June 30, 2005

Honorable Mayor, Vice Mayor, and Members of the City Council:

It is my pleasure to present the City of Lancaster and Lancaster Redevelopment Agency’s Adopted Fiscal Year 2005-2006 Operating Budget and Capital Improvement Program. One of the most important duties of the City Manager is to prepare and recommend the annual operating and capital budget to you and the community.

This is the first budget under my tenure as City Manager. As part of the budget process, I asked each department head to present their budget as if they had just landed at Fox Field, and had to establish a new department and a full set of departmental services. This exercise provided an opportunity to look at service needs and determine optimum service levels. It also gave me an opportunity to learn more about the issues that each department is facing as it works to meet the needs of the community. Through continued discussions, we were able to develop the budget. This budget seeks to address service needs while at the same time ensuring the long term financial stability of the City.

There are several key principles reflected in our current policies and practices. They include:

- 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;
- Manage growth and address the pressures to meet quality of life issues that emerge.

The budget that is now before you has been developed consistent with these priorities.

Over the next several months I will begin to explore several initiatives with the Council, with the expectation that changes to the budget will be recommended for implementation at midyear. Some of these include:

- Five-Year Financial Forecast
- Six Year Capital Improvement Plan
- Information Technology Strategic Plan
- A Plan to Address Future Infrastructure Maintenance Needs
- A Strategic Plan for Neighborhood Preservation and Code Enforcement;
- A Cost Recovery Study
A Strategic Plan for Communications and Informing the Citizens of Key Policy Issues and Programs.

These initiatives are in support of the priorities that were mentioned above, and will serve as a roadmap for future staff work.

One of the consistent messages I heard during the budget meetings was that we are in a period of growth which has stretched staff’s ability to meet the growing demand for service. This is evident in the number of permits that are being issued for new construction, and the number of participants we are seeing at the City’s recreation programs and events. This trend is also echoed in the most recent population figures from the California State Department of Finance, which listed Lancaster as the 3rd fastest growing city in Los Angeles County in 2004. It is during this time that the City is faced with making critical decisions that will lay the foundation for continued sustainability and fiscal health into the future.

We also continue to be concerned about the budget problems currently facing the State of California. Recent estimates place the budget shortfall at $8.6 billion. While state revenues have been recorded higher than expected, they are not near enough to eliminate the structural gap that exists between revenues and expenditures.

In November 2004, voters approved Proposition 1A which provides protection to certain city revenues from state redirection. In spite of this, since the state has not taken adequate steps to solve its budget problem, a threat continues to exist that the state will attempt to capture additional Education Revenue Augmentation Fund (ERAF) monies from redevelopment agencies. Despite these challenges, the proposed budget is balanced, and in keeping with policy maintains a 10% fund balance.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

On a national level, the economy has seen a recent modest slow down, attributed to high energy prices and an increase in inflation. Gross domestic product, which is the broadest measure of the country’s economic health, rose at an annual rate of 3.1% in the first quarter of 2005, down from 3.3% in the previous quarter, as reported by the Commerce Department in April. This was the lowest reading since the first quarter of 2003. The increase in consumer spending, at 3.5% for the 1st quarter of 2005, was the slowest since the 2nd quarter of 2004. Both of these indicate a modest slow down in the national economy. This outlook was echoed by the UCLA Anderson Forecast, in their first quarterly report of 2005. That report predicted that the current expansion in the national economy is closer to its end than beginning. The Federal Reserve raised its federal-funds rate to 3% from 2.75%, the 8th quarter-percentage increase in as many meetings, at its May 3, 2005 meeting. It also indicated that it planned to keep raising rates at a “measured” pace – which means no more than a quarter percent per meeting. The Feds have indicated that for now, inflation is its main concern, and will continue to take action to curb it.

