1996
Long Term Financial Plan

Volume II

City of San Clemente

Cover design by Paul Gavin

City of San Clemente

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

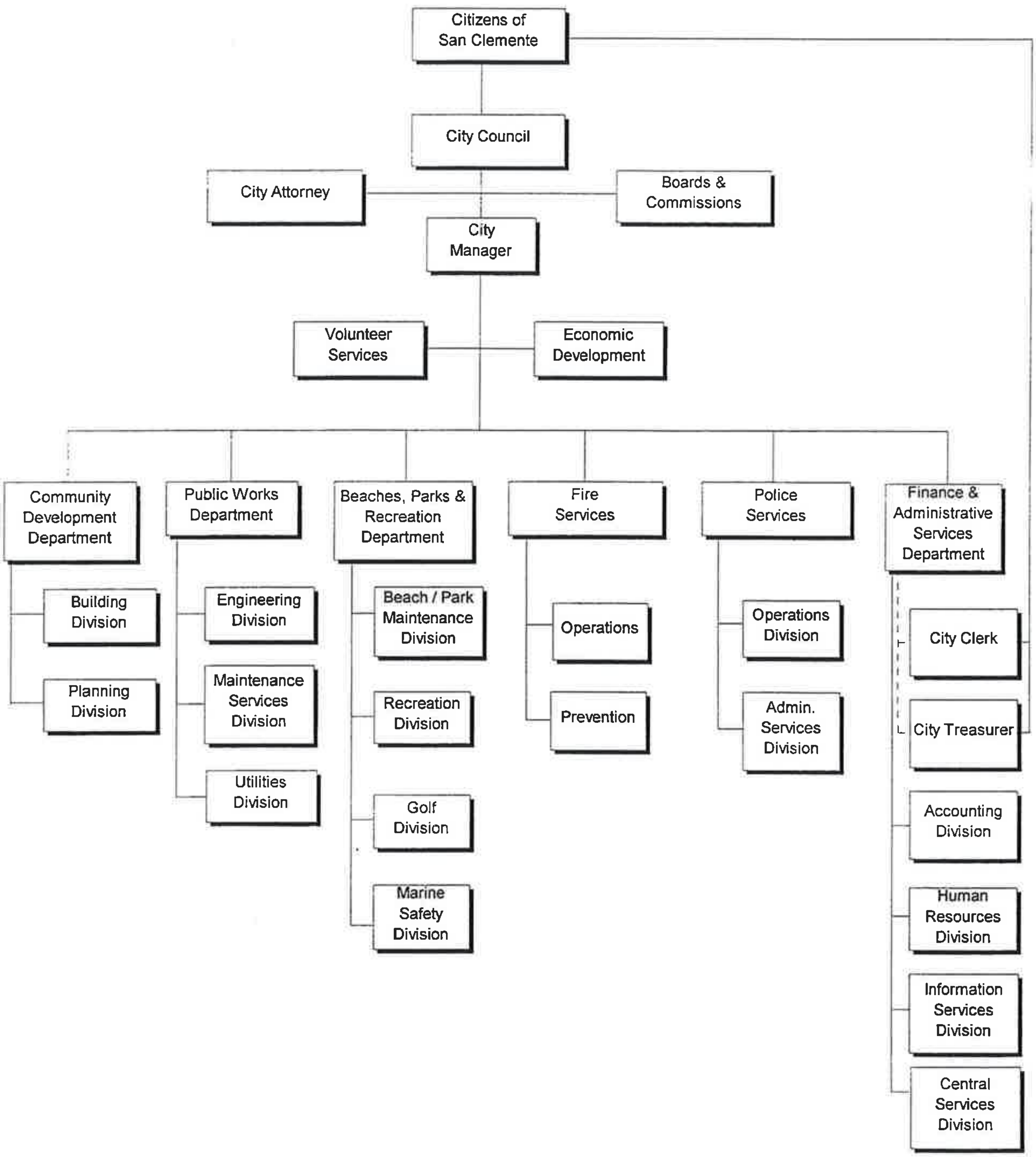
Department Directors

• 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

City Organizational Chart



Project Teams

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 Hindiyeh, Engineering

Public Works Strategic Plan
Mike Sorg, Public Works, Project Lead
Public Works Management Team

Pension Analysis
Paul Gudgeirsson, F&AS, Project Lead

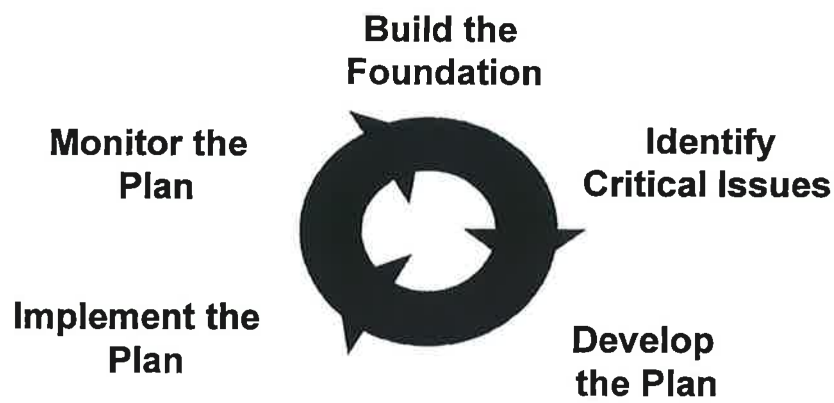
Flexible Benefit Plan Analysis
Marsha Payne, F&AS, Project Lead

Cost Recovery System
Kumi L. Johnson, F&AS, Project Lead

Computer Action Plan
Larry K. Moore, F&AS, Project Lead

Introduction

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: This volume, published under separate cover, 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

It should be used as a companion volume to this document.

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

Long Term Financial Plan - Issue Papers: This volume of the Long Term Financial Plan, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. The issues outlined on the following pages were analyzed as a part of the 1996 Long Term Financial Plan process:

Long Term Financial Plan

Financial Trend Analysis

Objective:
Utilizing the International City Manager's Association (ICMA) Financial Trend Monitoring System, update the comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed. Ratings assigned to each trend include: Favorable (F), Unfavorable (U) or Warning (W).

Financial Forecast

Objective
To update the 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

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.

Lighting and Landscape Fund Analysis

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

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.

Public Works Strategic Plan

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

Pension Analysis

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

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.

Cost Recovery System

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

Computer Action Plan

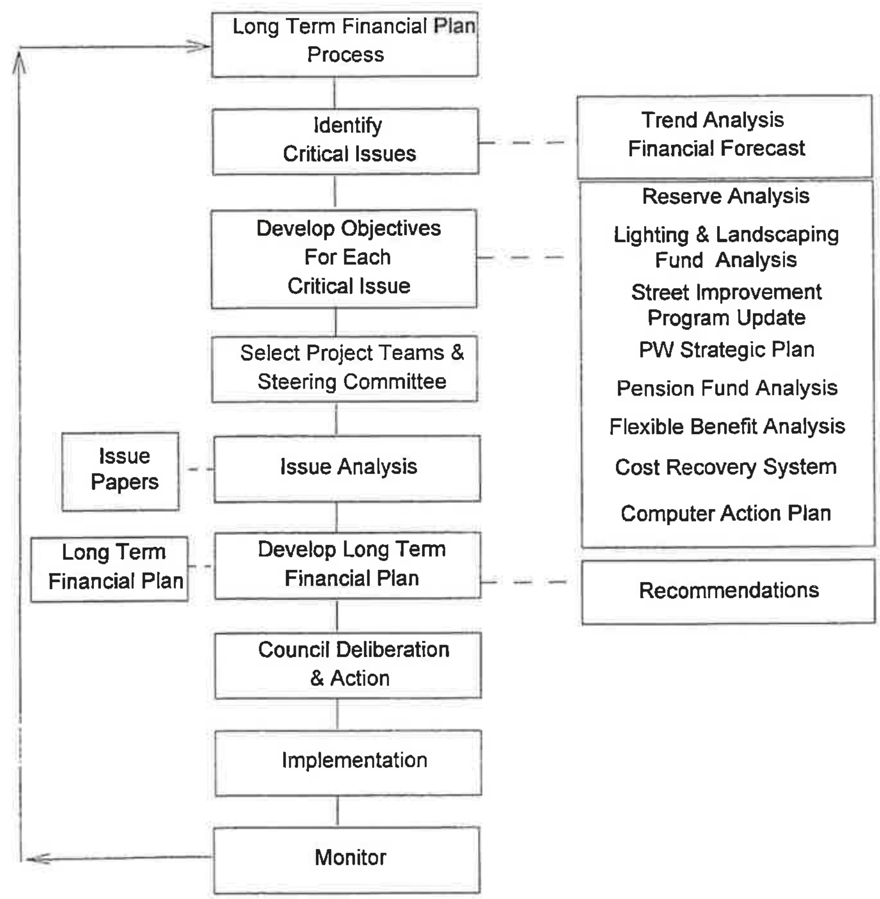
Objective
To adopt, in concept, the City's updated action plan for Management Information Services. The goals of the ongoing Action Plan are threefold:

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*

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's comprehensive Long Term Financial Plan. This project was conducted largely by City staff. In fact, over 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. Assistance was also provided on the Reserve Analysis, Lighting & Landscaping Fund Analysis and Overhead Analysis from Moreland & Associates. Including the Project Director, there were 9 project leaders each assigned to teams addressing a specific critical issue.



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.

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. Rating assigned to each trend includes: Favorable (F), Unfavorable (U) or Warning (W).

Background
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 financial health of the City of San Clemente. Some of the factors which are analyzed include:

- The state of the local and regional economy;
- Revenue yields and whether they are sufficient to support a moderately growing population;
- Expenditure levels and whether they are providing for the public well being and safety of the residents of San Clemente;
- 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 condition of the City of San Clemente.

This is the City's fourth annual trend analysis report which again focuses almost entirely on the City's General Fund. Several recommendations were identified and implemented in the 1993, 1994 and 1995 Long Term Financial Plans in order to strengthen the General Fund's financial condition. The City Council's actions in several critical areas have helped in significantly improving the financial condition of the City's General Fund. Recommendations that were implemented by Council include:

- Full implementation of the cost allocation plan was accomplished in FY 1994-95, whereby General Fund services to other funds are fully recovered through a sophisticated system of general fund overhead charges.
- A Capital Equipment Replacement Reserve Fund was established in FY 1994-95 to provide a funding source for the replacement of existing fixed assets as equipment & machinery become unserviceable or obsolete.

- An Accrued Leave Reserve Fund was set up in FY 1994-95 in order to determine an adequate level of funding for accrued employee benefits. This will ensure that reserves are funded in order to pay for employee retirements and terminations.

- A Street Improvement Program was established in FY 1994-95 as recommended in the 1994 Long Term Financial Plan. This program is designed to address the City's deteriorating local street system over the next 18 years. A total of $2.4 million, including a direct contribution of $700,000 from the General Fund, was contributed by the City in FY 1995-96.

- A centralized volunteer program was set up to effectively utilize volunteer support for City programs. Community volunteers have contributed countless hours in the areas of code enforcement, community relations, animal shelter, and youth programs. This continued effort has saved the City many thousands of dollars over the past fiscal year.

- An economic development program has been established and is being constantly evaluated to improve the economic development climate within the City to provide long term financial stability. Areas of concentration have included the design and distribution of a marketing brochure and the evaluation of financing programs to attract new commercial investors to the City of San Clemente.

- A classification and compensation study was conducted and implemented for all City positions in order to bring the City's classification specifications and compensation plan in line with other similar agencies.

- Contracting of fire services to the Orange County Fire Authority in FY 1994-95 further reduced General Fund costs by $733,000 in the first year and an estimated total of $2.1 million over five years.

- Contracting of police services to the Orange County Sheriff that eliminated 78 positions and saved $1.4 million in the General Fund and saved the City $2.1 million across all funds in FY 1993-94.

- Establishment of a storm drain utility fund that reduced the General Fund budget for storm drain maintenance by $250,000 in FY 1993-94.

- Reorganization of City departments, the streamlining of operations and the contracting of various City services resulted in the elimination of 162 positions from FY 1991-92 to FY 1995-96.

- Reduction in City paid medical insurance premiums by $508,000 in FY 1993-94.

- Additional contributions made towards the under funded reserves of workers' compensation and general liability. The general emergency reserve balance increased to $779,640 at June 30, 1995 with additional contributions of $250,000 budgeted in FY 1995-96.

- Additional costs were avoided through benefit reductions and the implementation of an unpaid work furlough for two consecutive years. The furlough was continued in FY 1994-95 with days off charged to leave accounts.

- Contracting of fleet services, water meter reading, park and beach maintenance, street striping and marking to third parties for an estimated first year savings through FY 1994-95 of $488,000 and is projected to save the City a total of $2.4 million over five years.

This report analyzes the effects of these changes on the City's current financial condition and makes further recommendations on improving the General Fund's financial condition. It will again analyze the fiscal condition in three major areas of the General Fund:

General Fund Revenues	The accumulation of financial resources that fund those services which have the greatest impact upon the citizens of San Clemente including police, fire, recreation, and street maintenance.
General Fund Expenditures	The application of financial resources towards the cost of providing the services of police, fire, recreation, street maintenance, and other services.
General Fund Operating Position	The ability of the City to balance current revenues with current expenditures, maintain adequate reserve levels, and to cover short-term liabilities.

Also included within this report is a section covering additional indicators that ultimately affect General Fund operations.

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. This report examines data from FY 1990-91 through FY 1994-95 and combines information from Annual Budgets, Comprehensive Annual Financial Reports, Annual State Controller's Reports, and the International City's Managers Association (ICMA) Trend Monitoring System in assessing operating results. Financial indicators have been analyzed in accordance with the City's adopted fiscal policies and national standards. One of the following ratings has been assigned to each indicator:

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

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

Warning: This rating indicates that a trend has **changed** from a positive direction and is going in a direction that may have an **adverse** effect on the City's financial condition. The City also uses this rating to indicate that, although a trend may appear to be favorable, it is not yet in conformance with adopted fiscal policies.

The following sections provide detailed insights into the City of San Clemente's FY 1994-95 General Fund operating position.

Overview of The Financial Condition

As evidenced by the trend indicators in the analysis section of this report, the financial condition of the City of San Clemente continues to show an upward trend toward financial health. Several revenue categories increased and continue to show signs of ongoing growth. For FY 1994-95, the revenue categories that show increases from the prior fiscal year include sales tax revenue ($171,000), licenses and permits ($20,000), and one-time revenues ($315,000). Additionally, revenues per capita show a positive trend for the first time in three years and revenues per capita excluding one-time revenues show the most significant increase in the past five years.

On the down side, revenues which show a decline from FY 1993-94 include property tax revenues ($258,000), and community development service charges ($101,000). Also, actual FY 1994-95 revenues were less than budget by $189,000 or 0.9%, however, actual revenues increased by 10.3% from FY 1993-94 to FY 1994-95.

On the expenditure side of the equation, General Fund expenditures totaled approximately $570,000 less, or 2.7%, than that budgeted in FY 1994-95. Included in total expenditures were transfers from the General Fund to continue to fund reserves within other funds. These 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). Also on a positive note, expenditures per capita increased in both constant and actual dollars compared to the prior year. The net effect of the outlined changes in revenues and expenditures was an increase in the ending General Fund fund balance bringing the year-end fund balance to approximately $2.2 million ($1.3 million unreserved, $136,000 OCIP reserves, and $780,000 emergency reserves).

Like most California cities, the City's financial condition continues to be greatly affected by the loss of revenues through unfunded state and federal mandates and the diversion of property tax revenues from the City to the state ($1.2 million annually). Additionally, property values are declining as evidenced by the drop in property tax revenues. However, despite these factors, the financial condition of the City, as measured by the City's adopted fiscal policies and national standards, continues to improve due to an improved economy, long term financial planning, and adherence to the City's fiscal policies.

In evaluating the financial health of the City, it is necessary to re-examine the underlying factors affecting financial condition. This analysis reveals that most of the past problem areas, which have been addressed by previous Long-Term Financial Plans and by Council, have shown great improvement. Although there are still several weaknesses in the City's current financial condition, an improving economy, combined with the positive impacts of implemented cost reduction measures, should result in a continuation of improvements in the City's financial picture.

- The City's **revenue base** is growing and, as a result of Council's actions from prior Long-Term Financial Plans, appears to be at a level sufficient to maintain existing service levels. Through the process of contracting and privatization, the City has been able to enhance service levels including critical public safety services. To evidence this growth, the total operating revenues of the City have grown 22 percent from FY 1990-91 to FY 1994-95.

- The City's dependency on **elastic revenues** continues to impact General Fund operations. Although there is evidence of growth in the local economy, elastic revenues, as a percentage of operating revenues, decreased 2.1% from the prior fiscal year. Even though elastic operating revenues increased $142,000, total operating revenues also increased by $1.9 million. Thus, the decline in percentage of elastic revenues to total revenues. As discussed further in the section on elastic revenues, several elastic revenues actually increased for the year, including sales taxes, transient occupancy taxes, in-lieu taxes and licenses and permits. The City Council's continued commitment to the funding of emergency reserves will help safeguard against any future short-term unforeseen economic downturns that may have an effect on elastic revenues.

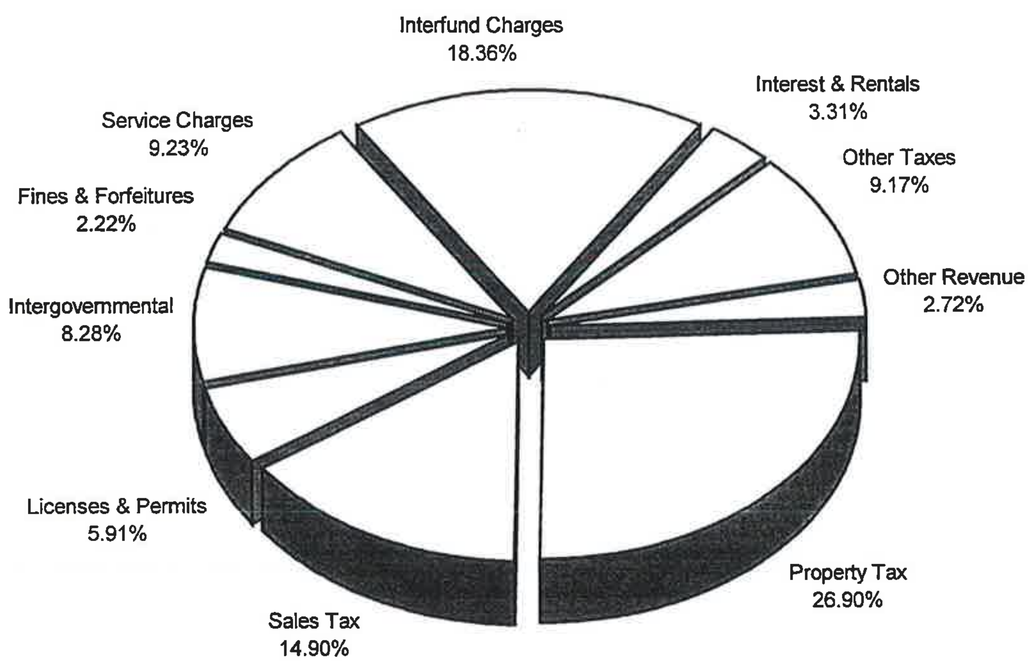
- The effect of **reducing expenditures** because of an economic downturn usually jeopardizes the operations of a City. However, the City of San Clemente has significantly reduced expenditure levels while maintaining and, in fact, enhancing service levels. This has largely been accomplished by resorting to contracting and privatization, operational improvements, organizational streamlining, and reduced benefit and salary levels. Staffing levels have decreased to 188 full time positions in FY 1994-95, from 352 in 1991-92. Again, these measures have allowed the City to maintain and enhance City services, while keeping costs at levels comparable to FY 1990-91.

General Fund Operating Results - Revenues

The City's financial condition continues on an upward trend of improvement. Increased revenues top the list of reasons for this improvement in the City's overall financial condition. Revenues for FY 1994-95 were 10.3% higher than in 1993-94. Of the $1.9 million increase in revenues from the prior year, one-time revenues increased $315,000. However, even though actual General Fund revenues were approximately $21 million, this amount is $189,000 less than the amount budgeted in FY 1994-95 which resulted in a lesser fund balance than originally projected.

As demonstrated below, the predominant revenue source of the General Fund is taxes. This includes property, sales and other taxes that comprise 50% of total FY 1994-95 General Fund revenues.

1994-95 Operating Revenues By Source



Of the total amount of General Fund tax revenue, sales and property taxes represent the largest source of revenues. The City receives 1% of the total 7.75% in sales tax generated within the City limits, with 6.25% distributed to the State and 0.5% to the County under Measure M for street improvements. In FY 1994-95, the property tax of the typical resident of San Clemente was apportioned to local governments with school districts receiving 69.3%, special districts receiving 6.8%, the County 8.6%, the Redevelopment Agency 2.4%, and the City receiving 12.9%.

One significant change in sources as a percentage of revenues is the increase in interfund charges from 10% in FY 1993-94 to 18.36% in FY 1994-95. This source shows a significant increase as the full cost allocation plan (fully implemented in FY 1994-95) attempts to recover all General Fund charges for services from the funds receiving the benefit of the services.

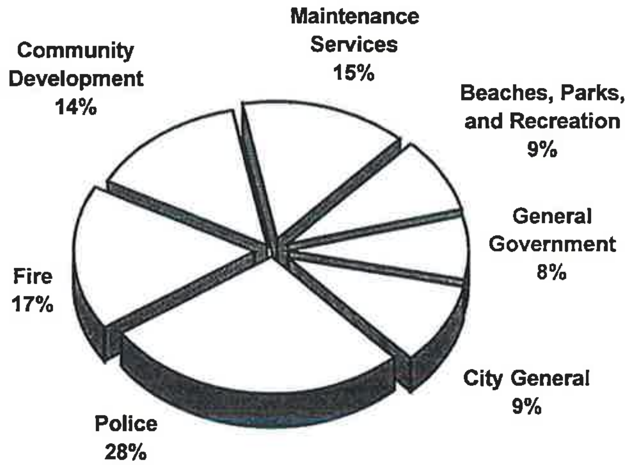
General Fund Operating Results - Expenditures

Expenditures in the General Fund represent the largest portion of the total operating costs for the City. In FY 1994-95, general operating expenditures increased by $1.4 million or 7.2%. An analysis of expenditure trends reveals that several major areas of concern in prior years are being monitored. The City's General Fund is helping to fund a street improvement program and continuing to fund reserve deficiencies in other funds (Workers' Compensation and General Liability) in FY 1995-96. In regards to these deficiencies in reserves, the City is gaining ground on the funding of reserves although the City is still short of funding them to levels sufficient to see it through a prolonged economic slump. The City's General Fund Emergency Reserve is on target with the current funding at 5%, well on its way to the projected 8% by FY 1999-00. As noted, the continued additional funding needs provided to the City's self insurance funds (Workers' Compensation and General Liability) is also gaining ground in the elimination of negative fund balances and the establishment of proper reserve levels. The City is attaining levels set out in the schedules to fund these critical reserves.

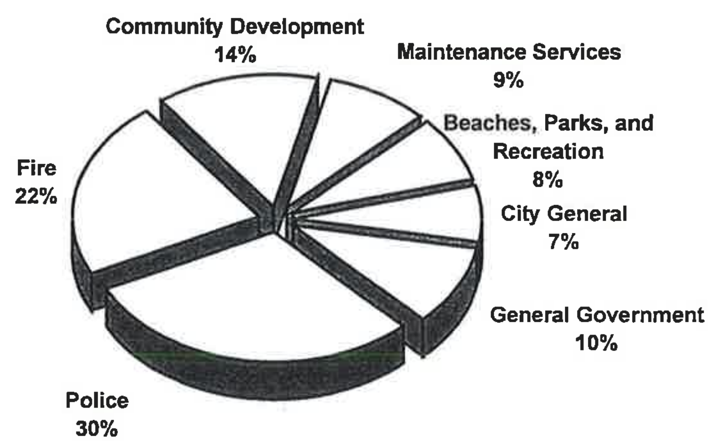
Long Term Financial Plan

The following charts describe the allocation of expenditures both by department and category from FY 1990-91 to FY 1994-95.

Comparison of Expenditures By Department - 1990-91 vs. 1994-95



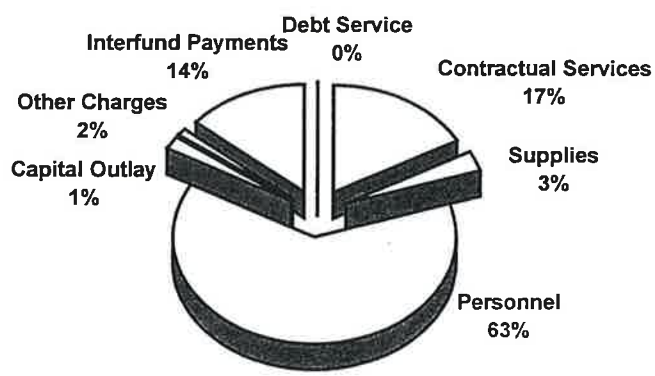
Percentage of Expenditures By Department
1990-91



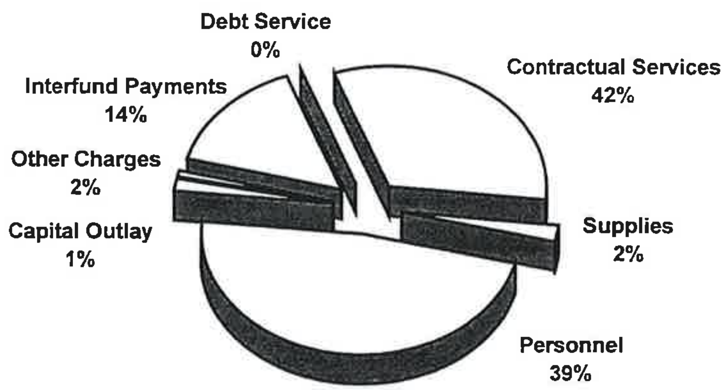
Percentage of Expenditures By Department
1994-95

As depicted in the charts above, a significant shift in General Fund resources occurred from FY 1990-91 to FY 1994-95. In FY 1994-95 public safety accounted for 52% of expenditures whereas only 45% was expended in FY 1990-91. Not shown in the chart is that Police Services and Fire Services were contracted to the County of Orange since FY 1990-91 and the expenditure level actually declined considerably from the prior fiscal year. In addition, maintenance services as a percentage of total expenditures has decreased from 15% in FY 1990-91 to 9% in FY 1994-95. This decrease has been accomplished by transferring the annual storm drain maintenance and improvement costs to the Storm Drain Utility Fund and by contracting fleet maintenance, park and beach maintenance, and street striping and marking. All other percentages have remained relatively level over the past five years.

Comparison of Expenditures by Category- 1990-91 vs. 1994-95



Percentage of Expenditures By Category
1990-91



Percentage of Expenditures By Category
1994-95

These charts above 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% in FY 1990-91 to 42% in FY 1994-95. The compensating increase and decrease is because during the past three years personnel costs have been replaced with contractual services by means of contracting out police and fire services to the County of Orange, and as outlined above, the contracting of fleet maintenance, and other maintenance services such as beach and park maintenance.

In summary, because of the aggressive and positive actions taken by the City Council over the past four years and the continued implementation of the Long Term Financial Plan, the financial condition of the City's General Fund continues to stabilize. This is evidenced in the significant increase in General Fund revenues over the past five years (22% increase) and the continued maintenance of level expenditures as service levels continue to remain high. The net effect of these conditions is an increased fund balance in the General Fund to $2.2 million. This continued financial stability also allows the General Fund to fund its emergency reserves and contribute to the reserves of other funds and assist in the funding of the street improvement program.

General Obligation Debt

According to California State law, the City's legal debt capacity for general obligation indebtedness is equal to 3.75% of total assessed property values within the City, or $145.8 million. The City's only current general obligation debt is $3,710,000 at June 30, 1995, for certificates of participation issued on June 1, 1993. This debt was issued to finance the acquisition and improvements of the three story 56,988 square foot building located at 910 Negocio, San Clemente. Debt service payments are completely subsidized through the leasing of office space.

Summary of Trends

The following pages contain a listing of the many indicators analyzed and a brief summary of the trend assigned to each and if a change has occurred in that trend from the prior year.

Summary of Trends

Indicator Number	Description	Trend	Comments
General Fund Revenues			
1.	Revenues Per Capita	F	Revenues per capita reflected slight increases in both actual and constant dollars in FY 1994-95 excluding one-time revenues and is at the highest level in five years. Rating changed from unfavorable to favorable for revenues per capita - excluding one time revenues.
2.	Property Tax Revenues	U	Property tax revenues evaluated over time reflect a steady increase up until FY 1992-93 which dropped significantly and continued to drop through FY 1994-95. This is a result of decreasing property values and a 9% State mandated property tax shift. Rating unchanged from prior year.
3	Sales Tax Revenues	F	Sales tax revenues increased 5.8% in actual dollars, 3.5% in constant dollars in FY 1994-95, and this represent levels higher than any of those over the past five years. Rating unchanged from prior year.
4	Licenses & Permits	F	License and Permit Revenues reflect a 1.7% increase over the prior year in actual dollars. This represents the fourth straight year of increases. Rating unchanged from prior year.
5	Com. Dev. Service Chgs.	U	Community Development Service Charges in actual dollars decreased 13.1%, or $101,000 from 1993-94 and is still significantly below the levels reached five years ago. Rating unchanged from prior year.
6	Elastic Revenues	F	Elastic revenues decreased 2.1% from FY 1993-94 however, elastic revenues represent only 28.3% of operating revenues. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Long Term Financial Plan

Indicator Number	Description	Trend	Comments
7	One-Time Revenues	F	One-time revenues increased $315,000 in FY 1994-95 over FY 1993-94. One-time revenues are expected to dwindle in the future and the City will continue to apply one-time revenues towards one-time expenditures. Rating unchanged from prior year.
8	Intergovernmental	F	Intergovernmental revenues as a percentage of operating revenues decreased after having increased in the two prior years. This is viewed as a positive trend since the City should avoid becoming over dependent upon revenue sources it cannot control. Rating unchanged from prior year.
9	Revenue Overages/ Shortages	F	Revenue overages/shortages as a percentage of operating revenues examines the differences between revenue estimates and revenues actually received. Revenue shortages have been minimized over the past three years to a current year revenues under budget of .90%. Rating changed from unfavorable/improving to favorable.
General Fund Expenditures			
10	Exp. Per Capita	F	Expenditures per capita in both constant and actual dollars increased in comparison to the prior year. City Council has reduced spending significantly by contracting and privatizing services. This represents cost savings while services to City residents have been maintained or enhanced. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
11	Employees Per Capita	F	The number of employees per capita dropped to its lowest level in over 5 years as a result of the elimination of 164 positions since FY 1991-92. Rating unchanged from prior year.
12	Fringe Benefits	F	Fringe benefits, as a percentage of salaries and wages, decreased slightly from FY 1993-94 to FY 1994-95. A change in medical insurance carriers and reduced benefit levels combined with the full impact of contracting out of public safety personnel resulted in a significant reduction. Rating changed from warning to favorable from prior year.
13	Capital Outlay	F	Capital Outlay as a percentage of operating expenditures turned positive in FY 1993-94 and FY 1994-95. It should be noted that an annual contribution of $100,000 is now made to a new Capital Improvement Reserve fund, resulting in an assignment of a favorable rating.
14	Operating Surplus	F	As a result of the economic downturn, General Fund operating expenditures have exceeded operating revenues in three of the past five fiscal years with FY 1994-95 showing a surplus of 2.69%. Rating changed from warning to favorable from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
General Fund Operating Position			
15	Unreserved Fund Balance	F	The City's unreserved fund balance at June 30, 1995, as a percentage of operating revenues, increased over the prior year to 9.56%, as a result of a modest increase in operating revenues. Unreserved fund balance at June 30, 1995 amounted to $2 million. Rating unchanged from prior year.
16	Liquidity Ratio	F	The General Fund liquidity ratio (current assets to current liabilities) at June 30, 1995 was 2.3:1 which is above the 1:1 ratio viewed as favorable by credit rating firms and required by the City's Fiscal Policy. Rating unchanged from prior year.
17	Debt Service	F	There was no General Fund debt service in FY 1994-95. Rating unchanged from prior year.
Additional Indicators			
18	Compensated Absences	F	Accumulated compensated absences (unpaid vacation, sick leave, and compensatory time) have dropped for three consecutive years. The drop in this liability for FY 1994-95 amounted to 2.6%, or $30,000. Rating unchanged from prior year

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
19	Property Values	U	Changes in the value of property is of primary importance to the City because property tax revenue is the City's single largest revenue source. The growth rate of property values declined to -4.00% in FY 1994-95 from the FY 1990-91 growth rate of 14.57%. The decline in the growth rate is a reflection of the drop in property values experienced in the housing, retail, and industrial markets due to the economic recession. Rating unchanged from prior year.
20	Population	F	This trend receives a favorable rating because the population growth has been a steady, but not rapid, increase over the last five years and has been relatively planned and controlled. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Long Term Financial Plan

Comparison of Trend Reports

A total of twenty financial indicators are examined on an annual basis. In 1993 only six of the indicators were positive and a total of fourteen were either unfavorable or a warning label had been assigned.

The current 1996 LTFP indicates that a total of seventeen indicators are now favorable, while three are unfavorable. Two of the unfavorable indicators relate to property taxes (revenue and valuation). Additionally, community development service charges are still negative.

However, this is a significant improvement brought about by the conscious effort to abide by a stringent fiscal policy, adoption of a comprehensive long term financial strategic plan, and an improved economy.

As summarized on the following page, revenue indicators constitute nine of the twenty financial indicators. In FY 1994-95, seven of the nine revenue indicators are favorable, which is an improvement over 1993-94 when only five of the indicators were favorable.

In evaluating the expenditure indicators, all four are considered favorable, compared to only two of the four being favorable in FY 1993-94. The improvement is in the area of fringe benefits, which improved from a warning trend to a favorable trend in FY 1994-95. This reversal of a warning trend was accomplished by changing medical insurance carriers, thus reducing the expenditure for medical benefits. Additionally, by contracting out police and fire services, workers' compensation and other related costs have been significantly reduced. As a result, total fringe benefits as a percentage of salaries and wages have declined. Additionally, due to the annual commitment of $100,000 from the General Fund to Capital Equipment Reserves, the capital outlay indicator is considered positive for the first time.

In regard to General Fund operating position indicators, all four of these indicators are favorable compared to three of the four in FY 1993-94. The one change from a warning trend to a favorable trend is in the area of operating surplus. Through continued cost savings measures, operating surplus as a percentage of operating revenues rose to a five year high of 2.69%.

Of the three additional indicators, two are considered favorable, which shows no change from the previous year's ratings. The property value indicator (along with property tax revenue) continues to reflect an unfavorable trend due to declining property values.

The great strides that the City has made toward improving its overall financial condition through the use of recommendations presented in the Long Term Financial Plans are evidenced in the chart on the following page. This chart depicts the financial indicators for the past four years and summarizes the City of San Clemente's continual improvements.

Summary of Annual Trends

Indicator Number	Description	1996	1995	1994	1993
1	Revenues Per Capita - Excluding one time revenues	F	U	U	U
2	Property Tax Revenues	U	U	W	F
3	Sales Tax Revenues	F	F	U	U
4	License & Permit Revenues	F	F	U	U
5	Comm Dev. Service Charges	U	U	U	U
6	Elastic Revenues	F	F	U	U
7	One-Time Revenues	F	F	W	W
8	Intergovernmental Revenues	F	F	F	F
9	Revenues Overages/Shortages	F	U	U	U
10	Expenditures Per Capita	F	F	W	W
11	Employees Per Capita	F	F	W	W
12	Fringe Benefits	F	W	W	U
13	Capital Outlay	F	U	U	U
14	Operating Surplus	F	W	W	U
15	Unreserved Fund Balance	F	F	W	W
16	Liquidity Ratio	F	F	F	F
17	Debt Service	F	F	F	F
18	Compensated Absences	F	F	F	F
19	Property Value	U	U	W	W
20	Population	F	F	F	F

F **Favorable**
W **Warning**
U **Unfavorable**

City Fiscal Policy

A numbered version of the Council adopted Fiscal Policy is reproduced below since each indicator's cross references related fiscal policy statements.

General Financial Goals

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

Operating Budget Policies

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

Revenue Policies

14. The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.
15. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.
16. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.
17. 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.

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

Expenditure Policies

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

Utility Rates and Fees

20. 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.
21. Utility rates will be established for each of the next five years and this rate projection will be updated annually.

Capital Improvement Budget Policies

22. The City will make all capital improvements in accordance with an adopted and funded capital improvement program.
23. The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.
24. 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.
25. 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.
26. 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.
27. Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.
28. 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).

Short-Term Debt Policies

29. 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 of resolution.
30. The City may issue inter-fund loans rather than outside debt instruments to meet short-term cash needs. Inter-fund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.

Long-Term Debt Policies

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

Reserve Policies

34. The City will maintain General Fund reserves at a level at least equal to 8% of general fund expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting 2 or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.
35. A Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1% of general fund operating expenditures.
36. Council approval is required before expending General Fund or Contingency Reserves.
37. 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.
38. 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.
39. 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.

Investment Policies

39. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.
40. 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.

Accounting, Auditing, and Financial Reporting

40. 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.
41. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
42. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
43. Full and continuing disclosure will be provided in the general financial statements and bond representations.
44. The City will maintain a good credit rating in the financial community.
45. An annual audit will be performed by an independent public accounting firm with the subsequent issuance of an official Comprehensive Annual Financial Report, including an audit opinion.
46. Maintain at least a liquidity ratio of 1:1.

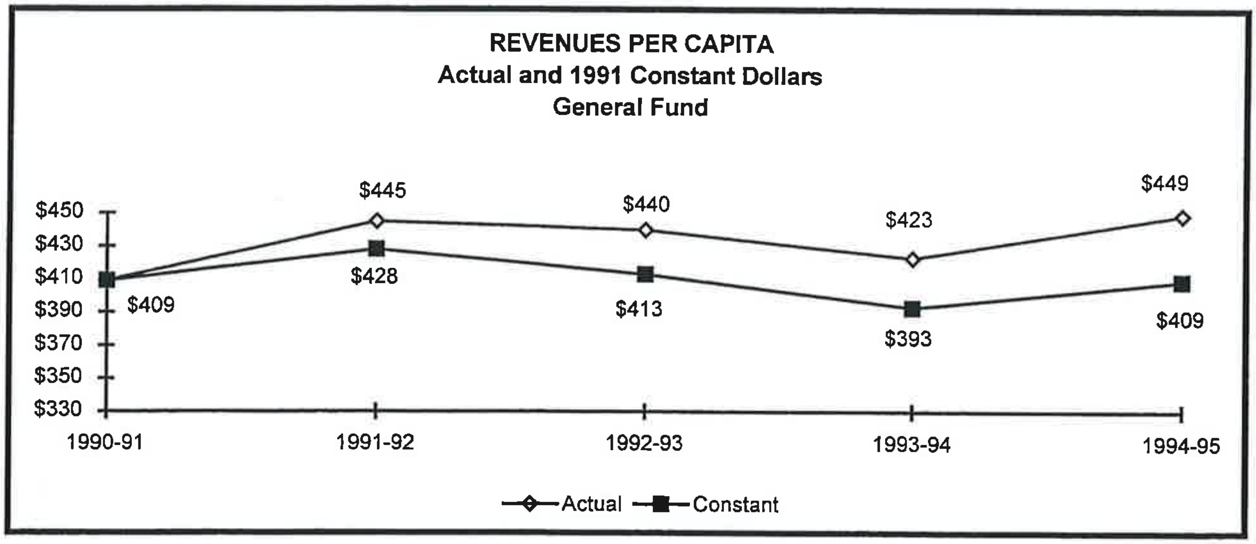
General Fund Revenues

General Fund revenues finance the majority of the day to day operations of the City. Consequently, changes in revenue levels and composition will have a significant impact on the City's ability to provide services to the citizens of San Clemente. Not only is the dollar amount received important, but also the type of revenue. Revenues should be balanced between those that change as the economy shifts (elastic) and those that flow independently of economic activity (inelastic). General Fund revenues should also come from diverse sources within the community and be sufficiently flexible in order to allow for spending based on the changing needs of the City.

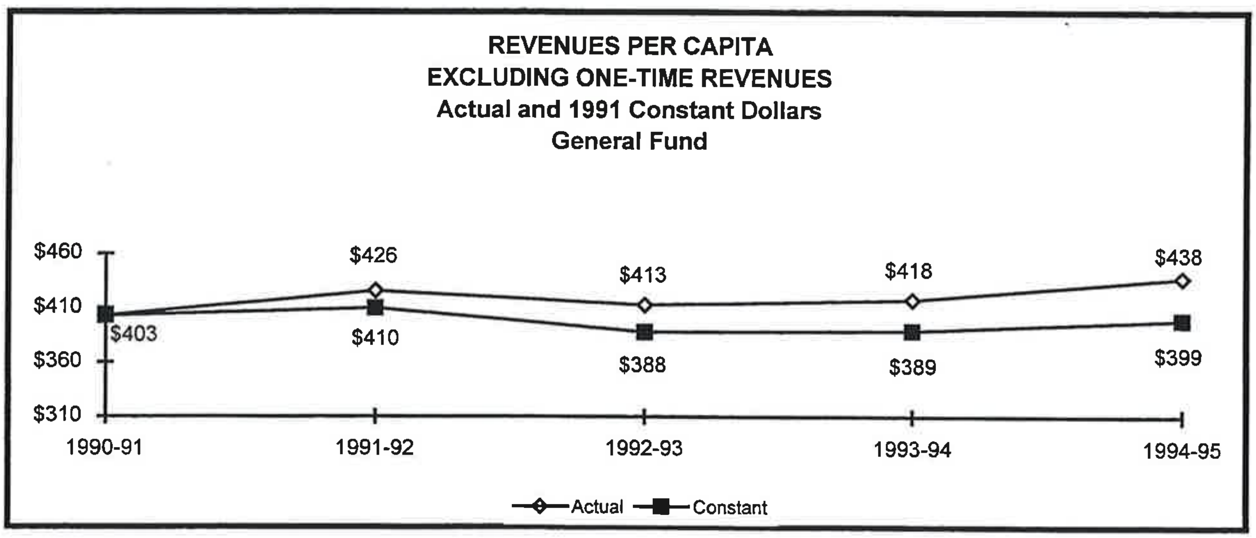
In the following section, a number of indicators have been evaluated to determine the financial condition of the City's revenue base. After in-depth analysis, it is relatively easy to conclude that the City of San Clemente has shown immense improvement in revenues due to the growing economy. Property tax revenues are still an area of concern because of decreasing property values and the loss of such revenues from the State. A full revenue analysis is provided for the following indicators:

- Revenues Per Capita
- Property Tax Revenues
- Sales Tax Revenues
- License and Permit Revenues
- Community Development Service Charges
- Elastic Revenues
- One-Time Revenues
- Intergovernmental Revenues
- Revenues Over (Under) Budget

Indicator 1



Current Trend: Unfavorable/Improving **Prior Year Trend: Unfavorable**



Current Trend: Favorable **Prior Year Trend: Unfavorable**

Description

Revenues per capita in constant dollars is a measure of the City's ability to maintain current service levels. Constant dollars reflect the real changes in operating revenue after adjusting for inflation. An increase in constant dollars normally means a city will be able to respond positively to increasing service demands. Conversely, a decrease in constant dollars may indicate that revenue yields are not sufficient to maintain existing levels of service.

Comments And Analysis

The first chart above showing revenues per capita reflects an overall increase for both actual and constant dollars for the first time in three years. This increase in FY 1994-95 is due, in large part, to the $1.36 million increase in interdepartmental charges for general fund overhead, increases in transfers due to the sale of fire equipment and transfers from the Disaster Relief Fund. On a smaller scale, as discussed in a separate indicator, sales tax revenues increased by $171,000 from the prior year. Additionally, transient occupancy taxes, permits and fees, and fines revenues all increased from the prior year in FY 1994-95. An unfavorable/improving rating has been assigned until a clear, positive trend emerges.

The second chart reflecting revenues per capita in constant and actual dollars excluding one-time revenues, shows an increase for the third year in a row. This represents the most significant increase in the past five years. The approach of excluding one-time revenues is a more realistic approach to analyzing revenues as they are applied against operations, because the City attempts to apply one-time revenues against one-time expenditures. Thus, a favorable rating has been assigned, an improvement over the unfavorable rating assigned last year.

In summary, this trend indicates that, in both actual and constant dollars, revenues per capita is improving and the City's reliance on one-time revenues is diminishing. Although this is a good sign, revenues must be closely monitored as revenues generated from property taxes continue to decline, as discussed in the next indicator.

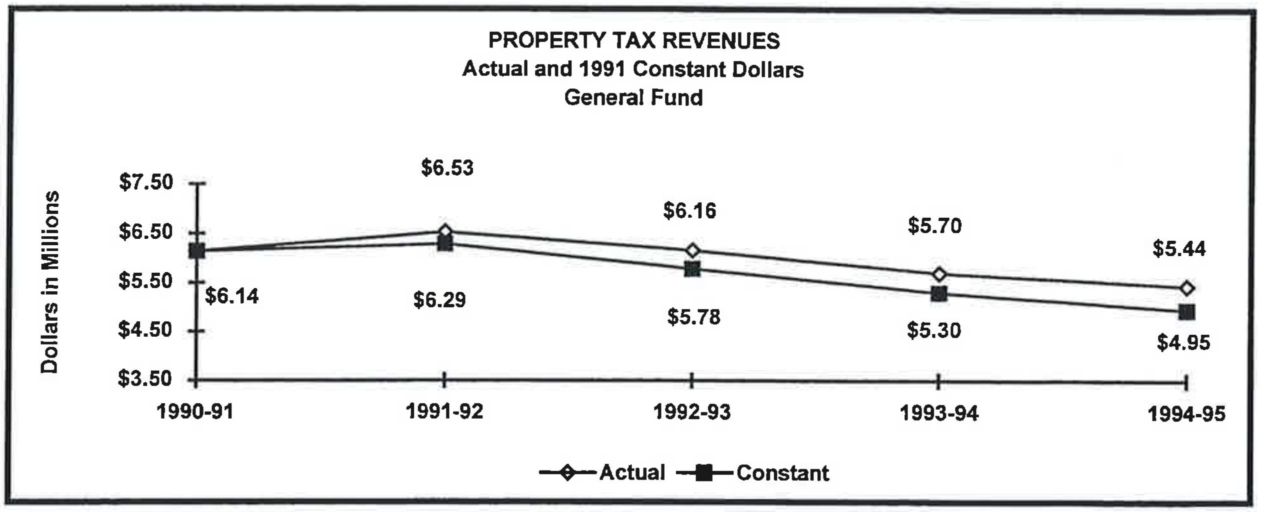
Related Fiscal Policy

#12 The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.

