
2000

Long Term Financial Plan

Volume I

City of San Clemente

City Council

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

City Manager

- Mike Parness City Manager

Executive Team

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

Project Leaders

- Paul Gudgeirsson Director, Finance & Administrative Services/Treasurer
 - Jim Hare City Planner
 - James S. Holloway Director, Community Development
 - Kumi Elston Budget Officer
 - David N. Lund Director, Public Works/Economic Development
 - Larry K. Moore Information Services Manager
 - Christine Morehead Staff Accountant
 - Marsha Payne Human Resources/Risk Manager
 - Jim Pechous Associate Planner
 - Liliane Serio Interim Controller
 - Bruce E. Wegner Director, Beaches, Parks & Recreation
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Mission Statement



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

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

Project Director

Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer

Financial Trends

Christine Morehead, Staff Accountant

Financial Forecast

Kumi Elston, Budget Officer

Reserve Analysis

Lilliane Serio, Interim Controller

Street Improvement Program Update

David N. Lund, Director, Public Works/Economic Development

Information Systems Strategic Plan

Larry K. Moore, Information Services Manager

Economic Development Update

David N. Lund, Director, Public Works & Economic Development

Land Use Market Study

James S. Holloway, Director, Community Development

Master Plan for City Facilities

James S. Holloway, Director, Community Development

Casa Romantica & Cultural Center Restoration

Jim Pechous, Associate Planner

Debt Policy

Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer

Compensation Analysis

Marsha Payne, Human Resources/Risk Manager

Rail Corridor Safety & Education Study

Jim Pechous, Associate Planner

Coastal Resources Study

Bruce E. Wegner, Director, Beaches, Parks & Recreation

Revitalization 2000 Report

Jim Hare, City Planner

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.

Street Improvement Program Update

Objective

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

Information Systems Strategic Plan

Objective

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

Economic Development Update

Objective

To update the progress made in the implementation of the City's Economic Development Plan and to provide projections concerning sales tax growth and business development trends.

Land Use Market Study

Objective

To report the findings of the recently updated City-wide market study report. Analyze how the findings affect fiscal balance at build-out. Analyze and discuss possible land use implications.

Master Plan for City Facilities

Objective

To provide decision makers and the public with a comprehensive master plan report for the identification and development of public facilities necessary to serve the City at build-out.

Casa Romantica & Cultural Center Restoration

Objective

To report on the findings of the recently completed study to determine feasibility of operating the Casa Romantica as a community Cultural and Education Center. To discuss the suggested ways and means to (a)

Long Term Financial Plan

preserve and restore the Casa (b) provide public access to the Casa and (c) make the Casa self-sustaining over the long term.

Debt Policy

Objective

To develop a comprehensive debt policy that establishes the parameters for issuing and managing debt issued by the City and component units.

Compensation Analysis

Objective

To adopt a revised compensation report which restructures the City's compensation plan and to adopt the recommendations regarding plan design changes to the City's retirement plan.

Rail Corridor Safety & Education Study

Objective

To report on the findings of the Railroad Corridor Safety and Education Panel (RSCEP) whose mission statement was: "To reach consensus on preferred solutions to increase public safety and enhance public access within the railroad corridors in the City of San Clemente while preserving the natural ambiance and natural beach resources."

Coastal Resources Study

Objective

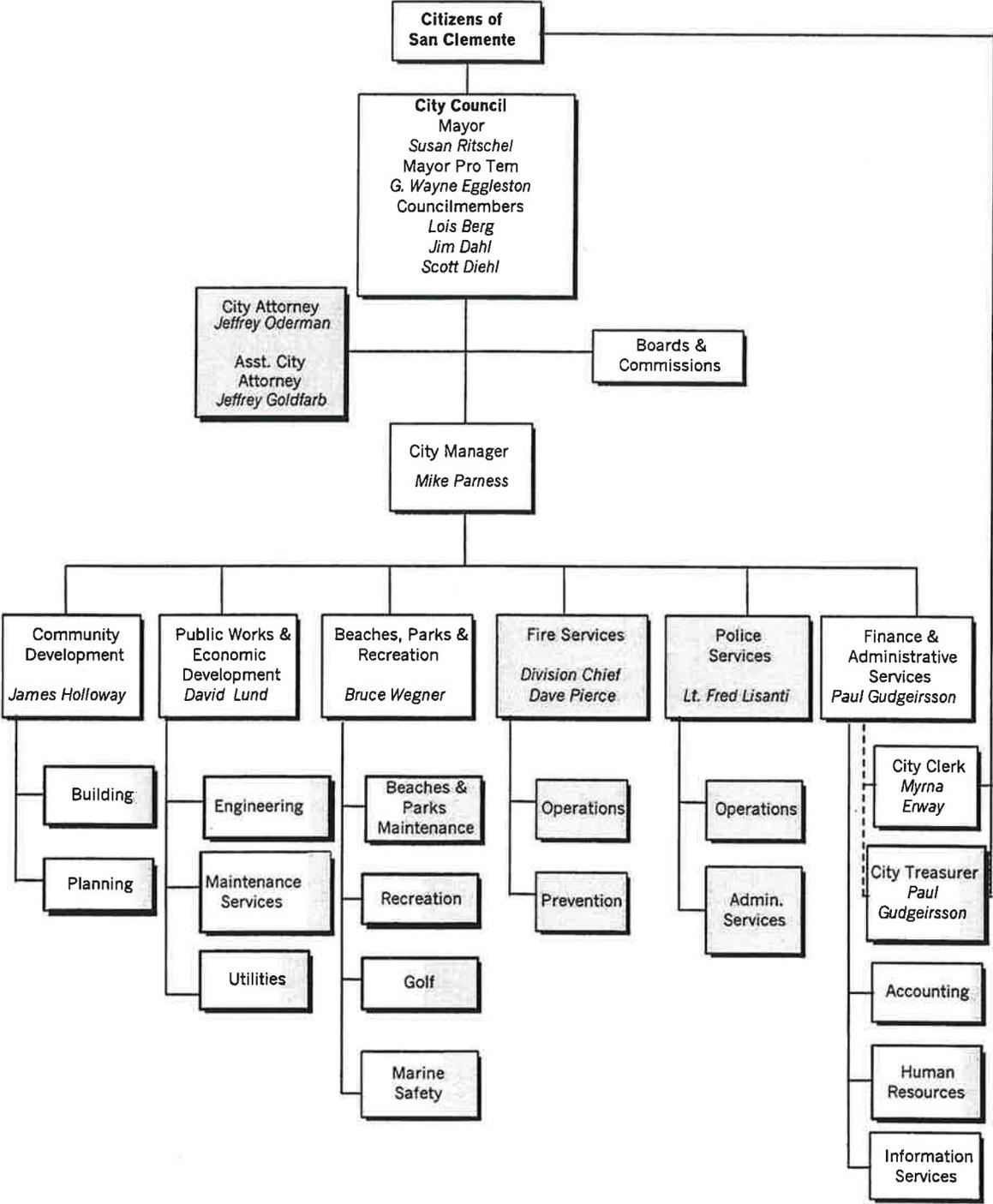
To identify and prioritize issues associated with San Clemente beaches and the coastal zone, and develop a scope of work to be considered by the City Council.

Revitalization 2000 Report

Objective

To create a long term implementation program that gives cohesive architectural standards, coordinated motivation, and marketing direction which will foster business growth and pedestrian activity, while focusing on the character and uniqueness of our Spanish village by the sea.

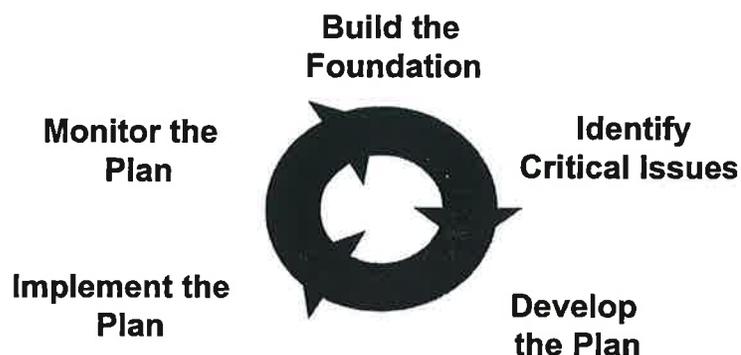
City Organizational Chart



 Shading indicates contracted

Long Term Financial Plan

Long Term Financial Plan



The LTFP is a financial strategic plan

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

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

The LTFP consists of the complete financial plan

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

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

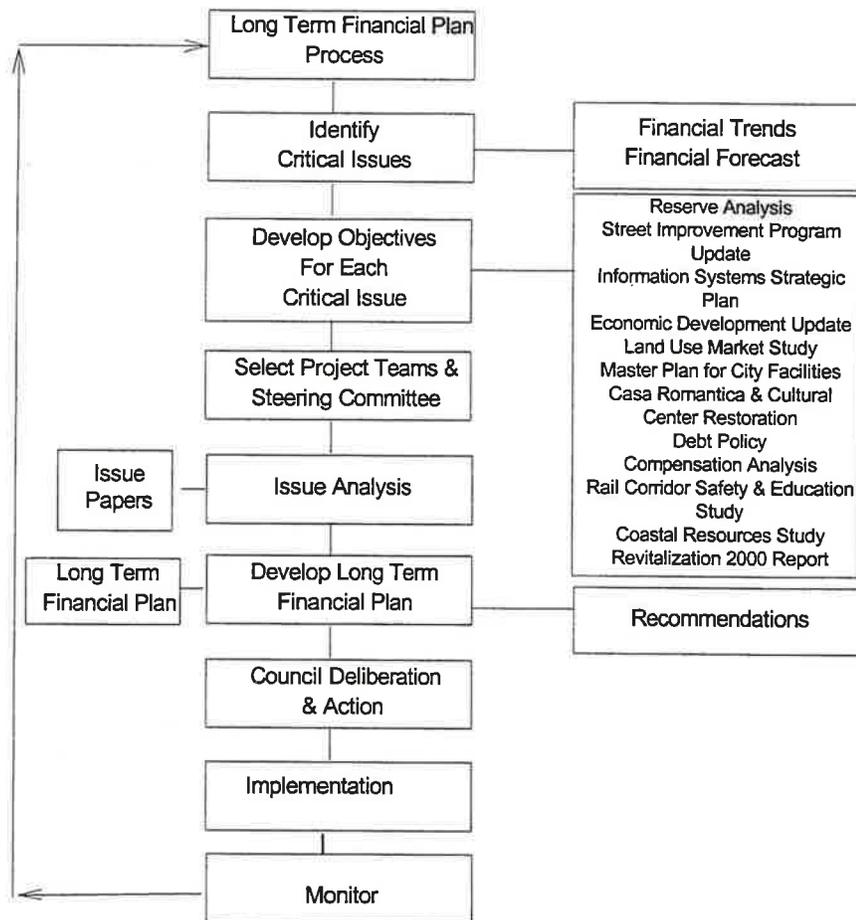
Long Term Financial Plan - Issue Papers (Volume II): This volume of the Long Term Financial Plan, published under separate cover, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion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

Long Term Financial Plan

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted largely by City staff. In fact, 11 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 11 project leaders each assigned to teams addressing a specific critical issue.



Goals

As indicated, the process of developing the Long Term Financial Plan began by identifying several critical areas which have, or are expected to have, an impact on the financial condition of the City over the next five years. Once the critical issues were identified, specific goals and objectives were developed for each project designed to meet the overall goal of the project:

To provide a clear and concise Long Term Financial Plan, identifying the City's current and projected financial condition, and proposing specific alternatives to address identified problems.

Project teams and team leaders were then selected based on individual talents and expertise in given critical issue areas. A steering committee was formed in order to keep the project on track and on schedule. Each team was then asked to prepare option papers that met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After two months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issues Papers report.

Trends & Forecast are the Foundation of the LTFP

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

This Financial Plan will be presented in detail to the City Council on April 8, 2000. 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 FY 2000-01 budget process:

April 6, 2000	LTFP provided to Council and public for review.
April 8, 2000	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input and City Council adoption.
April 12, 2000	Vital Few Priority Meeting. City Council and City Manager.

Schedule

Long Term Financial Plan

City Manager's Transmittal Letter

Honorable Mayor and Council members:

The 2000 LTFP represents the City's eighth financial strategic plan

Introduction

I am pleased to present the *2000 Long Term Financial Plan* for City Council review and consideration. This financial plan represents the eighth in a series of financial strategic plans that have been presented on an annual basis since 1993. The plan is intended to be a well thought-out analysis of issues that may affect the finances of the City of San Clemente. To provide some historical perspective, a complete review of each past financial plan is included at the end of this section.

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

The 2000 plan is more extensive than in the past

The 2000 Long Term Financial Plan submitted to the City Council this year is considerably more extensive than in the past. This is due to the inclusion of several major projects that have been recently acted on by the City Council, including the Land Use Market Study, the Master Plan for City Facilities, the Casa Romantica and Cultural Center Restoration, the Rail Corridor Safety and Education Study, the Coastal Resources Study, and the Revitalization 2000 Report. These reports are included in the Long Term Financial Plan as they undoubtedly will impact the finances of the City over the next five to ten years.

The remainder of the report addresses several crucial issues that may also have a substantial impact on the City's fiscal resources in the near term. From a financial standpoint, the recent salary and retirement study will require adjustments to the City's compensation system in order for the City to remain competitive for top-quality employees and to retain the excellent workforce that the City currently has in place.

This year's financial plan depicts a City in transition

This year's financial plan depicts a City in transition. The early part of the previous decade focused on cutting back services in response to a severe recession and cutbacks imposed by the State of California as well as voter imposed initiatives. This year's financial plan certainly points to the future as most of the issues studied are very much "future" oriented. The City is now in a position to address critical issues such as protection of our coastal resources and historical heritage, and the planning of potential City and public facilities.

Long Term Financial Plan

A note of caution...

...as infrastructure needs must be balanced by the costs of maintaining and operating facilities

Overall, the City is in excellent financial shape

The impact on City employees is beginning to show

Council should consider reestablishing certain programs, services and staffing levels

Financial trends and five-year forecast remain positive

As you will note during the review of this fiscal planning document, there are a number of issues that require Council action now so that the City has a plan in place as we head towards build-out. From a fiscal perspective, we are in the enviable position of having funds in place to build and address a variety of infrastructure needs, including parks. However, the City still has limited future resources to provide funding for the maintenance and operations of all facilities. Consequently, I urge the City Council to take a very cautious approach before committing to all the critical projects identified in the comprehensive reports contained in Volume II of the LTFP and summarized in Volume I. The Financial Forecast, Fiscal Impact Model, and the upcoming Vital Few Priority sessions will assist the Council in determining the fiscal viability of moving ahead with the myriad of projects.

From a fiscal perspective, the City's financial picture is extremely positive. The General Fund fund balance continues to grow, largely due to increasing revenues, but also due to significant expenditure reductions undertaken during the 1990's. Overall, the City is in excellent financial shape and should be able to accommodate the growth that is anticipated over the next ten years.

Continuing the fiscal trends of the past several years, the City's operating position is positive and the majority of fiscal trends are very favorable. Indeed, it is my pleasure to report to you that all funds of the City are in excellent condition. Based on the impressive condition of our reserve program, I do not envision any fiscal problems that we can not deal with in an expeditious manner.

It should be noted, however, that the success of City programs clearly relates to the *exceptional* quality of our employees. The impact on our employees, as predicted, is beginning to show from a health standpoint and turnover. The City can only expect its employees to stretch so far before it begins to affect health and morale. Not only is this trend evident from recent experience, it is also quite clear from the Financial Trend Monitoring System, i.e. employees per capita.

Once again, I encourage the City Council during the long term financial plan, vital few priority and budget deliberations to strongly consider the restoration of basic services and staffing levels previously impacted by budget reductions, while also evaluating the merits of new proposals and priorities.

The 2000 Long Term Financial Plan

The fiscally related issues examined this year include:

- *Financial Trend Analysis* – The series of fiscal trends reviewed annually, continued to remain positive as of June 30, 1999. Nineteen of twenty trends were determined to be positive, with one negative trend

City Manager's Transmittal Letter

With one exception, all reserves are fully funded

93 street projects totaling 30 miles have been completed

Economic development is focused on three key areas

The updated land use market study analyzes the City's fiscal balance

The Master Plan for City Facilities identifies the need for public facilities

The Casa Romantica study analyzes the impact of preservation, public access and financial viability

A new Debt Policy has been developed

The City's compensation program was analyzed and compensation adjustments are recommended

- remaining. Additionally, one trend was assigned a favorable/caution rating.
- *Financial Forecast* - The City's five-year financial forecast, based on current operating trends, is extremely strong with the City's fund balances improving dramatically.
 - *Reserves* - This issue paper updates the status of the City's reserve program and outlines future funding requirements. A total of \$6.3 million has been contributed to reserve accounts over the past 8 years. With one exception, the Capital Equipment Replacement Reserve, all reserves are fully funded.
 - *Street Improvement Program* - Since the adoption of this \$55 million program in 1995, 93 street projects have been completed and an additional 13 projects are under construction and will be completed this fiscal year (totaling over 30 miles). A total of 43 projects were accelerated from the original schedule.
 - *Information Systems Strategic Plan* - The Information Systems Strategic Plan focuses on the enhancement of the City's Computer disaster recovery plan and expanding the City's ability to communicate and provide services via the Internet. The strategic plan for fiscal 2000-01 focuses on disaster recovery, software upgrades, web site hosting, geographic information systems (GIS), upgrading the City's financial system, and ongoing replacement of personal computers.
 - *Economic Development Update* - A comprehensive update of the City's economic development program is provided and is focused on (1) business retention (2) business marketing and promotion and (3) reinvestment and revitalization.
 - *Land Use Market Study* - An update of the citywide market study report is provided which analyzes how the findings affect the City's fiscal balance at build-out. Land use implications of the model are also discussed.
 - *Master Plan for City Facilities* - This critical report provides a comprehensive capital facilities master plan and identifies the need for future public facilities, including a civic center, fire stations, senior center, community center, aquatic center, and park facilities.
 - *Casa Romantica Cultural Center and Restoration* - This report focuses on the findings of the feasibility study of operating the Casa Romantica as a community cultural and education center. The key issues associated with the study include the means to (1) preserve and restore the facility (2) provide public access and (3) to make the Casa self-sustaining over the long-term.
 - *Debt Policy* - The establishment of a City Debt Policy is at the core of a well-managed debt program for a municipality. The City's proposed Debt Policy establishes the parameters for issuing and managing debt and complements the City's well-established Fiscal Policy.
 - *Compensation Analysis* - The City commissioned a compensation and retirement program analysis to determine the City's compensation position as it relates to other similar cities within Orange and San Diego Counties.

Long Term Financial Plan

**Three major studies
focused on the Rail
Corridor, Coastal
Resources, and
Downtown Revitalization**

- *Rail Corridor Safety & Education Study* – The Railroad Corridor Safety and Education Panel’s final recommendations focus on safety issues relating to (1) railroad crossings at designated beach access points (2) safety of pedestrians travelling within railroad right-of-way and (3) enhancement of safety through education programs.
- *Coastal Resources Study* –The Coastal Resources Study issues paper identifies and prioritizes issues associated with San Clemente beaches and the coastal zone. The key components of the report include: healthy and sandy beaches, healthy water quality, recreational facilities, parking and coastal bluffs and canyons.
- *Revitalization 2000 Report* – This report represents the final report of the Revitalization 2000 Committee that was formed to study the means by which current opportunities should be applied to the revitalization of the commercial districts on Del Mar, El Camino Real and the Pier Bowl.

The 2000 Long Term Financial Plan continues the tradition of studying a variety of issues which require the attention of the City Council and public. Where possible, alternative solutions to the issues raised are provided for Council consideration. Also, the status of the City’s current and projected fiscal condition is explored and recommendations are put forth to further solidify the City’s positive financial standing.

Along with the Vital Few Priorities that will be discussed with Council on April 12, 2000 the direction that you provide as the result of Long Term Financial Plan discussions will set the stage for fiscal year 2000-01 budget preparation process.

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

I look forward to working with you, staff, and our community as we implement the 2000 Long Term Financial Plan.


Mike Parness
City Manager

City Manager's Transmittal Letter

Long Term Financial Plan Review

Financial plans have been prepared since 1993

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2000 LTFP represents the eighth plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

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

The projected annual shortfall in 1993 was \$6 million

The 1993 Plan

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

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

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

The projected shortfall in 1994 amounted to \$2.7 million

The 1994 Plan

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

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

The projected shortfall in 1994 was once again aggressively tackled by the City Council. Actions to close the financial gap included the continued contracting of City services, including the City's Fire Department, fleet maintenance services, meter reading, street programs, and beach/park maintenance. City employees agreed to a new medical benefit package

Long Term Financial Plan

which saved 30% in premiums, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost allocation plan was implemented to recover actual General Fund costs. Again, the Council also recognized the value of funding critical reserves, and addressed the City's long term financial health by establishing a wellness program and funding a capital equipment replacement reserve fund to meet future capital equipment needs.

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

The 1995 Plan

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

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

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

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

A financial turnaround was evident in the 1996 financial plan

The 1996 Plan

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

Street bonds totaling \$7 million were issued

In an effort to expedite the City's street improvement program, the City Council directed that \$7 million in bonds be issued one year earlier than initially called for. This action resulted in significant savings in bond issuance costs and allowed for the completion of ten street projects two years earlier than scheduled.

City Manager's Transmittal Letter

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

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

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

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

The 1997 Plan

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

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

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

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

The 1998 Plan

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

The 1998 Plan examined the policies, financial and technical tools in place to implement new development. Priorities were identified, along with direction to fund a market study and downtown improvement plan in the 1998-99 budget.

Long Term Financial Plan

The 1999 LTFP indicated problems in the Water Fund....

This resulted in a 7.5% rate increase

The 1999 Plan

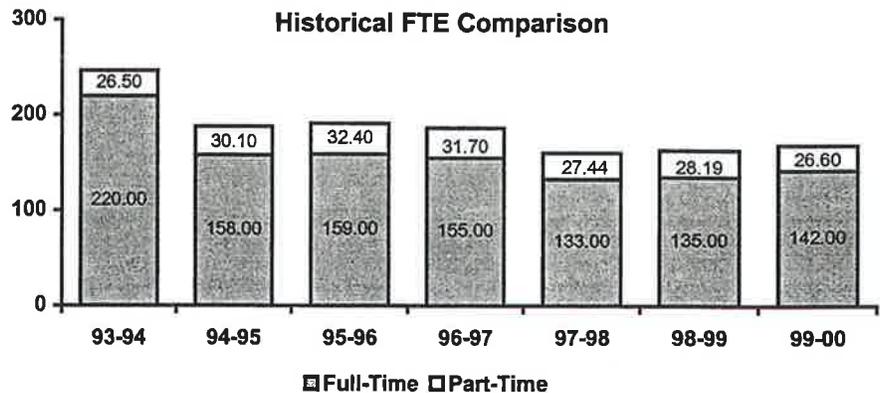
The 1999 financial plan clearly demonstrated that the City had solved a number of problems that were faced by the City in the past. Reserves had been replenished, fund balances in almost all funds, including the General Fund, were determined to be sound, the City's operating position was positive, and most fiscal trends that are tracked annually were favorable. Overall, the City's finances were in excellent shape, except the Water Fund where a long-term rate structure was approved by the City Council to address fund shortages. This resulted in a rate increase of 7.5% in 1999.

The City Council also allocated funds to produce a City facilities master plan during the fiscal 2000-01 year. This project was completed and is one of many included in the 2000 Long Term Financial Plan.

Historical Staffing Levels

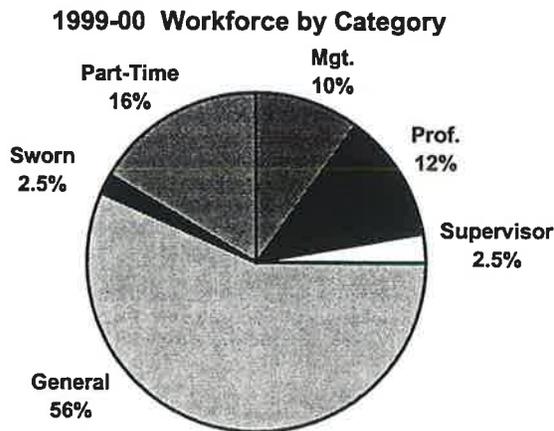
Historical Staffing levels

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



Workforce by category

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



Financial Summary

The Executive Summary consists of a Financial Summary and Issue Summary

The *Executive Summary* portion of the 2000 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The *Financial Summary* will provide a profile of the City's present financial condition, including a summary of LTFP recommendations. The *Issue Summary* is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the *Financial Summary* section:

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

The 2000 LTFP is the 8th edition of the City's financial strategic plan

Introduction

The eighth edition of the City's Long Term Financial Plan documents both the progress that the City has made in attaining its financial goals, and provides a clear path to a successful financial future. A number of issues affecting the financial condition of the City were studied and are documented in the 2000 Long Term Financial Plan.

The LTFP serves as an "early detection system"

The 2000 Long Term Financial Plan continues the tradition of reviewing the City's current financial condition and identifying potential fiscal pitfalls. This "early detection system" has served the City extremely well and continues to be a tool for quickly reacting to the many financial crises faced by the City over the past few years. Furthermore, the fiscal planning process allows the City to thoughtfully plan for the future. As can be seen in this document, there are a number of critical issues that will require a substantial dedication of funds in both the short and long-term.

There are several key issues included in the fiscal plan

The key issues that the City faces this year includes consideration of a Master Plan for City Facilities, the restoration of the Casa Romantica and Cultural Center, the revitalization of the downtown area, studies of the City's coastal resources and rail corridor, and an update of the City's compensation plan.

Other major issues facing the City Council will be brought forward during the Vital Few Priority deliberation process on April 12, 2000.

The General Fund will end the year with a \$4.2 million fund balance

Current Financial Condition - Overview

The City's financial condition at December 31, 1999 was described in detail in the fiscal 1999-00 Second Quarter Financial Report. Current projections indicate that the City's General Fund will end the year with a positive fund balance of \$4.2 million, as opposed to original projections of \$2.5 million.

