

# STAFF REPORT

## City of Lancaster

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Date: March 13, 2007

To: Mayor Hearn and Council Members

From: Robert S. LaSala, City Manager

Subject: **Fiscal Year 2006-2007 Mid-Year Budget Review**

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### **Recommendation:**

Adopt the proposed Fiscal Year 2006-07 Mid-Year Budget Adjustments, Transfer In/Out Adjustments, and City Capital Improvement Program Adjustments as shown on the attachments.

### **Fiscal Impact:**

Total City Revenues (all funds) are estimated to decrease \$16,271,130 and total Operating Expenditures are requested to increase \$5,804,910; a decrease of \$15,041,770 to the Capital Improvement Program and a net decrease of \$2,746,922 in operating transfers. General Fund revenues are estimated to increase \$340,865, and expenditure adjustments total \$690,120. Total General Fund Capital Projects are requested to decrease \$2,133,055.

### **Background:**

The Midyear Budget Adjustment was presented to City Council at its regular meeting of February 13, 2007. At that time a presentation was made summarizing key accomplishments for Fiscal Year 2005-06, as well as accomplishments to date for Fiscal Year 2006-07. An update of the Capital Improvement Program was also presented. At that meeting City Council directed staff to bring the midyear budget adjustment back for consideration in 30 days, with a strategy to fund ten additional Deputy Sheriffs through the City's contract with the Los Angeles County Sheriff's Department.

### **Economic Analysis:**

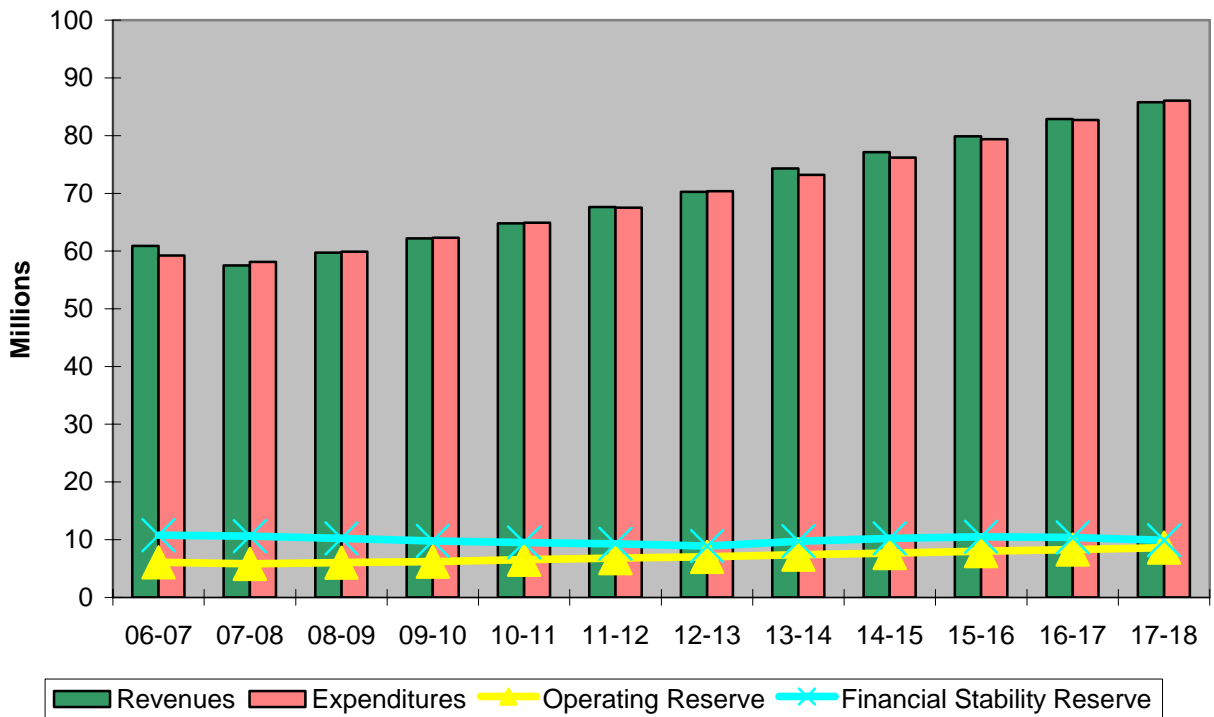
The city has been significantly impacted by the downturn in the housing construction market. We are looking at issuing approximately 1,100 residential housing permits, down from the 3,000 permits that were projected in May. This decrease particularly impacts our building revenues and development impact fees. This decrease is reflected in the midyear adjustments that are recommended at this time.

