1999

Long Term Financial Plan

Volume II

City of San Clemente

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

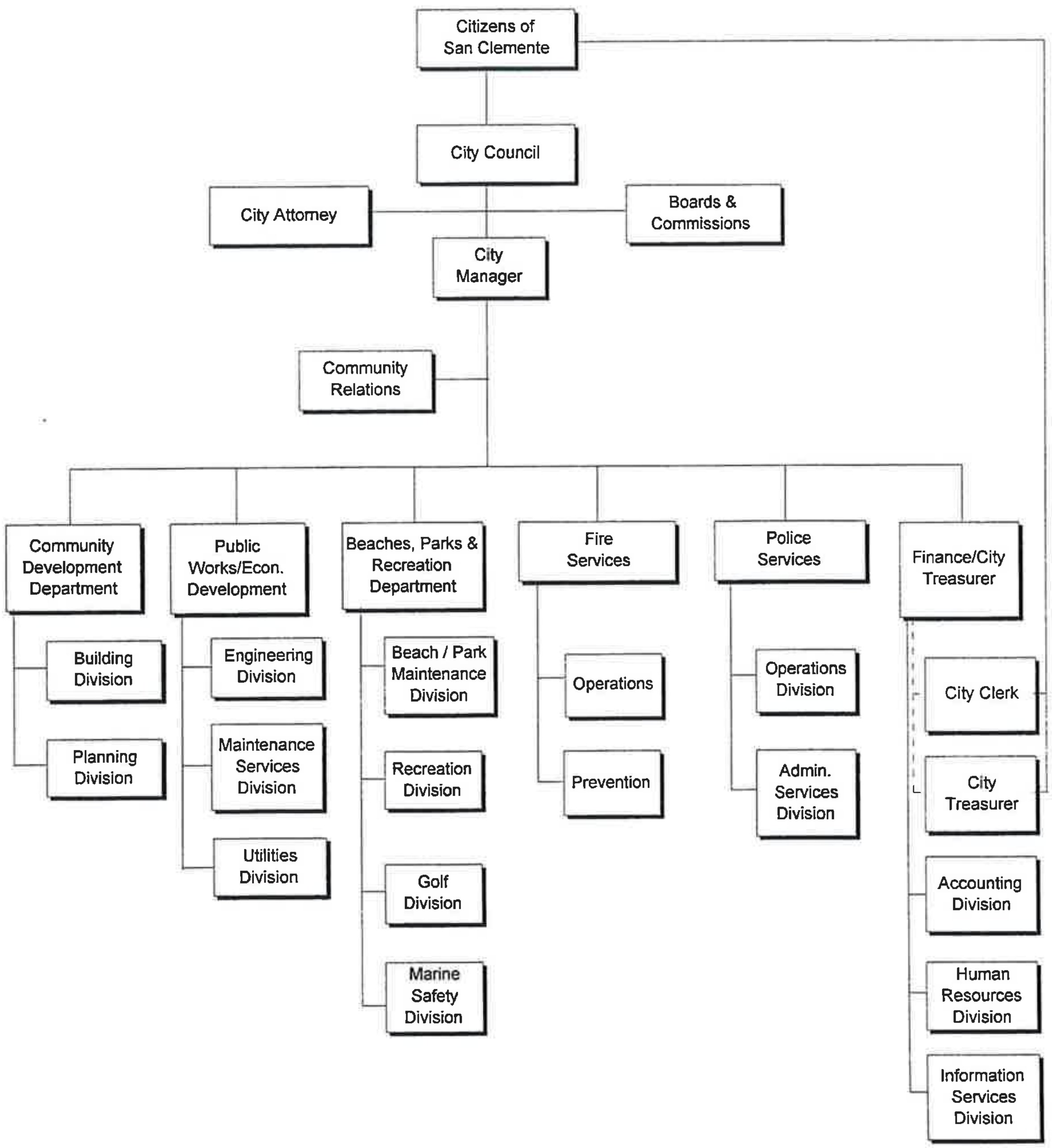
Department Directors

• Paul Gudgeirsson	Finance & Administrative Services
• James S. Holloway	Community Development
• Lt. Fred Lisanti	Police Services Chief
• David N. Lund	Public Works/Economic Development
• Chief Pat McIntosh	Fire Services Chief
• Bruce E. Wegner	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/Economic Development
• Nita McKay	Controller
• Larry K. Moore	Management Information Services Manager
• Marsha Payne	Risk Manager, Human Resources

City Organizational Chart



Project Teams

Project Director
Paul Gudgeirsson, 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 Lund, Public Works, Project Lead

Computer Strategic Plan Update
Larry Moore, Finance & Administrative Services, Project Lead

Development & Growth Issues
Jim Holloway, Community Development, Project Lead
David Lund, Public Works, Project Lead

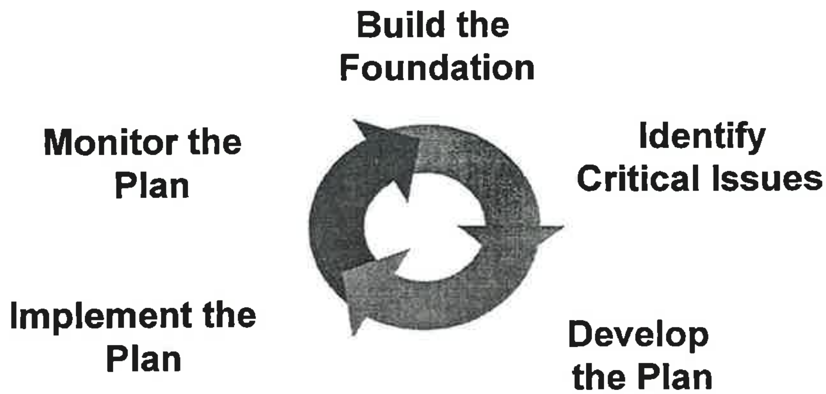
Capital Facilities Plan
Jim Holloway, Community Development, Project Lead

Utility Operations Analysis
John Bressan, Public Works, Project Lead

Deposit Account Analysis
Nita McKay, Finance & Administrative Services, Project Lead

Introduction

Long Term Financial Plan



The LTFP is a financial strategic plan

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

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

The LTFP consists of the complete financial plan

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

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

The Issue Papers provide support documents used to develop the plan

Long Term Financial Plan - Issue Papers: This volume of the Long Term Financial Plan, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. The issues outlined on the following pages were analyzed as a part of the 1999 Long Term Financial Plan process:

Long Term Financial Plan

Financial Trend Analysis

Objective

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

Financial Forecast

Objective

To update the comprehensive five-year financial forecast for the General 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

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 finanial stability of the Fund, while at the same time providing quality service and equity to the consumers in each user classification.

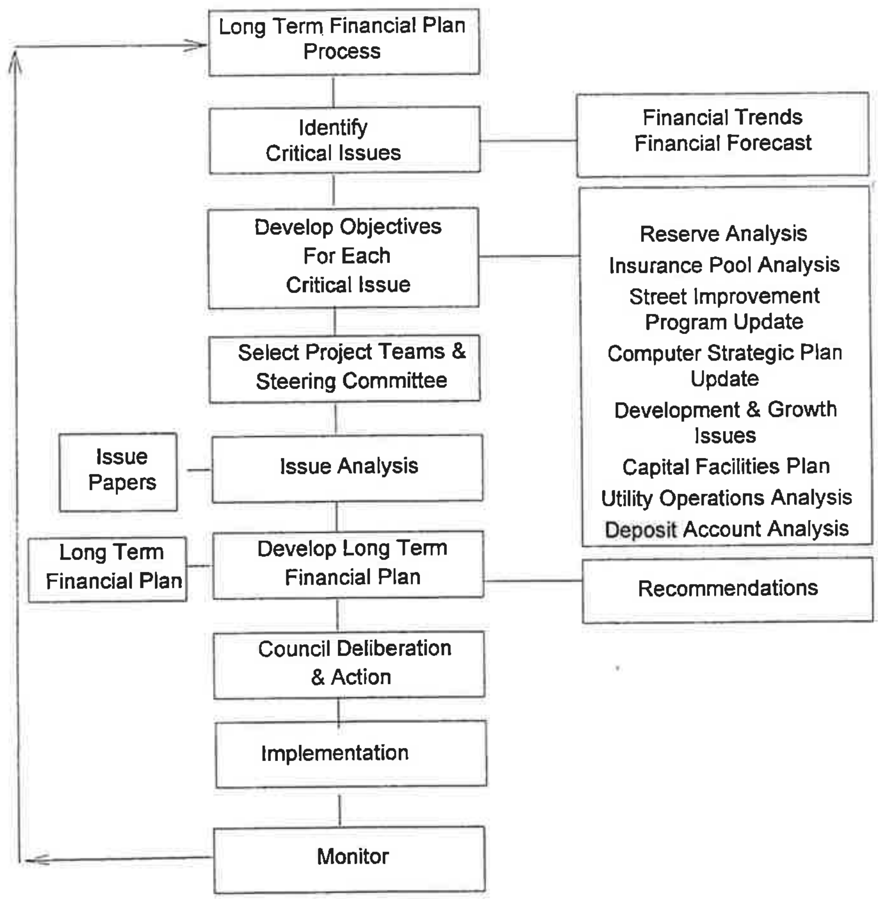
Deposit Account Analysis

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

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

Trends & Forecast are the Foundation of the LTFP

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

This Financial Plan will be presented 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:

Schedule

February 17, 1998	LTFP provided to Council and public for review.
February 20, 1998	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction.
February 24, 1998	Vital Few Priority Meeting. City Council and City Manager.
March 3, 1998	Council adoption of Long Term Financial Plan.

Financial Trends

Objective

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

Background

As part of the long term financial planning process, the City's financial trends have been analyzed for the past seven years. Many factors are utilized in order to analyze the financial condition of the City of San Clemente. These factors 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.

This financial trend analysis utilizes the above factors in assessing the financial condition of the City of San Clemente.

This annual financial trend analysis focuses on the City's General Fund. The past six trend reports have identified strengths and weaknesses of the City's financial condition. Many key recommendations have come out of this financial planning process and have been implemented by the City Council and Administration. The key issues which have faced the City over the past few years and been resolved are listed below.

- The City of San Clemente is in the assessment and implementation stage of correcting any known "Year 2000" software/hardware deficiencies. During fiscal year 1997-98, the City conducted an assessment of its computer needs, purchased financial software/hardware from Eden Systems, Inc., a "Year 2000 compliant" system, and began implementation. The City has formed a "Year 2000" committee to analyze what effect the Year 2000 might have on other City operations, such as water and wastewater treatment operations, traffic signals and public facility operations, as well as outside vendors and government agencies that provide services or funds to the City. The City's new financial software/hardware will be fully

operational by June 30, 1999. In addition, the City continues to upgrade and replace personal computers (95 in the past 3 years) and related software to make certain this is also Year 2000 compliant.

- The 1997 long term financial planning process largely dealt with a $2.8 million shortfall created by the passage of Proposition 218 and loss of the Lighting and Landscape Fund. A total of 27.22 FTE's were reduced as a number of programs, including at-risk youth programs, City sponsorship of special events, recreation programs, social service subsidies, and programs for improving sports fields for youth groups, were reduced or eliminated.

- The City's internal audit program, which was first implemented in FY 1994-95, proved successful during the past fiscal year, as operational divisions were analyzed for proper accounting, financial reporting, and efficiency. Various cash collection locations, as well as performance measures were audited during this past fiscal year.

- The City implemented a cost allocation plan in FY 1994-95, whereby General Fund services to other funds are fully recovered through a sophisticated system of general fund overhead charges.

- The City's General Fund has made significant contributions to establish and fund reserves in other funds. The fund deficit in the Workers' Compensation Fund, as well as the fiscal policy reserve requirement of the General Liability Fund of $300,000 have both been fully funded. In addition, a Capital Equipment Replacement Reserve Fund and Accrued Leave Reserve Fund were both established in FY 1994-95. The first was established to provide a funding source for the replacement of existing fixed assets as equipment, machinery, and building improvements become unserviceable or obsolete. Updated equipment and machinery allows added efficiency on the part of City employees. During the past four years, the General Fund has contributed $400,000 for the purpose of replacing equipment. The second fund was established to ensure that adequate reserves are in place in which to pay accumulated compensated absences (vacation, sick, and compensatory leave) of terminated or retiring employees. During the past fiscal year, the General Fund contributed $40,000 to this fund. And finally, the General Fund Emergency Reserve is fully funded at 5% of operating expenditures, or $1,029,640.

- In FY 1994-95, the City's Street Improvement Program was established. This 18-year program is designed to address the City's deteriorating local street system. The General Fund contributed $300,000 to this program during the past fiscal year, bringing the total contributed to $1,300,000 since its establishment.

- To continue to provide a quality level of services, the City established a centralized volunteer program to assist employees with their high level of workload. During FY 1997-98, community volunteers contributed 5,200 hours in code enforcement, administration, special projects, youth programs, police services, and the animal shelter. This has proven to be a very successful program.

- The City's economic development program, which was established in FY 1993-94, has assisted in bringing financial stability to the community by evaluating the economic climate and making recommendations for improvement. Areas of concentration during FY 1997-98 included negotiating pre-annexation and annexation agreements, soliciting corporate sponsorships for public facilities, expanding business park resources, exploring Casa Romantica development, continuing the strategic plan to revitalize the central business district, continuing the Los Molinos public/private partnership improvement program, and developing the North Beach specific plan and revitalization program.

- A classification and compensation study was conducted and implemented four years ago and brought the City's classification specifications and compensation plan in line with similar agencies.

- The City contracted with the Orange County Fire Authority in FY 1994-95 for fire services. This has resulted in a savings to the City of approximately $300,000 per year.

- The City contracted with the Orange County Sheriff's Department for police services in FY 1993-94. This has resulted in a savings to the City of $2,000,000 per year.

- The establishment of the City's storm drain utility fund in FY 1993-94 transferred the costs of storm drain maintenance from the General Fund to a self-supporting Enterprise Fund, providing for critical storm drain maintenance and capital projects.

- The City's organizational structure has been streamlined through reorganization and contracting of various City services. This streamlining has resulted in the elimination of 194 positions within the past seven years.

- The City-paid medical insurance premiums were decreased in FY 1993-94. Incentives were established to encourage employee participation in managed health care programs.

- Added personnel costs were avoided through benefit reductions and implementation of unpaid furloughs, where employees are required to utilize leave accruals, thus reducing the City's liability for compensated absences.

- The City contracted fleet services, water meter reading, park and beach maintenance, street striping and marking to third parties for additional costs savings over the past four years.

The 1999 trend report analyzes the City's current financial condition, taking into consideration the above changes, and making recommendations, where necessary, for areas of improvement. The three major areas of the General Fund analyzed include:

General Fund Revenues — The accumulation of financial resources that fund those services which have the greatest impact upon the citizens of San Clemente including police, fire, recreation, and street maintenance.

General Fund Expenditures — The application of financial resources towards the cost of providing the services of police, fire, recreation, street maintenance, and other services.

General Fund Operating Position — The ability of the City to balance current revenues with current expenditures, maintain adequate reserve levels, and to cover short-term liabilities.

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

The 1999 financial trend analysis combines several sources of data into a meaningful overview of the General Fund's current financial position, and assists City Administration and Council in making determinations as to improvements to the City's fiscal policy. Reports examined as part of this analysis include those from FY 1993-94 through FY 1997-98, combining information from Annual Budgets, Comprehensive Annual Financial Reports, Annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. The City's adopted fiscal policies, as well as other national standards, have been considered in analyzing the financial indicators. One of the following ratings will be assigned to each indicator:

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

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

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

The City of San Clemente's FY 1997-98 General Fund operating position is summarized in the following sections.

Overview of The City's Financial Condition

The financial trend indicators analyzed in this report portray the financial success the City has achieved over the past several years through methodical long term financial planning, pinpointing problem areas in need of improvement, making recommendations and striving to implement those recommendations through cost cutting measures and streamlining in many departments within the City. This strategic planning effort has paid off as explained in the following paragraphs.

The impacts of Proposition 218 ($2.8 million) on the City's financial condition, which were foremost in our minds during this process the past two years, cannot be ignored. The loss of the Lighting and Landscape assessment district was devastating on the City's General Fund, especially in light of the fact that no replacement revenue source was found. Employee positions were eliminated, programs were drastically reduced or eliminated altogether, adding additional workload to existing staff, planned levels of reserves were reduced, and certain revenue sources increased. Although these program reductions have undoubtedly affected the quality of life in San Clemente, difficult choices had to be made in order to balance the budget and continue to maintain financial stability within the City.

As mentioned above, the indicators in the report show that the City's fiscal position is much improved. This is due to several factors. First, the economic rebound is in full swing as property taxes, sales taxes and development related fees continue to expand. Second, the City is finally seeing the rewards of the financial planning implemented in prior years as reserves are fully funded and as a result, the City does not have to divert scarce resources toward funding reserve deficits and reserve targets in the City's fiscal policy. And finally, all departments continue to streamline operations, constrain spending, work efficiently and create additional cost savings plans for the future. The City's General Fund revenues show a significant increase overall, with an increase of $1,549,000, or 7.3%, over the prior fiscal year. Property taxes, the most noteworthy of General Fund revenues, shows an increase for the second consecutive year, ending the year with an increase over the prior year of $632,000. Other revenues showing increases for FY 1997-98 include licenses and permit revenues at $303,000, sales tax revenues at $241,000, intergovernmental revenues registering $205,000 higher than the previous fiscal year, fines higher by $73,000, community development service charges higher by $50,000, and rents and commissions increasing $45,000. Transient occupancy taxes maintained their all-time high of $636,000 for the second year in a row. The only reportable decrease in revenues is the loss of $239,000 in in-lieu tax revenue from the prior fiscal year due to Proposition 218. Additionally, the City continues to follow its fiscal policy of utilizing one-time revenues for one-time expenditures and not operations. This trend continues to improve as well, as the City relies less and less on one-time revenues. A final note is that General Fund revenues exceeded budgeted revenues by $1,635,000 and displayed a nine-year high of 7.21% when calculated as a percentage of operating revenues.

Additionally, two revenue categories were upgraded to favorable ratings in FY 1997-98. Licenses and permit revenues displayed a sharp increase in FY 1997-98 and projections indicate that this positive trend will continue with significant development and growth in this area. Community development service charges also showed an increase of $50,000 for the 1997-98 fiscal year. This indicator is also projected to continue an upward trend in the current fiscal year. Although these indicators have been upgraded to favorable, they must be closely monitored to ensure a positive trend.

General Fund expenditures also show positive trends in the following analyses. Expenditures came in $983,000, or 4.3%, under budgeted expenditures for FY 1997-98. When analyzing constant dollars, total expenditures show a relatively flat level throughout the five-year period, increasing by only $1,334,000. Total expenditures include the General Fund's contributions to fund reserves and the Street Improvement Program. These transfers for FY 1997-98 included 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). The net effect of positive revenues and expenditures was a General Fund year-end fund balance of $4.1 million ($2.5 million unreserved, $133,000 in miscellaneous reserves, $391,000 encumbrances from prior year, and $1.0 million emergency reserves).

Although the City's fiscal health has been severely challenged over the past several years, the City Council has acted proactively in solving the financial problems faced by the City. The turnaround in the local and regional economy has also assisted the City in the area of property values and the related taxes, which represent 28% of the City's General Fund revenue sources. All in all, the City has established a solid financial framework in which to enter the 21st century.

The underlying factors affecting the City's financial condition are always evaluated as part of this financial trend report. Areas that were of financial concern in the past trend reports, have for the most part, been improved and unfavorable and warning ratings almost eliminated. Highlights of the City's financial improvements are listed below.

- The City's **revenue base** continues to grow and show signs of recovery as is evident with almost every revenue category showing increases for FY 1997-98. The General Fund revenue base is sufficient at the present time to support current services provided to the residents. Revenues in FY 1997-98 have also boosted the unreserved fund balance, making more funds available for providing or improving future service levels. The City's total operating revenues have grown 19.2 percent from FY 1993-94 to FY 1997-98.

- The City's **elastic revenues** continue to increase as the local economy shows signs of continued stabilization. Elastic revenues increased $356,000 from FY 1996-97 to FY 1997-98. Sales tax revenues, licenses and permits, and community development service charges all increased during the fiscal year. Transient occupancy taxes continued at an all-time high for this category. The only decline in elastic revenues was the loss of in-lieu tax revenues as a result of Proposition 218. Although the City continues to rely heavily on elastic revenues, the City's commitment to funding the General Fund emergency reserve will prove beneficial in safeguarding the City against any future short-term unforeseen economic downturns that may have an effect on elastic revenues.

- The City continues to **reduce expenditures** in an effort to contain spending and remain in a positive operating position. Staffing levels have been reduced over the past seven years by 55%, from 353 full-time equivalents (FTE's) in FY 1991-92 to 159 FTE's in FY 1997-98. Employees per capita levels are at an all-time low and have fallen into the unfavorable rating category during FY 1997-98, as levels may be too low to maintain current service levels and certainly too low to reestablish programs eliminated over the past several years.

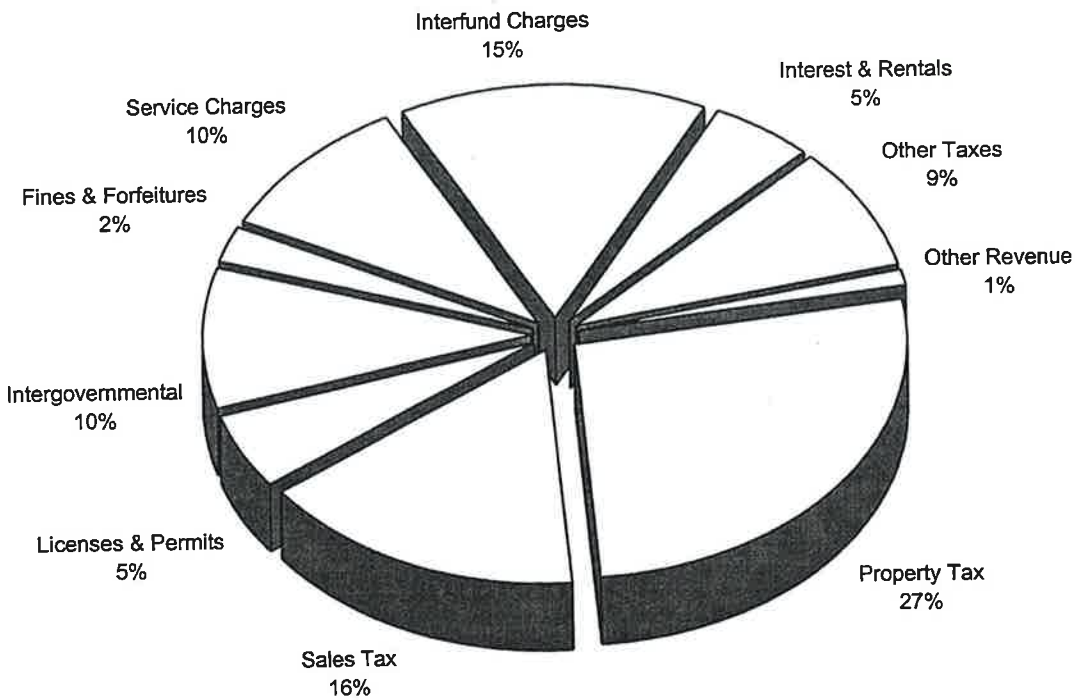
- **Unreserved fund balance** is at an all-time high of 15.71% when calculated as a percentage of operating revenues. This is an increase over the prior year of $749,000 and is the direct result of an operating surplus for the year in the amount of $800,000. This available fund balance includes the General Fund's emergency reserve, which has been set at 5% of operating expenditures, and is fully funded at the present time at $1,029,640. In addition, the General Fund contributes to the funding of other reserves within the City, including transfers to the Capital Equipment Replacement Reserve Fund ($400,000), Accrued Leave Reserve Fund ($140,000), General Liability Fund ($415,000), Workers' Compensation Fund ($356,000), and Street Improvement Fund ($1,300,000).

General Fund Operating Results - Revenues

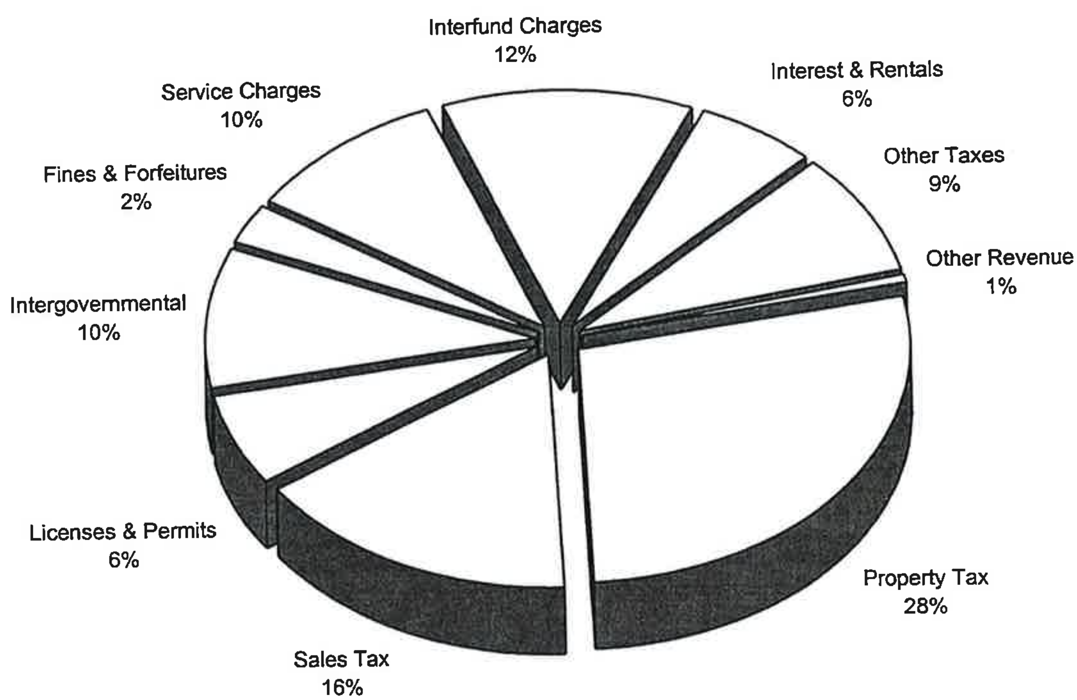
The City's General Fund operating revenues increased from $21,149,151 to $22,697,761, an increase of 7.3%, or $1,549,000 over the prior fiscal year. Property tax revenues showed the most significant increase of $632,000 over FY 1996-97, the second consecutive year of increases after a four-year decline. The City's one-time revenues, and related reliance on these revenues, continue to decline as the City utilizes one-time revenues to offset one-time expenditures.

The General Fund's revenue sources with related percentages of total operating revenues are shown in the charts on the next page. Taxes, including property, sales and other taxes make up the largest category of General Fund revenues at 53% of revenues generated from the General Fund.

1996-97 Operating Revenues By Source



1997-98 Operating Revenues By Source



The City continues to receive its largest share of revenues from property taxes and sales taxes. One percent of the 7.75% in sales tax generated within the City limits is distributed to the City, with 6.25% distributed to the State and 0.5% to the Orange County Transportation Authority (OCTA) under Measure M for street improvements. Fiscal year 1997-98 property taxes paid by a typical resident of San Clemente were apportioned to local governments with school districts receiving 67.8%, special districts receiving 2.6%, the County 12.2%, the Redevelopment Agency 2.4%, and the City receiving 15.0%.

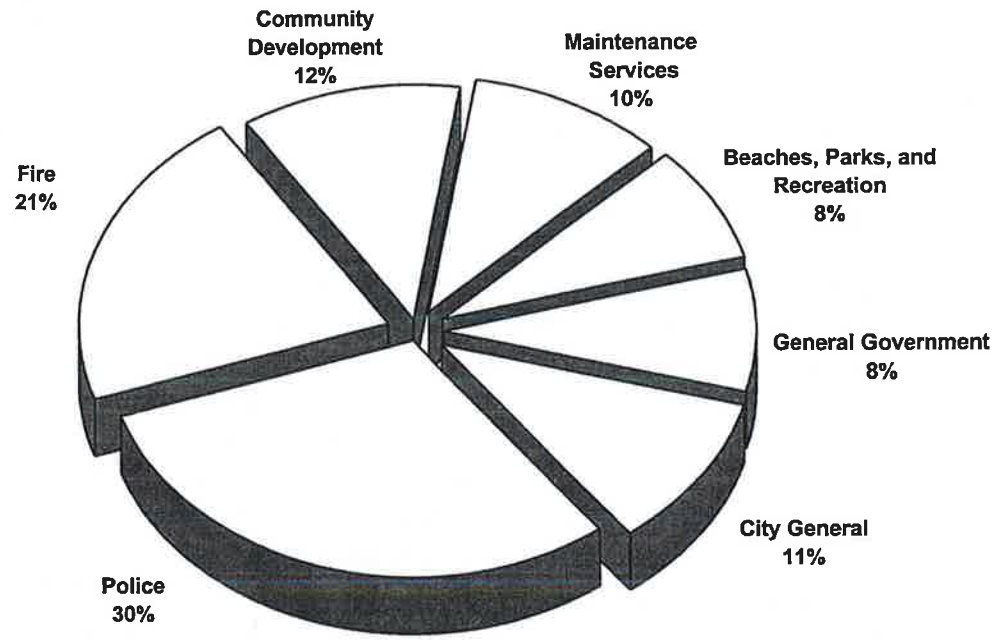
Several changes between FY 1996-97 and FY 1997-98 percentages by revenue source were noted. Property taxes increased from 26.7% of operating revenues to 27.7% in FY 1997-98, the second consecutive year of increases in this revenue source. Licenses and permit revenues increased from 5.2% in FY 1996-97 to 6.2% in FY 1997-98. This is the direct result in the overall increase in number of new residential permits issued during the fiscal year and the start of two new commercial/industrial buildings within the City. Interest and rentals increased from 4.9% to 6%, because of the growth in investment earnings, building rentals, communication site rentals and concessions. On the reverse side, interfund charges declined from 15% to 12.1% due to a decline in General Fund overhead charges of $708,000 as a result of the elimination of the Lighting and Landscape District. Offsetting a portion of this decline is the annual operating transfer from the Golf Course Enterprise Fund in the amount of $425,000 to assist in funding critical beaches, parks and recreational programs, where the funding source was partially eliminated with the assessment district elimination.

General Fund Operating Results - Expenditures

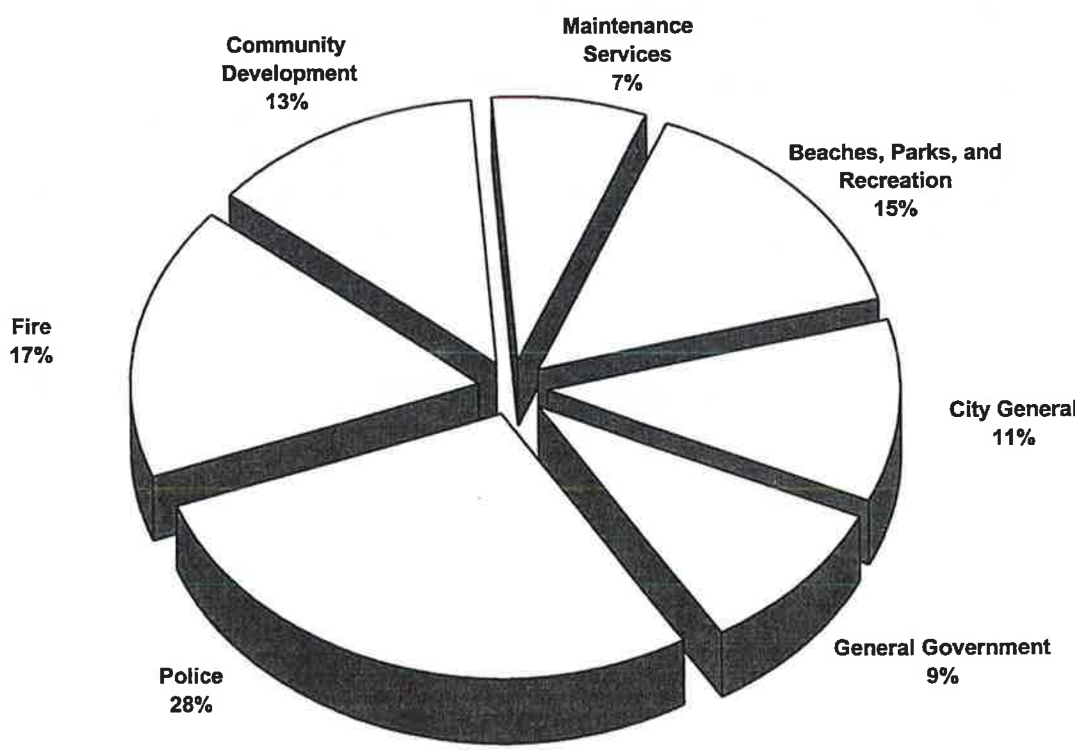
The largest portion of the City's operating costs reside in the General Fund. Fiscal year 1997-98 showed increases of only $1,245,000 in total General Fund expenditures from the prior fiscal year. General Fund expenditures include Lighting and Landscape District expenditures of $1,423,000 which were absorbed during FY 1997-98. The expenditures for FY 1997-98 also include $1,095,000 in transfers to other funds to fund reserves and a contribution to the Street Improvement Program.

The following charts compare expenditures both by department and category for FY 1993-94 and FY 1997-98.

