City of San Clemente
2001
Long Term Financial Plan

Volume II

City of San Clemente

City Council

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•	Jim Dahl	Mayor Pro Tem
•	Stephanie Dorey	Councilmember
•	G. Wayne Eggleston	Councilmember
•	Susan Ritschel	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 Director

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

Project Leaders

•	Kumi Elston	Budget Officer
•	Myrna Erway	City Clerk
•	Cherie Fredricks	Finance Manager
•	Jim Hare	City Planner
•	James S. Holloway	Director, Community Development
•	David N. Lund	Director, Public Works/Economic Development
•	Larry K. Moore	Information Services Manager
•	Christine Morehead	Senior Accountant
•	David M. Pierce	Division Chief, Orange County Fire Authority

Long Term Financial Plan

Project Teams

Project Director
Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer
Julie Schmidt, Administrative Assistant (Administrative Support)

Steering Committee
Mike Parness, City Manager
Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer

Financial Trends
Christine Morehead, Senior Accountant

Financial Forecast
Kumi Elston, Budget Officer

Reserve Analysis
Cherie Fredricks, Finance Manager

Street Improvement Program Update
David N. Lund, Director, Public Works/Economic Development
William E. Cameron, City Engineer
Akram Hindiyeh, Principal Civil Engineer

Information Systems Strategic Plan
Larry K. Moore, Information Services Manager

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

Master Plan for City Facilities Update
James S. Holloway, Director, Community Development
Kelly Main, Associate Planner

Environmental Program Update
David N. Lund, Director, Public Works & Economic Development
Tom Bonigut, Senior Civil Engineer
William E. Cameron, City Engineer

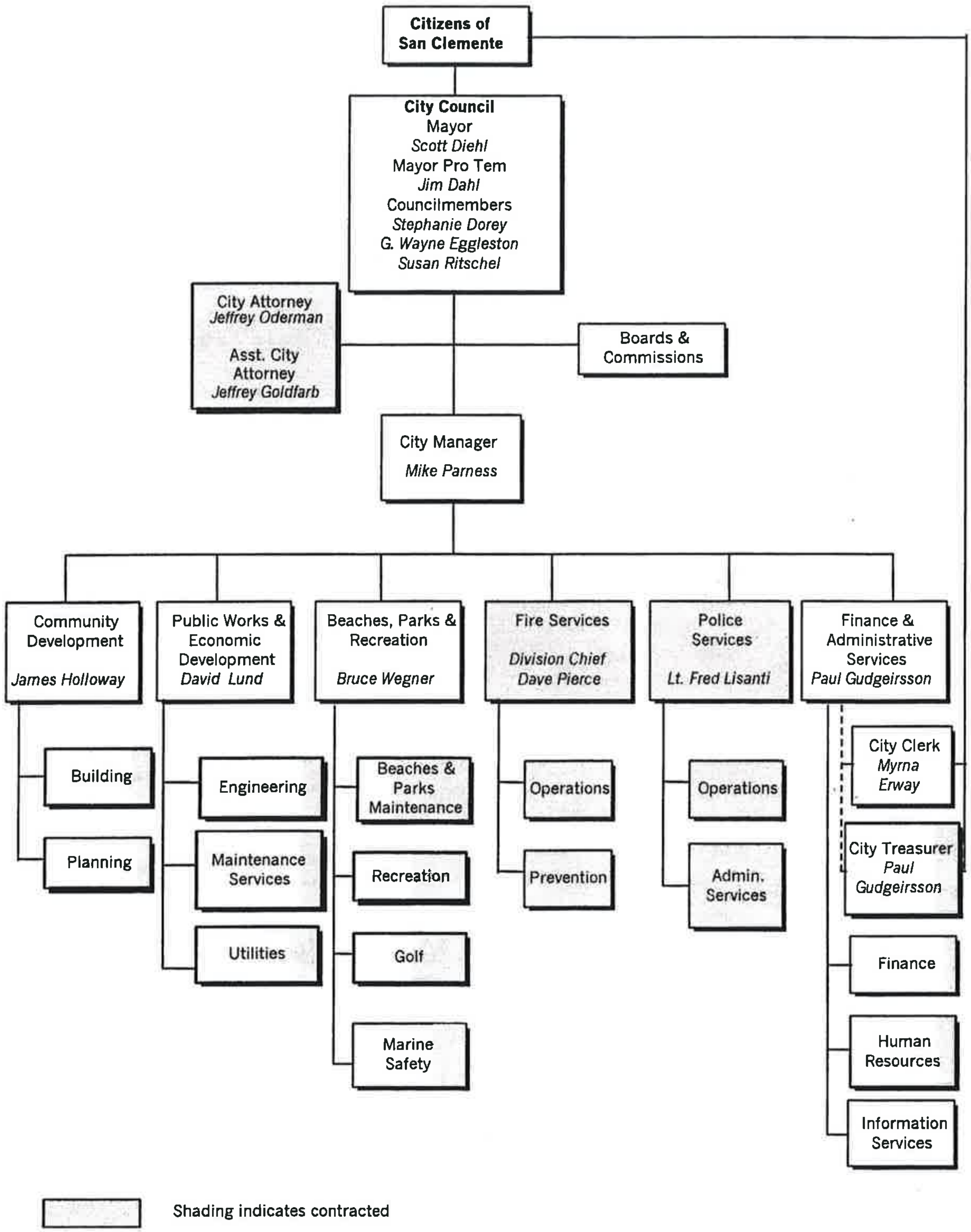
General Plan/Zoning Ordinance Update
James Hare, City Planner, Planning Division

Document Management Strategic Plan
Myrna Erway, City Clerk
Larry Moore, Information Services Manager
Rita Mueller, Records Coordinator

Fire Authority Staffing Analysis
David M. Pierce, Division Chief, Orange County Fire Authority

Long Term Financial Plan

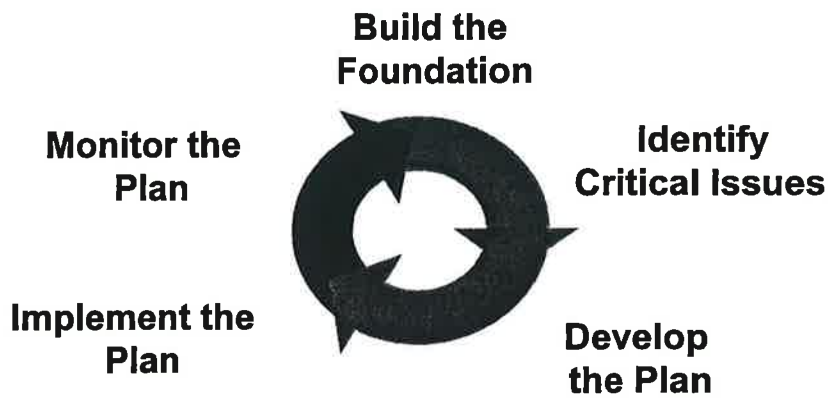
City Organizational Chart



Long Term Financial Plan

Introduction

Long Term Financial Plan



The LTFP is a financial strategic plan

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

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

The LTFP consists of the complete financial plan

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

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

The Issue Papers provide support documents used to develop the plan

Long Term Financial Plan - Issue Papers: This volume of the Long Term Financial Plan, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. The issues outlined on the following pages were analyzed as a part of the 2001 Long Term Financial Plan process:

Long Term Financial Plan

Financial Trend Analysis

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

Financial Forecast

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

Reserve Analysis

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

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.

Master Plan for City Facilities
Objective
To review and update key policy recommendations for the Master Plan for City Facilities (MPCF).
- *Has the tax base grown?*
- *Have costs grown?*
- *Have facilities been phased as anticipated?*
- *Is the operation and maintenance of new facilities sustainable?*

Environmental Program Update
Objective
To update the City Council and public concerning the progress that has been made in areas of Coastal Erosion and Sand Replenishment, Urban Runoff Management, Rail Corridor Pedestrian Beach Trail, and related environmental management initiatives.

General Plan/Zoning Ordinance Update
Objective
To consider the need to begin an update of the General Plan and the Zoning Ordinance, starting in Fiscal Year 2001-2002.

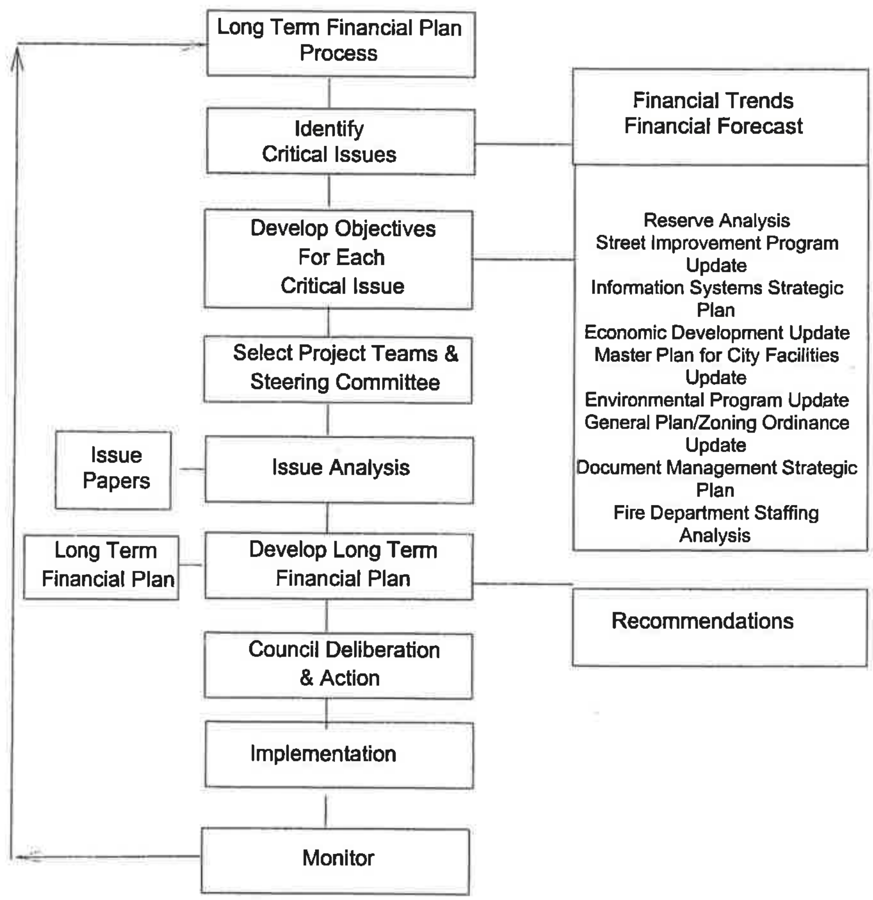
Document Management Strategic Plan
Objective
To update the City's document management program, based on current technology, and in coordination with the Computer Strategic Plan. To convert the City's current and future records from paper to electronic storage, which will facilitate sharing and retrieving data internally, and provide greater public access to the City's records via a secure internet site.

Fire Authority Staffing Analysis
Objective
Review the need for increased staffing of Fire Authority units and its impacts on service levels and the City of San Clemente.

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, 18 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 12 project leaders each assigned to teams addressing a specific critical issue.



Goals & Objectives

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

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

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

Trends & Forecast are the Foundation of the LTFP

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

This Financial Plan will be presented in detail to the City Council on February 24, 2001. 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 2001-02 budget process:

Schedule

February 21, 2001	LTFP provided to Council and public for review.
February 24, 2001 (Saturday)	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input & City Council adoption.
February 28, 2001	Vital Few Priority Meeting. City Council and City Manager.

Long Term Financial Plan

Financial Trends

Objective

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

Background

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

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

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

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

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

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

- The City's internal audit program, which was first implemented in FY 1994-95, proved successful during the past fiscal years, as operational divisions were analyzed for proper accounting, financial reporting, and efficiency.

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

- The City's General Fund has made significant contributions to establish and fund reserves in other funds. The fiscal policy reserve requirement of the General Liability Fund of $300,000 has been fully funded. In addition, a Capital Equipment Replacement Reserve Fund and Accrued Leave Reserve Fund were both established in FY 1994-95. The first was established to provide a funding source for the replacement of existing fixed assets as equipment, machinery, and building improvements become unserviceable or obsolete. Updated equipment and machinery allows added efficiency on the part of City employees. During the past six years, the General Fund has contributed $640,000 for the purpose of replacing equipment. The second fund was established to ensure that adequate reserves are in place in which to pay accumulated compensated absences (vacation, sick, and compensatory leave) of terminated or retiring employees. During the past fiscal year, the General Fund contributed $75,000 to this fund. And finally, the General Fund Emergency Reserve, at $1,119,640, is not fully funded at 8% of operating expenditures. It is important to note that this emergency reserve was originally targeted at 8% of General Fund operating expenditures, but was reduced to 5% in 1997 due to the financial crisis experienced by the City. It is recommended that the City set aside $500,000 budgeted in FY 2000-01 and budget an additional $682,000 for FY 2001-02 in order to bring the emergency reserve to $2,301,640 or 8% of projected General Fund operating expenditures.

- In FY 1994-95, the City's Street Improvement Program was established. This 18-year program is designed to address the City's deteriorating local street system. The General Fund has contributed a total of $2,315,000 to this program since its establishment.

- To continue to provide a quality level of services, the City established a centralized volunteer program to assist employees with their high level of workload. During FY 1999-00, community volunteers contributed 12,843 hours, the equivalent of $218,331, in code enforcement, administration, special projects, youth programs, police services, and the animal shelter.

- The City's economic development program, which was established in FY 1993-94, has assisted in bringing financial stability to the community by evaluating the economic climate and making recommendations for improvement. The current Long Term Financial Plan presents solutions to a number of economic development projects that have been studied in the past. Areas of concentration include: the expansion of business park resources, the expansion of visitor events, revitalization of the central business district, revitalization of older commercial shopping center projects, the Los Molinos public/private partnership improvement program, and developing the North Beach specific plan and revitalization program.

- A compensation study was conducted in the prior year and findings were approved by the City Council and implemented as of July 1, 2000. This study brought the City's compensation plan in line with similar agencies at a total cost of $504,930. Of this amount, $358,500 is from the General Fund.

- The City's organizational structure has been streamlined through reorganization and contracting of various City services. This streamlining has resulted in the elimination of 185 positions within the past nine years.

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

The 2001 trend report analyzes the City's current financial condition, taking into consideration the above changes, and making recommendations, where necessary, for areas of improvement. The three major areas of the General Fund analyzed include:

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

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

The 2001 financial trend analysis combines several sources of data into a meaningful overview of the General Fund's current financial position, and assists the City Administration and Council in making determinations as to improvements to the City's fiscal policy. Reports examined as part of this analysis include those from FY 1995-96 through FY 1999-00, combining information from Annual Budgets, Comprehensive Annual Financial Reports, Annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. The City's adopted fiscal policies, as well as other national standards, have been considered in analyzing the financial indicators. One of the following ratings will be assigned to each indicator:

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

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

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

The City of San Clemente's FY 1999-00 General Fund operating position is summarized in the following sections.

Overview of The City's Financial Condition

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

As mentioned above, the indicators in the report show that the City's fiscal position continues to strengthen. This is due to several factors. First, the economic rebound is in full swing as property taxes and development related fees continue to increase. Second, the City is seeing the rewards of financial planning policies implemented in prior years as reserves are fully funded with the exception of the General Fund Emergency Reserve. The City does not have to divert scarce resources toward funding reserve deficits and reserve targets in the City's fiscal policy.

Overall, the City's General Fund revenues show a significant increase from the previous year, with an increase of $5,124,000, or 20.8%. Of this increase, $2,968,000 is from elastic revenues. Property taxes show an increase for the fourth consecutive year, ending the year with an increase over the prior year of $815,000. Other revenue increases for FY 1999-00 include license and permit revenues of $1,331,000, intergovernmental revenues of $582,000, sales tax revenues of $825,000, and community development service charges of $547,000. The community development service charges are considered to be elastic revenues and the large increase varies directly with fluctuations in the economy. The City continues to follow its fiscal policy of utilizing one-time revenues for one-time expenditures and not operations.

General Fund expenditures also show positive trends in the following analysis. Expenditures came in $1,090,000, or 4.0%, under budgeted expenditures for FY 1999-00. When analyzing constant dollars, total expenditures increased by $2,689,000 which is a substantial increase over the five-year period. Two departments represent the majority of this increase, Community Development and Beaches, Parks and Recreation. Community Development expenditures are increasing due to the high volume of development activity while Beaches, Parks and Recreation absorbed the City's lighting and landscape costs as a result of Proposition 218. Total expenditures include the General Fund's contributions to fund reserves and the Street Improvement Program. These transfers for FY 1999-00 included Capital Equipment Replacement Reserve Fund ($120,000), Accrued Leave Reserve Fund ($75,000), and Street Improvement Fund ($515,000). The net effect of positive revenues and expenditures was a General Fund year-end fund balance of $9.6 million ($7.9 million unreserved, $147,000 in miscellaneous reserves, $489,000 encumbrances from the prior year, and $1.1 million emergency reserves).

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

- The City's **revenue base** continues to expand as almost every revenue category increases in FY 1999-00. The General Fund revenue base is sufficient at the present time to support current services provided to the residents. However, it should be pointed out that elastic revenues (e.g. development fees) contributed heavily to the expanded revenue base. Revenues in FY 1999-00 have also boosted the unreserved fund balance, making more funds available for providing or improving future service levels. The City's total operating revenues have grown 39.9 percent from FY 1995-96 to FY 1999-00.

- The City's **elastic revenues** continue to increase as the local economy shows signs of continued stabilization. Elastic revenues increased $2,968,000 from FY 1998-99 to FY 1999-00. Sales tax revenues, license and permit revenues, and community development service charges all increased during the fiscal year. Transient occupancy taxes increased to an all-time high for this category. Although the City continues to rely heavily on elastic revenues (36.5% of operating revenues), the City's commitment to funding the General Fund emergency reserve will prove beneficial in safeguarding the City against any future short-term unforeseen economic downturns that may have an effect on elastic revenues.

- The City continues to **monitor expenditures** in an effort to contain spending and remain in a positive operating position. In total, staffing levels have been reduced over the past nine years by 52.4%, from 353 full-time equivalents (FTE's) in FY 1991-92 to 168 FTE's in FY 1999-00. The City is fully aware of the consequences brings. Therefore the number of municipal employees in the General Fund has increased 13 FTE's since FY 1997-98 and warrants a favorable rating. The City will continue to monitor the employees per capita levels as the population is anticipated to increase as well.

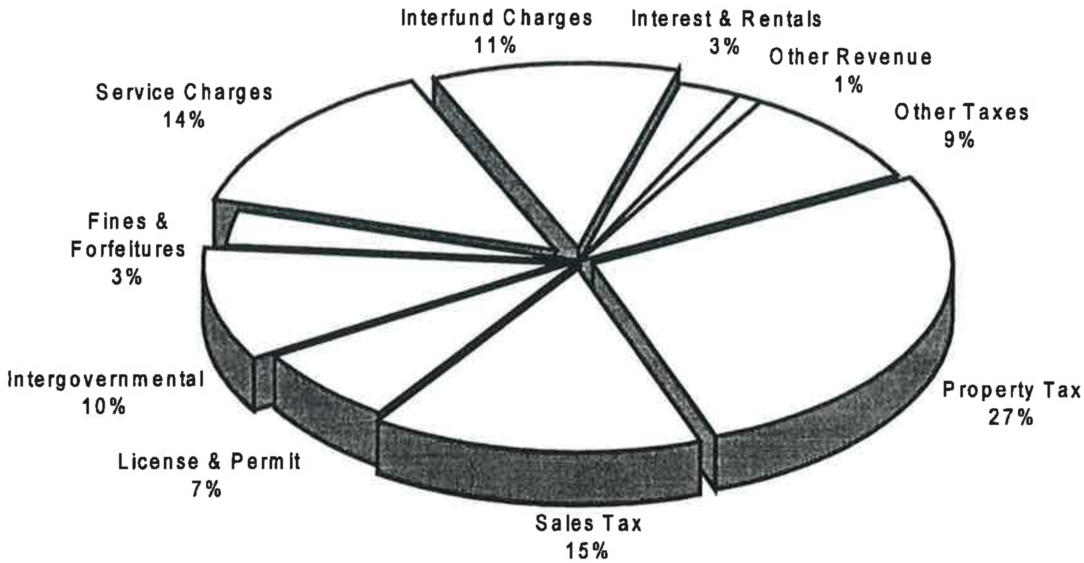
- **Unreserved fund balance** is at an all-time high of 30.16% when calculated as a percentage of operating revenues. This is an increase over the prior year of $3,889,000 and is the direct result of an operating surplus for the year in the amount of $3,747,000. This available fund balance includes the General Fund's emergency reserve, which has been set at 8% of operating expenditures, and is not fully funded at the present time at $1,119,640. In addition, the General Fund has contributed to the funding of other reserves within the City over the past several years, with transfers to the Capital Equipment Replacement Reserve Fund ($640,000), Accrued Leave Reserve Fund ($265,000), General Liability Fund ($415,000), Workers' Compensation Fund ($356,000), and Street Improvement Fund ($2,315,000).

General Fund Operating Results - Revenues

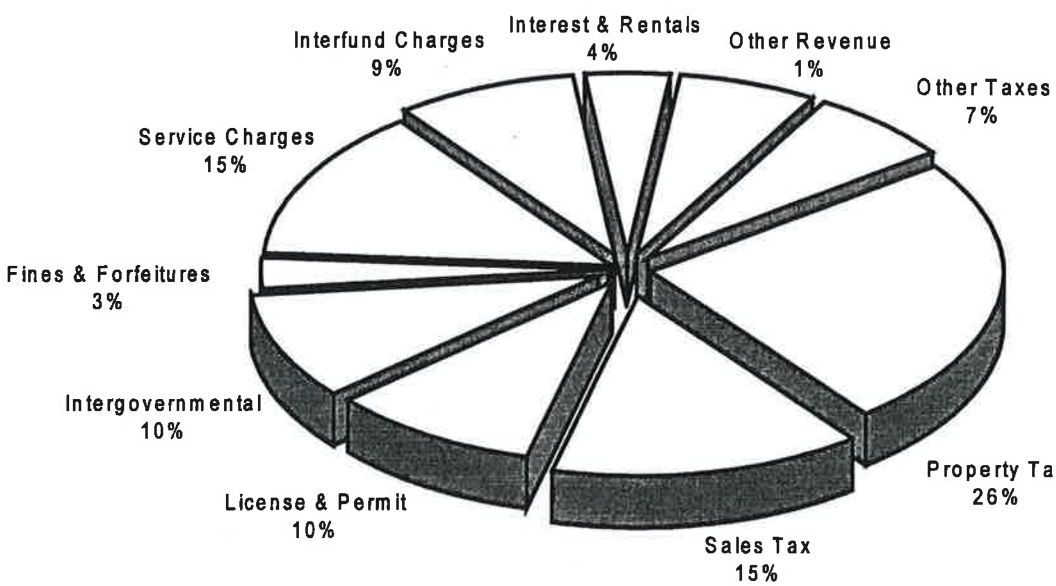
The City's General Fund operating revenues increased from $24,595,118 to $29,718,860, an increase of 20.8%, or $5,124,000 over the prior fiscal year. License and permit revenues showed the most significant increase of $1,331,000 or 77.8% over FY 1998-99. The City continues to utilize one-time revenues to offset one-time expenditures.

The General Fund's revenue sources with related percentages of total operating revenues are shown in the charts on the next page. Taxes, including property, sales and other taxes make up the largest category of General Fund revenues at 48% of revenues generated from the General Fund.

1998-99 Operating Revenues By Source



1999-00 Operating Revenues By Source



Long Term Financial Plan

The City continues to receive its largest share of revenues from property taxes and sales taxes. One percent of the 7.75% in sales tax generated within the City limits is distributed to the City, with 6.25% distributed to the State and 0.5% to the Orange County Transportation Authority (OCTA) under Measure M for street improvements. Fiscal year 1999-00 property taxes paid by a typical resident of San Clemente were apportioned to local governments with school districts receiving 67.8%, special districts receiving 2.6%, the County 12.2%, the Redevelopment Agency 2.4%, and the City receiving 15.0%.

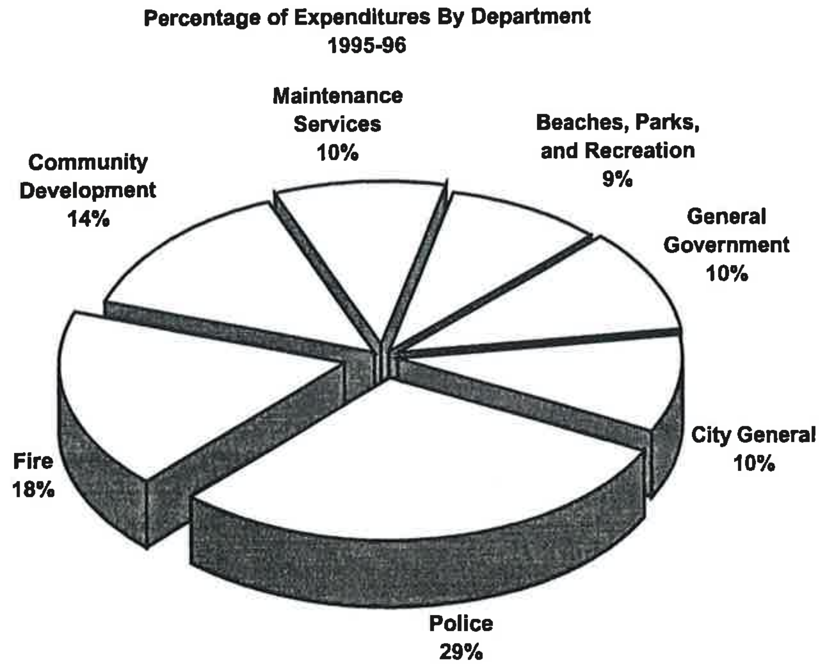
Several changes between FY 1998-99 and FY 1999-00 percentages by revenue source were noted. Service charges increased slightly to 15% and now make up the same percentage of operating revenue as sales tax. License and permit revenues increased from 7% in FY 1998-99 to 10% in FY 1999-00 due to an increase in business license and construction related permits. Total tax revenues decreased in percentage of total operating revenues from the prior year as a direct result of increases in other revenue sources. Interfund charges also declined; from 11% to 9%.

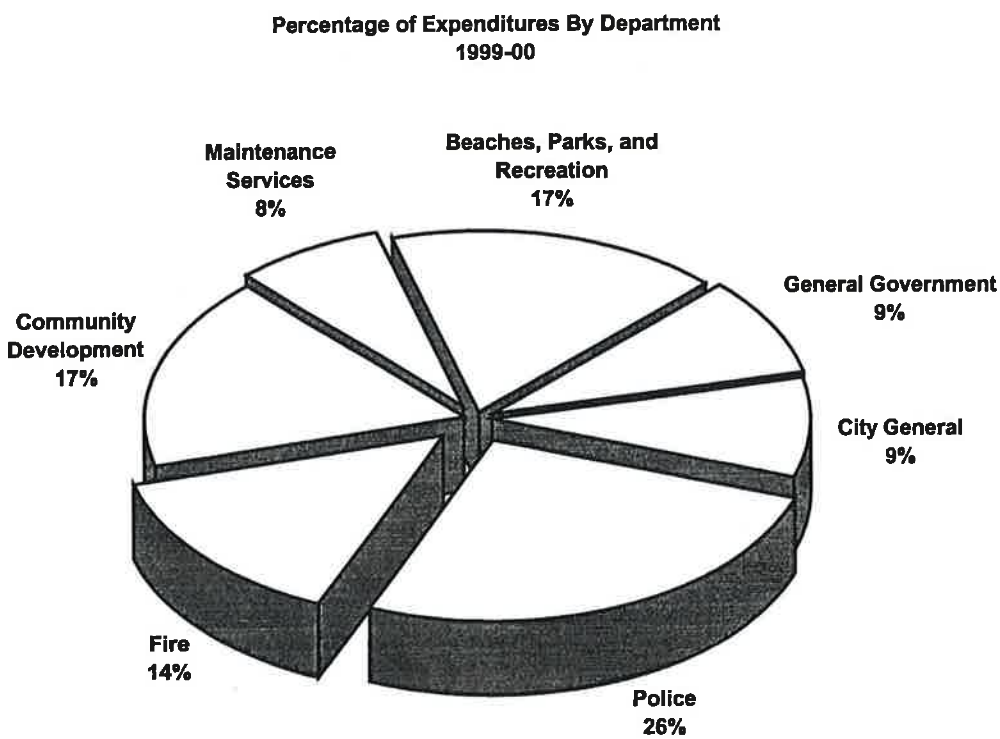
General Fund Operating Results - Expenditures

The largest portion of the City's operating costs reside in the General Fund. Fiscal year 1999-00 showed an actual increase of $3,140,000 in total General Fund expenditures from the prior fiscal year. The expenditures for FY 1999-00 include $875,000 of transfers to other funds including a contribution of $515,000 to the Street Improvement Program.

The following charts compare expenditures both by department and category for FY 1995-96 and FY 1999-00.

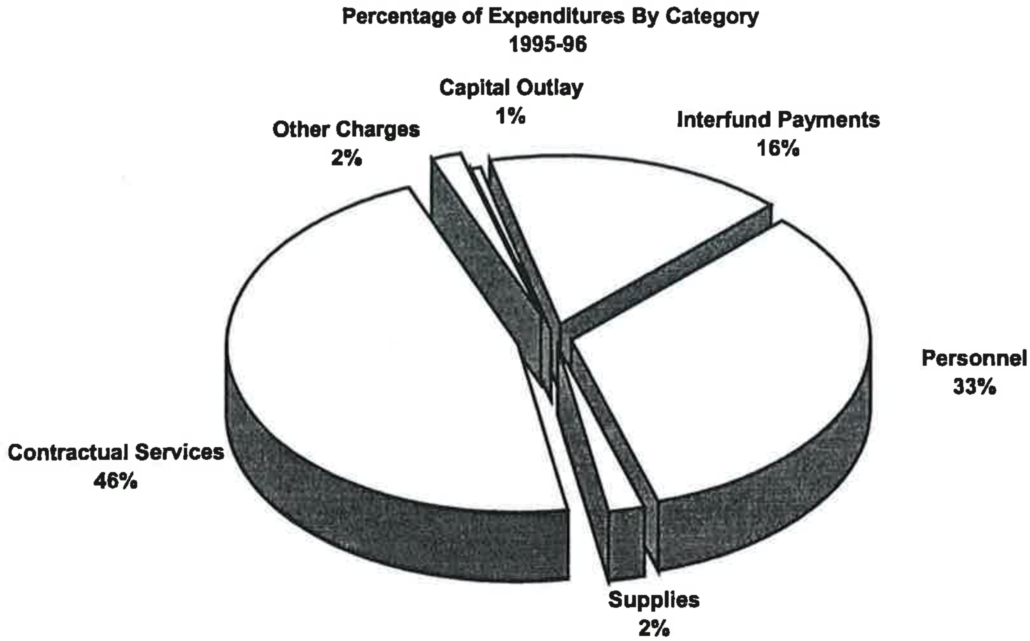
Comparison of Expenditures By Department - 1995-96 vs. 1999-00

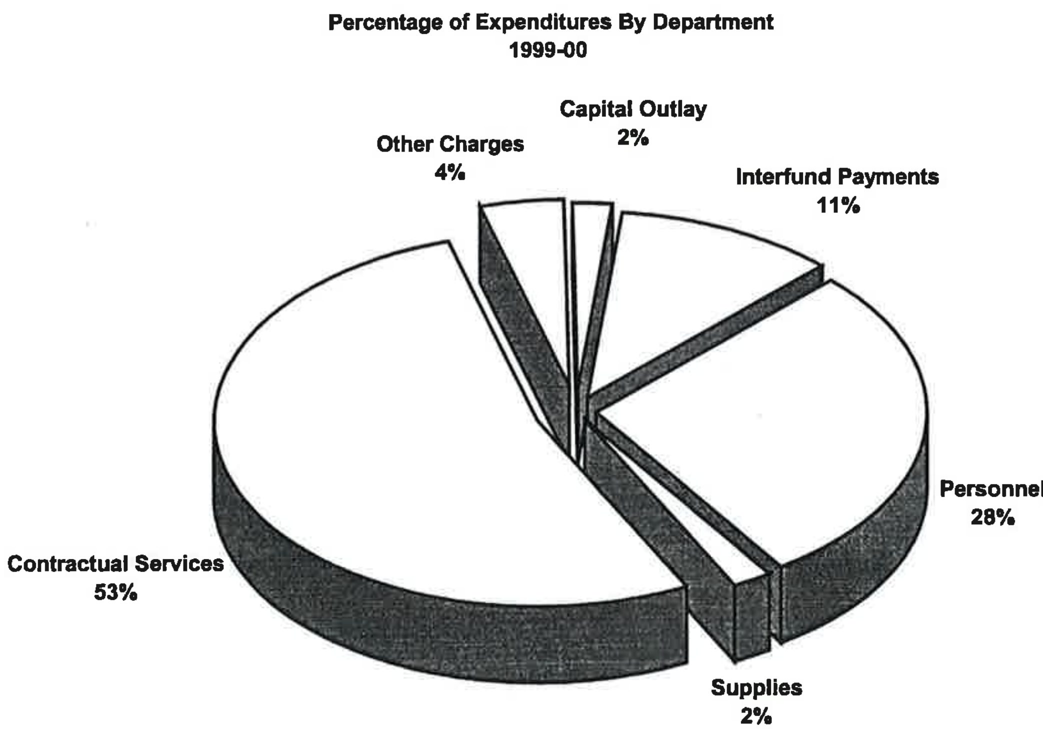




Changes in the above comparison of General Fund expenditures by department worthy of mention include a decrease in public safety from 47% to 40% due to the contracting of police and fire services to the Orange County Sheriff's Department and Orange County Fire Authority, respectively. Beaches, Parks, and Recreation increased from 9% to 17% because this division absorbed the costs of the former Lighting and Landscape Assessment District, with expenditures totaling $2,296,000 for FY 1999-00 for these services alone. If the Lighting and Landscape District had not been dissolved, Beaches, Parks, and Recreation expenditures would only amount to 8% of total General Fund expenditures instead of the current 17% level.

Comparison of Expenditures by Category- 1995-96 vs. 1999-00





Personnel costs, as a percentage of General Fund expenditures, decreased from 33% in FY 1995-96 to 28% in FY 1999-00. Conversely, contractual services increased from 46% in FY 1995-96 to 53% in FY 1999-00. During this time period, personnel costs have been replaced with contractual services by means of contracting out police and fire services and contracting of fleet maintenance, beach and park maintenance, and meter reading. All other categories of General Fund expenditures remained relatively constant over the five-year period.

