
City of San Clemente

2002

Long Term Financial Plan



Volume I

City Council

- Jim Dahl Mayor
- G. Wayne Eggleston Mayor Pro Tem
- Scott Diehl Councilmember
- Stephanie Dorey Councilmember
- Susan Ritschel Councilmember

City Manager

- Mike Parness City Manager

Executive Team

- William E. Cameron City Engineer
- 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

- Tom Bonigut Senior Civil Engineer
 - William E. Cameron City Engineer
 - Kumi Elston Budget Officer
 - James S. Holloway Director, Community Development
 - David N. Lund Director, Public Works/Economic Development
 - Christine Morehead Senior Accountant
 - Laura Reinsimar Assistant to the City Manager
 - Cherie Roberts Finance Manager
-

Long Term Financial Plan



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

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

Long Term Financial Plan

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 Trend Analysis

Christine Morehead, Senior Accountant

Financial Forecast

Kumi Elston, Budget Officer

Reserve Analysis

*Cherie Roberts, Finance Manager
Kumi Elston, Budget Officer*

Street Improvement Program Update

*David N. Lund, Director, Public Works/Economic Development
William E. Cameron, City Engineer
Akram Hindiyyeh, Principal Civil Engineer*

Economic Development Update

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

Master Plan for City Facilities Update

*James S. Holloway, Director, Community Development
David N. Lund, Director, Public Works/Economic Development
Kelly Main, Associate Planner
Wai Gordon, Financial Analyst
Bruce Wegner, Director, Beaches Parks & Recreation*

High School Swap

*James S. Holloway, Director, Community Development
David N. Lund, Director, Public Works & Economic Development
Bruce Wegner, Director, Beaches Parks & Recreation*

Downtown Strategic Plan

*James S. Holloway, Director, Community Development
Jim Hare, City Planner
David N. Lund, Director, Public Works & Economic Development*

Environmental Program Update

*Bill Humphreys, Marine Safety Captain
Bruce Wegner, Director, Beaches Parks & Recreation*

Long Term Financial Plan

Sidewalk Restoration Project

William E. Cameron, City Engineer

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

Bruce Wegner, Director, Beaches Parks & Recreation

Urban Runoff Management Plan

Tom Bonigut, Senior Civil Engineer

Water/Sewer Rate Analysis

Cherie Roberts/Thomas Rendina, Finance Manager

Kumi Elston, Budget Officer

State Impact Financial Analysis

Laura Reinsimar, Assistant to the City Manager

Wai Gordon, Financial Analyst

Financial Trend Analysis

Objective

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

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.

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 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?*

High School Swap

Objective

To outline various scenarios and opportunities associated with the high school land exchange proposal.

Downtown Strategic Plan

Objective

To coordinate the major components of: Infrastructure planning, land use policy, design details and marketing into a unified vision strategic plan for the downtown.

Long Term Financial Plan

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. These projects include continuation of the U.S. Army Corps of Engineers Feasibility Study, Coastal Canyons and Bluffs Management Guidelines, Management of Beach Facilities Policy, Sand Replenishment Policy, Sand Monitoring, Coastal Advisory Committee, Marblehead Coastal and Opportunistic Sand Replenishment Programs, the Rail Corridor Pedestrian Beach Trail, and Low-Flow Diversion Projects.

Sidewalk Restoration Project (Including Historical)

Objective

To implement a city-wide sidewalk repair/replacement program and to develop standards and implement a program to replace historical tile sidewalks.

Urban Runoff Management Plan (Including Rate Analysis)

Objective

To recommend and implement specific projects and programs to improve local water quality.

Water/Sewer Rate Analysis

Objective

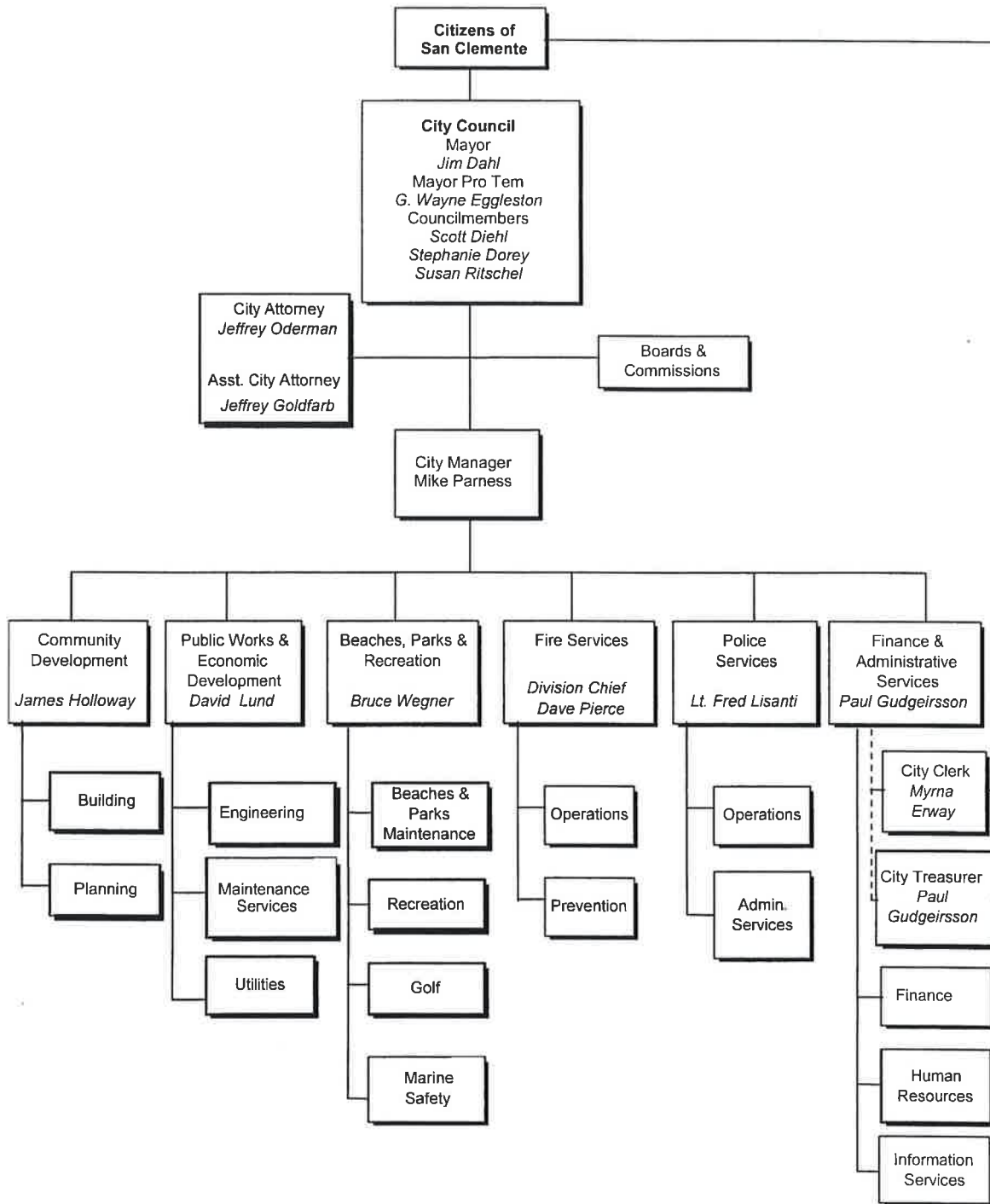
To review the existing water/sewer rates to determine if adequate funding is available to operate and maintain the water/sewer utilities. To determine appropriate adjustments to the rate schedules if required and develop a pass through mechanism to appropriately adjust the rates on a year-by-year basis as required.

State Impact Financial Analysis

Objective

To present the impacts of the ongoing loss of local control over local revenues and the associated shifts in revenue to the State of California due to various budget crises experienced by the state.

City Organizational Chart

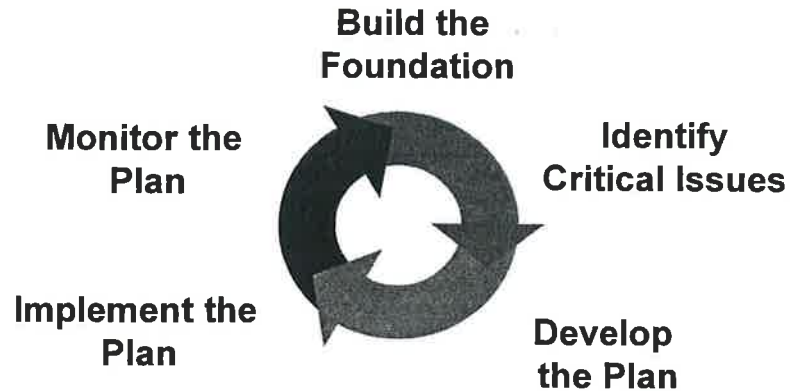


Shading indicates contracted services

Long Term Financial Plan

Long Term Financial Plan

Long Term Financial Plan Overview



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 are provided below:

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

The LTFP consists of the complete financial plan

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

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

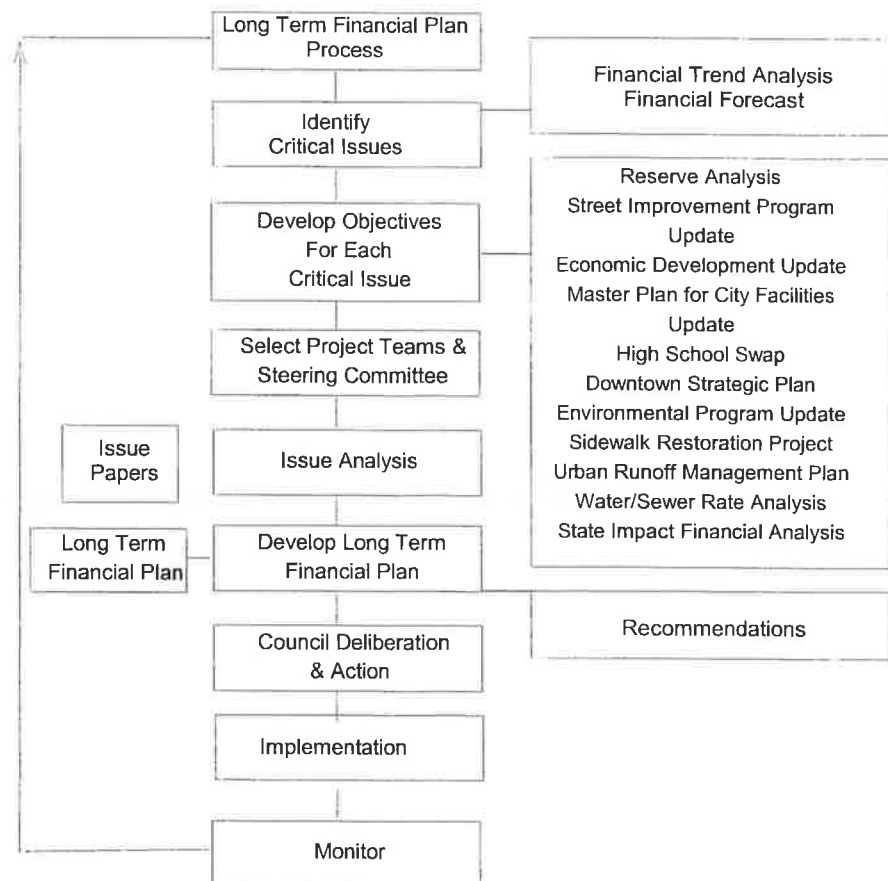
Long Term Financial Plan - Issue Papers (Volume II): This volume of the Long Term Financial Plan, published under separate cover, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion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

Long Term Financial Plan

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted largely by City staff. In fact, 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 that met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After five 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 Financial 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 March 2, 2002. Following is the schedule that was followed by the Council as they developed an action plan that the City implemented as a part of the FY 2002-03 budget process:

Schedule

February 20, 2002	LTFP provided to Council and public for review.
March 2, 2002 (Saturday)	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input and City Council adoption.
March 13, 2002	Vital Few Priority Meeting. City Council and City Manager.

Long Term Financial Plan

City Manager's Transmittal Letter

Honorable Mayor and Councilmembers:

The 2002 LTFP represents the City's tenth financial strategic plan

Introduction

I am pleased to present the *2002 Long Term Financial Plan* for City Council review and consideration. This financial plan represents the tenth in a series of financial strategic plans that have been presented on an annual basis since 1993. The plan is intended to be a well thought-out analysis of issues that may affect the finances of the City of San Clemente. To provide some historical perspective, a complete review of each past financial plan is included at the end of this section.

The City's LTFP has been nationally recognized

The City's Long Term Financial Plan has been recognized as an exemplary financial document that is used as a model in several Government Finance Officers Association (GFOA) publications. The City's LTFP process was also featured in a nationally broadcast teleconference at the PBS studios in Chicago and sponsored by GFOA in 2001.

This volume (Volume I) of the Long Term Financial Plan (LTFP) includes an executive summary which describes the City's current and projected financial condition. Also included in this section of the report is an issue summary, which outlines the comprehensive reports included in Volume II of the LTFP. The remaining sections include abbreviated versions of the City's financial trend and forecast reports as well as the Fiscal Impact Model.

Two new fiscal policies are recommended

The last section is the City's current Fiscal Policy, which is a dynamic document in the sense that it is annually reviewed and modified, based on current or projected conditions. This year, three additions and three modifications to the Fiscal Policy are recommended. Additions to the policy include formalizing the City's Employee Computer Purchase Program reserve, Fleet Replacement Reserve and Golf Course Improvement Reserve. Modifications to the definition of "capital equipment" are recommended (\$1,000 to \$5,000 per GFOA recommendations). Additionally, recommendations as to calculating accrued employee benefit reserves and Capital Equipment Replacement reserves are included in the Fiscal Policy section of the LTFP.

These changes to the Fiscal Policy will continue to improve the financial stability of the City over the long-term.

A total of 13 issues are included in the 2002 edition of the Long Term Financial Plan

The 2002 Long Term Financial Plan this year consists of several updates to previous issue papers, including the Street Improvement Program, Economic Development, Environmental Program and the Master Plan for City Facilities. Six new issues were examined in this edition of the Long Term Financial Plan. These include analysis of the proposed High School Swap, a Downtown Strategic Plan, the Sidewalk Restoration Project, development of an Urban Runoff Management Plan, an analysis of Sewer/Water rates, and finally, a State Impact Financial Analysis. These issue papers are provided at a summary level in Volume I of the LTFP and the complete papers are

Long Term Financial Plan

contained in Volume II. I have also included a brief synopsis of the issue papers at the end of this section.

Other issues, including the reserve analysis, that were analyzed as a part of the LTFP will certainly impact the finances of the City over the next several years, depending on City Council direction during the Long Term Financial Plan and Vital Few Priorities Processes.

The 2002 LTFP is broad in scope

The 2002 financial plan is extremely broad in scope and analyzes several critical programs as outlined above. The cost implications of adopting the proposals contained in the LTFP are significant and will, in some cases, require fee and rate increases in order to successfully implement the recommendations.

While dealing with this financial plan, I encourage the City Council to continue our established philosophy of maintaining a sound fiscal program, while addressing the long-term needs of a growing community.

Although the City of San Clemente is in excellent financial shape...

The City's overall financial position is excellent as we are well prepared for contingencies and emergencies. If this financial plan is adopted, all City reserves will be fully funded for the first time and would represent a significant achievement for the City. The City's General Fund is in outstanding shape, although development income is beginning to decline as expected. The City's tax base, which includes property and sales taxes, continues to improve and the financial forecast indicates ongoing increases in major revenue categories over the next five years.

The City's fund balance position has improved dramatically over the past few years and I am recommending that the City Council utilize these funds for several critical "one-time" uses, including transfers to the General Liability and Workers Compensation Fund, fully funding all reserves, and paying off two major loans for the City's Redevelopment Agency.

...a note of caution

A note of caution is necessary as we do not yet know the local consequences of State actions as it relates to California's budget crisis. As we have seen over the past several years, the State of California has been able to shift its financial burdens to municipalities in order to balance the State budget. We continue to be wary of further cuts in revenues as the State deals with a \$12 billion dollar budget imbalance. Especially vulnerable is the Motor Vehicle Excise tax which represents 8% of the City's General Fund.

On the County level, fiscal threats include the potential of limiting assessed valuation increases which would result in an immediate loss of over \$1 million and future annual losses of over \$500,000 to the City of San Clemente.

Lastly, I must continue to caution the Council that we cannot over commit our resources without ensuring that future budgets can handle the consequences of current actions. Thus, before committing to any ongoing operational programs, I urge the Council to consider the financial

City Manager's Transmittal Letter

consequences of adding any new projects or programs that may negatively impact the City's finances for years to come.

The importance of the Long Term Financial Plan and the Vital Few Priorities processes cannot be overemphasized as we attempt to deal with the many competing programs and projects identified in the LTFP and the Vital Few Priority process.

Overall, the City is in excellent financial shape with all financial indicators positive

As stated above, the City's financial picture continues to be excellent. In fact, for the second time, all City financial trend indicators are positive as described in detail in the Trend Analysis report. The General Fund fund balance is very positive and balances continue to be used for one time expenses and transfers to other funds. I am recommending further reductions to fund balances in order to improve the fiscal stability of other City funds. As described in the City's mid-year financial report, expenditure levels are well within budgetary parameters and, although revenues are beginning to decline, these decreases were anticipated and will continue to be closely monitored.

The City's operating position is positive

Continuing the fiscal trend of the past several years, the City's operating position is positive. With the exception of the City's Golf Course Fund, all funds are in very good condition. Minor rate increases are recommended in the Water and Sewer Funds; however, a significant rate increase will be required in the Storm Drain Fund in order to address several environmental issues.

Rate increases are proposed in Water, Sewer and Storm Drain funds

I encourage the City Council during the Long Term Financial Plan, Vital Few Priorities and budget deliberations to evaluate all programs and proposals with an eye on maintaining the City's well-established fiscal balance.

The 2002 Long Term Financial Plan

The fiscally related issues examined this year include:

Financial trends and five-year forecast remain positive

- *Financial Trend Analysis* – The series of fiscal trends, reviewed annually, continue to remain positive as of June 30, 2001. For the second year, all 20 trends were determined to be positive.
- *Financial Forecast* - The City's five-year financial forecast, based on current operating trends, is strong with a positive operating position in all five years of the forecast.
- *Reserves* - This issue paper updates the status of the City's reserve program and outlines future funding requirements. A total of \$8.9 million has been contributed to reserve accounts over the past ten years. With two exceptions, the Capital Equipment Replacement Reserve and Facilities Maintenance Reserve, all reserves are fully funded. A proposal to fully fund these reserves in FY 2002-03 is contained in the LTFP. The analysis was also expanded to review all of the City's reserve and depreciation funds. Recommendations for fiscal policy statements and reserve levels are included.

With two exceptions, all reserves are fully funded

Long Term Financial Plan

113 street projects have been completed

Economic development is focused on three key areas

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

An exchange of land between the City and the School District is explored

A unified vision for the downtown area will be developed

An Environmental Program Update is provided

Sidewalk Restoration Program

Urban Runoff Management Plan

Level rate increases and the methodology for future rate adjustments are recommended

State fiscal impacts on the City are examined

- *Street Improvement Program* - Since the adoption of this \$55 million program in 1995, 113 street projects have been completed and an additional 23 projects are under construction. A total of 53 projects were accelerated from the original schedule.
- *Economic Development Update* – A comprehensive update of the City’s economic development program is provided and is focused on (1) business retention (2) business marketing and promotion, and (3) reinvestment and revitalization.
- *Master Plan for City Facilities* – This critical report provides an update to the City’s comprehensive capital facilities master plan and identifies the need for future public facilities, including a civic center, fire stations, senior center, community center, aquatic center, and park facilities.
- *High School Land Swap* – This report discusses the various scenarios and opportunities associated with an exchange of land held by the City at the intersection of Avenida La Pata and Vista Hermosa for land currently occupied by the San Clemente High School.
- *Downtown Strategic Plan* – The process to develop a strategic plan for the downtown area is presented in this report. Coordination of the major components of infrastructure planning, land use policy, design details and marketing efforts are necessary to develop a unified vision for the downtown.
- *Environmental Program Update* – This report provides an update on the progress that has been made in areas of coastal erosion and sand replenishment, low-flow diversion projects, rail corridor pedestrian beach trail, and related environmental management initiatives.
- *Sidewalk Restoration Project* – A city-wide sidewalk repair/replacement program will be developed, along with standards to replace historical tile sidewalks.
- *Urban Runoff Management Plan* – This report identifies projects and programs to reduce or eliminate polluted discharges and improve water quality.
- *Water/Sewer Rate Analysis* – A comprehensive analysis of the existing water/sewer rates to determine if adequate funding is available to operate and maintain the water/sewer utilities is included in this report. Rate increases are proposed that will “level” adjustments over a five year period.
- *State Impact Financial Analysis* – The impacts of ongoing loss of local control over local revenues is examined. The impact on the City of San Clemente is quantified.

The 2002 Long Term Financial Plan continues the tradition of studying a variety of issues which require the attention of the City Council and public. Where possible, alternative solutions to the issues raised are provided for Council consideration. Also, the status of the City’s current and projected fiscal condition is explored and recommendations are put forth to further solidify the City’s positive financial standing.

Along with the Vital Few Priorities that will be discussed with Council on March 13, 2002, the direction that you provide as the result of Long Term

City Manager's Transmittal Letter

Financial Plan discussions will set the stage for fiscal year 2002-03 budget preparation process.

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

I look forward to working with you, staff, and our community as we review and implement the 2002 Long Term Financial Plan.



Mike Parness
City Manager

Long Term Financial Plan

Long Term Financial Plan Review

Financial plans have been prepared since 1993

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2002 LTFP represents the tenth plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

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

The projected annual shortfall in 1993 was \$6 million

The 1993 Plan

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

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

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

The projected shortfall in 1994 amounted to \$2.7 million

The 1994 Plan

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

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

The projected shortfall in 1994 was once again aggressively tackled by the City Council. Actions to close the financial gap included the continued contracting of City services, including the City's Fire Department, fleet maintenance services, meter reading, street programs, and beach/park maintenance. City employees agreed to a new medical benefit package which saved 30% in premiums, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost

City Manager's Transmittal Letter

allocation plan was implemented to recover actual General Fund costs. Again, the Council also recognized the value of funding critical reserves, and addressed the City's long term financial health by establishing a wellness program and funding a capital equipment replacement reserve fund to meet future capital equipment needs.

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

The 1995 Plan

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

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

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

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

A financial turnaround was evident in the 1996 financial plan

The 1996 Plan

The 1996 LTFP noted a significant turnaround in the City's financial condition. In fact, positive fund balances were projected for each year of the City's financial forecast period. Additionally, the City's General Fund emergency reserve level reached 5% and contributions to the City's self insurance programs were continued. Of the 20 financial indicators that the City utilizes to measure its financial condition, 17 were positive as compared to only 6 in 1993.

Street bonds totaling \$7 million were issued

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

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

The 1997 Plan

Just as the City found itself gaining financial momentum by eliminating deficits, increasing reserves, and improving financial indicators, Proposition 218 was decreed by the voters of California. The proposition imposed a series of financial provisions, including the elimination of the Lighting & Landscape District and in-lieu fees that seriously eroded the City's fiscal

Long Term Financial Plan

condition in 1997. The City was suddenly facing a \$2.8 million shortage which required immediate attention by the City Council.

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

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

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

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

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

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

The 1998 Plan

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

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

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

The 1999 Plan

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

...this resulted in a 7.5% rate increase

City Manager's Transmittal Letter

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

The 2000 Plan

The 2000 Long Term Financial Plan submitted to the City Council was considerably more extensive than in the past due to the inclusion of several major projects. These issues identified by City Council during the Vital Few Priorities process included the Land Use Market Study, the Master Plan for City Facilities, the Casa Romantica and Cultural Center Restoration, the Rail Corridor Safety and Education Study, the Coastal Resources Study, and the Revitalization 2000 Report. At the direction of City Council, funding for these priority projects was included in the FY 2000-01 budget.

The 2001 Plan

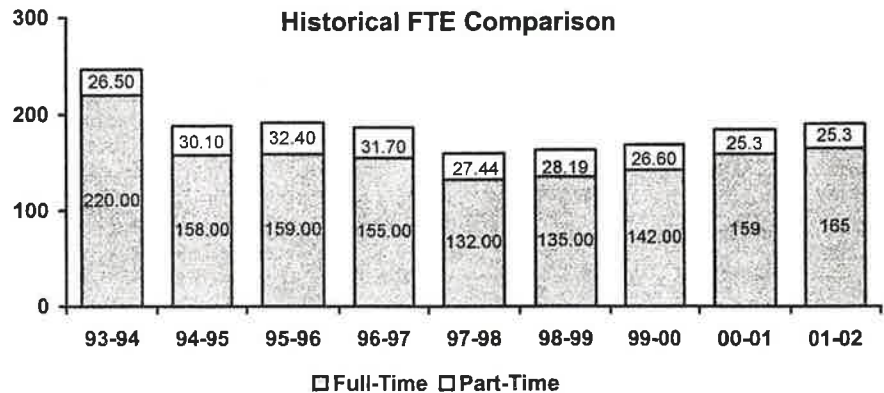
The 2001 plan was largely centered on updates of issues presented to the City Council in previous years. Updates to the Street Improvement Program, Information Systems Strategic Plan, Economic Development Program, Master Plan for City Facilities, Environmental Program and General Plan and Zoning Ordinances were presented. Two new issue papers pertained to the need for a document management plan and a Fire Authority staffing analysis. A total of \$228,510 for the document management plan and \$275,000 for a fourth firefighter on all three shifts for Engine 60 was included in the FY 2001-02 budget.

A new reserve, the Facilities Maintenance Reserve, was established to set aside funds for the maintenance of all City facilities. A new fiscal policy to establish the Facilities Maintenance Reserve and a new statement restricting the use of special development impact fees for facilities identified in the Master Plan for City Facilities were added to the City's Fiscal Policy.

Historical Staffing Levels

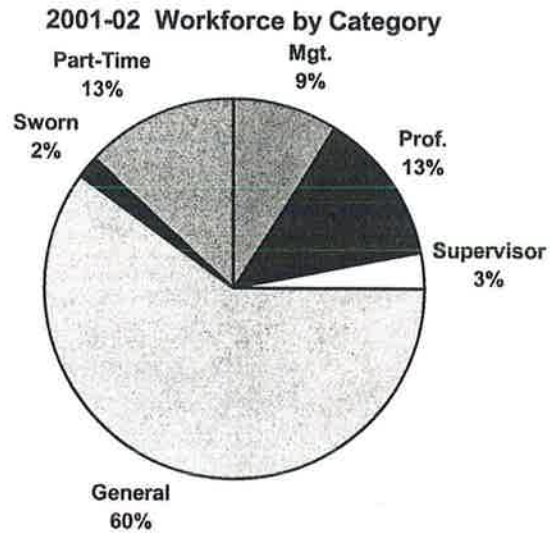
Historical Staffing levels

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



Long Term Financial Plan

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



Financial Summary

The Executive Summary consists of a Financial Summary and Issue Summary

The *Executive Summary* portion of the 2002 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The *Financial Summary* provides a profile of the City's present financial condition, including a summary of this year's LTFP recommendations. The *Issue Summary* is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the *Financial Summary* section:

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

The 2002 LTFP is the 10th edition of the City's financial strategic plan

Introduction

The tenth edition of the City's Long Term Financial Plan documents both the progress that the City has made in attaining its financial goals, and continues to provide the City Council and citizens with an objective analysis of the fiscal issues facing the City of San Clemente. A number of issues affecting the financial condition of the City were studied and are documented in the 2002 Long Term Financial Plan.

The LTFP serves as an "early detection system"

The 2002 Long Term Financial Plan continues the tradition of reviewing the City's current financial condition and identifying potential fiscal pitfalls. This "early detection system" has served the City as a tool for quickly reacting to financial challenges and opportunities. Furthermore, the strategic fiscal planning process allows the City to thoughtfully plan for the future. As can be seen in this document, there are a number of critical issues that may require a substantial commitment of funds in both the short and long-term.

There are several key issues included in the fiscal plan

The key issues that the City will face this year include the ongoing financial impact of the City's capital facility plans (Master Plan for City Facilities), a High School Swap analysis, an Environmental Program Update, the Sidewalk Restoration Project, the Downtown Strategic Plan, the Urban Runoff Plan, and a detailed Water/Sewer Rate and methodology analysis. These issue papers are included in Volume II of the Long Term Financial Plan.

Other major issues facing the City Council will be brought forward during the Vital Few Priorities deliberation process on March 13, 2002. The City Council should keep in mind that the proposals contained in the Long Term Financial Plan are intended to be used in conjunction with the Vital Few

Long Term Financial Plan

Priorities process as the City Administration develops the proposed budget for fiscal 2002-03.

The City's Financial Plan focuses on the General and Operating Funds

Current Financial Condition - Overview

The City's Long Term Financial Plan typically focuses on the financial condition of the General Fund, the City's key operating fund. The LTFP also includes an examination of the city's major operating funds, including, Water, Sewer, Storm Drain and Golf. As outlined in the financial forecast section, the Governmental Accounting Standards Board (GASB) in Statement 34, has modified the way in which fund balances and retained earnings are reported which has resulted in changes to beginning fund and retained earnings balances. The 2002 Long Term Financial Plan incorporates all GASB 34 changes into the plan so that the FY 2002-03 budget reflects the appropriate adjustments required for compliance to the GASB statement.

The General Fund will end the year with a \$6.2 million fund balance

The City's financial condition at December 31, 2001 was described in detail in the fiscal 2001-02 Second Quarter Financial Report. Budgeted revenues are anticipated to amount to \$32.0 million at June 30, 2002. Expenditures, including reserve and project transfers, will amount to \$40.6 million. Current projections indicate that the City's General Fund will end the year with a positive fund balance of \$6.2 million, as compared to original projections of \$6.0 million.

As indicated in the Mid-Year Financial Report, the City's financial condition can be considered very good at this point in time. However, it should be noted that revenues, especially those associated with development activities, are beginning to decline as expected. At the end of the first half of the fiscal year, revenue collections were at 45% as opposed to an average of 47% over the past several years.

Rate and fee increases are proposed

The Water, Sewer, Storm Drain, and Golf Enterprise funds will require attention this year as rate fee increases will be necessary to maintain positive operating positions within each fund. Stabilized rates in the Water and Sewer funds are recommended and significant increases in Storm Drain rates should be considered in light of regulatory requirements outlined in the Urban Runoff Management Plan. The Golf Course Fund is in serious financial difficulty due to reductions in revenue and increased expenditures as a result of golf course improvements and debt service required for the Golf Course Clubhouse.

The 2002 LTFP examines the City's fiscal future

The Long Term Financial Plan for the year 2002 continues to provide a clear path to the City's fiscal future. Although there are certainly many challenges which lie ahead, the process of adopting and implementing a financial strategic plan will assist decision-makers in deliberately choosing a viable route to a secure future.

We believe that the 2002 LTFP provides viable solutions to a series of financial and quality of life issues.

All reserve funds are fully funded except capital equipment and facilities maintenance reserves

A proposed transfer of \$663,940 will fully fund the Facilities reserve in FY 2002-03

A transfer of \$260,100 is recommended for the Capital Equipment Reserve

Emergency reserves are funded at the 8% level as prescribed by the City's Fiscal Policy.

