June 26, 2007

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 Fiscal Year 2007-2008 Operating Budget and Capital Improvement Program.

We are coming to the end of another very exciting and successful year. The plans and initiatives presented with last year’s budget either were completed or are well underway. Community involvement, participation, and support have been overwhelming during this year of planning for the future. We continue to move toward the Council’s vision of making Lancaster a place where people want to work, live, visit and play.

A major initiative for 2006-2007 was to implement a performance measurement system that would focus on outcomes and results and move us further along our “Road to Excellence”. After evaluating several methodologies, we selected the Balanced Scorecard (BSC) system which is new to municipalities but has years of proven results in the private sector and larger agencies. BSC uses four perspectives to look at the overall vision and mission for guidance. The four perspectives include the stakeholder or customer view, financial view, internal processes view and learning and growth view. By approaching our challenges from four different perspectives, we create a more “balanced” solution than a financial viewpoint alone can provide. This system focuses the City’s resources on what is important, helps to identify programs that are not performing as intended, gives us a tool to gauge the success of innovations that we implement, and makes it possible to identify areas where we can improve services or realize cost savings to ensure greater fiscal responsibility.

We took the basic Balanced Scorecard model and adapted it to fit the public sector and our community. We began the process by creating a strategy map that identifies appropriate strategic objectives, measures, targets and initiatives for the City of Lancaster. The map reflects our commitment to the Council goals and the 2020 Vision Plan by incorporating the following priorities:

- Public Safety
- City Services & Infrastructure
- City Values
- Health & Human Services
- Housing & Neighborhood Revitalization
- Jobs and Economic Vitality
- Leisure Services
- Regional Cooperation
- Financial Health
- Growth and Development
The next step of the process was to tie all new budget requests to the strategy map. In doing this, the Budget Team was able to ensure recommendations are consistent with Council goals and the City’s vision for the future.

Since this is a new program for Lancaster and the public sector, we consider this program to be in the pilot stage. We will continue to refine the performance measures and associated targets, as well as the initiatives, as the program progresses. During the next year, the City will seek out other municipalities using BSC to use for benchmarking. We look forward to implementing the program throughout the organization during 2007-2008.

You may also recall that, with the adoption of the 2006-2007 budget, there were several initiatives to be undertaken and strategic plans underway. These include:

- Community Safety Program expansion
- Extending the financial forecast from five years to ten years
- Creation of a ten year capital improvement plan
- Information Technology Strategic Plan
- Continuation of the General Plan Update
- Development and presentation of the draft Downtown Specific Plan
- Implementation of the Communications Strategic Plan

I am pleased to say that we have made progress in each of these areas.

In support of Council’s number one priority, reducing the crime rate 30% over five years, we implemented many Public Safety programs and initiatives during 2006-2007, including:

- Established City Community Service Officer Team of 15
  - Through March 2007 the team wrote 4,397 crime reports
  - Equivalent of 8 sworn personnel
- Average routine response time decreased from 97.3 minutes in 2005 to 83.0 minutes in 2006, a 14.7% reduction
- Created the Crime Prevention Office
  - Expanded the Neighborhood and Business Watch Programs from 11 active groups to 76
- Station overhead staffing levels increased due to ongoing discussions with the Sheriff
- Implemented an on-line crime report system
- Initiated a best practices initiative to improve and enhance the operations and effectiveness of the Lancaster Station
- Established a new $1,000 reward program for information leading to the arrest and conviction of anyone involved in a burglary or robbery in Lancaster
- Installed red light cameras at three intersections in the City (five approaches)
  - Recorded 8,394 violation incidents
- Installed 22 Radar Speed Feedback signs to reduce traffic speeds and protect schoolchildren

Council authorized six 56-hour service units added to the Sheriff’s contract, initially filled with overtime through the end of FY 2006-07, with further direction to evaluate the budget and recommend adjustments for FY 2007-08 to enable these new positions to become permanent while maintaining a balanced budget throughout the ten-year forecast period. I am pleased to say
that staff worked diligently to find opportunities for redirecting funds to provide sufficient on-going funding for these new positions. While going through this analysis process, staff identified an alternative safety program that would utilize the same amount of funding but increase the amount of sworn hours. I will discuss this further in the Community Safety section of this budget message.

Performance Management

The Performance Management section provides information that analyzes the future finances of the General Fund over a ten-year timeframe. The purpose of a ten-year forecast is to capture a period of time that includes both economic expansion and contraction. This is a work in progress since there are many planning processes underway that will have a significant fiscal impact on this financial plan. This version is noteworthy since it provides the Council with information demonstrating that resources are available to sustain the current and proposed levels of service over the next ten years.

Capital Improvement Program

We expanded the six-year Capital Improvement Program (CIP) presented in the FY 2006-07 budget out to 10 years for the FY 2007-08 budget. This was a large undertaking that analyzed projects identified by City departments as well as citizens. The completion of the Open Space and Parks Master Plan and the General Plan will have an impact on the 10-year CIP, so this is a work in progress. It begins to address future infrastructure and maintenance needs; however, more work is required to quantify fully the maintenance needs of the City. Not only are we dealing with the demands brought on by growth, but also we are still in a “catch up” mode in addressing existing infrastructure renewal and replacement.

Information Technology Strategic Plan

The Information Technology Strategic Plan completed during 2006-2007 provides the City with recommendations for implementation over the next five years. Implementation has already begun, however, resources are limited so full implementation may take longer than anticipated.

General Plan Update

The City’s General Plan revision is well underway. Phase One from March 2006 through November 2006 included extensive community outreach involving presentations to community groups and stakeholders, two on-line visioning surveys resulting in approximately 80 responses, one grade school and one teenager visioning workshop with over 90 participants, and adult visioning workshops with over 82 attendees. The visioning open house held in August 2006 was a success with 150 people in attendance. Those that could not attend had the ability to learn about the General Plan and participate through our website, by audio compact disc available at coffee houses and restaurants, as a seat drop item on the Metrolink and Antelope Valley Transit Authority commuter busses, and through direct mailings to all households in Lancaster.