Long Term Financial Plan

This increase is largely due to increased revenue projections as a result of higher than anticipated receipts as of FY 1998-99 year-end. Additionally, proposed revenue adjustments at mid-year exceed expenditure adjustments by \$1.0 million which can be attributed to increases in development fees and projected increases in sales and motor vehicle tax revenue.

The City's financial position is excellent...

The City's financial position continues to improve considerably as we enter a period of time where growth is the City's predominant issue. Not only does this include retail and residential growth, but also the resultant impact on the City's infrastructure, like the road system and new parks. All funds, including the Water Fund which was in a deficit position last year, are in very good to excellent condition.

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

The 2000 LTFP concentrates on the City's operating funds

The 2000 Long Term Financial Plan also concentrates on the City's operating funds as these funds continue to have an impact on City operations. Financial forecasts for the utility and golf course funds are once again included in the Long Term Financial Plan.

The Long Term Financial Plan for the year 2000 continues the tradition of providing a clear path to the City's fiscal future. Although there are certainly many challenges which lie ahead, the process of adopting and implementing a financial strategic plan will assist decision-makers in conscientiously choosing a viable route to a secure future.

We believe that the 2000 LTFP once again provides viable solutions to a series of financial and quality of life issues. Of course, this plan must be used in tandem with the Vital Few Priority Process which will begin in April 2000.

All reserve funds are fully funded except capital equipment reserves

Reserve Funding

Several fiscal policy statements adopted by the City Council over the past several years relate to the funding of various reserve funds and accounts. This is largely due to the fact that most reserve accounts were non-existent, depleted or in deficit position in the early nineties when the first financial plan was developed. In fact, since 1993, a total of \$6.3 million has been dedicated to the funding of reserves and deficit fund balances by all City funds which shows the magnitude of the problem. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, contingency, and emergency reserves. With the exception of capital equipment reserves, all reserve funds are now entirely funded and meet all fiscal policy requirements.

Financial Summary

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

The 2000 LTFP recommends that the City continue an annual allocation of \$100,000 to capital equipment reserves until that fund is fully funded at a level of \$2.5 million, the value of the General Fund's equipment assets. Consequently, the only future transfers that will be required include normal funding to maintain percentage requirements (emergency reserves) or to fund normal replacement costs (fleet or capital equipment).

Emergency reserves should be increased to 8% of operating expenditures

The only other change in reserve requirements involves the Emergency Reserve account, which is used to protect the City's essential service programs and funding requirements during periods of economic downturn or unforeseen catastrophic costs. This reserve is established at 5% of General Fund operating expenditures. It is fully funded and totals \$1.1 million. Based upon the current Financial Trend Analysis that indicates the City has had operating surpluses for the past five consecutive years, it is recommended that the reserve level be reestablished at 8% of operating expenditures. In order to fund the Emergency Reserve at an 8% level, an annual transfer of \$240,000 for the next five years is recommended.

General Fund Transfers

There are several annual transfers from the General Fund to other funds typically included in the annual budget, outside of reserve allocations. In FY 2000-01, these include total transfers of \$1.2 million, the majority of which is to the Street Improvement Program:

The General Fund will contribute \$530,450 to the Street Improvement Program in FY 2000-01

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled \$2.3 million during the past five fiscal years. Funding for this program will continue in FY 2000-01 with a contribution of \$530,450. Annual contributions of \$530,450, plus an inflationary factor, will be made through the remainder of the program.

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

Financial Trend Analysis

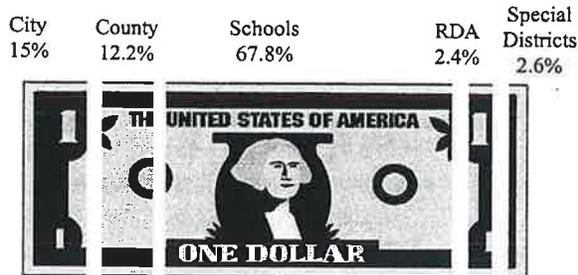
The City's financial condition is also quantitatively measured using a financial trend monitoring system. Last year, 19 of 20 financial trends were found to be positive with only employees per capita showing a negative trend. The annual Financial Trend Analysis report for the year ending June 30, 1999 indicates that 19 indicators are favorable. This is the same as last year but is a significant improvement over 1993 where only six indicators showed favorable signs.

...Employees per capita remains at an unfavorable status

On the negative side, the *employees per capita* indicator remains at an unfavorable status. As documented in the 1998 Organizational Study, it appears that employee levels are inadequate to support current service levels and are certainly too low to reestablish programs that have been eliminated. This trend was addressed to a certain degree in the fiscal 2000-01 budget, but still remains a concern. The indicator titled *accumulated compensated absences* was also modified to favorable/caution as the amount of sick and annual leave accumulation is increasing as our workforce matures.

Long Term Financial Plan

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



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

Five Year Financial Forecast

The City's updated five-year financial forecast for the General Fund projects revenue growth of 3.8% over the five year forecast period. This compares to a historical growth rate of 5.7%. Expenditures are projected to grow at an annual average rate of 3.2% over the same time frame. It should be pointed out that historical growth rates are somewhat misleading because of several factors. "One-time" revenues transferred from other funds into the General Fund due to the contracting of municipal services tend to skew revenues upward. However, the same is true of expenditures - "one-time" expenditures were made for accrued leave and severance payments for contracted City employees resulting in higher expenditure levels.

The average projected growth rates for revenues exceed expenditures by 0.6% which, if achieved, would result in operating surpluses (i.e. a positive operating position) in each year of the forecast.

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

Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. If the opposite is true, an operating deficit will occur. Operating position does not take carry-over fund balances into account.

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

Revenue growth is projected at 3.8%

Expenditures will average 3.2%

Operating position and fund balances are examined in the financial forecast

Financial Summary

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

Operating Position

As indicated below, the City's projected operating position in each of the five years of the forecast is positive. This is primarily because development fees, which are normally considered one-time revenues, are projected in each year of the forecast due to the amount of development currently in process. Additionally, current projections of the City's primary tax sources, including sales and property taxes, continue to gain momentum.

One-time expenditures have been removed to give a realistic picture of operating surpluses.

2000 LTFP forecast - Operating position

Projected (Deficit)/Surplus

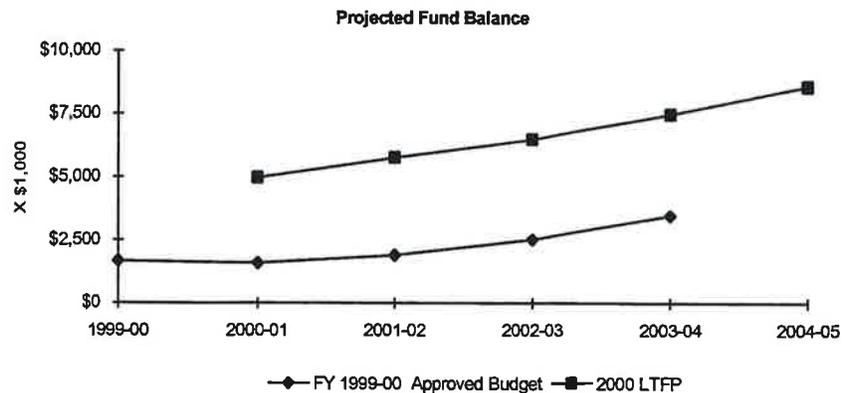
Amounts in \$1,000

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenues	\$27,070	\$28,061	\$28,935	\$30,180	\$31,349
Expenditures	26,597	27,552	28,491	29,476	30,511
Operating Result	\$473	\$509	\$444	\$704	\$838

The base forecast indicates that fund balances are strong and healthy

Fund Balances

As displayed below, unreserved fund balances are projected to be considerably higher than projected in the FY 1999-00 budget. This is largely due to substantial increases in revenues and expenditure savings in the prior fiscal year. These increases have resulted in a very strong and healthy fund balance forecast:



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

Long Term Financial Plan

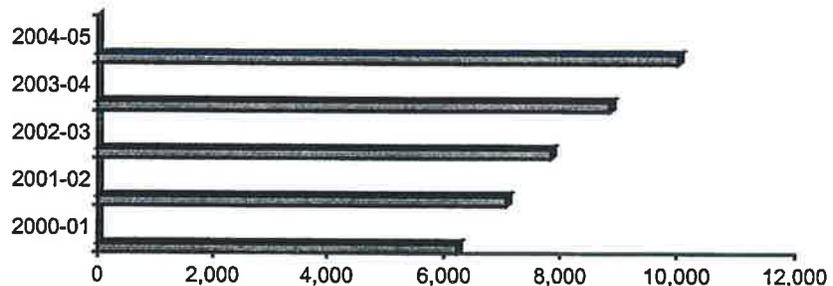
Fund Balance & Emergency Reserve

<i>Amounts in \$1,000</i>	2000-01	2001-02	2002-03	2003-04	2004-05
Fund Balance	\$4,958	\$5,760	\$6,494	\$7,476	\$8,586
Emergency Reserves	\$1,254	\$1,301	\$1,346	\$1,395	\$1,445
Total	\$6,212	\$7,061	\$7,840	\$8,871	\$10,031

The graph below depicts the growth of fund balances and emergency reserves over the five year forecast period, provided that expenditure and revenue assumptions are reasonably accurate. This presumes that current operating expenditures and revenues continue and that no new programs are added during the period of the forecast.

Fund balances and emergency reserves continue to grow

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



The City's economic health has improved considerably

The impact of adding programs or infrastructure should be linked to the City's operating position

Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue. The expansion of the City's sales tax base and increased property tax collections, has contributed to a relatively healthy fund balance. Furthermore, the City has wisely opted not to expand and develop new programs until it becomes clear that operating revenues will continue to outpace operating expenditures. The City's Fiscal Policy is especially clear on this point, i.e., the City will not spend beyond its means. This is a situation that needs to be stressed this year, as there are a considerable number of infrastructure projects that are proposed over the next several years. The City Council and the public they serve need to be cognizant of the impact of these increased expenditures on the City's operating position.

This section provides an updated fund balance forecast if certain financial recommendations are adopted by the City Council. The first table summarizes current projected fund balances prior to the adoption of 2000 LTFP recommendations:

Financial Summary

Current projected fund balances

Fund Balance					
	2000-01	2001-02	2002-03	2003-04	2004-05
Fund Balance	\$4,958,000	\$5,760,000	\$6,494,000	\$7,476,000	\$8,586,000

The following table indicates the impact on fund balances if recommendations contained in the 2000 Long Term Financial Plan are adopted by the City Council:

Projected fund balances including 2000 LTFP recommendations

Fund Balance					
	2000-01	2001-02	2002-03	2003-04	2004-05
<i>Projected Ending Fund Balance</i>	\$4,958,000	\$3,695,000	\$3,975,000	\$3,877,000	\$2,895,000
Operating surplus	0	509,000	444,000	704,000	838,000
PERS unfunded liability ¹	475,000	475,000	475,000	475,000	475,000
Emergency reserve ²	(106,000)	(193,000)	(195,000)	(191,000)	(190,000)
Capital facilities (MPCF) ³	(65,000)	0	(83,000)	(1,271,000)	(1,100,000)
Casa Romantica ⁴	(108,000)	(171,000)	(40,000)	0	0
Compensation ⁵	(359,000)	(140,000)	(499,000)	(499,000)	(499,000)
Retirement Program ⁶	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Rail Corridor ⁷	(900,000)	0	0	0	0
<i>Revised Ending Fund Balance</i>	<i>\$3,695,000</i>	<i>\$3,975,000</i>	<i>\$3,877,000</i>	<i>\$2,895,000</i>	<i>\$2,219,000</i>

¹ The City had projected annual payments for a 10 year period to pay off PERS public safety unfunded liabilities totaling approximately \$5.0 million. Due to the aggressive payment schedule that the City began in 1998, combined with modified actuarial assumptions made by PERS, this debt has been fully paid.

² Annual contributions of \$240,000 per year are recommended to bring the Emergency reserve level to 8%. The amount shown above is the additional contribution not included in the forecast.

³ Operations and maintenance costs identified in the Master Plan for City Facilities. Year One – Talega Community Park I; Year Three – Sr. Center and Steed Park; Year Four – Talega Fire Station and Marblehead Coastal Park; Year Five – Forster Sports Park.

⁴ Three year implementation costs identified in the Casa Romantica Cultural Center & Restoration.

⁵ General Fund total for proposed implementation of the Compensation Analysis.

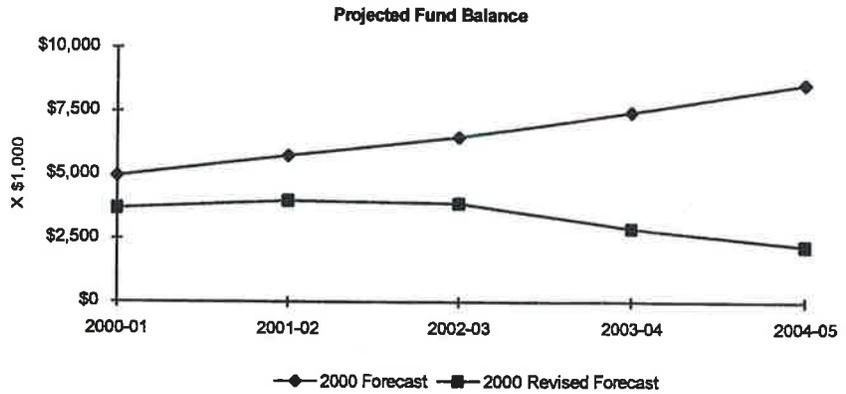
⁶ General Fund total for implementation of Retirement Analysis.

⁷ Cost to proceed with construction/bid documents as recommended in the Rail Corridor Safety & Education Study (\$100,000) and 20% match to secure Federal \$4.5 million grant.

Long Term Financial Plan

The following graph shows the impact of adopting the 2000 LTFP recommendations on projected fund balances:

**Impact on fund balance
with LTFP
recommendations**



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

Summary of Long Term Financial Plan recommendations

Recommendations

This section summarizes the recommendations contained in the 2000 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by the City Administration.

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

Reserves

1. Budget \$240,000 in FY 2000-01, bringing the emergency reserve to \$1,359,640, or 5.4% of General Fund operating expenditures, for FY 2000-01. Annual transfers of \$240,000 are required until FY 2004-05 to increase the reserve to 8% of operating expenditures.
2. Revise City's fiscal policy to read, "...The level of the General Fund Emergency Reserve will be established at 8% of General Fund operating expenditures annually."
3. Recommend that \$250,940 be set aside in fiscal year 2000-01 to fund the Council Contingency Reserve.
4. Reduce the reserve in the General Liability Fund from the current reserve of \$650,000 to \$565,000. The reserve includes three times the self insurance retention (\$300,000), plus the average of the previous five years of claims cost not covered by the insurance pool (\$265,000). Revise the reserve for uncovered claims, if necessary, upon the completion of the actuarial study currently in process.
5. Transfer \$266,000 from the General Liability Fund to the Workers' Compensation Fund to cover the estimated outstanding claims at June 30, 2000.
6. Annually average past expenditures from the Accrued Leave Reserve Fund and base the annual transfer from the General Fund on this average. Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 2000-01 in the amount of \$100,000.
7. Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually from the General Fund.

Street Improvement Program

1. Approve and authorize the allocation of a General Fund contribution of \$530,450 for the coming FY 2000-01.
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. Reconfirm the Major Street Maintenance Program with an annual funding of \$300,000 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.

Long Term Financial Plan

Information Systems Strategic Plan

1. Approve the updated Information Systems Strategic Plan in concept. This directs staff to implement the plan as presented in the table, but does not approve any additional funding.
2. Approve the implementation of a Disaster Recovery plan at a cost not to exceed \$16,500 as a part of the FY 2000-01 Information Services budget.
3. Direct staff to move forward on the development of an interactive web site to improve communication with the public. Information Services will determine an appropriate course of action either to contract some or all of the management of the web site or to develop the web site in-house. Staff will report back to City Council no later than August 1, 2000.
4. Direct staff to determine the appropriateness of upgrading the City's computer systems to Microsoft Windows 2000 and/or Microsoft Office 2000 during FY 2000-01. If appropriate, then upgrade the City's systems at a cost not to exceed \$37,000.
5. Approve the implementation of an Internet based GIS system at a cost not to exceed \$17,000. Additionally, City Council should prioritize the purchase of a topographical layer for the engineering base map for \$10,000 and/or a digital orthophotography layer (aerial photos) for \$68,000.
6. Approve the upgrade of the City's financial systems to the new InForum Gold product at a cost not to exceed \$50,000.

Economic Development Update

1. Based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, direct staff to continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement improvement projects and programs for the Downtown area.
2. Continue to aggressively market and promote the recruitment and attraction of new business firms to the Rancho San Clemente Business Park and Talega Business Park.
3. With respect to older commercial shopping centers, direct staff to provide appropriate assistance and support for the revitalization of the centers with specific emphasis on Pico Plaza Shopping Center and K-Mart Shopping Center.
4. Continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program.
5. Continue to diligently provide business ombudsman and developer advocacy services with the business community and continue to coordinate resolution and response to complaints and requests for business related support services.

Financial Summary

Land Use Market Study

1. Staff recommends that Council consider the ramifications of the low projections and high projections of the market study, and the aggressive conservative scenarios of the Fiscal Impact Model, in making decisions concerning various policy choices.

Master Plan for City Facilities

1. Verify the need for a consolidated Civic Center. Concur with the four alternative sites for the purpose of future review and public process. Direct staff to develop a process to solicit public input and refine criteria.
2. Establish the future Talega Fire Station site through amendments to the Talega Specific Plan and General Plan appropriately utilizing analysis in the Master Plan for City Facilities (MPCF) report.
3. Seek to identify and/or acquire a relocation site for Fire Station No. 59 utilizing criteria in the MPCF report. Fire Station No. 59 will be relocated no sooner than the Talega Fire Station is operational.
4. Confirm that Fire Station No. 60 will be relocated to a site between Avenida Rosa and Avenida Victoria. The site will be shared with the proposed Senior Citizens Center. The timing of design construction for the two sites should be concurrent.
5. Negotiate an operating agreement and financing plan for the development of a Senior Citizens Center with South County Seniors.
6. Work with the Orange County Library Administration to develop a plan to reuse the current Senior Center space to meet future library needs.
7. Concur with staff and the Beaches, Parks and Recreation Commission that the Parks and Recreation Master Plan should be amended, eliminating special use facilities (Community Center, gymnasium and pool complex) from the future La Pata/Vista Hermosa Park. These facilities will be located within the Forster Ranch Community Park.
8. Update the MPCF report annually and include a fiscal analysis as an element of the Long Term Financial Plan (LTFP).
9. Compare actual retail/commercial development and revenue growth with projections.
10. Compare actual expenditure growth with those projected in the financial model.
11. Receive and file the MPCF report and use Table 8.1-1, "Estimated Construction and Operating Costs – Recommended Timing for City Facilities" for planning purposes and to facilitate the public review process.
12. Establish a new fiscal policy, which will establish that the City will delay development of capital facilities until sustainable revenue has been secured to support development, operations and maintenance costs.

Long Term Financial Plan

Casa Romantica & Cultural Center Restoration

1. Direct staff to prepare a schedule and budget request for a three-year implementation plan; \$108,100 in year one, \$170,776 in year two and \$40,202 in year three (per the Next Steps outlined in this report and in detail in the WKC study) that includes the planning process, capital improvements, and interim management and operations for approval and funding.

Debt Policy

1. Adopt the proposed debt policy

Compensation Analysis

1. Adopt the compensation study as presented by Johnson and Associates.
2. Direct staff to meet and confer with the San Clemente City Employees' Association to determine the feasibility of adopting the recommendations of the compensation study for general employees. There is one more year remaining on the labor agreement.
3. Meet with the Management employees, Confidential employees and Executive Management employees to discuss the implementation of the compensation study results.
4. Provided that the employees and City Council agree to the proposed implementation, the following alternative will be implemented:

0-4.9%	Nearest placement in range
5-9.9%	Nearest placement in range plus one step
10-18.9%	Nearest placement in range plus two steps
5. Staff further recommends that the City Council adopt the changes presented by Phase II Systems to the City's retirement plan to make the City's retirement plan comparable to the CalPERS plan.

Rail Corridor Safety & Education Study

1. Direct staff to proceed with all due haste to bring this project to the construction stage (so as to not lose the \$4.5 million grant opportunity).
2. Direct staff to investigate any and all means to obtain the 20% match money needed to satisfy the TEA grant project.
3. Direct staff to process a budget request of \$100,000 necessary to proceed with development of construction/bid documents. This will include hiring a landscape architect to bring all these plans together into a bid ready package. Some additional engineering work will be required.
4. Direct staff to process a Coastal Development Permit for this project, through the California Coastal Commission.

Coastal Resources Study

No City Council action is necessary with respect to the Long Term Financial Plan. The Beach Ad Hoc Committee presented its report to the City Council at its February 16, 2000 meeting. At that meeting, City Council directed staff to handle the Committee's recommendations through the Vital Few process. Based upon this direction, staff is currently developing the appropriate Vital Few issue papers to address the five primary

Financial Summary

recommendations as provided within the Executive Summary of the Committee's report. They are summarized as follows:

1. Sand Nourishment Study - Immediately authorize staff to develop a Request for Proposal to perform a sand nourishment study for San Clemente beaches. This study would lay the groundwork for a sand nourishment program that could be implemented with a combination of State grants, mitigation contributions, and/or Federal support via the pending Army Corps of Engineers' studies. Sand replenishment programs would consist of individual projects as well as ongoing opportunistic sand replenishment.
2. Urban Runoff Management Plan - Create and implement a comprehensive urban runoff management plan that includes increased enforcement of existing laws and codes, review of public and private maintenance practices, and public education on how to reduce non-point source pollution. Current projects underway, such as the low-flow diversion projects, should be evaluated and expanded to other sites as appropriate. Participate in federal, state and regional attempts to improve water quality and testing.
3. Beach Facilities Management Policy - Development of a policy that would provide staff direction regarding the protection, retreat, or replacement of existing beach facilities threatened by eroding beaches. A long-term goal would include the development of a facilities' master plan for City beaches.
4. Coastal Bluffs and Canyon Guidelines – Create a set of guidelines for the management of coastal canyons and bluffs that inventories the state of the bluffs and canyons, evaluates relevant codes, and can be used in the interpretation and implementation of the Local Coastal Program. The study should also review bluff development and maintenance ordinances in the City including setbacks and drainage requirements.
5. Beach Advisory Board/Staff Support - Appoint a Beach Advisory Board that would assist and advise City commissions and City Council on issues related to the beach and coastal zone. In addition, hire appropriate environmental planner/engineer staff to support the implementation of Board recommendations and assist with implementation of the City's Local Coastal Plan and other coastal zone projects/studies.

Revitalization 2000 Report

1. If prioritized by the City Council, the primary capital improvement proposal of the final report, enhancements to El Camino Real, should proceed to a community design workshop and subsequently to the commencement of design and engineering drawings during Fiscal Year 2000-2001. Such work would be funded from development agreement proceeds currently on hand.
2. If prioritized by the City Council, the primary management proposal of the final report, exploration of forming a MainStreet program, should proceed to workshops among the effected stakeholders with funding and staff support to the organization and chartering process should

Long Term Financial Plan

commence during Fiscal Year 2000-2001. This work is proposed to be funded from the General Fund if and when all parties agree that this program should be implemented.

3. For other final report proposals, staff will seek opportunities for implementation during the course of normal Planning, Economic Development and Public Works activities, or in future year Vital Few proposals as funds are identified.
-

Financial Trend Analysis



Introduction

The *Issue Summary* section which follows provides an overview of the issues that were analyzed during the preparation of the *2000 Long Term Financial Plan*. Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics, several of which have previously been reviewed by the City Council. The issues reviewed include:

Financial issues reviewed in 2000

1. *Financial Trend Analysis*
2. *Financial Forecast*
3. *Reserve Analysis*
4. *Street Improvement Program Update*
5. *Information Systems Strategic Plan*
6. *Economic Development Update*
7. *Land Use Market Study*
8. *Master Plan for City Facilities*
9. *Casa Romantica & Cultural Center Restoration*
10. *Debt Policy*
11. *Compensation Analysis*
12. *Rail Corridor Safety & Education Study*
13. *Coastal Resources Study*
14. *Revitalization 2000 Report*

Financial Trend Analysis

Objective:

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

19 of 20 indicators are favorable

As indicated in the table below, a total number of 20 trends were analyzed in the 2000 Long Term Financial Plan. Of these, 19 indicators are considered *favorable*. There is no change from the prior year.

Beginning last year, the *employees per capita* indicator turned unfavorable and this trend continues into the fiscal year ending in June 1999:

"Employees per capita" remains unfavorable

- *Employees per capita* - This category has been steadily declining over the past eight years and indicates that employee levels may be too low to support current and future service levels.
- *Accumulated compensated absences*: Additionally, the category of accumulated compensated absences, was assigned a favorable/caution flag due to a relatively sharp increase in the accumulation of vacation and sick leave by employees. This is due to: (1) An increase in the

Long Term Financial Plan

longevity of employees and (2) an accounting change mandated by the Government Accounting Standards Board.

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

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

19 of 20 financial indicators are positive

...

...while only 1 is unfavorable...

<i>Indicator</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Revenues Per Capita	F	F	F	F	F	U	U	U
Property Tax Revenues	F	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	F	U	U
Licenses & Permits	F	F	U	F	F	F	U	U
Comm. Develop. Charges	F	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	F	F	W	W
Intergovernmental Revenues	F	F	F	F	F	F	F	F
Revenue Overages /Shortages	F	F	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	F	F	W	W
Employees Per Capita	U	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F	F	F
Property Values	F	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F	F

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

The updated trend analysis conducted this year once again reinforces the City's commitment to financial planning. Combined with a set of comprehensive fiscal policies that are diligently followed and an improving

economy, the financial status of the City continues to shift into positive territory.

