 Actual	2006-07 Actual	2007-08 Budget	2007-08 Revised	2008-09 Budget	%Change From 2007-08 Budget
General Fund	\$ 26,877,102	\$ 26,291,918	\$ 26,373,104	\$ 24,245,746	\$ 25,319,400	-4%
Redevelopment Agency	20,863,869	30,656,266	39,823,107	45,224,568	41,736,890	5%
Streets Related	14,215,703	14,339,467	21,880,136	13,514,330	16,464,396	-25%
Other City Funds	7,121,230	13,458,504	8,138,791	7,189,435	7,782,271	-4%
Water District	27,406,525	23,395,348	22,622,081	21,630,744	23,246,498	3%
Fire District	6,953,437	8,036,530	8,905,192	8,850,467	9,111,219	2%
Total All Funds	\$103,437,866	\$116,178,033	\$127,742,411	\$120,655,290	\$123,660,674	-3%

**REVENUE
2008-09 Budget Total City Revenue**



FISCAL YEAR 2008-09 BUDGET SUMMARY

Revenue

SUMMARY and HIGHLIGHTS

The City of Hesperia maintains the practice of matching the revenue type to the similar expenditure type. There are two basic revenue types: one-time revenue and on-going revenue. Contrary to the fiscal practices of the State of California, the City will not use one-time revenue (i.e. bond proceeds) to pay for on-going expenditures (i.e. new employees). When compared to FY2005-06, the overall combined City revenue for 2008-09 Budget is expected to increase by 19% or \$20 million. However, comparing the 2007-08 Budget to the 2008-09 Budget, a decrease of \$4 million, or 3%, reflects the effects of the national mortgage crisis and housing slump and its influence on the 2008-09 Budget. Primarily, all development related revenues are down for the 2007-08 Revised and that condition is carried through into the 2008-09 Budget revenue estimates; though some increase is anticipated over the 2007-08 Revised. The revenues listed in this section, which reports the revenues of all budgeted funds, does not include bond proceeds which is a one-time revenue.

General Fund - General Fund revenue is for the normal operations of and services provided by the City which are not specifically accounted for in other funds. The 2008-09 Budget for the General Fund is projecting a decrease of 4% or \$1.1 million from the 2007-08 Budget, primarily because of the following:

- Sales and Use Tax revenue is projected to decrease 13% or \$1,087,000.
- Vehicle License Fee revenue is expecting an increase of \$1.4 million or 18%
- Franchise Fee revenue is expected to grow 2% or about \$37,000
- Property Transfer Tax revenue is expecting to reach \$180,000 a decrease of 48% or about \$165,000.
- Development related revenues including Building Permit Fees, are anticipating a \$1.2 million, or 33% decrease from the 2007-08 Budget estimate.
- Since 2005-06 Actual, total General Fund revenue is expected to decrease 6% or \$1.6 million for the 2008-09 Budget.

Redevelopment Agency - These funds track the City's redevelopment revenue that is used to eliminate blight within the project areas, assist in expanding the City's business base, and assist with low and moderate income housing needs for the City. Most all of this revenue is derived from property tax increment which has restrictions on use. Some of the major highlights are:

Overall Redevelopment Agency revenue is expected to increase 5% or \$2.0 million from the 2007-08 Budget of \$40 million to the \$42 million of the 2008-09 Budget.

Since 2005-06 Actual, the 2008-09 Tax Increment revenue is projected to increase 100% or by \$20.9 million.

Streets & Transportation Related Funds - This group is comprised of 14 street and transportation related funds. Each of these funds receive revenue that is restricted for specific uses. Some of the major highlights are:

- Developer Impact Fees (DIF) for Streets and Storm Drain revenue will have decreased 36% or \$2.4 million since the 2005-06 Actuals, or from \$6.6 million in 2005-06 to \$4.2 million in 2008-09. This decrease of the combined 2008-09 DIF Budget revenue from the 2007-08 DIF Budget revenue reflects the nationwide housing slump shown by the decrease in single residential building permits from 600 for the FY 2007-08 Budget to 200 for the FY 2008-09 Budget.
- Combined Measure I (Arterial and Local) revenue is expected to increase to \$3,933,294 or 10% from the 2005-06 Actual.
- Local Transportation Fund (LTF) revenue is expected to decrease to \$1,600,000 or 12% since the 2005-06 Actual.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Revenue

SUMMARY and HIGHLIGHTS (Continued)

Non-Streets Related Other City Funds - This group is comprised of 16 other non-street related funds. Each of these funds receive revenue that is restricted for specific uses. Some of the major highlights are:

- Developer Impact Fee (DIF) for Fire, Police, and Public Safety revenue will have decreased 42% or \$0.8 million since 2005-06 Actuals, or from \$2.0 million in 2005-06 to \$1.2 million for 2008-09. This decrease in total 2008-09 Budget DIF revenue from 2007-08 Budget DIF revenue reflects the nationwide housing slump shown by the estimated decrease in single residential building permits from 600 for the FY 2007-08 Budget to 200 for FY 2008-09.
- The CDBG/HOME Housing and Urban Development (HUD) grants are expecting a combined decrease of 11%, or \$0.6 million, from the FY 2007-08 Budget to the FY 2008-09 Budget of \$4.9 million. This is the result of the planned projects funded by these grants were started in FY 2006-07 and either completed in FY 2007-08 or FY 2008-09.

Water and Sewer Operations - These funds primarily report the City's water and sewer financial operations and are most associated with the functions of a traditional business. The revenues received are to pay for the cost of purchasing and distributing the water and for the treatment of the sewage that comes from those homes/businesses on the sewer system. Some of the major highlights are:

- Overall Water District revenue is expected to increase about \$0.6 million or 3% from the 2007-08 Budget of \$22.6 million to the 2008-09 Budget of \$23.2 million. This anticipates an overall increase in revenue in spite of the decline in development activity from 600 single residential building permits for 2007-08 Budget to 200 for the 2008-09 Budget, as the Water Capital Facility charge development fee is decreasing accordingly in FY 2008-09.
- Water Sales revenue, which is 63% of the District's total revenue is anticipating a 29% increase since the 2005-06 Actual of \$11.3 million to the 2008-09 Budget of \$14.6 million.
- It is anticipated that combined Sewer Operating and Capital revenues will decrease by 22% from the 2005-06 Actual of \$3.2 million to the 2008-09 Budget of \$2.5 million. This decrease is primarily due to the national housing slump as the related sewer development revenue is down 73% during this period. However, this is mitigated by Sewer Billing revenue increasing by 40% during the period.

Fire District - The revenues for the 2008-09 Budget are projected to be \$9,111,219 which is \$206,027 or 2% more than the 2007-08 Budget of \$8,905,192 primarily due to the Redevelopment Pass Through. Some of the major highlights are:

- Property Taxes are projected to increase 13% (or \$0.5 million) from the 2005-06 fiscal year actual of \$3.8 million to \$4.3 million for the 2008-09 Budget, however, only a 2.4% increase over the 2007-08 Budget.
- Paramedic Ambulance fee revenue is expecting a 6%, or \$100,000, increase from the 2007-08 Budget to the 2008-09 Budget at \$1,900,000.
- Redevelopment Tax Increment Pass Through is expected to increase about \$75,000 from the 2007-08 Budget of \$2.1 million to almost \$2.2 million for the 2008-09 Budget.
- Community Facilities District 94-1 revenue is expecting an increase of \$28,000, or 10%, from the FY 2007-08 Revised, with a 2008-09 Budget of \$311,595 which is 9% less than the 2007-08 Budget.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Position Changes

The 2008-09 Budget reduces full-time City staffing by 0.3%, or one position, from 346 to 345 full-time positions. Part-time positions are reduced by 1.32 FTE, for a total reduction of 2.32 FTE. The 2008-09 Budget proposes three new full-time positions, two for public safety and one support position, and the elimination of four full-time positions. Four position changes and reductions in part-time positions are also proposed. The total staffing for the City is proposed to decrease 0.66%, from 351.42 FTE to 349.10 FTE.

Position Changes During Fiscal Year 2007-08 – Net 0.46 FTE Reduction

During the Mid-Year Budget Review, one Community Development Technician (1.00 FTE) was added to D.S. Community Development–Planning and one full-time (1.00 FTE) and one part-time (0.46 FTE) Office Assistant positions was eliminated from D.S. Code Compliance–Code Enforcement to effectively staff the counter duties for the Rental Housing Certification Program.