#14 The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

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

Indicator 2



Current Trend: Unfavorable **Prior Year Trend: Unfavorable**

Description

Property tax revenues are evaluated over time to measure the City's economic health. Constant dollars are examined in order to evaluate that part of the change that is not due to inflation. Property taxes are the City's primary source of revenue and are relatively inelastic in that they should remain constant in real terms. By State law (Proposition 13), the County levies property taxes at one percent of full market value at the time of purchase. Assessed values can be increased by no more than two percent per year. The City also has the authority to impose an excess property tax levy to pay debt service on voter approved general obligation bonds.

Through June 30, 1992, the City had been receiving a share of the basic levy proportionate to the amount received at the time Proposition 13 was passed, approximately 19 percent. Effective July 1, 1992, the City's share of the basic levy dropped to approximately 17 percent as the State, in an effort to solve their budgetary problems, imposed a 9 percent property tax shift. Effective July 1, 1993, the City's share dropped to 12.9 percent as the State again imposed an additional and permanent 9 percent property tax shift.

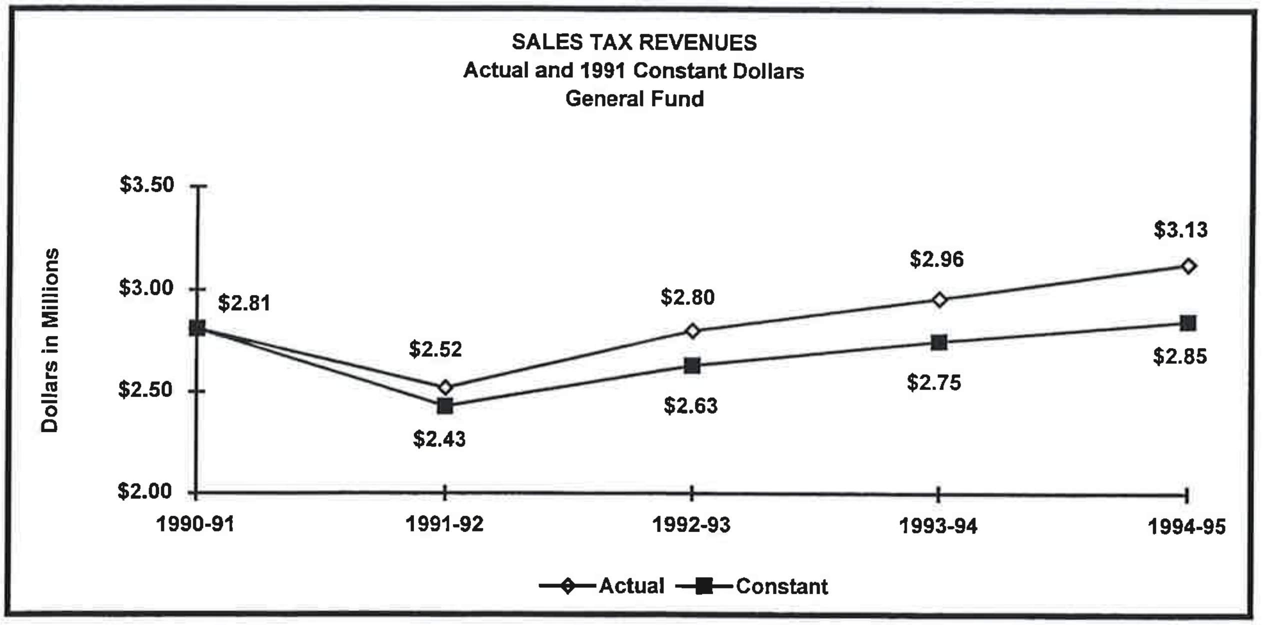
Comments And Analysis

In FY 1994-95, property tax revenues further declined by $258,000 or 4.5 percent in actual dollars, and $350,000 or 6.6 percent in constant dollars. This drop continues a three year decrease in both constant and actual dollars since FY 1991-92. The decrease in property tax revenue is a reflection of the state mandated property tax shift which continues to cost the city $1.2 million annually and the continuing decline in property valuation. For FY 1994-95 property values dropped 4 percent. As a result of the previous declines in valuation, the City has closely monitored property tax revenues and adjusted revenue projections accordingly. The current projections anticipate the stabilization of property valuation and the corresponding stabilization of property tax revenues. However, the decrease in revenue shown above and decline in property valuation in FY 1994-95 result in an unfavorable rating.

Related Fiscal Policy

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

Indicator 3



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Sales tax revenue is another strong indicator of the City's economic health. Sales taxes are the City's second largest source of revenue and are relatively elastic in that they vary directly with changes in the economy. Again, constant dollars are examined in order to evaluate the part of the change that is not due to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. As of June 30, 1993, the Board had been collecting and administering 1.0% of local sales tax for the City which is part of the overall County of Orange sales tax rate of 7.75%. Effective July 1, 1993, the City's allocation increased by an additional 0.5% and was earmarked for public safety as mandated by the State. In November 1993, voters in the statewide elections approved proposition 172, which continues this public safety sales tax indefinitely. As of June 30, 1995, the Orange County sales tax rate was still 7.75%.

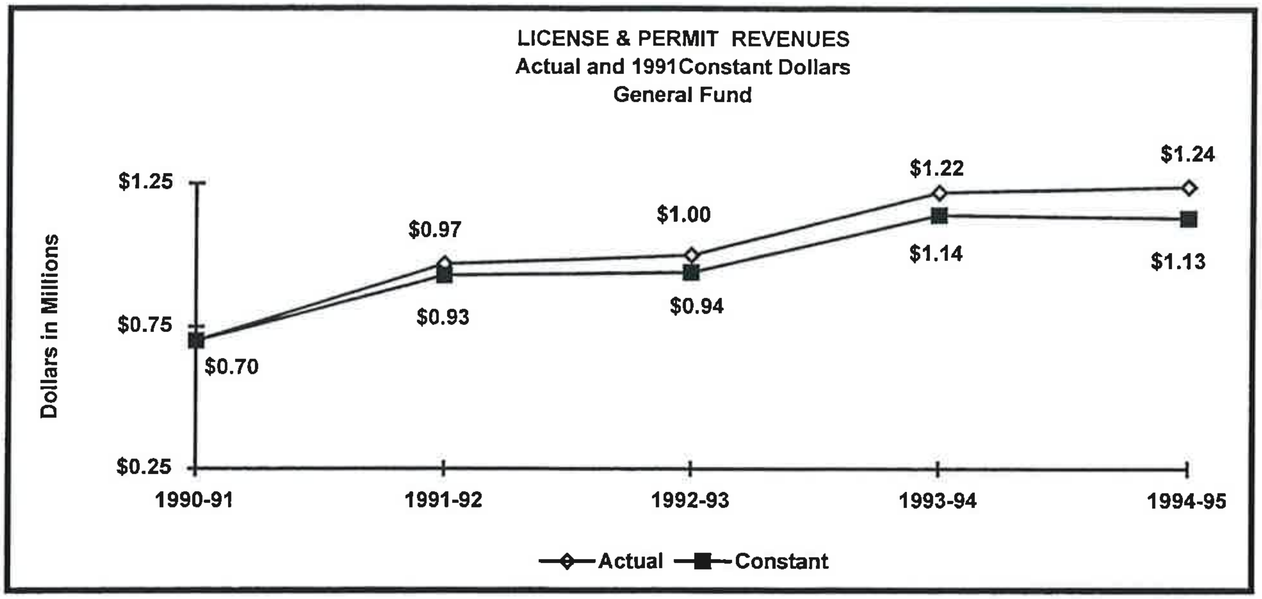
Comments And Analysis

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. As indicated in the chart, sales taxes have gradually increased over the past three years. In fact, the actual dollars have increased 24 percent from the sales tax revenues three years ago. Sales tax revenue is at a five year high in actual dollars and it significantly exceeds the level five years ago in both constant and actual dollar amounts. The upward trend for the past three years results in a favorable rating.

Related Fiscal Policy

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

Indicator 4



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Licenses and permits is a major revenue category that is analyzed in determining the City's economic health. Constant dollars are examined in order to evaluate the part of the change that is not due to inflation. Included within this revenue category are business licenses, construction permits, alarm permits, and animal licenses. Licenses and permits are also relatively elastic in that they vary directly with changes in the economy.

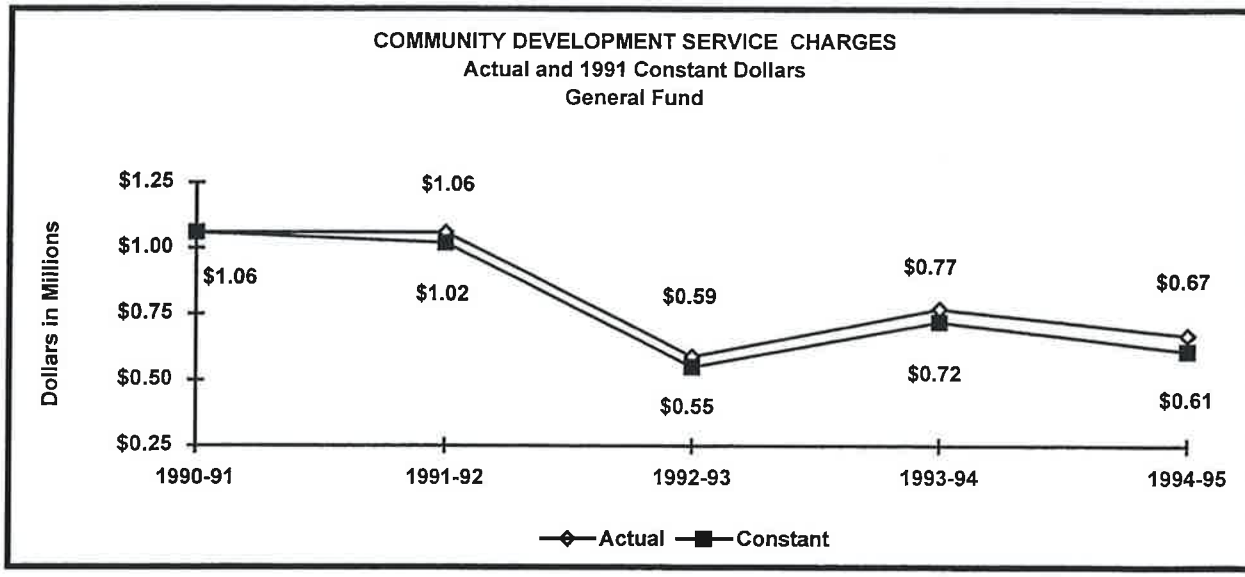
Comments And Analysis

In FY 1994-95, license and permit revenue increased $20,000, or 1.7 percent in actual dollars over the prior year. However, in constant dollars, license and permit revenue decreased $6,500 or 0.6 percent. This indicates that the surge in construction activity has leveled off from the prior year's increase. Construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, decreased slightly by $5,000, or 0.9% in actual dollars over the prior year. Additionally, business licenses increased from the prior fiscal year by $37,000, which is attributed to improvements in the local economy and increased collection efforts. The City experienced an overall increase in licenses and permits for the past four consecutive years, resulting in the assignment of a favorable trend.

Related Fiscal Policy

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

Indicator 5



Current Trend: Unfavorable **Prior Year Trend: Unfavorable**

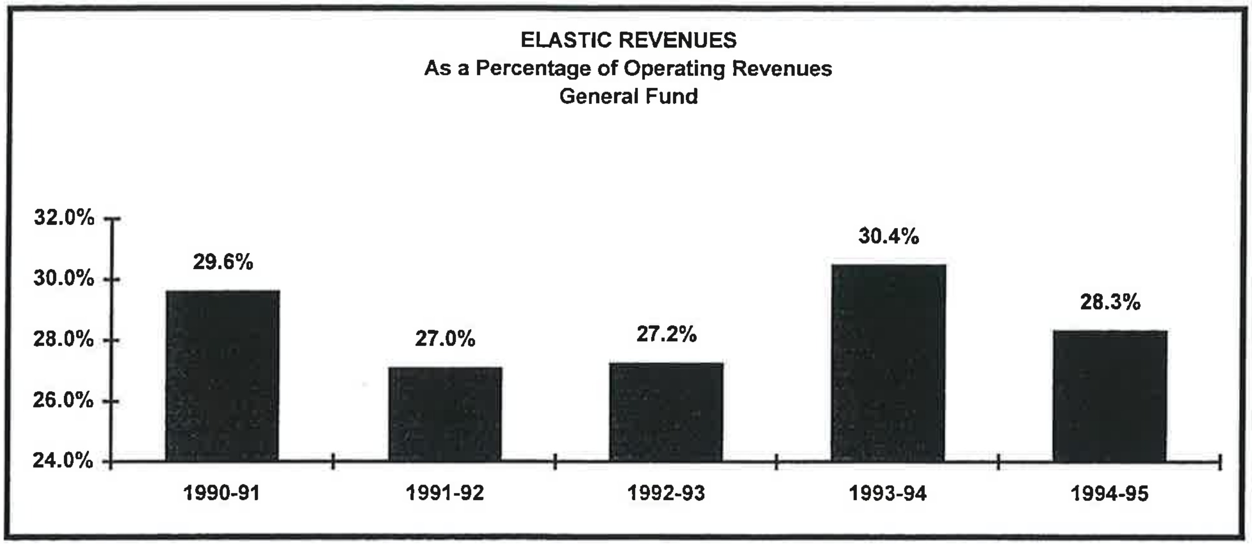
Description
Analyzing community development service charges allows the City to evaluate the growth or decline in development. Constant dollars are examined in order to evaluate the part of the change that is not due to inflation. Included within this revenue category are building plan check fees, construction inspection fees, and engineering reimbursements. Community development service charges are relatively elastic in that they vary directly with changes in the economy.

Comments And Analysis
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. Overall, the City experienced a drop in community development service charges in FY 1994-95 after showing signs of rebounding in FY 1993-94. In addition, community development service charges are well below the level reached five years earlier. These reasons considered and because of the erratic behavior of this indicator, an unfavorable rating must be assigned.

Related Fiscal Policy

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

Indicator 6



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Elastic revenues are those that vary directly with changes in the economy. Included in this category are sales tax, transient occupancy tax, in-lieu tax, licenses and permits, and community development service charges. During times of inflation, a high percentage of elastic revenues is desired in order to insulate the government from the higher prices found in the market. During a recession or periods of slow economic growth, elastic revenues tend to decline.

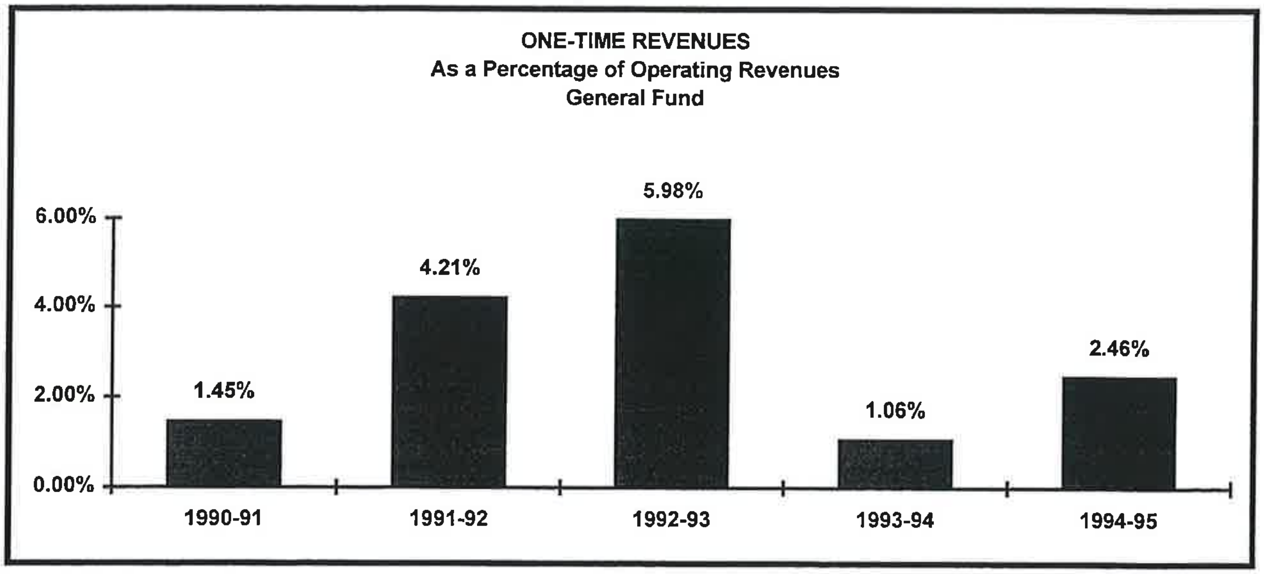
Comments And Analysis

After two years of increase, FY 1994-95 elastic revenues, as a percentage of operating revenues, decreased 2.1% from FY 1993-94. 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. One reason for such a large increase in net operating revenues is the one time sale of assets to the County of Orange for fire equipment when the City contracted fire services in FY 1994-95 in the amount of $514,000. As noted previously, the City's largest elastic revenue source, sales tax revenue, was up 5.8 percent, or $171,000, from the prior year. Also on a positive note, transient occupancy tax increased $39,000, or 11.1 percent, in-lieu tax was higher than the prior year by $13,000, or 2.6 percent, and licenses and permits increased $20,000, or 1.7 percent. Conversely, other elastic revenues such as community development service charges decreased $101,000, or 13.1 percent from the prior year. Even though this indicator has shown 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.

Related Fiscal Policy

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

Indicator 7



Current Trend: Favorable **Prior Year Trend: Favorable**

Description
A one-time revenue is one that is not expected to continue in future years. Examples of such revenues include one-time equity transfers from funds that are being discontinued, single purpose grant revenue, revenue from the sale of assets, and the appropriation of reserves. Continual use of one-time revenues to balance the annual budget is an indication that the revenue base may not be strong enough to support current service levels.

Comments And Analysis
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, which accounted for most of the $516,000 in one-time revenues. The City attempts to only apply one-time revenues against one-time expenditures. Therefore, this revenue was used for the purpose of start-up costs, accrued leave payments to fire personnel, and other transfers.

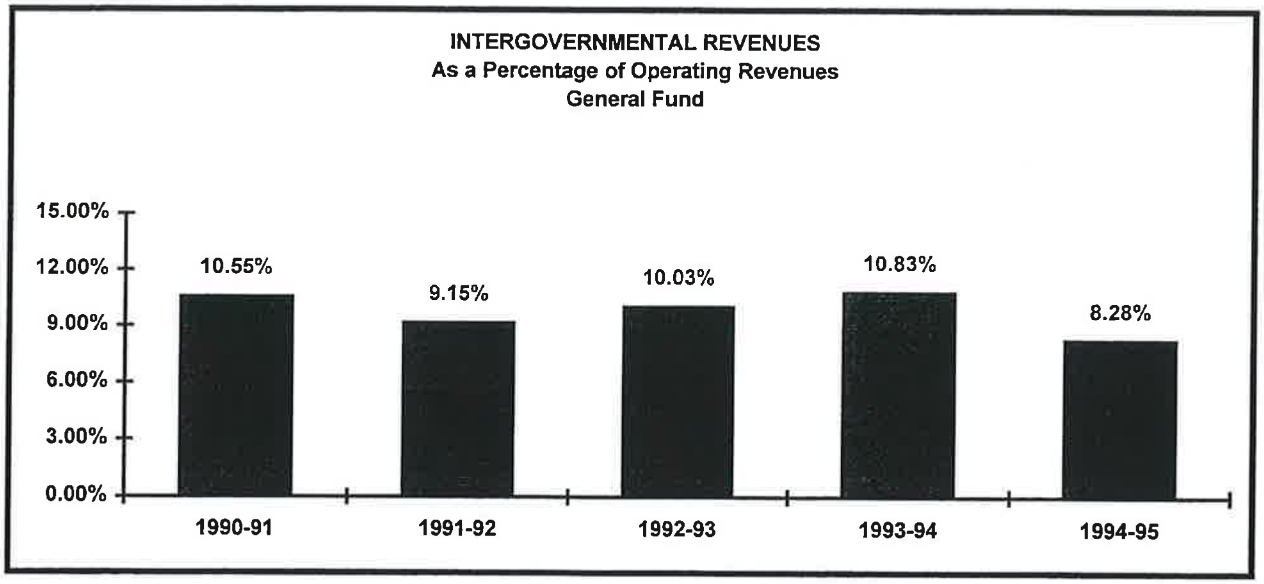
A favorable rating has been assigned, since one-time revenues are generally due to the contracting of services and are applied against one-time expenditures, such as reserve transfers. To further clarify, one-time revenues are not utilized for operating expenditures in accordance with the City's fiscal policy.

Long Term Financial Plan

Related Fiscal Policy

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

Indicator 8



Current Trend: Favorable **Prior Year Trend: Favorable**

Description
Intergovernmental revenues include State, Federal, and County grants, State shared revenues, and State reimbursements. By analyzing these revenues as a percentage of operating revenues, the City can determine the extent of its dependence upon resources from other governments. Excessive dependence on these revenues can be detrimental to the financial health of the City as the factors controlling their distribution are beyond the City's control.

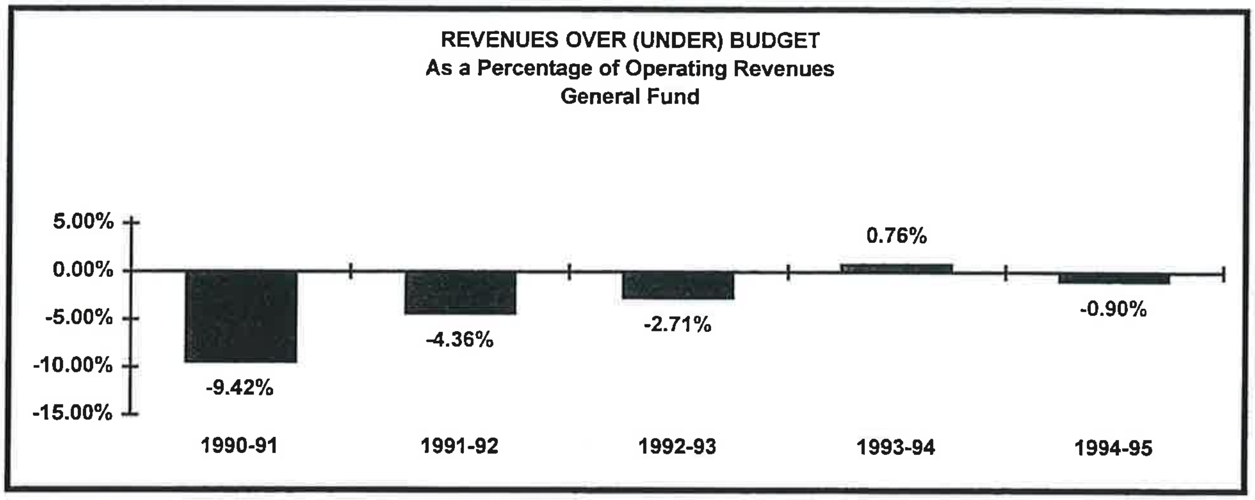
Comments And Analysis
General Fund intergovernmental revenues as a percentage of operating revenues decreased this year after having increased slightly in the prior two years. This is due to a 15.7% decrease in intergovernmental revenues while operating revenues increased 10.2%. The decrease in intergovernmental revenues is attributable to a decrease in FY 1993-94 one-time Motor Vehicle Property Tax Offset revenues of $182,000 and a decrease in S.O.N.G.S. grant revenue of $168,000. These decreases were off-set in part by a Motor Vehicle Tax revenue increase of $114,000. This trend is viewed as favorable because the dependence on intergovernmental revenues has remained at fairly stable levels over the last five years. However, this favorable rating should be tempered by the fact that the State and Federal governments are continuing to mandate programs, along with the cost burden, to local governments. Examples of these mandates include compliance with the Federal Americans with Disabilities Act, National Pollution Discharge Elimination System for storm drains, and regulations regarding underground storage tanks and toxic waste disposal. Because of these additional burdens, the City has continued an aggressive pursuit of State mandated cost reimbursements under SB 90. The City

was reimbursed $85,000 in FY 1993-94 and $14,000 in FY 1994-95 from the State for costs incurred on behalf of State mandated programs.

Related Fiscal Policy

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

Indicator 9



Current Trend: Favorable **Prior Year Trend: Unfavorable/Improving**

Description

Revenue overages/shortages as a percentage of operating revenues examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures, or inaccurate estimating techniques.

Comments And Analysis

In FY 1994-95 actual revenues were $189,000 less than budgeted revenues, which represents less than 1 percent of budgeted revenues. The City experienced revenue shortfalls in the areas of property taxes ($314,000), in-lieu taxes ($52,000), transient occupancy taxes ($11,000), S.O.N.G.S. grant ($134,000), O.T.S. grant ($46,000), and projected proceeds from sale of fire equipment to Orange County ($125,000). To partially offset these shortfalls, actual revenues were more than budgeted revenues in the areas of building permits ($67,000), motor vehicle tax ($212,000), building plan check fees ($141,000), and ambulance service charges ($73,000).

As a result of the economic recession, revenue shortages have occurred from FY 1990-91 through FY 1992-93; however these shortages have declined and, in both FY 1993-94 and FY 1994-95, the City ended the year with a revenue overage and shortage of less than 1percent. Through the financial process of the LTFP and budget, the City has been able to accurately forecast revenues. A favorable rating has been assigned, since ICMA prescribes an unfavorable rating when shortages of up to 5% occur on a regular basis.

Long Term Financial Plan

Related Fiscal Policy

#6 An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.

General Fund Expenditures

General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has increased or decreased. Expenditures need to be analyzed for more than just a change in the total dollar figure. The types of expenditures the City is committed to also need to be examined.

Expenditures in the General Fund for FY 1994-95 are comparable to those levels of FY 1990-91. Because of the recent economic recession and the loss of revenues through State mandated actions, the City had been forced to cut back on variable costs, such as the postponement of capital replacement and capital improvement projects and the deferral of all supply expenditures that did not have an immediate impact on operations. The City was forced to cut fixed costs with the elimination of 164 full time equivalent positions over the past four years. Expenditures were also reduced through the contracting and privatization of several core City services, operational improvements, organizational streamlining and reduced benefit and salary levels.

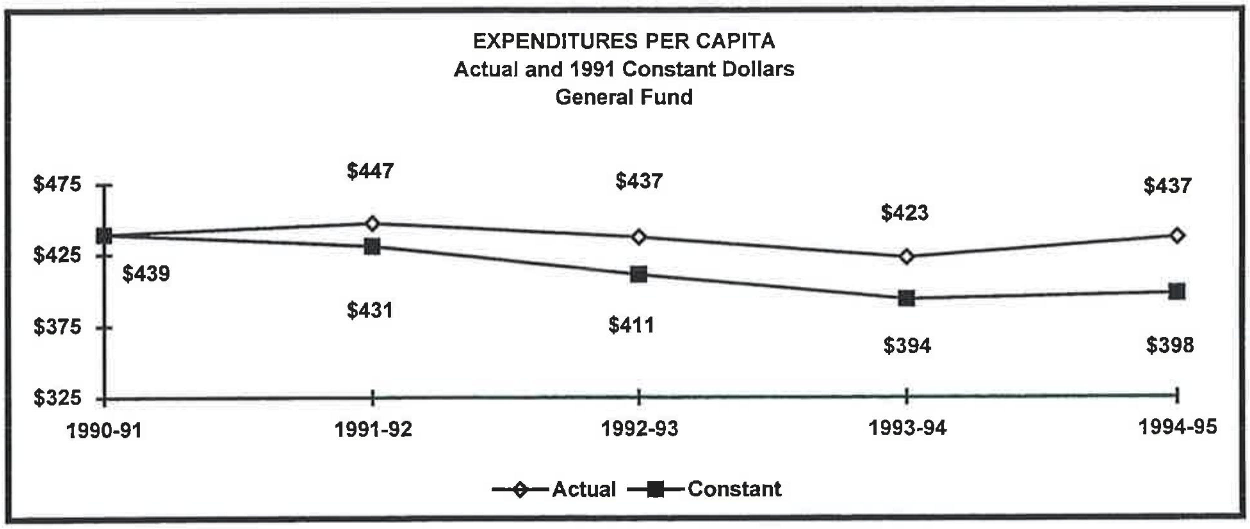
Cost savings continued in FY 1994-95 due to the contracting of fire services to the Orange County Fire Department. Costs were reduced $733,000 in FY 1994-95 and $2.1 million over the next five years.

It is important to note that all of these cost saving measures were accomplished while maintaining and in some cases significantly increasing the level of service associated with them.

A full expenditure analysis is provided for the following:

- Expenditures Per Capita
- Employees Per Capita
- Fringe Benefits
- Capital Outlay

Indicator 10



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Expenditures per capita demonstrate the change in expenditures relative to the change in population. This indicator gives an overall perspective of the demand for city services as population increases. Increasing per capita expenditures may indicate the costs of maintaining existing service levels are rising or service levels are changing to reflect new demands. A decrease in expenditures per capita could signal the City's inability to maintain current service levels.

Comments And Analysis

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 peeked in constant dollars. Actual FY 1994-95 expenditures were under budget by $570,000 or 2.7 percent.

Property tax revenues represent 26% of the general funds source of revenue, and the City has realized decreased property tax revenue since FY 1992-93. As a result the City has acted to monitor and reduce spending in every area possible. These reductions were accomplished through the contracting of police services to the Orange County Sheriff's department which decreased police service General Fund appropriations by $1.4 million, by transferring the annual storm drain maintenance and improvement costs of approximately $250,000 to a Storm Drain Utility Fund and by contracting Fleet Maintenance, Park and Beach Maintenance, Street Striping and Marking to third party contractors. Cost savings continued in FY 1994-95 due to the contracting of fire services with the Orange County Fire Department that reduced costs this year in the amount of $733,000 and is expected to save $2.1 million over the next five years.

Additionally, the increase in expenditures include transfers from the General Fund to other funds. During FY 1994-95, several transfers were made to other funds to continue to fund reserves in those 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 positive approach to ensure that these funds have adequate reserves for future payments and emergencies.

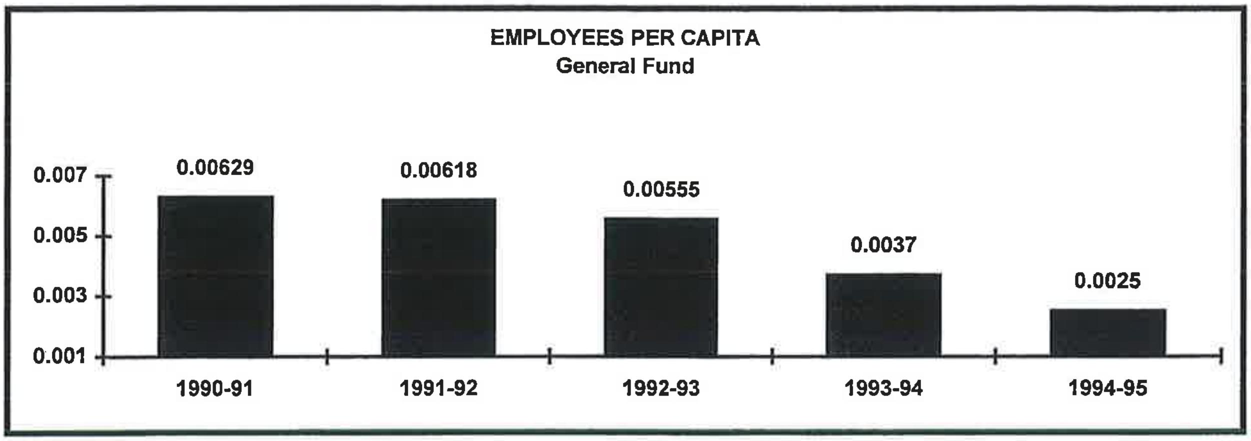
A favorable rating has been assigned due to the fact that, although expenses per capita are still below levels of FY 1990-91, service levels have been maintained or enhanced during the same period.

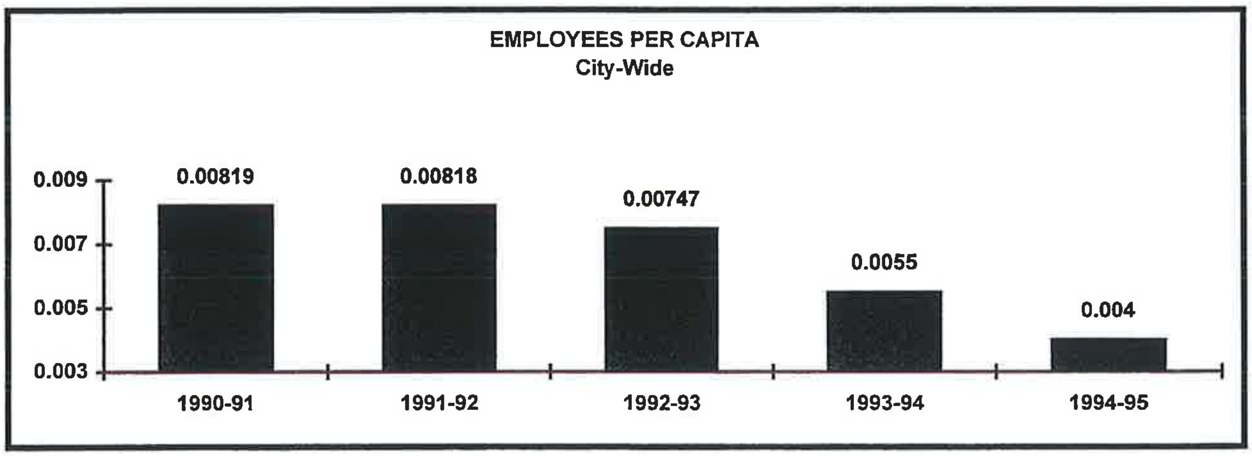
Related Fiscal Policy

#12 The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.

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

Indicator 11





Current Trend: Favorable **Prior Year Trend: Favorable**

Description

This indicator measures the number of employees per capita. If this figure is rising, it could indicate that the City is becoming more labor intensive or that employee productivity is declining. Conversely, if this figure is declining, it could indicate that employee productivity is increasing; a need for more employees to respond to additional service demands; or the City is becoming less labor intensive.

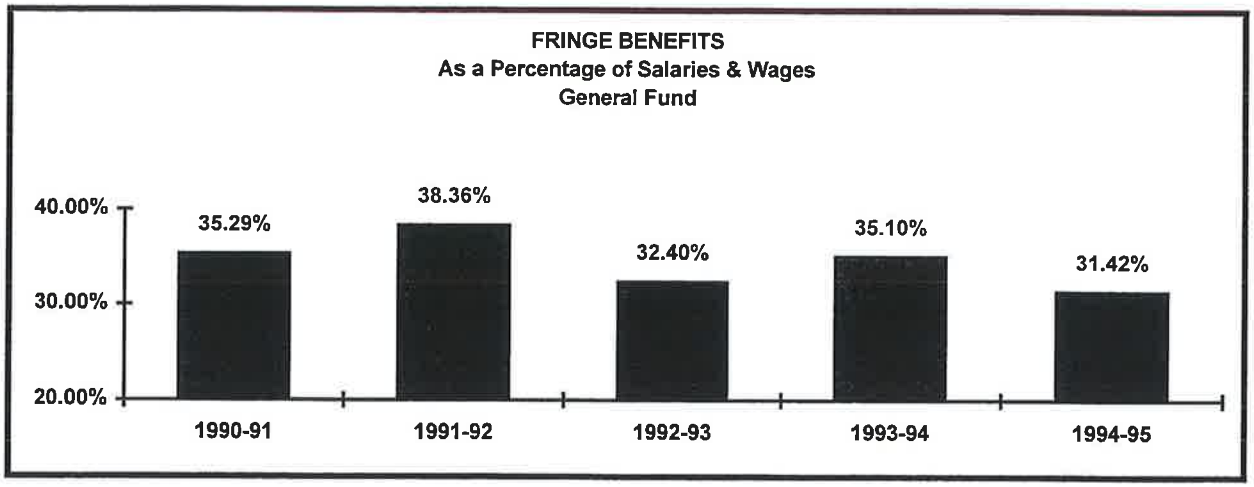
Comments And Analysis

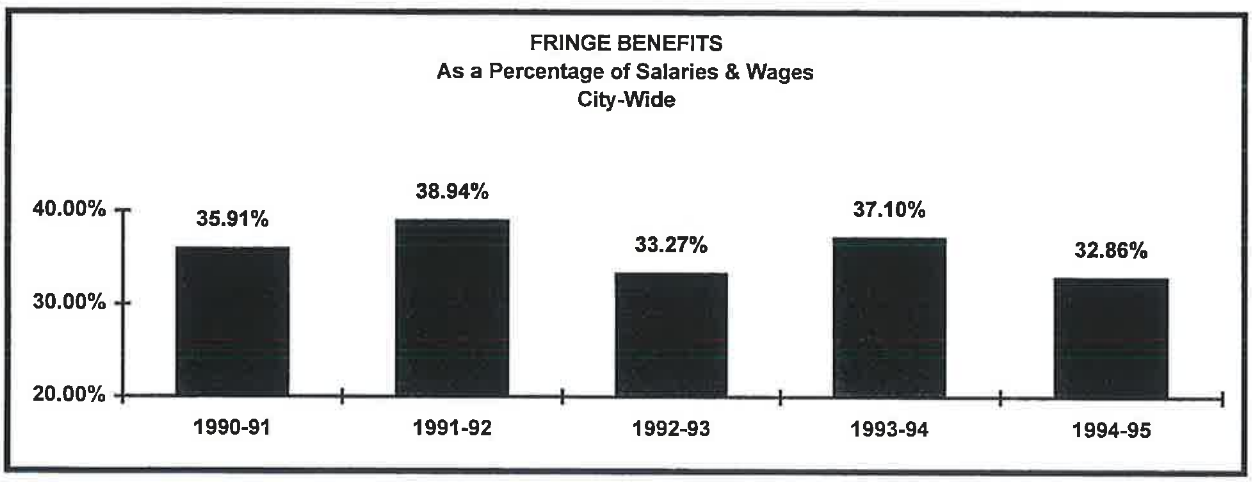
The City has reduced staffing levels from 352 full time equivalents in FY 1991-92 to 188 in FY 1994-95, a 46.5 percent reduction. Because staffing levels have decreased largely as a result of contracting and privatization of City services and from downsizing and streamlining many divisions within the City, a favorable trend has been assigned. The City has obviously become less labor intensive during the past four years as certain services, including Police, Fire, Beach and Parks Maintenance, Meter Reading and Fleet Maintenance, have been contracted to both the public and private sector. Additionally, the City has seen an improvement in the level of service provided through several of the aforementioned contracts.

Related Fiscal Policy

No related fiscal policy.

Indicator 12





Current Trend: Favorable **Prior Year Trend: Warning**

Description

Fringe benefits refer to the City's share of payroll taxes, pension plan and deferred compensation contributions, medical, life and disability insurance, workers' compensation funding, educational reimbursements, and auto and uniform allowance. Fringe benefits should be directly related to salaries and wages so any change in the percentage rate would reflect a change in the benefits package or more reliance on temporary help.

Comments And Analysis

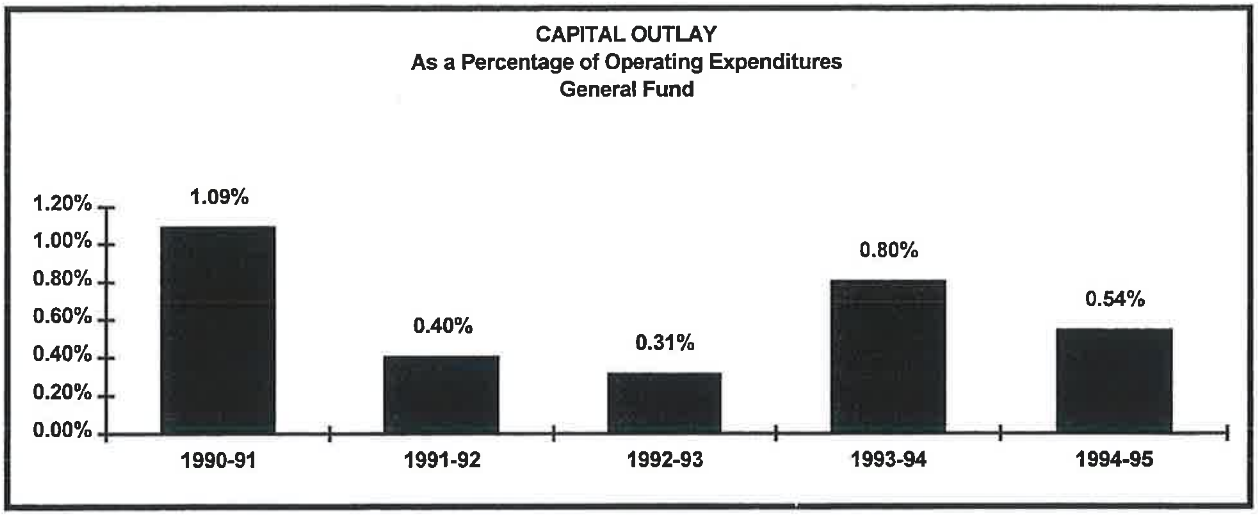
Fringe benefits, as a percentage of General Fund salaries and wages, have decreased from 35.3% to 31.4% over the past 5 years. This is the lowest level of fringe benefits as a percentage of salaries and wages that the City has experienced during this five year period.

Medical insurance 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. However, total City-paid medical insurance costs decreased in FY 1992-93 to $1.1 million as a result of an excess buildup in medical reserves which were used to subsidize medical premium costs. In FY 1993-94, the City-paid medical insurance premiums increased to $1.4 million. As a result of these escalated 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.

Fiscal Policy
None.

Indicator 13



Current Trend: Favorable **Prior Year Trend: Unfavorable/Improving**

Description

The City's capital outlay policy consists of the acquisition of equipment that will last longer than one year and has a minimum cost of $500. Capital outlay does not include capital project expenditures for construction of improvements or buildings, or for infrastructure such as streets or storm drains. The purpose of capital outlay in the operating budget is to replace worn equipment or to add new equipment. The ratio of capital outlay to net operating expenditures is an indicator as to whether worn or obsolete equipment is being replaced. A decline in this ratio over a period of years may indicate that capital outlay needs are being deferred and that inefficient or obsolete equipment is being utilized. This would not only have the effect of lowering productivity, but could also expose the City to greater liability exposure.

Comments And Analysis

Capital outlay expenditures, as a percentage of operating expenditures, declined considerably from FY 1990-91 to 1992-93 due to cost reduction efforts. Although the total FY 1993-94 capital outlay expenditures of $153,000 were up one-half percent from FY 1992-93, FY 1994-95 capital outlay expenditures again declined to $113,000, or .54% of operating expenditures. Due to the contribution of $100,000 from the General Fund to fund capital needs, a favorable rating has been assigned.

In FY 1994-95 and FY 1995-96 the City has implemented several capital improvement programs which include the capital lease of 75 computers and an energy efficiency program where the lighting, heating and air conditioning at all city buildings will be upgraded. Each of these programs will add new equipment, machines, and improvements to buildings. The cost of this capital equipment will be expended from the funds benefiting from their purchase. In addition, implementing a 1993 LTFP recommendation, the Capital Equipment Replacement Reserve Fund was established in FY 1994-95. A total of $100,000 was transferred to this new fund from the General Fund. In conjunction with this allocation of funds, a full capital assets inventory was conducted in FY 1994-95 and FY 1995-96 that identified and cataloged all General Fund assets and established a replacement schedule for these assets. The purpose of the asset inventory and replacement schedule is to ensure that, as equipment, machinery or building improvements become unserviceable or obsolete, they can be replaced with more efficient assets. This ensures that the City can maintain its high level of service to the community by utilizing efficient and up-to-date machinery and equipment. The Capital Equipment Replacement Reserve fund will have identical requirements as the Fleet Maintenance Fund whereby first time acquisitions of City vehicles are purchased directly out of individual operating budgets with replacements funded from the Fleet Maintenance Fund.

Related Fiscal Policy

#10 The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection, a maintenance and replacement schedule will be developed and followed.

#14 That the City will establish a Capital Equipment Replacement Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.

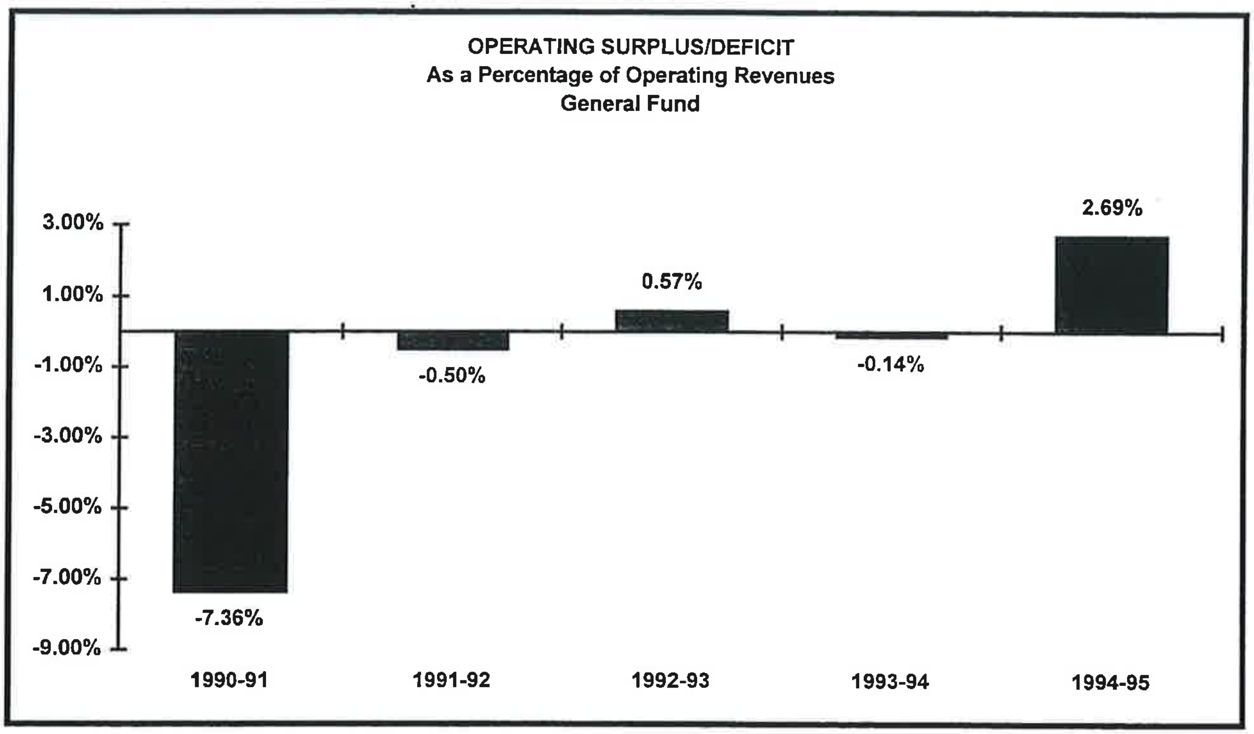
General Fund Operating Position

Operating position refers to the ability of the City to balance current revenues against current expenditures, maintain adequate reserve levels, and cover short-term liabilities with short-term assets.

