
1995
Long Term Financial Plan

Volume I

Prepared by Office of Management and Budget

City of San Clemente

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City of San Clemente

City Council

- Candace Haggard Mayor
- Steve Apodaca Mayor Pro Tem
- Joe Anderson Council member
- Patrick Ahle Council member
- Scott Diehl Council member

City Manager

- Mike Parness City Manager

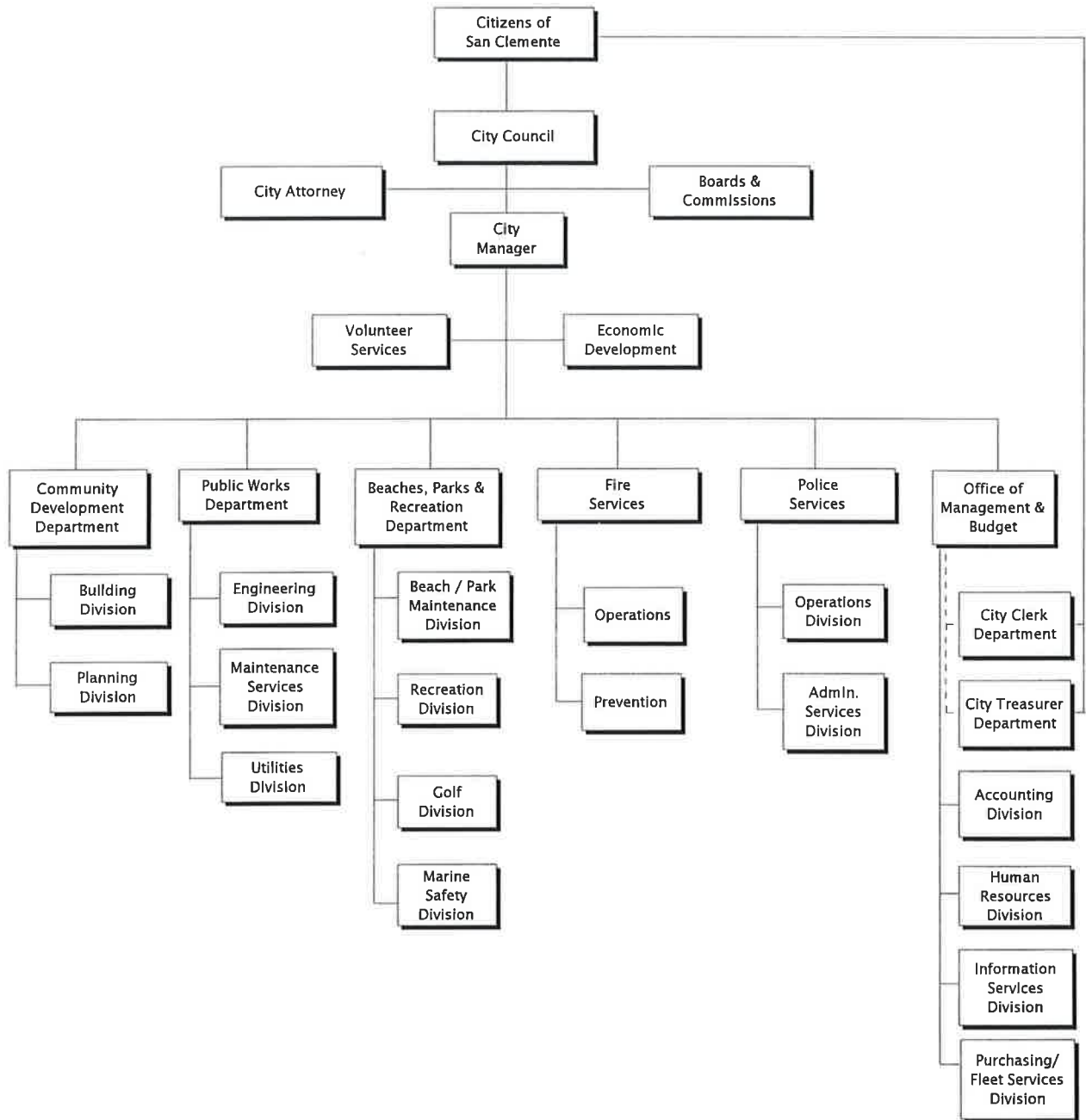
Department Directors

- 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
- Tom Davis Police Services Chief
- Richard Witesman Fire Services Chief

Project Leaders

- Bradley H. Cagle Controller
- James L. Mies Budget Officer
- James S. Holloway Director, Community Development
- David N. Lund Economic Development Manager
- Michael L. Sorg Director, Public Works
- Bill Aylward Senior Accountant
- Bruce E. Wegner Director, Beaches, Parks & Recreation
- Greg Morehead Utilities Manager
- Kumi L. Johnson Purchasing Manager
- Larry K. Moore Management Information Services Manager
- Linda Kulp Human Resources/Risk Manager
- Marsha Payne Management Analyst

City Organizational Chart



Project Teams

Project Director

Paul Gudgeirsson, Director, Office of Management & Budget

Financial Trends

Brad Cagle, OMB, Project Lead

Financial Forecast

Jim Mies, OMB, Project Lead

Development Fee Analysis

Jim Holloway, Community Development, Project Lead

Dave Lund, Economic Development, Project Lead

Street Improvement Program

Mike Sorg, Public Works, Project Lead

Bill Cameron, Engineering

Akram Hindiyeh, Engineering

Reserve Analysis

Jim Mies, OMB, Project Lead

Pension Plan Analysis

Linda Kulp, OMB, Project Lead

Marsha Payne, OMB

Unfunded Liability Analysis

Bill Aylward, OMB, Project Lead

Fire Fund Analysis

Kumi Johnson, OMB, Project Lead

Brad Cagle, OMB, Project Lead

Classification & Compensation Study

Marsha Payne, OMB, Project Lead

Master Plans

Bruce Wegner, BPR, Project Lead-Lighting & Landscaping

Greg Morehead, Utilities, Project Lead-Storm Drain

Dave Lund, Economic Development, Project Lead-RDA

Jim Holloway, Community Development, Project Lead-RDA

Organizational Adjustments

Kumi Johnson, OMB, Project Lead

Computer Action Plan

Larry K. Moore, OMB, Project Lead

City Manager's Transmittal Letter

Honorable Mayor and Council members:

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

Introduction

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.

The financial plan has helped the City address its financial problems

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 major financial issue in 1995

Establishment of a Street Improvement Program

We are, once again, 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. Of the 120 miles of streets in the system, 50% are considered substandard. Although the Public Works Department has, over the past three years, presented two different street improvement programs, lack of available funding has resulted in a delay in the implementation of either program.

A fund balance or cash flow analysis was prepared to deal with the Orange County Investment Pool collapse

The financial condition of the City has been seriously eroded largely due to continuing budgetary pressures from external government agencies at both the State and Federal levels. Unfunded mandates since FY 1991-92 have exceeded \$1.2 million on an annual basis. The State of California permanently diverted \$1.2 million in property tax revenue annually from the City beginning in 1993. These actions have significantly reduced local control over funds previously available to fund local services.

Orange County Investment Pool

The recent failure of the Orange County Investment Pool constitutes a multiple challenge for the City. First, both the short and long term impacts of the potential 22% loss of the City's \$35.8 million pool portfolio must be identified and dealt with. The initial step in this process, a comprehensive fund balance and cash flow analysis, has been completed by staff and KPMG Peat Marwick. The KPMG report will be submitted to the City Council as a part of the Long Term Financial Plan.

Restructuring of County government could have serious impacts on San Clemente

Another serious concern at this point is the potential impact of the current efforts to restructure County government. A radical shift in the way services are currently provided by Orange County could adversely affect the City's

Long Term Financial Plan

finances if those services are eliminated or shifted to the City of San Clemente.

The City's operating deficit has improved from \$3 million to \$40,000 in 3 years

Financial Forecast

The City's financial forecast has improved dramatically over both the 1994 and 1993 forecasts. An operating deficit of \$3 million was originally projected by FY 1997-98 in the 1993 Long Term Financial Plan forecast. Subsequently, the 1994 forecast projected a \$2.1 million operating deficit by FY 1998-99. The 1995 forecast now projects an operating deficit of only \$40,000 in FY 1995-96 expanding to a \$740,000 surplus by FY 1999-00.

Savings measures include.....

The improvement in the City's financial condition was accomplished largely as a result of Council adoption and implementation of the City's 1993 and 1994 strategic financial plans. Following is a brief review of the issues addressed in these financial plans along with actions taken by Council:

Contracting

Contracting

Contracting Police Services resulted in annual General Fund savings of \$1 million (\$2.1 million over all funds). First year savings of \$1.2 million were realized as a result of contracting Park/Beach Maintenance, Fleet Services, Street Striping Marking, Meter Reading and Fire Services.

Storm Drain Utility

Storm Drain Utility

The establishment of a Storm Drain Utility in 1993 resulted in a \$214,000 savings to the General Fund from monies previously committed to storm drains. The Storm Drain Utility established a dedicated funding source for the repair and replacement of the storm drain system.

Negocio acquisition

Acquisition of Negocio Office Building:

The acquisition and subsequent full leasing of the Negocio building resulted in a five-year savings of over \$700,000.

Staffing reductions

Staffing

Although the 1994 forecast assumed the addition of four positions each year, sixty six positions were actually eliminated by further contracting of City services in 1994. A total of 168 positions, including 35% of management personnel, have been cut from the City's workforce since the 1991-92 fiscal year.

Pay & benefit reductions

Pay and Benefit Levels

Employees have not received cost of living increases for three years. In fact, all employees have given up cash benefits and accepted non-paid furloughs. Additionally, employee groups worked with management in significantly reducing fringe benefits thus saving the City over \$312,000 annually in medical premiums.

City Manager's Transmittal Letter

Unpaid Furlough

Unpaid Furlough

Unpaid furloughs in 1992 and 1993 were taken by all employees with the exception of public safety employees. In 1994, employees were allowed to use accrued vacation time, compensation time/administrative leave or unpaid leave in funding the furlough period. This reduced the City's contingent liability for accrued leave accounts.

Cost Allocation Plan

Cost Allocation Plan

The Cost Allocation Plan implemented as a part of the FY 1994-95 budget resulted in an overhead reimbursement increase to the General Fund of \$436,000. The Cost Allocation plan recovers the cost of providing General Fund services to all other budgeted funds within the City.

Organizational Adjustments

Organizational Adjustments

Reorganization of the wastewater utility and solid waste management programs resulted in the elimination of 4.5 FTE's in 1994. The reorganization removed one mid-management position and streamlined field operations.

\$2.6 million has been transferred to reserve funds

Reserve Funding

Although the City has been unable to contribute the entire recommended amounts to the reserve accounts, an impressive \$2.6 million has been contributed to reserve funds to meet reserve targets and address existing deficits.

Long Term Financial Plan

The format of the 1995 Long Term Financial Plan has been redesigned to meet the needs of the City Council, staff and the public. This particular volume includes an Executive Summary which is comprised of a financial and issue summary. Other major sections include: Financial Trends, Financial Forecast, and Council's adopted Fiscal Policy. The companion volume to the financial plan (Long Term Financial Plan - Issue Papers) includes the complete analysis of issues examined by staff in developing the City's financial strategic plan.

The 1994 Long Term Financial Plan proposes solutions that address the City's fiscal 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 fiscal challenges. Alternative solutions dealing with a wide array of topics are provided for your review and consideration. Along with the Vital Few Priorities that will be discussed with Council on February 22, 1995, the direction that you provide as the result of Long Term Financial Plan deliberations will set the stage for the 1995-96 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 who assisted in completing the City's third Long Term Financial Plan. I believe that our previous efforts have resulted in a more secure financial future for the City of San Clemente. The adoption of the 1995 plan will continue that tradition.

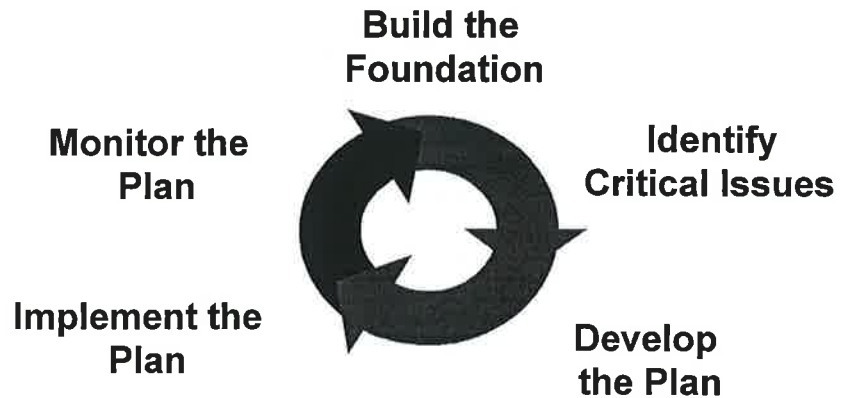
Long Term Financial Plan

Although the City Council is once again 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

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 - Volume I provides the complete financial plan, while the Long Term Financial Plan Volume II - 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:

- Introduction
- City Manager's Transmittal Letter
- Executive Summary
- Financial Trends
- Financial Forecast
- Fiscal Policy

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 issue analysis 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. The issues outlined on the following pages were analyzed as a part of the 1995 Long Term Financial Plan process:

Long Term Financial Plan

Financial Trend Analysis

Objective

Utilizing the International City Manager's Association (ICMA) 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 (F), Unfavorable (U) or Warning (W).

Financial Forecast

Objective

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

Development Fees

Objective

(1) To re-examine the City's policy on developer financing of infrastructure; (2) to ensure that various impact fees are reasonable; (3) to analyze whether or not the City's fee structure is competitive when compared to other cities; and (4) to determine if fees are detrimental to economic development opportunities.

Street Improvement Program

Objective

The purpose of this report is to recommend (1) a street improvement and replacement program which will raise the overall condition of the City's street system to an acceptable level, and (2) an annual preventive maintenance program which will keep the system at an acceptable level.

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program and (b) meet program needs without unnecessarily obligating scarce dollar resources.

Pension Analysis

Objective

To determine the fiscal feasibility of converting the City's current "defined benefit" pension plan to the State Public Employees Retirement Plan.

Unfunded PERS Liability

Objective

To identify and address unfunded (PERS) liabilities pertaining to former public safety personnel.

Fire Fund Analysis

Objective

To determine the feasibility of direct property tax contributions to the Structural Fire Fund for the payment of Fire Services.

Classification and Compensation Study

Objective

To adopt the revised classification and compensation report prepared by Ralph Andersen & Associates which restructures the City's classification specifications and compensation plan.

Master Plans

Objective

To create five year master plans and determine how rates may be impacted by future Capital projects, as well as maintenance and operating costs for the Redevelopment Agency, Lighting & Landscaping and Storm Drain Utility Funds.

Organizational Changes

Objective

To determine the operational impacts of the City's downsizing and contracting upon the remaining City departments/divisions and to determine if organizational changes should be made to further reduce cost and enhance efficiency.

Computer Action Plan

Objective

To adopt in concept the City's updated "Two Year Action Plan" for Management Information Services. The goals of the ongoing Action Plan are threefold:

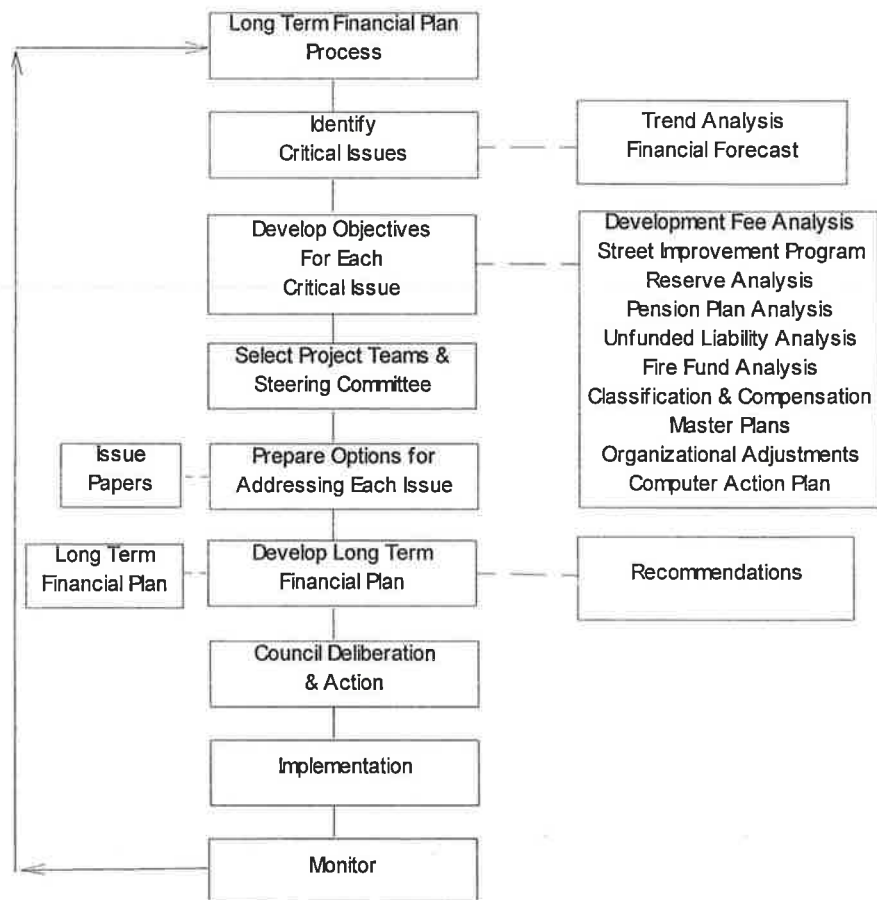
- 1. Maximize staff productivity through automation..*
- 2. Protect the City's investment in automation..*
- 3. Ensure that funding is invested in technologies that are in line with the goals of the City.*

Long Term Financial Plan

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the process that went into developing the City's comprehensive Long Term Financial Plan. This project was conducted largely by City staff. In fact, over 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. The Classification and Compensation Study was conducted by a professional compensation firm, Ralph Andersen & Associates. Assistance was provided by KPMG Peat Marwick in completing the cash and fund balance analysis relating to the collapse of the Orange County Investment Pool. Including the Project Director, there were 12 project leaders each assigned to teams addressing a specific critical issue.