We are also seeing a downturn in sales tax generated by new automobile sales. Last fiscal year auto sales were buoyed by pricing incentives that were offered. There has not been a similar incentive program offered, resulting in a slowing in new auto sales compared to the prior year. Sales for the period October – December 2006 in the Autos and Transportation category were down 4.31% compared to the same period in 2005.

Staff has analyzed the effects of the slowing economy on the Ten Year Financial Forecast of the General Fund, taking into account the slowdown in the housing market and auto sales. In addition, the L.A. County Sheriff’s department has informed the city that contract rates may go up as much as 7% for next fiscal year. Previous forecast assumptions anticipated increases of 3.5%, resulting in an unanticipated increase of almost \$600,000.

Based on these and other economic factors, the current ten year projection for the general fund shows:

### General Fund Ten Year Base Projection



NOTE: Revenues are sufficient to meet on-going expenditures for current levels of service through FY 2017-18. The Financial Stability Reserve and Operating Reserves are maintained throughout the ten year period.

Revenues are sufficient to meet the projected ongoing expenditures for the current levels of service. The 10% operating reserve is maintained throughout the forecast, as well as the financial stability reserve.

Two important assumptions to consider in reviewing the projection above are:

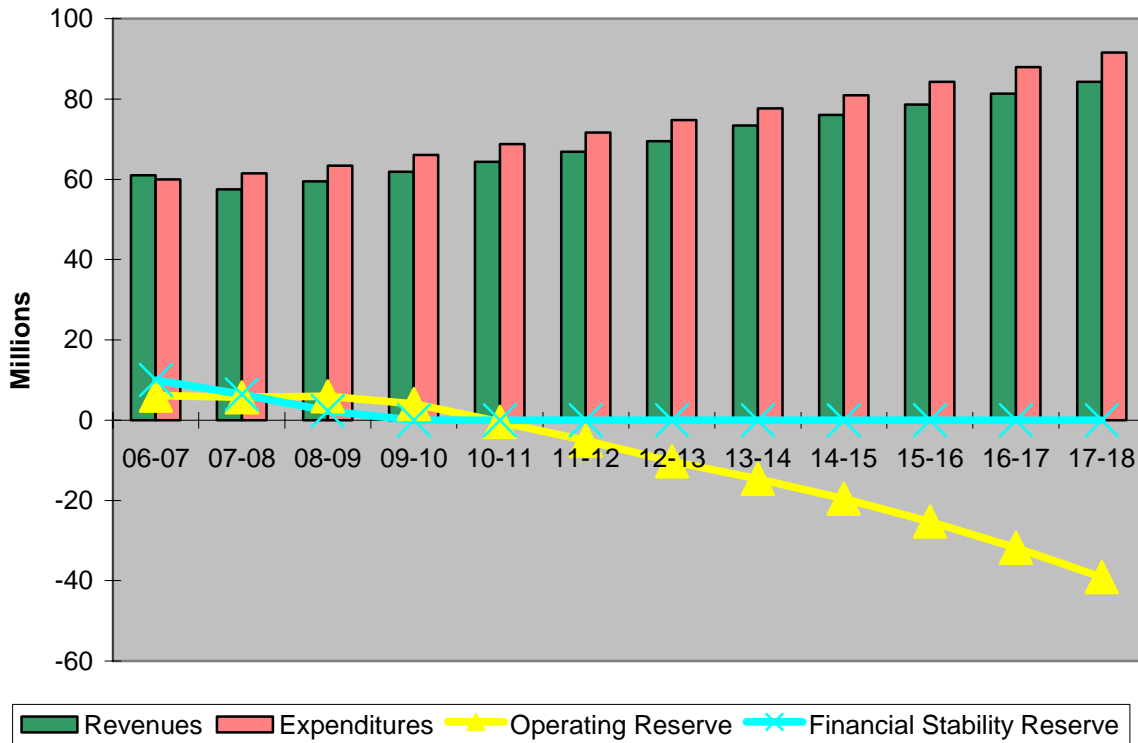
- The expenditures do not include any growth in service levels.
  - The projection is based on today's service level, projecting the cost of maintaining that level over ten years. The recent development that has occurred in the city will result in increased demands for services, such as increased recreation programs, maintenance of streets, and maintenance of new parks. These new costs are not factored into the base projection.
- There are unfunded issues that require an appropriation of funds.
  - The city is faced with a number of unfunded issues that will have financial implications in the coming years. The costs of these issues are under review, however, they should be considered when making any longer term increases to the General Fund budget. They are:
    - Strong Neighborhoods Initiative
    - Public Safety Best Practices Implementation
    - On-going Preventative Maintenance of Infrastructure
    - Parks and Open Space Master Plan Implementation (development and ongoing maintenance)
    - General Plan Update Implementation
    - Downtown Specific Plan Implementation
    - Amargosa Creek Specific Plan Implementation
    - Transportation & Facilities Master Plan Implementation
    - Retiree Health Care Benefits Accrued Unfunded Liability (GASB 45)
    - Infrastructure Deficit
    - Information Technology Strategic Plan Implementation
    - Class & Compensation Study Implementation

