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**1996**  
**Long Term Financial Plan**

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**Volume I**

**City of San Clemente**

**Cover design by Paul Gavin**



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# City of San Clemente

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## City Council

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

## City Manager

- Mike Parness City Manager

## Department Directors

- Paul Gudgeirsson Director, Finance & Administrative Services
- James S. Holloway Director, Community Development
- Michael L. Sorg Director, Public Works
- Bruce E. Wegner Director, Beaches, Parks & Recreation
- Lt. Tom Davis Police Services Chief
- Chief Bill Dean Fire Services Chief

## Project Leaders

- William Cameron City Engineer
- Kumi L. Johnson Central Services Manager
- Nita McKay Sr. Accountant
- James L. Mies Financial Analyst
- Larry K. Moore Management Information Services Manager
- Marsha Payne Human Resources Manager
- Michael L. Sorg Director, Public Works
- Bruce E. Wegner Director, Beaches, Parks & Recreation

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# Mission Statement

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**The City of San Clemente, in partnership with the community we serve, will foster a tradition dedicated to:**

**Maintaining a safe, healthy atmosphere in which to live, work and play;**

**Guiding development to ensure responsible growth while preserving and enhancing our village character, unique environment and natural amenities;**

**Providing for the City's long term stability through promotion of economic vitality and diversity....**

**Resulting in a balanced community committed to protection of what is valued today while meeting tomorrow's needs.**

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# Project Teams

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## **Project Director**

*Paul Gudgeirsson, Director, Finance & Administrative Services*

## **Financial Trends**

*Nita McKay, F&AS, Project Lead*

## **Financial Forecast**

*Jim Mies, F&AS, Project Lead*

## **Reserve Analysis**

*Paul Gudgeirsson, F&AS, Project Lead*

## **Lighting and Landscape Fund Analysis**

*Bruce Wegner, BP&R, Project Lead*

## **Street Improvement Program Update**

*Mike Sorg, Public Works, Project Lead*

*Bill Cameron, Engineering*

*Akram Hindiye, Engineering*

## **Public Works Strategic Plan**

*Mike Sorg, Public Works, Project Lead*

*Public Works Management Team*

## **Pension Analysis**

*Paul Gudgeirsson, F&AS, Project Lead*

## **Flexible Benefit Plan Analysis**

*Marsha Payne, F&AS, Project Lead*

## **Cost Recovery System**

*Kumi L. Johnson, F&AS, Project Lead*

## **Computer Action Plan**

*Larry K. Moore, F&AS, Project Lead*

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# Issues and Objectives

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## **Financial Trend Analysis**

*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**

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

## **Reserve Analysis**

*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.*

## **Lighting and Landscape Fund Analysis**

*To conduct a comprehensive review of the Lighting and Landscape Fund including a fee analysis.*

## **Street Improvement Program Update**

*To provide a comprehensive update of the City's Street Improvement program and project short and long term funding requirements.*

## **Public Works Strategic Plan**

*To examine the organizational and operational structure of the Public Works Department.*

## **Pension Analysis**

*To examine the City's pension fund and current investment policy and strategy.*

## **Flexible Benefit Plan Analysis**

*To examine the City's current flexible benefit plan and explore the feasibility of a credit based flexible benefits program provided at no additional cost to the City.*

## **Cost Recovery System**

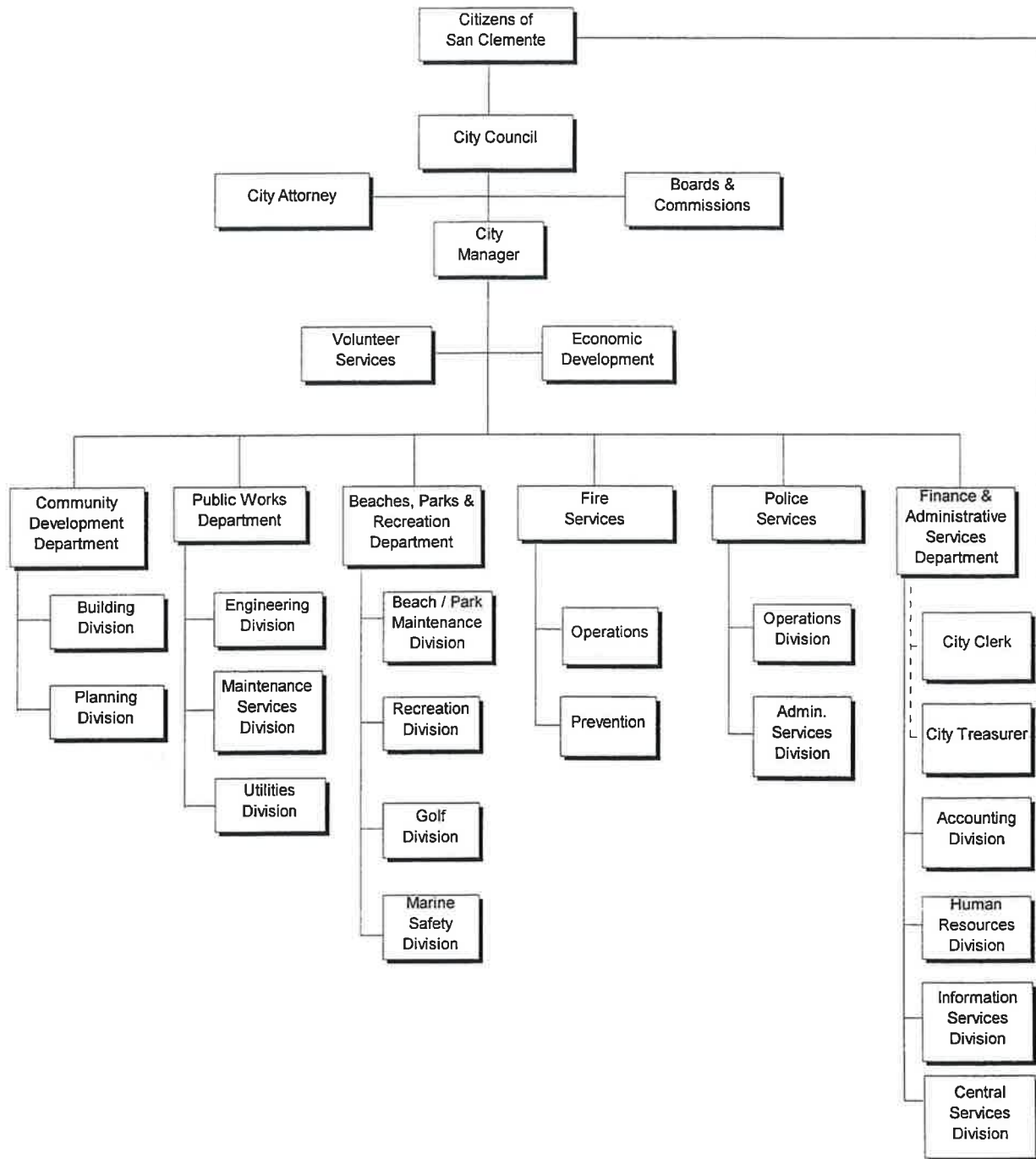
*To conduct a review of the City's cost recovery system and methodology and provide recommendations for improving the current system..*

## **Computer Action Plan**

*To adopt in concept the City's updated 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*

# City Organizational Chart





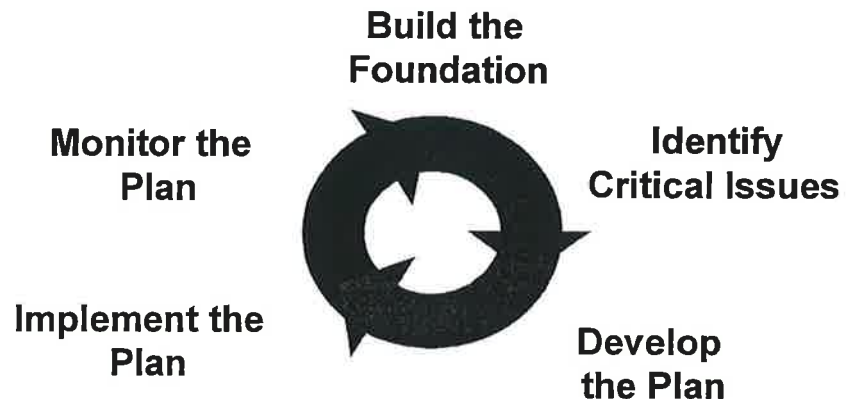


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# Process & Schedule

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## Long Term Financial Plan



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

The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The Plan consists of two volumes: The Long Term Financial Plan - 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:

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

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

- 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***

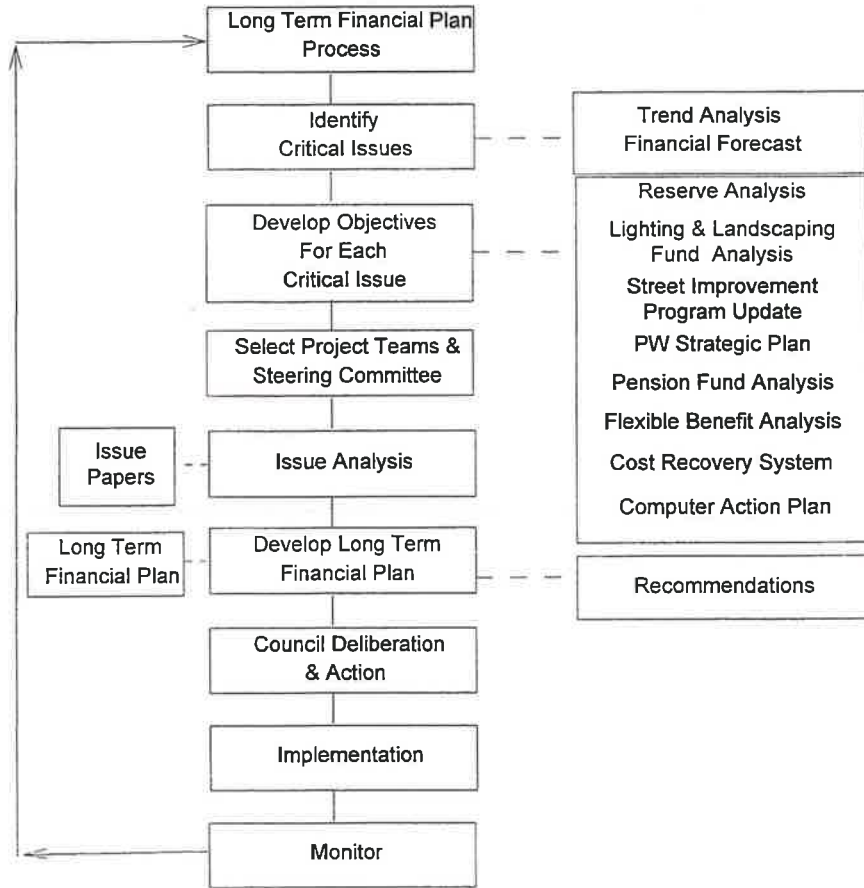
*Long Term Financial Plan - Issue Papers (Volume II):* This volume of the Long Term Financial Plan, published under separate cover, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion volume to Volume I.

# Long Term Financial Plan

## 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 12 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 9 project leaders each assigned to teams addressing a specific critical issue.

### *The Long Term Financial Plan process*



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## Process & Schedule

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### Goals

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

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

Project teams and team leaders were then selected based on individual talents and expertise in given critical issue areas. A steering committee was formed in order to keep the project on track and on schedule. Each team was then asked to prepare option papers which met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After two months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issues 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 February 29, 1996. 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 1996-97 budget process:

### **Schedule**

February 23, 1996	LTFP provided to Council and public for review.
February 28, 1996	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction.
March 6, 1996	Additional Council deliberations and direction if needed.
March 1-29, 1996	Staff incorporates Council decisions into proposed Budget.

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# City Manager's Transmittal Letter

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Honorable Mayor and Council members:

***The 1996 LTFP represents the City's fourth financial strategic plan***

## ***Introduction***

I am pleased to present the *1996 Long Term Financial Plan* for City Council review and consideration. The 1996 LTFP represents the fourth in a series of financial strategic plans that have been presented on an annual basis since 1993. I am certain that Council will agree that the commitment to long term financial planning has laid the groundwork for the noteworthy improvement in the City of San Clemente's financial condition.

***The LTFP notes positive improvements in the City's financial condition***

The 1996 Long Term Financial Plan not only affirms that the state of the City's financial affairs continues to improve, but also provides suggestions for maintaining our positive momentum.

This volume (Volume I) of the Long Term Financial Plan includes an executive summary which describes the City's current and projected financial condition. Also included in this section of the report is an issue summary which briefly outlines the comprehensive reports included in Volume II of the LTFP. The remaining sections include abbreviated versions of the City's financial trend and forecast reports, and is followed by the City's current adopted Fiscal Policy.

***Financial highlights from the 1996 Long Term Financial Plan***

## ***Financial Highlights***

Following are a few highlights from the *1996 Long Term Financial Plan*. Detailed information concerning them are contained in this volume of the City's financial strategic plan.

- The budgeted ending projected fund balance for the General Fund is \$95,000 at fiscal 1995-96 year-end.
- \$3.6 million has been contributed to City reserves since adoption of the 1993 Long Term Financial Plan. This includes \$1 million set aside for emergency reserves.
- Almost \$1 million will be transferred to reserves in FY 1996-97.
- The General Fund will contribute \$300,000 to the Street Improvement Program in FY 1996-97, bringing total General Fund contributions to the program to \$1 million.
- The City is scheduled to receive \$1.6 million from Orange County as a result of the approved Joint Agreement.
- Seventeen of twenty financial trend indicators are now positive as compared to twelve last year. Only six were identified as positive in the City's initial Long Term Financial Plan.
- Only three trend indicators are negative: Property tax revenues, property values, and community development charges.
- Based on various forecast assumptions, the forecasted ending fund balance for the General Fund is \$754,000. This presumes that budgetary savings of approximately \$500,000 will be achieved. The projected fund balance declines to \$92,000 (unreserved) in FY 1996-97.

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# Long Term Financial Plan

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- Total fund balances, including emergency reserves, are projected at \$1.4 million in FY 1996-97. By FY 2000-01, fund balances will grow to \$3.4 million.
- Forecasted revenue growth is 3.6% as compared to expenditure growth of 2.9%.
- Self-insurance reserves will be fully funded in FY 1998-99 and emergency reserves will reach the target level of 8% in FY 1999-00.
- General Fund emergency reserves will amount to \$1.3 million in FY 1996-97 while \$300,000 will be accumulated in the Capital Equipment Replacement Reserve Fund.
- If bonds are issued this calendar year, ten additional street projects will be completed two years earlier than scheduled and, due to interest rate reductions, \$50,000 will be saved annually.
- An increase in Lighting & Landscape rates from \$86.19 to \$92.23 is proposed.
- Reserve levels for the City's utility funds are recommended to be established at 8%

***Fiscal challenges still lie ahead***

***Eight issues are analyzed in the 1996 LTFP***

***Progress has been made in funding reserves; however, shortfalls still exist***

***Early issuance of bonds will result in accelerating the street improvement program***

***L&L rates will increase; however, certain capital projects will be funded elsewhere***

***Public Works has prepared a Strategic Plan***

## ***The 1996 Long Term Financial Plan***

As extensively documented in Volume II of the Long Term Financial Plan and summarized in this volume, fiscal challenges still lie ahead. A total of eight issues that affect or may affect the City's financial condition were examined during the preparation of the 1996 Long Term Financial Plan. As in the past, City staff has developed a systematic approach to addressing these challenges.

The major issues examined this year include:

- *Reserves* - This issue updates the status of the City's reserve program and outlines future funding requirements. Although a considerable amount of funding has been provided to fulfill reserve provisions over the past several years (\$3.6 million), reserves are still far short of meeting mandated fiscal policies.
- *Street Improvement Program* - This issue paper provides a status report on the progress of street improvements and discusses the potential of accelerating the program. Given today's interest rate environment and the ability of staff to expedite the program, the early issuance of bonds should be considered. This would result in the completion of ten projects two years ahead of schedule and save \$50,000 annually.
- *Lighting & Landscape District* - A detailed analysis of the Lighting & Landscape Fund was conducted. A rate increase from \$86.19 to \$92.93 is proposed and alternative sources of funding are recommended for several capital projects in order to reduce and stabilize future rate increases.
- *Public Works Strategic Plan* - The Public Works Department has prepared an extensive organizational strategic plan which is fully documented in Volume II of the Long Term Financial Plan. This continues the City's stated goal of examining organizational issues on a continual basis in order to maximize organizational efficiency.

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## City Manager's Transmittal Letter

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***A Flexible Benefits program is recommended***

***A long range computer action plan will be developed***

***A pension fund analysis indicates a need to diversify***

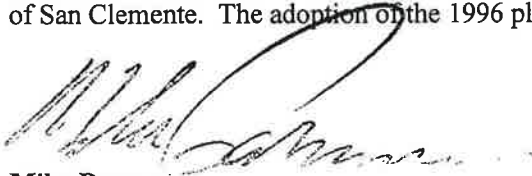
***Establishing an integrated Cost Recovery System is proposed***

***Proposed solutions to fiscal problems are contained in the LTFP***

- *Flexible Benefit Analysis* - The City's benefit program is examined and alternative approaches are considered to provide for enhanced long term budget planning as well as providing employees with more benefit choices and options.
- *Computer Action Plan* - This paper discusses the need for developing a comprehensive long range computer action plan. Although the City needs to replace an aging computer system and develop integrated solutions for its many computing needs, it is recommended that a scheduled purchase of computer systems be delayed until a plan is developed which meets the needs of all user departments.
- *Pension Analysis* - The City maintains its own pension plan and total assets currently amount to approximately \$10 million. This paper addresses the investment aspect of these funds and the need to diversify investment instruments, develop an investment policy and provide expert advice in managing pension funds.
- *Cost Recovery System* - A need has been identified to develop an integrated cost recovery system to track various project costs.

The 1996 Long Term Financial Plan seeks to, once again, propose viable solutions that the Council may consider in further improving the financial stability of the City. Alternative solutions dealing with a wide array of topics are provided for Council deliberation. Along with the Vital Few Priorities that will be discussed with Council on March 19, 1996, the direction that you provide as the result of Long Term Financial Plan discussions will set the stage for the 1996-97 budget preparation process.

I would like to take this opportunity to thank all staff members who assisted in completing the City's fourth 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 1996 plan will continue that tradition.



**Mike Parness**  
City Manager





## Financial Summary

The Executive Summary portion of the 1996 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*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *The Orange County Bankruptcy*
- *Financial Trend Analysis*
- *Five Year Financial Forecast*
- *Conclusion*
- *Recommendations*

### ***The City was in financial turmoil in 1992***

#### ***Financial Review***

This edition of the Long Term Financial Plan clearly describes the positive shift in the City's financial condition. To say that the City of San Clemente's financial condition was in turmoil when the City's first financial plan was prepared in 1992 would be an extreme understatement. When the 1993 LTFP was presented to the City Council, the City was facing a projected operating deficit of *\$1.8 million*, not including reserve deficiencies, capital and infrastructure needs, and potential (at that time) property tax diversions, which would have totaled over \$6 million. In contrast, the City began the current fiscal year with a positive *\$1.3 million* fund balance. What's more, the City was actually able to contribute \$700,000 to the City's \$55 million Street Improvement Program, an occurrence that would have been deemed impossible in 1993.

How was the City of San Clemente able to produce this financial turnaround?

#### ***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,

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## Long Term Financial Plan

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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. 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 equipment needs.

### *The 1995 Plan*

***A positive projected fund balance was attained in 1995***

The 1995 Long Term Financial Plan projected a positive fund balance of \$556,000 which presumed partial funding of a street program. However, in year two of the forecast a deficit of \$71,000 was projected and climbed to a deficit of \$533,000 by FY 1999-00. Given this financial scenario, it would not be possible to provide General Fund support for a street program without additional resources. Consequently, the City stretched out funding of emergency reserves, reduced projected position additions from two per year to one per year, and projected reduced maintenance costs. These changes, though not completely acceptable, resulted in projected positive fund balances throughout the forecast period.

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## Financial Summary

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***A Street Improvement Program was established***

Through the Long Term Financial Plan process, the City Council did adopt a \$55 million Street Improvement Program. Funding was provided by the General Fund, the establishment of a Street Assessment District, and contributions from CDBG funds, Water Fund, gas tax revenue and reduced maintenance costs.

Additionally the plan called for adoption of a revised classification and compensation system, dedicated funds to unfunded public safety retirement liabilities, and continued to aggressively fund emergency and self-insurance reserve programs.

***Current Financial Condition***

The City's financial condition at December 31, 1995 was presented in the fiscal 1995-96 Second Quarter Financial Report.

***The City's fund balance position is positive***

As noted in the report, the projected General Fund ending fund balance (unreserved) for the end of the year was estimated to be approximately \$95,000. This does not include the General Fund Emergency Reserve which will amount to approximately \$1 million (reserved) or 5% 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. Thus, a total of \$1.1 million is actually included as the projected General Fund ending fund balance (unreserved and reserved).