As indicated, the process of developing the Long Term Financial Plan began by identifying ten 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 and practical recommendations that addressed the issue at hand. After five months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issue Papers report.

Trends & Forecast are the Foundation of the LTFP

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 presented to the City Council on Saturday, February 25, 1995. 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 fiscal year 1995-96 budget process:

Schedule

February 15, 1995	Long Term Financial Plan provided to Council and public for review.
February 25, 1995	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction.
March 1, 1995	Additional Council deliberations and direction if required.
March 1-13, 1995	Staff incorporates Council decisions into proposed Budget.

Financial Summary

The Executive Summary portion of the 1995 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The Financial Summary will provide a profile of the City's past, present and projected financial state of affairs. The Issue Summary is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the Financial Summary section:

- Financial Review
- Financial Issues
- Current Financial Condition
- Reserve Funding
- The Orange County Investment Pool
- Financial Trend Analysis
- Five Year Financial Forecast
- Projected Financial Shortfall/Surplus
- Conclusion
- Recommendations

Financial Review

The City's financial position is cautiously positive

The City of San Clemente's financial position has, over the past three years, shifted from an extremely negative position to a cautiously positive one. This conclusion is unmistakable after reviewing the City's two comprehensive financial analysis documents that are the basis of the 1995 Long Term Financial Plan: The Financial Trend Analysis report and the Five-Year Financial Forecast.

The 1993 Plan

The projected annual shortfall in 1993 was \$6 million

As is evident in the trend and forecast reports, significant progress has been made in the management of the City's finances since the preparation and adoption of the City's first Long Term Financial Plan in 1993. The 1993 Plan outlined a number of weaknesses in the City's financial system that, when combined with a severe economic recession, were quickly leading the City down the road to financial disaster. The 1993 Plan pointed out that the City was facing a total annual shortfall in FY 1993-94 of over *\$6 million*. Included in this figure was a projected operating deficit of \$1.8 million, critical capital needs (storm drain and street improvements) amounting to \$2.4 million, annual reserve needs of \$850,000 and a projected State property tax diversion of \$1.5 million.

The shortfall was addressed by contracting, reorganizing, downsizing, and reductions in pay & benefits

The 1993 shortfall was addressed through contracting City services (Police Department), establishing a storm drain utility, reorganization, downsizing and streamlining of major departments, and salary and benefit reductions.

Long Term Financial Plan

Savings from these actions were used to cover the projected operating deficit and property tax diversion and to replenish the City's reserve levels. Although storm drain needs were resolved, street capital and maintenance needs were unmet. Lastly, the Council reestablished the City's economic development program in order to concentrate on business retention and commercial attraction.

The 1994 Plan

The projected shortfall in 1994 amounted to \$2.7 million

The 1994 Long Term Financial Plan identified a reduced shortfall of \$2.7 million as a result of projected operating deficits of \$785,000, unmet street capital and maintenance needs estimated at \$1.8 million annually, and capital equipment needs of \$100,000. At the time, further revenue diversions by the State were unknown; however, a shift of \$600,000 unfortunately materialized bringing the total permanent property tax diversion to \$1.2 million per year.

The shortfall was eliminated by further contracting, pay & benefit reductions

The projected shortfall in 1994 was once again aggressively tackled by the City Council. Actions to close the financial gap included the continued contracting of City services, including the City's Fire Department, fleet maintenance services, meter reading, street programs, and beach/park maintenance. City employees agreed to a new medical benefit package which saved 30% in premiums, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost allocation plan was implemented to recover actual General Fund costs. Again, the Council also recognized the value of funding critical reserves, and addressed the City's long term financial health by establishing a wellness program and funding a capital equipment replacement reserve fund to meet future capital needs.

Fiscal challenges still lie ahead

Financial Issues

Ten issues are analyzed in the 1995 LTFP

As extensively documented in Volume II of the Long Term Financial Plan and summarized in this volume, significant fiscal challenges still lie ahead. A total of ten issues that affect or may affect the City's financial condition were examined during the preparation of the 1995 Long Term Financial Plan. As in the past, City staff has developed a systematic approach to addressing these challenges.

The major issue in 1995 is the funding of a street improvement program

Among the major problems in need of solutions this year are the development of a street improvement program to upgrade the City's street system to an acceptable level. Additionally, the City's classification and compensation system needs to be updated so that the City can maintain its competitive position from a recruiting and employee retention standpoint. Issues that must be dealt with proactively also include the City's development fee structure, rates that have not been updated for four years in the Lighting and Landscaping District resulting in deferral of critical capital projects, and the City's organizational structure must continue to be

Financial Summary

examined so that the City continues to operate as efficiently as possible. These issues are all dealt with in the new Long Term Financial Plan.

The City's fund balance position is positive

Current Financial Condition

The City's financial condition at December 31, 1994 was presented in the fiscal 1994-95 Second Quarter Financial Report. As noted in the report, the projected General Fund ending fund balance (unreserved) for the end of the year was estimated to be approximately \$800,000. This does not include the General Fund Emergency Reserve which will amount to \$780,000 (reserved) or 4% of General Fund operating expenditures by fiscal year end. As discussed later in this report, the City's objective, per City Council adopted fiscal policy, is to set aside 8% of operating expenditures as an emergency reserve. Additionally, Council Contingency Reserves total \$242,000 which is not included in the \$800,000 unreserved fund balance figure. Thus, a total of \$1.8 million is actually included as General Fund fund balance (unreserved and reserved).

FY 1994-95 revenue growth is, thus far, showing renewed strength

As outlined in the Second Quarter Financial Report, the City's current revenue picture is positive. Growth in sales tax income, Transient Occupancy Tax receipts, Permits and Fees, Plan Check Fees, Fine revenue, and Interest and Rents, are strong. Current projections indicate that revenues may exceed budget by up to 1% due to the closing of several funds and subsequent transfer of fund balances to the General Fund.

Expenditures at the end of the calendar year are in line with expectations and are projected to be under budget by 2.5% as compared to an historical average of approximately 7%. These projections have been incorporated into the City's Financial Forecast which is included in this volume of the Long Term Financial Plan.

Reserve contributions totaled \$2.6 million the past two years

Reserve Funding

The funding of depleted and non-existent reserves has been a Council priority since the adoption of the 1993 Long Term Financial Plan. To date, a total of \$2.6 million has been dedicated to the funding of reserves. Additionally, a total of \$1.2 million is scheduled to be allocated to reserves in FY 1995-96. Of that amount, \$857,000 will be transferred from the General Fund.

The Financial Forecast assumes the continued reserve funding program begun in 1993 which is scheduled for completion in FY 1997-98 for the General Fund Emergency Reserve and FY 1998-99 for workers compensation and general liability reserves. Fully funded reserves include the Accrued Leave Reserve Fund and Council Contingency Reserve Fund.

The impact on the Orange County bankruptcy is still unknown

The Orange County Investment Pool

As outlined in a separate report prepared by KPMG Peat Marwick, the impact of the collapse of the Orange County Investment Pool will result in a potential loss of approximately \$6,000 in the General Fund. The City's

Long Term Financial Plan

A report on the potential impact has been prepared

investment in the County investment fund at December 6, 1994 amounted to \$35.8 million. At the time this report goes to press, a loss of 18-22% (\$6.4 - \$7.9 million) may have to be absorbed by the City; however, it remains the contention of the City and the Court appointed Creditor's Committee that these funds were held in trust by the County and that 100% of the funds should be returned.

The Creditor's Committee is currently negotiating a possible settlement with the County which may reduce or eliminate the loss to the City. It is not known at this time what the results of that settlement will be. As previously mentioned, the City retained the services of KPMG Peat Marwick, a professional accounting firm, to review the cash and fund balance impact of a maximum loss of 22% in all affected City funds. It is the conclusion of the report that, although the potential loss is significant, the City will be able to weather the storm. The final KPMG report concludes that the majority of the monies were in capital reserve funds which do not require the use of these funds in the short term. A number of projects have been delayed for reasons not associated with the bankruptcy; therefore, adjustments in the City's capital and operational programs will not have to be made at this time. The following issues, however, should be noted:

- Community Development Block Grant Fund - Negative cash balances could be cured in this fund by submitting more timely grant reimbursement requests
- Assessment District 85-1 - The City maintains seven funds that account for required reserves and other improvement and redemption monies on behalf of Assessment District 85-1. Combined, these funds may share in a loss totaling \$558,000 as a result of the potential pool loss. The 1993 Refunding Reserve Fund faces a potential loss of \$104,000 which will have to be reimbursed in order to provide for the required level of reserves. KPMG recommends the use of the Sewer Depreciation Reserve Fund to address the deficiency. A loss of \$441,000 in the Series B Improvement and Redemption funds does not have to be funded immediately; however the City may be required to fund these losses if shortfalls or other claims materialize at a future date.
- Golf Fund - Cash and fund balances in the Golf Course Operating Fund appear to be running at minimum levels. KPMG recommends that the City consider not funding the capital reserve fund in the current year or consider rate changes in order to help increase cash and fund balance amounts.

All City funds, including the few mentioned above, are analyzed at length in the KPMG report.

Financial Trend Analysis

The City's trend monitoring system attests to the City's improved financial condition

Attesting to the improvement in the City's financial condition, an overall upgrading of several of the twenty financial trends examined by the City on an annual basis was noted in the Financial Trend Analysis report. Twelve of

Financial Summary

the indicators are now considered favorable as opposed to the prior year where only five were favorable.

From an historic trend point of view, progress was made in several key indicator's including: Sales Tax, Elastic Revenues, One-Time Revenues, Expenditures Per Capita, Employees Per Capita, and Fund Balance.

***A note of caution:
Property tax
revenue & property
values are still
declining***

Financial Indicator's of concern include: Revenues Per Capita, Property Tax Revenue, and Property Values which are due to the diversion of property tax income to the State and declining property values. It should be noted that the City's share of the property tax dollar continues to decline. Last year, the City's share was 15.5% but is now down to 12.9% as illustrated below.



Several economic indicators are still a concern but have been addressed by Council and are expected to improve. These include: Community Development Service Charges, Revenue Shortages, Fringe Benefits, and Capital Outlay indicators.

A separate section of this report is devoted to the Financial Trends Analysis and a summary is included in the Issue Summary section which follows.

***Revenue growth is
forecasted at 3.2%
and expenditures at
3.1%***

Five Year Financial Forecast

The City's updated financial forecast for the General Fund projects revenue growth over the five year forecast period of 3.2 %. This compares to an historical growth rate of 5.1%. Expenditures are projected to grow at an annual average rate of 3.1% over the same time frame, as compared to historical average growth rates of 3%. The average projected growth rates for revenues exceed expenditures by .1% which, if achieved, would result in operating surpluses beginning in the second year of the forecast.

***The City's forecast
examines operating
position & fund
balances***

It should be pointed out that historical growth rates are somewhat misleading because of several factors. "One-time" revenues transferred from other funds into the General Fund due to the contracting of Police and other services tend to skew revenues upward. However, the same is true of expenditures - "one-time" expenditures were made for accrued leave and severance payments for contracted City employees. Thus, the growth rates

Long Term Financial Plan

for revenues and expenditures, if adjusted, are estimated to be about 2-3% lower.

In developing the Five Year Financial Forecast, two primary areas are examined to determine the City's projected future financial position - operating position and fund balances. *Operating position* refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. If the opposite is true, an operating deficit will occur. Operating position does not take carry-over fund balances into account. *Fund balances* include the accumulation of available resources from year to year to determine the City's financial position, e.g. if an operating surplus is carried over from year to year, fund balances will increase; however, if an operating deficit occurs, fund balances will decline.

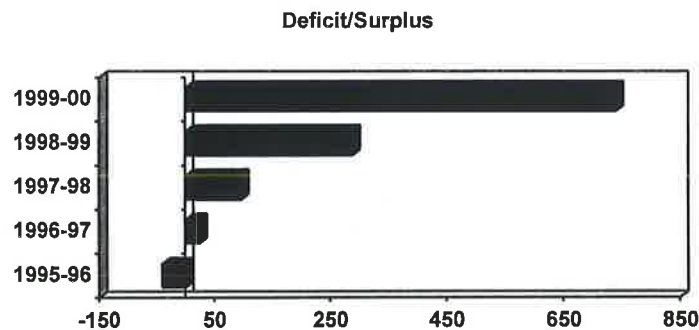
Operating Position

As indicated below both in table and graph form, the City's projected operating deficit in FY 1995-96 amounts to only \$40,000. Operating surpluses begin to occur in FY 1996-97 and increase to \$740,000 in FY 1999-00.

An operating surplus is forecasted in FY 1996-97

Projected Deficit/Surplus

Amounts in \$1,000	1995-96	1996-97	1997-98	1998-99	1999-00
Revenues	\$20,526	\$21,469	\$22,360	\$23,382	\$24,566
Expenditures	20,566	21,446	22,264	23,094	23,826
Deficit/Surplus	-\$40	\$23	\$96	\$288	\$740



Fund Balances

Projected fund balances and emergency reserves are shown in the table below. The projected ending fund balance for the end of the current fiscal year, including revised revenue and expenditure projections, amounts to \$1.255 million. Fund balances, due to continued annual funding of over \$850,000 to reserve funds, decline until reserves are fully funded in fiscal years 1997-98 and 1998-99.

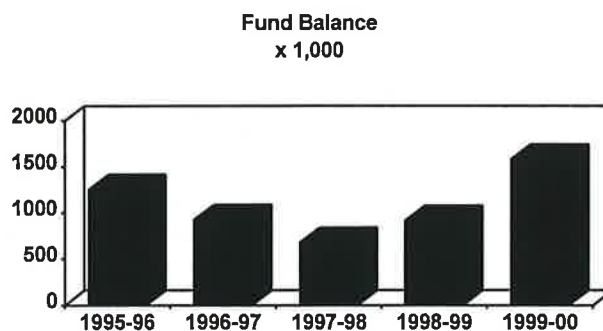
Financial Summary

Fund balances show steady improvement

Fund Balance & Emergency Reserve

<i>Amounts in \$1,000</i>	1995-96	1996-97	1997-98	1998-99	1999-00
Fund Balance	\$1,255	\$928	\$679	\$917	\$1,585
Emergency Reserves	\$1,030	\$1,380	\$1,725	\$1,775	\$1,846
Total	\$2,285	\$2,308	\$2,404	\$2,692	\$3,431

The graph below depicts the growth of fund balances over the five year forecast period.