#### **Analysis of Increase in Sheriff Units:**

The current contract with Los Angeles County for police services provides 90 sworn personnel for a total cost of about \$16 million for fiscal year 2006-07. Each additional deputy service unit for 8 hours per day, seven days per week has a current cost of about \$292,335, (includes 6% liability), increasing to \$312,799 next fiscal year (FY 2007-08). Adding ten 56-hour deputy service units effective April 1, 2007 would increase the FY 2006-07 budget by \$730,838 and the 2007-08 budget by about \$3,128,000.

The ten year impact of this addition to the general fund is:

**General Fund Ten Year Projection with 10 Additional Deputies**



NOTE: Expenditures exceed revenues beginning in FY 2007-08. The deficit is covered from the Financial Stability Reserve until FY 2009-10 when the deficit is covered from the Operating Reserve. All reserves are depleted in FY 2010-11.

The addition of ten deputies with no changes to the base budget results in a structural deficit beginning in fiscal year 2007-08 and continues throughout the ten years. All reserves are depleted by FY 2010-11. It is apparent that the general fund does not have the capacity to carry the cost of the additional deputies without making changes to the base budget.

**Funding Options:**

If the Council were to elect to add the deputies several actions would need to be taken to reduce the ongoing base budget of the general fund. At this time staff is not in a position to provide Council with the full impact of adding the positions now, as we do not yet know the needs for the coming budget. Departments are in the process of developing their budget submittals, which are due March 12. Making the decision to add the positions now would restrict the Council’s ability to address other needs that may come up through the budget process.

While not recommended, per City Council request staff has developed a list of possible budget changes the Council could make that would provide the funding necessary to address the structural deficit without negatively impacting other operations in the general fund. The impact of taking these actions is a decrease in the financial stability of the city as well as a decrease in funding levels for street maintenance, lowering the quality of the city's streets.

These budget reductions are:

<b>Account</b>	<b>Amount</b>	<b>Impact</b>
Annual Capital Facilities Reserve Allocation	\$300,000	Reduces ability to address future facility maintenance needs. Reduces city's financial strength.
Annual Building Reserve Allocation	\$50,000	Reduces ability to address future facility needs. Reduces city's financial strength.
Annual Capital Projects Funding	\$2,600,000	Defer General fund contribution for 3 years; reduce future funding to 2.5% (from 5.0%) of revenue. Reduces ability to address infrastructure maintenance deficit.
Transfer from Capital Projects Reserve	\$178,000	The Capital Projects Reserve has a balance of \$2.6 M as of March 1, 2007. Funds could be transferred to cover the deficit until the reserve is depleted. These are one time funds which were set aside to address capital project funding shortfalls. They would not address the structural deficit on an on-going basis.
<b>TOTAL ADJUSTMENT</b>	<b>\$3,128,000</b>	

Reducing the City's reserves may seem like an easy answer to provide the funding for adding deputies. However, making this change would result in weakening the city's financial integrity. The reserves are in place to provide the funding to address future facility needs. The city is approaching its 30<sup>th</sup> anniversary, and many of its facilities are aging. It is anticipated that major repairs and maintenance will be needed on these assets in the near future. As an example, Parks, Recreation and Arts has identified a need for a new roof and filtration system at Eastside pool at a cost of \$550,000. The funding request is anticipated to be considered through the fiscal year 2007-08 budget process.