Reserve Funding

Several fiscal policy statements adopted by the City Council over the past several years relate to the funding of various reserve funds and accounts. This is largely due to the fact that most reserve accounts were non-existent, depleted or in deficit position in the early nineties when the first financial plan was developed. In fact, since 1993, a total of \$8.9 million has been dedicated to the funding of reserves and deficit fund balances by all City funds. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, contingency, and emergency reserves. With the exception of the Capital Equipment and new Facilities Maintenance Capital Asset Reserves, all reserve funds are now entirely funded and meet all fiscal policy requirements.

Projected five-year replacement costs for the Facilities Maintenance Reserve are estimated at \$729,720. A transfer of \$663,940 from the General Fund to the Facilities Maintenance Reserve is recommended in FY 2002-03 to fully fund the reserve.

The 2002 LTFP recommends that the City allocate \$260,100 to the Capital Equipment Reserve to fully fund the reserve at the projected five-year replacement cost of the General Fund's equipment assets.

A \$210,000 contribution to the Emergency reserve is recommended for FY 2002-03 to continue full funding of the reserve at 8% of General operating expenditures.

It is recommended to reduce the Employee Computer Purchase Program reserve from \$100,000 to \$75,000.

These changes in reserve requirements and funding levels will serve to further strengthen the financial condition of the General Fund.

General Fund Transfers

There are several annual transfers from the General Fund to other funds typically included in the annual budget, outside of reserve allocations. In FY 2001-02, these include total transfers of \$5.6 million for Council priority projects such as the Rail Corridor Safety Improvements (\$200,000), Casa Romantica (\$170,780), Storm Drain Master Plan (\$250,000), Golf Clubhouse (1.25 million), Street Improvement Program (\$546,400), General Liability (\$1.5 million), Parks Acquisition (\$1.5 million), Workers' Compensation (\$251,000) and Communications (\$195,000).

For FY 2002-03, three transfers from the General Fund are recommended. A \$416,000 transfer is recommended to repay an outstanding loan made from the General Liability Fund to the City's Redevelopment Agency (RDA). A transfer of \$3,005,000 is recommended to repay another outstanding loan made from the Sewer Depreciation Fund to the City's RDA. This will provide immediate cash to these funds and replenish reserves.

Long Term Financial Plan

Over the next two fiscal years, a total transfer of \$1.1 million (\$948,710 in FY 2001-02 and \$170,100 in FY 2002-03) is recommended from the General Fund to the Workers' Compensation Fund. If approved, the Workers' Compensation Fund should have sufficient funding for outstanding claims through June 30, 2003.

The General Fund will contribute \$562,750 to the Street Improvement Program in FY 2002-03

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled \$2.8 million during the past six fiscal years. Funding for this program will continue in FY 2002-03 with a contribution of \$562,750. Annual contributions of \$562,750, plus an inflationary factor, will be made through the remainder of the program.

All 20 financial indicators are positive

Financial Trend Analysis

The City's financial condition is also quantitatively measured using a financial trend monitoring system. Last year, all 20 financial trends were found to be positive. The annual Financial Trend Analysis report for the year ending June 30, 2001 indicates that all 20 indicators are favorable, with a cautionary flag for compensated absences. This is consistent with the prior year and is much improved over the first year, 1993, where only six indicators showed favorable signs.

The trend report also includes a section regarding the distribution of the property tax dollar. As indicated below, the City currently receives 11% of the property tax dollar and the remainder is distributed as shown. It should be noted that in the past, the County reported that all Cities received 15.0% as their share of property taxes. However, due to a reallocation of structural fire fund property taxes to the Orange County Fire Authority, the County has now revised City shares to be 11.0%.

City	County	Schools	RDA	Special Districts
11%	7%	64%	7%	11%



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

Financial Summary

Revenue growth is projected at 2.7%

Expenditures will average 0.2% growth

Operating position and fund balances are examined in the financial forecast

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

2002 LTFP forecast - Operating position

Five Year Financial Forecast

The City's updated five-year financial forecast for the General Fund projects revenue growth of 2.7% over the five year forecast period. This compares to a historical growth rate of 10.8%. Expenditures are projected to grow at an annual average rate of 0.2% over the same time frame as compared to an historical growth rate of 7%. The historical growth rate of 7% differs dramatically from the 2002 expenditure rate of 0.2%. This is due to the reduction of \$5.6 million in transfers that are included in the base year of the forecast. The average expenditure rate in the remaining four years of the forecast is 3.1%. It should be pointed out that historical and projected growth rates are somewhat misleading because of several factors. "One-time" revenues from increased development activity in the past few years tend to skew revenues upward. However, the same is true of expenditures such as "one-time" transfers to other funds for priority projects which result in higher expenditure levels.

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

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

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

Operating Position

As indicated below, the City's projected operating position in each of the five years of the forecast remains positive. This is primarily because current projections of the City's primary tax sources, including sales and property taxes, continue to grow as anticipated.

One-time revenues and expenditures are not included to provide a realistic picture of operating surpluses.

Projected (Deficit)/Surplus

Amounts in \$1,000

	2002-03	2003-04	2004-05	2005-06	2006-07
Operating receipts	\$32,621	\$32,607	\$33,814	\$35,057	\$36,456
Operating disbursements	31,158	32,016	33,217	34,238	35,481
Projected surplus/deficit	\$1,463	\$591	\$597	\$819	\$975

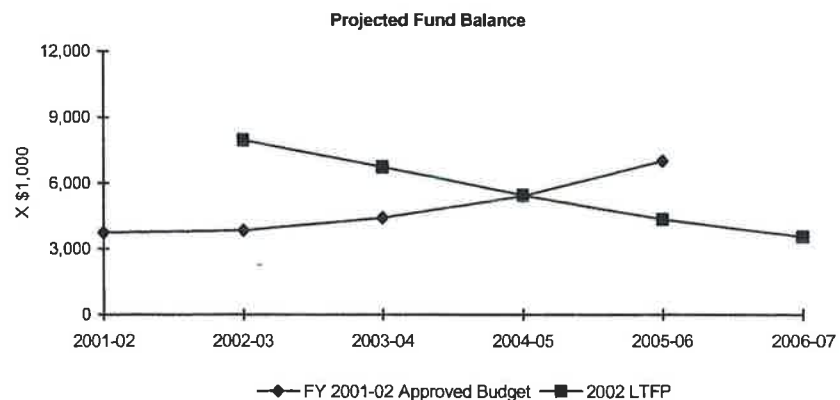
Long Term Financial Plan

The base forecast indicates that fund balances will decline over the forecast period

Fund Balances

The actual beginning fund balance for fiscal year 2001-02 increased \$4.9 million over projections (i.e. the projected fund balance was projected at \$9.2 million and actual fund balance was \$14.1 million). The change in fund balance projection is due to actual revenue \$2.0 million higher than anticipated, actual expenditures \$2.1 million lower than projected and a \$744,000 transfer from the close-out of the Lighting & Landscape Fund.

This balance was intentionally drawn down in FY 2001-02 by \$5.6 million in transfers for projects that were included in the FY 2001-02 budget. Fund balances are further reduced over the forecast period due to anticipated increases for Police Services beginning in FY 2002-03 and the addition of ten City positions and seven contractual positions in Police and Fire.



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

Fund Balance & Emergency Reserve

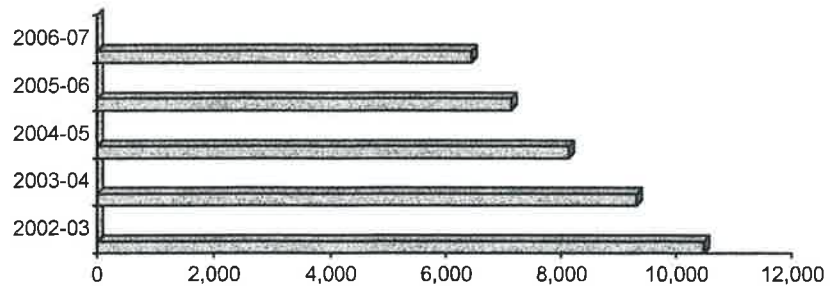
<i>Amounts in \$1,000</i>	2002-03	2003-04	2004-05	2005-06	2006-07
Fund Balance	\$7,958	\$6,725	\$5,437	\$4,343	\$3,553
Emergency Reserves	\$2,512	\$2,592	\$2,692	\$2,782	\$2,882
Total	\$10,470	\$9,317	\$8,129	\$7,125	\$6,435

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

Financial Summary

Fund balances and emergency reserves

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



The City's operating position is narrowing

Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue. Although the General Fund operating position is positive throughout the five years of the forecast, anticipated changes in benefit rates included in the Police Services contract beginning in FY 2002-03, increase expenditures by approximately \$400,000 in each year of the forecast. In addition, ten City positions, four contractual positions in Police Services and three contractual positions in Fire Services are included in the forecast, thus increasing expenditures and narrowing the City's operating position.

New program needs must be balanced with basic service levels

Based on the issue papers contained in the 2002 Long Term Financial Plan, there are a number of competing needs for a variety of new programs; however, these must be balanced with ever increasing costs of providing a basic level of services and increased funding for public safety programs. Other program needs will be identified through the annual Vital Few Priority process.

The City of San Clemente has become a model for prudent fiscal management as a result of holding the line and adhering to a set of strict financial policies designed to maintain a positive fiscal balance, while meeting the basic needs of our community. An essential element in that effort, is our continued focus on maintaining a positive annual operating position.

This section provides an updated fund balance forecast if LTFP financial recommendations are adopted by the City Council. The first table summarizes current projected fund balances prior to the adoption of 2002 LTFP recommendations:

Current projected fund balances

	Fund Balance				
	2002-03	2003-04	2004-05	2005-06	2006-07
Fund Balance	\$7,958,000	\$6,725,000	\$5,437,000	\$4,343,000	\$3,553,000

Long Term Financial Plan

The following table indicates the impact on fund balances if recommendations contained in the 2002 Long Term Financial Plan are adopted by the City Council:

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Fund Balance

Projected fund balances including 2002 LTFP recommendations

	2002-03	2003-04	2004-05	2005-06	2006-07
<i>Projected Ending Fund Balance</i>	\$7,958,000	\$2,565,000	\$2,718,000	\$2,876,000	\$3,257,000
Operating surplus	0	591,000	596,000	819,000	975,000
Computer Reserve ¹	25,000	0	0	0	0
General Liability Fund ²	-416,000	-750,000	-750,000	-750,000	-750,000
Workers' Compensation Fund ³	-1,119,000	0	0	0	0
Accrued Leave Reserve ⁴	-16,000	50,000	50,000	50,000	50,000
Capital Equipment Replacement Reserve ⁵	-160,000	100,000	100,000	100,000	100,000
Facilities Maintenance Capital Asset Fund ⁶	-502,000	162,000	162,000	162,000	0
RDA Loan Repayment to Sewer Depreciation Reserve	-3,005,000	0	0	0	0
Sidewalk Maintenance	-200,000	0	0	0	0
<i>Revised Ending Fund Balance</i>	<i>\$2,565,000</i>	<i>\$2,718,000</i>	<i>\$2,876,000</i>	<i>\$3,257,000</i>	<i>\$3,632,000</i>

The following graph shows the impact of adopting the 2002 LTFP recommendations on projected fund balances:

Impact on fund balance with LTFP recommendations

¹ Reduction of the reserve from \$100,000 to \$75,000 will result in a transfer of \$25,000 to the General Fund undesignated fund balance.

² \$416,000 to pay off loan balance in General Liability.

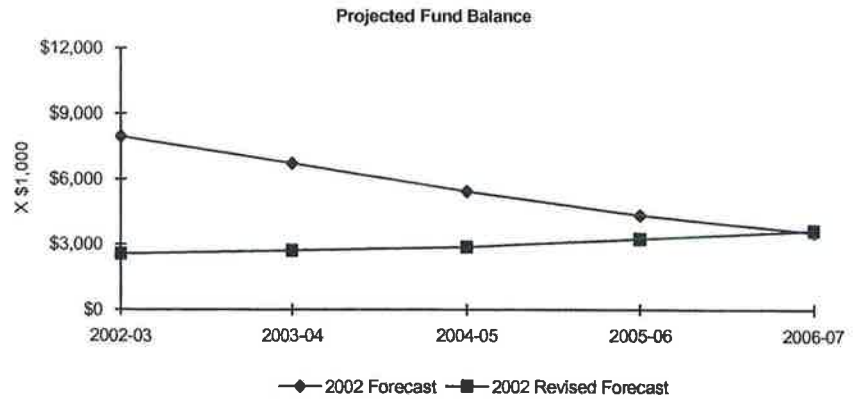
³ Includes \$948,710 transfer from FY 2001-02 and \$170,100 transfer proposed in FY 2002-03.

⁴ First year increase is \$15,680 to fully fund the reserve. Using the average of \$315,730 over the five-year forecast, \$50,000 transfers will be made in the last four years.

⁵ First year increase is \$160,100 to fully fund the reserve. Remaining years of \$100,000 will not be necessary.

⁶ First year increase is \$501,940 to fully fund the reserve. Remaining years of \$162,000 will not be necessary.

Long Term Financial Plan



As illustrated, the overall impact of adopting LTFP recommendations reduces the projected fund balance; however, fund balances are still at acceptable levels. It should be noted that any operational increases adopted by the City Council as a part of the Vital Few process will reduce the fund balance levels lower than that shown above. Once that process is completed, staff will update the impact on fund balances as a part of the FY 2002-03 budget process.

Financial Summary

Summary of Long Term Financial Plan recommendations

Recommendations

This section summarizes the recommendations contained in the 2002 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by the City Administration.

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

Reserves

1. Budget \$210,000 for FY 2002-03 in order to bring the emergency reserve to \$2,511,640, which will maintain the 8% of projected General Fund operating expenditures level.
2. Recommend that \$313,230 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2002-03 to fund the Council Contingency Reserve.
3. Recommend that the Employee Computer Purchase Program Reserve be reduced from \$100,000 to \$75,000 for fiscal year 2002-03. The \$25,000 difference will be transferred back to the undesignated fund balance of the General Fund.
4. Revise the City's Fiscal Policy to include the Employee Computer Purchase Program Reserve. "The City will maintain an Employee Computer Purchase Program Reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. This reserve will be reviewed annually to determine if reserve balances are adequate to cover estimated loan balances."
5. Increase the reserve in the General Liability Self-Insurance Fund from the current reserve of \$671,000 to \$736,000 for fiscal year 2002-03. The reserve includes three times the self-insurance retention (\$300,000), plus the average of the previous five years of claims costs not covered by the insurance pool (\$436,000).
6. Transfer \$416,000 from the General Fund to pay off the balance of the RDA loan to the General Liability Fund. In subsequent years, transfer \$750,000 annually from the General Fund to the General Liability Self-Insurance Fund to cover potential losses for outstanding claims not covered by insurance. This amount will be reviewed annually.
7. Approve a comprehensive analysis of the General Liability Fund in FY 2002-03.
8. Transfer \$1,000,000 during the current fiscal year to the Workers' Compensation Fund to cover the estimated outstanding claims through June 30, 2002. The transfers will be allocated from the various funds that caused the deficit, as follows:

Fund	Amount
General Fund	\$ 948,710
Water Fund	15,700
Sewer Fund	18,060
Golf Course Fund	12,140
Solid Waste Fund	820

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Storm Drain Fund	2,370
Data Processing Fund	1,790
RDA – Low/Moderate Income Housing Fund	410
	\$1,000,000

9. Transfer \$170,100 during fiscal year 2002-03 from the General Fund to the Workers' Compensation Fund to cover the estimated outstanding claims through June 30, 2003.
10. Revise the City's Fiscal Policy to specifically include the Fleet Replacement Reserve. "The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors, or other equipment on wheels) as they become unserviceable, obsolete, or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs."
11. Transfer \$115,680 from the General Fund to the Accrued Leave Reserve for fiscal year 2002-03.
12. Revise the City's Fiscal Policy for the Accrued Leave Reserve to include the funding methodology. "The Accrued Leave Reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement."
13. Transfer \$260,100 from the General Fund to the Capital Equipment Replacement Reserve to fully fund projected five-year costs.
14. Revise the City's Fiscal Policy for the Capital Equipment Replacement Reserve to include the funding methodology. "The Capital Equipment Replacement Reserve will be maintained at a level at least equal to the projected five-year capital asset replacement costs."
15. Transfer \$663,940 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2002-03.
16. Budget \$15,000 for FY 2002-03 in order to bring the water emergency reserve to \$360,000, which will maintain the 8% of projected Water Fund operating expenditures level.
17. Defer policy changes for the Water, Sewer, Storm Drain and Golf Course Depreciation Reserves until the completion of the infrastructure valuation and fixed asset inventory.
18. Budget \$13,000 for FY 2002-03 in order to bring the sewer emergency reserve to \$438,000, which will maintain the 8% of projected Sewer Fund operating expenditures level.
19. Transfer \$3,005,000 from the General Fund to the Sewer Depreciation Reserve to pay off the RDA loan.
20. Budget \$1,000 for FY 2002-03 in order to bring the storm drain emergency reserve to \$36,000, which will maintain the 8% of projected Storm Drain Fund operating expenditures level.
21. Budget \$4,000 for FY 2002-03 in order to bring the emergency reserve to \$153,000, which will maintain the 8% of projected Golf Course Fund operating expenditures level.
22. Revise the City's Fiscal Policy to include the Golf Course Improvement Reserve. "The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund and to provide a funding source for the acquisition of

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property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs.”

23. Continue the annual transfer of \$160,000 from the Golf Course Operating Fund to the Golf Course Improvement Reserve.
24. Transfer \$450,000 from the Golf Course Depreciation Reserve to the Golf Course Improvement Reserve for fiscal year 2002-03.
25. Loan \$875,000 each from the Water Acreage Fee Reserve and the Sewer Connection Fee Reserve to the Golf Course Improvement Reserve at the LAIF rate adjusted annually to be paid over 20 years. The loans will be repaid with revenues of the Golf Operating Fund.

Street Improvement Program

1. Approve and authorize the allocation of a General Fund contribution of \$562,750 for the coming FY 2002-03.
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 to accelerate Calle Frontera and Avenida Palizada, due to the proximity of other street projects.
4. Consider, as part of the Vital Few, an additional annual allocation of \$200,000 to the Major Street Maintenance Program, to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.
5. Consider, as part of the Vital Few, an additional annual allocation of \$150,000 to the Slurry Seal Program to commence the preventive maintenance of the newly paved streets.

Economic Development Update

1. Based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, direct staff to continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement public improvement projects and related programs for the Downtown area.
2. Working with the Downtown Business Association, provide appropriate staff support and assistance towards the objective of creating a Main Street Program in the proposed Main Street District Area. In this regard, also ensure coordination of the City’s proposed Downtown Strategic Plan with the Downtown Business Association’s Main Street Program efforts.
3. 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.
4. With respect to older commercial shopping centers, direct staff to continue to provide appropriate assistance and support for the revitalization of these centers.
5. Continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program.

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6. 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

1. Recognizing the critical need for additional community recreational facilities and, particularly, the immediate need for additional lighted sports fields:
 - a) Direct staff to proceed with all due diligence in the planning, design, and development of projects in the MPCF in accordance with the schedule provided in Attachment B;
 - b) Direct staff to establish and proceed with the public review process necessary to provide interim lighting solutions—lighting of existing sports fields—in time for the City Council’s consideration in the FY 2002-2003 budget process.
2. Direct staff to annually review the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to transfer to the Parks Acquisition and Development Fund to cover a portion of the projected \$7.5 capital shortfall for the approved MPCF.
3. Annually review the status of previous recommendations for the Master Plan for City Facilities as a part of the Long Term Financial Plan.

High School Swap

1. Work with CUSD, the Task Force, and other groups to try and answer outstanding issues discussed above.
2. Report back to Council in June 2002, regarding the progress that has been made.

Downtown Strategic Plan

1. Direct staff to continue with high school land-swap facilities analysis.
2. Initiate a parking study for downtown area, using already budgeted monies.
3. Develop a refined timeline and budget for Vital Few Priorities, to consider: Land Use policy update, Main Street Program implementation, Economic Analysis Design review, and parking facilities.

Environmental Program Update

1. Receive and file with City Council making decisions as individual projects reach milestones.

Sidewalk Restoration Project

1. Continue and expand the partnership efforts with property owners with deficient sidewalks by:
 - a) Affirmation of the recently adopted Engineering fee resolution that waives plan checks and inspection fees for property owners repairing and replacing deficient sidewalks; and

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- b) Directing staff to include \$250,000 in the FY 2002-03 Budget for contracting the ramping or grinding of sidewalks with ¾-inch to 1-inch vertical separations.
2. Direct staff to develop a standard for installation of concrete tile sidewalks similar in appearance to the historical red tile sidewalks. City Council should then decide to:
 - a) Allow property owner to choose whether to replace deficient tile sidewalk with the new standard tile sidewalk; or
 - b) Direct staff to prepare code amendments requiring historical red tile sidewalks to be replaced with the new standard concrete tile sidewalks in areas designated by City Council.
3. Direct staff to develop a Vital Few Priority and budget impact of one of the following:
 - a) Property owners pay entire cost of replacing deficient sidewalks with the exception of ramping/grinding to be performed by the City at City cost; or
 - b) City pays entire cost of replacing deficient sidewalks with an ongoing annual budget of at least \$250,000. The priority will be to perform repairs starting with vertical separations exceeding 2-inches, then repair sidewalks with 1-inch to 2-inch vertical separations and finally perform grinding/ramping on vertical separations between ¾-inch and 1-inch.
4. Provide direction to staff as to whether the City Council wishes to pursue a comprehensive tile sidewalk preservation and/or replacement program and the program's parameters, including who will pay for the program.
5. Direct staff to include an appropriation for an ongoing annual inspection of sidewalks in the FY 2002-03 Budget and beyond.

Urban Runoff Management Plan

1. Approve implementation of Alternatives 1 through 4:
 - 1) NPDES Permit Compliance
 - 2) Minimal Structural Treatment
 - 3) Transfer of Expenditures to the Storm Drain Fund
 - 4) Increased Street Sweeping Service.
2. Approve an increase of the base monthly storm drain service fee from \$2.96 to \$9.68.

Water/Sewer Rate Analysis

1. Direct staff to bring the recommended changes to the Water Fund Ordinance and the Sewer Fund Ordinance to subsequent City Council meetings for public hearing and Council approval.
2. Replace "end-of-year reserve balance" with "end-of-year net working capital in the Water Fund".
3. Extend the fund analysis period from one year to five years.
4. Rate increases will be "leveled out" over the five-year period.
5. Rate decreases implemented only if the Water Depreciation Reserve is adequately funded over the entire five-year period and the emergency reserve balance is maintained at eight percent.
6. Replace "independent audit" with "independent review".

Long Term Financial Plan

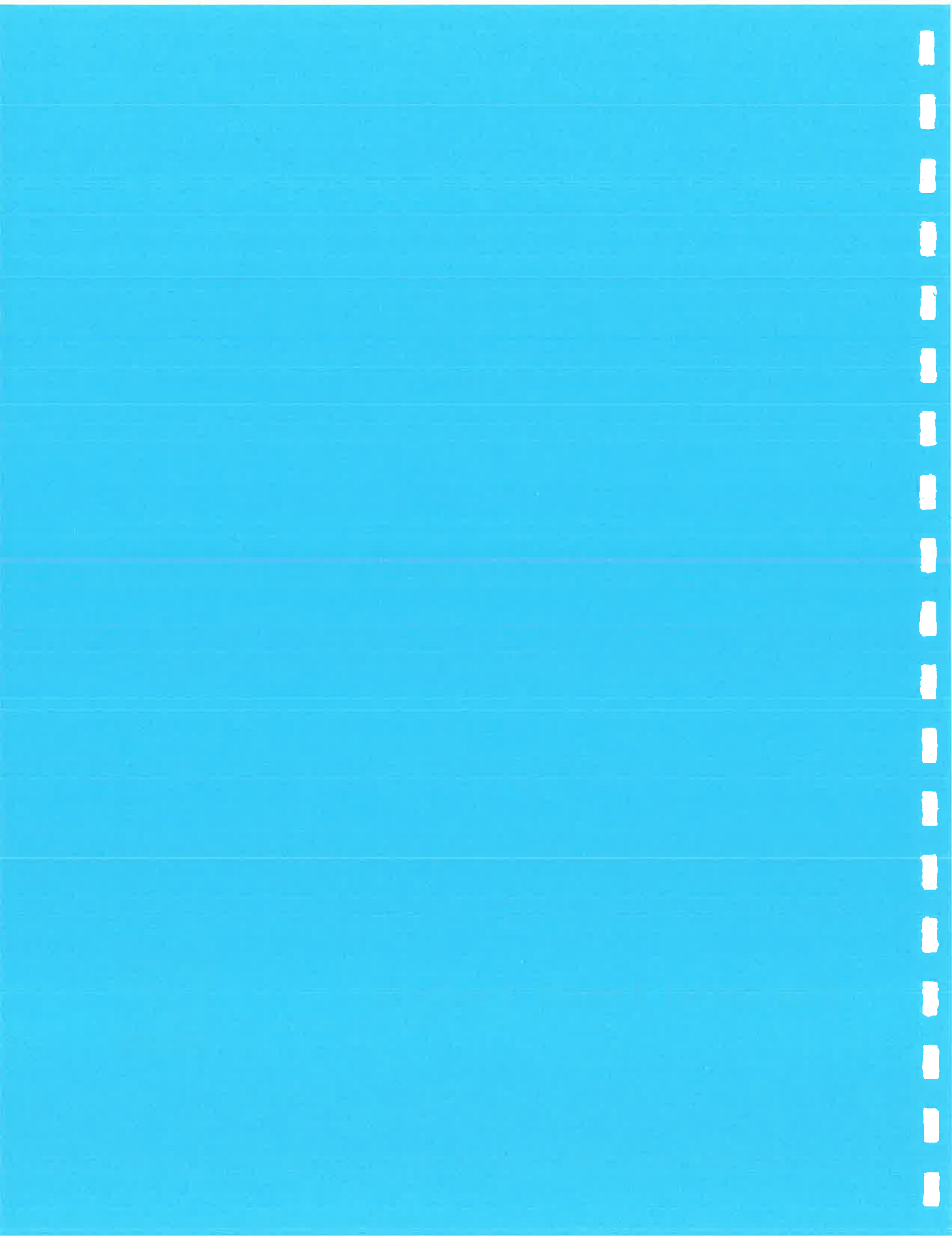
7. Perform the calculations for the fund analysis in January.
8. Ensure that adequate funding is available in the Water Operating Fund for annual reserve contributions.
9. Amend Sewer Fund Ordinance to implement automatic rate adjustments similar to the revised Water Fund Ordinance.

State Impact Financial Analysis

1. Using the information discussed herein, work with other cities towards local control of local revenue and push for stable sources of tax money that will remain under local control -- revenue that the state will not be able to take away.
 2. Share this information with other cities and seek input in analyzing the impacts of state revenue shifts on their own jurisdictions.
 3. Report back to Council as progress is made.
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Financial Trend Analysis





Introduction

The *Issue Summary* section which follows provides an overview of the issues that were analyzed during the preparation of the *2002 Long Term Financial Plan*. Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics. The issues reviewed include:

Financial issues reviewed in 2002

1. *Financial Trend Analysis*
2. *Financial Forecast*
3. *Reserve Analysis*
4. *Street Improvement Program Update*
5. *Economic Development Update*
6. *Master Plan for City Facilities Update*
7. *High School Swap*
8. *Downtown Strategic Plan*
9. *Environmental Program Update*
10. *Sidewalk Restoration Project*
11. *Urban Runoff Management Plan*
12. *Water/Sewer Rate Analysis*
13. *State Impact Financial Analysis*

Financial Trend Analysis

Objective:

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

Every indicator receives a favorable rating...

As indicated in the table below, a total number of 20 trends were analyzed in the 2002 Long Term Financial Plan. The current year being analyzed shows every indicator receiving a *favorable* rating and is unchanged from the prior year.

...however, Accumulated Compensated Absences continues to be in a Favorable/Caution mode

Accumulated Compensated Absences: This category was assigned a favorable/caution flag for the third consecutive year. This is due to multiple factors, including the implementation of Governmental Accounting Standards Board (GASB) Pronouncement 16 in FY 1998-99, an increased pay scale, and the longevity of employee history. Recommendations to fund the Accrued Leave Reserve are made in the Long Term Financial Paper's Reserve section.

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

Long Term Financial Plan

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

<i>Indicator</i>	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenues Per Capita	F	F	F	F	F	F	F	U	U	U
Property Tax Revenues	F	F	F	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	U	U
Licenses & Permits	F	F	F	F	U	F	F	F	U	U
Comm. Develop. Charges	F	F	F	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	F	F	F	U	U
One-Time Revenues	F	F	F	F	F	F	F	F	W	W
Inter-governmental Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overages/Shortages	F	F	F	F	F	F	F	U	U	U
Expenditures Per Capita	F	F	F	F	F	F	F	F	W	W
Employees Per Capita	F	F	U	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F
Debt Service Compensated Absences	F/C	F/C	F/C	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F	F	F	F

Positive trends continue to confirm the strength of the City's current financial position

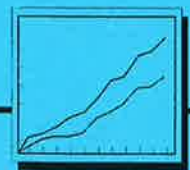
The updated trend analysis conducted this year continues to reinforce the City's commitment to strategic financial planning. Combined with a set of comprehensive fiscal policies that are diligently followed and a very positive local and regional economy, the financial status of the City was considered extremely positive as of the end of the most recent fiscal year.

Recommendation

1. No specific recommendations are made with regard to the trend analysis report. The City will continue to closely monitor financial trends in order to provide an “early warning” detector of financial problems.
-

Long Term Financial Plan

Financial Forecast



Financial Forecast

Objective

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

Recommendations in the 2002 plan are not incorporated into the financial forecast

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 2001 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 2002 Long Term Financial Plan. The forecast basically incorporates *current* General Fund and other operating funds (Water, Sewer, Golf, and Storm Drain) expenditure and revenue patterns and attempts to predict the City's future operating position under current operating conditions.

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

Major forecast assumptions

- Economic and demographic data (average over five year forecast period):
 - ⇒ Inflation Average: 2.7%
 - ⇒ Population Growth Average: 3.0%
 - ⇒ Personal Income Growth Average: 5.2%
 - ⇒ Revenue Growth: 2.7% (5 year historical growth = 10.8%)
 - ⇒ Expenditure Growth: 0.2% (5 year historical growth = 7.0%)
- A 3% cost of living increase, previously approved by Council, has been included for FY 2002-03. Cost of living adjustments at 90% of the projected consumer price index for Southern California beginning in FY 2003-04.
- For expenditure estimating purposes, two new full-time positions are presumed to be added per year in each year of the forecast. In total ten new positions are added during the forecast period.
- Reserve transfers total \$885,230 in FY 2002-03.
- Transfer of \$562,750 to the Street Improvement Program in FY 2002-03 and increased by an inflation factor in the out years.
- Actual expenditures projected at 0.5% less than current budgeted expenditures for all five years of the forecast.
- Revenues projected to exceed budgetary projections by 0.5% in all five years of the forecast.

