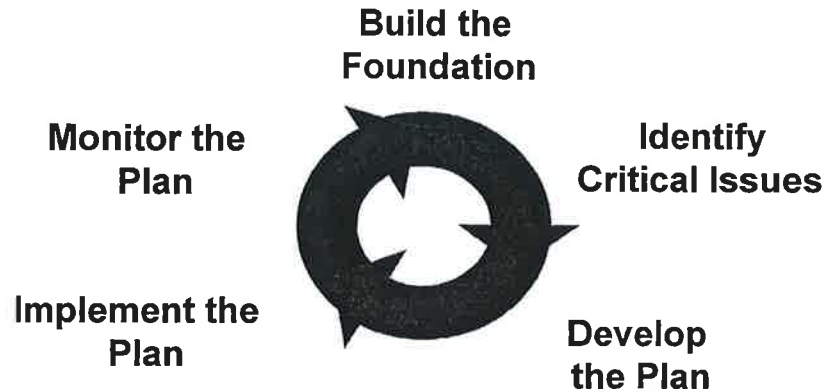

1998
Long Term Financial Plan

Volume II

City of San Clemente

Introduction

Long Term Financial Plan



The LTFP is a financial strategic plan

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

Long Term Financial Plan: This volume, published under separate cover, includes the complete strategic financial plan and consists of the following sections:

The LTFP consists of the complete financial plan

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

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

The Issue Papers provide support documents used to develop the plan

Long Term Financial Plan - Issue Papers: This volume of the Long Term Financial Plan, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. The issues outlined on the following pages were analyzed as a part of the 1998 Long Term Financial Plan process:

Long Term Financial Plan

Financial Trend Analysis

Objective:

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

Financial Forecast

Objective

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

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. Recommendations will be made and incorporated into the City's Fiscal Policy.

Revenue Handbook

Objective

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

Street Improvement Program Update

Objective

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

Computer Action Plan Update

Objective

To provide an update and funding analysis of the implementation of the City's Computer Strategic Plan. (This includes the installation of the City's new Financial applications, upgrading data communications hardware (switches) and rewriting the City's Computerized Complaint Tracking and Project Tracking applications.)

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. This project will update the management review conducted in 1991 by Hughes Heiss & Associates.

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 and make appropriate recommendations concerning current development proposals per General Plan policies, relevant Specific Plan polices and the zoning ordinance. Analysis will be based upon Council approved environmental analysis, traffic models and fiscal impact models. Recommendations will include deliberative thoughts of the Planning Commission and other commissions.

Energy Deregulation

Objective

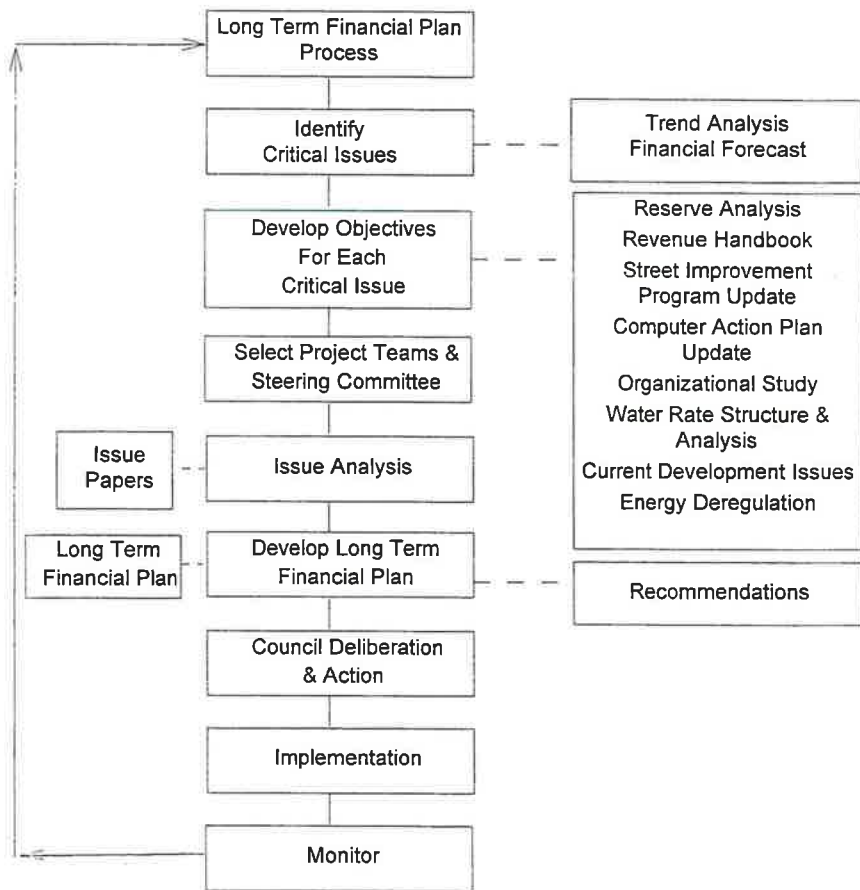
To analyze the restructuring of the electrical industry and its impact on the City of San Clemente as implemented by AB 1890.

Long Term Financial Plan

Long Term Financial Plan Process

The flow chart below graphically describes the process that went into developing the City's comprehensive Long Term Financial Plan. This project was conducted largely by City staff. In fact, 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.

*The Long Term
Financial Plan process*



Introduction

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 several 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.

Financial Trend Analysis

Objective

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

Background

Over the past several years, the City's financial trends have been analyzed. This analysis 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 many factors analyzed include:

- The condition of the local and regional economy;
- Yields and types of revenues and whether they are sufficient to support a steadily increasing population;
- Expenditure levels and whether these expenditures are sufficient to provide the citizens of San Clemente with the desired level of service, 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.

This report examines the above issues and others in assessing the financial condition of the City of San Clemente.

As part of the Long Term Financial Plan (LTFP), the City has prepared an annual trend analysis report for the past five years. This sixth trend report will focus, once again, on the City's General Fund. As a result of the past five reports, many recommendations were identified and implemented. Those actions approved by the City Council have significantly strengthened the City's General Fund in critical areas. Key recommendations implemented by the City Council and Administration from the past LTFP's are listed below:

- The City successfully dealt with the \$2.8 million shortfall created by the passage of Proposition 218 in FY 1996-97. Many hours were spent analyzing all City operations and programs. In the end, operations of the Lighting and Landscape Fund were absorbed by the General Fund by means of expenditure reductions. These expenditure reductions included reductions in liability insurance reserves, General Fund emergency reserves and Council
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Long Term Financial Plan

contingency reserves, elimination of several parks and recreation programs, including the closing of a softball complex, reduction of another 26 FTE's, transfer of local dispatch services to the centralized sheriff dispatch center, reduction of certain social services programs, and elimination of much of the major street maintenance program.

- The City's internal audit program was continued during the past fiscal year, recommending and implementing areas for improved internal controls and effectiveness. Once again, operational divisions or specific activities were analyzed for proper accounting, financial reporting, and efficiency. Accounts receivable, purchasing, and performance measures were audited during this past fiscal year.
- To continue the enhanced efficiency of City staff, the City has replaced 75 personal computers and updated software packages. In the coming year, an additional 50 personal computers will be upgraded. City-wide training for all staff was conducted by Information Services as part of the overall plan to enhance computer literacy and efficiency. To further enhance efficiency and plan for the future (the year 2000), a new financial system will be implemented during FY 1997-98.
- The City implemented a cost allocation plan in FY 1994-95, whereby General Fund services to other funds are fully recovered through a sophisticated system of general fund overhead charges.
- A Capital Equipment Replacement Reserve Fund was established in FY 1994-95 to provide a funding source for the replacement of existing fixed assets as equipment, machinery, and building improvements become unserviceable or obsolete. Updated equipment and machinery allows added efficiency on the part of City employees. The General Fund has contributed \$302,000 during the three years this fund has been in existence.
- The City's Accrued Leave Reserve Fund was established to ensure that adequate reserves are in place in which to pay accumulated compensated absences (vacation, sick, and compensatory leave) of terminated or retiring employees. The General Fund contributed an additional \$25,000 in FY 1996-97.
- In FY 1994-95, the City's Street Improvement Program was established. This 18-year program is designed to address the City's deteriorating local street system. During the past fiscal year, the General Fund again contributed \$300,000 to this program, further demonstrating the City's commitment.
- The City's centralized volunteer program was established to effectively utilize volunteer support for City programs. During FY 1996-97 community volunteers contributed 29,000 hours in code enforcement, administration, special projects, youth programs, police services, and the animal shelter. Their efforts are critical to achieving San Clemente's mission and represent the equivalent of a \$320,000 contribution to the City.

Financial Trend Analysis

- FY 1993-94 brought the establishment of the City's economic development program, which evaluates the City's economic climate in order to assist in providing financial stability within the community. Areas of concentration during FY 1996-97 included continuation of the plans to revitalize the downtown area and north beach area, initiation of a plan to provide additional land for business park development, implementation of a street banner program, development of a business incentive program, and recruitment of corporate sponsors for public facilities.
- The classification and compensation study which was conducted and implemented three years ago brought the City's classification specifications and compensation plan in line with similar agencies.
- The City contracted with the Orange County Fire Authority in FY 1994-95 for fire services. As detailed in the 1997 LTFP, this contract has saved the City \$1,270,000 over a three year period.
- Police services was contracted with the Orange County Sheriff's Department in FY 1993-94. This contract eliminated 78 positions and has saved the City \$8,860,000 over a four year period. A detailed analysis can be found in the 1997 LTFP's, "Contract Analysis and Monitoring".
- In FY 1993-94, the City established a storm drain utility fund, transferring the costs of storm drain maintenance from the General Fund. An average of \$850,000 in revenue is generated each year by billing residents a fixed monthly rate for storm drains. This Enterprise Fund is self-supporting, providing for storm drain maintenance and capital projects.
- The City's organizational structure has been streamlined through reorganization and contracting of various City services. This streamlining has resulted in the elimination of 166 positions within the past five years.
- The City-paid medical insurance premiums were decreased in FY 1993-94 by \$508,000. Incentives were established to encourage employee participation in managed health care programs.
- Significant contributions have been made towards the under funded reserves for workers' compensation and general liability, bringing general liability in line with fiscal policy at \$300,000 in reserves. The General Fund emergency reserve balance has also reached the desired goal of 5% of operating expenditures, or \$1,029,640.
- Added personnel costs were avoided through benefit reductions and implementation of an unpaid work furlough for two years, with an extension of this furlough for two years with employees utilizing leave accruals.

Long Term Financial Plan

- Contracting of fleet services, water meter reading, park and beach maintenance, street striping and marking to third parties for cost savings of \$2,270,000 over the past three years.

The 1998 trend report analyzes the effects the above changes have had on the City's current financial condition and makes recommendations, where necessary, for areas of improvement. The three major areas of the General Fund to be analyzed will be:

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

Additional indicators affecting General Fund operations will also be analyzed as part of this report.

The 1998 financial trend analysis combines several sources of data into a meaningful overview of the City General Fund's current financial position, and assists City Administration and Council in making determinations as to improvements to the City's fiscal policy. Reports examined as part of this analysis include those from FY 1992-93 through FY 1996-97, combining information from Annual Budgets, Comprehensive Annual Financial Reports, Annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. The City's adopted fiscal policies, as well as other national standards, have been considered in analyzing the financial indicators. One of the following ratings will be assigned to each indicator:

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

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

Financial Trend Analysis

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

The City of San Clemente's FY 1996-97 General Fund operating position is summarized in the following sections.

Overview of The City's Financial Condition

Proposition 218, the "Right to Vote on Taxes" initiative, was passed in November 1996 by a majority of California voters and almost two-thirds of San Clemente voters. Not only did the initiative provide voters with the right to vote on new taxes, it also eliminated the City's Lighting & Landscape assessment district because assessments which are considered to be of "general benefit" can no longer be assessed. These general benefits included beach and park maintenance which represented the majority of expenditures within the District.

The elimination of the assessment district, combined with the loss of utility in-lieu transfers to the General Fund, resulted in a loss which represents 13% of the City's General Fund. The costs absorbed by the General Fund included \$1,918,000 in lighting and landscape costs, in-lieu taxes in the amount of \$484,000, water utility lifeline rates totaling \$30,000, weed abatement charges of \$31,000, park improvement capital costs of \$200,000 and solid waste charges of \$124,000.

The City Council responded aggressively to the projected deficit by immediately imposing many difficult program reductions and adjusting revenues. The City's 1997 Long Term Financial Plan (LTFP) once again addressed a multitude of issues, but the focus of the plan revolved around the impact of Proposition 218 on the City.

In order to address the \$2.8 million funding shortfall, the City Council directed the Administration to undertake a comprehensive review of all programs provided by the General Fund. This process was initiated in December 1996 in conjunction with both the City's Long Term Financial Plan and Vital Few Priority processes.

Potential program reductions were submitted and reviewed by the City Council in February and extensive public input was received during the entire process. As a result of this comprehensive review of General Fund programs, the City Council first adopted program reductions that would be implemented immediately. A second series of program reductions were identified with the understanding that the reductions would only be made if Measure A (a proposed utility tax of 2.5% on all utilities within the City) failed.

Program reductions and revenue enhancements totaling \$1.8 million adopted by the City Council and implemented on or before July 1, 1997 included reduction of liability insurance costs

Long Term Financial Plan

(\$200,000), reduction of emergency reserves and Council Contingency reserves (\$360,000), elimination of sports programs and upgrades to parks (\$200,000), elimination of positions and benefits (\$208,000), reduction of costs in the maintenance division, reducing expenditures in the City's major street maintenance program (\$400,000), transfer from Golf Course Fund (\$250,000), and increase of parking meter fees to \$1 per hour (\$120,000).

Additional program reductions and revenue enhancements totaling \$1.0 million have been implemented in fiscal year 1997-98 due to the failure of Measure A. These include elimination of additional positions (\$227,500), elimination of funding for park/beach capital projects (\$100,000), elimination of parks and recreation programs, including the closing of a softball complex (\$410,000), reductions of social services programs (\$30,500), transfer of additional revenue from Golf Course Fund (\$100,000), and transfer of local dispatch services to the centralized sheriff dispatch center (\$210,000).

Although these program reductions will undoubtedly affect the quality of life in San Clemente, difficult choices had to be made in order to balance the budget and continue to maintain financial stability within the City.

As detailed above, fiscal year 1996-97 was financially trying for the City of San Clemente, as City Administration and Council dealt with the many challenges of implementing the far-reaching ramifications of Proposition 218. Yet, even with the financial crisis of a \$2.8 million budget shortfall, the cuts that were made to address this shortfall have helped the City's financial condition to stabilize and show signs of an upward trend. Many revenues show increases, continuing trends of upward growth. Property taxes, the most noteworthy of General Fund revenues, shows an increase for the first time in five years, ending the year with an increase over the prior year of \$226,000. Other revenues showing increases for FY 1996-97 include transient occupancy taxes (\$186,000), intergovernmental revenues (\$14,000), and sales tax revenues (\$16,000). Additionally, the City's reliance on one-time revenues continues to decline, following the fiscal policy of utilizing one-time revenues for one-time expenditures, not for operations. Finally, General Fund revenues exceeded budgeted revenues by \$432,000 and displayed a positive 2.04% when calculated as a percentage of operating revenues, the highest in eight years.

Although overall revenues show a positive trend, certain revenue sources continue to be cause for concern. Community development service charges continue to show an unfavorable trend, as they have for the past five years, with a decrease from the prior year of \$46,000. License and permit revenues display an unfavorable trend, after three years of increases, registering lower by \$138,000. Revenues per capita, particularly in constant dollars, continues a level trend with slight declines. This indicator picks up a note of caution in FY 1996-97, as this indicator must be closely monitored to determine which revenue sources may be cause for concern.

As with revenues, many of the General Fund expenditure trends showed a positive curve for the fiscal year. Expenditures ended the year \$1,248,000, or 5.7% less than budgeted expenditures for FY 1996-97. Actual expenditures included the many contributions the General Fund made to

Financial Trend Analysis

fund reserves and the Street Improvement Program. Transfers to other funds included transfers to the Capital Equipment Replacement Reserve Fund (\$102,000), Worker's Compensation Fund (\$44,000), General Liability Fund (\$123,000), Accrued Leave Reserve Fund (\$25,000), and Street Improvement Fund (\$300,000). The net effect of positive revenues and expenditures was a General Fund year-end fund balance of \$3.3 million (\$1.8 million unreserved, \$120,000 in miscellaneous reserves, \$339,000 encumbrances from prior year, and \$1.0 million emergency reserves).

The financial condition of the City has been greatly impacted over the past several years by loss of revenues to the State through unfunded state and federal mandates and diversion of property taxes. Proposition 218 has added additional burdens on the City's financial stability. But through all these financial crises, the City continues to grow in financial health, through continual planning, including the Long Term Financial Plan, quarterly reports which include closely monitoring revenues and expenditures, sound decisions, and strict adherence to the City's fiscal policies. The improving economy is beginning to affect the City's financial trends in a positive manner. For the first time in five years, property taxes and property values display improvement.

As the financial health of the City is evaluated annually as part of this report, it is necessary to re-examine the underlying factors affecting this financial condition. Areas of financial concern have shown great improvement with the adoption of recommendations from past LTFP's. Although there remain a few areas of concern for the City, the past year's cost reductions and reorganization have proven to greatly enhance the stability of the City's financial condition.

- The City's **revenue base** continues to grow and show signs of improvement, as a result of Council's actions from prior Long-Term Financial Plans and the improving local economy. This revenue base continues to support existing service levels. Certain service levels have been enhanced through contracting and privatization, however, it should be noted that service levels have been reduced in FY 1997-98 due to proposition 218 cutbacks. The City's total operating revenues have grown 10.7 percent from FY 1992-93 to FY 1996-97.
- The City's **elastic revenues** continue to impact General Fund operations. The local economy continues to show signs of growth and have a positive impact on the City's elastic revenues. During the past fiscal year, elastic revenues, as a percentage of operating revenues, actually remained relatively stable with a slight decrease of 1.1% from the prior fiscal year. As discussed further in the section on elastic revenues, sales taxes and transient occupancy taxes, two of the largest categories of elastic revenues, increased during the fiscal year. Although the City continues to rely heavily on elastic revenues, the City's commitment to funding the General Fund emergency reserve will prove beneficial in safeguarding the City against any future short-term unforeseen economic downturns that may have an effect on elastic revenues.
- Although the City has continually **reduced expenditures** because of economic downturns and legislation beyond its control, service levels have been maintained and often enhanced.

Long Term Financial Plan

Organizational streamlining, operational improvements, program reductions and the reduction of employee benefit and salary levels have provided the cushion needed to survive the economic hardships. Staffing levels have decreased to 187 full time equivalent positions (155 full time and 32 part time) in FY 1996-97, from 353 FTE's in 1991-92, a reduction of 166 positions.

- The City continues to increase the level of its **unreserved fund balance**. This available fund balance ensures that the City's essential service programs will be preserved during times of economic downturn, unforeseen catastrophic occurrences and other financial crises. While maintaining operating expenditures at a level equal to five years ago, the City has built its emergency reserve to \$1,030,000, or 5%, of General Fund operating expenditures. In addition, the City's General Fund has contributed \$100,000 to an accrued leave fund, built a capital equipment replacement reserve fund by contributing \$302,000, assisted in funding deficits in other funds, and contributed \$1,000,000 to the City's street improvement program.

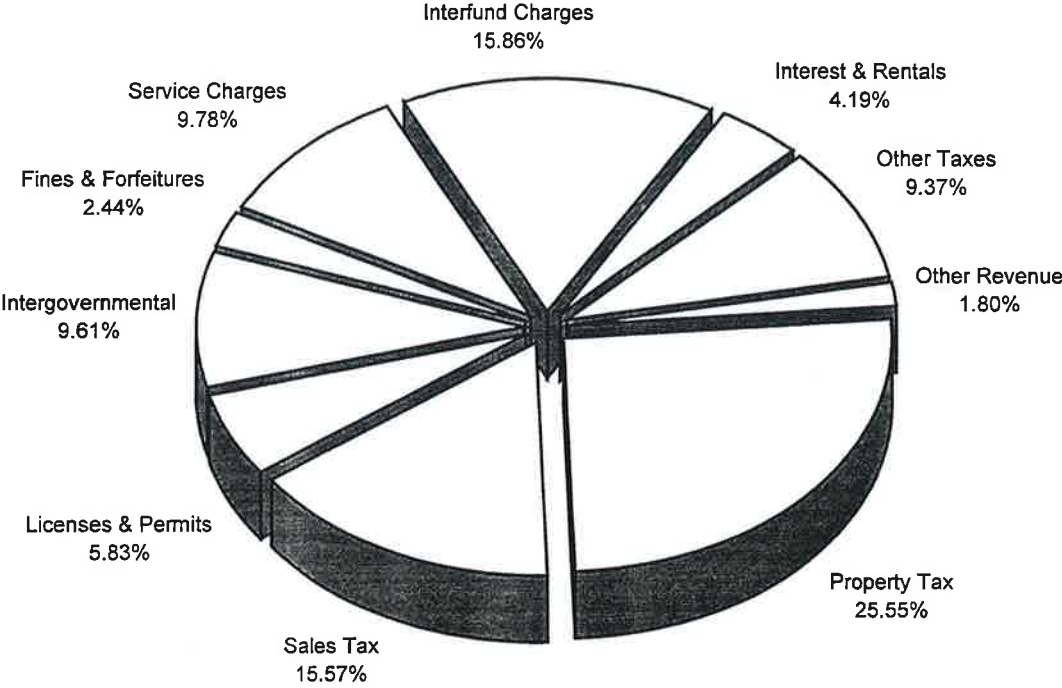
General Fund Operating Results - Revenues

The City's most noteworthy and improved revenue trend in the past fiscal year is that of property taxes showing signs of recovery. Property tax revenues increased by \$226,000 from the prior fiscal year, or 4.2%. This was the first rise in property taxes in five years. Total revenues stabilized at \$21.1 million, a rise during the five year period of 10.7%. The City's reliance on one-time revenues continues to decline, another positive sign. Additionally, the City's ability to project revenues is improving, with operating revenues coming in \$432,000 over the amount budgeted for FY 1996-97.

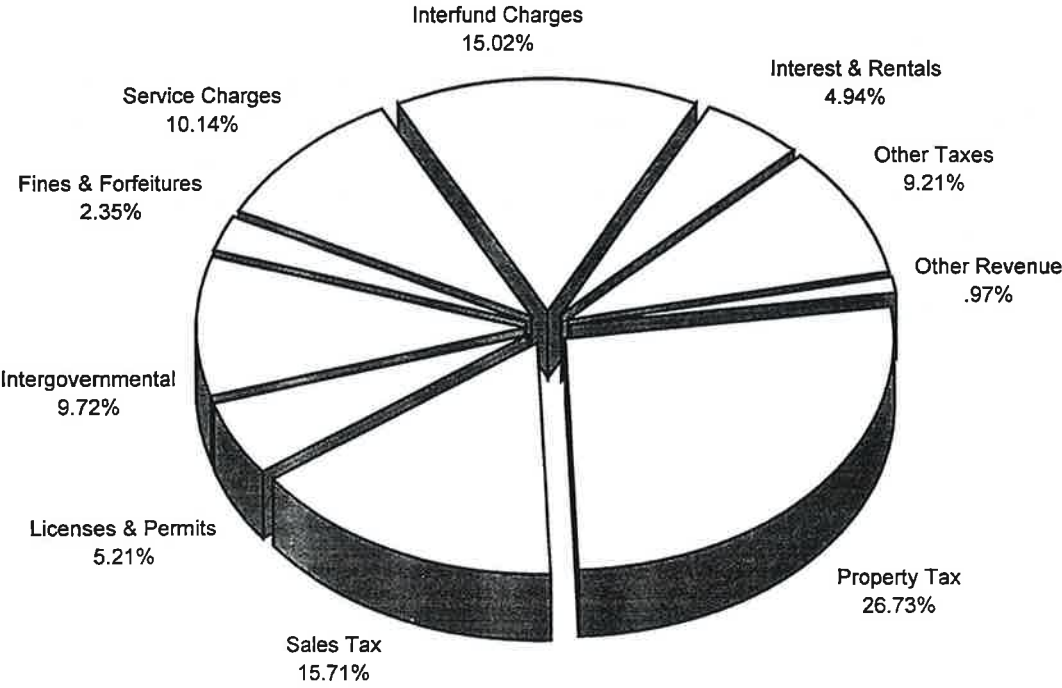
The following chart depicts the General Fund's sources of revenue. Taxes continue to be the primary source of revenue. Taxes includes property, sales and other taxes and add up to be over 50% of total revenues generated from the General Fund.

Financial Trend Analysis

1995-96 Operating Revenues By Source



1996-97 Operating Revenues By Source



Long Term Financial Plan

Property taxes and sales taxes represent the City's largest sources of revenue. The City continues to receive 1% of the 7.75% in sales tax generated within the City limits, with 6.25% distributed to the State and 0.5% to the County under Measure M for street improvements. In FY 1996-97, the property taxes paid by a typical resident of San Clemente were apportioned to local governments with school districts receiving 67.8%, special districts receiving 2.6%, the County 12.2%, the Redevelopment Agency 2.4%, and the City receiving 15.0%.

Several significant changes in revenues by source for FY 1996-97 when compared to the previous year are worthy of mention. Property taxes increased from 25.6% of operating revenues to 26.7% in FY 1996-97, signaling the first increase in property taxes in the five year period under analysis. Sales taxes again increased as a percentage of operating revenues, from 15.6% to 15.7%, as this revenue source continues its upward trend for the fifth consecutive year. Service charges rose from 9.8% in FY 1995-96 to 10.1% of operating revenues in FY 1996-97, as certain construction inspection fees and recreation charges increased. Interest and rental revenues showed a second year of increase, as the City continued its successful investment policy to obtain full use of available cash. The City is becoming less reliant on one-time revenues, as other revenues declined from 1.8% of operating revenues to 1% over the past fiscal year. On the reverse side, other taxes declined, with the loss of in-lieu taxes as of November, 1996, with the passage of Proposition 218. Interfund charges also declined from 15.9% to 15% as a result of one-time transfers to the General Fund in FY 1995-96 from the Medical Insurance Fund, Accrued Leave Fund, and Disaster Relief Fund. And lastly, licenses and permits declined from 5.83% to 5.21%, as many construction permit revenues decreased sharply with the delay of a significant development project.

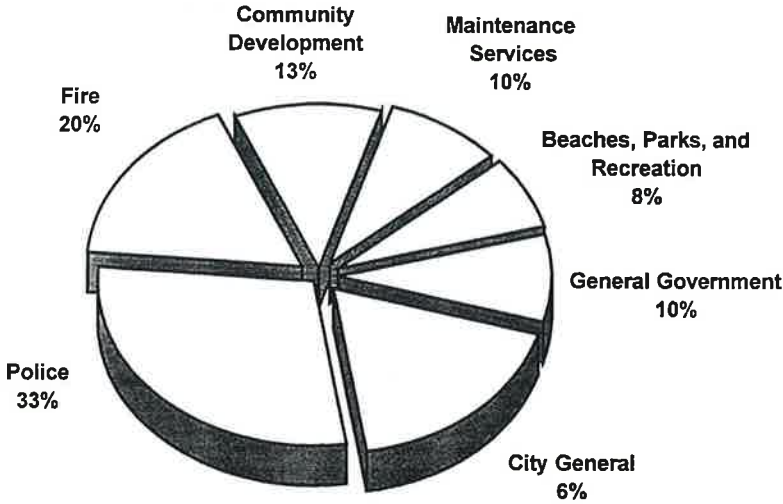
General Fund Operating Results - Expenditures

General Fund expenditures represent the largest portion of the total operating costs of the City. In FY 1996-97, General Fund operating expenditures declined by \$457,000 or 2.2% from the prior fiscal year. The General Fund has been able to assist in funding critical reserve funds, show a commitment to the Street Improvement Program and build its emergency reserve to 5% of operating expenditures.

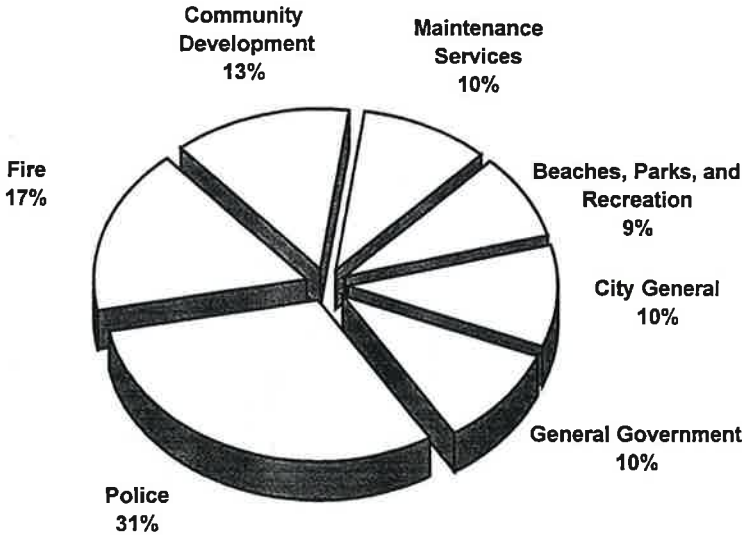
The following charts show expenditures both by department and category from FY 1992-93 to FY 1996-97.

Financial Trend Analysis

Comparison of Expenditures By Department - 1992-93 vs. 1996-97



Percentage of Expenditures By Department
1992-93



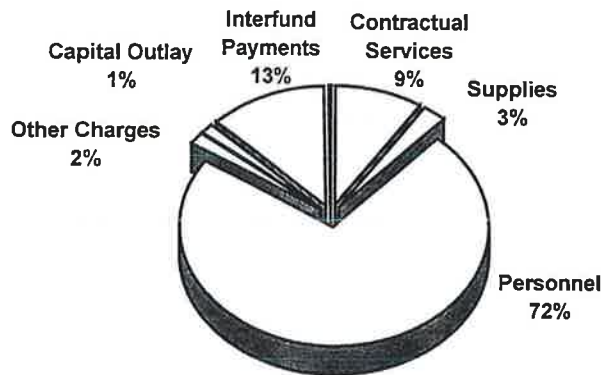
Percentage of Expenditures By Department
1996-97

Noteworthy changes in the composition of General Fund expenditures by department from FY 1992-93 to FY 1996-97 include public safety, which has decreased from 53% of total General

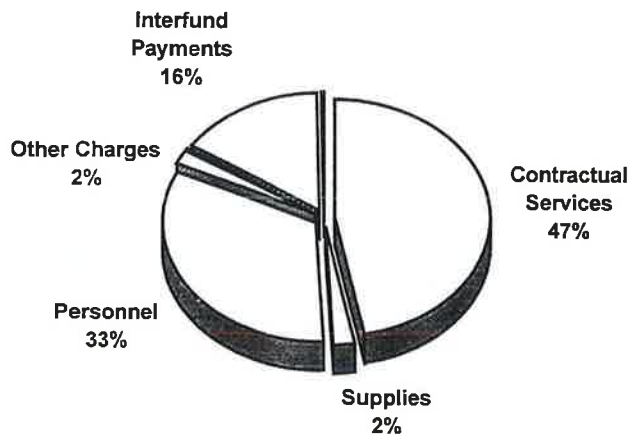
Long Term Financial Plan

Fund expenditures in FY 1992-93 to 48% in FY 1996-97. This savings in General Fund expenditures is the result of contracting out police and fire services to the Orange County Sheriff's Department and Orange County Fire Authority, respectively. City General has increased significantly from 6% to 10% of General Fund operating expenditures. This increase is due to the additional transfers the General Fund is currently making to fund reserves and contribute to important programs (Street Improvement Program) in other funds. In FY 1996-97, interfund transfers from City General totaled \$718,000. If these interfund transfers are excluded from General Fund expenditures, expenditures have actually decreased over the five year period.

Comparison of Expenditures by Category- 1992-93 vs. 1996-97



Percentage of Expenditures By Category
1992-93



Percentage of Expenditures By Category
1996-97

Personnel costs, as a percentage of General Fund expenditures, decreased from 72% in FY 1992-93 to 33% in FY 1996-97. Conversely, contractual services increased from 9% in FY 1992-93 to 47% in FY 1996-97. During this time period, personnel costs have been replaced with

Financial Trend Analysis

contractual services by means of contracting out police services to the County of Orange and fire services to the Orange County Fire Authority, and contracting of fleet maintenance, beach and park maintenance, and meter reading to private companies. Additionally, interfund payments increased from 13% to 16% of operating expenditures in FY 1996-97. This increase relates to the transfer of \$300,000 to the Street Improvement Fund, a transfer to the Capital Equipment Replacement Reserve Fund in the amount of \$102,000, a transfer to Accrued Leave Reserve Fund of \$25,000, and additional funding for Workers' Compensation and General Liability of \$167,000.

To summarize, because of the commitment to implementing recommendations submitted as a result of the City's annual financial planning process, the City's financial condition continues to stabilize and even show signs of growth. Evidence of this is the maintenance of level expenditures as service levels continue to remain high. Additionally, the General Fund continues to build reserves in other funds and has built its emergency reserve to 5% of operating expenditures, the standard set by the City's fiscal policy. The General Fund ended FY 1996-97 with an increased fund balance, a total of \$3.3 million. Further, an improved economy is beginning to affect the City's major revenues categories, especially property taxes.

General Obligation Debt

According to California State law, the City's legal debt capacity for general obligation indebtedness is equal to 3.75% of total assessed property values within the City, or \$142 million. The City's only current general obligation debt is \$3,620,000 at June 30, 1997, for certificates of participation issued on June 1, 1994. This debt was issued to finance the acquisition and improvements of the three story 56,988 square foot building located at 910 Negocio, San Clemente. Debt service payments are completely paid for through the leasing of office space.

Summary of Trends

The following pages contain a listing of the indicators analyzed as a part of this financial trend analysis and a brief summary of the rating assigned to each indicator. Also included is a summary of whether or not there was a change from the previous year.

Long Term Financial Plan

Summary of Trends

Indicator Number	Description	Trend	Comments
<u>General Fund Revenues</u>			
1	Revenues Per Capita	F	Revenues per capita reflected a slight decrease for the second year in a row. Rating unchanged from prior year, but a note of caution has been added.
2	Property Tax Revenues	F	Property tax revenues showed an increase for the first time in five years. This increase of \$226,000 amounted to 4.2% over the previous fiscal year. This rating has changed to favorable for the first time in five years.
3	Sales Tax Revenues	F	Sales tax revenues increased 16,000 in actual dollars, with an increase of \$138,000 when the seven months of impounded public safety sales taxes are added to FY 1996-97. This revenue source continues to be the second highest source of the City's General Fund. Rating unchanged from prior year.
4	Licenses & Permits	U	License and permit revenues dropped sharply in FY 1996-97, reflecting a decrease of 11.1% from the prior year in actual dollars and 12.6% in constant dollars. Rating changed from prior year.
5	Com. Dev. Service Chgs.	U	Community Development Service Charges continue the six year unfavorable trend with a decrease of \$46,000, or 6.6% from FY 1995-96. This revenue source is still significantly below the levels reached six years ago. Rating unchanged from prior year.
6	Elastic Revenues	F	Elastic revenues have decreased slightly by 1.1% in FY 1996-97. However, they continue to show a level trend. The largest contributor of this decline is the loss of in-lieu taxes after November, 1996 as a result of Proposition 218. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Financial Trend Analysis

Indicator Number	Description	Trend	Comments
7	One-Time Revenues	F	One-time revenues decreased 52.6% in FY 1996-97 from FY 1995-96. The City continues to rely less on one-time revenues each year and will continue to apply one-time revenues towards one-time expenditures. Rating unchanged from prior year.
8	Intergovernmental	F	Intergovernmental revenues remain relatively constant in FY 1996-97 at 9.72% of operating revenues, an increase of only .69% over the prior fiscal year. This category of revenues has remained relatively stable over the past nine years. This is viewed as a positive trend since the City should avoid becoming overly dependent upon revenue sources which are out of its control. Rating unchanged from prior year.
9	Revenue Overages/ Shortages	F	Revenue overages/shortages as a percentage of operating revenues examines the differences between revenues budgeted and revenues actually received. This indicator has increased from the prior fiscal year to a level of 2.04% of operating revenues, the highest percentage in eight years. Rating unchanged from prior year.

General Fund Expenditures

10	Exp. Per Capita	F	Expenditures per capita in both constant and actual dollars decreased slightly in comparison to the prior year. The City has reduced spending significantly by contracting and privatizing services. This represents cost savings while services to City residents have been maintained or enhanced. Rating unchanged from prior year, however a note of caution has been added to closely monitor this indicator so that expenditure levels do not become so low as to not maintain service levels.
11	Employees Per Capita	F	The number of employees per capita has dropped significantly since FY 1991-92 with the elimination of 166 positions. Rating unchanged from prior year, except that a note of caution has been added so that employee levels do not become so low as to not support adequate municipal service levels.

F Favorable
W Warning
U Unfavorable

Long Term Financial Plan

Indicator Number	Description	Trend	Comments
12	Fringe Benefits	F	Fringe benefits, as a percentage of salaries and wages, has remained relatively level over the past five years due to the implementation of reduced benefit levels. Rating unchanged from prior year.
13	Capital Outlay	F	Capital Outlay as a percentage of operating expenditures decreased over the prior fiscal year by 15.3%. It should be noted that an annual contribution of \$100,000 is now made to the Capital Equipment Replacement Reserve Fund. Rating unchanged from prior year.
<u>General Fund Operating Position</u>			
14	Operating Surplus	F	The City is on an upward trend with regard to this indicator for the third consecutive year. The City's operating surplus for FY 1996-97 was 2.35% of operating revenues. Rating unchanged from prior year.
15	Unreserved Fund Balance	F	The City's unreserved fund balance at June 30, 1997, as a percentage of operating revenues, increased over the prior year to 13.32%. The emergency reserve is fully funded at 5% of General Fund operating expenditures, or \$1.0 million. Rating unchanged from prior year.
16	Liquidity Ratio	F	The General Fund liquidity ratio (current assets to current liabilities) at June 30, 1997 was 2.4:1 which is above the 1:1 ratio viewed as favorable by credit rating firms. Rating unchanged from prior year.
17	Debt Service	F	The City entered into a capital lease during FY 1996-97. However, the General Fund's debt service, as a percentage of operating revenues, remains at less than 1% which is relatively immaterial. The City's debt is well below the 20% of net operating revenues which is used by credit rating firms. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Financial Trend Analysis

Indicator Number	Description	Trend	Comments
<u>Additional Indicators</u>			
18	Compensated Absences	F	Accumulated compensated absences (unpaid vacation, sick leave, and compensatory time) has remained at the same level for the past three years. The slight increase in FY 1996-97 is only 2.4% from the prior fiscal year. Rating unchanged from prior year.
19	Property Values	F	Like property tax revenues, property values showed a positive trend for the first time in five years, ending the year with an increase from the prior fiscal year of .71%. This indicator must continue to be closely monitored because the City relies heavily on property tax revenues, representing 27% of all General Fund revenues. Rating changed from prior year to favorable, with a note of caution added for the above reason.
20	Population	F	This trend again receives a favorable rating because the population growth has been a steady, but not rapid, increase over the last eight years and has been relatively planned and controlled. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Long Term Financial Plan

Comparison of Trend Reports

The following page summarizes a total of twenty financial indicators which the City analyzes on an annual basis as part of the Long Term Financial Plan. This summary shows that only two of these indicators are currently assigned an unfavorable rating. Eighteen indicators, therefore, are receiving favorable ratings. This is a significant improvement over 1994 where only five indicators showed favorable signs.

This improved fiscal health of the City is not only the result of external factors such as an improved economy, but also the direct result of conscious effort and continual planning on the part of City Council and staff through the implementation and monitoring of a stringent fiscal policy and the preparation of an annual Long Term Financial Plan.

As shown in the table, the two unfavorable indicators fall within the revenue category. This remains the same from the previous year, although the mix has changed. Property tax revenues changed from unfavorable to favorable with an increase of 4.2% over the previous fiscal year and the first increase in five years. License and permit revenues declined sharply by 11.1% from the previous fiscal year, changing this rating from favorable to unfavorable.

Expenditure indicators displayed all favorable ratings. This is the opposite of 1994, where all expenditure indicators received an unfavorable or warning rating. The City continues to monitor fringe benefits and maintain these expenditures at a stable trend which contributes greatly to these indicators being positive. Additionally, the General Fund has begun contributing to the Capital Equipment Replacement Reserve Fund on an annual basis, allowing a reserve to build from which to replace obsolete equipment.

All General Fund operating position indicators receive favorable ratings. In fact, through continued cost savings measures, operating surplus as a percentage of operating revenues rose to a level of 2.35%.

All three additional indicators received favorable ratings, with property values showing a positive trend for the first time in five years. Like property tax revenues, this indicator must be closely monitored as it begins to stabilize.

The City continues to make great strides toward improving its finances through the use of recommendations presented in the Long Term Financial Plan. These improvements are summarized in chart form on the following page. This chart displays the financial indicators for the past five years and summarizes the City of San Clemente's continued improvements.

Financial Trend Analysis

Summary of Annual Trends

Indicator Number	Description	1998	1997	1996	1995	1994
1	Revenues Per Capita Excluding One-Time Revenues	F	F	F	U	U
2	Property Tax Revenues	F	U	U	U	W
3	Sales Tax Revenues	F	F	F	F	U
4	License & Permit Revenues	U	F	F	F	U
5	Community Development Service Charges	U	U	U	U	U
6	Elastic Revenues	F	F	F	F	U
7	One-Time Revenues	F	F	F	F	W
8	Intergovernmental Revenues	F	F	F	F	F
9	Revenues Overages/Shortages	F	F	F	U	U
10	Expenditures Per Capita	F	F	F	F	W
11	Employees Per Capita	F	F	F	F	W
12	Fringe Benefits	F	F	F	W	W
13	Capital Outlay	F	F	F	U	U
14	Operating Surplus	F	F	F	W	W
15	Unreserved Fund Balance	F	F	F	F	W
16	Liquidity Ratio	F	F	F	F	F
17	Debt Service	F	F	F	F	F
18	Compensated Absences	F	F	F	F	F
19	Property Value	F	U	U	U	W
20	Population	F	F	F	F	F

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

Long Term Financial Plan

City Fiscal Policy

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

General Financial Goals

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

Operating Budget Policies

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

Revenue Policies

14. The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.
15. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.
16. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.
17. User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.

Financial Trend Analysis

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

Expenditure Policies

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

Utility Rates and Fees

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

Capital Improvement Budget Policies

22. The City will make all capital improvements in accordance with an adopted and funded capital improvement program.
23. The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.
24. The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.
25. The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.
26. The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.
27. Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.
28. The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).

Short-Term Debt Policies

29. The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.
30. 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

Long Term Financial Plan

current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.

Long-Term Debt Policies

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

Reserve Policies

34. The City will maintain General Fund reserves (emergency 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.
35. A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than \$100,000.
36. Council approval is required before expending General Fund or Contingency Reserves.
37. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.
38. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention.
39. The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Investment Policies

40. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.
41. 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.

Financial Trend Analysis

Accounting, Auditing, and Financial Reporting

42. 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.
43. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
44. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
45. Full and continuing disclosure will be provided in the general financial statements and bond representations.
46. The City will maintain a good credit rating in the financial community.
47. 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.
48. The City will maintain a liquidity ratio of at least 1:1.

Long Term Financial Plan

General Fund Revenues

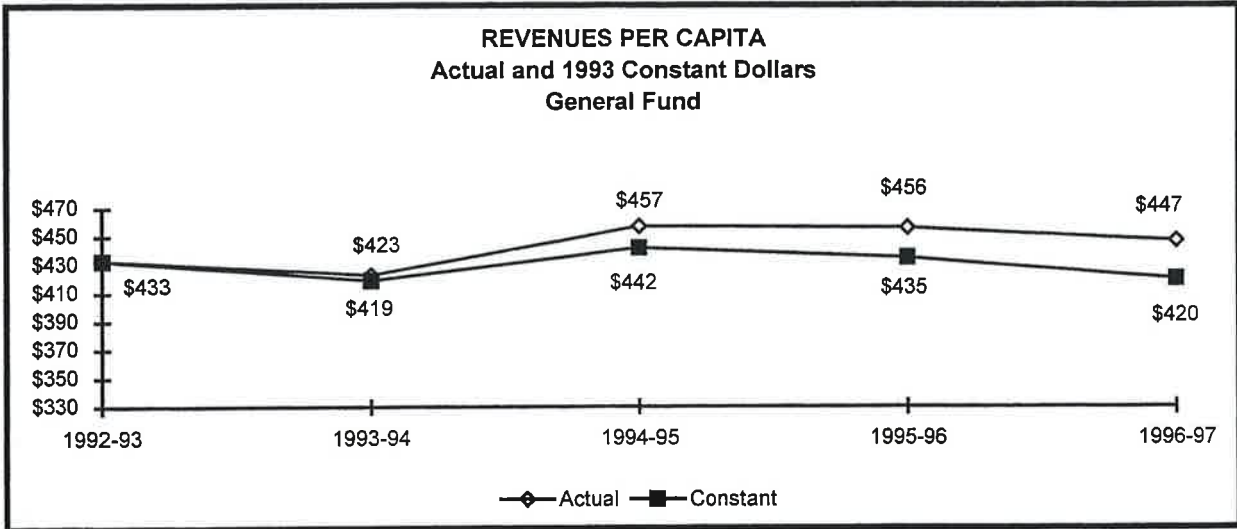
General Fund revenues finance the majority of the daily operations of the City. As a result of this, changes in revenue levels and composition of these revenues will have a significant impact on the City's ability to provide services to the citizens of San Clemente. The dollar amount received is important, but the type of revenue received also plays an important role in the financial stability of the City. Revenues should be balanced between those that change as the economy shifts (elastic) and those that flow independently of economic activity (inelastic). General Fund revenues should also come from diverse sources within the community and be sufficiently flexible to finance expenditures as the needs of the City change.

In the following section, nine indicators have been evaluated to determine the financial condition of the City's revenue base. As evidenced by the following revenue analyses, the City of San Clemente continues to show significant improvement in revenues due to gradual economic growth. Property tax revenues, for the first time in five years, are beginning to experience a turnaround, showing a slight increase from the prior year. A full revenue analysis is provided for the following indicators:

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

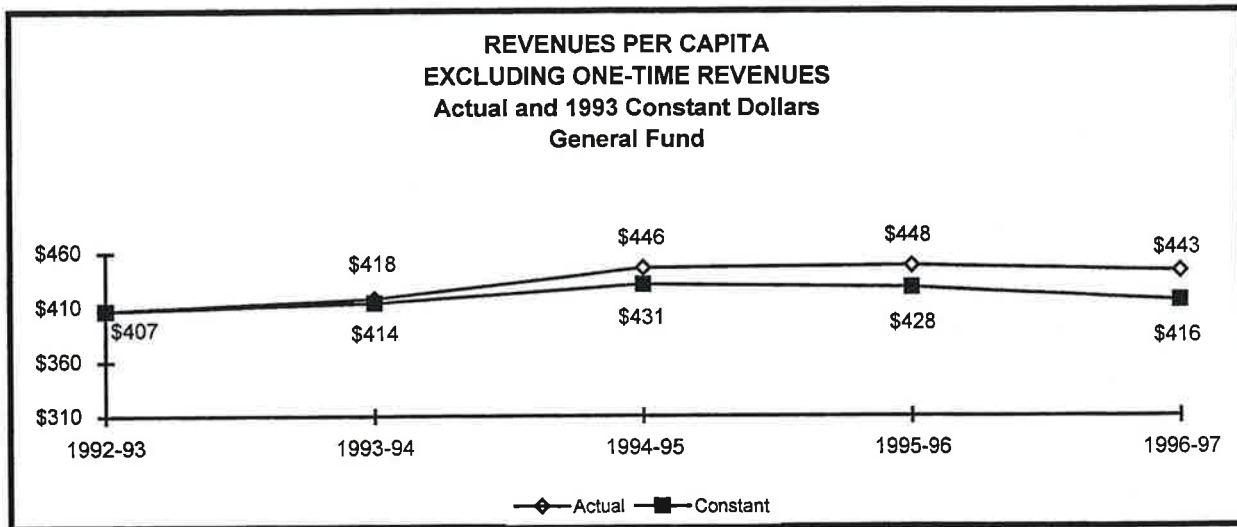
Financial Trend Analysis

Indicator 1



Current Trend: Favorable/Caution

Prior Year Trend: Favorable



Current Trend: Favorable/Caution

Prior Year Trend: Favorable

Description

Revenues per capita in constant dollars is a measure of the City's ability to maintain current service levels. Constant dollars reflect the real changes in operating revenue after adjusting for inflation. An increase in constant dollars normally means a city will be able to respond

Long Term Financial Plan

positively to increasing service demands. Conversely, a decrease in constant dollars may indicate that revenue yields are not sufficient to maintain existing levels of service.

Comments And Analysis

The chart above displaying revenues per capita excluding one-time revenues reflects a second year of decreases when analyzing constant dollar trends. The decrease in FY 1996-97 is once again due to a stabilization of population as compared to previous years. Previous years' trends showed population increases of 2 percent, with the past two years showing increases in population of only 1.4 percent and 1.5 percent, respectively. When observing actual dollars, this trend shows a decrease for the first time in four years. Most major revenue categories, however, showed increases for the fiscal year. Significant revenue increases included property tax revenues in the amount of \$226,000, an increase in transient occupancy taxes of \$186,000 and an increase in rents and commissions of \$122,000. On a smaller scale, intergovernmental revenues increased by \$14,000 and sales tax revenues increased by \$16,000. The slight decrease in actual revenues per capita excluding one-time revenues can be attributed to decreases in community development service charges of \$46,000 and a \$138,000 decrease in license and permit revenues. Additionally, fines decreased \$22,000 from the prior fiscal year. The second chart above excluding one-time revenues is a more realistic approach to analyzing revenues utilized to support operations, because the City attempts to apply one-time revenues against one-time expenditures.

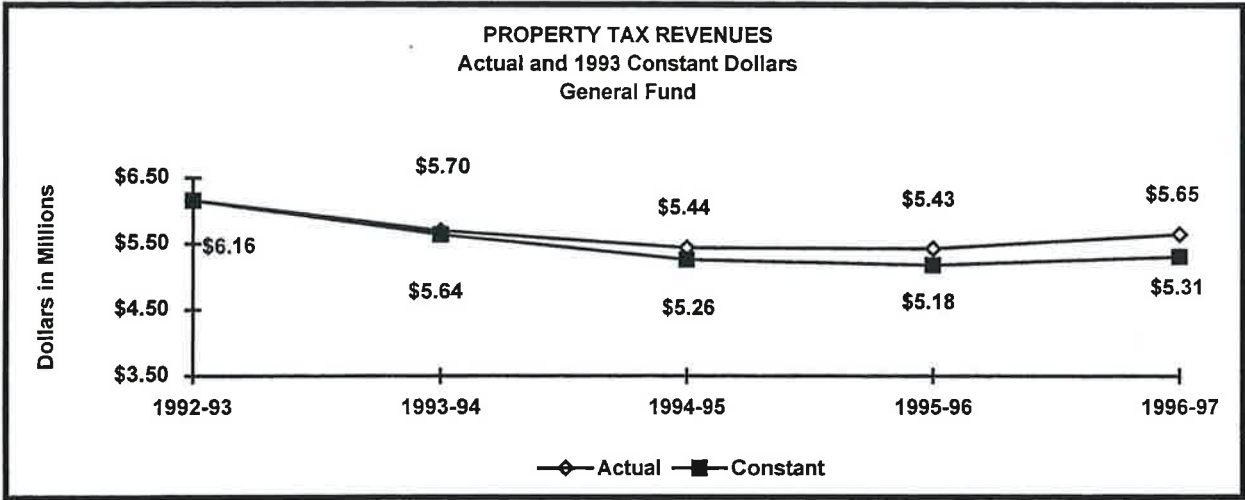
In summary, this trend indicates that, in both actual and constant dollars, revenues per capita is maintaining a level trend with a slight decrease. In addition, the City's reliance on one-time revenues is diminishing. Although the latter is a positive sign, all revenues must be closely monitored. A favorable/caution trend has been assigned due to the fact that a clear unfavorable trend has not emerged. Further declines in revenues per capita will result in an unfavorable rating.

Related Fiscal Policy

- #12 The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.
- #14 The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.
- #18 One-time revenues will be used for one-time expenditures only (including capital and reserves).

Financial Trend Analysis

Indicator 2



Current Trend: Favorable

Prior Year Trend: Unfavorable

Description

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

Through June 30, 1992, the City received a share of the basic levy proportionate to the amount received at the time Proposition 13 was passed, approximately 19 percent. From July, 1992 through July, 1993, the City's share of the basic levy dropped from 19 percent to 15 percent, as the State imposed a property tax shift in an attempt to solve their budgetary problems. The City's share of property taxes remains constant at 15% for FY 1996-97.

Comments And Analysis

Fiscal year 1996-97 shows the first upward trend in property tax revenues in five years. Property tax revenues increased \$226,000, or 4.2%, in actual dollars, indicating a stabilization in this revenue source. Constant dollars also showed an increase from the previous year of \$125,000, or 2.4 percent. This increase demonstrates the City's improving economy and the rebounding property valuations within the City. However, the City continues to monitor this revenue source closely, as the City has not yet regained the losses outlined above as a result of the property tax

Long Term Financial Plan

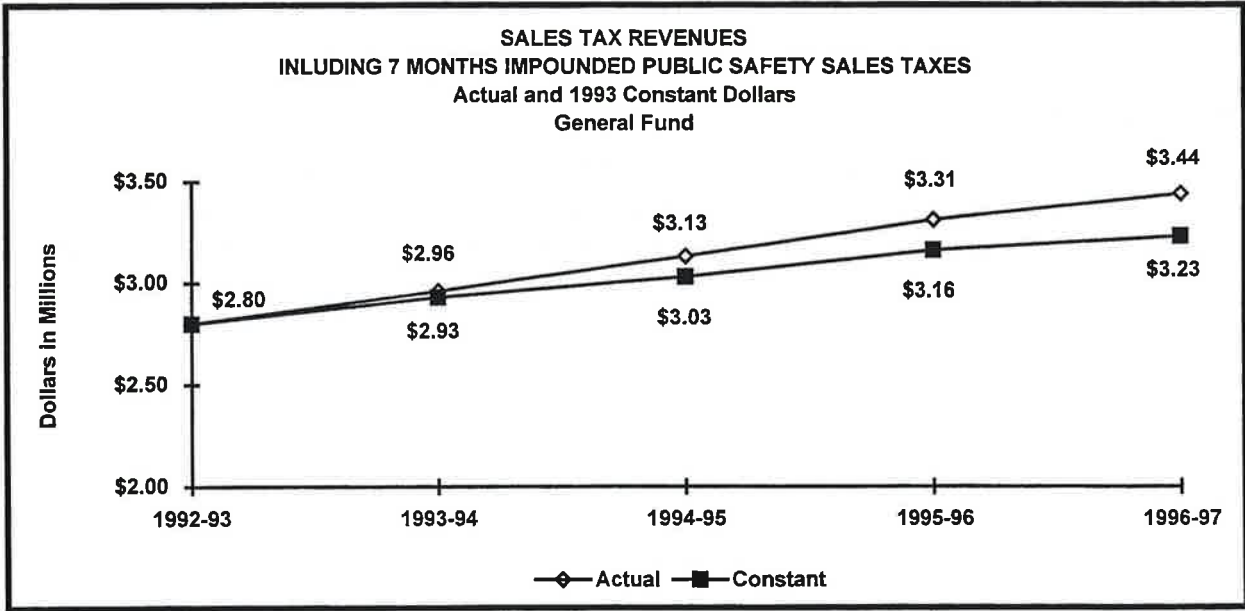
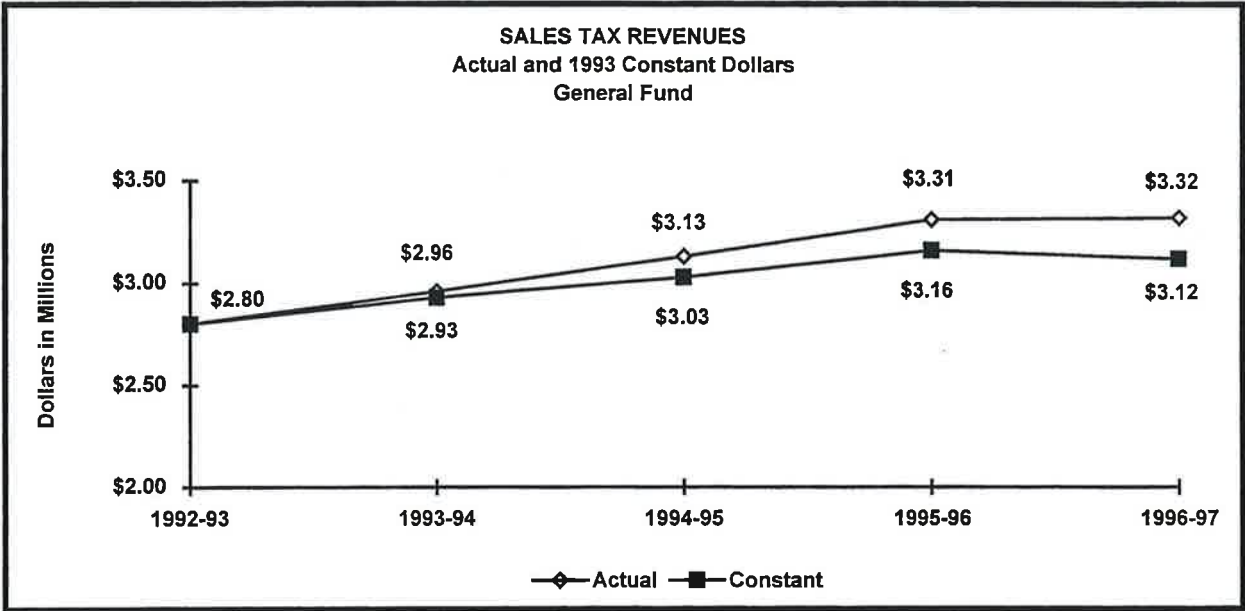
shifts. The City's current projections relating to property taxes anticipate that property valuation and the corresponding property tax revenues will continue to show signs of stabilization. Because of this stabilization and the increase in actual and constant dollars, this trend receives a favorable rating.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 3



Current Trend: Favorable

Prior Year Trend: Favorable

Description

Sales tax revenue is a second strong indicator of the City's economic health. Sales taxes are the City's second largest source of revenue and are elastic in nature. Sales taxes vary directly with

Long Term Financial Plan

changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. Since June, 1993, the Board has been collecting and administering 1.0% of local sales tax for the City which is part of the overall County of Orange sales tax rate of 7.75%. Beginning in July, 1993, the City also receives an additional 0.5%, earmarked for public safety as mandated by the State. In FY 1996-97, the City only received 5 months of the public safety portion of sales tax revenue. The remaining 7 months has been released in FY 1997-98 and the City will continue to receive the 0.5% in future years. The Orange County sales tax rate remained at 7.75% as of June 30, 1997.

Comments And Analysis

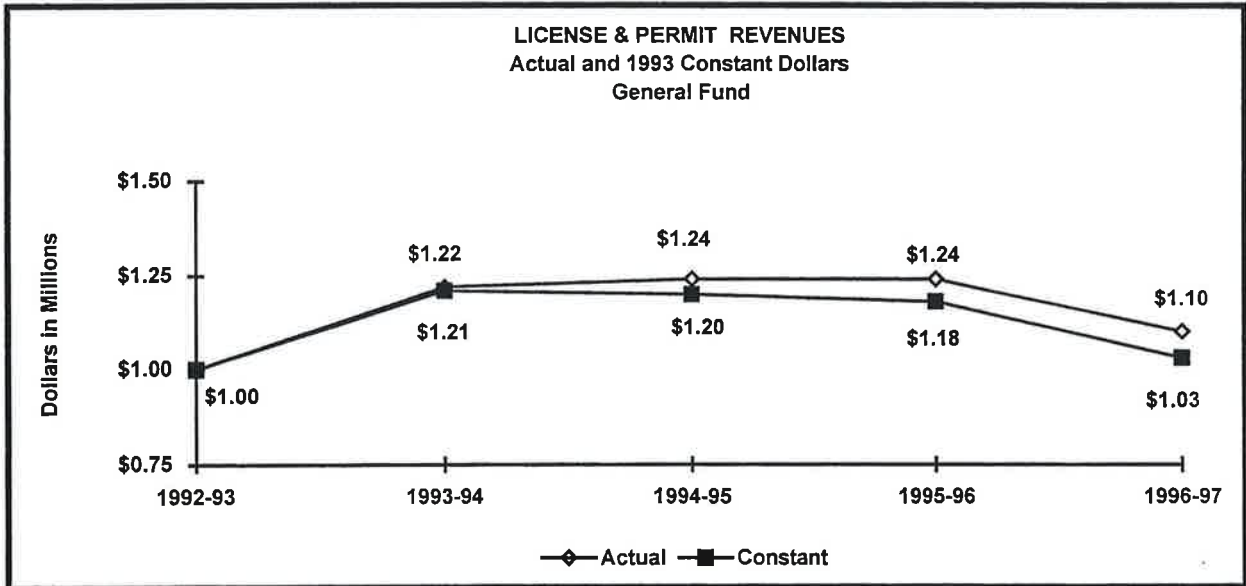
The first chart above shows sales tax revenue increasing \$16,000, or .48 percent in actual dollars during FY 1996-97. The second chart shows actual and constant sales tax revenues with seven months of impounded public safety sales tax revenues (\$122,000) included. This second chart shows a clearer picture of the actual trend in sales taxes. The chart depicts an increase over the prior fiscal year of \$138,000 in actual dollars and a \$76,000 increase in constant dollars. As summarized in the second chart above, sales tax revenues have gradually increased over the past four years in actual dollars. In fact, actual dollars have increased 22.9 percent from sales tax revenues of four years earlier. These increases boost sales tax revenue to an eight year high in actual dollars. This continued upward trend in actual dollars results in a favorable rating.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 4



Current Trend: Unfavorable

Prior Year Trend: Favorable/Caution

Description

Licenses and permits is a major revenue category that contributes significantly to the analysis of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. Included within this revenue category are business licenses, construction permits, alarm permits, and other miscellaneous permits. Licenses and permits are relatively elastic, varying directly with changes in the economy.

Comments And Analysis

In FY 1996-97, license and permit revenue decreased for the second consecutive year, finishing the year \$138,000, or 11.1 percent, below FY 1995-96 in actual dollars. In constant dollars, license and permit revenue also declined, showing a decrease of \$150,000 or 12.6 percent. This decline indicates that construction activity has decreased over the past two years. Included in this decline is business licenses, with a decrease of \$46,000, or 8.7%, from the prior fiscal year, and construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, which decreased \$77,000, or 13.7% in actual dollars over the prior year. Additionally, animal licenses, previously included in this category, were accounted for in the animal services joint powers authority, a separate legal and accounting entity. This created an additional decline of \$13,000. The decline in license and permit revenue is a concern and can be attributed to the delay in a significant development project within the City. Although this indicator receives an unfavorable rating this year because of the significant decline, it is expected that this revenue source will experience a turnaround by late 1998. Significant development

Long Term Financial Plan

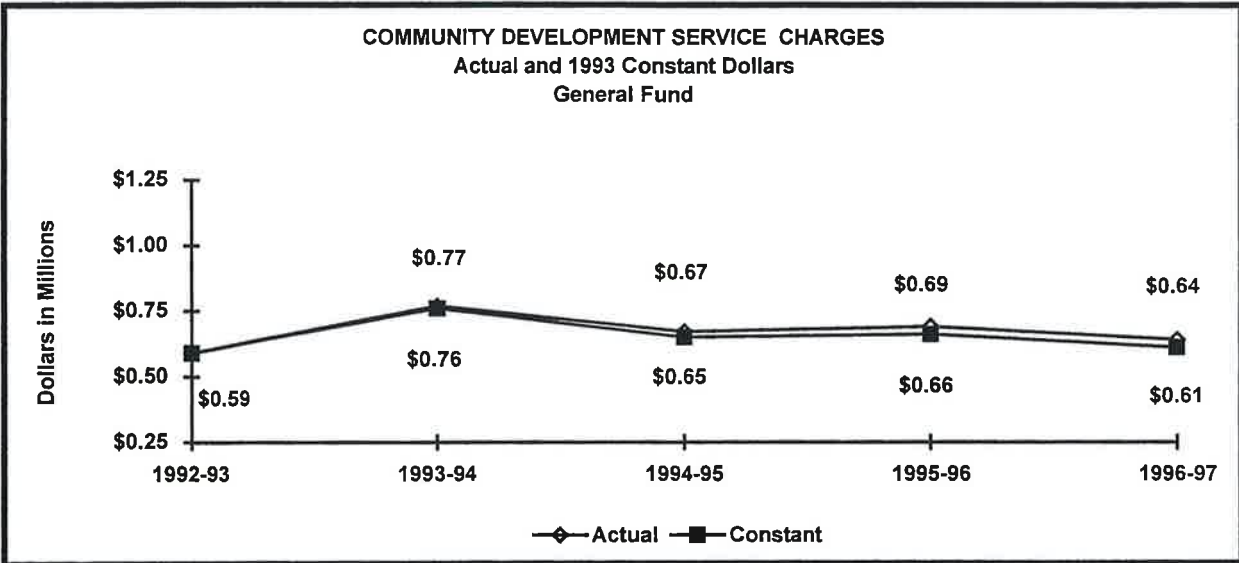
projects are expected to materialize in the current fiscal year and the City projects that construction permits will experience an increase as a result of this development. In addition, the City's Business License Division has become more proactive in collecting licenses through use of information such as vendor lists and other pertinent data supplied by the State Board of Equalization in an attempt to boost this revenue source. The City has experienced decreases in licenses and permits for the past few years in constant dollars. This indicates that the City needs to closely monitor this revenue source and continue increased collection efforts wherever possible.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 5



Current Trend: Unfavorable

Prior Year Trend: Unfavorable

Description

The analysis of community development service charges allows the City to evaluate the growth or decline in development. Constant dollars are examined to evaluate the change that is not attributed to inflation. Included within this revenue category are building plan check fees, construction inspection fees, and engineering reimbursements. Community development service charges are relatively elastic, changing directly with fluctuations in the economy.

Comments And Analysis

Total community development service charges decreased by 6.6 percent, or \$46,000 from the prior year. Specific revenue source decreases include building plan check fees of \$57,000, public works inspection fees of \$35,000, specific plan amendment fees of \$22,000, and conditional use permits of \$19,000. Partially offsetting these declines in community development service charges, the City experienced increases in construction inspection fees of \$70,000, final tract filing fees of \$8,000, and grading plan check fees of \$7,000. An overall decrease in revenues after only a slight one-year increase, leaves this trend with an unfavorable rating for the sixth consecutive year.

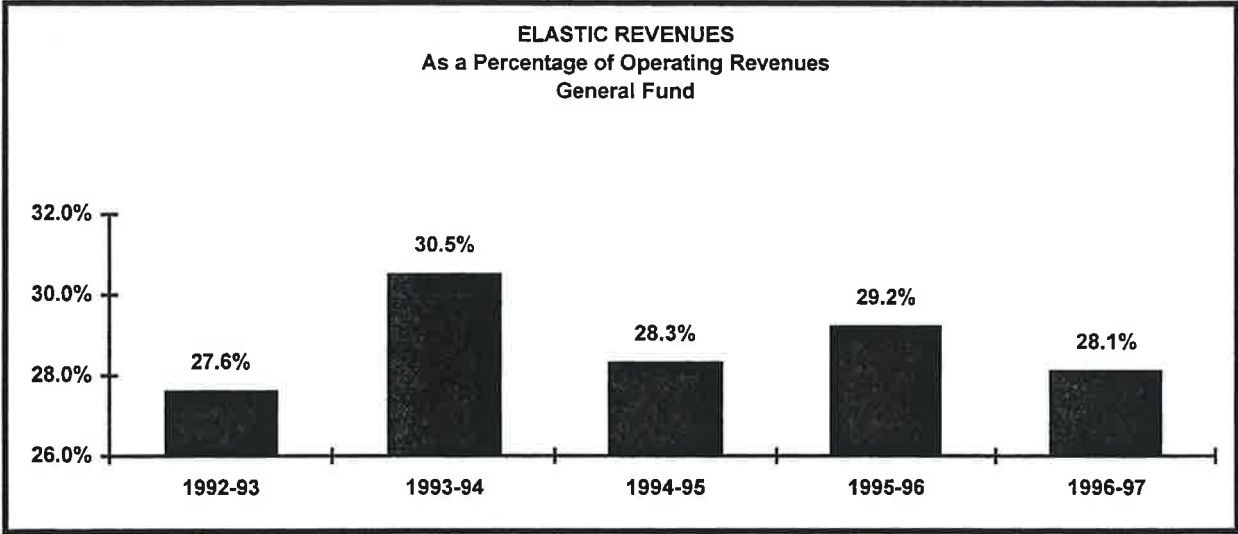
Long Term Financial Plan

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 6



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

After an increase in FY 1995-96, elastic revenues, as a percentage of operating revenues, once again declined 1.1% in FY 1996-97. Elastic operating revenues decreased \$270,000, while net operating revenues declined by \$94,000. This results in a lower overall percentage of elastic revenues as a percentage of net operating income. The City's largest elastic revenue source, sales tax revenue, was up .48%, or \$16,000, from the prior year. In addition, transient occupancy taxes showed a significant increase of \$186,000, or 41.3%. Conversely, in-lieu tax revenues declined by \$288,000, or 54.7%, as this revenue source was eliminated in November, 1996, as a result of the passage of Proposition 218. Additionally, license and permit revenues declined \$138,000, and community development service charges showed a decrease of \$46,000. These declines contributed to the overall decrease in elastic revenues. Although elastic revenues, as a percentage of operating revenues, declined in FY 1996-97, it has remained fairly stable, showing only a slight decrease. The largest share of this decrease was attributable to discontinuing in-lieu taxes. This trend maintains a favorable rating for this reason.

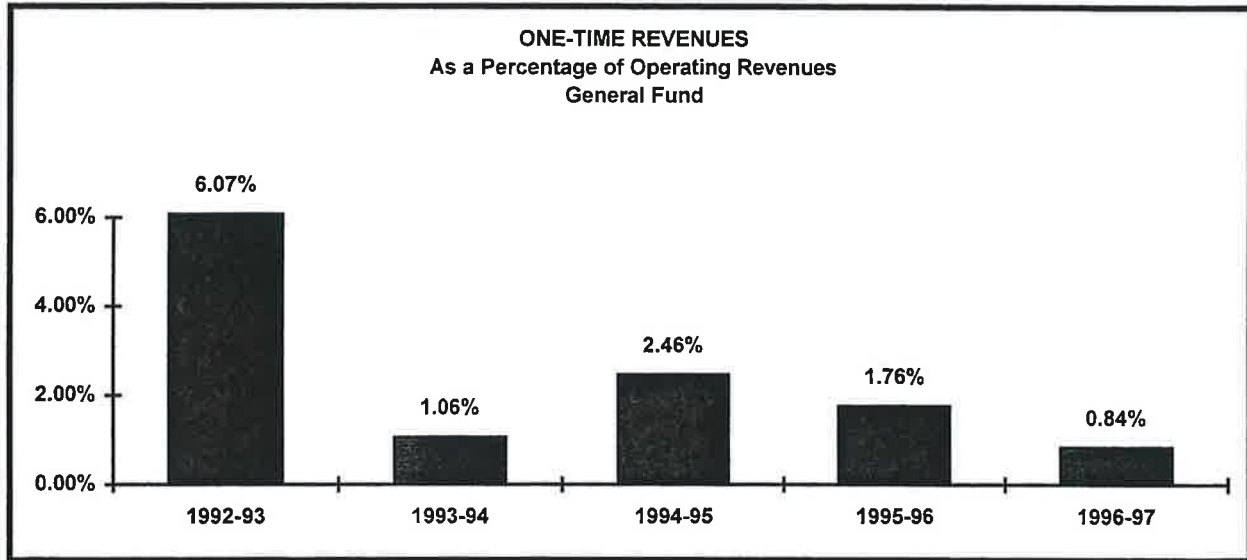
Long Term Financial Plan

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 7



Current Trend: Favorable

Prior Year Trend: Favorable

Description

One-time revenues are not expected to continue in future years. Examples of such revenues include one-time equity transfers from funds that are being discontinued, single purpose grant revenue, revenue from the sale of assets, and the appropriation of reserves. Continual use of one-time revenues to balance the annual budget is an indication that the revenue base may not be strong enough to support current service levels. As the City's fiscal policy states, every attempt to utilize one-time revenues to fund one-time expenditures should be made, allowing a balanced budget without the use of one-time revenues.

Comments And Analysis

One-time revenues are at an all-time low in FY 1996-97, showing a decline from the prior fiscal year of \$196,000, or 52.6%. This is a very favorable trend as indicated from the description above. The one-time revenues in FY 1996-97 include a supplemental law enforcement grant of \$141,000, narcotics forfeiture revenue in the amount of \$26,000, witness fees of \$6,000, and energy incentive payments from San Diego Gas & Electric in the amount of \$2,000. In accordance with the City's fiscal policy, one-time revenues were used for one-time expenditures (e.g., reserve transfers).

A favorable rating has been assigned, since one-time revenues are not utilized for operating expenditures.