Recommendation

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

Long Term Financial Plan

Financial Forecast



Financial Forecast

Objective

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

Recommendations in the 2000 plan are not incorporated into the financial forecast

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 1999 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 2000 Long Term Financial Plan with the exception of reserve transfers. The forecast basically incorporates *current* General Fund and other operating funds (Water, Sewer, and Golf) expenditure and revenue patterns and attempts to predict the City's future operating position.

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

Major forecast assumptions

- Economic and demographic data (average over five year forecast period):
 - ⇒ Inflation Average: 2.8%
 - ⇒ Population Growth Average: 3.0%
 - ⇒ Personal Income Growth Average: 6.6%
 - ⇒ Revenue Growth: 3.8% (5 year historical growth = 5.7%)
 - ⇒ Expenditure Growth: 3.2% (5 year historical growth = 4.4%)
- A 3% cost of living increase, previously approved by Council, has been included for FY 2000-01. Cost of living adjustments at 90% of the projected consumer price index for Southern California for FY 2001-02 and after.
- For expenditure estimating purposes, three new full-time positions are presumed to be added in FY 2000-01, with an additional two new full-time positions added in each of the following years, for a total of eleven positions included in the forecast.
- Reserve transfers total \$584,940 in FY 2000-01.
- Transfer of \$530,450 to the Street Improvement Program in FY 2000-01 and increased by an inflation factor in the out years.
- Actual expenditures projected at 0.5% less than current budgeted expenditures for all five years of the forecast.
- Revenues projected to exceed budgetary projections by 0.5% in all five years of the forecast.

Factors *not included* in the base forecast:

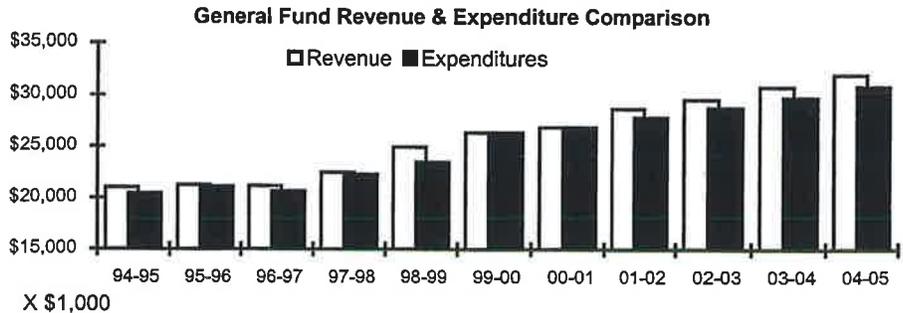
Factors not included in the forecast

- Forecast is based on the General and operating funds only.
- No new or enhanced programs included.
- Service fees from *proposed* new developments such as Marblehead Coastal.

Long Term Financial Plan

- Potential operating impact of capital facilities included in the Master Plan for City Facilities.
- Potential fiscal impact from the current compensation study.

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



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

2000 Forecast Summary (Operating Position)
(in thousands)

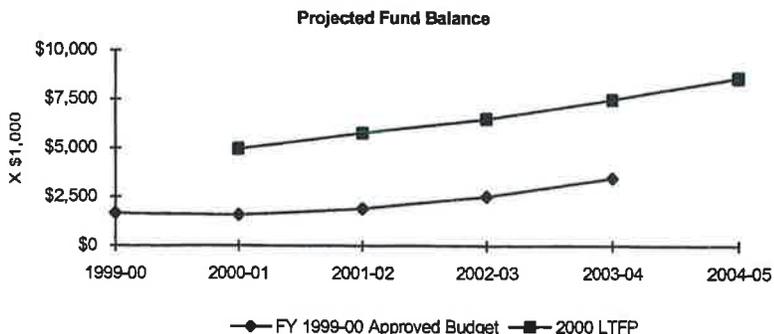
	2000-01	2001-02	2002-03	2003-04	2004-05
Revenues	\$27,070	\$28,061	\$28,935	\$30,180	\$31,349
Expenditures	26,597	27,552	28,491	29,476	30,511
Operating Result	\$473	\$509	\$444	\$704	\$838

Operating position is positive

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

The Projected Fund Balance chart and table below illustrates the impact of the City's current finances on future fund balances. As illustrated, fund balances are projected to be positive in all five years of the forecast. The improvement in fund balance projections is the result of higher than anticipated revenue collections, significant expenditure savings, and the overall improvement in the economy resulting in unprecedented growth in both the retail and residential market.

Projected fund balances



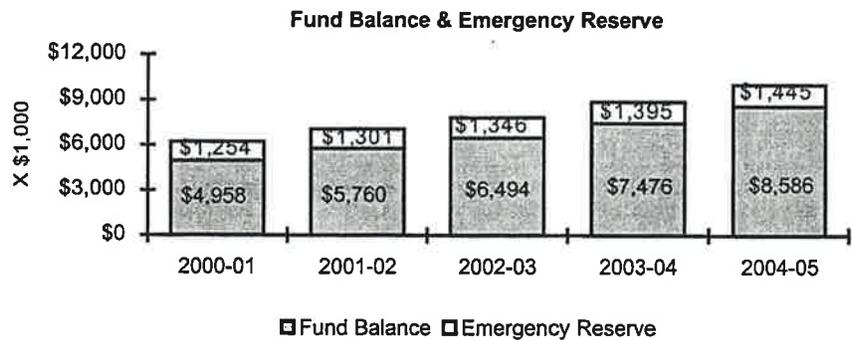
Projected Fund Balances (in thousands)

	00-01	01-02	02-03	03-04	04-05
Fund Balance	\$4,272	\$4,958	\$5,760	\$6,494	\$7,476
Revenues	27,693	28,685	29,558	30,803	31,972
Expenditures	26,873	27,834	28,779	29,772	30,814
Emer. Reserve	134	47	45	49	50
Fund Balance	\$4,958	\$5,760	\$6,494	\$7,476	\$8,586

Fund balances and emergency reserves

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

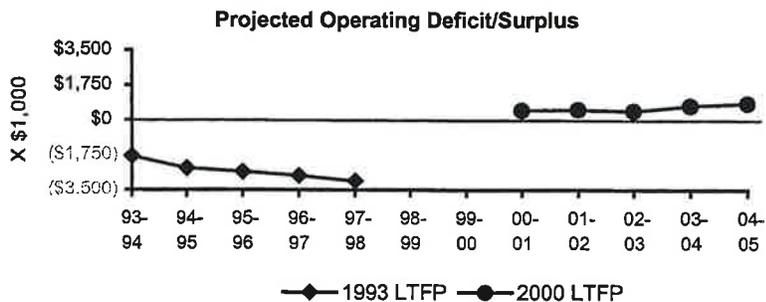
Fund balances, including reserves, will total \$6.2 million in FY 2000-01



As shown, the City will maintain total fund balances in excess of \$6.2 million, including emergency reserves of \$1.25 million, in FY 2000-01. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances. Emergency reserve fund balances are projected to remain at the 5% level in accordance with the City's fiscal policy. Fund balances will continue to grow due to the positive operating position of the City as well as continued growth in most sectors of the local economy.

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

Operating deficits & surplus



Long Term Financial Plan

Reserve Analysis

\$

Reserve Analysis

Objective

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

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

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

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

- *General Fund Emergency Reserve:* This reserve is established at 5% of General Fund operating expenditures. It is fully funded and totals \$1.1 million. In order to maintain the 5% level, a transfer of \$134,000 is recommended for next year. The fiscal policy was amended in 1997 in response to the financial crisis at that time, and the reserve was reduced from 8% to 5%. However, the Government Financial Officers Association (GFOA) recommends a level equivalent to one month's operating expenditures or 8.33%. Based upon the current Financial Trend Analysis that indicates the City has had operating surpluses for the past five consecutive years, it is recommended that the reserve level be reestablished at 8% of operating expenditures. In order to fund the Emergency Reserve at an 8% level, an annual transfer of \$240,000 for the next five years is recommended. This will require a change in the City's fiscal policy statement (see Fiscal Policy section of this volume of the Long Term Financial Plan).

Emergency reserves should be reestablished at 8% of operating expenditures

- *Council Contingency Reserve:* This reserve level is established at 1% of General Fund operating expenditures. A transfer of \$250,940 is recommended for the 2000-01 fiscal year.

A contribution of \$100,000 should be made in order to improve the compensated absence financial indicator

- *Accrued Leave Reserve Fund:* This fund is used to accumulate funds to pay for leave benefits for terminated employees. The level of the reserve is established annually and is currently projected to total approximately \$38,000 by the end of the year. A transfer of \$100,000 is recommended for the fiscal 2000-01 year.

General Liability Fund has reserves of \$565,000 and projected fund balance of \$620,000

- *General Liability Insurance Fund:* The fund has a current reserve of \$650,000. It is recommended to lower the reserve to \$565,000 which includes the self insurance retention (\$300,000), plus an additional \$265,000 (the average of the previous five years of claims costs not covered by the insurance pool). This fund is projected to close FY 1999-00 with a balance of \$620,000.

Long Term Financial Plan

The Workers' Compensation Fund requires a transfer of \$266,000 to fund the balance of outstanding claims

- *Workers' Compensation Insurance Fund:* The Workers' Compensation Insurance Fund finished FY 1998-99 with a positive balance of \$301,013, the first positive balance in several years. The 1999 LTFP recommended a transfer from the General Liability to cover the remaining "tail" of claims, but the transfer was delayed until the amount could be established. It is now recommended to transfer \$266,000 to fund the outstanding claims.

- *Fleet Replacement Reserve:* The Fiscal Policy requires that adequate reserves for the replacement of the City's fleet be maintained. This reserve is fully funded with a projected ending balance of \$1.6 million.

Capital equipment reserve fund transfers should be extended

- *Capital Equipment Replacement Reserve:* There is a requirement that the City allow for the replacement of worn and obsolete equipment other than vehicles. The fixed asset inventory in 1995 established the replacement cost of General Fund fixed assets, excluding buildings and building improvements at \$700,000. Over the past six years, the General Fund has made annual transfers of \$100,000 to fund this reserve and an additional transfer of \$100,000 is scheduled for FY 2000-01. However, the replacement cost of General fixed assets does not include the cost of replacing signalized traffic intersections, meters, timers and parking pay stations. An additional \$1.8 million is required to include these assets. It is recommended to continue the annual transfer of \$100,000 from the General Fund until the reserve is fully funded.

A total of \$6.3 million has been contributed to reserves since 1993

Through the annual LTFP and budget process, the City Council has set aside scarce resources in order to preserve and enhance the City's fiscal stability. Thus, the City has been able to contribute a total of *\$6.3 million* toward the funding of reserves over the past seven years.

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

Reserve	Reserve Contribution
General Fund Emergency Reserve	\$1,119,640
Council Contingency Reserve	\$1,450,000
General Liability	\$1,659,820
Workers Compensation	\$1,097,380
Accrued Leave Reserve	\$340,000
Capital Equipment Replacement Reserve	\$628,210

Total reserve contributions

Recommendations

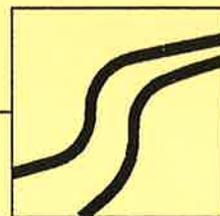
1. Budget \$240,000 in FY 2000-01, bringing the emergency reserve to \$1,359,640, or 5.4% of General Fund operating expenditures, for FY 2000-01. Annual transfers of \$240,000 are required until FY 2004-05 to raise the reserve to 8% of operating expenditures.
2. Revise City's fiscal policy to read, ". . .The level of the General Fund Emergency Reserve will be established at 8% of General Fund operating expenditures annually."
3. Recommend that \$250,940 be set aside in fiscal year 2000-01 to fund the Council Contingency Reserve.
4. Reduce the reserve in the General Liability Fund from the current reserve of \$650,000 to \$565,000. The reserve includes three times the self insurance retention (\$300,000), plus the average of the previous five years of claims cost not covered by the insurance pool (\$265,000). Revise the reserve for uncovered claims, if necessary, upon the completion of the actuarial study currently in process.
5. Transfer \$266,000 from the General Liability Fund to the Workers' Compensation Fund to cover the estimated outstanding claims at June 30, 2000.
6. Annually average past expenditures from the Accrued Leave Reserve Fund and base the annual transfer from the General Fund on this average. Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 2000-01 in the amount of \$100,000.
7. Continue funding the Capital Equipment Replacement Reserve Fund at \$100,000 annually from the General Fund.

Council Action

All recommendations were approved by the City Council by a vote of 4-0 on April 6, 2000.

Long Term Financial Plan

*Street Improvement
Program Update*



Street Improvement Program Update

Objective

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

93 street projects have completed and 13 projects are under construction

Since the approval of the program in July 1995, ninety-three (93) street projects have been completed and additional thirteen (13) projects are under construction and will be completed during FY 1999-00. Of the 106 street projects (totaling 30.19 miles), 43 projects were accelerated from their original schedule. Thirty (30) projects were accelerated within the program's first 5-year period and an additional thirteen (13) street projects have been accelerated from beyond the 5-year period.

The Program's short-term financial picture remains mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in savings of about \$3,000,000 or approximately 17 % of the original estimated street project costs. In addition, the City has received approximately \$1,350,000 in grants from the State Local Transportation Partnership Program (SLTPP).

On the other hand, actual annual program revenues of \$1.325 million collected from the Street Improvement Assessment District are approximately \$175,000 less than the \$1.5 million per year originally projected. This funding shortfall is the result of adjustments that were made to private golf courses and to other parcels based upon refined information from the Orange County Tax Assessor's office. Over the next 15 years, this means the District's total revenues will be approximately \$3.15 million less than originally projected. One additional concern is that some of the streets included in the Program are failing at a rate faster than staff had predicted. This will result in more streets having to be reconstructed rather than overlaid, which will likely double the costs for those streets in the future.

A long term financial forecast is difficult to predict. There are several program revenue sources the City does not have control of, which include Proposition 111 and Measure M Turnback funds. Measure M funds are scheduled to sunset in FY2013-14 and, if not renewed, the City will have to identify other sources of revenues to maintain its street quality standards. On the positive side, the City does have a stable and reliable funding source from the Street Assessment District. In the final analysis there are certain program uncertainties which include projecting pavement life (wet vs. dry winters), rehabilitation vs. reconstruction (2x cost factor), and inflationary pressures.

Long Term Financial Plan

The major street maintenance program provides maintenance on streets not scheduled in the Street Improvement Program

Thus far the program has not been impacted by inflationary factors. Based upon the demonstrated success of the program over the past 4 ½ years, there is every reason to believe that the City will continue to make appropriate and sustained progress in meeting its program goals in the foreseeable future.

As part of the FY 1999-00 budget, the City Council re-established the City's Major Street Maintenance Program. This Major Street Maintenance Program will provide moderate and major maintenance service on streets that were not scheduled in the Street Improvement Program or improvements that were scheduled several years into the future. The City Council also approved a two-year project list for the Major Street Maintenance Program. All of the scheduled projects within the first year are already completed during the first half of the FY 1999-00 and within budget. In recognition of the need for this effort, staff is recommending that the City reconfirm the Major Street Maintenance Program with an annual funding of \$300,000 for the next five (5) years.

Recommendation

1. Approve and authorize the allocation of a General Fund contribution of \$530,450 for the coming FY 2000-01.
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. Reconfirm the Major Street Maintenance Program with an annual funding of \$300,000 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.

Council Action

All recommendations were approved by the City Council by a vote of 4-0 on April 8, 2000.

*Information Systems
Strategic Plan*



Information Systems Strategic Plan Update

Objective

To provide an update and funding analysis of the implementation of the City's Information Systems Strategic Plan

The focus is a disaster recovery plan and expanding communication via the Internet

With Y2K issues safely behind, the Information Systems Strategic Plan focuses on the enhancement of the City's Computer disaster recovery plan and expanding the City's ability to communicate and provide services via the Internet. Following are key issues facing the City regarding the implementation of City's Information Systems Strategic Plan:

- *Upgrading the Financial System to InForum Gold* – The City's financial systems should be upgraded to the vendor's latest "Windows" version, which has proven to be more flexible and user friendly. The new version also takes advantage of the City's current high speed network infrastructure to provide financial data to all desktops.
- *Disaster Recovery*: Includes both hardware and software necessary to provide centralized "bare metal backups" so that the City's ten primary servers could be replaced quickly with minimal downtime and data loss in the event of a system failure or disaster.
- *Software Upgrades: Windows 2000 & Office 2000* – Within 18 months Microsoft Windows 2000 and Office 2000 will be the standard of the industry. Windows 2000 provides the benefits of additional reliability and centralized management of system.
- *Web Site Hosting* – The City's current static web site will be replaced with an interactive Web site that could provide the public with additional information and services. These include the ability to check account balances and permit status online. This project will determine whether to develop the site with in house programmers or contract it to a Web Hosting company.
- *GIS on the Intranet* – The City's high speed Internet access allows staff to take advantage of GIS maps and data provided on the Web, at a cost far below what can be done in house. This subscription service provides GIS parcel data directly to the desktops via the Web Browsers. This project also includes the option of purchasing aerial photos and topographical layers for the City's base map.
- *Replace personal computers* – The City has an ongoing replacement program that ensures that all staff has appropriate computer equipment. During FY 2000-2001, 40 computers are scheduled to be replaced.

Long Term Financial Plan

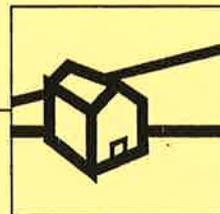
Recommendations

1. Approve the updated Information Systems Strategic Plan in concept.
2. Approve the upgrade of the City's financial systems to the new InForum Gold product at a cost not to exceed \$50,000.
3. Approve the implementation of a Disaster Recovery plan at a cost not to exceed \$16,500 as part of the FY 2000-2001 Information Services budget.
4. Direct staff to move forward with the development of an interactive web site to improve communication with the public. Information Services will determine an appropriate course of action either to contract some or all of the management of the web site or develop the web site in house.
5. Direct staff to determine the appropriateness of upgrading the City's computer systems to Microsoft Windows 2000 and/or Microsoft Office 2000 during FY 2000-2001. If appropriate, upgrade the City's systems at a cost not to exceed \$37,000.
6. Approve the implementation of an Internet based GIS system at a cost not to exceed \$17,000. Prioritize the purchase of a topographical layer for the engineering base map for \$10,000 and /or a digital orthophotography layer (aerial photos) for \$68,000.
7. Approve the upgrade of 40 computers at a cost not to exceed \$55,000.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on April 8, 2000.

Economic Development Update



Economic Development Update

Objective

To update the progress made in the implementation of the City's Economic Development Plan and to provide projections concerning sales tax growth and business development trends.

The Economic Development Update focuses on three objectives

The City's Economic Development Plan is focused on three specific areas which are 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization. In conjunction with these program initiatives, the City Council has directed staff to work closely with the Chamber of Commerce, Downtown Business Association and other affected businesses to further strengthen the Downtown area. Staff has also been tasked to provide coordination and support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program as well as continue to provide business ombudsman and developer advocacy services throughout the business community. In addition to these activities, staff has continued to market and promote the recruitment (attraction) of new retail businesses and new business development in the Rancho San Clemente Business Park. With these programs in place, let's examine the progress that's been made during the past four years

- **Sales Tax Leakage** – Curtail the outflow of sales tax dollars to other communities in the South County area by strengthening and expanding the City's retail tax base.

According to a firm called Ultra Research Inc., for the year ended 1998, the City's retail sales leakage factor was 53% which translates to a loss of \$350.4 million in all taxable sales and a loss of sales tax revenues to the City of \$3.5 million. There has been some minor erosion in the City's standing relative to other communities in Orange County. With respect to per capita taxable sales, out of 31 cities the City ranked 27th in 1995 and ranked 29th in 1998. Major taxable retail sales leakage sources are reflected in the table below.

Retail Sales Leakage by Category

<u>1995</u> <u>Percent</u>	<u>1998</u> <u>Percent</u>	<u>Type of Retail Store</u>
89	90	Auto Dealers and Auto Suppliers
83	76	Home Furnishings and Appliances
76	65	General Merchandise Stores
74	71	Building Materials and Farm Implements
76	67	Apparel Stores
51	53	Other Retail Stores

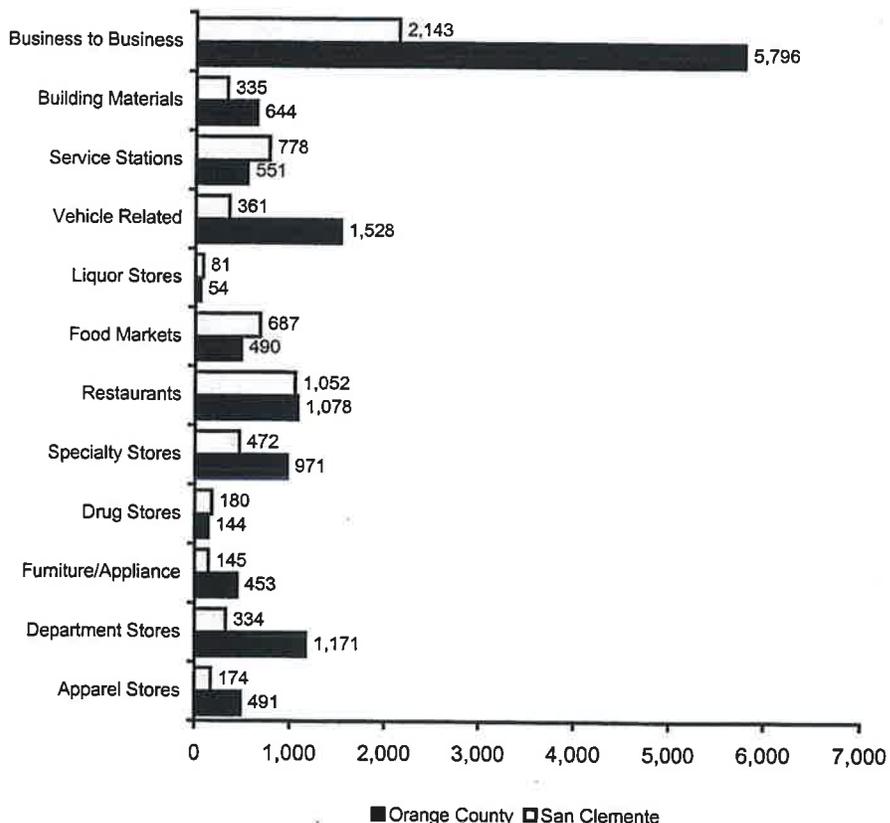
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Sales tax per capita

San Clemente compared to Orange County

Municipal Resources Consultants, now known as MBIA Muni Services has provided data which shows how the City's sales tax generation compares to the Orange County average for the four quarters, ending the third quarter 1999.

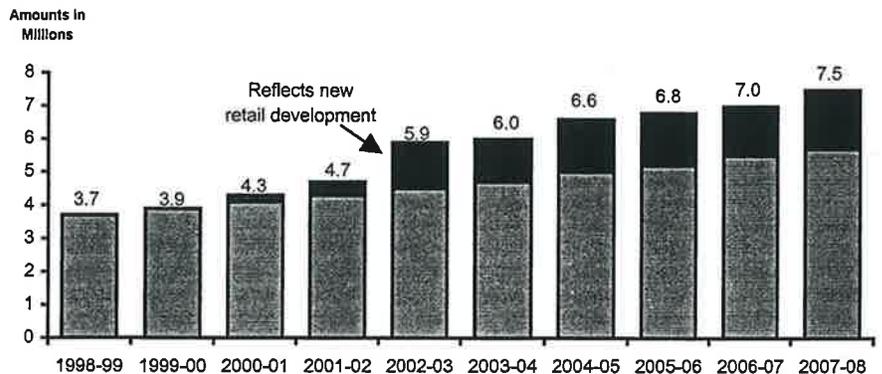
Taxable Sales Per Capita



Residents have had no alternative but to go to other communities to meet consumer needs

As was the case in the 1996 report, the data in Chart I very clearly demonstrates that a large percentage of our residents have had no alternative but to go to other communities to meet their most basic consumer needs. During the past three years the City has made every effort to attract additional retailing resources to the community and, as a result, approximately 430,000 square feet of new retail space is being developed at the Plaza Pacifica Shopping Center. Additionally, the Marblehead Coastal project will add another 750,000 square feet of retailing, restaurant and theater uses which will meet not only local consumer needs but also serve as a major regional retailing draw for South Orange County and for hundreds of thousands of visitors and travelers annually passing through the community on the I-5 Freeway. These new retail developments will also add considerable new sales tax revenues to the City's coffers as reflected in chart on the following page.

Sales Tax Revenue Projection Adjusted for Retail Development



As part of the City's Long Term Financial Report program for this fiscal year, staff has prepared a special Market and Land Use Study. Underscored in this Study is the importance of successfully pursuing and achieving the development of the Plaza Pacifica and Marblehead Coastal retail projects. The long term fiscal health of this community will, without question, be predicated on the development of these projects.

- **Reinvestment and Revitalization** – Encourage and stimulate reinvestment and revitalization in specific commercial and business/industrial areas in the community.

Downtown improvements

At the direction of the City Council, staff has worked closely with the leaders of the Downtown Business Association (DBA) to implement the Central Business District Transition Program. The boundaries of this revitalization project are El Camino Real, from Palizada to Presidio, and Avenida Del Mar, from El Camino Real to Calle Seville including Avenida Granada and Avenida Cabrillo. During the past four years the City has expended an estimated \$150,000 in improvements to the Downtown area. With the submission of the San Clemente Revitalization 2000 Committee's recommendations to the City Council, the City will embark on a major investment program which will result in the strengthening of existing businesses and the attraction of new specialty retailing firms to the Downtown area.

In a separate program initiative several years ago, the City Council selected property owners and business operators in the Los Molinos business/industrial area to serve as a special Business Advisory Committee. The Committee has provided invaluable assistance and guidance to the Council and staff regarding the development and adoption of the West Pico Corridor Specific Plan and they've also assisted the City's efforts in stimulating interest and participation in the revitalization of this important commercial business area. In response to

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the Committee's recommendations, the City has embarked on a major public works improvement program which calls for the design and installation of a new storm drain system through Bonita Canyon to the MO2 Channel, the undergrounding of various utilities and the rehabilitation of Calle de los Molinos and Calle Valle. Valued in excess of \$2.5 million, these improvements should be completed in the fall of this year.