In summary, the City's financial condition continues to stabilize and definite signs of growth are evident in many areas. The unreserved fund balance is at an all-time high of 30.16%, when calculated as a percentage of operating revenues, a total of $8,964,000. As a result of a change in fiscal policy from 5% to 8% of operating expenditures, the General Fund's emergency reserve is no longer fully funded. The reserve is intended to be fully funded with the assistance of the improved local and regional economy, as evidenced by the increase in property values, and the related property tax revenues, for the fourth consecutive year. The City will annually review the General Fund operating position (revenues less expenditures) to insure proper funding for future expenditures.

General Obligation Debt

According to California State law, the City's legal debt capacity for general obligation indebtedness is equal to 3.75% of total assessed property values within the City, or $173 million. The City had no general obligation debt at June 30, 2000.

Summary of Trends

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

Summary of Trends

Indicator Number	Description	Trend	Comments
General Fund Revenues			
1	Revenues Per Capita	F	Revenues per capita reflected an increase from the prior fiscal year. Rating unchanged from prior year.
2	Property Tax Revenues	F	Property tax revenues showed a fourth year of increases. This increase was significant at $815,000 over the previous fiscal year. This rating is unchanged with the fourth favorable rating during the five year history.
3	Sales Tax Revenues	F	Sales tax revenues once again showed increases. This year amounted to $825,000 over the prior fiscal year. This revenue source continues to be the second highest source of the City's General Fund. Rating unchanged from prior year.
4	License & Permit	F	License and permit revenues rose to an all time high in FY 1999-00. The increase in development within the City resulted in an increase in revenues of $1,331,000, or 77.9%, over the prior fiscal year in actual dollars and $1,166,000, or 72.0%, in constant dollars. Rating unchanged from prior year.
5	Com. Dev. Service Chgs.	F	Community Development Service Charges increased by $547,000, or 31.8%, from FY 1998-99. This revenue source, based on current development in the planning and building stages, is projected to continue its upward trend. Rating unchanged from prior year.
6	Elastic Revenues	F	Elastic revenues increased by $2,968,000 in FY 1999-00, or double that of the prior year. Rating unchanged from prior year.
7	One-Time Revenues	F	One-time revenues decreased 47.7% in FY 1999-00 from FY 1998-99. The City will continue to apply one-time revenues towards one-time expenditures. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
8	Intergovernmental	F	Intergovernmental revenues have maintained a level trend for the past five years with FY 1999-00 showing 10% of operating revenues, up $582,000 from the prior fiscal year. This level trend is positive, in that the City should not rely too heavily on revenue sources which are out of its control. Rating unchanged from prior year.
9	Revenue Overages	F	Revenue overages, as a percentage of operating revenues, is at 11.09% this year. This indicator examines the differences between revenues budgeted and revenues actually received. Rating unchanged from prior year.
General Fund Expenditures			
10	Exp. Per Capita	F	In both constant and actual dollars, expenditures per capita increased significantly in comparison to the prior year. The Community Development department expenditures increased due to the high volume of development activity. In addition, the City has increased the funding of needed reserves such as the Accrued Leave Reserve Fund, Capital Equipment Replacement Reserve Fund and the Street Improvement Fund. Rating unchanged from prior year.
11	Employees Per Capita	F	This indicator is upgraded to a favorable rating due to the increase of FTE's over the last three years. The City will continue to monitor this trend on an annual basis as population is projected to increase
12	Fringe Benefits	F	Fringe benefits, as a percentage of salaries and wages, has remained stable over the past six years. Rating unchanged from prior year.
13	Capital Outlay	F	Capital Outlay increased over the prior fiscal year by 53.8%. A $120,000 annual contribution was made to the Capital Equipment Replacement Reserve Fund. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
General Fund Operating Position			
14	Operating Surplus	F	This indicator has remained positive for the sixth consecutive year. The City's operating surplus for FY 1999-00 was 12.61% of operating revenues, the highest level since this indicator was first tracked. Rating unchanged from prior year.
15	Unreserved Fund Balance	F	The City's unreserved fund balance at June 30, 2000, as a percentage of operating revenues, increased over the prior year to 30.16%. The emergency reserve is not fully funded at 8% of General Fund operating expenditures, as required by the City's Fiscal Policy. Rating unchanged from prior year.
16	Liquidity Ratio	F	The General Fund liquidity ratio (current assets to current liabilities) at June 30, 2000 was 2.7:1 which is above the 1:1 ratio viewed as favorable by credit rating firms. Rating unchanged from prior year.
17	Debt Service	F	The City General Fund's debt service, as a percentage of operating revenues, remains at less than 1%. The City's debt is well below the 20% of net operating revenues which is used by credit rating firms. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Indicator Number	Description	Trend	Comments
Additional Indicators			
18	Compensated Absences	F	Accumulated compensated absences (unpaid vacation, sick leave, and compensatory time) show an increase of $124,000, or 11.2%, from the prior fiscal year. This indicator will be monitored to insure adequate funding. Rating unchanged from prior year.
19	Property Values	F	Like property tax revenues, property values continue to show a positive trend for the fourth consecutive year. This indicator shows an increase over the prior year of 10.4%. Because the City relies heavily on property tax revenues, representing 26% of all General Fund revenues, this indicator will continue to be closely monitored. Rating unchanged from prior year as this trend has continued for a four year period.
20	Population	F	This trend continues to receive a favorable rating because the population growth has been a steady, but not rapid, increase over the last eleven years and has been relatively planned and controlled. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable

Comparison of Trend Reports

Twenty financial indicators are summarized on the following page. These indicators are analyzed on an annual basis as part of the Long Term Financial Plan. The current year being analyzed shows every indicator receiving a favorable rating, an improvement from the previous year. This is an improvement over 1997 where three indicators received unfavorable ratings, and an even more significant improvement over the first financial trend analysis with only six favorable ratings.

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

The table below shows one improved indicator which can be found in the expenditures category. Employees per capita changed to favorable as a result of an increase in FTE's over the past three years. The trend has stabilized as employees have increased as well as the population. Although City employees are working at an increased level of efficiency this indicator will be closely monitored to insure the ability to support future service levels as the City continues in its development and growth phase. Fringe benefits continue to remain stable at a reduced level and the General Fund continues its capital equipment replacement program with an annual contribution to the Capital Equipment Replacement Reserve Fund.

The City's General Fund operating position remains very positive with all indicators in this category registering favorable ratings. Operating surplus, as a percentage of operating revenues, is at an all-time high of 12.61%, as is unreserved fund balance, as a percentage of operating revenues, at 30.16%.

Property values continue its positive trend for the fourth consecutive year. This indicator continues to be closely monitored because of the City's reliance on property tax revenues, 26% of General Fund operating revenues.

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

Summary of Annual Trends

Indicator Number	Description	2001	2000	1999	1998	1997
1	Revenues Per Capita Excluding One-Time Revenues	F	F	F	F	F
2	Property Tax Revenues	F	F	F	F	U
3	Sales Tax Revenues	F	F	F	F	F
4	License & Permit Revenues	F	F	F	U	F
5	Community Development Service Charges	F	F	F	U	U
6	Elastic Revenues	F	F	F	F	F
7	One-Time Revenues	F	F	F	F	F
8	Intergovernmental Revenues	F	F	F	F	F
9	Revenues Overages/Shortages	F	F	F	F	F
10	Expenditures Per Capita	F	F	F	F	F
11	Employees Per Capita	F	U	U	F	F
12	Fringe Benefits	F	F	F	F	F
13	Capital Outlay	F	F	F	F	F
14	Operating Surplus	F	F	F	F	F
15	Unreserved Fund Balance	F	F	F	F	F
16	Liquidity Ratio	F	F	F	F	F
17	Debt Service	F	F	F	F	F
18	Compensated Absences	F	F	F	F	F
19	Property Value	F	F	F	F	U
20	Population	F	F	F	F	F

F Favorable
W Warning
U Unfavorable

City Fiscal Policy

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

General Financial Goals

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

Operating Budget Policies

4. The City will adopt a balanced budget by June 30 of each year.
5. The City Manager will prepare a budget calendar no later than January of each year.
6. An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.
7. During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
8. Current revenues will be sufficient to support current operating expenditures.
9. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.
10. The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.
11. The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.
12. The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.
13. The City will establish a Capital Equipment Replacement Fund for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.
14. 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.

Revenue Policies

15. The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.
16. 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.
17. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.

18. 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.
19. One-time revenues will be used for one time expenditures only (including capital and reserves).
20. 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

21. 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

22. 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.
23. Utility rates will be established for each of the next five years and this rate projection will be updated annually.

Capital Improvement Budget Policies

24. The City will make all capital improvements in accordance with an adopted and funded capital improvement program.
25. The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.
26. 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.
27. 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.
28. 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.
29. Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.
30. 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

31. 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.
32. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.

Long-Term Debt Policies

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

Reserve Policies

36. The City will maintain General Fund reserves (emergency 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.
37. A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.
38. Council approval is required before expending General Fund or Contingency Reserves.
39. 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.
40. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects 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.
41. The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Investment Policies

42. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.
43. 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 other moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.

Accounting, Auditing, and Financial Reporting

44. 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.
45. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
46. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
47. Full and continuing disclosure will be provided in the general financial statements and bond representations.
48. The City will maintain a good credit rating in the financial community.
49. 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.
50. The City will maintain a liquidity ratio of at least 1:1.

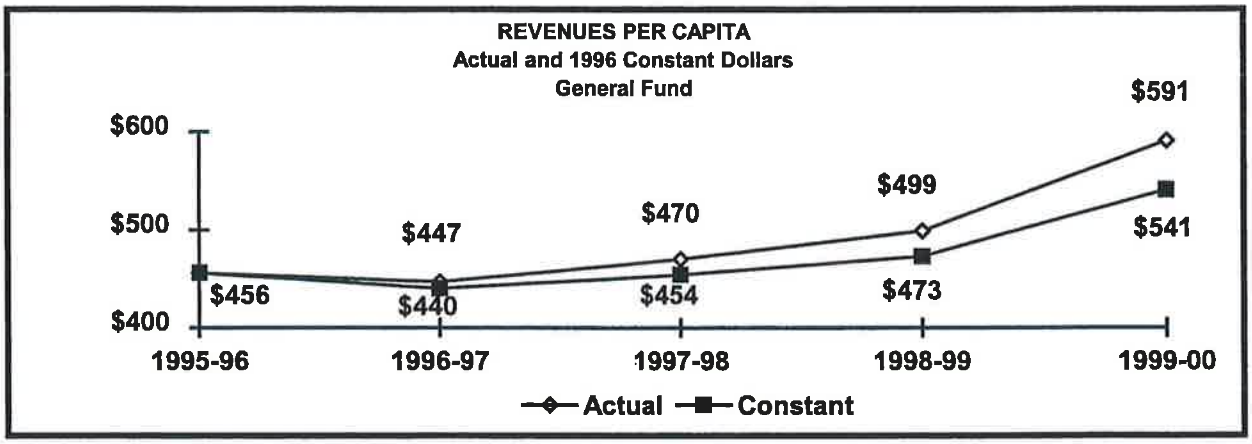
General Fund Revenues

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

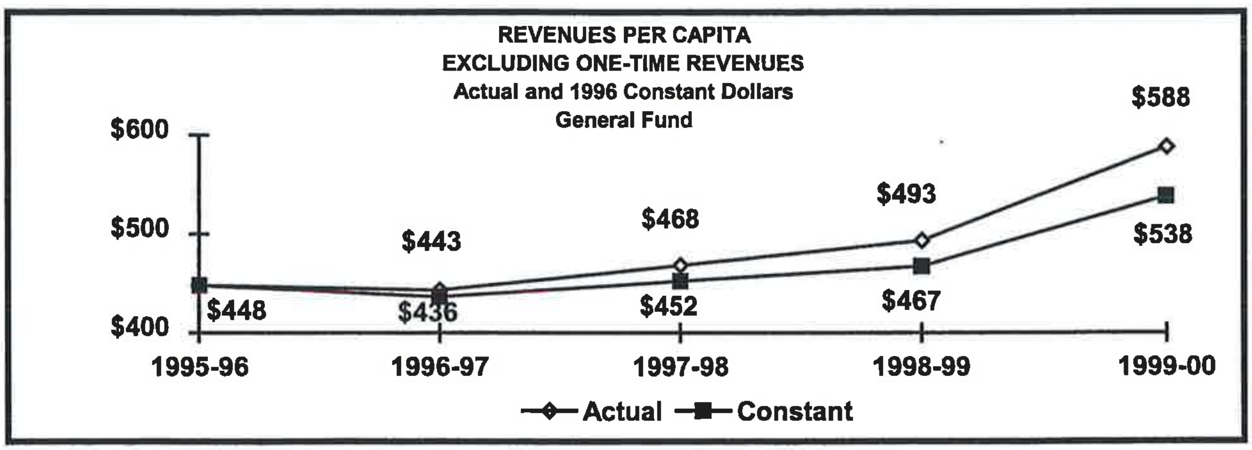
The following section evaluates nine indicators used to determine the financial condition of the City's revenue base. The City of San Clemente continues to show significant improvement in revenues due to gradual economic growth. Property tax revenues, for the fourth consecutive year, show a positive trend. Additionally, license and permit revenues and community development service charges both remain favorable. A detailed revenue analysis is provided for the following indicators:

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

Indicator 1



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



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

Description

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

Comments and Analysis

Revenues per capita excluding one-time revenues shown in the above chart, reflect an increase when analyzing both actual and constant dollars. Two factors contribute to this positive trend. First, the population increased 2.1 percent from the previous year, compared to previous increases of 2.1 and 2.0 percent. Second, most major revenue categories registered increases over the prior fiscal year. License and permit revenues increased over the prior fiscal year by $1,331,000. Other revenue increases include: sales tax revenues of $825,000, property tax revenues of $815,000, intergovernmental revenues of $582,000, community development service charges of $547,000, fines and forfeitures of $90,000, and rents and commissions of $67,000. Transient occupancy tax revenues increased to $988,000, an increase of 36.6% over the prior year.

A clear favorable trend has emerged since 1996-97 with increases in all major categories of general fund revenues over this time frame.

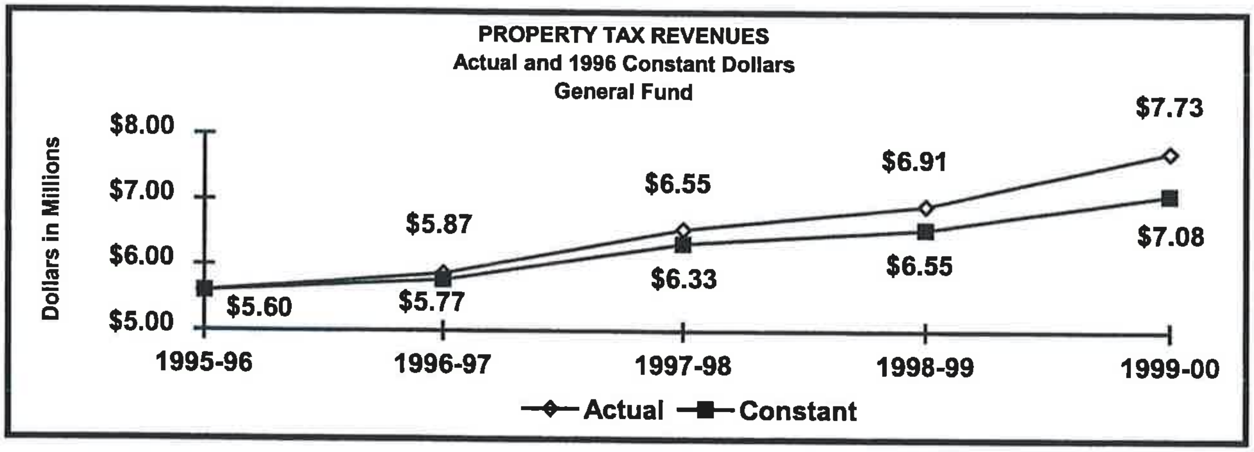
Related Fiscal Policy

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

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

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

Indicator 2



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

Description

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

Through June 30, 1992, the City received a share of the basic levy proportionate to the amount received at the time Proposition 13 was passed, approximately 19 percent. From July, 1992 through July, 1993, the City's share of the basic levy dropped from 19 percent to 15 percent, as the State imposed a property tax shift in an attempt to solve its budgetary problems. The City's share of property taxes remains constant at 15% for FY 1999-00.

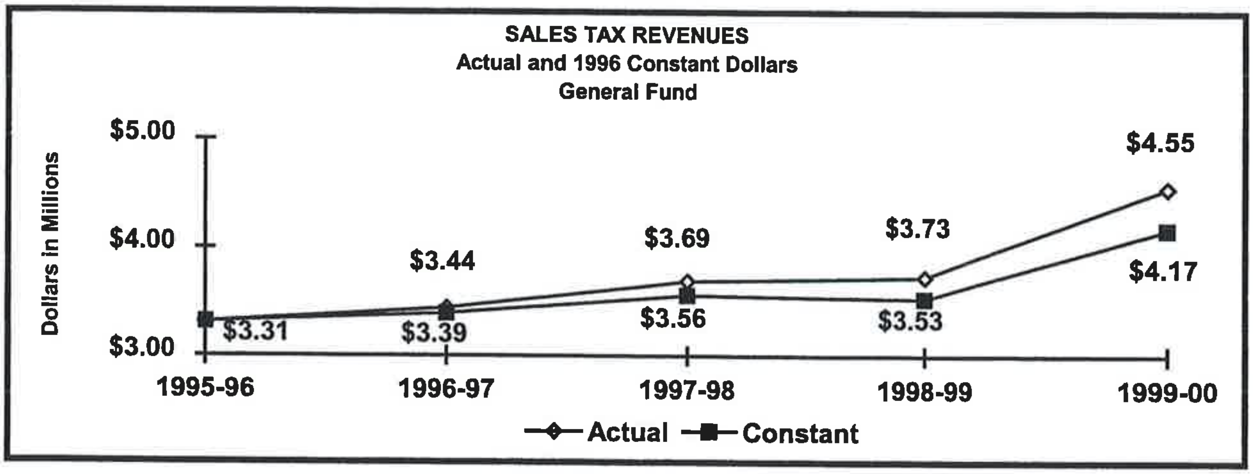
Comments and Analysis

Property tax revenues showed a significant increase for fiscal year 1999-00, continuing the positive trend which was initiated three years earlier. The significant increase in property tax revenues over the previous fiscal year amounted to $815,000, or 11.8%, in actual dollars. Constant dollars also showed an increase from the previous year of $532,000, or 8.1 percent. These increases are due to the boost in personal income and property taxes from residential resale growth and residential sales from Plaza Pacifica and other new residential housing sites. Along with the improved regional economy, the graph depicts the City's economic rebound as well. Property taxes are projected to continue this positive trend as future sales continue to grow as the development takes place in Talega, the newest residential housing site. Therefore, this trend receives a favorable rating for the fourth consecutive year.

Related Fiscal Policy

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

Indicator 3



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

Description

Sales tax revenue is a strong indicator of the City's economic health. Sales taxes are the City's second largest source of revenue and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. Since June, 1993, the Board has been collecting and administering 1.0% of local sales tax for the City which is part of the overall County of Orange sales tax rate of 7.75%. Beginning in July, 1993, the City also receives an additional 0.5%, earmarked for public safety as mandated by the State. The total Orange County sales tax rate remained at 7.75% as of June 30, 2000.

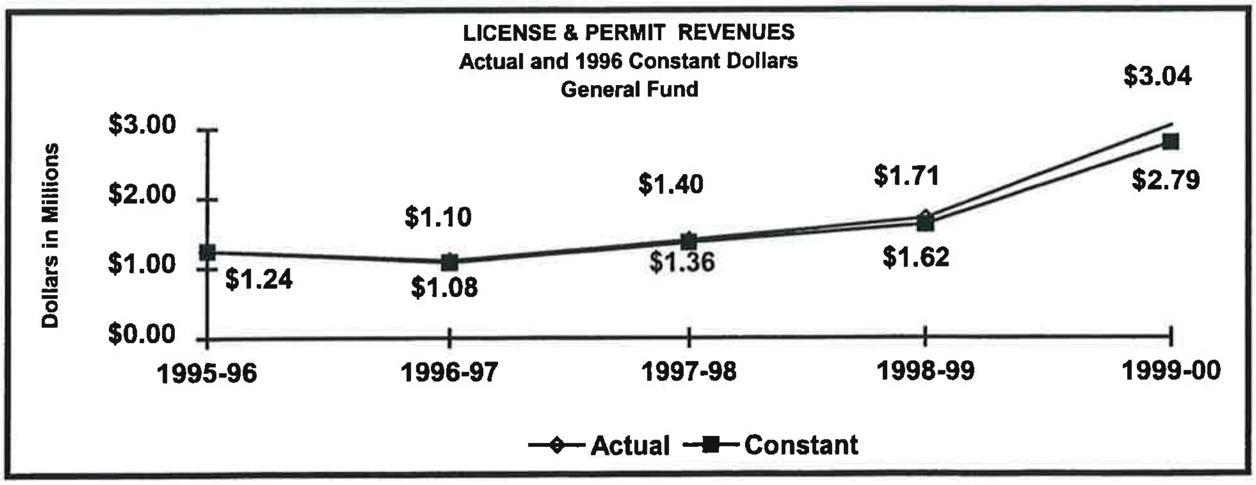
Comments and Analysis

As summarized in the chart above, sales tax revenues showed increases of $824,500, or 22.1%, in actual dollars over the prior fiscal year. There was also an increase in constant dollars amounting to $639,700, or 18.1%. The chart shows a favorable trend over the past five years in actual dollars and constant dollars. In fact, actual sales tax revenues have increased a total of 37.6% over the five year period presented above, and 26.1% in constant dollars for the same time period. The continued upward trend in actual and constant dollar is due to the growth of personal income and is projected to continue, therefore resulting in a favorable rating.

Related Fiscal Policy

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

Indicator 4



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

Description

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

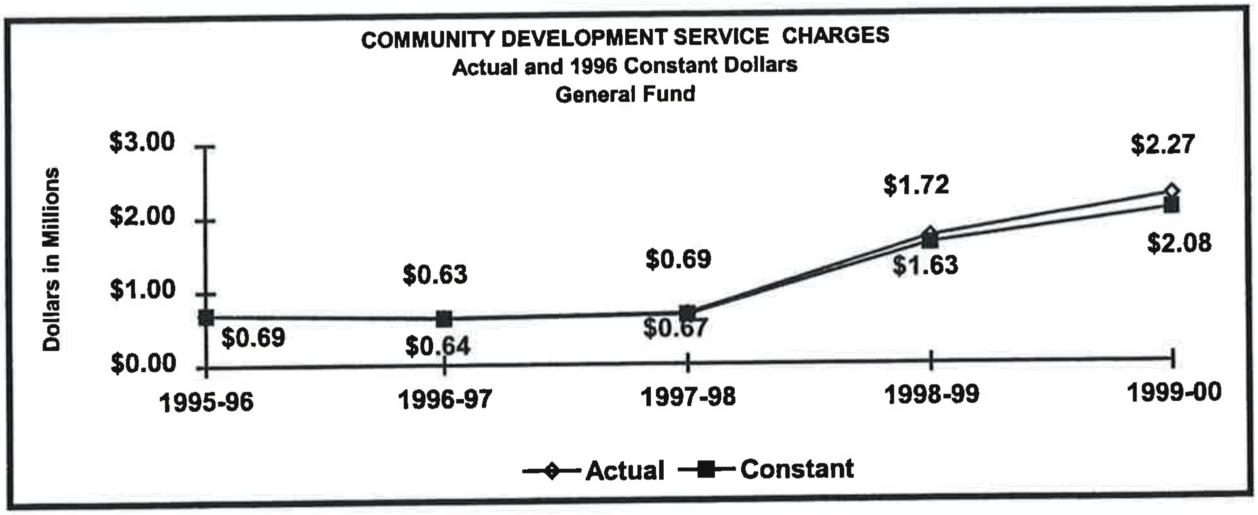
Comments and Analysis

License and permit revenues increased for the third time in five years. The increase in actual dollars was significant, amounting to $1,331,000, or 77.8%, above the prior fiscal year. The constant dollar increase was substantial as well, with license and permit revenues registering $1,166,000, or 72.0%, over fiscal year 1998-99. 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 $1,238,000, or 119.1%, in actual dollars over the prior year and an increase in business licenses of $95,000, or 16.5%. The majority of the increase in construction-related revenue is the result of an increase in the number of new residential permits issued and the start of two new commercial/industrial buildings within the City. This continued increase in development-related permits and fees is projected to continue through FY 2000-01. In addition to the increased follow-up performed by City staff in the area of business licenses, the City has experienced an increase in this revenue category due to the increase in sales by local businesses. The City's business licenses are based on gross sales, thus with the improved economy and local sales, business license revenues have also increased over the past few years. Because this indicator shows such a dramatic increase for the fiscal year and because increased development fees are projected to continue through the current fiscal year, a favorable rating has been assigned.

Related Fiscal Policy

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

Indicator 5



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

Description

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

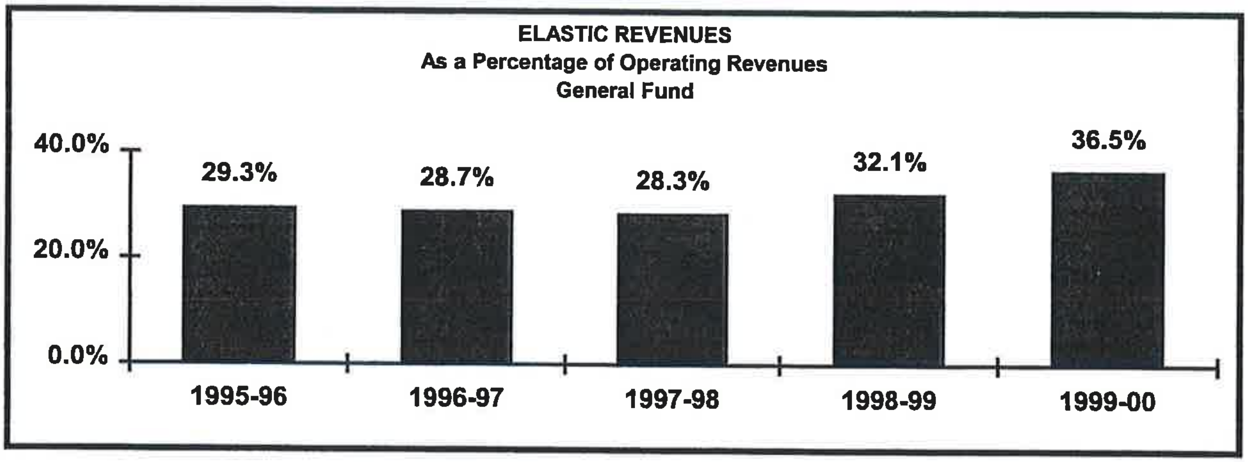
Comments and Analysis

For fiscal year 1999-00, community development service charges increased by 31.8%, or $547,000 from fiscal year 1998-99. Specific revenue sources showing increases include building plan check fees of $337,000, grading plan check fees of $41,000, planning plan check fees of $15,000, and conditional use permits of $9,000. Due to increased development within the City and current projections that indicate this trend will continue through FY 2001-02, this indicator has been assigned a favorable rating.

Related Fiscal Policy

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

Indicator 6



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

Description

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

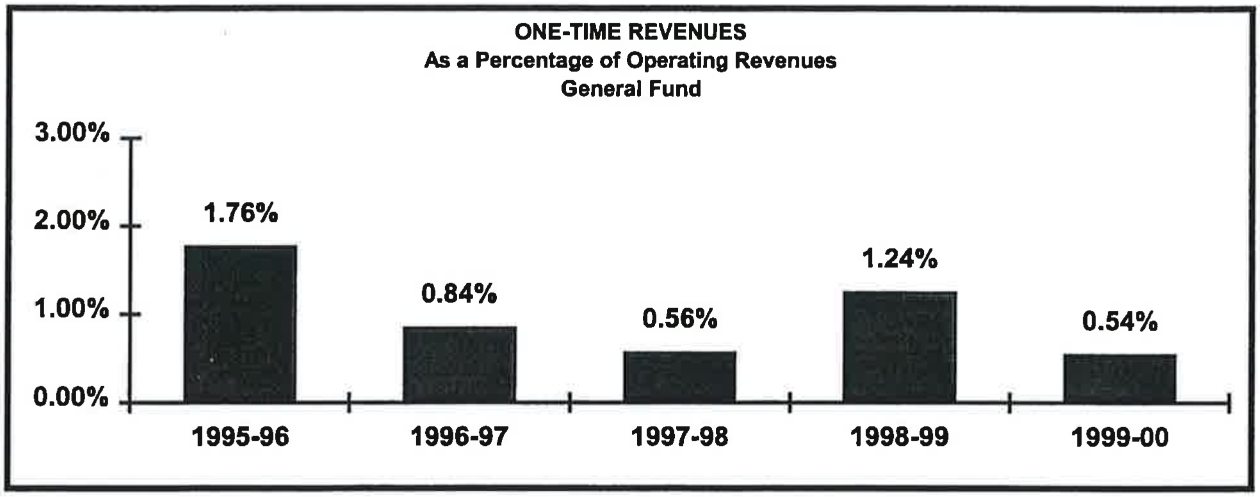
Comments and Analysis

Elastic revenues, as a percentage of operating revenues, rose 4.4% in fiscal year 1999-00 following an increase of 3.8% in FY 1998-99. Revenues in this category, however, increased $2,968,000, while total operating revenues increased by $5,124,000. The City's largest elastic revenue source, sales tax revenue, was up 22.1%, or $825,000, from the prior year. In the past, San Clemente had been one of the lowest sales tax producers in the County. Through the economic development efforts beginning in 1993, San Clemente focused on increasing the number of businesses generating sales tax revenue thus resulting in the increase. In addition, licenses and permits revenues came in $1,331,000 over the previous year and community development services charges increased $547,000. Transient occupancy taxes increased $265,000 of which $90,000 was due to prior year penalties and interest. Elastic revenues, as a percentage of operating revenues, increased in FY 1999-00 due to development and economic growth. Based on current development in the planning and building stages the rating is unchanged from prior year.

Related Fiscal Policy

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

Indicator 7



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

Description

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

Comments and Analysis

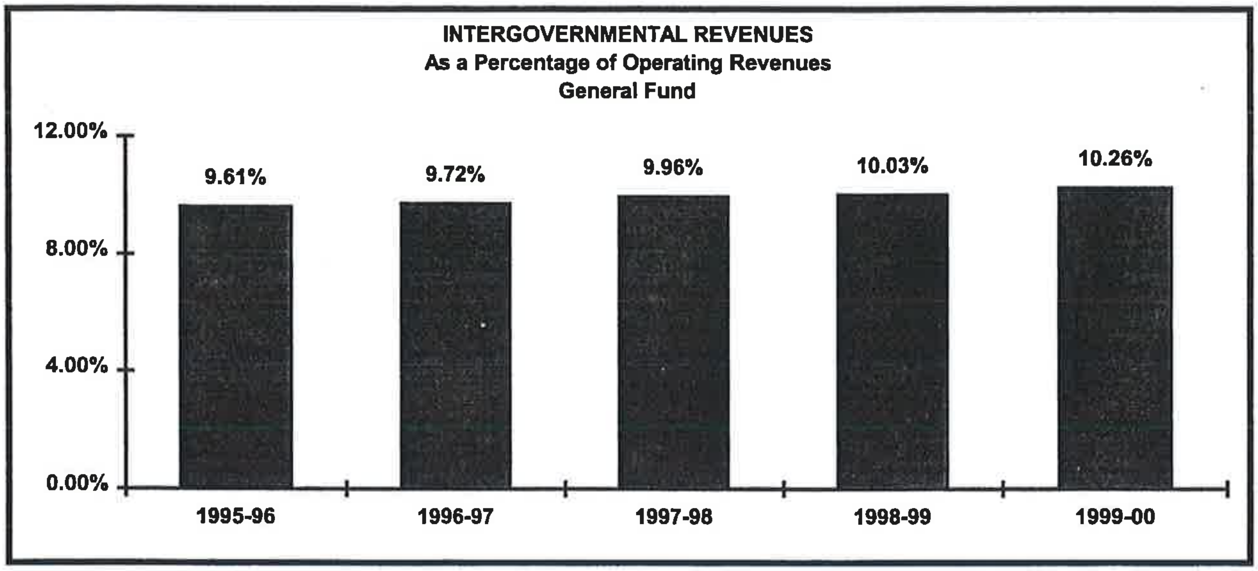
One-time revenues decreased from the prior fiscal year by $145,000, or 47.7%. Fiscal year 1999-00 one-time revenues totaled $160,000. This includes $109,000 in a supplemental law enforcement grant, $48,000 in miscellaneous reimbursements and narcotic forfeitures of $3,000. In accordance with the City's fiscal policy, one-time revenues were used for one-time expenditures (e.g., reserve transfers).

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

Related Fiscal Policy

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

Indicator 8



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

Description

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

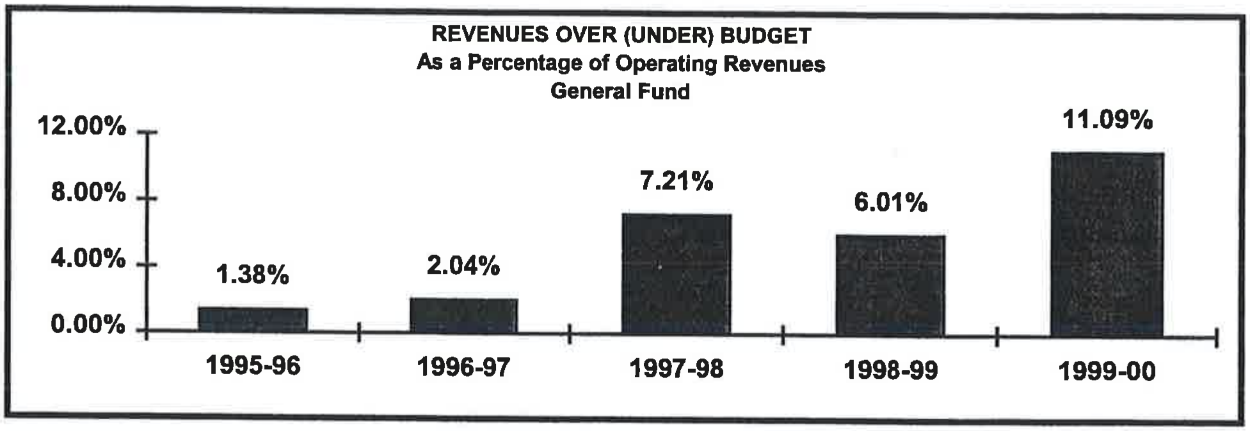
Comments and Analysis

General Fund intergovernmental revenues, as a percentage of operating revenues, showed a level trend for the fifth consecutive year, with a small increase. This increase consists of a 23.6% increase in intergovernmental revenues while operating revenues increased by 20.8%, or $5,124,000. The increase in intergovernmental revenues is mostly attributable to motor vehicle taxes, which increased $243,000, or 11%, over the previous fiscal year. Additionally, state mandated cost reimbursements for open meetings, business licenses, and investment reporting increased $153,000 and S.O.N.G.S. grant revenue increased $28,000. Also, new this year were the State E.R.A.F. Local Relief and O.T.S Grant totaling $137,000 and $59,000 respectively. This trend remains favorable as dependence on inter-governmental revenues has remained at stable levels over the last eleven years. However, this favorable rating contains a note of caution as State and Federal governments continue to mandate programs, along with the cost burden, to local governments. Examples of these mandates include compliance with the Federal Americans with Disabilities Act, National Pollution Discharge Elimination System for storm drains, and regulations regarding underground storage tanks and toxic waste disposal. These reasons make it mandatory for the City to continue its aggressive pursuit of State mandated cost reimbursements under SB 90.

