

CITY OF FONTANA



**POPULAR ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017**



FONTANA
CALIFORNIA



The Popular Annual Financial Report (PAFR) is an unaudited summary report of the financial activities of the City and is prepared primarily from detailed information contained in the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017, with selected information from CAFRs prepared in earlier fiscal years.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and includes financial statements audited by Davis Farr LLP. The City received an unmodified (or clean) opinion that the financial statements present fairly, in all material respects, the financial position of the City of Fontana at June 30, 2017. The CAFR provides much more detail as well as full disclosure of all material events, both financial and non-financial and includes the City's component units (related organizations) and information on individual funds.

The PAFR has been prepared to simplify the information in the CAFR and better inform the public about the overall financial condition of the City, without the heavy use of technical accounting terms or excessive detail. The PAFR is not intended to provide a complete financial picture of the City in accordance with GAAP.

Questions or feedback concerning any of the information provided in this report or requests for additional financial information may be directed to the Accounting Division via mail to 8353 Sierra Ave, Fontana, California 92335, via email to dbrooks@fontana.org or via telephone at 909-350-7611.

Copies of both the PAFR and CAFR are available online at:

www.fontana.org/index/asp?NID=343

Vision Statement

"Fontana is a dynamic, thriving community that supports education, growth, safety and positive community fabric. Our community is creating the opportunities that encourage social and economic investment."

Adopted by the Fontana City Council



About Fontana

The City of Fontana encompasses approximately 42.4 square miles and has a population of 212,786. It is located 50 miles east of Los Angeles, 50 miles north of the heart of Orange County, and 10 miles west of the cities of Riverside and San Bernardino. The City was incorporated on June 25, 1952, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city.

The City was first developed as an organized rural community through the vision of Mr. A. B. Miller. The farming community was abruptly reshaped in 1942 with the transformation of Mr. Miller's farm into a steel mill by Henry J. Kaiser. The City incorporated in 1952 and the area became Southern California's leading producer of steel and steel-related products. The steel industry dominated the City's economy until 1984 when the steel mill closed.



Fontana Government

The City of Fontana is governed by a five-member City Council under the Council-Manager form of government. The City provides a full range of services to its residents including police and fire services; sanitation services; construction and maintenance of highways, streets and infrastructure; land use and planning; recreation and cultural arts; and general governmental services.

Elected Officials (at time of issuance)

Acquanetta Warren, Mayor
Jesus "Jesse" Sandoval, Mayor Pro Tem
John B. Roberts, Council Member
Michael Tahan, Council Member
Jesse Armendarez, Council Member
Janet Kohler-Brooks, Treasurer
Tonia Lewis, City Clerk

Administrative Staff

Kenneth R. Hunt	City Manager
Debbie Brazill	Deputy City Manager / Development Services
David R. Edgar	Deputy City Manager / Administrative Services
Zai AbuBakar	Community Development Director
Jeffrey Birchfield	Fire Chief
Ramon Ebert	Information Technology Director
Charles E. Hays	Public Works Director
Annette Henckel	Human Resources Director
Garth W. Nelson	Community Services Director
Karen Porlas	Deputy City Clerk
Robert W. Ramsey	Police Chief
Ricardo Sandoval	City Engineer
Lisa A. Strong	Management Services Director