***General Fund emergency reserves total \$1 million***

Additionally, it should be pointed out that projected ending fund balances have been intentionally drawn down in order to transfer funds to the Street Improvement Program as well as provide funding for other reserve programs.

***FY 1995-96 revenue growth is, thus far, showing renewed strength***

Due to a generally positive revenue situation, revenue projections were increased \$113,000 at mid-year. With the exception of sales taxes, the current revenue forecast is anticipated to meet or exceed revised budget projections. As indicated in the Second Quarter Report, we will continue to closely monitor sales tax receipts and propose adjustments if necessary. Revenue projections have been updated and are included in the Financial Forecast portion of this report.

***Expenditure savings are projected at 2.5%***

Expenditures at the end of the calendar year are in line with expectations and are projected to be under budget by 2.5% in the Financial Forecast based on current and historical expenditure patterns. These projections have been incorporated into the City's Financial Forecast which is included in this volume of the Long Term Financial Plan.

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# Long Term Financial Plan

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**Reserve contributions totaled \$3.6 million the past three years**

**Funding of reserves is included in the City's financial forecast**

**Funding for street, 800Mhz, PERS, energy lease, and animal shelter land will be continued**

**The Joint Agreement was approved by the City Council**

## **Reserve Funding**

The funding of depleted and non-existent reserves has been a Council priority since the adoption of the initial 1993 Long Term Financial Plan. To date, a total of \$3.6 million has been dedicated to the funding of reserves. Additionally, a total of \$979,000 is scheduled to be allocated to reserves in FY 1996-97. Of that amount, \$739,000 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 1999-00 for the General Fund Emergency Reserve and FY 1998-99 for workers' compensation and general liability reserves. The General Fund Emergency Reserve contribution schedule was extended to FY 1999-00 in order to provide funding for the Street Improvement Program. Fully funded reserves include the Accrued Leave Reserve Fund and Council Contingency Reserve Fund. Contributions into the Capital Equipment Reserve Fund will continue until this reserve is fully funded.

## **General Fund Transfers**

In addition to reserve transfers, the General Fund will provide funding totaling \$541,000 (FY 1996-97) for several other programs over the next several years. These include:

- *Street Improvement Program:* A contribution of \$700,000 from the General Fund to the Street Improvement Program Fund was made in FY 1995-96. Funding for this program will continue in FY 1996-97 with a contribution of \$300,000.
- *800Mhz:* The General Fund is responsible for contributions of \$41,000 to the Public Safety Construction Fund for its share of the 800Mhz communications system. A final contribution of \$37,000 will be made in FY 1997-98.
- *Public Employees Retirement System (PERS) Unfunded Liability:* The General Fund will continue annual debt service payments of \$130,000 to address the City's unfunded PERS liability.
- *Energy Services Program:* Annual lease payments of \$38,000 will be made to implement the City's energy program as approved by the City Council in FY 1995-96.
- *Animal Shelter Land Acquisition:* A total of \$32,000 is allocated annually to repay the Public Safety Construction Fund for the land purchased for the Animal Shelter.

## **The Orange County Bankruptcy**

The Orange County bankruptcy case is moving into its final stage with the submission of the County's Plan of Adjustment to the U.S. Bankruptcy Court and the Pool Participants approval of the Joint Agreement. The Joint Agreement, approved by City Council on February 21, 1996 was negotiated by the Pool Participants Committee to prevent the County from further diversion of the assets and revenues of the pool participants in order to

emerge from bankruptcy. The Joint Agreement also provided for the financial stability of the school system, thus avoiding the possible appointment of a State Trustee to oversee the County's recovery.

***\$1.8 million is held  
in County  
Administered  
Accounts***

***The City will receive  
\$1.6 million from  
the County***

***The City's trend  
monitoring system  
points to the  
stability of the  
General Fund***

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

The City of San Clemente had \$35.8 million invested in the Orange County Investment Pool (OCIP) when the County declared bankruptcy on December 6, 1994. In April 1995, the City received \$28.7 million of its investment. The remaining funds are held in the form of "secured claims" or "repayment claims" and will be repaid from litigation proceeds against third parties. Additionally, the City had \$1.8 million in County Administered Accounts. These accounts held funds on behalf of the City for specific purposes (property taxes, court fines, etc.). Within thirty days of the Bankruptcy Court's approval of the Joint Agreement, the City will receive \$795,000 from the County Administered Accounts. An additional \$815,000 will be received after submittal of block grant and arterial financing program claim reimbursements. The balance of the funds held in the County Administered Accounts will be repaid by the County from net litigation proceeds or available cash.

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

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. Seventeen of the indicators are now considered favorable as opposed to the prior year where only twelve were favorable.

For the year ending June 30, 1995, progress was noted in several key indicators from the prior year. Improvements were evident in revenues per capita, revenue overages/shortages, fringe benefits, capital outlay and operating surplus. Unfortunately, three indicators are still negative. These include two relating to property taxes - property tax revenue and property valuation. As of 1995, valuation of real property continued to decline resulting in a further reduction in property tax revenue. In fact, property values decreased 4% in FY 1994-95. However, the financial forecast projects that property values will stabilize and grow moderately over the next several years. Community Development Service charges which include declining construction inspection fees, decreased from the prior year, reversing a positive trend noted in FY 1993-94.

It should be noted that the City's share of the property tax dollar continues to decline. In FY 1993-94, the City's share was 15.5% but is now at 12.9% as illustrated below.



# Long Term Financial Plan

City	County	Schools	RDA	Special Districts
12.9%	8.6%	69.3%	2.4%	6.8%



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

### **Five Year Financial Forecast**

**Revenue growth is forecast at 3.6% and expenditures at 2.9%**

The City's updated financial forecast for the General Fund projects revenue growth over the five year forecast period of 3.6 %. This compares to an historical growth rate of 3.8%. Expenditures are projected to grow at an annual average rate of 2.9% over the same time frame, as compared to historical average growth rates of 0.4%. 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.

The average projected growth rates for revenues exceed expenditures by .7% 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**

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 1996-97 amounts to \$412,000. Operating surpluses begin to occur in FY 1997-98 and increase to \$662,000 in FY 2000-01. The operating deficit of \$412,000 is expected due to continuing transfers to

# Financial Summary

reserves and contributions to the Street Improvement Program. Projected fund balances are sufficient in FY 1996-97 to cover the operating deficit. Thus, carry over fund balances will continue to be used for reserve and street transfers and not operating expenditures.

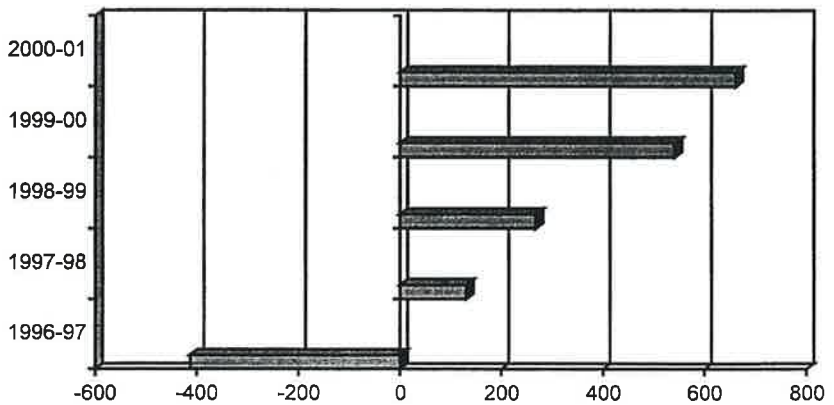
**An operating surplus is forecasted in FY 1997-98**

### Projected Deficit/Surplus

Amounts in \$1,000	1996-97	1997-98	1998-99	1999-00	2000-01
Revenues	\$21,129	\$22,192	\$23,383	\$24,260	\$25,176
Reserves	739	696	653	577	412
Street Transfer	300	210	410	410	410
Expenditures	20,502	21,156	22,053	22,732	23,692
Deficit/Surplus	-\$412	\$130	\$267	\$541	\$662

### Projected Deficit/Surplus

(Amount in \$1,000)



### 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 \$754,000. The *projected* fund balance differs from the current *budgeted* fund balance of \$95,000 in that forecast assumptions are applied to the revenues and expenditures. For example, it is presumed for forecast purposes, that expenditures will actually be 2.5% less than budget. This, by itself, would result in an increase in projected fund balances of over \$500,000.

As displayed below, fund balances, due to continued annual funding of reserves (averaging \$615,000 over five years), decline until self-insurance reserves are fully funded in fiscal years 1998-99 and emergency reserves are fully funded in 1999-00.

# Long Term Financial Plan

Fund balance projections have changed substantially from the 1995 Long Term Financial Plan due to the Council adopted policy of contributing General Fund dollars to the Street Improvement Program.

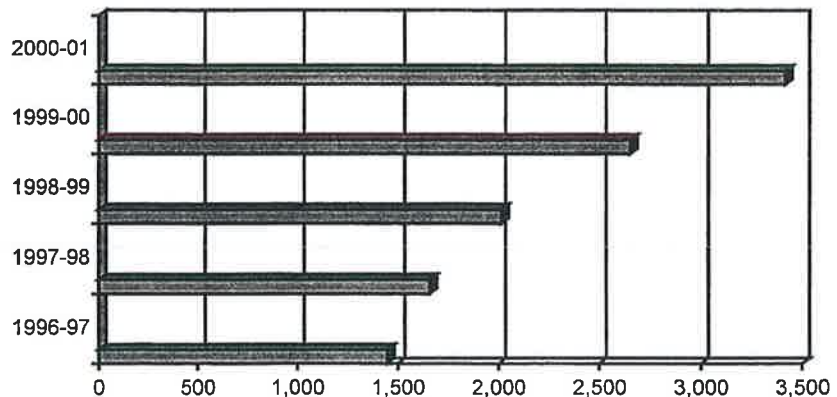
**Fund balance projections continue to improve**

## Fund Balance & Emergency Reserve

Amounts in \$1,000	1996-97	1997-98	1998-99	1999-00	2000-01
Fund Balance	\$92	\$23	\$140	\$445	\$1,042
Emergency Reserves	\$1,280	\$1,480	\$1,630	\$1,865	\$1,930
Total	\$1,447	\$1,658	\$2,015	\$2,653	\$3,418

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

**Fund Balance & Emergency Reserve**  
(Amount in \$1,000)



## 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.

**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 three years have served to improve the quality of life, and public safety and welfare of the citizens of San Clemente.

Although the financial condition of the General Fund is currently considered stable, there are many external influences that could impact the long term stability of the fund. The impact of a County of Orange restructuring effort



are uncertain and unknown at this time; the fallout from court decisions relating to Proposition 62 could significantly impact City finances; and proposals which would consolidate utility districts would tend to affect General Fund overhead allocations. To say the least, the City must continue to be diligent in its efforts to protect City funds as much as possible so that we can provide an adequate level of quality services to San Clemente citizens.

Lastly, it is our obligation to continually find ways to reduce costs and provide services in the most economically efficient manner possible. The Long Term Financial Plan process established by the City Council serves as a vehicle for identifying appropriate opportunities to consider in meeting that goal.

### ***Recommendations***

***Recommendations  
are included in the  
Issue Summary  
section***

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

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 1996.

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## Introduction

The Issue Summary section which follows provides an overview of the issues that were analyzed during the preparation of the 1996 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
- Reserve Analysis
- Lighting & Landscape Fund Analysis
- Street Improvement Program Update
- Public Works Strategic Plan
- Pension Analysis
- Flexible Benefit Plan Analysis
- Cost Recovery System
- 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).*

### **17 of 20 indicators are favorable as compared to 12 last year**

### **Property tax and community development charges are still unfavorable**

As indicated in the table below, a total number of 20 trends were analyzed in the 1996 Long Term Financial Plan. Of these, 17 indicators are now considered *favorable* as compared to 12 last year. The three remaining indicators, including property tax revenues, community development service charges and property value are still considered *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.

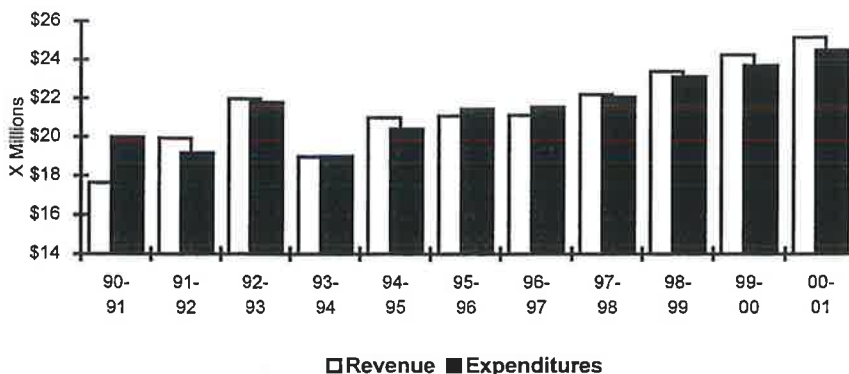
Improvements in ratings assigned from the 1995 LTFP to the 1996 LTFP included revenues per capita, revenue overages/shortages, fringe benefits, capital outlay and operating surplus. These five indicators had warning or unfavorable ratings; however, deliberate actions to reverse these negative ratings were implemented causing a reversal of the adverse trends.

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

General Fund Revenue & Expenditure Comparison

**Historical & Projected Revenues & Expenditures**



**Fund balances are projected to grow to \$3.4 million by FY 2000-01**

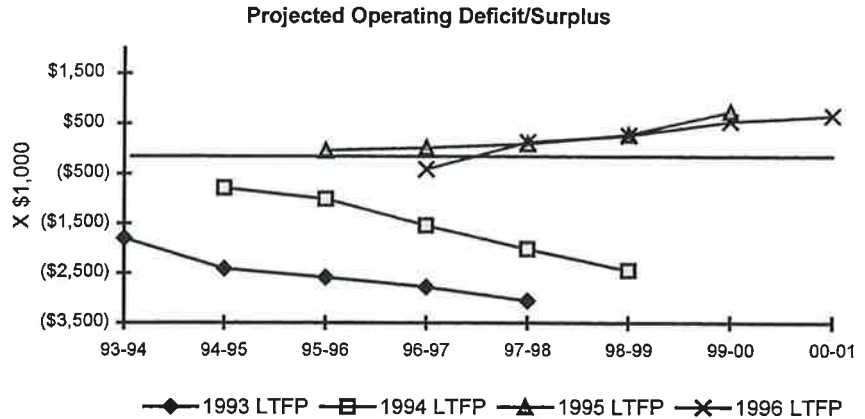
As presented in the two charts below, the City's financial forecast has improved dramatically over previous forecasts. As indicated, deficits have been eliminated with fund balances expected to grow to over \$3.4 million in FY 2000-01

The Projected Deficit/Surplus graph provides a comparison of forecasts contained in the 1993, 1994, 1995 and 1996 financial forecasts. An operating deficit is calculated by subtracting expenditures from revenues and does not include carryover fund balances.

**An operating surplus of \$662,000 is projected by FY 2000-01**

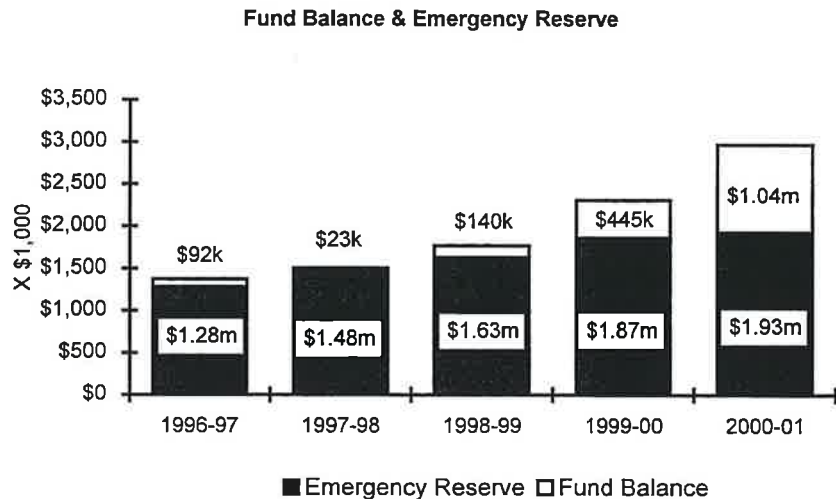
As indicated, an operating deficit of \$3 million was originally projected by FY 1997-98 in the 1993 Long Term Financial Plan forecast. Subsequently, the 1994 forecast projected a \$2.1 million operating deficit by FY 1998-99. The 1995 forecast projected an operating deficit of \$40,000 in FY 1995-96. The 1996 forecast projects an operating deficit of \$412,000 in FY 1996-97; however, projected ending fund balances are more than sufficient to cover this operating deficit. The deficit is created due to the fact that reserve transfers total \$739,000 and a contribution of \$300,000 will be made to the Street Improvement Program. An operating surplus of \$130,000 occurs in FY 1997-98 and expands to \$662,000 by FY 2000-01 as reserve funds become fully funded.

*Improvements have been made in the City's projected operating position*



The Fund Balance and Emergency Reserve graph indicates the growth of fund balances and emergency reserves over the forecast period. As shown, the projected ending fund balance for FY 1996-97 amounts to \$1.4 million increasing to \$3.4 million by FY 2000-01. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances.

*Fund balances and General Fund Emergency Reserve*



As depicted in the chart above, emergency reserve fund balances are projected to climb steadily as the City approaches the targeted level of an 8% emergency reserve. The unreserved fund balances during the first two years are relatively low due to the continued program of funding of self-insurance reserve funds. Once these transfers are completed in FY 1998-99, fund balances are projected to increase at a more rapid pace. Additionally, the increasing operating surpluses discussed above, will contribute to the expansion of fund balances over the forecast period.

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# Long Term Financial Plan

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## 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 City's initial Long Term Financial Plan identified seriously underfunded and, in certain cases, non-existent reserve levels. An aggressive funding schedule was adopted in 1993 and has been updated on an annual basis to account for changes in circumstances including:

- Contracting of City services
- Changes in self-insurance levels
- Funding of Street Improvement Program
- Completion of fixed asset inventory system

**\$3.6 million has been contributed to reserves over the past three years**

**General Fund Emergency Reserve is at 5%**

Over the past three years, the City has been able to contribute a total of \$3.6 million toward the funding of reserves. As documented in Volume II of the Long Term Financial Plan, significant progress has been made towards meeting reserve targets and funding reserve deficits in the City's self-insurance funds. Within the next three years the funding requirements in the worker's compensation and general liability funds will be completed. General Fund emergency reserves will reach the mandated 8% level in fiscal year 1999-00; however, a 5% level was attained in FY 1995-96 and, based on the current contribution level, approximately 6% will be set aside by FY 1996-97.

It should be noted that the City continued to replenish and establish reserves while dealing with a declining economy and extremely limited resources. However, the City Council recognized the long term benefits of creating and funding appropriate reserves in accordance with LTFP recommendations and the City's adopted Fiscal Policy. To a large extent, this action has served to enhance the financial stability of the City of San Clemente.

**Total reserve contributions**

The following table outlines the total contributions that have been made since the development of the 1993 Long Term Financial Plan:

<b>Reserve</b>	<b>Reserve Contribution</b>
General Fund Emergency Reserve	\$1,029,640
Council Contingency Reserve	\$749,000
General Liability	\$756,000
Workers Compensation	\$721,610
Accrued Leave Reserve	\$150,000
Capital Equipment Replacement Reserve	\$200,000

Following is a review of the current reserve position including the required reserve level as established by the City's Fiscal Policy, actual reserve levels



## Issue Summary

in FY 1994-95, and proposed allocations totaling \$979,000 in FY 1995-96. Of this amount, \$739,000 is from the General Fund.

Reserve	Required Reserve Level	Actual Reserve Level	FY 1996-97 Proposed Allocation
<b>Current reserve status</b>			
Emergency Reserve	\$1,600,000	\$1,030,000	\$250,000
Council Contingency	\$204,000	\$204,000	\$207,000
General Liability*	\$860,000	\$0	\$287,000
Workers Compensation**	\$360,000	\$0	\$120,000
Accrued Leave	\$75,000	\$75,000	\$15,000
Capital Equipment***	\$1,600,000	\$200,000	\$100,000

\*General Liability Fund is in a deficit position. \$750,000 is required reserve and deficit equals \$110,000

\*\*Workers Compensation Fund is in a deficit position of \$360,000. There is no reserve requirement since the City is now fully insured; however, the deficit fund balance must be eliminated

\*\*\*Total replacement cost for General Fund machinery and equipment is \$1.6 million. This reserve will be built up through General Fund contributions and an established depreciation schedule

**Proposed reserve contributions were approved**

### **Adopted Recommendations**

The proposed reserve allocations as listed above will be incorporated into the FY 1996-97 Budget. Recommendations regarding reserve levels in the City's Enterprise funds were adopted and included in the Fiscal Policy section.