Related Fiscal Policy

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

Indicator 9



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

Description

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

Comments and Analysis

Actual revenues exceeded budget by $3,294,000 for fiscal year 1999-00. The City experienced increases in almost every category, including license and permit revenues ($1,331,000), sales taxes ($825,000), property taxes ($815,000), intergovernmental revenues ($582,000), and community development service charges ($547,000).

This trend began the five-year analysis with a positive revenue position of 1.38% and ends FY 1999-00 over budget by 11.09%. The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues. It should be noted that the City projects developmental revenues, such as license and permit, conservatively as projects cannot always be relied upon to occur. This trend continues to receive a favorable rating, as it maintains a level above the ICMA basis of a shortage of 5% or more for an unfavorable rating.

Related Fiscal Policy

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

General Fund Expenditures

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

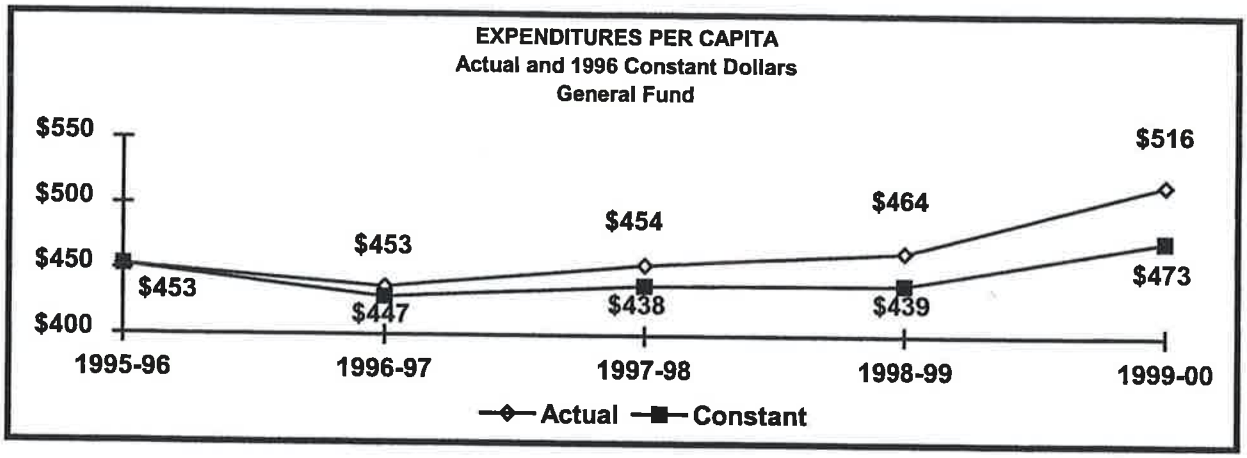
When analyzing constant dollars, the analysis shows that expenditures, while relatively constant for the past four years, has taken a turn upward. In fact, from FY 1995-96 to FY 1999-00, total expenditures in constant dollars increased $2,689,000, or 12.7%, over the five year period. During the past two years, the City has focused on re-establishing programs that were eliminated in prior years, largely as the result of Proposition 218. As a result of past cuts and the current growth of the community, a total of 9 FTE's have been added to address expanded programs and development growth. The City has been able to adhere to its long term financial planning process and establish reserve funds to plan for the future. During the past five years, the General Fund has made contributions to the Accrued Leave Reserve Fund ($265,000), Capital Equipment Replacement Reserve Fund ($640,000), Workers' Compensation Fund ($356,000), and General Liability Fund ($415,000). Additionally, the General Fund has contributed $2,315,000 to the Street Improvement Fund for improvement of the City's street system.

As discussed further in the analysis of employees per capita, the City has worked diligently to increase the number of FTE's. The increase over the previous year is 3% for the all municipal employees or 5% for General Fund employees.

A full expenditure analysis is provided for the following:

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

Indicator 10



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

Description

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

Comments and Analysis

During the past fiscal year, expenditures per capita in both constant and actual dollars increased to the current level of $516 (actual) and $473 (constant). Total expenditures increased by $3,140,000 when compared to the prior fiscal year, and show an increase of $2,168,000 when comparing constant dollars for the same time period.

The majority of the increases have resulted from the Community Development and Beaches, Parks and Recreation departments. The high volume of development within the City has brought with it higher expenditures for Community Development. Proposition 218 has forced Beaches, Parks and Recreation to absorb the City's lighting and landscape costs and expenditures have increased in recent years with the restoration of services provided by the department. Additionally, funding of needed reserves which were not in place in 1995 has occurred. During FY 1999-00, transfers to fund reserves and capital improvement projects included transfers to the Accrued Leave Reserve Fund ($75,000), Capital Equipment Replacement Reserve Fund ($120,000) and Street Improvement Fund ($515,000). All of these funds currently have sufficient reserves in place to comply with the City's fiscal policy, except for the Capital Equipment Replacement Reserve Fund. The City also continues to demonstrate its commitment to the Street Improvement Program, with a scheduled $530,450 transfer during the current year.

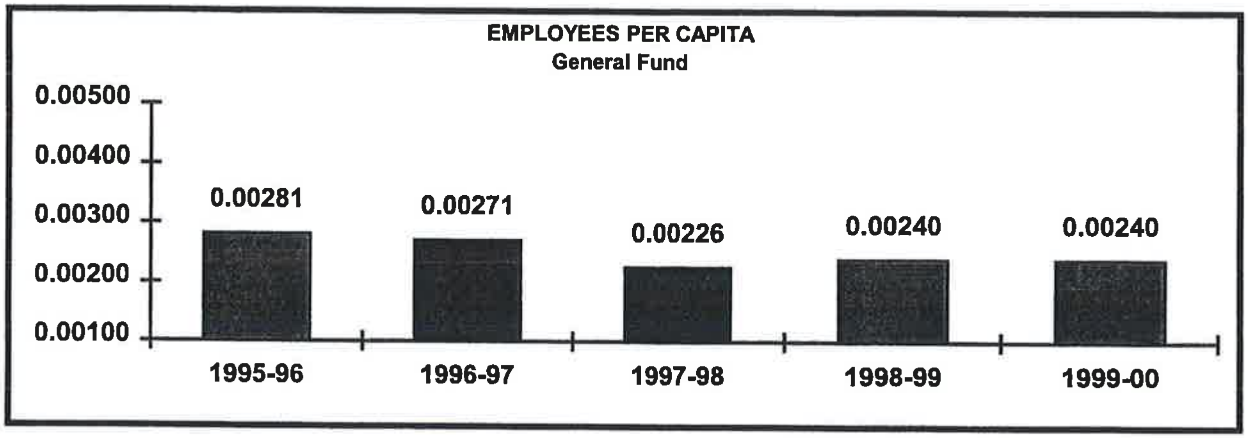
Expenditures per capita in constant dollars remain relatively stable as compared to the prior year. This indicator will be closely monitored to assure that expenditure levels are maintained to provide a consistent and adequate level of service.

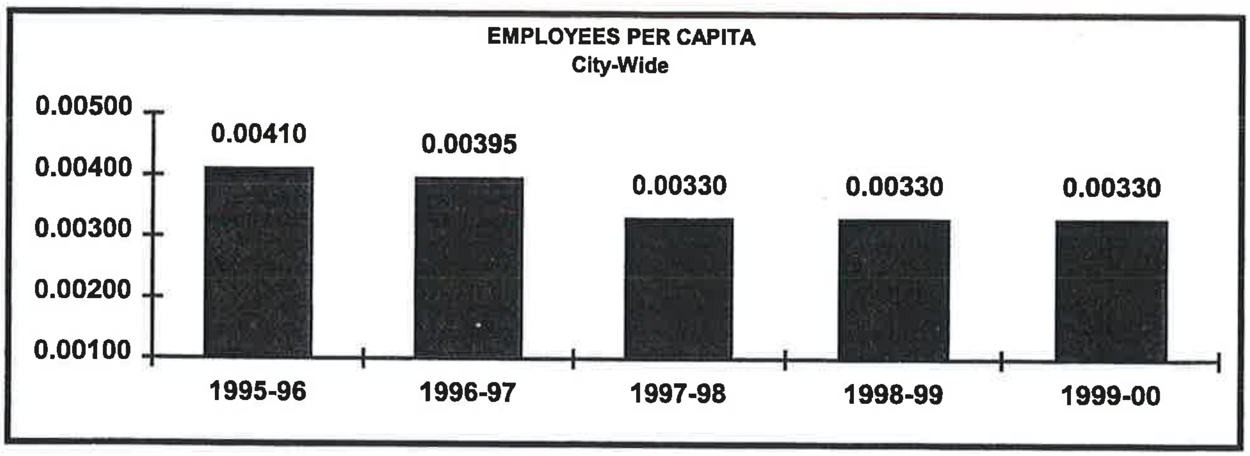
Related Fiscal Policy

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

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

Indicator 11





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

Description

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

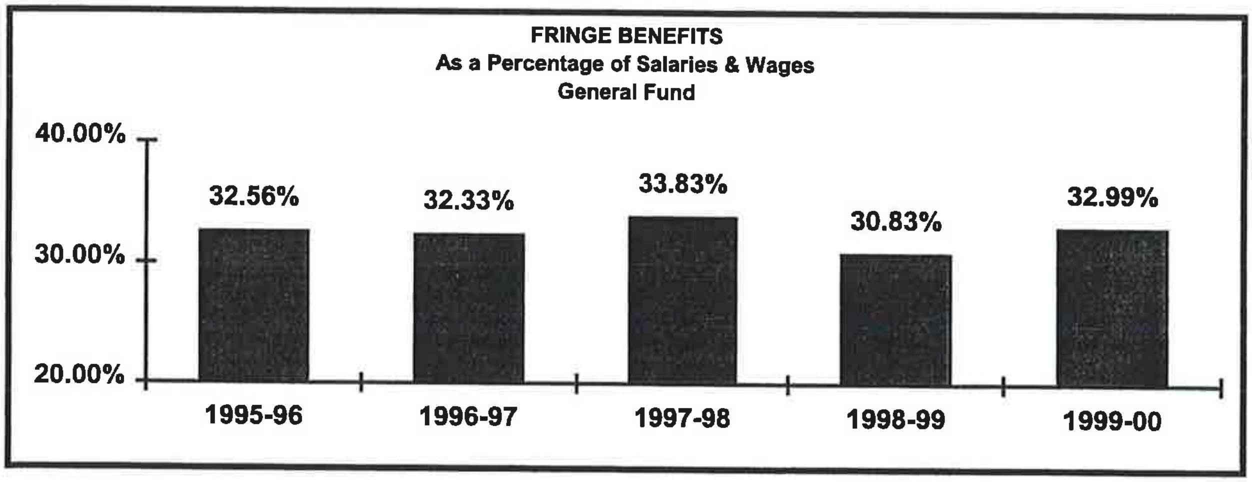
Comments and Analysis

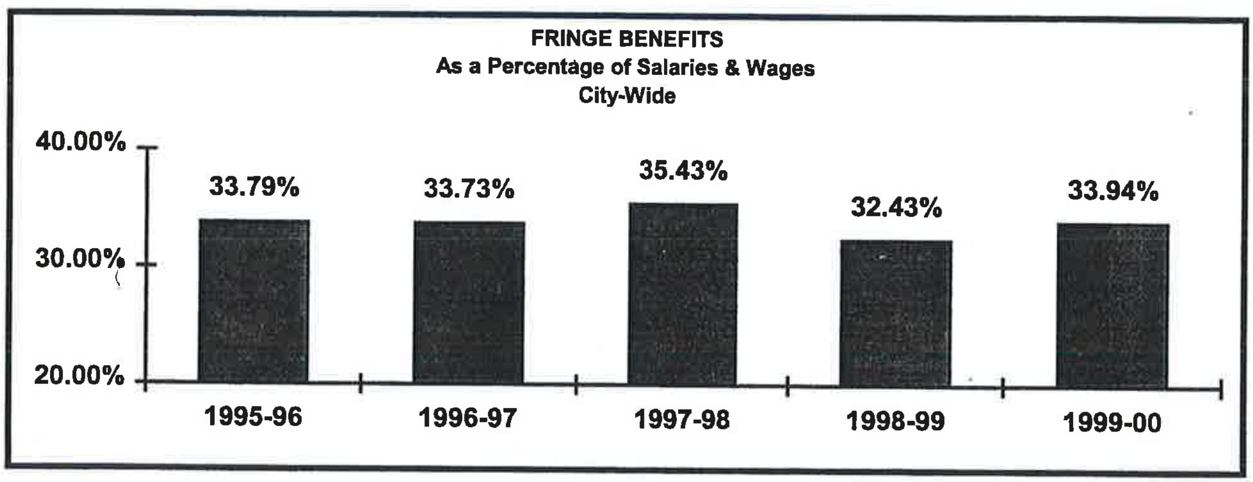
During the 1997 long term financial planning process, a total of 27.22 FTE's were reduced as a number of programs, including at-risk youth programs, City sponsorship of special events, recreation programs, social service subsidies, and programs for improving sports fields for youth groups, were reduced or eliminated. The City has monitored this indicator and as a result, increased the number of FTE's over the last three years. City-wide employees have increased 9 FTE's since FY 1997-98, thus warranting a favorable rating. The trend has stabilized as employees have increased along with the population. While City employees are working at an increased level of efficiency, this indicator will be closely monitored to insure the ability to support future service levels as the City continues in its development and growth phase.

Related Fiscal Policy

No related fiscal policy.

Indicator 12





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

Description

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

Comments and Analysis

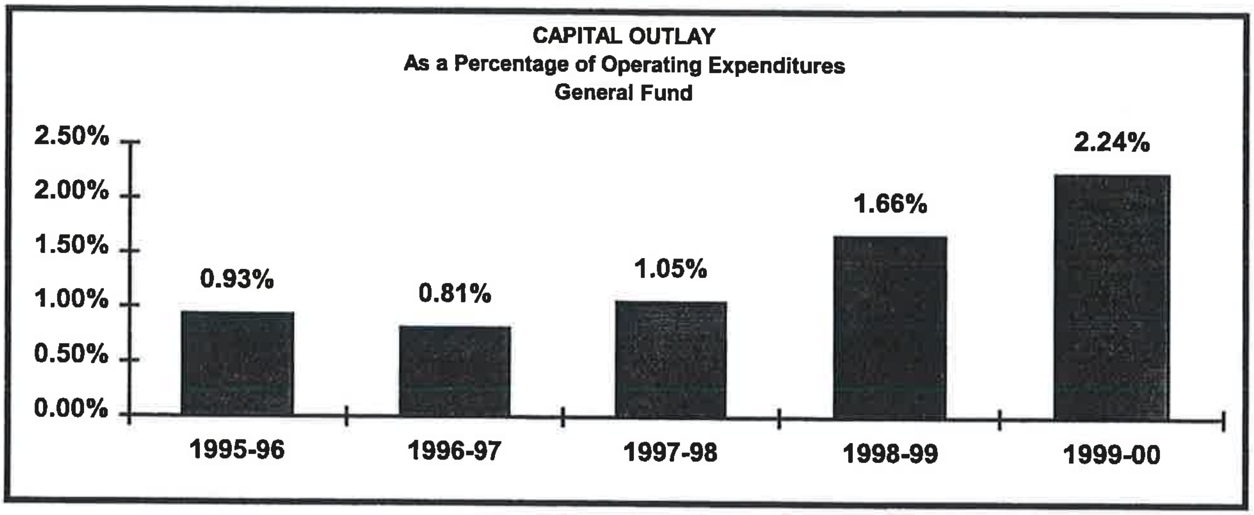
Fiscal year 1999-00 continues the relatively level trend over the past five years, as shown in the above charts. The slight increase over the prior year is due to minor increases in both workers' compensation funding and medical insurance. This continued favorable rating has resulted from participation in cost effective managed health care plans.

A favorable trend has been assigned for FY 1999-00, since this trend remains stable.

Related Fiscal Policy

No related fiscal policy.

Indicator 13



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

Description

The City's capital outlay policy consists of the acquisition of equipment with a cost of $1,000 or more and an expected life of at least one year. Capital outlay does not include capital project expenditures for construction of improvements or buildings, or for infrastructure such as streets or storm drains. The purpose of capital outlay in the operating budget is to replace worn equipment or to add new equipment. The ratio of capital outlay to net operating expenditures is an indicator as to whether worn or obsolete equipment is being replaced. A decline in this ratio over a period of years may indicate that capital outlay needs are being deferred and that inefficient or obsolete equipment is being utilized. This would not only have the effect of lowering productivity, but could also expose the City to greater liability.

Comments and Analysis

As depicted in the above chart, capital outlay, as a percentage of operating expenditures, is 2.24%.

A Capital Equipment Replacement Reserve Fund was established in FY 1994-95 in order to make it possible to build a reserve from which to replace general fixed assets that were worn or obsolete. The General Fund has made annual contributions to this fund since that time. During FY 1999-00, the General Fund continued its contribution, transferring $120,000 to this fund. When this fund was established, a replacement schedule was also established to ensure that, as equipment, machinery or building improvements become unserviceable or obsolete, they could be replaced with more efficient assets. As new assets are purchased from the Capital Equipment Replacement Reserve Fund, General Fund programs are charged a replacement charge for assets purchased for their individual programs. This ensures that funding is available when this equipment needs to be replaced in the future.

In addition to the plan to replace General Fund fixed assets, the City's Information Services Fund has replaced 160 personal computers over the past five years and continues to upgrade the City's financial hardware and software to ensure efficiency and productivity.

Although capital outlay expenditures increased 53.8%, or $203,000, from the prior fiscal year, total operating expenses increased at a more rapid rate leading to a .58% increase over the prior year of capital outlay as a percentage of operating expenditures.

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

Related Fiscal Policy

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

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

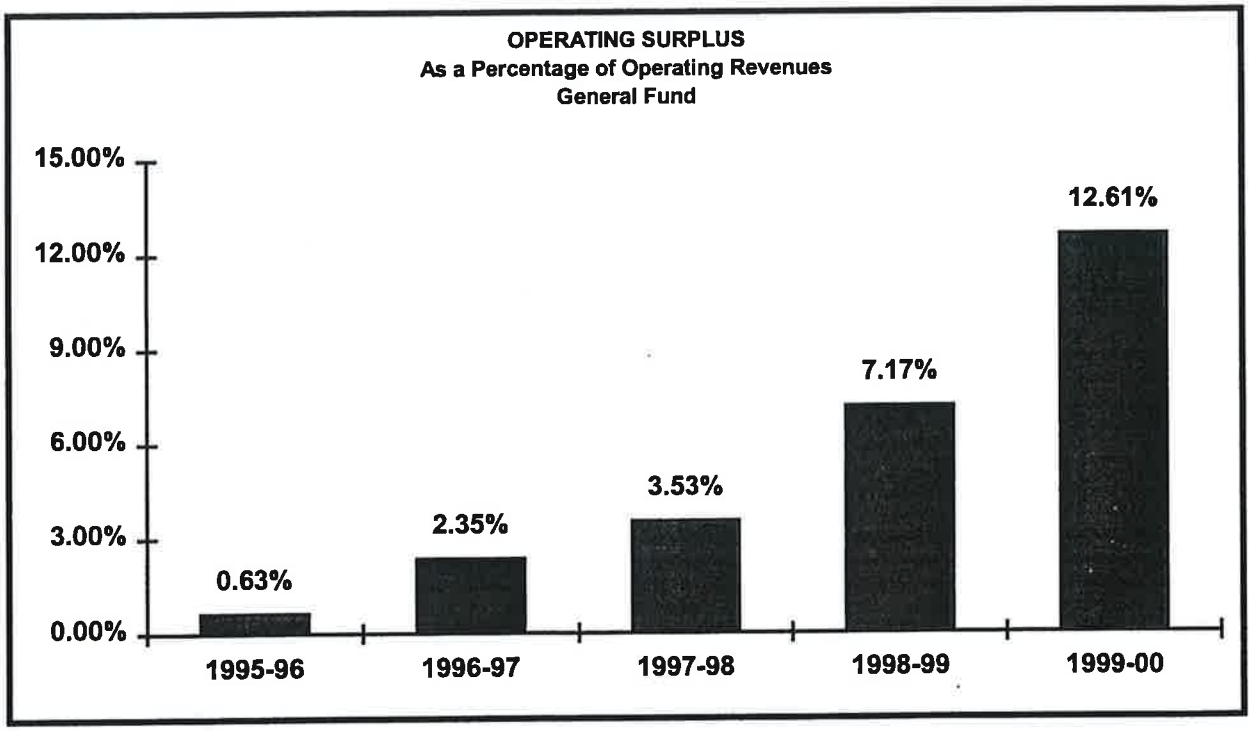
General Fund Operating Position

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

The next group of trends shows the City's economic recovery and stabilization over the past five years. This stabilization has been possible because of several reasons. Improvement in the local and regional economy has greatly contributed to this recovery, as well as the City's implementation of cost reduction and streamlining measures within every department in the City. These measures have contributed to a positive operating position for the sixth consecutive year. Another noteworthy trend is the City's unreserved fund balance, which reflects more than a 9% increase over the previous year as a percentage of operating revenues. Unreserved fund balance is at an all-time high of 30.16% of operating revenues. City Council's commitment to the long term financial planning process on an annual basis has contributed greatly to the General Fund's fiscal health. A complete analysis is provided in this section and the following indicators are examined in detail:

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

Indicator 14



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

Description

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

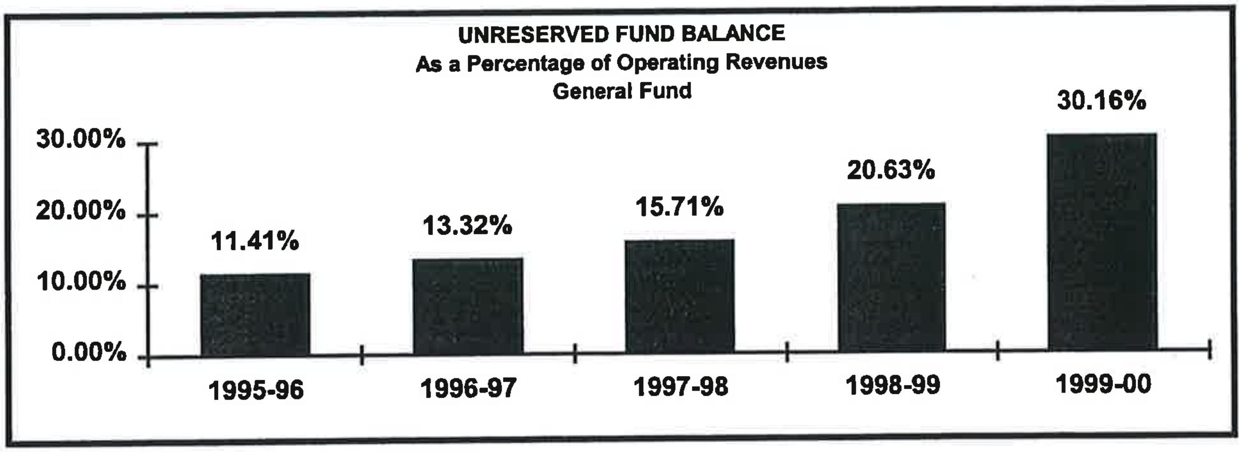
Comments and Analysis

The City has had operating surpluses for the past six consecutive years. Contributing to these operating surpluses has been the cost saving measures implemented by City Council and Administration and the increase in several revenues such as elastic revenues. The FY 1999-00 operating surplus amounts to $3,747,250 or 12.61% of operating revenues. This is the highest the City has shown since this trend was first traced. Sufficient revenues were once again produced to support operating expenditures, while maintaining adequate emergency reserves. The above reasons result in a favorable rating for this indicator.

Related Fiscal Policy

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

Indicator 15



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

Description

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

Comments and Analysis

For the sixth consecutive year, unreserved fund balance, as a percentage of operating revenues, increased in FY 1999-00. This increase is the result of an increased unreserved fund balance of $3,889,000, and this is due to an operating surplus of $3,747,000, and maintenance of General Fund emergency reserves. This stable trend is a strong indicator of the financial stability of the City's General Fund.

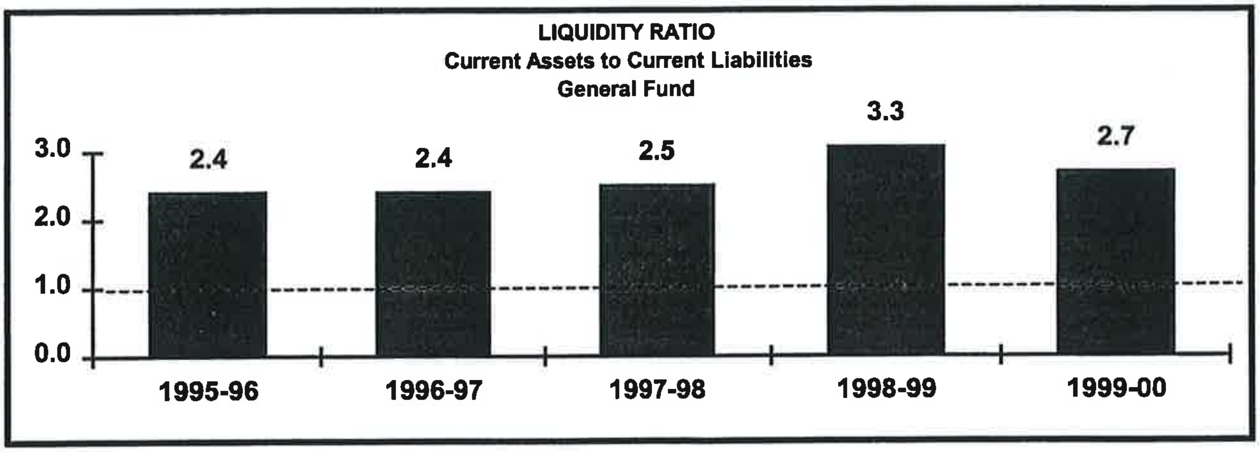
As part of the long term financial planning process, the City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. The General Fund emergency reserve is anticipated to be fully funded in FY 2001-02. Included within the total FY 1999-00 unreserved fund balance of $9.0 million ($636,000 is reserved) are General Fund Emergency Reserves totaling $1,120,000, or 5% of General Fund operating expenditures. In addition to funding the emergency reserve, the General Fund continues to contribute to other funds. Included in the FY 1999-00 General Fund transfers are Capital Equipment Replacement Reserve Fund ($120,000) and Accrued Leave Reserve Fund ($75,000).

Related Fiscal Policy

#36 The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 8 percent of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn or other unforeseen catastrophic costs not covered by the Contingency Reserve.

#37 A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.

Indicator 16



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

Description

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

Comments and Analysis

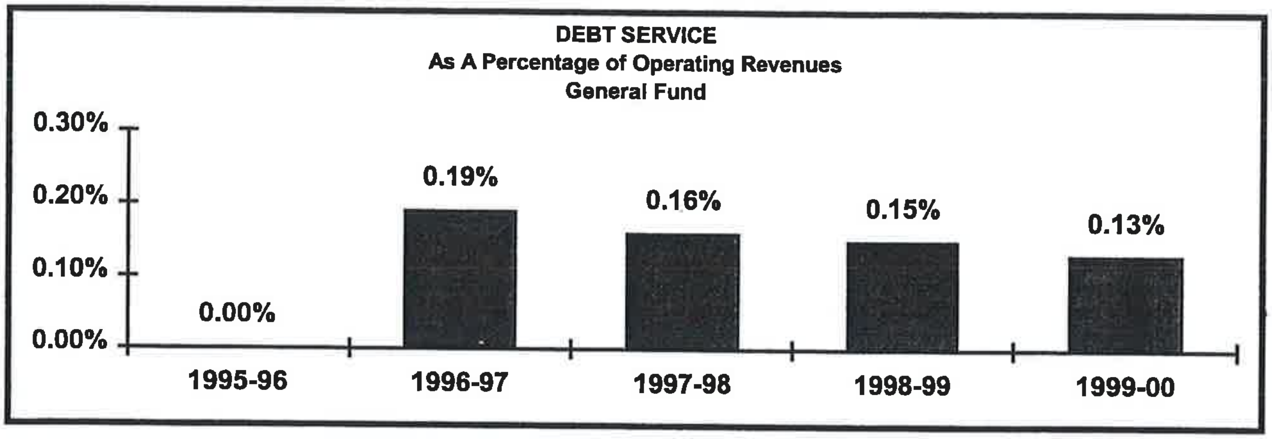
In FY 1999-00, the City's liquidity ratio remains high at 2.7:1. This increase over FY 1995-96 demonstrates that the City's liquidity remains strong. The slight decrease from FY 1998-99 is due to an increase in accounts payable.

Credit rating firms consider a ratio of 1:1 as favorable. The City's 2.7:1 current asset to current liability ratio is excellent.

Related Fiscal Policy

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

Indicator 17



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

General Fund debt service remains immaterial (less than 1%) in comparison to operating revenues. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. During FY 1999-00, the City made debt service payments on its capital lease with City National Bank. This lease includes heating, ventilating and air conditioning units and all related control devices for several City facilities. The City's obligation for this capital lease extends into 2006.

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

Related Fiscal Policy

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

Additional Indicators

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

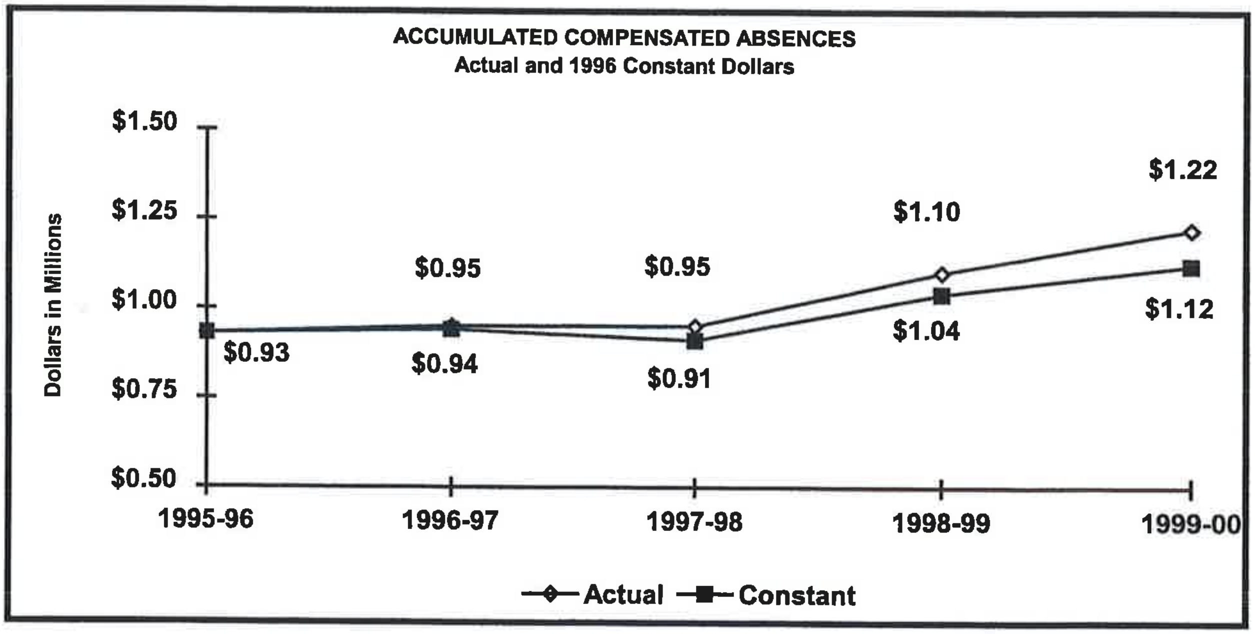
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (26%), a further analysis has been done on the change in property values from year to year. Property values had slowed down in previous years, but FY 1999-00, show the fourth consecutive year with an upward trend.

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

The following indicators are detailed in this section:

- Accumulated Compensated Absences
- Property Tax Values
- Population

Indicator 18



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

Description

Compensated absences represent the payment of salaries and benefits for time off during scheduled work days and consist of accumulated compensatory time (time off in-lieu of overtime pay) as well as vacation, sick, bereavement, administrative, and special leave (time off for the emergency care of family members). Unused bereavement, administrative, and special leave lapse at the end of the calendar year. Compensatory time and vacation leave continue to accrue as a liability of the City upon termination of the employee at 100% of the employee's current pay rate, or until used as time off. Prior to March 1994, vacation leave was carried over from year to year. After March 31, 1994, vacation leave no longer accrues after reaching two times (and in some cases two and one-half times) the employee's annual accrued vacation. Unused sick leave continues to accrue and is also payable to the employee upon termination at the rate of 35% and 50% after ten and twenty years of service, respectively, for employees hired before January 1, 2001. Employees hired on or after that date are not entitled to payment for any unused sick leave.

Comments and Analysis

This indicator receives a favorable/caution rating as the costs are increasing for compensated absences. It will be monitored to insure adequate funding. At June 30, 2000, the balance of the liability for compensated absences was $1,223,570 consisting of $598,140 for vacation, $577,060 for sick leave, and $48,370 for compensatory time. This is a $123,630 increase from the previous fiscal year. The increase over the last two years is mainly due to Governmental

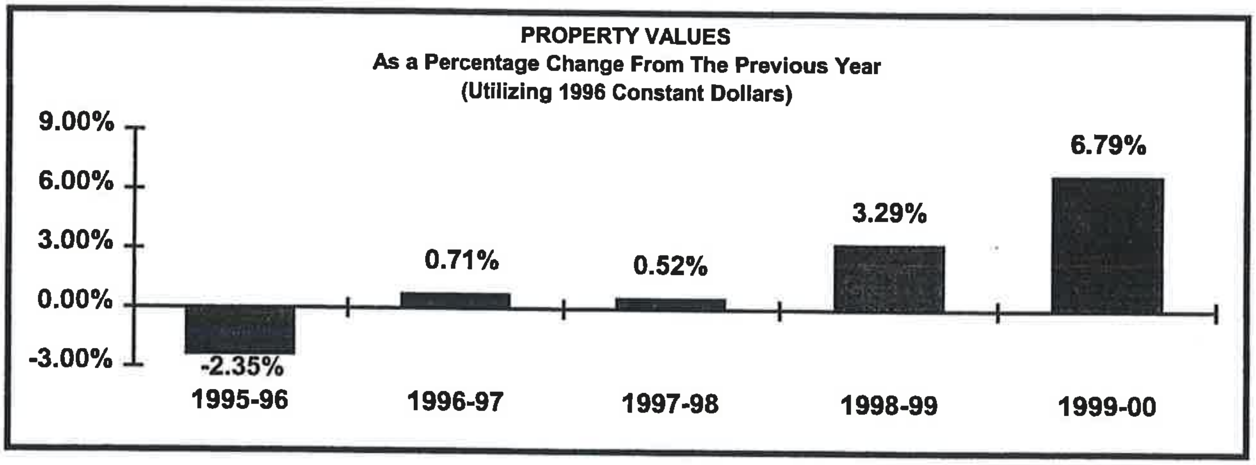
Accounting Standards Board Statement No. 16. The statement requires that the accrual of compensated absences should be based on pay rates that are in effect as of the balance sheet date. In addition to the basic pay rate, the accrual of compensated absences should include estimated employer payments related to the payroll.

