

Budget Summary

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Budget Summary

Fiscal Year 2014/2015

Overview of the Operating Budget

The City's Operating Budget is a flexible spending plan that is the legal authority for departments to commit financial resources to provide services within the City of Fontana. The total combined Operating Budget for Fiscal Year 2014-15 for all entities is **\$191.5 million** excluding transfers. This amount includes **\$79.1 million** in the General Fund which provides most of the services commonly associated with government including public safety, recreation, parks, planning and development. The remainder includes **\$84.4 million** in other City funds, **\$27.6 million** in the Fire Protection District, **\$0.3 million** in the Housing Authority, and **\$20,000** in the Community Foundation. Capital project expenditures, listed in the Seven-Year Capital Improvement Program, have been included and are distributed within the appropriate funds.

Total projected revenues for Fiscal Year 2014-15 for all entities are **\$185.2 million** excluding transfers. This amount includes **\$87.4 million** in the General Fund, **\$69.8 million** in other City funds, **\$27.3 million** in the Fire Protection District, **\$0.7 million** in the Housing Authority, and **\$21,800** in the Community Foundation.

Operating transfers represent the movement of cash between funds within each entity. The Fiscal Year 2014-15 Operating Budget includes **\$35.0 million** of operating transfers for all entities. This amount includes **\$34.3 million** transfers between City funds and **\$716,000** transfers between Fire District Funds.

Results from Operations that are negative are offset by the use of Fund Balance.

| | Revenue | Expenditures | Transfers In | Transfers Out | Results from Operations |
|--------------------------|-----------------------|-----------------------|----------------------|------------------------|-------------------------|
| General Fund | \$ 87,424,600 | \$ 79,139,940 | \$ 9,566,300 | \$ (23,096,300) | \$ (5,245,340) |
| Other General Funds | 5,847,490 | 16,376,260 | 12,707,570 | - | 2,178,800 |
| Other City Funds | 63,992,740 | 68,034,380 | 12,050,960 | (11,228,530) | (3,219,210) |
| Fire Protection District | 27,300,100 | 27,608,450 | 716,000 | (716,000) | (308,350) |
| Housing Authority | 648,040 | 290,340 | - | - | 357,700 |
| Community Foundation | 21,800 | 20,000 | - | - | 1,800 |
| Totals | \$ 185,234,770 | \$ 191,469,370 | \$ 35,040,830 | \$ (35,040,830) | \$ (6,234,600) |

General Fund offsets:

\$1.3 million

Current year unappropriated fund balance net of increase to 15% contingency reserve of \$388,000

\$3.0 million

Projected expenditure savings from current year

\$1.0 million

Reduction to PERS Rate Stability Reserve

Budget Summary

Fiscal Year 2014/2015

Revenue History by Category

| | Actual | Actual | Budgeted | Projected | Change | |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|---------------|
| | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | Amount | % |
| Sales Tax | \$27,052,669 | \$29,160,503 | \$31,000,000 | \$32,000,000 | \$1,000,000 | 3.2% |
| Property Tax | 49,827,976 | 63,441,675 | 59,380,360 | 60,376,930 | 996,570 | 1.7% |
| Interest & Rentals | 11,688,408 | 2,397,898 | 8,003,820 | 7,285,500 | (718,320) | -9.0% |
| Franchise Fees | 6,519,005 | 5,882,003 | 6,545,000 | 6,680,000 | 135,000 | 2.1% |
| Business Related | 5,487,118 | 5,443,531 | 5,591,700 | 5,717,300 | 125,600 | 2.2% |
| Development Related | 10,460,236 | 12,651,904 | 14,520,750 | 12,305,900 | (2,214,850) | -15.3% |
| Recreation | 2,783,620 | 2,915,724 | 3,095,030 | 3,076,500 | (18,530) | -0.6% |
| Motor Vehicle In-Lieu | - | 102,472 | 100,000 | 890,000 | 790,000 | 790.0% |
| Reimbursables & Other Revenues | 66,375,900 | 76,794,000 | 107,267,595 | 51,003,910 | (56,263,685) | -52.5% |
| From Other Agencies | 36,308,866 | 5,169,590 | 13,508,340 | 5,898,730 | (7,609,610) | -56.3% |
| Debt proceeds | 8,800,000 | - | 2,548,288 | - | (2,548,288) | 100.0% |
| Total Revenues | \$225,303,798 | \$203,959,300 | \$251,560,883 | \$185,234,770 | (\$66,326,113) | -26.4% |
| Operating Transfers In | 27,245,268 | 27,274,122 | 33,971,784 | 35,040,830 | 1,069,046 | 3.1% |
| | <u>\$252,549,066</u> | <u>\$231,233,422</u> | <u>\$285,532,667</u> | <u>\$220,275,600</u> | <u>(\$65,257,067)</u> | <u>-22.9%</u> |

