
1998
Long Term Financial Plan

Volume I

City of San Clemente

City Council

- Jim Dahl Mayor
- Lois Berg Mayor Pro Tem
- Joe Anderson Councilmember
- Steve Apodaca Councilmember
- Pat Ahle Councilmember

City Manager

- Mike Parness City Manager

Executive Team

- William C. Cameron City Engineer
- Myrna Erway City Clerk
- Paul Gudgeirsson Director, Finance & Administrative Services/Treasurer
- James S. Holloway Director, Community Development
- David N. Lund Director, Public Works
- Bruce E. Wegner Director, Beaches, Parks & Recreation
- Lt. Fred Lisanti Police Services Chief
- Chief Pat McIntosh Fire Services Chief

Project Leaders

- Paul Gudgeirsson Director, Finance & Administrative Services
 - Nita McKay Controller
 - Kumi Johnson Budget Officer
 - Larry K. Moore Information Services Manager
 - Brian Brower Financial Intern
 - David N. Lund Director, Public Works
 - John Bressan Utilities Manager
 - James S. Holloway Director, Community Development
 - Jim Mies Sr. Management Analyst
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Mission Statement



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

- Maintaining a safe, healthy atmosphere in which to live, work and play;
 - Guiding development to ensure responsible growth while preserving and enhancing our village character, unique environment and natural amenities;
 - Providing for the City's long term stability through promotion of economic vitality and diversity....
 - Resulting in a balanced community committed to protection of what is valued today while meeting tomorrow's needs.
-

Project Teams

Project Director

Paul Gudgeirsson, Director, Finance & Administrative Services

Financial Trends

Nita McKay, F&AS, Project Lead

Financial Forecast

Kumi Johnson, F&AS, Project Lead

Reserve Analysis

Nita McKay, F&AS, Project Lead

Revenue Handbook

Brian Brower, F&AS, Project Lead

Street Improvement Program Update

David N. Lund, Public Works, Project Lead

Computer Action Plan Update

Larry K. Moore, F&AS, Project Lead

Organizational Study

Paul Gudgeirsson, F&AS, Project Lead

Water Rate Structure & Analysis

John Bressan, Public Works, Project Lead

Current Development Issues

James S. Holloway, Community Development, Project Lead

Energy Deregulation

Jim Mies, F&AS, Project Lead

Issues and Objectives

Water Rate Structure & Analysis

Objective

To analyze the City's water rate structure to insure compliance with Proposition 218. Suggest alternatives to the current system, if not in compliance with Proposition 218, and review the effects of the Dissolution of Tri-Cities Municipal Water District and the Water Meter Replacement Program on the need for a rate increase, now or in the future, to provide stability to the Water Fund and provide the necessary revenue to establish the required level of reserves.

Current Development Issues

Objective

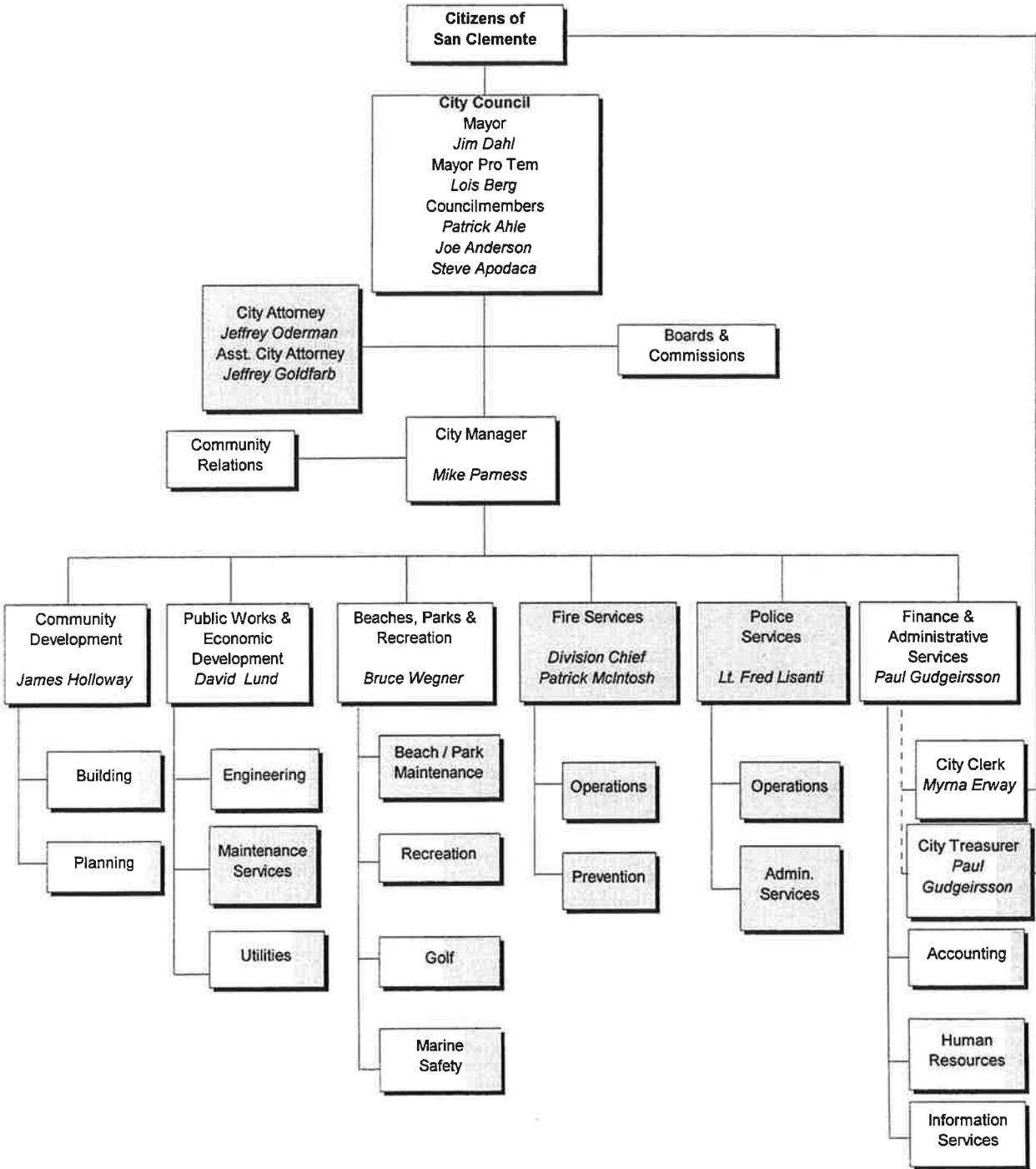
To analyze the tools and systems in place to ensure that the standards of the General Plan and community are met during each remaining phase of development until build-out.

Energy Deregulation

Objective

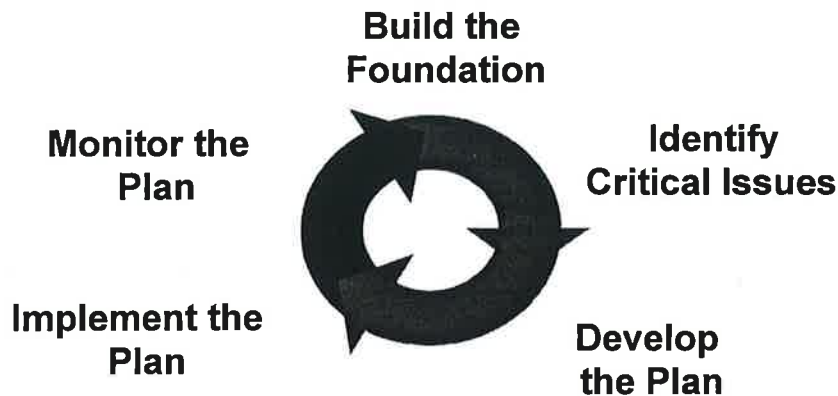
To analyze the restructuring of the electrical industry and its impact on the City of San Clemente as implemented by AB 1890.

City Organizational Chart



Shading indicates contracted services

Long Term Financial Plan



The LTFP is a financial strategic plan

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

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

The LTFP consists of the complete financial plan

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

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

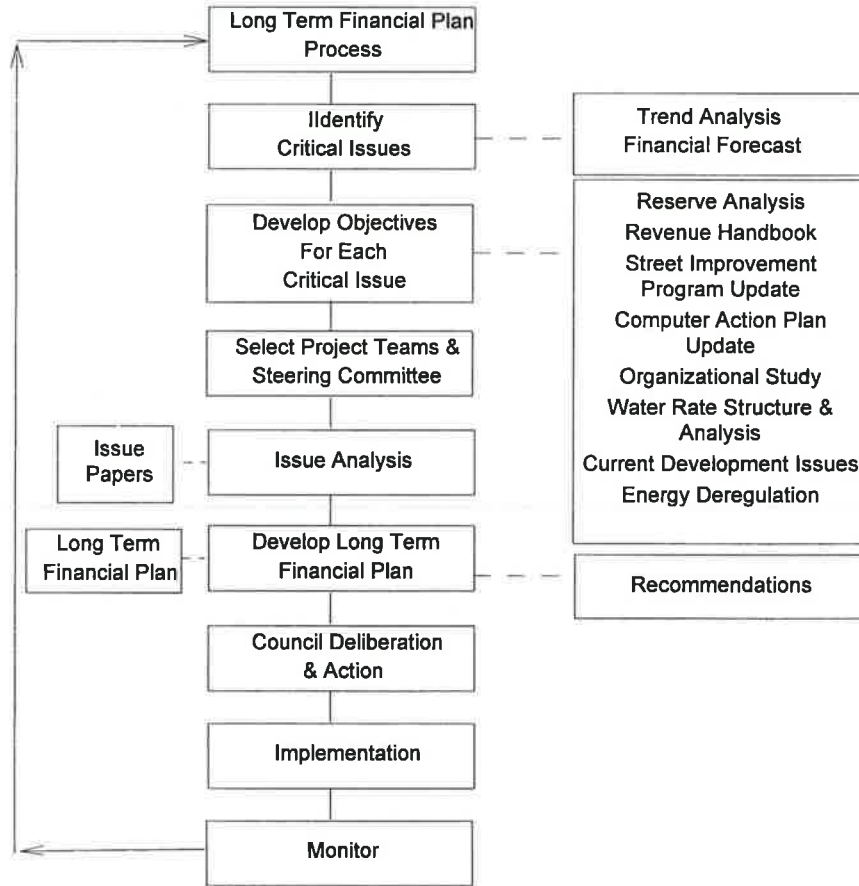
Long Term Financial Plan - Issue Papers (Volume II): This volume of the Long Term Financial Plan, published under separate cover, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion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

Long Term Financial Plan

Long Term Financial Plan Process

The 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, 11 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 11 project leaders each assigned to teams addressing a specific critical issue.



Process & Schedule

Goals

As indicated, the process of developing the Long Term Financial Plan began by identifying several 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 18, 1998. 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 1998-99 budget process:

Schedule

February 18, 1998	LTFP provided to Council and public for review.
February 21, 1998	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction.
February 25, 1998	Vital Few Priority Meeting. City Council and City Manager.
March 4, 1998	Council adoption of Long Term Financial Plan.

City Manager's Transmittal Letter

Honorable Mayor and Council members:

The 1998 LTFP represents the City's sixth financial strategic plan

Introduction

I am pleased to present the *1998 Long Term Financial Plan* for City Council review and consideration. This financial plan represents the sixth in a series of financial strategic plans that have been presented on an annual basis since 1993. The development of these annual financial plans have strengthened the City's finances and addressed a number of critical issues over the past several years. A complete review of each past financial plan is included at the end of this section.

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

The City's planned fiscal recovery has been achieved

The 1998 Long Term Financial Plan unmistakably points to the financial recovery of the City. Although Proposition 218 dominated our financial discussion as we prepared last years financial plan and the budget, the decisive actions taken by the City Council during that process is clearly reflected in this updated financial blueprint.

The 1998 Long Term Financial Plan

The fiscally related issues examined this year include:

Financial trends and five-year forecast remain positive

- *Financial Trend Analysis* - Financial trends continue to improve through the fiscal year closed in FY 1996-97. 18 of 20 financial indicators are positive, while only two are negative.
- *Financial Forecast* - The City's financial forecast is very positive. Fund balances are projected to be positive over the next five years as the City's financial position continues to show improvement.
- *Reserves* - This issue paper updates the status of the City's reserve program and outlines future funding requirements. A total of \$5.5 million has been contributed to reserve accounts over the past 6 years. With the adoption of LTFP recommendations, all reserve funds will be fully funded, except capital equipment reserves.
- *Revenue Handbook* - A Revenue Handbook, designed as a guide to the City's major revenue sources, has been developed this year and is included in the 1998 LTFP.
- *Street Improvement Program* - Since the adoption of this \$55 million program in 1995, 37 street projects totaling 13.2 miles have been completed and an additional 15 street projects totaling almost five miles will be constructed during FY 1997-98. A total of 10 projects have been constructed one to two years earlier than originally scheduled.