Comparison of Expenditures By Department - 1993-94 vs. 1997-98



Percentage of Expenditures By Department
1993-94

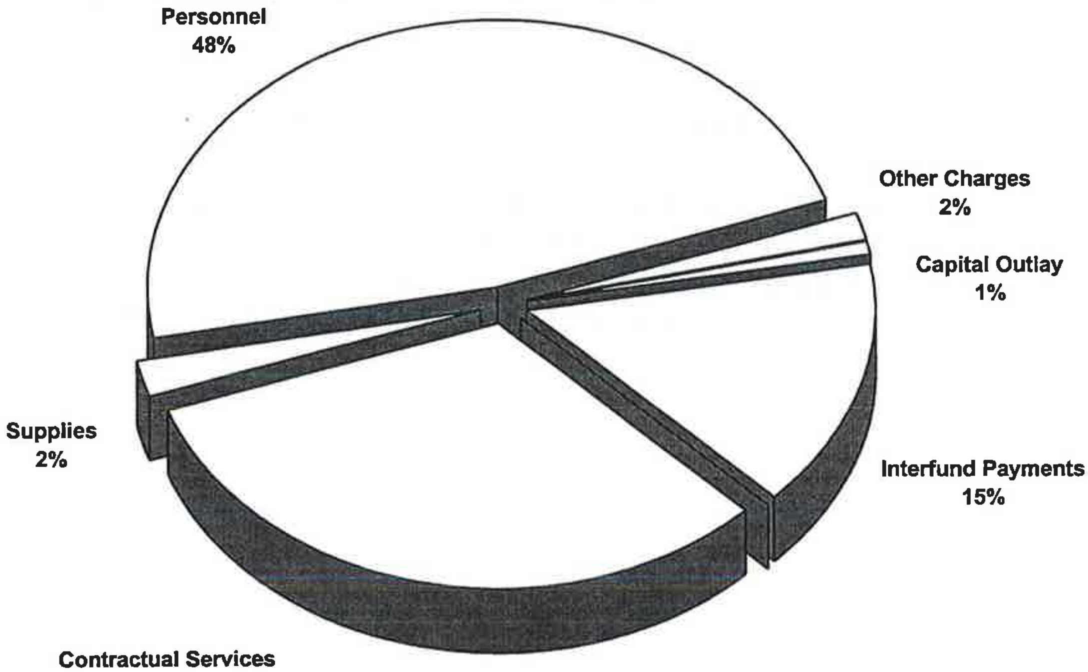


Percentage of Expenditures By Department
1997-98

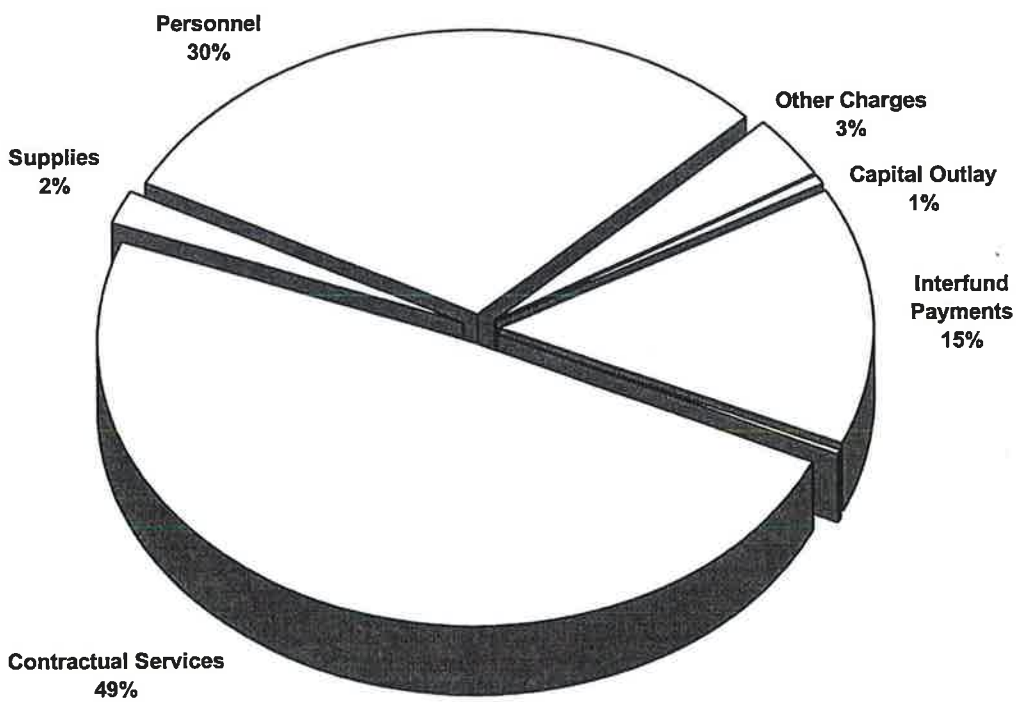
Changes in the above comparison of General Fund expenditures by department worthy of mention include a decrease in public safety from 51% to 45% due to the contracting of police and fire services to the Orange County Sheriff's Department and Orange County Fire Authority, respectively. Maintenance services have declined significantly from 10% in FY 1993-94 to 7% in FY 1997-98, due to the loss of 9 full-time equivalents (FTE's) and cost-cutting measures in all areas of the Maintenance Division in FY 1997-98. Beaches, Parks, and Recreation increased from 8% to 15% because this division absorbed the costs of the former Lighting and Landscape Assessment District, with expenditures totaling $1,423,000 for FY 1997-98 for these services alone. If the Lighting and Landscape District had not been dissolved, Beaches, Parks, and Recreation expenditures would only amount to 9% of total General Fund expenditures instead of the current 15% level.

Long Term Financial Plan

Comparison of Expenditures by Category- 1993-94 vs. 1997-98



Percentage of Expenditure by Catergory
1993-94



Percentage of Expenditure by Catergory
1997-98

Personnel costs, as a percentage of General Fund expenditures, 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. During this time period, personnel 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.

In summary, the City's financial condition continues to stabilize and exhibit signs of growth in many areas. The General Fund's emergency reserve is in line with fiscal policy at 5% of operating expenditures. In addition, the unreserved fund balance is at an all-time high of 15.71%, when calculated as a percentage of operating revenues, a total of $3,565,000. The City's fiscal health is also bolstered by the improvement in the local and regional economy, as evidenced by the increase in property values, and the related property tax revenues, for the second consecutive year.

General Obligation Debt

According to California State law, the City's legal debt capacity for general obligation indebtedness is equal to 3.75% of total assessed property values within the City, or $146 million. The City's only current general obligation debt is $3,570,000 at June 30, 1998, for certificates of participation issued on June 1, 1994 to finance the acquisition and improvements of the three story 56,988 square foot building located at 910 Negocio, San Clemente. Debt service payments are primarily paid for through the leasing of office space.

Summary of Trends

The following pages contain a listing of the indicators analyzed as a part of this financial trend analysis and a brief summary of the rating assigned to each indicator. Also included is the change in status from the previous year.

Summary of Trends

Indicator Number	Description	Trend	Comments
General Fund Revenues			
1	Revenues Per Capita	F	Revenues per capita reflected an increase from the prior fiscal year. Rating unchanged from prior year, with the note of caution deleted.
2	Property Tax Revenues	F	Property tax revenues showed a second year of increases following a five year declining trend. This increase was significant at $632,000, or 11.2%, over the previous fiscal year. This rating is unchanged with the second favorable rating during the five year history.
3	Sales Tax Revenues	F	Sales tax revenues once again showed increases amounting to $241,000, or 7%, over the prior fiscal year. This revenue source continues to be the second highest source of the City's General Fund. Rating unchanged from prior year.
4	Licenses & Permits	F	License and permit revenues rose sharply in FY 1997-98, following a decline in the prior fiscal year. This increase in development within the City resulted in an increase in revenues of $303,000, or 27.5%, over the prior fiscal year in actual dollars and $264,000, or 25.3%, in constant dollars. Rating changed to favorable from prior year.
5	Com. Dev. Service Chgs.	F	Community Development Service Charges increased $50,000, or 7.7%, from FY 1996-97. This revenue source has shown stability since FY 1994-95 and is projected to continue its upward trend. Rating changed from prior year.
6	Elastic Revenues	F	Elastic revenues increased by $356,000 in FY 1997-98, with almost every category showing increases, with the exception of discontinued in-lieu tax revenues. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
7	One-Time Revenues	F	One-time revenues decreased 27.8% in FY 1997-98 from FY 1996-97. The City continues to rely less on one-time revenues each year and will continue to apply one-time revenues towards one-time expenditures. Rating unchanged from prior year.
8	Intergovernmental	F	Intergovernmental revenues have maintained a level trend for the past three years with FY 1997-98 showing 9.96% of operating revenues, up $205,000 from the prior fiscal year. This level trend is positive, in that the City should not rely too heavily on revenue sources which are out of its control. Rating unchanged from prior year.
9	Revenue Overages/ Shortages	F	Revenue overages/shortages as a percentage of operating revenues is at a nine-year high of 7.21%. This indicator examines the differences between revenues budgeted and revenues actually received. Rating unchanged from prior year.
General Fund Expenditures			
10	Exp. Per Capita	F	In both constant and actual dollars, expenditures per capita increased slightly in comparison to the prior year. The City has reduced spending significantly by contracting services and by downsizing all departments within the City. This represents cost savings while services to City residents have generally been maintained. Rating unchanged from prior year, however a note of caution remains assigned to this indicator.
11	Employees Per Capita	U	The number of employees per capita has dropped significantly over the past seven years with the elimination or contracting of 194 full-time equivalent positions, a total decrease of 55%. Rating changed to unfavorable from the prior year. This indicator has declined for two consecutive years. It is becoming evident that employee staffing levels may be too low to support current service levels.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
12	Fringe Benefits	F	Fringe benefits, as a percentage of salaries and wages, has remained stable over the past five years due to the implementation of reduced benefit levels. Rating unchanged from prior year.
13	Capital Outlay	F	Capital Outlay increased over the prior fiscal year by 39%. A $100,000 annual contribution continues to be made to the Capital Equipment Replacement Reserve Fund. Rating unchanged from prior year.
General Fund Operating Position			
14	Operating Surplus	F	This indicator has remained positive for the fourth consecutive year. The City's operating surplus for FY 1997-98 was 3.53% of operating revenues, the highest level since this indicator was first tracked. Rating unchanged from prior year.
15	Unreserved Fund Balance	F	The City's unreserved fund balance at June 30, 1998, as a percentage of operating revenues, increased over the prior year to 15.71%. The emergency reserve is fully funded at 5% of General Fund operating expenditures, or $1.0 million. Rating unchanged from prior year.
16	Liquidity Ratio	F	The General Fund liquidity ratio (current assets to current liabilities) at June 30, 1998 was 2.5:1 which is above the 1:1 ratio viewed as favorable by credit rating firms. Rating unchanged from prior year.
17	Debt Service	F	The City General Fund's debt service, as a percentage of operating revenues, remains at less than 1%. The City's debt is well below the 20% of net operating revenues which is used by credit rating firms. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
Additional Indicators			
18	Compensated Absences	F	Accumulated compensated absences (unpaid vacation, sick leave, and compensatory time) has remained at the same level for the past four years. FY 1997-98 shows a very small decline of $5,000, or .53%, from the prior fiscal year. Rating unchanged from prior year.
19	Property Values	F	Like property tax revenues, property values continue to show a positive trend for the second consecutive year. This indicator shows an increase over the prior year of .48%. Because the City relies heavily on property tax revenues, representing 28% of all General Fund revenues, this indicator will continue to be closely monitored. Rating unchanged from prior year, but the note of caution has been dropped as this trend has continued for a two year period.
20	Population	F	This trend continues to receive a favorable rating because the population growth has been a steady, but not rapid, increase over the last nine years and has been relatively planned and controlled. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Long Term Financial Plan

Comparison of Trend Reports

Twenty financial indicators are summarized on the following page. These indicators are analyzed on an annual basis as part of the Long Term Financial Plan. The current year being analyzed shows one indicator receiving an unfavorable rating, an improvement from the previous year where two indicators were unfavorable. Nineteen indicators received favorable ratings. This is an improvement over 1995 where twelve indicators were favorable, and an even more significant improvement over the first financial trend analysis with only six as favorable.

The City's improved fiscal health is the result of external factors including an improved local and regional economy as well as strategic financial planning and adherence to a comprehensive set of fiscal policies. The annual Long Term Financial Plan has proven to be a very useful tool in isolating areas in need of improvement and performing analyses on these areas with recommendations for continued improvement.

All revenue indicators show favorable ratings. Licenses and permit revenues increased $303,000 from the previous year, warranting a change to favorable. Community development service charges also receive a favorable rating, the first in seven years, with an increase of $50,000. And finally, property tax revenues remain favorable for the second consecutive year, up $632,000 from the previous fiscal year.

The one unfavorable indicator can be found in the expenditures category. Employees per capita dropped from favorable with a note of caution to unfavorable, because of a second consecutive decline. The total decrease in employees over the seven-year period has been 55%, or 194 employees. Although City employees are working at an increased level of efficiency, this indicator remains at an all-time low, and employee levels may not be high enough to support future service levels as the City continues in its development and growth phase. Fringe benefits continue to remain stable at a reduced level and the General Fund continues its capital equipment replacement program with an annual contribution to the Capital Equipment Replacement Reserve Fund.

The City's General Fund operating position remains very positive with all indicators in this category registering favorable ratings. Operating surplus, as a percentage of operating revenues, is at an all-time high of 3.53%, as is unreserved fund balance, as a percentage of operating revenues, at 15.71%.

The three additional indicators received favorable ratings, with property values continuing its positive trend for the second consecutive year. This indicator continues to be closely monitored because of the City's reliance on property tax revenues, 28% of General Fund operating revenues.

Recommendations presented in the Long Term Financial Plan continue to play an important role in the improved financial health of the City. Improvements in the City's financial condition are summarized in the chart on the following page, showing the past five years of ratings.

Summary of Annual Trends

Indicator Number	Description	1999	1998	1997	1996	1995
1	Revenues Per Capita Excluding One-Time Revenues	F	F	F	F	U
2	Property Tax Revenues	F	F	U	U	U
3	Sales Tax Revenues	F	F	F	F	F
4	License & Permit Revenues	F	U	F	F	F
5	Community Development Service Charges	F	U	U	U	U
6	Elastic Revenues	F	F	F	F	F
7	One-Time Revenues	F	F	F	F	F
8	Intergovernmental Revenues	F	F	F	F	F
9	Revenues Overages/Shortages	F	F	F	F	U
10	Expenditures Per Capita	F	F	F	F	F
11	Employees Per Capita	U	F	F	F	F
12	Fringe Benefits	F	F	F	F	W
13	Capital Outlay	F	F	F	F	U
14	Operating Surplus	F	F	F	F	W
15	Unreserved Fund Balance	F	F	F	F	F
16	Liquidity Ratio	F	F	F	F	F
17	Debt Service	F	F	F	F	F
18	Compensated Absences	F	F	F	F	F
19	Property Value	F	F	U	U	U
20	Population	F	F	F	F	F

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

Long Term Financial Plan

City Fiscal Policy

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

General Financial Goals

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

Operating Budget Policies

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

Revenue Policies

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

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

Expenditure Policies

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

Utility Rates and Fees

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

Capital Improvement Budget Policies

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

Short-Term Debt Policies

29. The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.
30. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's

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

Long-Term Debt Policies

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

Reserve Policies

34. The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 5% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.
35. A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than $100,000.
36. Council approval is required before expending General Fund or Contingency Reserves.
37. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.
38. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention 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.
39. The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Investment Policies

40. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.
41. The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.

Accounting, Auditing, and Financial Reporting

42. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.
43. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
44. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
45. Full and continuing disclosure will be provided in the general financial statements and bond representations.
46. The City will maintain a good credit rating in the financial community.
47. An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.
48. The City will maintain a liquidity ratio of at least 1:1.

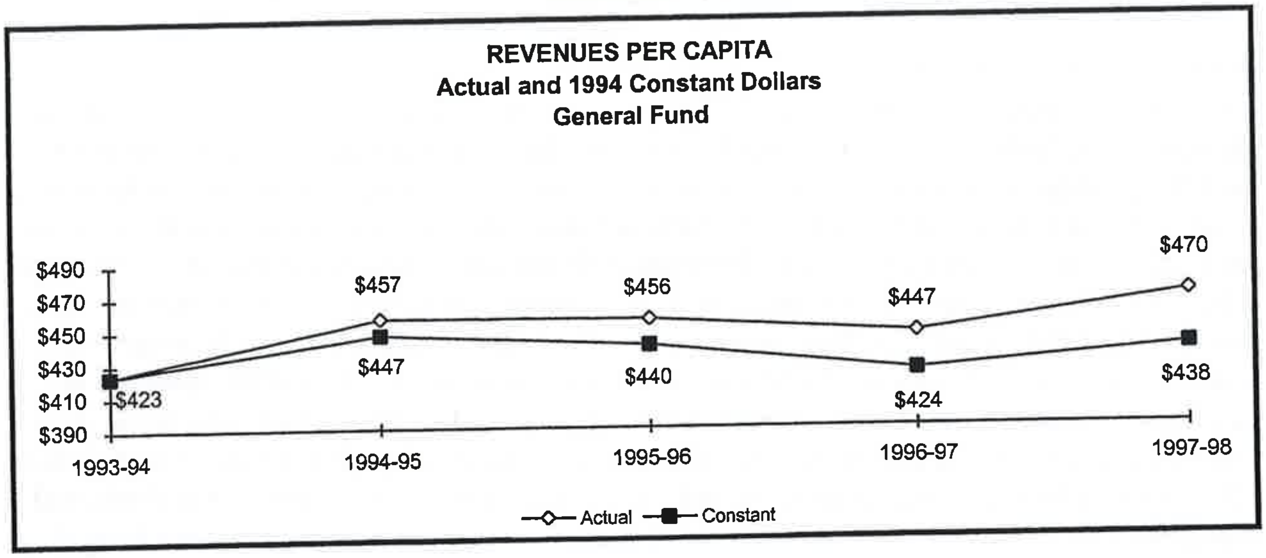
General Fund Revenues

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

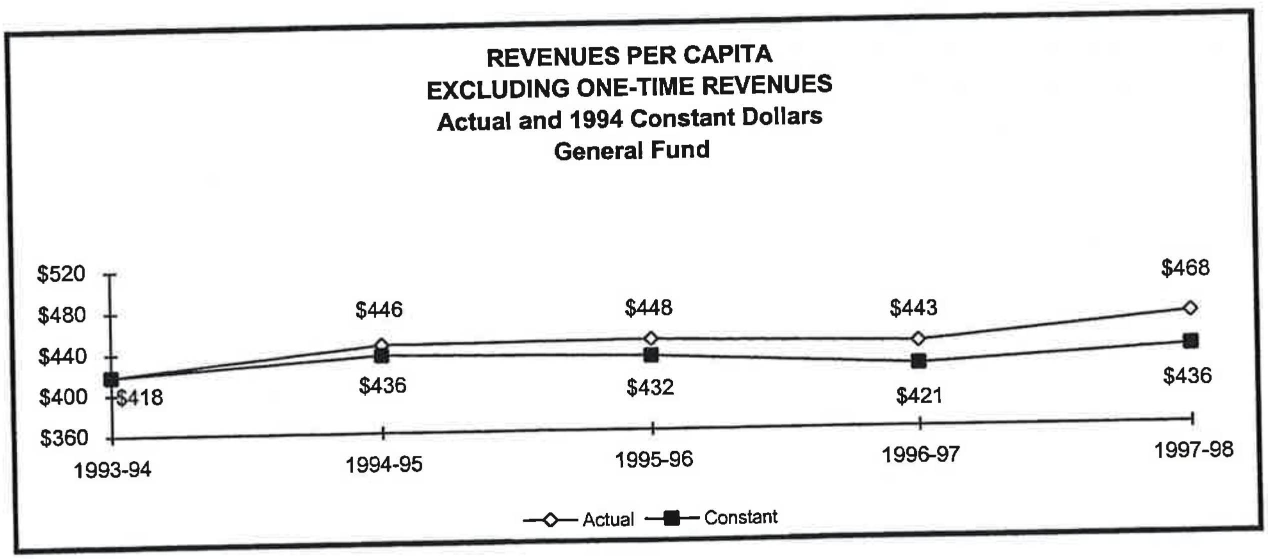
The following section evaluates nine indicators used to determine the financial condition of the City's revenue base. The City of San Clemente continues to show significant improvement in revenues due to gradual economic growth. Property tax revenues, for the second consecutive year, show a positive trend. Additionally, licenses and permits and community development service charges have both been upgraded to favorable ratings, showing increases with continued upward trends projected into the future. A detailed revenue analysis is provided for the following indicators:

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

Indicator 1



Current Trend: Favorable **Prior Year Trend: Favorable/Caution**



Current Trend: Favorable **Prior Year Trend: Favorable/Caution**

Description

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

Comments and Analysis

Revenues per capita excluding one-time revenues shown in the above chart, reflects an increase when analyzing both actual and constant dollars. Two factors contribute to this positive trend. First, the population increased 2 percent from the previous year, compared to previous increases of only 1.5 and 1.4 percent. Second, most major revenue categories registered increases over the prior fiscal year. Property tax revenues lead with a significant increase over the prior fiscal year of $632,000. Following this are increases in licenses and permit revenues of $303,000, sales tax revenues of $241,000, intergovernmental revenues of $205,000, fines of $73,000, community development service charges of $50,000, and rents and commissions of $45,000. Additionally transient occupancy tax revenues maintained their all-time high of $636,000 for the fiscal year, an increase of 41% from two years earlier. The only reportable decrease in revenues is the loss of $239,000 of in-lieu tax revenues from the prior fiscal year. This revenue source was eliminated through Proposition 218 during the 1996-97 fiscal year. Excluding one-time revenues from the analysis above is a more accurate approach to determining the City's ability to support operations through the collection of revenues. One-time revenues are utilized for one-time expenditures, and therefore, are not as relevant to an analysis of on-going operations support.

After a couple of years of maintaining a level trend, 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.

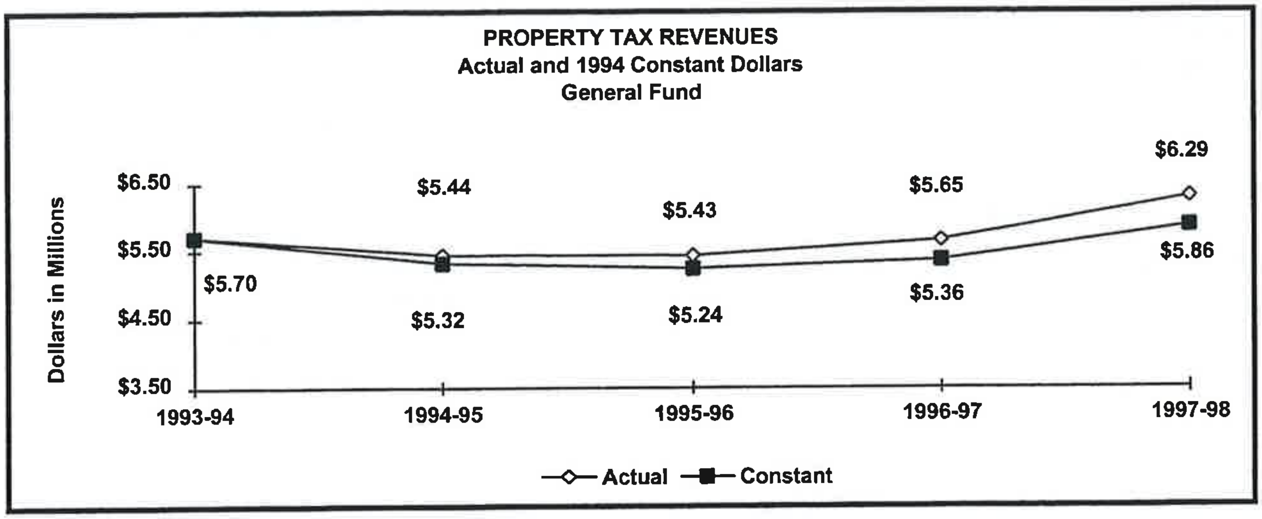
Related Fiscal Policy

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

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

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

Indicator 2



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

Description

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

Through June 30, 1992, the City received a share of the basic levy proportionate to the amount received at the time Proposition 13 was passed, approximately 19 percent. From July, 1992 through July, 1993, the City's share of the basic levy dropped from 19 percent to 15 percent, as the State imposed a property tax shift in an attempt to solve its budgetary problems. The City's share of property taxes remains constant at 15% for FY 1997-98.

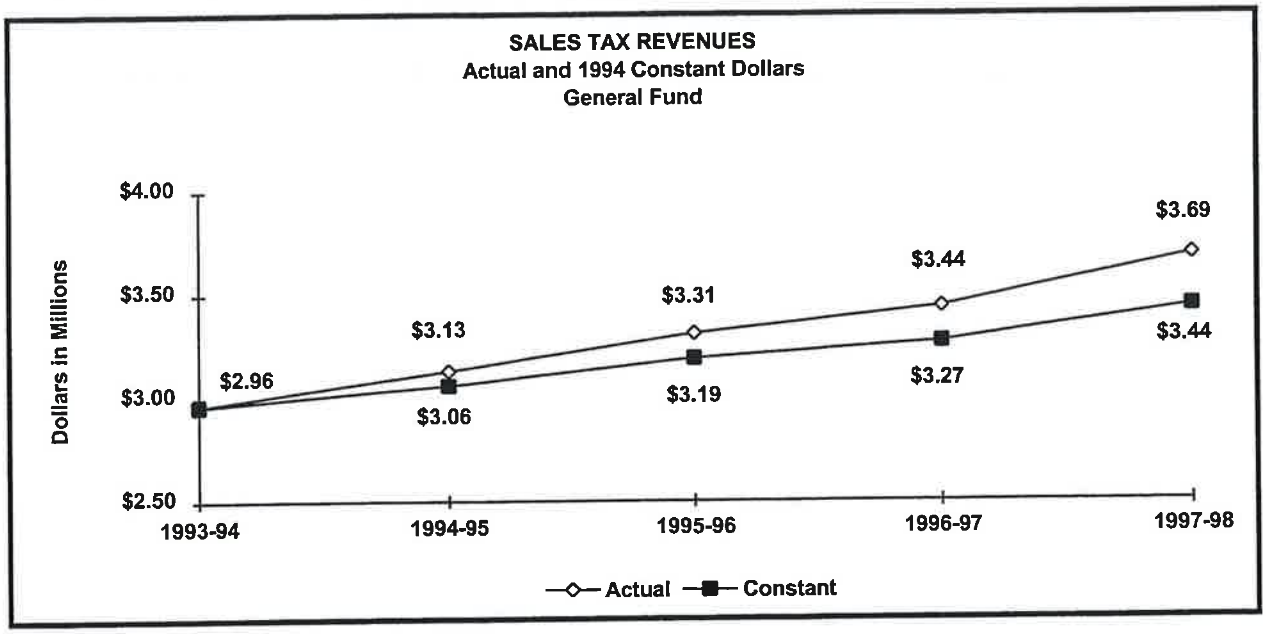
Comments and Analysis

Property tax revenues showed a significant increase for fiscal year 1997-98, continuing the positive trend which was initiated one year earlier. This two-year positive trend follows four years of unfavorable ratings. The significant increase in property tax revenues over the previous fiscal year amounted to $632,000, or 11.2%, in actual dollars. Constant dollars also showed an increase from the previous year of $494,000, or 9.2 percent. Increases like the ones displayed above are proof that the City's property values have rebounded and that the City's economy, along with the regional economy, has improved. Even with this positive trend, however, the City continues to monitor this revenue source closely, as the City still has to regain prior losses due to tax shifts to the State. Current projections show property valuations and revenues continuing to stabilize and grow. Therefore, this trend receives a favorable rating for the second consecutive year.

Related Fiscal Policy

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

Indicator 3



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

Description

Sales tax revenue is a strong indicator of the City's economic health. Sales taxes are the City's second largest source of revenue and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. Since June, 1993, the Board has been collecting and administering 1.0% of local sales tax for the City which is part of the overall County of Orange sales tax rate of 7.75%. Beginning in July, 1993, the City also receives an additional 0.5%, earmarked for public safety as mandated by the State. The Orange County sales tax rate remained at 7.75% as of June 30, 1998.

Comments and Analysis

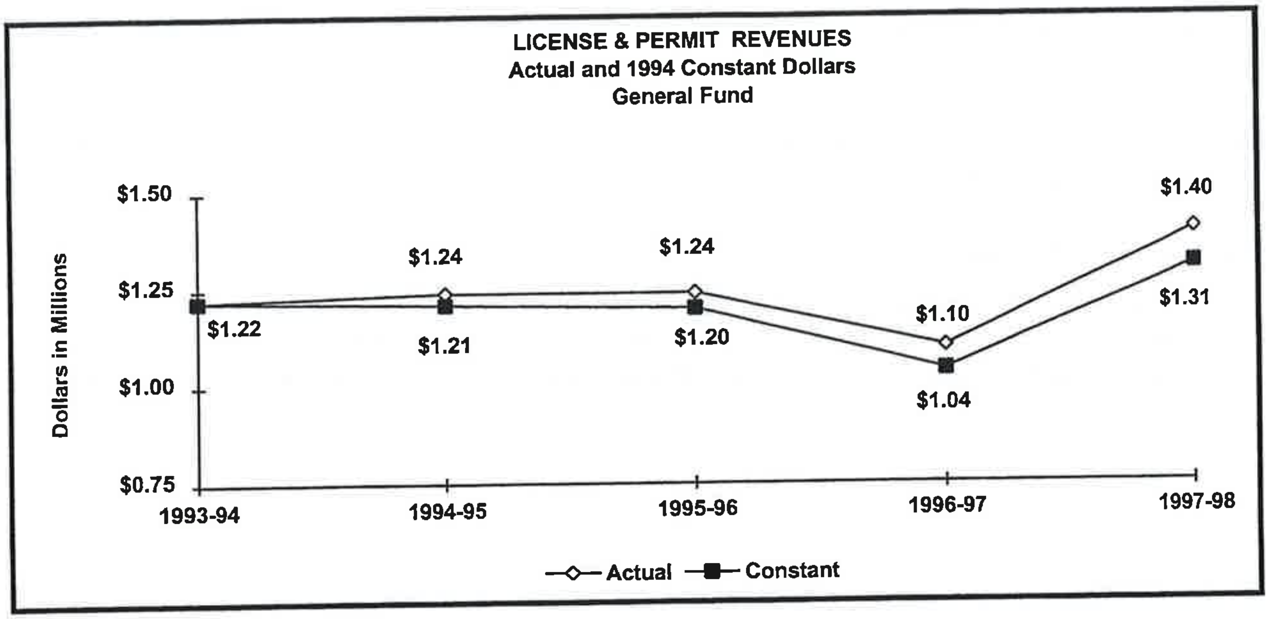
As summarized in the chart above, sales tax revenues showed increases of $241,000, or 7%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to $167,000, or 5%. The chart shows an increasingly favorable trend over the past four years in both actual and constant dollars, confirming increased economic activity within the City. In fact, actual sales tax revenues have increased a total of 24.6 percent over the four year period presented above, and 16.1 percent in constant dollars for the same time period. These increases boost sales tax revenue to a nine year high in actual dollars. This continued upward trend in actual and constant dollars results in a favorable rating.

Long Term Financial Plan

Related Fiscal Policy

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

Indicator 4



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

Description

Licenses and permits is a major revenue category that factors into the analysis of the City's economic health. Constant dollars are utilized in evaluating the part of the change not related to inflation. Included within this revenue category are business licenses, construction permits, alarm permits, and other miscellaneous permits. Much like sales tax revenues, licenses and permits are relatively elastic as they vary directly with changes in the economy.

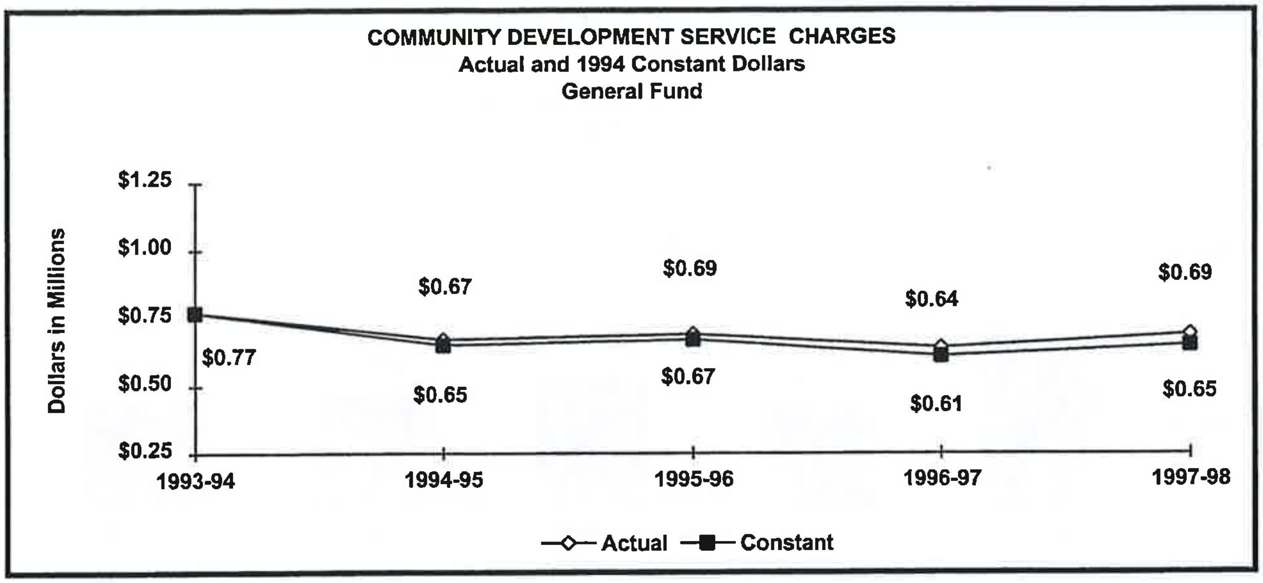
Comments and Analysis

Licenses and permit revenues increased for the first time in four years in fiscal year 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 licenses and permit revenue registering $264,000, or 25.3%, over fiscal year 1996-97. 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%, in actual dollars over the prior year and an increase in business licenses of $66,000, or 13.9%. The majority of the increase in construction-related revenue is the result of an increase in the number of new residential permits issued and the start of two new commercial/industrial buildings within the City. As noted in the prior year's trend analysis, one of these significant development projects was delayed from the previous fiscal year. Thus, the decline in FY 1996-97 and the sharp upward trend in FY 1997-98, when this project was underway. This continued increase in development-related permits and fees is projected to continue through FY 1998-99. In addition to the increased follow-up performed by City staff in the area of business licenses, the City has experienced an increase in this revenue category due to the increase in sales by local businesses. The City's business licenses are based on gross sales, thus with the improved economy and local sales, business license revenues have also increased over the past few years. 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.