It appears that the City has recovered, at least in part, from the recent economic recession. The improvement of the local economy, combined with cost reduction and streamlining measures implemented by the City, has resulted in a generally positive operating position. The Council adoption of a comprehensive Fiscal Policy in FY 1992-93 and subsequent implementation of the policy has resulted in a substantially improved operating position. A complete analysis is provided in this section. The following indicators are examined in detail:

- Operating Surplus/Deficit
- Unreserved Fund Balances
- Liquidity Ratio
- Debt Service

Indicator 14



Current Trend: Favorable **Prior Year Trend: Warning**

Description

This indicator measures the City's ability to balance operating revenues, excluding cash balances from the prior year, against operating expenditures. An operating surplus occurs when operating revenues exceed operating expenditures. A deficit occurs when the reverse happens and the City dips into available fund balances from prior years. It is particularly important to review this indicator for the General Fund, as this is where the majority of operating activity takes place. A credit rating firm would regard a current-year operating deficit as a minor warning signal. However, two consecutive years of operating deficits, or an abnormally large deficit of more than 5 to 10 percent in any one year would be considered negative factors.

Comments And Analysis

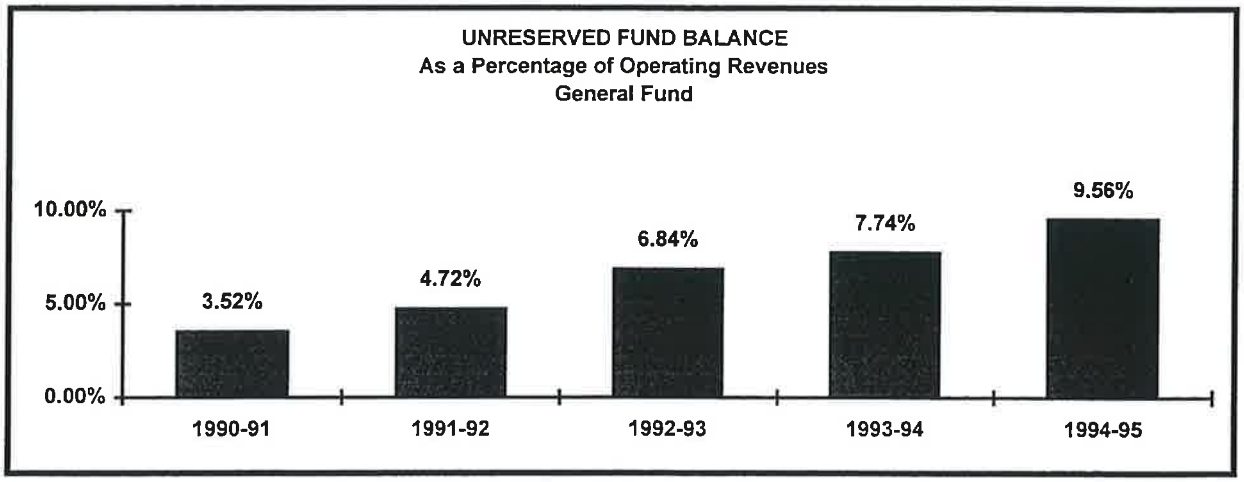
The recent economic recession was primarily responsible for the excess of General Fund expenditures over revenues by $1.27 million in FY 1990-91. However, through cost saving measures, implemented by the City Council and Administration, operating deficits/surpluses have been kept to less than 1% of operational 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.

This is a significant improvement over prior years as the City is successful at producing revenues that are sufficient to support current operating expenditures. Because of these reasons, this indicator is assigned a favorable rating.

Related Fiscal Policy

#8 Current revenues will be sufficient to support current operating expenditures.

Indicator 15



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

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

Comments And Analysis

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 indicate the stable position of the City's General Fund.

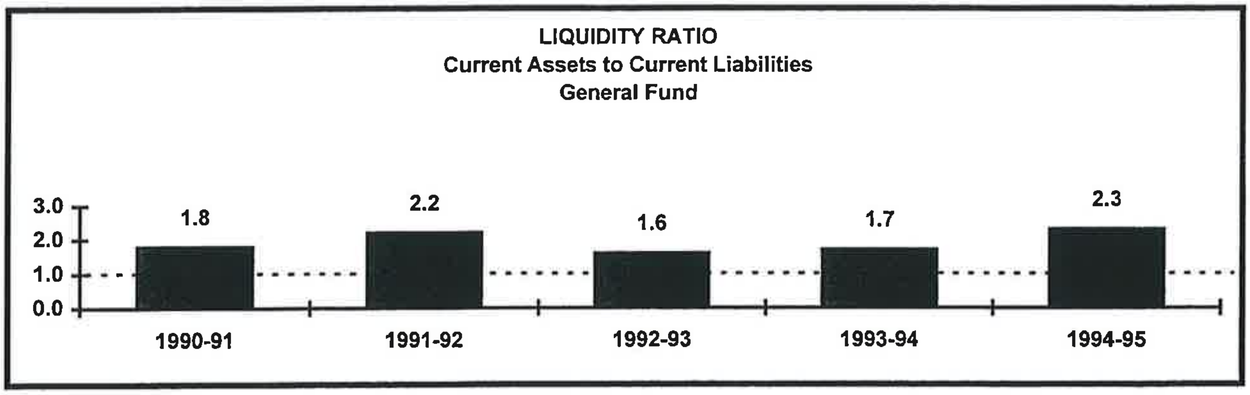
In FY 1990-91, as a result of the excess operating expenditures over operating revenues of $1.27 million, General Fund Unreserved Fund Balance was only 3.52 percent of operating revenues. The subsequent increase to 9.56% by FY 1994-95 is due to Council adoption of fiscal policies requiring that emergency 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. Because of the continued funding of reserves by the General Fund, future years will most likely experience a drop in unreserved fund balance. Included in the funding of reserves and transfers to other funds in FY 1995-96 are the before mentioned emergency reserve ($250,000), street improvement program ($700,000), Capital Equipment Replacement Reserve Fund ($100,000), Workers' Compensation Fund ($73,000), and General Liability Fund ($120,000).

Related Fiscal Policy

#34 The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 8 percent 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 2 or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.

#35 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% of general fund operating expenditures.

Indicator 16



Current Trend: Favorable **Prior Year Trend: Favorable**

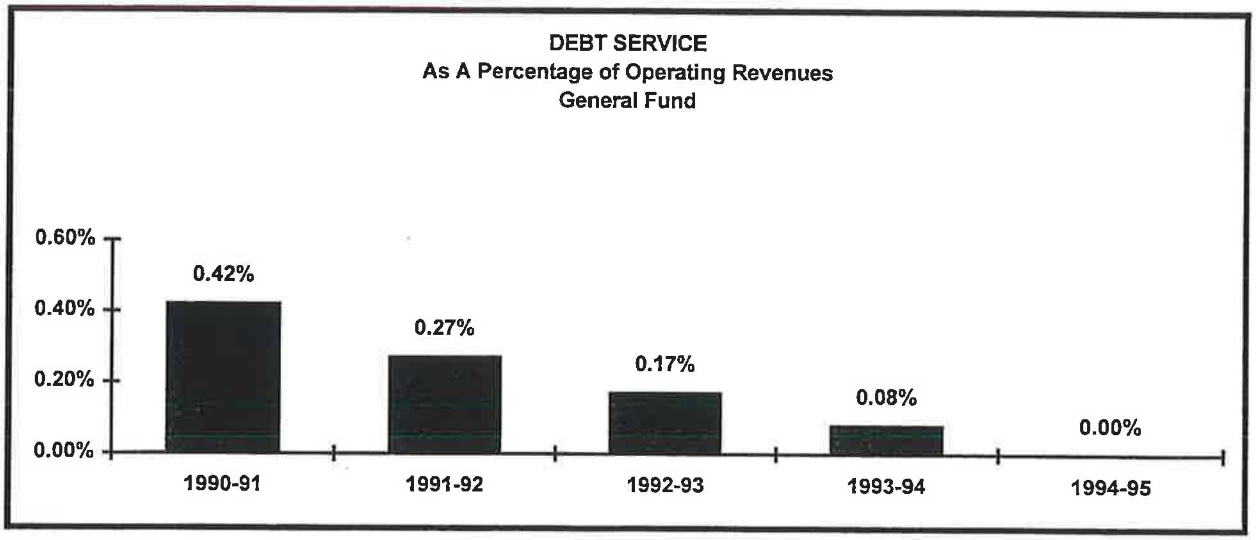
Description
Liquidity measures the City's ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable, and other assets that can be readily converted to cash. Current liabilities include accounts payable, accrued wages, accrued expenses, and deposits, all obligations that can be immediately demanded for payment. A liquidity ratio of less than 1:1 can indicate insolvency and is cause for alarm.

Comments And Analysis
In FY 1994-95, the City's liquidity ratio increased to a 2.3:1 ratio from the prior year's 1.7:1. This represents a significant increase from FY 1993-94 and indicates that the City's liquidity remains extremely strong.

Credit rating firms consider a ratio of 1:1 as favorable. A 2.3:1 current asset to current liability ratio is excellent.

Related Fiscal Policy
#46 Maintain at least a liquidity ratio of 1:1

Indicator 17



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Debt service includes the principal and interest payments on capitalized lease obligations of the City, the only type of General Fund debt service payments incurred by the City over the past five years. It is analyzed as a percentage of operating revenues, the base against which the size of the debt service payment can be measured and compared.

Comments And Analysis

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. During FY 1993-94, the City made the final payment on the lease/purchase agreement for the patchmaster utilized by street maintenance and repair. This is the reason that the General Fund has no debt service payments in FY 1994-95.

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.

Related Fiscal Policy

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

Additional Indicators

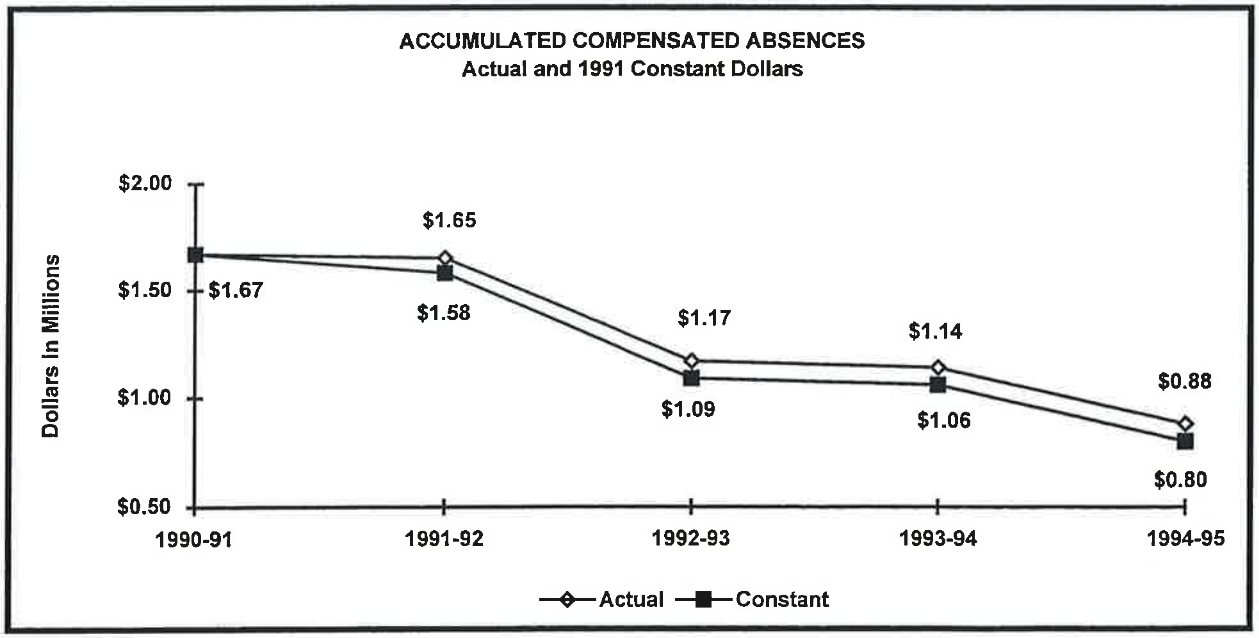
Three additional indicators are analyzed to provide information on the financial condition of the City. Accumulated Compensated Absences, consisting of accrued vacation, sick, and compensatory time (time-off in-lieu of overtime pay), represents an unfunded liability of the City. Unfunded liabilities are those which are incurred but have no reserve set aside for their payment when the obligation matures. In FY 1993-94, the City established a reserve for the payment of accrued leave. Accumulated compensated absences balance is payable at termination or retirement.

Because the City is so dependent on property tax revenues, a further analysis was done on the change in property values from one year to the next. As could be expected from an economic downturn, property values have slowed over the past four years and showed a decrease in constant dollar value in FY 1993-94.

Finally, the population of the City was analyzed over time to determine its impact on the tax base as well as the effects on additional service demands.

- Accumulated Compensated Absences
- Property Tax Values
- Population

Indicator 18



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

Compensated absences represent the payment of salaries and benefits for time off during scheduled work days and consist of accumulated compensatory time (time off in-lieu of overtime pay) as well as vacation, sick, bereavement, administrative, and special leave (time off for the emergency care of family members). Unused bereavement, administrative, and special leave lapse at the end of the calendar year. Compensatory time and vacation leave continue to accrue as a liability of the City upon termination of the employee at 100% of the employee's current pay rate, or until used as time off. Prior to March 1994, vacation leave was carried over from year to year. After March 31, 1994, vacation leave no longer accrues after reaching two times (and in some cases two and one-half times) the employee's annual accrued vacation. Unused sick leave continues to accrue and is also payable to the employee upon termination at the rate of 35% and 50% after ten and twenty years of service, respectively.

Comments And Analysis

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. The considerable drop in FY 1994-95 is attributed 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.

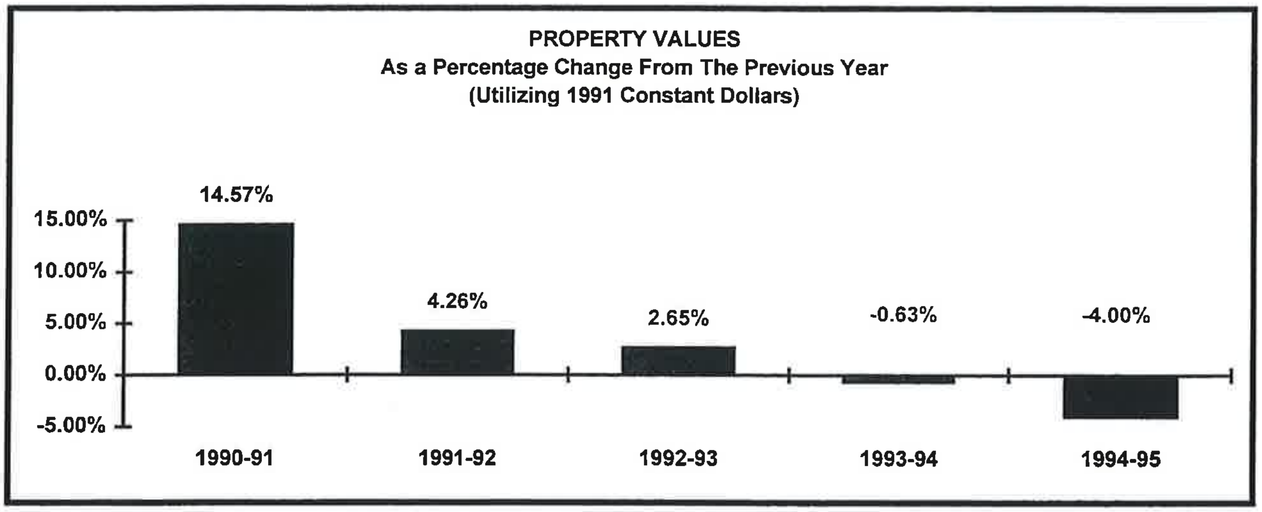
At June 30, 1995, the balance of the liability for compensated absences was $876,000 consisting of $541,000 for vacation, $300,000 for sick leave, and $35,000 for compensatory time. This is a total drop of $264,000, or 23.2% from the prior year's total liability of $1,140,000.

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.

Related Fiscal Policy

#37 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.

Indicator 19



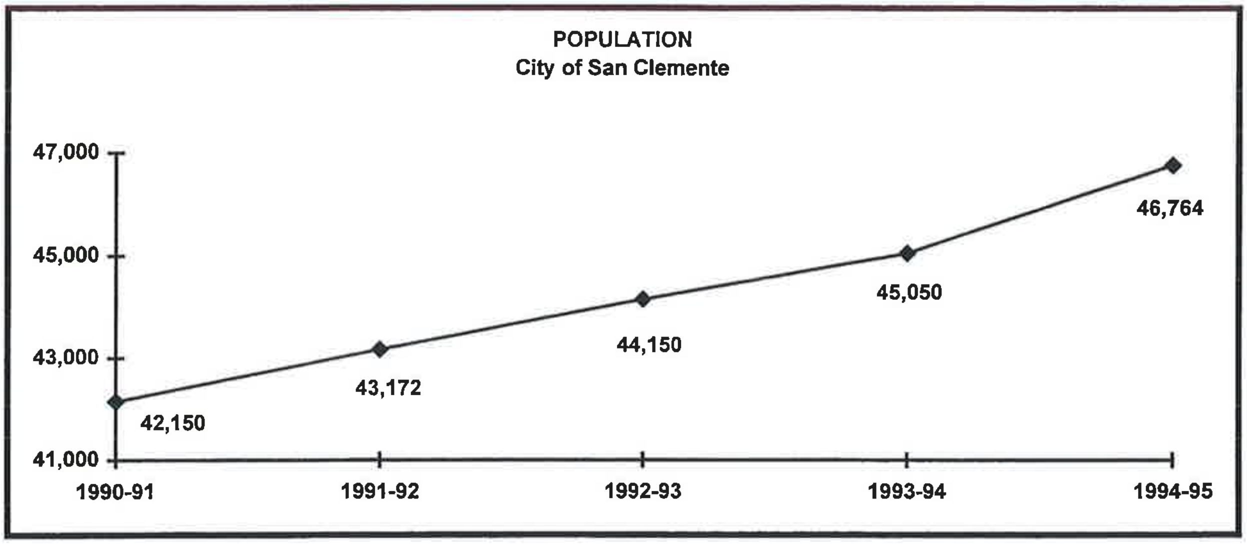
Current Trend: Unfavorable **Prior Year Trend: Unfavorable**

Description
Property values as a percentage change from the previous year is of primary importance to the City because property tax revenue, comprising 26% of total General Fund operating revenue in FY 1994-95, is the City's single largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the City's reliance on property taxes.

Comments And Analysis
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 14.57% in FY 1990-91 to an actual decrease of -4.00% in FY 1994-95. This reduced growth rate has effectively reduced property taxes in constant dollar terms to it's lowest level in five years. Property tax revenues declined by $258,000 in FY 1994-95 and projected property tax revenues for FY 1995-96 were recently decreased to anticipate a revenue amount equal to FY 1994-95. This is a major area of concern, since this is one of the City's largest sources of revenue.

Related Fiscal Policy
#14 The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.

Indicator 20



Current Trend: Favorable **Prior Year Trend: Favorable**

Description

The exact relationship between population change and other economic and demographic factors is uncertain. However, a sudden increase in population can create immediate pressures for new capital expenditures and higher levels of service. Conversely, a rapid decline in population allows for a smaller tax base for spreading City costs that cannot be reduced in the short run, such as debt service, pensions, and governmental mandates.

Comments And Analysis

The change in the City's population is considered favorable because this growth has been relatively planned and controlled. This planned growth is allowing the City the opportunity to ensure that the cost of servicing new residents does not exceed the City's ability to generate new revenues, that the level of business activity grows along with the increase in residential development, and that the growth does not strain the sewer system capacity, traffic circulation, and off-street parking.

Related Fiscal Policy

No related fiscal policy. Population and growth were factors considered within the recent update of the City's General Plan.

Financial Forecast

Objective

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.

Development of the Forecast

Financial forecasting is one of several important tools used by the City of San Clemente to manage General Fund resources. It provides an assessment of what will happen in the future if a given set of circumstances and assumptions hold true. As conditions change, so must the forecast if it is to remain a reliable source of information about the fiscal condition of the City.

It should be kept in mind that forecasting is an art, not a science. Forecasts portray what will happen in the future, based on stated assumptions, and are only as reliable as their underlying premises. Also, forecasting is time sensitive. The further into the future a forecast attempts to predict, the less certain are the results. However, if the underlying assumptions are sound, the information generated in the short-term can be very reliable. Furthermore, valuable insights can be obtained about longer term trends and emerging issues.

To ensure the City's forecast is as reliable as possible, the Finance and Administrative Services Department uses conservative assumptions based on information solicited from many sources, including Chapman University, California State University Fullerton and City staff. In addition to information provided from internal and external sources, the forecast relies upon actual historical revenues and expenditures from past five years.

As was the case in the past, this forecast is based 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 is presumed.

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period is taken from the Economic and Business Review prepared by the School of Business at Chapman University, December, 1995. In general, that report predicts a moderate but steady economic recovery that is in line with the City's 1995 forecast which projected a slow upturn in mid-1995. The 1996 forecast is based on a similar economic environment with a continuing upturn in economic activity through the year 2001, largely as a result of low inflation and interest rates.

The 1996 Financial Forecast updates the assumptions and data upon which the last three Financial Forecasts were based and will provide a comparison of this year's Forecast to historic data.

Economic And Demographic Assumptions

It is expected that the economy will continue to recover from the economic downturn that was experienced during the early 1990's. The Forecast anticipates that the local economic environment will continue to improve throughout the entire forecast period to FY 2000-01. Throughout the recovery period, real personal income, consumer spending and construction activity are projected to increase at a more moderate pace than experienced during previous economic recoveries.

Economic and demographic assumptions used in the forecast measure the anticipated changes in economic activity and population growth, and affect many of the revenue and expenditure projections. The economic assumptions utilized in this forecast are based primarily on the annual Economic and Business Review developed by Chapman University and published in December 1995.

A summary of the parameters utilized in the 1996 Financial Forecast to project the various revenue and expenditures categories are outlined on page 27 of this report.

1. General Inflation

Inflation affects many revenue and most expenditure categories throughout the Forecast. The inflation estimates used in this Forecast are based on the percentage of change in the Consumer Price Index (CPI) obtained from the Chapman University five year forecast for Orange County. The projected annual inflation rate has changed from 3.18% to 2.62% since the last financial forecast.

The following shows the estimated annual percentage change in inflation for the forecast period as projected by Chapman University's Economic and Business Review.

	1996-97	1997-98	1998-99	1999-00	2000-01
Inflation	2.1%	2.8%	3.3%	2.7%	2.2%

2. *Personal Income*

Personal income measures the growth of consumer purchasing power and it is used to project the changes in economically sensitive revenue sources, such as Sales Tax, Transient Occupancy Taxes and concession revenues.

The following indicates the estimated annual percentage change in Orange County personal income for the forecast period as projected by Chapman University's Economic and Business Review.

	1996-97	1997-98	1998-99	1999-00	2000-01
Personal Income	5.1%	6.1%	7.1%	5.4%	5.9%

3. *Population*

Population size is the primary basis for the allocation of Motor Vehicle Taxes, one of the City's larger revenue sources (7.6% of total General Fund revenue) and is also reflective of the scale of residential and commercial development within the City. In addition, year-to-year population growth is a useful factor in predicting increases in several other revenue categories, such as Franchise Fees, In-Lieu Taxes and Business Licenses. The following are the population growth projections used for this Forecast and are based on estimates developed by the City's Planning Division.

	1996-97	1997-98	1998-99	1999-00	2000-01
Population	47,669	48,161	48,464	48,769	49,321
% Change	1.1%	1.0%	0.6%	0.6%	1.1%

Financial Forecast Assumptions:

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

- 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.
- One new full-time position is presumed to be added each year in order to maintain existing service levels.

Long Term Financial Plan

- 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 Compensation	$43,900	$43,900	$43,900	$0	$0
General Liability	123,400	123,400	123,400	0	0
Capital 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 Contingency	207,000	214,000	221,000	227,000	232,000
Emergency Reserve	250,000	200,000	150,000	235,000	65,000
Total	$739,300	$696,300	$653,300	$577,000	$412,000

- 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
Street Improvement 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 Prog.	37,800	37,800	37,800	37,800	37,800
Animal Shelter	32,000	32,000	32,000	32,000	32,000

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.

Overall Revenue Results
Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.6%, compared to the 1995 forecast average growth rate of 3.2%. This increase in overall projected revenue growth is a result of the following:

- Property Tax revenue is projected to increase by an average of 4.2% per year compared to the prior year's forecast of 3.7%. This increase is due to a projected negative growth of -1.2% in year one of the 1995 forecast.

- An anticipated 5.6% increase in the Licenses and Permits revenue category compared to a 5% average annual increase in the prior forecast.

- Construction Permits are projected to increase an average of 8.2% per year compared to the prior year's average of 6.3% per year and is due primarily to projected improvements in year two and three of this years forecast.

- A projected increase of 4.5% for Service Charges compared to a 4% increase in the prior year.

The following table provides a comparison between the forecast and historical average growth rates for the major revenue classifications, and for selected large individual revenue categories within those classifications. As indicated, the historical average growth rate for revenues is 3.8% as compared to projections of 3.6% for the next five years. The following section provides an explanation of the changes within the major revenue categories.

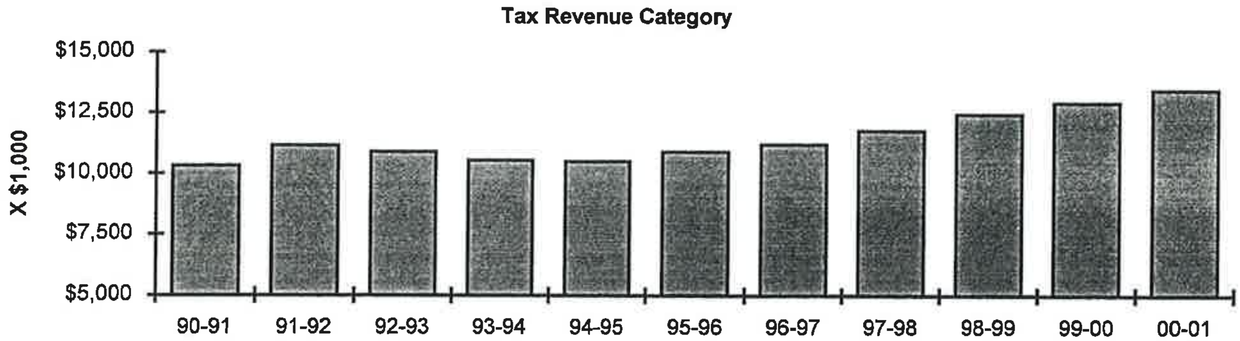
Major Revenue Categories	Forecast 5-year Average	Historical 5-year Average
Taxes	4.5%	0.3%
Property Tax	4.2%	-2.3%
Sales Tax	5.4%	2.3%
Transient Occupancy Tax (1)	2.9%	9.1%
In-Lieu & Franchise Taxes (2)	3.8%	13.6%
Property Transfer Tax	2.9%	-4.4%
Construction Permits	8.2%	19.6%
Business Licenses (3)	2.8%	15.8%
Other Licenses & Permits	3.8%	5.3%
Grants and Subventions	2.5%	-0.9%
Service Charges	4.5%	-0.6%
Fines	6.4%	-3.7%
Interest and Rents	1.2%	-6.0%
Interfund Transfers (4)	0.6%	55.9%
Total General Fund Revenue	3.6%	3.8%

(1) Transient occupancy tax rate increased from 8% to 10% effective 10-1-91.
(2) In-lieu tax assessed to Sewer Fund and franchise fees extended to refuse collection as of 7-1-91.
(3) The business license fee schedule was updated in FY 1991-92.
(4) Certificate of Participation proceeds for $3 million realized in FY 1992-93.

Taxes

The taxes category, which is the largest single revenue category, comprises 52% of total General Fund revenues and is currently projected at $10.9 million for FY 1995-96. Overall, this category is expected to achieve a relatively healthy average annual growth rate of 4.5%, which is considerably above the historical average of 0.3% for the past five years. Individual tax revenues and the forecast assumptions used for each of the tax categories are described below.

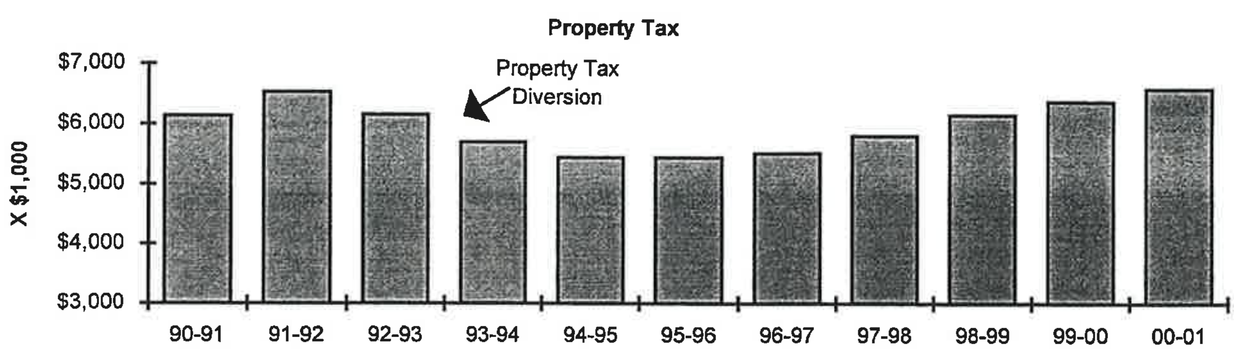
The following chart provides both historical and projected revenues for the tax revenue category:



Property Tax

Property Tax revenue, which is the City's largest revenue source, is currently estimated to total $5,441,500 for the 1995-96 fiscal year and represents 26% of the total General Fund revenue projection. Property Tax revenues are anticipated to stabilize in FY 1995-96. It is projected that it will take until FY 2000-01 for property tax revenues to regain the $6.5 million level achieved in FY 1991-92. Over the past three years the City has realized a $1.2 million reduction in Property Tax receipts as a result of the shift in revenues from the City to the State and the decline in property valuation.

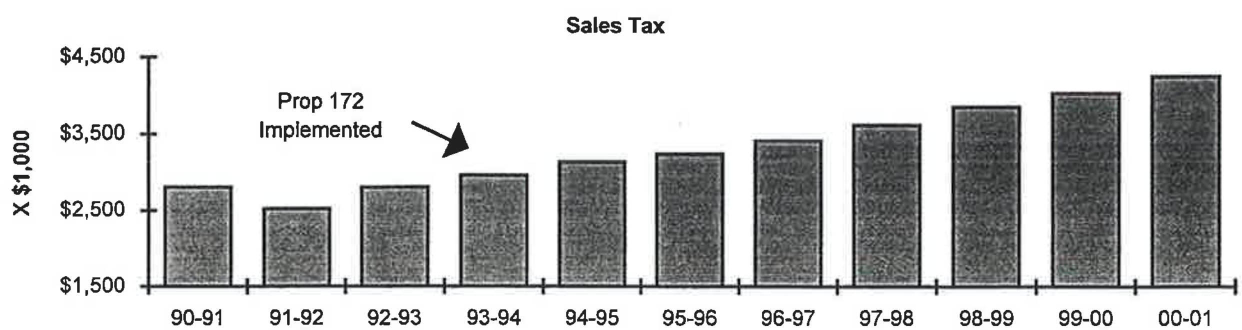
The average annual forecast Property Tax growth rate of 4.2% is significantly higher than the five year historical average of -2.3%. This prediction presumes that property valuation has leveled out and, as projected by Chapman, will begin to increase in FY 1996-97. Property Tax projections for the forecast period include provisions for a 2% annual valuation increase based on inflation provisions provided by Proposition 13, the revaluation allowed when property changes hands, as well as new construction required to accommodate expected population growth.



Sales Tax

Sales tax is one of the City's most economically sensitive revenue sources, and although greatly impacted in FY 1991-92 by the economic recession, sales taxes have managed to demonstrate a moderate but steady growth during the past four years. The implementation of Proposition 172 in FY 1993-94, certainly contributed to the growth of the Sales Tax revenue by generating $200,000 in FY 1995-96. Sales tax revenue is currently projected at $3.3 million for the current fiscal year. Sales Tax represents 16% of total General Fund revenues for the year, and therefore, constitutes the second largest revenue source for the City.

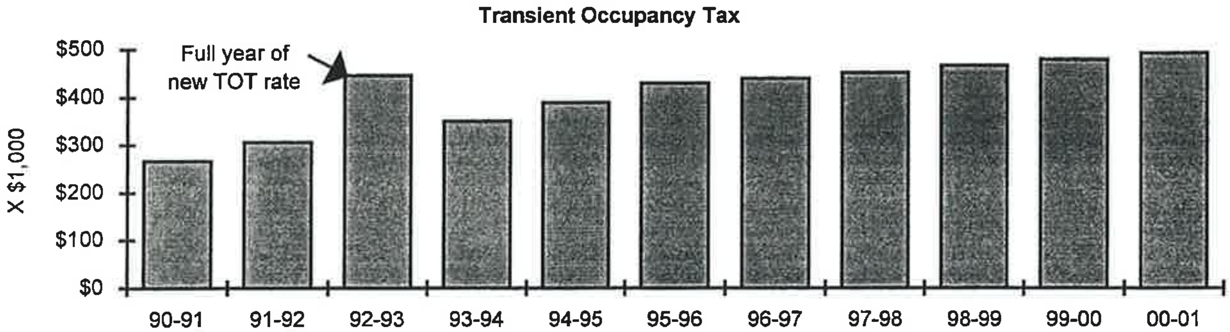
The average annual forecast sales tax growth rate of 5.4% is an improvement over the five year historical average of 2.3%, which includes the downturn in FY 1991-92 and the implementation of Proposition 172 in FY 1993-94. Additionally, based on actual receipts during the current fiscal year, sales tax projections have been decreased by $100,000. 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

Another economically sensitive revenue source is transient occupancy tax (TOT), which is projected to total $430,000 for FY 1995-96. Since dropping dramatically in FY 1993-94, TOT has grown at an average rate of 10.8% and appears to have stabilized. In fact, based on actual collections, the budget for this revenue source was recently increased by $15,000 to the current projection of $430,000.

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. The five year historical average is 9.1% and is primarily a result of the increase in TOT rate from 8% to 10%, which became effective in October 1991.



In-Lieu and Franchise Taxes

This category includes in-lieu taxes at 4% of operating revenues from the Water, Sewer and Golf Course enterprise funds, as well as franchise taxes remitted by SDG&E, Southern California Gas Company, Cox Cable TV and Solag under the terms of their long term franchise agreements with the City.

For the forecast period, an average growth rate of 3.8% is projected, which reflects 100% of anticipated inflation plus 100% of population growth.

Property Transfer Tax

A transfer tax of 0.05% times the selling price is collected by the County and remitted monthly to the City on all sales of real property in the City. This revenue source is projected to increase by an average of 2.9% per year compared to the historical average of -4.4% for the past five years. Projections are based on the Chapman forecasted CPI.

Licenses And Permits

Licenses and permits make up 6% of estimated General Fund revenues for FY 1995-96. Included in this category are business licenses, various types of construction related permits and miscellaneous licenses and permits, such as taxi cab permits. Revenues in this category are anticipated to average 5.6% over the forecast period compared to the historical growth of 15.5% over the past five years.

1. Construction Permits

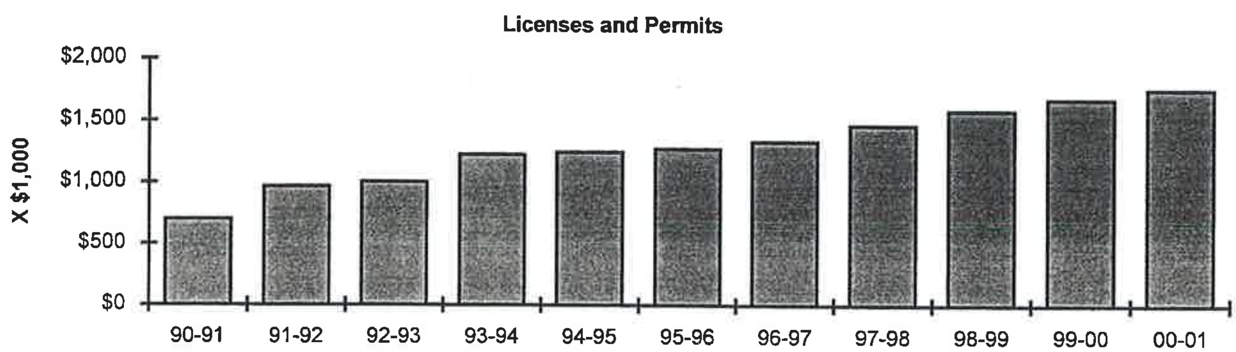
Building, electrical, mechanical, plumbing and grading permits were impacted in FY 1990-91 by the economic recession and the related drop in construction activity, however the following years reflected increased activity averaging 19.6% over the past five years. Construction permit revenues are expected to meet budget estimates of $623,000 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 improves. Annual growth estimates are based on a combination of the Chapman University annual economic forecast and City of San Clemente Community Development Department.

2. Business Licenses

During fiscal 1991-92, business license fees were revised and updated, tying more of the fee calculations to gross receipts and removing the caps that previously existed. The result was a 52% increase in business license revenue over the previous year. An average growth rate of 2.8% is projected over the forecast period. These projections are based on 100% of inflation.

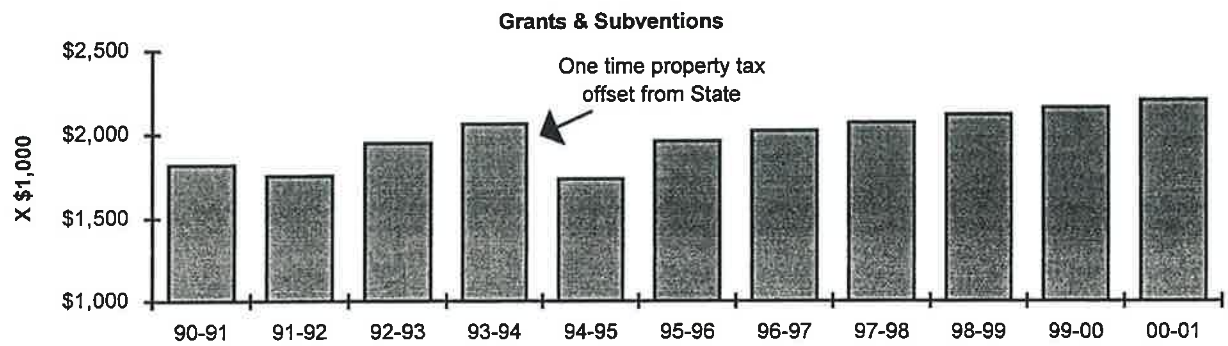
3. Other Licenses and Permits

This category is composed of several minor types of licenses and permits, including alarm permits at approximately $125,000 per year. As a whole, this revenue group is projected to realize an average annual growth rate of 3.8% over the coming five year period, with this projection being based primarily on 100% of inflation plus 100% of population growth.



Grants And Subventions

The predominant revenue source in this category is Motor Vehicle Tax, a State shared revenue which comprises 84% of the intergovernmental revenue total. Other significant items are a SONGS grant (6.3%) and the State reimbursement for homeowner exemptions on property taxes (5.6%). These revenues are projected to grow at an average annual rate of 2.5% over the forecast period, compared to the historical growth rate of -0.9%. This negative historical growth rate is due to the decline in FY 1994-95 due to the receipt of $182,000 in Motor Vehicle fees from the State to offset the impact on the shift of Property Tax from cities to the schools in FY 1993-94. Projections for both County and State grants are at 0%. Motor Vehicle projections are projected to increase by 3.6% and are based on 50% of expected inflation plus 100% of anticipated population growth.

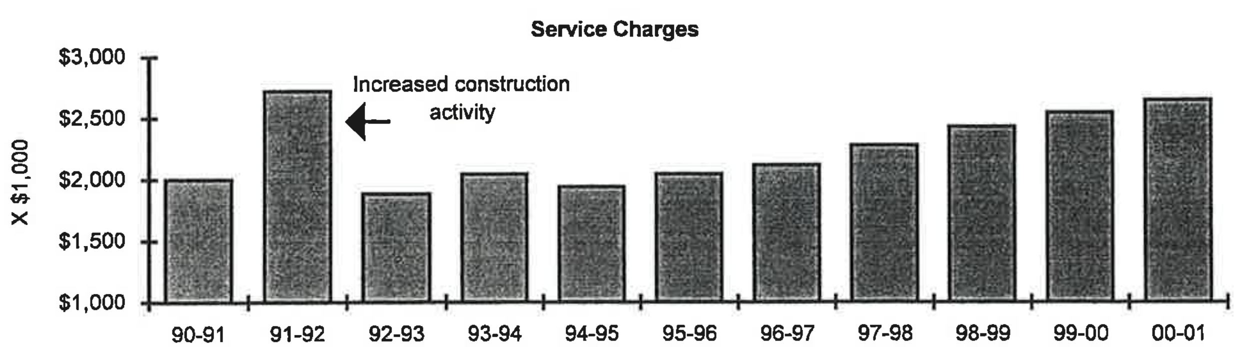


Service Charges

The service charges category includes a wide variety of fees and charges administered by all City departments and range from ambulance fees to recreation fees. These revenue sources are projected to total $2 million for FY 1995-96 or 9.7% of the General Fund budget. Some of the major revenue sources for this category and their current projected revenues are as follows:

Building Plan Check Fees	$392,000
Construction Inspection Fees	$171,000
Ambulance Service Charges and Subscriptions	$358,000
Parking Meters and Permits	$378,000
Recreation Charges	$409,000
Weed Abatement	$94,000

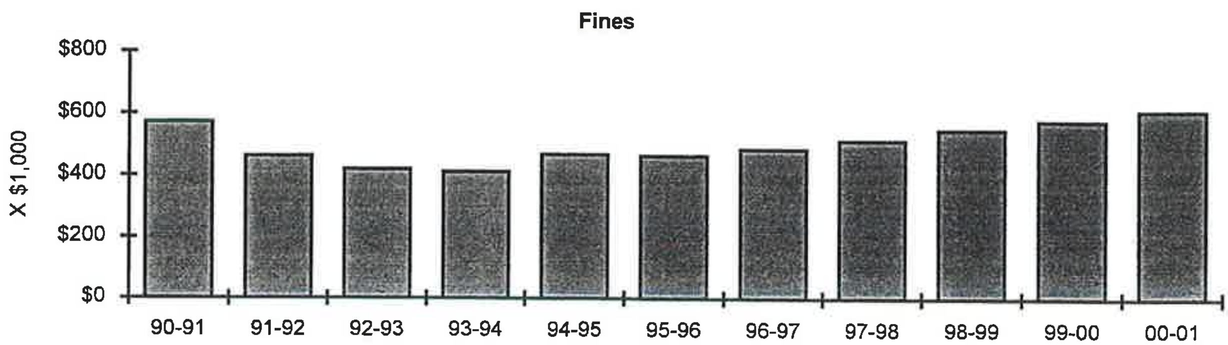
Total service charges are projected to grow at an annual rate of 4.5% over the forecast period, compared to the recent historical average growth of -0.6% per year over the past five years. The decline in historical revenue is due to the high level of construction activity that started in FY 1990-91 and peaked in FY 1991-92. The forecast projections rely on a number of relevant indices, including inflation, projected building permits issued, population and personal income growth.



Fines

This revenue category consists of all fines levied by the City for vehicles, alarms, and other fines. The parking violations account is the largest single item in this category and makes up 75.7% of this revenue category. Total revenue for this category is $463,00 for FY 1995-96 and consists of 2% of all General fund Revenues.

The average growth rate of this revenue source 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

This revenue group includes a wide variety of revenue sources, which are currently projected to total $1 million for the 1995-96 fiscal year, or 4.9% of total General Fund revenues. In addition to interest earnings on invested funds, the category includes revenue from rental agreements and leases, including Casa Romantica, the Fisherman's Restaurant, and various communication sites.

As a group, 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. The projected low average annual growth rate in this category is due to an anticipated decline in interest rates averaging -3.1% over the five year forecast and one time revenues (Narcotic Forfeiture fees) in the base year FY 1995-96.

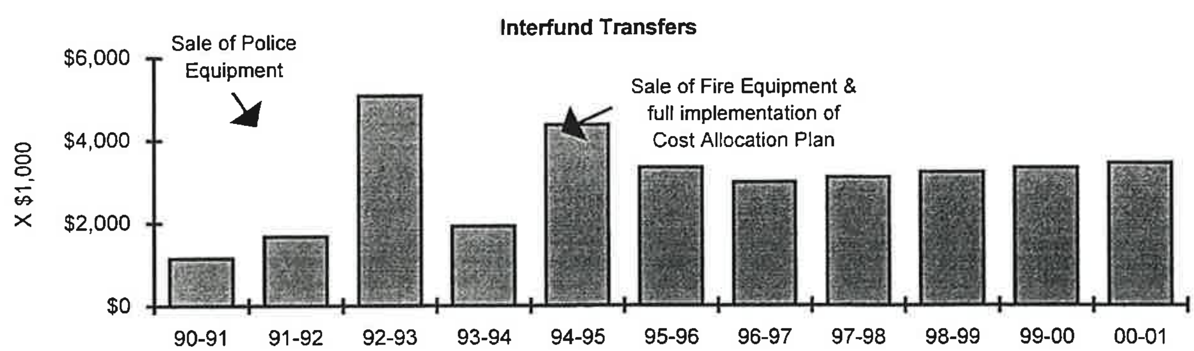
Projections for other revenues in this category are based on a combination of inflation, population growth and personal income growth.

Interfund Transfers

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 have their own revenue sources and are dependent on functions funded by the General Fund. These include the Water, Sewer, Golf Course, Storm Drain, and Solid Waste Management Enterprise Funds as well as the Lighting and Landscaping Assessment District Fund. These funds rely on the General Fund for administrative and accounting support for which they are assessed an overhead charge that is recalculated each year to assure that the rate is equitable and current. This category also includes the sale of property and interfund transfer of all state shared 2107 gas tax monies received by the City, which are used to support the various street maintenance programs conducted and accounted for within the General Fund.

In total, the 1995-96 revenue from Interfund Transfers amounts to $3.3 million or 16% of the General Fund total. This category is projected to achieve an average growth rate of 0.6% over the forecast period. This slow growth rate is the result of the loss of the transfer from Disaster Relief Fund in the first year of the forecast. Projections are based on 100% of inflation plus 100% of anticipated population growth.