With one exception, all reserves are now fully funded

37 street projects totaling 13.2 miles have been completed

Long Term Financial Plan

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

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

The 1995 Plan

For the first time, a positive fund balance was projected in 1995

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

Funding was provided for a \$55 million street improvement program

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

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

The 1996 Plan

A financial turnaround was evident in the 1996 financial plan

The 1996 LTFP noted a significant turnaround in the City's financial condition. In fact, positive fund balances were projected for each year of the City's financial forecast period. Additionally, the City's General Fund emergency reserve level reached 5% and contributions to the City's self insurance programs were continued. Of the 20 financial indicators that the city utilizes to measure its financial condition, 17 were positive as compared to only six in 1993.

Street bonds totaling \$7 million were issued

In an effort to expedite the City's street improvement program, the City Council directed that \$7 million in bonds be issued one year earlier than

City Manager's Transmittal Letter

initially called for. This action resulted in significant savings in bond issuance costs and allowed for the completion of ten street projects two years earlier than scheduled.

The 1997 Plan

Proposition 218 resulted in a \$2.8 million General Fund shortfall

Just as the City found itself gaining financial momentum by eliminating deficits, increasing reserves, and improving financial indicators, Proposition 218 was decreed by the voters of California. The proposition imposed a series of financial provisions, including the elimination of the Lighting & Landscape District and in-lieu fees, that seriously eroded the City's fiscal condition in 1997. The City was suddenly facing a \$2.8 million shortage which required immediate attention by the City Council.

The shortfall was eliminated through revenue increases and severe program cuts...

The Council acted decisively by increasing revenues (parking meter rate increases and transfers from the Golf fund), and reducing expenditures through a combination of layoffs and program reductions. The \$2.8 million shortfall was reduced to \$1.0 million by the time these initiatives were implemented. In order to raise the remaining \$1.0 million, a utility tax measure was placed on the ballot for voter approval. The measure failed at the polls and the Council was compelled to initiate further revenue increases and program reductions, a commitment made to the voters of San Clemente if the tax measure did not succeed.

...including the closure of a park and transfer of dispatch operations to Orange County

Consequently, deep program cuts were carried out and incorporated into the fiscal year 1997-98 budget. Cuts included the closure of Steed Park, the transfer of dispatch operations to the County, transfer of funds from the Golf Fund, elimination of capital funds, employee layoffs, and the loss of several recreation and special event programs.

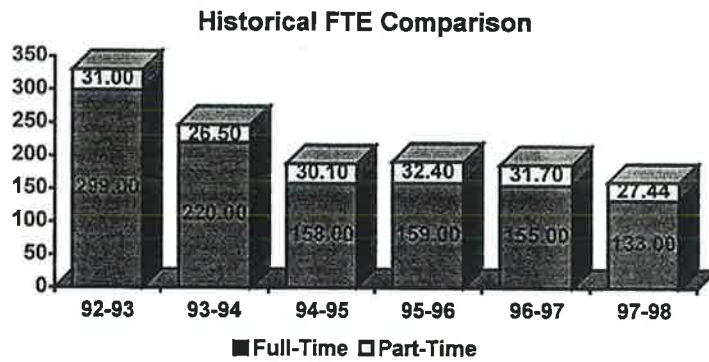
By addressing the consequences of Proposition 218 quickly and decisively, the City was able to avoid financial chaos. The combination of revenue and expenditure adjustments have maintained the positive direction of the City's finances going into the 1998-99 fiscal year.

Historical Staffing Levels

Historical Staffing levels

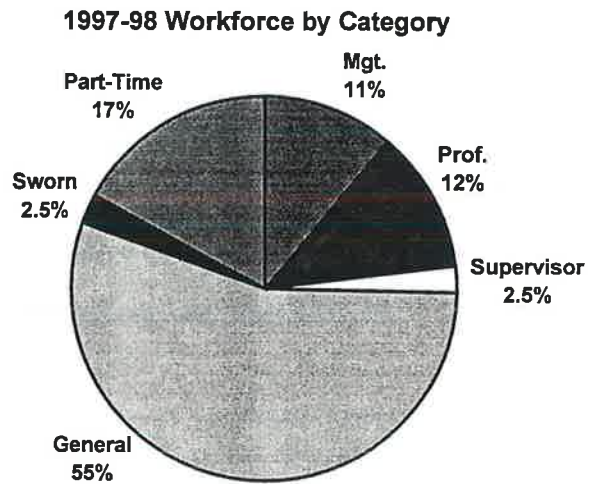
The impact on staffing changes as a result of the implementation of the City's series of financial plans and budgets since 1992 are outlined below:

Long Term Financial Plan



The following chart summarizes the City's current workforce by category:

Workforce by category



Financial Summary

The Executive Summary consists of a Financial Summary and Issue Summary

The *Executive Summary* portion of the 1998 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The *Financial Summary* will provide a profile of the City's present financial condition, including a summary of LTFP recommendations. The *Issue Summary* is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the *Financial Summary* section:

- *Introduction*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *Financial Trend Analysis*
- *Five Year Financial Forecast*
- *Conclusion & Projected Financial Condition*
- *Summary of Recommendations*

Introduction

The 1998 Long Term Financial Plan clearly demonstrates the positive results that can be achieved with systematic strategic financial planning and a top level commitment from policy makers to implement well thought out and prepared plans. The following sections of this edition of the City's Long Term Financial Plan will describe the progress that the City has made over the past several years in addressing recurring financial problems.

The first financial plan, prepared in 1993, methodically pointed out that the City of San Clemente was facing a \$6 million shortfall, which included projected operating deficits, unfunded reserve accounts, and capital and infrastructure needs. The 1998 plan describes the progress that has been made in improving the financial condition of the City of San Clemente.

Current Financial Condition - Overview

The City's financial condition at December 31, 1997 was described in detail in the fiscal 1997-98 Second Quarter Financial Report. Current projections indicate that the City's General Fund will end the year with a positive fund balance of \$504,800, or approximately \$120,000 less than originally predicted in the FY 1997-98 budget. This reduction is due to several routine adjustments approved by the City Council during the year, including several mid-year budget revisions. Furthermore, an emergency reserve of 5%, or \$1 million, has been set aside in the General Fund.

The General Fund will end the year with a \$505,000 fund balance

The City is in strong financial shape

Overall, the City is in strong financial shape with the exception of the Water Operations Fund and the Redevelopment Agency. The projected ending fund deficit for the Water Operating Fund amounts to \$266,840; however, this fund is expected to be in a positive balance at fiscal 1998-99 year end. The RDA Fund will end the current year in a positive position, however, it

Long Term Financial Plan

will not be possible to fund new projects for this fund until the property tax increment is sufficient to cover added costs.

The General Fund has withstood several financial blows

In view of the repeated and substantial financial blows that have been dealt to the City's General Fund over the past six years, the primary focus of the City's financial planning process has centered on the City's main operating, or General Fund. In addition to a major recession during the early part of this decade, the City has faced large diversions of property tax revenue to the State and, most recently, the impacts of Proposition 218 which forced the City to absorb a \$2.8 million loss in revenue, or 13% of the City's total General Fund budget. These severe financial jolts have impelled the City Council to act definitively and aggressively to stem the flow of red ink. The actions are documented, by year, in an attachment to the City Manager's transmittal letter.

The City's vision of stabilizing it's financial condition has been realized

As illustrated throughout this report, the City's long-term vision of stabilizing and improving it's financial condition has been realized. For example, with the exception of one recently established reserve fund, *all* reserve funds will be fully funded if this financial plan is approved by the City Council. Financial indicators are overwhelmingly favorable, with only two indicators exhibiting negative tendencies. The General Fund indicates positive and increasing fund balances across a five-year forecast period.

There are still a few fiscal challenges facing the City, but solutions are provided in the LTFP

Although there are a few fiscal challenges currently facing the City, the 1998 Long Term Financial Plan once again provides viable solutions to these problems for Council consideration.

The funding of reserves has been a top Council priority

Reserve Funding

The funding of reserves has been a top Council priority since the adoption of the initial 1993 Long Term Financial Plan. To date, a total of *\$5.5 million* has been dedicated to the funding of reserves and deficit fund balances by all City funds. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, contingency, and emergency reserves. With the exception of workers' compensation and capital equipment reserves, all reserve funds are now entirely funded.

Recommendations to eliminate reserve deficits are included in the LTFP

The 1998 LTFP addresses the remaining two reserve funds by recommending that \$100,000 be allocated to capital equipment reserves on an annual basis for three years and by transferring \$297,000 from the General Liability Fund to the Workers' Compensation Fund eliminating the deficit in that fund. Consequently, the only transfers that will be required include normal funding to maintain percentage requirements (emergency reserves) or to fund normal replacement costs (fleet or capital equipment).

The full funding of reserves has further value in that this improves the financial position of all funds in that "catch-up" reserve transfers will no longer be required, resulting in reduced expenditure levels. For example, in FY 1997-98, the General fund transferred a total of \$211,000, which will not be necessary in the next fiscal year.

General Fund Transfers

In addition to reserve transfers, the General Fund will provide funding totaling over \$800,000 (in FY 1998-99) for several other programs over the next several years. Major transfers include:

The General Fund will contribute \$500,000 to the Street Improvement Program

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled \$1.3 million during the past three fiscal years. Funding for this program will continue in FY 1998-99 with a contribution of \$500,000, an increase of \$200,000 over the prior year. Annual contributions of \$500,000, plus an inflationary factor, will be made through the remainder of the program.

800Mhz: The General Fund is responsible for contributions to the Public Safety Construction Fund for its share of the 800Mhz communications system. A final contribution of \$36,200 will be made in FY 1998-99.

A total of 18 financial indicators are now positive....

...including property tax revenues and property tax values

Financial Trend Analysis

The City's financial condition is also measured using a financial trend monitoring system. Last year, 17 of 20 financial trends were found to be positive which was a vast improvement over prior years. The annual Financial Trend Analysis report for the year ending June 30, 1997 notes that 18 indicators are now favorable. The best news this year is that both property tax revenue and property value indicators turned positive. These two indicators have been negative for years and this clearly represents a turnaround in the City's economic base. In fact, property tax revenues increased 4.2% over the previous fiscal year. Property values increased .71%, the first increase in four years.

As indicated below, the City currently receives 15% of the property tax dollar and the remainder is distributed as shown:

City	County	Schools	RDA	Special Districts
15%	12.2%	67.8%	2.4%	2.6%



Negative ratings continued to be assigned to community development service charges and the license and permit revenue category turned from favorable/caution to unfavorable.

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

Long Term Financial Plan

Revenue growth is projected at 3.8%

Expenditures will average 2.5%

Five Year Financial Forecast

The City's updated five-year financial forecast for the General Fund projects revenue growth of 3.8% over the five year forecast period. This compares to an historical growth rate of 1.6%. Expenditures are projected to grow at an annual average rate of 2.5% over the same time frame, as compared to historical average growth rates of 1.9%. It should be pointed out that historical growth rates are somewhat misleading because of several factors. "One-time" revenues transferred from other funds into the General Fund due to the contracting of municipal services tend to skew revenues upward. However, the same is true of expenditures - "one-time" expenditures were made for accrued leave and severance payments for contracted City employees resulting in higher expenditure levels.

The average projected growth rates for revenues exceed expenditures by 1.3% which, if achieved, would result in operating surpluses beginning in the third year of the forecast.

In developing the Five Year Financial Forecast, two primary areas are examined to determine the City's projected future financial position - operating position and fund balances.

Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. If the opposite is true, an operating deficit will occur. Operating position does not take carry-over fund balances into account. Additionally, transfers into reserve accounts and into the Street Program are included in the expenditure category.

Fund balances include the accumulation of available resources from year to year to determine the City's financial position, e.g. if an operating surplus is carried over from year to year, fund balances will increase; however, if an operating deficit occurs, fund balances will decline.

Operating Position

As indicated below, the City's projected operating deficit in fiscal years 1998-99 and 1999-00 are minor and are due to reserves and transfers. Operating surpluses begin to occur in FY 2000-01 and increase to \$699,000 in FY 2002-03. Projected fund balances are sufficient to cover the operating deficits. Thus, carryover fund balances will continue to be used for reserve and street transfers and not operating expenditures.

