Budget Overview and Summary

This budget document is more than just numbers representing dollars to be spent in the upcoming fiscal year; it is the plan for the City operations, and the program details necessary to carry out this plan. This budget serves four distinct functions:

- A financial plan (as defined within each program);
- A policy document (as defined in the overview and within each program);
- An operations guide (as defined within each program); and
- A public education device (as defined within each program and supplemental information).

This document presents the Program and Financial Plan for 2005-06 as adopted by the governing bodies of the City of Lancaster and the Lancaster Redevelopment Agency on June 14, 2005. Yet it is more than a financial plan, it is a policy document which incorporates priorities set by the City Council and Lancaster Redevelopment Agency for the fiscal year. Key principles, which are reflected in the operations sections of this document, are:

- Maintain the fiscal integrity of the City;
- Emphasize economic development i.e., job creation and retail development;
- Public Safety: create a safe environment for our citizens to live, work and play;
- Provide an exceptional level of customer service to our taxpayers; and
- Manage growth and address the pressures to meet quality of life issues that emerge.

These principles are directly reflected in the allocations within the budget.

Program/Performance Budget Preparation Process

The formal budget preparation process began in March with the distribution of worksheets containing four years of historical information related to the programs of each department. The Finance Department prepared revenue and economic projections for the upcoming year. These revenue projections [see Revenue Source Definitions, (near the back), for basis of estimates], and subsequent expenditure projections, are on a modified accrual basis.

This year the department heads were asked to develop their budgets as if they had just landed at Fox Field Airport, and were the new Director of (department) and were tasked with providing services to the citizens of Lancaster. This process gave the department heads an
opportunity to assess current resources compared to service level needs, current issues facing their departments, and challenges in the future. Priorities were established through this process that translated into departmental budget plans that were in keeping with the principles listed above. The proposed departmental plan (including program descriptions, service levels, and projected costs) was then reviewed with the City Manager, Finance Director and key staff, and Department Heads during the two weeks of April.

These meetings were followed by compilation of the total effect of all programs and the financial resources to fund those programs. Through a series of follow up meetings and discussions, the budget was brought into balance and finalized for distribution to the City Council, the press, and the public the first week of June.

Major budget policies include: maintaining a 10% fund balance reserve, maintaining a General Fund with no long-term debt, fully appropriating funding for each capital improvement project (to prevent shortfalls the following year), and conservatively projecting revenues (at the minimum that can be expected to be received) and expenditures (at the maximum to be spent).

A special City Council Meeting was held in early June to review and modify the budget as needed. A final public hearing for the adoption of the budget was conducted in the middle of June. Modifications may be made during the public hearing. The budget was adopted at the end of the hearing.

**Basis of Budgeting**

The City utilizes the modified accrual basis of budgeting for its general government fund type budgets; there are no enterprise funds. Simply stated, obligations of the City are budgeted as expenses, but revenues are recorded when we know how much to expect (measurable), and we receive the revenues within the time needed to make payments for costs incurred within the fiscal year. This differs from “generally accepted accounting principles”, GAAP, with outstanding purchase orders at the end of the year being recorded as expenses. All annual appropriations (authorizations to expend funding) lapse at the end of the fiscal year unless there are outstanding encumbrances (commitments to pay for goods/services ordered through the utilization of a purchase order, a formal authorization of the City, or a contract).