Related Fiscal Policy

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

Indicator 5



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

Description

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

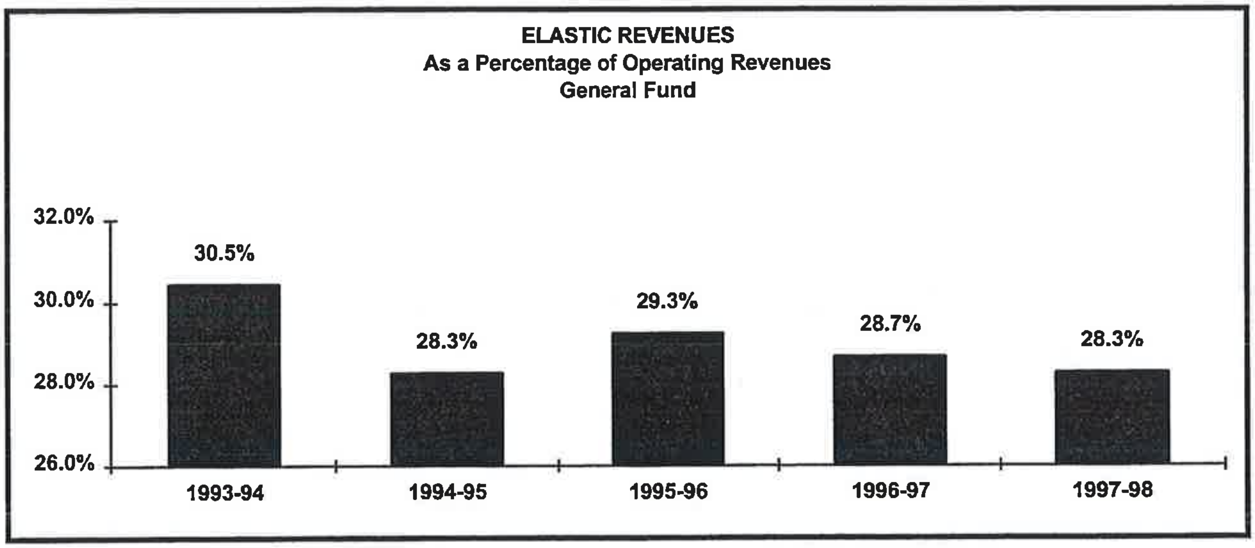
Comments and Analysis

For fiscal year 1997-98, community development service charges increased by 7.7 percent, or $50,000 from fiscal year 1996-97. 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. This category has shown relative stability since FY 1994-95. 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.

Related Fiscal Policy

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

Indicator 6



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

Description

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

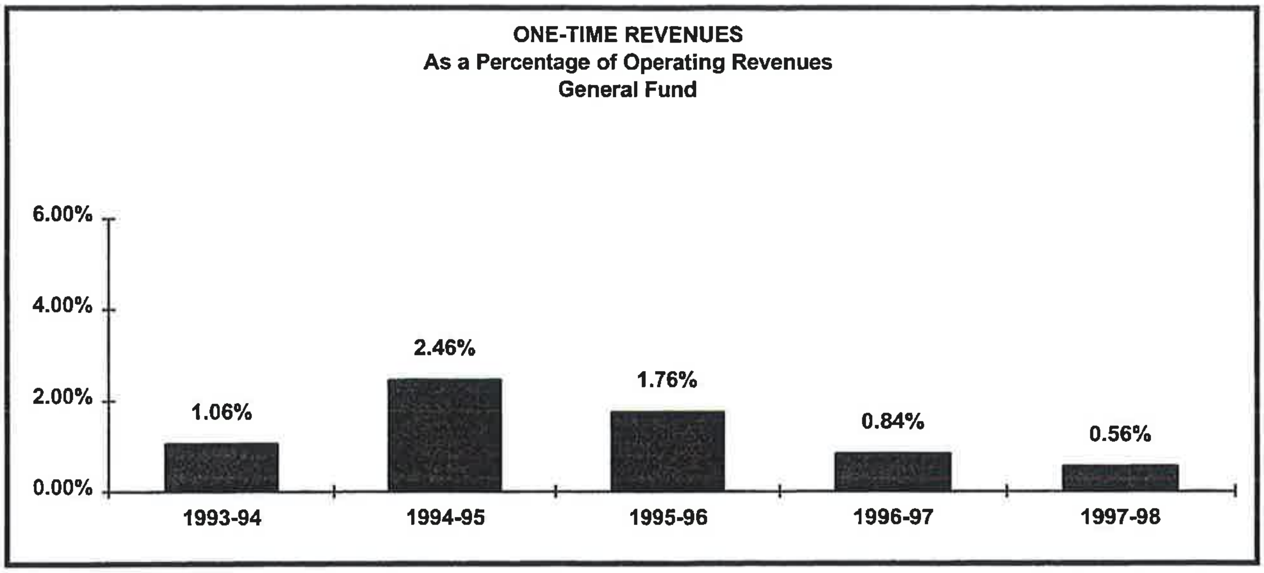
Comments and Analysis

Elastic revenues, as a percentage of operating revenues, declined .4% in fiscal year 1997-98 after a decline of .6% in FY 1996-97. Revenues in this category, however, increased $356,000, while total operating revenues increased by $1,549,000. The City's largest elastic revenue source, sales tax revenue, was up 7%, or $241,000, from the prior year. In addition, licenses and permit revenues came in $303,000 over the previous year and community development services charges increased $50,000. Transient occupancy taxes remained virtually the same, showing only an increase of $120. The only decline in this revenue category was in-lieu tax revenues which were eliminated in November, 1996, resulting in a decline in FY 1997-98 of $239,000. Although elastic revenues, as a percentage of operating revenues, declined in FY 1997-98, it has remained fairly stable since FY 1994-95. Because of this, this trend receives a favorable rating.

Related Fiscal Policy

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

Indicator 7



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

Description

One-time revenues are not expected to continue in future years. Examples of such revenues include one-time equity transfers from funds that are being discontinued, single purpose grant revenue, revenue from the sale of assets, and the appropriation of reserves. Continual use of one-time revenues to balance the annual budget is an indication that the revenue base may not be strong enough to support current service levels. As the City's fiscal policy states, one-time revenues are only utilized to fund one-time expenditures or reserve transfers and are not spent on day-to-day operational activities.

Comments and Analysis

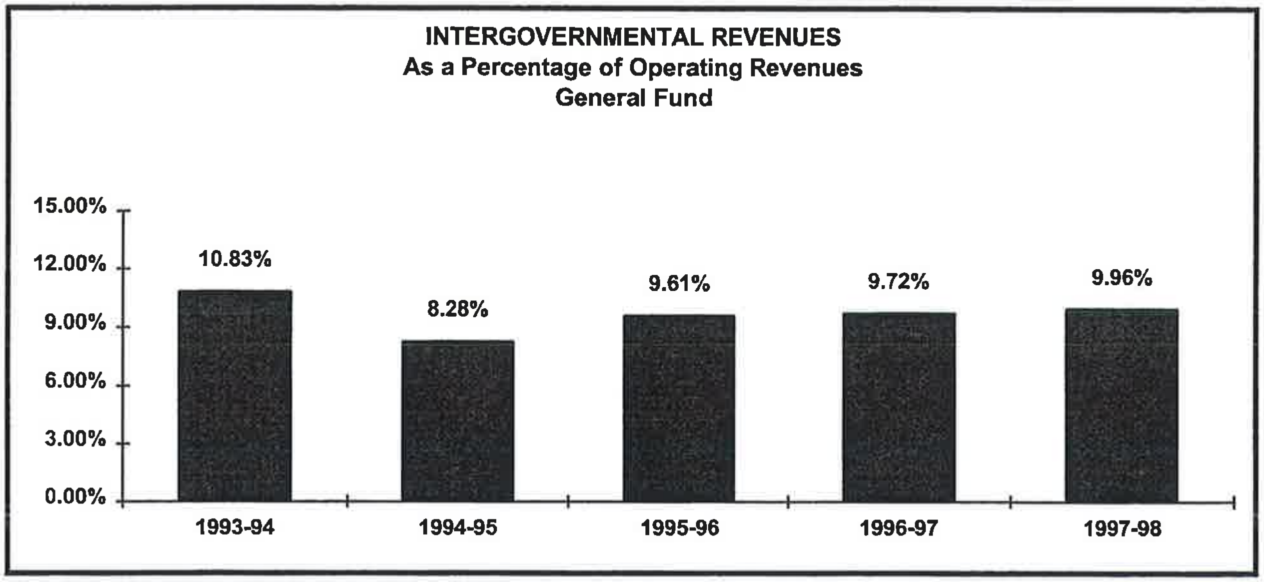
One-time revenues are at an all-time low in FY 1997-98, showing a decline from the prior fiscal year of $49,000, or 27.8%. This is a very favorable trend as indicated from the description above. Fiscal year 1997-98 one-time revenues included a supplemental law enforcement grant of $109,000, payroll tax refund of $6,000, a cable television joint cities settlement of $5,800, scrap metal sale of $2,900, and narcotics forfeiture revenue in the amount of $2,700. In accordance with the City's fiscal policy, one-time revenues were used for one-time expenditures (e.g., reserve transfers).

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

Related Fiscal Policy

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

Indicator 8



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

Description

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

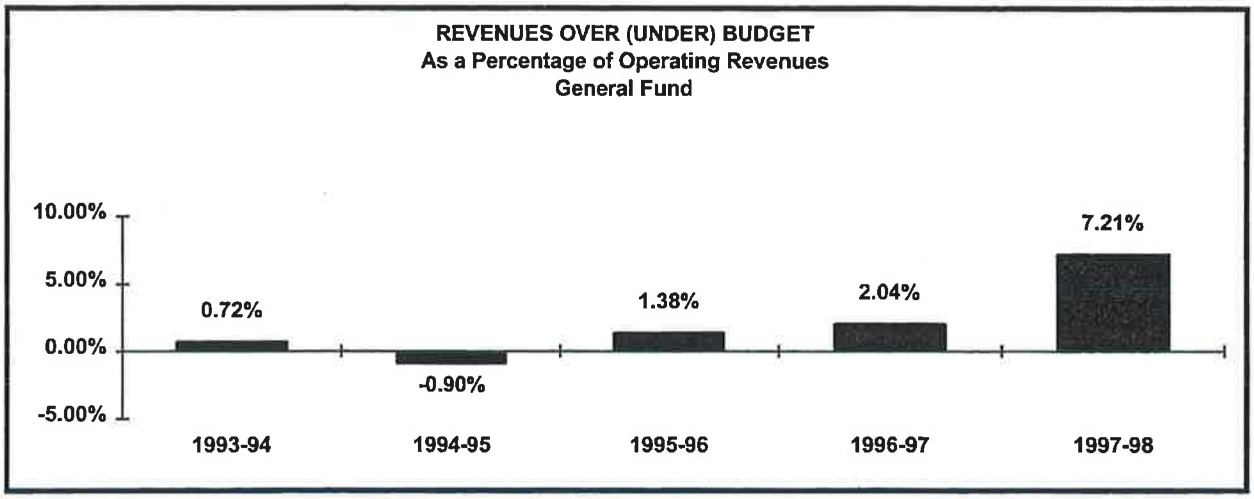
Comments and Analysis

General Fund intergovernmental revenues, as a percentage of operating revenues, showed a level trend for the third consecutive year, with a very small increase. This increase consists of a 10% increase in intergovernmental revenues while operating revenues increased by 7.3%, or $1,549,000. The increase in intergovernmental revenues is mostly attributable to motor vehicle taxes, which increased $177,000, or 9.7%, over the previous fiscal year. Additionally, state mandated cost reimbursements for open meetings, business licenses, and investment reporting increased $38,000 and S.O.N.G.S. grant revenue increased $15,000. This trend remains favorable as dependence on intergovernmental revenues has remained at stable levels over the last ten years. However, this favorable rating contains a note of caution as State and Federal governments continue to mandate programs, along with the cost burden, to local governments. Examples of these mandates include compliance with the Federal Americans with Disabilities Act, National Pollution Discharge Elimination System for storm drains, and regulations regarding underground storage tanks and toxic waste disposal. These reasons make it mandatory for the City to continue its aggressive pursuit of State mandated cost reimbursements under SB 90.

Related Fiscal Policy

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

Indicator 9



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

Description

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

Comments and Analysis

Actual revenues exceeded budget by $1,635,000 for fiscal year 1997-98. The City unexpectedly experienced increases in almost every category, including property taxes ($632,000), licenses and permits ($303,000), sales taxes ($241,000), intergovernmental revenues ($205,000), and community development service charges ($50,000). The only major revenue category experiencing a decrease was the discontinued in-lieu tax revenue program at $239,000.

This trend has gradually improved over the five year analysis. The trend began the five-year analysis with a revenue overage of .72% and ending in FY 1997-98 with a positive revenue position of 7.21%, the highest in nine years. The City continues to more accurately forecast its revenues through the annual budget and long term financial planning processes. This trend continues to receive a favorable rating, as it maintains a level above the ICMA basis of a shortage of 5% or more for an unfavorable rating.

Related Fiscal Policy

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

General Fund Expenditures

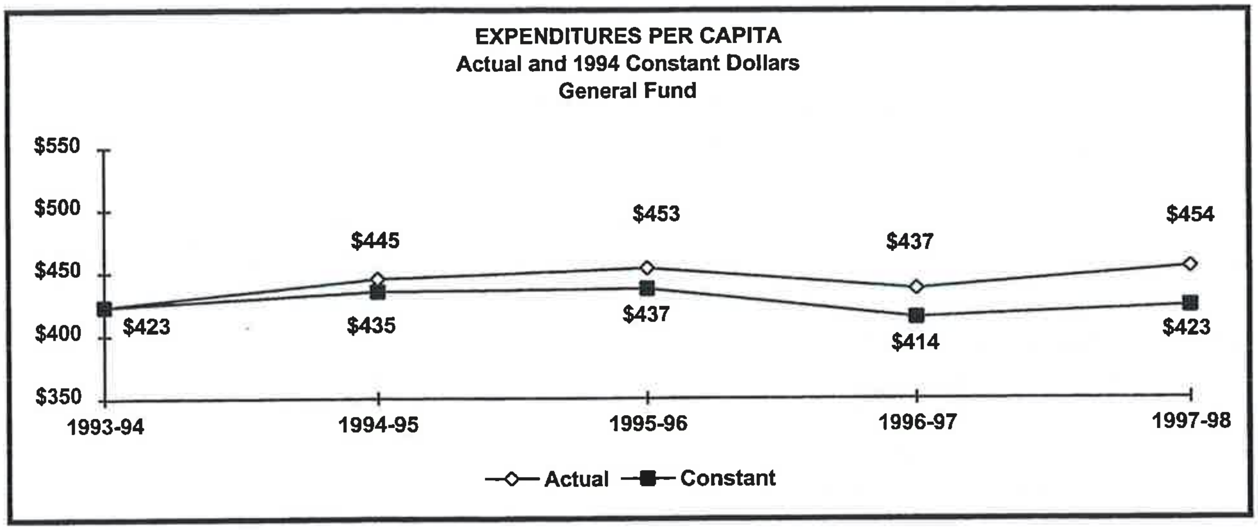
General Fund expenditures are largely indicative of the level and types of services the City provides. Changes in the total dollar amount of expenditures can indicate a shift in the level of services delivered, either because demand has changed or because the cost of maintaining existing services has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

When analyzing constant dollars, the analysis shows that expenditures have remained at a constant level for the past five years. In fact, from FY 1993-94 to FY 1997-98, total expenditures in constant dollars only increased $1,334,000, or 7%, over the five year period. During this time, the City has been faced with tough decisions, being forced to cut personnel costs, important programs, and variable costs, including postponing capital equipment and capital improvement projects. However, even with the cost-cutting measures that have had to be made, the City has been able to adhere to its long term financial planning process and establish reserve funds to plan for the future. During the past four years, the General Fund has made contributions to the Accrued Leave Reserve Fund ($140,000), Capital Equipment Replacement Reserve Fund ($400,000), Workers' Compensation Fund ($356,000), and General Liability Fund ($415,000). Additionally, the General Fund has contributed $1,300,000 to the Street Improvement Fund for improvement of the City's street system. As discussed further in the analysis of employees per capita, the City has significantly cut personnel costs over the past seven years, with the loss of 194 full-time equivalent positions. This reduction has been implemented through layoffs, contracting and privatization of several core City services, operational improvements, organizational streamlining and reduced benefit levels.

A full expenditure analysis is provided for the following:

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

Indicator 10



Current Trend: Favorable

Prior Year Trend: Favorable/Caution

Description

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

Comments and Analysis

During the past fiscal year, expenditures per capita in both constant and actual dollars increased to the current level of $454 (actual) and $423 (constant). Total expenditures increased by $1,245,000 when compared to the prior fiscal year, and show an increase of $814,000 when comparing constant dollars for the same time period. In fact, constant dollars show a relatively flat expenditure level throughout the five year period analyzed, with a 7% increase in expenditures from five years earlier.

Property tax revenues represent 28% of the General Fund's revenue sources, and the City has realized significant decreases in property tax revenues since FY 1991-92. As indicated in the expenditure overview on the previous page, the City has responded by cutting costs in many programs. Reductions have included contracting several core City services, including police services, fire services, fleet maintenance, park and beach maintenance, street striping and marking, water meter reading, and creating an Enterprise Fund to account for the City's storm drain revenues and expenditures. Further reductions were implemented in 1997 as a result of a budget shortfall created by the passage of Proposition 218. These additional reductions included the elimination of several full-time equivalent positions, parks and recreation programs, local dispatch services, and certain social service programs.

Although expenditures have increased slightly over the five year period, the increase in expenditures includes the funding of needed reserves which were not in place in 1993. During FY 1997-98, transfers to fund reserves and capital improvement projects included transfers to the Accrued Leave Reserve Fund ($40,000), Capital Equipment Replacement Reserve Fund ($100,000), Workers' Compensation Fund ($128,000), General Liability Fund ($83,000), and Street Improvement Fund ($300,000). All of these funds currently have sufficient reserves in place to comply with the City's fiscal policy, except for the Capital Equipment Replacement Reserve Fund. The City also continues to demonstrate its commitment to the Street Improvement Program, with a scheduled $500,000 transfer during the current year.

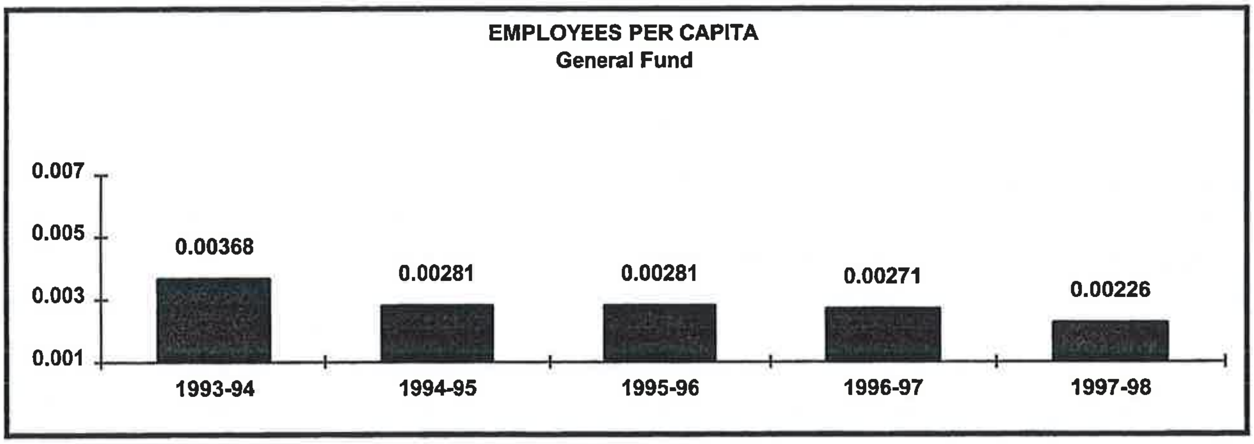
Expenditures per capita in constant dollars are at the same level as FY 1993-94. This indicator will be closely monitored to ensure that expenditure levels are maintained to provide a consistent and adequate level of service.

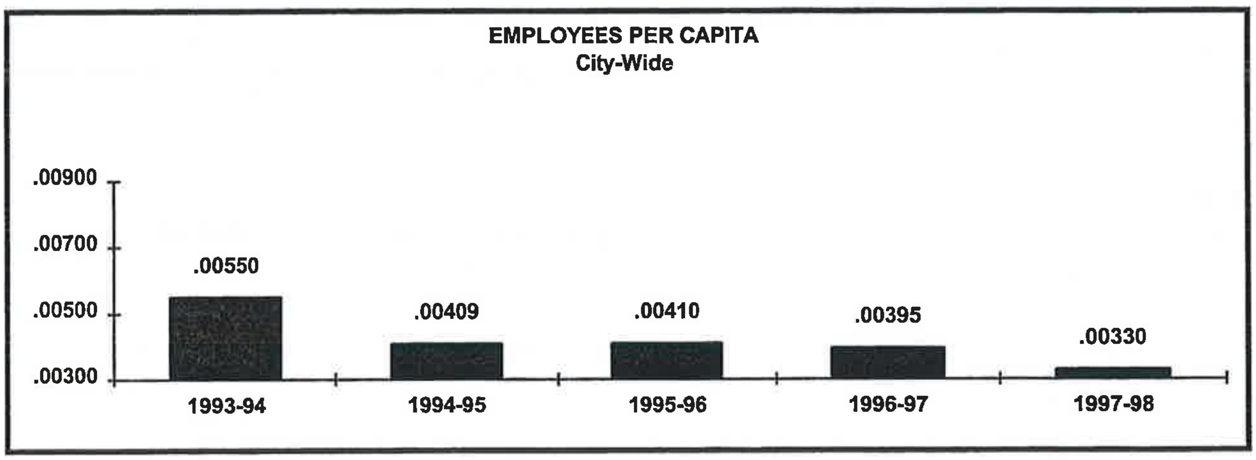
Related Fiscal Policy

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

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

Indicator 11





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

Description

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

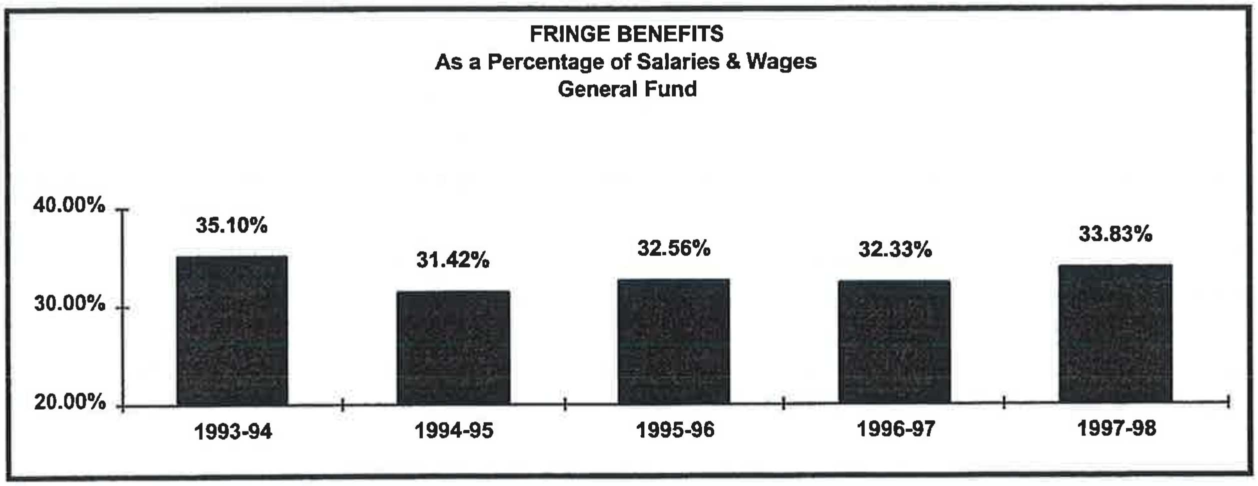
Comments and Analysis

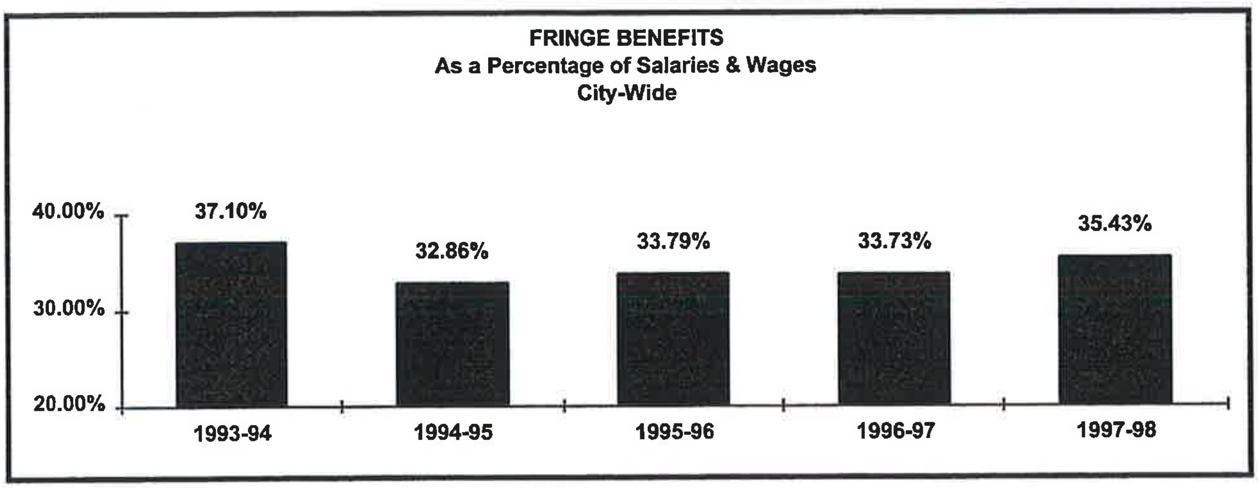
In FY 1991-92, the City had a staffing level of 353 full time equivalents (FTE's). In FY 1997-98, this level had been reduced to 159 FTE's, a total decline of 55% over the seven year period. Included in this staffing reduction was the contracting and privatization of core City services, including police and fire services. Additionally, the City has downsized and streamlined many divisions within the City. During the 1997 long term financial planning process, a total of 27.22 FTE's were reduced as a number of programs, including at-risk youth programs, City sponsorship of special events, recreation programs, social service subsidies, and programs for improving sports fields for youth groups, were reduced or eliminated. Consequently, the City has been able to maintain, and in some cases, improve the level of service provided to residents. This has, in part, been accomplished through the utilization of volunteers through the City's volunteer program. These volunteers have contributed 5,200 hours, the equivalent of $88,435, during FY 1997-98 in the areas of code enforcement, administration, special projects, youth programs, police services, and animal services. This indicator has hit an all-time low and has declined for two consecutive years, which results in an unfavorable rating, from a favorable/caution rating in the prior year. This trend indicates that employee levels may be getting too low to support current and future service levels as the City continues to grow.

Related Fiscal Policy

No related fiscal policy.

Indicator 12





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

Description

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

Comments and Analysis

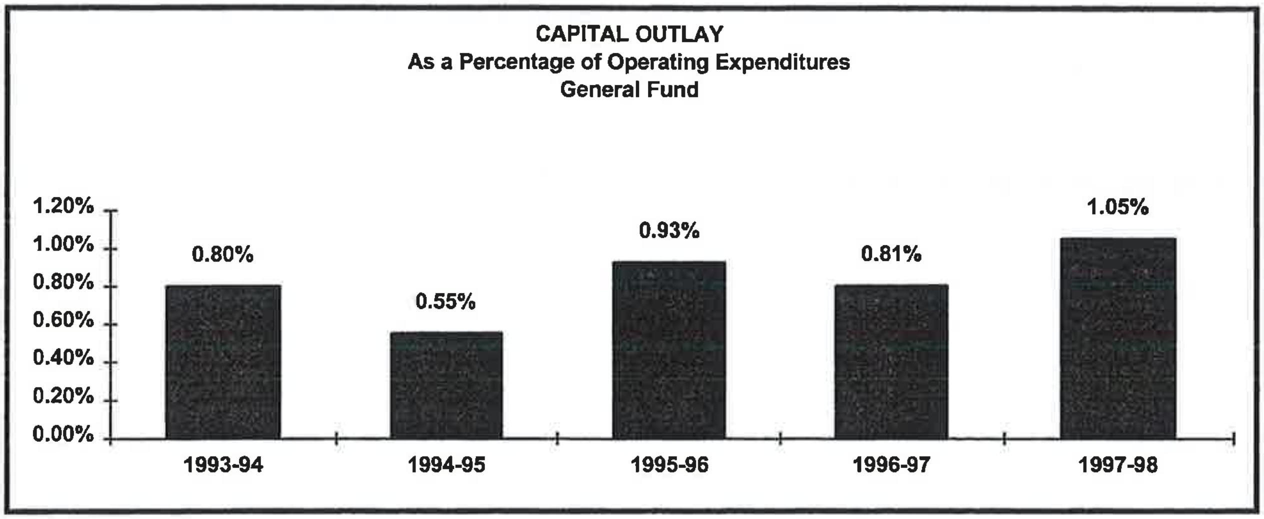
Fiscal year 1997-98 continues the level trend over the past five years, as shown in the above charts. This continued favorable rating has resulted from participation in cost effective managed health care plans and significant reductions in workers' compensation expenditures with the contracting of police and fire services. Workers' compensation costs were further reduced when the City contracted with an independent insurance carrier to pay premiums rather than remaining self-insured. The small increase in fringe benefits as a percentage of salaries and wages (General Fund of 1.5% and City-wide of 1.7%) is due to increased insurance expenditures, both life and medical.

A favorable trend has been assigned for FY 1997-98, since this trend remains stable.

Related Fiscal Policy

No related fiscal policy.

Indicator 13



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

Description

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

Comments and Analysis

As depicted in the above chart, capital outlay expenditures increased 39%, or $65,000, from the prior fiscal year.

The Capital Equipment Replacement Reserve Fund was established in FY 1994-95 in order to make it possible to build a reserve from which to replace general fixed assets that were worn or obsolete. The General Fund has made annual contributions to this fund since that time. During FY 1997-98, the General Fund continued its contribution, transferring $100,000 to this fund. When this fund was established, a replacement schedule was also established to ensure that, as equipment, machinery or building improvements become unserviceable or obsolete, they could be replaced with more efficient assets. As new assets are purchased from the Capital Equipment Replacement Reserve Fund, General Fund programs are charged a replacement charge for assets purchased for their individual programs. This ensures that funding is available when this equipment needs to be replaced in the future.

In addition to the plan to replace General Fund fixed assets, the City's Information Services Fund has replaced 95 personal computers over the past three years and is in the process of upgrading the City's financial hardware and software to ensure Year 2000 compliance.

This trend receives a favorable rating for the fourth consecutive year because the City continues to upgrade to newer and more efficient fixed assets.

Related Fiscal Policy

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

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

Long Term Financial Plan

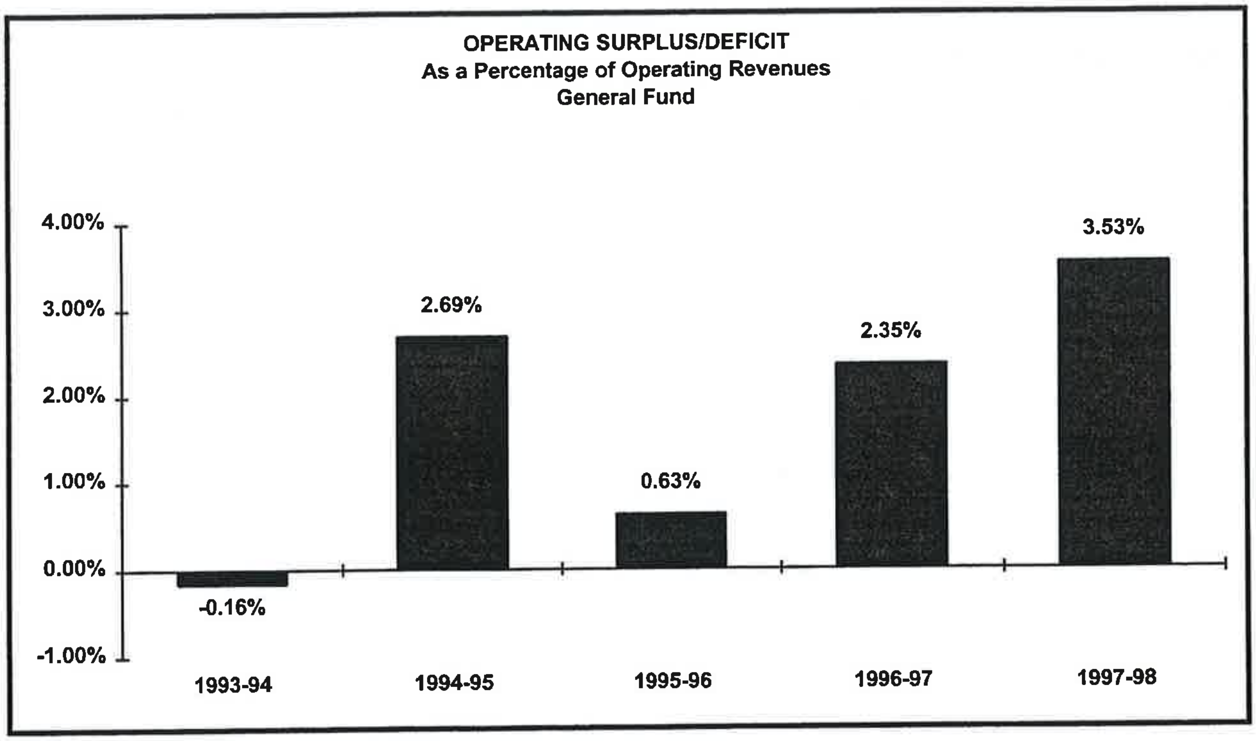
General Fund Operating Position

Operating position is defined as the City's ability to balance current revenues against current expenditures, maintain adequate reserve levels, and cover short-term liabilities with short-term assets.

