June 30, 2006

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 Proposed Fiscal Year 2006-2007 Operating Budget and Capital Improvement Program.

We are coming to the end of a very exciting and successful year. Several key activities took place that will set the course for the City over the next 15 years. These include the citizen survey completed September 2005 followed by the 2020 Vision Plan session. Both of these serve as guiding documents for setting priorities.

The 2020 Vision Plan established the following priority areas for the future:

- 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 proposed budget was developed to support these priorities.

You may recall that with the adoption of the 2005-06 budget, there were several initiatives to be undertaken. These include:

- Development of a five-year financial forecast
- Creation of a six year capital improvement plan
- Initiation of an information technology strategic plan
- The design of a plan to address future infrastructure maintenance needs
- Development of and executing a strategic plan for neighborhood preservation and code enforcement
- Undertaking a cost recovery study
- Presenting a strategic plan for communications and informing the citizens of key policy issues and programs

I’m pleased to say that we’ve made progress in each of these areas.
This budget includes a section that begins to analyze the future finances of the General Fund of the City utilizing a five year financial forecast. This initial forecast should be considered a work in progress as there are many planning processes underway that will have a significant fiscal impact on this financial plan. This version is significant in that it provides the Council with information that demonstrates that resources are available to sustain the current and proposed level of service over the next five years.

This budget also includes the City’s first six year capital improvement plan. This plan is also a work in progress as efforts such as the Open Space and Parks Master Plan and the General Plan Update will provide additional insight into future capital improvement programs. The six year capital improvement plan begins to address future infrastructure and maintenance needs; however more work needs to be done to fully quantify the maintenance needs of the City. Since this is the first time the City has undertaken a long range capital improvement plan, we don’t have a grasp on the magnitude of the infrastructure needs. Not only are we dealing with the demands brought on by growth, but we are still in a “catch up” mode in addressing existing infrastructure renewal and replacement.

The Information Technology Strategic Plan is well underway, with recommendations expected by the end of the fiscal year.

A strategic plan is being developed for neighborhood preservation and code enforcement.

A comprehensive cost recovery study is underway that will look at each service that is provided and the fees being charged, how general fund overhead costs should be allocated, and the review of all development impact fees.

A Communication Strategic Plan has also been developed and approved by the Council. It establishes new communication formats for improving the dissemination of information to the public.

All this was accomplished during a year of extremely high permit activity and demand for development services. In fiscal year 2005 over 2,230 residential permits were issued to build a total of 2,380 housing units. For the period July 1, 2005 through March 30, 2006 another 2,157 residential permits have been issued to build 2,226 housing units. If this pace continues we will add more housing units this year than last. There are 11,400 residential lots for which tentative tract maps have been approved but have not yet begun construction. It is expected that development will continue at a rapid pace, although perhaps not at the same rate of growth we’ve experienced this year.
CURRENT ECONOMIC CONDITIONS AND OUTLOOK

NATIONAL

On a national level, the economy has experienced a modest slow down, attributable to rising interest rates, high energy prices and an increase in inflation.

Gross domestic product (GDP), which is the broadest measure of the country’s economic health, rose at an annual rate of 4.8% in the first quarter of 2006, up from 1.7% in the fourth quarter 2005 and 4.1% in the previous quarter. The first quarter results are encouraging as Commerce Secretary Carlos Gutierrez stated in an April 28, 2006 press release. He states, “The American economy jumped out of the gates in 2006, with the fastest pace of growth in two and a half years. The economy rebounded from last year’s hurricanes, and we have seen a solid and sustainable level of growth over the past year”. The Center for Continuing Study of the California Economy reported, “the consensus forecast is for slightly slower GDP and job growth, higher interest rates and a modest downturn in housing activity” for 2006. This sentiment is echoed by the City’s investment advisory service, MBIA Asset Management Group which indicated, “long-term inflation expectations remain well contained and economists are forecasting moderate GDP growth for 2006”, as stated in their March report of investments for the City of Lancaster.
The chart above plots the percentage change in consumer price index vs. the percentage change in the producer price index. The producer price index measures the selling price received by producers for their products. At 0.9% the increase in consumer spending for the fourth quarter of 2005 was the slowest since the first quarter of 1995, according to MBIA. The Producer Price Index and Consumer Price Index dropped to 3.5 percent and 3.4 percent respectively at the end of the first quarter 2006. This demonstrates that the Fed has been doing its job in taming inflation according the MBIA. They further state the economy is likely to have slower growth later in the year. 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.
At its meeting on May 10, 2006, the Federal Open Market Committee (FOMC) raised the federal funds target rate by 25 basis points from 4.75 percent to 5 percent. This is the 16th increase in as many meetings and the longest stretch of increases in more than 25 years as stated in MBIA Asset Management. “The Fed said the timing of further moves will depend on new economic data, a signal the central bank may pause in its rate cycle.” According to May 10, 2006 press release. They go on to say the FOMC statement indicates the “economic growth will probably slow” and “inflation expectations remain contained”. Most economists are expecting a pause after the May 10th increase. Economists now feel there is a “35% chance of rates making it to 5.25% after the Fed’s June meeting” according to MBIA. However, the Feds have indicated that for now, inflation is its main concern, and they will continue to take action to curb it. Although the rate hikes seem to be never ending, the rates were so low when the increases began, that they have had little impact on the overall economic growth.
Oil costs continue to rise with small peaks and valleys over the past five years moving from just over $25 per barrel in 2001 to a high of nearly $75 in early May of 2006. The U.S. Energy Information Administration (EIA) projects the price of gasoline will continue to grow through the summer this year and some economists are even speculating we could reach $80 a barrel in the summer of 2006. As of May 4, 2006, gas prices for the Los Angeles area have increased to an average of $3.35 a gallon with peak prices up to $3.69 at some stations. This is nearly a 74% increase over April’s average of $2.51 a gallon. Per Kim Ostroff’s April 13, 2006 article in Kiplinger Magazine, concerns about supply, after effects from Hurricane Katrina and higher additive costs are to blame for the increasing gas prices. A Bloomberg press release on May 10, 2006 indicated “oil prices jumped 18 percent this year.” However, refineries have been increasing their supplies beginning last week of April. These supplies are due for release in June, so the affect of the increased production is yet to be seen. The alternative fuels aren’t expected to give much relief either as diesel fuel is expect to hit an average of $3 to $3.50 a gallon this summer and natural gas is to be high as well. Although gasoline prices continue to soar, the increase in oil prices is not as alarming as some may think, according to David Wyss, the Chief Economist of Standard & Poor’s. He says the price of oil is still proportionately lower today than in 1981. His analysis shows that in 1981, oil was 14% of GDP, compared to 7% today and consumer energy purchases were more than 8% of disposable income, versus 5% today.
For the first time since 1933, there was a negative savings rate in 2005, falling as low as -3% last summer. 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 the third quarter, spending continues to be strong. The real slow down has not materialized yet according to an April 2006 Dow Jones & Company Newswire which reported retail sales increased .6% in March of 2006. Meanwhile, savings gained some ground but still remained in the negative at the end of the fourth quarter of 2005. This may be due to the increases in wages and salaries which grew by 6.0% in 2005, up from 5.4% in 2004. Disposable personal income increased by 4.2%, while consumer inflation increased by 2.8% as reported by the Los Angeles County Economic Development Corporation.