California’s economy is expected to maintain modest growth over the next few years, according to the most recent UCLA Anderson Forecast. The Governor’s Budget May Revision 2005-06, released May 13, 2005, echoes these sentiments. The report indicates that cash receipts for the state are up from the original budget. The majority of the increase is due to higher than expected personal income tax receipts. While this is good news for the
state, these new revenues can not be counted on for future years, and should be treated as one-time rather than permanent. Governor Schwarzenegger’s May Revise also proposes to fully fund transportation programs in 2005-06 for the first time in two years. If approved by the legislature, Lancaster will see an additional $500,000 in transportation funds that would be recommended for appropriation during the midyear budget process.

Other good news for the city from the Governor’s report come in the form of a proposal to repay half of the vehicle license fees (VLF) that were not received in 2003-04 due to suspension of the VLF offset. This loss amounted to over $2.1 million for Lancaster. Repayment of these funds is not required until 2006-07; however the Governor is proposing to prepay half the funds owed in 2005-06, which could result in over $1.0 million in unexpected general fund revenues. At this time it is not known how the state would allocate the funds. We will be closely monitoring the state budget process, and will keep the City Council appraised of developments as they occur.

At the North Los Angeles County 2005 Real Estate and Economic Outlook Conference held April 28, 2005, Mike Bazdarich, senior economist with the UCLA Anderson Forecast said, that with the exception of the San Francisco Bay Area and Los Angeles, “The rest of California is growing very rapidly right now”. He predicts that available, affordable homes will keep the Antelope Valley growing.

So, what does this all mean for Lancaster, and how does it impact the development of our budget? The budget has been developed with a “cautiously optimistic” approach, meaning that the budget has grown to address the increased demands for service, but in considering the additions, an analysis was performed that projected the change, along with any associated revenues, to ensure that at least for the next five years the budget could sustain the increase. As previously mentioned, over the next several months, we will be developing a Five Year Financial Forecast that will provide a financial projection for the next five years. This forecast will be the basis for analyzing the impacts of future expenditures and our ability to maintain a balanced budget.

**BUDGET OVERVIEW**

**Total Appropriations**

The City of Lancaster and the Lancaster Redevelopment Agency’s adopted budget for Fiscal Year 2005-06 totals $134,602,736, a decrease of $68,809,515, or 34%, from the FY 2004-05 adopted budget. The decrease is primarily due to Redevelopment Agency bond proceeds that were committed in the prior year and capital projects that were undertaken during 2004-05 that have been completed or are currently underway.

**Operating Budget (All Funds)**

The adopted operating budget, totaling $110,482,277, includes personnel, other expenses, debt service, and capital outlay/replacement required for delivering an array of city services.

City of Lancaster
The operating budget is proposed to increase 18% or $16.9 million over last year. This increase is in response to the increase in demand for services and maintenance from our citizens. In addition, the City has been notified that the rates for personnel retirement benefits in the California Public Employees Retirement System (CalPERS) will increase 100% next year (from 5% to 10% of salaries). The increase reflects the drop in investment income CalPERS has realized in the fund. We are researching options with CalPERS to stabilize rates for the City.

Significant changes to the operating budget include the addition of 19 new positions, 17 of which are either fully or partially funded with offsetting revenue. Five year projections were developed to assess the sustainability of the revenue streams depended upon to support these additional staff. The projections provided assurance, that given the current conditions and known factors, that the revenues would be sufficient to cover the costs. The majority of the positions are in the Public Works and Community Development Departments and are needed to address the increased workload resulting from increased new construction. We will closely watch economic trends and forecasts. Any signal of a downturn, and a resulting slow down in development activity will result in a review of staffing needs. New positions are also recommended in the Sheriff’s budget, including a crime prevention officer to establish a neighborhood watch program and a deputy in the traffic division. The budget also includes funding for technology to develop Geographic Information, Asset Management, and Permitting Systems, as well as the automation of timekeeping. The implementation of these systems will result in increased efficiencies for staff.

**Capital Budget**

The Capital Improvement Program (CIP) budget includes 80 capital projects, financed from 15 funding sources, totaling $24,070,459.

