



FISCAL YEAR 2025-26
MID-YEAR BUDGET REVIEW
March 3, 2026

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EXECUTIVE SUMMARY

The following chart compares the FY 2025-26 Budget and December 2025 year-to-date (YTD) revenue and expenditure totals. The percentage comparisons for revenues and expenditures are based on comparing the December 2025 YTD to the FY 2025-26 Amended Budget. The Amended Budget is used to accurately reflect any changes to the adopted budget that occur from City Council approving budget amendments during the first six months of the fiscal year.

	2025-26 Budget	2025-26 Revised	December 2025 YTD	Revised % Received/Expended
Revenue	\$ 142,579,270	\$ 142,579,270	\$ 49,690,263	35%
Use of Reserves	15,785,419	18,437,811		
Total Resources	158,364,689	161,017,081		
Expenditures	138,633,698	145,555,961	53,273,128	37%
Difference	\$ 19,730,991	\$ 15,461,120		

Status of Overall City Fiscal Year 2025-26 Budget

- **Revenue:** Based upon the analysis of the revenue performance through December 2025, the total revenue collected is \$49.7 million, which is 35% of the budget, which is typical due to the timing of payments related to some larger revenue sources such as several tax-based revenues, Development Impact Fees, and Capital Improvement Projects. Additional details are provided in the report.
- **Expenditures:** As referenced in the chart above, expenditures are 37% of the amended budget through December 2025. Operating expenditures are 44% expended, which is typical for the first half of the fiscal year. Non-operating expenditures are 19% expended YTD, which is due to multiple capital improvement projects (CIP) funds that have minimal expenditures through the second quarter and will increase as projects move forward. It should be noted that there are three (3) budget amendments totaling \$255,000 included in this report; much of the amendments is related to the allocation of American Rescue Plan Act (ARPA) funds.
- **Reserves:** The General Fund and Water District (operating and capital) exceed the City Council’s Reserve Policy which established that a minimum of two (2) months of the annual expenditures be held in cash. The following estimated reserve calculations are based on the June 30, 2025 ending cash balances included in the June 30, 2025 audited Annual Comprehensive Financial Report (ACFR). Using the ACFR audited data assures that the estimated reserves are based on actual information. In addition, the three (3) Mid-Year Budget Amendments, totaling \$255,000, are reflected below where appropriate:

	General Fund		Water Operating		Sewer Operating	
10% Cash Reserves (Council/Board Policy)	\$ 5,656,647	10%	\$ 3,505,455	10%	\$ 990,948	10%
Cash Reserves Above 10% Reserve	27,178,159	48%	15,669,686	45%	4,404,986	44%
Total Estimated Cash Reserves	\$ 32,834,806	58%	\$19,175,141	55%	\$ 5,395,934	54%
Months of Cash	7.0		6.6		6.5	

*This total includes strategic reserves, such as permanent water rights purchases, as well as the operating funds, contamination mitigation funds, asset rehab funds, and capital funds.

2025-26 MID-YEAR BUDGET REVIEW REPORT

EXECUTIVE SUMMARY (Continued)

Proposed Budget Amendments – 3 Budget Amendments are proposed for \$255,000

The FY 2025-26 Mid-Year Budget Review includes three (3) items as proposed budget amendments totaling \$255,000. The proposed budget amendments are included in the fund balance analyses where appropriate:

FY 2025-26 Mid-Year Budget Requests	General	Other	Totals
	Fund	Funds	
1. 8-Yard Dump Truck-Replacement	\$ 0	\$ 180,000	\$ 180,000
2. Bear Valley Signal Replacement	0	30,000	30,000
3. Traffic Vehicle-Supervisor	0	45,000	45,000
Total Mid-Year Amendment Requests	\$ 0	\$ 255,000	\$ 255,000

Revenues and Expenditures through December 31, 2025, for the City's main funds are summarized as follows:

	2025-26 Revenue		% of Revised Received	2025-26 Expenditures		% Expended
	Revised Budget	December		Amended Budget	December	
General Fund						
City Council				\$ 1,113,658	\$ 630,506	57%
City Manager				1,848,405	934,545	51%
Management Services				13,222,667	7,513,348	57%
Economic Development				431,497	164,519	38%
D.S.-Community Development				3,171,597	1,590,207	50%
D.S.-Code Compliance				5,991,761	2,606,454	44%
D.S.-Public Works (G.F.)				3,045,749	1,118,720	37%
Police				24,326,290	9,741,221	40%
Total General Fund	\$ 54,428,116	\$ 16,448,182	30%	\$ 53,151,624	\$ 24,299,520	46%
Community Development Block Grant	3,853,437	66,808	2%	144,883	31,099	21%
Community Development Commission	150,000	34,247	23%	0	0	n/a
Hesperia Housing Authority	383,201	74,693	19%	74,304	12,544	17%
D.S.-Public Works	27,500	142,004	516%	4,382,518	1,793,058	41%
Streets CIP Funds	32,756,543	6,562,634	20%	34,332,591	2,348,469	7%
Other City Related Funds	10,322,934	1,989,289	19%	3,227,174	1,931,895	60%
D.S.-Water Operating and Capital	33,148,609	20,776,821	63%	37,205,484	15,953,218	43%
D.S.-Sewer Operating and Capital	7,418,930	3,474,944	47%	11,077,650	5,007,007	45%
Fire District	90,000	120,641	134%	1,959,733	1,896,318	97%
Total	\$ 142,579,270	\$ 49,690,263	35%	\$ 145,555,961	\$ 53,273,128	37%

2025-26 MID-YEAR BUDGET REVIEW REPORT

STATUS OF CITY GENERAL FUND 2025-26 BUDGET, BUDGET AMENDMENTS, AND RESERVES

	2025-26	2025-26	Change	
	Budget	Revised	Dollars	Percent
RESOURCES				
General Fund Operating Revenue	\$ 54,119,714	\$ 54,119,714	\$ 0	0%
ARPA Loss Revenue	308,402	308,402		
Transfers In				
Fund 255 - AB 3229 COPS Grant	200,000	200,000		
Total Transfers In	<u>200,000</u>	<u>200,000</u>		
Budgeted Reserves				
Budgeted Reserves	\$ 350,000	\$ 350,000		
First Quarter Budget Amendment Reserves	0	1,588,352		
Mid-Year Budget Amendment Reserves	0	0		
Total Budgeted Reserves	<u>\$ 350,000</u>	<u>\$ 1,938,352</u>		
Total General Fund Resources	\$ 54,978,116	\$ 56,566,468	\$ 1,588,352	3%
EXPENDITURES				
Total General Fund Operating Expenses	\$ 51,550,188	\$ 51,550,188		
Transfers Out				
1. Fund 210 - HFPD CalPERS	1,959,733	1,959,733		
2. Fund 241 - CFD 2021-1 Residential Maint. & Service	2,610	2,610		
3. Fund 242 - CFD 2022-1 Non-Residential Maint. & Service	2,610	2,610		
4. Fund 242 - CFD 2023-1 Silverwood Maintenance	3,360	3,360		
5. Fund 402 - 2012 Water Rights Acquisition Debt Service	1,446,531	1,446,531		
Total Transfers Out	<u>3,414,844</u>	<u>3,414,844</u>		
Approved Adjustments to Expenditure Budget				
First Quarter Budget Amendments - Approved	0	1,601,436		
Total Approved Amendments	<u>\$ 0</u>	<u>\$ 1,601,436</u>		
Total General Fund Expenditures & Transfers Out	\$ 54,965,032	\$ 56,566,468		
Total Recommended Expenditure Budget	\$ 54,965,032	\$ 56,566,468	\$ 1,601,436	3%
DIFFERENCE TOTAL RESOURCES/TOTAL EXPENDITURES	\$ 13,084	\$ 0	\$ (13,084)	-100%
Fund Balance				
July 1 Beginning Balance	\$ 48,597,516	\$ 55,020,778		
Total Budgeted Reserves	(350,000)	(1,938,352)		
Difference Total Resources/Total Expenditures	13,084	0		
Estimated June 30 Ending Fund Balance	\$ 48,260,600	\$ 53,082,426		
Months of Cash to Pay Expenditures and Transfers Out				
Beginning Cash July 01,	\$ 28,509,903	\$ 34,773,158		
Estimated Resources Less Budgeted Reserves	54,628,116	54,628,116		
Estimated Expenditures	(54,965,032)	(56,566,468)		
Estimated Ending Cash June 30,	\$ 28,172,987	\$ 32,834,806		
Months of Cash to Pay Expenditures and Transfers Out	6.2	7.0		
Estimated Cash Reserves Percentage	51%	58%		