Operating deficits, due to reserve and street transfers, are minor and will be eliminated in two years

Expenditures currently include transfers to the Street Improvement fund (\$500,000) and other transfers. These expenditures skew the expenditure amounts resulting in operational deficits; however, when adjusted for the aforementioned transfers, the City is projected to be in a positive operational position across the five year period.

Financial Summary

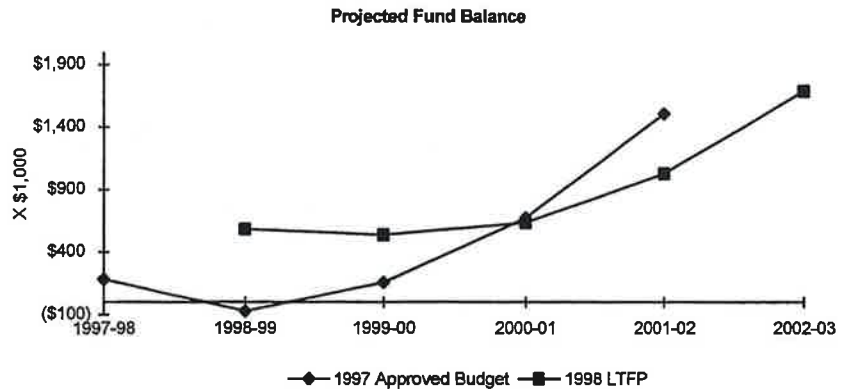
Projected Deficit/Surplus

<i>Amounts in \$1,000</i>	1998-99	1999-00	2000-01	2001-02	2002-03
Revenues	\$21,890	\$22,635	\$23,409	\$24,420	\$25,361
Expenditures	22,262	22,648	23,280	23,995	24,662
Deficit/Surplus	-\$372	-\$13	\$129	\$425	\$699

Fund balances will be higher than originally projected in the budget

Fund Balances

As displayed below, unreserved fund balances are projected to be considerably higher than projected in the FY 1997-98 budget. This is largely due to higher than anticipated expenditure savings in the prior fiscal year.



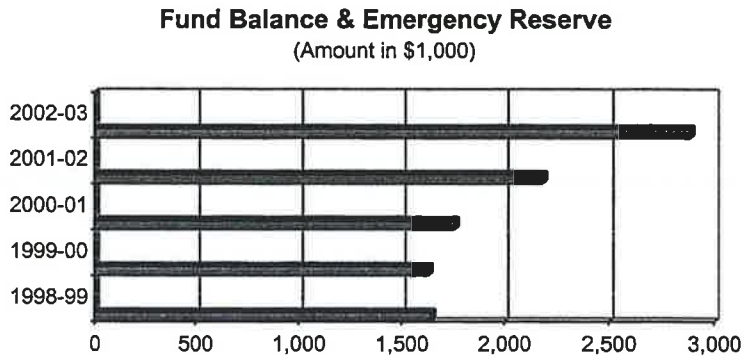
Projected fund balances and emergency reserves are shown in the table below. Total fund balances, including emergency reserves, continue to increase over the period of the forecast.

Fund Balance & Emergency Reserve

<i>Amounts in \$1,000</i>	1998-99	1999-00	2000-01	2001-02	2002-03
Fund Balance	\$583	\$539	\$638	\$1,028	\$1,692
Emergency Reserves	\$1,060	\$1,090	\$1,120	\$1,155	\$1,190
Total	\$1,643	\$1,629	\$1,758	\$2,183	\$2,882

Long Term Financial Plan

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



Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue. As indicated, the City's fiscal recovery plan has been extremely successful and has resulted in a much improved and stable financial position.

This section provides an updated fund balance forecast if certain financial recommendations are adopted by the City Council. The first table summarizes current projected fund balances prior to the adoption of 1998 LTFP recommendations:

Current projected fund balances

	Fund Balance				
	1998-99	1999-00	2000-01	2001-02	2002-03
Fund Balance	\$583,000	\$539,000	\$638,000	\$1,028,000	\$1,692,000

The following table indicates the impact on fund balances if recommendations contained in the Long Term Financial Plan are adopted by the City Council:

Financial Summary

Fund Balance

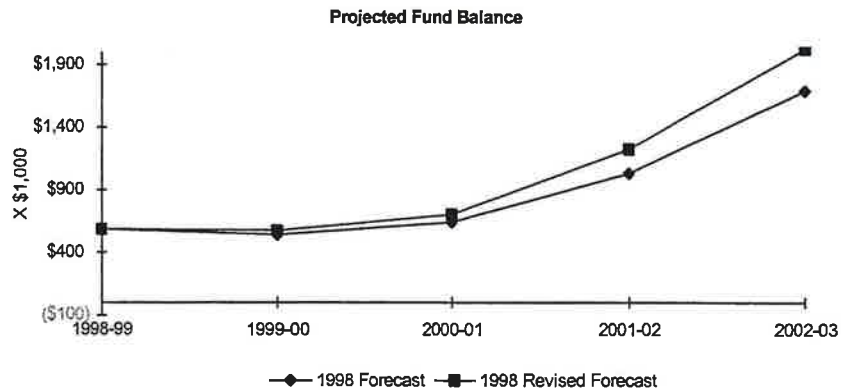
Projected fund balances including 1998 LTFP recommendations

	1998-99	1999-00	2000-01	2001-02	2002-03
<i>Projected Ending Fund Balance (1)</i>	\$383,000	\$584,260	\$571,260	\$700,260	\$1,225,260
Operating result	0	(13,000)	\$129,000	\$425,000	\$699,000
Eliminate transfer to Workers Compensation Fund (2)	127,970	0	0	0	0
Eliminate transfer to General Liability Fund (3)	83,290	0	0	0	0
Eliminate transfer to Capital Equipment Reserve Fund (4)	0	0	0	100,000	100,000
Additional transfer to Accrued Leave Reserve Fund (5)	(10,000)	0	0	0	0
Revised Fund Balance	\$584,260	\$571,260	\$700,260	\$1,225,260	\$2,024,260

1. Projected fund balance reduced by \$200,000 to reflect additional payment to PERS for unfunded liabilities in the current fiscal year. This payment is recommended while negotiations continue with PERS to reduce the projected unfunded liability amounting to \$5.4 million, significantly higher than original projections provided to the City. A final figure will be included in the FY 1998-99 budget.
2. If transfer of \$297,000 is made from the General Liability Fund, further contributions from the General Fund to Workers Compensation Fund will not be necessary.
3. Transfers to the General Liability Fund are no longer necessary since the fund is fully funded.
4. The Capital Equipment Replacement Fund will be fully funded by FY 2001-02 per the reserve issue paper.
5. Additional contributions of \$10,000 will be required in FY 1998-99 to fully fund this reserve fund. This reserve is calculated and adjusted on an annual basis.

The following graph shows the impact of adopting the 1998 LTFP recommendations on projected fund balances:

Impact on fund balance with LTFP recommendations



As illustrated, the overall impact of adopting LTFP recommendations is positive and is largely due to the full funding of reserve programs.

Long Term Financial Plan

Summary of Long Term Financial Plan recommendations

Recommendations

In order to continue improving the financial condition of the City, it is recommended that the City Council endorse staff recommendations summarized below. A narrative description and rationale for each recommendation is contained in the issue section of this volume of the Long Term Financial Plan. For complete detail, please refer to Volume II of the Long Term Financial Plan.

Reserves

1. Emergency Reserve: Budget \$30,000 in FY 1998-99, bringing the emergency reserve to \$1,059,640, or 5% of General Fund operating expenditures, for FY 1998-99.
2. Contingency Reserve: Set \$100,000 aside in fiscal year 1998-99 to fund the Council Contingency Reserve.
3. General Liability Fund: Approve a weighted average basis to charge funds for their share of the General Liability premium and related costs.
4. General Liability Fund: Set aside a reserve in the General Liability Fund of \$500,000 to include occurrences not covered by the City's insurance pool.
5. General Liability Fund: Amend the City's Fiscal Policy (number 38) to read: "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 for those claims covered by the insurance pool. In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims."
6. General Liability Fund: Authorize a transfer totaling \$296,740 to be made from the General Liability Fund to the Workers' Compensation Fund to eliminate the projected deficit created by outstanding claims.
7. Accrued Leave: Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 1998-99 in the amount of \$50,000.
8. Capital Equipment Replacement Fund: Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually for the next three years from the General Fund.

Street Improvement Program

1. Approve and authorize the allocation of a General Fund contribution of \$500,000 for the coming FY 1998-99.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Identify funding sources to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.

Computer Action Plan

1. Adopt the recommended Updated Computer Strategic Plan in concept.

Financial Summary

Water Rate Structure & Analysis

1. No action is recommended at this time. If it is Council's desire, or if a court ruling mandates a change to a fixed consumption fee, the following rate structures (in order) are recommended:
 - Combination of fixed meter fee and fixed consumption fee, with varying fixed meter fees based on meter size.
 - Combination of fixed meter fee and fixed consumption fee, with a single fixed meter fees for all sizes of meters.
 - Fixed consumption fee only.

Current Development Issues

1. Continue to evaluate policy, financial, and technical tools for guiding and implementing new development, to ensure that community standards are met as a result of new growth.
2. Include the update for a City-wide market study in the Vital View Priority setting processes (\$50,000)
3. Include funding for development of a Downtown Improvement Plan as a decision package in the Vital Few Priority setting process (\$25,000 - \$50,000)
4. Include the North Beach Specific Plan as a decision package in the Vital Few priority setting process (\$50,000 to \$100,000 plus environmental cost of \$100,000)

Energy Deregulation

1. Seek competitive proposals and study aggregation alternatives in search for maximum savings. SDG&E can continue to be utilized in the near term as the City's provider of electricity until a more cost effective alternative source is determined.

Once direction is provided by the City Council, those decisions will serve as the foundation of the budgetary action plan developed by staff and submitted for Council consideration in June 1998.

Long Term Financial Plan

Introduction

The Issue Summary section which follows provides an overview of the issues that were analyzed during the preparation of the *1998 Long Term Financial Plan*. Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics. The issues reviewed include:

Financial issues reviewed in 1998

- *Financial Trend Analysis*
- *Financial Forecast*
- *Reserve Analysis*
- *Revenue Handbook*
- *Street Improvement Program Update*
- *Computer Action Plan Update*
- *Organizational Study*
- *Water Rate Structure & Analysis*
- *Current Development Issues*
- *Energy Deregulation*

Financial Trend Analysis

Objective:

Utilizing the International City Management'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).

18 of 20 indicators are favorable compared to 17 last year

As indicated in the table below, a total number of 20 trends were analyzed in the 1998 Long Term Financial Plan. Of these, 18 indicators are considered *favorable* as opposed to two that remain *unfavorable*. This is an improvement over the prior year when 17 indicators were positive.

Negative ratings were assigned to community development and license/permit revenue

Negative ratings continued to be assigned to community development service charges while licenses and permits were also designated as unfavorable due to the continuation of a downward trend noted last year.

Property tax and values were upgraded to favorable

On the positive side, property tax revenue and property values were upgraded to favorable status as these indicators experienced a turnaround from steep declines over the past several years.

It should be pointed out that the current ratings are a vast improvement over the ratings assigned in the first year Long Term Financial Plan (1993) where only 6 indicators were *favorable* and 14 were either assigned an *unfavorable* or *warning* rating. Progress has certainly been made in those areas that the City is able to measure in a quantifiable manner and consistent basis.

Long Term Financial Plan

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

1993 to 1998 trend comparisons

Indicator	1998	1997	1996	1995	1994	1993
Revenues Per Capita	F	F	F	U	U	U
Property Tax Revenue	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	U	U
Licenses & Permits	U	F	F	F	U	U
Comm. Develop. Charges	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	W	W
Intergovernmental Rev.	F	F	F	F	F	F
Rev. Overages /Shortages	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	W	W
Employees Per Capita	F	F	F	F	W	W
Fringe Benefits	F	F	F	W	W	U
Capital Outlay	F	F	F	U	U	U
Operating Surplus	F	F	F	W	W	U
Fund Balance	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F
Property Values	F	U	U	U	W	W
Population	F	F	F	F	F	F

Positive trends confirm the strength of the City's financial position

Overall, the trend analysis confirms that the strength of the City's financial condition continues to improve. The improvement in the local economy, adherence to a set of comprehensive fiscal policies, tangible cost reduction measures, and the contracting and privatization of several City services, have all combined to produce a much improved financial picture.

