

SECTION 1 - INTRODUCTORY SECTION

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**City of Victorville
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Proposed Budget
Fiscal Year 2008-2009**

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Mayor, Council Members and Citizens of Victorville,

When we presented the Mid-year Budget Revision Report earlier this year covering the fiscal year ended on June 30, 2008, we discussed the impact to the City of the significant deterioration in the economic environment that has come about since the start of 2007. This impact has been measured primarily by declines in revenues, most notably in fees and services related to construction and revenues from sales taxes. We also discussed the level of, and cost of services to our citizens, which has remained unchanged and in some areas, has increased from prior years.

Since then, the economic environment has continued to deteriorate. Sales of homes have slowed, prices for homes have dropped, new residential construction has fallen precipitously, local unemployment has increased and we are seeing signs of reductions in consumer spending. These factors have caused City revenues to decline further from last year's levels, again primarily in the areas of fees and service revenues related to construction, and revenues from sales taxes.

As we also discussed, the fiscal structure of the City has long been based on a model that has provided us with full service capabilities to our community. This equates to our putting in place required departments, staff, and systems for which we have invested the appropriate sums. This is especially applicable to the departments that are involved with construction services as these activities significantly expanded over the last four years. In previous years, the associated revenues for the full service capabilities exceeded the costs of those capabilities, as indicated by surpluses in the operations of the General Fund. However, the current economic downturn has eroded the revenue base which has been used to fund these costs. As a result, last year the General Fund used a significant portion of reserves that had been built up in previous years. This year is no exception, as we will face operating expenses that exceed recurring operating revenues in many areas. In addition, there are new requirements effective this year for accounting for, and funding, post retirement medical benefit plans. As of this date, we have not received final actuarial data, but expect to do so within the next month. At that time, we may be required to modify our budget to shift funds to meet that obligation.

With the current state of the economy, and our expectations as to continuing pressures on revenues, we developed this year's Budget with the following goals:

1. Balance our expenditures with estimated revenues, financing receipts and reserves accumulated in prior years,
2. Maintain the current level of pay and benefits for all employees,
3. Reduce expenditures that are geared toward general long term development and job creation, and limit capital investments in this category to specific initiatives such as the Dr. Pepper Plant and related infrastructure, and
4. Redirect a limited amount of resources from general community development, to more basic municipal services such as roads and safety.

During this fiscal year, we will be undertaking significant efforts to further streamline efficiencies. These efforts will include revalidation of workflow, processes and software to increase productivity and preparation of cost/benefit analyses on most aspects of our operations to both cost justify and reduce expenditures. In addition, the change in the form of government to a City Charter will bring with it a number of opportunities for reductions in costs as well as a more streamlined management structure.

There are always risks associated with the preparation of any budget. This year, these risks are higher than we've seen since the mid 1990's, when your City was dealing with the closing of George Air Force Base. These risks include not just the adverse impact of the deterioration of the local economy, but now include risks associated with the significant financial stress on governmental authorities that provide or govern revenues to the City. This includes the recent denial of funding for a road project for the City, even though that funding was paid by our citizens and earmarked for local needs. The project began years ago and the City has invested significant amounts of capital, and will expend even more capital this year, in meeting construction timelines and obligations that were established in earlier years for this project.

In addition to the County agencies, the financial position of the State of California may adversely impact the City this year, as state lawmakers seek ways to balance an ever increasing budget deficit. Although assurances have been given that funding cuts have already been announced, there is a distinct risk that the State will seek to reduce funding to local cities, much as it has already in funding for school districts.

Although our Budget for this year has been adjusted to address current conditions, our long term goals and strategies have not changed. These are public safety, economic growth and improving the quality of life for our citizens. To these ends, we have acted and continue to act decisively:

- The operations of the fire department were transferred to the management control of the County of San Bernardino. While this was at times viewed as less than positive, it does result in providing our citizens with a level of safety via the paramedic program, that your City would have spent several years to implement.
- The police protection afforded our citizens was significantly expanded in the middle of last year. The expanded services continue into this fiscal year.
- Our focus on economic growth and the quality jobs that are created by that growth, which has long been the hallmark of this City, will continue into this year and into the future:
 - i. We are engaged in a large number of significant economic expansions, including the Dr. Pepper Bottling Plant and related support companies that will be relocating to this area, bringing with them hundreds of well-paying jobs which will benefit our community, our current citizens and our new citizens, along with our local businesses, especially those involved in building homes.
 - ii. We are continuing our efforts to bring about the construction of the Victorville 2 Power Plant, having overcome the many regulatory hurdles over the last two

months. We are expecting construction to begin within the next calendar quarter, with full operations to begin in 2012. This initiative will not only bring quality jobs, but will also bring with it a significant increase in property tax revenues, not just to the City, but to our sister cities and the County as well, through the Victor Valley Economic Development Authority (VVEDA), established in the 1990's to redevelop George Air Force Base.

- iii. We are engaged in the construction of a new waste treatment plant which will serve new companies locating in the Southern California Logistics Airport project area (SCLA), as well as support further development in that area.
 - iv. We are actively planning for a major commercial and residential development to take place in the Northern Triangle which will be linked with a new high speed train service to Las Vegas. This development will be of a quality that is unsurpassed in the High Desert and will bring with it even more quality jobs and new citizens.
 - v. We are continuing in our efforts at developing the inland port distribution facility at SCLA, and are engaged in planning discussions with several port cities to develop the infrastructure and working relationships for the local facility.
- This year, we are continuing to move ahead on developing and improving our system of parks and public facilities.

