City Manager's Transmittal Letter

June 23, 2003

TO THE HONORABLE MAYOR AND CITY COUNCIL

It is my pleasure to present to you the Proposed Operating Budget for the City of Ontario, the Ontario Redevelopment Agency, and the Ontario Housing Authority for Fiscal Year 2003-04. The Operating Budget document is comprised of three separate volumes: the Operating Budget Summary, Operating Budget Detail, and Five-Year Capital Improvement Program. The Operating Budget Summary provides a high-level overview of each operational unit's activities and programs included in the budget for the upcoming year. The Operating Budget Detail provides detailed information at the budget "expense" level to assist the City Council in making well-informed decisions regarding the allocation of City resources. The Capital Improvement Program is the City's comprehensive capital spending plan for the forthcoming years.

Continued uncertainties about State budget progress and the possibility of a delay in budget adoption have prompted the City of Ontario to move forward in preparing its budget with the realistic expectation of future substantive changes as the State's proposed impacts to local governments are defined. Impacts related to the State's proposed actions have not been fully incorporated in this proposed budget since the amount that will be taken from local governments to help resolve the State's budget problem has not yet been determined. This proposed budget was prepared using a "status quo" approach as compared to the prior fiscal year, pending resolution of these outstanding State financial issues. In the meantime, preliminary contingency plans are being developed for each City Agency that may modify this proposed budget depending upon the magnitude of the State budget cuts and any subsequent legislative action taken in this regard. The State's budget gap is now estimated to be $38.2 billion, which is $3.6 billion larger than projected in January 2003. The Governor's 2003-04 proposed budget attempts to resolve the State's unprecedented fiscal crisis over multiple budget years through a combination of cost reductions, tax increases, inter-fund transfers, and loans. An integral part of the State's budgetary gap is filled from funding sources that have been traditional local government revenues.

Despite the slow state and national economies and relatively flat local revenues, the City has developed a balanced budget that allows the City to maintain most services at their current high levels as well as promote continued economic growth. The proposed Operating Budget for Fiscal Year 2003-04 is fiscally balanced and does not commit to spending more than a conservative estimate of total revenues. The City's budget was developed based on the 2002-03 Adopted Budget with adjustments for inflationary increases and contractual obligations for personnel-related costs. Sound fiscal management and prudent business practices have contributed to the City's ability to fair well during the national and state economic downturns; however, during these uncertain economic times

significant caution is recommended. While the City presently has a stable financial position with sales tax revenues projected to be flat over the next year, the State may propose significant shifts in revenues and costs to balance the State budget, altering City projections very quickly. For this reason, it is essential to understand the key assumptions in the budget as well as those issues that are beyond the control of the City which could fundamentally alter both the City's short- and long-term financial position.

The City of Ontario continues its watch on State issues and the potential impacts to local governments. With recently adopted legislation and the May Revision to the Governor's 2003-2004 State Budget, Ontario's risk of financial detriment appears to be significant with potential impacts to Ontario in the areas of vehicle license fees (VLF), police booking fees, library funds, and redevelopment. The Governor's proposed State budget is partially balanced with a reliance on existing legislation to return the vehicle VLF rate to the 1998 levels, restoring revenues to cities and counties and discontinuing the back-fill from the State's general fund. During times of State budget surpluses, the VLF rate was reduced; and the 1998 measure that reduced the VLF rate provides for an automatic increase in the rate if the state has insufficient funds to continue back-fill payments. The City's Fiscal Year 2003-04 Proposed Operating Budget was prepared anticipating no net loss of VLF revenues. If, however, the planned rate increase is not triggered and the State fails to back-fill, the City may lose over $6.5 million.

The Governor's May Revision makes no changes to the January proposal to eliminate booking fee reimbursements. Historically, Ontario had received more than $400,000 each year from the State as reimbursement for fees assessed each time City police officers book inmates into the county detention center. Consistent with last year, the City's proposed 2003-04 budget does not include this revenue. With regard to library funds, the City has reduced its revenue projections for Fiscal Year 2003-04 by 50% to $50,000 due to the questionable stability of these funds. Also questionable in the upcoming year is the status of redevelopment agencies. The Governor's May Revision offered no new proposals, and the January budget proposal included a significant shifting of property tax increment revenues from local redevelopment agencies in order to reduce the State's obligations to schools. Ontario's estimated impact is between $2.6 and $3.3 million annually, and this shift is proposed to increase each year for the next 15 years. The funding shifts, if implemented as proposed, represent a substantial cut in redevelopment funding in the short-term and would result in the eventual phase out of redevelopment funding as a community revitalization tool.