Factors *not included* in the base forecast:

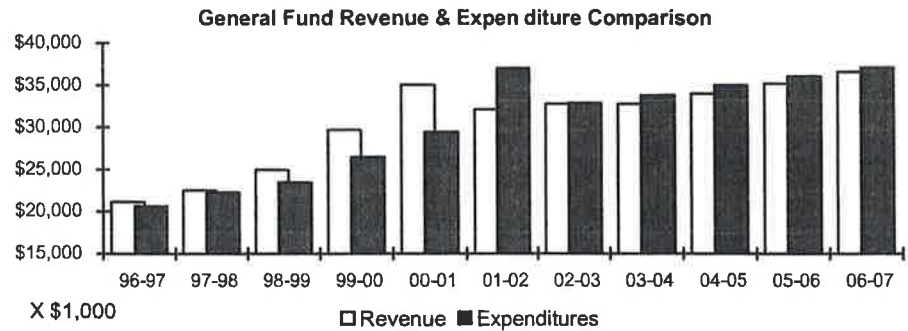
Factors not included in the forecast

- Forecast is based on the General Fund and other operating funds only.
- No new or enhanced programs included.
- Service fees from *proposed* new developments such as Marblehead Coastal are not projected.

Long Term Financial Plan

- Potential operating impact of capital facilities included in the Master Plan for City Facilities are not included.
- Potential external impacts, such as a reduction of motor vehicle license fees by the State of California or impacts from the current case regarding reductions in property taxes are not included.

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



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

2002 Forecast Summary (Operating Position)
(in thousands)

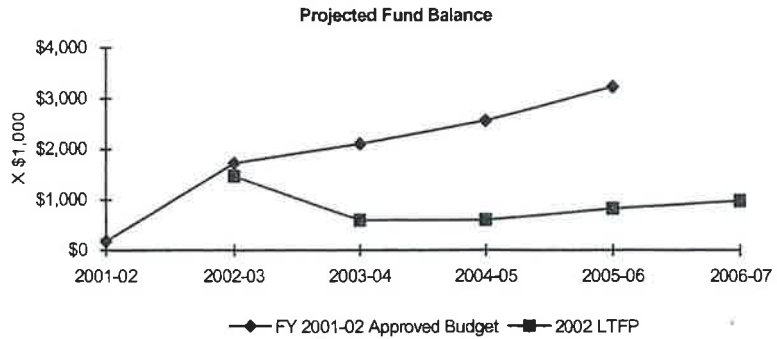
	2002-03	2003-04	2004-05	2005-06	2006-07
Receipts	\$32,621	\$32,607	\$33,814	\$35,057	\$36,456
Disbursements	31,158	32,016	33,217	34,238	35,481
Operating Surplus/Deficit	\$1,463	\$591	\$597	\$819	\$975

Operating position is positive

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

The Projected Fund Balance chart and table below illustrates the impact of the City’s current finances on future fund balances. As illustrated, fund balances are projected to be positive in all five years of the forecast. The improvement in fund balance projections is the result of higher than anticipated revenue collection in the prior year, expenditure savings, and a one-time transfer of \$744,000 from the closure of the Lighting and Landscape Fund.

Projected fund balances



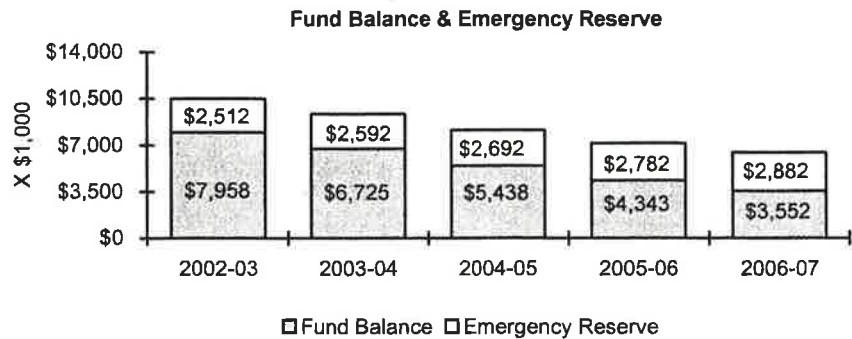
Projected Fund Balances (in thousands)

	02-03	03-04	04-05	05-06	06-07
Fund Balance	\$8,412	\$7,958	\$6,725	\$5,437	\$4,343
Revenues	32,621	32,607	33,814	35,057	36,456
Expenditures	32,865	33,760	35,001	36,061	37,147
Emer. Reserve	210	80	100	90	100
Fund Balance	\$7,958	\$6,725	\$5,438	\$4,343	\$3,552

Fund balances and emergency reserves

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

Fund balances, including reserves, will total \$10.4 million in FY 2002-03

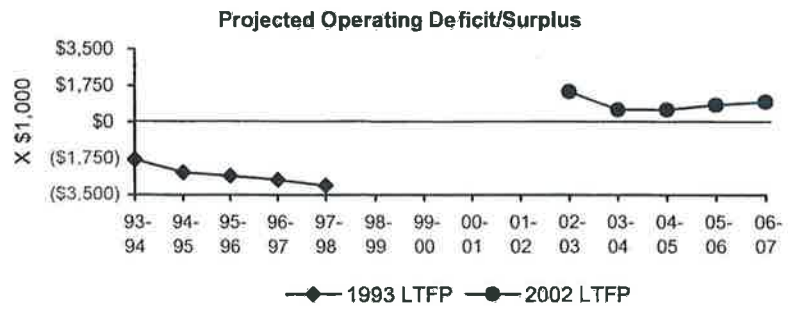


As shown, the City will maintain total fund balances in excess of \$10.4 million, including emergency reserves of \$2.5 million, in FY 2002-03. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances. Annual contributions to the Emergency reserve fund are necessary to maintain the 8% fiscal policy level.

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

Operating deficits & surplus

Long Term Financial Plan



Reserve Analysis



Reserve Analysis

Objective

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

All reserve funds, except the Capital Equipment and Facilities Maintenance Reserves, are fully funded

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

General Fund emergency reserve totals \$2.3 million or 8% of operating expenditures

- *General Fund Emergency Reserve:* This reserve is established at 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. It is fully funded at this time and totals \$2.3 million. The fiscal policy was amended in 2000 to increase the reserve from 5% to 8%. This is in accordance with the recommendations of the Government Financial Officers Association (GFOA) for maintaining an emergency reserve level equivalent to one month's operating expenditures or 8.33%. The current Financial Trend Analysis indicates the City has had operating surpluses for the past seven consecutive years; therefore, it is recommended that the reserve be maintained at 8% of General Fund operating expenditures by transferring \$210,000 for FY 2002-03.

A transfer of \$210,000 is recommended to maintain the emergency reserve balance at the 8% of operating expenditures level

- *Council Contingency Reserve:* This reserve level is established at 1% of General Fund operating expenditures. The purpose of this reserve is to provide for non-recurring, unanticipated expenditures, or to set aside funds to cover known contingencies with unknown costs. A transfer of \$313,230 is recommended for the 2002-03 fiscal year.

General Liability Fund has reserves of \$671,000 and projected fund balance of \$998,000

- *General Liability Insurance Fund:* The fund has a current reserve of \$671,000. It is recommended to increase the reserve to \$736,000 which includes the self insurance retention (\$300,000), plus an additional \$436,000 (the average of the previous five-year claims costs not covered by the insurance pool). A transfer of \$416,000 from the General Fund is recommended for FY 2002-03 to pay off the balance of the RDA loan with annual transfers of \$750,000 in subsequent years to cover the large outstanding uncovered claims. This amount will be reviewed annually. A comprehensive analysis of the General Liability Fund is also recommended for FY 2002-03. This fund is projected to close FY 2001-02 with a balance of \$998,000.

Long Term Financial Plan

The Workers' Compensation Fund requires transfers of \$1,170,100 to fund the balance of outstanding claims for June 30, 2002 and June 30, 2003

- *Workers' Compensation Insurance Fund:* The Workers' Compensation Insurance Fund finished FY 2000-01 with a positive reserve balance of \$317,000. The purpose of this reserve is to cover remaining claims incurred when the City was self-insured. A transfer of \$1,000,000 is recommended to cover the estimated outstanding claims at June 30, 2002, and an additional transfer of \$170,100 is recommended to cover the estimated outstanding claims at June 30, 2003.

A contribution of \$115,680 should be made in order to fully fund the accrued leave reserve

- *Fleet Replacement Reserve:* The Fiscal Policy requires that adequate reserves for the replacement of the City's fleet be maintained. The funding target level is based on the Fleet Replacement Reserve schedule which is updated annually. This reserve is fully funded with a projected ending balance of \$2.3 million.
- *Accrued Leave Reserve Fund:* This fund is used to accumulate funds to pay for leave benefits for terminated employees. The level of the reserve is established based on an annual projection of employee retirements and is currently projected to total approximately \$117,000 by the end of the year. A transfer of \$115,680 is recommended for the fiscal 2002-03 year to fully fund the reserve.

A Capital equipment reserve fund transfer of \$260,100 should be made to fully fund the reserve

- *Capital Equipment Replacement Reserve:* There is a requirement that the City allow for the replacement of worn and obsolete equipment other than vehicles. At June 30, 2001, the General Fund capital equipment asset balance, excluding buildings and building improvements, was \$5.7 million. Over the past seven years, the General Fund has made annual transfers of \$100,000. The projected fund balance at June 30, 2002 is \$549,000. It is recommended that a transfer of \$260,100 from the General Fund be made for FY 2002-03 to fully fund the reserve.

A General fund facilities maintenance capital asset reserve transfer of \$663,940 is recommended to fully fund the reserve

- *General Fund Facilities Maintenance Capital Asset Reserve:* A reserve was established in the 2001 LTFP to fund facilities maintenance costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/stripping for all City facilities, plus the compressor, speed drive and boiler for the City pool. The funding target level is based on the facilities maintenance replacement schedule which will be updated annually. A transfer of \$663,940 for FY 2002-03 is proposed to fully fund the recommended level of five-year projected costs.

In addition, this year's LTFP has been expanded to include the following reserves with recommendations for establishing Fiscal Policies where applicable:

The General Fund employee computer purchase program reserve will be maintained at \$75,000

- *General Fund Employee Computer Purchase Program Reserve:* The reserve was established in FY 1990-91 to provide three-year, no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. The funding target level is based on historical loan balances. It is recommended that the reserve be reduced from \$100,000 to \$75,000 for FY 2002-03. The \$25,000

difference will be transferred back to the undesignated fund balance of the General Fund.

Transfers will be made in each of the Enterprise Funds to maintain an 8% emergency reserve

The water depreciation reserve is projected at \$2.6 million for FY 2001-02

The sewer depreciation reserve is projected at \$5.2 million for FY 2001-02

The storm drain depreciation reserve is projected at a \$650,000 deficit for FY 2001-02

The golf course depreciation reserve is projected at \$845,000 for FY 2001-02

The golf course depreciation reserve is projected at \$1.3 million for FY 2001-02

- *Enterprise Funds - Emergency Reserve:* A reserve of 8% of operating expenses is required for each of the Enterprise Funds. The following transfers are recommended in FY 2002-03 to maintain or achieve 8% in each of the Funds: Water - \$15,000, Sewer - \$13,000, Storm Drain - \$1,000, Solid Waste - \$0, and Golf Course - \$4,000.
- *Water Depreciation Reserve:* A reserve was established to set aside funds for the replacement of Water Fund equipment that has reached the end of its useful life and for major repairs to the water system infrastructure. An analysis will be performed to determine an appropriate target level once the infrastructure valuation and fixed asset inventory have been completed. The reserve balance is projected as \$2.6 million at June 30, 2002.
- *Sewer Depreciation Reserve:* A reserve was established to set aside funds for the replacement of Sewer Fund equipment that has reached the end of its useful life and for major repairs to the sewer system infrastructure. An analysis will be performed to determine an appropriate target level once the infrastructure valuation and fixed asset inventory have been completed. The reserve balance is projected as \$5.2 million at June 30, 2002. A transfer of \$3,005,000 is recommended from the General Fund to pay off the balance of the RDA loan.
- *Storm Drain Depreciation Reserve:* A reserve was established to set aside funds for the replacement of Storm Drain Fund equipment that has reached the end of its useful life and for major repairs to the storm drain system infrastructure. An analysis will be performed to determine an appropriate target level once the infrastructure valuation and fixed asset inventory have been completed. The reserve balance is projected as a \$650,000 deficit at June 30, 2002. However, over the five-year forecast period the reserve is expected to grow to a positive \$2.6 million.
- *Golf Course Depreciation Reserve:* A reserve was established to set aside funds for the replacement of Golf Course Fund equipment/physical plant that has reached the end of its useful life. An analysis will be performed to determine an appropriate target level once the infrastructure valuation and fixed asset inventory have been completed. The reserve balance is projected as \$845,000 at June 30, 2002.
- *Golf Course Improvement Reserve:* A reserve was established to set aside funds for capital improvements budgeted in the Golf Course Fund and to provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve is projected to have an ending balance of \$1.3 million at June 30, 2002. Continuance of the annual transfer of \$160,000 from the Golf Course

Long Term Financial Plan

Operating Fund is recommended. In addition, a transfer of \$450,000 for the Golf Course Depreciation Reserve and internal loans of \$875,000 each from the Water Acreage Fee Reserve and the Sewer Connection Fee Reserve are recommended to cover projected five-year costs.

A total of \$8.9 million has been contributed to reserves since 1993

Through the annual LTFP and budget process, the City Council has set aside scarce resources in order to preserve and enhance the City's fiscal stability. Thus, the City has been able to contribute a total of *\$8.9 million* toward the funding of reserves over the past nine years.

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

Total reserve contributions

Reserve	Reserve Contribution
General Fund Emergency Reserve	\$2,301,640
Council Contingency Reserve	\$1,986,300
General Liability	\$1,680,820
Workers Compensation	\$1,393,380
Accrued Leave Reserve	\$540,000
Capital Equipment Replacement Reserve	\$828,210
Facilities Maintenance Capital Asset Reserve	\$162,000

Recommendations

1. Budget \$210,000 for FY 2002-03 in order to bring the emergency reserve to \$2,511,640, which will maintain the 8% of projected General Fund operating expenditures level.
2. Recommend that \$313,230 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2002-03 to fund the Council Contingency Reserve.
3. Recommend that the Employee Computer Purchase Program Reserve be reduced from \$100,000 to \$75,000 for fiscal year 2002-03. The \$25,000 difference will be transferred back to the undesignated fund balance of the General Fund.
4. Revise the City's Fiscal Policy to include the Employee Computer Purchase Program Reserve. "The City will maintain an Employee Computer Purchase Program Reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. This reserve will be reviewed annually to determine if reserve balances are adequate to cover estimated loan balances."
5. Increase the reserve in the General Liability Self-Insurance Fund from the current reserve of \$671,000 to \$736,000 for fiscal year 2002-03. The reserve includes three times the self-insurance retention (\$300,000), plus the average of the previous five years of claims costs not covered by the insurance pool (\$436,000).
6. Transfer \$416,000 from the General Fund to pay off the balance of the RDA loan to the General Liability Fund. In subsequent years, transfer \$750,000 annually from the General Fund to the General Liability Self-

Issue Summary

Insurance Fund to cover potential losses for outstanding claims not covered by insurance. This amount will be reviewed annually.

7. Approve a comprehensive analysis of the General Liability Fund in FY 2002-03.
8. Transfer \$1,000,000 during the current fiscal year to the Workers' Compensation Fund to cover the estimated outstanding claims through June 30, 2002. The transfers will be allocated from the various funds that caused the deficit, as follows:

Fund	Amount
General Fund	\$ 948,710
Water Fund	15,700
Sewer Fund	18,060
Golf Course Fund	12,140
Solid Waste Fund	820
Storm Drain Fund	2,370
Data Processing Fund	1,790
RDA – Low/Moderate Income Housing Fund	410
	\$1,000,000

9. Transfer \$170,100 during fiscal year 2002-03 from the General Fund to the Workers' Compensation Fund to cover the estimated outstanding claims through June 30, 2003.
10. Revise the City's Fiscal Policy to specifically include the Fleet Replacement Reserve. "The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors, or other equipment on wheels) as they become unserviceable, obsolete, or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs."
11. Transfer \$115,680 from the General Fund to the Accrued Leave Reserve for fiscal year 2002-03.
12. Revise the City's Fiscal Policy for the Accrued Leave Reserve to include the funding methodology. "The Accrued Leave Reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement."
13. Transfer \$260,100 from the General Fund to the Capital Equipment Replacement Reserve to fully fund projected five-year costs.
14. Revise the City's Fiscal Policy for the Capital Equipment Replacement Reserve to include the funding methodology. "The Capital Equipment Replacement Reserve will be maintained at a level at least equal to the projected five-year capital asset replacement costs."
15. Transfer \$663,940 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2002-03.
16. Budget \$15,000 for FY 2002-03 in order to bring the water emergency reserve to \$360,000, which will maintain the 8% of projected Water Fund operating expenditures level.
17. Defer policy changes for the Water, Sewer, Storm Drain and Golf Course Depreciation Reserves until the completion of the infrastructure valuation and fixed asset inventory.

Long Term Financial Plan

18. Budget \$13,000 for FY 2002-03 in order to bring the sewer emergency reserve to \$438,000, which will maintain the 8% of projected Sewer Fund operating expenditures level.
19. Transfer \$3,005,000 from the General Fund to the Sewer Depreciation Reserve to pay off the RDA loan.
20. Budget \$1,000 for FY 2002-03 in order to bring the storm drain emergency reserve to \$36,000, which will maintain the 8% of projected Storm Drain Fund operating expenditures level.
21. Budget \$4,000 for FY 2002-03 in order to bring the emergency reserve to \$153,000, which will maintain the 8% of projected Golf Course Fund operating expenditures level.
22. Revise the City's Fiscal Policy to include the Golf Course Improvement Reserve. "The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund and to provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs."
23. Continue the annual transfer of \$160,000 from the Golf Course Operating Fund to the Golf Course Improvement Reserve.
24. Transfer \$450,000 from the Golf Course Depreciation Reserve to the Golf Course Improvement Reserve for fiscal year 2002-03.
25. Loan \$875,000 each from the Water Acreage Fee Reserve and the Sewer Connection Fee Reserve to the Golf Course Improvement Reserve at the LAIF rate adjusted annually to be paid over 20 years. The loans will be repaid with revenues of the Golf Operating Fund.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

Street Improvement Program

Update



Street Improvement Program Update

Objective

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

113 street projects have completed and 23 projects are under construction.

53 projects were accelerated

Total revenues will be \$3.15 million less than projected

Since the approval of the program in July, 1995, one hundred and thirteen (113) street projects have been completed and additional twenty three (23) are under construction and to be completed during FY 2001-02. Of the 136 street projects, 53 projects were accelerated from their original schedule. Thirty three (33) projects were accelerated within the first 7-year period and twenty (20) street projects were accelerated from beyond the 7-year period.

The Program's short-term financial picture remains mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in savings of about \$3,595,000 or approximately 17.5 % of the original estimated street project costs. In addition, the City has received approximately \$1,741,600 in grants from the State Local Transportation Partnership Program (SLTPP).

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

A long term financial forecast is difficult to predict. There are several program revenue sources the City does not have control of, which include Proposition 111 and Measure M Turnback funds. Measure M funds are scheduled to sunset in FY2013-14 and, if not renewed, the City will have to identify other sources of revenues to maintain its street quality standards. On the positive side, the City does have a stable and reliable funding source from the Street Assessment District.

In the final analysis there are certain program uncertainties which include projecting pavement life (wet vs. dry winters), rehabilitation vs. reconstruction (2x cost factor), and inflationary pressures. Thus far the program has not been impacted by inflationary factors. Based upon the demonstrated success of the program over the past 6½ years, there is every reason to believe that the City will continue to make appropriate and sustained progress in meeting its program goals in the foreseeable future.

Long Term Financial Plan

AB 2928 funds will amount to \$780,000 over the next five years

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. These funds will be utilized to rehabilitate other city streets including arterials that are not part of the Street Improvement Program.

Two street projects are recommended to be accelerated

Since the approval of the program, 53 street projects were accelerated from their original schedule. Two street projects during this FY2002/03, are recommended to be accelerated. These projects are:

1. **Calle Frontera:** This street was originally scheduled to be rehabilitated in FY 2005-06. The pavement conditions are deteriorating very quickly. Since there are various streets within the same neighborhood that are scheduled for rehabilitation during the next fiscal year, Staff is recommending to accelerate the improvements of this street to FY2002-03.
2. **Seville to Avenida Palizada** was originally scheduled to be rehabilitated in FY 2005-06. Since the section of Avenida Palizada within the same neighborhood is scheduled to be rehabilitated during FY 2002-03, it is prudent also to accelerate Avenida Cabrillo at the same time. Both streets will be completed around the same time of Casa Romantica renovation completion.

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

As part of the FY 1999-00 budget, the City Council re-established the City's Major Street Maintenance Program. This Major Street Maintenance Program is to 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. Since then, twenty six (26) projects were completed. In recognition of the need for this effort, staff is recommending that the City reconfirm the Major Street Maintenance Program and expand the annual funding from \$300,000 to \$500,000 for the next five (5) years. Also reconfirming the existing Slurry Seal Program and expand the annual funding from \$100,000 to \$250,000 for the next five (5) years, to provide a programmed preventive maintenance for the streets.

Recommendation

1. Approve and authorize the allocation of a General Fund contribution of \$562,750 for the coming FY 2002-03.
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 to accelerate Calle Frontera and Avenida Palizada, due to the proximity of other street projects.
4. Consider, as part of the Vital Few, an additional annual allocation of \$200,000 to the Major Street Maintenance Program, to provide thin overlays (major maintenance) for streets that are either not scheduled for improvement/rehabilitation or were not scheduled for several years.

Issue Summary

5. Consider, as part of the Vital Few, an additional annual allocation of \$150,000 to the Slurry Seal Program to commence the preventive maintenance of the newly paved streets.

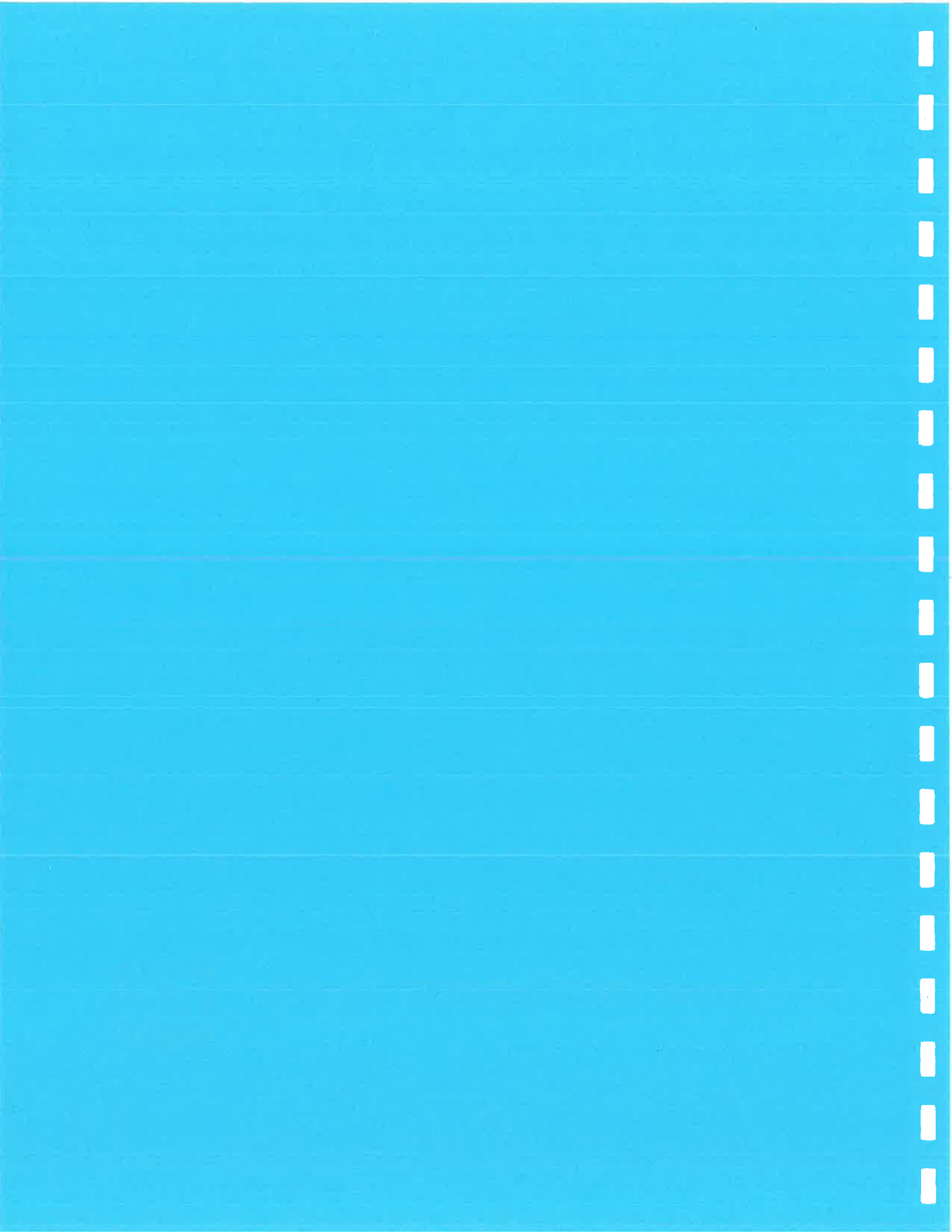
Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

Long Term Financial Plan

Economic Development Update





Economic Development Update

Objective

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

The Economic Development Plan focuses on three programs

The City's Economic Development Plan focuses on three specific program areas which are 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization. In conjunction with these program initiatives, last year the City Council directed staff to 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. Staff was also tasked to continue the aggressive marketing, promotion, recruitment and attraction of new business firms to the Rancho San Clemente and Talega Business Parks. With respect to older commercial shopping centers, Council directed staff to provide appropriate assistance and support for the revitalization of these centers with specific emphasis on Pico Plaza Shopping Center and the K-Mart Shopping Center. Finally, staff was directed to provide continuing support for the Central Business District Transition Program, the Los Molinos Business Advisory Committee Program, and to provide continued business ombudsman and developer advocacy services to the business community. With these programs in place, let's examine the progress that has been made since last year's report.

- **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.

The retail sales tax leakage has been reduced from 53% to 49%

According to Ultra Research Inc. (URI), for the year ended 1998, the City's retail sales leakage factor was 53% which translates to a loss of \$350.4 million in taxable sales and a loss of sales tax revenues to the City of \$3.5 million. URI's most recent sales tax analysis report for the year ended 2000 reflects a taxable retail sales leakage factor of 49% which translates to a loss of \$388.6 million in total taxable sales and a loss of sales tax revenues to the City of \$3.88 million. According to other data provided by URI, in 1999 out of 31 cities in Orange County, the City was ranked 24th in total taxable sales and in 2000 out of 33 cities the City's position remains unchanged. With respect to taxable sales per capita, the City ranked 29th in 1998 and very modest improvement was noted in 1999 with a ranking of 28th. For 2000 the City's overall ranking has not changed; however it should be kept in mind that the City's population is steadily increasing as result of significant residential development in Talega and Laing Forster Ranch. Mayor taxable retail sales leakage sources are reflected in the table below.

The City continues to be ranked 28th in taxable sales per capita; however, this is partially due to significant population increases

Long Term Financial Plan

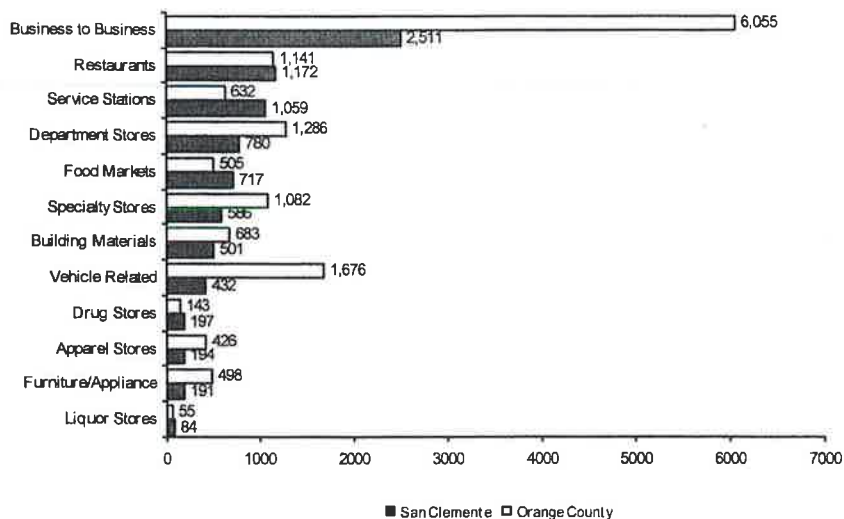
Retail Sales Leakage by Category

1998 Percent	1999 Percent	2000 Percent	Type of Retail Store
90	90	89	Auto Dealers and Auto Suppliers
83	80	75	Home Furnishings and Appliances
76	56	40	General Merchandise Stores
74	75	77	Building Materials and Farm Implements
76	60	63	Apparel Stores
51	53	55	Other Retail Stores

The City's comparative performance appears to have improved in 2000 in three categories while showing minor deterioration in three other categories. What accounts for these differences is not clear; however, the City has experienced significant retail development during the past two years and a decided improvement in overall sales tax generation performance has been experienced during the current fiscal year will continue to reflect improvement during the Fiscal Year 2002-03.

San Clemente compared to Orange County

MBIA MuniServices has also provided data which shows how the City's sales tax generation compares to the Orange County average for the four quarters, ending the fourth quarter 2000.

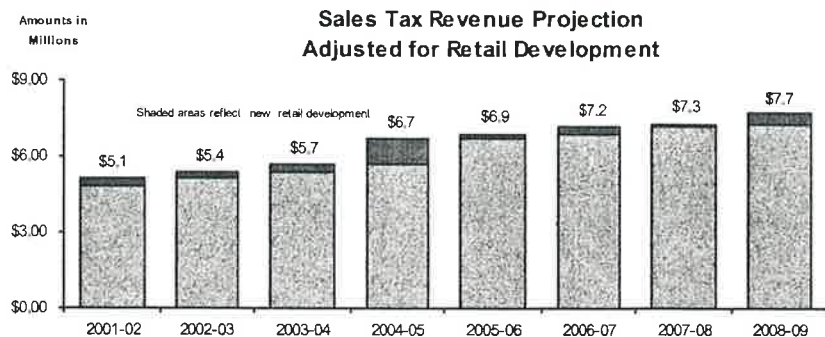


Taxable Sales Per Capita

As was the case in the 2000 report and last year's LTFP report, the data in Chart I clearly demonstrates that a large percentage of our residents still have no alternative but to go to other communities to meet their most basic consumer needs. The City is making every effort to attract additional retailing resources to the community and, as a result, approximately 430,000 square feet of new retailing space is being constructed at the Plaza Pacifica Shopping Center. Additionally, the Marblehead Coastal project will add another 700,000 square feet of retailing, restaurant and theater uses which will not only meet local consumer needs but also serve as a major regional retailing draw for South Orange County residents and for hundreds of

thousands of visitors and travelers annually passing through the community on the I-5 Freeway. These new retail developments will also add considerable new sales tax revenues to the City's coffers as reflected in the Chart below.