2025-26 MID-YEAR BUDGET REVIEW REPORT

STATUS OF WATER OPERATIONS 2025-26 BUDGET, BUDGET AMENDMENTS, AND RESERVES

Resources	2025-26	2025-26	Change	
	Budget	Revised	Dollars	Percent
Revenue				
Water Operations Revenue	\$ 29,182,786	\$ 29,182,786		
ARPA	1,833,374	1,833,374		
ARPA Carryover Into First Quarter	0	3,760,771		
Total Water Operations Revenue	\$ 31,016,160	\$ 34,776,931	\$ 3,760,771	12%
Reserves				
Budgeted Reserves	\$ 350,000	\$ 350,000		
First Quarter Budget Amendment Reserves	0	113,040		
Mid-Year Budget Amendment Reserves	0	0		
Total Budgeted Reserves	\$ 350,000	\$ 463,040		
Total Water Operations & Reserves Resources	\$ 31,366,160	\$ 35,239,971	\$ 3,873,811	12%
Expenditures by Program				
700 4010 Source of Supply	\$ 5,068,641	\$ 5,068,641		
700 4020 Production	5,778,128	5,778,128		
700 4030 Water Distribution	1,757,302	1,788,302		
700 4035 Water Line Replacement	1,302,323	1,302,323		
700 4040 Engineering	1,860,489	1,858,289		
700 4050 Customer Service	2,457,742	2,432,742		
700 4060 Utility Billing	1,521,567	1,521,567		
700 4070 Administration	8,831,812	8,831,812		
700 4080 Property Management	510,056	506,256		
700 4160 Streets Repair	1,237,564	1,237,564		
Capital Maintenance	855,114	855,114		
Total Water Operations Expenditures	\$ 31,180,738	\$ 31,180,738		
Approved Adjustments to Expenditure Budget				
1. First Quarter Budget Amendments - Approved	\$ 0	\$ 3,873,811		
Total Approved Amendments	0	3,873,811		
Total Expenditures and Amendments	\$ 31,180,738	\$ 35,054,549	\$ 3,873,811	12%
Difference Total Resources / Total Expenditures	\$ 185,422	\$ 185,422		
Fund Balance				
July 1 Beginning Balance	\$ 85,604,770	\$ 97,146,501		
Budgeted Reserves	(350,000)	(463,040)		
Difference Resources/Expenditures	185,422	185,422		
Estimated June 30 Ending Fund Balance	\$ 85,440,192	\$ 96,868,883	\$ 11,428,691	13%
Months of Cash to Pay Expenditures and Transfers Out				
Beginning Cash July 01,	\$ 8,675,859	\$ 19,452,759		
Estimated Resources Less Budgeted Reserves	31,016,160	34,776,931		
Estimated Expenditures	(31,180,738)	(35,054,549)		
Estimated Ending Cash June 30,	\$ 8,511,281	\$ 19,175,141	\$ 10,663,860	125%
Months of Cash to Pay Expenditures and Reserve Balances	3.3	6.6		
Total Estimated Cash Reserves Percentage	27%	55%		

2025-26 MID-YEAR BUDGET REVIEW REPORT

STATUS OF SEWER OPERATIONS 2025-26 BUDGET, BUDGET AMENDMENTS, AND RESERVES

Resources	2025-26	2025-26	Change	
	Budget	Revised	Dollars	Percent
Revenue				
Sewer Operations Revenue	\$ 6,729,977	\$ 6,729,977		
ARPA	114,953	114,953		
ARPA Carryover Into First Quarter	0	381,250		
Total Sewer Operations Revenue	\$ 6,844,930	\$ 7,226,180	\$ 381,250	6%
Reserves				
Budgeted Reserves	2,683,300	2,683,300		
First Quarter Budget Amendment Reserves	0	0		
Mid-Year Budget Amendment Reserves	0	0		
Total Budgeted Reserves	2,683,300	2,683,300		
Total Sewer Operations & Reserves Resources	\$ 9,528,230	\$ 9,909,480	\$ 381,250	4%
Expenditures and Transfers				
710 4200 Sewer Distribution	\$ 6,564,502	\$ 6,564,502		
710 4240 Sewer Engineering	277,360	277,360		
710 4260 Sewer Utility Billing	312,753	312,753		
710 4270 Sewer Administration	1,763,615	1,763,615		
Fund 711 - Sewer Capital Fund	610,000	610,000		
Total Sewer Operations Expenditures	\$ 9,528,230	\$ 9,528,230	\$ 0	0%
Approved Adjustments to Expenditure Budget				
1. First Quarter Budget Amendments - Approved	\$ 0	\$ 381,250		
Total Approved Amendments	0	381,250		
Total Expenditures and Amendments	\$ 9,528,230	\$ 9,909,480	\$ 381,250	4%
Difference Total Resources / Total Expenditures	\$ 0	\$ 0		
Fund Balance				
July 1 Beginning Balance	\$ 14,587,755	\$ 21,312,841		
Budgeted Reserves	(2,683,300)	(2,683,300)		
Difference Resources/Expenditures	0	0		
Estimated June 30 Ending Fund Balance	\$ 11,904,455	\$ 18,629,541	\$ 6,725,086	56%
Months of Cash to Pay Expenditures and Transfers Out				
Beginning Cash July 01,	\$ 12,528,184	\$ 12,437,816		
Estimated Resources Less Budgeted Reserves	6,844,930	7,226,180		
Estimated Expenditures	(9,528,230)	(9,909,480)		
WWRA Cash Retention - Zone V	(3,400,000)	(4,358,582)		
Estimated Ending Cash June 30,	\$ 6,444,884	\$ 5,395,934	\$ (1,048,950)	-16%
Months of Cash to Pay Expenditures and Reserve Balances	8.1	6.5		
Total Estimated Cash Reserves Percentage	68%	54%		

2025-26 MID-YEAR BUDGET REVIEW REPORT

STATUS OF STREETS MAINTENANCE FUND 2025-26 BUDGET, FUND BALANCE, AND RESERVES

RESOURCES	2025-26	2025-26	Change	
	Budget	Revised	Dollars	Percent
Street Maintenance Operating Revenue	\$ 27,500	\$ 27,500		
Transfers In				
Fund 100 - General Fund	\$ 0	\$ 0		
Fund 204 - Measure I - Renewal	1,750,000	1,750,000		
Fund 205 - Gas Tax Fund	1,400,000	1,400,000		
Fund 206 - Gas Tax Swap	669,000	669,000		
Fund 207 - Local Transportation Fund	226,883	226,883		
Fund 207 - LTF (Vision Zero Study)	394,000	394,000		
Total Transfers In	4,439,883	4,439,883		
Total Revenues	4,467,383	4,467,383		
Budgeted Reserves	104,420	104,420		
Total Street Maintenance Resources	\$ 4,571,803	\$ 4,571,803		
EXPENDITURES	\$ 4,382,518	\$ 4,382,518	\$ 0	0%
Mid-Year Budget Amendments - Requested				
1. 8-Yard Dump Truck-Replacement	\$ 0	\$ 180,000		
2. Bear Valley Signal Replacement	0	30,000		
3. Traffic Vehicle-Supervisor	0	45,000		
Total Mid-Year Budget Amendments - Requested	0	255,000		
Total Recommended Expenditure Budget	\$ 4,382,518	\$ 4,637,518	\$ 255,000	6%
DIFFERENCE RESOURCES/EXPENDITURES	\$ 189,285	\$ (65,715)		
Fund Balance				
July 1 Beginning Balance	\$ 670,162	\$ 1,018,185		
Total Budgeted Reserves	(104,420)	(104,420)		
Difference Resources/Expenditures	189,285	(65,715)		
Estimated June 30 Ending Balance	\$ 755,027	\$ 848,050		