The historic growth rate of this category is 56% as a result of the one time sale of Fire equipment to the County of Orange ($1.2 million) in FY 1994-95.



Overall Expenditure Results

Over the forecast period, General Fund expenditures are projected to increase at an average annual rate of 2.9%, compared to a historical five year average growth rate of 0.4%.

The following table provides a comparison between the forecast and historical growth averages for the major expenditure classifications.

Major Expenditure Categories	Forecast 5-Year Average	Historical 5-Year Average
Salaries & Wages	5.0%	-7.8%
Employee Benefits	4.8%	-5.4%
Supplies	2.4%	-6.6%
Contractual Services	2.7%	30.6%
Other Charges	2.9%	2.4%
Capital Outlay	-13.8%	-18.9%
Interdepartmental Charges	2.6%	0.2%
Interfund Transfers	-7.3%	1.1%
Total General Fund Expenditures	2.9%	0.4%

It should be noted that as a result of contracting Police and Fire Services to the County and contracting out other services that were performed by City staff in the past the comparison of historical and projected averages is problematical. This accounts for the dramatic changes in historical and forecast averages presented in the above table.

The major General Fund expenditure categories with associated forecast assumptions are further discussed in the following sections:

Salaries And Wages

Salaries and wages used to be one of the largest expenditure categories within the General Fund, representing 50% of the total budget. During the past several years this category has been reduced as a result of contracting various City services, and now represents only 25% of the General Fund budget. Most of the costs are for salaries of permanent personnel, with the remainder being for part time help and overtime.

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's salary base.

The average annual growth rate for the Salaries and Wages category is 5.0% for the five year projection compared to the historic average of -7.8%, which is a result of contracting out for various city services over the past several years.

Employee Benefits

The Employee Benefits category used to represent 20% of the total budget. Due to the same reasons indicated in the Salaries and Wages category, benefits now represent only 8.4% of the General Fund budget.

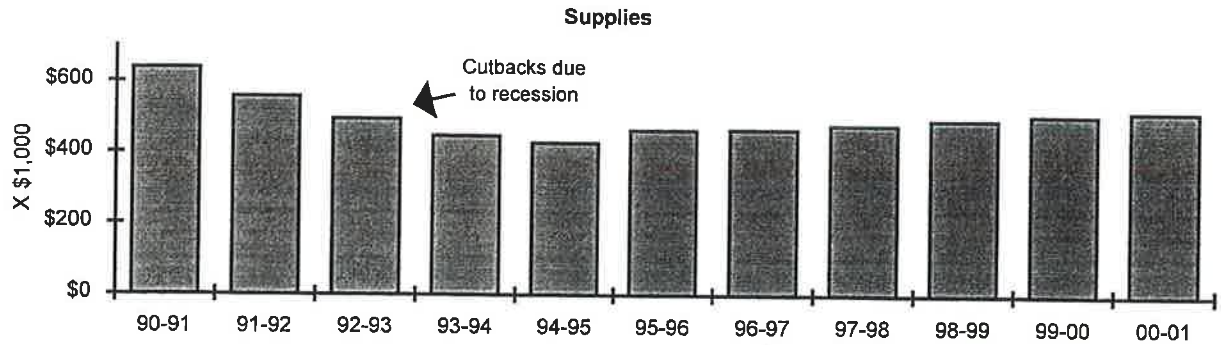
Forecast projections for employee benefits reflect the same growth factors used for salaries and wages, namely the addition of one full-time position each year, 90% of inflation for cost of living increases, 1.5% for merit raises and reclassifications plus an additional .5% for increased medical insurance costs above the rate of inflation. This combination is utilized because some employee benefits, such as unemployment and FICA are based on a percentage of employee salaries, while other benefits such as medical insurance and life insurance is a fixed dollar amount.

The employee benefits category reflects an average growth rate of 4.8% for the forecast period compared to the historical average of -5.4% for this category as a result of contracting Police and Fire services to the County and other functions formerly performed by City staff.

The following chart provides a comparison of both Salaries and Benefits:

Supplies

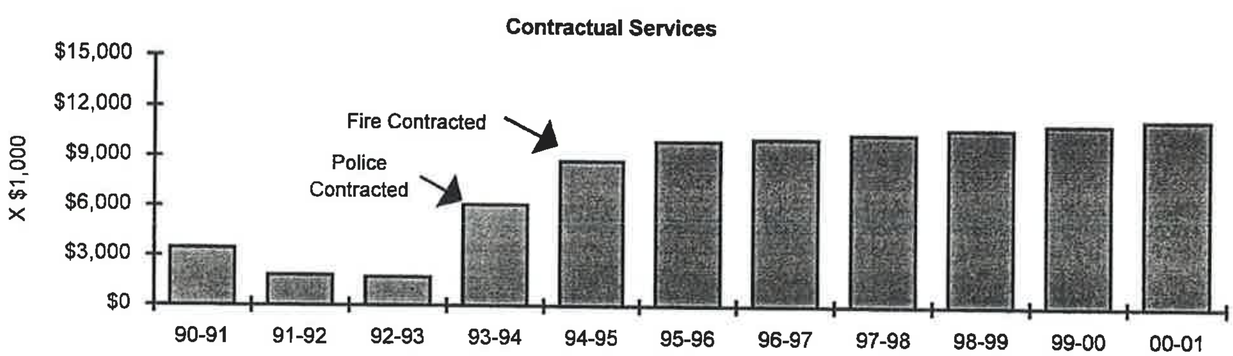
The supplies category includes a wide variety of items ranging from pencils and paper to street patching materials. The forecast projects an annual growth rate that averages 2.4% compared to the historical average of -6.6%. Forecast projections are based on 100% of projected inflation in order to maintain the present levels of service throughout the forecast period.



Contractual Services

Contractual services provides for a wide range of services such as legal services, printing, electricity and Police and Fire services from the County. Due to the major change in services now being contracted, the contractual services category now represents 45% of General Fund expenditures, compared to less then 10% in FY 1991-92.

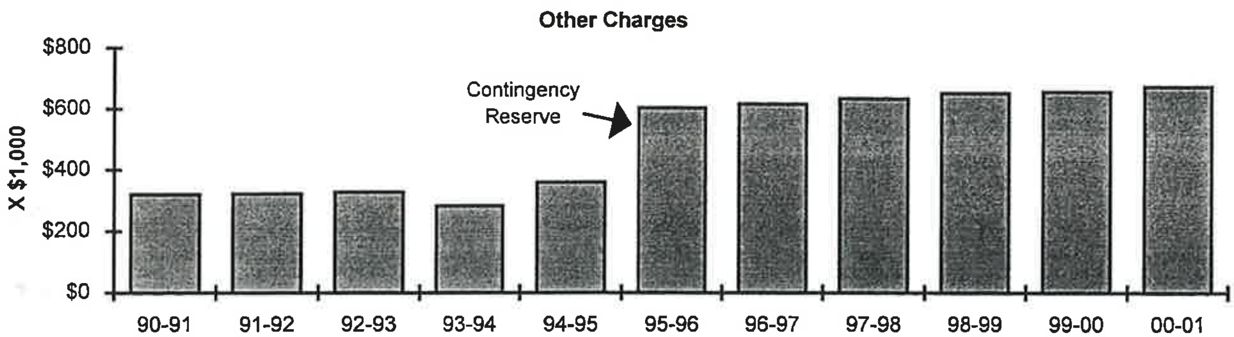
Overall, this category is expected to experience an average annual increase of 2.7% over the forecast period, well below the historical average of 30.6% (The historical average reflects both Police and Fire services changing from internal operations to contractual services). Projections are based on 100% of inflation. Projections do not presume further contracting of City services or an increase in the level of public safety services.



Other Charges

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Within this expenditure category is the Council Contingency reserve account, which makes up 33% or $200,000 of the funding in the Other Charges category. 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, compared to the historical average of 2.4%. These projections are based on 100% of inflation.

When allocations are made from the Council Contingency Reserve, the funds are transferred to the appropriate program, which is why the amounts in the following chart indicate such a small amount in the five historical years, compared to the current amount budgeted in FY 1995-96 and the forecast years.

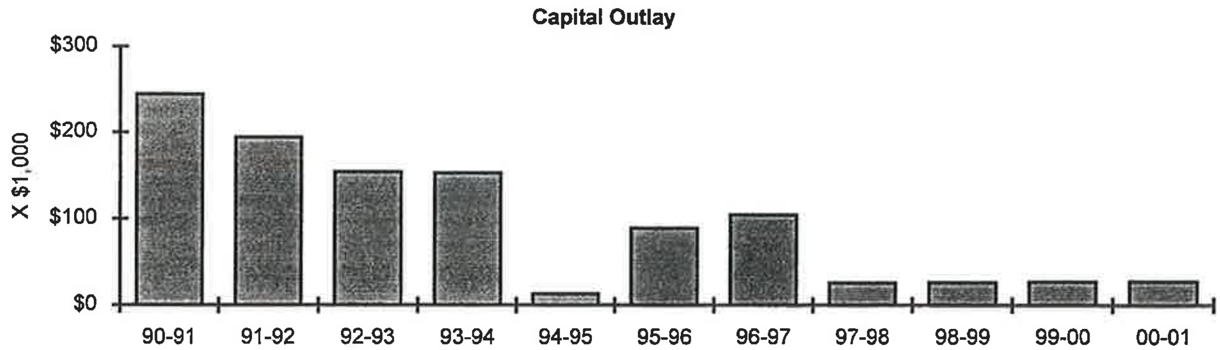


Capital Outlay

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 with $25,000 for the purchase of new and replacement equipment.

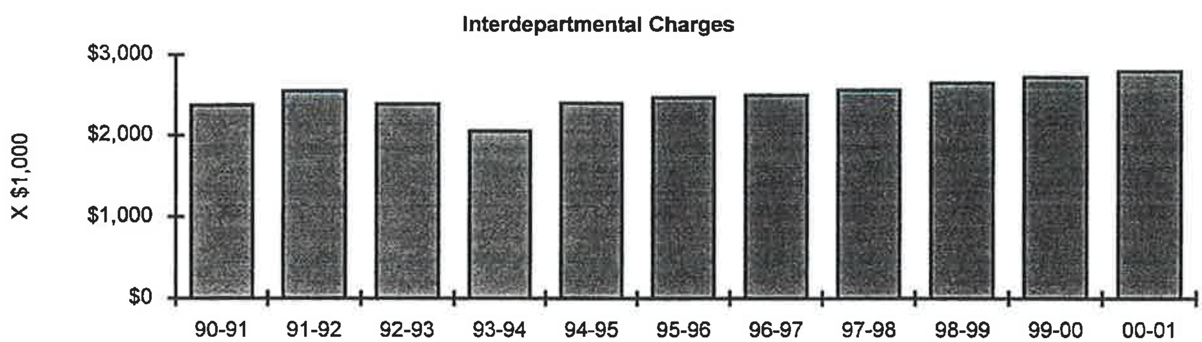
Historically both new and replacement equipment, and infrastructure replacement and funding for capital projects, for which the General Fund was the only available funding source, have utilized this expenditure category. The allocation of $3 million in FY 1992-93 was an example of the use of this expenditure category for the purchase of infrastructure. The one time allocation of $3 million for the purchase of the Negocio property is not indicated on the chart for this section for FY 1992-93 as it does not allow for a valid comparison.

Forecast projections for this category are based only on inflation, resulting in an average annual 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.



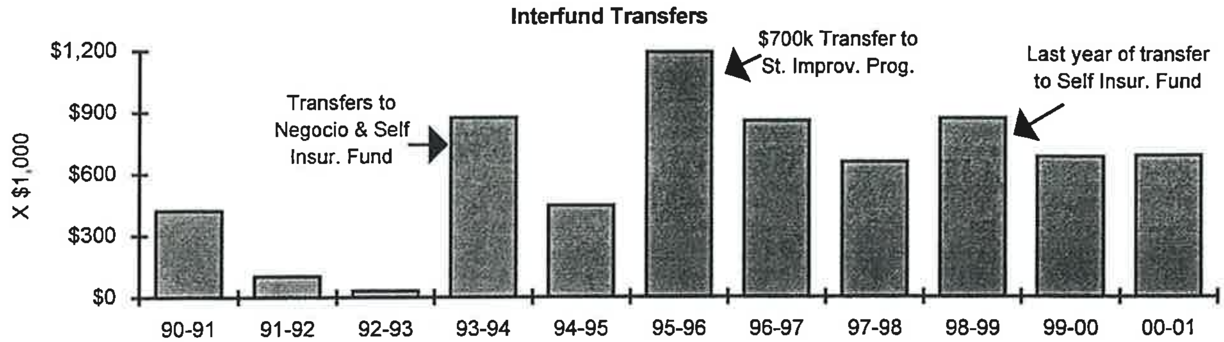
Interdepartmental Charges

Interdepartmental Charges are for services provided by other funds such as fleet services for use of vehicles. Interdepartmental Charges represents 11.3% of the General Fund budget and is currently budgeted at $2.5 million. This category is projected to average a 2.6% increase over the five year forecast, compared to an historical average of -0.6% over the past five years. The low historical average is due to the increase in contractual services for functions that were formally provided internally. As these services are contracted there is a corresponding reduction in interdepartmental charges for services.



Interfund Transfers

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Program, Self Insurance Fund (Worker's Compensation and General Liability Funds), and Capital Equipment Replacement Reserve. Interfund Transfers represent 5.4% of the total General Fund budget. The Interfund Transfer category is projected to experience an average annual decrease of -7.3% due to the projected full funding of the General Liability and Worker's Compensation reserves in FY 1998-99. Growth during the forecast is based on 100% of inflation less adjustments for one time or temporary transfers as indicated above.



Forecast Summary

A summary of the projected revenue and expenditures including fund balance is provided on the Cash Flow summaries that begin on page 23 of the Forecast. Three different Cash Flow scenarios are provided;

- *Optimistic Cash Flow* - projects that budgeted revenues will be exceeded by 1.5% all five years of the forecast and that actual expenditures will be 2.5% under budget each year.

- *Realistic Cash Flow* - projects that budgeted revenues will be exceeded by 1% in the base year and all five year of the forecast and that actual expenditures will be 2.5% under budget.

- *Pessimistic Cash Flow* - projects that budgeted revenues will be not be exceeded and that actual expenditures will be equal to budget each year.

As indicated at the bottom of the summary, any unexpended funds increase the ending fund balance, which are then carried over and become the beginning fund balances for the next year. Conversely, as new programs are added to the General Fund, they have an impact on the ending fund balance that can cause a reduction in fund balance and affect the financial stability of the City in future years.

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 compared to expenditures growing at an annual average rate of 2.9% per year.

Forecast Analysis
The following analysis assumes the use of the "Realistic" cash flow scenario described above.

Year One: In year one of the forecast revenues are anticipated to increase only 0.12% due to the loss of the one time revenues that were included in the mid-year budget adjustments for actuarial services, narcotics forfeitures, and energy rebates. However, expenditures are only projected to increase by 0.43% as a result of the reduction in transfers to other funds, primarily a $400,000 reduction in transfers to the Street Improvement program. These minor changes in revenues and expenditures result in a projected ending fund balance of $92,000. Although, fund balance has decreased from the prior year, the Emergency Reserve will have increased by $250,000 to $1.28 million. Additionally, $300,000 will be transferred to the Street Improvement Fund and other reserve transfers total almost $500,000.

Year Two: In year two of the forecast revenues are anticipated to increase by 5% as property valuations are expected to increase and a return to normal annual property valuation increases based on the resale of property and inflation. Expenditures are projected to increase by only 2.4% as a result of decreases in capital outlay and a reduction in the transfer to the Street Improvement program. An allocation of $200,000 is projected for the Emergency Reserve, which will increase reserve funding to $1.48 million or 6.83% of the General Fund operations budget. However, this will result in a projected fund balance of only $23,000 at the end of FY 1997-98, the lowest fund balance projected in the forecast.

Year Three: During year three of the forecast revenue growth of 5.4% continues to slightly outpace the rate of expenditures at 4.8% resulting in a positive fund balance of $140,000 even with a further allocation of $150,000 to Emergency Reserve. The upward swing in the fund balance is also due to full funding of worker's compensation and general liability reserves and deficits. By the end of year three of the forecast the Emergency Reserve is at $1.63 million or 7.23% of the General Fund operations budget.

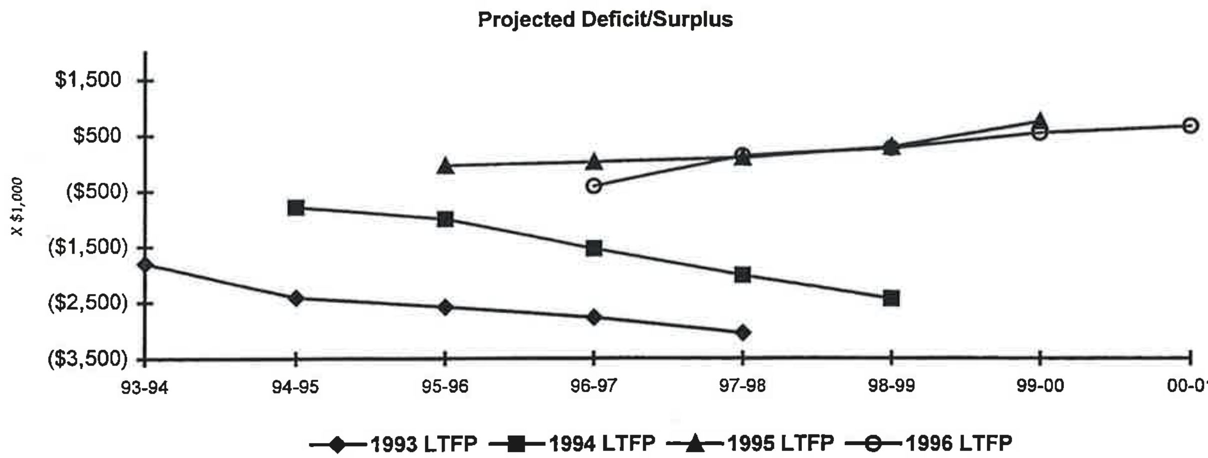
Year Four: Year four of the forecast results in an ending fund balance to $445,000 due to revenues maintaining a growth rate of 3.8%, while expenditures are only increasing at a rate of 2.6%. The allocation $235,000 to the Emergency Reserve results increases the total amount to $1.87 million or fully funding the 8.0% of the General Fund operations budget.

Year Five: Year five of the forecast completes the year with a fund balance of $1.04 million due to a contribution of only $65,000 to the Emergency Reserves to bring the total reserve to $1.93 million in order to maintain the 8.0% of the General Fund operations budget.

Operating Surplus/Deficit
The forecast predicts a continued financial recovery which results in positive fund balance throughout the forecast. Results of the forecast with respect to the annual operating deficit or surplus (excluding fund balances) is shown in the following two graphs that compares the prior years forecasts to the current 1996 forecast.

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
Transfers to Reserves	739	696	653	577	412
Transfers to St. Improv. Prog.	300	210	410	410	410
Expenditures	20,502	21,156	22,053	22,732	23,692
Deficit/Surplus Total	-$412	$130	$267	$541	$662



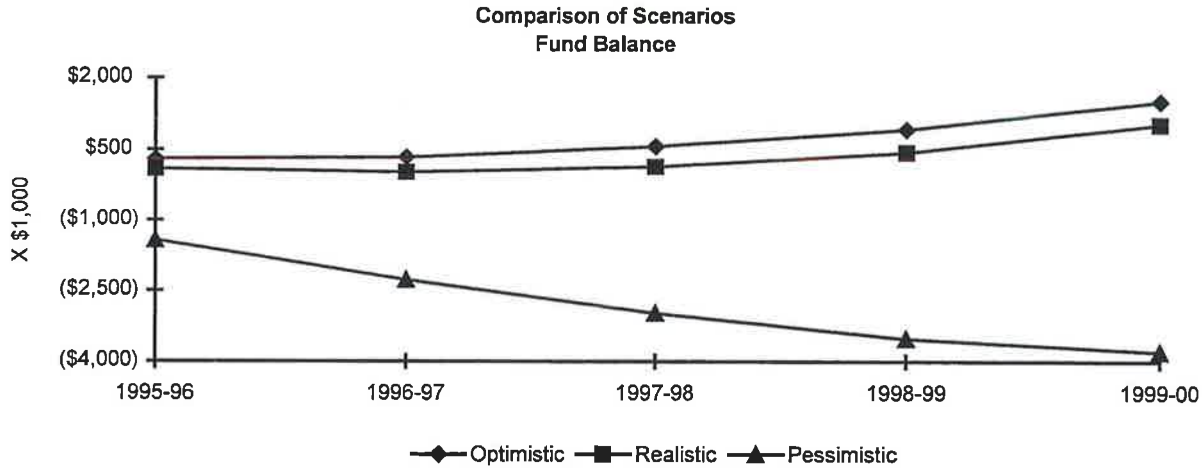
As indicated, an operating deficit occurs in FY 1996-97 due to transfers of funds to reserves and the Street Improvement Program and a reduction in one time revenues realized in FY 1995-96.

Realistic, Optimistic, Pessimistic Scenarios

A comparison of the projected ending fund balance for the Realistic, Optimistic and Pessimistic scenarios in this forecast are summarized in the following two graphs:

Fund Balance Comparison

Amounts in $1,000	1996-97	1997-98	1998-99	1999-00	2000-01
Optimistic	$301	$341	$574	$931	$1,522
Realistic	$92	$23	$140	$445	$1,042
Pessimistic	-$1,427	-$2,280	-$2,983	-$3,520	-$3,794

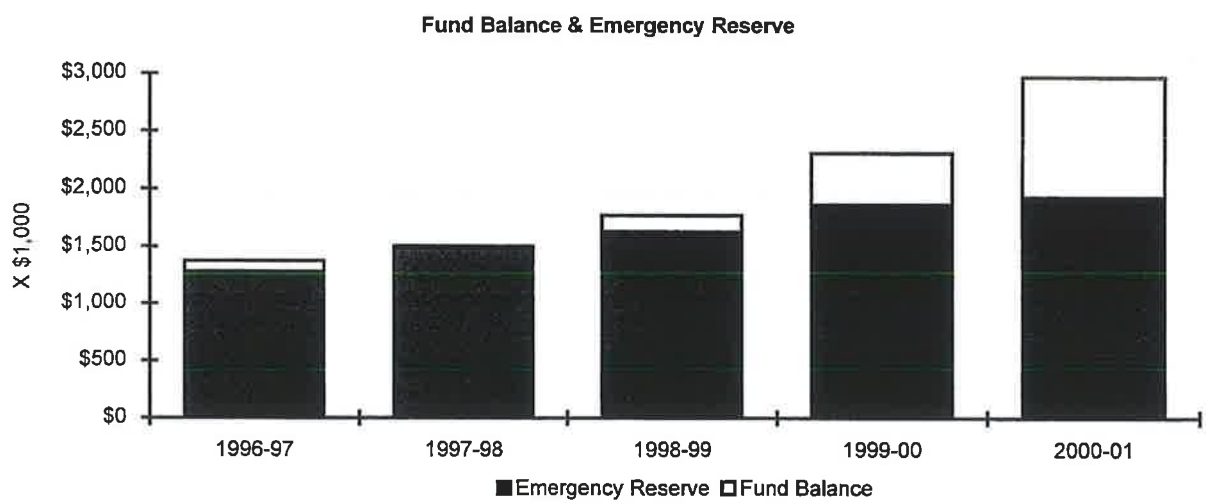


Fund Balances and Emergency Reserves

The following two graphs indicate the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year forecast period.

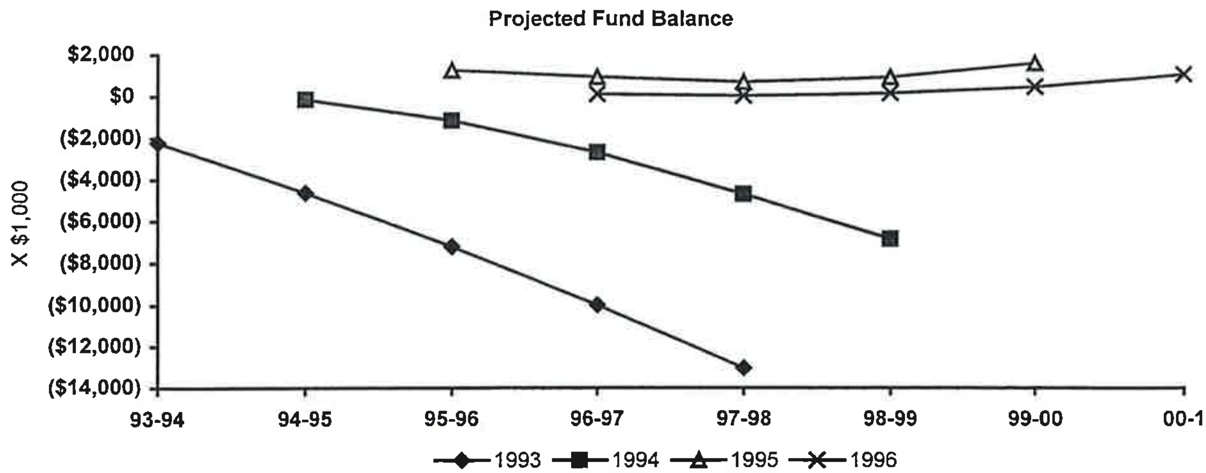
Fund Balance & Emergency Reserve

Amounts in $1,000	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



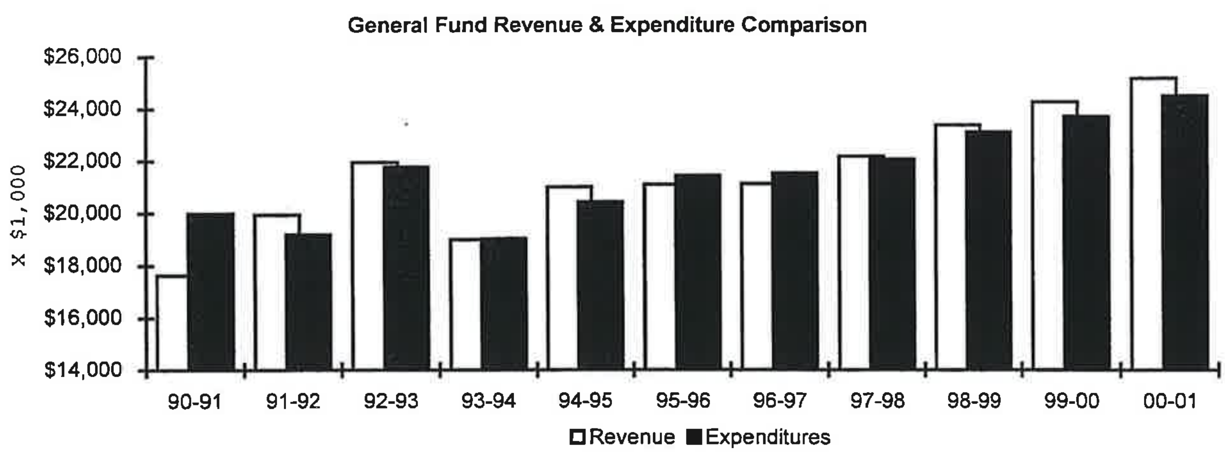
Fund Balance Comparison

The following chart provides a comparison of the projected fund balance for each of the prior forecasts and the 1996 forecast. As indicated in the chart the City's financial position has improved considerably from the -$13 million in FY 1997-98 to a projected positive fund balance of $1.04 million in FY 2000-01.



Historical/Projected Revenue and Expenditure

The following chart provides actual historical and projected revenue and expenditure levels as utilized in this Forecast.



The summary of the cash flow and revenues and expenditures categories that are projected in the five year forecast are summarized beginning on the following page.

Long Term Financial Plan

1996 FINANCIAL FORECAST
Realistic Cash Flow from 1995-96 Adjusted Budget
(Amounts in Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Beginning Fund Balance	1,348	754	92	23	140	445	
Revenues							
Taxes	10,899	11,211	11,782	12,460	12,943	13,457	61,853
Licenses & Permits	1,281	1,297	1,422	1,538	1,625	1,702	7,585
Intergovernmental	1,980	2,042	2,090	2,139	2,181	2,227	10,679
Service Charges	2,066	2,092	2,242	2,390	2,498	2,599	11,821
Fines & Forfeits	467	490	519	554	583	617	2,763
Interest & Rents	1,039	989	1,014	1,055	1,075	1,103	5,235
Interfund Transfers	3,372	3,009	3,123	3,246	3,354	3,473	16,204
Total G F Revenues	21,104	21,129	22,192	23,383	24,260	25,176	116,140
Expenditures							
City Council	21	21	21	22	22	23	109
City Manager	492	507	526	548	568	588	2,736
City General	2,308	1,961	1,911	2,151	2,027	2,067	10,116
Finance & Admin. Services	301	311	324	338	351	365	1,688
City Clerk	359	370	384	401	415	431	2,001
Accounting	641	660	685	714	740	767	3,565
Human Resources	289	294	305	317	329	340	1,585
Central Services	121	125	130	136	141	147	680
C A R E S	287	310	319	331	342	353	1,655
Police Services	6,112	6,231	6,406	6,617	6,796	6,981	33,032
Fire Services	3,532	3,564	3,646	3,766	3,868	3,973	18,816
Comm Dev.- Admin.	217	224	233	243	252	262	1,214
Building	816	831	863	901	934	970	4,499
Planning	732	751	779	813	843	875	4,061
Public Works Admin.	255	263	273	285	296	307	1,424
Engineering	1,104	1,143	1,190	1,252	1,308	1,366	6,258
Maintenance Services	2,105	2,157	2,133	2,215	2,291	2,367	11,163
B, P & R Admin.	238	236	246	257	267	278	1,285
Recreation	861	858	888	924	956	990	4,615
Weed Abatement	90	92	94	97	100	103	485
Marine Safety	568	586	609	636	660	686	3,176
New Employees	0	47	98	153	213	276	787
Total GF Expenditures	21,448	21,541	22,062	23,116	23,719	24,514	114,953
Emergency Reserve	250	250	200	150	235	65	
Ending Fund Balance	754	92	23	140	445	1,042	

1996 FINANCIAL FORECAST
Optimistic Cash Flow from 1995-96 Adjusted Budget
(Amounts in Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Beginning Fund Balance	1,348	859	301	341	574	1,000	
Revenues							
Taxes	10,953	11,267	11,840	12,521	13,007	13,523	62,159
Licenses & Permits	1,287	1,304	1,430	1,546	1,633	1,710	7,623
Intergovernmental	1,990	2,052	2,101	2,150	2,192	2,238	10,732
Service Charges	2,076	2,102	2,253	2,402	2,511	2,611	11,880
Fines & Forfeits	469	492	521	557	586	620	2,776
Interest & Rents	1,044	994	1,019	1,060	1,080	1,109	5,261
Interfund Transfers	3,388	3,023	3,138	3,262	3,370	3,490	16,284
Total G F Revenues	21,209	21,234	22,302	23,499	24,380	25,301	116,715
Expenditures							
City Council	21	21	21	22	22	23	109
City Manager	492	507	526	548	568	588	2,736
City General	2,308	1,961	1,911	2,151	2,027	2,067	10,116
Finance & Admin. Services	301	311	324	338	351	365	1,688
City Clerk	359	370	384	401	415	431	2,001
Accounting	641	660	685	714	740	767	3,565
Human Resources	289	294	305	317	329	340	1,585
Central Services	121	125	130	136	141	147	680
C A R E S	287	310	319	331	342	353	1,655
Police Services	6,112	6,231	6,406	6,617	6,796	6,981	33,032
Fire Services	3,532	3,564	3,646	3,766	3,868	3,973	18,816
Comm Dev.- Admin.	217	224	233	243	252	262	1,214
Building	816	831	863	901	934	970	4,499
Planning	732	751	779	813	843	875	4,061
Public Works Admin.	255	263	273	285	296	307	1,424
Engineering	1,104	1,143	1,190	1,252	1,308	1,366	6,258
Maintenance Services	2,105	2,157	2,133	2,215	2,291	2,367	11,163
B, P & R Admin.	238	236	246	257	267	278	1,285
Recreation	861	858	888	924	956	990	4,615
Weed Abatement	90	92	94	97	100	103	485
Marine Safety	568	586	609	636	660	686	3,176
New Employees	0	47	98	153	213	276	787
Total GF Expenditures	21,448	21,541	22,062	23,116	23,719	24,514	114,953
Emergency Reserve	250	250	200	150	235	65	
Ending Fund Balance	859	301	341	574	1,000	1,721	

1996 FINANCIAL FORECAST
Pessimistic Cash Flow from 1995-96 Adjusted Budget
(Amounts in Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Beginning Fund Balance	1,348	-5	-1,427	-2,280	-2,983	-3,520	
Revenues							
Taxes	10,791	11,100	11,665	12,336	12,815	13,323	61,240
Licenses & Permits	1,268	1,284	1,408	1,523	1,609	1,685	7,510
Intergovernmental	1,960	2,022	2,070	2,118	2,160	2,204	10,573
Service Charges	2,046	2,071	2,220	2,367	2,474	2,573	11,704
Fines & Forfeits	463	485	514	549	578	610	2,735
Interest & Rents	1,029	979	1,004	1,045	1,064	1,092	5,184
Interfund Transfers	3,338	2,979	3,092	3,213	3,320	3,439	16,043
Total G F Revenues	20,895	20,920	21,973	23,152	24,020	24,927	114,991
Expenditures							
City Council	22	21	22	23	23	23	112
City Manager	504	520	539	562	582	604	2,806
City General	2,367	2,011	1,960	2,206	2,079	2,120	10,376
Finance & Admin. Services	309	319	332	347	360	374	1,732
City Clerk	368	380	394	411	426	442	2,053
Accounting	657	677	703	732	759	786	3,657
Human Resources	296	301	312	325	337	349	1,625
Central Services	124	129	134	140	145	151	697
C A R E S	295	318	327	339	351	362	1,697
Police Services	6,269	6,391	6,570	6,787	6,970	7,160	33,879
Fire Services	3,623	3,655	3,739	3,863	3,967	4,075	19,299
Comm Dev.- Admin.	222	230	239	249	259	269	1,245
Building	837	853	885	924	958	995	4,615
Planning	751	770	799	834	865	898	4,165
Public Works Admin.	261	270	280	292	303	315	1,460
Engineering	1,132	1,172	1,220	1,284	1,341	1,401	6,419
Maintenance Services	2,158	2,212	2,188	2,272	2,349	2,428	11,449
B, P & R Admin.	244	242	252	264	274	285	1,318
Recreation	883	880	911	948	981	1,015	4,734
Weed Abatement	92	94	97	100	102	105	498
Marine Safety	582	601	625	652	677	703	3,258
New Employees	0	47	98	153	213	276	787
Total GF Expenditures	21,997	22,092	22,625	23,705	24,322	25,136	117,880
Emergency Reserve	250	250	200	150	235	65	
Ending Fund Balance	-5	-1,427	-2,280	-2,983	-3,520	-3,794	

1996 FINANCIAL FORECAST
Forecast Parameters

Par #	Description	1996-97	1997-98	1998-99	1999-00	2000-01	Average
1	Inflation	2.1%	2.8%	3.3%	2.7%	2.2%	2.6%
2	Population	1.1%	1.0%	0.6%	0.6%	1.1%	0.9%
3	Assessed Valuation	1.4%	5.2%	6.0%	3.7%	3.3%	3.9%
4	Personal Income	5.1%	6.1%	7.1%	5.4%	5.9%	5.9%
5	Taxable Sales	5.3%	5.9%	6.6%	4.6%	5.4%	5.6%
6	Property Taxes	1.4%	5.2%	6.0%	3.7%	3.3%	3.9%
7	Trans. Occup. Tax	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
8	In-Lieu/Franchise Taxes	3.2%	3.8%	3.9%	3.3%	3.6%	3.6%
9	Prop. Transfer Tax	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
10	Construction Permits	0.0%	16.6%	12.5%	8.0%	6.4%	8.7%
11	State Subventions	2.2%	2.4%	2.3%	2.0%	2.2%	2.2%
12	Service Charges	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
13	Interest Earnings	-8.8%	-3.7%	7.7%	-9.5%	-1.3%	-3.1%
14	Pier & Beach Concessions	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
15	Interfund Charges	3.2%	3.8%	3.9%	3.3%	3.6%	3.6%
16	Salaries & Wages	3.4%	4.0%	4.5%	3.9%	4.0%	4.0%
17	Employee Benefits	3.9%	4.5%	5.0%	4.4%	4.5%	4.5%
18	Supplies	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
19	Services/Other Charges	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%
20	Capital Outlay	2.1%	2.8%	3.3%	2.7%	2.7%	2.7%

1996 FINANCIAL FORECAST
General Fund Revenues - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Taxes								
Property Taxes	6	5,442	5,518	5,805	6,153	6,381	6,591	30,447
Sales Tax	5	3,240	3,412	3,613	3,851	4,029	4,246	19,151
Trans.Occup. Tax	7	430	439	451	466	479	492	2,327
In-Lieu	8	555	573	595	618	639	662	3,087
Franchise Tax	8	980	1,012	1,050	1,091	1,128	1,168	5,449
Property Trans.Tax	9	120	123	126	130	134	137	649
Delinquent Taxes	1	24	25	25	26	27	27	130
Total		10,791	11,100	11,665	12,336	12,815	13,323	61,240
Licenses & Permits								
Business Licenses	1	450	459	472	488	501	512	2,433
Business Permits	4	7	7	7	8	8	9	39
Construction Permits	10	623	623	727	817	883	939	3,989
Non-Bus. Lic.& Perm.	8	189	195	202	210	217	225	1,049
Total		1,268	1,284	1,408	1,523	1,609	1,685	7,510
Intergovernmental								
Mandated Cost Reimb	0	15	15	15	15	15	15	75
SONGS Grant	11	120	120	120	120	120	120	600
Other State Grants	0	30	47	48	49	50	50	244
Motor Vehicle Tax	11	1,656	1,692	1,732	1,772	1,807	1,847	8,849
Off-Highway/Trailer In Lie	0	2	3	4	5	6	7	25
Homeowner Exemptions	3	106	107	113	120	124	128	593
Lifeguard Grant	0	18	24	24	24	24	24	120
Other Govern. Revenues	0	14	14	14	14	14	14	68
Total		1,960	2,022	2,070	2,118	2,160	2,204	10,573
Service Charges								
Building Plan Check Fees	10	146	146	170	191	207	220	934
Plan Check Fees	10	367	367	428	481	520	553	2,348
Inspection Fees	10	160	160	186	210	227	241	1,024
Treasurer Serv.Fees	13	31	28	27	29	26	26	136
Other Gen Gov Service C	12	71	72	74	77	79	81	383
Weed Abate. Assmts.	12	94	96	99	102	105	108	510
Ambulance Serv. Chgs.	12	310	317	325	336	345	355	1,678
Ambulance Subscr. Fees	12	40	41	42	43	45	46	216
Other Pub. Safety Chgs.	12	57	58	60	62	63	65	308
Parking Meter Rev.	1	370	378	388	401	412	421	2,000
Recreation Charges	12	400	409	420	434	446	458	2,166
Total		2,046	2,071	2,220	2,367	2,474	2,573	11,704

1996 FINANCIAL FORECAST
General Fund Revenues - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Fines & Forfeits								
Parking Violations	8	350	368	390	418	441	467	2,083
Vehicle Code Fines	8	80	84	89	96	101	107	476
Court Fines	2	13	13	13	13	13	14	67
Other Fines & Pen.	2	20	20	21	22	23	24	109
Total		463	485	514	549	578	610	2,735
Interest & Rents								
Interest Earnings	13	102	93	89	96	87	86	452
Comm. Site Leases	1	215	234	241	249	256	261	1,242
Casa Romantica Lease	0	107	108	109	110	111	112	550
Pier & Beach Concess.	4	263	276	293	314	331	350	1,564
Facility Rentals	8	137	137	137	137	137	137	684
Other Revenue		205	131	134	139	143	146	692
Total		1,029	979	1,004	1,045	1,064	1,092	5,184
Interfund Transfers								
Sale Of Fixed Assets	15	0	0	0	0	0	0	0
Negocio Debt Service	15	0	0	0	0	0	0	0
2107 Gas Tax	15	356	367	381	396	410	424	1,979
Disaster Relief	15	99	0	0	0	0	0	0
Storm Drain	15	0	0	0	0	0	0	0
Fleet Maint.	15	0	0	0	0	0	0	0
Other Funds	15	353	0	0	0	0	0	0
G. F. Overhead Charges	15	2,530	2,611	2,711	2,817	2,911	3,015	14,065
Total		3,338	2,979	3,092	3,213	3,320	3,439	16,043
General Fund Total		20,895	20,920	21,973	23,152	24,020	24,927	135,886

1996 FINANCIAL FORECAST
General Fund Revenues - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

TOTAL ALL REVENUES	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	96-00 TOTAL
Taxes	10,791	11,100	11,665	12,336	12,815	13,323	61,240
Licenses & Permits	1,268	1,284	1,408	1,523	1,609	1,685	7,510
Intergovernmental	1,960	2,022	2,070	2,118	2,160	2,204	10,573
Service Charges	2,046	2,071	2,220	2,367	2,474	2,573	11,704
Fines & Forfeits	463	485	514	549	578	610	2,735
Interest & Rents	1,029	979	1,004	1,045	1,064	1,092	5,184
Interfund Transfers	3,338	2,979	3,092	3,213	3,320	3,439	16,043
General Fund Total	20,895	20,920	21,973	23,152	24,020	24,927	114,991

PERCENTAGE CHANGE	1996-97	1997-98	1998-99	1999-00	2000-01	Total 96-01	Average
Taxes	2.9%	5.1%	5.8%	3.9%	4.0%	23.5%	4.7%
Licenses & Permits	1.2%	9.7%	8.2%	5.6%	4.7%	32.8%	6.6%
Intergovernmental	3.1%	2.4%	2.3%	2.0%	2.1%	12.5%	2.5%
Service Charges	1.2%	7.2%	6.6%	4.5%	4.0%	25.8%	5.2%
Fines & Forfeits	4.8%	5.9%	6.9%	5.2%	5.7%	32.0%	6.4%
Interest & Rents	-4.8%	2.5%	4.1%	1.8%	2.6%	6.2%	1.2%
Interfund Transfers	-10.8%	3.8%	3.9%	3.3%	3.6%	3.0%	0.6%
General Fund Total	0.1%	5.0%	5.4%	3.7%	3.8%	19.3%	3.9%

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
City Council								
Salaries & Wages	0	13	13	13	13	13	13	65
Employee Benefits	0	1	0	0	1	1	1	3
Supplies	18	0	0	0	0	1	1	2
Contractual Services	19	7	7	7	7	7	7	35
Other Charges	19	1	1	1	1	1	1	6
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	0	0	0	0	0	0	1
Interfund Transfers	19	0	0	0	0	0	0	0
Total		22	21	22	23	23	23	112
City Manager								
Salaries & Wages	16	260	269	280	292	304	316	1,461
Employee Benefits	17	85	88	92	96	101	105	482
Supplies	18	4	4	4	4	4	4	20
Contractual Services	19	83	85	87	90	93	95	450
Other Charges	19	36	37	38	40	41	42	197
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	36	37	38	39	40	41	196
Interfund Transfers	19	0	0	0	0	0	0	0
Total		504	520	539	562	582	604	2,806
City General								
Salaries & Wages	16	14	15	16	16	17	18	81
Employee Benefits	17	0	0	0	0	0	0	0
Supplies	18	11	11	12	12	12	13	60
Contractual Services	19	113	116	118	121	123	126	604
Other Charges	19	286	292	300	310	318	327	1,545
Capital Outlay	20	3	3	3	3	3	3	14
Interdepartmental Charge	19	805	822	845	873	897	921	4,358
Interfund Transfers	19	1,135	753	667	872	709	713	3,714
Total		2,367	2,011	1,960	2,206	2,079	2,120	10,376
Finance & Admin. Services								
Salaries & Wages	16	194	201	209	218	227	236	1,092
Employee Benefits	17	66	69	72	75	79	82	377
Supplies	18	3	3	3	3	3	3	16
Contractual Services	19	14	14	15	15	16	16	76
Other Charges	19	2	2	2	3	3	3	13
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	29	30	31	32	33	34	159
Interfund Transfers	19	0	0	0	0	0	0	0
Total		309	319	332	347	360	374	1,732

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
City Clerk								
Salaries & Wages	16	202	209	218	227	236	246	1,136
Employee Benefits	17	65	68	71	74	77	81	371
Supplies	18	5	5	5	6	6	6	28
Contractual Services	19	46	47	48	50	51	52	248
Other Charges	19	1	1	1	1	1	1	5
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	49	50	51	53	54	56	265
Interfund Transfers	19	0	0	0	0	0	0	0
Total		368	380	394	411	426	442	2,053
Accounting								
Salaries & Wages	16	329	340	354	369	384	399	1,846
Employee Benefits	17	118	123	128	134	140	147	672
Supplies	18	71	72	74	77	79	81	384
Contractual Services	19	48	49	51	53	54	55	262
Other Charges	19	3	3	3	3	3	3	15
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	88	90	93	96	98	101	478
Interfund Transfers	19	0	0	0	0	0	0	0
Total		657	677	703	732	759	786	3,657
Human Resources								
Salaries & Wages	16	150	155	161	169	175	182	843
Employee Benefits	17	41	43	45	47	49	51	234
Supplies	18	3	3	3	4	4	4	18
Contractual Services	19	54	53	54	56	58	59	280
Other Charges	19	6	6	6	7	7	7	33
Capital Outlay	20	2	0	0	0	0	0	0
Interdepartmental Charge	19	40	41	42	44	45	46	218
Interfund Transfers	19	0	0	0	0	0	0	0
Total		296	301	312	325	337	349	1,625
Central Services								
Salaries & Wages	16	77	80	83	87	90	94	433
Employee Benefits	17	28	29	30	31	33	34	157
Supplies	18	2	2	2	2	2	2	11
Contractual Services	19	1	1	1	2	2	2	8
Other Charges	19	0	0	0	0	0	0	1
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	16	16	17	17	18	18	87
Interfund Transfers	19	0	0	0	0	0	0	0
Total		124	129	134	140	145	151	697