## Lighting and Landscape Fund Analysis

### **Objective**

*To conduct a comprehensive review of the Lighting and Landscape Fund including a fee analysis.*

The Lighting and Landscape Assessment District, formed in 1981, provides for the operation and maintenance of the City's street trees, medians, parkways, beaches, parks, street lights and the Forster Ranch Greenbelt. The assessment district boundaries are the same as the City boundaries, with the exception of the Forster Ranch greenbelt which is an additional assessment for the residents of Forster Ranch.

The Lighting and Landscape Master Plan, presented in the 1995 Long Term Financial Plan, identified the new areas of responsibility added to the District within the last five years which were absorbed without an assessment rate increase. A rate increase of 24% was approved in 1995, however, Council directed staff to project expenditures to include the anticipated growth of the District from new infrastructure and planned capital projects and to provide funding alternatives for capital projects.

# Long Term Financial Plan

Fiscal year 1996-97 projected expenditures include the additional maintenance responsibilities of Richard Steed Memorial Park, PCH/Colony Cove slope and Vista Hermosa/Vista Pacifica median island. Including the maintenance costs of the new improvements, the proposed assessment rate would increase from \$86.19 to \$105 or 22%; however, in order to reduce this potential increase and stabilize future rate increases, a number of alternatives were considered with the proposed solutions listed below.

### **Adopted Recommendations**

**Two capital projects will be funded in Disaster Relief and General Fund**

1. Finalize negotiations for corporate sponsorship of beaches, parks and streetscapes.
2. Transfer Bonita Canyon slope repair project amounting to \$115,000 to the Disaster Relief Fund. Funding for the project will be accomplished with unanticipated storm drain reimbursements from 1983 which will be received this fiscal year (\$200,000).
3. Transfer American with Disabilities Act (ADA) playground equipment upgrade totaling \$75,000 from Lighting & Landscaping to the General Fund. Funding from the storm drain reimbursement noted above will also be used for this project.
4. Authorize staff to prepare the Engineer's Report for the 1996-97 fiscal year budget incorporating a 7.8% increase in the assessment rates.
5. Amend the fiscal policy to include a policy similar to the Street Improvement Assessment District policy which requires an annual review of the District.

The above adopted recommendations will result in the following projected rate increases over the next five years:

**Proposed 5 year average rate increase = 6.88%**

<i>FY 1996-97</i>	<i>FY 1997-98</i>	<i>FY 1998-99</i>	<i>FY 1999-00</i>	<i>FY 2000-01</i>
7.8%	7.0%	7.3%	7%	5.3%
\$92.93	\$99.42	\$106.71	\$114.16	\$120.17

**FY 1996-97 rates will increase only \$6.74**

Thus, the average rate increase over the five year period amounts to 6.88%. The change in rates from FY 1995-96 to FY 1996-97 will be from \$86.19 to \$92.93 or an increase of \$6.74

## **Street Improvement Program Update**

### **Objective**

*To provide a comprehensive update of the City's Street Improvement Program and project short and long term funding requirements.*

**Street Improvement Program is well underway**

The City's Street Improvement Program adopted by the City Council in July, 1995 is well underway. The program, which will restore 60 miles or one-half of the City's street system over a period of 18 years, is funded from a variety of sources including the General Fund, the Street Assessment District, Gas Tax Fund, and utility funds.

**3 projects have been completed**

Thus far, a total of three projects have been completed and twelve projects are in various stages of design and construction. Additionally, ten projects have entered the design phase.

**A bond issuance of \$7.28 million will be sold two years early**

The initial program established that bonds in the amount of \$7.28 million would be issued in year three of the program to provide additional funding for street projects. Assessment District 95-1 would be responsible for debt service payments over a period of fifteen years. Due to positive financial market conditions and the City's ability to complete projects faster than scheduled, it has been concluded that bonds should be issued this calendar year. Lower interest rates amount to a savings of \$50,000 per year over the life of the bond issuance. This is a savings of \$750,000 in today's dollars.

**Annual savings of \$50,000 will be realized**

**Ten projects will be completed two years earlier than scheduled**

The issuance of bonds in 1996 means that the Street Improvement Program will be expedited. In fact, this accelerated program will allow *ten projects* to be completed two years earlier than originally scheduled. By speeding up the program, maintenance costs will also be reduced and the City can continue to take advantage of a positive construction bid climate.

It should also be pointed out that it appears that future funding from the Arterial Highway Financing Program will not be available. This results in an annual loss of \$120,000 targeted for the City's arterial street system. Staff will evaluate the approach to maintaining arterials and explore other funding alternatives.

### **Adopted Recommendations**

1. Approve and authorize the issuance of Street Improvement Program bonds in 1996.
2. Approve and authorize the City to retain the bond financing team:
  - Fieldman, Rolapp & Associates - Financial Advisors
  - Rutan & Tucker - Bond Counsel
  - Willdan Associates - Assessment Engineer
3. Authorize staff to borrow funds from another fund to complete Valencia II and Toledo in year one instead of year two. Authorized staff to advertise the project and solicit bids for construction.

## **Public Works Strategic Plan**

### **Objective**

*To examine the organizational and operational structure of the Public Works Department.*

The City Council has adopted a mission statement and strategic plan for the City. To ensure it accomplishes this mission, the Council updates its long-term financial plan each year and identifies the "vital few" priorities/goals to focus upon for the year. Each department is responsible for doing its part to develop and implement projects designed to achieve those goals.

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## Long Term Financial Plan

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All of the major issues identified in the City's Mission Statement and, therefore, many of the annual vital few projects are at least partially within the purview of the Public Works Department. As such, the department has developed a process which is complementary to the City process. It ensures that the department's projects are thorough, complete, and timely and are in keeping with the priorities identified by Council.

***The Public Works Department has developed a Strategic Plan***

The Public Works Department's strategic plan process, to be updated each October, identifies the current status of the department in terms of its operational resources and its ability to accomplish all the important daily tasks and projects. The Public Works Department requires peak performance from all its employees to achieve established performance goals, so it must continually take steps to insure the continuation of that peak performance.

***The Plan looks at the past, present and future***

The Strategic Plan looks at the past, the present, and the future of the City and the Department. A complete copy of the plan is located in Volume II of the Long Term Financial Plan. It provides:

- a description of the setting within which the department operates;
- an overview of the recent history of the City and the department;
- a look at the current environment and the trends affecting our clients, regulators, resource providers, and competitors;
- an organizational assessment
- the best case, worst case, and most likely case future scenarios for each division; and
- a series of proposed projects which will help position the department to meet the challenges which lie ahead.

### **Pension Analysis**

***Objective***

*To examine the City's pension fund and current investment policy and strategy.*

***The City's pension portfolio amounts to \$10 million***

The City provides a 401a qualified defined benefit pension plan for all full time employees. The City's pension plan is administered by New England Retirement Services and the contract with New England also calls for that firm to manage the City's pension portfolio of \$10 million. Historically, the City's contributions to the pension fund have been placed in New England's *General Investment Account* which is tied to the assets of New England Life Insurance Company. Due to a declining real estate market returns during the past two years rates have been significantly lower than expected. Additionally, the bond ratings for The New England have also been reduced although an upcoming merger with Metropolitan Insurance Company will result in increased ratings.

***The portfolio is being diversified to increase safety and decrease risk***

In an effort to immediately diversify the portfolio while an investment policy is developed, the City transferred 20% of assets and current contributions to other investment accounts managed by Back Bay Advisors, a subsidiary of

New England Life. Investment assets held in these accounts are held in the City's name and are not considered assets of The New England. These funds are currently invested predominantly in U.S. Treasury and high quality money market securities.

***An investment advisor will be appointed***

***An investment policy will be developed***

***Adopted Recommendations***

1. Continue to invest the City's pension moneys in New England's separate accounts which are considered assets of the City of San Clemente.
2. Issue a Request for Proposal for investment advisory services. The investment advisor will assist in the development of an investment policy and serve in an oversight capacity. Estimated cost of this service is \$10,000 annually.
3. Develop a comprehensive investment policy for the City's pension assets. The investment policy will include asset mix and diversification strategies as well as a long range plan for reaching and maintaining the asset mix goals
4. Recommend that New England Retirement Services be retained to perform actuarial services. New England Retirement Services has offered to provide this service at not cost to the City for a period of three years. This will result in annual savings of \$20,000.

**Flexible Benefit Plan Analysis**

***Objective***

*To examine the City's current flexible benefit plan and explore the feasibility of a credit based flexible benefits program provided at no additional cost to the City.*

The City currently provides all full time employees with a comprehensive health and benefit package. The City provides basic life, accidental death and disability, long-term disability, and an employee assistance program. In addition, employees are offered medical, dental, vision, supplemental life, flexible spending accounts, additional accidental death and disability coverage and a deferred compensation plan.

The benefit structure resembles that of a mini-flex plan, as illustrated below:

<b>Core (No cost to employees)</b>	<b>Options (Variable cost to employees)</b>
• Basic Life	• Medical/Vision/Dental
• Accidental Death & Disability (AD&D)	• HMO (incentive credit to employee)
• Long Term Disability	• PPO (contribution required from employee)
• Employee Assistance Program	• Supplemental Life
	• Flexible Spending Accounts
	• Medical



# Long Term Financial Plan

	• Dependent Care
	• Additional AD&D
	• Deferred Compensation

***A credit-based flex system will be considered***

Given the fact that the City has a “mini-flex” system in place, this paper discusses the feasibility of expanding the plan to a credit-based flexible benefits program. To employees a flex plan is a means of having choices over benefit levels and increased benefit options. The City gains by implementing a program where costs can be controlled and planned for over future budget cycles.

***A flex system enables the City to enact a 3-5 year budget plan for benefits***

Establishing a credit-based flexible benefits program enables the City to enact a three to five year budget plan, with defined benefit expenditures. Currently, the annual cost to the City for medical, vision, dental, basic life coverage and the employee assistance program amounts to \$4,700 per employee (does not include vacation and sick leave).

***The basic benefit plan costs \$4,700 per employee***

The structure of the credit-based plan can be designed to provide a set credit amount to each employee (e.g. \$4,700). Each benefit option within the program will have a price tag assigned to it - equal to the actual cost of the coverage. Employees will purchase their coverage with the credits. The credit amount will be specified as part of the overall budget plan. In this way, the City defines and controls its benefits over a projected time period, while also meeting the needs of its diverse work force.

Currently, a total of 57% of comparable cities provide some form of flex benefit plan.

***A credit-based flex plan will be explored with employees***

***Adopted Recommendation***

Direct staff to explore with the employee associations the possibility of establishing a credit based flexible benefit program for implementation by July 1, 1996.

**Cost Recovery System**

***Objective***

*To conduct a review of the City's cost recovery system and methodology and provide recommendations for improving the current system.*

Over the past several years, a number of attempts have been made to improve upon the City's current cost accounting system. This system differs from the City's *Cost Allocation Plan* which recaptures overhead costs absorbed by the General Fund. A *Cost Recovery System* is intended to recoup costs for time spent on capital and developer projects

***The City has not implemented an effective cost recovery system***

An integrated Cost Recovery System using consistent methodology for recovery of costs has not been implemented. Furthermore, the systems in use differ from division to division and have largely been developed internally to meet the needs of each division.

The following weaknesses were noted in the current system:

- The Engineering and Planning Divisions are spending a considerable amount of time doing cost accounting
- An overhead rate of 30.84% has been utilized by the Engineering Division for at least eight years. The validity of this rate has not been recently evaluated.
- Reimbursements to the City or between funds is not being accomplished on a timely basis.
- Managers are not being provided with timely total project cost information.

A number of benefits will be gained by acquiring a sophisticated Cost Recovery System including:

***Benefits of a cost recovery system***

- Will provide a cost effective method of tracking and recovering overall project costs.
- Will assure full reimbursement to the City and between funds for staff time and other eligible costs on a timely basis. Timely reimbursements will maximize cash flows and interest earnings.
- Will assist managers in maintaining cost controls.

***The City will develop an integrated cost recovery system***

***Adopted Recommendation***

Develop a fully automated and integrated cost recovery system. The City will research existing programs, obtain objective analysis of the programs, and develop a single integrated program to meet all user needs. This project will be linked to the computer action plan which will include a study of all current systems and make recommendations on providing integrated solutions.

### **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*

Due to the rapidly changing computer environment, the City annually revisits and updates the Computer Action Plan to ensure that the goals of the plan are obtained and that new and appropriate advances in technology are incorporated into the plan.

***Goals were developed at strategic planning workshops***

At the Council/Management strategic planning workshop in October 1995, staff developed a list of goals or visions for a long range computer action plan. The following goals were identified:

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# Long Term Financial Plan

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- Provide citizens with access to City services and information.
- Improve communication between City Council, citizens and staff.
- Ensure accurate management of financial and land use information.
- Provide staff with access to data and graphics (maps) from external sources such as other public agencies or the Internet.
- Ensure that current systems integrate and upgrade to systems developed in the future with minimum impact.
- Provide on-going training and application support to staff.
- Provide the staff and financial resources necessary to implement the action plan.

***A 3-5 year strategic computer plan will be developed***

In order to ensure that those goals and strategies are systematically and strategically developed and implemented, the City must develop a long term three-five year information systems plan. Fiscal year 1996-97 is the ideal time to prepare a comprehensive long term plan due to the expiration of the City's minicomputer lease. Additionally, there is a need to replace aging application systems (e.g. financial systems) and development of new systems (e.g. GIS).

***FY 1996-97 will be used as a "planning" year for computer systems***

Thus, FY 1996-97 will be used to prepare a plan of implementation. Purchase of new hardware and software applications will be delayed until the plan is adopted by the City Council. By delaying the purchase of a new minicomputer and software, the City will realize savings of \$90,000 in FY 1996-97. These funds will be set aside in the Capital Equipment Replacement Reserve Fund in order to provide funding of the adopted plan in FY 1997-98.

***Proposals will be developed for preparation of a long-range computer action plan***

***Adopted Recommendations***

The successful implementation of the microcomputer network and the adequate performance of the minicomputer system will allow staff time to analyze the City's long term goals and computer requirements. Staff recommends that the City postpone the replacement of minicomputer and software applications and use FY 1996-97 to develop a long range plan.

***Acquisition of a mini-computer will be delayed until long-range plan is completed***

1. Direct staff to prepare a Request for Proposal for an outside consulting firm to develop a long range computer action plan.
2. Direct staff to incorporate the long range computer action plan into a Request for Proposal for hardware and software and present the cost of the plan for consideration in the FY 1997-98 budget.
3. Continue the current level of funding for the minicomputer system lease payments in FY 1996-97. Transfer the funds remaining after the lease termination (Sept. 1996 - June 1997) to the Capital Equipment Replacement Reserve for the acquisition of the minicomputer and software replacement.



## Financial Trends

***Indicators measure the fiscal health of the City of San Clemente***

As in the past three 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.

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.

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

It should be noted that data used to develop the report is primarily drawn from the City's Comprehensive Financial Report for fiscal years 1990-91 through the most recent report for the fiscal year ending June 30, 1995. Consequently, all trends are based on data available as of the end of fiscal year 1994-95 and do not incorporate any changes that have occurred since that time. For example, a transfer of \$700,000 was made from the General Fund to the Street Improvement Fund during FY 1995-96, thus, changes that may affect certain financial indicators relating to the transfer, including General Fund fund balances, are not included in this report.

***Trend data is as of 1994-95 fiscal year end***

### 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**

**U = Unfavorable**

**W = Warning**

<b>Favorable:</b>	This trend is <b>positive</b> with respect to the City's goals, policies, and national criteria.
<b>Unfavorable:</b>	This trend is a <b>negative</b> one, and there is an immediate need for the City to take corrective action if possible.
<b>Warning:</b>	This rating indicates that a trend has <b>changed</b> from a positive direction and is going in a direction that may have an <b>adverse</b> effect on the City's financial condition. This rating is also used 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 to illustrate any positive or negative changes noted in the trends over the past four years.

**17 of 20 financial indicators are positive...**

<b>Indicator</b>	<b>1996 Rating</b>	<b>1995 Rating</b>	<b>1994 Rating</b>	<b>1993 Rating</b>
Revenues Per Capita	F	U	U	U
Property Tax Revenue	U	U	W	F
Sales Tax Revenues	F	F	U	U
Licenses & Permits	F	F	U	U
Comm. Develop. Charges	U	U	U	U
Elastic Revenues	F	F	U	U
One-Time Revenues	F	F	W	W
Intergovernmental Revenues	F	F	F	F
Revenue Overages /Shortages	F	U	U	U
Expenditures Per Capita	F	F	W	W
Employees Per Capita	F	F	W	W
Fringe Benefits	F	W	W	U
Capital Outlay	F	U	U	U
Operating Surplus	F	W	W	U
Fund Balance	F	F	W	W
Liquidity Ratio	F	F	F	F
Debt Service	F	F	F	F
Compensated Absences	F	F	F	F
Property Values	U	U	W	W
Population	F	F	F	F

**while only 3 are now unfavorable...**

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

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 transforming negative indicators into positive ones. Additionally, the adoption and, more importantly, the implementation of three consecutive long term financial

strategic plans have laid the foundation for a well planned financial recovery.

**A further improvement in trends from 1995 is evident**

As indicated, a total number of 20 trends were analyzed in the 1996 Long Term Financial Plan. Of these, 17 are now considered *favorable* and only 3 are *unfavorable*. This is an impressive 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.

**Five indicators were upgraded to favorable status...**

Five indicators were upgraded to favorable from either an unfavorable or warning status. These include:

- *Revenues per capita* - Revenues per capita have shifted in a positive direction due to overall increases in revenue collections. Revenues per capita (excluding one-time revenues) increased for the third year in a row and is at the highest level in five years.
- *Revenue overages/shortages* - in FY 1993-94 revenues received exceeded budget projections. In FY 1994-95 revenues were slightly less than projected; however, the revenue shortage of only .9% is considered positive. This indicator will continue to be monitored as the fiscal year-end approaches.
- *Fringe benefits* - As expected, fringe benefits, as a percentage of salaries, dropped to it's lowest level in recent years. This is due to not only contracting of public services but also reflects significant reductions in benefit levels and costs.
- *Capital outlay* - Capital outlay, as a percentage of operating expenditures, increased in FY 1993-94 after two years of significant declines. In FY 1994-95, the percentage decreased slightly; however, the positive momentum begun in 1993-94 continues due to the infusion of \$100,000 annually to meet General Fund capital needs.
- *Operating surplus* - Operating surpluses have been attained in two of the prior three years, with only a minor (.14%) deficit in FY 1993-94.

None of the analyzed indicators shifted in a negative direction in the previous year.

**While three indicators continue to cause concern**

However, continuing property value reductions and the impact of previous revenue diversions to the State continue to affect the property tax and property value categories. Consequently, unfavorable ratings were assigned to both of these categories. An unfavorable rating was also assigned to community development service charges due to a reversal in the positive direction noted in FY 1993-94.

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## Long Term Financial Plan

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***Underfunded reserves and lack of funding for capital improvements are concerns; however, progress has been made***

***It is clear that substantial progress has been made to improve the City's finances***

Other observations that were noted during this analytical review of City finances pertain to underfunded reserves and lack of funds dedicated to maintenance of City facilities. These concerns, however, have been addressed by the City Council by mandating transfers to reserve funds and setting aside funds for capital expenditures.

As described above, the City has made considerable progress in improving its 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, 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. It is clear that substantial progress has been made.

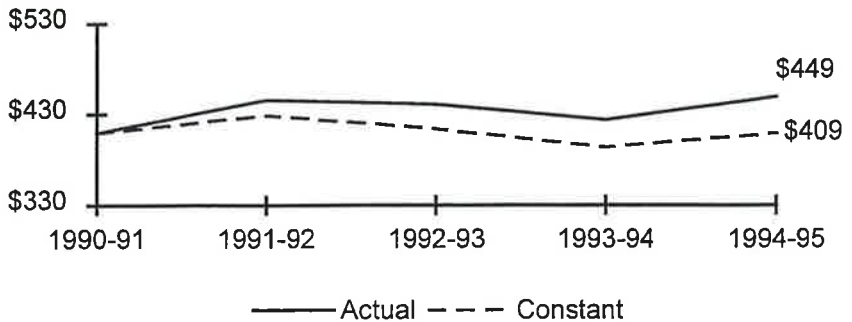
The following sections provide a brief overview of most of the indicators listed in the above table. Please refer to Volume II of the 1996 Long Term Financial Plan for a complete description of all financial indicators.