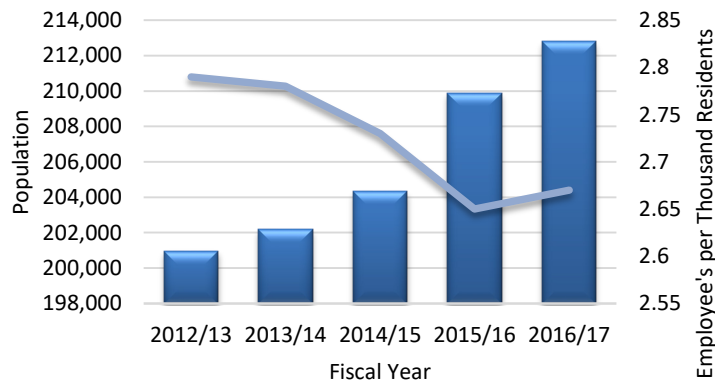


A.B. Miller



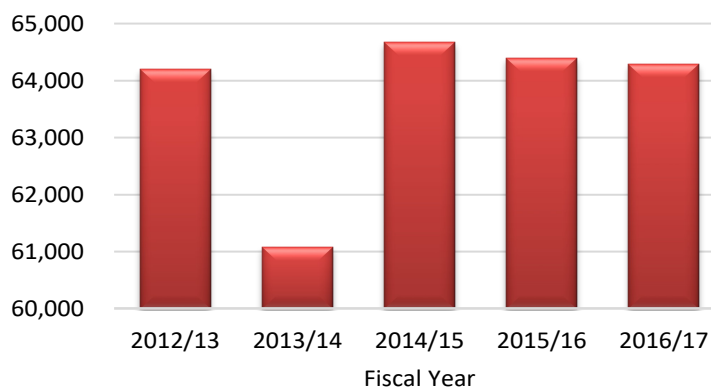
Demographics

Population



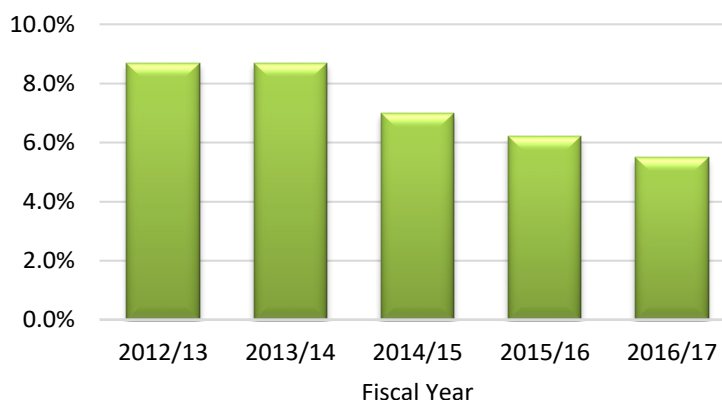
The center of San Bernardino County's growth is moving west into Fontana. The population has grown 13.65% over the past ten years and, at 212,786 Fontana is the second largest city in San Bernardino County, the third largest in the Inland Empire, and twentieth in the State. It is likely that Fontana's population will exceed 225,000 by the year 2025.

Median Income



The median income in Fontana was \$64,297, decreasing only 0.2% from the previous fiscal year. And ranked 15th in the Inland Empire. Unfortunately, the City also has a large population (17.3%) with income below the poverty level and approximately 28.8% of the population without health insurance.