The next group of trends shows the City's economic recovery and stabilization over the past five years. This stabilization has been possible because of several reasons. Improvement in the local and regional economy has greatly contributed to this recovery, as well as the City's implementation of cost reduction and streamlining measures within many departments in the City. These measures have contributed to a positive operating position for the fourth consecutive year. Another noteworthy trend is the City's unreserved fund balance, which reflects more than a 2% increase over the previous year as a percentage of operating revenues. Unreserved fund balance is at an all-time high of 15.71% of operating revenues. City Council's commitment to the long term financial planning process on an annual basis has contributed greatly to the General Fund's fiscal health. A complete analysis is provided in this section and the following indicators are examined in detail:

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

Indicator 14



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

Description

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

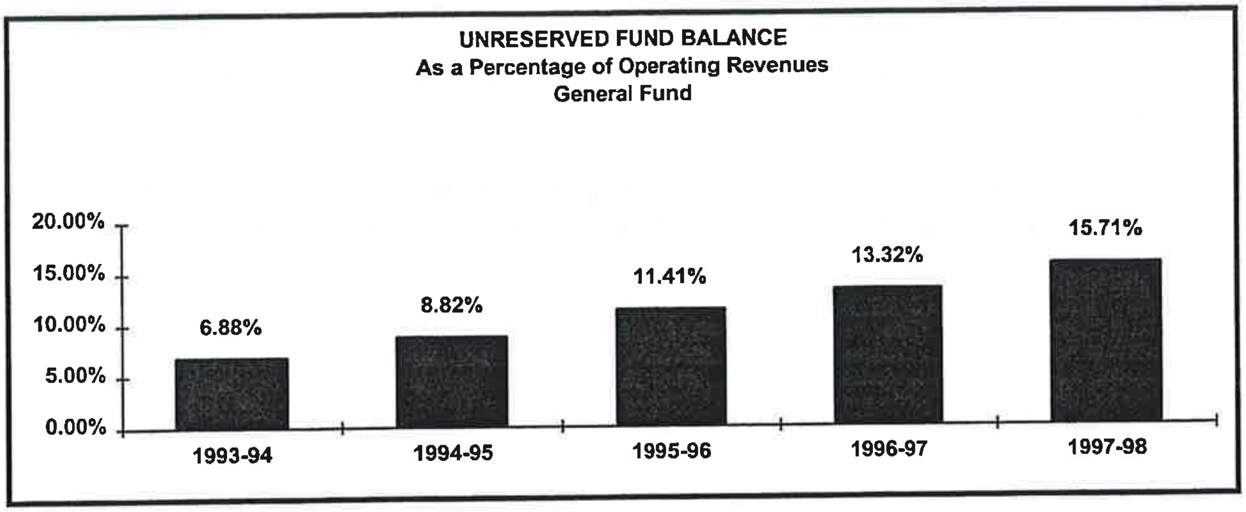
Comments and Analysis

After experiencing a minor operating deficit in FY 1993-94, the City has had operating surpluses for the past four consecutive years. Contributing to these operating surpluses has been the cost saving measures implemented by City Council and Administration. The FY 1997-98 operating surplus displayed above, at 3.53% of operating revenues, is the highest the City has shown since this trend was first tracked. Sufficient revenues were once again produced to support operating expenditures, while maintaining adequate emergency reserves. The above reasons result in a favorable rating for this indicator.

Related Fiscal Policy

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

Indicator 15



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

For the fourth consecutive year, unreserved fund balance, as a percentage of operating revenues, rose another 2% in FY 1997-98. This increase is the result of an increased unreserved fund balance of $749,000, and this is due to an operating surplus of $800,000, and maintenance of the General Fund emergency reserves. This stable trend is a strong indicator of the improved financial stability of the City's General Fund.

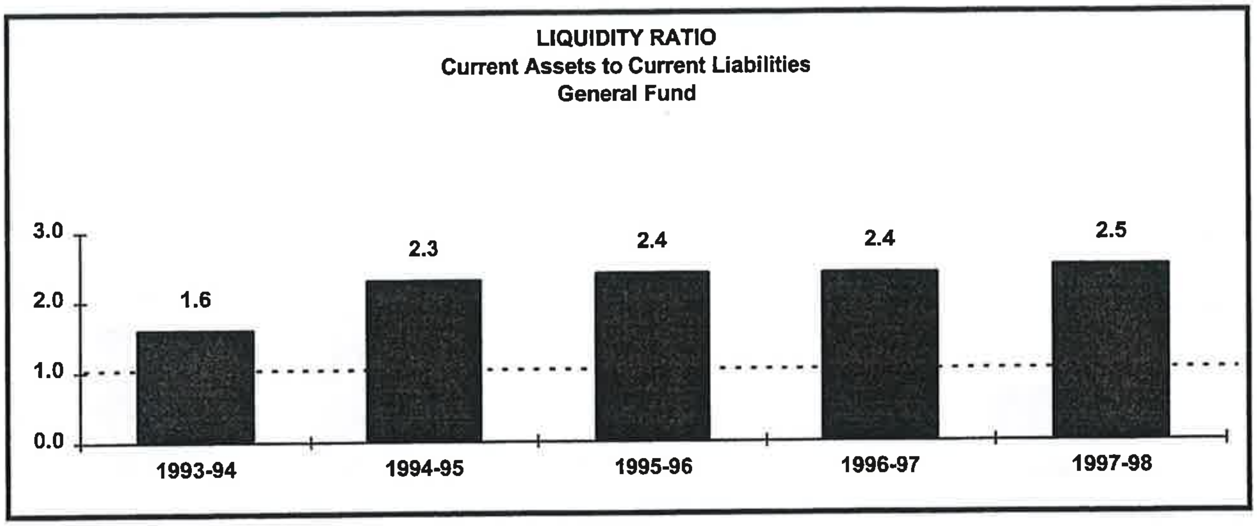
As part of the long term financial planning process, the City Council adopted a fiscal policy requiring that emergency reserves be set at 5% of General Fund operating expenditures. Included within the total FY 1997-98 unreserved fund balance of $3.6 million ($524,000 is reserved) are General Fund Emergency Reserves totaling $1,030,000. In addition to funding the emergency reserve, the General Fund continues to contribute to other funds. Included in the FY 1997-98 General Fund transfers are Capital Equipment Replacement Reserve Fund ($100,000), Workers' Compensation Fund ($128,000), Accrued Leave Reserve Fund ($40,000), General Liability Fund ($83,000), and Street Improvement Fund ($300,000).

Related Fiscal Policy

#34 The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 5 percent of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn or other unforeseen catastrophic costs not covered by the Contingency Reserve.

#35 A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than $100,000.

Indicator 16



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

Description

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

Comments and Analysis

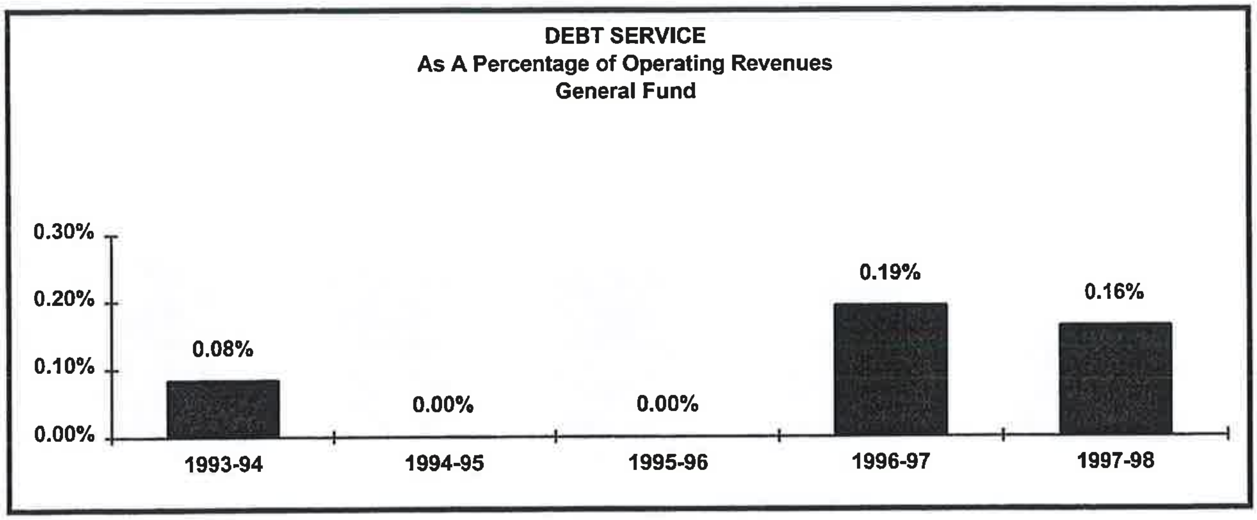
In FY 1997-98, the City's liquidity ratio remains high at 2.5:1. This is an increase since FY 1993-94 and demonstrates that the City's liquidity remains strong.

Credit rating firms consider a ratio of 1:1 as favorable. The City's 2.5:1 current asset to current liability ratio is excellent.

Related Fiscal Policy

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

Indicator 17



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

General Fund debt service remains immaterial (less than 1%) in comparison to operating revenues, and has remained so over the last five years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. During FY 1997-98, the City made debt service payments on its capital lease with City National Bank. This lease includes heating, ventilating and air conditioning units and all related control devices for several City facilities. The City's obligation for this capital lease extends into 2006.

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

Related Fiscal Policy

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

Additional Indicators

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

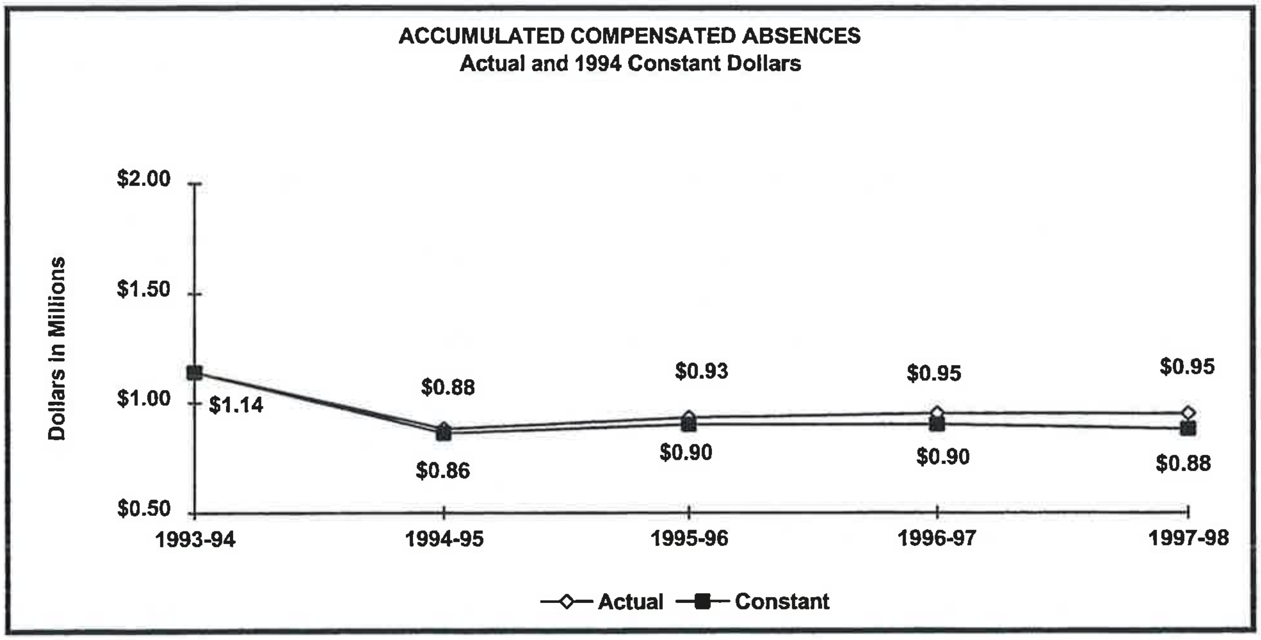
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (28%), a further analysis has been done on the change in property values from year to year. Property values had slowed over the past four years, but in FY 1997-98, show the second consecutive year with an upward trend.

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

The following indicators are detailed in this section:

- Accumulated Compensated Absences
- Property Tax Values
- Population

Indicator 18



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

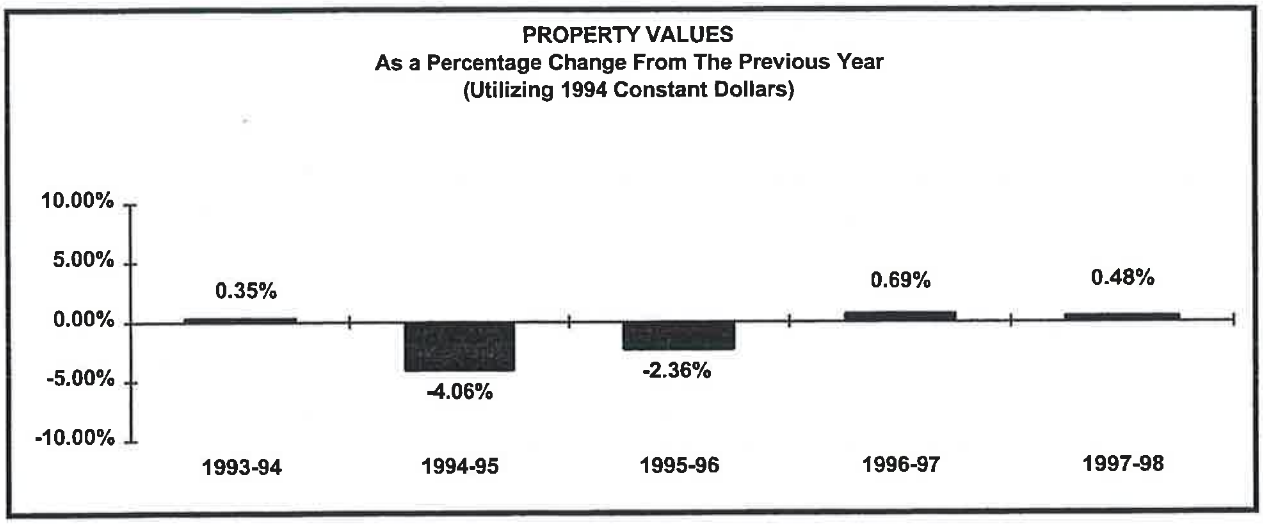
The City's liability for compensated absences has maintained a level trend since FY 1994-95. As a result of the stability in this indicator, a favorable rating is once again assigned. The decline from FY 1993-94 to FY 1994-95 is attributed to the payoff of accrued leave to fire services employees, as these services were contracted with the Orange County Fire Authority in September, 1994. Additionally, the reduction of staff in other departments has also contributed to the stabilization of the City's liability, as well as employee furloughs over the past several years, where employees were required to utilize leave balances. 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 from the previous fiscal year of $5,000, or .53%.

In FY 1994-95, an Accrued Leave Reserve Fund was established. Since that time, the General Fund has contributed a total of $140,000 to this fund for the payoff of accrued leave time to employees leaving the City. The 1998-99 budget includes an additional transfer of $50,000 for accrued leave.

Related Fiscal Policy

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

Indicator 19



Current Trend: Favorable

Prior Year Trend: Favorable/Caution

Description

Property values as a percentage change from the previous year is of primary importance to the City because property tax revenue, comprising 28% of total General Fund operating revenues in FY 1997-98, is the City's single largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the City's reliance on property taxes. Likewise, a positive trend indicates an improvement in the City's financial condition.

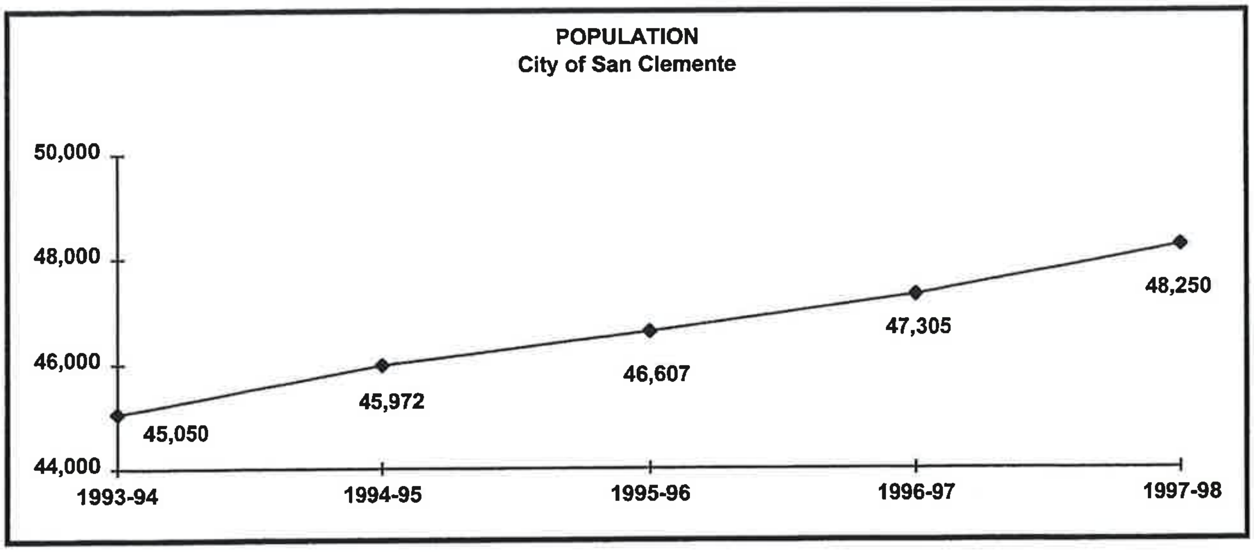
Comments and Analysis

Fiscal year 1997-98 shows a percentage increase in property values for the second consecutive year. This second year of increases comes after a previous two year decline. Even though this trend remains positive, resulting in a favorable rating, it must be closely monitored due to the impact of property tax revenues on the General Fund.

Related Fiscal Policy

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

Indicator 20



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

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

Related Fiscal Policy

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

Financial Forecast

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

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

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

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

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

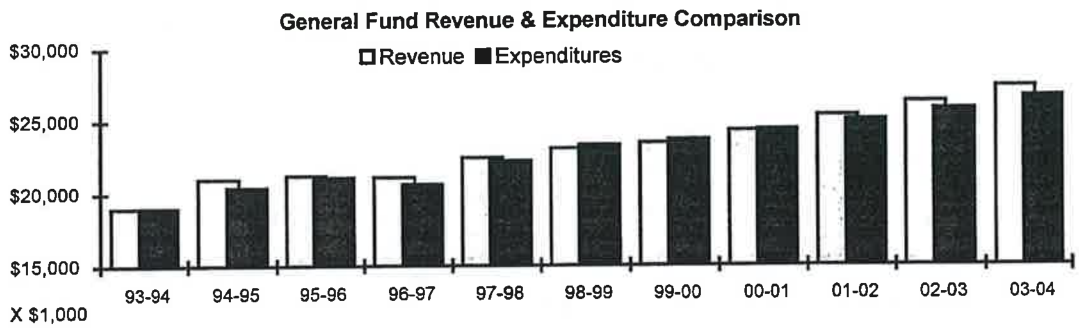
The 1999 Financial Forecast updates the assumptions and data utilized in the last financial forecast and will provide a comparison of this year's forecast to historic data.

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

Long Term Financial Plan

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



Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in 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)

Amount in $1,000	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

*One-time revenues and expenditures have been excluded.

1999 Forecast Summary (LTFP)

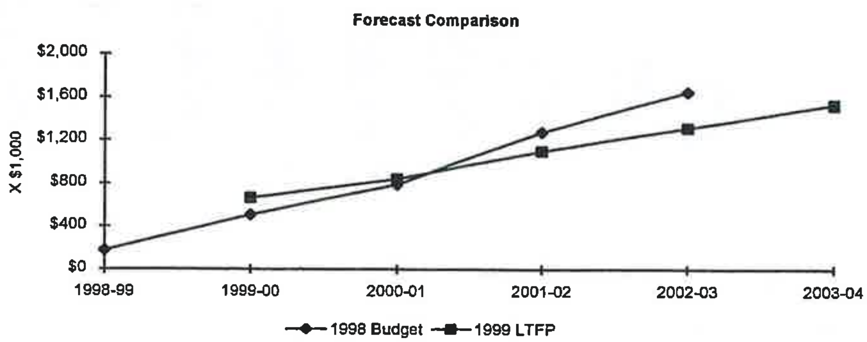
Amount in $1,000	1999-00	2000-01	2001-02	2002-03	2003-04
Revenues	$23,498	$24,351	$25,377	$26,315	$27,372
Expenditures	22,835	23,512	24,277	25,001	25,837
Operating Result	$663	$839	$1,100	$1,314	$1,535

*One-time revenues and expenditures have been excluded.

Operating Position

FY98-99 Adopted Budget vs. 1999 LTFP Forecast

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

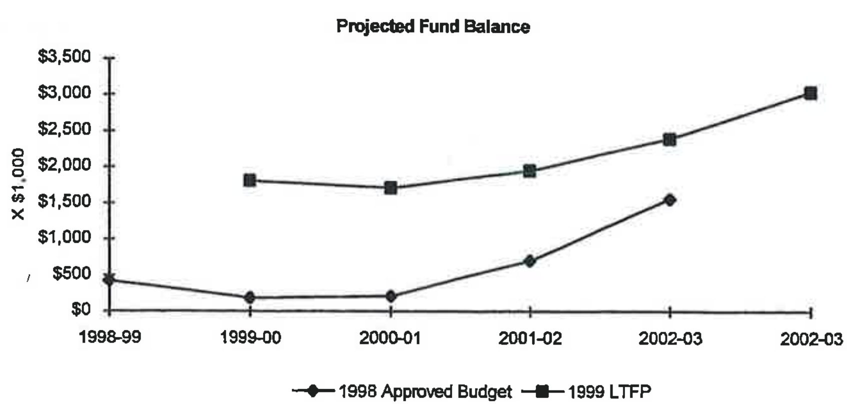


The discrepancy between the two forecasts is due to:

- 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.

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.



Long Term Financial Plan

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.

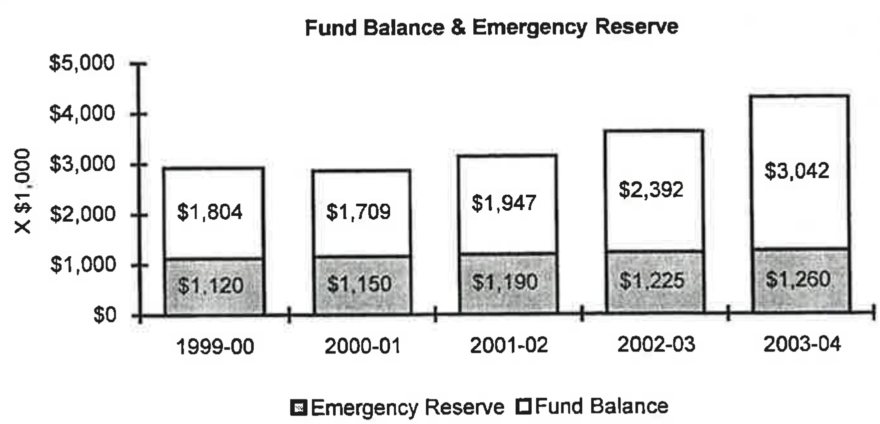
Fund balance will be reduced in FY 2000-01 due to higher operating costs for the added positions. Fund balance will increase in the last three years of the forecast period as the City's operational position improves and the capital equipment reserve is fully funded.

Fund Balance and 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.

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
Total	$2,924	$2,859	$3,137	$3,617	$4,302



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 FY 2001-02, 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.

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

Cash Flow By Year
Amount in 1000's

	1999-00	2000-01	2001-02	2002-03	2003-04
Beginning Fund Balance	2,082	1,804	1,709	1,947	2,392
Revenues					
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
Total G F Revenues	23,498	24,351	25,377	26,315	27,372
Expenditures					
City Council	26	26	27	27	27
City Manager	325	333	342	351	361
City General (including transfers)	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
Total GF Expenditures	23,725	24,417	25,098	25,836	26,686
Emergency Reserve	50	30	40	35	35
Ending Fund Balance	1,804	1,709	1,947	2,392	3,042

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
Total	23,725	24,417	25,098	25,836	26,686

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, the various City of San Clemente departments provide data.

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 each housing unit will be occupied by 2.5 persons, 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:

1999 Financial Forecast
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%

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

- *Consumer Price Index (Inflation)*: Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the five-year forecast and is projected to average 2.8% per year.

- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (8.8% 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*: 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*: As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 6.2% per year.

- *Taxable Sales*: Taxable sales 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 Assumptions

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

- 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.

Long Term Financial Plan

- 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 a "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 Reserve	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
Total	$425,000	$405,000	$315,000	$310,000	$310,000

- 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
Total	$1,089,800	$1,105,250	$1,121,160	$1,134,460	$1,148,450

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.

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.
- 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 Revenue Growth Rate

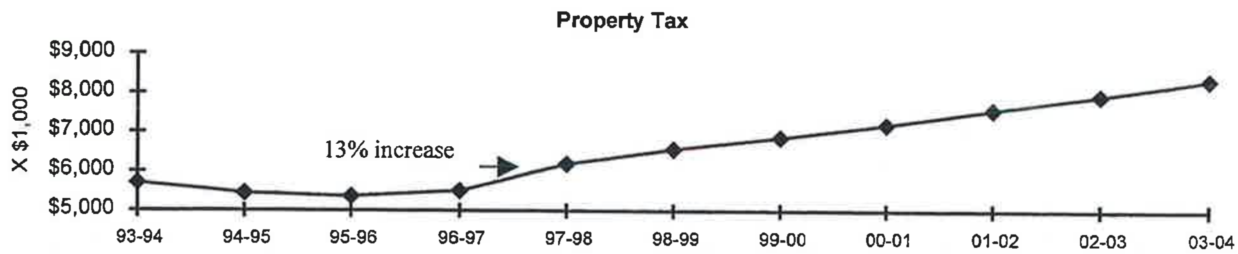
Historic Growth Rate	0.8%
1998 Projected Growth Rate	4.2%
1999 Projected Growth Rate	3.4%

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.

Property Tax

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

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.

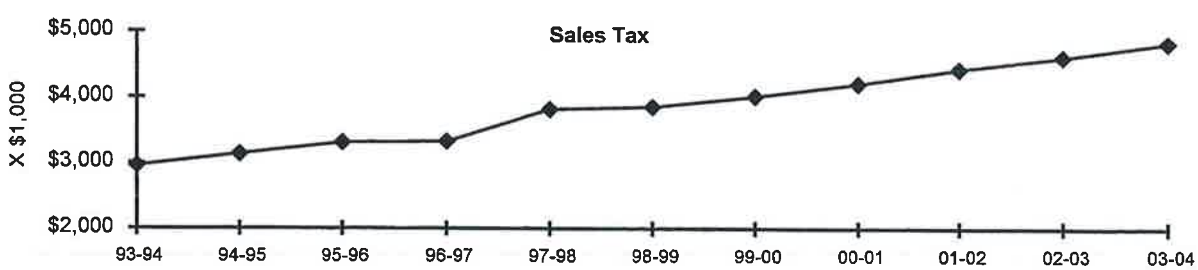


Sales Tax

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

Sales tax 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.

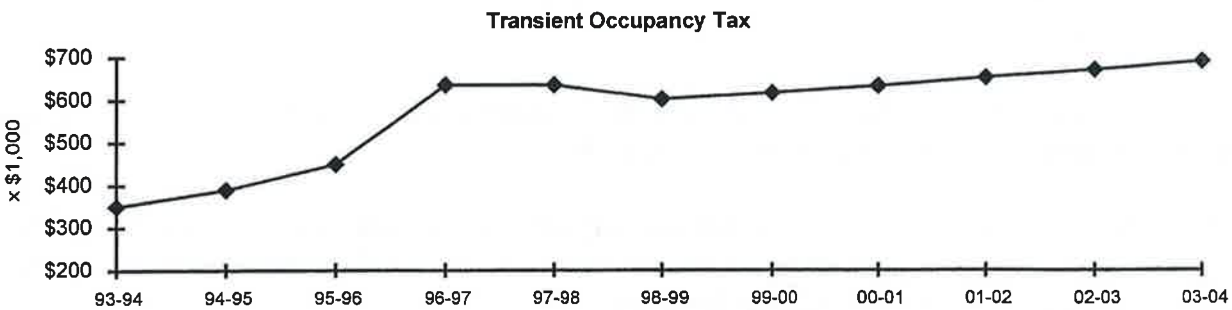
The five-year forecast does not include sales tax growth associated with the Wal-Mart store currently in the building permit stage of development.



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% reflects a sharp 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.

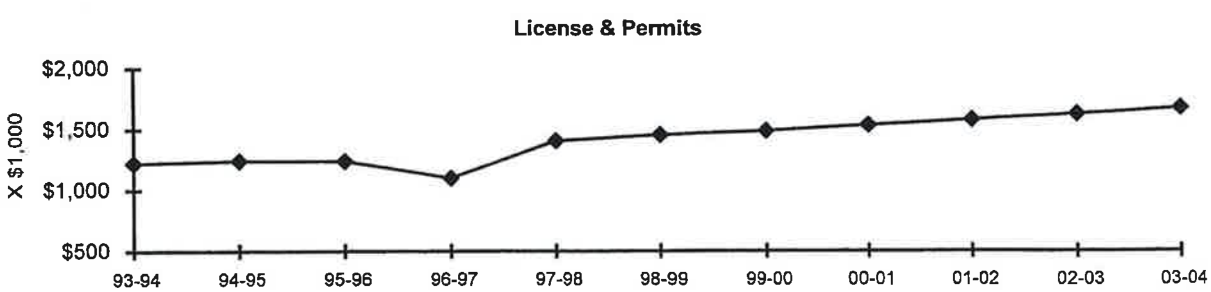


Licenses and Permits

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.

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.

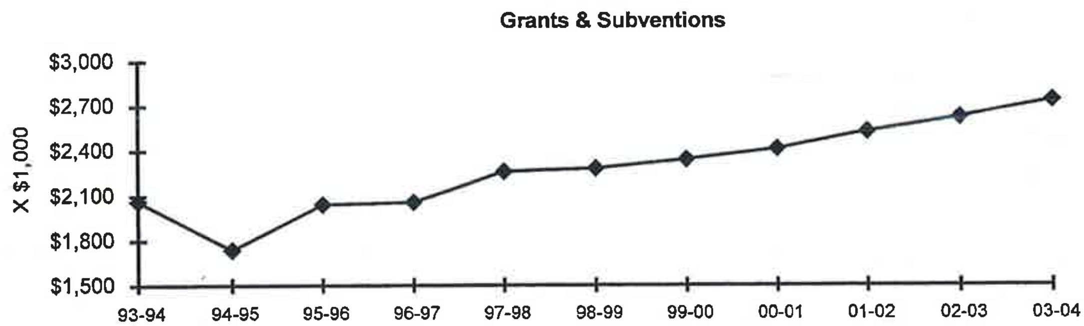


Grants and Subventions

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

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%.

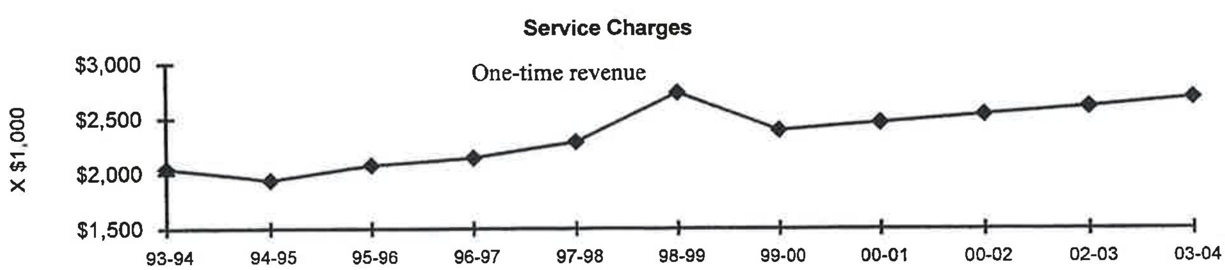
The predominant source of revenue in this category is Motor Vehicle Tax. Motor Vehicle Tax revenues are projected to increase by an annual average of 4.0% and are based on 50% of expected inflation plus 100% of anticipated population growth.



Service Charges

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

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 totalling $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.