Position Changes for Fiscal Year 2008-09:

- Three (3.00 FTE) New Full-Time Proposed Additions
 - One Sergeant (1.00 FTE) in Police
 - One Deputy Sheriff (1.00 FTE) in Police
 - One Custodian (1.00 FTE) in D.S. Water- Property Management

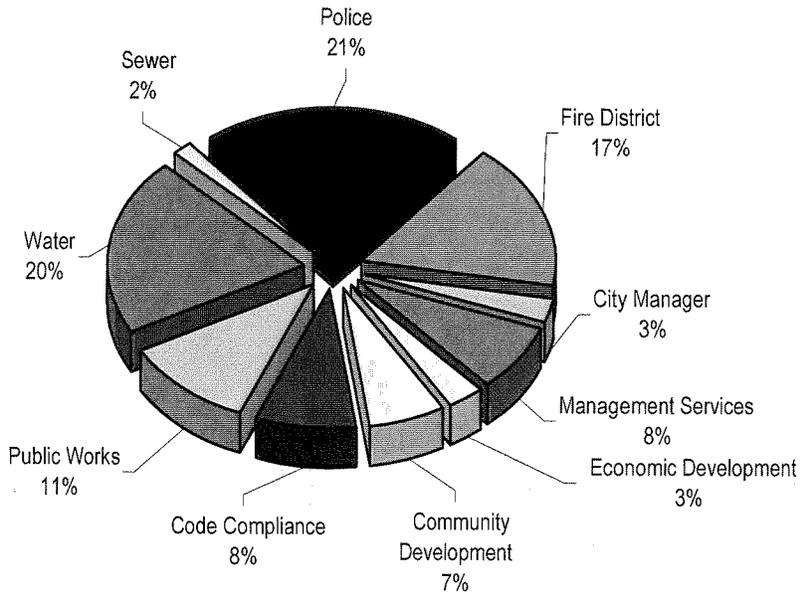
- Four (4.00 FTE) Full-Time Proposed Position Eliminations
 - One Director of Economic Development (1.00 FTE) in Economic Development
 - One Executive Secretary (1.00 FTE) in Economic Development
 - One Building Inspector (1.00 FTE) in D.S. Community Development–Building and Safety
 - One Plans Examiner (1.00 FTE) in D.S. Community Development–Building and Safety

- Four Position Changes – Four Added Positions and Four Eliminated Positions (No Change in FTE)

- Part-Time (0.86 FTE) Position Eliminations

FISCAL YEAR 2008-09 BUDGET SUMMARY

2008-09 BUDGET FULL-TIME AND PART-TIME POSITIONS BY DEPARTMENT



<u>Departments</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>% of FTE</u>
City Manager	8.00	8.76	9.84	9.84	3%
Management Services	21.98	25.00	27.00	27.00	8%
Economic Development	7.68	12.81	12.33	10.33	3%
Development Services:					
Community Development	39.47	24.90	23.95	22.95	7%
Code Compliance	0.00	25.23	30.64	28.78	8%
Public Works	30.33	33.91	37.91	37.68	11%
Water	45.91	67.10	71.56	72.33	20%
Sewer	3.69	4.69	5.69	5.69	2%
Development Services Total	119.40	155.83	169.75	167.43	48%
Sub-Total Non-Police & Fire District	157.06	202.40	218.92	214.60	62%
Police	55.50	64.50	73.50	75.50	21%
Fire District	51.00	59.00	59.00	59.00	17%
Total Full & Part-Time Positions	263.56	325.90	351.42	349.10	100%
Change	Amount	NA	62.34	25.52	-2.32
	Percent	NA	23.7%	7.8%	-0.7%

FISCAL YEAR 2008-09 BUDGET SUMMARY

C I P SUMMARY

The CIP projects are summarized as follows:

<u>C I P Major Categories</u>	<u>Projects Completed in FY 2007-08*</u>	<u>Projects Continued in 2008-09 Budget</u>	<u>New Projects Included in 2008-09 Budget</u>	<u>New & Continued Projects Included in 2008-09 Budget</u>
Streets C I P Projects	\$7,170,162	\$32,759,000	\$10,659,895	\$43,418,895
Storm Drainage	78,000	10,050,000	0	10,050,000
Facilities	3,412	16,749,500	125,000	16,874,500
Water	1,107,107	8,910,000	500,000	9,410,000
Sewer	<u>521,194</u>	<u>1,675,000</u>	<u>975,000</u>	<u>2,650,000</u>
Total C I P Projects	\$8,879,875	\$70,143,500	\$12,259,895	\$82,403,395

*Note – May include projects that are not yet completed but have been suspended and will resume in future years.

Streets C I P Projects - \$43,418,895 (2008-09 Budget)

- 2008-09 Street Improvement Project - **\$10,659,895** is included in the 2008-09 Budget for the ninth year of the major Citywide Street Residential Improvement Program, as well as **\$8,080,000** to complete the FY 2007-08 Street Improvement Program. The program history is as follows:

	<u>Expenditures</u>	<u>Miles Paved</u>	<u>Slurry Seal Miles</u>
2000-01 Street Improvement Project	\$ 2,226,573	18.0	0
2001-02 Street Improvement Project	2,148,349	19.4	0
2002-03 Street Improvement Project	1,993,142	16.5	0
2003-04 Street Improvement Project	2,033,719	17.1	0
2004-05 Street Improvement Project	3,166,412	18.2	12.4
2005-06 Street Improvement Project	6,221,264	51.1	14.2
2006-07 Street Improvement Project	11,379,826	57.0	11.0
2007-08 Street Improvement Project	<u>\$20,920,267</u>	<u>57.0</u>	<u>4.0</u>
Eight Year Total	\$50,089,552	254.3	41.6
2008-09 Street Improvement Project	<u>\$10,659,895</u>	<u>35.6</u>	<u>0</u>
Nine Year Total	\$60,749,447	289.9	41.6

- Rancho Road Related Projects – 3 Projects \$10,050,000
- Fourteen Other Streets Projects – 14 Projects \$14,629,000

Storm Drainage C I P Projects - 3 Projects \$10,050,000

Facilities C I P Projects - 9 Projects \$16,874,500

• Five Fire Station Projects	\$ 13,112,000
• High Desert County Government Center	1,387,500
• Downtown Park	1,250,000
• New Police Station	1,000,000
• Code Compliance Facility	<u>125,000</u>
	\$16,874,500

Water C I P Projects - 9 Projects \$9,410,000

Sewer C I P Projects - 4 Projects \$2,650,000

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Overall Debt Obligation Activity in Fiscal Year 2007-08 and 2008-09 Budget:

- The primary debt management focus for Fiscal Year 2007-08 was issuing Redevelopment Agency debt of approximately \$154 million.
- The 2005 Variable Rate Demand Certificate of Deposit (COPS) for the City Hall were issued for \$18,300,000. During Fiscal Year 2007-08, City Hall was completed and the construction fund closed, leaving \$3.6 million in excess construction bond funds that were transferred to be used to prepay principal on the bonds. This reduced the outstanding principal to \$14,300,000 as of June 30, 2008.
- The debt obligations that would benefit from refinancing were refinanced in Fiscal Year 2004-05 or earlier. As was discussed during each presentation to the City Council for the refinanced debt issues, the lower interest rate environment associated with variable debt issues has resulted in the opportunity to prepay principal, through interest savings, thus lowering the overall outstanding debt more quickly. Status of Prepayments:
 - City Series 2004 Variable Rate Revenue Bonds (Measure I) – The lower variable rate interest environment has enabled the City to prepay a total of \$2,400,000 million through budgetary savings during the last three years.
 - Water 1998 Series A Revenue Bonds – The lower variable rate interest environment has enabled the Water District to prepay a total of \$500,000 through budgetary savings, however no savings were achieved in fiscal year 2007-08.

The variable rate obligations for the City, Measure I Debt, and Water District will continue to be monitored closely. If necessary, these obligations can quickly be swapped into fixed rates, as has been done with \$10 million of the Water 1998 A Series.

- No major debt issues are planned in the 2008-09 Budget.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes

CITY COUNCIL

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
City Council	\$ 444,800	\$ 403,865	\$ (40,935)	-9%
City Attorney	400,000	350,000	(50,000)	-13%
Total City Council	\$ 844,800	\$ 753,865	\$ (90,935)	-11%

Significant Department Expenditure and Staffing Changes:

- None

CITY MANAGER

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
City Manager	\$ 1,203,683	\$ 1,149,941	\$ (53,742)	-4%
City Clerk	408,598	442,900	34,302	8%
Total City Manager	\$ 1,612,281	\$ 1,592,841	\$ (19,440)	-1%
Full-Time Staff (FTE)	9.84	9.84	0.00	0%

Significant Department Expenditure and Staffing Changes:

Included in the City Clerk's budget is funding of \$25,000 for the November 2008 General Election.

MANAGEMENT SERVICES

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
Finance	\$ 1,888,098	\$ 1,726,616	\$ (161,482)	-9%
Human Resources/Risk Management	1,652,304	1,534,417	(117,887)	-7%
Management Information Services	1,295,679	1,346,037	50,358	4%
Total Management Services	\$ 4,836,081	\$ 4,607,070	\$ (229,011)	-5%
Full-Time Staff (FTE)	27.00	27.00	0.00	0%

Significant Department Expenditure and Staffing Changes:

In Finance, eliminated one vacant Purchasing Analyst (1.00 FTE) to free up funding for a higher priority position in Management Information Services.