The revitalization of older commercial shopping centers continues to be a concern

The revitalization of older commercial shopping centers continues to be a concern to the City Council and the community. During the past two years, several older shopping centers have undertaken significant improvements. These centers include Ocean View Plaza, Pico Plaza and K-Mart Plaza. Several of the centers are under new management and the significant rehabilitation and modernization of these facilities promises to provide new commercial life and new retailing resources for our residents and visitors alike.

- **Increased Business Attraction to the City** – Maximize the City's visibility and investment potential in terms of capturing new retail, business and light industrial development.

Over the past four years, the City has enjoyed considerable success in its efforts to attract new businesses to the community. The new retail/entertainment developments (Plaza Pacifica, Marblehead Coastal Promenade and Los Mares Theater Complex) totaling 1,177,000 square feet are excellent examples of what has been accomplished. Equally important has been the City's demonstrated ability to facilitate and secure new development in the Rancho San Clemente Business Park. Since 1997, a total of 20 additional buildings have been built which has resulted in the addition of 595,000 square feet (33% increase from 1993) to the Business Park. At this time there are also an additional 5 buildings (185,000 square feet) in for City plan check and these facilities should be under construction this calendar year. If this development scenario holds, at the end of the Fiscal Year 2000-01 the Business Park will be approximately 85% built out. The current vacancy rate for existing products in the Business Park is 3.4%. The largest amount of space currently available is the direct result of several major companies leaving their previous locations to take up new build-to-suit space elsewhere in the Business Park. (See Chart VII).

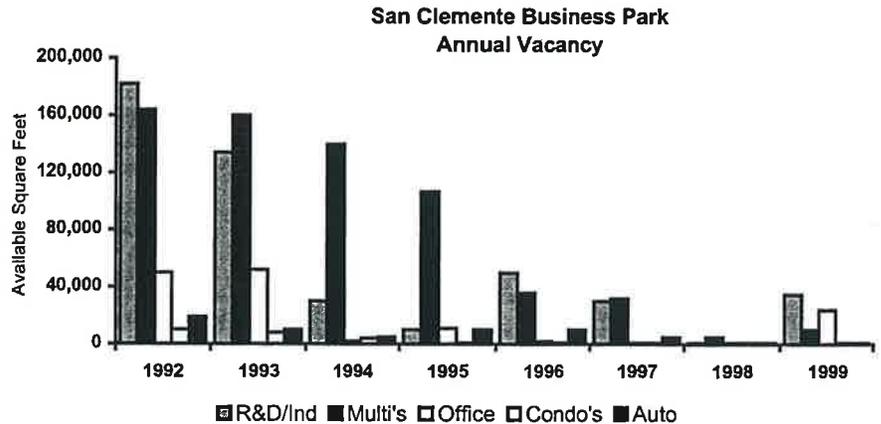


Chart VII

- **Expand Visitor Events** – Promote the increase of visitor supported/generated commercial activities and events to capture a larger market share of available tax revenues.

Promote an increase of visitor supported activities and events

Over the years, the Ocean Festival, the Chamber of Commerce's Fiesta Celebration and the Downtown Business Association's Classic Car Show have brought thousands of visitors into the community. Companion to these special events, the Pier Bowl and Downtown area have greatly benefited from the summer Beach Train program which has brought thousands of visitors on one-day excursions from the Inland Empire to our City. Other events that have proven to be valuable visitor draws are the DBA's monthly Arts and Crafts Show, the City sponsored weekly Farmers Market and the Chamber of Commerce Chowder Cook-off. In addition to these events the City is currently working on staging two international surfing competitions which could include television media coverage as well.

Recommendations

1. Based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, direct staff to continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement improvement projects and programs for the Downtown area.
2. Continue to aggressively market and promote the recruitment and attraction of new business firms to the Rancho San Clemente Business Park and Talega Business Park.
3. With respect to older commercial shopping centers, direct staff to provide appropriate assistance and support for the revitalization of the centers with specific emphasis on Pico Plaza Shopping Center and K-Mart Shopping Center.

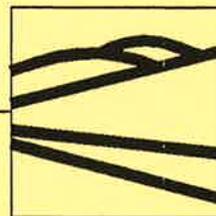
Long Term Financial Plan

4. Continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program.
5. Continue to diligently provide business ombudsman and developer advocacy services with the business community and continue to coordinate resolution and response to complaints and requests for business related support services.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on April 8, 2000.

Land Use Market Study



Land Use Market Study

Objective

To report the findings of the recently updated City-wide market study report, analyze how the findings affect fiscal balance at build-out, and analyze and discuss possible land use implications.

Summary

The Market Study indicates market demand is about the same as in 1990

The recently completed 1999 Market Study indicates that projected market demand appears to be about the same as projected market demand was in 1990 for hotels/motels; office/business parks/industrial uses for the retail commercial sector, projected. Retail commercial market demand in 1999, under the high projection scenario, is somewhat less than demand projected in 1990; and, for the 1999 low projection scenario, projected demand is significantly less than demand projected in 1990. Commercial retail development in areas outside the City, over the past ten years, no doubt accounts for this loss in retail market demand for the local economy.

Fiscal analysis using the high and low market demands projections indicate the following. Using an aggressive build-out scenario, based on the higher market demand projections, the City would be in a position to steadily add parks and community recreational facilities, on a yearly basis. In addition, the aggressive scenario will be able to support additional services and amenities that have not been included in the MPCF study (i.e., downtown improvements, Casa Romantica, beach access and environmental improvements, etc.). The aggressive scenario results in a positive fiscal balance of \$1,000,000 or more per year for 2010 and beyond. Using the conservative build-out scenario, which is based on the lower projected market demand assumptions, several important and highly desired community amenities will have to be delayed until 2009 or later. In addition, new project initiatives not currently considered in the MPCF will have very limited assistance from the City, due to severe budget constraints. Whether the City achieves the high or low market projections, or something in between, will depend on a number of factors; some of these factors will be within the control of the City, and some will not.

Key assumptions included in the Fiscal Impact Analysis are the Talega fire station would be built in 2004 under both the conservative and aggressive build-out scenarios. But, the Forster Ranch community center, gym, and aquatic complex would be built in 2005 under the aggressive build-out scenario and that complex would have to be delayed until 2009, under the conservative build-out scenario.

Long Term Financial Plan

Marblehead & Plaza Pacifica commercial complexes are vital to fiscal health

What becomes crystal clear as a result of the analysis is that both the Marblehead commercial complex and the Plaza Pacifica complex are vital to achieving fiscal health. In addition, revitalization of the historic commercial areas in town will be vitally important if we are to achieve the full potential of the high build-out projections for commercial retail growth.

Policy Implications

- In order to achieve maximum possible market demand absorption, the City should continue pursuing the revitalization of the older parts of the City, including additional retail/restaurant development in the historic commercial districts.
- The City should resist any temptation to significantly increase commercial retail zoning on the fringe of the City. Some neighborhood service commercial would be desirable in Talega, from a convenience standpoint. However, major regional retail should be concentrated at Plaza Pacifica and Marblehead. Major specialty/professional and restaurant commercial uses should be focused in the historic commercial districts.
- The City should carefully consider the type of commercial zoning that it has. An over abundance of one type of commercial zoning should be avoided, (i.e., neighborhood commercial) while complementary types of commercial retail zoning should be encouraged (Marblehead Coastal regional commercial, Plaza Pacifica, and the specialty downtown commercial areas are all complementary in that each project area captures a different “niche” of the overall general retail market). While these specific projects do have some market overlap, they are not directly in competition with one another.
- This City should pursue business park and office use that generate higher sales tax whenever possible.
- The City should pursue hotel uses that generate TOT rates.
- The City should pursue more tourism and tourism based business by creating more infrastructures for visitors serving commercial uses. This infrastructure would include development of cultural interest in the town, such as the Casa Romantica Cultural Center. This would then, in turn, support bed and breakfast facilities, restaurants, and shops, infilling the historic commercial areas of the City.
- The City should keep close track of new expenses. Especially, expenses that would become long-term operating obligations. Using the Master Plan for City Facilities, the City should carefully consider when new facilities should be phased in due to the impact on the operations cost side of the equation.

Council will need to carefully consider when new facilities are phased in

Conclusions

The promise of great potential that was noted in 1990 is starting to be realized in the year 2000. Dynamic plans have been approved at Marblehead Coastal and Plaza Pacifica. The City Council has directed staffs' energies and resources toward a revitalization effort for the historic commercial districts of the City. The Council has directed staffs' attention and efforts toward making the beach a better and safer resource for the community and tourists alike; thereby, improving the long-term prospects for greater commercial infill and sales tax generation in historic commercial districts of town. Cultural amenities to support tourism and commercial revitalization are underway in the form of the Casa Romantica restoration reuse planning efforts and the Pageant of the Masters' proposals. The Council will need to carefully consider when new facilities are phased in and should use the Master Plan for City Facilities to help guide them in these policy decisions. If all these plans and recommendations are carefully followed, the updated market analysis indicates that there will be sufficient market demand to make all of these plans a reality; and, more importantly, there will be fiscal support to operate and maintain the improved community amenities, into the foreseeable future.

Recommendations

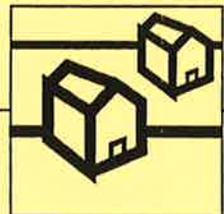
1. Staff recommends that Council consider the ramifications of the low projections and high projections of the market study, and the aggressive conservative scenarios of the Fiscal Impact Model, in making decisions concerning various policy choices.

Council Action

No Action taken by the City Council on April 8, 2000.

Long Term Financial Plan

*Master Plan
for City Facilities*



Master Plan for City Facilities

Objective

To provide decision makers and the public with a comprehensive master plan report for the identification and development of public facilities necessary to service the City at build-out

The Master Plan for City Facilities was developed to address siting options, phasing, funding and O&M costs

Positive economic times, growth in the City's tax base, and related resources for capital improvements have presented the City with an opportunity to plan for future facilities to accommodate the future population growth. The comprehensive Master Plan for City Facilities (MPCF) report was developed to address and analyze siting options, construction phasing, priorities, funding availability, operations and maintenance costs and other important issues regarding the development of future public facilities. It is anticipated that the City's population will increase to 65,108 at build-out in 2011. To accommodate this increase, a report was prepared that essentially serves as a mechanism for addressing the potential impact of facilities, timing, operational costs and the capacity for the City to fund related costs.

The following new facilities have been identified:

- *Civic Center*
- *Fire Stations*
- *Senior Center*
- *Community Center*
- *Aquatic Center*
- *Parks*

Alternative facility siting options for these identified facilities and priorities, operation and required maintenance costs of community facilities have also been addressed in the MPCF report.

Civic Center

In recognizing the importance of having all City departments located at one Civic Center location -- primarily for the convenience to the public and increased internal efficiencies -- four Civic Center site alternatives were addressed. Existing Civic Center facilities are inadequate and inefficient, due to lack of space for even those existing departments. It is likely that this consolidation will improve customer service, create a showcase for the City and create a source of community pride. Below are the site alternatives studied:

- Existing Civic Center Site
- Downtown Campus
- Vista Hermosa at La Pata
- North Beach

Long Term Financial Plan

Fire Station

Additional fire service facilities, operated by the Orange County Fire Authority (OCFA), will be needed to maintain the demand of an increasing population. The report analyzed the siting of future fire service facilities to ensure that they meet the response time criteria set by the OCFA. In doing so, the potential relocation of fire station No. 59 and No. 60 would need to occur.

Senior Center

The Senior Center currently shares space with the San Clemente Library and because the library is in need of expansion requiring the space currently occupied by the Senior Center, a new Senior Center location needed to be identified. Subsequently, a site for a potential new Senior Center, located just west of El Camino Real, between Avenida Rosa and Avenida Victoria has been secured under the terms of a one-year option to purchase. A site plan for a proposed joint use of the site with a potential new Fire Station No. 60 was prepared and will be considered.

Parks

Parks serve as a great source of recreation for members of the community. The City takes great pride in its commitment to developing and maintaining its public parks and recreational facilities and the City plans to keep pace with the demand by preparing for future development of needed facilities. The San Clemente Parks and Recreation Master Plan provides specific information in regard to parks and recreational facilities for the future of the City. The MPCF report incorporated this information into the report and analyzed associated funding sources, estimated costs (including operating costs) and construction timeframes of future recreation-related facilities.

It is expected that City Council will utilize the MPCF report on a routine basis to monitor, assess and modify the phasing in of City facilities over the next ten years. Basically, the MPCF report will provide City Council with an analytical tool for strategic planning and placement of future City facilities. In considering the construction of facilities, City Council will consider the projections of construction costs for each new planned capital facility. These projected construction costs will be carefully timed to coincide with sufficient revenues from the funding sources available. Through the responsible planning and projections observed in the MPCF report, the City will deliver optimal facilities for the community to enjoy for future generations to come.

Recommendations

1. Direct staff to verify the need for a consolidated Civic Center. Concur with the four alternative sites for the purpose of future review and public process. Direct staff to develop a process to solicit public input and refine criteria.

The City's Parks and Recreation Master Plan is the guide to future development of parks

Issue Summary

Recommendations

2. Establish the future Talega Fire Station site through amendments to the Talega Specific Plan and General Plan appropriately utilizing analysis in the Master Plan for City Facilities (MPCF) report.
3. Seek to identify and/or acquire a relocation site for Fire Station No. 59 utilizing criteria in the MPCF report. Fire Station No. 59 will be relocated no sooner than the Talega Fire Station is operational.
4. Confirm that Fire Station No. 60 will be relocated to a site between Avenida Rosa and Avenida Victoria. The site will be shared with the proposed Senior Citizens Center. The timing of design construction for the two sites should be concurrent.
5. Negotiate an operating agreement and financing plan for the development of a Senior Citizens Center with South County Seniors.
6. Work with the Orange County Library Administration to develop a plan to reuse the current Senior Center space to meet future library needs.
7. Direct staff and the Beaches, Parks and Recreation Commission that the Parks and Recreation Master Plan should be amended, eliminating special use facilities (Community Center, gymnasium and pool complex) from the future La Pata/Vista Hermosa Park. These facilities will be located within the Forster Ranch Community Park.
8. Update the MPCF report annually and include a fiscal analysis as an element of the Long Term Financial Plan (LTFP). Special emphasis should be placed on a comparison of actual retail/commercial development and revenue growth with projections and actual expenditure growth with those projected in the financial model.
9. Receive and file the MPCF report and use Table 8.1-1, "Estimated Construction and Operating Costs – Recommended Timing for City Facilities" for planning purposes and to facilitate the public review process.
10. Establish a new fiscal policy, which will establish that the City will delay development of capital facilities until sustainable revenue has been secured to support development, operations and maintenance costs.
11. Apply MPCF methodology and analysis to proposed capital projects not included in the current plan (i.e., Beach Access Safety Improvements, Beach Resource Improvements, Revitalization 2000 Improvements, Pageant of the Masters Proposal, and Casa Romantica Restoration).

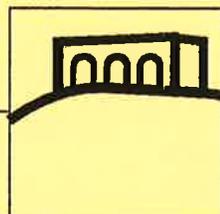
Council Action

City Council approved Staff Recommendations 1 through 11 on Agenda by a vote of 4-0 on April 8, 2000.

Long Term Financial Plan

Parque del Mar maintenance is to be considered during the Vital Few Priorities session.

*Casa Romantica and
Cultural Center Restoration*



Casa Romantica Cultural Center and Restoration

Objective

To report on the findings of the recently completed study to determine feasibility of operating the Casa Romantica as a community Cultural and Education Center. To discuss the suggested ways and means to (a) preserve and restore the Casa (b) provide public access to the Casa (c) and make the Casa self-sustaining over the long term.

Feasibility study to use the Casa Romantica as a cultural and educational center

On March 24, 1999 the City Council directed staff to begin a feasibility study to rehabilitate and reuse the Casa Romantica as a cultural and educational center. Wolf Keens & Company (WKC) and Chattel Architecture, Planning & Preservation, Inc. (Chattel Architecture) were contracted by the City to complete the study. WKC has provided a plan that will rehabilitate the Casa Romantica and will meet the community's desire for a cultural and educational center. The plan is financially feasible, but it will require strong community commitment for it to succeed.

The plan suggests that the City adopt a set of goals for the Casa that address community-wide access, preservation, building an effective organizational structure, sensible space planning, respect the neighborhood, and cultural tourism objectives. The local audience base for the Casa should include all City residents of all ethnic backgrounds. The Casa should also look to attract regional audiences. Local and regional cultural, arts and service organizations should also be encouraged to use the Casa Romantica.

The goal...to retain the historic fabric of the building

In developing usable spaces to accommodate programming, the goal of WKC and Chattel Architecture is to retain the historic fabric of the building while meeting the community's need for a cultural center. Chattel Architecture assessed each area within the Casa, identifying spaces that should be of primary significance and areas of less importance, where some alterations may be accommodated. This allows areas that are identified as secondary or tertiary significance to potentially be modified to create functional space for the cultural center programs. WKC and Chattel Architecture also suggest that the Casa Romantica grounds be developed into horticultural gardens with new terraces that would create additional usable space.

All the rooms and outdoor terraces of the Casa would be active spaces that can be used for a variety of cultural, arts and educational uses. Some of the uses include displays on local and regional history, art gallery, site tours, special collections library, educational programs, meeting spaces, gift shop, tea cart, lecture series, readings, small scale concerts and performances, and a tourist information center. There will also be rental space available for smaller scale weddings, corporate meetings and social events.

The study recommends that the Casa be overseen and operated by a newly created nonprofit organization. The initial five-member board of trustees should be selected based on their leadership, commitment and willingness to

Long Term Financial Plan

provide and raise funds for the Casa's rehabilitation and operation. The role of the trustees should include oversight, organizational policy and planning, liaison with the City, resource development, financial management, selection and supervision of the executive director and public relations. The City should lease the Casa to the nonprofit for \$1/year contingent on a lease agreement that assures appropriate use and oversight accountability.

Total capital cost of the project \$2.0 million

The total capital cost of the project is approximately \$2 million (\$1.75 million for rehabilitation/construction cost, \$334,000 for design and construction related consultant cost). The annual operation budget for the facility is approximately \$400,000. The bridge funding of approximately \$300,000 will be required to cover interim operational shortfalls over the next three years.

A fundraising feasibility study should be completed prior to launching a capital campaign. The goal of the campaign would be based on a \$6 million program, with 2/3 already raised or committed and approximately \$2 million left to raise. Naming opportunities for the gardens and rooms within the Casa Romantica show some promise as a fund-raising tool. The City should commit to providing the necessary bridge funding for the project but thereafter not be seen as an ongoing donor to the Casa. The City should work with Orange County Community Foundation to secure money for the initial design phase of the project.

Next Steps

WKC study recommends a two-year implementation program designed for the opening of the community Cultural and Education Center in April of 2002.

April 2000-June 2000

- Finalize the agreement between OCCF and the City
- Initiate discussions with the County Library about Special Collections Library
- Initiate discussions with the Chamber and Visitors Bureau regarding visitor's Kiosk
- Begin legal work to establish nonprofit entity
- Complete process of nominating and appointing the initial five trustees
- Write RFP for Executive Director/Curator search
- Conduct Executive Director/Curator search
- Approve budget for bridge funding
- RFP for capital campaign feasibility study
- Select consultant for fund-raising feasibility study
- Secure property and eliminate immediate life safety hazards
- Hire architectural team for design phase
- Retain exhibit design consultant
- Hire preservation architect for project review and oversight
- Create a newsletter to all residents

Next steps....

July 2000-March 2001

- Initiate discussions about program options and collaboration with Universities, Capistrano Unified School District and other nonprofit organizations.
- Complete work to establish a new nonprofit at the Casa
- Fill Board slots
- Establish Board committees
- Hire Executive Director/Curator
- Provide annual report to Council
- Secure Board of Directors liability insurance
- Complete fund-raising feasibility study
- Finalize capital campaign committee
- Identify fund-raising consultant to assist with campaign
- Line up initial lead and large gifts
- Begin schematic design, design development and construction documents
- Begin & complete permit process through the City and Coastal Commission
- Distribute newsletter to community

April 2001 – March 2002

- Hire Administrative Assistant, Marketing Director, Janitor and Gardener
- Select Program/Education Director and Facility attendants for hire as of April 1, 2002
- Retain security consultant
- Continue capital campaign
- Begin plans for annual fund raising
- Begin work on annual grants
- Hazardous materials abatement and construction
- Begin and complete construction
- Community newsletters

Recommendations

The Casa Romantica & Cultural Center Restoration report was presented to City Council on March 15, 2000. The following actions were adopted:

1. Receive and file the Casa Romantica Feasibility Study: A Cultural and Educational Center for San Clemente.
2. Direct staff to present further recommendations as a part of the Long Term Financial Plan (LTFP) and Vital Few Priority process.
3. Appoint Judy Swayne, Ruth Denault, Evelyn Winkel, G. Wayne Eggleston and Dr. Don Rickner to the nominating committee for the purpose of recommending to the City Council the first five trustees of the Casa Romantica non-profit board.

Long Term Financial Plan

The Long Term Financial Plan recommendations are:

1. Direct staff to prepare a schedule and budget request for a three-year implementation plan; \$108,100 in year one, \$170,776 in year two and \$40,202 in year three (per Next Steps outlined in this report and in detail in the WKC study) that includes the planing process, capital improvements, and interim management and operations for approval and funding.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on April 8, 2000. Staff directed to apply for two grants created by Proposition 12.

Debt Policy

\$ \$ \$

Debt Policy

Objective

To develop a comprehensive debt policy that establishes the parameters for issuing and managing debt issued by the City and component units.

Summary

The following debt policies were developed in an effort to standardize and rationalize the issuance and management of debt by the San Clemente and its component units. The policies apply to all direct debt issued by San Clemente, including leases, debt guaranteed by the City, and revenue bonds issued by the City. The policies also apply to so-called no-commitment debt and to conduit debt of the City.

The City's budget practices generally have been that operating revenues fully cover operating expenses, including debt service; established reserves meet minimum policy levels; "one-time" revenues are used to fund nonrecurring expenditures; and the prioritization of capital projects eligible for debt financing is accomplished through a "needs assessment" undertaken in the formulation and development of the City's Capital Improvement Budget.

The policies are divided into discrete sections relating to: the purposes and uses of debt by the City; the City's creditworthiness objectives; the standards and structure to be used in City debt issues; debt administration and process; criteria for selection of the debt consulting team; and a glossary of terms.

Debt will only be undertaken when the City believes that the project revenues or specific resources will be available and sufficient to service the debt over its life. City debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed. The policies establish criteria for internal, inter-fund borrowing.

Before issuing lease revenue debt or financing leases, the City will determine that the proposed facility is both necessary and desirable, and that no other financing method is practical to finance it. The City shall only use lease revenue debt or financing leases if the tests set forth in the policies are met.

The City seeks to maintain the highest possible credit ratings for all categories of short- and long-term direct debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

The City will seek to structure debt with level principal and interest costs over the life of the debt.

As a matter of policy, all long-term debt issuances require the approval of the City Council.

The establishment of a Debt Policy is the core of a well-managed debt program

Long Term Financial Plan

The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City's General Plan and with the City's overall service and policy objectives, as determined by the City Council. It shall be the City's policy to approve for conduit financing only those projects that demonstrate a "significant public benefit." The City will require a deposit of its anticipated fees and expenses for any entity seeking financing through the City as a conduit.

A Debt Management Team will be established

The policies establish a Debt Management Team, comprised "ex officio" of the City Manager, the Finance and Administrative Services Director, the City Treasurer, the Public Works/Economic Development Director and the City Attorney (Bond Counsel), or their respective designee(s). The Debt Management Team is authorized to provide advice to the City Council, the City Manager, the Finance and Administrative Services Director, and the various Departments of the City in all matters pertaining to the creation of debt. For all debt sales, the City will require that the action taken by the City Council to incur the debt will be taken as a regular business item, and at a regular or special City Council meeting, consistent with state law.

The City may engage an underwriter for a negotiated sale of debt through a competitive process administered by the City's Finance and Administrative Services Department based on the prior recommendation of the City's Debt Management Team.

All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all statutory requirements necessary for issuance, and determining the federal income tax status of such debt. Bond counsel will be selected by the Director, Finance and Administrative Services based on the prior recommendation of the City's Debt Management Team.

While engagement of a financial advisor on each City debt issue is not required, it is strongly encouraged by the policies. The City may engage an external financial advisor through a competitive process administered by the City's Finance and Administrative Services Department.

Any unsolicited financing proposal to a City department, agency, or employee involving pledge or other extension of the City's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Finance and Administrative Services Department for review by the City's Debt Management Team prior to submittal to the City Council for consideration.

Recommendations

1. Adopt the proposed debt policy.

Issue Summary

Council Action

All recommendations were approved by the City Council by a vote of 4-0 on April 6, 2000. Amended to include a Councilmember on the Debt Management Team.

Long Term Financial Plan

Compensation Analysis



Compensation Analysis

Objective

To adopt a revised compensation report, which restructures the City's compensation plan, and to also adopt the recommendations regarding plan design changes to the City's retirement plan.

Summary

On February 25, 1995, the City Council adopted a revised classification and compensation study, which created a revised classification plan and new salary schedules for General and Part-Time employees, Confidential employees, Management employees and Executive Management employees.

A revision to the 1995 compensation study was conducted

The City compensation plan is one of the most important elements of its personnel system and should accomplish the following goals and objectives:

- Ensure that the City has the ability to attract and retain well-qualified personnel
- Provide a defensible and technically sound basis for compensating employees
- Allow flexibility and adaptability for making compensation decisions
- Ensure that the City's compensation practices are competitive and consistent with those of comparable employers.

Over the past 6 years, staff has updated the City's labor market survey and has reviewed the results of the Orange County Labor Market Survey and determined some positions are below the labor market median. In addition, several employees have left the employment of the City or are contemplating leaving the City, because wages are more competitive in other agencies.