In FY 1994-95, an Accrued Leave Reserve Fund was established. Since that time, the General Fund has contributed a total of $265,000 to this fund for the payoff of accrued leave time to employees leaving the City. The 2000-01 budget includes an additional transfer of $100,000 for accrued leave.

Related Fiscal Policy

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

Indicator 19



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

Description

Property values as a percentage change from the previous year is of primary importance to the City because property tax revenue, comprising 26% of total General Fund operating revenues in FY 1999-00, is the City's single largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the City's reliance on property taxes. Likewise, a positive trend indicates an improvement in the City's financial condition.

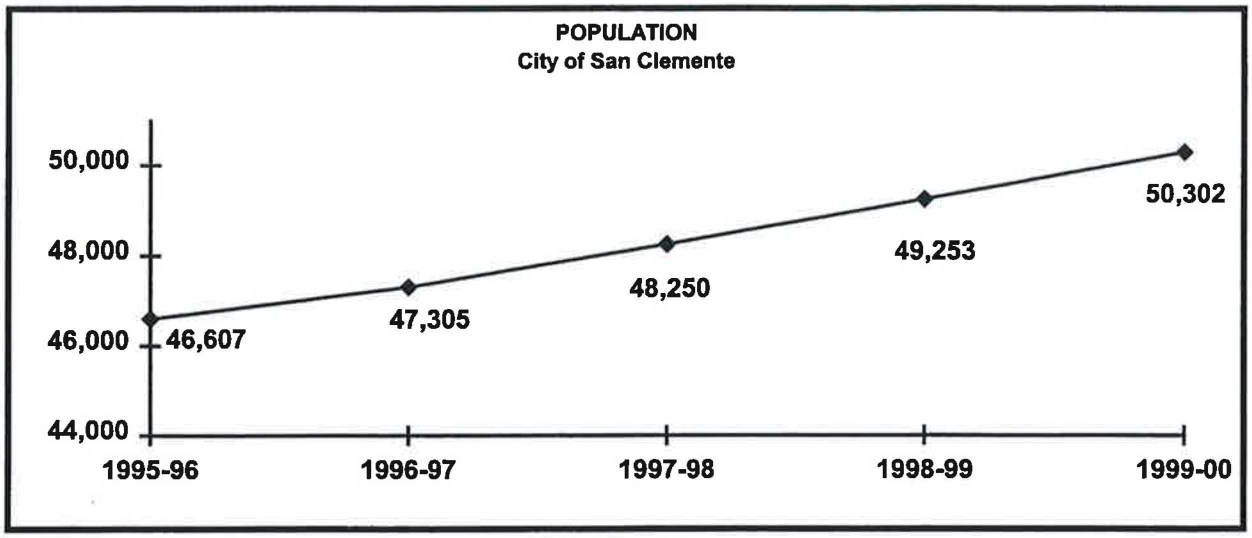
Comments and Analysis

Fiscal year 1999-00 shows a percentage increase in property values in for the fourth consecutive year. Growth in personal income plays part in the increase depicted in the graph. Past and projected growth result in another favorable rating for this trend.

Related Fiscal Policy

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

Indicator 20



Current Trend: Favorable

Prior Year Trend: Favorable

Description

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

Comments and Analysis

The City's population growth, an average of 1.93% over the last five years, is considered favorable because this growth has been relatively planned and controlled. This planned growth is allowing the City the opportunity to ensure that the cost of servicing new residents does not exceed the City's ability to generate new revenues, that the level of business activity grows along with the increase in residential development, and that the growth does not strain the sewer system capacity, traffic circulation, and off-street parking. The City is also aware that increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.).

Related Fiscal Policy

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

Financial Forecast

Objective

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

Development of the Financial Forecast

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

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

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Chapman University's School of Business December 2000 Economic and Business Review. The Chapman forecast is predicting that Orange County's economy will slow down in the second year of the forecast, with declines in job growth, personal income and countywide taxable sales.

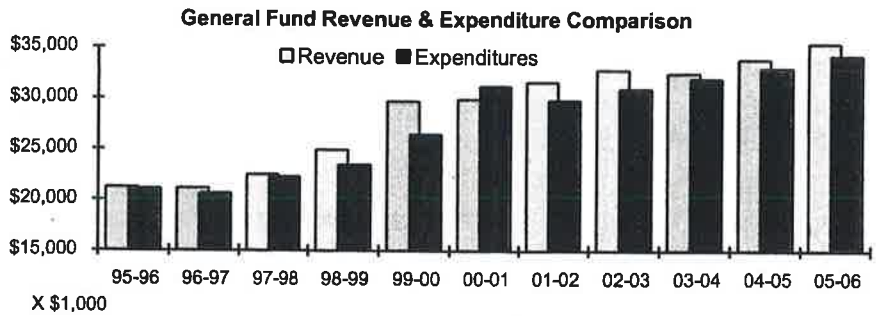
The 2001 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

Forecast Summary & Results

Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 3.5% a year, compared to the 2000 forecast average of 3.8%. Expenditures are projected to increase at an average rate of 1.9% as compared to the 2000 forecast average of 3.2%. The decline in the expenditure growth rate is due to the retirement of the Public Employees Retirement System (PERS) debt in FY 1999-00. The 2000 forecast included a total of $2.1 million in debt payments. 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.

The funding of reserves will be continued in order to maintain full funding levels. In fact, during the five year forecast $2.2 million is allocated to the Capital Equipment, Accrued Leave and Emergency reserves in accordance with the City's fiscal policy. An additional $1.5 million is scheduled to be allocated for Council Contingency reserves. A total of $2.9 million will be transferred from the General Fund to the Street Improvement Program. A total of $695,000 will be allocated for debt payments and transfers. This will result in almost $7.3 million being allocated during the five year period, which averages $1.5 million per year or 4.7% of the total adjusted budget for FY 2000-01.

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



Expenditures in FY 2000-01 are higher than revenues due to the intentional drawdown of $2.5 million from fund balance to provide transfers for reserves, Street Improvement Program and priority projects.

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 2000-01 adopted budget forecast to the 2001 LTFP forecast:

2000 Forecast Summary (FY 2000-01 Adopted Budget)*

Amounts in $1,000

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenues	$27,401	$29,098	$30,222	$31,442	$32,620
Expenditures	27,254	28,904	29,688	30,537	31,425
Operating Result	$147	$194	$534	$905	$1,195

2001 Forecast Summary (LTFP)*

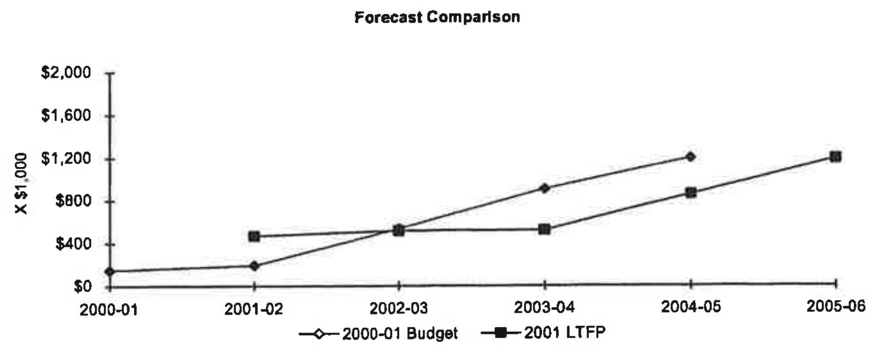
Amounts in $1,000

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenues	$30,263	$31,445	$32,466	$33,846	$35,403
Expenditures	29,794	30,930	31,946	32,989	34,214
Operating Result	$469	$515	$520	$857	$1,189

*One-time revenues and expenditures have been excluded.

Operational Position

The following chart provides a graphical comparison of the City's operational position for the FY 2000-01 adopted budget forecast and the 2001 LTFP forecast.

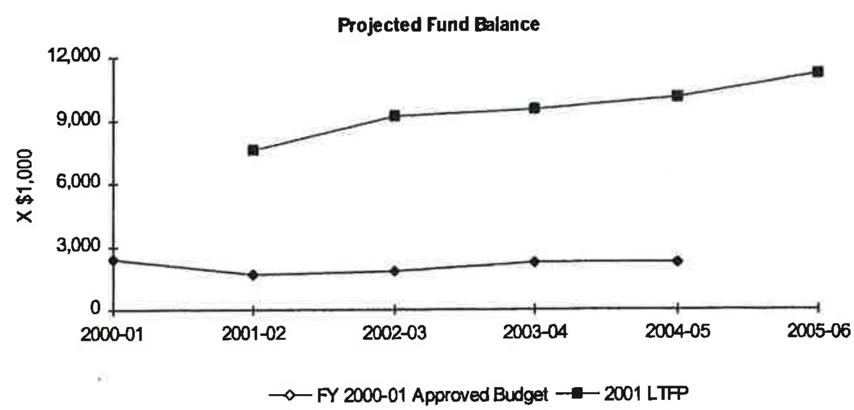


The discrepancy between the two forecasts is due to:

- Anticipated revenue from the new Lowe's store in Plaza Pacifica, beginning in FY 2001-02, was not included in the budget forecast.
- Mid-year adjustments to the 2000-01 fiscal year budget increased operating expenditures by $394,000. These adjustments, primarily electricity increases for City buildings, streetlights, traffic signals and park/ballfield lights, will continue to impact the City's operating position throughout the forecast.

Fund Balance

The chart below illustrates projected fund balances from the FY 2000-01 adopted budget forecast to the 2001 Long Term Financial Plan forecast.



The actual ending fund balance for fiscal year 1999-00 increased $2.0 million over projections (i.e. the projected ending fund balance was projected at $5.8 million and actual fund balance was $7.8 million). The change in the fund balance projection was due to:

- Actual revenue for FY 1999-00 was $1.6 million higher than projected in the budget forecast. All revenue categories, except interest and rents and transfers from other funds, increased compared to revenue projections, with substantial increases in property taxes, sales taxes, development related permits, fees and service charges.

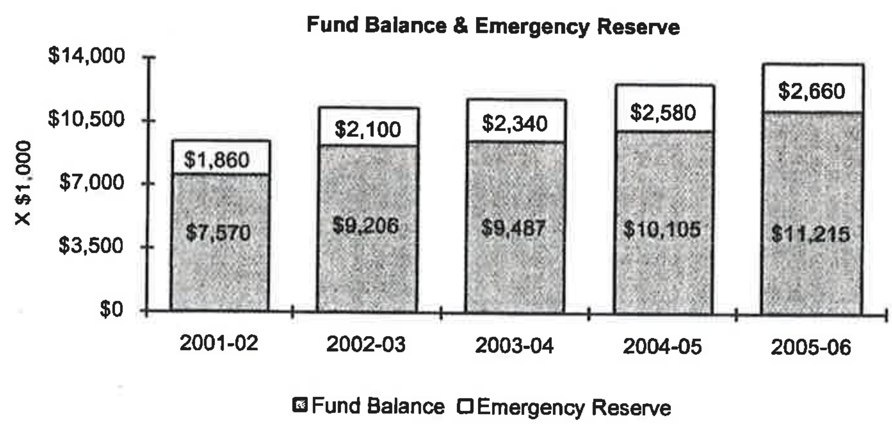
- Actual expenditures for FY 1999-00 were $487,000 under the projection in the budget forecast.

Fund Balance and Reserves

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

Fund Balance & Emergency Reserve

Amounts in $1,000	2001-02	2002-03	2003-04	2004-05	2005-06
Fund Balance	$7,570	$9,206	$9,487	$10,105	$11,215
Emergency Reserves (8%)	$1,860	$2,100	$2,340	$2,580	$2,660
Total	$9,430	$11,306	$11,827	$12,685	$13,875



As depicted above, the City will maintain total fund balances averaging $11.8 million over the five year forecast period.

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

Cash Flow By Year
Amount in 1,000's

	2001-02	2002-03	2003-04	2004-05	2005-06
Beginning Fund Balance	6,045	7,570	9,206	9,487	10,105
Revenues					
Taxes	16,163	16,930	17,829	18,827	19,969
Licenses & Permits	3,594	3,708	3,034	3,058	3,084
Intergovernmental	3,057	3,166	3,265	3,372	3,509
Service Charges	3,745	3,863	3,079	3,169	3,263
Fines & Forfeitures	837	876	912	950	989
Interest & Rents	1,305	1,306	1,324	1,370	1,405
Interfund Transfers	2,881	2,957	3,023	3,101	3,184
Total G F Revenues	31,583	32,805	32,466	33,846	35,403
Expenditures					
City Council	42	43	44	45	46
City Manager	377	388	397	408	420
City General	2,173	2,232	2,287	2,348	2,413
Finance & Admin. Services	464	478	489	503	517
City Clerk	489	504	516	530	546
Finance	900	927	949	976	1,004
Human Resources	399	411	421	433	446
Police Services	7,135	7,476	7,790	8,143	8,515
Fire Services	4,148	4,270	4,395	4,524	4,682
Comm Dev. Admin.	240	248	253	261	268
Building	1,497	1,538	1,576	1,520	1,564
Planning	983	1,012	1,037	1,066	1,096
PWAdmin/Economic Dev.	470	484	496	510	525
Engineering	2,426	2,495	2,555	2,625	2,700
PW Maintenance Services	2,716	2,799	2,868	2,951	3,039
B, P & R Admin.	339	349	357	367	377
Recreation	1,427	1,470	1,507	1,549	1,595
Beach & Park Maintenance	2,665	2,746	2,817	2,900	2,988
Marine Safety	822	847	867	891	916
New Employees	104	214	326	441	560
Total GF Expenditures	29,818	30,931	31,947	32,989	34,214
Emergency Reserve	240	240	240	240	80
Ending Fund Balance	7,570	9,206	9,487	10,105	11,215

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

Expenditures by Category	2001-02	2002-03	2003-04	2004-05	2005-06
Salaries & wages	7,160	7,454	7,709	7,943	8,245
Employee benefits	2,381	2,473	2,557	2,635	2,734
Supplies	637	657	674	694	716
Contractual services	15,377	15,987	16,536	17,118	17,786
Other charges	827	853	875	901	929
Capital outlay	24	0	0	0	0
Interdepartmental charges	2,238	2,304	2,364	2,435	2,510
Interfund transfers	1,174	1,202	1,230	1,259	1,290
Total	29,818	30,931	31,947	32,989	34,214

Financial Forecast - Assumptions

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 2000. 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 2.9% and taxable sales anticipated to grow at an annual average rate of 6.4%. Housing appreciation for resale homes is predicted to increase an average of 6.0%.

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 2001 Financial Forecast to project the various revenue and expenditures categories are delineated below:

Par #	Description	2001-02	2002-03	2003-04	2004-05	2005-06	Average
1	Inflation	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
2	Population	3.7%	3.2%	2.9%	2.7%	2.6%	3.0%
3	Assessed Valuation	7.7%	4.8%	5.4%	5.6%	6.4%	6.0%
4	Personal Income	7.3%	5.9%	6.5%	6.6%	6.8%	6.6%
5	Taxable Sales	6.5%	5.4%	6.4%	6.7%	6.8%	6.4%
6	Property Taxes	7.7%	4.8%	5.4%	5.6%	6.4%	6.0%
7	Trans. Occup. Tax	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
8	Franchise Taxes	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
9	Prop. Transfer Tax	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
10	Construction Permits	3.7%	3.2%	2.9%	2.7%	2.6%	3.0%
11	State Subventions	5.1%	4.7%	4.2%	4.2%	4.2%	4.5%
12	Service Charges	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
13	Interest Earnings	1.5%	-5.2%	-3.2%	6.7%	3.1%	0.6%
14	Pier & Beach Concessions	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
15	Interfund Charges	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
16	Salaries & Wages	3.0%	3.0%	2.3%	2.7%	2.8%	2.8%
17	Employee Benefits	2.6%	2.8%	2.3%	2.7%	2.8%	2.6%
18	Supplies	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
19	Services/Other Charges	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%
20	Capital Outlay	2.9%	3.1%	2.6%	3.0%	3.1%	2.9%

*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. Interest earnings will continue to increase annually because fund balances are increasing throughout the forecast.

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

- *Consumer Price Index (Inflation)*: Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the five-year forecast and is projected to average 2.9% per year.

- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (9% 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.

2001-02	2002-03	2003-04	2004-05	2005-06
54,546	56,280	57,885	59,463	61,015
3.7%	3.2%	2.9%	2.7%	2.6%

- *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 6.0% per year.

- *Personal Income*: As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 6.6% per year.

- *Taxable Sales*: Taxable sales are a measure of the total retail sales in Orange County. This indicator has a direct relationship with the City's retail sales tax revenue, which is 1% of taxable sales in San Clemente. Taxable sales in Orange County for 2000-01 are projected at 6.4%.

Financial Forecast Assumptions

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

- A 3% cost of living increase, previously approved by City Council, has been included in the forecast for FY 2001-02 and FY 2002-03. For forecast purposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 2003-04.

- The forecast projections assume the addition of three full-time positions in FY 2001-02 and two new positions per year in the remaining four years. In total, eleven new positions are added during the forecast period.

- The Police Services budget includes one new contract position in FY2000-01 (Community Support Officer) and one new position in each year thereafter.

- Staffing levels and contractual agreements for development related activities are maintained at the current level throughout the forecast period. However, if development activity declines, these expenditures would be reduced accordingly.

- 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 2000-01) have been excluded from the forecast. For example, the City has received over $142,000 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. The $2.5 million in transfers to other funds for priority projects such as the Railroad Corridor Improvements, Storm Drain Master Plan and Golf Clubhouse are also considered "one-time" expenditures and has been reduced from the base forecast as well.

- Capital Outlay amounts to $268,000 in FY 2000-01 of the forecast for one-time capital improvements and capital equipment. A total of $24,000 is included in the second year of the forecast for one-time capital equipment for a grant funded position.

- Negotiated increases approved by City Council for the Orange County Fire Authority (OCFA) contract are included for all five years of the forecast.

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at $726,300 for FY 2001-02:

	2001-02	2002-03	2003-04	2004-05	2005-06
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	286,300	296,500	306,600	317,300	328,700
Emergency Reserve	240,000	240,000	240,000	240,000	80,000
Total	$726,300	$736,500	$746,600	$757,300	$608,700

- Council Contingency Reserve is funded at 1% of operating expenditures in each of the forecast years, per the City's Fiscal Policy.

- The Emergency Reserve is scheduled to be fully funded, in accordance with City Fiscal Policies, in FY 2004-05. A contribution of $80,000 is recommended in FY 2005-06 to maintain the reserve at the required 8% level. (Also see the Reserve issue paper.)

- 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. The General Fund contribution to the Street Improvement Program includes an annual 3% increase for inflation. (Also see the Street Improvement Program Update issue paper.)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Street Program	$546,360	$562,750	$579,630	$597,020	$614,930
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	$693,290	$711,090	$729,430	$748,320	$767,780

Factors Not Included In The Forecast

- This forecast is based on the General Fund and forecasts for the Water, Sewer and Golf operating funds have been developed and are included in this report beginning on page 21.
- No new or enhanced programs are included in the forecast.
- The impact of potential retirement changes (3% @ 50) for public safety employees, are not know at this time. Potential increases to the Police Services contract have not been 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.
- Unless currently in the planning or building permit stage, service fees from major new proposed or potential development projects such as Marblehead Coastal are not incorporated into the financial forecast.
- The forecast does not include the establishment of any of the capital facilities (City Hall, fire stations, etc.) noted in the updated "Master Plan for City Facilities" since formal action has not been taken on the plan.
- The forecast does not include the cost of recommendations from the other Long Term Financial Plan issue papers contained in Volume II.

General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.5%, compared to a historical five year growth rate of 7.4%.

- Property Tax revenue is projected to increase an average of 6.0% per year compared to a 6.1% average historical increase over the past five years.

- Construction permits are projected to decrease from a historical average of 38.1% to an average of –3.4% for the forecast period, as revenues are reduced in the last three years to reflect the anticipated level of development activity.

- Service Charges are projected to decrease an average of –1.6% per year compared to an 18.3% average historical growth rate over the past five years.

- Fines are projected to increase an average of 4.4% per year compared to a 15.2% 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 1995-96 to FY 1999-00.
- **2000 Projected Growth Rate**: Average annual rate of growth projected for the five years as indicated in the 2000 adopted budget forecast.
- **2001 Projected Growth Rate**: Average annual rate of growth projected for the current five-year forecast.

General Fund Growth Rate

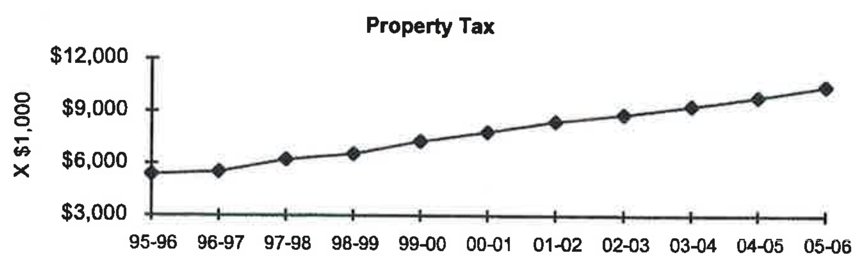
Historic Growth Rate	7.4%
2000 Projected Growth Rate	3.0%
2001 Projected Growth Rate	3.5%

During the past five years, the General Fund revenue growth rate was 7.4% primarily due to steady increases in property values, sales taxes and development related fees and charges. The 2001 forecast rate of 3.5% 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.

Property Tax

Historic Growth Rate	6.1%
2000 Projected Growth Rate	6.2%
2001 Projected Growth Rate	6.0%

Property Tax has been the most relied upon local government revenue for decades. It continues to be the City's single largest revenue source and represents 28% of total General Fund budgeted revenue. During the last four years, property tax revenues have recovered from the economic downturn of the early nineties and the diversion of property taxes from the State. Additionally, property tax revenue from the new homes in Talega and Forster Highlands is included in the base year of the forecast. Over the forecast period, property taxes are anticipated to grow from $7.8 million to $10.4 million. This growth is based on fiscal year 2000-01 revenue of $7.8 million and increased by an average growth rate of 6.0% in assessed valuation.

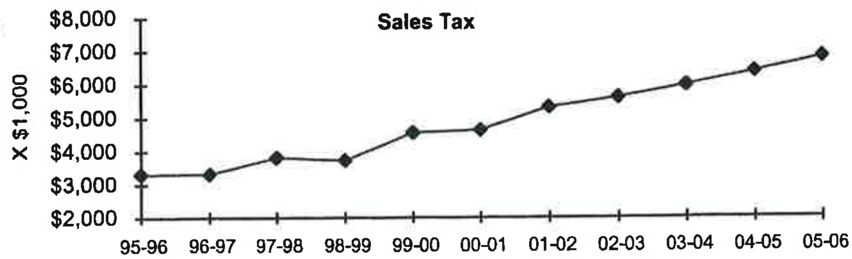


Sales Tax

Historic Growth Rate	8.1%
2000 Projected Growth Rate	2.9%
2001 Projected Growth Rate	8.0%

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 8.0% in the forecast period due to projected growth in personal income combined with annual inflation of 2.9%. 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 2000.

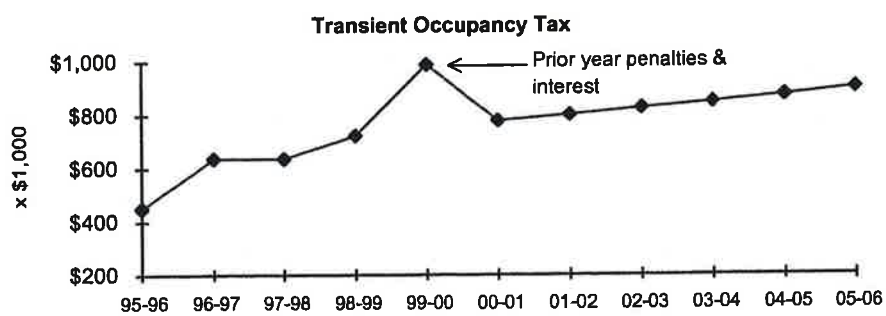
Sales tax is projected to grow from $4.6 million to $6.8 million over the forecast period. This is due to a full year of sales tax revenue included in the base year from Wal-Mart and other sales tax producing businesses that have opened in the last year. Additionally, sales taxes are anticipated to increase in the 2001-02 fiscal year with the opening of the Lowe's store, currently under construction. The five-year forecast does not include sales tax growth associated with proposed retail or commercial properties in the planning or development stages.



Transient Occupancy Tax

Historic Growth Rate	21.5%
2000 Projected Growth Rate	6.1%
2001 Projected Growth Rate	2.9%

Transient Occupancy Tax is an added charge against room rates at local hotels. It is another elastic revenue source affected by swings in the economy. The historic growth rate of 21.5% includes an increase in TOT revenue, which began in FY 1996-97, and one-time penalties and interest on delinquent TOT accounts received in FY 1999-00. Over the forecast period, the average growth is projected at 2.9% per year, and is based on the consumer price index projections for Orange County.

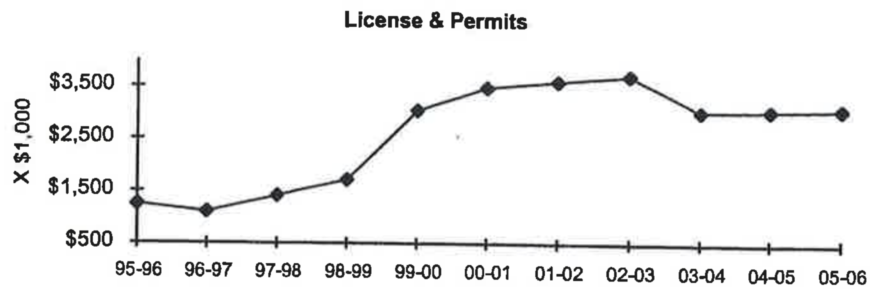


Licenses and Permits

Historic Growth Rate	23.2%
2000 Projected Growth Rate	2.5%
2001 Projected Growth Rate	-2.0%

Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as alarm permits is projected to decrease an average of –2.0%. For forecast purposes, revenue for development activity is considered "one-time" and is gradually reduced beginning in FY 2003-04 to mirror the anticipated development activity.

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 Highlands. However, one-time development fees have been reduced beginning in FY 2003-04 to reflect the reduced development activity during the forecast period. Proposed development activity for Marblehead is not included in the forecast projections.

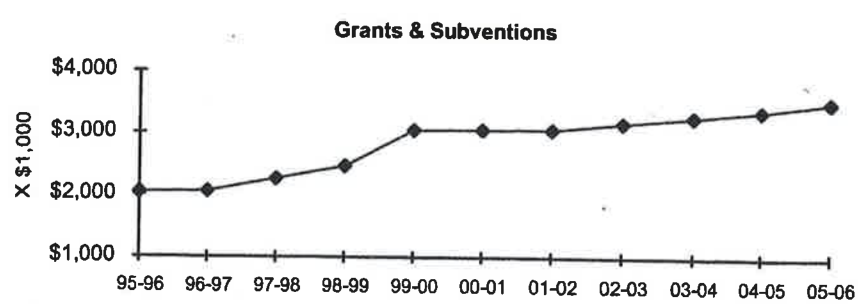


Grants and Subventions

Historic Growth Rate	12.2%
2000 Projected Growth Rate	3.1%
2001 Projected Growth Rate	2.8%

In total, Grants and Subventions revenues are projected to grow at a rate of 2.8% over the forecast period, compared to an historical growth rate of 12.2%. During the 2000-01 fiscal year, police grant funds from the Office of Traffic Safety (OTS) and the State of California (COPS) were moved into another fund for tracking and audit purposes. The removal of these funds account for the decline in the 2001 projected growth rate for grants and subventions.

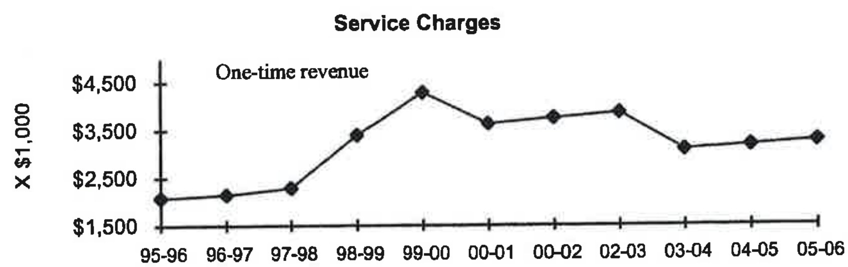
The predominant source of revenue in this category is Motor Vehicle Tax. Motor Vehicle Tax revenues are projected to increase by an annual average of 4.8% and are based on 50% of expected inflation plus 100% of anticipated population growth. Over the last five years, motor vehicles taxes have increased an average of 12% annually.



Service Charges

Historic Growth Rate	18.3%
2000 Projected Growth Rate	-4.9%
2001 Projected Growth Rate	-1.6%

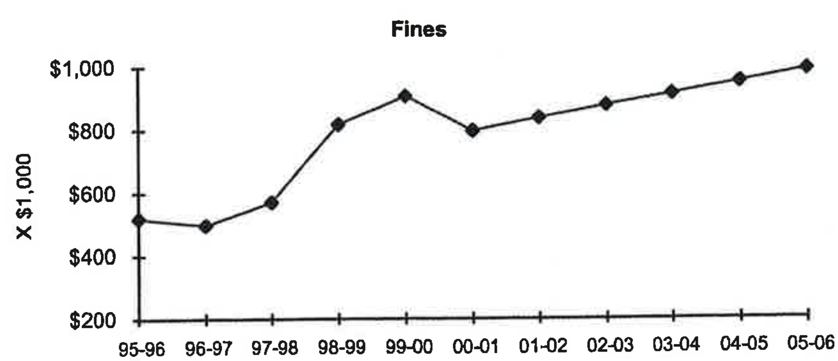
This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. For forecasting purposes, construction fees are considered "one-time" revenue and gradually reduced in the forecast period beginning in FY 2003-04. The projected growth in service charges over the forecast period is –1.6%.



Fines

Historic Growth Rate	15.2%
2000 Projected Growth Rate	5.6%
2001 Projected Growth Rate	4.4%

The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. The 2001 projected growth rate of 4.4% differs dramatically from the historic growth rate 15.2% which increased as a result of a change to the allocation of court fines in 1997.



Interest And Rents

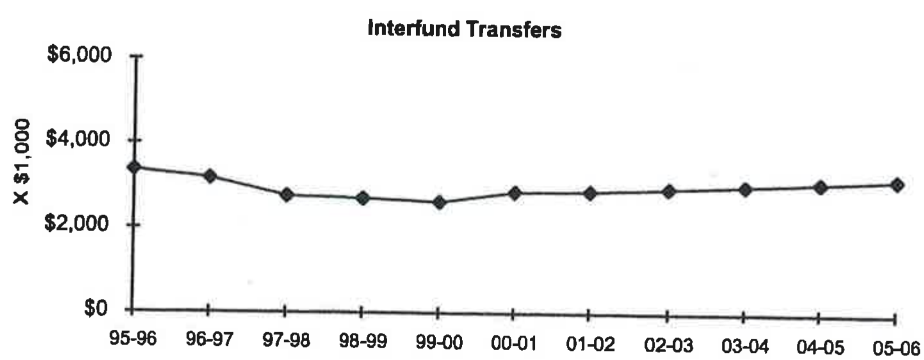
Historic Growth Rate	16.5%
2000 Projected Growth Rate	0.3%
2001 Projected Growth Rate	1.9%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the prime interest rate and historic data. The Casa Romantica lease was terminated in April 2000 and rental income has been removed from the base year budget.

Interfund Transfers

Historic Growth Rate	-9.4%
2000 Projected Growth Rate	5.8%
2001 Projected Growth Rate	2.2%

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.



General Fund Expenditures

Historic Growth Rate	5.4%
2000 Projected Growth Rate	3.6%
2001 Projected Growth Rate	1.9%

Projected expenditures presume that service levels in effect in FY 2000-01 will remain constant. No new programs are assumed.

The 2001 projection from the base year is based primarily on inflation. One-time and capital outlay expenditures are removed for forecast purposes.

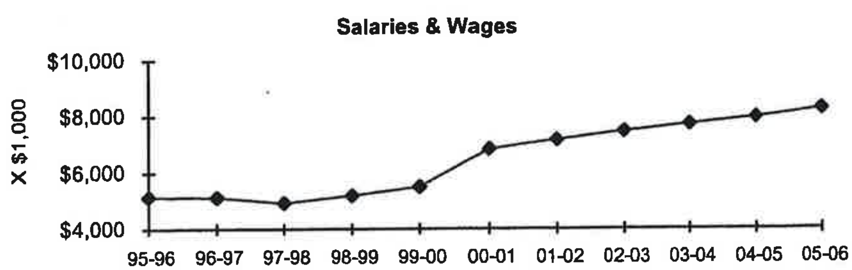
The 2000 projected growth rate differs dramatically from the 2001 expenditures rate of 1.9%. This is due to the inclusion of 9.5 full-time positions and two contracted positions in the first year of the adopted budget forecast. Operational expenditures increased by $608,000.

Salaries and Wages

Historic Growth Rate	0.1%
2000 Projected Growth Rate	7.2%
2001 Projected Growth Rate	3.8%

The forecast projections assume the addition of three full-time positions in FY 2001-02 and two new positions per year in the remaining four years. In total, eleven new positions are added during the forecast period. A 3% cost of living increase, previously approved by the City Council, is also included in fiscal years 2001-02 and 2002-03. For forecast purposes only, an annual cost of living increase in the remaining years of the forecast equal to 90% of the inflation rate is included.

The average annual growth rate for Salaries and Wages is 3.8% for the five-year projection.

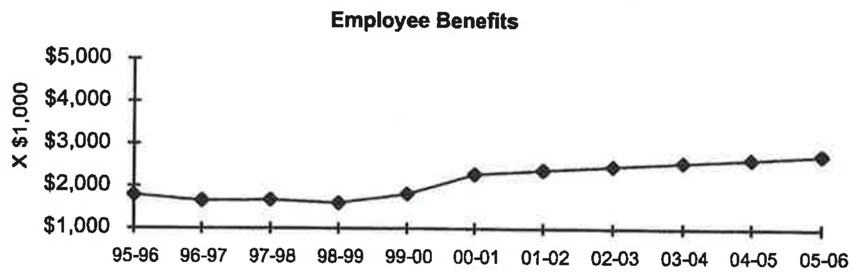


Long Term Financial Plan

Employee Benefits

Historic Growth Rate	-5.4%
2000 Projected Growth Rate	6.7%
2001 Projected Growth Rate	3.7%

The employee benefits category reflects an average projected growth rate of 3.7% for the forecast period. The historical average of –5.4% for this category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.