Phase Two began in November 2006 with the formation of the General Plan Citizens Advisory Committee (GPCAC), which continues to meet on a monthly basis through November 2007. We published a draft Community Vision Report in November 2006 and conducted an on-line survey to obtain feedback from the community regarding the draft. After reviewing the results, we
presented a draft progress report to Council and the Planning Commission, and distributed it to the community in January and February 2007. Land Use Futures Workshops, to review and discuss basic land use conceptual plans, began in April 2007 after another extensive marketing campaign. We will conduct an on-line survey for Land Use Futures in May and June, corresponding with release of the draft General Plan Master Environmental Assessment (MEA) in May 2007. The Planning Commission will receive GPCAC’s recommendations and the Environmental Impact Reports later this year. The Council will receive the recommended final General Plan for adoption in the summer of 2008.

**Downtown Specific Plan**

The Downtown Specific Plan, designed to revitalize the downtown Lancaster area, will create a corridor that is a place of historic, cultural, social, economic, and civic vitality for the Lancaster community as well as the Antelope Valley. Working with consultants and the community, the Planning Department developed and presented the initial vision plan to Council in July 2006. The final phase began in November 2006, which will result in a final version of the Downtown Specific Plan, including architectural design guidelines, development standards, and an implementation program. Later this year, we will present the final plan along with the environmental impact report to the Planning Commission. Project completion and adoption of the specific plan is schedule for December 2007.

**Neighborhood Preservation**

We developed a neighborhood preservation and code enforcement strategic plan during 2006-2007 to make every neighborhood a desirable place to live, work and play by encouraging development and redevelopment through strategic investment of public resources intended to make every neighborhood “livable” through Code Enforcement Compliance, Housing Revitalization and Neighborhood Community Building. Council adopted the plan, policies were established, and implementation is well under way. We look forward to presenting the results of these efforts to Council later this year.

**Communications Strategic Plan**

We began implementation of the Communications Strategic Plan that resulted in the introduction of a new state-of-the-art website and intranet site for better external and internal communications. Development of the Outlook Lite ensures that residents and businesses receive a newsletter every month that keeps them informed of events, services, City news and legislative issues. We implemented the CodeRed System that allows for ultra high speed emergency communications to residents and businesses as well as a mechanism to give instructions and information to targeted groups in the community.

This was a successful year with many accomplishments in every Department. We look forward to another productive year in 2007-2008.
CURRENT ECONOMIC CONDITIONS AND OUTLOOK

NATIONAL

On a national level, the economy is still healthy but continues to experience a modest slowdown. This is attributable to rising interest rates, higher energy prices and an increase in inflation.

Gross Domestic Product (GDP), which is the broadest measure of the country’s economic health, increased at an annual rate of 2.5 percent in the 4th quarter 2006. Over the four quarters, real GDP increased 3.3 percent as compared to an increase of 3.2 in 2005. According to the U.S. Department of Commerce Bureau of Economic Analysis, the growth in the last quarter of 2006 “primarily reflected accelerations in consumer spending, exports, and Federal government spending and a downturn in imports – moderated by downturns in investment in inventories and in equipment and software”. Economists feel the “boom” has passed, so we should see growth continuing to moderate during 2007/2008. According to the 2006 report by the Center for Continuing Study of the California Economy, “GDP growth in 2007 is expected to be around 3% on an annual basis”. First quarter reports for 2007 indicate the housing market continues to slow, mortgage defaults are on the rise and home prices continue to fall. The City’s investment advisors, MBIA Asset Management Group, report, “In February 2007, new home sales fell to the lowest level in almost seven years.” There is a growing concern that the weakening housing market may spill over into other sectors of the economy.
The chart above plots the percentage change in the Consumer Price Index (CPI) vs. the Producer Price Index (PPI). The PPI measures the selling price received by producers for their products. Since consumer spending currently makes up more than 70% of the GDP, if the rate of growth in consumer spending slows, it is likely that GDP growth will slow down as well. As can be seen in the graph above, consumers continued to spend in 2006 with a small mid-year downturn but gaining ground by the end of the year. The Bureau of Labor Statistics reported the CPI rose 2.5 percent in 2006 as compared to 3.4 percent in 2005. The PPI increased during nine months in 2006 ending at an annual 2.5 percent increase in December. Early reports for the first quarter 2007 indicate both the CPI and PPI continued to rise. According to a Feb. 21, 2007 news release, core consumer prices increased 2.7 percent during the 12 months ended in January 2007. The PPI was also higher than economists forecasted. The Labor Department has reported energy, food and tobacco as well as the core producer prices have increased more than expected in the first quarter 2007, jumping 1.3% in February. Preliminary reports for March are indicating there is still no relief for this inflation.
The Federal Funds Target Rate is the interest at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. In an effort to stabilize economic growth and inflation, the Federal Open Market Committee (FOMC) increased the Fed Funds Target Rate at each meeting beginning in 2004 ending at 5.25% at its June 29, 2006 meeting. Although inflation is still a concern to the FOMC, the Committee continued to hold the rate steady throughout FY 06-07 and the 1st quarter 2007. The FOMC continues to monitor inflationary pressures, but economists have mixed opinions as to whether there will be any changes to the Federal Funds Target Rate this year. UCLA Anderson Forecast for the fourth quarter 2006 indicates, “Real interest rates are very low and there is no evident credit hike on the horizon”. Although the housing market continues to slow the economy, the forecast is showing “a healthy overall economy with not much change expected during 2007”.

