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# **Long Term Financial Plan 1994**

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*Kumi L. Johnson  
Purchasing Agent/Fleet Manager*

**City of San Clemente  
January 1994**



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# City of San Clemente

## City Council

- **Scott Diehl** Mayor
- **Candace Haggard** Mayor Pro Tem
- **Joe Anderson** Council member
- **Truman Benedict** Council member
- **Tom Lorch** Council member

## City Manager

- **Mike Parness** City Manager

## Department Directors

- **Gene Begnell** Interim Fire Chief
- **William E. Cameron III** City Engineer
- **Tom Davis** Police Services Chief
- **Myrna Erway** City Clerk
- **Paul Gudgeirsson** Director, Office of Management & Budget
- **James S. Holloway** Director, Community Development
- **Michael L. Sorg** Director, Public Works
- **Bruce E. Wegner** Director, Beaches, Parks, & Recreation

## Project Leaders

- **Handan Cirit** Principal Civil Engineer
- **Akram Hindiyeh** Senior Civil Engineer
- **Kay Jimno** Interim Budget Officer
- **Kumi Johnson** Purchasing Agent/Fleet Manager
- **Dave Lund** Economic Development Manager
- **Larry K. Moore** Management Information Services Manager
- **Marsha Payne** Administrative Analyst
- **Michael D. White** Controller



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# Project Teams

## **Project Director**

*Paul Gudgeirsson, Director, Office of Management & Budget*

## **Capital Improvement Program**

*Mike Sorg, Public Works, Project Lead*

*Handan Cirit, Engineering*

*Bill Cameron, Engineering*

## **Contracting/Privatization/Regionalization**

*Kumi Johnson, OMB, Project Lead*

*Mark Somerville, Public Works*

*Greg Morehead, Public Works*

*Bruce Wegner, Beaches, Parks, & Recreation*

*Jim Holloway, Community Development*

*Gene Beggell, Fire Department*

## **Economic Development Program**

*Dave Lund, Economic Development, Project Lead*

*Bonnie McKenna, Community Development*

## **Financial Forecast**

*Kay Jimno, OMB, Project Lead*

## **Financial Trend Analysis**

*Michael D. White, OMB, Project Lead*

## **Information Systems Plan**

*Larry K. Moore, OMB, Project Lead*

*Todd McKenzie, OMB*

## **Medical Insurance**

*Marsha Payne, OMB, Project Lead*

## **Overhead Analysis**

*Michael D. White, OMB, Project Lead*

## **Reserve Analysis**

*Kay Jimno, OMB, Project Lead*

## **Street Improvement Program**

*Mike Sorg, Public Works, Project Lead*

*Bill Cameron, Engineering*

*Akram Hindiyeh, Engineering*

*Mark Somerville, Public Works*



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## City Manager's Transmittal Letter

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### **Honorable Mayor and Council members:**

**A "financial crisis" in 1992 prompted the development of a financial strategic plan**

In 1992, the City Council recognized and responded to a financial crisis for San Clemente government and the public we serve. By asking staff to prepare a financial strategic plan which would allow for a thoughtful, innovative and long term approach to address the City's fiscal issues annually, the City Council acted in a responsible and prudent manner.

Although the development of the Long Term Financial Plan has certainly not been a panacea for solving the City's fiscal problems, the aggressive manner in which the problems have been addressed has unquestionably contributed to an overall improvement in the City's financial position. As a result, we are no longer operating in a crisis mode. The attached report will document our progress and define the current situation and challenges that must be addressed.

**The City is at a turning point.....  
Capital equipment, infrastructure and reserve needs must be addressed**

We are at a turning point where important decisions must be made to address unresolved issues that continue to threaten the long term financial stability of this organization and the community. For example: an aging infrastructure system where streets are in dire need of rehabilitation; reserve levels that must be enhanced to avoid further exposure in the event that negative economic conditions persist or worsen, and; several years of neglecting capital equipment purchases which have resulted in productivity impacts and employee safety concerns.

It should be noted that the same forces that have driven the City to drastically alter the way we conduct business continue to threaten our financial stability. A severe economic recession remains unabated in Southern California, particularly in Orange County. This is combined with persistent and unprecedented State action diverting revenue previously available for municipal services to address the State budgetary crisis (see Financial Milestone section for detail). Additionally, the City continues to find itself under financial duress as the State and Federal legislatures continue to establish funding priorities for cities by mandating that local government provide specific new programs and absorb additional responsibilities while providing no resources to support the cost.

**The Council's implementation of the 1993 LTFP resulted in a \$3.6 million reduction in the total deficit**

As a result of these and other factors, the Five Year Financial Forecast projects an *operating* deficit of \$785,000 in 1994-95, increasing to \$2.1 million in 1998-99. While these projected shortfalls are serious, you will recognize that the City has been able to narrow the gap in the projected operating position significantly. In 1993 the City was facing a possible operating deficit of \$1.8 million and a total shortfall, including capital, reserve requirements and projected State impacts of \$6.3 million. The total projected shortfall for 1994-95 now amounts to \$2.7 million. This improved condition was accomplished largely as a result of Council adoption and implementation of the City's first financial plan. Following is a

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## Long Term Financial Plan

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***The deficit was reduced by aggressively confronting fiscal issues***

brief analysis of issues identified in the 1993 Plan and the current status of those issues:

**State Budget Impact:**

The impact of the State Property Tax diversion was not as great in 1993-94 as projected. We planned on a diversion of \$1.5 million; however, the ultimate loss amounted to \$591,000 which brings the total permanent property tax revenue diversion to \$1.2 million. The operating deficit referred to above does not reflect further State budgetary impacts.

***The Police Services contract saved \$2.1 million***

**Police Services Contract:**

By contracting Police Services through the Orange County Sheriff's Department, the City saved approximately \$2.1 million.

**Storm Drain Utility:**

Adoption of a Storm Drain Utility resulted in General Fund savings of \$214,000. Annual revenues accruing to this fund will amount to over \$900,000.

**Acquisition of Negocio Office Building:**

The acquisition and subsequent full leasing of the Negocio building will result in a five-year savings of approximately \$748,000

***Thirty (30) positions have been eliminated***

**Staffing Levels:**

Although the 1993 forecast assumed an addition of six positions each year, the City actually eliminated five positions in the 1993-94 budget due to ongoing financial problems. A total of 30 positions, including 12% of management personnel, have been eliminated from the City's workforce since the 1992-93 fiscal year.

***Pay and benefit levels have been significantly reduced***

**Pay and Benefit Levels:**

Employees once again gave up cost of living pay increases. Additionally, employee groups also worked with management in significantly reducing fringe benefits and saving the City \$300,000 annually in medical premiums.

**Unpaid Furlough:**

For the second year in a row, most City employees were faced with a four day unpaid furlough. Annual savings amounted to over \$130,000 which represented a 2% across-the-board pay reduction.

**Vehicle Policy:**

A comprehensive Vehicle Policy was developed and implemented which resulted in a savings of \$65,000 in 1993-94. On-going savings included in the 1994 forecast approximate \$40,000.

**Reserve Funding:**

Due to organizational changes implemented with the adoption of the 1993 Plan and an extensive analysis of our reserve requirements, funding required for General Liability Insurance and Worker's Compensation

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## City Manager's Transmittal Letter

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reserves have been adjusted downward. Total annual savings amount to over \$200,000.

The format of the 1994 Long Term Financial Plan has been redesigned to meet the needs of the City Council, staff and the public. This particular volume of the plan is designed to provide the complete financial plan and includes sections on Process and Schedule, Fiscal Policies, Financial Milestones, Financial Forecast, Financial Condition and Trends, Issue Analysis Summary, Recommendation Summary, and a Financial Summary. The companion volume to the financial plan (Long Term Financial Plan - Issue Papers) provides the detailed reports from the various City project teams addressing all issues covered in the analysis section contained herein.

***The 1994 Long Term Financial Plan proposes solutions that address the City's financial challenges***

The 1994 Long Term Financial Plan seeks to, once again, propose viable solutions that the Council may consider in addressing the City's ongoing financial challenges. Alternative solutions dealing with a wide array of topics are provided for your review and consideration. Along with the Vital Few Priorities that I have discussed at length with Council, the direction that you provide as the result of Long Term Financial Plan deliberations will set the stage for the 1994-95 budget preparation process.

***The result will be a more secure financial future for the City of San Clemente***

I would like to take this opportunity to thank all staff members and private sector advisors who assisted in completing the City's second comprehensive Long-Term Financial Plan. I believe that the result of this effort will be a more secure financial future for the City of San Clemente. Although the City Council is now faced with making several difficult decisions, the end result will undoubtedly be a municipal government that continues to provide, in the most efficient and effective manner possible, the quality services desired and deserved by San Clemente citizens.

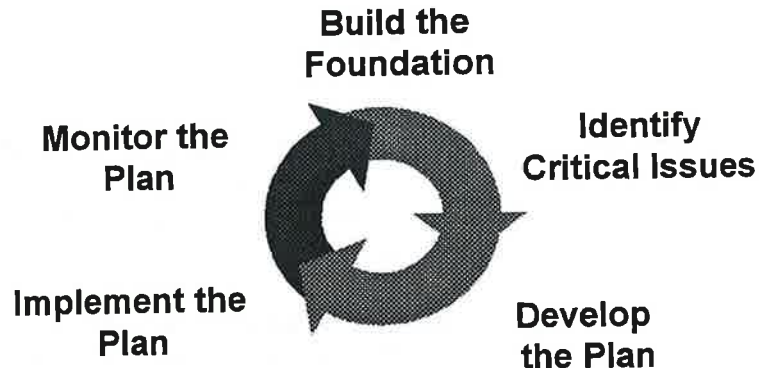


**Mike Parness**  
City Manager

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### Long Term Financial Plan



***The LTFP is a financial strategic plan***

The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The Plan consists of two volumes: The Long Term Financial Plan document provides the complete financial plan, while the Long Term Financial Plan - Issue Papers publication provides support documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition. Further explanation of each volume is provided below:

***The LTFP consists of the complete financial plan***

*Long Term Financial Plan:* This volume includes the complete strategic financial plan and consists of the following sections:

- City Manager's Transmittal Letter
- Process & Schedule
- Fiscal Policy
- Financial Milestones
- Financial Condition & Trends
- Financial Forecast
- Issue Analysis Summary
- Recommendation Summary
- Conclusion & Financial Summary

***The Issue Papers provide support documents and are used to develop the plan***

*Long Term Financial Plan - Issue Papers:* This volume of the Long Term Financial Plan, published under separate cover, includes the complete studies which were conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion volume to this document, i.e. the Long Term Financial Plan.

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## Long Term Financial Plan

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### ***Capital Improvement Program***

*Goal:* To develop, implement, and update the City-wide comprehensive Capital Improvement Program, including funded projects, unfunded projects, FEMA/FHWA projects, developer dependent projects, and RDA projects.

### ***Contracting/Privatization/Regionalization***

*Goal:* To determine the economic and operational feasibility of providing existing public services through contracts with other public agencies or private organizations.

### ***Economic Development Plan***

*Goal:* Based upon the City Council approved Economic Development Action Plan, develop strategies to implement the objectives outlined in the plan.

### ***Financial Forecast***

*Goal:* To update the comprehensive five-year financial forecast for the General Fund incorporating adopted City fiscal policies, expenditure patterns, revenue trends, and other known financial impacts.

### ***Financial Trend Analysis***

*Goal:* Utilizing ICMA's Financial Trend Monitoring System, update the comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed.

### ***Information Systems Plan***

*Goal:* To document the City's Computer 5-Year Action Plan, including progress made to date, and future plans for maintaining and enhancing the City's information systems.

### ***Medical Insurance Program***

*Goal:* To document the conclusions of the recent report prepared by the Medical Insurance Committee, as well as provide further recommendations to provide employees with more efficient and cost effective medical plans.

### ***Overhead Analysis***

*Goal:* To examine the current structure of the City's overhead system and develop specific recommendations based on the conclusions and recommendations of the study conducted by the David M. Griffith Company.

### ***Reserve Analysis***

*Goal:* To analyze levels of reserves in appropriate funds to ensure that they are adequate to provide for the needs of each fund program, and to

# Process & Schedule

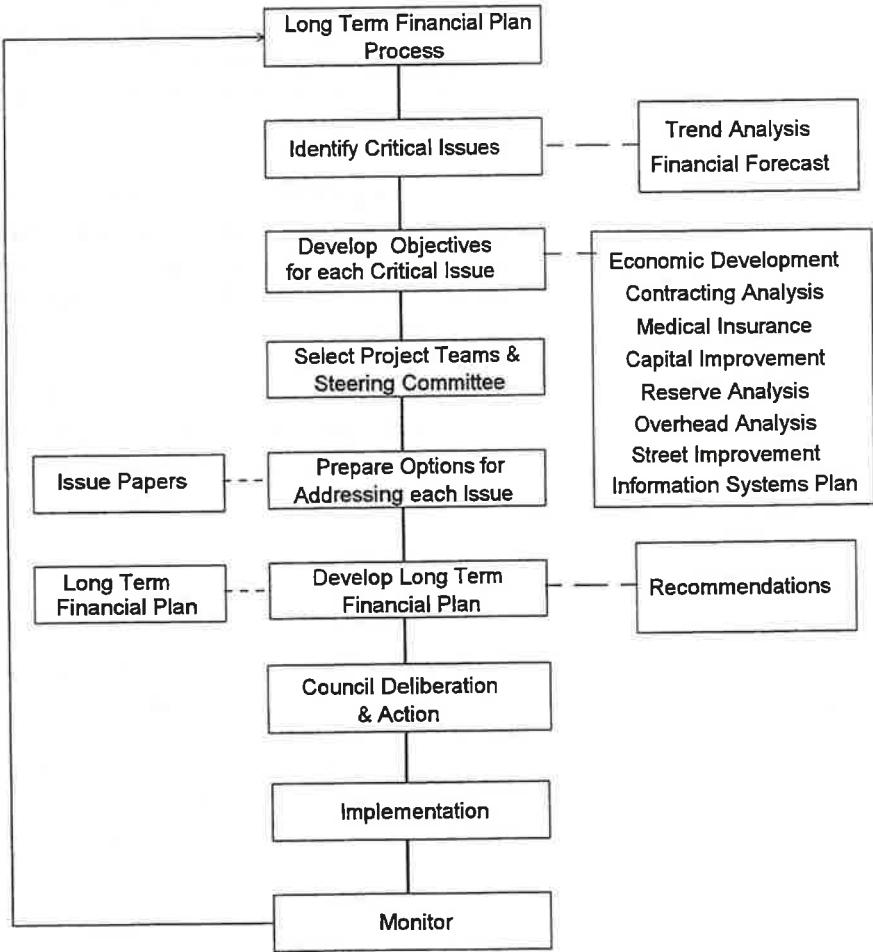
recommend appropriate reserve levels that will meet program needs without unnecessarily obligating scarce dollar resources.

### Street Improvement Program

*Goal:* To develop an effective street improvement program by examining, in detail, street improvement and rehabilitation program alternatives and potential funding mechanisms.

The flow chart below graphically describes the **process** that went into developing the City's comprehensive Long Term Financial Plan. This project was conducted entirely by City staff. In fact, a total of 25 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the overall Project Director, there were 10 project leaders each assigned to teams addressing a specific critical issue. Additionally, a private sector advisory team consisting of four non-paid advisors, assisted in developing the Contracting / Privatization / Regionalization issue paper.

**The Process of the Long Term Financial Plan**



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# Long Term Financial Plan

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## Goals

As indicated, the process of developing the Long Term Financial Plan began by identifying eight critical areas which have, or are expected to have, an impact on the financial condition of the City over the next five years. Once the critical issues were identified, specific goals and objectives were developed for each project designed to meet the overall goal of the project:

***To provide a clear and concise Long Term Financial Plan, identifying the City's current and projected financial condition, and proposing specific alternatives to address identified problems.***

Project teams and team leaders were then selected based on individual talents and expertise in given critical issue areas. A steering committee was formed in order to keep the project on track and on schedule. Each team was then asked to prepare option papers which met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific recommendations that addressed the issue at hand. After four months of significant effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issues Papers report.

Once the issue papers were completed, the actual Long Term Financial Plan, was developed by using the Trend Analysis and Financial Forecast as the foundation of the plan. Appropriate recommendations made in the issue papers were incorporated into this Long Term Financial Plan, which can essentially be described as a long-term financial strategic plan.

This Financial Plan will be submitted to the City Council on January 5, 1994. Following is the schedule that will be followed by the Council as they develop an action plan that the City will implement as a part of the 1993-94 Budget or 1994-95 budget process:

## Schedule

January 5, 1994	LTFP provided to Council and public for review
January 12, 1994	Staff presentations to Council/Public and Council discussion issues
January 19, 1994	Council deliberations and direction
Feb. 1 - Mar 15	Staff incorporates Council decisions into proposed Budget

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## **Fiscal Policy**

The following represents the Fiscal Policy of the City of San Clemente as adopted by Council action. These goals and policies were critical in establishing the issues defined and addressed in the financial plan.

### ***General Financial Goals***

1. To maintain a financially viable City that can maintain an adequate level of municipal services.
2. To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.
3. To maintain and enhance the sound fiscal condition of the City.

### ***Operating Budget Policies***

4. The City will adopt a balanced budget by June 30 of each year.
5. The City Manager will prepare a budget calendar no later than January of each year.
6. An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.
7. During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
8. Current revenues will be sufficient to support current operating expenditures.
9. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.
10. The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.
11. The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.
12. The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.

### ***Revenue Policies***

13. The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.
14. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.

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## Long Term Financial Plan

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15. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.
16. User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.
17. One-time revenues will be used for one time expenditures only.  
(Including capital and reserves)

### ***Expenditure Policies***

18. The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.

### ***Utility Rates and Fees***

19. The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.
20. Utility rates will be established for each of the next five years and this rate projection will be updated annually.

### ***Capital Improvement Budget Policies***

21. The City will make all capital improvements in accordance with an adopted and funded capital improvement program.
22. The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.
23. The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.
24. The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.
25. The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.
26. Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.