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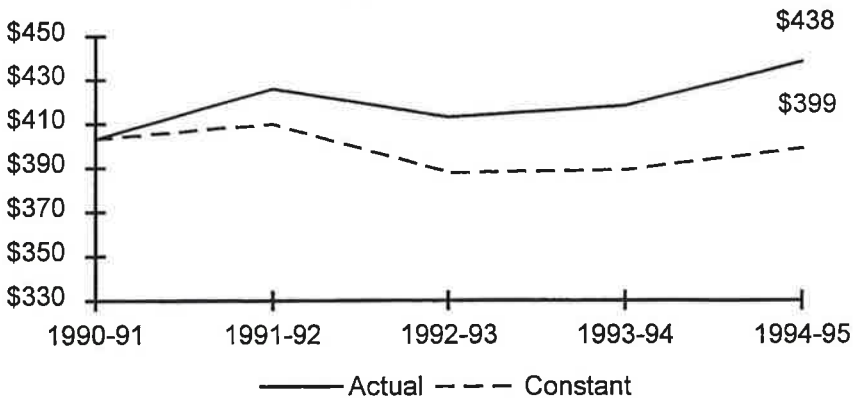
## Revenues

### Revenues Per Capita

**REVENUES PER CAPITA**  
Actual and 1991 Constant Dollars  
General Fund



**REVENUES PER CAPITA**  
EXCLUDING ONE-TIME REVENUES  
Actual and 1991 Constant Dollars  
General Fund



Finding: **FAVORABLE**. Revenues per capita (excluding one-time revenues) have increased in both actual and constant dollars since FY 1992-93 and are at the highest level in five years.

**Revenues per capita are at the highest level in five years**

Comments: The first chart above on revenues per capita reflects an increase in FY 1994-95. The level reached in FY 1991-92 has finally been exceeded. The increase from FY 1993-94 to FY 1994-95 is due to several factors, including implementation of a cost allocation system and certain one-time revenue transfers, including disaster relief funds and monies received from the sale of fire equipment. Although property tax and community

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# Long Term Financial Plan

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development revenue are in decline, other revenue sources, including sales taxes, transient occupancy taxes, permits and fees, and fines increased.

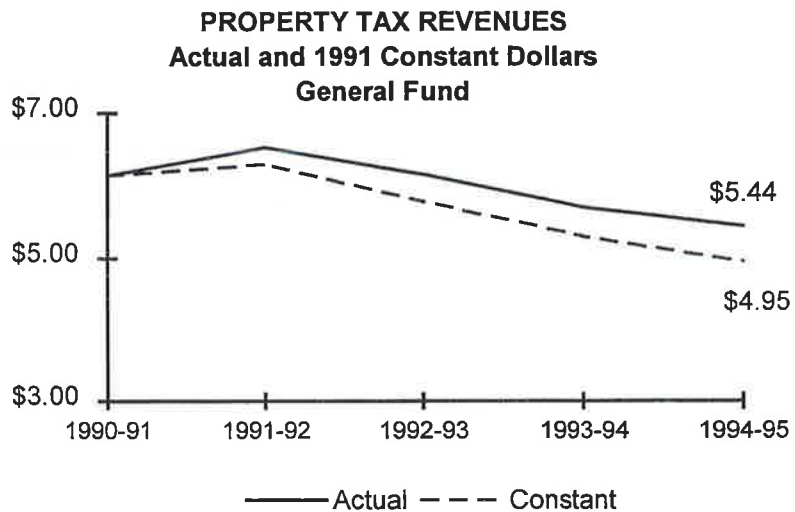
The second chart (which excludes one-time revenues), shows that both actual and constant dollar revenues per capita have increased for two consecutive years. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies these revenues against one-time expenditures in accordance with the City's Fiscal Policy. In summary, this trend indicates that, in constant dollars, revenues per capita is improving and the City's reliance on one-time revenues continues to diminish.

Although increasing revenues per capita are positive, the potential for further property tax reductions is still a major concern.

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## Property Tax Revenues

**Property tax revenues dropped another 4.5% as a result of a permanent State mandated property tax shift and decreases in property tax valuations**



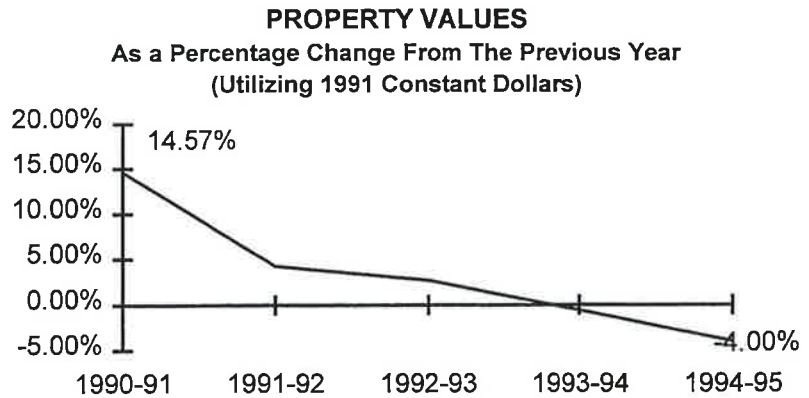
Finding: **UNFAVORABLE**. Property tax revenues evaluated over time reflect a steady increase up until FY 1991-92, when they dropped significantly as a result of a permanent 9% State mandated property tax shift and a decline in property valuation.

Comments: In FY 1994-95, property tax revenues further declined by \$258,000 or 4.5% in actual dollars, and \$350,000 or 6.6% in constant dollars. This drop continues a three year decrease in both constant and actual dollars. The decrease in property tax revenue is a reflection of the State mandated property tax shift which costs the City \$1.2 million annually as well as the ongoing decrease in the valuation of property. In fact,

**Property tax revenues decreased \$258,000 in FY 1994-95**

property values dropped 4% in FY 1994-95. This decrease in revenue and decline in property valuation result in an unfavorable rating.

### **Property Values**



***A negative growth rate was once again observed for property values***

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 four years from a healthy increase of almost 15% in FY 1990-91 to an actual decrease of -4.0% in FY 1994-95. This decline in the growth rate is a reflection of the continuing decline in housing values. Consequently, property tax revenues were reduced \$258,000 in FY 1994-95. The reduced growth rate has effectively reduced property taxes in constant dollar terms to the lowest level in the five years analyzed.

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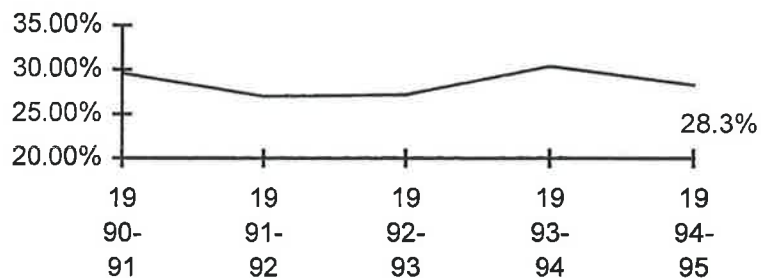
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# Long Term Financial Plan

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## Elastic Revenues

**ELASTIC REVENUES**  
As a Percentage of Operating Revenues  
General Fund



**Elastic revenue sources declined slightly**

Finding: **FAVORABLE**. After two years of increases, 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 decreased 2.1% from FY 1993-94. Actual elastic operating revenues increased \$142,000, however, net operating revenues grew by \$1.9 million. This results in a lower overall percentage of elastic revenues as a percentage of net operating income.

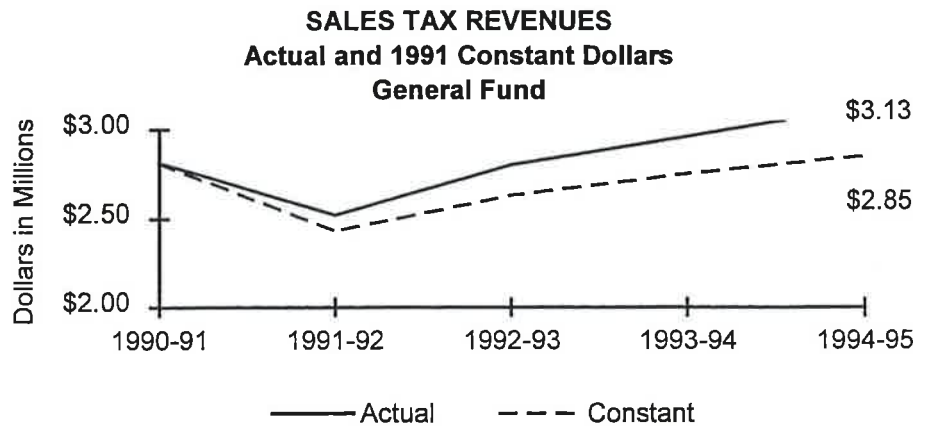
The City's largest elastic revenue source, sales tax revenue, was up 5.8 percent, or \$171,000, from the prior year. Also, transient occupancy taxes increased \$39,000, in-lieu tax was higher than the prior year by \$13,000 and licenses and permits increased \$20,000. Conversely, other elastic revenues such as community development service charges decreased \$101,000. Even though this indicator indicates a slight decline in FY 1994-95, total actual elastic operating revenues have increased as stated above and the percentage in relation to total operating revenues remains relatively high in comparison to prior years, therefore, a favorable rating has been assigned.

Comments for each major elastic revenue source follow:

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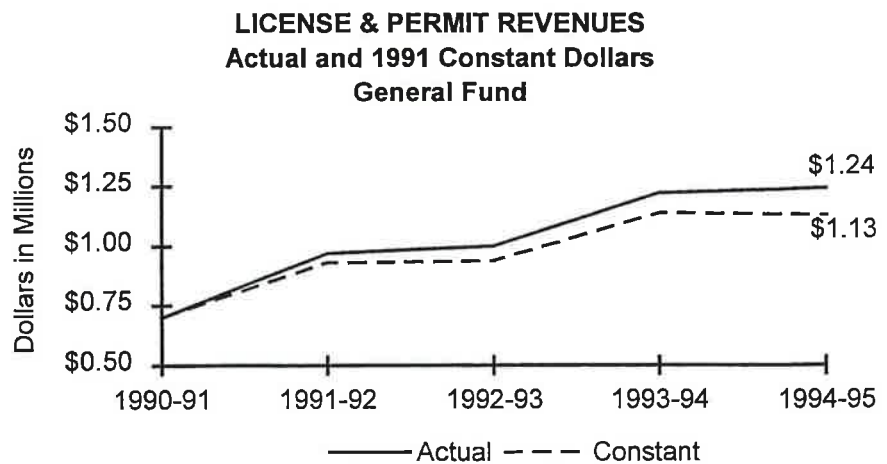
## Trend Analysis



**1994-95 sales tax revenue increased 5.8% or \$171,000**

Finding: *FAVORABLE*. In FY 1994-95, sales tax revenue increased \$171,000, or 5.8 percent in actual dollars over FY 1993-94, and \$96,000, or 3.5 percent in constant dollars.

Comments: This level is at a five year high in actual and constant dollars. As indicated, sales taxes have gradually increased over the past three years. In fact, sales tax revenue has increased 24% in three years. The upward trend for the past three years results in a favorable rating.



**License and permit revenue increased four years in a row**

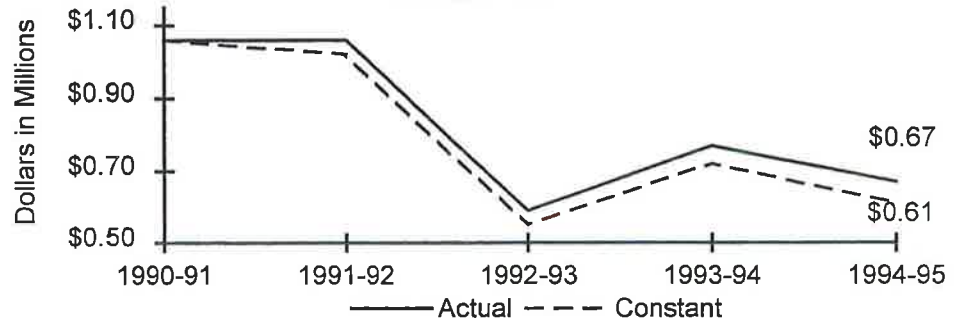
Finding: *FAVORABLE*. The City experienced increases in licenses and permits for four consecutive years, however, in FY 1994-95 this revenue category appears to have leveled out.

# Long Term Financial Plan

**Construction permits decreased \$5,000 while business licenses increased \$37,000**

Comments: In FY 1994-95, business license revenue increased \$37,000 over the prior year as compared to an increase of \$219,000 in FY 1993-94. Construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, decreased \$5,000, or .9% in actual dollars from the prior year. This is in contrast to an increase of 44%, or \$186,000 in FY 1993-94. Thus, in FY 1994-95 this category appears to have leveled off although the overall increase still results in a favorable rating.

**COMMUNITY DEVELOPMENT SERVICE CHARGES  
Actual and 1991 Constant Dollars  
General Fund**



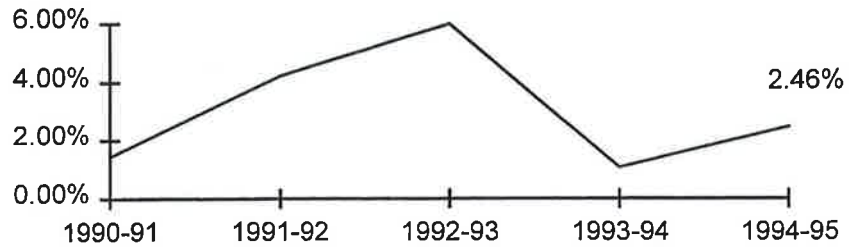
Finding: **UNFAVORABLE**. Community Development Service Charges in actual dollars and constant dollars declined in FY 1994-95. This revenue source is still significantly below the level reached three years ago although a moderate increase was noted in FY 1993-94.

**Community Development Charges reversed a positive trend and decreased 13%**

Comments: In FY 1994-95, total community development service charges decreased 13.1 percent, or \$101,000 from the prior year. Specific revenue source decreases include a drop of \$143,000 in construction inspection fees and a decline in improvement plan check fees of \$30,000. However, from the prior year, several revenues in this category increased including public works inspection fees in the amount of \$10,000, general plan amendment fees by \$19,000, building plan check fees by \$20,000, and specific plan amendment fees by \$19,000. Due to the erratic behavior of this indicator, an unfavorable rating is assigned.

## One-Time Revenues

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



Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund operating revenues, equaled 2.46% in FY 1994-95, a small increase over the prior year.

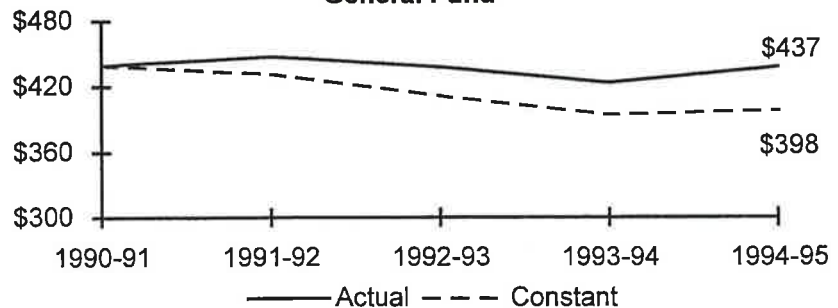
Comments: In FY 1994-95, one-time revenues increased \$315,000 over the previous year. The primary reason for this increase is from the contracting of fire services to the Orange County Fire Department. A favorable rating has been assigned, since one-time revenues are generally a result of contracting of services and are applied against one-time expenditures, such as reserve transfers. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures.

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

## Expenditures

### Expenditures Per Capita

**EXPENDITURES PER CAPITA**  
Actual and 1991 Contant Dollars  
General Fund



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## Long Term Financial Plan

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***Expenditures per capita  
increased due to reserve  
and street transfers***

Finding: *FAVORABLE*. Expenditures per capita, in constant and actual dollars, increased in FY 1994-95.

Comments: In FY 1994-95, expenditures per capita increased in both constant and actual dollars in comparison to the prior year. This represents a total increase of 1.0% in constant dollars and 3.3% in actual dollars since FY 1993-94. FY 1994-95 actual and constant dollars are still lower than FY 1990-91, when expenditures per capita appears to have peaked in constant dollars. Actual FY 1994-95 expenditures were under budget by \$570,000 or 2.7 percent.

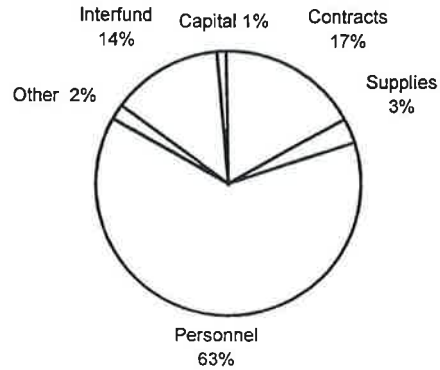
The significant increase in expenditures can be attributed to transfers from the General Fund to other funds. For instance, FY 1994-95 transfers included transfers to the capital equipment replacement reserve fund (\$100,000), accrued leave fund (\$75,000), workers' compensation fund (\$111,000), and general liability fund (\$88,000). This is a prudent approach to ensure that these funds have adequate reserves to meet emergency needs and fund reserve deficits.

A favorable rating has been assigned due to the fact that the City has been able to maintain or enhance services while maintaining an essentially flat expenditure growth rate. Growth in expenditures is largely attributable to transfers to reserve funds and, where expenditure rates have declined, this is the result of contracting out services in order to improve service levels and reduce costs.

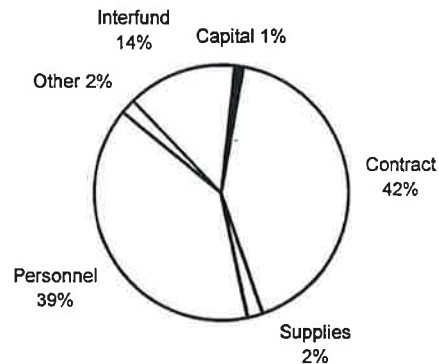
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## Expenditures by Category

1990-91



1994-95



**Personnel costs declined from 63% in 1990-91 to 39% in 1994-95**

*Comments:* These charts indicate that personnel costs, as a percentage of the General Fund budget, decreased from 63% in FY 1990-91 to 39% in FY 1994-95. This decrease is offset by the increase in the percentage of contractual services to total General Fund expenditures. Contractual services increased from 17% to 42% during the same period.

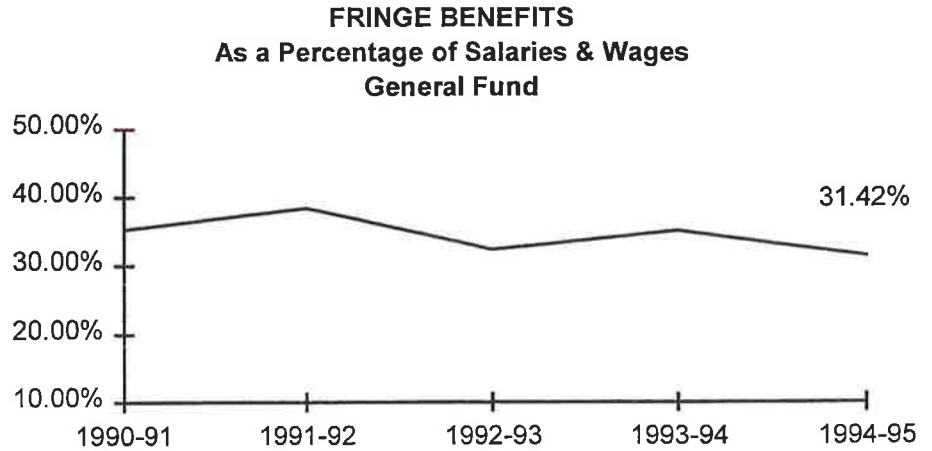
This drastic shift from personnel related costs to contractual expenditures is the result of contracting several major City services, including police, fire, fleet maintenance, certain street maintenance programs, and beach and park maintenance.

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# Long Term Financial Plan

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## *Fringe Benefits*



***Benefit costs are at the lowest level in 5 years***

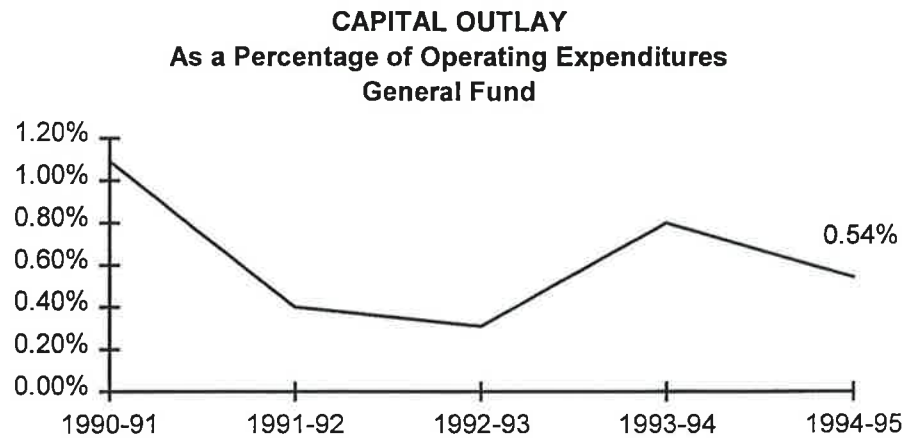
Finding: ***FAVORABLE***. Fringe benefits, as a percentage of General Fund salaries and wages, have decreased from 35.3% to 31.4% over the past 5 years. This is the lowest level of fringe benefits as a percentage of salaries and wages that the City has experienced during this five year period.