Consistent with conservative fiscal policies, the City Council authorized the establishment of the Reserve for Economic Uncertainties in the First Quarter Budget Report for Fiscal Year 2002-2003. The Reserve, set up to allow the City to even out minor economic ups and downs without significant impacts to service levels, had a balance of $10,746,212 at the end of Fiscal Year 2002-03. To date, the recognized potential budget reductions for the City are estimated to be up to $12 million annually, with the variance due to uncertainty at the State-level as to the approach in balancing the State's 2003-2004 budget. Accordingly, the reserve allocation may not fully address the effects of the upcoming State actions. And although the City of Ontario has been, and continues to be, independently strong financially the proposed State budgetary actions to transfer to local governments the responsibility for addressing the State's

fiscal crisis will have an adverse impact on Ontario. To provide increased flexibility in reacting to the State's potential actions, the Fiscal Year 2003-04 Budget includes the use of approximately $3.3 million of the Reserve for Economic Uncertainties to (1) payoff the balance of a 15-year loan between Ontario Redevelopment Agency and Toyota Motor Sales and substitute the City as the loan holder for the remainder of the loan, and (2) retire, in advance, an outstanding loan between the City and Southern California Edison. The net General Fund savings for these two transactions is estimated to be $630,000 annually which will be allocated to this year's maintenance and operations costs for the new Police Headquarters building and De Anza Teen Center. Additionally, funds from budget deferrals in prior fiscal years are being used toward the re-roof project at City Hall, the SCAG MagLev high-speed train project, and necessary capital improvements at the Ontario Convention Center.

Foundation for the Budget

The City of Ontario's Mission Statement and the City Council's goals and objectives are implemented through the Proposed Operating Budget for Fiscal Year 2003-04. The Operating Budget reflects an emphasis on continuing to build a strong community and improving the quality of life for Ontario residents, businesses, and visitors.

City Council's Mission Statement

Founded as a model colony, based on innovation, planned development, community services and family values, the City of Ontario has become the economic heart of the region. The City Council is committed to maintaining Ontario's leadership role in the Inland Empire, by continuing to invest in the growth and evolution of the area's economy while providing a balance of jobs, housing, and educational and recreational opportunities for our residents in a safe, well-maintained community.

—Adopted January 20, 1998

The mission statement is the foundation for the City's strategic plan, which guides the City's use of resources. The City's strategic plan for budget allocations is based upon the City Council's goals:

- Invest in the Growth and Evolution of the City's Economy
- Operate in a Businesslike Manner
- Increase Involvement in Inter-Governmental Affairs
- Focus Resources in Ontario's Commercial and Residential Neighborhoods
- Invest in the City's Infrastructure (Water, Streets, Sewers, Parks, Storm Drains and Public Facilities)
- Maintain the Current High Level of Public Safety
- Provide Enhanced Recreational, Educational and Cultural Activities

Citywide Budget

The Proposed Operating Budget for Fiscal Year 2003-04 is $281,739,345 for the City of Ontario (this amount includes $108,409,706 in the General Fund and $173,329,639 in the other fund types such as Special Revenue, Capital Project, Enterprise Operations, and Internal Service). The Proposed Operating Budget for Fiscal Year 2003-04 is $46,739,816 for the Ontario Redevelopment Agency and $5,552,750 for the Ontario Housing Authority. The total overall budget is $334,031,911.

The Proposed Operating Budget includes 1,016 full-time employees, which represents a net decrease of 5 positions when compared to the current authorized staffing level. To address the operational needs of the Public Works/Community Services Departments, the proposed budget includes the restructuring and/or elimination of some vacant position classifications which will assist in curtailing costs to absorb inflationary and contractual labor cost increases as well as providing additional contract services in such areas as the graffiti program. In addition to these changes, the Operating Budget allocates $26,000 for citywide training and staff development to promote responsive customer friendly service.