In Management Information Services added one Information Systems Technician (1.00 FTE) to provide additional resources for the increased workload of responding to trouble calls and installing/repairing computer equipment and also provide additional technical support required for the improved operation of the video web streaming and audio/visual functions in the City Council Chambers during City Council meetings.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

ECONOMIC DEVELOPMENT DEPARTMENT

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
RDA:				
Low/Moderate Income	\$ 19,592,572	\$ 24,181,172	\$ 4,588,600	23%
Administration	2,371,505	2,154,044	(217,461)	-9%
Project Area #1 D/S	17,465,185	23,178,701	5,713,516	33%
Project Area #2 D/S	1,665,598	2,058,846	393,248	24%
Project Area #1 CIP	56,317,749	48,699,153	(7,618,596)	-14%
Project Area #2 CIP	604,539	1,330,000	725,461	120%
VVEDA	500,000	950,000	450,000	90%
Subtotal RDA	\$ 98,517,148	\$ 102,551,916	\$ 4,034,768	4%
CDBG:				
Administration	\$ 1,399,619	\$ 1,504,273	\$ 104,654	7%
HOME	3,300,928	3,290,366	(10,562)	0%
Revolving Loans	1,617,815	1,714,329	96,514	6%
Subtotal CDBG	\$ 6,318,362	\$ 6,508,968	\$ 190,606	3%
Total Economic Development	\$ 104,835,510	\$ 109,060,884	\$ 4,225,374	73%
Full-Time Staff (FTE)	12.33	10.33	-2.00	-16%

Significant Department Expenditure and Staffing Changes:

Redevelopment:

- Funding in the amount of \$34,025,523 has been included to fund various CIP projects including four fire stations, a police station, Rancho Road Undercrossing, the FY 2008-09 Street Improvement Project, the Downtown Park, the widening of Seventh Avenue, an Industrial Park Lead Track, drainage projects and Township Improvements.
- Funding in the amount of \$11,000,000 has been included to fund RDA contributions for affordable family apartments.
- Funds in the amount of \$11,009,530 have been included for commitments to Owner Participation Agreements and for the Façade Improvement Program.
- Funding in the amount of \$3,680,000 has been included for the acquisition of real estate within Project Area 1.
- Funding in the amount of \$1,000,000 has been included for the acquisition of real estate within Project Area 2.
- Funding amounting to \$85,000 has been included for a redesign and upgrade to the City's website.
- Funds in the amount of \$30,000 have been included for graffiti removal services.
- Funding in the amount of \$5,525,000 has been included for acquiring land, buildings, and R-3 properties within the Redevelopment Project Areas to support affordable housing and inclusionary housing requirements.
- Funding in the amount of \$3,268,557 has been included for the administration of the housing portion of the new 2007 RDA Series A and B bonds.
- Funding amounting to \$6,540,908 has been included for the administration of the new 2007 Series A and B bonds attributable to redevelopment activities within Project Area 1 and Project Area 2.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

ECONOMIC DEVELOPMENT DEPARTMENT (Continued)

Significant Department Expenditure and Staffing Changes:

- The Director of Economic Development (1.00 FTE) position is eliminated with the City Manager serving department head of the Economic Development Department and the related Executive Secretary (1.00 FTE) position is also eliminated.
- One Senior Office Assistant (1.00 FTE) position has been eliminated and one Administrative Secretary (1.00 FTE) is added to handle higher level administrative requirements with the ongoing economic development.

Community Development Block Grant:

- Funding in the amount of \$3,290,366 has been included to fund RDA contributions for the Sunrise Terrace I & II affordable family apartments, and the Village at Hesperia Senior Apartments.
- Section 108 funding in the amount of \$1,689,329 has been included for pending inducement offers authorized by the City Council in FY 2007-08 and new inducements to support projects which will create jobs within the City.
- Funding in the amount of \$938,373 has been budgeted for housing programs, as approved within the CDBG Action Plan.
- CDBG HOME grant funding for DAP and HRLP Programs will be discontinued. The Redevelopment Agency has developed and funded new DAP and HRLP programs.

D.S. COMMUNITY DEVELOPMENT

Department	2007-08	2007-08	Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
Planning	\$ 2,142,420	\$ 1,890,754	\$ (251,666)	-12%
Building & Safety	2,176,599	1,630,850	(545,749)	-25%
Total Community Development	\$ 4,319,019	\$ 3,521,604	\$ (797,415)	-18%
Full-Time Staff (FTE)	23.95	22.95	-1.00	-4%

- During the Fiscal Year 2007-08 Mid-year Budget Review, one Community Development Technician (1.00 FTE) position was added in Planning and one Office Assistant (1.00 FTE) and one part-time Office Assistant (0.46 FTE) were eliminated from Code Compliance to more effectively staff the Rental Housing Program administration.
- Completion of the City's General Plan update will require that \$380,000, be carried over from Fiscal Year 2007-08 to the 2008-09 Budget.
- Funding of \$50,000 is included to start the update of the City's Development Code.
- In Building and Safety funding of one vacant Building Inspector (1.00 FTE) position and one vacant Plans Examiner (1.00 FTE) position are eliminated to reflect the current building construction trends.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

D.S. CODE COMPLIANCE

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
Code Enforcement	\$ 1,225,789	\$ 1,076,672	\$ (149,117)	-12%
Animal Control	1,559,225	1,480,080	(79,145)	-5%
Total D.S.-Code Compliance	\$ 2,785,014	\$ 2,556,752	\$ (228,262)	-8%
Full-Time Staff (FTE)	30.64	28.78	-1.86	-6%

Significant Department Expenditure and Staffing Changes:

- During the Fiscal Year 2007-08 Mid-year Budget Review, one Office Assistant (1.00 FTE) and one part-time Office Assistant (0.46 FTE) were eliminated from Code Compliance, Code Enforcement Program, and one Community Development Technician (1.00 FTE) position was added in Planning to more effectively staff the Rental Housing Program Administration.
- Eliminated the vacant part-time Code Enforcement Officer (0.40 FTE) position and use existing staff for the Restoring the Environment for a Cleaner Hesperia (REACH) Program.

D.S. PUBLIC WORKS

Department	2007-08		Change From 2007-08 Budget	
	Budget	Budget	Amount	Percent
Street Maintenance	\$ 3,497,541	\$ 3,170,151	\$ (327,390)	-9%
Engineering	1,391,898	1,049,404	(342,494)	-25%
Building Maintenance	596,224	648,489	52,265	9%
Total D.S. Public Works	\$ 5,485,663	\$ 4,868,044	\$ (617,619)	-11%
Full-Time Staff (FTE)	37.91	37.68	-0.23	-1%

Significant Department Expenditure and Staffing Changes:

- In Engineering one Office Assistant (0.50 FTE) position is added to deal with the additional tracking of plans and projects being handled in-house, while two positions (one Engineering Aide (0.50 FTE) position and one Office Assistant (0.23 FTE) position) are being eliminated as part of a division restructure.
- Added one Engineering Technician (1.00 FTE) position and eliminated one Senior Engineering Technician (1.00 FTE) position.
- In Engineering Contract Services expenditures decreased significantly since all plan checking has been transitioned to be performed in-house and one contract construction inspector is being eliminated.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

D.S. WATER

Department	2007-08 Budget		Change From 2007-08 Budget	
	2007-08 Budget	2007-08 Budget	Amount	Percent
Water Operating				
Source of Supply	\$ 2,621,481	\$ 3,887,535	\$ 1,266,054	48%
Production	4,118,632	3,739,535	(379,097)	-9%
Distribution	1,297,458	1,234,303	(63,155)	-5%
Pipeline Maintenance	2,269,841	1,803,304	(466,537)	-21%
Engineering	1,615,478	1,329,446	(286,032)	-18%
Customer Service	1,521,931	1,280,809	(241,122)	-16%
Utility Billing	798,403	888,243	89,840	11%
Administration	4,608,833	4,508,253	(100,580)	-2%
Property Management	343,522	323,369	(20,153)	-6%
Subtotal Water Operating	\$ 19,195,579	\$ 18,994,797	\$ (200,782)	-1%
Water Capital	23,059,733	14,063,179	(8,996,554)	-39%
Total D.S.-Water	\$ 42,255,312	\$ 33,057,976	\$ (9,197,336)	-22%
Full-Time Staff (FTE)	71.56	72.33	0.77	1%

Significant Department Expenditure and Staffing Changes:

- In Source of Supply, the 53% increase in materials costs included in the 2008-09 Budget, from \$2.4 million to \$3.7 million, is due to the increased costs associated with the purchase of makeup water leases from private owners or the Mojave Water Agency (leases have increased 26-30 percent, from \$150-\$250/acre foot to \$195 - \$315/acre foot).
- In Distribution, funding of \$30,000 is included for one new sport utility vehicle 4x4 for the Maintenance Crew Supervisor.
- In Engineering, one Office Assistant (0.50 FTE) position is added to deal with the additional tracking of plans and projects being handled in-house, while two positions (one Engineering Aide (0.50 FTE) position and one Office Assistant (0.23 FTE) position) are being eliminated as part of a division restructure.
- Added one Engineering Technician (1.00 FTE) position and eliminated one Senior Engineering Technician (1.00 FTE) position.
- In Engineering Contract Services, expenditures decreased significantly since all plan checking has been transitioned to be performed in-house, and one contract construction inspector is being eliminated.
- In Engineering, funding has been included for a replacement pick-up truck to be used by an Inspector.
- In Utility Billing, additional funding has been included to complete the conversion of the Utility Billing module from the AS400 to a sequel environment.
- In Property Management, one full-time Custodian (1.00 FTE) position is added primarily to support the needs of the expanded Mojave Corporation Yard.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

D.S. SEWER

Department	2007-08		Change From 2007-08 Budget	
	<u>Budget</u>	<u>Budget</u>	<u>Amount</u>	<u>Percent</u>
Sewer Operations	\$ 1,160,077	\$ 1,537,171	\$ 377,094	33%
Sewer Capital	1,000,000	2,650,000	1,650,000	165%
Total D.S. Sewer	\$ 2,160,077	\$ 4,187,171	\$ 2,027,094	94%
Full-Time Staff (FTE)	5.69	5.69	0.00	0%

Significant Department Expenditure and Staffing Changes:

- Treatment charges from the Victor Valley Wastewater Reclamation Authority (VWVRA) increased 25 percent in Fiscal Year 2007-08 and will increase by 20 percent in Fiscal Year 2008-09. Sewer treatment charges paid to VWVRA are estimated to be \$950,000 or 62% of the \$1.5 million Sewer Operations 2008-09 Budget.