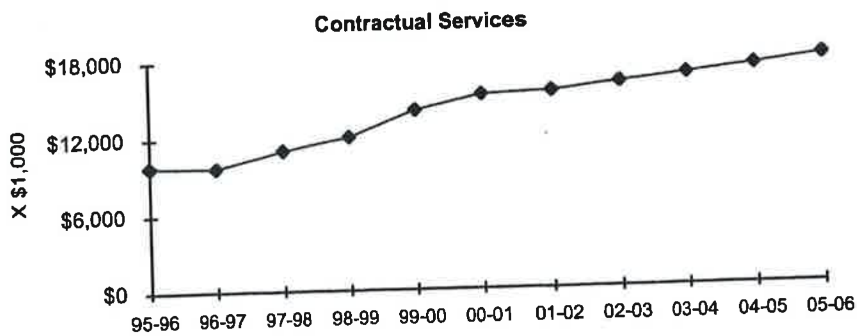
Contractual Services

Historic Growth Rate	10.1%
2000 Projected Growth Rate	2.8%
2001 Projected Growth Rate	3.2%

Overall, this category is expected to experience an average annual increase of 3.2% over the forecast period, well below the historical average of 10.1%. 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 is included in each year of the forecast for a total of five additional contract police services positions.

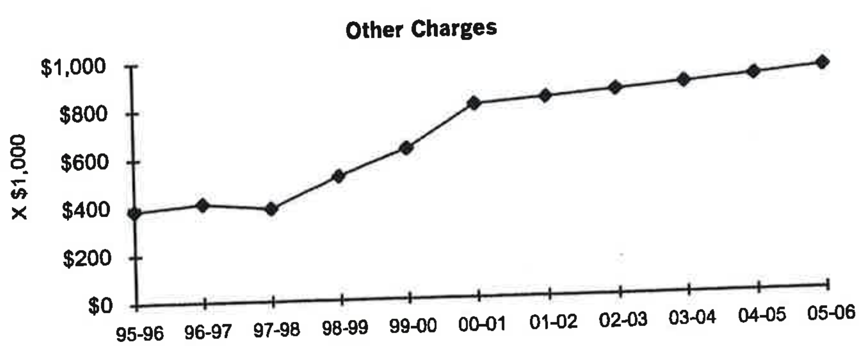
Contractual services for the major street maintenance program is included at $300,000 in the current fiscal year and increased by inflation in the remaining years of the forecast.



Other Charges

Historic Growth Rate	12.5%
2000 Projected Growth Rate	11.0%
2001 Projected Growth Rate	2.9%

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	196.0%
2000 Projected Growth Rate	-30.4%
2001 Projected Growth Rate	-36.1%

Long Term Financial Plan

Reserve Analysis

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

Summary
The reserve funds analyzed include:

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

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

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

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

- The City will maintain General Fund Emergency Reserves at a level at least equal to 8% of General Fund operating expenditures for the purpose of providing protection of the City's

essential service programs and funding requirements during periods of economic downturn, or other unforeseen catastrophic costs not covered by the Contingency Reserve.
- 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.

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

- Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self-insurance retention (SIR) for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.

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

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

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

The following table summarizes the contributions made to the various reserve and self-insurance funds since the adoption of the City's first Long Term Financial Plan through June 30, 2001.

Reserves	Funding Source	Reserve Contributions
General Fund Emergency Reserve	General Fund	$1,619,640
Council Contingency Reserve	General Fund	$1,700,000
General Liability	All Funds	$1,574,820
Workers' Compensation	All Funds	$1,363,380
Accrued Leave	General Fund	$440,000
Capital Equipment Replacement	General Fund	$728,210
Total		**$7,426,050**

Each reserve is detailed in the following sections, with recommendations for the 2001-02 fiscal year.

Analysis of the Funds/Reserves

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

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

General Fund Emergency Reserve

City Council Fiscal Policy: Maintain an emergency reserve of no less than 8% of General Fund operating expenditures. The purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn, lasting two years or more, or other unforeseen catastrophic costs not covered by the Contingency Reserve. This reserve is to be accessed only upon the occurrence of serious conditions warranting emergency measures, and requires City Council approval prior to expenditure. Since the establishment of this reserve, no portion of it has been utilized.

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

The current Financial Trend Analysis indicates that the City has had operating surpluses for the past six consecutive years. Also, for the sixth consecutive year, unreserved fund balance as a percentage of operating revenues increased in FY 1999-00. It is therefore recommended that the emergency reserve be increased to 8% of General Fund operating expenditures for FY 2001-02.

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

	Contribution	Cumulative Total	Percentage
FY 1992-93	$509,640	$509,640	
FY 1993-94	$120,000	$629,640	3.30%
FY 1994-95	$150,000	$779,640	4.00%
FY 1995-96	$250,000	$1,029,640	5.02%
FY 1996-97	-0-	$1,029,640	5.00%
FY 1997-98	-0-	$1,029,640	4.97%
FY 1998-99	$ 40,000	$1,069,640	4.94%
FY 1999-00	$ 50,000	$1,119,640	5.05%
FY 2000-01	$500,000	$1,619,640	5.91%

the number of employees and the length of service (amount of accrued leave). The following table indicates accrued leave payments during the past seven years with a projection for FY 2000-01:

FY 1993-94 through FY 2000-01

	Vacation and Sick Leave
FY 1993-94	$ 50,500
FY 1994-95	$ 17,850
FY 1995-96	$ 47,940
FY 1996-97	$ 77,550
FY 1997-98	$ 53,890
FY 1998-99	$ 41,406
FY 1999-00	$ 34,770
FY 2000-01 (Projected)	$100,000
Average Annual Payoffs	$ 53,000

The projected ending balance for the Accrued Leave Reserve Fund as of June 30, 2001 is $69,375. Utilizing the average calculated above, along with additional terminations and retirements projected for FY 2001-02, a transfer of $100,000 is recommended from the General Fund in FY 2001-02, and annually thereafter, to pay accrued leave benefits for potential terminating or retiring employees.

Recommendation

1. Annually average past expenditures from the Accrued Leave Reserve Fund and base the annual transfer from the General Fund on this average. Approve a transfer from the General Fund to the Accrued Leave Reserve Fund for FY 2001-02 in the amount of $100,000.

Fiscal Impact of Recommendation

In order to accurately project transfers from the General Fund in the five-year financial forecast, an annual contribution of $100,000 will be included in expenditures, totaling $500,000 for the five-year period.

Fleet Replacement Reserve Fund

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

A complete analysis of the fleet replacement reserve was conducted and approved by the City Council in February 1994. As a result of the fleet replacement reserve analysis, a policy was established to annually update the Fleet Replacement Reserve schedule. This reserve is fully funded with a projected ending balance of $1.8 million.

Recommendation
None

Fiscal Impact of Recommendation
Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. The FY 2001-02 budget will contain replacement charges to other funds of $432,960.

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

The City completed a General Fund fixed asset inventory in 1995, which was utilized to develop a replacement schedule for all General Fund capital equipment and machinery. Replacement costs of General Fund fixed assets, excluding buildings and building improvements, total $2,463,000. This includes the cost of replacing signalized traffic intersections and meters, timers and pay stations of $1,763,000. Since the time of this fund's establishment in FY 1994-95, the General Fund has made annual transfers of $100,000 to fund this reserve. Over the past six years, these transfers total $600,000. The projected fund balance at June 30, 2001 is $503,304. A transfer of $100,000 is proposed in FY 2001-02, and thereafter, until the established limit is attained.

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

Recommendation
1. Transfer $100,000 from the General Fund to the Capital Equipment Replacement Reserve Fund annually until the recommended level of $2,463,000 is reached.

Fiscal Impact of Recommendation
The financial forecast has incorporated an annual allocation of $100,000 in each of the next five years. This will bring the reserve to $1,200,000 at the end of the five-year period.

General Fund Facilities Maintenance Capital Asset Reserve
Currently the City does not have a policy to maintain a Facilities Maintenance Capital Asset Reserve. As the City facilities age, maintenance expenditures become more critical. A reserve to fund these maintenance expenditures is being proposed. The facilities maintenance expenditures include costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/striping for all City facilities, plus the compressor, speed drive and boiler for the City pool.

Long Term Financial Plan

An analysis has been done to project out the facilities maintenance costs for the next 5 years using estimated replacement cycles between 7 and 30 years depending upon the type of maintenance to be performed. The projected costs were then allocated over the term of the estimated replacement cycle. The projected cost for the next 5 years has been calculated as $810,000 with an average of $162,000 per year. The recommendation will be to maintain the reserve at a level to fund the 5-year projected costs and to make annual contributions of one fifth the projected 5-year costs until the reserves have been built up to the recommended level. Annually, projected 5-year costs for maintenance of all City facilities will be determined by the Maintenance Services Division and reviewed by the Finance Division.

Recommendations

1. Budget $162,000 to be added to the Facilities Maintenance Capital Asset Reserve for fiscal year 2001-02 and annually contribute one fifth of the projected 5-year costs until the recommended level of 5-year projected costs is reached.
2. Revise the City's Fiscal Policy to include the Facilities Maintenance Capital Asset Reserve. "The City will establish a Facilities Maintenance Capital Asset Reserve for costs associated with the maintenance of all City facilities. The reserve will be maintained at a level at least equal to the projected 5-year facilities maintenance costs."

Fiscal Impact of Recommendations

Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of $810,000.

Street Improvement Program

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

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

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

Program Status
Since the approval of the program in July, 1995, one hundred (100) street projects have been completed and additional fifteen (15) are under construction and will be completed during FY 2000-01. Of the 115 street projects, 48 projects were accelerated from their original schedule. Thirty (30) projects were accelerated within the first 5-year period and eighteen (18) street projects were accelerated from beyond the 5-year period.

Completed projects (totaling 28.58 miles):

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

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

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

63. Ola Vista from Rosa to Santa Barbara.
64. Avenida Rosa from Ola Vista to Victoria.
65. Alcazar from end of pavement to E. San Juan.
66. East Cordoba, Phase I from Calle Alcazar to Ladera Lane.
67. East Cordoba, Phase III from Ladera Lane to Via Avila.
68. E. Ave. Junipero, Phase I from Ave. Trieste to Entrada Paraiso.
69. E. Ave. Junipero, Phase II from El Camino Real to Ave. Trieste.
70. Entrada Paraiso from Ave. San Juan to end of pavement.
71. Calle Abril from Calle Bienvenido to Calle Real.
72. Calle Mayo from Calle Bienvenido to Calle Real.
73. Calle Monterey from City limit to Calle Juno.
74. Via Sacramento from City limit to Calle Juno.
75. Calle Andalucia from Calle Bienvenido to City limit.
76. Via Manzana from City limit to Calle Real.
77. Calle Juno from Calle Bienvenido to Calle Mayo.
78. Buena Suerte from E. Cordoba to Avenida San Juan.
79. So. La Esperanza from Calle Patricia to East Ave. Cordoba
80. Calle Puente (Phase I) from Ave Palizada to Ave. Del Poniente
81. Calle Puente (Phase II) from Lave. Del Poniente to Ave. Aragon
82. El Portal from del Prado to El Camino Real and Del Prado from Ave. Del Poniente to Aragon
83. Ave. Del Poniente from Calle Puente to El Camino Real
84. Ave. Aragon from Calle Puente to El Camino Real
85. Ave. Cadiz from Ola Vista to El Camino Real
86. W. Ave Cordoba from El Camino Real to Calle Toledo
87. Ave. Gaviota from El Camino Real to Valencia
88. Avenida Trieste from Ave. Junipero to cul de sac.
89. Via. San Gorgonio from Ave. Vaquero to Vista Torito
90. Via San Jacinto from Via San Gorgonio to Calle Vista Torito
91. Via Corbina from Calle Vista Torito to Cul De Sac
92. Via Montecito from Avenida Vaquero to Vista Montego
93. Ave. Princesa from Ave. Presidente to Toledo.
94. Calle Del Pacifico from cul de sac to S. Ola Vista.
95. Calle Marina from Calle De Los Alamos to W. Los Lobos Marinos.
96. Calle Primavera from Calle De Los Alamos to Calle Roca Vista.
97. Calle Roca Vista from Calle De Los Alamos to W. Los Lobos Marinos.
98. W. Junipero from Ola Vista to Ave. Del Presidente
99. Ave. de Los Lobos Marinos from Calle de Los Alamos to Del Presidente
100. Calle Serena from Los Alamos to Los Lobos Marinos

Still to be constructed during FY 2000-01 (totaling 3.83 miles):

These projects are under construction. It is anticipated that the construction of these street projects will be completed prior to the end of FY 2000-01:

1. Ave. Gaviota from Valencia to Calle Toledo
2. Calle de Los Alamos from Gaviota to Ave. de Los Lobos Marinos
3. Calle Lasuen from Calle De Los Alamos to W. Los Lobos Marinos.
4. Los Molinos from El Camino Real to channel.
5. Calle Valle from Calle De Los Molinos to Calle De Los Molinos.
6. East Cordoba, Phase II from Via Avila to Via La Jolla.
7. West Avenida Santiago (from south Ola Vista to El Camino Real)
8. East Avenida Ramona Phase I (from El Camino Real to Entrada Paraiso)
9. East Avenida Ramona Phase II (from Entrada Paraiso to Cul De Sac)
10. Avenida Serra (from Avenida Palizada to El Camino Real)
11. W. Paseo De Cristobal (from El Camino Real to cul de sac)
12. Poco Paseo (from Calle Toledo to La Rambla)
13. La Rambla (from Calle Toledo to cul de sac)
14. Vista Marina (from Trafalgar Lane to W. Paseo De Cristobal)
15. Avenida Madrid (from Avenida Victoria to Avenida Monterey)

Design Stage:

There are another sixteen (16) street projects in the early planning and design stages. The designs should be completed prior to the end of this Fiscal Year. Construction of these projects will start at various periods during FY 2001-02.

1. Calle de Anza (from San Carlos to Ave. Presidio)
2. Avenida Arlena (from Esperanza to Cordoba)
3. Bella Loma (from cul de sac to La Cuesta)
4. Calle Neblina (from Miguel to Empalme)
5. Calle Neblina (from cul de sac to Miguel)
6. Calle Familia (from cul de sac to cul de sac)
7. Calle Delicada (from cul de sac to cul de sac)
8. Calle Pescador (from Miguel to Presidio)
9. Calle Rica (from cul de sac to cul de sac)
10. Robles (from Empalme to Presidio)
11. Avenida La Cuesta (from Solano to Miguel)
12. Calle Sandia (from cul de sac to Escuela)
13. Calle Salida (from cul de sac to Escuela)
14. Calle Del Juego (from cul de sac to Escuela)
15. San Luiz Rey (from El Camino Real to Santa Margarita)
16. Calle Escuela (from Presidio to Miguel)

Funding

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

Short Term - The Street Improvement Program's short term financial picture is mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in a savings of about $3,360,000 or about 20 % of the original estimated street projects costs.

Original estimated projects costs (FY95/96 to FY00/01)	$17,000,000
Actual projected projects costs (FY95/96 to FY00/01)	13,640,000
Projected savings (FY95/96 to FY00/01)	$3,360,000
Accelerated projects beyond first 6 years	2,640,000
Cash Balance due to savings	$720,000

Engineering Division staff have been successful in applying for and receiving State Local Transportation Partnership Program (SLTPP) grants for eligible street projects. The grant amounts awarded have varied from 5% to 20% of the construction award costs. The City has received about $1,777,200 in SLTPP funds for certain completed projects. Also, the City has received various approvals for approximately $422,840 in CDBG Grant Funds for certain completed street improvements. Engineering Division staff has been aggressively pursuing various grants for funding the arterial streets. The City has received AHRP grant approval for six streets for an amount of approximately $1,600,000.

On the other hand, actual annual program revenues of about $1.325 million from the Street Improvement Assessment District are about $175,000 per year or 12% less than the $1.5 million per year which was originally projected. This is due to an adjustment of about $100,000 per year to private golf courses, plus adjustments to various parcels based upon refined information from the Tax Assessor's office. Over the next 15 years, this means the District's total revenues in constant dollars will be approximately $3.15 million less than originally projected. This is equivalent to about seven (7) miles of street óverlay projects. Additionally, some of the streets are failing at a rate faster than staff had predicted, so they will have to be reconstructed rather than overlaid. Street reconstruction costs are approximately twice those of overlay projects. Table "A" on page 8 describes the financial comparison between the actual and the original projected revenues for the first seven years of the program.

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

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

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

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

Recently the Governor has approved AB 2928 (formerly known as the local rehabilitation money from the Governor). The City of San Clemente will be receiving a total of approximately $780,000 over the next five years. Staff is recommending to utilize these funds for rehabilitating city streets that are not included in the Street Improvement Program.

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

Program Year	Fiscal Year	General Fund Contribution	Gas Tax/Measure M Contribution
6	2000/2001	$530,450	$450,200
7	2001/2002	$546,360	$463,710
8	2002/2003	$562,750	$477,620
9	2003/2004	$579,630	$491,950
10	2004/2005	$597,020	$506,710

- The contributions are escalated at 3% annually.

TABLE "A"

SEVEN YEARS FINANCIAL COMPARISON
(FY 1995-96 to FY 2001/02)

	ORIGINAL	ACTUAL	DIFFERENCE
ORIGINAL REVENUES			
Street Improvement Assess.	10,836,000	9,294,985	(1,541,015)
Debt Service / Redemption fund (1)	(3,595,300)	(4,020,997)	(425,697)
Proceeds From Sale of Bonds	6,000,000	6,566,312	566,312
Transfer from General Fund	3,670,900	3,391,810	(279,090)
Transfer from Gas Fund / Measure M	2,587,400	2,587,400	-
SUBTOTAL	**$19,499,000**	**$17,819,510**	**$(1,679,490)**
OTHER REVENUES			
Investment Earnings (2)	-	1,356,705	1,356,705
Other Revenues	-	25,546	25,546
Expenditures Other Than CIP (3)	-	(782,506)	(782,506)
SUBTOTAL	-	**$599,745**	**$599,745**
TOTAL	**$19,499,000**	**$18,419,255**	**$(1,079,745)**
GRANTS / SAVINGS			
State Local Transp Partn Program (4)	-	1,777,199	1,777,199
Other Grants		422,840	422,840
Savings from street CIP (5)	-	3,360,000	3,360,000
SUBTOTAL	-	**$5,560,039**	**$5,560,039**
Accelerated completed projects (6)	-	(2,640,000)	(2,640,000)
SUBTOTAL	-	**$2,920,039**	**$2,920,039**
CASH BALANCE	**$19,499,000**	**$21,339,294**	**$1,840,294**

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

General Fund Contribution

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

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

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

Expenditures

Overall, the majority of the completed street projects are about 5% to 20% under the original budget. As for the long term expenditure side, it is extremely difficult to project the actual costs of street improvement projects beyond three or four years. There are many uncertainties including:

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

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

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

Schedule Modification

Since the approval of the program, 48 street projects were accelerated from their original schedule. Two street projects during this FY2000/01, are recommended to be delayed. These projects are:

1. Avenida de la Riviera: This street was recently paved as part of the Major Maintenance Program in FY1998-99 with the surrounding streets in the Riviera District. Staff feels that the pavement conditions are adequate, and therefore, recommends the delay of the street project to FY2004/2005 to be completed with the other streets in the Riviera

District.

2. Ola Vista: The street program has a budget of $231,855 for minor paving at different locations on Ola Vista. Staff's recommendation is to delay these minor improvements and re-schedule the paving of the entire street at a later date.

Street Maintenance Program

As part of the FY 99/00 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.

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

The advantages are:

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

The City Council approved a two-year project list for the Major Street Maintenance Program, as listed below:

FY 1999/00:

1. West Ave. San Antonio from El Camino Real to cul-de-sac.
2. West Ave. Ramona from El Camino Real to cul-de-sac.
3. West Ave. Cornelio from El Camino Real to cu-de-sac.
4. West Ave. Junipero from El Camino Real to cul-de-sac.
5. West Ave. San Gabriel from El Camino Real to cul-de-sac.
6. East Ave. de Los Lobos Marinos from Calle Alcazar to cul-de-sac.
7. Ave. Verde from Calle Alcazar to cul-de-sac.
8. Calle Oso from Ave. Del Poniente to West El Portal.
9. West El Portal from Calle Oso to Buena Vista.

All of the above projects were completed during FY 1999-00.

FY 2000/01:

The re-paving of the following streets is anticipated to be completed prior to the end of FY2001/01.

1. Monterey Lane from Ave Victoria to Corona Lane.
2. Corona Lane from Monterey Lane to Ave Victoria.
3. Ave. Santa Barbara from Ave. Victoria to Ave. Del Mar.
4. Acebo Lane from Ave. Santa Barbara to Ave. Del Mar.
5. Elena Lane from Ave Victoria to Cazador Lane.
6. Cazador Lane from South Ola Vista to Ave. Victoria.
7. Via Del Campo from Via Manzana to Via Bienvenido.
8. Calle Patricia from La Esperanza to cul-de-sac.
9. Via Robina from Calle Patricia to cul-de-sac.
10. East Avenida San Antonio from El Camino Real to cul-de-sac.
11. East Avenida Cornelio from El Camino Real to cul-de-sac.
12. Police Department Parking Lot

Staff is recommending the following streets for Major Maintenance during the next FY2001/02:

1. Avenida Columbo from Teresa to cul-de-sac.
2. Teresa from Avenida Salvador to cul-de-sac.
3. Avenida Acapulco from San Pablo to San Pablo.
4. Via Promontorio from Acapulco to cul-de-sac.
5. Paseo De la Seranata from Ola Vista to cul-de-sac.
6. West Avenida Mariposa from West Canada to El Camino Real.
7. East Avenida Mariposa from El Camino Real to Avenida de la Estrella.
8. Avenida Mateo from El Camino Real to Avenida Monterey.
9. La Paloma from Calle Puente to cul-de-sac.
10. West Avenida Marquita from La Paloma to El Camino Real.
11. East Avenida Marquita from El Camino Real to Avenida de la Estrella.

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.

Conclusion

In summary, the Street Improvement Program is ahead of the originally approved schedule. One Hundred (100) street projects are complete and another fifteen (15) are under construction. Also another sixteen (16) streets to be scheduled for construction in the fiscal year 2001-02. Due to the savings in the street projects costs, staff was able to accelerate and complete eighteen (18) street projects that were scheduled beyond the first five years of the program. In addition, other streets were accelerated within the first five years of the program.

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

Reconfirming the Major Street Maintenance Program with an annual funding of $300,000 for the next five (5) years, will provide the short term funding needed for the maintenance of various streets that are either not scheduled for improvement or were not scheduled for several years.

Recommendations

Staff recommends that the City Council:

1. Approve and authorize the allocation of a General Fund contribution of $546,360 for the coming FY 2001-02.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Approve the street program schedule modification.
4. Accelerate street projects in the program in accordance to the availability of funds and the proximity of other street projects.
5. 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.
6. Approve utilizing the AB2928 funds for rehabilitating streets not included in the original Street Improvement Program.

Information Systems Strategic Plan

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

Summary
The purpose of the Computer Strategic plan is to ensure that Information Technology is implemented as a City Wide collaborative effort in a cost effective manner. The purpose of this report is to update the Information Systems Strategic Plan. The report is broken into three parts: 1) How the Strategic Plan is updated and implemented; 2) The Current Strategic plan overview and schedule and 3) Current issues with fiscal impacts.

Background
How the Strategic Plan is updated and implemented:
The Information Systems Strategic Plan has been used to direct the implementation of technology in the City since 1989. Every year Information Services refines and extends the City's computer plans based upon current progress and changes in technology. The Computer Administration Team (CAT) reviews Information Services projections and modifies the plan to fit with specific departmental needs. The CAT team forwards the plan to the City Manager for review and then it is presented to Council as part of the Long Term Financial Plan.

Current Strategic Plan
In 1994 the City began a strategic effort to standardize its computer systems on industry certified hardware and software. This has lead to a smooth and cost effective migration from numerous disparate systems into single collaborative network referred to as a "Corporate Intranet". Each step has been inline with the long-term strategic plans of our major partners including Microsoft, Cisco and Dell. This ensures that new technology builds comfortably on current platforms in a cost-effective manner.

The City's updated Computer Strategic Plan is focusing on a web centric environment. The goal is simple. Provide applications and data to each desktop regardless of location in a cost-effective manner in a format that everyone easily understands. Secure this data so that appropriate information can be made available to the public while still safeguarding the City information resources. Finally, provide these services at reasonable cost without sacrificing performance, reliability or scalability.

This is referred to as a "Web Services" approach. Microsoft's implementation of this technology is called .NET (dot NET) and is the foundation of all Microsoft's future plans. The City finds itself ideally positioned to take advantage .NET. This was demonstrated with the City's 11/2000 rollout of "Web Gold" financials which took just a few days instead of months. Another example is "CityGIS", a web based GIS program that allows any computer connected to the City's network to have direct access to GIS data and maps.

Long Term Financial Plan

One of the most important aspects of the City's .NET migration is reducing the "Total Cost of Ownership" (TCO) of computers. Numerous high maintenance file servers will be consolidated into one server at City Hall. Applications that used to be installed manually will be automatically installed and upgraded as needed. This reduces licensing, maintenance and support costs. All of this is a product of the .NET initiative.

This table lists past, current and future projects relating to the City's Computer Strategic Plan

Date	Project	Why	Status
Spring/Summer 98	Base installation of core financial programs	Converted core financial data to new UNIX based system.	Completed
Fall 98	Replace old 56kb digital lines between buildings with high-speed T1 lines.	100 times faster at same cost. Allows staff access to new financial system	Completed
Fall 98	Install industry standard Cisco Routers and switches		Completed
Winter 98	Converted all network servers to Microsoft Windows NT 4.0	Provides a platform for the new "Intranet." Immediate savings of $10,000 in tech support costs. Systems Engineer on staff.	Completed
Winter 98	Implement new electronic messaging (E-Mail) with group scheduling and task management	Improve staff communication, reduced time to schedule meetings and prepare for Internet E-Mail access	Completed
Late Winter 98	Replace 40 computers ("386" and "486") computers with Pentium PC's	On going systematic replacement of old computers with new computers that can effectively run current software.	Completed
January 1999	Write/Implement new Project Tracking program	Allows staff to track status of all of City's projects using the new messaging system	Completed
January 1999	Upgrade all PC's to Windows 98 and Office 97 (service pack 2)	Year 2000 compliance, productivity features, industry standard	Completed
February 1999	Implement new utility billing software	Year 2000 compliance. Integrated with new financial programs	Completed
February 1999	Implement GIS base map of the City	Allows staff to use computer based mapping to research and plan. Developers will be required to submit plans in computer format	Completed and being enhanced
Spring 1999	Implement Y2K patched permit software	Year 2000 compliance.	Completed

Spring 1999	Write/Implement new Complaint Tracking program	Route requests for service to proper staff and tracks task to completion.	Completed
Summer 1999	Write/Implement new Code Enforcement program	Allows staff and volunteers to track code cases to resolution	Completed
April 1 1999	City-wide Year 2000 computer test.	Confirmation of Year 2000 compatibility	Completed
Winter 1999	City Council included in "Virtual City Hall"	City Council provided laptops and connection to City Hall.	Completed
Winter 1999	Prepare for Year 2000 rollover	Prepare all computer systems to deal with the Year 2000 impact both external and internal	Completed
January 2000	All staff on Internet E-Mail	Provide Public access to City offices and staff access to Internet mail.	Completed
February 2000	Control & monitor Internet access for City Staff	Provide Staff appropriate access to Internet	Completed
February 2000	Provide offsite access to staff and Council	Telecommuting. Virtual links with business partners	Completed
Spring 2000	City wide computerized filing system	Ability to locate documents in any file cabinet in the City	Completed
Spring 2000	Migrate Utility Billing to its own server.	Allows Utility Bills to be processed even if entire system is down. Better public service.	Completed
Spring 2000	Implement advanced financial reporting (Crystal Reports)	Software and training that allows staff to query the financial databases	Completed
Spring 2000	Implement city-wide Cost Accounting program	Ability to track detailed costs associated with specific projects	In Progress "Web Gold"
Summer 2000	Replace about 30 old PC's	New computers can run current software	Completed
Summer 2000	Design and implement city-wide computer disaster recovery plan	Ability to recover a server or system quickly with minimal loss of data and time	In Progress
Summer 2000	Upgrade financial software to current version (InForum Gold)	New version runs on industry standard systems (i.e. Windows) and supports new features	In Progress "Web Gold"
Fall 2000	Upgrade HR software to new version	Allows direct integration of HR features into Payroll system	In Progress "Web Gold"
Fall 2000	Link Golf and Beach Club to the City's Intranet	Provides public and staff direct access to these sites	Completed
Winter 2000	Develop a Web Strategic Plan	Provide public viewing access to City data	In Progress

Winter 2000	Implement Web based GIS	Provides all staff with direct access to parcel based data via the internal Web intranet.	Completed
Winter 2000	Upgrade Windows NT servers to Win2K .NET servers	Improved performance and security.	In Progress Spring 2001
Summer 2001	Upgrade workstations to Win2K professional and Office 2K	Compatibility with other sites. Improved performance and manageability	Pending
Fall / Winter 2001	Staff training on new Win2K and Office 2K products	Improved productivity through knowledge of features	Pending
Summer 2001	Install Server Farm Rack to rack .NET servers	Using Win2K consolidate current servers all in one rack	Pending
Summer 2001	Enhance Web GIS with detailed aerial photos.	6" detail allows for accurate Engineering and Planning decisions based upon actual site information.	
Fall 2001	Implement .NET Exchange Server (Mail, Calendaring)	Enhanced offsite mail capabilities. Ties into City's Workflow	Pending
Winter 2001	Implement new Permitting and Business Licensing software	15 year old permit software will not be compatible with City software.	Pending
Winter 2001	Provide on line transactions such as bill payments, permit approvals, business licenses	Public can make payments, sign up for classes or get permits on line (E-Commerce)	Pending
Spring 2002	Implement .NET Internet Accelerator and Security (IAS) server	Replaces old proxy firewall with a more secure and higher speed system	Pending
Summer 2002	Provide public with streaming video of beach, golf course, freeway	Check beach conditions before driving, weather at golf course, condition of freeway traffic.	Pending

Current Issues

Following is a summary of the major issues facing Information Services. Each issue is described then followed with a fiscal impact. Information Services has provided its recommendations at the end of the report in the Recommendations section.

Upgrading the Permitting and Business License System

The current fifteen-year-old permitting software is not compatible with the City's financial/GIS software and is not supported by the vendor. To address this issue staff is currently comparing the option of replacing the system versus the risk of using it for one more year. If the choice is made to replace the system the justification and costs will be presented during the budget process.

.NET (dot Net) Server Farm

The heart of the City's network are the core servers at City Hall. These have been purchased at various stages and are all managed separately. This recommendation is to replace three of these servers high density/low form factor servers and upgrade the rest. Then place all of them in a server rack so they can be managed centrally. This eliminates the need to construct a larger computer room and incurring the associated costs. Centralizing the servers also improves backups and disaster recoverability. Rack mounted high density/low form factor rack mount computers are now standard for business data centers.

Fiscal Impact

There are three aspects to this project. Upgrading current servers ($4,500), replacing two servers (2 @ 5,000 =10,000) and installing the rack ($4,500) for a total cost for $19,000.

Option: Expanding the server room instead of racking the servers is very expensive. Unlike standard construction server rooms required expensive environmental and electrical conditioning. The servers must be upgraded in either case.

Expanding the City GIS Program

This project will revise the City's GIS Strategic plan to enhance the City's GIS map. This will allow detailed Engineering modeling and forecasting. Included will be the purchase of a digitized detailed aerial photo and development of 2 ft contour lines. Initial estimates show these two features alone to cost over $175,000. To ensure that this investment is compatible with the long term goals of the City's GIS program, staff is considering hiring a firm specializing in GIS modeling to revise the City's GIS Strategic Plan. There is no funding requested at this time. Instead Council will review the costs of this project along with other City needs in the *Vital Few Priority* process.

City's Web Site

The City's current web site provides static data (web pages) to Internet users. Ideally the City would like to provide interactive services such as utility billing, permitting and recreation registration online. The first step to will come in the Spring of 2001 immediately following the server upgrades to Windows 2000. This project is funded in the current 2000-01 FY budget. During the following 18 months there will be a systemic implementation of new services on this Web site as our new Financials and Permitting systems come on line. As each new component goes live there will be a corresponding web service associated with it. In that manner the vendor in concert with the City's computer programmers can implement both the internal and external interfaces to these new programs.

Fiscal Impact

None. Currently budgeted

Computer Replacement program

For the last five years the City has annually replaced about one-third of its computers each year. This ensures that staff has reasonably current equipment plus a funding mechanism that is always in place to address aging computers. Due in part to the .NET implementation and the strict requirements to purchase only certified hardware the City does not have to replace PC's this fiscal year. Instead, .NET is off loading some of the processing from the personal computers and new software has shown to be compatible with our certified hardware. This demonstrates how .NET is reducing the Total Cost of Ownership (TCO) of PC's.

Instead of replacing PC's about 40 new 17" monitors will be purchased to replace the five-year-old 15" monitors that have never been upgraded. Newer monitors are more "eye friendly" and allow for more work area on the screen for better productivity. In addition 5 counter monitors will be replaced with LCD thin screen monitors. Not only do the thin monitors take up less counter space but they less obtrusive to the public being served at the counter.

Fiscal Impact

Normally the computer replacement program costs about $55,000 a year. By purchasing only monitors this cost is reduced to $17,000.

Options: Although the replacement of monitors is optional to not replace the monitors risks not only a reduction in productivity but a risk of compromising employee moral and health. Many employees spend more than eight hours a day behind a monitor. Just a minor flicker or dimming screen can result in considerable discomfort.

Recommendations

1. Approve the updated Information Systems Strategic Plan in concept.
2. Approve the implementation of a Server Farm at a cost not to exceed $19,000.
3. Direct staff to continue with the development of an interactive web. No additional funding is needed for FY 2001-2002.
4. Approve the upgrade of 45 monitors at a cost not to exceed $17,000.

Economic Development

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.

Summary

The 1994-95 Economic Development Plan and subsequent revisions to the Plan in the 1996-97 Fiscal Year, called for the City to focus its program efforts on three specific areas which are 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization.

In conjunction with these three program initiatives, the City Council directed staff undertake the following activities for Fiscal Year 2000-01: 1.) based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement needed public improvement projects and related 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 the Talega Business Park; 3.) with respect to older commercial shopping centers, provide appropriate assistance and support for the revitalization of the these centers with specific emphasis on Pico Plaza Shopping Center and the 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 and 5.) continue to diligently provide business ombudsman and developer advocacy services to the business community and continue to coordinate resolution and response to complaints and requests for business related support services.