Eighteen cities in Orange and San Diego counties provided labor market data

The firm of Johnson and Associates was selected to conduct the compensation study of all City classifications. Eighteen cities in Orange and San Diego counties provided the labor market data. Classifications were placed at the labor market median.

In addition, Johnson and Associates reviewed employee benefits offered by the City and compared them to other cities. The results indicated that the City is at the median in relationship to employee benefits.

The City's retirement plan was also evaluated

The second issue addressed by this report is the analysis of the City's retirement plan. For safety positions, employees are covered by the CalPERS retirement plan. However, for general employees, the City has a defined benefit retirement plan which is administered by New England Financial. It was intended that both plans provide comparable benefits. The City recently analyzed and evaluated the CalPERS plan and the City's private plan to see if any differences developed over the past 2 decades. As a result of this analysis, it was found that the retirement plan requires amendment in some areas.

Long Term Financial Plan

The cost to implement the results of the compensation study would be \$394,480 for salary and \$110,450 for benefits for fiscal 2000-01. This equals a 5.6% increase in compensation.

The cost to revise the retirement plan and make it consistent with CalPERS for FY 2000-01 will be approximately \$200,000. This means that retirement rates the City pays will increase by 3.2% for the first year of implementation.

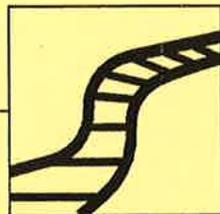
Recommendations

1. Adopt the compensation study as presented by Johnson and Associates
2. Direct staff to meet and confer with the San Clemente City Employees' Association to determine the feasibility of adopting the recommendations of the compensation study for general employees. There is one more year remaining on the labor agreement.
3. Meet with the Management employees, Confidential employees and Executive Management employees to discuss the implementation of the compensation study results.
4. Provided that the employees and City Council agree to the proposed implementation, the following alternative will be implemented:
 - 0-4.9% Nearest placement in range
 - 5-9.9% Nearest placement in range plus one step
 - 10-18.9% Nearest placement in range plus two steps
5. Staff further recommends that the City Council adopt the changes presented by Phase II Systems to the City's retirement plan to make the City's retirement plan comparable to the CalPERS plan.

Council Action

All recommendations were approved by the City Council by a vote of 4-0 on April 8, 2000.

*Rail Corridor Safety
and Education Study*



Rail Corridor Safety & Education Study

Objective

To report on the findings of the Railroad Corridor Safety and Education Panel (RSCEP) whose mission statement was: "To reach consensus on preferred solutions to increase public safety and enhance public access within the railroad corridors in the City of San Clemente while preserving the natural ambiance and natural beach resources."

Public safety issues along the railroad corridor needed to be addressed

Summary

On January 20, 1999, the City Council canceled the Coastal Trail project due to the large number of community and environmental concerns surrounding the project. Although the trail project was canceled, a diverse group of stakeholders that surfaced during this process (e.g., Derail the Trail, Surfrider, and the Orange County Transit Authority) came to general agreement that public safety issues along the railroad corridor needed to be addressed.

To respond to this concern, City Council formed the Railroad Corridor Safety and Education Panel (RCSEP) whose members where representative of interested stakeholders.

The Panel's final recommendations focus on the following safety issues: Safety crossing the railroad at designated beach access points, safety of pedestrians travelling along the railroad within railroad right-of-way and enhancement of safety through education programs.

Recommendations of the Rail Corridor Safety and Education Program

Some of the priority recommendations made by the Panel, detailed in the RCSEP report, include:

- Establish a maintenance plan for RCSEP recommendations that includes a strong commitment of resources and funding that will ensure a high level of public safety and limit the City's liability.
- Complete improvement for the Linda Lane area including handicap use, safe path down the revetment, improve the channeling of people from the parking area, and divert low flow storm water run off to sewer to improve pedestrian uses of the tunnel.
- Improve pathway to beach down revetment at Calafia's at grade crossing and complete engineering research to determine the validity of a handicap access ramp at this location.
- Complete the improvements for Riviera Beach including tunnel overpass with railings, provide underpass access to the beach from the inland path and repair the eroded bluff on the ocean side of the tunnel to protect railroad tracks.
- Build a pedestrian bridge adjacent to the Montalvo trestle that connects the inland trail.
- Lateral development of the main path between North Beach and the Pier, including Mariposa Point as well as connecting paths.
- Complete path crossing at the T-Street restrooms and repair the service road north of the restrooms.

Long Term Financial Plan

Suggested design criteria when implementing the recommendations

The Panel has also developed design criteria that were used to help develop a consensus on the safety recommendations. The Panel recommends that staff use the criteria when implementing the RCSEP recommendations. The design criteria includes:

- All projects considered along the railroad corridor and on the beach should be natural in nature and not encroach onto the beach or tidelands;
- No new seawalls, revetments, jetties should be utilized to construct improvement on the beach.
- Avoid the use of hard surface materials such as asphalt or concrete whenever possible.
- The beach should not be fenced or blocked from the public; most barriers should take the form of wood and rope, rocks and natural vegetation.
- Always consider the natural feel and character of San Clemente's beach as an asset that shall be protected.
- Improvements to the beach should be minimal, less is more.
- Improvements that could come in contact with the forces of the ocean should be stable but temporary in construction and removable by design. The City does not want an increase in permanent coastal structures beyond what is currently present.
- To avoid future safety, erosion and environmental problems, consider relocation when repairing, replacing or upgrading existing facilities on the beach.

The City Staff and OCTA are in general agreement that the RCSEP proposed safety recommendations would enhance public safety crossing and move adjacent to the railroad corridor and maintain the coastal character of San Clemente beaches.

Following the City Council's January 19, 2000, approval of the Panel's report, Staff has begun working with OCTA and others to begin to implement these improvements. This implementation process will involve preliminary engineering studies, risk assessment and determination if TEA funds can be used to fund some of the improvements recommended by the Panel. This process has included working with the three selected members of the Panel and additional reports to the City Council.

Cost estimates that have been obtained to date include the following:

Cost Est. Source	Description	Cost
AKM Engineering	Boardwalk around Mariposa Point	\$850,000
AKM Engineering	Riviera tunnel and Montalvo trestles (3 ft. widening of Riviera tunnel on each side. Wooden pedestrian bridge at Montalvo.)	\$450,000

Issue Summary

Cost Est. Source	Description	Cost
Moffatt and Nichol	Sculpted concrete stairs:	
	Calafia	\$20,000
	Linda Lane	\$20,000
	Diji	\$20,000
Moffatt and Nichol	Soil ramps @ \$5,000/each (locations to be determined)	\$0
	Total for above estimates:	\$1,360,000

The following improvements have not been estimated:

- Railroad crossings
- Possible underpass improvements at Linda Lane
- Handicap access from Linda Lane to pier
- Low water diversions
- Access under trestle at El Portal
- State Park handicap access
- Shorecliffs' tunnel and at-grade improvements

Next steps include: Working with OCTA to make sure the \$4.5 million TEA grant is available for use, resolve liability issues and agreements with OCTA, develop the bid document plans, have plans approved by the Coastal Commission, bid the project, estimate long term maintenance cost, and get agreement with OCTA regarding maintenance responsibilities, liabilities and protocols, and investigate means to provide the 20% TEA grant match.

Recommendations

The Railroad Corridor Safety and Education Panel (RCSEP) presented its report to City Council on January 19, 2000 and adopted the following recommendations:

1. Receive and file the RCSEP safety recommendations for the San Clemente Railroad Corridor.
2. Direct staff to work with OCTA, other pertinent agencies and selected members of the panel to implement the Railroad Corridor Safety and Education Panel recommendations.
3. Direct staff to work with OCTA to determine if the TEA grant money originally awarded to the "Coastal Trail" project can be applied to the safety recommendations of the RCSEP and investigate other alternative funding sources.
4. Direct staff to present additional information and fiscal impact estimates as a part of the Long Term Financial Plan process.

The Long Term Financial Plan recommended actions follow:

1. Direct staff to proceed with all due haste to bring this project to the construction stage (so as to not lose the \$4.5 million grant opportunity).

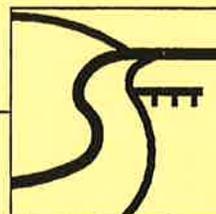
Long Term Financial Plan

2. Direct staff to investigate any and all means to obtain the 20% match needed to satisfy the TEA grant project.
3. Direct staff to process a budget request of \$100,000 necessary to proceed with development of construction/bid documents. This will include hiring a landscape architect to bring all these plans together into a bid ready package. Some additional engineering work will be required.
4. Direct staff to process a Coastal Development Permit for this project through the California Coastal Commission.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on April 8, 2000.

Coastal Resources Study



Coastal Resources Study

Objective

To identify and prioritize issues associated with San Clemente beaches and the coastal zone, and develop a scope of work to be considered by the City Council.

The Coastal Resources Study, A Report Card on San Clemente Beaches

Background

In December 1998, City Council directed staff to initiate the creation of a Beach Ad Hoc Committee with the specific purpose of studying coastal issues. Although San Clemente is blessed with relatively clean water, beautiful sandy beaches, and dramatic coastal bluffs and canyons, nature and manmade events in San Clemente and throughout California have resulted in a relative reduction in quality coastal resources. For instance, since 1983 after decades of stability, San Clemente beaches began experiencing episodes of sand loss. Over this 17 year period, approximately half the width of the beach has been lost. The majority portion of this loss is attributed to increasing storm intensity and frequency. However, inland development, which has reduced natural transport of sand to the beaches, has played a part. Although natural cycles of sand movement must also be considered, which could reverse this loss trend, City Council was compelled to study the issue in a proactive manner, rather than simply take a wait and see approach. Other concerns included the following:

- Increased public concern for ocean water quality and more active enforcement of related laws, including the Clean Water Act.
- Increased concern for the proper management of beach facilities and activities, which meets the needs of residents and visitors, while preserving the natural beach environment.
- Increased concern regarding the physical, environmental, and aesthetic damage that development has caused to coastal bluffs and canyons in the past and continues to cause.

The Beach Ad Hoc Committee was comprised of eleven members, representing a cross section of San Clemente residents, businesses and stakeholders of the coastal zone. The Committee spent six months studying the coastal zone, considering coastal processes, recreation resources, water quality, beach facilities and activities. It then began considering how the above items have affected San Clemente from the standpoints of recreation, aesthetics, and environmental and economic impacts. Finally, the Committee made conclusions and established recommendations for City Council consideration.

The Coastal Resources Study identified the key components of the beaches and coastal zone as related to the environment, recreation, and economic impacts. The core of the Coastal Resource Study is contained in the Committee's report entitled, "The State of San Clemente's Coastal Zone and Beaches," which includes a large amount of background information and data.

Long Term Financial Plan

The Committee presented its report to the City Council at its February 16, 2000 meeting. Council directed staff to handle the Committee's recommendations through the Vital Few process.

The Beach Ad Hoc Committee's report provides considerable history of San Clemente beaches; a description of the current state, or condition of these beaches; and related technical information.

The Coastal Resource Study provides a comprehensive analysis of the key components of the coastal zone and beach

The key components of the Committee's report are: 1) Healthy Sandy Beaches; 2.) Healthy Water Quality; 3.) Recreational Facilities, Parking and Activities; and 4.) Coastal Bluffs and Canyons. Each component includes a comprehensive analysis of the topic area, including general observations, findings, current status, history, impacts of lack of action, impacts of proactive action, goals and specific conclusions/recommendations. The conclusions/recommendations reached for each of these components are as follows:

Healthy Sandy Beaches

1. Immediately authorize a sand nourishment study, which would include baseline conditions, historic and current beach widths, bathymetric data and storm exposure data. The report would produce a detailed recommendation for an ideal, sustainable profile for San Clemente beaches.
2. Research alternative for sand nourishment projects including both federal and non-federal sources. Alternatives could include federal projects, as well as more opportunistic sand sources, as they become available. Further research into private funding, City funding and the creation of an opportunistic sand program, in conjunction with the pre-permitting of sand nourishment, should be pursued. Additionally, the City should explore a program with the OCTA to modify their track maintenance practices, including sand enhancement concepts to augment riprap dumping as a protection measure for the railroad tracks.
3. Support legislation that will allow the City to maintain its sandy beaches.
4. Develop a monitoring program to track changes to the beach conditions over time.
5. Conduct a detailed review of City beach maintenance practices and their effect on the nature of our sandy beaches and modify as appropriate.
6. Develop local policies and pursue regional policies that facilitate natural sediment transport to our beaches.
7. Adopt policies that discourage the addition or expansion of hardened structures on our beach.
8. Continue the outreach and networking efforts of City officials and staff with regional efforts.
9. Identify and quantify the local, regional and national economic benefits of healthy sandy beaches.

Healthy Water Quality

Short Term

1. Develop a comprehensive urban runoff management plan that includes improved enforcement of existing laws and regulations, review of public and private maintenance practices (including golf courses, green belts, and local businesses) and increase efforts to educate the public that the "ocean starts at their front door."
2. Monitor success of initial urban water diversion projects and prioritize locations for construction of additional projects.
3. Develop a comprehensive water quality-monitoring program to establish baseline conditions to monitor water quality throughout the city over time.
4. Initiate a public relations campaign, promote education in schools, and capitalize on existing programs (i.e., Surfrider Foundation).

Long Term

1. Pursue federal, state and regional financial support for studies, design and construction projects that prevent or safely divert urban and storm water runoff using filtration, ponds/basins, natural buffer zones.
2. Continue monitoring the effects of growth and development on water quality.
3. Study the impact of Prima Desecha Landfill and its impact on water quality.
4. Participate in regional attempts to improve water quality. Resolve the problem of overlapping jurisdictions.

Recreational Facilities, Parking and Activities

Short Term

1. Immediately develop policies for the protection, retreat or replacement of existing beach facilities threatened due to beach erosion.

Long Term

1. Develop a Facilities Master Plan for the City of San Clemente beaches that inventories the beach by geographical areas, determines appropriate uses, activities, parking requirements, and other improvements (permanent and portable) at each geographic beach area under two scenarios: 1) sand will naturally and/or is artificially returned, or 2) sand level will continue to remain at a low levels. The goal is to retain a high quality beach environment.

Coastal Bluffs and Canyons

1. Adopt City's Local Coastal Program Implementation Plan. Bring current City permit approval standards into conformance with Coastal Act policies, noting that these policies have been interpreted in numerous Coastal Commission decisions and upheld by the courts. Develop a set of guidelines for the interpretation of the LCP to assist planners, commissioners and City Council. Hire appropriate and sufficient staff to implement and administer code enforcements in administering the LCP.

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2. Inventory types of stability problems and locations along the bluffs. Determine the best methods to balance the interests of private property owners and the general public.
3. Establish appropriate policies for irrigation methods and the selection and maintenance of plan materials on coastal bluffs and canyons. Develop a plan to educate and enlist the cooperation of private owners to correct inappropriate drainage devices along the bluff.

Beach Advisory Board/Staff Support

1. Council to create a Beach Advisory Board that would advise City Commissions and the Council on matters related to the beach and coastal zone, and to serve as an advocacy body on the City's behalf. Direct staff to determine the type and amount of planning/engineering staff that will be needed to support the Beach Advisory Board and many of the above related work plans, and to present Council with its recommendation for consideration.

The Coastal Study presents five primary recommendations for City Council consideration in the Vital Few priority setting process

Recommendation

No City Council action is necessary with respect to the Long Term Financial Plan. The Beach Ad Hoc Committee presented its report to the City Council at its February 16, 2000 meeting. At that meeting, City Council directed staff to handle the Committee's recommendations through the Vital Few process. Based upon this direction, staff is currently developing the appropriate Vital Few issue papers to address the five primary recommendations as provided within the Executive Summary of the Committee's report. They are summarized as follows:

1. Sand Nourishment Study - Immediately authorize staff to develop a Request for Proposal to perform a sand nourishment study for San Clemente beaches. This study would lay the groundwork for a sand nourishment program that could be implemented with a combination of State grants, mitigation contributions, and/or Federal support via the pending Army Corps of Engineers' studies. Sand replenishment programs would consist of individual projects as well as ongoing opportunistic sand replenishment.
2. Urban Runoff Management Plan - Create and implement a comprehensive urban runoff management plan that includes increased enforcement of existing laws and codes, review of public and private maintenance practices, and public education on how to reduce non-point source pollution. Current projects underway, such as the low-flow diversion projects, should be evaluated and expanded to other sites as appropriate. Participate in federal, state and regional attempts to improve water quality and testing.
3. Beach Facilities Management Policy - Development of a policy that would provide staff direction regarding the protection, retreat, or replacement of existing beach facilities threatened by eroding beaches. A long-term goal would include the development of a facilities' master plan for City beaches.

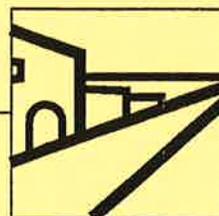
4. Coastal Bluffs and Canyon Guidelines – Create a set of guidelines for the management of coastal canyons and bluffs that inventories the state of the bluffs and canyons, evaluates relevant codes, and can be used in the interpretation and implementation of the Local Coastal Program. The study should also review bluff development and maintenance ordinances in the City including setbacks and drainage requirements.
5. Beach Advisory Board/Staff Support - Appoint a Beach Advisory Board that would assist and advise City commissions and City Council on issues related to the beach and coastal zone. In addition, hire appropriate environmental planner/engineer staff to support the implementation of Board recommendations and assist with implementation of the City's Local Coastal Plan and other coastal zone projects/studies.

Council Action

No action at this time, April 8, 2000. Will be discussed during the Vital Few session.

Long Term Financial Plan

Revitalization 2000 Report



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participation of \$30,000 to \$40,000 should be programmed. The Committee acknowledges the existence of groups, including the Chamber of Commerce, the Downtown Business Association, event vendors and others who should be involved as stakeholders in forming the design, service area boundaries, events and budgets, prior to the initial establishment of any such program.

- *City Offices Downtown* – The Committee recommends that the City, as general policy, seek to maintain those institutional uses which exist downtown (such as the Avenida Del Mar Post office) and to relocate uses (such as City Hall) into downtown. The Committee is unaware of any threats to the location of the post office, and is also aware of the current studies for the management and location of City facilities. Nevertheless, opportunities to enhance downtown as an attraction for local residents and as an activity base for the downtown businesses stand behind this strong encouragement. A further benefit of the location of government offices downtown would be their contribution to parking resources during evenings and weekends. No immediate cost implications are attached to this policy preference, although the Committee is aware that relocation of City facilities to downtown would well have cost implications.
- *Entry Signs / Monumentation* – The Committee recommends the placement of entry statements as a means of distinguishing the city to arriving travelers on El Camino Real. Public and private improvements at North Beach and at the Christianitos terminus of El Camino Real should be designed and implemented. The Committee anticipates that the public components of these improvements can be achieved at a direct capital costs of less than \$75,000.
- *Other Projects Reflected on the Priority List* - Regarding projects and programs which received lower priority ratings, the Committee believes that these items have merit, and were simply not of as high a priority as the selected proposals. All such projects were discussed at length. For example, in light of the request from the Downtown Business Association to give priority to the construction of restrooms, the Committee looked long and hard at several possible approaches to that request, ultimately finding that none of the options to provide restrooms rated as highly as the projects proposed above. As opportunities for funding and future proceeds are available, the listing of projects should be used as a guide to several excellent possible projects. This has already been done in the form of CDBG grants that have been sought and received for lower ranking façade and alley improvement projects.
- *Sunsetting* - Finally, the Committee sees no ongoing role for itself and proposes disbanding upon the acceptance of its report by the City Council. To the extent that Committee members would be appropriately sought out for involvement in the design *charettes* or for continuity

purposes in the proposed discussions regarding the MainStreet program, the individuals of the Committee stand ready to serve.

Recommendations

The report from the San Clemente Revitalization 2000 Committee was presented to City Council on March 15, 2000. The following recommendations were adopted by City Council.

1. Acknowledge the efforts of the Revitalization 2000 Committee.
2. Receive and file the Revitalization 2000 Committee's final report.
3. Direct staff to consider the Revitalization 2000 Committee recommendations as a part of the Long Term Financial Plan and Vital Few Priorities process.
4. Sunset the Revitalization 2000 Committee.

The Long Term Financial Plan recommended actions are:

1. If prioritized by the City Council, the primary capital improvement proposal of the final report, enhancements to El Camino Real, should proceed to a community design workshop and subsequently to the commencement of design and engineering drawings during Fiscal Year 2000-2001. Such work would be funded from development agreement proceeds currently on hand.
2. If prioritized by the City Council, the primary management proposal of the final report, exploration of forming a Main Street program, should proceed to workshops among the effected stakeholders with funding and staff support to the organization and chartering process should commence during Fiscal Year 2000-2001. This work is proposed to be funded from the General Fund if and when all parties agree that this program should be implemented.
3. For other final report proposals, staff will seek opportunities for implementation during the course of normal Planning, Economic Development and Public Works activities, or in future year Vital Few proposals as funds are identified.

Council Action

City Council approved Staff Recommendation's 1, 2 & 3, by a vote of 5-0 on April 8, 2000, with understanding a review of regulatory issues will be included in next year's work program.

Long Term Financial Plan

Financial Trends

Indicators measure the fiscal health of the City of San Clemente

Introduction

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

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

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

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

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

Trend data is as of June 30, 1999

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Report for fiscal year 1994-95 through fiscal year 1998-99. Consequently, all trends are based on data available as of June 30, 1999, and do not incorporate any changes that have occurred since that time. For example, a transfer of \$515,000 is being made from the General Fund to the Street Improvement Fund during FY 1999-00. This transfer is not included in the analysis that follows and thus any financial indicators affected by this transfer, such as General Fund fund balance, have also not been included in this report.

Summary of Trend Analysis

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

Long Term Financial Plan

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. This rating is also used to indicate that, although a trend may appear to be favorable, it is not yet in conformance with the City's adopted fiscal policies.

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

19 of 20 financial indicators are positive...

<i>Indicator</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Revenues Per Capita	F	F	F	F	F	U	U	U
Property Tax Revenues	F	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	F	U	U
License & Permit Revenues	F	F	U	F	F	F	U	U
Comm. Develop. Charges	F	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	F	F	W	W
Intergovernmental Revenues	F	F	F	F	F	F	F	F
Revenue Overages /Shortages	F	F	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	F	F	W	W
Employees Per Capita	U	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F	F	F
Property Values	F	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F	F

while only 1 is unfavorable...

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

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

The 2000 Long Term Financial Plan again includes the analysis of twenty trends. Of the trends analyzed, 19 received *favorable* ratings and only 1 is *unfavorable*. This is consistent with the prior year and a significant improvement over 1993 where only six indicators showed favorable signs.

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

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

Because of the commitment to implementing recommendations submitted as a result of the City's annual financial planning process, the City's financial condition has stabilized and shows signs of growth. The City's improving fiscal position is the result of this financial planning, funding of necessary reserves, the improved local and regional economy, and the cost reductions and streamlining efforts made by many of the City's departments.

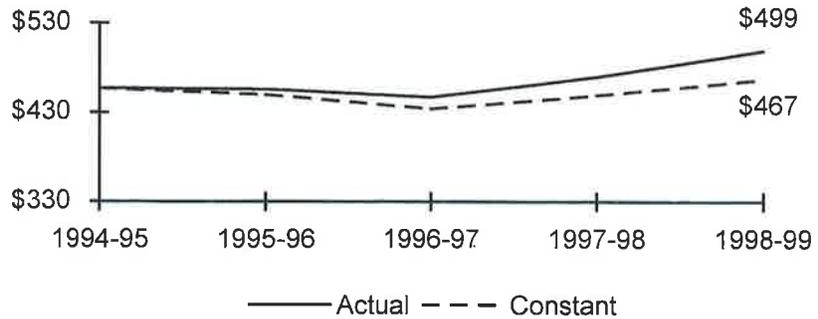
The following sections provide a brief overview of many of the indicators listed in the table above. Volume II of the 2000 Long Term Financial Plan contains a complete description of all financial indicators.

Revenues

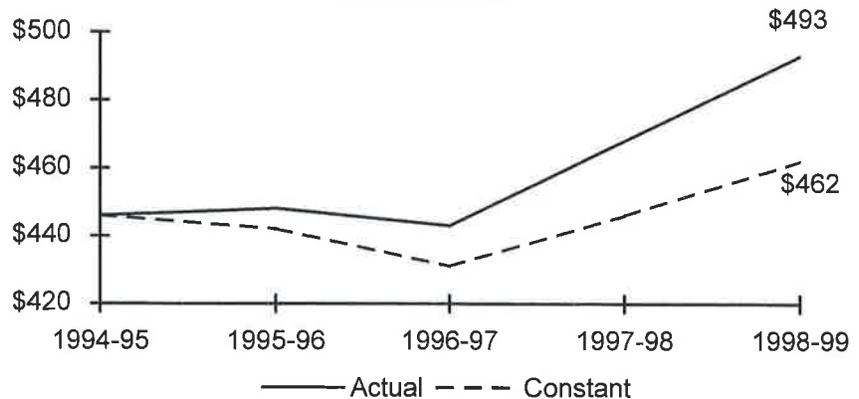
Long Term Financial Plan

Revenues Per Capita

**REVENUES PER CAPITA
Actual and 1995 Constant Dollars
General Fund**



**REVENUES PER CAPITA
EXCLUDING ONE-TIME REVENUES
Actual and 1995 Constant Dollars
General Fund**



Finding: **FAVORABLE.** Revenues per capita (excluding one-time revenues) reflect an increase when analyzing both actual and constant dollars for FY 1998-99.

