ALLOCATING THE COST OF SERVICES

The City allocates administrative costs among the services and funds that benefit from those activities. The City commissions a full and detailed cost allocation study on a regular basis to ensure utilization of the appropriate allocation amounts for distribution amongst those activities not funded by the General Fund.

FINANCIAL POLICIES

Reserve Policies

Major budget policies include: maintaining a 10% fund balance reserve fully appropriating funding for each capital improvement project (to prevent shortfalls the following year), and conservatively projecting revenues (at the minimum that can be expected to be received) and expenditures (at the maximum to be spent).

One of the key components of a financially stable organization is the adherence to a policy of maintaining an appropriate level of reserves. The Government Finance Officers Association (GFOA) recommends, at a minimum, that general purpose governments – regardless of size – maintain reserves (unrestricted fund balance) in their General Fund of no less than two months of operating revenues or expenditures, or a minimum of approximately 16.6% of General Fund operating expenditures. The GFOA further recommends that reserve levels be directly related to the degree of uncertainty the local government faces; specifically, the greater the uncertainty, the greater the financial resources necessary. Since reserves are used to mitigate risk – during these uncertain economic times – it is crucial that the City continue its practice of adhering to this GFOA guidance. This will provide the City with resources to cope with unforeseen expenditures, unanticipated events or revenue shortfalls.

The City will maintain an unallocated reserve in the General Fund equal to a minimum of 10% of expenditures and transfers out to buffer any unexpected change in the revenue/expenditure picture for the fiscal year. This was formalized in June of 1996 by Resolution No. 96-111.

The City will maintain a financial stability reserve fund to provide funds to maintain service levels during economic downturns.

Long-Term Policies

OPERATING BUDGET POLICIES

- The City will present to the City Council a Program and Financial Plan that is a balanced document Expenditures will not exceed available resources – including funding carried over from the previous year
- The City will maintain a General Fund Reserve that provides the necessary cash flow, a safety net for handling the unexpected, and flexibility in day-to-day operations. The City Council has formally

established this reserve at 10% of operating expenditures as the minimum desired level. Lancaster, like most cities, has experienced economic cycles; during good economic times, we increase the reserve to a higher level – as cash flow allows – to buffer downturns in the local economy

- The City will maintain a Financial Stability Reserve that provides the funding necessary to maintain the desired levels of service during downturns in the economy
- To ensure that the largest revenue source will cover the largest expenditure item, we closely compare the Sheriff's Department contract to the Sales and Property Tax Revenue
- The City will allocate resources to special law enforcement programs such as, Target Oriented Policing (TOP) to specifically identify and resolve crime that has received substantial attention. Those programs, which include Christmas Shopping Patrols, Anti-Auto Theft Operations, TOP-Bomb (sheriff units available to patrol at will), and Gang Violence Suppression have been highly successful in reducing specific types of crime
- The planning and approval process for any new Capital Improvement Project will include an analysis of future operating costs to ensure that not only is funding available to build the project, but future operational costs can be covered once construction is complete
- The City will seek financial co-sponsors and partners for special events and recreational programs that are a benefit to the community. Prime examples of this include corporate sponsorship for the annual Streets of Lancaster Grand Prix, co-sponsorship of special theatrical performances for students to gain an appreciation of the performing arts, and community partnerships to provide community neighborhood impact homes and wellness homes

REVENUE POLICIES

- The City will attempt to maintain a diversified and stable revenue system to shelter it from short-term fluctuations of any one revenue source
- The City will diversify its general fund revenue base away from past reliance on sales tax alone. Successful lobbying efforts to obtain a share of the property tax (Lancaster received no property tax for the first 11 years) is one example of this policy
- The City will utilize one-time non-recurring revenues for one-time expenditures or reserves and avoid using one-time revenues for on-going expenses or programs
- The City will seek out additional sources of revenue as a way of enduring a balanced budget necessary for the quality of services expected by our citizens
- The City will require user fees that cover the direct cost of adult recreation programs, and the cost of development services (building permits, etc.) provided to developers
- The City will do cost comparisons with other cities to ensure that our fee structure is reasonable
- The City will update fees annually based on the prior year annual average consumer price index for the Los Angeles-Riverside-Orange Co. All Urban Consumers percentage change

CASH MANAGEMENT/INVESTMENT POLICIES

- Investment of City funds will be in accordance with the Adopted Investment Policy. Safety of principal will continue to be the number one priority, followed closely by ensuring that funds will be available when needed (liquidity). Only after these two priorities have been fully satisfied will the City consider yield as an investment criterion
- The City will aggressively collect revenues on a timely basis

DEBT POLICIES

- The City's General Fund does not currently have any long-term debt obligations. Current operations will be funded with current revenues

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

- The City will have an independent audit performed annually. An interim audit will be performed mid-way through the fiscal year to ensure correct accounting and internal control procedures are followed
- The City will produce a Comprehensive Annual Financial Report (CAFR) each year in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). This report is submitted annually to the Government Finance Officers Association of the United States and Canada for their Excellence in Financial Reporting Awards Program (the City has received the award for numerous consecutive years)
- The City will maintain a strong internal audit capability

CAPITAL BUDGET POLICIES

- The City will update its multi-year plan for capital improvements – this will include modification of existing projects and adding/deleting projects in keeping with the General Plan as adopted by the City Council
- The City will maintain a Capital Replacement fund for ensuring that the equipment necessary for the operations of the City is always available
- The City will ensure that prime commercial and industrial acreage is available and ready for development, thus being able to quickly assist in the provision of jobs and diversity in the economy