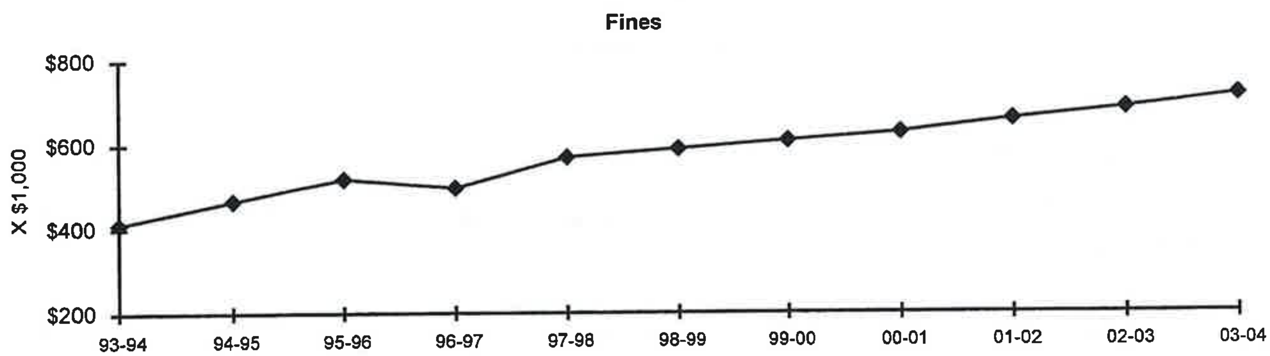


Long Term Financial Plan

Fines

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

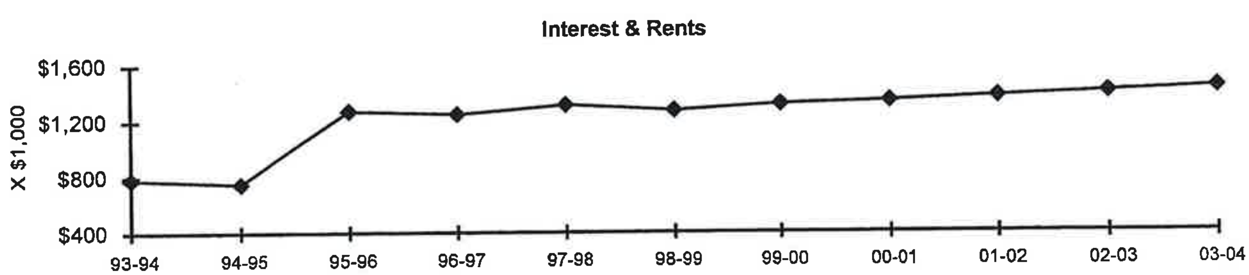
The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 1999 projected growth rate of 4.0% differs dramatically from the 1998 projected rate of 7.1% which included increased revenue from the revised code violation fines in the projection.



Interest And Rents

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

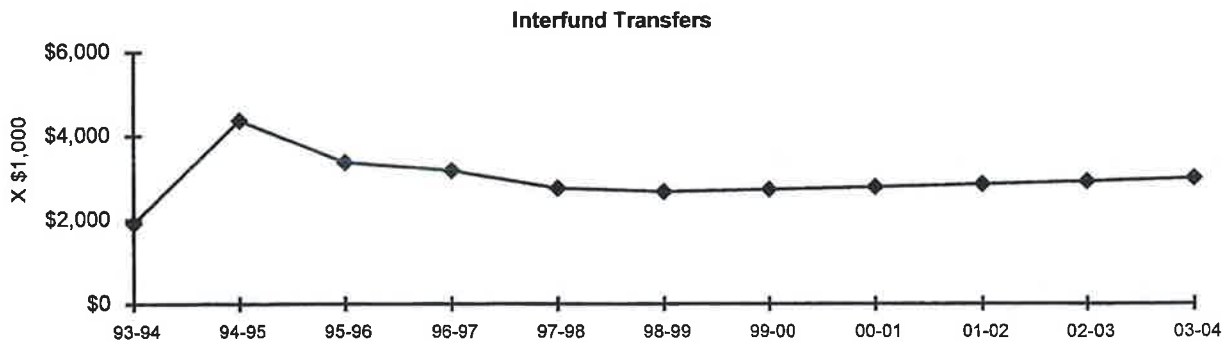
This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the prime interest rate and historic data. The Chapman forecast expects 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%

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.



Long Term Financial Plan

General Fund Expenditures

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.

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%

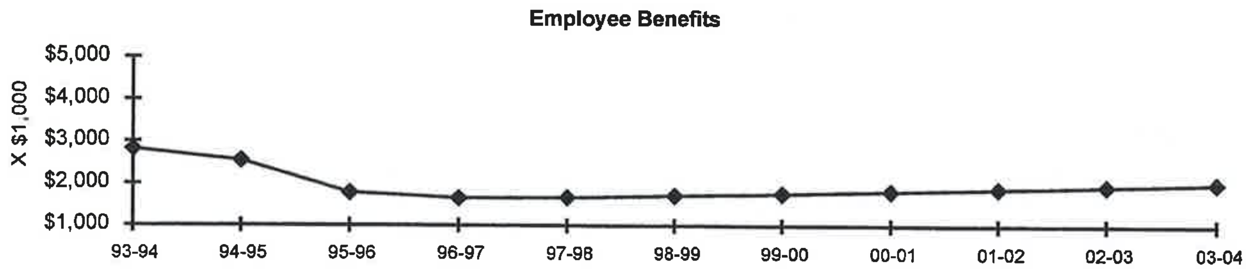
The forecast projections assume the addition of three full-time positions in FY 1999-00 and two new positions per year in the remaining four years. A 3% cost of living increase, previously approved by the City Council, is also included in FY 1999-00. For forecast purposes only, an annual cost of living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

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%

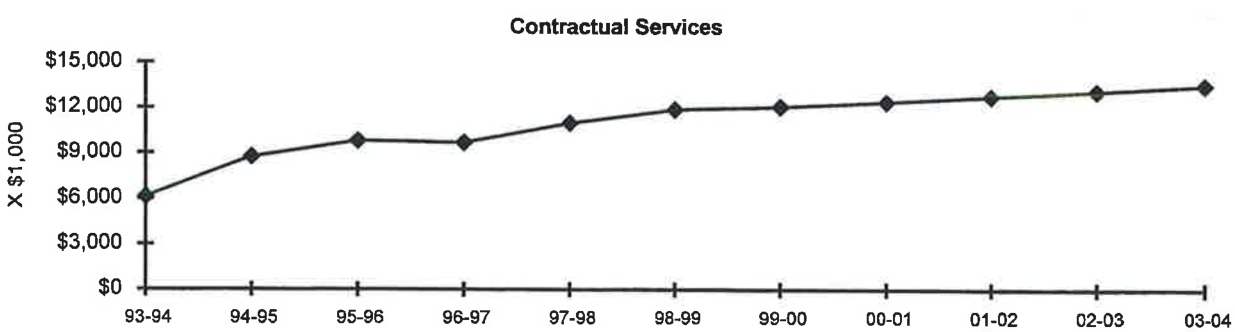
The employee benefits category reflects an average projected growth rate of 4.1% for the forecast period. The historical average of –15.6% for this category is a result of contracting of services formerly performed by City staff, negotiated changes to benefit levels and a reduction in overall staffing levels.



Contractual Services

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

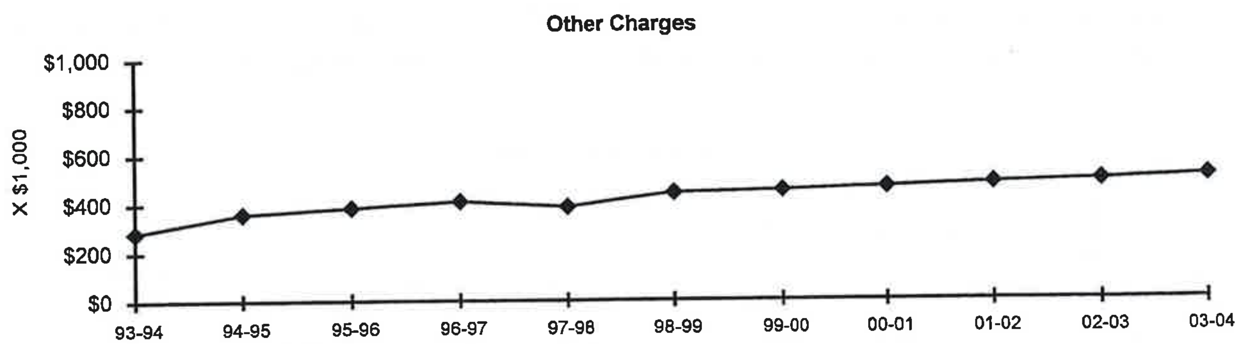
Overall, this category is expected to experience an average annual increase of 2.6% over the forecast period, well below the historical average of 64.8%. The historical average reflects Fire and other services changing from internal operations to contractual services. Included in FY 1999-00 is known 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.



Other Charges

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

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

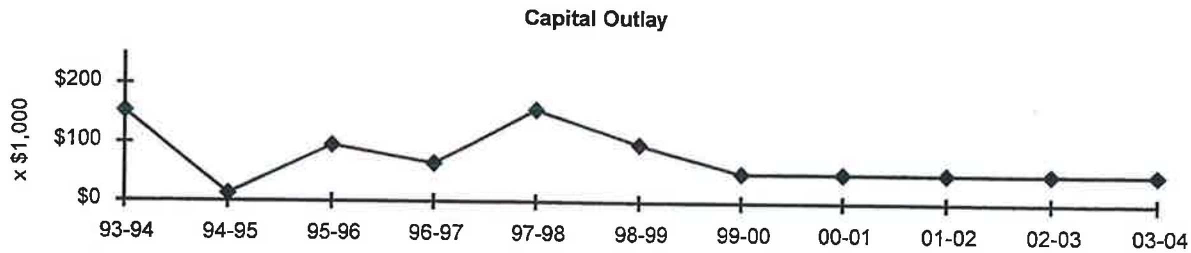


Capital Outlay

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%. 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.

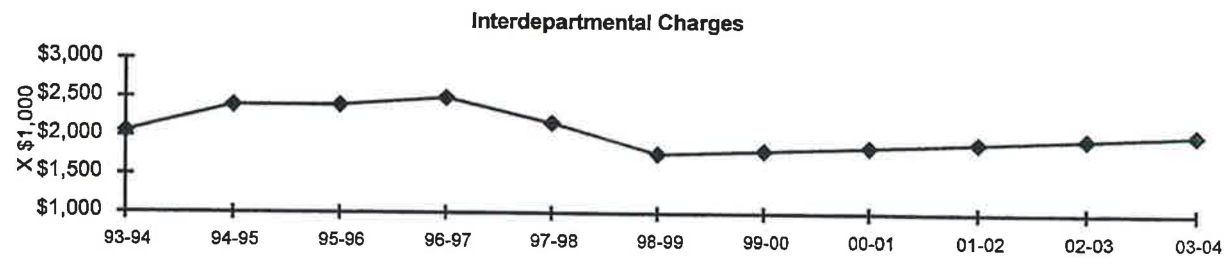
The one time allocation of $3 million for the purchase of the Negocio property is not indicated on the chart in FY 1993-94 as it does not allow for a valid comparison of capital expenditures.



Interdepartmental Charges

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

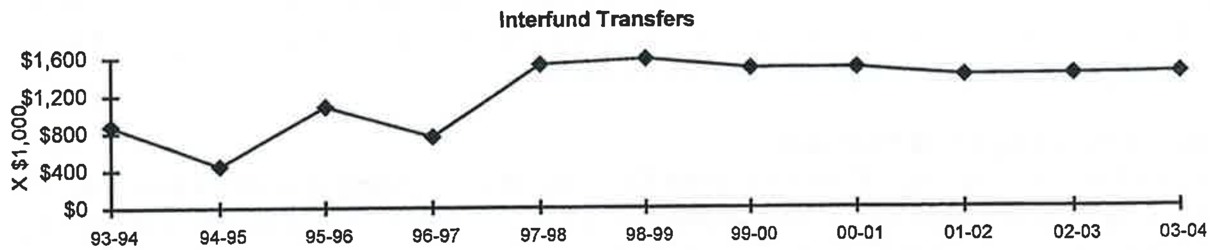
Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.7% increase over the five-year forecast, and is based upon inflation. The reduction of dispatch charges resulting from the move of dispatch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



Interfund Transfers

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.

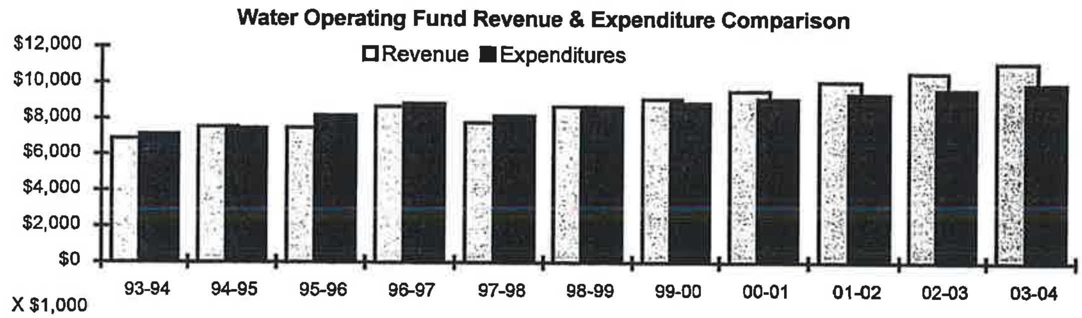


Other Operating Fund Forecasts

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
Beginning Fund Balance	-553	-515	-502	-412	-334	-210
Revenues						
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
Total Revenues	8,949	9,132	9,451	9,714	10,014	10,317
Expenditures						
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
Total Expenditures	8,911	9,120	9,361	9,636	9,891	10,191
Ending Fund Balance	-515	-502	-412	-334	-210	-84

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 FY 2000-01)
(Amounts in Thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Beginning Fund Balance	-553	-515	-220	167	245	369
Revenues						
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
Total Revenues	8,949	9,446	9,678	9,714	10,014	10,317
Expenditures						
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
Total Expenditures	8,911	9,151	9,291	9,636	9,891	10,191
Emergency Reserve	0	0	0	0	0	301
Ending Fund Balance	-515	-220	167	245	369	495

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
Beginning Fund Balance	-553	-515	-15	147	216	330
Revenues						
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
Total Revenues	8,949	9,652	9,730	9,714	10,014	10,317
Expenditures						
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
Total Expenditures	8,911	9,152	9,291	9,636	9,891	10,191
Emergency Reserve	0	0	276	10	10	10
Ending Fund Balance	-515	-15	147	216	330	446

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 is 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
Beginning Fund Balance	2,473	2,221	2,262	2,307	2,367	2,423
Revenues						
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
Total Revenues	4,000	4,083	4,193	4,320	4,429	4,566
Expenditures						
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
Total Expenditures	3,942	4,036	4,139	4,255	4,364	4,491
Emergency Reserve	310	5	10	5	10	10
Ending Fund Balance	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.

Long Term Financial Plan

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 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
Beginning Fund Balance	27	-6	79	124	124	80
Revenues						
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
Total Revenues	2,250	2,252	2,257	2,262	2,266	2,271
Expenditures						
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
Total Expenditures	2,283	2,167	2,211	2,262	2,309	2,365
Emergency Reserve	0	0	0	0	0	0
Ending Fund Balance	-6	79	124	124	80	-14

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.

Reserve Analysis

Objective

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

Summary

The reserve funds analyzed include:

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

With the exception of the General Fund Emergency Reserve and City Council Contingency Reserve, the funds listed above are supported by interfund transfers from the departments benefiting from services provided. Sound accounting and budgeting practices require that each fund maintain a positive fund balance and the appropriate level of reserve (wherever dictated by the City's fiscal policy). The General Liability Fund, Workers' Compensation Fund, Accrued Leave Reserve Fund, Fleet Replacement Reserve Fund, and Capital Equipment Replacement Reserve Fund are classified as internal service funds. These funds charge other City departments for services they provide. These charges are adequate to fully recover the costs of providing the services. Additionally, these internal service funds should not carry large fund balances beyond what is necessary to fund reserves and recover costs.

Background

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

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

- The City will maintain General Fund Emergency Reserves at a level at least equal to 5% of General Fund operating expenditures for the purpose of providing protection of the City's essential service programs and funding requirements during periods of economic downturn, or other unforeseen catastrophic costs not covered by the Contingency Reserve.

- A City Council Contingency Reserve of no less than $100,000 per year will be established to provide for non-recurring, unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs.

- The Accrued Leave Reserve Fund will be utilized to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.

- Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention (SIR) for 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.

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

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

The City has implemented budgeted transfers in order to be in compliance with the related fiscal policies outlined above.

The following table summarizes the contributions made to the various reserve and self insurance funds since the adoption of the City's first Long Term Financial Plan through June 30, 1999.

Reserves	Funding Source	Reserve Contributions
General Fund Emergency Reserve	General Fund	$1,069,640
Council Contingency Reserve	General Fund	$1,250,000
General Liability	All Funds	$1,659,820
Workers' Compensation	All Funds	$1,394,120
Accrued Leave	General Fund	$265,000
Capital Equipment Replacement	General Fund	$528,210
Total		**$6,166,790**

Each reserve is detailed in the following sections, with recommendations for the 1999-2000 fiscal year.

Analysis of the Funds

The following guidelines will be used to analyze each fund or reserve:

- City Council Fiscal Policy
- Assessment of the current situation
- Recommendations
- Fiscal impact of recommendations

General Fund Emergency Reserve

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

The 5% reserve level is based on the City's aging infrastructure, history of naturally caused damage (flooding, storms, etc.), potential recessionary or inflationary conditions and other such factors. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10% depending on the factors indicated above. The Government Finance Officer's Association (GFOA) recommends a level equivalent to one month's operating expenditures or 8.33%. This emergency reserve was originally targeted at 8% of General Fund operating expenditures, but was reduced to 5% due to the financial crisis experienced by the City during the 1997 long term financial planning process as a result of Proposition 218.

The 1993 Financial Trend Analysis issue paper noted a trend where unreserved fund balance continued to decline over time due to operational losses beginning in FY 1989-90. The City had no plan in place at that point in time to fund an emergency reserve. From FY 1992-93 until FY 1996-97, this General Fund Emergency Reserve was funded on an annual basis, with the goal of 8%, as indicated above. When it became necessary to cut costs two years ago, the decision was made by City Council to amend the City's fiscal policy and fund the reserve at 5% of operating expenditures. This required reserve level was reached in FY 1995-96, as detailed in the chart below.

Long Term Financial Plan

The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 1992-93	$509,640	$509,640	
FY 1993-94	$120,000	$629,640	3.30%
FY 1994-95	$150,000	$779,640	4.00%
FY 1995-96	$250,000	$1,029,640	5.02%
FY 1996-97	-0-	$1,029,640	5.00%
FY 1997-98	-0-	$1,029,640	4.97%
FY 1998-99	$ 40,000	$1,069,640	4.94%

Recommendation

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.

Fiscal Impact of Recommendation

Projected General Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $190,000.

General Fund - City Council Contingency Reserve

City Council Fiscal Policy: Maintain a reserve of no less than $100,000 per year. The purpose of this reserve is to provide for non-recurring, unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. Unlike the General Fund Emergency Reserve, this reserve has been drawn upon annually to fund unanticipated expenditures as they have occurred over the past several years. It is anticipated that this need to draw upon this contingency reserve will continue in future years.

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

FY 1992-93	200,000	1
FY 1993-94	72,420	2
FY 1994-95	180,700	3
FY 1995-96	167,840	4
FY 1996-97	81,700	5
FY 1997-98	205,860	6
FY 1998-99 (through 01/31/99)	166,000	7

1 1992-93 Storm Drain repairs.
2 $45,000 Animal Shelter Relocation; $6,900 Disposal Fees; $20,520 Public Nuisance.
3 $15,000 Nuisance Abatement; $2,000 Offshore Drilling Moratorium; $7,020 for Reclassification; $12,600 for Beach Club renovation; $144,080 for Classification & Compensation implementation.
4 $3,090 for News from City Hall; $114,050 Steed Park; $50,700 for City Hall roof project.
5 $14,200 for City Hall termite project; $5,370 for LAFCO application; $8,000 for meter modifications to accommodate increased rates; $4,130 for Pier floor beam replacement; $50,000 for the special election in June, 1997.
6 $4,730 for City's 10% matching funds for supplemental law enforcement grant; $1,900 for OCTA Senior Transportation Program; $2,630 for Pier beam replacement; $100,000 for 1998 storm damage repairs, specifically Ola Vista Drainage Inlet Headwall in Trafalgar Canyon; $18,500 for 1998 emergency storm damage repairs at the Marine Safety Headquarters; $77,600 for 1998 storm damage repairs at the City's beaches and parks; $500 for City membership in the California Coastal Coalition.
7 $150,000 for Pier repairs; $15,000 for Strategic Planning Session facilitator; $1,000 for Beach Ad Hoc Committee.

The expenditures made from this reserve are analyzed on an annual basis. Based upon this analysis and the budget shortfall created by the elimination of the Lighting and Landscape District in FY 1996-97, this reserve was reduced from the previous $200,000 annually to $100,000 annually. In the current fiscal year budget, an additional $100,000 was added ($200,000 total) to be made available for emergency projects. The current analysis of this reserve detailed above indicates that there is a need to revise this reserve requirement and implement an increase to $200,000 per year.

Recommendations

1. Recommend that $200,000 be set aside in the fiscal year 1999-00 General Fund budget to fund the Council Contingency Reserve.

2. 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."

Fiscal Impact of Recommendations

General Fund expenditures for the Council Contingency Reserve for the five-year forecast period will total $1,000,000.

General Liability Insurance Fund

City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention (SIR).The City's SIR is currently $100,000, which requires a reserve in this fund of $300,000, or three times the SIR. Additionally, this fund will be evaluated on an annual basis to document those claims which are not covered by the insurance pool to which the City belongs, and reserve an additional appropriate amount to pay for uncovered claims.

The projected year-end balance in the General Liability Self-Insurance Fund for FY 1998-99 is $464,220. This balance includes setting aside the $300,000 reserve requirement (City's fiscal policy). This reserve requirement has been reduced over the past few years due to past outstanding claims being closed. In addition, this reserve requirement fiscal policy was revised in the 1997 Long Term Financial Plan as a severe budget shortfall required the City to reduce this reserve from $750,000 to $300,000.

Although the City is now in compliance with fiscal policy with a reserve equal to three times its self insurance retention ($300,000), and has contracted with Orange County Cities Risk Management Authority (OCCRMA) for its insurance coverages, there are several occurrences that are excluded from this coverage. These uncovered losses include 1) breach of contract, 2) inverse condemnation, 3) eminent domain, 4) land subsidence, 5) earth movement, 6) employment related issues, 7) release of toxic material, 8) punitive damages, 9) earthquakes, and 10) a $250,000 deductible on floods. During this same process one year ago, a review was conducted of all uncovered claims during the past five years. This same analysis has been performed this year, with the total cost for these claims being $1,750,000, with a five-year average of $350,000 spent on claims not covered by the insurance pool. These are direct settlement costs paid by the City. The City will continue to perform an annual analysis of uncovered claims and adjust the reserve in the General Liability Fund accordingly.

Methodology for Calculating Individual Fund Payments for General Liability: Prior to the 1998 Reserve Analysis, individual fund payments for General Liability were based solely on a five-year claim history.

As approved in the 1998 Long Term Financial Plan, charges to other funds are now based not only on a five-year average of historical claims (25%), but also on an allocation basis to account for risk related to each fund. This second (75%) factor is based on prior year budgeted expenditures as a percentage of total budgeted expenditures. This methodology is based on standards recognized by the Insurance Institute of America regarding essentials of risk financing.

The following table shows the proposed calculations for charges to other funds for FY 1999-00:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 1999-00
General Fund	48.90%	56.44%	54.53%	$ 361,720
Water Fund	19.50%	21.52%	21.02%	139,430
Sewer Fund	.90%	9.40%	7.28%	48,290
Solid Waste Fund	0.00%	.32%	.24%	1,590
Storm Drain Fund	14.74%	1.26%	4.64%	30,780
Golf Course Fund	2.48%	5.20%	4.52%	29,980
Information Services Fund	0.00%	1.78%	1.34%	8,890
Communications Fund	0.00%	1.37%	1.03%	6,830
Fleet Maintenance Fund	0.00%	1.71%	1.28%	8,490
Redevelopment Agency	13.48%	1.00%	4.12%	27,330
Total	**100%**	**100%**	**100%**	**$ 663,330**

The General Fund's total percentage of liability charges decreased from the previous year by 4.5%. This is a direct result of a decrease in budgeted expenditures as a percentage of total budgeted expenditures for all funds analyzed. The same reason directly contributed to the Water Operating Fund's percentage of liability charges increasing by 8.8%. The Sewer Operating Fund's decrease in total percentage of 2.6% is a result of decreases in both the past claims history and budgeted expenditures when compared to the other funds in the analysis.

Recommendation

1. 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). This analysis will be performed annually as part of the Long Term Financial Plan.

Fiscal Impact of Recommendation

The General Liability Fund is in a positive financial position with a positive balance ending FY 1998-99 and its reserve requirement of $300,000 fully funded. Transfers from other funds will only be required to pay for premiums, future claims, and administrative costs incurred by this fund. In addition, $350,000 will be reserved for claims payments for those claims not covered by OCCRMA.

Workers' Compensation Insurance Fund

City Council Fiscal Policy: None.

The City became fully insured for workers' compensation in 1995. The City, therefore, is not required to maintain a reserve for this fund. In addition, the City currently pays premiums to a third party administrator and is responsible for paying the remaining "tail" of claims when the City was self-insured. Most of these open claims at the time the City became self-insured are related to police and fire services employees, who are no longer City employees. During the past year, the City changed third party administrators to the State Compensation Insurance Fund, to which the City pays premiums. This new carrier has a much more aggressive approach to settling open claims and makes every attempt to close open claims and pay claimants for future medical expenses now.

The Workers' Compensation Insurance Fund finished FY 1997-98 with a positive balance of $291,950, the first positive balance in several years. Through annual transfers from other funds, the Workers' Compensation Fund's deficit balance of $950,000 from the first reserve analysis in 1993, has been funded. In the 1998 Long Term Financial Plan, it was recommended that a transfer be made during the current fiscal year from the General Liability Fund to cover the projected deficit balance in this fund. This transfer brings the projected ending balance for FY 1998-99 to $451,830. This balance is sufficient to pay any settlements and future medical payments finalized during the next fiscal year.

In addition, all City funds are charged for premiums and administrative costs paid by the Workers' Compensation Fund. The rates charged to these funds are based on each fund's employees' classifications and the type of work performed (e.g. manual labor, clerical, etc.). These rates are adjusted annually based on the workers' compensation insurance rate schedule.

Recommendation

None

Fiscal Impact of Recommendation

Rates charged to other funds, which will be set during the FY 1999-00 budget process, will be sufficient to pay for all premium expenses and administrative expenses paid by the Workers' Compensation Fund. No additional transfers will need to be made by other funds, since the Workers' Compensation Fund is projected to have a positive balance at the end of FY 1998-99.

Accrued Leave Reserve Fund

City Council Fiscal Policy: Maintain an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.

The accrued leave reserve was established in FY 1994-95 based on average annual expenditures for vacation and sick leave payoffs. The amount of this reserve fluctuates annually based upon the number of employees and the length of service (amount of accrued leave). The following table indicates accrued leave payments during the past five years with a projection for FY 1998-99:

FY 1993-94 through FY 1998-99

	Vacation and Sick Leave
FY 1993-94	$50,500
FY 1994-95	$17,850
FY 1995-96	$47,940
FY 1996-97	$77,550
FY 1997-98	$53,890
FY 1998-99 *Projected*	$50,000
Average Annual Payoffs	$50,000

The projected ending balance for the Accrued Leave Reserve Fund as of June 30, 1999 is $18,570. Utilizing the average calculated above, along with additional terminations and retirements projected for FY 1999-00, a transfer of $75,000 is recommended from the General Fund in FY 1999-00 and annually thereafter to pay accrued leave benefits for potential terminated or retiring employees.

Recommendation

1. Annually average past expenditures from the Accrued Leave Reserve Fund and base the annual transfer from the General Fund on this average, along with projections of upcoming terminations and retirements. Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 1999-00 in the amount of $75,000.

Fiscal Impact of Recommendation

In order to accurately project transfers from the General Fund in the five-year financial forecast, an annual contribution of $75,000 will be included in expenditures, totaling $375,000 for the five-year period.

Fleet Replacement Reserve Fund

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

A complete analysis of the fleet replacement reserve was conducted and approved by the City Council in February, 1994. As a result of the fleet replacement reserve analysis, a policy was established to annually update the Fleet Replacement Reserve schedule. This reserve is fully funded with a projected ending balance of $1.6 million.

Recommendation
None

Fiscal Impact of Recommendation
Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. The FY 1999-00 budget will contain replacement costs to other funds of $383,860.

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

The City completed a General Fund fixed asset inventory in 1995, which was utilized to develop a replacement schedule for all General Fund capital equipment and machinery. Replacement costs of General Fund fixed assets, excluding buildings and building improvements, total $700,000. Since the time of this fund's establishment in FY 1994-95, the General Fund has made annual transfers of $100,000 to fund this reserve. Over the past four years, these transfers total $400,000. In order for this fund to become fully funded, the General Fund will continue to make annual transfers for the next two years.

As General Fund fixed assets are scheduled to be replaced, the capital expenses are made from this fund. The replacement costs for these assets are then charged to the benefiting fund, transferred back to the Capital Equipment Replacement Reserve Fund, and accumulated to pay for future replacement of these assets.

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

Fiscal Impact of Recommendation
The financial forecast has incorporated an annual allocation of $100,000 in each year of the next two years, totaling $200,000 in the five-year forecast. This will bring the reserve to its required level of $700,000.

Insurance Pool Analysis

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

Summary
The Orange County Cities Risk Management Authority (OCCRMA) currently covers the City for liability, property, boiler and machinery and special events insurance. The City deals directly with the Broker, Robert F. Driver Company for Workers' Compensation Insurance and to purchase the Faithful Performance/Employee Dishonesty Bond. The liability analysis includes an analysis of the following companies/pools that provide liability coverage:

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

The purpose of this report is to determine whether the City should remain with the Orange County Cities Risk Management Authority (OCCRMA) or select another insurance company or insurance pool to provide liability coverage.

Background
Risk management is one of the specialties within the general field of management. The definition of risk management is a process that includes four functions of planning, organizing, leading and controlling the activities of an organization in order to minimize the adverse effects of accidental losses on the agency at a reasonable cost.

In California, the concept of "sovereign immunity" was once widely recognized under the common law. It provided a cloak of protection for governmental agencies and public officials from liability in tort actions. The philosophy of the concept was that "the King could do no wrong." The policy was, that since there was no fund out of which government could pay for a judgment, it was better for an individual to sustain an injury than that the public should suffer inconvenience, and also that public employees should not be deterred from the performance of their duties by fear of litigation. However, this is no longer the case in many instances.

The private sector finds itself faced with the regulations and requirements of all layers of government, as do municipal governments. Social and economic changes of the past decade have spawned a revolution in risk management.

Thus, governmental agencies as well as the private sector must find improved and more effective methods of protecting themselves against financial loss. Certain types of risk have always been transferable to other risk bearers for a premium payment, taking a known loss (premium) against the possibility of a larger unknown loss. Commercial insurance is a contract whereby an insurer, in exchange for a premium, promises to indemnify that insured for losses that fall within the scope of the policy's coverage.

The municipal liability insurance market has been on a roller coaster ride for the past twenty years. During certain periods, the market has been "soft" which means rates have been low, limits have been high and most coverage applicable to municipalities has been available. However, municipal pools were created originally as a result of the "hard" insurance market when commercial insurance would not cover governmental agencies. This situation has historically been followed by the opposite condition with higher premiums, limits harder to reach, and coverage difficult to obtain. In the mid-1980's, the market abruptly turned "hard" and municipal liability insurance was difficult, if not impossible to find. In the early 1990's, the commercial market became "soft" again. This trend has continued over the past several years, but premiums appear to be increasing again slowly. It is realistic to assume that the "hard" market can occur again in the future.

Although the insurance industry has tried to meet some of the public's insurance needs arising from these socioeconomic developments, it has achieved little uniformity or consistency in coverage forms and rates. An atmosphere of uncertainty may result from this lack of uniformity, and be heightened by a sense of instability resulting from reported losses incurred by insurers in recent years. The resulting conclusion on the part of the insurance buyers has encouraged risk management to move from handling only "pure" risks (those in which there is no possibility of financial gain, such as earthquakes, flood, windstorm or fire) to addressing the full spectrum of dynamic risks inherent in governmental operations.

The elements of risk management include:

- Exposure identification
- Risk evaluation
- Risk control
- Risk financing
- Administration of the risk management program.

In addition, several risk management-financing techniques are available to municipalities. Risk financing means managing the sources and uses of funds that an organization relies on to finance its recovery from accidental property, net income, liability and personnel losses. Risk financing involves first, planning and arranging for fund sources before losses occur and second, directing and controlling the funds after losses occur. The typical risk financing techniques the City has used include: retention (funded reserves), hybrid (pooling arrangement and self-insured retention), and transfer (insurance and non-insurance contractual transfer for risk financing).

The Orange County Cities Risk Management Authority (OCCRMA) currently covers the City. OCCRMA is a joint powers authority which was established in 1978 for the purpose of reducing insurance costs for its members. It has grown from an original membership of 5 to 12 members. The City became a member of OCCRMA in 1979. The original joint purchase of liability insurance was later broadened to include other insurance programs namely, property, boiler and machinery, excess workers' compensation, and employee dishonesty coverage which are fully insured with no risk sharing among the members. A special events liability program also has been developed to assist in the transfer of risk to users of public facilities. Premium savings and insurance availability resulted from group purchase of the policies and provided a program to meet the insurance needs of the member cities. The City's current Self-Insured Retention is $100,000 and the pool will cover up to $2 million with additional coverage up to $32 million per occurrence.

OCCRMA's success began with its members who shared a common geographical and population base and had similar exposures. OCCRMA serves a total population base of 651,522; total members' budget of $447,444,813; and a Joint Powers Agreement approved by each member's elected officials. The financial and operating responsibilities are shared by all members through a system of active member committees experienced consultants, management and claims audits. The Human Resources/Risk Manager currently is the City's board member for OCCRMA and the organization's vice-president.

Alternatives

There are several alternatives, which the City has, available to select liability coverage other than through OCCRMA. These alternatives are discussed and analyzed in the following pages.

Fully Self-Insured:

Under this mechanism, the City has no insurance coverage and pays 100% of its losses. While no premium would be paid for insurance, the City would be required to record the full value of its potential losses and incurred-but-not reported losses on its financial statements. Currently, the City's self-insured retention is $100,000 per claim. If the decision were to be made to be fully self-insured, the City would pay for all its claims through the general liability reserve.