Revenue History by Entity

| | Actual | Actual | Budgeted | Projected | Change | |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|--------|
| | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | Amount | % |
| City of Fontana | \$123,071,340 | \$173,664,732 | \$215,565,205 | \$157,264,830 | (\$58,300,375) | -27.0% |
| Fontana Fire Protection District | 19,807,644 | 30,318,282 | 26,965,526 | 27,300,100 | 334,574 | 1.2% |
| Fontana Housing Authority | 82,409,091 | (29,593) | 9,008,152 | 648,040 | (8,360,112) | -92.8% |
| Fontana Community Foundation | 15,723 | 5,879 | 22,000 | 21,800 | (200) | -0.9% |
| Total Revenues | \$225,303,798 | \$203,959,300 | \$251,560,883 | \$185,234,770 | (\$66,326,113) | -26.4% |

Budget Summary

Fiscal Year 2014/2015

Expenditure History by Category

| | Actual | Actual | Budgeted | Projected | Change | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|---------------|
| | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | Amount | % |
| Personnel Services | \$72,850,833 | \$73,046,361 | \$81,290,998 | \$80,485,560 | (\$805,438) | -1.0% |
| Operating Costs | 24,970,370 | 24,887,698 | 24,477,777 | 21,241,710 | (3,236,067) | -13.2% |
| Contractual Services | 51,283,822 | 51,245,110 | 72,653,136 | 56,467,830 | (16,185,306) | -22.3% |
| Internal Service Charges | 5,475,370 | 5,712,081 | 6,889,127 | 7,485,380 | 596,253 | 8.7% |
| Capital Expenditures | 34,228,732 | 36,942,445 | 110,028,529 | 16,701,830 | (93,326,699) | -84.8% |
| Debt Service | 5,582,678 | 5,466,585 | 6,861,891 | 5,476,760 | (1,385,131) | -20.2% |
| To Other Agencies | 2,622,683 | 3,041,000 | 3,708,200 | 3,610,300 | (97,900) | -2.6% |
| Other | 8,800,000 | - | 295,789 | - | (295,789) | 100.0% |
| Total Expenditures | \$205,814,488 | \$200,341,280 | \$306,205,447 | \$191,469,370 | (\$114,736,077) | -37.5% |
| Operating Transfers Out | 27,245,268 | 27,274,122 | 33,971,784 | 35,040,830 | 1,069,046 | 3.1% |
| | <u>\$233,059,756</u> | <u>\$227,615,402</u> | <u>\$340,177,231</u> | <u>\$226,510,200</u> | <u>(\$113,667,031)</u> | <u>-33.4%</u> |

Expenditure History by Entity

| | Actual | Actual | Budgeted | Projected | Change | |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|---------------|
| | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | Amount | % |
| City of Fontana | \$179,435,263 | \$176,960,149 | \$267,706,802 | \$163,550,580 | (\$104,156,222) | -38.9% |
| Fontana Fire Protection District | 20,866,685 | 22,086,166 | 25,702,211 | 27,608,450 | 1,906,239 | 7.4% |
| Fontana Housing Authority | 5,507,158 | 1,284,072 | 12,767,559 | 290,340 | (12,477,219) | -97.7% |
| Fontana Community Foundation | 5,382 | 10,893 | 28,875 | 20,000 | (8,875) | -30.7% |
| Total Expenditures | \$205,814,488 | \$200,341,280 | \$306,205,447 | \$191,469,370 | (\$114,736,077) | -37.5% |

Budget Summary

Fiscal Year 2014/2015

Overview of the General Fund Budget

The Budget Development Guidelines adopted by the City Council on February 25, 2014, affirmed the goal for a Contingency Reserve of 15% of annual recurring appropriations, and the Fiscal Year 2014-15 General Fund Operating Budget continues to maintain this goal. General Fund revenues, appropriations and transfers are summarized below:

July 1, 2014 contingency reserve **\$11,483,000**

Sources of funds:

| | | |
|---|--------------|-------------|
| Estimated revenues | \$87,424,600 | |
| Transfers in | 9,566,300 | |
| Reduction to PERS Rate Stability Reserve | 1,000,000 | |
| Current year budget unappropriated | 1,633,340 | |
| Projected expenditure savings from current year | 3,000,000 | |
| Total sources of funds | | 102,624,240 |

Uses of funds:

| | | |
|---------------------|--------------|---------------|
| Appropriations | (79,139,940) | |
| Transfers out | (23,096,300) | |
| Total uses of funds | | (102,236,240) |

June 30, 2015 contingency reserve **\$11,871,000**

Budget Assumptions

Several key budget assumptions were used in preparing the annual budget. These assumptions will be carefully monitored throughout the fiscal year while evaluating budget performance.

The proposed budget makes no provision for **potential State takeaways**. In the event of a State takeaway, staff will be recommending the use of the Economic Uncertainty Reserve or some other reserve at that time.

The proposed budget assumes no further deterioration in the economy, with continuing slow improvement in some areas.

Revenue Assumptions

General Fund Revenues

Most General Fund revenues have been projected with small increases over the current year adjusted budget. FY 2014-15 revenues, excluding transfers, have been projected at \$87.4 million, approximately \$1.5 million more than the current adjusted budget of \$85.9 million.

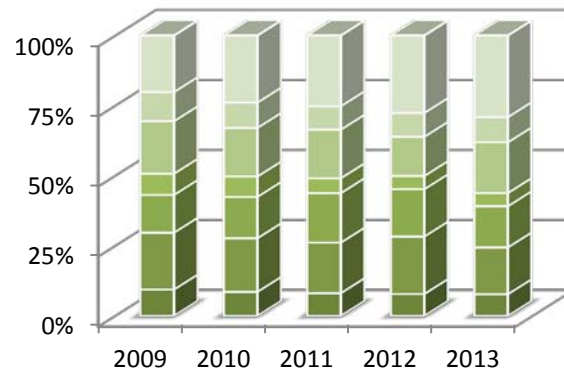


Sales Tax - \$32.0 million – 36.6% of total General Fund revenue

Projected at \$1.0 million higher than the current year adjusted budget, sales tax continues to increase, surpassing the previous peak of \$25.8 million in FY 2007-08.

City of Fontana Sales Tax by Category

- Autos/Transportation
- Building/Construction
- Business/Industry
- Food/Drugs
- Fuel/Service Stations
- General Consumer Goods
- Restaurants/Hotels



Tax Consultant Forecast Statewide Trends By Sales Tax Category

| | |
|------------------------|--------------|
| Auto/Transportation | +5.0% |
| Building/Construction | +7.5% |
| Business/Industry | +2.0% |
| Food/Drugs | +2.0% |
| Fuel/Service Stations | +1.0% |
| General Consumer Goods | +2.0% |
| Restaurants/Hotels | +5.0% |
| Total | +3.7% |

Budget Summary

Fiscal Year 2014/2015



Property Tax - \$19.4 million – 22.1% of total General Fund revenue

Represents an increase from the current year adjusted budget to reflect an estimated 5% increase in City-wide assessed valuation due to the large number of Prop 8 reductions that have previously occurred. The CPI cap for FY 2014-15 is 0.454%. The actual assessed valuation will be available from the County in late July and adjustments will be made through the First Quarter Budget Review as necessary. FY 2013-14 included some one-time true-ups of excess tax increment distributions.



Interest and Rentals - \$4.6 million – 5.2% of total General Fund revenue

Projected to be slightly lower than the current year as investment interest rates continue to be very low.



Franchise Fees - \$6.2 million – 7.1% of total General Fund revenue

Projected slightly higher than the current year adjusted budget reflecting a slowly recovering economy.



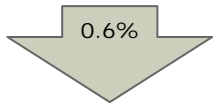
Business Related - \$5.7 million – 6.6% of total General Fund revenue

Projected to increase over the current year adjusted budget reflecting a slowly recovering economy.