What does this mean for the City of Lancaster?

The national economy continues to be strong and is expected to be much like it was in 2005. Economic expansion is expected to continue but at a slower rate. The monetary policy is expected to be more restrictive, with increases to the federal funds rate through May 2006 to attempt to control the growth of the economy and encourage savings. As the federal funds rate increases, we can look for long-term mortgage rates to increase thereby slowing the housing market. Higher interest rates may reduce consumer spending as more money will be allocated to cover higher mortgage interest rates. Consumers may also be less inclined to use the equity in their homes to finance their high rate of spending. This has been a component of consumer spending as reported by the Center for Continuing Study for the California Economy’s 2005-2006 report.
Consumer spending will also be affected by the volatile energy prices. The first quarter reports for 2006 show energy prices increasing. At the same time, non-energy inflation may increase. While goods and services may cost more, there will be more people employed and increased income as the employment rate is expected to grow. As the national economic picture changes, state and local government are directly affected. Sales tax, property tax and tax increment account for much of the revenue for the City of Lancaster. If consumer spending falls or slows and the housing market decelerates, the revenues to Lancaster will show signs of slowing as well.

The good news is that the national economy continues to be strong and economic expansion should continue. Even though the GDP is predicted to edge downward, the rate of growth should be strong enough for U.S. employment to continue expanding.

STATE

According to the Center for Continuing Study of the California Economy, 2005 was the best year for the California’s economy since 2000. Looking forward into 2006, it is expected to grow at a slower pace as a result of a slowing national economy and a decline in the construction of new homes. The latest UCLA Anderson Forecast, released March 29, 2006, indicated “a slowdown in the California economy will begin late this year and continue for the next two years as a cooling housing market leads to job losses in construction and related industries”. The report goes on to state that they expect as many as 200,000 jobs in construction and related fields will be lost in the state along with real estate sales and mortgage banking positions. Reduced home appreciation will also slow growth in the state’s tax revenue which was higher than expected in 2005, primarily due to one-time receipts. This year’s revenues are expected to be lower than in 2005.

2005 was a good year for every state’s revenue collections. The National Association of State Budget Officers reported that for fiscal year 2005 collections met or surpassed their budget estimates, including those for sales, personal income, and corporate income taxes. They don’t expect this trend to continue for 2006, a sentiment echoed by many of the leading economic forecasters throughout the nation.

With the passage of Proposition 1A, Lancaster is protected from ongoing revenue raids by the State. At the same time, we can’t rely on the State for new funding for local operating expenses.

LANCASTER

The City of Lancaster is in a good financial position and we are expecting another year of growth. The slowing trends at the national and state level are not expected to be felt to the same degree in Lancaster.
The CBIA Housing Forecast, authored by Alan Nevin, California Building Industry Association’s (CBIA) Chief Economist, predicts that in 2006, California’s housing production will drop slightly compared to the near-record construction activity in 2004 and 2005. Layne Marceau, 2006 CBIA Chairman adds it is especially important for policy-makers to address the acute shortage of land that is zoned and ready for building new homes, condos, and apartments. Since Lancaster has no shortage of land, we continue to experience high rates of development and real estate sales. Since fiscal year 2000, the number of housing units has gradually increased from 41,745 to 44,781. Between 2004 through 2005, Lancaster reported a surge in housing, an increase of nearly 1,200 units.