Pros:

- The City would have 100% control in how to resolve claims. There would be no pressure to settle claims within the deductible or self-insured retention, as is typically the case with an insurance carrier or pool.
- The City would only be responsible for its own experience without sharing in the losses of other agencies.
- Commercial carriers and insurance pools have overhead and/or profit considerations, which increase the costs of premiums.

Cons:

- A large claim could have a significant financial impact on the City. There is always the chance that the City could get hit with several large claims without the ability to fund them. Government Code Section 984 provides that the portion of a settlement or judgment in excess of $750,000 may be spread out over 10 years, with interest. Taking advantage of this government code section would lessen the impact on a single year; however, it still leaves the City with significant exposure.
- Although the City would not pay an insurance premium, the reserve requirement would increase to cover additional exposure.
- The City only has a part-time risk manager that is dedicated to the risk management function. In order to be fully self-insured, additional staff would need to be employed by the City.
- Any training or safety analysis would have to be contracted at an additional fee.

Recommendation:
This alternative is not considered viable and is not recommended.

Commercial Insurance:
The City's broker, Robert F. Driver Co., was able to obtain 3 quotes. Basically, insurance is a contractual transfer for risk financing because the insurance company promises to provide funds to pay for losses, funds are available to pay only for the losses that fall within the scope of the insurance agreement, and finally the financial security of the City depends upon the insurance company's ability and willingness to pay and the legal enforceability of the transfer agreement. The following are the insurance companies that submitted proposals along with their coverages. The City's insurance broker, Robert F. Driver Co., obtained this information.

<u>California Municipal Excess Liability (CAMEL) Program</u>

This program is underwritten by Sable Insurance Company (Reliance Insurance Company) and related companies. The company provides special excess liability coverage for public agencies on an occurrence form, which includes the following:

- Bodily Injury
- Personal Injury
- Property Damage
- Public Officials' Errors and Omissions
- Employment Practices Liability
- Automobile Liability
- Subsidence Liability
- Inverse Condemnation if caused by negligence of the insured.

The limit is $32 million for each occurrence or wrongful act with a $32 million general aggregate limit, which is applicable only to Public Officials' Errors and Omissions coverage. The policy has a $100,000 self-insured retention for each occurrence and is satisfied by payment of indemnity and defense costs. Defense costs are included within the limit of liability. The annual premium indication is $250,000. Prior acts coverage can be included back to December 12, 1996, for an additional premium which needs to be determined.

Royal Insurance Company

The company provides excess public entity liability on occurrence form basis and which includes coverages for the following:

- Bodily Injury
- Personal Injury
- Property damage
- Public Officials' Errors and Omissions
- Employment Practices Liability
- Automobile Liability & Uninsured Motorist Liability

The limit is $32 million each occurrence with a $3 million annual aggregate limit which is applicable only to Public Officials' Errors and Omissions and Employment Practices Liability coverages. The policy has a $250,000 self-insured retention each occurrence and is satisfied by payment of indemnity and defense costs. Defense costs are included within the limit of liability. The annual premium indication is between $400,000 and $500,000. Prior acts coverage cannot be provided.

Municipal Mutual Insurance Company and Great American Insurance Company

The company provides excess municipal liability on an occurrence form basis, which includes coverages for the following:

- Bodily Injury
- Personal Injury/Advertising Injury
- Property Damage
- Errors and Omissions
- Employment Practices Liability
- Automobile Liability
- Municipal Liability per occurrence form, which includes all coverages above except excludes employment practices liability.

The primary limits provided by the Municipal Mutual are $1 million each occurrence and $1 million Employment Practices Liability each occurrence with no annual aggregate. The primary policy has a $100,000 self-insured retention each occurrence and is satisfied by payment of indemnity and defense costs. The excess limits provided by Great American are $31 million each occurrence with a $50 aggregate limit, which is applicable to all coverages. The excess policy does not include coverage for Employment Practices Liability. Defense costs are included within the limit of liability. The annual premium indication is $296,340. Prior acts coverage is included back to July 1, 1997.

This is an interesting option because this company is regulated under the California State Department of Insurance and functions as an insurance company yet the structure is "pool-like". This is because the policyholders, which are City governments, are the owners and thus have control over the administration of the claims. The City can choose their own Third Party Administrator and legal counsel. This is a not-for-profit company so the company is not looking to produce revenue for the owners or shareholders. The Board of Directors is also made up of the member agencies, and the company is presently looking to expanding their membership.

According to the City's benefit consultant, Tillinghast-Towers Perrin, MMIC is an assessable mutual insurance company, which was capitalized initially in 1993 through $10 million certificates of contribution of the City of Gardena. Since then, capital has been reduced by 30% due to adverse operating results. Capital is deemed by A.M. Best Company (Best's) as sound, as very little business has been placed with this company. The company is not rated by Best's due to lack of size and/or operating experience. Best's has assigned a financial size category of IV (out of a possible XV) which is well below the level (VIII), which is commonly recommended by Tillinghast–Towers Perrin.

The cities enrolled in this program are as follows:

- Beaumont
- Desert Hot Springs
- Gardena
- Laguna Hills
- Moreno Valley
- Seaside
- Richmond
- East Palo Alto
- Public Entity Risk Management Authority
    - Adelanto
    - Banning
    - Barstow
    - Blythe
    - Cathedral City
    - Coachella
    - Coachella Valley Mosquito & Vector Control District
    - Holtville
    - March Air Base Joint Powers Authority
    - Mojave Desert & Mountain Integrated Waste Management Authority
    - Murrieta

- Norco
- Palo Verde Valley Transit Authority
- Perris
- Rancho Mirage
- San Jacinto
- Stanton
- Sun Line Transit Authority
- Westmoreland
- West Riverside Council of Governments

Pros:

- As the market is currently "soft", the City could get the needed coverage at a competitive rate.
- There is not a commitment for several years, as there is with pools. Thus, if the market were to change, the City could simply choose not to renew the policy.
- Insurance companies are covered under regulations of the California State Department of Insurance where municipal insurance pools are not.

Cons:

- Cities that choose to leave pools for the "soft" insurance market and then try to return to a pool may not be viewed as a good risk by the pool because such a move to commercial insurance may be viewed as chasing the market trends.
- Coverage needs to be fully evaluated as many policies have extensive exclusions. Municipalities that have left pools for commercial insurance find their coverage much more limited than anticipated.
- Depending upon the self-insurance limit chosen and the insurance company requirement, this alternative will limit the control of the City in administering its claims, except in the case of Municipal Mutual Insurance Company.
- Cities do not necessarily reap the benefits of good loss control in the form of dividends or lower premiums. Savings are profit for the insurance companies.
- In reference to Municipal Mutual Insurance Company, the additional features of the plan would represent additional costs to the City above the self-funded amounts and premium costs of the insurance. The financial size of the company and its corresponding lack of premium writings and negative cash flows since it began business are also of concern.

Recommendation:

Although this is a viable option, it is not recommended. Commercial insurance could be faced with a "hard" market at any time in the future, and the City may be able to obtain coverage, but at an increased rate. The Municipal Mutual Insurance Company would be able to give the City a three-year guarantee, but the rates could increase after that time especially with a hard market.

California Joint Powers Insurance Authority:
Under this option, the City would transfer their membership to another insurance pool. The other insurance pool the City is exploring is the California Joint Powers Insurance Authority (California JPIA) which is based in La Palma. The company provides first dollar (primary) coverage of municipal liability on an occurrence basis and includes coverages for the following:

- Bodily Injury
- Property Damage
- Personal Property
- Errors and Omissions Injury
- Employment Practices Injury
- Earth Movement Injury
- Accidental Pollution Injury
- Employee Benefits Program Administration Injury
- Discrimination Injury
- Non-Owned Aircraft Injury
- Non-Owned Watercraft Injury
- Special Contractual Liability Injury
- Broadcast/Publication Injury
- Radioactive Contamination Injury
- Termination by City Manager's Employment Injury

The California JPIA will charge a primary deposit each year. The first year's premium will be $380,960 for liability insurance coverage, and the limits are $50 million per occurrence and $50 million annual aggregate. The $20,000 SIR per occurrence is charged directly to the primary deposit, which is included in the premium. The member cities in the California JPIA are as follows:

- Imperial County
- Brawley
- Calexico
- El Centro
- Imperial
- Inyo County
- Bishop
- Los Angeles County
- Agoura Hills
- Agoura Hills/Calabasas Community Center Authority
- Artesia
- Bell Gardens
- Bellflower
- Bradbury
- Calabasas

- Cerritos
- Claremont
- Commerce
- Cudahy
- Diamond Bar
- Duarte
- Gateway Cities Council of Governments
- Hawaiian Gardens
- Hidden Hills
- Irwindale
- La Puente
- La Verne
- La Mirada
- La Canada Flintridge
- La Habra Heights
- Lakewood
- Lawndale
- Lomita
- Malibu
- Maywood
- Norwalk
- Palos Verdes Estates
- Paramount
- Pico Rivera
- Rancho Palos Verdes
- Rolling Hills
- Rolling Hills Estates
- Rosemead
- San Dimas
- San Marino
- Santa Fe Springs
- Signal Hill
- South Pasadena
- South El Monte
- Southeast Area Animal Control Authority
- Temple City
- Walnut
- West Hollywood
- Westlake Village
- Mono County
- Mammoth Lakes
- Orange County
- Dana Point

- Fountain Valley
- Laguna Niguel
- Lake Forest
- La Palma
- Mission Viejo
- San Juan Capistrano
- Villa Park
- Riverside County
- Indian Wells
- La Quinta
- Lake Elsinore
- Palm Desert
- Coachella Valley Assoc. of Govts.
- San Diego County
- La Mesa
- Poway
- San Marcos
- San Bernardino County
- Apply Valley
- Big Bear Lake
- Chino Hills
- Grand Terrace
- Loma Linda
- Needles
- Santa Barbara County
- Carpinteria
- Buellton
- Solvang
- Ventura County
- Camarillo
- Fillmore
- Moorpark
- Ojai
- Port Hueneme
- Ventura Port District

Pros:

- All costs for liability coverage are included in the California JPIA proposal.
- The current third party administrator, Carl Warren, who coordinates OCCRMA's claim also coordinates the California JPIA's claims. This would provide continuity for claims administration.
- The California JPIA provides extensive risk management training for its members which the current pool does not. Their training is provided at no cost on a regional basis and to

individual member cities to help them address risk management concerns and to reduce losses.
- The California JPIA conducts bi-annual risk management evaluations of each member to help the member identify liability and safety exposures before they result in claims.
- Coverage for needed municipal exposures are available, as this is the primary reason pools were formed in the first plan. There is a better understanding of municipal services, since pools are generally established for governmental agencies.
- Premiums are really premium deposits, meaning that the City could receive a dividend if loss experience is better than expected.
- The California JPIA offers coverage for subsidence which OCCRMA does not.
- A Councilmember would represent the City on the Board of Directors.

Cons:
- As losses are pooled, participants with better than average experience could be "subsidizing" participants with worse than average experience. Thus, it is important to choose a pooling arrangement where premiums are based on experience as well as exposure.
- Because of the pool requirements, the City will assume less control over the administration of the claims.
- With OCCRMA, the City can choose the legal representation. The California JPIA requires that member agencies utilize their legal counsel.
- Pools typically have a minimum three-year commitment and difficult withdrawal provision; Thus; it is often difficult to take advantage of rapidly changing market conditions.

Recommendation:
The California JPIA is a viable option to consider. The cost is reasonable and the City would only need to pay an annual deposit to cover all the liability costs. A City Council member would serve on the Board of Directors to allow input on how the California JPIA operates. The only major disadvantage would be the City would have less control of their claims and the City would no longer have a choice in their legal representation.

Orange County Cities Risk Management Authority (OCCRMA):
OCCRMA provides municipal coverages on a claims made form through the pool and the Insurance Company of the State of Pennsylvania as follows:

- Bodily Injury
- Personal Injury
- Property Damage
- Public Officials' Errors and Omissions
- Automobile Liability
- Physical Damage to tangible property related to inverse condemnation
- Municipal liability on occurrence form, which includes all coverages described above plus employment practices liability with a $1 million self-insured retention.

The primary limits provided by OCCRMA are $2 million each occurrence with a $20 million aggregate applicable to all coverages. The primary policy does not include coverage for Employment Practices Liability. The primary policy has a $100,000 self-insured retention each occurrence, which is satisfied by payment of indemnity only. The excess limits provided by AIG are $30 million for each occurrence with $30 million annual aggregate which is applicable only to products/completed operations and employee benefits liability. The excess policy provides a separate limit for employment practices liability of $29 million each occurrence and annual aggregate with a $1 million self-insured retention (SIR satisfied by payment of indemnity and defense costs). Defense costs on the OCCRMA policy are covered pro-rata based on indemnity paid. Defense costs on the AIG policy are paid in addition to the limit of liability. The total current annual premium is $118,198. Prior acts coverage is included back to December 12, 1986.

As mentioned previously, the City has been with OCCRMA since 1979. In 1997, the City changed from $250,000 Self-Insured Retention (SIR) to a $100,000 SIR that saved the City a considerable amount of money. OCCRMA requires that the City keep at least 3 times their SIR in reserves. Currently, the City has budgeted approximately $700,000 in the liability reserve fund to cover costs for administration of the liability claims, to pay legal fees, to pay for judgments or to settle claims, or to pay for claims that are not covered under the provisions of OCCRMA, to pay for liability insurance, boiler and machinery insurance, special events insurance, and the faithful performance/employee dishonesty bond. The member cities of OCCRMA are as follows:

- Brea
- Cypress
- Irvine
- Laguna Beach
- Los Alamitos
- Orange
- San Clemente
- Seal Beach
- Stanton
- Tustin
- Westminster
- Yorba Linda

Pros:

- San Clemente has contributed significant funds over the past thirteen- (13) years in the amount of $3,018,330. This liability pool is now nearly funded over the past thirteen years and has resulted in a 50% reduction in the City's annual contribution in the last two- (2) fiscal years. Losses incurred by the pool will be the primary factor in all future contributions. The pool exposure is limited to $2 million per loss with excess commercial insurance providing higher limits beyond the first $2 million in exposure.

- A JPA can take advantage of a soft marketplace by transferring risk to the commercial insurance and retain risk in the JPA when commercial premiums are high and policy terms and conditions are unfavorable.
- The City has the ability to adjust its claims and select its own legal representation. If the City chooses the other insurance pool or commercial insurance, those agencies have their own legal staff to settle or litigate the claims.
- Coverage for needed municipal exposures are available, as this is the primary reason pools were formed in the first plan. There is a better understanding of municipal services, since pools are generally established for governmental agencies.
- Premiums are really premium deposits, meaning that the City could receive a dividend if loss experience is better than expected.
- The Human Resources/Risk Manager serves as the representative to OCCRMA and is a member of the Board of Directors.
- OCCRMA is in the process of selecting a new Risk Manager, which should move the agency in a more proactive direction.

Cons:

- Pools whose participants are not homogenous may have difficulty meeting the needs of all its members. For example, OCCRMA, which offers an array of SIR's ranging from $100,000 to $400,000, may have difficulty in making decisions, which are equitable to all members.
- OCCRMA has been reluctant to incorporate changes into their coverages.
- OCCRMA members have had little motivation to expand membership of the pool. Cities that have submitted requests for proposals from OCCRMA have found that the costs are too high, and OCCRMA lost one agency last year.
- The distribution of any financial interest that the City holds in the insurance pool program would occur until such time as OCCRMA would elect to dissolve the program.
- Since OCCRMA's pool program is underwritten on a claims made form, it would be necessary for the City to purchase an extended period of time following coverage expiration during which claims can be reported which occurred prior to the expiration date of the OCCRMA coverage. OCCRMA offers a two-year period for reporting of such losses at a cost of up to 200% of the current premium. This would be an additional cost to the premium paid for the "go forward coverage" purchased from a commercial insurance company.

Issue of Admitted Carriers versus Municipal-Owned Risk Pool

The State of California Department of insurance does a fine job of regulating an enormous industry, and in controlling the financial, market conduct and overall operations of the thousands of insurers admitted to do business in California. The Department of Insurance imposes a set of standards on each such admitted carriers which assures compliance with minimum requirements. Policyholders of admitted carriers are also subject to the protection of an Insolvency Fund.

The Department of Insurance does not directly supervise alternative insurance and insurance-like organizations, such as municipality risk pooling plans. They are subject to the California Government Code and by general business laws and applicable to their operations.

Long Term Financial Plan

Despite the fact they are not directly supervised by the Department of Insurance, the municipality owned risk pools offer the advantage of being managed by the direction of a board of directors with active committees occupied by representatives from the member cities. The financial operations of such pools, too, are subject to oversight by the member agencies. They hire specialist managers, investment managers, claims administrators, lawyers, actuaries, the General Manager, and other professional services support which are often very well qualified, experienced practitioners in the insurance field.

Another factor in favor of risk-sharing pools is the motivation to provide member services, flexible solutions to member problems and an ongoing facility to pool risks in as efficient manner as is sensible for members. Corporate insurers, including those admitted to do business in California, most often have the primary motivation of "earnings per share" often on a quarterly basis. According to the City's benefit consultant, Towers Perrin, the most successful risk pools provide excellent member services, whereas most corporate insurance insurers of public entities focus on shareholder value.

Recommendation:
It would be a viable option to stay with OCCMRA. The City has invested funds with the agency for 13 years and as a result now has reduced insurance premiums. The City can control the outcome of the claims and can retain their own legal representation.

Paul Pinckney from Tillinghast-Towers Perrin, the City's benefit consultant, also reviewed the information submitted regarding this report. He recommended staying with OCCRMA for the following reasons:

- There have material cost reductions in loss funding and premium costs in the past 2 years, and a significant funding "reserve" accumulated to benefit the City in future years.
- Coverage under the OCCRMA plan is provided on a claims made basis which triggers coverage through knowledge of reporting a large loss event. Conversion to "occurrence" based coverage would require special coverage extensions to provide for the differences in coverage application, and would generate additional premiums of $250,000 to perhaps as high as $500,000.
- All the other proposals require additional cost and coverage extensions to provide for filling the coverage gap in conversion from "Claims made" to "occurrence" coverage, and the coverage periods offered by each proposer and the initial date the City selected the "claims made" coverage form (1979). Coverage details would require careful crafting to assure the gaps were securely filled. Premium costs for such coverage to fill the form and time gaps would cost from $250,000 to perhaps as high as $500,000.

Summary

Here is a summary of the alternatives listed in the report:

JPA/Insurance Company	Coverage	Self-Insured Retention	Premium	Advantage	Disadvantage
Fully-Self Insured	Costs would be incurred by City	0	Claims would be paid when incurred	100% control; responsible for own expenses; no overhead	Large claim would have significant impact; reserve requirement would increase; hire more staff
CAMEL Program	$32 million	$100,000	$250,000	Better rate due to soft market; no commitment for several years.	Cities that leave due to soft market have problem returning to pools; insurance has extensive exclusions; insurance coverage much more limiting; insurance companies get profits
Royal Insurance Company`	$32 million	$250,000	$400,000-$500,000	Better rate due to soft market; no commitment for several years	Cities that leave due to soft market have problem returning to pools; insurance has extensive exclusions; insurance coverage much more limiting; insurance companies get profits
Municipal Mutual Insurance Company	$32 million`	$100,000	$296,340	Better rate due to soft market; no commitment for several years; rates guaranteed for 3 yrs; City can choose TPA & legal counsel; board is made up of member agencies	Cities that leave due to soft market have problem returning to pools; insurance has extensive exclusions
California Joint Powers Insurance Authority	$50 million	$20,000 which is paid from premium	$380,960	All costs in proposal; same third party administrator; provides training; bi-annual evaluation; cities were reason pools were formed; could receive dividend if good experience; covers subsidence; Councilmember would represent City	Participants with better than average exposure could be subsidizing others; limits control of City; City has no choice over legal representation
OCCRMA	$32 million	$100,000	$118,198	Contributed $3,018,330 over 13 years which resulted in 50% reduction in liability premiums; JPA can take advantage of soft market and then pool	Pools whose participants are not homogenous have problems meeting all agency needs; OCCRMA has been reluctant to incorporate changes; OCCMRA has little incentive to expand pool;

				the risk during hard market; City can adjust claims and choose legal counsel; cities were reason pools were formed; could receive dividend if good experience; Risk Manager is Board member; OCCMRA is selecting a new General Manager	City would not be eligible to receive funds from OCCMRA unless agency dissolves; City would have to purchase coverage since its claims made at 200% of premium

Recommendation
Staff is recommending that the City stay with OCCMRA. The City has $3,018,330 invested in the insurance pool, which is nearly fully funded. The City can continue to control its claims and select its own legal counsel. In addition, OCCRMA has selected a new General Manager who will change the direction and philosophy of the organization.

Staff is further recommending that, in 2 years, the City evaluate as part of the LTFP the following issues and concerns. At that time, the City can revisit whether or not any changes have occurred at OCCRMA:

- Review and updating of JPA governing documents.
- Review and consideration to rewriting of Pool Liability Contract plus coverage enhancements which could include:
  - Subsidence
  - Change to occurrence form
  - Defense costs included toward satisfaction of members' SIR
  - Defense costs covered by pool contract satisfaction of SIR.
- 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 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.
- Training in management of litigated claims and control of attorney fees.

Fiscal Impact

As a result of several changes over the past two years, the City has saved revenue as a result of being in OCCMRA. The savings are as follows:

- The City has received a 50% reduction in their excess liability premiums over the past 2 years for a total savings of approximately $236,000.
- The City recently received a dividend from OCCRMA in the amount of $17,007.
- The City submitted a claim to OCCRMA that was initially denied. The City, however, filed an appeal and was awarded $500,650 toward the payment of the claim.
- The City has invested over $3 million into OCCRMA over the past 13 years, and the City would not be able to get funds from OCCRMA until the entire program was dissolved.
- If the City withdraws from OCCRMA, OCCRMA offers a two-year period for reporting of such losses at a cost of up to 200% of the current premium to pay for the tail of claims. This could equal nearly $240,000 on an annual basis.
- The City reduced their SIR on July 1, 1997, from $250,000 to $100,000. OCCRMA requires that the City keep 3 times their SIR in reserves so the City was able to reduce the amount of funds in the liability reserve.

Street Improvement Program

Objective

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

Background

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

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

Program Status

Since the approval of the program in July, 1995, sixty-two (62) street projects have been completed and an additional twenty four (24) will be constructed during FY 1998-99.

Completed projects (totaling 19.59 miles):

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

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

35. Ave. Rosa (100 block) from Ola Vista to Victoria. The project also included the installation of a major storm drain line.
36. Ave. de la Estrella, (Phase I) from Calle de los Molinos to El Portal.
37. Ave. de la Estrella, (Phase II) from Ave. Palizada to El Portal.
38. Calle Redondel from Avenida de la Estrella to Avenida de la Estrella. This project consisted of complete reconstruction of the pavement.
39. East Ave. Magdalena from S. El Camino Real to Ave. Santa Margarita. The project consisted of complete reconstruction of the pavement.
40. Ave. Santa Margarita from Ave. San Luis Rey to E. Ave. Magdalena. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
41. Barcelona from Ola Vista to Esplanade.
42. Esplanade from S. El Camino Real to Trafalgar Lane. The project also included the rehabilitation of the landscaped median.
43. Calle Conchita from cul de sac to Esplanade.
44. North La Esperanza from La Paz to Ave. Presidio.
45. De La Paz from La Esperanza to Ave. Palizada.
46. Ave. Caballeros from E. El Oriente to W. Ave. Palizada.
47. El Levante. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
48. Terra Vista Bahia from El Levante to cul-de sac.
49. Pizarro from N. La Esperanza to El Levante.
50. West Ave. Cornelio from S. Ola Vista to Ave. Del Presidente.
51. W. Ave. Alessandro from W. Ave. San Antonio to Ave. Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm drain improvements and the lining of the existing sewer line.
52. W. Ave. San Antonio from W. Ave. Alessandro to Ave. Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm improvements and the lining of the existing sewer line.
53. Calle Juarez from Calle Frontera to Guadalajara.
54. Calle Empalme from Ave. La Cuesta to Calle Familia.
55. Ave Granada, Phase I from Ola Vista to Ave. Del Mar.
56. Ave Granada, Phase II from Ola Vista to El Camino Real.
57. Ave de la Grulla from Florencia to El Camino Real.
58. Sierra from Ave. De La Estrella to Ave. Las Flores.
59. Calle Campo from Ave. Sierra to end of pavement.
60. El Oriente from Ave. De la Estrella to Ave. Las Flores.
61. La Placentia from Ave. Sierra to end of pavement.
62. Revuelta Court from La Placentia to end of pavement.

<u>Still to be constructed during FY 1998-99</u> (totaling 5.55 miles):

These projects are under construction and/or in the final stages of design. It is anticipated that the construction of these street projects will start in the Spring of 1999:

1. Ola Vista from Rosa to Santa Barbara.
2. Avenida Rosa from Ola Vista to Victoria.
3. Alcazar from end of pavement to E. San Juan.
4. East Cordoba, Phase I from Calle Alcazar to Ladera Lane.
5. East Cordoba, Phase II from Via Avila to Via La Jolla.
6. East Cordoba, Phase III from Ladera Lane to Via Avila.
7. E. Ave. Junipero, Phase I from Ave. Trieste to Entrada Paraiso.
8. E. Ave. Junipero, Phase II from El Camino Real to Ave. Trieste.
9. Entrada Paraiso from Ave. San Juan to end of pavement.
10. Ave. Princesa from Ave. Presidente to Toledo.
11. Calle Del Pacifico from cul de sac to S. Ola Vista.
12. Calle Lasuen from Calle De Los Alamos to W. Los Lobos Marinos.
13. Calle Marina from Calle De Los Alamos to W. Los Lobos Marinos.
14. Calle Primavera from Calle De Los Alamos to Calle Roca Vista.
15. Calle Roca Vista from Calle De Los Alamos to W. Los Lobos Marinos.
16. Los Molinos from El Camino Real to channel.
17. Calle Valle from Calle De Los Molinos to Calle De Los Molinos.
18. Calle Abril from Calle Bienvenido to Calle Real.
19. Calle Mayo from Calle Bienvenido to Calle Real.
20. Calle Monterey from City limit to Calle Juno.
21. Via Sacramento from City limit to Calle Juno.
22. Calle Andalucia from Calle Bienvenido to City limit.
23. Via Manzana from City limit to Calle Real.
24. Calle Juno from Calle Bienvenido to Calle Mayo.

Design Stage:

There are another seventeen (17) street projects in the early planning and design stages. The designs should be completed prior to the end of this Fiscal Year. Construction of these projects will start at various periods during FY 1999-2000.

1. Buena Suerte from E. Cordoba to Avenida San Juan.
2. So. La Esperanza from Calle Patricia to East Ave. Cordova
3. Calle Puente (Phase 1) from Ave Palizada to Ave. Del Poniente
4. Calle Puente (Phase 11) from Lave. Del Poniente to Ave. Aragon
5. El Portal from del Prado to El Camino Real
6. Ave. Del Poniente from Calle Puente to El Camino Real
7. Ave. Aragon from Calle Puente to El Camino Real
8. Del Prado from Ave. Del Poniente to Aragon
9. Ave. Cadiz from Ola Vista to El Camino Real
10. W. Ave Cordoba from El Camino Real to Calle Toledo
11. Ave. Gaviota from El Camino Real to Valencia
12. W. Junipero from Ola Vista to Ave. Del Presidente
13. Calle de Los Alamos from Gaviota to Ave. de Los Lobos Marinos

14. Ave. de Los Lobos Marinos from Calle de Los Alamos to Del Presidente
15. Calle Serena from Los Alamos to Los Lobos Marinos
16. Avenida Trieste from Ave. Junipero to cul de sac.
17. Via. San Gorgonio from Ave. Vaquero to Vista Torito

Funding

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

Short Term - The Street Improvement Program's short term financial picture is mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in a savings of about $2,500,000 or about 17 % of the original estimated street projects costs.

Original estimated projects costs (FY95/96 to FY99/00)	$17,000,000
Actual projected projects costs (FY95/96 to FY99/00)	$14,500,000
Projected savings (FY95/96 to FY99/00)	$2,500,000

Engineering Division staff have been successful in applying for and receiving State Local Transportation Partnership Program (SLTPP) grants for eligible street projects. The grant amounts awarded have varied from 5% to 20% of the construction award costs. The City has received about $330,000 in SLTPP funds for certain completed projects. Additional grant funds in the amount of $1,350,000 are anticipated to be received during this year and coming 1999-2000 fiscal year.

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

Table "A" on page 7 describes the financial comparison between the actual and the original projected revenues for the first five years of the program.

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

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

2106 Gas Tax	$175,000
Proposition 111	275,000
Measure M	350,000
Total	$800,000

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

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

Program Year	Fiscal Year	General Fund Contribution	Gas Tax/Measure M Contribution
1	1995/1996	$700,000	-0-
2	1996/1997	$300,000	$400,000
3	1997/1998	$309,000	$412,000
4	1998/1999	$500,000	$424,360
5	1999/2000	$515,000	$437,090
6	2000/2001	$530,450	$450,200
7	2001/2002	$546,360	$463,710
8	2002/2003	$562,750	$477,620
9	2003/2004	$579,630	$491,950
10	2004/2005	$597,030	$506,710

- The contributions are escalated at 3% annually.

TABLE "A"

FIVE YEARS FINANCIAL COMPARISON
(FY 1995-96 to FY 1999-00)

	ORIGINAL	ACTUAL	DIFFERENCE
ORIGINAL REVENUES			
Street Improvement Assess.	7,660,000	6,662,512	(997,488)
Debt Service / Redemption fund (1)	(1,935,300)	(2,686,522)	(751,222)
Proceeds From Sale of Bonds	6,000,000	6,566,312	566,312
Transfer from General Fund	2,504,000	2,315,000	(189,000)
Transfer from Gas Fund / Measure M	1,673,500	1,673,500	-
SUBTOTAL	**$15,902,200**	**$14,530,802**	**$(1,371,398)**
OTHER REVENUES			
Investment Earnings (2)	-	933,733	933,733
Other Revenues	-	6,763	6,763
Expenditures Other Than CIP (3)	-	(638,018)	(638,018)
SUBTOTAL	-	**$302,478**	**$302,478**
TOTAL	**$15,902,200**	**$14,833,280**	**$(1,068,920)**
GRANTS / SAVINGS			
State Local Transp Partn Program (4)	-	1,684,392	1,684,392
Savings from street CIP (5)	-	2,500,000	2,500,000
SUBTOTAL	-	**$4,184,392**	**$4,184,392**
Accelerated completed projects (6)	-	(899,143)	(899,143)
New Accelerated street projects (7)	-	(1,108,601)	(1,108,601)
SUBTOTAL	-	**$2,176,648**	**$2,176,648**
CASH BALANCE	**$15,902,200**	**$17,009,928**	**$1,107,728**

NOTES:
(1) The bonds were sold earlier than original schedule
(2) Minimal interest in the future years since bond funds will be spent.
(3) One time cost of the bonds sale.
(4) The program is being eliminated in FY 1999-00.
(5) Savings from completed street projects.
(6) Five streets were accelerated from beyond the first 5 years
(7) Another five streets to be accelerated in FY99/00 from beyond the first 5 years.

Long Term Financial Plan

General Fund Contribution

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

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

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

Expenditures

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

1. Projecting remaining pavement life is not an exact science. It is difficult to project the condition of a street more than two to four years out. Drought conditions help lengthen pavement life while wet winters and heavy traffic shorten pavement life.

2. Complete reconstruction is approximately twice as expensive as an asphalt overlay. If more miles of total reconstruction are needed than were projected, costs will increase. As seen in the past, the heavy trucks supplying one construction project on a street scheduled for an overlay can destroy the street, thereby doubling the repair cost. Adjacent streets are occasionally impacted as well.

3. Inflationary pressures have not as yet been a factor. A 3% annual inflation rate was built into the Street Improvement Program.

Street Maintenance Program

During Fiscal Year 1996-97, the Maintenance Services Division's Street Maintenance and Repair Program provided major maintenance to numerous streets throughout the City that were either not scheduled for improvement/rehabilitation or were not scheduled for several years. This Major Maintenance Program provided a thin 1" overlay of the entire street, large removal and replacement work or "skin" patches (1/4" to 3/4" thick overlays) to various areas of chosen streets.

In November 1996, Proposition 218 was approved on the State ballot and the ensuing fiscal impacts to counties and cities was dramatic. As a result of the City's funding reductions, a total of seven supervisory and operations personnel positions were cut from the Maintenance Services Division along with $95,000 in Street Materials supply funding, resulting in the elimination of the Major Street Maintenance Program. Repair of the Utilities Division's street cuts (caused with the repair of their utilities) was also transferred back to Utilities and is now contracted out. The efforts of the Street Maintenance and Repair Program are now focused on providing the patching/repair of dangerous potholes and providing small removal and replacement and skin patching repairs to the City's streets requiring them. Even though many streets have been rehabilitated as part of the City's Street Improvement Program, Maintenance Service Division has been unable to keep up with minor and major street maintenance demands. The City needs to provide funding for thin overlays to various streets that were either not scheduled for improvement/rehabilitation or were not scheduled for several years.

Having a defined Major Street Maintenance Program will allow the City to decelerate the rapid deterioration of the City streets. This is particularly important for those streets that are not scheduled for full rehabilitation for several years out in the Street Improvement Program. The thin overlays will not last as long as complete rehabilitation, but they do not cost as much either. The advantages are:

(1) The effort will reduce maintenance costs by reducing the number of times the street maintenance crews have to return to the same street before it is re-habilitated.
(2) The streets will have a better appearance and better ride quality.
(3) The street may be saved for an overlay project, instead of losing it to total reconstruction.
(4) It will improve the image of the neighborhood at reasonable costs.

In recognition of the need for this effort, staff is recommending that the City re-establish the Major Street Maintenance Program with an annual funding of $400,000 for the next five (5) years. The program will be re-evaluated after the first five years to determine the effectiveness of the program and the adequacy of the funding.

