

STAFF REPORT
City of Lancaster

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MVB

Date: January 28, 2014
To: Mayor Parris and City Council Members
From: Barbara Boswell, Finance Director
Subject: **Fiscal Year 2013-2014 Mid-Year Budget Review**

Recommendation:

Approve the proposed Fiscal Year 2013-14 Mid-Year Budget Revenue and Expenditure Adjustments as summarized in the attachment.

Fiscal Impact:

General Fund revenues and expenditures are on track to meet the current budget estimates. The proposed adjustments are needed to reflect new revenues sources that were not anticipated in the adopted budget. Revenue adjustments are a total increase of \$3,102,070 and expenditures \$725,364. The difference will go to fund balance to be utilized in future years.

Background:

We have reached the mid-point of the 2013-2014 fiscal year and staff believes it is prudent to review our budget assumptions and make careful projections of expenditure and revenue levels for the next six months. Both federal and local economic activities have an effect on the City's revenues. In addition, guided by City Council leadership, the City has long practiced financial conservatism that helps manage expenditures.

According to the Bureau of Labor Statistics, the national unemployment rate decreased to 6.7 percent in December, its lowest level since October, 2008. Non-farm payrolls increased by 74,000 in December, marking the smallest increase since January, 2011, and the labor market participation rate dropped to 62.8 percent, the lowest since 1978. While a decrease in the unemployment rate is often a sign of a strengthening economy, analysts are concerned that the economy may be weaker than statistics portray. The Federal Reserve has indicated it may keep interest rates low, even if the unemployment rate drops below its stated target of 6.5 percent.

Economic development to boost our local economy continues to be a major City initiative despite the dissolution of our redevelopment agency. We have seen a number of recent successes in that area that we are cautiously optimistic will broaden and diversify our sales and property tax base. For example, Morton Manufacturing recently completed construction of their new building in the Lancaster Business Park. Three new major medical complexes include the Kaiser Permanente medical office facility, the High Desert Multi-Service Ambulatory Care Center (MACC), and the City of Hope Antelope Valley Cancer and Community Education Center.

Our hospitality sector is also expanding with the construction of the TownePlace Suites by Marriott hotel. Finally, BYD Motors, Inc. has an assembly plant in Lancaster to make electric buses for US and Latin American public-transportation markets. The facility will be one of only a few making electric buses in the US. BYD also established a battery manufacturing plant in Lancaster to serve the North and South American markets.

City Revenues

Six years after the October, 2008 stock market and housing crash, Lancaster retail sales are recovering. Sales tax, which is the largest single revenue source for the City, is up a modest 1.5 percent for the second quarter of 2013 from the prior year. This is the fourth year that sales tax has been up on a quarter to quarter basis. Lancaster auto sales have steadily increased since fourth quarter 2010. We predict sales tax will increase 1.9 percent from this fiscal year to the next. While we are encouraged by the recent upward trend, it is important to note sales tax revenues continue to be down 10 percent from fiscal year 2006-07.

The housing recovery started in 2012 and kicked into overdrive in the fall of 2013 as traditional home buyers and investors entered into the market because of low interest rates and relatively low home prices. However, current prices and mortgage rates have climbed to the point where housing sales have cooled.

As a result of this positive activity in the housing market, we are finally seeing an increase in property values. A number of key City revenue sources are tied to assessed valuation so we watch this very closely. Assessed property valuation is up 2.6 percent from the prior year, down 26 percent from the historic highs of 2008. Naturally, building activity continues to be significantly down from the peak of 2005. We estimate that 225 new building permits will be issued this year, up from 219 in 2013. The predictions of a slow recovery seem to be coming to fruition.

The City has taken proactive steps in the last few years to diversify our revenue sources to help insulate the City from the effects of boom and bust economic cycles. Due to our conservative policies, healthy reserves, and innovative revenue generation and cost reduction programs, we have been able to maintain service levels and add new programs, such as the Boulevard events.

As staff begins to craft the 2014-2015 fiscal year budget, we predict a continuing slow economic recovery. We do not pin our hopes on a one-time windfall. Department budgets are not increasing beyond base levels without compelling evidence service activities cannot be continued without an increase in funding. We approach the next fiscal year with soberly optimistic intentions.

BB:NR

Attachment:

Fiscal Year 2013-2014 Mid-Year Budget Adjustments