Although long-term interest rates are rising, they are expected to stay at moderately affordable levels of between 6% & 7% through 2007 as reported by Los Angeles Economic Development Corporation (LAEDC). Median house prices have increased over the last five years from just over $100,000 in 2000 to over $300,000 in 2005. While prices have risen rapidly, they are still affordable compared to most other Southern California areas. The housing affordability index for Lancaster has dropped from 68.8% in 2003 to 33.0% in 2005. This indicates that fewer people can afford homes in Lancaster today than two years ago. However, this rate is far better than the 11% average for all of Los Angeles County.
Increasing population and job growth bring more disposable income to Lancaster. “Total personal income growth should hold steady with a 6.0% increase in 2006 after a 6.1% gain in 2005 for the County of Los Angeles”, per the LAEDC February 2006 report.

The Municipal Cost Index shows the increasing costs to operate cities in the United States. Lancaster is no exception. The bad news is the energy prices at the national level are compounded at the state level. Between the unstable electricity market since the 2001 – 2003 energy crisis and the increasing demand for energy, costs continue to rise. These costs are passed on through the utility companies to the City. Lancaster has been advised to expect its utility costs to increase by 15% for street lights and 25% for all other electrical expenses. In addition, there is a 45% increase in natural gas and 15% increase in water that must be incorporated in the proposed budget. The increases in energy prices directly affect the cost of goods and services. Vendors raise prices to cover their manufacturing costs, the cost of materials, and delivery. We are also experiencing higher than anticipated construction costs. As a result, additional funds are necessary to complete Capital Improvement Projects.
The building surge has resulted in an increased demand for city services and an increase in the operations and maintenance cost of new infrastructure added in recent years. Over 22 lane miles of roadway were added to the City’s service area between 2001 and 2005. In addition, the department of Parks, Recreation, and Arts has not only increased the number of parks and facilities in the last five years, but has also increased the number of programs offered and has realized increased class enrollment as the population has increased. The increased demand has put a strain on our ability to deliver service. This proposed budget requests new positions to address the growing demands for service.

**GENERAL FUND FIVE YEAR FINANCIAL FORECAST**

An important responsibility of the City leadership is to plan for the future and assess economic forecasts for their impacts on City finances. A mechanism to accomplish this is the Five Year Financial Forecast. The forecast focuses on the General Fund. This is the funding source for general government activities and allows the most flexibility in its use of resources. In addition, it is typically the fund that is most vulnerable to shifts in the economy.

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

On the expenditure side, the forecast uses 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 levels in future years.
The Five Year Forecast can be an effective tool for identifying variations in revenues and expenditures. However, there is a limitation to the forecast. Five years is a very short window into the future, and not long enough to capture potential swings in the economic cycle. A ten year forecast will be developed and presented during the next budget cycle. We believe that a full market cycle can be captured during this period of time. This will allow for a more predictable revenue and expenditure profile.

There are also many pending issues that will impact the City’s finances over the next two years that are not yet reflected in the forecast because we are not yet able to quantify their impact. They include the following:

- PARS Unfunded Liability
- GASB 45 Compliance (Other Post Employment Benefits)
- 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
- Public Safety Best Practices/Service Expansion
- On-Going Preventative Maintenance
- Emerging Six Year Capital Improvement Program

The City currently offers a supplemental retirement benefit of .7% at 55 to the CALPERS retirement plan. This benefit is provided through the Public Agency Retirement System (PARS). This program is not fully funded. PARS is preparing actuarial projections utilizing various interest rate assumptions to determine the unfunded liability. We will present the results of this study to City Council in the next ninety days with recommendations on how it should be addressed.

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 OPEB). This actuarial analysis will provide the City with the cumulative unfunded liability related to its retiree health benefits and the annual contribution required to fully fund this benefit. A consultant selection process is underway to identify a firm to undertake this analysis. It is expected that we will bring the results of this analysis to City Council in late fall with recommendations on how the liability should be addressed.

Due to the rapid growth in the City over the last decade and the need for additional preventative maintenance on city roadways, staff will be undertaking a thorough study to determine the conditions of all City roads. As reinforced in the Citizen Survey, many of the City’s roads are in need of repair and preventative maintenance. The study will also address the operating and financial resources necessary to address an infrastructure maintenance program. Once the study is complete, the recommendations will be brought to Council.
In addition to maintaining the 10% operating reserve, a Financial Stability Reserve is recommended to begin to address the eleven unfunded issues listed on the previous page. In addition, as we expand our forecast this reserve will help us to “live along an expenditure trend line”. We can then insure that the current level of service can be provided during 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 138,392, a 3.5% increase from the prior year. Based on development activity levels, this rate of increase is projected to continue over the next three years, then slow to 3% growth per year, with a projected population in FY 2012 of 162,590.

Historically Lancaster has had an average of three persons per household. By applying this factor and analyzing building trends, households are projected to increase an average of 1,600 per year from 46,131 households to 54,197.

A conservative approach was used on projecting the percentage change in the consumer price index. Based on current economic forecasts, CPI is expected to grow 4% in 2006-07, and a flat rate of 3% was used in future years.
The chart below summarizes projected revenues, expenditure and fund balance through fiscal year 2011-12.

The city has a policy that on-going revenues must meet or exceed on-going expenditures. Based on the assumptions, on-going revenues are sufficient to support the on-going expenditures through fiscal year 2011-12. In fiscal years 2006-07 and 2007-08 one time capital expenditures are proposed for funding with one time revenues. As projected, the financial stability reserve represents approximately 22% of expenditures. In addition, a 10% operating reserve is maintained as well as the financial stabilization reserve.

**BUDGET OVERVIEW**

Total revenues for all City funds for Fiscal Year 2006-2007 are projected at $201,456,642, a 10% decrease from FY 2005-06.