As expected, oil costs soared to $78 a barrel in the summer of 2006, and continued to fluctuate throughout the year, closing below $62.00 a barrel in April 2007. Steve Hargreaves of CNN Money attributes this decrease in April to “heavy fund selling and unwinding political tensions in the Persian Gulf”. As can be seen by the graph above, the oil market is highly volatile and subject to continued price changes as international political climate, market conditions, and production or consumption levels change. What this means is economists expect the price of gasoline to climb again. The Energy Information Administration (EIA) is reporting the average price of gasoline for the country is $2.86 as of April 23, 2007. This is approximately 35 cents per gallon higher than in April 2006 when the average price was $2.51 a gallon. Economists expect prices to escalate to around $2.87 a gallon by the end of May, continuing into the summer 2007. The west coast prices already soar above the nation’s average price at $3.21 per gallon in April 2007. The good news is the continued growth in salaries and wages is offsetting inflationary pressure. Consumers are not feeling heavy inflationary pressures so they are continuing to spend. An example is even though gasoline prices are climbing, the EIA reported record setting gasoline consumption rates for March and April 2007. However, economists expect the energy prices along with the housing market and auto sales to continue adding to inflationary pressures in FY 07/08.
The negative savings rate that began in 2005 at 3% continued through 2006/2007, gaining some ground, but staying in the negative at just over 1%. What this tells us is that consumers are spending more than they are making, and either depleting savings or incurring debt to pay for it. Normally this trend causes a slow down in consumer spending. However, with the exception of housing and auto sales, spending continues to be strong. Disposable personal income increased by 5.5% in 2006, which exceeded the 3.2% increase in the inflationary rate during the same period. As stated earlier, reports indicate wages and salaries have continued to be strong and even increased during this period, as reported by the Los Angeles County Economic Development Corporation.

The national economy continues to be strong and expectations are that it will be much like it was in 2006. We also expect the economic expansion to continue, but at a slower rate, in 2007-2008.

Economists expected a market correction in 2006 resulting from the FOMC rate hikes in 2004 - 2006. This correction took longer than expected with signs of stabilization beginning to show in early 2007. The monetary policy is expected to stay relatively constant with a possibility of rate cuts at the end of 2007 if personal savings increase and the growth of the economy stabilizes. As the market stabilizes, we are starting to see the long-term mortgage rates increase, thereby slowing the housing market even further. In the last few years, as housing prices increased, many consumers took advantage of special financing such as interest only loans and variable rate mortgages, but are now feeling the effects of the increasing interest rates. Consumer spending is decreasing as these homeowners reduce spending and apply their disposable income to mortgage payments. It is also increasing the resale housing stock as consumers try to sell their houses. This will contribute to the slowing in the housing market through the next year.
STATE

Much like the economy for the nation, California’s economy is expected to continue to grow, but at a slower rate. The downturn in the housing sector in the second half of 2006, and a reduction in automobile sales, are the major factors contributing to the slowing. According to the California Department of Finance (DOF), the number of foreclosures increased in the last part of 2006 and residential permits continued to fall. The DOF expects this trend to continue through 2007. As of April 28, 2007, there were over 25,000 active foreclosures in California with approximately 62,000 awaiting foreclosure (pre-foreclosures) and another 25,000 in bankruptcy according to foreclosure.com. These numbers continue to increase, expanding the housing stock, and further exasperating the slowing in the housing market. UCLA Anderson Forecast economist Ryan Ratcliff feels the “slowing housing markets will create a significant slowdown in the California economy, but it is not enough to create a recession without a secondary source of weakness.”

Personal income grew at 6.6% in 2006, which was slightly higher than the national increase of 5.5%. Economists expect these increases to continue through 2007 to about 5.7% then rebound in 2008 according to the U.S. Bureau of Economic Analysis. Employment increased 1.8% in 2006, forecasted to increase by 1.2% in 2007. Wages and salaries also increased in 2006 at a 7.6% rate for the first three quarters of 2006. At the same time, the unemployment rate dropped below 900,000 for the first time in five years, according to California Department of Finance.

The State of California continues to deal with budget shortfalls. The latest published estimates of the ongoing State budget deficit were in the $5 billion range. Prison spending, healthcare costs, increased funding for K-12 and higher education are sited as part of the cause. Economists believe there will be a reduction in revenue estimates for the short term, which will increase the budget shortfall facing the State in 2007. The Governor’s Budget Summary indicates, “Economic growth will likely be modest in the first half of 2007, and unemployment could increase slightly. The second half of the year should bring better growth as state and national housing sectors begin to pull out of their downturns”. Statewide taxable sales were up 7% from 2005 in the first half of 2006 and exports were up almost 11% from 2005 in the first three quarters of 2006. These markets continue to help offset the downturn in the housing market and inflationary pressures for the State, however, inflationary pressures continue to be a concern.

In the past, the State redirected revenues going to local agencies in response to inflationary pressures and in an effort to balance their budget. The passage of Proposition 1A protects Lancaster from any further ongoing revenue raids by the State. At the same time, we cannot rely on the State for new funding for local operating expenses.

LANCASTER

The City of Lancaster is also feeling the pressures of the slowing housing market, which began in 2006-2007 and likely will continue in 2007-2008. This is resulting in lower than expected revenue from development fees.
As a growing community, we have seen a constant increase in housing units over the last 4 years. The Greater Antelope Valley Economic Alliance (GAVEA) 2007 report indicates that, since calendar year 2002, the number of housing units in Lancaster increased from 43,280 to 46,790. This includes the surge in housing between 2004 and 2005, where increases reached nearly 1,200 units. In 2006, housing units continued to increase by approximately 2,000 units.

Although growth continues in Lancaster, the number of housing permits issued slowed to 819 through April and we expect them to end the Fiscal Year 2006-07 at approximately 1,100 as compared to 2,756 in Fiscal Year 2005-06. Inflationary pressures and slowing in the housing market will continue to affect growth in 2007-2008.

Median house prices have increased over the last five years in Lancaster from just over $100,000 in 2000 to over $335,000 in 2006. As interest rates increased and market conditions continued to be uncertain, the resale housing market began feeling the slowing in the economy in 2006. The 2007 North Los Angeles County Real Estate and Economic Outlook Spring Edition reports a 53 percent decline in new home sales in Lancaster. Prices in Lancaster continue to be lower than most other Southern California areas, which means people continue to purchase houses and move here but at a declining rate. The housing affordability index for Lancaster has dropped
from 68.8% in 2003 to 33.0% in 2005, but gained ground in 2006 ending at 42%. This rate continues to be far better than the 11% average for all of Los Angeles County. As a result, consumers continue to buy homes and move to the Antelope Valley, but not enough to offset the effects of the slowing housing market.