Sales tax revenue projections



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

Central Business District Transition Program

The City has expended \$250,000 for improvements in the Downtown area

At the direction of the City Council, staff has worked closely with the leaders of the Downtown Business Association (DBA) to implement the Central Business District Transition Program. The boundaries of this revitalization project are El Camino Real, from Palizada to Presidio, and Avenida Del Mar, from El Camino Real to Calle Seville including Avenida Granada and Avenida Cabrillo. During the past 5 years the City has spent an estimated \$250,000 in improvements and support for Downtown area. As a result of the San Clemente Revitalization 2000 Committee's efforts and City Council direction to staff, several millions of dollars of public improvements will also be made in the Downtown area starting in calendar year 2003 and extending out over the next five years. Coincident with these program efforts, the City is initiating the creation of a "Rule 20-A" utility undergrounding district for the Downtown area.

In a separate program initiative several years ago, the City Council selected property owners and business operators in the Los Molinos business/industrial area to serve as a special Business Advisory Committee. The Committee has provided assistance and guidance to the Council and staff regarding the development of a Specific Plan for the area and they have also assisted the City's efforts in stimulating interest and participation in the revitalization of this important commercial/industrial business area. 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 a new storm drain system through Bonita Canyon to the MO2 Channel, the undergrounding of various utilities and the rehabilitation of Calle de los Molinos and Calle Valle. Valued in excess of \$2.5 million, these improvements should be completed by the end of the third quarter, 2002.

Long Term Financial Plan

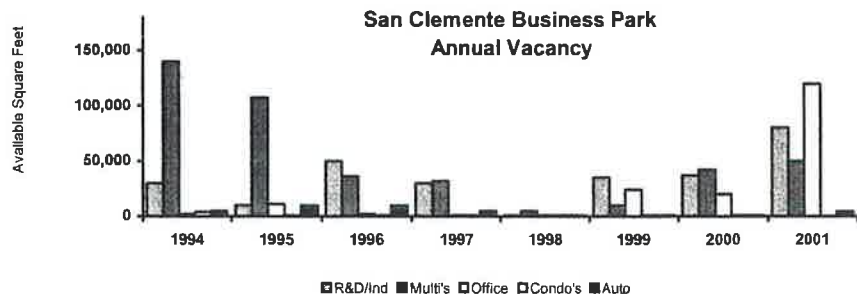
Several older shopping centers have undertaken significant improvements

The revitalization of older commercial shopping centers continues to be of significant interest and concern to the City Council and the community. Several older shopping centers have undertaken significant improvements. These centers include Ocean View Plaza, Pico Plaza and K-Mart Plaza. These shopping centers are under new ownership and management and, as a result of major improvements that have been made to the centers, new commercial life and new retailing resources have been made available to our residents and visitors alike.

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

Attraction of new business has been successful

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, and Los Mares Theater Complex) totaling 1,177,000 square feet are excellent examples of what has or will be 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. Since 1997, a total of 32 additional buildings have been built which has resulted in the addition of 799,000 square feet (44% increase) to the RSC Business Park. At this time there are an additional 30 buildings (481,158 square feet) under construction in the Talega Business Park and these facilities will most likely be finished and occupied this year. This means that in a period of six years the City will have increased its overall business park development by 1,280,158 square feet, an increase of over 70%. The adjusted vacancy rate as of November 2001 for existing products (excluding two office developments recently brought on line) in the RSC Business Park was 6.2 %. The San Clemente market is beginning to show signs of weakness for certain kinds of products, however, a turnaround is expected by the beginning of the third quarter (refer to the Chart below).



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 to the stakeholders to implement public improvement projects and related programs for the Downtown area.
2. Working with the Downtown Business Association, provide appropriate staff support and assistance towards the goal of creating a Main Street Program in the proposed Main Street District Area. In this regard, also ensure coordination of the City's proposed Downtown Strategic Plan with the Downtown Business Association's Main Street Program.
3. 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.
4. With respect to older commercial shopping centers, direct staff to provide continued assistance and support for the revitalization of these centers.
5. Continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program.
6. 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.

Council Action

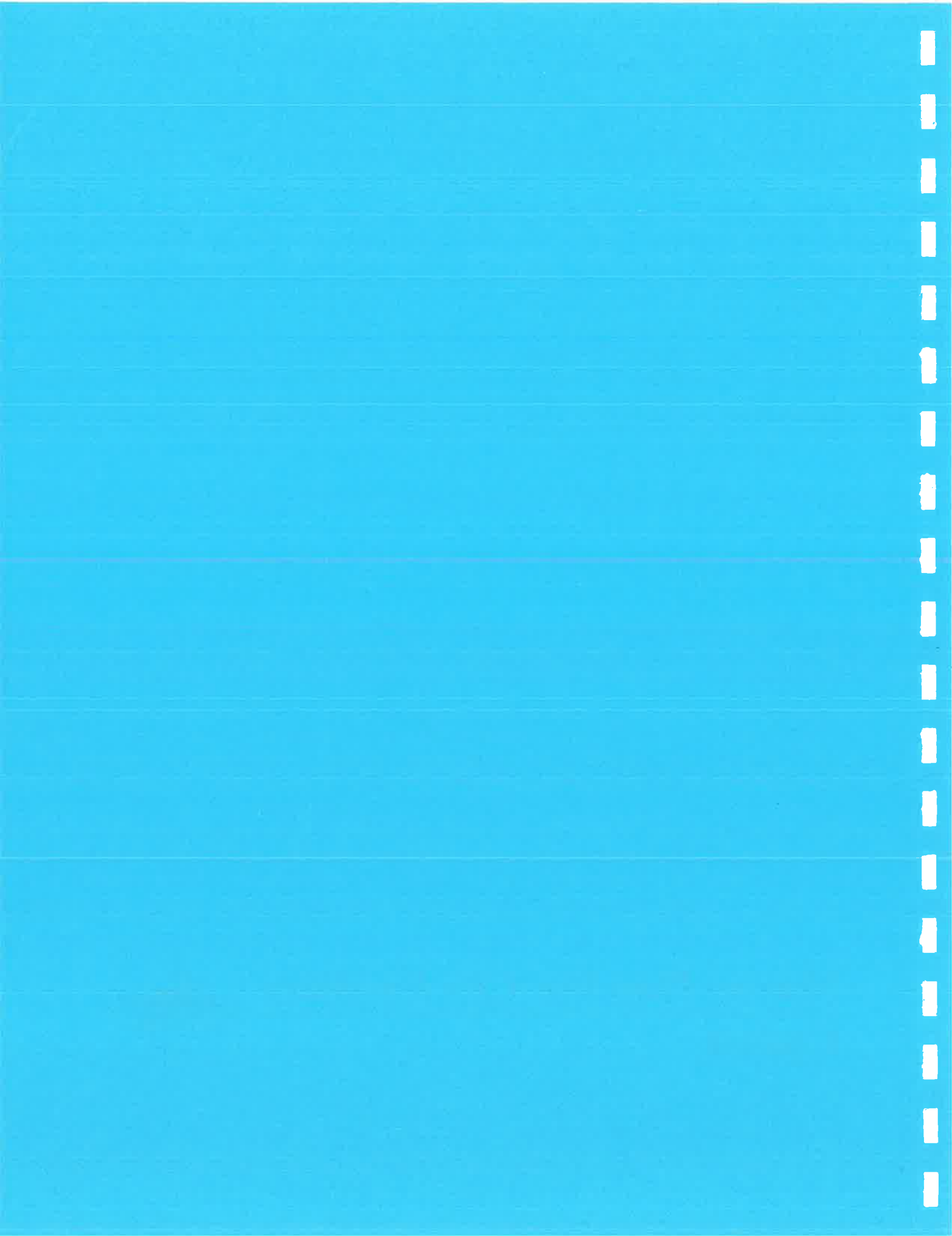
Recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002 and the following recommendations were added:

7. Market and promote the recruitment of food market grocery operations to the general area of South San Clemente.
8. Focus on the economic development potential of the North Beach area.

Long Term Financial Plan

Master Plan For City Facilities
Update





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?*

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

Summary

The Master Plan for City Facilities (MPCF) was developed in 1999 to help decision makers analyze siting options for City facilities, determine priorities and plan construction phasing and timing for facilities.

The 1999 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. As a result of City Council direction regarding LTFP 2001, three facilities were added last year to the MPCF: 1) Casa Romantica; 2) Railroad Corridor Safety Improvement; and 3) Downtown Revitalization 2000.

A \$7.5 million shortfall is projected as compared to projections of \$2.9 million last year

Capital Costs

This year, there is increasing community interest in building proposed parks faster than provided in the MPCF and park development costs continue to increase much more rapidly than the inflation rate. Currently it is projected that the City will experience an approximately \$7.5 million dollar shortfall in the funds needed to construct the parks included in the MPCF. Park development cost increases are attributed to expanding expectations for quality and aesthetics of park amenities, expanding federal requirements relating to meeting the Americans with Disabilities Act and a strong economy that has substantially increased the cost of construction.

LTFP 2002 projections for future General Fund balances are slightly healthier than LTFP 2001 projections

Operations and Maintenance

Projections for future funds available to operate and maintain facilities included in the MPCF are slightly healthier than they were in LTFP 2001, primarily because the projected value of future residential development in the City has risen significantly since LTFP 2001. As the projected value of future homes rise, the projected property tax revenues from those homes rise accordingly. These healthier revenue projections mean that under an “aggressive” buildout scenario—a scenario that includes construction of the Marblehead Coastal Retail Development, the City’s realization of its full retail market potential in infill areas and in Talega, relatively high sales tax generation rates for new retail, and continued high assessed values for new housing—the City would be receiving enough revenue to operate and maintain all of the projects in the MPCF in the next six years, two years ahead of last year’s projections. The benefits from the healthier revenue

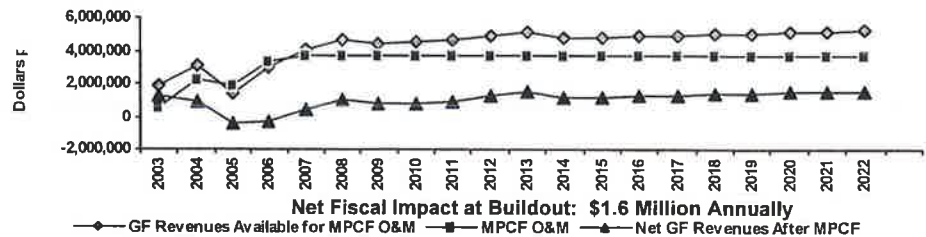
Long Term Financial Plan

projections allow parks previously scheduled to be constructed in 2008 and 2009 (in LTFP 2001) to be constructed in 2007.

Projections regarding the City’s future ability to operate and maintain new parks and other City facilities are extremely sensitive to the value of future development. Funding for operation and maintenance is also extremely dependent upon future sales tax revenue, particularly the revenue projected for the retail development at the Marblehead Coastal site. Marblehead Coastal retail development is essential to the aggressive buildout scenario noted in the previous paragraph that allows the MPCF to be built by 2007. Under a more “conservative” buildout scenario that assumes major commercial development is stalled or doesn’t occur at all, several major facilities would have to be delayed to 2009 and others would have to be postponed indefinitely because of the City’s inability to sustain them.

Based on updated information, including a one-year delay in the Marblehead Coastal project, 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:

FISCAL IMPACTS OF MPCF O&M COSTS:



The net General Fund balance at buildout and beyond is projected at approximately \$1.6 million annually

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 \$1.6 million per year.

This fiscal year, moderate on-going cost increases were made to add programs or for additional personnel. Significant increases in on-going expenditures are expected over the next several years, however. These expenditures will impact the City’s ability to operate and maintain the MPCF. Over the next four years, three additional FTE’s will be added to the City’s budget to cover the fourth firefighter at Fire Station No. 60. In addition, significant on-going increases in the police services contract and the contract with the Orange County Fire Authority (OCFA) are expected in the next three years.

The Talega Fire Station & Forster Ranch Community Park will require significant additional O & M funds

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) continues to be delayed to 2006. This delay is directly related to the Marblehead Coastal delays at the Coastal Commission level. (See Attachment A, Fiscal Impacts of O&M Costs, and Attachment B, MPCF Phasing Plan, of the LTFP Issue Paper).

For the revenues available for operations and maintenance (green line) to continue to grow at the forecasted rate, assessed value of new housing units must be relatively high, the retail market potential for the City must be realized, and the sales tax generation rates of new retail development must remain relatively high. A significant portion of projected sales tax growth, as illustrated by the pie chart on page 4 of this report, is dependent upon the Marblehead Coastal project.

New programs/projects could significantly affect the projected balance of the General Fund

New Projects and Facilities

The projections shown on the previous page do not include anticipated costs for the replacement of streets (excluding residential streets), including the new bridges approved as part of the Talega Specific Plan Amendment. Currently, the City does not have a permanent funding mechanism for replacing infrastructure. Costs associated with the replacement of streets and bridges are significant and can significantly impact the ability of the City to sustain other facilities. This issue is discussed further in "Street Improvement Program Update" included in this LTFP. Summary information regarding the potential costs is provided in the MPCF Update included in Volume II of this report.

Unanticipated new programs, as well as anticipated programs for which there is no ongoing funding mechanism, have the potential to significantly affect future operation and maintenance of City facilities. In addition to the facilities that were studied by the MPCF, new priorities have emerged over the past two years that could compete with funds for the MPCF. Some of these additional projects were covered in last year's LTFP and others are new: beach sand replenishment, water quality/urban runoff, use of the La Pata/Vista Hermosa site, the sidewalk restoration project, and street improvement program costs. These projects/programs all imply additional capital and operations/maintenance costs not included in the projections for the MPCF.

Long Term Financial Plan

Recommendations

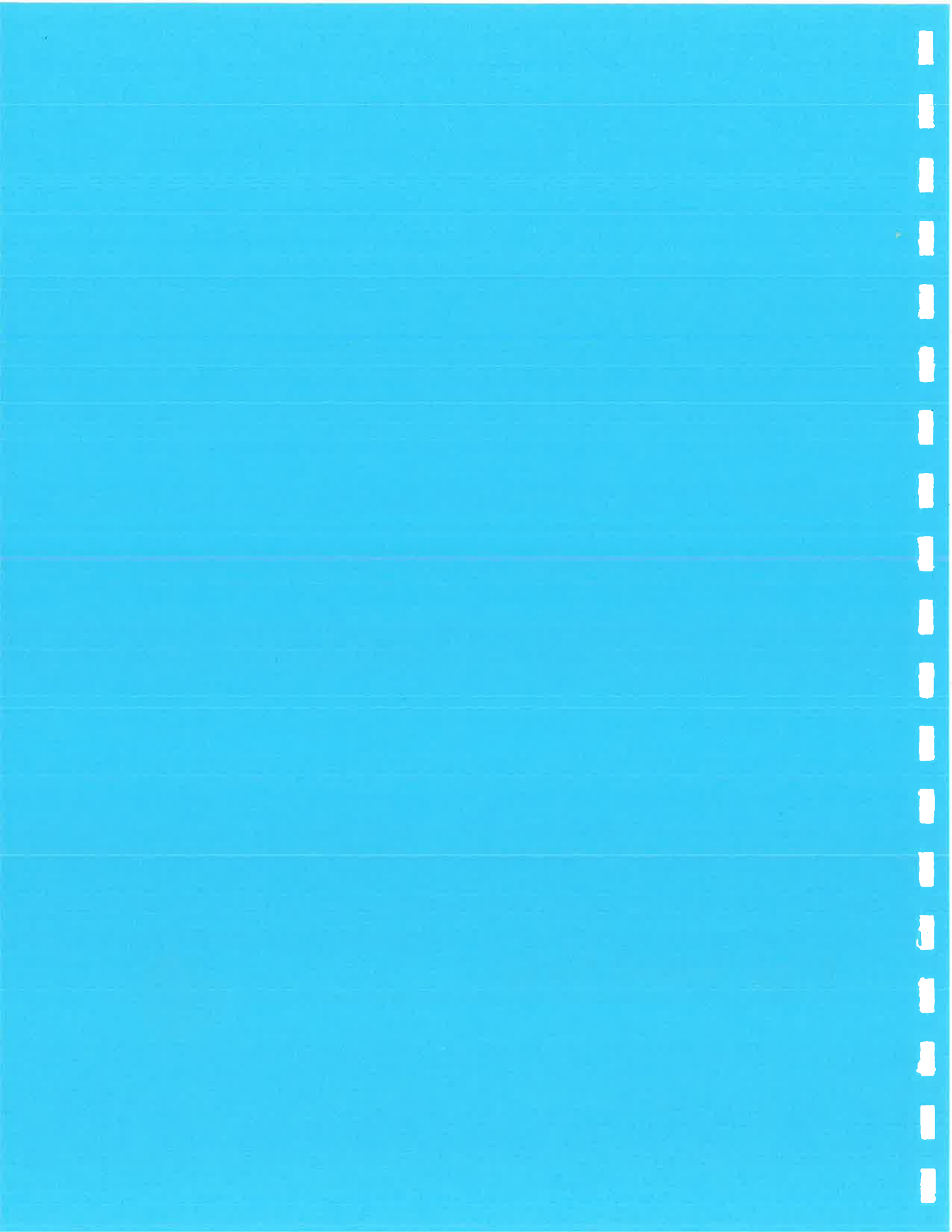
1. Recognizing the critical need for additional community recreational facilities and, particularly, the immediate need for additional lighted sports fields:
 - a) Direct staff to proceed with all due diligence in the planning, design, and development of projects in the MPCF in accordance with the schedule provided in Attachment B of the Long Term Financial Plan Issue Paper;
 - b) Direct staff to establish and proceed with the public review process necessary to provide interim lighting solutions—lighting of existing sports fields—in time for the City Council’s consideration in the FY 2002-2003 budget process.
2. Direct staff to annually review the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to transfer to the Parks Acquisition and Development Fund to cover a portion of the projected \$7.5 capital shortfall for the approved MPCF.
3. Annually review the status of previous recommendations for the Master Plan for City Facilities as a part of the Long Term Financial Plan.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

High School Swap





High School Swap

Objective

To outline various scenarios and opportunities associated with the high school land exchange proposal.

A land swap with CUSD could result in a new state-of-the-art high school in San Clemente

In the summer of 2001, the Capistrano Unified School District (CUSD) approached the City and initiated discussions concerning the possibility of swapping lands held by the City in the approximate location of the intersection of LaPata and Vista Hermosa, with lands currently occupied by the San Clemente High School. The land swap would facilitate construction of a brand new state-of-the-art high school for the community. The new high school would be located on the City lands in the area of LaPata and Vista Hermosa. City facilities would then be located at the current SCHS site. Those City facilities would include sports fields and special recreational facilities, community center, a fire station, and possibility a Sheriffs tri-cities substation and civic center uses.

Significant progress has been made towards completion of the land swap

Since the initiation of these discussions between the CUSD and the City, significant analysis and progress has been made toward accomplishing this project.

- The City has approved the Talega Specific Plan Amendment (SPA) and Development Agreement (DA) which together sets circulation and land use patterns for the Talega properties, guarantees construction of Avenida LaPata and Avenida Vista Hermosa to the site, and guarantees that utilities will be brought to the site, guarantees grading of the actual site, guarantees that a 44 acre minimum site and up to 48 acres will be created as a result of this grading operation, and further guarantees that grading will be completed by March of 2003.
- The City has completed analysis that indicates that the San Clemente High School (SCHS) site is adequate to meet City needs.
- An efficient distribution of services would be enabled by the use of the current SCHS site, as a community recreation and civic complex. Specifically, fire and police services would be optimally located at this site. A civic center could be located on this site, or other sites could be utilized for civic center operations.
- Removing SCHS traffic from the SCHS site would be a benefit to the community.
- CUSD has completed negotiations with Talega to provide additional funding for school improvements.

Long Term Financial Plan

There are relative strengths and weakness of both proposed sites

While both sites are able to meet the needs of the City and CUSD, both sites have some relative strengths and weaknesses. Some of the advantages/disadvantages of the LaPata/Vista Hermosa site are:

- This site would provide the City with up to 10 additional acres of land for recreation and civic uses, as compared to the current SCHS site (48 vs. 37 net usable acres at SCHS site).
- This site would be better in the case of special events requiring overflow parking, due to the ability to park on street for special events on Avenida Vista Hermosa and especially Avenida LaPata.
- The Avenida LaPata/Avenida Vista Hermosa site is not appropriate for the relocation of Fire Station 59.
- The LP/VH site is not optimal for the tri-cities police substation.
- The LP/VH site is considered not optimal for a civic center.

Outstanding issues include...

Outstanding issues not yet addressed:

- 404 Permit - A 404 permit from the Army Corp of Engineers has not been obtained by Talega.
- Funding –There is a funding gap for construction of a new High School that will require funds from an as yet unidentified source.
- Timing/Interim Uses – There will be a 5 to 6 year planning and construction process which will need to be completed in order to open a new high school at the new site. This will mean a delay in construction of much needed sports fields for the City.
- The five to six year period of time for planning and construction of a new high school would also mean a long wait for new and improved facilities for the current facility and student body of San Clemente High School. This is somewhat mitigated by the recent improvements made to San Clemente High School over the past summer of 2001.
- Environmental issues – Unknown environmental issues may arise at the San Clemente High School site which would delay and/or complicate reuse of that site.
- Public support - The depth and breadth of public support is unknown at this time.

Either site, the SCHS site or LA/VH site, will meet long term recreational needs for the community. Some other community needs, especially Fire Station 59's location, are best met at the SCHS site. The LA/VH site would be the fastest and easiest site to develop for recreation uses. However, given

Issue Summary

the progress that has been made and the advantages to both the City and CUSD, the High School land swap idea has merit and should be pursued further.

Recommendations

1. Work with CUSD, the Task Force, and other groups to try and answer outstanding issues discussed above.
2. Report back to Council in June 2002, regarding the progress that has been made.

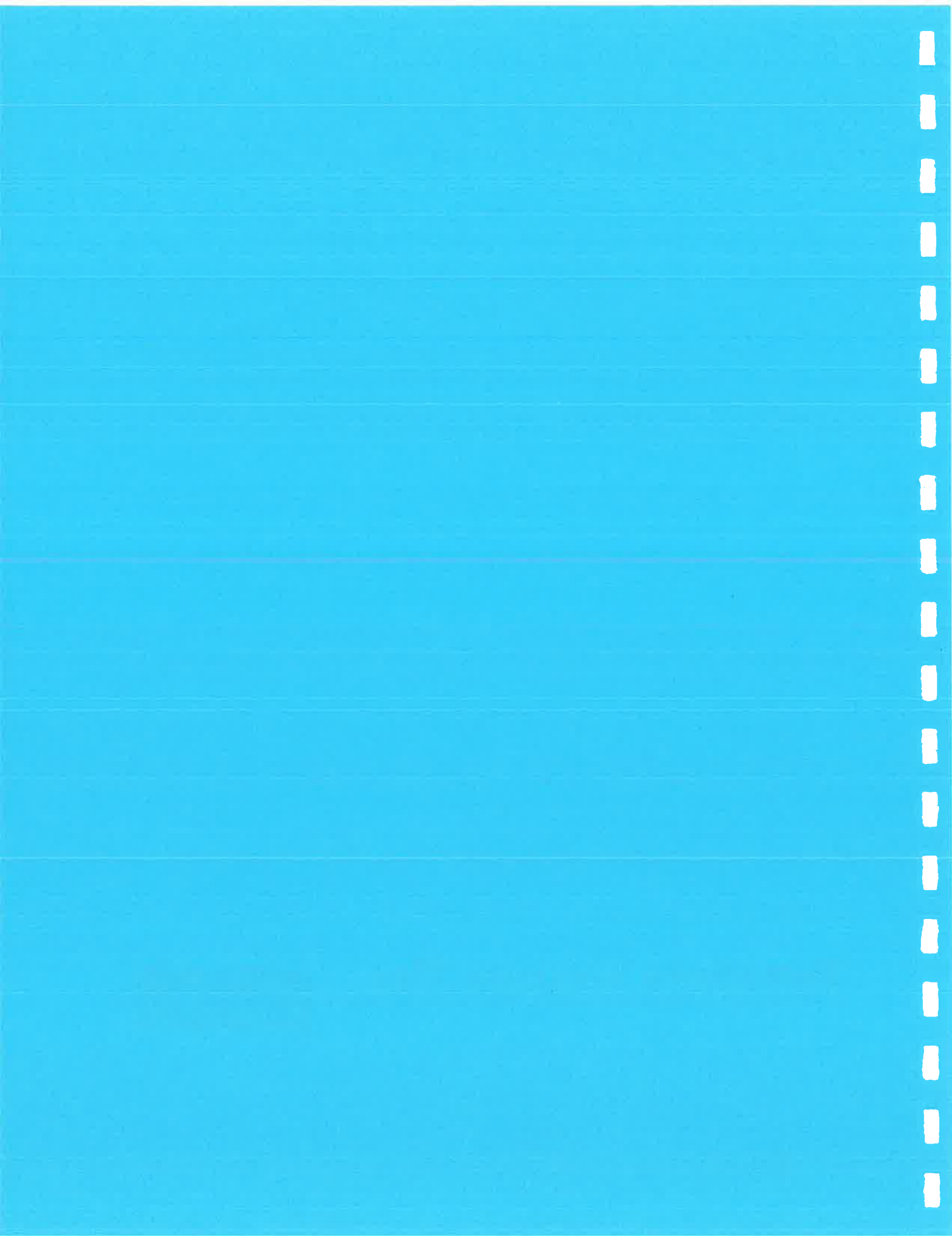
Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

Long Term Financial Plan

Downtown Strategic Plan





Downtown Strategic Plan

Objective

To coordinate the major components of: Infrastructure planning, land use policy, design details and marketing into a unified vision strategic plan for the downtown.

A strategic plan for the downtown consists of four major components...

- 1. Infrastructure master plan**
- 2. Land use policies**
- 3. Marketing plan**
- 4. Design refinements**

It is anticipated that a strategic plan, or blue print, for the downtown would contain four major components. First, an infrastructure master plan would detail the priorities and budget for such things as parking facilities, beautification improvements, civic uses and facilities, etc. Second, land use policies currently contained in the General Plan would be refined and updated. The refinements and updates would be based upon new community visioning processes using input from data collected from the high school study plan, updated parking analysis of the downtown area, economic analysis specific to the downtown area, and additional information developed regarding parking options and other public facilities' options for the downtown. Land use policy refinements would also receive input from the Main Street Program, especially as that Main Street Program strives to better define the marketing niche to pursue for the downtown area. Third, the strategic plan would also include a marketing plan to be implemented by the Main Street Program. Fourth, design refinements in terms of technique and execution would be developed as a separate but related process.

In order to fully develop a strategic plan for the downtown, a sequence of events needs to occur. Considerable public input will be needed in order to achieve broad consensus concerning a blue print for downtown. A reasonable estimate for fully developing the blue print for downtown, including data collection and public outreach programs would be approximately two years' effort. The development of a Downtown Strategic Plan (DSP) will require careful consideration of the interrelated components of infrastructure, land use policy, marketing and design. There will also be an interesting and dynamic interrelationship with other issues discussed in the LTFP, including the high school land exchange.

Infrastructure

Infrastructure

In the year 2002 and 2003, the City will make beautification improvements to El Camino Real between Palizada and Presidio. The purpose of these improvements creates a more pedestrian friendly atmosphere and psychologically slowing of traffic.

Future infrastructure improvements to be considered will include: the addition of parking resources, public bathrooms, City Hall offices or other civic uses, as well as additional beautification amenities. The City is fortunate to have monetary resources to construct these improvements, from a variety of sources including development agreements and grants. These resources will make the deliberations concerning "what's next" more than an academic exercise. But, the monetary resources are finite.

Long Term Financial Plan

So, the questions will become: Which improvements will be of the most benefit to the health and vitality of the downtown? What will promote the greatest amount of additional economic activity? Which infrastructure improvements will best reflect the values, image, and character the community wishes to promote in its downtown?

Land Use Policy

Land Use Policy

The location of the civic uses such as civic offices, cultural facilities, libraries, senior centers, recreational facilities, and other cultural facilities, is ultimately a land use policy decision. Besides the location of civic and quasi-civic uses, land use policy should provide direction regarding what types of tenants and what particular market niche should be encouraged in the downtown area. In addition, policy should consider the character of nearby residential uses. Should emphasis be on affordable multi-family units or larger luxury condos, or both? Should over-under-work live space for artists be encouraged? What about music and live entertainment in the downtown area? Should the sound of music be allowed to waif-out onto the streets, or should the sounds of music be strictly contained within buildings? Should the City encourage conference and meeting space developments in the downtown area? How much intensity is appropriate and desirable in the downtown area? The desired intensity must be planned to balance with parking resources and economic reality. Lastly, should the limits of the design district overlay be extended?

Marketing

Marketing

Further revitalization of downtown will be measured by the addition of new development (sq. ft.) and the increase in per. sq. ft. sales volume (currently \$139.00 sq. ft) to \$200 or \$250 per square foot. Marketing will play an important role in achieving this revitalization. The City Council set aside \$50,000 in the year 2000, to provide incentive and encouragement for the development of a Main Street Program (MSP). The primary goal of Main Street (MS) is to market and promote downtown areas. The Council required that broad business consensus and support for the MSP would have to be demonstrated in order for the City funds to become available.

Input from the MSP will be an important feature of any new or refined land use policies that are developed.

Design

Design

Unique physical character expressed through design, serves not only as a commercial attraction, but it is an expression of the social and cultural fabric of a community. Today's new and newly renovated buildings blends the old world charm of Spanish Colonial Revival architecture with modern requirements of ADA, seismic, technology, electrical, mechanical, fire safety and parking requirements.

Clear guidance to builders is needed in order to be fair to the builders, as they are guided through the review process. Clear design guidelines are also needed to insure that the community gets the beautiful and functionally adequate buildings that are desired. Therefore, an update of design

guidelines is appropriate from time to time. Steady refinement of design guidelines and processes will lead to a more business friendly environment, will complement marketing efforts, and will add to the synergy of accumulated infrastructure improvements.

A number of steps will be required to develop a Downtown Strategic Plan

Next Steps

Development of Downtown Strategic Plan (DSP) will require a number of interactive and interrelated steps. Events should occur in roughly the following order:

- Parking analysis study should be initiated.
- Complete high school and swap study, Phase I.
- Land Use Policy Committee – public work shops, Planning Commission, City Council.
- Design Committee (possibly the PC/DRC).
- Economic Analysis.
- Refined parking facilities plan, Infrastructure Master Plan, and Land Use policies.