The combined proposed budget for the City of Lancaster and the Lancaster Redevelopment Agency totals $226,087,051, a 6.1% increase compared to FY 2005-06 adopted budget. The difference between estimated revenues and proposed expenditures is funded with prior year fund balance.
**Total Revenues**

A significant step in the budget process is estimating revenues for the upcoming fiscal year. 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.

![Revenue Overview Diagram]

General fund revenues are estimated at $65,481,410 for 2006-2007. Special revenues estimated at $18,628,817, are those that are either legally required or recommended to be accounted for separately from other funds. Developer fee funds estimated at $38,063,500 are those funds the city receives as a result of development, such as building fees, traffic impact fees, and urban structure program fees. Lancaster Housing Authority expected revenues of $2,200,920 are generated primarily from the operation of Brierwood Mobile Home Park. The Lancaster Redevelopment Agency fund is expected to be $89,182,474 which 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**

The operating budget is proposed at $134,495,138. City operating expenditures are proposed at $75.6 million with the Agency’s operating expenditures proposed at $58.8 million. The capital improvement program, which accounts for expenditures related to infrastructure construction, repairs and improvements, is proposed at $71,602,492. Of this amount $36 million is related to Agency activities and $35.5 million funded with City sources.
Operating Budget (excluding Redevelopment Agency)

The proposed operating budget, totaling $75,642,735 includes personnel (38%), operations & maintenance (60%), and capital outlay/replacement (2%) required for delivering an array of city services.

### Budget Overview

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The operating budget is proposed to increase 8.7% or $6.6 million over last fiscal year. This increase is due to the addition of new personnel and programs to address the growing demands for service and significant increases in the cost of electricity, gasoline, and water.

The expenditure plan calls for eight additional deputies for the Sheriff’s contract. An additional five deputies will be dedicated to the Target Oriented Policing (TOP) team. Two motor units are recommended for increased traffic control. In addition, it is recommended that the TOP Team Leader be converted to a Team Sergeant. A Domestic Violence Investigator is recommended. A citizen neighborhood watch position is also being requested that will be a City employee under the direction of the Assistant City Manager. These positions are being requested as part of the City’s goal of reducing crime by 30% by 2010.

There are twenty nine new positions proposed in the budget, eleven funded by the general fund and eighteen in other funds. Each position will be discussed later within the appropriate department discussion. These positions are needed to support the goals established by the 2020 Vision Plan and to respond to the growing demands for services due to the increasing development and population.
Capital Budget

The Capital Improvement Program (CIP) budget is recommended at $63,502,492. Included in the recommendation is funding for implementation of an Economic Development Strategic Plan ($4.0m) and Housing Program Implementation ($11.6m). These projects will be presented to the Council for adoption at a later time. For the first time, the CIP program is being presented as a six year plan. This is a work in progress as there are several studies being conducted during this budget cycle that will have an impact on this program. Over the course of the next year, the staff will be working to develop this plan with the intention of presenting a ten year CIP program with the 2007/2008 budget.

General Fund

The General Fund is the most flexible of all funding sources, as revenues that are received are not restricted for a specific use. This funds activities such as public safety, parks maintenance, recreation programs, and administration.

The proposed budget recommends General Fund expenditures of $60.8 million with revenues estimated at $65.5 million. The excess revenues will be added to fund balance to fund current levels of service and currently unfunded projects previously discussed over the next five years.

This fiscal year staff has made a change in the way certain operating costs are budgeted and charged. The previous practice had been to budget all operating expenses in the general fund, and then reimburse the general fund from other funds for those expenses that were related to special funds. This practice served to artificially inflate the general fund. Beginning with fiscal year 2006-07 those expenditures are being budgeted directly into the funds that are responsible for paying for those costs. This change in accounting results in the general fund budget decreasing from prior years. However, the proposed change presents a more accurate picture of the general fund budget and distribution of revenues and expenditures. Another change has been made in how grant funded programs are presented in future years. Since most grants are approved for a one year term, the forecast does not assume approval for future years. If the grant funding goes away, the general fund will need to budget the cost to continue the program or service.

There are several studies going to be undertaken this year, including the cost allocation study that may initiate changes to revenues or expenditures. The Rental Housing Program (LANCAP) is an area where our costs exceed the revenues it generates. LANCAP has proven to be a highly effective approach to assist in our initiatives to reduce crime by 30% and revitalize housing & neighborhoods. City staff will review the financial impact of the program with the intention of presenting proposed changes to the current fee structure to Council later this year.
The three largest General Fund revenue sources are Sales Tax, Property Tax, and Franchise Fees. They account for 71% of total General Fund revenues.

At $21.0 million, sales tax is the General Fund’s largest and most important revenue source representing 38% of all General Fund revenue. The sales tax rate for the City is 1% of taxable sales made within the city limits.

The chart on the next page illustrates the tremendous sales tax growth the City has seen in the past 10 years. Since 1997-98, sales tax revenues have increased over 100%. This growth is attributable to population growth and expansion of retail over the past several years. Economic Development efforts are producing new revenues for the City.
It is expected that 25% of general fund revenues will come from Property Tax. These revenues have increased compared to fiscal year 2005-06. This increase results from the expiration of the Education Revenue Augmentation Fund (ERAF) payments from the City to the state during the last two fiscal years. There has also been an increase in assessed valuation of existing property. The amount of revenue realized by the general fund is limited because the majority of it is captured by the Redevelopment Agency from increased assessed valuation.

8% of the City’s General Fund revenues come in the form of Franchise Fees. These fees are paid as a percentage of gross revenues by Southern California Edison, The Gas Company, Adelphia Business Solutions Operations, Inc. and Waste Management.