Development Related - \$5.1 million – 5.9% of total General Fund revenue

Projected to increase over the current year adjusted budget reflecting a slowly recovering economy. Development-related revenues had been declining over the past few years due to the slowdown in the economy, especially the meltdown in the real estate market.



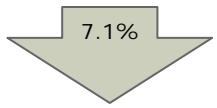
Recreation – \$3.1 million – 3.5% of total General Fund revenue

Projected at approximately the same amount as the current year adjusted budget.



Motor Vehicle In-Lieu – \$0.9 million – 1.0% of total General Fund revenue

Legislation has been introduced to reinstate the special allocation (approximately \$790,000) for newly incorporated annexations which was eliminated during Fiscal Year 2011/12. The additional \$100,000 reflects penalty payments which the City will receive regardless of the outcome of the legislation

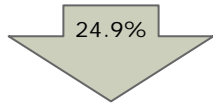


Other Revenues – \$4.5 million – 5.1% of total General Fund revenue

Includes the excess tax increment from Jurupa Hills agreement, code enforcement fines, and animal licenses. Projections are lower than the current year adjusted budget as it included some one-time revenues.

Budget Summary

Fiscal Year 2014/2015



Reimbursables - \$1.9 million – 2.1% of total General Fund revenue

Projected lower than the current year adjusted budget as it included some one-time engineering reimbursements, this category reflects amounts received to reimburse expenditures such as weed abatement charges and Bond CFD administrative charges.



From Other Agencies - \$4.1 million – 4.7% of total General Fund revenue

These revenues are received from other City entities such as the Successor to RDA, the Housing Authority and the Fire Protection District for cost allocation and staff reimbursements, and are slightly less than the current year adjusted budget.

| From Other Agencies For Cost Allocation and Staff Reimbursements | |
|--|----------------|
| Successor to RDA | \$1.50 million |
| Housing Authority | 0.02 million |
| Fire District | 2.61 million |
| Total | \$4.13 million |

Other Fund Revenues

Major changes in other fund revenues from the current adjusted budget include:

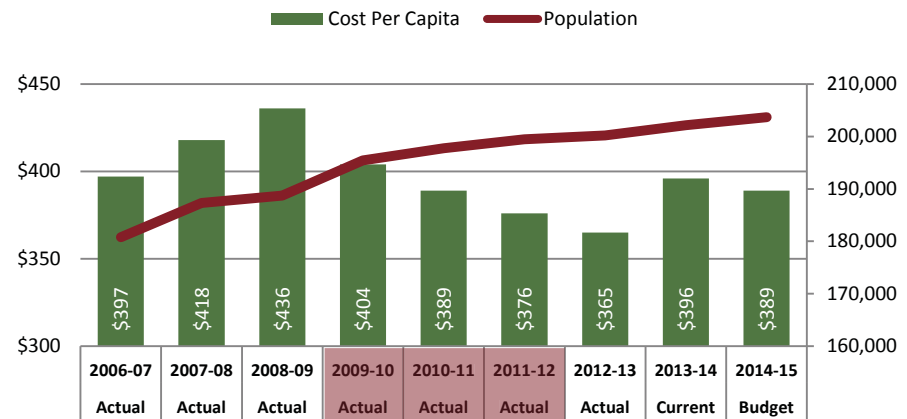
- Changes in one-time revenues for various special revenue and capital project funds.
- Reduction in one-time revenues for Housing Authority.

Expenditure Assumptions

General Fund Expenditures

- Personnel costs increased by \$509,000 as a result of contractual obligations, partially offset by the elimination of two vacant positions.
- Operating cost reductions of \$535,000 and contractual services of \$237,000 are the result of continued cost-saving measures implemented by departments across the board.
- Internal service charge increase of \$483,000 reflects an increase in risk liability and vehicle maintenance costs.
- Capital expenditure increases of \$150,000 reflect proposed departmental equipment purchases.

General Fund Expenditures Per Capita
(adjusted by CPI to 2014 dollars)



➔ *Cost saving measures were implemented from FY 2009-10 through FY 2011-12 including the elimination of 92 full-time, early retirement incentive programs and across-the-board departmental reductions.*

Other Fund Expenditures

Major changes in other fund expenditures from the current adjusted budget include:

- Changes in one-time expenditures for various special revenue and capital project funds.
- Increase in Fire contract including addition of staffing for Fire Station 77, and full year funding for Station 72 staffing added at mid-year.

