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**1999**  
**Long Term Financial Plan**

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**Volume I**

**City of San Clemente**



## City Council

- Lois Berg Mayor
- Susan Ritschel Mayor Pro Tem
- Jim Dahl Councilmember
- Scott Diehl Councilmember
- G. Wayne Eggleston Councilmember

## City Manager

- Mike Parness City Manager

## Executive Team

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

## Project Leaders

- John Bressan Utilities Manager
  - James S. Holloway Director, Community Development
  - Kumi Johnson Budget Officer
  - David N. Lund Director, Public Works
  - Nita McKay Controller
  - Larry K. Moore Management Information Services Manager
  - Marsha Payne Risk Manager, Human Resources
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## Mission Statement

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

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

*Paul Gudgeirsson, Director, Finance & Administrative Services*

### **Financial Trends**

*Nita McKay, Finance & Administrative Services, Project Lead*

### **Financial Forecast**

*Kumi Johnson, Finance & Administrative Services, Project Lead*

### **Reserve Analysis**

*Nita McKay, Finance & Administrative Services, Project Lead*

### **Insurance Pool Analysis**

*Marsha Payne, Finance & Administrative Services, Project Lead*

### **Street Improvement Program Update**

*David N. Lund, Public Works, Project Lead*

### **Computer Strategic Plan**

*Larry K. Moore, Finance & Administrative Services, Project Lead*

### **Development & Growth Issues**

*Jim Holloway, Community Development, Project Lead*

*David Lund, Public Works*

### **Capital Facilities Plan**

*Jim Holloway, Community Development, Project Lead*

### **Utility Operations Analysis**

*John Bressan, Public Works, Project Lead*

### **Deposit Account Analysis**

*Nita McKay, Finance & Administrative Services, Project Lead*

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## **Financial Trend Analysis**

### **Objective**

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

## **Financial Forecast**

### **Objective**

*To update the comprehensive five-year financial forecast for the General and operating funds 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.*

## **Insurance Pool Analysis**

### **Objective**

*Conduct an insurance pool analysis and an evaluation to determine insurance pool coverage options.*

## **Street Improvement Program Update**

### **Objective**

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

## **Computer Strategic Plan Update**

### **Objective**

*To provide an update and funding analysis of the implementation of the City's Computer Strategic Plan.*

## **Development & Growth Issues**

### **Objective**

*To understand and plan for service needs that will be the result of new growth and development.*

## **Capital Facilities Plan**

### **Objective**

*To develop a Master Plan for City facilities for siting options, construction phasing, priorities, and timing for facility construction.*

## **Utility Operations Analysis**

### **Objective**

*To establish a water rate that will provide a balanced budget for the Water Fund and provide for long-term financial stability of the Fund, while at the same time providing quality service and equity to the consumers in each user classification.*

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## Issues and Objectives

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### Deposit Account Analysis

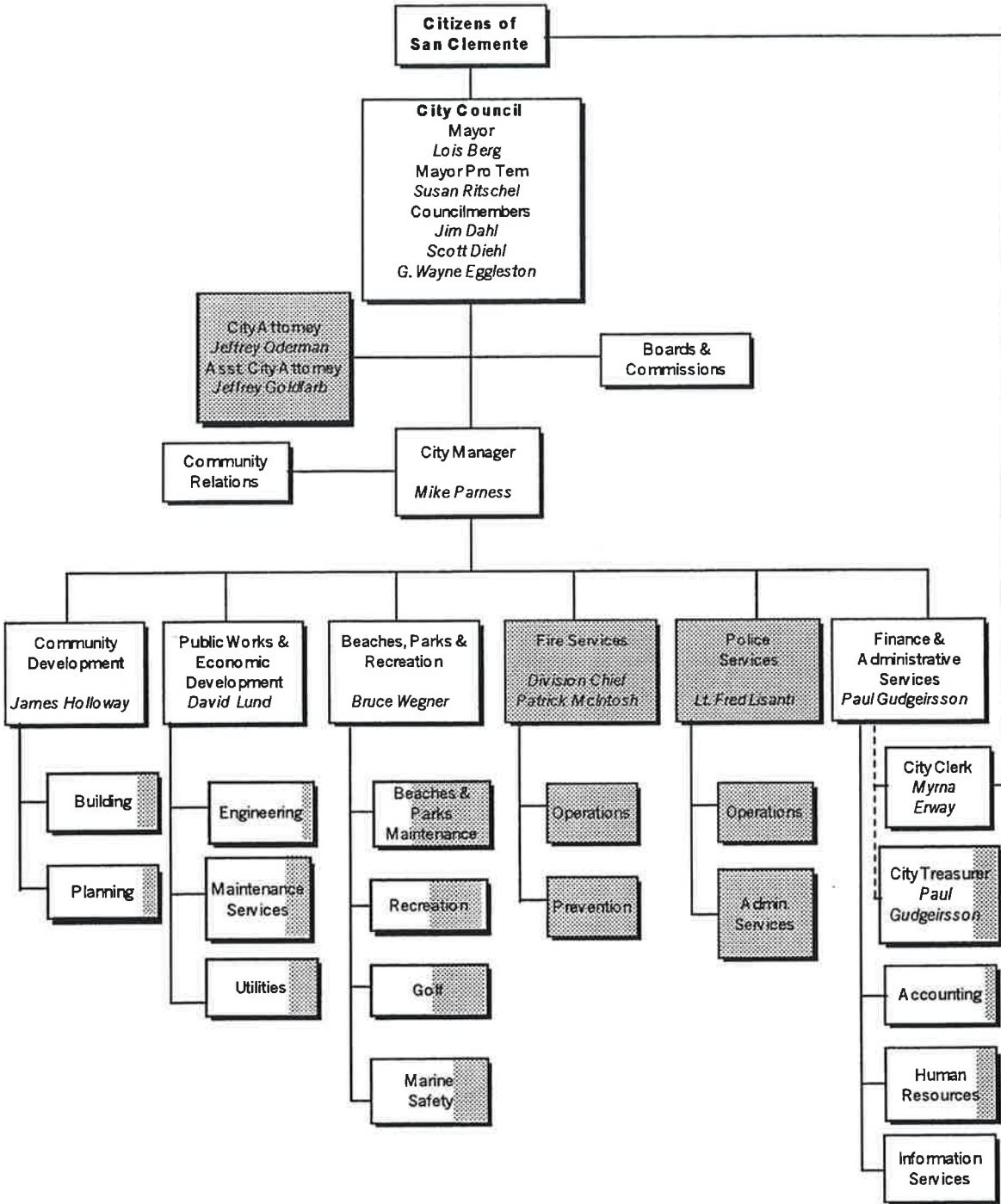
#### **Objective**

*To analyze and reconcile deposit accounts, and make recommendations for disbursement of these accounts, when appropriate.*

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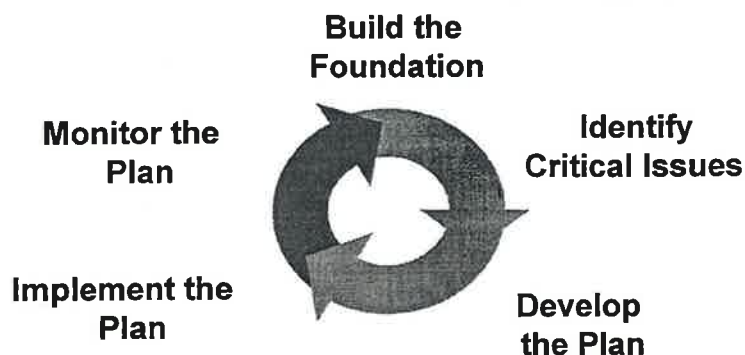
# City Organizational Chart



 Shading indicates contracted services



### Long Term Financial Plan



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

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

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

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

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

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

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

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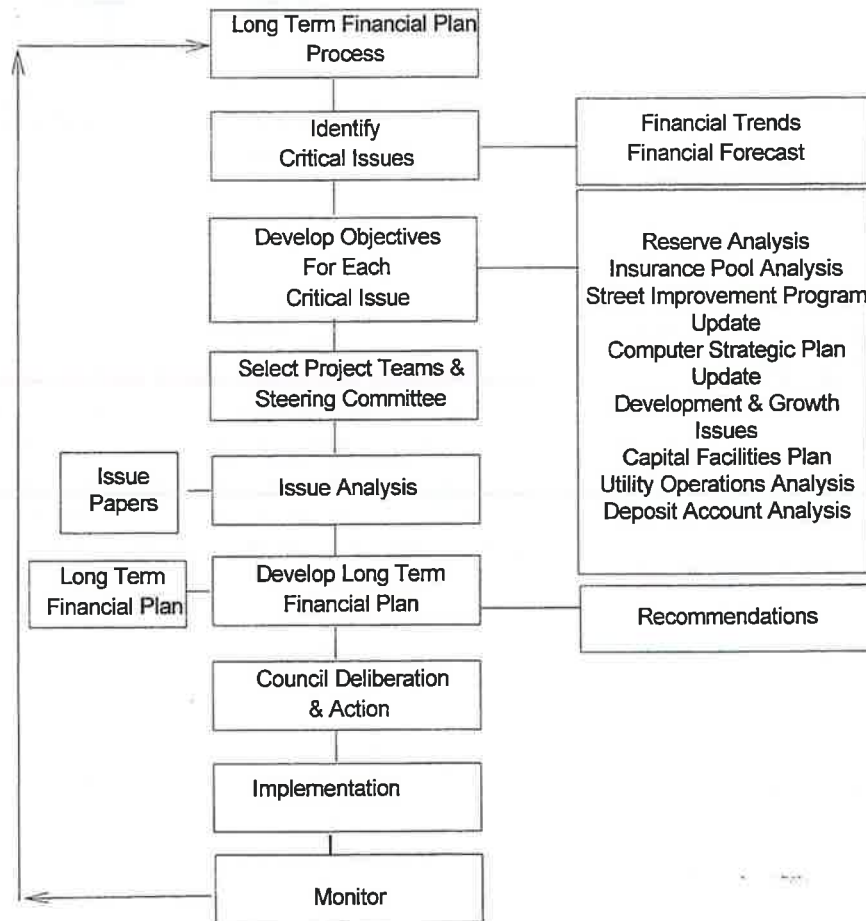
# Long Term Financial Plan

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## Long Term Financial Plan Process

### *The Long Term Financial Plan process*

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted largely by City staff. In fact, 8 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 8 project leaders each assigned to teams addressing a specific critical issue.



### Goals

As indicated, the process of developing the Long Term Financial Plan began by identifying 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 that met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After two months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issues Papers report.

### ***Trends & Forecast are the Foundation of the LTFP***

Once the issue papers were completed, the actual Long Term Financial Plan, was developed by using the Trend Analysis and Financial Forecast as the *foundation* of the plan. Appropriate recommendations made in the issue papers were incorporated into this Long Term Financial Plan, which can essentially be described as a long-term financial strategic plan.

This Financial Plan will be presented in detail to the City Council on February 20, 1999. 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 1999-00 budget process:

February 17, 1999	LTFP provided to Council and public for review.
February 20, 1999	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input.
February 24, 1999	Vital Few Priority Meeting. City Council and City Manager.

### Schedule

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# City Manager's Transmittal Letter

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**Honorable Mayor and Council members:**

***The 1999 LTFFP represents the City's seventh financial strategic plan***

## ***Introduction***

I am pleased to present the *1999 Long Term Financial Plan* for City Council review and consideration. This financial plan represents the seventh in a series of financial strategic plans that have been presented on an annual basis since 1993. The plan is intended to be a well thought-out analysis of issues that may affect the finances of the City of San Clemente. To provide some historical perspective, a complete review of each past financial plan is included at the end of this section.

This volume (Volume I) of the Long Term Financial Plan (LTFFP) includes an executive summary which describes the City's current and projected financial condition. Also included in this section of the report is an issue summary which briefly outlines the comprehensive reports included in Volume II of the LTFFP. The remaining sections include abbreviated versions of the City's financial trend and forecast reports, and are followed by the City's Fiscal Policy. It should be noted that the Fiscal Policy is a dynamic document in the sense that it is annually reviewed and modified based on current or new conditions. This year, one change and two additional policies are proposed for Council consideration.

The 1999 Long Term Financial Plan was prepared under very different circumstances than previous plans. This is the first time that staff was able to focus on several critical issues with no impending financial crisis to deal with. This plan is one that we were finally able to concentrate on our energies on solving pressing issues with an eye to the future financial health of the City.

***The 1999 LTFFP addresses reserves, fund balances and trends – all positive***

This year's LTFFP clearly demonstrates that the City has solved a great many problems that we faced in the past. Reserves have been replenished, fund balances in almost all funds, including the General Fund, are sound, our operating position is positive, and most fiscal trends that we monitor are favorable. In fact, with the exception of the Water Fund where a rate increase needs to be considered by the City Council in order to eliminate ongoing deficits, I can report to you that the City's finances are in excellent shape.

***The City's fiscal resurgence has partially come at the expense of eliminated programs and employee cuts***

The City's fiscal resurgence has, however, not come cheaply. Not only is this recovery due to positive economic growth, it is also due to massive cost reductions through streamlining of operations, significant staff reductions in critical areas such as street and tree maintenance and recreation programs, and the outright elimination of a number of programs. We are beginning to see the negative impacts of these reductions and the affect that these cutbacks have on the quality of life in San Clemente. This is also quantitatively shown in the only negative trend that the City currently has – employees per capita. Not only is this evident in the LTFFP, it was also

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# Long Term Financial Plan

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pointed out in the comprehensive organizational review performed in 1998 by an independent consultant.

***Council should consider reestablishing certain programs and services***

Consequently, I encourage the City Council during long term financial plan, vital few priority and budget deliberations to strongly consider reestablishing those programs and services that are deemed critical to providing a “safe and healthy atmosphere in which to live, work and play”.

## ***The 1999 Long Term Financial Plan***

The fiscally related issues examined this year include:

***Financial trends and five-year forecast remain positive***

- *Financial Trend Analysis* - Financial trends continue to improve through the fiscal year ending June 30, 1998. 19 of 20 financial indicators are positive, while only one is negative.
- *Financial Forecast* - The City’s financial forecast is very positive. Fund balances are projected to be positive over the next five years as the City’s financial position continues to strengthen.
- *Reserves* - This issue paper updates the status of the City’s reserve program and outlines future funding requirements. A total of \$6.2 million has been contributed to reserve accounts over the past 7 years. With one exception, the Capital Equipment Replacement Reserve, all reserves are now fully funded.
- *Insurance Pool Analysis* – An analysis of the available insurance coverage options was conducted. It is recommended that the City retain Orange County Cities Risk Management Authority (OCCRMA).
- *Street Improvement Program* - Since the adoption of this \$55 million program in 1995, 62 street projects totaling 19.5 miles have been completed and an additional 24 street projects totaling 5.5 miles will be constructed during FY 1998-99. A total of 10 projects have been constructed one to two years earlier than originally scheduled.
- *Computer Action Plan* - The City’s computer strategic plan has been implemented on schedule. All computer systems are Year 2000 compliant, with the exception of permitting systems. New technologies are in place to improve service levels and allow offsite access to a “Virtual City Hall”.
- *Development and Growth Issues* – Upon build-out, the City’s financial position should remain positive if the City adheres to and effectively implements General Plan policies. Overall balance of land use, consistency with the General Plan, balance of on-going expenditures with revenues and adequate staffing resources are key elements that must be addressed to ensure a positive fiscal future.
- *Capital Facilities Plan* – A City Facilities Master Plan to determine priorities and policies for development of new public facilities to meet the needs of the community is recommended. The plan will include options for construction phasing, priorities and financing new facilities.

***With one exception, all reserves are now fully funded***

***62 street projects totaling 19.5 miles have been completed as a part of the Street Improvement Program***

***Upon build-out, the City’s financial position should remain positive***

***A Capital Facilities Master Plan is recommended***



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## City Manager's Transmittal Letter

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**Water rate increases will  
be necessary in 1999 to  
eliminate fund deficits**

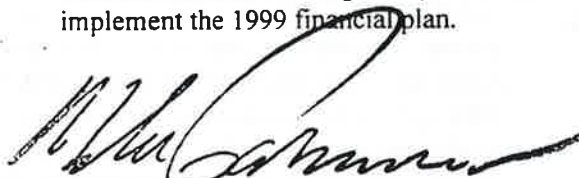
- *Utility Operations Analysis* – A 7.5% water rate increase, effective July 1, 1999, is recommended. Additionally, it is recommended that staff reviews the current distribution of fixed and variable expenses and determine an automatic pass through mechanism for increases in wholesale water, personnel, electricity and chemical costs.
- *Deposit Account Analysis* – Developer deposit accounts were analyzed. A centralized accounting and tracking system is recommended.

The 1999 Long Term Financial Plan continues the tradition of studying a variety of issues which require the attention of the City Council. Where possible, alternative solutions to the issues raised are provided for Council consideration. Also, the status of the City's current and projected fiscal condition is explored and recommendations are put forth to further solidify the City's positive financial standing.

Along with the Vital Few Priorities that will be discussed with Council on February 24, 1999 the direction that you provide as the result of Long Term Financial Plan discussions will set the stage for *Budget 2000* or the FY 1999-00 budget preparation process.

I would like to take this opportunity to thank all staff members who assisted in completing the City's Long Term Financial Plan. I believe that the City's focus on long term strategic financial planning will continue to Assist City administrators and the City Council in dealing with essential issues in a deliberated and carefully planned manner. The City Council's support for this time consuming project is very much appreciated.

I look forward to working with you, staff, and our community as we implement the 1999 financial plan.



**Mike Parness**  
City Manager

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# Long Term Financial Plan

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## *Long Term Financial Plan Review*

***Financial plans have been prepared since 1993***

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 1999 LTFP represents the seventh plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

In order to provide some historical perspective, this section briefly reviews each financial plan and includes a definition of problems encountered along with the adopted solutions:

### *The 1993 Plan*

***The projected annual shortfall in 1993 was \$6 million***

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

***The shortfall was addressed by contracting, reorganizing, downsizing, and pay and benefit reductions***

The 1993 shortfall was addressed through contracting City services (Police Department), establishing a storm drain utility, reorganization, downsizing and streamlining of major departments, and salary and benefit reductions. Savings from these actions were used to cover the projected operating deficit and property tax diversion and to replenish the City's reserve levels. Although storm drain needs were resolved, street capital and maintenance needs were unmet. Lastly, the Council reestablished the City's economic development program in order to concentrate on business retention and commercial attraction.

### *The 1994 Plan*

***The projected shortfall in 1994 amounted to \$2.7 million***

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

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## City Manager's Transmittal Letter

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

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

### *The 1995 Plan*

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

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

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

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

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

### *The 1996 Plan*

***A financial turnaround was evident in the 1996 financial plan***

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

***Street bonds totaling \$7 million were issued***

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

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# Long Term Financial Plan

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

## *The 1997 Plan*

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

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

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

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

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

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

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

## *The 1998 Plan*

### ***Deficits in the General Liability and Workers' Compensation Funds were eliminated***

The long-term vision of stabilizing and improving the City's financial condition continued with the implementation of the 1998 plan. With the exception of the Capital Equipment Replacement Reserve, all reserve funds were fully funded with the approval of the 1998 financial plan. Deficits in the General Liability and Workers' Compensation Funds, identified in the 1993 Plan, were eliminated. Financial indicators were overwhelmingly favorable, with only two indicators exhibiting negative tendencies. The General Fund's operating position was positive, with increasing fund balances across a five-year period.

The 1998 Plan examined the policies, financial and technical tools in place to implement new development. Priorities were identified, along with

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# City Manager's Transmittal Letter

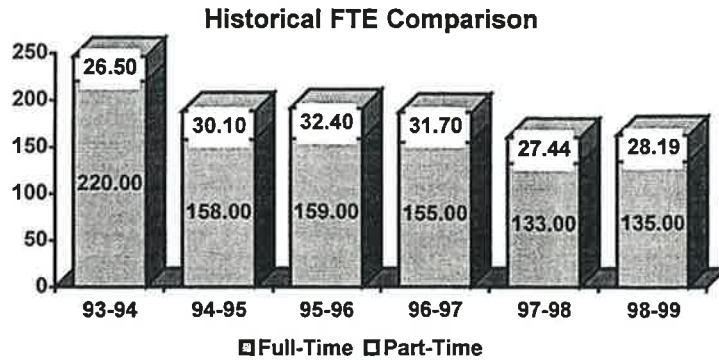
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direction to fund a market study and downtown improvement plan in the 1998-99 budget.