### ***Short-Term Debt Policies***

27. The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.
28. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.

### ***Long-Term Debt Policies***

29. The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues.
30. Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.
31. Proceeds from long-term debt will not be used for current on-going operations.

### ***Reserve Policies***

32. The City will maintain General Fund reserves (Rainy Day Reserve) at a level at least equal to 8% of general fund expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting 2 or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.
33. A Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1.5% of general fund expenditures.
34. Council approval is required before expending General Fund or Contingency Reserves.
35. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.
36. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention.

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## Long Term Financial Plan

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### *Investment Policies*

37. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.

### *Accounting, Auditing, and Financial Reporting*

38. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Governmental Accounting Standards Board.
39. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
40. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
41. Full disclosure will be provided in the general financial statements and bond representations.
42. Maintain a good credit rating in the financial community.
43. An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.

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## Financial Milestones

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***Financial Milestones are factors that have impacted the City's financial position***

### **Financial Milestones**

The following two pages succinctly depict, by year, what the City has done to respond to factors that have impacted the City's financial position over the past several years. Although the list is not exhaustive, it is intended to provide a synopsis of how the City has responded to a changing financial environment where the State and Federal governments, in combination with a severe economic recession, have affected the economic condition of our City and threatened the quality of service provided to our citizens.

- *What Happened in....* This section describes actions that have either positively or negatively impacted the City's financial condition. For example, although many State and Federal mandates are positive for the population as a whole, passage of these mandates without providing funding severely impacts the City's finances. Also, although contributions to reserves are necessary and required by Council adopted fiscal policies, this diversion of funds can negatively affect other City programs, while improving the overall financial health of the City.
- *What We Did in....* This section outlines the response that the City has taken to react to a declining revenue base and the requisite shift in the allocation of remaining resources. For example, since 1991-92 taxes and fees have been increased, employee pay freezes and non-paid furloughs have been in affect for two years, benefits have been significantly reduced, a total of 30 positions have been eliminated including 12% of the management ranks, and Police Services have been contracted to Orange County.

***The City has changed the way it provides services through streamlining, reduced pay and contracting***

The actions that have taken place have compelled the City to change the way it provides services to the Citizens of San Clemente. Accordingly, the City has streamlined its operations, reduced it's workforce by a third, transferred Police operations to Orange County, and reduced pay and benefits for all employees. As this Long Term Financial Plan points out, the City is continuing it's effort to perform all necessary services at the lowest cost. Correspondingly, the City is examining further contracting, privatization and regionalization options, initiating an active economic development program, further improving automation efforts, implementing sophisticated cost allocation plans, and looking at various cost effective options to repair and maintain the City's aging infrastructure.

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# Long Term Financial Plan

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## ***What Happened in 1991-92?***

Minimal Fund Balances  
Revenue Shortfall  
Weak Revenue Base  
Economic Recession

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## ***What Happened in 1992-93?***

State Diversion of Property Taxes  
County Property Tax Administration  
Underground Tank Fees  
Jail Booking Fees  
Cigarette Taxes Shifted to State  
1/2 of Fines & Forfeitures shifted to State  
California Clean Air Act  
Required Medicare Contribution  
NPDES Compliance  
FSLA Overtime Requirement  
Toxic Waste Disposal Fees  
Established GF Emergency Reserve

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## ***What Happened in 1993-94?***

State Diversion of Property Taxes  
Transfers to Reserves  
Wholesale Water Rate Increase of 24%  
Passage of 1/2 cent sales tax Jan-June

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## Financial Milestones

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### ***What We Did in 1991-92***

Sewer In-Lieu Tax  
Increased Transient Occupancy Tax to 10%  
Franchise Tax on Solid Waste  
Interim Public Safety Service Charge  
Business License Fees 25% Increase



### ***What We Did in 1992-93***

Pay Freezes  
Eliminated Management Leave Payoff Option  
Reduced Medical Premiums  
Eliminated Subsidized Special Events  
Surplus Medical Fund Applied to Reduce Premium  
Reduced Police Overtime  
Reduced Fleet Charges  
Reduced Economic Development  
Eliminated 25 Positions  
Eliminated Volunteer Firefighters  
Reduced Contingency Reserve  
Employee Furlough  
Streamlined Admin. Svc. & Eliminated Finance Dept.



### ***What We Did in 1993-94***

Pay Freezes  
Transferred Storm Drain Allocation to GF  
Refunded Assessment District Bonds  
Leasing of Negocio Building  
Increased Golf Course Fees  
Eliminated 5.45 Positions  
Reduced Employee Medical Benefits  
Employee Furlough  
Reduced Fleet & Communications  
Police Services Transferred to Orange Co.







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## Financial Condition & Trends

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### Financial Condition & Trends

The following trend analysis examines a number of financial indicators that are designed to measure the fiscal health of the City of San Clemente. All data provided in this section is based on actual audited numbers and is derived from the City's Annual Financial Report for the years 1988-89 through 1992-93.

***A number of negative financial trends continue to plague the City***

The trend analysis reveals several problem areas which are discussed in detail below. (More detailed analysis can be found in the companion volume Long-Term Financial Plan - Issue Papers.) As was the case last year, a number of negative financial trends continue to plague the City. However, as a result of implementing the majority of recommendations in the 1993 LTFP, many of these same trends are beginning to stabilize. It is anticipated that once the positive actions taken by the City fully take effect, several indicators will become favorable.

Unfortunately, as evidenced in the City's financial forecast, there are still several areas that need to be addressed before the City's overall financial condition completely recovers. As will be seen in the following detail section of this report, San Clemente has attempted to take control of its finances and rectify its weak financial condition as much as possible. However, it is impossible to predict further actions by the State of California in diverting revenues traditionally dedicated to local government, as has occurred in the past two years. This uncertainty is extremely difficult to deal with in establishing a solid financial plan for the next five years.

The Trend Analysis reveals primarily the same problem areas as last year. Some have been addressed by Council, while others need specific attention in order to meet the goal of the Long Term Financial Plan, that is, to lay out a plan that ultimately leads to a sound financial future.

***The City's declining revenue base is not sufficient to maintain existing service levels***

- The City's declining revenue base is still not sufficient to maintain existing service levels. This decline can generally be attributed to the severe economic recession and diversions of property tax revenue from the City to the State. Actual 1992-93 revenues came in less than budget by \$826,000 or 4%.

***The City has substantially reduced the level of General Fund expenditures***

- As a result of the economic recession and state revenue shifts, the City has substantially reduced the level of General Fund expenditures which included the elimination of 30 positions (excluding the transfer of 77 positions to the Orange County Sheriff's Department). Personnel hiring restrictions and other spending limitations initiated during fiscal year 1992-93 resulted in General Fund expenditures totaling approximately \$1.6 million, or 7%, less than budgeted for the year.

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## Long Term Financial Plan

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### ***An operating surplus was obtained in 1992-93***

- The City's dependency on elastic revenues makes it extremely difficult to weather economic downturns. The growth in Property Tax revenues is declining due to the drop in new construction, the decline in property values, and the loss of property tax revenues to the State.
- As a result of the economic downturn, General Fund operating expenditures have exceeded operating revenues in two of the past five fiscal years. However, on the positive side, a minor surplus was obtained in 1992-93.

### ***Reserves are severely underfunded by a total of \$4.5 million***

- Expenditures for street repair and replacement are underfunded by approximately \$1.8 million per year, for a total of \$18 million over 10 years.
- Reserves in the General Fund, General Liability Insurance Fund, and Worker's Compensation Fund are still underfunded by a total of \$4.5 million. Nonetheless, some progress has been made to increase the levels of reserves in all funds.
- Further deferral of capital outlay expenditures will undoubtedly result in loss of productivity and an increase in liability exposure.

### ***The City has made considerable progress in improving it's financial condition***

Notwithstanding the above, the City has made considerable progress in improving it's financial condition over the past fiscal year. Areas of improvement can be directly attributed to positive financial actions taken by Council as a part of the adoption of last year's Long Term Financial Plan:

- Contracting of police services to the Orange County Sheriff that reduced the General Fund Police Services budget by \$1.4 million and saved the City \$2.1 million across all funds.
- Establishment of a storm drain utility fund that reduced the General Fund budget for storm drain maintenance by \$250,000. Almost \$1 million will be generated annually by assessing all property and commercial owners.
- Reorganization of City departments and streamlining of operations that resulted in the elimination of an additional 5.45 positions within the 1993-94 budget
- Annual reductions in City paid medical insurance premiums by \$300,000.
- Additional contributions made towards the underfunded reserves of worker's compensation (\$225,000), general liability (\$270,000), and the general emergency reserve (\$120,000).

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## Financial Condition & Trends

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### *Comparison of Trend Reports*

As stated above, the City has made progress in improving the financial condition of the City as demonstrated by comparing this trend analysis report with the one completed last year. Overall, two financial indicators improved while one dropped to a lower level. Fringe benefits and operating surplus moved from an unfavorable rating to a warning rating while property tax revenues moved down to a warning from a favorable rating.

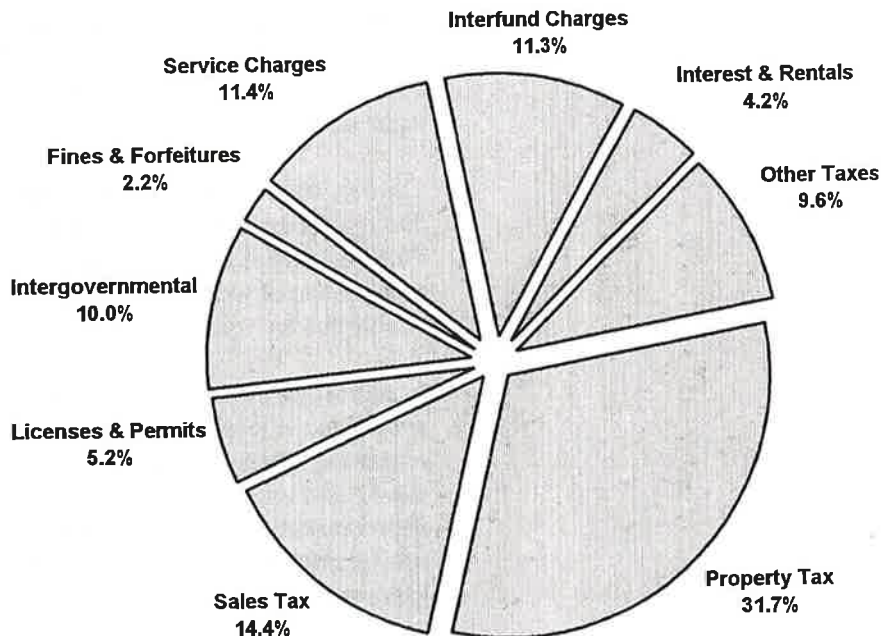
### **General Fund Operating Results**

#### *Summary*

Overall, the General Fund continues to suffer through the economic recession. Revenues were only 1.2% higher in 1992-93 than in the previous year, less than the rate of inflation, and were 4.1% lower than budgeted. As demonstrated below, the predominant revenue source of the General Fund is taxes. These include property, sales and other taxes and comprise 55.7% of total 1992-93 General Fund revenues.

***Overall, the General Fund continues to suffer through the economic recession***

**1992-93 Operating Revenues By Source**



***Property, sales and other taxes comprise 55.7% of General Fund revenues***

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## Long Term Financial Plan

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***The City's share of property tax will drop to 15.5% in 1993-94***

***General operating expenditures remain at the same level as the prior year***

### ***Revenues***

Of the total amount of General Fund tax revenue, sales and property taxes are the largest source of revenue. As of June 30, 1993, the City received 1% of the total sales tax generated within the City limits, with 6.25% distributed to the State and 0.5% to the County under Measure M for street improvements. In 1992-93, the property tax of the typical resident of San Clemente, based on 1% of assessed valuation, was divided up between local governments with school districts receiving 49%, special districts receiving 14%, the County 13%, the Redevelopment Agency 7%, and the City, 17%. As a result of the continuing State imposed property tax shift, the City's share will drop to 15.5% in 1993-94.

### ***Expenditures***

Expenditures for the General Fund make up the largest portion of the total operating costs for the City. In 1992-93, General operating expenditures remained at relatively the same level as in the prior year with no significant percentage change. An analysis of expenditures reveals several major areas of concern for the City including the reduction in expenditures, the non-replacement of capital outlay, the non-funding of street improvements, and the under funded reserve levels in the General Fund, Worker's Compensation Fund, and General Liability Insurance Fund.

- The City's initial response to the drop in General Fund revenues has been to cut total expenditures across departments, including the elimination of 30 positions, which may jeopardize the City's ability to maintain current service levels.
- The concern over the non-replacement of equipment could be solved through the establishment of a Capital Equipment Replacement Fund. This fund would provide for the accumulation of funds for the replacement of worn and obsolete equipment similar to the one established for vehicle replacement in the Fleet Maintenance Fund.
- In addressing the City's street improvement needs, decisions will have to be made as to whether it is to be accomplished through existing resources, debt financing, or by the creation of a special assessment district that would assess property owners for their share of the improvement costs. If the City is forced to absorb the cost of this much needed infrastructure improvement, then corresponding cuts in other City services will have to be made.
- As to the deficiency in fund balance reserves, the City is operating very precariously without sufficient reserves to see it through a prolonged economic slump or survive a natural disaster such as a severe storm, flood, or fire. Continued provisions need to be made to ensure the availability of funding should such an unfortunate event occur. Also, continued additional funding needs to be provided in the

## Financial Condition & Trends

Worker's Compensation and General Liability Funds in order to eliminate the negative fund balances and establish proper reserve levels.

***The Long Term Financial Plan is designed to address the financial problems identified in this report***

In summary, despite the aggressive and positive efforts taken by the City Council, the General Fund's 1992-93 financial position continues to be weak. The development and implementation of the Long Term Financial Plan is designed to address the financial problems identified in this report.

### ***Summary of Trends***

Provided below is a brief summary of indicators that are provided in detail in the following section. The assigned ratings are defined as follows:

- **Favorable:** This trend is positive with respect to the City's goals, policies, and national criteria.
- **Warning:** This rating indicates that a trend has changed from a positive direction and is going in a direction that may have an adverse effect on the City's financial condition. The City also uses this rating to indicate that, although a trend may appear to be favorable, it is not yet in conformance with adopted fiscal policies.
- **Unfavorable:** This trend is a negative one, and there is an immediate need for the City to take corrective action.

***15 of 20 financial indicators are negative***

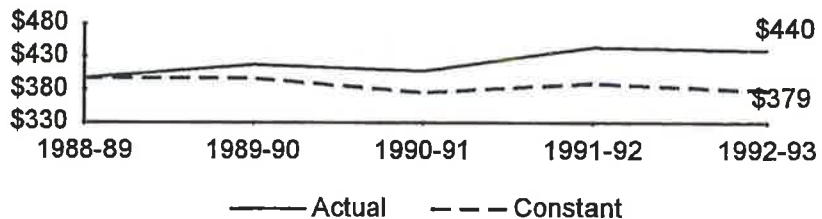
<i>Indicator</i>	<i>Rating</i>	<i>Indicator</i>	<i>Rating</i>
Revenues Per Capita	U	Employees Per Capita	W
Property Tax Revenue	W	Fringe Benefits	W
Sales Tax Revenues	U	Capital Outlay	U
Licenses & Permits	U	Operating Surplus	W
Community Development			
Service Charges	U	Fund Balance	W
Elastic Revenues	U	Liquidity Ratio	F
One-Time Revenues	W	Debt Service	F
Intergovernmental			
Revenues	F	Compensated Absences	F
Revenue Overages			
/Shortages	U	Property Values	W
Expenditures Per Capita	W	Population	F

# Long Term Financial Plan

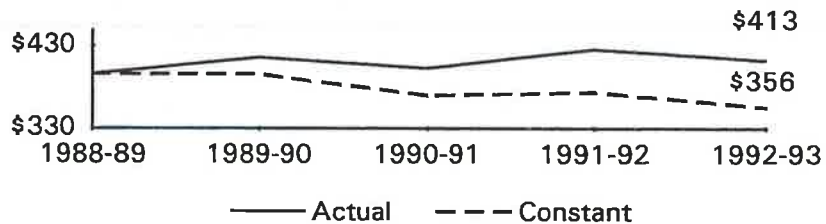
## Revenues

### Revenues Per Capita

REVENUES PER CAPITA  
Actual and 1989 Constant Dollars  
General Fund



REVENUES PER CAPITA  
EXCLUDING ONE-TIME REVENUES  
Actual and 1989 Constant Dollars  
General Fund



**Revenues per capita in constant dollars are below the levels of 1988-89**

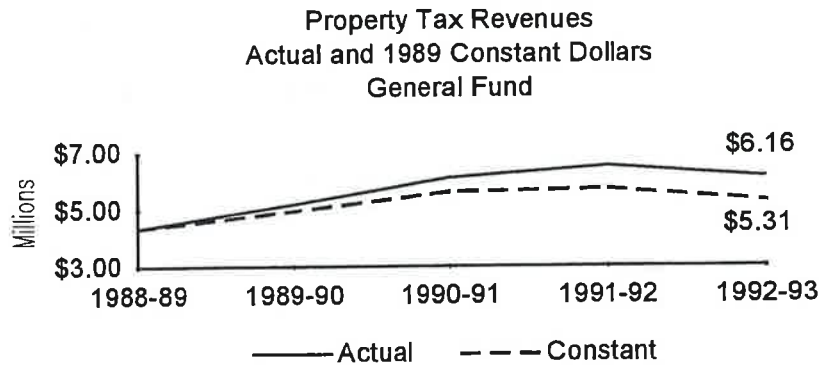
Finding: *UNFAVORABLE*. Revenues per capita reflected decreases in constant dollars in 1992-93 and is still below the levels of 1988-89.

