

STAFF REPORT
City of Lancaster
Lancaster Redevelopment Agency

Date: February 24, 2009
To: Mayor/Chairman Parris and Council/Agency Members
From: Barbara Boswell, Finance Director
Subject: **Fiscal Year 2008-2009 Mid-Year Budget Review**

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Recommendation:

Lancaster Redevelopment Agency adopt the proposed Fiscal Year 2008-09 Mid-Year Budget Revenue and Expenditure Adjustments as summarized on the attachment.

City Council adopt the proposed Fiscal Year 2008-09 Mid-Year Budget Revenue and Expenditure Adjustments as summarized on the attachment.

Fiscal Impact:

Lancaster Redevelopment Agency revenues are expected to increase \$2,908,824 with recommended expenditure decreases of \$8,730,509.

General Fund revenues are projected to fall short of budget \$5,108,895 and expenditures are recommended to decrease \$6,359,436. Total City revenues are estimated to increase \$2,080,909 and expenditures are recommended to decrease \$6,738,349. The revenues are increasing due to a federal Neighborhood Stabilization Grant in the amount of \$4,983,533. Adjusting for this grant, total revenues are down \$2,902,624.

Detail is provided in the attachments.

Background:

The primary purpose of the Mid-Year Budget is to review assumptions used in developing the fiscal year budget, particularly revenue assumptions. The Mid-Year Budget is not a new fiscal year budget; the fiscal year budget is developed over a period of six months to address Council goals and direction and requires significant planning, analysis, and program development effort on the part of staff. In essence, the Mid-Year Budget should be viewed as a “mid-point correction” to estimated revenues and expenditures due to updates of the assumptions.

The state of the national and the state economy has been dismal. Unemployment is the highest since 1993. The yearly change in retail sales has been negative for the past six months, and we are seeing consumers move from being spenders to being savers. In addition, the State budget woes continue to loom over us while we wait to see how their problems will become our problems.

These trends are affecting Lancaster revenues. Sales tax results are significantly below

projections, and property tax revenues are falling short of estimates. While the City of Lancaster, through focused economic development efforts and through Council policies and direction regarding the development of long-term financial projections and establishment of the financial stability reserve, is well prepared to handle the current economic downturn, it is prudent to reduce spending to bring expenditures in line with current revenue projections. The mid-year recommendation being presented maintains reserves while continuing to provide the needed services to our citizens.

Economic Analysis:

Auto sales, historically our #1 sales tax generator, are continuing their downward spiral. Third quarter sales tax results indicate that sales tax revenues generated by the Auto and Transportation category are down 36% compared to the same period last year. This marks the eighth consecutive losing quarter, and the worst quarter in two years. Our projections indicate the trend to continue through the fiscal year. We are experiencing similar decreases in sales tax revenues in the building construction category. As a result, staff has reevaluated sales tax revenue estimates for the year and recommends a decrease of \$2.8 million or 14%.

Other general fund reductions are identified in property tax revenue, vehicle license fees, and planning fees.

Due to the current economy, staff projects general fund revenues to fall short of original budget by \$5,108,895. In order to present a balanced budget, staff has reviewed all projects, programs, and available funding sources in order to reduce the strain on the general fund. Based on this analysis, as well as implementing policies such as holding positions vacant, eliminating out-of-state travel, and reducing the use of contract services, we are proposing expenditure reductions in the amount of \$6,359,436. The majority of the savings comes from reducing the general fund contribution to the Capital Improvement Program.

While general fund revenues are trending downward, the City has received a Neighborhood Stabilization Grant in the amount of \$4,983,533. This grant will be utilized in the City's foreclosure purchase program.

The recommended mid-year adjustment maintains the vital services to our citizens while maintaining reserves to cover any further decline in our economy.

Looking Ahead to Fiscal Year 2009/10:

Early estimates indicate that the recession will continue into Fiscal Year 2009/10. This presents Council and staff with the challenge of maintaining a balanced budget that continues current levels of service and continues our dedication to increasing the safety of our community. Current projections reveal a \$10 million gap to close in developing next year's budget. Staff has identified strategies to address the funding shortfall without unduly tapping into reserves.

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Attachments:

Summary of Mid-Year Adjustments
Detail available for review in City Clerk's Office