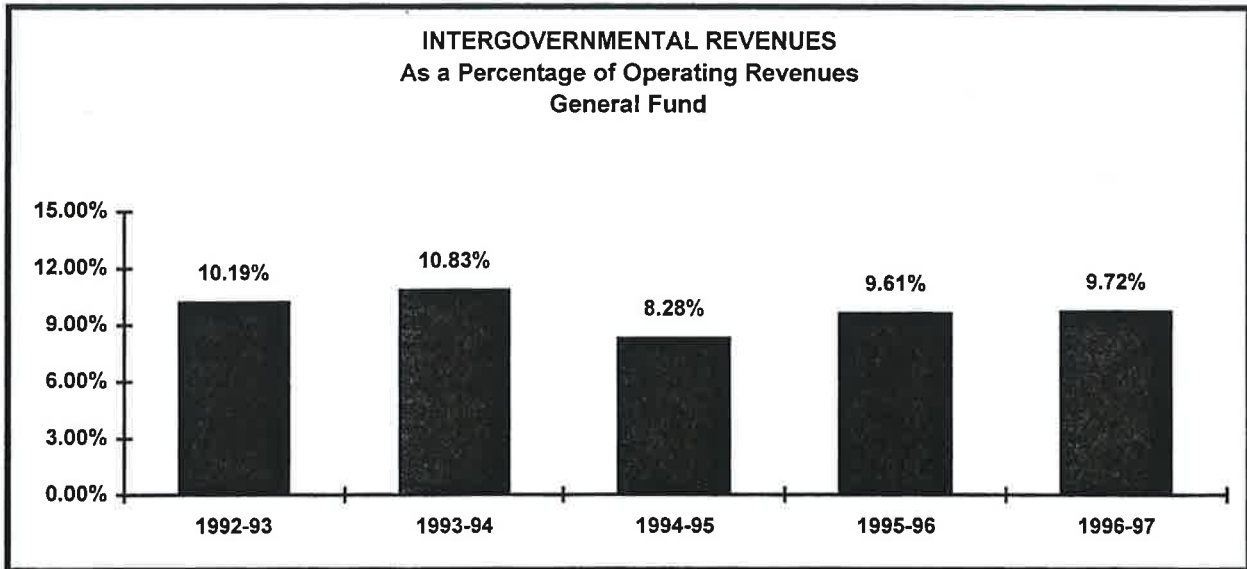
Long Term Financial Plan

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 8



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

General Fund intergovernmental revenues, as a percentage of operating revenues, remained relatively constant from the previous year, showing only a small increase. This increase consists of a .69% increase in intergovernmental revenues while operating revenues decreased by .44%, or \$94,000. The decrease in intergovernmental revenues is mostly attributable to decreases in S.O.N.G.S. grant revenue of \$14,000 and a decrease in state mandated cost reimbursements of \$66,000. Increases in motor vehicle taxes help to offset these decreases, showing an increase of \$111,000 from the previous year. This trend is viewed as favorable because the dependence on intergovernmental revenues has remained at fairly stable levels over the last nine years. However, this favorable rating should be tempered by the fact that the State and Federal governments are continuing to mandate programs, along with the cost burden, to local governments. Examples of these mandates include compliance with the Federal Americans with Disabilities Act, National Pollution Discharge Elimination System for storm drains, and

Long Term Financial Plan

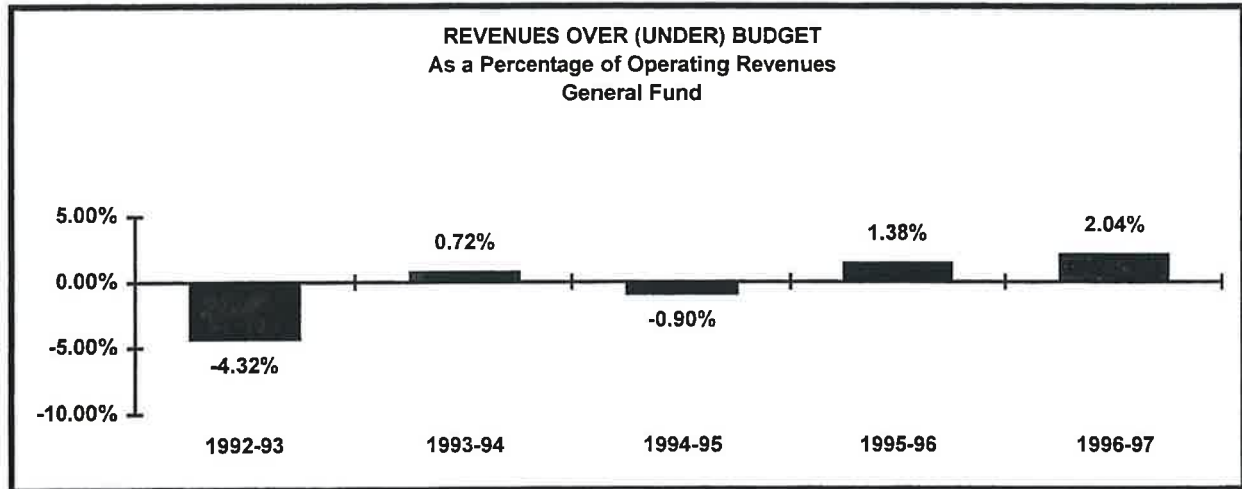
regulations regarding underground storage tanks and toxic waste disposal. Because of these additional burdens, the City has continued an aggressive pursuit of State mandated cost reimbursements under SB 90.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 9



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

In FY 1996-97, actual revenues exceeded budget by \$432,000. The City experienced a general overall increase in actual revenues in the areas of property taxes (\$226,000), sales taxes (\$16,000), transient occupancy taxes (\$186,000), and intergovernmental revenues (\$14,000). Major revenue categories experiencing decreases included community development service charges (\$46,000), in-lieu tax revenues (\$288,000), construction permits (\$77,000), business licenses and permits (\$46,000), and nonbusiness licenses and permits (\$15,000).

This trend has gradually improved over the five year analysis, beginning with a revenue shortage of 4.32% and ending in FY 1996-97 with a positive revenue position of 2.04%, the highest in eight years. Through the financial process of the Long Term Financial Plan and budget, the City has been better able to accurately forecast revenues. A favorable rating has been assigned since the City maintains a positive percentage for the second year in a row and is above the ICMA basis of a shortage of 5% or more for an unfavorable rating.

Long Term Financial Plan

Related Fiscal Policy

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

Financial Trend Analysis

General Fund Expenditures

General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has increased or decreased. Therefore, the analyses that follow show not only the change in total dollars, but changes in the types of expenditures for the past fiscal year.

When evaluating changes from FY 1992-93 to FY 1996-97 in constant dollars, the analyses show that expenditures are at the same level, showing only an increase of \$95,000, or .49%, over the five year period. The City has made significant strides toward recovering from the economic recession, and loss of revenues through State mandated actions and most recently, Proposition 218. The City has been faced with tough decisions over the past several years, being forced to cut personnel costs, important programs, and variable costs, including postponing capital equipment and capital improvement projects. During the past few years, the City has planned for its economic future by establishing reserve funds in order to replace outdated and obsolete equipment, pay for accumulated leave of City employees, and fund reserve deficits in internal service funds. The General Fund's contributions during the past three years include \$100,000 to the Accrued Leave Reserve Fund, \$302,000 to the Capital Equipment Replacement Reserve Fund, \$228,000 to the Workers' Compensation Fund, and \$332,000 to the General Liability Fund. Additionally, the General Fund has contributed \$1,000,000 to the Street Improvement Fund for improvement of the City's street system. As part of the City's cost-cutting measures, significant personnel costs have been eliminated with the loss of 166 full time equivalent positions over the past five years. Personnel costs and other expenditures have also been reduced through the contracting and privatization of several core City services, operational improvements, organizational streamlining and reduced benefit and salary levels.

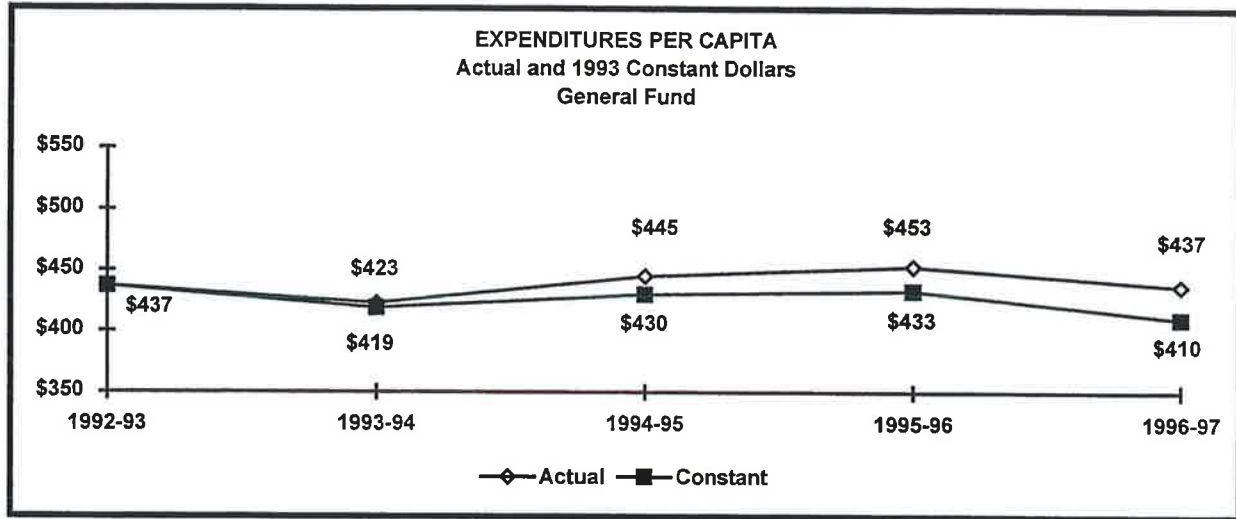
All of these cost saving measures have been accomplished while the City continues to maintain, and in some cases significantly increase, the level of services provided. Examples of these analyses can be reviewed in the 1997 LTFP issue paper entitled, "Contract Analysis and Monitoring".

A full expenditure analysis is provided for the following:

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

Long Term Financial Plan

Indicator 10



Current Trend: Favorable/Caution

Prior Year Trend: Favorable

Description

Expenditures per capita demonstrate the change in expenditures relative to the change in population. This indicator analyzes the demand for City services as the population increases. Increasing per capita expenditures may indicate the costs of maintaining existing service levels are rising or service levels are changing to reflect new demands. A decrease in expenditures per capita could signal the City's inability to maintain current service levels, or that the City is maintaining current service levels with added efficiency.

Comments And Analysis

Expenditures per capita decreased in both constant and actual dollars for the past fiscal year when compared to the prior year. Expenditures decreased in actual dollars by \$457,000 when compared with FY 1995-96, and \$770,000 in constant dollars for the same time period. Constant dollars show relatively the same expenditure level when comparing FY 1996-97 to FY 1992-93. As indicated in the expenditure overview, the City has maintained service levels while significantly decreasing its expenditures.

Property tax revenues represent 27% of the General Fund's revenue sources, and the City has realized significant decreases in property tax revenues since FY 1991-92. The City has responded by reducing spending levels in all areas. Reductions over the past several years have included contracting police services to the Orange County Sheriff's department, fire services to the Orange County Fire Authority, contracting fleet maintenance, park and beach maintenance, street striping and marking, water meter reading, and transferring storm drain maintenance to an

Financial Trend Analysis

Enterprise Fund. Additional expenditure reductions implemented as a result of the \$2.8 million budget shortfall created by Proposition 218 included reductions in liability insurance reserves, General Fund emergency reserves and Council contingency reserves, elimination of several parks and recreation programs, including the closing of a softball complex, reduction of another 26 FTE's, transfer of local dispatch services to the centralized sheriff dispatch center, and reduction of certain social services programs. In addition to these budget cuts implemented as a part of the FY 1997-98 budget, additional transfers will be made from the Golf Course Fund to the General Fund and parking meter fees were increased.

Additionally, increases in actual expenditures include transfers from the General Fund to other funds. During FY 1996-97, transfers to assist other funds in funding reserves and to fund capital improvement projects included transfers to the Capital Equipment Replacement Reserve Fund (\$102,000), Workers' Compensation Fund (\$44,000), General Liability Fund (\$123,000), and Street Improvement Fund (\$300,000). This is a positive approach to ensure that these funds have adequate reserves for future payments and emergencies and that the City continues to demonstrate its commitment to the Street Improvement Program.

Even though expenditures per capita in constant dollars are still below levels of FY 1992-93, service levels have been maintained with added efficiency on the part of City staff. Therefore, this indicator receives a favorable rating, with a note of caution added as a reminder that this trend needs to be monitored closely so that expenditure levels do not get so low as to not be able to support current service levels.

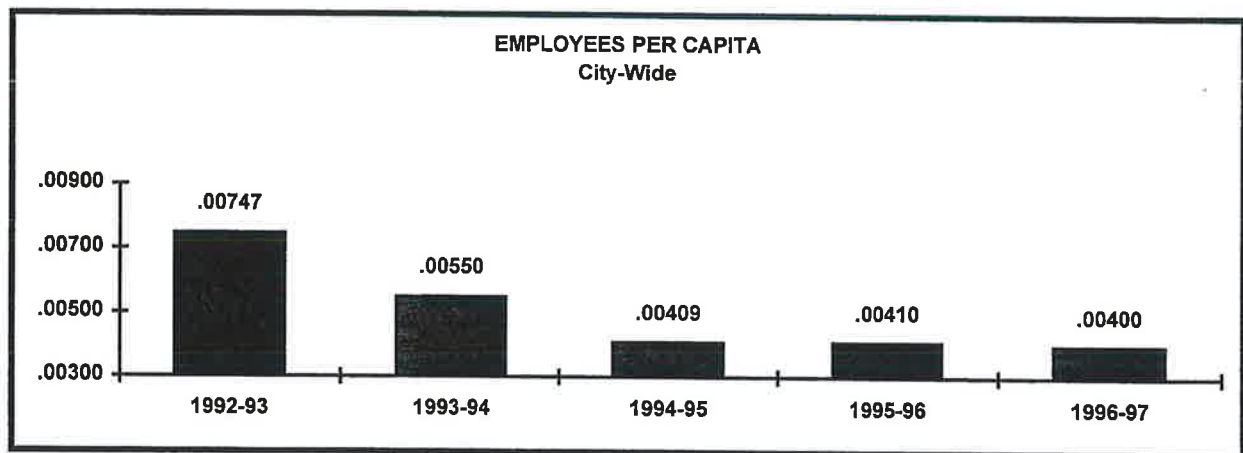
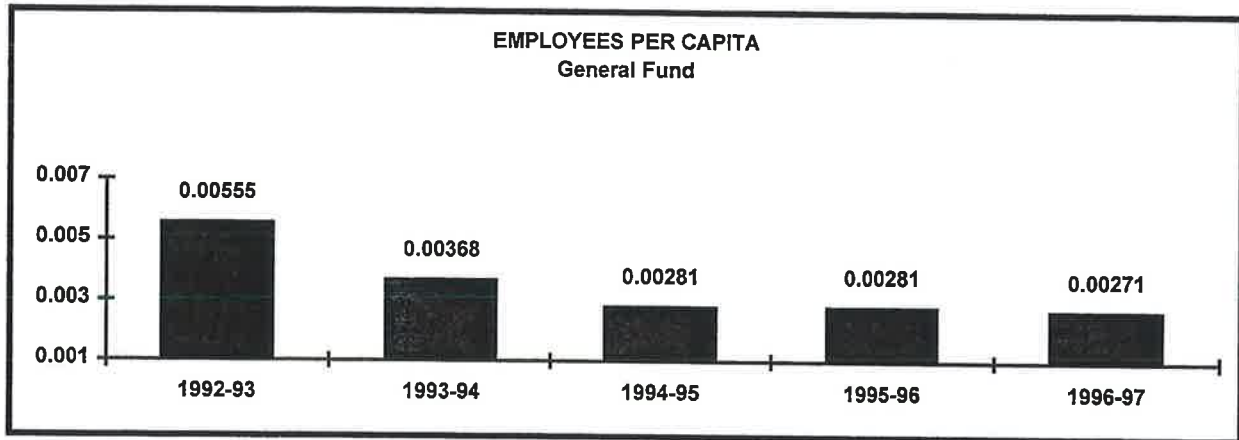
Related Fiscal Policy

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

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

Long Term Financial Plan

Indicator 11



Current Trend: Favorable/Caution

Prior Year Trend: Favorable

Description

This indicator measures the number of employees per capita. If this figure is rising, it could indicate that the City is becoming more labor intensive or that employee productivity is declining. Conversely, if this figure is declining, it could indicate that employee productivity is increasing; a need for more employees to respond to additional service demands; or the City is becoming less labor intensive. Although a downward trend may indicate that City staff is becoming more efficient at maintaining current service levels, the employee level should not get so low that service levels cannot be maintained.

Comments And Analysis

The City has reduced staffing levels from 353 full time equivalents (FTE's) in FY 1991-92 to 187 in FY 1996-97, a 47 percent reduction. The largest share of these staffing reductions are a result of contracting and privatization of City services, and additionally from downsizing and

Financial Trend Analysis

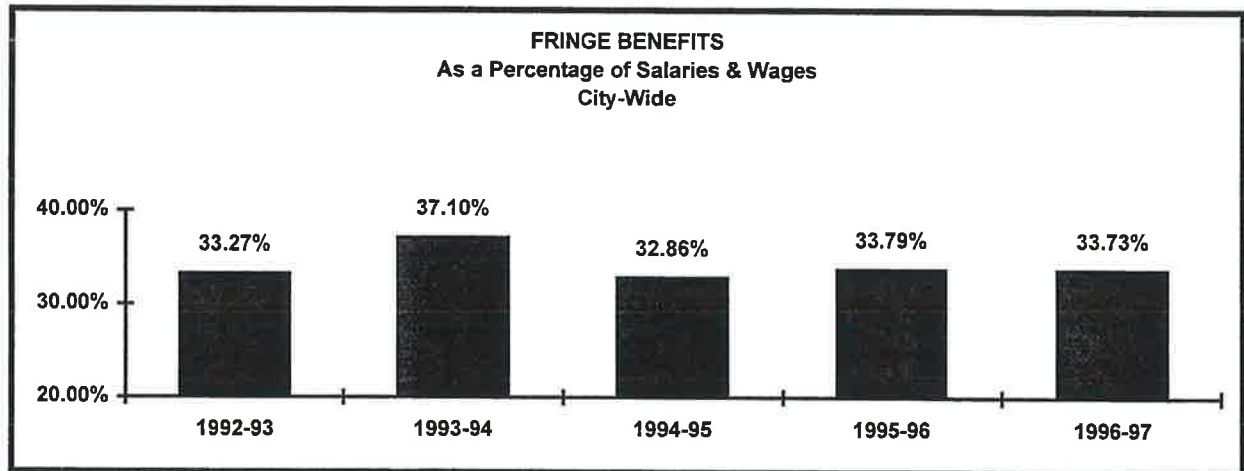
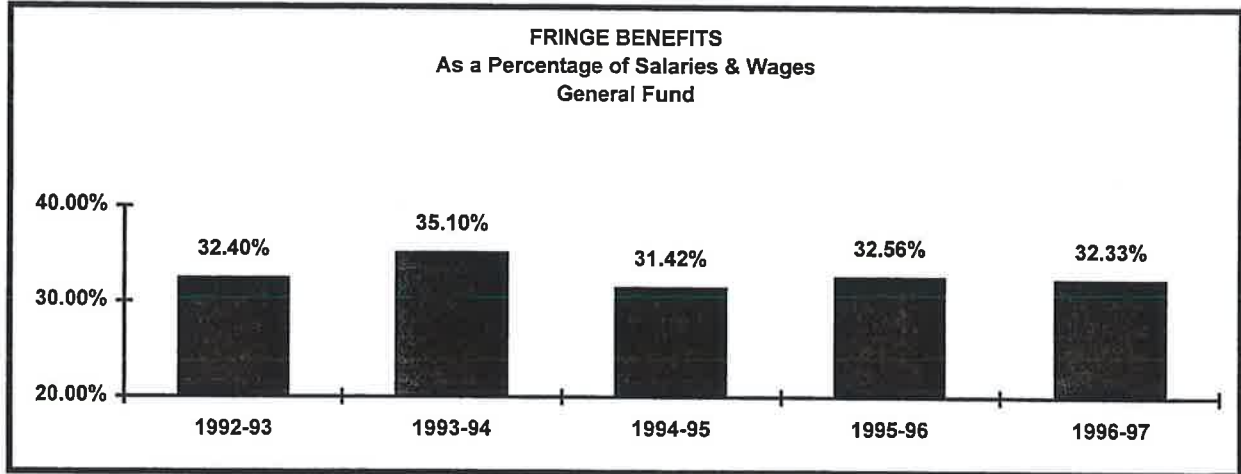
streamlining many divisions within the City. As mentioned in the section above, the City has become less labor intensive during the past several years with the contracting of Police, Fire, Beach and Parks Maintenance, Meter Reading and Fleet Maintenance. Through this contracting and downsizing, the City has seen the level of service maintained, and in many cases, improved. The City also utilizes the volunteer program to maintain service levels. These volunteers have contributed 29,000 hours, the equivalent of \$320,000, during FY 1996-97 in the areas of code enforcement, administration, special projects, youth programs, police services, and animal services. The proven efficiency of City staff, as well as the contributions made by volunteers, plays an important part in this indicator receiving a favorable rating. Once again, a note of caution has been added, as this trend needs to be monitored closely so that employee levels do not get so low as to not be able to support current service levels.

Related Fiscal Policy

No related fiscal policy.

Long Term Financial Plan

Indicator 12



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

Fringe benefits, as a percentage of General Fund salaries and wages, have remained relatively stable over the past five years as indicated in the charts above. This continued favorable rating

Financial Trend Analysis

has resulted from employee groups participating in a cost effective managed health care plan. This has significantly reduced the insurance expenditures over the past several years.

With the contracting of Police and Fire Services, significant reductions in workers' compensation and other related charges have also been experienced. Workers' compensation costs have been further reduced with the City contracting with an independent insurance carrier at a reduced cost, rather than maintaining its self-insured status.

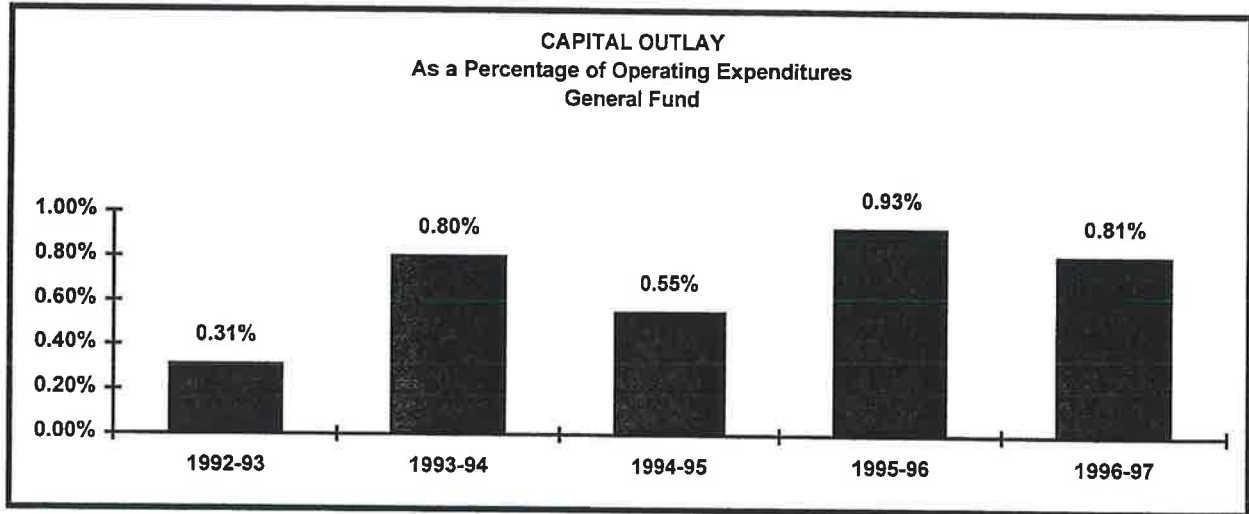
A favorable trend has been assigned for FY 1996-97, since this trend has stabilized over the past five years.

Related Fiscal Policy

No related fiscal policy.

Long Term Financial Plan

Indicator 13



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

Capital outlay expenditures decreased slightly from the prior fiscal year by \$30,000, or 15.3%.

The General Fund continues to fund the Capital Equipment Replacement Reserve Fund. This fund was established in FY 1994-95 and the General Fund again contributed \$102,000 in FY 1996-97 to fund this reserve. The purpose of the asset inventory and replacement schedule the City has in place is to ensure that, as equipment, machinery or building improvements become unserviceable or obsolete, they can be replaced with more efficient assets. This ensures that the City can maintain its high level of service to the community by utilizing efficient and up-to-date machinery and equipment. The Capital Equipment Replacement Reserve Fund is utilized to purchase or replace equipment for General Fund programs, and then charges the individual

Financial Trend Analysis

programs utilizing the fixed assets a replacement charge, which builds a reserve from which the equipment can be replaced when obsolete.

Besides the City's plan for replacing General Fund fixed assets, the City's enterprise and internal service funds have implemented capital improvement programs which include the capital lease of 75 computers and an energy efficiency program where the lighting, heating and air conditioning at all City buildings have been upgraded.

This trend receives a favorable rating for the third consecutive year because of the renewed commitment to upgrading fixed assets, permitting added efficiency of City operations.

Related Fiscal Policy

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

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

Long Term Financial Plan

General Fund Operating Position

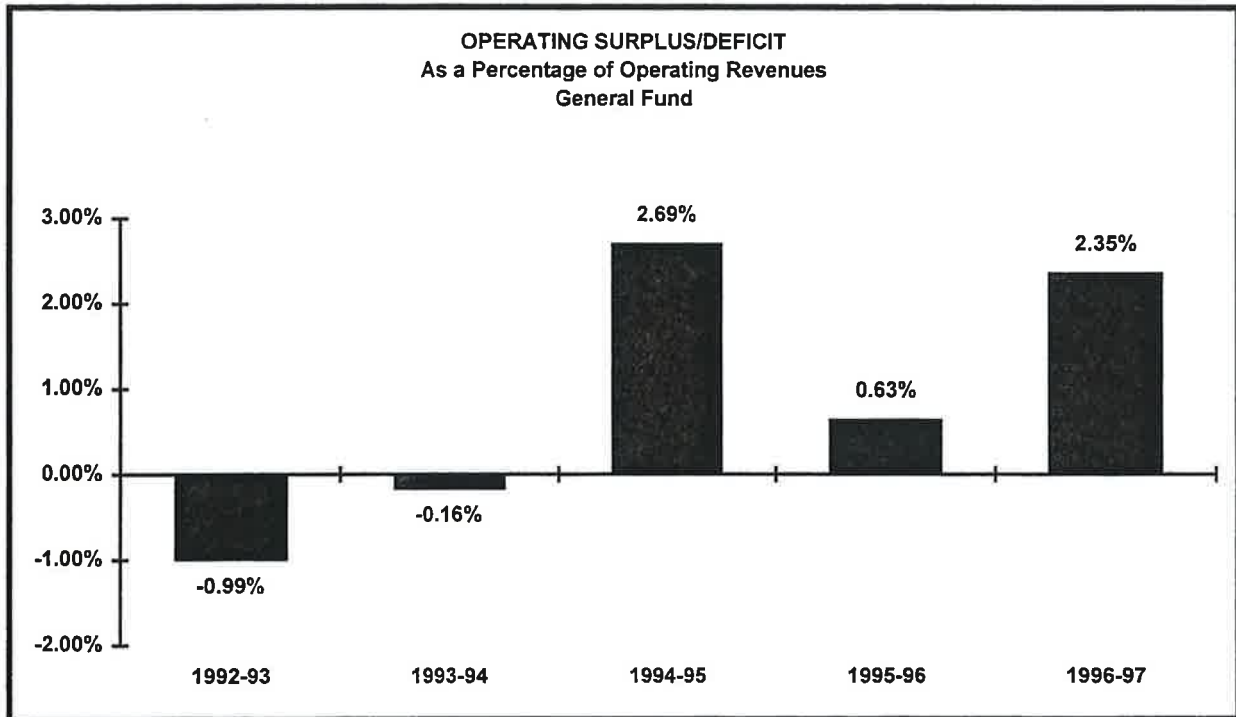
The City's operating position is its ability to balance current revenues against current expenditures, maintain adequate reserve levels, and cover short-term liabilities with short-term assets.

The following trends confirm that the City continues to show signs of economic stabilization. The improvement of the local economy, cost reduction and streamlining measures implemented by the City, and its ability to meet additional demands for restructuring (Proposition 218) have contributed to a positive operating position for the third consecutive year. As detailed further in this section, unreserved fund balance, as a percentage of operating revenues, has exceeded the previous year's indicator by almost 2%, bringing the percentage to 13.32% of operating revenues. This proves to be a very favorable position for the City to be in, especially considering the challenges of the past year of absorbing the \$2.8 million shortfall in the General Fund budget due to Proposition 218. The Council's continued commitment to the Long Term Financial Plan process once again has contributed to the General Fund's fiscal health. A complete analysis is provided in this section and the following indicators are examined in detail:

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

Financial Trend Analysis

Indicator 14



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

After experiencing minor operating deficits as a result of a past economic recession and property tax shifts to the State, the City appears to be on an upward trend with the third consecutive year of operating surpluses. These operating surpluses have come as a result of cost saving measures, implemented by the City Council and Administration. In FY 1996-97, the City has maintained an operating surplus, ending the year with 2.35%, as compared to operating revenues. The City has once again proven successful at producing revenues that are sufficient to support current

Long Term Financial Plan

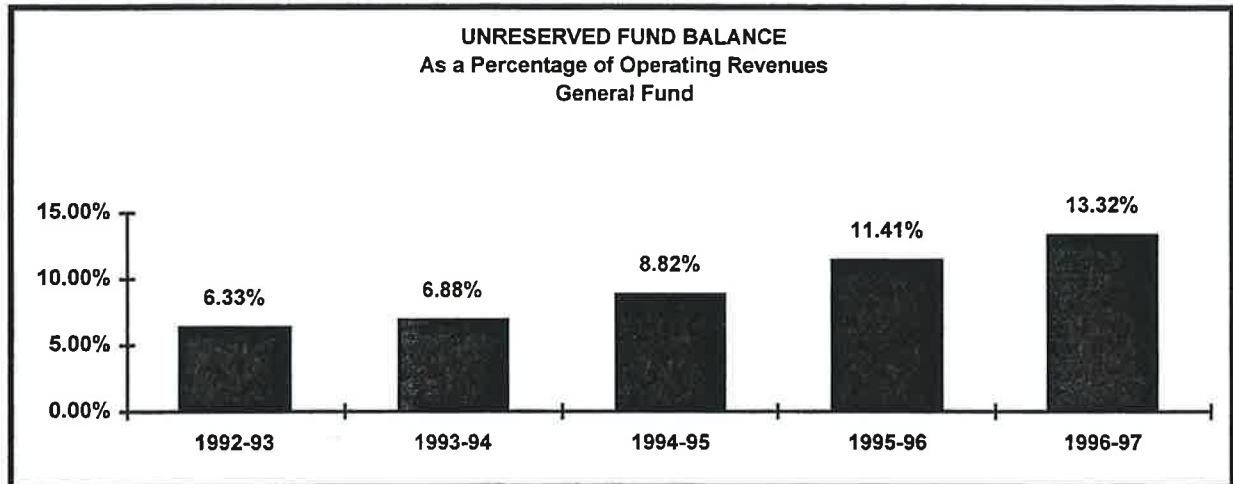
operating expenditures, while maintaining emergency reserve levels in compliance with fiscal policy. These reasons justify a favorable rating.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 15



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

Unreserved fund balance, as a percentage of operating revenues, rose another 2% in FY 1996-97 because of an increase in unreserved fund balance of \$393,000. The increase in fund balance is due, in part, 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.

The City Council adopted a fiscal policy requiring that emergency reserves be set at 5% of General Fund operating expenditures. This has proven to be the reason for the continued favorable trend of this indicator. Included within the total FY 1996-97 unreserved fund balance of \$2.8 million are General Fund Emergency Reserves totaling \$1,030,000. Additionally, the General Fund continued its contribution to other funds. Included in these transfers to other funds in FY 1996-97 are transfers to the Capital Equipment Replacement Reserve Fund (\$102,000), Workers' Compensation Fund (\$44,000), Accrued Leave Reserve Fund (\$25,000), General Liability Fund (\$123,000), and Street Improvement Fund (\$300,000).

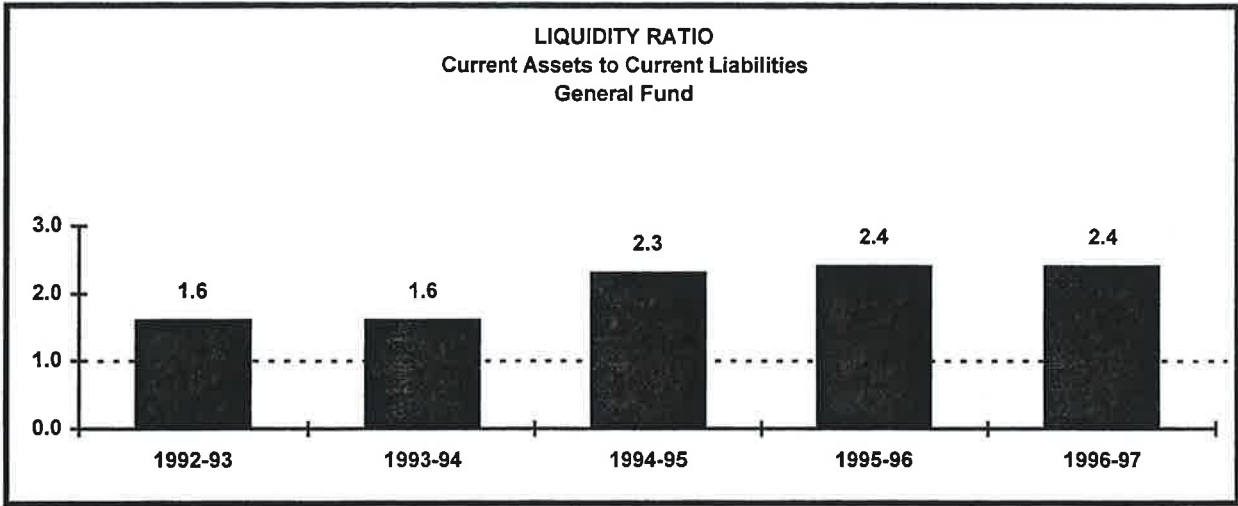
Long Term Financial Plan

Related Fiscal Policy

- #34 The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 5 percent of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn or other unforeseen catastrophic costs not covered by the Contingency Reserve.
- #35 A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than \$100,000.

Financial Trend Analysis

Indicator 16



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

In FY 1996-97, the City's liquidity ratio stabilized at 2.4:1. This represents the continued strength of the City's liquidity.

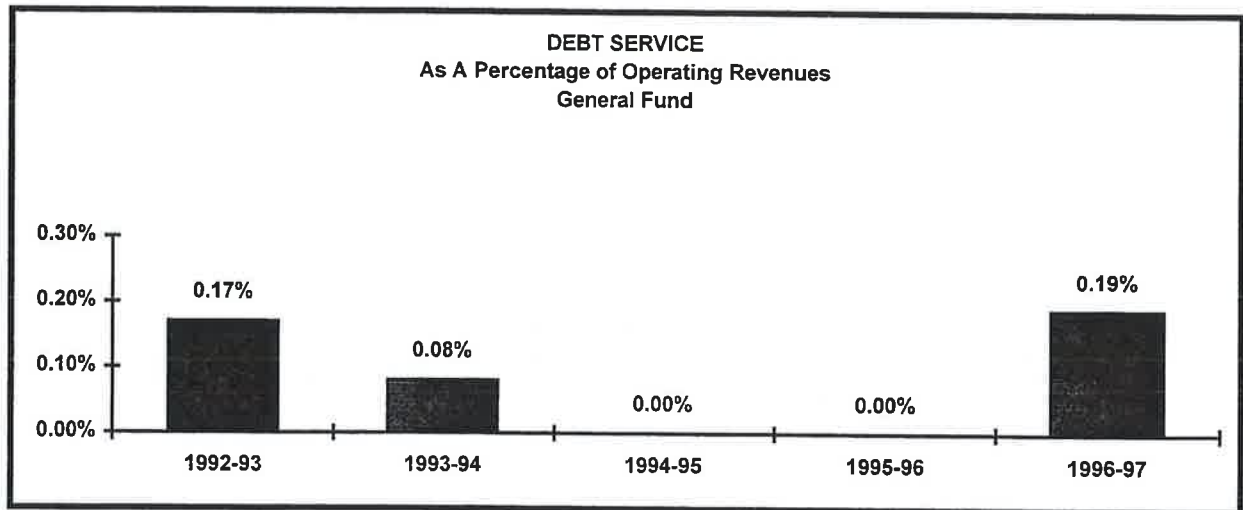
Credit rating firms consider a ratio of 1:1 as favorable. The City's 2.4:1 current asset to current liability ratio is excellent.

Related Fiscal Policy

#48 The City will maintain a liquidity ratio of at least 1:1.

Long Term Financial Plan

Indicator 17



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

General Fund debt service receives a favorable rating as it has remained relatively immaterial (less than 1%) in comparison to operating revenues over the last five years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. During FY 1996-97, the City entered into a capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings. This lease includes heating, ventilating and air conditioning units and all related control devices. The General Fund will make debt service payments on this lease for ten years, ending in 2006.

Debt service for the Negocio Building bonds is in a separate Debt Service Fund, and is not part of this analysis.

Related Fiscal Policy

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

Financial Trend Analysis

Additional Indicators

Three additional indicators are analyzed to provide information on the financial condition of the City. Accumulated compensated absences, consisting of accrued vacation, sick, and compensatory time (time-off in-lieu of overtime pay), represent an unfunded liability of the City. Unfunded liabilities are those which are incurred but have no reserve set aside for their payment when the obligation matures. In FY 1994-95, the City established a reserve for the payment of accrued leave (Accrued Leave Reserve Fund). This fund was established to pay accumulated compensated absences, which are payable at termination or retirement.

Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (27%), a further analysis has been done on the change in property values from year to year. Property values have slowed over the past four years, but in FY 1996-97, show the first signs of recovery, with an upward trend.

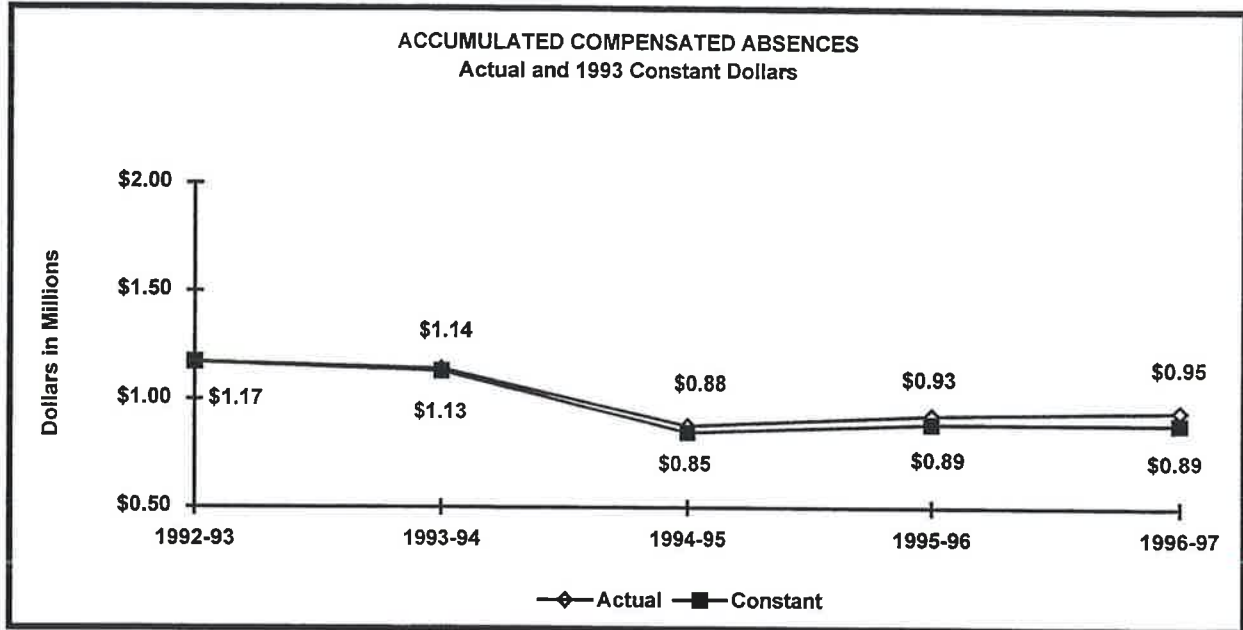
Finally, the population of the City has been analyzed over time to determine its impact on the tax base as well as the effects on additional service demands.

The following indicators are detailed in this section:

- Accumulated Compensated Absences
- Property Tax Values
- Population

Long Term Financial Plan

Indicator 18



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

This indicator receives a favorable rating because the City's liability for compensated absences has remained stable from FY 1995-96 to FY 1996-97. The considerable drop in FY 1994-95 is attributed to the contracting of fire services with the Orange County Fire Authority. The continuing stabilization of accumulated compensated absences is also attributable to the reduction of staff in other departments through the contracting of various City services and subsequent payment for accrued leave. At June 30, 1997, the balance of the liability for

Financial Trend Analysis

compensated absences was \$951,400 consisting of \$534,700 for vacation, \$380,900 for sick leave, and \$35,800 for compensatory time. This is an increase of only \$22,400, or 2.4% from the prior year's total liability of \$929,000.

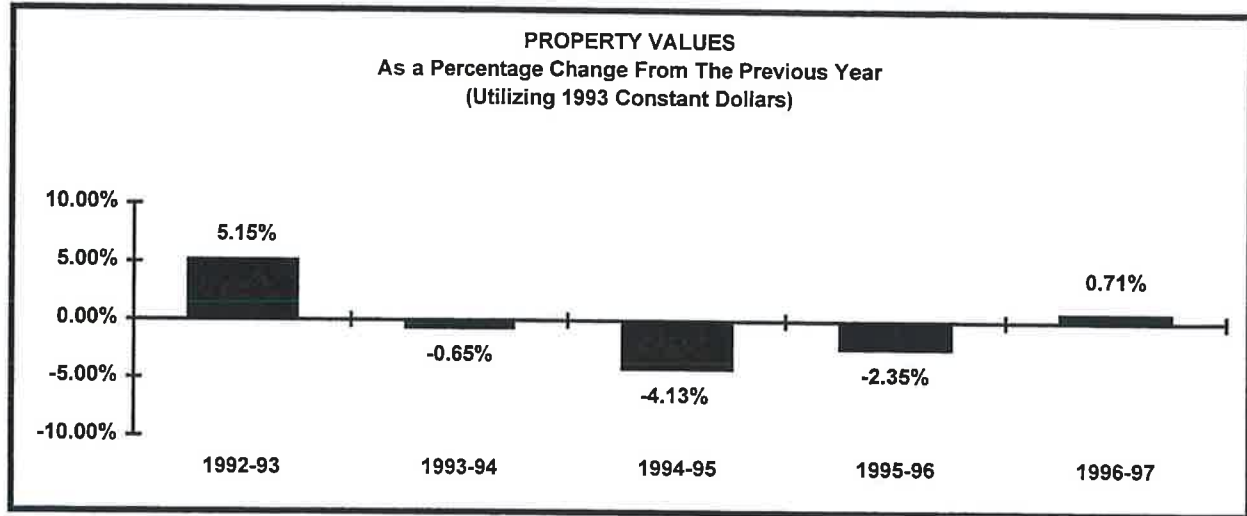
In FY 1994-95, an Accrued Leave Reserve Fund was established with a \$75,000 transfer from the General Fund. In FY 1996-97, the General Fund contributed an additional \$25,000 for the payment of accrued leave for terminated employees.

Related Fiscal Policy

#37 The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.

Long Term Financial Plan

Indicator 19



Current Trend: Favorable/Caution

Prior Year Trend: Unfavorable

Description

Property values as a percentage change from the previous year is of primary importance to the City because property tax revenue, comprising 27% of total General Fund operating revenues in FY 1996-97, is the City's single largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the City's reliance on property taxes. Likewise, a positive trend indicates a renewal of the City's financial condition.

Comments And Analysis

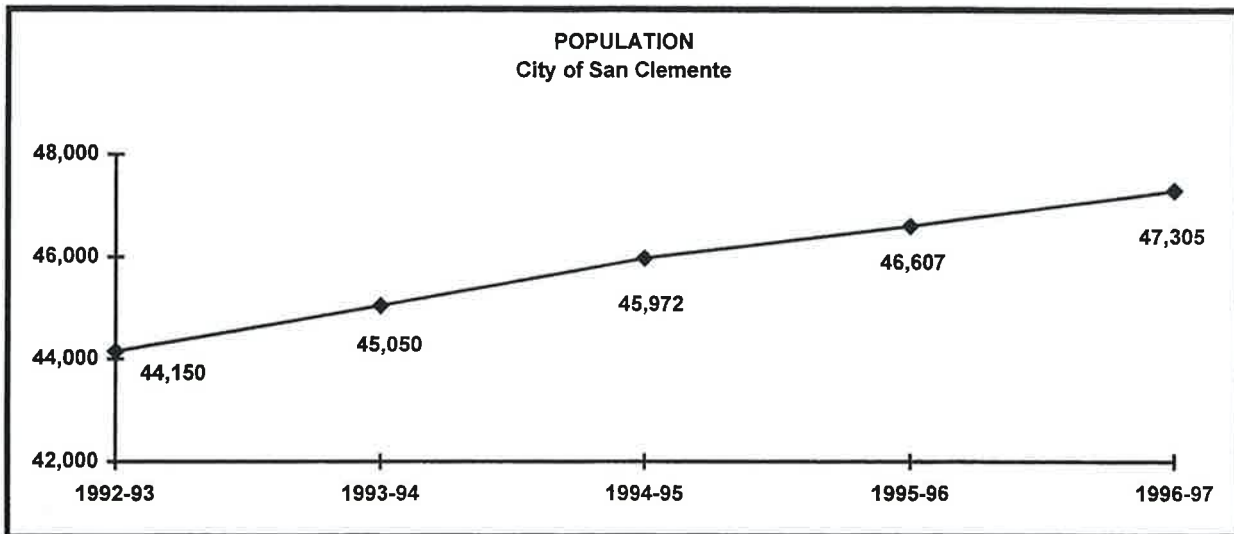
The growth rate in property values as a percentage rate from the previous year has declined over the past four years. However, FY 1996-97 showed the first positive trend in four years. Although property values increased .71% over the previous fiscal year, this trend must be closely monitored, because of the City's reliance on property tax revenues, and receives an added note of caution for this reason.

Related Fiscal Policy

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

Financial Trend Analysis

Indicator 20



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments And Analysis

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

Related Fiscal Policy

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

Financial Forecast

Objective

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

Development of the 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.

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.

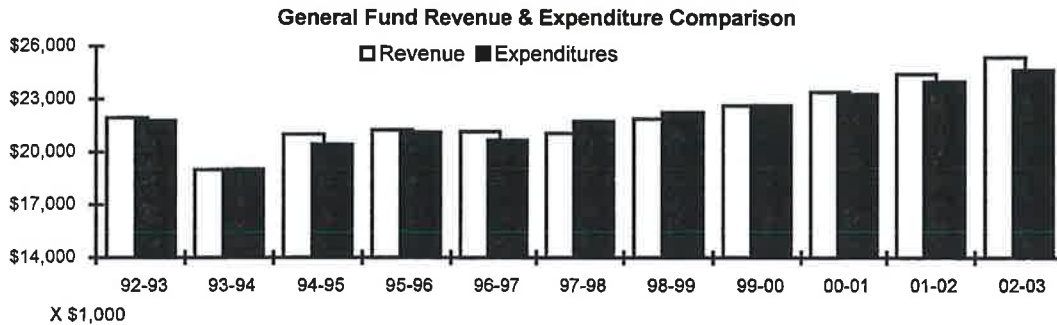
Forecast Summary & Results

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:



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)

Amount in \$1,000	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

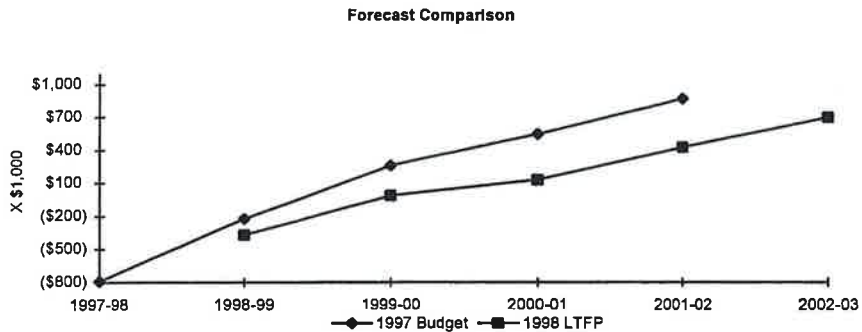
1998 Forecast Summary (LTFP)

Amount in \$1,000	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

FY97-98 Adopted Budget vs. 1998 LTFP Forecast

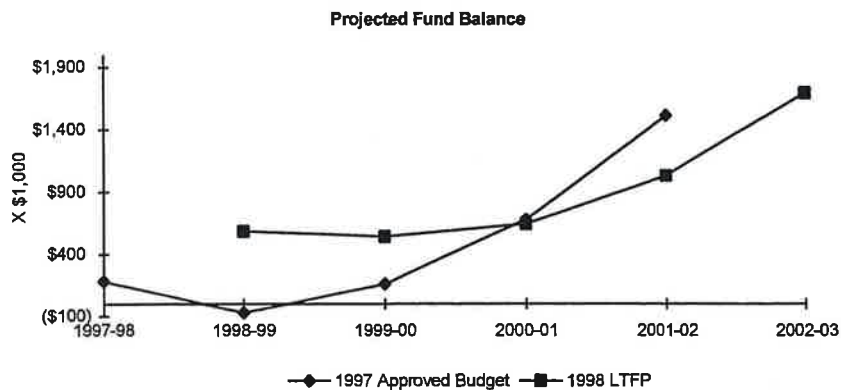
The following chart provides a graphical comparison of the City's operational position for the FY 1997-98 adopted budget forecast and the 1998 LTFP forecast.



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.

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:

Long Term Financial Plan

- Actual revenue for FY 1996-97 was \$419,000 higher than projected in the budget forecast.
- Actual expenditures for FY 1996-97 were \$276,000 under the projection in the budget forecast.
- Resulting in an increase of \$695,000 in the projected ending fund balance for fiscal year 1996-97 which 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 Reserves

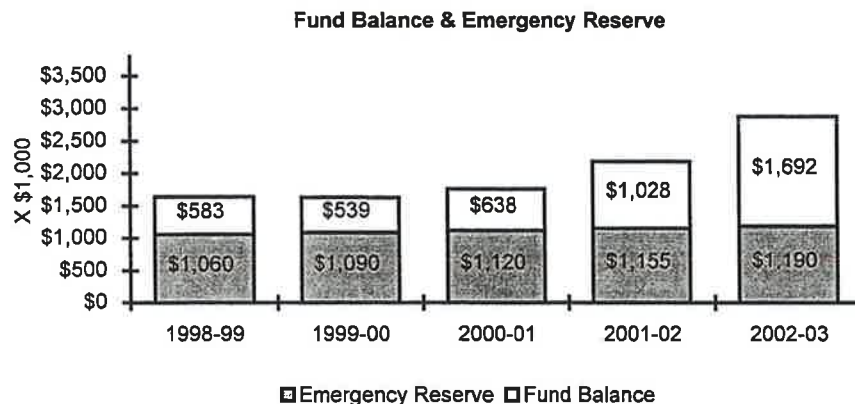
One of the main goals of the City Council is to ensure that adequate funding will be available to fund emergency reserves. The following table and graph indicates the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year forecast period.

Fund Balance & Emergency Reserve

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



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					
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

Economic and Demographic Assumptions

Economic and demographic assumptions used in the forecast measure the anticipated changes in economic activity and population growth, and affect many of the revenue and expenditure projections. The economic assumptions utilized in this forecast are based primarily on the annual Economic and Business Review developed by Chapman University and published in December 1997. Additionally, data is provided by the various City of San Clemente departments.

The Chapman forecast provides a positive outlook for the local economy. The forecast shows payroll employment in the County to grow by an annual average rate of 2.5%. Personal income is forecasted to increase an annual average of 6.2%. With annual inflation projected at 2.7%, the Chapman forecast predicts that the increased personal income will positively influence consumer spending over the forecast period. Additionally, improved housing affordability will increase demand for housing and increase housing prices. On average, resale housing prices are forecasted to increase at an annual rate of 4.2%.

A summary of the parameters utilized in the 1998 Financial Forecast to project the various revenue and expenditures categories are delineated below:

Par #	Description	1998-99	1999-00	2000-01	2001-02	2002-03	Average
1	Inflation	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
2	Population	1.1%	1.0%	1.0%	1.0%	1.5%	1.1%
3	Assessed Valuation	4.0%	3.7%	4.2%	4.8%	4.4%	4.2%
4	Personal Income	6.6%	5.5%	6.1%	6.6%	6.2%	6.2%
5	Taxable Sales	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%
6	Property Taxes	4.0%	3.7%	4.2%	4.8%	4.4%	4.2%
7	Trans. Occupancy Tax	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
8	Franchise Taxes	3.3%	3.9%	3.7%	4.0%	3.7%	3.7%
9	Prop. Transfer Tax	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
10	Construction Permits	10.1%	3.0%	1.7%	6.6%	4.6%	5.2%
11	State Subventions	2.3%	2.5%	2.4%	2.5%	2.4%	2.4%
12	Service Charges	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
13	Interest Earnings	-1.9%	-5.1%	1.8%	1.8%	2.7%	-0.1%
14	Pier & Beach Concessions	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
15	Interfund Charges	3.3%	3.9%	3.7%	4.0%	3.7%	3.7%
16	Salaries & Wages	1.9%	2.5%	2.4%	2.7%	2.4%	2.4%
17	Employee Benefits	1.9%	2.5%	2.4%	2.7%	2.4%	2.4%
18	Supplies	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
19	Services/Other Charges	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%
20	Capital Outlay	2.1%	2.8%	2.7%	3.0%	2.7%	2.7%

Following is a description of several key indicators used in developing the financial forecast:

- *Consumer Price Index (Inflation)*: Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the five year forecast and is projected to average 2.7% per year.
- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (8.2% of total General Fund revenue) and is also reflective of the scale of residential and commercial development within the City. In addition, year-to-

Financial Forecast

year population growth is a useful factor in predicting increases in several other revenue categories, such as Franchise Fees, In-Lieu Taxes and Business Licenses. Population estimates developed by the City's Planning Division project growth to average 1.1% over the forecast period.

1998-99	1999-00	2000-01	2001-02	2002-03
47,800	48,300	48,800	49,300	50,050
1.1%	1%	1%	1%	1.5%

- *Assessed Valuation:* This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property which drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 4.2% per year.
- *Personal Income:* As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 6.2% per year.
- *Taxable Sales:* Taxable sales is a measure of the total retail sales in Orange County. This indicator has a direct relationship with the City's retail sales tax revenue which is 1% of taxable sales in San Clemente. Taxable sales in Orange County for 1998-99 are projected at 5.0%.

Financial Forecast Assumptions

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

- For forecast proposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 1998-99.
- One new full-time position is presumed to be added each year in order to maintain existing service levels beginning in FY 1998-99.
- Actual expenditures are projected at 1.0% less than budgeted for all five years of the forecast. This is conservatively based on the projected actual expenditures versus budgeted expenditures.
- Actual revenue for FY 1997-98 is projected to exceed budget by 0.5% in all five years based on current revenue projections and conservative estimating techniques.
- Capital Outlay amounts to \$14,000 in FY 1998-99 of the forecast which includes one-time expenditures for Police Services. Subsequent years include \$50,000 for one time capital expenditures supporting the States' COPS program. In all five years of the forecast, \$100,000 is included as a transfer to the Capital Equipment Replacement Reserve (see table below).

Long Term Financial Plan

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at \$451,290 for FY 1998-99:

	1998-99	1999-00	2000-01	2001-02	2002-03
Workers' Comp.	\$127,970	\$0	\$0	\$0	\$0
General Liability	83,290	0	0	0	0
Capital Equipment Reserve	100,000	100,000	100,000	100,000	100,000
Accrued Leave	40,000	40,000	40,000	40,000	40,000
Council Contingency	100,000	100,000	100,000	100,000	100,000
Emergency Reserve	30	30	30	35	35
Total	\$451,290	\$240,030	\$240,030	\$240,035	\$240,035

- Council Contingency Reserve is funded at \$100,000 in each year of the forecast. The Emergency Reserve will be fully funded (5% of operating expenditures) with contributions totaling \$160,000 over the forecast period.
- Beginning in FY 1999-00, the General Fund contribution to the Street Improvement Program will include an annual 3% for inflation.
- In addition to the allocations for reserves, funding has been included in the forecast for the Street Improvement Program, as well as debt service contributions:

	1998-99	1999-00	2000-01	2001-02	2002-03
Street Program	\$500,000	\$515,000	\$530,450	\$546,360	\$562,750
800 Mhz	36,200	0	0	0	0
Unfunded Public Safety Liability	200,000	200,000	200,000	200,000	200,000
Energy Program	37,800	37,800	37,800	37,800	37,800
Animal Shelter Land	32,000	32,000	32,000	32,000	32,000
Utility Lifeline Rates	30,000	30,000	30,000	30,000	30,000
Negocio	7,000	7,000	7,000	7,000	7,000
Total	\$843,000	\$821,800	\$837,250	\$853,160	\$869,550

Factors Not Included In The Forecast

- This forecast is based on the General Fund only. The impact of operations of other funds on the overall City financial structure is not included in the base forecast.

Financial Forecast

- No new or enhanced programs are included in the forecast.
- Major new proposed or potential development projects such as Marblehead Coastal, Forster Ranch or Talega Valley are not incorporated into the financial forecast.

General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.8%, compared to an historical five year growth rate of 1.6%.

- Property Tax revenue is projected to increase an average of 4.2% per year compared to a -3.3% average historical decrease over the past five years.
- Construction permits are projected to decrease from a historical average of 5.4% to 5.2% per year for the forecast period.
- Service Charges are projected to increase an average of 5.0% per year compared to a -3.4% average historical growth rate over the past five years.
- Fines are projected to increase an average of 2.4% per year compared to a 1.9% average historical growth rate over the past five years.

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

- **Historic Growth Rate:** Provides the average annual rate of growth for the past five years from FY 1992-93 to FY 1996-97.
- **1997 Projected Growth Rate:** Average annual rate of growth projected for the five years as indicated in the 1997 adopted budget forecast.
- **1998 Projected Growth Rate:** Average annual rate of growth projected for the current five year forecast.

General Fund Growth Rate

Historic Growth Rate	1.6%
1997 Projected Growth Rate	3.4%
1998 Projected Growth Rate	3.8%

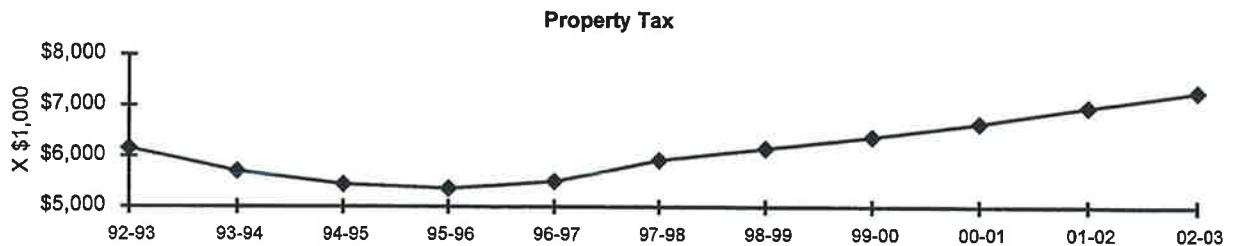
The 1998 forecast provides for a higher overall improvement in the economic recovery than was projected in the 1997 forecast.

Long Term Financial Plan

Property Tax

Historic Growth Rate	-3.3%
1997 Projected Growth Rate	4.5%
1998 Projected Growth Rate	4.2%

Property Tax has been the most relied upon local government revenue for decades. It continues to be the City's single largest revenue source and represents 28% of the total General Fund budgeted revenue. Over the past five years the City has realized an annual \$1.2 million reduction in Property Tax receipts as a result of the net shift in revenues from the City to the State. Additionally, the decline in property values also negatively impacted property taxes received by the City. However, Property Tax revenues are anticipated to increase throughout the forecast period due to a projected increase in housing valuation and personal income. However, it will take until FY 2001-02 to reach the same level achieved in FY 1991-92.



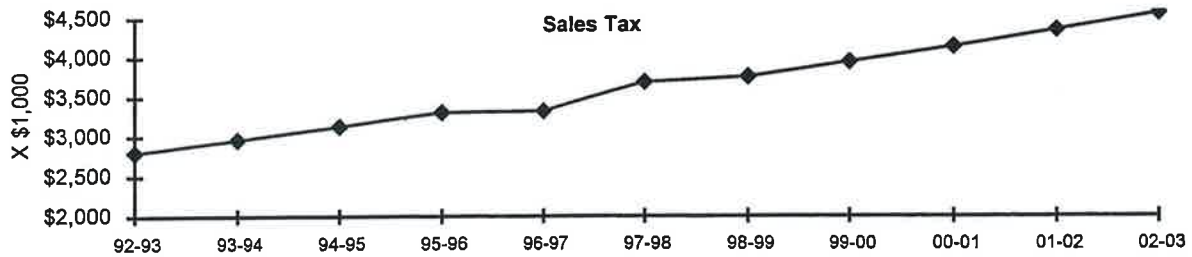
Sales Tax

Historic Growth Rate	5.7%
1997 Projected Growth Rate	7.1%
1998 Projected Growth Rate	4.3%

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 4.3% in the forecast period due to projected growth in personal income combined with annual inflation of 2.7%. Annual growth rates in the forecast are based on taxable sales projections for Orange County presented in the Chapman University Economic and Business Review of December, 1997.

The average annual projected sales tax growth rate of 4.3% is lower than the 1997 rate of 7.1% due to a reduction of one-time revenue from the Proposition 172 impound included in the 1997 projection which artificially inflated growth. Proposition 172 sales tax revenue, the half cent for Public Safety, has increased sales tax revenue by an average of \$225,000 since implemented in FY 1994-95.

Financial Forecast

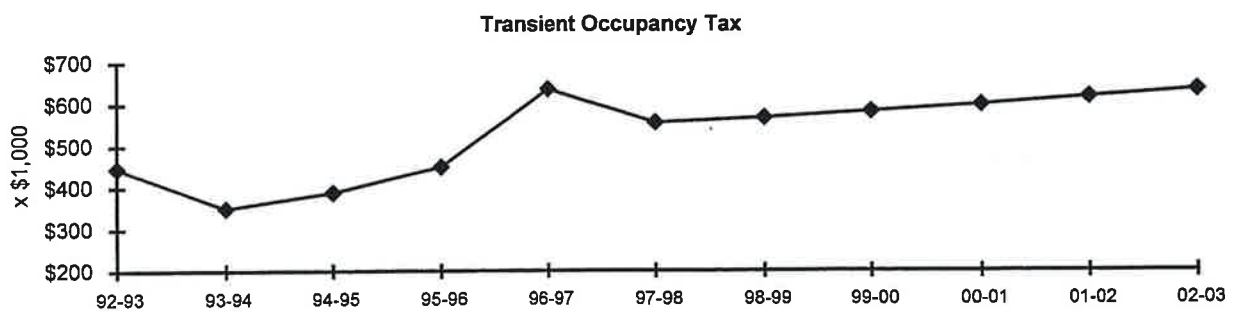


Transient Occupancy Tax

Historic Growth Rate	18.5%
1997 Projected Growth Rate	2.6%
1998 Projected Growth Rate	2.7%

Transient Occupancy Tax is an added charge against room rates at local hotels. It is another elastic revenue source affected by swings in the economy. The historic growth rate of 18.5% includes an increase in TOT revenue resulting from an annual audit on hotel/motel owners which began in FY 1993-94.

The average growth rate of this revenue source for the five year forecast period is projected at 2.7% per year, and is based on the consumer price index projections for Orange County presented in the Chapman University Economic and Business Review of December, 1997.



Licenses and Permits

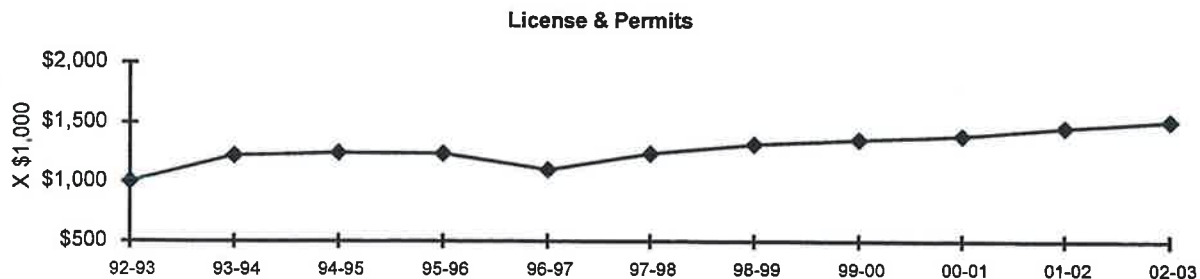
Historic Growth Rate	3.2%
1997 Projected Growth Rate	4.1%
1998 Projected Growth Rate	4.1%

Long Term Financial Plan

Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as alarm permits is projected to grow an average of 4.1%, the same as the 1997 projected growth rate.

Business license revenue dropped sharply in FY 1996-97 due to a change in the billing period for multiple unit dwellings, combined with the loss of business license revenue from a major developer. However, business license revenue is anticipated to gradually increase throughout the forecast period.

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to increase during the forecast period based on a combination of the Chapman University annual economic forecast and City of San Clemente Community Development Department. Major new proposed or potential development projects such as Marblehead Coastal, Forster Ranch or Talega Valley are not incorporated into the financial forecast.



Grants and Subventions

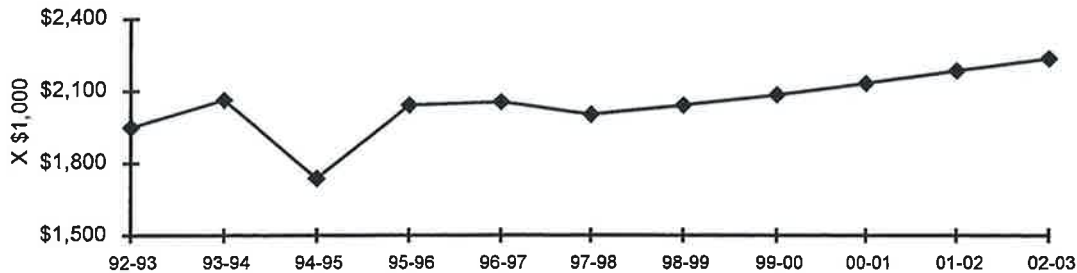
Historic Growth Rate	3.8%
1997 Projected Growth Rate	1.8%
1998 Projected Growth Rate	2.2%

The predominant source of revenue in this category is Motor Vehicle Tax. Grants and Subventions revenues are projected to grow at a rate of 2.2% over the forecast period, compared to an historical growth rate of 3.8%.

Motor Vehicle Tax revenues are projected to increase by an annual average of 2.5% and are based on 50% of expected inflation plus 100% of anticipated population growth.

Financial Forecast

Grants & Subventions

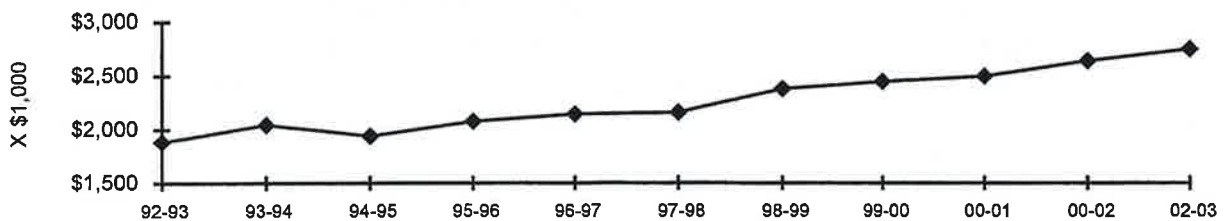


Service Charges

Historic Growth Rate	-3.4%
1997 Projected Growth Rate	3.8%
1998 Projected Growth Rate	5.0%

This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. Total service charges are projected to grow at an annual rate of 5.0% over the forecast period, 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.

Service Charges

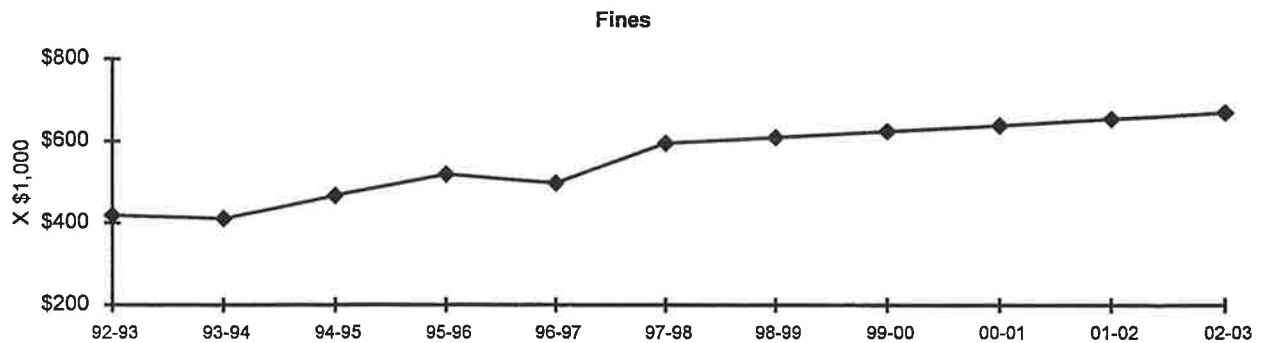


Fines

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

Long Term Financial Plan

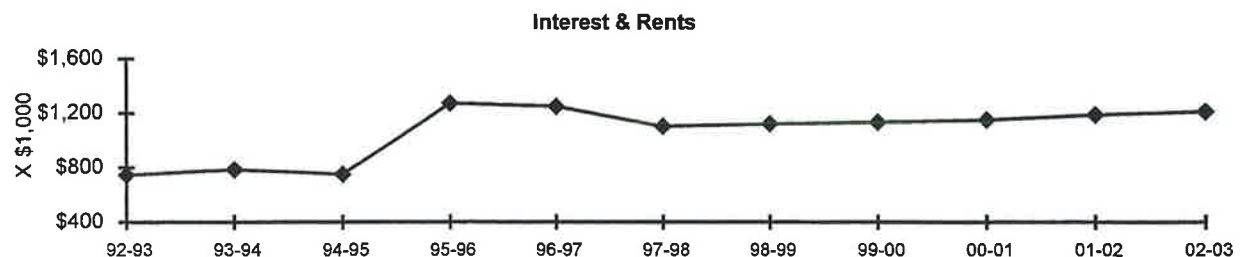
The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 1998 projected rate of 2.4% varies from the 1997 adopted budget rate of 8.0% due to the increase reflected in first year of the projection for a new fine schedule. The increase is now 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%

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.

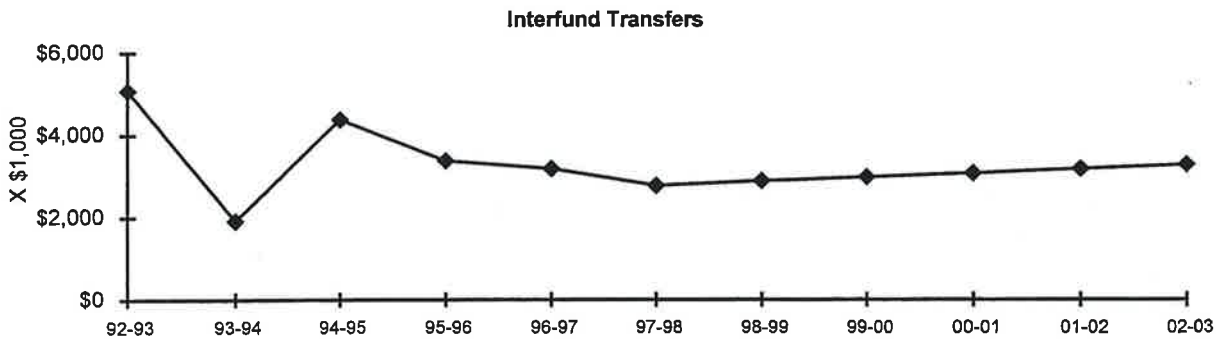


Financial Forecast

Interfund Transfers

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

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 in effect in FY 1997-98 will remain constant. No new programs are assumed.

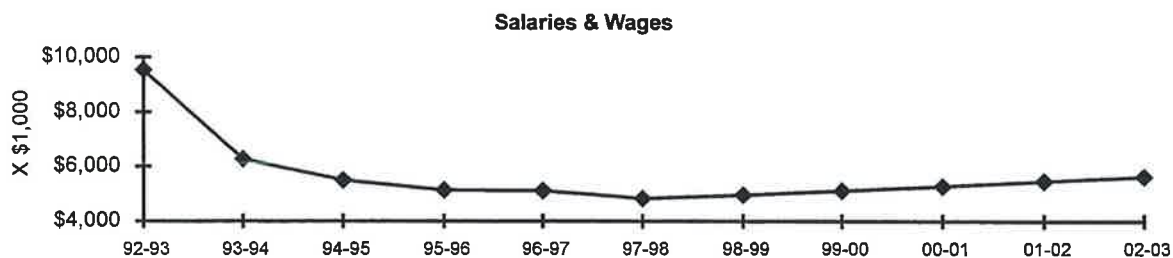
The 1998 projection from the base year is based primarily on inflation. Also included is the projected addition of one employee per year over the forecast period beginning in FY 1998-99.

Salaries and Wages

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

The 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.

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

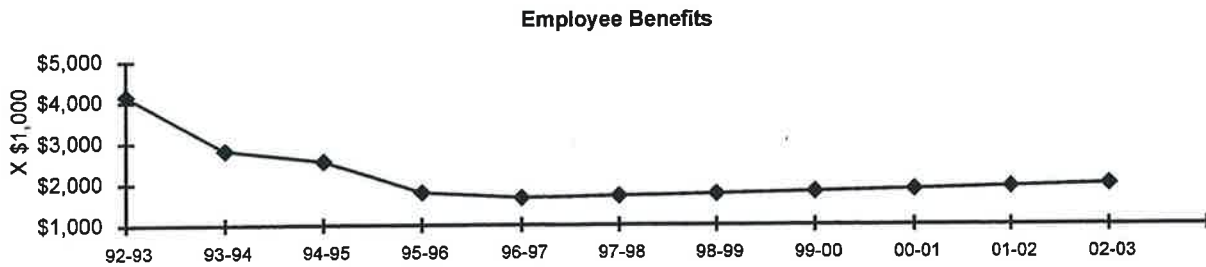


Employee Benefits

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

Financial Forecast

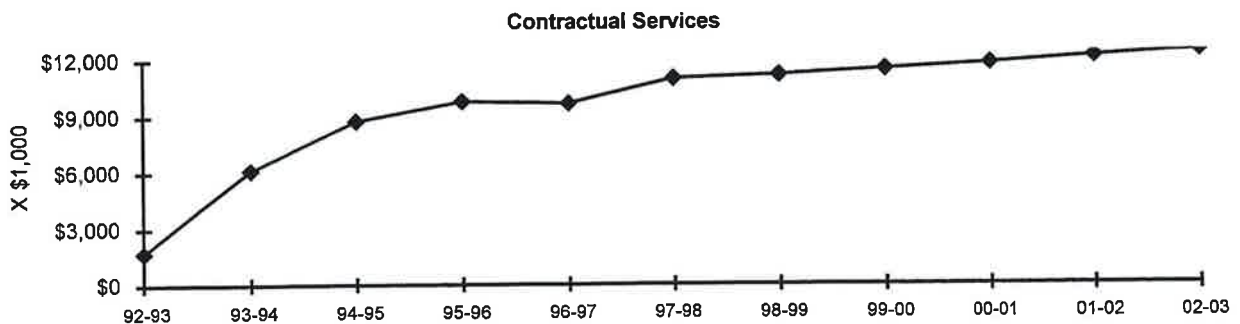
The employee benefits category reflects an average projected growth rate of 3.1% for the forecast period. The historical average of -16.0% for this category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.