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW

MAJOR FUNDS REVENUE SUMMARY

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
General Fund	\$ 54,428,116	\$ 16,448,182	30%	\$ 54,428,116	\$ 0
Community Development Block Grant	3,853,437	66,808	2%	3,853,437	0
Community Development Commission	150,000	34,247	23%	150,000	0
Hesperia Housing Authority	383,201	74,693	19%	383,201	0
Street Related Funds	32,784,043	6,704,638	20%	32,784,043	0
Other City Related Funds	10,412,934	2,109,930	20%	10,412,934	0
Water Operating	31,016,160	15,484,145	50%	31,016,160	0
Water Capital	1,446,860	4,890,293	338%	1,446,860	0
Water Reserves	220,000	189,573	86%	220,000	0
Reclaimed Water	465,589	212,810	46%	465,589	0
Total Water Operating & Capital	<u>33,148,609</u>	<u>20,776,821</u>	<u>63%</u>	<u>33,148,609</u>	<u>0</u>
Sewer Operating	6,844,930	3,139,510	46%	6,844,930	0
Sewer Capital	564,000	332,342	59%	564,000	0
Sewer Reserves	10,000	3,092	31%	10,000	0
Total Sewer Operating & Capital	<u>7,418,930</u>	<u>3,474,944</u>	<u>47%</u>	<u>7,418,930</u>	<u>0</u>
Water District	40,567,539	24,251,765	60%	40,567,539	0
Total All Funds	<u>\$ 142,579,270</u>	<u>\$ 49,690,263</u>	<u>35%</u>	<u>\$ 142,579,270</u>	<u>\$ 0</u>

Overall – Through December 2025, total revenue is \$49.7 million, or 35% of the total budgeted revenue of \$142.6 million. It should be noted that changes in the local, state, and national economic environments can impact each of these revenue sources and trends going forward. In this section, discussions will focus on revenue activity through the 2nd quarter of FY 2025-26.

As of December 31, 2025, the General Fund received revenues of \$16.4 million which is 30% of the annual budget. This is typical as several major revenue sources such as Vehicle License Fees, Franchise Fees, and remaining Sales Tax are received in the second half of the Fiscal Year. Development Related Revenue is trending better than expected as 62% of the FY 2025-26 Budget has been collected as of December 2025 due to an increase in building permit fees. Besides the General Fund revenue sources just mentioned, the rest of the General Fund revenue sources are currently performing as expected. Development related revenues are at 64%, which is primarily due to the collection of Building Permit Fees for large industrial projects as anticipated for the FY 2025-26 Budget.

Street-related funds revenue is \$6.7 million, or 20% of the \$32.8 million budgeted. This grouping of funds includes Street and Storm Drain Development Impact Fees (DIF) and City Street CIP reimbursements. The collections on these revenue sources can vary depending on the timing of project completion.

The Water District revenue is performing as expected through December 2025, with 60% of budgeted revenue received to date.

The following pages will detail the current revenue collections for each fund.

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

	GENERAL FUND REVENUES				
	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
Sales and Use Tax	\$ 13,901,174	\$ 4,813,966	35%	\$ 13,901,174	\$ 0
Vehicle License Fee (VLF)	13,829,850	0	0%	13,829,850	0
Franchise Fees	4,607,921	783,231	17%	4,607,921	0
Sub-Total Top Three Revenues	32,338,945	5,597,197	17%	32,338,945	0
General & Administrative Recovery	5,302,870	2,651,435	50%	5,302,870	0
Transient Occupancy Tax	1,517,200	1,040,890	69%	1,517,200	0
Secured Property Tax	1,308,124	694,299	53%	1,308,124	0
Business License	1,094,000	522,815	48%	1,094,000	0
Community Facilities District 2005-1	409,995	0	0%	409,995	0
Leased Water Rights	1,946,255	0	0%	1,946,255	0
Development Related Revenues					
Planning	603,595	347,718	58%	603,595	0
Building & Safety	3,014,164	2,373,097	79%	3,014,164	0
Engineering	1,760,460	704,868	40%	1,760,460	0
Sub-Total Development Related Revenues	5,378,219	3,425,682	64%	5,378,219	0
Sub-Total Top 10 Revenue Sources	49,295,608	13,932,318	28%	49,295,608	0
All Other General Fund Revenues	5,132,508	2,515,864	49%	5,132,508	0
Total General Fund Revenues	\$ 54,428,116	\$ 16,448,182	30%	\$ 54,428,116	\$ 0

General Fund Revenue Comments:

General Fund Revenue – Through December 2025, revenues totaled \$16.4 million, or 30% of the budgeted estimate.

Sales and Use Tax – Through December 2025, the City has received \$4.8 million, or 35% of the \$13.9 million FY 2025-26 Budget. Due to the timing of receiving revenue, the State has remitted tax payments through October 2025. Tax payments received from this revenue source are trending as expected and will continue to be monitored.

Vehicle License Fee (VLF) – This revenue is based on the City’s assessed valuation of the properties within the City. As the assessed valuation changes from the prior year, this revenue changes by the same percentage. No revenue was reported through December 2025, as the first installment of the VLF of \$7.2 million, or 52% of the budget, was received in January 2026. The second installment is expected to be received in May 2026.

Franchise Fees – Franchise fees for Cable TV, Advance Disposal, Southwest Gas, Southern California Edison, Water, and Article 19 Landfill Fee for December 2025 YTD total \$783,231, which is a slight decrease from the December 2024 of \$800,350 YTD. Franchise Fees received through December 2025 total 17% of the budgeted amount. Due to the timing of payments received, most franchise fees are received in the second half of the fiscal year.

Transient Occupancy Tax (TOT) – Through December 2025, revenue is \$1,040,890, or 69% of the budgeted amount, which is largely due to a payment received from one hotel for delinquent payments. While 33% of the revenue has been collected, there are delays in the timing of monthly receipts. TOT will continue to be monitored as FY 2025-26 progresses.

Secured Property Tax – Through December 2025, YTD revenue is \$694,299. This revenue is on track through December 2025, with 53% of the budgeted amount received.

Business License – The City taxes businesses for conducting business within the City. YTD December 2025 collections of \$522,815, or 48% of the FY 2025-26 budgeted amount, as collections on new business licenses and license renewals are trending as expected.

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

General Fund Revenue Comments (Continued):

Community Facilities District 2005-1 – This special assessment district (generally west of Maple Avenue and south of Main Street) was formed to refinance the bonds of CFD 91-3 and assess the properties within the district to repay the bonds. The annual assessment includes a public safety portion to offset some of the residential development costs for the City’s public safety providers. Under the refinance agreement, the revenue will be received at fiscal year-end and recorded in June 2026.

Leased Water Rights – The permanent water rights owned by the General Fund can be leased annually and the lease revenue is used to pay for the 2012 Bonds, which financed the purchase of the water rights. The leasing of water rights revenue is collected at the end of the year and will be recorded in June 2026.

Development Related Revenue – This revenue source accounts primarily for one-time development-related fees such as Planning, Building and Safety, and Engineering. Overall, the FY 2025-26 revenue through December 2025 of \$3.4 million represents 64% of the budget. Planning revenues are 58% collected through December 2025, mainly due to fees collected from a new 1,061,780 square foot warehouse. Building & Safety revenues collected are currently at 79% of the budget, primarily due to the collection of Building Permit Fees from the 642,839 square foot Shell Warehouse, Kiss Logistics, and other single-family residential, multi-family residential, commercial, and industrial projects. Engineering revenue is at 40% collected through December 2025, which is trending as expected.