Increasing population and job growth bring more disposable income to Lancaster. “Total personal income growth continued to increase by 5.5% in 2006, after gaining 6.1% in 2005 for the County of Los Angeles”, per the Los Angeles County Economic Development Corporation February 2007 report. These income figures, along with moderate growth in employment and steady consumer spending, helped to offset the 3.2% inflation in 2006. In addition, our Redevelopment Agency continues to be successful in bringing development and attracting businesses to Lancaster. During 2007-2008, we will continue efforts to address the job/housing imbalance, develop a 21st Century workforce, revitalize local commerce, and promote a sense of community. The results of these efforts will bring more disposable income and help to reduce the negative effects of the slowing housing market and inflationary pressures in Lancaster. During 2006, however, we experienced lower than expected sales tax revenue due to the decrease in automobile sales that is also a problem at the national and state levels.

Another factor that creates uncertainty in the economic forecast for Lancaster is the sharp increase in foreclosures that were reported for the State. “Subprime loan origination for new purchases in recent years was very high relative to other areas of California and the nation. This makes the Antelope Valley more vulnerable to default and foreclosure, and ultimately to a larger real estate correction” according to the 2007 North Los Angeles County Real Estate and Economic Outlook Spring Edition. There was an increase in foreclosures during 2006, continuing into 2007. At over 1,500 foreclosures reported during April 2007 for the Antelope Valley, we are experiencing foreclosure levels not seen since the recession in the 1990’s.

The Municipal Cost Index (MCI) measures the effects of inflation on the cost of providing municipal services. The composite MCI uses the Construction Cost Index (CCI), Consumer Price Index (CPI), and the Producer Price Index (PPI) to factor in the costs of labor, materials, and contract services. The bad news is the effect of inflationary pressures at the national and
state levels is also a concern at the local level. The MCI indicates the cost to provide city services has increased 21.3% since January 2001. The effects of California’s 2001–2003 energy crisis, along with the increasing demand for energy in California and increasing fuel costs, are contributing to the rising costs for Lancaster. The increases in energy prices directly affect the cost of goods and services. Utility companies increase rates and vendors raise prices to their customers in order to cover their increasing operating costs, manufacturing costs, and the cost of materials and delivery. In addition to the increasing costs for commodities, we also continue to experience increased costs for services and construction.

As a growing community, we continue to experience an increase in demand for city services and an increase in the operations and maintenance costs of new infrastructure added in recent years. We added over 33 lane miles of roadway to the City’s service area between 2001 and 2006 that require routine maintenance. This means an increase to routine maintenance such as street sweeping, landscaping, lane striping and signal maintenance. In addition, we have added to the City’s facilities, such as the off-leash dog area at Hull Park, a 2,155 square foot record retention center, and a 10,000 square foot modular building at the maintenance yard that increase facility maintenance costs. We expanded our recreation and arts program offerings with the addition of several special events including Winter Wonderland and our Celebrate Downtown Lancaster events. Class enrollment has also increased as the population continues to grow. The increase in population also necessitates additional community safety programs. Faced with these increased demands and inflationary pressures, we must find a reliable source of revenue in order to continue to deliver the same level of service to our citizens over time.

**GENERAL FUND TEN YEAR FINANCIAL FORECAST**

An important responsibility of the City leadership is to plan for the future and assess economic trends for their impacts on City finances. A mechanism to accomplish this is our financial forecast. In Fiscal Year 2006-07, the City of Lancaster developed its first General Fund Financial Forecast, which took a five-year view. The forecast has been refined and extended out to ten years.

The general fund is the primary funding source for the majority of the operating needs of the City. It has the most flexibility in terms of use, but also tends to be the most volatile in terms of
reacting to economic changes and State reductions in shared revenues. As such, the fund is
given the most analysis and is the focus of the ten-year forecast.

In order to develop the forecast, assumptions are made regarding population growth, number of
households, rate of inflation, interest rates and other economic variables. We perform an
analysis of each revenue source to determine the most appropriate methodology to use for
projecting it into the future. Once a base line is established, we adjust these amounts by
appropriate factors such as population and a consumer price index (CPI) adjustment.

On the expenditure side, the forecast uses current levels of service as proposed in this budget.
We then project the costs using factors such as historical increases, CPI or expected cost
increases. It does not assume any increase in service in future years. As the City grows this
actually results in a decrease in service levels. For example, if we assume we have budgeted 13
Code Enforcement Officers to provide service to a population of 144,000, the Ten-Year Forecast
projects what the cost will be over the ten years for those same 13 officers, however, they will be
servicing a growing population. This means our existing 138,000 citizens would receive a lower
level of service over time as the population increases and the number of Code Enforcement
Officers remains steady.

The Ten Year Forecast can be an effective tool for identifying variations in revenues and
expenditures. However, there is a limitation to the forecast. We base our assumptions on
research and information currently available. It is our best attempt to look into a “crystal ball”
and see the future. We know that there are unknowns out there that will have an impact on our
forecast. It is for this reason that the City maintains healthy reserves throughout the forecast
period. These reserves will provide some protection for the city if the unexpected occurs.