Conclusion

In summary, the Street Improvement Program is ahead of the originally approved schedule. Sixty two (62) street projects are complete and another twenty four (24) are under construction and/or scheduled for construction in this fiscal year. Also another seventeen (17) streets to be scheduled for construction in the fiscal year 1999-2000. Due to the savings in the street projects costs, staff were able to accelerate and complete five (5) street projects that were scheduled beyond the first five years of the program. In addition, another five (5) streets are scheduled to be accelerated in the fiscal year 1999-2000.

The City will continue to monitor annual revenues and expenditures of the Street Improvement Program. It appears that the program's goals can be met in the foreseeable future. If current trends continue, the collector and neighborhood street rehabilitation program should be adequately funded and remain on schedule in the short term. In the long term, the City may not be able to rehabilitate all of the streets included in the Street Improvement Program unless revenues are increased to the amounts originally proposed and/or construction costs stay below the original projected estimates.

Long Term Financial Plan

The biggest unknown is the uncertainty of future funding sources for arterial street rehabilitation and the remaining streets that were not originally included in the Street Improvement Program. Re-establishing the Major Street Maintenance Program with an annual funding of $400,000 for the next five (5) years, will provide the short term funding needed for the maintenance of various streets that are either not scheduled for improvement or were not scheduled for several years.

Recommendations

Staff recommends that the City Council:

1. Approve and authorize the allocation of a General Fund contribution of $515,000 for the coming FY 1999-2000.
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 Update

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

Summary
The purpose of this report is to provide an update to the City's Computer Strategic Plan. The report is broken into three parts: 1) How the Computer Strategic Plan is updated and implemented; 2) the Updated Computer Strategic Plan; and 3) Current issues with fiscal impacts. The report will conclude with a fiscal summary and recommendations.

Background
How the Strategic Plan is updated and implemented:
The Computer Strategic Plan is a planning tool used to direct the implementation of technology in the City since 1989. Every year Information Services refines and extends the City's computer plans based upon current progress and changes in technology. The Computer Administration Team (CAT) reviews Information Services projections and recommends the updated plan to the City Manager. The updated Computer Strategic Plan is presented to Council as part of the Long Term Financial Plan.

Current Strategic Plan:
Five years ago the Computer Strategic Plan called for a systematic replacement of our old 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 services levels for the Citizens of San Clemente. Information Services calls this developing technology "Virtual City Hall." The following Table provides an overview of this process:

Date	Project	Why	Status
Fall 97	Replaced old Arcnet cabling with new Ethernet cabling.	Current systems do not support our 15-year-old Arcnet coax cable.	Completed
Winter 97	Selected a software Vendor (Eden Systems) to replace the old financial systems	Our 15 years old applications were not Year 2000 compatible.	Completed
Spring/Summer 98	Base installation of core financial programs	Converted core financial data to new UNIX based system.	
Fall 98	Replace old 56kb digital lines between buildings with high-speed T1 lines.	100 times faster at same cost. Allows staff access to new financial systems	Completed
Fall 98	Install industry standard Cisco Routers and switches		Completed

Winter 98	Converted all Network Servers to Microsoft Windows NT 4.0	Provides a platform for the new "Intranet." Immediate savings of $10,000 in tech support costs. Systems Engineers on staff.	Completed
Winter 98	Implement new Electronic Messaging (E-Mail) with Group Scheduling and Task Management	Improve staff communication, reduced time to schedule meetings and prepare for Internet E-Mail access	Completed
Late Winter	Replace 40 computers ("386" and "486") computers with Pentium PC's	On going systematic replacement of old computers with new computers that can effectively run current software.	Completed
January 1999	Write/Implement new Project Tracking Program	Allows staff to track status of all of City's projects using the new messaging system	Completed
January 1999	Upgrade all PC's to Windows 98 and Office 97 (service pack 2)	Year 2000 compliance, productivity features, industry standard	90% complete
February 1999	Implement new Utility Billing software	Year 2000 compliance. Integrated with new Financial Programs	Under way
February 1999	Implement GIS base map of the City	Allows staff to use computer based mapping to research and plan. Developers will be required to submit plans in computer format	
Spring 1999	Implement new Permitting software	Year 2000 compliance.	Pending
Spring 1999	Write/Implement new Complaint Tracking Program	Routes requests for service to proper staff and tracks task to completion.	Pending
April 1 1999	City Wide Year 2000 computer test.	Confirmation of Year 2000 compatibility	Planned
Summer 1999	Internet E-Mail	Provide Public access to City offices	Pending
Summer 1999	City Council included in "Virtual City Hall"	Enhance communication, scheduling and access to appropriate data. Reduction in paper work.	Pending
Winter 1999	Prepare for Year 2000 rollover	Prepare all computer systems to deal with the Year 2000 impact both external and internal	Pending
Spring 2000	Implement additional UB payment methods (Card,	Enhanced service levels	Pending

	Autopay, etc)		
Spring 2000	Implement City Web Server	Provide Internet users with appropriate access to City data.	Pending
Summer 2000	Provide on line transactions such bill payment, permit approvals, business licenses	Improve Customer Service	Pending

Current Issues:
Following is a summary of the major issues facing Information Services. Each issue is described then a fiscal impact is presented. Information Services has provided it's recommendations at the end of the report in the *Recommendations* section.

Year 2000 Compliance:
Information Services has included Year 2000 in its long term planning since 1994. To address this issue, all regular system upgrades and conversions were postponed until 1998 to ensure that the normal replacement schedule of computer systems would coincide with Year 2000 preparations. To ensure that the City's systems are Year 2000, both software and hardware will be tested extensively in the winter of 1999. On the last day of March 1999, all the computer system clocks will be rolled forward to December 31, 1999, so that on April 1, 1999, the computers will "think" it's the new century. Any systems that do not function properly will be updated or replaced.

Fiscal Impact:
At this time, Information Services does not anticipate the need for additional funds to address the Year 2000 issue with the possible exception of the permitting system.

Permitting Software
Eden Systems Inc. is the City's new financial software vendor. In addition to financials, Eden also bid new permitting software. At the time the bid was awarded the City was assured that the new permitting software would be up and running by December 1998 at other sites. Due to no fault to Eden or the City, the other sites have not implemented the new Eden permitting software. This puts the City at risk. The Eden Permitting product appears to be fine but it is not a proven product. If Year 2000 were ***not*** an issue, staff could wait for other sites to use the Eden software for a period of time to validate that the product works as demonstrated. The City must have Year 2000 compatible permitting software installed and running by July 1, 1999. This leaves staff with two options. 1) Install the Eden permitting software or 2) Upgrade the current permitting software and use it until the Eden product has proven itself.

To address this issue staff has formed a committee of managers and users of the permitting software. This committee will visit sites where the Eden permitting software is being installed. If they feel comfortable with the initial release of this product they will move forward with the conversion to the Eden software. Otherwise they may recommend to upgrade the current permitting software as an interim solution. In either case the recommendation will be brought back to the Council for approval during budget deliberations.

Fiscal Impact: Upgrading the current permitting software to Year 2000 compatibility will cost about $25,000.

Internet Access

Currently the City is not connected to Internet. The Computer Strategic Plan anticipated the need for Internet access so the City's current systems were designed as an "*Intranet*." That means the City's computer systems have been designed from the beginning to be connected to Internet. We already have our own Internet (SMTP) Mail Server and Internet Web Server. The next step is to select a provider (Internet Service Provider or ISP) to connect the City to Internet. The City is currently in negotiations with Cox Communications to provide high-speed Internet access at a reduced rate.

Fiscal Impact:

The current Cox franchise agreement does not expire for three years. On the other hand Cox Communications has agreed to work with the City to provide Internet access at a reduced rate. The outcome of these negotiations will most likely result in costs that are less than the commercial Internet access rates. Cox currently charges $2,600 a month for commercial access. We expect our cost to be considerably less.

Council inclusion in the City's "Virtual City Hall"

City Hall, Community Development, Community Center, Corporation Yard, Water/Sewer offices are miles apart yet staff needs to work together as if we were all in the same building. The Computer Strategic Plan addresses this problem by creating a "Virtual City Hall." Employees have access to each other's data and can share information using our advanced electronic messaging systems such as E-Mail, E- Calendar and E-Tasks. The Virtual City Hall is now a vital part of daily City operations. Using laptop computers, City Council can now be part of the Virtual City Hall. The concept is simple. Information Services prepares laptops with the same software staff uses on a daily basis. The City would loan these laptops to Council Members for the duration of their term. Council could dial in from home or work and essentially have an "office" at City Hall using the same applications that staff uses.

The success of this program will be based upon the individual needs and working styles of the Council Members. Staff recommends that Council consider the merits and benefits of such a program vs the costs of distributing laptops to Council Members.

Fiscal Impact:

The laptops would be configured for the single purpose of connecting and communicating with the Virtual City Hall. They would be checked out to Council Members from the City's laptop pool. Information Services will support the laptops as City computer equipment. The laptops should cost about $2,500 each including software licenses. Any laptops not being used will be returned to the laptop pool. Actual cost would depend upon how many Council Members want access to the Virtual City Hall.

Information Services Streamlining

The Computer Strategic Plan has allowed staff to systematically design a computer system that needs less maintenance and support than five years ago. This means Information Services can downsize operations by recommending the reduction of ½ FTE and the reclassification of its Systems Analysts position to Information Systems Specialist.

Fiscal Impact:
Approximately $30,000 a year savings

Recommendations

Following are staff recommendations for each of the major issues mentioned in this report:

Computer Strategic Plan
Staff recommends that Council approve the presented Computer Strategic Plan in concept. This means that staff is advised to continue with the Computer Strategic Plan as presented in the table without approving any additional unbudgeted expenditure.

Year 2000 Compliance
Staff recommends that Council approves the Computer Year 2000 plan as presented and requests staff to report the results and recommendations of the April 1, 1999 test to Council no later than May 1, 1999.

Updating Permitting Software
Staff recommends that Council direct staff to review Eden's permitting software as awarded in the 1998 bid. If staff determines that it is in the best interest of the City not to convert to the Eden product at this time then staff will submit a proposal to upgrade the current permitting software. This proposal will not exceed $25,000 and, if necessary, will be included in the FY 1999-00 budget.

Cox Internet Access
Staff recommends that Council direct staff to continue to negotiate with Cox Communications to provide Internet Access at a reduced rate.

Inclusion of Council into Virtual City Hall
Staff recommends that Council approve one of two options: 1) Purchase and configure the laptops as part of a mid year budget adjustment (Council has immediate access.) or 2) Include the laptops in the 1999-2000 (Council access by mid summer). Cost would not exceed $2,500 (including software licenses) per laptop. The number of Council Members that desire to take part in this program will determine the number of laptops purchased. The computers will be returned to the City's laptop pool at the end of the Council Member's term.

Staff recommends that Council consider the merits and benefits of such a program vs the costs of distributing laptops to Council Members.

Fiscal Impact of Recommendations

The specific impacts of each recommendation were discussed in the previous section. This section presents the funding mechanisms used in Information Services.

The Computer Strategic Plan allows staff to anticipate funding needs in advance. The goal is to provide an ongoing source of funds to replace outdated computers and software without large increases in the Information Services budget. The City has chosen to lease its major systems. The lease is structured to expire at the time the system needs to be upgraded. Since the lease payments are already budgeted there is no need to make large increases to the Information Services budget every few years to cover upgrades and replacements. The City currently has one capital lease with Union Bank of California with an outstanding principal balance of $400,935. This lease includes the financial system hardware and software and 44 upgraded personal computers. The capital lease carries an interest rate of 5.2% with payments of $58,780 due semiannually on January 1st and July 1st through January 1, 2002.

Development and Growth Issues

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

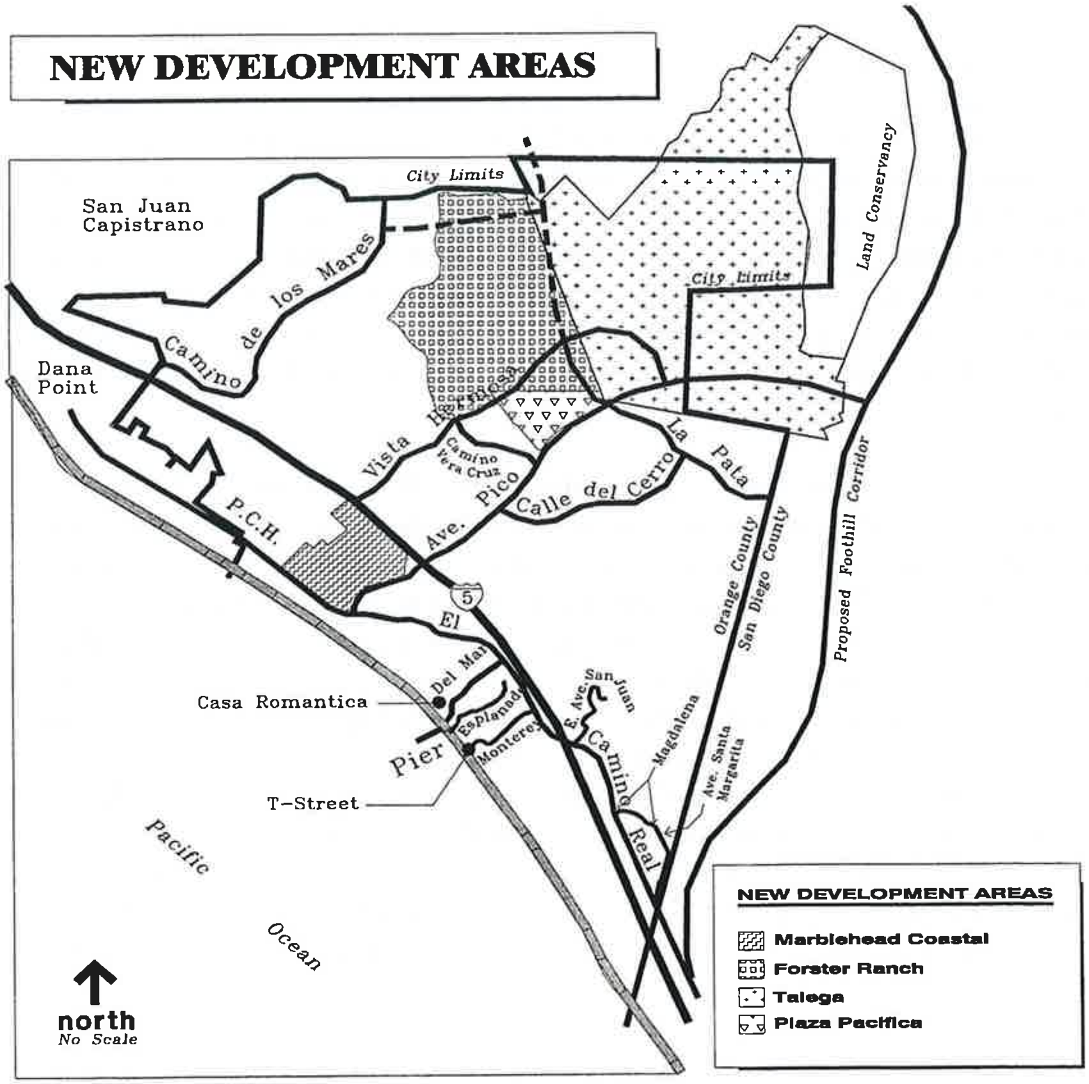
Summary
The City of San Clemente will "build out" in the next 10-12 years. There will be tremendous opportunities for the City, which are discussed in the Master Plan for City Facilities issue paper and included in the Long Term Financial Plan (LTFP). There will also be a substantial increase in cost of services and, in particular, the services of the Operations Department including Police; Fire; Beaches, Parks, and Recreation; and, to a lesser degree, Public Works and Community Development.

The following is a synopsis of the growth that is likely to occur and the types of land use growth that will occur (residential, commercial, etc.) Following the description of growth will be an analysis of the fiscal cost of that growth and an estimate of the new revenue that will be generated.

Background
A study of the map and chart labeled "New Development Areas" reveals some interesting information.

Residential acreage to be developed will increase by about 60%. However, dwelling units and population will increase by about 30%. This implies, and it is true, that new residential development, which will occur over the next 10 years, will be much less densely concentrated than existing development. This is partly a result of public policy that has evolved over several decades and partly a result of environmental concerns and issues related specifically to the lands being developed. Units will still tend to be clustered, but there will be more open space between clusters than has occurred in the past. There will be some additional service cost associated with this more spread out land use pattern. For instance, more linear miles of streets will be required; hence, more maintenance cost. Mitigating this fiscal cost will be the growth of evermore responsible homeowners' associations, which will likely maintain streets, lights, streetscapes, landscaping, and even private parks, recreational facilities and their programs.

Long Term Financial Plan



Project	Total Acres	Res. Acres	Dwellings	Population	Bus. Pk. Ac.	Com. Sq. Ft.
Marblehead Coastal	250.0	112.0	438	1,073	0.0	670,000
Forster Ranch	929.0	553.1	1,204	2,950	0.0	0
Plaza Pacifica	141.7	30.7	242	593	0.0	435,000
Talega (Estimated)	2235.3	754.3	4,400	10,780	100	270,000
Pending Project Total Pending Project % of City	3556.0 33%	1450.1 61%	6,284 31%	15,396 32%	100 36%	1,375,000 79.0%
CITY TOTALS	10944	2392	20,490	48,242	280	1,750,000

In the area of business park/commercial growth, business park acreage will increase by 35% and commercial retail square footage will increase by about 79%. From an economic standpoint, business park growth is independent of residential growth. The reason business park acreage will grow 35% is due to conscious and deliberate public policy which has required the development community to provide a certain amount of business park acreage as a part of their total development proposal package. And, a reality check has been given to the public policy in the form of market analysis, which indicates that there is market support for the required increase in business park acreage. The increase in business park acreage will satisfy the community policies concerning jobs/housing balance, and provide the many "quality of life" benefits associated with jobs/housing balance (commute times are reduced, spending dollars stay in the community, etc.)

Commercial retail square footage will increase by about 79%. How is it that retail square footage will increase so much more than residential growth? There are several reasons for this. Commercial retail growth generally lags behind residential growth. For decades residential growth in San Clemente has been the dominant type of growth and commercial retail growth has not kept pace in terms of retail sales that could be supported on a per unit basis of analysis. There has been very significant retail sales "leakage" from the City to surrounding commercial areas (i.e., Price Club, Mission Viejo Mall, etc.) Now, due again to public policy and market analysis, which has verified market support for retail development, the community will witness several years of commercial retail "catch-up" growth. Another unique factor which will contribute to this apparent spurt of commercial retail growth is the approval (and market support) of the Marblehead Coastal Commercial project. This project's very unique access to the I-5, view to the ocean, and location in South Orange County will allow for a very special type of retail development that will serve not only local residents but should draw visitors from up to 30 miles away.

The City is fortunate to be on the cusp of significant commercial retail and business park growth because projected residential growth will significantly increase the demand for services, over the next decade.

Analysis

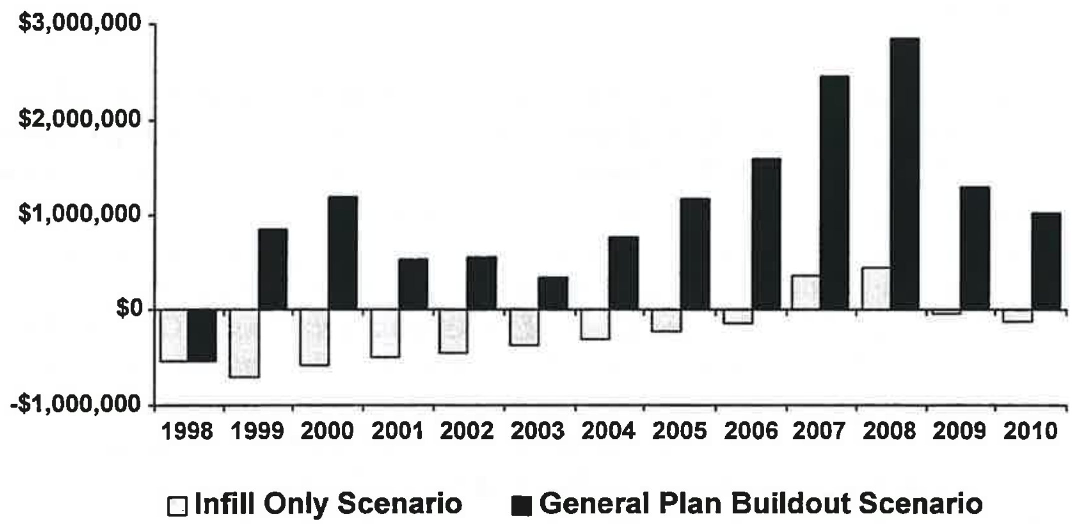
The following analysis section will be organized as follows:

- Fiscal Balance Projections General Plan Build Out.
- Revenue/Expense Projections - if the City stopped all growth in new areas.
- Revenue Growth Trends – Details.
- Expenses Growth Trends.
  Expense thresholds and increments for: parks, special recreation facilities, fire stations, police services, and public works.
- Administering Growth: Planning, Building, and Engineering Services.
  Core staff philosophy
  Contract services
- Technology/Space needs

Information will be presented in Table form with a short synopsis/analysis included on each Table.

Table 1 – Infill Only vs. General Plan Build Out Scenarios[1] This Table presents several interesting pieces of information. It shows the fiscal balance (revenues minus expenditures) of the City's General Fund for two development scenarios: 1) General Plan build out[2] and 2) Infill only build out.[3] First and most importantly, under the General Plan build-out scenario the City will maintain a positive fiscal balance every year during build out. Some of the important assumptions of the General Plan build out scenario will be discussed in more detail later in this analysis section.

Table 1
Fiscal Balance
Infill Only vs. General Plan Build Out Scenarios



The following are some of the most important assumptions about the General Plan build out scenario: 1) A significant amount of residential, commercial, office and industrial development will take place, as detailed in the map and accompanying table "New Development Areas; 2) A fourth City fire station is added in the year 2001; 3) One new special use recreational facility

[1] Please note that 1998 numbers are from the adopted 1998-99 Budget. Amounts indicated from 1999 to 2010 are projections generated by the City's fiscal impact model.
[2] The General Plan build out scenario includes existing development, new infill development, and the development detailed in the map and accompanying table "New Development Areas."
[3] The Infill Only build out scenario includes existing development plus approximately 1600 new multi- and single-family residential units, 700,000 square feet of new commercial development, 200,000 square feet of new office space, and 160 new hotel/motel rooms, and the remainder of the Rancho San Clemente Business Park will be developed (conservatively speaking, approximately 500,000 square feet).

(community center, gymnasium, pool complex) is added in the year 2003 and operated and maintained out of the General Fund[4] and;[5] and 4) General Plan build out occurs in the year 2008.

Note the decline in the positive relationship between revenue and expenses that occurs between 2008 and 2009. This is directly a result of making the assumption that build out has occurred in 2008 and several one-time fee permits will stop being collected. If build out occurs at some other point in time, then that is when this relationship between revenues and expenses (fiscal balance) would be affected, but the effect will still be in the same direction as indicated under this particular scenario.

It is appropriate at this point to mention a cautionary note regarding fiscal impact models. The value of using a fiscal impact model is to determine basic trends and order of magnitude of various development scenarios. The model is not, obviously, intended to be used as a prediction of what General Fund budgets will be like in actual dollars and cents five or ten years hence. What we are looking for is how various land use scenarios will affect general trends and the order of magnitude of those affects.

Table 1 also shows the general situation that San Clemente would be faced with if only infill development occurred through 2010. The following are some of the most important assumptions for the infill only build out scenario 1) The development shown on the map "New Development Areas" will, for the most part, not occur: 2) Limited new residential, commercial, office, hotel, and industrial development is built in already developed areas in the City (for specifics see footnote on previous page); 3) A fourth fire station is not built; 4) No new special use recreational facilities are operated or maintained out of the General Fund; and 5) General Plan build out occurs in the year 2008. In addition, it is also assumed that there are no new roads and the Vista Hermosa Interchange is not completed. The striking feature of this development scenario is that there is negative revenue to expenditure balance in almost every year from now until 2010. Even though expenses are much less than under the build out scenario, the City is deprived of increased property tax base related to brand new construction and the significant commercial retail growth that is projected under the General Plan, if build out does not occur. Therefore, the impact that we end up with is negative revenue to expense situation and planned facilities (which would complete our traffic circulation and recreation infrastructure) would not be completed.

Table 2 shows the total General Fund revenues and expenditures associated with General Plan build out.

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[4] In the infill-only scenario, for any new special use recreational facilities to be built, operated and maintained, funding would have to come from other sources than the General Fund.

[5] This facility would be operated and maintained out of the General Fund. The cost of operating and maintaining a second special use recreational facility has not been included in this analysis and if operated and maintained out of the City's General Fund would reduce the General Fund fiscal balance by 1.1 million dollars.

Table 2
General Plan Build Out Scenario
Total Revenues and Expenditures

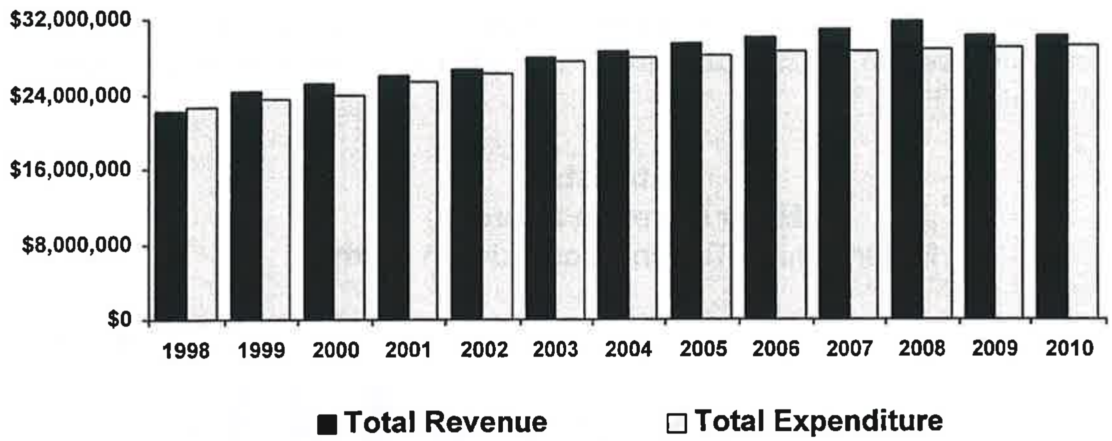
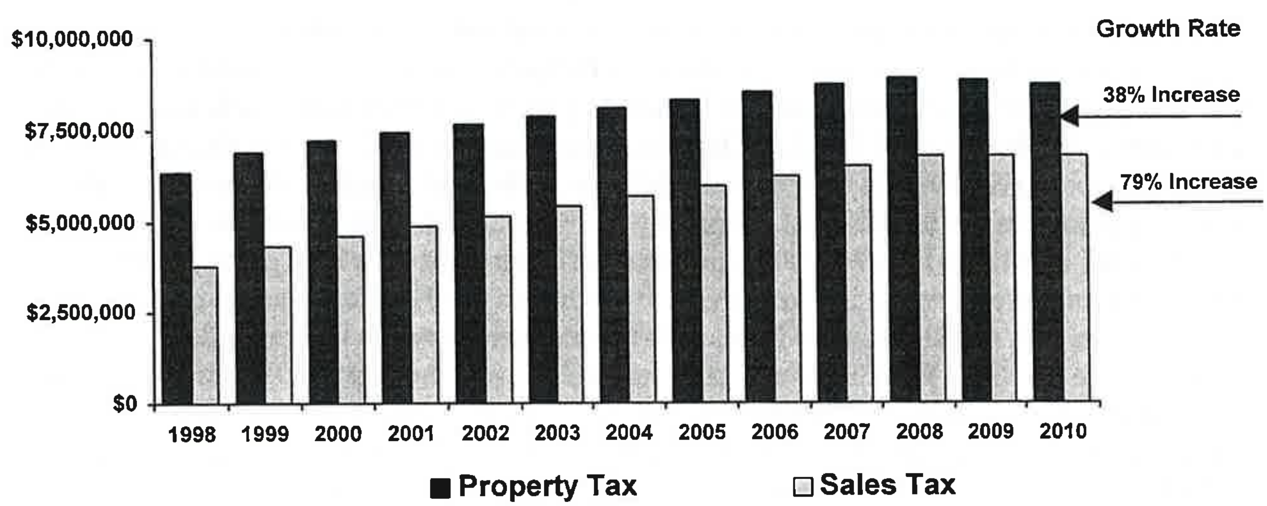


Table 3a and 3b – Major Revenue Sources, gives a more detailed look at revenue projected out to 2010. Taking a look at our top four revenue sources, revenue growth seems to correspond with growth in land use types that these revenue sources are most closely associated with. Property taxes are currently the City's number one revenue source (28% of General Fund revenues), and they increase approximately 38% between now and 2010. Property taxes are most closely related to residential growth. Retail sales tax is currently the second largest source of revenue for the City (16% of General Fund revenues) and will increase approximately 79% during this same period of time. This large increase corresponds to the anticipated significant increase in the amount of retail square footage, which will occur over the coming decade.

Table 3a
Major Revenue Sources
Property and Sales Tax



The next largest revenue source is the motor vehicle tax, which will increase a projected 39% through 2010. This corresponds closely to the anticipated residential population growth. Finally, construction permits will increase over the next one to two years and remain fairly high and constant for 7 or 8 years as construction activity remains constant. Then, in 2008, construction permit revenue will fall off significantly. As it relates to fiscal policy this significant event is more specifically discussed in the issue paper titled "Fiscal Policy" in the Executive Summary, also included in this LTFP.

Table 3b
Major Revenue Sources
Motor Vehicle Tax and Construction Permits

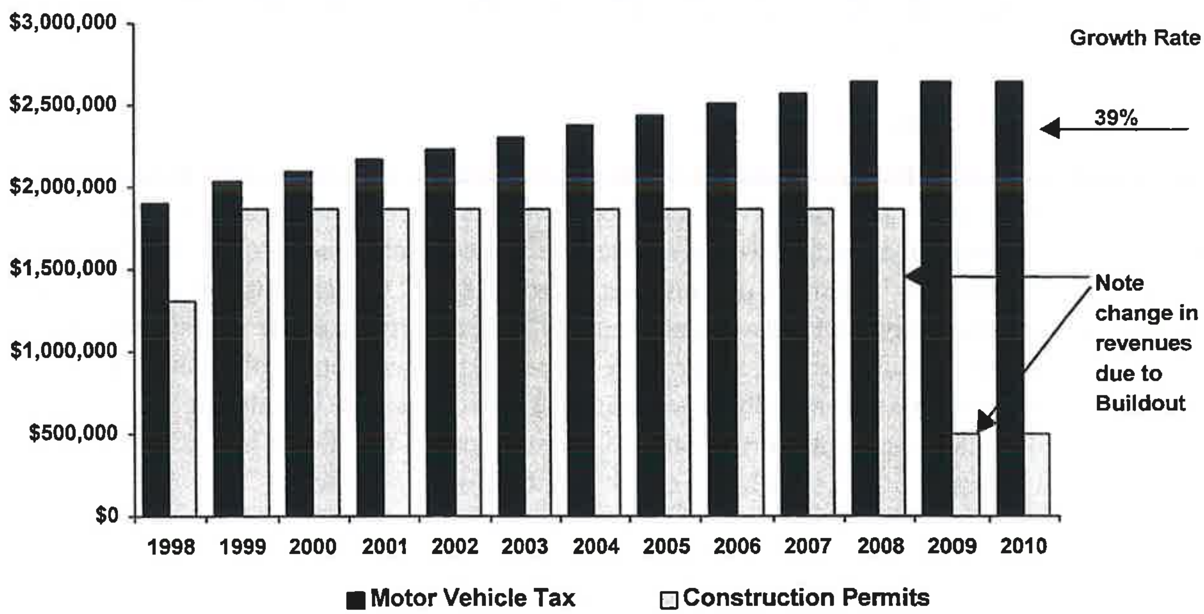
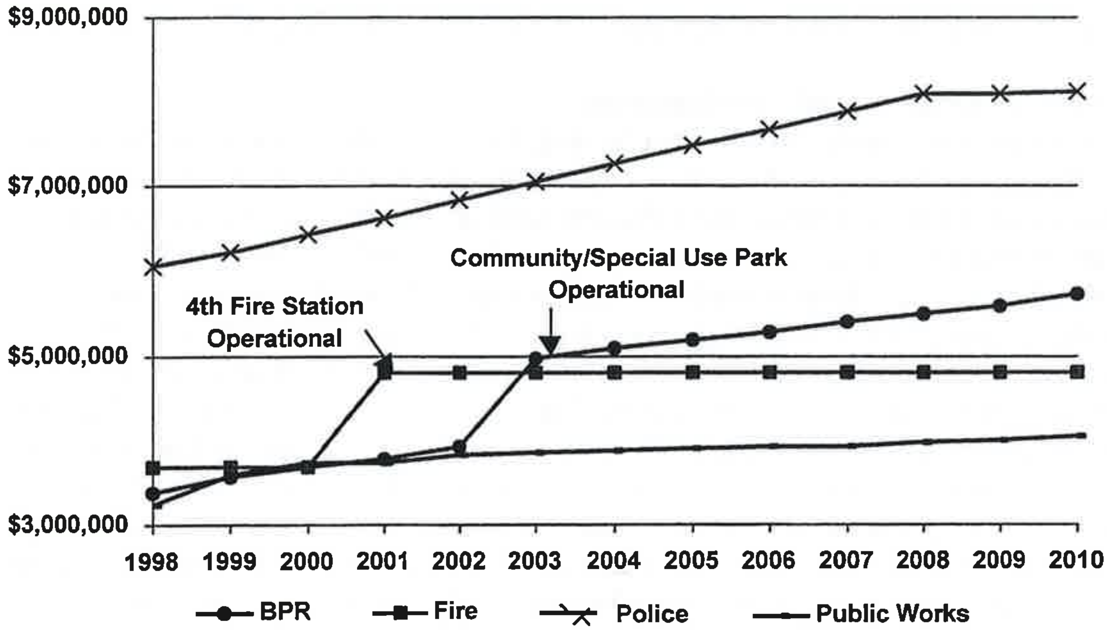


Table 4--Expenditure Summary, gives us a more detailed look at expenditure trends projected out to 2010. Looking at the growth in expenditures in Police Services, we note that there is a 34% increase. A significant factor to consider is that the growth in Police Services is fairly steady during the entire build out of the City. The primary assumption used in projecting increases in Police Service expenditures is that there would be an additional 13 patrol shifts/officers that would be phased in during build out. Currently there are 27 patrol shifts/officers plus additional departmental cost related to sworn and non-sworn officers. Next, we look at the growth in Fire Service expenditure. Growth in Fire Service expenditures is 30%. However, a very important feature to notice is the $1.1 million increase in expenditures between the years 2000 and 2001. Unlike Police Services, Fire Services must be phased in large increments. Due to the operations requirement of a functional fire station, a fire station expense is an all or nothing proposition. In this case, it is assumed that a new operating station is built and manned, commencing operations in 2002; hence, the $1.1 million increase in expenditures during that year.