## Historical Staffing Levels

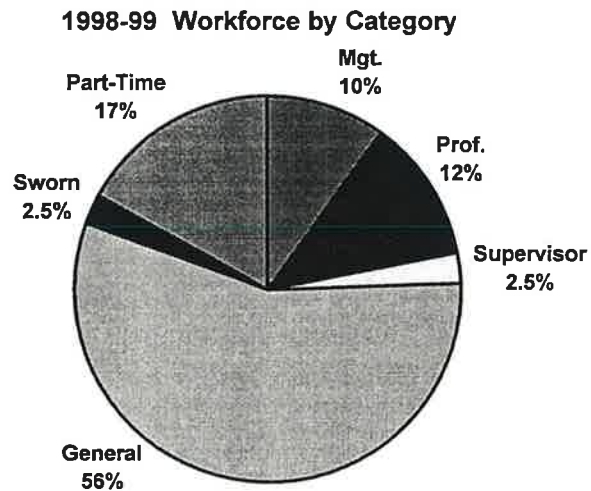
### Historical Staffing levels

The impact on staffing changes as a result of the implementation of the City's series of financial plans and budgets since 1993 are outlined below:



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

### Workforce by category





## Financial Summary

**The Executive Summary consists of a Financial Summary and Issue Summary**

The *Executive Summary* portion of the 1999 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The *Financial Summary* will provide a profile of the City's present financial condition, including a summary of LTFP recommendations. The *Issue Summary* is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the *Financial Summary* section:

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

**The 1999 LTFP is the 7<sup>th</sup> edition of the City's financial strategic plan**

### **Introduction**

The seventh edition of the City's Long Term Financial Plan documents both the progress that the City has made in attaining its financial goals, and provides a clear path to a successful financial future. A number of issues affecting the financial condition of the City were studied and are documented in the 1999 Long Term Financial Plan.

The 1999 Long Term Financial Plan continues the tradition of reviewing the City's current financial condition and identifying potential fiscal pitfalls. This "early detection system" has served the City extremely well and continues to be a tool for quickly reacting to the many financial crises faced by the City over the past few years.

The key issues that the City faces this year includes consideration of a proposed water rate increase and the reestablishment of the street major maintenance program. Other major issues facing the City Council will be brought forward during the Vital Few Priority deliberation process on February 24, 1999.

**The General Fund will end the year with a \$1.9 million fund balance**

### **Current Financial Condition - Overview**

The City's financial condition at December 31, 1998 was described in detail in the fiscal 1998-99 Second Quarter Financial Report. Current projections indicate that the City's General Fund will end the year with a positive fund balance of \$1.9 million, as opposed to original projections of \$1.5 million. This increase is largely due to increased revenue projections as a result of higher than anticipated receipts as of FY 1997-98 year-end. Additionally, proposed revenue adjustments at mid-year exceed expenditure adjustments by \$344,000 which can be attributed to increases in construction inspection fees and projected increases in property and motor vehicle tax revenue.

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# Long Term Financial Plan

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***The City's financial position is excellent...***

The City's financial position at this point in time is excellent. With the exception of the City's Water enterprise fund, overall finances are in the best shape since the inception of the City's LTFP process in 1993.

***...however, a rate increase of 7.5% is necessary in the Water Fund to eliminate deficits***

Regrettably, the Water Operating Fund ended the 1997-98 fiscal year with a fund deficit of over \$550,000 and is anticipated to remain negative at the end of the current fiscal year. The 1999 Long Term Financial Plan includes a recommendation for a water rate increase (7.5%) for the first time in several years. It should be noted that expenses in the Water Operating Fund have been substantially reduced over the past few years in an effort to contain water rate increases.

The City's Long Term Financial Plan typically deals with the financial condition of the General Fund, due to the negative impacts on this fund over the past few years. A large percentage of General Fund revenue has been diverted to the State (property tax revenue) or lost as a result of citizen generated propositions (Proposition 218). This has had severe impacts on the City of San Clemente's financial operating position and is documented as an attachment to the City Manager's transmittal letter.

***Financial forecasts have been developed for the City's operating funds***

The 1999 Long Term Financial Plan also focuses on the City's operating funds as these funds continue to have an impact on City operations. Towards that end, the City Council, in the 1998 Long Term Financial Plan, directed staff to prepare financial forecasts for the City's operating funds which include Water, Sewer, and Golf funds. The financial forecast for these funds are included in the Financial Forecast portion of this document.

In conclusion, past City Councils have done an admirable and innovative job of retaining a fiscal balance under extreme circumstances. It is clear that this could not have been accomplished without a set of comprehensive fiscal policies and the wherewithal of maintaining a financially stable City.

Although there are always a few fiscal challenges that face the City, the 1999 Long Term Financial Plan once again provides viable solutions to these problems for Council consideration.

***All reserve funds are fully funded except capital equipment reserves***

### ***Reserve Funding***

Several fiscal policy statements adopted by the City Council over the past several years relate to the funding of various reserve funds and accounts. This is largely due to the fact that most reserve accounts were non-existent, depleted or in deficit position in the early nineties when the first financial plan was developed. In fact, since 1993, a total of \$6.2 million has been dedicated to the funding of reserves and deficit fund balances by all City funds which shows the magnitude of the problem. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, contingency, and emergency reserves. With the exception of capital equipment reserves, all reserve funds are now entirely funded and meet all fiscal policy requirements.



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## Financial Summary

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***The continued allocation of \$100,000 is recommended for capital equipment reserves***

The 1999 LTFP recommends that the City continue an annual allocation of \$100,000 to capital equipment reserves for two more years until that fund is fully funded at a level of \$700,000, the value of the General Fund's equipment assets. Consequently, the only future transfers that will be required include normal funding to maintain percentage requirements (emergency reserves) or to fund normal replacement costs (fleet or capital equipment).

***Council contingency reserves should be increased to 1% of operating expenditures***

The only other change in reserve requirements involves the Council Contingency reserve account which is used for unanticipated needs during each fiscal year. Up until last year, this reserve account was funded at 1% of General Fund operating expenditures, or approximately \$200,000. Due to cutbacks necessitated by Proposition 218, this reserve level was reduced to \$100,000; however, based on past and current expenditure patterns, this level is inadequate. Consequently, a recommendation to reestablish the reserve level at 1% of operating expenditures is included in the reserve analysis issue paper.

### ***General Fund Transfers***

There are several annual transfers from the General Fund to other funds typically included in the annual budget, outside of reserve allocations. In FY 1999-00, these include total transfers of \$615,000, the majority of which is to the Street Improvement Program:

***The General Fund will contribute \$515,000 to the Street Improvement Program in FY 1999-00***

*Street Improvement Program:* General Fund contributions to the Street Improvement Program have totaled \$1.8 million during the past four fiscal years. Funding for this program will continue in FY 1999-00 with a contribution of \$515,000. Annual contributions of \$515,000, plus an inflationary factor, will be made through the remainder of the program.

***A total of 19 financial indicators are now positive....***

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

The City's financial condition is also quantitatively measured using a financial trend monitoring system. Last year, 18 of 20 financial trends were found to be positive with only license/permit and community development service charges showing a negative trend. The annual Financial Trend Analysis report for the year ending June 30, 1998 indicates that 19 indicators are now favorable, including the two indicators that were negative last year. License and permit revenues and community development service charges were upgraded during the past year to favorable, based on a positive upward movement in FY 1997-98 and current collection trends.

***...however, one financial indicator, employees per capita, has turned negative***

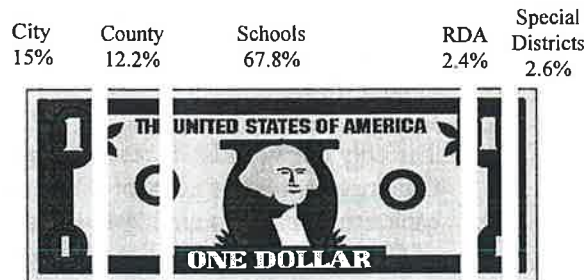
On the negative side, the *employees per capita* indicator was downgraded to an unfavorable status as this indicator continues to decline. As documented in the 1998 Organizational Study, it appears that employee levels are inadequate to support current service levels and are certainly too low to reestablish programs that have been eliminated.

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# Long Term Financial Plan

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The trend report also includes a section regarding the distribution of the property tax dollar. As indicated below, the City currently receives 15% of the property tax dollar and the remainder is distributed as shown:



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

**Revenue growth is projected at 3.4%**

**Expenditures will average 2.7%**

### ***Five Year Financial Forecast***

The City's updated five-year financial forecast for the General Fund projects revenue growth of 3.4% over the five year forecast period. This compares to a historical growth rate of 0.8%. Expenditures are projected to grow at an annual average rate of 2.7% over the same time frame. It should be pointed out that historical growth rates are somewhat misleading because of several factors. "One-time" revenues transferred from other funds into the General Fund due to the contracting of municipal services tend to skew revenues upward. However, the same is true of expenditures - "one-time" expenditures were made for accrued leave and severance payments for contracted City employees resulting in higher expenditure levels.

The average projected growth rates for revenues exceed expenditures by 0.7% which, if achieved, would result in operating surpluses in each year of the forecast.

**Operating position and fund balances are examined in the financial forecast**

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

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

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

# Financial Summary

**The City's operating position is positive throughout the forecast period**

### Operating Position

As indicated below, the City's projected operating position in each of the five years of the forecast is positive. This is primarily because of an improved economy and the fact that reserve transfers have been largely eliminated.

Expenditures do not include transfers to the Street Improvement Fund (\$515,000 in FY 1999-00), capital equipment replacement reserve (\$100,000), and accrued leave transfer (\$75,000). Other one-time expenditures have been removed from the expenditure line item to give a realistic picture of operating surpluses.

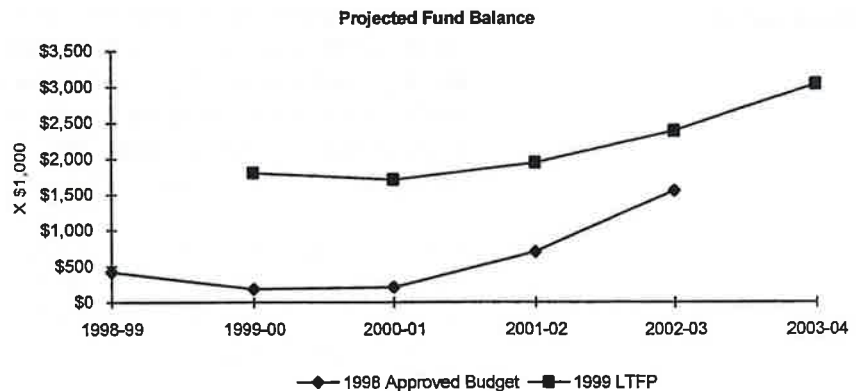
### Projected (Deficit)/Surplus

<i>Amounts in \$1,000</i>	1999-00	2000-01	2001-02	2002-03	2003-04
Revenues	\$23,498	\$24,351	\$25,377	\$26,315	\$27,372
Expenditures	22,835	23,512	24,277	25,001	25,837
Street Transfer	515	530	546	560	574
(Deficit)/Surplus	\$148	\$309	\$554	\$754	\$961

**The base forecast indicates that fund balances will be higher than projected in the FY 1998-99 budget**

### Fund Balances

As displayed below, unreserved fund balances are projected to be considerably higher than projected in the FY 1998-99 budget. This is largely due to substantial increases in revenues and expenditure savings in the prior fiscal year. These increases have resulted in a very positive fund balance forecast:



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

# Long Term Financial Plan

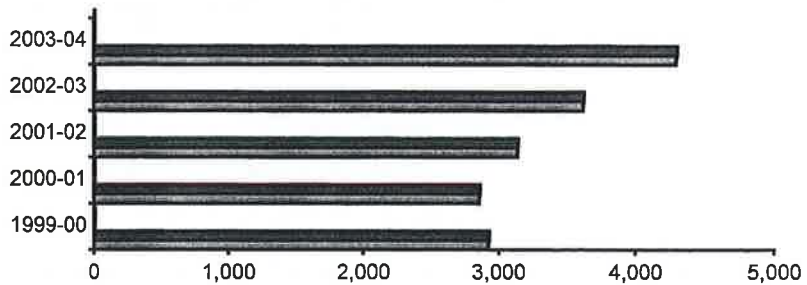
## Fund Balance & Emergency Reserve

<i>Amounts in \$1,000</i>	1999-00	2000-01	2001-02	2002-03	2003-04
Fund Balance	\$1,804	\$1,709	\$1,947	\$2,392	\$3,042
Emergency Reserves	\$1,120	\$1,150	\$1,190	\$1,225	\$1,260
Total	\$2,924	\$2,859	\$3,137	\$3,617	\$4,302

The graph below depicts the growth of fund balances and emergency reserves over the five year forecast period, provided that expenditure and revenue assumptions are reasonably accurate:

**Fund balances and emergency reserves continue to grow**

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



**The City's economic health has improved considerably**

### Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue. As commented on in this report and the City's mid-year financial report, the City's economic health has improved considerably over the past several years. This is directly attributable to improved revenue collections as well as a substantial decrease in expenditures. Financial health, has, however, also been achieved by cutting critical programs and staff from an already diluted workforce.

This section provides an updated fund balance forecast if certain financial recommendations are adopted by the City Council. The first table summarizes current projected fund balances prior to the adoption of 1999 LTFP recommendations:

**Current projected fund balances**

	Fund Balance				
	1999-00	2000-01	2001-02	2002-03	2003-04
Fund Balance	\$1,804,000	\$1,709,000	\$1,947,000	\$2,392,000	\$3,042,000

# Financial Summary

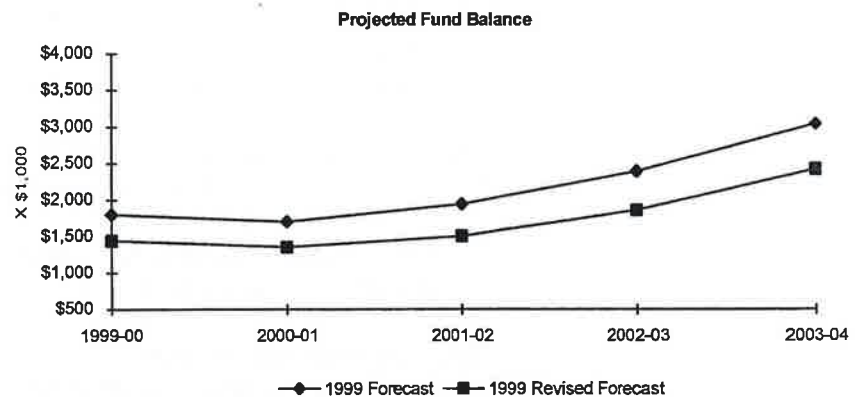
The following table indicates the impact on fund balances if recommendations contained in the 1999 Long Term Financial Plan are adopted by the City Council:

**Projected fund balances including 1999 LTFP recommendations**

Fund Balance					
	1999-00	2000-01	2001-02	2002-03	2003-04
<i>Projected Ending Fund Balance</i>	\$1,804,000	\$1,446,940	\$1,355,940	\$1,509,940	\$1,863,940
Operating surplus	0	309,000	554,000	754,000	961,000
Funding of Capital Facilities Plan <sup>1</sup>	(100,000)	0	0	0	0
Major Street Maintenance Program <sup>2</sup>	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)
Deposit Account Transfers	142,940	0	0		
<i>Revised Fund Balance</i>	\$1,446,940	\$1,355,940	\$1,509,940	\$1,863,940	\$2,424,940

The following graph shows the impact of adopting the 1999 LTFP recommendations on projected fund balances:

**Impact on fund balance with LTFP recommendations**



As illustrated, the overall impact of adopting LTFP recommendations reduces the projected fund balance; however, fund balances are still at acceptable levels.

**Summary of Long Term Financial Plan recommendations**

**Recommendations**

This section summarizes the recommendations contained in the 1999 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by the City Administration.

<sup>1</sup> The *Capital Facilities Plan* issue paper recommends that \$100,000 be expended for produce a facilities plan.

<sup>2</sup> The *Street Improvement Program Update* issue paper recommends reestablishing the major maintenance program.

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# Long Term Financial Plan

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A narrative description and rationale for each recommendation is contained in the issue section of this volume of the Long Term Financial Plan. For complete detail, please refer to Volume II of the Long Term Financial Plan.

## *Reserves*

1. Emergency Reserve: Budget \$50,000 in FY 1999-00, bringing the emergency reserve to \$1,119,640, or 5% of General Fund operating expenditures, for FY 1999-00.
2. Council Contingency Reserve: Recommend that \$200,000 be set aside in fiscal year 1999-00 to fund the Council Contingency Reserve.
3. Council Contingency Reserve: Revise City's fiscal policy to read, ". . . The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually."
4. General Liability Reserve: Maintain the reserve in the General Liability Fund at three times the self insurance retention (\$300,000) and an additional \$350,000 (the average of the previous five years of claims costs not covered by the insurance pool).
5. Accrued Leave Reserve: 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 1999-00 in the amount of \$75,000.
6. Capital Equipment Replacement Reserve: Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually for the next two years from the General Fund.

## *Insurance Pool Analysis*

1. City should stay with the Orange County Cities Risk Management Authority (OCCRMA).
2. The City should return in two years to address the series of issues identified in Volume II of the financial plan document.

## *Street Improvement Program*

1. Approve and authorize the allocation of a General Fund contribution of \$515,000 for the coming FY 1999-00.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Accelerate street projects in the program in accordance to the availability of funds and the proximity of other street projects.
4. Re-establish the Major Street Maintenance Program with an annual funding of \$400,000 for the next five (5) years, to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.

## *Computer Strategic Plan*

1. Adopt the recommended Computer Strategic Plan in concept.
2. Direct staff to return with a request to upgrade it's permitting software, if necessary.

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## Financial Summary

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3. Direct staff to return with a proposal from Cox Communications for Internet Access and a Plan to implement Internet within business operations.
4. Determine whether Council wishes to purchase laptop computers either during mid year budget adjustments or included in the FY 1999-00 budget.

### *Development and Growth Issues*

1. Direct staff to ensure that the overall balance of land uses that are anticipated in the General Plan are implemented.
2. Direct staff to ensure that fiscal balance will be achieved at build-out.
3. Direct staff to phase the construction of major new facilities and ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.
4. Direct staff to budget resources to properly administer the growth and development that will occur over the next 10 years.

### *Capital Facilities Plan*

1. Direct staff to solicit a request for proposal from qualified teams to analyze and make recommendations on a Capital Facilities Plan (Cost \$60,000-\$100,000).
2. Direct staff to structure development of a master plan for City facilities in a two phased process. The first phase of the City master plan process will be analytic. Phase two will involve a community-input process.

### *Utility Operations Analysis*

1. It is staff's recommendation that the City Council favorably consider the single year rate increase of 7.5%. Positive aspects of this scenario are a faster recovery of fund balance at an overall lower cost to the consumer. Further, staff recommends that the Council give favorable consideration to an automatic pass through increase, and that staff be directed to review the current distribution of fixed and variable expenses.

### *Deposit Account Analysis*

1. Deposit accounts should be handled as summarized below:

Retain monies in deposit (liability) accounts until services completed by City	\$558,980
Refund deposit monies	\$115,750 <sup>1)</sup>
Conduct further research on receipts/services provided	\$ 99,420 <sup>2)</sup>
Transfer monies from deposit (liability) accounts to City revenue accounts for services provided	\$142,940
<b>Total of deposit accounts</b>	<b>\$917,090</b>

- 1) These deposits were made by two developers securing sewer connection fees as part of the 85-1 Sewer Assessment District. These deposits were made on behalf of the property owners and should be refunded to the property owners.
- 2) These deposits were made by several companies/individuals. Additional research is necessary to match receipts to services performed.

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## Long Term Financial Plan

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2. The Project Tracking Committee should continue their work with finalizing a decision on a centralized accounting and tracking system for deposits and projects. Oversight responsibility for this tracking program should be maintained in the Finance & Administrative Services Department/Accounting Division.

Once direction is provided by the City Council, those decisions will serve as the foundation of the budgetary action plan developed by staff and submitted for Council consideration in May and June 1999.

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## Introduction

The *Issue Summary* section which follows provides an overview of the issues that were analyzed during the preparation of the *1999 Long Term Financial Plan*. Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics. The issues reviewed include:

### **Financial issues reviewed in 1999**

- *Financial Trend Analysis*
- *Financial Forecast*
- *Reserve Analysis*
- *Insurance Pool Analysis*
- *Street Improvement Program Update*
- *Computer Strategic Plan Update*
- *Development and Growth Issues*
- *Capital Facilities Plan*
- *Utility Operations Analysis*
- *Deposit Account Analysis*

## 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. Ratings assigned to each trend include: Favorable (F), Unfavorable (U) or Warning (W).*

### **19 of 20 indicators are favorable compared to 18 last year**

As indicated in the table below, a total number of 20 trends were analyzed in the 1999 Long Term Financial Plan. Of these, 19 indicators are considered *favorable* as opposed to one that changed from *favorable* to *unfavorable*. This compares to the prior year when 18 indicators were positive.