**General Fund Expenditures Overview**

As mentioned previously, the general fund supports activities such as law enforcement and community safety, parks and recreation, and general administration. Fiscal year 2006-07 proposes general fund operating expenditures totaling $60,819,749. Eleven new positions are proposed to meet the growing demand for service by the residents of Lancaster.
Details of the operating budget are presented below.

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 operating budget by department.

The Public Works department represents the largest segment of the budget. Functions within this department include Building & Safety, Engineering, Maintenance Services and Capital Improvement Projects.

The second largest portion of the operating budget is Law Enforcement & Community Safety. This includes the city’s contract with the Los Angeles County Sheriff’s Department as well as the Community Service Officer program. 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. The requests for additional funding reflect achieving the goals of the 2020 vision plan or City initiatives. 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 being proposed to the City Council budget for FY 2006-07.

City Manager’s Office

The City Manager is responsible for the overall administration of all City government departments. No changes are recommended.

Administrative Services

Administrative Services includes the functions of Communication, Information Technology and Non-Departmental costs. Funds to implement the communication strategic plan and information strategic plan are proposed for the next fiscal year. These plans include such items as the CodeRed system that broadcasts emergency information via telecommunication, a state of the art website that will improve communications and offer easier access to information and better service for our citizens, and an intranet that will improve communications and efficiencies within the City departments.

Law Enforcement & Community Safety

Several increases are being proposed for the upcoming year. This includes increasing animal control services to reduce the number of stray dogs roaming the streets. A civilian neighborhood watch position is requested. This position will help citizens become more engaged in the safety and security of their own neighborhoods.

The City contract with the Sheriff’s Department is increasing by approximately 5% this year, even without adding any new services. Recommended increases include two motor units, increasing the TOP Team by five deputies, conversion of the TOP Team Leader to a TOP Team Sergeant, and the addition of a Domestic Violence Investigator. These positions are all general fund supported. However, the conversion of the TOP Team Leader will result in a cost reduction of $39,715. The Domestic Violence Investigator position will be funded by a grant of $80,000 and $30,000 through general fund. These positions will help in the effort to reduce crime by 30% within the next five years and to build, preserve, and support strong neighborhoods.

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. A small increase is requested for replacement of equipment in the upcoming year. No other significant changes have been requested.
Human Resources

The Human Resources 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 key to maintaining a successful organization. Funding is recommended to establish an organizational development and training program. This program will be designed to enhance the overall performance of staff and increase morale and job satisfaction. The goals set forth in the 2020 vision plan and City initiatives are aggressive. It is important for staff to stay current on new legislation, procedures and practices, and innovations in order to implement new and improved ways to achieve desired outcomes and results. A Human Resources Clerk is needed to assist with the increased workload as a result of the new programs and growth in the workforce.

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.

Two positions, a purchasing agent and administrative clerk, are recommended in order to meet the increased demand for support services. As the City grows, we purchase more goods and services. The Purchasing Agent position will fill a void in providing full time support to the departments to develop and process RFP’s, competitive bids and complex purchases. The addition of this position will, over time, result in cost savings to the City. This position will assist with contract negotiations and administration and establish best practices in the field of purchasing. The Administrative Clerk will assist in records management and retention, mail processing and other clerical duties freeing up time for the existing staff to deal with the increasing technical workload and provide better customer service.

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. An Assistant Planner and a Secretary are proposed to support the General Plan Revision and address the increased workload directly tied to growth. The Assistant Planner will undertake long-term planning projects, analyze demographic information and coordinate with outside agencies and service districts. In addition to these positions, a department vehicle is requested in order to efficiently conduct field inspections to insure compliance with the municipal code.
Parks, Recreation & Arts

The Parks, Recreation & Arts department is responsible for park development, parks maintenance, recreation services, cultural arts and film. Next year all special events will be centralized in this department. In order to properly manage them, a Special Events Manager is recommended. A Management Analyst is proposed to assist with the budget, capital improvement program, coordination and implementation of Parks’ strategic plans, grants, and general administrative duties of the department.

As part of the 2020 vision of developing stronger neighborhoods by providing a stronger sense of community to its residents, funds are requested for downtown celebration and farmers market/concert events. These events will bring people to downtown Lancaster and aid in the revitalization of this area.

Other increases include two trucks for staff for maintenance of parks and facilities. The cost of temporary salaries and contract labor has increased. This is due primarily to the increase in employees at each park facility to insure the safety of the patrons of the parks and the increase in temporary salaries approved in 2005/06.

Public Works

At over $25 million, Public Works is the largest portion of the operating budget. Functions in this department include Building & Safety, Maintenance Services, Engineering and Traffic Engineering. The majority of these projects are paid for by development fees or maintenance district revenues. The safety initiative not only needs to be addressed through our Sheriff’s contract, but it rests in the hands of Public Works staff as well. We have all seen the results of natural disasters to cities throughout our nation, such as Hurricane Katrina in 2005, the fire storms in San Diego County in 2003, and the Northridge Earthquake in 1993. While we cannot prevent natural disasters, we can insure our buildings, roads, right of ways, and utilities are structurally sound and safe. To accomplish this and to keep up with the growth in the community and increased workloads, a total of nineteen positions are requested; three are funded by general fund and sixteen are funded through offsetting or restricted revenue sources.