Major projects funded include: property acquisitions by the Lancaster Redevelopment Agency, Drainage Improvements, Traffic Signal Interconnect Installation and improvements at the corner of Avenue K and 10th Street West.
**Total Revenues**

A significant step in the budget process is estimating revenues for the upcoming fiscal year. This process is critical, as appropriations are based on these projections. To ensure accuracy in our projections several factors are considered including historical trends, population projections/growth, known activities that affect revenues, and inflationary factors. With this information, the City can project what revenues will be available for allocation. Revenues for Fiscal Year 2005-2006 are projected at $132,608,277, an 11% increase over FY 2004-05.

**General Fund**

The General Fund is comprised of the most flexible revenue, which the City Council can allocate toward any project or need within the community.

The budget recommends General Fund expenditures of $43,232,941 (net of transfers), an overall increase in General Fund expenditures of 2.7%. Revenues are estimated at $39,045,699, with the difference coming from the Unreserved Fund Balance.

**General Fund Revenues Overview**

The three major General Fund revenue sources are Sales Tax, Property Tax, and Franchise Fees, these three sources account for 77% of total General Fund revenues.
At $17.1 million, sales tax is the General Fund’s single largest revenue source representing 44% of the total General Fund revenue. The projected revenue in FY 2005-06 is a slight decrease from 2004-05 due to one time corrections the City received from the state, that are not anticipated to be received again.

The chart below illustrates the tremendous sales tax growth the City has seen in the past 10 years. Since 1996-97, sales tax revenues have grown 70%. This growth is attributable to population growth and expansion of retail over the past several years. According to the 2005 North Los Angeles County Real Estate and Economic Outlook prepared by the California Economic Forecast, there were 2,109 residential permits issued in 2004, more than twice the number issued the previous year. Commercial development has also increased. Both of these factors will contribute to a healthy economy for next year.
As a result of voter approval of Proposition 1A, the structure of city revenues has changed. The State has permanently swapped $7.0 million in Vehicle License Fees for an equal amount of Property Tax. This has resulted in Property Tax representing nearly 24% of total General Fund revenues. This also has a direct impact on the cash flows of the City, in that revenues that historically were received on a monthly basis are now received in January and May of each year. Another direct result of Proposition 1A is the City contribution of over $1.0 million to the State in FY 2004-05 and again in FY 2005-06 in the form of ERAF payments. With the new protection the City has from state reduction of city revenues, these payments will discontinue in fiscal year 2006-07.

Nine percent (9%) of the City’s General Fund revenues come in the form of Franchise Fees. These fees are paid by businesses that have a franchise to operate in Lancaster, based on a percentage of the revenues earned in the City. These include Southern California Edison, The Gas Company, Adelphia Business Solutions Operations, Inc. and Waste Management.

The Other Taxes category includes Property Transfer, Transient Occupancy, which is a 7% tax charged on all motel/hotel room rates in the City, and Business License Taxes. In order to more fully recover the costs of processing Business Licenses, a processing fee of $35 for new and $20 for renewal is being recommended for approval. The revenues received from this new fee will be dedicated to a new Business License Enforcement Officer that will work in the field ensuring the fair and equitable enforcement of the business license ordinance. We have had a meeting with the Chamber of Commerce, and they support the implementation of the fee, and the addition of the enforcement officer.

**General Fund Expenditures Overview**

City services that are provided by the general fund include Public Safety and Parks, Recreation and Arts programs. Fiscal Year 2005-2006 general fund operating expenditures total $55,793,591, a 28% increase over FY 2004-05. For the coming year 18 new positions are being added to meet the growing demand for service by the residents of Lancaster. This is a significant increase to the City’s workforce, and is recommended after careful consideration and discussion with the City’s executive team. Five year projections were analyzed to provide a level of assurance that the revenue projections are sufficient to cover the costs of these positions. Given current conditions and assumptions, revenues are sufficient to cover the additional costs of these positions.

Salaries for the city’s part time staff are below market, resulting in difficulties in recruiting and retaining part time staff. This budget recommends bringing the salaries in line with the market. The general fund budget also reflects the impact of the increases in the CalPERS rates.