Contractual Services

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

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.

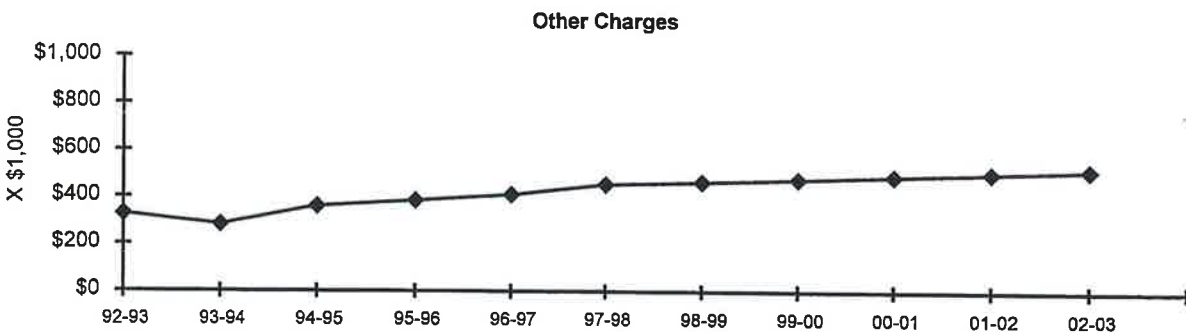


Long Term Financial Plan

Other Charges

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

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



Capital Outlay

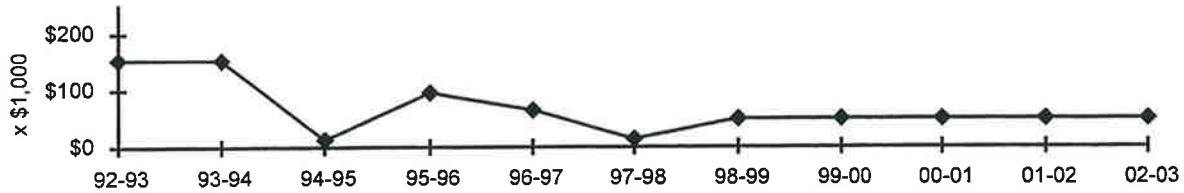
Historic Growth Rate	388.2%
1997 Projected Growth Rate	562%
1998 Projected Growth Rate	49.8%

The projected growth rate for Capital Outlay is 49.8%, 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.

Financial Forecast

Capital Outlay

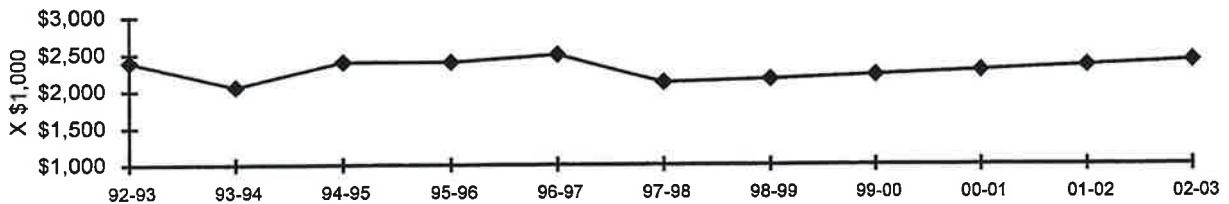


Interdepartmental Charges

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

Interdepartmental Charges



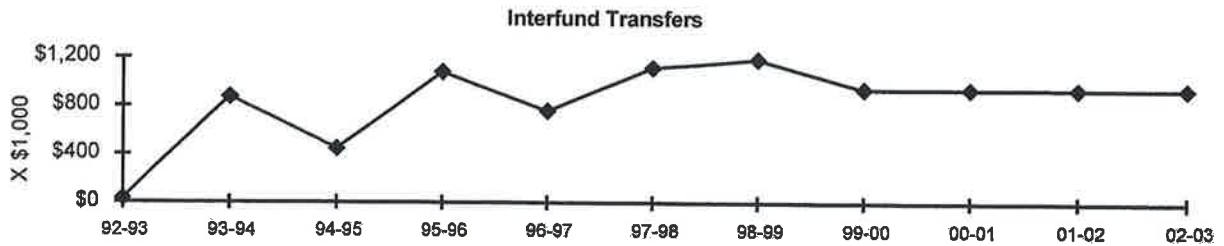
Interfund Transfers

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

Long Term Financial Plan

expenditures. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Reserve Analysis

Objective

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

Summary

The reserve funds analyzed include:

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

All funds above, with the exception of the General Fund, are supported by interfund transfers from other departments. In accordance with sound accounting and budgeting practices, each fund should maintain a positive fund balance and the appropriate level of reserve (wherever dictated by the City's fiscal policy). The General Liability Fund, Workers' Compensation Fund, Accrued Leave Reserve Fund, Fleet Replacement Reserve Fund, and Capital Equipment Replacement Reserve Fund are classified as internal service funds. These funds must charge other departments for the services they provide. The charges must be adequate to fully recover the costs of providing the services. Conversely, the City should not transfer more funds than are actually needed to fully reimburse these funds for the services provided and to fund reserves required by fiscal policy.

Background

The initial Long Term Financial Plan (LTFP) was completed in January, 1993 and included a Reserve Analysis issue paper. This issue paper has been updated annually since that time. The 1993 LTFP made recommendations to fund negative fund balances existing in some of the internal service funds listed above. It also recommended that certain reserves be built up to a realistic level (General Fund Emergency Reserve) and that other internal service funds be set up for the purpose of funding certain reserves that were deemed necessary at the time (Accrued Leave Reserve and Capital Equipment Replacement Reserve). The establishment of these reserve funds are contained in the City's fiscal policy.

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

Long Term Financial Plan

- The City will maintain General Fund Emergency Reserves at a level at least equal to 5% of General Fund operating expenditures for the purpose of providing protection of the City's essential service programs and funding requirements during periods of economic downturn, or other unforeseen catastrophic costs not covered by the Contingency Reserve.
- A City Council Contingency Reserve of no less than \$100,000 per year will be established to provide for non-recurring, unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs.
- The Accrued Leave Reserve Fund will be utilized 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.
- 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 (SIR) for the General Liability Insurance Fund.
- The City will establish a Capital Equipment Replacement Reserve Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.
- The City will project its capital 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 has implemented budgeted transfers in order to be in compliance with the related fiscal policies outlined above.

The following table summarizes the contributions made to the various reserve and self insurance funds since the adoption of the City's first Long Term Financial Plan through June 30, 1998.

Reserves	Funding Source	Reserve Contributions
General Fund Emergency Reserve	General Fund	\$1,029,640
Council Contingency Reserve	General Fund	\$1,050,000
General Liability	All Funds	\$1,659,820
Workers' Compensation	All Funds	\$1,097,380
Accrued Leave	General Fund	\$215,000
Capital Equipment Replacement	General Fund	\$408,680
Total		\$5,460,520

The following sections will update recommendations made during prior Reserve Analysis issue papers. Recommendations will be made as to funding deficits and reserves in future years.

Reserve Analysis

Analysis of the Funds

Each of the funds will be analyzed using the following guidelines:

- City Council Fiscal Policy
- Assessment of the Current Situation
- Recommendations
- Fiscal Impact of Recommendations

General Fund Emergency Reserve

City Council Fiscal Policy: Maintain an emergency reserve of no less than 5% of General Fund operating expenditures. The purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn, lasting two years or more, or other unforeseen catastrophic costs not covered by the Contingency Reserve. This reserve is to be accessed only upon the occurrence of serious conditions warranting emergency measures and requires City Council approval prior to expenditure. It has not been necessary to expend any portion of this reserve since its inception.

The 5% reserve level is based on the City's aging infrastructure, history of naturally caused damage (flooding, storms, etc.), potential recessionary or inflationary conditions and other such factors. Additionally, rating agencies generally acknowledge the need for a General Fund reserve of between 5-10% depending on the factors indicated above. The Government Finance Officer's Association (GFOA) recommends a level equivalent to one month's operating expenditures or 8.33%.

In the initial 1993 LTFP, the Financial Trend Analysis issue paper noted a trend where unreserved fund balance continued to decline over time due to operational losses beginning in FY 1989-90. The City had no plan in place at this point in time to fund an emergency reserve. Although the General Fund was again facing significant deficits, City Council made a decision to phase in an 8% reserve requirement over the following five year period. This schedule was strictly adhered to until FY 1996-97 when it became necessary to adjust the reserve downward due to the impact of Proposition 218. During the 1997 LTFP process, City Council approved, along with other budget cuts, a reduction of the required emergency reserve level to 5% of operating expenditures. This revised schedule has been incorporated into the City's financial forecast. As a result of the modification to the City's fiscal policy, the City has met the goal of 5% of operating expenditures as an emergency reserve. The table below outlines contributions made to the emergency reserve since the adoption of the City's first Long Term Financial Plan in 1993.

	Contribution	Cumulative Total	Percentage
FY 1992-93	\$509,640	\$509,640	
FY 1993-94	\$120,000	\$629,640	3.30%
FY 1994-95	\$150,000	\$779,640	4.00%
FY 1995-96	\$250,000	\$1,029,640	5.02%
FY 1996-97	-0-	\$1,029,640	5.00%
FY 1997-98	-0-	\$1,029,640	4.97%

Long Term Financial Plan

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.

Fiscal Impact of Recommendation

Projected General Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of \$160,000.

General Fund - City Council Contingency Reserve

City Council Fiscal Policy: Maintain a reserve of no less than \$100,000 per year. The purpose of this reserve is to provide for non-recurring, unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. Unlike the General Fund emergency reserve, this reserve has been drawn upon annually to address operating needs of the City and it is anticipated that this trend will continue.

The table below shows expenditures from the Council Contingency Reserve since the first Long Term Financial Plan:

FY 1992-93	200,000	1
FY 1993-94	72,420	2
FY 1994-95	180,700	3
FY 1995-96	167,840	4
FY 1996-97	81,700	5
FY 1997-98 (through 12-31-97)	6,630	6

1 1992-93 Storm Drain repairs.

2 \$45,000 Animal Shelter Relocation; \$6,900 Disposal Fees; \$20,520 Public Nuisance.

3 \$15,000 Nuisance Abatement; \$2,000 Offshore Drilling Moratorium; \$7,020 for Reclassification; \$12,600 for Beach Club renovation; \$144,080 for Classification & Compensation implementation.

4 \$3,090 for News from City Hall; \$114,050 Steed Park; \$50,700 for City Hall roof project.

5 \$14,200 for City Hall termite project; \$5,370 for LAFCO application; \$8,000 for meter modifications to accommodate increased rates; \$4,130 for Pier floor beam replacement; \$50,000 for the special election in June, 1997.

6 \$4,730 for City's 10% matching funds for supplemental law enforcement grant; \$1,900 for OCTA Senior Transportation Program.

Based on the historical expenditures of the Council Contingency Reserve detailed above, it was recommended during the 1997 LTFP (because of the \$2.8 million shortfall created by Proposition 218) that this reserve be reduced to \$100,000 annually. The fiscal policy also states that if General Fund expenditures increase to a level of \$25 million that this Council Contingency Reserve will be increased to \$150,000. The five year financial forecast outlined in a separate issue paper does not show the General Fund reaching this level during the five-year period.

Reserve Analysis

Recommendation

1. Recommend that \$100,000 be set aside in the fiscal year 1998-99 General Fund budget to fund this Council Contingency Reserve.

Fiscal Impact of Recommendation

Because General Fund expenditures do not reach \$25 million during the five-year forecast, the General Fund's expenditures for this reserve will total \$500,000.

General Liability Insurance Fund

City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention (SIR). The City's SIR is currently \$100,000, which requires a reserve in this fund of \$300,000, or three times the SIR.

The General Liability Self-Insurance Fund is projected to close FY 1997-98 with a balance of \$958,940. This balance is after the \$300,000 reserve requirement (City's fiscal policy) has been met. This positive balance is a result of a combination of factors. First, during FY 1996-97, the projected liability for claims outstanding was reduced from \$971,540 to \$319,460 due to a number of large liability claims being closed at the end of FY 1996-97. As a result of these claims being closed, the maintenance of a reserve for these liabilities was not necessary. Secondly, no new unsettled liability claims were outstanding against the City in FY 1996-97. And third, as part of the budget cuts during the 1997 LTFP, the reserve requirement for this fund, according to fiscal policy, was reduced from \$750,000 to \$300,000.

Although the City is now in compliance with fiscal policy with a reserve equal to three times its self insurance retention (\$300,000), and has contracted with OCCRMA for its insurance coverages, there are several occurrences that are excluded from this coverage. These uncovered losses include 1) breach of contract, 2) inverse condemnation, 3) eminent domain, 4) land subsidence, 5) earth movement, 6) employment related issues, 7) release of toxic material, 8) punitive damages, 9) earthquakes, and 10) a \$250,000 deductible on floods. As a result of this information, a review was conducted of all uncovered claims during the past five years. The total cost for these claims was \$2,440,000, with a five-year average of \$488,000 spent on claims not covered by the insurance pool. These are direct settlement costs paid by the City. In order to pay for claims not covered by OCCRMA, the City should perform an annual analysis of uncovered claims and adjust the reserve in the General Liability Fund accordingly. A recommendation will follow concerning this additional reserve.

New Methodology for Calculating Individual Fund Payments for General Liability:

Previous LTFP's have based individual fund payments for General Liability solely on a five-year claim history.

This year, in order to determine the percentage each fund should be charged for premiums incurred from OCCRMA and other administrative costs of the General Liability Fund, the

Long Term Financial Plan

methodology was reexamined. Charges will be based not only on a five-year average of historical claims (25%), but on an allocation basis to account for risk related to each fund. This second (75%) factor will be based on prior year budgeted expenditures as a percentage of total budgeted expenditures. This methodology is based on standards recognized by the Insurance Institute of America regarding essentials of risk financing.

The following table shows the calculations upon which the charges to the individual funds will be based:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 1998-99
General Fund	46.34%	63.19%	58.98%	\$ 228,990
Water Fund	24.49%	8.16%	12.24%	47,520
Sewer Fund	3.47%	12.00%	9.87%	38,320
Solid Waste Fund	0.00%	.31%	.23%	890
Storm Drain Fund	11.05%	2.13%	4.36%	16,930
Golf Course Fund	0.00%	6.31%	4.73%	18,360
IS Fund	0.00%	1.82%	1.37%	5,320
Communications Fund	0.00%	2.00%	1.50%	5,820
Fleet Maint. Fund	0.00%	1.65%	1.24%	4,820
RDA Funds	<u>14.65%</u>	<u>2.43%</u>	<u>5.48%</u>	<u>21,280</u>
Total	100%	100%	100%	\$ 388,250

Recommendations

1. Approve the weighted average basis (as outlined above) utilizing a combination of past claims history and budgeted expenditures as the allocation basis by which to charge funds for their related share of the General Liability premium and related costs.
2. Increase the reserve in the General Liability Fund to include not only maintaining three times the self insurance retention (\$300,000), but an amount equal to an average of the previous five years of claims costs not covered by the insurance pool (\$500,000 reserve for FY 1997-98). This analysis will be performed annually as part of the Long Term Financial Plan.
3. Amend the City's Fiscal Policy No. 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 (of which the City is a member)*. In addition, the City will

Reserve Analysis

perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.

Fiscal Impact of Recommendations

The General Liability Fund is in a positive financial position with a positive balance ending FY 1997-98 and its reserve requirement of \$300,000 fully funded. Transfers from other funds will only be required to pay for premiums, future claims, and administrative costs incurred by this fund.

In addition, \$500,000 will be reserved for claims payments for those claims not covered by OCCRMA. After this additional reservation of fund balance and the recommended transfer to Workers' Compensation (covered further in the next section), the ending unreserved balance will be \$162,200.

Workers' Compensation Insurance Fund

City Council Fiscal Policy: None.

At November 1, 1995, the City became fully insured for workers' compensation, and therefore is no longer required to maintain a reserve. However, the Workers' Compensation Insurance Fund has a projected deficit at June 30, 1998 of \$296,740 as compared to a projected deficit of \$511,550 in the 1997 Reserve Analysis issue paper. This demonstrates that the City has made some progress in funding the deficit in Workers' Compensation. This continued deficit includes paying the remaining "tail" of claims, primarily Police and Fire, which were incurred while the City was self-insured. The 1997 LTFP recommended that the City fund this deficit through annual contributions during FY 1997-98 and FY 1998-99. Actual expenditures have been very close to projections during the past year, leaving a \$296,740 deficit. In FY 1998-99, it is recommended that the deficit be funded by a transfer from the General Liability Fund. All City funds currently receiving charges for Workers' Compensation Insurance have previously made transfers to the General Liability Fund, which currently has sufficient funds to meet its reserve requirement and transfer funds to the Workers' Compensation Fund.

The current rates, referenced above for Workers' Compensation premiums, are charged to each fund based on that fund's employees' classifications and the type of work performed (e.g. manual labor, clerical, etc.). These rates are adjusted annually based on the workers' compensation insurance rate schedule.

Recommendation

1. 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.

Long Term Financial Plan

Fiscal Impact of Recommendation

The recommended contribution is \$296,740. This contribution will eliminate the deficit in the Workers' Compensation Fund by the end of FY 1998-99. Funding in FY 1997-98 (transfers already being made) and FY 1998-99 is detailed below:

Contributions to Workers' Compensation

	FY 1997-98	FY 1998-99
General Fund	\$127,970	
Water Fund	36,590	
Sewer Fund	51,520	
Storm Drain Fund	4,010	
Solid Waste Fund	530	
Information Services Fund	2,170	
Communications Fund	910	
RDA Low & Mod Fund	300	
RDA Capital Projects Fund	300	
Golf Course Fund	31,470	
General Liability Fund		296,740
Total	<u>\$255,770</u>	<u>\$296,740</u>

Accrued Leave Reserve

City Council Fiscal Policy: Maintain 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.

The accrued leave reserve was established in FY 1994-95 based on average annual expenditures for vacation and sick leave payoffs. The amount of this reserve fluctuates annually based upon the number of employees and the length of service (amount of accrued leave). The following table indicates accrued leave payments during the past four years with a projection for FY 1997-98:

FY 1993-94 through FY 1997-98

	Vacation and Sick Leave
FY 1993-94	\$50,500
FY 1994-95	\$17,850
FY 1995-96	\$47,940
FY 1996-97	\$77,550
FY 1997-98 <i>Projected</i>	\$46,730
Average Annual Payoffs	\$48,000

Reserve Analysis

The projected ending balance as of June 30, 1998 is \$3,010. From the average calculated above, a transfer of \$50,000 is necessary from the General Fund in FY 1998-99 and annually thereafter to pay accrued leave benefits for terminated or retiring employees.

Recommendation

1. 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.

Fiscal Impact of Recommendation

In order to accurately project transfers from the General Fund in the five year financial forecast, an annual contribution of \$50,000 will be included in expenditures.

Fleet Replacement Reserve

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

A complete analysis of the fleet replacement reserve was conducted and approved by the City Council in February 1994. As a result of the fleet replacement reserve analysis, a policy was established to annually update the Fleet Replacement Reserve schedule. This reserve is fully funded with a projected ending balance of \$2.0 million.

Recommendation

None

Fiscal Impact of Recommendation

Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. The FY 1998-99 budget will contain replacement costs to other funds of \$288,920.

Capital Equipment Replacement Reserve

City Council Fiscal Policy: Maintain a Capital Equipment Replacement Reserve Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.

Utilizing the General Fund fixed asset inventory that was completed in 1995, a replacement schedule for all capital equipment and machinery was developed and annual funding needs identified. Replacement costs of General Fund fixed assets, excluding buildings and building improvements, total \$700,000. Funding of this reserve to replace existing fixed assets will continue with direct transfers from the General Fund of \$100,000 annually. This will require transfers from the General Fund in each of the next three years.

Capital purchases for new equipment have been made from the Capital Equipment Replacement Reserve Fund the past two years with replacement costs for these assets being charged to the

Long Term Financial Plan

benefiting fund and transferred back to the Capital Equipment Fund to pay for future replacement.

Recommendation

1. Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually for the next three years from the General Fund.

Fiscal Impact of Recommendation

The financial forecast has incorporated an annual allocation of \$100,000 in each year of the next three years, totaling \$300,000 in the five year forecast. This will bring the reserve to its required level of \$700,000.

Revenue Handbook

Introduction

The Revenue Handbook is a comprehensive guide to the City's major sources of revenue. The Handbook currently provides information on most General Fund revenues, and in the future can be easily expanded to include other revenues. The major line items from the General Fund are listed individually, while some smaller line items which are similar in nature have been consolidated under individual headings. Within the Revenue Handbook, two pages have been devoted to each listing. The first page consists of background information, and the second page contains historical data.

Background Information

The Revenue Handbook includes background information on each revenue source, including General Fund account number, legal authorization, and a brief description. The location, exact source, and timing of receipts, any pertinent fee schedules or calculations, and an overview are also provided.

Historical Data

Historical data on each revenue source has been illustrated in two charts. The first provides figures for receipts over the past five completed fiscal years. The second provides monthly figures for the most recent completed fiscal year. For some revenue sources, the monthly chart includes a thirteenth column, representing accruals. This column, labeled "Accr.", recognizes revenue earned in that period which was actually received by the City at a later time.

Revenue Handbook - Contents

Property Tax - Secured	2
Property Tax - Unsecured	4
Supplemental Roll Property Taxes	6
Property Transfer Tax	8
Homeowners Exemption Subvention	10
Transient Occupancy Tax	12
General Sales Tax	14
Public Safety Sales Tax Augmentation	16
San Diego Gas & Electric	18
Southern California Gas	20
Cox Cable	22
Solag Disposal	24
Business Licenses	26
Building Permits	28
Electrical Permits	30
Mechanical Permits	32
Plumbing Permits	34
Grading Permits	36
Alarm Permits	38
Final Tract Filing Fees	40
Grading Plan Check Fees	42
Construction Inspection Fees	44
Building Plan Check Fees	46
Environmental Impact Reports	48
Conditional Use Permits	50
General Plan Amendment	52
Site Plan Review Fees	54
Specific Plan Amendment Fees	56

Revenue Handbook - Contents

Planning Plan Check Fees	58
Weed Assessments	60
Nuisance Abatement Reimbursement	62
Vehicle Abatement Reimbursement	64
San Diego County Contract	66
Ambulance Service Charges	68
Ambulance Subscription Fees	70
Parking Meters	72
Parking Permits	74
Parking Violations	76
Vehicle Code Fines	78
Court Fines	80
Alarm Fines	82
Junior Lifeguard Services	84
Beach Club & Pool Fees	86
Recreation Program Fees	88
Park & Recreation Rentals.....	90
Pier Restaurant	92
Beach and Pier Concessions	94
Communications Site Leases	96
Casa Romantica Lease	98
S.O.N.G.S. Grant	100
Motor Vehicle Tax	102
Supplemental Law Enforcement Services	104
Investment Earnings and Interest	106
Narcotics Forfeitures	108
General Fund Overhead Charges	110
Transfer From 2107 Gas Tax Fund	112

Property Tax - Secured

- Account:** 001-000-31110
- Description:** An ad valorem tax imposed on secured property; includes real property (land and permanently attached improvements) and tangible personal property (movable property). By definition, an ad valorem tax is based on property value rather than on a fixed amount or benefit.
- Legal Authorization:** Cal. Constitution, Art. XIII A; State Revenue and Taxation Code, Section 2151; Govt. Code Section 43000 et seq.; San Clemente Municipal Code, Sections 3.08.010 and 3.08.020
- Received From:** Orange County Controller's Office
- Received By:** Finance and Administrative Services Department, Accounting Div.
- Receipt Timing:** Secured Property Taxes are due to the County on December 10 and April 10 each year
- Fee Schedule:** Property Tax is limited to 1% of the assessed property value, based on an annual assessment taken on January 1.
- Use of Revenue:** Unrestricted.

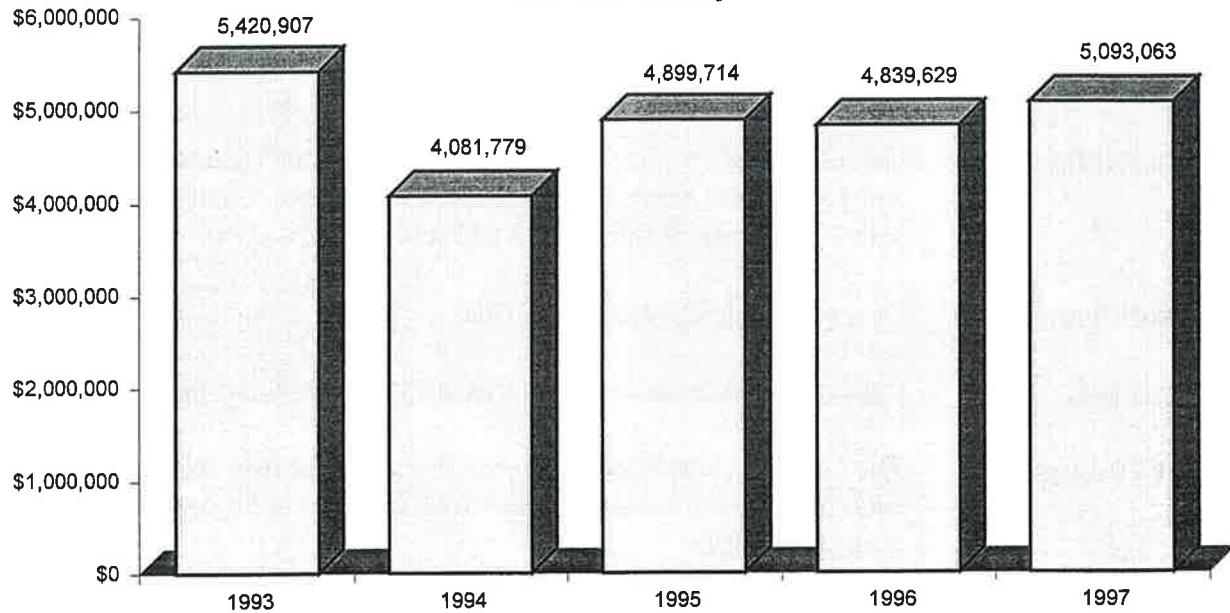
Overview

The property tax is imposed on real property (land and permanently attached improvements) and tangible personal property (movable property) located within the state. The property tax is guaranteed by placing a lien on the real property. Secured property tax comes from property in which the lien is sufficient to secure payment of the tax. By definition, this ad valorem tax is based on the property value rather than on a fixed amount or benefit. Property value is assessed annually by the county assessor, except for certain public utility properties which are assessed by the State Board of Equalization. Exemptions include government owned property; non-profit educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of full value of an owner-occupied home, business inventories, household furnishings, intangible property, motor vehicles, and certain open space land.

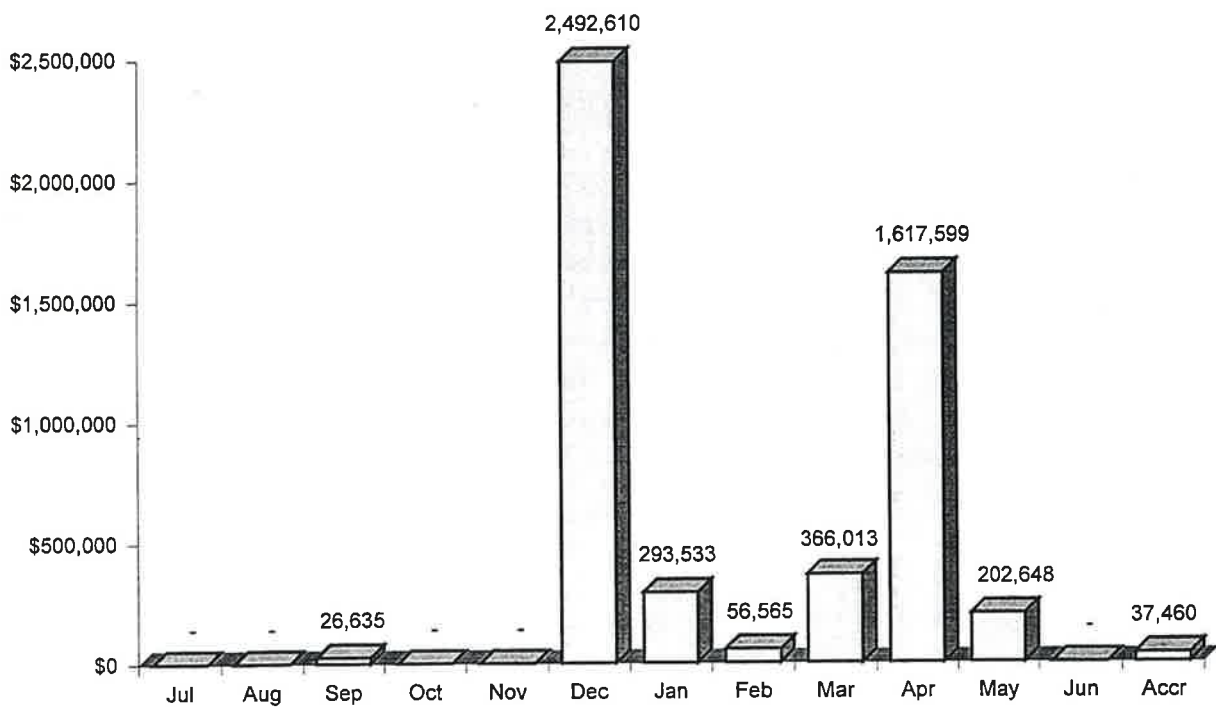
Property Tax - Secured

001-000-31110

Five Year History



1996-97 Revenue By Month



Property Tax - Unsecured

Account:	001-000-31115
Description:	An ad valorem tax imposed on unsecured real property (land and permanently attached improvements) and tangible personal property (movable property).
Legal Authorization:	Cal. Constitution, Art. XIII A; State Revenue and Taxation Code, Section 1-6000; Govt. Code Section 43000 et seq.; San Clemente Municipal Code, Sections 3.08.010 and 3.08.020
Received From:	Orange County Controller's Office
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	The County apportions Unsecured Property Tax revenue three times each fiscal year. Revenue is normally received in September, January and June.
Fee Schedule:	Tax on unsecured property is subject to the same rate which applied to secured property in the previous year. State law limits the property tax rate at 1% of the assessed property value.
Use of Revenue:	Unrestricted.

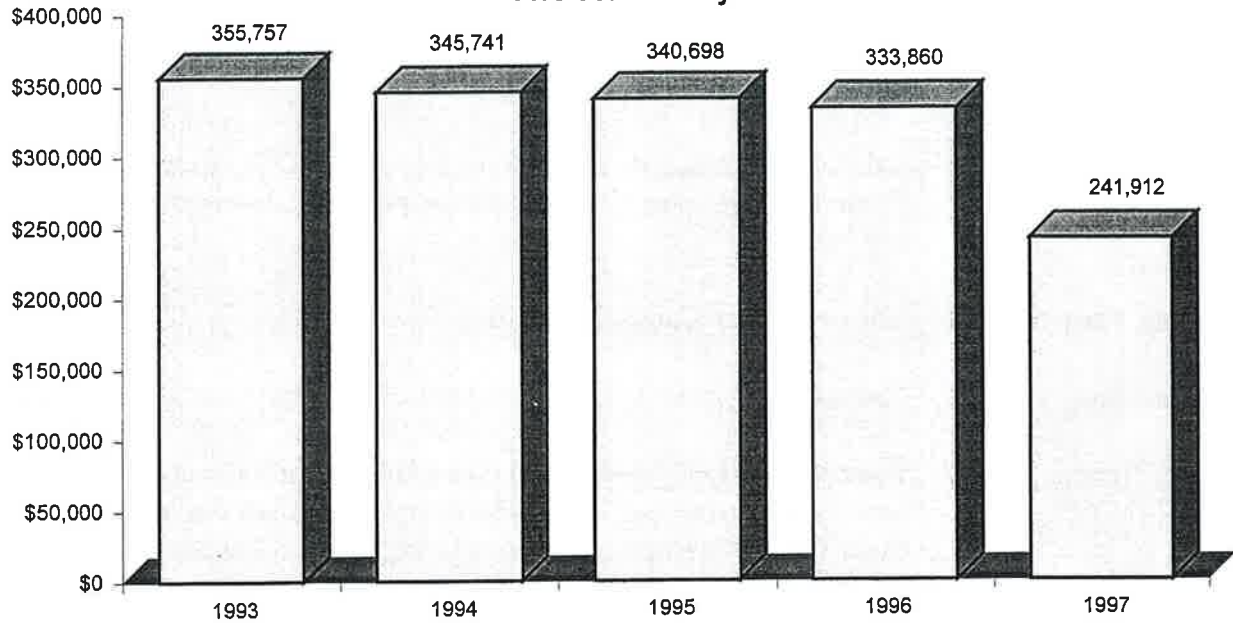
Overview

Unsecured Property Tax revenue represents a tax on property for which there is not a lien on real property sufficient to secure payment of the tax due. This property is considered unsecured personal property. The property tax is imposed on real property (land and permanently attached improvements) and tangible personal property (movable property) located within the state. Exemptions include government owned property; non-profit educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of full value of an owner-occupied home, business inventories, household furnishings, intangible property, motor vehicles, and certain open space land.

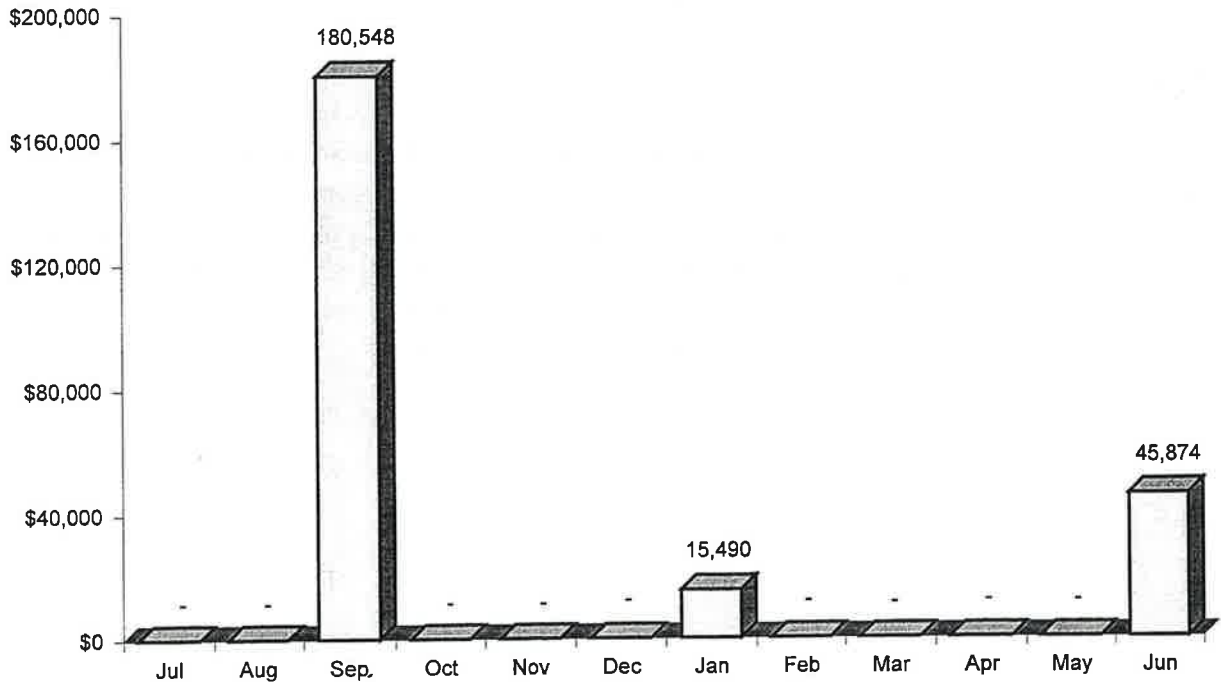
Property Tax - Unsecured

001-000-31115

Five Year History



1996-97 Revenue By Month



Supplemental Roll Property Taxes

Account:	001-000-31120
Description:	A supplemental property tax assessment is taken when a property changes ownership. This tax is based on the difference between the assessed value and the full cash value.
Legal Authorization:	Cal. Constitution, Art. XIII A; State Revenue and Taxation Code, Section 1-6000. San Clemente Municipal Code, Sections 3.08.010 and 3.08.020
Received From:	Orange County Controller's Office
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	The County usually makes two major billings throughout the year, once in September and once in February. Funds are then disbursed to the City within one or two months following collection.
Fee Schedule:	Property Tax is limited to 1% of the assessed property value, based on an annual assessment taken on March 1 by counties and January 1 by the State Board of Equalization.
Use of Revenue:	Unrestricted.

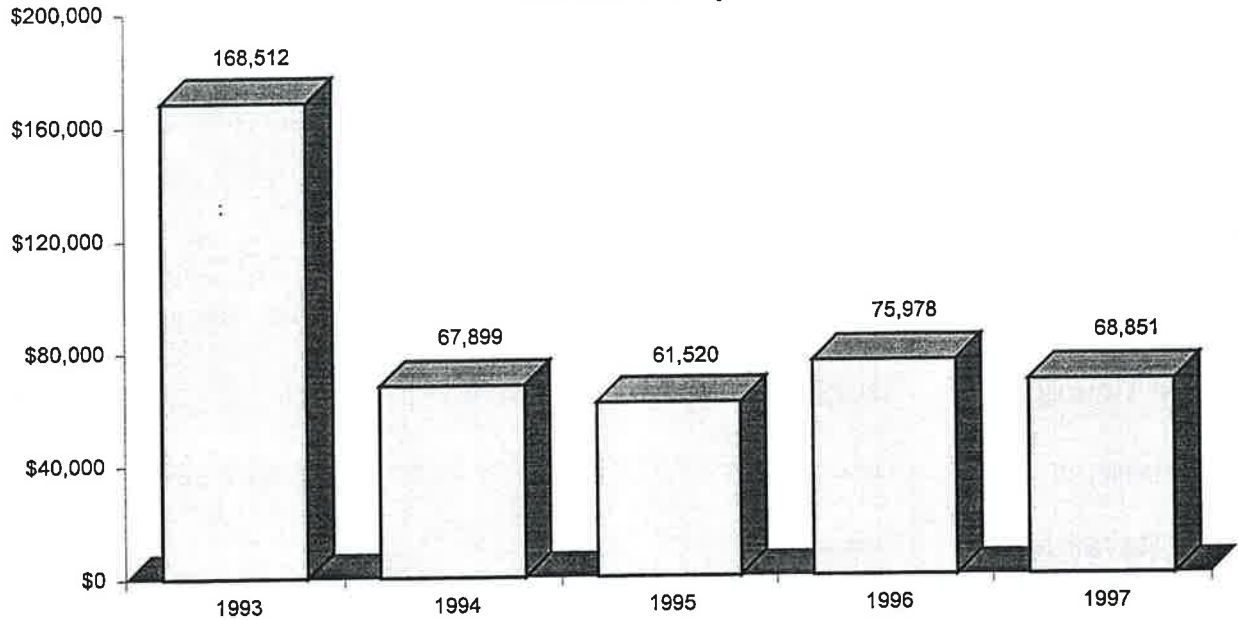
Overview

In the event a property changes ownership, the county will collect a supplemental property tax assessment in the current tax year by determining a supplemental value based on the difference between the assessed value and the full cash value. The supplemental tax is allocated in the normal manner but is received separately from regular property tax disbursements. The property tax is an ad valorem tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property).

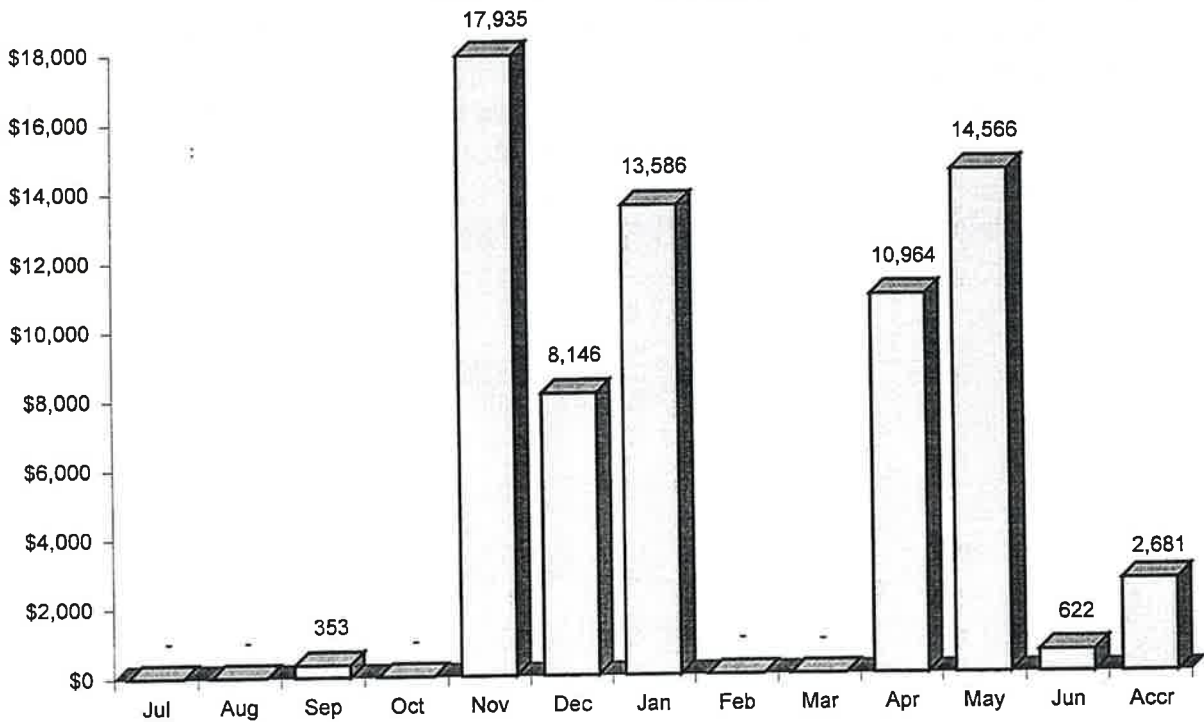
Supplemental Roll Property Taxes

001-000-31120

Five Year History



1996-97 Revenue By Month



Property Transfer Tax

Account:	001-000-31710
Description:	A tax imposed on the transfer of ownership of real estate. Also known as the Documentary Transfer Tax.
Legal Authorization:	State Revenue and Tax Code, Sections 11911 to 11929. San Clemente Municipal Code, Section 3.16.010.
Received From:	Orange County Controller's Office
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Revenues are received on a monthly basis.
Fee Schedule:	The city receives \$.275 for every \$500 of assessed property value.
Use of Revenue:	Unrestricted.

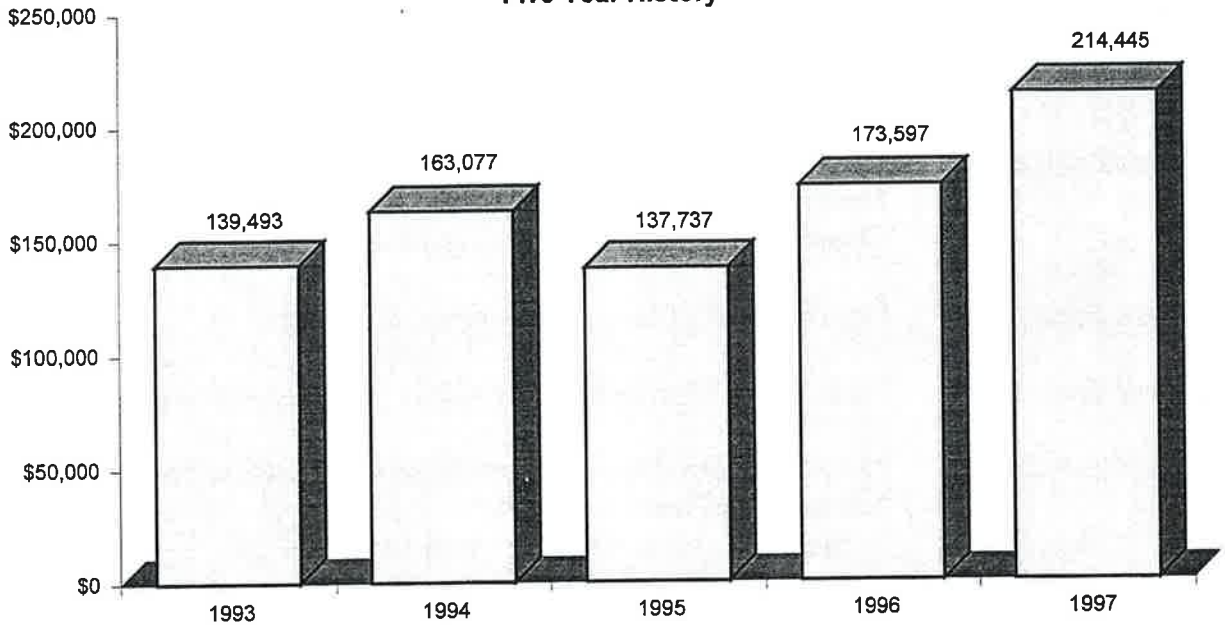
Overview

The Property Transfer Tax is a tax imposed on the transfer of ownership of real estate. Property Transfer Tax is assessed at \$.55 per \$500 of the property value. One-half of the amount collected remains with the county, and the other half is remitted to the city. Property Transfer Tax Revenue is directly correlated with the number of properties changing ownership. The tax does not apply to furnishings, personal effects, business inventories, etc. Exemptions include most government-owned property, properties of non-profit organizations, transfers of certain partnership properties, certain corporate reorganizations, recipients of foreclosed properties, and dissolution of property under dissolution of marriage.

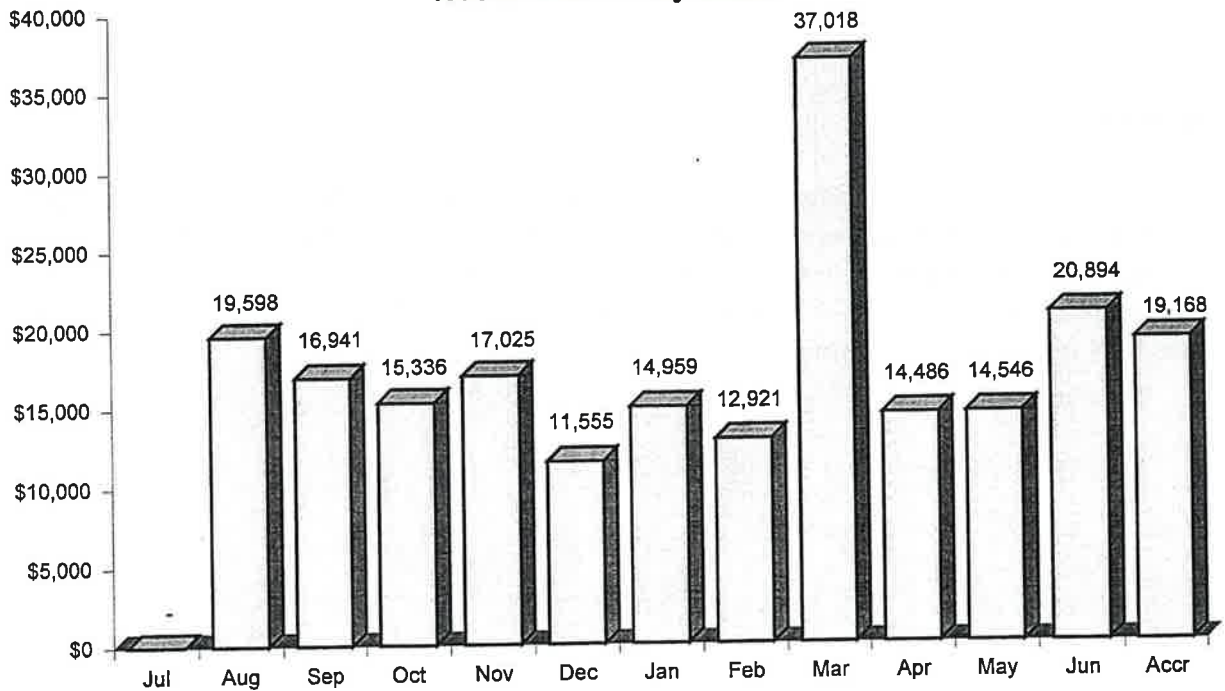
Property Transfer Tax

001-000-31710

Five Year History



1996-97 Revenue By Month



Homeowner's Exemption Subvention

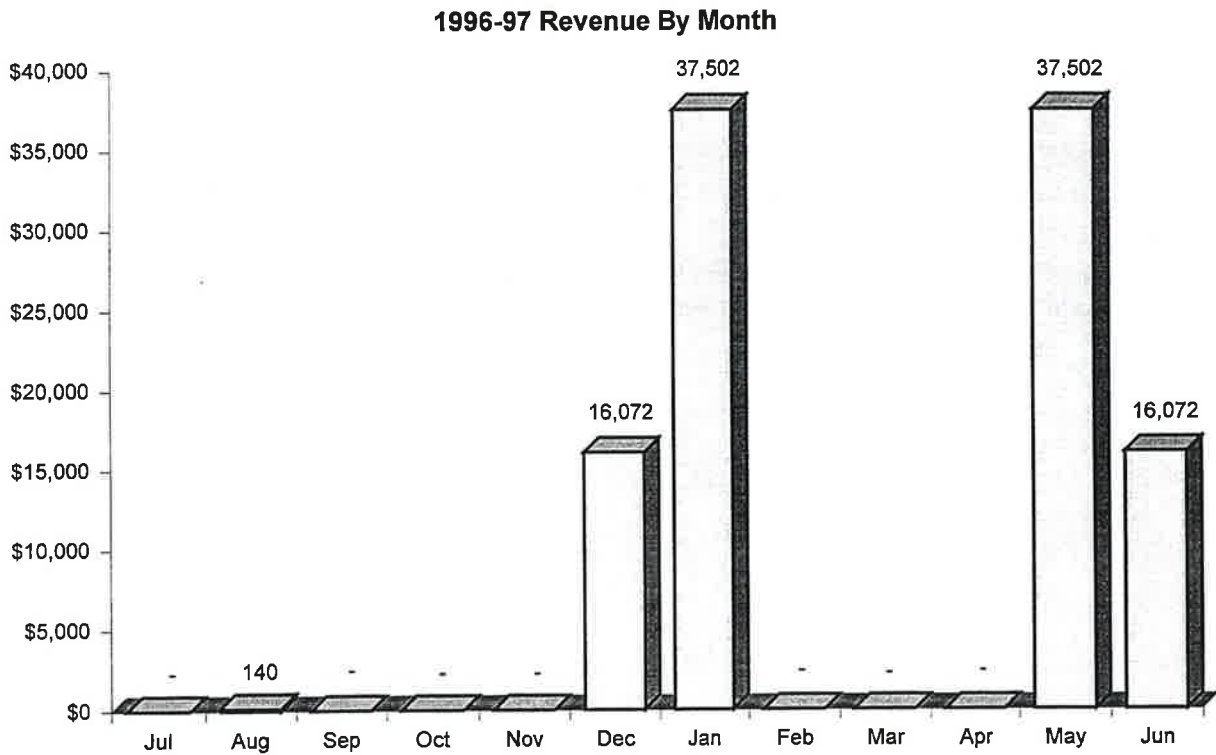
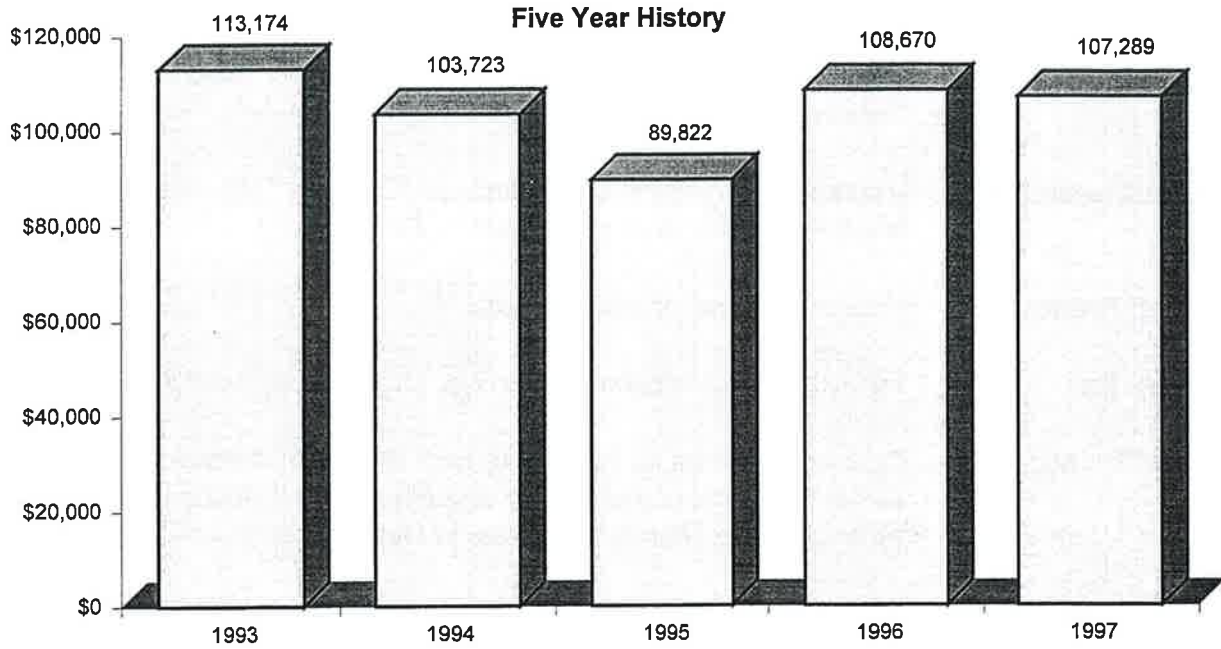
- Account:** 001-000-33570
- Description:** Revenue to offset the City's loss from state-imposed \$7,000 per dwelling homeowner exemption. Also known as Homeowner's Property Tax Relief.
- Legal Authorization:** Cal. Constitution, Art. XIII; State Revenue and Taxation Code, Section 218; Govt. Code, Sections 16120 - 16123 and 29100.6. San Clemente Municipal Code, Sections 3.08.010 and 3.08.020
- Received From:** State Controller (through the County of Orange).
- Received By:** Finance and Administrative Services Division, Accounting Dept.
- Receipt Timing:** The State Controller reimburses the county according to the following schedule:
November 30 - 15% April 30 - 35%
December 31 - 35% May 31 - 15%
The county then distributes the funds to the city.
- Fee Schedule:** The rate of the local property tax assessment on up to \$7,000 per owner-occupied dwelling
- Use of Revenue:** Unrestricted.

Overview

The state grants an exemption for up to \$7,000 in assessed value from the local property tax when the owner occupies the taxed dwelling. In other words, if the tax value of a homeowner's principal residence is \$50,000, the state exempts the first \$7,000 and assesses property tax on only \$43,000. The state reimburses cities and other local governments for their tax loss under this exemption.

Homeowner's Exemption Subvention

001-000-32570



Transient Occupancy Tax

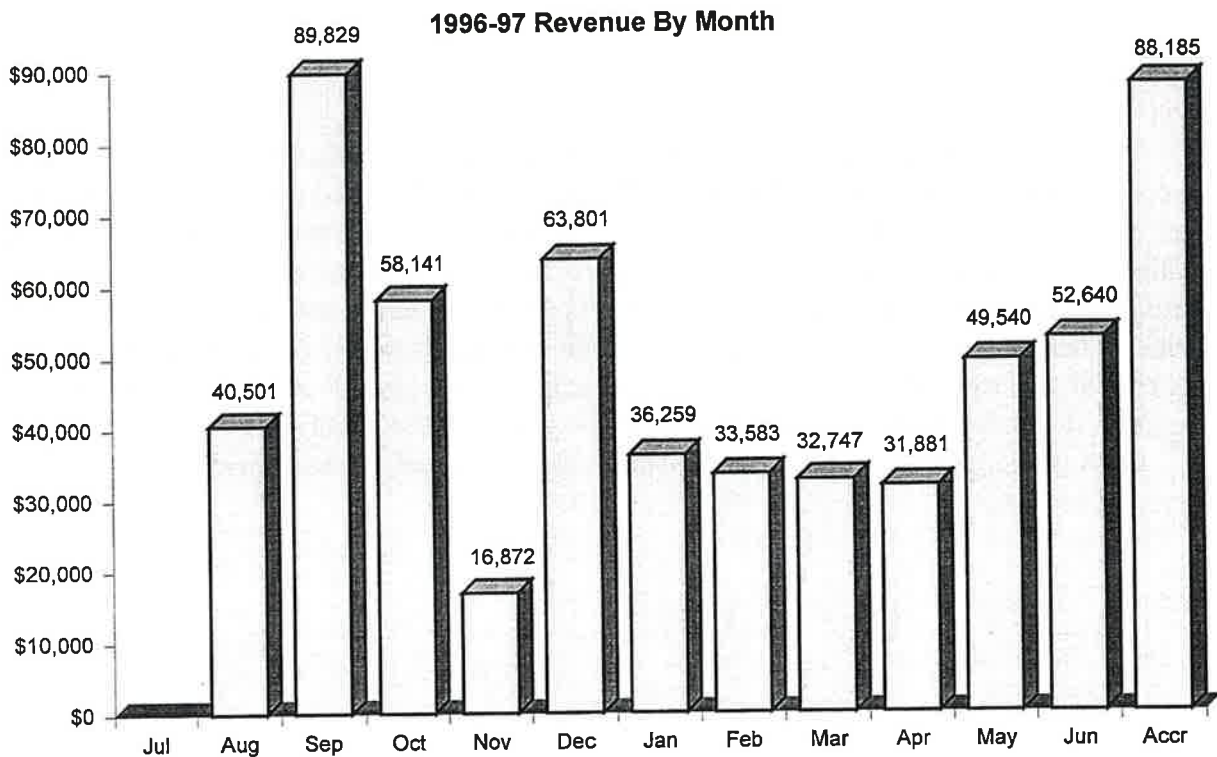
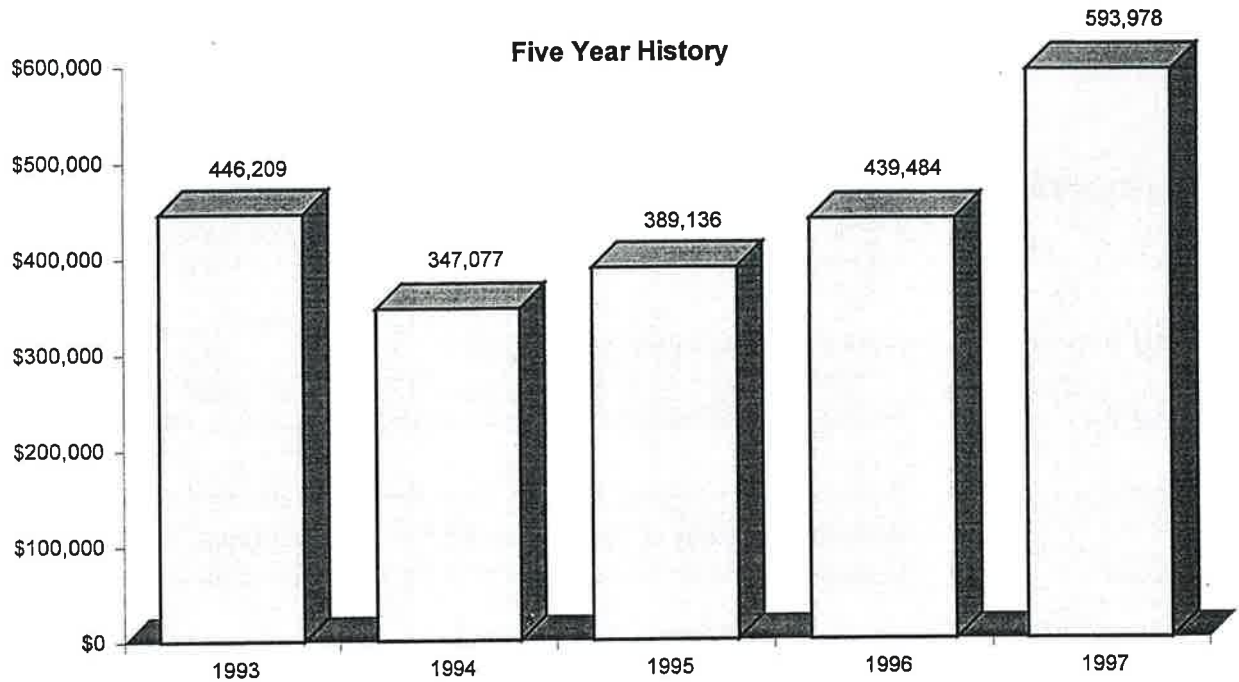
Account:	001-000-31210
Description:	A general tax imposed on occupants for the privilege of occupying room(s) in San Clemente hotels, motels, inns, etc. Also known as a "bed tax".
Legal Authorization:	Revenue and Taxation Code, Sections 7280 and 7281. San Clemente Municipal Code, Sections 3.24.010 - 3.24.140.
Received From:	Operator of hotel or other facility.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Payment is due on the last day of each month for the tax collected during the previous month. For example, on Nov. 30 payment is due for tax collected during the month of October.
Fee Schedule:	10% per occupancy. The bed tax was increased from 8% to 10% on October 1, 1991.
Use of Revenue:	Unrestricted.

Overview

The city levies a tax of 10% per occupancy on persons staying 30 days or less in a room(s) in a hotel, motel, inn, or tourist home. Revenues are collected by hotel operators and remitted to the city on a monthly basis. This revenue source can be projected by estimating the total number of rooms available, the average occupancy rate and the average room rate. Receipts are highest during summer months and in December.

Transient Occupancy Tax

001-000-31210



General Sales Tax

Account:	001-000-31310
Description:	Tax imposed on the total retail price of any tangible personal property, unless specifically exempted.
Legal Authorization:	Cal. Constitution, Art. XIII, section 29; State Revenue and Taxation Code, Section 7200 et seq.; Govt. Code, Sections 37101; San Clemente Municipal Code, Sections 3.20.010 - 3.20.110.
Received From:	State Board of Equalization
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Revenues are received monthly from the state. Because revenues lag behind retail sales up to three months, a large portion of this revenue is shown in the accrual column of the monthly revenue chart.
Fee Schedule:	The City receives 1% of total retail sales within the City of San Clemente.
Use of Revenue:	Unrestricted.

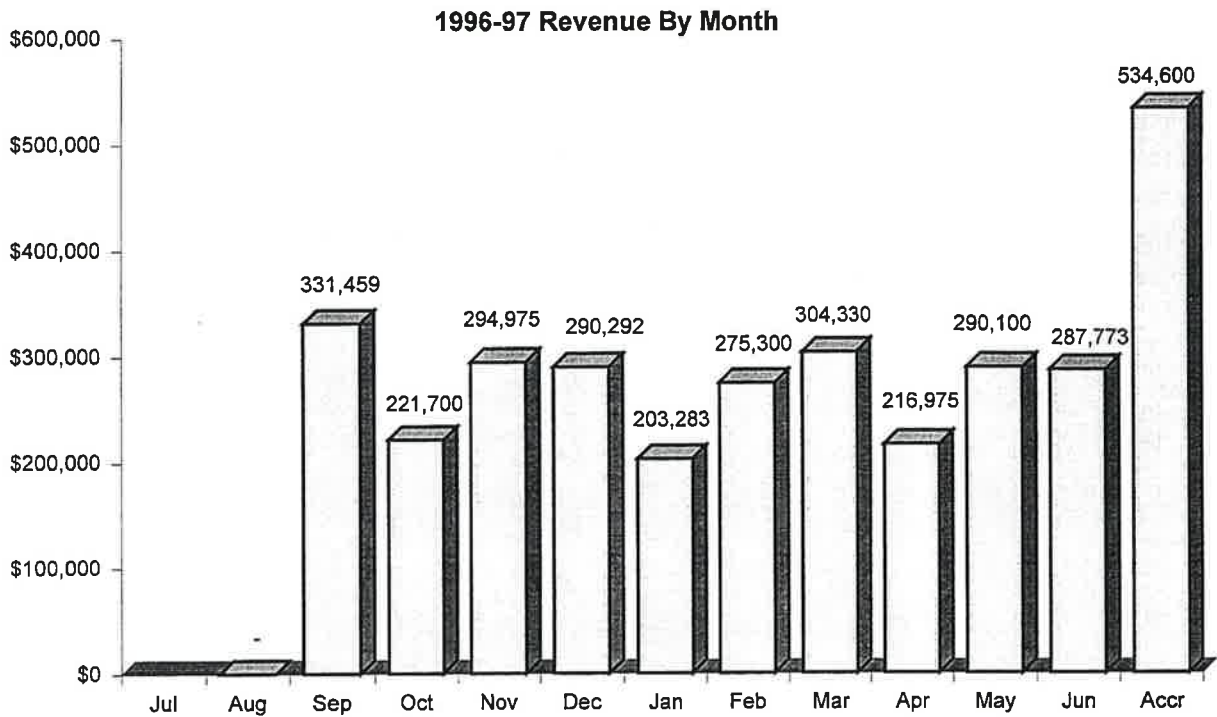
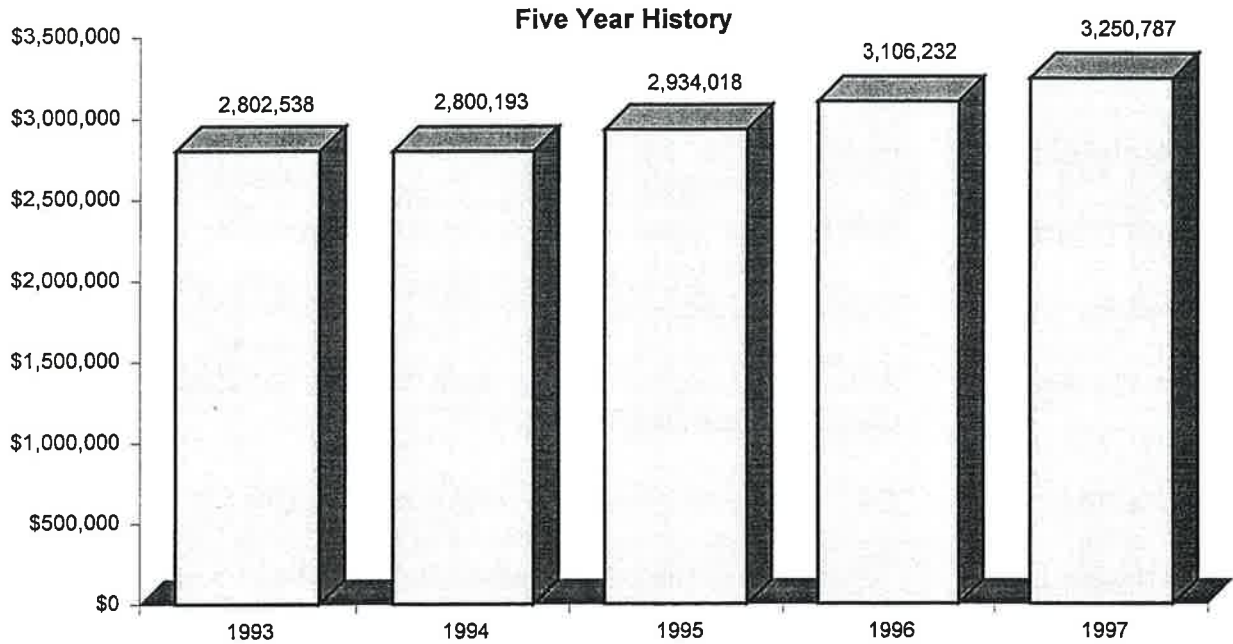
Overview

The city receives a portion of the familiar tax that retailers add on to the price of most goods purchased in the state of California. The state currently collects 7.75% and remits 1% back to the city, through the county. The sales tax is imposed on retailers for the privilege of selling tangible personal property. Tangible personal property is any material asset, such as household goods or business equipment, which is not permanently attached to real property (such as land or buildings). Resale and wholesale sales are excluded from the tax, as well as the cost of professional services, food, and prescription medicine. Revenue is collected by the state, disbursed to the county, and then distributed from the county to the city.

Sales tax is dependent upon retail square footage, changes in the economic climate, and personal income.

General Sales Tax

001-000-31310



Public Safety Sales Tax Augmentation

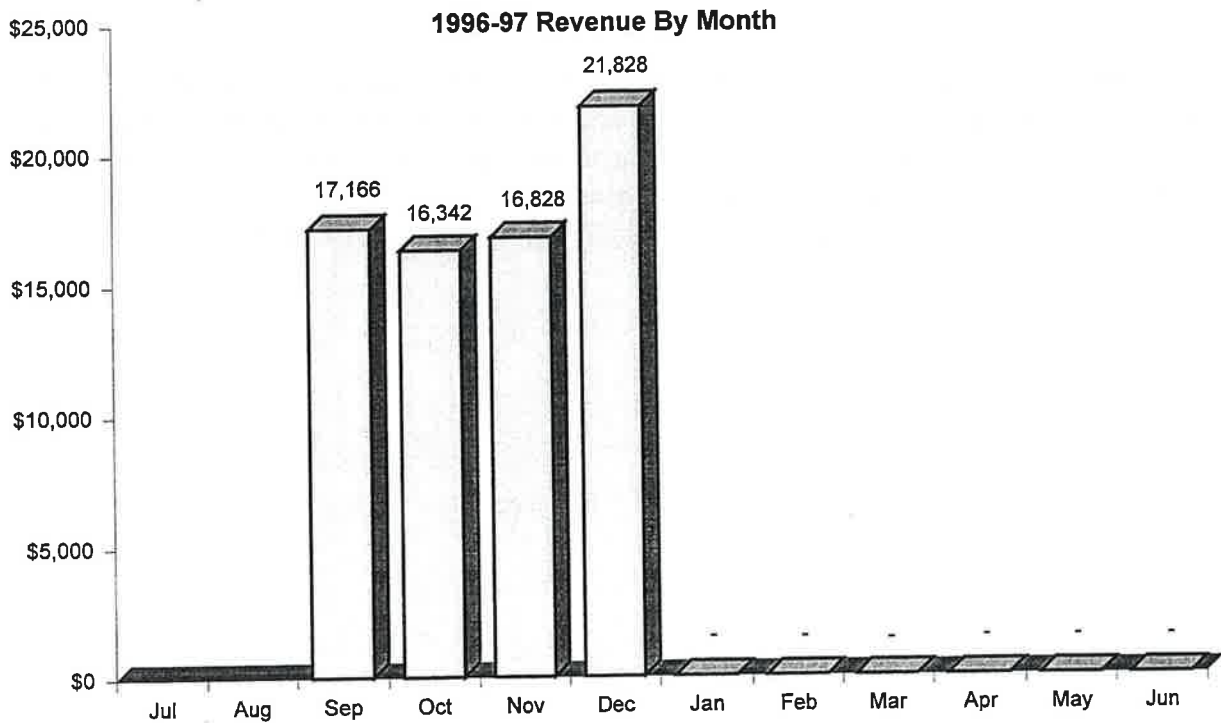
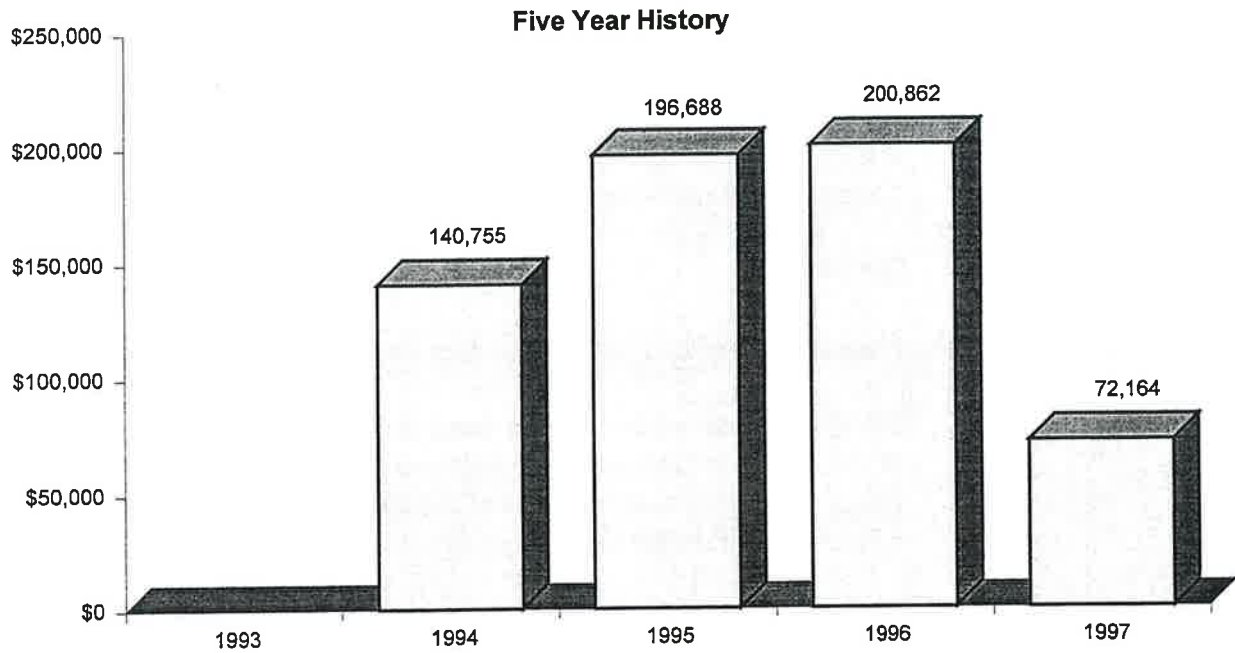
Account:	001-000-31311
Description:	The Public Safety Sales Tax Augmentation represents an additional .5% retail sales tax to be allocated for public safety services.
Legal Authorization:	Proposition 172; AB 2788.
Received From:	State Board of Equalization, disbursed through County of Orange.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Revenues are received monthly from the state. Revenues lag retail sales up to three months.
Fee Schedule:	The city receives .5% of total retail sales within the City.
Use of Revenue:	Restricted to public safety expenditures, including police and fire protection.

Overview

The Public Safety Sales Tax Augmentation represents an additional .5% retail sales tax to be allocated for public safety purposes. Proposition 172, the ballot initiative which imposed this tax, was enacted in November 1993. This revenue goes to the County, based on the County's share of total statewide sales tax. Each County's share is divided among the cities and the County based on their proportionate share of the net property tax losses resulting from the 1993-94 state budget. The City's share is capped at 50% of the net property tax loss. AB 2788 requires all cities, regardless of whether they receive Proposition 172 moneys, to fund public services at the fiscal year 1992-93 level.