Unemployment Rate



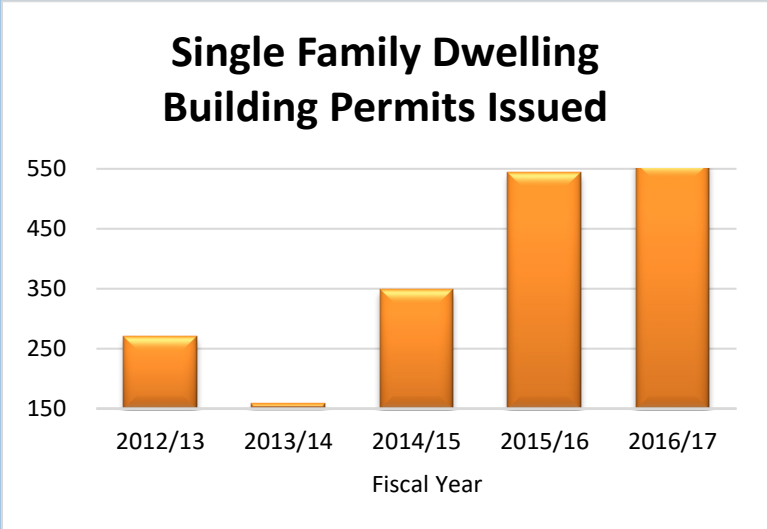
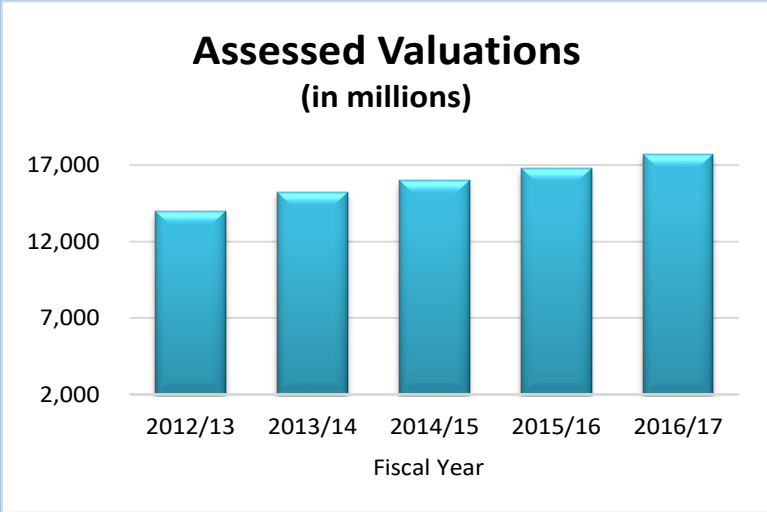
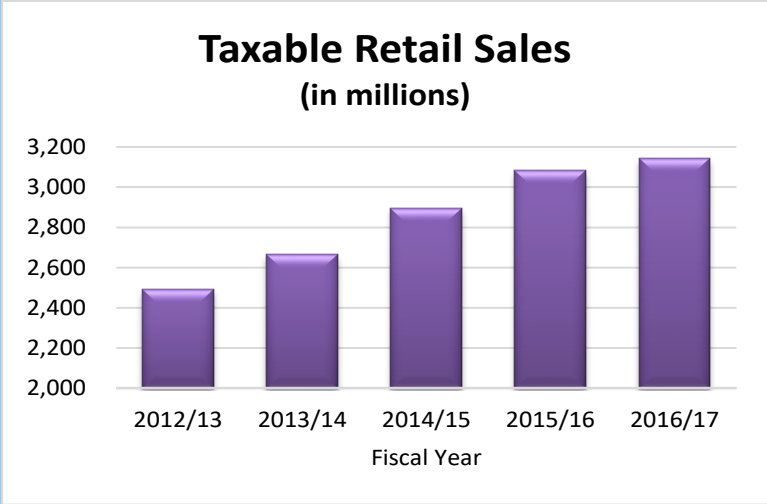
The unemployment rate was down slightly from 6.2% in June 2016 to 5.5% in June 2017, 0.8% above the U.S. rate of 4.7%. The sectors with the largest job growth were logistics and construction. The regions job growth is expected to continue partly due to the area's advantage for blue collar sectors, underdeveloped land, modestly priced labor, and growing population.

Economy

Taxable sales are a major city revenue source that is now recovering from a steep downturn. Taxable retail sales were up 1.9% over the last year within the City, which was slightly lower than California's growth of 3.1%. The City of Fontana is ranked fifth in taxable retail sales in the Inland Empire with sales of \$3.142 billion.

While the Inland Empire's housing markets, as a whole, remain stuck in a narrow band of home sales that has gone on seven years; the City of Fontana homes sales are expected to surge in the coming year as Fontana has competitive advantages related to its neighbors in the Inland Empire as it continues to be the westernmost city with available space to accommodate both residential and industrial development.

The housing market in the region has been stuck at a standstill that has gone on seven years. In the most recent years, lack of supply has began propelling prices which continues to rise sharply, and demand is increasing as consumer confidence returns and interest rates remain low. The affordability in Fontana is high, thus driving developers to build more homes.



Statement of Net Position:

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The largest component of the City's net position, about 76% or 735.8 million, was net investment in capital assets. The City's investment in capital assets themselves cannot be used to liquidate the City's debt, and so the resources needed to pay the City's liabilities must be provided from other sources.

\$227.1 million or 23% of the City's net position was restricted. Restricted means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provision or legislation, including those passed by the City itself.

The final component of net position is unrestricted net position. Unrestricted net position is a resource that can be used to meet ongoing obligations to citizens and creditors. Unrestricted net position totaled \$9.4 million, compared to (\$3.1) million in FY 2015/16.