Projected Financial Shortfall/Surplus

Projected financial shortfalls/surpluses include projected annual operating deficits/surpluses and *unfunded* needs as identified in the Long Term Financial Plan issue papers. Thus, previously addressed (i.e. funded) needs such as reserve contributions, unfunded PERS obligations and implementation of the compensation study, are already included in the operating deficits/surpluses in the financial forecast. The table below outlines the 1995 projected annual financial (shortfall) or surplus if the unfunded Street Improvement Program is included:

Funding the proposed street improvement program will result in deficits beginning in FY 1996-97

<i>Amounts in \$1,000</i>	1995-96	1996-97	1997-98	1998-99	1999-00
Projected Fund Balance	\$1,546	\$556	(\$71)	(\$620)	(\$792)
Operating Deficit/Surplus	(\$40)	\$23	\$96	\$288	\$740
General Fund Emergency Reserve	(\$250)	(\$350)	(\$345)	(\$50)	(\$71)
Street Improvement Program*	(\$700)	(\$300)	(\$300)	(\$410)	(\$410)
Projected Fund Balance	\$556	(\$71)	(\$620)	(\$792)	(\$533)

Long Term Financial Plan

As indicated, if the Street Improvement Program were fully funded, negative fund balances begin to accumulate beginning in FY 1996-97. Because increases in operating surpluses and the full funding of emergency reserves occur in fiscal years 1997-98 through 1998-99, fund balances begin to recover in FY 1999-00.

A positive fund balance is attained by modifying the assumptions

Positions, reserves, and maintenance cost reductions are modified in order to fund the Street Program

Alternatives - Street Improvement Program

The table below modifies the assumptions used above and results in positive fund balances throughout the forecast period. The modifications include:

- *Positions:* The financial forecast assumed the addition of two positions per year. Under this scenario, positions are reduced from two each year to one per year.
- *General Fund Emergency Reserve:* Under the current forecast the General Fund Emergency Reserve is fully funded in FY 1997-98. Over the five year period a total of \$1,066,000 is contributed to emergency reserves. By stretching out the funding period to five years and revising the funding levels, a total of \$1,050,000 would still be contributed over the same time frame.
- *Maintenance Costs:* The Street Improvement Program assumed the reduction of maintenance costs beginning in FY 1998-99. The table below assumes that a reduction in maintenance costs (\$90,000) will be attained one year earlier or FY 1997-98.

By modifying the assumptions used in the City's Financial Forecast, fund balances, including funding for the Street Program at recommended funding levels, remain positive throughout the forecast period. Beginning in FY 1995-96, fund balances decline to a low of \$35,000 in FY 1998-99, but start increasing again in FY 1999-00 as operating surpluses begin to expand.

<i>Amounts in \$1,000</i>	1995-96	1996-97	1997-98	1998-99	1999-00
Projected Fund Balance	\$1,546	\$601	\$218	\$52	\$35
Operating Deficit/Surplus	\$5	117	\$244	\$493	\$995
General Fund Emergency Reserve	(\$250)	(\$200)	(\$200)	(\$100)	(\$300)
Street Improvement Program*	(\$700)	(\$300)	(\$210)	(\$410)	(\$410)
Projected Fund Balance	\$601	\$218	\$52	\$35	\$320

Financial Summary

Recommendation - Street Improvement Program

The Street Improvement Program represents a major unmet capital need that must be addressed in the near term. Thus, it is recommended that the Street Improvement Program be funded as described in the section above.

Conclusion

The Financial Summary section has provided an overview of the City's current financial condition and briefly reviewed the progress of the City's fiscal recovery plan. Additionally, an analysis of the City's future financial position, both with and without the proposed Street Improvement Program, was provided.

Progressive actions have maintained & enhanced levels of service

It is clear that a considerable amount of progress has been made to improve the City's financial situation. Under less than favorable financial circumstances, funding sources were identified to address critical infrastructure needs, reserves, and the continuation of the excellent public services that San Clemente's citizens both expect and deserve. In fact, not only were vital services and programs maintained, they were, in many cases, significantly enhanced. The progressive actions initiated by the City Council over the past two years have served to improve the quality of life, and public safety and welfare of the citizens of San Clemente.

The job is not complete.....

It is also clear that the job is not yet complete. The deteriorating condition of the City's streets has been well documented and remains the single major financial issue that the City must solve. A program for funding a Street Improvement Program has been developed for Council consideration; however, in order to provide the necessary funding level, difficult choices must once again be made. The City's financial forecast indicates that the General Fund cannot be relied upon to provide the suggested funding level proposed in the Street Program without modifying several of the assumptions utilized in developing the forecast.

A street improvement program is essential

Recommendations

The Issue Summary Section which follows contains all recommendations pertaining to the ten areas that staff analyzed in developing the Long Term Financial Plan.

Recommendations are included in the Issue Summary section

It is recommended that Council endorse staff recommendations outlined in the Issue Summary section. Once direction is provided by the City Council, those decisions will serve as the foundation of the budgetary action plan developed by staff and submitted for Council consideration in June 1995.

Introduction

The Issue Summary section which follows provides an overview of the issues that were analyzed during the preparation of the 1995 Long Term Financial Plan. Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics. The issues reviewed include:

Financial issues reviewed

- Financial Trend Analysis
- Financial Forecast
- Development Fees
- Street Improvement Program
- Reserve Analysis
- Pension Analysis
- Unfunded PERS Liability
- Fire Fund Analysis
- Classification and Compensation Study
- Master Plans (RDA, Lighting & Landscaping, Storm Drain)
- Organizational Changes
- Computer Action Plan

Financial Trend Analysis

Objective:

Utilizing the International City Manager's Association (ICMA) 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 (F), Unfavorable (U) or Warning (W).

12 of 20 trends are favorable

As indicated in the table below, a total number of 20 trends were analyzed in the 1995 Long Term Financial Plan. Of these, 12 were considered *favorable*, 2 were assigned a *warning* rating, and 6 were *unfavorable*. This is a dramatic improvement over the ratings assigned in the first year Long Term Financial Plan where only 6 indicators were favorable and 14 were either assigned an unfavorable or warning rating.

A detailed review of the indicators are contained in the Financial Trend section of this report and Volume II of the Long Term Financial Plan.

Long Term Financial Plan

1993, 1994, 1995 Trend Comparisons

<i>Indicator</i>	<i>1995 Rating</i>	<i>1994 Rating</i>	<i>1993 Rating</i>
Revenues Per Capita	U	U	U
Property Tax Revenue	U	W	F
Sales Tax Revenues	F	U	U
Licenses & Permits	F	U	U
Community Development Svc Charges	U	U	U
Elastic Revenues	F	U	U
One-Time Revenues	F	W	W
Intergovernmental Revenues	F	F	F
Revenue Overages /Shortages	U	U	U
Expenditures Per Capita	F	W	W
Employees Per Capita	F	W	W
Fringe Benefits	W	W	U
Capital Outlay	U	U	U
Operating Surplus	W	W	U
Fund Balance	F	W	W
Liquidity Ratio	F	F	F
Debt Service	F	F	F
Compensated Absences	F	F	F
Property Values	U	W	W
Population	F	F	F

The improved economy, adoption of fiscal policies, and restructuring City services have combined to improve City finances

Overall, the trend analysis confirms that the City's financial condition has improved considerably since the first trend report was published in 1993. The improvement in the local economy, implementation of a comprehensive set of fiscal policies, tangible cost reduction measures, and the contracting and privatization of several City services, have all combined to produce a much improved financial picture. Council actions taken since fiscal year 1993-94 including the contracting of Fire Services, are expected to continue this positive shift in the City's financial position.

Recommendations

Due to the nature of certain financial indicators, including revenues per capita, property taxes and property values, it is difficult to make any specific recommendations to alleviate the concerns raised in the trend report.

Indicators that are weak have been addressed by the City Council

Although other indicators, including capital outlay, operating surplus, and revenue shortages were assigned negative ratings, actions have been taken by Council which are already having a positive impact. For example, an annual funding program of \$100,000 has been established to replace aging machinery and equipment on a regular cycle, and an operating and revenue surplus was actually achieved in FY 1993-94. Favorable ratings, however, cannot be assigned until a clear trend emerges over time. It is expected that these positive shifts in direction will continue in FY 1994-95.

Financial Forecast

Objective

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

The Five Year Financial Forecast is based on current revenue and expenditure patterns

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 1994 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 1995 Long Term Financial Plan with the exception of funding for the implementation of the classification and compensation study, cost of living adjustments, and unfunded PERS liabilities. These items were included based on previous Council direction. The forecast basically incorporates *current* General Fund expenditure and revenue patterns and attempts to predict the City's future operating position.

The following major assumptions were used in developing the City's five year financial forecast:

Major Forecast Assumptions

- Economic and demographic data (average over five year forecast period):
 - ⇒ Inflation Average: 3.2%
 - ⇒ Population Growth Average: 1.7%
 - ⇒ Personal Income Growth Average: 6.1%
 - ⇒ Revenue Growth: 3.2% (5 year historical growth = 5.1%)
 - ⇒ Expenditure Growth: 3.1% (5 year historical growth = 3%)
- Cost of living adjustments at 90% of the projected consumer price index for Southern California
- Implementation of the 1995 Classification and Compensation Study
- Funding for Police and Fire unfunded PERS liabilities
- Addition of two new positions per year
- Reserve transfers totaling \$857,000 in FY 1995-96
- Actual expenditures projected at 2.5% less than current budgeted expenditures. Revenues projected to exceed budget by 1% in FY 1994-95

Factors *not included* in the forecast:

Factors not included in the Forecast

- No added or eliminated programs
- No further revenue diversions by the State
- Potential impact of Orange County organizational restructuring as a result of the Orange County bankruptcy

The following chart provides a historical perspective of actual revenues and expenditures for the period 1989-90 and forecasted comparisons of revenues and expenditures for the forecast period 1994-95 to 1999-00. With the

Long Term Financial Plan

Condition of arterials, collectors and local streets

- **Arterial Streets:** Of the 120 miles of streets in the system, 14.5 miles, or 12%, are arterials. The arterials are in good condition. The City has obtained several millions of dollars of grant and gas tax funds over the past few years and has resurfaced nearly all arterial streets.
- **Collector Streets:** 35.5 miles, or 30%, of the street system are classified as collectors. Gas taxes and grants have also been applied to correct problems on some of the collectors. However, of the 35.5 miles of collector streets, 24.3 miles, or 68%, are considered substandard.
- **Local Streets:** 70 miles, or 58%, of streets are classified as local streets. More than 50% of all local streets are in substandard condition.

A repair & replacement program along with a preventative maintenance program should be initiated

The Street Improvement Program report concludes that the City needs to initiate two complementary programs including a repair and replacement program and a preventive maintenance program. By implementing the proposed programs, the following improvements will result:

- Over 90% of all substandard streets in the "reconstruct" category will be reconstructed within 5 years and 100% will be reconstructed within 10 years.
- A total of 45% of substandard streets in the "overlay" category will be overlaid within 5 years and 80% will be overlaid within 10 years.
- Streets which are not substandard will be crack sealed, and/or patched if needed, then slurry sealed.

Funding Alternatives

Four funding alternatives are identified in the proposed Street Improvement Program. A summary of these options follow:

1. **Bond Issue** - This option would include the formation of a Street Assessment District and the issuance of \$22 million in bonds. The main advantage to this option is that a considerable amount of work can be accomplished over a relatively short period of time. This is a costly option and would not provide for an ongoing street maintenance program.
2. **Pay-As-You-Go** - A Street Assessment District would be formed with the proceeds used to fund the Street Program; however, the streets currently in the worst condition would not be addressed for 8 to 10 years.
3. **Combined Pay-As-You-Go and Bond Issue** - Funding alternative 1 and 2 above would be combined under this scenario. Bonds would be issued (\$7.2 million), a Street Assessment District would be formed, and the City would contribute \$2.4 million annually. The combined approach reduces costs and addresses critical street needs over a reasonable period of time.
4. **City Contribution and Neighborhood Assessment District** - Under this option, only City funds would be used and individual neighborhoods would be encouraged to participate in neighborhood assessment

Issue Summary

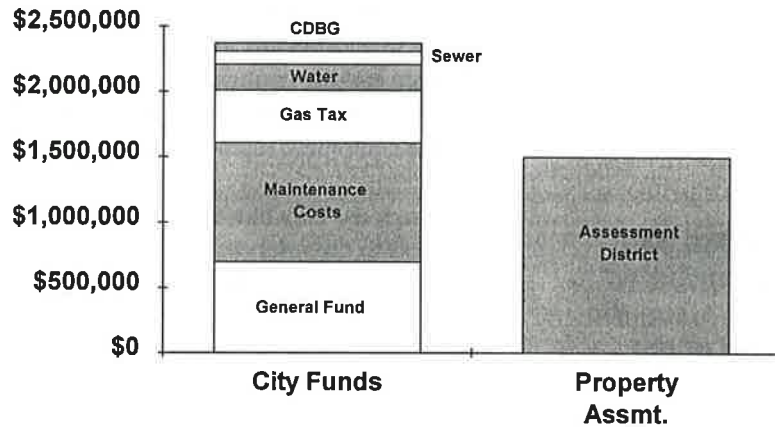
districts. This would require an agreement by property owners to form an assessment district and would not result in a comprehensive street program as envisioned by the citizenry and Council.

**Total funding needs
= \$55 million**

Funding Sources

The total cost of the proposed Street Improvement Program amounts to \$55 million over a twenty year period. The following graph and table illustrate potential sources of funding:

Sources of funding



The City would contribute \$2.4 million & a proposed assessment district would provide \$1.5 million

Funding Source	Amount
General Fund	\$700,000 in year one \$300,000 in years two and three \$500,000 annual contribution thereafter
Gas Tax	\$400,000 annually
Water Fund	\$200,000 annually
Block Grant (CDBG)	\$63,000 annually (varies)
Assessment District	\$1.5 million

As indicated, City monies would be used to fund the majority of the Street Improvement Program; however, an assessment district would have to be formed in order to complete the funding requirements. As an example of the proposed monthly rate, a single family residence on a public street would pay \$7.50 per month. Comparatively, a single family residence on a private street would pay \$1.88 per month.

Recommendation

Adopt a combined approach of funding the \$55 million Street Improvement Program which would include a pay as you go option and the issuance of bonds totaling \$7.2 million. This approach would be funded by City contributions (\$2.4 million first year contribution) and would also require the formation of a Street Assessment District (\$1.5 million annually).

Long Term Financial Plan

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program and (b) meet program needs without unnecessarily obligating scarce dollar resources.

The 1993 Long Term Financial Plan identified severely underfunded reserves and suggested a reserve contribution schedule over a five year period to address this crucial issue. As a result of several organizational changes and the contracting of public safety services, the 1994 LTFP recommended several modifications to reserve levels. Additionally, a new capital equipment replacement reserve was established.

\$2.6 million has been contributed to reserves since the adoption of the 1993 LTFP

Although the City has been unable to contribute the entire recommended amounts to the reserve accounts/funds, an impressive \$2.6 million has been contributed to the following listed reserve funds to meet reserve targets and address existing deficits in the worker's compensation and general liability funds. This has been accomplished during a period of substantial budgetary unrest; however, Council recognized that the funding of reserves was a key priority and a prudent business decision.

Reserve	Reserve Contribution
General Fund Emergency Reserve	\$780,000
Council Contingency Reserve	\$545,000
General Liability	\$476,000
Workers Compensation	\$521,000
Accrued Leave Reserve	\$150,000
Capital Equipment Replacement Reserve	\$100,000

Following is a review of the current reserve situation including the required reserve level as established by the City's Fiscal Policy, actual reserve levels in FY 1994-95, and proposed allocations totaling \$1.2 million in FY 1995-96. Of this amount, \$857,000 is from the General Fund.

Issue Summary

Reserve	Required Reserve Level	Actual Reserve Level	FY 1995-96 Proposed Allocation
Current reserve status			
Council Contingency	\$300,000	\$242,000	\$200,000
General Liability*	\$1,100,000	\$0	\$280,000
Workers Compensation*	\$1,200,000	\$0	\$297,500
Accrued Leave	\$75,000	\$75,000	\$75,000
Capital Equipment	\$100,000	\$100,000	\$100,000

* Workers Compensation and General Liability funds are still in a deficit fund balance position; therefore, the deficit will have to be eliminated before an actual reserve is built up.

Council Contingency Reserve should be reduced to 1%

Recommendations

It is recommended that the proposed reserve allocations as listed above be incorporated into the FY 1995-96 Budget. Additionally, based on historical expenditure patterns, it is recommended that the Council Contingency reserve level be reduced from 1.5%, as required by the City's Fiscal Policy, to 1%.

Pension Analysis

Objective

To determine the fiscal feasibility of converting the City's current "defined benefit" pension plan to the State Public Employees Retirement Plan (PERS).

The City currently has a private defined benefit pension plan which is administered by New England Life Insurance Company. All funds are currently invested with New England Life as well. The City does have the option of joining the Public Employees Retirement System (PERS), a defined benefit plan for public employees.

Transferring the City's pension plan to the PERS System would be prohibitively expensive

The issue paper on this topic provides a comprehensive comparison of the two plans and includes a funding analysis. Although the two plans are similar, it would be costly to convert to PERS. However, the investment portfolio managed by New England Life appears to have underperformed the market as compared to other managed pension funds, including PERS.