Public Safety Sales Tax Augmentation

001-000-31311



San Diego Gas & Electric Franchise Fee

Account:	001-000-31610
Description:	Revenue paid to the city from franchisee (SDG&E) for “rental” or “toll” for use of city streets and rights-of-way.
Legal Authorization:	Public Utility Code, Sections 6001 et seq. and 6201 et seq.; San Clemente Ordinance no. 453.
Received From:	SDG&E
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	2% of the gross annual receipts from the use, operation or possession of the franchise (based on a complicated formula), but no less than 1% of the gross annual receipts of the franchisee derived from the sale of gas within the City.
Fee Schedule:	Payment is due by March 15 for the preceding calendar year.
Use of Revenue:	Unrestricted.

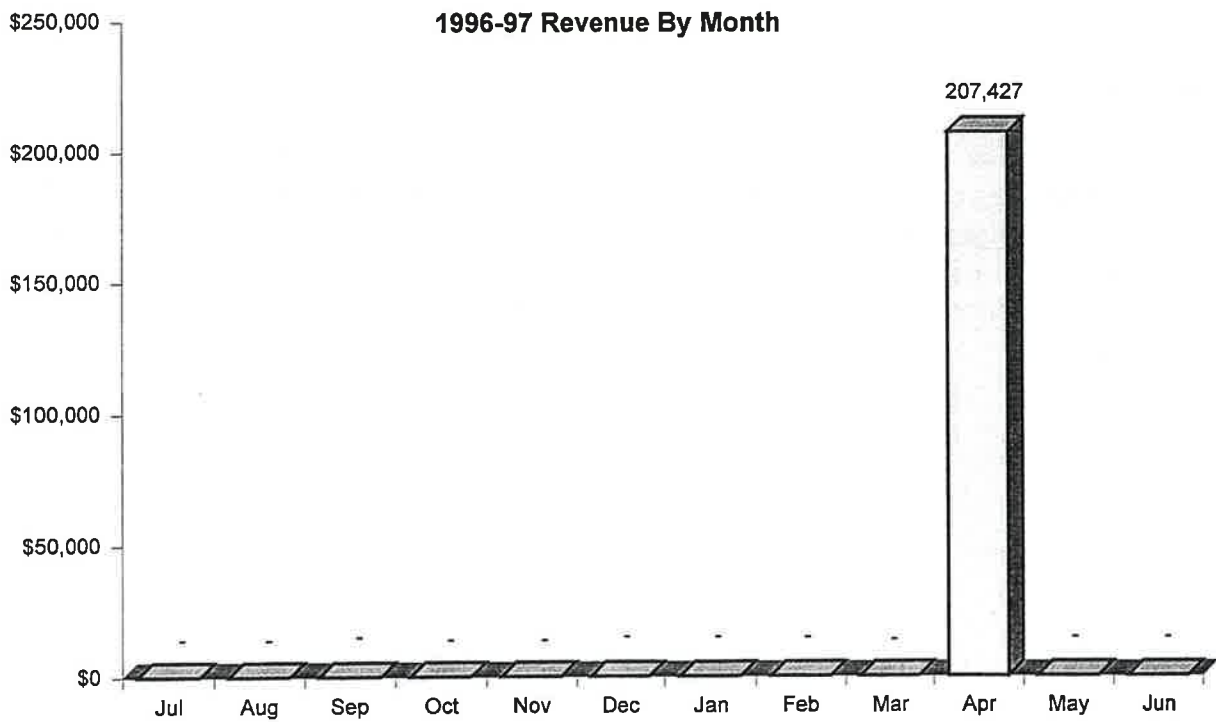
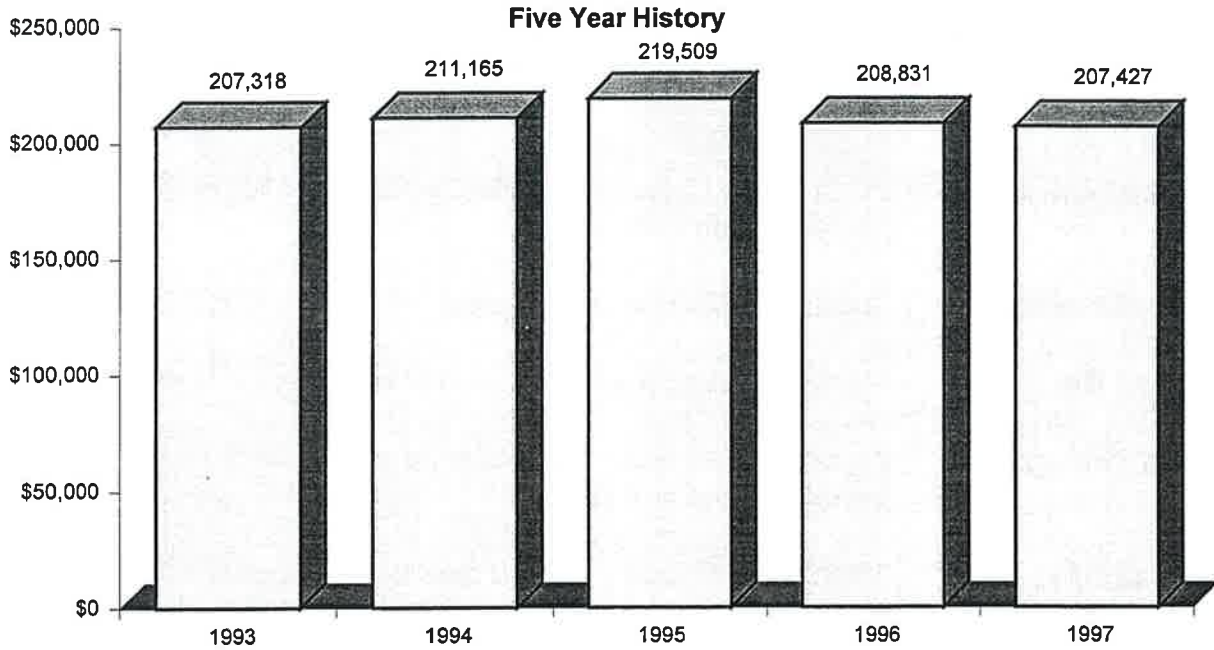
Overview

The city imposes fees on privately owned utility companies and other businesses for the privilege of using city rights-of-way. Types of businesses subject to franchise fees include utilities such as gas, electricity and water, refuse disposal, and cable television. Exemptions include telephone companies, railroads, and piers.

SDG&E provides the residents of the city of San Clemente with electricity.

San Diego Gas & Electric

001-000-31610



Southern California Gas Franchise Fee

Account:	001-000-31620
Description:	Revenue paid to the city from franchisee (Southern California Gas Company) for “rental” or “toll” for use of city streets and rights-of-way.
Legal Authorization:	Public Utility Code, Sections 6001 et seq. and 6201 et seq. San Clemente Ordinance no. 463
Received From:	Southern California Gas Company
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Payment is historically received at the end of March for the preceding calendar year.
Fee Schedule:	2% of the gross annual receipts from the use, operation or possession of the franchise (based on a complicated formula), but no less than 1% of the gross annual receipts of the franchisee derived from the sale of gas within the limits of the city.
Use of Revenue:	Unrestricted.

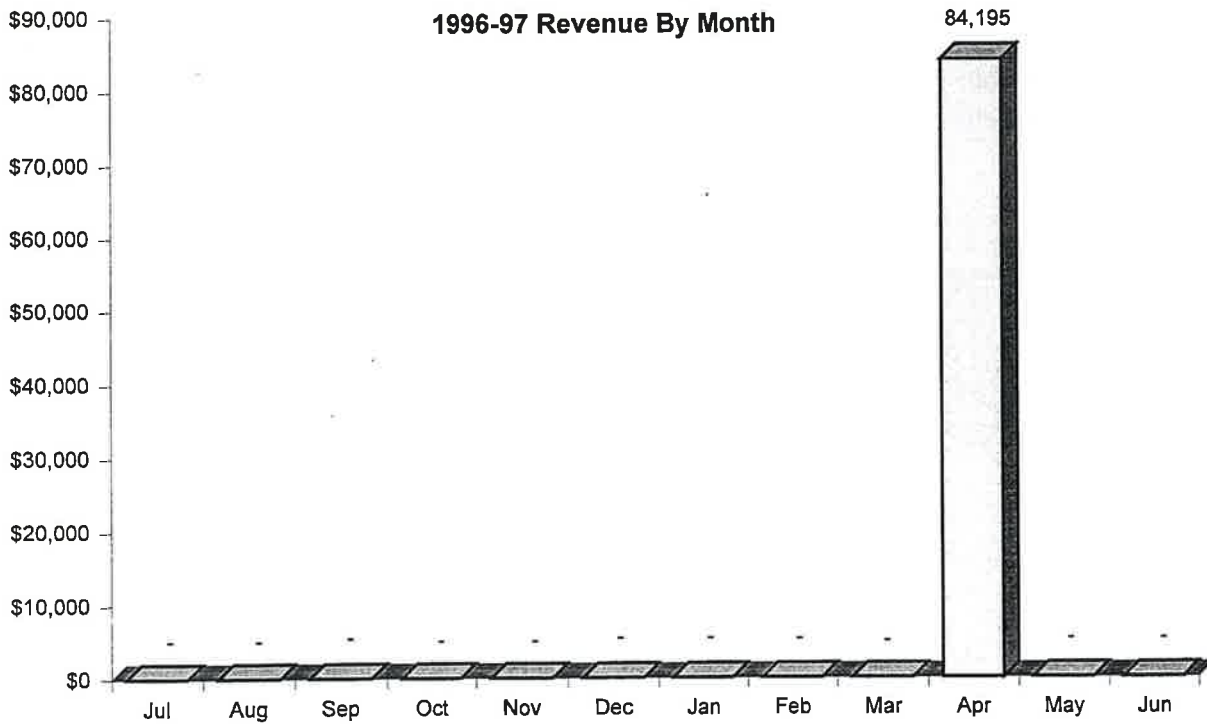
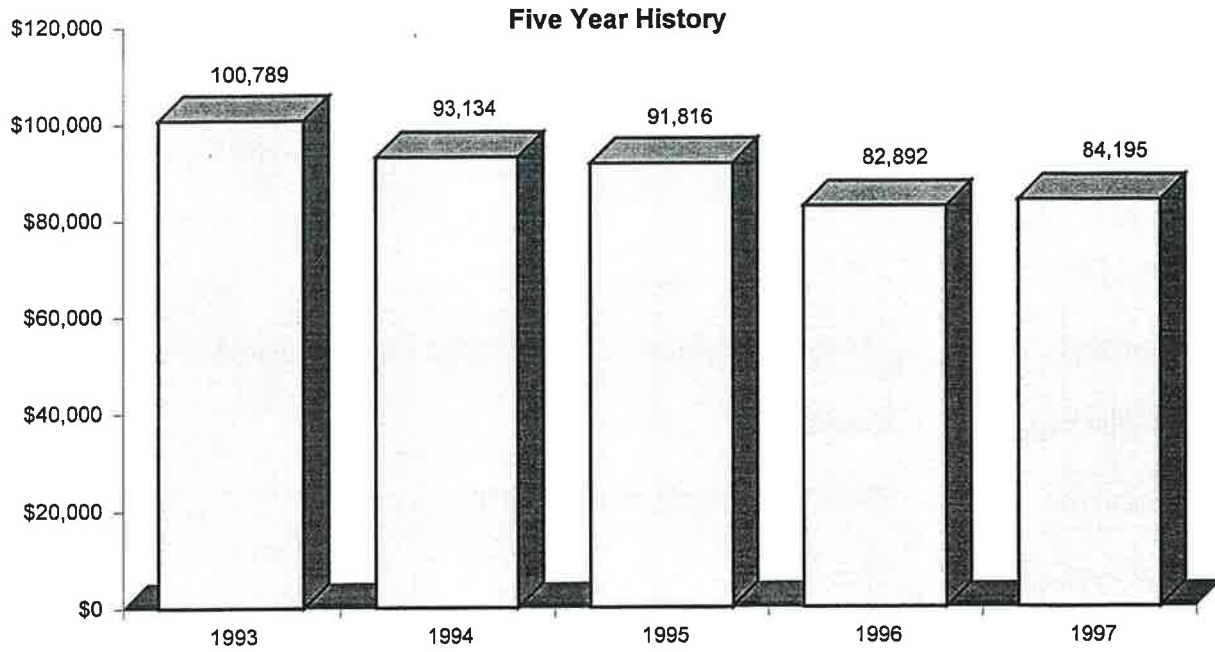
Overview

The city imposes fees on privately owned utility companies and other businesses for the privilege of using city rights-of-way. Types of businesses subject to franchise fees include utilities such as gas, electricity and water, refuse disposal, and cable television. Exemptions include telephone companies, railroads, and piers.

Southern California Gas provides gas service to the residents of the City of San Clemente.

Southern California Gas

001-000-31620



Cox Cable Franchise Fee

Account:	001-000-31640
Description:	Revenue paid to the city from franchisee (Cox Cable) for “rental” or “toll” for use of city streets and rights-of-way.
Legal Authorization:	Public Utility Code, Section 6001 et seq. and Government Code, Section 53066.
Received From:	Cox Cable
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Quarterly
Fee Schedule:	5% of franchisee’s gross receipts
Use of Revenue:	Unrestricted.

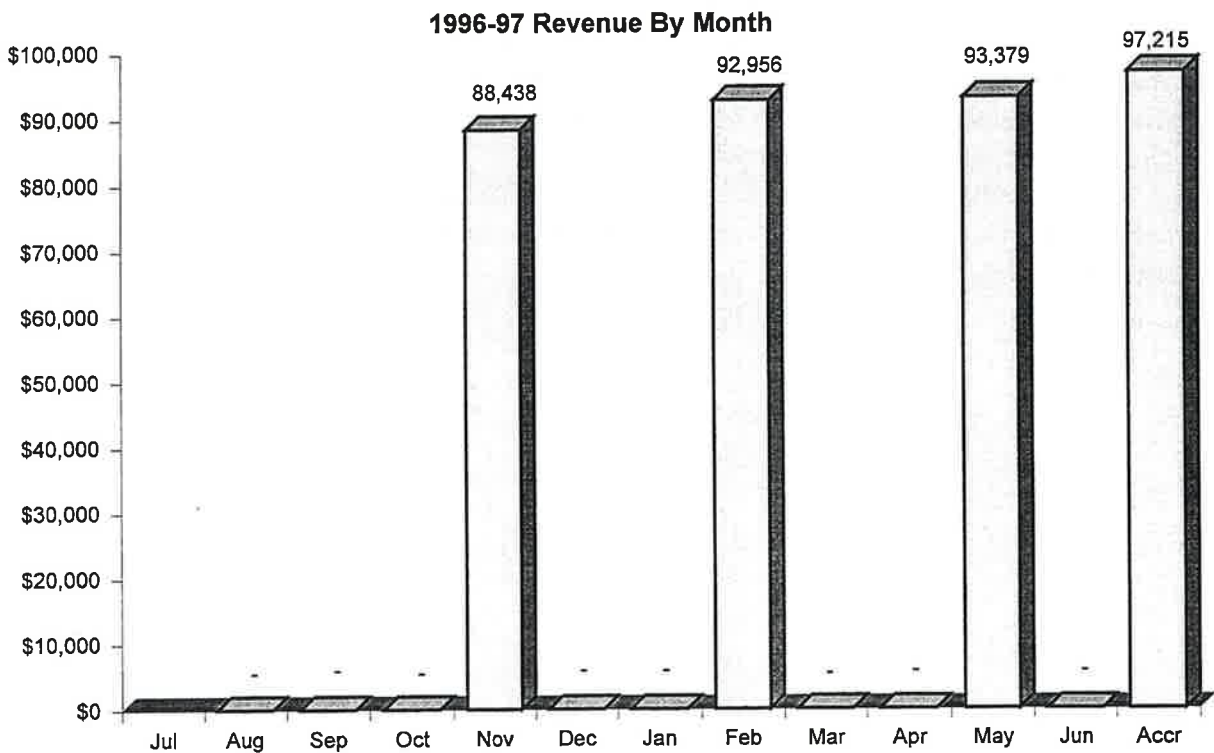
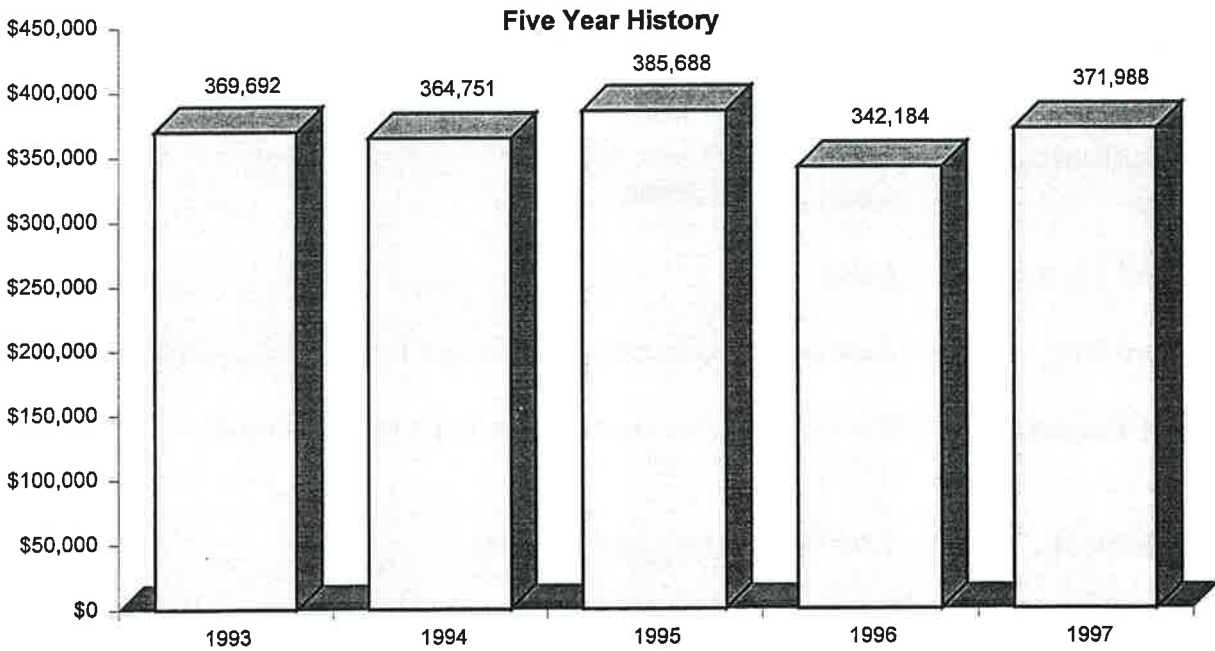
Overview

The city imposes fees on privately owned utility companies and other businesses for the privilege of using city rights-of-way. Types of businesses subject to franchise fees include utilities such as gas, electricity and water, refuse disposal, and cable television. Exemptions include telephone companies, railroads, and piers.

Cox Communications provides cable television services to San Clemente residents.

Cox Cable

001-000-31640



Solag Disposal Franchise Fee

Account:	001-000-31650
Description:	Revenue paid to the city from contracted refuse hauler for “rental” or “toll” for use of city streets and rights-of-way.
Legal Authorization:	Public Utility Code, Section 6001 et seq. and State Government Code, Section 53066.
Received From:	Solag
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Payments are due quarterly, on or before the fifteenth day after the end of each calendar quarter.
Fee Schedule:	5% of contractor’s gross receipts
Use of Revenue:	Unrestricted.

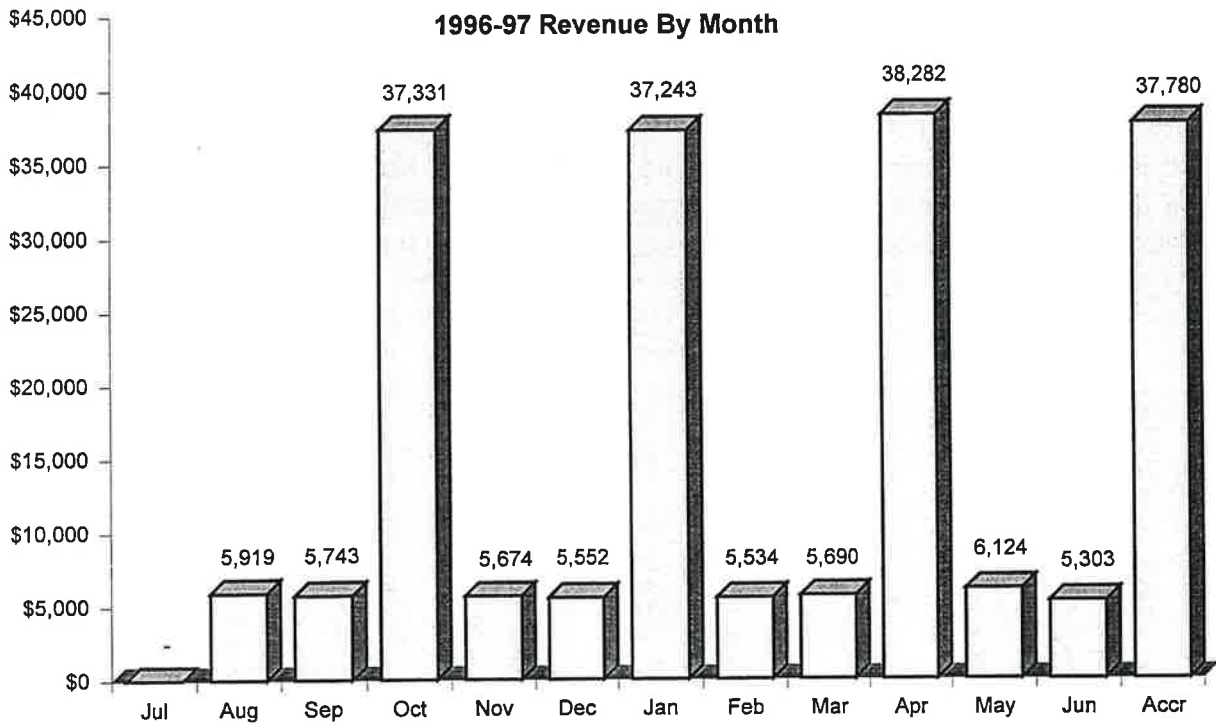
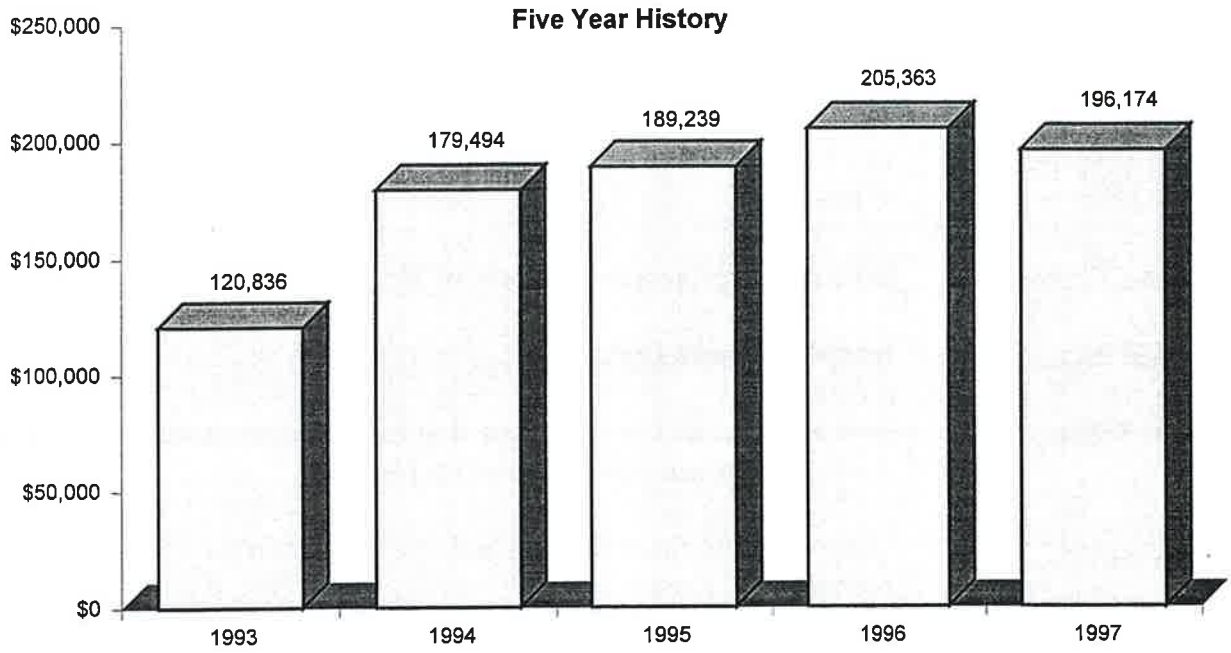
Overview

The city imposes fees on privately owned utility companies and other businesses for the privilege of using city rights-of-way. Types of businesses subject to franchise fees include utilities such as gas, electricity and water, refuse disposal, and cable television. Exemptions include telephone companies, railroads, and piers.

The city has an agreement with Solag Disposal, Inc. for the collection, transportation, recycling, and disposal of all solid waste and for providing temporary bin services in San Clemente.

Solag Disposal

001-000-31650



Business Licenses

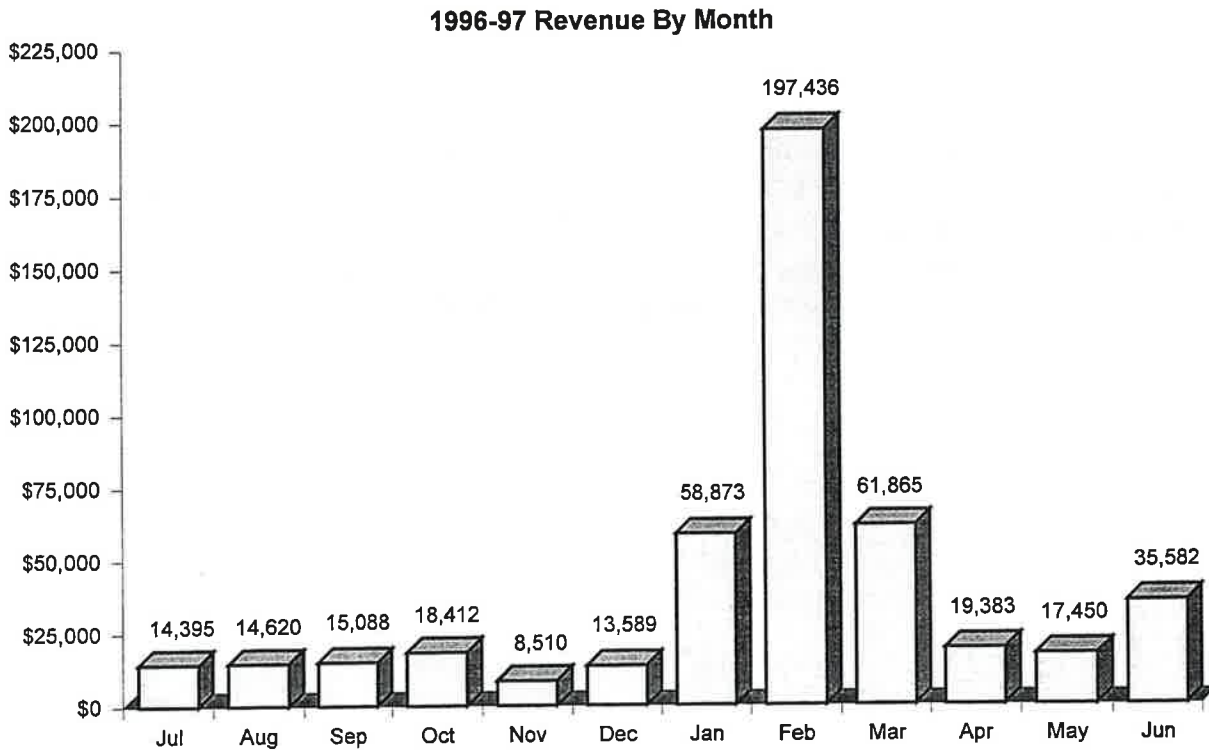
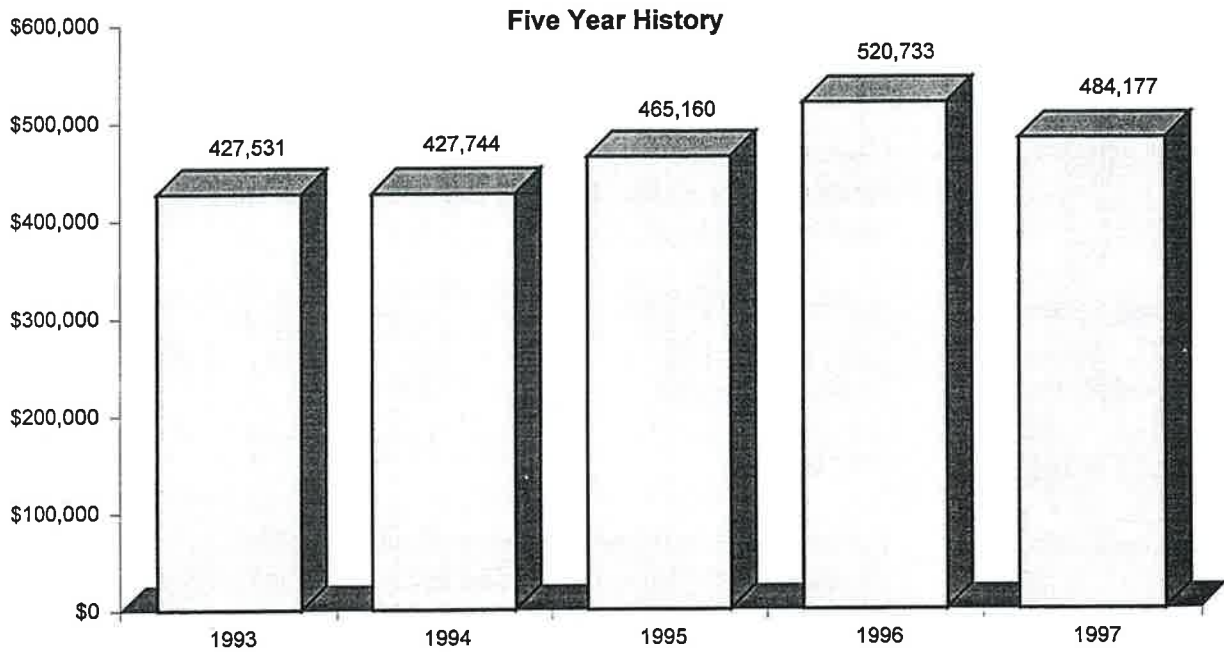
Account:	001-000-32110
Description:	Tax paid to the city as a requirement to transact or conduct business within the city.
Legal Authorization:	Govt. Code Section 37101; San Clemente Municipal Code, Section 5.04.020.
Received From:	All entities that conduct business within the city.
Received By:	Business License Division.
Receipt Timing:	Revenues are received on an ongoing basis as existing businesses renew permits and new businesses apply.
Fee Schedule:	\$10 application fee, and additional fees based on a flat rate or percentage of gross receipts, depending on the type of business. Business License Fees were last amended July 3, 1991.
Use of Revenue:	Unrestricted.

Overview

This is a general tax on businesses for the privilege of conducting business within the city. Fees vary greatly depending on the nature of the business being conducted. For details, see San Clemente Municipal Code, Section 5.08.010 et seq. One of the purposes of the business license review process is to determine compliance with the City's zoning ordinance. There are currently about 4,600 licenses issued each year in San Clemente.

Business Licenses

001-000-32110



Building Permits

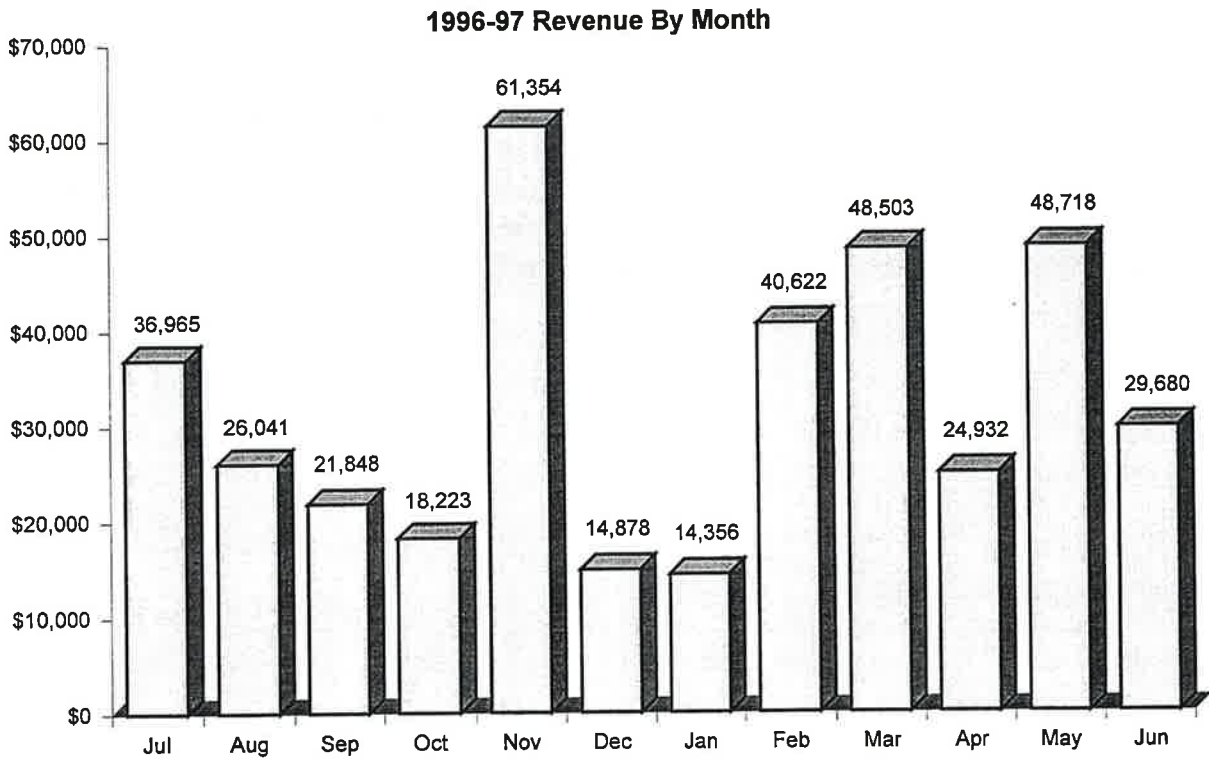
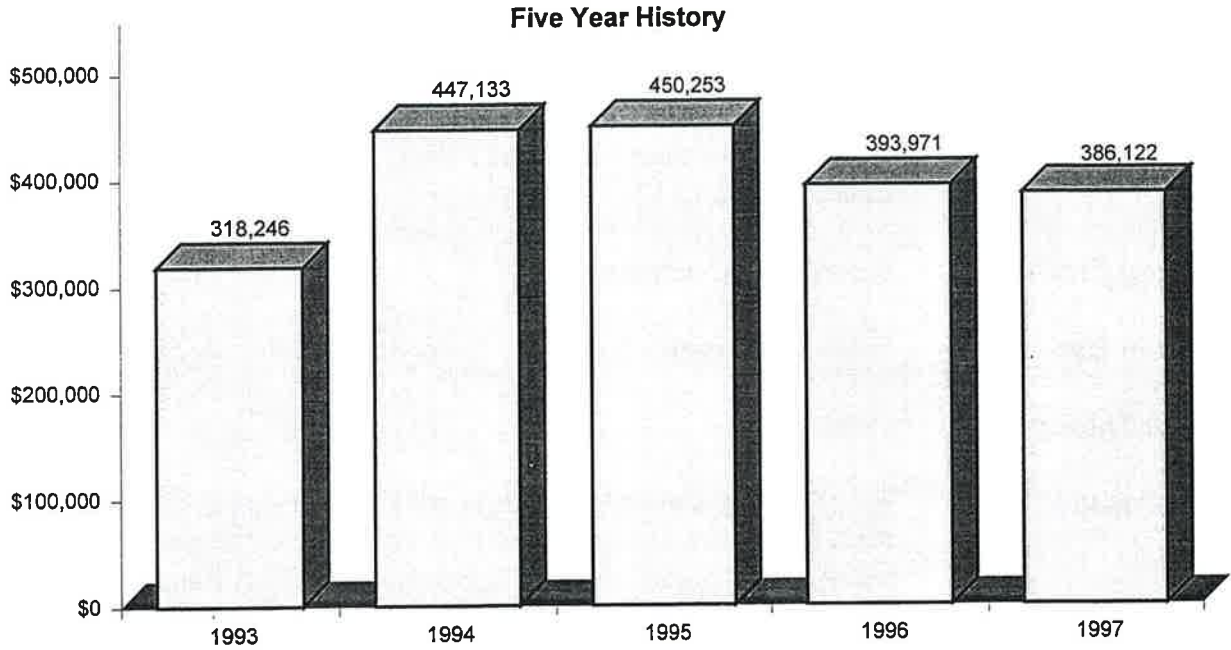
Account:	001-000-32210
Description:	Fees collected to recover inspection and administrative costs associated with building code compliance.
Legal Authorization:	Govt. Code Sections 38601 and 38660. San Clemente Municipal Code, Section 15.08. The City has adopted the State of California Uniform Building Code.
Received From:	Builders/ Developers
Received By:	Building Division
Receipt Timing:	Continuous
Fee Schedule:	Fees are derived from a valuation schedule set forth in Table 1-A of the Uniform Building Code. The valuation schedule is based upon the scope of work to be performed and/or value of improvement to the property.
Use of Revenue:	Unrestricted.

Overview

Building permit fees are collected to recover inspection and administrative costs incurred by the City in order to ensure building code compliance. One of the purposes of the building permit application process is to determine compliance with the City's zoning ordinance. Fees are based on a valuation schedule set forth in the Uniform Building Code. All valuations are verified by the Building Division Plan Check Engineer.

Building Permits

001-000-32210



Electrical Permits

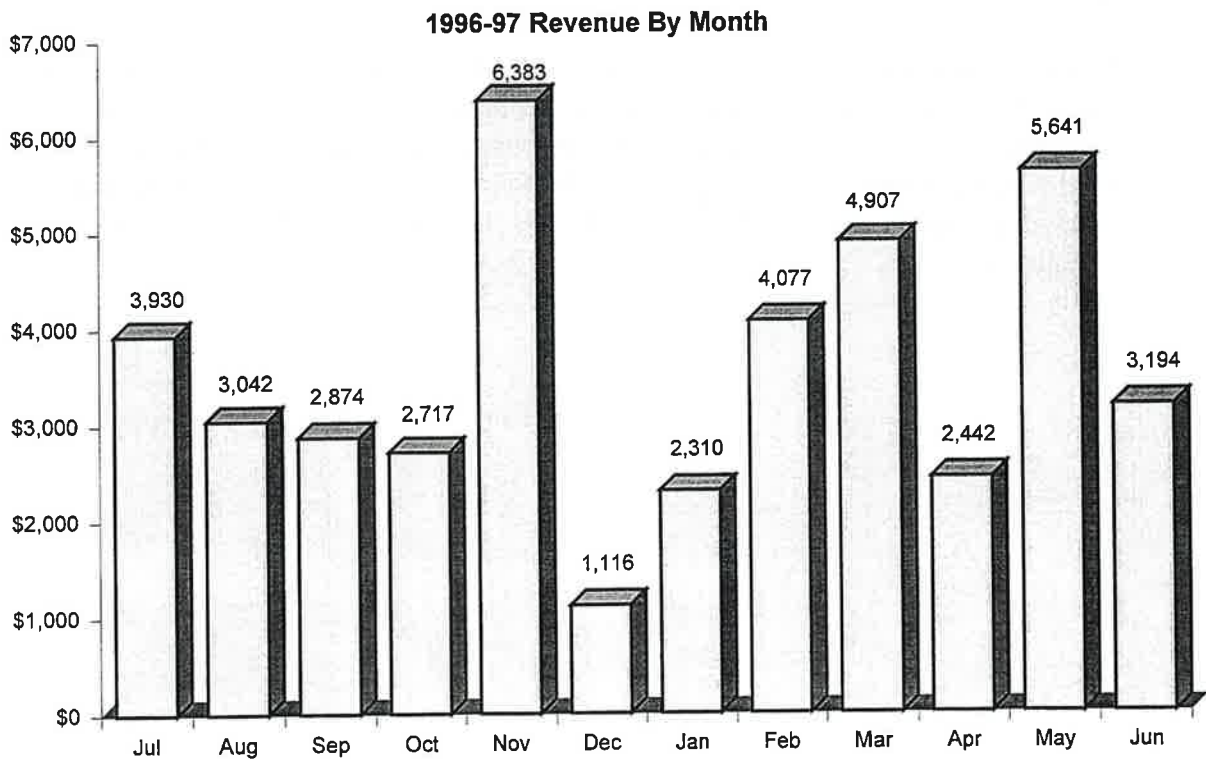
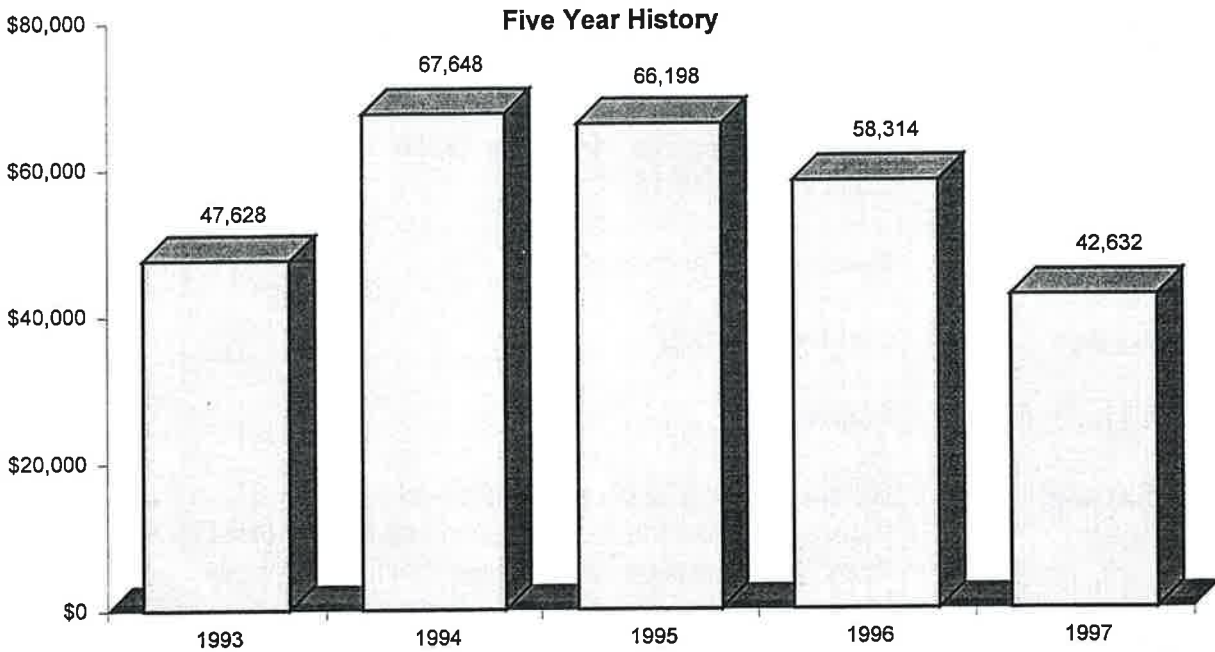
Account:	001-000-32220
Description:	Fees collected by the City to recover costs of regulating electrical construction activity.
Legal Authorization:	Govt. Code Sections 38601 and 38660. San Clemente Municipal Code, Section 15.12.
Received From:	Developers/ Contractors
Received By:	Building Division
Receipt Timing:	Continuous
Fee Schedule:	Fees for general electrical fixtures are based on square footage. Additional items charged include an issuance fee, meters, sub-panels, 220V outlets, exterior lights, motors, etc. A rough estimate for a single family dwelling: \$260.
Use of Revenue:	Unrestricted.

Overview

Electrical Permit Fees are collected to recover costs of inspection and administration associated with Electrical Code compliance. Builders must obtain a permit for any electrical construction activity within the City. Twenty-five percent of the electrical permit fee is collected at the time of permit application to cover the electrical plan review, with the balance due upon approval of the plan. This revenue is directly correlated with local building activity.

Electrical Permits

001-000-32220



Mechanical Permits

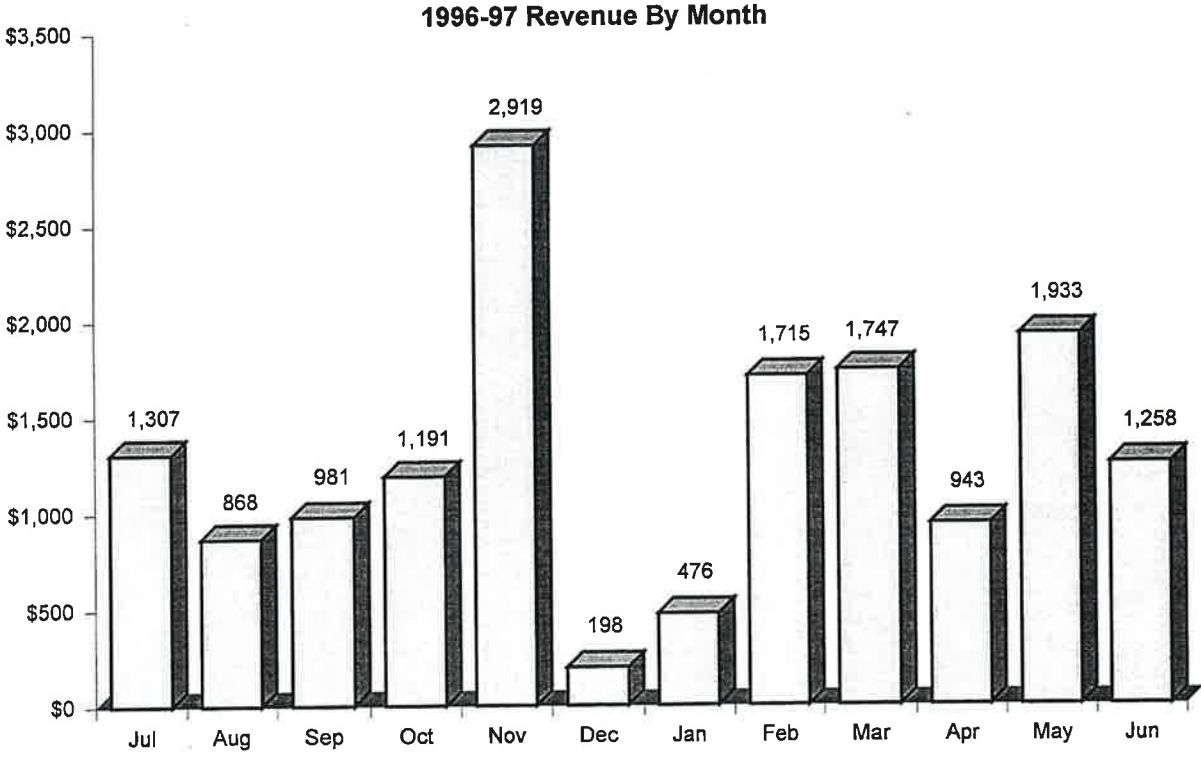
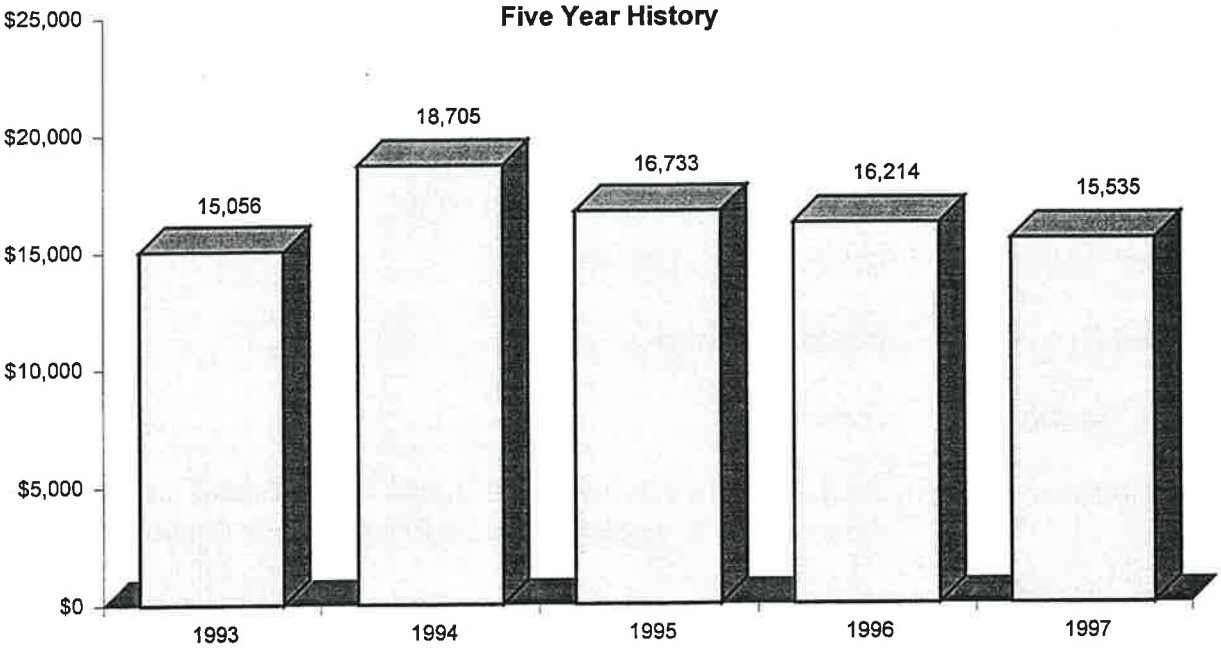
Account:	001-000-32230
Description:	Fees designed to reimburse city for cost of regulating heating, cooling, circulating, and other heat producing machinery.
Legal Authorization:	Govt. Code Sections 38601 and 38660. San Clemente Municipal Code, Section 15.16.
Received From:	Developers/ Contractors
Received By:	Building Division
Receipt Timing:	Continuous
Fee Schedule:	Issuance fee of \$22.00, plus additional fees for each individual fixture as outlined in Building Division Mechanical Fee Schedule. Rough estimate for a single family dwelling: \$80.00.
Use of Revenue:	Unrestricted.

Overview

Builders must obtain a permit for any mechanical fixtures such as forced air units, air conditioning units, wall heaters, appliance vents, exhaust vents and hoods, duct work, etc. Mechanical permit fees are collected to recover the costs of administration and inspection associated with mechanical code compliance. The City of San Clemente has adopted its fees and regulations from the Uniform Mechanical Code. This revenue is directly correlated with local building activity.

Mechanical Permits

001-000-32230



Plumbing Permits

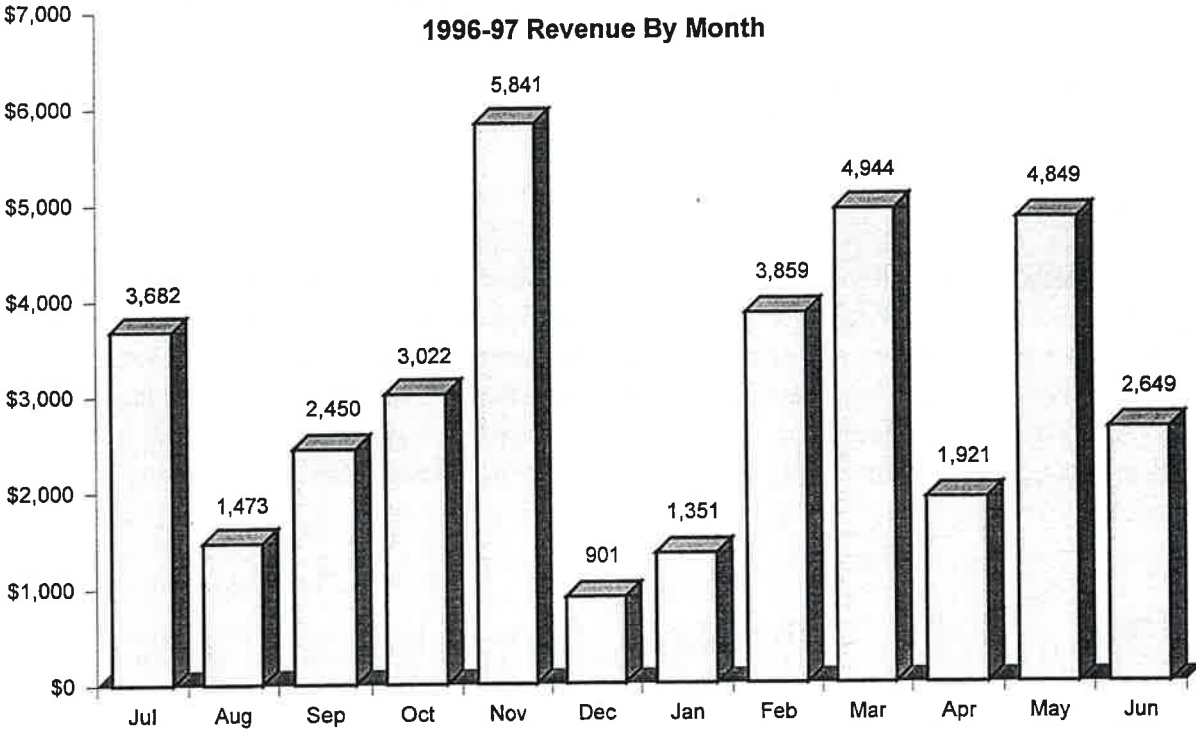
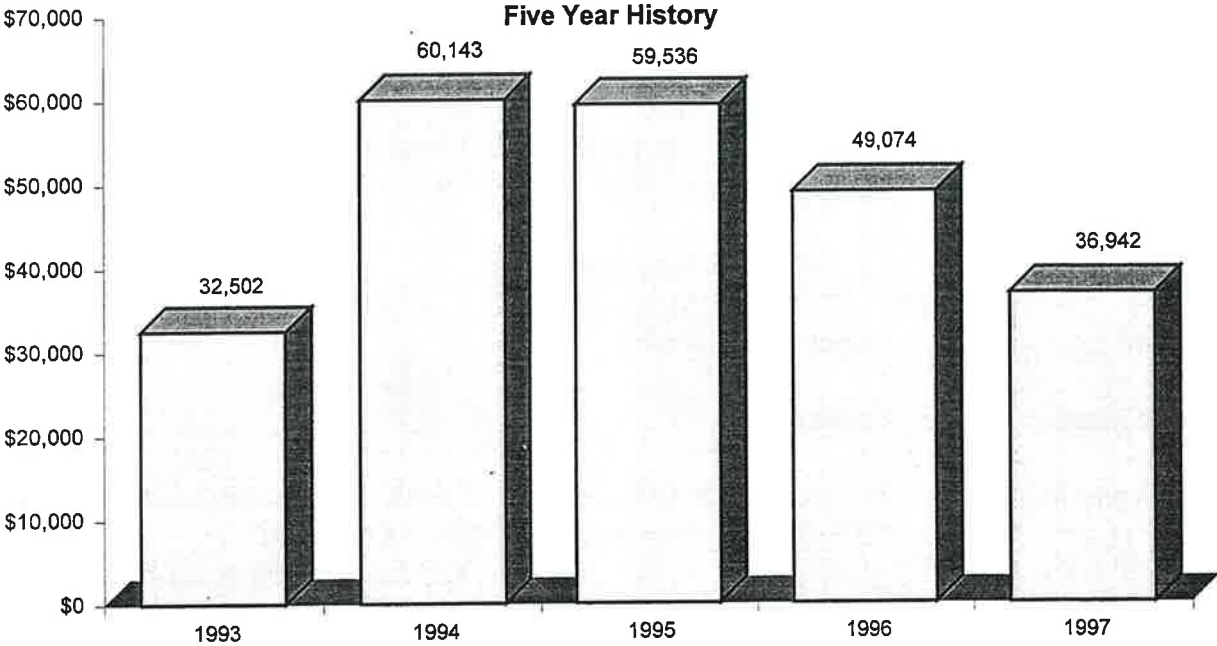
Account:	001-000-32240
Description:	Fees collected to recover cost of regulating plumbing construction activity.
Legal Authorization:	Government Code, Sections 38601 and 38660. San Clemente Municipal Code, Section 15.20.
Received From:	Developers/ Contractors
Received By:	Building Division
Receipt Timing:	Continuous
Fee Schedule:	Issuance Fee of \$20.00, plus additional fees calculated on a per fixture basis. A rough estimate for a single family dwelling: \$260.
Use of Revenue:	Unrestricted.

Overview

Fees are collected to recover the cost of plumbing code compliance, including inspection and administration. Permits are required for all plumbing construction activities within the City. San Clemente has adopted the fees and regulations of the Uniform Plumbing Code, except amendments set forth in Section 15.20.020 of the Municipal Code. This revenue is directly correlated with local building activity.

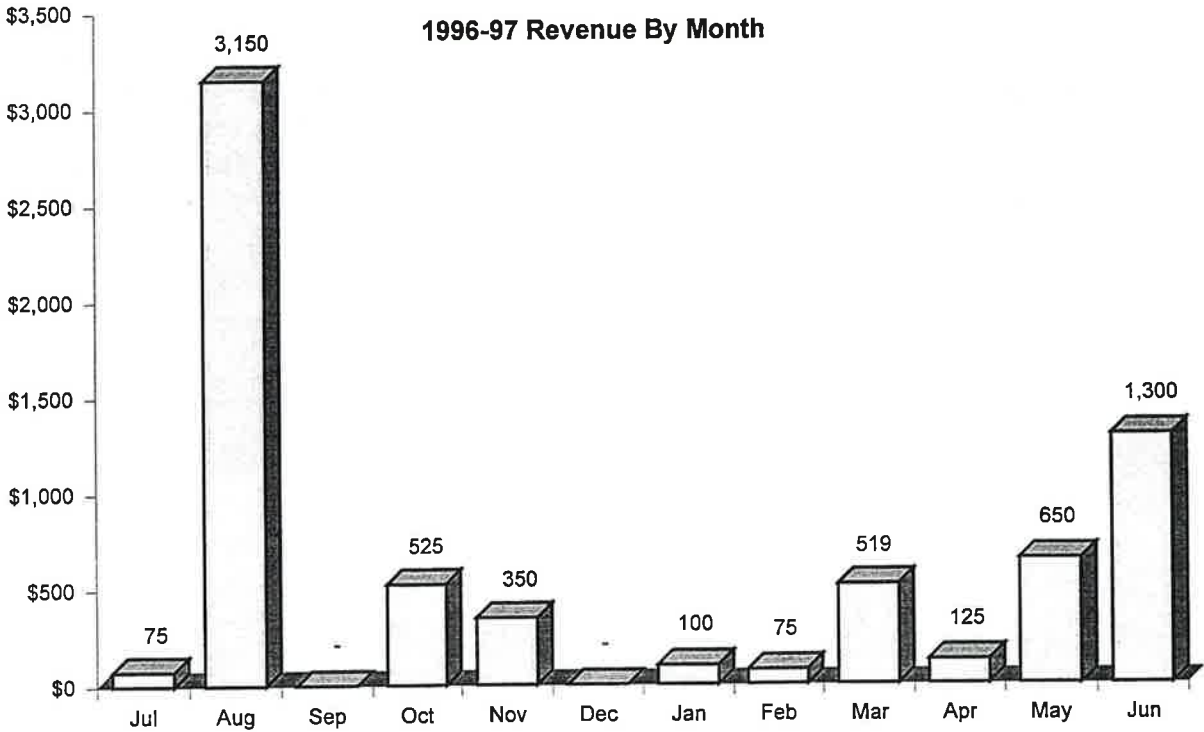
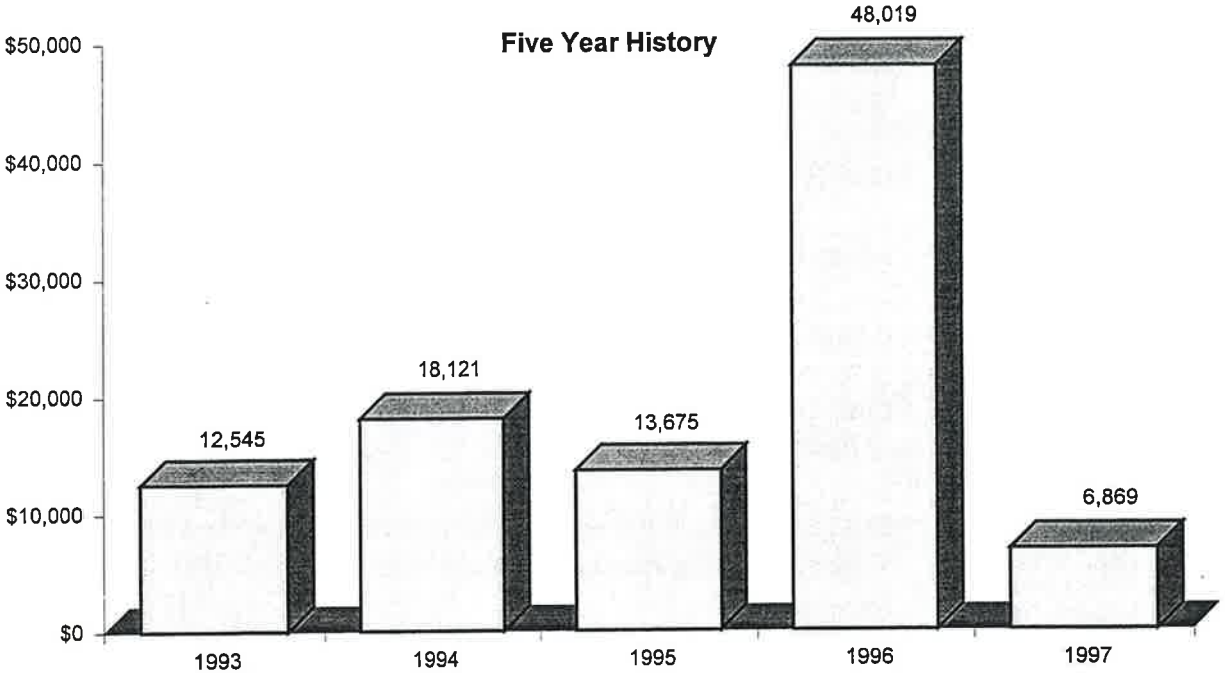
Plumbing Permits

001-000-32240



Grading Permits

001-000-32250



Alarm Permits

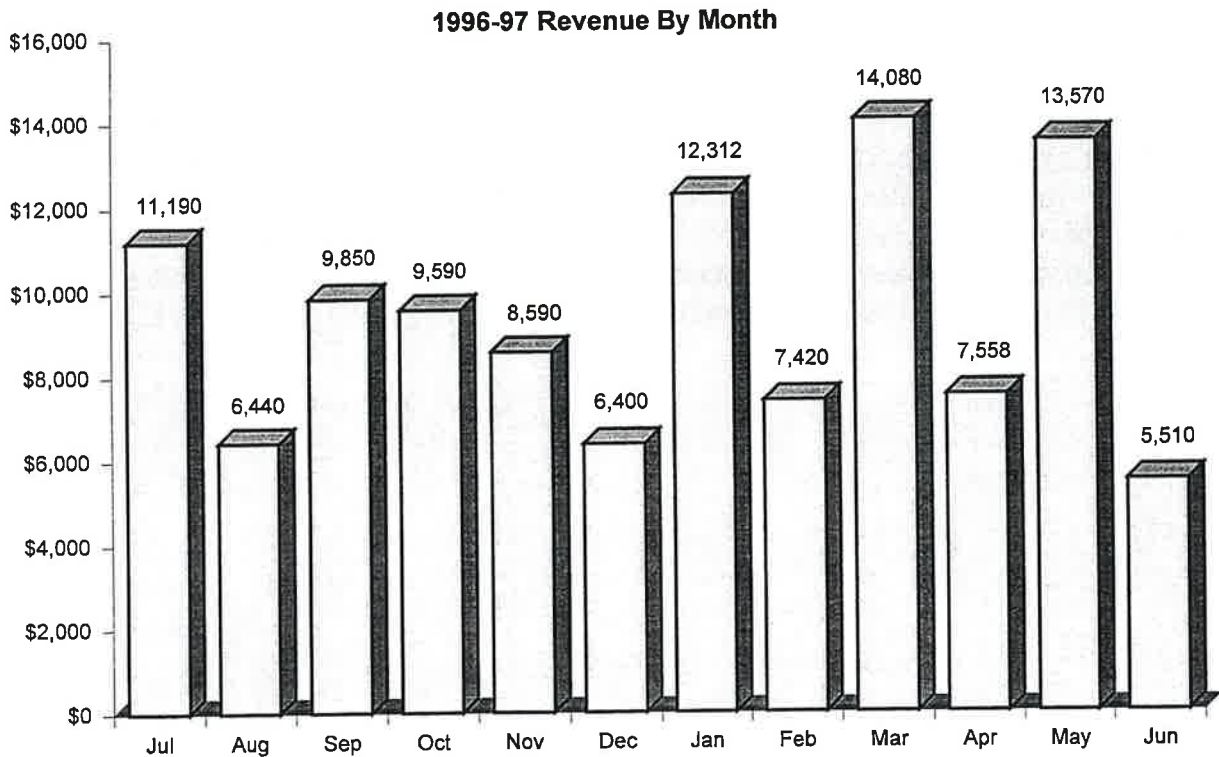
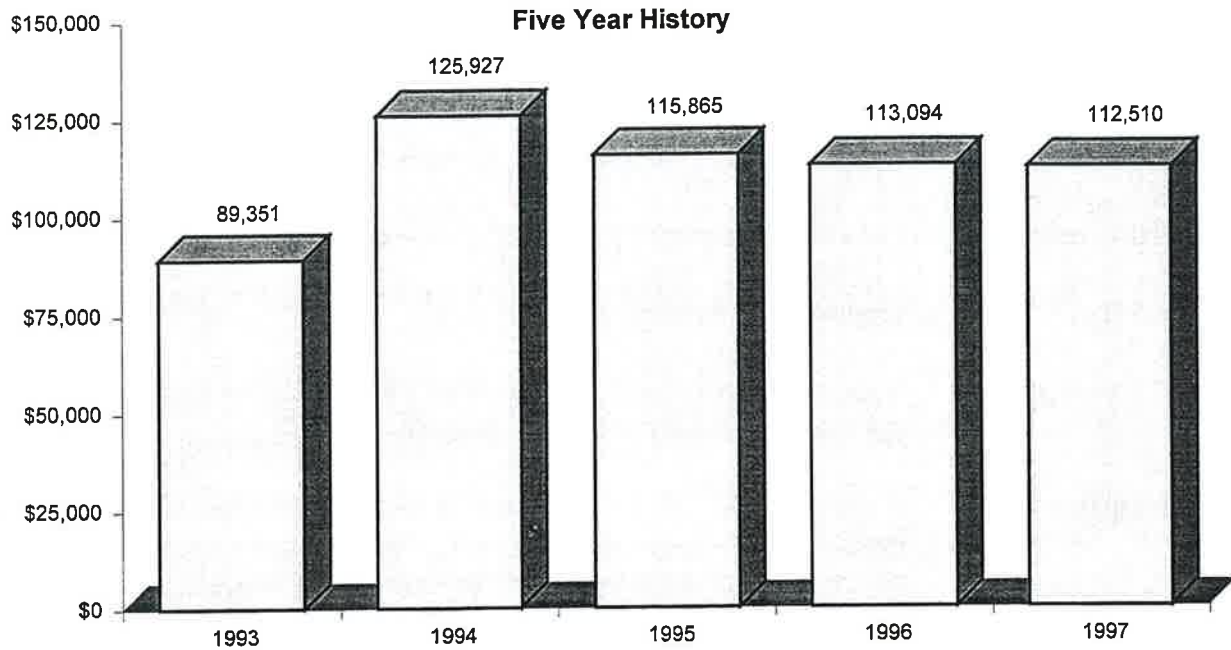
Account:	001-000-32354
Description:	Revenue from the sale of permits for private alarm systems, as well as alarm monitoring service fees.
Legal Authorization:	San Clemente Municipal Code, Section 8.56.270.
Received From:	Alarm system operators.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Continuous. Annual permits are valid for one full year from the date of purchase.
Fee Schedule:	\$30 per year for burglary, fire, or medical alarm system permit. \$200 per year for alarm system monitoring service (includes permit fee).
Use of Revenue:	Unrestricted.

Overview

The city requires permits of all owners of burglary, fire and medical alarm systems. The permit ensures proper alarm information registration with the Sheriff's Department. This revenue represents fees from the sale of burglar alarm permits, as well as additional fees collected from alarm operators who wish to have their alarms monitored directly by the Sheriff's Department.

Alarm Permits

001-000-32354



Final Tract Filing Fees

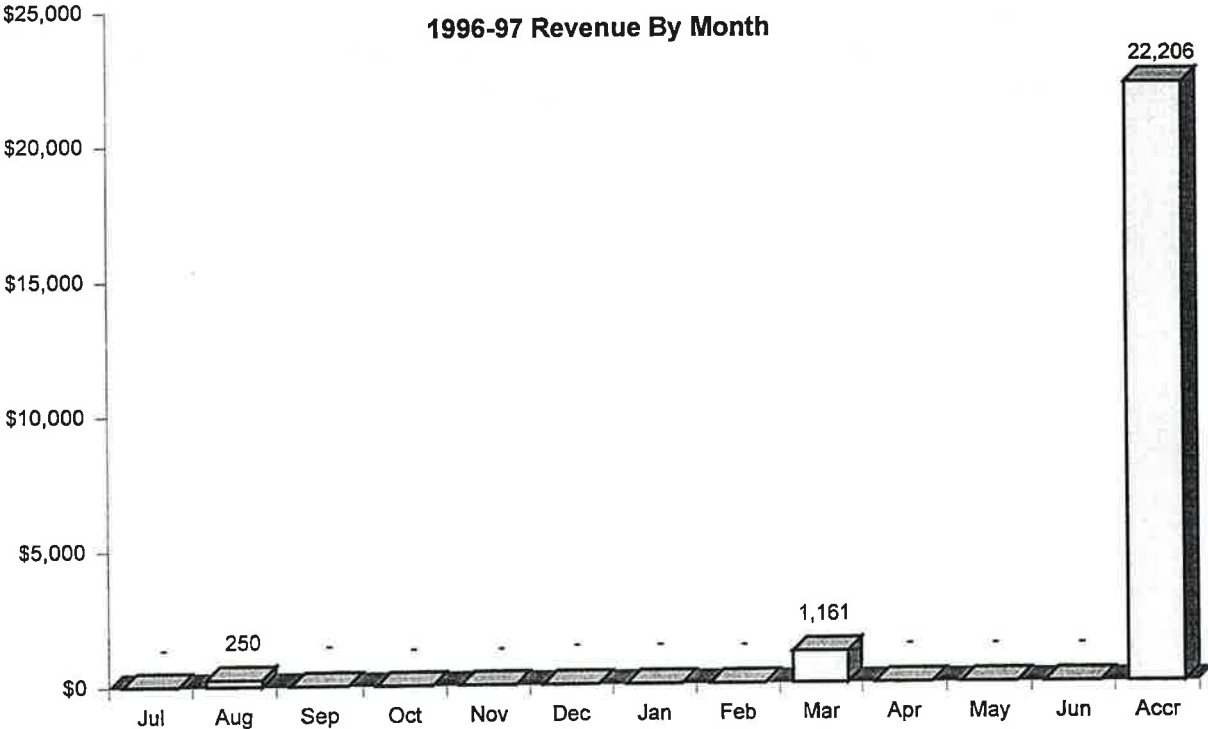
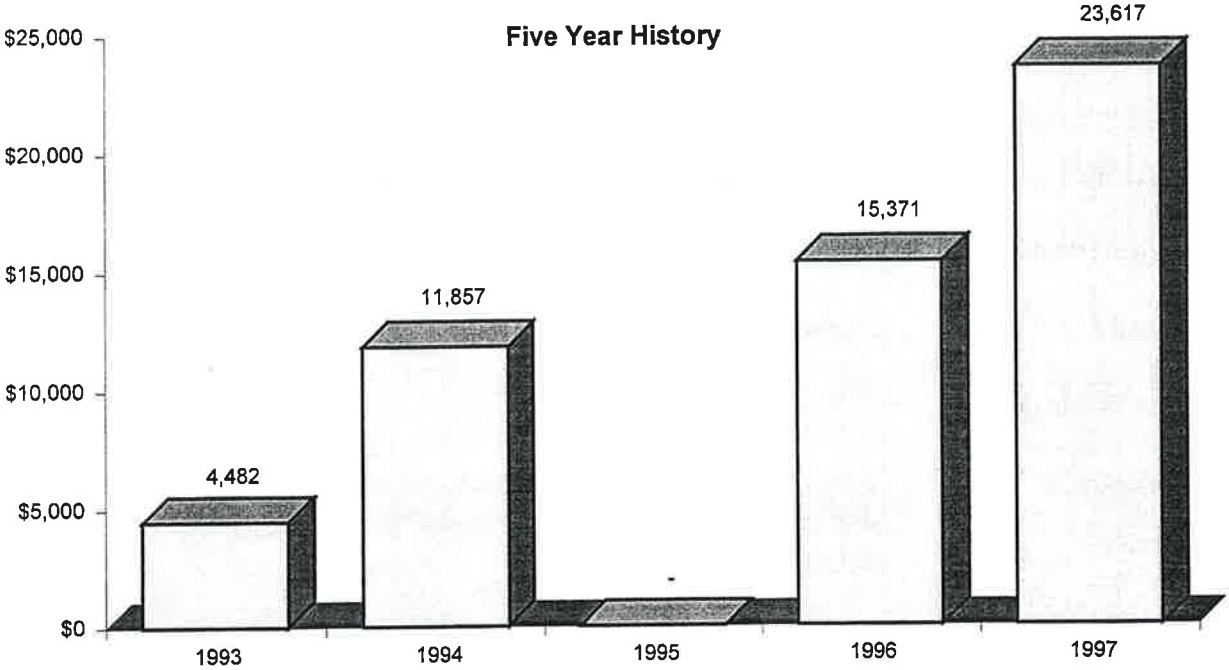
Account:	001-000-34131
Description:	Revenue collected to cover Engineering staff costs of processing a tentative tract/parcel map.
Legal Authorization:	San Clemente Municipal Code, Section 16.12.070.
Received From:	Developers of property within City of San Clemente.
Received By:	Engineering Division
Receipt Timing:	Receipts are infrequent because Final Tract Filing Fees are associated primarily with large projects.
Fee Schedule:	A deposit of \$1,500 is collected when the approved tentative map is received in the Engineering Division. Staff costs are deducted from the deposit and additional funds are collected, if needed.
Use of Revenue:	Unrestricted.

Overview

This revenue represents actual staff costs for processing a tentative tract/parcel map from the time of the approval of the tentative map by City Council until the time of approval of the final map by City Council and recordation at the County of Orange Recorder's office. Any property owner (or his/her authorized agent) who proposes to subdivide any property, for the purpose of creating a subdivision of five or more parcels, must file a tentative tract map with the Community Development Department. The map must show compliance with all established plans, standards and zoning.