General Fund

The General Fund Expenditure Budget of $108,409,706 is approximately $6,627,054 higher than the Adopted Budget for Fiscal Year 2002-03. This increase is primarily attributed to a rise in labor contracts (nearly $3.3 million), maintenance and operations costs at the new Police Headquarters facility (annual estimate is $860,000), and maintenance and operations costs for the new Teen Center at De Anza (annual estimate is $105,000). Also included in the General Fund is the funding of reserves (approximately $2.7 million) for retiree medical expenses (reducing the City's deficit in this program from an initial amount of $32 million to approximately $21 million), and the third annual contribution to reserves for replacement of public safety equipment ($1.0 million).

	Total Revenues *			Total Expenses *		
	Adopted 2002-03	Proposed 2003-04	Change	Adopted 2002-03	Proposed 2003-04	Change
General Fund	$ 96,917,693	$ 98,839,711	$ 1,922,018	$ 101,782,652	$ 108,409,706	$ 6,627,054
Special Revenue Funds	26,216,824	39,990,905	13,774,081	32,797,916	46,178,178	13,380,262
Capital Project Funds	11,145,792	5,614,015	(5,531,777)	38,945,987	30,177,745	(8,768,242)
Enterprise Funds	59,486,592	60,473,358	986,766	65,494,281	77,674,590	12,180,309
Internal Service Funds	17,386,550	17,739,633	353,083	22,486,695	19,299,126	(3,187,569)
Redevelopment	37,465,272	37,036,713	(428,559)	55,645,969	46,739,816	(8,906,153)
Housing Authority	7,787,058	5,552,180	(2,234,878)	7,748,444	5,552,750	(2,195,694)
Total	$ 256,405,781	$ 265,246,515	$ 8,840,734	$ 324,901,944	$ 334,031,911	$ 9,129,967

* The Proposed Operating Budget includes a total of **$40,527,470** in Operating Transfers-in, Transfers-out and changes in fund designations (across all funds) in the City. The net impact of these transfers to the General Fund is **$9,583,045**. With these transfers, the General Fund remains fiscally balanced.

Enterprise Funds

The total budget of $77,674,590 is $12,180,309 higher than Adopted Budget for Fiscal Year 2002-03. The Enterprise Funds include operating and capital funds for water, sewer, and solid waste. The overall increase in the Enterprise Funds is primarily attributed to acquisition and construction of additional water reservoir and well sites, the construction of facility improvements such as a recycling and hazardous waste collection center and projects such as the Whispering Lakes Lift Station and Force Main Improvements.

Internal Service Funds

The total budget of $19,299,126 is $3,187,569 less than the Adopted Budget for Fiscal Year 2002-03. The Internal Service Funds include the Equipment Services Fund, Information Technology Fund, and Self-Insurance Fund. The decrease in the Internal Service Funds is primarily attributed to the prior acceleration of planned vehicle replacements causing a reduction this year as well as project completion in the Equipment Services and Informational Technology Funds.

Special Revenue Funds

The total budget of $46,178,178 is $13,380,262 higher than the Adopted Budget for Fiscal Year 2002-03. Special Revenue Funds include restricted funds such as the Quiet Home Program, CDBG, Gas Tax, Measure I, Park Development, State Grants, Facility Maintenance, Asset Seizure, and Storm Drain Maintenance. This increase is primarily attributed to additional funding and a higher expenditure budget in the Quiet Home Program. The expenditure budgets for Special Revenue Funds are funded from either increased

revenues and/or use of residual fund balances. The Gas Tax and Measure I Funds have residual fund balances due to budget savings from prior years, and combined with current year proposed revenues will be used to fund street improvement projects throughout the City. These projects are needed to achieve the City's minimum annual target in the street pavement management program.