The three specific program areas, along with current year policy directions from the City Council, represent the underlying foundation and overall mission for the City's Economic Development program efforts and activities. A brief review of each program area is presented below.

- **Business Retention**

  Business enterprises that have invested in our community represent an important tax base resource that must be nurtured and sustained. Notwithstanding the varying sizes and level of capital investment of these firms, we recognize that these community business members pay local taxes, create employment opportunities and provide important goods and services to our residents and visitors. It is; therefore, vitally important that the City work closely with its business community and provide appropriate support and assistance to strengthen the City's existing retail, service and business/industrial base. In this regard, City staff works closely with the San Clemente Chamber of Commerce, Downtown Business Association, Los Molinos Business Advisory Committee, Rancho San Clemente Business Park Association and other established business groups to ensure the timely coordination of needs assessment and service delivery activities for existing local businesses.

- **Business Marketing and Promotion**

  The City employs sophisticated economic modeling systems to evaluate the municipal service cost impacts of planned and future development. In order to ensure the City keeps pace with ever increasing service demands and attendant delivery costs, it is imperative that the City expand and diversify its tax base by capturing new business investment and development opportunities. Also, in order to strengthen the City's competitive position in the regional market place, staff will continue to utilize a variety of outreach strategies to effectively communicate the positive attributes, strengths and benefits that San Clemente offers to prospective business investors and developers.

- **Reinvestment and Revitalization**

  There are specific commercial and industrial areas identified by the City which represent significant investment and employment generating resources for our community. Of particular importance is the Downtown or T-Zone area, Pico Plaza Shopping Center, K-Mart Shopping Center and the Los Molinos Industrial area. Business operators and property owners have worked with the City to upgrade their properties through reinvestment. In this regard, the City has developed and implemented a public/private partnership program which attempts to stimulate or in some cases match near term private reinvestment with a local government commitment of public resources for infrastructure improvement and appropriate regulatory land use support.

With these three program elements in place, let's proceed with a review of the progress that has been made with respect to certain economic development issues that were identified in the previous 2000 Long Term Financial Report.

Background

Issue: **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.

In its 1998 retail sales tax analysis report (Orange County cities), Ultra Research Inc. (URI) indicated that the City's taxable retail sales leakage was 53%. This leakage factor translated to a loss of $350.4 million in all taxable sales and a reciprocal loss of sales tax revenue to the City of $3.5 million. URI's most recent sales tax analysis report for the year ended 1999 reflects a taxable retail sales leakage factor of 50%, which translates to a loss of $362.1 million in all taxable sales and a loss of sales tax revenues to the City of $3.62 million. In order to keep these numbers in perspective, it is important to understand that the estimated loss of sales tax is inferentially calculated on the basis of all cities and unincorporated areas in Orange County. In some cases the loss of sales tax dollars (leakage) for the City is based upon retail sales generators that the City does not currently have in the community and more than likely never will. Examples of this type of sales tax generator would be new car dealerships and shopping malls. According to data provided by MBIA MuniServices, in 1998 the City was ranked 24th in total taxable sales and once again is ranked 24th in total taxable sales in 1999 (see Table 2). With respect to per capita taxable sales, the City ranked 29th in 1998 and very modest improvement was noted in 1999 with a ranking of 28th (See Table 3). Major taxable retail sales leakage sources cited by category in both reports are compared in Table I below.

Retail Sales Leakage by Category

1998 Percent	1999 Percent	Type of Retail Store
90	90	Auto Dealers and Auto Suppliers
83	80	Home Furnishings and Appliances
76	56	General Merchandise Stores
74	75	Building Materials and Farm Implements
76	60	Apparel Stores
51	53	Other Retail Stores

Table I

It is interesting to note that the City's comparative performance (relative to all cities in Orange County) appears to have improved in 1999 in three categories while showing no change in one category and minor deterioration in two other categories. What accounts for these differences is not clear; however, it should also be noted that the City has experienced significant retail development during the past year and a decided improvement in overall sales tax generation performance should be experienced in the upcoming 2000-01 Fiscal Year. These retail developments along with future planned development will be discussed later in this report.

1999 Taxable Sales in Orange County Cities

City	Taxable Sales (1)	Ranking (2)
Anaheim	$3,904	1
Irvine	3,617	2
Santa Ana	3,492	3
Costa Mesa	2,826	4
Orange	2,129	5
Huntington Beach	2,043	6
Newport Beach	1,642	7
Tustin	1,480	8
Garden Grove	1,350	9
Fullerton	1,323	10
Brea	1,204	11
Westminster	1,167	12
Buena Park	1,033	13
Mission Viejo	1,012	14
Fountain Valley	802	15
Cypress	738	16
Lake Forest	650	17
Laguna Hills	640	18
Laguna Niguel	604	19
San Juan Capistrano	507	20
La Habra	506	21
Yorba Linda	426	22
Placentia	400	23
San Clemente	355	24
Dana Point	286	25
Stanton	278	26
Laguna Beach	271	27
La Palma	229	28
Los Alamitos	213	29
Seal Beach	151	30
Villa Park	14	31

(1) In @ millions (Source: State Board Of Equalization)
(2) By decreasing taxable sales

Table II

1999 Taxable Sales Per Capita In Orange County Cities

City	Per Capita (1)	Ranking (2)
Brea	$32,580	1
Costa Mesa	26,507	2
Irvine	25,022	3
Newport Beach	21,709	4
Tustin	21,658	5
Laguna Hills	20,618	6
Los Alamitos	17,575	7
Orange	16,450	8
San Juan Capistrano	15,594	9
Cypress	15,056	10
Fountain Valley	14,084	11
La Palma	13,852	12
Buena Park	13,363	13
Westminster	13,311	14
Anaheim	12,568	15
Santa Ana	10,993	16
Lake Forest	10,835	17
Laguna Beach	10,725	18
Fullerton	10,319	19
Mission Viejo	10,281	20
Huntington Beach	10,251	21
Laguna Niguel	10,045	22
La Habra	8,896	23
Garden Grove	8,525	24
Stanton	8,096	25
Placentia	7,980	26
Dana Point	7,531	27
San Clemente	7,508	28
Yorba Linda	6,756	29
Seal Beach	5,494	30
Villa Park	2,122	31

(1) Taxable sales source: State Board of Equalization
Population estimates source: California Department of Finance
(2) By decreasing taxable sales per capita

Table III

Municipal Resources Consultants, now known as MBIA Muni Services, has provided per capita sales tax data by retail sales categories which can be used to compare the City's performance with the County of Orange as a whole. Chart I below shows how the City's sales tax generation compares to the Orange County average for the four quarters, ending the fourth quarter 1999.

Taxable Sales Per Capita

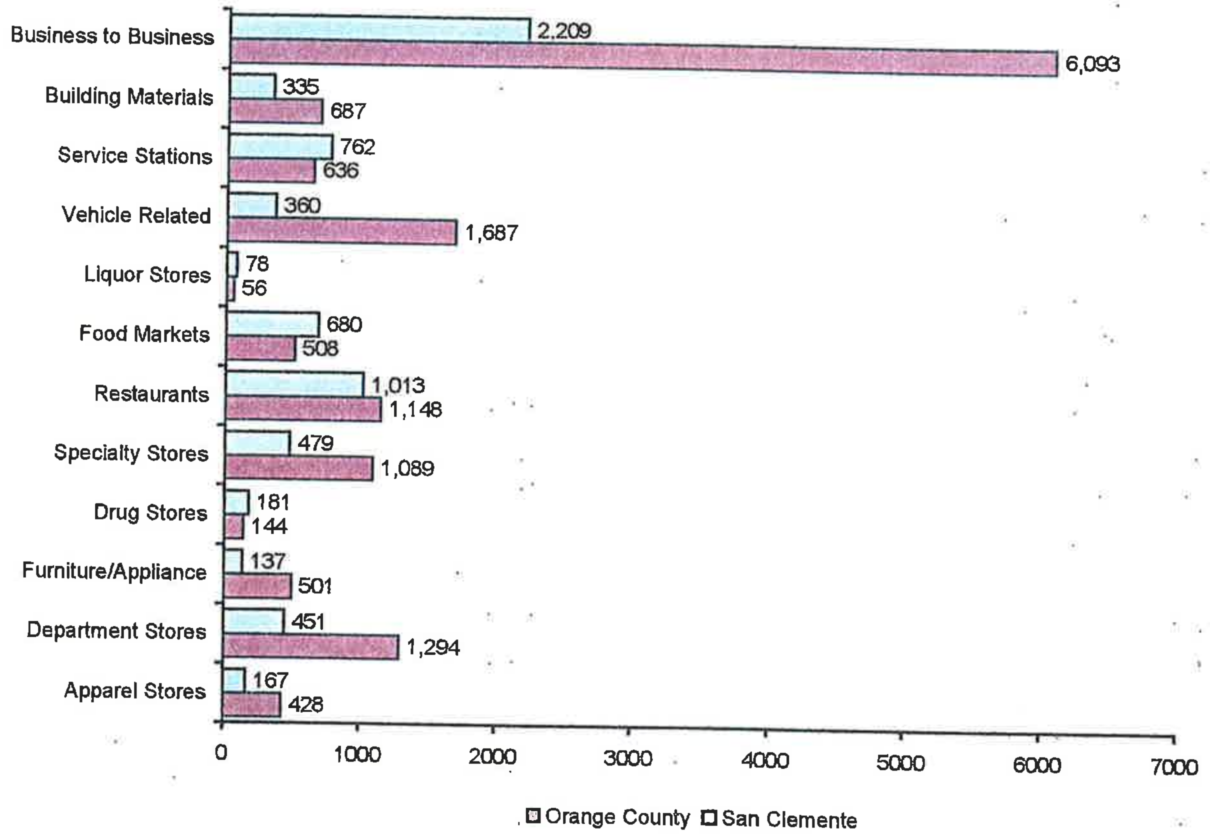


Chart I

This chart provides an interesting comparison of how the City's taxable sales match up to the County averages for the reporting period.

- **Business to Business** – The City was 41% of the County average in 1996 and is 36% in 1999.
- **Restaurants** – City was 90% of the County average in 1996 and is 88% in 1999. Since 1996 there has been no significant increase in new restaurants, however, the City's strategic location and easy access to and from the I-5 Freeway provides strong support to the City's fast food and restaurant operations.
- **Service Stations** – City was 147% of the County average in 1996 and is 120% in 1999. Sales performance in this category is obviously reflective of the City's location on the I-5

Freeway. It should be noted that the City's performance would have undoubtedly been higher in 1999 had it not been for the closure of several freeway oriented service stations due to State legislation requiring replacement of underground tanks.

- **Food Markets** – City was 150% of the County average in 1996 and is 134% in 1999. It is not clear why the City's performance in this category is so high relative to the County average. It may well have to do with the City's location to the I-5 Freeway and the fact that there are two State parks in or near the community. With regard to the City's 16% decline between 1996 and 1999, the lag in sales tax reporting may have finally caught up with the closures of the Ralph's Store in Pico Plaza and the Alpha Beta Store in K-Mart Plaza.
- **Vehicle Related** – City was 25% of the County average in 1996 and is 21% in 1999. Not surprisingly, the City's performance in this area reflects the fact that there are no new car dealerships in the community and, excepting a few used car operations, residents are forced to buy or lease their automobiles in other communities such as San Juan Capistrano, Irvine or in the Oceanside-Carlsbad area.
- **Building Materials** – City was 72% of the County average in 1996 and is 49% in 1999. There has been a significant decline in performance between the two reporting periods and one possible reason may be attributable to the closure of Ace Hardware on Avenida Del Mar. Notwithstanding the presence of DeNault's Hardware Store on El Camino Real, it's clear that residents are going out of town to buy their home building materials at Ganahl's in Capistrano Beach and Home Depot in Mission Viejo. The good news is that the DeNault family is constructing a new larger hardware facility (DeNault Plaza) on north El Camino Real and Lowe's is nearing completion of its new 130,000 square foot home improvement center in the Plaza Pacifica Shopping Center on Avenida Pico at Camino Vera Cruz. Because of the regional draw of Lowe's facility coupled with the new and larger DeNault store, the City should see significant retail sales capture and an overall increase in sales performance in the coming years.
- **Specialty Stores** – City was 42% of the County average in 1996 and is 44% in 1999. **Department Stores** – City was 24% of the County average in 1996 and is 35% in 1999. K-Mart has historically been the highest sales tax producer in the City; however with the opening of Wal-Mart in September 1999, the overall performance in this category should result in a significant increase in sales tax generation for the community.
- **Drug Stores** – City was 102% of the County average in 1996 and is 125 % in 1999. The factors influencing the 23% increase in drug store sales in the community are unknown.
- **Furniture/Appliance** – City was 27% of the County average in 1996 and remains 27% in 1999. Dewey's has historically contributed heavy sales in this category.
- **Apparel Stores** – City was 24% of the County average in 1996 and is 39% in 1999. It is difficult to understand or account for the 15% increase in apparel sales between the reporting periods. Historically, the community's resident consumers have had no choice but to go to other communities for their clothing purchases and, with the opening of the Shops at Mission Viejo, this trend in the near term is not likely to change. There is, however, reason for optimism regarding the Marblehead Coastal project. A large percentage of the "Company" stores proposed for this development will be apparel stores. The regional draw of this project and local resident demand for quality clothing/apparel stores should produce a very positive sales performance increase starting in 2003.

As was the case in the 1996 report and last year's LTFP report, the data in Chart 1 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 "much needed" 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. In addition to this retailing space, 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 our community on the I-5 Freeway.

MBIA Muni Services has also provided sales tax data by selected categories extending over a period of three years starting with the second quarter, 1997 to the second quarter, 2000. The sales tax trends developed from this information are reflected in Chart 2.

Sales Tax by Category

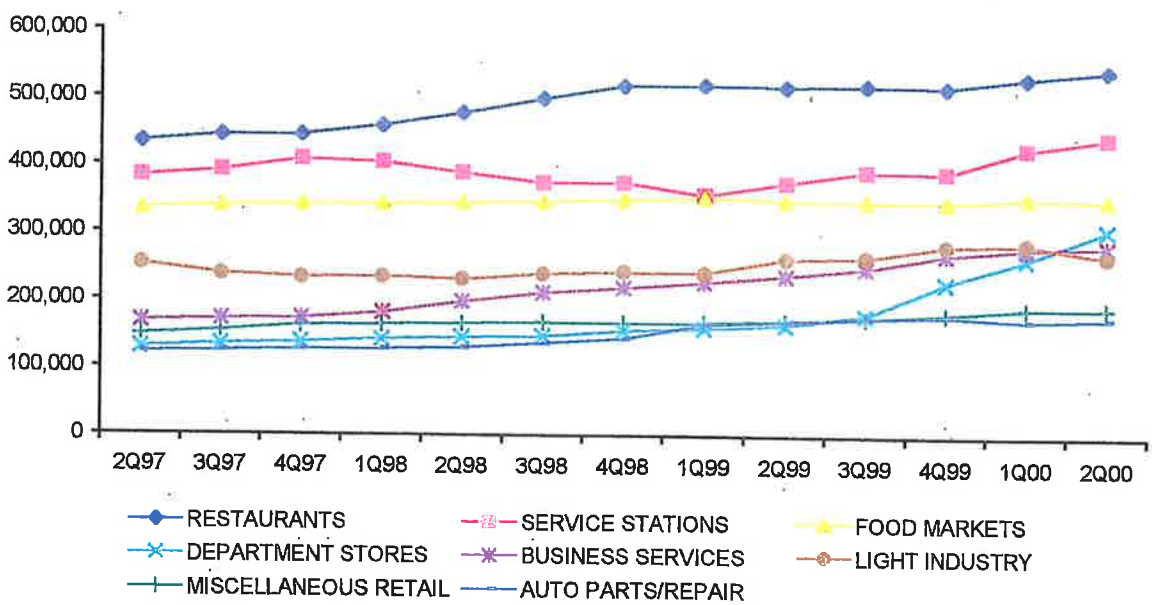


Chart II

- **Restaurants** – Showing slow but sustained growth to the fourth quarter, 1998, a slight decline to the third quarter, 1999 and slight increases in the first two quarters of 2000.
- **Service Stations** – Minor growth to the fourth quarter, 1997, then fairly modest and sustained decreases to the first quarter, 1999 with an upward trend for the next five quarters. The downward pattern reflects the closure of several service stations during the reporting period. Typically, the removal and replacement of underground gasoline tanks (including soils remediation) and the provision of new hardscape improvements can take anywhere from 3 to 6 months. Conversely, the upward trend reflects stations being brought back into service and significant increases in gasoline prices.
- **Food Markets** – Fairly static throughout the reporting period.

- **Light Industry** – Modest, but sustained decrease through the second quarter, 1998 and then slight upward and downward movements through the remaining second quarter, 2000.
- **Business to Business Services** – Gradual and sustained growth throughout the reporting period. This increase may be in part attributable to the growth of existing and development of new businesses in the Rancho San Clemente Business Park.
- **Miscellaneous Retail** – Very minor decreases and increases with an overall performance indicator of stable and static.
- **Department Stores** – Historically, as K-Mart has gone, so has the department store category for the City. However, there is significant upward trending from the fourth quarter of 1999 to the second quarter, 2000. It is too early to know what a full "stabilized" year of sales tax production will be for Wal-Mart, but the significant increase in sales taxes for the last three-quarters is partially reflective of Wal-Mart's arrival in the community.
- **Auto Parts/Repairs** – Flat for seven quarters and modest growth from the third quarter, 1998 through the second quarter, 2000.

The City Council has on previous occasions seen versions of Chart III below. This particular pie chart reflects how the various retail sales categories contributed by percentage to the total sales tax generated in the four quarters ending December 1999.

City of San Clemente
Total City $3,795,964

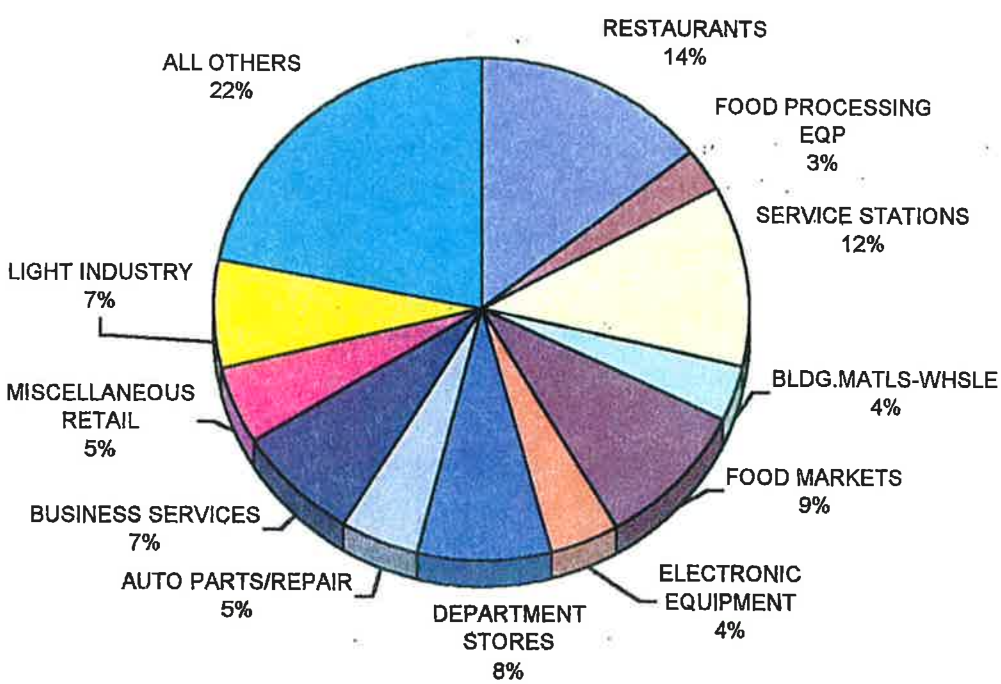


Chart III

Chart IV below provides certain trending information which compares actual quarterly sales tax production from the second quarter, 1995, to the second quarter, 2000 on a four-quarter rolling average. It is particularly interesting to note that the down cycles reflected in the quarterly reporting periods correlate to the winter season wet months of the year. What this chart is telling us is that the months of January, February and March are slow months for our retailers, which also reinforces the notion that San Clemente is unquestionably a "seasonally sensitive" retailing community. It is also interesting to note that the first quarter dip in 2000 is in range with the other first quarter reporting periods but overall sales tax production is markedly improved in first quarter of 2000.

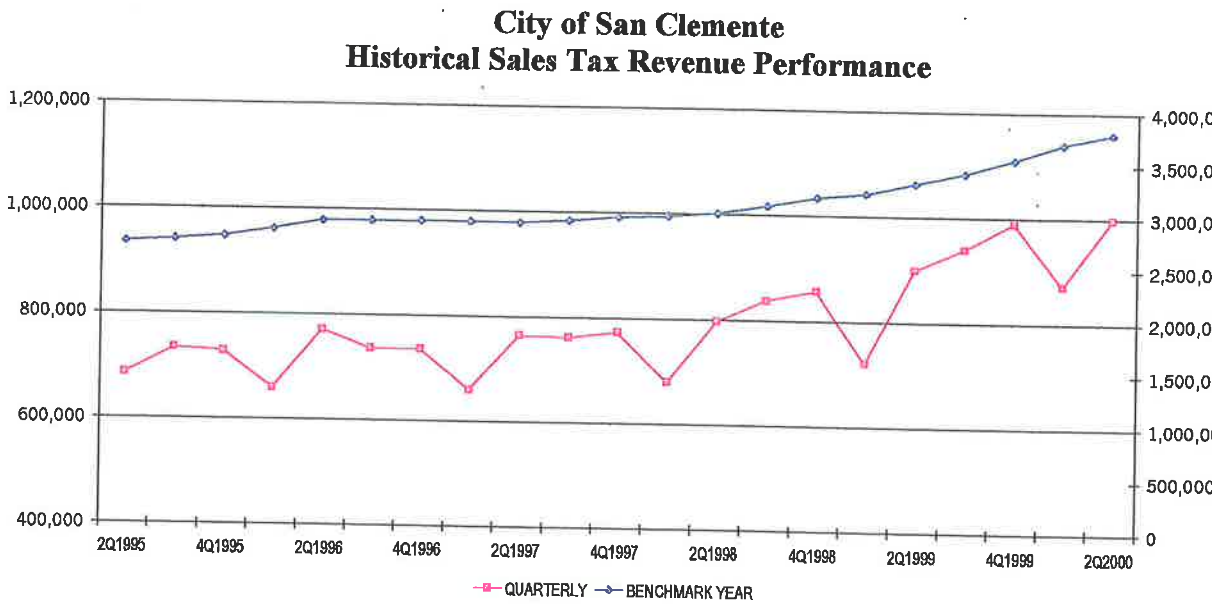


Chart IV

According to the City's annual financial forecast, sales tax revenues are projected to increase by an average of 7 percent per annum. Chart V shows this projection of sales tax revenues extending out to Fiscal Year 2007-08

Chart V

The revenue projection in Chart V does take into account the new retail development that has been recently completed or will soon start construction in the Plaza Pacifica Shopping Center project (430,000 square feet). The positive revenue production impacts associated with this project will yield an estimated $200,000 during the Fiscal Year 2000-01 and another $370,000 (Lowe's Home Improvement Center and Michael's Art Store) for Fiscal Year 2001-02. The balance of the Plaza Pacifica project (not including recently completed fast food pads) will likely be completed with the new Albertson's Grocery Store and other ancillary retail development (total of 140,00 square feet) by the fourth quarter of the calendar year 2001. The sales tax revenue estimated for the balance of the center that will actually be realized in FY 2002-03 is $350,000.

Another major retail project that will have a significant impact on the City's sales tax generation is the Marblehead Coastal project. As currently approved, the commercial segment of this project (Marblehead Coastal Promenade) is comprised of 700,140 square feet which consists of 443,860 square feet of specialty retail uses (factory outlet/food court), 176,232 square feet of entertainment uses (theater/retail/restaurants) and 80,048 square feet of general retail uses (retail/restaurants). The specialty retail portion of the project is proposed to be developed in phases extending over a period 6 years and the other portions of the project will likely be developed concurrently within the same period of time. Because the State Coastal Commission has not yet approved this project, it is difficult to estimate with any precision the phased development of the project and attendant sales tax revenues that will be generated. Estimating difficulties notwithstanding, the following assumptions are presented for the purposes of projecting the sales tax impacts of this vitally needed project.

Phase I - 250,000 sq. ft. of Specialty Retail (Craig Realty) completed by 10/1/2002
Stabilized FY 2003-04 sales tax projection is $937,000 ($375/sq. ft.)
150,000 sq. ft. of Entertainment and General Retail (SDC) by 10/1/2002
Stabilized FY 2003-04 sales tax projection is $450,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2003-04 = $1,387,000 (Phase I)

Phase II - 100,000 sq. ft. of Specialty Retail (Craig Realty) completed by 10/1/2004
Stabilized FY 2005-06 sales tax projection is $400,000 ($400/sq. ft.)
56,280 sq. ft. of General Retail and Restaurants (SDC) by 10/1/2004
Stabilized FY 2005-06 sales tax projection is $169,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2005-06 = $569,000 (Phase II)

Phase III - 93,860 sq. ft. of Specialty Retail (Craig Realty) completed by 4/1/2007
Stabilized FY 2007-08 sales tax projection is $375,000 ($400/sq. ft.)
50,000 sq. ft. of General Retail and Restaurants (SDC) by 4/1/2007
Stabilized FY 2007-08 sales tax projection is $175,000 ($350/sq. ft.)
Total estimated (additional) sales tax for FY 2007-008 = $550,000 (Phase III)

Note: No consideration has been given to the possible development of a business-conference hotel and the transient occupancy taxes that might be generated.

Utilizing the sales projections for the Plaza Pacifica Shopping Center and the phasing estimates for the Marblehead Coastal Promenade project, Chart VI provides an adjusted projection of sales tax revenues extending out to FY 2007-08.

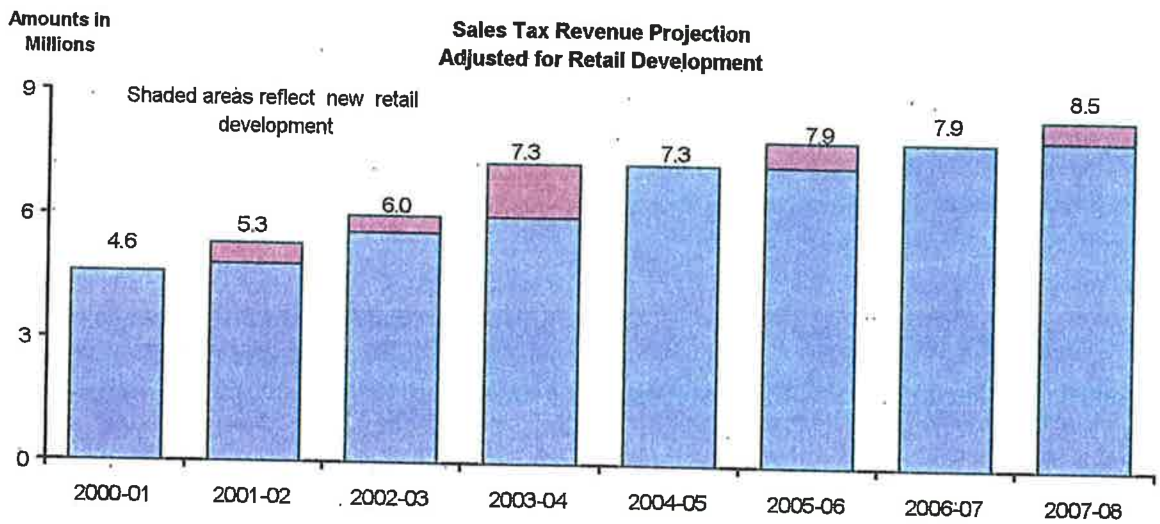


Chart VI

The importance of successfully pursuing and achieving the development of the Plaza Pacifica and Marblehead Coastal retail projects cannot be overstated. The long term fiscal health of this community and its ability to continue to provide quality municipal services for its residents will, without question, be predicated on the development of these projects.

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

- **Downtown Revitalization – Central Business District Transition Program**
  At the direction of the City Council, staff has worked closely with the leaders of the Downtown Business Association to implement a revitalization program for the Downtown area known as the T-zone. The boundaries of the 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 five years the City has assisted in the design and construction of new monument entrance signs, the fabrication of special brackets and installation of decorative hanging flower baskets, the design and installation of special uplighting systems in the tree wells on Avenida Del Mar, the installation of information kiosks for placement of promotional brochures, the design and installation of decorative vertical banners on El Camino Real, the installation of City entrance signs at Avenida Palizada and Avenida Presidio, and the placement of new decorative trash receptacles throughout the Downtown area. New decorative benches have also been placed in the bulbout areas on Avenida Del Mar. In conjunction with the physical improvements that have been made, the City has, over the past three years, assisted the Downtown Business Association in the funding and promotion of its shuttle transportation program for the summer Beach Train program and also assisted in the

funding of special marketing brochures. The City's investment in both hard and soft dollar costs for the CBD Transition program over the past five years is estimated at $200,000.

Because the Downtown is considered to be one of the most important historical and commercial assets for the community, the City Council appointed business and community representatives to serve on a special task force called the San Clemente Revitalization 2000 Committee. The Committee engaged in a thoughtful and thorough assessment of the types of program and project improvements that could be implemented with private developer impact funds to further strengthen and enhance the economic viability and aesthetic appeal of the Downtown area. The Committee made its recommendations to the City Council in the early spring of last year for consideration into the 2000-01 budgeting process. As a result of the Committee's efforts and the City Council's policy direction to staff, several millions of dollars of public improvements will be made in the Downtown area over the next 5-10 years. The design of the first phase of these improvements will be completed by the end of the current fiscal year and, subject to availability and City Council approval of funding, construction will be commenced in fiscal year 2001-02.

Coincident with these program investment efforts, the City is initiating the creation of a "Rule 20-A" utility undergrounding district for the area generally defined as El Camino Real from Ave. Granada to Ave. Cabrillo west to Seville. Over the next 5-7 years, the undergrounding of overhead utilities will significantly enhance the visual attractiveness of the Downtown. In consideration of these public investments, it is also hoped that additional private resources will be leveraged to strengthen existing businesses and attract new specialty retailing firms to the Downtown area.

- **Los Molinos Public/Private Partnership Program**
  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 purpose of the Committee is to assist in guiding the City's efforts in stimulating interest and participation in the revitalization of this important commercial area. Primary emphasis has been placed upon the development of a partnership that encourages private investment in cleaning up and making more attractive the various properties in the Los Molinos area. In concert with these private investment efforts, the City has responded with the development of the West Pico Corridor Specific Plan which provides assurances with respect to current business uses and incentives concerning future land use and City funded infrastructure improvement programs. In an effort to encourage future private reinvestment, the City has embarked on a major public works improvement program which calls for the design and installation of 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. The various elements of this improvement project were expected to be completed by the fall of 2000 at a total public cost of $2.5 million. However, there have been numerous delays with SDG&E's design and construction of undergrounding project and as result the utility

conversion and rehabilitation of Calle de los Molinos will not be completed until the third quarter of 2001. In addition to these improvements, the City Council annually appropriate funds to assist the Committee in beautifying area rights-of-way, installing decorative directional signage, the funding for an annual spring clean-up program and other improvements that are needed and recommended by Committee members. As a result of the public investment that has or will be made, the appearance of the Los Molinos area has significantly improved and several property owners and business operators are making future plans to improve their properties.

- **Revitalization of Older Commercial Shopping Center Projects**
  During the past two years, several older shopping centers have undertaken significant improvements. Under new management (M&H Property Management Inc., from the San Diego area) implemented the demolition of a three-story section of the existing Ocean View Plaza shopping center located on Camino De Los Mares and replaced it with a single level 25,000 square foot building pad. As part of its overall development program, M&H relocated Savon Drug into the newly created single story space, maintained the important presence of the Automobile Club of Southern California by relocating its offices elsewhere in the center, and they secured other new retailing and restaurant tenants for the remaining new space. In addition to the physical improvements and new tenants that have been introduced, M&H also reconfigured portions of the parking and traffic circulation making it more convenient and easier to navigate through the parking areas of the center. Companion to the reinvestment efforts at Ocean View Plaza, a local developer, Hunter Wilson, has developed the Los Mares Theater complex and shopping center located directly across the street. This project is comprised of a six-screen movie complex operated by Krikorian Theaters, a major bank and a variety of in-line restaurants and retail shops.

  Pico Plaza, located near the Avenida Pico/I-5 Freeway interchange on Calle Industrias, was acquired by MG Development in 1999 and the shopping center has undergone significant rehabilitation with new signage and facades. With the departure of Ralph's Grocery Store in 1994, Pico Plaza fell upon economic hard times and much of the center remained vacant and in a state of general disrepair until the former owners, Watt Family Enterprises, were able to land Staples Office Supply Store. Joining Staples in what was the former Ralph's store, is a furniture store and a variety of new in-line tenants have also been secured. A new restaurant, specializing in waffles, is also planned for a former restaurant facility located on the left side of the drive entrance to the shopping center.

  K-Mart Plaza is located on the west side of the I-5 Freeway on Camino De Estrella. The center is operationally divided by the K-Mart Store which controls approximately half of the center's physical space and parking resources and the remaining half is comprised of the new Pic N Save (formerly the Alpha Beta Grocery Store) and other in-line retailing space which has been recently rehabilitated by new owners, Burnham USA, located in Newport Beach. Also included under separate ownership in the center is the former Bank of America building which has become the new site for a Kragen Auto Parts Store and Las Golondrinas Mexican Food.

Issue: **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 five 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, Los Mares Theater Complex – total of 1,177,000 square feet) previously referenced in this report 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 (RSC) and Talega Business Parks. In the last quarter of 1993 there was a total of 1,805,351 square feet of existing R&D, Multi-tenant, Office and Auto related uses in the RSC Business Park. Since 1997, a total of 32 additional buildings have been built (9 currently under construction) which has resulted in the addition of 799,000 square feet (44% increase) to the RSC Business Park. At the time of this report there are an additional 24 buildings (215,000 square feet) for the Talega Business Park in for City plan check and these facilities will in all likelihood be under construction this year. This means that in a period of five years the City will have increased its overall business park development by 1,013,000 square feet, an increase of over 56%.

Another key indicator of the strength of the Business Park has been reflected in its relatively low vacancy rates over the past four years. According to Lee & Associates, the overall vacancy rate for existing product was approximately 4.2% in the latter part of 1997 and dropped to less than 1% in August 1998. Since then, the vacancy factor has remained relatively low increasing to an overall 4.5% in November 2000, which reflects a total of 99,795 square feet of R&D, Multi-tenant and Office space (refer to Chart VII). This vacancy data suggests the San Clemente market is still quite strong and the relatively small amount of the existing available space should be absorbed by the second quarter of 2001.