Final Tract Filing Fees

001-000-34131



Grading Plan Check Fees

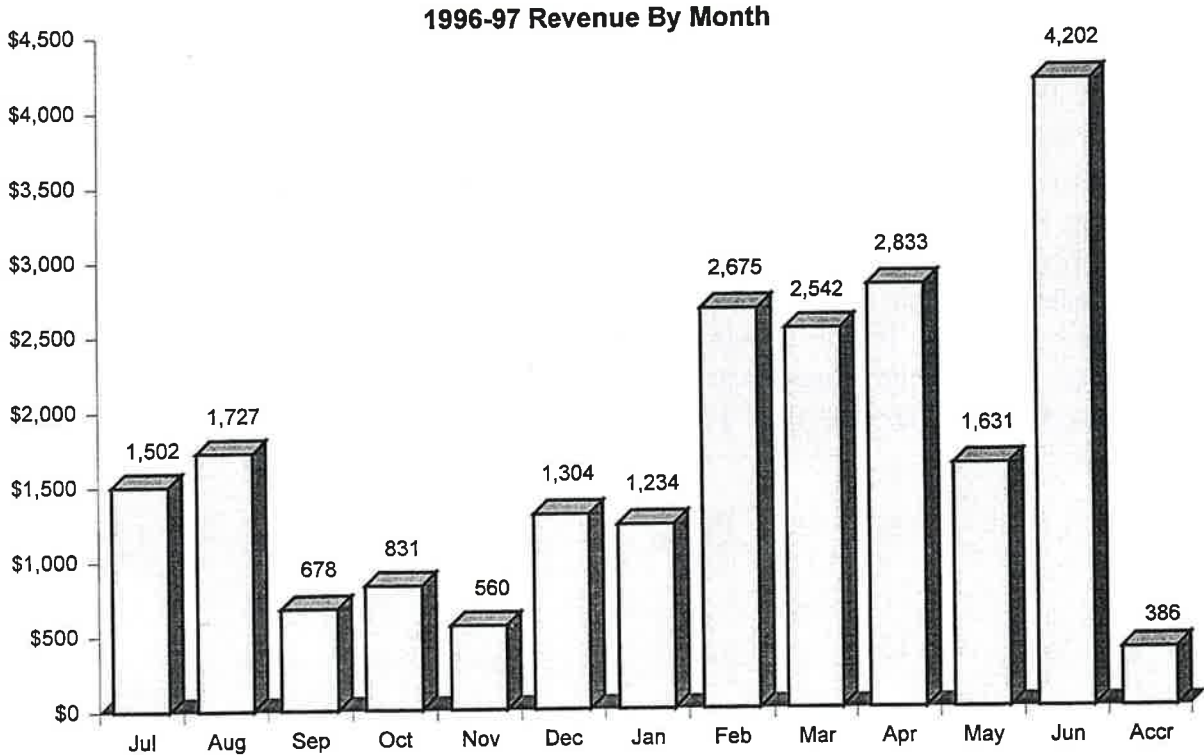
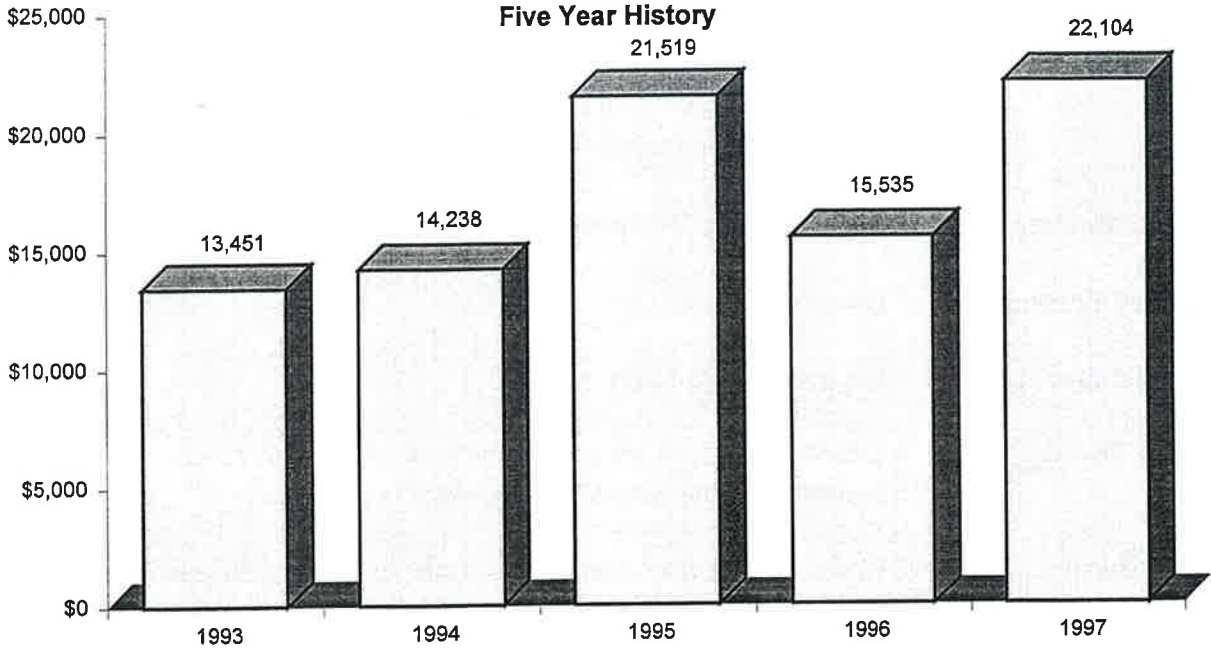
Account:	001-000-34133
Description:	Revenue collected to cover the actual Engineering staff costs for review of grading plans.
Legal Authorization:	San Clemente Municipal Code, Section 15.36.230.
Received From:	The developer of the property.
Received By:	Engineering Division
Receipt Timing:	Continuous
Fee Schedule:	A deposit of \$1,000 is collected at the time plans are submitted. Staff costs are deducted from the deposit and additional funds are collected, if needed.
Use of Revenue:	Unrestricted.

Overview

Revenue is collected to cover the actual Engineering Staff costs for review of grading plans. The Engineering Division collects this fee when the grading permit application, grading plans and specifications are submitted for review.

Grading Plan Check Fees

001-000-34133



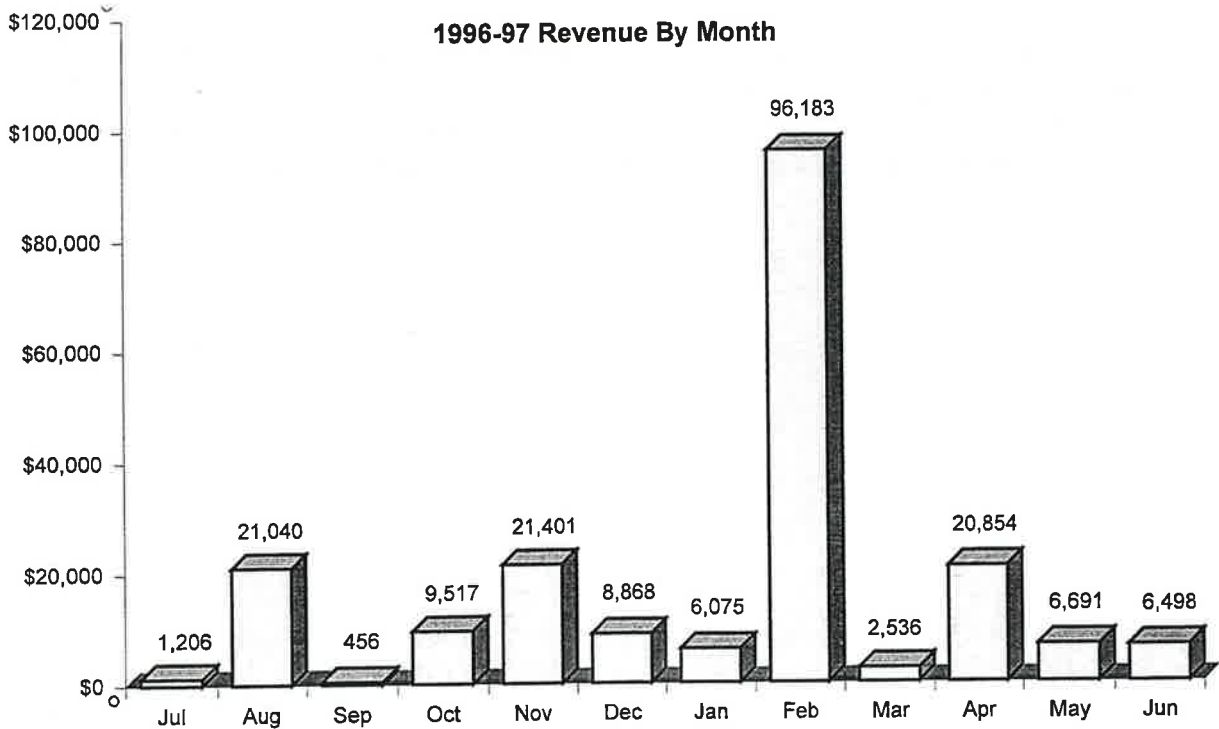
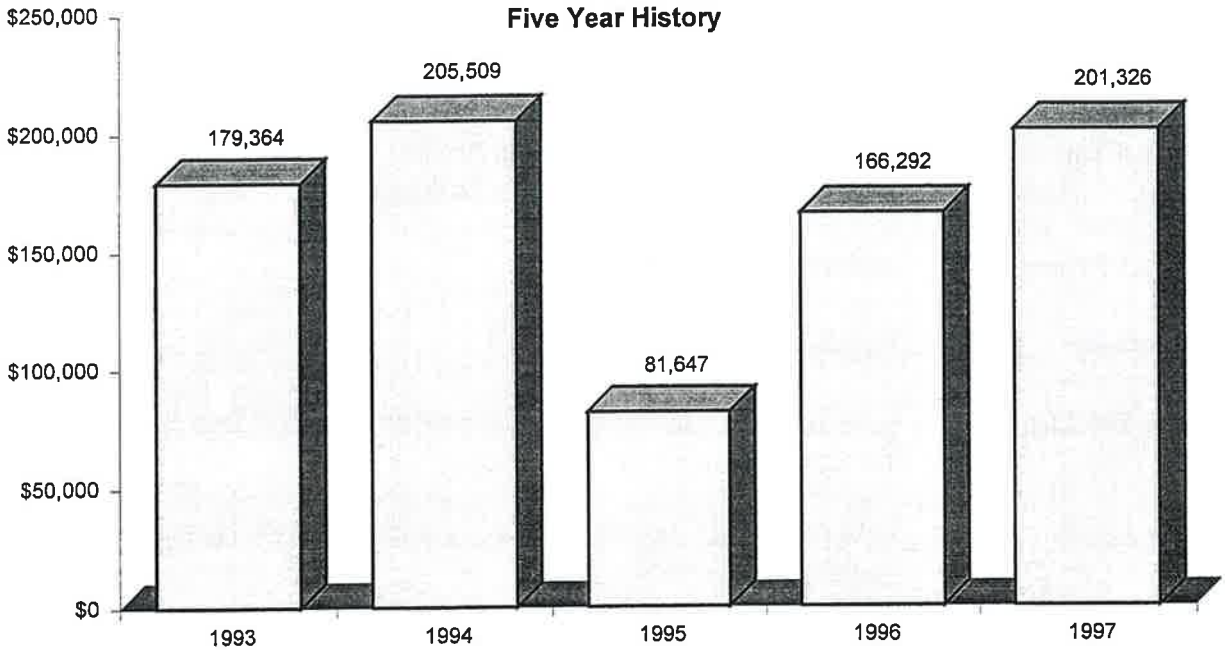
Construction Inspection Fees

Account:	001-000-34501 001-000-34531
Description:	Fees paid to the Engineering Division for Public Works inspectors (Engineering Division staff) to inspect all onsite and off site public works improvements.
Legal Authorization:	San Clemente Municipal Code, Section 16.32.020.
Received From:	Developers
Received By:	Engineering Division
Receipt Timing:	Continuous. Fees are paid at the time of map submittal, or at the time of building permit application if no map.
Fee Schedule:	Based on estimated cost of all on site and off site improvements. 3.5% of first \$25,000; 3% of next \$75,000; 2.5% of cost over \$100,000.
Use of Revenue:	Unrestricted.

Overview

These accounts represent revenue paid by developers to the Engineering Division for inspection of all public works improvements made in conjunction with a particular development. Fees are on a sliding scale based on the cost of all on site and off site improvements to water, sewer, and storm drain systems, as well as street improvements. On site improvements are improvements made within the boundary of the property being developed. Off site improvements include improvements made outside the property boundary in order to connect existing public works systems to newly developed parcels.

Construction Inspection Fees



Building Plan Check Fees

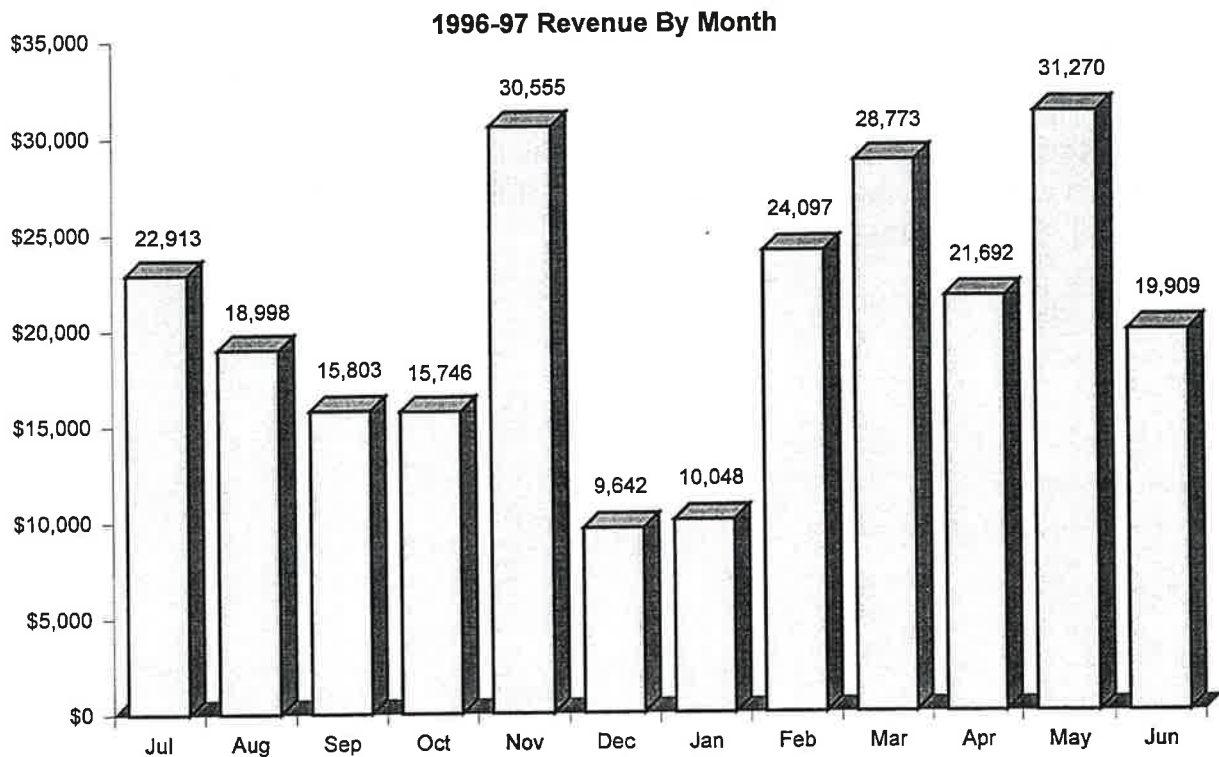
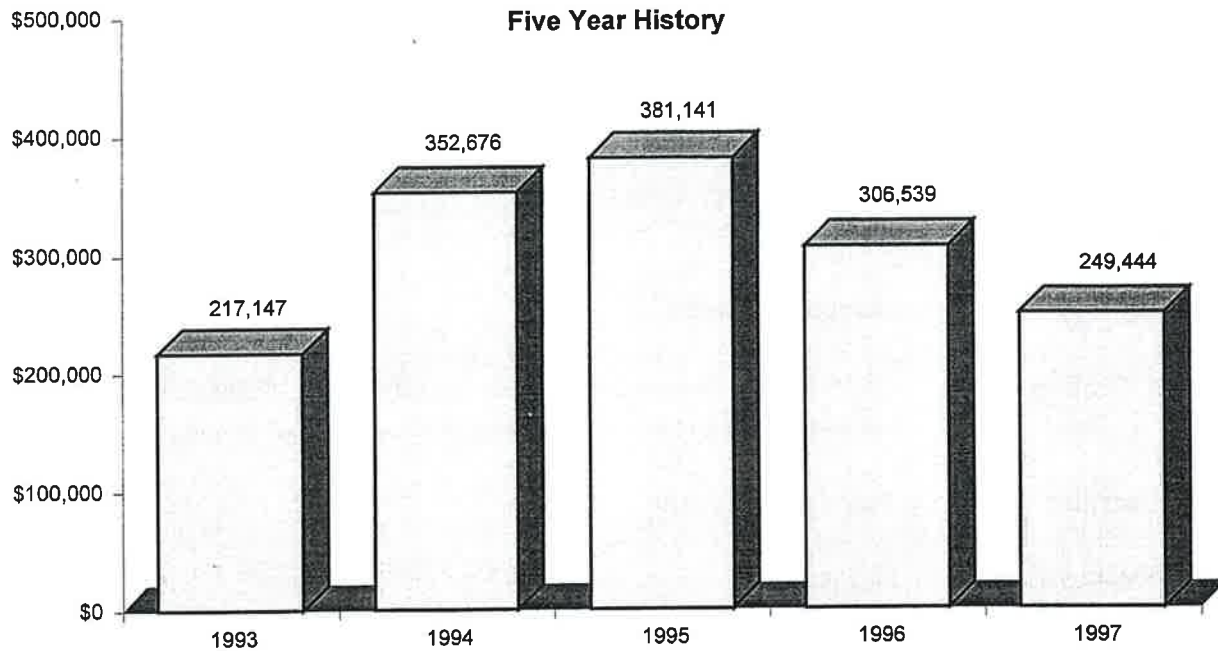
Account:	001-000-34121
Description:	Revenue collected to recover staff costs for review of construction plans.
Legal Authorization:	San Clemente Municipal Code, Section 15.08. The City has adopted the State of California Uniform Building Code.
Received From:	Builders/ Contractors
Received By:	Building Division
Receipt Timing:	Continuous. Plan check fees are paid at the time plans are submitted for approval.
Fee Schedule:	65% of the Building Permit Fee, as determined by the Uniform Building Code, Table A-1.
Use of Revenue:	Unrestricted.

Overview

This revenue represents fees collected by the Building Division to recover staff costs for review of building construction plans. Fees are calculated as 65% of the Building Permit Fee, which is based upon valuation of the scope of work to be performed and/or value of improvement to property. Revenue is directly related to current local building activity.

Building Plan Check Fees

001-000-34121



Environmental Impact Reports

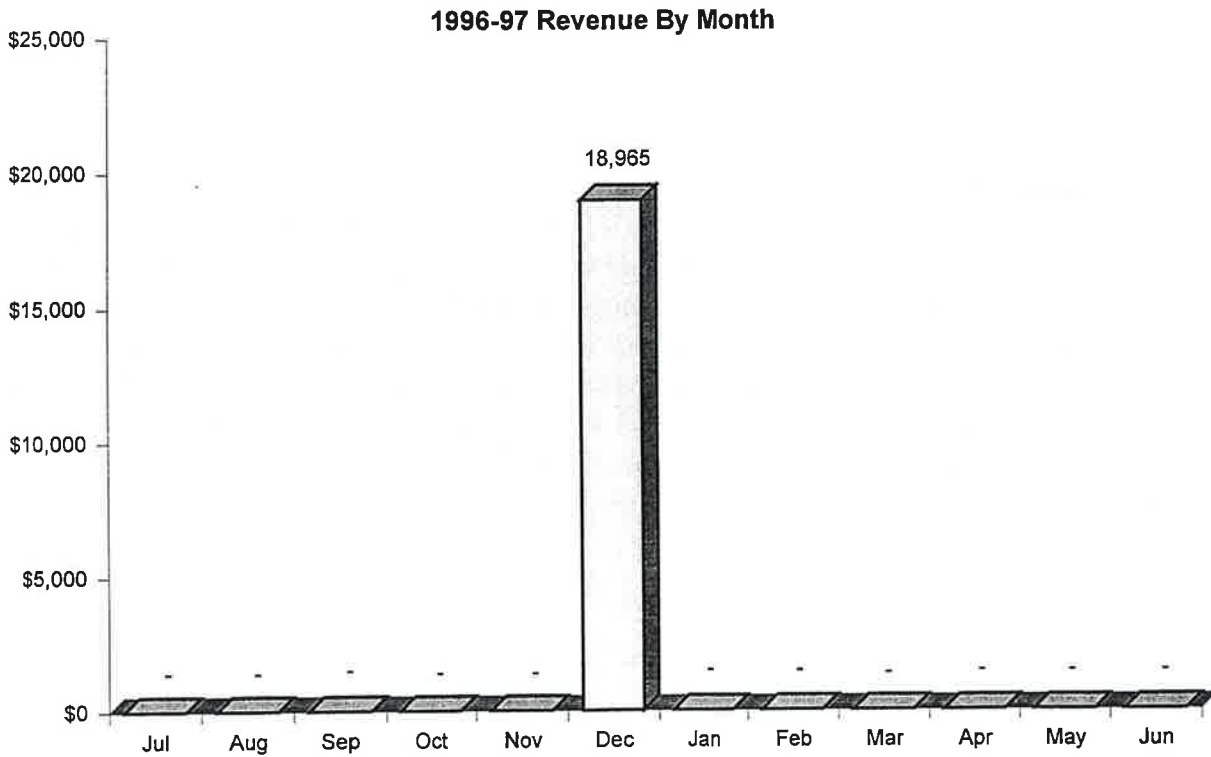
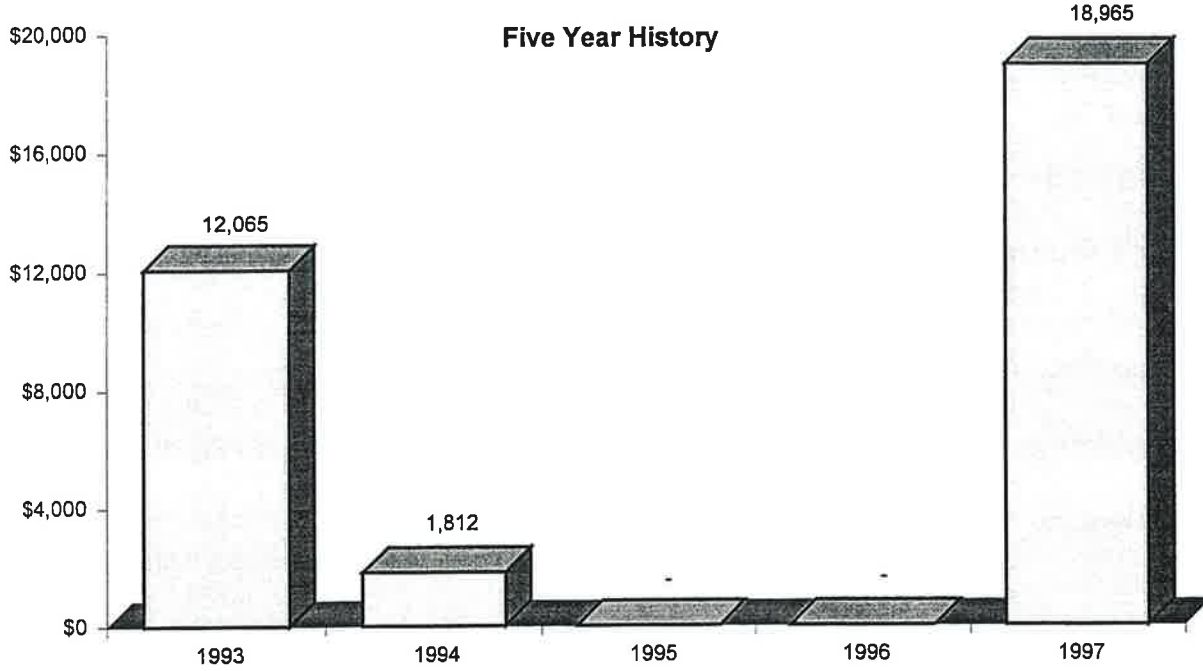
Account:	001-000-34101
Description:	Revenue collected to recover Planning Division staff costs of review of the environmental impacts of a particular development.
Legal Authorization:	San Clemente Municipal Code, Section 17.12.080.
Received From:	Developers
Received By:	Planning Division
Receipt Timing:	Continuous. However, receipts are infrequent because these revenues are primarily associated with very large projects.
Fee Schedule:	Based on staff time.
Use of Revenue:	Unrestricted.

Overview

All applications for development are reviewed by the Planning Division for compliance with the California Environmental Quality Act. An Environmental Impact Report is a very comprehensive study and analysis of the environmental effects of a particular development project. These may be prepared by City staff or by an outside consultant. The City generally charges \$400 for review of an Environmental Impact Report prepared outside the City. To prepare an in-house Environmental Impact Report, the City collects \$3,500 up front and additional fees are collected if necessary.

Environmental Impact Reports

001-000-34101



Conditional Use Permits

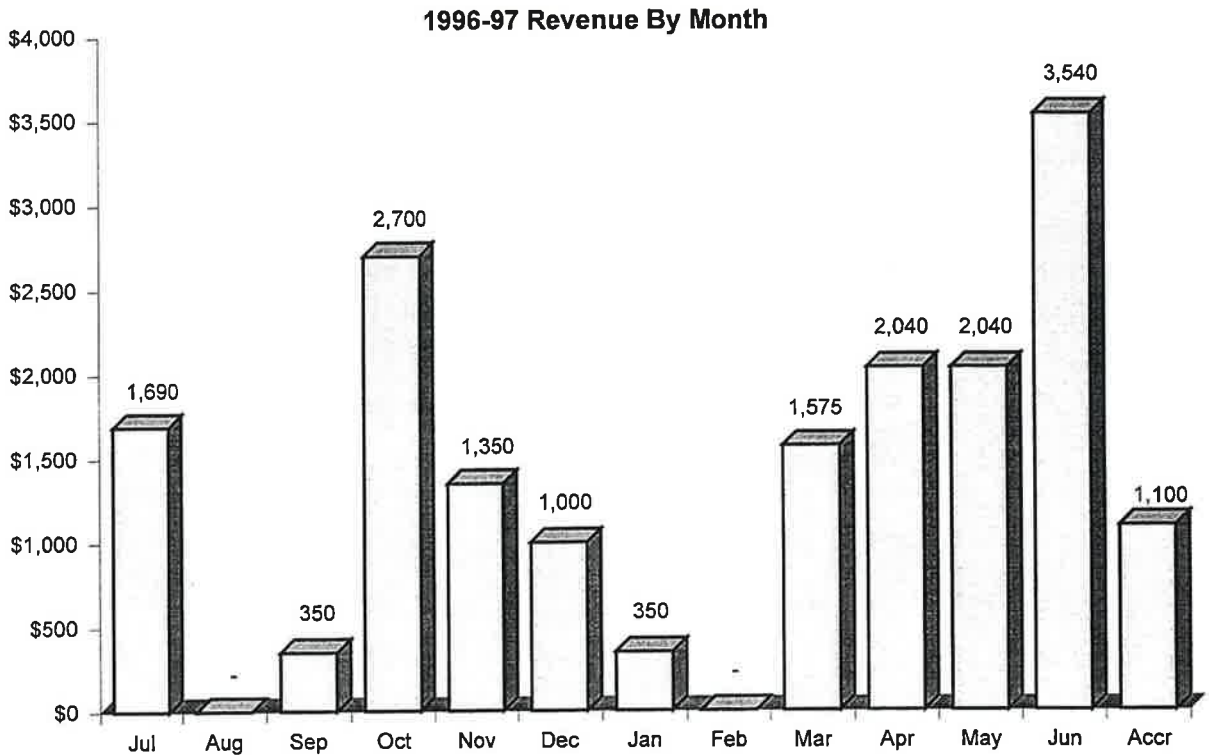
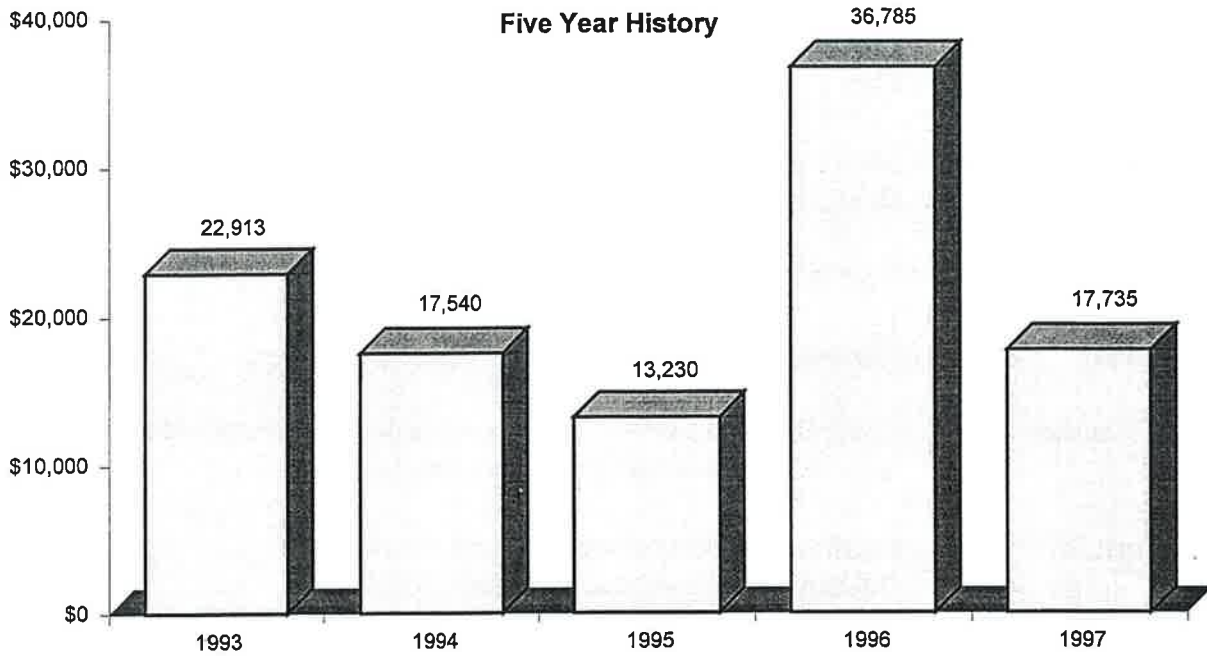
Account:	001-000-34104
Description:	Permit application fees collected to recover the cost of review of any land use with potentially adverse effects on the community.
Legal Authorization:	San Clemente Municipal Code, Section 17.16.060.
Received From:	Applicants for land use not specifically permitted by the City's zoning ordinance.
Received By:	Planning Division
Receipt Timing:	Continuous. Fees are collected at the time of application.
Fee Schedule:	Conditional Use Permit: \$1,350 Conditional Use Permit, with Architectural/ Cultural Heritage Permit: \$1,650 Minor Conditional Use Permit: \$350 Minor Conditional Use Permit, with Architectural/ Cultural Heritage Permit: \$425
Use of Revenue:	Unrestricted.

Overview

Conditional Use Permit application fees are collected to recover the cost of review of land use with potentially adverse effects on the community. The purpose of the Conditional Use Permit process is to provide for the review of uses that may, because of their nature, have an impact of the surrounding environment and for the determination of whether or not the proposed use is appropriate for its proposed location. The Conditional Use Permit process is intended to encourage uses to be located in a manner that is 1) consistent with the City's zones, 2) sensitive to community and neighborhood identity, and 3) minimizes impacts to adjacent uses. A Minor Conditional Use Permit has been established to review requests which are less significant than those requiring a Conditional Use Permit.

Conditional Use Permits

001-000-34104



General Plan Amendment Fees

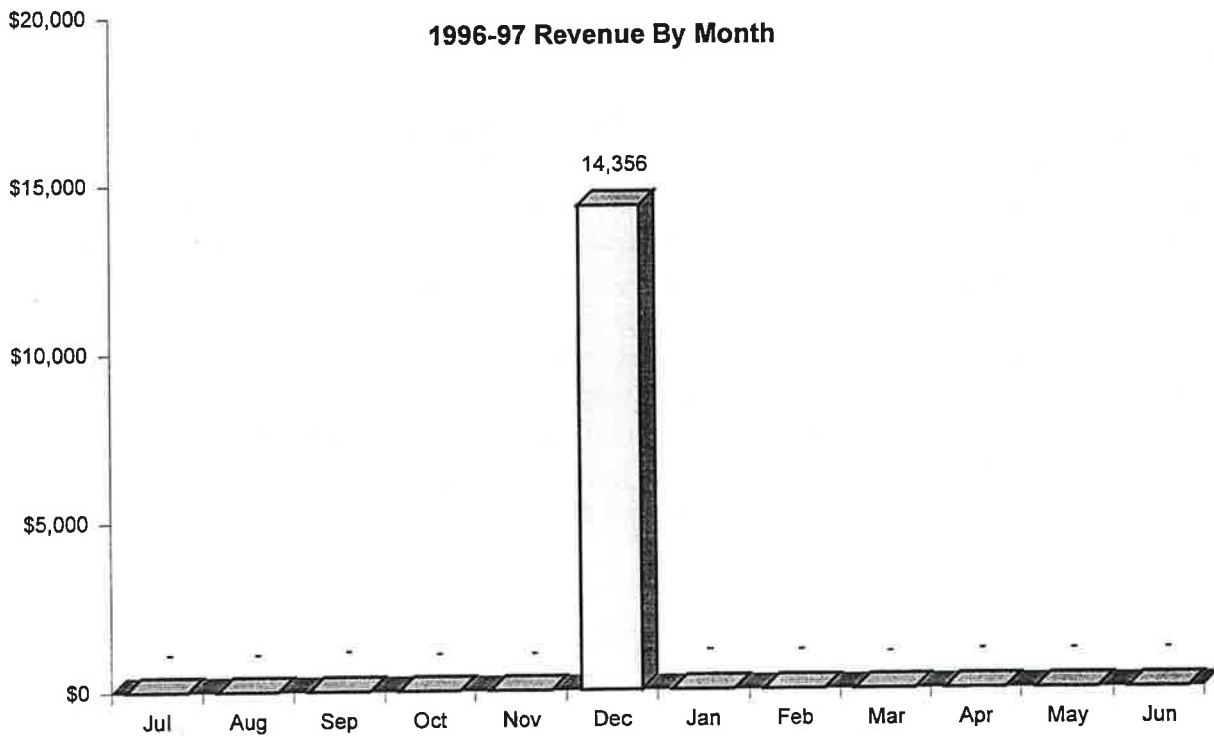
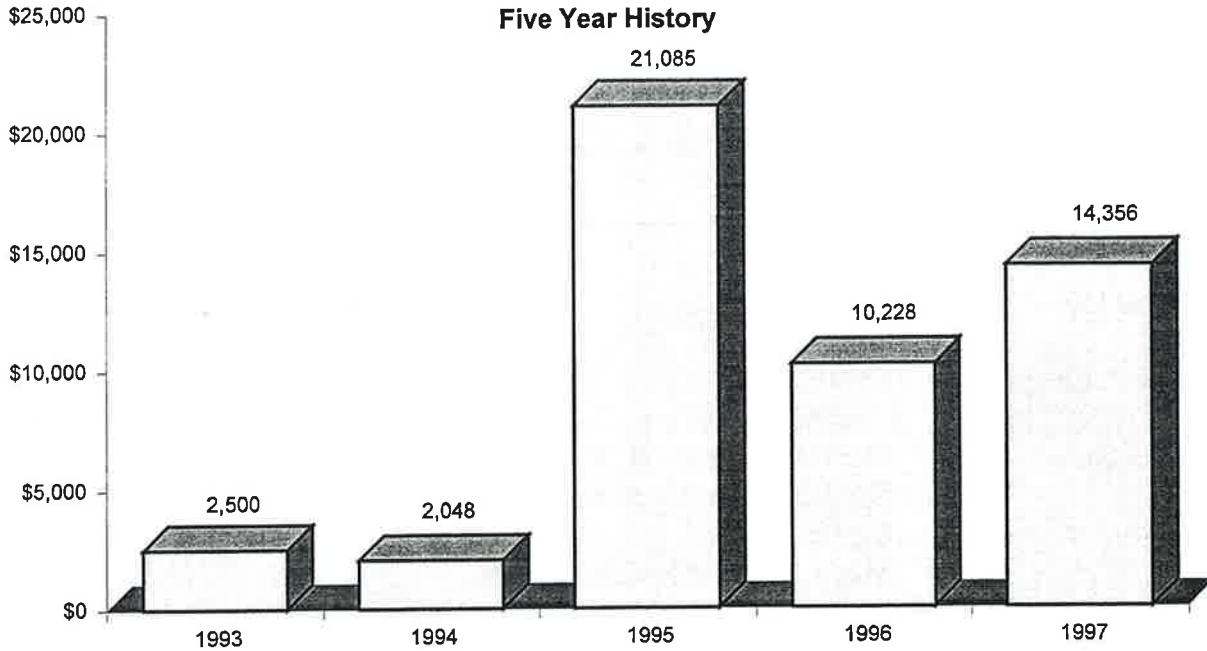
Account:	001-000-34105
Description:	Fees collected from developers for amendment of the City's General Plan.
Legal Authorization:	San Clemente Municipal Code, Section 17.16.020. Government Code, Section 65350 et seq.
Received From:	Developers
Received By:	Planning Division
Receipt Timing:	Continuous. However, receipts are infrequent because these revenues are associated with very large projects.
Fee Schedule:	General Plan Amendment (Minor): \$2,500 General Plan Amendment (Major): \$15,000
Use of Revenue:	Unrestricted.

Overview

From time to time, property owners may wish to use an area of land in a manner not consistent with the City's General Plan. The City provides a method for amending the City of San Clemente General Plan, as it may become necessary or desirable, or as required by State law. The City Council is the final authority on General Plan amendments, which may or may not be approved. General Plan Amendment Fees are collected to defray costs of administration and review of proposed amendments. These costs include Planning Division staff time, as well as time spent by the City Council, Planning Commission and City attorney.

General Plan Amendment Fees

001-000-34105



Site Plan Review Fees

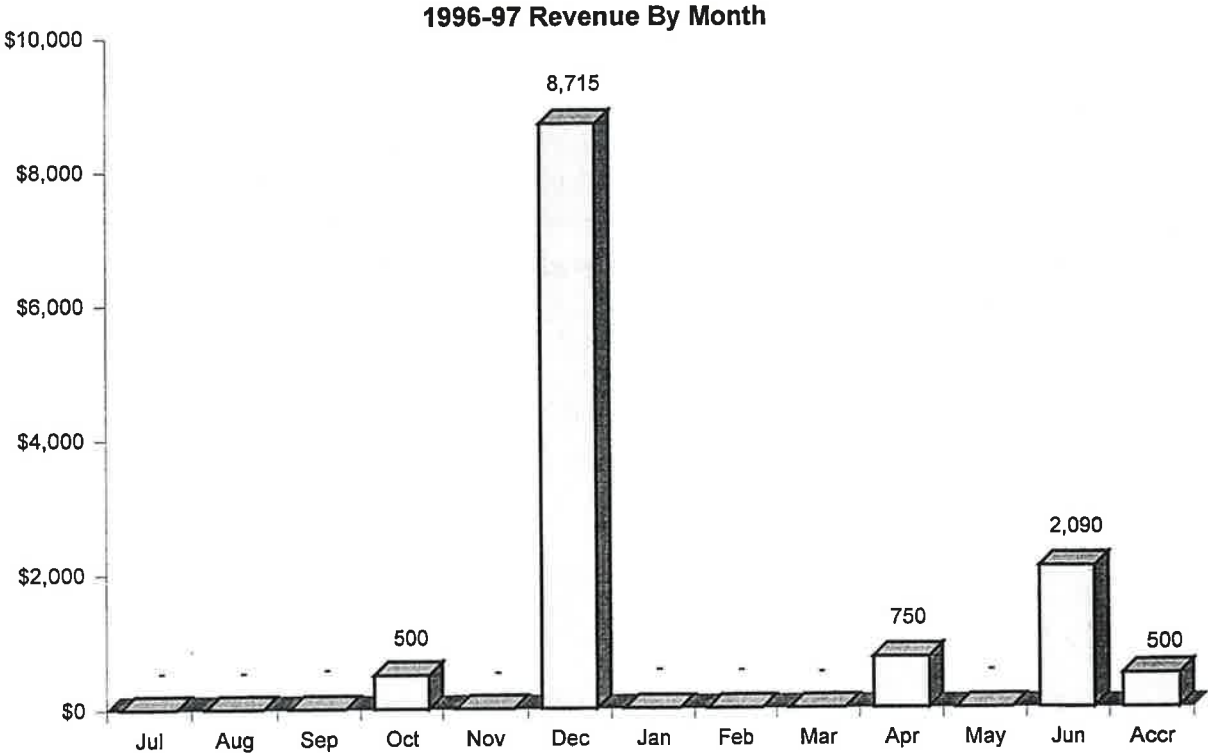
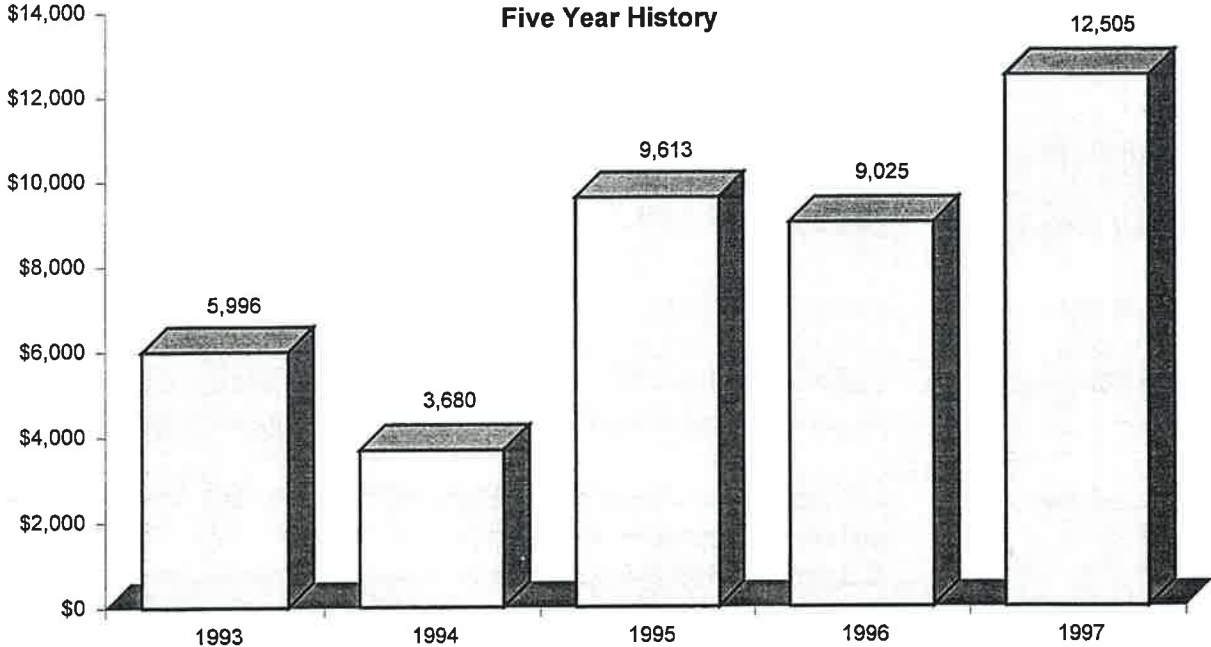
Account:	001-000-34123
Description:	Fees collected to defray costs of administration and review of Site Plan Permits.
Legal Authorization:	San Clemente Municipal Code, Section 17.16.050.
Received From:	Developers/ Property Owners
Received By:	Planning Division
Receipt Timing:	Continuous
Fee Schedule:	Site Plan Permit: \$1,505 Site Plan Permit with Architectural/ Cultural Heritage Permit: \$1,715 Minor Site Plan Permit: \$375 Minor Site Plan Permit, with Architectural/ Cultural Heritage Permit: \$450
Use of Revenue:	Unrestricted.

Overview

Fees are collected to defray costs of review and administration of Site Plan Permits . The Site Plan Permit process provides for the review of physical improvements to a site which due to their scale, proximity to environmentally sensitive areas, or unique design features, require special discretionary consideration. The Site Plan Permit process is intended to encourage site and structural development which 1) respects the physical and environmental characteristics of the site, 2) ensures safe and convenient access and circulation for pedestrians and vehicles, 3) exemplifies the best professional design practices, 4) encourages individual identity for specific uses and structures, 5) encourages a distinct community or neighborhood identity, and 6) minimizes visual impacts. Minor Site Plan Permits provide a streamlined review of projects which are large enough to require special discretionary consideration, but do not require review by the Planning Commission.

Site Plan Review Fees

001-000-34123



Specific Plan Amendment Fees

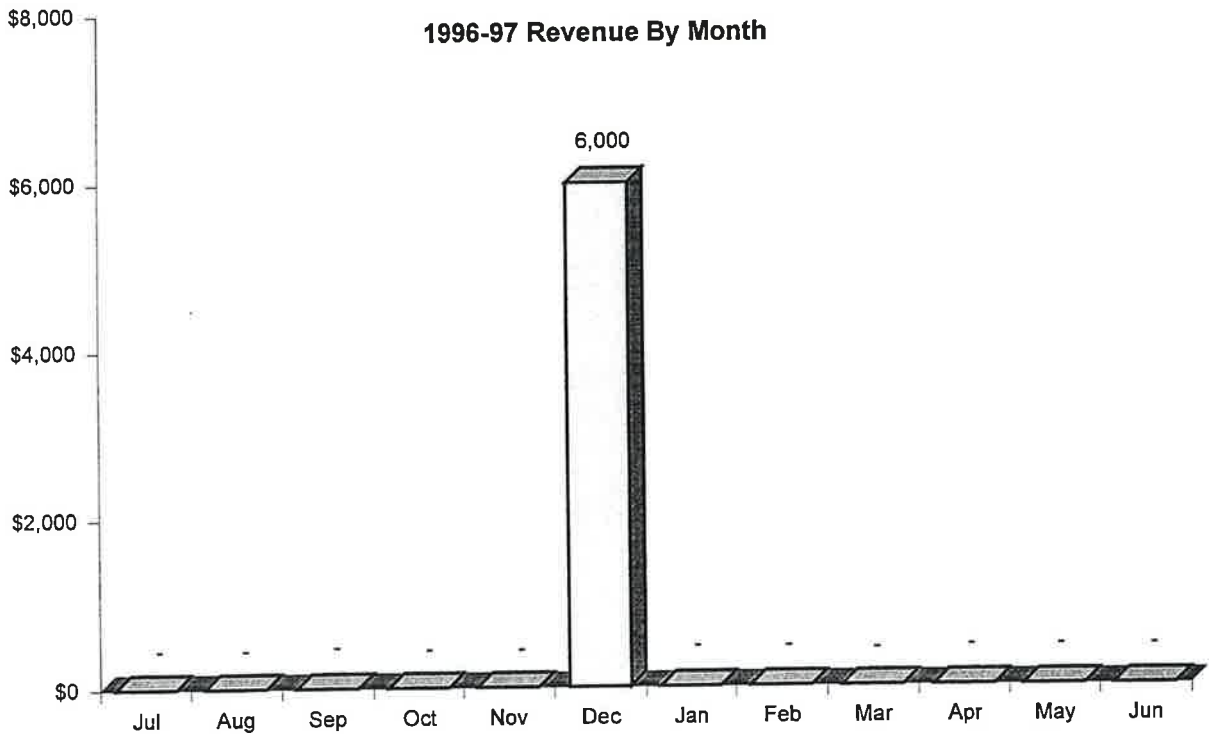
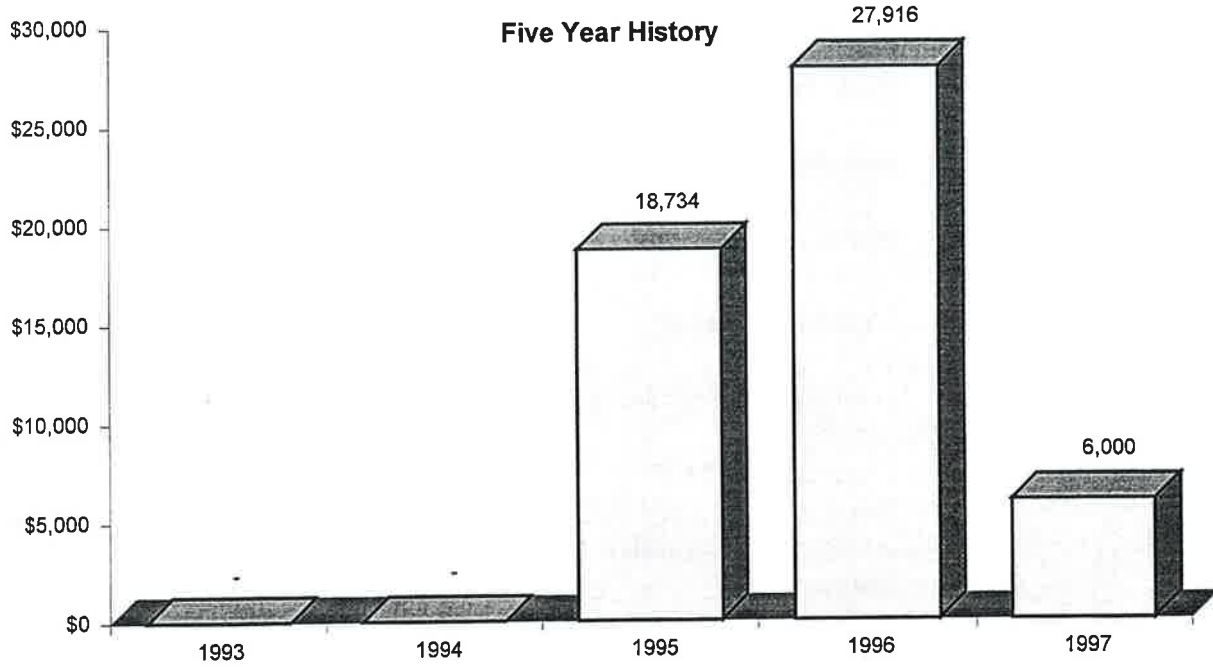
Account:	001-000-34124
Description:	Fees collected to recover the cost of review of applications for Specific Plan Amendments.
Legal Authorization:	San Clemente Municipal Code, Section 17.16.030.
Received From:	Developers
Received By:	Planning Division
Receipt Timing:	Continuous. However, receipts are infrequent because these revenues are associated with very large development projects.
Fee Schedule:	\$50 per hour of time spent by Planning Division staff toward review and administration of amendment. A deposit of \$15,000 is usually collected in advance, and additional funds are collected as needed.
Use of Revenue:	Unrestricted.

Overview

The City collects fees for the amendment of the Specific Plan for a particular development area. A Specific Plan zone designates specific areas which by their unique character require more comprehensive and intense evaluation and planning effort, in order to remain consistent with the goals and objectives of the General Plan. Specific Plans may be amended to ensure their continued effectiveness and responsiveness to community concerns and market demands over time.

Specific Plan Amendment Fees

001-000-34124



Planning Plan Check Fees

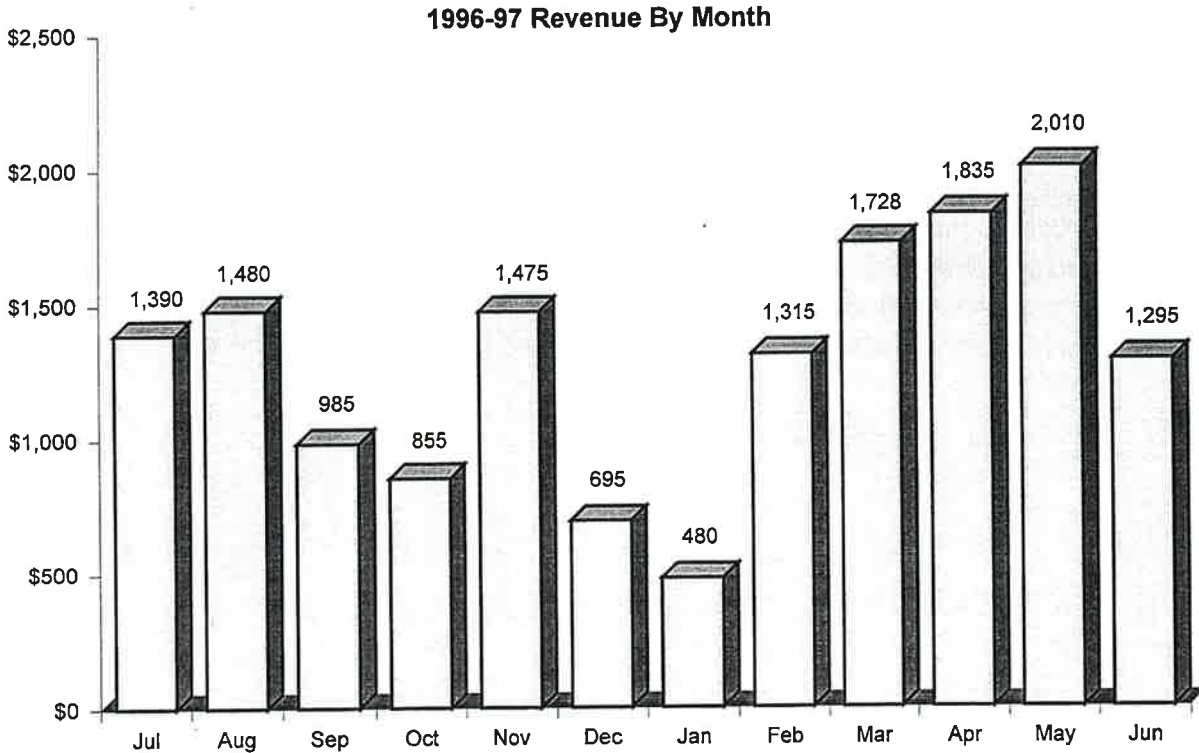
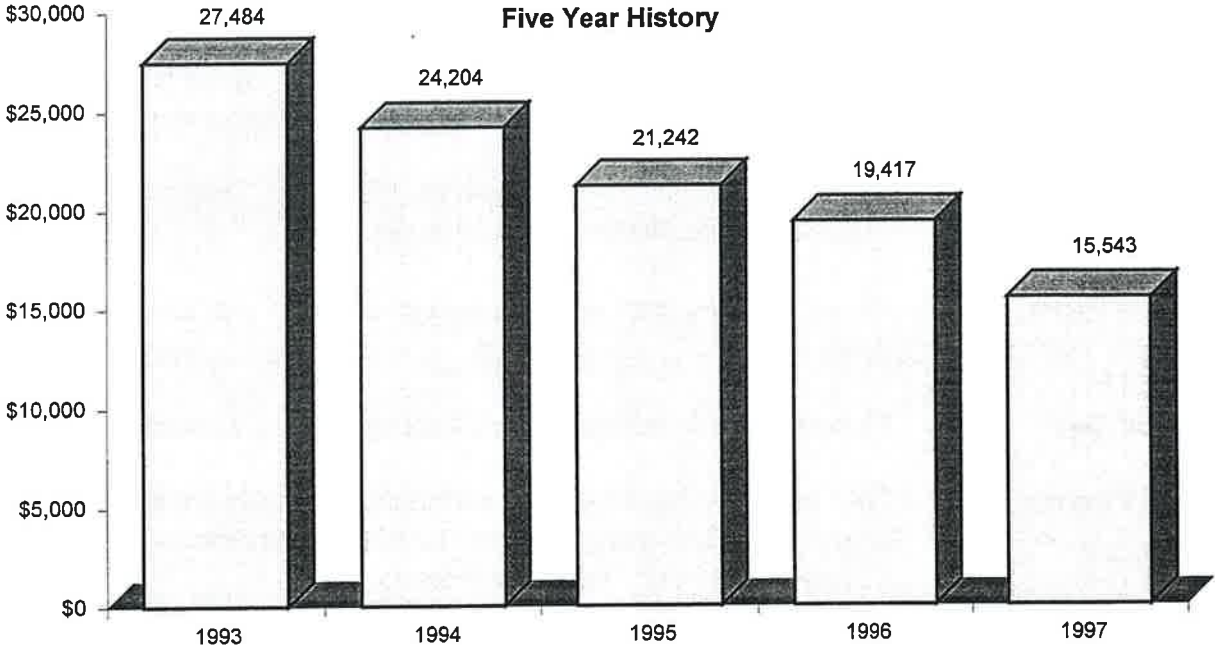
Account:	001-000-34127
Description:	Fees collected to recover Planning Division staff costs of reviewing plans for a building project.
Legal Authorization:	San Clemente Municipal Code, Section 17.12.040.
Received From:	Builders/ Developers
Received By:	Planning Division
Receipt Timing:	Continuous. Fees are paid at the time of plan submittal.
Fee Schedule:	Commercial: \$440 Residential (1 unit): \$125 Residential (2-4 units): \$125 for first unit plus \$25 for each additional unit. Simple, over-the-counter plan checks (pool, spa, deck or wall): \$10
Use of Revenue:	Unrestricted.

Overview

The Planning Division collects a fee to review building project plans. These fees are intended to recover the cost of staff time. Revenues are collected along with Building Division fees at the time of Building Permit Application submittal.

Planning Plan Check Fees

001-000-34127



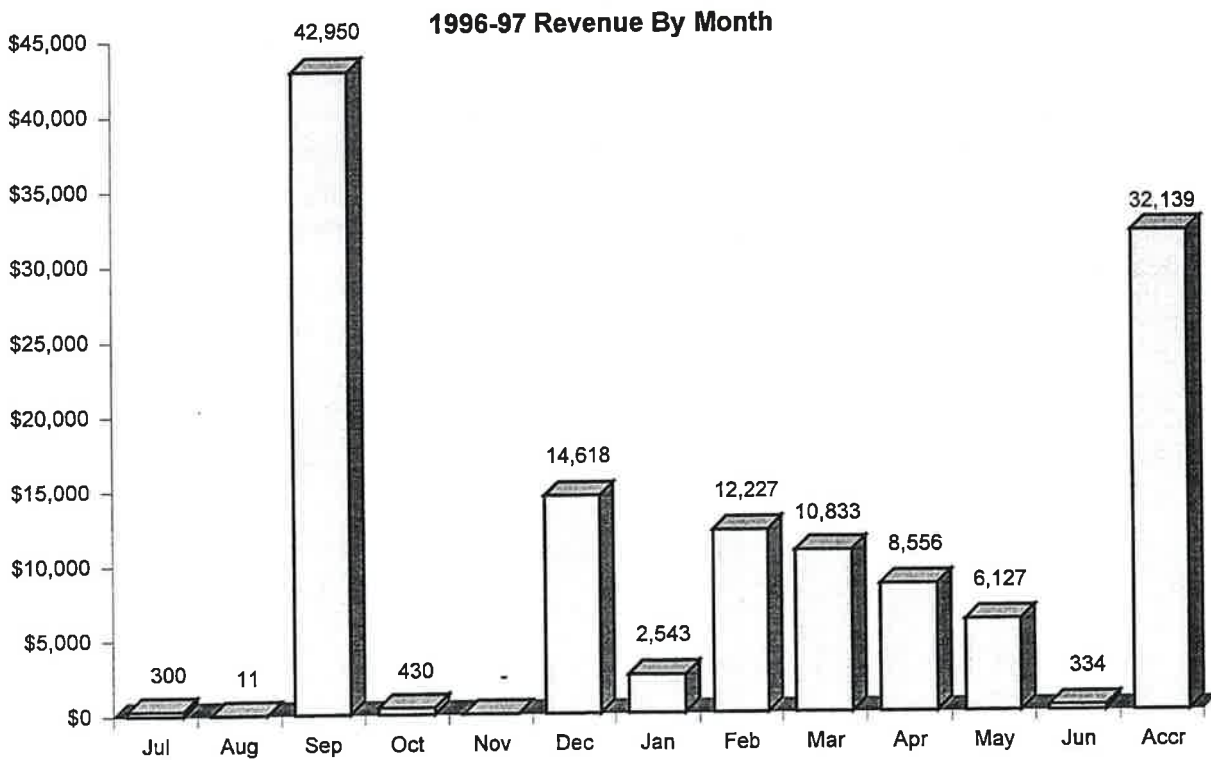
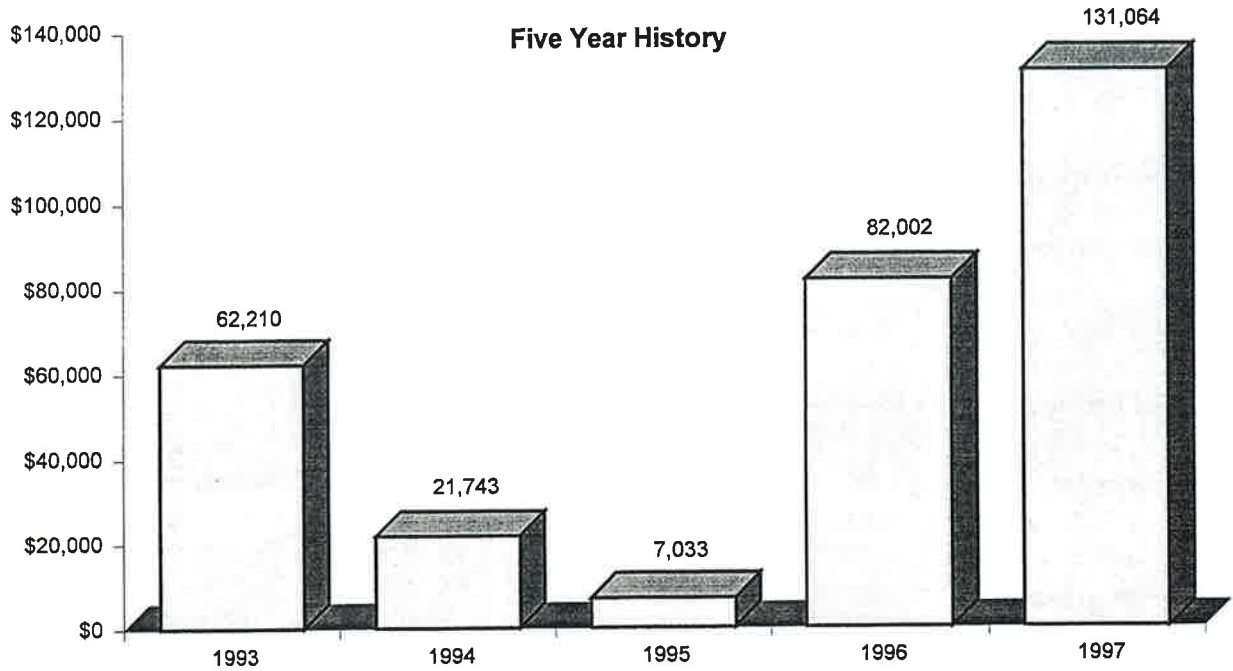
Weed Assessments

Account:	001-000-34201 001-000-34202
Description:	Revenue collected for expenses incurred by the city for removal of weeds or other potentially hazardous materials from vacant property.
Legal Authorization:	City Ordinance No. 1140, Section 19, 1994; San Clemente Municipal Code, Section 8.76.010 et seq.
Received From:	Property owners (current year), Orange County Controller (prior year)
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Fees are due within 60 days of performance of work (clearing of property). Delinquent (prior year) assessments are received from the County with property tax disbursements.
Fee Schedule:	Fees depend upon size of lot to be cleared, and vary from \$15 to \$200 per lot, based on a minimum labor rate of \$15 per hour.
Use of Revenue:	Unrestricted.

Overview

The city prohibits the presence of any weeds, grass, or other materials deemed hazardous on lots or other vacant space within the city. Lots not kept free of such debris by the owner are cleaned by a contractor hired by the city. Property owners are billed for work done by said contractor, with payment due within 60 days. Delinquent accounts are forwarded to the County Controller who attaches the debt to the owner's property tax assessment.

Weed Assessments



Nuisance Abatement Reimbursement

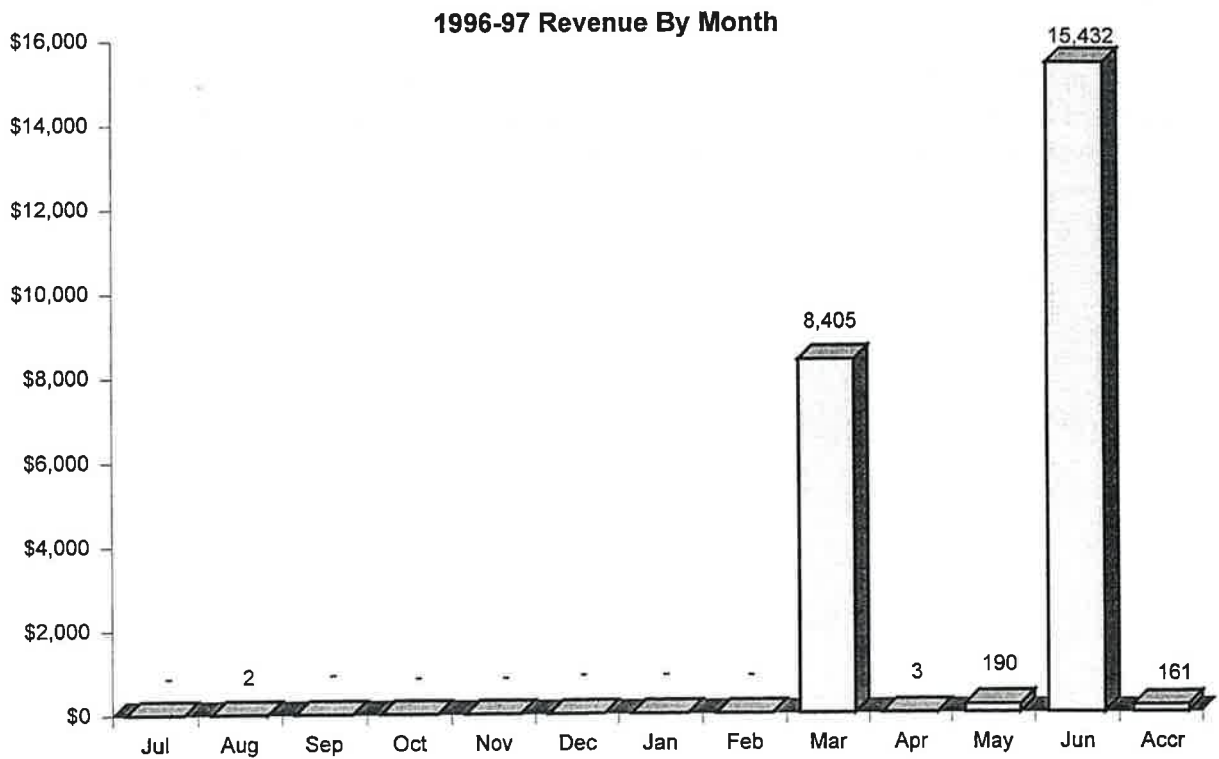
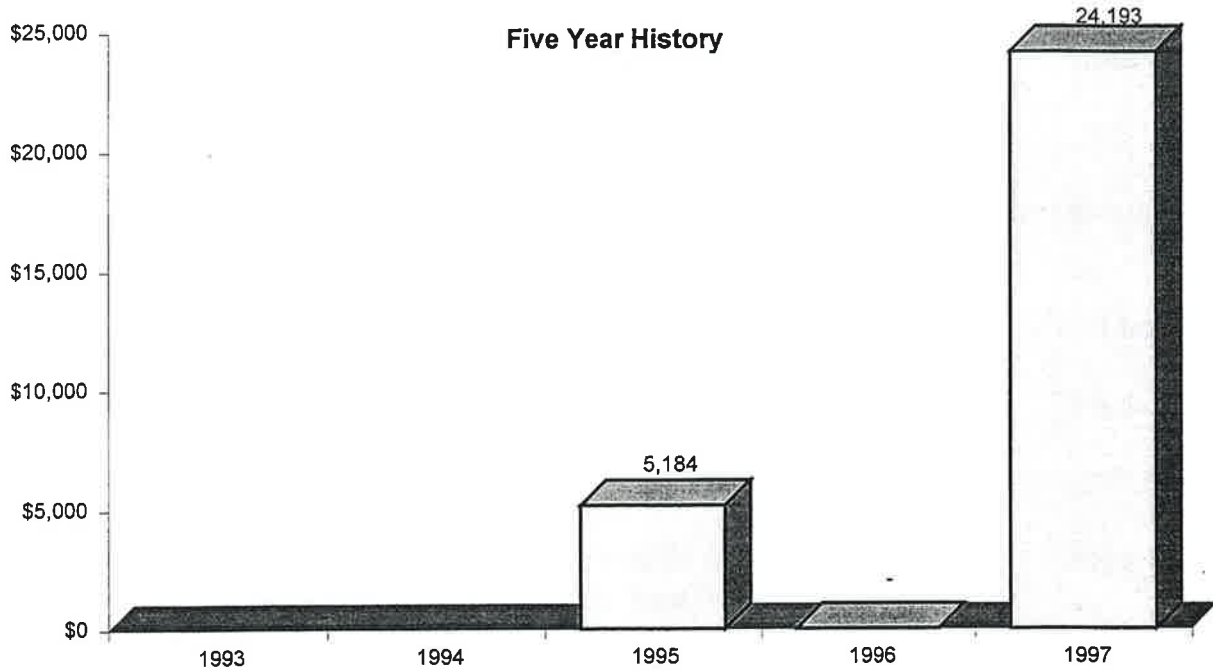
Account:	001-000-34206
Description:	Revenue collected for expenses incurred by the City for removal of any public nuisance as defined in Municipal Code Section 8.52.010.
Legal Authorization:	San Clemente Municipal Code, Section 8.52.010 et seq.
Received From:	Orange County Controller, as an attachment to property tax revenue.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Received with property tax remittance
Fee Schedule:	Fees vary, dependent upon expense and cost of abatement of a particular nuisance.
Use of Revenue:	Unrestricted.

Overview

Nuisance abatement revenue represents reimbursement for costs and expenses incurred in the removal of nuisances from private property within the city. By law, no person shall allow, maintain, or commit any public nuisance within the city. Anything which is injurious to the health or is indecent and offensive to the senses, or loud noises which disturb any considerable number of persons, or an obstruction to the free use of property so as to interfere with the comfortable enjoyment of life or property, or to have or keep any domestic or wild animals so as to be offensive or to annoy persons residing in a neighborhood so as to make life uncomfortable for such persons, is a public nuisance.

Nuisance Abatement Reimbursement

001-000-34206



Vehicle Abatement Reimbursement

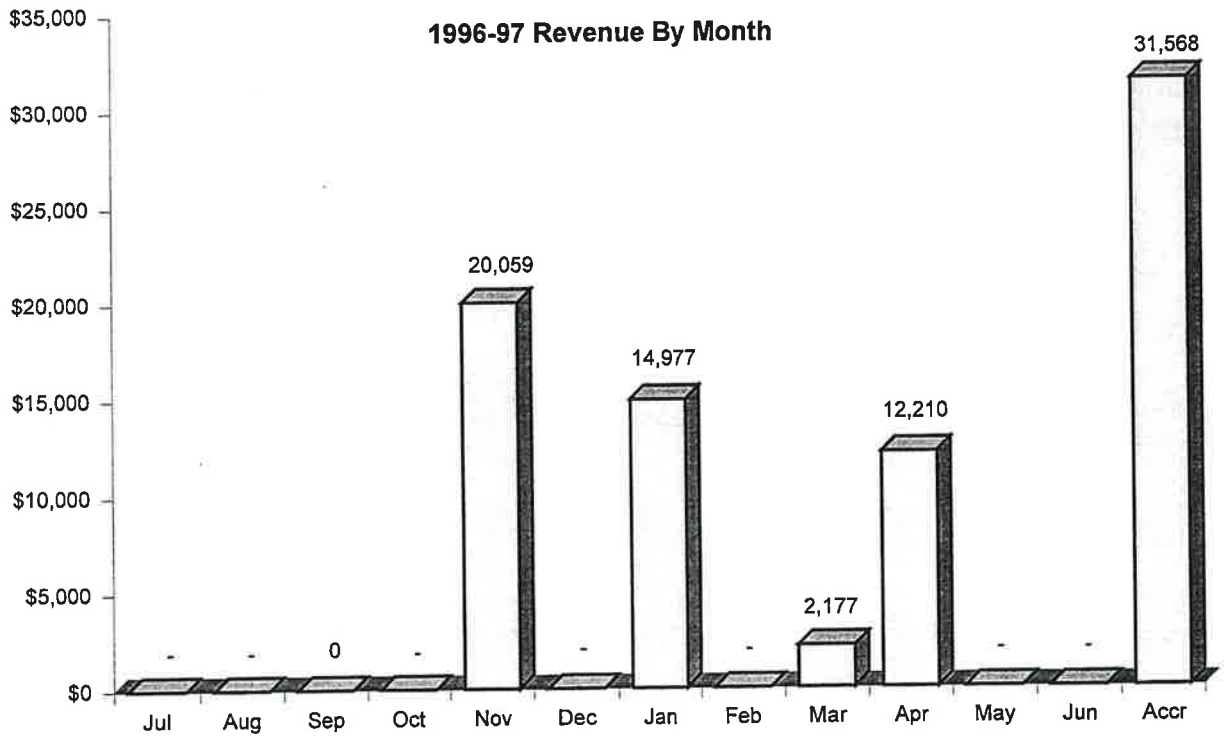
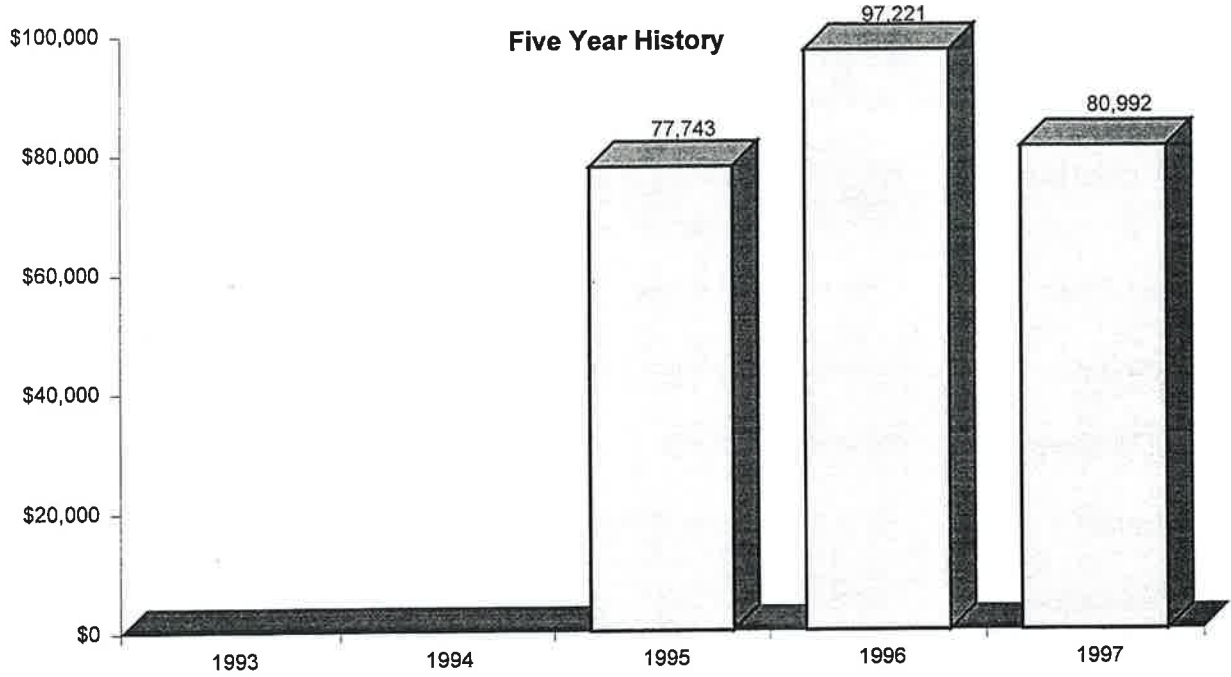
Account:	001-000-34207
Description:	Revenue collected for expenses incurred in the removal of any abandoned, wrecked, dismantled, or inoperative vehicles from public or private property
Legal Authorization:	Government Code, Section 38771; San Clemente Municipal Code, Section 10.52.010.
Received From:	Orange County Controller.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Received quarterly
Fee Schedule:	Public property abatement: \$215 per vehicle. Private property abatement: \$405 per vehicle.
Use of Revenue:	Unrestricted.