All Other General Fund Revenue – All other general fund revenue accounts are \$2.5 million or 45% collected through December 2025. This source of revenue is primarily made up of Administrative Fines, Motor Vehicle In-Lieu Tax, and Interest Income.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVENUE

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
CDBG Administration Reimbursement	\$ 3,749,606	\$ 55,313	1%	\$ 3,749,606	\$ 0
All Other CDBG Revenues	103,831	11,495	11%	103,831	0
Total CDBG Revenues	\$ 3,853,437	\$ 66,808	2%	\$ 3,853,437	\$ 0

Community Development Block Grant Revenue Comments:

These revenues are grant reimbursements that promote economic and housing development and rehabilitation projects, emphasizing activities that create jobs, build or enhance infrastructure, and provide affordable housing to Hesperia residents. This grant must be spent before submitting for reimbursement. The FY 2025-26 Budget revenue estimates the anticipated reimbursements that are primarily expected to be received during the third and fourth quarters of the fiscal year.

All Other CDBG Revenues – This revenue includes CDBG program income and interest revenue for the HOME Grant fund and the CDBG Revolving Loan fund. These revenues are more one-time in nature and are not received on a schedule as other revenue typically is. December 2025 YTD revenue of \$11,495 consists of loan repayments related to the 1999 HOME repayment program and interest income.

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

COMMUNITY DEVELOPMENT COMMISSION (CDC) REVENUE

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
Interest Income	\$ 150,000	\$ 34,247	23%	\$ 150,000	\$ 0
Total CDC Revenues	\$ 150,000	\$ 34,247	23%	\$ 150,000	\$ 0

Community Development Commission (CDC) Revenue Comments:

The Community Development Commission revenue reflects the interest income earned through December 2025.

HESPERIA HOUSING AUTHORITY (HHA) REVENUE

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
Interest Income	\$ 200,000	\$ 55,739	28%	\$ 200,000	\$ 0
Loan Repayments	93,701	0	0%	93,701	0
Miscellaneous Income	1,500	0	0%	1,500	0
Sub-Total HHA Revenue	295,201	55,739	19%	295,201	0
WEDA Housing Authority Revenue	88,000	18,954	22%	88,000	0
Total HHA Revenues	\$ 383,201	\$ 74,693	19%	\$ 383,201	\$ 0

Hesperia Housing Authority (HHA) Revenue Comments:

This program was developed to promote projects that improve the City's housing stock and provide affordable housing opportunities. The budgeted revenues primarily consist of loan repayments and interest income. Loan repayments are typically received in the fourth quarter of the fiscal year.

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

STREET RELATED FUNDS REVENUE

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
204 Measure I - Renewal	\$ 4,095,000	\$ 1,197,725	29%	\$ 4,095,000	\$ 0
205 Gas Tax Fund	1,964,229	656,507	33%	1,964,229	0
206 Gas Tax Swap Fund	960,824	384,121	40%	960,824	0
207 Local Transportation Fund	72,951	13,328	18%	72,951	0
209 Gas Tax - RMRA	2,745,961	1,033,483	38%	2,745,961	0
254 AQMD Fund	900	235	26%	900	0
263 Public Works Street Maintenance Fund	27,500	142,004	516%	27,500	0
Sub-Total	9,867,365	3,427,403	35%	9,867,365	0
DIF Streets & Storm Drain					
300 Development Impact Fee-Streets	17,000	26,223	154%	17,000	0
301 Development Impact Fee-Storm Drain	76,590	28,548	37%	76,590	0
306 Development Impact Fee 2018-Streets	14,513,817	2,717,691	19%	14,513,817	0
307 Development Impact Fee 2018-Drainage Facilities	3,511,023	491,453	14%	3,511,023	0
313 Development Impact Fee-A-04 Drainage	50,000	5,352	11%	50,000	0
Sub-Total DIF Streets & Storm Drain	18,168,430	3,269,267	18%	18,168,430	0
504 City Streets CIP	4,748,248	7,968	0%	4,748,248	0
Total Street Related Funds	\$ 32,784,043	\$ 6,704,638	20%	\$ 32,784,043	\$ 0

Street Related Funds Revenue Comments:

Measure I - Renewal – This fund accounts for the renewed Measure I sales tax based on revenue generated from the ½ cent added tax on sales tax and interest received on cash balances. Measure I Renewal is obtained from the San Bernardino County Transportation Authority (SBCTA). Through December 2025, a total of \$1,197,725 from three (3) monthly payments has been collected, which is \$139,334 or 13% more than the December 2024 total of \$1,058,391. As of now, there are no revisions to this revenue source.

Gas Tax – Monthly apportionments are received throughout the fiscal year and can vary yearly due to timing differences in the State schedule of monthly apportionments. The City’s apportionments through December 2025 total \$656,507 from four (4) monthly apportionments. FY 2025-26 revenue is at 33% obtained, with remittances trending as initially budgeted.

Gas Tax Swap – Through December 2025, revenue of \$384,121 from four (4) apportionments has been collected. Interest revenue is also received on cash balances. This budgeted revenue source is 40%, with apportionments being received as expected.

Local Transportation – The County ¼ cent sales tax has funded this revenue source, and the primary use of this revenue is transportation-related, including supporting operations of the Victor Valley Transit Authority (VVTA). This revenue source is no longer expected to be received due to the allocation being fully utilized by VVTA for transit purposes, as decided by VVTA in April 2022. The \$13,328, or 18% budgeted for FY 2025-26 in revenue reflects the interest income received through December 2025.

Gas Tax RMRA – This source of revenue, which is mainly State-funded and took effect in November 2017, can be used for street and road-related maintenance and rehabilitation projects. SB 1, the Road Repair and Accountability Act of 2017, increased the gas tax by 12 cents and 20 cents for diesel. The vehicle registration fee also increased depending on the value of the vehicle. As of December 2025, revenue received from the State is \$1,033,483 or 38% of the budgeted amount, an increase of \$41,481 or 4% compared to the December 2024 total of \$992,002. Interest revenue is also received on cash balances. This increase was anticipated and is reflected in the FY 2025-26 Budget.

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

Streets Related Funds Revenue Comments (Continued):

AQMD (AB2766 Transit) – The revenue in this fund is interest earnings from retained cash.

Public Works-Street Maintenance – The FY 2025-26 budgeted revenues are primarily interest earnings. This fund will occasionally receive miscellaneous reimbursements on an inconsistent basis. The revenue received YTD of \$142,004 primarily consists of \$128,506 in reimbursements from the Federal Emergency Management Agency (FEMA) for the 2023 Winter Storm Event for labor and equipment costs associated with the debris removal throughout the City. Other revenue collected includes interest earnings and proceeds from the sale of equipment.

Development Impact Fees for Streets and Storm Drain – Through December 2025 YTD, the combined revenue of \$3.3 million is 18% of the annual budget of \$18.2 million. The FY 2025-26 Budget of \$18.2 million consists of several industrial projects such as Pixior Warehouse, Hesperia Commerce Center II, and the New Castle Warehouse. The collection on this revenue source can vary depending on the timing of the completion of projects and will continue to be monitored as projects near completion.

City Streets CIP – This fund tracks grant and developer-funded projects such as the Ranchero Road Improvements, a Traffic Signal at Main Street and Sultana Street/Timberlane Avenue, Walnut Street H-01 Retention Basin, and the Maple Ave Street Improvement project. Reimbursements from the San Bernardino County Transit Authority (SBCTA) and other related grants are anticipated to be received by the end of FY 2025-26.