A Senior Civil Engineer is requested to manage the engineering traffic section and assist in meeting the priority of infrastructure maintenance. This position will result in increased efficiencies for traffic projects and plan checks. A Principal Engineer is requested to oversee the day to day activities of the engineering division allowing the City Engineer to focus more fully on the other divisions and support the Public Works Director with overall administration. The addition of this position will meet the goals of entering the recycled water market, pursuing groundwater recharge, and maintaining infrastructure.
A significant priority of the department is to address the maintenance deficits on our streets and in our drainage basins. A Public Works Maintenance Worker I position is recommended for the signs and markings crew. Crack seal and drainage basin crews (five positions and two positions respectively) are recommended to initiate a preventative maintenance program and address the future infrastructure maintenance needs goal. A Land Surveyor position will give the city the ability to conduct land surveys in-house, obtain appraisals, request title work, negotiate property acquisitions for various right of ways, and handle condemnation proceedings. This position is needed to expedite the services and handle the growing demand for these services.

The engineering capital section, that supports both the City and the Redevelopment Agency, requests four positions; two Associate Civil Engineers and two Secretaries. The engineer positions will reduce the engineering backlog created by the growth in the community and revitalization efforts. This has also created a need for office support staff. One secretary will be devoted to the Capital Engineering Section and the other to the Capital Section Inspectors. This will expedite processes allowing the engineers and inspectors more time to dedicate to their trades rather than handling clerical tasks. Due to space constraints at City Hall, the Capital section relocated to another facility at the maintenance yard. Cashiering and customer service duties that were handled by the Building and Safety staff will be handled by the new secretary positions.

In support of the neighborhood revitalization initiative, a Building Inspector is requested. This position will provide inspection services of multiple-residential units for the Redevelopment Agency housing staff and insure that community safety construction standards are met.

A Counter Technician II is recommended to provide improved customer service in the Building & Safety Division by reducing waiting time for counter assistance and tract processing time. Tract processing is currently taking two weeks which is far from our goal of four days. The position will also handle routine plan checks. This will allow the staff to focus their attention on the more intricate levels and functions of plan checking.

Growth, development and infrastructure maintenance have created a growing demand for inspections, mapping, and land development services. A Senior Subdivision Projects Inspector and an Engineering Aide position are recommended to satisfy this workload.

The Subdivision Section inspectors are currently handling approximately 100 active subdivision tracts. Commercial, industrial, and utility projects comprise approximately 1,000 encroachment permits each year. Approximately 119 tentative tract maps are waiting for Planning Commission review and another 237 are in the development stages. This workload continues to increase which requires several additional positions. A Senior Subdivision Projects Inspector is requested to supervise the inspectors and the projects and conduct the complex field inspections. This will result in greater control over development activities in the City and a reduction in response time to field issues. An Engineering Aide position is requested to replace the current temporary staff that provides support to the technicians by processing record requests, filing and tracking approved mylars, and other map related tasks. In converting this position from temporary to a more skilled full time position, production will increase and the workload of the technicians will be eased by shifting some of the more routine engineering related tasks from the technicians to the Engineering Aide. This will also result in better customer service through improved response time.
In addition to these positions, an increase to professional services is recommended to augment our permanent staff in addressing the growth and development activities and infrastructure maintenance needs. A digital plan review system is requested to expedite plan review and inspection turn around times and result in cost savings by converting to an electronic system. This system will also aid in our goal to develop and report performance measures as data will be captured and available in electronic format. Customer service will be enhanced as plans information is easily accessible and available electronically.

**Economic Development**

The Economic Development department is responsible for activities associated with business attraction, retention, and administration of the City’s Community Development Block Grant programs. An economic development strategic plan is being developed and an implementation program will be proposed at a future date.

**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 the 2005-06 year the number of code enforcement officers was increased from four to eight. Next year’s activities will focus on establishing a comprehensive code enforcement program which will be brought before Council later this year. In addition, a Housing Needs Assessment and program plan will be brought forward to the Council for approval.

A Secretary position is recommended to support the Housing & Neighborhood Revitalization staff and assist with clerical and administrative duties for the housing needs assessment plan and implementation.
RESERVES

Maintaining adequate reserves is a critical component of sound financial management. Reserves are the City’s “savings accounts”. 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. These include:

<table>
<thead>
<tr>
<th>RESERVE</th>
<th>BALANCE 7/1/06</th>
<th>ADDITIONS</th>
<th>USES</th>
<th>BALANCE 6/30/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Benefits</td>
<td>$2,436,737</td>
<td>$1,525,000</td>
<td></td>
<td>$3,961,737</td>
</tr>
<tr>
<td>Legal Claims</td>
<td>44,571</td>
<td>1,500,000</td>
<td></td>
<td>2,297,758</td>
</tr>
<tr>
<td>Emergency Repair</td>
<td>108,081</td>
<td></td>
<td></td>
<td>108,081</td>
</tr>
<tr>
<td>Building Replacement</td>
<td>455,977</td>
<td></td>
<td></td>
<td>455,977</td>
</tr>
<tr>
<td>Non-Recurring Events</td>
<td>250,000</td>
<td></td>
<td></td>
<td>250,000</td>
</tr>
<tr>
<td>Energy Cost</td>
<td>600,000</td>
<td>600,000</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Capital Facilities</td>
<td>4,150,000</td>
<td>4,150,000</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>2,600,000</td>
<td>900,000</td>
<td></td>
<td>2,600,000</td>
</tr>
<tr>
<td>Strategic Plan Implementation</td>
<td>900,000</td>
<td></td>
<td></td>
<td>900,000</td>
</tr>
<tr>
<td><strong>TOTAL RESERVES</strong></td>
<td><strong>$11,398,554</strong></td>
<td><strong>$3,925,000</strong></td>
<td><strong>$4,750,000</strong></td>
<td><strong>$10,573,554</strong></td>
</tr>
</tbody>
</table>

The employee benefits reserve is established to fund benefit payouts when employees leave the city, in addition to being a potential funding source to address the retiree health benefit funding needs (GASB 45) mentioned earlier.