### **Positive ratings were assigned to license/permits and community development charges**

License and permit revenues and community development services charges were upgraded during the past year to favorable. These are detailed below:

- *License & Permit Revenues* - This revenue category increased 27.5% over the previous fiscal year. This is a direct result of the improved local economy with an increase in the number of new residential permits and two new commercial/industrial buildings within the City.
- *Community Development Service Charges* - This revenue shows a positive trend for the first time in seven years, with an increase of \$50,000. This category has shown relative stability since FY 1994-95, warranting an upgrade to favorable.

On the negative side, the employees per capita indicator was modified from a favorable status to unfavorable:

# Long Term Financial Plan

**“Employees per capita” was downgraded to unfavorable**

- *Employees per capita* - This category has been steadily declining over the past seven years. This indicator receives an unfavorable rating after receiving a note of caution in the prior year. This indicates that employee levels may be too low to support current and future service levels as pointed out in the Organizational Study conducted in 1998.

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

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

**19 of 20 financial indicators are positive**

...

**...while only 1 is unfavorable...**

<i>Indicator</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Revenues Per Capita	F	F	F	F	U	U	U
Property Tax Revenues	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	U	U
Licenses & Permits	F	U	F	F	F	U	U
Comm. Develop. Charges	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	F	W	W
Intergovernmental Revenues	F	F	F	F	F	F	F
Revenue Overages /Shortages	F	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	F	W	W
Employees Per Capita	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F	F
Property Values	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F

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

The trend analysis conducted this year reinforces the City's commitment to financial planning. Where possible, the City has implemented cost reduction and streamlining measures while focusing on economic development as a means to further improve the City's financial strength. The ongoing pledge by the City Council to abide by a series of fiscal policy statements has resulted in a state of financial well being in 1999.

**Recommendations**

No specific recommendations are made with regard to the trend analysis report; however, several recommendations designed to address the employees per capita indicator will be brought forward during the Vital Few Priority process. The City will also continue to closely monitor financial trends in order to provide an "early warning" detector of financial problems.

### Financial Forecast

**Objective**

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

**Recommendations in the 1999 plan are not incorporated into the financial forecast**

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 1998 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 1999 Long Term Financial Plan with the exception of reserve transfers. The forecast basically incorporates *current* General Fund and other operating funds (Water, Sewer, and Golf) expenditure and revenue patterns and attempts to predict the City's future operating position.

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

**Major forecast assumptions**

- Economic and demographic data (average over five year forecast period):
  - ⇒ Inflation Average: 2.8%
  - ⇒ Population Growth Average: 2.8%
  - ⇒ Personal Income Growth Average: 6.2%
  - ⇒ Revenue Growth: 3.4% (5 year historical growth = 0.8%)
  - ⇒ Expenditure Growth: 2.7% (5 year historical growth = 0.8%)
- A 3% cost of living increase, previously approved by Council, has been included for FY 1999-00. Cost of living adjustments at 90% of the projected consumer price index for Southern California for FY 2000-01 and after.
- For expenditure estimating purposes, three new full-time positions are presumed to be added in FY 1999-00, with an additional two new full-time positions added in each of the following years.
- Transfer of \$425,000 to reserves in FY 1999-00 and annual transfers ranging from \$405,000 to \$310,000 in subsequent years.

# Long Term Financial Plan

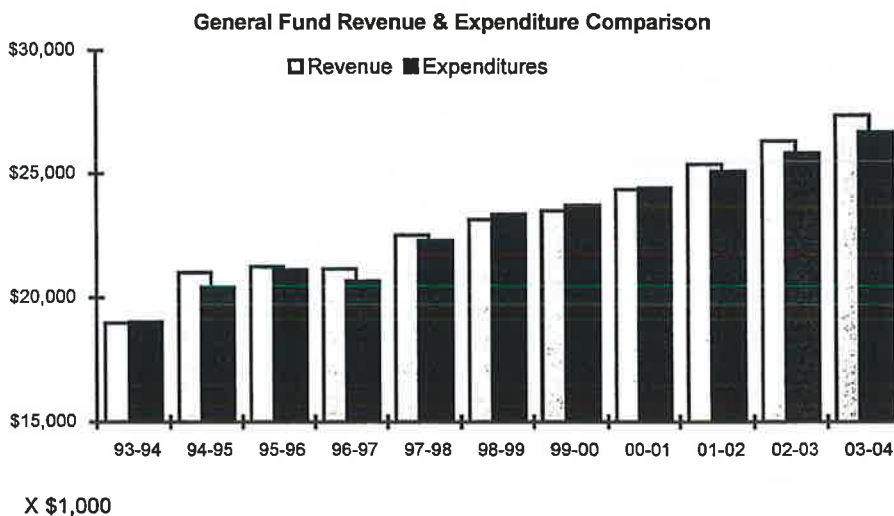
- Transfer of \$515,000 to the Street Improvement Program in FY 1999-00 and increased by an inflation factor in the out years.
- Actual expenditures projected at 0.5% less than current budgeted expenditures for all five years of the forecast.
- Revenues projected to exceed budgetary projections by 0.5% in all five years of the forecast.

Factors *not included* in the forecast:

**Factors not included in the forecast**

- Forecast is based on the General and operating funds only.
- No new or enhanced programs included.
- Service fees from proposed new developments including Marblehead Coastal or Talega Valley.
- Potential impact of the OCFA Fire Equity Study.

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



The table below depicts the City's operating position (*revenues less expenditures and excluding transfers, and one-time revenues and expenditures*) for the next five years:

**1999 Forecast Summary (Operating Position)**  
(in thousands)

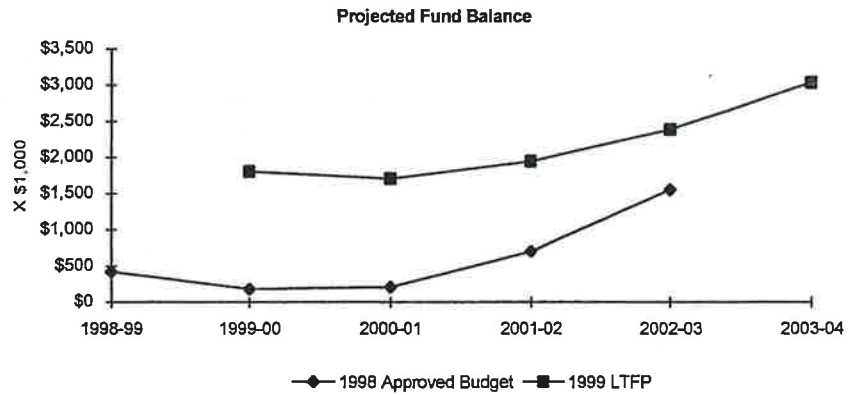
	1999-00	2000-01	2001-02	2002-03	2003-04
Revenues	\$23,498	\$24,351	\$25,377	\$26,315	\$27,372
Expenditures	22,835	23,512	24,277	25,001	25,837
Operating Result	\$663	\$839	\$1,100	\$1,314	\$1,535

# Issue Summary

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

The Projected Fund Balance chart and table below illustrates the impact of the City's current finances on future fund balances. As illustrated, fund balances are projected to be positive in all five years of the forecast. The improvement in fund balance projections is the result of higher than anticipated revenue collections and expenditure savings combined with significant program reductions incorporated into the FY 1998-99 budget as a result of Proposition 218.

**Projected fund balances**

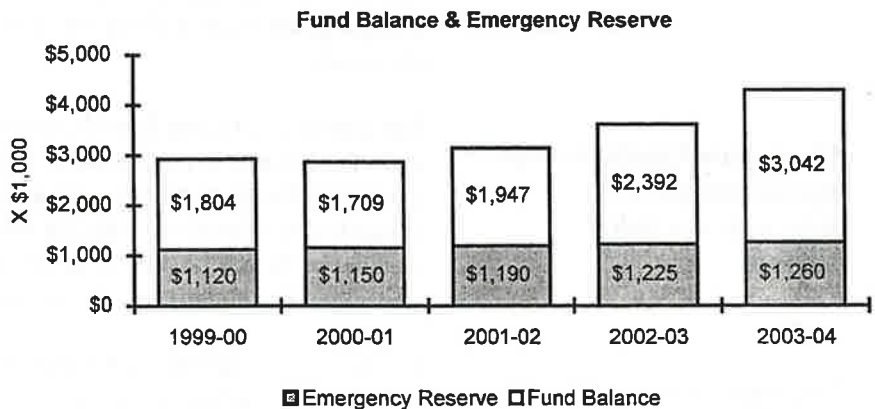


**Projected Fund Balances  
(in thousands)**

	99-00	00-01	01-02	02-03	03-04
Fund Balance	\$2,082	\$1,804	\$1,709	\$1,947	\$2,392
Revenues	23,498	24,351	25,377	26,315	27,372
Expenditures	23,725	24,417	25,098	25,836	26,686
Emer. Reserve	50	30	40	35	35
<b>Fund Balance</b>	<b>\$1,804</b>	<b>\$1,709</b>	<b>\$1,947</b>	<b>\$2,392</b>	<b>\$3,042</b>

**Fund balances and emergency reserves**

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



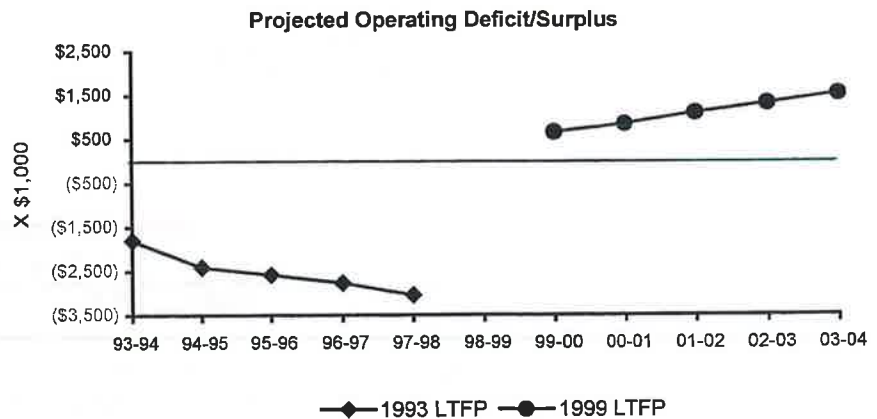
# Long Term Financial Plan

**Fund balances, including reserves, will total \$2.9 million in FY 1999-00**

As shown, the City will maintain total fund balances in excess of \$2.9 million, including emergency reserves of \$1.1 million, in FY 1999-00. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances. Emergency reserve fund balances are projected to remain at the 5% level in accordance with the City's fiscal policy. Beginning in FY 2001-02, fund balances will begin to increase due to the improvement in the City's operating position as well as the full funding of the Capital Improvement Reserve Fund two years hence.

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

**Operating deficits & surplus**



## Reserve Analysis

### Objective

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

**All reserve funds, except capital equipment reserves, are fully funded**

The City's initial Long Term Financial Plan identified seriously underfunded and, in certain cases, non-existent reserve levels. An aggressive funding schedule was adopted in 1993 and has been updated annually since that time. The commitment to funding of reserves has resulted in the full funding of all reserves except capital equipment reserves. The City's Fiscal Policy prescribes the following reserve requirements:

**Emergency reserves total \$1.1 million or 5% of operating expenditures.**

- **General Fund Emergency Reserve:** This reserve is established at 5% of General Fund operating expenditures. It is fully funded and totals almost \$1.1 million. In order to maintain the 5% level, a transfer of \$50,000 is recommended for next year.



**Contingency reserves should be reestablished at 1% of operating expenditures**

- *Council Contingency Reserve:* No less than \$100,000 must be set aside each year to provide for non-recurring or unanticipated expenditures. This reserve was reduced from 1% of operating expenditures, or approximately \$200,000 in response to Proposition 218 last year. It was, however, funded at the \$200,000 level in FY 1998-99. Based on contingency expenditure patterns in the past two years, it is recommended that the Council Contingency Reserve be reestablished at the 1% of operating expenditures level. This will require a change in the City's fiscal policy statement (see Fiscal Policy section of this volume of the Long Term Financial Plan).

**An additional reserve of \$350,000 is recommended in the General Liability Insurance Fund**

- *Accrued Leave Reserve Fund:* This fund is used to accumulate funds to pay for leave benefits for terminated employees. The level of the reserve is established annually and is currently projected to total approximately \$18,000 by the end of the year. A transfer of \$75,000 is recommended for the fiscal 1999-00 year.

**The Workers' Compensation Fund is now fully funded**

- *General Liability Insurance Fund:* A reserve of three times the City's self insurance retention, or \$300,000, is currently required. This fund is projected to close FY 1998-99 with a balance of \$464,000, including the self insurance retention of \$300,000. A recommendation to set aside \$350,000 of these funds is being made in order to provide for occurrences that are excluded from insurance coverage.

**The capital equipment reserve fund will be completely funded in 2 years**

- *Workers' Compensation Insurance Fund:* The City became fully insured for workers compensation in 1995. The Workers' Compensation Fund finished FY 1997-98 with a positive balance of \$292,000 which will be used to pay for remaining "tail" of claims from when the City was self-insured.
- *Fleet Replacement Reserve:* The Fiscal Policy requires that adequate reserves for the replacement of the City's fleet be maintained. This reserve is fully funded with a projected ending balance of \$1.6 million.
- *Capital Equipment Replacement Reserve:* There is a requirement that the City allow for the replacement of worn and obsolete equipment other than vehicles. Per the 1998 LTFP, the recommended funding level has been established at \$700,000 for the replacement of equipment in the General Fund. Continued annual contributions from the General Fund of \$100,000 for the next two years will meet the reserve requirement.

**A total of \$6.2 million has been contributed to reserves since 1993**

Through the annual LTFP and budget process, the City Council has set aside scarce resources in order to preserve and enhance the City's fiscal stability. Thus, the City has been able to contribute a total of \$6.2 million toward the funding of reserves over the past six years.

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

# Long Term Financial Plan

**Total reserve contributions**

Reserve	Reserve Contribution
General Fund Emergency Reserve	\$1,069,640
Council Contingency Reserve	\$1,250,000
General Liability	\$1,659,820
Workers Compensation	\$1,394,120
Accrued Leave Reserve	\$265,000
Capital Equipment Replacement Reserve	\$528,210

**Recommendations**

1. Budget \$50,000 in FY 1999-00, bringing the emergency reserve to \$1,119,640, or 5% of General Fund operating expenditures, for FY 1999-00.
2. Recommend that \$200,000 be set aside in fiscal year 1999-00 to fund the Council Contingency Reserve.
3. Revise City’s fiscal policy to read, “. . .The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.”
4. Maintain the reserve in the General Liability Fund at three times the self insurance retention (\$300,000) and an additional \$350,000 (the average of the previous five years of claims costs not covered by the insurance pool).
5. 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 1999-00 in the amount of \$75,000.
6. Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually for the next two years from the General Fund.

**Insurance Pool Analysis**

**Objective**

*To conduct an insurance pool analysis and an evaluation to determine insurance pool coverage options.*

**An analysis of the City’s insurance provider was conducted in 1999**

A thorough examination was conducted of various insurance coverages for City liability and property losses. This study was initiated as a result of several problems that the City has had with the current insurance provider, the Orange County Cities Risk Management Authority (OCCRMA). During the course of the study a new firm was hired to perform the role of General Manager of the Authority which, in the opinion of staff and the City’s broker, will result in an improvements in the service provided by OCCRMA.

This report examined several different options for attaining insurance, including:

- Full Self Insurance

- Insurance Pools
- Commercial insurance

The following options for insurance were considered:

- California Municipal Excess Liability Program
- Royal Insurance Company
- Municipal Mutual Insurance Company
- California Joint Powers Insurance Authority
- Orange County Cities Risk Management Authority (OCCRMA)

Due to the complexity of this project, the City's benefit consultant from Tillinghast-Towers Perrin and the City's broker, Robert F. Driver Company, assisted in performing the insurance analysis. All options were considered as a part of the study; however, it was recommended that the City retain OCCRMA as its insurance provider.

### ***Different coverage options were examined including...***

#### ***1. Full Self-Insurance***

#### ***2. Commercial Insurance***

#### ***3. Insurance Pools***

The different options for attaining coverage were evaluated based on the following information:

- **Full Self-Insurance:** Under this option the City would have 100% control over the resolution of claims. The City would also be responsible for its own experience without sharing losses with other agencies. However, a large claim could have a significant impact on the City, and the City would need to hire additional staff to manage the program. This alternative is not considered viable and is not recommended.
- **Commercial Insurance:** Under this option, when the market is "soft", i.e. insurance rates are relatively low, the City can obtain coverage at a competitive price. Insurance companies are also covered under the California State Department of Regulations. However, there are several disadvantages to commercial insurance: Cities that leave pools for the soft market and then try to return may have difficulty returning to an insurance pool. Also, insurance coverage's generally have extensive exclusions. Finally, cities may not reap the benefits of good loss control in the form of dividends or lower premiums with insurance companies. Although, this is a viable option, it is not recommended at this time due to the uncertainty of obtaining adequate insurance when prices increase.
- **Insurance Pools:** Under this option, cities pool their risk for liability coverage with other governmental agencies. Each city appoints a member to the Board of Directors, which allows some control over insurance decisions. The City of San Clemente has invested over \$3,000,000 in OCCRMA over the past 13 years. The pool is nearly fully funded and the City would not be able to withdraw funds from the pool unless the pool was dissolved. For this reason, and the fact that OCCRMA is extremely strong financially, it is recommended that the City continue its relationship with OCCRMA.

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# Long Term Financial Plan

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## **Recommendations**

1. City should stay with the Orange County Cities Risk Management Authority (OCCRMA).
2. The City, in 2 years, should evaluate as part of the LTFP the following issues and concerns:
  - Review and update Joint Powers Authority (JPA) governing documents.
  - Review and consider rewriting of Pool Liability Contract plus coverage enhancements.
  - Improve the level of service received by each of the member cities.
  - Be proactive and creative in making changes to OCCRMA to meet the needs of the membership.
  - Establish better communication between the General Manager and the members. In the past, there has not been sufficient communication, however, staff believes there will be more effective communication with the new General Manager.
  - Provide funding for risk management education and loss control funds to use anywhere in City operations.
  - Study the potential to add other public entities to OCCRMA.
  - Study financial impact of selling liabilities from first 10 years of Pooled Program.
  - Consider and analyze lower Self-Insured Retention (SIR's) on Pooled Liability.
  - Apply for CAJPA or PRIMA accreditation of OCCRMA.
  - Share in the cost of actuarial studies on Liability-50/50 split or reduced fees for members.
  - Provide training in management of litigated claims and control of attorney fees.

## **Street Improvement Program Update**

### **Objective**

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

**62 street projects totaling 19.5 miles have been completed**

**24 projects totaling 5.5 miles will be completed this fiscal year**

Since the City Council's approval of this \$55 million program in July 1995, sixty-two (62) street projects (totaling 19.5 miles) have been completed and an additional twenty-four (24) street projects (totaling 5.5 miles) will be constructed during FY98-99. Acceleration of this highly visible and successful improvement program was made possible by the sale of bonds in the second year, instead of the originally planned third year of the program, which has made it possible for ten additional projects to be constructed earlier than originally scheduled.

***Savings of \$2.5 million have been realized; however, revenues are short by \$1.3 million.***

***Some streets are failing at a faster rate than predicted***

The Program's short term financial picture remains mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in a savings of about \$2.5 million or about 17% of the original estimated street projects costs. On the other hand, actual annual program revenues of \$1.325 million in annual revenue collected from the Street Improvement Assessment District is approximately \$175,000 per year or 12% less than the \$1.5 million per year originally projected. This funding shortfall is the result of adjustments that were made to private golf courses and to other parcels based upon refined information from the Orange County Tax Assessor's office. Over the next 15 years, this means the District's total revenues 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. One additional concern is that some of the streets included in the Program are failing at a rate faster than originally predicted. This will result in more streets having to be reconstructed rather than overlaid, which will likely double the costs for those streets.

A long term financial forecast is difficult to predict. There are several program revenue sources the City does not have control of, which include the Arterial Highway Financing Program (lost due to County bankruptcy), Proposition 111 and Measure M Turnback funds. Measure M funds are scheduled to sunset in FY 2013-14 and, if not renewed, the City will have to identify other sources of revenues to maintain its street quality standards. On the positive side, the City does have a stable and reliable funding source from the Street Assessment District. In the final analysis there are certain program uncertainties which include projecting pavement life (wet vs. dry winters), rehabilitation vs. reconstruction (2x cost factor), and inflationary pressures. Thus far the program has not been impacted by inflationary factors and, based upon the demonstrated success of the program over the past 3 ½ years, there is every reason to believe that the City will continue to make appropriate and sustained progress in meeting its program goals in the foreseeable future.