Description of Categories:

Current and other assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress.

Deferred outflows of resources – This represents a consumption of net position that applies to future periods.

Current and other liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, deposits payable, accrued interest payable, and unearned revenue.

Long-term obligations – Represents the debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

Deferred inflows of resources – This represents an acquisition of net position that applies to future periods.

Net position - This represents the difference between the City's total assets and deferred outflows of resources, and liabilities and deferred inflows of resources.

Net investment in capital assets – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets.

Restricted – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for various purposes such as; debt service, public works projects, and community development projects as established by the City Council.

Unrestricted – These are resources that are accessible to the City to provide services to the residents of Fontana if there were no additional revenues or resources available.

Statement of Net Position

Governmental Activities

	Fiscal Years	
	2016/17	2015/16
Assets:		
Current and other assets	\$ 416,922,366	\$ 403,205,369
Capital assets	782,924,618	804,007,560
Total assets	<u>1,199,846,984</u>	<u>1,207,212,929</u>
Deferred outflows of resources:	<u>27,003,966</u>	<u>11,344,250</u>
Liabilities:		
Long-term liabilities outstanding	220,391,079	191,654,087
Other liabilities	28,550,985	34,226,087
Total liabilities	<u>248,942,064</u>	<u>225,880,174</u>
Deferred inflows of resources:	<u>5,612,730</u>	<u>7,922,572</u>
Net position:		
Net investment in capital assets	735,790,188	755,220,959
Restricted	227,128,252	226,420,563
Unrestricted	9,377,716	3,112,911
Total net position	<u>\$ 972,296,156</u>	<u>\$ 984,754,433</u>



Statement of Activities:

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year for all governmental fund types. All changes in net position are reported as soon as the underlying event giving rise to the change occurs using the full-accrual basis, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Statement of Activities Governmental Activities

	Fiscal Years	
	2016/17	2015/16
Revenues		
Program revenues:		
Charges for services	\$ 59,748,341	\$ 77,293,820
Operating contributions and grants	12,213,450	4,920,888
Capital contributions and grants	26,539,731	13,763,600
Total program revenues	98,501,522	95,978,308
General revenues:		
Property taxes	52,097,345	48,537,350
Sales taxes	37,844,293	38,442,282
Franchise taxes	6,680,065	7,042,887
Business license taxes	5,714,262	5,215,605
Transient occupancy taxes	961,122	962,089
Investment earnings	5,645,106	8,151,890
Other	3,764,722	3,801,250
Total general revenues	112,706,915	112,153,353
Total Revenues	211,208,437	208,131,661
Expenses		
Program expenses:		
General government	45,000,071	29,336,758
Public safety	85,083,073	77,928,071
Public works	40,138,228	37,524,666
Community development	10,381,815	9,037,714
Community services	15,155,260	14,762,425
Engineering	27,778,614	21,667,220
Interest on long-term debt	2,392,153	2,153,414
Total program expenses	225,929,214	192,410,268
Transfers	2,262,500	2,109,800
Change in Net Position	(12,458,277)	17,831,193
Net position at beginning of year (as restated)	984,754,433	966,923,240
Net position at end of year	\$ 972,296,156	\$ 984,754,433

Description of Revenues:

Program revenues – Revenues that are earned as a direct result of a given function. Program revenues are offset by program expenses.

Operating grants and contributions – Monies received from parties outside the City and are generally restricted to one or more specific programs.

Capital grants and contributions – Monies received for capital purposes, to purchase, construct, or renovate capital assets associated with a specific program.

Property taxes – The assessed valuation of the property in the City is determined by the San Bernardino County Tax Assessor, which levies a base tax at the rate of 1% of assessed valuation. Approximately 3.7% of the base 1% levy is allocated annually to the City in the form of property tax revenue.

Sales taxes – In accordance with the California Revenue and Taxation Code, the State of California imposes a 7.75% sales and use tax within the County of San Bernardino on all taxable sales in the City. The City receives 0.75% of the taxable sales in the city. The State of California and the County of San Bernardino receive 5.25% and 1.75% respectively.