The Comprehensive Annual Financial Report (CAFR) presents the City’s financial status on the basis of “Generally Accepted Accounting Principles” (GAAP). In most cases this conforms to the way the City prepares its budget; compensated absences (accrued but unused vacation and sick leave) are treated differently in the budget and CAFR (the budget includes a “transfer to employee benefits reserve”).
Lancaster’s budget includes a capital replacement charge within each department’s line item budget and is listed in the resource allocation section of each program budget. This charge, similar to depreciation expense in private enterprise accounting/budgeting, provides the department the necessary “cash” to replace its assets when they wear out; these dollars are kept in the Capital Replacement Fund identified in the fiscal summary, and in the “Other Funds” section of this document. Depending on the treatment of these “transfers”, this document presents the General Fund Operating Budget as two different numbers, direct operating cost, and “full operating cost”; this is more pronounced in those programs that rely heavily on high-cost equipment such as our street maintenance programs. A review of this fund found that it the balance falls short of where it should be. This budget includes a special allocation to make up a portion of the shortfall, with a plan to continue to bring this fund up to needed levels within five years.

Modification of the Budget after Adoption

The City holds a mid-year budget review workshop with the City Council each January, to adapt the budget to the current economic climate. The Finance department prepares an economic analysis in early December, followed by departmental meetings with the budget committee to prepare the recommended budget modifications. These modifications are then brought to the Council for adoption following the workshop.

Supplemental appropriations may be brought to the City Council at any time a change is deemed necessary. Because this is a program budget, the City Council adopts the program and appropriates the necessary funding. Changes that increase the total appropriation for the program must be approved by the City Council. The City Manager, Finance Director, and affected Department Heads, without returning to Council for approval, are responsible for making necessary modifications in line item budgets to best manage the operation of the program, as long as the total appropriation for that program does not increase during the fiscal year.
Revenue and Expenditure Estimates

Budgetary revenue estimates have been prepared using a variety of methods. Certain revenue sources, such as Federal and State grants, and transportation funds, are relatively fixed and known. State subventions (Vehicle License Fees) and gas tax funds estimates are provided by the State. Other revenues, such as recreation fees, are stable and based on the number of programs planned.

The largest single source of revenue for the City's General Fund is sales tax. The City receives a 1% tax on purchases, excluding food and labor. Sales tax represents 44% of all General Fund revenues. This revenue source provides for the City's law enforcement efforts, our number one priority.

Vehicle License Fees are down, and Property Taxes are up, not because of economic changes, but due to changes in the way the State distributes funds to local governments. As a result of the passage of Proposition 1A, Vehicle License Fee revenues have been permanently replaced by an equal amount of Property Tax revenues. In future years, these replacement funds will be adjusted based on changes to assessed valuation, and not population, upon which Vehicle License Fees were based.
Another significant portion of General Fund revenues is generated by developer fees, franchise fees, and interest income. These are projected through trend analysis, economic forecasts from state and national sources, and other information obtained from local builders, retail outlets, and franchisees. Developer fees are fairly easy to predict in the short run due to the long lead times of housing projects.

The City also receives revenues which are restricted to specific purposes such as road construction, park improvement and expansions, utility/drainage improvements, and assessment districts. These dollars are programmed through Capital Improvements Projects or "Other Funds" included in this document. The design of each capital project takes into account ongoing maintenance costs. Although new acreage continues to be added, total park maintenance costs have not increased proportionally. This is primarily because lower maintenance landscaping is installed. Specifications for new streets and resurfacing of old streets reduce maintenance costs while median improvements, and other design changes, are made with reduced maintenance in mind. Future maintenance costs will go up, but less than the number of improvements would indicate.

Investment income, although minimal compared to a decade ago, still continues to be a source of income for the City. The City's policy is to invest all funds upon receipt in interest bearing accounts. The City continues to follow its policy of conservative investments. Safety of principal is the number one priority, followed by liquidity, the availability of cash to pay bills when needed. Yield on investment is a tertiary concern. In light of investment problems by various government agencies, it is good to know that the City of Lancaster does not chase unrealistic investment yields, nor does it invest in derivatives. We earn it “the old fashioned way”.

The City of Lancaster has no general obligation debt; however, bonded debt issued by other districts, such as Los Angeles County Sanitation District, Los Angeles County Water District, school districts, hospitals, and Los Angeles County General Fund are added to the general property tax levy. Other districts and entities (including the Lancaster Redevelopment Agency) have debt obligations that are funded by specific revenue sources, and are not added to the general levy. The City does administer a few special assessment districts and maintenance districts; these pay for themselves through scheduled annual assessments collected through the property tax roll.