OTHER CITY FUNDS REVENUE

	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
105 Pension Obligation Trust	\$ 50,000	\$ 362,751	726%	\$ 50,000	\$ 0
106 OPEB Trust	0	70,332	n/a	0	0
110 Silverwood	495,400	92,369	19%	495,400	0
210 HFPD (PERS) Interest Income	90,000	120,641	134%	90,000	0
230 Public Art	9,056	2,397	26%	9,056	0
241 CFD 2021-1 Resid Maint. & Serv	0	28	n/a	0	0
242 CFD 2022-1 Non-Resd Maint & Serv	0	439,785	n/a	0	0
243 CFD 2023-1 Silverwood Maint	0	30,752	n/a	0	0
255 AB3229 Supplemental Law Fund	315,500	225,601	72%	315,500	0
256 Environmental Programs Grant	95,710	34,416	36%	95,710	0
260 Disaster Preparedness Grant	1,500	569	38%	1,500	0
261 American Rescue Plan Act Grant	2,256,728	60,806	3%	2,256,728	0
262 SB 1383 Local Assistance Grant	117,734	2,188	2%	117,734	0
<u>DIFs 302, 303, 308-312</u>					
302 Development Impact Fee-Fire	50,000	14,372	29%	50,000	0
303 Development Impact Fee-Police	250	64	25%	250	0
308 Development Impact Fee 2018-Fire Suppression	3,413,891	283,580	8%	3,413,891	0
309 Development Impact Fee 2018-City Hall Facilities	3,090,332	211,983	7%	3,090,332	0
310 Development Impact Fee 2018-Animal Control	84,278	83,853	99%	84,278	0
311 Development Impact Fee 2018-Records Storage	153,408	11,642	8%	153,408	0
312 Development Impact Fee 2018-Police Facilities	59,147	4,381	7%	59,147	0
Sub-Total DIFs 302-304, 308-312	6,851,306	609,875	9%	6,851,306	0
402 2012 Water Rights Debt Service	80,000	40,146	50%	80,000	0
404 2023 Refunding Lease Revenue Bonds	50,000	17,274	35%	50,000	0
Total Other City Funds	\$ 10,412,934	\$ 2,109,930	20%	\$ 10,412,934	\$ 0

Other City Funds Revenue Comments: Many of these funds only receive interest income during the fiscal year.

Pension Obligation Trust and OPEB Trust – These Section 115 Trust funds were established to manage and mitigate the liabilities resulting from other post-employment benefits and unfunded pension liability. The revenue in these funds reflects greater than anticipated investment interest income and gain/losses from investments.

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

Other City Funds Revenue Comments (Continued):

Silverwood – The revenue received in this fund is from reimbursements received for City costs incurred related to the Silverwood project. Through December 2025, \$92,369 has been received.

HFPD (PERS) Interest Income – This revenue is comprised of investment income and fair market value adjustments related to funds held for the CalPERS obligations of the former Hesperia Fire Protection District personnel.

Public Art – This fund is to manage revenue received by the City to be utilized towards public art displays. The revenue received as of December 2025 consists of interest income.

Community Facilities District (CFD) Funds – As development occurs and parcels annex into these districts, the primary source of revenue will come from special taxes, which will fund district expenditures. Through December 2025, revenue encompasses minor investment earnings on initial deposits made by the General Fund to begin district operations and special property taxes to fund for the City's services in these newly constructed industrial and residential areas. This revenue source is trending higher than expected due to the City receiving the first remittance from the collection of the CFD 2022-1 and CFD 2023-1 Special Property Taxes.

AB3229 Supplemental Law Fund – The passage of Senate Bill (SB) 89 allowed for the continued funding of the Supplemental Law Enforcement Fund (SLESF). Through December 2025, \$225,601, or 72% of the budgeted revenue, has been received as expected.

Environmental Programs Grant – This fund tracks grant reimbursements for various environmental events. Through December 2025 YTD, \$34,416, or 36% has been received. Reimbursements are received mainly later in the fiscal year.

Disaster Preparedness Grant – The revenue in this fund is interest earnings from retained cash.

American Rescue Plan Act (ARPA) Grant – Coronavirus State and Local Fiscal Recovery Funds – This revenue is the Coronavirus State and Local Fiscal Recovery Funds related to the American Rescue Plan Act of 2022 that was established to provide Federal funding to support public health expenditures, invest in infrastructure, provide premium pay for essential workers, and address negative financial impacts caused by the COVID-19 public health emergency. The revenue received through December 2025 of \$60,806 consists of interest income.

SB 1383 Local Assistance Grant – This fund tracks the grant funds related to Senate Bill 1383 to reduce organic waste. The revenue from this fund consists of investment income.

Development Impact Fees-Fire, Police, Public Services, City Hall, Animal Control, and Records Storage – At the halfway mark of the fiscal year, a total of \$609,875, or 9% of budgeted revenue, has been received for this revenue group due to the timing of when projects are completed. The revenue received through December 2025 is primarily due to collections from single-family residential projects from K Hovnanian, Richmond American and the Silverwood Development Project, which were anticipated in the FY 2025-26 Budget. Development Impact Fees as a whole are trending lower than expected due to the timing of completion of several industrial projects. This revenue source will continue to be monitored as ongoing development projects are near completion.

2012 Water Rights and 2013 Refunding Debt Service, and 2023 Refunding Lease Revenue Bonds – The revenue in these funds is interest earnings from cash held with the fiscal agent.

2025-26 MID-YEAR BUDGET REVIEW REPORT

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

	WATER DISTRICT REVENUE				
	2025-26 Budget	December 2025-26 Actual	Percent Received	2025-26 Revised	Change From Budget To Revised
Water Operating Revenue					
Water Sales	\$ 25,550,247	\$ 13,843,894	54%	\$ 25,550,247	\$ 0
Interest Income	600,000	131,282	22%	600,000	0
Property Taxes	793,820	405,142	51%	793,820	0
Sub-Total	26,944,067	14,380,318	53%	26,944,067	0
All Other Water Operating Revenues	4,072,093	1,103,827	27%	4,072,093	0
Total Water Operating Revenues	\$ 31,016,160	\$ 15,484,145	50%	\$ 31,016,160	\$ 0
Capital Facilities Charges	1,396,860	4,805,122	344%	1,396,860	0
All Other Capital Facilities Revenues	50,000	85,171	170%	50,000	0
Total Water Capital Revenues	1,446,860	4,890,293	338%	1,446,860	0
Reclaimed Water	465,589	212,810	46%	465,589	0
All Other Water Reserves Revenues	220,000	189,573	86%	220,000	0
Total Water Operating & Capital Revenues	\$ 33,148,609	\$ 20,776,821	63%	\$ 33,148,609	\$ 0
Sewer Operating Revenue					
Sewer Billing	\$ 5,868,527	\$ 2,961,286	50%	\$ 5,868,527	\$ 0
All Other Sewer Operating Revenues	976,403	178,225	18%	976,403	0
Total Sewer Operating Revenue	6,844,930	3,139,510	46%	6,844,930	0
Sewer Connections	500,000	318,293	64%	500,000	0
All Other Sewer Capital Revenues	64,000	14,049	22%	64,000	0
Total Sewer Capital Revenue	564,000	332,342	59%	564,000	0
All Other Sewer Reserves Revenues	10,000	3,092	31%	10,000	0
Total Sewer Operating & Capital Revenues	\$ 7,418,930	\$ 3,474,944	47%	\$ 7,418,930	\$ 0
Total Hesperia Water District Revenue	\$ 40,567,539	\$ 24,251,765	60%	\$ 40,567,539	\$ 0

Water District Revenue Comments:

Effective August 1, 2022, the Hesperia Water District began applying liens to properties with outstanding water bills. Failure to pay within 60 days from the original bill due date results in the Water District mailing the tenant and property owner a notice of lien. If the bill remains outstanding after an additional 10 days, the Water District will apply a lien on the property. During May of each year, all outstanding property liens will be converted to property tax liens. By doing so, the County will collect outstanding balances as part of property tax collections during the following year. For FY 2025-26 as of December 31, 2025, the Water District collected \$227,697 of the \$468,225 placed on the tax roll this Fiscal Year, representing collections from the first of two-property tax installment due dates. The Water District is utilizing such liens in lieu of water disconnections and traditional collection services as the primary mechanism for collections.