Table 4
Expenditure Summary
Police, Fire, BPR, and Public Works



Looking a Beaches, Parks and Recreations we note a total increase of 70%. Again, it is important to notice any large thresholds of expenditure increases, which occur. In the case of Beaches, Parks, and Recreation note that between 2002 and 2003 operating expenses go up approximately $1million. This is due to the assumption that a community center/gymnasium/pool complex is completed and operations begin in the year 2003. In the case of both Fire and Recreation Services it will be important to understand and carefully plan for these large step-up increases in operational expenditures as facilities are phased in. The rest of the increases in Beaches, Parks, and Recreations are explained by a significant increase in the number of parks that are projected to be built over the coming years. The following is a partial list of parks and their corresponding operating and maintenance expense estimates. This list is illustrative only and staff fully expects that future policy decisions will alter in some ways which parks get built, how big they will be and what level of maintenance and operation will be associated with those facilities.

OPERATIONS AND MAINTENANCE

Steed Park Youth Fields - 8 acres	$ 64,800
Talega Neighborhood Park #1 - 8 acres	$ 64,800
Talega Neighborhood Park #2 - 8 acres	$ 64,800
Talega Neighborhood Park #3 - 8 acres	$ 64,800
Community Center/Gym/Pool	$1,100,000

Community Park - 15 acres	$ 121,500
Marblehead Bluff Park - 6.6 acres	$ 53,460
Marblehead Sports Park - 7 acres	$ 56,700
New Senior Center	$ 475,000
Total cost for hypothetical Operations & Maintenance list	$ 2,258,556

Administration of Growth and Development

Over the next decade, the actual growth of the planning, building and engineering operations will be roughly 16%. Given the magnitude of the growth that is projected, the relatively modest increase could possibly give concern to those that are worried about the City's ability to manage growth and development over the coming significant decade. An understanding of the philosophy that the City has adopted in order to manage expected growth and development should allay these worries. First, the City has developed a philosophy that a core staff of motivated and committed employees should be maintained throughout the peaks and valleys of the development cycle. During slack development times, the core staff is utilized to update and modernize future planning documents and procedures. During peak times of the business cycle, staff analyzes and administers growth per City Council adopted policies until core staff capacity is fully utilized. At that point and time, the core staff becomes increasingly involved in contract management, as outside consultants are used to extend City capacity for through and professional review of development proposals. As an illustration of how this works, during an 18 months period of time, ending in December of 1998, consultant contracts that were basically an extension of the core planning staff, equaled approximately $700,000. This is approximately 50% of the total Planning staff budget for that same period of time. As the development cycle steadily moves from planning and entitlement stages into the actual construction stages, more and more contract help will be brought on to assist in the engineering and building departments.

One need that has been identified as necessary in order to adequately administer projected growth and development, is the need for updated and improved technology and provision of adequate and functional office space. Though core staff increase will not be significant over the next 10 years, it has been found that the growth in storage areas for plans of all sorts, (soils reports, architectural drawings, landscape plans, etc.) needs to be considered, as well as office space needs for contract help that will be an extension of staff. Experience has shown that coordination and effective use of professional contract help is greatly enhanced when onsite office space can be provided for contract employees. By maintaining the core staff philosophy and providing for the technical and space needs requirements associated with that core staff philosophy, growth and development can be professionally administered, according to adopted City policy.

Conclusions/Recommendations

The above analysis indicates that the City should remain in a positive 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, if major transportation infrastructure is not completed, then the City could end up in a perpetual negative revenue to expense crisis, which would eventually require major budget and service level changes.

Recommendations that follow from this analysis would include:

1) **Make sure that the overall balance of land uses that is anticipated in the General Plan is implemented.** The amount of 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 along with its quality of life. Different types of land use have different fiscal impacts upon the City. Generally speaking, commercial land uses (which include commercial retail uses and hotel/motel development) tend to have a positive fiscal impact upon the City and residential and business park land uses tend to have a neutral or negative fiscal impact. It is important, therefore, for the General Plan build out scenario to have a balance of different land uses that will result in a positive fiscal balance. Achieving this balance depends upon a number of factors, including the types of land use designations included in the General Plan and Specific Plans, an understanding of the market for commercial development within the City, and working with developers, the local business community, and residents to achieve commercial development.

   As discussed previously, the City's approved General Plan build out scenario does result in a positive fiscal balance. This scenario includes significant new commercial development. General Plan and Specific Plan amendments which reduce the amount of land available for commercial development or increase the amount of land available for business park or residential development must be considered carefully because they have the potential to negatively impact the City's fiscal balance at build out.

   Having land designated in the City's General Plan for commercial development does not guarantee that the land will be commercially developed. Whether land designated as commercial is developed as such depends upon several factors, including how "market realistic" our build out scenario is. The total amount of commercial development included in the City's General Plan build out scenario is based on two market studies conducted to determine the amount and type of commercial development feasible to achieve in San Clemente: 1) A City-wide market study completed in 1990 in conjunction with the comprehensive update of the City's General Plan; and 2) A project-specific market study completed in 1998 in conjunction with the Marblehead Coastal Specific Plan.

The purpose of the City-wide market study was to determine a "market realistic" build out scenario to be included in the City's General Plan. The project-specific market study was completed to determine the combined market for specific types of commercial development on the Marblehead Coastal and Plaza Pacifica sites. Achieving an appropriate and realistic balance of commercial and other types of development at build out will require that the City remain informed regarding the market for commercial development. This will require that the City periodically update its City-wide market study, as we are doing this year, as well as require market studies for large development agreements, General Plan and Specific Plan amendments, commercial, business park, and residential projects, as was done with the Marblehead Coastal project.

Achieving commercial development also requires that the City work with developers, the local business community, and residents to achieve a proper balance and quality of commercial development:

- Residential and business park development can be relatively profitable and less risky than commercial development. This can lead developers to put residential and business park development ahead of commercial development and, sometimes, to avoid commercial development entirely. This means that the City must work with developers to ensure that they provide a proper balance of commercial and residential and business park development.

- Because commercial markets are constantly changing, the City must work with the local business community and developers to be creative enough to capture innovative commercial markets and to retain the vitality of existing commercial areas.

- Because commercial development can have significant impacts upon the City's quality of life and image, the City must work with developers to assure that proposed commercial developments are of a high quality, reflect the community's vision for itself, and address residents' concerns. With careful attention to quality and sensitivity to residents' needs, future proposals for commercial development can avoid being unacceptable to the larger community and delaying the achievement of desirable, high quality commercial development.

2) **Proceed with caution.** Along with being conscious of the fiscal balance that will be achieved once the City is built out, we need to be conscious of the fiscal balance that the City will experience on its 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. As noted above, commercial developments tend to have positive fiscal impacts and residential and business park developments tend to have neutral or negative fiscal impacts. If commercial retail/hotel development occurs along with or prior to residential and business park development, the temporary fiscal impacts on the City's General Fund are more likely to be

neutral to positive. In contrast, if significant residential and/or business park development occurs prior to commercial retail development, the City's current fiscal balance can become temporarily quite negative. Because of this, the phasing of commercial, business park and residential developments is important to the City's fiscal health.

The City Council has established a process for reviewing the temporary fiscal impacts of commercial, business park, and residential development. When the City Council adopted the City's fiscal impact model, it also adopted policies regarding the use of the model. Fiscal impact analyses are required to be provided to the City Council and Planning Commission when these bodies consider large development projects. In addition, and perhaps most importantly, the City Council is to receive a yearly update on the fiscal impacts of the cumulative development, which has been, approved each fiscal year. Typically, this cumulative analysis occurs with updates in the City's fiscal impact model.

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

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.

Summary

The City is in position to receive significant resources for capital improvements over the coming ten years. The source of the 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: Plaza Pacifica, Laing-Forster Ranch, Talega, Marblehead Coastal, and Monarch. Development agreements for the five projects mentioned above specified: a) The amount of money that is to be paid by those developers to the City; b) The specific use for the money that is being paid by each individual developer; and c) When payments are to be provided to the City for each of the uses of money specified in the Development Agreement. For a more detailed summary of resources that will be gained, please see Table I - Development Fee Schedule. A summary of additional City assets, which potentially could be sold in order to meet community needs, is contained in Table II - City Assets. Table III lists the potential Needs of the City. Table IV – City Build Out – list the statistic connected with the ultimate build-out of the City.

Upon reviewing Tables I, II, and III, a number of interesting policy issues come to mind. For instance:

1. How much will operation and maintenance (O&M) cost the City for each of the different facilities that can be funded with resources listed in Tables I and II?

2. How will our economic tax base increase as a result of the growth that projected at build-out projected in Table IV?

3. What sites will be available for which public facilities at what point in time?

4. 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?

5. What type of public process should the Council use to help determine priorities and policy?

To answer the above questions, staff recommends that a Master Plan for City Facilities be developed.

Background

Four Tables are included in this report. Table I, The City Resources derived from the development community pursuant to development agreements. Table II, City Assets which may be available for sale to help finance better/more needed City facilities. Table III, a preliminary listing of the additional Capital Needs of the City over the coming ten years (Note: The Needs chart does not include already programmed Capital Improvement program utilities, such as roads, sewer, water, storm drains.) Table IV, City Build Out statistics.

In order to answer the questions that were stated in the summary above, the following basic data should be compiled or generated:

1. Economic Analysis – refined projections of economic growth in terms of tax base sales tax and jobs should be made, now all major areas of the City have received some type of planning approval. Since the General Plan update of 1992, several important land use issues have been clarified. The location and size of the ranch area commercial center has been determined. Total acreage of commercial business park is now known, as is the total ultimate population of the community. Also, the size and nature of the Marblehead Coastal project is now known. All this information will greatly add to the economic and tax base forecast models that have been used to help determine policy.

2. O&M for facilities - Cost analysis of the facilities proposed as needed (Table II) should be refined in order to complete this analysis. The recent organizational audit information should be used as input into this analysis.

3. Fiscal Impact - Using updated economic analysis, and refined O&M analysis, the fiscal impact model should be used to develop scenarios for different types of capital improvement construction plans and build-out scenarios.

4. Siting options for the various facilities should be made. Care should be taken to have both private property and public property options analyzed if any private property options are considered. This would be important in order to not put the City in a negotiating disadvantage if property that is privately owned became desirable from a public planning standpoint, for certain public facilities. In the case where only publicly owned properties are being considered for a certain facility then it would not be so important to have both public and private options discussed.

5. Financial Strategies - Preliminary financial strategies and options should be explored involving use of funds, detailed in Table I, and sale of assets, detailed in Table II. The purpose of this part of the analysis will be to highlight options and opportunities.

To develop the sort of master plan for capital facilities being discussed here, a number of disciplines must be consulted. Land use planning, engineering, finance, economics, operational analysis, appraisers should all have a part in the analysis. In addition, once the fundamental database is assembled community input should be solicited in order to help the Council decide upon priorities for public improvement construction.

Recommendation

Direct staff to solicit a request for proposal from qualified teams (or a single senior leader/manager) that can assemble necessary professional disciplines to analyze and make recommendations concerning the questions posed in this report. Staff further recommends that the master plan for capital facilities be approached in a two-phased process. The first phase is strictly an analytic phase which develops base data and information which will be used to address the questions posed earlier in this report. Phase two will be a community input process, which may be facilitated by a separate project team. The purpose of this effort will be to solicit community input once base data is available. Ultimately, the process will result in a recommendation to Council regarding priorities.

Cost and Time: The project needs further definition of scope, therefore, only a range of cost can be estimated. Staff expects this project to cost $60,000 to $100,000. The first phase will take 90 to 180 days. Funds requested to pay for the proposed study are available in the public facilities construction fund. Developer fees are the source of the revenue in this fund.

Additional detailed planning and design work associated with each individual project would, of course, be necessary. This additional work would be handled primarily through the City's formal C.I.P. process.

Fiscal Impact of Recommendation

Significant future O&M expenditures will be generated as a result of implementing capital improvements made possible by the resources that will flow to the City over the coming ten years. A main goal of the master plan for City facilities will be to analyze the affordability of certain capital improvement projects, given competing priorities.

Table I

Source	Amount	Use	Timing	Comments
Plaza Pacifica	$650,000	Unspecified		$162,500 drawn when BP #61 issued: (Receivable October 2, 1998)
				$162,500 drawn when BP #81 received: (Receivable April 2, 1999)
				$162,500 drawn when BP #101 issued (Receivable October 2, 1999)
				$162,500 drawn when BP #121 issued (Receivable April 2, 2000)
				As of 8/27/98 92 BP issued 49 in plan check
	$550,000	Downtown commercial revitalization	Fall 1999 est.	Recordation of first final map or BP; Zone change effective only after WalMart foundation poured.
Forster Ranch	$1,500,000	Parks	1999-2003 est.	Per unit basis ($1446.50/unit)
			April 2000 - 2002	Final map for PA 4 ($603,190.50)
	$500,000	Parks Maintenance		
	$1,700,000	Affordable Housing	1999-2003 est.	Per unit basis (1% of construction value at time of BP.)
Forster Land Dedication	340 acres	Public Use	1999	
			2002	Roads
			2002	Pads
			2004	Use restriction off (last CO and release of all surety)
Talega	$1.5 M	Recreation	1998	10 days after effective date
	$1.5 M	Fire	When needed	CPI adjusted
	$3.0 M	Affordable	1999-2009	Per unit (1% of construction value)
	$4.5 M	Unspecified	2000-2009	Per unit subject to SPA approval
	$15.5 M	Parks (gross)	2000 - 2009	Final maps $12M net after neighborhood parks built.
		Parks		
Marblehead Coastal	$1 M	Downtown	2001 est.	1st Grading Permits
	$1 M	Seniors	2001est.	1st Grading Permits
	$.25 M	Library	2001est.	1st Grading Permits
	$1 M	Sports Park	2002 est.	When Vista Hermosa Interchange complete

Table I

Source	Amount	Use	Timing	Comments
	$1 M 1 ac. $1.5 M	Bluff Park Bluff Commercial North Beach	2001 est. 2002 est. 2001 - 2005 est.	1st Grading Permit Per unit at close of escrow.
Monarch	$.26 M	Commercial Revitalization	1999	Following approvals of tentative map and zone changes
Public Facilities Fee	$6 M	Public Safety		Per unit fee: $3M Public Safety, $1.5M Civic Center, $3.5M Parking Impact.

Table II

ASSETS

Property / Fund Balances	Value	Available When	Comments
Property			
910 Calle Negocio	$3M approx.	2003	When bond restriction is released.
100 Presidio	$3M approx.	2004	Not available for sale until new site is developed.
La Pata Site	$.4M	1999	Public safety use only.
Marblehead Coastal Com.	$1 M	2003	Grading permit for Marblehead Coastal.
Station 59	$.7M	2003	Public safety use only: new station constructed.
Forster - 30 acres	$15M	2002	When roads, utilities, grading completed.

Fund Balances:			
Public Facilities Fund	$3.5M	1999	
Park Acquisition and Develop. Fund	$2.5M		

Table III

NEEDS

Facility	Capital Expense	Annual Operational Expense	When?	Comments
Civic Center	N/A	$ equivalent to current expenses	2005	Acreage cost depends on site location and design
Fire Stations:				
#60	$1.5M+/-	$1,000,000	TBA	Unfunded.
#59	$1.5M +/-	$1,000,000	TBA	Sale of LaPata and Negocio.
Talega Fire Station	$1.5M+/-	$1,000,000 (1)	When required by City and OCFA	Funded by Talega DA.
Senior Center	$XXM	$475,000 (1)	After 2002	Partial funding through M.C. DA.
Sports Parks:				
8 ac at Steed	$1.5 M	$64,800 (2)	1999	Talega DA.
7 ac at M.C.	$1.M	$56,700 (2)	2002	After competion of VHI.
15 ac at VHI.	$3.M	$ 121,500 (2)	2003	Upon completion of VHI and utilities grading and utilities cost unfunded at this time
30 ac.				Construction funding through Talega DA.
Special Facilities Uses:				
10 ac.	$5M	$1,100,000 (1)	TBA	Site grading and utilties unfunded, construction funding through Talega DA.
New Neighborhood Parks:				
Forster	$1M	$64,800 (2)	TBA	Partial funding through Monarch and Laing Forster D.A.

Facility	Capital Expense	Annual Operational Expense	When?	Comments
South City	$1M	$58,000 (2)	TBA	None identified.
M.C. Bluff	$1M	$53,460 (2)	2002	MC D.A.
Talega 1	$1M	$64,800 (2)	TBA	Talega D.A.
Talega 2	$1M	$64,800 (2)	TBA	Talega D.A.
Talega 3	$1M	$64,800 (2)	TBA	Talega D.A.

(1) New Operating Expense
(2) New Operating Expense

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.

Summary

Over the past several years, the Water Fund Operating Budget has operated in a deficit spending mode where expenditures have significantly exceeded revenues. For the first few years, excess reserves were used to sustain a balanced budget. Since Fiscal Year 1996-97 the Water Fund Operating Budget has begun the year with a negative cash balance. 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:

1. Reduction of personnel (2 positions = 16% of water maintenance workforce)
2. Reduction of operating costs ($270,000 = 3.5% of operating expense budget)
3. Change in operating procedures by going to a pooled maintenance concept
4. A water meter evaluation and replacement program.

To date, over four thousand water meters have been replaced, resulting in a recovery of five percent of system water losses previously unaccounted for. Additional meter replacements are planned for the upcoming years. Based on the increased revenue generated by the meter replacement program, 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. Due to reduced water consumption during the exceptionally wet winter and spring months, water sales were down approximately 780 acre-feet (approximately 8.5%) from budget projections. The loss in sales resulted in a loss of revenue of approximately $575,000. Further compounding the situation was a shift in the average cost of water brought about by the reduced sales. Due to the existing structure of the City's fixed fee and consumption fee distribution, the average cost of water per billing unit shifts downward with a reduction of sales. The reduction resulted in a downward shift of $0.14 per billing unit. This shift impacted the entire 8,150 acre-feet of water sold, resulting in a negative impact of approximately $500,000.

As a result of the projected negative cash balance for Fiscal Year 1998-99 of approximately $500,000 it is necessary to consider a rate increase for Fiscal Year 1999-00. Staff has reviewed two options for resolving the deficit situation.

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.

Both scenarios have the effect of balancing the budget and coupled with the meter replacement program, provide a stable, positive income to the Water Fund for several years, unless significant changes to the costs of personnel, purchased water, electricity and/or chemicals are experienced.

Background

Existing Billing Structure

The current water service fee charges were adopted by Ordinance Number 1148, on June 1, 1994. The current water service fee charges consist of a fixed fee, which varies with the size of water meter serving the property, and a three tiered consumption fee. The tiered fees remain constant for all classes of customers, while the amount of water provided within each tier varies. The only exception to the multi-tiered consumption fee is for commercial class customers. Commercial class customers pay, in addition to the fixed fee, a single consumption fee of $1.69 per billing unit of water. In all cases, a billing unit of water refers to 100 cubic feet of water (748 gallons).

Prior to the 1994 change to a tiered rate structure, the City used a single consumption fee of $1.68 per billing unit (adopted in 1993) with a minimum bill of 10 billing units per bi-monthly billing period. The change to the tiered structure was brought about by the need to encourage conservation and promote equity between the user classes. The tiered structure is also one of the recommendations of the State adopted *Best Management Practices* for water utilities.

Proposed Rate Increase

As previously stated, staff has investigated two separate scenarios for the needed rate increase as follows:

> *Single Year – 7.5% Increase*
>
> This proposal provides for a balanced budget by the end of Fiscal Year 1999-00 with revenues exceeding expenses by approximately $600,000. Requirements for an 8% reserve fund will not be met until the following Fiscal Year.
>
> Tables on the following pages show the effect of the proposed increase on the rate structure, the average water bill for each class of user and the current and proposed rank of the City's average water bill compared to other South Orange County Cities and Water Districts. The comparison is based on 20 billing units of use during a summer month.

Rate Change Comparison
7.5% Increase – July 1, 1999

Consumption Fee

	Existing	Proposed	Change
Tier 1	$1.38	$1.48	$0.10
Tier 2	$2.07	$2.23	$0.16
Tier 3	3.11	$3.34	$0.23

Fixed Fee

5/8 inch	$6.16	$6.62	$0.46
¾ inch	$6.16	$6.62	$0.46
1 inch Meter	$6.16	$6.62	$0.46
1 ½ inch	$7.94	$8.54	$0.60
2 inch Meter	$12.95	$13.92	$0.97
2 ½ inch	$21.98	$23.63	$1.65
3 inch Meter	$48.44	$52.07	$3.63
4 inch Meter	$61.60	$66.22	$4.62
5 inch Meter	$79.21	$85.15	$5.94
6 inch Meter	$92.40	$99.33	$6.93

Average Monthly, Summer Water Bill Comparison
7.5% Increase – July 1, 1999

Customer Classification	Existing	Proposed	Change
Single Family Residence (0-7,000 sq. ft.) 1/	$28.24	$30.36	$2.12
Single Family Residence (7,000 to 9,000 sq. ft.) 2/	$42.04	$45.19	$3.15
Single Family Residence (9,000 to 14,000 sq. ft.) 3/	$48.25	$51.87	$3.62
Single Family Residence (14,000 sq. ft. and larger) 4/	$70.81	$76.12	$5.31
Multi-Family Residence 5/	$31.00	$33.33	$2.33
Commercial 6/	$82.30	$88.47	$6.17
Irrigation 7/	$349.47	$375.68	$26.21

Notes:

1/ 15 Billing Units – 1 inch Meter
2/ 23 Billing Units – 1 inch Meter
3/ 27 Billing Units – 1 inch Meter
4/ 40 Billing Units – 1 inch Meter – 10,000 sq. ft. Irrigated
5/ 18 Billing Units – 1 inch Meter – 3 Dwelling Units
6/ 44 Billing Units – 1 ½ inch Meter
7/ 174 Billing Units – 2 inch Meter – 43,560 sq. ft. Irrigated

Comparative Water Rates
7.5% Increase
(Based on 20 Billing Units per Month)

Rank	Agency	Monthly Rate
1	Laguna Hill (MNMWD) 1/	$20.00
2	City of San Juan Capistrano (CVWD) 2/	$30.75
3	El Toro Water District	$37.30
4	Santa Margarita Water District	$38.26
5	**City of San Clemente (Existing Rates)**	**$38.59**
	City of San Clemente (Proposed 7.5% Incr.)	**$41.48**
6	Capistrano Beach Water District	$42.00
7	City of Newport Beach	$43.50
8	City of Dana Point	$48.00
9	Laguna Beach Water District	$49.75

Average Monthly Rate **$38.68**
Mean = City of San Clemente

Information based on 1998 Water Rate Survey Prepared by MWDOC 3/

1/ Moulton Niguel Municipal Water District
2/ Capistrano Valley Water District
3/ Municipal Water District of Orange County

As can be seen in the forgoing tables, the proposed 7.5% rate increase will increase 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. These increases will increase the average monthly, summer water bill from $2.12 per month for the single family (0 – 7,000 sf) customer and $26.21 per month for an irrigation customer irrigating one acre of landscaping. The rank of the City, in comparison to the other Cities, remains unchanged at fifth.

Two-Year – 5% + 3% Increases
This proposal provides for a continuing deficit of approximately $220,000 at the end of Fiscal Year 1999-00 and a positive ending cash balance of approximately $230,000 at the end of Fiscal Year 2000-01. The ending cash balance in Fiscal Year 2000-01 also meets the reserve requirement of $213,000.

As with the previous scenario, the following tables show the effect of the increases for each year of the two-year increase.

Rate Change Comparison
5% Increase July 1, 1999 & 3% Increase July 1,2000

Consumption Fee

	Existing	Prop. 1999	Change	Prop. 2000	Change
Tier 1	$1.38	$1.45	$0.07	$1.49	$0.11
Tier 2	$2.07	$2.17	$0.10	$2.24	$0.17
Tier 3	$3.11	$3.27	$0.16	3.36	$0.25

Fixed Fee

5/8 inch Meter	$6.16	$6.47	$0.31	$6.66	$0.50
¾ inch Meter	$6.16	$6.47	$0.31	$6.66	$0.50
1 inch Meter	$6.16	$6.47	$0.31	$6.66	$0.50
1 ½ inch Meter	$7.94	$8.34	$0.40	$8.59	$0.65
2 inch Meter	$12.95	$13.60	$0.65	$14.01	$1.06
2 1/1 inch Meter	$21.98	$23.08	$1.10	$23.77	$1.79
3 inch Meter	$48.44	$50.86	$2.42	$52.39	$3.95
4 inch Meter	$61.60	$64.68	$3.08	$66.62	$5.02
5 inch Meter	$79.21	$83.17	$3.96	$85.67	$6.46
6 inch Meter	$92.40	$97.02	$4.62	$99.93	$7.53

Average Monthly Summer Water Bill Comparison
5% Increase July 1, 1999 & 3% Increase July 1, 2000

Customer Classification	Existing	Proposed 1999	Change	Proposed 2000	Change
Single Family Residence (0-7,000 sq. ft.) 1/	$28.24	$29.65	$1.41	$30.54	2.30
Single Family Residence (7,000 to 9,000 sq. ft.) 2/	$42.04	$44.14	$2.10	$45.47	3.43
Single Family Residence (9,000 to 14,000 sq. ft.) 3/	$48.25	$50.66	$2.41	$52.18	$3.93
Single Family Residence (14,000 sq. ft. and larger) 4/	$70.81	$74.35	$3.54	$76.58	$5.77
Multi-Family Residence 5/	$31.00	$32.55	$1.55	$33.53	$2.53
Commercial 6/	$82.30	$86.42	$4.12	$89.01	$6.71
Irrigation 7/	$349.47	$366.94	$17.47	$377.95	$28.48

Notes:

1/ 15 Billing Units – 1 inch Meter
2/ 23 Billing Units – 1 inch Meter
3/ 27 Billing Units – 1 inch Meter
4/ 40 Billing Units – 1 inch Meter – 10,000 sq. ft. Irrigated
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Comparative Water Rates
5% + 3% Increases
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7	City of Newport Beach	$43.50
8	City of Dana Point	$48.00
9	Laguna Beach Water District	$49.75

Average Monthly Rate **$38.68**
Mean = City of San Clemente

Information based on 1998 Water Rate Survey Prepared by MWDOC

The two-year scenario results in a slightly higher overall cost to the consumer; however, it does spread the impact over a two-year period. This scenario results in an increase of the fixed fee from a range of $0.50 to $7.53 per month depending on meter size, and increase of the consumption fee over a range of $0.11 to $0.25 per billing unit. The first year impact on the average monthly, summer bill range from $1.41 per month for a single family (0-7,000 SF) customer to $17.47 a month for a one acre irrigation customer. Second year impacts will add an additional $0.89 and $11.01 to the same classifications for a total two year increase of $2.30 to $28.48 per month. As in the previous scenario, the ranking of the City's average bill in comparison to other South Orange County Cities remains at fifth.

Future Increase Considerations
While both of the foregoing scenarios meet the objective of providing fiscal stability for the Operating Budget, the unknown factors of wholesale water costs, personnel costs, electrical energy and chemical cost increases could easily outpace the increases in revenue generated by growth and the continuation of the meter replacement program. The two major factors in the Operating Expense Budget are the cost of wholesale water and personnel costs. Based on the 1998-99 projected budget, wholesale water represents 62% of the total Water Fund Expenses and personnel costs represents 11%. Based on this information, it is apparent that a slight shift in either would have a serious effect on end-of-year projections. By example, an unanticipated 1% increase in purchased water cost would have an approximate 0.6% effect on the projected end of year balance, or the equivalent of $55,000. 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

Staff has presented both scenarios of a single year increase of 7.5% and a two-year increase resulting in a compound increase of 8.1% for the Council's consideration. It is staff's recommendation that the City Council favorably consider the single year rate increase. 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. The shift in revenues, based on decreased water sales indicates there may be some imbalance in the current structure. Correction of the distribution, if needed, would provide greater fiscal stability of the Water Fund, regardless of sales.

Inasmuch as all projections are based on a full year of increased revenue, any increase in rates must be effective for the July 1999 billing period. Given that adopting an ordinance to adjust the rates takes a minimum of two months, it will be necessary to introduce the ordinance not later than April 21, 1999. This Schedule will allow sufficient time to make a smooth transition to the new rate and to re-program the computer for the first billing period after the start of the new Fiscal Year.

Fiscal Impact of Recommendation

As both scenarios are based on the full recovery of the Water Fund Operating Budget, there is no significant fiscal impact on the City. However, the rate increases proposed will have an impact on the City's rate payers, ranging from 7.5% to 8.1% over their current costs for water service. Revision of the fixed/consumption cost distribution will have a net zero impact on the City, but may have a significant impact on the ratepayers of certain user classes.

Deposit Account Analysis

Objective

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

Summary

The Accounting Division within the City's Finance & Administrative Services Department selects accounts or operational divisions to be analyzed as part of the City Council's Vital Few Priorities Internal Audit Program. These functions or divisions to be analyzed for proper accounting, financial reporting, and efficiency are selected on an annual basis. In an effort to ensure accurate accounting procedures at fiscal year ending June 30, 1998, a summary review was performed of all accounts held on deposit in the City's General Fund. The deposit accounts contain receipts from 1986 through 1999. The deposit account analyses have been chosen as an internal audit and Long Term Financial Plan issue paper for the 1998-99 fiscal year.

Background

The City of San Clemente collects deposits from development companies and individuals for services which will be provided in the future. These services include, but are not limited to, improvement plan checks, geological reviews, review of general plan amendments, and specific plan amendments. Additionally, surety deposits are sometimes required for a development project until the project is complete. Deposits collected are much like paying a bill in advance. Monies collected are recorded in the City's accounting records as a liability. This liability constitutes an obligation of the City to repay these monies in the event that services are not provided to the payee.

Deposits are received by either the City's Planning or Engineering Divisions, depending upon the type of service requested. Both divisions track individual deposits (receipts) by means of automated spreadsheets. City staff is required to document hours worked on related projects on a bi-weekly basis. This staff time is subtracted from the initial receipt (deposit). Because the City has performed the requested service, the City no longer has an obligation to pay. On a monthly basis, a memo is forwarded to the Accounting Division requesting that funds be transferred from the liability account to permit and fee revenues. These revenues include final tract filing fees, improvement plan check fees, grading plan check fees, construction fees, engineering and geotechnical reimbursements, street encroachment permits, etc. The Accounting Division completes this transaction on a monthly basis.

In addition to staff time charged to the deposits, outside vendors are paid for services provided to the same companies or individuals. Disbursement checks issued to vendors are charged directly against the deposits, thus reducing the City's obligation.

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). The results of the research is outlined below in the recommendation section.

Although much progress has been made toward automating the collection, tracking and reconciling of deposit accounts, areas for improvement still exist. The Finance & Administrative Services Department has coordinated a project tracking committee comprised of individuals from each department involved in deposit and capital tracking. The committee has compiled a summary of needs associated with deposit tracking and investigated computer programs available to automate this process. In addition, this committee will implement a solution which will increase controls and accountability for deposit accounts.

Recommendations

It is recommended that:

1. Deposit accounts be handled as summarized in the table below:

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

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 to reduce their assessments. These amounts will be refunded to the property owners.
2) These deposits were made by several companies/individuals for Arvida senior planner, legal services, developer fees, and fiscal agreements. Additional research is necessary by the Engineering and Planning Divisions 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 along with their related receipts and disbursements. Oversight responsibility for this tracking program should be maintained in the Finance & Administrative Services Department/Accounting Division.

Fiscal Impact of Recommendations

Staff time involved in researching deposit accounts listed above is unknown, but could be substantial. Additional costs of selecting and implementing a cost tracking system is also unknown at this time, but is being investigated by the Project Tracking Committee.

EXHIBIT A
DEVELOPMENT RELATED DEPOSIT ACCOUNTS

Arvida Senior Planner Deposit	12,840
Legal Services Deposit	9,760
Conditional Use Deposit	1,200
Time Extension Deposit	8,180
Developer Deposits	513,060
Environmental Impact Review Deposit	32,340
General Plan Amendment Deposit	2,360
Specific Plan Deposit	26,930
Temporary Sales Sign Deposit	600
Development Application Deposit	3,000
Landscape Master Plan Deposit	6,920
Landscape Plan Check Deposit	21,710
Centex Agreement Review Deposit	3,990
Traffic Review Deposit	46,450
Project Amendment Deposit	6,910
Fire Plan Check Fee Deposit	40,260
Centex Senior Planner Deposit	5,000
Arvida Fiscal Agreement Deposit	22,030
Forster Ranch Greenbelt Deposit	12,080
Laing Forster Ranch Development Deposit	94,250
Forster Ranch Deposit	8,950
Talega Deposit	9,200
Marblehead Coastal Deposit	24,620
Ramser Deposit	1,820
Fiscal Impact Model Deposit	2,000
Business Improvement Area #1 Deposit	630
Total Deposits	***$917,090***