

STAFF REPORT
City of Lancaster

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Date: June 9, 2015

To: Mayor Parris and City Council Members

From: Mark V. Bozigian, City Manager
Barbara Boswell, Director of Finance

Subject: **Proposed Fiscal Year 2015/2016 Budget, Five-Year Capital Improvement Program and Fee Adjustment**

Recommendation:

Conduct the Public Hearing and direct staff to schedule (a) the budget adoption and (b) fee schedule adoption for June 23, 2015.

Background:

The City is required to adopt a budget by July 1 of each year that establishes appropriations and estimated revenues for the coming fiscal year. The proposed budget is a culmination of many months of work by the City Council and staff in reviewing priorities and evaluating programs to meet those priorities.

Since the downturn in the economy, our city has set a priority on developing new revenue sources that are stable and not subject to the economic cycles. With the support of the City Council, Lancaster has become the first Community Choice Aggregation (CCA) program in southern California and the third in the state of California. Launching in May and October, Lancaster Choice Energy will be the default energy provider for all customers in Lancaster. By becoming the energy provider for the residents and businesses in Lancaster, the city moves closer toward our goal of being the first Net Zero City. Lancaster Choice Energy provides cleaner electricity while saving our customers on their electricity bill. The budget includes the revenues and costs associated with running the new utility.

Sales tax proceeds, which contribute 33.8% of general fund revenues, are estimated to be 8.8% higher than fiscal year 2014/15 due in part to one-time funds the city will receive with the wind down of the triple flip. Lancaster auto sales have steadily increased since fourth quarter 2010. The City realized an 11.6% increase in new auto sales compared to the year prior. Strong retail sales (including auto sales) are pushing sales tax revenues near the peaks we saw in 2006/07.

Improvements in the housing market are also pushing property related revenues up, with a 3% increase projected in the coming fiscal year. While property values continue to lag and are much lower than the historic highs of 2008, we are encouraged by the current trend.

The priorities for the coming year, as reflected in the proposed budget are:

- Public Safety
- Road maintenance and repair
- Replenish our financial reserves

- Lancaster Choice Energy
- Medical Main Street
- Streetlights acquisition

Public safety is always a major priority for the City. The proposed budget reflects that priority with its funding recommendations. At over \$26 million, the public safety budget represents 47% of general fund operating expenditures. At nearly \$56 million, the proposed general fund expenditure budget is 7% higher than the adopted fiscal year 2014/15 budget.

The following table summarizes the proposed budget:

	Adopted FY 2014/15	Proposed FY 2015/16	% Change
Salaries	\$33,315,079	\$34,534,310	3.7%
Operations & Maintenance	\$53,173,177	\$79,957,182	50.4%
Capital Outlay	\$127,869	\$153,510	20.1%
Capital Projects	\$22,585,265	\$16,330,097	-27.7%
TOTAL	\$109,201,390	\$130,975,099	19.9%

The proposed City budget reflects a nearly 20% increase from the FY 2014/15 adopted budget. This increase reflects the addition of Lancaster Choice Energy to the City’s budget.

Lancaster has thrived during the multi-year recession in part because of the City’s healthy financial reserves. Replenishing reserves continues to be a top priority as the finances of the city improve. General fund reserves represent 18% of revenues, maintaining the required 10% operating reserve and an 8% financial stability reserve. The City also maintains other reserves for specific purposes, such as equipment replacement, in addition to the general fund reserve.

Fee Adjustment

A financially stable city is one that periodically reviews fees to determine if those fees are in line with the cost of providing the service. Lancaster recently completed a comprehensive cost study that reviews every discretionary service and compared the cost of those services to the fees currently charged. For example these discretionary services range from rental housing business licenses and swim lessons to having a building plan reviewed by city staff.

The California Constitution prohibits fees for service exceeding the “costs reasonably borne” by the City for providing the service. If the fee exceeds the cost, the excess fee is defined to be a special tax, which Proposition 13 requires be approved by two-thirds of the voters. The cost study revealed that the fees for discretionary services were no longer in line with the costs, and an adjustment is prudent. The recommended fee schedule takes into account the cost study, comparisons to neighboring agencies, and market conditions.

The proposed budget and fee schedule will come back for final adoption at the regular City Council meeting of June 23, 2015. When adopted, the budget will become effective July 1, 2015 with the new fees being effective October 1, 2015.

Attachments:

Fiscal Year 2015/2016 Proposed Budget – On file in the City Clerk Department
 Citywide Fee Schedule