The legal claims reserve is funds set aside to pay legal claims filed against the City. The City is self insured up to $250,000. Our insurance policy assumes financial responsibility for any additional exposure. The reserve is sufficient to cover two large claims, as well as fund the current estimate of claims outstanding against the city (approximately $500,000 as of June 30, 2005).

The emergency repair reserve was established to set aside funds to be used in the event there are unforeseen emergency repairs that need to be addressed throughout the year.

The building replacement reserve was established as a sinking fund to begin saving for future building replacement needs.

The non-recurring events reserve was set aside to allocate funds that would be utilized to address unusual, unanticipated events that would have a financial impact such as the loss of a revenue source due to the actions of the state.

The energy cost reserve was established to provide a source of funds to address the energy crisis facing the City several years ago. It is proposed that these funds be transferred to the Capital Improvement Program to fund projects in 2006-07.
The capital facilities reserve was established to hold funds for capital improvement projects. It is our recommendation that these funds be appropriated in the 2006-07 budget.

The capital projects reserve was established during the 2005-06 midyear budget process to provide a source of funds to address the issue of rapidly increasing construction costs. The construction environment has not improved, and these funds may be requested during the fiscal year to address shortfalls in capital improvement projects as contracts are awarded.

The strategic plan implementation reserve is a new reserve being recommended to provide a source of funds for projects and programs that may be initiated as a result of action planning efforts to implement the Council’s 2020 Vision Plan.

**CAPITAL IMPROVEMENT PROGRAM**

The Capital Improvement Program (CIP) is a significant component of this document and of vital importance to the community as a whole. The capital budget authorizes the acquisition of significant City assets and construction of all capital facilities. It represents the means for meeting the community’s current and future infrastructure needs and is designed to meet the City’s major goals for projects, while maintaining ongoing maintenance of existing infrastructure.

Projects typically span more than one fiscal year, unspent funds at the end of the fiscal year for continuing projects are reauthorized for the subsequent fiscal year. A listing of these continuing projects is included herein.

Once constructed, capital facilities must be maintained in order to ensure the asset remains viable for its useful life. By approving a capital project, City Council is committing to the future operating costs of that improvement or facility. These costs will be estimated where possible and reflected on the individual projects sheets. Then in the year the operating costs begin, they will be included in the proposed budget.

This marks the first year the Council is presented with a six-year capital improvement program. A six year CIP is another piece of the financial planning puzzle. Since this is the first time we have undertaken a plan of this type, there are still some critical elements missing that will be incorporated as the plan evolves over the next year. In addition, the various plans (Open Space & Parks, General Plan Update, etc.) that are currently underway will influence the future years of the capital improvement program. For these reasons, this six year capital program should be considered a first draft and a work in progress. A more comprehensive plan will be developed over the coming year, and presented to Council during the next budget cycle.

*City of Lancaster*
The proposed Capital Improvement Program for 2006-2007 totals $71,602,492. Of this amount $35,507,042 funds capital projects and $36,095,450 are Redevelopment program projects that are yet to be developed into specific capital projects. The 2006-07 proposed CIP is 47% higher than the Fiscal Year 2004-2005 adopted capital budget. The increase responds to the infrastructure needs of a growing community.