The key to staying on course is to continue to meet the objectives contained in the City's comprehensive Fiscal Policy.

Recommendations

Due to the nature of certain financial indicators, including community development service charges and license and permit revenue , no recommendations will be made at this time. The City will, however, continue to closely monitor financial trends in order to provide an "early warning" detector of financial problems.

Financial Forecast

Objective

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

Recommendations in the 1998 plan are not incorporated into the financial forecast

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 1997 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 1998 Long Term Financial Plan. The forecast basically incorporates *current* General Fund expenditure and revenue patterns and attempts to predict the City's future operating position.

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

Major forecast assumptions

- Economic and demographic data (average over five year forecast period):
 - ⇒ Inflation Average: 2.7%
 - ⇒ Population Growth Average: 1.1%
 - ⇒ Personal Income Growth Average: 6.2%
 - ⇒ Revenue Growth: 3.8% (5 year historical growth = 1.6%)
 - ⇒ Expenditure Growth: 2.5% (5 year historical growth = 1.9%)
- Cost of living adjustments at 90% of the projected consumer price index for Southern California for FY 1998-99 and after.
- Addition of one new position per year beginning in FY 1998-99
- Transfer of \$451,000 to reserves in FY 1998-99 and annual transfers of \$240,000 in subsequent years.
- Transfer of \$500,000 to the Street Improvement Program in FY 1998-99 and increased by an inflation factor in the out years.
- Actual expenditures projected at 1% less than current budgeted expenditures for all five years of the forecast.
- Revenues projected to exceed budgetary projections by 0.5% in all five years of the forecast.

Factors *not included* in the forecast:

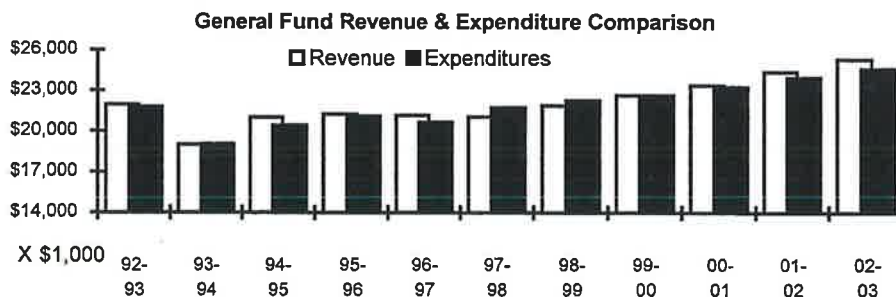
Factors not included in the forecast

- Forecast is based on the General Fund only
- Added or eliminated programs
- Further revenue diversions by the State
- Proposed new developments including Plaza Pacifica, Marblehead Coastal or Talega Valley

The following chart provides a historical perspective of actual revenues and expenditures for the past 5 years and forecasted comparisons of revenues and expenditures for the next five years. With the exception of years one and

Long Term Financial Plan

two of the forecast, operating surpluses are predicted for the remainder of the forecast period as the City's revenue stream increases. Operating deficits in the first two years is due to the continued use of fund balances for transfers to reserves and the street improvement program.



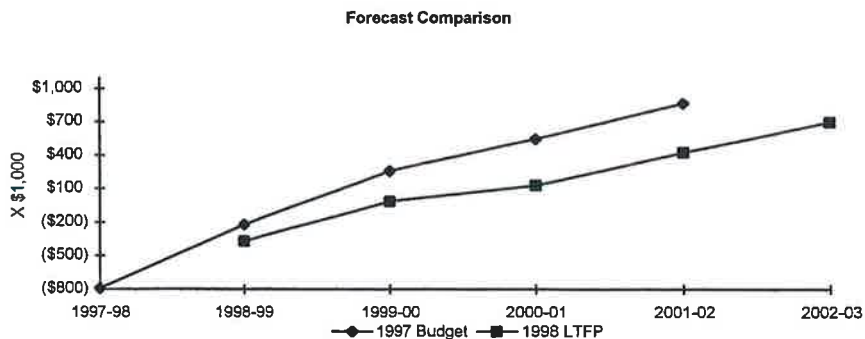
The table below depicts the City's operating position (*revenues less expenditures not including carryover fund balances*) for the next five years.

1998 Forecast Summary
(in thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03
Revenues	\$21,890	\$22,635	\$23,409	\$24,420	\$25,361
Expenditures	22,262	22,648	23,280	23,995	24,662
Operating Result	-\$372	-\$13	\$129	\$425	\$699

The following graph compares the current forecast to the forecast presented as a part of the FY 1997-98 budget. As indicated, the City's operational position is slightly less than projected last year but is expected due to the increased transfers to reserves and the street program. This is an intentional draw-down on the General Fund fund balance in order to provide contributions to these funds.

Forecast comparison

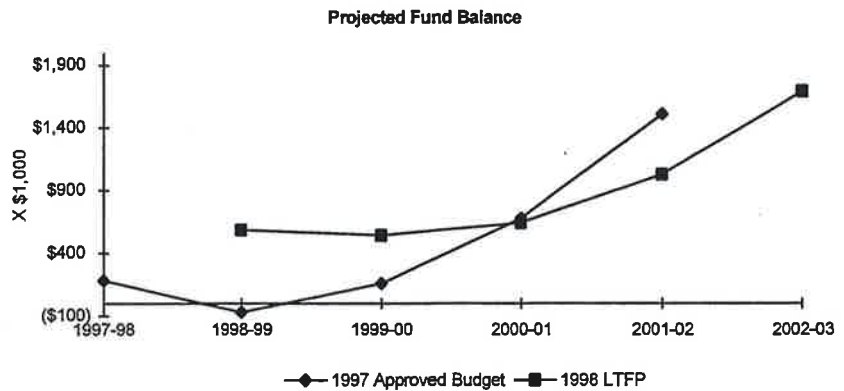


Issue Summary

Fund balances are projected to be positive in all five years of the forecast

The Projected Fund Balance chart and table below illustrates the impact of the City's current finances on future fund balances. As illustrated, fund balances are projected to be positive in all five years of the forecast. The improvement in fund balance projections is the result of higher than anticipated revenue collections combined with significant expenditure savings in the prior fiscal year combined with drastic reductions in expenditure levels in the current fiscal year.

Projected fund balances

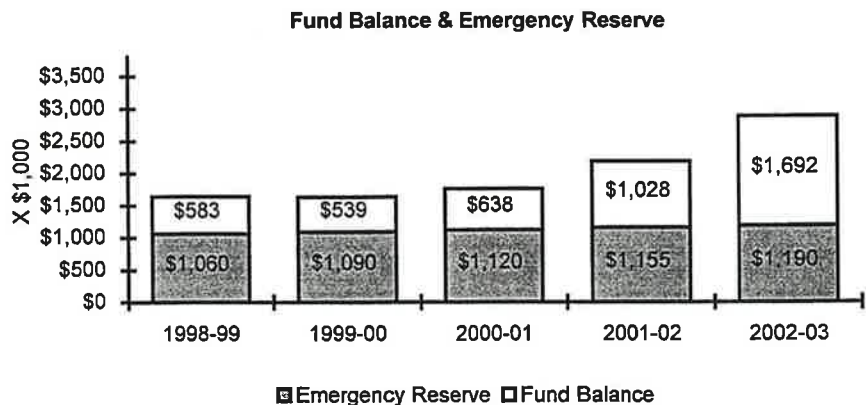


**Projected Fund Balances
(in thousands)**

	98-99	99-00	00-01	01-02	02-03
Fund Balance	\$985	\$583	\$539	\$638	\$1,028
Revenues	21,890	22,635	23,409	24,420	25,361
Expenditures	21,262	22,648	23,280	23,995	24,662
Emer. Reserve	30	30	30	35	35
Fund Balance	\$583	\$539	\$638	\$1,028	\$1,692

The Fund Balance and Emergency Reserve graph indicates the projected growth of unreserved fund balances including emergency reserves over the forecast period.

Fund balances and emergency reserves



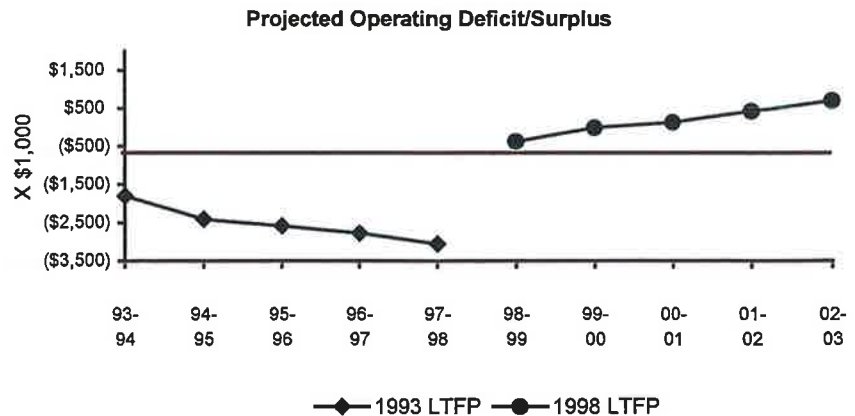
Long Term Financial Plan

Fund balances, including reserves, will total \$1.6 million in FY 1998-99

As shown, the City will maintain total fund balances in excess of \$1.6 million, including reserves, in FY 1998-99. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances. Emergency reserve fund balances are projected to stabilize at the 5% reserve level which was attained this year. The unreserved fund balances during the first two years are relatively low due to the continued program of funding of reserve funds. Once these transfers are completed, fund balances are projected to increase at a more rapid pace. Additionally, the increasing operating surpluses discussed above, will contribute to the expansion of fund balances over the forecast period.

The final chart in this section provides an overview of projected operating deficits/surpluses since the initial LTFP was developed in 1993. The self-explanatory chart provides a graphic view of the extraordinary improvement in City finances over the past few years:

Operating deficits & surplus



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.

Aggressive reserve funding schedules were adopted in 1993

All funds, except capital equipment reserves, are fully funded

The City's initial Long Term Financial Plan identified seriously underfunded and, in certain cases, non-existent reserve levels. An aggressive funding schedule was adopted in 1993 and has been updated annually since that time. The commitment to funding of reserves has resulted in the full funding of all reserves except workers' compensation and capital equipment reserves. As outlined, below the workers' compensation fund will be funded by the end of this fiscal year and capital equipment reserves will be fully funded in three years.

The City's Fiscal Policy prescribes the following reserve requirements:

Emergency reserves total \$1 million or 5% of operating expenditures.

- *General Fund Emergency Reserve:* This reserve is established at 5% of General fund operating expenditures. It is fully funded and totals \$1 million. In order to maintain the 5% level, a transfer of \$30,000 is recommended for next year.
- *Council Contingency Reserve:* No less than \$100,000 must be set aside each year to provide for non-recurring or unanticipated expenditures. This reserve is fully funded and was expanded to \$200,000 in FY 1997-98 due to anticipated El Nino storm conditions.
- *Accrued Leave Reserve Fund:* This fund is used to accumulate funds to pay for leave benefits for terminated employees. The level of the reserve is established annually and is currently projected to total only \$3,000 by the end of the year. A transfer of \$50,000 is recommended for the fiscal 1998-99 year.

An additional reserve of \$500,000 is recommended in the General Liability Insurance Fund

- *General Liability Insurance Fund:* A reserve of three times the City's self insurance retention, or \$300,000, is currently required. This fund is projected to close FY 1997-98 with a balance of \$959,000, including the self insurance retention of \$300,000. A recommendation to set aside \$500,000 of these funds is being made in order to provide for occurrences that are excluded from insurance coverage. Additionally, a total of \$297,000 is recommended for transfer to the Workers Compensation Fund in order to eliminate the ongoing deficit position of that fund (see below). The remaining balance in the fund amounts to \$162,000.

A transfer of \$297,000 is recommended from the insurance fund in order to eliminate workers' compensation deficit

- *Workers' Compensation Insurance Fund:* The City became fully insured for workers compensation in 1995; however, due to the remaining "tail" of claims, the fund still faces a projected deficit of approximately \$297,000, a reduction from last years deficit of \$512,000. In order to eliminate the deficit and discontinue annual transfers to this fund, it is recommended that excess funds from the General Liability Insurance Fund be transferred to the Workers' Compensation Fund.
- *Fleet Replacement Reserve:* The Fiscal Policy requires that adequate reserves for the replacement of the City's fleet be maintained. This reserve is fully funded with a projected ending balance of \$2.0 million.