Long Term Financial Plan

balance between economic development and maintaining the area's pedestrian orientation, scale, and unique village character.

8. Assist the City in financing public improvements to encourage private rehabilitation and development.

The Master Plan identifies the programs necessary to implement the goals and objectives of the Redevelopment Agency. Revenue and expenditure projections for the implementation of the programs have also been identified.

Lighting & Landscaping District

Lighting and Landscaping Assessment District

The five year master plan for the Lighting and Landscaping District is separated into four major areas:

Area	Inventory
Beach and Park Maintenance	141 acres of parks and beaches
Tree Maintenance	12,000 trees
Median and Parkway Maintenance	21 acres of medians and parkways
Street Light Maintenance	2,246 street lights

L&L rates have not been adjusted for four years

The District generates revenue through annual assessments placed upon property owners within the City. The assessments are levied on the basis of benefit and are considered a user fee. Fees have not been adjusted for four years although the inventory maintained by the District has increased substantially. In order to balance the District budget, capital improvement projects have been deferred and several maintenance functions, including beach and park maintenance, have been contracted.

Capital projects have been deferred

In order to provide funding for critical capital projects and maintain the current level of service, the master plan document identifies five funding scenarios:

L&L funding scenarios

Scenario	Funding Impact
1. Funds all capital projects and maintenance and operation expenditures	1. Residential rates increase from \$70 to \$101 per year (45% increase)
2. Funds maintenance and operation expenditures only (no capital projects)	2. Residential rates increase from \$70 to \$88 per year (26% increase)
3. Funds all capital projects using bond financing and maintenance and operation expenditures	3. Utilize bond financing for capital projects.
4. Maintain current funding level (no increased rates)	4. Rates would not increase.
5. Negotiate rate freezes with contract providers	5. Unknown impact.

Issue Summary

In order for the City to continue to properly manage its park and recreational resources in an efficient and effective manner, both maintenance and capital improvement needs must be balanced. To continue to place necessary capital improvement projects on hold due to lack of funding will result in higher maintenance costs to repair and provide quality upkeep. Ultimately, it will result in the closure of facilities due to decay and vandalism. Considering the recreational and economic value of these assets, this is not a wise course of action to take.

The following table illustrates the estimated rates necessary to fund capital and maintenance needs over the next 5 years.

1994-95	1995-96	1999-97	1997-98	1998-99	1999-00
\$70	\$94	\$107	\$120	\$134	\$152

Storm Drain Utility

Storm Drain Utility

The Storm Drain Utility provides, through fixed user fees included in the monthly utility bill, a funding source for the repair and replacement of the City's storm drain system. The City is responsible for over 25 miles of improved storm drains and 1,500 catch basins.

Canyons represent a major unfunded liability

A five year capital improvement program has been established within the Storm Drain Fund and funding is available for these projects. However, canyons represent a major unfunded liability to the City. An assessment of the magnitude of this problem will have to be completed soon.

Recommendations

Redevelopment Agency

The San Clemente Redevelopment Agency should meet annually to review the goals and set priorities for the Five Year Master Plan.

Lighting & Landscaping

Staff recommends that City Council direct staff to (1) finalize negotiations with all contract maintenance companies providing services within the Lighting and Landscape Assessment District, requesting that they delay requests for increases in maintenance costs in the 1995-96 fiscal year and, (2) authorize staff to negotiate an acceptable maintenance cost increase in the 1996-97 fiscal year based upon the Consumer Price Index that would allow maintenance contractors to recoup the loss sustained in the 1995-96 fiscal year and, (3) authorize staff to average appropriate rate increases over the next 5 years. This will provide a consistent and level percentage increase over the 5 year period.

Storm Drain Utility

Existing fees are sufficient to support the short-term capital and maintenance needs of the storm drain system. It is recommended that a complete analysis of the storm drain system be performed in FY 1995-96 in order to identify those areas which represent the highest risk to the City.

Long Term Financial Plan

Organizational Changes

Objective

To determine the operational impacts of the City's downsizing and contracting upon the remaining City departments/divisions and to determine if organizational changes should be made to further reduce cost and enhance efficiency.

Organizational changes have been implemented over the past several years

A number of studies, including a management audit conducted by Hughes, Heiss & Associates in 1991 and a Blue Ribbon Committee study of the City's finances, have been completed over the past few years. Additionally, Council has implemented a number of organizational changes, streamlining measures and staffing reductions recommended in two previous Long Term Financial Plans. These efforts have resulted in the contracting of police and fire services, beach and park maintenance, meter reading, fleet maintenance, street maintenance functions and a consequent reduction of 168 full time equivalent positions.

The internal organizational study conducted this year focused on one operational and two support functions: Electrical/Facilities Maintenance, Accounting and Human Resources/Risk Management.

Contracting of street light and traffic signal maintenance should be considered

Electrical/Facilities Maintenance

The Hughes Heiss study recommended that the facilities maintenance staffing level be increased to six personnel to properly maintain City facilities. Currently, only two maintenance workers are assigned to this critical function. In order to provide more resources in the facilities area, contracting of street light and traffic signal maintenance should be considered. Contracting these functions would total approximately \$45,000.

Workload in support functions has declined while...

Accounting

A total of four positions have been eliminated in the Finance/Accounting Division over the past several years. However, as the workforce continues to decline, the reduced workload can be spread out over the eight remaining accounting personnel. Personnel have been adequately cross trained and a vacant position (Senior Accountant) has recently been filled.

..workload in operational departments has increased

At the same time as support type functions are experiencing a reduced workload, other departments are experiencing an increased demand. For example, due to the increased volume of permit activity and absorption of Fire Department permit functions, there is a need to provide more clerical and permit support in the Community Development Department.

Human Resources/Risk Management

Due to the nature of the services provided by the Human Resources Division, a significant drop in workload has occurred in this division over the past several years. Although no programs have been eliminated, the

Human Resource Division activities have declined

reduction in personnel and the contracting of fire and police services has contributed to reduced recruitment activity (48%), liability claims (70%), and workers compensation claims (56%). Because of this change in workload, a Management Analyst was recently transferred to the Management Information Services Division in an effort to transfer resources where they are most needed.

Further contracting of Workers Compensation & Liability should be planned

In conducting the organizational analysis of the Human Resources/Risk Management Division, it became apparent that there is an opportunity to further contract both the general liability and workers compensation programs. This may result in an enhanced level of service at minimal costs and allow Human Resources staff to redirect its efforts toward improving and streamlining the Human Resources program. It also appears that the staffing level in Human Resources (3 FTE's) is close to the norm in comparison to other cities of the same size and employee population.

Recommendations

Electrical/Facilities

Formal requests for proposals should be solicited for the maintenance of City street and traffic lights.

Accounting/Community Development

In order to provide clerical support in departments requiring additional resources, it is recommended that a part time clerk in Accounting be transferred to the Community Development Department. The accounting clerk currently performs cash management and treasury functions which would be transferred to other accounting personnel.

Human Resources/Risk Management

It is recommended that the contracting of the General Liability and Workers Compensation programs be pursued and requests for proposal be solicited for these programs.

Computer Action Plan

Objective

To adopt, in concept, the City's updated "Two Year Action Plan" for Management Information Services. The goals of the ongoing Action Plan are threefold:

- 1. Maximize staff productivity through automation*
- 2. Protect the City's investment in automation*
- 3. Ensure that funding is invested in technologies that are in line with the goals of the City*

The City Computer Action Plan is updated annually

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

Long Term Financial Plan

of hardware and software, the City has achieved many 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 synopsis for the period January 1995 through June 1996 follows:

	Jan 95 - June 95	July 95 - Dec 95	Jan 96 - June 96
Computer Action Plan	<ul style="list-style-type: none"> Lease and install new microcomputers so that 95% of all computers can run Windows Establish a satellite office at Community Development Transfer all optical disk Geobase to the minicomputer Connect all users at Com Dev to the minicomputer Automate phone call tracking and bill departments directly Develop Beta implementation of Office Software 	<ul style="list-style-type: none"> Install new graphical software on all computers Install new graphical applications Train staff in new applications Develop workflow software to automate forms management Begin the process of upgrading the City's minicomputer system 	<ul style="list-style-type: none"> Complete the selection process for upgrading the minicomputer Develop applications for the new system which will not be provided by the vendor Consider migrating to Windows 95 Continue City wide staff training Test moving to a new networking solution such as Windows NT and SQL server

Lease Purchase of computers is recommended

Recommendations

Adopt the Computer Action Plan as presented by the Computer Administration Team. The Computer Administration Team, as a part of the Computer Action Plan, recommends entering a three year lease-purchase program for all new computers, including onsite service agreements. The "business productivity" of a microcomputer seldom exceeds three years; therefore, this would represent a cost effective method of providing up-to-date technology for the City's workforce. A total of \$40,000 for microcomputer upgrades was included in the FY 1994-95 budget and there is an additional \$10,000 available in computer hardware maintenance savings to fund the total General Fund cost of \$50,000. Additional funding would be allocated from the following funds which also require replacement computers:

- Water Fund - \$4,300 per year
- Sewer Fund - \$2,880 per year
- Golf Fund - \$2,160 per year

Financial Trends

Indicators measure the fiscal health of the City of San Clemente

As in the past two years, the trend analysis report examines a number of financial indicators that are designed to measure the fiscal health of the City of San Clemente. The trend analysis system is based on the International City Manager's Association (ICMA) guidelines contained in "Evaluating Financial Condition", a handbook published by ICMA.

Analyzing financial trends and deriving applicable conclusions and recommendations is a very complex process. It involves sorting through a number of factors to determine the fiscal condition of the City. Some of the factors which are analyzed include:

- The state of the economy;
- Revenue yields and whether they are sufficient to support a growing community;
- Expenditure levels and whether they are providing for the public well being and safety of the residents of the community;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic decline;
- Debt levels and their impacts upon current City financial resources.

Financial indicators are analyzed in accordance with the City's fiscal policy

This report examines these issues and others in determining the current financial well being of the City of San Clemente. Financial indicators have been analyzed in accordance with the City's adopted fiscal policies and national standards.

Trend data is as of 1993-94 fiscal year end

It should be noted that data used to develop the report is primarily drawn from the City's Comprehensive Financial Report for fiscal years 1988-89 through the most recent report for the fiscal year ending June 30, 1994. Consequently, all trends are based on data available as of the end of fiscal year 1993-94 and does not incorporate any changes that have occurred since that time. For example, the Fire Department was contracted to Orange County in September 1994, thus, changes that may affect certain financial indicators relating to the transfer, including salaries and benefits, are not included in this report.

Summary of Trend Analysis

A thorough analysis of the financial trends applicable to the City's General Fund will provide the City Administration and Council with a much clearer picture of the overall financial position of the City and help identify areas where policies need to be revised or implemented. One of the following ratings has been assigned to each indicator:

Long Term Financial Plan

F = Favorable

Favorable: This trend is **positive** with respect to the City's goals, policies, and national criteria.

Unfavorable

Unfavorable: This trend is a **negative** one, and there is an immediate need for the City to take corrective action if possible.

Warning

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.

Provided below is a brief summary of indicators that are detailed in this report. Comparative data is provided from the 1993 and 1994 Long Term Financial Plans to delineate any positive or negative changes noted in the trends over the past three years.

12 of 20 financial indicators are positive...

while 6 are unfavorable...

and 2 are warnings

Improvements in the economy and prudent fiscal policies have resulted in a financial turnaround

<i>Indicator</i>	<i>1995 Rating</i>	<i>1994 Rating</i>	<i>1993 Rating</i>
Revenues Per Capita	U	U	U
Property Tax Revenue	U	W	F
Sales Tax Revenues	F	U	U
Licenses & Permits	F	U	U
Community Development Svc Charges	U	U	U
Elastic Revenues	F	U	U
One-Time Revenues	F	W	W
Intergovernmental Revenues	F	F	F
Revenue Overages /Shortages	U	U	U
Expenditures Per Capita	F	W	W
Employees Per Capita	F	W	W
Fringe Benefits	W	W	U
Capital Outlay	U	U	U
Operating Surplus	W	W	U
Fund Balance	F	W	W
Liquidity Ratio	F	F	F
Debt Service	F	F	F
Compensated Absences	F	F	F
Property Values	U	W	W
Population	F	F	F

Although the improvement in the State and local economy have unquestionably contributed to the overall improvement of several indicators, the emphasis placed by Council on implementing a series of new fiscal policies in 1992 were certainly effective in producing a financial turnaround. Additionally, the adoption and, more importantly, the

Trend Analysis

A significant improvement in trends is evident

implementation of two consecutive long term financial strategic plans have laid the foundation for a well planned financial recovery.

Elastic revenue sources are now favorable

As indicated, a total number of 20 trends were analyzed in the 1995 Long Term Financial Plan. Of these, 12 were considered *favorable*, 2 were assigned a *warning* rating, and 6 were *unfavorable*. This is a dramatic improvement from the ratings assigned in the first year Long Term Financial Plan where only 6 indicators were favorable and 14 were either unfavorable or a warning rating was assigned.

Certain indicators continue to cause concern

Positive economic conditions resulted in favorable ratings in the sales tax, licenses and permits, and elastic revenue categories. However, the after effects of a major recession and revenue diversions to the State continue to impact revenues per capita, and especially the property tax and property value categories. Although an unfavorable rating was assigned to Community Development Service Charges, a renewed growth pattern is beginning to emerge in FY 1993-94 and into FY 1994-95.

As previously noted, Council actions to control expenditures have clearly improved the ratings assigned to expenditures per capita, employees per capita, one-time revenues, and fund balance. Although a warning rating was assigned to the fringe benefit category due to a one time adjustment to the medical cost program, benefit levels have definitely been brought under control.

However, Council actions have been taken to address these concern

Other indicators that continue to cause some concern include capital outlay, operating surplus, and revenue shortages. Capital outlay and revenue shortages, although assigned unfavorable ratings, have shown improvement in fiscal 1993-94. A total of \$100,000 was allocated for capital outlay expenditures and a capital equipment reserve fund was established. Revenues, in fiscal 1993-94 were in excess of budget for the first time in several years. Favorable ratings cannot be assigned, however, until a clear trend emerges over time. Although a warning rating was attached to the operating surplus category, the City did have an operating surplus in fiscal 1992-93 and a minor operating deficit in 1993-94.

Underfunded reserves and lack of funding for streets are still major concerns

Other observations that were noted during this analytical review of City finances pertain to underfunded reserves, lack of expenditures for critical street projects, and lack of funds dedicated to maintenance of City facilities. These concerns are addressed elsewhere in the Long Term Financial Plan, however it should be pointed out that financial indicators will be developed this year in order to provide the Administration and the City Council with a more sophisticated financial analysis of these critical areas.

As described above, the City has made considerable progress in improving it's financial condition since the adoption of the City's initial Long Term Financial Plan in 1993. Many of the actions taken were difficult and controversial but were necessitated by a lingering economic recession,

Long Term Financial Plan

Substantial progress has been made to improve the City's finances

limited growth, unprecedented diversions of City property tax funds to the State, an aging and neglected infrastructure system that had to be addressed, and non-existent reserves that had to be funded. Although the City has not been able to entirely address these major concerns, progress has been made.

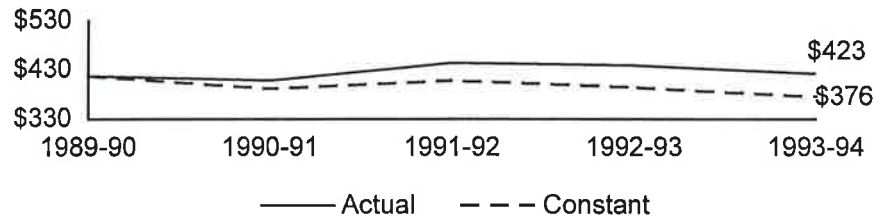
The following sections provide a detailed overview of most of the indicators listed in the above table. Please refer to Volume II of the 1995 Long Term Financial Plan for a complete description of all financial indicators.

Trend Analysis

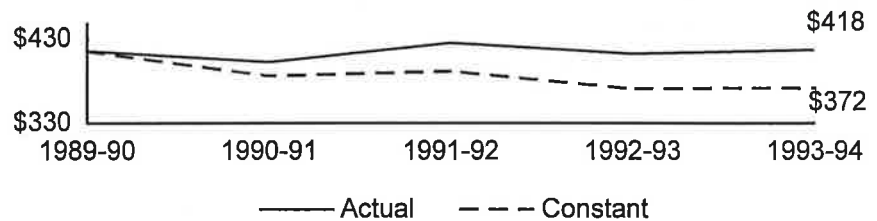
Revenues

Revenues Per Capita

REVENUES PER CAPITA
Actual and 1990 Constant Dollars
General Fund



REVENUES PER CAPITA
EXCLUDING ONE-TIME REVENUES
Actual and 1990 Constant Dollars
General Fund



Revenues per capita in constant dollars are still below the levels of FY 1989-90

Finding: *UNFAVORABLE*. Revenues per capita (excluding one-time revenues) increased in both actual and constant dollars in FY 1993-94 but are still below levels of FY 1989-90.