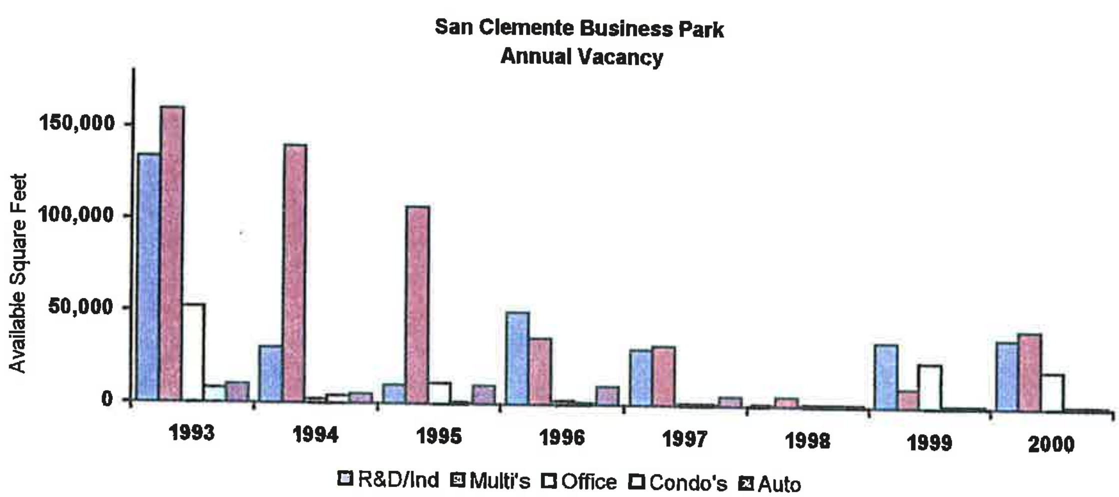


Chart VII

In view of the fact that the RSC Business Park will more than likely reach buildout within the next two to three years, it is important that additional business park uses be developed. Talega, as part of its overall development plan, has set aside approximately 100 net acres for the development of R&D, Multi-tenant, Warehouse and Office uses. Using a .35 floor area ratio, the Talega Business Park should produce an additional 1.5 million square feet of development resulting in the potential creation of another 4,000 to 5,000 new jobs for the community. The previously referenced 215,000 square feet of new development which has been recently approved for the Talega Business Park underscores San Clemente's continued strength in the regional market place.

Lee and Associates has also provided data concerning comparative data for South Orange County business park lease rate averages and for building sale pricing averages. Lease rates for Rancho San Clemente Business Park have increased from a low of $.55 per square foot in 1993 to a rate of $.75 per square foot in 2000, an overall increase of 36.3%. From a regional market perspective, the Business Park's rents are well below those of the Irvine Spectrum ($.98/sf) and Aliso Viejo ($1.05/sf). This is understandable considering San Clemente's geographic location relative to the Orange County Airport and the other competitive business center locations. From sales price perspective, the Business Park has evidenced considerable strength showing a building sales price per square foot in 1993 of $56.00 and a 2000 sales price per square foot of $95/sf, an increase of 69% (refer to Charts VIII and IX). With respect to employment statistics, it is estimated that over 6,500 employees currently work in the Business Park and at full build out that number will increase to 9,000.

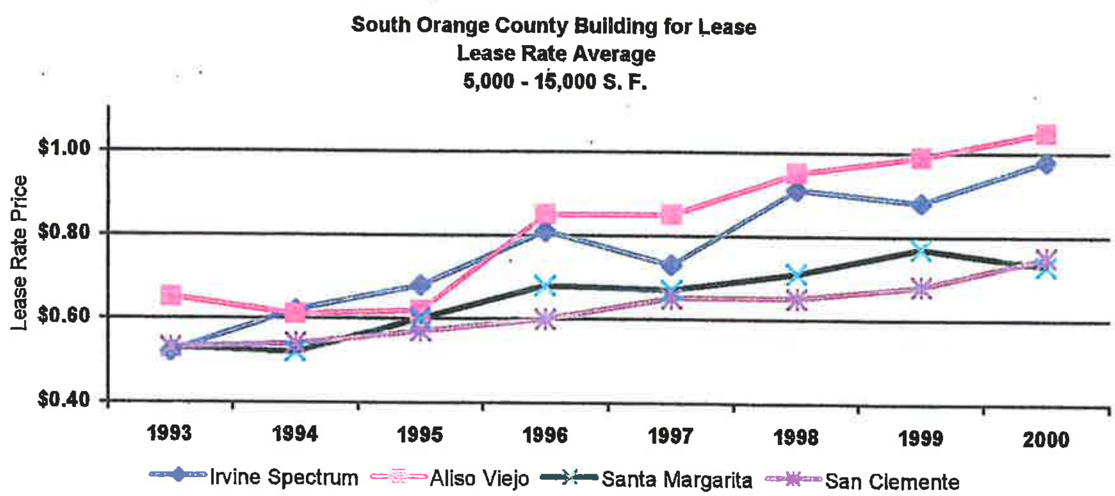


Chart VIII

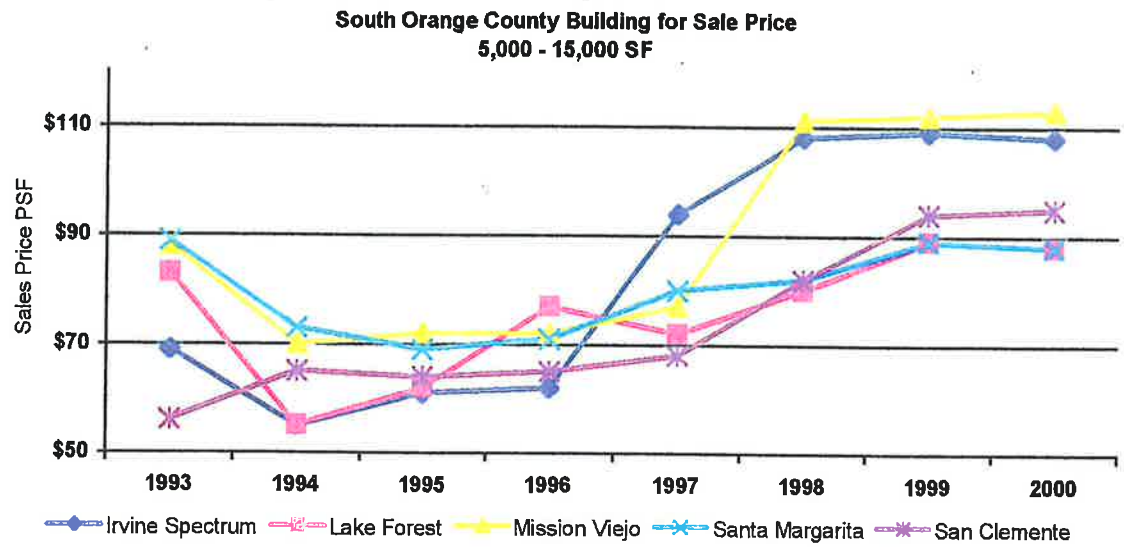


Chart IX

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

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 a valuable visitor draws are the DBA's monthly Arts and Craft Show, the City sponsored weekly Farmers Market and the annual Chamber of Commerce Chowder Cook-off. In addition to these events the City has staged one major international surfing tournament which included 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 the Talega Business Park.

3. With respect to older commercial shopping centers, direct staff to provide appropriate assistance and support for the revitalization of these centers.

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 to the business community and continue to coordinate resolution and response to complaints and requests for business related support services.

Master Plan for City Facilities (Update)

Objective

To review and update key policy recommendations for the Master Plan for City Facilities (MPCF).

- Has the tax base grown?
- Have costs grown?
- Have facilities been phased as anticipated?
- Is the operation and maintenance of new facilities sustainable?

Summary

The Master Plan for City Facilities (MPCF) was developed to help decision makers analyze siting options for City facilities, determine priorities and plan construction phasing and timing for facilities.

The MPCF studied 15 different future City facilities including: fire stations (3), a senior center (1), civic center sites (4 general locations studied), parks (9), and a special recreation facility that will include a community center, aquatic center and gymnasium.

Currently it is projected that the City will experience a $2.89 million shortfall in the funds needed to construct the parks included in the MPCF. This is due to two factors: 1) Significant increases in the construction costs for parks; and 2) Expenditures out of the Parks Acquisition and Development Fund for park improvements not identified in the Master Plan for City Facilities ($1.5 million). Staff is proposing reimbursing $1.5 million to the Fund, after which there will remain a $1.39 million shortfall in the Fund.

The Operations/Maintenance cost "Module" indicates results that are problematic for decision-makers. This module tracks the operation and maintenance cost of each facility. Then it projects the increase in "sustainable" revenues, which are primarily attributed to property tax and sales tax increases attributed to new or improved development. Under an "aggressive" scenario, which assumes buildout of the major "commercial" developments generating "above-average" sales tax, most major facilities can be built in the next six years and all facilities could be completed by the year 2009. Under a more conservative scenario, which assumes major commercial development is stalled or doesn't occur at all, some major facilities must be delayed until 2009 and final completion of all facilities may be delayed or postponed indefinitely.

In addition to the facilities that were studied by the MPCF, new priorities have emerged over the past year. Specifically, the Casa Romantica, Revitalization 2000, beach safety access improvements, water quality/sand replenishment efforts, and utilization of the cultural use (opportunity) site at LaPata/Vista Hermosa. These projects/programs all imply additional capital and operations/maintenance costs. None of these costs were considered in last year's MPCF.

Background

General Fund Revenues:

Key to the City's ability to build new facilities and implement new programs is growth in the "sustainable" tax base. The following events are crucial to our understanding of the City's long term situation.

- Growth of sustainable revenues has been very healthy over the past year. Sustainable revenues include property taxes (which were budgeted to increase $791,510 or 11.37%) and sales taxes (which were budgeted to increase $349,240 or 8.19%). The increase in property taxes is attributable to increases in assessed valuation of existing development and the assessed value of new construction, including recently annexed property in Talega. The increase in sales taxes is attributable to the healthy economy and a significant new sales tax base derived from Plaza Pacifica (Wal-Mart).

- Development at Marblehead Coastal is at least a year behind its anticipated schedule. Funds for the operations and maintenance of future City facilities are highly dependent upon anticipated sales tax revenue from the Marblehead Coastal Development. (See Chart below.)

- The relative importance of projected growth in sustainable sales tax revenues is illustrated by the following chart:

Market Demand for Additional Retail S.F.: 2.1 Million Square Feet @ $200/SF
Total Square Footage Included Here: 1.4 to 1.6 Million Square Feet @ 263/SF

- One-time revenues from fees and permits for new development, particularly construction permits, contribute significant temporary revenues but are not sustainable through buildout.

General Fund Expenditures:

Permanent and temporary expenditure increases out of the General Fund have occurred over the past year. Permanent cost increases, such as adding FTE's, have long-term impacts on the City's ability to support operations and maintenance for facilities discussed in the Master Plan for City

Facilities. Temporary cost increases, such as the addition of contractual services to handle one-time projects will not have a long-term impact on future facilities. The significant increases in continuing and one-time expenditures include:

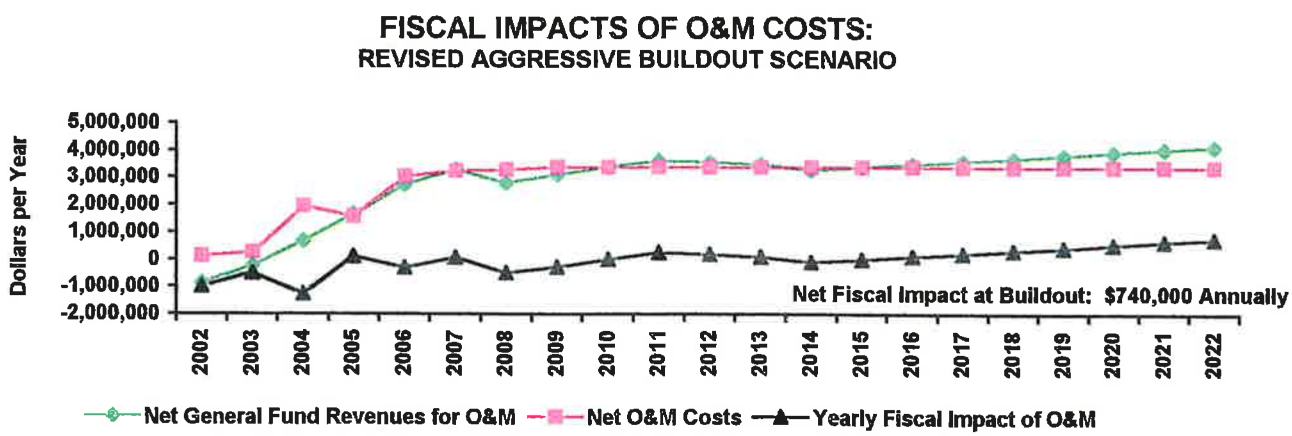
- Increases in Public Works expenditures for the fiscal year 2000-2001 are primarily due to increased personnel, including an Environmental Engineer hired to address coastal issues (continuing) and additional contractual services (one-time) to process new development.

- Increases in Beaches, Parks, and Recreation Department expenses in fiscal year 2000-2001 are primarily due to reinstated recreation services, increases in maintenance of Parque Del Mar and sports fields from Level C to Level B, increased costs of new play equipment, additional ADA (Americans with Disabilities Act) requirements, the operations and maintenance costs of new park amenities--Forster Ranch Park Phase II (8 acres), two miles of hiking trails, a skate park located at Richard T. Steed Memorial Park and increased costs in contractual services.

- Unanticipated new programs, such as those discussed later in this paper under New Facilities: Capital and O&M Analysis, will have an impact on the future operation and maintenance of City facilities.

- Significant changes in one-time expenditures were included in the City General Budget. These include one-time expenditures for: Railroad Corridor Safety Improvements, the Storm Drain Master Plan, Casa Romantica's operating and start-up expenses, and contribution of one-time revenues to the Golf Clubhouse.

The fiscal impact of the operations and maintenance costs of the City's Master Plan for City Facilities is projected to be as follows to buildout and beyond:



Over the next 20 years and after buildout, the City's fiscal impact model projects a relatively neutral revenue/expenditure balance (neither extremely positive nor extremely negative.) No major surpluses in revenues or deficits in expenditures are projected. The annual balance in the General Fund (revenues minus expenditures) after buildout is projected at approximately $740,000 per year.

(Additional details related to these projections are included in Attachment A.) The projections are dependent upon several factors:

- The phasing of City facilities is critical for the maintenance of a neutral revenue/expenditure balance. Please see the attached phasing chart for details about the phasing of facilities assumed for this analysis (Attachment B). Minimal increases in FTE's are critical and assumed as part of this analysis, as well. A comparison of current budgets and buildout budgets for each department is included as Attachment D.

- The projections shown on the previous page do not include costs for new programs or facilities beyond those listed in the Master Plan. New programs that are discussed in this report, but, as yet, have not been included in the Master Plan, are: Casa Romantica, Revitalization 2000, Water Quality Programs, the Beach Sand Replenishment Program, Beach Safety Access improvements and the La Pata/Vista Hermosa Park/Cultural Use Facility. Additional information regarding the potential costs of these programs is provided later in this report.

- For the revenues available for operations and maintenance (green line) to continue to grow, the retail market potential for the City must be realized. A significant portion of this, as illustrated by the pie chart on page 2 of this report, is the Marblehead Coastal project.

- In this analysis, Phase III of the Forster Ranch Community Park has been delayed one year (from 2005 to 2006) due to the delay of the Marblehead Coastal project. As the net General Fund revenues available for operations and maintenance (green line) increase, the planning and design of Phase III can continue. However, actual construction should be delayed until the City is <u>certain</u> that Marblehead Coastal will be constructed.

- Operations and maintenance expenditures increase in 2004 as a result of the Talega fire station coming online. Another significant increase in expenditures is experienced in 2006 as a result of Phase III of the Forster Ranch Community Park coming online. Revenues from Phase III are included in the revenue projections for the City.

<u>Capital Needs for Parks</u>

Currently it is projected that the City will experience a $2.89 million shortfall in the funds needed to construct the parks included in the MPCF. Projections for the construction costs of future park facilities has dramatically increased since last year owing to increased costs of new play equipment, additional ADA (Americans with Disabilities Act) requirements, and an escalation in general construction costs due to an unfavorable local bidding climate. Also, $1.5 million from the Park Acquisition and Development Funds have been utilized for projects not included in the Master Plan for City Facilities. A table is attached with this report (Attachment C) that illustrates the increase in park construction costs and the use of Park Acquisition and Development Funds. If $1.5 million is reimbursed to the Fund, the shortfall will be reduced to $1.39 million.

Status of MPCF Recommendations:

- Verify the need for 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. *Not started. Discussions are currently taking place with the tenants of the 910 Calle Negocio site who have expressed an interest in purchasing this building. An appraisal of the site has been ordered. The building is currently occupied by the Public Works and Community Development Departments.*

- 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. *Site identified, reviewed, approved in cooperation with OCFA and Talega. Site dedication agreement approved by City Council in 2000.*

- 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. *Not started. Not expected to become priority until about 2003/2004.*

- 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. *Site secured. Planning/design underway.*

- Negotiate an operating agreement and financing plan for the development of a Senior Citizens Center with South County Seniors. *Negotiations underway.*

- Work with the Orange County Library Administration to develop a plan to reuse the current Senior Center space to meet future library needs. *Plan development underway. County is the lead agency.*

- Concur with staff 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. *Policy direction given by the City Council in 2000. Revision of the Parks and Recreation Master Plan not yet completed.*

- Update the MPCF report annually and include a fiscal analysis as an element of the Long Term Financial Plan (LTFP).

- Compare actual retail/commercial development and revenue growth with projections. *Completed for this issue paper.*

- Compare actual expenditure growth with those projected in the financial model. *Completed for this issue paper.*

- 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. *Completed 2000. Included in 2000/2001 budget.*

- 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). *A summary of this analysis is presented in the next subsection of this issue paper. The Pageant of the Masters Proposal has been withdrawn and is now considered as a park/cultural use site. A more detailed study will be added to the MPCF by the end of FY 01-02.*

New Facilities: Capital and O&M Analysis:

The following is a brief summary of six newly emerging projects/programs that should be incorporated into the MPCF:

Project	Capital Cost and Funding	O & M and Funding
Casa Romantica	$2,000,000 to $3,000,000 Funding source: Various grants, donations, and pledges. No General Fund.	$ 250,000 in "bridge" funding over 3 years to pay for set up and start up cost. Funding source: General Fund $400,000 in annual operating budget for programs and maintenance Source: Public donations, pledges, fundraising, program fees from non-profit operation; No general fund
El Camino Real Revitalization 2000 (portion of Revitalization 2000)	$1,000,000 to $3,000,000 Funding source: Various development agreements. No General Fund.	$37,000 (this estimation is considered an extremely tentative estimation). Funding source: General Fund.
Beach Sand Replenishment	$900,000 (this estimation is considered an extremely tentative estimation). Funding source: Grants and General Fund	$35,000 (this estimation is considered an extremely tentative estimation). Funding source: General Fund.

Project	Capital Cost and Funding	O & M and Funding
Water Quality (Urban Runoff and NPDES)	$1,850,000 (Phase I). Funding source: Grants, Storm Drain Fund, and General Fund	$480,000 (this estimation is considered an extremely tentative estimation). O&M costs will depend on the Urban Runoff Study underway and on standards adopted by the Regional Water Quality Control Board. Funding source: Storm Drain Fund
Beach Safety Access	$5,000,000 approx. Funding source: A variety of grants, matching money up to approximately $200,000 may be required from the City's disaster relief fund. No General Fund.	$124,000 (this estimation is considered an extremely tentative estimation). Funding source: General Fund.
La Pata/Vista Hermosa Park/Cultural Site	This is approximately a 25 acre community park site. For purposes of this analysis, it is assumed that 15 acres are allocated for a sports complex and 10 acres for general community/cultural purposes. Cost associated with this site will be determined by the use of the site. The use could be public (City use or school uses) or quasi-public (privately operated cultural use). Each use will have different fiscal implications for the City.	

Conclusions

General Fund Revenues:

- Current revenue growth is very healthy, as projected last year.
- Significant future sustainable revenue growth is delayed at least 1 year, with major revenue increases previously projected for 2003/2004 delayed one year (due to delayed development of Marblehead Coastal).
- Significant one-time fees are being taken in for construction permits and processing.

General Fund Expenditures:

- Significant ongoing cost increases were made to add programs or make adjustments to existing programs. New programs include environmental engineering support for the beach sand replenishment and water quality issues. Program adjustments were also made to increase the maintenance level of parks/sports fields from C to B and to reinstate recreation programs lost over the past few years. These increases will have a long-term impact on the City's ability to provide operations and maintenance for future planned facilities.
- Significant one-time expenditures were experienced. These expenditures included: Railroad Corridor Safety Improvements, the Storm Drain Master Plan, Casa Romantica operating and start-up expenses, contribution of one-time revenues to the Golf Clubhouse, and additional

contractual staff and studies. These expenditures will not have a long-term impact on the operations and maintenance of future City facilities.

Capital Needs for Parks:

- Currently it is projected that the City will experience a $2.89 million shortfall in the funds needed to construct the parks included in the MPCF. Park Acquisition Funds have been utilized for park projects ($1.5 million) not anticipated to be funded by the Park Fund. These funds should be reimbursed to the Park Fund.

- Projections for the construction costs of future park facilities has dramatically increased since last year owing to increased costs of new play equipment, additional ADA (Americans with Disabilities Act) requirements, and an escalation in general construction costs due to an unfavorable local bidding climate.

- While construction costs for City parks continue to rise, revenues for the construction of parks have been fixed. As the City is forced to postpone construction of parks because of limited or delayed growth of sustainable revenues for operations and maintenance, the gap between construction costs and construction revenues is likely to grow.

- Based on the previous, a policy statement should be added to the City's current budget policies that requires that:

  - Only park facilities included in the Master Plan for City Facilities should be funded from the Park Acquisition and Development Fund;
  - Only facilities included in the Master Plan for City Facilities should be funded by development impact funds identified as sources for these facilities in the Master Plan.
  - Past expenditures from the Fund on facilities not included in the Master Plan for City Facilities (listed in Attachment C) should be reimbursed to the Fund.

- Per current policy, the City should continue to retain any interest from balances in the Parks Acquisition and Development Fund within the Fund.

Additional Issues:

- In addition, the following issues may arise with regard to capital needs:

  - Marblehead Coastal: Further delay of the Marblehead Coastal project has the potential to delay the Senior Center and additional phases of Revitalization 2000 improvements and further delay the construction of Phase III of the Forster Ranch Community Park.
  - City Beaches: Water quality/sand replenishment project costs are extremely speculative and, currently, a funding source is not known. Federal and State mandates regarding water quality may impact future City expenditures.
  - La Pata/Vista Hermosa Park/Cultural Use Site: Capital and O&M costs for some potential uses are unknown and funding sources have not been identified.

Phasing:

- There are two City facilities included in the Master Plan requiring the availability of significant additional operations and maintenance funds: 1) The Talega Fire Station (requiring $1.2 million per year); and 2) Phase III of the Forster Ranch Community Park (requiring $1.1 million per year). Current projections of future revenues for operations and maintenance indicate that only one of these two facilities can be maintained before 2006. For public safety reasons, it is likely that the Talega fire station must be constructed first (2004); therefore, construction of Phase III of the Forster Ranch Community Park (community center recreation complex) will need to be delayed to 2006 (one year out from last year's projection of 2005). This delay is directly related to the Marblehead Coastal delays at the Coastal Commission level. (See Attachments A, Fiscal Impacts of O&M Costs, and B, MPCF Phasing Plan.

Recommendations

1. Annually review the status of previous recommendations for the Master Plan for City Facilities, as a part of the Long Term Financial Plan.
2. Direct staff to develop fiscal policies to be included in the budget that:
   - Limit the use of the Park Acquisition and Development Fund to park facilities included in the Master Plan for City Facilities;
   - Limit the use of other special development impact funds (such as the Public Facilities Construction Fund) to projects identified in the Master Plan for City Facilities.
3. Reimburse $1.5 million in past expenditures from the Park Acquisition and Development Fund for facilities not included in the Master Plan for City Facilities (listed in Attachment C).
4. Consistent with existing policy, continue to retain any interest from balances in the Park Acquisition and Development Fund within the Fund.
5. Delay completion of Phase III of the Forster Ranch Community Park from 2005 to 2006 and continue to monitor development of future sustainable revenues, especially those from the Marblehead Coastal project.
6. Direct staff to add newly identified City facilities/programs/chapters to the Master Plan for City Facilities by the end of Fiscal Year 2001-2002:
   - Casa Romantica
   - Revitalization 2000
   - Beach/Sand Replenishment
   - Water Quality
   - Beach Safety Access
   - La Pata/Vista Hermosa Park/Cultural Use Site
7. Direct Staff to prepare a Vital Few Priority paper for a study to determine the feasibility of using the property at Vista Hermosa/LaPata for a new high school.

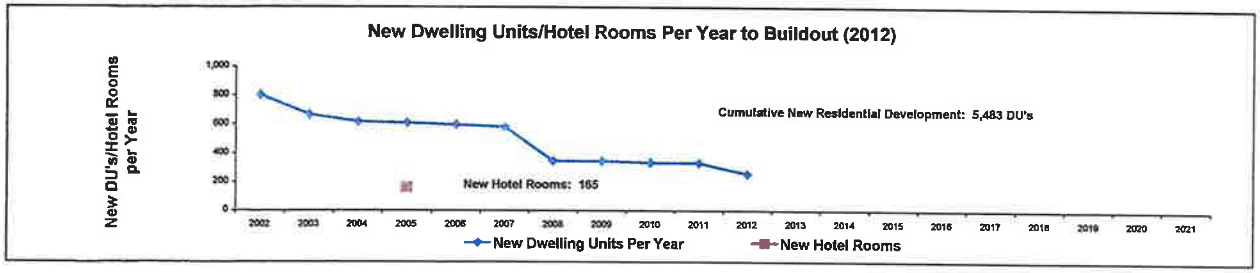
   Attachments:

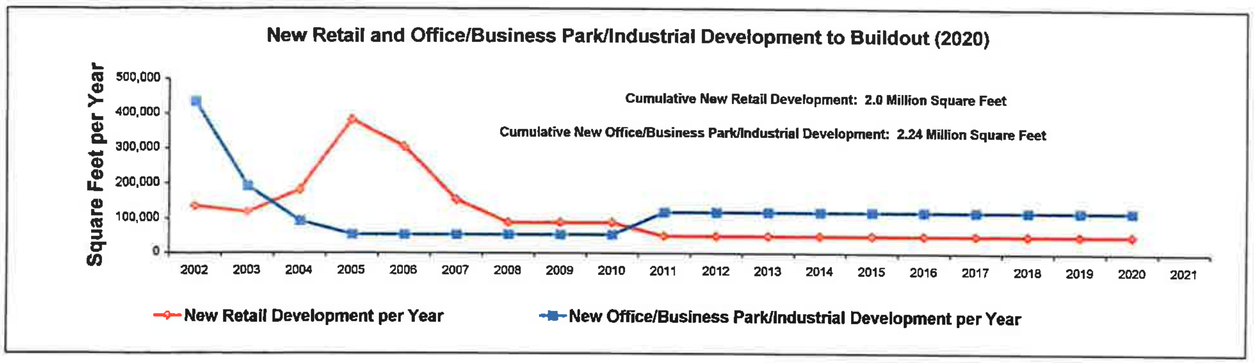
   A) Fiscal Impacts of O&M Costs
   B) MPCF Phasing Plan
   C) Funding and Construction Costs for Parks
   D) Comparison of Current Department Budget (FY 2000-2001) and Buildout Budget.

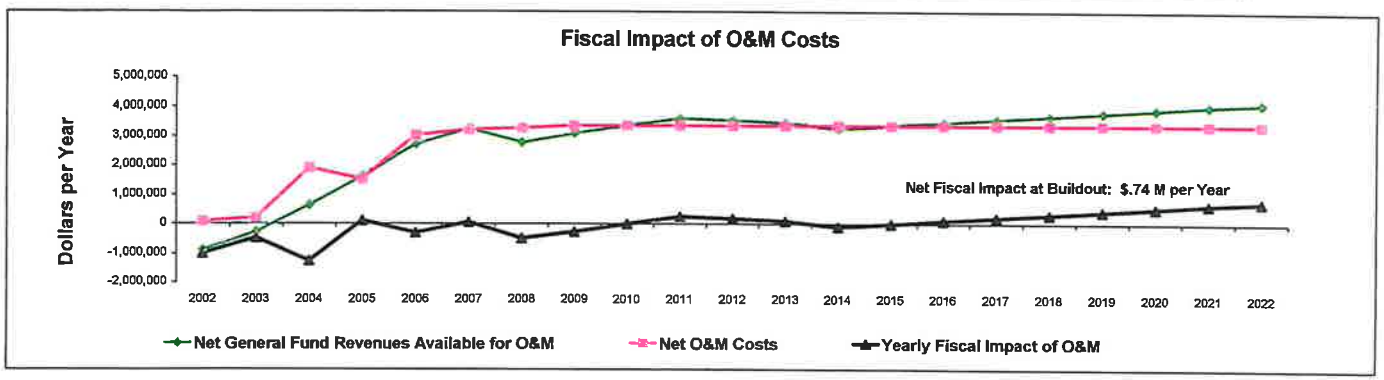
Long Term Financial Plan

FISCAL IMPACTS OF O&M COSTS: REVISED AGGRESSIVE BUILDOUT SCENARIO

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014-2020	2022	Total New At Buildout
Land Use Components/New Development															
Residential (Dwelling Units)	802	667	617	607	597	580	345	345	335	331	257	0	0	0	5,483
Retail (Square Feet)	136,000	119,000	183,000	383,000	306,000	156,000	90,000	90,000	90,000	51,000	51,000	51,000	51,000	0	2,060,000
Office/Business Park/Industrial (SF)	435,000	194,000	94,000	54,000	54,000	54,000	54,000	54,000	54,000	119,000	119,000	119,000	119,000	0	2,240,000
Hotels (Rooms)	0	0	165	0	0	0	0	0	0	0	0	0	0	0	165
Fiscal Impact of O&M															
Net G.F. Revenues Available O&M	-909,374	-277,479	641,404	1,630,687	2,699,757	3,259,737	2,767,074	3,081,017	3,358,342	3,604,527	3,538,075	3,453,089	Varies	4,101,127	
Net O&M Costs	94,000	214,000	1,907,140	1,528,890	3,016,640	3,209,063	3,267,813	3,361,813	3,361,813	3,361,813	3,361,813	3,361,813	Varies	3,361,813	
Fiscal Impact	-1,003,374	-491,479	-1,265,736	101,797	-316,883	50,674	-500,739	-280,795	-3,470	242,715	176,263	91,276	-$.1 M to +$ .6 M	739,315	







ATTACHMENT A

MPCF PHASING PLAN 2001

Capital Facility	Net O&M Costs	Updated Aggressive Buildout Scenario	LTFP 2000 Aggressive Buildout Scenario	Conservative Buildout Scenario
Talega 1 Park	94,000			
On-line Date		2002	2002	2003
Fire Station #60	0			
On-line Date		2003	2003	2003
Senior Center (Avenida Victoria Site)	26,000			
On-line Date		2003	2003	2003
Steed Sports Park (8 acres)	94,000			
On-line Date		2003	2003	2003
Fire Station #59	0			
On-line Date		2004	2004	2004
Marblehead Coastal Bluff Park	109,900			
On-line Date		2004	2004	2005
Talega Fire Station	1,202,490			
On-line Date		2004	2004	2004
Forster Ranch CC, Gym, Pool	1,100,000			
On-line Date		**2006**	2005	2009
Talega 2 Park	94,000			
On-line Date		2006	2006	2009
Vista Hermosa Sports Park	293,750			
On-line Date		2006	2006	2006
Civic Center	110,173			
On-line Date		2007	2007	2009
Marblehead Coastal Sports Park	82,250			
On-line Date		2007	2007	2014
South City Park	58,750			
On-line Date		2008	2008	2015
Talega 3 Park	94,000			
On-line Date		2009	2009	2015

ATTACHMENT B

Parks Funding and Construction Costs

Total Future Park Funds Available for Parks in the Master Plan for City Facilities

Projected Park Fees Balance/End of FY 2000-2001	8,223,000
Park Fees: Uncollected but Anticipated through Buildout	
Remaining Talega Development Fees For Parks	9,518,540
Marblehead Coastal Development Park Fees	2,000,000
Infill Development	80,000
Total	**$ 19,821,540**

Future Park Construction Costs per MPCF (incl. Forster Ranch Community Center/Gym/ Pool; excl. Senior Center)

		Current Projectio	MPCF 2000 Projections	
Steed Park	(12 acres)	3,000,000	3,000,000	Remaining cost of original $3.5 M
Marblehead Coastal Bluff Park	(9 acres)	1,530,000	1,000,000	
La Pata/Vista Hermosa Sports Park	(15 acres)	2,550,000	2,250,000	
Forster Ranch Phase II (Phase IIa completed)	(22 acres)	2,700,000	3,000,000	
Forster Ranch Community Cent (Phase III)		6,800,000	6,000,000	
South City	(5 acres)	850,000	750,000	
Marblehead Coastal Sports Park	(7 acres)	1,200,000	1,200,000	
Talega Neighborhood Park No. 1	(6 acres)	1,020,000	1,200,000	
Talega Neighborhood Park No. 2	(9 acres)	1,530,000	1,200,000	
Talega Neighborhood Park No. 3	(9 acres)	1,530,000	1,200,000	
Total		**$ 22,710,000**	**$ 20,800,000**	

Net Difference:
Park Funds Available minus Projected Park Construction Costs **$ (2,888,460)**

Proposed Reimbursements to the Park Acquisition and Development Fund: Funds spent in FY 99-00 and FY 00-01 on facilities/projects other than park facilities included in the Master Plan for City Facilities

RT Steed Master Plan	350,000	
Senior Center Land Acquisition and Relocation Design	471,000	Developer fees available for reim. when Marblehead Coastal Develops
Bonito Parks Slopes and Erosion Control	260,000	
Skate Park Design and Development	84,000	
San Gorgonio Park RR and Youth	335,000	
Total	**$ 1,500,000**	

Net Difference with Reimbursements **$ (1,388,460)**

Notes on Funding for Parks:
Projected park fee balance for 2000-2001. Source: Fund balance and fees collected from 2000/2001 budget, pg. 251. Updated by Kumi Elston, 1/09/01 and Char Bailey, 1/26/01. FY 2000-2001 beginning fund balance, $5.2 M; park fees collected, $3.92 M.
$ 3 M for construction of Forster Ranch Phase IIb and $1.1 M for construction of Talega NP #1 subtracted out of Budget expenditures for 2000/2001 so that they could be included under list of construction costs on this table.
Talega's park fees
*1.5 Million dollars from Talega's development agreement was collected in 1998.
*$5,981,460 out of $15.5 M in park fees collected from Talega by January 22, 2001. See letter from Jim Holloway to Bryan Austin dated November 21, 2000.
Verified by Char Bailey, 1/26/01.
Other park fees: Monarch Development Park Fees (in FY 99/00) and Rancho San Clemente's Park Fees ($457,000 in 11/00) have been collected
Notes on Construction Costs for Parks: Costs have increased from $150,000 to $170,000 per acre since last year. Costs updated 12/00, Bruce Wegner and 1/26/01 from John Beck.
Steed Park: Remaining cost is $3 M. Original cost $3.5 M. $500,000 spent on partial improvements during Skate park improvements.
La Pata/Vista Hermosa: Costs projected for a portion of the site (15 acres); no funding identified for remainder of site.
Forster Ranch II: Cost listed for Phase IIb. Costs for Phase IIa ($1.8 M) have been covered by the developer.
Forster Ranch III: Costs shown are for facility listed in 98 PRMP. Facility comprises 28,000 (x $175 s.f.), and Olympic pool and a teaching pool (25 meter) (lump sum of $1.9 M).
Reimbursements:
Senior Center: $200,000 in 00-01 for relocation design; $271,000 spent in 99-00 for land acquisition.
Bonito Parks: $78,000 in 99-00 and $182,000 in 00-01
Skate Park: $ 684,130 spent in 99-00 minus $100,000 funding from Ralph's minus $500,000 toward future Steed Park improvements=$84,000
San Gorgonio Park RR and Youth Concession Stand: $35,000 spend in 99-00 plus $300,000 spent in 00-01

ATTACHMENT C

COMPARISON OF COSTS
2000-2001 Budget & Buildout Budget

Department	2000-2001 Approved Budget	Expenditure at Buildout (Current Dollars)	Primary Factors
General Government	2,655,720	2,732,000	Additional 1.0 FTE in Accounting in 2002-2003 ($46,100)
City General	4,127,950	3,050,000	Reduced by $2 M next year and then increased on a per capita basis
Police	7,094,360	8,000,000	Additional 2 shifts or equivalent (24/7)
Fire	4,046,120	5,357,000	New O&M: 1,204,990
Community Development	2,680,490	2,706,000	
Public Works	5,301,150	5,744,000	Increase in street maintenance costs of 440,000 per year at buildout offset some by decrease in personnel
B, P, R	5,335,502	7,440,000	New O&M: 2,046,650
Total Expenditures	32,617,421	35,078,000	Excludes one-time expenditures, except for a minimal baseline amount for each department
Total Revenues	32,617,421	35,817,000	Excludes one-time revenues
Net Annual Balance-General Fund	**0**	**739,000**	

Environmental Program Update

Objective

To update the City Council and public concerning the progress that has been made in areas of Coastal Erosion and Sand Replenishment, Urban Runoff Management, Rail Corridor Pedestrian Beach Trail, and related environmental management initiatives.