Overall Water District Revenue – Revenue through December 2025 is \$24.3 million. Water District revenue is progressing slightly better than anticipated, with 60% of the budgeted amount received. This is primarily attributed to a lump sum payment of nearly \$3.5 million for water connection fees received for the Silverwood Development Project.

Water Sales – Water sales through the second quarter of FY 2025-26 are \$13.8 million and primarily consist of a slight decrease in water consumption from the same period in FY 2024-25. Through December 2025, Water Sales Residential of \$4,105,261 is \$257,619 less than the \$4,362,880 collected through December 2024. In addition, Water Sales Construction of \$222,458 through December 2025, is \$79,548 less than the \$302,006 collected through December 2024, which is mostly due to the timing of industrial projects. Water sales have been collected at 54% of the budget and is currently slightly below expectations through December 2025 but will continue to be monitored as the Fiscal Year progresses.

FISCAL YEAR 2025-26 DECEMBER 31, 2025 YEAR-TO-DATE REVENUE REVIEW (Continued)

Water District Revenue Comments (Continued):

Property Taxes – Property tax revenue is typically received from November 2025 through July 2026. Through December 2025, the YTD of \$405,142 is \$7,058 or 1.7% less than the December 2024 YTD of \$412,200. Overall, Property tax revenue is on track at mid-year, with 51% of the budgeted amount received.

All Other Water Operating Revenue – Through December 2025, total revenue collected is \$1,103,827, 17.8% less than December 2024 YTD of \$1,344,088. This decrease is primarily due to a decrease of \$172,816 in revenue collected from the County of San Bernardino for delinquent accounts that were placed on the tax roll. Revenue through December 2025 is 27% of the original budget.

Capital Facilities Surcharge – Revenue through December 2025 YTD is \$4,805,122, 344% of the budgeted amount to date. The revenue received through the second quarter of 2025 primarily included a substantial one-time payment of \$3.5 million for water connection fees of 625 homes as part of the Silverwood Development Project.

Reclaimed Water – Current Reclaimed Water customers are the Golf Course, Hesperia Township (NW corner of 5th & Smoke Tree) and Hesperia Community Park. As of December 31, 2025, the Water District has collected \$212,810, or 46% of budget.

Sewer Billing – Revenue through December 2025 is \$3.0 million and is associated with sewer residential and commercial customers connected to the sewer system. Revenue received through December 2025 is 50% of the budgeted amount and is trending as expected.

Sewer Connections – Revenue through the second quarter of FY 2025-26 is \$318,293, or 64% of the budget. This revenue is driven by the completion of development projects in areas served by Sewer. This budget revenue will continue to be monitored in the second half of the Fiscal Year as ongoing development projects progress. The revenue is trending higher than predicted as of December 2025 because of the development of many Single-Family Residential homes by Lennar and K Hovnanian requiring sewer connections to the City.

Investment Income – This revenue source reflects the activity of the cash investments of the City for the various funds. The cash investments are held with the Local Agency Investment Fund (LAIF), which regularly earns interest income based on the LAIF interest rates. The FY 2025-26 Budget estimated an interest rate of 4.0%. The interest income received through December 2025 reflected a slightly higher interest rate of 4.1%. Additionally, valuation adjustments are recorded based on the market value of the City’s investments at the end of the Fiscal Year. The investment income revenue of the various City funds is anticipated to comfortably meet the FY 2025-26 Budget once the market valuation adjustments are completed at the end of the Fiscal Year as the fair market value of the securities have been appreciating more than anticipated throughout FY 2025-26 thus far.

	Investment Income		
	2025-26 Budget	2025-26 December	Percent Received
General Fund	\$ 1,090,632	\$ 350,512	32%
Community Development Block Grant	93,831	7,595	8%
Community Development Commissior	150,000	34,247	23%
Hesperia Housing Authority	288,000	74,693	26%
Street Related Funds	1,352,441	580,300	43%
Other City Related Funds	566,806	760,677	134%
Water District	944,000	362,527	38%
Total	\$ 4,485,710	\$ 2,170,551	48%

2025-26 MID-YEAR BUDGET REVIEW REPORT

DEPARTMENT FY 2025-26 BUDGET EXPENDITURE STATUS SUMMARY

Total City Expenditures – With the exception of the three (3) mid-year budget amendments totaling \$255,000 the overall assessment of the City’s expenditures through mid-year of the fiscal year is that expenditures are expected to stay within the FY 2025-26 Amended Budget.

Expenditure Summary	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
City Council	\$ 1,113,658	\$ 1,113,658	\$ 630,506	57%
City Manager	1,834,107	1,848,405	934,545	51%
Management Services	13,017,822	13,222,667	7,513,348	57%
Development Services - Community Development	3,169,097	3,171,597	1,590,207	50%
Development Services - Code Compliance	5,993,461	5,991,761	2,606,454	44%
Development Services - Public Works	7,483,674	7,428,267	2,911,778	39%
Development Services - Water	30,619,559	34,477,987	15,020,471	44%
Development Services - Sewer	8,918,230	9,299,480	3,899,241	42%
Police	22,889,390	24,326,290	9,741,221	40%
Sub-Total Operating	95,038,998	100,880,112	44,847,772	44%
Economic Development	650,684	650,684	208,162	32%
Streets Capital Improvement Project (CIP) Funds	34,238,591	34,332,591	2,348,469	7%
Water Capital	1,855,114	2,727,497	932,747	34%
Sewer Capital	1,778,170	1,778,170	1,107,766	62%
Other City Related Funds	3,112,408	3,227,174	1,931,895	60%
Fire District	1,959,733	1,959,733	1,896,318	97%
Sub-Total Others	43,594,700	44,675,849	8,425,356	19%
TOTAL CITY EXPENDITURES	\$ 138,633,698	\$ 145,555,961	\$ 53,273,128	37%

TOTAL EXPENDITURES BY DEPARTMENT AND PROGRAMS

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
City Council				
100 100 City Council	\$ 413,658	\$ 413,658	\$ 168,234	41%
100 102 City Attorney	700,000	700,000	462,272	66%
Total City Council	\$ 1,113,658	\$ 1,113,658	\$ 630,506	57%

The City Council Department is 57% expended through December 2025. The City Council Division has expended 41% due to budgeted items typically expended later during the fiscal year, such as annual memberships, conferences, seminars, community outreach programs, and events. The City Attorney Division has expended 66% due to ongoing legal fees pertaining to litigation matters.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
City Manager	\$ 1,834,107	\$ 1,848,405	\$ 934,545	51%

The City Manager Department expenditures are on track, staying within the 2025-26 Budget at 51% expended.

TOTAL EXPENDITURES BY DEPARTMENT AND PROGRAMS (Continued)

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Management Services				
100 220 Finance	\$ 2,629,454	\$ 2,629,454	\$ 1,341,959	51%
100 225 Human Resources/ Risk Mgmt.	5,290,831	5,268,033	3,919,880	74%
100 228 Information Technology	3,842,045	4,068,488	1,805,598	44%
100 229 Non-Departmental	1,255,492	1,256,692	445,911	35%
Total Management Services	\$ 13,017,822	\$ 13,222,667	\$ 7,513,348	57%

The Management Services Department is currently at 57% expended. Finance is 51% expended, while Information Technology is 44% expended, and both are proceeding as planned. During the November 18, 2025 First Quarter Budget Review, the budget was amended to include \$164,356 for software licensing and support renewal. The Human Resources Division is 74% expended due to the lump sum payment to CalPERS for the unfunded accrued liability and annual insurance premiums paid at the beginning of the fiscal year. Non-Departmental expenses are at 35% and reflect lower-than-anticipated payments for ongoing operational costs at the Hesperia Golf Course.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Economic Development				
100 Economic Development	\$ 431,497	\$ 431,497	\$ 164,519	38%
251 Community Development Block Grant (CDBG)	144,883	144,883	31,099	21%
370 Hesperia Housing Authority	74,304	74,304	12,544	17%
Total Economic Development	\$ 650,684	\$ 650,684	\$ 208,162	32%

The Economic Development Department expended 32% through the Second Quarter. This department is made up of three (3) Divisions: Economic Development, Community Development Block Grant (CDBG), and Hesperia Housing Authority (HHA) funds.