**Revenues have been impacted by the economic recession and the diversion of property tax from the State**

Comments: The first chart above reflects an overall increase in actual dollars over the last five years with dips occurring in 1990-91 and 1992-93. However, these revenues also reflect a steady decrease in constant dollars with 1992-93 ending up approximately five percent below the levels reached in 1988-89. Revenues generated in 1992-93 were again impacted by the continuing economic recession and the diversion of property tax revenues to the State. The second chart above shows revenues per capita in constant and actual dollars that excludes "one-time" revenues. This is a more realistic picture of the revenues that can be applied against operations since one-time revenues are not expected to continue in subsequent years. One-time revenues in 1992-93 (\$1 million) included transfers from Fleet Replacement Reserve and Drug Asset Forfeiture Fund to fund Police Department severance payouts, and a one time fire protection service charge to Talega Valley.

# Financial Condition & Trends

## Property Tax Revenues



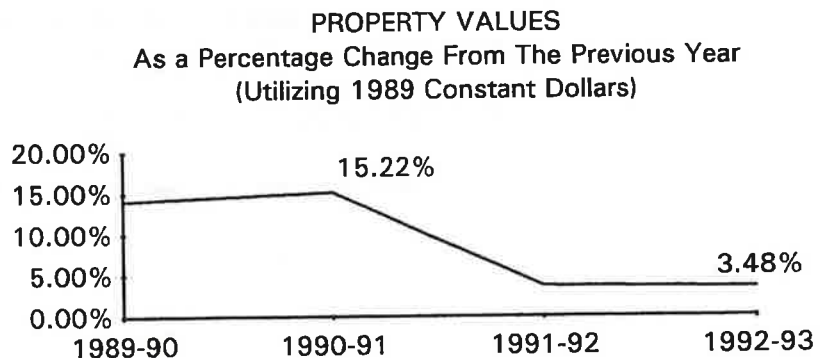
**Property tax revenues dropped 5.8% as a result of a 9% State mandated property tax shift**

**This property tax diversion is permanent**

**Finding: WARNING.** Property tax revenues evaluated over time reflect a steady increase up until 1992-93, which dropped significantly as a result of a 9% State mandated property tax shift.

**Comments:** In 1992-93, property tax revenues dropped \$377,500 or 5.8% in actual dollars, and \$424,200 or 7.4% in constant dollars. The decrease in property tax revenue is a direct reflection of the State property tax diversion of \$591,000 in 1992-93. This diversion is permanent and an equivalent amount will be shifted in 1993-94.

## Property Values



**The growth rate in property values continued a downward trend**

**Finding: WARNING.** The low growth rate of property values continued the downward trend first observed in 1991-92.

**Comments:** The growth rate in property values as a percentage rate from the previous year has declined over the past two years. This decline is a reflection of sinking property values, combined with less turnover in the housing market. This reduced growth rate so far has only limited the

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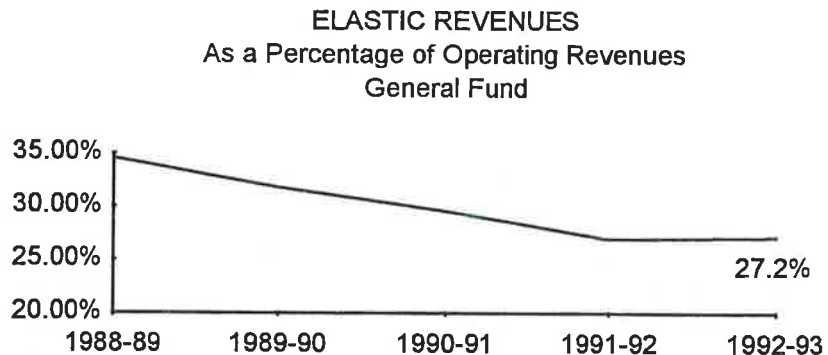
## Long Term Financial Plan

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increase in property tax revenues received by the City. A continued decrease in the value of properties may ultimately lower the amount of property tax revenues the City receives.

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### Elastic Revenues



**Elastic revenues were impacted by the lingering economic recession**

Finding: *UNFAVORABLE*. Elastic revenues (including sales taxes, licenses and permits, community development service charges, transient occupancy taxes and in-lieu taxes), as a percentage of operating revenues, have declined considerably from 1988-89 to 1992-93; however a modest increase can be observed in 1992-93. Since elastic revenues are defined as those that vary directly with changes in the economy, these revenues are obviously impacted by the lingering economic recession. In 1992-93, the major reason for the decrease in elastic revenues can be attributed to a \$468,000 drop in Community Development Service Charges.

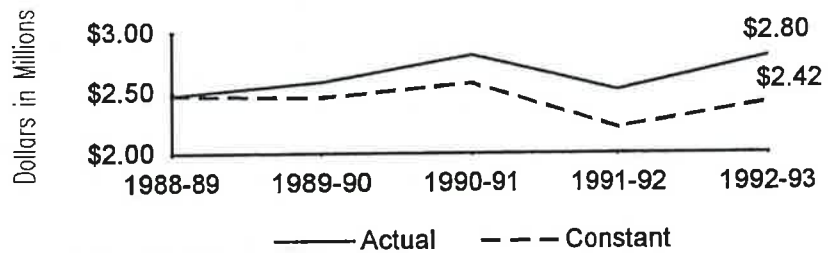
Comments for each major elastic revenue source follow:

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## Financial Condition & Trends

**SALES TAX REVENUES**  
Actual and 1989 Constant Dollars  
General Fund



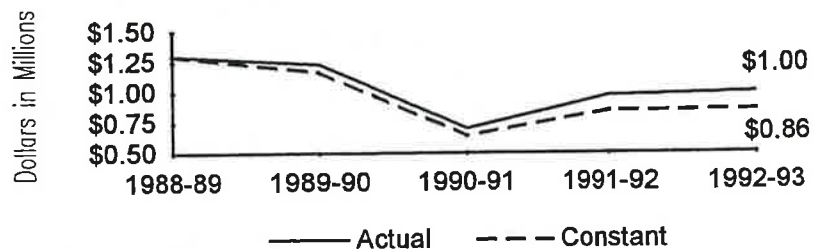
**1992-93 sales tax revenue increased \$282,000 or 11.2%**

**Finding: UNFAVORABLE.** Although sales tax revenue increased 11.2% in actual dollars, this major revenue source is still below 1988-89 levels in constant dollars. As of June 30, 1993, the State Board of Equalization had been collecting 1% of local sales tax for the City, which is part of the overall Orange County sales tax rate of 7.75%. Effective July 1, 1993, the City's allocation increased by an additional 0.5% which is earmarked for public safety services.

**License and Permit revenue is significantly below the levels reached four years ago**

**Comments:** In 1992-93, sales tax revenue increased \$282,000, or 11.2% in actual dollars (9.3% in constant dollars). As can be seen by the dip in 1991-92, this increase, in actual dollars, is almost equivalent to amounts received in 1990-91. In constant dollars, the City has not yet reached the levels indicated in 1989-90. The increase in sales tax dollars in 1992-93 is, hopefully, a sign of recovery in the retail sector of San Clemente.

**LICENSE & PERMIT REVENUES**  
Actual and 1989 Constant Dollars  
General Fund

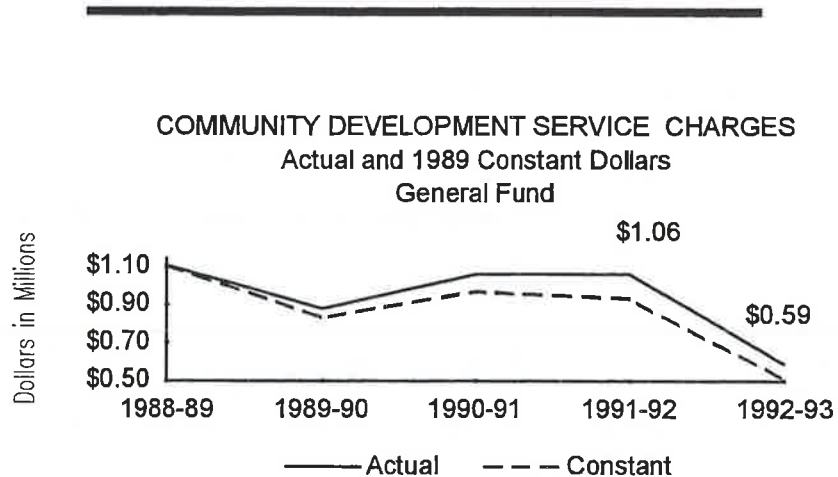


**The City experienced increases in licenses and permits for two consecutive years**

**Finding: UNFAVORABLE.** License and Permit Revenue reflect a 5.9% increase over the prior year in actual dollars. However, this revenue source is still significantly below the levels reached four years ago.

## Long Term Financial Plan

Comments: In 1992-93, business license revenues increased \$24,000, or 5.9% in actual dollars over the prior year. Construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, increased \$18,400, or 4.5% in actual dollars. Overall, licenses and permits increased \$36,600, or 3.8% in actual dollars, and \$16,970, or 2.0% in constant dollars over the prior year. Although the City experienced increases in licenses and permits for two consecutive years, these revenues are still below the levels reached four years ago resulting in the assignment of an unfavorable trend. This long term decrease is primarily a result of the continuing economic downturn and it's impact on construction activity.



Finding: *UNFAVORABLE*. Community Development Service Charges in actual dollars dropped 44%, or \$468,000 from the prior year, and is still below the levels reached five years ago.

***The City experienced a severe drop in community development service charges***

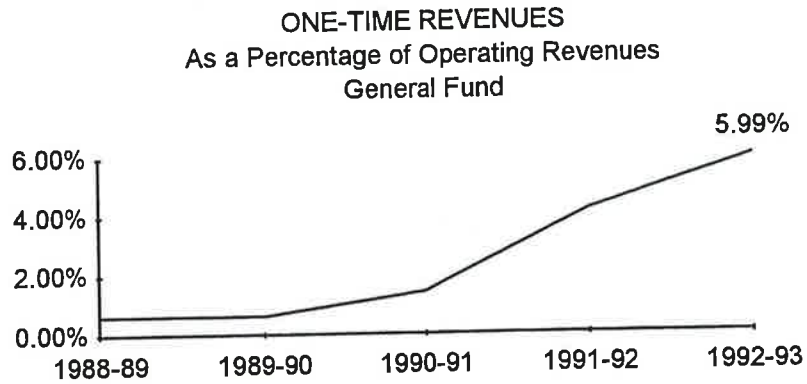
Comments: Included in this category are elastic revenues such as plan check fees, construction inspection fees, and engineering reimbursements. Specific revenue source decreases include engineering and geo-technical fees (\$119,800), construction inspection fees (\$121,900), and public works inspection fees (\$56,620). The City experienced a severe drop in community development service charges in comparison to the prior year and is still well below the levels reached five years ago in constant dollars and actual dollars. The drop off in this revenue source is the most prominent example of the lingering economic recession.

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## Financial Condition & Trends

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### One-Time Revenues



**The majority of one-time revenues were used to fund one-time expenditures**

Finding: *WARNING*. One-Time revenues, as a percentage of total General Fund operating revenues, equaled 6% in 1992-93, a significant increase over past years. However, the majority of one-time revenues were used to fund one-time expenditures as described below.

Comments: In 1992-93, one-time revenues increased 43% over the previous year. One time revenues totaling \$1.1 million for 1992-93 include the Talega Valley fire protection service charge of \$300,000 and operating transfers from the Fleet Replacement Reserve, Drug Asset Forfeiture Fund, and Fire and Medical Fund totaling \$860,000. Only the Fire and Medical operating transfers (\$290,000) were directly applied against General Fund operating expenditures. The remaining contribution from Talega Valley (\$120,000) was used to increase the General Fund Emergency Reserve to \$630,000. The one-time transfers from the Fleet Replacement Reserve and Drug Asset Forfeiture Fund were used to fund the Police Department employee severance package.

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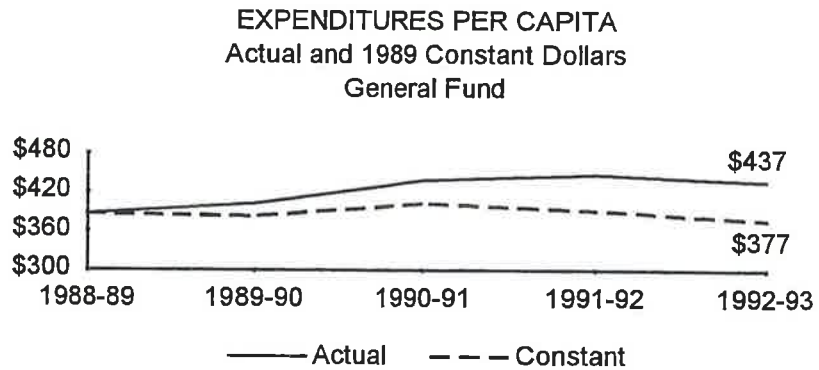
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# Long Term Financial Plan

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## Expenditures

### Expenditures Per Capita



Finding: *WARNING*. Expenditures per capita, in constant and actual dollars, continued a gradual decline.

**Severe budget reductions resulted in a decrease in per capita expenditures. Actual 1992-93 expenditures were under budget by \$1.6 million**

Comments: The continued decrease in expenditures per capita reflects declining expenditure levels as a result of severe budget reductions during the past two years. In 1992-93, expenditures per capita slightly decreased in both constant and actual dollars in comparison with the prior year, and have been fluctuating over the last five years with 1992-93 ending up slightly lower in constant dollars than the levels of 1988-89. Actual 1992-93 expenditures were under budget by \$1.6 million or 7.8 percent.

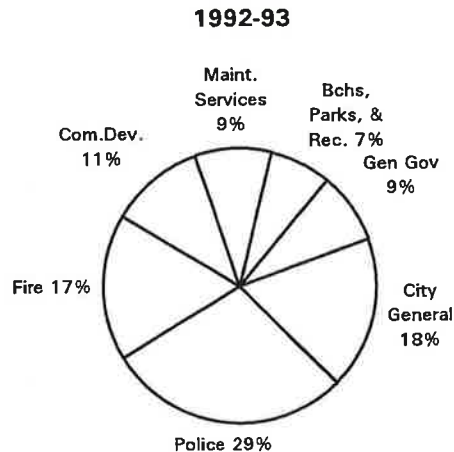
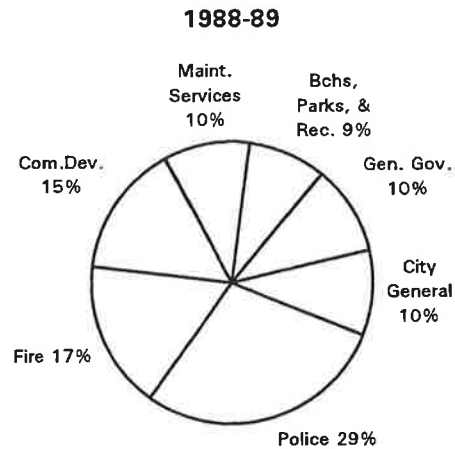
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## Financial Condition & Trends

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### Expenditures By Department



***The increase in City General expenditures is a result of the Negocio Building acquisition***

Comments: As demonstrated by the two pie charts above, City General is eight percent larger in 1992-93 as a result of the one-time capital outlay expenditure for the acquisition of the building located at 910 Calle Negocio. This building was purchased at a cost of \$2.9 million dollars from the proceeds of a \$3,795,000 Certificates of Participation (C.O.P.) debt issuance. The C.O.P. issuance is the City's first general obligation bonded debt since the retirement of the 1964 Beach Acquisition Bonds in 1989 and is to be repaid over a period of thirty years from the sub-leasing of this facility. After backing out this one-time capital acquisition cost from City General, all departments within the City are operating within approximately the same proportion as in 1988-89.

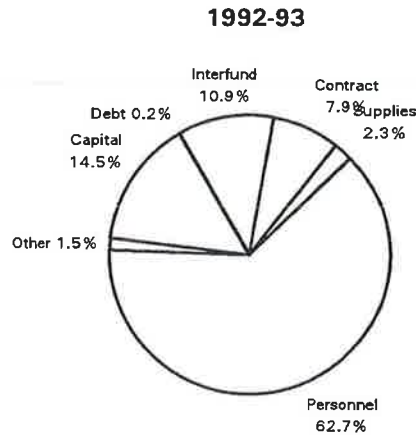
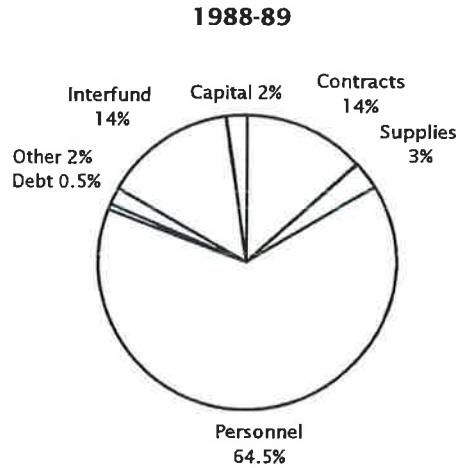
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# Long Term Financial Plan

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## Expenditures by Category 1988-89



**Personnel costs declined from 1991-92 levels of 71% to 63% in 1992-93**

Comments: Personnel costs declined from 1991-92 levels of 71.1% to the 1992-93 level of 62.7%. This is largely due to the reduction in force of 25 positions in fiscal 1992-93 as well as salary freezes and unpaid furloughs which have been in effect for two years. Furthermore, the percentage allocation to personnel costs is 2% less than in 1988-89, as indicated in the graphs above. The Capital category shows a large increase due to the acquisition of the Negocio building.