POLICE DEPARTMENT

Department	2007-08		Change From 2007-08 Budget	
	<u>Budget</u>	<u>Budget</u>	<u>Amount</u>	<u>Percent</u>
Police	\$ 11,316,421	\$ 12,036,764	\$ 720,343	6%
Total Police	\$ 11,316,421	\$ 12,036,764	\$ 720,343	6%
Full-Time Staff (FTE)	73.50	75.50	2.00	3%

Significant Department Expenditure and Staffing Changes:

- The contract with the County Board of Supervisors for Police Services is proposed to increase in total by 4.5%, or \$480,767 from \$10,638,425 to \$11,119,192. To continue the current level of services, the contract increased 1.5%, or \$154,298, from \$10,638,425 to \$10,792,723. In addition to current level, \$326,469 is included for one additional Sergeant and one additional Sheriff's Deputy to maintain the 0.65 Officers per 1,000 population service ratio.
- During Fiscal Year 2007-08 the State reimbursed the County directly for booking fees, however based on actions expected by the Legislature, it is anticipated that cities will pay half the booking fee costs to the County, however hopefully not more. Therefore, \$256,750 is included to pay half the booking fee cost for an estimated 3,250 adults.
- Overtime funding of \$417,999 is included to fully fund anticipated overtime needs. This is a 220% increase over the Fiscal Year 2007-08 budgeted level which was lower because of vacancy savings from the County contract due to the lag time in filling new sworn positions.

FISCAL YEAR 2008-09 BUDGET SUMMARY

Summary of Operating Expenditures and Staffing Changes (Continued)

FIRE DISTRICT

Department	2007-08	2007-08	Change From 2007-08 Budget	
	<u>Budget</u>	<u>Budget</u>	<u>Amount</u>	<u>Percent</u>
Operations and Community Safety	\$8,091,789	\$9,217,872	\$ 1,126,083	5%
Administration	1,861,780	240,632	(1,621,148)	139%
Total Fire District	\$ 9,953,569	\$ 9,458,504	\$ (495,065)	17%
Full-Time Staff (FTE)	59.00	59.00	0.00	n/a

Significant Department Expenditure and Staffing Changes:

- The County Contract for the current level of service has increased from \$8,091,789 to \$9,217,872, for a \$1,126,083, or 13.9% increase paid to the San Bernardino County Consolidated Fire District for the continuation of 53.0 FTE safety staff and 6.0 FTE non-safety staff, plus other expenses provided in the contract.
- Reduction in administration expenditures is primarily due to reduced expenditures for prior Workers' Compensation Claims and no proposed vehicle expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hesperia's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read this in conjunction with the accompanying transmittal letter, the accompanying basic financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased 22.1% from \$177.6 million to \$216.8 million as a result of this year's operations. This can be mostly attributed to the growth of the City including increased revenues from taxes.
- During the year, the City's taxes and other governmental revenues exceeded expenses by \$32.7 million. This reflects the increase in the City's population and the ongoing development activity that occurred during the fiscal year.
- The total revenues from all sources increased \$13.0 million (12.4%) from the prior year. This change is principally the result of increased property tax revenues (\$10.3 million) and of that, mostly the increased tax increment revenue (\$8.9 million) in the Hesperia Community Redevelopment Agency.
- The total cost of all City programs was \$78.7 million, an increase of \$22.8 million or 40.7% over June 30, 2006. The increase can be attributed to the increased spending (\$15.0 million) in the Development Services function which oversees the City's infrastructure expenditures.
- The General Fund reported excess resources (revenue and transfers) over expenditures of \$4.8 million primarily because of growing tax revenues and ongoing development related revenue during the 2006-07 fiscal year.
- For the General Fund, actual resources available for appropriation (resources or inflows) exceeded final budget by \$3.1 million while actual appropriations (outflows) were \$3.3 million less than the final budget.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

The financial statements presented herein include all the activities of the City of Hesperia and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Assets and the Statement of Activities – report information about the City as a whole and about its

activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting method*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities—All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, and public works. Property taxes, transient occupancy taxes, sales taxes, franchise fees, and various special revenues finance most of these activities.
- Component units—The City's governmental activities include the blending of two separate legal entities—the Hesperia Community Redevelopment Agency and the Hesperia Fire Protection District with the City. Although legally separate, these "component units" are important because the City is financially accountable for them.
- Business-Type activities—The City's business-type activities, water service and sewer service, are provided by the Hesperia Water District.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of operating funds—*governmental* and *proprietary*—use different accounting approaches. The City also oversees *fiduciary* funds as described below.

- *Governmental funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation following the fund financial statements.
- *Proprietary funds*—When the City charges fees to its own departments or to its citizens to cover the costs for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City uses proprietary funds to report its water utility activities.

The City as Trustee — Fiduciary Responsibilities

The City is the trustee, or *fiduciary*, for certain amounts held on behalf of developers, property owners, and others. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Our analysis focuses on the Condensed Statement of Net Assets (Table 1) and Condensed Statement of Activities (Table 2) of the City's governmental activities and business-type activities. In prior years, the City incurred debt to build some of the infrastructure. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets. At June 30, 2006 the full effect of that debt is factored against the capital asset value. The City of Hesperia is now reporting, under the Governmental Activities - Capital Assets, the full infrastructure value of the City's streets, storm drains, traffic signals, and other assets as the retroactive valuation (net of accumulated depreciation) was completed one year earlier than required.

Factoring in the addition of the current year capital assets, the largest portions being the new Branch Library and Civic Plaza, the City's net assets increased from \$177.6 million to \$216.8 million. This increase of \$39.2 million comes from the change in net assets as recorded in the Condensed Statement of Activities and flows through the Condensed Statement of Net Assets. The nonproprietary (governmental types) infrastructure includes: paved streets, sidewalks, traffic signals, storm drains and flood control channels, etc. The Water District continues to maintain the water and sewer infrastructure which includes water storage tanks, water pumping equipment, water transmission lines, and sewer lines, etc.

Table 1
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 113,365,907	\$ 128,151,475	\$ 35,907,764	\$ 34,222,183	\$ 149,273,671	\$ 162,373,658
Capital assets	79,443,376	96,785,348	66,824,607	75,129,472	146,267,983	171,914,820
Total Assets	192,809,283	224,936,823	102,732,371	109,351,655	295,541,654	334,288,478
Long-term debt outstanding	78,232,809	74,954,514	16,621,882	15,676,703	94,854,691	90,631,217
Other liabilities	17,518,797	20,172,244	5,605,350	6,668,228	23,124,147	26,840,472
Total Liabilities	95,751,606	95,126,758	22,227,232	22,344,931	117,978,838	117,471,689
Net Assets:						
Invested in capital assets, net of debt	44,983,065	53,616,857	49,322,662	58,520,406	94,305,727	112,137,263
Restricted	-	5,629,284	394,760	395,227	394,760	6,024,511
Unrestricted	52,074,612	70,563,924	30,787,717	28,091,091	82,862,329	98,655,015
Total Net Assets	\$ 97,057,677	\$ 129,810,065	\$ 80,505,139	\$ 87,006,724	\$ 177,562,816	\$ 216,816,789

A brief explanation for the balance change of each line of Table 1 above follows below. These explanations tell the story behind the \$39.2 million increase in net assets:

- Current and other assets – for governmental activities, increased \$14.8 million primarily due to increased property tax revenue resulting from recent increased development activity and investment income revenue from the higher cash balances; and decreased by \$1.7 million, for

business-type activities, because the Water District had a decrease in cash and cash equivalents of \$2.2 million.

- Capital assets – increased, for governmental activities, by \$17.3 million (\$21.4 million net of depreciation). The primary reason for this growth is the completion of the new Branch Library (\$8.4 million) and the Civic Plaza buildings (\$19.0 million).

	FY2006 Balance	FY2007 Additions/ Deletions	FY2007 Balance
Land	\$ 6,282,125	\$ 2,781,910	\$ 9,064,035
Land improvements	394,920	-	394,920
Buildings and improvements	2,559,164	27,456,107	30,015,271
Equipment and vehicles	8,444,258	1,760,645	10,204,903
Infrastructure	69,614,023	565,760	70,179,783
Construction in progress	21,375,928	(11,263,510)	10,112,418
Total additions	108,670,418	21,300,912	129,971,330
Less: Accumulated depreciation	(29,227,042)	(3,958,940)	(33,185,982)
Capital asset increase	\$ 79,443,376	\$ 17,341,972	\$ 96,785,348

For business-type activities, capital assets increased by \$8.3 million over June 30, 2006 principally from the replacement of aged steel water lines and other infrastructure projects of the District. The majority of this increase is shown in Construction in Progress in Table 3.

- Long-term debt outstanding – debt service activity resulted in a decrease of \$3.3 million for governmental activities due to scheduled payments on the outstanding debt along with an extra principal payment (over \$1.0 million) on the 2004 Refunding Variable Rate Lease Revenue Bonds. Debt service activity for business-type activities resulted in a net decrease of \$0.9 million from June 30, 2006 total due to principal payments on outstanding debt.
- Other liabilities – for governmental activities increased \$2.7 million primarily because of increased pass through payments owed at June 30, 2007. Business-type activities increased \$1.1 million from June 30, 2006 mostly due to increased year-end payables to contractors replacing the District's water lines.
- Invested in capital assets, net of debt – improved for governmental activities by \$8.6 million mostly attributable to the new Branch Library and Civic Plaza. For business-type activities, increased by \$9.2 million, or 18.6%, over the year ended June 30, 2006; and is largely due to the increase of the construction in progress balance as shown in Table 3.
- Unrestricted net assets – increased \$18.4 million for governmental activities and decreased \$2.7 million for business-type activities, again primarily due to ongoing development activity.