**DEPARTMENT HIGHLIGHTS**

The operating budget consists of the different departments that provide the day to day operations of the City. The following chart graphically depicts the budget and the percentage each department represents of the budget.
The Public Works department represents the largest segment of the budget. The Building and Safety and Engineering functions that support development in the City are in this department. The budget requests reflect the continued need for service and support in this area.

The second largest piece of the budget pie is Community Safety, which includes the city’s contract with the Los Angeles County Sheriff’s Department. This high level of funding is consistent with the city’s commitment to public safety.

In developing the budget, the operating departments evaluated their current levels of funding and service demands, then provided their recommendations for meeting those demands. The following department summaries represent the results of those efforts.

City Council

The City Council is responsible to the residents of Lancaster for all municipal programs and services as well as any legislative matters concerning the City. There are no significant changes to the City Council budget for FY 2005-06.

City Clerk’s Office

One of the most important functions of the City Clerk’s office is to ensure a flawless City Council election. The budget includes funding for the April 2006 elections.
Administrative Services

Administrative Services includes the functions of central services and community safety, which includes administration of the contract with the Los Angeles County Sheriff’s Office. At 28% of the budget, Public safety continues to be a priority of the city. In support of this priority, additions are recommended, including funding for fingerprinting training and a crime lab specialist to reduce the wait time for processing fingerprints, an additional Community Services Assistant dedicated to the collection of fingerprint evidence at crime scenes of a minor nature, the addition of a Crime Prevention/Community Relations Officer to establish a neighborhood crime prevention program, and an additional deputy to provide general law enforcement to the citizens of Lancaster, and reduce call response times.

In addition, funding for development of an Information Technology Strategic Plan and implementation thereof has been included in the budget.

City Manager’s Office

The City Manager is responsible for the overall administration of all City government departments. For FY 2005-06 a 2nd Assistant City Manager is being recommended, as well as a Secretary to assist with the clerical needs of the department. Both of these positions are offset by the deletion of existing vacant positions, resulting in the overall headcount in the department remaining stable.

Human Resources

The Human Resources department is responsible for personnel activities including recruitment, selection and retention of staff, negotiation for and administration of employee benefit programs and staff development and training. Development and retention of staff is key to maintaining a successful organization. Funding is recommended to establish the first year of a five year employee training program. In addition, it is my recommendation that the tuition reimbursement program be increased to Cal State levels to encourage the continued education of our dedicated staff.

Finance

The Finance department is responsible for the control of all financial activities of the City, as well as administration of the Business License and Parking Citation processing functions. Three new positions are being recommended in this department; all have offsetting revenues making them self funding. One Management Analyst is recommended for grant collections and cash management activities; a Business License Enforcement Officer and Account Clerk are also recommended to ensure the fair and equitable treatment of all businesses that are required to maintain current business licenses. These positions will be fully supported by the implementation of a business license processing fee, which is recommended to more fully recover the cost of processing business licenses. In addition, funding for information systems is requested. This will result in improved efficiencies and record keeping.

Community Development

The Community Development department processes all permit applications for which planning approval is required, coordinates project review with city departments, and
provides direct support services and attends all meetings of the Planning Commission. The budget includes funding for an Assistant Planner and one Environmental Coordinator. These positions will assist with the increased workload as a result of the continued growth in the City. Both are partially supported with new fees. In addition, funding is recommended for the update of the General Plan.

**Parks, Recreation & Arts**

The Parks, Recreation & Arts department provides service in the areas of park development, parks maintenance, recreation services, cultural arts and film. A Recreation Supervisor, Maintenance Worker I and Maintenance Worker II are recommended to address the maintenance needs of the facilities and demand for recreation programs. All three have offsetting revenues or budgetary savings associated.

**Public Works**

At 32%, Public Works is the largest portion of the general fund budget. Functions in this department include Building & Safety, Street Maintenance, Engineering, Traffic Engineering, and Landscape Maintenance. The majority of the costs in these areas are paid for by development revenues. They have been heavily impacted by the growth in development in the City. To address the workloads, several positions are requested, the majority of which are funded through offsetting revenue sources. These include: a Public Works Supervisor, one Maintenance Supervisor, 2 Public Works Inspectors, a Transportation Analyst, an Associate Engineer, an Associate Environmental Engineer, and an Engineering Tech. It is important to note that development trends will be closely monitored, and any slow down in this area will result in an immediate review of staffing needs. In addition, an Associate Civil Engineer and Distribution Technician are requested in support of the new Recycled Water Enterprise activities. These positions are funded through recycled water revenues.