Capital Project Funds

The Capital Project Funds account for capital expenditures that are primarily funded from the General Fund and/or other one-time monies. Due to restricted revenue sources, other capital expenditures are accounted for in the Special Revenue Funds, Enterprise Funds or Internal Service Funds. The total budget of $30,177,745 is $8,768,242 less than the Adopted Budget for Fiscal Year 2002-03. The decrease in the Capital Project Funds is attributed to the completion of projects in support of the City Council's campaign of investing in community facilities. The budgeted capital projects remaining within the Fund are carryover projects including the adaptive reuse of the former Fedco building for the new Police Headquarters, continued progress on the Grove Avenue Grade Separation project, and the rehabilitation and reconstruction of major portions of Riverside Drive, a major arterial street serving South Ontario.

Major Revenue Performance

The City has experienced significant increases to traditional revenue sources (e.g., sales tax revenues, transient occupancy tax revenues, parking tax revenues) in the recent past. These increased revenues have been used to support additional expenditures for necessary services without any reliance on reserves. Over the last year, however, growth in the City's local revenue sources has slowed and flattened out. Accordingly, sound fiscal management policies require that projections for General Fund revenues be conservative and relatively flat in the upcoming year. Throughout the quarterly budget reports presented to the City Council in Fiscal year 2002-03, the City formally recognized past revenue growth in its budgetary projections for Sales, Transient Occupancy, and Property-Related taxes. This change in budget approach, while still conservative in nature, will have the effect of reducing the magnitude of any potential annual budget savings. Those savings have historically been used to fund one-time projects and address unfunded liabilities. Transient Occupancy Taxes are projected to generate $8,950,000 in Fiscal Year 2003-04, which is $195,000 greater than in Fiscal Year 2002-03 estimated actuals. Parking Tax revenues remain down as a result of September 11, 2001-inspired security changes at the airport and a shift in travelers habits. Accordingly, Parking Taxes are projected to generate $4,500,000 in Fiscal Year 2003-04, which is consistent with the prior year's budget and $1.2 million less than the Fiscal Year 2000-01 revenues received. Motor Vehicle License Fees are projected to provide $8,946,200 in revenues in Fiscal Year 2003-04. This estimate is based upon the Governor's proposal to return license fees to their previous levels and reducing the major portion of the State General Fund backfill obligation to local governments. Due to continuing concerns regarding the State's budget, the City is monitoring legislative activity at the State level which might impact future revenues. Sales and Use Taxes, the largest General Fund revenue source are anticipated to be flat in the near term. Based upon consumer confidence being reported as "cautiously optimistic" and spending patterns showing no discernable upward trend, the Fiscal Year 2003-04 budget is conservatively estimated at $38,000,000.

Matching the City Council's General Fund recurring expenditure priorities with the available recurring revenues remains a challenge. A relatively flat revenue projection combined with increases in the costs to provide basic municipal services translates into potential service level reductions. To fiscally balance the General Fund, the City continues to rely on the annual PERS savings to support its recurring expenditure requirements. The PERS savings is attributed to prior year gains on investments made by PERS. In the proposed budget, the City expects to receive approximately $2.2 million in PERS credit. Poor investment performance over the last few years has reduced the PERS credit substantially, and continued negative earnings will only accelerate the depletion of the credit. Moreover, any significant changes in the retirement benefit plan or actuarial assumptions could easily result in the elimination of additional amounts or all of the PERS credit. As the City looks forward beyond Fiscal Year 2003-04, it is projected that the savings received from PERS will be reduced, requiring the difference to be replaced by future increased revenues or reductions in service levels.

Adaptive reuse of the former Fedco building to create a New State of the Art Police Facility

Public Safety

One of the City Council's major goals is to "Maintain the Current High Level of Public Safety." The City has accomplished this goal over the years through significant investments in personnel, equipment, and technology. These investments have returned profits and dividends in the form of dramatically decreasing crime rates in Ontario. Since 1994, homicides have declined 72%, robberies decreased 39%, burglaries are down 46%, and motor vehicle theft has dropped 33%.

To address the City's current and future facility requirements for public safety, the City secured $10 million in funding through a lease revenue bond for the adaptive reuse of the former Fedco building as the new Police Headquarters. The Proposed Operating Budget allocates this funding for the construction and project management needs of the new police facility. Additional funding for the maintenance and operation of the new Headquarters building is also included in the Operating Budget as well as funding toward capital improvements necessary to move the Police Air Support Unit to a new operating location at the local Cable Airport. The capital replacement requirements of the Fire Department are also addressed in the Proposed Operating Budget. In Fiscal Year 2001-02, the City began a reserve for the systematic replacement of public safety equipment items such as police helicopters, fire engines and trucks. The proposed budget allocates $1.0 million to the Public Safety Equipment Replacement Fund, and designates $790,000 to be used for the purchase of two replacement fire pumpers that serve the core portions of the City.