Franchise taxes – The city's franchise revenues come from fees collected on water, gas, electric utilities, rubbish and cable franchises operating within the City. The fees are based on gross receipts.

Business license taxes – In order for a business to operate within Fontana city limits, the City imposes a tax based on gross receipts of the business.

Transient occupancy taxes – In accordance with the California Revenue and Taxation Code, the City levies an 8% tax for the privilege of occupying a rented room or space for less than 30 days.

Interest earnings – The City pools its available cash from various funds and invests in instruments allowed by the City's investment policy. Earnings are allocated to various funds on the basis of proportionate cash balances. The actual revenue realized is a function of current cash balances and market interest rates.

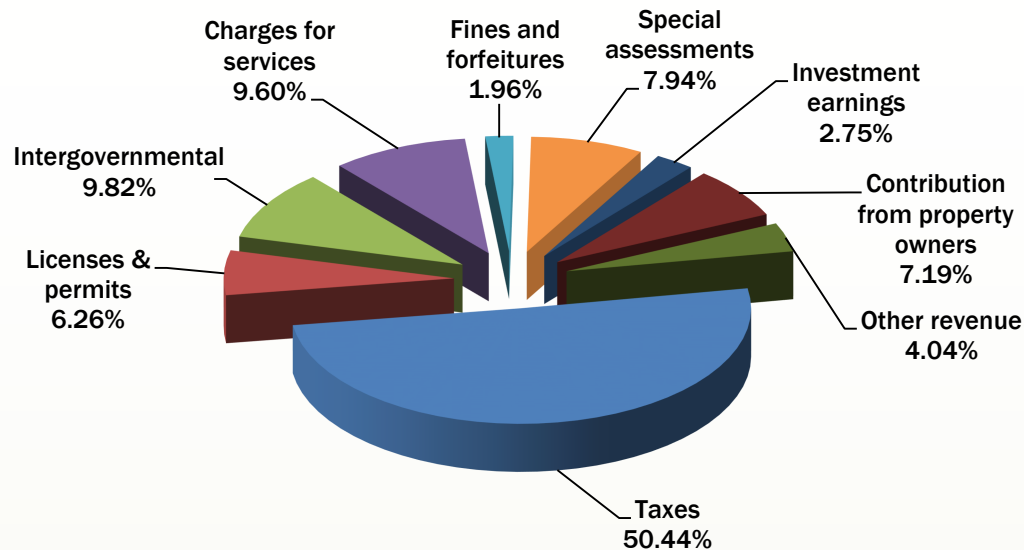
Other—Revenues that are non-recurring in nature such as reimbursable expenses.

Governmental Funds:

The City maintains 46 individual governmental funds for financial reporting purposes. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Where the Money Comes From?

Total revenues for the fiscal year were \$204,802,494. The breakdown of where the revenues come from is as follows:



Revenues	Amount	Percent of Total	Increase (Decrease) from prior year	Percent of Increase (Decrease) from prior year
Taxes	\$103,297,087	50.44%	\$3,096,874	3.09%
Licenses & permits	12,811,481	6.26%	(5,814,775)	-31.22%
Intergovernmental	20,108,576	9.82%	(219,797)	-1.08%
Charges for services	19,659,882	9.60%	(7,124,095)	-26.60%
Fines and forfeitures	4,021,872	1.96%	(450,918)	-10.08%
Special assessments	16,270,692	7.94%	230,289	1.44%
Investment earnings	5,623,634	2.75%	(2,487,234)	-30.67%
Contribution from property owners	14,728,436	7.19%	14,728,436	100.00%
Other revenue	8,280,834	4.04%	(247,886)	-2.91%
Total	\$204,802,494	100.00%	\$1,710,894	0.84%