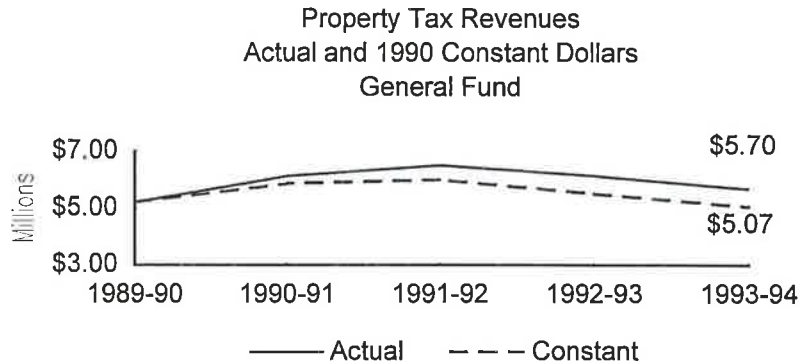
Revenues per capita have been impacted by property tax diversions

Comments: The first chart above on revenues per capita reflects an overall decrease in the past two years in both actual and constant dollars. However, the City has experienced increases in most revenue sources with the exception of property taxes. The decrease in revenue per capita is primarily due to the sharp decrease in one-time revenues received by the City, as shown in the second chart. This chart (which excludes one-time revenues), shows that both actual and constant dollar revenues per capita increased from the prior year. One-time revenues were extremely high during FY 92-93 due to the Telega Valley fire protection service charge, and inter-fund transfers due to the contracting of police services, which totaled approximately \$1.15 million. The City is required to apply one-time revenues against one-time expenditures. In summary, this trend indicates that, in constant dollars, revenues per capita is improving and the City's

Long Term Financial Plan

reliance on one-time revenues is diminishing. In the next fiscal year this trend should continue to improve.

Property Tax Revenues



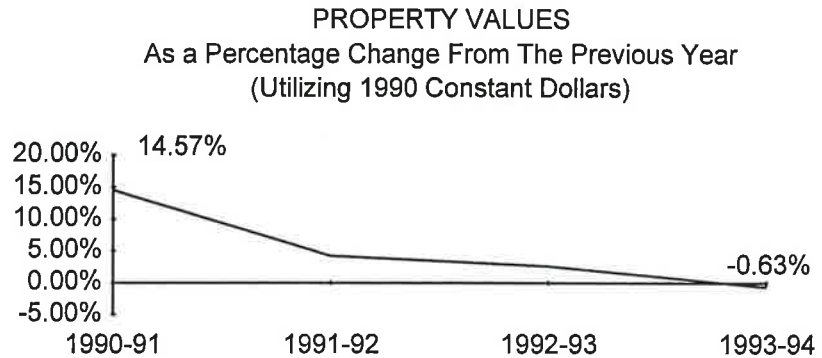
Property tax revenues dropped 7.4% as a result of a permanent State mandated property tax shift and decreases in property tax valuations

Finding: *UNFAVORABLE*. Property tax revenues evaluated over time reflect a steady increase up until 1991-92, which dropped significantly as a result of a 9% State mandated property tax shift and a decline in property valuation.

Comments: In FY 1993-94, property tax revenues dropped \$456,000 or 7.4 percent in actual dollars, and \$459,000 or 8.3 percent in constant dollars. This drop continues a two year decrease in both constant and actual dollars since FY 1991-92. The decrease in property tax revenue is a reflection of the State mandated property tax shift which cost the City \$1.2 million and the recent decrease in the valuation of property due to the economic recession. This decrease in revenue and decline in property valuation result in an unfavorable rating.

Trend Analysis

Property Values

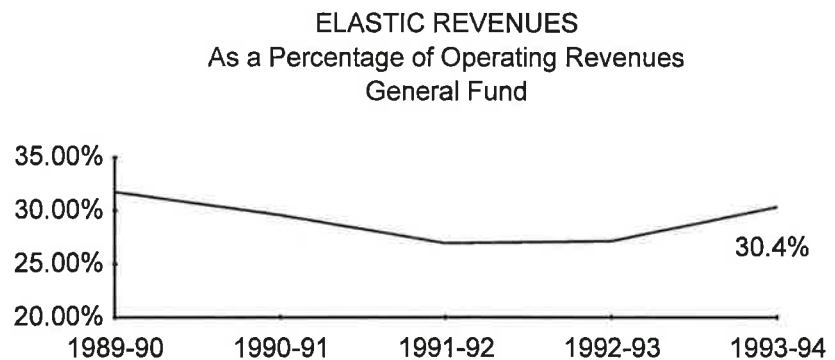


A negative growth rate was observed for property value

Finding: **UNFAVORABLE**. The negative 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 three years from a healthy increase of 14.57% in FY 1990-91 to an actual decrease of -0.63% in FY 1993-94. This decline in the growth rate is a reflection of a decline in housing values due to the economic recession. This reduced growth rate has effectively reduced property taxes in constant dollar terms to the lowest level in five years.

Elastic Revenues



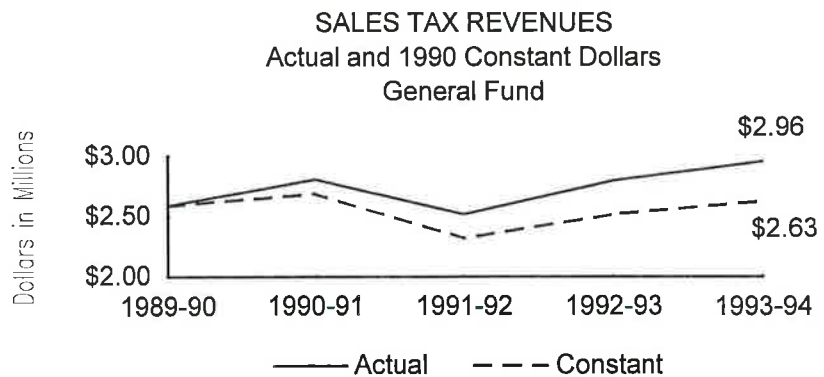
Elastic revenue sources have increased substantially

Finding: **FAVORABLE**. 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 increased for the last two years. Although there was a modest increase in FY 1992-93, there was a substantial increase to 30.4% in FY 1993-94 which is almost the

Long Term Financial Plan

same level as that in FY 1989-90. The City's largest elastic revenue source, sales tax revenue, was up 5.6 percent, or \$157,000, from the prior year. In addition, community development charges increased 15%, or \$181,000.

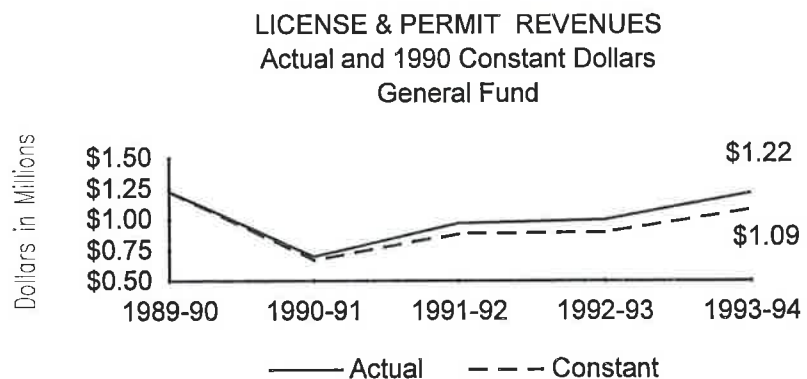
Comments for each major elastic revenue source follow:



1993-94 sales tax revenue increased 5.6% or \$114,000

Finding: *FAVORABLE*. In FY 1993-94, sales tax revenue increased \$157,000, or 5.6 percent in actual dollars over FY 1992-93, and \$114,000, or 4.6 percent in constant dollars.

Comments: This level is at a five year high in actual dollars and is almost at the same level of five years ago in constant dollars. The increase in sales tax dollars in 1993-94 indicates a positive sign of recovery in the retail sector of San Clemente.



License and permit revenue increased three years in a row

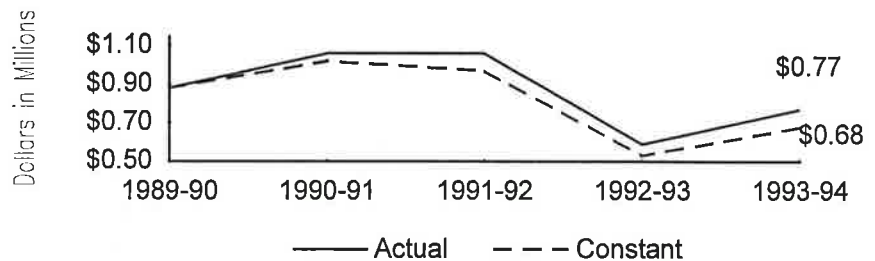
Trend Analysis

Construction permits increased over 43%

Finding: *FAVORABLE*. The City experienced increases in licenses and permits for three consecutive years, and is at approximately the same levels of FY 1989-90.

Comments: In FY 1993-94, business license revenue increased \$219,000, or 21.9% in actual dollars over the prior year. Construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, increased \$186,000, or 43.6% in actual dollars over the prior year. This reflects a recovery from the economic downturn and the resulting on construction activity.

COMMUNITY DEVELOPMENT SERVICE CHARGES
Actual and 1990 Constant Dollars
General Fund



Community Development Charges reversed a negative trend and increased 15% or \$180,000

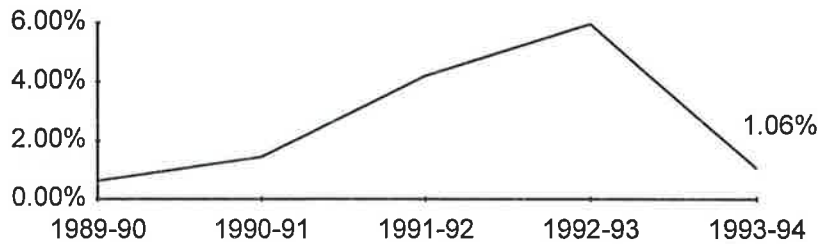
Finding: *UNFAVORABLE*. Community Development Service Charges in actual dollars increased 15% from the prior year. However, this revenue source is still significantly below the level reached four years ago.

Comments: In FY 1993-94, total community development service charges increased 15 percent, or \$180,000 from the prior year. Specific revenue source increases include building plan check fees, and public works inspection fees increasing \$146,000 and \$118,000, respectively. Overall, the City is rebounding in FY 1993-94 from a severe drop in community development service charges experienced in FY 1992-93. This is a positive sign that although the current level is still below the levels reached five years ago in constant dollars and actual dollars.

Long Term Financial Plan

One-Time Revenues

ONE-TIME REVENUES
As a Percentage of Operating Revenues
General Fund



In accordance with fiscal policies, one-time revenues were used to fund one-time expenditures

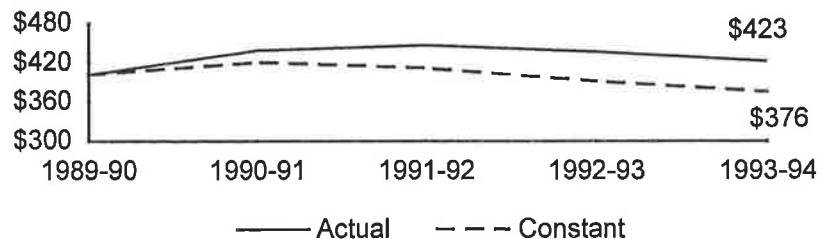
Finding: *FAVORABLE*. One-time revenues, as a percentage of total General Fund operating revenues, equaled 1.06% in FY 1993-94, a significant decrease over the prior year. This indicates that the General Fund does not rely on one-time revenues within the operating budget.

Comments: In FY 1993-94, one-time revenues decreased 83% over the previous year, and has reversed a trend of one time revenues being material to total operating revenues (the City will also realize more one-time revenues in FY 1994-95 with the contracting of fire services to the Orange County Fire Department). One-time revenues were used for start-up costs and accrued leave payments to police personnel. Therefore, the City is operating within the confines of Council adopted fiscal policies, that is, that one time revenues be used only for one time expenditures

Expenditures

Expenditures Per Capita

EXPENDITURES PER CAPITA
Actual and 1990 Constant Dollars
General Fund



Trend Analysis

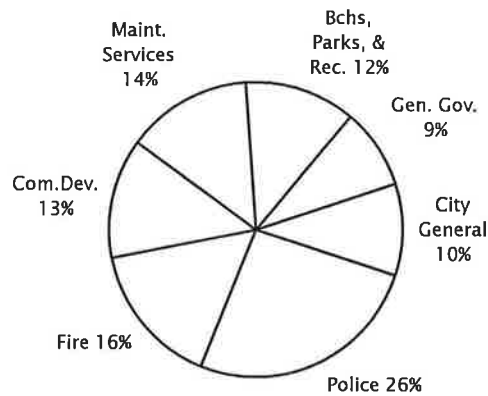
Expenditures per capita decreased due to contracting of City services.

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

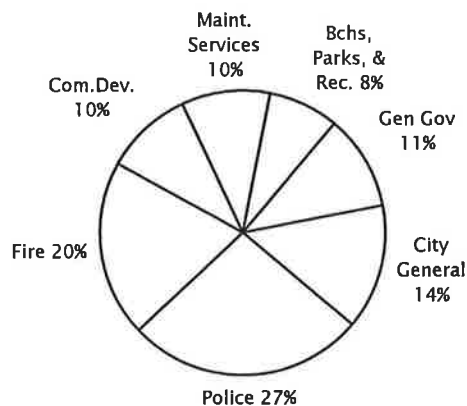
Comments: In FY 1993-94, expenditures per capita decreased in both constant and actual dollars in comparison to the prior year. This represents a total decrease of 10.7% in constant dollars and 3.6% in actual dollars since FY 1990-91 when expenditures per capita appears to have peaked in constant dollars. Actual FY 1993-94 expenditures were under budget by \$823,000 or 4.2 percent. A favorable rating has been assigned due to the fact that, although expenses per capita are declining, service levels have been maintained or enhanced during the last 2 years due to contracting and privatization of several City services.

Expenditures By Department

1989-90



1993-94



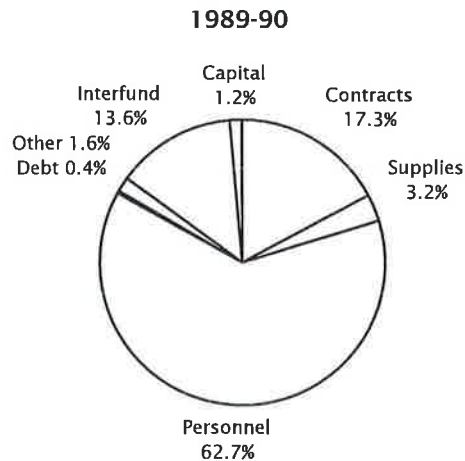
Long Term Financial Plan

Public safety expenditures accounted for 47% of expenditures in FY 1993-94 vs. 42% in FY 1989-90.

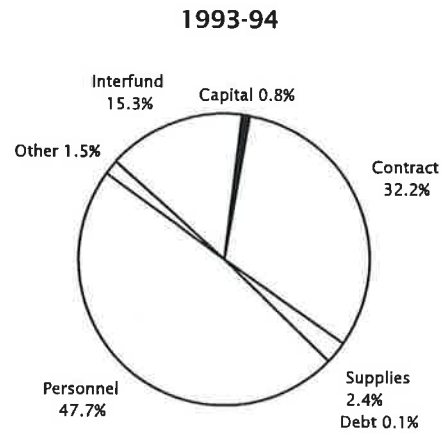
Comments: As depicted in the charts above, a significant shift in General Fund resources occurred from FY 1989-90 to FY 1993-94. In FY 1993-94 public safety accounted for 47% of expenditures whereas only 42% was expended in FY 1989-90. This shift was at the expense of Maintenance Services, Beaches, Parks, and Recreation, and Community Development. Not shown in the chart is that Police Services were contracted to the County of Orange in 1993 and the expenditure level actually declined considerably from the prior fiscal year.

City General costs increased by 4% over this same period which is primarily due to General Fund reserve transfers to the General Liability and Worker's Compensation Funds as recommended in the 1993 Long Term Financial Plan.