Overview

Vehicle abatement revenue represents reimbursement from the County for expenses incurred in the removal of any abandoned, wrecked, dismantled, or inoperative vehicles or parts thereof from public or private property within the City. Reimbursement is requested in quarterly report to the county.

Vehicle Abatement Reimbursement

001-000-34207



San Diego County Contract

Account: 001-000-34216

Description: Revenue received from San Diego County for Emergency Medical Service along Interstate 5, south of the City boundary.

Legal Authorization: Health and Safety Code, Chapter 1260, Part 1, Division 2.5, Section 1797.201.

Received From: County of San Diego

Received By: Finance and Administrative Services Department, Accounting Div.

Receipt Timing: Received quarterly

Fee Schedule: \$250 per call, not to exceed \$40,000 per year.

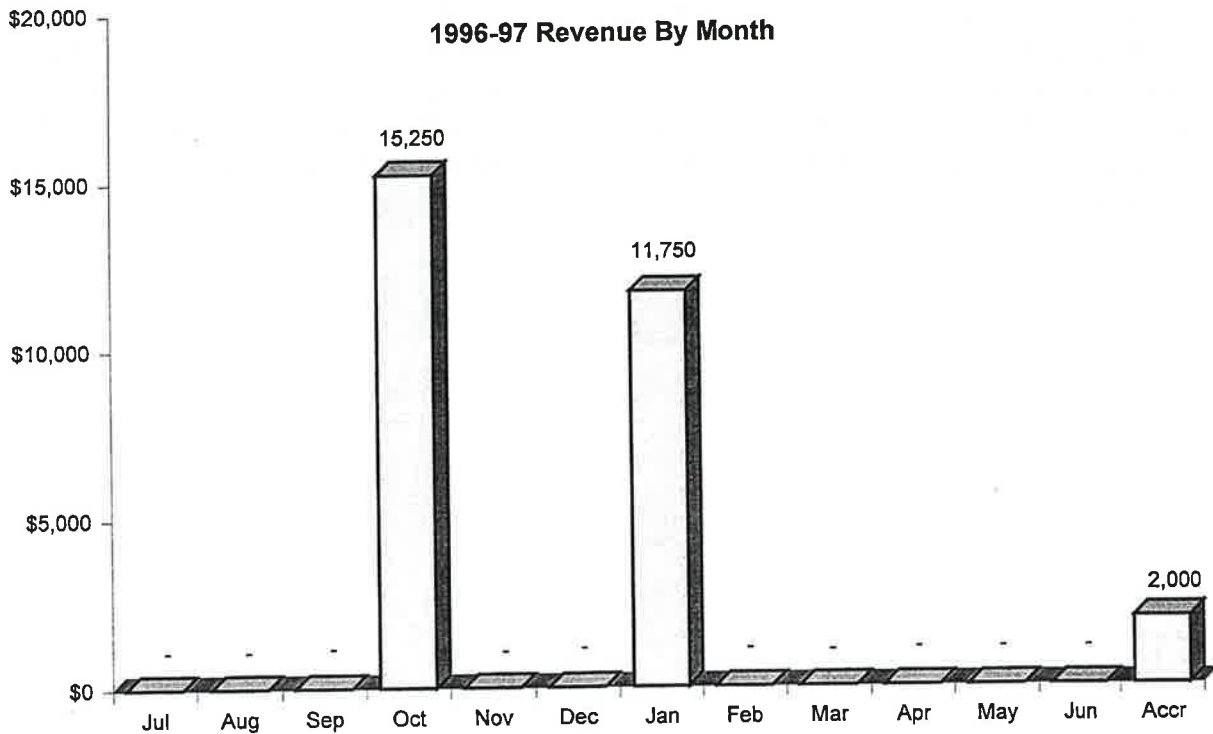
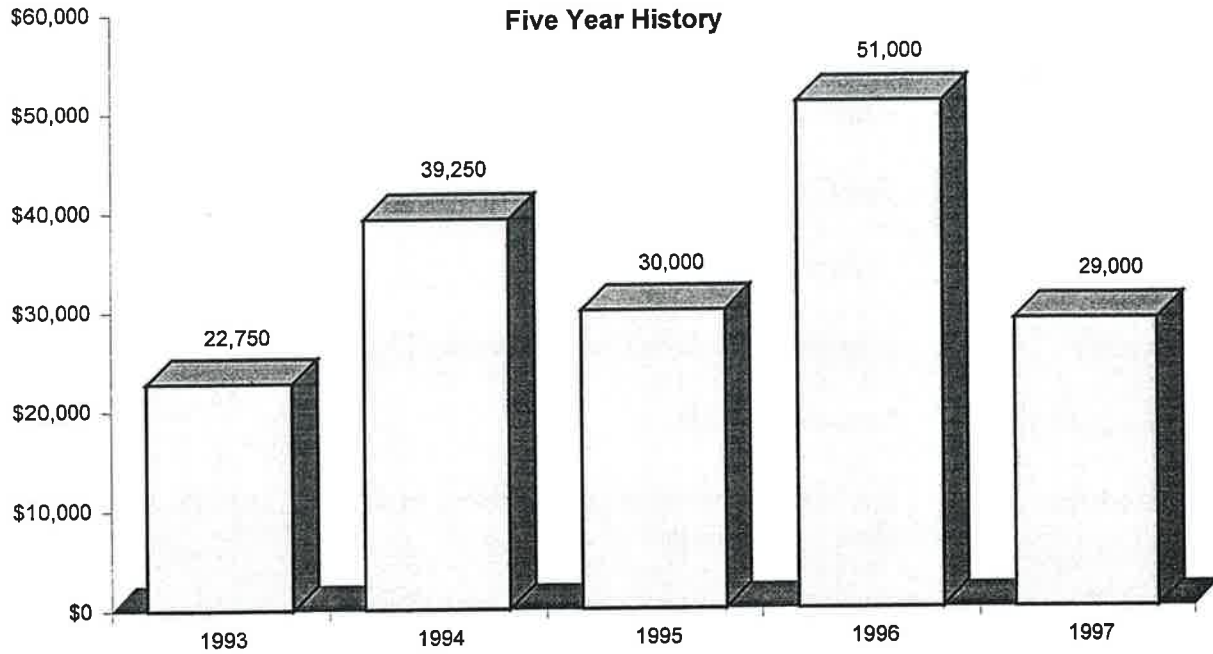
Use of Revenue: Unrestricted.

Overview

The City of San Clemente has an agreement to provide emergency medical service along Interstate 5 in San Diego County (to the south of San Clemente). The city invoices the County of San Diego on a quarterly basis. Although this agreement is now between San Diego County and the Orange County Fire Authority, the city continues to collect revenue for this service.

San Diego County Contract

001-000-34216



Ambulance Service Charges

Account: 001-000-34221

Description: Revenue received from Wittman Enterprises, a contracted billing service that bills patients transported by Orange County Fire Authority ambulances within the San Clemente service area.

Legal Authorization: San Clemente Municipal Code, Section 8.20.010.

Received From: Wittman Enterprises

Received By: Finance and Administrative Services Department, Accounting Div.

Receipt Timing: Received monthly

Fee Schedule: Based on actual costs of manpower, equipment, material and maintenance costs.

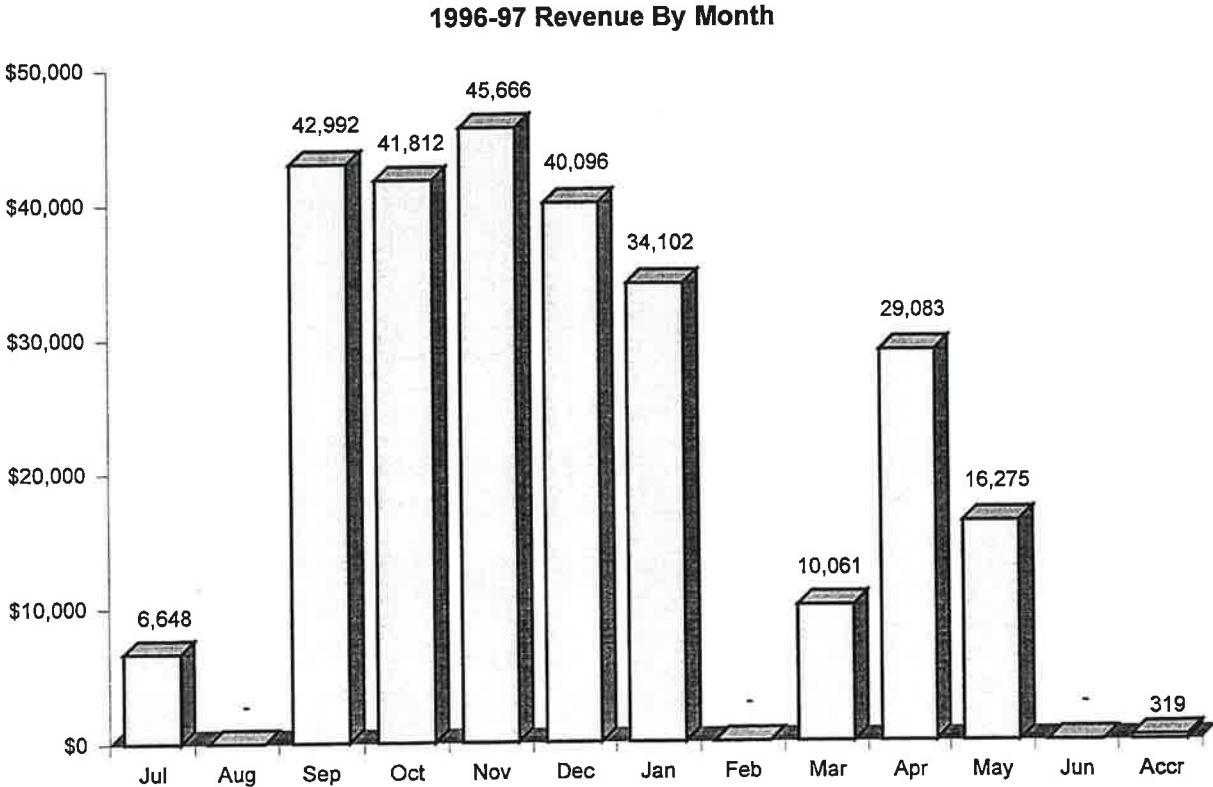
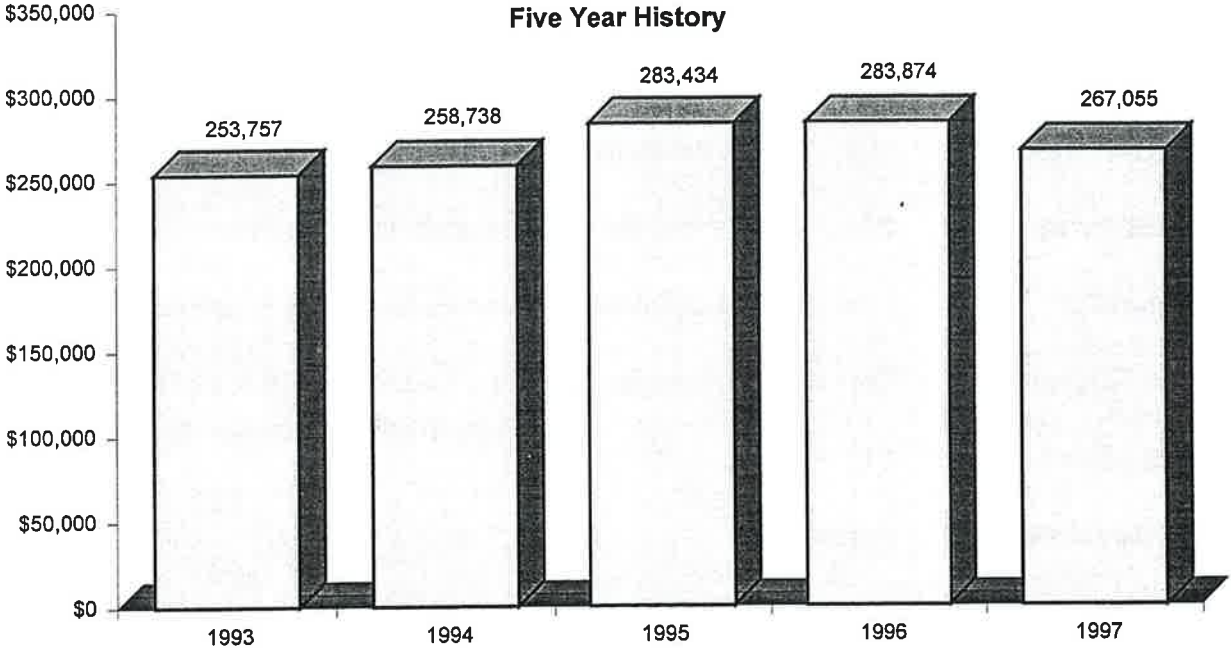
Use of Revenue: Unrestricted.

Overview

Ambulance service charges are based on actual costs of manpower, equipment, material and maintenance costs. The service fee schedule is approved by the City Council. The City contracts ambulance billing service through Wittman Enterprises, who in turn bills persons rendered ambulance service by the Orange County Fire Authority in San Clemente. In 1997, gross receipt totaled 64% of the amount billed. Wittman Enterprises Receives 7% of gross revenue as payment for their service.

Ambulance Service Charges

001-000-34221



Ambulance Subscription Fees

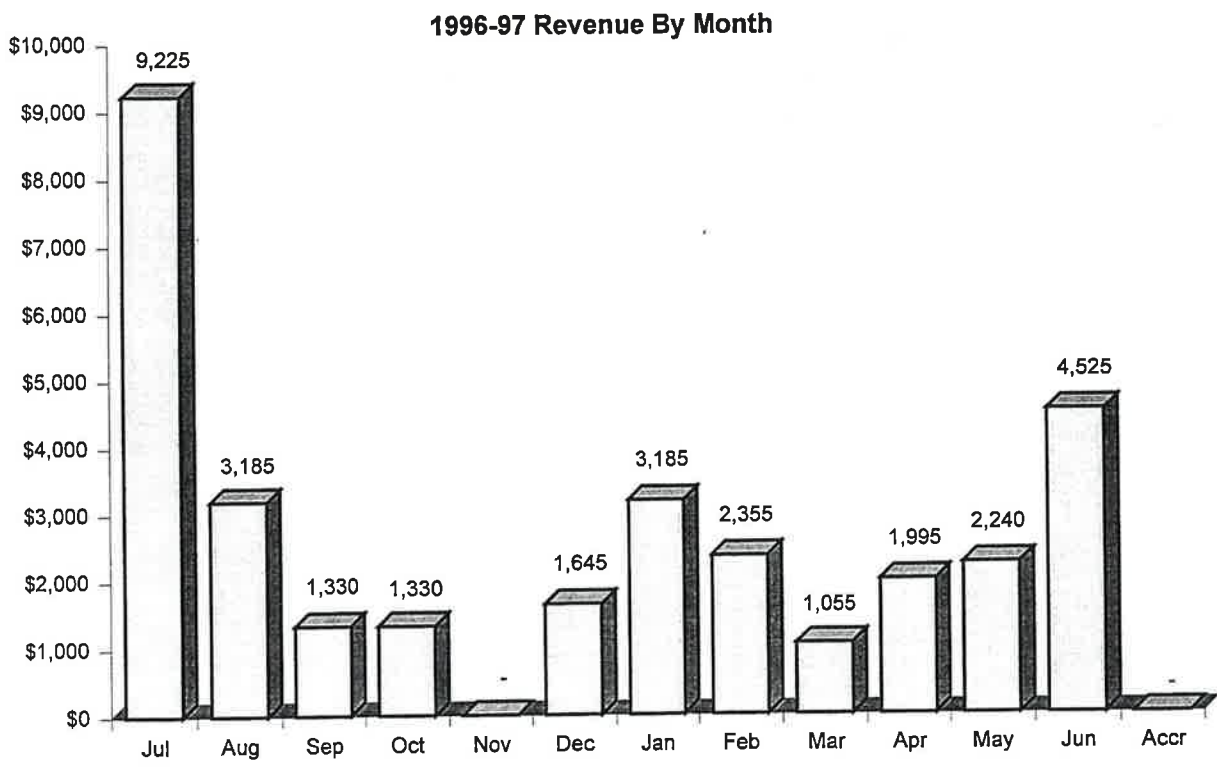
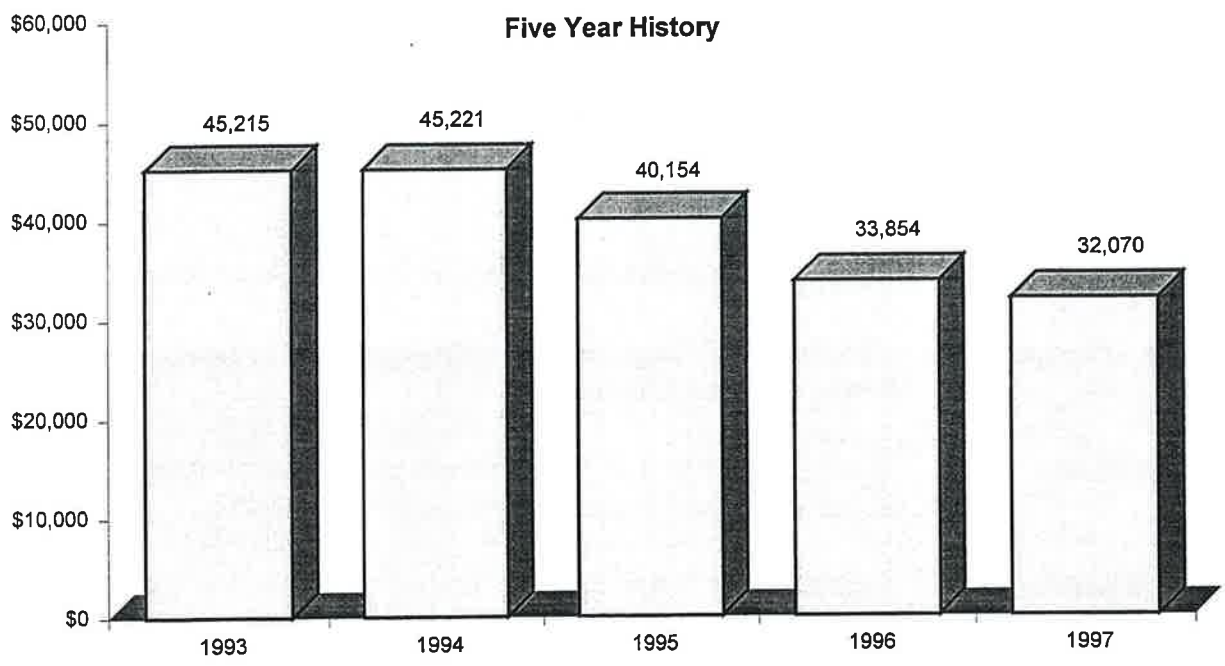
Account:	001-000-34222
Description:	A service fee for annual emergency ambulance services provided by the City.
Legal Authorization:	San Clemente Municipal Code, Section 8.20.070
Received From:	Persons who subscribe to annual ambulance service.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Continuous. As residents subscribe to service, they are billed.
Fee Schedule:	\$35 per year.
Use of Revenue:	Unrestricted.

Overview

The city provides residents with the opportunity to subscribe to ambulance service at a cost much less than the cost incurred should they need an ambulance during the year. The City bills the patient's insurance company, but by paying the \$35 annual fee, subscribers are not personally responsible for the bill. This service includes only emergency transportation. The subscription is valid for one year from the date of enrollment, not the calendar year.

Ambulance Subscription Fees

001-000-34222



Parking Meters

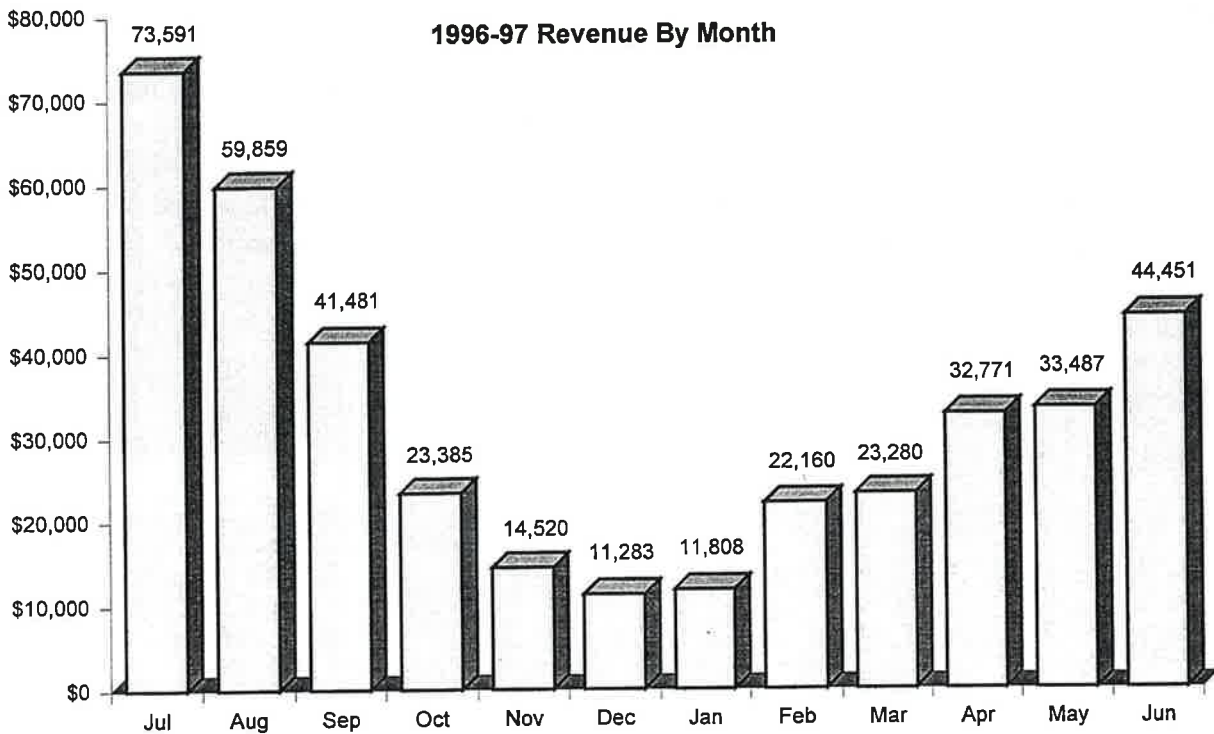
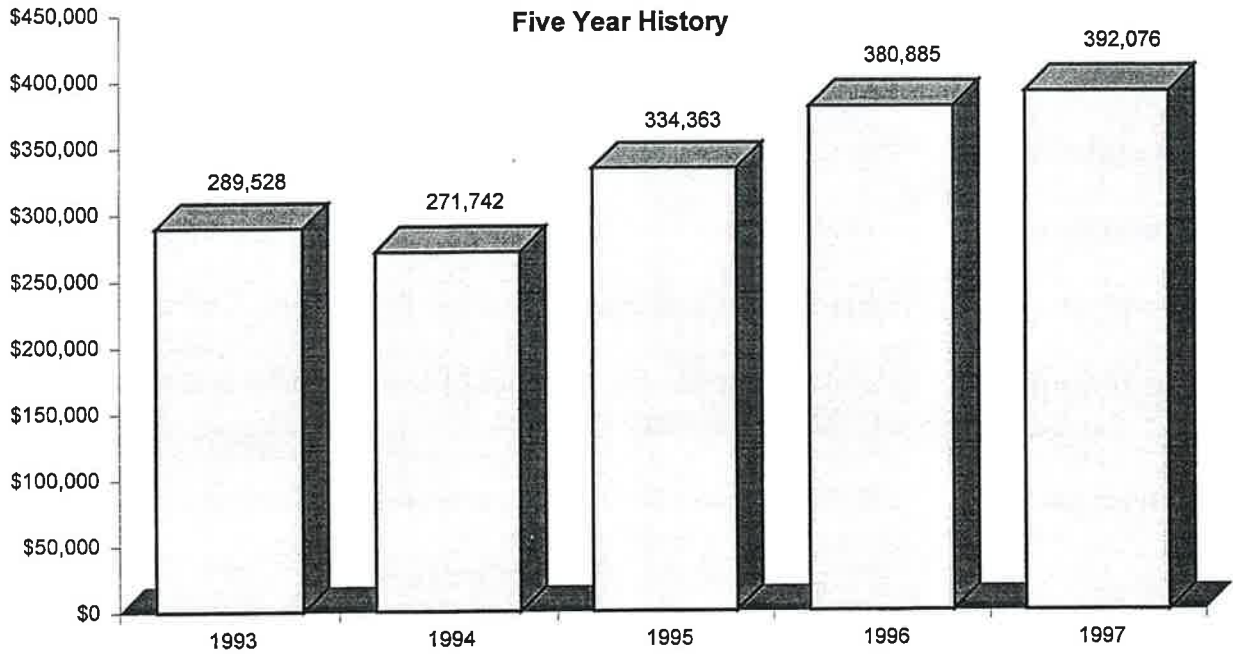
Account:	001-000-34310
Description:	Revenue generated by parking meters located throughout the city.
Legal Authorization:	San Clemente Municipal Code, Section 10.40.010 et seq.
Received From:	Vehicle owners.
Received By:	Finance and Administrative Services Division, Accounting Dept.
Receipt Timing:	Continuous, although receipts are much greater in summer months during peak beach visitation.
Fee Schedule:	\$1.00 per hour, or \$.25 per 15 minute period, unless otherwise noted in San Clemente Municipal Code, Section 10.40.050.
Use of Revenue:	Restricted, see San Clemente Municipal Code Section 10.40.120.

Overview

The City collects revenue from the operation of parking meters throughout San Clemente. Metered areas include parking at North Beach, Linda Lane Park, the Pier, T-street Beach, and Calafia Beach. Revenue is strongly correlated with beach attendance, and increases greatly during summer months.

Parking Meters

001-000-34310



Parking Permits

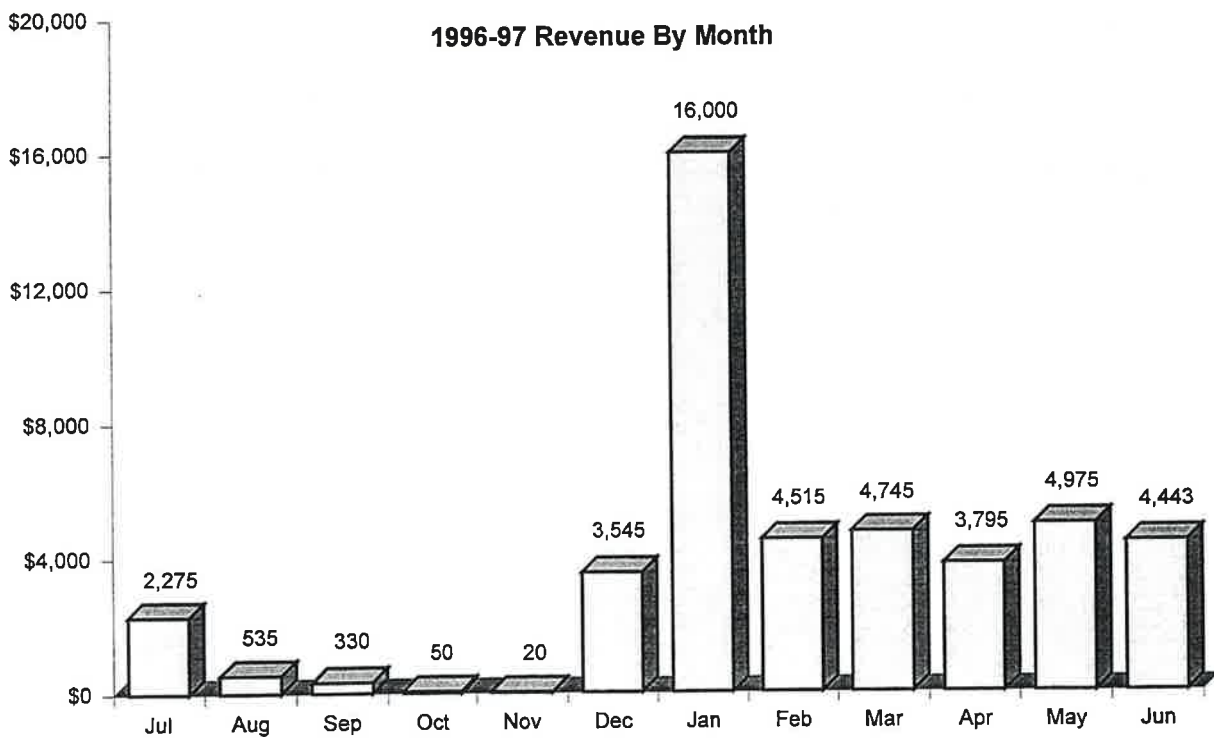
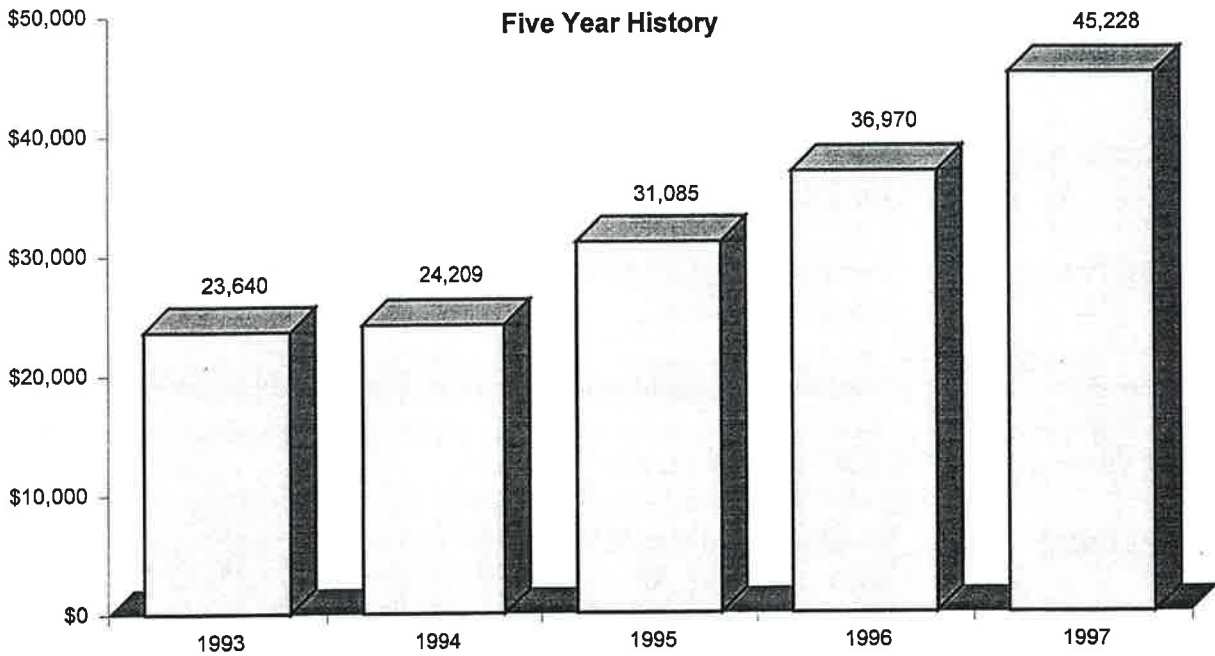
Account:	001-000-34350
Description:	Revenue from the sale of annual parking permits for metered spaces within the city.
Legal Authorization:	San Clemente Municipal Code, Section 10.28.260.
Received From:	Vehicle owners
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Received continuously, although historically, most passes are purchased in January each year.
Fee Schedule:	\$50 for residents, \$60 for non-residents (for all metered spaces, valid from January 1 until December 31). \$10 for Lobiero/ Montalvo resident pass. This fee schedule became effective July 1, 1997.
Use of Revenue:	Unrestricted.

Overview

The city offers annual parking permits, as an alternative to paying directly into parking meters. Metered areas include parking at North Beach, Linda Lane Park, the Pier, T-street Beach, and Calafia Beach. Because of the two hour limit on parking on Lobiero/ Montalvo streets, the city offers passes allowing residents of those streets to park in excess of the two hour limit. Because permits are valid for the calendar year beginning January 1, far more passes are sold during January than any other month.

Parking Permits

001-000-34350



Parking Violations

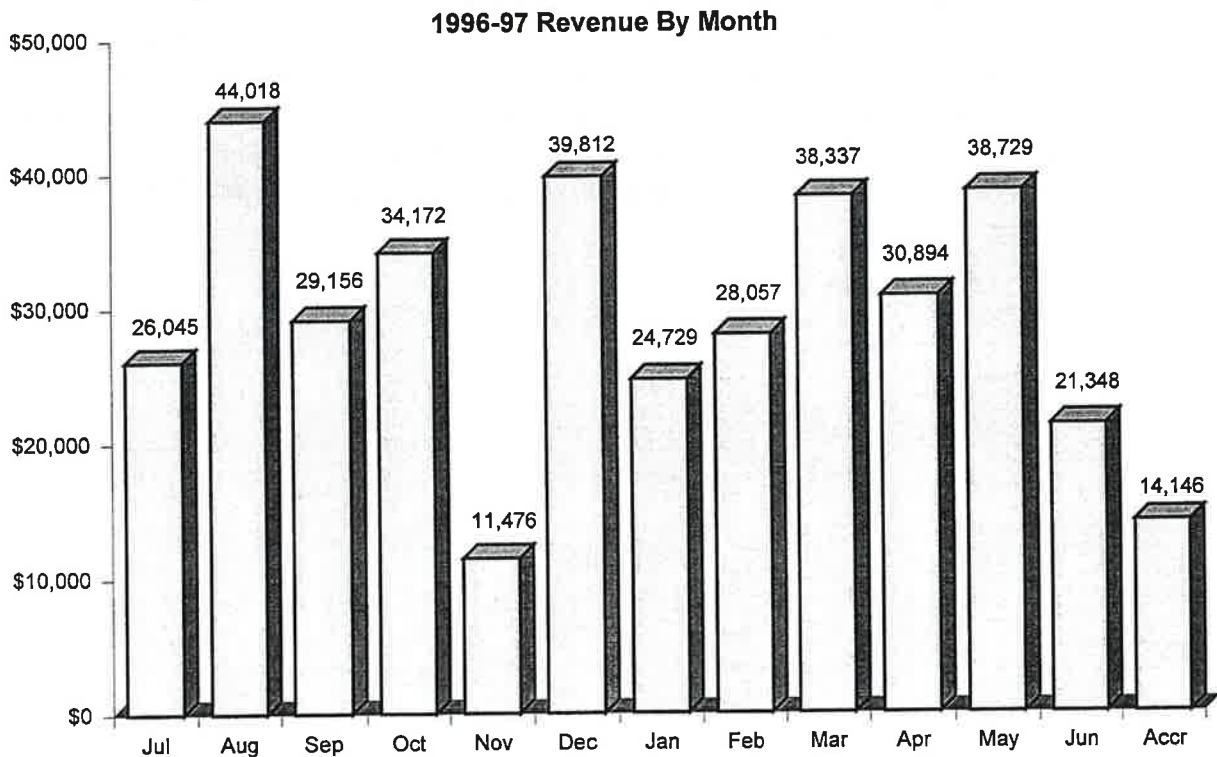
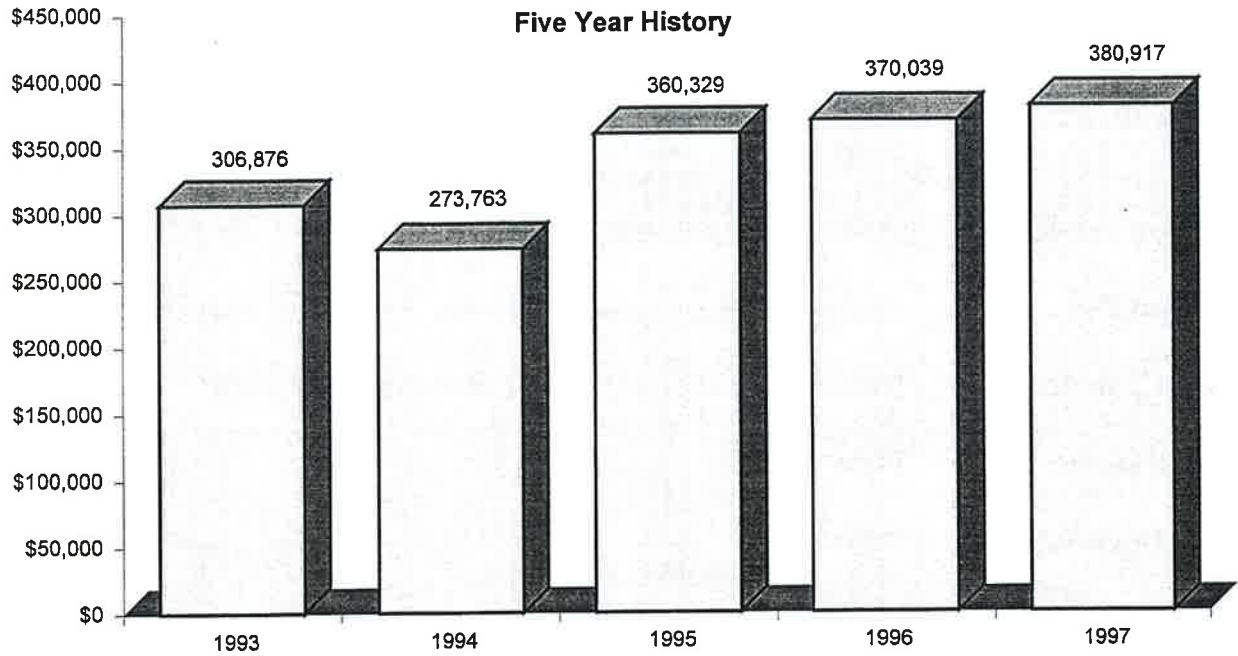
Account:	001-000-35110
Description:	Revenue from parking citations issued by Orange County Sheriff's Department within San Clemente.
Legal Authorization:	Penal Code, Section 1463; San Clemente Municipal Code, Section 10.08.180.
Received From:	Owners of illegally parked vehicles and the California Department of Motor Vehicles.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Received continuously.
Fee Schedule:	Standard violation: \$35 Minor violation: \$25 Handicap violation: \$250
Use of Revenue:	Restricted, see San Clemente Municipal Code, Section 10.40.120. .

Overview

Officers patrol city streets and issue citations to vehicles parked in violation of parking codes. Citations are payable directly to the City. If a violator fails to pay the parking fine, a hold upon registration is filed with the Department of Motor Vehicles. The delinquent fines and penalties are collected by the DMV prior to registration and then remitted to the City.

Parking Violations

001-000-35110



Vehicle Code Fines

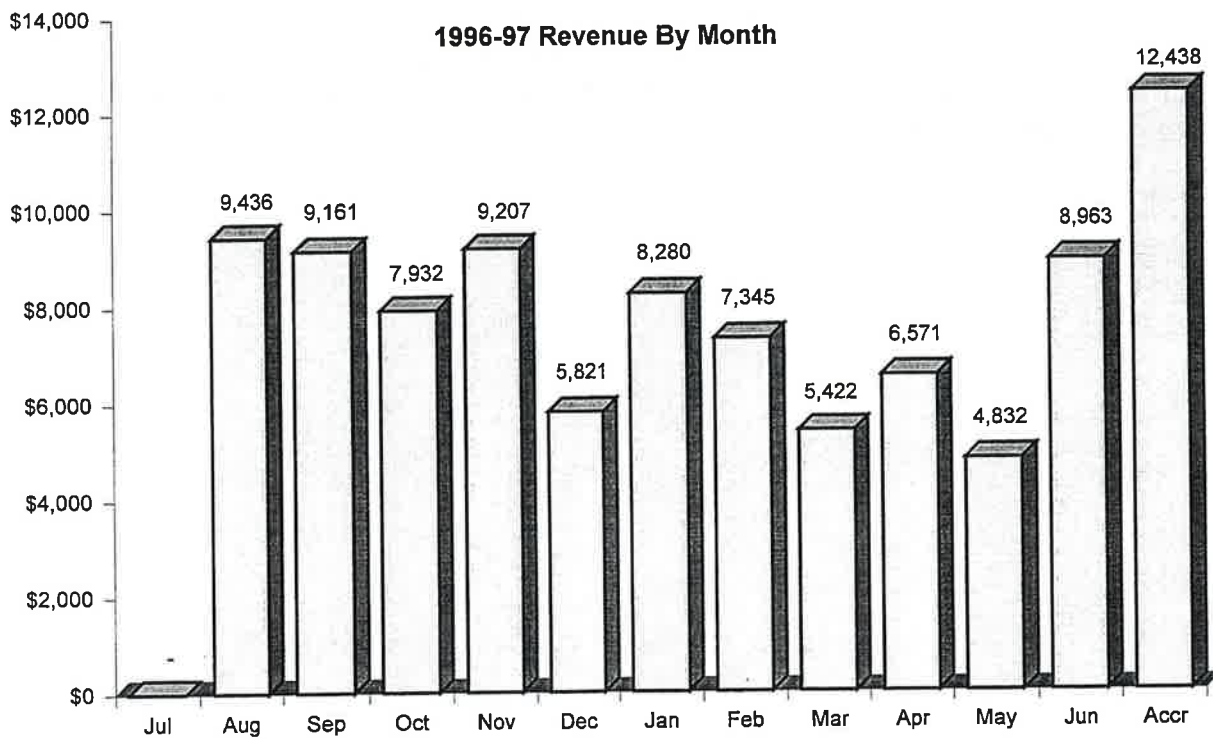
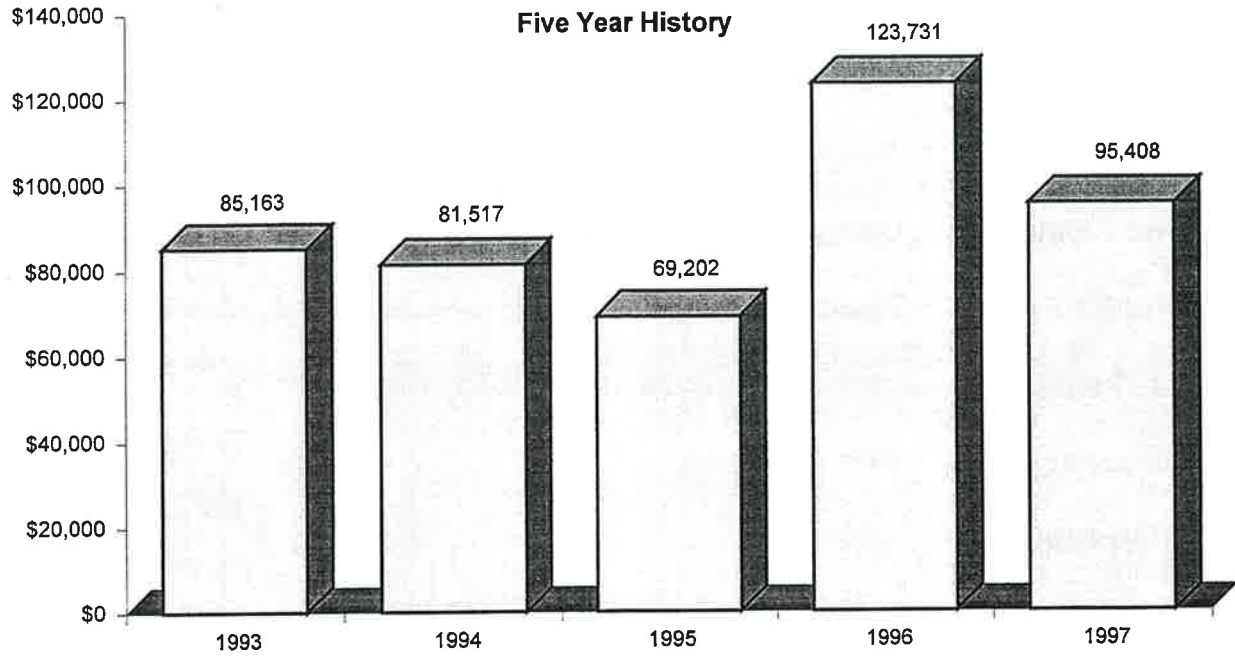
Account:	001-000-35120
Description:	Fines collected from violators of vehicle codes.
Legal Authorization:	Penal Code, Section 1463; San Clemente Municipal Code, Section 10.08.180.
Received From:	Orange County Municipal Court
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Payments are received monthly from the court system.
Fee Schedule:	Fines vary.
Use of Revenue:	Unrestricted.

Overview

The city receives 50% of all fines from citations for vehicle code violations issued within the City's jurisdiction. The city shares with the state and county all fines collected upon conviction of a misdemeanor or an infraction in any municipal or justice court and bail moneys forfeited following conviction of a misdemeanor or infraction committed within city boundaries. Therefore, Vehicle Code citations issued by the California Highway Patrol shared equally with the state, citations issued by the Orange County Sheriff's Dept. are split with the county.

Vehicle Code Fines

001-000-35120



Court Fines

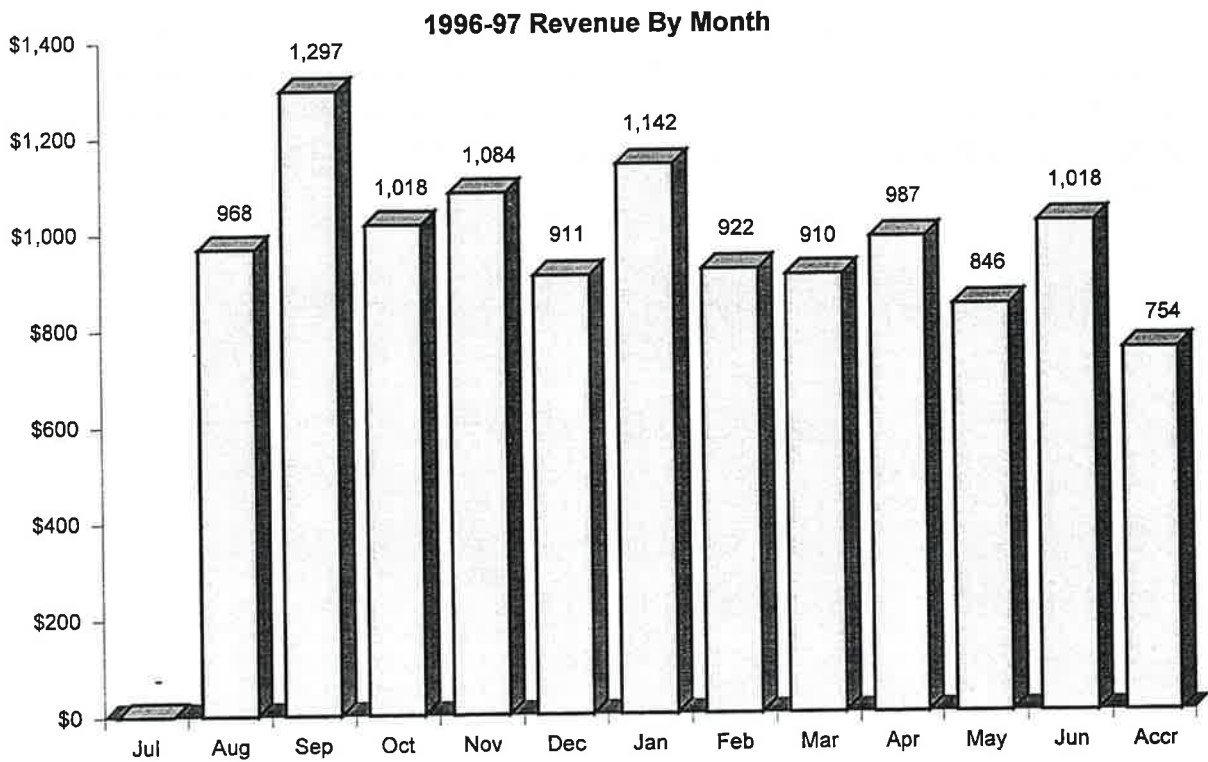
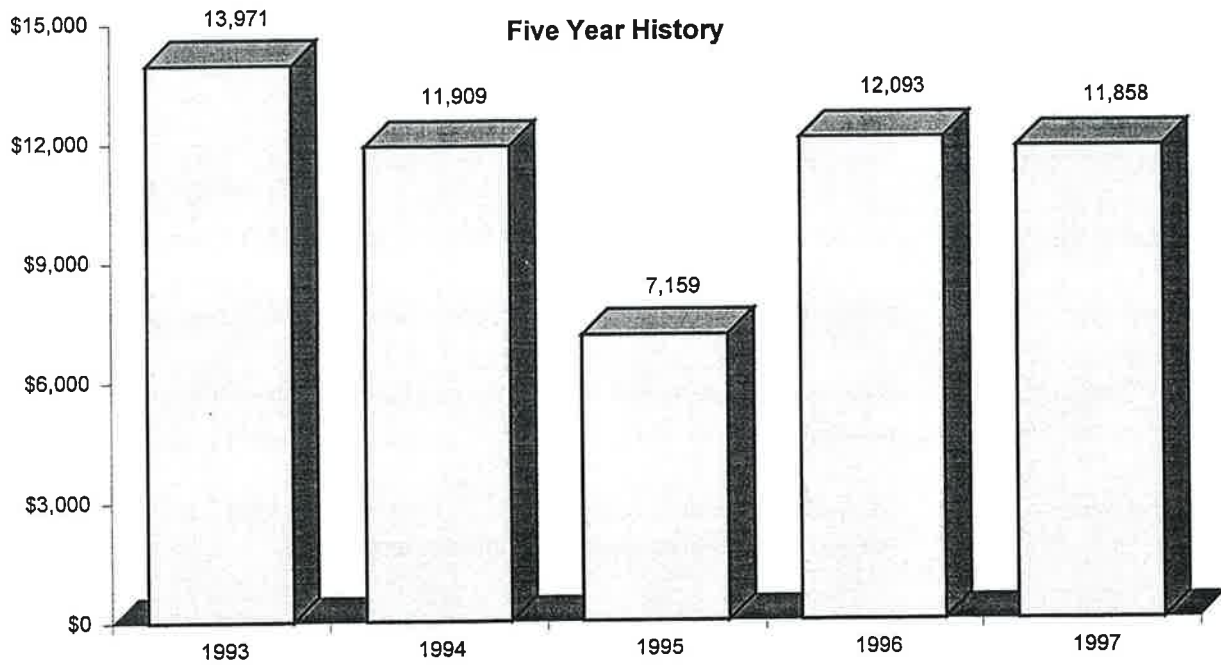
Account:	001-000-35130
Description:	Revenue received from Orange County Municipal Court from fines originating from infractions committed within the City's jurisdiction.
Legal Authorization:	State Penal Code, Section 1463.
Received From:	Orange County Municipal Court
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Payments are received on a monthly basis.
Fee Schedule:	Fines vary.
Use of Revenue:	Unrestricted

Overview

The City shares with the State and County all fines collected upon conviction of a misdemeanor or an infraction in any municipal or justice court and bail moneys forfeited following conviction of a misdemeanor or infraction committed within City boundaries. Distribution of these revenues depends greatly upon the employing agency of the arresting officer. The City also collects fines for infractions of local ordinances. These revenues must be shared equally with the state.

Court Fines

001-000-35130



False Alarm Fines

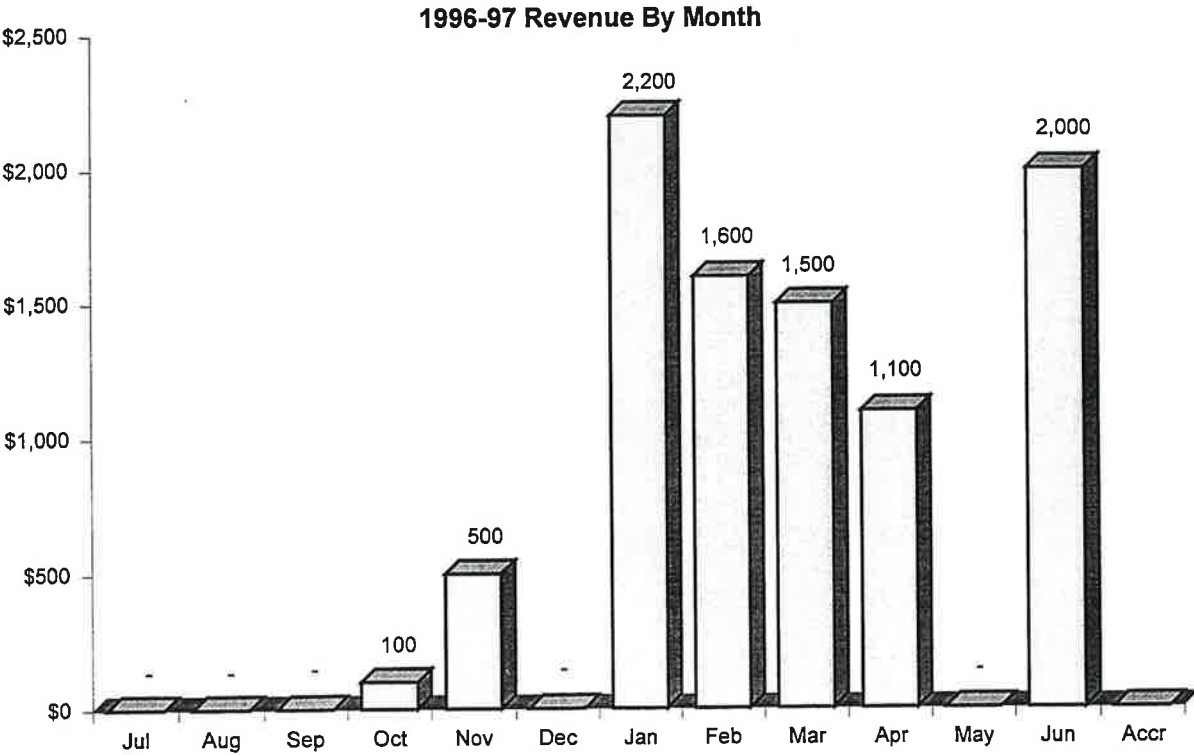
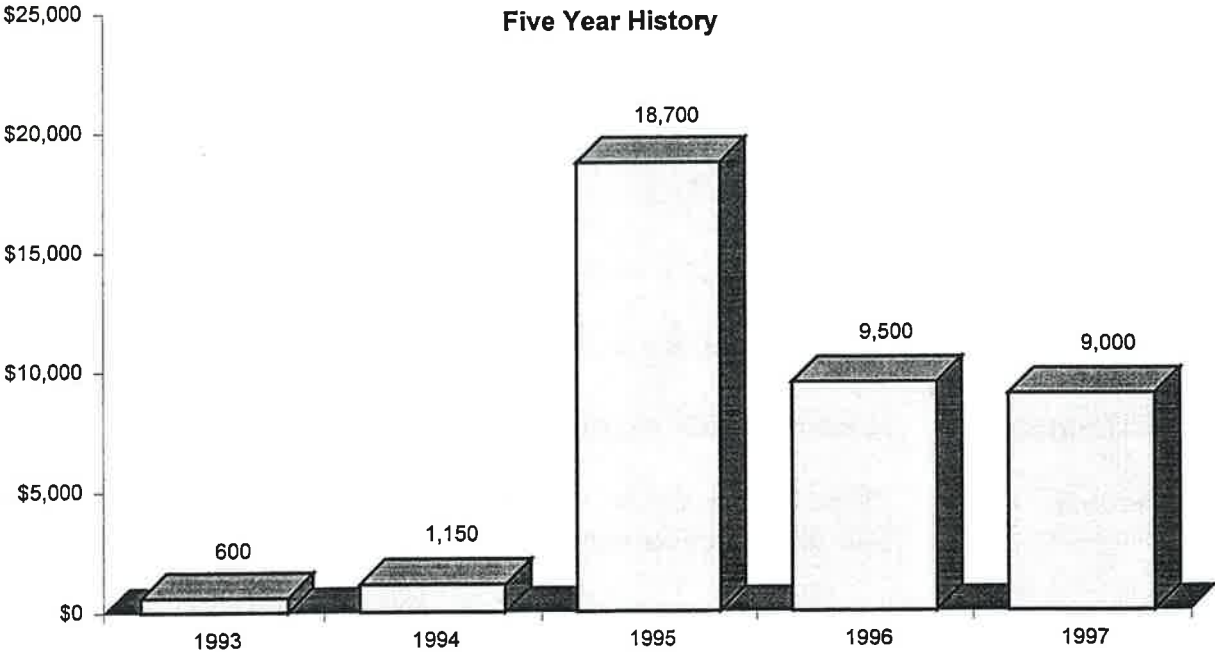
Account:	001-000-35142
Description:	Revenue collected from owners of private security systems for repeated false alarms.
Legal Authorization:	San Clemente Municipal Code, Section 8.56.380.
Received From:	Owner or responsible party of property where false alarm occurred.
Received By:	Finance and Administrative Services Division, Accounting Dept.
Receipt Timing:	Revenues are received on an ongoing basis, as false alarm fines are issued.
Fee Schedule:	\$100 for the fourth false alarm in a single fiscal year, and an additional \$100 for each false alarm thereafter.
Use of Revenue:	Unrestricted.

Overview

In an effort to recover the cost of having the police respond to false burglar alarms, a service charge is assessed to the responsible party. The City charges \$100 for the fourth false alarm in a single fiscal year, and an additional \$100 for each false alarm thereafter. The Sheriff's Department keeps track of false alarms for the City. The City issues fines on a monthly basis.

False Alarm Fines

001-000-35142



Junior Lifeguard Services

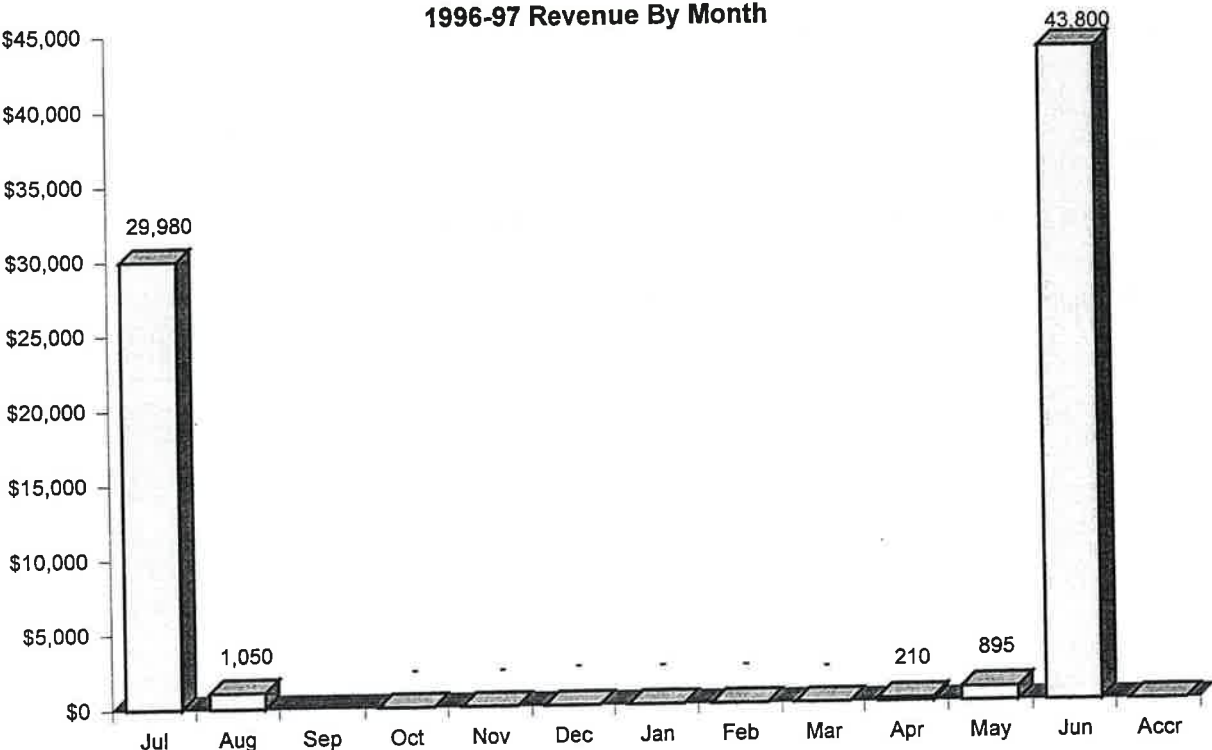
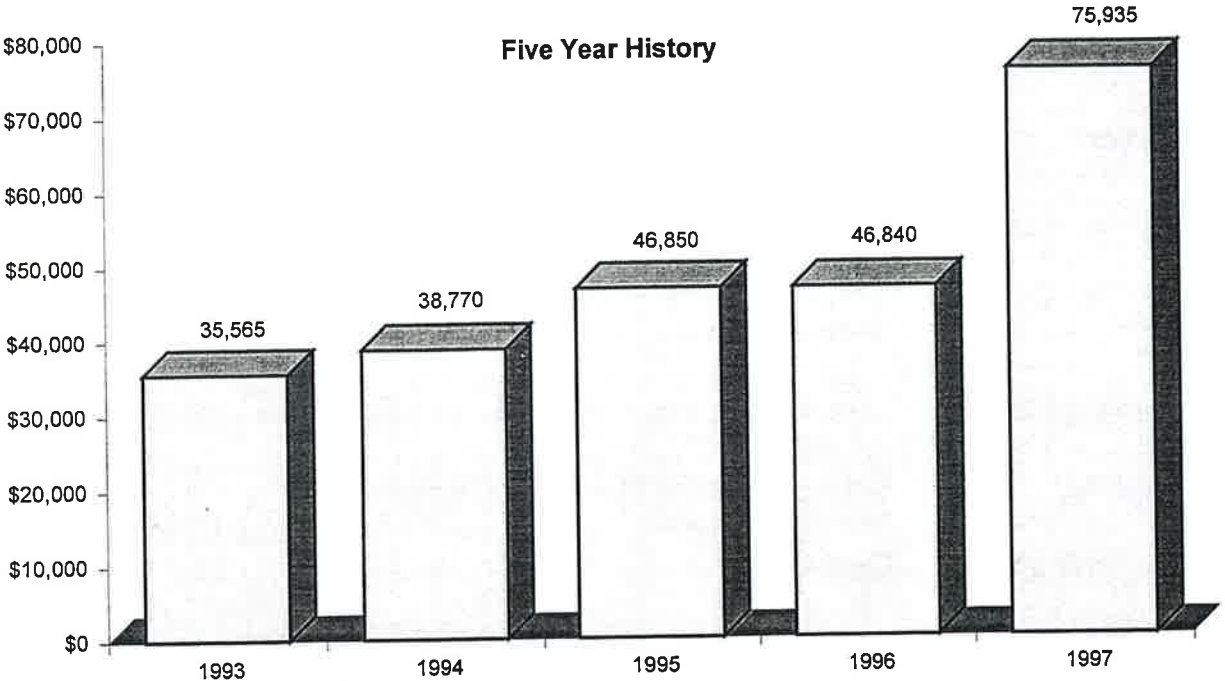
Account:	001-000-34232
Description:	The city charges an enrollment fee to applicants for the City's Junior Lifeguard Program.
Legal Authorization:	Government Code, Section 39001; California Constitution, Article XIII B, Section 8.
Received From:	Parents of children enrolled in the Junior Lifeguard program.
Received By:	Beaches, Parks, and Recreation Department
Receipt Timing:	Revenue is collected primarily in June and July each year.
Fee Schedule:	\$90 per session for San Clemente residents \$105 per session for non-residents
Use of Revenue:	Unrestricted.

Overview

Each summer, the City offers a Junior Lifeguard Program taught and administered by City lifeguards. Designed around prevention and education, the program focuses on teaching ocean safety skills to children 10-17 years of age. Enrollment has increased tremendously in recent years.

Junior Lifeguard Services

001-000-34232



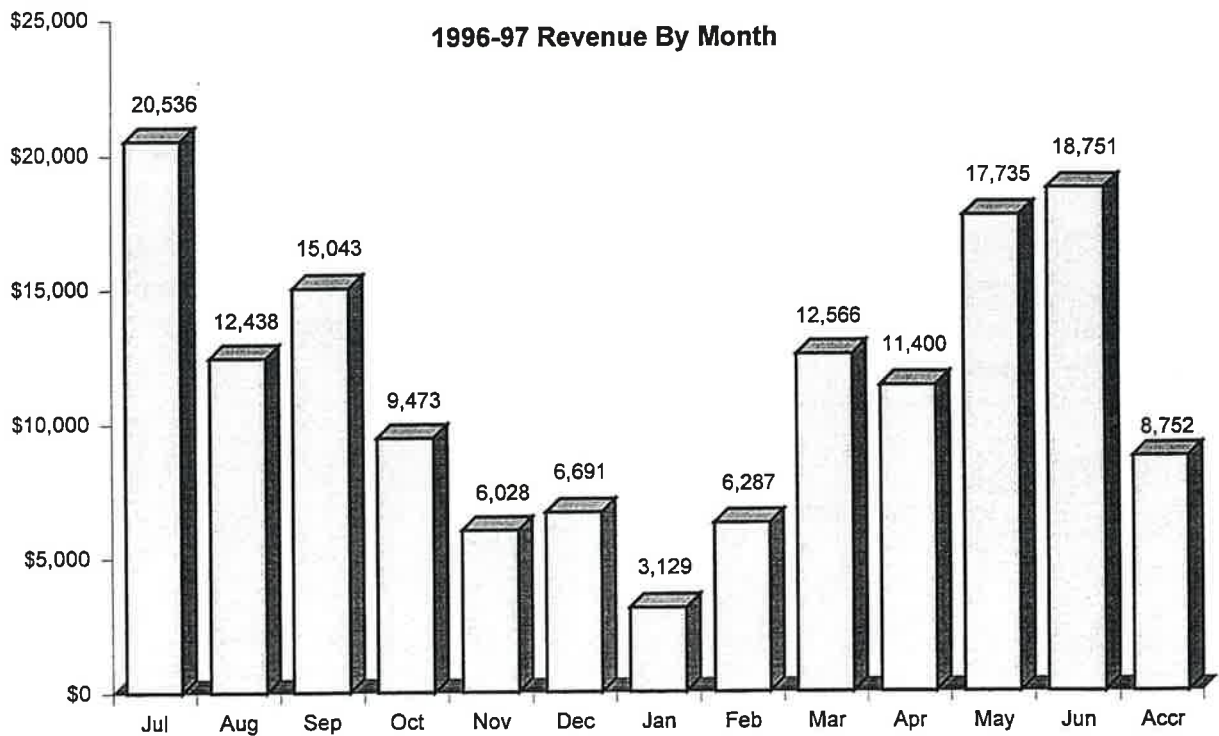
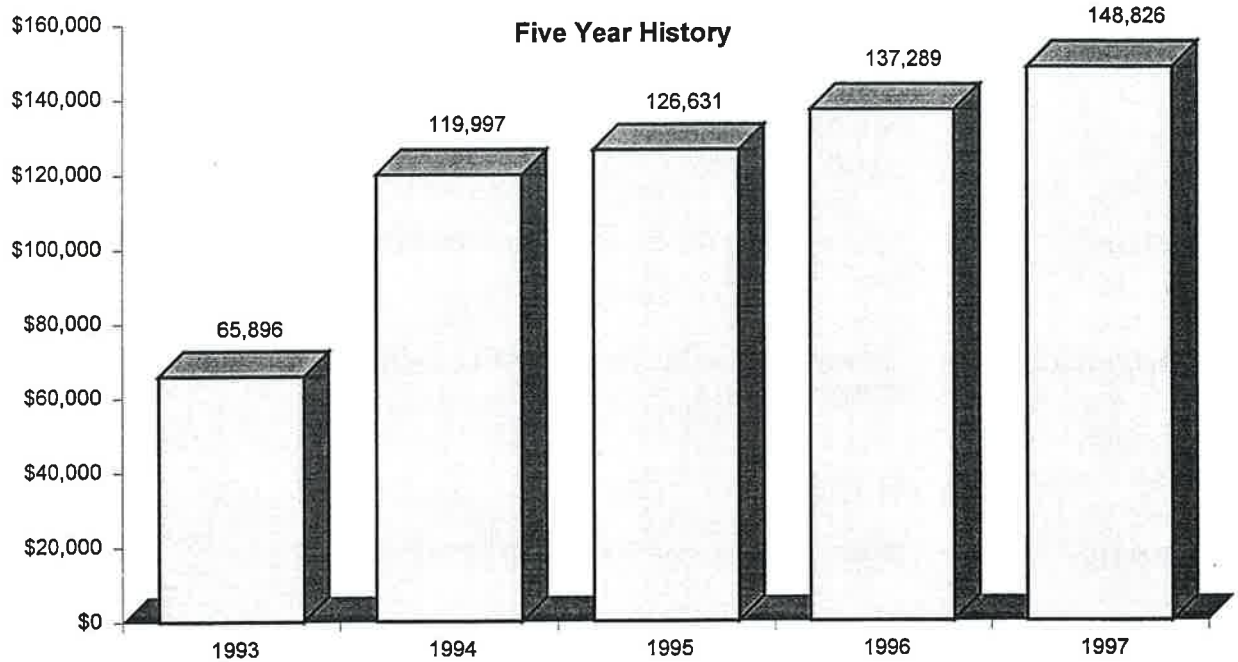
Beach Club & Pool Fees

Account:	001-000-34710 001-000-34712 001-000-34713
Description:	Beach Club & Pool revenue includes swimming pool admission fees and recreation fees for programs that take place at the Ole Hanson Beach Club/ Pool facility.
Legal Authorization:	Government Code, Section 39001; California Constitution, Article XIII B, Section 8.
Received From:	Users of pool facility and recreation program participants.
Received By:	Beaches, Parks, and Recreation Department
Receipt Timing:	Continuous
Fee Schedule:	Pool Use: \$2 per visit; \$40 for 30-visit pass; \$45 for non-resident 30-visit pass; \$150 resident annual pass; \$175 non-resident annual pass. Recreation program fees vary.
Use of Revenue:	Unrestricted.

Overview

The City charges patrons for use of the pool at the Ole Hanson Beach Club. Revenue also comes from fees for recreation programs (such as Spanish instruction, yoga classes, and swimming lessons) which are taught at the Beach Club/ Pool facility

Beach Club & Pool Fees



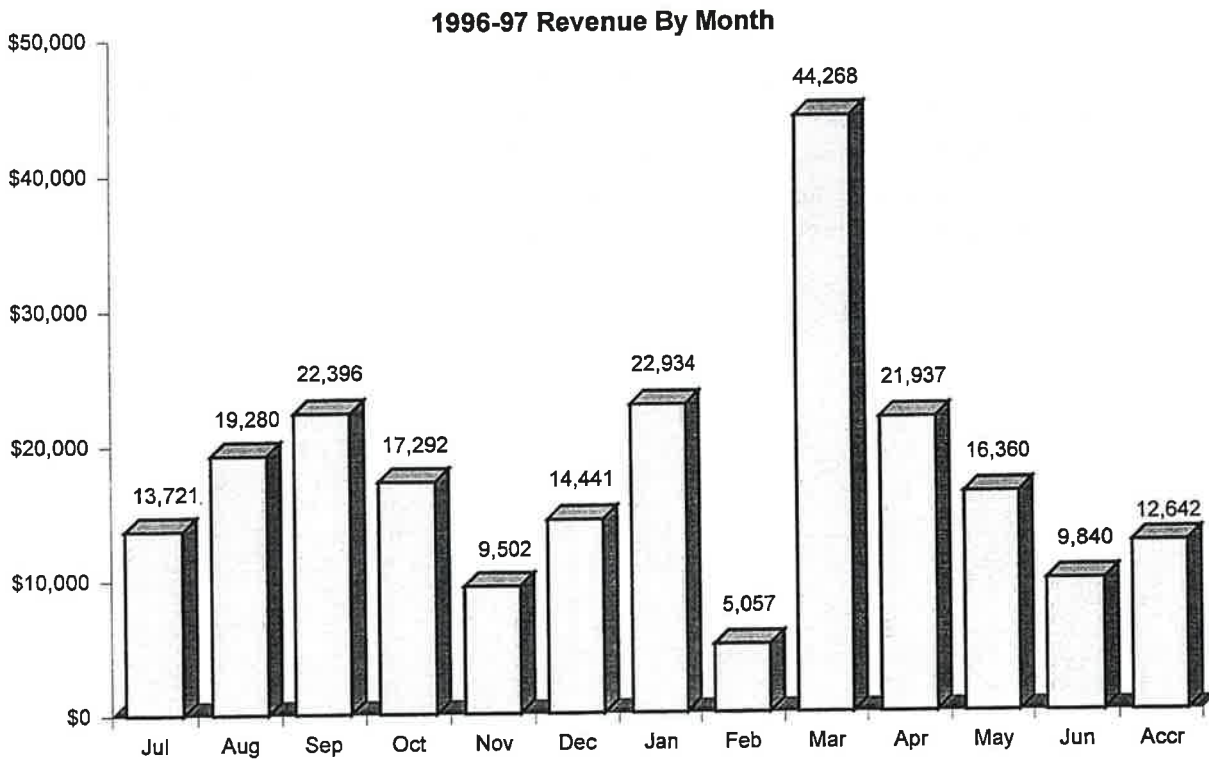
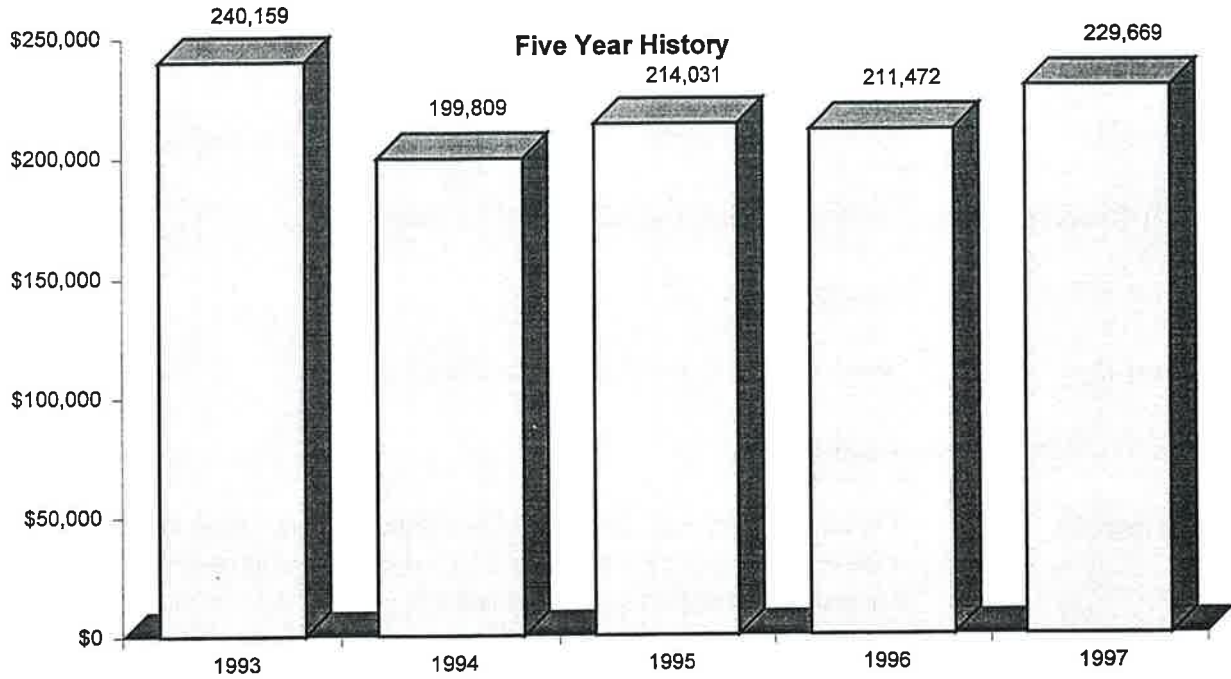
Recreation Fees

Account:	001-000-34716 001-000-34717 001-000-34720 001-000-34730 001-000-34740 001-000-34745
Description:	Fees collected for enrollment in recreation programs offered by the City.
Legal Authorization:	Government Code, Section 39001; California Constitution, Article XIII B, Section 8.
Received From:	Program participants.
Received By:	Beaches, Parks, and Recreation Division
Receipt Timing:	Continuous
Fee Schedule:	Recreation Fees vary greatly. Fees are established through City Council Resolution and are based upon the cost of instructors, facilities and materials, as well as administrative overhead.
Use of Revenue:	Unrestricted.