The capital equipment reserve fund will be completely funded in 3 years

- *Capital Equipment Replacement Reserve:* There is a requirement that the City allow for the replacement of worn and obsolete equipment other than vehicles. Heretofore, a target replacement has not been established; however, as a part of the 1998 LTFP process a comprehensive schedule has been developed and the recommended funding level has been established at \$700,000. Continued annual contributions from the General Fund of \$100,000 for the next three years will meet the reserve requirement.

Long Term Financial Plan

A total of 5.5 million has been contributed to reserves since 1993

Through the annual LTFP and budget process, the City Council has set aside scarce resources in order to preserve and enhance the City's fiscal stability. Thus, the City has been able to contribute a total of \$5.5 million toward the funding of reserves over the past five years.

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

Total reserve contributions

Reserve	Reserve Contribution
General Fund Emergency Reserve	\$1,029,640
Council Contingency Reserve	\$1,050,000
General Liability	\$1,659,820
Workers Compensation	\$1,097,380
Accrued Leave Reserve	\$215,000
Capital Equipment Replacement Reserve	\$408,680

Following is a review of the current reserve position including the required reserve level as established by the City's Fiscal Policy, actual reserve levels in FY 1997-98, and proposed allocations for FY 1998-99.

Current reserve status

Reserve	Required Reserve Level	Actual Reserve Level	FY 1998-99 Proposed Allocation
Emergency Reserve	\$1,059,640	\$1,029,640	\$30,000
Council Contingency	\$100,000	\$200,000	\$100,000
General Liability***	\$800,000	\$300,000	\$500,000
Workers Compensation*	0	0	0
Accrued Leave	\$50,000	\$3,010	\$50,000
Capital Equipment**	\$700,000	\$393,077	\$100,000

*Workers Compensation Fund is in a deficit position of \$296,740. There is no reserve requirement since the City is now fully insured; however, the deficit fund balance will be eliminated in FY 1998-99.

**Total replacement cost for General Fund machinery and equipment is \$700,000. This reserve will be built up through General Fund contributions over a period of three years.

***\$500,000 will be reserved at end of FY 1997-98.

Recommendation

1. Budget \$30,000 in FY 1998-99, bringing the emergency reserve to \$1,059,640, or 5% of General Fund operating expenditures, for FY 1998-99.
2. Recommend that \$100,000 be set aside in fiscal year 1998-99 to fund the Council Contingency Reserve.
3. Approve the weighted average basis to charge funds for their related share of the General Liability premium and related costs.

4. Increase the reserve in the General Liability Fund by \$500,000 to include occurrences not covered by the City's insurance pool.
5. Amend the City's Fiscal Policy (number 38) to read: "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 *for those claims covered by the insurance pool. In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.*
6. Authorize a transfer totaling \$296,740 to be made from the General Liability Fund to the Workers' Compensation Fund to eliminate the projected deficit created by outstanding claims.
7. Annually average past expenditures from the Accrued Leave Reserve Fund and base the annual transfer from the General Fund on this average. Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 1998-99 in the amount of \$50,000.
8. Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually for the next three years from the General Fund.

Revenue Handbook

Objective

To provide a comprehensive handbook of major City revenue sources, complete with historical trends, funding sources and permitted uses.

A revenue handbook has been developed as a guide to the City's major revenue sources

A Revenue Handbook has been developed as a part of the 1998 Long Term Financial Plan process. This handbook is a comprehensive guide to the City's major sources of revenue and provides detailed information for General Fund revenues. The handbook includes background information on each revenue source, including account number, legal authorization, and a brief narrative description. Additionally, the source, timing of receipts, fee schedules and an overview are also provided.

Historical data on each revenue source has been illustrated in two charts. The first provides figures for receipts over the past five fiscal years. The second provides monthly cash receipts for the most recent fiscal year.

The handbook is intended to be a guide for internal users, policy makers, and the general public.

Street Improvement Program Update

Objective

To provide an update of the City's Street Improvement Program and project short and long-term funding requirements.

Long Term Financial Plan

37 street projects totaling 13 miles have been completed

15 projects totaling 5 miles will be completed this fiscal year

Projected assessments will be approximately \$3 million less than anticipated

Since the City Council's approval of this \$55 million program in July 1995, thirty-seven (37) street projects (totaling 13.2 miles) have been completed and an additional fifteen (15) street projects (totaling 4.98 miles) will be constructed during FY 1997-98. Acceleration of this highly visible and successful program was made possible by the sale of bonds in the second year, versus the originally planned third year of the program, which has made it possible for ten additional projects to be constructed earlier than originally scheduled.

The Program's short term financial picture is mixed. On the positive side, the street projects awarded this fiscal year are overall about 5% to 10% under original budget estimates. On the other hand, the \$1.325 million in annual revenue collected from the Street Improvement Assessment District is approximately \$175,000 (12%) short of the \$1.5 million that was originally projected. This funding shortfall is the result of adjustments that were made to private golf courses and to other parcels based upon refined information from the Orange County Tax Assessor's office. Over the next 15 years, this means the Assessment District's revenue (in constant dollars) will be approximately \$3.15 million less than originally projected, which translates into approximately seven (7) miles of street overlay projects. One additional concern is that some of the streets programmed for rehabilitation are failing faster than originally projected. This may result in more streets having to be reconstructed rather than overlaid which will likely double the costs for those streets.

A long term financial forecast is difficult to predict. There are several program revenue sources the City does not have control of, which include the Arterial Highway Financing Program (lost due to County bankruptcy), Proposition 111 and Measure M Turnback funds. Measure M funds are scheduled to sunset in FY 2013-14 and, if not renewed, the City will have to identify other sources of revenues to maintain its street quality standards. On the positive side the City does have a stable and reliable funding source from the Street Assessment District. In the final analysis there are certain program uncertainties which include projecting remaining pavement life (wet vs. dry winters), rehabilitation vs. reconstruction (2x cost factor), and inflationary pressures. Thus far the program has not been impacted by inflationary factors and, based upon the demonstrated success of the program over the past 2 ½ years, there is every reason to believe that the City will continue to make appropriate and sustained progress in meeting its program goals in the foreseeable future.

Recommendation

1. Approve and authorize the allocation of a General Fund contribution of \$500,000 for the coming FY 1998-99.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.

3. Identify funding sources to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.

Computer Action Plan Update

Objective

To update the City's Computer Strategic Plan adopted in 1997 with revised two year objectives and five year goals. To identify all costs associated with implementing the strategic plan including the transition to a new financial system

Replacement of the City's computer systems began in January, 1998 and will be completed this year

In 1997 the City developed a Computer Strategic Plan that called for the replacement of the City's aging computer systems. The process of replacing the system began in January, 1998 and, as the new systems are implemented, several key issues must be addressed:

- *Install and implement financial and permitting systems* - In December 1997 the City selected Eden systems to provide new financial and permitting software. The implementation of these applications including installation, data conversion and training will be completed in FY 1998-99.
- *Replace the City's Complaint Tracking and Project Tracking Systems*- These two heavily used applications will be upgraded by City staff at a savings of \$60,000.
- *Replace outdated personal computers by continuing the current PC upgrade program* - The City will continue to upgrade computers and software in accordance with previously established standards.
- *Update existing data communications hardware*- All in-house wiring has been replaced with Ethernet lines and Cisco switches. In FY 1998-99 the connections between the buildings will be upgraded. By replacing the current lines the City will save on monthly line charges and have much faster data transmission.
- *Implement a GIS (COGO) map of the City*- The foundation of a Geographic Information System (GIS) is an accurate Coordinate Geometric base map. Thomas Brothers Maps can produce maps at an annual cost of \$15,000.
- *Implement an Internet Strategic Plan*- The City maintains one of the most complete and current Internet sites in Orange County. In FY 1999-2000 the City will install an Internet server which will provide the public with direct access to City Staff via e-mail and provide the City with the ability to provide interactive data (e.g. permits, utility payments) to the public.

Long Term Financial Plan

The “cost of ownership” per computer will decrease in FY 1998-99

The actual “*cost of ownership*” per computer will go down in FY 1998-99. The number of servers, data lines and associated hardware and software are being reduced as the City migrates to an industry standard Windows NT network. As the overhead costs are cut, the cost per computer goes down.

The detailed timeline for the implementation of the City’s Computer Strategic plan is available in Volume 2 of the Long Term Financial Plan. This plan details the steps to be taken in the next two years and the City’s five year goals.

Recommendation

1. Adopt the recommended Updated Computer Strategic Plan in concept.

Organizational Study

Objective

To perform a comprehensive operational review of all City departments. The review will include an examination of the City’s organizational structure including appropriateness of functional divisions of labor, reporting relationships, span of control, management systems and effectiveness.

An organizational study will be completed by May 1998

Last year, during Council deliberations on the impact of Proposition 218 program reductions and the subsequent placement of Measure A on the ballot, it was recommended that a comprehensive organizational analysis be conducted of all City operations. It was the stated intent of the City Council to have an operational review conducted if Measure A had passed in June 1997. The failure of Measure A, combined with limited financial resources, resulted in the delay of the proposed project; however, the Council indicated that the project should proceed in 1998 if funds became available. As outlined in the City’s year-end financial report for FY 1996-97, funds are available in the current fiscal year budget to perform the organizational analysis. The project is expected to cost approximately \$50,000 and will be funded from available balances in the General Fund.

It is the intent of the proposed study to examine the organizational structure of the City and conduct a review and analysis of all City functions. Additionally, an evaluation of workload, productivity, efficiency, cost effectiveness of programs, and a review of salary methodology will be conducted. The primary objectives of the project include:

Objectives of the organizational study

- Evaluate the current operating structure of the organization including issues related to span of control, management to employee ratios, adequacy of management systems and controls.
- Review and analyze the functions, responsibilities and programs currently performed by the City’s operating departments.

- Evaluate workloads and productivity, efficiency and cost effectiveness of each operating department.
- Review the methodology and approach of the City's salary setting process.

A Request for Proposal (RFP) was issued on January 8, 1998 and a final contract and budget amount will be brought to Council on March 4. The project will be finalized by May 19, 1998 so that recommendations can be incorporated into the FY 1998-99 budget.

An ad-hoc committee consisting of two Council members has been appointed to oversee the project

In order to provide an independent review of the City's operations, the City Council appointed two members of the Council to act as an ad-hoc committee for the purpose of overseeing the organizational study. The purpose of the committee will be to evaluate responses to the RFP, provide a consultant recommendation to the full City Council, oversee the progress of the study, and assure that the goals and objectives of the study are met. A total of eleven responses were received in response to the RFP of which five will be interviewed on February 20, 1998.

Water Rate Structure & Analysis

Objective

To analyze the City's water rate structure to insure compliance with Proposition 218. Suggest alternatives to the current system, if not in compliance with Proposition 218, and review the effects of the Dissolution of Tri-Cities Municipal Water District and the Water Meter Replacement Program on the need for a rate increase, now or in the future, to provide stability to the Water Fund and provide the necessary revenue to establish the required level of reserves.

The City's existing tiered water consumption rate may not be in compliance with Proposition 218

In preparation of a finding that the City's existing three tiered water consumption rate is found not to be in compliance with Proposition 218, alternatives were reviewed which provide the necessary revenue stability to fund fixed operating costs in the water fund, while at the same time provide a fair and equitable distribution of costs to the varied water rate payers in the City.

A large number of options exist, however, after careful analysis only three options emerged as reasonably meeting the foregoing goals. The selection of any one of the following options is fully dependent on the final ruling by the Courts of the applicability of Proposition 218 to water rates. The three options include

- No change from the current system
- Combination of a fixed fee (meter charge) and a fixed consumption fee
- Fixed consumption fee only

Long Term Financial Plan

Recommendation

1. No action is recommended at this time. The outcome of any court decisions may mandate which scenario it will be necessary for the City to adopt. However, in the absence of a court determination on Proposition 218, it is recommended that the city maintain the current rate structure, with possibly some modifications as to the distribution of fixed and variable costs in the operating budget. This would have the effect of raising the fixed meter fee and lowering the consumption fee for all classes of users. If it is Council's desire, or if a court ruling mandates a change to a fixed consumption fee, the following rate structures (in order) are recommended:

- Combination of fixed meter fee and fixed consumption fee, with varying fixed meter fees based on meter size.
- Combination of fixed meter fee and fixed consumption fee, with a single fixed meter fee for all sizes of meters.
- Fixed consumption fee only.

Current Development Issues

Objective

To analyze the tools and systems in place to ensure that the standards of the General Plan and community are met during each remaining phase of development until build-out.