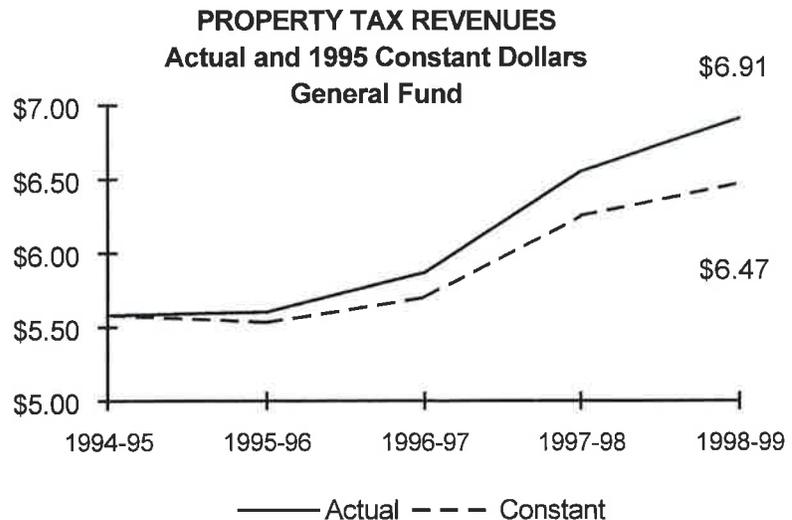
**Revenues per capita
show increases in actual
and constant dollars**

Comments: The first chart above on revenues per capita shows an upward trend for both actual and constant dollars. Total revenues for FY 1998-99 increased, as did most revenue categories. Community development service charges increased over the prior fiscal year by \$1,030,000. Other revenue increases included rent and commissions, license and permit revenues, property tax revenue, fine and forfeitures, intergovernmental revenue and sales tax revenue. Transient occupancy tax revenues rose to \$723,000 in FY 1998-99.

The second chart (which excludes one-time revenues), shows both actual and constant dollars increasing for FY 1998-99. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. Additionally, the City no longer has to rely on one-time revenues for its operational needs. A clear favorable trend has emerged with this increase in all major categories of General Fund revenues. Thus, a favorable rating has been assigned.

Property Tax Revenues

Property tax revenues increased by 5.6%, the third consecutive increase



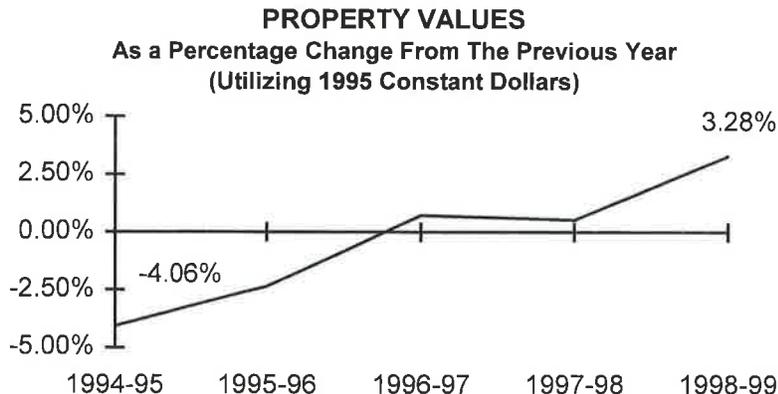
Finding: **FAVORABLE**. Property tax revenues showed an increase for FY 1998-99, continuing the positive trend which was initiated two years earlier. This comes after a four-year decline as the result of a State imposed property tax shift in FY 1991-92.

This increase amounted to \$366,000

Comments: Property tax revenues increased by \$366,000 or 5.6% in actual dollars, and show a 3.6% increase in constant dollars, ending the year \$221,000 above the prior fiscal year. This increase demonstrates the City's improved economy and the rebounding property valuations within the City. This indicator receives a favorable rating for the third consecutive year.

Long Term Financial Plan

Property Values

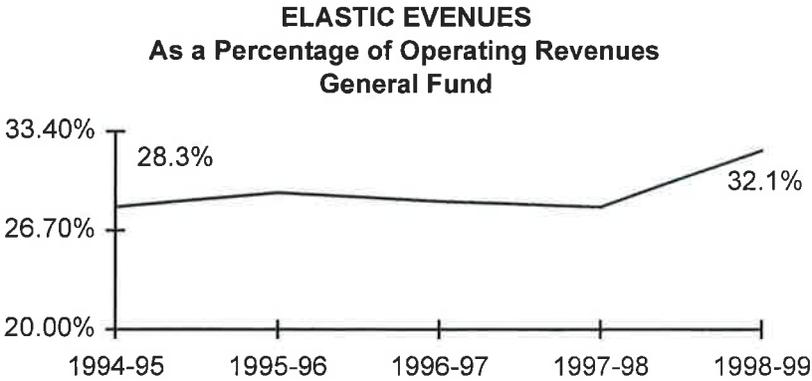


A positive growth rate in property values was observed for the third consecutive year

Finding: *FAVORABLE*. Property values showed a positive growth rate for the third consecutive year in FY 1998-99.

Comments: The growth rate in property values as a percentage rate from the previous year shows an increase of 3.28%. This is the third consecutive year where a positive trend has emerged. The negative growth rate experienced over the past few years has shown constant improvement. The third year of positive changes results in this indicator remaining a favorable rating. It should be noted, however, that this indicator needs to be continually monitored due to the impact of property tax revenues on the General Fund.

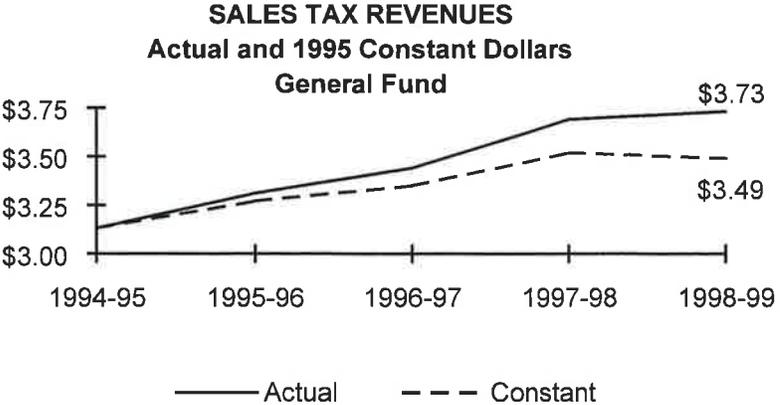
Elastic Revenues



Elastic revenues showed an increase when calculated as a percentage of total revenues

Finding: **FAVORABLE**. Elastic revenues, as a percentage of total revenues, increased 3.8% in FY 1998-99. Actual elastic revenues increased \$1,463,000, while total revenues increased by \$1,897,000. The result is the increase shown above.

Comments: The City's largest elastic revenue source, sales tax revenue, was up 1.1%, or \$39,000, from the prior year. In addition, community development service charges increased \$1,030,000 and license and permit revenues came in \$306,000 over the previous year. Transient occupancy taxes increased \$88,000. Elastic revenues, as a percentage of total revenues, increased in FY 1998-99 due to development and economic growth. Based on current development in the planning and building stages, this rating is unchanged from prior year. Details concerning each major elastic revenue source follow:

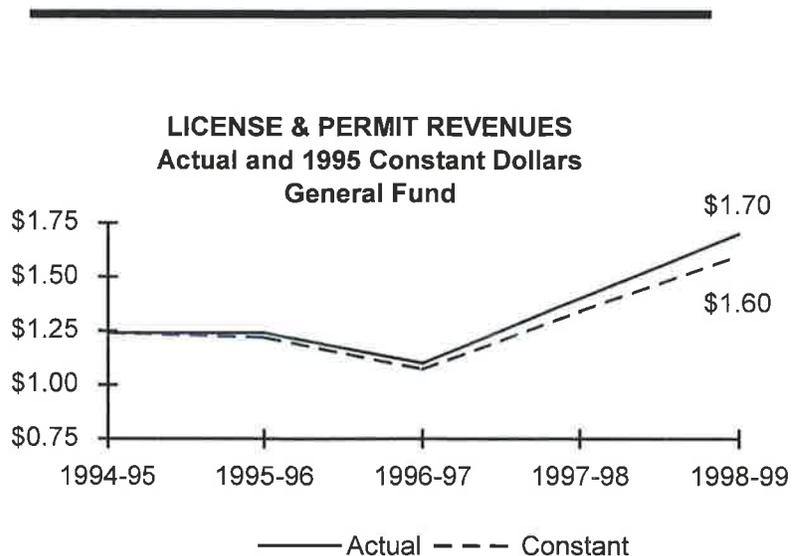


Long Term Financial Plan

Sales tax revenues increased \$39,000 in FY 1998-99

Finding: *FAVORABLE*. As summarized in the chart above, sales tax revenues showed an increase of \$39,000, or 1.1%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to \$31,000, or .9%.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past five year in actual dollars. In fact, actual dollars have increased 19% from sales tax revenues of five years earlier. These increases boost sales tax revenue to a ten year high in actual dollars and the result is once again a favorable rating.



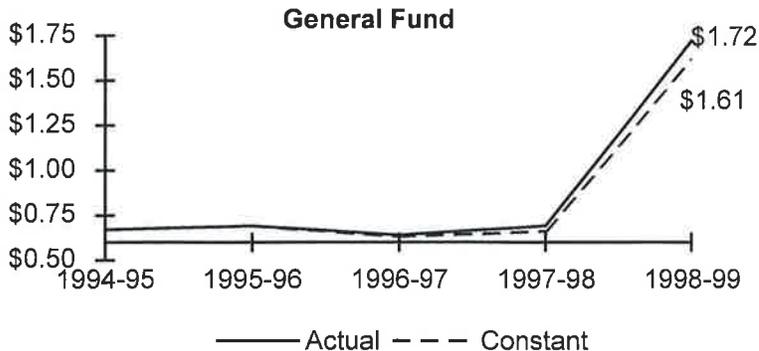
License and permit revenues increased for the second year in a row

Finding: *FAVORABLE*. License and permit revenues increased for the second time in five years in FY 1998-99. The increase in actual dollars was significant, amounting to \$306,000, or 21.8%, above the prior fiscal year. The constant dollar increase was substantial as well, with license and permit revenues registering \$260,000, or 19.4%, over fiscal year 1997-98.

Construction permits increased \$311,000

Comments: This increase indicates that construction activity has increased over the past year. Included in this increase is construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, which increased \$311,000, or 42.7%. Because this indicator shows such a dramatic increase for the fiscal year and because increased development fees are projected to continue through the current fiscal year, a favorable rating has been assigned.

COMMUNITY DEVELOPMENT SERVICE CHARGES
Actual and 1995 Constant Dollars



Finding: **FAVORABLE**. Total community development service charges increased by 148.3%, or \$1,030,000 from the prior year. This revenue source has shown a sharp increase when compared to the relatively stable past four years.

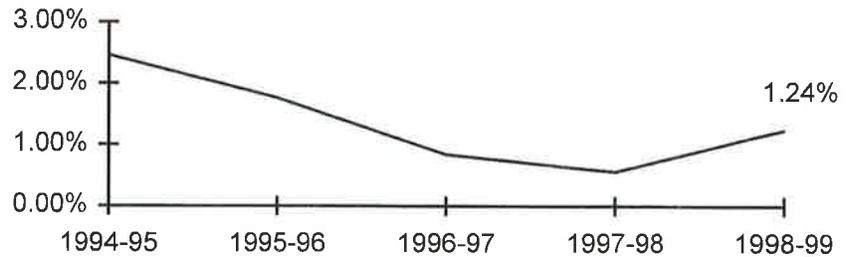
Comments: Specific revenue sources showing increases include construction inspection fees of \$598,000, building plan check fees of \$206,000, final track filing fees of \$72,000, grading plan check fees of \$45,000, public works inspection fees of \$37,000 and tentative track filing fees of \$26,000. In light of the sharp increase shown in FY 1998-99 and current projections that indicate this trend will continue, this indicator has been assigned a favorable rating.

Community Development Service Charges recorded an increase of \$1,030,000

Long Term Financial Plan

One-Time Revenues

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



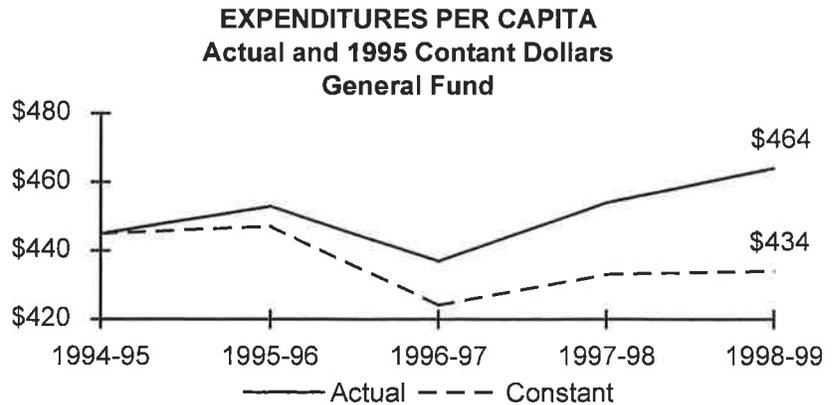
Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled 1.24% in FY 1998-99, slightly higher than the prior year.

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

Comments: One-time revenues have increased from the prior fiscal year by \$177,000, or 138.6%. FY 1998-99 one-time revenues included \$172,000 of revenue recognized from prior year developer deposits, a supplemental law enforcement grant, park maintenance reimbursements, narcotics forfeiture revenue and a miscellaneous reimbursement. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator receives a favorable rating.

Expenditures

Expenditures Per Capita



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

**General Fund
expenditures
increased \$934,000
in FY 1998-99**

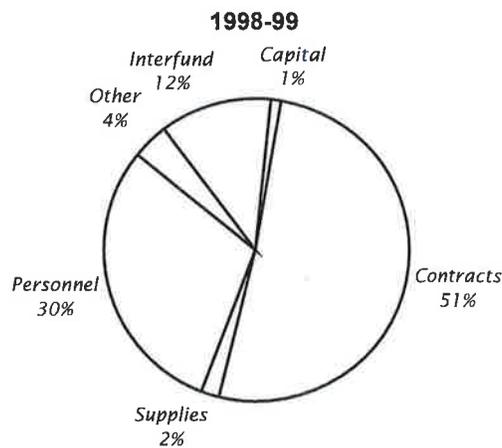
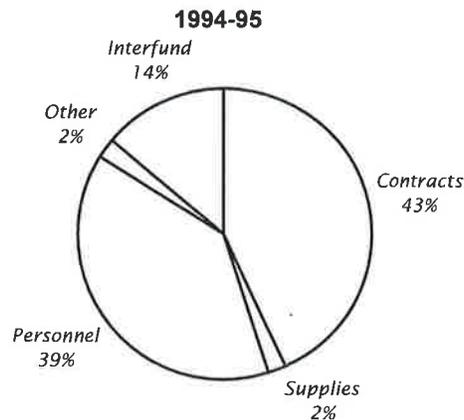
Comments: In FY 1998-99, expenditures increased in actual dollars by \$934,000 when compared with FY 1997-98, and \$469,000 in constant dollars for the same time period. Constant dollar expenditures per capita for FY 1998-99 are slightly lower than FY 1994-95.

Actual expenditures include interfund transfers. For example, FY 1998-99 General Fund expenditures included transfers to the Capital Equipment Replacement Reserve Fund (\$120,000), Accrued Leave Reserve Fund (\$50,000) and Street Improvement Fund (\$500,000). These transfers help to ensure that the other funds have adequate reserves to meet emergency needs and fund reserve deficits.

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

Long Term Financial Plan

Expenditures by Category

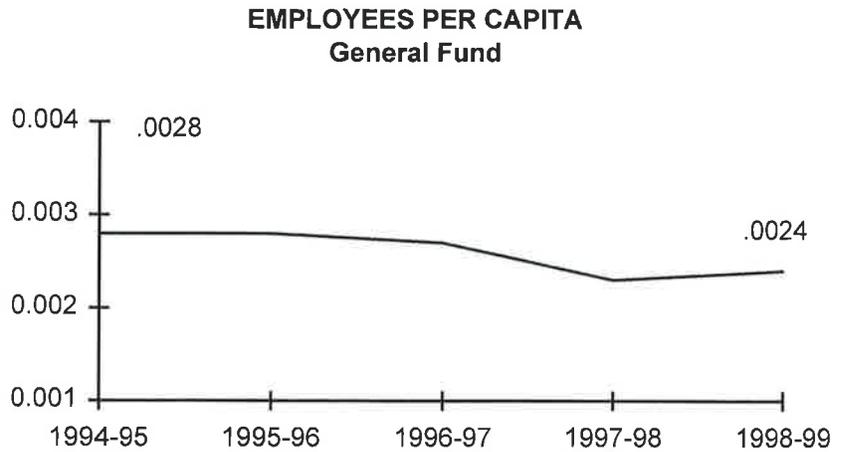


Comments: These charts indicate that personnel costs, as a percentage of the General Fund budget, decreased from 39% in FY 1994-95 to 30% in FY 1998-99. Conversely, contractual services increased from 43% in FY 1994-95 to 51% in FY 1998-99.

Personnel costs decreased from 39% in 1994-95 to 30% in 1998-99

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

Employees Per Capita



Finding: *UNFAVORABLE*. Employees per capita shows a minor increase for the first time in five years.

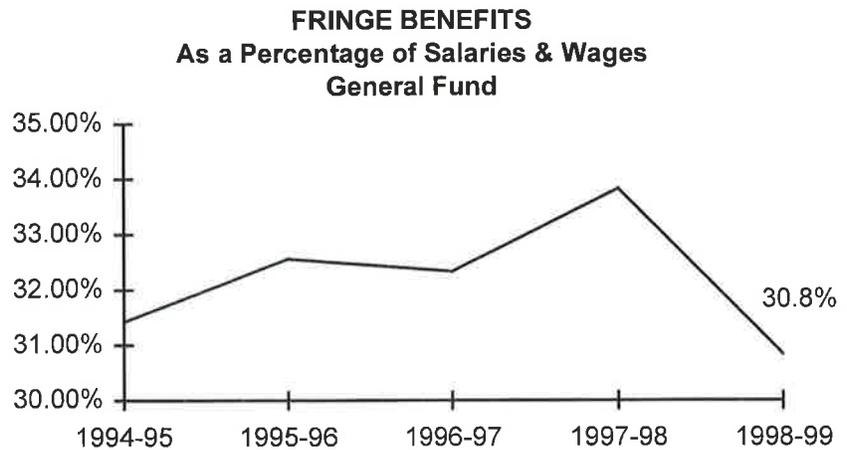
Employee levels have been reduced 53.8% in the past eight years

Comments: This category has been steadily declining over the past eight years. In FY 1991-92, the City had a staffing level of 353 full time equivalents (FTE's). In FY 1998-99, this level had been reduced to 163 FTE's, a total decline of 53.8% over the eight year period. Included in this staffing reduction was the contracting and privatization of core City services, including police and fire services.

This indicator remains low and is awarded an unfavorable rating for the second consecutive year. This trend indicates that employee levels may be getting too low to support current and future service levels. An organizational study performed also identified the need for more employees as the City continues to grow.

Long Term Financial Plan

Fringe Benefits



Benefit costs are at an all time low over the past five years

Finding: ***FAVORABLE***. Fringe benefits, as a percentage of General Fund salaries and wages, have decreased from 33.8% to 30.8%, the lowest level over the past five years.

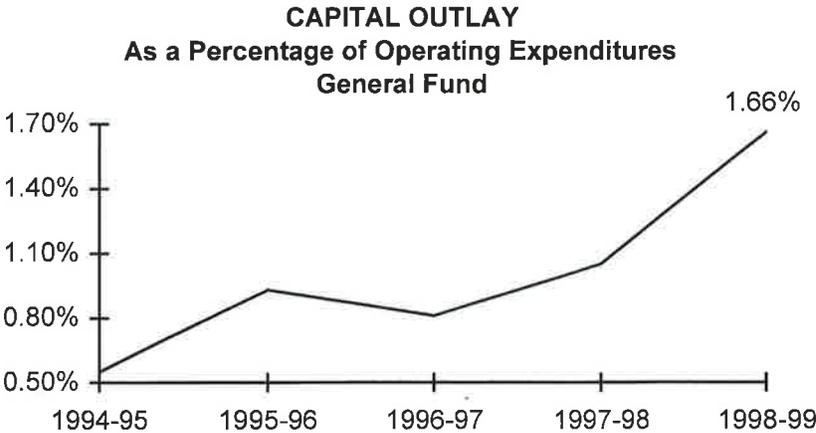
Comments: This continued positive trend has resulted from employee groups participating in a cost effective managed health care plan.

A favorable rating has been assigned for FY 1998-99, since this trend has stabilized at a positive level.

The City has experienced reduced Workers' Compensation costs



Capital Outlay



Finding: **FAVORABLE**. Capital outlay expenditures increased by \$147,000, or 63.7%, from the prior fiscal year. This is a positive trend, as the City continues to display commitment to the \$120,000 General Fund transfer funding the capital equipment replacement program.

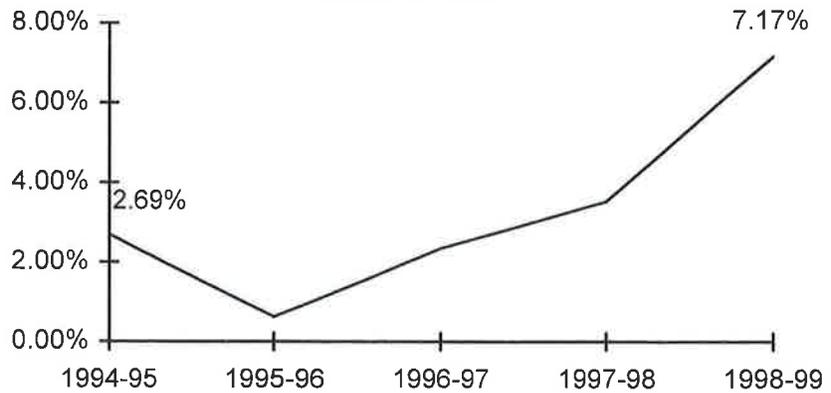
Expenditures for capital outlay continue to show improvement

Comments: This Capital Equipment Replacement Reserve Fund was established in FY 1994-95 and the General Fund contributed \$120,000 in FY 1998-99 to fund this reserve. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the fifth consecutive year because of the renewed commitment to upgrading fixed assets, permitting added efficiency of City operations.

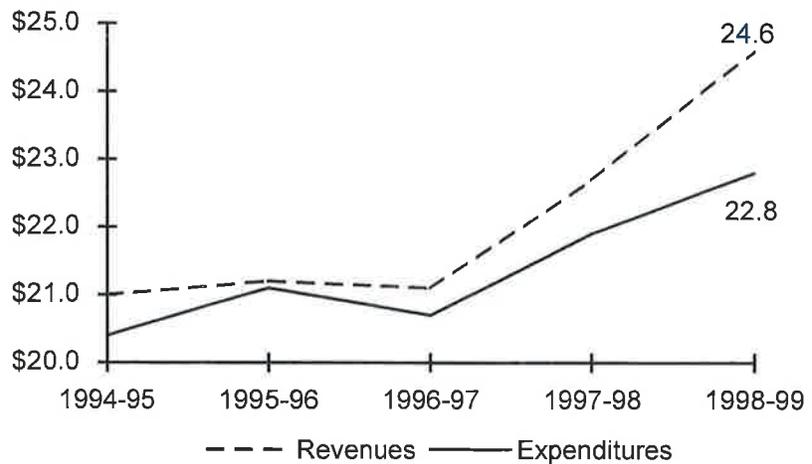
Long Term Financial Plan

Operating Position

OPERATING SURPLUS
As a Percentage of Operating Revenues
General Fund



OPERATING POSITION
Revenues vs Expenditures



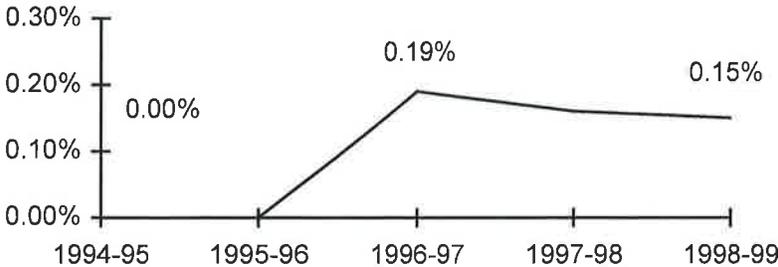
Finding: **FAVORABLE.** FY 1998-99 finished with a positive operating surplus of 7.17% when calculated as a percentage of General Fund revenues.

FY 1998-99 shows the fifth consecutive year of operating surpluses

Comments: After experiencing minor operating deficits as a result of a past economic recession and property tax shifts to the State, the City continues on an upward trend with the fifth consecutive year of operating surpluses. These operating surpluses have come as a result of cost saving measures implemented by the City Council and Administration as well as the increase in elastic revenues previously mentioned. Therefore, a favorable rating has been assigned.

Debt Service

DEBT SERVICE
As A Percentage of Operating Revenues
General Fund



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

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

Comments: The City has a capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings. This lease includes heating, ventilating and air conditioning units and all related control devices. The General Fund will make debt service payments on this ten year lease until 2006.

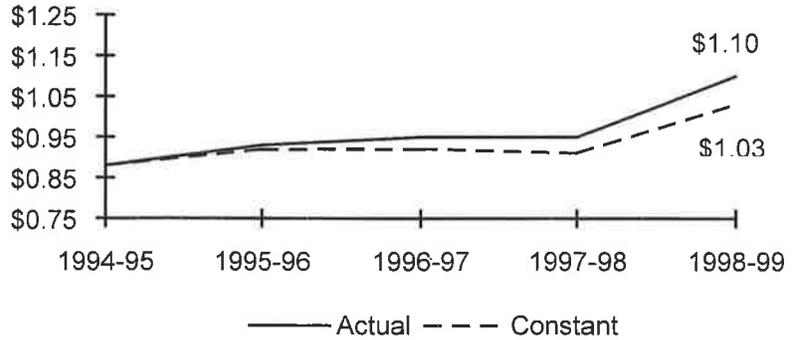
Additionally, it should be noted that the debt service for the Negocio Building bonds is in a separate fund, as well as the City's street assessment bonds, and are not part of this analysis.