***Annual funding of \$400,000 for the major maintenance program should be restored***

In addition to this Program, staff is also recommending that the City Council give favorable consideration to resuming annual funding (\$400,000) for the "Major Maintenance" program. This program was implemented to address those streets that were not included in the Street Improvement Program or those streets that are not scheduled for improvement/rehabilitation for several years out. Unfortunately, as a result of Proposition 218, this program was discontinued due to funding cutbacks and layoffs in the Street Maintenance Division. Resumption of the thin asphalt overlay program will result in reduced maintenance costs, better appearance and ride quality, certain streets may be saved for an overlay project, instead of losing them to total, more costly reconstruction and it will improve the image of selected neighborhoods at reasonable costs.

### ***Recommendations***

1. Approve and authorize the allocation of a General Fund contribution of \$515,000 for the coming FY 1999-00.

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## Long Term Financial Plan

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2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Accelerate street projects in the program in accordance to the availability of funds and the proximity of other street projects.
4. Re-establish the Major Street Maintenance Program with an annual funding level of \$400,000 for the next five (5) years, to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.

### Computer Strategic Plan Update

#### **Objective**

*To provide an update and funding analysis of the implementation of the City's Computer Strategic Plan*

#### **The City's aging computers are being replaced with a Year 2000 compatible system**

Five years ago the Computer Strategic Plan called for a systematic replacement of the City's aging computer systems with current technology that would be Year 2000 compatible. The plan has been implemented on schedule. The City should enter the new millennium with computer systems that are not only Year 2000 compatible, but also ready to use new technologies to improve service levels for the Citizens of San Clemente. Information Services calls this developing technology "Virtual City Hall." A detailed listing of the Computer Strategic Plan can be found in volume two of the Long Term Financial Plan. Following are key issues facing the City regarding the implementation of City's Computer Strategic Plan:

#### **Hardware and software will be tested for Year 2000 compliance**

- *Year 2000 Compliance:* To ensure that the City's Computer Systems are Year 2000 compliant, both software and hardware will be tested extensively in the winter of 1999. To verify this a City Wide Year 2000 test will be completed on April 1<sup>st</sup>, 1999.
- *Permitting Software* – The City's new software vendor may not have its new permitting software ready for production use in time for staff to convert prior to the Year 2000. The City will examine options for the permitting system and submit an upgrade proposal, if necessary.
- *Internet Access-* The City is negotiating with Cox Communications for Internet access at a reduced rate. When an appropriate agreement can be reached staff will return to Council with the costs for Internet Access and a strategic plan that defines how staff will use Internet as part of business operations.

#### **Offsite access should be established for City Council members**

- *Council inclusion in the City's "Virtual City Hall"*- The City's computer systems have been designed so that all City's facilities appear as if they are in one building. This "Intranet" is referred to as our "Virtual City Hall". The next logical step is to allow offsite access for Council to the "Virtual City Hall" including E-Mail and access to appropriate data and programs. This is best accomplished with laptop

computers configured with the City's standard software "image". Configured computers will cost about \$2,500 including hardware and software licenses

- *Information Systems Streamlining* – The new "Intranet" has allowed Information Services to streamline its current staffing levels by reducing a one-half time position at a savings of about \$30,000 a year.

### **Recommendations**

1. Adopt the recommended Computer Strategic Plan in concept.
2. Direct staff to return with a request to upgrade its permitting software, if necessary.
3. Direct staff to return with a proposal from Cox Communications for Internet Access and a Plan to implement Internet within business operations.
4. Determine whether Council wishes to purchase laptop computers either during mid year budget adjustments or included in the FY 1999-00 budget.

## **Development and Growth Issues**

### **Objective**

*To understand and plan for service needs that will be the result of new growth and development.*

**The City should remain in a positive fiscal revenue/expense balance as the City builds-out**

The analysis contained in the Development and Growth issue paper indicates that the City should remain in a positive fiscal revenue/expense balance as the City builds-out. Ultimate fiscal balance should be positive *if the City is able to adhere to General Plan policies and effectively implement those policies over the coming 10-years*. However, if new development does not occur as planned, if commercial areas are not developed, and if major transportation infrastructure is not completed, then the City would end up in a perpetual negative revenue to expense crisis, which would eventually require major budget and service level changes. Three major issues are addressed.

**Three major issues are addressed...**

1. *Make sure that the overall balance of land uses that is anticipated in the General Plan is implemented.* The balance between commercial, business park, and residential development which makes up the City's General Plan build-out scenario is vital to the City's fiscal health and quality of life.
2. *Proceed with caution.* Along with being conscious of the fiscal impacts that will be achieved once the City is built-out, we need to be conscious of the fiscal balances that the City will experience on the way to achieving build-out. The temporary fiscal impacts resulting from the approval of commercial, business park, and residential projects, needs to be considered, even when these projects are consistent with the City's General Plan.

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# Long Term Financial Plan

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3. *Be careful of when major new public facilities requiring annual operating and maintenance expenditures are budgeted and built.* The timing of major public facilities, such as the City's fourth fire station or the special recreation facilities planned for Forster Ranch and Talega, is important because these facilities result in significant increases in General Fund expenditures. *The construction, and resulting operation and maintenance costs of these facilities must be timed when corresponding significant and sustainable increases in the City's General Fund revenues can be counted upon.*

## **Recommendations**

1. Direct staff to ensure that the overall balance of land uses that are anticipated in the General Plan are implemented.
2. Direct staff to ensure that fiscal balance will be achieved at build-out.
3. Direct staff to phase the construction of major new facilities and ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.
4. Direct staff to budget resources to properly administer the growth and development that will occur over the next ten years.

## **Capital Facilities Plan**

### **Objective**

*To develop a Master Plan for City facilities for siting options, construction phasing, priorities, and timing for facility construction. Factors to consider in the decision making process will include capital financing ability and strategy, operational costs and capacity of City to fund those costs, public safety, and public need.*

***The City will receive significant resources for capital improvements over the next 10 years***

The City is in position to receive significant resources for capital improvements over the coming 10-years. The source of this funding is from the development community and more specifically, five different land developers that have proposed development which will be phased in over the coming years. Those five development projects include 1) Plaza Pacifica, 2) Laing-Forster Ranch, 3) Talega, 4) Marblehead Coastal, and 5) Monarch.

***A number of policy issues will be addressed***

Along with this exciting opportunity to provide new public facilities for the community, a number of interesting policy issues must be addressed. For instance, a) how much will operation and maintenance cost the City for each of the different facilities that can be funded with the resources that will be received? b) How will our economic tax base increase as a result of the growth that will occur over the next 10-years? c) What sites will be available for which public facilities and at what point in time? d) Given a gradual increase in economic base and tax base growth, and the consequential gradual increase in ability to fund operation and maintenance of facilities, which public facilities should be phased in first? e) What types of public process should the City Council use to help determine priorities and policy? To answer these questions and more, a Master Plan for City Facilities should be developed.



***A request for proposal to develop a Capital Facilities Plan should be solicited***

***Recommendations***

1. Direct staff to solicit a request for proposal from qualified teams to analyze and make recommendations on a Capital Facilities Plan (Cost \$60,000-\$100,000).
2. Direct staff to structure development of a Master Plan for City Facilities in a two-phased process. The first phase of the City Master Plan process will be analytic. Phase two will involve a community-input process.

**Utility Operations Analysis**

***Objective***

*To establish a water rate that will provide a balanced budget for the Water Fund and provide for long-term financial stability of the Fund, while at the same time providing quality service and equity to the consumers in each user classification.*

***The Water Fund will end fiscal 1998-99 with a \$500,000 deficit***

Over the past several years, the Water Fund Operating budget has operated in a deficit spending mode where expenditures have significantly exceeded revenues. It is projected that the operating budget will finish Fiscal Year 1998-99 with a negative cash balance of approximately \$500,000.

Over the past three years, every effort has been made to balance the budget and provide a positive end of year cash balance. Some of those efforts are listed below:

***Several efficiency measures have been implemented in order to cut costs***

- Reduction of personnel (2 positions equal to 16% of the maintenance workforce)
- Reduction of operating costs (\$270,000 equal to 3.5% of operating expense budget)
- Change in operating procedures by going to a pooled maintenance concept.
- Implementation of a water meter evaluation and replacement program.

***Due to El Nino water sales revenue was \$575,000 less than projected***

Based on the above listed measures, it was projected the operating budget would go positive by the end of Fiscal Year 1997-98 without a water rate increase. This goal was not realized, primarily as a result of the effects of El Nino during the winter of 1997-98. The loss of water sales resulted in a loss of revenue of approximately \$575,000. Further compounding the situation was a downward shift in the average cost of water to the consumer of \$0.14 per billing unit resulting in a loss of revenue of approximately \$500,000.

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# Long Term Financial Plan

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**A rate increase is proposed effective July 1, 1999. There are two alternatives to consider:**

- 1. 7.5% at July 1, 1999**
- 2. 5% at July 1, 1999 and 3% at July 1, 2000**

**An average residential water bill would increase \$2.12 per month under the single fee increase...**

**...and \$2.30 for the multiple year increase**

**An automatic pass through of wholesale water, personnel, electricity, and chemical costs is proposed**

**A review of all developer deposit accounts was conducted this year**

As a result of the projected negative cash balance for FY 1998-99, it is necessary to consider a rate increase for the 1999-00 fiscal year. Staff has prepared two options for the Council's consideration.

1. An increase to the fixed fee and consumption fee of 7.5% effective July 1, 1999
2. A two-year increase to the fixed fee and consumption fee of 5% effective July 1, 1999 and a 3% increase effective July 1, 2000.

The single year, 7.5% increase will adjust the fixed fee from a range of \$0.46 to \$6.93 per month depending on meter size and the consumption fee will increase over a range of from \$0.10 to \$0.23 per billing unit. This translates to an increase to the average monthly, summer water bill for a single family residential (0-7,000 sf) customer of \$2.12.

The multi-year 5% + 3% increase will result in an adjustment of the fixed fee from a range of \$0.50 to \$7.53 per month depending on meter size, and the consumption fee will increase over a range of \$0.11 to \$0.025 per billing unit. This translates to a total increase to the average monthly, summer water bill for a single family residential (0-7,000 sf) customer of \$2.30.

Both of the options presented by staff meet the objective of providing fiscal stability for the Water Fund, however the unknown factors of wholesale water costs, personnel costs, electrical energy and chemical cost increases could easily outpace increases in revenue. To protect against these uncertainties, it is proposed that consideration be given to building in an automatic pass through cost increase mechanism, triggered by an increase in wholesale water cost, personnel costs, electricity and/or chemical costs.

### **Recommendation**

1. It is staff's recommendation that the City Council favorably consider the single year rate increase of 7.5%. Positive aspects of this scenario are a faster recovery of fund balance at an overall lower cost to the consumer. Further, staff recommends that the Council give favorable consideration to an automatic pass through increase, and that staff be directed to review the current distribution of fixed and variable expenses.

## **Deposit Account Analysis**

### **Objective**

*To analyze and reconcile deposit accounts, and make recommendations for disbursement of these accounts, when appropriate.*

The City of San Clemente collects deposits from development companies and individuals for services which will be provided in the future. Deposit accounts contain receipts from the years 1986 through 1999. Deposits collected are much like paying a bill in advance where the monies collected become a liability or obligation of the City. These monies must be refunded if services are not provided by the City and are converted to revenue when

the services are performed. Unfortunately, the City did not have the resources necessary to track old deposits, prior to 1994. Procedures were implemented after that date to track all deposit accounts.

**Procedures for tracking of deposit funds have been implemented**

Deposits are received and tracked by the City's Planning and Engineering Divisions. Staff time on a bi-weekly basis, as well as vendor payments for services provided to developers, are charged against these deposit (liability) accounts.

In order to ascertain the proper disposition of deposit accounts, all deposit receipts greater than \$5,000 were selected for in-depth research. These deposits amounted to \$357,000 of the \$917,000 total deposits (Exhibit A in Volume II).

In addition to this research being conducted, the Finance & Administrative Services Department has coordinated a Project Tracking Committee which has compiled a lists of needs associated with deposit/project tracking. They have also investigated computer programs to further automate this process.

**Refunds totaling \$116,000 should be made and \$143,000 should be posted to revenue**

**Recommendations**

1. Deposit accounts should be handled as summarized below:

Retain monies in deposit (liability) accounts until services completed by City	\$558,980
Refund deposit monies	\$115,750 <sup>1)</sup>
Conduct further research on receipts/services provided	\$ 99,420 <sup>2)</sup>
Transfer monies from deposit (liability) accounts to City revenue accounts for services provided	\$142,940
<b>Total of deposit accounts</b>	<b>\$917,090</b>

- 1) Two developers securing sewer connection fees as part of the 85-1 Sewer Assessment District made these deposits. These deposits were made on behalf of the property owners and should be refunded to the property owners.
  - 2) These deposits were made by several companies/individuals. Additional research is necessary to match receipts to services performed.
2. The Project Tracking Committee should continue their work with finalizing a decision on a centralized accounting and tracking system for deposits and projects. Oversight responsibility for this tracking program should be maintained in the Finance & Administrative Services Department.



### Financial Trends

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

#### **Introduction**

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

The analysis that follows and the conclusions and recommendations which come from this analysis involve analyzing a number of factors to determine the financial well-being of the City of San Clemente. Some of the factors which are analyzed include:

- The economic condition of the City and the surrounding region;
- Types and amounts of revenues and whether they are sufficient and the right mix to support the population as it continues to grow;
- Expenditure levels and whether these expenditures are sufficient to provide the citizens of San Clemente with the desired level of services currently and as the City continues to grow;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic downturn;
- Debt levels and their impacts upon current City financial resources.

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

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

***Trend data is as of June 30, 1998***

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Report for fiscal year 1993-94 through fiscal year 1997-98. Consequently, all trends are based on data available as of June 30, 1998, and do not incorporate any changes that have occurred since that time. For example, a transfer of \$500,000 is being made from the General Fund to the Street Improvement Fund during FY 1998-99. This transfer is not included in the analyses that follow and thus any financial indicators affected by this transfer, such as General Fund fund balance, have also not been included in this report.

#### **Summary of Trend Analysis**

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

# Long Term Financial Plan

**F = Favorable**

**U = Unfavorable**

**W = Warning**

<b>Favorable:</b>	This trend is <b>positive</b> with respect to the City's goals, policies, and national criteria.
<b>Unfavorable:</b>	This trend is <b>negative</b> , and there is an immediate need for the City to take corrective action.
<b>Warning:</b>	This rating indicates that a trend has <b>changed</b> from a positive direction and is going in a direction that may have an <b>adverse</b> effect on the City's financial condition. This rating is also used to indicate that, although a trend may appear to be favorable, it is not yet in conformance with the City's adopted fiscal policies.

A brief summary of indicators and the rating assigned to each is listed below. This comparative data is provided to illustrate any positive or negative changes noted in the trends over the past seven years.

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

<b>Indicator</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
Revenues Per Capita	F	F	F	F	U	U	U
Property Tax Revenues	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	U	U
Licenses & Permits	F	U	F	F	F	U	U
Comm. Develop. Charges	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	F	W	W
Intergovernmental Revenues	F	F	F	F	F	F	F
Revenue Overages /Shortages	F	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	F	W	W
Employees Per Capita	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F	F
Property Values	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F

**while only 1 is unfavorable...**

**Improved economy and long-term financial planning have contributed to City's fiscal health**

The improved fiscal health of the City evidenced above is not only the result of external factors, such as an improved economy, but also the direct result of a conscious effort and continual planning on the part of City Council and staff. This planning includes a series of fiscal policies first implemented in 1992 and revised, as needed, and the preparation of an annual Long Term Financial Plan.

The 1999 Long Term Financial Plan again includes the analysis of twenty trends. Of the trends analyzed, 19 received *favorable* ratings and only 1 is *unfavorable*. This is a significant improvement over 1993 where only six indicators showed favorable signs.

**Two indicators were upgraded to favorable ratings. . .**

License and permit revenues and community development services charges were upgraded during the past year to favorable. These are detailed below:

- *License & Permit Revenues* - This revenue category increased 27.5% over the previous fiscal year. This is a direct result of the improved local economy with an increase in the number of new residential permits and two new commercial/industrial buildings within the City.
- *Community Development Services Charges* - This revenue shows a positive trend for the first time in seven years, with an increase of \$50,000. This category has shown relative stability since FY 1994-95, warranting an upgrade to favorable.

**One indicator is downgraded...**

This 1999 Trend Analysis shows one financial indicator being downgraded as detailed below.

- *Employees per capita* - This category has been steadily declining over the past seven years. The City's full time equivalents (FTE's) has gone from 353 in FY 1991-92 to 159 in FY 1997-98, a decline of 55% over the seven year period. This indicator receives an unfavorable rating after receiving a note of caution in the prior year. This indicates that employee levels may be too low to support current and future service levels.

**Emergency reserves are fully funded with progress made to fund capital replacement and accrued leave reserves**

It should also be noted that the City's improved fiscal health has been partially attained by fully funding the emergency reserve at 5% of General Fund operating expenditures and by contributing to the Capital Equipment Replacement and Accrued Leave Reserve Funds.

**The City continues to maintain its financial stability after difficult decisions**

Because of the commitment to implementing recommendations submitted as a result of the City's annual financial planning process, the City's financial condition has stabilized and shows signs of growth. The past two years have included difficult decisions as the City faced the devastating effects of Proposition 218 and its \$2.8 million budget shortfall. Yet, even with the financial crisis, choices were made in order to balance the budget and financial stability was maintained within the City. The City's improved fiscal position is the result of this financial planning, funding of necessary

# Long Term Financial Plan

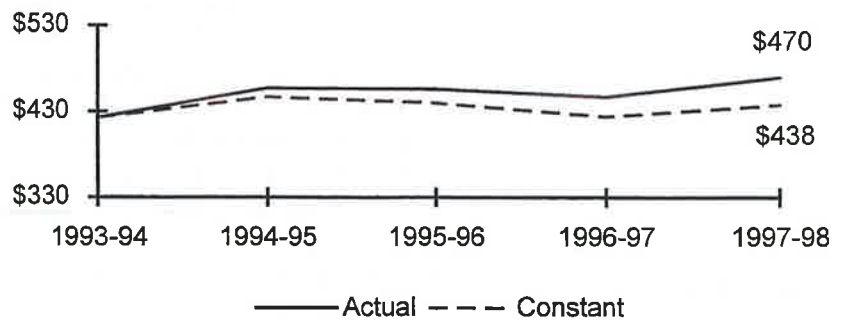
reserves, the improved local and regional economy, and the cost reductions and streamlining efforts made by many of the City's departments.

The following sections provide a brief overview of many of the indicators listed in the table above. Volume II of the 1999 Long Term Financial Plan contains a complete description of all financial indicators.

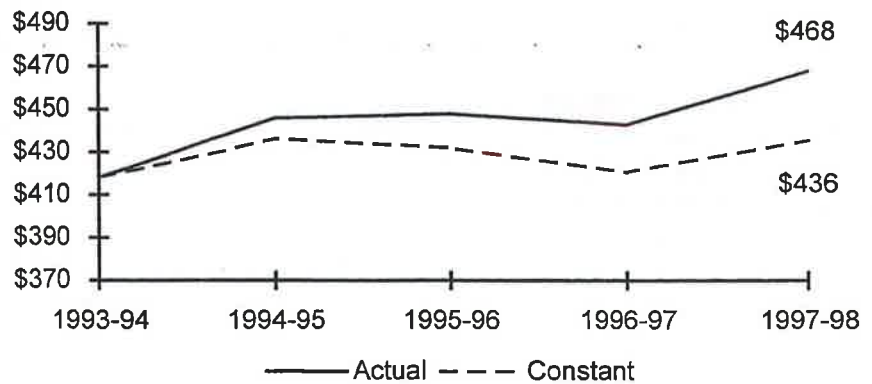
## Revenues

### Revenues Per Capita

**REVENUES PER CAPITA  
Actual and 1994 Constant Dollars  
General Fund**



**REVENUES PER CAPITA  
EXCLUDING ONE-TIME REVENUES  
Actual and 1994 Constant Dollars  
General Fund**





**Revenues per capita shows increases in actual and constant dollars**

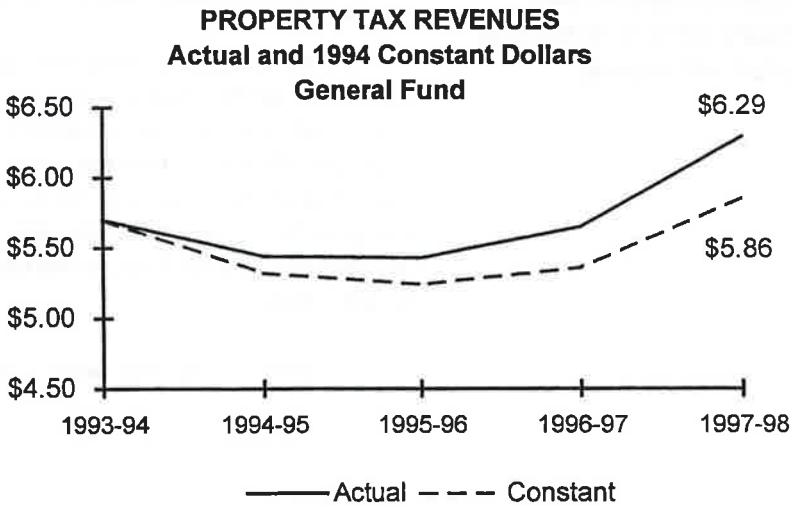
Finding: *FAVORABLE*. Revenues per capita (excluding one-time revenues) reflects an increase when analyzing both actual and constant dollars for FY 1997-98.