Background

The Environmental Program consists of various projects and initiatives that collectively address environmental and related issues facing the City. The purpose, status, and fiscal impacts of current (FY2000-01) approved work plans, as well as other efforts, are discussed below.

U.S. Army Corps of Engineers Shoreline Erosion Feasibility Study

Purpose: The purpose of the Corps' Feasibility Study is to investigate the causes of erosion along San Clemente's shoreline and to evaluate and recommend alternatives to correct this problem. The Feasibility Study phase is the second phase of a four-phase process which, if approved, will be followed by a design phase and ultimately a project to restore the City's beaches.

Status: The Corps of Engineers' recently completed Reconnaissance Study determined that there was a Federal interest in proceeding to the Feasibility Study Phase. The Corps completed, and staff reviewed, a Draft Project Management Plan (PMP) which describes the tasks to be conducted during the Feasibility Study, along with the overall schedule and associated study cost. The Corps is finalizing the PMP and preparing the cost-sharing agreement, which is expected to receive final approval of the Corps for presentation to the Council by February 2001. The Feasibility Study, expected to last about 2-1/2 years, will officially begin upon execution of the cost sharing agreement with the Corps.

Fiscal Impact: Potentially significant. The $100,000 cost of the Reconnaissance Study was fully funded by the Corps of Engineers. The City will be required to fund 50% of the estimated $1.7 million dollar cost of the Feasibility Study, which may come from City or non-Federal grant funds as well as in-kind services. The Council appropriated $75,000 this fiscal year (FY01) toward the first year of the Feasibility Study, and the Council recently adopted Resolution No. 00-76 which approved an application for a $425,000 state grant for FY01. The table on the following page summarizes the funding sources for the Feasibility Study. If the City isn't able to reduce or satisfy the remaining $250,000 cash contribution by obtaining another state grant for FY02 or FY03, the City will be required to fund this shortfall unless it is successful in obtaining a grant(s) to offset its "local" share in subsequent years. Similarly, if the City doesn't receive the FY 2000-01 grant of $425,000 from the State of California Department of Boating and Waterways, the City will be required to fund this shortfall as well.

Long Term Financial Plan

Fiscal Impact: None anticipated. The Council approved $20,000 in the current FY 2000-01 budget for the Linda Lane and Riviera diversion projects, and the City has a 50/50 cost-sharing agreement with the County for these two projects. The County will develop and install the Poche diversion project.

Recommendation

None.

General Plan/Zoning Ordinance Update

Objective
The objective of this issue paper is to consider the need to begin an update of the General Plan and the Zoning Ordinance, starting in Fiscal Year 2001-2002.

Introduction
The General Plan and the Zoning Ordinance are the means by which the City shapes its future. Since changes to these documents have long-term effects, it is important that such changes be done deliberately. Broad public input is critical to the ultimate success of the effort. San Clemente has arrived at a point in time when updating the General Plan and the Zoning Ordinance is warranted. Budgeting for these updates beginning in Fiscal Year 2001-2002 should be considered by the City Council.

The General Plan
The General Plan exists to do three things:

- Establish the City's vision;
- Give a list of actions for achieving the vision; and,
- Satisfy State mandates and other regulatory needs.

In order to do these things, the General Plan must be both lofty and practical. Since a General Plan version tends to last on the order of a decade, it must be both strict enough to give guidance but flexible enough to allow for unforeseen opportunities.

The amendment or updating of a General Plan leads to consideration of broad concepts that are difficult to address in a routine agenda item. These include regional facilities programming, establishing growth spheres in neighboring unincorporated areas, housing affordability, design standards, environmental planning and growth management.

The process of updating the General Plan is, itself, important to the City. Outreach, debate and consensus are all valuable byproducts. Even small amendments to the General Plan since its adoption in 1993 have demonstrated the public's desire to be involved.

The Zoning Ordinance
While the General Plan contains the City's vision and polices, the Zoning Ordnance lists the rules to regulate the private use of land. It tells what uses a particular property may have and it sets standards for the size and location of buildings and other improvements. Further, the Zoning Ordinance describes the process to be followed where particular decisions warrant a need for public hearings. By law, the Zoning Ordinance must be consistent with the General Plan. As with the General Plan, updates and amendments of the Zoning Ordinance have historically drawn a great amount of public attention and participation.

The San Clemente General Plan and Zoning Ordinance

San Clemente's current General Plan was adopted in 1993. Formulating the plan took two and a half years. The drafting process was overseen by a Council-appointed, twenty-five member advisory committee. The primary issues were planning for future growth within the master-planned 'ranch' communities, and urban design within the existing coastal neighborhoods. In all, four well-attended workshops were hosted by the advisory committee between December 1990 and January 1993. These workshops were to solicit background information, review policy goals and take input on the draft plan. After these workshops, the Planning Commission held six public hearings on the plan before forwarding a recommendation to the City Council. The Council itself held four hearing sessions before finally adopting the plan.

A three-year effort, started after the General Plan adoption, resulted in the adoption of the City's current Zoning Code. This effort was directed at revising land use designations as set by the General Plan, modifying land use intensities to correspond to traffic capacities, introducing design standards and processes, and improving the overall presentation of the Ordinance itself. As was the case with the General Plan, the update of the Zoning Ordinance was guided by a citizens advisory committee, included a number of committee meetings, public workshops and hearings. The ordinance was adopted by the City Council on February 7, 1996.

Why Initiate the General Plan and Zoning Ordinance Update Process?

Because of changes in San Clemente's circumstances, and good planning practice suggested by State law, it is time to consider an update to the General Plan and Zoning Ordinance. As has been the case in the past, this effort will take considerable effort over several years.

The primary issues addressed by the current General Plan have to do with managing growth and urban design. These issues were crucial for a developing community like San Clemente in the late 80' and through the 90's. While development is rapidly occurring at present, that development is taking place under specific plans and development agreements that were set in place using the framework of the existing General Plan. These specific plans and agreements give a good fix on the form of the new neighborhoods through build-out of the City. More recently, policy makers and concerned citizens have focused attention on issues of the environment, coastal resources and the preservation of community character. The General Plan process would give the opportunity to affirm current growth management approaches while brining new emphasis to neighborhood form and environmental resource management.

The General Plan process will also allow the City to address a number of issues that have come forward since the current plan was produced. These include:

- Discussions of residential building massing,
- Broader activism in managing coastal resources and shoreline development
- Removing impediments to development in the downtown mixed use neighborhoods,
- Reevaluating of the "sphere of influence" boundary in support of possible future pre-zoning and annexation;
- Bringing attention to the need to control drainage and water quality, and
- Reemphasizing the importance of Spanish Colonial design

Many of these are a result of the change of circumstances discussed above. Others are the result of neighborhood concerns related to particular project decisions. Addressing these and other issues in a comprehensive General Plan review will provide opportunities for citizens and decision-makers alike to express vision and evaluate the consequences of any and all changes proposed.

It is worth mentioning that there is no statutory requirement for updating the general plan and zoning ordinance on a particular schedule. However, various parts of State planning law do suggest that a ten-year cycle of review for most elements is appropriate.

Effects on Other Operating Documents

The effect of a change to the General Plan would extend to a number of City documents, besides the Zoning Ordinance. In their existing form, these documents reflect the polices of the existing General Plan. They include:

- Local Coastal Program – The General Plan serves as the 'Land Use Plan' for the City's Local Coastal Program. The Zoning Ordinance, together with a couple of other regulatory devices, would constitute the Coastal Act "Implementation Program". By these documents the City seeks certification to issue Coastal Development Permits. Thus, by updating the General Plan and ordinances to reflect coastal environmental objectives, the City is taking steps to demonstrate its ability to carry out the California Coastal Act.
- Public Facilities Plans – The City has adopted three important plans to guide infrastructure investment in San Clemente. These are the Public Facilities Master Plan, the Park and Recreation Master Plan and the Regional Capital Facilities Phasing Program. Because the General Plan projects the locations of land use, intensities of use and commercial space demand, it provides the basis for projections of needs and funding, in addition to policy guidance in these subject areas.
- Specific Plans – San Clemente features several specific plan districts, including the Pier Bowl and North Beach, in addition to development-driven specific plans for Marblehead Coastal, Forster Ranch and Talega. A General Plan review process will define the rules for future City actions within these specific plan areas.
- Sphere of Influence – San Clemente's current Local Agency Formation Commission-approved sphere of influence encompasses the entirety of the Talega planning area, including the Rancho Mission Viejo Conservancy. An annexation program has been established for development within this sphere. A General Plan update would provide the means to review possible extensions of the sphere into areas which the City should logically plan to provide governance and public facilities.

The Magnitude of the Task

A comprehensive update of the General Plan and Zoning Ordinance will be a significant task. From beginning to end, this task took six years during the early 90's, as discussed above. The time and effort this time will be greatly effected by a decision to "tune-up" or "tear down" these documents. Staff believes that both existing documents are well constructed in their current form. They are formatted clearly, which would allow the update to focus on policy rather than presentation.

A possible framework schedule for such an effort is presented in the table below. Due to the nature of the work, such updates are best conducted under consulting contracts, using an experienced planning and environmental analysis firm. The consulting firm would be directed by a professional Planning Division staff planner-manager throughout the duration of the update. Support staff assistance would also be required. Input to the process would come largely from Public Works (Engineering) and Beaches, Parks and Recreation, with lesser levels of participation from other City departments. The magnitude of consultant contracts is unknown at this time, but would probably range upwards from $200,000, including environmental documents. This contract would not include Coast Commission submittals, which would be a separate work effort.

With the Council's direction in response to this issue paper, a more specific estimation of cost, timing and staffing needs would be prepared.

General Plan / Zoning Ordinance Update Timing and Budget Framework

Fiscal Year	Tasks	Resources
2001-2002	Advisory Committee Appointments Contract Solicitation and Award Existing Conditions Survey Initial Workshop(s) and Issues Identification	Consultants Staff (for management, local perspective and interdepartmental support)
2002-2003	Complete General Plan drafting Workshops on Policies and Proposals Environmental Analysis of Proposals Public Hearings Publication	Consultants Staff (for management, local perspective and interdepartmental support)
2003-2004	Identification of Zoning Ordinance Issues Possible Advisory Committee Possible Contract Solicitation and Award Workshops on Policies and Proposals Environmental Analysis of Proposals Public Hearings Publication	Staff (for management, project execution and drafting) Attorney (for detailed ordinance document review) Consultants (possible need based on magnitude of revisions)
2004-2005	Follow-on amendments to Local Coastal Program and other governing documents	(Future issue and budget discussion)

Recommendation

1. Direct staff to prepare a multi-year work program to initiate an update of the General Plan.

Document Management Strategic Plan

Objective

To update the City's document management program, based on current technology, and in coordination with the Computer Strategic Plan. To convert the City's current and future records from paper to electronic storage, which will facilitate sharing and retrieving data internally, and provide greater public access to the City's records via a secure internet site.

Summary

An inventory of documents citywide indicates that approximately 1.5 million papers and 50,000 engineering and planning E-size maps, some of which date back to incorporation, are currently being stored in City offices, as well as offsite storage sites, creating storage and security problems, and severely hampering research capability and general manageability. The installation of an Electronic Document Management System (EDMS) would enable the contents of a five-drawer filing cabinet to be stored on a single CD-ROM, freeing up space occupied by filing cabinets, and eliminating offsite storage costs. Through the use of high-speed computers and an EDMS, these documents can be stored, catalogued and retrieved very quickly. Instead of spending hours searching through hundreds of file folders, all City records could be researched and retrieved in seconds, and displayed and/or printed instantly on staff's desktops via existing workstations. Also, the records would be on an electronic program which prohibits alteration and consequently renders them legally acceptable in the Courts.

This program would help achieve the City's Vital Few goal of improving communications/ customer service. Because EDMS offers high levels of security, many of the City's public records could safely be made available to the public via touch screen monitors at City Facilities or through the City's Web site. Additionally, the public could request and receive documents via e-mail.

One of the most important benefits of EDMS is disaster recovery. Information Services has established a disaster recovery program for only that information stored on the City's computer system. The only vital records which are currently protected, in case of disaster, such as earthquake or fire, are the minutes, ordinances, resolutions and deeds, which are stored electronically and on microfilm offsite. The remainder of the City's records are currently at risk. Under this program, the City's records will be protected against disaster.

In addition to the official records maintained by the City Clerk, each division currently maintains its own records, which results in considerable duplication of record storage. An effective EDMS will centralize these documents and make them available to any authorized viewer. Further, such a system will improve the workflow of the City's documents between divisions. A sample workflow chart depicting the current and proposed tentative tract map process is attached as Appendix "A."

Long Term Financial Plan

Phase I

Description	Action	Time / Start
Deploy all City official records, including council agendas and contracts, from the Clerk's office to all workstations	1. Install high-capacity Network Attached Storage device (estimated to be 500 GB) 2. Install the EDMS in the City IT system 3. Scan and index existing City Clerk documents and import into EDMS 4. Integrate Legislative History and File Management systems into the EDMS 5. Deploy software to workstations 6. Train users	120 Days / Day 1
Move archival copies (microfilm) of permanent records to a secure facility for storage	1. Develop written procedures for migrating images to microfilm 2. Identify and contract with a secure facility that can accommodate the permanent records properly 3. Move microfilms to the site	Ongoing Process / Day 30

Phase II

Description	Action	Time / Start
Commence backfile conversion including scanning and indexing of Engineering, Building, and Planning documents (both paper and microfilm) to electronic images	1. Scan and index Engineering documents 2. Scan and index Building documents 3. Scan and index Planning documents 4. Begin to integrate documents into the EDMS within 90 days	1 year + / Day 120
Implement workflow solution for comment and approval of tentative tract maps, contracts and minutes	1. Develop written procedures detailing the workflow process 2. Integrate workflow system into the existing Microsoft Outlook email system 3. Train users on the use of the workflow process	60 Days / Day 180

Phase II – Continued

Integrate Accounting AP, AR, and payroll systems into the EDMS	1. Begin "day-forward" scanning and indexing 2. Hot-link EDEN Accounting System to the EDMS 3. Design procedures to provide for audit trails 4. Archive permanent records onto microfilm from document images	90 days / Day 240
Integrate Business Licensing system into the EDMS	1. Begin "day-forward" scanning and indexing 2. Develop a tracking and reminder system for license renewals	60 days / Day 180
Commence HR backfile conversion and incorporate images into the EDMS	1. Convert permanent records in offsite storage to images and microfilm 2. Integrate images into EDMS and assign appropriate security levels	90 days / Day 270
Integrate Engineering, Planning and Building documents into the GIS system	1. Develop written procedures to position legacy and active documents in the GIS system 2. Hyperlink legacy and active information to the GIS system for easy access by City employees	120 days / Day 365
Begin to receive electronic files from developers	1. Develop written procedures as to format and media 2. Establish an electronic verification and signature system	120 days / Day 365
Include City Manager, Budget Office, FAS, and Animal Services into EDMS	1. Develop written procedures 2. Scan and index permanent records for inclusion into system 3. Begin "day-forward" scanning and indexing 4. Determine "Joint Power" approach to include Animal Services	180 days / Day 365
Include Park & Rec., Golf, Marine Safety, Community Development, and Water / Sewer into EDMS	1. Develop written procedures 2. Scan and index permanent records for inclusion into system 3. Begin "day-forward" scanning and indexing	180 days / Day 365

Phase III

Description	Action	Time / Start
Deploy public access systems in City facilities	1. Establish security levels appropriate for public use 2. Develop written procedures to define the documents to be made available 3. Develop suitable instructions that can be easily understood by the public	180 days / 18 months into project
Provide employee and public access to documents via the World Wide Web	1. Establish security levels appropriate for public use 2. Develop written procedures to define the documents to be made available 3. Develop suitable instructions that can be easily understood by the public 4. Identify appropriate Internet distribution software for compatible with the application 5. Link the City's Web page to the EDMS	120 days / 18 months into project

Fire Authority Staffing Analysis

Objective

Review the need for increased staffing of Fire Authority units and its impacts on service levels and the City of San Clemente.

Summary

The Orange County Fire Authority (OCFA) provides fire, emergency medical and fire prevention services to the City of San Clemente through a cooperative cash contract agreement. The City is a member of the OCFA as a regional partner with 20 other cities and the County of Orange. The agreement outlines the emergency services stationed within the City as being three units; 2 paramedic assessment units and 1 paramedic engine company as outlined below. Based on the terms of the Fire Service agreement, any augmentation of the staffing requires additional funding on an incremental basis, based on the number of positions requested. This is a public policy decision on the part of the City Council.

The purpose of this report was to review current coverage parameters and provide input as to the impacts of modifying the staffing utilized on units normally assigned to the City (Engine 50, Truck 59 and Engine 60). Throughout the Authority's regional delivery system, paramedic engines (13) are typically staffed with 4 personnel, with the exception of Engine 60 and Engine 23 (3 personnel/shift). Paramedic assessment units (PAU) are staffed with 3 personnel and truck companies are staffed with 3 or 4 personnel, depending on the contract and the City's agreement.

During the course of this study, it was concluded that there is no current need to modify staffing of the PAU (E50) and to defer staffing modification of T59 until results of the OCFA's Strategic Plan addressing Operational Deployment are finalized. Additionally, analysis determined that there would be a direct, positive impact to the City and the regional service area by modifying the staffing on E60 (Paramedic Engine) to 4 personnel/shift (addition of 1 person/shift, with a net increase of 3 personnel). This configuration will provide the City and the Authority with a more dynamic potential to provide improved services overall. This particular staffing option would allow E60 to remain within the City as a PAU/engine company, available for response throughout its service area even while one person (paramedic) is providing escort to a hospital, either within or outside of the City.

In the year 2000, Engine 60 was committed on patient follow-up to San Clemente hospital 498 occasions and to hospitals outside the city on 216 occasions. This equates to a total of 346 hours or approximately 1 hour each day that Engine 60 was not available to respond within the City. The benefit is that E60, as a four-person unit would remain available in the City approximately 90% more often than is currently done due to hospital follow-up. This will result in improved response times to fires, emergencies and medical aids. The result is achieved through the versatility of E60 remaining available as a PAU, an option not currently viable due to its current staffing level.

The findings also resulted in the following determination:

- Increase staffing of E60 to 4 personnel/shift, this requires the addition of 1 firefighter/per shift, or a net of 3 personnel. This will provide an increased level of service to the City as well as surrounding areas.
- Defer staffing considerations of T59 (PAU) and E50 (PAU) until impacts/results of the OCFA's Strategic Plan, addressing Operational Deployment is complete.

Fiscal Impact

The fiscal impact of the additional firefighter would result in a yearly increase of contract costs to the City of $376,462. The methodology for determining incremental cost is still under discussion and is subject to change.

Background

The staffing of apparatus is a balance of fiscal and operational realities. Within the OCFA the current staffing levels of apparatus vary based on function or response requirements. The basic response apparatus within the OCFA are basic life support (BLS) engines, paramedic vans, paramedic assessment units (either an engine or truck company), paramedic engines and truck companies.

Type of Apparatus	Staffing	OCFA Resources
BLS Engine	3	11
Paramedic Assessment Engine	3	29
Paramedic Van	2	10
Paramedic Engine	3 or 4	2/13
Truck Company	3 or 4	4/8

Note: One additional truck is staffed by reserve personnel.

Basic Life Support Engine

In all cases within the OCFA staffing levels for basic life support engine(s) are three personnel, one captain, one fire apparatus engineer and one firefighter. This BLS engine responds to all emergency incidents (fire, medical, flooding, Haz-Mat, public assists, etc.) within a geographical area. Normally BLS engines are only assigned to Fire Stations where a paramedic van is also located. This provides sufficient personnel on scene of a medical emergency to provide adequate treatment of the sick or injured, within the response area of the BLS engine. It is widely considered that five personnel is the minimum number to respond to a medical emergency to provide care. This number is based on a cardiac arrest (heart attack); where two firefighters are performing CPR, one paramedic is administering medications/procedures, one paramedic is managing the airway and communicating with the hospital and the fifth person is assisting in treatment and managing the incident.

Paramedic Assessment Units

Paramedic assessment units can either be a truck company or an engine company and will have staffing based on the type of apparatus. Three personnel will commonly staff an engine company and a truck company will be staffed with four personnel. One of the members assigned to a paramedic assessment unit is a licensed paramedic. Whenever a paramedic assessment unit responds to a medical emergency they also respond with a paramedic unit, either a paramedic van or paramedic engine. The paramedic assessment unit is capable of providing rapid advanced life support within the unit's response area while the paramedic unit is still responding. Upon the arrival of a paramedic van or paramedic engine there is ample personnel on scene to provide medical care.

Paramedic Vans

Paramedic vans are staffed with two firefighters, both are licensed paramedics. The response area of a paramedic van covers several fire stations. A paramedic van will either respond with the BLS engine from the same fire station or with a paramedic assessment engine from one of the surrounding fire stations. Upon arrival of the paramedic van there are five personnel on scene to provide medical care. After the patient is stabilized and the ambulance arrives, the patient will either be transported with or without a paramedic based on the condition of the patient. If the patient requires paramedic escort to the hospital one paramedic will attend to the patient while the other follows with the paramedic van. The utilization of a paramedic van allows the engine company responding to a medical emergency to maintain coverage of their response area after the patient is transported to the hospital.

Paramedic Engine

Paramedic engines are typically staffed with four personnel, one captain, one fire apparatus engineer and two firefighters; two of the personnel assigned to the paramedic engine are licensed paramedics. However, there are two exceptions; Engine 23, located in the City of Villa Park (to be considered for staffing modification in the FY2001/03 budget cycle) and Engine 60 assigned to the City of San Clemente. Both of these are staffed with three personnel. Unlike the other 13 paramedic engines staffed with four personnel; three person paramedic engines require response of additional resources, i.e., another unit to respond to provide sufficient personnel on scene to accomplish tasks. The three-person paramedic engine requires the city ambulance to respond, or if unavailable, an additional engine to provide the necessary personnel. If the patient requires paramedic escort to the hospital one paramedic will attend to the patient while the other personnel assigned to the paramedic engine follows to the hospital; virtually taking the unit out of service due to lack of staffing. However, if the paramedic engine is staffed with four, one paramedic will escort the patient to the hospital with the ambulance personnel. The engine remains capable of operating as a paramedic assessment unit to respond to any emergency call within its response area until the ambulance returns the paramedic or meets the engine at the next call. This option is not available to a paramedic engine staffed with three personnel.

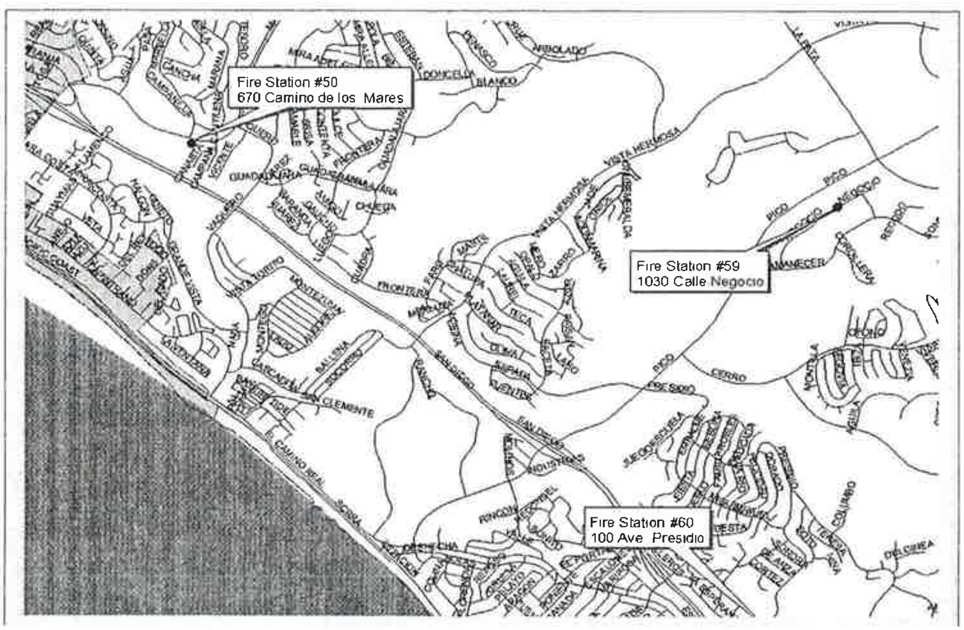
Truck Company Staffing

Truck company staffing varies within the Orange County Fire Authority. Four of OCFA's twelve truck companies have three personnel assigned. Within the other fire departments in the county, staffing of truck companies is mixed between three and four persons. In most cases where the truck company is staffed with three personnel, personnel assigned to paramedic vans or reserve firefighters augment truck company operations. As described below, this will be one of many issues, specifically addressed, organizationally through the Strategic Plan.

San Clemente Apparatus Staffing

Currently the OCFA provides staffing for three stations within the City of San Clemente. At the Camino Los Mares Station (Station 50) there are two units, a paramedic assessment engine and ambulance. The Calle Negocio Station (Station 59) houses a three person, paramedic assessment Truck company. Station 60 located at City Hall, 100 Avenida Presidio, houses a three-person paramedic engine.

Station No.	Location	Type of Apparatus	Staffing
50	Camino Los Mares	PAU/Engine	3 Personnel
59	Calle Negocio	PAU/Truck	3 Personnel
60	Avenida Presidio	Paramedic Engine	3 Personnel



OCFA's Strategic Plan

At the direction of the Fire Authority's Board of Directors, OCFA staff is currently in the process of developing a Strategic Plan, based on consultant input. The Strategic Plan will be a very complex and all encompassing product that will take into consideration, improvements and modifications to many current Fire Authority practices and procedures, including H.R., Training, Operations, Fire Prevention, etc. One component of this process is to consider the staffing and placement of apparatus within the OCFA and review the best use of equipment and fiscal impacts to the overall emergency service delivery system. Scheduled completion of this aspect will be based on when the Fire Authority Board takes action on moving forward with this project. It is reasonable to believe that this project will be given one of the highest priorities for completion. Any decision, once information is received, will ultimately be a public policy decision of the Board of Directors.

The typical staffing of paramedic engines will remain at four personnel, however the staffing of paramedic assessment units and truck companies still requires evaluation. It is our recommendation to defer any immediate modifications to the staffing configuration of Truck 59 or Engine 50, until the strategic plan is finalized and adopted by the Fire Authority Board of Directors.

San Clemente's Paramedic Engine

The City of San Clemente implemented the current paramedic engine staffing prior to contracting with the Orange County Fire Authority. This paramedic engine is staffed with three personnel, captain paramedic, fire apparatus engineer and a firefighter paramedic and relies on the city's ambulance program to provide adequate staffing for medical emergencies. The current configuration provides adequate emergency response coverage for the first response within the paramedic units response area.

The emergency response area (first-in area) of Station 60 has the highest concentration of emergencies, which is approximately 60% of all responses within the City. In addition to responding to 1,065 medical emergencies, Engine 60 responded to 62 fires and 628 other call types within their emergency response area (all statistics are for the year 2000). The downtown business district is comprised of many older, multi-story, non-sprinklered buildings within this high value economic center, constituting a large structural fire risk area. Thus the combination of the EMS responses and the structural fire risk within the City's downtown economic center demonstrates the need to insure that emergency response resources are effectively managed within the City.

Emergency Responses

When a medical emergency is within the response area of Station 60, Engine 60 (paramedic) and the City ambulance responds. When the ambulance is committed, a second engine is required to achieve the staffing necessary for an emergency medical call, committing two engines and a private ambulance. When the emergency is concluded the second engine returns to its assigned response area and Engine 60 (paramedic unit) escorts the patient to the hospital leaving Station 60's response area to be covered by an adjacent station or an engine moved up within the regional system. In the event of another emergency response while Engine 60 is committed to paramedic escort, another unit would be dispatched within Station 60's response area. Engine 60 was committed on patient follow-up to San Clemente hospital 498 occasions and to hospitals outside the city on 216 occasions. This equates to a total of 346 hours or approximately 1 hour each day that Engine 60 was not available to respond within the City.

Description of Response	1998	1999	2000
San Clemente Fire Response	88	101	95
SCL Emergency Medical Service Responses	1,536	1,610	1,670
San Clemente other Responses	1,213	1,034	1,027
Total Emergency Responses	**2,837**	**2,745**	**2,792**
Engine 60 Fire Responses	66	72	62
Engine 60 Medical Service Responses	1,073	1,110	1,065
Engine 60 ALS Transports to San Clemente Hospital	649	635	498
Engine 60 ALS Transports outside San Clemente	180	174	216
Engine 60 Responses outside San Clemente	140	162	180
Engine 60 Responses into San Diego County	82	92	109
Other OCFA Medic Units into San Clemente	527	528	492

As in any emergency response system, this commitment period creates a "window" of decreased coverage. During these times, the systems ability to achieve desired performance targets is compromised. The goal of effectively managing emergency response resources should be to find cost effective methods to reduce the frequency and length of these decreased coverage windows to as infrequently as possible.

Similarly, regarding fire suppression response, Engine 60 provides 1/3 of the current "in-city" contribution (9 persons) to the 14 to 16 personnel desired in a full initial attack structure fire response. During the "window" of commitment caused by Engine 60's entire crew being required during escort of ALS patients to the hospital, the City's fire response staffing is drawn from adjacent OCFA stations, located outside the City, i.e., Station 29 in Dana Point. This increases the time necessary to assemble the desired 14-16 personnel at the scene of a structure fire.

System Improvements

In reviewing potential system changes directed at reducing the frequency and length of the decreased coverage windows, and thus improving operational efficiencies, one emerges as a cost-effective option. The addition of a firefighter to Paramedic Engine 60 would allow that engine to remain available within the City as a 3 person ALS capable unit during the majority of the hospital follow-ups described previously. As an example, if Engine 60 is staffed with four personnel and the City ambulance responds, once the patient is stabilized, one paramedic would escort the patient to the hospital with the ambulance. Engine 60 would then revert to a paramedic assessment unit and maintain area coverage for any emergency within the City. The operational efficiencies gained by the addition of a single firefighter essentially adds a 3 person ALS engine company to the emergency response resources in the City during those periods where previously the entire engine was committed to a paramedic escort. In addition, during periods when the City ambulance was committed, the paramedic engine staffed with four personnel would be capable of responding without assistance from another adjacent engine company, leaving those resources available for subsequent emergencies.

Although the examples cite emergency medical response benefits, the addition of an additional firefighter also improves operational efficiencies in other areas. The National Fire Protection Association (NFPA) states that increasing an engine staffed with three personnel to four personnel, an increase of 25%, provides an approximate increase of 33% in efficiency.

Fiscal Impact

To increase from three personnel to four will require an amendment to the Fire Services Agreement between the City of San Clemente and OCFA and will increase the yearly contract costs by approximately $376,462. This amount represents the incremental cost associated with one additional firefighter with benefits on three shifts. However, as stated earlier, the methodology associated with determining this amount is still under discussion and subject to change.

Future fiscal impact considerations will include costs associated with the activation of a fourth station within the City. This station, required as part of the Talega agreement, will be located at the intersection of Avenida Vista Hermosa and Calle Saluda and is currently under consideration to operate a paramedic assessment unit. The station is scheduled for opening during F/Y 2003-04 as outlined in the Master Plan for City Facilities and has an estimated staffing cost associated with it projected to be $1.2 million (this amount is based on current information as published in the MPCF). Regardless of any decision associated with enhanced staffing of other units directly serving the City, this projected station and unit will still be required due to distance and driving times, as well as increased call loading due to increased population within the City as the result of new development.

We have been informed by the City, that due to growth and impacts on the Long Term Financial Plan, Council will be faced with considering that growth and revenue will not support both and that relative values will have to be evaluated.

Recommendations

The following recommendations will be prioritized during the Vital Few Priorities workshop on Wednesday, February 28, 2001:

1. Increase staffing of E60 to 4 personnel/shift, this requires the addition of 1 firefighter/per shift, or a net of 3 personnel. This will provide an increased level of service to the City as well as the surrounding areas.
2. Defer staffing considerations of T59 (PAU) and E50 (PAU) until impacts/results of the OCFA's Strategic Plan, addressing Operational Deployment is complete.