Expenditures by Category 1989-90



Trend Analysis

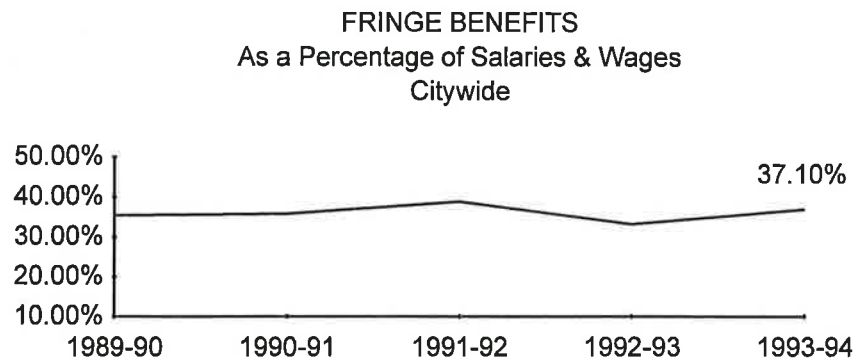


Personnel costs declined 15% while contracting services increased 15% from FY 1989-90 to FY 1993-94

Comments: These charts indicate that personnel costs and contractual costs, as a percentage of the General Fund budget altered course. Personnel costs have declined 15% while contractual service costs have increased 15%. This accounts for the transfer of Police services from the City to the County.

Interfund transfers have increased almost 2% due to reserve transfers. Capital and supply expenditures have declined as budgets have been reduced over the past several years.

Fringe Benefits



Long Term Financial Plan

Benefit costs are stabilizing after using excess reserves to fund medical benefits

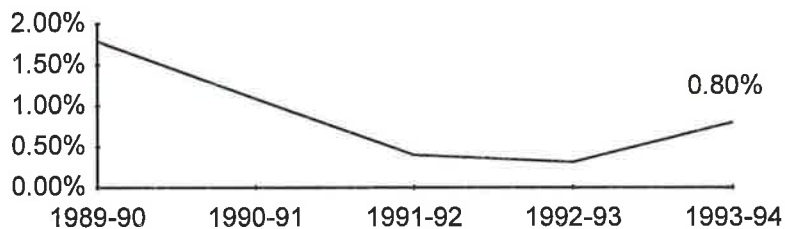
Medical insurance premiums were reduced 30%

Finding: *WARNING*. Fringe benefits, as a percentage of General Fund salaries and wages peaked at 38% in FY 1991-92 and subsequently declined to 37% in FY 1993-94.

Comments: Medical insurance costs and increases in public safety pension costs are directly responsible for the increase in fringe benefits as percentage of salaries and wages from FY 1989-90 to FY 1991-92. Over this period of time, medical insurance costs rose from \$1.2 million in FY 1989-90 to \$1.6 million in FY 1991-92. However, total City paid medical insurance costs decreased in FY 1992-93 to \$1.1 million as a result of an excess buildup in medical reserves which were used to subsidize medical premium costs. In FY 1993-94, the City-paid medical insurance premiums increased to \$1.4 million. That same fiscal year, the City implemented an HMO based medical plan which reduced medical insurance premiums by 30%.

Capital Outlay

CAPITAL OUTLAY
As a Percentage of Operating Expenditures
General Fund



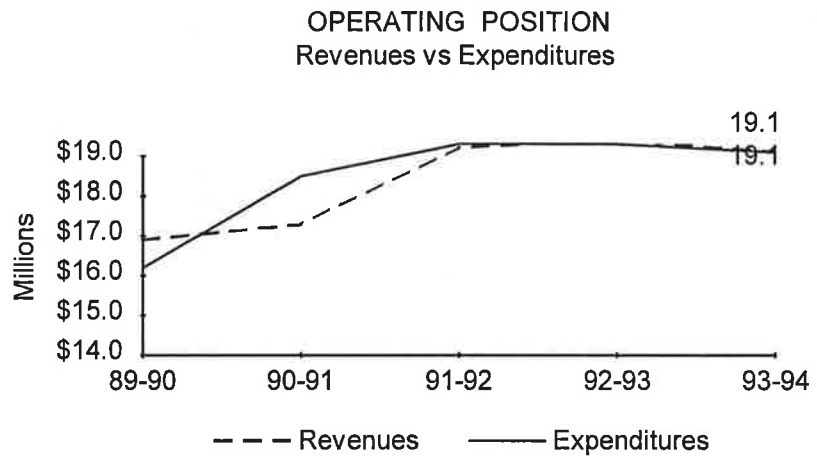
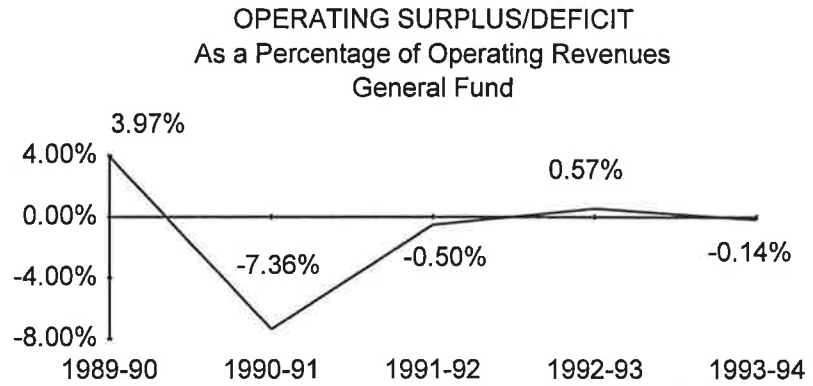
Expenditures for capital outlay increased, for the first time in several years, in FY 1993-94.

Finding: *UNFAVORABLE/IMPROVING*. The City's contribution to Capital outlay expenditures increased slightly in FY 1993-94. A total of \$100,000 was allocated to a capital equipment reserve fund as recommended in the 1994 Long Term Financial Plan.

Comments: As is evident in the above chart, the City is spending less on capital outlay as a percentage of operating expenditures. Although the total FY 1993-94 capital outlay expenditures of \$59,385 is up .49% from FY 1992-93, it is still 65% lower than FY 1989-90. The current increase is due to the purchase of essential equipment that had been deferred in prior years because of the City's negative financial condition. Based on the Council's adopted recommendations in the FY 1993-94 Long Term Financial Plan, the City also established a \$100,000 reserve for the replacement of equipment in FY 1994-95.

Trend Analysis

Operating Position



Operating expenditures slightly exceeded revenues in FY 1993-94

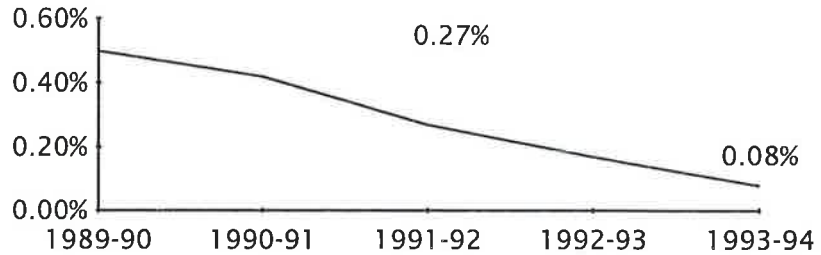
Finding: *WARNING*. Although operating expenditures slightly exceeded revenues in FY 1993-94, this indicator has stabilized to an operating surplus or deficit margin of less than 1% of operating revenues over the past three years. This indicates that the City is spending an amount that is close to what it receives in revenues.

Comments: Operating expenditures exceeded operating revenues in FY 1993-94 by \$34,000 following a year of operating surplus. Through cost saving measures, budgeted expenditures were reduced by \$823,000 and revenues increased by \$126,000 over budgeted amounts in FY 1993-94.

Long Term Financial Plan

Debt Service

DEBT SERVICE
As A Percentage of Operating Revenues
General Fund



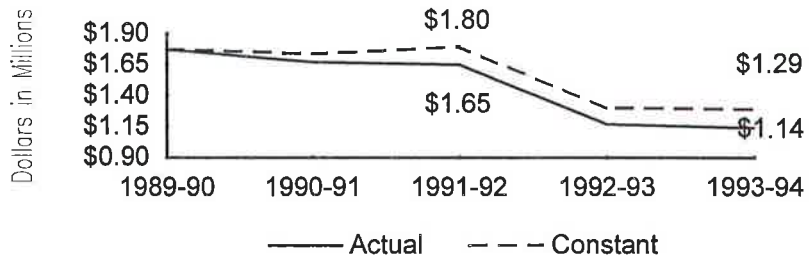
General Fund debt service represents only 0.08% of operating revenues

Finding: **FAVORABLE**. General Fund debt service represented only 0.08% of operating revenues which is well below the 20% maximum suggested by credit rating firms.

Comments: As indicated above, only 0.08% 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. Debt payments represent lease-purchase payments for the City's computer system.

Accumulated Compensated Absences

ACCUMULATED COMPENSATED ABSENCES
Actual and 1989 Constant Dollars



Contingent liabilities for accrued leave has continued to decline

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

Trend Analysis

The balance of the liability for compensated absences is \$1.14 million

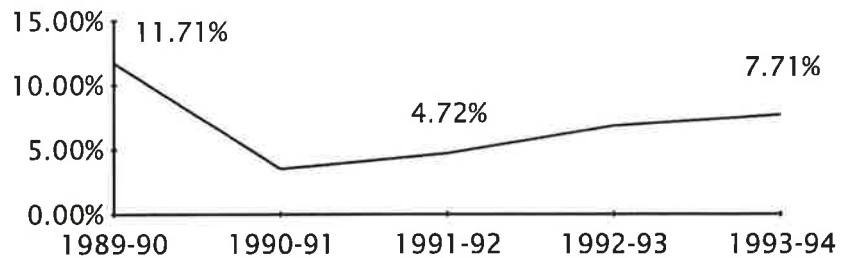
Comments: The City's liability for compensated absences has dropped for the last five consecutive years in actual dollars. Except for a slight increase in FY 1991-92, it has also dropped in constant dollars over the same period. The decline in this contingent liability can be attributed to the contracting of services and resulting payout of accrued leave to departing employees. Additionally, caps have been placed on vacation accruals which means that employees must "use it or lose it". Continued decreases are expected in FY 1994-95 with the contracting of the Fire Department to the Orange County Fire Department.

The 1994-95 approved budget included a provision for continued funding of the Accrued Leave Reserve Fund

In the FY 1994-95 approved budget, the Accrued Leave Reserve Fund was funded with a \$75,000 appropriation from the General Fund. This represents a continued contribution towards the establishment of sufficient reserves to cover future contingent liabilities for compensated absences.

Reserves

**UNRESERVED FUND BALANCE
As A Percentage of Operating Revenues
General Fund**



Unreserved fund balances increased to 7.71% in 1993-94

Finding: **FAVORABLE**. 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.

Comments: Unreserved fund balance as a percentage of operating revenues rose 0.9% in FY 1993-94 as a result of an increase in fund balance of \$141,000. The increase in fund balance is primarily due to the net effect of a decrease in year end encumbrances in the amount of \$175,000 and an operating deficit of 34,000. Steady increases in this trend shows that the general fund balance is working toward a more secure financial position.

**General Fund
Emergency Reserve =
4% or \$630,000**

Included within the total FY 1993-94 unreserved fund balance of \$1,467,910 is \$629,640 designated as the General Fund Emergency Reserve. This designation was established in FY 1991-92 as a result of Council adoption of the "General Fund Emergency Reserve" fiscal policy.

Long Term Financial Plan

This policy requires that 8% of General Fund expenditures be set aside for economic downturns or unforeseen catastrophic events that cannot be covered through other available funding sources and is intended to be phased in over the next three years. Currently the City has reserved 4% and will meet the 8% required by FY 1997-98. In addition to the emergency reserve, Council also appropriates a contingency reserve to meet current year needs that are unknown during budget preparation but may arise during the course of the year. This appropriated reserve is 1.5% of total budgeted expenditures, and amounts to \$242,000 in FY 1994-95.

Financial Forecast

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 that document was to provide a frame of reference for evaluating the City's financial condition as a basis for decision making.

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

The first update to the Financial Forecast was prepared in January of 1994. This report for 1995 will update the assumptions and data upon which the 1994 Forecast was based and will provide a comparison of this year's Forecast to the 1994 model and historic data.

Development of the Forecast

As was the case in 1993 and 1994, 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 Chapman University's School of Business December 1994 Economic and Business Review. In general, that report predicts a faster recovery than anticipated in the City's 1994 Forecast which projected a slow upturn in mid-1994. The 1995 Forecast is based on the improved economic environment that began in 1994, with a continuing upturn in economic activity in 1995, a minor slowdown in 1996, and a gradual rise again in 1997 through the year 2000.

Economic Assumptions

	1995-96	1996-97	1997-98	1998-99	1999-00
Inflation	3.3%	3.4%	2.9%	2.8%	3.5%
Population	1.8%	1.8%	1.7%	1.7%	1.7%
Assessed Valuation	-1.2%	4.5%	3.6%	4.8%	5.7%
Personal Income	6.2%	4.7%	6.1%	6.5%	7.1%

Inflation is predicted to be relatively stable throughout the five years of the Forecast

- Inflation: Inflation is the measure of the cost of goods and services. One of the main tenets of the Chapman forecast is that inflation will remain relatively low throughout the five year Forecast period with a very slight increase in the first two years of the Forecast, decline slightly

Long Term Financial Plan

in years three and four and return to a high of 3.5% in year five. Inflation impacts many revenue and most expenditure categories throughout the five year Forecast.

- **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 the City's major revenue source, 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

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

Forecast assumptions include COLA, contributions to reserves, and staffing projections

- The failure of the Orange County Investment Pool is expected to have a negligible impact on the General Fund.
- The Forecast presumes that cost of living increases will be granted at 90% of inflation.
- The 1994-95 budget has been updated to reflect the mid-year budget adjustments recently approved by the City Council. This increased the total General Fund budget by \$484,000
- The Forecast assumes the full implementation of the Classification and Compensation in FY 1994-95.
- Two new full-time positions will be added each year in order to maintain existing service levels.
- Actual expenditures are projected at 2.5% less than budgeted. This is conservatively based on a five year average of actual expenditures versus budgeted expenditures.
- Public Employee Retirement System (PERS) will be allocated \$130,000 per year to fund public safety related unfunded liabilities. (See Unfunded Liability issue paper).

Financial Forecast

- Revenue for FY 1994-95 will exceed budget by 1% based on current revenue projections
- The Forecast includes, as operating transfers out of the General Fund, annual transfers to fund reserves (\$657,000 for FY 1995-96), which are as follows:

To the General Liability Fund to augment reserves and reduce fund deficit: \$120,400

To the Workers' Compensation Fund to augment reserves and reduce fund deficit: \$112,000

To the Accrued Leave Reserve to provide for future payout of accrued employee leave: \$ 75,000

To the Capital Equipment Reserve: \$100,000

The General Fund Emergency Reserve will be fully funded by year three of the Forecast:

Year 1	\$250,000
Year 2	\$350,000
Year 3	\$345,000
Year 4	\$50,000
Year 5	\$71,000

**General Fund Reserves
will be fully funded by
FY 1997-98**

- 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 only 1% or approximately \$200,000 per year to be allocated to this reserve based on historical expenditure levels. (See Reserve Analysis issue paper)

Factors Not Included In The Forecast

**Forecast pertains to the
General Fund only**

- This Forecast is based on the General Fund only. The impact of operations of the Enterprise Funds or other funds on the overall City financial structure is not included in this Forecast.
- No new programs are included in the Forecast.
- No attempt was made to predict further actions by the State of California to divert revenues traditionally dedicated to local government, as has occurred in recent years.
- Assumes no impact on City programs, services or cost increases related to the County bankruptcy restructuring.

Long Term Financial Plan

Forecast Detail

Forecast predicts an economic recovery

The following sections will discuss, in summary detail, the results of the Forecast, assumptions used and comparisons to the 1994 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. The Forecast predicts a recovery from the economic recession, with revenues anticipated to grow by an annual average annual rate of 3.2% a year as compared to an expenditure growth rate of 3.1% per year.
- **Overall Revenue Results:** Major revenue sources will be discussed relative to current projections and comparisons to the 1994 Forecast and historic projections.
- **Expenditure Assumptions and Results:** Major expenditure categories will be discussed relative to current projections and comparisons to the 1994 Forecast and historic projections.

Operating Position

Operating deficits were projected in the 1994 Forecast

The Forecast predicts a steady recovery from the economic recession that confronted the City during the first half of the 90's. Results of the Forecast with respect to operating position are shown in the following two graphs that compare the 1994 Forecast to the 1995 Forecast.