We also have unfunded pending issues that will have an impact on the City’s finances over the
next several years. We are beginning to get a handle on the financial impact of some, but not all,
of these issues. They include the following:

- Public Safety Best Practices Implementation/Service Expansion
- GASB 45 Compliance (Other Post Employment Benefits)
- Implementation of Class & Compensation Study
- Open Space and Parks Master Plan
- Facilities Master Plan
- Transportation Master Plan
- Implementation of the General Plan Update
- Information Technology Strategic Plan
- Funding of Downtown Specific Plan Implementation
- On-Going Preventative Maintenance
- Ten Year Capital Improvement Program

The City has contracted with Joe Brann and Associates to evaluate crime-fighting techniques
nationwide and identify those that would be applicable to Lancaster and considered a “best
practice” to implement. We anticipate a report and recommendations from the study by the end
of 2007.
The Government Accounting Standards Board (GASB) has issued pronouncement number 45 that requires local governments to prepare an actuarial review of its non-pension retirement benefits (also known as Other Post Employment Benefits or OPEB). This actuarial analysis will provide the City with the cumulative unfunded liability related to its retiree health benefits and the Annual Required Contribution (ARC) to fund this benefit. We completed an actuarial valuation, showing the City has an unfunded liability of $12,000,000, and the ARC is $2,000,000. The City is not required to record the expense related to the ARC until Fiscal Year 2008-09. During the next fiscal year, the City will embark on developing a plan to address the unfunded liability and the ARC.

Through the negotiations with Teamsters Local 911, which represents a segment of the workforce, the City agreed to undertake a classification and compensation study to determine whether the City’s positions are appropriately classified and that our compensation package is competitive with the market. The study should be complete in early 2008.

The City recently conducted a study of the roadway system to evaluate surface roughness, surface conditions, and structural capacity. We used this information to determine condition assessments and identify surfacing or reconstruction methods best suited for each street segment. The study found that overall the streets are in relatively good condition. However, the high percentage of new streets has skewed the results. The City has a number of streets that are in very poor condition. In order to maintain the current condition levels, we estimate that $6,500,000 per year is required for road maintenance. The ten year Capital Improvement Program reflects this goal with funding identified in all ten years. Due to the unpredictable nature of the economy, the City maintains a Financial Stability Reserve that is over and above the 10% operating reserve. This reserve helps us to live along an expenditure trend line, providing a predictable, dependable level of service in both expanding and contracting cycles of the economy.

**Key Assumptions**

![Population Projections](image)

The most recent California State Department of Finance report estimates Lancaster’s population at 143,818, a 3.8% increase from the prior year. An analysis of permit activity over the past
eight years showed that the City had issued an average of 1,100 residential permits each year. Some years have been higher, particularly in the past several years, with others less. Based on current information we believe it is reasonable that we would continue to issue permits at this level and have used this as the basis for our population projections, as well as development revenue projections. We predict the population will grow to over 176,000 over the next ten years. This is a more conservative figure than the projections developed by the Southern California Association of Governments, which estimates Lancaster’s population at over 190,000 by 2015.

Using 1,100 residential unit additions per year, we expect that households will grow from 46,130 to almost 59,000 in Fiscal Year 2017-18.

We used a conservative approach for these projections, using the percentage change in the Consumer Price Index (CPI). Based on current economic forecasts, CPI will grow 3% in the next three years, slowing to 2.5% for the following three years, and projected at 2% for the remaining years of the forecast period.

The chart below summarizes projected revenue, expenditure and fund balance through Fiscal Year 2017-18.

![General Fund Ten Year Forecast](chart.png)

The results of the ten-year analysis shows that the projected revenues will be sufficient to pay for the on-going costs of the service levels as proposed in the Fiscal Year 2007-08 budget through most of the ten year period. This is consistent with the Council policy of maintaining a budget that is balanced with on-going revenues meeting or exceeding on-going expenditures. The City’s 10% operating reserve remains constant through all years, as well as the financial stability reserve.

It is important to note that this projects our current levels of service only, and does not address the needs that will come from the growing population. The City needs to develop a strategy for how it will pay for these services without negatively affecting service levels.
Total estimated revenues for all City funds (including the Lancaster Redevelopment Agency) for Fiscal Year 2007-2008 are projected at $180,346,473, a 7.2% decrease from FY 2006/07 adopted budget. The decrease is primarily due to the slowdown in development activity and one-time grants received during the past fiscal year.

The combined budget for the City of Lancaster and the Lancaster Redevelopment Agency totals $183,408,801, a 14.4% decrease compared to the FY 2006-07 adopted budget. The Capital Improvement Program budget is down from FY 2006/07 due to the appropriation of Redevelopment Agency bond proceeds in the previous fiscal year. The difference between estimated revenues and proposed expenditures are funded from fund balance.

**Total Revenues**

A significant step in the budget process is estimating revenues for the upcoming fiscal year. This process is critical, as appropriations must be tied to these projections. Factors that are considered in developing revenue projections include historical trends, population projections, increases in the property tax base due to new construction, reassessment of resold property and inflationary factors. In developing the revenue estimates for FY 2007/08, population was anticipated to grow to 143,000, the consumer price index percent change was estimated at 3%, and 1,100 residential permits are expected to be issued during the fiscal year.
Special revenues are those funding sources that are either legally required or recommended to be accounted for separately from other funds. Developer fee funds are those funds the City receives as a result of development, such as building fees, traffic impact fees and urban structure program fees. The Lancaster Redevelopment Agency fund accounts for the tax increment received based on increased property tax assessments for properties within the project areas. All other funds not required to be tracked separately are accounted for in the general fund.

**Total Appropriations**

Total operating expenditures are proposed at $159,078,305, City operating expenditures are proposed at $82.0 million, with the Agency’s operating expenditures proposed at $77.1 million. The capital improvement program, which accounts for expenditures related to infrastructure construction, repairs and improvements, is proposed to add $24.3 million in new funds. Of this amount, $1.4 million of this figure relates to Agency activities and $22.8 million funded with City sources. In addition to the new funding, $49.2 million is recommended to be carried forward from Fiscal Year 2006-07 to Fiscal Year 2007-08. These funds are for projects that are currently underway in various stages of construction. These carry forward funds bring the total capital improvement program in 2007-08 to $77.6 million.

**Operating Budget (excluding Redevelopment Agency)**

The City proposed operating budget, totaling $82,020,450, includes salaries & benefits (35%), operations & maintenance, which includes funding of the Los Angeles County Sheriff’s contract (62%), and capital outlay/replacement (3%) required for delivering an array of City services.
The operating budget is increasing 1.4% or $1.1 million over last fiscal year. The majority of the increase is in the community safety budget.