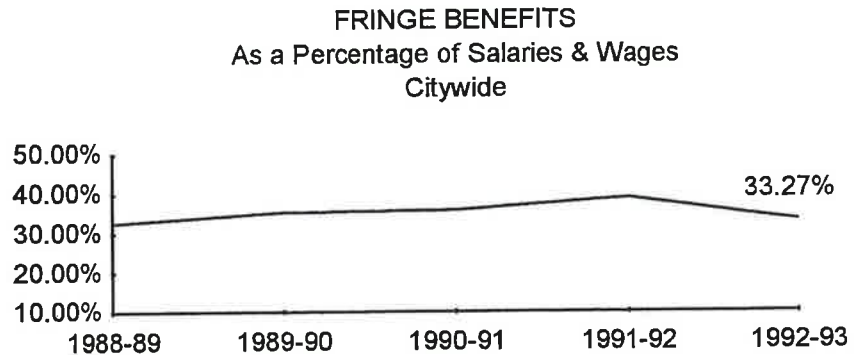
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## Financial Condition & Trends

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### *Fringe Benefits*



***A sharp decline in fringe benefits occurred in 1992-93***

Finding: *WARNING*. This trend is beginning to show signs of improvement as the percentage of fringe benefits to salaries for 1992-93 dropped to its lowest level in four years. This is attributable to the drop in City paid medical insurance due to excess medical reserves. This trend should continue to spiral downward as the impacts of the City's new managed care approach to medical care takes effect in fiscal 1993-94.

Comments: Fringe benefits refer to the City's share of payroll taxes, pension plan and deferred compensation contributions, medical, life and disability insurance, worker's compensation funding, educational reimbursements, and auto and uniform allowance.

***The recently negotiated medical plan package will save the City \$300,000 per year***

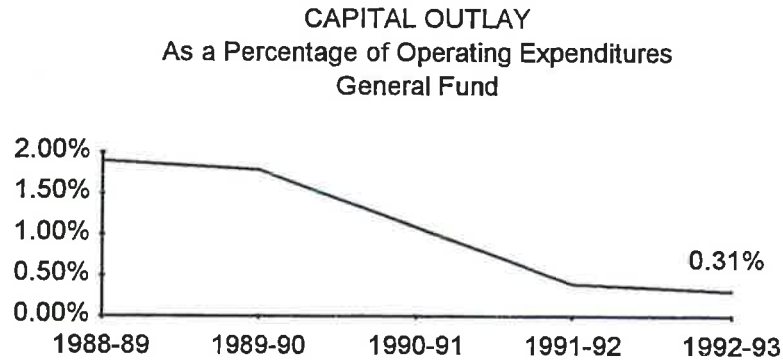
Until 1992-93, fringe benefit costs increased at an alarming rate, largely due to escalating medical and pension costs. However, fringe benefit costs are now at 33% of Salaries and Wages, which is more in line with other municipalities and private entities. This decrease is directly attributable to a drop in City paid medical contributions due to an excess build up of medical reserves. Although this trend should continue to decline further as a result of the recently negotiated medical plan package which saves the City approximately \$300,000 per year, increased pension costs for public safety employees (Fire and Marine Safety) will undoubtedly temper the positive slide of the fringe benefit trend line. Because of the enhanced pension plan benefits for public safety employees which allows for full retirement benefits at age 50, pension costs will rise by approximately 50% for these employees over the next two years.

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## Long Term Financial Plan

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### Capital Outlay



**Finding: UNFAVORABLE.** The City's contribution to Capital Outlay expenditures continues its negative and downward trend. Purchases to replace obsolete equipment and to add new equipment is entirely inadequate.

**Expenditures for capital outlay represents less than 1/2% of General Fund expenditures**

**Capital equipment needs have been deferred**

**The City should establish a Capital Equipment Reserve Fund**

**Comments:** Total expenditures for capital outlay (machinery and equipment costing \$500 or more) totaled only \$59,000 in 1992-93 which represents less than 1/2% of General Fund expenditures. In fact, capital outlay expenditures are down by over 80% from 1989-90 levels. Based on this analysis and currently identified equipment needs, this indicates that capital outlay needs are being deferred and that inefficient equipment may be in use. The accumulation of capital costs resulting from delayed purchases, combined with greater liability exposure, will cost the City more in the long term. It should be noted that all fleet vehicle replacements are funded from the Fleet Replacement Internal Service Fund.

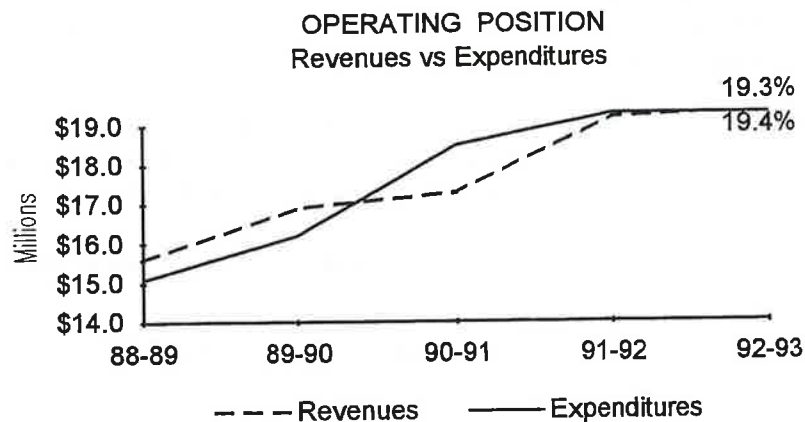
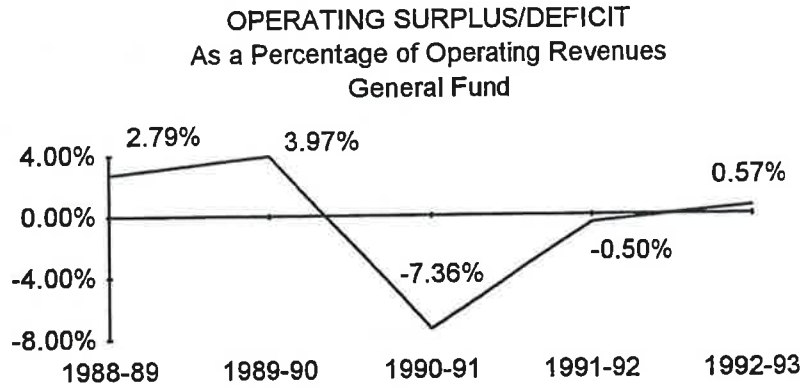
A recommendation included in this Long Term Financial Plan is designed to alleviate this negative indicator. Council will be asked to establish a Capital Equipment Reserve Fund with an initial contribution of \$100,000 in 1994-95. Adoption of this recommendation will eventually improve this negative trend.

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# Financial Condition & Trends

## Operating Position



**A modest, yet positive surplus occurred in 1992-93**

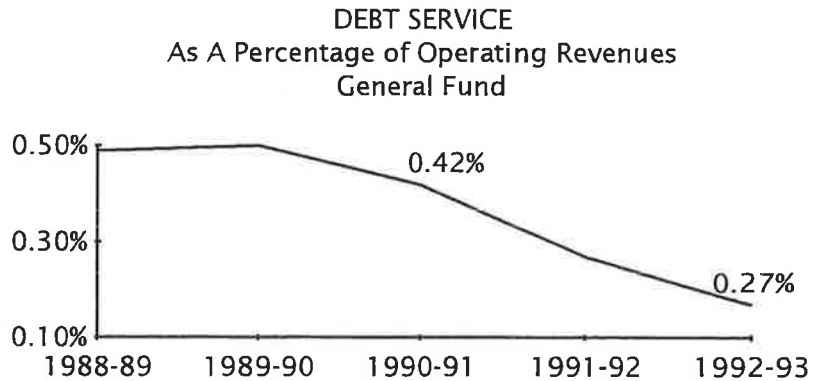
Finding: *WARNING*. As a result of the economic downturn, General Fund operating expenditures have exceeded operating revenues in two of the past five fiscal years with 1992-93 showing a modest, yet positive, surplus of .57% or \$111,000. Until such time as this positive movement toward a favorable status occurs two or three years in a row, a warning trend will continue to be assigned.

**Serious revenue shortfalls have historically affected the City's ability to balance the budget**

Comments: Serious revenue shortfalls have historically affected the City's ability to balance the budget without relying to some degree on available one-time revenues and carry forward fund balances. Consequently, the City has faced a negative operating position (revenues minus expenditures) for two of the past five years. Although one-time revenues have generally been used for one-time expenditures and fund balances have been available to cover shortfalls, this situation has not allowed the City to address other critical needs such as the funding of reserves, and capital outlay and project needs.

# Long Term Financial Plan

## Debt Service

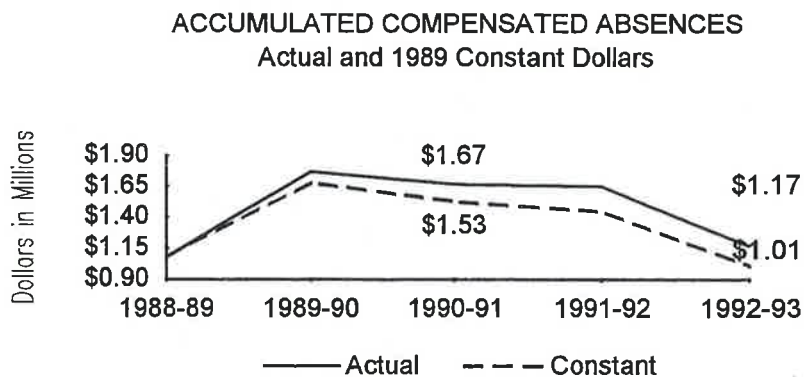


**General Fund debt service represented only 0.17% of operating revenues**

Finding: *FAVORABLE*. General Fund debt service represented only 0.17% of operating revenues which is well below the 20% maximum suggested by credit rating firms.

Comments: As indicated above, only .17% of operating revenues are allocated for debt service. This is a positive indicator and indicates that the City could increase debt without negatively impacting its positive credit rating.

## Accumulated Compensated Absences



**The City's liability for compensated absences has declined for the last three consecutive years**

Finding: *FAVORABLE*. Contingent liabilities for accumulated leave (vacation leave, sick leave and compensatory time) has continued to decline since 1989-90.

Comments: The City's liability for compensated absences has dropped for the last three consecutive years in both constant and actual dollars. Last

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## Financial Condition & Trends

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**The balance of the liability for compensated absences is \$1.2 million**

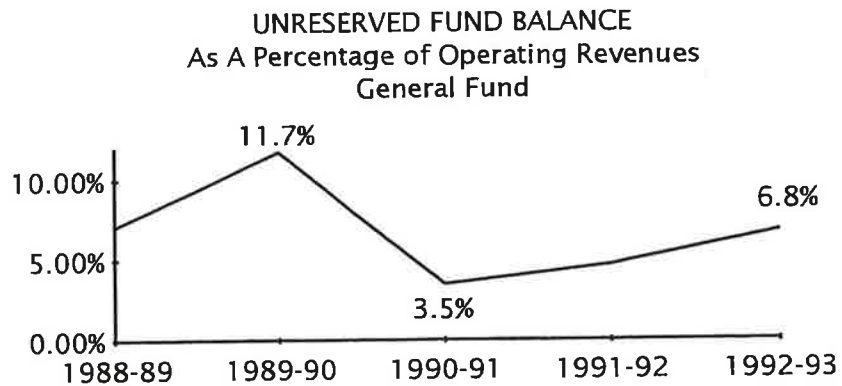
year's drop is attributable to the contracting out of the Police Department and the related leave payout to 77 employees. Other factors included the recent retirement of some long term employees, and the cut back of 25 positions within the 1992-93 adopted budget. The increase in 1989-90 is reflective of the growth in employees occurring in 1988-89. At June 30, 1993, the balance of the liability for compensated absences was \$1.2 million, consisting of \$719,000 for vacation, \$421,000 for sick leave, and \$31,000 for compensatory time. This is a total drop of \$479,000 or 29% from the prior year's total liability of \$1.6 million.

**The 1993-94 approved budget included a provision for establishing an Accrued Leave Reserve Fund**

In response to a recommendation in the 1993 Long Term Financial Plan, the 1993-94 approved budget included a provision for establishing an Accrued Leave Reserve Fund. An initial contribution of \$75,000 was provided and will be replenished annually, based on an analysis of anticipated and historical leave payments.

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### Reserves



Finding: **WARNING.** Unreserved fund balances refer to those dollars available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The City attempts to operate each year at a surplus to ensure the maintenance of adequate reserve levels.

**Unreserved fund balances increased to 6.8% in 1992-93**

Comments: The decline in unreserved fund balances as a percentage of operating revenues from 11.7% in 1989-90 to 3.5% in 1990-91 was a result of the excess operating expenditures over operating revenues of \$1.5 million that occurred in 1990-91. This operating loss caused a corresponding reduction in unreserved fund balances. The increase to 6.8% in 1992-93 represents an increase in the General Fund Balance of \$421,500. This increase is primarily due to the increase in total revenues as total expenditures remained relatively the same as in the prior year.

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## Long Term Financial Plan

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***Council policy requires that 8% of expenditures be designated as General Fund Emergency Reserve***

Included within the total 1992-93 unreserved fund balance of \$1.3 million is \$629,640 designated for emergencies. This designation was established in 1991-92 as a result of Council adoption of the "General Fund Emergency Reserve" fiscal policy. This policy requires that 8% of General Fund expenditures be set aside for economic downturns or unforeseen catastrophic events that can not be covered through other available funding sources and is intended to be phased in over the next five years. In addition to the emergency reserve, Council also appropriates a contingency reserve to meet current year needs that are known during budget preparation but with costs that are unknown. This appropriated reserve is usually 1.5% of total budgeted expenditures, but was reduced to only 0.5%, or \$100,000 due to the economic downturn and loss of revenues to the State.

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# Financial Forecast

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## Financial Forecast

***The forecast provides a frame of reference for evaluating the City's financial condition as a basis for decision making***

In January, 1993, the City of San Clemente prepared the first Five Year Financial Forecast as part of the Long Term Financial Plan. The objective of the document was to provide a frame of reference for evaluating the City's financial condition as a basis for decision making.

This report will update the assumptions and data upon which the forecast is based and will provide a comparison of this year's forecast to the 1993 model and historic data.

## Development of the Forecast

As was the case in 1993, this forecast was based on a baseline environment, that is, revenues and expenditures were projected based primarily on growth patterns or inflation factors and the present level of services provided by the City was presumed.

Inflation and historical growth rates were used to predict expenditure patterns while revenues were projected by trend or by specific circumstances as the case warranted. Revenue and expenditure projections are discussed in greater detail in subsequent sections of this report.

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from the Economic and Business Review prepared by the School of Business at Chapman University, December, 1993. In general, that report predicts a slower recovery than anticipated in the City's 1993 forecast which projected an upturn in mid-1994. The revised forecast is based on a fairly static situation in 1994, an upturn in economic activity in 1995, a slowdown in 1996, and a gradual upturn beginning in 1997 through 1999.

## Economic Assumptions

	1994	1995	1996	1997	1998
Inflation	3.5	6.4	4.8	6.5	6.3
Population	3.4	2.1	2.0	2.0	2.0
Assessed Valuation	5.7	6.0	5.9	5.9	5.9
Personal Income	5.6	7.1	6.0	7.2	6.5

***Inflation is predicted to increase in 1995***

- Inflation: Inflation is the measure of the cost of goods and services. One of the main tenets of the Chapman forecast is that inflation, which has been relatively flat over the last four years, will appear again in 1995 and continue through the forecast period. Inflation impacts many revenue and most expenditure categories throughout the five year forecast.

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## Long Term Financial Plan

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- **Population:** Some revenue sources are based on population, such as Motor Vehicle In Lieu Tax. On the expenditure side, significant increases in population can drive up the cost of providing City services. In this forecast, population growth is not expected to be a significant factor.
- **Assessed Valuation:** This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property which drives one of the City's major revenue sources, Property Tax.
- **Personal Income:** As a measure of consumer purchasing power, this indicator reflects on Sales Tax, concession revenues and Transient Occupancy Taxes.

### Financial Forecast Assumptions:

***Forecast Assumptions include increased staff levels, COLA increases, Negocio lease revenue and contributions to Reserves***

Beyond the economic and growth/trend factors, information specific to San Clemente was included in the forecast:

- The forecast presumes that cost of living increases will be granted at 90% of inflation and that the City will add back four employees per year during the forecast period.
- The forecast includes, as annual operating transfers out, expenditures to fund debt service and reserves as follows:

General Liability Fund to augment reserves and reduce fund deficit:	\$305,000
Workers' Compensation Fund to augment reserves and reduce fund deficit:	\$271,000
Accrued Leave Reserve to provide for future payout of accrued employee leave:	\$ 75,000
Negocio Debt Service Fund:	\$360,000
General Fund Emergency Reserve:	\$353,000

- City Council Fiscal Policy establishes a goal of 1.5% of operating expenditures to be set aside as the City Council Contingency Reserve. This forecast provides for that level of reserves.

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## Financial Forecast

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- Beginning in 1994-95, projected revenues from leases at the 910 Negocio building were included.

### Factors Not Included In The Forecast:

*The Forecast does not include any diversion of revenue by the State or the recommendations contained in this LTFP*

- No attempt was made to predict further actions by the State of California to divert revenues traditionally dedicated to local government. However, it is important to note that the State of California has not resolved its projected budget deficits in the short or long term. At the time this forecast was prepared, the State was projecting a \$3.8 billion dollar deficit by June 30, 1995. Historically, these projections have been underestimated by about one-half.
- No expenditure decreases were forecast as the result of the contracting options discussed in the issue paper addressing that topic. Upon City Council direction, contracts may be negotiated. Impacts of contracting will be subject to the meet and confer process.
- No provision was made to establish a Capital Equipment Replacement Reserve, as recommended in the issue paper on Reserves.
- This forecast is based on the General Fund only. The impact of operations of the Enterprise Funds on the overall City financial structure is not included in this forecast.
- The forecast does not include a General Fund revenue enhancement of increased overhead charges as recommended in the issue paper on this topic.

### Forecast Detail

The following sections will discuss, in summary detail, the results of the forecast, assumptions used and comparisons to the 1993 forecast and historic data with respect to:

- **Operating Position:** This is the statement of the City's ability or inability to meet expenditure requirements with available revenues. It predicts operational shortfalls or additions to fund balance.
- **Revenues:** Major revenue sources will be discussed relative to current projections and comparisons to the 1993 forecast and historic projections.
- **Expenditures:** Major expenditure categories will be discussed relative to current projections and comparisons to the 1993 forecast and historic projections.