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
C A R E S								
Salaries & Wages	16	132	136	142	148	154	160	741
Employee Benefits	17	31	32	33	35	36	38	174
Supplies	18	13	14	14	15	15	15	72
Contractual Services	19	58	60	61	62	63	65	310
Other Charges	19	1	1	1	1	1	1	3
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	41	42	43	45	46	47	222
Interfund Transfers	19	19	34	33	34	35	36	173
Total		295	318	327	339	351	362	1,697
Police Services								
Salaries & Wages	16	0	0	0	0	0	0	0
Employee Benefits	17	0	0	0	0	0	0	0
Supplies	18	2	2	2	2	2	3	12
Contractual Services	19	5,575	5,692	5,851	6,044	6,207	6,377	30,171
Other Charges	19	65	66	68	70	72	74	352
Capital Outlay	20	12	3	3	3	3	3	16
Interdepartmental Charge	19	615	628	645	667	685	703	3,328
Interfund Transfers	19	0	0	0	0	0	0	0
Total		6,269	6,391	6,570	6,787	6,970	7,160	33,879
Fire Services								
Salaries & Wages	16	0	0	0	0	0	0	0
Employee Benefits	17	60	18	0	0	0	0	17
Supplies	18	0	0	0	0	0	0	0
Contractual Services	19	3,536	3,611	3,712	3,834	3,938	4,045	19,140
Other Charges	19	2	2	2	2	2	3	12
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	24	24	25	26	27	27	130
Interfund Transfers	19	0	0	0	0	0	0	0
Total		3,623	3,655	3,739	3,863	3,967	4,075	19,299
Comm Dev.- Admin.								
Salaries & Wages	16	139	144	150	157	163	169	783
Employee Benefits	17	48	50	52	54	57	59	272
Supplies	18	6	6	6	6	7	7	32
Contractual Services	19	6	6	7	7	7	7	34
Other Charges	19	0	0	0	0	0	0	1
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	23	23	24	25	25	26	124
Interfund Transfers	19	0	0	0	0	0	0	0
Total		222	230	239	249	259	269	1,245

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Building								
Salaries & Wages	16	488	505	525	548	570	592	2,740
Employee Benefits	17	158	164	172	180	188	197	901
Supplies	18	5	6	6	6	6	6	30
Contractual Services	19	66	68	70	72	74	76	358
Other Charges	19	1	1	1	1	2	2	7
Capital Outlay	20	12	1	1	1	1	1	5
Interdepartmental Charge	19	106	108	111	115	118	121	573
Interfund Transfers	19	0	0	0	0	0	0	0
Total		837	853	885	924	958	995	4,615
Planning								
Salaries & Wages	16	444	459	478	499	519	539	2,495
Employee Benefits	17	129	134	141	148	154	161	738
Supplies	18	15	15	16	16	16	17	80
Contractual Services	19	95	95	98	101	104	106	504
Other Charges	19	1	1	1	1	1	1	3
Capital Outlay	20	2	0	0	0	0	0	1
Interdepartmental Charge	19	64	65	67	69	71	73	346
Interfund Transfers	19	0	0	0	0	0	0	0
Total		751	770	799	834	865	898	4,165
Public Works Admin.								
Salaries & Wages	16	157	162	169	177	184	191	882
Employee Benefits	17	53	55	57	60	63	66	301
Supplies	18	7	7	7	8	8	8	38
Contractual Services	19	9	10	10	10	10	11	51
Other Charges	19	1	1	1	1	1	1	6
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	34	34	35	36	37	38	182
Interfund Transfers	19	0	0	0	0	0	0	0
Total		261	270	280	292	303	315	1,460
Engineering								
Salaries & Wages	16	1,033	1,068	1,111	1,161	1,206	1,254	5,799
Employee Benefits	17	334	347	363	381	398	415	1,903
Supplies	18	13	14	14	14	15	15	72
Contractual Services	19	-342	-349	-356	-364	-371	-379	-1,819
Other Charges	19	1	1	1	1	1	1	4
Capital Outlay	20	2	1	1	1	2	2	7
Interdepartmental Charge	19	85	87	86	89	91	94	447
Interfund Transfers	19	5	3	0	0	0	0	4
Total		1,132	1,172	1,220	1,284	1,341	1,401	6,419

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Maintenance Services								
Salaries & Wages	16	826	854	889	928	965	1,003	4,638
Employee Benefits	17	350	364	380	399	417	435	1,995
Supplies	18	214	211	217	224	230	235	1,117
Contractual Services	19	382	377	385	393	401	410	1,967
Other Charges	19	0	0	0	0	0	0	2
Capital Outlay	20	50	95	16	16	17	17	160
Interdepartmental Charge	19	308	292	301	311	319	328	1,550
Interfund Transfers	19	27	18	0	0	0	0	19
Total		2,158	2,212	2,188	2,272	2,349	2,428	11,449
B, P & R Admin.								
Salaries & Wages	16	168	173	180	188	196	203	941
Employee Benefits	17	63	65	68	72	75	78	359
Supplies	18	7	7	7	7	7	7	35
Contractual Services	19	-19	-27	-28	-29	-30	-30	-144
Other Charges	19	1	1	1	1	2	2	7
Capital Outlay	20	3	0	0	0	0	0	0
Interdepartmental Charge	19	22	22	23	24	24	25	118
Interfund Transfers	19	0	0	0	0	0	0	0
Total		244	242	252	264	274	285	1,318
Recreation								
Salaries & Wages	16	385	398	414	432	449	467	2,161
Employee Benefits	17	103	107	112	118	123	128	589
Supplies	18	67	68	70	73	75	77	362
Contractual Services	19	105	81	83	86	88	91	428
Other Charges	19	187	191	196	203	208	214	1,011
Capital Outlay	20	4	2	2	2	2	2	10
Interdepartmental Charge	19	32	33	33	35	36	36	173
Interfund Transfers	19	0	0	0	0	0	0	0
Total		883	880	911	948	981	1,015	4,734
Weed Abatement								
Salaries & Wages	16	0	0	0	0	0	0	0
Employee Benefits	17	0	0	0	0	0	0	0
Supplies	18	2	2	2	2	2	2	9
Contractual Services	19	90	92	95	98	101	103	489
Other Charges	19	0	0	0	0	0	0	0
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	0	0	0	0	0	0	0
Interfund Transfers	19	0	0	0	0	0	0	0
Total		92	94	97	100	102	105	498

1996 FINANCIAL FORECAST
General Fund Expenditures - Base Forecast from 1995-96 Adjusted Budget
(Amounts in Thousands)

Program/ Account	Par #	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	97-01 Total
Marine Safety								
Salaries & Wages	16	388	401	417	436	453	471	2,179
Employee Benefits	17	108	112	117	123	128	134	615
Supplies	18	12	13	13	13	14	14	67
Contractual Services	19	7	7	7	8	8	8	38
Other Charges	19	8	8	8	8	8	9	41
Capital Outlay	20	0	0	0	0	0	0	0
Interdepartmental Charge	19	52	53	55	56	58	59	281
Interfund Transfers	19	7	7	7	7	7	8	36
Total		582	601	625	652	677	703	3,258
New Employees								
Salaries & Wages	16	0	35	72	114	158	204	378
Employee Benefits	17	0	12	26	40	56	72	133
Total		0	47	98	153	213	276	511

Total All Expenditures	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	96-00 Total
Salaries & Wages	5,401	5,619	5,880	6,181	6,463	6,757	30,696
Employee Benefits	1,840	1,879	1,958	2,069	2,175	2,285	10,294
Supplies	463	465	478	494	507	520	2,456
Contractual Services	9,939	10,094	10,376	10,716	11,004	11,302	53,491
Other Charges	603	616	633	654	672	690	3,264
Capital Outlay	89	105	26	27	27	28	213
Interdepartmental Charges	2,470	2,499	2,566	2,651	2,722	2,796	13,234
Interfund Transfers	1,192	815	708	914	752	758	3,947
Total	21,997	22,092	22,625	23,705	24,322	25,136	117,596

Percentage Change	1996-97	1997-98	1998-99	1999-00	2000-01	Total 96-01	Average
Salaries & Wages	4.0%	4.7%	5.1%	4.6%	4.5%	25.1%	5.0%
Employee Benefits	2.1%	4.2%	5.7%	5.1%	5.1%	24.2%	4.8%
Supplies	0.5%	2.8%	3.3%	2.7%	2.4%	12.2%	2.4%
Contractual Services	1.6%	2.8%	3.3%	2.7%	2.7%	13.7%	2.7%
Other Charges	2.1%	2.8%	3.3%	2.7%	2.7%	14.4%	2.9%
Capital Outlay	18.2%	-75.4%	3.3%	2.7%	2.7%	-68.3%	-13.7%
Interdepartmental Charges	1.2%	2.7%	3.3%	2.7%	2.7%	13.2%	2.6%
Interfund Transfers	-31.7%	-13.1%	29.2%	-17.7%	0.7%	-36.4%	-7.3%
Total	0.4%	2.4%	4.8%	2.6%	3.3%	14.3%	2.9%

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.

Summary

The reserve funds analyzed include:

- General Fund Emergency Reserve
- General Fund - City Council Contingency Reserve
- Self Insurance Fund
    - General Liability
    - Workers' Compensation
- Accrued Leave and Medical Insurance
- Fleet Replacement Reserve Fund
- Capital Equipment Replacement Fund

Each fund is currently supported by charges to the operating budgets and other interdepartmental transfers. Each fund should maintain a positive fund balance and a reserve fed by appropriate internal charges and transfers. The question becomes one of establishing adequate charges to operating budgets to keep the fund in balance and funding a prudent reserve while avoiding an over commitment of dollar resources.

A prudent set aside is one that provides financial security to the fund without placing an unrealistic burden on operating resources to support it. In good economic times, the City can afford to be more proactive in building up reserves. But, when money is tight, the City may not be able to afford the luxury of obligating the optimum amount of money to such purposes and incremental steps may be necessary.

Background

The initial Long Term Financial Plan was completed in January, 1993 and updated in January, 1994 and January, 1995. The plans made recommendations addressing negative fund balances and the critical need to build up severely underfunded and non-existent reserve levels. Each Long Term Financial Plan has recommended that certain reserve funds be established and maintained in accordance with the City's Fiscal Policy.

The referenced Fiscal Policies with respect to reserves are as follows:

- The City will maintain General Fund Emergency Reserves at a level at least equal to 8% of General Fund operating expenditures for the purpose of providing protection of City services during economic downturns or unforeseen catastrophic losses.

Recommendation
1. Affirm the Council Fiscal Policy to maintain a General Fund Emergency Reserve of at least 8% of General Fund operating expenditures. Adopt the following schedule of contributions:

	Contribution	Cumulative Total	Percentage
FY 1996-97	$250,000	$1,280,000	6.10%
FY 1997-98	$200,000	$1,480,000	6.83%
FY 1998-99	$150,000	$1,630,000	7.23%
FY 1999-00	$235,000	$1,865,000	8.00%
FY 2000-01	(1) $ 65,000	$1,930,000	8.00%

(1) Required contribution to maintain the 8% reserve level.

Fiscal Impact of Recommendation
1. Will require total General Fund contribution of $900,000 over the next five fiscal years.

General Fund - City Council Contingency Reserve

City Council Fiscal Policy: Maintain a reserve of no less than 1% of General Fund operating expenditures. The purpose of this reserve is to provide for non-recurring, unanticipated expenditures or for known projects/programs with unknown costs. It is fully anticipated that this reserve will be drawn upon annually to address operating needs of the City. In contrast, the General Fund Emergency Reserve is generally not expected to be used on an annual basis.

The 1995 Long Term Financial Plan recommended that the City Council Fiscal Policy on the City Council Contingency Reserve be revised from 1.5% of General Fund operating expenditures to 1% of General Fund operating expenditures based on the historical level of expenditures. A total contribution of $204,000 was allocated in fiscal year 1995-96.

Based on the General Fund fiscal year 1995-96 projected operating expenditures, the contribution for fiscal year 1996-97 should be $207,000.

Recommendation
1. Recommend that approximately $207,000, or 1% of General Fund operating expenditures be set aside in the fiscal year 1996-97 budget.

Fiscal Impact
The Financial Forecast incorporated a 1% Council Contingency Reserve for all five years of the Forecast. Total reserve contribution in FY 1996-97 amounts to $207,000.

General Liability Insurance Fund

City Council Fiscal Policy: Maintain a reserve equal to three times the Self Insured Retention (SIR). The reserve requirement is set by the risk sharing pool, Orange County Cities Risk Management Authority (OCCRMA), to which the City belongs as a self-insured entity.

The 1994 LTFP recommended the City's SIR be reduced from $400,000 to $250,000 as a result of the decline in premiums for excess insurance over the past several years, the reduction in claims against the City, and the growing tendency to shift more risk to insurance pools. In 1994, the General Liability Insurance Fund had a projected fund balance deficit of $775,000. This deficit was the result of an accumulation of operating losses (revenues under expenditures) from prior years. The reduction of the SIR to $250,000 reduced the reserve requirement to $750,000, and allowed the City to reduce the fund deficit and establish a reserve with a less severe impact on scarce dollar resources.

Due to the corrective actions taken over the past three years to reduce the General Liability Reserves' deficit and to develop a reserve equal to three times the SIR, the annual contributions required to fund this reserve and deficit have decreased from an original annual projection of $448,000 in 1993 to $287,000 in 1996.

The following table indicates prior year and recommended transfers:

	SIR Level	Required Reserve	Projected Deficit (1)	Transfer(2)
1994 LTFP	$250,000	$750,000	$775,000	$305,000
1995 LTFP	$250,000	$750,000	$371,000	$280,000
1996 LTFP	$250,000	$750,000	$110,000	$287,000

(1) Based on projected year end fund balance deficit.
(2) Required reserve plus projected deficit divided by number of years left to fully fund. 1994 and 1995 are actual transfers while 1996 is recommended transfer.

The projected fund balance deficit as of June 30, 1996 is $110,000, a reduction from the prior year balance of $371,000. This deficit includes an estimate for claims expenses through the fiscal year ending June 30, 1996. In order to balance the fund and establish the new reserve level by fiscal year 1998-99, the annual contribution required is $287,000 over the next three years. Funding for the reserve would be allocated from the following funds:

Contributions to General Liability

General Fund	$123,400
Water Fund	60,300
Sewer Fund	25,800
Golf Fund	25,800
Storm Drain Fund	51,700
Total	$287,000

Allocations from each fund are based on a proportionate share of historical claims.

Recommendations

1. Contribute $287,000 annually toward deficit reduction and the build up of the required reserve over the next three years.

Fiscal Impact

Contribution of an additional $287,000 into the General Liability Fund. Funding in FY 1996-97 of $287,000 will require an allocation of $123,400 from the General Fund with the remaining allocation of $163,600 to be provided by contributions from other funds as noted above.

Workers' Compensation Insurance Fund

City Council Fiscal Policy: Maintain a reserve based on the historic trend of annual claims paid to be reviewed and adjusted annually by the City's Claims Administrator.

As of November 1, 1995, the City is fully insured for workers' compensation and is no longer required to maintain a reserve. However, the Workers' Compensation Insurance Fund has a projected deficit fund balance at June 30, 1996 of $360,000. This deficit is the result of operating losses (revenues under expenditures) from prior years. It needs to be eliminated to provide funding for claims incurred while the city was self-insured. The required annual contribution to eliminate the deficit during the next three years is $120,000.

Recommendation

1. The City Council Fiscal Policy to maintain a reserve based on the historic trend of annual claims paid be eliminated and authorize a transfer $120,000 annually over the next three years to eliminate the current deficit.

Fiscal Impact

The recommended annual contribution is $120,000. This contribution will eliminate the deficit within three years. Funding in FY 1996-97 of $120,000 will be allocated from the following funds based on the same proportion of current workers compensation payments from each fund.

Contributions to Workers' Compensation

General Fund	$ 43,900
Lighting & Landscaping Fund	3,600
Water Fund	21,600
Sewer Fund	31,200
Golf Fund	12,000
Other Funds	7,700
Total	$120,000

Accrued Leave Reserve

City Council Fiscal Policy: Maintain an account to accumulate funds to be used for payment of accrued leave payable to employees upon termination or retirement.

The accrued leave reserve was established based on average annual experience for vacation and sick leave pay-outs. The amount of the reserve will fluctuate from year to year depending upon the number of employees that retire or terminate. The following table indicates the historical pay-outs from the reserve:

FY 1993-94 through FY 1995-96

	Vacation and Sick Leave
FY 1993-94	$50,498
FY 1994-95	$17,871
FY 1995-96	$15,884

Recommendation

1. Continue to base the accrued leave reserve level on average annual payout experience and transfer $15,000 to the fund in FY 1996-97.

Fiscal Impact

There is no deficit to deal with in this fund as the program is fully funded. For planning purposes a $15,000 contribution is included in each year of the City's five year financial forecast.

Fleet Replacement Reserve

City Council Fiscal Policy: Annually update the Capital Equipment Replacement schedule and maintain adequate reserves to fund it.

A complete analysis of the fleet replacement reserve was conducted and approved by the City Council in February 1994. As a result of the fleet replacement reserve analysis, a policy was established to annually update the Fleet Replacement Reserve schedule. This reserve is fully funded with a projected ending fund balance of $1.8 million.

Recommendation

None

Fiscal Impact

Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. Total replacement costs included in the FY 1995-96 budget equals $391,000.

Capital Equipment Replacement Reserve

City Council Fiscal Policy: Maintain a Capital Equipment Replacement schedule and maintain adequate reserves to fund it.

Long Term Financial Plan

As prescribed by the City's Fiscal Policy and Long Term Financial Plan, a fixed asset inventory of all General Fund assets was completed in 1995. A replacement schedule of all capital equipment and machinery is currently being developed and annual funding needs will be identified in the fiscal year 1996-97 budget. The total replacement costs of fixed assets, excluding buildings and building improvements amount to $1.6 million.

The plan for funding this reserve fund is to continue direct annual contributions of $100,000 from the General Fund. Expenditures for replacement capital equipment and machinery will be appropriated from the Capital Equipment Reserve Fund beginning in FY 1996-97. A projected replacement cost will be determined and departments will contribute the appropriate amount back to the Capital Fund. New equipment will be purchased directly by each General Fund program and replacement costs will also be transferred to the Capital Equipment Replacement Reserve Fund.

Recommendation

1. Continue funding the Capital Equipment Reserve Fund at $100,000 annually until sufficient reserves exist to fund annual capital needs in the General Fund.

Fiscal Impact

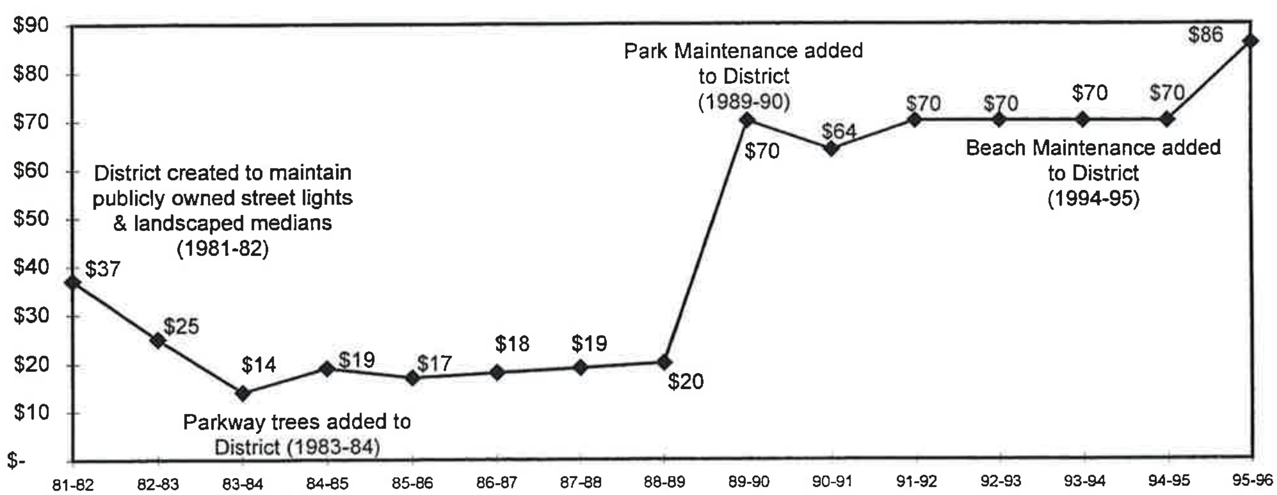
An allocation of $100,000 was budgeted in FY 1995-96. The Financial Forecast has incorporated an annual allocation of $100,000 in each year of the five year financial forecast.

Lighting and Landscape Fund

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

Background
The San Clemente Lighting and Landscape Assessment District was formed by City Council action in 1981, pursuant to the Landscape and Lighting Act of 1972. The intent of the District is to fund certain costs through the collection of an annual assessment placed upon property owners within the City limits (the boundary of the District is the same as the City limit boundary). The original purpose of the District was to provide for the operation and maintenance of the city's street lights and landscaped medians. In 1983, the District was expanded to fund the maintenance of city owned trees and specified parkway areas. In 1989, the District was expanded to fund the maintenance of city parks and public buildings. In 1994, the District incorporated the maintenance of city beaches. Finally, in 1995, the District incorporated the maintenance of the Forster Ranch Greenbelt. This privately owned greenbelt became a part of the district at the request of the homeowners in the ranch. In this one area, only the residents of Forster Ranch are assessed for the care and maintenance of the greenbelt.

These "new" services now provided by the Lighting and Landscape Assessment District (with the exception of the Forster Ranch Greenbelt which is privately funded) were previously funded by the General Fund. The following graph provides a visual picture of the 15 year history of the District.



Summary

Expenditures

In order to anticipate the future expenditures of the Lighting and Landscape Assessment District, a five year plan has been prepared. This plan incorporates the maintenance and capital expenditures of the following functions:

1. Beach and Park Assessment
2. Tree Assessment
3. Median and Parkway Assessment
4. Street Light Assessment
5. Forster Ranch Greenbelt Assessment

1. Beach and Park Assessment

Purpose

To retain an acceptable level of usability of the 141 acres of City-owned beaches and parks and trails.

Maintenance

The facilities and amenities which are part of the park system are in a constant state of use; consequently, they require ongoing maintenance and upkeep.

Capital

Regularly scheduled renovation projects are also needed in order to retain an acceptable level of usability. In addition, to ensure compliance with the American with Disabilities Act and other mandated legislation, upgrades to existing structures within the parks are required.

2. Tree Assessment

Purpose

To provide for the care and replacement of the approximately 12,000 trees on city parks, beaches and along city streets.

Maintenance

The trees on city-owned property require scheduled care such as pruning and pest management.

Capital

Periodic replacement of old or damaged trees is needed to maintain safety standards and to retain the beauty of the City. Repair or replacement of hardscape damaged by City trees is also funded through the District.

3. Median and Parkway Assessment

Purpose
To maintain the 21 acres of medians and parkways within the City and develop new improvements to enhance the aesthetic quality and character of the city streetscapes.

Maintenance
Upkeep requirements are needed in order to retain the level of beauty and serviceability of the City's medians and parkways.

Capital
Periodic renovations of existing medians and parkways are needed as are new improvements when new streets are incorporated into the city's street inventory.

4. Street Lighting Assessment

Purpose
To provide for the costs associated with the maintenance of 2,360 street lights and associated park, beach and building outside lighting systems within the City.

Maintenance
Upkeep requirements such as the cost of electricity supplies, equipment and periodic improvements are required to keep the City's street lights in working condition.

Capital
As development occurs and new streets are created, street lights are necessary. Over the next five years, staff projects that a majority of anticipated street improvements will be local residential and privately owned. Therefore, these improvements will be maintained by the local property owners associations).

5. Forster Ranch Greenbelt Assessment

Purpose
To provide for the care and maintenance of a 13 acre greenbelt located in the Forster Ranch residential community. This assessment was approved by City Council in 1995 after residents within the ranch requested that the City take over responsibility for the maintenance of the greenbelt. This assessment only applies to residents within the Forster Ranch residential community since the greenbelt is owned by said residents. The Forster Ranch Master Homeowners Association is responsible for the operation of the greenbelt and provides direction to the City regarding the annual expenditure budget.

Maintenance
The facilities and amenities which are a part of the greenbelt are in a constant state of use; consequently, they require ongoing maintenance and upkeep.

Capital
At the request of the Forster Ranch Master Homeowners Association, regularly scheduled renovation projects are also needed in order to retain as acceptable level of useability.

Revenue
In order to fund the various expenditure budgets within the Lighting and Landscape Assessment District, the District generates revenue through annual assessments placed upon property owners within the City or within a specific portion of the City (e.g., The Forster Ranch Greenbelt is completely financed only by residents of Forster Ranch). The assessments are levied on the basis of benefit and are considered a user fee. Assessments are set and approved annually by the City Council, after a public hearing, on all privately held properties within the City.

The Assessment District classifies fees into different zones. Each zone is assessed based upon a formula that establishes the specific benefit received. These zones, labeled A through F and H, are defined as follows:

A: R-1 and R-2 residential parcels not included in Zones B, C, and D. Assessment fee is charged on a per parcel basis.

B: Commercial, industrial, recreational, R-4 residential, R-3 residential (west of Buena Vista between Dije Court and Linda Lane), and large parcels in process of development. Assessment fee is charged on a per acre basis.

C: Residential parcels (including condominiums) with privately owned streets and not served by public street lighting or landscaping. Assessment fee is charged on a per unit basis.

D: Condominium units served by public street lighting and landscaping. Assessment fee is charged on a per unit basis.

E: Publicly owned and other parcels exempt from assessments. No assessment fee is charged per parcel.

F: Time share units given separate assessor parcel numbers. Assessment fee is charged on a per unit basis.

H: This is an additional assessment which is added to the Zones A through F original assessment for all areas within the Forster Ranch Greenbelt (approved by City Council on February 15, 1995).

Future Outlook

Over the next five years, it is estimated that the assessment rate for the average single family residence will increase by an annual average of 6.88%, if staff recommendation is approved. This increase is based upon the following factors:

(a) a projected 3% annual inflation rate.

(b) planned capital improvement project expenditures described in Attachment "C" and,

(c) the cost to maintain new improvements upon completion as described in Attachment "B".

Attachment "A" provides a synopsis of inflationary rate, capital investment and resulting maintenance over the same five year time frame.

The proposed Capital Improvement Program is based upon the following:

(a) Need to maintain existing improvements in an acceptable manner that provides safe, aesthetically pleasing and useable facilities to the customer.

(b) Need to meet federal mandated programs such as the Americans with Disabilities Act (ADA).

(c) Need to accept new streetscape improvements as new streets are developed throughout the City.

In an effort to offset the inflationary increase in costs, the Beaches, Parks and Recreation Department in1995 contracted all the park and beach maintenance with private landscape maintenance companies and negotiated five year maintenance contracts to stabilize costs. These efforts have been successful in retaining a high level of maintenance quality within the park system while keeping costs steady. The Public Works Department has also implemented a program where the City contracts with private Homeowners Associations to maintain their private street light improvements. This provides a revenue source to the City and provides a quality service to the customer.

For many years, the City has placed a high priority upon providing quality park, recreation and streetscape facilities. This has enhanced the many leisure pursuit benefits that residents and visitors enjoy in San Clemente. However, it should be noted that as long as the City continues to place an emphasis upon expansion of the park and streetscape system, assessment increases will be necessary, unless alternative funding sources are implemented. In addition, all currently subdivided property within the district is being assessed a fee for the district, whether it is improved with structures or vacant. The assessment rate increase from vacant subdivided land to a built subdivided tract is not substantial. Therefore, future residential growth will not substantially expand funding for the district to offset the new improvements.

Cost Recovery Options

In an effort to further enhance cost recovery within the District, the following options are provided for City Council consideration.

1. *Corporate Sponsorship Program*

Summary

The concept of corporate sponsorship was approved by the Parks and Recreation Commission and City Council in February 1995. A regional coalition with all coastal Orange County cities, the County of Orange, and the State of California is being considered. This program is designed to use the visibility of a combined group to market beaches to potential companies for marketing their operations to the public in exchange for financing maintenance operations or purchasing capital equipment. In a similar program, the City is considering using corporate sponsorship in parks and along streetscapes.

Advantages

The fees paid by the corporation would provide funding for the Lighting and Landscape District which, in turn, would allow the annual assessment to property owners to remain at the lowest possible rate.

Disadvantages

Advertisements by the sponsoring corporations would be placed in the sponsored area. Although the intent of such advertisements is to be discrete, some citizens might not approve. In addition, funding may not be very stable, depending upon the ability and desire of corporate sponsors to provide for the funding on an ongoing basis.

2. *Elimination of Capital Improvement Projects for Renovation and Upgrading of Facilities*

Summary

This concept removes the cost of all renovation and upgrade capital improvements from the Lighting and Landscape Assessment District. Bond financing would be one option for financing capital improvements.

Advantages

The annual assessment to the property owners would be lower than if the renovation and upgrade capital improvement projects were funded through the lighting and landscape assessment.

Disadvantages

If the renovation and upgrade capital improvements were eliminated entirely, the overall usability of the parks, beaches, public buildings, medians and street lights would deteriorate. If these capital improvements were never performed, the public buildings and structures would ultimately need to be closed.

If the capital improvements were funded through bond financing, the cost of repayments of the bonds must be considered.

3. Closing Certain Beaches and Parks

Summary
This concept would entail the closing of certain beaches and parks in order to keep the assessment rates as low as possible while still maintaining the current maintenance service level and funding capital improvement projects as scheduled.

Advantages
The annual assessment to the property owners would be kept at a stable rate while allowing for capital improvements projects to be performed and maintaining the current levels of maintenance service in those beaches and parks that remain open.

Disadvantages
A substantial investment in infrastructure would be jeopardized since closed facilities would deteriorate due to substantially reduced maintenance. In addition, residents would surely protest the closing of parks and beaches.

4. No New Parks and Streetscapes Added to the City

Summary
The City's General Plan, the Parks and Recreation Master Plan and the Master Plan of Scenic Corridors call for new parks and streetscapes to be added to the City in order to provide the current and future, expected level of recreation facilities and beauty along streets. The concept of not adding these new areas to the Lighting and Landscaping Assessment District would allow for keeping the assessments as low as possible while maintaining the current service level in already developed parks and streetscapes.

Advantages
The annual assessment to property owners would be kept at a more stable rate since the cost of new improvements would no longer contribute to assessment rate increases.

Disadvantages
The current parks and recreation areas would become overcrowded as the City grows, causing dissatisfaction with the facilities among the citizens. In addition, overcrowding of the facilities would cause additional wear and tear, resulting in higher maintenance costs.

5. *Funding of all or a Portion of Renovation and Upgrade Capital improvements Through Another City Fund*

Summary
This concept would move all or a portion of the costs for renovation and upgrade capital improvement projects from the Lighting and Landscape Fund to another fund such as the General Fund or the Community Development Block Grant Fund. This option is currently being utilized in a limited manner. For example, all projects which fall within the Redevelopment Agency are funded through the Agency's funds and all new park facility development projects are funded through the Park Acquisition and Development Fund. In the past, the city has also been successful in obtaining grants to fund park improvements. The renovation of Max Berg Plaza Park included $205,000 in grant funding and many of the upgraded park playgrounds throughout the city were financed with grant funds.

Advantages
The annual assessment to the property owners would be lower than if the capital improvement projects were funded through the lighting and landscape assessment.

Disadvantages
Financing the capital improvements through other funds would result in a reduction of available funds for other City projects. A prioritization of projects would be required of the City Council.

Conclusion
In order for the City to continue to properly manage park and recreational resources in an efficient and effective manner, both maintenance and capital improvement needs must be balanced.

To place necessary capital improvement projects on hold due to lack of funding will result in higher maintenance costs to repair and provide quality upkeep. Ultimately, it will result in the closure of facilities. Considering the recreational and economic value of these assets, this is not a wise course of action to take.

To consider closure of beaches and parks would be equally unwise, since a substantial investment has been made in these facilities that serve the residents and visitors of San Clemente.

Finally, to consider not building future parks, streetscapes and other amenities would be a departure from a vision within the General Plan and Parks and Recreation Master Plan established by City Councils for many years to provide a minimum of five acres of parks per 1,000 residents. In addition, this would be a departure from the Master Landscape Plan of Scenic Corridors which established specific streetscape aesthetic standards throughout the City.

1996-97 District Assessments
For the coming 1996-97 fiscal year, $182,000 of additional maintenance responsibility will be added to the District. This includes the maintenance of Richard T. Steed Memorial Park, Pacific Coast Highway/Colony Cove slope landscaping and Vista Hermosa/Vista Pacifica median island

landscaping. Please refer to Attachment "C" for a cost breakdown of these new improvements to be maintained. Because of this added responsibility, assessment rates will need to be increased.

In order to provide for as low an increase as possible, staff recommends the following mitigation measures :

- Utilize $73,000 of the $100,000 projected 1995-96 ending fund balance in the Lighting and Landscape Fund to fund a portion of the proposed capital improvement projects scheduled in 1996-97 and,
- Transfer the Bonita Canyon Slope repair project amounting to $115,000 to the Disaster Relief Fund. Funding for the project will be accomplished from unanticipated storm drain reimbursements from 1983 which will be received this fiscal year ($200,000).
- Transfer the American with Disabilities Act (ADA) playground equipment upgrade totaling $75,000 from Lighting and Landscape to the General Fund. Funding from the storm drain reimbursement noted above will also be used for this project.

These mitigation measures result in reducing the proposed assessment rate increase for the 1996-97 fiscal year to 7.8%. Without these measures, the proposed rate increase would be 22%.

Looking ahead to the next two fiscal years, staff recommends that $20,000 of the 1996-97 projected ending fund balance in the Lighting and Landscape Fund be utilized to fund a portion of the proposed capital improvement projects. Another $78,000 would be funded in 1997-98 and 1998-99 from a source other than the Lighting and Landscape Fund for capital projects.

Beyond the 1998-99 fiscal year, the Lighting and Landscape District will be in a position to fund all maintenance and capital improvements provided in this master plan without outside subsidies and average a 6.5% per year rate increase.

It should be noted that implementing this option will eliminate reserves within the Lighting and Landscape District. This is not an ideal situation. Recommended reserves for this type of special revenue fund is 5%, or approximately $125,000. Council may want to consider augmenting assessment rate increases over the last three years of the five year master plan time line to begin building a fund reserve.

Recommendation

Staff recommends that City Council direct staff to (1) finalize negotiations for corporate sponsorship of beaches, parks, and streetscapes, (2) transfer Bonito Canyon slope repair project amounting to $115,000 to the Disaster Relief Fund, (3) transfer American Disabilities Act (ADA) playground equipment upgrade project totaling $75,000 to the General Fund (4) authorize staff to prepare the Engineer's Report for the 1996-97 fiscal year budget incorporating a 7.8% increase in assessment rates.

ATTACHMENT A

Lighting and Landscaping Assessment District
Five-Year Budget

Fiscal Year	Maintenance and Operations*	Maintenance and Operations of New Areas**	Capital Improvement Projects***	Total
1995-96	1,996,526	N/A	270,460	2,266,986
1996-97	2,056,422	182,000	185,000	2,423,422
1997-98	2,118,114	263,460	80,000	2,461,574
1998-99	2,181,658	271,364	146,000	2,599,022
1999-00	2,247,108	319,505	198,000	2,764,612
2000-01	2,314,521	329,090	258,000	2,901,611

* Assumes a 3% inflationary increase each year in the cost of maintenance and operations.

** Assumes a 3% inflationary increase each year in the cost of maintenance and operations. See Attachment B for a listing of the new areas scheduled to be funded through the Lighting and Landscape Assessment District.

***See Attachment C for the anticipated capital improvement projects funded from Lighting & Landscape.

ATTACHMENT A1

Lighting and Landscaping Assessment District
Five-Year Projection of Property Assessments
(matching assessment revenue to estimated costs on a 1:1 ratio)*

	ZONE A	ZONE B	ZONE C	ZONE D	ZONE F
1995/96					
Maint & Operations	71.69	430.17	64.61	65.38	1.32
Capital Outlay	14.50	87.00	10.43	10.86	0.21
Subtotal	86.19	517.17	75.04	76.24	1.53
Forster Greenbelt	62.55	375.29	62.55	62.55	1.25
Total	148.74	892.46	137.59	138.79	2.78
1996/97					
Maint & Operations	73.82	442.92	66.22	67.03	1.34
M & O of New Areas	9.28	55.70	7.86	8.02	0.16
Capital Outlay	9.83	58.97	7.29	7.57	0.15
Subtotal	92.93	557.59	81.37	82.62	1.65
Forster Greenbelt	63.95	383.71	63.95	63.95	1.28
Total	156.88	941.30	145.32	146.57	2.93
1997/98					
Maint & Operations	81.96	491.75	70.81	72.00	1.44
M & O of New Areas	13.54	81.24	11.20	11.45	0.23
Capital Outlay	3.92	23.50	3.75	3.77	0.08
Subtotal	99.42	596.49	85.76	87.22	1.75
Forster Greenbelt	65.87	395.22	65.87	65.87	1.32
Total	165.29	991.71	151.63	153.09	3.07
1998/99					
Maint & Operations	85.66	513.98	73.48	74.79	1.50
M & O of New Areas	13.95	83.68	11.54	11.79	0.24
Capital Outlay	7.10	42.59	6.93	6.95	0.14
Subtotal	106.71	640.25	91.95	93.53	1.88
Forster Greenbelt	67.85	407.08	67.85	67.85	1.36
Total	174.56	1,047.33	159.80	161.38	3.24
1999/00					
Maint & Operations	88.26	529.55	75.70	77.04	1.54
M & O of New Areas	16.29	97.76	13.81	14.08	0.28
Capital Outlay	9.61	57.63	9.44	9.45	0.19
Subtotal	114.16	684.94	98.95	100.57	2.01
Forster Greenbelt	69.88	419.29	69.88	69.88	1.40
Total	184.04	1,104.23	168.83	170.45	3.41
2000/01					
Maint & Operations	90.89	545.36	77.96	79.35	1.59
M & O of New Areas	16.78	100.69	14.22	14.50	0.29
Capital Outlay	12.50	74.98	12.33	12.35	0.25
Subtotal	120.17	721.03	104.51	106.20	2.13
Forster Greenbelt	71.98	431.87	71.98	71.98	1.44
Total	192.15	1,152.90	176.49	178.18	3.57

* Assumes additional revenues (mainly property taxes, State subventions and interest earnings) in the following amounts:

1995/96	375,500
1996/97	390,000
1997/98	402,000
1998/99	414,000
1999/00	426,000
2000/01	439,000

ATTACHMENT B

Lighting and Landscaping Assessment District
Estimated Maintenance Costs for the Addition of New Areas

Since the City is not at a built-out state, new parks, landscaped areas, medians, etc. are needed in order to maintain the currently accepted/expected quality of life as new areas are developed. The following new areas are anticipated to be built in accordance with the Parks and Recreation Master Plan which was updated as part of the 1995/96 fiscal year budget.

	Maintenance Costs by Fiscal Year				
Facility Description	1996/97	1997/98	1998/99	1999/00	2000/01
Steed Memorial Park	140,000	144,200	148,526	152,982	157,571
PCH/Colony Cove landscape maintenance	40,000	41,200	42,436	43,709	45,020
Vista Hermosa/Vista Pacifica Medians	2,000	2,060	2,122	2,185	2,251
T-Street native landscape		25,000	25,750	26,523	27,318
Forster Ranch Community Park		50,000	51,500	53,045	54,636
Vista Pacifica Median		1,000	1,030	1,061	1,093
Marblehead Bluff Park				40,000	41,200
Annual Maintenance Cost	182,000	263,460	271,364	319,505	329,090

The above schedule was prepared assuming a 3% inflationary increase each year in the cost of maintenance and operations.

The following parks and recreation facilities are being considered for future acquisition/development (beyond the five-year plan). This is a reminder that any new parks and recreation areas will have ongoing maintenance and operations costs. Assuming no changes occur in the funding method, these costs will need to be financed through the Lighting and Landscaping Assessment District, which means an increase in annual costs and, consequently, the annual assessment charged to property owners.

1. Neighborhood Park - Forster Ranch
2. Neighborhood Park - Southwest San Clemente
3. Youth Sports Fields
4. Roller Hockey Facilities
5. Multi-Purpose Beach Boardwalk*

   *The multi-purpose beach boardwalk may be built within the current 5 year master plan time line grant funding is obtained to augment development.

ATTACHMENT C

Lighting and Landscaping Assessment District

Schedule of Required Capital Improvement Projects

	Fiscal Year					
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<u>Medians/Miscellaneous Projects</u>						
Renovation of Valencia Medians - Design	10,670					
Renovation of Esplanade Medians - Design	9,790					
Renovation of Valencia Medians	100,000	50,000				
Renovation of Esplanade Medians		75,000	75,000			
ADA Playground Upgrades - Bonita Cyn Par	80,000					
ADA Playground Upgrades - various Parks		***75,000***				
ADA Playground Upgrades - various Parks			***78,000***			
ADA Playground Upgrades - various Parks				***78,000***		
<u>Vista Bahia/San Luis Rey Parks</u>						
Renovate Vista Bahia: Sewer, LS	50,000					
Renovate San Luis Rey: Lighting, Irrigation					53,000	53,000
<u>Bonito Canyon/Linda Lane Parks</u>						
Linda Lane Slough Wall		25,000				
Renovate Bonito: Drainage, Slope LS/Irrig		***115,000***				
Renovate Bonito: Lighting						83,000
<u>Beaches/Beach Access</u>						
Upgrade Beach Access: Corto						25,000
North Beach Utility Sheet Pile Wall				36,000		
Beach Play Equipment Replacement				20,000		
Landscaping T-Street		30,000				
Upgrade Beach Access: Dije				85,000		
Walkway Parque Del Mar					20,000	
Landscaping Leslie Park					50,000	
<u>Ole Hanson Beach Club/Community Center</u>						
Beach Club Repairs: Roof	20,000					
Beach Club Repairs: Balcony					70,000	
Community Ctr Repairs: HVAC, Cabrillo Wall						67,000
Community Ctr Renov: Irrigation						25,000
<u>Studies</u>						
Inventory: Urban Tree Management Program		5,000	5,000	5,000	5,000	5,000
Total Capital Improvement Projects	270,460	375,000	158,000	224,000	198,000	258,000
Total from Lighting & Landscape	**270,460**	**185,000**	**80,000**	**146,000**	**198,000**	**258,000**

* Project amounts identified in bold/italics
will be funded outside the Lighting and Landscape Fund

Street Improvement Program

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

Background
The Street Improvement Program adopted by the Council in July, 1995 is off to a great start. This program is to restore about 60 miles or one-half of the City's street system over the next 18 years. The program is being funded by a combination of revenue from (1) Street Assessment District 95-1, which assesses all developed properties, (2) the General Fund and (3) the Gas Tax Fund. In addition, the Water, Sewer, and Storm Drain Funds will pay for work done to various underground facilities in conjunction with the street work.

In this first year of the program, three street rehabilitation projects have been completed, twelve street projects totaling about 4.7 miles are in various stages of design and construction, and another ten projects are in design. Residents along the completed streets have expressed immense satisfaction with the marked improvement in the aesthetics and ride quality of their newly resurfaced streets.

At the time the program was approved, the City Council requested staff to accelerate the program, if possible. Staff has considered ways to do so, and finds that it can be done by selling bonds this summer rather than waiting until the originally planned third year of the program. The selling of Street Assessment District bonds this summer would allow ten projects to be constructed one to two years earlier than originally scheduled. This action would transfer $2 million of the Street Improvement Program funds from year four to years two and three. That would raise the total amount to be spent over the next two years to $11.4 million. An accelerated bond sale is timely, because the current interest rates are lower than projected during initial program development.

Staff, however, must reevaluate its approach to maintaining the arterials. The Orange County / OCTA bankruptcy settlement resulted in the elimination of the AHFP rehabilitation program. That cost the City $120,000 of the $320,000 the City earmarked annually for arterials.

Program Status
In this, the first year of the program, twelve street projects are in various stages of design and construction. The second year of the program includes ten more projects. These second year projects are also in the design stage.

Completed Projects:

1. Via Cascadita from Via Socorro to Camino Capistrano.

2. Avenida Presidio (Phase I) from the San Clemente High School boundary to Calle Miguel, including one block of Calle Miguel.

3. Avenida Presidio (Phase II) from Calle Miguel to Calle Esperanza. The City utilized *rubberized asphalt* for the first time when paving the street.

Under Construction:

1. Calle Real from the City limits to Via Del Campo. It is scheduled for completion in March, 1996.
2. Calle Bienvenido from the City limits to Via Del Campo. It is scheduled for completion in March, 1996.
3. Avenida Cabrillo from El Camino Real to Calle Seville. It is scheduled for completion in May, 1996.

Design Stage:

(1st Year Projects) All of the following street projects are scheduled to start construction in late Spring or early Summer, 1996.

1. West Avenida Valencia (Phase I) from El Camino Real to South Ola Vista.
2. Avenida Del Poniente from Buena Vista to Calle Oso.
3. Buena Vista for the full length.
4. Avenida Santa Barbara from Seville to Ola Vista.
5. Diji Court from Buena Vista to cul-de-sac.

(2nd Year Projects) The 2nd year projects are now being designed and it is anticipated that the construction of various projects will start in the summer of 1996.

1. West Avenida Valencia (Phase II) from South Ola Vista to Toledo.
2. Toledo from Esplanade to Valencia.
3. Avenida Salvador from Avenida Presidio to Malaguena.
4. Via Alegre from Via Montego to cul-de-sac.
5. Via Montego from Via Cascadita to Montezuma.
6. Vista Torito from Avenida Vaquero to Montezuma.
7. Calle Frontera from Avenida Pico to Avenida Vista Hermosa.
8. Avenida Monterey from Avenida Rosa to Avenida Victoria.

Criteria

A number of residents have asked how decisions were made regarding the order in which streets are to be repaired. This topic was discussed at length during the public meetings last year, but because of the questions it is being restated in this report.

Anyone living on a poor street understandably wants the condition corrected without delay. However, of the sixty miles which are defective, there is only enough funding to rehabilitate three to four miles of streets per year. As such, a selection system had to be devised. The streets were listed in a year-by-year project schedule according to specific selection criteria and the amount of funding proposed for each year. In brief, the engineers first listed streets which posed safety problems and must be rehabilitated without delay. They then identified those streets which could be saved with an asphalt overlay. An overlay is about half the cost of reconstruction, so it makes economic sense to overlay them before their condition declines too far to do so. A number of streets need to be reconstructed soon, though, so bonds will be sold in order to generate "up front" funds for them. The complete list of the criteria used as a guide for setting project priorities follows:

- **Safety:** (a) danger to parked or moving vehicles, (b) danger to pedestrians, (c) danger of damage to underground utilities.
- **Technical:** (a) pavement surface distress, (b) pavement structural adequacy, (c) street classification, (d) traffic amount, (e) public and school bus routes, (f) truck routes, (g) drainage problems.
- **Cost:** (a) type of proposed rehabilitation, (b) cost effectiveness of the proposed rehabilitation, (c) cost impact associated with delaying the improvements.
- **Coordination:** (a) schedule of other capital improvement program projects, (b) availability of other funding, such as grants, (c) schedule of other street improvement projects within the area, (d) geographical distribution of projects.
- **Other:** If a situation develops which does not fit the above criteria, Engineering will use its best judgment in classifying and scheduling the project.