Recommendations

1. Direct staff to continue with high school land-swap facilities analysis.
2. Initiate a parking study for downtown area, using already budgeted monies.
3. Develop a refined timeline and budget for Vital Few Priorities, to consider: Land Use policy update; Main Street Program implementation; Economic Analysis Design review; and parking facilities.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002. Recommendation number one was modified as follows:

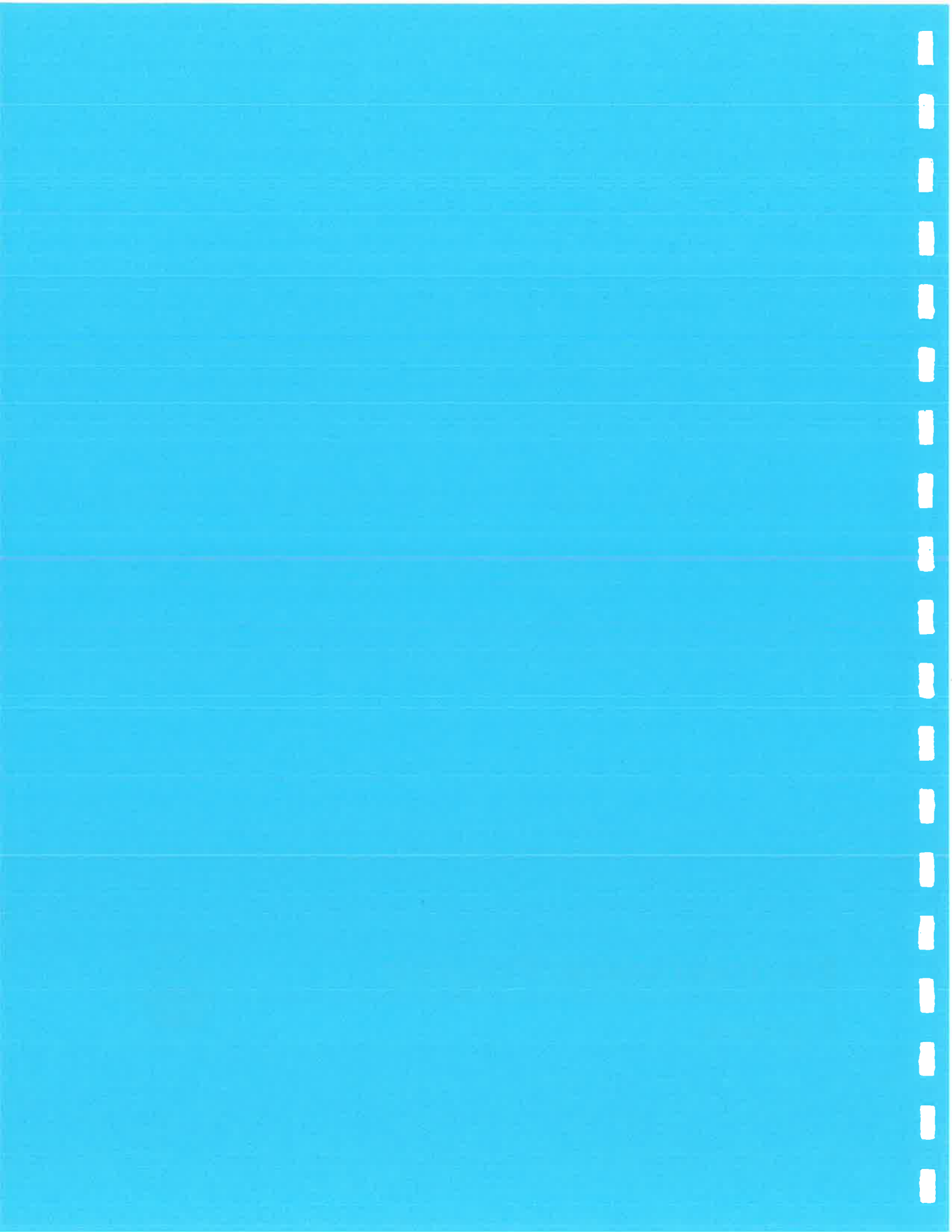
1. Direct staff to continue with high school land-swap facilities analysis, including the downtown area as a potential Civic Center site.

Long Term Financial Plan

Environmental Program

Update





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. These projects include continuation of the U.S. Army Corps of Engineers Feasibility Study, Coastal Canyons and Bluffs Management Guidelines, Management of Beach Facilities Policy, Sand Replenishment Policy, Sand Monitoring, Coastal Advisory Committee, Marblehead Coastal and Opportunistic Sand Replenishment Programs, the Rail Corridor Pedestrian Beach Trail, and Low-Flow Diversion Projects.

The focus is on environmental and related issues facing the City.

The Environmental Program consists of various projects and initiatives that collectively address environmental and related issues facing the City. Current projects and initiatives include:

Shoreline Feasibility Study

- *U.S. Army Corps of Engineers Shoreline Erosion Feasibility Study:* The Feasibility Study will investigate the causes of erosion along the City's shoreline to evaluate and recommend alternatives to correct the problem. The Feasibility Study 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. The Feasibility Study began in late September 2001 using approved FY 2001-02 funds and State grants.

Coastal Bluffs and Canyons Management

- *Coastal Bluffs and Canyons Management Guidelines:* This effort will develop a set of guidelines regarding the use of plant materials, drainage structures and methods, and access improvements along the canyons and bluffs. This work has begun and is expected to be complete in April or May 2002 using approved FY 2001-02 funds.

Beach Facilities

- *Beach Facilities Policy:* This effort will develop policies regarding the protection, retreat, or replacement of beach facilities threatened by sand erosion. This work will be completed by the end of FY 2000-01 using approved FY 2000-01 funds.

Sand Replenishment

- *Sand Replenishment Policy or Ordinance:* This effort will develop policies regarding the regulating the quantity, quality and environmental impact of future sand replenishment projects. This work will be completed by the end of FY 2001-02 using approved FY 2001-02 funds.

Sand Monitoring

- *Sand Monitoring:* This ongoing effort will provide necessary field data for sand nourishment studies, particularly the Corps of Engineers Feasibility Study described above. This work is began in October 2001 using approved FY 2001-02 funds.

Coastal Advisory Committee

- *Coastal Advisory Committee (CAC):* Established by the City Council, the CAC's mission is to advise the Council, Planning Commission, Parks and Recreation Commission, and City staff on general coastal zone policies and to serve as an advocate on coastal related issues. The CAC meets monthly.

Long Term Financial Plan

Marblehead Coastal and Sand Replenishment program

- *Marblehead Coastal and Opportunistic Sand Replenishment Programs:* These efforts will obtain a specific permit for a one-time beach nourishment project (in connection with the Marblehead Coastal Development project) and a general permit for other future opportunistic sand sources. The Marblehead Coastal developer will obtain these permits and cover most or all of the one-time beach nourishment project cost, with the exception of street repair and sand-sifting costs which could be substantial.

Rail Corridor Pedestrian Beach Trail

- *Rail Corridor Pedestrian Beach Trail:* This project entails construction of a pedestrian trail and rail crossing improvements from North Beach to Calafia State Park Beach, consistent with the design criteria and recommendations of the Railroad Corridor Safety and Education Panel (RCSEP) and standards specified by the Southern California Regional Rail Authority. Project preliminary design and environmental documentation commenced in January 2001 and scheduled to be completed in May 2002. The project final design will commence upon City Council's and Caltrans's approval of environmental documentation. The City will apply to obtain regulatory permits from California Public Utilities Commission and California Coastal Commission during final design. The City will also apply to obtain a license agreement from Orange County Transportation Authority (OCTA) for construction of the trail in the OCTA's right of way. Project construction is scheduled to begin in June 2004 contingent upon receipt of all required permits.

Recommendation

1. Receive and file with City Council making decisions as individual projects reach milestones.

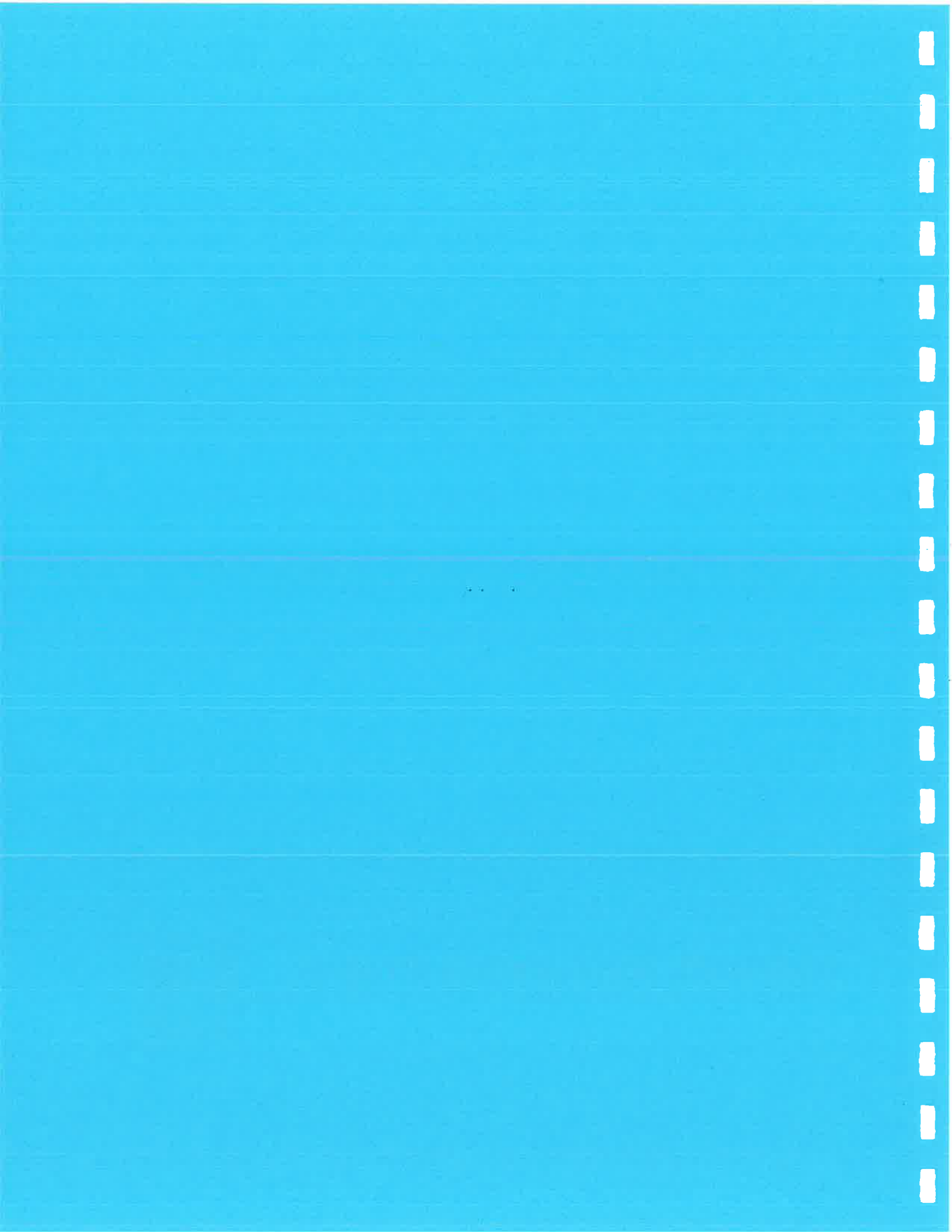
Council Action

The recommendation was modified as follows and approved by the City Council by a vote of 5-0 on March 2, 2002.

1. Receive and file with City Council making decisions as individual projects reach milestones. Staff was requested to allocate funding in the Vital Few to hire consultants to assist with high-speed rail issues.

Sidewalk Restoration Project





Sidewalk Restoration Project

Objective

To implement a city-wide sidewalk repair/replacement program and to develop standards and implement a program to replace historical tile sidewalks.

Summary

The City of San Clemente has never had a city-wide sidewalk inspection or repair program to identify and repair/replace unsafe sidewalks within the public right of ways. Nor has it had a policy for preservation, repair or replacement of its historical red tile sidewalks. As was directed by the City Council, staff has performed further research and is presenting alternative policies and funding mechanisms for consideration. This paper addresses a general city-wide sidewalk inspection and replacement program and more specific alternatives for a historical red tile sidewalk preservation, repair and replacement program.

No existing Sidewalk Policy exists

In California, a combination of standards set by local governments and case law have generally determined that vertical separations of ¾-inch to 1-inch require ramping or grinding and vertical separations exceeding 1-inch require replacement of sidewalks. Once these defective sections of sidewalks have been identified, they should be scheduled for repair or replacement.

The Municipal Code requires property owners to maintain and replace sidewalks

The California Streets and Highways Code requires property owners to maintain their sidewalks unless a local agency chooses to do so. In San Clemente, the Municipal Code requires property owners to maintain and replace their sidewalks unless damage is caused by a City-owned street tree or utility.

The current practice is for the City to respond to citizen requests for sidewalk repair. A determination is made as to whether it is the City's or property owner's responsibility to repair the sidewalk. Both the Parks Maintenance and Maintenance Services Divisions have limited amounts of funds each year for sidewalk repairs that are the City's responsibility. On occasions during the year, private property owners are given notice by the City to repair their sidewalks.

146 miles of sidewalks have been inventoried

A sidewalk survey was recently completed on the City's 120 miles of public streets. Of the 146.6 miles of sidewalks inventoried, the vast majority (139.68 miles) are gray or red concrete, 5.35 miles are tile and 1.61 miles are other materials. The survey identified 2,307 locations where ¾-inch to 1-inch vertical separations require ramping or grinding and 855 locations where concrete and tile sidewalks require replacement. The construction cost of this work is approximately \$750,000 and does not include any staff-time for administrative and inspection costs. These estimates do not include replacement of cracked tile sidewalks in poor condition that have vertical separations less than ¾-inch. If all the tile sidewalks were replaced with a

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similar concrete tile, the tile sidewalk reconstruction cost alone is estimated to exceed \$3 million.

The issue is: Who will pay for needed sidewalk work?

Assuming the decision is made to repair and replace all sidewalks with vertical separations ¾-inch and above, the issue becomes one of who pays for the sidewalk work. Arguments can be made that the property owner, City or combination of the property owner and City should pay for the sidewalk repair/replacement work. Those who own properties on private streets could argue they are subsidizing property owners on public streets if the City chooses to pay for sidewalk repair/replacement on public streets. Current State and City of San Clemente codes require the property owner to pay but, in the summer of 2001, the City Council authorized City participation in sidewalk replacement costs with the waiver of inspection fees for sidewalk replacement work. The City could increase its contribution by partially paying for sidewalk repair reconstruction or paying the entire cost of the sidewalk repair/replacement program.

Direct costs of \$250,000 would be required to pay for ramping/grinding. Staff and consultant costs would amount to \$150,000

Staff is proposing the City contract and pay for ramping/grinding the ¾-inch to 1-inch separations at an estimated cost of \$250,000 as part of a partnership effort to improve pedestrian safety. The direct construction cost of the sidewalk replacement program could range from about \$0.5 to \$3.5 million depending on whether the City replaces only defective sections of sidewalks or also includes replacement of all tile sidewalks. Implementation of any of the alternatives will also have staffing and fiscal impacts. No matter which financing option is chosen, there will be significant additional staff and consultant costs to administer and inspect the sidewalk repair program. Those costs are estimated to add 20% to the program's cost, or about \$150,000.

Now that the City has an inventory of deficient sidewalks, they should all be corrected within a short time-frame. The time required to complete the repair and replacement of sidewalks identified in the sidewalk survey is dependent upon what responsibilities the City assigns to the property owner or City for repair and the annual expenditures budgeted by the City. If the City accepts responsibility for grinding/ramping and continues to require property owners to replace defective sidewalks exceeding 1-inch vertical separations, the repairs/replacements could be completed in three years at a cost to the City of about \$200,000 per year. This estimate assumes that City-maintained street trees and utilities contribute to about one-third of the sidewalk defects and will be the City's responsibility to replace.

\$250,000 per year for 4-5 years would be required if the City accepts complete responsibility for repair/replacement of sidewalks

If the City were to accept the entire responsibility for repair/replacement of sidewalks, the repair/replacement program budget should be at least \$250,000 per year for four to five years to complete the work. This estimate does not include the replacement of deteriorated concrete or tile sidewalks that have vertical separations less than ¾-inch. To assure that the most critical defects are repaired first, stringent standards will need to be set as to what sections of sidewalks will be replaced, similar to what has been implemented in the Street Improvement Program to emphasize pavement rehabilitation over replacing cracked curbs and gutters.

A number of options relating to historical tile sidewalks are under discussion by Council

The City Council has discussed a wide range of options with regards to historical tile sidewalks. Options include preservation of as much existing historical tile as possible, repairing/replacing only sections defined as defective by the Municipal Code or reconstructing entire blocks of streets containing a significant amount of historical tile sidewalks. A detailed sampling of several streets with red tile sidewalks found that the combination of mixing and matching concrete and tile and the poor condition of significant sections of tile sidewalks on many blocks makes it virtually impossible to preserve or repair the tile sidewalks and achieve any reasonable consistency.

Staff has identified a manufacturer willing to provide a concrete tile that will match the size and color of the existing historical tiles. The cost of installing concrete tile over a 4-inch concrete base vs. a 4-inch red concrete sidewalk is conservatively estimated at \$22.50 per sq. ft. and \$14.50 per sq. ft, respectively. Replacing all of the existing 148,800 sq. ft. of tile sidewalk with concrete tile is estimated at \$3.35 M. Whether or not City Council decides to fund replacement of tile sidewalks, staff is recommending that the City Council adopt a concrete tile sidewalk standard so that the City and property owners can install new historical-style tile sidewalks in public right-of-way.

Property owners could form assessment districts

City Council members have also discussed the potential of assessment districts being formed to replace entire blocks having sections of tile sidewalks. These could be initiated by the property owners or City, with the City assessing all costs to property owners or the possibility of including a City contribution. Assessment districts are expensive to initiate, but have the advantage of tax-free bond financing. Assessment District initiation and administration costs, bond sale costs, design and construction engineering are estimated to increase project costs by 30%.

An on-going annual sidewalk inspection program should be funded so that the City would not build up a large backlog of sidewalks requiring repair/replacement. The estimated cost for this program is \$20,000 per year.

Recommendations

1. Continue and expand the partnership efforts with property owners with deficient sidewalks by:
 - a. Affirmation of the recently adopted Engineering fee resolution that waives plan checks and inspection fees for property owners repairing and replacing deficient sidewalks; and
 - b. Directing staff to include \$250,000 in the FY 2002-03 Budget for contracting the ramping or grinding of sidewalks with ¾-inch to 1-inch vertical separations.
2. Direct staff to develop a standard for installation of concrete tile sidewalks similar in appearance to the historical red tile sidewalks. City Council should then decide to:
 - a. Allow property owner to choose whether to replace deficient tile sidewalk with the new standard tile sidewalk; or

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- b. Direct staff to prepare code amendments requiring historical red tile sidewalks to be replaced with the new standard concrete tile sidewalks in areas designated by City Council.
 3. Direct staff to develop a Vital Few Priority and budget impact of one of the following:
 - a. Property owners pay entire cost of replacing deficient sidewalks with the exception of ramping/grinding to be performed by the City at City cost; or
 - b. City pays entire cost of replacing deficient sidewalks with an ongoing annual budget of at least \$250,000. The priority will be to perform repairs starting with vertical separations exceeding 2-inches, then repair sidewalks with 1-inch to 2-inch vertical separations and then perform grinding/ramping on vertical separations between ¼-inch and 1-inch.
 4. Provide direction to staff as to whether the City Council wishes to pursue a comprehensive tile sidewalk preservation and/or replacement program and the program's parameters, including who will pay for the program.
 5. Direct staff to include an appropriation for an ongoing annual inspection of sidewalks in the FY 2002-03 Budget and beyond.
-

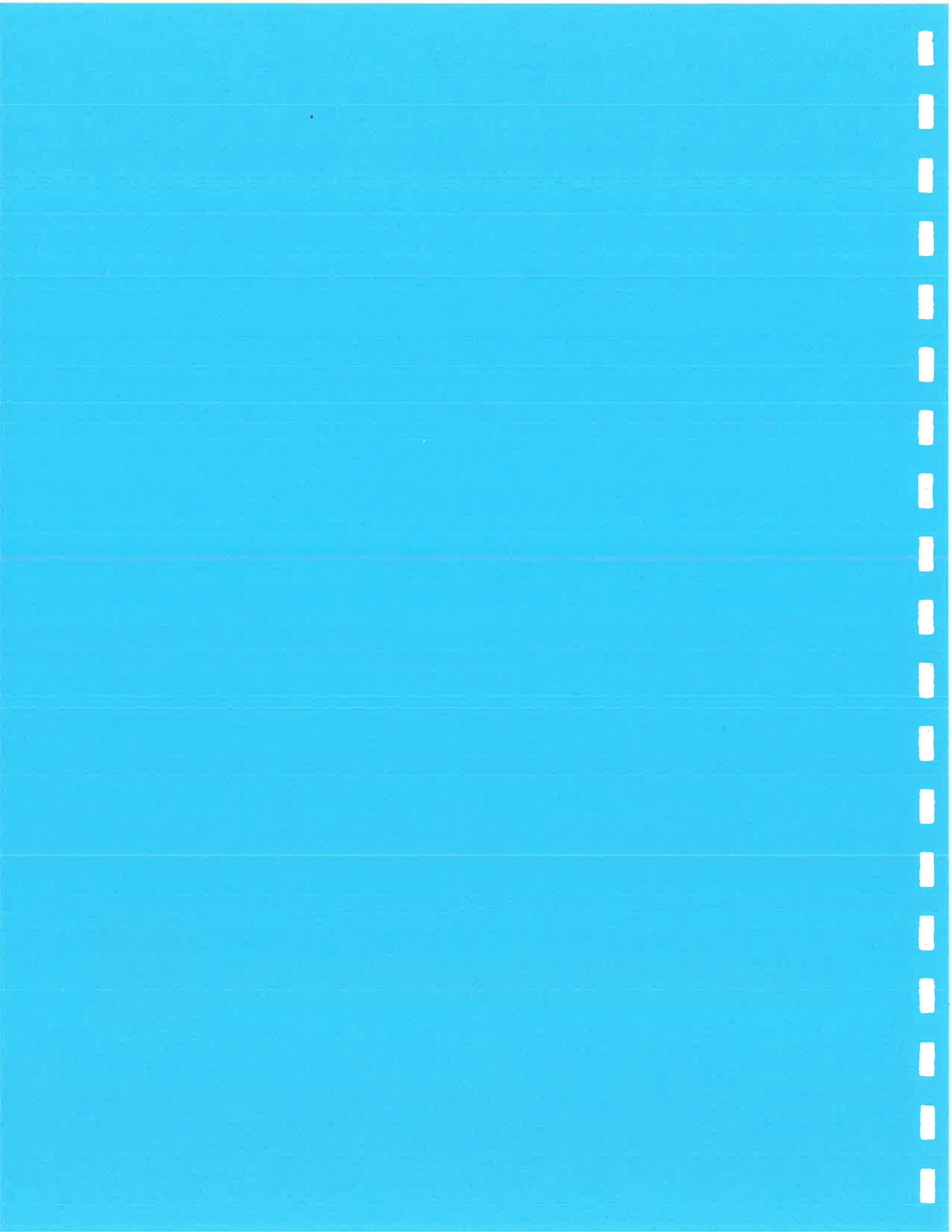
Council Action

The recommendations were modified as follows and approved by the City Council by a vote of 5-0 on March 2, 2002.

1. Continue and expand the partnership efforts with property owners with deficient sidewalks by:
 - a. Affirming the recently adopted Engineering fee resolution that waives plan checks and inspection fees for property owners repairing and replacing deficient sidewalks; and
 - b. Directing staff to include \$200,000 in the FY 2002-03 Budget for repairing sidewalks that are the City responsibility to repair.
 2. Direct staff to develop a standard for installation of concrete tile sidewalks similar in appearance to the historical red tile sidewalks.
 3. Direct staff to prepare code amendments requiring historical red tile sidewalks to be replaced with the new standard concrete tile sidewalks when new development or major renovation occurs in areas designated by the City Council.
 4. Direct staff to develop a Vital Few Priority and budget impact of property owners paying the entire cost of replacing deficient sidewalks, with the exception of those repairs which are the responsibility of the City, due to property damage, such as storm drains or City trees.
 5. Direct staff to come back with a proposed at-cost replacement type of incentive program that could be offered to the property owners at the time they receive their notice requiring them to repair their damaged sidewalk.
 6. Direct staff to include an appropriation for sidewalk inspection in the FY 2002-03 Budget.
-

Urban Runoff Management Plan





Urban Runoff Management Plan

Objective

To recommend and implement specific projects and programs to improve local water quality.

Summary

Development of a local Urban Runoff Management Plan (URMP) along with anticipated regulatory actions have highlighted the need for the City to build further upon its recently-increased efforts in controlling storm water and urban runoff pollution to improve local water quality. Based on activities identified in the City's URMP as well as those that will be required by a new regional National Pollutant Discharge Elimination System (NPDES) storm water permit, the following implementation alternatives were developed:

Pending regional regulatory action will require additional water quality improvement activities

There are six implementation alternatives

- *Alternative 1 – NPDES Permit Compliance:* This alternative consists of new additional activities necessary to comply with the requirements of the new NPDES storm water permit, including increased inspection and enforcement, additional public education and city-wide water quality monitoring.
- *Alternative 2 – Minimal Structural Treatment:* This alternative consists of constructing a structural retrofit project developed in the URMP to treat dry-weather flows that discharge to Poche Beach from the Prima Deshecha drainage.
- *Alternative 3 – Transfer of Expenditures to Storm Drain Fund:* This alternative consists of permanently assigning to the Storm Drain Fund activities that the City already conducts in support of NPDES permit requirements, but that are currently paid from the General Fund.
- *Alternative 4 – Increased Street Sweeping Service:* This alternative consists of doubling the level of street sweeping service to all residential areas (except Neighborhood Pride areas) and commercial areas by adding a street sweeper unit and operator to the City's existing resources.
- *Alternative 5 – Full-Scale Structural Treatment:* This alternative consists of implementing all structural retrofit projects developed in the URMP to the full level of treatment.
- *Alternative 6 – The "All-inclusive" Alternative:* This alternative combines the activities included in Alternatives 1, 3, 4 and 5 for an all-inclusive program. Alternative 2 is not included since it would be replaced by a project included under Alternative 5.

Fiscal Impact

Since 1993, the City has had in place a Storm Drain Service Fee to fund the cost of providing storm drain facility services, including water quality

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It is appropriate to fund water quality improvements with storm drain service fees

improvements. Since the activities discussed in each of the alternatives above relate directly to improving the quality of storm drain discharges, it is appropriate to fund the alternatives above, or combinations thereof, with storm drain service fee revenue.

The monthly storm drain fee for a single family residential unit is \$2.96 and has never been increased. The monthly fee for non-residential (commercial) properties is based on multiples of the residential rate according to the size of the commercial property. For non-residential properties of ½ and 5 acres, the current monthly storm drain service fees are \$14.80 and \$148, respectively. Depending on the alternatives selected for implementation, the existing monthly residential storm drain service fee of \$2.96 could increase to somewhere between \$3.61 and \$13.60. The corresponding range for a commercial site of ½ acre would be between \$18.05 and \$68. For a commercial site of 5 acres, the new monthly fee range would be \$180.50 up to \$680.

Proposition 218, adopted by voters in 1996, generally prohibits the imposition of fees for property-related services without voter approval. However, the applicability of Proposition 218 to the City's storm drain fee is currently an open question that will likely depend on the outcome of pending court case in Northern California. This issue is discussed further in Volume II.

Recommendations

1. Approve implementation of Alternatives 1 through 4.
 - 1) NPDES Permit Compliance
 - 2) Minimal Structural Treatment
 - 3) Transfer of Expenditures to the Storm Drain Fund
 - 4) Increased Street Sweeping Service.
2. Approve an increase of the base monthly storm drain service fee from \$2.96 to \$9.68.

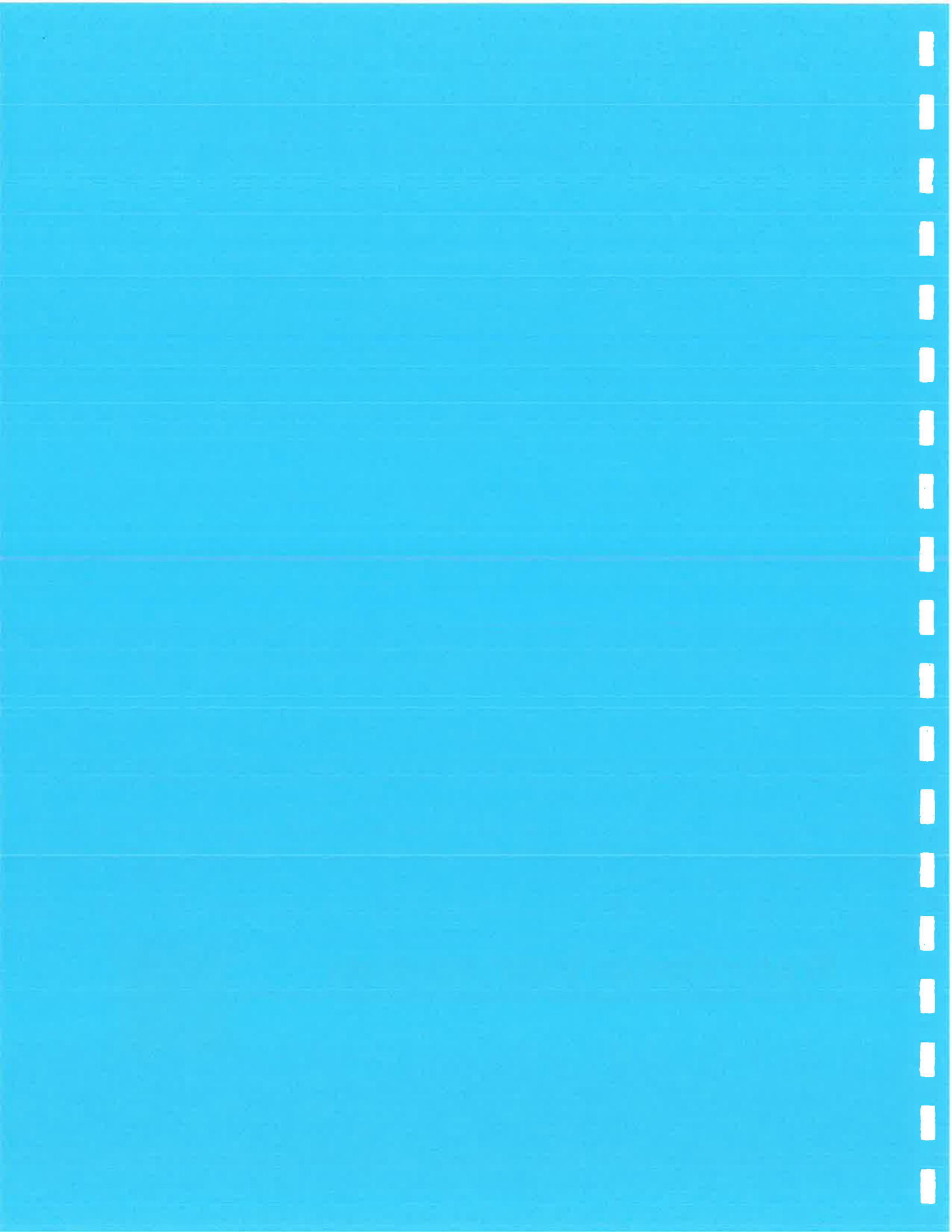
Council Action

The recommendations were modified as follows and approved by the City Council by a vote of 5-0 on March 2, 2002.

1. Approve implementation of Alternatives 1 through 4:
 - 1) NPDES Permit Compliance
 - 2) Minimal Structural Treatment
 - 3) Transfer of Expenditures to the Storm Drain Fund
 - 4) Increased Street Sweeping Service.
2. Consider a storm drain fee increase to cover implementation costs.