Maintaining adequate reserves is a key policy in ensuring the long term financial stability and solvency of the city.

If the Council were to elect to make these base budget changes, the following Capital Improvement Projects projected for FY 2007-08 would be deferred to future years:

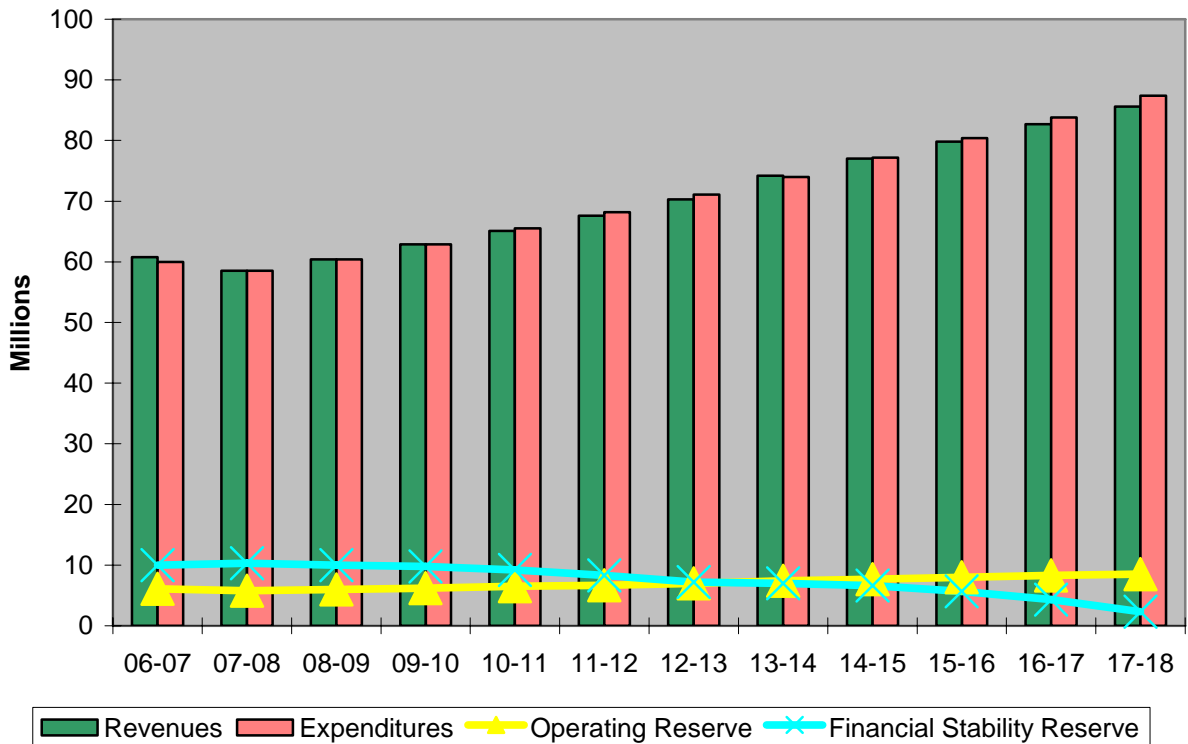
Street Overlay Program	\$2,001,000
Pedestrian Access Improvements	\$ 530,000
East Ave. I Street & Pedestrian Improvements	\$ 69,000

It should be noted that these reductions are not recommended by staff, however, they are provided as an option should the Council decide to add the positions at this time.

Making this decision at this time, without the benefit of having the information regarding the needs for the coming fiscal year, will impact the Council's ability to address any upcoming needs.

The chart below illustrates the impact if the City Council were to choose to make these budget adjustments and add the ten deputy service units:

**General Fund Ten Year Projection with Budget Adjustments & Ten Additional Deputies**



NOTE: Expenditures exceed revenues beginning in FY 2010-11. Deficit is covered by Financial Stability Reserve until FY 2017-18.

**Conclusion**

As an alternative to adding ten sheriff deputy service units to the contract at this time, staff offers that in preparing the fiscal year 2007-08 budget greater importance in the allocation of resources

and development of programs and services will be given to crime prevention, intervention and suppression.

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