Comments: The first chart above on revenues per capita shows an upward trend for both actual and constant dollars. Total revenues for FY 1997-98 increased, as did most revenue categories. Property tax revenues lead with a significant increase of \$632,000. Other revenue increases include license and permit revenues, sales tax revenues, intergovernmental revenues, fines, community development service charges, and rents and commissions. Additionally, transient occupancy tax revenues maintained their all-time high during FY 1997-98. The only reportable decrease in revenues is the loss of in-lieu tax revenues with the program being discontinued as a result of Proposition 218.

The second chart (which excludes one-time revenues), shows both actual and constant dollars increasing for FY 1997-98. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. After maintaining a level trend for a couple of years, revenues per capita shows an increase in both actual and constant dollars. Additionally, the City no longer has to rely on one-time revenues for its operational needs. A clear favorable trend has emerged with this increase in all major categories of General Fund revenues. Thus, a favorable rating has been assigned.

**Property Tax Revenues**

**Property tax revenues increased by 11.2%, the second consecutive increase**



Finding: *FAVORABLE*. Property tax revenues showed a significant increase for FY 1997-98, continuing the positive trend which was initiated one year

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# Long Term Financial Plan

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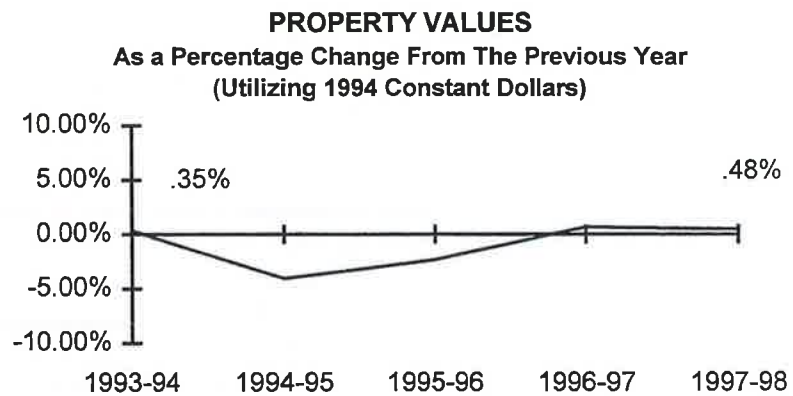
earlier. This comes after a four-year decline as the result of a State imposed property tax shift in FY 1991-92.

***This increase amounted to \$632,000***

Comments: Property tax revenues increased by \$632,000 or 11.2% in actual dollars, and show a 9.2% increase in constant dollars, ending the year \$494,000 above the prior fiscal year. This increase demonstrates the City's improved economy and the rebounding property valuations within the City. This indicator receives a favorable rating for the second consecutive year.

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## ***Property Values***

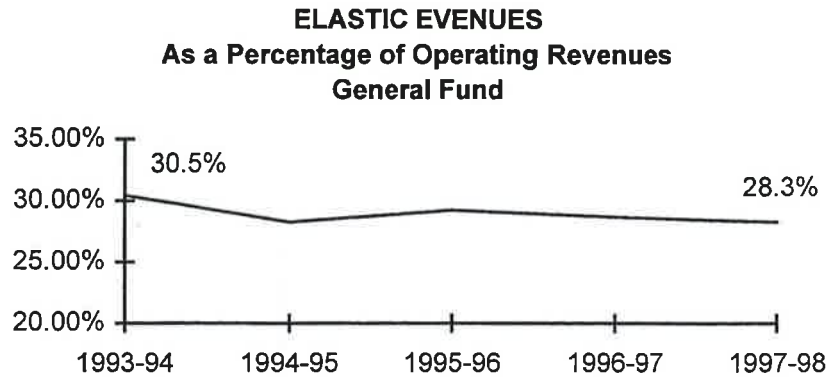


***A positive growth rate in property values was observed for the second consecutive year***

Finding: ***FAVORABLE***. Property values showed a positive growth rate for the second consecutive year in FY 1997-98.

Comments: The growth rate in property values as a percentage rate from the previous year shows an increase of .48%. This is the second consecutive year where a positive trend has emerged. The negative growth rate experienced over the past few years has shown constant improvement. The second year of positive changes results in this indicator receiving a favorable rating. It should be noted, however, that this indicator needs to be continually monitored due to the impact of property tax revenues on the General Fund.

### *Elastic Revenues*



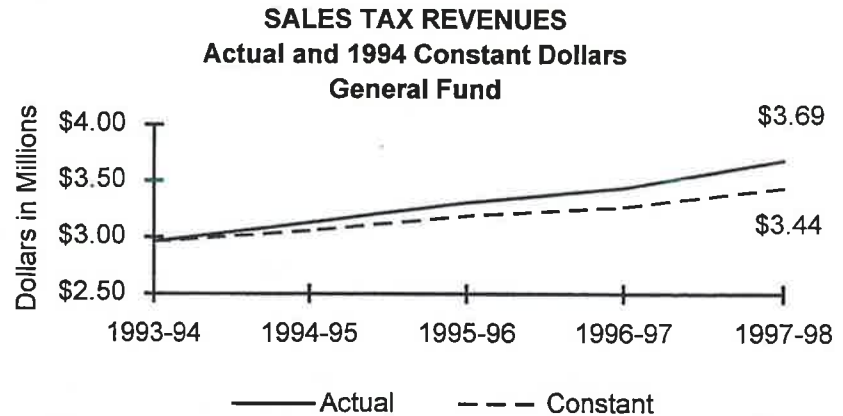
***Elastic revenues showed a slight decline when calculated as a percentage of total revenues***

Finding: ***FAVORABLE***. Elastic revenues, as a percentage of total revenues, declined .4% in FY 1997-98. Actual elastic revenues increased \$356,000, while total revenues increased by \$1,549,000. The result is the decrease shown above.

Comments: The City's largest elastic revenue source, sales tax revenue, was up 7%, or \$241,000, from the prior year. In addition, license and permit revenues came in \$303,000 over the previous year and community development service charges increased \$50,000. Transient occupancy taxes remained virtually the same, continuing an all-time high of \$636,000. The only decline in this revenue category was in-lieu tax revenues which were eliminated in November, 1996, due to Proposition 218. Although elastic revenues, as a percentage of total revenues, declined in FY 1997-98, it has remained fairly stable over the past four years. Therefore, this trend maintains a favorable rating.

# Long Term Financial Plan

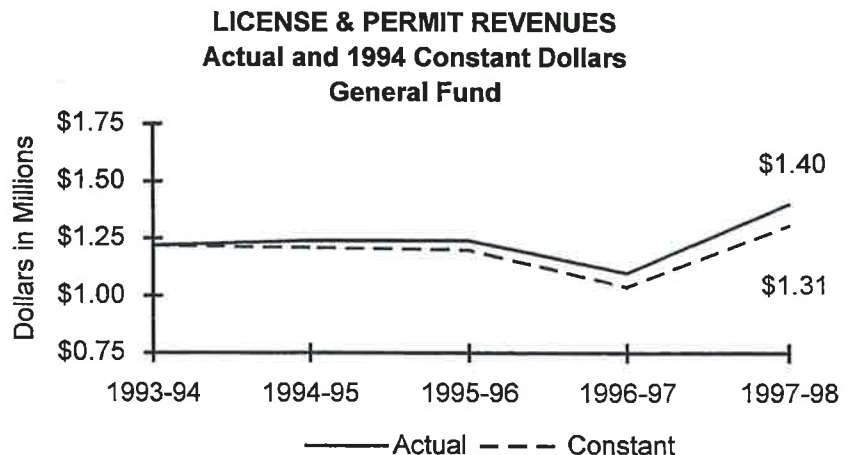
Details concerning each major elastic revenue source follow:



**Sales tax revenues increased \$241,000 in FY 1997-98**

Finding: **FAVORABLE**. As summarized in the chart above, sales tax revenues showed an increase of \$241,000, or 7%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to \$167,000, or 5%.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past four year in actual dollars. In fact, actual dollars have increased 24.6% from sales tax revenues of four years earlier. These increases boost sales tax revenue to a nine year high in actual dollars and the result is once again a favorable rating.



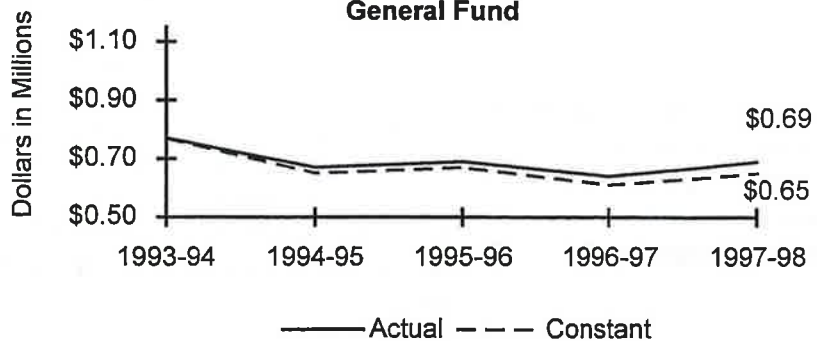
**License and permit revenues show a sharp increase in FY 1997-98**

Finding: **FAVORABLE.** License and permit revenues increased for the first time in four years in FY 1997-98. The increase in actual dollars was significant, amounting to \$303,000, or 27.5%, above the prior fiscal year. The constant dollar increase was substantial as well, with license and permit revenues registering \$264,000, or 25.3%, over fiscal year 1996-97.

**Construction permits increased \$241,000**

Comments: This increase indicates that construction activity has increased over the past year. Included in this increase is construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, which increased \$241,000, or 49.3%. Because this indicator shows such a dramatic increase for the fiscal year and because increased development fees are projected to continue through the current fiscal year, a favorable rating has been assigned.

**COMMUNITY DEVELOPMENT SERVICE CHARGES  
Actual and 1994 Constant Dollars  
General Fund**



Finding: **FAVORABLE.** Total community development service charges increased by 7.7%, or \$50,000 from the prior year. This revenue source has shown relative stability since FY 1994-95.

**Community Development Service Charges recorded an increase of \$50,000**

Comments: Specific revenue sources showing increases include building plan check fees of \$91,000, traffic model fees of \$36,000, grading plan check fees of \$22,000, and site plan review fees of \$8,000. Declines exist in the areas of construction inspection fees, \$126,000, and public works inspection fees, \$15,000. In light of the fact that an increase was shown in FY 1997-98 and current projections indicate that this trend will continue, this indicator has been assigned a favorable rating.

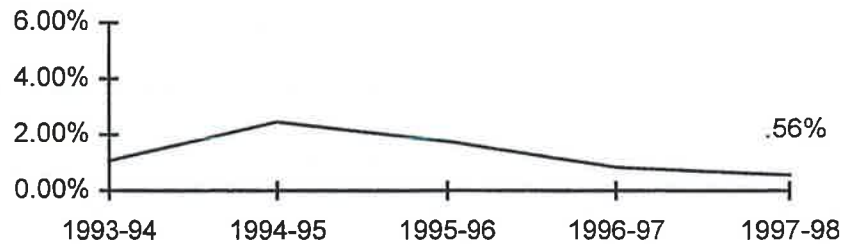
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# Long Term Financial Plan

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## One-Time Revenues

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



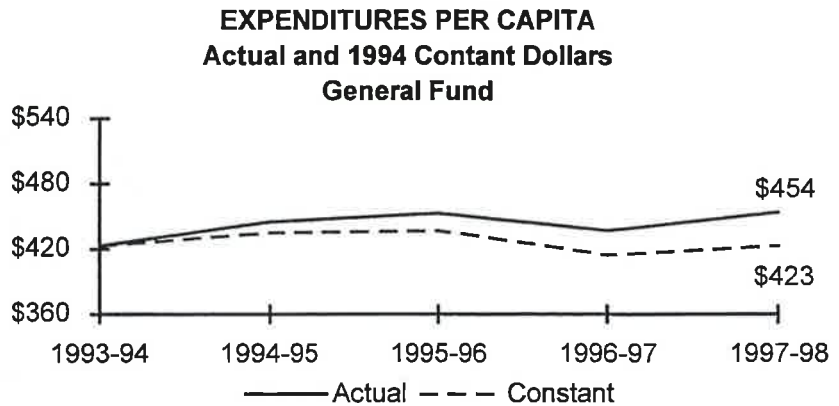
Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled .56% in FY 1997-98, a decrease from the prior year.

Comments: One-time revenues are at an all-time low in FY 1997-98, showing a decline from the prior fiscal year of \$49,000, or 27.8%. This is a very favorable trend. FY 1997-98 one-time revenues included a supplemental law enforcement grant, payroll tax refund, a cable television joint cities settlement, scrap metal sale, and narcotics forfeiture revenue. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator receives a favorable rating.

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

## Expenditures

### Expenditures Per Capita



Finding: **FAVORABLE**. Expenditures per capita increased in both constant and actual dollars for the past fiscal year when compared to the prior year.

**General Fund  
expenditures increased  
\$1,245,000 in  
FY 1997-98**

Comments: In FY 1997-98, expenditures increased in actual dollars by \$1,245,000 when compared with FY 1996-97, and \$814,000 in constant dollars for the same time period. Constant dollar expenditures per capita for FY 1997-98 are at the same level as FY 1993-94.

Additionally, actual expenditures include interfund transfers. For example, FY 1997-98 General Fund expenditures included transfers to the Capital Equipment Replacement Reserve Fund (\$100,000), Workers' Compensation Fund (\$128,000), General Liability Fund (\$83,000), Accrued Leave Reserve Fund (\$40,000), and Street Improvement Fund (\$300,000). These transfers help to ensure that the other funds have adequate reserves to meet emergency needs and fund reserve deficits.

Even though expenditures per capita in constant dollars shows a relatively flat expenditure level throughout the five year period analyzed, most service levels have been maintained with added efficiency on the part of City staff. This indicator receives a favorable rating for this reason. This indicator will be closely monitored to ensure that expenditure levels are maintained to provide a consistent and adequate level of service.

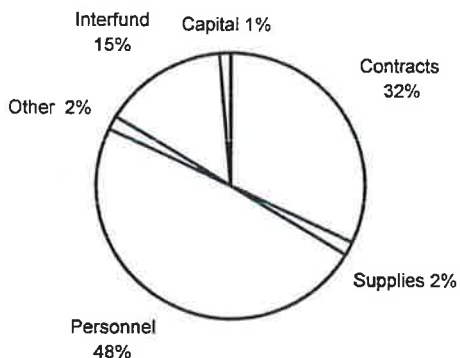
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# Long Term Financial Plan

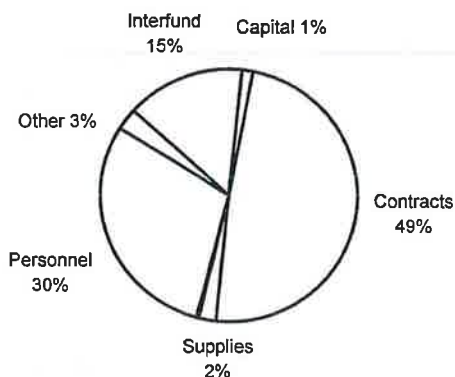
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## Expenditures by Category

1993-94



1997-98



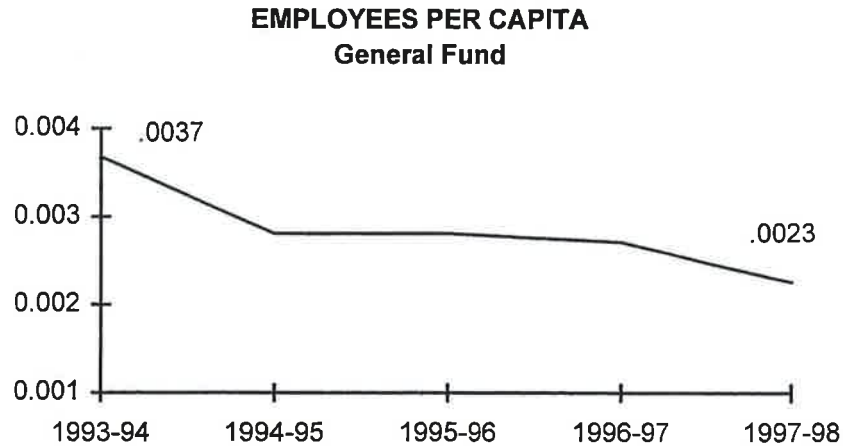
Comments: These charts indicate that personnel costs, as a percentage of the General Fund budget, decreased from 48% in FY 1993-94 to 30% in FY 1997-98. Conversely, contractual services increased from 32% in FY 1993-94 to 49% in FY 1997-98.

**Personnel costs declined from 48% in 1993-94 to 30% in 1997-98**

During the time period illustrated, personnel related costs have been replaced with contractual services by means of contracting out police and fire services and contracting of fleet maintenance, beach and park maintenance, and meter reading. All other categories of General Fund expenditures remained relatively constant over the five-year period.



### Employees Per Capita



Finding: **UNFAVORABLE**. Employees per capita once again declined in FY 1997-98 from the previous fiscal year.

**Employee levels have been reduced 55% in the past seven years**

Comments: This category has been steadily declining over the past seven years. In FY 1991-92, the City had a staffing level of 353 full time equivalents (FTE's). In FY 1997-98, this level had been reduced to 159 FTE's, a total decline of 55% over the seven year period. Included in this staffing reduction was the contracting and privatization of core City services, including police and fire services.

This indicator has reached an all-time low and is downgraded to an unfavorable rating. This trend indicates that employee levels may be getting too low to support current and future service levels as the City continues to grow.

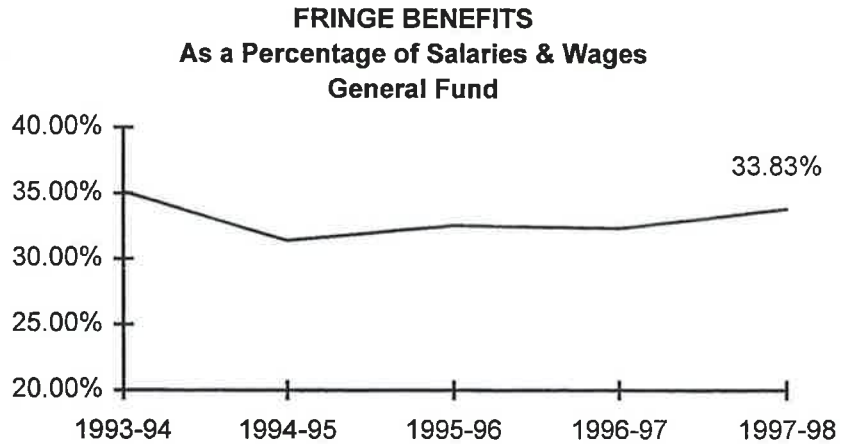
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# Long Term Financial Plan

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## *Fringe Benefits*



***Benefit costs remain relatively stable from the prior year***

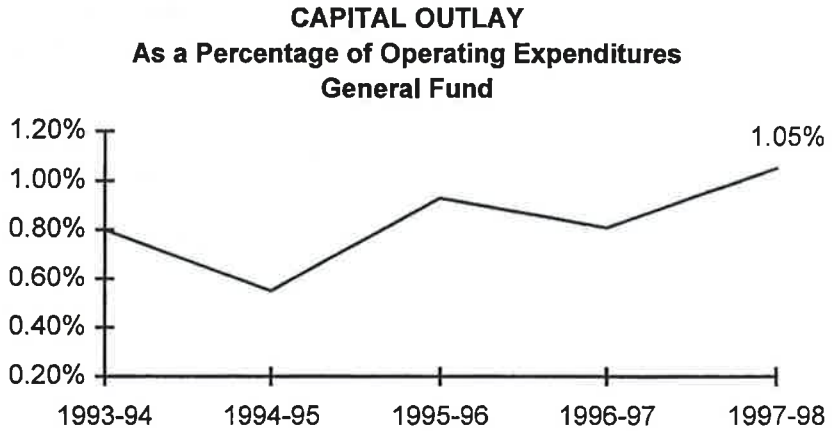
Finding: ***FAVORABLE***. Fringe benefits, as a percentage of General Fund salaries and wages, have increased from 32.3% to 33.8%, continuing the level trend maintained over the past 5 years.