Financial Challenges Ahead

Recent data, while mixed, continue to suggest moderate economic growth in the near term. The City of Fontana continues to enjoy a measure of financial stability afforded by prudent financial decisions and policies that have been implemented by the Mayor and City Council. However, several challenges remain on the horizon.

State Budget

As stated previously, the Governor's May Revise directs more than \$2 billion in unexpected tax revenues to new spending including expanded health care coverage under Medi-Cal for a million more people, emergency drought assistance, added funding to meet the Proposition 98 guarantee for K-14 schools, caseload increases in the In-Home Supportive Services (IHSS) program, additional contributions to the California Public Employees' Retirement System (CalPERS), and added staffing to administer California's unemployment insurance program. It also sets aside \$1.6 billion for a Rainy Day Fund. The FY 2014-15 Operating Budget makes no provision for potential State takeaways or additional losses the City may encounter from the dissolution of redevelopment agencies by the State.

Property Value Reassessments

Proposition 8 allows a temporary reduction in assessed valuation when a property suffers a decline in value. These reassessments continue to be a factor in the annual assessed valuations. The annual Consumer Price Index (CPI) adjustment which provides the basis for changes in assessed valuations state-wide has once again declined below the 2% level to 0.454% (cap), although properties that have enjoyed Prop 8 valuation reductions are not subject to this limit. It is anticipated that properties will begin to return to their pre Prop 8 values beginning in FY 2014-15; assessed valuations will be available from the County in July. True economic recovery for the City of Fontana rests on strong and continuing growth of base values.

California Public Employees Retirement System (CalPERS)

The City is a member of the California Public Employees Retirement Systems. In April 2013, the CalPERS Board approved a recommendation to change their amortization and smoothing policies. Prior to this change, CalPERS spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. The new policy will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The initial rate changes resulting from this change will begin in FY 2015-16.

In February 2014, the CalPERS Board adopted an asset allocation strategy that lowers CalPERS' investment risk, but holds their long-term assumed rate of return at 7.5%. In order to mitigate the rate impact, a 20-year amortization period with a five year ramp up was approved. Initial rate changes resulting from this change will begin in FY 2016-17.

Budget Summary

Fiscal Year 2014/2015

Several years ago, the City Council approved a PERS Rate Stability Reserve to help smooth out rate spikes and \$1 million of that reserve has been used to balance the FY 2014-15 Operating Budget leaving a balance of \$0.9 million.

Unfunded Liability

Governmental Accounting Standards Board (GASB) Statement No. 45 requires public-sector employers to *recognize* the cost of post-employment benefits over the active service life of their employees rather than on a pay-as-you-go basis. GASB 45 does not require the City to *fund* this benefit, only to report the liability and the funding progress. The annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC for the City of Fontana was last calculated to be \$4.1 million per year and is included in the FY 2014-15 Operating Budget. As required by GASB 45, a new ARC will be calculated during 2014.

Capital Reinvestment Program

Since 1996/1997, the City Council has been investing a portion of the annual General Fund Budget back into the community in the form of capital projects (streets, parks and facilities). While the actual annual investment has varied, the goal has been to reinvest 10% of the total General Fund Budget back into the community. The significance of the Capital Reinvestment Program was underscored by the pavement management report for 2013 which identified a \$28 million backlog of necessary road repairs, and the need to invest \$6.5 million annually to maintain the roads in their current condition. A total of \$5.00 million from various funds has been allocated in the FY 2014-15 Operating Budget to this critical area.

Proposition 218

On November 5, 1996, the California electorate approved Proposition 218 affecting a change to the California State Constitution by making numerous changes to local government finance law. This measure impacts the generation and use of many fundamental revenue sources including fees, charges, assessments, and taxes. This proposition also changes the methods by which certain assessments and taxes are challenged by the electorate. The FY 2014-15 Operating Budget fully complies with the provisions of Proposition 218.

Services and Growth

The City of Fontana has experienced significant growth over the past several years. With this growth comes the need to service a growing community. The funding sources for these additional services are revenue growth and the Municipal Services Fiscal Impact Fee Program (MSFIF).