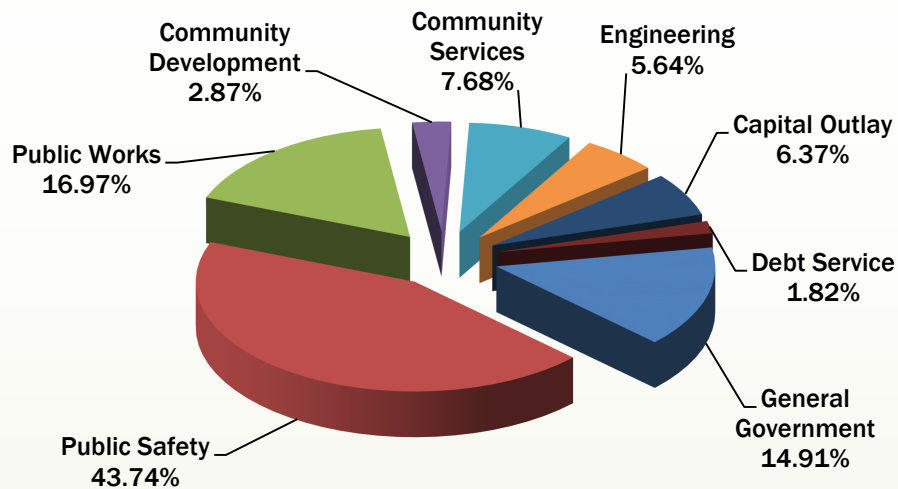
The City's revenues increased \$1.7 million (0.84%) over the prior year with the most significant revenues sources being property taxes (24%) and sales and use taxes (18%).

The overall increase is caused by the following:

- Tax revenues increased by \$3.1 million (3.1%) Sales tax revenues increased \$3.7 million over prior year, but is off-set by the reduction of the one-time repayment of the Triple-Flip received from the State in the prior year of \$4.2 million, resulting in a total decrease in sales tax revenue of (\$0.5) million.
- Development related activities have decreased revenues in both the Licenses & permits and Charges for services categories by a total of \$12.9 million due to decreased development activity primarily in the commercial and industrial sectors in the current year.
- Investment earnings decreased by \$2.5 million (30.7%), a result of the unrealized loss recorded at fiscal year-end to recognize the change in the fair value of investments (GASB 31 adjustment).
- Contributions from property owners increased by \$14.7 million (100%) due to the receipt of one time revenues in the current year; \$9.0 million in-lieu payment received from a developer as part of a developer agreement and \$5.7 million in contributions from developer in the form of bond proceeds from Community Facilities District #71 – Sierra Crest.

Where the Money Goes?

Total expenditures for the fiscal year were \$188,114,433. The breakdown of where the expenditures went is as follows:



Expenditures	Amount	Percent of Total	Increase (Decrease) from prior year	Percent of Increase (Decrease) from prior year
General Government	\$28,048,281	14.91%	\$6,007,954	27.26%
Public Safety	82,284,307	43.74%	4,741,761	6.12%
Public Works	31,924,593	16.97%	2,688,527	9.20%
Community Development	5,390,496	2.87%	1,341,799	33.14%
Community Services	14,443,168	7.68%	252,660	1.78%
Engineering	10,612,177	5.64%	5,431,615	104.85%
Capital Outlay	11,990,495	6.37%	(6,782,232)	-36.13%
Debt Service	3,420,916	1.82%	(1,291,745)	-27.41%
Total	\$188,114,433	100.00%	\$12,390,339	7.05%

The City's most significant expenditures were Public Safety related (43.7%); \$55.4 million for Police and \$26.9 million for Fire.

Total expenditures increased in the fiscal year by \$12.4 million (7.05%). The decrease was primarily caused by:

- General government expenditures includes an increase of \$3.8 million in self-insurance claims related expenditures.
- Public safety expenditures include increases of \$1.7 million for Police salaries and benefits and an increase of \$1.4 million for fire services contract with San Bernardino County Fire.
- Engineering and Public Works expenditures show increases at the department level as a result of decreased in activity capital projects, and increased activity in non-capital projects.
- Capital Outlay expenditures decreased by \$6.8 due to the completion of and capitalization of major projects in the previous fiscal year such as the Duncan Canyon Interchange in FY 2015/16 for \$11.4 million.
- Debt service expenditures decreased by \$1.3 million, which is a result of the final debt service payment made on the 2003 Lease Revenue Bonds and the annual savings from the refinancing of the 2007 Lease Revenue Bonds in FY 2015/16.