Development tools, standards, and policies are in place to address growth issues

Tools and systems are in place to ensure that growth will occur in a manner which is consistent with standards and policies adopted by the community. Because tools, standards and policies are in place, there is some advantage to having all of the remaining major landholders process their projects over roughly the same period of time. The advantage is in that the General Plan sets policies for the City "at build-out"; and the General Plan strives to fulfill all the functional, esthetic, and recreational and economic needs of the City, as a whole. However, no single project can provide all things the General Plan policies call for. Some projects will be more able to provide jobs and economic base, while other projects will be more able to provide infrastructure and/or parks and recreational facilities. Still other projects will provide more opportunity for development of schools and housing. By having the opportunity to review all the remaining land proposals at roughly the same period of time and in a context of updated tools and policies, the City has its best chance ever of fulfilling all the needs of its citizens.

The following is a brief summary of the tools and systems which are in place and available for consideration of various development proposals. As a historical note, almost all of the following tools have been updated since 1986 which the citizens decided, via Measure B, that development should be slowed down and paced out in order to give the City time to fully consider its plans for the future, and develop necessary tools for evaluating and processing development proposals.

The General Plan establishes a vision of the future

- *The General Plan:* The General Plan establishes a vision of the future of the City of San Clemente and prescribes goals and policies to manage growth. The General Plan also includes implementation strategies and policies to achieve the vision.
- *Growth Management Element:* The task of the Growth Management Element is to clearly define policies and standards for key public facilities. Standards must be met and development paced so that standards are never unmet as a result of the impacts of new growth.
- *Traffic Model:* A computerized model of the City has been developed by City staff and Austin Faust, a traffic model consulting company. The traffic model has been in use for over 10 years. The traffic model is updated periodically, based upon new information from field traffic counts and actual new development data input. The model is used to predict what additional traffic impacts newly proposed development will have upon the overall circulation system.
- *The Regional Circulation Financing and Phasing Program:* The RCFPP is a financing tool that has been developed in order to ensure that the standards described in the Growth Management Element of the General Plan can, in fact, be implemented when and as necessary.
- *Fiscal Impact Model:* The City has also used a fiscal impact model which has been developed over the past 8 to 10 years. The model is periodically updated as economic conditions and assumptions change over time.
- *Related Planning Programs:* Additional planning documents and programs have been adopted by the City for the purpose of addressing the city physical and social needs. For example: The Parks and Recreation Master Plan, Urban Design Guidelines, Master Plan for Scenic Corridors, Hillside Development Ordinance, and a Local Coastal Program and a completely new zoning ordinance and sign code.
- *Specific Plans:* Each major development area is governed more precisely by a specific plan.
- *Environmental Documents:* The Environmental Impact Report or other environmental documents are used to analyze in detail the possible environmental consequences of a development proposal.
- *Downtown Improvement Plan:* One of the key areas of the City is the downtown area. An improvement plan has not yet been developed for the downtown area. However, there are numerous policy directions contained in the General Plan which indicate that a plan should be prepared.

Long Term Financial Plan

- *North Beach Specific Plan:* The North Beach area lacks the specific policy and design guidelines that the downtown does have. Therefore, a Specific Plan should be developed as a first step toward the revitalization of North Beach.

Recommendation

1. Continue to evaluate policy, financial, and technical tools for guiding and implementing new development, to ensure that community standards are met as a result of new growth.
2. Include the update for a City-wide market study in the Vital View Priority setting processes (\$50,000)
3. Include funding for development of a Downtown Improvement Plan as a decision package in the Vital Few Priority setting process (\$25,000 - \$50,000)
4. Include the North Beach Specific Plan as a decision package in the Vital Few priority setting process (\$50,000 to \$100,000 plus environmental cost of \$100,000)

Energy Deregulation

Objective

To analyze the restructuring of the electrical industry and its impact on the City of San Clemente as implemented by AB 1890.

AB 1890 provides for restructuring of electrical utilities

In 1996 the Governor signed Assembly Bill 1890 into law, which provided for the restructuring of California's electrical utilities by allowing competing agencies into the electricity market. The goal of restructuring is to reduce electricity prices by providing users with the ability to purchase electricity from their existing provider or from an outside generator.

A 10% rate reduction is mandated

AB 1890 mandates an immediate rate reduction of no less than 10% for residential and small commercial users effective on January 1, 1998. Further rate reductions of an additional 10% by April 1, 2002, and another 10% reduction by January 1, 2008 have been mandated.

Traditionally, the electric utility industry has been comprised of three "bundled" components: *generation*, *transmission*, and *distribution*. AB 1890 creates a more competitive environment by unbundling the electric utility industry by separating the three components. However, AB 1890 only provides for the deregulation of the *generation* component to make this aspect of the electrical industry competitive and market based.

Restructuring also allows for individuals or organizations, such as the City of San Clemente, to act as an "aggregator" or "broker" who would combine multiple electric loads and buy power through "direct access" transactions on behalf of a group of users. For example, San Clemente could be an aggregator for its own municipal facilities, or on behalf of all or some of its citizens or commercial businesses.

The City will absorb a minor decrease in franchise fees due to the rate reduction

The City currently levies a 1% franchise fee on privately owned utilities and other businesses for use of the public right-of-way. Franchise fees are currently budgeted at \$200,180 for FY 1997-98. The 10% rate reduction is anticipated to reduce FY 1998-99 revenues by approximately \$10,000 or 5% over the prior year. However, based on the projected cost per kilowatt hour provided by SDG&E the overall fiscal impact to the City could be less.

During the next several months more accurate estimates will be available to determine the true impact of deregulation on the City's franchise fees as more information becomes available with the full implementation of AB 1890.

As a consumer of electricity the City has several options to reduce its costs in the new restructured electric environment.

- *Option I - Continue to purchase electricity from SDG&E:* SDG&E has provided dependable service to the City and their rates have been capped until the year 2002. The City's current budget is \$997,010 for electricity.
- *Option II - Form aggregated pool with other users:* The goal is to purchase electricity at reduced rates by negotiating directly with energy service providers.
- *Option III - Obtain direct access:* The City could purchase its electrical needs directly from generators or service providers on the open market.

Recommendation

1. Direct staff to seek competitive proposals and study aggregation alternatives in search for maximum savings. SDG&E can continue to be utilized in the near term as the City's provider of electricity until a more cost effective alternative source is determined.
-

Long Term Financial Plan

Financial Trends

Indicators measure the fiscal health of the City of San Clemente

Introduction

Utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition", a number of financial indicators have been analyzed for this report. The analysis of these indicators is designed to measure the fiscal health of the City of San Clemente.

The analysis that follows and the conclusions and recommendations which come from this analysis involve analyzing a number of factors to determine the financial well-being 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 types and whether they are sufficient to support a steadily increasing population;
- Expenditure levels and whether they are providing a sufficient level of service to the residents, specifically providing for their public well being and safety;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic downturn;
- Debt levels and their impacts upon current City financial resources.

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

This report examines these issues and others in determining the current financial condition of the City of San Clemente. The City's adopted fiscal policies, as well as other national standards, have been considered in analyzing these financial indicators.

Trend data is as of June 30, 1997

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Report for fiscal year 1992-93 through fiscal year 1996-97. Consequently, all trends are based on data available as of June 30, 1997 and do not incorporate any changes that have occurred since that time. For example, a transfer of \$300,000 is being made from the General Fund to the Street Improvement Fund during FY 1997-98. This transfer is not included in the analyses that follow and thus any financial indicators affected by this transfer, such as General Fund fund balance, have also not been included in this report.

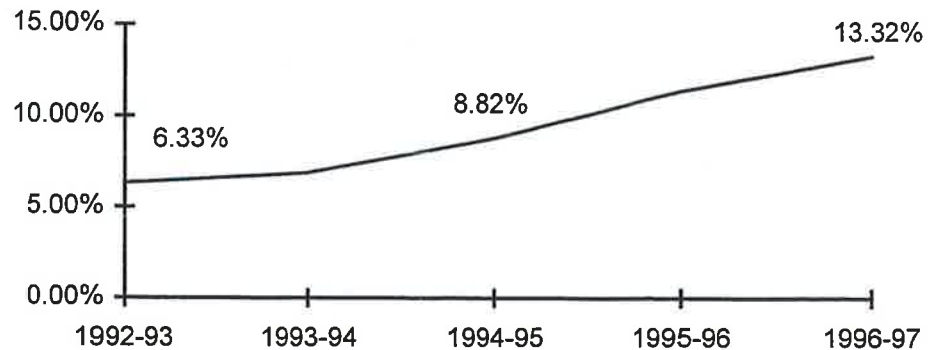
Summary of Trend Analysis

The financial trends that follow provide City Administration and Council with insight into the overall financial position of the City by analyzing the City's General Fund. This analysis makes it possible to identify specific areas where new policies should be implemented or existing ones revised. One of the following ratings has been assigned to each indicator:

Long Term Financial Plan

Reserves

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



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

**Unreserved fund
balances increased to
13.32% in FY 1996-97**

Comments: Unreserved fund balance, as a percentage of operating revenues, rose another 2% in FY 1996-97 as a result of an increase in unreserved fund balance of \$393,000. The increase in fund balance is due to an operating surplus of \$497,000, and maintenance of the General Fund emergency reserves. Steady increases in this trend indicate the stable position of the City's General Fund.

**General Fund
Emergency Reserve =
\$1,029,640**

The City Council adopted a fiscal policy requiring that emergency reserves be set at 5% of General Fund operating expenditures. Included within the total FY 1996-97 unreserved fund balance of \$2.8 million are General Fund Emergency Reserves totaling \$1,029,640.

Financial Forecast

The five year financial forecast for the General Fund has been updated to reflect the current economic projections and the adjusted FY 1997-98 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 1997-98 adopted budget.

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

Development of the Financial Forecast

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

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

Inflation and historical growth rates are used to predict expenditure patterns while revenues are projected by trend or by specific circumstances as the case warrants.

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Chapman University's School of Business December 1997 Economic and Business Review. In general, the Chapman forecast predicts growth in local employment, strong personal income growth averaging 6.2% and an increase in consumer spending over the forecast period.

The 1998 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

***Revenue growth rates will average 3.8%
Expenditure growth rates will average 2.5%***

Forecast Summary & Results

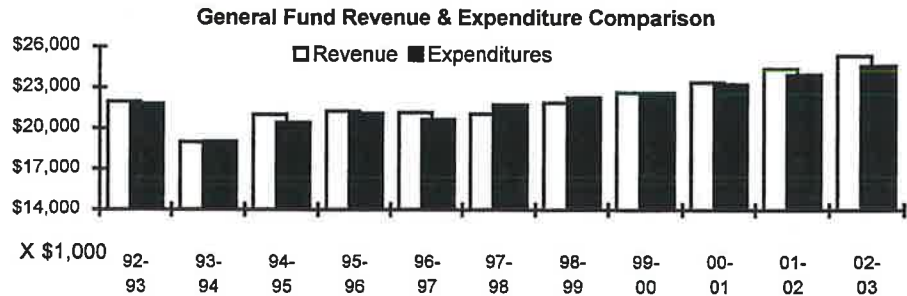
Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 3.8% a year, compared to the 1997 forecast average of 3.4%. Expenditures are projected to increase at an average rate of 2.5% as predicted in the 1997 forecast.

The continued funding of reserves will be maintained until the reserves are fully funded. In fact, during the five year forecast \$1.4 million is allocated to various reserves in accordance with the City's fiscal policy. Additionally, \$2.7 million will be transferred to the Street Improvement Program, with an additional \$1.6 million in debt payments or other transfers. This will result in almost \$5.7 million being allocated during the five year period, which averages \$1.1 million per year or 5.0% of the total adjusted budget for FY 1997-98.