Community and Neighborhood Services

The proposed budget for Fiscal Year 2003-04 reflects the City Council's commitment to foster programs designed to improve services throughout the community and core neighborhoods. The operating budget includes $382,000 in continued funding of the City's

Graffiti Removal Program; $598,047 toward youth and teen programs and activities at the new De Anza Center and the existing Ontario Teen Center (including additional operations and maintenance costs for the new facility); and $2.1 million for the Ontario CARES Program, which is in its fifth year. During the past five years, the CARES Program has provided aesthetic improvements to approximately 1,900 residential units in the City's historic core areas. In November 2002, the Anthony Munoz and Berlyn School CARES Focus Neighborhoods were started; and improvements to over 43 properties have already been completed. The City also provides other neighborhood preservation and affordable housing assistance programs to eligible residents. These programs include low interest rehabilitation loans, financial assistance to first time homebuyers, and financial incentives to developers of affordable housing projects. In addition, the budget allocates approximately $18,578,316 for the Quiet Home Program for sound insulation and property acquisition in the impacted area surrounding the Ontario International Airport. In the proposed budget for Fiscal Year 2003-04, these programs are funded by Redevelopment Housing Set-aside funds and grants from the Federal government.

Investment in Community Facilities

To improve the availability of recreational activities and services for seniors, the total renovation and expansion of the Ontario Senior Center was completed last year, and we are underway on the rehabilitation of the De Anza Community Center and new Ontario Teen Center. And with the complete renovation and expansion of Ontario's City Library scheduled this year and the newly opened joint South Ontario Branch/Colony High School Library, the City will be better able to provide greatly enhanced educational opportunities for the entire community. Furthering Ontario's efforts toward ensuring a safe community, the City is fulfilling the City Council's goal to complete the adaptive reuse of the new Police Headquarters located at Archibald Avenue and State Route 60. Phase I of the project is well underway with an anticipated completion in January. Additionally, the City's Capital Improvement Program includes the construction of a new Fire Station No. 7 to serve the eastern portions of the community.

Serving over 525,000 patrons each year, the Renovation and Expansion of the City's Main Library will add approximately 11,000 square feet of functional space to the existing 44,000

Infrastructure Improvements

The City's five-year Capital Improvement Program is a companion volume to this document. The Capital Improvement Program (CIP) is a comprehensive summary of all capital spending for the City in the current and forthcoming years. As presented in the proposed budget, the CIP totals $69,917,078 for all categories of the capital improvement projects. Specifically:

- Water improvements total $18,029,707, and include design and/or construction for five new wells, acquisition of reservoir sites for Eighth Street Pressure Zone and East Francis Street, metering/rehabilitation of pressure reducing stations, and continued funding for the water meter replacement/remote reading program.