# Long Term Financial Plan

## Operating Position

**Operating deficits are projected throughout the forecast period**

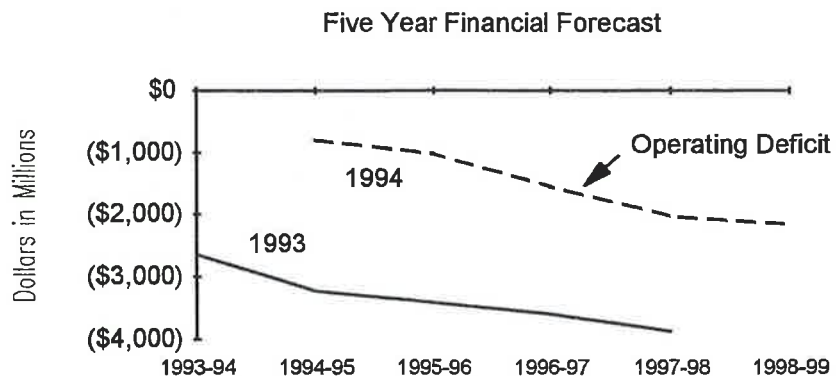
Although the forecast predicts a gradual recovery from the economic recession, the City of San Clemente will face operating deficits throughout the forecast period. Results of the forecast with respect to operating position are shown in the following two graphs that compare the 1993 forecast to the 1994 forecast. Note that the reserve requirements were not included in the 1993 forecast, but are shown here to provide a more accurate picture of the improvement in the operating position. Contributions to all Fiscal Policy mandated reserves are included in the 1994 forecast.

### 1993 Forecast Summary (000s Omitted)

	1993-94	1994-95	1995-96	1996-97	1997-98
Revenues	\$19,145	\$20,227	\$21,158	\$22,914	\$24,023
Expenditures	20,945	22,638	24,167	25,690	27,075
Operating Result	-\$1,800	-\$2,411	-\$2,586	-\$2,776	-\$3,052
Reserves not included in 1993 Forecast	\$844	\$819	\$819	\$819	\$819
Operating Result - 1993	-\$2,644	-\$3,230	-\$3,405	-\$3,595	-\$3,871

### 1993 Forecast Compared to 1994 Forecast:

**The operating deficit has narrowed considerably since 1993**





# Financial Forecast

## 1994 Forecast Summary:

### 1994 Forecast Summary (000s Omitted)

	1994-95	1995-96	1996-97	1997-98	1998-99
Revenues	\$20,087	\$21,285	\$22,006	\$23,173	\$24,437
Expenditures	20,872	22,291	23,546	25,188	26,580
<b>Operating Result</b>	<b>-\$785</b>	<b>-\$1,007</b>	<b>-\$1,540</b>	<b>-\$2,015</b>	<b>-2,143</b>

**An operating deficit of \$785,000 is projected for 1994-95**

The good news is that in comparison to the 1993 forecast, the City has made considerable progress toward improving the results of operation and avoiding greater deficits. Again, it should be pointed out that these shortfalls include contributions to various reserve accounts and funds. The revised outlook shows a substantially narrower gap between the break-even point and deficit operations.

It is very important to note that the City cannot adopt a deficit budget, that is, the operating shortfalls will not occur because the City will either have to *increase revenues, decrease expenditures, or apply a combination of both.*

### Revenues

1989-93 Historic Growth Rate	5.7%
1989-94 Historic Growth Rate	2.7%
1994 Projected Growth Rate	5.4%
1993 Forecast Growth Rate	5.7%

**A gradual recovery is predicted in 1995-96**

This forecast is less optimistic of a recovery occurring in 1994-95 than was the 1993 forecast, although the average projected growth rate is about the same. It is anticipated that 1995-96 will see the beginnings of recovery that will be gradual throughout the forecast period. Several of the City's major revenue sources are discussed in more detail below.

Two separate historic revenue growth periods are shown to illustrate the impact of revenue reductions caused by the State diversion of Property Tax from the City of San Clemente.

### Property Tax:

Historic Growth Rate	4.0%
1994 Projected Growth Rate	3.6%
1993 Forecast Growth Rate	6.5%

**Property tax growth has been impacted by State diversion of funds**

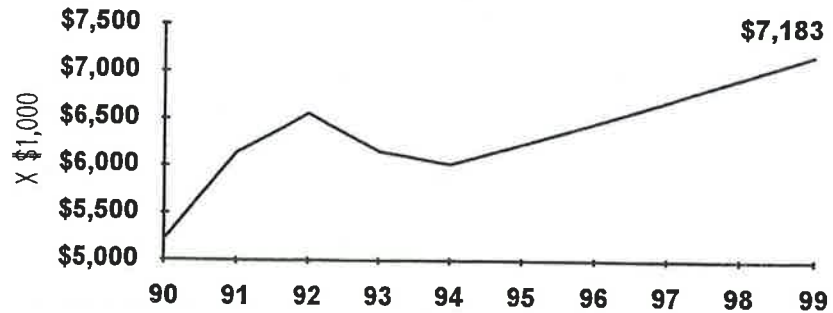
Property Tax has been the most relied upon local government revenue for decades. For the last two years, the State of California has diverted a significant portion of this revenue away from cities to address their own

# Long Term Financial Plan

budget problems. The historic growth rate reflects the impact of the State diversion of Property Tax revenue which occurred in the last two years.

In this forecast Property Tax was projected on a pure historic basis which resulted in a growth rate of 3.6%. This was done in an attempt to even out the effects of the last two years reductions.

**Property Tax Receipts**



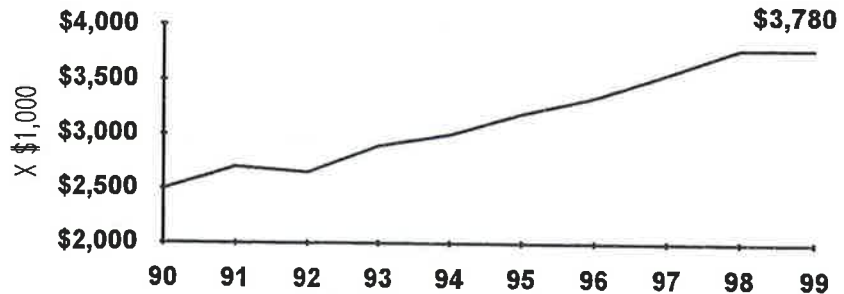
**Sales Tax:**

Historic Growth Rate	4.75%
1994 Projected Growth Rate	5.5%
1993 Forecast Growth Rate	5.5%

**Sales tax revenues are anticipated to grow an average of 5.5% over a 5 year period**

Sales tax is especially sensitive to the economic health of an area. For the purposes of this forecast, Sales Tax was projected on the same basis as the Chapman University prediction for percentage increases in Taxable Sales for the Orange County area. The projection parallels that of the 1993 forecast and the base year includes consideration of the November 1993 voter approved half cent sales tax ear-marked for public safety.

**Sales Tax Receipts**



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## Financial Forecast

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### *Transient Occupancy Tax:*

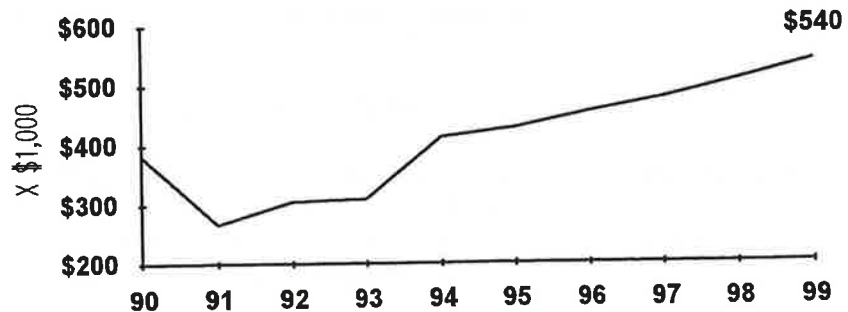
Historic Growth Rate	5.7%
1994 Projected Growth Rate	5.5%
1993 Forecast Growth Rate	12.3%

**TOT is projected to increase an average 5.5% growth**

Transient Occupancy Tax is charged against room rates at local hotels. It is another elastic revenue source affected by swings in the economy.

The 1993 forecast was projected on the basis of inflation and personal income growth. Even though personal income is projected to grow, it is not expected that increases in consumer spending for recreational purposes will necessarily follow. Therefore, Transient Occupancy Tax was projected on the basis of inflation only.

**Transient Occupancy Tax**



### *Licenses and Permits:*

Historic Growth Rate	8%
1994 Projected Growth Rate	10.42%
1993 Forecast Growth Rate	8.1%

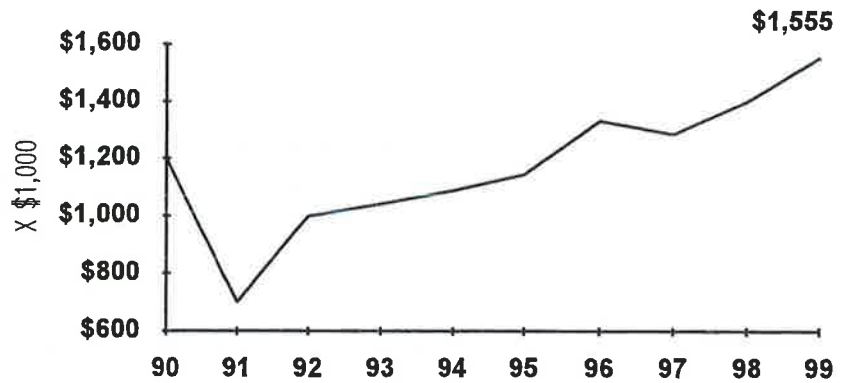
**Licenses and Permit revenue is projected to grow an average of 10.4% annually**

Licenses and Permits revenue include Business Licenses and Construction Permits. The 1993 forecast expected a rebound from the recession that would result in an average 8.1% annual increase in this revenue source.

In the 1994 forecast, Chapman University Data regarding the projected growth in residential permit valuation was used in addition to indicators of personal income growth and inflation.

# Long Term Financial Plan

Licenses & Permits



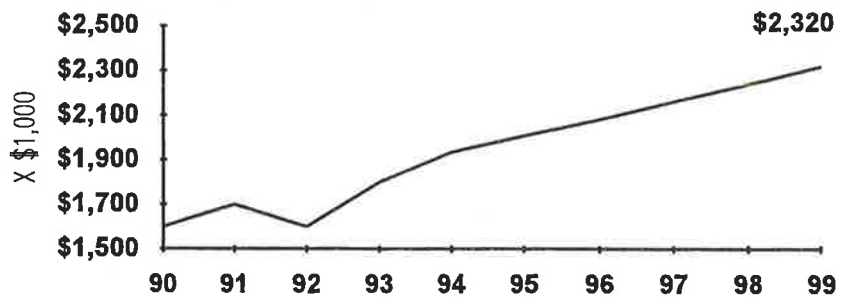
**Intergovernmental Revenues:**

Historic Growth Rate	4.47%
1994 Projected Growth Rate	3.8%
1993 Forecast Growth Rate	3.65%

**Intergovernmental Revenues, predominantly Motor Vehicle In Lieu Tax, shows a historic growth rate of 4.47%**

The predominant source of revenue in this category is Motor Vehicle In Lieu Tax. This revenue source was projected on the basis of the trend over the historical data base. No provision was made to predict any potential State diversion of this local government revenue.

Intergovernmental



**Service Charges show a historic growth rate of -2.3%**

**Service Charges:**

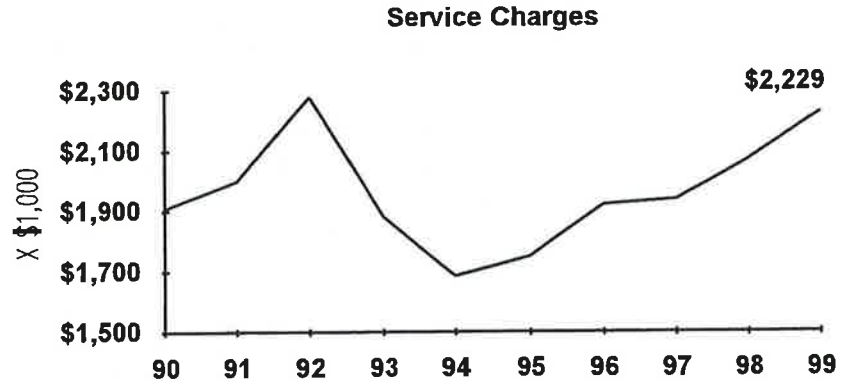
Historic Growth Rate	-2.3%
1994 Projected Growth Rate	5.5%
1993 Forecast Growth Rate	3.6%

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## Financial Forecast

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This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. For the purpose of this forecast, a pure inflation factor was used to project revenues.



### ***Expenditures***

1989-1993 Historic Growth Rate	6.06%
1989-1994 Historic Growth Rate	2.9%
1994 Projected Growth Rate	6.5%
1993 Forecast Growth Rate	7.0%

Two versions of the historic growth rates are shown to illustrate the impact of the 1993-94 reductions in the number of staff, salary freezes and holiday furlough.

***Projected expenditures presume that service levels in effect in fiscal 1993-94 will remain constant***

As mentioned, projected expenditures presume that service levels in effect in fiscal year 1993-94 will remain constant. The 1993-94 base year expenditure level reflects two years of operational cutbacks, including the elimination of 30 positions through organizational restructuring and 77 positions due to the transfer of Police Services to the Orange County Sheriff's Department. A general (including management) salary freeze, holiday furlough, benefit reductions, and other service and program cost reductions contributed to the reduction in expenditures.

The 1994 projection from the base year is based on inflation and personnel costs (employee salaries and benefits) are based on 90% of inflation for cost of living salary increases. Also included is the projected addition of four (4) employees per year over the forecast period.

# Long Term Financial Plan

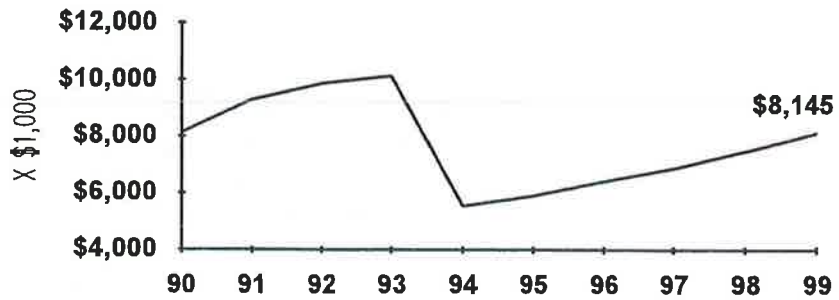
**The 1989-1994 Salaries and Wages historic growth rate is -5.50%**

**Salaries and Wages:**

1989-1993 Historic Growth Rate	7.68%
1989-1994 Historic Growth Rate	-5.50%
1994 Projected Growth Rate	7.98%
1993 Forecast Growth Rate	7.6%

The 1993 forecast also presumed 90% of inflation cost of living increases and the addition of six employees per year, although this did not occur. In fact, the City reduced the work force by more than 5 positions in 1992-93 and transferred police services (77 positions) to the Orange County Sheriff's Department.

**Salaries and Wages**



**Employee Benefits:**

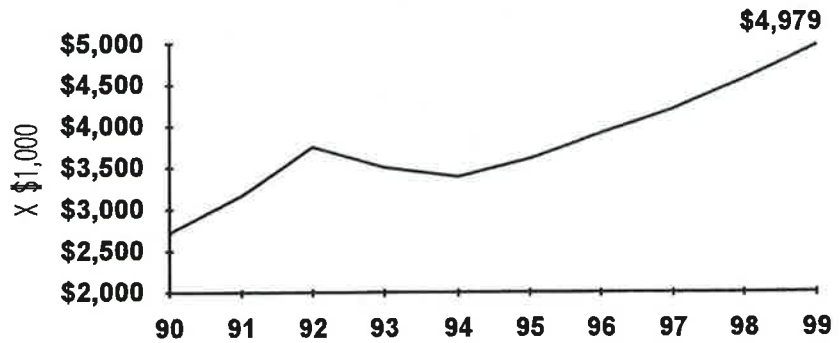
1989-1993 Historic Growth Rate	9.4%
1989-1994 Historic Growth Rate	6.3%
1994 Projected Growth Rate	7.98%
1993 Forecast Growth Rate	12.9%

**The 1994 projected growth rate for Employee Benefits is 7.98%**

This projection was made on the same basis as that applied to salaries and wages. The higher 1993 forecast percentages can be attributed to escalating costs of health insurance before the City capped its contribution to employee premiums and the 2% at 50 retirement benefit for firefighters, which have already been factored into the base year 1993-94.

# Financial Forecast

## Employee Benefits



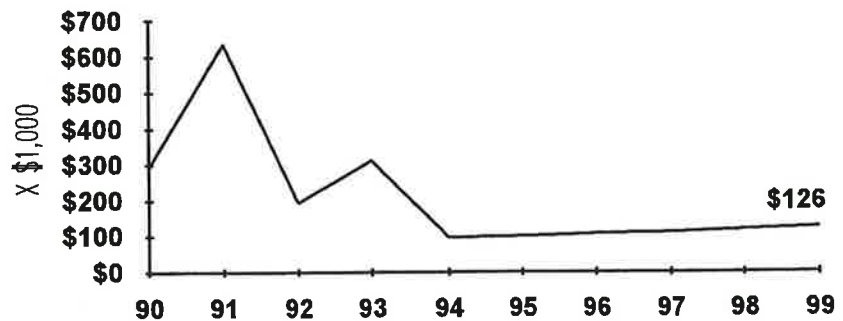
### Capital Outlay:

Historic Growth Rate	-19%
1994 Projected Growth Rate	5.4%
1993 Forecast Growth Rate	3.68%

**The historic growth rate for Capital Outlay is -19%**

The projection was made on the basis of 1993-94 expenditures increased by inflation for the remainder of the forecast period. This level of expenditures is considered low. Please refer to the Reserve Analysis and Trend Analysis issue papers for further discussion and recommendations.