As reflected in Table 2, the City's net assets increased \$39.2 million, from \$177.6 million to \$216.8 million, over the prior fiscal year. The June 30, 2007 total Program revenues increased by \$3.9 million and were 41.8% of total revenues funding 62.6% of total expenses that increased only \$22.8 million or 40.7% from June 30, 2006.

Table 2
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues						
Program revenues:						
Charges for services	19,116,783	15,995,855	15,236,810	15,836,904	34,353,593	31,832,759
Operating contributions and grants	11,048,636	17,440,925	-	-	11,048,636	17,440,925
Capital contributions and grants	-	-	-	-	-	-
Total program revenues	<u>30,165,419</u>	<u>33,436,780</u>	<u>15,236,810</u>	<u>15,836,904</u>	<u>45,402,229</u>	<u>49,273,684</u>
General revenues:						
Taxes:						
Property taxes	24,176,799	34,413,418	145,452	363,921	24,322,251	34,777,339
Sales and use tax	9,143,934	10,322,560	-	-	9,143,934	10,322,560
Transient occupancy tax	573,167	659,255	-	-	573,167	659,255
Franchise tax	2,012,833	2,176,231	-	-	2,012,833	2,176,231
Document transfer tax	819,907	567,321	-	-	819,907	567,321
Vehicle license fees	5,732,562	7,031,180	-	-	5,732,562	7,031,180
Income from property and investments	3,590,947	5,019,835	902,209	1,323,537	4,493,156	6,343,372
System improvement and replacement	-	-	10,721,686	5,539,018	10,721,686	5,539,018
Capital Contributions	987,236	443,062	-	-	987,236	443,062
Gain on sale of land	124,220	-	-	-	124,220	-
Other	246,050	528,721	400,336	331,965	646,386	860,686
Total general revenues	<u>47,407,655</u>	<u>61,161,583</u>	<u>12,169,683</u>	<u>7,558,441</u>	<u>59,577,338</u>	<u>68,720,024</u>
Total revenues	<u>77,573,074</u>	<u>94,598,363</u>	<u>27,406,493</u>	<u>23,395,345</u>	<u>104,979,567</u>	<u>117,993,708</u>
Expenses						
General government	5,461,656	7,069,940	-	-	5,461,656	7,069,940
Public safety	13,671,886	16,926,772	-	-	13,671,886	16,926,772
Transportation	-	-	-	-	-	-
Development services	19,387,801	34,337,164	-	-	19,387,801	34,337,164
Interest on long-term debt	2,996,243	3,512,099	-	-	2,996,243	3,512,099
Water	-	-	13,424,254	15,654,073	13,424,254	15,654,073
Wastewater	-	-	1,013,317	1,239,687	1,013,317	1,239,687
Total expenses	<u>41,517,586</u>	<u>61,845,975</u>	<u>14,437,571</u>	<u>16,893,760</u>	<u>55,955,157</u>	<u>78,739,735</u>
Excess/(Deficiency) of revenues over/						
(under) expenses	36,055,488	32,752,388	12,968,922	6,501,585	49,024,410	39,253,973
Transfers in	-	-	327,030	-	327,030	-
Transfers out	(327,030)	-	-	-	(327,030)	-
Change in net assets	<u>35,728,458</u>	<u>32,752,388</u>	<u>13,295,952</u>	<u>6,501,585</u>	<u>49,024,410</u>	<u>39,253,973</u>
Net assets at July 1, as previously stated	29,370,018	97,057,677	67,209,187	80,505,139	96,579,205	177,562,816
Prior period adjustment	31,959,201	-	-	-	31,959,201	-
Net assets at July 1, as restated	<u>61,329,219</u>	<u>97,057,677</u>	<u>67,209,187</u>	<u>80,505,139</u>	<u>128,538,406</u>	<u>177,562,816</u>
Net assets at June 30	<u>97,057,677</u>	<u>129,810,065</u>	<u>80,505,139</u>	<u>87,006,724</u>	<u>177,562,816</u>	<u>216,816,789</u>

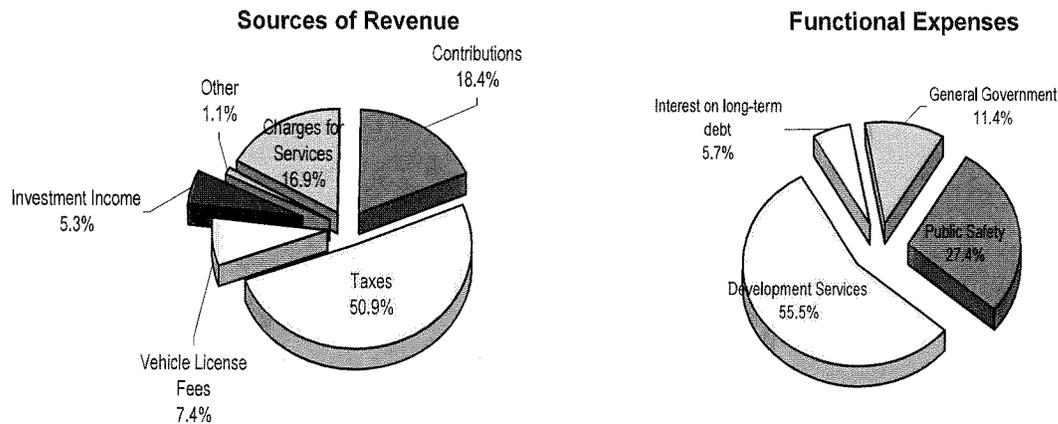
GOVERNMENTAL ACTIVITIES

The City's net assets from governmental activities increased \$32.8 million, accounting for 83.4% of the total change in net assets of the City of Hesperia. The cost of all governmental activities this year was \$61.8 million. However, as shown in Table 2, the amount that the taxpayers ultimately financed for these

activities was only \$28.4 million (\$61.8 million less \$33.4 million), because most of the cost was paid by those who directly benefited from the programs (\$16.0 million), or by other governments and organizations that partially funded certain programs with operating grants and contributions (\$17.4 million).

Overall, the City's governmental program revenues were \$33.4 million. The City paid for the remaining "public benefit" portion of governmental activities with \$61.1 million in taxes (some of which could only be used for certain programs) and other revenues, such as vehicle license fees and general entitlements.

Fiscal Year 2007 Government Activities
(see Table 2)



The City's programs for governmental activities include General Government, Public Safety (Fire and Police), Development Services, and Interest on Long-Term Debt. The programs for the business type activities include the water and wastewater utilities.

BUSINESS TYPE ACTIVITIES

The City's net assets from business-type activities increased \$6.5 million, which accounts for 16.6% of the total increase in the City of Hesperia's net assets. The cost of all Proprietary (Business Type) activities this year was \$16.9 million. As shown in the Condensed Statement of Activities, the amounts paid by users of the systems were \$15.8 million. These charges for services reflect only a growth in the customer base as the Water District did not raise its rates. General revenues of \$7.6 million make up the remainder of the \$23.4 million Proprietary Fund (Business Type) revenues and are the primary source of funding to deal with expanding the capacity of the system.

The major portion of the \$7.6 million in general revenues, in the proprietary (business type) activities were \$5.5 million in capital facility and capital surcharge revenues. Additionally, there were \$1.3 million of income from property and investments.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end the City's governmental funds reported combined fund balances of \$108.9 million, which is an increase of \$12.0 million or 12.4% from last year. The Branch Library fund reflects a negative fund balance due to the timing of draw requests for grant funds. One non-major fund (Home Grant) has a \$61,636 negative fund balance.

- The General Fund had surplus revenues, prior to other financing sources, of \$4.7 million a decrease of \$2.3 million from the \$7.2 million surplus of June 30, 2006. This lower surplus resulted from increased expenditures as total revenues decreased \$0.6 million. The decrease in revenues was largely the result of the decreased issuance of single family residential building permits that changed from FY 2005-06 of 1,645 to FY2006-07 of 634.
- The Fire Protection District's fund reported a balance of \$2.5 million, which is an increase of about \$0.4 million or 21.8% over June 30, 2006's ending fund balance of \$2.1 million. Major revenues which increased during the year were Redevelopment Agency pass through (\$0.5 million), property tax revenue (\$0.3 million), and paramedic ambulance fees and assessment district revenue (\$0.3 million). The property tax based revenues increased because of the City's recent population and development growth. Additionally, the added 4th ambulance has increased the related ambulance revenue.
- The Redevelopment Agency Special Revenue fund saw a fund balance increase of \$4.3 million over the FY2005-06 ending fund balance of \$15.1 million. This increase is primarily from the growth of the Agency's tax increment revenue of which this fund receives 20% to meet the low to moderate income housing needs of the City.
- Income from the Development Impact funds remained strong with combined surplus revenues of \$5.2 million. The majority of the increased revenue is from an increase in fees charged during the permitting process. The fee increases is from identified capital projects needed to accommodate the growing population. These funds will be used on future capital projects.
- The combined Redevelopment Agency Debt Service funds balances grew by \$7.4 million due to increases in tax increment revenue from increases in assessed valuation and new development.
- The Redevelopment Agency 2005 Capital Projects fund balances decrease of \$7.2 million, from the FY2005-06 ending fund balance of \$16.4 million, is primarily the result of capital outlay for which the bonds were issued.