Long Term Financial Plan

Accumulated Compensated Absences

ACCUMULATED COMPENSATED ABSENCES
Actual and 1995 Constant Dollars

Contingent liabilities for accrued leave receives favorable/caution rating



Finding: **FAVORABLE/CAUTION**. This indicator receives a favorable/caution rating due to the City's liability for compensated absences increasing 16.22% from the prior year.

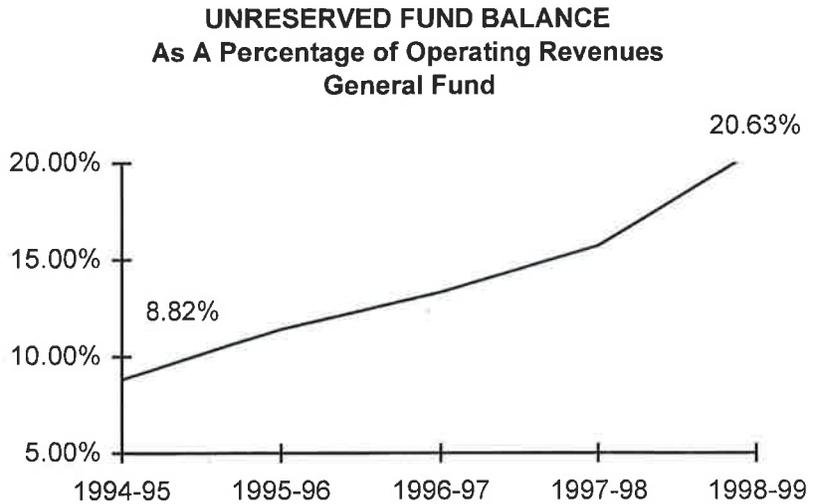
Comments: The increase in compensated absences liability is due to two factors. First, the GASB pronouncement requiring salary related expenses be added to the liability calculation was implemented in FY 1998-99. This accounts for approximately fifty percent of the increase. In addition, several City employees reached the tenth and twentieth year anniversaries of employment during FY 98-99 which entitles them to 35% and 50%, respectively, of their sick leave balance at termination.

The balance of the liability for compensated absences is \$1,099,940

At June 30, 1999, the balance of the liability for compensated absences was \$1,099,940 consisting of \$564,958 for vacation, \$491,823 for sick leave, and \$43,159 for compensatory time. This is an increase of \$153,540, or 16.22% from the prior year's liability of \$946,400.

In FY 1994-95, an Accrued Leave Reserve Fund was established with a \$75,000 transfer from the General Fund. In FY 1998-99, the General Fund continued its annual contribution with an additional \$50,000 for the payment of accrued leave for terminated employees.

Reserves



Finding: **FAVORABLE**. 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.

**Unreserved fund
balances increased to
20.63% in FY 1998-99**

Comments: Unreserved fund balance, as a percentage of total revenues, rose 5% in FY 1998-99 as a result of an increase in unreserved fund balance of \$1,509,000. The increase in fund balance is due to an operating surplus of \$1,763,000 and maintenance of the General Fund emergency reserves. Steady increases in this trend indicate the stable position of the City's General Fund.

**General Fund Emergency
Reserve = \$1,070,000**

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 1998-99 unreserved fund balance of \$5.1 million are General Fund Emergency Reserves totaling \$1,070,000.

Long Term Financial Plan

Financial Forecast

The five-year financial forecast for the General Fund has been updated to reflect the current economic projections and the adjusted FY 1999-00 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 1999-00 adopted budget.

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

Development of the Financial Forecast

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

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

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

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Chapman University's School of Business December 1999 Economic and Business Review. The Chapman forecast is predicting that Orange County's economy will continue expanding, but at a much slower rate than the past few years. The consumer price index (CPI) is predicted to increase an average of 2.8%.

The 2000 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

***Revenue growth rates will average 3.8%
Expenditure growth rates will average 3.2%***

Forecast Summary & Results

Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 3.8% a year, the same as the 1999 forecast average. Expenditures are projected to increase at an average rate of 3.2% as compared to the 1999 forecast average of 3.0%.

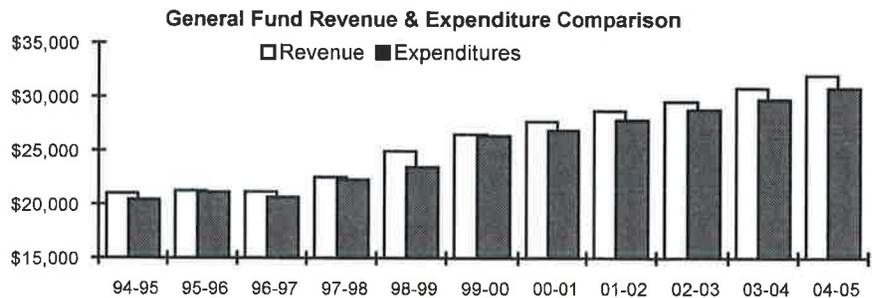
The funding of reserves will be continued in order to maintain full funding levels. In fact, during the five year forecast \$1.3 million is allocated to the Capital Equipment, Accrued Leave and Emergency reserves in accordance with the City's fiscal policy. An additional \$1.3 million is scheduled to be allocated for Council Contingency reserves. A total of \$2.8 million will be transferred from the General Fund to the Street Improvement Program. This will result in almost \$5.4 million being allocated during the five year period, which averages \$1.1 million per year or 4.0% of the total adjusted budget for FY 1999-00.

Long Term Financial Plan

In addition, a total of \$3.1 million will be allocated to the Public Employees Retirement System (PERS) liabilities (\$2.4 million), other debt payments and transfers.

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

Historical and projected revenues and expenditures



Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in all 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 1999-00 adopted budget forecast to the 2000 LTFP forecast:

2000 Forecast Summary (FY 1999-00 Adopted Budget)

Amounts in \$1,000

FY 1999-00 adopted budget forecast - Operating position

	1999-00	2000-01	2001-02	2002-03	2003-04
Revenues	\$24,696	\$25,607	\$26,710	\$27,716	\$28,856
Expenditures	24,664	25,506	26,272	26,985	27,802
Operating Result	\$32	\$101	\$438	\$731	\$1,054

*One-time revenues and expenditures have been excluded.

2000 Forecast Summary (2000 LTFP)

Amounts in \$1,000

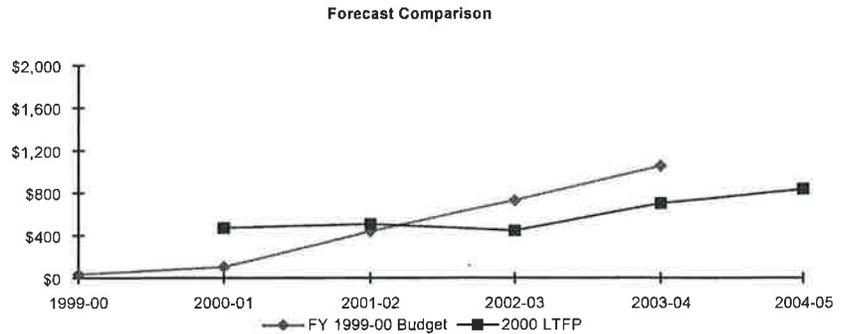
2000 LTFP forecast - Operating position

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenues	\$27,070	\$28,061	\$28,935	\$30,180	\$31,349
Expenditures	26,597	27,552	28,491	29,476	30,511
Operating Result	\$473	\$509	\$444	\$704	\$838

*One-time revenues and expenditures have been excluded.

Operational Position FY 1999-00 Adopted Budget vs. 2000 LTFP Forecast

The following chart provides a graphical comparison of the City's operational position for the FY 1999-00 adopted budget forecast and the 2000 LTFP forecast.



Positive operating position in four of the five years of the forecast

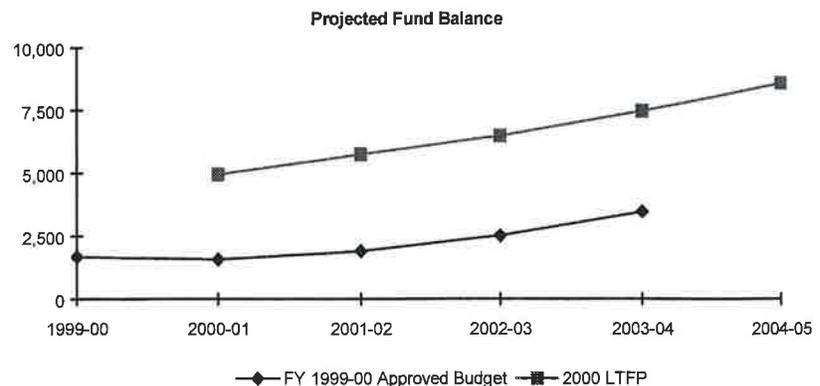
The difference between the two forecasts is due to:

- Mid-year adjustments to General Fund operating revenues, which increased the base revenue budget in FY 1999-00, primarily from Talega Joint Planning Authority development fees. As a result, a better operating position in year one of the forecast.
- Three projected full-time positions are included in the forecast in FY 2000-01, with an additional two positions added each year thereafter. Additionally, one full-time contracted police services position is added in each year of the forecast. In total, sixteen new or contracted positions are added during the forecast period based on future development. As compared to the 1999 adopted budget forecast, two new full-time positions were included each year beginning in FY 2000-01 for a total of eight new positions over the forecast period.

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

Fund Balance

The chart below illustrates projected fund balances from the FY 1999-00 adopted budget forecast to the 2000 Long Term Financial Plan forecast.



Long Term Financial Plan

The actual ending fund balance for fiscal year 1998-99 increased \$1.7 million over projections (i.e. the projected ending fund balance was projected at \$2.5 million and actual fund balance was \$4.2 million). The change in the fund balance projection was due to:

- Actual revenue for FY 1998-99 was \$1.0 million higher than projected in the budget forecast.
- Actual expenditures for FY 1998-99 were \$700,000 under the projection in the budget forecast.

Fund Balance and Emergency Reserve

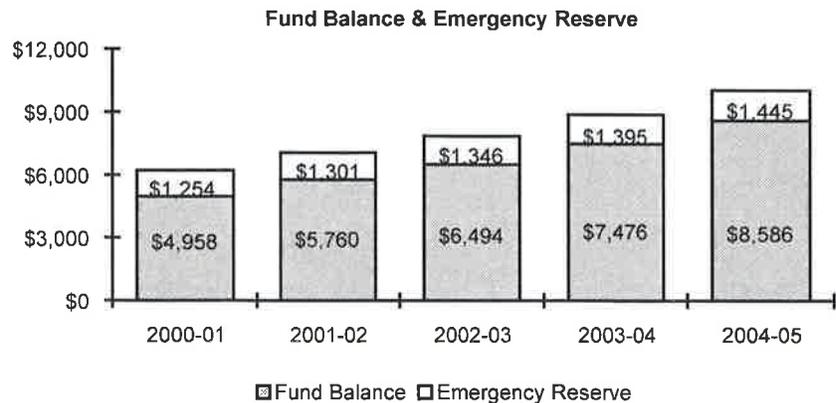
Fund Balance and Reserves

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

Total fund balances are projected at \$6.2 million in FY 2000-01

Fund Balance & Emergency Reserve

Amounts in \$1,000	2000-01	2001-02	2002-03	2003-04	2004-05
Fund Balance	\$4,958	\$5,760	\$6,494	\$7,476	\$8,586
Emergency Reserves (5%)	\$1,254	\$1,301	\$1,346	\$1,395	\$1,445
Total	\$6,212	\$7,061	\$7,840	\$8,871	\$10,031



As depicted above, the City will maintain total fund balances averaging \$8.0 million over the five year forecast period. This is due to a positive operating position in all five years of the forecast. However, a substantial amount of the revenue is from service charges and fees from development scheduled for construction in the Talega and Forster Ranch areas. Thus, the use of one-time development fees will sustain the City throughout the years of the forecast, but should not be relied upon to support operational expenditures in the future.

Financial Forecast

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

**Cash flow by
year**

Cash Flow By Year

Amount in 1,000's

	2000-01	2001-02	2002-03	2003-04	2004-05
Beginning Fund Balance	4,272	4,958	5,760	6,494	7,476
Revenues					
Taxes	14,258	14,937	15,759	16,659	17,476
Licenses & Permits	2,734	2,809	2,701	2,720	2,740
Intergovernmental	2,806	2,851	2,909	3,033	3,161
Service Charges	3,163	3,253	3,244	3,306	3,371
Fines & Forfeitures	780	811	847	883	922
Interest & Rents	1,312	1,317	1,331	1,370	1,401
Interfund Transfers	2,641	2,705	2,766	2,832	2,902
Total G F Revenues	27,693	28,684	29,558	30,803	31,972
Expenditures					
City Council	31	31	31	32	32
City Manager	346	355	364	373	383
City General	2,340	2,388	2,436	2,486	2,538
Finance & Admin. Services	395	406	416	426	438
City Clerk	418	429	439	451	463
Accounting	757	777	797	818	840
Human Resources	345	354	363	373	383
Police Services	7,088	7,411	7,729	8,064	8,415
Fire Services	4,016	4,137	4,258	4,383	4,511
Comm Dev. Admin.	265	272	279	286	294
Building	1,222	1,255	1,286	1,320	1,355
Planning	917	941	965	990	1,016
PWAdmin/Economic Dev.	431	443	454	466	479
Engineering	1,620	1,660	1,700	1,743	1,788
PW Maintenance Services	2,117	2,176	2,232	2,291	2,355
B, P & R Admin.	294	302	309	317	325
Recreation	990	1,017	1,043	1,070	1,100
Beach & Park Maintenance	2,328	2,394	2,458	2,526	2,598
Marine Safety	798	819	839	861	884
New Employees	158	268	381	497	615
Total GF Expenditures	26,873	27,834	28,779	29,772	30,813
Emergency Reserve	134	47	45	49	50
Ending Fund Balance	4,958	5,760	6,494	7,476	8,586

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

Expenditures by Category	2000-01	2001-02	2002-03	2003-04	2004-05
Salaries & wages	6,328	6,573	6,812	7,063	7,327
Employee benefits	1,831	1,904	1,976	2,051	2,131
Supplies	598	615	632	650	669
Contractual services	13,719	14,241	14,754	15,292	15,856
Other charges	519	534	549	564	581
Capital outlay	274	281	287	294	301
Interdepartmental charges	1,974	2,028	2,083	2,141	2,203
Interfund transfers	1,629	1,657	1,684	1,713	1,743
Total	26,873	27,834	28,779	29,772	30,813

Long Term Financial Plan

Financial Forecast - Assumptions

Economic and demographic assumptions affect projections

The forecast predicts the economy will continue expanding

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 1999. Additionally, data is provided by the various City of San Clemente departments.

The Chapman forecast predicts that Orange County's economy will continue expanding, but at a much slower rate than the past few years. Personal income is forecasted to average 6.6% with local inflation projected to average 2.8% and taxable sales anticipated to grow at an annual average rate of 6.5%. Housing appreciation for resale homes (assessed valuation) is predicted to increase an average of 5.6%.

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

A summary of the parameters utilized in the 2000 Financial Forecast to project the various revenue and expenditures categories are delineated below:

Summary of forecast parameters

Par #	Description	2000-01	2001-02	2002-03	2003-04	2004-05	Average
1	Inflation	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
2	Population	3.4%	2.7%	3.1%	3.0%	3.0%	3.0%
3	Assessed Valuation	8.0%	4.4%	5.4%	5.8%	4.6%	5.6%
4	Personal Income	6.3%	6.4%	7.0%	6.9%	6.5%	6.6%
5	Taxable Sales	6.2%	6.2%	6.9%	6.8%	6.2%	6.5%
6	Property Taxes	8.0%	4.4%	5.4%	5.8%	4.6%	5.6%
7	Trans. Occup. Tax	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
8	Franchise Taxes	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
9	Prop. Transfer Tax	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
10	Construction Permits	3.4%	2.7%	3.1%	3.0%	3.0%	3.0%
11	State Subventions	4.7%	4.2%	4.5%	4.4%	4.5%	4.4%
12	Service Charges	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
13	Interest Earnings*	5.3%	-3.3%	-3.4%	1.8%	1.8%	0.4%
14	Pier & Beach	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
15	Interfund Charges	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
16	Salaries & Wages	3.0%	2.6%	2.4%	2.5%	2.6%	2.6%
17	Employee Benefits	3.0%	2.6%	2.4%	2.5%	2.6%	2.5%
18	Supplies	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
19	Services/Other Charges	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%
20	Capital Outlay	2.5%	2.9%	2.7%	2.8%	2.9%	2.8%

*The percentage shown for interest earnings is the percentage change (positive or negative) in the interest rate from the prior year. It is not the projected rate of return.

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

Inflation is projected to average 2.8%

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

Population estimates average 3.0% over the forecast period

- *Population:* Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (8.5% 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 3.0% over the forecast period.

2000-01	2001-02	2002-03	2003-04	2004-05
50,915	52,280	53,880	55,490	57,155
3.4%	2.7%	3.1%	3.0%	3.0%

Assessed Valuation is projected to grow by an average of 5.6%

- *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 5.6% per year.

Personal Income is projected to increase an average of 6.6%

- *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 6.6% per year.

Taxable Sales in Orange County are projected at 6.2%

- *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 2000-01 are projected at 6.2%.

Long Term Financial Plan

Forecast assumptions includes contributions to reserves, and staffing projections

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 2000-01. For forecast purposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 2001-02.
- Three new full-time positions are presumed to be added in FY 2000-01, with an additional two new full-time positions added in each of the following years of the forecast. A total of eleven new positions are included in the five-year forecast.
- In anticipation of increased calls for service in the Talega and Forster Ranch areas, one new contractual position is included in Orange County Sheriff's Department budget for FY 2000-01. The position will be funded by a State grant for the first eighteen months. One new position is assumed in each of the subsequent years of the forecast, for a total of five contracted positions included in the five-year forecast.
- Actual expenditures are projected at 0.5% less than budget for all five years of the forecast. This is conservatively based on the projected actual expenditures versus budgeted expenditures.
- Actual revenue is projected to exceed budget by 0.5% in all five years based on current revenue projections and conservative estimating techniques.
- One-time revenues and expenditures in the base year (FY 1999-00) have been excluded from the forecast. For example, the City has received over \$109,000 from the State as a return of property tax previously diverted from local governments to schools. This is considered "one-time" revenue and has been reduced from the base forecast.
- Capital Outlay amounts to \$742,000 in FY 1999-00 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 and \$225,000 each year for facility improvements.
- Negotiated increases approved by City Council for the Orange County Fire Authority (OCFA) contract are included for all five years of the forecast.

Financial Forecast

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at \$584,940 for FY 2000-01:

	2000-01	2001-02	2002-03	2003-04	2004-05
Capital Equipment	100,000	100,000	100,000	100,000	100,000
Accrued Leave	100,000	100,000	100,000	100,000	100,000
Council Contingency	250,940	260,250	269,400	279,010	289,100
Emergency Reserve	134,000	47,000	45,000	49,000	50,000
Total	\$584,940	\$507,250	\$514,400	\$528,010	539,100

- Council Contingency Reserve is funded at 1% of operating expenditures in each of the forecast years, in accordance with the City's fiscal policy.
- The Emergency Reserve is fully funded (5% of operating expenditures) with contributions totaling \$325,000 over the forecast period to maintain the 5% fiscal policy 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:

Other transfers and debt payments

	2000-01	2001-02	2002-03	2003-04	2004-05
Street Program	\$530,450	\$546,360	\$562,750	\$579,630	\$597,020
Retirement	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
Solid Waste Fund	47,130	48,540	50,000	51,500	53,050
Total	\$1,152,380	\$1,169,700	\$1,187,550	\$1,205,930	\$1,224,870

Forecast pertains to the General Fund only

No new or enhanced programs are included

Factors Not Included In The Forecast

- This forecast is based on the General Fund and forecasts for the Water, Sewer and Golf operating funds are included at the end of this report.
- No new or enhanced programs are included in the forecast.
- Revenues or expenditures included in the City's Fiscal Impact Model are not included in the forecast. The Fiscal Impact Model is a land use model intended to show the fiscal impact of development on the City's operating position. Thus, property tax and sales tax revenues are increased based upon the projected amount of development. In contrast, the five-year forecast shows the City's operating position based primarily on growth patterns or inflation factors.

Long Term Financial Plan

No proposed or potential development projects 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, Forster Ranch or Talega are not incorporated into the financial forecast.
- The forecast does not include the establishment of a new fire station or any of the capital facilities noted in the “Master Plan for City Facilities” since formal action has not been taken on the plan.

Revenues are projected to increase an average of 3.8%

Property Tax revenue is projected to increase an average of 5.6%

General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.8%, compared to a historical five year growth rate of 5.7%.

- Property Tax revenue is projected to increase an average of 5.6% per year compared to a 3.0% average historical decrease over the past five years.
- Construction permits are projected to decrease from a historical average of 14.1% to 0.1% per year for the forecast period, as revenues were reduced in the last three years to reflect the anticipated level of development activity.
- Service Charges are projected to increase an average of 1.9% per year compared to a 12% average historical growth rate over the past five years. Development related service charges for the last three years of the forecast have been reduced as noted above.
- Fines are projected to increase an average of 4.3% per year compared to a 15.7% 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 1994-95 to FY 1998-99.
- **1999 Projected Growth Rate:** Average annual rate of growth projected for the five years as indicated in the 1999 adopted budget forecast.
- **2000 Projected Growth Rate:** Average annual rate of growth projected for the current five-year forecast.

General Fund Growth Rate

Historic Growth Rate	5.7%
1999 Projected Growth Rate	3.8%
2000 Projected Growth Rate	3.8%

Economic growth throughout the forecast period is positive

The 5.7% historic growth rate in General Fund revenues reflects the positive economic recovery evidenced beginning FY 1997-98 by the growth in property taxes and development related fees. The 2000 forecast rate of 3.8% anticipates that the development activity in San Clemente will continue in the forecast period, but will gradually slow in the last three years. Thus, the use of one-time development revenues will sustain the City throughout the forecast years, but should not be relied upon to support on-going operational programs.

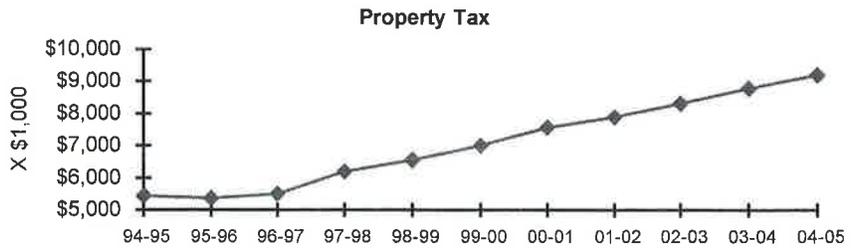
Long Term Financial Plan

Property Tax

Historic Growth Rate	3.0%
1999 Projected Growth Rate	5.5%
2000 Projected Growth Rate	5.6%

Property Tax revenues will increase by an average of 5.6%

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 25% of total General Fund budgeted revenue. During the last three years, property tax revenues have recovered from the economic downturn of the early nineties and the diversion of property taxes from the State. Over the forecast period, property taxes are anticipated to grow from \$7.6 million to \$9.2 million. This growth is based on fiscal year 1999-00 revenue of \$7.0 million and does not include property taxes from homes in the Talega development.



Sales Tax

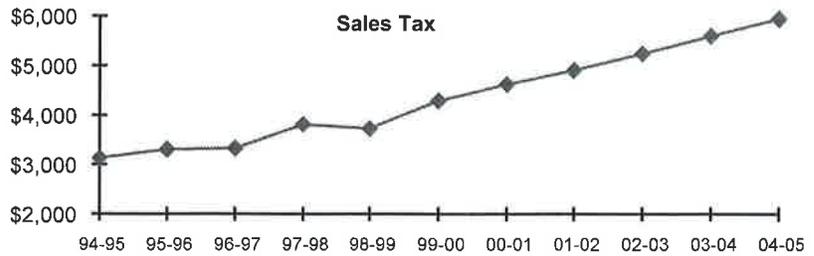
Historic Growth Rate	4.9%
1999 Projected Growth Rate	5.6%
2000 Projected Growth Rate	6.7%

Sales tax revenue is anticipated to grow an average of 6.7% in the forecast

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 6.7% 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 1999.

Sales tax is projected to grow from \$4.2 million to \$5.9 million over the forecast period. The five-year forecast does not include sales tax growth associated with proposed retail or commercial properties in the planning or development stages.

Financial Forecast

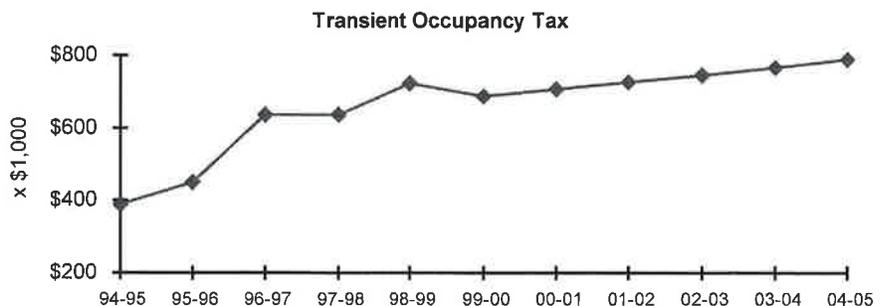


Transient Occupancy Tax

Historic Growth Rate	16.4%
1999 Projected Growth Rate	4.6%
2000 Projected Growth Rate	2.8%

Transient Occupancy Tax is an added charge against room rates at local hotels. It is an elastic revenue source affected by swings in the economy. The historic growth rate of 16.4% includes an increase in TOT revenue, which began in FY 1996-97 as a result of a TOT audit and improved remittance of the tax. In addition, the economic conditions improved and TOT revenues increased. Over the forecast period, the average growth is projected at 2.8% per year, and is based on the consumer price index projections for Orange County.