Overall revenues for the 2005-06 budget are up nicely due to the robust economy. The fiscal policies of the Federal Reserve System and the continuing growth of the nation as a whole should positively impact the local economy.
Annual Appropriations Limit

The Appropriations Limit, established by the State of California per Article XIIIB of the California State Constitution, sets a limit for the annual appropriations of tax proceeds for all municipalities.

Article XIIIB was amended by Proposition 111 to change the method of calculating the annual appropriations limit. Prior to Proposition 111, the annual appropriations limit was adjusted annually by the change in the cost of living or by the change in California per capita personal income, whichever was less, and by the percentage change in the population of the City.

Under the new guidelines set forth by Proposition 111, the annual appropriations limit will not exceed a base year adjusted by the change in population of the City or the County combined with either the change in California per capita personal income or the change in the local assessment roll due to local nonresidential construction. Proposition 111 also changed the base year for all municipalities to 1986-87.

The following table compares the difference between Lancaster’s Appropriations Limit and the estimated proceeds of taxes that are subject to the limit. With a gap of $76,283,546 the City remains well below its Appropriations Limit of $110,052,072 for FY 2005-06.

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>APPROPRIATIONS LIMIT</th>
<th>SUBJECT TO LIMIT</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-1997</td>
<td>$71,036,158</td>
<td>$17,670,300</td>
<td>$53,365,858</td>
</tr>
<tr>
<td>1997-1998</td>
<td>75,028,022</td>
<td>19,254,097</td>
<td>55,773,925</td>
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<tr>
<td>1998-1999</td>
<td>80,625,930</td>
<td>23,171,310</td>
<td>57,454,620</td>
</tr>
<tr>
<td>2001-2002</td>
<td>91,532,419</td>
<td>25,129,977</td>
<td>66,402,442</td>
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<tr>
<td>2002-2003</td>
<td>91,318,734</td>
<td>26,921,043</td>
<td>64,397,691</td>
</tr>
<tr>
<td>2003-2004</td>
<td>95,694,454</td>
<td>26,965,074</td>
<td>68,729,380</td>
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<tr>
<td>2004-2005</td>
<td>101,127,627</td>
<td>29,302,048</td>
<td>71,825,579</td>
</tr>
<tr>
<td><strong>2005-2006</strong></td>
<td><strong>110,052,072</strong></td>
<td><strong>33,768,526</strong></td>
<td><strong>76,283,546</strong></td>
</tr>
</tbody>
</table>
The 2005-06 Budget, a Flexible Plan

Even with all the effort, analysis, and thoughtful formulation that went into preparation of this financial plan, it remains a flexible document. Its relevance can only be measured by the extent to which it moves the community toward Council's goals and objectives. While it must facilitate progress toward long-range goals, it must also assure responsiveness to day-to-day needs, and be sufficiently flexible to accommodate the unanticipated. Insofar as budget projections necessarily look more than a year ahead of their actual preparation, it is essential that the budget process be viewed as a continuous one, not a "one shot" event. This is evident in our process of mid-year reviews.

Budgets are based on a set of assumptions for the upcoming year. These assumptions are developed well in advance of the actual start of the fiscal year, and as such (unless you are a city with a long history of no growth or change) the budget must have the flexibility to guide the City without locking it into a strict control system. We all want to have full control of our futures, but realize that we don’t. The Finance Department, as well as the operating departments, continually monitor the fiscal status of ‘actual versus budget’ through a ‘real-time’ financial and reporting system, and monthly meetings with the City Manager, Finance Director and Department Heads. This, and the formalized midyear budget review, help keep the City moving in a positive direction with the flexibility to deal with those economic bumps in the road.