What We Own

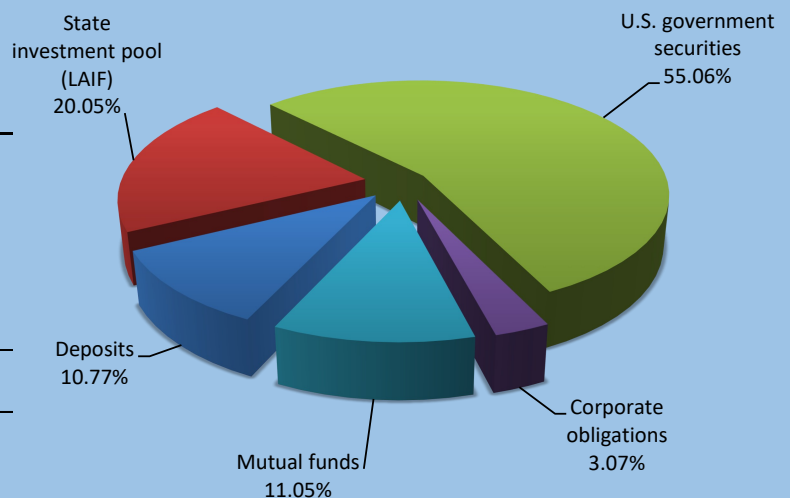
Investment Management

The City follows the practice of pooling cash and investments of all funds except for restricted funds generally held by outside trustees or fiscal agents and funds in its employees' deferred compensation plans. Interest income earned on pooled cash and investments is allocated to those funds which are required by law, local ordinance, administrative action or agreements to receive interest based on the weighted average cash balances.

The City invests temporarily idle cash in accordance with the Government Code and a formal investment policy approved by the City Council on an annual basis in January. Investments must meet established criteria for safety, liquidity and yield. As of June 30, 2017, pooled investments had a market value of \$326.0 million as follows:

The average yield on City pooled investments during the year was 1.15% producing interest earnings of approximately \$3.2 million. This was higher than the two-year treasury benchmark of 1.09% (annual average).

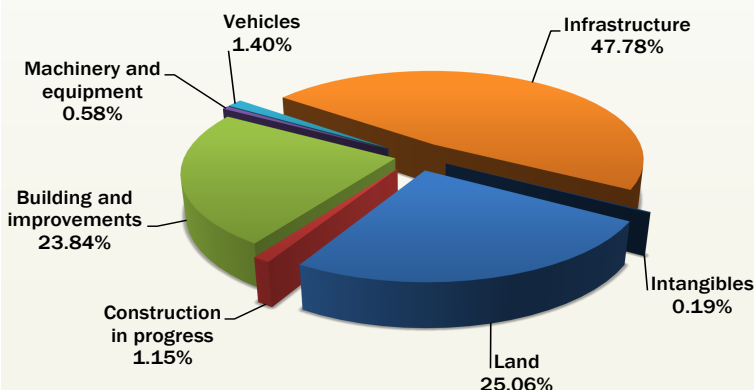
	Market Value	Percentage
Deposits	\$ 35,113,727	10.77%
State investment pool (LAIF)	65,367,529	20.05%
U.S. government securities	179,507,640	55.06%
Corporate obligations	10,006,750	3.07%
Mutual funds	36,009,588	11.05%
	<u>\$ 326,005,234</u>	<u>100.00%</u>



Capital Assets

As of June 30, 2017, the value of the City's capital assets was \$782.9 million, a decrease of about \$21 million or 2.6% from the previous fiscal year. Major events during the fiscal year include:

- The City has completed several construction projects such as the Catawba Storm Drain Improvement, Slover Avenue Pavement Rehabilitation, and Oleander & Highland Infrastructures; the total asset recorded from all construction projects is \$6.8 million.
- Added 11 new vehicles totaling more than \$4.5 million to the City's fleet including two 100' tiller fire trucks costing \$1.0 million each.
- Developers have contributed various assets in the amount of \$4.5 million to the City as a result of housing and commercial developments being completed during the fiscal year.
- Depreciation in the amount of \$41.3 million was recorded as a current year expense.