TOT is projected to increase an average of 2.8% growth



Licenses and Permits

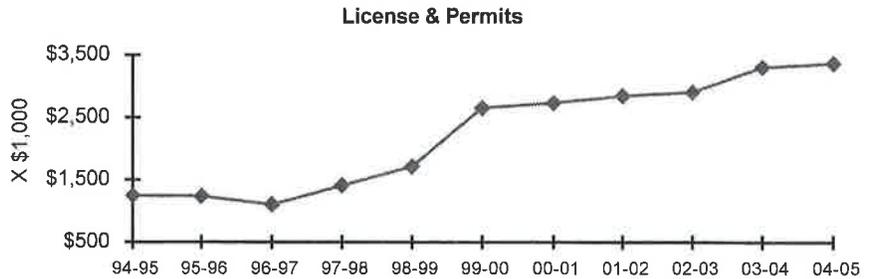
Historic Growth Rate	7.9%
1999 Projected Growth Rate	4.1%
2000 Projected Growth Rate	0.7%

Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as alarm permits is projected to increase slightly, an average of 0.7%. This is a dramatic change from the 1999 rate of 4.1%, which included revenue from construction permits included in the FY 1999-00 budget. For forecast purposes, revenue for development activity is considered "one-time" and is gradually reduced beginning in FY 2002-03 to mirror the anticipated development activity.

Long Term Financial Plan

Licenses and Permit revenue is projected to grow slightly in the first two years

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to increase slightly in the first two years of the forecast, as development activity continues in Talega and Forster Ranch. However, one-time development fees have been reduced beginning in FY 2002-03 to reflect the development activity currently planned for construction during the forecast period. New development activity for Marblehead is not included in the forecast projections.



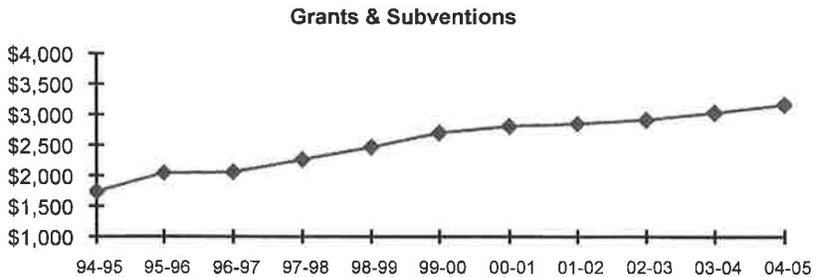
Grants and Subventions

Historic Growth Rate	4.3%
1999 Projected Growth Rate	4.0%
2000 Projected Growth Rate	3.2%

Grants & Subventions, predominantly Motor Vehicle Tax, is projected to grow at a 3.2% rate

In total, Grants and Subventions revenues are projected to grow at a rate of 3.2% over the forecast period, compared to an historical growth rate of 4.3%.

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 4.8% and are based on 50% of expected inflation plus 100% of anticipated population growth.

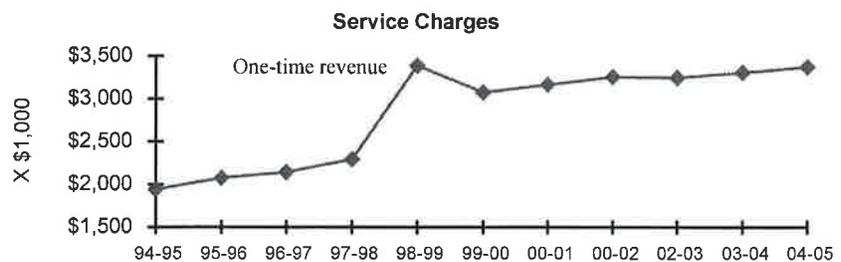


Service Charges

Historic Growth Rate	12.0%
1999 Projected Growth Rate	0.1%
2000 Projected Growth Rate	1.9%

Service Charges show a historic growth rate of 12.0%. Projected growth rate = 1.9%

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 fees are considered “one-time” revenue and gradually reduced in the forecast period beginning in FY 2002-03. The projected growth in service charges over the forecast period is 1.9%.

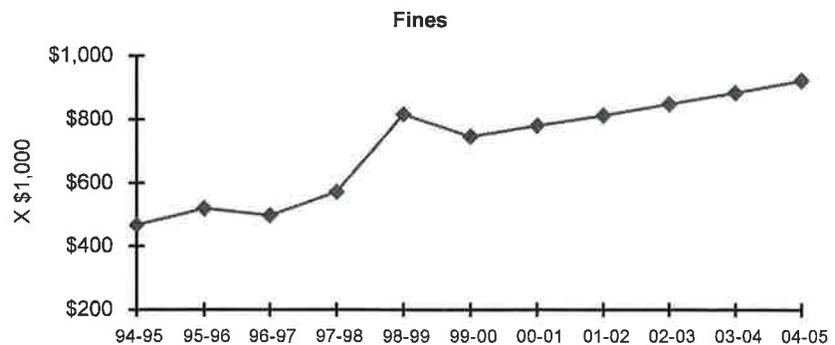


Fines

Revenue for Fines is forecast at 4.3%

Historic Growth Rate	15.7%
1999 Projected Growth Rate	6.4%
2000 Projected Growth Rate	4.3%

The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 2000 projected growth rate of 4.3% differs dramatically from the historic growth rate 15.7% which increased as a result of a change to the allocation of court fines in 1997. Fines are currently projected lower than the FY 1998-99 actual and are anticipated to increase by 4.3% over the forecast period.



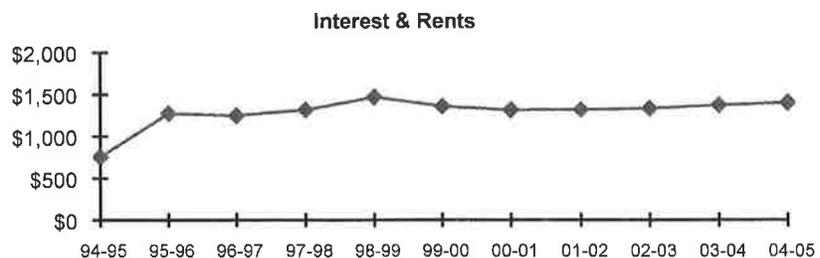
Long Term Financial Plan

Interest And Rents

Historic Growth Rate	16.0%
1999 Projected Growth Rate	1.3%
2000 Projected Growth Rate	0.7%

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. Annual rent from the Casa Romantica has been reduced to nine months of rent in the current 1999-00 fiscal and removed from the remaining years of the forecast. Interest earning increases are based upon 70% of the prime interest rate and historic data.

Interest & rents are projected to grow 0.7%

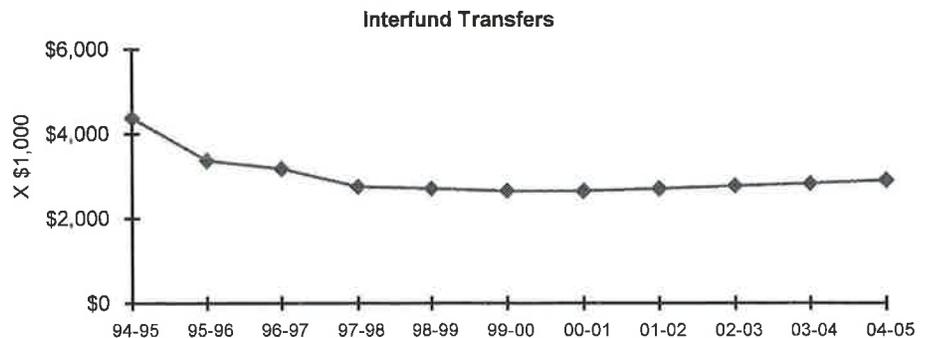


Interfund Transfers

Historic Growth Rate	16.9%
1999 Projected Growth Rate	1.1%
2000 Projected Growth Rate	1.8%

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.

Interfund transfer include General Fund overhead charges and transfers



General Fund Expenditures

The average expenditure rate is projected at 3.2%

Historic Growth Rate	4.4%
1999 Projected Growth Rate	3.0%
2000 Projected Growth Rate	3.2%

Projected expenditures presume that service levels in effect in FY 1999-00 will remain constant. No new programs are assumed.

Projected expenditures presume that service levels adopted in fiscal 1999-00 will remain constant

The 2000 projection from the base year is based primarily on inflation. One-time and capital outlay expenditures are removed for forecast purposes.

Salaries and Wages

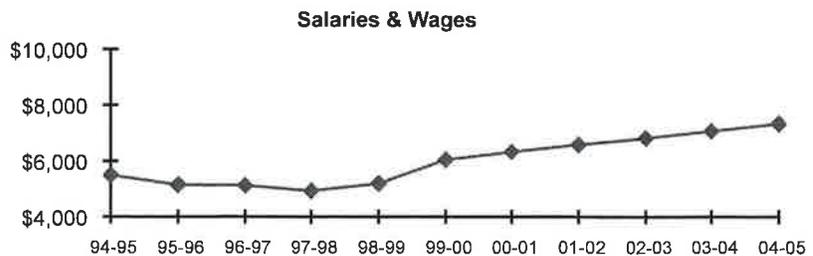
Historic Growth Rate	-3.6%
1999 Projected Growth Rate	4.1%
2000 Projected Growth Rate	3.9%

The historic growth rate for Salaries and Wages is -3.6%

The forecast projections assume the addition of three full-time positions in FY 2000-01 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 2000-01. For forecast purposes only, an annual cost of living increase in the remaining years of the forecast equal to 90% of the inflation rate is included.

Total personnel costs are projected to average 3.9%

The average annual growth rate for Salaries and Wages is 3.9% for the five-year projection.



Employee Benefits

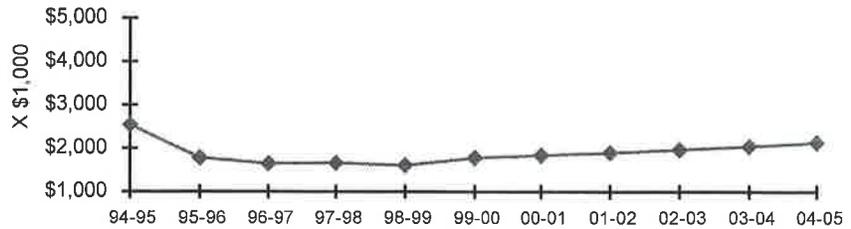
Historic Growth Rate	-10.0%
1999 Projected Growth Rate	3.7%
2000 Projected Growth Rate	3.7%

Employee Benefits are projected to increase by 3.7%

The employee benefits category reflects an average projected growth rate of 3.7% for the forecast period. The historical average of -10.0% for this category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.

Long Term Financial Plan

Employee Benefits



Contractual Services

Historic Growth Rate	15.3%
1999 Projected Growth Rate	2.9%
2000 Projected Growth Rate	3.4%

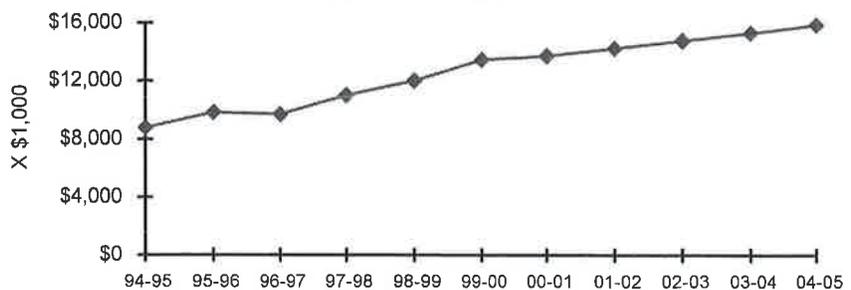
Contractual Services represent 51% of General Fund expenditures

Overall, this category is expected to experience an average annual increase of 3.4% over the forecast period, well below the historical average of 15.3%. The historical average reflects Fire and other services changing from internal operations to contractual services in fiscal 1994-95. Included in all years of the forecast are salary and benefit increases to the Orange County Fire Authority (OCFA) contract, as a result of the present negotiated agreement. However, the increased cost of adding a new fire station is not included in the forecast.

One contractual police services position (one grant funded for eighteen months) is included in each year of the forecast for a total of five additional contract police services positions.

Contractual services for the major street maintenance program is included at \$300,000 in the current fiscal year and increased by inflation in the remaining years of the forecast.

Contractual Services

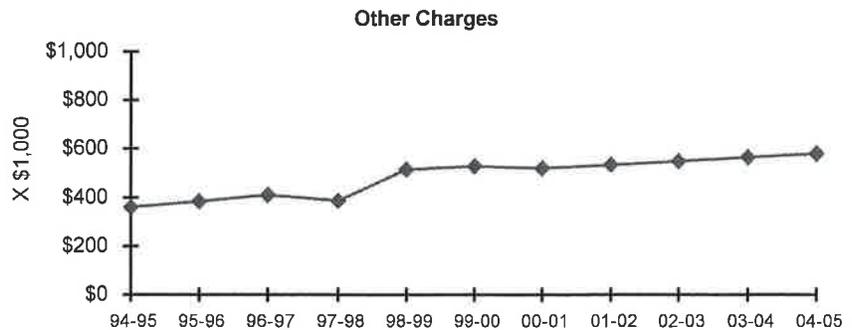


Other Charges

Historic Growth Rate	13.7%
1999 Projected Growth Rate	0.1%
2000 Projected Growth Rate	2.0%

Other Charges will increase by 2.0% over the forecast period

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Also, this expenditure category includes funding for the Council Contingency reserve. The projected growth rate when averaged is misleading, in that funds are transferred out of the Council Contingency reserve to the operating division's budget for approved expenditures and the account is replenished with an annual contribution. The current policy requires replenishment of the Contingency reserve with no less than 1% of General Fund operating expenditures.

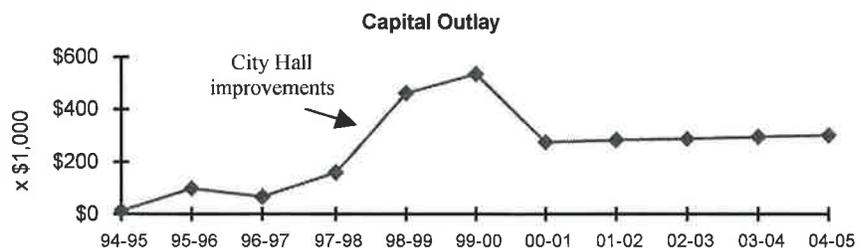


Capital Outlay

Historic Growth Rate	170.3%
1999 Projected Growth Rate	-1.7%
2000 Projected Growth Rate	-7.9%

The projected growth rate for Capital Outlay is -7.9%

The projected growth rate for Capital Outlay is -7.9%. For purposes of this forecast, Capital Outlay includes funding of \$50,000 in one-time capital purchases for the Police Services COPS program and \$225,000 for facilities maintenance in each year of the forecast. The historic rate of 170.3% includes one-time improvements to City Hall and other capital expenditures. For forecast purposes, one-time capital expenditures are excluded.



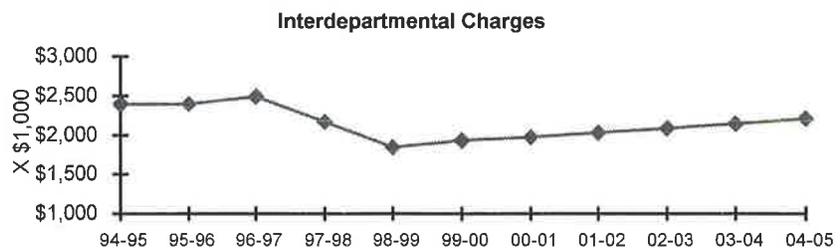
Long Term Financial Plan

Interdepartmental Charges

Historic Growth Rate	-1.5%
1999 Projected Growth Rate	3.3%
2000 Projected Growth Rate	2.7%

Interdepartmental Charges are projected to increase by 2.7%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.7% increase over the five year forecast and is based upon inflation. The reduction of dispatch charges resulting from the move of dispatch services to the County, account for the -1.5% historic rate reduction.

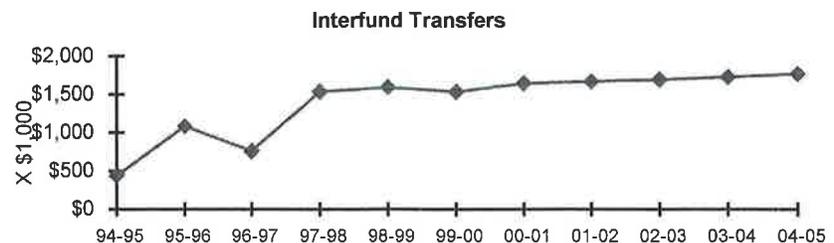


Interfund Transfers

Interfund Transfers will increase by 2.7% over the forecast period

Historic Growth Rate	30.4%
1999 Projected Growth Rate	2.6%
2000 Projected Growth Rate	2.7%

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Fund, Solid Waste Fund, Accrued Leave and Capital Equipment Replacement Reserve. The Interfund Transfer expenditure category is projected to experience an average annual increase of 2.7%. The Capital Equipment Replacement reserve will continue to receive transfers of \$100,000 per year. The Accrued Leave reserve contribution has been increased from \$75,000 to \$100,000 in all five years of the forecast. Transfers to the Street Improvement Fund and the Solid Waste Fund have been increased annually by inflation. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Other Operating Fund Forecasts

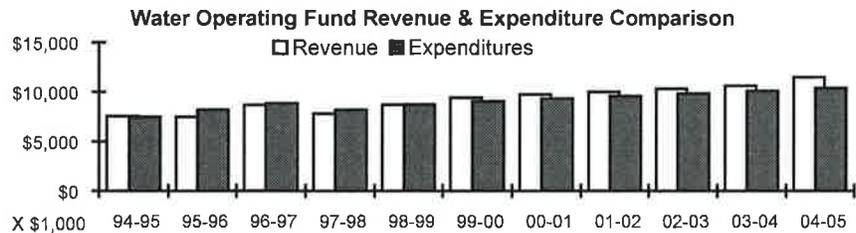
For the second consecutive year, five-year financial forecasts have been developed for the Water, Sewer and Golf operating funds. As with the General Fund forecast, the operating fund projections are developed using a baseline environment. Revenues are projected based upon growth or inflation factors,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

The Water operating fund is projected to end the 1999-00 fiscal year with a positive fund balance

Water Operating Fund Forecast

For the last three years, the Water Operating Fund has been operating in a deficit position. The fund ended the 1998-99 fiscal year with a negative \$592,000 fund balance. The 1999 Long Term Financial Plan included a Utility Operations Analysis and recommended a change to the City's water consumption rate. As a result, a 7.5% increase was approved for the 1999-00 fiscal year. The fund is now projected to end the 1999-00 fiscal year with a positive 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 1999-00. The fund is anticipated to have a positive ending fund balance in all five years of the forecast.

8% of operating expenditures will be set aside for the emergency reserve in FY 2001-02

Additionally, the fund will be able to set aside the fiscal policy requirement of 8% of operating expenditures in the 2001-02 fiscal year. Additional contributions in the next three years are required to maintain the 8% level.

The table below indicates the projected growth in the Emergency reserve over the five-year period.

Emergency Reserve

Amounts in \$1,000	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Emergency Reserves (8%)	\$0	\$292	\$298	\$307	\$315

During the 1999 Long Term Financial Plan process, the Utilities Division was directed to propose a rate reduction once the 8% emergency reserve had been set aside. The following cash flow table does not assume a rate reduction; however, it appears that rates should be reduced beginning in FY 2002-03.

Long Term Financial Plan

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Beginning Fund Balance	209	1,089	1,688	2,643	3,649
Revenues					
Service Charges	329	339	348	358	368
Water Charges	9,789	10,053	10,365	10,676	10,996
Miscellaneous Charges	41	42	43	44	45
Interfund Transfers	31	32	33	34	35
Total Revenues	10,191	10,466	10,789	11,112	11,445
Expenditures					
Water Administration	687	704	720	737	755
Water Production	6,617	6,807	6,991	7,186	7,394
Transmission	1,656	1,702	1,747	1,794	1,845
Conservation	56	57	59	60	62
Reclaimed Water	295	304	311	320	329
New Employees	0	0	0	0	0
Total Expenditures	9,310	9,574	9,828	10,098	10,384
Emergency Reserve	0	292	6	9	8
Ending Fund Balance	1,089	1,688	2,643	3,649	4,701

Financial Forecast

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.

2000 FINANCIAL FORECAST
Sewer Operating Fund Cash Flow from 1999-00 Adjusted Budget
(Amounts in Thousands)

	2000-01	2001-02	2002-03	2003-04	2004-05
Beginning Fund Balance	1,981	1,848	1,702	1,551	1,401
Revenues					
Service Charges	3,818	3,928	4,034	4,147	4,268
Miscellaneous Charges	173	169	164	168	171
Interfund Transfers	0	0	0	0	0
Total Revenues	3,991	4,097	4,199	4,315	4,439
Expenditures					
Sewer Administration	852	872	891	911	933
Treatment	2,025	2,081	2,135	2,193	2,254
Collection	1,245	1,281	1,315	1,352	1,390
New Employees	0	0	0	0	0
Total Expenditures	4,122	4,234	4,341	4,456	4,577
Emergency Reserve	2	9	9	9	10
Ending Fund Balance	1,848	1,702	1,551	1,401	1,253

The Sewer Operating Fund reserved \$310,000 from the FY 1998-99 ending fund balance to meet the fiscal policy requirement of 8% of operating expenditures. Minimal contributions to the reserve will be set aside from the ending fund balance in each of the remaining years of the forecast to maintain the reserve level at 8%.

The Sewer Operating Fund does not have a positive operating position (i.e., expenditures are higher than revenues), but fund balances are sufficient to keep a positive fund balance and maintain the required reserve level. Although a change in the rate structure is not warranted at this time, the fund balances will be monitored annually through this process.

Long Term Financial Plan

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.

It should be noted that the fee increases and golf course improvements proposed in the Golf Master Plan are not included in the forecast.

2000 FINANCIAL FORECAST Golf Operating Fund Cash Flow from 1999-00 Adjusted Budget (Amounts in Thousands)

	2000-01	2001-02	2002-03	2003-04	2004-05
Beginning Fund Balance	173	142	201	215	185
Revenues					
Service Charges	2,062	2,062	2,062	2,062	2,062
Interest & Rents	230	232	233	239	245
Miscellaneous Income	0	0	0	0	0
Total Revenues	<u>2,292</u>	<u>2,294</u>	<u>2,295</u>	<u>2,301</u>	<u>2,307</u>
Expenditures					
GC Maintenance	2,054	2,099	2,142	2,188	2,236
Starter Operations	129	132	135	139	143
New Employees	0	0	0	0	0
Total Expenditures	<u>2,183</u>	<u>2,231</u>	<u>2,277</u>	<u>2,327</u>	<u>2,379</u>
Emergency Reserve	140	4	4	4	4
Ending Fund Balance	142	201	215	185	109

The Golf Operating Fund has a positive ending fund balance in all five years of the forecast. However, the operating position changes from positive to negative in FY 2003-04 and gradually reduces fund balances in the last two years of the forecast. This indicates that operating revenues will not be sufficient to maintain operating expenditures beginning in FY 2003-04.

Additionally, \$160,000 has been designated in FY 1999-00 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. The cash flow table above does not include the transfer of \$160,000 to the Golf Capital Replacement Reserve fund because sufficient funds are not available to transfer.

Objective

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

Background

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

Following are proposed changes to the current Fiscal Policy:

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

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
The City will maintain General Fund Contingency reserves at a level at least equal to 5% of general fund operating expenditures. The primary purpose of this reserve is to protect the City’s essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	The City will maintain General Fund Contingency reserves at a level at least equal to 8% 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.

- 2. Revenue Policies:** This change is to reflect a proposed addition to the *Revenue Policies*. As identified in the Master Plan for City Facilities issue paper, the City has funding for the construction of new facilities from Developer Agreements and development fees. However, construction must be carefully planned and facilities should be built only when General Fund revenues are sufficient to sustain on-going operations and maintenance.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	The City will annually review the General Fund operating position (revenues less expenditures) to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.

Long Term Financial Plan

3. **Operating Budget Policies:** A proposed addition to the *Operating Budget Policy* is recommended. The City does not have a formal policy establishing the expenditure level for capital equipment. It is proposed that the City establish a policy to require Council budget approval for the purchase of any capital equipment with a value of \$1,000 or more. This policy is generally applicable when capital expenditures are recommended after the budget has already been adopted.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	The purchase of new or replacement capital equipment with a value of \$1,000 or more and with a minimum useful life of five years will require budget approval.

Recommendation

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

Council Action

All recommendations were approved by the City Council by a vote of 4-0 on April 8, 2000.

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapts to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.	√	
The purchase of new or replacement capital equipment with a value of \$1,000 or more and with a minimum useful life of five years will require budget approval.	√	
The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
The City will establish a Capital Equipment Replacement Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.	√	

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
Revenue Policies		
The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.	√	
Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time revenues will be used for one-time expenditures only. (Including capital and reserves)	√	
Capital improvements will be financed primarily through user fees, services charges or developer agreements when benefits can be specifically attributed to users of the facility. The City will analyze the impact of capital improvements to ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.	√	
The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.	√	
The City will annually review the General Fund operating position (revenues less expenditures to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.	√	
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Utility Rates and Fees		
The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.	√	
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	

Legend:

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

Fiscal Policy Statement	Status	Comments
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	
Short-Term Debt Policies		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	√	
The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
Long-Term Debt Policies		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current on-going operations.	√	
Reserve Policies		
The City will maintain General Fund 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.	√	
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.	√	Council Contingency Reserve = \$250,940 recommended for FY 200,000
Council approval is required before expending General Fund or Contingency Reserves.	√	
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.	√	Accrued Leave Reserve = \$100,000 recommended for FY 2000-01
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = \$300,000 (Additional \$265,000 reserve for claims not covered by insurance pool)
The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonable foreseen during the preparation of the budget.	---	Water and Golf Funds do not have sufficient funds to maintain the required reserve levels until FY 2001-02

Legend:

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

Fiscal Policy Statement	Status	Comments
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Moody's Rating = A-1. Standard & Poor's = A
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

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

Long Term Financial Plan

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

*Additional copies may be purchased at City Hall
100 Avenida Presidio
San Clemente, CA 92672*