The Economic Development Division performs the economic development functions for the City. Funded by the General Fund, Economic Development is 38% expended through December 2025. Expenditures are expected to increase in the second part of the fiscal year as invoices are received for contractual services, including the Annual Action Plan.

Community Development Block Grant (CDBG) administers the City's CDBG program and related activities and is 21% expended. Expenditures are expected to increase in the second part of the fiscal year as invoices are received to complete the Annual Action Plan and consultant administration fees.

The Hesperia Housing Authority (HHA) funds oversee the City's affordable housing. Through the end of December 2025, the HHA funds were 17% expended. Expenditures are expected to increase in the second part of the fiscal year as invoices are received for consultant administration fees and software licensing.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
D. S. - Community Development				
100 3000 Planning	\$ 1,330,418	\$ 1,335,918	\$ 592,496	44%
100 3020 Building & Safety	1,838,679	1,835,679	997,711	54%
Total D. S. - Community Development	\$ 3,169,097	\$ 3,171,597	\$ 1,590,207	50%

The Community Development Division is 50% expended overall through the Second Quarter. Planning is 44% expended, and Building & Safety is 54% expended; both are proceeding as expected.

2025-26 MID-YEAR BUDGET REVIEW REPORT

TOTAL EXPENDITURES BY DEPARTMENT AND PROGRAMS (Continued)

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
D. S. - Code Compliance				
100 3010 Code Enforcement	\$ 2,237,546	\$ 2,235,846	\$ 1,184,144	53%
100 5000 Animal Control	3,755,915	3,755,915	1,422,310	38%
Total D. S. - Code Compliance	\$ 5,993,461	\$ 5,991,761	\$ 2,606,454	44%

The Code Compliance Division expenditures are trending as expected at 44% through mid-year. The table above shows that Code Enforcement is 53% expended, while Animal Control is 38% expended. Animal Control expenditures are expected to increase in the second part of the fiscal year as invoices are received for contractual services.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
D. S. - Public Works				
100 3100 Engineering	\$ 900,419	\$ 898,419	\$ 440,601	49%
100 3110 Building Maintenance	1,850,737	1,797,330	678,119	38%
100 Capital Improvement Program	350,000	350,000	0	0%
263 3150 Street Maintenance	2,779,598	2,788,491	1,193,778	43%
263 3160 Street Repair	180,508	183,615	77,627	42%
263 3170 Traffic	1,422,412	1,410,412	521,653	37%
Total D.S. Public Works	\$ 7,483,674	\$ 7,428,267	\$ 2,911,778	39%

Through the end of December, the Public Works Division is 39% spent. While Engineering, Street Maintenance, and Street Repair are trending as expected, Building Maintenance and Traffic are contributing factors to the Public Works Division's lower-than-expected expenditures, at 38% and 37%, respectively. Large projects, such as Council Chamber upgrades, the replacement of evaporative coolers at the Animal Shelter, and County Library pendant lighting, continue with expenditures occurring as progress is made. Capital Improvement Program expenses are expected to increase later in the fiscal year as the Golf Course Trails project advances.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Streets Capital Improvement Project (CIP) Funds	\$ 34,238,591	\$ 34,332,591	\$ 2,348,469	7%

Streets Capital Improvement Project (CIP) related expenditures are 7% expended through December 2025. Expenditures will increase as progress continues on several key projects, including the Rancho Aqueduct Crossing, Maple Avenue Street Improvement, FY 2025–26 Street Improvement Projects, and other street-related improvements. Please note that at the October 7, 2025 City Council meeting, the budget was amended to appropriate \$94,000 in Measure I Funds to the FY 2023-24 CDBG Street Improvement Project C.O. 7172.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Other City Related Funds	\$ 3,112,408	\$ 3,227,174	\$ 1,931,895	60%

This classification comprises the principal and interest payments for the 2012 Water Rights Acquisition and 2023 Refunding Lease Revenue Bonds and reimbursable expenditures related to the Silverwood Project. Principal payments for both bonds occur in the fall of each fiscal year, explaining the 60% expended percentage through December 2025. During the November 18, 2025 First Quarter Budget Review, the budget was amended to include \$114,786 of additional funding to complete the Waste Characterization Study.

TOTAL EXPENDITURES BY DEPARTMENT AND PROGRAMS (Continued)

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
D.S. Water Operating & Capital				
4010 Source of Supply	\$ 5,068,641	\$ 5,068,641	\$ 74,565	1%
4020 Production	5,778,128	5,778,128	2,585,716	45%
4030 Distribution	1,757,302	1,788,302	1,114,459	62%
4035 Pipeline Maintenance	1,302,323	1,302,323	592,076	45%
4040 Engineering	1,860,489	1,858,289	448,370	24%
4050 Customer Service	2,457,742	2,432,742	1,088,942	45%
4060 Utility Billing	1,521,567	1,521,567	1,236,608	81%
4070 Administration	8,831,812	12,690,240	7,187,759	57%
4080 Property Management	510,056	504,756	203,897	40%
4160 Street Repair	1,237,564	1,239,064	468,745	38%
720 Reclaimed Water Operations	293,935	293,935	19,334	7%
Total Water Operations	\$ 30,619,559	\$ 34,477,987	\$ 15,020,471	44%
701 Water Capital	1,855,114	2,120,497	391,351	18%
703 Water Capital Rehab and Replace	0	607,000	541,396	89%
711 Sewer Capital Projects	1,778,170	1,778,170	1,107,766	62%
Total D.S. Water Operating & Capital	\$ 34,252,843	\$ 38,983,654	\$ 17,060,983	44%

Overall, the Water Operating and Capital funds are 44% expended through December 31, 2025. The following narrative details the progression of each program.

- The primary responsibility of Source of Supply is to secure make-up water lease rights to remedy overproduction. At Mid-Year, Source of Supply is only 1% expended. Expenditures are expected to significantly increase later in the fiscal year due to the recording of leased water rights to offset the Alto and Centro Subarea replacement obligation.
- Production is responsible for drawing groundwater, has expended 45% of the budget by the end of the Second Quarter, and is proceeding as expected.
- Distribution has utilized 62% of its allocated budget and is proceeding slightly higher than expected. This is mainly due to expenses associated with installing new water services, meters and maintaining the water system.
- Through December 31, 2025, Pipeline Maintenance has expended 45% of the budget and is proceeding as expected.
- Engineering is currently 24% expended, primarily due to the timing of invoices. Expenditures are expected to increase in the second part of the fiscal year as invoices are received for contractual services, including the Reclaimed Water Master Plan.
- Customer Service is 45% expended and proceeding as planned, with the Advanced Metering Infrastructure (AMI) programs progressing on schedule (86.62% of City on AMI).
- Utility Billing is 81% expended. The increased percentage is due to the \$0.4 million in write-offs of delinquent customer accounts and the document recording costs related to placing those delinquent accounts onto the County Property Tax Roll for collection. It should be noted that the subsequent collection of the tax liens will be reflected as revenue. Through December 2025, the District has received \$0.2 million through the County Property Tax Roll collections process, representing collections from the first of two property tax installments due dates. Additional collections will be received through the fiscal year-end.
- Administration is 57% expended and proceeding as planned. During the November 18, 2025 First Quarter Budget Review, the budget was amended to include \$3,858,428 for Well Rehabilitation, Water Service Line Replacements and a Water Rate Study.
- Property Management is 40% expended at mid-year and will increase as maintenance projects are completed throughout the fiscal year.