***The City has experienced reduced Workers' Compensation costs***

Comments: This continued positive trend has resulted from employee groups participating in a cost effective managed health care plan. 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. The small increase in FY 1997-98 in fringe benefits as a percentage of salaries and wages of 1.5% is due to increased insurance expenditures, both life and medical.

A favorable rating has been assigned for FY 1997-98, since this trend has stabilized at a positive level.

### Capital Outlay



Finding: **FAVORABLE**. Capital outlay expenditures increased by \$65,000, or 39%, from the prior fiscal year. This is a positive trend, as the City continues to display commitment to the \$100,000 General Fund transfer funding the capital equipment replacement program.

**Expenditures for capital outlay continue to show improvement**

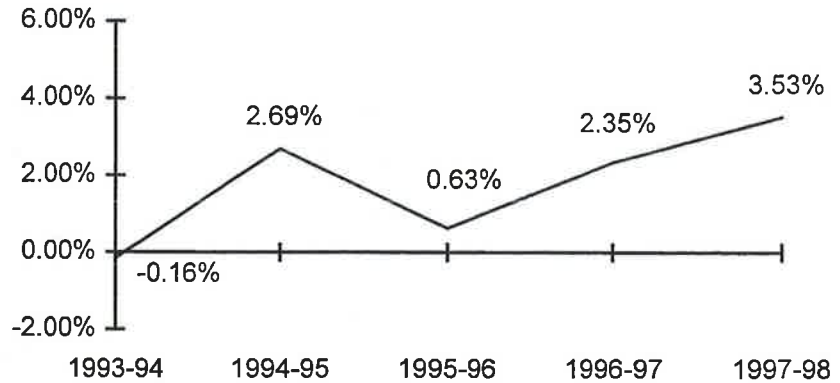
Comments: This Capital Equipment Replacement Reserve Fund was established in FY 1994-95 and the General Fund again contributed \$100,000 in FY 1997-98 to fund this reserve. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the fourth consecutive year because of the renewed commitment to upgrading fixed assets, permitting added efficiency of City operations.

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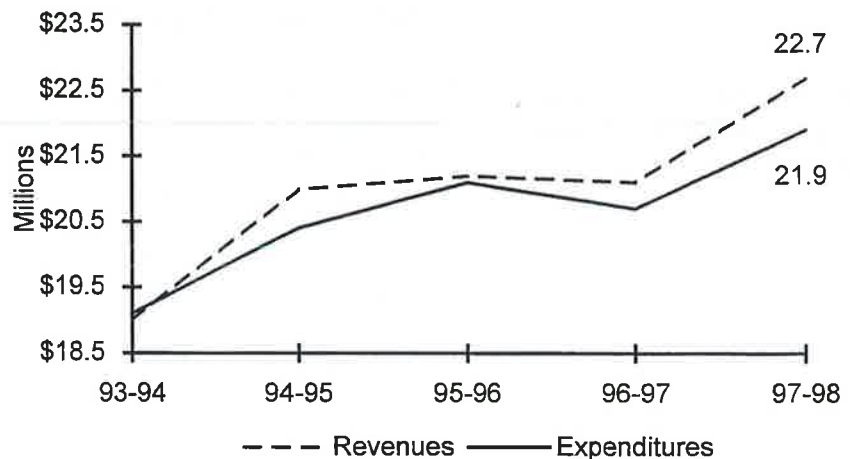
# Long Term Financial Plan

## Operating Position

**OPERATING SURPLUS/DEFICIT  
As a Percentage of Operating Revenues  
General Fund**



**OPERATING POSITION  
Revenues vs Expenditures**



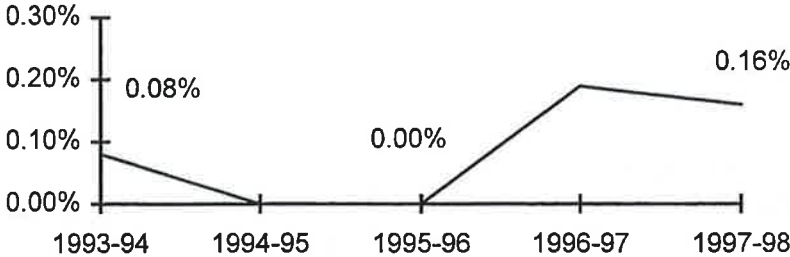
Finding: **FAVORABLE.** FY 1997-98 finished with a positive operating surplus of 3.53% when calculated as a percentage of General Fund revenues.

**FY 1997-98 shows the fourth consecutive year of operating surpluses**

Comments: After experiencing minor operating deficits as a result of a past economic recession and property tax shifts to the State, the City continues on an upward trend with the fourth consecutive year of operating surpluses. These operating surpluses have come as a result of cost saving measures, implemented by the City Council and Administration. The City has maintained service levels while decreasing expenditure levels, and maintaining emergency reserve levels in compliance with fiscal policy. Therefore, a favorable rating has been assigned.

**Debt Service**

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



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

Comments: During the previous year, 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.

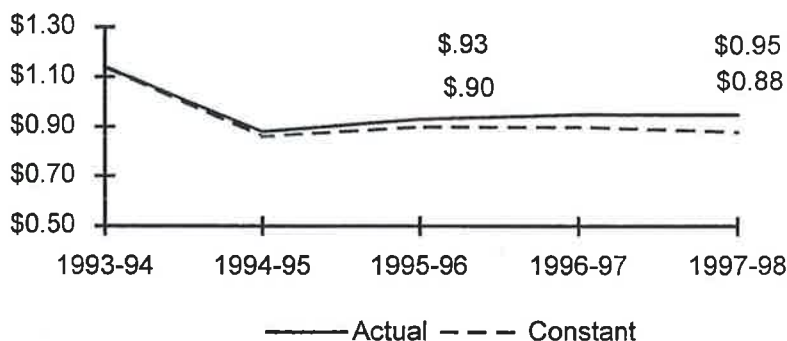
**General Fund's debt service remains at less than 1% of total revenues**

Additionally, it should be noted that the debt service for the Negocio Building bonds is in a separate fund, as well as the City's street assessment bonds, and are not part of this analysis.

# Long Term Financial Plan

## Accumulated Compensated Absences

**ACCUMULATED COMPENSATED ABSENCES**  
Actual and 1994 Constant Dollars



**Contingent liabilities for accrued leave remain favorable**

Finding: **FAVORABLE**. This indicator receives a favorable rating because the City's liability for compensated absences has remained stable since FY 1994-95.

Comments: The considerable drop in FY 1994-95 is attributed to the contracting of fire services with the Orange County Fire Authority. The continuing stabilization in 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.

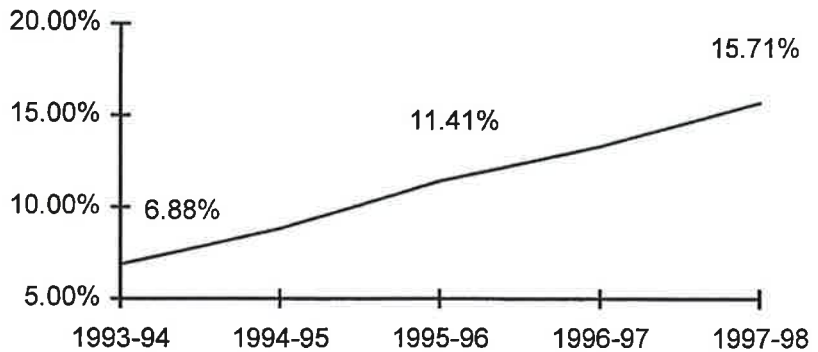
**The balance of the liability for compensated absences is \$946,400**

At June 30, 1998, the balance of the liability for compensated absences was \$946,400 consisting of \$526,780 for vacation, \$386,670 for sick leave, and \$32,950 for compensatory time. This is a decrease of \$5,000, or .53% from the prior year's liability of \$951,400.

In FY 1994-95, an Accrued Leave Reserve Fund was established with a \$75,000 transfer from the General Fund. In FY 1997-98, the General Fund continued its annual contribution with an additional \$40,000 for the payment of accrued leave for terminated employees.

## Reserves

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



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

**Unreserved fund  
balances increased to  
15.71% in FY 1997-98**

Comments: Unreserved fund balance, as a percentage of total revenues, rose another 2% in FY 1997-98 as a result of an increase in unreserved fund balance of \$749,000. The increase in fund balance is due to an operating surplus of \$800,000, and maintenance of the General Fund emergency reserves. Steady increases in this trend indicate the stable position of the City's General Fund.

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

The City Council adopted a fiscal policy requiring that emergency reserves be set at 5% of General Fund operating expenditures. Included within the total FY 1997-98 unreserved fund balance of \$3.6 million are General Fund Emergency Reserves totaling \$1,029,640.

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# Long Term Financial Plan

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## Financial Forecast

The five-year financial forecast for the General Fund has been updated to reflect the current economic projections and the adjusted FY 1998-99 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 1998-99 adopted budget.

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

### Development of the Financial Forecast

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

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

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

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Chapman University's School of Business December 1998 Economic and Business Review. In general, the Chapman forecast predicts a slowing of the economy in 1999, with moderate growth through the forecast period. The consumer price index (CPI) is predicted to increase an average of 2.8%.

The 1999 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

***Revenue growth rates will average 3.4%  
Expenditure growth rates will average 2.7%***

### 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 3.4% a year, compared to the 1998 forecast average of 4.2%. Expenditures are projected to increase at an average rate of 2.7% as compared to the 1998 forecast average of 2.4%.

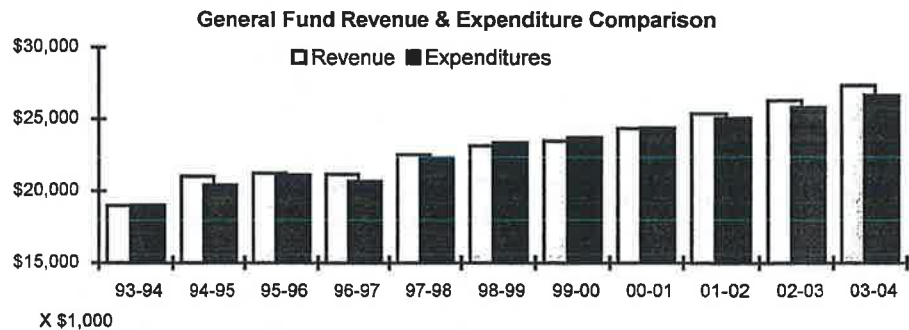
The funding of reserves will be continued in order to maintain full funding levels. In fact, during the five year forecast \$765,000 is allocated to the Capital Equipment, Accrued Leave and Emergency reserves in accordance with the City's fiscal policy. An additional \$1.0 million is scheduled to be allocated for Council Contingency reserves. A total of \$2.7 million will be transferred from the General Fund to the Street Improvement Program. A total of \$2.9 million will be allocated to unfunded public safety liabilities (\$2.4 million) and other debt payments and transfers. This will result in almost \$7.4 million being allocated during the five year period, which

# Financial Forecast

averages \$1.5 million per year or 6.0% of the total adjusted budget for FY 1998-99.

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

**Historical and projected revenues and expenditures**



## Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in each 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 1998-99 adopted budget forecast to the 1999 LTFP forecast:

### 1999 Forecast Summary (Adopted Budget)

Amounts in \$1,000

**FY 1998-99 adopted budget forecast - Operating position**

	1998-99	1999-00	2000-01	2001-02	2002-03
Revenues	\$22,306	\$23,124	\$24,044	\$25,135	\$26,174
Expenditures	22,130	22,614	23,254	23,859	24,523
Operating Result	\$176	\$510	\$790	\$1,276	\$1,651

### 1999 Forecast Summary (LTFP)

Amounts in \$1,000

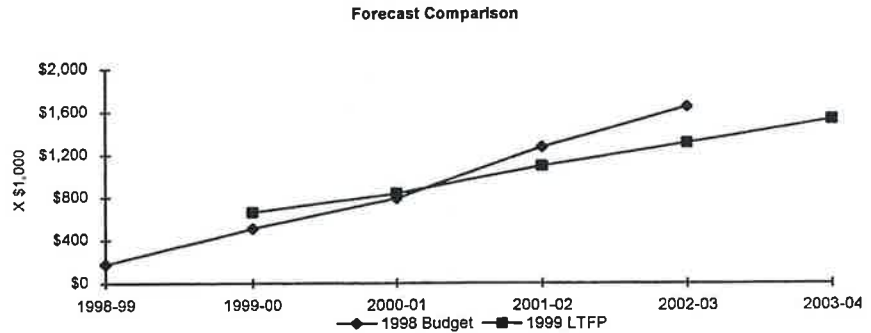
**1999 LTFP forecast - Operating position**

	1999-00	2000-01	2001-02	2002-03	2003-04
Revenues	\$23,498	\$24,351	\$25,377	\$26,315	\$27,372
Expenditures	22,835	23,512	24,277	25,001	25,837
Operating Result	\$663	\$839	\$1,100	\$1,314	\$1,535

# Long Term Financial Plan

## Operational Position FY 1998-99 Adopted Budget vs. 1999 LTFP Forecast

The following chart provides a graphical comparison of the City's operational position for the FY 1998-99 adopted budget forecast and the 1999 LTFP forecast.



**Positive operating position in all five years of the forecast**

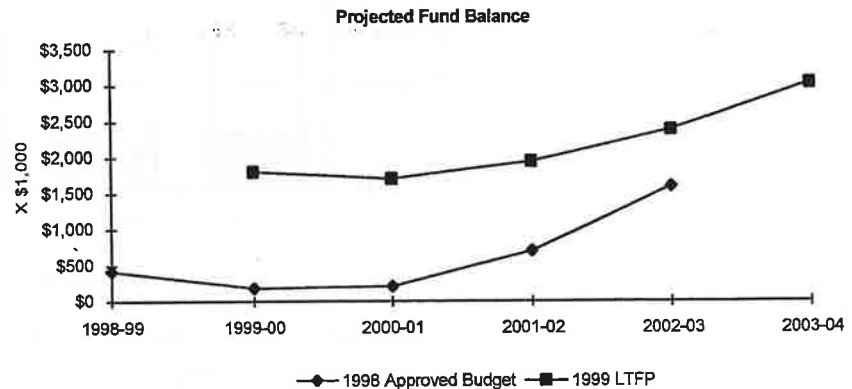
The discrepancy between the two forecasts is due to:

- Mid-year adjustments to General Fund operating revenues, which increased the base revenue budget in FY 1998-99. As a result, a slightly better operating position in years one and two.
- Three projected full-time positions are included in the forecast in FY 1999-00, with an additional two positions added each year thereafter. In total, eleven new positions are added during the forecast period based on future development and the results of the organizational study conducted in 1998. As compared to the 1999 adopted budget forecast, one new full-time position was included each year beginning in FY 1999-00 for a total of four new positions over the forecast period.

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

### Fund Balance

The chart below illustrates projected fund balances from the FY 1998-99 adopted budget forecast to the 1999 Long Term Financial Plan forecast.



# Financial Forecast

The actual ending fund balance for fiscal year 1997-98 increased \$1,321,000 over projection (i.e. the projected ending fund balance was projected at \$1,024,000 and actual fund balance was \$2,345,000). The change in the fund balance projection was due to:

- Actual revenue for FY 1997-98 was \$1.2 million higher than projected in the budget forecast.
- Actual expenditures for FY 1997-98 were \$144,000 under the projection in the budget forecast.

Fund balance will be reduced in FY 2000-01 due to higher operating costs for the added positions. Fund balance will increase in the last three years of the forecast period as the City's operational position improves and the capital equipment reserve is fully funded.

## Fund Balance and Emergency Reserve

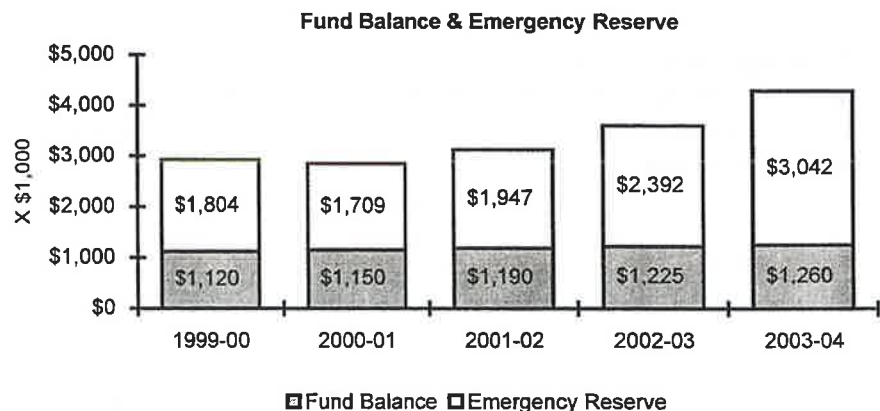
### Fund Balance and Reserves

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

**Total fund balances are projected at \$2.9 million in FY 1999-00**

### Fund Balance & Emergency Reserve

Amounts in \$1,000	1999-00	2000-01	2001-02	2002-03	2003-04
Fund Balance	\$1,804	\$1,709	\$1,947	\$2,392	\$3,042
Emergency Reserves (5%)	\$1,120	\$1,150	\$1,190	\$1,225	\$1,260
<b>Total</b>	<b>\$2,924</b>	<b>\$2,859</b>	<b>\$3,137</b>	<b>\$3,617</b>	<b>\$4,302</b>



As depicted above, the City will maintain total fund balances averaging \$2.9 million over the first two years of the forecast period. Beginning in FY2001-02, fund balances will begin to increase due to the improvement of the City's operating position. At the end of FY 1999-00 total fund balances amount to \$2.9 million and is projected to grow to \$4.3 million in FY 2003-04.

# Long Term Financial Plan

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

## Cash flow by year

### Cash Flow By Year

Amount in 1000's

	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	2,082	1,804	1,709	1,947	2,392
<b>Revenues</b>					
Taxes	12,629	13,188	13,853	14,452	15,125
Licenses & Permits	1,487	1,534	1,578	1,624	1,673
Intergovernmental	2,340	2,414	2,527	2,625	2,739
Service Charges	2,392	2,460	2,533	2,603	2,683
Fines & Forfeitures	609	629	660	687	718
Interest & Rents	1,318	1,341	1,372	1,403	1,435
Interfund Transfers	2,723	2,785	2,856	2,921	2,999
<b>Total G F Revenues</b>	<b>23,498</b>	<b>24,351</b>	<b>25,377</b>	<b>26,315</b>	<b>27,372</b>
<b>Expenditures</b>					
City Council	26	26	27	27	27
City Manager	325	333	342	351	361
City General (including	2,272	2,309	2,251	2,287	2,329
Finance & Admin. Services	356	364	374	384	395
City Clerk	436	447	460	471	485
Accounting	700	718	738	757	779
Human Resources	314	322	331	340	349
Police Services	6,590	6,767	6,968	7,155	7,375
Fire Services	3,862	3,966	4,085	4,195	4,326
Comm Dev. Admin.	238	244	250	256	264
Building	1,035	1,061	1,090	1,117	1,149
Planning	746	764	785	805	828
PWAdmin/Economic Dev.	390	400	412	422	434
Engineering	905	922	945	966	992
PW Maintenance Services	1,912	1,961	2,018	2,070	2,131
B, P & R Admin.	275	282	290	297	305
Recreation	803	824	847	869	894
Beach & Park Maintenance	1,712	1,758	1,810	1,858	1,915
Marine Safety	682	699	718	736	756
New Employees	146	249	357	474	593
<b>Total GF Expenditures</b>	<b>23,725</b>	<b>24,417</b>	<b>25,098</b>	<b>25,836</b>	<b>26,686</b>
<b>Emergency Reserve</b>	<b>50</b>	<b>30</b>	<b>40</b>	<b>35</b>	<b>35</b>
<b>Ending Fund Balance</b>	<b>1,804</b>	<b>1,709</b>	<b>1,947</b>	<b>2,392</b>	<b>3,042</b>

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

Expenditures by Category	1999-00	2000-01	2001-02	2002-03	2003-04
Salaries & wages	5,501	5,707	5,936	6,159	6,408
Employee benefits	1,790	1,859	1,935	2,010	2,094
Supplies	509	523	538	553	570
Contractual services	12,130	12,458	12,831	13,178	13,586
Other charges	453	466	480	492	508
Capital outlay	50	50	50	50	50
Interdepartmental charges	1,814	1,860	1,915	1,967	2,028
Interfund transfers	1,477	1,493	1,410	1,424	1,439
<b>Total</b>	<b>23,725</b>	<b>24,417</b>	<b>25,098</b>	<b>25,836</b>	<b>26,686</b>

## Financial Forecast - Assumptions

### **Economic and demographic assumptions affect projections**

### **The forecast predicts a slowing of the economy in 1999**

### **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 1998. Additionally, data is provided by the various City of San Clemente departments.