***Medical insurance premiums were reduced 30%***

Comments: Medical insurance costs and increased public safety pension costs were directly responsible for the increase in fringe benefits as a percentage of salaries and wages from FY 1990-91 to FY 1991-92. Over this period of time, medical insurance costs rose from \$1.2 million to \$1.6 million. As a result of escalating costs, the City, with cooperation of all employee groups, changed medical providers and implemented a cost effective managed care plan. Consequently, insurance premiums were reduced 30% which is clearly reflected in the reduction of fringe benefit costs in FY 1994-95. Also, with the contracting of Police and Fire Services, workers compensation and related charges have been reduced. Workers compensation costs are expected to be further reduced in FY 1995-96, since the City has gone from being self-insured to contracting with an independent insurance carrier at a reduced cost.

A favorable trend has been assigned for FY 1994-95, since this trend is expected to stabilize over the next several years.

## Capital Outlay



Finding: **FAVORABLE**. In FY 1994-95 capital outlay expenditures declined to \$113,000, or .54% of operating expenditures. This is still considered positive due to the Council commitment to contribute \$100,000 from the General Fund to fund a capital equipment replacement program.

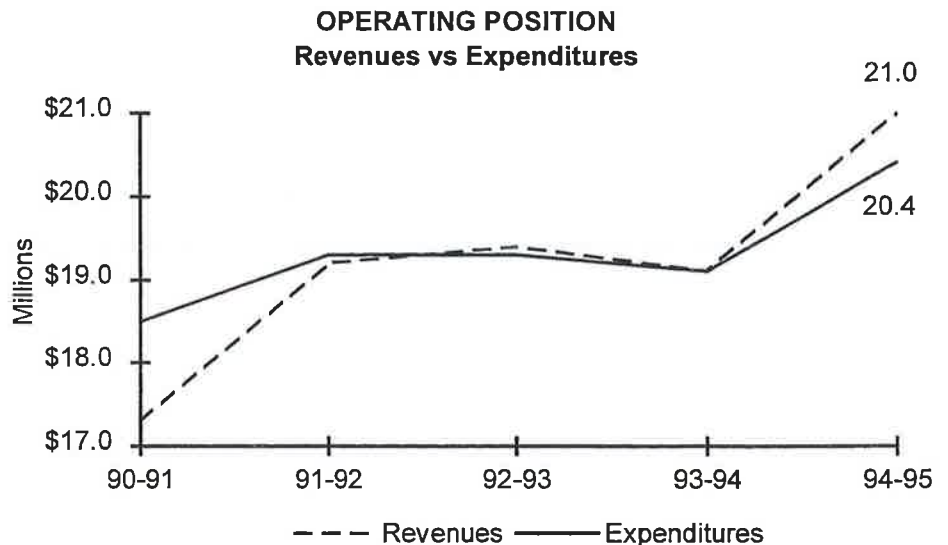
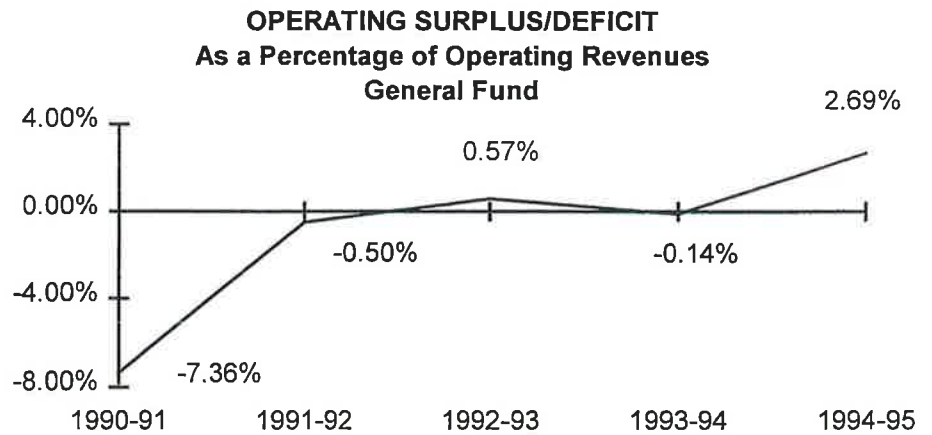
**Expenditures for capital outlay continues to recover from prior year cuts**

Comments: Capital outlay expenditures, as a percentage of operating expenditures, declined considerably from FY 1990-91 to 1992-93 due to cost reduction efforts. In FY 1993-94, funding was partially restored to previous expenditure levels. Adequate funding was provided in FY 1994-95 to address equipment needs and fund a new Capital Equipment Reserve Fund with \$100,000 provided in seed money. Council has approved annual contributions of \$100,000 to this fund over the next several years in order to create a revolving fund for General Fund capital needs.

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# Long Term Financial Plan

## Operating Position



Finding: **FAVORABLE.** A positive operating surplus of 2.69% was achieved in FY 1994-95.

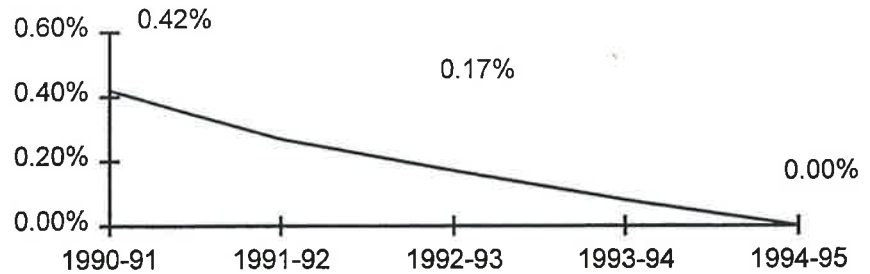
**An operating surplus was achieved in FY 1994-95**

Comments: The recent economic recession was primarily responsible for the excess of General Fund expenditures over revenues by \$1.27 million in FY 1990-91. However, through cost saving measures, implemented by the City Council and Administration, operating deficits/surpluses have been kept to less than 1% of operational revenues from FY 1991-92 through FY 1993-94. In FY 1994-95 operating surpluses as a percentage of operating revenues amounted to 2.69%, a significant improvement over the past four years.



## Debt Service

**DEBT SERVICE**  
**As A Percentage of Operating Revenues**  
**General Fund**



Finding: **FAVORABLE**. General Fund debt service receives a favorable trend as it has remained relatively immaterial (less than 1%) in comparison to operating revenues over the last five years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues.

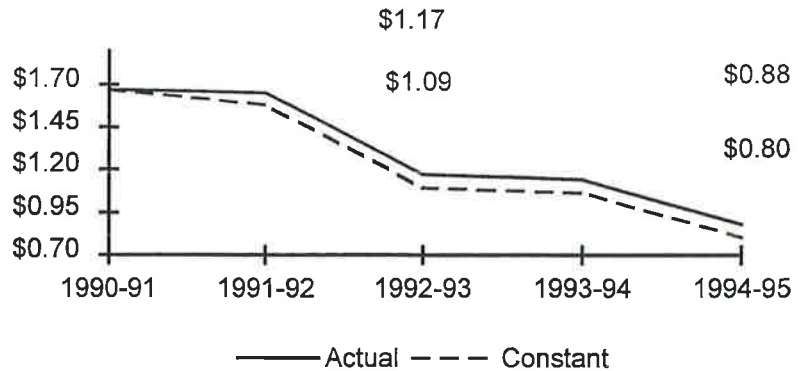
Comments: During FY 1993-94, the City made the final payment on the lease/purchase agreement for a patchmaster utilized by street maintenance and repair. This is the reason that the General Fund has no debt service payments in FY 1994-95. However, it should also be noted that the debt service for the Negocio Building bonds is in a separate fund, and is not part of this analysis.

**General Fund debt was eliminated in FY 1994-95**

# Long Term Financial Plan

## Accumulated Compensated Absences

**ACCUMULATED COMPENSATED ABSENCES**  
Actual and 1991 Constant Dollars



**Contingent liabilities for accrued leave continue to decline**

Finding: **FAVORABLE**. This indicator receives a favorable rating because the City's liability for compensated absences has dropped for the last five consecutive years in actual and constant dollars.

Comments: The considerable drop in FY 1994-95 is due to the contracting of fire services with the County of Orange. The continuing drop in accumulated compensated absences is attributable to the reduction of staff through the contracting of various City services and subsequent payment for accrued leave.

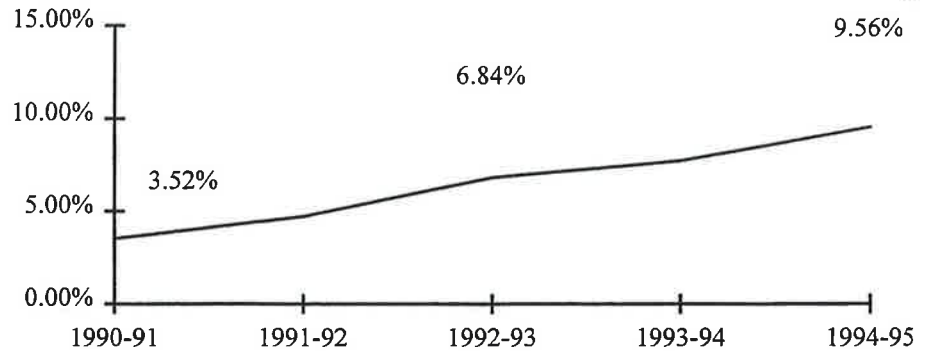
At June 30, 1995, the balance of the liability for compensated absences was \$876,000 consisting of \$541,000 for vacation, \$300,000 for sick leave, and \$35,000 for compensatory time. This is a total drop of \$264,000, or 23.2% from the prior year's total liability of \$1,140,000.

**The balance of the liability for compensated absences is \$876,000**

In the FY 1994-95 approved budget, an Accrued Leave Reserve Fund was established through a \$75,000 appropriation from the General Fund. This represents a contribution towards the establishment of sufficient reserves to cover future liabilities for compensated absences and the balance at June 30, 1995 remained at a level of \$75,000.

## Reserves

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



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.

**Unreserved fund  
balances increased to  
9.56% in 1994-95**

Comments: Unreserved fund balance as a percentage of operating revenues rose 1.82% in FY 1994-95 as a result of an increase in fund balance of \$533,000. The increase in fund balance is primarily due to an operating surplus of \$565,000. Steady increases in this trend continue to confirm the stable position of the City's General Fund.

**General Fund  
Emergency Reserve =  
\$780,000**

In FY 1990-91, as a result of the excess operating expenditures over operating revenues of \$1.27 million, General Fund Unreserved Fund Balance was only 3.52 percent of operating revenues. The subsequent increase to 9.56% by FY 1994-95 is due to Council adoption of fiscal policies requiring that emergency reserves be increased to 8% of General Fund operating expenditures. Included within the total FY 1994-95 unreserved fund balance of \$2.0 million are General Fund Emergency Reserves totaling \$780,000.

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## Financial Forecast

The five year financial forecast for the General Fund has been updated to incorporate current economic projections and the revised FY 1995-96 budget. The most recent forecast was provided to the Council in the FY 1995-96 budget.

### Development of the Financial Forecast

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

The objective of a financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision making. The forecast is updated annually as a part of the Long Term Financial Plan process, again after the administration's proposed budget is prepared, and a third time after the budget is approved.

The forecast is developed on a baseline environment, that is, revenues and expenditures are projected based primarily on growth patterns or inflation factors and the present level of services provided by the City.

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

***Chapman University's Economic & Business Review is the basis for economic indicators***

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 1995 Economic and Business Review. In general, that report predicts a moderate but steady economic recovery as was also anticipated in the City's 1995 forecast. The 1996 forecast is based on the improving economic environment that began in 1994, with a continuing upturn in positive economic activity throughout the five years of the forecast

The 1996 forecast has updated the assumptions and data upon which the latest 1995 forecast was based and will provide a comparison of this year's forecast to the 1995 model and historic data.

### Forecast Summary & Results

***Revenue growth rates will average 3.6%***

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 3.6% a year.

***Expenditure growth rates will average 2.9%***

Expenditures are projected to increase at an average rate of 2.9%. The continued aggressive funding of reserves will be maintained until the reserves are fully funded. In fact, during the five year forecast \$3.1 million is allocated to various reserves. Additionally, \$1.74 million will be transferred to the Street Improvement Program. This will result in \$4.8

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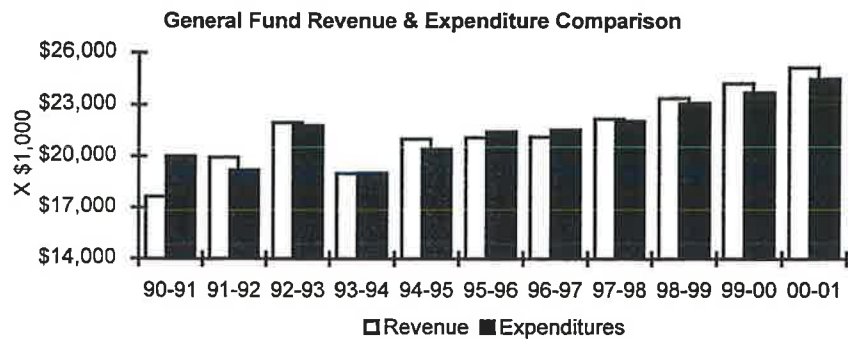
# Long Term Financial Plan

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million being allocated during the five year period, which averages almost \$1 million per year or 4.5% of the total adjusted budget for FY 1995-96.

The following chart provides a visual comparison of historical and projected revenues and expenditures:

## *Historical and projected revenues and expenditures*



The following sections will outline the results of the forecast comparisons to the 1995 forecast's economic and financial assumptions used and historic data with respect to:

- **Operating Position:** This is the statement of the City's ability or inability to meet current expenditure requirements with available revenues. It predicts operational shortfalls or additions to fund balance.
- **Overall Revenue Assumptions & Results:** Major revenue sources will be discussed relative to current projections and comparisons to the 1995 forecast and historic projections.
- **Expenditure Assumptions and Results:** Major expenditure categories will be discussed relative to current projections and comparisons to the 1995 forecast and historic projections.

# Financial Forecast

## Operating Position

**The forecast predicts a steady recovery**

The forecast predicts a continued 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 1995 forecast to the 1996 forecast.

**Prior year predicted operating surpluses for years 3 through 5**

### 1995 Forecast Summary

Amount in \$1,000

	1995-96	1996-97	1997-98	1998-99	1999-00
Revenues	\$21,080	\$21,622	\$22,509	\$23,546	\$24,729
Expenditures	21,535	21,821	22,446	23,368	24,080
Operating Result	-\$455	-\$199	\$63	\$178	\$649

**The 1996 forecast predicts operating surpluses for years 2 through 5**

### 1996 Forecast Summary

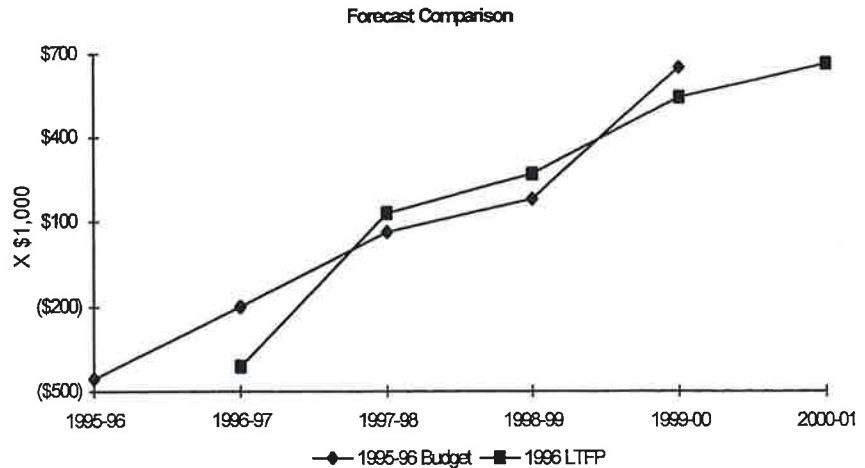
Amount in \$1,000

	1996-97	1997-98	1998-99	1999-00	2000-01
Revenues	\$21,129	\$22,192	\$23,383	\$24,260	\$25,176
Expenditures	21,541	22,062	23,116	23,719	24,514
Operating Result	-\$412	\$130	\$267	\$541	\$662

## Operational Position

### 1995 Forecast vs. 1996 Forecast:

The following chart provides a comparison of operational position for the 1995-96 budget forecast and the 1996 forecast



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# Long Term Financial Plan

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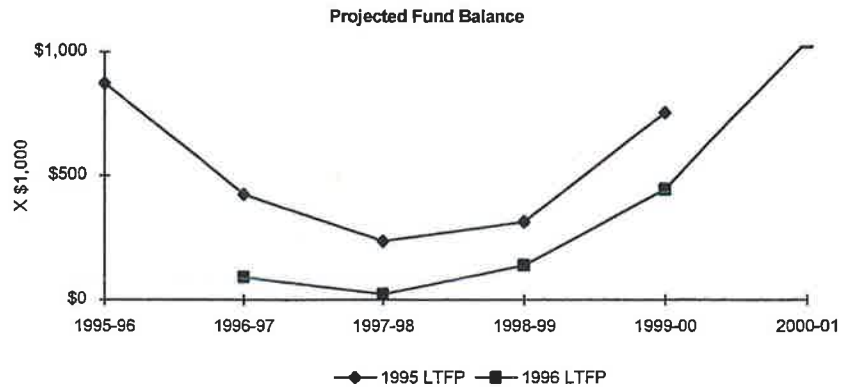
***Operating deficit in first year is due to funding of reserves and streets***

In comparison to the most recent 1995 forecast, the City continues to make positive progress toward improving its operating position. An operating surplus is projected in four of the five years due to the transfer of \$1.04 million in FY 1996-97 to reserves (\$739,300) and the Street Improvement program (\$300,000). This is an intentional draw down on the General Fund fund balance in order to provide contributions for the reserves and the Street Improvement program. Without these transfers all five years would have positive operating positions.

## Fund Balance

***The City's projected fund balance position is positive over the forecast period***

Another way to view the changes from the 1995 forecast as compared to the 1996 forecast is by examining the changes in the projected fund balance over the forecast period.



The above chart indicates a significant decline in the City's projected fund balance position over the forecast period. This decline is the result of: (1) A lower than projected ending fund balance in FY 1994-95; (2) Transfers of \$700,000 to the Street Improvement Program in FY 1995-96 and (3) Continued funding of reserves throughout the five years.

Although fund balances are relatively low in years one and two, a sharp increase occurs in year three (FY 1998-99) and continues in years four and five as reserves become fully funded.

## Fund Balance and Reserves

One of the main goals of the City Council is to ensure that adequate funding will be available to fund Emergency Reserves. The following table and graph indicates the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year forecast period.



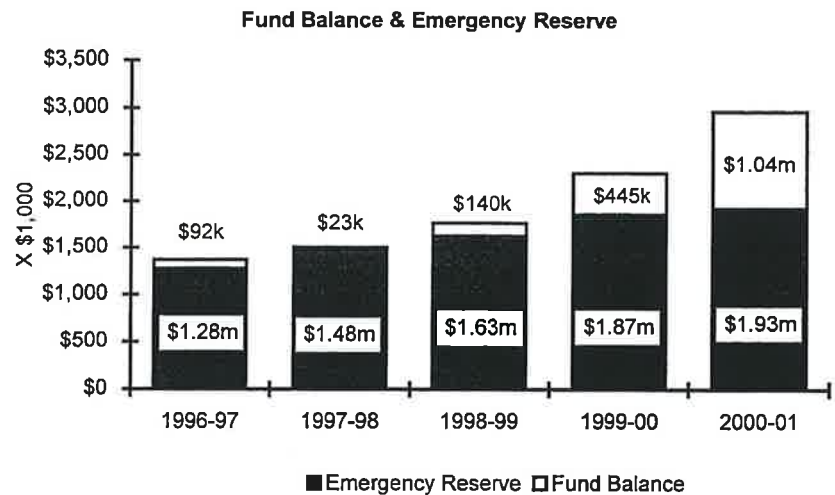
# Financial Forecast

## Fund Balance & Emergency Reserve

Amounts in \$1,000

	1996-97	1997-98	1998-99	1999-00	2000-01
Fund Balance	\$92	\$23	\$140	\$445	\$1,042
Emergency Reserves	\$1,280	\$1,480	\$1,630	\$1,865	\$1,930
Total	\$1,447	\$1,658	\$2,015	\$2,653	\$3,418

### Fund Balance and Emergency Reserve



### Total fund balances are projected at \$1.4 in FY 1996-97

As depicted above, the City will maintain steady growth of total fund balances over the five year forecast period. Beginning in FY 1996-97, total fund balances amount to \$1.4 million and are projected to grow to \$3.4 million in FY 2000-01.