Long Term Financial Plan

The following chart provides a visual comparison of historical and projected revenue and expenditure growth:

Historical and projected revenues and expenditures



Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in three of the five years of the forecast period. Results of the forecast with respect to operating position (revenues less expenditures) are shown in the following two graphs that compare the FY 1997-98 adopted budget forecast to the 1998 LTFP forecast:

1997 Forecast Summary (Adopted Budget)

Amounts in \$1,000

FY 1997-98 adopted budget forecast - Operating position

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenues	\$20,904	\$22,151	\$22,971	\$23,836	\$24,827
Expenditures	21,695	22,375	22,711	23,289	23,961
Operating Result	-\$791	-\$224	\$260	\$547	\$866

1998 Forecast Summary (LTFP)

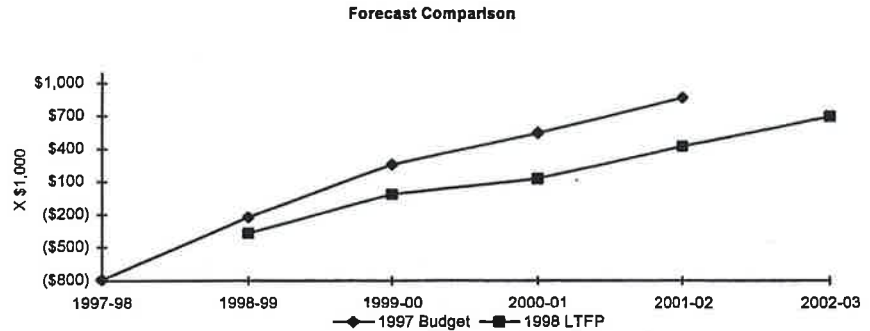
Amounts in \$1,000

1998 LTFP forecast - Operating position

	1998-99	1999-00	2000-01	2001-02	2002-03
Revenues	\$21,890	\$22,635	\$23,409	\$24,420	\$25,361
Expenditures	22,262	22,648	23,280	23,995	24,662
Operating Result	-\$372	-\$13	\$129	\$425	\$699

Operational Position FY 97-98 Adopted Budget vs. 1998 LTFP Forecast

The following chart provides a graphical comparison of the City's operational position for the FY 1997-98 adopted budget forecast and the 1998 LTFP forecast.



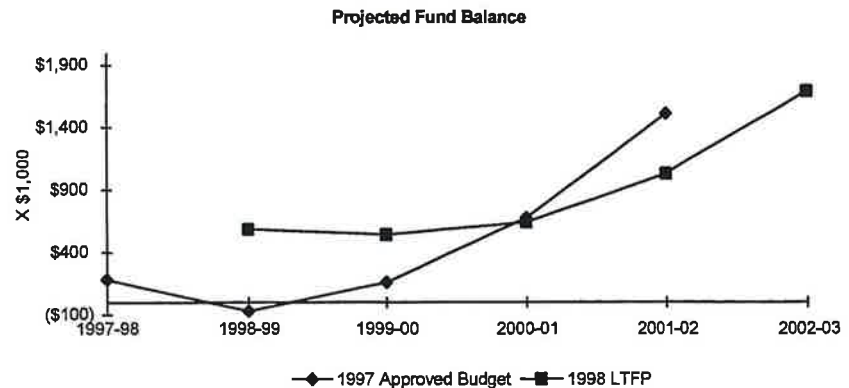
Operating deficit in first two years is due to use of fund balance for reserves and streets

As stated above, an operating surplus is projected in three of the five years. However, due to the scheduled increase in the transfer to the Street Improvement program and reserve contributions, the City's operating position is negative in years one and two. This is an intentional draw-down on the General Fund fund balance in order to provide contributions for the reserves and the Street Improvement program. Without these transfers all five years would have positive operating positions. It should be noted that the Street Improvement program transfers are reflected in each year of the forecast.

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

Fund Balance

The chart below illustrates projected fund balances from the FY 1997-98 adopted budget forecast to the 1998 Long Term Financial Plan forecast.



The improvement in the fund balance projection for FY 1998-99 was a result of the following factors:

- Actual revenue for FY 1996-97 was \$419,000 higher than projected in the budget forecast.

Long Term Financial Plan

- Actual expenditures for FY 1996-97 were \$276,000 under the projection in the budget forecast.

Thus, an increase of \$695,000 in the projected ending fund balance for fiscal year 1996-97 was carried into the FY 1997-98 budget (i.e. the projected ending fund balance was projected at \$973,000 and actual fund balance was \$1,668,000).

Fund balance will be reduced in FY 1998-99 due to the scheduled increase in the General Fund transfer to the Street Improvement Program (from \$300,000 to \$500,000). Fund balance will increase in the last three years of the forecast as reserves become fully funded and the City's operational position improves.

Fund Balance and Emergency Reserve

Fund Balance and Reserves

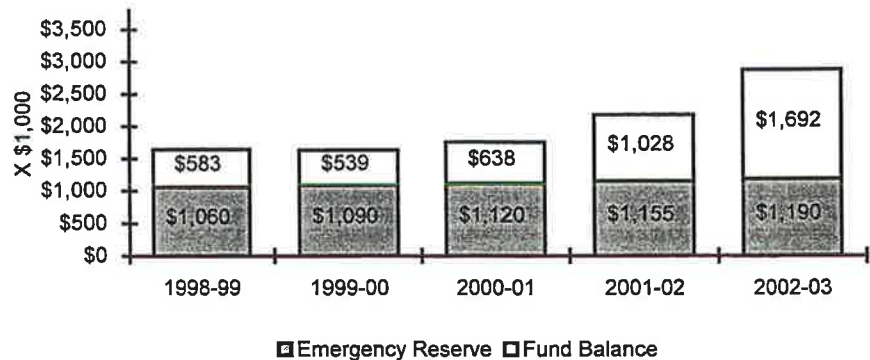
One of the main goals of the City Council is to ensure that adequate funding will be available to fund emergency reserves. The following table and graph indicates the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year forecast period.

Total fund balances are projected at \$1.6 million in FY 1998-99

Fund Balance & Emergency Reserve

Amounts in \$1,000	1998-99	1999-00	2000-01	2001-02	2002-03
Fund Balance	\$583	\$539	\$638	\$1,028	\$1,692
Emergency Reserves (5%)	\$1,060	\$1,090	\$1,120	\$1,155	\$1,190
Total	\$1,643	\$1,629	\$1,758	\$2,183	\$2,882

Fund Balance & Emergency Reserve



As depicted above, the City will maintain total fund balances averaging \$1.7 million over the first three years of the forecast period. Beginning in FY 2001-02, fund balances will begin to increase due to the improvement of the City's operating position. At the end of FY 1998-99 total fund balances amount to \$1.6 million and are projected to grow to \$2.9 million in FY 2002-03.

Financial Forecast

The following cash flow table provides a review of Beginning Fund Balances, Revenues, Expenditures, and Ending Fund Balances over the five year forecast period.

**Cash flow by
year**

Cash Flow By Year Amount in 1000's

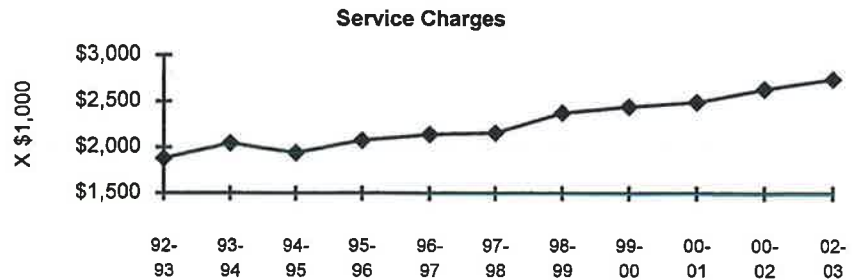
	1998-99	1999-00	2000-01	2001-02	2002-03
Beginning Fund Balance	985	583	539	638	1,028
Revenues					
Taxes	11,539	12,009	12,528	13,116	13,698
Licenses & Permits	1,317	1,357	1,388	1,458	1,514
Intergovernmental	2,042	2,086	2,134	2,187	2,238
Service Charges	2,378	2,449	2,497	2,640	2,750
Fines & Forfeitures	609	624	639	655	671
Interest & Rents	1,124	1,135	1,152	1,188	1,212
Interfund Transfers	2,880	2,975	3,070	3,177	3,279
Total G F Revenues	21,890	22,635	23,409	24,420	25,361
Expenditures					
City Council	26	26	26	27	27
City Manager	320	328	336	345	354
City General	2,226	2,026	2,070	2,118	2,162
Finance & Admin. Services	362	372	381	392	401
City Clerk	397	407	418	429	440
Accounting	653	670	687	706	724
Human Resources	291	299	307	315	323
Police Services	6,200	6,372	6,543	6,737	6,918
Fire Services	3,603	3,703	3,803	3,918	4,023
Comm Dev. Admin.	234	240	246	253	259
Building	905	928	951	978	1,002
Planning	638	654	671	689	706
PWAdmin/Economic Dev.	418	429	440	452	464
Engineering	901	919	940	964	986
PW Maintenance Services	1,866	1,916	1,966	2,022	2,074
B, P & R Admin.	261	268	275	282	289
Recreation	736	756	775	797	817
Beach & Park Maintenance	1,584	1,628	1,671	1,721	1,767
Marine Safety	592	607	622	639	655
New Employees	49	100	153	211	271
Total GF Expenditures	22,262	22,648	23,280	23,995	24,662
Emergency Reserve	30	30	30	35	35
Ending Fund Balance	583	539	638	1,028	1,692

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

Expenditures by Category	1998-99	1999-00	2000-01	2001-02	2002-03
Salaries & wages	4,957	5,118	5,280	5,461	5,633
Employee benefits	1,748	1,805	1,861	1,925	1,986
Supplies	504	518	532	548	563
Contractual Services	11,191	11,504	11,815	12,169	12,498
Charges	464	477	490	504	518
Capital outlay	50	50	50	50	50
Interdepartmental Charges	2,159	2,216	2,276	2,344	2,408
Interfund Transfers	1,189	960	975	991	1,004
Total	22,262	22,648	23,280	23,995	24,662

Long Term Financial Plan

compared to the recent historical average decline of -3.4% per year over the past five years. The forecast projections rely on a number of relevant indices, including inflation, building permits issued, population and personal income growth.

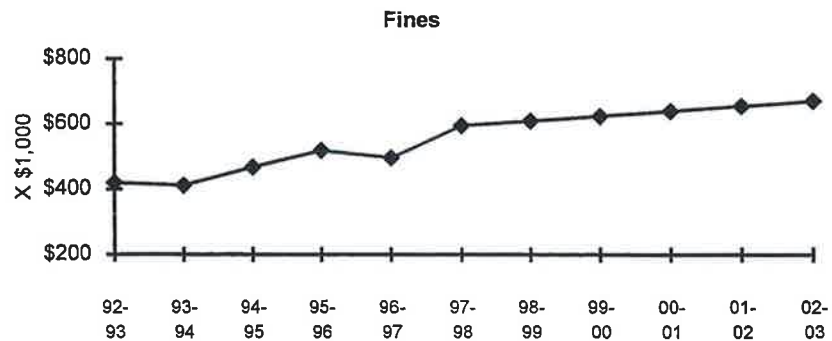


Fines

Historic Growth Rate	1.9%
1997 Projected Growth Rate	8.0%
1998 Projected Growth Rate	2.4%

Revenue for Fines is forecast at 2.4%

The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 1998 projected rate of 2.4% varies from the 1997 adopted budget rate of 8.0% due to the increase reflected in first year of the projection for a new fine schedule. The increase is now reflected in the base year of the projection and is increased only by inflation. The average growth rate for the five year forecast period is 2.4% per year, and is based on 100% of expected inflation plus 100% of anticipated population growth.



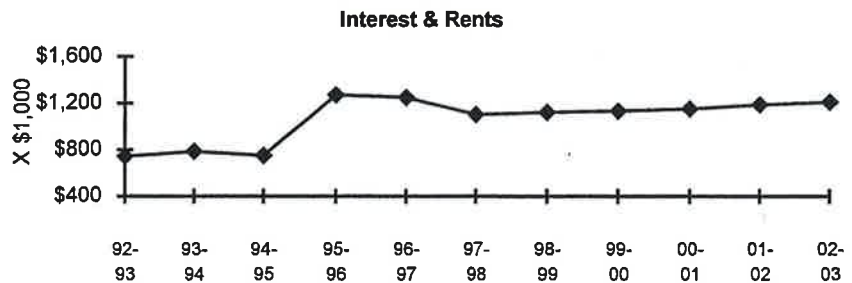
Interest And Rents

Historic Growth Rate	6.0%
1997 Projected Growth Rate	6.0%
1998 Projected Growth Rate	1.9%

Financial Forecast

Communications site lease revenue continues to increase

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the prime interest rate and historic data. The lease income from the pier restaurant has been fixed for three years of the forecast at \$255,000, with an increase to \$265,000 in the fourth and fifth years.