Concluding, while we are faced with short term financial challenges, we continue to see long term opportunities to build upon past success in enhancing public safety and benefits, economic growth and job creation.

Jon B. Roberts
City Manager
August 11, 2008

**City of Victorville
Proposed Budget
Fiscal Year 2008-2009
Guide to Understanding the Budget**

Composition of Funds

The budget for the City is composed of a number of funds, which are categorized generally according to the source or use of revenues received or used by the particular fund. The categorization of fund categories is as follows:

- A. Governmental funds are generally used to account for tax-supported activities.
- B. Proprietary funds are used to report business-type activities (such as utilities) and to account for internal support services rendered by one fund to another.
- C. Fiduciary funds are used to account for resources held for others as an agent or trustee and which are not available to support the government's own programs.

Each fund category has within it fund types that further define the purpose of the fund. The City's categories and fund types are as follows:

- A. Government Funds
 - 1. General Fund
 - 2. Internal Service Funds
 - 3. Special Revenue (or restricted) Funds
 - 4. Debt Service Funds
 - 5. Capital Projects Funds
- B. Proprietary Funds
 - 1. Enterprise Funds
- C. Fiduciary Funds
 - 1. Pension and Employee Benefit Funds

The City's funds have restrictions as to the use of revenues received. A brief summary is as follows:

- A. Government Funds
 - 1. The General Fund is an unrestricted fund, meaning that revenues received by the fund are unrestricted as to use and accordingly, can be used for any public and legal purpose.
 - 2. The City's Internal Service Fund is composed of departments whose primary activity is to provide services to other fund categories. Included in this grouping are

Information Services, Human Resources, Facilities, Fleet Maintenance and Finance. The costs for these supporting departments are allocated based on the City's Cost Allocation Plan, which was implemented for the first time for fiscal year 2008-2009.

3. Special Revenue Funds are made up largely of taxes collected and to be expended for a particular purpose, such as Measure I Tax Revenues, whose revenues are derived from a special local sales tax whose use is restricted for use on roads.
4. Debt Service Funds are used to record activity relating to bond issues. These funds receive transfers from other funds that have received proceeds of debt issuances, such as the Redevelopment Agency, and expend funds for debt service.
5. Capital Projects Funds are used to report funding and use of capital improvements. These funds receive transfers from other funds (typically, the General Fund) and proceeds from debt and use the funds for the specified capital expenditures.

B. Proprietary Funds

1. The City's primary Enterprise Funds are Sanitary District, Municipal Utility, Water District, and the Golf Courses. These funds generate their own income stream from sales and services to third parties, such as sanitary services, water and electricity to the public. Within these funds may be revenues that are restricted, for example, capital improvement reserves, which are restricted to expenditures for capital expansion.

C. Fiduciary Funds

1. The City has funds that are classified and typed as Pension and Employee Benefit Funds. Such fund types include withholdings and remittances of pension benefit payments to the City's pension administrator, CalPERS, and the same for medical plan activity. However, no separate statements are prepared on these funds, as all activity is on a pay-as-you go basis with the corresponding expense charged to the applicable fund or department.

In addition to the City's funds as outlined above, the funds for the Redevelopment Agency of the City of Victorville, Southern California Logistics Airport Authority and Southern California Logistics Rail Authority, although legally separate entities, are considered blended component units of the City and therefore, the budgets for these agencies appear in this Budget Report so as to enable a reader to better understand the entirety of the City's operations.

Budget Methodology

The focus of governmental budgeting is on *current financial resources measurement*. Under this approach, the governmental unit seeks to measure annual cash flows for its activities, and as such, is focused on current financial assets such as cash and receivables and current obligations, such as accrued payables and current debt service. The focus is thus to manage receipts and disbursements, which include revenues, proceeds from debt obligations, ongoing operating

expenses, debt service and period capital expenditures. This methodology is consistent with statutory guidelines applicable to governmental activities.

In accordance with the above, all components of this Budget have been prepared using the cash basis method of accounting. Under this method, revenues are recognized when received and expenditures are recognized when paid.

Interrelationship of Funds

A. Governmental Funds

By definition, the General Fund is essentially unrestricted, meaning that the revenues it receives can be used for any legal governmental purpose. All other governmental funds receive revenues whose use is restricted to specific purposes. Often these restrictions are as set forth under state and federal law. Examples would include Measure I (a special sales tax) that can only be used for street improvements and maintenance, and Development Impact Fees that can only be used for mitigating the cost impact to the City of development activity by third parties.

In accordance with the use of funds restrictions, only the General Fund is able to transfer funds to support other funds or activities of the City. The other governmental funds are operated typically as self-funded activities, although at times these other funds may spend in excess of their revenues and accumulated reserves, thus creating a need for supplemental funding in the form of transfers from the General Fund. As such, the General Fund is viewed as the primary source of backup funding for the City's activities.

B. Proprietary Funds

Enterprise funds within this category are business-like operations carried on by the City. In general, profits and losses within these funds are unrestricted as to use, and accordingly, inure to the benefit of, or cost to, the City. As noted, the General Fund acts as the City's central management and fiscal fund, and accordingly, the General Fund would receive excess profits or would contribute to cover losses. There are exceptions on certain revenues received by an Enterprise Fund. These exceptions include: i) Connection fees received by the Water Districts must be retained for capital expansion, and ii) Reserves held by Victor Valley Water District and Baldy Mesa Water District prior to their joining the City on August 15, 2007, must be retained by those districts and used for their customers substantially the same as before August 15, 2007.

C. Fiduciary Funds

By definition, Fiduciary Funds represent funds held for the benefit of a third party and accordingly, have restrictions on both revenues and expenditures and are independent of other funds in the City.