- Street improvements total $16,295,139. This amount includes $4.1 million toward the minimum annual target in the pavement management program to keep the current deficiency of approximately $56.0 million from escalating. The proposed budget also includes such projects as Milliken Avenue Reconstruction (Jurupa to Union Pacific Railroad), Mission Boulevard Widening (Phase 10), Riverside Drive Reconstruction (Cucamonga Creek to Milliken Avenue), Walnut Street Rehabilitation (Fern to Imperial Avenue), Campus Avenue Rehabilitation (Mission Boulevard to Philadelphia), State Street Rehabilitation (Benson Avenue to Euclid Avenue), sidewalk installation on Oaks Street (Francis Street to Philadelphia Street), and the reconstruction of Etiwanda Avenue from Airport Drive to Jurupa Avenue.
- Traffic improvements total $462,350 and include such projects as completion of the installation of a traffic signal and roadway lighting (Mission Boulevard and Benson Avenue) and traffic signal installations at Etiwanda Avenue and Philadelphia Street as well as Vintage Avenue and Jurupa Street.
- Storm drain and sewer improvements total $3,204,181 and include such projects as Magnolia Lift Station improvements, Euclid Avenue and Francis Street Sewer Replacement, Riverside/Archibald Lift Station Replacement, Turner Lift Station Improvements, and Whispering Lakes Lift Station and Force Main Improvements.
- Park and Landscape improvements total $10,312,582 and include: $9.7 million of the total $10.0 million funded for the construction of a 45-acre Soccer Sports Field Complex, Downtown Ontario Streetscape improvements, sports field lighting at Colony High School, and soccer field lighting at Bon View Park.
- Public Facilities improvements total $20,000,497 and include such projects as the renovation of the City Library, expansion of water storage, sewer and solid waste facilities, construction of a recycling/household hazardous waste collection center, re-roofing a portion of the City Hall building, rehabilitation of the Bon View Community Center, remodel of the dormitory area of Fire Station No. 3, adaptive reuse of the new Police Headquarters building, and construction of a new Fire Station No. 7.
- Miscellaneous improvements total $1,612,622 and include continued efforts toward a new public safety Computer Aided Dispatch/Records Management System (CAD/RMS), facade improvements along the 400 block of North Euclid Avenue, the addition of covers on existing solid waste storage bins, and the construction of a public parking lot at the 300 block of North Euclid Avenue.

Economic Development

The City's continued recognition as the economic leader in the Inland Empire is greatly attributable to the City Council's aggressive economic development strategies. Marketing and promotional campaigns stressing the City's strategic location, transportation system, and workforce have been successful in attracting and retaining businesses in Ontario. To maximize the economic benefits from the Ontario International Airport, Ontario Mills Mall, and The Ontario Center, the City must continue to attract high quality business

development and bring in employers with higher paying jobs. Examples of the City's investment in the growth and evolution of the City's economy include an entrepreneurs support network jointly developed with Chaffey Community College and a consortium of international trade organizations that provides assistance and outreach to increase international trade activity in Ontario. Programs such as these, combined with business visitations and destination marketing efforts, ensure that the City of Ontario takes a lead role working with local allies in the business community to maintain and build the local economy.

Recent additional significant business development successes include:

- Sares-Regis Group acquired the 747,455 square-foot Pier 1 Imports distribution facility and 8.8 acres of adjacent undeveloped land for $32 million. The facility was built-to-suit for Pier 1 which commenced its 15-year lease in 1999.
- The International Association of Plumbing and Mechanical Officials relocated its world headquarters to Ontario. The new headquarters includes administrative and research offices, a testing facility and warehouse.
- SkyRiver Communications Inc. reached profitability ahead of schedule and only 10 months after commercial launch. Covering Ontario and surrounding communities, the SkyRiver broadband wireless access network covers geography with a population of approximately 434,000 people and 8,200 small to medium business enterprises.
- Acuity Lighting signed a 10-year lease for a 434,555 square-foot building in the Ontario Gateway West Business Park. With products manufactured in 19 plants in North America and 5 plants in Europe, Acuity Lighting plans to relocate its West Coast distribution center to Ontario.
- A 91-room Hampton Inn Hotel joined the Baymont Inn and Suites currently under construction. Property near the Ontario Mills Mall and The Ontario Center has been particularly attractive to hoteliers as are the advantages of ONT and access to three major Southern California freeways.
- The nationwide Kosmont-Rose Institute's Cost of Doing Business Survey recognized Ontario as a "Very Low-Cost City." The survey found that it is cheaper to do business in the Inland Empire, and that Ontario is one of the least expensive cities in the region.

The cost and geographic advantages of Ontario, combined with an educated community workforce, are key to the success of the City's leadership in seizing new opportunities to grow its economy and quality of life.

Fiscal Challenges

The proposed General Fund Budget for Fiscal Year 2003-04 is fiscally balanced and reflects little change in the projected ending General Fund Unreserved Fund Balance of $11,738,778. In addition to the $1.0 million allocation to the Public Safety Equipment Replacement Fund (the third such annual allocation), the base budget also includes an additional $2,730,728 ($603,673 from other funds) related to retiree health benefits. Based on an actuarial study, this amount needs to be funded annually. In the past, funding of this retirement benefit for current employees has been deferred until the employee retires. This practice results in understating the true cost of providing services, and costs will rapidly increase as the number of eligible employees grows.