General Fund Budgetary Highlights

The final expenditures for the General Fund at year-end were \$3.3 million less than the final budget. The budget to actual variance in appropriations was principally due to conservative estimates at mid-year by management. Actual revenues compared favorably to the final budget with tax revenue being \$0.6 million over estimates because of growing sales tax and higher than expected property tax. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSETS

The capital assets of the City are those assets that are used in the performance of the City's functions including infrastructure assets (See Table 3 below). For more detailed information about the City's assets, see Note 4 Capital Assets. At June 30, 2007, capital assets, net of depreciation, of the governmental activities totaled \$96.8 million and the net capital assets of the business-type activities totaled \$75.1 million. Depreciation on capital assets is recognized in the Government-Wide financial statements.

The City has elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting for the streets. Using the "Basic Approach" the City depreciates the value of the streets over a twenty (20) year period. As repaving of street segments is done (overlays must be at least one inch thick), the value of that work will be added and any remaining book value of that segment will be reduced from the streets infrastructure class.

**Table 3
Capital Assets at Year-end**

	Balance at July 1, 2006 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2007 Net of Accumulated Depreciation
Governmental Activities:					
Land	\$ 6,282,125	\$ 2,781,910	\$ -	\$ -	\$ 9,064,035
Construction in process	21,375,928	16,716,357	(27,979,867)	-	10,112,418
Land improvements	79,341	-	-	(19,746)	59,595
Vehicles	1,709,845	1,169,295	-	(309,352)	2,569,788
Building and structures	1,807,007	27,456,107	-	(51,732)	29,211,382
Machinery and equipment	897,347	591,350	-	(172,489)	1,316,208
Infrastructure	47,291,783	565,760	-	(3,405,621)	44,451,922
	<u>\$ 79,443,376</u>	<u>\$ 49,280,779</u>	<u>\$ (27,979,867)</u>	<u>\$ (3,958,940)</u>	<u>\$ 96,785,348</u>
Business-type Activities:					
Land	\$ 653,167	\$ 558,063	\$ -	\$ -	\$ 1,211,230
Land improvements	379,363	-	-	(39,444)	339,919
Vehicles	692,151	459,416	-	(113,855)	1,037,712
Building and structures	2,719,429	-	-	(249,449)	2,469,980
Machinery and equipment	1,087,525	151,381	-	(155,420)	1,083,486
Infrastructure:					
Water facilities	54,769,459	287,370	-	(2,118,026)	52,938,803
Sewer facilities	3,904,811	-	-	(156,381)	3,748,430
Construction in progress	2,618,702	9,968,580	(287,370)	-	12,299,912
	<u>\$ 66,824,607</u>	<u>\$ 11,424,810</u>	<u>\$ (287,370)</u>	<u>\$ (2,832,575)</u>	<u>\$ 75,129,472</u>

DEBT ADMINISTRATION

Debt issued by the City of Hesperia and component governmental entities is not the responsibility of the Hesperia Water District (business-type activities); in like manner the debt issued by the Hesperia Water District is not the responsibility of the City of Hesperia and its component governmental entities. Table 4, below, presents the outstanding debt. For more detailed information about debt, see Note 5 Long-Term Debt.

**Table 4
Outstanding Debt, at Year-end**

	Principal Balance at June 30,2006	Additions	Deductions	Principal Balance at June 30,2007
Governmental Activities:				
Loans	\$ 1,650,000	\$ -	\$ (150,000)	\$ 1,500,000
Notes	-	-	-	-
Revenue bonds	58,800,000	-	(2,900,000)	55,900,000
Less deferred amounts:				
Bond premiums	1,404,484	-	(48,570)	1,355,914
Bond discounts	(18,937)	-	2,124	(16,813)
Sub-total Revenue Bonds	<u>60,185,547</u>	<u>-</u>	<u>(2,946,446)</u>	<u>57,239,101</u>
Certificates of Participation	18,300,000	-	-	18,300,000
Compensated absences	352,533	85,546	-	438,079
Claims payable	533,160	-	(125,271)	407,889
	<u>\$ 81,021,240</u>	<u>\$ 85,546</u>	<u>\$ (3,221,717)</u>	<u>\$ 77,885,069</u>
Business-type Activities:				
Loans	\$ 1,242,947	\$ -	\$ (337,121)	\$ 905,826
Certificates of participation	1,145,000	-	(35,000)	1,110,000
Revenue bonds	16,760,000	-	(605,000)	16,155,000
Less: deferred amounts:				
Bond discounts	(142,657)	-	7,305	(135,352)
On refunding	(1,503,345)	-	76,937	(1,426,408)
Compensated absences	93,834	12,026	-	105,860
Claims payable	93,331	-	(18,682)	74,649
	<u>\$ 17,689,110</u>	<u>\$ 12,026</u>	<u>\$ (911,561)</u>	<u>\$ 16,789,575</u>

Debt considered a liability of government activities decreased in FY2006-07 by \$3.2 million, which was the result of normal debt service activity. Debt of the business-type activities decreased by \$0.9 million in FY2006-07 as a result of the normal amortization of debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

From the FY2006-07 Budget of \$122.3 million, the estimated revenues are expected to grow to \$127.7 million for the FY2007-08 Budget reflecting a modest increase of 4%. While overall City revenues are budgeted to grow only 4%, the Redevelopment Agency is budgeting an \$8.8 million or 28% increase from the FY2006-07 revenue of \$31.0 million to an estimated \$39.8 million. Some of these increased revenues are planned to support a new Redevelopment Agency bond issue which will finance, in part, a significant portion of the \$105.0 million FY2007-08 Capital Improvement Program.

Development related revenues are budgeted to be significantly reduced in FY2007-08 from the totals received in FY2006-07 primarily as a result of the current housing market slowdown. Most prominent industry analysts expect this housing slowdown to persist through the end of the 2008 calendar year. The measurement used by the City to diagnose the health of the local housing market is the number of single family residential (SFR) permits issued. For FY2005-06 the number of SFRs issued was 1,645 followed by 634 issued in FY2006-07. In FY2007-08 the City anticipates issuing only 600 SFRs.

However, to mitigate these declining numbers the City does expect increased commercial development activity to offset most of the decline in residential permitting revenue.

New items specifically addressed in the FY2007-08 budget were:

Transportation: \$56.7 million is budgeted toward transportation projects for FY2007-08. Some of these projects include:

- \$20,920,267 for the 2007-08 Street Improvement Program which, is expected to pave approximately 57 miles of roads and slurry seal another 4 miles within the City.
- \$10,164,625 is budgeted toward the Rancho road/I-15 Interchange project approval and environmental document focusing on design, right-of-way acquisition, and construction.
- \$8,200,000 for final environmental documents, right-of-way appraisal and acquisition, the completion of revised construction plans, and the start of construction for the Rancho Road Undercrossing.
- \$4,360,000 is budgeted toward the widening of Seventh Avenue from Main Street north to Willow Street.
- \$13,042,965 is budgeted toward sixteen other street projects varying from phases related to planning to project completion.

Police: For the FY2007-08 budget the City Council plans to use \$538,301 from the General fund to maintain the current level of service and an additional \$1,232,699 to add six additional safety personnel and 3 non-safety personnel and related additional vehicles.

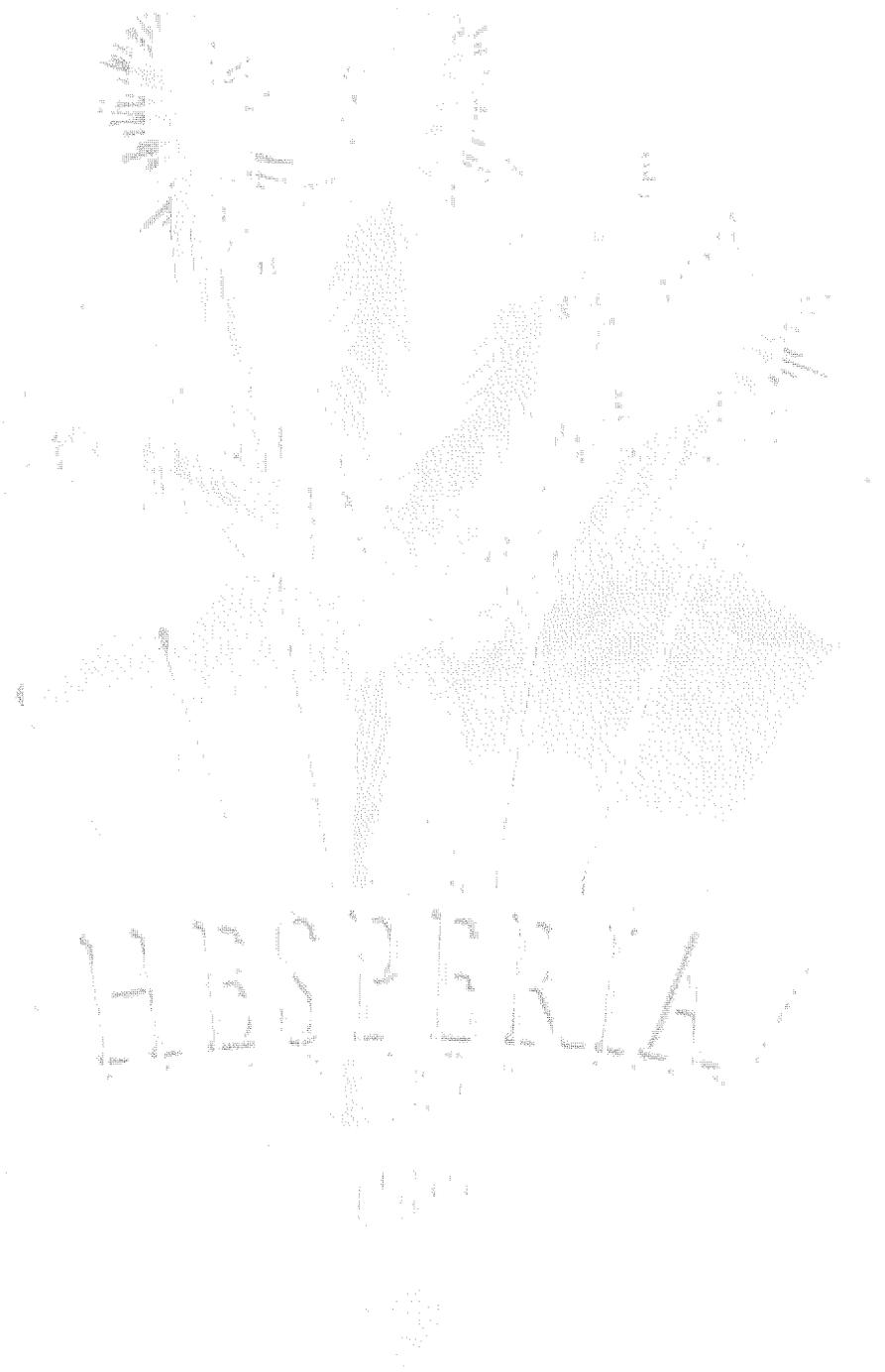
Fire: The fiscal year 2007-08 Budget shows no personnel increases but only \$370,384 to cover the increased cost of maintaining the current level of service. Additionally, the District will replace two fire engines, two ambulances, and two Battalion Command vehicles for a total cost of \$1,505,000.