## Capital Outlay



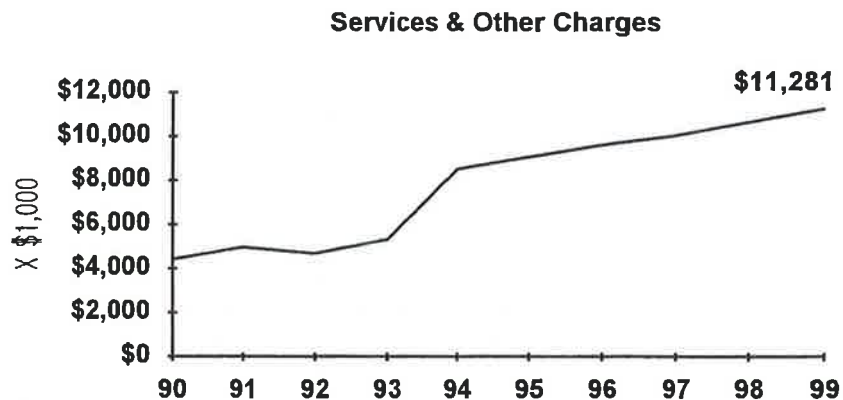
### Services and Other Charges:

Historic Growth Rate	4.7%
1994 Projected Growth Rate	5.5%
1993 Forecast Growth Rate	3.2%

# Long Term Financial Plan

**The 1994 projected growth rate for Services and Other Charges is 5.5%**

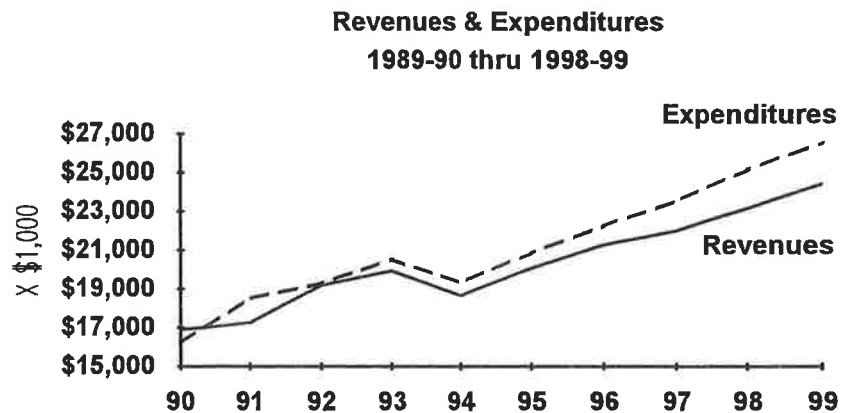
This category of expenditures includes contract services (such as Orange County Sheriff) and interdepartmental charges. The forecast was based on projected inflation. The historic growth rate was based on pre 1993-94 data due to the transfer in 1993-94 of Police Services from regular City operational expenditures to contractual expenditures. This increase in contractual services was more than offset by savings in employee salaries and benefits.



### Forecast Conclusion:

**The forecast predicts a deficit accumulating to \$2.1 million by year 1998-99**

The forecast predicts a deficit accumulating to \$2.1 million dollars by the year 1998-99. This will be the result of an average annual projected revenue growth of 5.4%, compared to a projected average annual expenditure growth of 6.5%.



City Council fiscal policy provides that the City will operate within a balanced budget, therefore measures must be taken to avoid the projected deficits. The purpose of the Long Term Financial Plan, which includes this Financial Forecast, is to set up an action plan to achieve that objective.



## Financial Forecast

The next table, Cash Flow By Year, provides a detail summary of Beginning Fund Balances, Revenues, Expenditures, Ending Fund Balances, and Operating Position over the forecast period.

### Cash Flow By Year

	1995	1996	1997	1998	1999
<b>Beginning Fund Balances</b>	630	-155	-1,162	-2,701	-4,716
<b>Revenues</b>					
<b>Revenues</b>					
Service Charges	1,756	1,937	1,964	2,111	2,283
Interfund Charges	1,960	2,074	2,169	2,297	2,428
Intergovernmental	2,007	2,084	2,163	2,241	2,320
Licenses & Permits	1,145	1,332	1,287	1,401	1,555
Fines & Forfeits	497	530	561	600	637
Use Of Money & Property	1,075	1,130	1,178	1,237	1,299
Taxes	11,169	11,706	12,185	12,775	13,394
Other Revenue	480	490	500	510	521
Operating Transfers In	0	0	0	0	0
<b>***Total Revenues</b>	<b>20,087</b>	<b>21,285</b>	<b>22,006</b>	<b>23,173</b>	<b>24,437</b>
<b>Expenditures</b>					
<b>Expenditures</b>					
City Council	22	23	23	25	26
City Manager	377	408	435	470	508
City Treasurer	37	40	42	46	49
City Attorney	75	79	83	89	94
Office Of Mgmt & Budget	1,231	1,329	1,417	1,531	1,655
City General	1,617	1,674	1,742	1,813	1,863
Police/Sheriff Contract	5,587	5,945	6,232	6,637	7,057
Fire	4,092	4,433	4,741	5,136	5,572
Comm Dev.- Admin.	204	221	236	256	278
Engineering	1,065	1,164	1,257	1,373	1,504
Building	756	817	872	942	1,020
Planning	693	749	799	864	935
Maintenance Services	1,997	2,153	2,289	2,468	2,661
Parks & Recreation	884	953	1,015	1,095	1,182
Marine Safety	821	889	949	1,028	1,114
Debt Service Funds	0	0	0	0	0
Operating Transfers Out	1,414	1,414	1,414	1,414	1,061
<b>***Total Expenditures</b>	<b>20,872</b>	<b>22,291</b>	<b>23,546</b>	<b>25,188</b>	<b>26,580</b>
<b>Projected Operating Position</b>					
<b>Ending Fund Balances</b>	-155	-1,162	-2,701	-4,716	-6,859
<b>Operating Position</b>	<b>-785</b>	<b>-1,007</b>	<b>-1,540</b>	<b>-2,015</b>	<b>-2,143</b>
<b>Expense Group Summary</b>					
Salaries & Wages	5,903	6,421	6,889	7,487	8,152
Employee Benefits	3,602	3,912	4,206	4,572	4,979
Supplies	559	595	624	665	707
Services/Other Charges	9,294	9,843	10,302	10,930	11,554
Capital Outlay	100	107	112	119	126



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## Issue Analysis Summary

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### Issue Analysis Summary

This section provides a brief one page synopsis of each issue included in the Long Term Financial Plan - Issue Papers. Each summary includes a description of:

- **Goals & Issue:** The stated goal of the project is included which indicates why the particular issue was analyzed and included in the Long Term Financial Plan.
- **Facts:** Indicates the results of the study along with conclusions drawn from the analysis.
- **Recommendations & Fiscal Impact:** Outlines specific recommendations made along with the potential fiscal impact of each of the recommendations.

For complete information for each issue paper, the reader is referred to the LTFP companion volume contained in Long Term Financial Plan - Issue Papers.

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# Long Term Financial Plan

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## Capital Improvement Program

### Goal & Issue:

To develop, implement, and update the City-wide comprehensive Capital Improvement Program, including funded projects, unfunded projects, FEMA/FHWA projects, developer dependent projects, and RDA projects.

### Facts:

The 1993 LTFP established the City's first 5 Year Capital Improvement Program. This issue paper serves to provide a complete summary of current CIP activities, especially for storm drain projects, which has become a major priority for the City as a result of the January and February 1993 severe storm damage. The major unfunded project categories that will require Council deliberation and action in the future have been identified and include:

*The major unfunded projects will require Council deliberation and action in the future*

<i>CIP Project Category</i>	<i>5 Year Total</i>
Streets	\$18,000,000
Disability Act Requirements	\$33,000
Storm Drains	Unknown
Storm Damage/FEMA	Unknown
Reclaimed Water	\$7,700,000
Emergency Water Storage	\$11,000,000

The above listed unfunded projects are included as a part of the Long Term Financial Plan financial summary since they will undoubtedly impact the future financial condition of the City. Major projects, along with estimated funding needs (when known), and requiring future deliberations include:

City Hall Site Stability	Unknown
Grande Vista Slope Stabilize	\$1/2 - \$1 Million
La Ventana	\$780,000
Canyons	Unknown
Animal Shelter	Unknown

### Recommendations & Fiscal Impact

It is recommended that the City Council direct staff to:

- Continue to pursue completion of \$5.2 million in storm damage projects.
- Continue to pursue Federal, State and County matching funds for storm damage projects (City Hall Stability, Grande Vista, La Ventana, Canyons, Animal Shelter, Pacific Coast Highway/Colony Cove.)
- Present sewer/water rate and connection fee impacts for capital replacement and improvements when rate studies are completed.

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## Issue Analysis Summary

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### Contracting/Privatization/Regionalization

#### Goal & Issue:

To determine the economic and operational feasibility of providing existing public services through contracts with other public agencies or private for profit organizations.

#### Facts:

As a result of the adoption of the 1993 Long Term Financial Plan by the City Council, staff initiated a comprehensive evaluation of all internal operations to determine if opportunities existed to maintain or improve the level and quality of services provided to the citizens of San Clemente at a lower cost through contracting, privatization or regionalization.

After a thorough review of 65 City programs, the Contracting Project Team, in consultation with an outside Advisory Committee to the City Manager, concluded that 10 programs should be further evaluated. Of the 65 programs, 9 were already contracted out, 13 other programs were eliminated because contracting was not possible or savings were minimal, and 33 programs were either eliminated from consideration because they did not meet the prescribed selection criteria, or cost savings could not be obtained for a number of reasons.

The results of the RFP process for each of the 10 selected programs are indicated in the following table:

**Requests For Proposals  
for ten City programs  
were solicited**

<u>Program</u>	<u>Cost Savings</u>
Park Maintenance	
Beach Maintenance	\$295,000
Street Sweeping	(\$5,700)
Street Striping & Marking	\$20,800
Traffic Signal Maintenance	\$2,500
Street Light Maintenance	(\$22,000)
Valve & Pump Station Maintenance	No Bids Received
Sewer & Storm Drain Cleaning	(\$351,000)
Fleet Services	\$86,500
Street Maintenance	No Bids Received

The table reflects potential savings for Park and Beach Maintenance, Street Striping and Marking, Traffic Signal Maintenance, and Fleet Services. Programs where the City is able to provide the service for less cost include: Street Sweeping, Street Light Maintenance, and Sewer and Storm Drain Cleaning.

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## Long Term Financial Plan

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It was also determined that certain parallel studies would take place during the contract evaluation process. Thus, organizational adjustments in the Water/Wastewater Treatment operations and administrative services area were also considered; the Fire Master Plan study, designed to determine the best method of providing Fire Protection Services, was incorporated into the report; contracting of meter reading services with San Diego Gas & Electric was explored; and a potential consolidation with the Tri-Cities Municipal Water District was examined during the same time frame as the contracting study.

### Recommendations & Fiscal Impact

After a thorough analysis of the contracting, privatization and regionalization options described briefly above, it is recommended that the City Council:

- Direct staff to enter into negotiations with both contractors and applicable employee bargaining units to contract the following services:
  - Park/Beach Landscape Maintenance (Savings = \$295,000)
  - Fleet Services (Savings = \$86,500)
  - Striping and Marking of City Streets (Savings = \$20,800)
  - Meter Reading (Savings = \$77,000)
- Implement proposed organization adjustments for the Sewer Treatment Plant which will result in the elimination to two vacant positions. This would also result in a change of the current 4/10 work schedule to the City-wide standard of the 9/80 schedule. (Savings = \$96,000)
- Continue to explore the feasibility of regionalization of City services for Fire Protection Services, Tri-Cities Water Consolidation, and Human Resources functions. Appropriate \$15,000 from the 1993-94 Council Contingency budget to authorize the County of Orange to conduct a Fire Protection contract study.

***Five major programs are recommended for potential contracting or reorganization***

***The total first year savings amounts to \$530,000***

The total first year anticipated savings, after allowing for estimated severance costs, amounts to approximately \$530,000. This does not include possible gains for sale of equipment and avoided costs such as future equipment and vehicle replacement costs. Thus, on-going savings will be in excess of \$530,000.

***Contracting or reorganization will result in a loss of 22 positions***

These proposed actions would result in a loss of 22 positions; however, steps would be taken to transfer employees to other vacant City positions, or, negotiate with contractors to hire the impacted employees.

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## Issue Analysis Summary

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### Economic Development

#### Goal & Issue:

The City must expand its economic tax base to provide the fiscal resources necessary to meet the future municipal service needs of the citizens it serves. The City Council has responded to this challenge by adopting a comprehensive Economic Development Action Plan. Deliberate and thoughtful action is now required to develop the strategies necessary for implementation of this plan.

#### Facts:

*Three primary economic development areas are Business Retention, Business Marketing & Promotion and Reinvestment & Revitalization*

This issue paper addresses three primary economic development program areas that are critical to the success of Council adopted Economic Development Plan:

- Business Retention - The City recognizes its obligation and responsibility to support the economic interests who have invested their resources in the community.
- Business Marketing and Promotion - The City must strategically position itself to aggressively compete with other communities in the regional market place to capture prospective relocation and new development opportunities.
- Reinvestment and Revitalization - The City has identified specific commercial and industrial areas which represent important investment and employment generating resources to the community.

#### Recommendations & Fiscal Impact

- Evaluate appropriate financing mechanisms and programs, and formulate policy strategies to implement programs for retention of existing businesses and attraction of new commercial investment in the City.
- Place primary emphasis on the development of economically feasible and quality projects in the Pier Bowl and develop a mixed-use master plan which will result in the commercial and residential development of the Marblehead Coastal area.
- Upon completion and implementation of the North Beach - Pico Corridor Specific Plan, direct that an advisory committee be established to assist the City in evaluating infrastructure requirements for the Los Molinos Industrial area, and prepare a capital improvement program and financing recommendations.
- Conduct a feasibility study and identify appropriate sites for the development of a Saddleback College satellite campus including facilities for the California State University.

# Long Term Financial Plan

## Financial Forecast

### Goal & Issue:

To update the comprehensive five-year financial forecast for the General Fund incorporating adopted City fiscal policies, expenditure patterns, revenue trends, and other known financial impacts.

### Facts:

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 1993 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 1994 Long Term Financial Plan. The forecast basically incorporates current expenditure and revenue patterns and attempts to predict the City's future operating position with the following modifications:

- Reserve contributions to all reserve accounts and funds total over \$1 million.
- Cost of living increases for City employees are included at 90% of inflation, although pay increases have not been granted for two years.
- An additional four employees are projected to be added each year.
- Projected revenues from the Negocio building leases are included.
- An annual General Fund contribution of \$360,000 to the Negocio Debt Service Fund to replace the lease payment for the Negocio office building.

*The forecast projects a continued operating deficit throughout the forecast period*

*The deficit is less than what was predicted last year*

*This is a result of positive Council action taken to reduce expenditures and enhance revenues*

The City of San Clemente's forecast projects a continued operating deficit throughout the forecast period. However, this deficit is substantially less than the predicted forecast deficit projected last year. This is the result of positive Council action taken to significantly reduce expenditures (e.g. Police Services) or to enhance revenues (e.g. Storm Drain Utility). Recommendations that will reduce or eliminate the projected deficits are contained in the Conclusion & Financial Summary section of this report.

Presented below, in summary form, are the projected revenues and expenditures for the five year period commencing in fiscal 1994-95 and ending in 1998-99. Also provided is a comparison to last year's forecast ("Prior Year Result") which attests to the significant progress that the City of San Clemente has made toward reducing the deficits that were originally projected in 1993:

	1994-95	1995-96	1996-97	1997-98	1998-99
Revenues	\$20,087	\$21,285	\$22,006	\$23,173	\$24,437
Expenditures	20,872	22,291	23,546	25,188	26,580
Operating Result	-785	-1,007	-1,540	-2,015	-2,143
Prior Year Result	-2,644	-3,230	-3,405	-3,595	-3,871



## Issue Analysis Summary

### Financial Trend Analysis

**Goal & Issue:**

Utilizing ICMA's Financial Trend Monitoring System, update the comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed. Ratings assigned to each trend include: Favorable, Unfavorable or Warning.

**Facts:**

*The trend analysis report confirms that the City's financial condition is still extremely weak*

The Trend Analysis report confirms that the City's financial condition is still extremely weak: Expenditures - Personnel hiring restrictions and other spending limitations initiated during fiscal year 1992-93 resulted in General Fund expenditures totaling approximately \$1.6 million or 7% less than budgeted for the year. Revenues - The continuing recession has been felt the most by the decline in General Fund revenues. Actual 1992-93 revenues came in less than budget by \$826,000 or 4%. The following table summarizes all financial indicators examined (U = Unfavorable, F= Favorable, W = Warning):

<i>Indicator</i>	<i>Rating</i>	<i>Indicator</i>	<i>Rating</i>
Revenues Per Capita	U	Employees Per Capita	W
Property Tax Revenue	W	Fringe Benefits	W
Sales Tax Revenues	U	Capital Outlay	U
Licenses & Permits	U	Operating Surplus	W
Community Development			
Service Charges	U	Fund Balance	W
Elastic Revenues	U	Liquidity Ratio	F
One-Time Revenues	W	Debt Service	F
Intergovernmental		Compensated	
Revenues	F	Absences	F
Revenue Overages			
/Shortages	U	Property Values	W
Expenditures Per Capita	W	Population	F

*Several actions were taken during the 1993-94 budget year to improve the City's financial condition*

Although many of the indicators are currently negative, several actions were taken during the 1993-94 budget year to improve the City's financial condition. These changes are not reflected in this report; however, it is anticipated that these changes will result in more positive indicators next year. Examples include:

*These changes will result in more positive indicators next year*

- Reduction of 5.45 more staff positions (\$275,000)
- Reduction in medical costs (\$300,000)
- Contracting with Orange County Sheriff's Department (\$2.1 million)
- Establishment of Storm Drain Utility Fund (\$1 million)
- Increased Reserve Contributions \$790,000

# Long Term Financial Plan

## Information Systems Plan

### Goal & Issue:

To document the City's Computer 5-Year Action Plan, including progress made to date, and future plans for maintaining and enhancing the City's information based system. Through the use of automation the City will strive to:

- Improve service levels
- Decrease costs
- Improve productivity

### Facts:

In 1990, the City Council adopted an automation action plan designed to increase staff productivity in a cost effective manner. Although the needs identified by the plan have not been fully funded, through the efficient use of hardware and software the City has achieved nearly all of the goals established in the Computer Action Plan. The Five Year Action Plan is updated annually by the City's Computer Administration Team. A summary of the next three years of the Action Plan follows:

*The Five Year Computer Action Plan is updated annually*

1994	1995	1996
<ul style="list-style-type: none"> <li>• Provide computers and access for all administrative staff.</li> <li>• Implement hardware maintenance/ upgrade program.</li> <li>• Continue to implement Com Dev Geobase (75% completed by end of '94).</li> <li>• Develop Project Cost\Accounting.</li> <li>• Refine Complaint Tracking system.</li> <li>• Link Project Tracking to Cost Accounting</li> <li>• Upgrade part time Computer Tech to full time position.</li> <li>• Implement "Group Scheduling" program.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop City Wide Access to Geobase system.</li> <li>• Implement "Windows" based applications on the network.</li> <li>• Provide Electronic Forms for staff and citizen's use.</li> <li>• Provide in-house City wide training in new systems and applications.</li> <li>• Implement new UNIX Client /Server financial systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop new UNIX Client /Server Geobase systems.</li> <li>• Complete implementation of new UNIX windowed environment.</li> <li>• Provide public and staff access to graphical Geobase.</li> <li>• Implement Offsite telecommunications link.</li> <li>• Add a full time position to the MIS staff for management of the new UNIX environment.</li> </ul>

### Recommendations & Fiscal Impact

- Adopt the Five Year Action Plan and direct staff to address the goals of the plan. The adoption of the plan will require additional expenditures for staff, software, and hardware. The estimated financial commitment for fiscal 1994-95 is \$100,000.