1994 Forecast

Summary

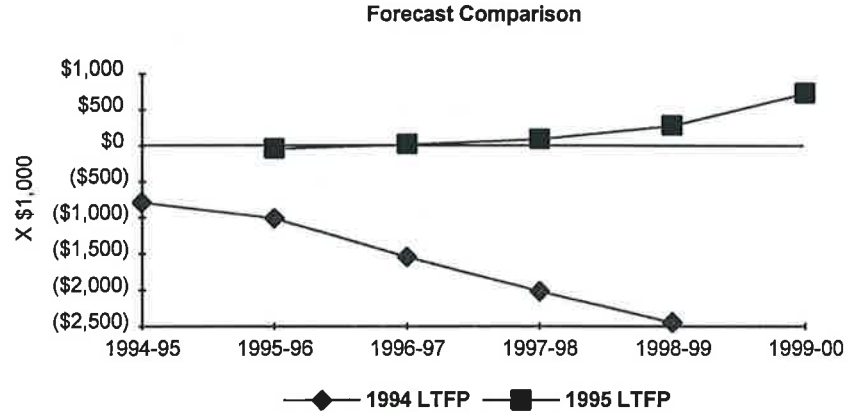
Amount in \$1,000

	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	-\$1,006	-\$1,540	-\$2,015	-\$2,143

Financial Forecast

1994 Forecast Compared to 1995 Forecast:

Operating deficits have reversed since the 1994 Forecast



1995 Forecast Summary:

An operating surplus is projected for year 2 through 5

1995 Forecast Summary

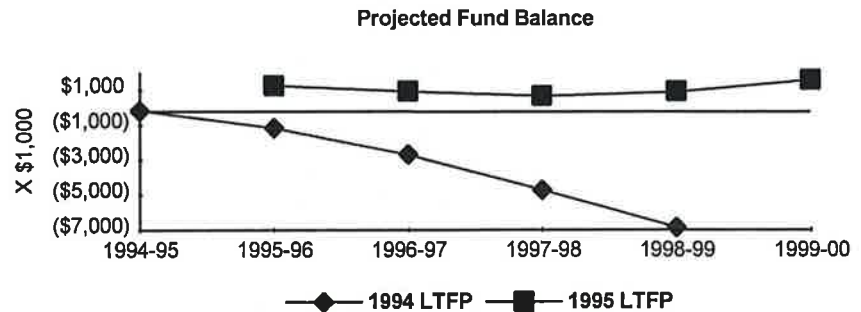
Amount in \$1,000

	1995-96	1996-97	1997-98	1998-99	1999-00
Revenues	\$20,526	\$21,469	\$22,360	\$23,382	\$24,566
Expenditures	20,566	21,446	22,264	23,094	23,826
Operating Result	-\$40	\$23	\$96	\$288	\$740

In comparison to the 1994 Forecast, the City has made considerable progress toward improving its operating position. An operating surplus is projected for all years except year one.

The City's fund balance position has improved considerably

Another way to view the changes from the 1994 Forecast as compared to the 1995 Forecast is by examining the changes in fund balance over the forecast period.



Long Term Financial Plan

The above chart indicates that the City's projected fund balance position has improved from -\$6.86 million in FY 1998-99 to a projected positive fund balance of \$1.5 million in FY 1999-00.

Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.2%, compared to a historical five year average growth rate of 5.1%. This decrease in overall revenue growth is a result of the following:

- An anticipated 1.2% further decline in Property Tax revenues for the first year of the forecast.
- A decrease in Interfund Transfers-in as a result of the one time sale of Fire equipment in FY 1994-95.
- The Cost Allocation Plan was initiated in FY 1993-94 and fully implemented in FY 1994-95 resulting in a \$1.4 million increase in transfers to the General Fund. Future increases of this size will not occur in future years.

In each revenue and expenditure category an initial summary is provided that provides the following:

- **Historic Growth Rate:** Provides the average annual rate of growth for the past five years including FY 1994-95.
- **1994 Forecast Growth Rate:** Average annual rate of growth projected for the five years as projected in the 1994 Forecast. When categories were not utilized in the 1994 Forecast, N/A is indicated.
- **1995 Projected Growth Rate:** Average annual rate of growth projected for the current five year Forecast

General Fund Growth Rate

Historic Growth Rate	5.1%
1994 Forecast Growth Rate	5.4%
1995 Projected Growth Rate	3.6%

The 1995 Forecast provides for a more gradual economic recovery than was projected in the 1994 Forecast. Although the average annual projected growth rate for the 1995 Forecast is lower than was projected in 1994, the 1995 Forecast is based on the recovery that is already underway, while the 1994 Forecast was based on a more optimistic recovery.

A gradual recovery is predicted throughout the entire Forecast

Financial Forecast

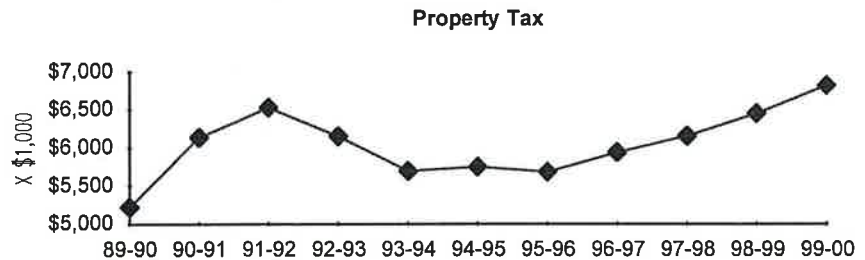
Property Tax

Historic Growth Rate	2.4%
1994 Forecast Growth Rate	3.6%
1995 Projected Growth Rate	3.7%

Property Tax growth has been impacted by State diversion of funds and decreased property values

Property Tax has been the most relied upon local government revenue for decades. It is the City's single largest revenue source and represents 27% of the total General Fund revenue projection. Over the past three years the City has realized an actual \$778,000 reduction in Property Tax receipts, as a result of the net shift in revenues from the City to the State and the decline in property valuation.

Property Tax revenues are anticipated to decline an additional 1.2% in FY 1995-96 before a recovery begins in FY 1996-97. It is projected that it will take until FY 1998-99 for property tax revenues to reach the same level achieved in FY 1992-93.



Sales Tax

Historic Growth Rate	4.1%
1994 Forecast Growth Rate	5.5%
1995 Projected Growth Rate	6.1%

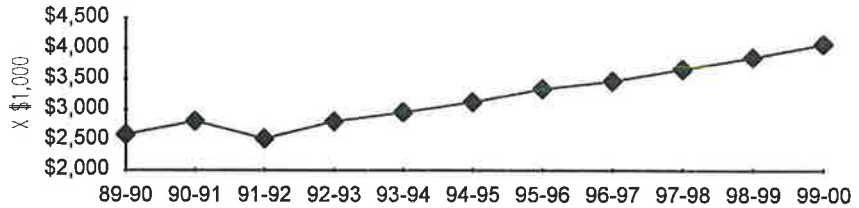
Sales tax revenue is anticipated to grow an average of 6.1% in the Forecast

Sales tax is one of the City's most economically sensitive revenue sources, and although it was greatly impacted during the past several years by the economic recession, it is now starting to reflect the turnaround in the local economy. The implementation of Proposition 172 in FY 1993-94, also contributed to the growth of the Sales Tax revenue category by generating an additional \$190,000 in revenue in FY 1994-95.

The average annual projected sales tax growth rate of 6.1% is considerably more than the five year historical average of 4.1%, which was greatly impacted by the economic downturn. Annual growth rates in the Forecast are based on taxable sales projections for Orange County presented in the Chapman University Economic and Business Review of December, 1994.

Long Term Financial Plan

Sales Tax



Transient Occupancy Tax

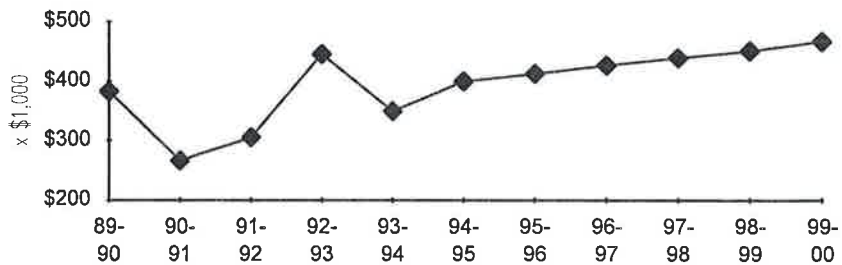
TOT is projected to increase an average of 3.4% growth

Historic Growth Rate	4.6%
1994 Forecast Growth Rate	5.5%
1995 Projected Growth Rate	3.4%

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

The average growth rate of this revenue source for the five year Forecast period is projected at 3.4% per year, and is based on the consumer price index projections for Orange County presented in the Chapman University Economic and Business Review of December, 1994.

Transient Occupancy Tax



Licenses and Permit revenue is projected to grow an average of 5.0% annually

Licenses and Permits

Historic Growth Rate	2.9%
1994 Forecast Growth Rate	10.4%
1995 Projected Growth Rate	5.0%

Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as animal licenses and taxi cab permits.

In the 1995 Forecast, revenues in this category are expected to rebound from the recent recession and achieve average annual growth of 5% over the

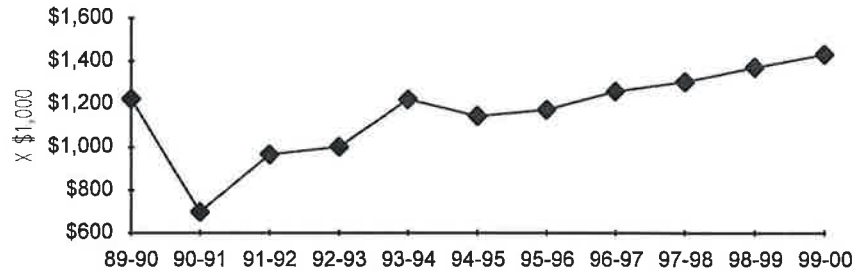
Financial Forecast

Construction Permits are anticipated to grow by 6.3%

forecast period compared to the historical growth of 2.9% over the past five years.

Construction Permits, which includes Building, electrical, mechanical, plumbing and grading permits are expected to exceed budget estimates for the current 1994-95 fiscal year, and are expected to continue to grow at an average annual rate of 6.3% during the Forecast period, as the residential housing market improves. Annual growth estimates are based on a combination of the Chapman University annual economic forecast and City of San Clemente Community Development Department.

License & Permits



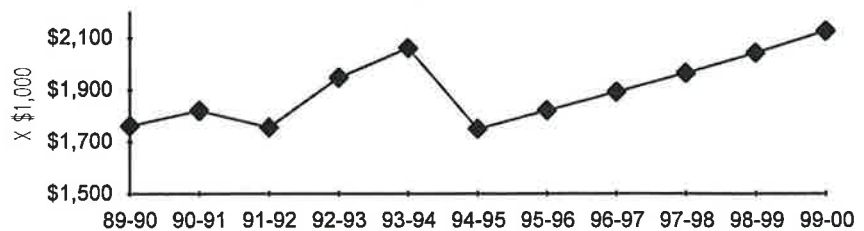
Grants and Subventions

Historic Growth Rate	.3%
1994 Forecast Growth Rate	3.8%
1995 Projected Growth Rate	3.5%

Grants & Subventions, predominantly Motor Vehicle In Lieu Tax, is projected to grow at a 3.5% rate

The predominant source of revenue in this category is Motor Vehicle In Lieu Tax. These revenues are projected to grow at a rate of 3.5% over the Forecast period, compared to the recession impacted historical growth rate of .3%. Motor Vehicle projections are projected to increase by 3.6% and are based on 50% of expected inflation plus 100% of anticipated population growth. In FY 1993-94 the City received an additional \$182,000 in Motor Vehicle fees from the State as a one time revenue to offset the impact on the shift of Property Tax from cities to the schools.

Grants & Subventions



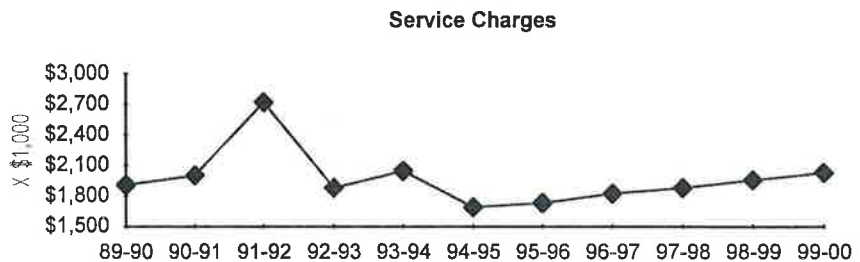
Long Term Financial Plan

Service Charges

Historic Growth Rate	-0.6%
1994 Forecast Growth Rate	6.5%
1995 Projected Growth Rate	4.0%

Service Charges show a historic growth rate of -0.6%. Projected growth rate = 4%

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. Total service charges are projected to grow at an annual rate of 4% over the Forecast period, compared to the recent historical average growth of -0.6% per year over the past five years. The Forecast projections rely on a number of relevant indices, including inflation, building permits issued, population and personal income growth.

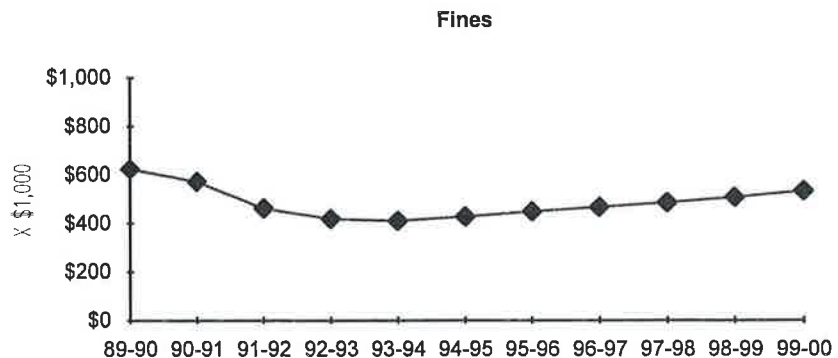


Fines

Historic Growth Rate	-6.9%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	6.7%

Fine revenue is forecast at 6.7%

The Fines category consists of all fines levied by the City for vehicles, animals, alarms, and other fines. Parking violations is the largest single item in this category and makes up 74.5% of this revenue category. The average growth rate for the five year Forecast period is 6.7% per year, and is based on 100% of expected inflation plus 100% of anticipated population growth.



Financial Forecast

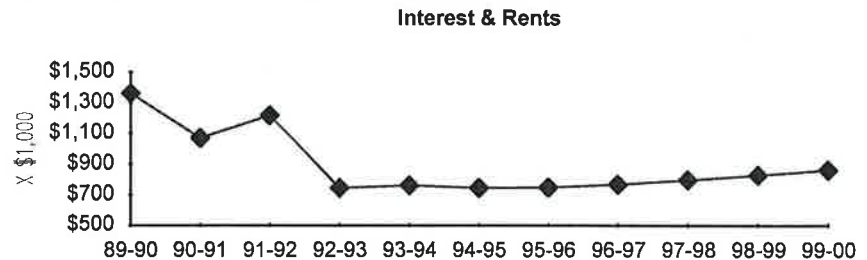
Interest And Rents

Historic Growth Rate	-8.2%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	3.4%

Interest and Rents revenue will rebound from a negative growth rate of -8% to 3.4%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. This category is expected to achieve an average annual growth rate of 3.4% for the five year Forecast period. This is in contrast to the average historical -6.1% decrease over the previous five years.

Projections for the Forecast period anticipate an average growth in interest earnings of 3.4% due to the increase in General Fund revenues and increased reserves. Projections for other revenues in this category are based on a combination of inflation, population growth and personal income growth.



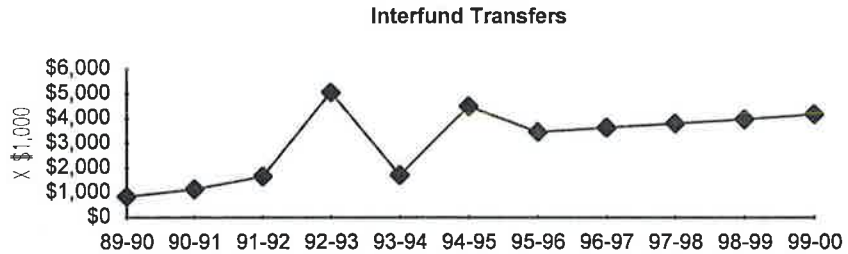
Interfund Transfers

Historic Growth Rate	76.3%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	-1.4%

Historic growth of 76.3% is due to one time revenues related to contracting of Police and Fire Services

This revenue category is comprised predominantly of overhead charges (\$2.4 million) assessed by the General Fund to other operating funds of the City that are self-supporting. This category is projected to average a negative growth rate of -1.4% over the Forecast period. This negative growth rate is the result of the one time sale of Fire and Police equipment in prior years. Projections are based on 100% of inflation plus 100% of anticipated population growth.