While the General Fund Unreserved Fund Balance amount is $7,774,969 less than the City Council's goal of $19,513,747 or 18% of the annual appropriations, the City has made significant progress in increasing the Unreserved Fund Balance over the past five years. During this period, the City increased the General Fund Unreserved Fund Balance from $0 to $11,738,778, and at the same time increased service levels, built reserves, eliminated fund deficits, reduced unfunded liabilities, and committed funding for several important community facility projects. For example, during the past five years and through this budget, the City has been successful in funding enhanced service level changes and reducing unfunded liabilities such as sidewalk repair and replacement, pavement management, technology upgrades, vehicle replacement, facility maintenance, employee leave liability, retiree health benefits, and replacement of public safety equipment through increases in its base operating budget.

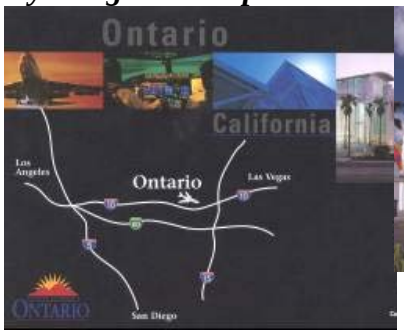
While the City has made tremendous progress in addressing its fiscal challenges, significant effort is still needed to maintain service levels for basic City services given the current economic climate of increased costs and the possibility of revenue take-aways from the State. Based on projected increased costs for next year, basic service levels that may be at-risk include public safety, park maintenance, storm drain improvements, park facilities, recreational and cultural programs, and tree trimming. To provide the highest level of service to the community, the City must continue to explore all possible avenues to address each of its fiscal challenges and ensure it is fiscally and programmatically balanced. This will be especially important when the City's revenues begin to level off and if the State resolves its fiscal problems through future shifts of City revenues and expenditures.

With local revenue streams dependent upon the strength of the economy, there are a few areas of concern that may have an impact on the City's revenue sources. Nationally, if the mild economic growth reverses, the local economy and the City's revenues may be adversely impacted. Additionally, the uncertain impact of the State's budget on future years is a serious issue. The Governor's proposed budget for the upcoming year has been balanced through fund transfers, tax increases, and borrowing. These actions address the State's issues in the short-term but do not bring future expenses into line with future revenues. Accordingly, it is anticipated that future State budgets will cut funding for programs that assist local governments, reimburse for program costs, or there may be additional shifts of State costs to local governments. The City's General Fund Unreserved Fund Balance of $11,738,778 is insufficient given the City's size and is inadequate to address any sharp decline in revenues without significant reduction of City

services (i.e., personnel). Several of the City's largest recurring revenue sources such as Sales Tax, Transient Occupancy Tax, Parking Tax, and development related revenues are contingent upon the City's economic well being. Historically, cities with inadequate reserves have reacted to downturns in the economy by significantly reducing and/or eliminating city services. To minimize the potential for disruption in city services to the citizens, the City should continue to exercise fiscal prudence to ensure that an adequate level of unreserved fund balance is available to fund short-term deficit spending during recessionary periods or to provide sufficient time to reduce spending in an orderly fashion.

The long-term financial outlook for the General Fund remains bright. The proposed development of the New Model Colony will provide the City with the very unique opportunity of constructing 'from scratch' on a massive scale. By incorporating a 'common fiber optic telecommunications network' as part of the supporting infrastructure of utilities, roadways, etc., for example, the new development would enable Ontario to define its future with new upscale neighborhoods. As planned, the new development will provide the opportunity for highly paid technicians, professionals, and executives migrating to the Inland Empire to avoid the very high cost of upscale housing in the coastal counties. Combined with upscale housing and the attraction of high-end workers, airport growth and office expansion can allow Ontario to create a base of high tech, professional and corporate office operations, and a growing upper end labor force.