<table>
<thead>
<tr>
<th>CIP Project Summary</th>
<th>05/06 FY Carryover</th>
<th>06/07 FY</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks New Construction</td>
<td>10,260,360</td>
<td>8,028,720</td>
<td>18,289,080</td>
</tr>
<tr>
<td>Parks Maintenance &amp; Repair</td>
<td>20,000</td>
<td>370,000</td>
<td>390,000</td>
</tr>
<tr>
<td>Parks Property Acquisition</td>
<td>1,800,000</td>
<td>482,130</td>
<td>2,282,130</td>
</tr>
<tr>
<td><strong>Parks, Recreation and Arts Program Total</strong></td>
<td><strong>$ 12,080,360</strong></td>
<td><strong>$ 8,880,850</strong></td>
<td><strong>$ 20,961,210</strong></td>
</tr>
<tr>
<td>Traffic Control New Construction</td>
<td>5,407,000</td>
<td>1,500,000</td>
<td>6,907,000</td>
</tr>
<tr>
<td>Traffic Control Maintenance</td>
<td>3,029,975</td>
<td>1,227,467</td>
<td>4,257,442</td>
</tr>
<tr>
<td>Streets New Construction</td>
<td>4,175,199</td>
<td>720,000</td>
<td>4,895,199</td>
</tr>
<tr>
<td>Community Facilities</td>
<td>1,270,000</td>
<td></td>
<td>1,270,000</td>
</tr>
<tr>
<td>Street Maintenance</td>
<td>1,390,000</td>
<td>6,580,000</td>
<td>7,970,000</td>
</tr>
<tr>
<td>Pedestrian-Bikeway-Trails</td>
<td>275,000</td>
<td>1,455,425</td>
<td>1,730,425</td>
</tr>
<tr>
<td>Non Project Specific Right-of-Way Acquisition</td>
<td>300,000</td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Streets and Traffic Projects</strong></td>
<td><strong>$ 15,847,174</strong></td>
<td><strong>$ 11,482,892</strong></td>
<td><strong>$ 27,330,066</strong></td>
</tr>
<tr>
<td>Drainage New Construction</td>
<td>11,227,841</td>
<td>5,140,000</td>
<td>16,367,841</td>
</tr>
<tr>
<td>Drainage Maintenance</td>
<td>1,324,000</td>
<td>265,000</td>
<td>1,589,000</td>
</tr>
<tr>
<td>Utility Improvements</td>
<td>3,295,000</td>
<td>888,300</td>
<td>4,183,300</td>
</tr>
<tr>
<td><strong>Drainage, Flood Control, Utilities Projects</strong></td>
<td><strong>$ 15,846,841</strong></td>
<td><strong>$ 6,293,300</strong></td>
<td><strong>$ 22,140,141</strong></td>
</tr>
<tr>
<td>Economic Development/Redevelopment</td>
<td>5,210,420</td>
<td>6,625,000</td>
<td>11,835,420</td>
</tr>
<tr>
<td>Housing &amp; Neighborhood Revitalization</td>
<td>3,747,342</td>
<td>200,000</td>
<td>3,947,342</td>
</tr>
<tr>
<td>City Buildings &amp; Fixtures</td>
<td>640,000</td>
<td>2,025,000</td>
<td>2,665,000</td>
</tr>
<tr>
<td><strong>Community Facilities, Redevelopment, Housing Projects</strong></td>
<td><strong>$ 9,597,762</strong></td>
<td><strong>$ 8,850,000</strong></td>
<td><strong>$ 18,447,762</strong></td>
</tr>
<tr>
<td><strong>CAPITAL IMPROVEMENT PROJECTS TOTAL</strong></td>
<td><strong>$ 53,372,137</strong></td>
<td><strong>$ 35,507,042</strong></td>
<td><strong>$ 88,879,179</strong></td>
</tr>
</tbody>
</table>
The total Parks, Recreation and Arts Capital Improvement Program is $8,880,850 for 2006-2007. This is composed of $8,028,720 for new construction projects at existing parks and funding for new parks. Maintenance and repair of existing parks is proposed at $370,000. $482,130 is requested for acquisition of future park lands. In addition, a carry-forward amount of $12,080,360 is requested for projects that are not complete. This amount was previously approved in the 2005-2006 budget.

The total Streets and Traffic Projects budget is $11,482,892 for 2006-2007. This includes $1,500,000 for construction of additional traffic controls and $1,227,467 for maintenance of existing traffic controls. Funds for new construction of streets are proposed at $720,000 and maintenance of existing streets is $6,580,000. Pedestrian and bikeway trails projects are proposed at $1,455,425. In addition, $15,847,174 is requested to be carried forward into 2006-2007. This amount was previously approved in the 2005-2006 budget.

The total Drainage, Flood Control and Utilities Projects budget is proposed at $6,293,300 for 2006-2007. New drainage construction projects account for $5,410,000 and maintenance of existing drainage projects are $265,000. Utility improvement projects are proposed at $888,300. In addition, $15,846,841 is requested to be carried forward for 2006-2007 for incomplete projects. This amount was previously approved in the 2005-2006 budget.

Community Facilities, Redevelopment and Housing Projects budget totals $8,850,000 for 2006-2007. Economic development and redevelopment projects are proposed at $6,625,000. Projects to meet the housing and revitalization needs are proposed at $200,000. Funds to improve, construct, or replace city buildings and fixtures are proposed at $2,025,000. In addition, a carry forward amount of $9,597,762 is requested for projects that are not yet complete.

Major projects recommended for the coming year include:

- Gilley Park $5,600,000
- Front Row Center Improvement 4,525,000
- Street Overlay Program 4,500,000
- 57th Street West Drainage 2,500,000
- Drainage Channel 2,100,000
The Capital Improvement Program is funded by 14 different revenue sources, the majority of which are restricted in their use. These include:

<table>
<thead>
<tr>
<th>FUNDING SOURCE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redevelopment Agency</td>
<td>$6,625,000</td>
</tr>
<tr>
<td>Urban Structure Fees – Parks</td>
<td>6,082,130</td>
</tr>
<tr>
<td>Drainage Impact Fees</td>
<td>5,405,000</td>
</tr>
<tr>
<td>General Fund</td>
<td>5,173,300</td>
</tr>
<tr>
<td>Park Development</td>
<td>2,798,720</td>
</tr>
<tr>
<td>Signal Impact Fees</td>
<td>2,727,467</td>
</tr>
<tr>
<td>TDA Article 8</td>
<td>2,290,000</td>
</tr>
<tr>
<td>Proposition C Transportation</td>
<td>1,750,425</td>
</tr>
<tr>
<td>Traffic Impact Fees</td>
<td>1,320,000</td>
</tr>
<tr>
<td>Community Development Block Grant</td>
<td>800,000</td>
</tr>
<tr>
<td>Urban Structure Program – Admin</td>
<td>202,800</td>
</tr>
<tr>
<td>Urban Structure – Corp. Yard</td>
<td>187,200</td>
</tr>
<tr>
<td>Grants Fund</td>
<td>100,000</td>
</tr>
<tr>
<td>TDA Article 3</td>
<td>45,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$35,507,042</strong></td>
</tr>
</tbody>
</table>

During the next year, the City will be presenting a more comprehensive Six Year Capital Improvement Plan that will address future CIP funding needs including those identified by the various strategic plans and provide a funding strategy to meet those needs.

**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 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