The budget includes funding an alternative to the six 56-hour deputy service units authorized at midyear at $1.8 million. The alternative supports the City Council’s goals of adding deputies on the street, but targets the use of those deputies and expands services in other areas.

There are seven new positions in the budget, four funded by the general fund and three with other funds. These positions are needed to support the goals established by the 2020 Vision Plan and to respond to the growing demands for service due to the on-going development that continues to occur. These positions are:

**General Fund:** (4)
- Community Safety Supervisor
- Crime Prevention Officer
- Law Enforcement Technician
- Senior Criminal Justice Analyst

**Other Funds:** (3)
- Code Enforcement Officer
- Redevelopment Assistant - Workforce
- Redevelopment Assistant – Business Attraction

**General Fund**

The General Fund is the most flexible of all funding sources, as revenues that are received are not restricted as to their use. This fund is typically used to finance activities such as public safety, parks maintenance, recreation programs, and administration.
The budget funds General Fund expenditures (including interfund transfers) of $59.4 million with revenues estimated at $58.4 million. The difference comes from one-time funding of capital projects from fund balance.

**General Fund Revenues Overview**

The three largest General Fund revenue sources are Sales Tax, Property Tax, and Franchise Fees, accounting for 72% of total General Fund revenues.

![General Fund Estimated 07-08 Revenue Budget](chart)

At $22.2 million, sales tax is the General Fund’s single most important revenue source, representing 39% of all General Fund revenue. The sales tax rate for the City is 1% of taxable sales made within the City limits.

We expect that 25% of general fund revenues will come from Property Tax, which includes Property Tax in lieu of VLF. These revenues are up due to the increase in assessed valuation. Eight percent (8%) of the City’s General Fund revenues come in the form of Franchise Fees. These fees are paid by Southern California Edison, The Gas Company, Adelphia Business Solutions Operations, Inc. and Waste Management, based on a percentage of gross revenues.

The following chart illustrates the tremendous sales tax growth the City has seen in the past 10 years. Since 1998-99, sales tax revenues have more than doubled. This growth is attributable to population growth and expansion of retail over the past several years. Economic Development efforts are paying off in the form of new revenues to the City. Increase in population is another contributing factor to the increase.
General Fund Expenditures Overview

As mentioned previously, the general fund supports activities such as public safety, parks and recreation, and general administration. Fiscal Year 2007-08 general fund operating expenditures total $52.1 million.

Community safety is the number one priority of the City Council, and that priority is reflected in the proposed budget which recommends almost 43% of general fund revenues to fund community safety expenditures.
Further details of the operating budget are shown in the department highlights section below.

**DEPARTMENT HIGHLIGHTS**

The operating budget consists of the different departments that provide the daily services of the City. The following chart graphically depicts the operating budget by department.

![2007-08 Operating Budget by Department (All Funds)](image)

The Public Works department represents the largest segment of the budget at 34%. Functions within this department include Building & Safety, Engineering, Maintenance Services and management of the City’s Capital Improvement Program. The majority of the funds for Public Works are restricted development related funds.

The second largest portion of the operating budget is Law Enforcement & Community Safety at 27%. This includes the City’s contracts with the Los Angeles County Sheriff’s Department and Animal Control, as well as the Neighborhood and Business Watch and Community Service Officer programs. This high level of funding is consistent with the City’s commitment to public safety and the adopted goal to reduce crime by 30% by 2012.

The operating departments evaluated their current levels of funding and service demands, then provided their recommendations for meeting those demands. We aligned the requests for additional funding with the City’s Balanced Scorecard Strategy Map, which reflects achieving the goals of the 2020 vision plan and City initiatives (see Performance Measurement tab for details). 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 proposed to the City Council budget for FY 2007-08.

City Manager’s Office

The City Manager is responsible for the overall administration of all City government departments. There are no significant budget changes proposed for FY 2007-2008.

Administrative Services

Administrative Services includes the functions of Communication, Information Technology and Central Services/Non-Departmental costs. Due to limited resources, most of the decision packages for these areas are not being recommended for funding. There are funds requested to improve/enhance the City’s website and to contract for an Information Technology (IT) manager for the next fiscal year. The IT manager will help manage the IT function and the initial stages of implementing the IT Strategic Plan.

Law Enforcement & Community Safety

There are several increases proposed for the upcoming year. To continue the priority of Public Safety, two additional staff positions are recommended (Crime Prevention Officer and Community Safety Supervisor) to enhance the ability of the Public Safety Office. These positions will enable us to implement new crime prevention and intervention programs. The focus will be implementation of a parenting program for citizens, a graffiti abatement volunteer program to assist law enforcement and the City’s Public Works department, and to enhance the current Neighborhood and Business Watch programs. Additionally, these positions will allow the City to address its emergency preparedness program and educate residents to be self-sufficient and properly prepared and better utilize the City’s Community Service Officer team to deliver public safety programs to the community. There are additional funds requested for printing brochures, training guides, window locks, etc. for the Neighborhood and Business Watch Programs.