Funding

The Street Improvement Program is funded from the City's General Fund, the Gas Tax Fund, and the newly adopted City-wide Street Improvement Assessment Districts. Approximately 60 miles of streets are to be resurfaced and reconstructed over an eighteen year period at an estimated cost of $34.7 million. An annual inflation factor of 3% was used to project the program's revenues and expenditures.

The Street Improvement Program's short term financial picture is mixed. On the positive side, the street projects which have been awarded this year are coming in about 5 to 10% under project estimates. Another positive trend is that interest rates are currently lower than projected when the assessment district was formed.

On the negative side, the actual annual revenue of about $1.38 million from the Street Improvement Assessment Districts is down about $120,000 per year or 8% less than the $1.5 million per year which had been projected. This is due to an adjustment of about $100,000 per year to private golf courses plus adjustments to various parcels based upon refined information from the tax assessor's office. The City Council approved the golf course adjustments on the night the street program and assessment district were adopted. Over the next 18 years, this means the Districts revenue in uninflated dollars will be approximately $2.16 million less than originally projected. This is equivalent to about 4 miles of street overlay projects.

Long Term Financial Plan

If bonds are sold at the current estimated interest rate of 7.0% versus the 7.7% program estimate, some of the lost assessment district revenue will be made up from the interest savings. This, in combination with projects coming in under budget and interest earnings on bond proceeds, should help keep the program in the black.

The selling of street assessment bonds in mid-1996 versus the third year of the program will allow accelerated construction of ten projects. This should be a positive for the program since (1) interest rates are relatively low now, (2) construction cost increases have moderated with the recession and low inflation, (3) moving quickly (paying less for interest) will allow for more construction with the available funds, and (4) correcting the problems now will reduce ongoing maintenance costs. Below is a table showing the original and accelerated expenditure schedule:

PROGRAM EXPENDITURES (in millions)			
Year	**Original Funding Schedule**	**Early Bond Sale**	**Difference**
1995/96	$2.2	$2.2	-
1996/97	$2.2	$3.2	+ $1.0
1997/98	$5.0	$6.0	+ $1.0
1998/99	$4.7	$2.7	- $2.0
1999/00	$1.8	$1.8	-
TOTAL	$15.9	$15.9	-

The response of residents along those streets being rehabilitated has been very favorable. Many calls are coming in from other residents wanting to get their streets rehabilitated as quickly as possible. The early bond sale will help get some streets rehabilitated a year or so earlier, but will not speed up the overall program. No new money is being added to the overall program because of this action. Attachment A lists the projects whose schedules will be accelerated with an early bond sale.

Long Term Funding and Expenditures

The long term financial condition of the Street Improvement Program is much more difficult to predict. When the program was originally presented, staff estimated a reasonable revenue and expenditure forecast based on current conditions. This meant using a 3% annual inflation rate for both revenues and expenditures. It also assumed there would be no loss of funding sources. As we recently experienced, AHFP street rehabilitation grant funding was lost because of the Orange County bankruptcy. We had hoped that this source was going to increase over time as incorporation and annexations reduced the County's road responsibilities.

The major sources of Gas Tax Fund contributions to the program are 2106 State Gas Tax Funds, Measure M, and Proposition 111. Measure M is a 20-year sales tax program scheduled to sunset in 15 years. If a new tax measure is not approved at that time, the City will lose about $1.2 million in Gas Tax Fund revenues during the last three years of the Street Improvement Program. In addition to the loss of the Measure M funds 15 years from now, the Street Maintenance Assessment District sunsets in 18 years. Starting in the 19th year, this would amount to a reduction of about $400,000 per year from a total of approximately $1.0 million in Gas Tax revenues from the 2106 Gas Tax, Prop. 111 and Measure M turnback funds.

Arterials - Funding Affected by the County's Bankruptcy

The Street Improvement Program was intended to improve the City's collector and local street system. Rehabilitation of the City's arterial streets was to be paid for from (1) approximately $200,000 per year of earmarked Gas Tax funds and (2) street rehabilitation grants, such as AHFP grants, of about $120,000 per year. Staff had thought that this combined amount of funding ($320,000 per year) would be sufficient to maintain the arterials in good condition. The County's bankruptcy and ensuing trading of funds with OCTA has eliminated the funding of the AHFP rehabilitation program.

The City Engineer has been appointed to an OCTA subcommittee to look for potential funds for continuing the AHFP rehabilitation program. There probably will not be any grant funds available for at least two years or more. The Pavement Management System is currently being updated. When that work is completed, a review of the arterial street Capital Improvement Program and funding will be done.

General Fund Contribution

Over the Street Improvement Program's life, it was projected that the General Fund contribution would increase at a 3% per year inflation rate. The City Council, however, added a fiscal policy to the 1995/96 budget which states:

> *"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)."*

The County's bankruptcy plus the Measure M sunset adds to this burden.

Expenditures

As for the expenditure side, it is extremely difficult to project the actual costs of street improvement projects beyond three or four years at the most. There are too many unknowns including:

1. Projecting remaining pavement life is not an exact science. It is difficult to project the condition of a street more than two to four years out. Drought conditions help lengthen pavement life. Wet winters and heavy traffic shorten pavement life.
2. If more miles of total reconstruction are needed than were projected, costs could increase. Complete reconstruction is approximately twice as expensive as an asphalt overlay. As seen in the past, the heavy trucks supplying one construction project on a street scheduled for an overlay can destroy the street, thereby doubling the repair cost.
3. If there are oil shortages and/or large increases in construction activity, street construction price increases could be much larger than revenue increases. Street construction prices are based on the cost of labor, equipment and materials. Material costs are by far the largest component.
4. If new and improved technology is developed over the course of the program, costs could be reduced. This happened recently with the introduction of rubberized asphalt. Although currently more expensive than standard asphalt, wider use of the product should lower the cost - while extending street life beyond that of standard asphalt.

Street Maintenance Program

Having a defined and funded street rehabilitation program has enabled the Street Maintenance Division to develop an improved "major maintenance program". The division is now concentrating on doing more thin overlay work on streets that are not scheduled for full rehabilitation for at least several years. The thin overlays will not last as long as complete rehabilitation, but they do not cost as much either. The advantages are that (1) the effort will reduce maintenance costs by reducing the number of times the crews have to return to the same street before it is rehabilitated, (2) much more area can be covered under the major maintenance program, (3) the work has a better appearance and ride quality, and (4) it improves the image of the City.

The crews are able to focus on the major maintenance program by reducing their removal and replacement (R&R) efforts on streets scheduled for early rehabilitation. Overall, it is a far more efficient and effective use of the City's resources. The Maintenance Division was constrained from such an aggressive program in the past, because streets now being rehabilitated continually needed their attention.

Utility Improvements

As with the street maintenance program, the utility maintenance program is being closely coordinated with the street improvement program. Utility field crews have identified and corrected many potential subsurface problems. Numerous water valves and services have been replaced and a number of CIP projects for complete replacement of water lines and storm drains have been developed.

Conclusion

In summary, the street improvement program is off to a great start. Three projects are complete, twelve are in various stages of design and construction and ten more are in design.

The City will continue to monitor annual revenues and expenditures of the Street Improvement Program. In the next two or three years, it appears that the program's goals can be met. If the current trends continue beyond that time frame, the collector and neighborhood street rehabilitation program should be adequately funded and remain on schedule. By fiscal year 1999-00 the General Fund reserves will have been fully funded and the Council should have greater flexibility in the General Fund.

Given City Council and citizen requests for an accelerated program and the cost-saving advantages, it appears desirable to move the issuance of the bonds to an earlier date. This would allow ten projects to be completed one to two years earlier than scheduled.

The biggest present unknown is future funding sources for arterial street rehabilitation.

Recommendations

Staff recommends that the City Council:

1. Approve and authorize the issuance of Street Improvement 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

It is recommended that Willdan Associates be used to provide assessment engineering services related to the proposed bond issuance. The City has issued a Request for Proposal for assessment district administration; however, it has been determined that Willdan Associates should be retained because they conducted the district formation process and have the available data base, project background, project maps and 1995-96 assessment levy information. Thus, Willdan can complete the necessary research and computations in the quick timeframe necessary to issue the bonds in a timely manner.

Fiscal Impact of Recommendations

Bond issuance: Street Improvement Program bond issuance costs amounts to approximately $7.3 million of which $6.2 million is available for construction. Of this amount, approximately, $700,000 will be set aside for reserves, $200,000 for ongoing assessment district administrative costs (over 15 years), and the remainder for administrative and issuance costs. (see Attachment B).

Debt service payments: Annual debt service payments amount to approximately $725,000 over a 15 year term.

Interest rates: The improved market for bonds and a significant reduction in interest rates (7.7% to 7.0%) will result in a savings of $50,000 per year. This is a present value savings of $500,000 over the 15 year debt service period.

Financial Advisor & Bond Counsel: The City retained Fieldman Rolapp & Associates as the financial advisor for the formation of the Street Assessment Districts. Under the conditions of the ;professional services agreement approved by Council in March 1995, Fieldman Rolapp will continue to act as the City's financial advisor for the issuance of the bonds. Rutan and Tucker will serve as Bond Counsel.

Assessment engineering services: It is proposed that assessment engineering services related to the bond issuance be provided by Willdan Associates. Willdan Associates conducted the assessment engineering services necessary for the formation of the Street Assessment Districts. The continuity of the tasks, along with the early issuance of the bonds require that the assessment engineer be familiar with the districts formation.

Underwriter: Underwriting services will be obtained on a competitive basis. The estimate for underwriting services is $110,000 and is included in the issuance and administration costs. Staff will present a professional services agreement to City Council for approval at a later date.

ATTACHMENT A

ACCELERATED STREET IMPROVEMENTS PROJECTS LIST

Below are street rehabilitation projects whose construction will be accelerated one year if the Street Overlay and Replacement Assessment District bonds are sold in the summer of 1996, one year earlier than originally planned.

STREET	PROJECT LIMITS	ESTIMATED CON-STRUCTION COST
FY 1996/97		
Escalones	ECR to W. Canada	$378,000
Calle Del Commercio	S. ECR to San Luis Rey	$121,000
Ave. Palizada	ECR to Seville	$283,000
Seville	Palizada to Victoria	$125,000
West Canada	ECR to Poniente	$124,000
TOTAL FY 1996/97		$1,031,000
FY 1997/98		
E. Ave. Magdalena	S. ECR to Santa Margarita	$759,000
Ave. Santa Margarita	San Luis Rey to Magdalena	$374,000
W. Ave. Alessandro	Del Presidente to San Antonio	$233,000
W. Ave. San Antonio	Alessandro to Presidente	$288,00
Calle Miguel	Presidio to Presidio	$278,000
TOTAL FY 1997/98		$1,932,000

City of San Clemente
Street Overlay and Replacement
Assessment District No. 95-1

DESCRIPTION	PRELIMINARY AMOUNT	CONFIRMED AMOUNT
Project Costs		
Street Overlay and Replacement Program 18-year program	$48,798,000	$42,282,000
Bond Issuance and Administrative Costs		
Assessment Engineer	$46,900	$46,900
Notices	30,000	35,000
Feasibility Analysis	12,500	12,500
Financial Advisor	45,000	45,000
Legal Counsel	35,700	35,700
City Administration	30,000	30,000
Ongoing Administration (lifetime)	202,650	207,700
Bond Registrar and Paying Agent	5,000	5,000
Bond and Official Statement Printing	15,000	15,000
Bond Rating	10,000	10,000
Capitalized Interest	0	0
Subtotal Bond Issuance and Administrative Costs	$432,750	$442,800
Less Contributions		
General Fund Contribution	(12,459,800)	(8,704,600)
Gas Tax Contribution	(10,046,700)	(11,278,000)
Project Subtotal	$26,724,250	$22,742,200
Bond Reserve Fund (10 percent)	728,000	728,000
Bond Issuance Cost (1.5 percent)	109,200	109,200
Subtotal Amount to Assessment	$27,561,450	$23,579,400
Total Amount to Bond	$7,280,000	$7,280,000
Balance: Maintenance Assessment	$20,281,450	$16,299,400

(based on a projected 15-year bond issue in the amount of $7,280,000 with an estimated average interest rate of 7.66 percent to be dated September 2, 1997. The interest on the $7,280,000 bond issue is not shown above.)

Public Works Strategic Plan

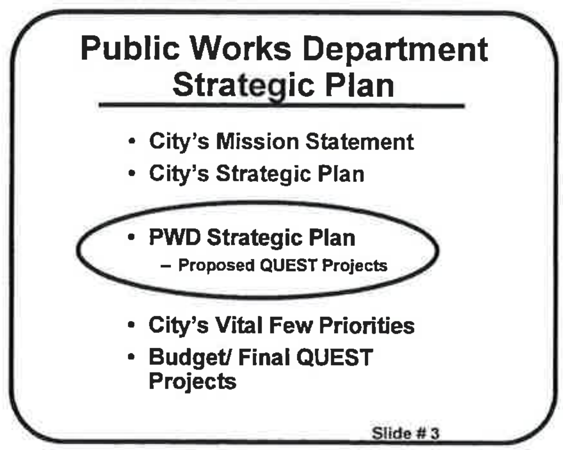
Objective
To examine the organizational and operational structure of the Public Works Department.

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

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. The City Manager has developed a project tracking system (QUEST) and a pay-for-performance system which is tied strongly to accomplishment of the QUEST projects.

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 QUEST projects are thorough, complete, and timely and are in keeping with the priorities identified by Council.



The Public Works Department's strategic plan process, to be updated each October, examines the long-range goals of the Council as expressed in the City's Mission Statement and general plan, and makes recommendations for Public Works projects in the upcoming long-term financial plan. It identifies the current status of the department in terms of its operational efficiencies 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 all the goals, so it must continually take steps to insure peak performance is possible.

City's Mission Statement

Key Public Works Department roles:

... partnership with community...

... safe, healthy atmosphere...

Guiding development...

...responsible growth...

...preserving and enhancing...

...promotion of economic vitality...

Slide # 5

This Strategic Plan looks at the past, the present, and the future of the City and the Department. It provides:

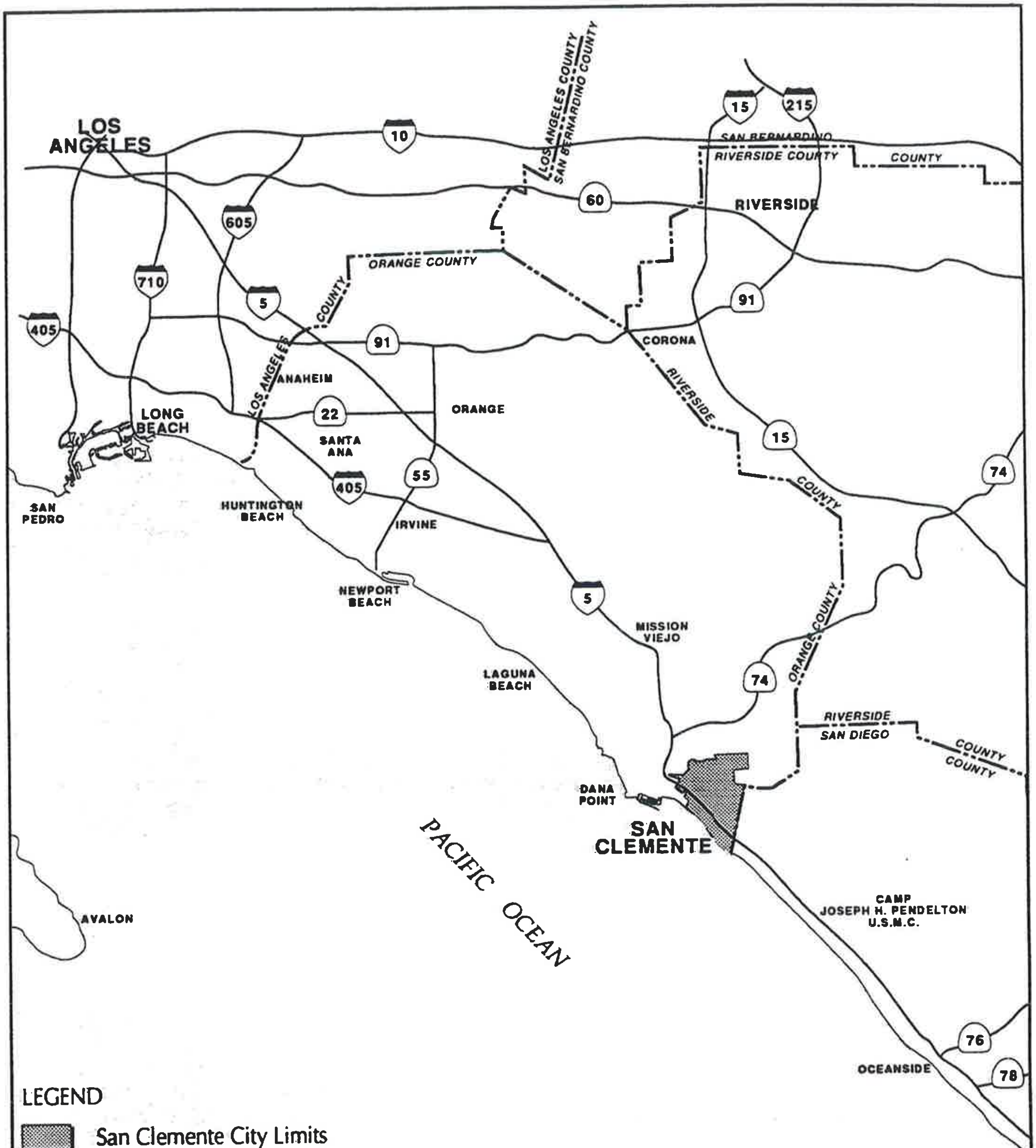
- a description of the setting within which the department operates;
- an overview of the recent history of the City and the department;
- a look at the current environment and the trends affecting our clients, regulators, resource providers, and competitors:

- the best case, worst case, and most like case future scenarios for each division; and
- a series of projects which will help position the department to meet the challenges which lie ahead.

II. THE PAST

A. Overview of the City

The City of San Clemente, California, is a hilly community located on the Pacific Coast, midway between the cities of Los Angeles and San Diego, at the southwestern tip of Orange County. The City's southern boundary is also the Orange County/San Diego County line and the property line of the U.S. Marine Corps, Camp Pendleton. The City has a 4.5 mile coastline backed by steep coastal bluffs which reach heights of 100 feet at the northern end of the City and drop to heights of 60 feet at the southern end of the city. Refer to the regional and local maps on the next two pages. These maps were taken from the updated General Plan.



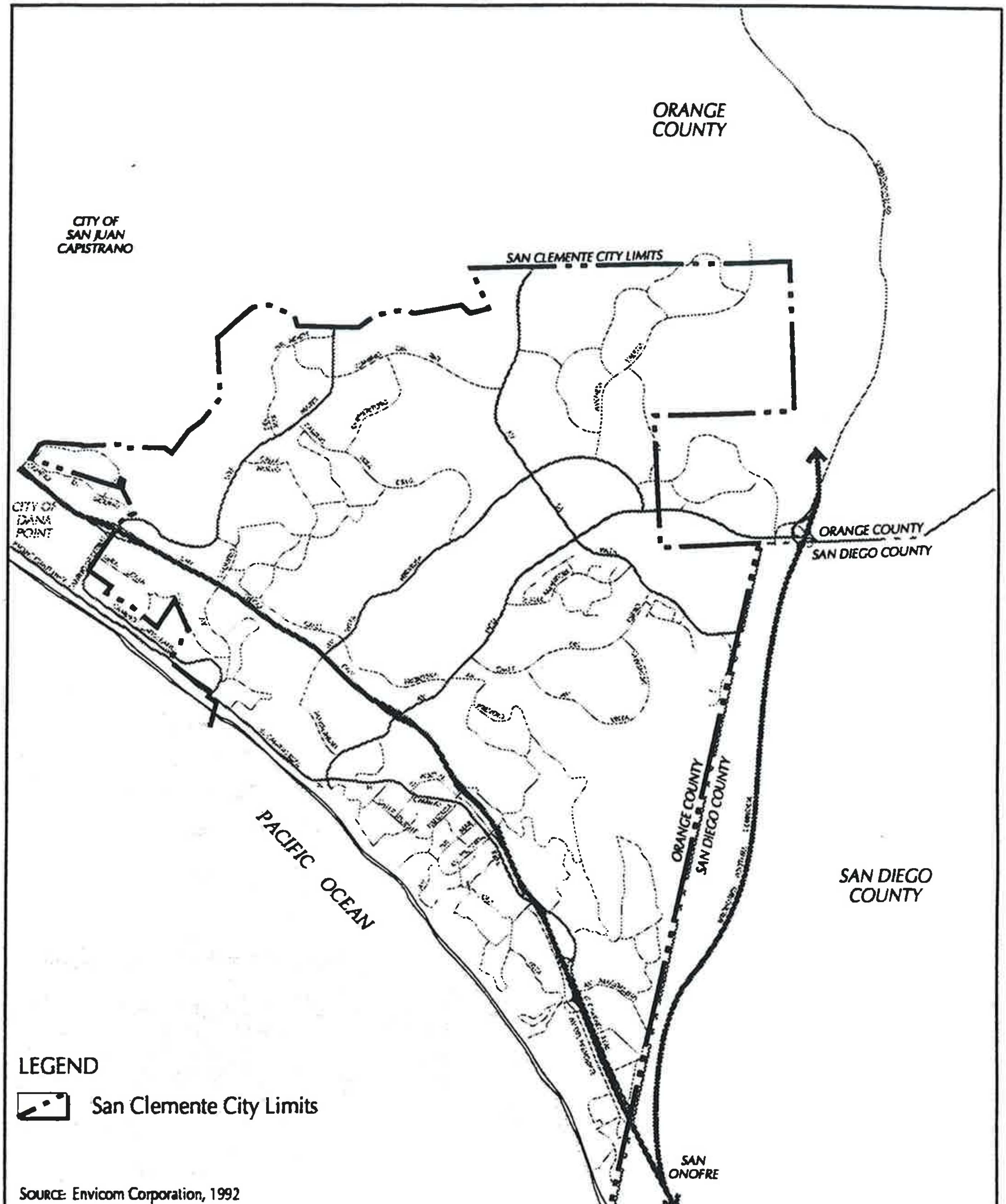
Source: Envicom Corporation, 1992

REGIONAL LOCATION

SAN CLEMENTE GENERAL PLAN

MILES 0 5.25 10.5 15.75 NORTH

FIGURE 2



CITY LIMITS

SAN CLEMENTE GENERAL PLAN

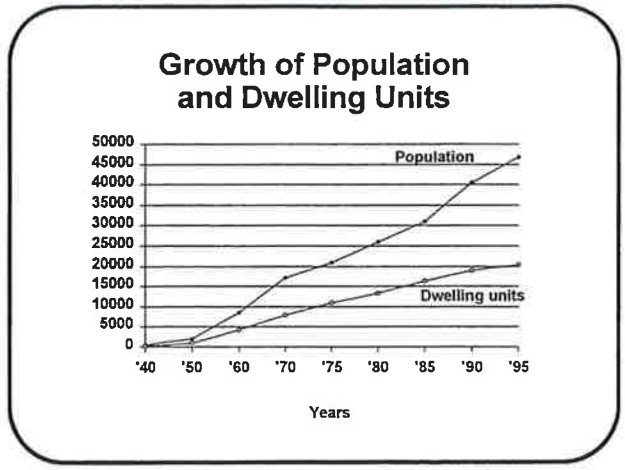
FIGURE 3

San Clemente was founded in 1925 and incorporated as a full service city on February 8, 1928. From the outset, its relatively small size and isolated location discouraged large-scale commercial developments. The resultant low levels of sales taxes and transient occupancy taxes created difficult spending choices for the Council each year. Public safety and other important demands understandably tended to rate highest on the annual priority lists. There was typically insufficient capital to cover all of the needs. As a result, maintenance of public facilities such as streets, storm drains, and parks languished for years.

The City Council has adopted funding sources for streets, storm drains, and parks in recent years, and although much work is backlogged, great progress has been made in these areas. Facilities such as City Hall continue to compete for general fund dollars, however, and continue to find themselves on the bottom of the annual priority lists (as evidenced by the frayed carpets and faded paint).

B. Growth

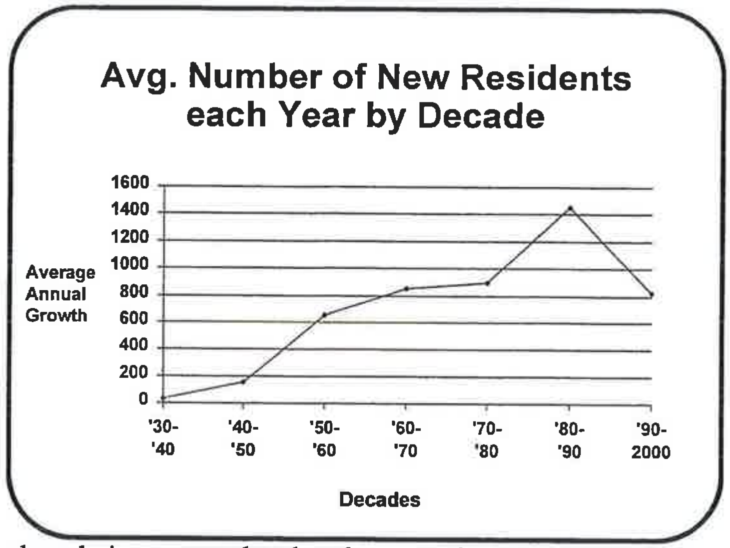
By 1940, fifteen years after the City was founded, it boasted a population of 479 and 229 dwelling units had been erected (2.09 people per unit). After the freeway was constructed in the early 1950's, residential construction moved into the hills east of the existing community. During the 1960's and '70's, most of the development activity was in the hills overlooking the ocean and on the flatlands leading to the bluffs. By 1970, the population had reached 20,850 with 7,858 dwelling units (2.65 per unit). By 1980, the City's population had grown to 27,322 with 13,290 dwelling units (2.06 per unit). During the decade of the 1980's, construction pushed into the hills and valleys of the "back country" ranches, as the area was then called. By 1990, the population had grown to 41,100 with 19,007 dwelling units (2.16 per unit). The population for January 1, 1996 was estimated to be 47,147 with 20,451 dwelling units (2.31 per unit). The City's Planning Division projects a population of 48,770 by the year 2000.



Although growth was slow at the outset (some 479 people in the first fifteen years - an average of 32 people per year), it sped up considerably thereafter. Even with the deep recession of the 1990s, the population during the last fifteen years (1980 to 1995) increased by 19,825 people, or 1,322 per year. Between the years 1985 and 1990 alone, the population increased by 10,100, or 2,020 per year. With the recession, the pace of construction has slowed during the last five years (1990-1995) and has resulted in a 40% reduction in the growth rate (6,047 new residents between 1990 and 1995, for an average of 1,209 per year.

One of the four major ranches (Rancho San Clemente) has virtually built-out and a second (Marblehead) is approximately two-thirds complete. The third, Centex (Forster Ranch) and the fourth, Arvida (Talega Valley) have closed shop and left town. Because of the depressed values and high development costs, neither may return for years. With only about 700 new homes projected over the next five years, or 1,623 new residents, the result is a sharp drop to an average increase of 827 new residents per year during the decade of the 1990s.

The graphic at the right depicts the average annual number of new residents for each decade (total population growth for each decade divided by 10 years). It reveals that the City grew very slowly during the great depression and World War II years, but accelerated sharply in the 1950s. The annual expansion rates reached a peak in the 1980s and dropped dramatically in the 1990s. Although some new development will continue to occur, the rate of expansion for the remainder of the decade is expected to be closer to the rate experienced in the 1960s.



If the projection is correct, this continuing downturn in new private developer projects will allow the Public Works Department to continue to focus on important public infrastructure projects such as the street improvement program and improvements to the water, sewer, reclaimed water and storm drain systems.

C. Topography

San Clemente is a topographically diverse city with numerous hills, valleys, and coastal canyons, and approximately four and one-half miles of beach adjacent to the Pacific Ocean. Atop the coastal bluffs, mentioned earlier, gently sloping coastal marine terrace areas reach inland for distances up to three quarters of a mile. Many of the hillsides, which contain expansive clay soils, are unstable and the City is dotted with ancient landslides.

The interior portion of the city and the surrounding areas are dominated by a low range of hills that parallel the coastline. The highest elevation in the city is 906 feet - a hill which rises in the Rancho San Clemente property south and west of the intersection of La Pata and Del Cerro.

As the engineering profession has learned more about the nuances of hillside construction, increasingly stringent safety standards have been adopted. Among them are requirements for constructing slopes no steeper than a two to one ratio and with a safety factor of 1.5. Much of our community, like other older hillside communities, was developed before the need for such standards was understood and before such requirements were put into place.

Developers of the ranches in the eastern part of the City have found many of the hillsides to be so unstable and to contain so many ancient landslides that mass grading is often required - often much greater than had been anticipated. The Rancho San Clemente development, for instance, required the removal of twenty-two million (22,000,000) cubic yards of soil, grading of soil stabilizing keys into the hillsides, and the replacement and compaction of the soil. All told, this was a forty-four million (44,000,00) cubic yard project, reportedly the second largest grading operation in the world at the time.

Many homes in the older part of the community were built near natural drainage courses in the coastal canyons and erosion has raised concerns among some property owners. Discussions of various solutions raise perplexing conflicts. In many cases, the solution is to mass grade the canyon bottom and install large diameter storm drains. That solution runs counter to the wishes of both the Coastal Commission, which has jurisdiction within 1,000 feet of the mean high tide line, and homeowners who bought property on the canyon because of its beauty.

Some property owners think the City should correct the drainage problem, but most of the property is in private ownership without any City easements or responsibilities. The solutions are extremely costly and controversial and no funding source is known. The City tried to coordinate improvements in two separate canyons - (1) Cascadita Canyon following a washout of the Shorecliffs Golf Course (after the MO1 channel overran its banks in 1978) and (2) Verde Canyon following the destruction of ten homes during a landslide in 1983. The City abandoned both efforts in the face of strong opposition from surrounding property owners. The Engineering Division is currently attempting to repair damage to a City-owned parcel in Traflagar Canyon. The project is progressing slowly with mixed reviews from the neighbors.

In January of 1993, torrential rainfall saturated the ground and caused a great deal of damage. The City received over 400 reports of major and minor slope failures. The major flood control channel which runs parallel to Avenida Pico (designated by the County as the MO2 channel) overflowed its banks and destroyed a restaurant in its path. The Maintenance Division spent over a month clearing and cleaning numerous streets of debris to provide access to residents. The Utilities Division spent hundreds of man-hours responding to storm drain damage issues. The Public Works Department (Engineering) claimed and was awarded over eight million dollars ($8,000,000) in federal damage assistance. Dozens of publicly owned slopes and storm drains have been rehabilitated as a result. The largest, a five million dollar bluff stabilization and street widening project, is underway at the time of this writing.

D. The Region

San Clemente is located on the Pacific Coast in the far southwestern tip of Orange County. Until December 6, 1994, *another day which will live in infamy*, Orange County was known as a vibrant, wealthy, upscale area with few of the problems seen in other parts of America. When the County declared bankruptcy, based upon a failed investment program, that perception changed drastically.

Until very recently, San Clemente, like most other cities, focused upon its own problems and concerns, doing relatively little at the regional level. Now regional issues abound. The Tri-

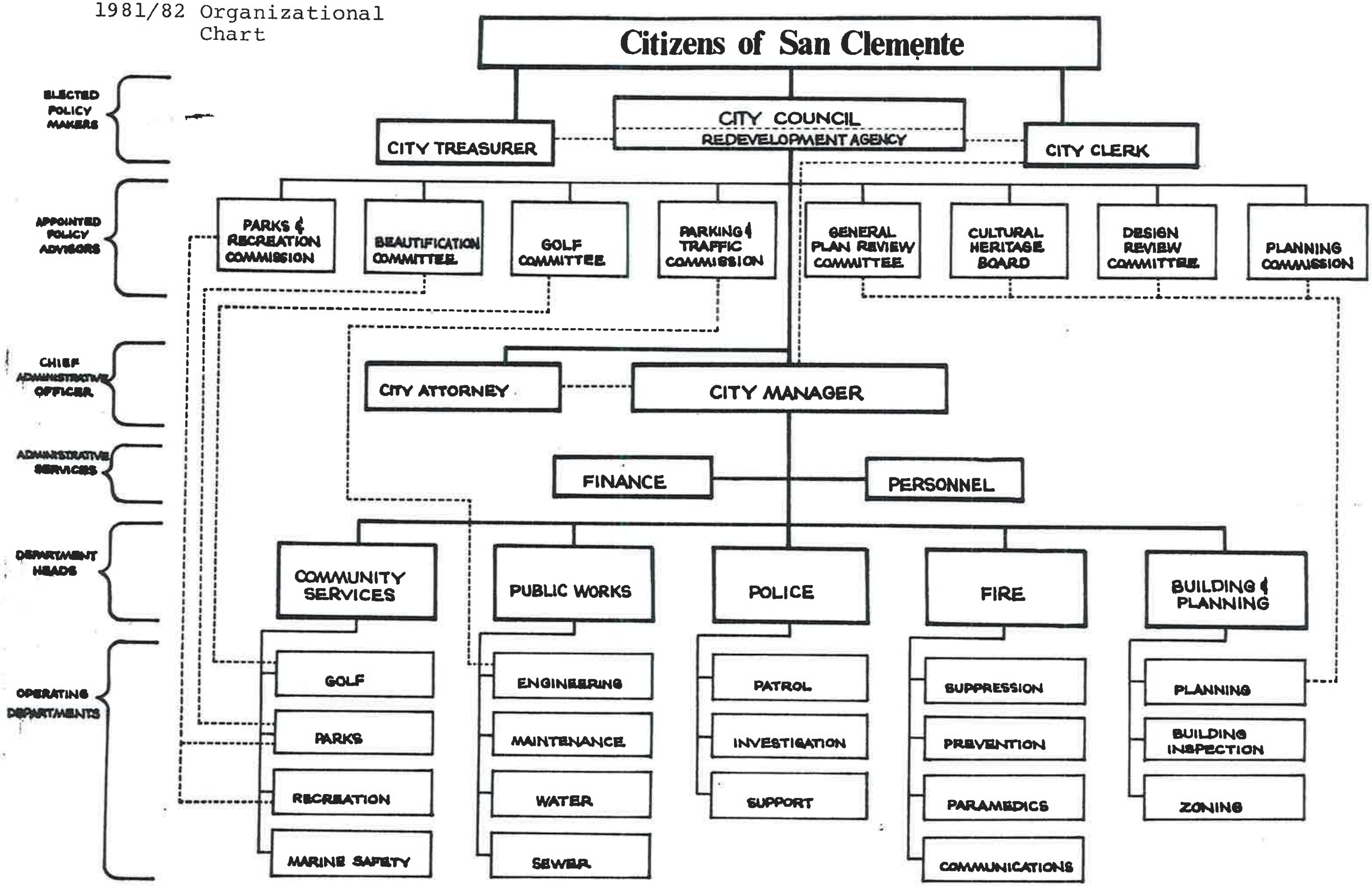
Cities Municipal Water District and other local water districts are actively investigating ways to merge; Orange County, in the aftermath of its bankruptcy declaration, is reexamining its policies, procedures and relationships with other entities; and numerous groups are forming at the regional and state level to investigate new methods of governance.

The Public Works department is affected by many of the regional concerns, including: water supply and quality, storm water run off, air pollution, sewage and sludge disposal, joint solid waste management efforts, ocean cleanliness and safety, and numerous transportation issues. As regional issues increase in priority, the Department must look for ways to respond to them.

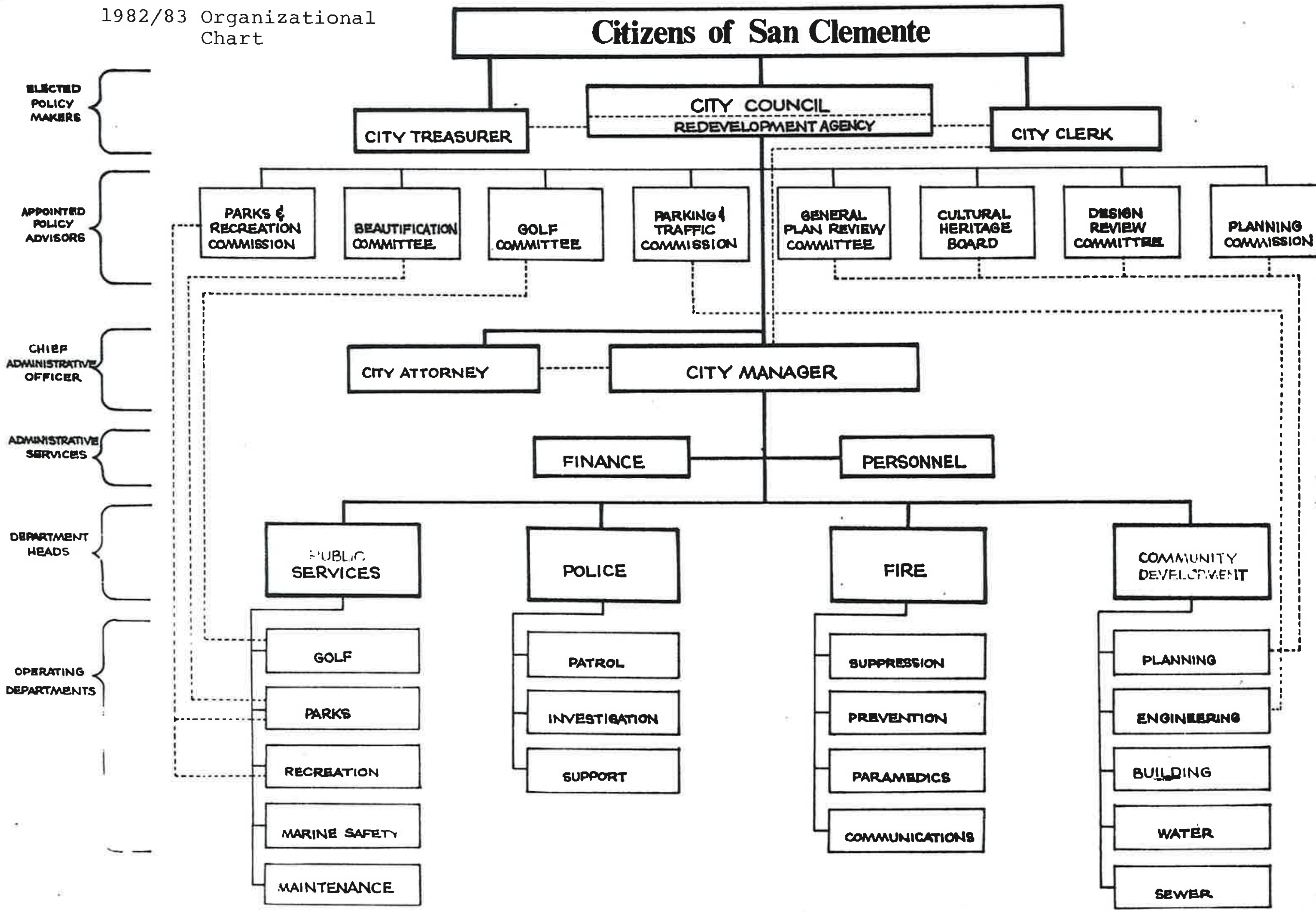
E. History of the Public Works Department

In City budgets dating back to 1965/66, the earliest budget available, and in every budget up to 1982/83 Public Works is listed as one of the City's departments. For eleven years, however, between July of 1982 and July of 1993, the City had no Public Works Department. In 1982, tight money caused the City Manager to reorganize. Rather than filling vacant department head positions in Public Works and Planning, the City Manager eliminated those positions and downgraded others. He divided the resultant ten divisions between two new super departments: The *Community Development Department* (Engineering, Building, Planning, Water and Sewer Divisions) and the *Public Services Department* (Parks, Recreation, Marine Safety, Golf and Maintenance Services Divisions). For details, refer to the 1981/82 and 1982/83 City organizational charts on the following pages.

1981/82 Organizational Chart



1982/83 Organizational Chart

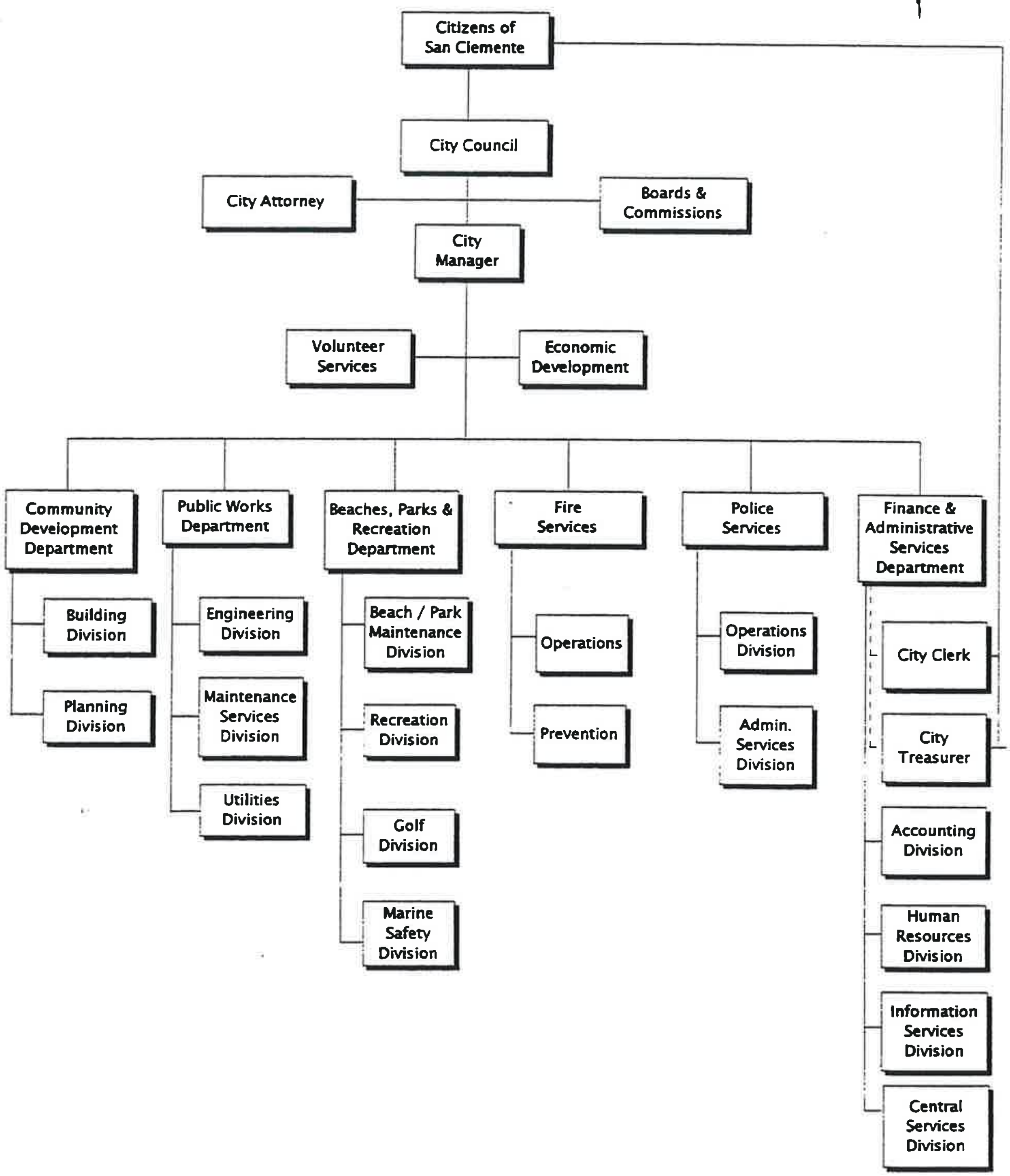


In 1990, Hughes-Heiss and Associates conducted a citywide organizational study. The resultant organizational plan called for a restructuring of the two super departments into three more traditional departments: (1) Public Works (Engineering, Water, Sewer, Storm Drains, Solid Waste, and Maintenance Services); (2) Community Development (Building, Planning, and Special Projects); and (3) Beaches, Parks and Recreation (Parks, Recreation, Marine Safety, and Golf). Refer to the 1995/96 organizational chart on the following page.

Much of the organizational plan was implemented expeditiously, but the Public Works Department was not created and the Director's position was not filled until a great deal of organizational downsizing and contracting out was completed. This includes disbanding of the police and fire departments in favor of county contracts and contracting with the private sector for maintenance of parks, beaches, landscaped medians, and street striping. The Emergency Planning function was transferred to the Public Works Department in 1993, after the Fire Department was contracted out.

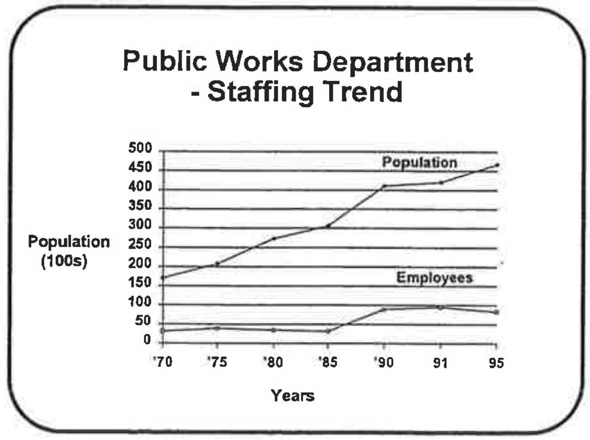
The early efforts of the newly established Public Works Department focused upon improving the quality of field operations through streamlining and coordination efforts. Simultaneously, a major push for infrastructure improvements began. First, a storm drain utility was formed on the heels of the torrential rains and then a street assessment district was formed to correct the street deterioration problem.

City Organization Chart

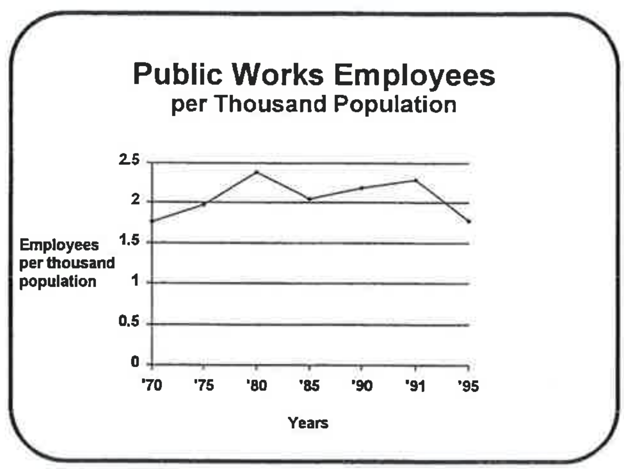


This strategic plan constitutes the next vital steps in (1) documenting what the department does well and what needs to be improved and (2) preparing work plans to implement the improvements.