Water/Sewer Rate Analysis





Water/Sewer Rate Analysis

Objective

To review the existing water/sewer rates to determine if adequate funding is available to operate and maintain the water/sewer utilities. To determine appropriate adjustments to the rate schedules if required and develop a pass through mechanism to appropriately adjust the rates on a year-by-year basis as required.

Water operating position projected as a negative \$522,000; Sewer operating position projected as a negative \$662,000

The Water Operating Fund is projected to have a negative operating position of \$522,000 for fiscal year 2002-03, and the Sewer Operating Fund is projected to have a negative operating position of \$662,000 for the same year. The Water Operating Fund is projected to have a positive balance (including emergency reserves) of \$1,625,000 at June 30, 2003, while the Sewer Operating Fund is projected to have a positive balance (including emergency reserves) of \$2,690,000.

Current Ordinance does not provide assuredness of rate stability or for sound fiscal condition

The current Ordinance on water rates includes a provision for automatic rate adjustments based on certain criteria. According to the provisions of that Ordinance, a rate decrease of ten percent would be required effective July 2002. However, if the City were to implement the decrease, in order to comply with the provisions of the Ordinance, the subsequent four years would require adjustments every year in the amounts of a seven percent increase, an eighteen percent increase, a nine percent increase and a four percent decrease. To make matters worse, the Ordinance restricts the automatic increases to only the amount of the increase in certain expenditure categories. Since the need for the subsequent increases would have been caused by the drastic rate reduction in July 2002 and not due to substantial expenditure increases, the increases over the next remaining years of the forecast period would have been restricted to an estimated three percent each year. At that rate, by the end of the five-year forecast period, the required fund balances of eight to ten percent would have been reduced to a negative 31 percent. Therefore, the Ordinance as currently written does not offer assuredness of rate stability or a sound fiscal condition of the fund due to its limited horizon and the lack of consideration of future operating positions.

Concerns with current Ordinance were presented at May 2001 budget workshop

At last year's budget workshop on May 29, 2001, staff presented to Council several concerns regarding the current Ordinance for the automatic rate adjustments in the Water Fund. The concerns were that the Ordinance did not take operating position into consideration nor did it look at the effects of rate changes on the remaining years of the forecast period. These two issues are critical to maintaining rate stability and sound fiscal condition of the Fund. As a result of staff recommendations at that time, Council approved the following actions:

- Direct staff to review the Ordinance on Water Rates and bring recommended changes to Council during the 2002 Long Term Financial Plan process.
- Direct staff to defer a water rate adjustment until after the Ordinance on Water Rates has been revised.

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- Direct staff to bring recommended target levels for Depreciation Reserves to Council during the 2002 Long Term Financial Plan process.

The recommended target level for the Depreciation Reserve has been included in the Reserve Analysis Paper in Volume II.

Staff has reviewed the Ordinance with the City Attorney, and the following changes are recommended:

Several changes to the current Ordinance have been recommended

- The term “end-of-year reserve balance” is ambiguous. In addition, with the new GASB Statement 34 (as explained in the Financial Forecast section) becoming effective in FY 2002-03, the traditional retained earnings balances will no longer exist. As explained in the Financial Forecast section, forecasting will be based on net working capital. Therefore, “end-of-year reserve balance” will be replaced with “end-of-year net working capital in the Water Operating Fund”.
- To promote rate stability, extend the fund analysis period from one year to five years.
- Implement any potential rate adjustments so that all five years of the forecast period will maintain the emergency reserve balance of at least eight percent with the lowest year of the five-year period held at the eight percent level. Any necessary rate increases would be “leveled out” – meaning that a larger rate increase will not be delayed until the year needed, but rather that smaller constant increases in increments of tenths will be made in the preceding years to accumulate the necessary funds over a longer period.
- Any necessary rate decreases will be made in the first year that the decrease is required assuming the following: the Water Depreciation Reserve is adequately funded over the entire five-year period, and the emergency reserve balance is maintained at least eight percent over all five years.
- In order to provide sufficient time for any potential rate adjustments, perform the calculations for the fund analysis in January each year instead of May.
- Change the phrase “independent audit conducted by a certified public accountant” to “independent review conducted by a certified public accountant” to reflect proper accounting/auditing terminology.
- Determine whether the Water Depreciation Reserve is fully funded prior to implementing any rate decreases.
- Each year, the Water Fund is analyzed anew to ensure any changes in forecasting assumptions are incorporated.

Automatic rate adjustments have also been recommended for the Sewer Fund

In addition, the Sewer Fund currently does not have provisions for automatic rate adjustments. Staff recommends that the Sewer Fund Ordinance be amended to include the same automatic rate adjustment process that is being recommended for the Water Fund.

Upon Council approval of these recommended changes, the Ordinance revisions will be drafted by the City Attorney. Standard procedures will be

followed for the necessary public hearings and adoption of the changes to both Ordinances at subsequent City Council meetings.

Recommendations

1. Direct staff to bring the changes to the Water Fund Ordinance and the Sewer Fund Ordinance as recommended above to subsequent City Council meetings for public hearing and Council approval.
2. Replace “end-of-year reserve balance” with “end-of-year net working capital in the Water Fund”.
3. Extend the fund analysis period from one year to five years.
4. Rate increases will be “leveled out” over the five-year period.
5. Rate decreases implemented only if the Water Depreciation Reserve is adequately funded over the entire five-year period and the emergency reserve balance is maintained at eight percent.
6. Replace “independent audit” with “independent review”.
7. Perform the calculations for the fund analysis in January.
8. Ensure that adequate funding is available in the Water Operating Fund for annual reserve contributions.
9. Amend Sewer Fund Ordinance to implement automatic rate adjustments similar to the revised Water Fund Ordinance.

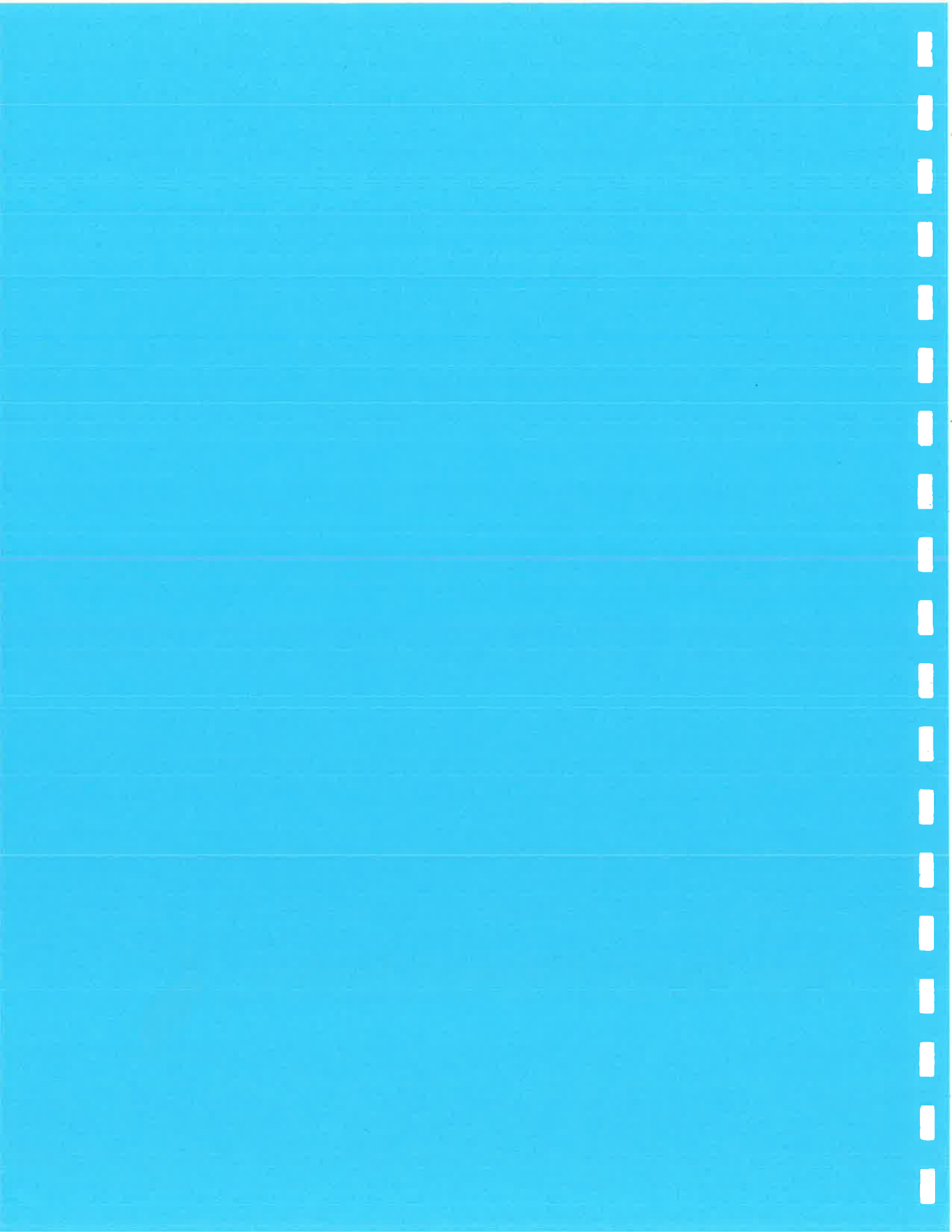
Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

Long Term Financial Plan

State Impact Financial Analysis





State Impact Financial Analysis

Objective

To present the impacts of the ongoing loss of local control over local revenues and the associated shifts in revenue to the State of California due to various budget crises experienced by the state.

Summary

The City of San Clemente has been negatively impacted by the shifts in local revenue to the state. As the state takes more money from local government, it also places more restrictions on cities' ability to raise revenues. This report presents the impacts of the ongoing loss of local control over local revenues and the associated shifts in revenue to the State of California due to various budget crises experienced by the state. It also provides an overview and analysis of how the City of San Clemente has managed to balance continuing revenue losses and delivering services to its residents.

The City has been negatively impacted by local revenue shifts to the state

Background

In the past 20 years, local government has lost more control over its revenue to the hands of the state. The diversion of local funds has allowed the state to meet their program funding obligations at the expense of important local services. These financial challenges have left the City of San Clemente and other cities with the arduous task of searching for creative ways to deal with permanent fiscal diversions. In the last 20 years, the City of San Clemente has lost \$18,744,290 in revenue to the state due to the state's budgetary shortfalls and voter initiatives, including:

The state's budgetary shortfalls and voter initiatives have resulted in lost local revenues to the state

- Proposition 13, which passed by voters in 1978, sought to cap spiraling property tax rates and put a cap on increases of no more than 2 percent per year on those who owned homes before the initiative went into effect. Since then, local government has had to get by on less money which has impacted service delivery.
- After Proposition 13, the state reduced or eliminated many subventions, i.e., liquor license fees, highway carrier's uniform tax, cigarette taxes, etc. to cities and counties, representing a loss of \$300 million annually to cities since 1981. This amounts to a \$4,283,310 cumulative loss for the City of San Clemente and a \$312,320 annual loss.
- The Educational Revenue Augmentation Fund (ERAF) was implemented in 1992 in response to serious state budgetary shortfalls. The Legislature and administration permanently redirected over \$3 billion of property taxes from cities, counties, and special districts to schools and community college districts. These redirected funds reduced the state's funding obligation for K-14 school districts by a commensurate amount and enabled the state to balance its budget. The ERAF shift currently amounts to a \$1.5 million annual loss in revenue for San Clemente.

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- Proposition 218, passed by voters in 1996 and impacted cities' ability to generate new revenues through various coping mechanisms that were implemented to provide services and led to voter resistance, placing new limits on local fees, charges, property-related assessments, and taxes. Proposition 218 caused the elimination of the City of San Clemente's Lighting and Landscaping assessment district because assessments, which are considered to be of "general benefit," could no longer be assessed, resulting in an annual loss in revenue of \$1.8 million.

Federal, state and county governments' contributions to support city operations continue to dwindle

In response, cities have had to find more innovative means of providing services with less staff. In view of this, it has been documented that for 20 plus years, state and federal support to local government has dwindled, while the number of mandated programs and service demands have grown.

In fiscal year 1974-1975, federal, state, and county governments' contributions to support city operations equaled 21 percent of all city revenue. Today that support totals less than 13 percent. And, since 1990, the City of San Clemente experienced a 32 percent decline in its general fund spending, while State government has experienced a 27 percent increase.

Future risks to local government continue to exist

The City's fiscal position will be jeopardized if the state takes more money from the City. The state's fiscal crunch means there is the potential for even further losses in local government revenue – if not this year, then next. Looking ahead, numerous threats to local revenues exist, such as the 2 percent assessment appeals case, the "backfill" for the vehicle license fee (VLF) tax reduction made in 1999, and simply the continued risk that even more local property taxes will be diverted to the state.

The chart below itemizes the reductions specific to San Clemente.

Recommendations

1. Using the information discussed herein, work with other cities towards local control of local revenue and push for stable sources of tax money that will remain under local control -- revenue that the state will not be able to take away.
2. Share this information with other cities and seek input in analyzing the impacts of state revenue shifts on their own jurisdictions.
3. Report back to Council as progress is made.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

Financial Trend Analysis

Indicators measure the fiscal health of the City of San Clemente

Introduction

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

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

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

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

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

Trend data is as of June 30, 2001

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal year 1996-97 through fiscal year 2000-01. Consequently, all trends are based on data available as of June 30, 2001, and do not incorporate any changes that have occurred since that time. For example, a transfer of \$546,400 is being made from the General Fund to the Street Improvement Fund during FY 2001-02. This transfer is not included in the analysis that follows, and thus any financial indicators affected by this transfer, such as General Fund fund balance, have also not been included in this report.

Summary of Trend Analysis

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

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

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

All indicators are favorable for the second consecutive year...

<i>Indicator</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Revenues Per										
Capita	F	F	F	F	F	F	F	U	U	U
Property Tax										
Revenues	F	F	F	F	F	U	U	U	W	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	U	U
License & Permit										
Revenues	F	F	F	F	U	F	F	F	U	U
Comm. Develop.										
Charges	F	F	F	F	U	U	U	U	U	U
Elastic Revenues	F	F	F	F	F	F	F	F	U	U
One-Time										
Revenues	F	F	F	F	F	F	F	F	W	W
Intergovernmental										
Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overages										
/Shortages	F	F	F	F	F	F	F	U	U	U
Expenditures Per										
Capita	F	F	F	F	F	F	F	F	W	W
Employees Per										
Capita	F	F	U	U	F	F	F	F	W	W
Fringe Benefits	F	F	F	F	F	F	F	W	W	U
Capital Outlay	F	F	F	F	F	F	F	U	U	U
Operating Surplus	F	F	F	F	F	F	F	W	W	U
Fund Balance	F	F	F	F	F	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Compensated										
Absences	F/C	F/C	F/C	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	U	U	U	W	W
Population	F	F	F	F	F	F	F	F	F	F

Financial Trend Analysis

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

The improved fiscal health of the City evidenced on the previous page is not only the result of external factors, such as an improved economy, but also the direct result of a conscious effort and continual planning on the part of City Council and staff. This planning began in 1992 with a series of fiscal policies that are periodically revised and the preparation of an annual Long Term Financial Plan.

The 2002 Long Term Financial Plan again includes the analysis of twenty trends. The current year being analyzed shows every indicator receiving a *favorable* rating. This is the second consecutive year with all favorable indicators and is much improved over 1993 where only six indicators showed favorable signs.

Emergency reserves are fully funded in FY 2001-02

It should be noted that the City's improved fiscal health has been partially attained by funding emergency reserves. The 2001 Long Term Financial Plan established the General Fund Emergency Reserve at 8% of the operating expenditures. This reserve is fully funded in FY 2001-02.

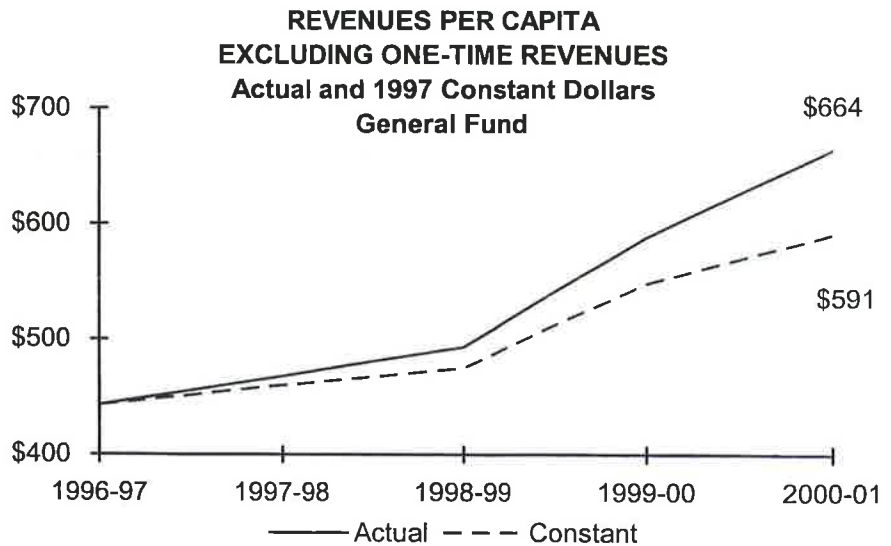
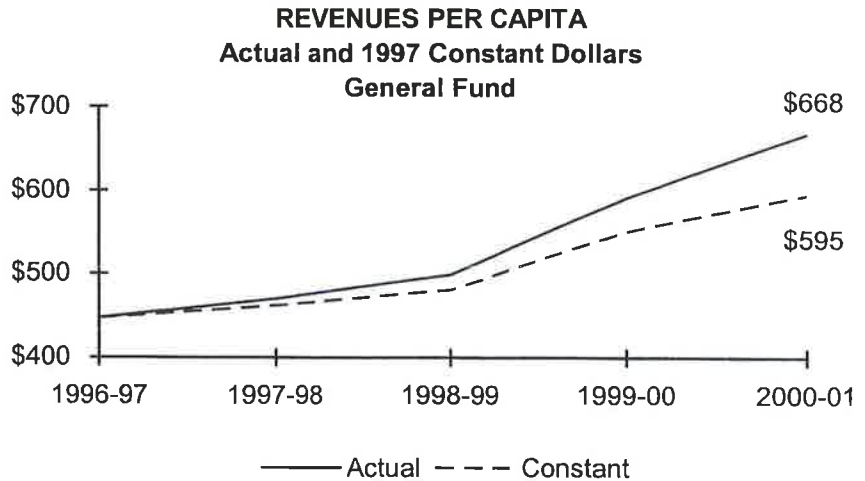
Because of the commitment to implementing recommendations submitted as a result of the City's annual financial planning process, the City's financial condition improved dramatically. The City's improving fiscal position is the result of financial planning, funding of necessary reserves, the improved local and regional economy, and the cost reductions and streamlining efforts made by many of the City's departments over the past several years.

The following sections provide a brief overview of many of the indicators listed in the table above. Volume II of the 2002 Long Term Financial Plan contains a complete description of all financial indicators.

Long Term Financial Plan

Revenues

Revenues Per Capita



Finding: **FAVORABLE.** Revenues per capita (excluding one-time revenues) reflect an increase when analyzing both actual and constant dollars for FY 2000-01.

Revenues per capita show increases in actual and constant dollars

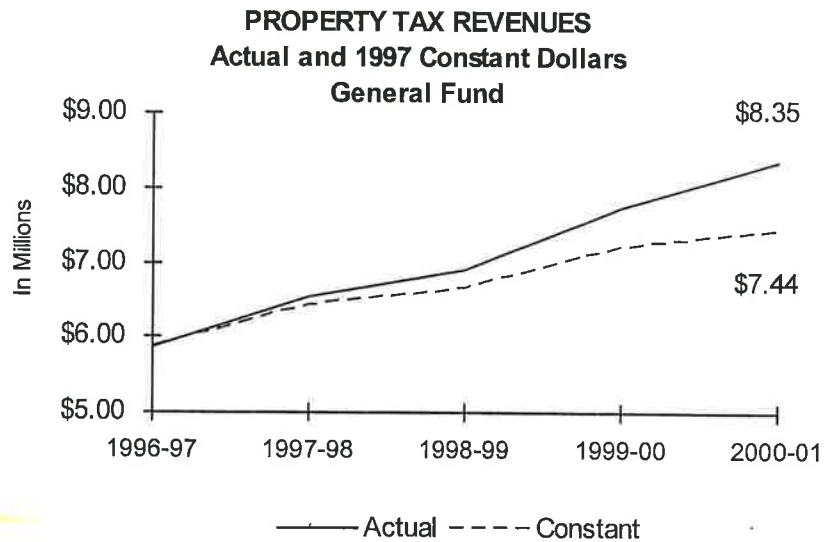
Comments: The first chart above on revenues per capita shows an upward trend for both actual and constant dollars. Total revenues for FY 2000-01 increased, as did most revenue categories. License and permit revenues increased over the prior fiscal year by \$1,263,000. Other revenue increases include service charges, interest and rentals, sales tax revenue, property tax revenue, intergovernmental revenue and interfund charges. Transient occupancy tax revenues rose to \$995,000 in FY 2000-01.

Financial Trend Analysis

The second chart (which excludes one-time revenues) shows both actual and constant dollars increasing for FY 2000-01. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. Additionally, the City no longer has to rely on one-time revenues for its operational needs. A clear favorable trend has emerged with this increase in all major categories of General Fund revenues. Thus, a favorable rating has been assigned.

Property Tax Revenues

Property tax revenues increased by 8.1%, the fifth consecutive increase



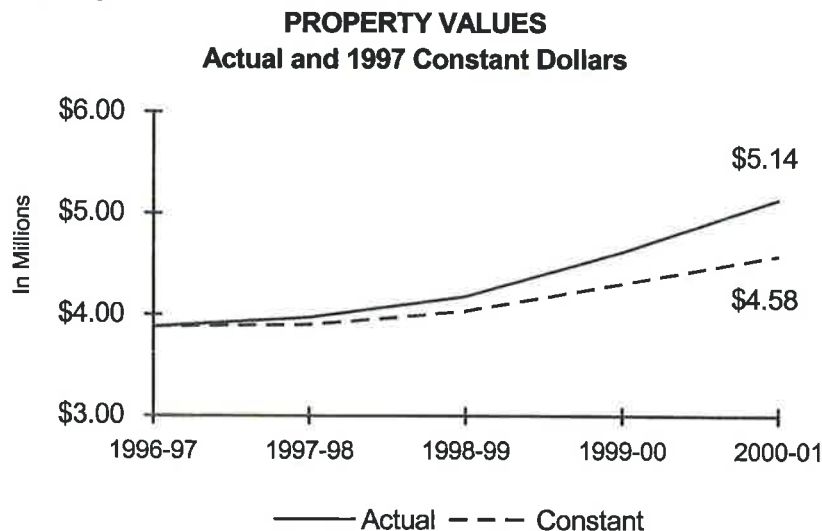
Finding: **FAVORABLE**. Property tax revenues showed a significant increase for FY 2000-01, continuing the positive trend which was initiated four years earlier.

This increase amounted to \$624,000

Comments: Property tax revenues increased by \$624,000 or 8.1% in actual dollars, and show a 3.3% increase in constant dollars, ending the year \$238,000 above the prior fiscal year. This increase demonstrates the City's secure economy and the solid property valuations within the City. This indicator receives a favorable rating for the fifth consecutive year.

Long Term Financial Plan

Property Values

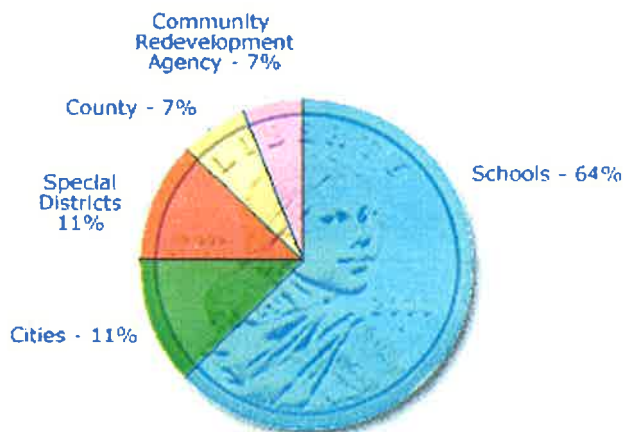


A positive growth rate in property values was observed for the fifth consecutive year

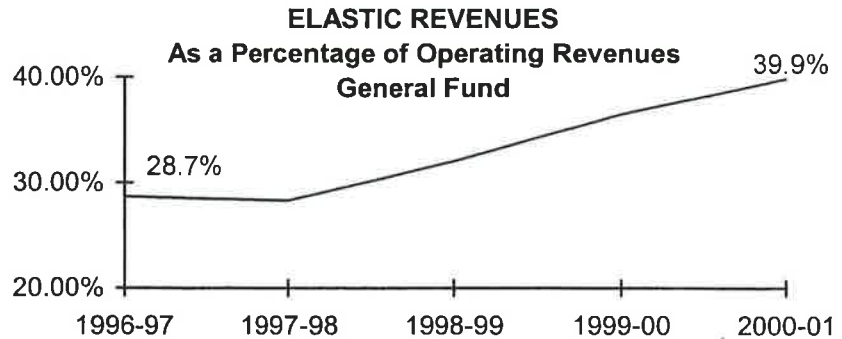
Finding: *FAVORABLE*. Property values showed a positive growth rate for the fifth consecutive year in FY 2000-01.

Comments: The growth rate in property values as a percentage rate from the previous year shows an increase of 6.43%. This is the fifth consecutive year where a positive trend has emerged. As a result of the positive changes, this indicator remains favorable. It should be noted, however, that this indicator needs to be continually monitored due to the impact of property tax revenues on the General Fund.

Where the Typical Orange County Property Tax Dollar Goes (Locally Assessed 1% Basic Levy)



Elastic Revenues



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

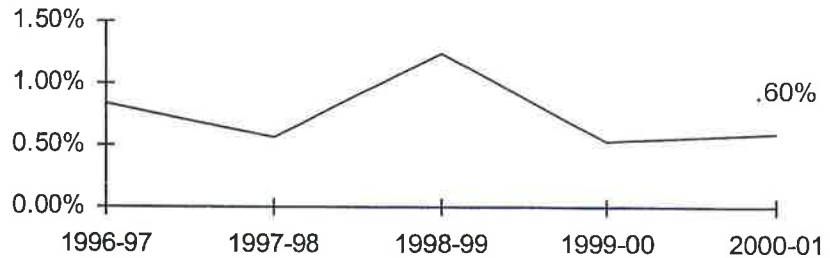
Finding: **FAVORABLE**. Elastic revenues, as a percentage of total revenues, increased 3.4% in FY 2000-01. Actual elastic revenues increased \$3,115,000, while total revenues increased by \$5,305,000. The result is the increase shown above.

Comments: The City's largest elastic revenue source, sales tax revenue, was up 15.8%, or \$717,000, from the prior year. This is due to the economic development efforts beginning in 1993 when San Clemente focused on increasing the number of businesses generating sales tax revenue. In addition, license and permit revenues increased \$1,263,000 and community development service charges came in \$1,128,000 over the previous year. Elastic revenues, as a percentage of total revenues, increased in FY 2000-01 due to development and economic growth. Based on current development in the planning and building stages, increased sale tax revenue, and the fact that the City uses development revenue for one-time expenditures, this rating is unchanged from prior year. Details concerning each major elastic revenue source follow:

Long Term Financial Plan

One-Time Revenues

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



Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled .60% in FY 2000-01, slightly higher than the prior year.

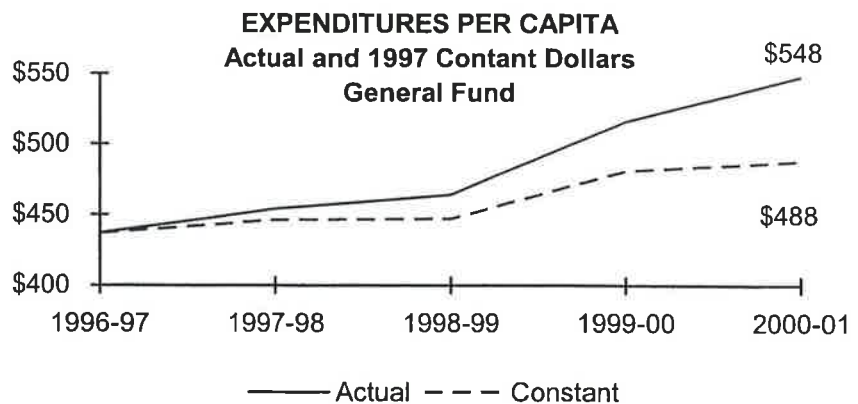
Comments: One-time revenues have increased from the prior fiscal year by \$49,000, or 30.9%. FY 2000-01 one-time revenues, totaling \$208,800, included a \$109,000 energy program reimbursement grant and other miscellaneous reimbursements. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator receives a favorable rating.

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

Financial Trend Analysis

Expenditures

Expenditures Per Capita



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

General Fund expenditures increased \$2,748,000 in FY 2000-01

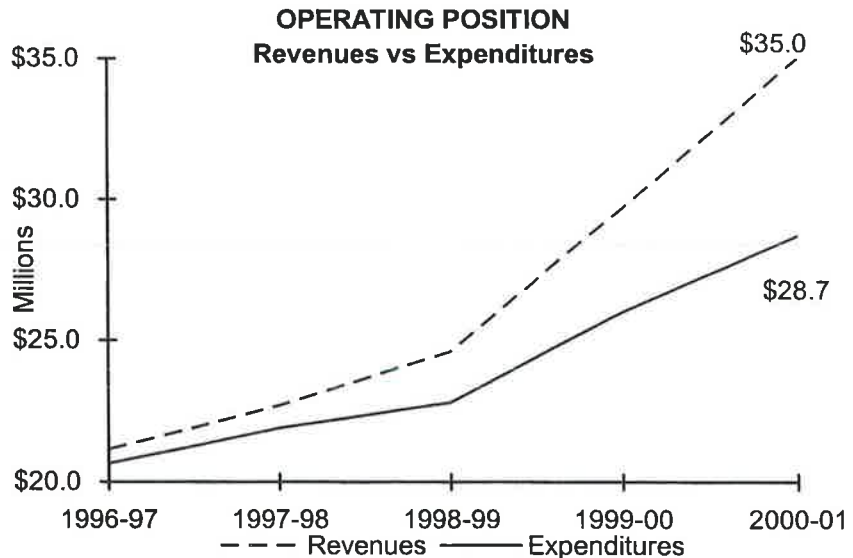
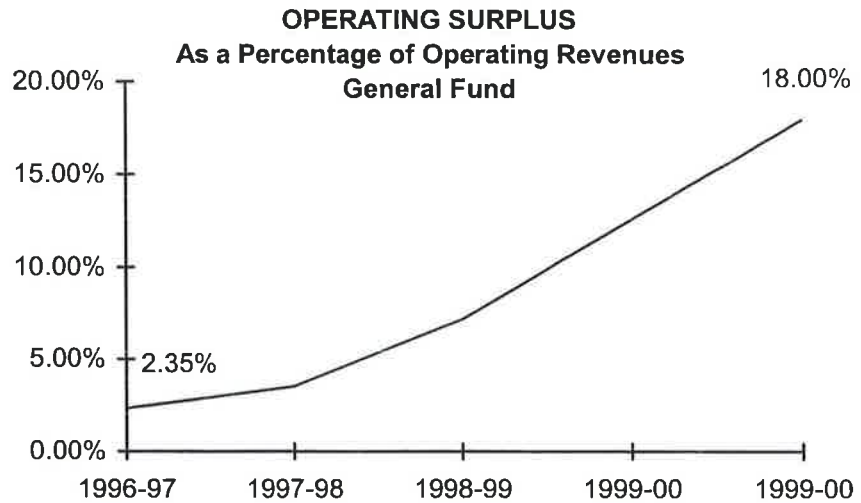
Comments: In FY 2000-01, expenditures increased in actual dollars by \$2,748,000 when compared with FY 1999-00, and \$1,381,000 in constant dollars for the same time period. Constant dollar expenditures per capita for FY 2000-01 are higher than FY 1996-97 due to a number of reasons. First, Community Development expenditures have increased along with the volume of development within the City. Second, 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. In addition an independent, City-Wide Organizational Review conducted in September 1998 found general fund expenditures per capita fell well below comparable survey cities. Measures were taken, based on the survey, to bring the City's service expenditures up to an approximate equivalent when compared to neighboring cities.