The budget includes funding enhancements to the Sheriff’s contract as well as two City positions to support the City’s public safety efforts. These additions are detailed in the following chart.
## FY 2007-2008 LASD Contract Additions

### Council Directed Action

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost On-Going</th>
<th>One-Time</th>
<th>Maximum Weekly Sworn Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six 56-Hour Deputy Sheriff Service Units</td>
<td>$1,876,792</td>
<td>$</td>
<td>336</td>
</tr>
</tbody>
</table>

### Alternative

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost On-Going</th>
<th>One-Time</th>
<th>Maximum Weekly Sworn Hours</th>
<th>Avg Annual Weekly Sworn Hours&lt;sup&gt;(2)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four (4) 40 Hour Growth Deputy Units w/ Vehicle - Patrol</td>
<td>$638,165</td>
<td></td>
<td>160</td>
<td>137</td>
</tr>
<tr>
<td>Lancaster Criminal Abatement Program - Legal Services</td>
<td>$100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two (2) 40 Hour Growth Deputy Units w/ Vehicle - Traffic</td>
<td>$319,080</td>
<td></td>
<td>80</td>
<td>68</td>
</tr>
<tr>
<td>City Law Enforcement Technician (LET) - Photo Enforcement Coordinator</td>
<td>$80,000</td>
<td></td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>One (1) 2-Deputy 40 Hour Growth Deputy Unit w/ Vehicle - No Call</td>
<td>$300,370</td>
<td></td>
<td>80</td>
<td>68</td>
</tr>
<tr>
<td>One New City CSO Vehicle and Equipment</td>
<td>$60,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekend Rapid Response Team (two 2-Deputy cars 5 hrs per day Fri &amp; Sat)</td>
<td>$100,000</td>
<td></td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>One (1) 40 Hour Growth Deputy Unit w/ Vehicle - DUI Enforcement</td>
<td>$159,540</td>
<td></td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>Best Practices Initiative Implementation (Prevention / Intervention)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Senior Criminal Justice Analyst</td>
<td>$110,000</td>
<td></td>
<td>12,900</td>
<td></td>
</tr>
<tr>
<td>Supplemental Detective Item (TOP Team)</td>
<td>$169,000</td>
<td></td>
<td>40</td>
<td>34</td>
</tr>
</tbody>
</table>

**TOTAL**                                                                 $1,876,155 | $372,900 | 470 | 412  

<sup>(1)</sup> Will allow Traffic Team Leader to be redeployed into the field

<sup>(2)</sup> Growth Deputy Hours provided per week could be less due to absenteeism (vacation, sick, holiday, etc.); using LASD assumption on growth deputy available hours of 148 hours per month equals 1,778 hours annually. This is an 85.5% utilization factor (1,778 hours / 2,080 hours = 85.5%)
City Clerk’s Office

The City Clerk is the custodian of the city’s records, manages the City Council agenda process, and mail services for the City. There is funding requested for the City’s general election to be conducted in April of 2008. There is also a small increase requested for new scanning equipment for the Document Imaging System.

Human Resources & Risk Management

The Human Resources & Risk Management department is responsible for personnel activities: recruitment, selection and retention of staff; administration of employee benefit programs, staff development and training, and employee relations. Development and retention of staff is the key to maintaining a successful organization. In addition, the department is responsible for coordinating the City’s risk management activities. There is funding recommended to conduct a class and compensation study in the upcoming year.

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 enforcement and processing programs. We initiated the City’s Balanced Scorecard performance management system this year and will continue to coordinate the program as it expands throughout the City departments.

Requests for funding include a vehicle for the Business License Enforcement Officer. Since the Business License Enforcement Officer will be able to increase the time spent in the field without being constrained by the availability of a shared vehicle, we anticipate an increase in business license revenues that exceeds the purchase and maintenance of the vehicle. To comply with GASB 45 requirements, there is funding requested for a retiree health actuarial study. Other small increases include GFOA training, customer services training and a new copier.

Planning

The Planning department processes all permit applications for which planning approval is required, coordinates project review with city departments, and provides direct support services to and attend all meetings of the Planning Commission. The only additional budget requested for 2007-2008 is for staff development programs such as CEQA Compliance, Environmental Planning Certificate Program, Subdivision Map Act courses, and Designing and Implementing Effective Zoning Ordinance programs.

Parks, Recreation & Arts

The Parks, Recreation & Arts department is responsible for park development, parks maintenance, recreation services, cultural arts and film. Most of the funding requests are due to increased costs for existing programs and maintaining city facilities. Requests include additional budget for performer fees, equipment rental, part-time salaries, contract labor and temporary labor, and custodial supplies. There is also additional funding requested for future park site weed abatement, as well as replacement of fencing, light poles, irrigation valves, a line-painting
machine, and top dresser implement. An after school enrichment program at Sundown Elementary school is recommended. We expect sufficient program revenue generation will cover the full cost of operating this program.

Public Works

At over $29 million, Public Works is the largest portion of the operating budget. Functions in this department include Building & Safety, Maintenance Services, Engineering and Traffic Engineering. Public Works provides engineering services, road maintenance, traffic signalization, building inspections services, street sweeping, and mechanical equipment maintenance and repair. It is also responsible for Recycling Programs.

During 2006, Council adopted the Sewer Maintenance and Waste Water Discharge program where the City will take over the sewer maintenance from the County of Los Angeles. There are several steps to implement this program. The cost for the next step towards compliance will cost $400,000 in 2007-2008. There are funds requested for a GIS Implementation Consultant in order to develop and implement the GIS system. These funds are also to interconnect with Palmdale, Santa Clarita and Los Angeles County who already operate advanced GIS systems. There is additional money requested for participation in the LA region imagery acquisition consortium in which 43 City and county agencies share costs to obtain high accuracy aerial imagery and DTM to support all City and Public GIS needs from planning to pre-engineering design and above.

There is a request for a consultant traffic engineer to perform peer reviews of traffic studies submitted for new development, General Plan Amendments and Environmental Impact Reports. We anticipate forty (40) studies for this next fiscal year. There is a request for equipment to enable our graffiti crew to better service the community. To keep up with rising costs for materials and additional areas to maintain as the City continues to grow, there are additional funds requested for asphalt products, fuel, line paint and glass beads, hazardous waste handling, and materials to maintain landscape areas and water basins throughout the City.

In accordance with the Capital Equipment Replacement program, we are recommending replacement of 31 pieces of equipment during this next fiscal year. The life cycle of a unit is determined in a number of ways, including mileage/hours of use, age, equipment reliability (trips to the shop for unscheduled repairs), down time, meeting program objectives and overall appearance. It has been determined that 31 pieces of equipment have reached the end of their life cycle and are in need of replacement. Sufficient funds are available in the Capital Equipment Replacement Fund.