The following summary provides a review of Beginning Fund Balances, Revenues, Expenditures, and Ending Fund Balances over the forecast period.

# Long Term Financial Plan

<i>Cash flow by year</i>	<b>Cash Flow By Year</b>				
	Amount in 1000's				
	1996-97	1997-98	1998-99	1999-00	2000-01
<b>Revenues</b>					
Beginning Fund Balance	754	92	23	140	445
<b>Revenues</b>					
Taxes	11,211	11,782	12,460	12,943	13,457
Licenses & Permits	1,297	1,422	1,538	1,625	1,702
Intergovernmental	2,042	2,090	2,139	2,181	2,227
Service Charges	2,092	2,242	2,390	2,498	2,599
Fines & Forfeits	490	519	554	583	617
Interest & Rents	989	1,014	1,055	1,075	1,103
Interfund Transfers	3,009	3,123	3,246	3,354	3,473
<b>Total G F Revenues</b>	<b>21,129</b>	<b>22,192</b>	<b>23,383</b>	<b>24,260</b>	<b>25,176</b>
<b>Expenditures</b>					
City Council	21	21	22	22	23
City Manager	507	526	548	568	588
City General	1,961	1,911	2,151	2,027	2,067
Finance & Admin. Services	311	324	338	351	365
City Clerk	370	384	401	415	431
Accounting	660	685	714	740	767
Human Resources	294	305	317	329	340
Human Resources	294	305	317	329	340
Central Services	125	130	136	141	147
C A R E S	310	319	331	342	353
Police Services	6,231	6,406	6,617	6,796	6,981
Fire Services	3,564	3,646	3,766	3,868	3,973
Comm Dev.- Admin.	224	233	243	252	262
Building	831	863	901	934	970
Planning	751	779	813	843	875
Public Works Admin.	263	273	285	296	307
Engineering	1,143	1,190	1,252	1,308	1,366
Maintenance Services	2,157	2,133	2,215	2,291	2,367
B, P & R Admin.	236	246	257	267	278
Recreation	858	888	924	956	990
Weed Abatement	92	94	97	100	103
New Employees	47	98	153	213	276
<b>Total GF Expenditures</b>	<b>21,541</b>	<b>22,062</b>	<b>23,116</b>	<b>23,719</b>	<b>24,514</b>
<b>Emergency Reserve</b>	<b>250</b>	<b>200</b>	<b>150</b>	<b>235</b>	<b>65</b>
<b>Ending Fund Balance</b>	<b>92</b>	<b>23</b>	<b>140</b>	<b>445</b>	<b>1,042</b>

The following table provides a summary of the projected expenditures by category over the forecast period.

<i>Expenditures by Category</i>	1996-97	1997-98	1998-99	1999-00	2000-01
Salaries & wages	5,663	5,906	6,205	6,489	6,784
Employee benefits	1,894	1,966	2,077	2,184	2,294
Supplies	469	480	496	510	522
Contractual Services	10,175	10,421	10,758	11,048	11,347
Charges	2,519	2,577	2,661	2,733	2,807
Capital outlay	821	711	918	755	761
<b>Total</b>	<b>21,541</b>	<b>22,062</b>	<b>23,116</b>	<b>23,719</b>	<b>24,514</b>

## Financial Forecast - Detail

### Economic Assumptions

	1996-97	1997-98	1998-99	1999-00	2000-01
Inflation	2.1%	2.8%	3.3%	2.7%	2.2%
Population	1.1%	1.0%	0.6%	0.6%	1.1%
Assessed Valuation	1.4%	5.2%	6.0%	3.7%	3.3%
Personal Income	5.1%	6.1%	7.1%	5.4%	5.9%

***Inflation will average 2.6% over the forecast period***

***Population growth is projected to average 0.9%***

***Assessed Valuation is projected to grow by an average of 3.9%***

- **Inflation:** Inflation is the measure of the increase in 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 years two and three of the forecast, decline slightly in years four and five. Inflation impacts many revenue and most expenditure categories throughout the five year forecast and is projected to average 2.6% per year.
- **Population:** Certain 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. Assessed Valuation is projected to increase by an average of 3.9% per year.
- **Personal Income:** As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes.

### Financial Forecast Assumptions

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

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

- For forecast proposes only it is presumed that cost of living increases will be granted at 90% of inflation.
- The FY 1995-96 budget has been updated to reflect the mid-year budget adjustments recently approved by the City Council. This decreased General Fund expenditures by \$168,000 and increased revenues by \$113,000.

# Long Term Financial Plan

- One new full-time position is presumed to 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.
- Revenue for FY 1995-96 and all five years of the forecast is projected to exceed budget by 1% based on current revenue projections and conservative estimating techniques.
- Capital Outlay will remain at \$105,000 in 1996-97 of the forecast which includes continuing funding for the rehabilitation of City Hall and will then decline in the following years to \$25,000 allocated for new equipment.
- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at \$739,300 for FY 1996-97:

	1996-97	1997-98	1998-99	1999-00	2000-01
Worker's Comp.	\$43,900	\$43,900	\$43,900	\$0	\$0
General Liability	123,400	123,400	123,400	0	0
Cap. Equip. Reserve	100,000	100,000	100,000	100,000	100,000
Accrued Leave	15,000	15,000	15,000	15,000	15,000
Council Cont.	207,000	214,000	221,000	227,000	232,000
Emergency Reserve	250,000	200,000	150,000	235,000	65,000
<b>Total</b>	<b>\$739,300</b>	<b>\$696,300</b>	<b>\$653,300</b>	<b>\$577,000</b>	<b>\$412,000</b>

- In addition to the allocations for reserves, funding has been included in the forecast for the Street Improvement Program and debt service contributions:

	1996-97	1997-98	1998-99	1999-00	2000-01
St. Improv. Prog.	\$300,000	\$210,000	\$410,000	\$410,000	\$410,000
800MHz	41,300	37,300	0	0	0
PERS	130,000	130,000	130,000	130,000	130,000
Energy Services	37,800	37,800	37,800	37,800	37,800
Animal Shelter	32,000	32,000	32,000	32,000	32,000
<b>Total</b>	<b>\$541,100</b>	<b>\$447,100</b>	<b>\$609,800</b>	<b>\$809,800</b>	<b>\$809,800</b>

**General Fund Reserves will be fully funded by FY 1999-00**

Council Contingency Reserve is funded at 1% of General Fund operating expenditures. The Emergency Reserve will be fully funded (8% of operating expenditures) by year four of the forecast in accordance with the 1996 LTFP.

**Forecast pertains to the General Fund only**

## Factors Not Included In The Forecast

- 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 or enhanced programs are included in the forecast.
- The future impact of decisions made in the County restructuring effort are unknown at this time, thus decisions that may impact City finances are not included in the forecast. For example, there will be a financial fallout if San Clemente were to operate the County Library and if utility consolidation should occur.
- Major new development projects are not incorporated into the financial forecast.

**No new or enhanced programs are included**

**Revenues are projected to increase average of 3.6%**

## General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.6%, compared to an historical five year growth rate of 3.8%.

**Property Tax revenue is projected to increase an average 4.2%**

- Property Tax revenue is projected to increase an average of 4.2% per year compared to a -2.3% average historical decrease over the past five years
- Construction permits are projected to decrease from a historical average of 19.6% to 8.2% per year for the forecast period.
- Service Charges are projected to increase an average of 4.5% per year compared to a -0.6% average historical growth rate over the past five years.
- Fines are projected to increase an average of 6.4% per year compared to a -3.7% average historical growth rate over the past five 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 from FY 1990-91 to FY 1994-95.

# Long Term Financial Plan

- **1995 Forecast Growth Rate:** Average annual rate of growth projected for the five years as indicated in the 1995 forecast.
- **1996 Projected Growth Rate:** Average annual rate of growth projected for the current five year forecast

## General Fund Growth Rate

Historic Growth Rate	3.8%
1995 Projected Growth Rate	2.9%
1996 Projected Growth Rate	3.6%

**A steady recovery is predicted throughout the entire forecast**

The 1996 forecast provides for a slightly higher overall improvement in the economic recovery than was projected in the 1995 forecast.

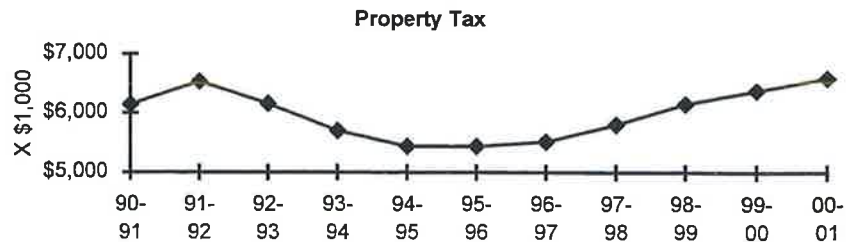
## Property Tax

Historic Growth Rate	-2.3%
1995 Projected Growth Rate	3.8%
1996 Projected Growth Rate	4.2%

**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 continues to be the City's single largest revenue source and represents 26% of the total General Fund budgeted revenue. Over the past three years the City has realized an actual \$1.1 million reduction in Property Tax receipts, as a result of the net shift in revenues from the City to the State and decline in property valuation.

Property Tax revenues are anticipated to gradually increase throughout the forecast period, however, it will take until FY 2000-01 for property tax revenues to reach the same level achieved in FY 1991-92.



# Financial Forecast

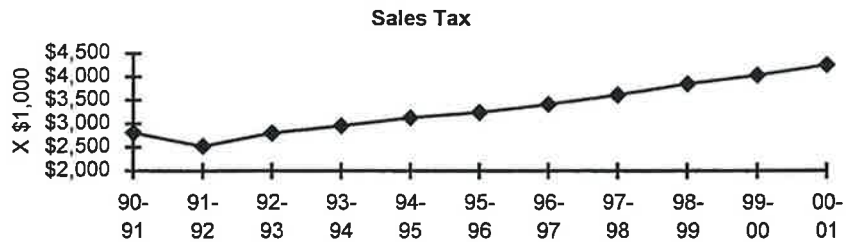
## Sales Tax

Historic Growth Rate	2.3%
1995 Projected Growth Rate	5.4%
1996 Projected Growth Rate	5.4%

Sales tax is one of the City's most economically sensitive revenue sources, and although it was greatly impacted in FY 1991-92 by the economic recession, sales taxes have increased over the past few years. The implementation of Proposition 172 in FY 1993-94 also contributed to the growth of the Sales Tax revenue category by generating an additional \$200,000 in revenue in FY 1995-96.

**Sales tax revenue is anticipated to grow an average of 5.4% in the forecast**

The average annual projected sales tax growth rate of 5.4% is considerably more than the five year historical average of 2.3%, but is the same projected growth rate as the prior year's forecast. 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, 1995.



## Transient Occupancy Tax

Historic Growth Rate	9.1%
1995 Projected Growth Rate	2.9%
1996 Projected Growth Rate	2.9%

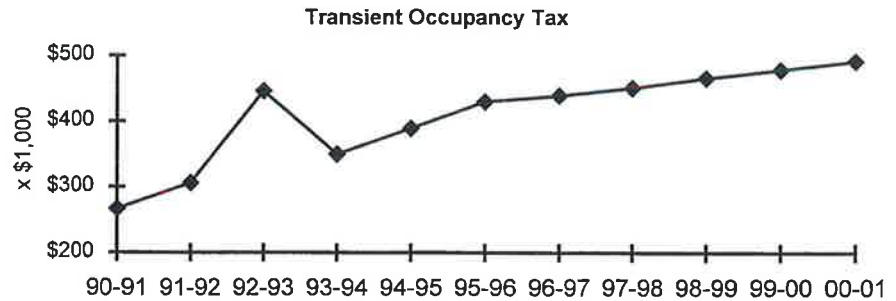
Transient Occupancy Tax is an added charge against room rates at local hotels. It is another elastic revenue source affected by swings in the economy.

**TOT is projected to increase an average of 2.9% growth**

The average growth rate of this revenue source for the five year forecast period is projected at 2.9% 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, 1995.



# Long Term Financial Plan



## Licenses and Permits

Historic Growth Rate	15.5%
1995 Projected Growth Rate	8.8%
1996 Projected Growth Rate	5.6%

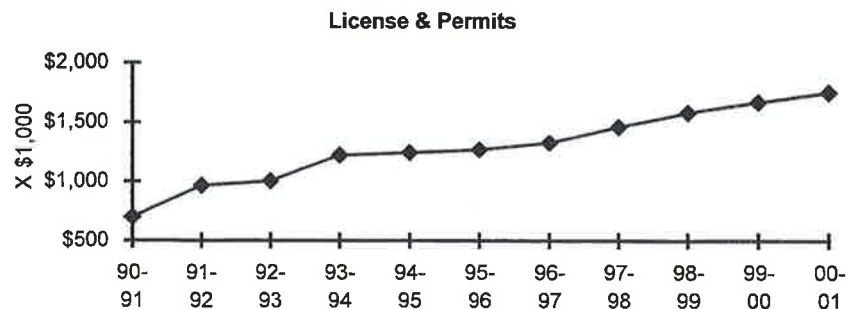
Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as animal licenses and taxi cab permits.

**Licenses and Permit revenue is projected to grow an average of 5.6% annually**

In the 1996 forecast, revenues in this category are expected to rebound from the recent recession and achieve average annual growth of 5.6% over the forecast period compared to the historical growth of 15.5%. The projection for this category has declined from the prior year's forecast primarily due to reductions in development activity.

**Construction Permits are anticipated to grow by 8.2%**

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to meet budget estimates for the current 1995-96 fiscal year, and are expected to continue to grow at an average annual rate of 8.2% during the forecast period, as the commercial and residential housing market continues to improve. Although the annual forecast of 8.2% for construction permits is down from the prior years estimate of 16%, positive growth is still anticipated, but at a slower pace. Annual growth estimates are based on a combination of the Chapman University annual economic forecast and City of San Clemente Community Development Department.





# Financial Forecast

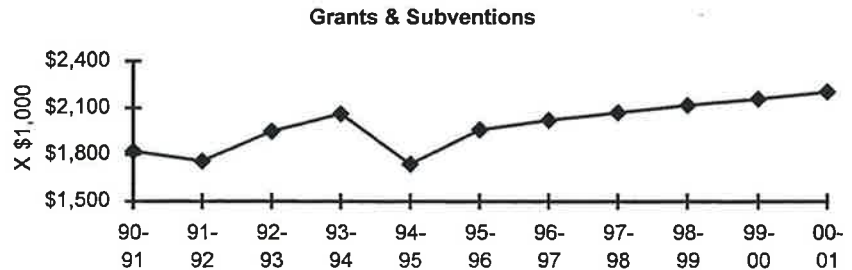
## Grants and Subventions

Historic Growth Rate	-0.9%
1995 Projected Growth Rate	3.8%
1996 Projected Growth Rate	2.5%

**Grants & Subventions, predominantly Motor Vehicle In Lieu Tax, is projected to grow at a 2.5% rate**

The predominant source of revenue in this category is Motor Vehicle Tax. Grants and Subventions revenues are projected to grow at a rate of 2.5% over the forecast period, compared to an historical growth rate of only -0.9%.

Motor Vehicle Tax revenues are projected to increase by 2.3% and are based on 50% of expected inflation plus 100% of anticipated population growth.

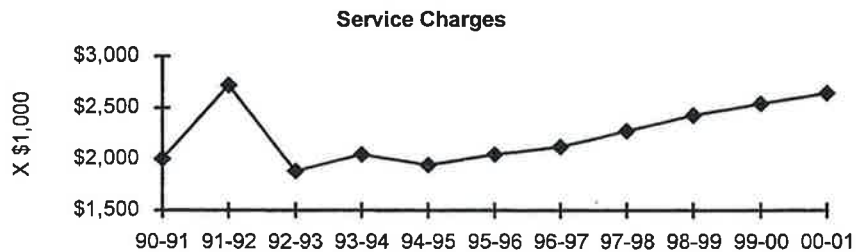


## Service Charges

Historic Growth Rate	-0.6%
1995 Projected Growth Rate	4.9%
1996 Projected Growth Rate	4.5%

**Service Charges show a historic growth rate of -0.6%. Projected growth rate = 4.5%**

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 4.5% over the forecast period, compared to the recent historical average growth of -.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.



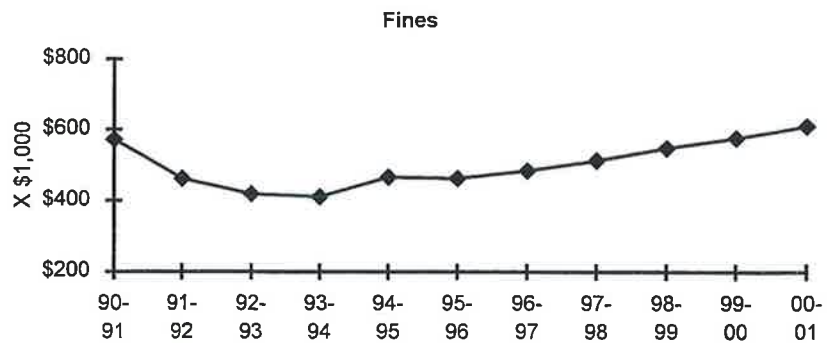
# Long Term Financial Plan

## Fines

Historic Growth Rate	-3.7%
1995 Projected Growth Rate	6.1%
1996 Projected Growth Rate	6.4%

**Revenue for Fines is forecast at 6.4%**

The Fines category consists of all fines levied by the City for vehicles, alarms, and other fines. Parking violations is the largest single item in this category and makes up 76% of this revenue category. The average growth rate for the five year forecast period is 6.4% per year, and is based on 100% of expected inflation plus 100% of anticipated population growth.



## Interest And Rents

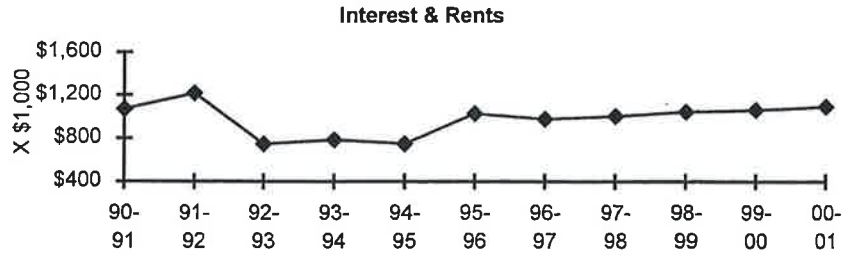
Historic Growth Rate	-6.0%
1995 Projected Growth Rate	4.3%
1996 Projected Growth Rate	1.2%

**Interest and Rents revenue will rebound from a negative growth rate of -6% to 1.2%**

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 1.2% for the five year forecast period. This is in contrast to the average historical -6.0% decrease over the previous five years.

Projections for the forecast period anticipate a decrease in interest earnings that are anticipated to average -3.1% due to a decrease in interest rates during the forecast period. Projections for other revenues in this category are based on a combination of inflation, population growth and personal income growth. Increased radio and telephone communications needs are projected to generate increased demand for the City's communication sites.

# Financial Forecast

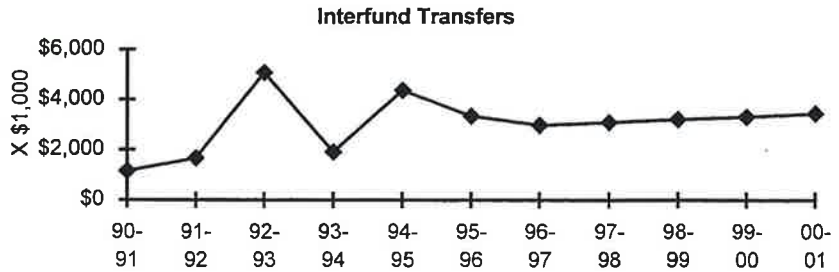


## Interfund Transfers

**Historic growth of 55.93% is due to one time revenues related to contracting of City services**

Historic Growth Rate	55.9%
1995 Projected Growth Rate	-4.3%
1996 Projected Growth Rate	0.6%

This revenue category is comprised predominantly of overhead charges (\$2.5 million) assessed by the General Fund to other operating funds of the City that are self-supporting. Other revenues that make up this category include transfers from other funds, such as Disaster Relief and Gas Tax. The Gas Tax transfers are projected to average almost \$400,000 per year during the forecast period. The Interfund Transfers category is projected to average 0.6% over the five year forecast period. This small growth rate is largely the loss of the one revenues from Disaster Relief and other funds. Projections are based on 100% of inflation plus 100% of anticipated population growth.