The Chapman forecast predicts a slowing of the economy in 1999, with improvement over the remaining four years of the forecast period. Personal income is forecasted to average 6.2% with local inflation projected to average 2.8% and taxable sales anticipated to grow at an annual average rate of 4.6%. Housing appreciation for resale homes is predicted to increase an average of 4.9%.

Population projections provided by the City's Planning and Building divisions are based upon a reasonable rate of absorption for the number of housing units approved through the development review process. It is presumed, for forecasting purposes, that 2.5 persons will occupy each housing unit, which is the average household size in San Clemente.

A summary of the parameters utilized in the 1999 Financial Forecast to project the various revenue and expenditures categories are delineated below:

### **Summary of forecast parameters**

Par #	Description	1998-99	1999-00	2000-01	2001-02	2002-03	Average
1	Inflation	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
2	Population	2.0%	3.5%	2.8%	3.1%	3.0%	2.8%
3	Assessed Valuation	4.6%	4.7%	5.4%	4.8%	5.0%	4.9%
4	Personal Income	5.6%	6.1%	6.5%	6.0%	6.9%	6.2%
5	Taxable Sales	4.1%	4.7%	5.3%	4.2%	4.7%	4.6%
6	Property Taxes	4.6%	4.7%	5.4%	4.8%	5.0%	4.9%
7	Trans. Occup. Tax	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
8	Franchise Taxes	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
9	Prop. Transfer Tax	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
10	Construction Permits	2.0%	3.5%	2.8%	3.1%	3.0%	2.8%
11	State Subventions	3.2%	3.3%	5.0%	4.1%	4.6%	4.0%
12	Service Charges	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
13	Interest Earnings	-6.5%	2.7%	3.6%	-2.5%	2.7%	0.0%
14	Pier & Beach Concessions	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
15	Interfund Charges	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
16	Salaries & Wages	3.0%	2.4%	2.7%	2.4%	2.8%	2.7%
17	Employee Benefits	2.2%	2.4%	2.7%	2.4%	2.8%	2.5%
18	Supplies	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
19	Services/Other Charges	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%
20	Capital Outlay	2.4%	2.7%	3.0%	2.7%	3.1%	2.8%

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# Long Term Financial Plan

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

***Inflation is projected to average 2.8%***

- *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 2.8% per year.

***Population estimates average 2.8% over the forecast period***

- *Population:* Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (8.8% of total General Fund revenue) and is also reflective of the scale of residential and commercial development within the City. In addition, year-to-year population growth is a useful factor in predicting increases in several other revenue categories, such as Franchise Fees and Business Licenses. Population estimates developed by the City's Planning Division project growth to average 2.8% over the forecast period.

1999-00	2000-01	2001-02	2002-03	2003-04
49,215	50,940	52,370	53,990	55,610
2%	3.5%	2.8%	3.1%	3.0%

***Assessed Valuation is projected to grow by an average of 4.9%***

- *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 that drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 4.9% per year.

***Personal Income is projected to increase an average of 6.2%***

- *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 in Orange County are projected at 4.6%***

- *Taxable Sales:* Taxable sales are 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 1999-00 are projected at 4.6%.

# Financial Forecast

## Financial Forecast Assumptions

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

**Forecast assumptions includes contributions to reserves, and staffing projections**

- A 3% cost of living increase, previously approved by City Council, has been included in the forecast for FY 1999-00. For forecast purposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 2000-01.
- Three new full-time positions are presumed to be added in FY 1999-00, with an additional two new full-time positions added in each of the following years of the forecast.
- Actual expenditures are projected at 0.5% less than budget for all five years of the forecast. This is conservatively based on the projected actual expenditures versus budgeted expenditures.
- Actual revenue is projected to exceed budget by 0.5% in all five years based on current revenue projections and conservative estimating techniques.
- One-time revenues and expenditures in the base year (FY 1998-99) have been excluded from the forecast. For example, the City has received over \$400,000 in construction inspection fees from the Talega project. This is considered "one-time" revenue and has been reduced from the base forecast.
- Capital Outlay amounts to \$123,000 in FY 1998-99 of the forecast for one-time capital improvements and capital equipment. Subsequent years include \$50,000 for one-time capital expenditures supporting the States' COPS program.
- Known increases in the Orange County Fire Authority (OCFA) contract for negotiated wage adjustments have been included in FY 1999-00.
- In the first two years of the forecast, \$100,000 is included as a transfer to the Capital Equipment Replacement Reserve (see table below). The reserve will be fully funded in FY 2000-01.
- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at \$425,000 for FY 1999-00:

	1999-00	2000-01	2001-02	2002-03	2003-04
Capital Equipment	100,000	100,000			
Accrued Leave	75,000	75,000	75,000	75,000	75,000
Council Contingency	200,000	200,000	200,000	200,000	200,000
Emergency Reserve	50,000	30,000	40,000	35,000	35,000
<b>Total</b>	<b>\$425,000</b>	<b>\$405,000</b>	<b>\$315,000</b>	<b>\$310,000</b>	<b>\$310,000</b>



# Long Term Financial Plan

- Council Contingency Reserve is funded at \$200,000 in each of the forecast years, which is a recommended change to the City's fiscal policy. If the recommended change is adopted, the Council Contingency reserve level will be established at no less than 1% of general fund operating expenditures.
- The Emergency Reserve is fully funded (5% of operating expenditures) with contributions totaling \$190,000 over the forecast period to maintain the 5% requirement.
- The General Fund contribution to the Street Improvement Program includes an annual 3% increase 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:

	1999-00	2000-01	2001-02	2002-03	2003-04
Street Program	\$515,000	\$530,450	\$546,360	\$559,660	\$573,650
Unfunded Public					
Safety Liability	475,000	475,000	475,000	475,000	475,000
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
<b>Total</b>	<b>\$1,089,800</b>	<b>\$1,105,250</b>	<b>\$1,121,160</b>	<b>\$1,134,460</b>	<b>\$1,148,450</b>

**Other transfers and debt payments**

**Forecast pertains to the General Fund only**

**No new or enhanced programs are included**

**No proposed or potential development projects are included in the forecast**

## Factors Not Included In The Forecast

- This forecast is based on the General Fund and forecasts for the Water, Sewer and Golf operating funds have been developed and are included in this report beginning on page 21.
- No new or enhanced programs are included in the forecast.
- Unless currently in the planning or building permit stage, service fees from major new proposed or potential development projects such as Marblehead Coastal or Talega Valley are not incorporated into the financial forecast.
- The potential financial impact of the OCFA Fire Equity Study, currently under review by the City, has not been included. Equity adjustments, if adopted, would have a significant impact on the City's General Fund.

**Revenues are projected to increase an average of 3.4%**

**Property Tax revenue is projected to increase an average of 4.9%**

## General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.4%, compared to a historical five year growth rate of 0.8%.

- Property Tax revenue is projected to increase an average of 4.9% per year compared to a 0.4% average historical decrease over the past five years.
- Construction permits are projected to decrease from a historical average of 14.3% to 2.8% per year for the forecast period.
- Service Charges are projected to increase an average of -0.2% per year compared to a 4.1% average historical growth rate over the past five years.
- Fines are projected to increase an average of 4.0% per year compared to a 6.7% average historical growth rate over the past five years.

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

- **Historic Growth Rate:** Provides the average annual rate of growth for the past five years from FY 1993-94 to FY 1997-98.
- **1998 Projected Growth Rate:** Average annual rate of growth projected for the five years as indicated in the 1998 adopted budget forecast.
- **1999 Projected Growth Rate:** Average annual rate of growth projected for the current five-year forecast.

## General Fund Growth Rate

Historic Growth Rate	0.8%
1998 Projected Growth Rate	4.2%
1999 Projected Growth Rate	3.4%

**Economic growth throughout the forecast period is positive**

During the past five years, the General Fund revenue growth rate was 0.8% primarily due to a reduction in property taxes caused by declining property values and the State's diversion of property taxes from the City. The 1998 projected growth rate of 4.2% was considerably more optimistic than the current forecast. The 1999 forecast rate of 3.4% reflects the anticipated slowing of the economy in 1999 which was not predicted in the 1998 forecast. However, the economic growth throughout the forecast period is positive.

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# Long Term Financial Plan

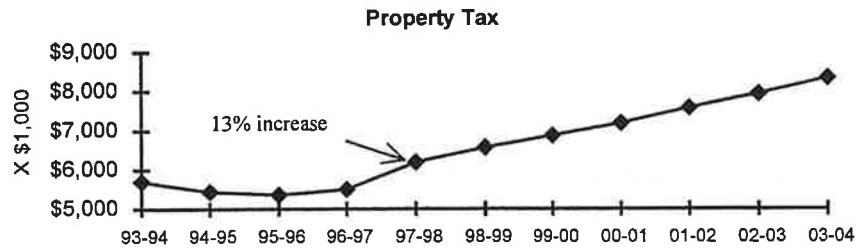
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## Property Tax

Historic Growth Rate	0.4%
1998 Projected Growth Rate	4.7%
1999 Projected Growth Rate	4.9%

**Property Tax revenues have recovered over the last two years**

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 29% of total General Fund budgeted revenue. Beginning in FY 1992-93, 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, declining property values also negatively impacted property taxes received by the City. However, Property Tax revenues have recovered over the last two years due to increases in valuation and is expected to grow throughout the forecast period.



## Sales Tax

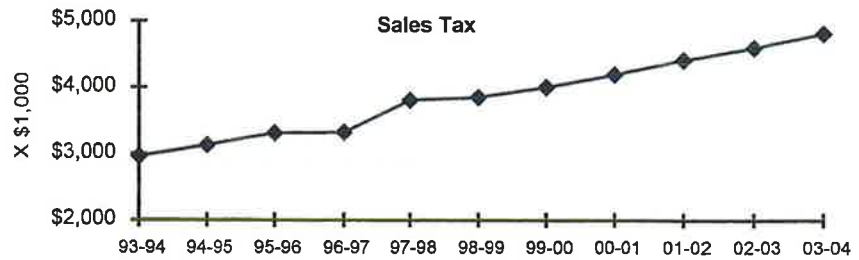
Historic Growth Rate	6.4%
1998 Projected Growth Rate	4.4%
1999 Projected Growth Rate	4.6%

**Sales tax revenue is anticipated to grow an average of 4.6% in the forecast**

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 4.6% in the forecast period due to projected growth in personal income combined with annual inflation of 2.8%. 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 1998.

The five-year forecast does not include sales tax growth associated with the Wal-Mart store currently in the building permit stage of development.

# Financial Forecast

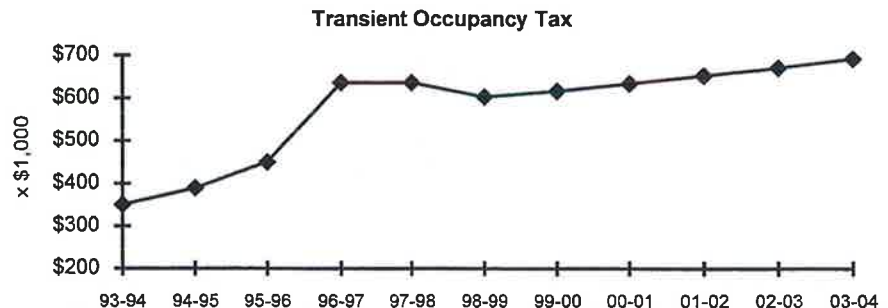


## Transient Occupancy Tax

Historic Growth Rate	9.3%
1998 Projected Growth Rate	3.4%
1999 Projected Growth Rate	2.8%

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 9.3% includes an increase in TOT revenue, which began in FY 1996-97. The growth rate is anticipated to temper off slightly in the current fiscal year. Over the forecast period, the average growth is projected at 2.8% per year, and is based on the consumer price index projections for Orange County.

**TOT is projected to increase an average of 2.8% growth**



## Licenses and Permits

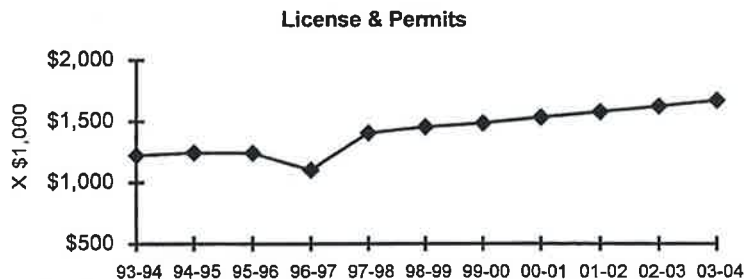
Historic Growth Rate	7.9%
1998 Projected Growth Rate	7.3%
1999 Projected Growth Rate	2.8%

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 2.8%. This is a dramatic change from the 1998 rate of 7.3%, which included revenue, primarily from Forster Ranch for residential activity in the permitting stage. This revenue should have been considered "one-time" and excluded from the projection for forecast purposes.

# Long Term Financial Plan

**Licenses and Permit revenue is projected to grow an average of 2.8% annually**

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



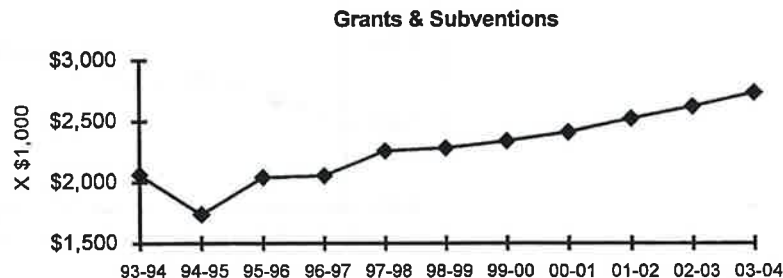
## Grants and Subventions

Historic Growth Rate	3.6%
1998 Projected Growth Rate	3.5%
1999 Projected Growth Rate	3.7%

**Grants & Subventions, predominantly Motor Vehicle Tax, is projected to grow at a 3.7% rate**

In total, Grants and Subventions revenues are projected to grow at a rate of 3.7% over the forecast period, compared to an historical growth rate of 3.6%.

The predominant source of revenue in this category is Motor Vehicle Tax. Motor Vehicle Tax revenues are projected to increase by an annual average of 4.0% and are based on 50% of expected inflation plus 100% of anticipated population growth.



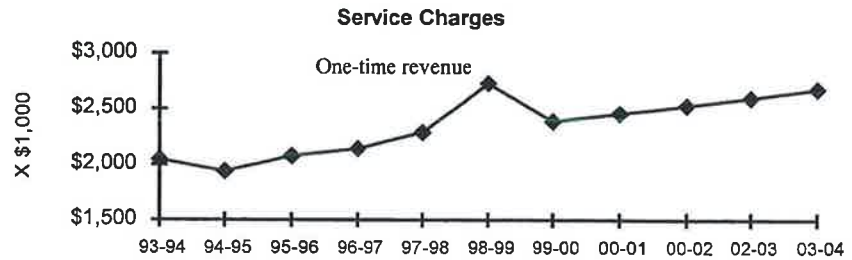
## Service Charges

Historic Growth Rate	4.1%
1998 Projected Growth Rate	4.4%
1999 Projected Growth Rate	-0.2%

# Financial Forecast

**Service Charges show a historic growth rate of 4.1%. Projected growth rate = -0.2%**

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. For forecasting purposes, construction inspection fees totaling \$400,000 received in FY 1998-99 are considered "one-time" revenue and removed from the base revenue budget. The result is a 12% reduction in the 1999-00 fiscal year and when averaged over the forecast period, the projected growth rate is -0.2%, compared to the 4.1% historic growth rate.

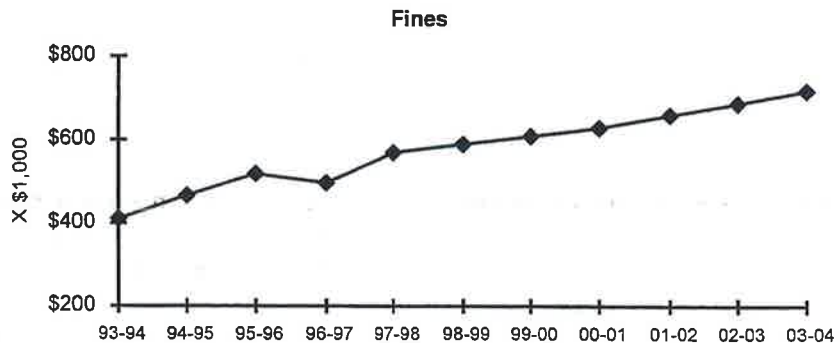


**Revenue for Fines is forecast at 4.0%**

## Fines

Historic Growth Rate	6.7%
1998 Projected Growth Rate	7.1%
1999 Projected Growth Rate	4.0%

The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 1999 projected growth rate of 4.0% differs dramatically from the 1998 projected rate of 7.1% which included increased revenue from the revised code violation fines in the projection.



## Interest And Rents

Historic Growth Rate	14.8%
1998 Projected Growth Rate	0.4%
1999 Projected Growth Rate	2.4%

# Long Term Financial Plan

**Chapman forecast expects a reduction in short-term interest rates in 1999**

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 Chapman forecast expects a reduction in short-term interest rates in 1999. The lease income from the pier restaurant has been fixed for three years of the forecast at \$255,000, with an increase to \$265,000 in the fourth and fifth years.

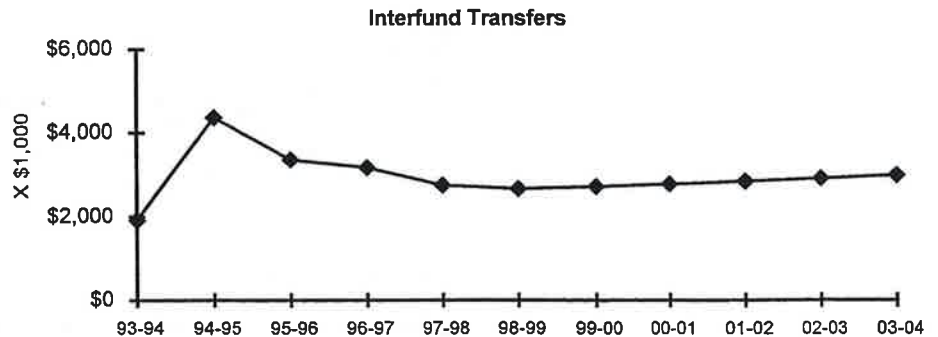


## Interfund Transfers

Historic Growth Rate	4.8%
1998 Projected Growth Rate	3.0%
1999 Projected Growth Rate	2.4%

**Gas tax transfers have been reduced**

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, which are based upon the amount of Federal taxes collected on gasoline purchases, have been reduced in the base year due to decreases in the cost of gas.



## General Fund Expenditures

**The average expenditure rate is projected at 2.7%**

Historic Growth Rate	0.8%
1998 Projected Growth Rate	2.4%
1999 Projected Growth Rate	2.7%

Projected expenditures presume that service levels in effect in FY 1998-99 will remain constant. No new programs are assumed.

**Projected expenditures presume that service levels adopted in fiscal 1998-99 will remain constant**

The 1999 projection from the base year is based primarily on inflation. Three new full-time positions are presumed to be added in FY 1999-00, with an additional two new full-time positions added in each of the following years of the forecast.

## Salaries and Wages

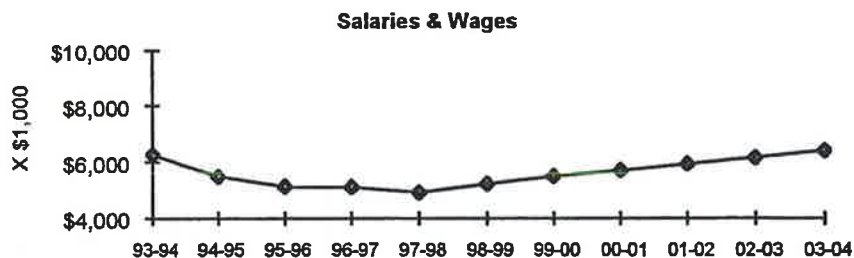
Historic Growth Rate	-11.4%
1998 Projected Growth Rate	4.4%
1999 Projected Growth Rate	4.1%

**The historic growth rate for Salaries and Wages is -11.4%**

The forecast projections assume the addition of three full-time positions in FY 1999-00 and two new positions per year in the remaining four years. A 3% cost of living increase, previously approved by the City Council, is also included in FY 1999-00. For forecast purposes only, an annual cost of living increase in the remaining years of the forecast equal to 90% of the inflation rate is included.