Water: The Water District is budgeting an operating (water and sewer) revenue increase of \$1.1 million or 7.0% from the City's population growth. Future water rates will be determined during the 2007-08 fiscal year as the District will conduct a survey of water rates which are expected to be implemented early in calendar year 2008. The District has foregone increasing the water rates by the CPI change as indicated by the fiscal year 2000-01 rate analysis in-lieu of the water rate study.

The District is budgeted to use \$18.1 million of reserves in addition to the budgeted capital (water and sewer) revenues of \$5.9 million for various capital projects as outlined in the FY2007-08 Budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Division, at the City of Hesperia, 9700 Seventh Avenue, Hesperia, California 92345.



CITY OF HESPERIA

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	Primary Government		Total
	Governmental Activities	Business-type Activities	
Current Assets:			
Cash and cash equivalents	\$ 75,690,482	\$ 26,638,479	\$ 102,328,961
Receivables			
Accounts, net	786,672	3,164,601	3,951,273
Accrued interest	1,106,359	329,571	1,435,930
Due from other governmental agencies	10,391,487	58,833	10,450,320
Loans receivable	4,500	-	4,500
Inventories	-	890,566	890,566
Deposits	-	22,284	22,284
Total Current Assets	87,979,500	31,104,334	119,083,834
Noncurrent Assets:			
Restricted assets:			
Cash and investments with fiscal agent	31,801,297	10,029	31,811,326
Cash held for bondholders	-	900,115	900,115
Cash held for bond reserves	5,629,284	385,198	6,014,482
Total Restricted Assets	37,430,581	1,295,342	38,725,923
Deferred charges	2,069,315	335,453	2,404,768
Deposits	672,079	178,654	850,733
Water rights	-	1,308,400	1,308,400
Capital Assets:			
Land	9,064,035	1,211,230	10,275,265
Land improvements	394,920	790,727	1,185,647
Buildings and improvements	30,015,272	7,658,113	37,673,385
Equipment and vehicles	10,204,903	6,518,496	16,723,399
Infrastructure	70,179,783	-	70,179,783
Water and sewer facilities	-	90,392,534	90,392,534
Construction in progress	10,112,417	12,299,912	22,412,329
Less: Accumulated depreciation	(33,185,982)	(43,741,540)	(76,927,522)
Total Capital Assets	96,785,348	75,129,472	171,914,820
Total Noncurrent Assets	136,957,323	78,247,321	215,204,644
Total assets	\$ 224,936,823	\$ 109,351,655	\$ 334,288,478

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

LIABILITIES	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable and other current liabilities	\$ 7,056,802	\$ 4,146,980	\$ 11,203,782
Accrued interest payable	781,562	89,130	870,692
Deposits	-	419,131	419,131
Due to other governmental agencies	9,403,325	-	9,403,325
Due to bondholders	-	900,115	900,115
Long-term debt-due within one year	2,930,555	1,112,872	4,043,427
Total Current Liabilities	20,172,244	6,668,228	26,840,472
Noncurrent Liabilities:			
Long-term debt-due in more than one year	74,954,514	15,676,703	90,631,217
Total Noncurrent Liabilities	74,954,514	15,676,703	90,631,217
Total liabilities	95,126,758	22,344,931	117,471,689
NET ASSETS			
Invested in capital assets, net of related debt	53,616,857	58,520,406	112,137,263
Restricted for debt service	5,629,284	395,227	6,024,511
Unrestricted	70,563,924	28,091,091	98,655,015
Total net assets	\$ 129,810,065	\$ 87,006,724	\$ 216,816,789

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 7,069,940	\$ 6,276,500	\$ -	\$ -
Public safety	16,926,772	2,723,734	356,164	-
Transportation	-	-	5,842,182	-
Development services	34,337,164	6,995,621	11,242,579	-
Interest on long-term debt	3,512,099	-	-	-
Total governmental activities	<u>61,845,975</u>	<u>15,995,855</u>	<u>17,440,925</u>	<u>-</u>
Business-type activities:				
Water	15,654,073	13,220,207	-	-
Wastewater	1,239,687	2,616,697	-	-
Total business-type activities	<u>16,893,760</u>	<u>15,836,904</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 78,739,735</u>	<u>\$ 31,832,759</u>	<u>\$ 17,440,925</u>	<u>\$ -</u>

General Revenues
 Property taxes
 Sales and use tax
 Transient occupancy tax
 Franchise tax
 Document transfer tax
 Motor vehicle in lieu
 Unrestricted investment earnings
 Unrestricted system improvement and replacement
 Other
 Unrestricted capital contributions
 Total general revenues and capital contributions
 Change in net assets
 Net assets at beginning of year
 Net assets at end of year

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

Net (Expense)/Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (793,440)	\$ -	\$ (793,440)
(13,846,874)	-	(13,846,874)
5,842,182	-	5,842,182
(16,098,964)	-	(16,098,964)
(3,512,099)	-	(3,512,099)
<u>(28,409,195)</u>	<u>-</u>	<u>(28,409,195)</u>
-	(2,433,866)	(2,433,866)
-	1,377,010	1,377,010
-	(1,056,856)	(1,056,856)
<u>\$ (28,409,195)</u>	<u>\$ (1,056,856)</u>	<u>\$ (29,466,051)</u>
34,413,418	363,921	34,777,339
10,322,560	-	10,322,560
659,255	-	659,255
2,176,231	-	2,176,231
567,321	-	567,321
7,031,180	-	7,031,180
5,019,835	1,323,537	6,343,372
-	5,539,018	5,539,018
528,721	331,965	860,686
443,062	-	443,062
<u>61,161,583</u>	<u>7,558,441</u>	<u>68,720,024</u>
32,752,388	6,501,585	39,253,973
97,057,677	80,505,139	177,562,816
<u>\$ 129,810,065</u>	<u>\$ 87,006,724</u>	<u>\$ 216,816,789</u>

See accompanying independent auditors' report and notes to financial statements.





CITY OF HESPERIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Fire District
Assets		
Cash and cash equivalents	\$ 17,704,748	\$ 2,245,150
Restricted investments	4	-
Accounts receivable, net	465,387	292,862
Accrued interest	275,245	28,381
Loans receivable	-	-
Due from other governmental agencies	1,394,568	338,065
Due from other funds	4,703,402	-
	Total Assets	Total Assets
	\$ 24,543,354	\$ 2,904,458
Liabilities and Fund Balances		
Liabilities		
Accounts payable and other current liabilities	\$ 1,562,578	\$ 364,648
Deferred revenue	273,390	-
Due to other governmental agencies	-	-
Due to other funds	-	-
	Total Liabilities	Total Liabilities
	1,835,968	364,648
Fund Balances		
Reserved for:		
Special Revenue	-	-
Debt Service	-	-
Capital Projects	-	-
Self Insurance	150,000	-
Unreserved, reported in:		
General Fund	22,557,386	-
Special Revenue Funds	-	2,539,810
Debt Service Funds	-	-
Capital Projects Funds	-	-
	Total Fund Balances	Total Fund Balances
	22,707,386	2,539,810
	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances
	\$ 24,543,354	\$ 2,904,458