TOTAL EXPENDITURES BY DEPARTMENT AND PROGRAMS (Continued)

D.S. Water Operating and Capital (Continued):

- Street Repair is 38% expended through December 31, 2025, and will increase as material and equipment are purchased for the street repair program, including the purchase of a Chassis and Hook-Lift System.
- Reclaimed Water Operations are 7% expended. Expenditures will increase later in the fiscal year when Debt Service payment is due.
- Projects in Water and Sewer Capital have \$4.5 million allocated in capital funds and are 45% expended overall. Expenditures will increase as projects such as the I-15 Corridor water and sewer, Maple Avenue sewer line replacement, and Recoating the exterior of the water tank at Plant 21, 22 & 23, progress. During the October 21, 2025 Council Meeting, the budget was amended to include \$607,000 for maintenance and repair services to Well 14A and 5A. During the December 2, 2025 Council Meeting, the budget was amended to include \$250,000 for the Highway 395 Waterline Relocation Project.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
D. S. - Sewer Operating				
4200 Operations	\$ 6,564,502	\$ 6,564,502	\$ 2,927,185	45%
4240 Engineering	277,360	277,360	94,094	34%
4260 Utility Billing	312,753	312,753	164,384	53%
4270 Administration	1,763,615	2,144,865	713,578	33%
Total D.S. Sewer Operating	\$ 8,918,230	\$ 9,299,480	\$ 3,899,241	42%

The Sewer Operating Funds overall are 42% expended overall.

- Sewer Operations expenditures are 45% expended, primarily due to receiving invoices for Victor Valley Wastewater Reclamation Authority (VWRA) sewer treatment fees through November 2025.
- Sewer Engineering is currently 34% expended and expected to increase in the second part of the fiscal year as invoices are received for contractual professional engineering services related to sewer projects.
- Sewer Utility Billing is 53% expended, which is expected for the first half of the fiscal year.
- Sewer Administration is proceeding as planned, with 33% expended, mainly due to the monthly general and administrative re-payment for the annual indirect cost allocation. During the first quarter budget review the budget was amended by \$381,250 for the completion of American Rescue Plan Act (ARPA) related projects.

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Police	\$ 22,889,390	\$ 24,326,290	\$ 9,741,221	40%

The Police Department budget is 40% expended, which is expected for the first half of the fiscal year with the County contract invoices paid through November 2025. Factoring in December 2025 payment that was paid in early January 2026, the Police fund is 50% expended. Please note that during the November 18, 2025, Council Meeting, the budget was amended by \$1,436,900 (County contract increase and Audio/Video System carryover project).

	2025-26 Budget	2025-26 Amended	December 2025 YTD Expenditures	Amended Percent Expended
Fire District	\$ 1,959,733	\$ 1,959,733	\$ 1,896,318	97%

During FY 2018-19, the City transferred all Hesperia Fire Protection District (Fire District) assets and liabilities to San Bernardino County Fire, except for the former personnel obligations, for which the Fire District will continue to function with dedicated funding. The Fire District is 97% expended due to paying the annual contractual retirement obligations related to the former Fire District employees at the beginning of the fiscal year versus paying monthly. The \$63,415 savings will be placed in the District's Section 115 trust to pay former Fire District personnel obligations.

PROPOSED BUDGET AMENDMENTS – SUMMARY

The FY 2025-26 Mid-Year Budget Review includes three (3) budget amendments totaling \$255,000. The following listing categorizes the proposed budget amendments, with the following pages providing details on each request:

FY 2025-26 Mid-Year Budget Requests	General Fund	Other Funds	Totals
1. 8-Yard Dump Truck-Replacement	\$ 0	\$ 180,000	\$ 180,000
2. Bear Valley Signal Replacement	0	30,000	30,000
3. Traffic Vehicle-Supervisor	0	45,000	45,000
Total Mid-Year Amendment Requests	\$ 0	\$ 255,000	\$ 255,000

Source of Funds:

Public Works Street Maintenance - 263	\$ 255,000
Total Source of Funds	\$ 255,000

The following amendments are new amendments that were unforeseen or unplanned during the development of the FY 2025-26 Budget.

▪ **8-Yard Dump Truck Replacement – Public Works-Street Maintenance \$180,000 (263-29-310-3150)**

This request is for the purchase of an 8-yard dump truck to replace a 2007 Sterling dump truck that has become inoperable. The truck is 19 years old, with over 68,000 miles, and recently suffered a catastrophic engine failure. After inspection, it was determined that the engine is damaged, and a new engine is required. If the engine were to be replaced, the unit would soon fall out of California compliance, making further investment impractical. A budget amendment to purchase a replacement is requested.

▪ **Bear Valley Signal Replacement – Public Works-Street Maintenance \$30,000 (263-29-310-3150)**

During December 2025, a traffic signal pole located on the southeast corner of I Avenue and Bear Valley Road was struck by a high-wide oversize load vehicle and sustained structural damage beyond repair to both the pole and foundation. The city maintains a joint agreement with the City of Victorville for the maintenance and repair of the signalized system along Bear Valley Road. Under this agreement both cities share the costs of maintenance and capital repairs on a 50/50 basis. Replacement of the damaged signal equipment falls under this cost-sharing arrangement. Therefore, staff is requesting a budget amendment for the City's portion of \$30,000.

▪ **Traffic Vehicle-Supervisor – Public Works-Traffic \$45,000 (263-29-310-3170)**

During FY 2024-25 a full-time Maintenance Supervisor position was filled, and the assigned vehicle at that time had been taken out of service due to age and repair costs. Since then, the Supervisor has been utilizing a service vehicle that is intended for staff use to respond to requests and manage day-to-day operations, and recently another vehicle was removed from service, further limiting vehicles available to staff. Staff is requesting approval to purchase a new vehicle to be used by the supervisor.

2025-26 MID-YEAR BUDGET REVIEW REPORT

2026-27 Tentative Budget Calendar

While the Mid-Year report gauges the current year's activity, it does serve as the official start for planning the next year's budget. Below is the tentative calendar for the FY 2026-27 Budget.

2026-27 Budget Instructions (SharePoint)	February 26, 2026
Council FY 2025-26 Mid-Year Budget Review	March 3, 2026
2026-27 Draft Division and/or Program Narratives	March 5, 2026
FY 2025-26 Revised Revenue and 2026-27 Proposed Budget Revenue Estimates to Departments for Review (07/01/2025 thru 02/28/2026)	March 12, 2026 (Review) March 23, 2026 (Due)
FY 2025-26 Revised Expenditure Estimates, 2026-27 Current Level Proposed Budget Expenditures	March 25, 2026
2026-27 Budget Increments - "Requested Expenditures Above Current Level"	March 30, 2026
Budget Review with Departments/Divisions (Finance)	Mid-April
2026-27 Final Proposed Budget Division and/or Program Narratives completed	End of April
Capital Improvement Program (CIP) Due from Department to Finance	April 9, 2026
Workshop #1 – Current Level Budget to Council (Operating)	May 5, 2026
City Positions – Department Directors notify staff	May 7, 2026
Internal Review	May 12, 2026
2026-27 Proposed Budget completed (To Council)	May 18, 2026
Workshop #2 – Above Current Levels to Council and AB 2561 – Vacancy Presentation	May 19, 2026
Council Budget Workshop	June 2, 2026
Council Adopts Operating Budget	June 2, 2026
Council Adopts CIP Budget	June 16, 2026

With this calendar, there are two planned budget workshops before requesting the City Council to adopt the Operating Budget on June 2, 2026, and the CIP Budget on June 16, 2026.

- Budget Workshop #1 will highlight the current-level operating budget.
- Budget Workshop #2 will highlight using reserves for significant purchases and the capital improvement program budget. Additionally, Workshop #2 will require a public hearing to ensure compliance with AB 2561, which requires a vacancy position presentation.