# Long Term Financial Plan

## General Fund Expenditures

Historic Growth Rate	0.4%
1995 Projected Growth Rate	3.9%
1996 Projected Growth Rate	2.9%

**The average expenditure rate is projected at 2.9%**

**Projected expenditures presume that service levels in effect in fiscal 1995-96 will remain constant**

Projected expenditures presume that service levels in effect in FY 1995-96 will remain constant. The 1995-96 base year expenditure level reflects three years of operational cutbacks, and contracting of public safety services resulting in the elimination of 164 positions. The reduction in growth rates from the 1995 forecast to the 1996 forecast is due to the transfer of Fire Services to the County, which has lowered the overall General Fund costs.

The 1996 projection from the base year is based on inflation and personnel costs are based on 90% of inflation for cost of living salary increases. Also included is the projected addition of one employee per year over the forecast period.

## Salaries and Wages

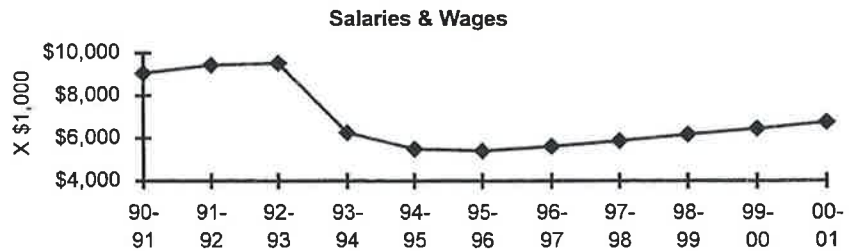
Historic Growth Rate	-7.8%
1995 Projected Growth Rate	4.5%
1996 Projected Growth Rate	5.0%

**The historic growth rate for Salaries and Wages is -7.8%**

**Personnel costs are projected to average 5.0%**

The forecast projections assume the addition of one full-time position 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 Salaries and Wages is 5.0% for the five year projection.



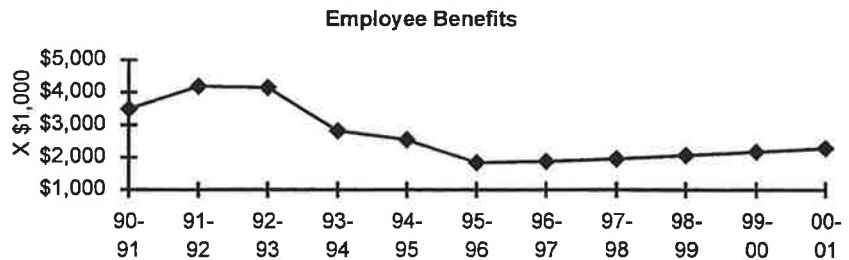
# Financial Forecast

## Employee Benefits

Historic Growth Rate	-5.4%
1995 Projected Growth Rate	-2.6%
1996 Projected Growth Rate	4.8%

**Employee Benefits are projected to increase by 4.8%**

The employee benefits category reflects an average projected growth rate of 4.8% for the forecast period. The historical average is -5.4% for this category as a result of contracting public safety services to the County and other functions formerly performed by City staff. The 1995 projected growth rate was due to the fact that benefit levels were anticipated to decline when fire services were contracted. This is not reflected under the 1995 salary projected growth rate since severance payments were expected to be paid from salary accounts.



## Contractual Services

Historic Growth Rate	30.6%
1995 Projected Growth Rate	4.2%
1996 Projected Growth Rate	2.7%

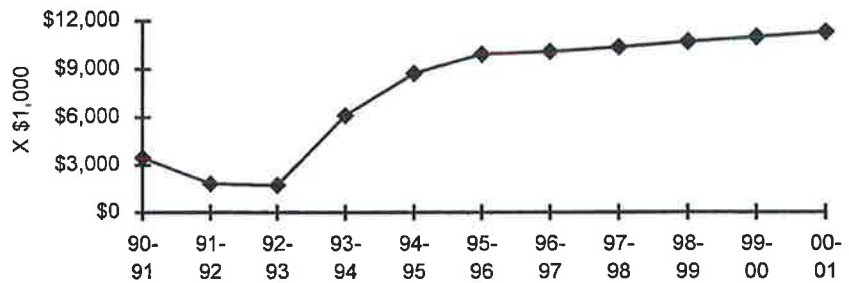
**Contractual Services represent 45% of General Fund expenditures**

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 2.7% over the forecast period, well below the historical average of 30.6%. The historical average reflects both Police, Fire and other services changing from internal operations to contractual services. The growth rate in contractual services category is based on projected inflation for the forecast period.

# Long Term Financial Plan

Contractual Services



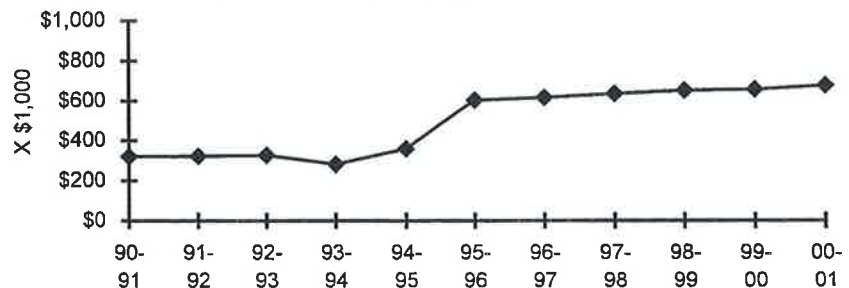
## Other Charges

Historic Growth Rate	2.4%
1995 Projected Growth Rate	18.3%
1996 Projected Growth Rate	2.9%

**Other Charges will increase by 2.9% 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. Also this expenditure category includes the Council Contingency reserve account. Funding 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 2.9% over the forecast period, slightly higher than the historical average of 2.4%. These projections are based on 100% of inflation.

Other Charges



## Capital Outlay

Historic Growth Rate	-18.9%
1995 Projected Growth Rate	-5.1%
1996 Projected Growth Rate	-13.7%

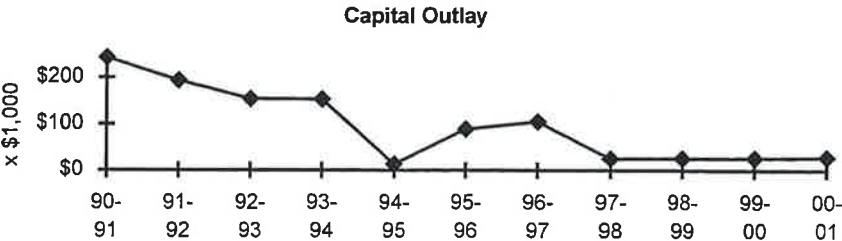
**The projected growth rate for Capital Outlay is -13.7%**

For purposes of this forecast, Capital Outlay includes funding of only \$89,000 for minor new and replacement equipment purchases as currently budgeted in the FY 1995-96 budget. An allocation of \$80,000 for Civic Center rehabilitation has been included in the first year of the forecast along

# Financial Forecast

with \$25,000 for the purchase of new and replacement equipment. Forecast projections for this category are based only on inflation, resulting in an average annual decrease of -13.7% for the five year forecast as a result of the \$80,000 projected in FY 1996-97 for Civic Center rehabilitation, which is eliminated in FY 1997-98.

The one time allocation of \$3 million for the purchase of the Negocio property is not indicated on the chart in FY 1992-93 as it does not allow for a valid comparison of capital expenditures.

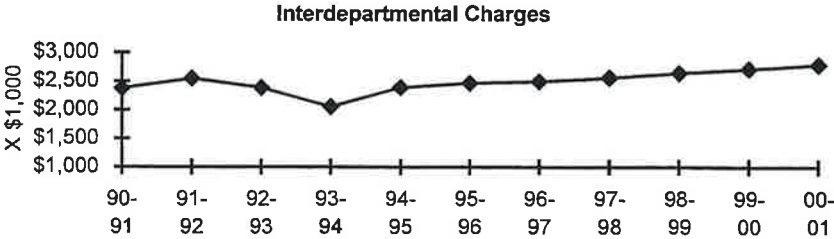


**Interdepartmental Charges**

Historic Growth Rate	0.2%
1995 Projected Growth Rate	3.8%
1996 Projected Growth Rate	2.6%

**Interdepartmental Charges are projected to increase by 2.6%**

Interdepartmental Charges are for services provided by other funds such as fleet services for use of vehicles. This category is projected to average a 2.6% increase over the five year forecast, compared to an historical average of 0.2% over the past five years. The low historical average is due to the change in contractual services that were formerly provided internally resulting in a corresponding reduction in interdepartmental charges for services.



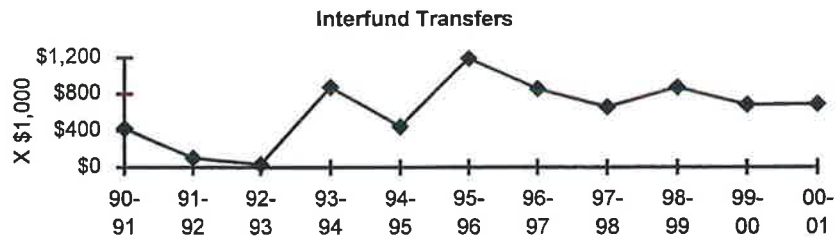
# Long Term Financial Plan

## Interfund Transfers

Historic Growth Rate	1.1%
1995 Projected Growth Rate	9%
1996 Projected Growth Rate	-7.3%

**Interfund Transfers will decrease by 7.3% over the forecast period**

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Fund, 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 -7.3% due to the decrease in transfers to the Street Improvement Fund from the base year FY 1995-96. This decrease continues due to reductions in transfers to the General Liability fund and the Worker's Compensation fund in year four. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.





## Objective

To review the City's Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

## Background

A review of the City's Council adopted Fiscal Policy is conducted on an annual basis in conjunction with the preparation of the Long Term Financial Plan. This review is performed in order to document proposed new policies identified through the preparation of the Long Term Financial Plan. Additionally, as circumstances change, there is sometimes a need to modify existing fiscal policy statements.

Following are proposed changes to the current Fiscal Policy:

**1. Long-Term Debt Policies:** This change is to correct a typographical error as identified.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues	The City will confine long-term borrowing to capital improvements that cannot be <u>funded</u> from current revenues

**2. Accounting, Auditing & Financial Reporting:** Due to changing legal and disclosure requirements for bond issues, an addition to the language relating to bond disclosure is proposed:

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
Full disclosure will be provided in the general financial statements and bond representations.	Full <u>and continuing disclosure</u> will be provided in the general financial statements and bond representations.

**3. Investment Policies:** Although the City has an adopted Investment Policy, the following language is proposed in the Investment Policy section of the Fiscal Policy at the suggestion of the City's bond counsel:

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	<u>The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document</u>

# Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
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)	√	
<b>Expenditure Policies</b>		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
<b>Utility Rates and Fees</b>		
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.	√	
<b>Capital Improvement Budget Policies</b>		
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.	√	
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.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	

Fiscal Policy Statement	Status	Comments
<b>Short-Term Debt Policies</b>		
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.	√	
<b>Long-Term Debt Policies</b>		
The City will confine long-term borrowing to capital improvements that cannot be funded 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.	√	
<b>Reserve Policies</b>		
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 Emergency Reserve = \$1.03 million or 5% 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 = 1% 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.	√	Accrued Leave Reserve at \$75,000
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 = \$110,000
The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonable foreseen during the preparation of the budget.	√	

# Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
<b>Investment Policies</b>		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City’s moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
<b>Accounting, Auditing &amp; Financial Reporting</b>		
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.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing 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.	√	
Maintain a liquidity ratio of at least 1:1	√	

**Legend:**

- √ Budget Complies with Fiscal Policy Standard
- Fiscal Policy Standard is not met in adopted Budget

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## **Fiscal Policy**

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

***Additional copies may be purchased at City Hall  
100 Avenida Presidio  
San Clemente, CA 92672***

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# Long Term Financial Plan

## Financial Forecast Summary- 1992-93 to 1997-98 (000 omitted)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Base Budget Shortfall Per Forecast		\$1,800	\$2,411	\$2,586	\$2,776	\$3,052	\$12,625
Storm Drain Capital Projects		(214)	(214)	(214)	(214)	(214)	(1,070)
<b>Base Budget Shortfall - Adjusted</b>		<b>1,586</b>	<b>2,197</b>	<b>2,372</b>	<b>2,562</b>	<b>2,838</b>	<b>11,555</b>
Projected Revenue Shortfall - 1992-93	508						508
CIP:							
Storm Drains		492	467	423	336	823	2,541
Streets		1,875	2,000	2,000	2,100	2,100	10,075
ADA		50					50
<b>Total CIP</b>		<b>2,417</b>	<b>2,467</b>	<b>2,423</b>	<b>2,436</b>	<b>2,923</b>	<b>12,666</b>
Reserves Requirements:							
Workers Comp		321	321	321	321	321	1605
Liability		448	448	448	448	448	2,240
Leave		75	50	50	50	50	275
<b>Total Reserves</b>		<b>844</b>	<b>819</b>	<b>819</b>	<b>819</b>	<b>819</b>	<b>4,120</b>
<b>Projected Shortfall - Subtotal</b>	<b>508</b>	<b>4,847</b>	<b>5,483</b>	<b>5,614</b>	<b>5,817</b>	<b>6,580</b>	<b>28,849</b>
State Budget Impact		1,500	1,500	1,500	1,500	1,500	7,500
<b>Total Annual Projected Shortfall</b>	<b>\$508</b>	<b>\$6,347</b>	<b>\$6,983</b>	<b>\$7,114</b>	<b>\$7,317</b>	<b>\$8,080</b>	<b>\$36,349</b>

### Expenditure Reduction Options

Although over \$2.4 million has been cut from the General Fund Budget over the past year, several alternatives for reducing costs can be identified. The alternatives outlined in the table below do not presume any major service level or program reductions.

- **Organizational Adjustments: (\$500,000)** Organizational adjustments will involve a number of potential cost saving options, including: instituting cost control measures in the fringe benefit area, e.g. worker's compensation, leave and medical plans; adopting all streamlining measures and organizational changes recommended as a part of the Long Term Financial Plan; conducting a salary and benefit analysis and proposing appropriate changes; and examining privatization and contracting

options. Many of these changes will be made this year, others will be incorporated into the 1993-94 Budget, and, lastly, meet and confer issues will be negotiated with employee associations throughout this year.

- **Sheriff Contract Option: (\$2,000,000)** The option of contracting for police services with the Orange County Sheriff's Department is included in this section as a potential cost saving measure. The complete Sheriff's proposal, along with a report from the San Clemente Police Department is included in Volume II of the Long Term Financial Plan. Included in the savings in 1994-95 and beyond is the approximate amount required to fund the previously negotiated 2% at age 50 retirement option for sworn Police personnel.

### Expenditure Reduction Options (000 omitted)

Category	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Organizational Adjustments	\$500	\$518	\$536	\$555	\$574	\$2,683
Sheriff Contract Option	2,000	2,157	2,157	2,157	2157	10,628
<b>Total</b>	<b>\$2,500</b>	<b>\$2675</b>	<b>\$2,693</b>	<b>\$2,712</b>	<b>\$2,731</b>	<b>\$13,311</b>



# City Manager Letter of Transmittal

## Honorable Mayor and Council members:

For the past two years the City Council has reviewed mounting evidence supporting the conclusion that San Clemente's fiscal condition is slipping into a crisis situation. A persistent recession has resulted in a rapidly declining local economy having a direct and immediate impact on the City organization. Emergency spending restrictions have been imposed on City operating departments for most of the past two successive years. This has resulted in deferred repair and replacement of equipment, reduced employee training and hiring freezes.

As a result of the fiscal 1992-93 budget process, permanent cost cutting measures were employed. Approximately 12.5 full-time positions were eliminated. Salaries and benefits for all employees, except sworn Police and Fire personnel, were frozen or reduced. Numerous General Fund (tax supported) programs were cut back or eliminated. These actions resulted in a net reduction of \$1.8 million from the proposed annual budget.

Conditions worsened shortly after adoption of the City budget when the State directed that \$605,000 in City revenue would be shifted to the State to help resolve their financial crisis. This action resulted in the deletion of another 12.4 positions and further program cuts.

The result is a negative budget impact in the current fiscal year amounting to \$2.4 million (12% of total General Fund). All primary operating programs remain in service; however, staff levels have been reduced by 25 positions since July of 1992 (8% of total employment).

On September 24, 1992 the City Council acknowledged that these measures, while necessary, were creating negative impacts on operating efficiencies, employee morale and service delivery capabilities. Recognizing that the dismal performance of the local economy was not likely to improve in the near term, the City Council directed the City Administration to prepare a 'Long Term Strategic Financial Plan.'

The wisdom of directing such an analysis cannot be challenged, since the City's economic condition has worsened significantly even in the past three months. Our analysis concludes the following: The City continues to suffer from a declining revenue base resulting from a lingering recession; Due to competing interests within the General Fund, critical reserves (workers compensation, liability, etc.) have been underfunded by \$5 million; Likewise, unfunded General Fund supported capital needs (street and storm drains) now require a minimum of \$2.5 million per year to achieve acceptable standards, and our economic forecast predicts that the City's operating position, assuming no program adjustments, will reflect deficits ranging from \$1.8 million to \$3 million in each of the next 5 years. To make matters worse, the State budget crisis continues. The Governor's initial budget proposal includes an additional \$1.5 million shift of property tax revenue from San Clemente to fund State programs. This loss, when combined with the Fiscal Year 1992-93 impact, results in an approximate \$2 million loss to the City which will be felt in perpetuity.

The following strategic plan is intended to serve as a tool, providing Council and the public with the insight required to address a financial crisis of the magnitude described above. The City Council has correctly assessed that short term solutions, deferred funding commitments and stretching existing resources are no longer viable alternatives. The time for decisive leadership and difficult decision-making has arrived. This plan contains an analysis of the problems we face, projections for our future if remedies are not employed and alternative solutions to set a more positive course for the City organization and our community.

None of the proposed "solutions" will be accepted without challenge. Each option will result in a negative response from an element in this community because each option will contain distasteful impacts. However, not dealing with our financial reality will result in ramifications unacceptable to all.

I would like to take this opportunity to thank all staff members and outside advisors who assisted in completing the

# Financial Summary

## Financial Summary

This Long Term Financial Plan has focused on trend analysis for the past five years and has presented a five year financial forecast so that the City can adopt a comprehensive strategic plan for the future. The Financial Summary section which follows will:

- Point out position and program reductions that were implemented over the past year.
- Describe the City's current financial situation based on revenue projections for the remainder of this fiscal year (1992-93).
- Present the base forecast results along with identified capital project and reserve needs so that the full magnitude of the problem can be recognized.
- Outline revenue and expenditure reduction options that the Council can consider in addressing the City's financial condition.

### **Expenditure Reductions - 1992-93**

Over the course of the last year the City has significantly reduced expenditure levels as a result of the City's declining revenue base. Two major efforts were undertaken last year to identify programs or positions that could be eliminated in order to avoid tax or fee increases. The first review was done by a Council appointed Blue Ribbon Committee and resulted in a General Fund savings of approximately \$1.8 million. The second process was necessitated by the State diversion of over \$604,500 in City property tax revenue resulting in cutbacks totaling over \$600,000.

A total of over \$2.4 million, or 12% of General Fund expenditures, has been saved as a result

of these actions. A detailed listing of these expenditure reductions is contained in volume II of the Long Term Financial Plan.

Position Reductions (25 positions)	\$1,077,814
<u>Program Reductions</u>	<u>\$1,348,984</u>
<u>Total Reductions</u> (12% of General Fund)	<u>\$2,426,798</u>

### **Current Financial Condition**

As a result of the continuing local recession, General Fund revenues are once again falling well below original budgetary projections. The table below indicates that the revenue shortfall, based on six months of actual data and updated departmental estimates, may total over \$708,000. Although only 45% of the expenditure budget had been expended as of the end of the second quarter, it is anticipated that the level of expenditures will sharply increase as a result of the recent storm. In fact, the entire \$200,000 in contingency reserve has been appropriated and we will undoubtedly have to tap the Rainy Day Reserve as well. Thus, without imposing expenditure restrictions, it is anticipated that only \$200,000 will be available to cover the revenue shortfall which means that the City will be approximately \$508,000 in the red.

The Administration will be meeting with each department over the next few weeks as a part of the mid-year budget review process in order to, first, analyze the extent of the problem and, second, develop a strategy for dealing with this potential revenue gap.



## **The Challenge**

In 1992, the City of San Clemente faced a financial crisis brought about by a rapidly declining local economy and the State raid of an annual \$2.0 million of City revenue. Although spending restrictions had been placed on the City's operating departments for the past two years and permanent cost cutting measures had been implemented, the City faced a \$2.4 million (12% of total General Fund) deficit in the 1992-93 fiscal year.

The City was suffering from a declining revenue base and a lingering recession. Due to competing interests within the General Fund, critical reserves (Workers' Compensation and General Liability) had been underfunded by \$5 million and other reserves (contingency and emergency) were used to cover the revenue shortfall. General Fund capital improvements (aging streets and storm drains) remained unfunded and were deteriorating to a dangerous level, further eroding property values.