Asset Category	(net of depreciation)	Percentage
Land	\$ 196,227,845	25.06%
Construction in progress	9,011,365	1.15%
Building and improvements	186,620,829	23.84%
Machinery and equipment	4,578,276	0.58%
Vehicles	10,930,049	1.40%
Infrastructure	374,066,510	47.78%
Intangibles	1,489,744	0.19%
	<u>\$ 782,924,618</u>	<u>100.00%</u>

What We Owe

Debt Management

The City of Fontana occasionally issues debt to fund major capital projects. Outstanding debt is continuously evaluated to take advantage of lower interest rates and reduce long-term borrowing costs .

The City of Fontana is well within the legal debt limit established by the State of California.

Total long-term debt outstanding at June 30, 2017 was \$220.4 million.

Community Facilities Districts

In addition to the City's debt, there are currently 9 Community Facilities Districts within the City with Special Tax Bonds outstanding.

These bonds are not general obligation debt of the City as they are not backed by the full faith and credit of the City's General Fund. The bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 and are secured by and payable solely from the revenues of an annual special assessment tax levied against land within the districts.

As of June 30, 2017, the principal outstanding was \$94.3 million.

Bond Rating

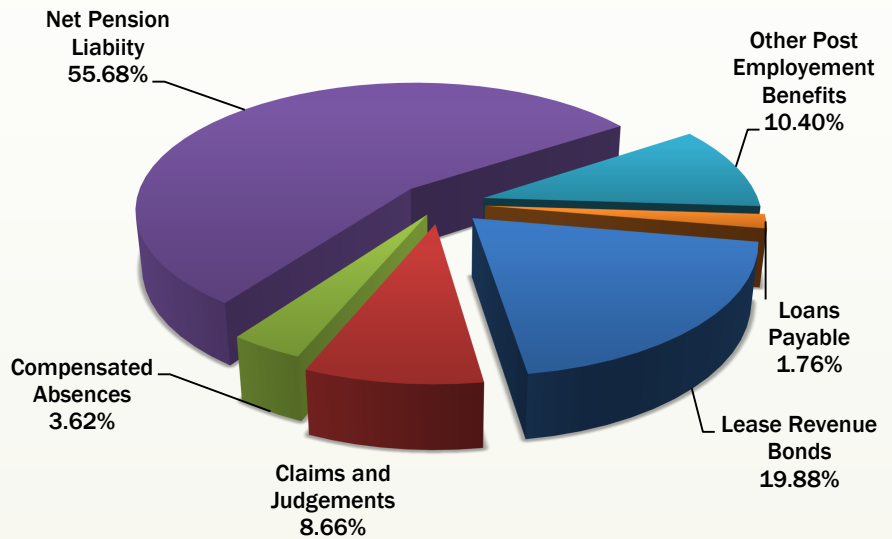
The City of Fontana holds a rating of AA and A2 from Standard and Poor's and Moody's Investor Service, respectively.

The credit ratings express the confidence of the rating agencies that the City has a strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

The City's bond debt outstanding at June 30, 2017, consists of the following:

Debt Type	Balance @ June 30, 2017	% of total debt
Lease Revenue Bonds	\$ 43,785,237	19.88%
Claims and Judgements	19,091,925	8.66%
Compensated Absences	7,988,442	3.62%
Net Pension Liability	122,721,890	55.68%
Other Post Employment Benefits	22,929,731	10.40%
Loans Payable	3,873,854	1.76%
Total	<u>\$ 220,391,079</u>	<u>100%</u>

The City of Fontana occasionally issues debt to fund major capital projects within the City, such as libraries, fire stations, parks and community centers.



GFOA Awards

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Fontana for its Popular Annual Financial Report for the fiscal year ended June 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. This is the sixteenth year the City of Fontana has received a Popular Award. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The City of Fontana's comprehensive annual financial report for the year ended June 30, 2016 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our CAFR continues to conform to the Certificate of Achievement program requirements and we are submitting our CAFR for the current year to the GFOA.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**City of Fontana
California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Jeffrey R. Ennis
Executive Director/CEO



FONTANA
CALIFORNIA

**MANAGEMENT SERVICES DEPARTMENT
8353 SIERRA AVENUE
FONTANA, CA 92335
WWW.FONTANA.ORG**