Actual expenditures include interfund transfers. For example, FY 2000-01 General Fund expenditures included transfers to the Capital Equipment Replacement Reserve (\$100,000), Accrued Leave Reserve (\$100,000) and Street Improvement Fund (\$530,450). These transfers help to ensure that the other funds have adequate reserves to meet emergency needs and fund reserve deficits.

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

Long Term Financial Plan

Operating Position



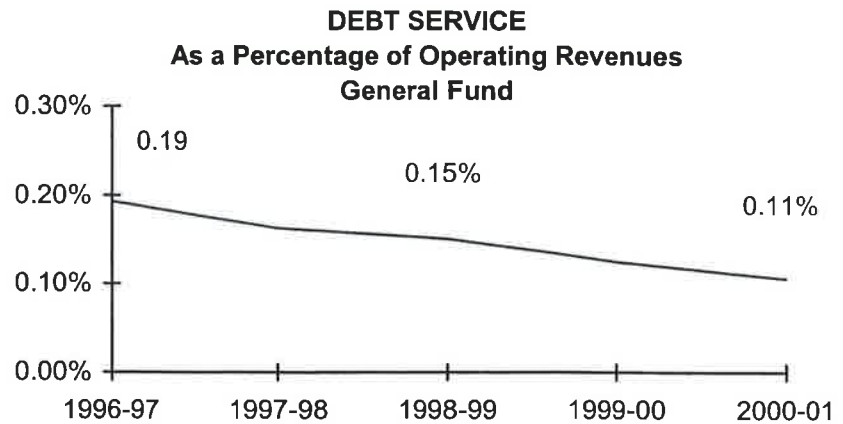
Finding: **FAVORABLE.** FY 2000-01 finished with a positive operating surplus of 18.0% when calculated as a percentage of General Fund revenues.

FY 2000-01 shows the seventh consecutive year of operating surpluses

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

Financial Trend Analysis

Debt Service



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

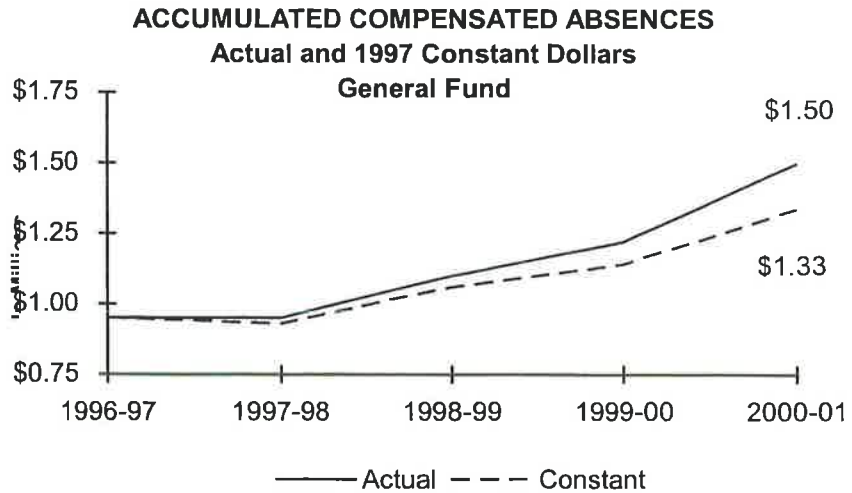
Finding: **FAVORABLE**. General Fund debt service receives a favorable rating as it has remained relatively immaterial (less than 1%) in comparison to total revenues over the last eight years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. Recently, Standard & Poors, an independent firm that issues ratings, gave San Clemente an AA- credit rating.

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

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

Long Term Financial Plan

Accumulated Compensated Absences



Contingent liabilities for accrued leave receives favorable/caution rating

Finding: *FAVORABLE/CAUTION*. This indicator receives a favorable/caution rating due to the City's liability for compensated absences increase over the last three years. Recommendations to fund the Accrued Leave Reserve are made in the Long Term Financial Plan's Reserve section.

Comments: The increase in compensated absences liability is due to multiple factors, including the implementation of Governmental Accounting Standards Board (GASB) Pronouncement 16 in FY 1998-99, an increased pay scale, and the longevity of employee history.

The balance of the liability for compensated absences is \$1,497,360

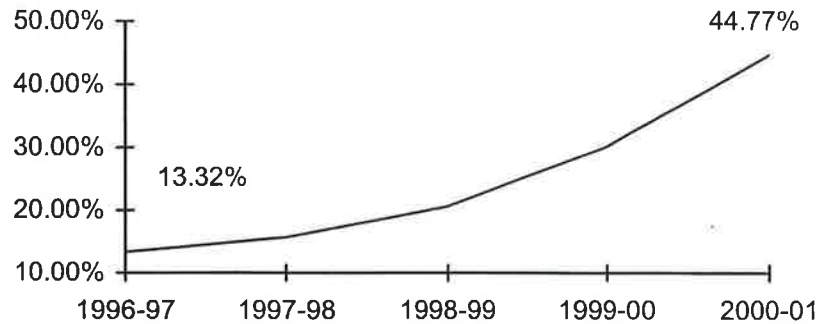
At June 30, 2001, the balance of the liability for compensated absences was \$1,497,360 consisting of \$744,310 for vacation, \$697,880 for sick leave, and \$55,170 for compensatory time. This is an increase of \$273,790, or 22.4% from the prior year's liability of \$1,223,570.

In FY 1994-95, an Accrued Leave Reserve was established with a \$75,000 transfer from the General Fund. In FY 2000-01, the General Fund continued its annual contribution of \$100,000 for the payment of accrued leave for terminated employees.

Financial Trend Analysis

Fund Balance

UNRESERVED FUND BALANCE
As a Percentage of Operating Revenues
General Fund



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

Unreserved fund balances increased to 44.77% in FY 2000-01

Comments: Unreserved fund balance, as a percentage of total revenues, rose 14.6% in FY 2000-01 as a result of an increase in unreserved fund balance of \$6,715,000. The increase in fund balance is due to an operating surplus of \$6,304,000 and maintenance of the General Fund emergency reserves. Steady increases in this trend indicate the stable position of the City's General Fund.

General Fund Emergency Reserve = \$1,620,000

The City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. Included within the total FY 2000-01 unreserved fund balance of \$15.7 million is the General Fund Emergency Reserve totaling \$1,620,000, or 5.1% of General Fund operating expenditures. The General Fund Emergency Reserve is anticipated to be fully funded in FY 2001-02.

Long Term Financial Plan

Financial Forecast

The five-year financial forecast for the General Fund has been updated to reflect the current economic projections and the adjusted FY 2001-02 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 2001-02 approved budget.

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

Development of the Financial Forecast

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

Cal State Fullerton's Economic Forecast is the basis for economic indicators

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Cal State Fullerton's College of Business and Economics, November 2001 Economic Forecast for Southern California and Orange County. In the past, economic indicators from Chapman University were used, however, due to the economic uncertainties from the aftermath of September 11th; Chapman University revised their economic forecast. Rather than a five-year forecast, the revised forecast only included quarterly projections through the fourth quarter of 2002.

It should be noted that standard economic models are not equipped to analyze the impacts of large, unanticipated events. Before September 11th, many economists were predicting the economy to show signs of an upturn in the fourth quarter of 2001 or the first quarter of 2002. Now, unemployment rates have risen and manufacturing has slowed. The forecast prepared by Fullerton College substantially lowers a number of forecast parameters from the previous year. For example, sales tax and assessed valuation projections are lower than those used for the 2001 forecast, resulting in lower projected revenues in the 2002 forecast.

The 2002 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

***Revenue growth rates will average 2.7%
Expenditure growth rates will average 0.2%***

Forecast Summary & Results

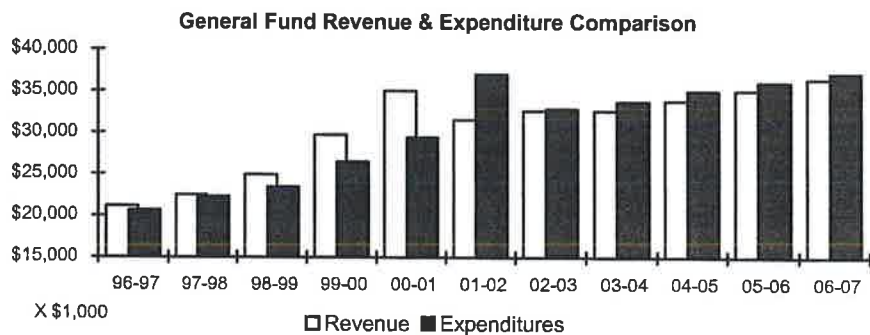
Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are

Long Term Financial Plan

anticipated to grow by an annual average increase of 2.7% a year, compared to the 2001 forecast average of 3.5%. Expenditures are projected to increase at an average rate of 0.2% as compared to the 2001 forecast average of 1.9%. The decline in the expenditure growth rate is due to a number of one-time transfers included in the FY 2001-02 budget for priority projects, such as the Rail Corridor Safety Improvements (\$200,000), Storm Drain Master Plan (\$500,000), Casa Romantica start-up costs (\$171,000) and Golf Clubhouse (\$1.25 million). In addition, transfers to the Communications Fund (\$195,000), Workers' Compensation Fund (\$251,000), General Liability Fund (\$1.5 million) and Park Acquisition and Development Fund (\$1.5 million) were approved as a part of last year's LTFP and included in the FY 2001-02 budget. In total, \$5.6 million in transfers are included in the base year of the forecast as one-time expenditures and results in a decline in the forecast growth rate.

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, Facilities Maintenance, Accrued Leave and Emergency reserves in accordance with the City's fiscal policy. An additional \$1.7 million is scheduled to be allocated for Council Contingency reserves. A total of \$3.0 million will be transferred from the General Fund to the Street Improvement Program. A total of \$723,000 will be allocated for debt payments and transfers. This will result in almost \$7.6 million being allocated during the five year period, which averages \$1.5 million per year or 4.0% of the total adjusted budget for FY 2001-02.

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



Historical and projected revenues and expenditures

Expenditures in FY 2001-02 are higher than revenues due to the intentional drawdown of \$7.1 million from fund balance to provide transfers for reserves, Street Improvement Program and priority projects noted above. Expenditures exceed revenues in each year of the five-year forecast primarily due to anticipated increases in Police and Fire beginning in FY 2002-03.

Financial Forecast

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 (operating receipts less operating disbursements) are shown in the following two graphs that compare the FY 2001-02 approved budget forecast to the 2002 LTFP forecast:

2001 Forecast Summary (FY 2001-02 Approved Budget)*

FY 2001-02 approved budget forecast - Operating position

Amounts in \$1,000

	2001-02	2002-03	2003-04	2004-05	2005-06
Operating receipts	\$30,547	\$32,373	\$33,759	\$35,323	\$37,052
Operating disbursements	30,371	30,650	31,657	32,767	33,824
Projected surplus/deficit	\$176	\$1,723	\$2,102	\$2,556	\$3,228

2002 Forecast Summary (LTFP)*

2002 LTFP forecast - Operating position

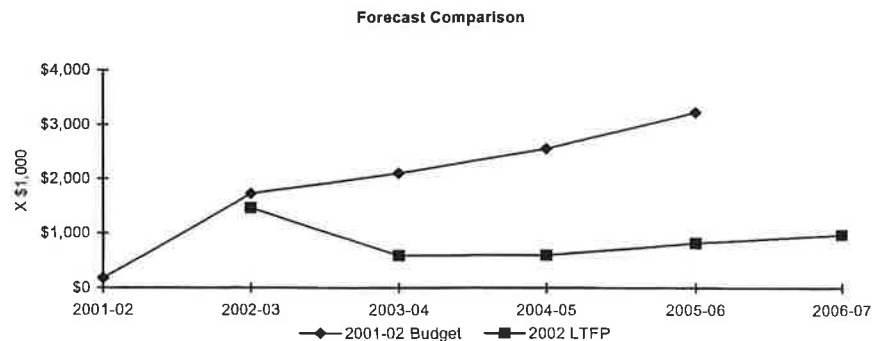
Amounts in \$1,000

	2002-03	2003-04	2004-05	2005-06	2006-07
Operating receipts	\$32,621	\$32,607	\$33,814	\$35,057	\$36,456
Operating disbursements	31,158	32,016	33,217	34,238	35,481
Projected surplus/deficit	\$1,463	\$591	\$597	\$819	\$975

*One-time revenues and expenditures have been excluded.

Operational Position FY 2001-02 Approved Budget vs. 2002 LTFP Forecast

The following chart provides a graphical comparison of the City's operational position for the FY 2001-02 approved budget forecast and the 2002 LTFP forecast.



Positive operating position in all five years of the forecast

The discrepancy between the two forecasts is due to:

- Forecast assumptions, primarily sales taxes and assessed valuation, were lower than assumptions used for the approved budget forecast. Thus,

Long Term Financial Plan

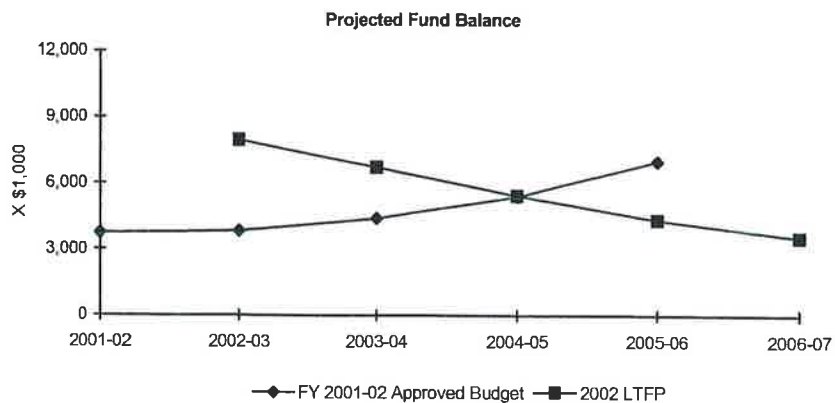
forecasted revenue is an average of \$1.7 million lower per year, beginning in FY 2003-04.

- Anticipated changes in benefit rates included in the Police Services contract beginning in FY 2002-03, increase expenditures by approximately \$700,000 each year of the forecast. These increases were not known during the preparation of the approved budget forecast.

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

Fund Balance

The chart below illustrates projected fund balances from the FY 2001-02 approved budget forecast to the 2002 Long Term Financial Plan forecast.



The actual beginning fund balance for fiscal year 2001-02 increased \$4.9 million over projections (i.e. fund balance was projected at \$9.2 million and the actual fund balance was \$14.1 million). The change in the fund balance projection was due to:

- Actual revenue for FY 2000-01 was \$2.0 million higher than projected in the budget forecast. All revenue categories, except transfers from other funds, increased compared to revenue projections, with substantial increases in property taxes, sales taxes, development related permits, fees and service charges.
- An additional \$744,000 was transferred into the General Fund from the closure of the Lighting & Landscape Fund.
- Actual expenditures for FY 2000-01 were \$2.1 million under the projection in the budget forecast.

In addition, fund balances differ dramatically because forecast revenues are lower than the FY 2001-02 budget forecast, while forecast expenditures are higher.

**Fund Balance and
Emergency Reserve**

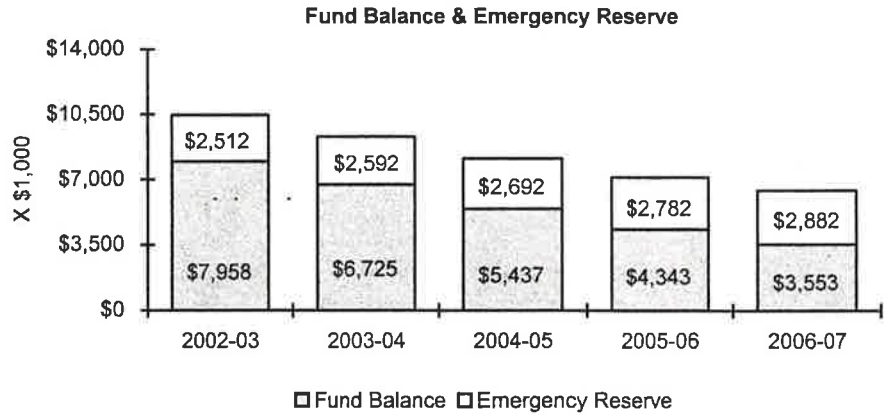
Fund Balance and Reserves

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.

**Total fund balances are
projected at \$10.5
million in FY 2002-03**

Fund Balance & Emergency Reserve

Amounts in \$1,000	2002-03	2003-04	2004-05	2005-06	2006-07
Fund Balance	\$7,958	\$6,725	\$5,437	\$4,343	\$3,553
Emergency Reserves (8%)	\$2,512	\$2,592	\$2,692	\$2,782	\$2,882
Total	\$10,470	\$9,317	\$8,129	\$7,125	\$6,435



As depicted above, the City will maintain total fund balances averaging \$8.3 million over the five-year forecast period.

Long Term Financial Plan

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

Cash inflows and outflows by year	Cash Inflows and Outflows By Year				
	Amount in 1,000's				
	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Fund Balance	8,412	7,958	6,725	5,437	4,343
Receipts					
Taxes	17,325	17,927	18,695	19,490	20,415
Licenses & Permits	3,412	2,917	2,997	3,080	3,166
Intergovernmental	3,057	3,186	3,309	3,434	3,559
Service Charges	3,718	3,311	3,396	3,483	3,573
Fines & Forfeitures	997	1,042	1,084	1,127	1,170
Interest & Rents	1,399	1,453	1,503	1,556	1,622
Interfund Transfers	2,713	2,771	2,829	2,888	2,950
Total GF Receipts	32,621	32,607	33,814	35,057	36,456
Disbursements					
City Council	46	46	47	48	49
City Manager	401	410	420	429	440
City General	2,453	2,509	2,568	2,627	2,491
Finance & Admin. Services	274	281	287	294	301
City Clerk	493	504	516	528	541
Finance	1,241	1,271	1,301	1,331	1,364
Human Resources	434	445	455	466	478
Police Services	7,868	8,192	8,516	8,848	9,198
Fire Services	4,579	4,738	4,968	5,193	5,394
Comm Dev. Admin.	246	252	258	264	270
Building	1,695	1,757	1,798	1,741	1,783
Planning	1,232	1,163	1,190	1,118	1,145
PWAdmin/Economic Dev.	505	518	530	542	556
Engineering	2,548	2,406	2,461	2,517	2,577
PW Maintenance Services	2,774	2,843	2,911	2,981	3,056
B, P & R Admin.	356	364	373	381	390
Recreation	1,544	1,582	1,620	1,658	1,699
Beach & Park Maintenance	3,192	3,273	3,354	3,437	3,525
Marine Safety	827	847	866	886	907
New Employees	157	358	562	771	985
Total GF Disbursements	32,865	33,760	35,001	36,061	37,147
Emergency Reserve	210	80	100	90	100
Ending Fund Balance	7,958	6,725	5,437	4,343	3,553

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

Disbursements by Category	2002-03	2003-04	2004-05	2005-06	2006-07
Salaries & wages	7,554	7,850	8,146	8,395	8,711
Employee benefits	2,461	2,594	2,728	2,849	2,992
Supplies	731	750	769	788	808
Contractual services	16,984	17,306	17,970	18,510	19,176
Other charges	858	880	902	925	949
Capital outlay	318	326	334	343	352
Interdepartmental charges	2,580	2,643	2,709	2,777	2,849
Interfund transfers	1,380	1,408	1,439	1,470	1,304
Total	32,865	33,760	35,001	36,061	37,147

Financial Forecast - Assumptions

Economic and demographic assumptions affect projections

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 Forecast developed by Cal State Fullerton and published in November 2001. Additionally, data is provided by the various City of San Clemente departments.

The forecast predicts the economy will decline until the early part of next year

The Fullerton forecast predicts that Orange County's economy will decline until the early part of next year. The County unemployment is expected to climb to 5.0% for 2001 and will reach 5.8% in 2002. This is due to declines in manufacturing and tourism. Personal income is forecasted to average 5.2%, compared to 6.6% in the prior year. Local inflation is projected to average 2.7% and taxable sales anticipated to grow at an annual average rate of 5.7%. In the prior forecast period, taxable sales were anticipated to range between 5.4% in FY 2002-03 to 6.8% in FY 2005-06. Housing appreciation for resale homes is predicted to increase an average of 3.5%, as compared to 6.0% in the prior year forecast.

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 2002 Financial Forecast to project the various revenue and expenditures categories are delineated below:

Summary of forecast parameters

Par #	Description	2002-03	2003-04	2004-05	2005-06	2006-07	Average
1	Inflation	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
2	Population	3.7%	3.2%	2.9%	2.7%	2.6%	3.0%
3	Assessed Valuation	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%
4	Personal Income	4.3%	4.2%	5.4%	5.4%	6.5%	5.2%
5	Taxable Sales	4.2%	3.9%	6.5%	6.3%	7.7%	5.7%
6	Property Taxes	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%
7	Trans. Occup. Tax	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
8	Franchise Taxes	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
9	Prop. Transfer Tax	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
10	Construction Permits	3.7%	3.2%	2.9%	2.7%	2.6%	3.0%
11	State Subventions	5.2%	4.5%	4.1%	4.0%	3.9%	4.3%
12	Service Charges	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
13	Interest Earnings	5.0%	5.5%	6.2%	6.4%	6.4%	5.9%
14	Pier & Beach Concessions	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
15	Interfund Charges	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
16	Salaries & Wages	3.0%	2.3%	2.3%	2.3%	2.3%	2.6%
17	Employee Benefits	2.8%	2.3%	2.3%	2.3%	2.3%	2.4%
18	Supplies	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
19	Services/Other Charges	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%
20	Capital Outlay	3.1%	2.6%	2.5%	2.5%	2.6%	2.7%

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

Inflation is projected to average 2.7%

- *Consumer Price Index (Inflation):* Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the five-year forecast and is projected to average 2.7% per year.

Population estimates average 3.0% over the forecast period

- *Population:* Population size is the primary basis for the allocation of Motor Vehicle taxes; one of the City's larger revenue sources (8% 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.

2002-03	2003-04	2004-05	2005-06	2006-07
55,468	57,516	59,731	61,462	62,921
5.7%	3.7%	3.9%	2.9%	2.4%

Assessed Valuation is projected to grow by an average of 3.5%

- *Assessed Valuation:* This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property that drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 3.5% per year.

Personal Income is projected to increase an average of 5.2%

- *Personal Income:* As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 5.2% per year.

Taxable Sales in Orange County are projected at 4.2%

- *Taxable Sales:* Taxable sales are a measure of the total retail sales in Orange County. This indicator has a direct relationship with the City's retail sales tax revenue, which is 1% of taxable sales in San Clemente. Taxable sales in Orange County for 2002-03 are projected at 4.2%.

Financial Forecast Assumptions

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

Forecast assumptions includes contributions to reserves, and staffing projections

- A 3% cost of living increase, previously approved by City Council, has been included in the forecast for FY 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 two new positions per year in each year of the forecast. In total, ten new positions are added during the forecast period.

Financial Forecast

- The Police Services budget includes one new contract position per year beginning in FY 2003-04. In total, four new contract positions are added during the forecast period.
- Beginning in FY 2002-03, the Police Services contract includes a 10% increase in retirement benefits due to the implementation of 3% at 50 benefits for sworn officers. Additional costs added to the contract include an anticipated 4% cost of living adjustment, maintenance on new mobile data terminals and maintenance on radios.
- Staffing levels and contractual agreements for development related activities are reduced beginning in FY 2003-04, along with corresponding revenue. This includes contract inspectors, contract plan checking and administrative support staff in the Building and Engineering divisions.
- 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 2001-02) have been excluded from the forecast. For example, the City will receive a \$425,000 grant for sand replenishment in FY 2001-02. This is considered “one-time” revenue and has been reduced from the base forecast. The \$5.6 million in transfers to other funds for priority projects are also considered “one-time” expenditures and has been reduced from the base forecast as well.
- Capital Outlay amounts to \$386,000 in FY 2001-02 of the forecast for one-time capital improvements and capital equipment. Approximately \$320,000 (increased by inflation) is included in each year of the forecast thereafter.
- Negotiated increases approved by City Council for the Orange County Fire Authority (OCFA) contract are included for all five years of the forecast. The contract is capped at a total increase of 3.5% until FY 2005-06. The contract cap increases to 4% for the remaining five years of the contract. The cap, however, does not apply to the cost of the fourth man added to each shift on Engine 60. These positions are filled by overtime in FY 2002-03 and FY 2003-04. Beginning in FY 2004-05, one full-time position per year is added to the contract cost. By the end of the forecast period, the positions are all filled with permanent OCFA staff.
- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at \$885,230 for FY 2002-03:

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	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Equipment	100,000	100,000	100,000	100,000	100,000
Facilities Maintenance	162,000	162,000	162,000	162,000	
Accrued Leave	100,000	100,000	100,000	100,000	100,000
Council Contingency	313,230	323,350	335,470	346,780	359,360
Emergency Reserve	210,000	80,000	100,000	90,000	100,000
Total	\$885,230	\$765,350	\$797,470	\$798,780	\$659,360

- 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 fully funded in FY 2001-02, in accordance with City Fiscal Policies. Annual contributions are recommended in 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.)

Other transfers and debt payments

	2002-03	2003-04	2004-05	2005-06	2005-06
Street Program	\$562,750	\$579,630	\$597,020	\$614,930	\$633,380
Energy Program	37,800	37,800	37,800	37,800	0
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	48,780	50,490	52,260	54,090	55,980
Total	\$711,330	\$729,920	\$749,080	\$768,820	\$751,360

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 75.
- No new or enhanced programs are included in the forecast.
- Revenues or expenditures included in the City's Fiscal Impact Model are not included in the forecast. The Fiscal Impact Model is a land use model intended to show the fiscal impact of development on the City's operating position. Thus, property tax and sales tax revenues are increased based upon the projected amount of development. In contrast, the five-year forecast shows the City's operating position based primarily on growth patterns or inflation factors.
- 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.

Forecast pertains to the General Fund only

No new or enhanced programs are included

No proposed or potential development projects are included in the forecast

- Potential state impacts, such as a reduction of motor vehicle license fees, are not included in the 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”.
- The forecast does not include the cost of recommendations from the other Long Term Financial Plan issue papers contained in Volume II.

Revenues are projected to increase an average of 2.7%

Property Tax revenue is projected to increase an average of 3.5%

General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 2.7%, compared to a historical five year growth rate of 10.8%.

- Property Tax revenue is projected to increase an average of 3.5% per year compared to a 7.7% average historical increase over the past five years.
- Construction permits are projected to decrease from a historical average of 49.2% to an average of -1.5% for the forecast period, as revenues are reduced in the last four years to reflect the anticipated level of development activity.
- Service Charges are projected to decrease in the first year of the forecast to -10.96%, compared to a 22.7% average historical growth rate over the past five years.
- Fines are projected to increase an average of 4.3% per year compared to a 14.0% 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 1996-97 to FY 2000-01.
- **2001 Projected Growth Rate:** Average annual rate of growth projected for the five years as indicated in the 2001 approved budget forecast.
- **2002 Projected Growth Rate:** Average annual rate of growth projected for the current five-year forecast.

General Fund Growth Rate

Historic Growth Rate	10.8%
2001 Projected Growth Rate	2.5%
2002 Projected Growth Rate	2.7%

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Economic growth throughout the forecast period is positive

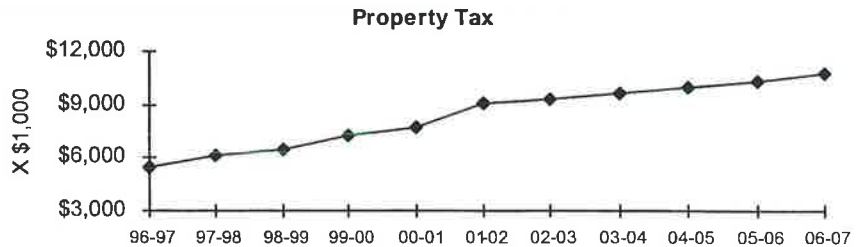
During the past five years, the General Fund revenue growth rate was 10.8% primarily due to steady increases in property values, sales taxes and development related fees and charges. The 2002 forecast rate of 2.7% anticipates that the development activity will start to drop off in FY 2003-04. Property and sales tax revenues are not projected to increase at the same rate previously forecasted due to reductions in assessed valuation and taxable sales reported in the Cal State Fullerton Economic Forecast.

Property Tax

Historic Growth Rate	7.7%
2001 Projected Growth Rate	7.2%
2002 Projected Growth Rate	3.5%

Property Tax revenues will increase by an average of 3.5%

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. Last year's forecast included an average growth rate of 7.2% over the forecast period. However, due to the current economic uncertainties, growth is now projected at 3.5% over the forecast period. Property taxes are still anticipated to grow from \$9.3 million to \$10.7 million. This growth is based on fiscal year 2001-02 revenue of \$9.0 million and increased by an average growth rate of 3.5% in assessed valuation.



Sales Tax

Historic Growth Rate	10.2%
2001 Projected Growth Rate	6.9%
2002 Projected Growth Rate	5.7%

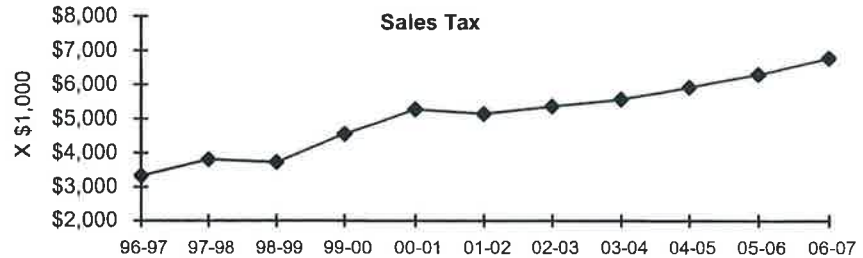
Sales tax revenue is anticipated to grow an average of 5.7% in the forecast

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 5.7% in the forecast period due to projected growth in personal income combined with annual inflation of 2.7%. Annual growth rates in the forecast are based on taxable sales projections for Orange County presented in the Cal State Fullerton Economic Forecast in November 2001.