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## Issue Analysis Summary

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### Medical Insurance Program

#### Goal & Issue:

To document the conclusions of the recent report prepared by the Medical Insurance Committee, as well as provide further recommendations to provide employees with more efficient and cost effective medical plans.

#### Facts:

Through the meet and confer process with employee bargaining units, the City was recently able to reduce medical premiums by approximately \$300,000 per year. This was largely accomplished by capping medical costs at a certain level, depending on the type of coverage selected. However, by establishing a joint management/employee committee, with a stated mission to find ways to reduce benefit costs, the City was able to successfully implement a medical program that meets the needs of all employees and their families, while significantly reducing costs to the City and employees. The cooperative effort by both management and employees to reduce costs was very successful.

By encouraging a managed health care approach to medical, dental and vision care, and providing positive incentives to convert to managed care systems, employees ultimately opted for HMO coverage as opposed to the POS (Point of Service) plan provided by HealthNet. In fact, prior to implementing the new medical program only 42 employees were enrolled in the HMO plan. After the change in coverage and carriers, 166 employees enrolled in the HMO plan.

Although costs were substantially reduced as a part of this effort, the City will begin to evaluate how medical costs can be reduced further. One successful approach in other private and governmental entities involves wellness programs, which encourages "preventive medicine".

#### Recommendations & Fiscal Impact

- City Council should direct staff to explore the possibility of further reducing medical costs by establishing a Wellness Program for City employees and their dependents. The approximate cost for this program would amount to \$10,000; however, the payback could be substantial in future years.

*Management and employees reduced medical premiums by \$300,000 per year*

*A Wellness Program for City employees should be considered*

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# Long Term Financial Plan

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## Overhead Analysis

### Goal & Issue:

To examine the current structure of the City's overhead system and develop specific recommendations based on the conclusions and recommendations of the study conducted by the David M. Griffith Company. The primary goals and issues relating to the Overhead Analysis issue paper included:

- Develop and implement a full central services cost allocation plan for use in recovering the cost of services provided by the General Fund to other funds.
- Develop a central service cost allocation plan that conforms to the Federal grant reimbursement guidelines established in OMB Circular A-87. This plan will ensure that the City will recapture all costs allowable under Federal entitlement guidelines.
- Preparation of indirect cost rates for billing on a time and materials basis. This will ensure that the City recaptures all costs incurred to provide services to those outside the organization, including State mandated cost reimbursements and for those services provided to the general public.
- Adjust the 1993-94 budget to reflect additional General Fund overhead revenue that is owed to the General Fund as a result of this overhead analysis.

*The City's cost allocation plan recommends an increase of \$264,000 in overhead cost recovery*

### Facts:

The completion of the City's Cost Allocation Plan resulted in a determination that the General Fund is entitled to additional annual General Fund Overhead charges of approximately \$264,000. In addition, the 1994-95 Budget will incorporate the results of an updated version of this Plan and will eliminate the current practice of charging staff salaries and benefits to other funds. Employee staff time (salaries and benefits) will be recaptured entirely through the use of General Fund Overhead charges which will simplify and streamline the process. Additionally, this process will result in a significant increase in accuracy and will allow for more exact program costs.

### Recommendations & Fiscal Impact

- Accept the Cost Allocation Plan and adjust the 1993-94 budget for the difference between overhead charges to other funds and the charges established by the original budget to the extent that the affected funds can absorb the additional cost. The total gain in revenues to the General Fund will amount to \$107,000 in 1993-94 and will increase to an approximate annualized amount of \$264,000 in 1994-95.
- Approve an annual update of the City's cost allocation plan in order to provide for accurate recovery of costs in the General Fund (Cost = \$1,500).

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## Issue Analysis Summary

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### Reserve Analysis

#### Goal & Issue:

- To analyze levels of reserves in appropriate funds to ensure that they are adequate to provide for the needs of each fund program and to recommend reserve levels in each appropriate fund/account that will meet fiscal policy requirements.

#### Facts:

***All reserve accounts continue to be extremely underfunded***

The Reserve Analysis issue paper reevaluated all reserve levels based on current and proposed Fiscal Policy requirements and organizational changes that have occurred in the past year. The following funds or accounts continue to be extremely underfunded:

- General Fund Emergency Reserve - This critical reserve fund is underfunded by approximately \$1.4 million based on the City's current Fiscal Policy of an 8% reserve level.
- City Council Contingency Reserve - The Fiscal Policy advocates a reserve level of 1.5% of the General Fund. Based on that methodology, this fund is \$181,000 underfunded.
- General Liability Insurance Fund - This fund continues to be in a deficit position of over \$2.2 million. A recommended and appropriate change in the Self Insured Retention amount will reduce this deficit to \$1.5 million, resulting in annual savings of \$153,000 as compared to LTFP 93 recommendations.
- Worker's Compensation Insurance Fund - The current shortfall in this fund amounts to over \$1.78 million. This shortfall can be decreased to \$1.4 million by changing from a Self Insured Retention calculation methodology to a more appropriate claims history method. Annual savings will amount to approximately \$50,000.
- Capital Equipment Reserve - Although the City's Fiscal Policy requires a replacement schedule, no provisions have been established to set up a reserve for capital equipment. The City's capital needs are extremely underfunded which will result in higher costs in the future.

#### Recommendations & Fiscal Impact

Annual contributions in the following amounts are recommended to bring funds to target levels within 5 years:

General Fund Emergency Reserve	\$353,000
City Council Contingency Reserve*	\$281,000
General Liability Insurance Fund	\$305,000
Worker's Compensation Insurance Fund	\$271,200
Capital Equipment Reserve*	\$100,000

\* Maintain reserve level at 1.5% of General Fund Expenditures. Not an annual contribution

\*\*Initial contribution. Future contributions to be determined.

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# Long Term Financial Plan

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## Street Improvement Program

### Goal & Issue:

To develop an effective street improvement program by examining, in detail, street improvement and rehabilitation program alternatives and potential funding mechanisms.

### Facts:

As a part of the 1993 Long Term Financial Plan, the City Council directed staff to revisit and present alternatives to the proposed Street Overlay and Replacement District that was recommended in the Plan. The Street Improvement Program issue paper, in fact, proposes that Council consider major policy decisions that will impact how the City finances its street maintenance and rehabilitation work. This study found that:

**A comprehensive Street Improvement Program would cost \$18 million**

**35% of the City's collector and local streets will require rehabilitation within the next 10 years**

- **Arterial Streets:** Overall, arterial streets are in good condition. Approximately \$400,000 in AHFP, Gas Tax and Measure M funds exist to fund maintenance and replacement of arterial streets.
- **Collector and Local Streets:** Over 35% of collector and local streets will require rehabilitation within the next 10 years. Initial cost estimates have been reduced from \$24.5 million to \$18 million by conducting a more detailed analysis of the street system, by reducing the amount of street reconstruction mileage and by increasing overlay work.
- **Funding:** By selling bonds in the amount of \$8.8 million, the City could finance rehabilitation work for approximately \$7.8 million. Debt service would amount to \$850,000 per year (15 year term), and funding would be provided from three sources:

\$400,000	Gas Tax Fund
\$350,000	Reduced Street Maintenance Expenditures
<u>\$100,000</u>	Contribution from the General Fund
<u>\$850,000</u>	Total

The shifting of funds from the Street Maintenance budget will obviously impact the way the City repairs the non-rehabilitated street system until all local and collector streets can be completely rehabilitated. Six positions would be eliminated if this action is taken.

- **Assessment District:** A total of \$10 million would still be needed to complete the rehabilitation of the remaining streets over the next 10 years. These funds could be obtained by establishing a Street Overlay and Maintenance District which would result in assessment rates less than half of what was proposed last year.

### Recommendations & Fiscal Impact

- Sell \$8.8 million in bonds and form a Street Overlay and Replacement District in fiscal 1994-95 to fund the \$10 million street rehabilitation program shortfall.

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## Recommendation Summary

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### Recommendation Summary

The following section captures, in summary form, all key recommendations that have been brought forward in the 1994 Long Term Financial Plan. Details of each recommendation can be found in the Long Term Financial Plan - Issues Papers companion volume. All recommendations have been assigned to one of the following five classifications:

- Infrastructure Issues
- Organizational Issues
- Financial Issues
- Economic Development Issues
- Regional Issues

Also included in this section is an estimate, when available, of the fiscal impact of the recommendation. A dollar value in parenthesis represents a cost to the City, while no parenthesis represents a savings or revenue enhancement to the City.

# Long Term Financial Plan

Issue	Fiscal Impact
<i>Infrastructure Issues</i>	
<ul style="list-style-type: none"> <li>Pursue the completion of all funded storm damage projects (Non-General Fund costs)</li> </ul>	(\$5,200,000)
<ul style="list-style-type: none"> <li>Pursue matching funds for non-funded storm drain projects</li> </ul>	
<ul style="list-style-type: none"> <li>Present sewer/water rate and connection fee impacts for capital replacement and improvements when rate studies are completed.</li> </ul>	
<ul style="list-style-type: none"> <li>Consider the sale of \$8.8 million in bonds and the formation of a Street Overlay and Replacement District in fiscal 1994-95 to fund a \$10 million street rehabilitation program shortfall (\$850,000 represents debt service payments consisting of \$400,000 from Gas Tax, Measure M and AHFP funds and \$450,000 from General Fund)</li> </ul>	(\$850,000)
<ul style="list-style-type: none"> <li>Reduce Maintenance Services budget in order to partially fund debt service payments. Results in elimination of 6 maintenance positions over the next two years.</li> </ul>	\$350,000
<i>Organizational Issues</i>	
<ul style="list-style-type: none"> <li>Enter into negotiations to contract out Park and Beach Landscape Maintenance, Fleet Services, Street Striping and Marking, and Meter Reading, resulting in the elimination of 20 positions. Transfer Beach Maintenance program to Lighting &amp; Landscaping District. (\$480,000 will be saved annually. Leave payouts are included in the first year resulting in a savings of approximately \$434,000)</li> </ul>	\$434,000
<ul style="list-style-type: none"> <li>Implement organizational adjustments for the Sewer Treatment Plant which will result in the elimination of 2 vacant positions</li> </ul>	\$96,000
<ul style="list-style-type: none"> <li>Adopt the Computer Five-Year Action Plan. (Staffing projection included in base budget forecast)</li> </ul>	(\$100,000)
<ul style="list-style-type: none"> <li>Establish a Wellness Program to reduce medical costs.</li> </ul>	(\$10,000)



## Recommendation Summary

<i>Financial Issues</i>	
<ul style="list-style-type: none"> <li>• Accept the City's completed Cost Allocation Plan and adjust the 1993-94 budget for the difference between overhead charges to other funds and the charges established by the original budget. (Gain to General Fund in succeeding years amounts to \$264,000)</li> </ul>	\$107,000
<ul style="list-style-type: none"> <li>• Approve an annual update of the City's cost allocation plan in order to maximize General Fund revenues.</li> </ul>	(\$1,500)
<ul style="list-style-type: none"> <li>• Establish a Capital Equipment Reserve Fund to allow for replacement of obsolete capital machinery and equipment.</li> </ul>	(\$100,000)
<ul style="list-style-type: none"> <li>• Adjust annual reserve contributions to the following levels (amounts already included in Base Budget Financial Forecast):</li> </ul>	
<ol style="list-style-type: none"> <li>1. General Fund Emergency Reserve</li> </ol>	(\$353,000)
<ol style="list-style-type: none"> <li>2. General Liability Insurance Fund</li> </ol>	(\$305,000)
<ol style="list-style-type: none"> <li>3. Worker's Compensation Insurance Fund</li> </ol>	(\$271,200)
<i>Economic Development Issues</i>	
<ul style="list-style-type: none"> <li>• Evaluate appropriate financing mechanisms and programs, and formulate policy strategies to implement programs for retention of existing businesses and attraction of new commercial investment in the City.</li> </ul>	
<ul style="list-style-type: none"> <li>• Place primary emphasis on the development of economically feasible and quality projects in the Pier Bowl and develop a mixed-use master plan which will result in the commercial and residential development of the Marblehead Coastal area.</li> </ul>	
<ul style="list-style-type: none"> <li>• Upon completion and implementation of the North Beach - Pico Corridor Specific Plan, direct that an advisory committee be established to assist the City in evaluating infrastructure requirements for the Los Molinos Industrial area, and prepare a capital improvement program and financing recommendations.</li> </ul>	
<ul style="list-style-type: none"> <li>• Conduct a feasibility study and identify appropriate sites for the development of a Saddleback College satellite campus including facilities for the California State University.</li> </ul>	
<i>Regional Issues</i>	
<ul style="list-style-type: none"> <li>• Explore the feasibility of regionalization of City services for Fire Protection, Tri-Cities Water Consolidation, and Human Resource/Risk Management functions by June 30, 1994. Appropriate \$15,000 in 1993-94 to authorize the County of Orange to conduct a Fire Protection Services Study.</li> </ul>	\$15,000



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## Financial Summary

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### *Financial Summary*

This Long Term Financial Plan has focused on financial milestones, financial conditions and trend analysis, a financial forecast, and a summary of critical issues that may have a financial impact on City finances. Based on this extensive analysis, this section will outline a comprehensive strategic plan for the future. The Financial Summary section which follows includes:

- *Financial Forecast Results:* This section summarizes the financial forecast results and points out the fiscal impact of addressing several outstanding critical needs, including capital projects and reserve requirements.
- *Comparison of 1993 & 1994 Forecast:* This portion of the LTFP provides a detailed comparison of the 1993 and 1994 forecast results, including the results of the positive steps that the City has taken since Council adoption of the 1993 Long Term Financial Plan.
- *Recommendations:* Specific recommendations designed to reduce the operating shortfall are presented in this section.
- *Conclusion:* This section provides some summary remarks based on the conclusions drawn from this comprehensive study.
- *Alternatives & Recommendations:* Alternatives and recommendations are provided for Council consideration in this last section of the Long Term Financial Plan.

# Long Term Financial Plan

## Financial Forecast Results

The following table provides a summary of the City's projected financial position beginning in 1994-95.

### Projected Financial Position 1994-95 to 1998-99

	1994-95	1995-96	1996-97	1997-98	1998-99
<b>Base Budget Forecast</b>	<b>-\$785,000</b>	<b>-\$1,007,000</b>	<b>-\$1,540,000</b>	<b>-\$2,015,000</b>	<b>-\$2,143,000</b>
<b>Capital Projects:</b>					
Street Improvements	-1,800,000	-1,800,000	-1,800,000	-1,800,000	-1,800,000
ADA	-33,000				
<b>Reserve Requirements:</b>					
Capital Replacement Reserve	-100,000	-100,000	-100,000	-100,000	-100,000
<b>State Budget Impact</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>
<b>Total Annual Projected Shortfall</b>	<b>-\$2,718,000</b>	<b>-\$2,907,000</b>	<b>-\$3,440,000</b>	<b>-\$3,915,000</b>	<b>-\$4,043,000</b>

The key areas contained in the Projected Financial Position table are explained below:

#### Base Budget Forecast (General Fund):

The Base Budget Forecast amount is the outcome of the Five Year Financial Forecast which was updated as a part of the Long Term Financial Plan. Assumptions used in deriving the forecast amounts are listed in the Financial Forecast section of this report. It should, however, be noted that the base budget forecast amounts include required contributions to all reserve accounts, as opposed to last year when reserve requirements were added to the base budget forecast shortfall. This change is due to the fact that Council adopted the 1993 LTFF, which required that reserve contributions be built into all future budgetary projections.

General Fund Emergency Reserve	\$353,000
General Liability Insurance Fund	\$281,000
Worker's Compensation Insurance Fund	\$271,200
<b>Total</b>	<b>\$905,200</b>

Additionally, the forecast includes provisions to maintain the Fiscal Policy mandated 1.5% Council Contingency Reserve.

#### Capital Projects:

A total of \$1.8 million has been allocated to address the City's street infrastructure needs. This contribution is based on a 10 year street improvement program totaling \$18 million.

#### Reserve Requirements:

As explained above, all required reserve contributions have been incorporated into the base budget financial forecast figure. This section includes a contribution of \$100,000 toward establishing a Capital Equipment Reserve. Per adopted Council fiscal policies the City is obligated to prepare a maintenance and replacement schedule; however, without providing an adequate and stable funding source the equipment can not be purchased in accordance with the schedule.