Overview

The City collects recreation program fees for classes and programs are offered throughout the year. These include art, dance, sports and fitness classes that take place at the community center. Also included are excursions and specialty events offered through the Recreation Department.

Recreation Fees



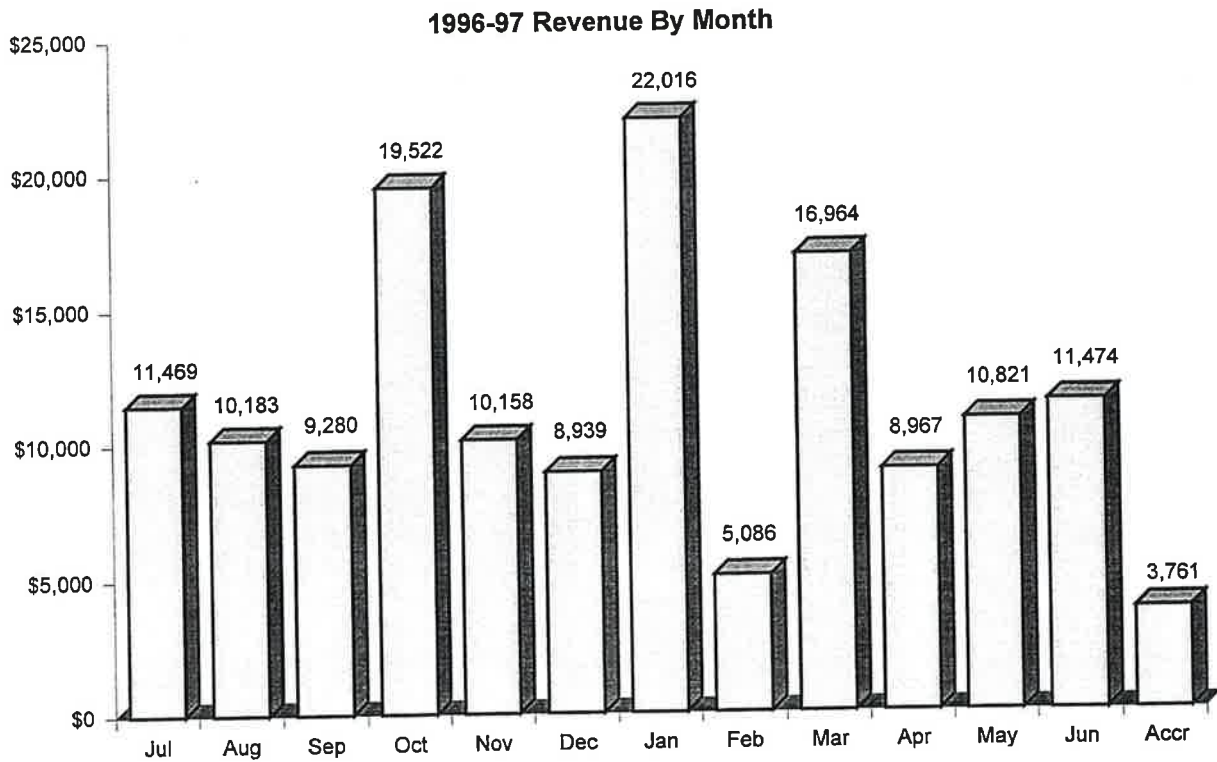
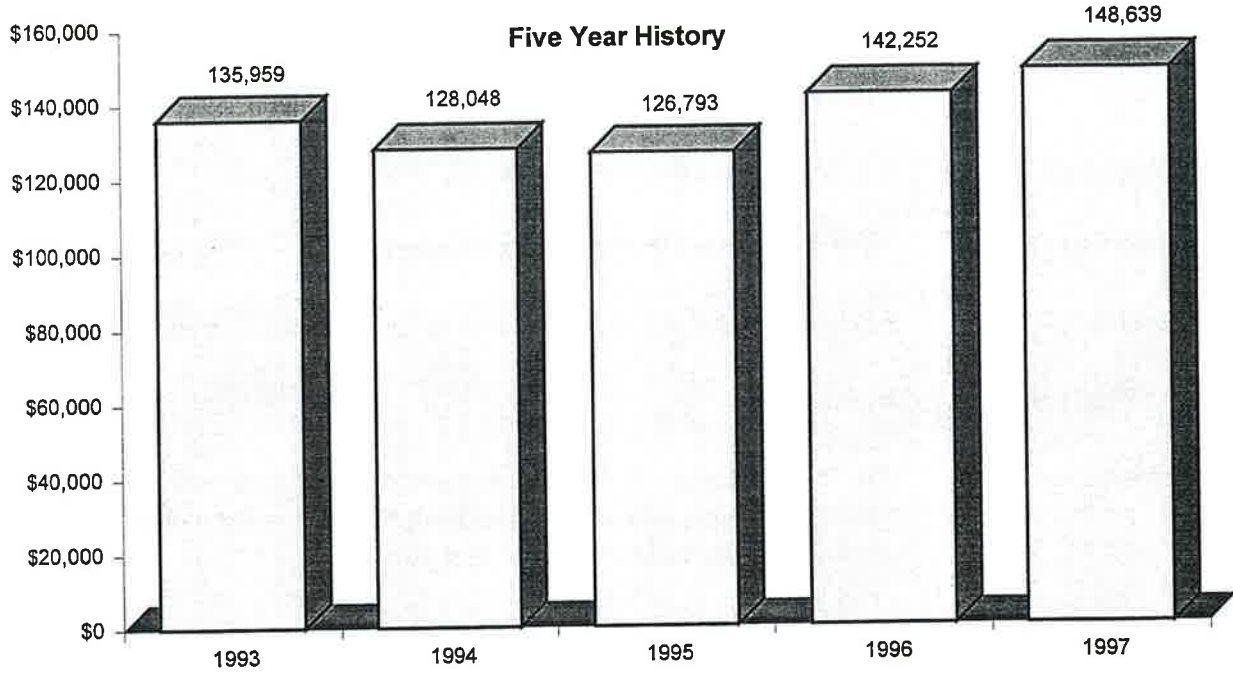
Park and Recreation Rentals

Account:	001-000-36221; 001-000-36222; 001-000-36232 001-000-36233; 001-000-36234; 001-000-36235 001-000-36241; 001-000-36242
Description:	Revenue from rental of various park and recreation facilities.
Legal Authorization:	California Constitution, Article XI, Section 7.
Received From:	Facility users.
Received By:	Beaches, Parks, and Recreation Department
Receipt Timing:	Continuous
Fee Schedule:	Rental Fees are established by City Council Resolution and vary with each facility. Fees are based on costs of maintenance, operation, administrative overhead, etc.
Use of Revenue:	Unrestricted.

Overview

The City receives rent for the use of various parks and recreation facilities throughout San Clemente. The City offers individuals, groups and organizations the opportunity to reserve and use the Beach Club, Community Center, Senior Center and Sports Field. The Trap Range and Lawn Bowling facility all have separate contracts governing their use by their respective groups. Rental fees vary and are unique to each location.

Park & Recreation Rentals



Pier Restaurant

Account: 001-000-36251

Description: Rent paid to the City by HEG Enterprises for Fisherman's Restaurant and Bar, located on the municipal pier.

Legal Authorization: California Constitution, Article XI, Section 7.

Received From: HEG Enterprises (Fisherman's Restaurant)

Received By: Finance and Administrative Services Department, Accounting Div.

Receipt Timing: Monthly

Fee Schedule: 6% of gross sales. In 1997, this amount was capped at \$255,000 per year for the next four years. The limit then increases to \$265,000 per year for the following four year period.

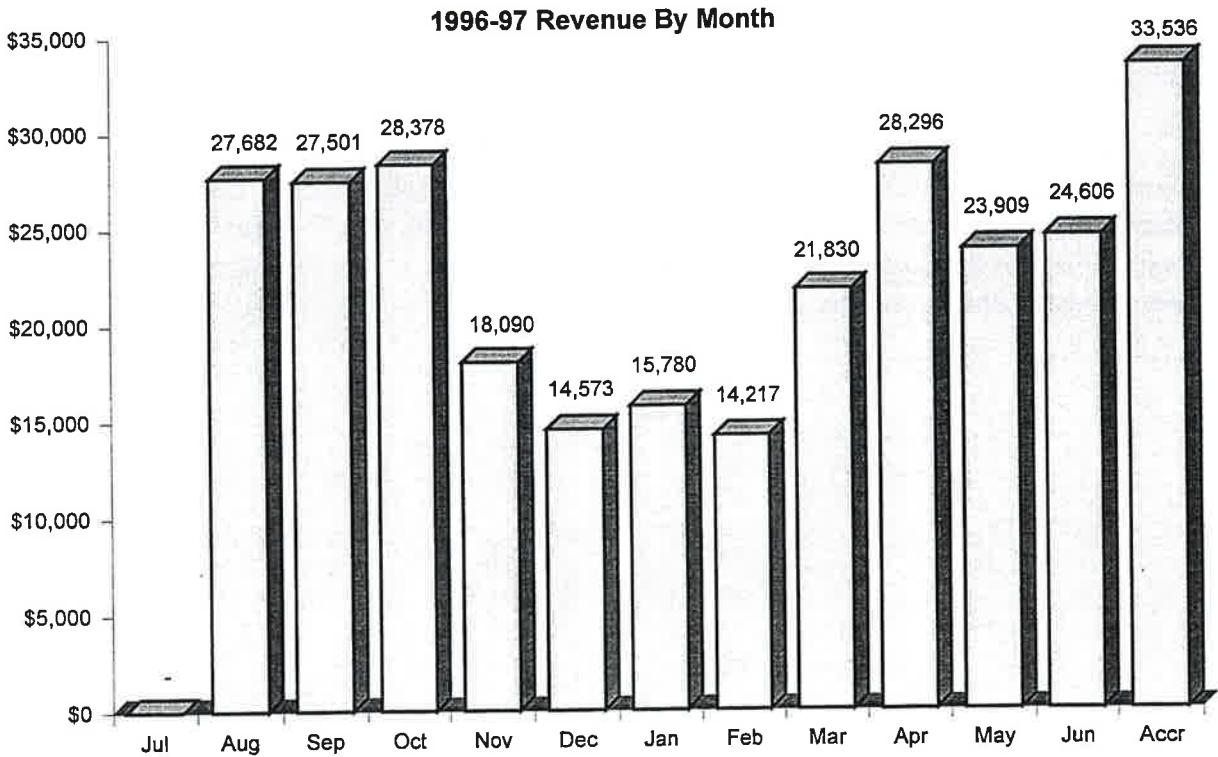
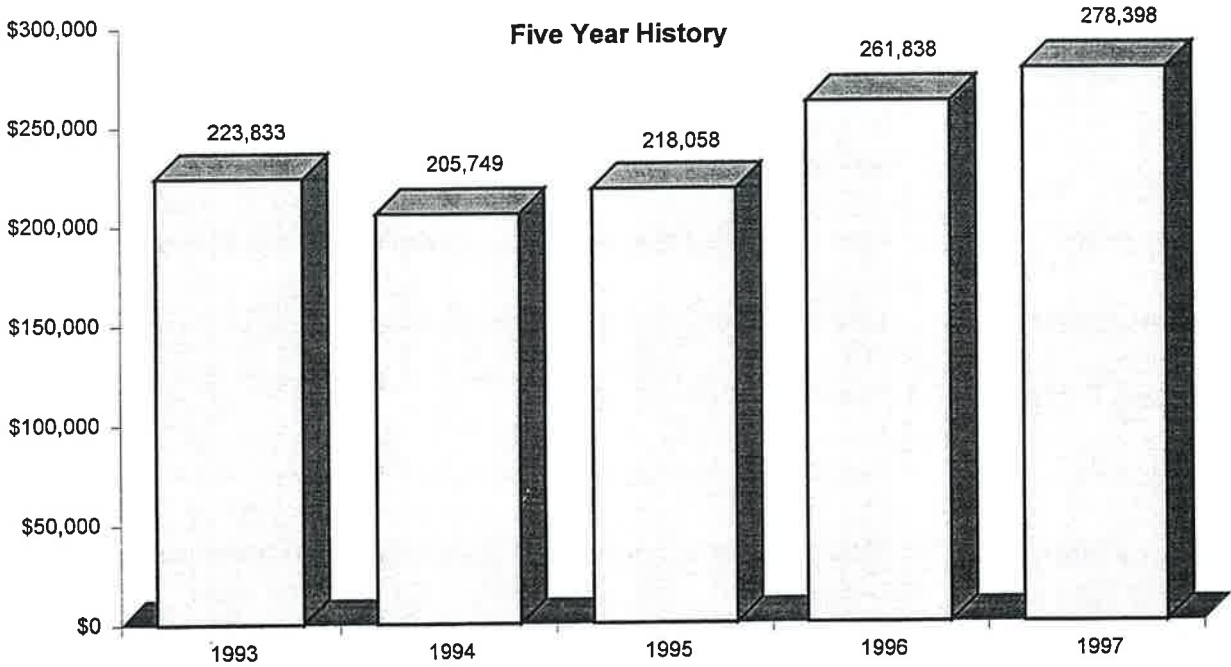
Use of Revenue: Unrestricted.

Overview

HEG Enterprises pays rent to the City for the exclusive rights to operate The Fisherman's Restaurant and Bar located on the municipal pier.

Pier Restaurant

001-000-36251



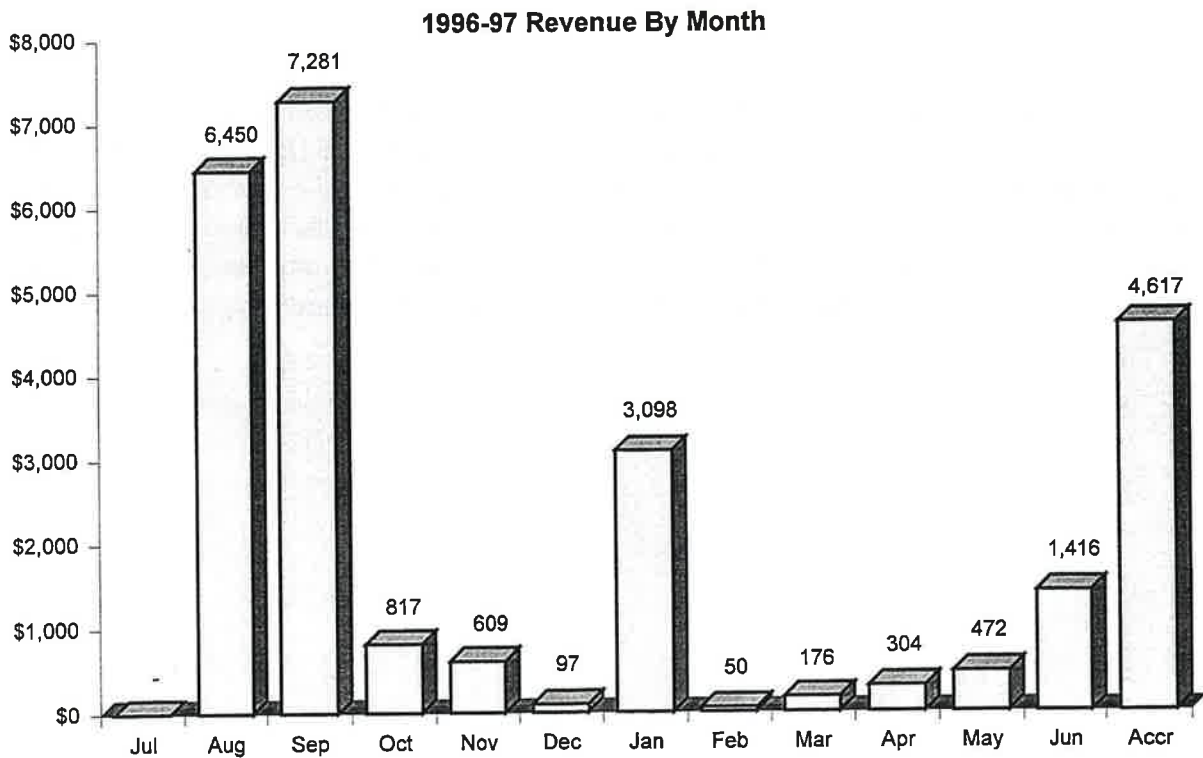
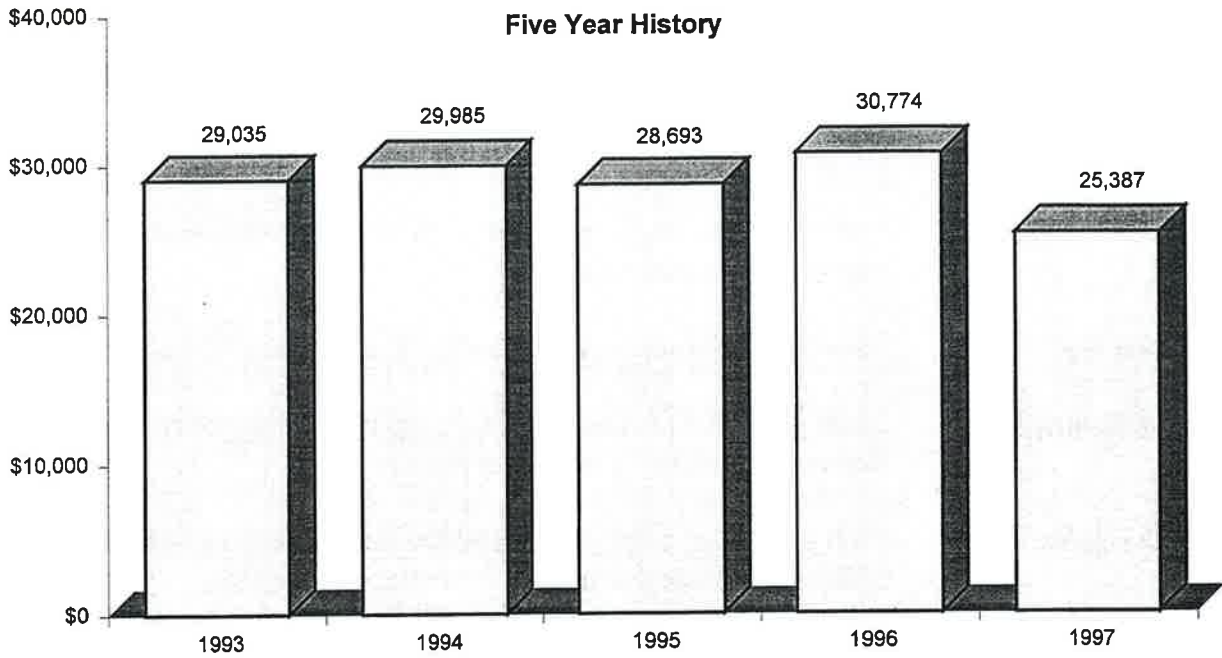
Beach and Pier Concessions

Account:	001-000-36261 001-000-36262 001-000-36263 001-000-36264 001-000-36265 001-000-36266
Description:	Rent paid to the City from operators of Beach and Pier concessions.
Legal Authorization:	California Constitution, Article XI, Section 7.
Received From:	Concessionaires
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Monthly, although revenue is much higher during summer months.
Fee Schedule:	Vary from 5% to 15% of gross annual sales, with set minimum requirements per contract.
Use of Revenue:	Unrestricted.

Overview

Beach and Pier Concessions represents revenue from various food and beach rental operations along the City's beaches. These include North Beach Burger, Bait and Tackle Shop, telescopes on the pier, and snack bars at the base of the pier, T-street beach and Calafia beach. Each of these concessions are independently operated. Revenue depends highly upon beach crowds during summer months.

Beach and Pier Concessions



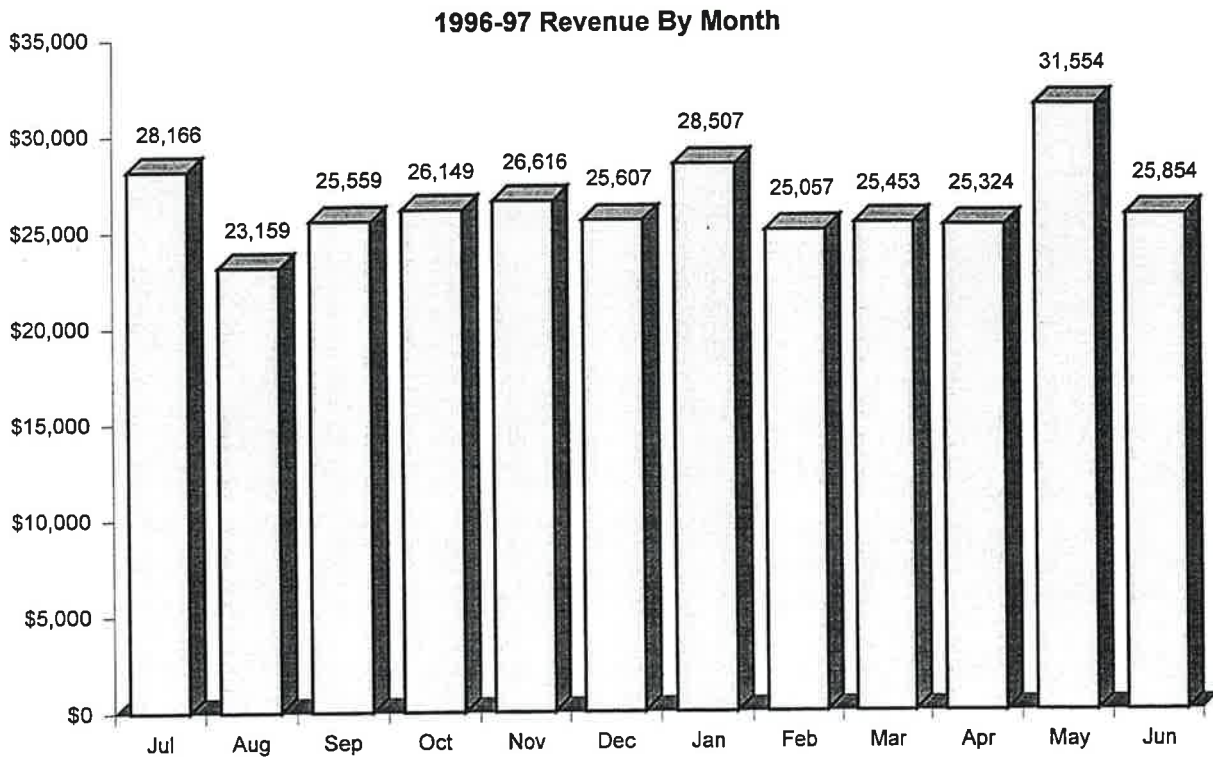
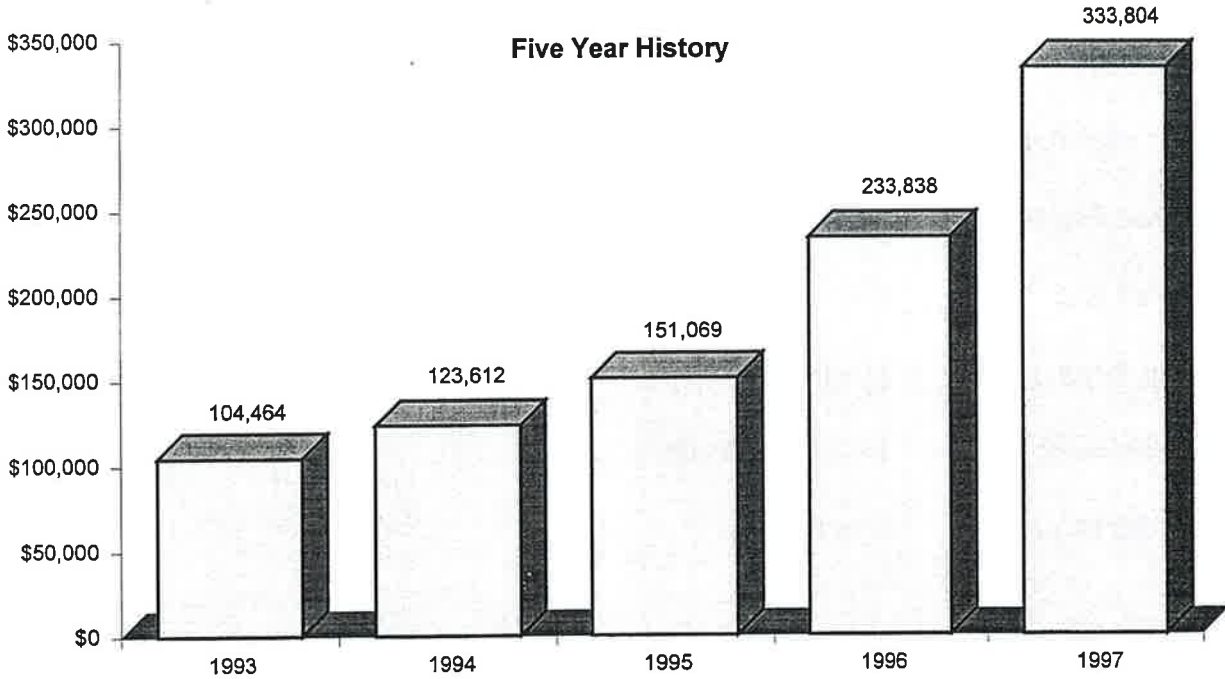
Communications Site Leases

Account:	Various
Description:	Revenue paid to the City for rental of City property for use as a communication site.
Legal Authorization:	California Constitution, Article XI, Section 7.
Received From:	Various renters, including radio stations and several wireless communication services.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Lease payments are due in advance, on the first day of each month. However, some pay quarterly or annually.
Fee Schedule:	\$300 per space, \$100 per transmitter, \$50-\$100 per antennae, plus additional surcharges for high electrical consumption. Average total cost is about \$375 -\$500 per month.
Use of Revenue:	Unrestricted.

Overview

Over forty companies lease communication site space on the hills within San Clemente. These sites are located at Avenida Salvador and Calle Andalucia. Renters of communication site spaces include Radio Station KWVE, several wireless communication companies, and companies that use radios to dispatch vehicle fleets. The terms of each lease depend upon the type of equipment being operated and electrical consumption. Communication site revenue is relatively consistent throughout the year, and has steadily increased over the past five years.

Communications Site Leases



Casa Romantica Lease

Account: 001-000-36247

Description: Revenue paid to the City for lease of the Casa Romantica building.

Legal Authorization: California Constitution, Article XI, Section 7.

Received From: Events By Design

Received By: Finance and Administrative Services Department, Accounting Div.

Receipt Timing: Monthly

Fee Schedule: \$8,900 per month

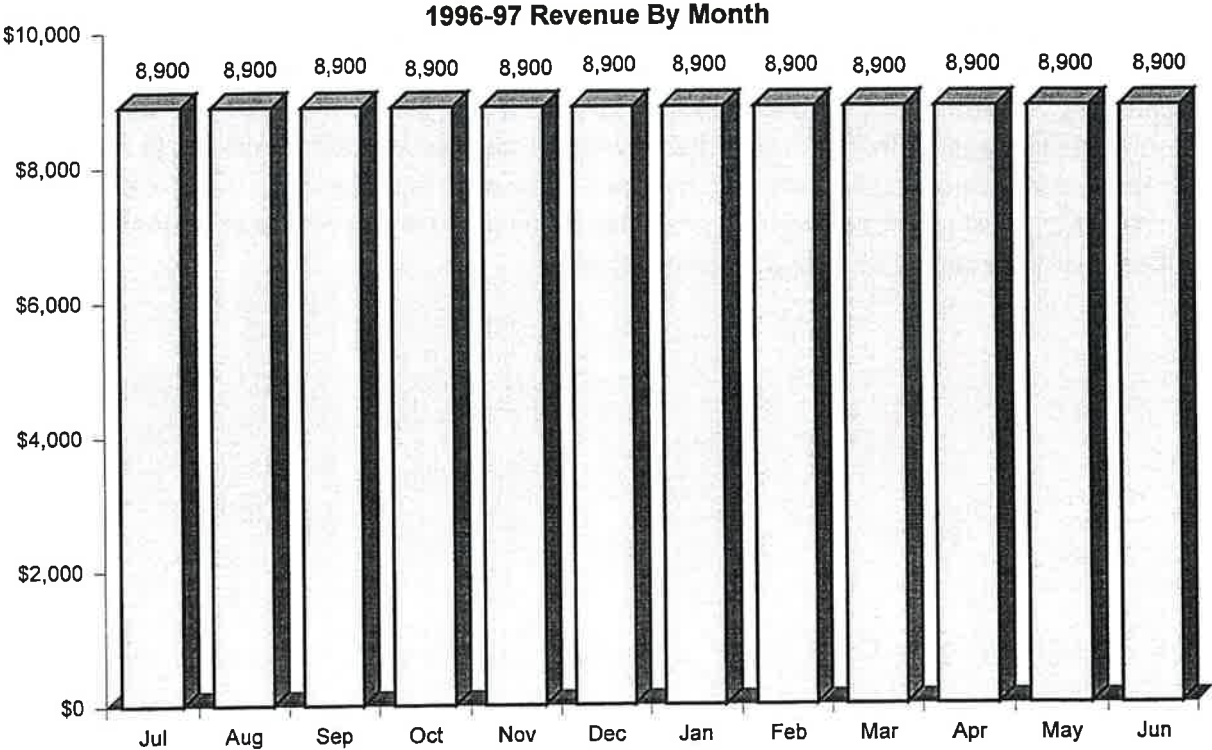
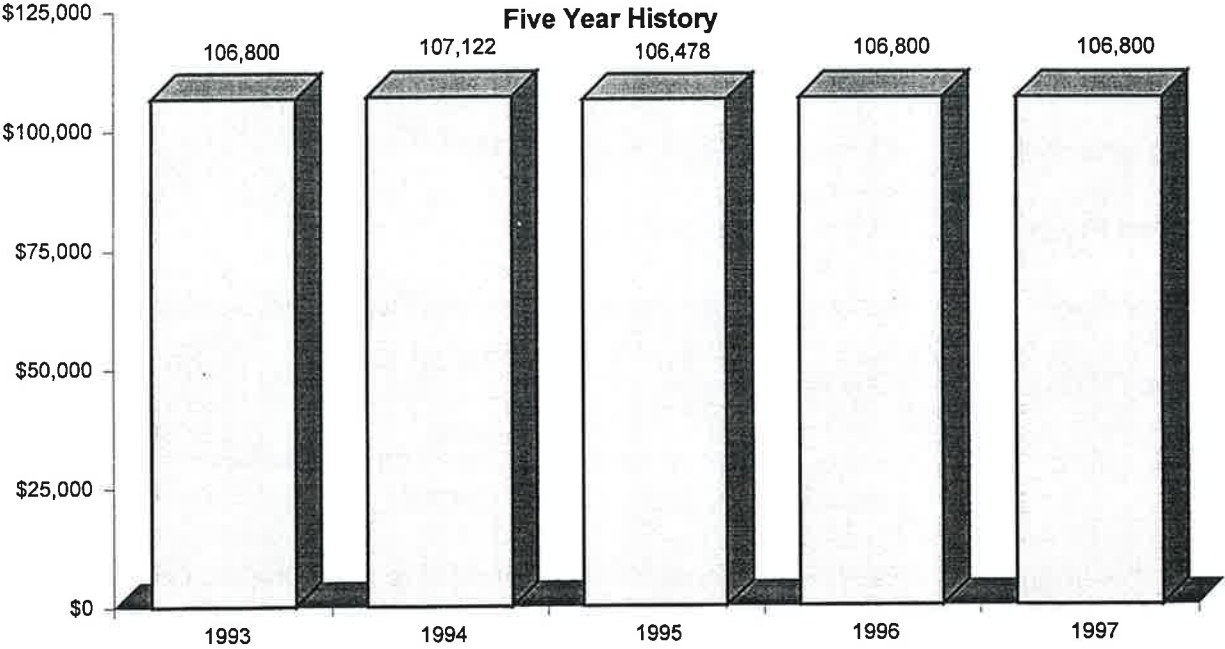
Use of Revenue: Unrestricted.

Overview

The City leases the historic Casa Romantica to Events By Design. Events By Design provides a service that puts on weddings and other gatherings at the facility.

Casa Romantica Lease

001-000-36247



S.O.N.G.S. Grant

Account: 001-000-33440

Description: Reimbursement to the City for nuclear accident preparedness expenses.

Legal Authorization: Government Code, Section 8610.5.

Received From: Office of Emergency Services, Sacramento, CA

Received By: Finance and Administrative Services Department, Accounting Div.

Receipt Timing: Quarterly

Fee Schedule: Varies, dependent upon expenditures for preparedness projects and training.

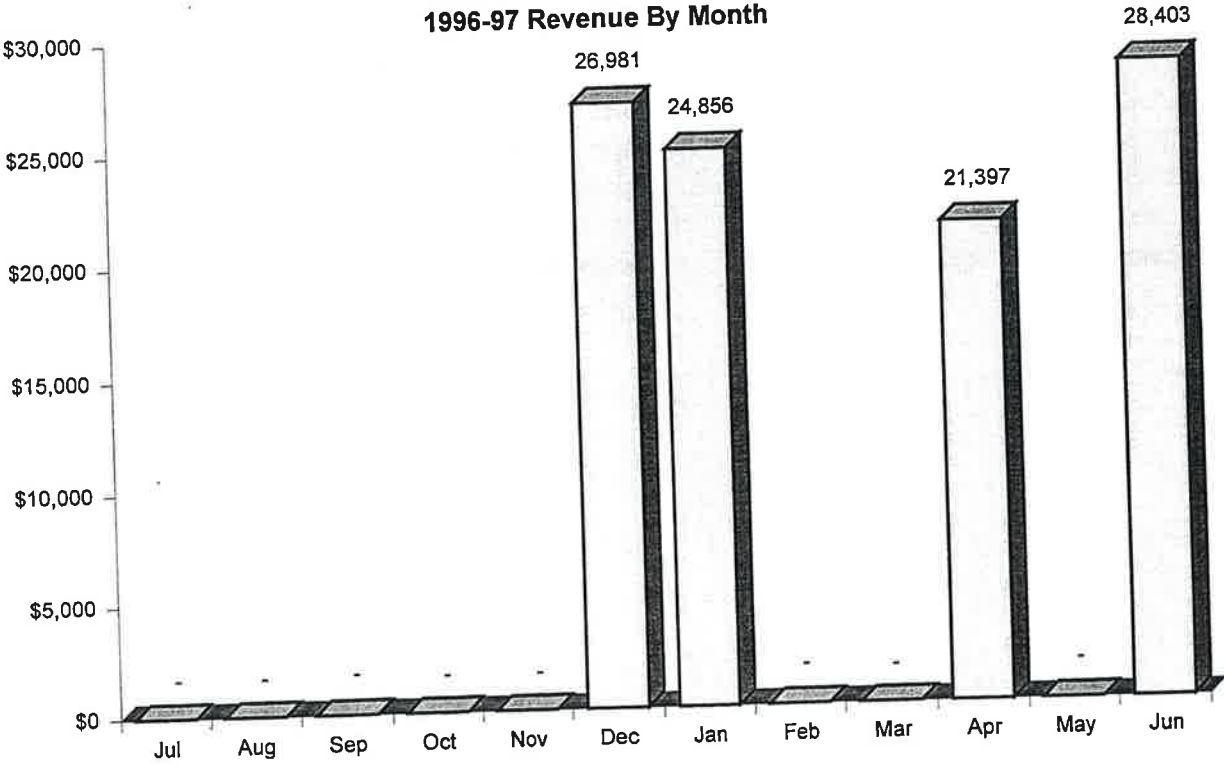
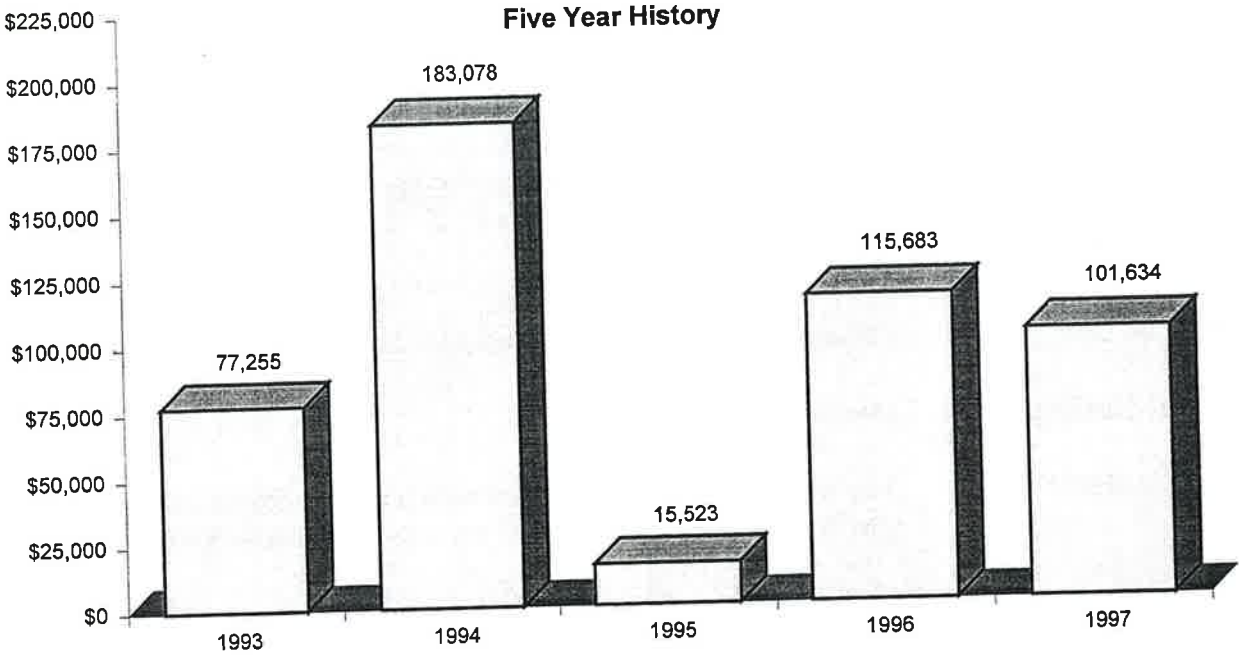
Use of Revenue: Restricted. These funds are intended to reimburse the City for expenses incurred in preparation for a nuclear accident.

Overview

The City files a quarterly claim with the Office of Emergency Services for reimbursement of expenses incurred in preparation for an accident at the San Onofre Nuclear Generating Station. The City Emergency Planning Officer prepares an itemized report of baseline, training, and project expenditures, which accompanies an invoice sent to the O.E.S. for reimbursement of funds. Government Code Section 8610.5 mandates that the nuclear power utility must pay for emergency response training and preparedness to all entities within a ten mile radius of a nuclear power plant.

S.O.N.G.S. Grant

001-000-33440



Motor Vehicle Tax

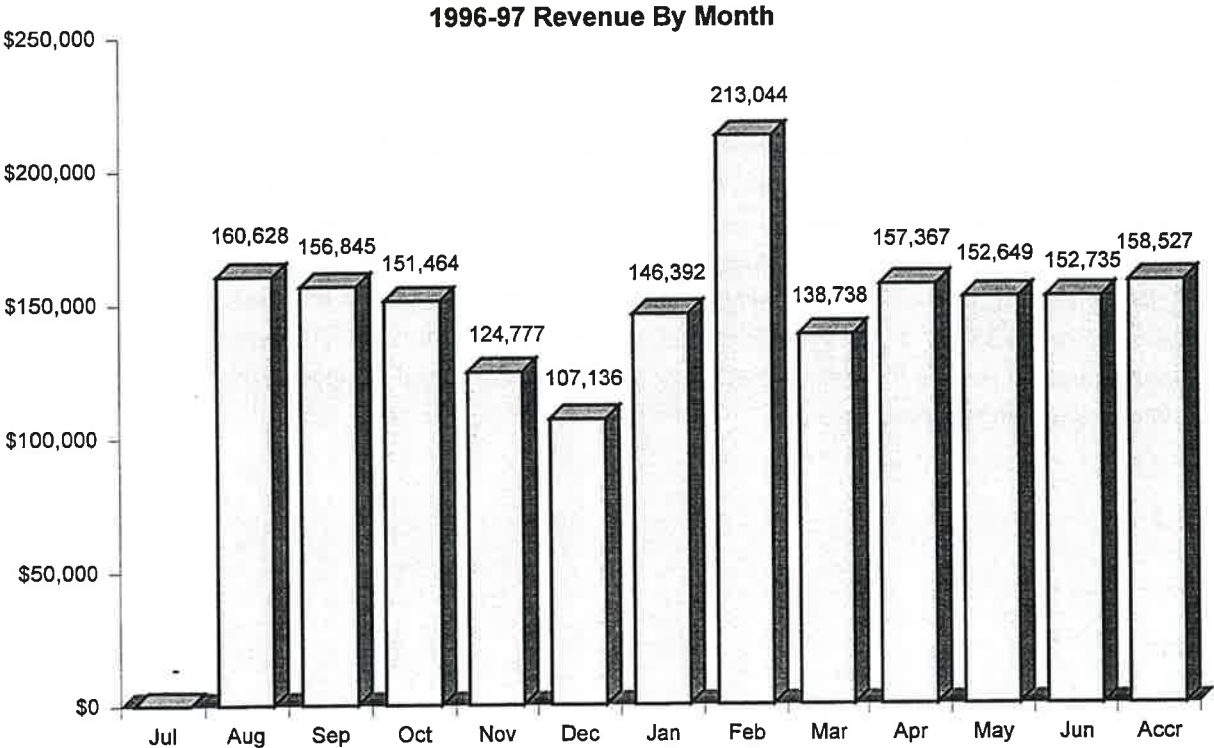
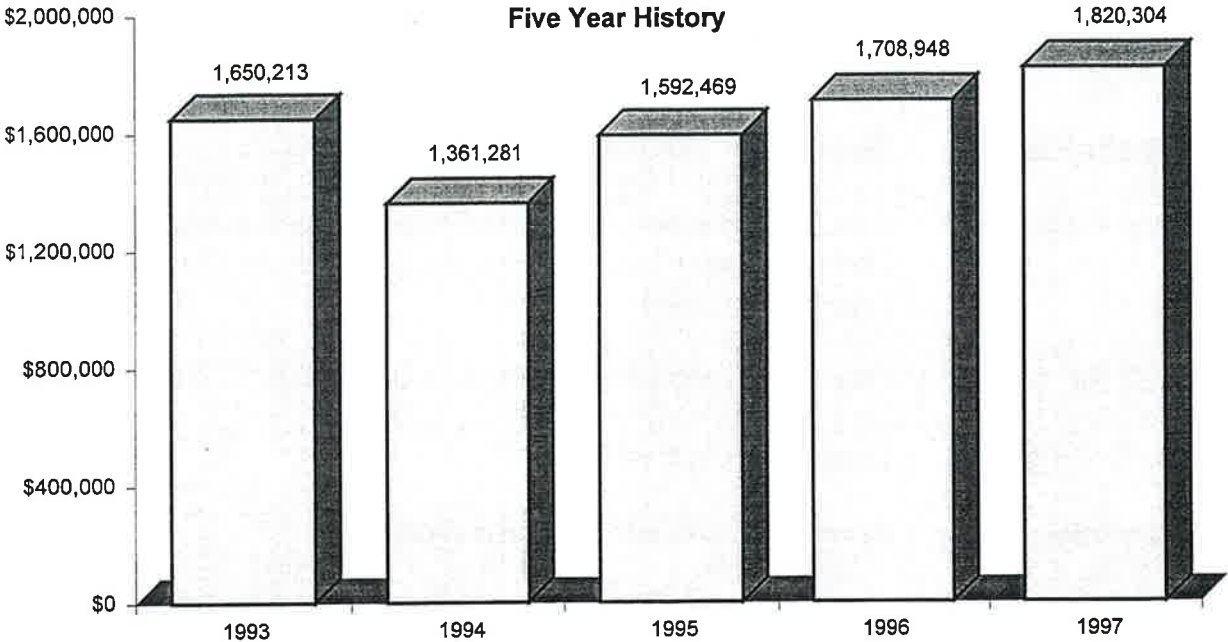
Account:	001-000-33520
Description:	A fee for the privilege of operating a motor vehicle on public streets, collected by the DMV.
Legal Authorization:	State Revenue and Taxation Code, Sections 10751 and 11005; Vehicle Code, Sections 9101 and 9250.
Received From:	State Controller's Office
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Monthly
Fee Schedule:	Tax is equivalent to 2% of the market value as determined by the DMV. However, the City receives only a fraction of this amount.
Use of Revenue:	Unrestricted.

Overview

The Motor Vehicle License Fee, sometimes referred to as Motor Vehicle In-Lieu Tax, is an annual fee equivalent to 2% of the market value of vehicles licensed in the state. Fees are distributed near the tenth of each month. Funds are apportioned on the basis of population, less a 2.5% administration fee kept by the state. Exemptions from this tax include government owned vehicles, diplomatic vehicles, civil air patrol vehicles, certain farm vehicles, vehicles owned by amputee veterans or the blind, and privately owned school buses. Annual revenue is dependent upon vehicle registration and city population.

Motor Vehicle Tax

001-000-33520



Supplemental Law Enforcement Services

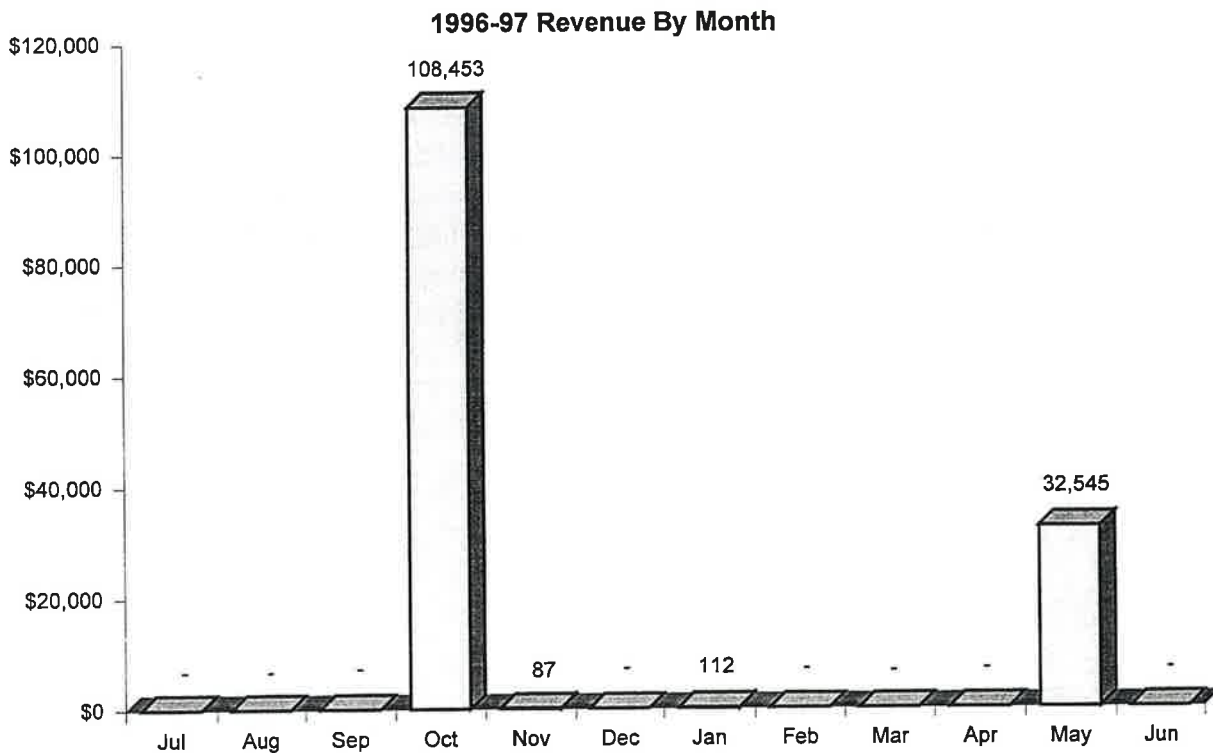
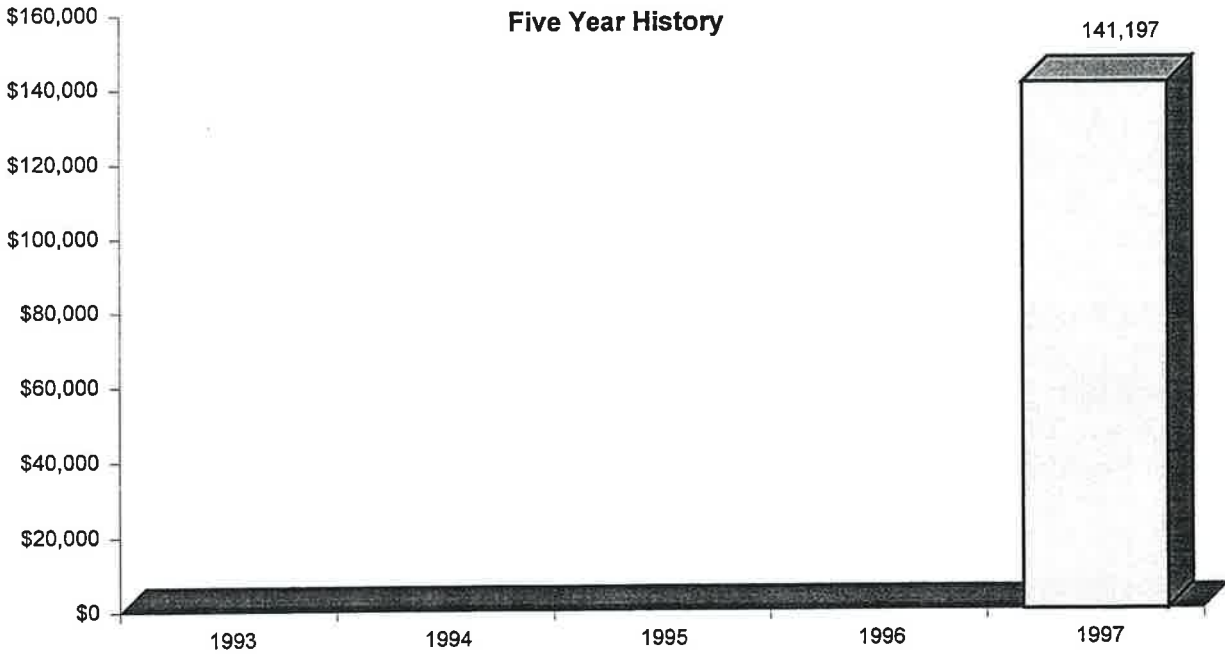
Account:	001-000-36865
Description:	Block grants from the State and Federal Governments designated to supplement and enhance existing local law enforcement services.
Legal Authorization:	Government Code, Section 30061, Chapter 134.
Received From:	The U.S. Department of Justice's Bureau of Justice Assistance and California State Legislature (distributed via Orange County Controller's Office).
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Timing of receipts vary.
Fee Schedule:	Revenue amounts are based on population.
Use of Revenue:	Restricted. The COPS Grant (from State) must be used exclusively on front line law enforcement. The LLEBG Grant (from U.S. Department of Justice) must be used to reduce crime and improve public safety.

Overview

Supplemental Law Enforcement Services represents block grants received from State and Federal Governments which are intended to enhance existing local law enforcement services. These funds may not be used to offset the cost of the police services contract with the Orange County Sheriff Department (see Use of Revenue above). For the fiscal year 1996-97, the amount of \$108,453 represents the COPS Grant from the State of California. The amount of \$32,545 received later that year represents the LLEBG Grant from the U.S. Department of Justice. This revenue must supplement and not supplant existing funding of law enforcement services.

Supplemental Law Enforcement Services

001-000-36865



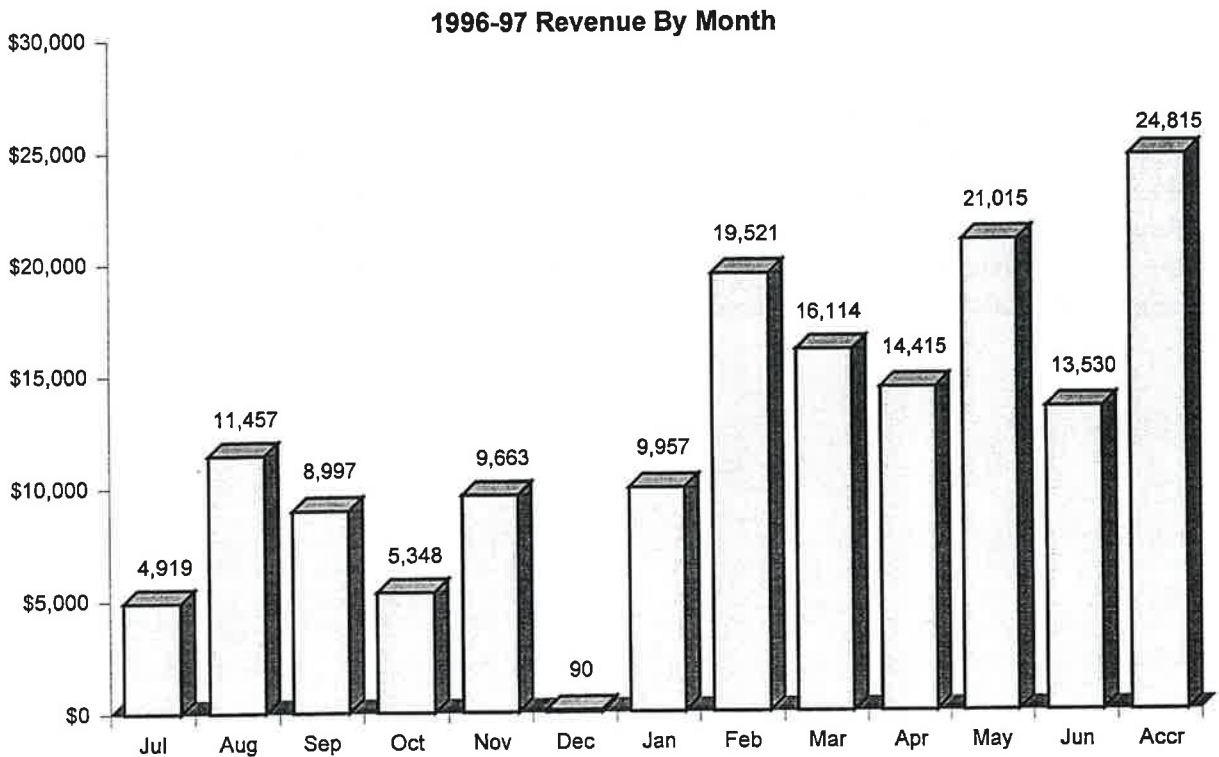
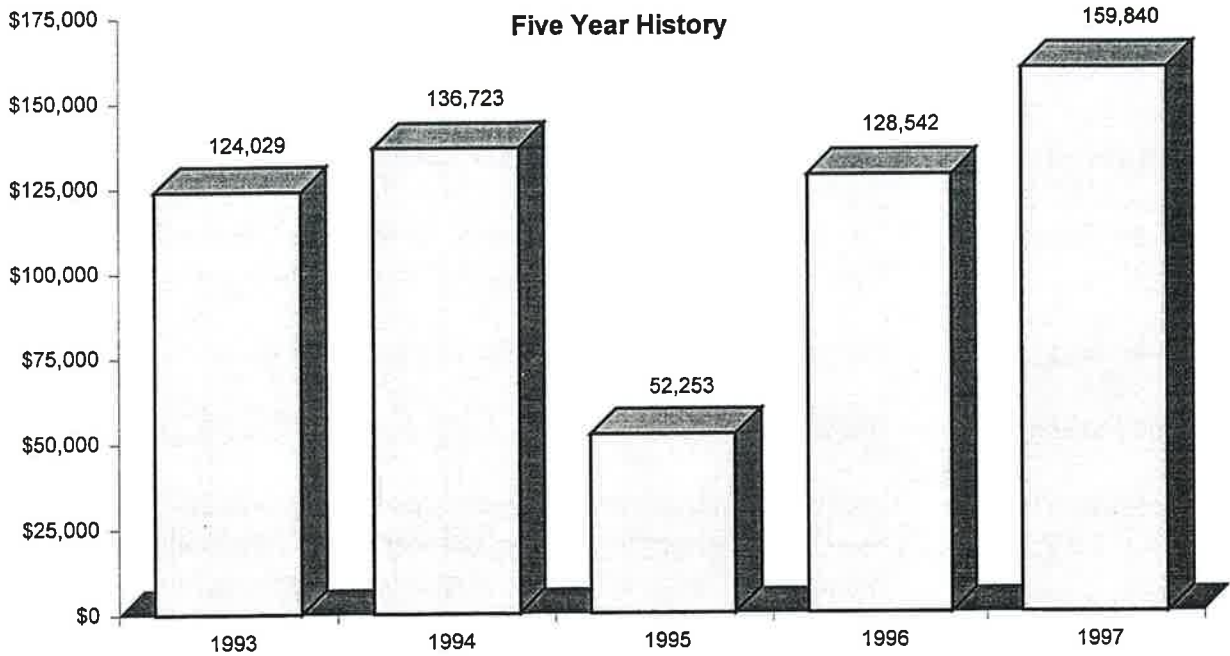
Investment Earnings and Interest

Account:	001-000-36110; 001-000-36180
Description:	Realized return on cash investments and miscellaneous interest received by the City.
Legal Authorization:	Civil Code, Section 2261, et seq.; Government Code, Section 53600, et seq. City of San Clemente Investment Policy #202-1, effective July 3, 1996.
Received From:	Various institutions
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Interest income is allocated monthly to the various funds, based on month-end cash and investment balances.
Fee Schedule:	Effective rate of return for fiscal year 1996-97 was 5.80%.
Use of Revenue:	Unrestricted.

Overview

The City follows the practice of pooling cash and investments of all funds except for amounts with fiscal agents, and amounts in the deferred compensation plan and pension trust fund. Interest income earned on pooled cash is allocated to the various funds based on month-end cash and investment balances. The City's investment policy allows investment in the following types of investments: U.S. Treasury Securities or Federal Agency Securities, collateralized or insured Passbook Savings Accounts, Demand Deposits, Certificates of Deposit or Time Deposits with commercial banks or savings and loan companies, Banker's Acceptances, Commercial Paper, Money Market Mutual Funds, Repurchase Agreements, Local Agency Investment Fund (State of California Pool), and the Orange County Investment Pool.

Investment Earnings and Interest



Narcotics Forfeitures

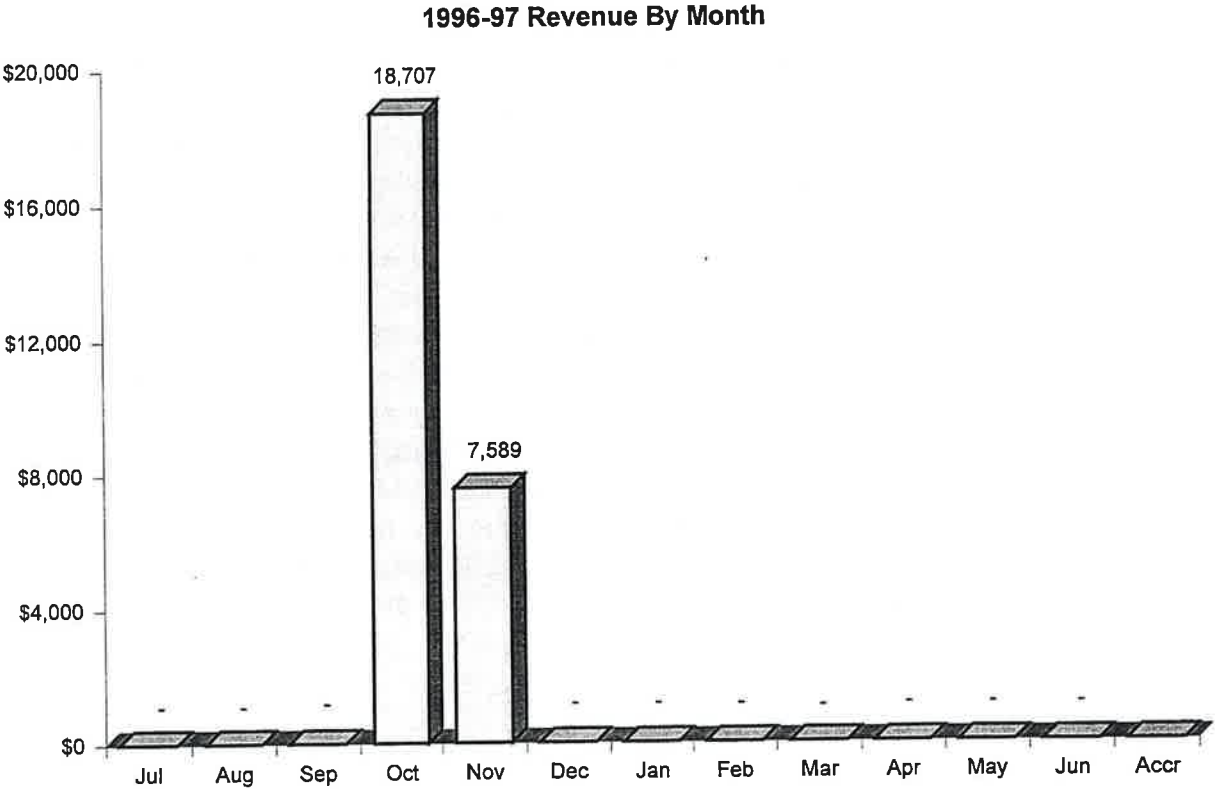
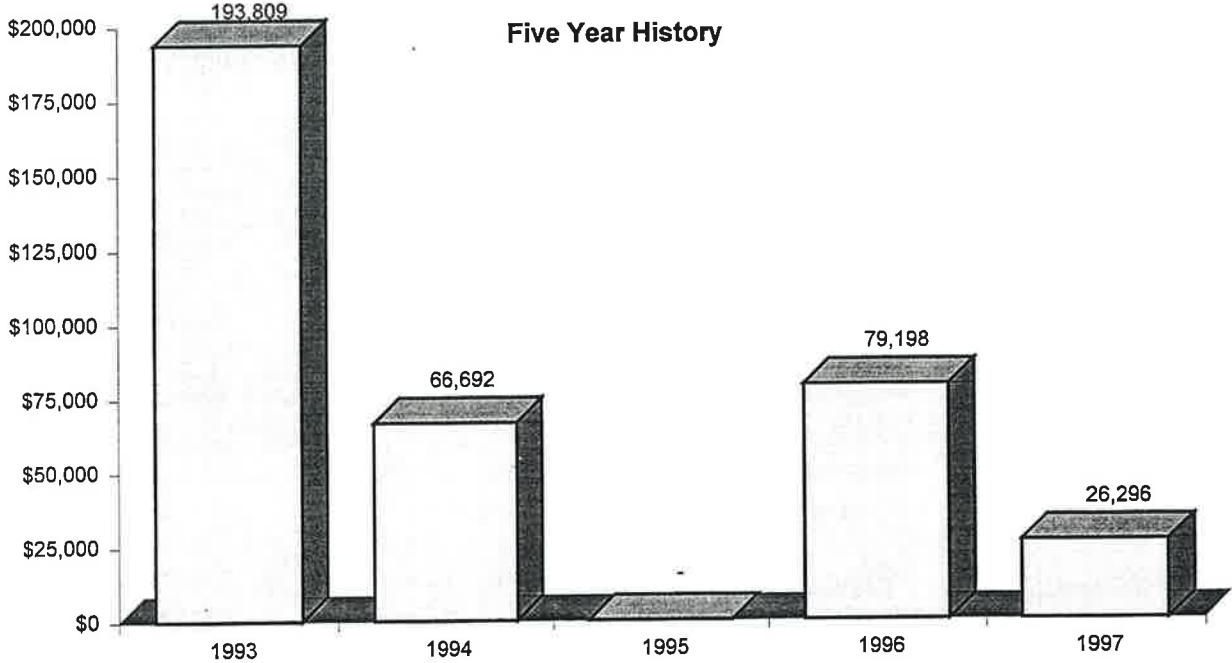
Account:	001-000-36864
Description:	Revenue from the seizure of assets in narcotics arrests made in San Clemente by local officers.
Legal Authorization:	Health and Safety Code, Section 11470 et seq. and 11473 et seq.
Received From:	The United States Marshall remits funds to the Orange County Sheriff's Department, who in turn disburses funds to the City.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Receipts vary.
Fee Schedule:	Assets are divided among agencies involved in seizures. However, San Clemente currently has no member on the Regional Narcotics Suppression Team, so revenue comes only from local arrests. San Clemente receives 100% of assets seized locally by local officers.
Use of Revenue:	Unrestricted.

Overview

Narcotics Forfeiture revenue represents funds that are disbursed to the City from the Orange County Sheriff's Department. By law, law enforcement agencies may receive assets which are seized in narcotics arrests. Revenue is based on the active involvement in the Regional Narcotics Suppression Team. Because San Clemente currently has no member on the Regional Narcotics Suppression Team, the City receives revenue solely from local arrests. Hence, revenue in recent years has been relatively low.

Narcotics Forfeitures

001-000-36864



General Fund Overhead Charges

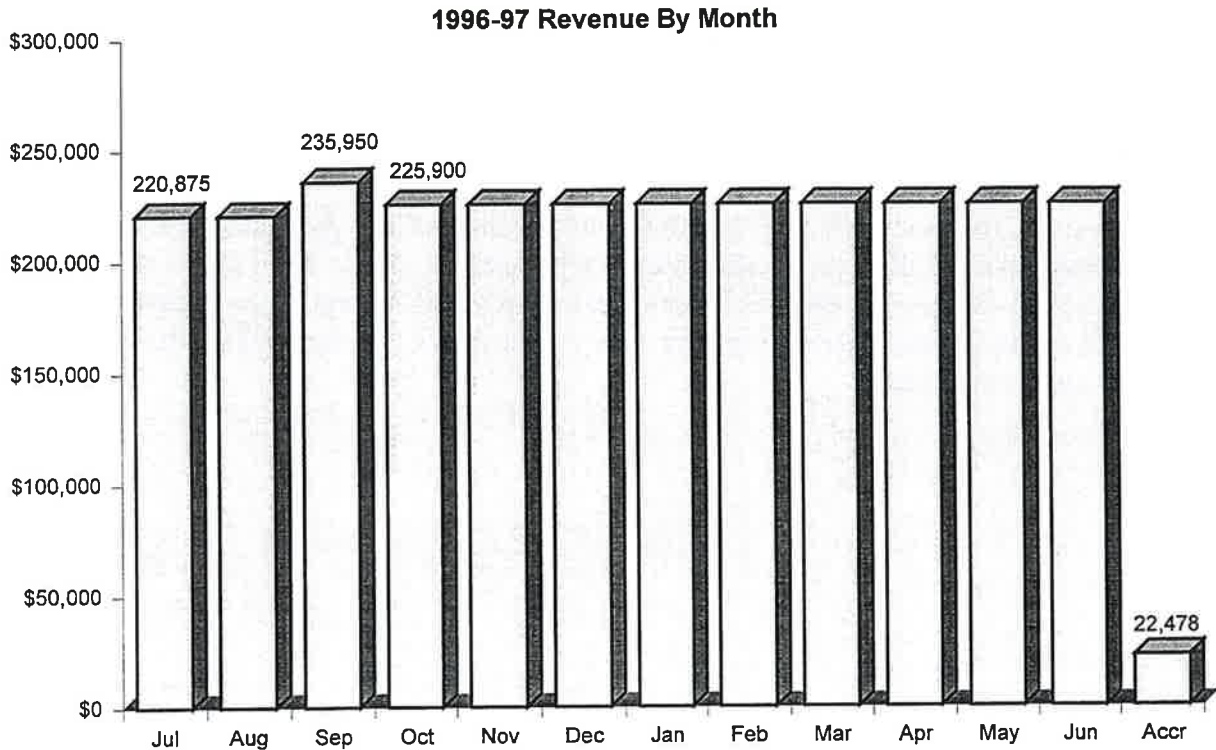
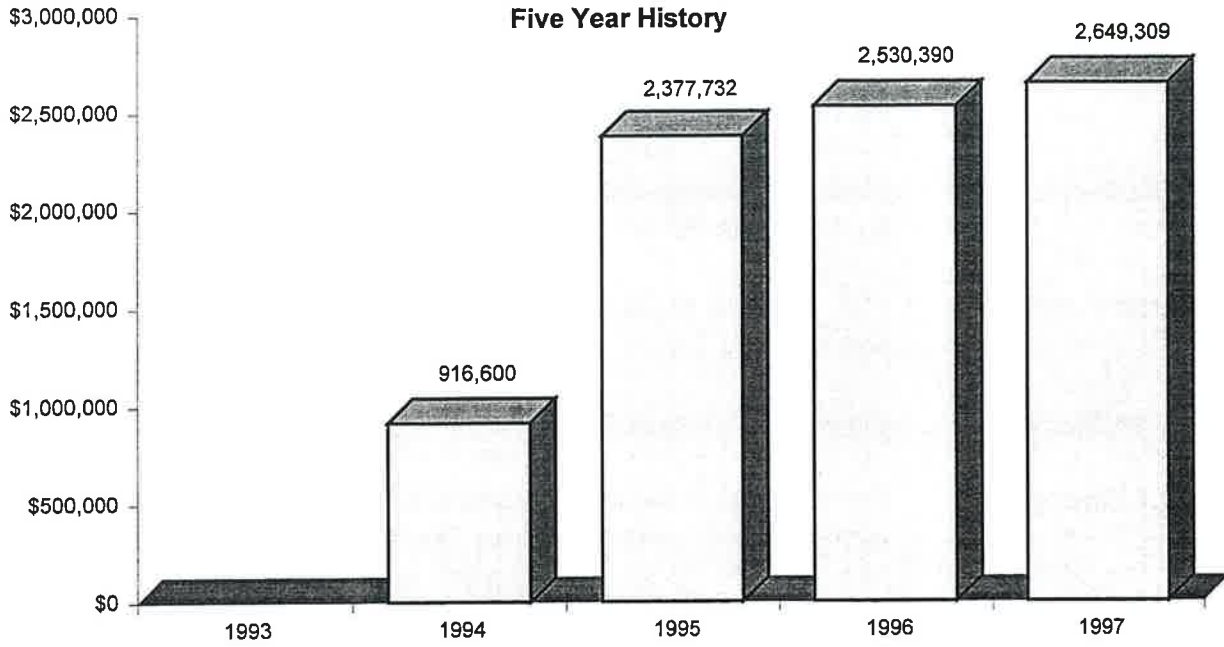
Account:	001-000-39499
Description:	Charges from General Fund to other funds to recover administrative overhead costs.
Legal Authorization:	Circular OMB A-87
Received From:	Various Funds
Received By:	General Fund
Receipt Timing:	Calculated annually; transferred in monthly increments.
Fee Schedule:	Based on an administrative cost allocation plan that is prepared annually.
Use of Revenue:	Unrestricted.

Overview

Charges are made from the General Fund to other funds in order to recover all administrative costs of providing services to the non-administrative (operating) departments within the City. Administrative departments include City Council, City Manager, City General, Finance & Administrative Services, City Clerk, Human Resources and Accounting. The City utilizes direct and indirect charges to calculate appropriate charges to other funds. Direct charges are those which can be specifically identified with a particular service. An example of this would be utility billing personnel within the Accounting Division charging a percentage of their time directly to the Water Fund and Sewer Fund for processing utility bills, and providing the related customer service. Indirect costs are not readily identifiable with a particular operating program, but rather are incurred for a joint purpose which benefits more than one cost objective. These costs are charged indirectly by means of an equitable methodology. For example, the City Clerk's department is charged to all operating departments based upon number of agenda items prepared for each department the previous year. Payroll costs are charged to operating departments based upon number of full-time equivalents (FTE's) in each department, and financial planning (budget) costs are charged based upon budgeted expenditures per program for the previous year.