Economic Development/Redevelopment

The Economic Development/Redevelopment department is responsible for activities associated with business attraction, retention, and administration of the City’s Community Development Block Grant programs. There are two Redevelopment Assistant positions funded to address issues related to the jobs/housing balance, develop enhanced programs to promote job creation at all levels, and develop a 21st Century workforce, expand efforts to Downtown revitalization, foster partnerships with business organizations, develop a redevelopment incentive policy and positively promote the City through a new Brand and Marketing Campaign.
We will implement several campaigns during this budget year. There are funds requested for the City’s Branding Campaign implementation to create a sense of community and give all residents pride and ownership in our community. There are additional funds recommended to implement a shop local marketing campaign designed to bring awareness that by shopping locally citizens and businesses are investing in their community.

**Housing & Neighborhood Revitalization**

The Housing & Neighborhood Revitalization department is responsible for managing the Agency’s Low/Moderate Housing funds and the City’s Code Enforcement program. During Fiscal Year 2006-2007, we added several new positions to address code enforcement issues throughout the City. All 12 officers should be operating at full capacity during this next budget period, which will increase the number of cases and violations. This increased activity will require more legal consultations and violation case litigations, so we are requesting additional money for these services in 2007-2008. In support of the staff added during 2006-2007, two additional vehicles, one truck and one car, are requested as well as an increase for vehicle operations, trainings, certifications, and a new printer.

Also requested is a Code Enforcement Officer for mobile home inspections. This position is required to address code violations in the 28 mobile home parks within the City with a total of 3,604 spaces. It will specialize in the State Department of Housing and Community Development (HCD) Mobile Home Parks Act, enabling the City to comply while increasing the quality of life in the community.

**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, and as well as maintaining the financial stability reserve. 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 Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Benefits</td>
<td>$3,643,716</td>
</tr>
<tr>
<td>Legal Claims</td>
<td>276,091</td>
</tr>
<tr>
<td>Emergency Repair</td>
<td>108,081</td>
</tr>
<tr>
<td>Building Replacement</td>
<td>407,117</td>
</tr>
<tr>
<td>General Liabilities</td>
<td>753,187</td>
</tr>
<tr>
<td>Non-Recurring Events</td>
<td>250,000</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>2,600,000</td>
</tr>
<tr>
<td>2020 Vision Plan Implementation</td>
<td>500,000</td>
</tr>
<tr>
<td>Strong Neighborhoods Initiative</td>
<td>386,350</td>
</tr>
<tr>
<td><strong>TOTAL RESERVES</strong></td>
<td><strong>$8,924,543</strong></td>
</tr>
</tbody>
</table>
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.

This fiscal year the city expanded its six year capital improvement program to ten years. The expanded program totals over $257 million, funded by a variety of funding sources as shown in the following chart:

The proposed Capital Improvement Program for 2007-2008 totals $24.3 million. In addition to these new funds, there are $49.2 million in projects that will be carried forward from FY 2006-07 to FY 2007-08. During Fiscal Year 2006-07, Redevelopment bonds were issued to fund capital improvement projects; these funds resulted in a “spike” in terms of funds available for projects when comparing year to year.
Projects funded in FY 2007-08 include:
- Street Overlay Program
- 10 Street West Gap Closure
- Gilley Park Ph. 1
- Infrastructure Improvements for Auto Dealer’s Expansion
- 30th Street West & Avenue G Infrastructure Improvements

A detailed description of all projects contained within the 2007-2008 proposed 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 17 different sources. These include:

<table>
<thead>
<tr>
<th>FUNDING SOURCE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TDA Article 8</td>
<td>$6,713,000</td>
</tr>
<tr>
<td>Proposition C Transportation Funds</td>
<td>3,397,000</td>
</tr>
<tr>
<td>Urban Structure – Parks</td>
<td>2,575,125</td>
</tr>
<tr>
<td>General Fund</td>
<td>2,414,238</td>
</tr>
<tr>
<td>Housing Set-Aside Funds</td>
<td>1,471,371</td>
</tr>
<tr>
<td>Proposition A Transportation</td>
<td>1,368,000</td>
</tr>
<tr>
<td>Proposition 1B</td>
<td>1,307,000</td>
</tr>
<tr>
<td>Traffic Impact Fees</td>
<td>1,020,000</td>
</tr>
<tr>
<td>Drainage Impact Fees</td>
<td>916,000</td>
</tr>
<tr>
<td>Rule 20A</td>
<td>750,000</td>
</tr>
<tr>
<td>Proposition 40 – Park Funds</td>
<td>541,000</td>
</tr>
<tr>
<td>Community Development Block Grant</td>
<td>400,000</td>
</tr>
</tbody>
</table>
Urban Structure Program – Admin 385,672
Misc. State Grants 331,000
Signal Impact Fees 300,000
Urban Structure Program – Corp Yard 275,000
TDA Article 3 200,000
TOTAL $24,330,496

The Capital Improvement Program funds projects in various categories including roads, parks, traffic, etc., and is broken down as follows:

- Roads $15,500,000
- Parks $4,400,000
- Redevelopment $4,100,000
- Drainage $1,900,000
- Housing $1,731,000
- Traffic $700,000
- Community $635,000

These projects were selected utilizing a new prioritization process. This process weights criteria, such as consistency with Council goals and grant funds available, resulting in a ranking. This process will be further refined and applied to each year’s capital improvement program.

**CONCLUSION**

I would like to recognize each of the Department Heads and their staff for their diligent efforts in preparing this document. Special thanks go to the members of the lead budget team, Barbara Boswell and Brenda Gamlowski, for their tireless work on this financial plan. I would also like to thank Randy Williams, Steve Dassler and Ray Hunt for their contributions in preparing the Capital Improvement Program section of the document, and Patti Galloway for her efforts in budget document production.

I am confident that working together Council, staff, and concerned and active citizens will ensure that the City of Lancaster’s quality of life is enhanced and expanded. In doing so we will succeed in making this community a place in which we can live, work and play with pride.

Respectfully submitted,

Robert S. LaSala
City Manager