Key Budget Assumptions



Boasting more than 225,000 square feet, the Ontario Convention Center is the ideal venue for conventions, trade shows, exhibits, meetings and special events

Ontario Mills is California's Largest Entertainment & Outlet Mall, featuring over 200 manufacturer and retail outlets

Ontario International Airport's 214 daily flights provide service to every major city in the U.S. for 6.7 million passengers and over 462,000 tons of air cargo

The challenge for our city is to make a positive difference to the citizens of Ontario even in times of constrained fiscal resources. This Budget is based on numerous key assumptions, including the following: (1) the State's unprecedented fiscal problems will be addressed in part by a substantial local government "contribution," will most likely result in a delayed State budget adoption, and will result in future substantive changes to the City of Ontario's adopted budget as the State's proposed impacts to local governments are defined; (2) the State will increase Motor Vehicle License Fees to previous levels, reducing the State backfill but not affecting the City's revenue of approximately $8,950,000; (3) the national economy's modest recovery and continued stock market fluctuations will not have a significant adverse impact on the City's revenue stream; (4) Sales Tax revenue will remain generally flat at approximately $38,000,000; (5) Transient

Occupancy Tax revenues will increase by $195,000 based upon previous hotel expansions and aggressive marketing efforts; (6) the Inland Empire's continued strong real estate market will result in Property Tax revenues increasing by $1,230,000; (7) Ontario Redevelopment Agency will annually reimburse the City $1.1 million for the Allegiance (formerly Baxter) Sales Tax Agreement; (8) Development Related revenues will be flat with only a 0.9% anticipated decline with activity levels approximately even with last year; (9) PERS surplus will reduce the contribution rate by $2.2 million; and (10) City revenues or expenditures will not be adversely affected by court decisions, state legislative actions, various propositions, initiatives, or other actions beyond the City's control.

Conclusion

As can be seen from the preceding issues, the development of the Fiscal Year 2003-04 Operating Budget has occurred while facing a number of considerable financial concerns, which collectively require diligent monitoring to ensure appropriate operational adjustments are made to ensure the financial stability of the organization. Despite these issues and concerns, there remain reasons to be optimistic about Ontario's long-term future. The Proposed Operating Budget for Fiscal Year 2003-04 is a well-balanced budget that reflects the City's commitment to foster steady, controlled growth and provide the highest level of service to the community with the City's fiscal constraints. Given the severity of the State's fiscal situation, the City will be faced with very difficult choices in the future and must ensure that the choices made in the short-term are consistent with the Council's goals that have been set for the long-term. Accordingly, the proposed fiscal plan cautiously and prudently allows for fluctuations in revenue and expenditures and ensures flexibility to respond to urgent needs and events.

In the future, the City of Ontario will continue to be faced with exciting new developments as well as formidable economic challenges. Through the combined leadership of the City Council and the implementation of its prudent fiscal policies, the City has been able to generally maintain service levels to the community, invest in capital projects to enhance public facilities and infrastructure throughout the city, and continue its programs to promote economic development within our community. The looming State budget actions, however, are a threat to the City's continuing efforts. Ontario's role in Southern California and its prominence in the Inland Empire compel the need for financial preparedness. To continue leading the Inland Empire through the economic uncertainties of the next few years, substantial effort is required. In addition to designating current available funds for use in maintaining service levels, the city must also look toward outside sources for additional funding. Given the constriction of available State funds, the City of Ontario must join other large cities in lobbying endeavors at the federal level. With sufficient federal support, Ontario can maintain its standing as the economic leader in the Inland Empire and enhance its position throughout California and the nation.

Finally, I am pleased to report that the City has once again received distinguished budget awards from the Government Finance Officers Association and the California Society of Municipal Finance Officers Association for its Fiscal Year 2002-03 Adopted Operating Budget. This is the fourth consecutive year in which the City has been bestowed these prestigious awards. To receive these

awards, the City's budget document met program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The City believes that the Proposed Operating Budget for Fiscal Year 2003-04 continues to conform to the program requirements for the awards and plans to submit it to determine its eligibility for another year of awards.

I wish to express my appreciation to the Mayor and City Council for providing clear goals and direction which have been incorporated in the Proposed Operating Budget for Fiscal Year 2003-04 and to the staff members who have contributed in the preparation of the budget.

Respectfully submitted,

Gregory C. Devereaux
City Manager