There continues to be a need for improved technology systems that support the functions of Public Works. In order to meet these needs, funding is recommended for phase 2 of a new permit system, GIS software and data collection. In addition, equipment such as a four ton double drum roller and trailer, a 30,000 lb. four post lift hoist, and a fleet services truck, are recommended in order to provide staff the tools they need to efficiently and effectively get their jobs done. Funds are also included for traffic calming measures, including a redlight camera program, to address traffic problems in the City.

**Redevelopment**

The Redevelopment Department is responsible for all activities associated with the operations of the Lancaster Redevelopment Agency, including Economic Development and Housing, as well as administration of the city’s Community Development Block Grant. A new Economic Development Assistant is recommended that will enhance the city’s ability to attract and retain quality businesses in the City of Lancaster. The addition of this position will allow staff the ability to meet with local businesses on a regular basis to provide support to the businesses so they can continue to grow and prosper. The direct result of these activities is an increase in jobs and revenues to the City.
We are also recommending funding to undertake a Downtown Specific Plan and a Retail Marketing Strategy. The Downtown Specific Plan will encompass the Lancaster Boulevard area and the neighborhood immediately south of the Boulevard roughly between 10th Street West and Sierra Highway. The purpose of this effort is to develop a plan for this area that will enhance and preserve the unique aspects of the area and its economic viability. This plan will be developed with significant input and contribution from area business owners and residents. The Marketing Strategy will enhance the City’s efforts to attract additional retailers and restaurants to the City. The study will build upon the previous retail analysis and demographic information provided by Buxton Group in a strategic fashion to focus and direct the City’s retail marketing and recruitment programs.

**RESERVES**

The City of Lancaster has a policy of maintaining a general fund balance at 10% of operating expenditures. I am pleased to say that this proposed budget maintains that policy, with a projected ending general fund balance of $6,493,992. In addition to the general fund balance, the City has also established several special purpose reserves. The proposed budget includes continued funding for these reserves. Projected ending reserve balances are:

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Benefits</td>
<td>$1,841,907</td>
</tr>
<tr>
<td>Legal Claims</td>
<td>636,743</td>
</tr>
<tr>
<td>Emergency Repair</td>
<td>399,336</td>
</tr>
<tr>
<td>Building Replacement</td>
<td>311,965</td>
</tr>
<tr>
<td>City Liability</td>
<td>204,187</td>
</tr>
<tr>
<td>Non-Recurring Events</td>
<td>250,000</td>
</tr>
<tr>
<td>Capital Facilities</td>
<td>670,000</td>
</tr>
<tr>
<td><strong>TOTAL SPECIAL RESERVES</strong></td>
<td><strong>$4,314,138</strong></td>
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</tbody>
</table>

Non-Recurring Events is a new reserve that I am recommending that we establish. The purpose of this reserve is to provide stabilization of revenues in the event that we experience an unanticipated downturn in the economy.

The Building Replacement and Capital Facilities reserve are currently carrying low balances. Through the Five Year Forecast process a review of these funds will be undertaken to determine the appropriate carrying balances, and the necessary annual transfers into the funds to achieve the desired funding levels.

The City also maintains a fund for Capital Replacement. This is a sinking fund that accumulates monies for the future replacement of the City’s vehicles and equipment. In recent years funding needs resulted in tapping into these funds. This has created a shortfall of approximately $3.5 million. The budget includes a special allocation of $750,000 to begin replacing the funds, with a goal of bringing the fund up to fully funded levels within the next five years.
The Capital Improvement Program (CIP) is a key component of this document and of vital importance to the community as a whole. The CIP represents the means for meeting the community’s current and future infrastructure needs. The CIP is designed to meet the City’s major goals for projects, while maintaining ongoing maintenance of existing infrastructure.