The department's staffing levels have risen and fallen according to the amount of construction activity and various economic factors. Even though the department was disbanded for a time, the divisions and activities continued. A review of the staffing patterns over the past 25 years reveals that, until recently, staffing levels roughly paralleled the population growth.



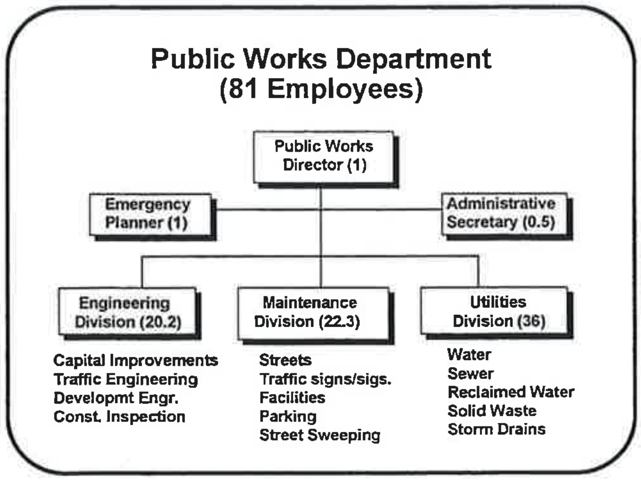
The number of Public Works employees per thousand residents rose steadily from 1.76 employees per thousand residents in 1970 to a high of 2.38 employees per thousand in 1980 and 2.29 employees per thousand in 1991 before dropping to 1.78 employees per thousand today. The department of today, in terms of its employees-to-population ratio, is staffed at approximately the same level as it was in 1970.



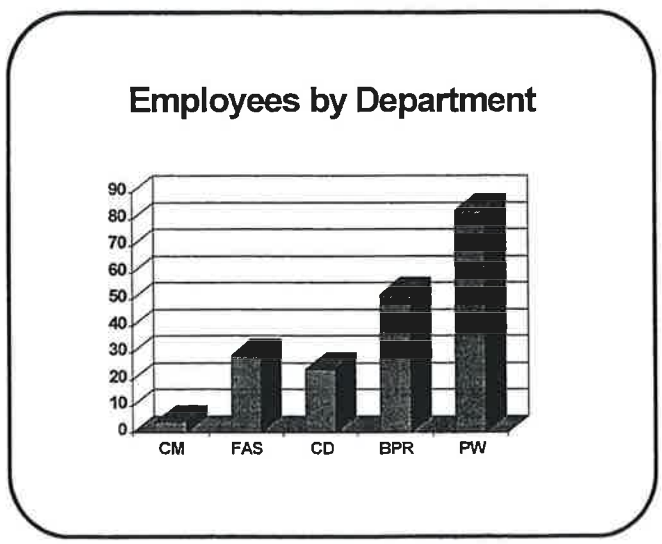
III. THE PRESENT

A. The Current Public Works Department

The Public Works Department consists of (1) the Engineering Division, (2) the Maintenance Services Division, (3) the Utilities Division and (4) the Administrative and Emergency Planning Unit.

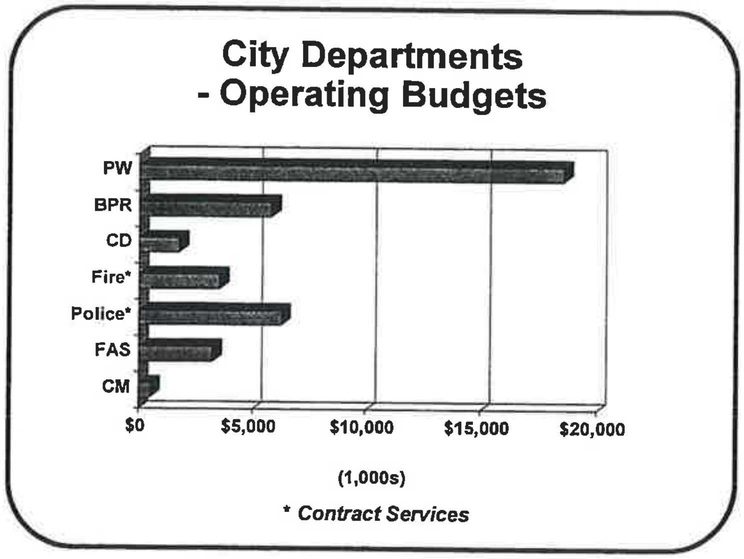


The Department currently has 81 employees with a total budget of $35,500,000 (operating budget: $17,800,000; capital budget: $17,700,000 - see the chart on the next page.). It is the largest department in the City, accounting for approximately 42% of the total employees. Of the 81 employees in the department, 2.5 are in the administrative unit (including the Emergency Planner), 20.2 are in the Engineering Division, 22.3 are in the Maintenance Division, and 36



are in the Utilities Division.

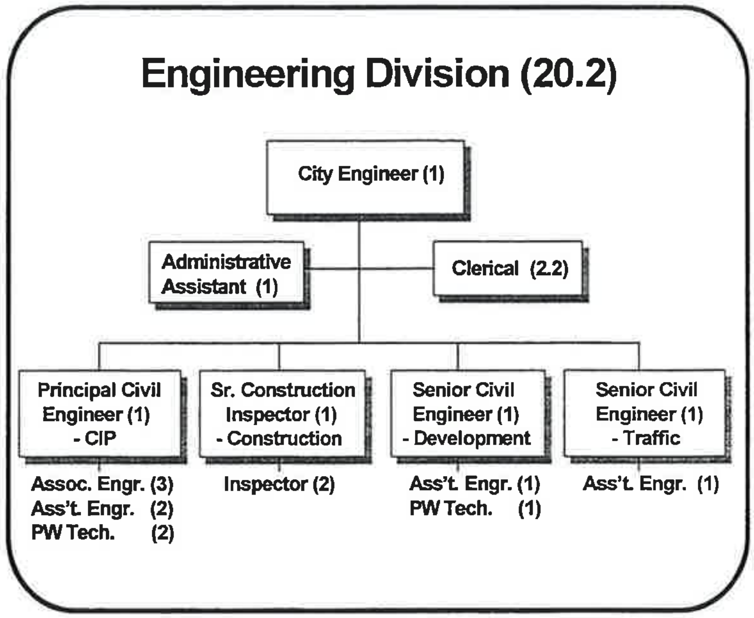
Each division is responsible for numerous programs. Many of the programs in one division complement or overlap programs in one or more of the other divisions. For instance, The street improvement program in Engineering must be coordinated with (a) street maintenance projects in the Maintenance Services division, (b) utility replacement projects in the Utilities Division, and (3) escape route considerations in the Emergency Planning program. The department has three office locations and operates facilities in numerous locations throughout the city, as follows:



- The <u>Administrative unit, Emergency Planner and Engineering Division</u> operate out of offices at 910 Negocio in the Rancho San Clemente Business Park.
- The <u>Maintenance Division</u> has shops, offices, locker rooms, and equipment storage facilities at the City Yard located at 390 Avenida Pico.
- The <u>Utilities Division</u> has offices, water, sewage and reclaimed water treatment facilities and equipment storage facilities located at 380 Avenida Pico.

1. Engineering Division

The Engineering Division is divided into four major units, each reporting to the City Engineer. The Capital Improvement Program unit (CIP) is headed by a principal civil engineer; the Development Engineering unit is headed by a senior civil engineer; the Traffic Engineering unit is headed by a senior civil engineer, and the Construction Inspection unit is headed by a senior construction inspector.



The CIP section is responsible for major repairs and replacement of public works facilities within four major categories: water, sewer, storm drain, and streets. The CIP engineers also work with other departments on projects such as improvements to the golf course and the parks. The engineers help project managers from other departments prepare their projects for competitive bid. The CIP engineers handle the competitive bid process for the project managers and are available for consultation and advice during the construction phase. Public Works Inspectors inspect all public works projects, including those managed by other departments and private development projects which are to be dedicated to the City (streets, storm drains, water and sewer lines, and so on.)

Capital improvement projects are defined as stationary projects valued at $50,000, or more, which have a useful life of 5 years, or more. Typical projects within the capital improvement program include reservoir and water line installation or upgrade, sewage trunk line and pump station upgrades or replacement, storm drain and catch basin installation or replacement, and street rehabilitation or replacement. The capital improvement program team also repairs major slope failures such as the bluff failure along Pacific Coast Highway below the Colony Cove development.

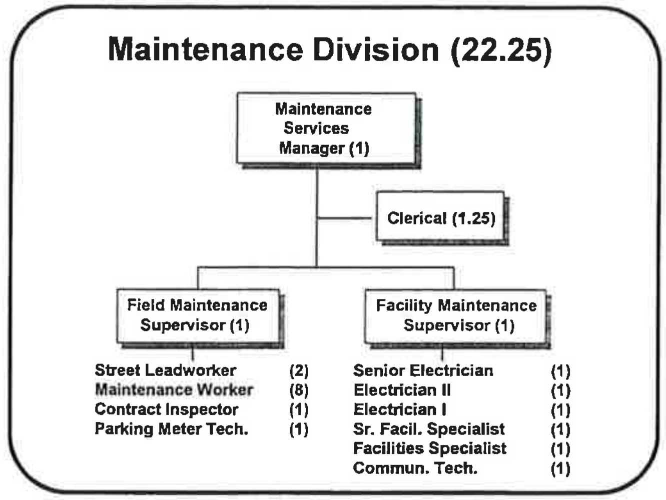
The Development Engineering Unit reviews plans and specifications of proposed developments and improvements to ensure that public facilities are in compliance with adopted development agreements, the general plan, specific plans, municipal codes, and engineering standards.

The Traffic Engineering Unit reviews development plans to ensure that traffic concerns are mitigated. The unit also reviews traffic complaints and concerns in the existing city to alleviate congestion and correct dangerous conditions.

The Construction Inspection Unit makes periodic visits to construction sites to observe the work and ensure that the projects are built in compliance with approved construction plans.

2. Maintenance Services Division

The Maintenance Services Division is divided into two major units under the Maintenance Services Manager. These are the field maintenance unit and the facility maintenance unit.

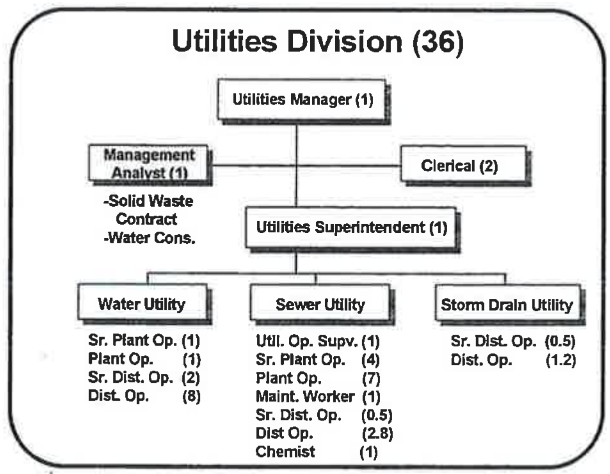


The Field Maintenance Unit, headed by a Public Works Maintenance Supervisor, is responsible for street, alley, parking lot, curb, gutter, and sidewalk repairs, signage, contract street striping and legend and curb painting, street sweeping, parking lot and parking meter maintenance and collection, and the surface portions of the storm drain system such as catch basin inlets, canyons, storm drain inlets, and storm drain outlets.

The Facilities Maintenance Unit is headed by a facilities maintenance supervisor. The unit is responsible for the repair and upkeep of the City's offices and certain utility and recreational facilities, including work such as carpentry, plumbing, painting, moving, contract HVAC (heating, ventilating, and air conditioning), contract janitorial services, contract uniform service, contract carpet runner service, contract insect control service, and contract and in-house electrical maintenance. The unit is also responsible for communications, and maintenance of specialized electrical facilities such as utility plant electrical equipment, electrical equipment in parks, street lights and traffic signals.

3. Utilities Division

The Utilities Division consists of water, waste water, reclaimed water, and storm drain maintenance operations and administration of the solid waste collection contract. The water, waste water, reclaimed water, and storm drain maintenance operations fall under the purview of the Utilities Superintendent, while water, billing, water conservation, and management of the solid waste collection contract/recycling program falls under the purview of the management analyst/water conservationist. Both of these individuals report to the Utilities Manager.



The water system is very complex, because of San Clemente's hilly terrain. The system includes 9 taps into the Tri-Cities main, 1 tap into the Pico Pipeline (3 more planned), 2 operating wells in the south end of the city, 15 reservoirs built at various heights throughout the city, 15 pump stations, 45 pressure reducing stations, 172 miles of distribution system piping, 11 service zones established by the reservoirs and 19 sub-zones served by pressure reducing stations. The operation of the system requires the use of computerized controls and telemetry systems to control reservoir levels and pressures, special instruments to inject and measure chlorine, and lab instruments and expertise to control the quality of the water. Water utilities is categorized into two essential activities, Production and Distribution.

Water Production - The purpose of the Production program includes the acquisition of import water supplies from the Tri-Cities and South County pipelines and operation of the City's ground water resources through deep well extraction. Activities include the operation and maintenance of ground water wells and treatment plant, pressure regulating stations, booster pumps and storage reservoirs. Water conservation activities include main line and service line leak detection, meter calibration and account audits. Water quality monitoring and analysis are performed routinely to ensure the delivered product meets all health and quality standards and is in compliance with the Federal Safe Drinking Water Act. Cross-connection control activities include ongoing system inspections to protect water supplies. This program maintains daily records and logs of operating process, maintenance and corrective work activities to comply with all reporting requirements of the various regulatory agencies

Water Distribution - The purpose of the Distribution Program is to ensure uninterrupted water service to the our clients, to detect and repair system failures, correct system deficiencies and provide for fire protection needs. This program provides 24-hour emergency on call operations to respond to customer service, system malfunctions and main/service line repairs. Program activities include installing water meters, upgrading services through the replacement of inadequate water mains, service lines, valves and fires hydrants, installing services for new construction, maintaining line valves and hydrants in good working order, responding to customer service requests and locations of underground services for various contractors and developers, and making emergency repairs to water mains and service lines. Staff assigned to this utility are certified and licensed by State examination.

The Wastewater Utility is divided into three essential activities, Collection, Treatment and Reclamation. Since storm water collection activities are similar to those in the wastewater collection system, the utility also oversees storm water collection system activities.

Wastewater Collection - The purpose of the Collection System is to collect wastewater generated by the community from residential, industrial and commercial users and to transport this waste stream to the treatment facility through a network of underground pipes and pump stations. The City's wastewater service area is divided into seven drainage regions draining a total of 9,155 acres. Each region is served by a primary trunk sewer with branches to individual customers. Although most of the flow is by gravity, the hilly terrain requires 10 pump stations to keep the effluent moving. The primary activity of this program is to insure the wastewater is collected and conveyed to the treatment facility without causing odors, vectors, groundwater contamination or other health hazards. This is accomplished by continually performing preventive maintenance and inspection of this system and operating and maintaining the raw sewage pump stations.

Wastewater Treatment - The purpose of the treatment program is to treat and to dispose of all wastewater generated by the community in a safe, economical manner and continue to meet effluent discharge standards set by the EPA, San Diego Regional Board, County Health Department and the South Coast Air Quality Management District for both Reclaimed Water and Secondary Effluent discharge to ocean. The primary activities of this program are to operate and properly maintain the wastewater treatment and reclamation facility; perform daily laboratory analysis before, during and after each treatment segment for process control, implement daily process control changes to maintain process stability, and maintain daily records and logs of operating processes and maintenance and corrective work activities to comply with all reporting requirements of the various regulatory agencies

Reclamation - The purpose of this program is to further treat secondary wastewater effluent and produce unrestricted use reclaimed water for irrigation purpose to reduce the amount of water which must be purchased. The existing system serves the Municipal Golf Course and the Pacific Golf Club and temporary service to the Talega construction site. The system currently has the capacity to produce 2.2 MGD. The site has been planned and constructed to allow for expansion of the reclamation facilities to 4.4 MGD. The ultimate system will deliver reclaimed water to schools, parks, medians, slopes and freeway landscaping. The primary activities of this program are to operate and properly maintain the reclamation facility; perform daily laboratory analysis before, during and after each treatment segment for process control, implement daily process control changes to maintain process stability, and maintain daily records and logs of operating processes, and preventative and corrective maintenance work activities to comply with all reporting requirements of the various regulatory agencies.

Storm Water Collection - The purpose of the Storm Water Collection System is to collect storm water runoff from residential, industrial and commercial properties and to transport this product to its respective drainage regions through a network of catch basins, underground pipes, open channels and boxed culverts. The primary activity of this program is to insure the storm water is collected and conveyed to the Pacific Ocean without causing damage to private property or creating health hazards and to insure that facilities are operated and maintained in compliance with the discharge requirements of the storm water National Pollution Discharge Elimination System (NPDES) program. Activities include continually performing preventive maintenance and inspection of the system, stenciling. Maintain daily records and logs of preventative and corrective maintenance work activities and inspection records to comply with all reporting requirements of the various regulatory agencies. Staff assigned to this utility are certified and licensed by State examination.

4. Emergency Management

The City has adopted a Multi-Hazard Emergency Plan, including several annexes: (1) a Nuclear Response Annex, (2) a Storms, Floods, and Tsunamis Annex, and (3) a Mass Casualties Annex. The Emergency Planner is currently developing (4) an Earthquake Response Annex.

The Emergency Planner was attached to the Fire Department, until the Fire Department was contracted out. In September of 1993, the function was transferred to the Public Works Department. The emergency planner is responsible for both developing and updating the City's Multi-Hazard Emergency Plan and training the City's personnel in its use.

The City of San Clemente receives reimbursement for the entire cost of the emergency planner and the cost of any other emergency planning which is associated with nuclear emergencies. The City invoices the State Office of Emergency Services (OES) and they, in turn, invoice the San Onofre Nuclear Generating Station (SONGS).

The City is reimbursed, because SONGS is located just two miles south of the city limits That places the entire city within the plant's ten mile emergency planning zone (EPZ). The Nuclear Regulatory Commission (NRC) and the Federal Emergency Management Agency (FEMA) have enacted stringent emergency preparedness directives, which require the preparation and quarterly exercising of nuclear emergency response plans. Agencies within a ten mile radius of the plant must develop their own response plans and must exercise those plans at least annually. The nuclear plant is required to reimburse the agencies for all associated costs.

The City benefits vicariously from this arrangement, because the basic plan for nuclear response forms the basis for other emergency response plans. As a result, the City of San Clemente is better prepared (and practiced) for an emergency response than are most communities.

5. Privatization

With each division responsible for so many functions and for such a wide variety of functions, it is impractical to hire staff to handle all of them. Some functions, such as soil testing, are very technical and are only needed occasionally. Some functions, such as testing and repairing sewage treatment instrumentation, require specialized equipment and knowledge. Some functions, such as street reconstruction projects, are done better by the private sector because of large volume price breaks and other considerations.

Contracting with the private sector is a well accepted practice in the Department. To illustrate, following is a list of currently privatized functions within each Division:

a) Services Contracted by the Engineering Division:

1. Administer District 85-1 (Apportionments and Annual Assessments)
2. Preparation of Public Works Facilities Master Plans
3. Geotechnical Inspection
4. Materials Testing

5. Inspection when Workload Exceeds Staff Capacity
6. Contract Landscape Architect for Final Inspection
7. Projects or Developers Reimburse Actual Cost
8. Pavement Management System Condition Survey
9. Traffic Model Development, Updates and Runs
10. Annual Traffic Counts for Traffic Model
11. Street Lighting and Landscape District No. 1 - Engineer's Report and Assessment Roll
12. Traffic Signal Design
13. Capital Improvement Project Design
14. Capital Improvement Project Preliminary and Construction Survey (Legal descriptions, easements, etc.)
15. Capital Improvement Project Geotechnical Assistance
16. Contract Administration when existing staff overloaded
17. Geotechnical Assistance on Disasters and Legal Matters
18. Geotechnical Plan Check
19. Public Improvements, Landscaping and Grading Plan Check
20. Projects and developers reimburse actual cost

b) Services Contracted by the Maintenance Services Division

1. Concrete repairs - sidewalks, curbs, and gutters, and streets (medium to large).
2. Hot rubberized crack sealing for streets.
3. Large asphalt street repairs
4. Utility cut repairs in private tracts.
5. Slurry sealing of public streets.
6. Guardrail repairs (medium to large).
7. Chain link fence repairs for city - large.
8. Roof repairs - medium to large.
9. Plumbing repairs - large.
10. Building/work space structural modifications (large).
11. Painting - large.
12. HVAC maintenance and repair (all).
13. Certain indoor lighting repairs (under warranty).
14. Traffic signal conflict monitor/testing.
15. Facilities sprinkler alarm testing and certification.
16. Park sports field lighting fixtures.
17. Variable frequency drive pump maintenance.

18. Programmable logic controller maintenance.
19. Repair of large utility electronic equipment.
20. Carpet and tile replacement (medium to large).
21. Locksmithing.
22. Elevator maintenance and repair.
23. Traffic striping and legend painting.
24. Two way radio repair.
25. Janitorial services.
26. Uniform rental/cleaning.
27. Carpet runner rental/cleaning.
28. Traffic signal loop detector replacement.
29. Traffic signal controller repair.
30. Training.

c) Services Contracted by the Utilities Division:

1. City wide meter reading,
2. Non-routine water quality analysis,
3. Instrumentation,
4. Telemetry,
5. Large motor repairs,
6. Water service installation 1-1/2" and above,
7. Emergency generator calibration and certification.,
8. Large pump repairs,
9. Training

B. The Public Works Department Strategic Planning Process

For two days in December, 1995, the department's managers, supervisors and leadworkers met to develop a strategic plan for the department. Through a series of brainstorming sessions, the group examined where we've been, where we are now, where we want to be, and how to get there. The session was patterned after the City's strategic planning session two months earlier.

The purpose of the Department's session was to focus upon the council's actions, determine the Department's role in the overall scheme, and develop Departmental action plans which will enable us to meet those challenges.

The following members of the Department participated in the process:

PW Administration

Michael Sorg, PW Director (and Facilitator)
Lawrence McKeough, Emergency Planner
Lynne Fuller, Administrative Secretary

Engineering Division

Bill Cameron, City Engineer
Handan Cirit, Principal Engineer
Akram Hindiyeh, Sr. Civil Engr.
Ted Simon, Sr. Civil Engineer
Ben Parker, Assoc. Civil Engr.
Jim McClanahan, Assoc. C. E.
Art Johnson, Sr. PW Inspector

Maintenance Division

Mark Somerville, Maintenance Manager
Dave Dendel, Maintenance Supervisor
Keith Braun, Facilities Maint. Supervisor
Will Buddenhagen, Facility Maint. Specialist
Fritz Peters, Maintenance Leadworker
Richard Aguilar, Maintenance Leadworker
Sam Tumolo, Electrician II

Utilities Division

AJ Howard, Interim Util. Mgr.
Jay Elston, Util. Ops. Supervisor
Lois Thompson, Mgt. Analyst
Jeff Patterson, Sr. Plant Oper.
Jeff Bender, Sr. Plant Operator
Robert Creed, Sr. Distrib. Oper.
Rusty Sutton, Sr. Plant Operator

1. A Look at the Recent Past

As mentioned in the Executive Summary, the Public Works Department did not exist between 1982 and 1993. The divisions, however, did. They were simply moved from one departmental configuration to another. In order to get a sense of events over the past ten years, the Public Works managers expanded an exercise which began at the citywide strategic planning session in October.

At that time, three historical charts were developed. Three 20-foot lengths of butcher paper, labeled "National", "Regional", and "San Clemente", were taped to a wall. The papers had each year from 1985 through 1995 printed along the top margin. The Council members and managers noted events which occurred during each of those years.

The citywide charts from the October session begin with notes about the real estate boom, double digit inflation, optimism, and rapid growth. They continue on to years of severe recession, drought, and internal turmoil. They finish with notes about downsizing, layoffs, and reorganizing - and, finally, more optimistic comments including the long term financial plan being in place, financial projections becoming positive, and street and storm drain assessment districts being adopted.

For the Public Works Department exercise, the three completed sheets from the October session were hung on a wall and a fourth sheet, labeled, "Public Works Divisions", was added. All of the managers and supervisors were asked to add notes regarding events occurring in their divisions during the same time period. Here are the results:

> In the 1985 to 1986 time frame, two of the three division heads (Engineering and Maintenance) joined the City, the current public works director was then the director of public services, Assessment District 85-1 was established, the sewage treatment plant expansion/ maintenance facility reconstruction project was awarded, and Engineering moved to El Portal.

By 1988, the expansion project had begun, the growth management initiative passed, and Engineering was greatly impacted by it.

In 1989, the Regional Circulation Financing and Phasing Program (RCFPP) was adopted, a traffic model was created, a pavement management system was initiated, the state had entered a severe drought, the Utilities Division was greatly impacted by the drought, and Maintenance switched to regenerative type (vacuum) street sweepers.

In 1990, the sewage treatment plant expansion was completed, the Utilities Division implemented a total utility maintenance management system (TUMMS), Utilities obtained a closed circuit camera for inspecting sewers, the Vista Hermosa Interchange environmental documentation was completed, Avenida Los Mares was widened, and a traffic engineering position was eliminated.

In 1991, treatment of reclaimed water was expanded to 2.2 MGD, a new Utilities Division Manager joined the City, Hughes-Heiss launched a citywide organization study, maintenance lost one supervisory and two maintenance worker positions, President Bush signed the ICTEA legislation, NPDES drainage permit requirements became law, Arvida (developers of Talega Valley) left town, Engineering started developing computerized maps, a new water well was drilled, and all three divisions had to adjust to severe budget cuts.

In 1992, the three divisions participated in the long term financial plan, a five year CIP was created, Engineering was awarded many ICTEA projects and many were underway, the state mandated solid waste recycling, storm drain operation and maintenance was transferred to Utilities, the Pico water line was completed bringing a second source to the City, centralized parking meters were installed in the Pier Bowl, and a computer network was created in the City.

In 1993, a devastating 100-year storm soaked the City. More than 400 reports of storm damage were received, all three divisions were impacted by the storms, Engineering spent a great deal of staff time on FEMA/FHWA claims and projects, numerous projects were handled on an emergency basis, a storm drain fee program was proposed and adopted, the Public Works Department was created, a facilities/ electrical section was created by consolidating functions in the Maintenance and Utilities Divisions, the emergency planner joined the City and the Department, the MO1 box drain was completed through Shorecliffs, STAT was implemented, and Autocad was implemented.

In 1994, a major street sweeping/signing program was implemented in the Neighborhood Pride area, the MO2 storm drain west of Pacific Coast Highway was reconstructed, a second rainstorm hit the city, freeway ramp metering was installed, the County declared bankruptcy, the water utility superintendent resigned and the position was eliminated, a major utility rate structure change was implemented, and traffic striping and fleet maintenance functions were privatized.

In 1995, a water master plan was approved, a street improvement program was approved, a street assessment district was approved, numerous storm drain and street projects were completed, the Utilities Manager resigned, plans for a major commercial area (Ramser) were reviewed and approved, Centex (developers of Forster Ranch) left town, a Solag audit was initiated, plans for a beach trail were initiated, the development engineer resigned and was replaced, an energy conservation program was implemented, a sewer master plan was completed, an inventory of traffic controls was begun, a bluff stabilization project at Colony Cove was initiated, the RTC completed its Rancho San Clemente improvements, and new phones were put into service.

As each division head recapped the 10-year period, it became clear that despite the turmoil caused by the recession, the County's bankruptcy, and the downsizing of City forces, or perhaps because of it, each division had improved in its overall organization, management, and production capabilities.

2. The Environment - A Look at our Stakeholders

In order to evaluate what we do and to establish priorities for upcoming years, it is vital to understand the environment in which we operate. We use the term environment in the context of our (a) clients, (b) regulators, (c) resource providers, and (d) competitors.

During the department's strategic planning workshop in December, the full group of participants generated a list of names under each of the above headings. The group was then split into their divisional work groups (Engineering, Maintenance, and Utilities) to embellish the lists of clients, regulators, resource providers, and competitors for their specific divisions and then discuss the trends they are seeing in each area. The lists included the following:

a) Who are our Clients?

Residents	Property Owners	The Public	Businesses
Developers	Elected Officials	Appointed Officials	Employees
Regulators	Other Utilities	Surveyors	Engineers
Contractors	Attorneys	Homeowner Assns.	Marine Corp.
Other Cities	OCTA	The County	Tri-Cities
SONGS	Metrolink	Coastal Commission	The Media
State Agencies	Federal Agencies	Environmental Agencies	

b) Who are our Regulators?

City Council	The State	Commissions	Federal Gov't.
OSCA	Special Districts	The County	The FCC
Health Dept.	UBC	MWD	CRWQCB
NEC	AQMD	ASHARE	Caltrans
Coastal Comm.	NPDES	IWMB	OCTA
OES	NRC	EPA	Oper. Lic. Board
DMV	Consumer Affairs		

c) Who are our Resource Providers?

Taxpayers	Tri-Cities	City Council	MWD
Fed. Grants	Special Dists.	Sales Tax	Developers fees
Gas Tax	User Fees	Assessment Districts	Bond Sales
State Revenues	Dedications	Donations	Interest Earnings
Property Tax	Transient Occupancy Tax		

d) Who are our Competitors?

Contractors	Public Agencies	Private Sector	Consultants

Districts Consolidation Regional Governance Super City Concept

e) Trends in the Environment

The trends are ominous. As the City expands, our clients are growing in number and they are becoming increasingly demanding in terms of wanting quick responses, accurate information, and error free work. The same can be said of our regulators. We find more and more regulations being passed down to the local level complete with lofty goals, stringent guidelines, strict accountability and reporting requirements - and often large penalties for failure. The solid waste legislation, for instance, included fines of $25,000 per day, after a certain date, until compliance had been reached.

At the same time that demands and expectations have been growing, the City has downsized and our traditional funding sources have been drying up. Grants are all but gone, taxes are referred to as the "T" word, and there is strong resistance to increases in user fees or the creation of special assessment districts.

Privatization is riding a wave of popularity and citizens are often heard demanding that government operate more like a business. Governmental agencies must continuously look at efficiency, effectiveness, and bottom line results to ensure their operations provide the best bargain for the community and are competitive with private sector challengers.

3. City Mission Statement

In 1990, the City Council, Commissions, Staff, and Residents developed a mission statement for the City. It was widely accepted at the time. At the City's strategic planning workshop in October of 1995, the mission statement was revisited and, following discussion, Council reaffirmed it as valid and meaningful. It states:

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 protecting what is valued today while meeting tomorrow's needs.

4. The General Plan

The General Plan, as described in the plan itself, is a comprehensive planning document which serves as "the officially adopted statement of local policy regarding each individual community's development." The preparation and adoption of a "comprehensive, long-term general plan for the physical development of the county or city" is mandated by California Government Code, Section 65300, for all cities and counties within California.

The City's intent in initiating the General Plan Update was to undertake and successfully carry out an inclusive planning process that would: 1) define and analyze the conditions and issues currently facing the community; 2) integrate these issues with goals, objectives, and concerns expressed by local citizens, business people, and public administrators; and 3) generate a comprehensive new General Plan that would guide local development, policy, and resource management into the twenty-first century. The City Council adopted the updated General Plan on May 6, 1993.

The Public Works Department plays vital implementation and service roles in all four of the major categories of the General Plan: Community Development, Infrastructure and Community services, Environmental Resources, and Hazards.

5. Public Works Department Mission

Each division of the department is responsible for numerous programs. Many of the programs in one division complement or overlap programs in one or more of the other divisions. For example, the street reconstruction program in Engineering must be coordinated with street maintenance projects and utility replacement projects and must be considered in light of emergency evacuation needs.

Each of the programs is designed to carry out various aspects of the City's mission statement. In order to clarify how the tasks of Public Works employees fit into the City's mission and to help employees of the department design efficient and effective procedures, the workshop participants developed a mission statement for the department.

To assist in this task, key phrases in the City's mission statement were isolated and examined. Numerous responses specific to public works were listed under each of them. Other departments in the City service could also create lists specific to their departments. Those lists would be quite different from the list we generated. The police, for instance, would have an entirely different set of tasks under the heading of "safe, healthy atmosphere". They would focus on matters such as crimes and traffic accidents, while we focused upon matters such as water quality, emergency planning, and traffic congestion. The Beaches, Parks and Recreation

City's Mission Statement

Key Public Works Department roles:

... partnership with community...
... safe, healthy atmosphere...
Guiding development...
...responsible growth...
...preserving and enhancing...
...promotion of economic vitality...

Slide # 5

Department would focus on issues such as ocean and pool safety and playground maintenance. As such, we believe it was important for the department to develop a mission statement to help guide its employees. The consensus of the group is that the Public Works Department's mission is as follows:

The Public Works Department, in support of the City's mission, will work in partnership with the community to:

- ***develop, operate, maintain, and upgrade the City's infrastructure,***
- ***ensure that improvements comply with ordinances and standards,***
- ***provide safe and adequate supplies of water and proper disposal of wastes, and***
- ***develop and exercise plans to deal with emergencies.***

This mission statement will be presented to the employees of each division. It is subject to change, based upon the input which is received. It is anticipated that any such changes would be minor in nature and that the above mission statement essentially outlines the department's role in accomplishing the City's mission.

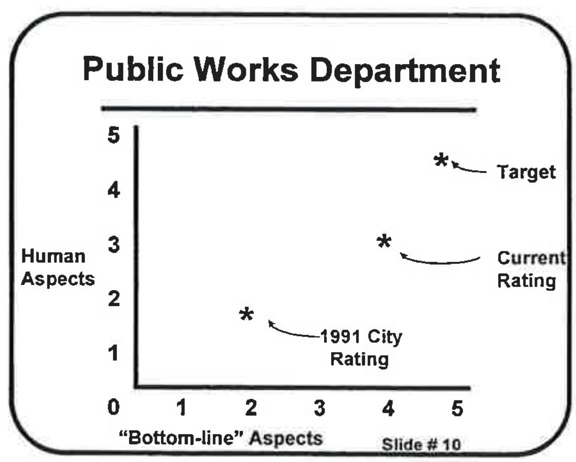
6. Organization Assessment

a) Balance - Bottom Line / Human Element

Our first effort at self-evaluation was to consider the Department's balance between aspects of the human element and the bottom line. The bottom line refers to issues such as productivity, efficiency, effectiveness, accountability, and so on. The human element refers to employee considerations such as job satisfaction, recognition, morale, fair treatment, compensation, and so on. These values are measured on a scale of zero to five, with five being the highest score attainable. The human aspects are measured on the vertical, or y-axis; the bottom line aspects are measured on the horizontal, or x-axis.

Each person was given two paper dots with glue on the back. The first dot, colored blue, was to be placed where the participant would like the department to be and where he or she would be willing to put forth the personal effort to achieve it. The second dot, colored red, was to be placed where the participant thinks the department is currently.

The participants approached the chart simultaneously and placed their dots on it without regard to where others placed theirs. The results were nearly identical to the results of the citywide group exercise in October. The center of the blue group, the target, was located near the 5,5 mark - the target of a peak performing organization. The center of



the red dots was located at 3,4. As with the citywide group, this indicates great progress from the 2,2 rating of the 1991 citywide exercise, but reveals greater movement in the bottom-line aspects of the job than in the human element. Dr. Allenbaugh, facilitator of the October exercise, said that a score of 3 for the human element, given all the City had been through, was actually very encouraging.

b) What We Do Well - Could Do Better

Each division then examined its own operation by contemplating (a) what it does well, (b) what it could do better, and (c) how they know when they're doing well. After brainstorming these questions, the full group revisited the last two questions for each division. While the focus was on one division, the members of the other two divisions acted as their clients, regulators, resource providers, and competitors. This follow up session resulted in a number of items being added to each division's list of what it could do better. The actual "could do better" comments are listed below:

Engineering	Maintenance	Utilities	Emergency Planning
Publicize our projects	Provide more technical training	Faster customer service	Communications system upgrade
Communicate better with other dept.	Improve STAT	Improved communication	More drills with field staff
More and better info to the public	Institute better cost tracking methods	Public Awareness/ education/ group presentations	Identity passes for emergency workers

Faster response to complaints	More state-of-the-art equipment	Publicize efforts	Provide means to get here
Improve plan review process	Do better job of publicizing our work output	Improve training/ cross-training	Improve hazardous materials coordination with the FD
Finalize update of standards, drawings, and specs.	More employee recognition	Improved communications within the department	Improve emergency power sources
Update ordinances	More public info regarding their streets	Coordinate projects more effectively within the department	Shelters
Simplify consultant hiring procedures	Distribute info regarding who is assigned to projects	Encourage increased morale	Update list of resources
Improve office/field communications	Long term major maintenance sched.	Reduce after hours call-outs	Damage assessment plan
Set priorities and stick to them	Next day service whenever possible	Improve documentation of work activity	Emergency supplies for employees
Update other divisions regarding projects	Central phone number for USA/quick response	Increase contractors responsiveness (SDGE / Solag)	Develop contingency plans for vulnerable areas - Water #1
Better use of scheduling devices	Fast repair of vandalized areas	Identification of system deficiencies	Standardize hook-ups for emergency generators at the pump stations
Invite Utilities and Maintenance to pre-bid meetings	Ensure clean, well-maintained facilities	Control costs	Monitor bridges
Public Works CIP kick-off meetings	Directional signs	Improve utility billing service	
Send copies of Admin. Reports to Utilities and Maintenance	Cost accounting system	Condition inventory of systems	
CIP - coordinate facility condition info	Update the municipal code	Complete replacement and preventive maintenance program	
Organized distribution of information		Ensure that contract work is done properly	

This information was posted for reference following the discussions of what is expected in the near future. All of this information was considered when developing the list of priorities to be pursued.

IV. THE FUTURE

The best way to predict the future is to create it
- Dr. Steven Covey

After considering the recent past, the current situation, and the environment, the group was asked to consider what the future holds in store. Predicting the future is anything but a sure thing, but we can get a sense of what's imminent by considering a worst case scenario, a best case scenario, and a most likely case scenario for each division. The exercise was based upon the assumption that the City would be built-out (fully developed) essentially the way it is currently projected in the City's General Plan. The scenarios the participants deemed most likely for their divisions as the City approaches build-out are outlined below.

A. Most Likely Scenario - Engineering Division

1. The Vista Hermosa Interchange will be in use by the year 2000
2. Foothill Corridor construction will have been started
3. Talega Valley will have been developed
4. The Ramser Development will be complete and in operation
5. New funding mechanisms for the street improvement program will be needed
6. Water supply problems could inhibit development
7. Use of reclaimed water will be expanded
8. Slope stability in canyons will continue to be a problem

9. Emphasis on development will decrease while emphasis on rehabilitation will increase
10. Engineering will be doing more counter work and permit issuance
11. Autocad drawings and GIS will be in full use

B. Most Likely Scenario - Maintenance Division

1. There will be more public improvements to maintain
2. More functions will have been contracted out
3. Staffing levels will be up very slightly
4. There will be more demands for scientific solutions
5. More training will be required
6. There will be an increase in the use of technology

C. Most Likely Scenario - Utilities Division

1. The City, Tri-Cities, Capistrano Beach Water District and the northern portion of the military base will consolidate water and waste water agencies
2. Reclaimed water production will double
3. Solid waste diversion levels will be met
4. The treatment plant will meet the needs of the community
5. A higher quality of water will be produced
6. Water supplies and storage facilities will be adequate to accommodate needs
7. Infrastructure rehabilitation projects will be done in a timely manner
8. Some City functions will have been privatized
9. Automated data acquisition systems will be in place
10. Rates will be stable from year to year, not erratic

V. CONCLUSIONS

A. Competition

One conclusion seems certain - competition is here to stay. Government has typically not focused on the bottom line in the same way as the private sector, because there is no profit basis in the public sector. Competition from the private sector now forces government agencies to look at their operations differently to ensure they are providing the best service for the lowest possible cost.

Over the past three years, we've seen examples of competitors successfully offering services to the City for substantially less cost. The police and fire functions were contracted with the County and park maintenance, landscaped median maintenance, beach maintenance, fleet maintenance, and street striping were contracted with the private sector.

"The issue is not public versus private. It is competition versus monopoly."

- John Moffitt, Chief Secretary to Massachusetts Governor
William Weld, as quoted by Osborne and Gaebler
in their bestseller, Reinventing Government

Government can be very competitive with the private sector. We recently evaluated responses to separate proposals for privatization of (1) street light maintenance and (2) traffic signal maintenance. A comparison of the in-house costs to the proposed contracts revealed it was less costly to do the work with the existing City staff. The proposals were rejected. On the other hand, contracting out certain functions is very cost-effective. We earlier listed about sixty functions currently contracted out by the department.

Our task, then, is to be ever aggressive in finding ways to do our work more efficiently and effectively, whether the task be done internally or through contract. Division heads have been asked to automatically review positions which become vacant to see what opportunities for improvement might exist. They must submit a justification with any request to fill a vacancy and describe the various alternatives which were considered.

B. Core Strategies

In order to provide the best service at the lowest cost, the department must focus on certain key areas, or core strategies. Based upon the discussions we had regarding the needs of the community and the department's mission and role, the core strategies are: Customer Service, Health and Safety, Infrastructure, and Department Efficiency and Effectiveness.
Each division was given the task of developing implementation strategies. These were to be specific projects which, when implemented, would position the department to better meet the challenges of the future and the expectations of our customers. To do this, the participants engaged in a final exercise, the STP process (Situation, Target, Proposal).

In the STP process, the participants first looked at the current situation in their own divisions from two perspectives: facilitating factors and constraining factors. After they generated as many of the facilitating and constraining factors as they could (*the situation*), they identified where they would like to be at buildout (*the targets*). Finally, they completed QUEST project forms to be submitted to the City Manager (*the proposals*). These items will be prioritized and the most important will be scheduled for completion during the upcoming year.

A list of the proposals for each division follows:

C. Engineering Division

1. Revise the professional services hiring policy
2. Update the development standards, plans and specifications
3. Implement a Utility Inventory Program
4. Implement a project cost accounting system
5. Develop a private development plan tracking system
6. Host public workshops on drainage and slope maintenance0
7. Update the RCFPP
8. Reclaimed water CIP study and loan application
9. Update the filing system

D. Maintenance Division

1. Maintenance Management System
2. Traffic Signal preventive maintenance program
3. Five year Electrical preventive maintenance program
4. Streets major preventive maintenance program
5. Structural preventive maintenance program

E. Utilities Division

1. Maintenance management system

2. Storm drain inventory
3. Commercial area water conservation program
4. Solid waste diversion/environmental programs
5. Five year sewer utility/collection system inventory
6. Five year water system inventory
7. Upgrade TUMMS to handle corrective work

F. Emergency Management

1. Standardized Emergency Management System (SEMS) training
2. 1997 SONGS exercise
3. Hazardous Materials Contingency Preparedness
4. Earthquake preparedness training

VI. NEXT STEPS

The department's strategic planning process will be updated annually, in advance of the Council's Long Term Financial Plan process. Before the next session, however, the plan will be discussed with all employees in the department, so we can make adjustments and improvements based upon their input.

It will be especially helpful to discuss the strategic plan in conjunction with implementation of the Maintenance Management System process, if approved. In this way, the maintenance crews will be examining each task in detail and discussing ways to make them the most efficient and effective in the context of the department's mission and core strategies..

c:pwstratplan

Pension Analysis

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

Summary
The City provides a defined benefit pension plan to City employees. A total of $10 million in assets is managed by The New England Life Insurance Company. This issue paper will briefly describe the pension plan and focuses on the current investment structure of the plan. Several recommendations are made to ensure the proper management of the City's pension assets.

Background
Since 1983 the City has maintained a 401(a) qualified defined benefit pension plan for all full time employees except public safety employees which currently include only lifeguard positions. The City's pension plan is administered by New England Retirement Services and actuarial services are provided by Buck Consultants. The plan covers approximately 159 active full time employees and employees are fully vested in the plan upon completion of five years of continuous employment.

Some highlights of the plan include:

- Full-time employees participate immediately upon employment
- Employee and employer share paid by the City
- Normal retirement age is 60
- Monthly pension annuity is based on length of service and highest average pay over a twelve month consecutive period
- Cost of living increase is applied in July of each year (2%)
- Employees are fully vested in the plan after five years of service
- Years of service credited with PERS recognized for vesting purposes only

The pension plan is monitored internally by the City's Pension Committee which consists of the Director, Finance & Administrative Services, Human Resources Manager, and Controller.

The contract with New England Retirement Services also calls for The New England to manage the City's pension portfolio. Currently, the investment portfolio totals approximately $10 million. The City entered into a Deposit Administration Contract in October, 1973. At the direction of the City, contributions to the pension fund were invested in New England's *General Investment Account* which is tied to the assets of New England Life Insurance Company. Attachment I graphically identifies the General Investment Account asset mix as of December 31, 1994. The updated asset mix as of December 31, 1995 is:

Public Bonds	*33%*	*Equities*	*6%*
Private Bonds	*19%*	*Cash*	*8%*
Mortgages	*14%*	*Policy Loans*	*12%*
Real Estate	*8%*		

The historical averages for investment returns under the policy are as follows:

5 Year Average Return:	*5.36%*
10 Year Average Return:	*7.48%*
15 Year Average Return:	*8.54%*

The current rate of return credited to the General Investment Account at 1995 year end amounts to 3.9%. This low rate, along with a rate of only 3.61% in 1994, is due largely to the declines in the real estate market. In comparison, New England's low-risk Separate Short-term Account which invests in high quality money market instruments yielded 5.9% in 1995. See Attachment II for historical investment yields and Attachment III for yields on other funds managed by New England.

In 1995, the City Council directed that 20% of the funds invested with New England Life be withdrawn and invested in U.S. Treasury securities. This was in direct response to the weakened financial condition of the New England Life Insurance Company and the decline in insurance ratings to A+ (S&P) and A3 (Moody's) It should be noted that, in 1995, a merger between New England Life Insurance Company and Metropolitan Insurance Company was announced. The merger is scheduled to take place in March 1996 and The New England is expected to assume the Metropolitan's credit ratings as soon as the merger is complete. The current ratings of Metropolitan are AA+ (S&P) and Aa1 (Moody's).

In reviewing the contract with New England, it was determined that funds could not be withdrawn without the imposition of a 5% or $100,000 penalty. The contract does allow for transfers of 20% of the assets to other New England funds which are not tied directly to the assets of New England Life Insurance Company. Consequently, 20%, or approximately $2 million, was transferred to New England's *Separate Long-Term Government Bond Account* and held in the City of San Clemente's name as opposed to New England Life. This investment account was selected since approximately 90-95% of the fund is invested in U.S. Treasury securities with the remainder in U.S. Government Agencies. What's more, the twelve-month return for this fund in 1994 was 20%. (See Investment Update - Separate Long Term Government Bond Account). This fund is managed by Back Bay Advisors, an affiliate of New England Investment Companies.