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

<u>Redevelopment Agency Special Revenue</u>	<u>Development Impact Fees Street</u>	<u>Redevelopment Agency Debt Service</u>	<u>Government Center</u>	<u>Branch Library</u>	<u>Redevelopment Agency 2005 Capital Projects</u>
\$ 10,153,108	\$ 17,853,021	\$ 9,558,494	\$ -	\$ -	\$ 363,528
8,346,846	-	2,588,692	5,316,000	-	18,266,226
-	-	-	-	-	75
133,945	195,277	217,226	-	-	69,148
4,500	-	-	-	-	-
776,742	-	1,893,024	-	423,994	409,668
-	-	9,471,988	-	-	-
<u>\$ 19,415,141</u>	<u>\$ 18,048,298</u>	<u>\$ 23,729,424</u>	<u>\$ 5,316,000</u>	<u>\$ 423,994</u>	<u>\$ 19,108,645</u>
\$ 12,252	\$ 406,493	\$ -	\$ 772,411	\$ 346,280	\$ 496,487
-	-	-	-	-	-
-	-	9,403,325	-	-	-
-	-	-	1,023,076	1,718,949	9,471,988
<u>12,252</u>	<u>406,493</u>	<u>9,403,325</u>	<u>1,795,487</u>	<u>2,065,229</u>	<u>9,968,475</u>
19,402,889	-	-	-	-	-
-	-	13,927,264	-	-	-
-	-	-	-	-	9,140,170
-	-	-	-	-	-
-	-	-	-	-	-
-	17,641,805	-	-	-	-
-	-	398,835	-	-	-
-	-	-	3,520,513	(1,641,235)	-
<u>19,402,889</u>	<u>17,641,805</u>	<u>14,326,099</u>	<u>3,520,513</u>	<u>(1,641,235)</u>	<u>9,140,170</u>
<u>\$ 19,415,141</u>	<u>\$ 18,048,298</u>	<u>\$ 23,729,424</u>	<u>\$ 5,316,000</u>	<u>\$ 423,994</u>	<u>\$ 19,108,645</u>

(Continued)

See accompanying independent auditors' report and notes to financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	Other Governmental Funds	Total Governmental Funds
Assets		
Cash and cash equivalents	\$ 17,812,433	\$ 75,690,482
Restricted investments	2,912,813	37,430,581
Accounts receivable, net	28,348	786,672
Accrued interest	187,137	1,106,359
Loans receivable	-	4,500
Due from other governmental agencies	5,155,426	10,391,487
Due from other funds	-	14,175,390
	Total Assets	\$ 139,585,471
	\$ 26,096,157	\$ 139,585,471
Liabilities and Fund Balances		
Liabilities		
Accounts payable and other current liabilities	\$ 3,095,653	\$ 7,056,802
Deferred revenue	-	273,390
Due to other governmental agencies	-	9,403,325
Due to other funds	1,961,377	14,175,390
	Total Liabilities	30,908,907
	5,057,030	30,908,907
Fund Balances		
Reserved for:		
Special Revenue	-	19,402,889
Debt Service	3,391,920	17,319,184
Capital Projects	-	9,140,170
Self Insurance	-	150,000
Unreserved, reported in:		
General Fund	-	22,557,386
Special Revenue Funds	15,675,516	35,857,131
Debt Service Funds	-	398,835
Capital Projects Funds	1,971,691	3,850,969
	Total Fund Balances	108,676,564
	21,039,127	108,676,564
Total Liabilities and Fund Balances	\$ 26,096,157	\$ 139,585,471

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007

Amounts reported for governmental activities in the statement of Net Assets are different because:

Total fund balances - governmental funds	\$ 108,676,564
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	96,785,348
Accrued interest on long-term debt is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.	(781,562)
Bond issue costs are capitalized net of amortization on the Statement of Net Assets.	2,069,315
The Sales Tax "triple flip" is subject to a "true up" adjustment to be received in January 2008. These revenues are recognized in the government-wide statements and deferred in the fund statements.	273,390
Deposits with Insurance providers to pay for long-term liabilities are not current financial resources and therefore are not recorded on the governmental fund balance sheets.	672,079
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.	<u>(77,885,069)</u>
Net Assets of governmental activities	<u>\$ 129,810,065</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year ended June 30, 2007

	General Fund	Fire District	Redevelopment Agency Special Revenue
Revenues:			
Taxes	\$ 12,365,602	\$ 6,408,530	\$ -
Licenses and permits	230,972	-	-
Fines and forfeits	1,118,631	-	-
Use of money and property	716,929	102,537	702,066
Intergovernmental	8,131,180	-	-
Charges for services	4,138,591	2,028,485	-
Grants	110,269	6,979	-
Other revenues	580,665	-	304,486
Total Revenues	27,392,839	8,546,531	1,006,552
Expenditures:			
Current:			
General government:			
City council	797,740	-	-
City manager	1,188,188	-	-
Management services	3,806,611	-	-
Public safety-police	9,235,189	-	-
Public safety-fire	-	7,589,305	-
Development services	6,586,827	-	293,717
Debt service:			
Interest	-	-	246,445
Principal	-	-	740,000
Pass through payments	-	-	-
Bond administration expense	-	-	2,675
Capital outlay:			
Land	31,144	-	804,342
Buildings and improvements	-	42,000	-
Equipment and vehicles	768,924	460,000	-
Infrastructure	278,230	-	-
Total Expenditures	22,692,853	8,091,305	2,087,179
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,699,986	455,226	(1,080,627)
Other Financing Sources (Uses):			
Transfers in	289,833	-	5,400,247
Transfers out	(18,375)	-	-
Total Other Financing Sources (Uses)	271,458	-	5,400,247
Net Change in Fund Balances	4,971,444	455,226	4,319,620
Fund balances at beginning of year	17,735,942	2,084,584	15,083,269
Fund balances at end of year	\$ 22,707,386	\$ 2,539,810	\$ 19,402,889

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

Development Impact Fees Street	Redevelopment Agency Debt Service	Government Center	Branch Library	Redevelopment Agency 2005 Capital Projects
\$ -	\$ 27,001,236	\$ -	\$ -	\$ -
-	-	-	-	-
710,062	628,582	422,611	-	874,297
4,226,338	-	-	-	-
-	-	-	2,896,437	-
-	-	-	-	1,146,179
<u>4,936,400</u>	<u>27,629,818</u>	<u>422,611</u>	<u>2,896,437</u>	<u>2,020,476</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
10,355	-	-	17,467	2,104,657
-	1,802,254	-	-	-
-	675,000	-	-	-
-	12,326,351	-	-	-
-	2,710	-	-	-
-	-	-	-	1,946,424
-	-	4,547,163	2,285,203	253,229
-	-	-	-	90,377
1,248,176	-	-	-	4,472,139
<u>1,258,531</u>	<u>14,806,315</u>	<u>4,547,163</u>	<u>2,302,670</u>	<u>8,866,826</u>
<u>3,677,869</u>	<u>12,823,503</u>	<u>(4,124,552)</u>	<u>593,767</u>	<u>(6,846,350)</u>
-	-	-	368,552	-
-	(5,400,247)	-	-	(368,552)
-	(5,400,247)	-	368,552	(368,552)
3,677,869	7,423,256	(4,124,552)	962,319	(7,214,902)
13,963,936	6,902,843	7,645,065	(2,603,554)	16,355,072
<u>\$ 17,641,805</u>	<u>\$ 14,326,099</u>	<u>\$ 3,520,513</u>	<u>\$ (1,641,235)</u>	<u>\$ 9,140,170</u>

(Continued)

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year ended June 30, 2007

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Taxes	\$ 3,632,335	\$ 49,407,703
Licenses and permits	-	230,972
Fines and forfeits	-	1,118,631
Use of money and property	893,880	5,050,964
Intergovernmental	4,359,434	12,490,614
Charges for services	1,990,537	12,383,951
Grants	8,596,060	11,609,745
Other revenues	68,001	2,099,331
Total Revenues	19,540,247	94,391,911
Expenditures:		
Current:		
General government:		
City council	-	797,740
City manager	-	1,188,188
Management services	-	3,806,611
Public safety-police	-	9,235,189
Public safety-fire	-	7,589,305
Development services	11,069,252	20,082,275
Debt service:		
Interest	1,135,566	3,184,265
Principal	1,635,000	3,050,000
Pass through payments	-	12,326,351
Bond administration expense	283,604	288,989
Capital outlay:		
Land	-	2,781,910
Buildings and improvements	-	7,127,595
Equipment and vehicles	543,133	1,862,434
Infrastructure	3,087,366	9,085,911
Total Expenditures	17,753,921	82,406,763
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,786,326	11,985,148
Other Financing Sources (Uses):		
Transfers in	4,254,055	10,312,687
Transfers out	(4,525,513)	(10,312,687)
Total Other Financing Sources (Uses)	(271,458)	-
Net Change in Fund Balances	1,514,868	11,985,148
Fund balances at beginning of year	19,524,259	96,691,416
Fund balances at end of year	\$ 21,039,127	\$ 108,676,564

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ 11,985,148
Increase in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		150,655
Capital contributions from outside parties are not recorded on the statement of revenues, expenditures & changes in fund balances. However, they are reported as revenue on the statement of activities.		443,062
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlays	20,857,850	
Depreciation expense	<u>(3,958,940)</u>	16,898,910
Interest Expense is recognized when paid on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized when incurred on the Statement of Activities.		(38,848)
The Sales Tax "triple flip" is subject to a "true up" adjustment to be received in January 2008. These revenues are recognized in the government-wide statements and deferred in the fund statements.		273,390
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments on bonds	3,050,000	
Amortization of costs of issuance, premiums and discounts	(49,654)	
Changes to compensated absences	(85,546)	
Changes to claims payable	<u>125,271</u>	<u>3,040,071</u>
Change in Net Assets of governmental activities		<u>\$ 32,752,388</u>

See accompanying independent auditors' report and notes to financial statements.