Long Term Financial Plan



Expenditures

Historic Growth Rate	3.0%
1994 Forecast Growth Rate	6.5%
1995 Projected Growth Rate	3.1%

Projected expenditures presume that service levels in effect in fiscal 1994-95 will remain constant

Projected expenditures presume that service levels in effect in FY 1994-95 will remain constant. The 1994-95 base year expenditure level reflects three years of operational cutbacks, and contracting of public safety services resulting in the elimination of 168 positions.

The 1995 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 two (2) employees per year over the Forecast period.

Salaries and Wages

Historic Growth Rate	-10.8%
1994 Forecast Growth Rate	8.0%
1995 Projected Growth Rate	4.2%

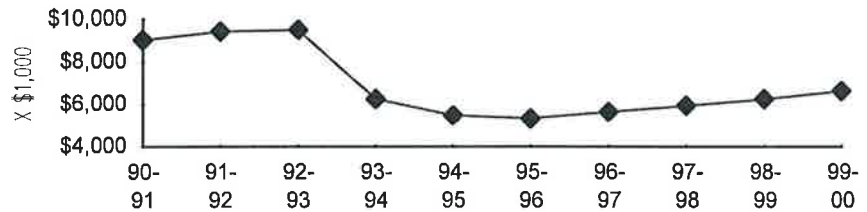
The historic growth rate for Salaries and Wages is -10.8%

The Forecast projections assume the addition of two full-time positions each year, annual cost of living raises equal to 90% of the inflation rate, and assume that merit increases and position reclassifications will equal 1.5% of the prior year salary base.

The average annual growth rate for the Salaries and Wages category is only 4.2% for the five year projection due to the transfer of Fire Services to the County, which results in a first year projection of -2.6%.

Financial Forecast

Salaries & Wages



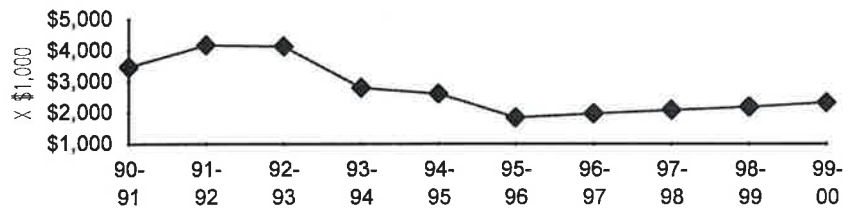
Employee Benefits

Historic Growth Rate	-5.2%
1994 Forecast Growth Rate	8.0%
1995 Projected Growth Rate	-2.2%

Employee Benefits are projected to decrease by -2.2%

The employee benefits category reflects an average growth rate of -2.2% for the Forecast period. This decrease is a result of the contracting of Fire services to the County. The first year of the Forecast projects a -29% reduction in benefits. The historical average is -5.2% for this category as a result of contracting Police services to the County and other functions formerly performed by City staff.

Employee Benefits



Capital Outlay

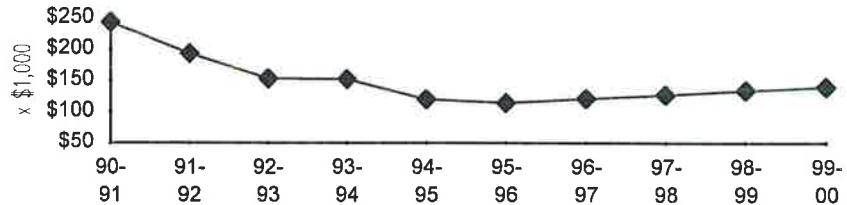
Historic Growth Rate	-33.1%
1994 Forecast Growth Rate	5.4%
1995 Projected Growth Rate	3.2%

The projected growth rate for Capital Outlay is 3.2%

Capital Outlay includes funding of only \$21,000 for minor new and replacement equipment purchases as currently budgeted in the FY 1994-95 budget and an annual \$100,000 allocation to the Equipment Replacement Reserve Fund. The one time allocation of \$3 million for the purchase of the Negocio property is not indicated on the chart for this section for FY 1992-93 as it does not allow for a valid comparison. Forecast projections for this category are based only on inflation, resulting in an average annual increase of 3.2% for the five year Forecast.

Long Term Financial Plan

Capital Outlay



Contractual Services

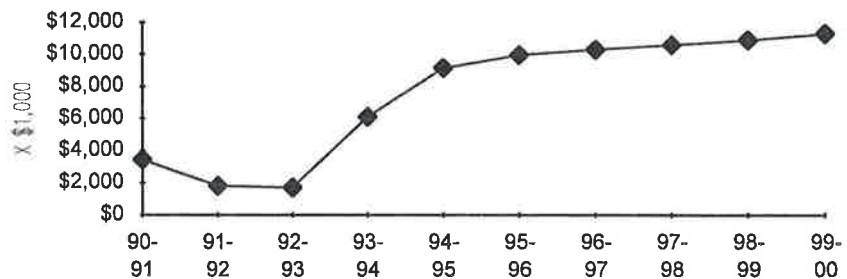
Contractual Services represents 45% of General Fund expenditures

Historic Growth Rate	63.0%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	4.6%

Due to the major change in services now being contracted, the contractual services category now represents 45% of General Fund expenditures, compared to less than 10% in FY 1991-92.

Overall, this category is expected to experience an average annual increase of 4.6% over the Forecast period, well below the historical average of 63% (The historical average reflects both Police and Fire services changing from internal operations to contractual services).

Contractual Services



Other Charges

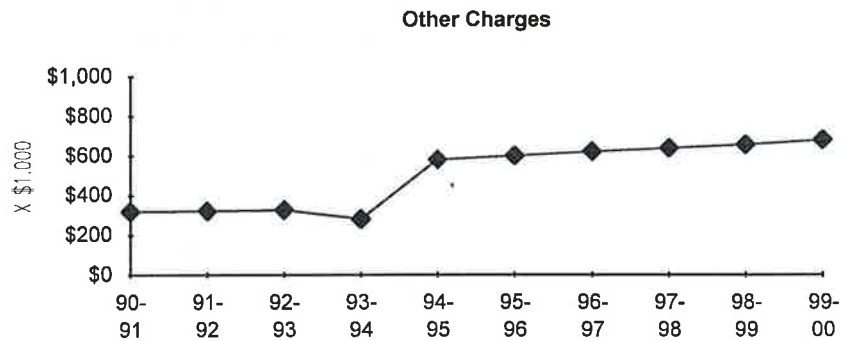
Historic Growth Rate	23.7%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	3.4%

Other Charges will increase by 3.6% over the Forecast period

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Within this expenditure category is the Council Contingency reserve account. Funding

Financial Forecast

in this category consists of less than 3% of the General Fund expenditures. Overall, this category is expected to experience an average annual increase of 3.4% over the forecast period, will be below the historical average of 23.7%. These projections are based on 100% of inflation.

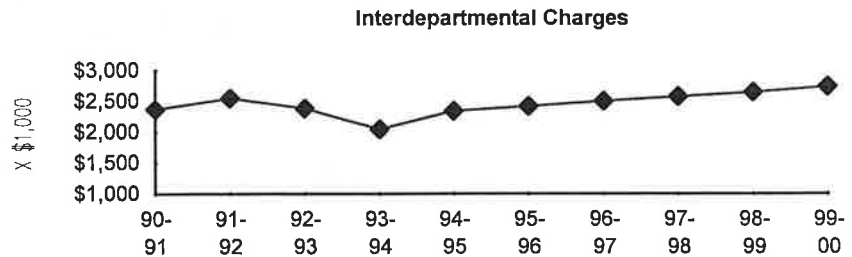


Interdepartmental Charges

Historic Growth Rate	.3%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	3.4%

Interdepartmental Charges are for services provided by other funds such as fleet services for use of vehicles. This category is projected to average a 3.4% increase over the five year Forecast, compared to an historical average of .3% over the past five years. The low historical average is due to the change in contractual services that were formally provided internally. As these services are contracted there is a corresponding reduction in interdepartmental charges for services.

Interdepartmental Charges are projected to increase by 3.4%



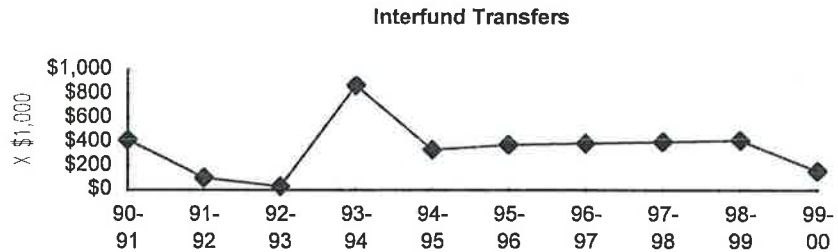
Interfund Transfers

Historic Growth Rate	608%
1994 Forecast Growth Rate	N/A
1995 Projected Growth Rate	-9.7%

Interfund Transfers will decrease over the Forecast period

Long Term Financial Plan

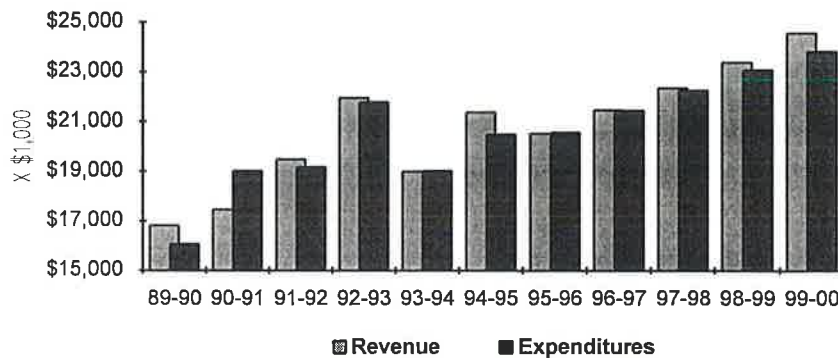
The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Worker's Compensation Fund, General Liability Fund, and Capital Equipment Replacement Reserve. The Interfund Transfer expenditure category is projected to experience an average annual decrease of -9.7% due to the projected full funding of the General Liability and Worker's Compensation reserves and deficits in FY 1998-99.



Forecast Conclusion

The Forecast predicts a surplus of \$740,000 by year 1999-00

Over the five year Forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 3.2% a year compared to expenditures growing at an annual average rate of 3.1% per year.

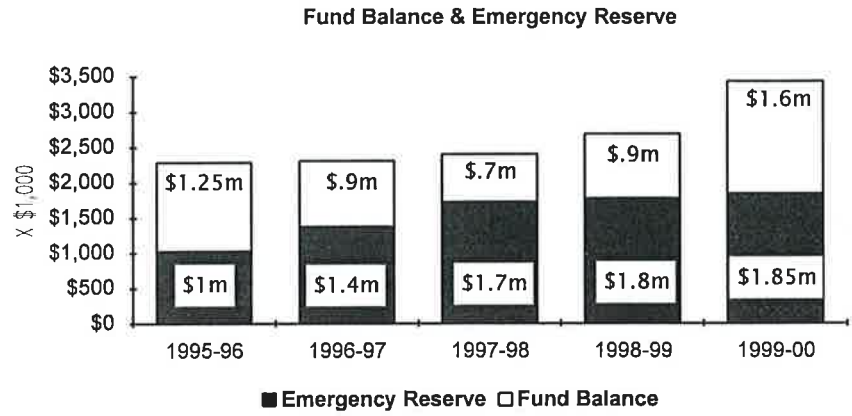


One of the main goals of the 1995 Long Term Financial Plan is to provide adequate funding for the General Fund Emergency Reserve. The following two graphs indicates the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year Forecast period.

Fund Balance & Emergency Reserve

Amounts in \$1,000	95-96	96-97	97-98	98-99	99-00
Fund Balance	\$1,255	\$928	\$679	\$917	\$1,585
Emergency Reserves	\$1,030	\$1,380	\$1,725	\$1,775	\$1,846
Total	\$2,285	\$2,308	\$2,404	\$2,692	\$3,431

Financial Forecast



Long Term Financial Plan

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				
		1995-96	1996-97	1997-98	1998-99	1999-00
Revenues	Beginning Fund Balance	1,546	1,255	928	679	917
	Revenues					
	Taxes	11,127	11,609	12,115	12,698	13,399
	Licenses & Permits	1,175	1,261	1,306	1,374	1,434
	Intergovernmental	1,817	1,880	1,939	2,000	2,071
	Service Charges	1,734	1,825	1,882	1,957	2,031
	Fines & Forfeits	455	476	504	536	573
	Interest And Rents	751	770	798	830	864
	Interfund Transfers	3,467	3,648	3,815	3,987	4,195
	Total G F Revenues	20,526	21,469	22,360	23,382	24,566
Expenditures	Expenditures					
	City Council	19	19	20	21	21
	City Manager	507	530	550	571	596
	City General	1,946	2,013	2,072	2,131	1,949
	Office Of Mgt. & Budget	290	303	316	328	343
	City Clerk	370	386	401	416	434
	Accounting	649	677	702	728	760
	City Treasurer	34	35	37	38	40
	Human Resources	309	322	334	347	362
	Purchasing	120	125	130	135	142
	Police	5,992	6,196	6,375	6,554	6,783
	Fire	3,370	3,484	3,585	3,686	3,815
	Comm Dev.- Admin.	221	230	240	249	260
	Building	739	772	802	833	870
	Planning	744	777	808	839	877
	Public Works Admin.	248	259	270	280	293
	Engineering	1,088	1,142	1,194	1,247	1,310
	Maintenance Services	2,132	2,221	2,305	2,390	2,493
	B, P & R Admin.	216	226	235	245	257
	Recreation	744	775	802	830	865
	Marine Safety	607	634	660	686	717
	PERS Unfunded Liability	130	130	130	130	130
	New Employees	90	188	295	410	509
	Total GF Expenditures	20,566	21,446	22,264	23,094	23,826
	Emergency Reserve	250	350	345	50	71
	Ending Fund Balance	1,255	928	679	917	1,585
	Expenditures by Category	Expenditures by Category	1995-96	1996-97	1997-98	1998-99
Salaries & wages		5,245	5,551	5,849	6,165	6,521
Employee benefits		1,830	1,947	2,062	2,158	2,294
Supplies		433	447	460	473	489
Services/other charges		12,945	13,382	13,767	14,166	14,384
Capital outlay		113	120	126	132	138
Total	20,566	21,446	22,264	23,094	23,826	

Fiscal Policy

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
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.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.	√	Street Maintenance Program is submitted as a part of the 1995 Long Term Financial Plan.
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.	--	Inventory of equipment will be completed by the end of FY 1994-95.
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
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.	√	

Long Term Financial Plan

Revenue Policies

The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.

√

Property Tax diversion from the State has substantially reduced diversification of revenue base.

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.

√

The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.

√

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.

√

One-time revenues will be used for one-time expenditures only. (Including capital and reserves)

√

Expenditure Policies

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

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.

√

Utility rates will be established for each of the next five years and this rate projection will be updated annually.

√

Capital Improvement Budget Policies

The City will make all capital improvements in accordance with an adopted and funded capital improvement program.

√

The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.

√

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.

√

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.

√

Fiscal Policy

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.

√

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

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.

√

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

The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues.

√

Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.

√

Proceeds from long-term debt will not be used for current on-going operations.

√

Reserve Policies

The City will maintain General Fund Contingency reserves at a level at least equal to 8% of general fund operating 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 two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.

--

General Fund Contingency Reserve = \$780,000 or 4% of General Fund Operating Expenditures

A Council 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 operating expenditures.

√

Council Contingency Reserve = \$242,000 or approximately 1.5% of General Fund Operating Expenditures.

Council approval is required before expending General Fund or Contingency Reserves.

√

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.

√

Long Term Financial Plan

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.

--

General Liability Reserve
Deficit = \$371,000
Workers Compensation
Deficit = \$790,000

Investment Policies

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

√

Accounting, Auditing & Financial Reporting

The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.

√

A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.

--

Fixed Asset Appraisal
System will be complete
by the end of FY 1994-
95. \$100,000 set aside
for a Capital Equipment
Reserve Fund.

Quarterly financial reports will be submitted to the City Council and will be made available to the public.

√

Full disclosure will be provided in the general financial statements and bond representations.

√

Maintain a good credit rating in the financial community.

√

Moody's Rating = A-1.
Standard & Poor's = A

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.

√

Legend:

√ Budget Complies with Fiscal Policy Standard

-- Fiscal Policy Standard is not met in Proposed Budget

City of San Clemente

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

*Additional copies may be purchased at City Hall
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