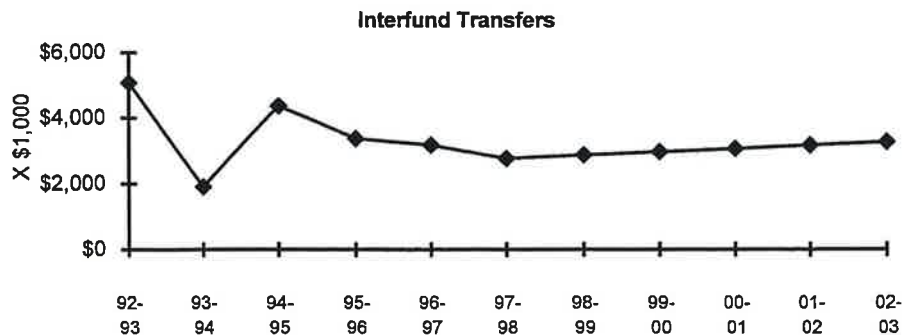


Interfund Transfers

Historic growth of 48.1% is due to one time revenues related to contracting of City services

Historic Growth Rate	48.1%
1997 Projected Growth Rate	0.3%
1998 Projected Growth Rate	3.5%

This revenue category is comprised predominantly of overhead charges assessed by the General Fund to other operating funds of the City that are self-supporting. Other revenues that make up this category include transfers from other funds, such as the Golf Fund and Gas Tax Fund. The transfer of \$425,000 annually from the Golf Fund is included in all five years of the forecast. The Gas Tax transfers are projected to average almost \$450,000 per year during the forecast period. An increase in General Fund overhead charges is included in the first year due to charges assessed to the 85-1 Sewer Assessment District.



Long Term Financial Plan

The average expenditure rate is projected at 2.5%

General Fund Expenditures

Historic Growth Rate	1.9%
1997 Projected Growth Rate	2.5%
1998 Projected Growth Rate	2.5%

Projected expenditures presume that service levels adopted in fiscal 1997-98 will remain constant

Projected expenditures presume that service levels in effect in FY 1997-98 will remain constant. No new programs are assumed.

The 1998 projection from the base year is based primarily on inflation. Also included is the projected addition of one employee per year over the forecast period beginning in FY 1998-99.

Salaries and Wages

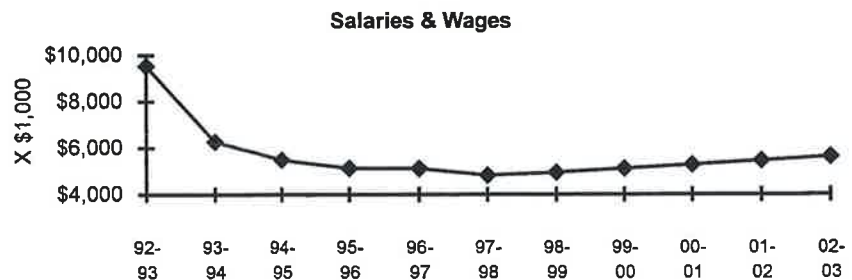
Historic Growth Rate	-10.5%
1997 Projected Growth Rate	-1.0%
1998 Projected Growth Rate	3.1%

The historic growth rate for Salaries and Wages is -10.5%

The forecast projections assume the addition of one full-time position each year beginning in FY 1998-99. For forecast purposes only, an annual cost of living increase in all five years of the forecast equal to 90% of the inflation rate is included.

Total personnel costs are projected to average 3.1%

The average annual growth rate for Salaries and Wages is 3.1% for the five year projection.



Employee Benefits

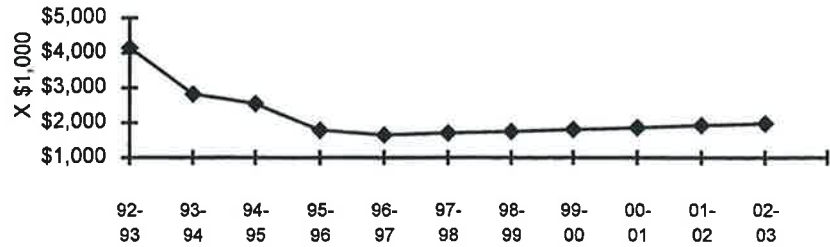
Historic Growth Rate	-16.0%
1997 Projected Growth Rate	-1.9%
1998 Projected Growth Rate	3.1%

Employee Benefits are projected to increase by 3.1%

The employee benefits category reflects an average projected growth rate of 3.1% for the forecast period. The historical average of -16.0% for this category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.

Financial Forecast

Employee Benefits



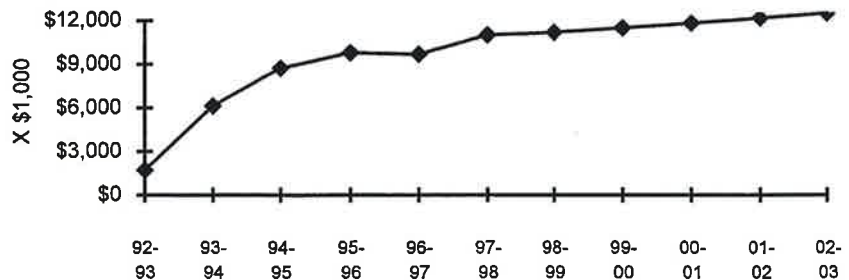
Contractual Services

Historic Growth Rate	61.0%
1997 Projected Growth Rate	6.8%
1998 Projected Growth Rate	2.6%

Contractual Services represent 51% of General Fund expenditures

Overall, this category is expected to experience an average annual increase of 2.6% over the forecast period, well below the historical average of 61.0%. The historical average reflects Police, Fire and other services changing from internal operations to contractual services. The 1998 growth rate includes increases in the base year (FY 1997-98) due to the addition of almost \$1.2 million in contract maintenance formerly funded by assessments in the Lighting and Landscape District. Additional years of the forecast are increased based on inflation. The 1997 growth rate of 6.8% included the contracting of Public Works and Beaches & Parks Maintenance functions that were ultimately retained as in-house functions.

Contractual Services



Other Charges

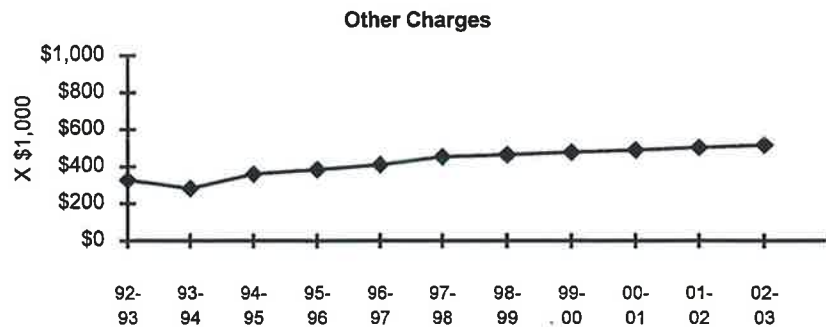
Historic Growth Rate	5.7%
1997 Projected Growth Rate	0.0%
1998 Projected Growth Rate	2.7%

Other Charges will increase by 2.7% over the forecast period

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Also this expenditure category includes funding for the Council Contingency reserve. The projected growth rate when averaged is misleading, in that funds are transferred out of the Council Contingency reserve to the operating

Long Term Financial Plan

division's budget for approved expenditures and the account is replenished with at least \$100,000 per year.



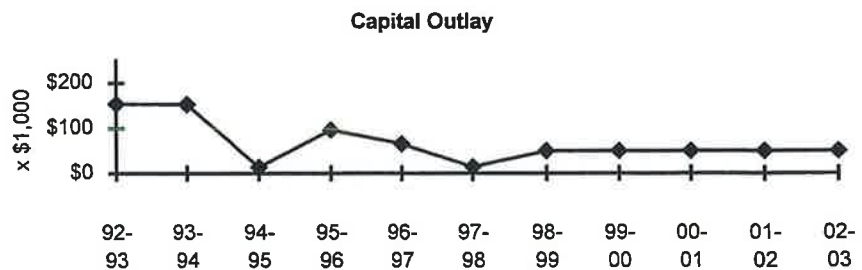
Capital Outlay

Historic Growth Rate	388.2%
1997 Projected Growth Rate	562%
1998 Projected Growth Rate	49.8%

The projected growth rate for Capital Outlay is 49.8%

The projected growth rate for Capital Outlay is 49.8%, compared to the 562% rate projected in the 1997 forecast. For purposes of this forecast, Capital Outlay includes funding of \$50,000 in one-time capital purchases for the Police Services COPS program in each year of the forecast. The 1997 forecast included in the base year \$110,000 in City Hall renovations and \$106,000 in Police Services capital expenditures.

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



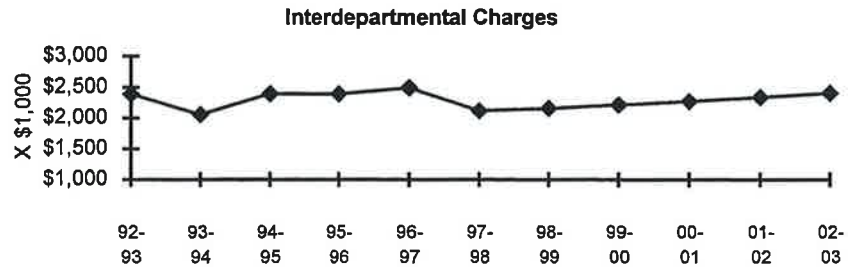
Interdepartmental Charges

Historic Growth Rate	0.1%
1997 Projected Growth Rate	-1.0%
1998 Projected Growth Rate	2.6%

Financial Forecast

Interdepartmental Charges are projected to increase by 2.6%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.6% increase over the five year forecast, compared to an historical average of 0.1% and is based upon inflation. The reduction of dispatch charges included in the first year of the 1997 forecast reduced the projected growth rate to -1.0%, compared to the 1998 average of 2.6%.

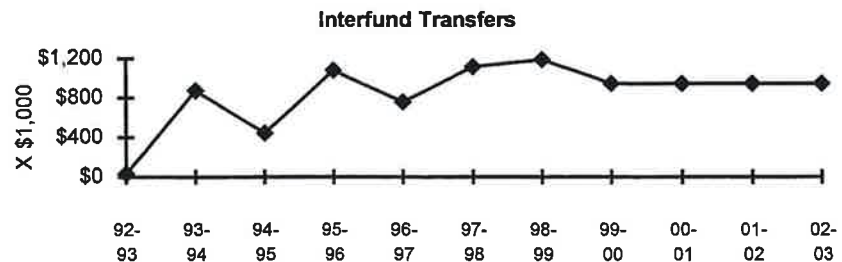


Interfund Transfers

Interfund Transfers will decrease by -1.7% over the forecast period

Historic Growth Rate	525.1%
1997 Projected Growth Rate	7.1%
1998 Projected Growth Rate	-1.7%

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Fund, Worker's Compensation Fund, General Liability Fund, and Capital Equipment Replacement Reserve. The Interfund Transfer expenditure category is projected to experience an average annual decrease of -1.7% due to the full funding of reserves beginning in FY 1998-99 and a reduction of the General Fund Emergency Reserve from 8% of operating expenditures to 5%. With the reduction to 5%, the General Fund Emergency Reserve is fully funded, with minimal contributions scheduled to remain at 5% of General Fund operating expenditures. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Long Term Financial Plan

Objective

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

Background

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

Following are proposed changes to the current Fiscal Policy:

1. **Reserve Policies:** This change is to reflect a proposed modification to the *self insurance reserve policy*:

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
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.	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 <i>for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.</i>

Recommendation

1. It is recommended that the City's Fiscal Policy be modified to include the changes outlined above.

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.	√	
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.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
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		
The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.	√	
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.	√	

Fiscal Policy Statement	Status	Comments
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time revenues will be used for one-time expenditures only. (Including capital and reserves)	√	
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Utility Rates and Fees		
The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.	√	
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
Short-Term Debt Policies		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	√	
The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	
Long-Term Debt Policies		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current on-going operations.	√	
Reserve Policies		
The City will maintain General Fund Contingency reserves at a level at least equal to 5% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	√	General Fund Emergency Reserve = \$1.1 million or 5% of General Fund Operating Expenditures at end of FY 1998-99
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 \$100,000.	√	Council Contingency Reserve = \$100,000 recommended for FY 1998-99
Council approval is required before expending General Fund or Contingency Reserves.	√	
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.	√	Accrued Leave Reserve = \$50,000 recommended for FY 1998-99
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 for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = \$300,000 (Additional \$500,000 reserve for claims not covered by insurance pool)

Fiscal Policy

Fiscal Policy Statement	Status	Comments
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.	---	Water Fund with a projected negative \$267,000 ending fund balance for FY 1997-98 does not meet the reserve goal of \$110,000.
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Moody's Rating = A-1. Standard & Poor's = A
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

√ Budget Complies with Fiscal Policy Standard

-- Fiscal Policy Standard is not met in Budget

Long Term Financial Plan

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

*Additional copies may be purchased at City Hall
100 Avenida Presidio
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