Recognizing that the local economy was not likely to improve in the near term, City Council directed the preparation of the City's first Long Term Financial Plan (LTFP). City Council realized that short term solutions such as deferred funding commitments and stretching existing resources were not viable alternatives. A financial strategic plan was needed to analyze the problems faced by the City organization and the community and to set a more positive course for the future.

The City's first Long Term Financial Plan focused on trend analysis for the past five years and presented a five year financial forecast so that the City could adopt a comprehensive strategic plan for the future. The financial forecast projected that the City's operating position, assuming no program adjustments, would reflect deficits ranging from \$1.8 million to \$3 million in each of the next five years.

The LTFP also presented recommendations and alternative solutions to the financial problems facing the City. The "solutions" were not without controversy or accepted by all elements of the community. However, the direction provided as a result of the LTFP discussions set the stage for the City's financial recovery.

## **The Solutions**

The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan. 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 - Issues Papers includes the complete issue analysis conducted by staff in the development of the financial plan.

The Long Term Financial Plan process is graphically described below:

### *Build the Foundation*

The foundation of the plan is the five year trend analysis and the five year forecast. The trend analysis examines a number of financial indicators that are designed to measure the fiscal health of the City. Financial indicators are analyzed in accordance with the City's adopted fiscal policies and help to identify areas where policies need to be revised or implemented.

The five year forecast is developed using a baseline environment, where revenues and expenditures are projected based primarily on growth patterns or inflation factors and the City's present level of services. The forecast projections provides a picture of the City's future operating position and reflects the City's ability or inability to meet expenditure requirements with available revenues.

### *Identify Critical Issues*

The 1996 LTFP represents the fourth financial strategic plan presented to the City Council. Over the past four years, the following financial issues have been analyzed during the LTFP process:

Specific goals and objectives are developed for each of the critical issues and project teams are formed to prepare option papers to analyze the issues. From the issues analysis, very specific and practical recommendations are presented to City Council for deliberation.

### *Develop the Plan*

A public meeting is held to discuss the financial status of the City and the proposed LTFP recommendations. Actions taken by City Council on past recommendations have resulted in a noteworthy improvement in the City of San Clemente's financial condition. The 1993 Plan addressed the shortfall through contracting City services (Police Department), establishment of a storm drain utility, reorganization, downsizing and streamlining of major departments and salary and benefit reductions. A funding plan to replenish depleted or nonexistent reserves was established. Additionally, the Council reestablished the City's economic development program in order to concentrate on business retention and commercial attraction.

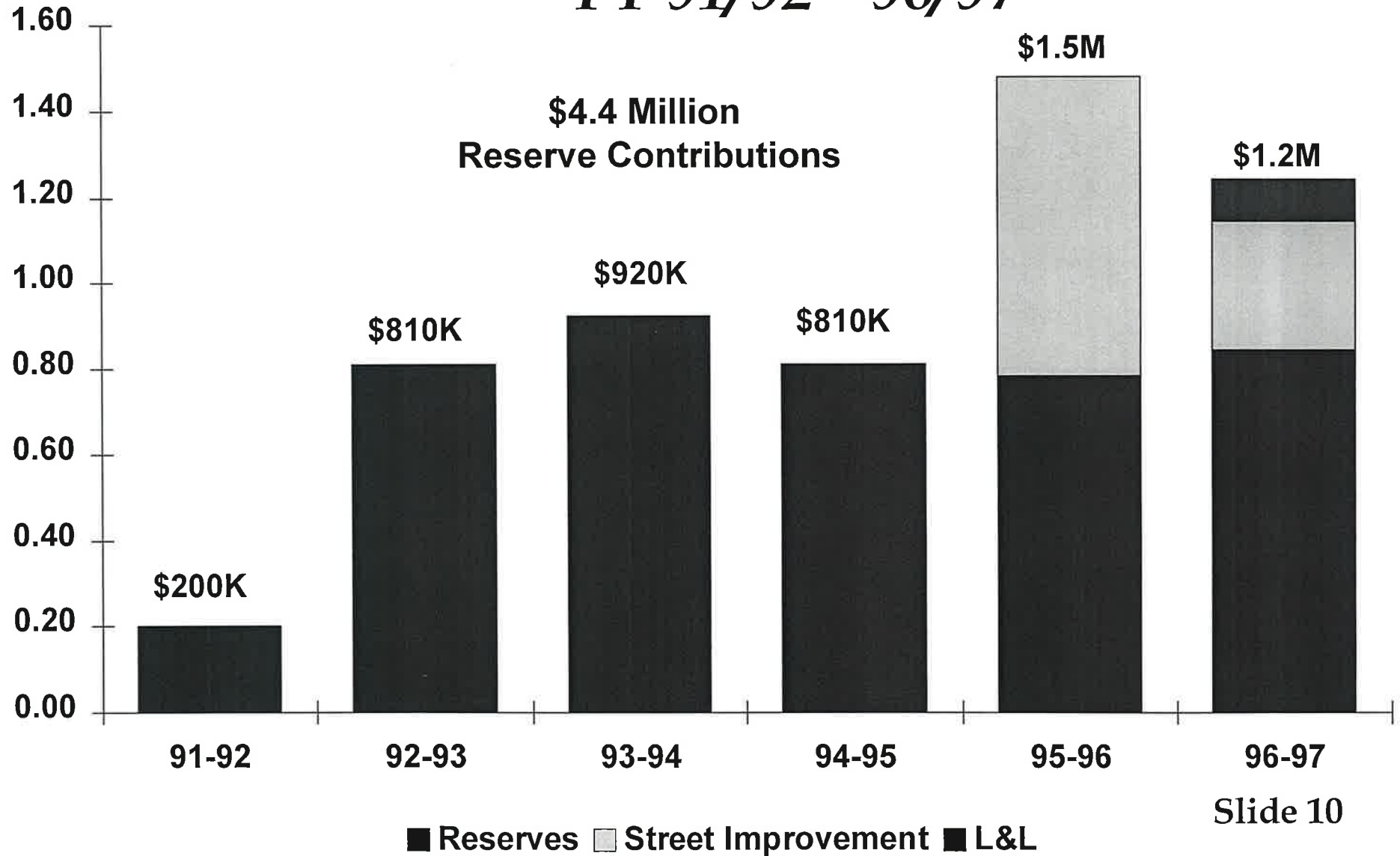
The 1994 LTFP continued the contracting of City services with the City's Fire Department, fleet maintenance services, meter reading, street striping and beach/park maintenance with regional agencies or private companies. City employees agreed to a new medical benefit package, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost allocation plan was implemented to recover General Fund costs. Council also established a wellness program and began funding of a capital equipment replacement reserve fund to meet future capital equipment needs.

The 1995 Long Term Financial Plan addressed the failing street infrastructure and a recommendation to form a \$55 million Street Improvement Program was adopted by the City Council. Funding for the program was provided by the General Fund with other restricted funds contributing to street improvements. A Street Assessment District was also formed to provide the remaining funds for the Street Improvement Program. City Council committed to an annual review of the Street Improvement Program and the feasibility of General Fund or Gas Tax Fund transfers to lower or eliminate the need for the assessment. Additional actions adopted by Council included a revised classification and compensation system, dedicated funds to unfunded public safety retirement liabilities and continued funding of reserves.

The 1996 LTFP continued the funding of reserves and addressed the transition of the City organization

# *Reserve Contributions*

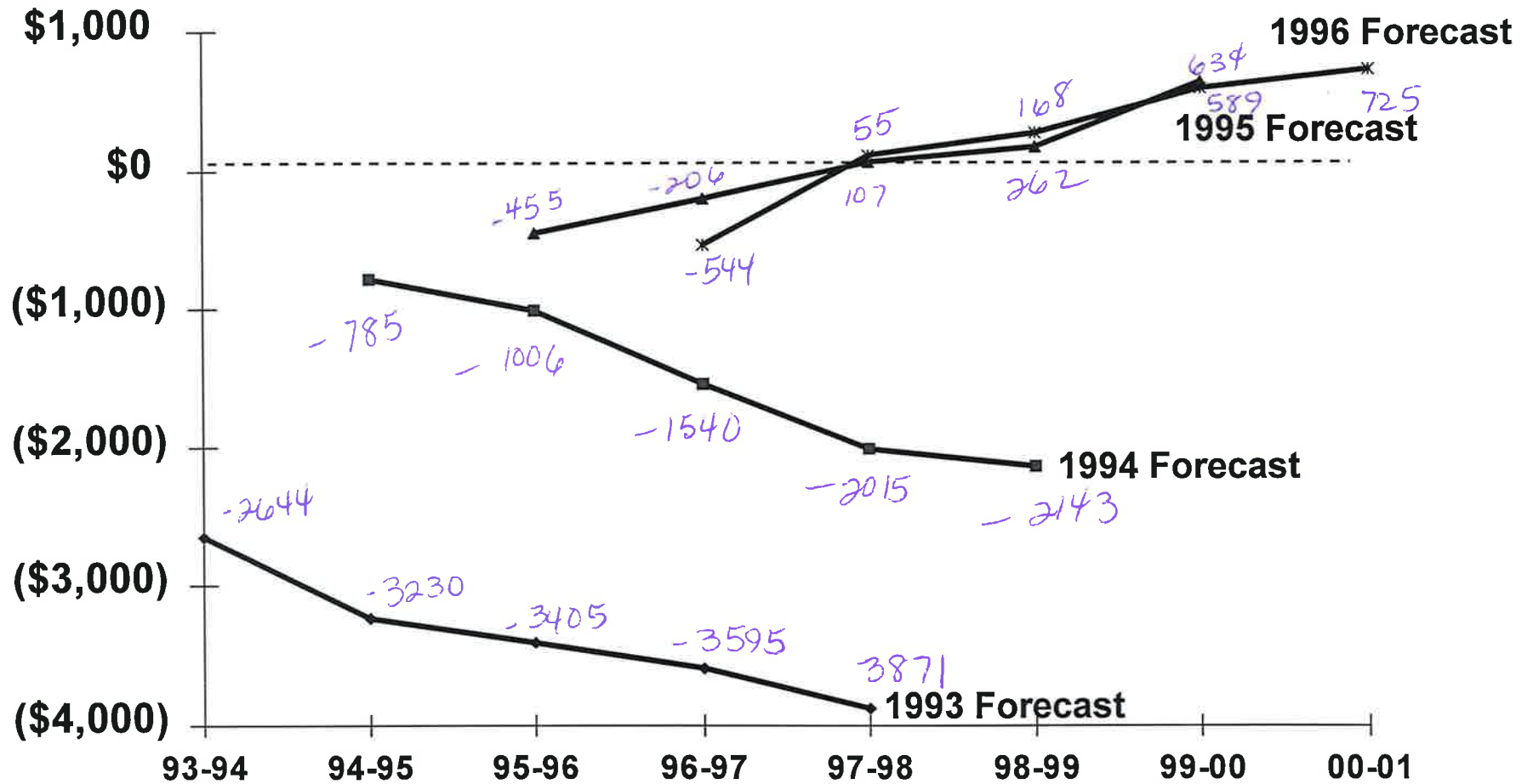
## *FY 91/92 - 96/97*





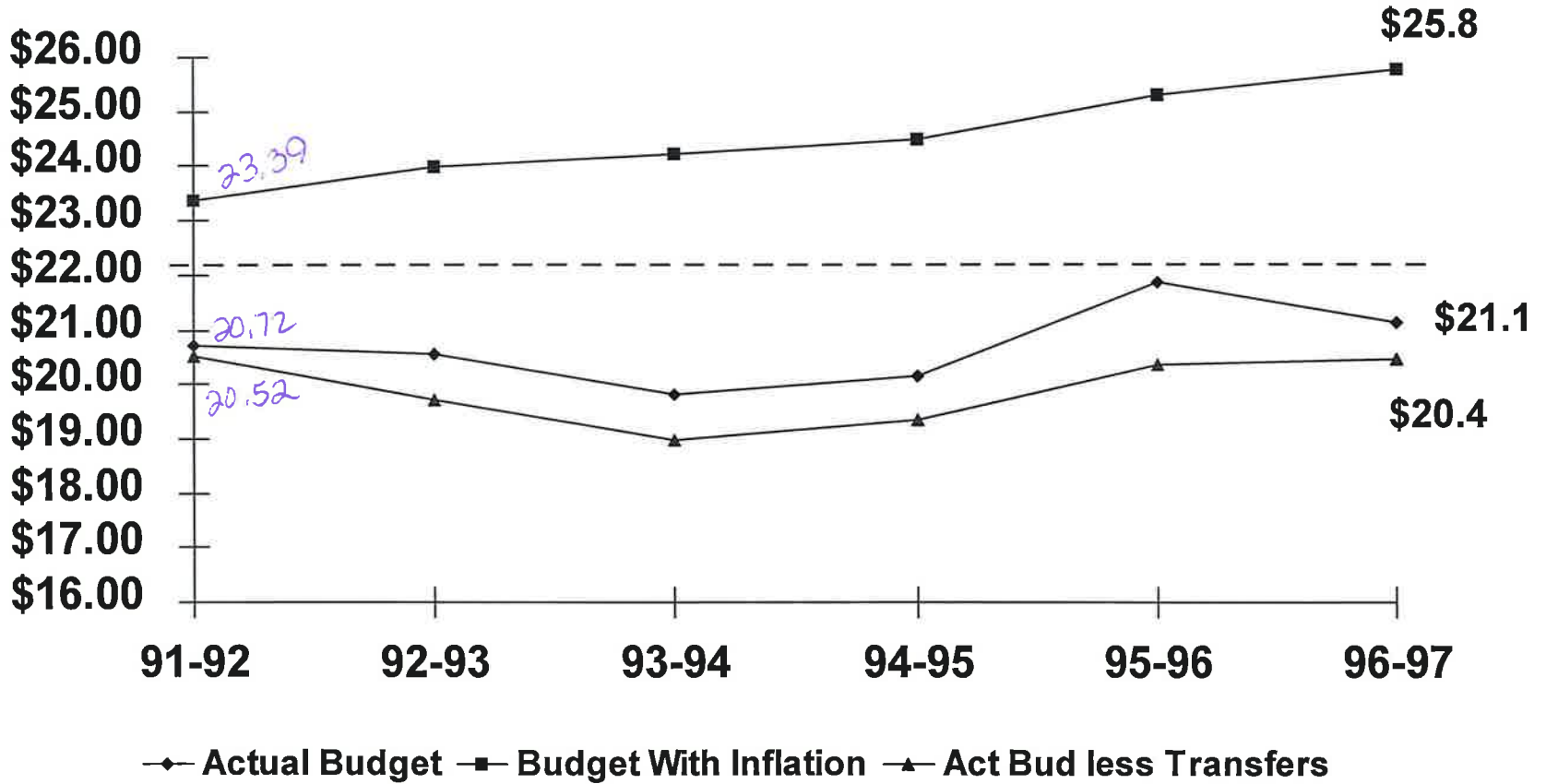
# Financial Forecast

## Forecast - 1996





# Financial Summary - Historical Budget Comparison



90-91 22.49

# Long Term Financial Plan

## Major Revenue Shortfalls

Fiscal Year 1992-93

<i>Revenue Source</i>	<i>Adjusted Budget</i>	<i>Current Projection</i>	<i>Revenue Overages (Shortages)</i>
Property Tax	\$6,409,000	\$6,460,000	\$51,000
Sales Tax	2,700,000	2,650,000	(50,000)
Transient Occupancy Tax	400,000	310,000	(90,000)
Property Transfer Tax	200,000	150,000	(50,000)
Motor Vehicle Tax	1,500,000	1,420,000	(80,000)
Construction Inspection Fees	150,000	75,000	(75,000)
Engineering	80,000	12,000	(68,000)
Reimbursements			
Ambulance Subscriptions	155,000	51,310	(103,690)
Jail Inmate Services	50,000	-	(50,000)
Other Police Service Charges	85,000	20,000	(65,000)
Parking Meters	250,000	310,000	60,000
Vehicle Code Fines	125,000	61,000	(64,000)
Steed Park Complex	90,000	24,000	(66,000)
Other Revenues	6,989,950	6,932,550	(57,400)
<b>Total Revenues</b>	<b>\$19,183,950</b>	<b>\$18,475,860</b>	<b>\$(708,090)</b>



# Financial Summary

## Forecast Summary

The following table summarizes all major factors that will seriously impact the financial future of the City unless decisive action is taken to address the critical needs outlined in this document. These issues have all been discussed in previous sections of this report and detailed documentation is provided in Volume II of the Long Term Financial Plan.

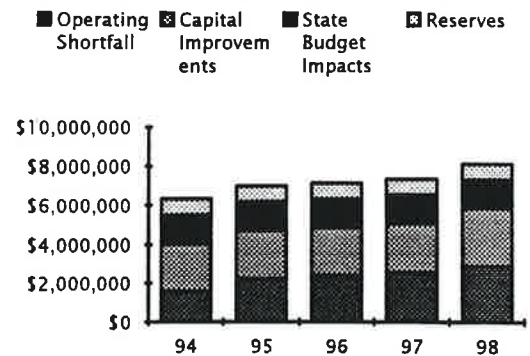
- **Base Budget Shortfall Per Forecast:** The base budget shortfall indicated below is the outcome of the Five Year Financial Forecast which was prepared by the Finance Department. Assumptions used in preparing the forecast are listed in the Financial Forecast section of this report.
- **Base Budget Shortfall - Adjusted:** The amount allocated in current and future year budgets in the Forecast is backed out so that the total required allocation for storm drain projects, per the City's Capital Improvement Program, can be included under the CIP section below (Storm Drains).
- **Projected Revenue Shortfall:** The projected current fiscal year budget shortfall as outlined in the Current Financial Condition section above.
- **Capital Improvement Projects:** This includes the total amount of funds that need to be allocated for critical storm drain and street rehabilitation projects as described in the CIP section of this report and Volume II of the Long Term Financial Plan. This does not include storm drain repairs for storm related damage in January 1993.
- **Reserve Requirements:** If funded at the recommended level, unfunded reserves in

the Worker's Compensation and Liability funds will be fully funded by 1997-98.

- **Projected Shortfall - Subtotal:** A subtotal is provided to indicate the amount of the projected shortfall assuming that property tax revenue is not diverted from San Clemente to the State as expected.
- **Potential State Budget Impact:** The City is fully anticipating that the State of California will once again raid City coffers in order to balance their own budget. The latest estimate indicates that up to \$1.5 million in property tax revenue will be diverted to the State. This does not include any diversions of Redevelopment Agency funds or other intergovernmental revenue sources such as motor vehicle excise taxes, etc.
- **Total Annual Projected Shortfall:** The total annual projected shortfall including full funding of capital projects, reserves, and potential State diversions.

The major components of the table are depicted graphically below:

## Forecast Summary





# Financial Summary

## Revenue Options

Included in the table below are seven revenue options that were examined in detail by the Finance Department. A complete description of these potential revenue sources is contained in

Volume II of the Long Term Financial Plan and includes: Implementation issues; Potential revenue amounts; Survey results indicating what other cities currently assess or collect for the various revenue types.

Revenue Type	Implementation Requirements	General Fund Savings	Potential Annual Revenue	Estimated Per Unit Charge	Orange County Cities
Storm Drain Utility	City Council Vote	\$250,000	\$508,000 (a)	\$1.90/mo.	1
Transfer Street Sweeping to Enterprise Fund	City Council Vote	\$130,000	\$130,000	\$.35/mo.	1
Utility Tax	City Council Vote		\$514,000/ 1%	\$5.97/mo. (3%) \$9.68/mo. (5%)	30
Transfer Traffic Signal & Beach Maintenance to Lighting & Landscaping Fund	City Council Vote	\$443,000	\$443,000	\$2.00/mo.	1
Assessment District - Street Maintenance	City Council Vote		\$2,015,000 (a)	(b)	0
Assessment District - Storm Drains	Public Vote (Majority)	\$250,000	\$508,000 (a)	(b)	1
Property Tax Override	Public Vote (2/3)		(c)	(c)	1

- (a) Average annual amount required to fund projects over 5 year period.  
 (b) Annual assessment costs to be determined by levels of benefit.  
 (c) Amount of revenue generated established by ballot measure.

## Revenue Descriptions:

### Storm Drain Utility

#### Description:

- Allows a municipality to charge fees for the construction, maintenance, and operation of its storm sewers.
- Establishes a separate enterprise fund which would operate in a manner similar to the water and sewer funds already in place.
- Fees are collected through the bi-monthly utility bill.

#### Analysis:

##### Pro's

- Requires two-thirds City Council approval.
- General Fund Savings of \$250,000
- Stable revenue source for Storm Drainage costs (Approx. \$508,000)

##### Con's

- Not assessed on benefit
- Revenue only used for construction, maintenance, and operation of storm drains.
- No exemptions
- Public acceptance

### Transfer Street Sweeping to Enterprise Fund

#### Description:

- The City may transfer the costs associated with the Street Sweeping Program to an Enterprise Fund.
- Funded by a 70 cent surcharge on the bi-monthly sewer service charge (if transferred to the Sewer Fund).