The Economy. *Although* we are currently recovering from the Great Recession, it is a very slow recovery. Repeatedly in the last five years, the ability of the Inland Empire's economy to return to normal has been held up by the depression in the residential real estate market. Home affordability has increasingly become a challenge for prospective buyers with a 29 percent reduction of Federal Housing Agency loan limits for first-time home buyers in San Bernardino and Riverside counties.

With about one-fifth of first-time home buyers in the area using FHA loans to pay for their homes, the loan limit reduction will continue to have a negative impact on the market.

Five-Year Financial Forecast – General Fund

The five-year financial forecast was developed to assist in medium-range planning and policy development. The five-year forecast provides a tool to evaluate the ability of the City to fund proposed programs, operating costs and capital improvement projects in the future. The forecast was developed using many assumptions, and thus is not intended to be an exact indicator of revenues and expenditures over the next five years and should be used as a planning guide only.

As the City grows, it is important to ensure that it can meet increasing demands and be in a position to respond to possible changes in economic conditions. The five-year forecast is a dynamic tool that requires continual update and review of its underlying assumptions to keep the City in a position of strong fiscal condition. Revenues were projected using a “realistic conservatism” approach, and were based on historical trends with separate assumptions used for major revenue types such as sales tax, property tax, investment income and development related fees. Departmental expenditures were projected using anticipated cost of living increases beginning in FY 2015-16. The forecast anticipates the use of the remaining PERS Rate Stability Reserve in FY 2015-16 to offset a portion of the PERS rate increase. PERS rate increases proposed to begin in FY 2016-17 have been projected based on information currently being provided; updated rate projections will be available in October 2014.

The five-year forecast presented on the following page indicates that projected revenue growth will support anticipated expenditures for current levels of service.

Budget Summary

Fiscal Year 2014/2015

General Fund Five-Year Financial Forecast

| | Proposed | Projected | | | | |
|--------------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 |
| Sources: | | | | | | |
| Revenues | \$87,424,600 | \$89,274,493 | \$91,301,713 | \$93,386,297 | \$95,529,897 | \$97,734,212 |
| Operating Transfers In | 9,566,300 | 9,772,901 | 9,985,700 | 10,204,883 | 10,430,642 | 10,663,173 |
| Total Sources | \$96,990,900 | \$99,047,394 | \$101,287,413 | \$103,591,180 | \$105,960,539 | \$108,397,385 |
| Uses: | | | | | | |
| Departmental Budgets | \$79,139,940 | \$80,667,940 | \$82,331,447 | \$84,024,895 | \$86,916,108 | \$89,900,386 |
| Operating Transfers Out | 23,096,300 | 18,739,740 | 18,739,740 | 18,739,740 | 18,739,740 | 18,739,740 |
| Total Uses | \$102,236,240 | \$99,407,680 | \$101,071,187 | \$102,764,635 | \$105,655,848 | \$108,640,126 |
| Results of Operations | (\$5,245,340) | (\$360,286) | \$216,226 | \$826,546 | \$304,690 | (\$242,741) |
| Beginning Fund Balance | \$65,942,468 | \$60,697,128 | \$60,336,842 | \$60,553,068 | \$61,379,614 | \$61,684,304 |
| Ending Funding Balance | \$60,697,128 | \$60,336,842 | \$60,553,068 | \$61,379,614 | \$61,684,304 | \$61,441,563 |
| 15% Contingency Reserve | \$11,871,000 | \$12,100,000 | \$12,350,000 | \$12,604,000 | \$13,037,000 | \$13,485,000 |
| Economic Uncertainty Reserve | 7,042,907 | 7,042,907 | 7,042,907 | 7,042,907 | 7,042,907 | 7,042,907 |
| Designated for ECB | 1,309,785 | 1,309,785 | 1,309,785 | 1,309,785 | 1,309,785 | 1,309,785 |
| PERS Rate Stability Reserve | 925,639 | 0 | 0 | 0 | 0 | 0 |
| Legal Reserves | 39,547,797 | 39,547,797 | 39,547,797 | 39,547,797 | 39,547,797 | 39,547,797 |
| Unreserved/Undesignated | \$0 | \$336,353 | \$302,579 | \$875,125 | \$746,815 | \$56,074 |