## Financial Summary

**State Budget Impact:**

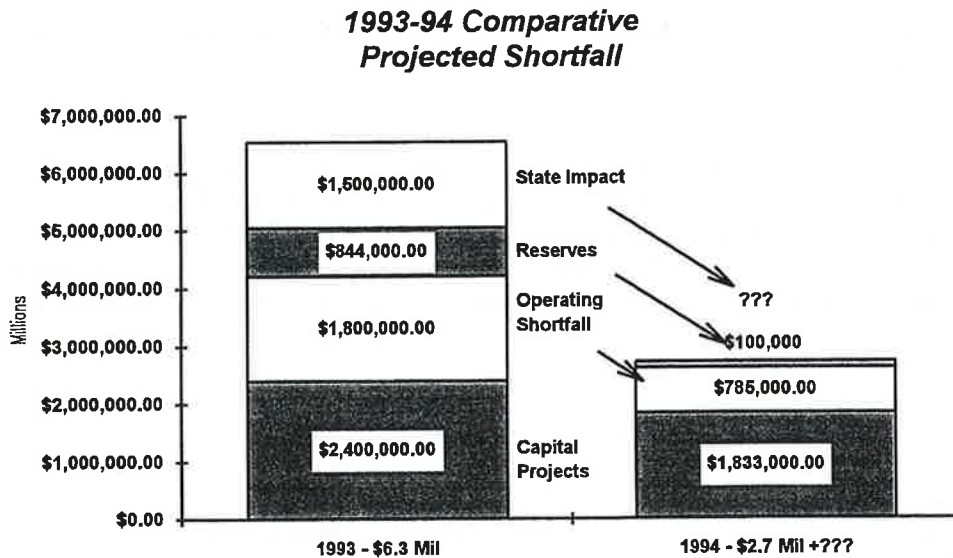
No provision has been made to account for property tax revenue diversions to the State of California. Any further infringement on the City's property tax revenue base will obviously exacerbate the City's weak financial position.

**Total Annual Projected Shortfall:**

The bottom line, after taking into account the factors described above, results in a total projected shortfall of \$2.7 million in 1994-95. An explanation is provided below of how the projected shortfall differs from last year's projections.

**Comparison of 1993 & 1994 Financial Forecast**

The projected shortfall for 1994 versus the 1993 original projected shortfall is depicted graphically below. As indicated, the total shortfall of \$6.3 million has been reduced to a total of \$2.7 million. This positive movement is explained in detail later in this section of the report.



The next table provides a direct comparison of the 1993 Forecast as compared to the 1994 Forecast over the five-year forecast period. The graph which follows the table presents the data in graphical form. (The projected shortfall for the 1993-94 fiscal year was \$6.3 million)

**Forecast Comparison Table  
1993 to 1994**

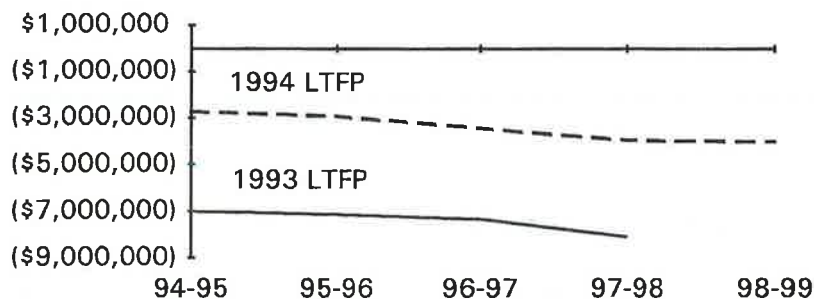
	1994-95	1995-96	1996-97	1997-98	1998-99
1993 Total Annual Shortfall	-\$6,983,000	-\$7,114,000	-\$7,317,000	-\$8,080,000	N/A
1994 Total Annual Shortfall	-\$2,718,000	-\$2,907,000	-\$3,440,000	-\$3,915,000	-\$4,043,000

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## Long Term Financial Plan

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Forecast Comparison Graph  
1993 to 1994



### *Forecast Improvements*

Several reasons, outlined in some detail below, account for the dramatic improvement in the City's projected financial condition since last year.

#### *State Budget Impact:*

Unlike last year, no stipulation has been made to account for future revenue diversions of property tax income or other revenue sources to the State of California. In the prior year forecast, the City projected that the State would divert \$1.5 million; however, the actual diversion amounted to a less than \$600,000, and was partially offset by a one time rebate of \$300,000 in Motor Vehicle License Fees. Nonetheless, this revenue loss, combined with the 1992 property tax loss of \$591,000, amounts to a permanent loss of \$1.2 million.

#### *Police Services Contract:*

The City was able to save approximately \$1.4 million General Fund dollars by contracting Police Services to Orange County. The total savings across all funds amounted to over \$2.1 million.

#### *Storm Drain Utility:*

The City Council, as a part of the Long Term Financial Plan, adopted a Storm Drain Utility which became operative in fiscal 1993-94. This accounted for a savings of over \$200,000 in General Fund expenditures. Annual contributions from the General Fund to fund storm drain repairs were projected at close to \$.5 million in the 1993 financial forecast. A total of over \$900,000 will be generated annually from utility fees.

#### *Acquisition of Negocio Office Building:*

As a result of Council's decision to purchase an office building at 910 Calle Negocio, the forecast now includes a gain of approximately \$750,000, over five years, from sub-leasing income. This income stream was not included in the 1993 financial forecast.

#### *Staffing Levels:*

The 1993 forecast projected that the City would add six positions in each of the following five years. This was largely based on staffing needs in Public Safety Departments. Given the fact that Police Services were contracted, combined with the continuing economic recession and State revenue diversions, the City was instead forced to lay off 5 more employees. Thus, a total of 30 employees (excluding 77 Police employees) have been eliminated since the 1992-93 fiscal year.

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## Financial Summary

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### *Pay and Benefit Levels:*

Last year's forecast planned for pay increases equivalent to 90% of the Consumer Price Index. Again, given the weak financial condition of the City, no pay increases were granted for the second consecutive year. Additionally, employees and management were able to come to an agreement to modify medical plans which resulted in an annual savings of \$300,000. Management employees also gave up annual medical benefits amounting to over \$5,000.

### *Unpaid Furlough:*

For the second year in a row, most City employees were faced with a four day unpaid furlough. Annual savings amounted to over \$130,000 which represented close to a 2% across-the-board pay reduction for all employees, with the exception of Public Safety. Public Safety employees did, however, agree to a two day reduction in leave balances which lessens the future financial liability of the City.

### *Vehicle Policy:*

A comprehensive Vehicle Policy was developed and implemented which resulted in a savings of \$65,000 in 1993-94. On-going savings included in the 1994 forecast approximate \$40,000.

### *Reserve Funding:*

Funding for General Liability Insurance and Worker's Compensation reserves have been adjusted downward as the result of an extensive analysis of reserve requirements. Annual funding requirements have been reduced by \$217,000. A funding comparison between 1993 and 1994 follows:

<i>Reserve Fund:</i>	<i>1993</i>	<i>1994</i>
General Liability Insurance Fund	\$448,000	\$281,000
Worker's Compensation Insurance Fund	<u>\$321,000</u>	<u>271,200</u>
<i>Total</i>	\$769,000	\$552,200

### *Recommendations:*

This section is intended to provide a comprehensive review of recommendations that will address the shortfall projected for 1994-95.

The table below summarizes all proposed recommendations found in the Long Term Financial Plan Recommendation Summary section. The result or the "projected total annual shortfall" will be addressed as a part of the 1994-95 annual budget process and as a part of ongoing regionalization and streamlining efforts. It is anticipated that some of the assumptions used in deriving the base budget forecast assumptions will have to be modified in order to produce a balanced budget as required by Council adopted fiscal policies. Only those recommendations that have a direct fiscal impact and require Council action are included in the table.

# Long Term Financial Plan

## Recommendations to Address Projected Shortfall 1994-95 to 1998-99

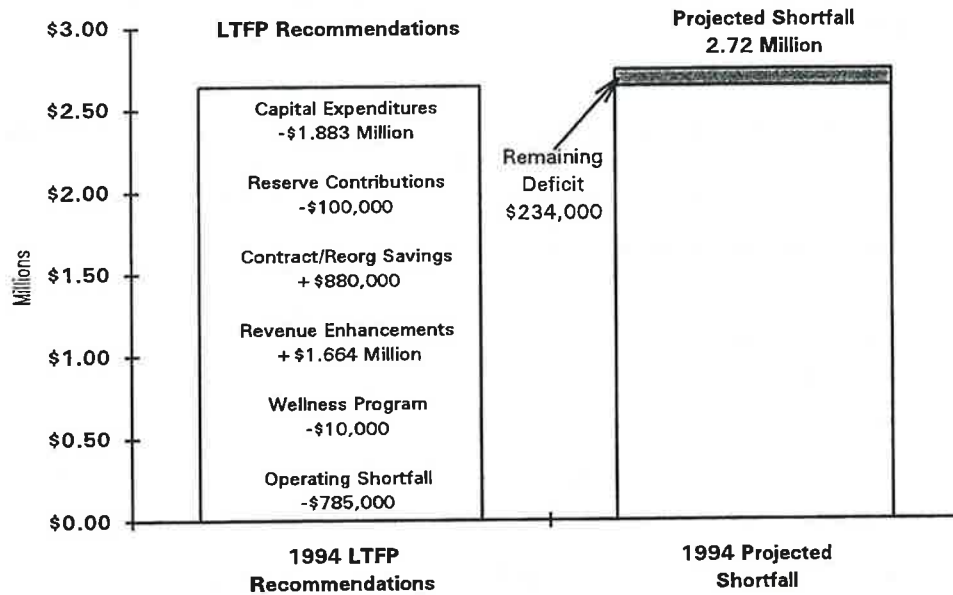
	1994-95	1995-96	1996-97	1997-98	1998-99
<b>Base Budget Forecast</b>	<b>-\$785,000</b>	<b>-\$1,007,000</b>	<b>-\$1,540,000</b>	<b>-\$2,015,000</b>	<b>-\$2,143,000</b>
<b>Expenditure Increases</b>					
Capital Improve. Projects:					
Streets (Debt Service)	-850,000	-850,000	-850,000	-850,000	-850,000
Street Improvements	-1,000,000	-1,000,000	-1,000,000	-1,000,000	-1,000,000
ADA	-33,000				
Wellness Program	-10,000	-10,000	-10,000	-10,000	-10,000
<b>Reserves</b>					
Capital Replacement Reserve	-100,000	-100,000	-100,000	-100,000	-100,000
<b>Expenditure Reductions</b>					
Contract Services & Treatment Plant Reorganization	530,000	575,000	575,000	575,000	575,000
Maintenance Services	350,000	350,000	350,000	350,000	350,000
<b>Revenue Enhancements</b>					
Overhead Charges	264,000	281,000	295,000	314,000	334,000
Gas Tax, Measure M Transfer for Street	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Street Overlay & Replacement District	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
<b>Total Annual Projected Shortfall</b>	<b>-\$234,000</b>	<b>-\$361,000</b>	<b>-\$880,000</b>	<b>-\$1,336,000</b>	<b>-\$1,444,000</b>

As indicated in the above table, the total annual shortfall beginning in 1994-95 improves to \$234,000, provided that all recommendations are adopted by Council. Subsequent year shortfalls increase to \$1.4 million in 1998-99.



## Financial Summary

The table located on the previous page is shown graphically below. This graph presents the table in a summary format where proposed recommendations are contrasted with the projected shortfall of \$2.7 million resulting in a revised deficiency of \$234,000.



An explanation of each major sub-heading delineated in the table is included:

**Base Budget Forecast (General Fund):**

Please refer to the explanation outline above in the Financial Forecast Results section.

**Expenditure Increases:**

**Streets:** A provision has been made to partially fund the Street Improvement Program, which amounts to a total of \$8 million, in this year's forecast. Debt service payments with a correspondent decrease in the street maintenance budget (\$350,000) and a minimal contribution from the General Fund (\$100,000), are included in the Forecast Summary. A total of \$400,000 from Measure M, Gas Taxes, and AHFP funds brings the total projected debt service payments for an \$8 million bond issue to \$850,000.

The 1993 forecast projected that a total of \$2.0 million would be expended on an annual basis. This year's forecast, as indicated, projects total expenditures of \$1.85 annually, which includes debt service payments of \$850,000 and \$1,000,000 to be expended if a Street Overlay and Replacement District is formed. The total street improvement program amounts to \$18 million over a 10 year period.

**ADA (Disability Act Requirements):** A total of \$33,000 has been included as a General Fund expenditure to comply with ADA requirements.

**Wellness Program:** A proposed Wellness Program expenditure of approximately \$10,000 is included for Council consideration. As explained more fully in the Medical Insurance Program issue paper, this program is designed to further reduce and control medical costs and premiums.

**Reserves:**

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## Long Term Financial Plan

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As recommended in the Reserve and Trend Analysis issue papers, a contribution of \$100,000 is suggested to establish a much needed Capital Equipment Reserve Fund. This fund would operate similarly to the Fleet Replacement Reserve Fund in that a replacement schedule for all capital equipment would be established and funded from this reserve fund. Currently, less than 1/2% of General Fund expenditures are expended for capital equipment which is deemed entirely inadequate. All other reserve contributions are included in the Base Budget Forecast figure.

### *Expenditure Reductions:*

**Contracting and Reorganization:** Proposed expenditure reductions apply to contracting, reorganization, and street maintenance issues. First, by contracting the following listed services, a total of \$479,300 (not including projected leave payouts) will be saved on an annual basis and will result in the loss of 20 positions:

Park & Beach Landscape Maintenance	\$295,000
Fleet Services	\$86,500
Street Striping and Marking	\$20,800
Meter Reading	\$77,000
<i>Total</i>	\$479,300

Secondly, by reorganizing the Sewer Treatment Plant, a total of \$96,000 can be saved by eliminating 2 vacant positions. The plant will become more efficient and work hours will be consistent with the rest of the City.

**Maintenance Services:** Should the Council decide to issue bonds to be used for street rehabilitation needs, the Street Maintenance program budget would be reduced by \$350,000, resulting in elimination of 6 positions. A crew of four would be maintained in order to respond to emergency needs and continue to do other needed street repairs.

### *Revenue Enhancements:*

**Overhead:** Included within this section of the Financial Summary, are proposed increases to General Fund overhead charges. The increased overhead charges are based on a recent study by David M. Griffith Company which recommends that overhead charges to other funds should be increased by a total of \$264,000 in 1994-95. Amounts in future years have been adjusted upward based on inflation.

**Street Overlay and Replacement District:** If Council chooses to form an assessment district a total of \$1,000,000 could be raised on an annual basis to fund needed street improvements. A 10 year assessment would cover the \$10 million shortfall in the street improvement program. This assumes that the Council would issue bonds to raise \$8 million.

### *Total Annual Projected Shortfall:*

If all recommendations are adopted by Council, the total projected shortfall will decline to \$234,000 as indicated in the table. As stated above, this projected shortfall will be addressed as a part of the 1994-95 budget preparation process.

### **Conclusion:**

As indicated in this Long Term Financial Plan, the City of San Clemente is once again faced with fiscal challenges that must be dealt with in the short term. Although tangible progress has been made since the City faced a financial crisis of unprecedented magnitude in fiscal 1993, the City is once again under considerable

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## Financial Summary

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financial pressure due to an ongoing economic recession, State and Federal mandates, and continued State diversions of property tax revenue.

In addition to a 1994-95 base forecast deficit of \$785,000, critical needs in street improvements and capital equipment must be addressed. When added to the operating deficit, these critical needs increase the total deficit to \$2.7 million. This plan recommends several solutions that the Council may wish to consider in reducing this deficit to a manageable level.

As established in this report, the City has already taken extreme measures in order to provide for a balanced budget as severe revenue shortfalls have affected the City's ability to provide the level of services expected and deserved by San Clemente citizens. The organizational and management structure has been streamlined; thirty positions have been eliminated; Police Services have been contracted to Orange County (77 positions); capital equipment and machinery purchases have been deferred; and employee salaries and benefits have been significantly reduced.

Care must be taken at this point to ensure that future cost savings measures are not self destructive. Continuing to provide in-house services while cutting staff will impact service levels and quality; continued deferral of equipment purchases and capital improvements will increase liability and future costs; and unreasonable pay and benefit reductions will make it impossible to retain and attract quality employees. We must continue to be innovative in looking for ways to maintain quality service levels while operating within the confines of the resources available.

The 1994 Long Term Financial Plan provides, for Council consideration, several solutions that are designed to strengthen the City's financial position without exposing the City to the risks stated above. Predictably these decisions will be difficult and the impacts far reaching. Many employees, some having served the City for many years, will be affected by contracting and reorganization decisions. In addition, should Council decide to adopt a Street Overlay and Assessment District, citizens will not be anxious to pay additional fees even though many of them recognize the need for improving the City's deteriorating street system. City staff stands ready to implement whatever plan you deem appropriate.

### ***Alternatives & Recommendations***

1. Adopt all recommendations outlined in the Recommendation Summary section. Adoption of all recommendations will result in a minimal 1994-95 shortfall of \$234,000 which will be addressed as a part of the budget process, other cost reduction measures, and regionalization efforts.
2. Council could choose to adopt selected recommendations. The impact on the projected shortfall will, of course, vary based on which recommendations are actually adopted.
3. Recognizing that the issuance of \$8 million in street improvement bonds and the formation of a Street Overlay District will have extensive ramifications on both employees and the public during difficult economic times, Council could choose to defer the Street Maintenance Program efforts for one year. Staff could then be directed to develop and implement an effective public education program and produce a comprehensive and refined plan utilizing the City's new Pavement Management System. Additionally, this would allow the Public Works Department to focus their efforts on storm damage and other capital projects that are currently underway and scheduled for completion in 1994.

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## **Long Term Financial Plan**

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*This Long Term Financial Plan document was produced by the City of San Clemente,  
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