In January 1996, the City also directed that current contributions, which amount to approximately $400,000 per year, be invested in New England's *Separate Short-Term Account* (SSTA), a fund also managed by Back Bay Advisors. This fund invests in high quality money market instruments, most of which mature in less than one year. This fund earned 5.9% in 1994. (See Investment Update - Separate Short-Term Account). Furthermore, 20% of the remaining investment in the General Investment Account may be transferred to other accounts in July 1996.

The above actions were taken not only to protect City assets, but also to begin a diversification program of the City's pension funds. Over the past twenty-three years, the City's pension funds have been invested in New England's General Investment Account. However, as the fund has increased from an original contribution of $400,000 to $10 million, it has become obvious that the funds should be diversified into other accepted pension investment accounts.

Additionally, an investment policy which outlines a proper portfolio structure, has not been developed for pension assets. The city's current investment policy for the management of the City's public funds is not suitable for use in the investment of pension funds. The investment objectives of a pension plan are very different than those of the operating funds of the City. First and foremost, the time horizons of each are vastly different. A pension fund's time horizon is very long as it is expected to be able to pay benefits not only to the current retirees, but those employees who are still thirty or more years from retirement. Therefore, while short term fluctuations of a pension fund's value may occur, this "risk" is small when compared to the risk of not having sufficient assets to pay retirement benefits ten, twenty, or thirty years from now. Moreover, the investment of pension funds is a very specialized type of activity and requires the expertise of pension fund managers.

The investment of funds in the Separate Short-Term Account and the Separate Long-Term Government Account is an interim measure until the City adopts a prudent and fiscally sound investment strategy and implements a comprehensive investment policy.

Recommendations

The following recommendations are made to improve the management of the City's pension program:

1. Based on a review by the City Treasurer of New England's investment options, continue to invest the City's pension moneys in New England's separate accounts which are considered assets of the City of San Clemente. New England's Multi-Asset Planning (MAP) program will be used in the initial restructuring of the City's investment assets (see attached MAP document).

2. Issue a Request for Proposal for investment advisory services. It is imperative that an independent investment advisor be retained to assist the City in developing an investment policy and selecting appropriate investment managers. The investment advisor would also assist the Pension Committee in an oversight capacity with reporting required to the Pension Committee and City Council.

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. The investment policy would be developed by the City's Pension Committee and investment advisor and submitted to the City Council for approval.

4. Recommend that New England Retirement Services be retained to perform actuarial services. New England Retirement Services has offered to provide this service at no cost to the City for a period of three years. This is a service normally provided to clients; however, the City

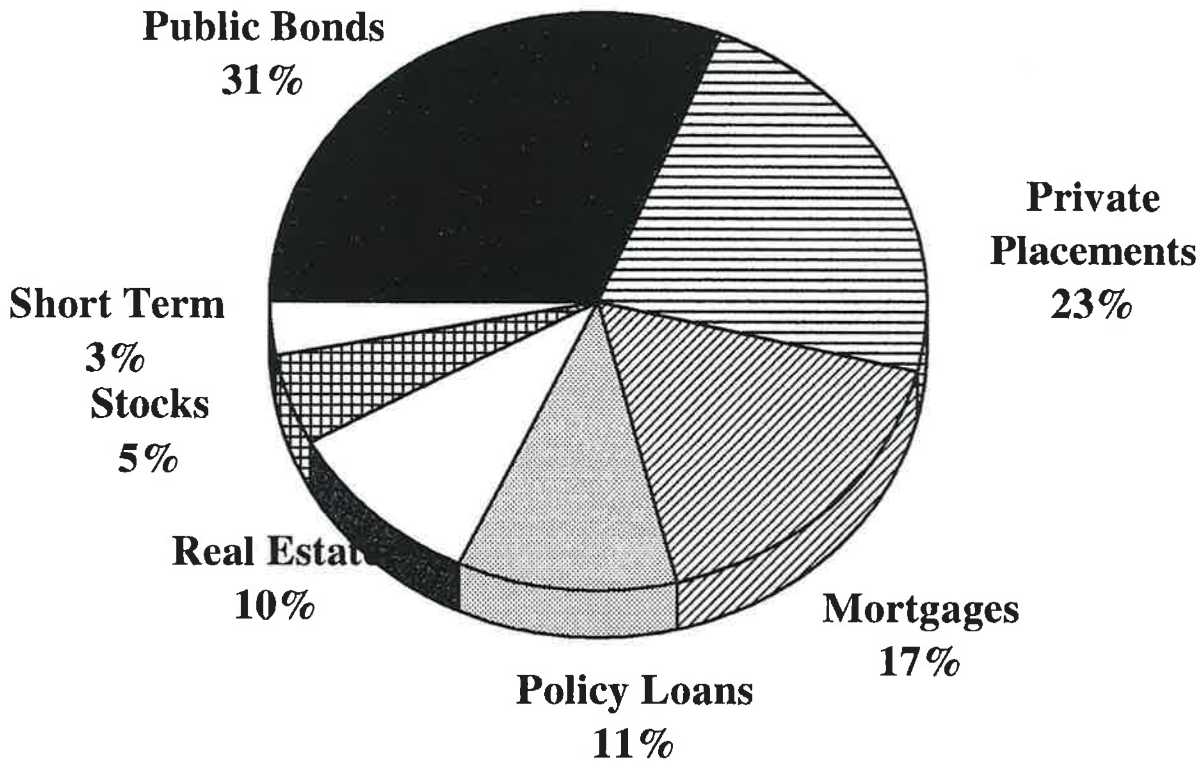
has, since 1983, paid an outside consultant to perform these services at an approximately cost of $20,000 annually.

Fiscal Impact
The cost of hiring an investment advisor is estimated at $10,000 annually. This would be paid from the administrative account of the pension fund.

Attachment I

The New England's General Investment Account

Asset Mix as of 12/31/94



Attachment II

Historical Credited Investment Yields

under

City of San Clemente

Group Annuity Policy # 862

Year	*Credited Rate*	*Dividend*	*Adjusted Rate*	*Five Year Treasury Bond*
1980	8.55%	$ 0.00	8.55%	12.45%
1981	9.25	5,359.29	9.58	13.96
1982	10.26	0.00	10.26	9.90
1983	11.11	0.00	11.11	11.41
1984	11.13	5,949.49	11.38	11.04
1985	11.14	0.00	11.14	8.55
1986	11.17	0.00	11.17	6.85
1987	9.85	0.00	9.85	8.32
1988	9.04	0.00	9.04	9.17
1989	8.63	13,154.56	8.95	7.94
1990	8.37	41,203.90	9.22	7.70
1991	7.50	10,742.86	7.68	5.97
1992	6.90	13,745.18	7.11	6.11
1993	4.25	23,507.56	4.55	5.22
1994	3.50	9,365.71	3.61	7.80
1995	3.90	0.00	3.90	5.53

Attachment III

Investment Performance
The New England Separate Investment Accounts

		Annualized Net Returns as of September 30, 1995			
	Quarter	One Year	Three Years	Five Years	Ten Years
Ninety Day Treasury Bills	1.3%	5.5%	4.1%	4.4%	5.6%
Donoghue's Money Market Fund Average	1.3	5.3	3.8	4.3	5.8
Separate Short Term Account	1.4	5.8	4.1	4.7	6.2
Lehman Brothers Gov't/Corp Index	1.9%	14.4%	6.9%	9.9%	10.0%
Separate Bond Account	2.7	16.5	8.1	11.2	10.4
Separate Short Term Gov't Bond Account	1.5	8.9	4.1	7.3	--
Separate Long Term Gov't Account	1.4	13.3	5.4	8.9	8.0
65% S&P & 35% LB Govt / Corp	5.8%	24.3%	12.1%	14.7%	14.1%
Separate Balanced Securities Account	4.5	19.3	13.0	16.5	--
Standard & Poor's 500 Index	8.0%	29.7%	15.0%	17.3%	16.0%
Separate Equity Securities Account	8.5	30.4	15.2	17.0	14.0
Separate Capital Growth Account	6.8	30.4	14.8	17.9	16.0
Separate Equity Value Account	6.6	24.3	16.8	18.8	--
Separate Star Advisers Account	12.8	29.4	--	--	--
EAFE International Equity Index	4.2%	5.8%	13.7%	10.7%	14.9%
Separate International Securities Account	3.1	3.5	12.1	--	--

New England Retirement Services
® A Business Unit of The New England

Separate Short-Term Account

Invests in high quality money market instruments, most of which mature in less than one year.

Investment Update — **4TH Quarter Report 1995**

A Capital Preservation Objective

Maximum current income consistent with the preservation of capital and liquidity

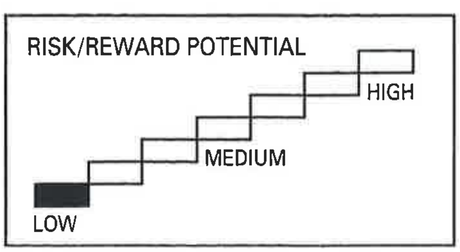
Professional Money Management

John W. Donovan manages the Separate Short Term Account (SSTA) and directs all short term investing for The New England and its partners. Mr. Donovan is a senior portfolio manager with Back Bay Advisors.®

Back Bay Advisors, the investment advisor for the Account, is an affiliate of New England Investment Companies, L.P.

Fundamental Strategy

The Separate Short-Term Account invests all of its assets in the Short-Term Investment Fund of The New England, a managed portfolio of high quality money market instruments. Major emphasis is generally placed on securities maturing in two months or less. These can include U.S. Government obligations, large denomination bank and savings-and-loan certificates of deposit, commercial paper, and banker's acceptances. The high quality of these investments minimizes the risk of loss from default, protecting the Account's income stream. The average maturity of the securities may be adjusted in order to maximize the portfolio's return as interest rates rise or fall.



The Account offers a high degree of safety and liquidity, although its performance will vary, depending on short term interest rate fluctuations.

FINANCIAL HIGHLIGHTS

as of December 31, 1995

Quarterly Return (Annualized)	5.8%*
Year-to-Date	5.9%*
12-Month Return	5.9%*
Net Assets	38,779,301

Established in 1980, the Separate Short-Term Account is maintained at amortized cost. Income dividends are declared daily.

The Separate Short-Term Account is 100% invested in the Short-Term Investment Fund, which was established in 1984 by The New England. As of December 31, 1995, the Account's net assets were 77.4% of the Short-Term Investment Fund, which had total net assets of $50.1 million and held 46 issues.

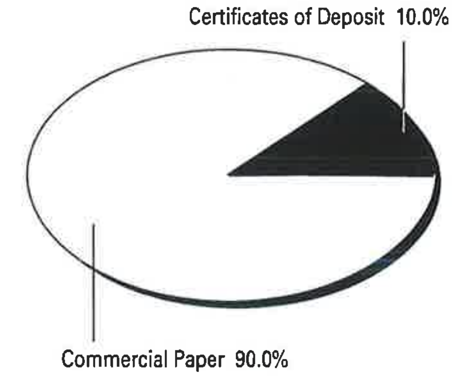
Market and Portfolio Review

Short term interest rates continued to move lower during the fourth quarter as the Federal Reserve responded to the slow-to-moderate growth in the GDP by cutting the Fed Funds rate in December. The yield on three month Treasury Bills fell from 5.4% to 5.1%.

The Separate Short Term Account returned an annualized 5.8% during the fourth quarter compared to a 5.2% return for three month Treasury Bills. The portfolio manager continues to hold an average maturity of approximately 55 days due to his outlook for stable, or even lower, interest rates. The flatness of the current, short term yield curve limits the benefit of extending the portfolio's average maturity significantly longer than its current position.

Portfolio Allocation of the Short-Term Investment Fund

as of December 31, 1995



Top Ten Holdings of the Short-Term Investment Fund by Issuer

as of December 31, 1995

	Market Value
General Motors Acceptance Corp.	$4,134,922
Goldman Sachs & Co.	3,655,248
Smith, Barney, Harris, Upham & Co.	3,095,841
American Express Credit Corp.	2,908,603
Transamerica Financial Corp.	2,509,049
Merrill Lynch & Co., Inc.	2,458,509
Ford Motor Credit Co.	2,402,457
Sears Roebuck Acceptance Corp.	2,380,637
Beneficial Corp.	2,182,565
Philip Morris Credit Corp.	1,998,083

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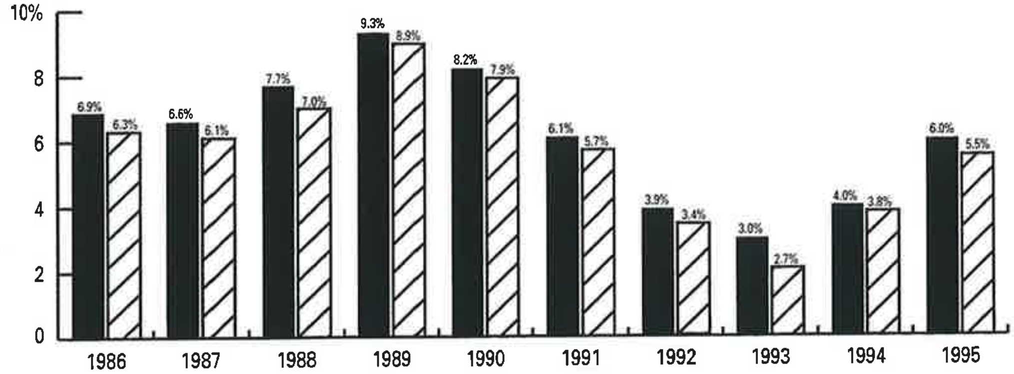
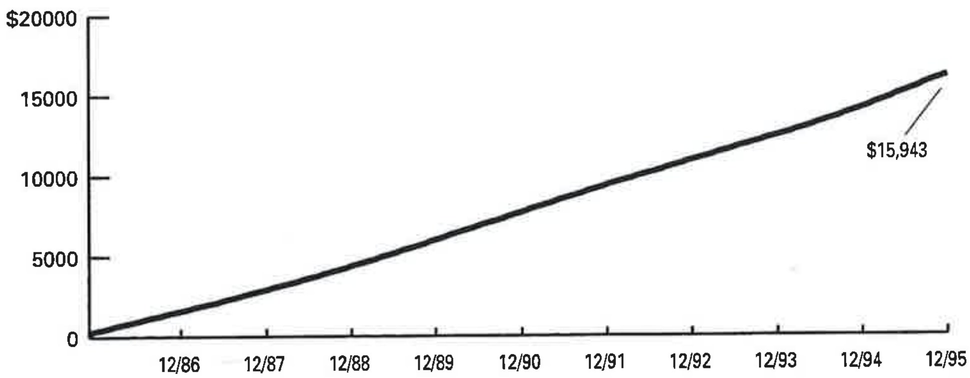
Separate Short-Term Account

Annual Rate of Return for 12-month periods ending December 31*



Value of $100 invested each month
starting January 1, 1986 and ending December 31, 1995*



SSTA Donoghue's Money Fund Average™

Source: Donoghue's MONEY FUND REPORT of Holliston, MA 01746

*All measurements include the re-investment of income. Performance of the Separate Short-Term Account is net of the investment management fee (0.30% annualized through 12/31/95, 0.35% thereafter). Note: Performance does not reflect any charges that may be applicable under the terms of your group annuity contract. Past performance is no guarantee of future results.

The Separate Investment Accounts (SIAs) are pooled, market-valued investment vehicles available through The New England group annuity contracts to qualified retirement plans. Funds invested in each SIA are professionally managed to achieve a specific investment objective. SIA investment performance is not guaranteed and will vary in accordance with the performance of the holdings within each portfolio. For more information, please contact your plan administrator.

New England Retirement Services
® A Business Unit of The New England

Separate Long Term Government Account

Invests exclusively in the New England Government Securities Fund, a mutual fund which primarily invests in U.S. Government securities of varying maturities.

Investment Update — 4TH Quarter Report 1995

An Income Objective

High current income return consistent with safety of principal

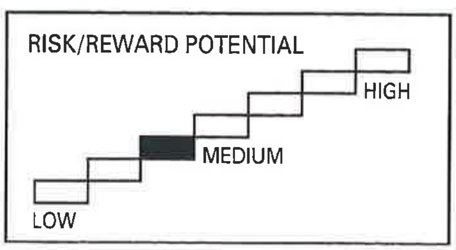
Professional Money Management

Eric Gutterson, vice president and portfolio manager for Back Bay Advisors® manages the New England Government Securities Fund, in which the Separate Long Term Government Account (LTGA) invests. Mr. Gutterson specializes in quantitative analysis and mortgage-backed securities. He is a member of the Bond Analyst's Society of Boston.

Back Bay Advisors, the investment advisor for the Fund, is an affiliate of New England Investment Companies, L.P.

Fundamental Strategy

The Separate Long Term Government Account invests all of its assets in the New England Government Securities Fund, a mutual fund which generally invests in U.S. Treasury notes, bonds, and Government National Mortgage Association (GNMA) securities. To limit risk to principal, substantially all of these securities are rated AAA by Standard & Poor's or Aaa by Moody's Investor Services. As this Fund has a long term horizon, there is no limit on the average maturity.



Bonds with longer maturities tend to fluctuate more in value than shorter-term ones. However, long term bonds generally offer a higher coupon and yield, in part to compensate for their greater price volatility. Credit risk is minimized through investment in securities that are backed by the full faith and credit of the U.S. Government and its agencies. (Note that the government guarantee only applies to the Fund's underlying securities.)

FINANCIAL HIGHLIGHTS

as of December 31, 1995

Quarterly Return	5.5 %*
Year-to-Date	20.0 %*
12-Month Return	20.0 %*
Net Assets	$7,379,844

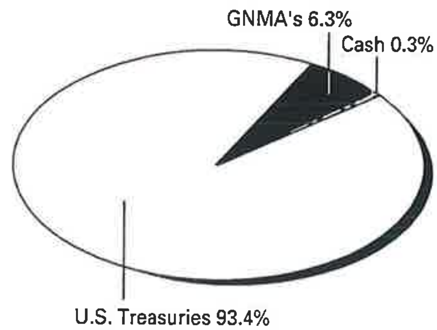
Established in July 1993, the Separate Long Term Government Account is 100% invested in the New England Government Securities Fund, which was established in September 1985. As of December 31, 1995, the Account's net assets were 4.7% of the New England Government Securities Fund, which had total net assets of $156.6 million and held 106 issues.

Market and Portfolio Review

The Federal Reserve continued to respond to diminishing inflation and sub par growth by further cutting the Fed Funds rate in December. During the fourth quarter, the yield on five year Treasury Notes fell from 6.0% to 5.4% and the Lehman Brothers Government Bond Index returned 4.6%, capping one of the best years ever for bonds. Looking ahead, bond investors will continue to watch the budget negotiations in Washington closely as failure to reach an agreement to balance the budget could make 1995 a difficult act to follow.

The Separate Long Term Government Account returned 5.5% for the quarter, significantly beating its benchmark. The portfolio manager reduced the duration of the underlying fund slightly in the fourth quarter to 6.3 years to reflect his belief that the market was entering a period of uncertainty. A bullet portfolio structure continues to be used. The fund enjoyed an outstanding 20.0% return for 1995. Although, mortgage-backed securities substantially underperformed the market in 1995, it is expected that the fund will increase its holdings in these securities in anticipation of this sector's recovery during 1996.

Portfolio Allocation of the New England Government Securities Fund as of December 31, 1995



Top Holdings of the New England Government Securities Fund by Issuer as of December 31, 1995

	Market Value
U.S. Treasury	$146.2 million
Government National Mortgage Association	9.9 million

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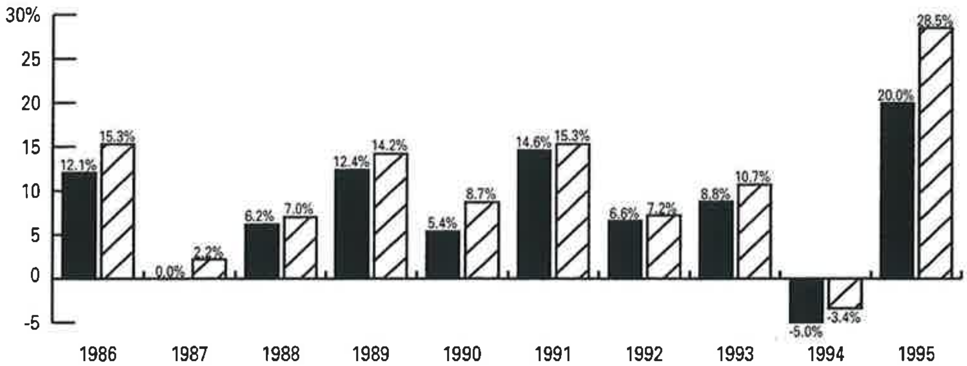
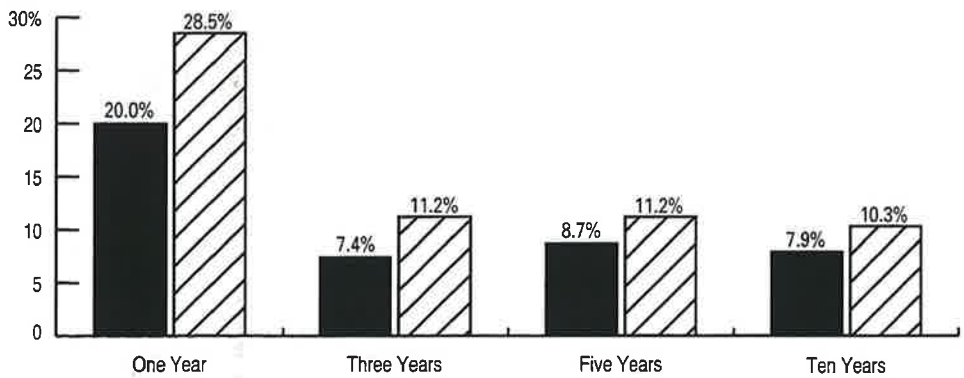
Separate Long Term Government Account

Annual Rate of Return for 12-month periods ending December 31*

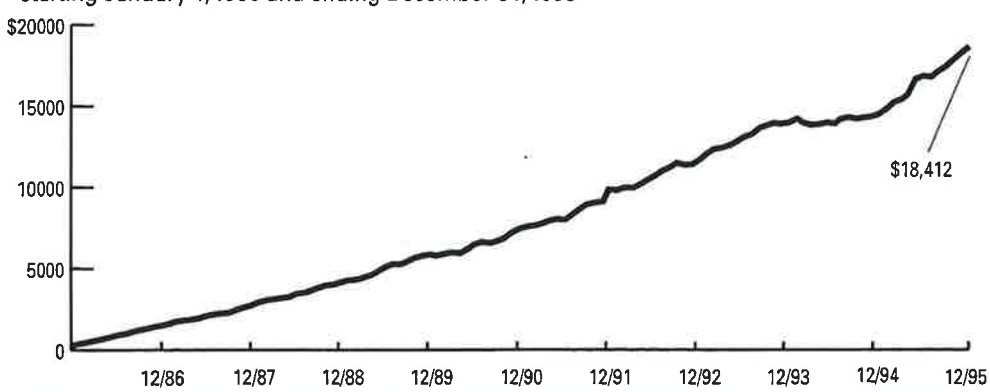


Average Annual Rate of Return for periods ending December 31, 1995*



Value of $100 invested each month

starting January 1, 1986 and ending December 31, 1995*



LTGA   Lehman Brothers Government Bond Index

*For periods prior to July 1993, the above performance represents the New England Government Securities Fund's performance less the Separate Long Term Government Account's investment expenses.

All measurements include the re-investment of income. Performance of the Separate Long Term Government Account is net of the total investment expenses. (For the combination of the Account and its underlying fund, the New England Government Securities Fund, the annualized fee is 1.13%.) Note: Performance does not reflect any charges that may be applicable under the terms of your group annuity contract. Past performance is no guarantee of future results.

The Separate Investment Accounts (SIAs) are pooled, market-valued investment vehicles available through The New England group annuity contracts to qualified retirement plans. Funds invested in each SIA are professionally managed to achieve a specific investment objective. SIA investment performance is not guaranteed and will vary in accordance with the performance of the holdings within each portfolio. For more information, please contact your plan administrator.

New England Portfolio Advisors
A Financial Partner of The New England

MAP®

Multi-Asset Planning

An Investment Advisory and Asset Allocation Service

The Most Important Decision You'll Ever Make!

If you are responsible for the investment of your retirement plan assets, you know how complicated your job has become. You are faced with a wide variety of different investment options from a growing number of financial institutions, yet you get very little help with the most important part of your plan's investment program: **Your plan's long range asset mix.** Although studies have shown, and experts agree, that this policy decision is the major determinant of your plan's investment performance, most sponsors and investment advisors do not give this important decision the attention it deserves.

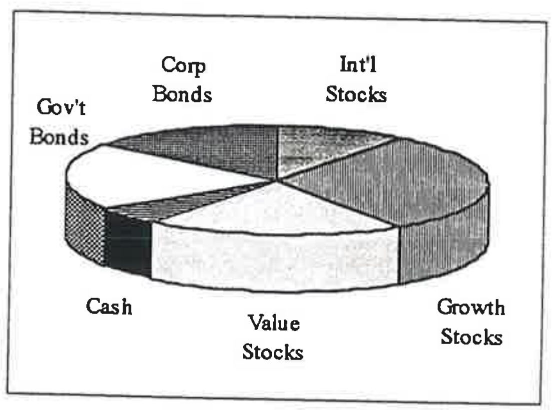
Multi-Asset Planning or MAP is an investment advisory service available from New England Portfolio Advisors, Inc. - a wholly owned subsidiary of The New England and a registered investment advisor with the Securities and Exchange Commission - dedicated exclusively to helping plans like yours develop and implement a long-term asset mix goal and investment strategy designed to meet your plan's specific needs. Unlike most other asset allocation and investment programs, MAP brings together *both* your plan's investment objectives *and* its emerging liquidity needs into a coherent program.

Your Fiduciary Responsibility

A major concern of many plan sponsors is the burden and personal risk of fiduciary responsibility placed upon them by ERISA. MAP can help you meet this fiduciary responsibility by developing and implementing a prudent diversification strategy for your plan's assets. We then back-up the trust you placed in us by providing written indemnification to the plan's fiduciaries for any loss, liability, claim, damage, and expense incurred by them caused solely by a breach by New England Portfolio Advisors, Inc. of its obligations specified in the contract or under ERISA.

What is Multi-Asset Planning?

Under the Multi-Asset Planning program, an asset mix goal is established based on the individual needs and objectives of your plan. Next, all appropriate actions are taken to reach and then maintain this asset mix goal. MAP is not just a one time recommendation, but an ongoing process of analysis, review, and adjustment -- always ready to meet your plan's changing needs.



Diversification across and within many different asset types is the key to a successful investment strategy for your retirement plan.

How Does MAP Work?
The MAP Process.

The staff of New England Portfolio Advisors, Inc. will take the following steps to develop and implement your Multi-Asset Planning strategy:

1. *Review* and *evaluate* your plan's individual characteristics, including investment objectives, liquidity needs, and risk preference.
2. *Recommend* an asset mix goal that maximizes your plan's expected return at an appropriate level of risk based on your individual parameters and our long range projections for the capital markets.
3. *Develop* and *implement* a long range plan to reach and maintain your asset mix goal.
4. *Monitor* the progress of your MAP program and take all action needed to maintain your asset mix goal and desired risk level.
5. *Report* to you on a quarterly basis and review the appropriateness of your asset mix goal on an ongoing basis.

Diversification: The Key to Success

The most important part of any Multi-Asset Planning (MAP) strategy is the diversification of the plan's assets. A prudent combination of dissimilar asset classes - such as stocks, bonds, and cash - can increase your portfolio's expected return while minimizing its overall volatility or risk. And even a small increase in your fund's return can make a large difference in your plan's value over the long term.

Diversify Your Plan's Assets Among the Separate Investment Accounts

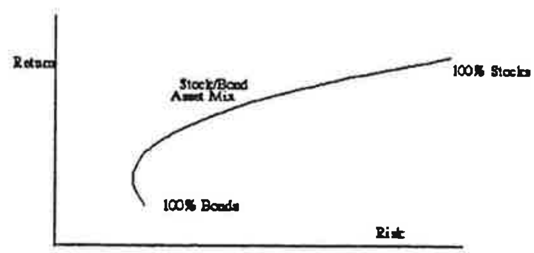
To help you reach your plan and investment goals, we will design a diversification strategy that allocates your plan assets among the various separate investment accounts of The New England managed by our many affiliated companies. The separate accounts are commingled funds designed especially for qualified retirement plans like yours. They include funds that invest in common stocks, public bonds, money market instruments, international securities, and real estate. Each component of your MAP strategy will play an important role in your overall strategy. The inclusion and proportion of any one investment account will depend upon the individual needs and objectives of your plan. Although we will include any assets held outside of The New England in our analysis when we are establishing your MAP asset mix goal, we are not able to have discretion over such assets. MAP will bring together your plan's various investment components into a strategy designed to meet your plan's individual needs and objectives.

Your First Step

To give your retirement plan the attention it deserves, your first step is to allow New England Portfolio Advisors to review your plan's current investment strategy and make preliminary recommendations on how a Multi-Asset Planning program can help you better meet your plan's needs and objectives. To have this initial, no-cost, no-obligation analysis performed for your plan, contact your pension representative from The New England today.

Take the first step. Take control of your plan's investments, rather than letting your investments control your plan.

The Benefits of Diversification
"The Efficient Frontier"



A prudent combination of dissimilar asset classes, such as stocks and bonds, can increase your portfolio's return while limiting its risk. This basic precept of Modern Portfolio Theory is the foundation of all MAP strategies.

New England Portfolio Advisors, Inc.
501 Boylston Street
Boston, MA 02117

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.

Terms
AD&D - Accidental death and disability
EAP - Employee assistance program
HMO - Health maintenance organization (managed care medical plan)
POS - Point-of-service (medical plan)
FSA - Flexible spending accounts
PPO - Preferred Provider Organization

Summary
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.

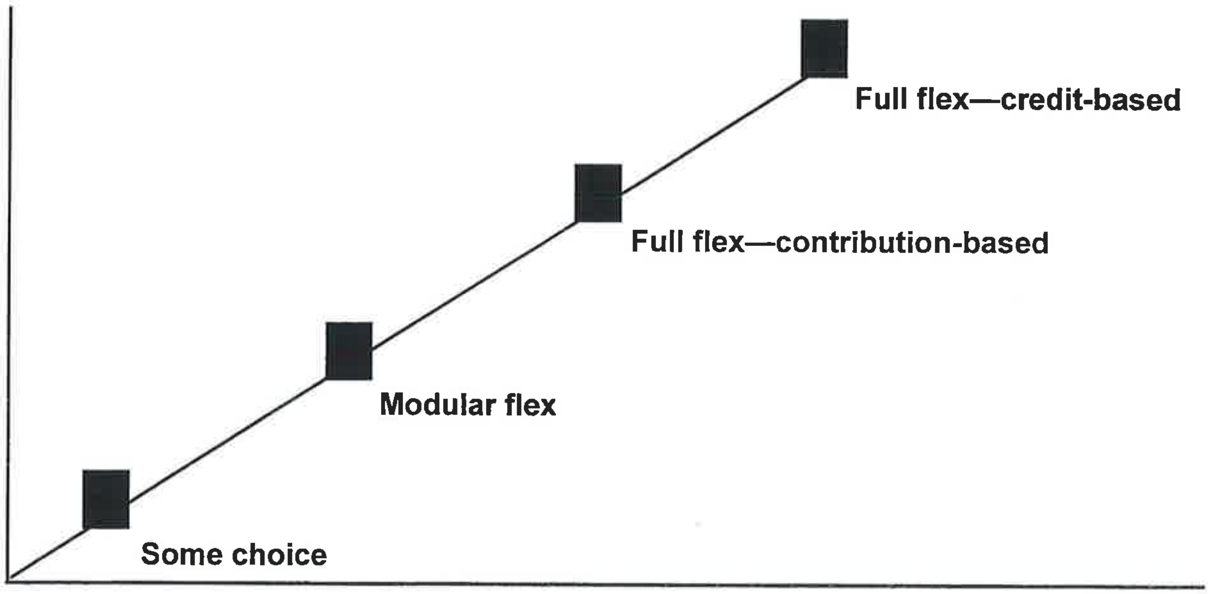
The benefit structure resembles that of a mini-flex plan, as illustrated below:

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

The City has a unique financial arrangement. If an employee elects the HMO medical option, he/she is given an incentive credit – money that can be applied to another benefit option (e.g., supplemental life, FSA, deferred compensation, etc.). If an employee elects the POS medical option, contributions are required from the employee. Each of the optional plans also has contribution requirements, depending on the elected amount of coverage. Contributions are deducted on a pretax basis via a Section 125 cafeteria plan.
The question addressed in this issue paper is: should the City *restructure* its current program to that of a credit based flex plan?

What is flex?

From an employer's perspective, flex is a tool for maximizing the perceived value of employee benefit programs for a given cost. To employees, it is a means of having choice (flexibility) in their benefit plans and/or working conditions. Flexible benefits can be placed on a continuum, with the employer choosing the extent of flexible benefits it wants to offer.



Some choice: Employees have a few benefit options from which to choose (e.g., an HMO or POS medical plan).

Modular flex: Employees have a choice of "benefit packages." For example, Option A includes HMO medical and PPO dental or Option B includes POS medical and PPO dental.

Full flex (contribution based): Employees have the choice of a range of benefit options, each with a set contribution amount required, via payroll deduction.

Full flex (credit based): Employees are given a set amount of credits as determined by the City. Employees then are given a choice of benefit options, each one of which has an assigned price tag. Employees use their credits to purchase benefits. The City's plans feature a cross-section of modular flex and full-flex (contribution-based) structures. The City packages its medical, vision, and dental coverage's and assigns contributions to each plan.

To offer employees more choice and flexibility, the City can "unbundle" the medical, vision, and dental coverage's and let employees decide if they want one or more of these plans. The City would then need to determine if it wants to allow employees to "opt-out" of the medical plan.

Why should the City consider flex?

Implementing a flex plan is one accepted way to respond to varying employee needs. It provides a way to maintain and/or control the City's benefit costs, while being a leader in benefit management. From a human resource perspective it can be a tool for recruiting and retaining employees. The key to a successful flex plan, however, is communication, which is discussed in greater detail later in this report.

As stated, the City already has a flex plan. However, restructuring the program to a credit-based system would enable the City to more closely define and control its costs to the health plan and provide employees with increased benefit options.

A credit-based flex plan can be implemented using one of three financial scenarios: a cost neutral approach, an employee cost increase approach, or an employee cost decrease approach. Credits are actuarially determined based on the City's objectives and the actual costs of the plans. Typically, there is a credit provided for opting out of the health plan. This concept is similar to the City's current incentive credit that is given to those employees electing the HMO medical option; approximately 90% of the City's' 159 full-time employees have elected this option.

A strong asset of a credit-based flex plan is, once credits are established, that it is easy to continue to offer additional voluntary plans (such as group legal) to the menu of benefits offered.

Financial Considerations

Establishing a credit-based flexible benefits program enables the City to enact a three to five year budget plan, with defined benefit expenditures.

An actuarial firm calculated the City's current benefit cost per employee. The annual cost to the City for medical, vision, dental, basic life coverage and the employee assistance program (EAP), is $4,700 per employee. This excludes sick and vacation pay. If sick leave is factored in, the cost is $4,800. If sick leave and vacation pay is included, the cost to the City is $7,600 annually per employee.

The appropriate uniform credit amount to give each employee will be based on a starting point of $4,700 - unless the City decides to include a buy/sell vacation option. The City will need to determine its overall budget plan for the next three to five years, of which the cost of benefits is a factor. After the overall budget plan has been established, the City can decide how much will be allocated towards the flexible benefit plan. This will dictate which of the financial scenarios the City would implement (i.e. cost neutral or cost increases or decreases to employees).

The structure of the credit-based plan will 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 City will have to decide if credit amounts that are left over can be taken as cash. The credit amount will be specified (including the amount of increase per year, if any) 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.

To illustrate the choice for employees, employee Jane Doe, may elect to spend her credits to purchase the following:

Plan	Coverage	Yearly Costs
Medical Coverage HMO	Employee + One Dependent	$3,796
Dental Coverage	Employee Only	$321
Supplemental Life Insurance	Employee Only	$120
Flexible Spending Account	Medical Account	$500
	Total	$4,937

Since the City has given Ms. Doe credits of $4700, she will only need to spend an additional $237 per year or $9.11 per pay-period or of her own income to purchase the coverages listed above.

Other Cities - A Comparison

Staff contacted other comparable cities in Orange, Riverside and San Diego Counties to compare the flexible benefit programs. The following results were obtained from the survey:

City	Flexible Benefits
Fullerton	Fire only
Fountain Valley	No
Newport Beach	No
Mission Viejo	Yes
Vista	Yes
San Marcos	No
Oceanside	No
Huntington Beach	No
Cypress	Yes
Buena Park	No
Temecula	Yes
Laguna Beach	No
Irvine	Yes
Dana Point	Yes
Tustin	Yes
San Juan Capistrano	No
Laguna Niguel	No
Westminster	Yes
Costa Mesa	Yes
Encinitas	Yes

Orange	Yes

Fifty-seven percent (57%) of the cities that were surveyed provide a flexible benefit program.

Communication and Implementation

The introduction of a flexible benefits program raises a number of questions with employees and labor associations. Some of the most common questions from employees regarding a flex benefit program include:

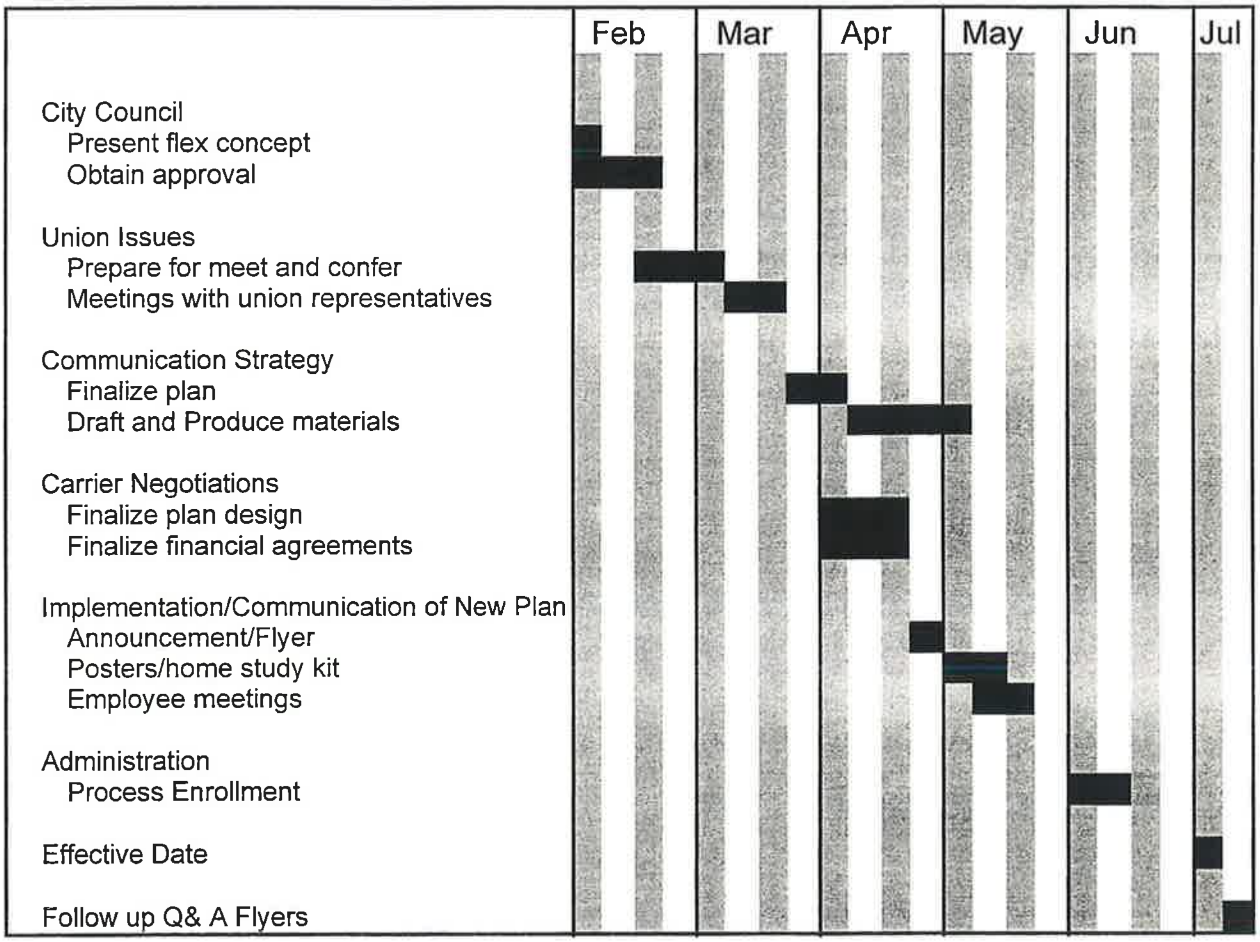
Objectives:
- Why is the City doing this?
- Is there a hidden motive?

Benefits:
- Can I get the same benefits I had before?
- How much will it cost me to continue my current benefits?

Equity:
- Who wins?
- Who loses?

Choices:
- What are the differences between choices?
- Where do I get help?
- What happens if I make a mistake?

It takes time to implement and effectively communicate a credit-based flex plan. For a July 1996 effective date, the following activities need to be performed.



There are several ways to address the communications issue. A comprehensive communication campaign to introduce the credit-based flexible benefits program is essential. It may consist of a variety of media - print (newsletter, enrollment guide), audiovisual, employee meetings, and personalized enrollment forms.

Recommendation

Direct staff to explore with the employee associations (Executive Management, Mid Management, Confidential and SCCEA) the possibility of establishing a credit based flexible benefit program for implementation by July 1, 1996.

Fiscal Impact of Recommendation

A credit based flexible benefit program would not increase the City's benefit cost per employee. However, the employee would have the ability of choose a benefit package suited to their individual needs.

Computer Action Plan

Objective
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 current technologies support the short and long term goals of the City

Summary
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.

Background
The City has two separate computer systems. The minicomputer (ADDS system) is used primarily for large centralized applications such as financial management, central permits, land use and Geobase. The microcomputer wide area network is used for office automation applications such as word processing, spreadsheets, graphics and electronic mail. The City's microcomputers have recently been upgraded to Windows 95 and the latest Office automation software. Staff has enthusiastically embraced the new software and the integration of data from one program to another increases productivity.

The minicomputer and microcomputers are leased and the lease payments are made from the MIS Fund and recaptured through interdepartmental charges to the using departments and funds. The minicomputer lease term will be completed in August 1996 and the equipment was originally scheduled for replacement in FY 1996-97. However the recent upgrade of the microcomputers presents an opportunity to integrate the two separate systems and improve the delivery of computer services to the City.

Long Range Computer Action Plan
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:

- 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.

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).

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.

Issues

Geographic Information System - A comprehensive GIS (Geographic Information System) system has been the goal of the City for the last eight years. Progress has been made and most of the files have been converted to electronic format however, the cost of a system along with limited staff devoted to GIS has impeded development of a citywide system. Currently, only an Engineering Technician in the Engineering Division has the hardware and software expertise necessary to produce computerized maps. Given the increasing need by all divisions of a citywide GIS system and the recent upgrade of the microcomputer network, the above mentioned plan must incorporate the implementation of a Citywide GIS system.

In order to prepare for the eventual development of a comprehensive GIS system, the Engineering Technician will be transferred from Engineering to the MIS Division. This will allow for centralization of the GIS function and facilitate the move towards GIS services on a Citywide basis.

Cabling - The local area network is currently interconnected with an ARCNET cabling system. The ARCNET system is outdated and does not support the new 32 bit microcomputer software. Installation of an Ethernet cabling system, the industry standard, will improve the performance of the network and allow integration with the future minicomputer solution and the City's document imaging system. Ethernet can also be integrated with the fiber optic cable that is installed for cable television and would provide the City with a low cost method to connect all City facilities. The approximate cost of installing the Ethernet cabling system amounts to $40,000 and will be submitted as a decision package during the budget process.

Staff Resources - The current Information Systems staff resources include:

- Information Systems Manager - Duties include management, programming, training, and systems support for the minicomputer
- Information Systems Specialist - Duties include the support of the City's Wide Area microcomputer network, technical systems management and data communications.

- Users Support Services - This position is a recent transfer from Financial Planning and the duties include response coordination, help desk, training and application support.
- Hardware Maintenance Worker - Currently a part time position used to maintain the City's 120+ microcomputers, 50+ printers and associated hardware. In addition, this position also maintains the City's Alarm Program. Due to the heavy workload in this area, a proposal to increase this to a full time position will be brought forward in the FY 1996-97 budget.

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.

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 in FY 1997-98.

Fiscal Impact of Recommendations

1. An estimated $20,000-$30,000 will be needed for professional services to develop a long range computer action plan.

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.

Summary
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.

An integrated Cost Recovery System using consistent methodology for recovery of costs has, however, 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. For example, Engineering and Planning use an in-house developed system (JAMS) which tracks costs; however, the system is not integrated into the City's payroll system which is a severe handicap.

Staff conducted a brief review of the current system, identified weaknesses in the system and made appropriate recommendations.

This issue paper briefly outlines the nature of the cost accounting problem and provides recommendations to address the issue. Additionally, this issue has been identified as a recommended Vital Few Priority and will be submitted to the City Council for review.

Background
The Engineering, Planning and Maintenance Divisions provide services to other City funds, outside agencies and the public (e.g. developers).

The Engineering Division is currently using an in-house developed computer system to keep track of project labor costs. Two time sheets are prepared by each employee biweekly, one for payroll purposes, and one for project labor cost accounting within the Division. The information provided by the Engineering Division's system is combined with financial reports provided by the Accounting Division to hand calculate total project costs. The Planning Division uses the system (including an overhead rate) to calculate the costs of reviewing developer projects.

An overhead rate of 30.84% has been utilized by the Engineering and Planning Divisions for several years. Reimbursements to the general fund for labor costs to capital projects are calculated once or twice a year. The Engineering Division also maintains a cost accounting system for services provided to developers and the Planning Division uses this system to bill applicants for the cost of reviewing development regulations and for tracking time on capital improvement projects. These services are funded by deposits collected from developers.

The Planning Division manually tracks time spent on capital projects and bills back to the Engineering Division. The cost of services for plan checks and other similar services are also tracked within the Division and recaptured through the current system.

The Maintenance Division maintains a manual cost accounting system. The cost of direct labor and materials to be charged to other departments or the public is summarized manually and sent to the Accounting Division for billing. The charges to other departments are done on a quarterly basis.

The following weaknesses were noted in the current system:

- The Engineering and Planning Divisions are spending a considerable amount of time doing cost accounting. Two time sheets are prepared by each individual biweekly.
- An overhead rate of 30.84% has been utilized by the Engineering Division for at least eight years and by Planning for five 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:

- 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.

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

Fiscal Impact of Recommendation
The cost of developing a Cost Recovery System is unknown.