The CIP is one of the most flexible sections of the budget, due to the unique nature of its dependency on funding sources.

The Capital Improvement Program for 2005-2006 totals $24,120,459, a decrease of $85,751,228 from the Fiscal Year 2004-2005 adopted capital budget. The primary reason for the decrease was due to the allocation of bond proceeds in the 2004-05 budget process, and one time grants.

Projects recommended for FY 2005-06 include property acquisitions by the Lancaster Redevelopment Agency, Drainage Improvements, Traffic Signal Interconnect Installation and improvements at the corner of Avenue K and 10th Street West. A detailed description of all projects contained within the 2005-2006 CIP, as well as corresponding location maps, can be found in the Capital Projects section of this document.

The Capital Improvement Program is funded by 15 different sources. These include:

<table>
<thead>
<tr>
<th>FUNDING SOURCE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Structure Fees – Parks</td>
<td>$6,500,000</td>
</tr>
<tr>
<td>Drainage Impact Fees</td>
<td>4,400,000</td>
</tr>
<tr>
<td>TDA Article 8</td>
<td>3,700,000</td>
</tr>
<tr>
<td>Traffic Impact Fees</td>
<td>3,560,000</td>
</tr>
<tr>
<td>Signal Impact Fees</td>
<td>2,800,000</td>
</tr>
<tr>
<td>Park Development</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Proposition C Transportation</td>
<td>1,480,945</td>
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<tr>
<td>Drainage Maintenance District</td>
<td>835,000</td>
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<tr>
<td>Gas Tax</td>
<td>394,442</td>
</tr>
<tr>
<td>Proposition A Transportation</td>
<td>328,377</td>
</tr>
<tr>
<td>Water Credits</td>
<td>150,000</td>
</tr>
<tr>
<td>Urban Structure – Corp. Yard</td>
<td>100,000</td>
</tr>
</tbody>
</table>
The CIP is funded entirely with special funds that are restricted in their use. No direct General Fund support is being recommended at this time. This is important to note as this provides no flexibility to move funding as needs change. During the next year the City will be working on a Five Year Financial Forecast and development of a Six Year Capital Improvement Plan that will address future CIP funding needs and provide a funding strategy to meet those needs.

A SUCCESSFUL YEAR

The City of Lancaster continues to be a growing, thriving community. Significant accomplishments during 2004-05 include:

- Opening of the Lancaster University Center
- Improvements on Avenue G that brought job-producing business to the Fox Field Industrial Corridor
- Securing $3,000,000 in competitive grants for Phase I at Whit Carter Park
- The issuance of over 2,000 building permits, 165% over the previous year
- Initiation of a recycled water program to irrigate as much as 134 acres of landscaped areas
- Emergency response to the December 2004 & January 2005 storms, classified as a 50-year event
- Construction of the 76-unit Arbor Gardens Senior Apartments
- The commitment of SYGMA, a division of SYSCO, to the Fox Field Industrial Corridor, creating 200 new jobs

CONCLUSION

This budget has been established to enable the City to meet a diverse set of challenges over the next fiscal year. I would like to thank not only the City Council for its policy leadership and continued support, but all the City staff as well, who, every day, commit themselves to providing the highest quality services to this community.

I would like to recognize each of the Department Heads and their staff, who worked diligently to prepare the document now before you. Thanks go to each member of the lead budget team including Barbara Boswell, Cindy Prothro and Brenda Gamlowski for their work in preparing the document. I would like to thank Steve Dassler for his work preparing the Capital Improvement Program section of the document and Patti Yaworski for her efforts in preparing the budget document.

Through the City Council’s continued leadership, I am confident that the City will fulfill its vision to ensure that the City of Lancaster’s quality of life both endures and improves. It is clear that strong leadership by the City Council, quality staff, and involved citizens are the
key ingredients to making this community a place in which we can live, work and play with pride.

Respectfully submitted,

[Signature]
Robert S. Lasala
City Manager