General Fund Overhead Charges

001-000-39499



Transfer From 2107 Gas Tax Fund

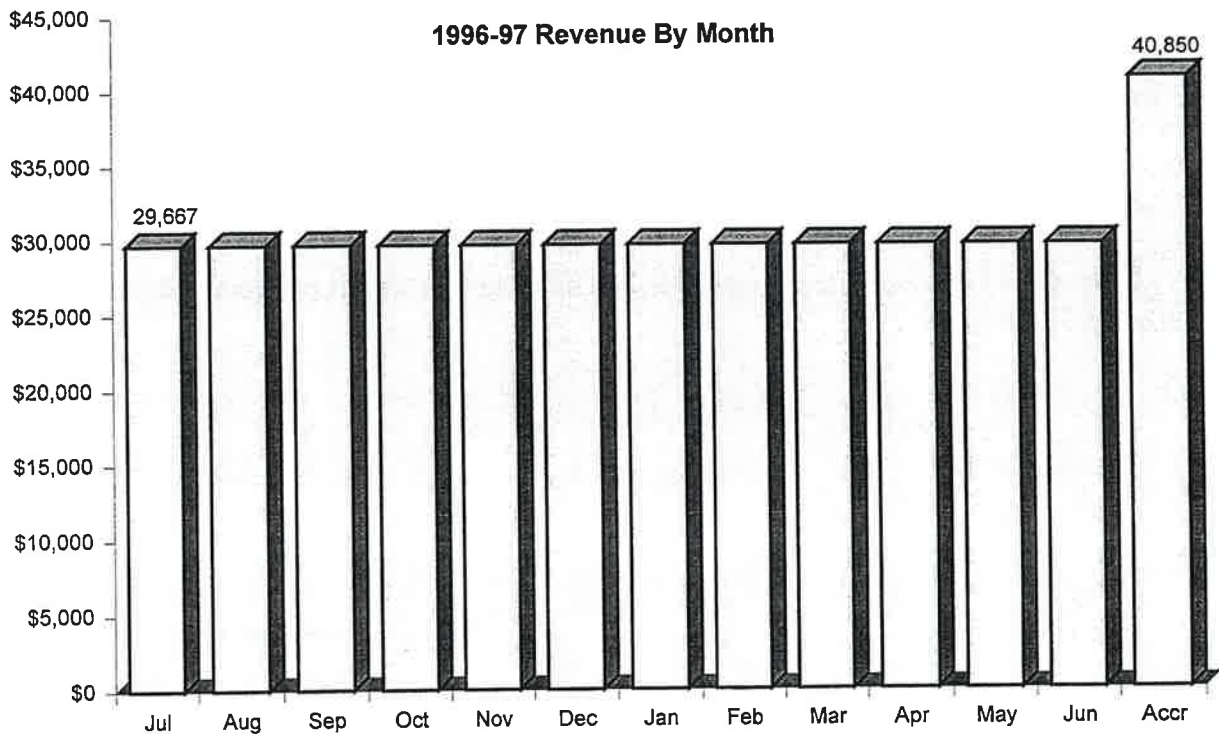
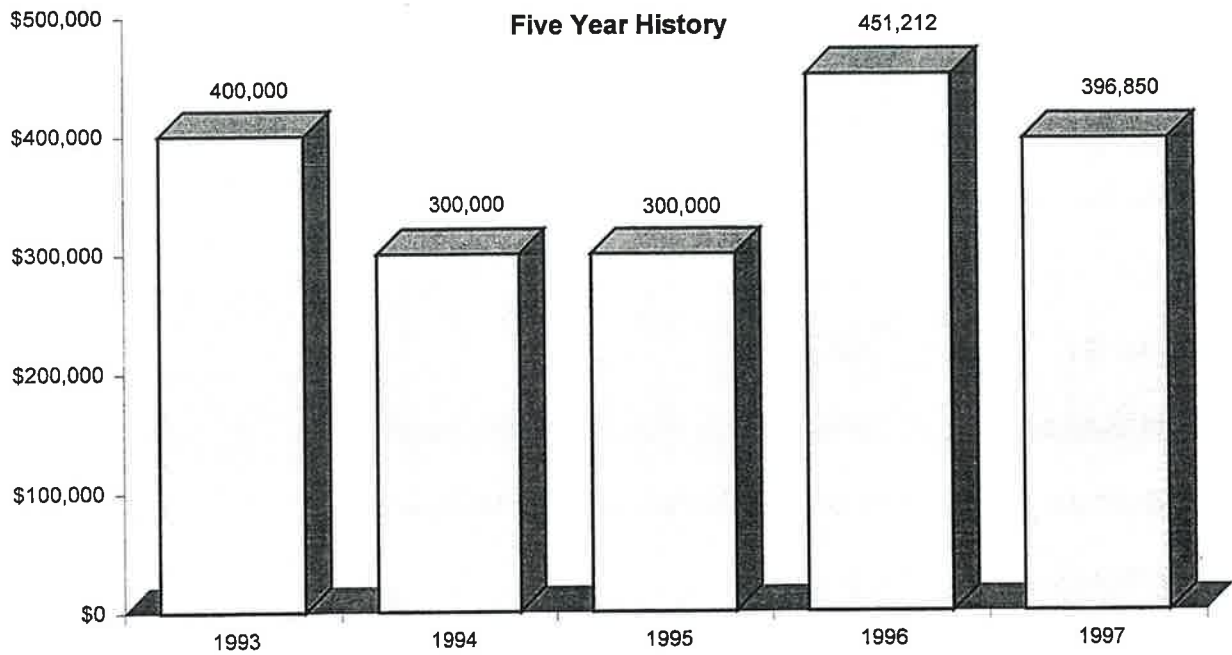
Account:	001-000-39210
Description:	State Gasoline Tax revenue is distributed to the City and placed in the Gas Tax Fund. A portion of this revenue is then transferred to the General Fund.
Legal Authorization:	California Constitution, Article XIX, Section 1; Streets and Highways Code 2107 and 2107.5.
Received From:	State Board of Equalization administers the tax; State Controller distributes it.
Received By:	Finance and Administrative Services Department, Accounting Div.
Receipt Timing:	Revenue is apportioned monthly from the State to the City. Funds are transferred monthly from the Gas Tax Fund to the General Fund.
Fee Schedule:	Gasoline Tax revenue is allocated to cities based on population. The entire amount of the 2107 and 2107.5 apportionment is then transferred into the general fund.
Use of Revenue:	Restricted. These funds are to be used exclusively for engineering costs and administrative expenses related to city streets.

Overview

Sections 2107 and 2107.5 of the Streets and Highways Code provide for the monthly apportionment of gasoline tax to cities, based on population. These funds are to be spent exclusively on engineering costs and administrative expenses related to city streets, which come out of the General Fund. Therefore, these revenues are transferred from the Gas Tax Fund to the General Fund.

Transfer From 2107 Gas Tax Fd

001-000-39210



Golf Course In-Lieu Tax

Account:	001-000-31520
Description:	The golf course is exempt from paying property tax. Therefore, revenue is transferred from the Golf Fund to the General Fund to recover lost property tax revenue.
Legal Authorization:	Government Code, Section 37100.5.
Received From:	Golf Fund
Received By:	General Fund
Receipt Timing:	Transfers made in equal monthly installments.
Fee Schedule:	4% of Golf Course Operating Revenue
Use of Revenue:	Unrestricted

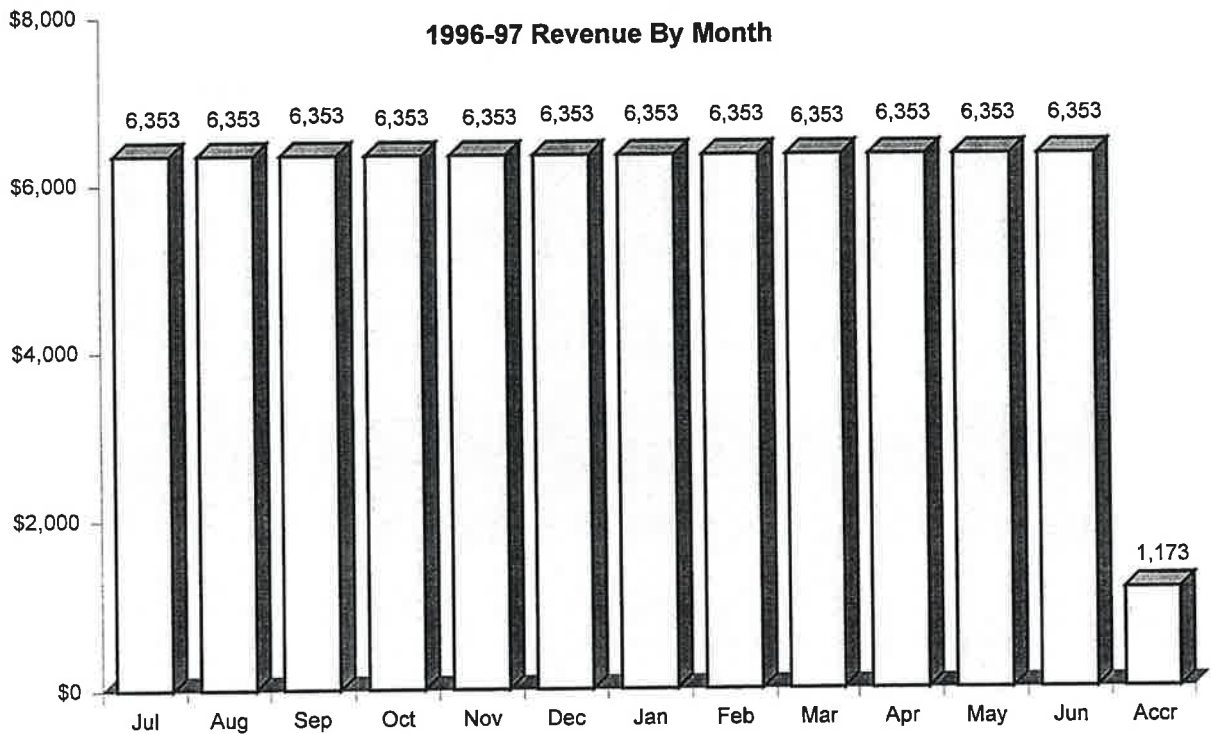
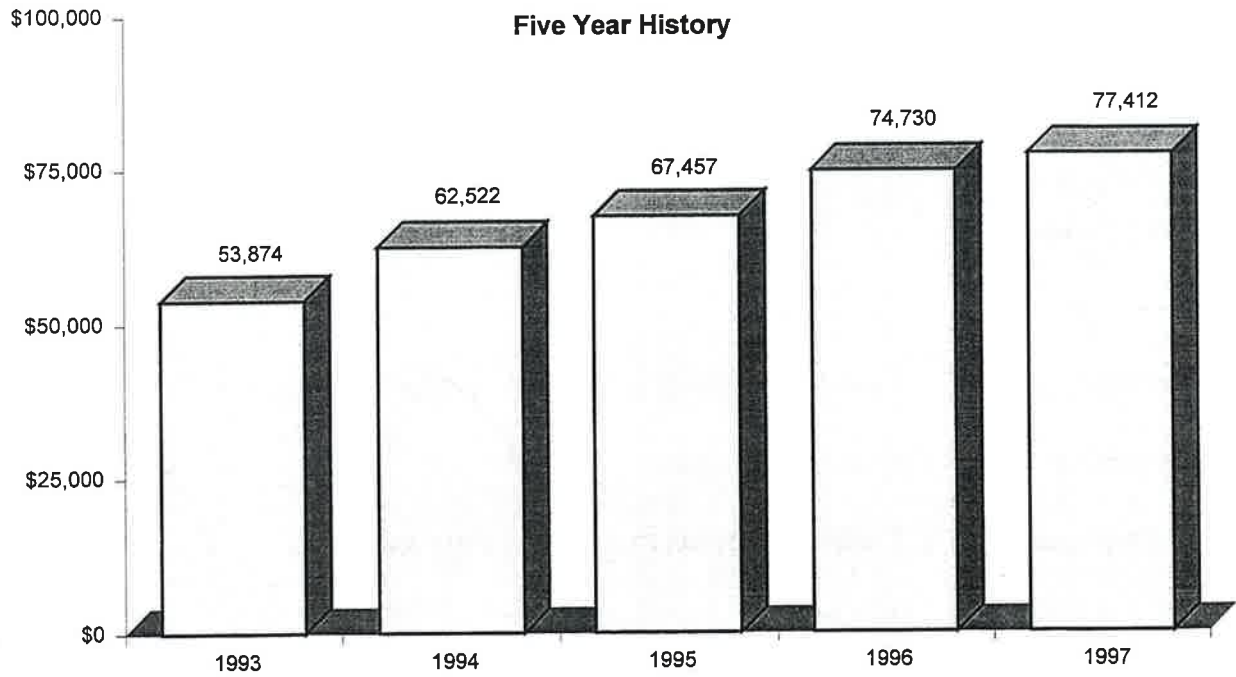
Overview

In-lieu tax represents revenue collected “in-lieu” of receiving property tax from a specific enterprise. The City’s Golf Course is currently operated as an “enterprise” fund, separate from the General Fund. Because the golf course is exempt from paying property tax, an in-lieu tax of 4% of annual operating revenue was transferred from the Golf Fund to the General Fund. The Golf Course In-lieu Tax was discontinued in Fiscal Year 1997-98 and was replaced with a total transfer of \$425,000 from the Golf Fund to the City’s General Fund. This action was in response to Proposition 218 and the failure of Measure A in 1997.

The Golf Fund consists of green fees and other service charges collected by the municipal golf course.

Golf Course In-Lieu Tax

001-000-39260



Transfer From Golf Fund

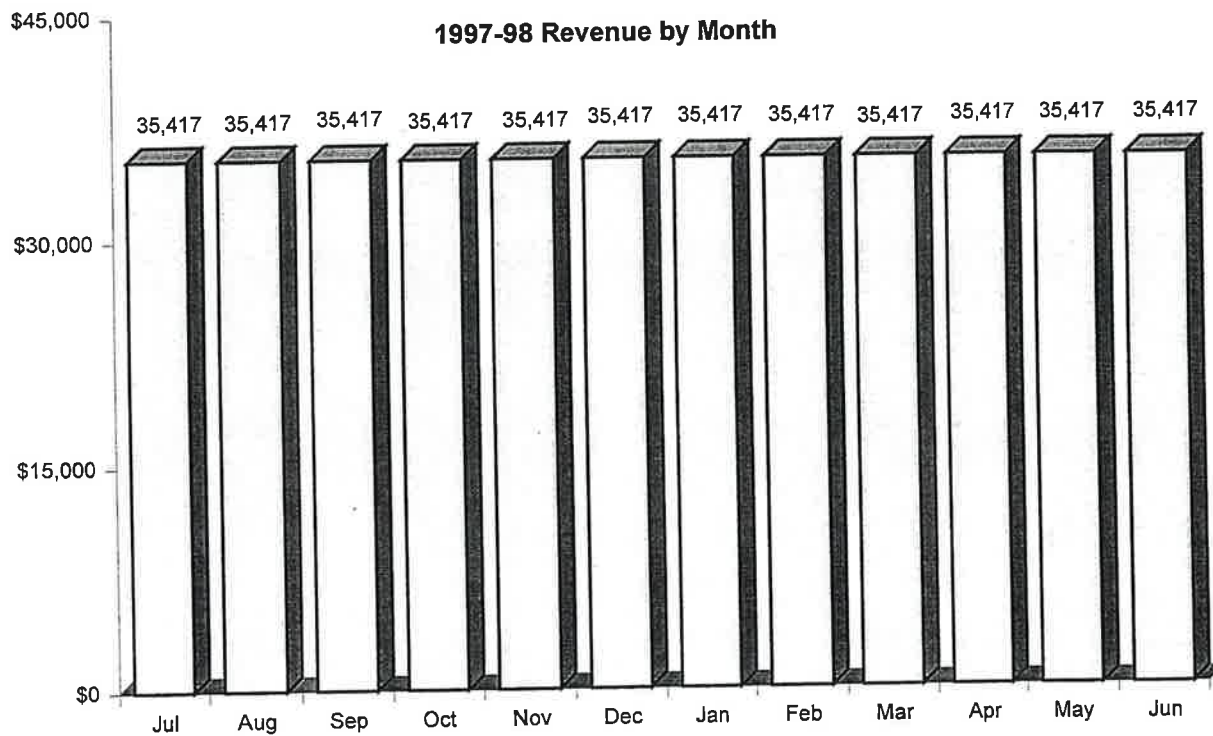
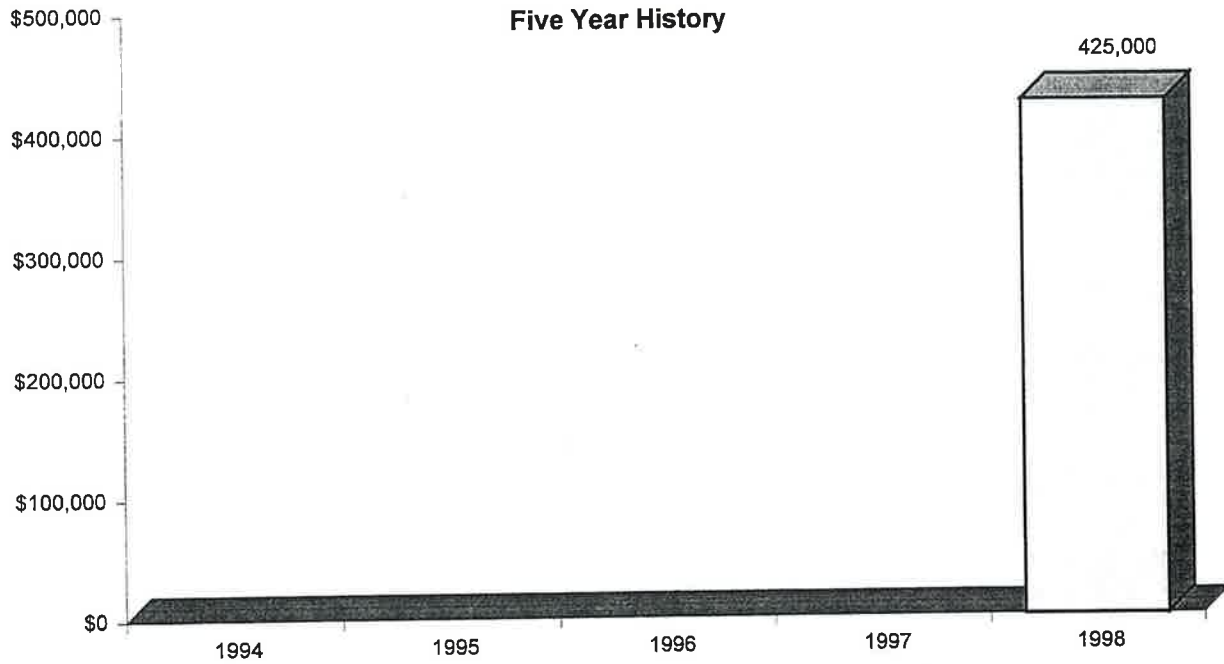
Account:	001-000-39290
Description:	Transfer made from Golf Fund to support City recreation programs.
Legal Authorization:	Approved by San Clemente City Council February 1997 as part of the Long Term Financial Plan.
Received From:	Golf Fund
Received By:	General Fund
Receipt Timing:	Transfers are made in 12 equal monthly installments.
Fee Schedule:	\$425,000 per year.
Use of Revenue:	Designated to support City recreation programs.

Overview

Revenue is transferred from the Golf Fund to the General Fund to help maintain and support City recreation programs. Prior to 1997, the only direct golf course contribution to the general fund was an "in-lieu" (in-lieu of paying property taxes) fee. In February of 1997, the City Council voted to transfer funds to offset the negative impacts of proposition 218. The City's Golf Course is currently operated as an "enterprise" fund, separate from the General Fund. However, all other City recreation programs are funded from the General Fund.

Transfer From Golf Fund

001-000-39260



Street Improvement Program

Objective

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

Background

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

Even though almost half the streets included in the Street Improvement Program were originally scheduled to be rehabilitated in the first five years, the City has accelerated the program. Bonds were sold in the second year, versus the originally planned third year of the program and this has allowed ten projects to be constructed one to two years earlier than originally scheduled.

Program Status

Since the approval of the program in July, 1995, thirty-seven (37) street projects have been completed and an additional fifteen (15) will be constructed during FY 1997-98.

Completed projects (totaling 13.17 miles):

1. Via Cascadita from Via Socorro to Camino Capistrano.
 2. Avenida Presidio (Phase I) from the San Clemente High School boundary to Calle Miguel, including one block of Calle Miguel.
 3. Avenida Presidio (Phase II) from Calle Miguel to Calle Esperanza. The City utilized rubberized asphalt for the first time when paving the street.
 4. Calle Real from the City limits to Via Del Campo.
 5. Calle Bienvenido from the City limits to Via Del Campo.
 6. Avenida Cabrillo from El Camino Real to Calle Seville.
 7. Avenida Valencia (Phase I) from Ola Vista to Calle Toledo. The project also included the rehabilitation of the landscaped median. Median improvements were funded from the Lighting and Landscape District capital budget.
 8. Avenida Valencia (Phase II) from Ola Vista to Calle Toledo. The project also included the rehabilitation of the landscaped median utilizing the same revenue sources.
 9. Calle Toledo from Esplanade to Avenida Valencia. The project also included major storm drain improvements.
 10. Avenida Santa Barbara from Calle Seville to Ola Vista. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
-

Long Term Financial Plan

11. Avenida Buena Vista (Phase I) from the southern cul-de-sac to Avenida Pelayo. The project consisted of complete reconstruction of the pavement and the installation of a new water line and major storm drain improvements.
12. Avenida Buena Vista (Phase II) from Avenida Pelayo to the northern cul-de-sac. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
13. Avenida Del Poniente from Calle Oso to Avenida Buena Vista.
14. Dije Court from Avenida Buena Vista to cul-de-sac.
15. Calle Frontera from Avenida Pico to Avenida Vista Hermosa.
16. Via Alegre from Via Montego to cul-de-sac.
17. Via Montego from Via Cascadita to Vista Torito.
18. Vista Torito from Avenida Vaquero to Via Montezuma.
19. Avenida Salvador from Avenida Presidio to Malaguena.
20. Avenida Palizada from El Camino Real to Seville.
21. Calle Seville from Avenida Palizada to Avenida Victoria.
22. Loma Lane from Avenida Palizada to Avenida Palizada. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
23. Calle Del Comercio from El Camino Real to San Luis Rey. In addition to the reconstruction of the pavement, the project included storm drain improvements.
24. West Avenida Canada from Del Poniente to Buena Vista.
25. Via Escalones from El Camino Real to West Canada.
26. Calle Miguel from Avenida Presidio to Avenida Presidio
27. Calle Nina from Calle de Soto to cul-de-sac
28. Via Socorro from Camino San Clemente to Via Ballena
29. Via Ballena from Via Cascadita to Via Socorro. The project consisted of complete reconstruction of the pavement.
30. Via San Andreas from Via Cascadita to Via Ballena. The project consisted of complete reconstruction of the pavement.
31. East Avenida San Juan from El Camino Real to Avenida Salvador. In addition to the complete reconstruction of the pavement, the project included major sewer and storm drain improvements.
32. Avenida de la Estrella (Phase I) from Avenida Palizada to El Portal.
33. Avenida de la Estrella (Phase II) from El Portal to Calle de Los Molinos
34. Calle Redondel. This project consists of complete reconstruction of the pavement.
35. Avenida Monterey (Phase I) from Avenida Victoria to Avenida Madrid. The project includes new sidewalks on one side of the street.
36. Avenida Monterey (Phase II) from Avenida Madrid to Algodon.
37. Avenida Monterey (Phase III) from Algodon to Avenida Rosa.

Still to be constructed during FY 1997-98 (totaling 4.98 miles):

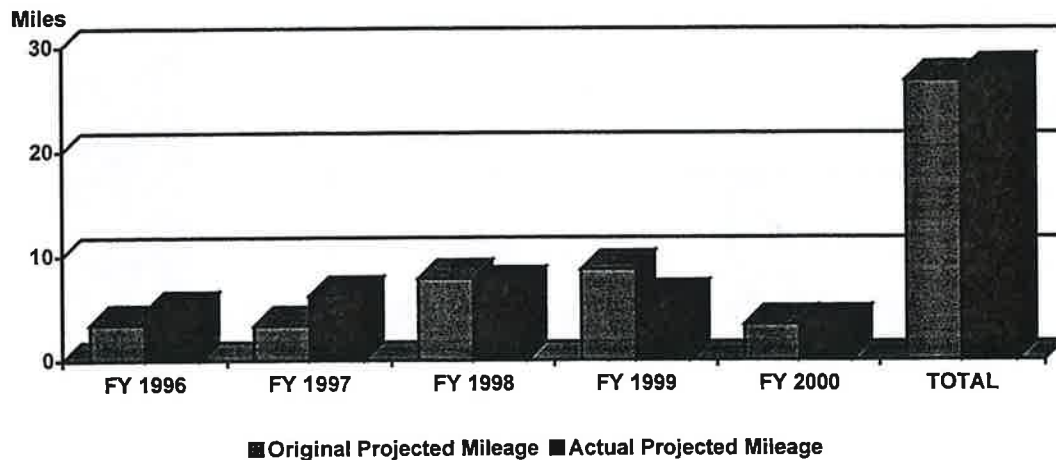
These projects are in the final stages of design and/or in the construction bidding process. It is anticipated that the construction of these street projects will start in the Spring of 1998:

Street Improvement Program

1. Barcelona
2. Esplanade
3. Calle Conchita
4. W. Avenida Cornelio
5. Avenida Granada - Phase I
6. Avenida Granada - Phase II
7. Avenida de la Grulla
8. N. La Esperanza
9. Avenida Caballeros
10. El Levante
11. Pizarro
12. E. Avenida Magdalena
13. Avenida Santa Margarita
14. W. Avenida Allessandro
15. W. Avenida San Antonio

Design Stage:

The design of 26 street projects will be starting during the third quarter of FY 1997-98. The designs should be completed prior to the end of the fiscal year. Construction of these projects will start at various periods during FY 1998-99.



Funding

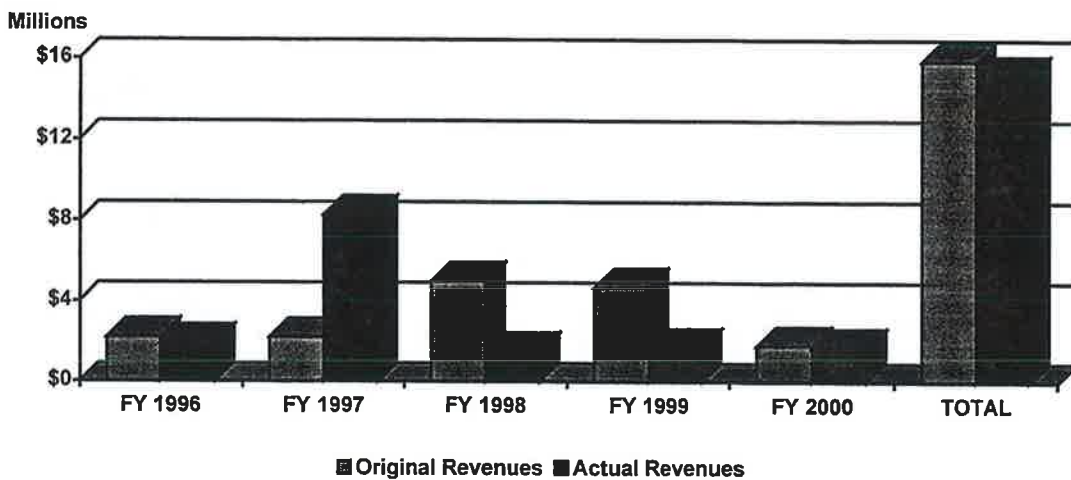
The Street Improvement Program is funded from the City's General Fund, the Gas Tax Fund, and the newly adopted City-wide Street Improvement Assessment District. Approximately 60 miles of streets are to be resurfaced or reconstructed over an 18 year period at an estimated cost of \$43.1 million. An annual inflation factor of 3% was used to project the program's revenues and expenditures.

Long Term Financial Plan

Short Term - The Street Improvement 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 the original budget.

Engineering Division staff have been successful in applying for and receiving State Local Transportation Partnership Program (SLTPP) grants for eligible street projects. The grant amounts awarded have varied from 5% to 20% of the construction award costs. The City has received approximately \$300,000 in SLTPP funds for certain completed projects. Additional grant funds in the amount of \$700,000 are anticipated to be received over the next two years.

On the other hand, the actual annual revenue of about \$1.325 million from the Street Improvement Assessment District is about \$175,000 per year or 12% less than the \$1.5 million per year which was originally projected. This is due to an adjustment of about \$100,000 per year to private golf courses, plus adjustments to various parcels based upon refined information from the Tax Assessor's office. Over the next 15 years, this means the District's revenue in constant dollars will be approximately \$3.15 million less than originally projected. This is equivalent to about seven (7) miles of street overlay projects. Additionally, some of the streets are failing at a rate faster than staff had predicted, so they will have to be reconstructed rather than overlaid. Street reconstruction costs are approximately twice those of overlay projects.



Note: The above revenues do not reflect the SLTPP grant.

Long Term: A long term financial forecast of the Street Improvement Program is difficult to predict. There are several revenue sources being utilized to fund the Street Improvement Program. The City does not have complete control of outside funding sources, but does have a stable and known funding amount from the Street Assessment District. When the Street Improvement Program was originally presented, staff estimated a reasonable revenue and expenditure forecast based on current conditions. A 3% annual inflation rate was used for both revenues and expenditures. Recently, Arterial Highway Financing Program (AHFP) street

Street Improvement Program

rehabilitation grant funding for arterial streets was lost because of the Orange County bankruptcy. Staff had anticipated that this funding source was stable and would continue to fund a portion of the City's arterial street rehabilitation projects.

Major sources of the Gas Tax Fund are 2106 State Gas Tax Funds, Measure M Turnback, and Proposition 111. The total annual Gas Tax fund revenues are approximately \$800,000 as follows:

2106 Gas Tax	\$175,000
Proposition 111	\$275,000
Measure M	<u>\$350,000</u>
Total	\$800,000

Measure M is a 20-year sales tax program that was approved in 1990 and is scheduled to sunset in year 2010. If a new tax measure is not approved at that time to replace Measure M, the City will lose about \$350,000 (current dollars) annually in revenues. In addition, the Street Improvement Program Assessment District sunsets in 18 years (FY 2013-14). The City will have to identify a continuing source of revenue in the future if it is to maintain its street quality standards.

The Street Improvement Program Financing Plan included contributions from the General Fund and the Gas Tax Fund, in addition to the assessment. The table below shows the contributions from the various funds over the next five years.

Program Year	Fiscal Year	General Fund Contribution	Gas Tax/Measure M Contribution
1	1995/96	\$700,000	-0-
2	1996/97	\$300,000	\$400,000
3	1997/98	\$309,000	\$412,000
4	1998/99	\$500,000	\$424,360
5	1999/2000	\$515,000	\$437,091
6	2000/2001	\$530,450	\$450,204
7	2001/2002	\$546,364	\$463,710

- The contributions are escalated at 3% annually.

Long Term Financial Plan

General Fund Contribution

Over the Street Improvement Program's life, it was projected that the General Fund contribution would increase at a 3% per year inflation rate. The City Council, however, added a fiscal policy to the FY1995-96 budget which states:

“The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).”

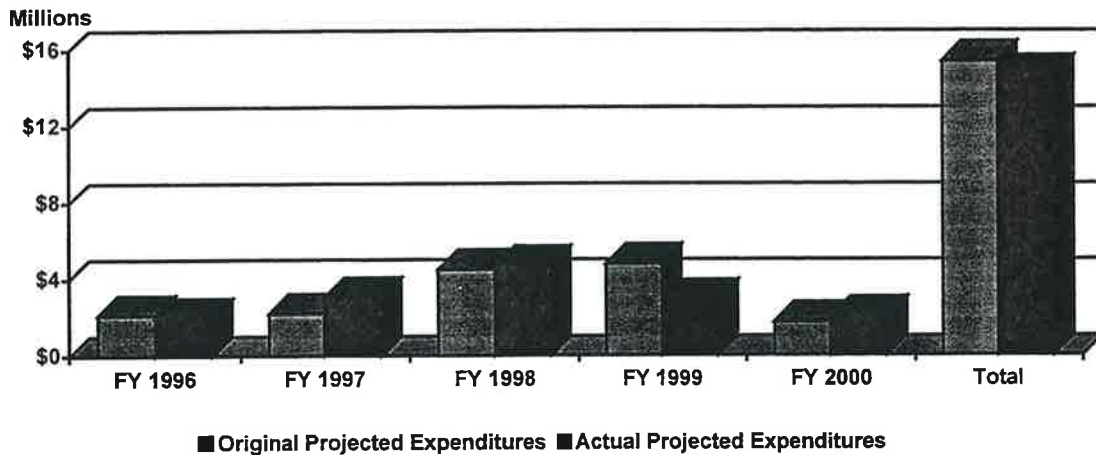
The County's bankruptcy, the impact of Proposition 218 on the City's General Fund, and the Measure M sunset combine to create substantial obstacles to achieving the Council's stated goal.

Expenditures

Overall, the completed street projects are about 5% to 10% under the original budget. As for the long term expenditure side, it is extremely difficult to project the actual costs of street improvement projects beyond three or four years. There are many uncertainties including:

1. Projecting remaining pavement life is not an exact science. It is difficult to project the condition of a street more than two to four years out. Drought conditions help lengthen pavement life. Wet winters and heavy traffic shorten pavement life.
2. Complete reconstruction is approximately twice as expensive as an asphalt overlay. If more miles of total reconstruction are needed than were projected, costs will increase. As seen in the past, the heavy trucks supplying one construction project on a street scheduled for an overlay can destroy the street, thereby doubling the repair cost. Adjacent streets are occasionally impacted as well.
3. Inflationary pressures have not yet been a factor. A 3% annual inflation rate was built into the Street Improvement Program.

Street Improvement Program



STREET MAINTENANCE PROGRAM

During FY 1996-97, the Maintenance Services Division's Street Maintenance and Repair Program provided major maintenance to numerous streets throughout the City that were either not scheduled for improvement/rehabilitation or were not scheduled for several years. This major maintenance provided was in the form of a thin 1" overlay of the entire street, large removal and replacement work or "skin" patches (1/4" to 3/4" thick overlays) to various areas of chosen streets. A total of eleven streets received complete 1" overlays and another nine streets were repaired by performing removal and replacement work or providing "skin" patch repairs.

Streets receiving 1" overlays were:

1. Via Lado: Montego to Alegre
2. Mendoza: Presidio to cul-de-sac
3. Los Molinos: Pico to Navarro
4. Navarro: Pico to Los Molinos
5. Pico: ECR to Boca De La Playa
6. Cortez: Presidio to San Carlos
7. Balboa: Cortez to cul-de-sac
8. De Anza: San Carlos to Presidio
9. Sonora: Presidio to San Carlos to cul-de-sac
10. Lago: ECR to cul-de-sac
11. La Rambla: Cristobal to Esplanade

Streets receiving major removal and replacement or skin patch work were:

1. Patero De Oro: El Levante to La Cuesta
2. De La Paz: El Oriente to Caballeros
3. Puente: Escalones to Palizada
4. La Rambla: Cristobal to cul-de-sac
5. Serena: Los Alamos to Lobos Marinos

Long Term Financial Plan

6. Corbina: Vista Torito to cul-de-sac
7. Vista Marina: Esplanade to Paseo de Cristobal
8. San Jacinto: Vista Torito to San Gorgonio
9. Teresa: Columbo to cul-de-sac

In November 1996, Proposition 218 was approved on the State ballot and the ensuing fiscal impacts to counties and cities was dramatic. Since the Maintenance Services Division is the largest user of the General Fund within the Public Works Department, it's budget had to be reduced to help balance the upcoming FY 1997-98 budget. As a result of funding reductions, a total of seven supervisory and operations personnel positions were cut from the Division along with \$95,000 in Street Materials supply funding, resulting in the elimination of the Major Street Maintenance Program. Repair of the Utilities Division's street cuts (caused with the repair of their utilities) was also transferred back to Utilities and is now contracted out. The efforts of the Street Maintenance and Repair Program are now focused on providing the patching/repair of dangerous potholes and providing small removal and replacement and skin patching repairs to the City's streets requiring them. With the ongoing progress of the City's Street Improvement Program, the reduced Street Maintenance and Repair Program will hopefully be able to meet the street maintenance needs of the City as the improvement program continues. However, the City needs to identify funding to provide thin overlays to various streets that were either not scheduled for improvement/rehabilitation or were not scheduled for several years.

Conclusion

In summary, the Street Improvement Program is ahead of the originally approved schedule. Thirty-seven street projects are complete and another fifteen are scheduled for construction in this fiscal year.

The City will continue to monitor annual revenues and expenditures of the Street Improvement Program. It appears that the program's goals can be met in the foreseeable future. If the current trends continue, the collector and neighborhood street rehabilitation program should be adequately funded and remain on schedule.

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

Recommendations

Staff recommends that the City Council:

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.

Street Improvement Program

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

Objective

To update 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.

Summary

As part of the 1997 Long Term Financial Plan the City Council adopted a "*Computer Strategic Plan*". This plan included the replacement of the financial and permitting systems in addition to updating and streamlining the City's computer system. To finance this project a \$90,000 annual lease approved by the City Council in FY 1997-98 budget.

The purpose of this report is to review the current status of the Computer Strategic Plan, detail the steps to be taken in FY 1998-99 and update the Five Year Forecast. Particular attention will be focused on the costs associated with the transition to the new financial and permitting systems.

Background

The Computer Strategic Plan was incorporated into the Long Term Financial Plan to ensure that computer automation is integrated into the City's long term planning process. In FY 1996-97 the City contracted to have a Computer Strategic Plan developed by an outside firm. This process resulted in the Council adopting and funding a Computer Strategic Plan as part of the 1997 Long Term Financial Plan. This plan addresses a number of key issues:

1. Install and implement financial and permitting systems

In December 1997 the City awarded Eden systems a contract to provide financial and permitting computer applications for the City. These systems will be installed and implemented in FY 1998-99. The implementation will begin in February 1998 and continue throughout the year. The target is to have all the new financial programs operational by July 1, 1998.

During the Fall of 1998 Community Development will determine if Eden Systems new permitting applications are appropriate for the City by reviewing nearby installations (Irvine). It is expected that the conversion and implementation of the Eden's permitting system will be completed in the Fall and Winter of 1998.

Fiscal Impact

The initial cost of implementing the Eden system was included in the Strategic Plan Lease approved in FY 1997-98 budget.

Long Term Financial Plan

2. *Replace the City's Complaint Tracking (STAT) and Project Tracking Systems(QUEST)*

The City makes extensive use of its an in-house developed Complaint Tracking (STAT) and Project Tracking (QUEST) Computer Programs. These programs must be replaced with applications designed to run on the new computer system. As part of the Strategic Plan, *Kerry Consulting* estimated the cost for City Wide Complaint Tracking to be \$50,000 and Project Tracking to be \$10,000 plus 10% of the total cost for annual support fees. The City reviewed a number of packages that confirmed these costs.

Due to the high costs of purchasing and supporting these applications Information Systems has chosen to develop the programs in house. The staff writing these applications are Microsoft Certified Programmers and the programs are being developed to professional standards. The replacement Complaint Tracking Program has been completed and will go into testing in March of 1998. The Project Tracking Program will be completed by July 1st 1998.

There should be no cost to the City other than staff time. This represents an initial savings of \$60,000 and an ongoing savings of \$6,000 a year in support costs.

3. *Replace outdated personal computers by continuing the current PC upgrade program*

This program ensures that the City's PC's will be able to run industry standard software by upgrading about 30% of the computers every 2 years. This could range from 25 to 30 PC's in FY 1998-99. The initial lease for the PC replacement program will be retired during FY 1998-99. A new lease agreement, not to exceed the previous one, will be acquired to fund the replacement computers.

There should be no additional impact on the Information Systems Budget since the current lease is already budgeted and will replace the new lease.

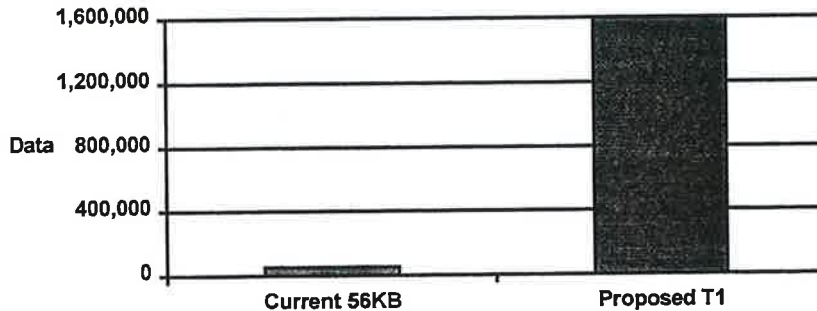
4. *Update the existing data communications hardware*

The City's installed ARCNet computer cabling to connect its original PC's in 1984. ARCNet was a excellent low cost solution popular at that time. Within the last five years the industry has phased out ARCNet and replaced it with a much faster system called Ethernet. To replace its old computer system the City has to upgrade to Ethernet. This was completed during FY 1997-98. The next step is to update the data communications between the Cities major facilities facilities. Currently nine 56KB data lines are leased from the phone company.

Computer Action Plan

T1 data lines between buildings

One alternative is to replace the current nine 56KB data lines with five T1 lines that have much higher capacity (“bandwidth”). By increasing bandwidth the City can decrease the total number of lines that need to be leased from the phone company. Note in the following chart how much more data a T1 line can carry vs a 56KB line.



Normally T1 lines are very expensive but the City can take part in a State program that offers Cities T1 lines at nearly the same rate as 56KB lines. This can be offset by eliminating at least four of the current 56KB lines. Following is a table that identifies the costs and savings involved:

Item	Quantity	Monthly	Totals
Current Charges			
56KB lines	9	100	
9.6KB lines	5	84.80	
Total Per Month			\$1,324.00
Proposed			
T1 lines	5	180	
Total Per Month			\$900.00
Savings Per Month			\$424.00

The T1 lines require a one time installation cost of \$1,500 per line for a total of \$7,500. This will be included as a decision package in the FY 1998-99 budget.

Ideally, the City would like to transition immediately from 56KB lines to T1 but this is not possible. There will be a one time additional cost of about \$4,000 to pay for both sets of lines during the transition period. This too will be included in the FY 1998-99 budget as a decision package.

Fiber Optic data lines provided by Cox Cable

Another alternative is to have Cox cable provide fiber optic connections between facilities as part of their franchise agreement. Fiber optic is extremely fast and the City would not have

Long Term Financial Plan

to pay monthly rental charges for their data lines. Unfortunately, recent legislation allows Cox to pass the cost of providing this service on to their customers and identify this cost on their bills as a City generated cost. To address this issue, the City is in discussions with Cox to determine if the fiber optic lines can be included as part of a larger contract for all voice, video and data services. One of the obstacles to this plan is the City's current long term contracts for telephone services with Pacific Bell.

The Strategic Plan calls for facilities outside of City Hall to begin using the new financial system in the Fall/Winter of 1998. Therefore the inter facility data communications project must be completed by then. Since it is more likely that the City will have to use T1 lines to connect their facilities those numbers are reflected in this report and the budget. If the City can negotiate a better contract with Cox the budget will all be revised accordingly.

Routers

Providing a "wire" to move data from building to building does not provide for data communications. The data must be "routed" out of each building then packaged to move over the wire to the correct destination building. Then it must be routed to the correct computer in the remote building. Currently the City uses Banyan Vines PC "file servers" to provide this function. Using the PC file servers to route data was an excellent low cost solution in the 1980's but with the advent of "Windows" and the installation of the new UNIX computer system the City will need to use industry standard "routers"

A router is a device that allows data to move between computers. As it's name implies a router "routes" packets of data from a host computer to a remote computer. A router will be required in each building (5 total) so packets of data can be "routed" between the buildings.

When purchasing routers it's important to keep in mind that the "wire" used between the routers will change. The City may initially use T1 lines but Cox may provide the City with fiber or another franchisee may provide the City with "wireless" connectivity. In any case the City does not want to throw out the routers to use the new "wire".

Information Systems has developed a plan using routers having "plug in" options for different types of "wire". This provides for a clear upgrade path in the future without losing the current investment. The cost for the routers is detailed in the following table:

Item	Quantity	Cost
Cisco 3600: City Hall	1	\$6,860
Cisco 2524: Off sites	4	\$11,480
Software and Support*	1	\$2,611
Totals (estimate)		\$20,951

Computer Action Plan

The cost for these routers was included in the current lease and therefore have no additional impact on Information Systems budget.

5. *Implement a GIS map of the City*

The City has been systematically implementing a GIS mapping program with one full-time person assigned to the program. With just a single person in GIS it is impossible for him to draw a complete City base map. The recommendation in the Strategic Plan was to purchase a complete, annually updated base map. Thomas Brothers Maps provides base maps through a sublicense with Digital Map Products. Following are the costs associated with purchasing a base map. Note that the \$15,485 is an ongoing yearly license costs.

Map Products	Quantity	Cost	Totals
Right of Ways and Parcels	1 Year License Fee		
Digital Database	not purchased		
Property Records	not purchased		
Raster Tax Maps	not purchased		
Digital Orthophotography	1 Year License Fee		
Map Annual Total		\$15,485	
AutoCAD DXF	1 License	\$2,500	
Total Map Products			\$17,985

The initial cost for these items were included in the lease for the new computer system. The new maps should be purchased and installed by March 1, 1998. By July 1st, 1998 staff should be able to pull up the new map from selected computers and use it for research and development. As soon as the new map is integrated into operations Information Systems will begin the process of adding layers such as zoning, utilities and traffic.

6. *Implement an Internet Strategic Plan*

Currently the City maintains an Internet “home page” with links to over 100 pages such as schedules, forms and reports. The server that holds the City’s Internet Site is provided by SCAG (Southern California Association of Governments) at no cost to the City.

In the future, the City would like to provide the public with E-Mail access to it’s employees and public access to the City’s data such as Permits and Utility Billing. Additionally City staff would like the ability to use Internet for research and communication. To do this the City would have to install and configure it’s on Internet Server.

The Strategic Plan calls for the installation of streamlined Windows NT “intranet” during FY 1998-99. This will be funded using savings from support costs of the current Banyan

Long Term Financial Plan

network. This will provide for a relatively inexpensive upgrade path to full internet access in FY 1999-2000.

There are no requests for additional funding for the City's Internet Project for FY 1998-99.

Implementation and Timing

Updated Two Year Action Plan and Five Year Forecast

The success of the City's Information Systems can be based upon a clear long term plan that is updated by staff and approved by Council. The Two Year Action Plan is a working document that is used to project workplans and costs. It allows staff to plan on specific projects be completed at specific times so they can allocated their resources appropriately. On the other hand the Five Year Forecast (Years 3, 4 and 5) is an attempt to predict the direction Information Systems will need to go to stay in step with ongoing technology and meet the needs of the community.

Attached you will find a combination Two Year Action Plan and Five Year Forecast.

Computer Action Plan

Financial Impacts

One of the purposes of the Long Term Financial Plan is to identify potential cost increases an number of years ahead. Staff has budgeted for the initial first year costs of purchasing and supporting the new systems but there will be an additional impact on the budget in future years. With the addition of new features also comes the addition of additional support fees. This table represents what is projected for the FY1999-2000 budget.

Comparison of Support/License Costs:

Support Provider	For	Cost	Totals
Current: to be retired			
Creative Computer Solutions	Old financial software	\$11,000	
General Automation	Old financial computer	\$13,229	
Gandalf Systems	Data Communications	\$2,649	
Total Current Annual Costs			\$26,878
Proposed:			
Eden Systems & Informix/HP	Financial and permitting software	\$25,000	
Quadrant Systems	Cash Registers	\$1,500	
Cisco	Routers	\$10,278	
Digital Map Products	GIS Base Map	\$15,485	
Total Projected Annual Costs			\$52,263
Increase in Support Costs			\$25,385

This increase in support fees is to be expected. Just like purchasing a new car usually means higher costs for insurance, taxes and repairs likewise the purchase of new routers, software and maps means additional support fees.

By contrast Information Systems is not budgeting any support fees for it's Windows NT network. Normally this would be a \$20,000 a year item but City staff have already been trained and Certified by Microsoft as Certified System Engineers (MCSE). Staff is making every effort to contain the costs of computer ownership.

Long Term Financial Plan

Recommendation

1. Approved the attached updated Computer Strategic Plan in concept

Fiscal Impact

Information Systems will be submitting an \$11,000 decision package in the 1998-99 budget to covert the City's data lines to T1 lines. This should result in a long term savings of nearly \$6,000 a year once the old lines are removed.

In future years (FY 1999-200+) there will be an increase of about \$25,000 in support fees.

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Computer Strategic Plan 2 Year Action Plan 5 Year Forecast

Project / Tasks	1998			1999			2000			2001			2002			2003				
	Jan	Apr	Jul	Dec	Jan	Apr	Jul	Dec	Jan	Apr	Jul	Dec	Jan	Apr	Jul	Dec	Jan	Apr	Jul	Dec
Update data communications hardware																				
Complete Installation of Switches	X																			
Upgrade all computers to Win95	X																			
Install T1 lines		X																		
Install new routers		X																		
Investigate Alternatives to T1 Lines				X																
Network OS Upgrade (Win NT)																				
ID IP #'s, Names, Services, Backup		X																		
Map dir structure		X																		
Purchase Servers		X																		
Purchase / Install Software		X																		
Beta test full network		X	X																	
Install Client software, go live		X	X																	
Bring down Banyan NOS		X																		
Install Backup Server at CH		X																		
Upgrade MSOffice				X																
Upgrade Desktop OS				X																
Upgrade to NT5					X		X													
GIS Mapping																				
Purchase base map	X																			
Prepare base map for staff		X																		
Train staff in map usage		X	X																	
Link to static data		X	X																	
Link to live data over local net					X															
Utilites Layer(s)		X	X		X	X	X	X												
Drainage Layer								X	X	X	X									
Zoning Layer								X	X	X										
Traffic Layer								X				X	X	X	X					

Organizational Study

Objective

To perform a comprehensive operational review of all City departments. The review will include an examination of City organizational structure including appropriateness of functional divisions of labor, reporting relationships, span of control, management systems and effectiveness. This project will update the management review conducted in 1991 by Hughes Heiss & Associates.

Background

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.

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.

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 Council selected Mayor Jim Dahl and Councilmember Joe Anderson to serve on the committee. The ad-hoc committee will provide assurance to the full Council that the organizational study is completed in an objective and independent manner. 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. Firms responding included:

- Management Partners
 - Field Works
 - LB. Hayhurst & Associates
 - Charles Abbott & Associates
-

Long Term Financial Plan

- The Warner Group
- Rosenow Spavenick
- The Mercer Group
- Ralph Anderson & Associates
- Arroyo & Associates
- KPMG
- DMG

The ad-hoc committee, on February 9, 1998, selected the following firms for interviews on February 20, 1998:

- The Mercer Group
- Ralph Anderson & Associates
- Arroyo & Associates
- KPMG
- DMG

The project manager for the project will be Paul Gudgeirsson, Director, Finance & Administrative Services. The project manager will staff the ad-hoc committee, act as liaison between the committee and the consultant, and provide information to the consultant as needed. Additionally, the Project Manager will provide the necessary resources to the consultant, and monitor the project schedule in order to ensure that the project is on-track and within budget.

Attached is a copy of the Request for Proposal which contains more detailed information about the project.

Organizational Study

City Of San Clemente

*Request For Proposals
Organizational Study
January 7, 1998*

Prospective Bidders:

The City of San Clemente (City) is interested in receiving proposals for the conduct of an Organizational Study as described in detail in the attached Request for Proposals (RFP).

Schedule of Events from Issuance of the RFP to Award of Contract:

January 8, 1998	City issues RFP
January 29, 1998	Proposals due
February 7, 1998	Proposal evaluation completed
February 20, 1998	Interview of finalists (if necessary)
February 23-25, 1998	Contract negotiation
March 4, 1998	Approval of contract and authorization to proceed

City Point of Contact:

The sole source of contact regarding this RFP is Paul Gudgeirsson, Director, Finance & Administrative Services, (714) 361-8341 (e-mail address: fas@pacbell.net). Individuals or firms interested in submitting a proposal are asked not to contact other members of the City of San Clemente staff or Councilmembers in connection with the RFP prior to the announcement of the consultant selected.

Proposals and all written inquires related to this RFP are to be submitted confidentially to Paul Gudgeirsson, the City's Project Manager, at the following address:

*Paul Gudgeirsson, Director, Finance & Administrative Services
City of San Clemente
100 Avenida Presidio
San Clemente, CA 92672*

Proposal Closing Date: January 29, 1998

Eight (8) copies of each bidder's proposal must be received by the City not later than 5:00 p.m., January 29, 1998. All proposals must be delivered or mailed to the above address.

Long Term Financial Plan

Proposals will become part of the official files of the City of San Clemente and cannot be returned.

Sincerely,

Paul Gudgeirsson
Director, Finance & Administrative Services

Organizational Study

City Of San Clemente
Request For Proposal
Organizational study

BACKGROUND INFORMATION AND SCOPE OF WORK

Background about the City and the project, as well as information about the Scope of Work to be undertaken are discussed in this section of the RFP.

A. INTRODUCTION

The City of San Clemente is seeking professional services proposals from qualified consultant firms to provide an organizational analysis and structural study. This request for proposal arises out of the City's desire to have an independent review of its current operating structure.

An organizational study was last completed in 1991. The majority of recommendations were adopted and implemented. However, due to fiscal constraints, significant organizational adjustments have taken place. In fact, the City has reduced its workforce by 55% as well as contracted out several key municipal service functions including Police, Fire, fleet maintenance and beach & park maintenance.

B. BACKGROUND

The City of San Clemente is a full service, general law City which was incorporated in 1928. San Clemente is located on the coast midway between San Diego and Los Angeles. The current population is 47,300, contained in 17.1 square miles, with an assessed valuation of \$3,878,473,502.

The total budget for all City funds in FY 1997-98 amounts to \$99.6 million (including fund balances) and the General Fund budget is \$21.7 million. It should be noted that the City's General Fund budget of \$21.7 million is actually \$700,000 less than what the budget was in FY 1990-91 even though Lighting & Landscape Fund expenditures totaling \$1.8 million were transferred to the General Fund in the current fiscal year.

Long Term Financial Plan

Combination Fixed Meter Charge and Fixed Consumption Fee

The option of a combination of a fixed meter charge and a fixed consumption fee can be structured in two ways. The fixed meter charge can vary with the size of meter such as in our current rate structure, or can be established as one fee for all sizes of meters. This question may be decided if Proposition 218 rules in favor of a single fee. In analyzing the impacts of this option, staff calculated the loss in revenue that would occur if all meter charges were based on the current base meter charge of \$6.16. Those calculations are shown in Table 4. In order to recover this potential loss of revenue, it would be necessary to raise the base fixed meter charge from the current \$6.16 for a 1-inch meter to \$6.68.

Meter Size (Inches)	Number Of Meters	Percent Of Total Meters	Annual Revenue	Revenue Loss(1)
1 (and less)	13,837	93.12%	\$1,022,831	\$0
1-1/2	300	2.02%	\$28,584	(\$6,408)
2	674	4.54%	\$104,740	(\$54,918)
2-1/2	0	0.00%	\$0	\$0
3	23	0.15%	\$13,369	(\$11,669)
4	18	0.12%	\$13,306	(\$11,975)
5	0	0.00%	\$0	\$0
6	8	0.05%	\$8,870	(\$8,279)
Total	<u>14,860</u>	<u>100.00%</u>	<u>\$1,191,700</u>	<u>(\$93,249)</u>

(1) Revenue Loss is that revenue lost if the fixed fee was \$6.16 for all meters
Amount of increase required to recover loss = \$0.52 per month for total fixed fee of \$6.68

In reviewing this option, staff revisited the distribution of budgeted operating cost between the fixed meter charge and the consumption charge. Traditionally, those costs which do not vary with the amount of water delivered are assigned to the fixed meter charge, while those costs that vary directly with the amount of water delivered are assigned to the consumption fee.

The consumption fee was calculated on the basis of projected water deliveries and the variable portion of the operating budget. Based on a projected water delivery of approximately 4,175,000 billing units of water and the variable costs portion of the operating budget of \$5,622,440, the required consumption fee would be \$1.35 per billing unit for all classes of use. This represents a reduction of \$0.34 per billing unit from our current average charge per billing unit of \$1.69, a reduction of 20.3%.

This scenario raises the fixed meter fee significantly to cover the costs of the fixed portion of the budget which is currently supported by the tiered rate structure. If we retain the current practice of

Water Rate Structure Analysis

charging more for the larger meters, it would be necessary to increase the fixed meter charges from a low of \$6.16 for a 1-inch meter and a high of \$92.40 for a 6-inch meter to a low of \$16.09 for a 1-inch meter and a high of \$241.37 for a 6-inch meter. This represents an increase of 161%. If it were necessary, because of Proposition 218, to charge a single fixed meter charge for all sizes of meters, it would be necessary to have a fixed meter fee of \$17.46 to cover the fixed portion of the operating budget.

This option has the advantage of providing a stable revenue program sufficient to cover the fixed budget costs regardless of the amount of water delivered. This is especially important in drought years, which are common to Southern California. Additionally, this scenario reduces the costs to the larger users such as irrigation accounts. The disadvantage of this scenario is, because of the lower costs of water and the single fee, it does nothing to encourage water conservation, which is considered in the industry as our most economical source of additional water for the future.

Fixed Consumption Fee Only

The structure of the fixed consumption fee only scenario is similar to the combination fixed meter fee and fixed consumption fee scenario discussed above. In this scenario, all operating budget costs are shifted to the consumption fee. There is no monthly fixed meter fee. Water bills are based strictly on the amount of water consumed by a customer. This “postage stamp” approach to water fees is the favored approach of staunch advocates of Proposition 218. You pay for what you use and only what you use.

Based on this approach, it would be necessary to recover a projected \$8,735,380 from a projected delivery of approximately 4,175,000 billing units of water. This results in a consumption fee of \$2.10 per billing unit, or an increase of 23.8% over the existing average fee of \$1.69 per billing unit.

While this scenario does have some effect of encouraging conservation through the high cost of water, it fails to provide a stable revenue source during drought years when conservation and water cut-backs are necessary. In the event of mandated water conservation or cutbacks, as experienced in the early 1990’s, it would be necessary to increase rates to provide sufficient operating funds to meet fixed costs. Additionally, all classes of users, except multi-family residential users, will experience significant monthly water bill increases ranging from 10% for the average irrigation account to 54% for the average single family residential 14,000+ sq. ft. account. The largest user group, single family residential 0 - 7,000 sq. ft., which represents 35% of the City’s customers will experience an increase of 11% or approximately \$3.15 per month for the average user. Multi-family residential accounts will see a decrease of 24% or \$11.71 per month for the average user.

Recommendation

Staff recommends the City Council take no action on this matter 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 would be staff’s recommendation to remain with the current rate structure, with possibly some modifications to the distribution of fixed

Long Term Financial Plan

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, staff recommends the following rate structures (in order), depending on the outcome of Proposition 218.

- Combination of fixed meter fee and fixed consumption fee - with varying fixed meter fee 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

Fiscal Impact of Recommendation

Inasmuch as all scenarios are based on the full recovery of the Water Fund Operating Budget, there is no significant fiscal impact on the City. However, any change from the current rate structure will have a significant fiscal impact on the rate payers. Table 5 below outlines those impacts for each of the scenarios discussed above.

User Classification	Average Cons.	Existing	Combination Rate (6)			Consumption Fee Only		
			Proposed	Chng. From Existing	% Chng.	Proposed	Chng. From Existing	% Chng.
SFR 0 - 7,000 sq. ft.	15	\$28.24	\$36.29	\$8.05	28.5	\$31.39	\$3.15	11.2
SFR 7,000 - 9,000 sq. ft.	23	\$42.04	\$47.07	\$5.03	12.0	\$48.13	\$6.09	14.5
SFR 9,000 - 14,000 sq. ft.	27	\$48.25	\$52.46	\$4.21	8.7	\$56.50	\$8.25	17.1
SFR 14,000 + sq. ft.(2)	40	\$54.46	\$69.97	\$15.51	28.5	\$83.70	\$29.24	53.7
Multi-Family Residential (3)	18	\$49.38	\$44.98	(\$4.40)	(8.9)	\$37.67	(\$11.71)	(23.7)
Commercial (4)	44	\$80.52	\$75.35	(\$5.17)	(6.4)	\$92.07	\$11.55	14.3
Irrigation (5)	175	\$332.42	\$269.53	(\$62.89)	(18.9)	\$366.21	\$33.79	10.2

(1) Based on Summer 1997
 (2) 1-inch Water Meter & 10,000 sq. ft. of Irrigated Landscaping
 (3) 1-1/2-inch Water Meter
 (4) 1-inch Water Meter
 (5) 2-inch Water Meter & 1 Acre (43,560 sq. ft.) of Irrigated Landscaping
 (6) Assumes Varying Fixed Meter Fee Based On Meter Size

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.

Summary:

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.

Background

The following is a brief analysis 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: a policy tool - 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.

Topics - The General Plan is very comprehensive and includes the following topics or “elements”. There are 18 elements to the General Plan.

1. Land Use
2. Urban Design
3. Economic Development
4. Circulation
5. Scenic Highways
6. Utilities
7. Public Facilities and Services

Long Term Financial Plan

8. Parks and Recreation
9. Growth Management
10. Natural and Historic Cultural Resources
11. Energy Conservation
12. Geologic, Seismic, and Soil Hazards
13. Natural Hazards
14. Noise
15. Hazardous Material and Uses
16. Nuclear
17. Coastal Element
18. Housing Element

Each element of the General Plan has analysis which includes the opportunities and constraints. Next, an overview of policies is presented, followed by Goals and Objectives and detailed Policies that pertain to that element. Lastly, implementation programs are described which would implement the policies that are described in that element of the General Plan.

Updating the General Plan was a massive effort which required 2 ½ years of work. Many different community-wide and neighborhood workshops were held. The entire process was guided and reviewed by the General Plan Advisory Community (GPAC) which consisted of 25 members which represented many different viewpoints and geographic areas of the City. The General Plan is the definitive backbone document describing policies which govern growth and development in the City.

- Growth Management Element: a policy tool - The Growth Management Element of the General Plan is called out for special attention in this report because it is the result of both a citizen's initiative process and a separate and independent work effort of the Growth Management Committee appointed by the City Council in the late 1980's. The task of the Growth Management Committee and 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. The specific public facilities that are addressed in the growth management element of the General Plan are as follows:

1. Civic Center
2. Drainage/Flood Control
3. Fire/Emergency Medical Service
4. Library Services
5. Open-space requirements
6. Parks
7. Police
8. Schools

Current Development Issues

9. Sewer
10. Traffic
11. Water
12. Parking Standards

In each of these cases specific standards are established in order to ensure that quality of life is not degraded as a result of new development. Perhaps one of the best known standards are the traffic standards which require, in general, that level of service “D” for intersections during peak hours not be exceeded (paraphrase). A detailed listing of all the standards and implementation strategies is included in Chapter 9 of the General Plan to the City.

- **Traffic Model; a technical tool** - 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; a financing tool** - 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. The RCFPP was first adopted by the City in 1989 and has undergone three subsequent amendments. The most recent amendments have occurred in November of 1997. Amendments reflect new times and conditions and help ensure that the RCFPP mechanisms are relevant to conditions in today’s world. As traffic begins to approach service level standards established by the Growth Management Standards of the General Plan, improvements are planned and constructed using fees collected through the RCFPP. Sometime sufficient fees have not been collected in order to pay for the next increment of required infrastructure improvement. In those cases developers will front money in order to contract improvements when needed (a required policy). Then, RCFPP fees will be used to reimburse the developer as additional new development occurs.
- **Fiscal Impact Model; a technical tool** - 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. Examples of changing assumptions are when the State has taken back property taxes from the City’s and when Prop. 218 affected overall City financing. Other model assumptions which may change over time would be interest rates and inflation rate assumptions, etc. Finally, another variable which can change over time are underlying economic and market absorption assumptions which affect development of commercial tax base for the City. This model was most recently updated and approved by Council in December of 1997. In the review of the update of the model, the Planning Commission noted that some of the market absorption data was getting old and should, ideally, be updated. This recommendation from the Planning Commission was

Energy Deregulation

Objective

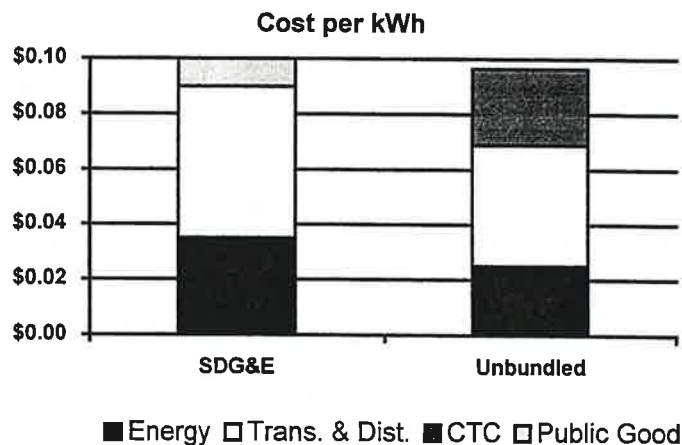
To analyze the restructuring of the electrical industry and its impact on the City of San Clemente as implemented by AB 1890.

Background

In September 1996 Governor Wilson signed Assembly Bill 1890 (Brulte) into law. This bill 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 their electricity from their existing provider or from an outside generator for a price negotiated between the seller and user.

Specifically, AB 1890 mandates an immediate rate reduction of no less than 10% for residential and small commercial users. This reduction became effective on January 1, 1998. The legislation also provides for a further rate reduction for residential and small commercial customers of an additional 10% by April 1, 2002, and another 10% reduction by January 1, 2008 for a total reduction of a 30% over the next ten years. Small commercial customers are defined as using less than 20 kilowatts of electricity per month.

The following chart and table provides an estimate of the former cost of one kilowatt hour of electricity provided by SDG&E compared to the projected cost of electricity in the new unbundled environment: (Please note that the CTC costs are only charged in the Unbundled segment while Public Good is only charged in the former SDG&E segment)



Based on the information provide by SDG&E it does not appear that an overall 10% reduction is realized as the total price per kilowatt hour is reduced from \$0.10 to \$0.0964 per kilowatt hour. This less then 10% reduction is due to the addition of the CTC charges, which represents 28% or \$0.0274 of the cost per kilowatt hour.

Long Term Financial Plan

The Competition Transitions Charge (CTC) allows investor owned utilities to recover their investment costs. This cost will be in effect until the investment cost is recovered or until March 31, 2002, whichever ever comes first. At the end of the transition period, the CTC will no longer be included in the rates and the electric rates are anticipated to decrease accordingly.

Implementation of portions of the deregulation program have been delayed until March 31, 1998. This delay does not affect the 10% rate reduction to residential and small commercial users, which were implemented on January 1, 1998.

An Independent System Operator (ISO) is being established to coordinate the overall function of the new electrical industry in California. This new non-profit organization is intended to ensure overall system reliability and provide all market participants non-discriminatory access to the transmission system, while maintaining transmission security.

In addition to the ISO, a Power Exchange (PX) is also being established. The PX's primary purpose is to serve as a commodities market where power producers will compete to sell the electricity they have generated.

The intent of both of these components of the restructuring is to guarantee that utility customers will be able to receive competitively priced electricity. The ISO and PX are scheduled to be operational by March 31, 1998. However, further delays in the implementation of these components is very possible.

History

Traditionally, the electric utility industry has been comprised of three "bundled" components: *generation*, *transmission*, and *distribution*. SDG&E held a near monopoly over all three components in their service area. AB 1890 creates a more competitive environment by unbundling the electric utility industry by separating the three components. However, the electric industry will not be completely deregulated. AB 1890 only provides for the deregulation of the *generation* component to make this aspect of the electrical industry competitive and market based. Companies will now be able to engage in electricity generation exclusively.

Other components of the industry (e.g. transmission and distribution) will continue to be subject to comprehensive regulations, set forth by the California Public Utilities Commission (CPUC), and will continue to be operated and maintained by San Diego Gas & Electric (SDG&E) in this service area.

Restructuring also envisions the opportunity 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

Energy Deregulation

of its citizens or commercial businesses. The premise behind aggregation is that an aggregator can negotiate a better price than an individual residential customer or small business acting alone. The decision of whether or not to be an aggregator and whether or not to participate in an aggregated pool would be a voluntary choice at the consumer level.

Currently, a number of cities, individually and collectively, are exploring aggregation options for their municipal facilities and operations and/or business and residents. Similarly, various statewide groups are exploring aggregation for specific municipal systems, such as streetlights and water agencies. The Association of California Water Agencies (ACWA) is actively pursuing aggregating all water agencies together.

Financial Impact to City

Franchise Fees

The City currently levies a 1% franchise fee on privately owned utilities and other businesses (Public Utility Code, Sections 6001 et seq. And 6201 et seq. and San Clemente Ordinance no. 453) for use of the public right-of-way. Electrical franchise fees are due to the City by March 15 of each year for revenues received by SDG&E during the preceding calendar year.

SDG&E will continue to pay franchise fees on their operations conducted within the City to the City of San Clemente after deregulation. Franchise fees are currently budgeted at \$200,180 for FY 1997-98. The revenues for FY 1997-98 are not affected as revenues received in March 1998 by the City are based on gross revenues realized by SDG&E in calendar year 1997.

The 10% rate reduction for residential and small commercial customers are anticipated to reduce FY 1998-99 revenues by approximately \$10,000 or 5% over the prior year. This revenue reduction is based on a 10% decrease to residential customers who only represent 54% of the SDG&E customer base. However, based on that projected cost per kilowatt hour provided by SDG&E, when the CTC is included the overall fiscal impact to the City could be less than the above mentioned \$10,000. In addition, future commercial and residential development in the City and increased user consumption could offset a portion of any lost revenues.

Future year franchise revenue reductions resulting from rate reductions to 20% in 2002 and 30% in 2008 are not practical to project at this time with any accuracy.

Users who purchase electricity from other sources, or Electric Service Providers (ESP), other than SDG&E will be subject to a surcharge to offset the franchise not being paid by SDG&E. The surcharge will be collected by SDG&E from each ESP and passed on to the City in addition to the franchise fee. Residents who remain with SDG&E will continue to be billed for services by SDG&E, while residents who contract with an ESP will receive two electric bills. Separate bills from SDG&E and the ESP.

Long Term Financial Plan

Since California is leading the electrical deregulation wave, most experts are uncertain how all the various factors regarding the deregulation will pan out in regards to specific changes. This is much the same as attempting to predict how the break-up of AT&T years ago would affect the telephone industry of today. Further analysis of franchise revenues will be necessary after the March 1998 payment is received and as actual electrical deregulation is implemented.

Staff and the City Attorney are currently attempting to determine if the new ESPs will be required to obtain a business license to operate within the City of San Clement. Companies that operate under a franchise agreement are exempt from obtaining a business license. However, the ESP do not operate with a franchise agreement. If ESPs are required to obtain a business license, additional revenue could be generated to offset the loss in franchise fees. It will be several weeks until the City Attorney has time to properly research the subject.

During the next several months staff will be able to more accurately estimate the true impact of deregulation on the City's franchise fees as more information becomes available with the full implementation of AB 1890 on March 31, 1998. Staff will continue to work closely with SDG&E and other agencies to better understand the true nature of this new energy era we are just beginning to enter.

Electrical Expenditures

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 should continue to do so in the future as their rates have been capped until the year 2002. The City's current budget is \$997,010 for electricity (Attachment A). The City is supposed to realize a 10% reduction on its "Schedule A" electrical accounts, which is projected to be approximately \$16,000 in the first full year. FY 1997-98 savings could be up to \$8,000 based on the identified Schedule A meters. Additional savings might be realized if other meters qualify for rate reduction. These accounts will be automatically switched over with the implementation of the program by SDG&E on January 1, 1998.

The City will not incur any up front costs to stay with SDG&E and it does not commit the City to a long term contract with a service provider. The City can sign with another ESP when more specific information is available as to how the City can save with another ESP or by aggregating with other agencies.

Most electrical expenditure reductions can be accomplished through usage reduction, which the City has implemented over the past several years. In FY 1995-96 the City implemented the Energy Savings Program, with assistance from Landis & Staefa (formally Landis & Gyr). The Energy Savings Program focused on the following:

Energy Deregulation

- Retrofitting existing internal light fixtures at city facilities.
- Replacements of HVAC units, AC components, and heat exchangers at City Hall.
- Water boiler rehabilitation with recirculating heat pump at the Ole Hanson Beach Club.
- Conversion of red traffic lights bulbs to energy efficient LED (in progress).

City staff are continuing to pursue additional means to further reduce the city electrical usage. During the first six months the Energy Savings Program was fully operational the City realized almost \$50,000 in hard and soft savings.

Option II - Form aggregated pool with other users.

The goal is to purchase electricity at reduced rates by negotiating directly with energy service providers for a rate that would be less than currently available from SDG&E. To utilize this method the City would have to determine who to join with to maximize its ability to get lower rates. Additionally the City would have to negotiate a contract with other users and the electric generator or broker. The City may have to commit to a long term contract that could lock the City into rates that in future years are above market rates.

Some cities in Orange County are exploring the feasibility of aggregating with other cities or agencies. There is no united effort being coordinated by any particular agency to organize cities on a statewide basis. Some efforts are starting to be undertaken by a few cities and regional governmental agencies.

The City of Palm Springs is aggregating with its residents to form a citywide user group. Any efforts to aggregate with residents must be done on a volunteer basis by the residents.

Option III - Obtain direct access

The City could purchase its electrical needs directly from generators or service providers on the open market. This is very much like dealing in the commodities market, with prices changing on an hourly basis. Staff requirements to implement this program would be very high to set up the contractual agreements, monitor the fluctuating electrical prices, and negotiate purchase agreements with the ESP.

A consultant would most likely be required to assist staff with the intricate details of the contract. The complexity of setting up such a program and staff time dedicated to the monitoring of electrical prices for City would most likely be far beyond any cost savings realized by the City.

Conclusion

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

Attachment A FY 1997-98 Electricity Budget

Fund	Program	Fund	Prog.	Budgeted
General	Traffic Signals	001	611	\$37,500 *
General	Facilities Maint.	001	617	\$42,440
General	Beach Club	001	621	\$870
General	Community Center	001	622	\$8,500
General	Senior Center	001	623	\$3,500
General	Swimming Pool	001	625	\$6,400
General	Steed Park	001	628	\$1,000
General	Park/Beach Maint.	001	636	\$52,430
General	Beach Services	001	641	\$840
General	Street Lighting	001	646	\$152,000 *
Water	Water Admin.	052	461	\$4,700
Water	Water Production	052	462	\$72,000 **
Water	Transmission	052	463	\$205,260 **
Sewer	Treatment	054	472	\$195,470 **
Sewer	Collection	054	473	\$103,200 *
Sewer	Reclaimed Water	054	475	\$67,400 *
Golf	Golf Course Maint.	056	661	\$13,500
Communications	Communications	064	242	\$18,480
Fleet	Fleet Maint.	065	619	\$4,800
Animal	Animal Shelter	078	851	\$4,502
Animal	CASA Animal Control	078	852	\$2,218
				\$997,010
Total eligible for 10% reduction				\$164,180

* Not eligible for 10% reduction.

** Only portion eligible for 10% reduction.