**Total personnel costs are projected to average 4.1%**

The average annual growth rate for Salaries and Wages is 4.1% for the five-year projection.



## Employee Benefits

Historic Growth Rate	-15.6%
1998 Projected Growth Rate	2.7%
1999 Projected Growth Rate	4.1%

**Employee Benefits are projected to increase by 4.1%**

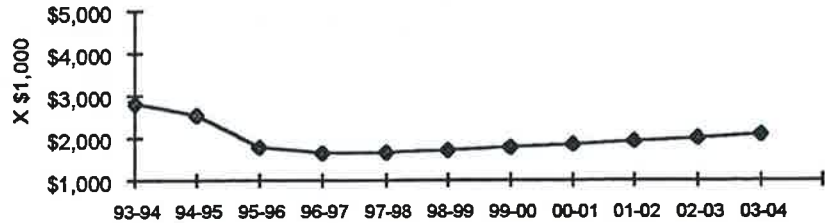
The employee benefits category reflects an average projected growth rate of 4.1% for the forecast period. The historical average of -15.6% for this



# Long Term Financial Plan

category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.

**Employee Benefits**



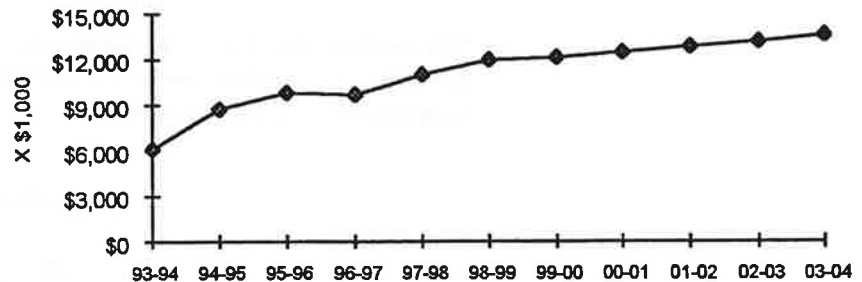
## Contractual Services

Historic Growth Rate	64.8%
1998 Projected Growth Rate	3.2%
1999 Projected Growth Rate	2.6%

**Contractual Services represent 51% of General Fund expenditures**

Overall, this category is expected to experience an average annual increase of 2.6% over the forecast period, well below the historical average of 64.8%. The historical average reflects Fire and other services changing from internal operations to contractual services. Included in FY 1999-00 is known salary and benefit increases to the Orange County Fire Authority (OCFA) contract, as a result of the present negotiated agreement. The financial effects of the Fire Equity Study, currently under review by the City, are not included in the forecast due to the uncertainty of the outcome at this point.

**Contractual Services**



## Other Charges

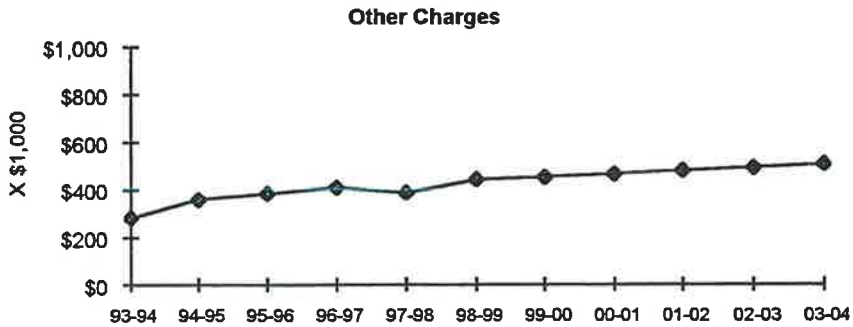
Historic Growth Rate	4.3%
1998 Projected Growth Rate	-1.5%
1999 Projected Growth Rate	2.8%

**Other Charges will increase by 2.8% over the forecast period**

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

# Financial Forecast

expenditures and the account is replenished with an annual contribution. The current policy requires replenishment of the Contingency reserve with at least \$100,000 per year, however, a change to fund the reserve at no less than 1% of General Fund operating expenditures has been recommended. For forecast purposes, \$200,000 has been included in each year.



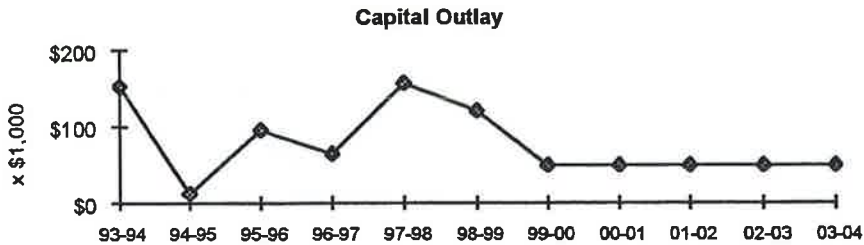
## Capital Outlay

Historic Growth Rate	112.2%
1998 Projected Growth Rate	-9.6%
1999 Projected Growth Rate	-9.9%

**The projected growth rate for Capital Outlay is -9.9%**

The projected growth rate for Capital Outlay is -9.9%. 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. One-time capital expenditures are excluded from the forecast.

The one time allocation of \$3 million for the purchase of the Negocio property is not indicated on the chart in FY 1993-94 as it does not allow for a valid comparison of capital expenditures.



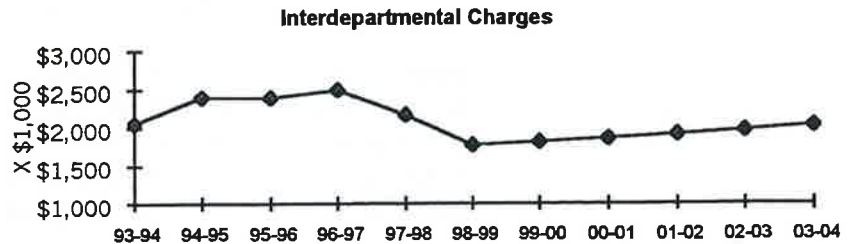
## Interdepartmental Charges

Historic Growth Rate	-1.3%
1998 Projected Growth Rate	-1.4%
1999 Projected Growth Rate	2.7%

# Long Term Financial Plan

**Interdepartmental Charges are projected to increase by 2.7%**

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.7% increase over the five year forecast and is based upon inflation. The reduction of dispatch charges resulting from the move of dispatch services to the County, account for the -1.3% historic rate reduction.

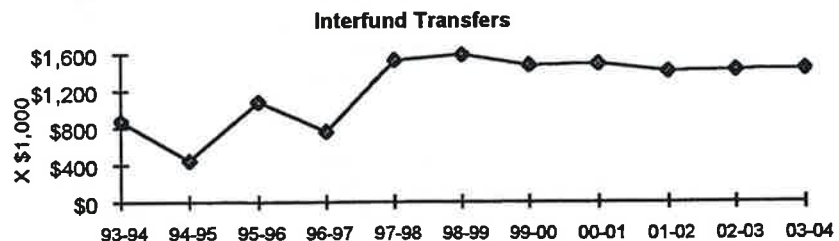


**Interfund Transfers will decrease by -1.9% over the forecast period**

### Interfund Transfers

Historic Growth Rate	559.1%
1998 Projected Growth Rate	-1.7%
1999 Projected Growth Rate	-1.9%

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 -1.9% due to the full funding of the Workers' Compensation and General Liability reserves in FY 1997-98. The Capital Equipment Replacement reserve will be fully funded in FY 2000-01, resulting in a decrease in transfers of \$100,000 per year. Additionally, the General Fund Emergency Reserve requirement was reduced from 8% of operating expenditures to 5%. The reserve is fully funded, with minimal contributions scheduled to remain at the required 5% level. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



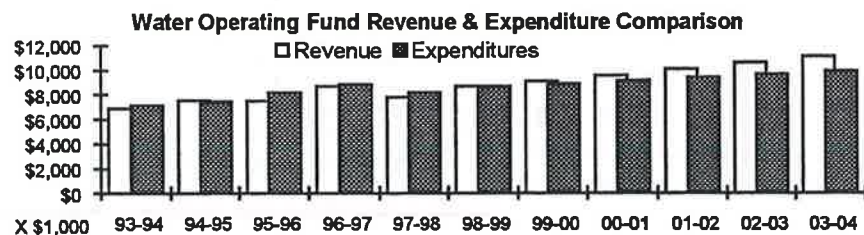
# Financial Forecast

## Other Operating Fund Forecasts

For the first time, five-year financial forecasts have been developed for the Water, Sewer and Golf operating funds. As with the General Fund forecast, the operating fund projections are developed using a baseline environment. Revenues are projected based upon growth or inflation factors, utilizing the rate structures currently in place. Expenditures are based upon the present level of services provided by the City and increased by inflation.

## Water Operating Fund Forecast

For the last two years, the Water Operating Fund has been operating in a deficit position. The fund ended the 1997-98 fiscal year with a negative \$553,000 fund balance. The following chart provides a visual comparison of historical and projected revenue and expenditure growth.



The operating position (revenues less expenditures) improves over the forecast period, beginning in FY 1998-99. However, the negative ending fund balance remains throughout the forecast period due to the beginning deficit fund balance position.

### 1999 Financial Forecast – Water Operating Fund Cash Flow from 1998-99 Adjusted Budget (Amounts in Thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	-553	-515	-502	-412	-334	-210
<b>Revenues</b>						
Service Charges	92	94	98	101	105	109
Water Charges	8,790	8,968	9,282	9,540	9,835	10,131
Miscellaneous Charges	38	39	40	41	42	43
Interfund Transfers	30	31	32	32	33	34
<b>Total Revenues</b>	<b>8,949</b>	<b>9,132</b>	<b>9,451</b>	<b>9,714</b>	<b>10,014</b>	<b>10,317</b>
<b>Expenditures</b>						
Water Administration	693	707	724	742	759	780
Water Production	6,341	6,493	6,667	6,867	7,051	7,269
Transmission	1,461	1,495	1,535	1,579	1,621	1,669
Conservation	52	54	55	57	58	60
Reclaimed Water	363	371	380	391	401	413
New Employees	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>8,911</b>	<b>9,120</b>	<b>9,361</b>	<b>9,636</b>	<b>9,891</b>	<b>10,191</b>
<b>Ending Fund Balance</b>	<b>-515</b>	<b>-502</b>	<b>-412</b>	<b>-334</b>	<b>-210</b>	<b>-84</b>

# Long Term Financial Plan

In a separate Long Term Financial Plan paper, two rate scenarios are discussed. The following tables provide the long-term financial impact of the options:

## 1999 Financial Forecast – Water Operating Fund Phased Rate Increase (5% in FY 1999-00 and 3% in FY2000-01)

	(Amounts in Thousands)					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	-553	-515	-220	167	245	369
<b>Revenues</b>						
Service Charges	92	97	100	101	105	109
Water Charges	8,790	9,278	9,504	9,540	9,835	10,131
Miscellaneous Charges	38	40	41	41	42	43
Interfund Transfers	30	32	32	32	33	34
<b>Total Revenues</b>	<b>8,949</b>	<b>9,446</b>	<b>9,678</b>	<b>9,714</b>	<b>10,014</b>	<b>10,317</b>
<b>Expenditures</b>						
Water Administration	693	710	718	742	759	780
Water Production	6,341	6,515	6,617	6,867	7,051	7,269
Transmission	1,461	1,501	1,523	1,579	1,621	1,669
Conservation	52	54	55	57	58	60
Reclaimed Water	363	372	378	391	401	413
New Employees	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>8,911</b>	<b>9,151</b>	<b>9,291</b>	<b>9,636</b>	<b>9,891</b>	<b>10,191</b>
<b>Emergency Reserve</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>301</b>
<b>Ending Fund Balance</b>	<b>-515</b>	<b>-220</b>	<b>167</b>	<b>245</b>	<b>369</b>	<b>495</b>

## 1999 Financial Forecast – Water Operating Fund 7.5% Rate Increase in FY 1999-00

	(Amounts in Thousands)					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	-553	-515	-15	147	216	330
<b>Revenues</b>						
Service Charges	92	100	101	101	105	109
Water Charges	8,790	9,479	9,555	9,540	9,835	10,131
Miscellaneous Charges	38	41	41	41	42	43
Interfund Transfers	30	32	32	32	33	34
<b>Total Revenues</b>	<b>8,949</b>	<b>9,652</b>	<b>9,730</b>	<b>9,714</b>	<b>10,014</b>	<b>10,317</b>
<b>Expenditures</b>						
Water Administration	693	710	718	742	759	780
Water Production	6,341	6,516	6,617	6,867	7,051	7,269
Transmission	1,461	1,501	1,523	1,579	1,621	1,669
Conservation	52	54	55	57	58	60
Reclaimed Water	363	372	378	391	401	413
New Employees	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>8,911</b>	<b>9,152</b>	<b>9,291</b>	<b>9,636</b>	<b>9,891</b>	<b>10,191</b>
<b>Emergency Reserve</b>	<b>0</b>	<b>0</b>	<b>276</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Ending Fund Balance</b>	<b>-515</b>	<b>-15</b>	<b>147</b>	<b>216</b>	<b>330</b>	<b>446</b>

## Financial Forecast

The City's fiscal policy requires a minimum reserve level at least equal to 8% of operating expenditures. The Water Operating Fund has not been able to set aside the required reserve goal of \$260,000 for FY 1998-99. However if either option were adopted, the reserve goal would be met during the forecast period.

### ***Sewer Operating Fund Forecast***

The Sewer Operating Fund receives revenue primarily from fees charged for wastewater collection and treatment. Revenues have been increased over the forecast period by anticipated growth in the City. Expenditures have been increased by inflation. The Sewer Operating Fund's operational position (revenues less expenditures) is positive throughout the forecast period, as is the fund balance.

#### **1999 Financial Forecast - Sewer Operating Fund**

##### **Cash Flow from 1998-99 Adjusted Budget**

(Amounts in Thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	2,473	2,221	2,262	2,307	2,367	2,423
<b>Revenues</b>						
Service Charges	3,851	3,944	4,050	4,172	4,284	4,417
Miscellaneous Charges	148	140	143	148	145	149
Interfund Transfers	0	0	0	0	0	0
<b>Total Revenues</b>	<u>4,000</u>	<u>4,083</u>	<u>4,193</u>	<u>4,320</u>	<u>4,429</u>	<u>4,566</u>
<b>Expenditures</b>						
Sewer Administration	910	928	949	973	994	1,020
Treatment	1,852	1,899	1,948	2,005	2,057	2,118
Collection	1,180	1,209	1,241	1,278	1,312	1,353
New Employees	0	0	0	0	0	0
<b>Total Expenditures</b>	<u>3,942</u>	<u>4,036</u>	<u>4,139</u>	<u>4,255</u>	<u>4,364</u>	<u>4,491</u>
<b>Emergency Reserve</b>	310	5	10	5	10	10
<b>Ending Fund Balance</b>	2,221	2,262	2,307	2,367	2,423	2,488

The Sewer Operating Fund has sufficient reserves to meet the 8% fiscal policy requirement and \$310,000 will be reserved from the FY 1998-99 ending fund balance. Minimal contributions to the reserve will be set aside from the ending fund balance to maintain the reserve level at 8%.

### ***Golf Operating Fund***

The Golf Operating Fund receives revenue primarily from green fees. The forecast utilizes the present fee structure and historical information to forecast revenues, thus the revenue remains constant throughout the forecast period. It should be noted that the multi-tiered fee structure and seasonal variances in play make forecasting revenue difficult. Expenditures presume the present level of services and have been increased based upon inflation.

In FY 1998-99, \$160,000 has been designated as a transfer from the Golf operating fund to the Golf Capital Replacement Reserve fund. Although a

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## Long Term Financial Plan

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formal policy does not exist, transfers ranging between \$300,000 to \$160,000 have been made annually beginning in FY 1992-93.

### 1999 Financial Forecast - Golf Operating Fund

#### Cash Flow from 1998-99 Adjusted Budget

(Amounts in Thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Beginning Fund Balance</b>	27	-6	79	124	124	80
<b>Revenues</b>						
Service Charges	2,081	2,081	2,081	2,081	2,081	2,081
Interest & Rents	169	171	176	181	185	190
Miscellaneous Income	0	0	0	0	0	0
<b>Total Revenues</b>	<b>2,250</b>	<b>2,252</b>	<b>2,257</b>	<b>2,262</b>	<b>2,266</b>	<b>2,271</b>
<b>Expenditures</b>						
GC Maintenance	2,152	2,032	2,073	2,120	2,164	2,215
Starter Operations	131	135	138	142	146	150
New Employees	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>2,283</b>	<b>2,167</b>	<b>2,211</b>	<b>2,262</b>	<b>2,309</b>	<b>2,365</b>
<b>Emergency Reserve</b>	0	0	0	0	0	0
<b>Ending Fund Balance</b>	<b>-6</b>	<b>79</b>	<b>124</b>	<b>124</b>	<b>80</b>	<b>-14</b>

The Golf Operating Fund has a slight negative ending fund balance in the first year and the last year of the forecast and does not have sufficient fund balance to set aside the 8% reserve requirement. Additionally, the transfer to the Capital Replacement Reserve is budgeted in FY 1998-99 but has not been included in the remaining years of the forecast.





## Objective

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

## Background

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

Following are proposed changes to the current Fiscal Policy:

- 1. Reserve Policies:** This change is to reflect a proposed modification to the *Council Contingency Reserve Policy* as recommended in the Reserve Analysis issue paper:

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
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.	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. <u>The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually</u>

- 2. Revenue Policies:** This change is to reflect a proposed addition to the *Revenue Policy*. As identified in the Growth and Development issue paper, the City's fiscal balance should remain positive at build-out if the City adheres and effectively implements General Plan policies. In order to manage the growth and development effectively, a "core" staff of City employees are recommended to manage the average daily workload and contractual staff is recommended to handle the peak development demands.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.

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## Long Term Financial Plan

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3. **Revenue Policies:** A proposed addition to the *Revenue Policy* is proposed. As presented in the Capital Facilities Plan issue paper, the future development of city facilities will increase on-going operational and maintenance costs. The proposed fiscal policy statement will provide assurances that fiscal balance will be maintained upon completion and staffing of new facilities.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	Capital improvements will be financed primarily through user fees, services charges or developer agreements when benefits can be specifically attributed to users of the facility. The City will analyze the impact of capital improvements to ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.

### **Recommendation**

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

<i>Fiscal Policy Statement</i>	<i>Status</i>	<i>Comments</i>
<b><i>General Financial Goals</i></b>		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapts to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
<b><i>Operating Budget Policies</i></b>		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.	√	
The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
The City will establish a Capital Equipment Replacement Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.	√	
<b><i>Revenue Policies</i></b>		
The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.	√	
Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.	√	

# Long Term Financial Plan

<i>Fiscal Policy Statement</i>	<i>Status</i>	<i>Comments</i>
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time revenues will be used for one-time expenditures only. (Including capital and reserves)	√	
The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.	√	
Capital improvements will be financed primarily through user fees, services charges or developer agreements when benefits can be specifically attributed to users of the facility. The City will analyze the impact of capital improvements to ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.		
<b><i>Expenditure Policies</i></b>		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
<b><i>Utility Rates and Fees</i></b>		
The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.	√	
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
<b><i>Capital Improvement Budget Policies</i></b>		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	

<i>Fiscal Policy Statement</i>	<i>Status</i>	<i>Comments</i>
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	
<b><i>Short-Term Debt Policies</i></b>		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	√	
The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	
<b><i>Long-Term Debt Policies</i></b>		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current on-going operations.	√	
<b><i>Reserve Policies</i></b>		
The City will maintain General Fund Contingency reserves at a level at least equal to 5% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	√	General Fund Emergency Reserve = \$50,000 for FY 1999-00. \$1.1 million or 5% of General Fund Operating Expenditures
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.	√	Council Contingency Reserve = \$200,000 recommended for FY 1999-00
Council approval is required before expending General Fund or Contingency Reserves.	√	
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.	√	Accrued Leave Reserve = \$75,000 recommended for FY 1999-00

# Long Term Financial Plan

<i>Fiscal Policy Statement</i>	<i>Status</i>	<i>Comments</i>
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = \$300,000 (Additional \$350,000 reserve for claims not covered by insurance pool)
The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonable foreseen during the preparation of the budget.	---	Water Fund with a projected negative \$550,000 ending fund balance for FY 19918-99 does not meet the reserve goal of \$110,000.
<b><i>Investment Policies</i></b>		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
<b><i>Accounting, Auditing &amp; Financial Reporting</i></b>		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Moody's Rating = A-1, Standard & Poor's = A
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

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



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# Long Term Financial Plan

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

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