Sales tax is projected to grow from \$5.4 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 Lowe's. Lower sales tax revenue is projected in the current

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forecast due to lower growth rates presented in the Fullerton Forecast. The five-year forecast does not include sales tax growth associated with proposed retail or commercial properties in the planning or development stages.

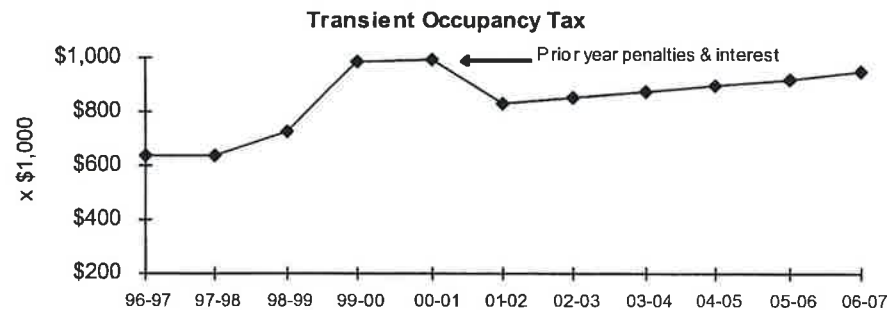


Transient Occupancy Tax

Historic Growth Rate	18.5%
2001 Projected Growth Rate	3.1%
2002 Projected Growth Rate	2.7%

Transient Occupancy Tax is an added charge against room rates at local hotels. It is another elastic revenue source affected by swings in the economy. The historic growth rate of 18.5% includes an increase in TOT revenue, which began in FY 1996-97, and one-time penalties and interest on delinquent TOT accounts received in FY 1999-00 and FY 2000-01. Over the forecast period, the average growth is projected at 2.7% per year, and is based on the consumer price index projections for Orange County.

TOT is projected to increase an average of 2.7% growth



Licenses and Permits

Historic Growth Rate	31.5%
2001 Projected Growth Rate	-4.5%
2002 Projected Growth Rate	-0.5%

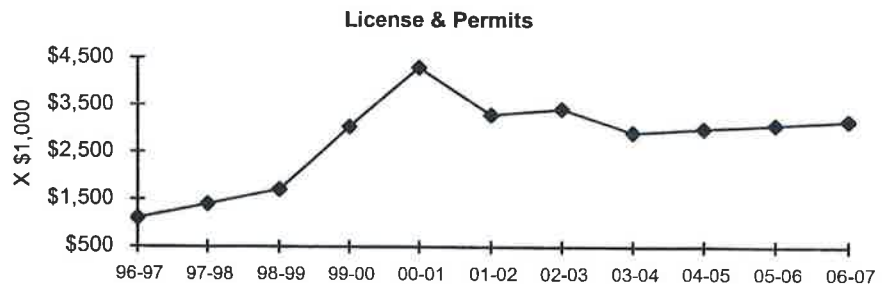
Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as alarm permits are projected to decrease an average of -0.5%. For forecast purposes, revenue for

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development activity is considered “one-time” and is reduced beginning in FY 2003-04 to mirror the anticipated development activity.

Licenses and Permit revenue from development activity is slowing

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to decrease from the base year in the first two years of the forecast, with development activity continuing in Talega and Forster Highlands. However, one-time development fees have been reduced beginning in FY 2003-04 to reflect a slowing of development activity during the forecast period. Proposed development activity for Marblehead is not included in the forecast projections.



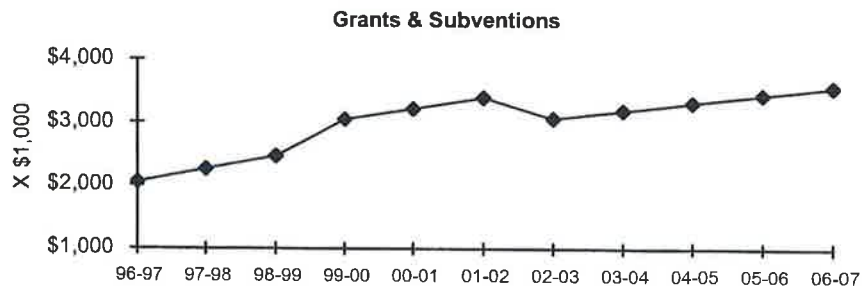
Grants and Subventions

Historic Growth Rate	9.8%
2001 Projected Growth Rate	2.2%
2002 Projected Growth Rate	1.1%

Grants & Subventions, predominantly Motor Vehicle Tax, is projected to grow at a 1.1% rate

In total, Grants and Subventions revenues are projected to grow at a rate of 1.1% over the forecast period, compared to an historical growth rate of 9.8%. This is primarily Motor Vehicle Tax, since one-time grant revenue such as the Sand Replenishment Grant in FY 2001-02, are removed for forecast purposes. Motor Vehicle Tax revenues are projected to increase by an annual average of 4.3% 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 9.2% annually.

Potential state impacts, such as a reduction in motor vehicle taxes, have not been included in the forecast.

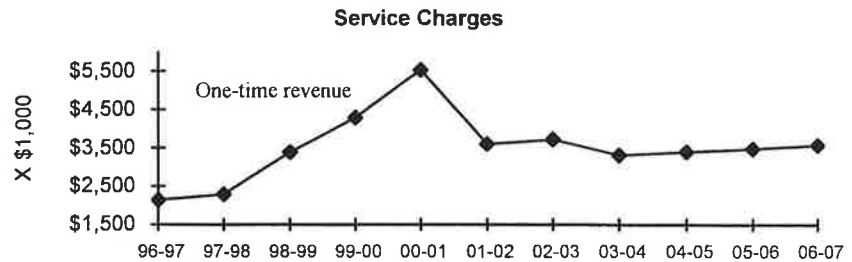


Service Charges

Historic Growth Rate	22.7%
2001 Projected Growth Rate	-3.0%
2002 Projected Growth Rate	0.0%

Service Charges show a historic growth rate of 22.7%. Projected growth rate 0%

This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. 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 0.0% due to a dramatic drop in construction related service charges included in the base year for development activity in Talega and Forster Highlands.

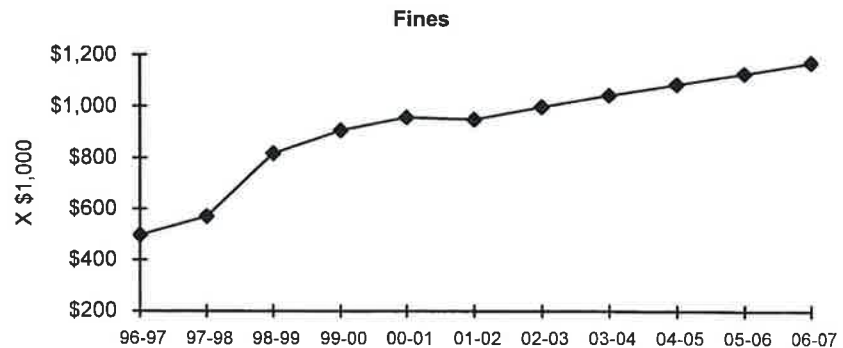


Fines

Revenue for Fines is forecast at 4.3%

Historic Growth Rate	14.0%
2001 Projected Growth Rate	6.2%
2002 Projected Growth Rate	4.3%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms, and other fines. The 2002 projected growth rate of 4.3% differs dramatically from the historic growth rate 14.0% which increased as a result of an increase in the allocation of court fines to cities in 1997.



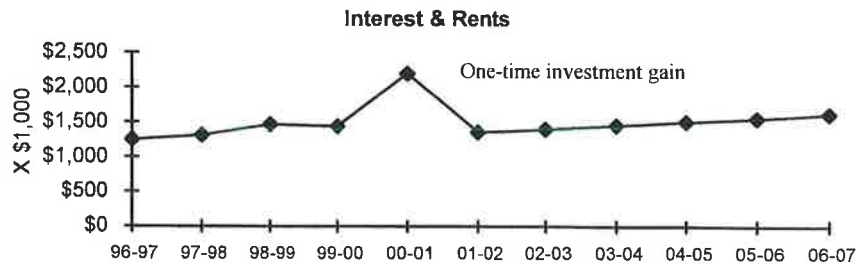
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Interest And Rents

Historic Growth Rate	13.2%
2001 Projected Growth Rate	-0.1%
2002 Projected Growth Rate	3.6%

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. In accordance with an existing agreement, the concession rate for the Fisherman's Restaurant is capped at \$255,000 per year. Beginning in FY 2003-04, the rate is capped at \$265,000 per year.

Interest & rents are projected to grow 3.6%



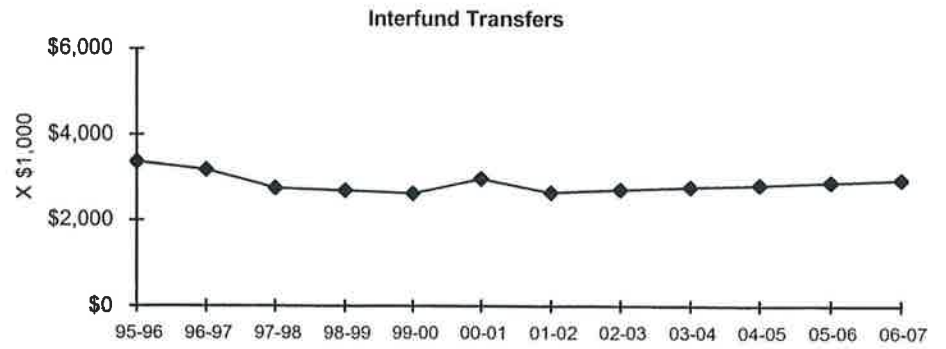
Interfund Transfers

Historic Growth Rate	-2.1%
2001 Projected Growth Rate	0.0%
2002 Projected Growth Rate	2.2%

Interfund transfer include General Fund overhead charges and transfers

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.

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General Fund Expenditures

The average expenditure rate is projected at 0.2%

Historic Growth Rate	7.0%
2001 Projected Growth Rate	3.0%
2002 Projected Growth Rate	0.2%

Projected expenditures presume that service levels in effect in FY 2001-02 will remain constant. No new programs are assumed.

Projected expenditures presume that service levels approved in fiscal 2001-02 will remain constant

The 2002 projection from the base year is based primarily on inflation. One-time and capital outlay expenditures are removed for forecast purposes.

The 2001 projected growth rate of 3.0% differs dramatically from the 2002 expenditures rate of 0.2%. This is due to the reduction of \$5.6 million in transfers that are included in the base year of the forecast, resulting in a -11.2% reduction in the first year of the forecast. The average expenditure rate in the remaining four years of the forecast is 3.1%

Salaries and Wages

Historic Growth Rate	5.8%
2001 Projected Growth Rate	4.7%
2002 Projected Growth Rate	3.8%

The forecast projections assume the addition of two full-time positions each year of the forecast. In total, ten 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. For forecast purposes only, an annual cost of living increase in the remaining years of the forecast equal to 90% of the inflation rate is included.

Total personnel costs are projected to average 3.8%

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

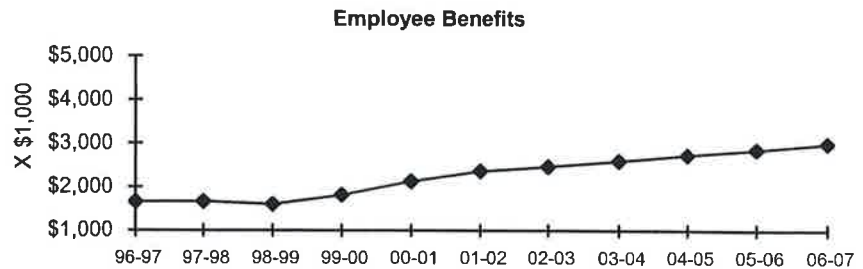


Employee Benefits

Historic Growth Rate	4.0%
2001 Projected Growth Rate	5.0%
2002 Projected Growth Rate	4.9%

Employee Benefits are projected to increase by 4.9%

The employee benefits category reflects an average projected growth rate of 4.9% for the forecast period. This growth rate is the result of two added positions in each year of the forecast and existing employee benefits increased by inflation.



Contractual Services

Historic Growth Rate	8.9%
2001 Projected Growth Rate	3.9%
2002 Projected Growth Rate	3.8%

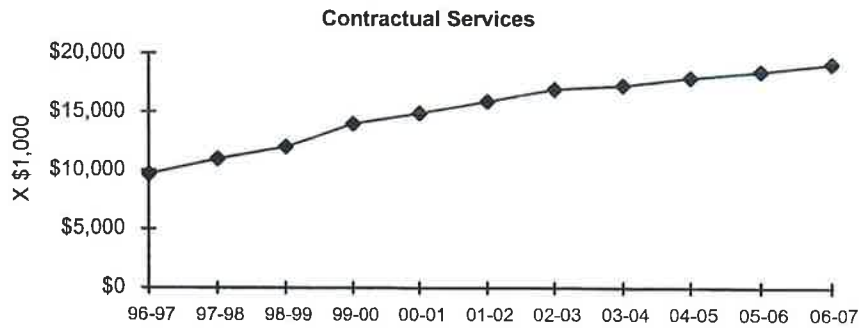
Contractual Services are projected to increase 3.8%

Overall, this category is expected to experience an average annual increase of 3.8% over the forecast period, well below the historical average of 8.9%. 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.

The Police Services contract includes a 10% increase in retirement benefits for the implementation of 3% at 50, along with a 4% COLA increase and maintenance of mobile data computers and radios. The mobile data computers will be purchased in the current year's budget using funds from the State Technology grant. The City will assume maintenance on the computers in the 2002-03 fiscal year. Similarly, the City will assume maintenance on the new 800 mhz radios and backbone system beginning in FY 2002-03 as a part of the countywide agreement.

Contractual services for the major street maintenance program is included at \$300,000 in the current fiscal year and increased by inflation in the remaining years of the forecast. Contractual services for all other major contracts such as park and beach maintenance have been increased by inflation.

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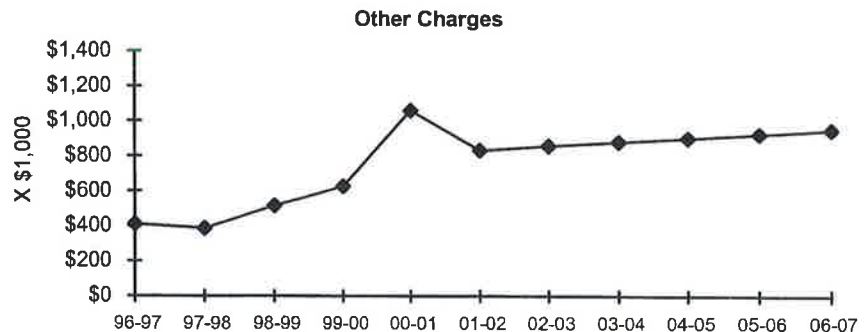


Other Charges

Historic Growth Rate	25.0%
2001 Projected Growth Rate	-7.2%
2002 Projected Growth Rate	2.7%

Other Charges will increase by 2.7% over the forecast period

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



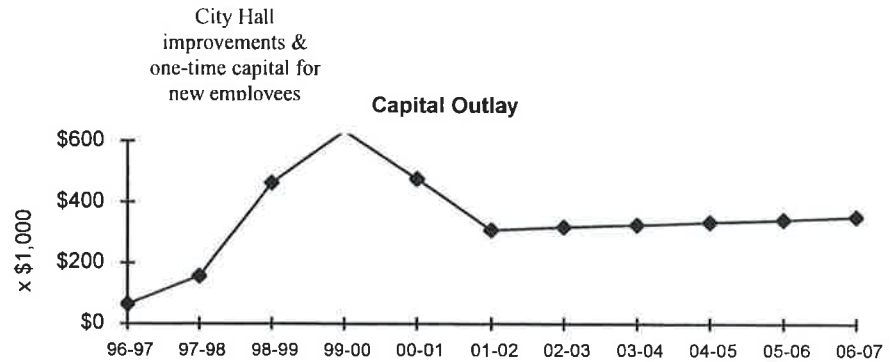
Capital Outlay

The projected growth rate for Capital Outlay is 2.7%

Historic Growth Rate	63.4%
2001 Projected Growth Rate	19.5%
2002 Projected Growth Rate	2.7%

The projected growth rate for Capital Outlay is 2.7%. For purposes of this forecast, Capital Outlay includes funding of \$300,000 (increased by inflation) beginning in FY 2002-03 for facility improvements or new capital equipment. One-time capital expenditures are excluded from the base year of the forecast.

Financial Forecast

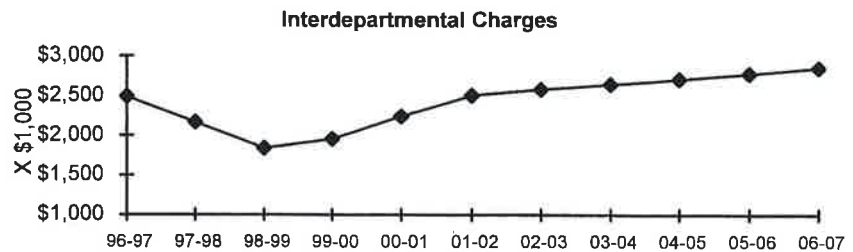


Interdepartmental Charges

Historic Growth Rate	-0.6%
2001 Projected Growth Rate	6.9%
2002 Projected Growth Rate	2.6%

Interdepartmental Charges are projected to increase by 2.6%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.6% increase over the five year forecast and is based upon inflation.



Interfund Transfers

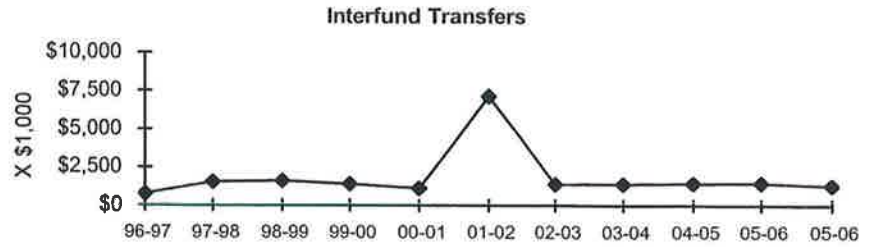
Interfund Transfers will decrease by -17.1% over the forecast period

Historic Growth Rate	8.8%
2001 Projected Growth Rate	3.2%
2002 Projected Growth Rate	-17.1%

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Fund, Solid Waste Fund, Accrued Leave, Facilities Maintenance and Capital Equipment Replacement Reserves. The Interfund Transfer expenditure category is projected to experience an average annual decrease of -17.1%. The Capital Equipment Replacement reserve and Accrued Leave reserve will continue to receive transfers of \$100,000 per year. The Facilities Maintenance reserve will receive annual transfers of \$162,000 per year for the first four years of the forecast. Transfers to the Street Improvement Fund and the Solid Waste Fund have been increased annually by inflation. However, a total of \$5.6

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million in one-time transfers for Council priority projects are only included in the base year of the forecast. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Other Operating Fund Forecasts

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

There are many different theories on the “best” way to present financial information. The Government Accounting Standards Board (GASB) is an organization that was created to provide comparability and consistency between different government agencies. GASB issues statements regarding various accounting issues and provides guidelines on how accounting transactions should be recorded. GASB is continually reviewing the policies and guidelines that it has established in order to improve policies and to ensure that the “best” accounting practices are in place.

Starting in FY 2002-03, GASB will be requiring state and local governments to produce financial statements on an accrual basis, in much the same manner as private sector businesses. To guide cities with this changeover, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of the GASB Statement 34 is to enhance the understandability and usefulness of the financial reports of state and local governments to the public, legislative and oversight bodies, and investors and creditors. The intent of this reporting is to enable citizens to know if today’s expenditures have been funded with today’s dollars or if future generations will provide the funding.

As part of the implementation of GASB Statement 34, adjustments that will be required for the City’s FY 2002-03 Comprehensive Annual Financial Report (CAFR) have also been included in the Financial Forecast. The adjustments mainly affect the Enterprise Funds (Water, Sewer, Golf, Storm Drain and Solid Waste) and have significant impacts on the comparison of the 2001 Forecast to the 2002 Forecast. The concept of retained earnings/fund balance will no longer exist in Enterprise Funds. The equivalent of fund balance under GASB Statement 34 will be the term “net assets”. The new net assets amount is essentially total assets minus total liabilities. That means that items such as fixed assets are now included in the net assets amount.

However, net assets is not a reasonable concept for evaluating the status of a fund for budgeting purposes. As an example, the *retained earnings/fund balance* amount for the Water Operating Fund at June 30, 2001 is \$4.7 million. The *net assets* amount in the Water Operating Fund at June 30, 2001 is \$16.9 million. This does not give us a reasonable number for budgeting purposes.

Staff recommends using “net working capital” as the basis for budget. Net working capital is a common accounting formula used for financial analysis.

Long Term Financial Plan

It is defined as current assets minus current liabilities. Essentially, that means that items such as the value of fixed assets will be left out of the calculation. Leaving fixed assets out of the beginning and ending balance will give a more accurate picture of whether there is enough funding to cover the cost of current operations. Staff has discussed this recommendation with the City's auditors who also concur that net working capital is reasonable to use for budgeting purposes. While net assets is the amount that will be required for financial reporting purposes in the City's CAFR, net working capital is actually a more reasonable and practical number to use for budgeting purposes than retained earnings/fund balances.

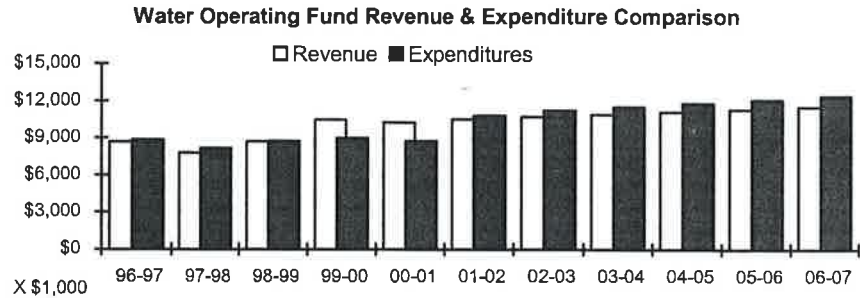
The change in accounting method makes comparison of the projected ending balances in the FY 2001-02 budget document compared to the beginning balances used in the following 2002 LTFP forecasts difficult.

Water Operating Fund Forecast

The Water Operating Fund receives revenue primarily from fees charged for water. Revenues have been increased over the forecast period by anticipated growth in the City, excluding the Talega development which is served by the Santa Margarita Water District. Expenditures have been increased by inflation.

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

The Water operating position is negative throughout the forecast period



The Water Operating Fund's operational position (revenues less expenditures) is negative in all five years of the forecast. This differs significantly from the 2001 Water Forecast due to the addition of 2.9 FTE's, reclassifications, large increases in electricity costs and one-time capital equipment included in the FY 2001-02 budget. Budgeted expenditures increased by \$2.1 million when compared to FY 1999-00 actual expenditures. A negative operating position draws down balances and will eventually result in necessary rate increases.

8% of operating expenditures have been set aside for the emergency reserve

The fund was able to set aside the fiscal policy requirement of 8% of operating expenditures in the 2000-01 fiscal year. Additional contributions in the next five years are required to maintain the 8% level.

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

Emergency Reserve

Amounts in \$1,000	2002-03	2003-04	2004-05	2005-06	2006-07
Emergency Reserves (8%)	\$440	\$450	\$458	\$468	\$478

Long Term Financial Plan

The following cash flow table provides a review of Beginning Net Working Capital, Receipts, Disbursements and Ending Net Working Capital over the five year forecast period.

2002 FINANCIAL FORECAST
Water Operating Realistic Cash Flow based on FY 2001-02 Adjusted Budget
(Amounts in Thousands)

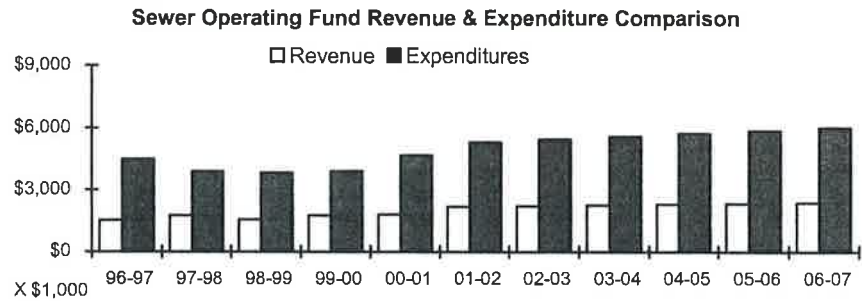
	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Net Working	1,722	1,185	555	-158	-960
Receipts					
Service Charges	344	351	359	366	374
Water Charges	10,087	10,264	10,444	10,627	10,814
Miscellaneous Charges	250	259	268	278	288
Interfund Transfers	31	32	33	33	35
Total Receipts	10,712	10,906	11,103	11,305	11,511
Disbursements					
Water Administration	908	930	950	970	993
Water Production	7,176	7,363	7,547	7,734	7,934
Transmission	2,476	2,541	2,603	2,666	2,733
Conservation	141	145	148	151	155
Reclaimed Water	533	548	561	575	589
New Employees	0	0	0	0	0
Total Disbursements	11,234	11,526	11,808	12,097	12,404
Emergency Reserve	15	10	8	10	10
Ending Net Working	1,185	555	-158	-960	-1,864

Utilizing net working capital, \$1.7 million is the FY 2002-03 beginning balance for the Water Operating Fund. The net working capital balance is negative in the last three years of the forecast and a rate adjustment is recommended. Please refer to a separate paper "Water/Sewer Rate Analysis" for recommendations pertaining to a rate adjustment.

Sewer Operating Fund Forecast

The Sewer Operating Fund receives revenue primarily from fees charged for wastewater collection and treatment. Revenues have been increased over the forecast period by anticipated growth in the City, excluding the Talega development which is served by the Santa Margarita Water District. Expenditures have been increased by inflation.

Financial Forecast



As shown on the chart above, the Sewer Operating Fund has been in a negative operating position (i.e. expenditures are higher than revenues) for the past five years. The Fund is also in a negative operating position in each year of the forecast period.

During the budget process last year, City Council looked at a number of rate increase options. At that time, the Sewer Operating Fund forecast did not show a positive operating position, unless a 40% rate increase was implemented. However, ending balances were considered sufficient to sustain the fund for three years and City Council approved a 20% rate increase. It was apparent at that time, that utilizing balances to avoid rate increases will eventually result in further rate increases after balances are depleted. City Council directed staff to analyze the methodology for rate adjustments. These recommendations are presented in a separate issue paper "Water/Sewer Rate Analysis" included in Volume II.

2002 FINANCIAL FORECAST

Sewer Operating Realistic Cash Flow from 2001-02 Adjusted Budget (Amounts in Thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Net Working	2,927	2,252	1,525	756	-56
Revenues					
Service Charges	4,749	4,834	4,921	5,100	5,192
Miscellaneous Charges	145	150	157	164	171
Interfund Transfers	0	0	0	0	0
Total Revenues	4,979	5,071	5,166	5,264	5,363
Expenditures					
Sewer Administration	1,037	1,061	1,083	1,106	1,130
Treatment	2,966	3,045	3,118	3,194	3,274
Collection	1,637	1,680	1,722	1,765	1,810
New Employees	0	0	0	0	0
Total Expenditures	5,641	5,786	5,923	6,064	6,214
Emergency Reserve	13	12	12	12	12
Ending Net Working	2,252	1,525	756	-56	-920

Long Term Financial Plan

The 2002 Forecast shows that balances in the Sewer Operating Fund are negative in the last two years. A rate increase is recommended based upon the rate methodology included in the Water/Sewer Rate Analysis paper.

The Sewer Operating Fund, however, does have the required 8% of operating expenditures in reserve. Annual contributions are necessary to maintain the 8% requirement.

Emergency Reserve

Amounts in \$1,000	2002-03	2003-04	2004-05	2005-06	2006-07
Emergency Reserves (8%)	\$438	\$450	\$462	\$474	\$486

Golf Operating Fund

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

2002 FINANCIAL FORECAST Golf Fund Realistic Cash Flow from 2001-02 Adjusted Budget (Amounts in Thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Net Working Capital	-305	-571	-752	-970	-1,228
Receipts					
Service Charges	2,038	2,238	2,238	2,238	2,238
Interest & Rents	195	201	208	215	222
Miscellaneous Income	5	5	5	5	6
Total Receipts	2,238	2,444	2,451	2,458	2,465
Disbursements					
GC Maintenance	2,162	2,278	2,319	2,360	2,405
Starter Operations	178	183	187	192	196
Trans. to Capital Improvement	160	160	160	160	160
Total Disbursements	2,500	2,621	2,666	2,712	2,761
Emergency Reserve	4	4	4	4	4
Ending Net Working Capital	-571	-752	-970	-1,228	-1,528

The beginning net working capital balance is a negative \$200,000 for FY 2001-02, compared to the positive \$365,000 projected in the FY 2001-02 budget document. Over the five-year period, the deficit will grow to -\$1.5 million.

The golf course has experienced a reduction in play over the past year and this trend is expected to continue through FY 2002-03, The operating

Financial Forecast

position of the Golf Fund is negative throughout the forecast period. An analysis of the Golf Operating Fund is currently in progress and recommendations will be presented during the FY 2002-03 budget process.

A total of \$149,000 is recommended to be set aside to meet the fiscal policy requirement of 8% of operating expenditures in the 2001-02 fiscal year. Additional contributions in the next five years are required to maintain the 8% level.

Emergency Reserve

Amounts in \$1,000	2002-03	2003-04	2004-05	2005-06	2006-07
Emergency Reserves (8%)	\$153	\$157	\$161	\$165	\$169

Additionally, \$160,000 has been designated in each year of the forecast as a transfer from the Golf operating fund to the Golf Capital Replacement Reserve fund. Transfers ranging between \$160,000 to \$300,000 have been made annually beginning in FY 1992-93. A fiscal policy to formalize transfers to the replacement reserve is included in the Reserve Analysis paper.

Storm Drain Operating Fund

The Storm Drain Operating Fund receives revenue primarily from storm drain fees. Revenues have been increased over the forecast period by anticipated growth in the City. Expenditures presume the present level of services and have been increased based upon inflation.

2002 FINANCIAL FORECAST Storm Drain Fund Realistic Cash Flow from 2001-02 Adjusted Budget (Amounts in Thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Net Working Capital	1,009	691	365	32	-309
Receipts					
Service Charges	828	849	871	892	916
Interest & Rents	36	38	39	41	43
Miscellaneous Income	0	0	0	0	0
Total Receipts	864	887	910	933	958
Disbursements					
Storm Drain Administration	263	270	277	283	291
Storm Drain Maintenance	190	195	220	205	210
Trans. to Capital Improvement	728	750	774	798	822
Total Disbursements	1,181	1,216	1,250	1,286	1,323
Emergency Reserve	1	1	1	1	1
Ending Net Working Capital	691	365	32	-309	-657

The Storm Drain Operating Fund has a positive ending net working capital balance in the first three years of the forecast. However, the operating

Long Term Financial Plan

position is negative throughout the forecast period. This indicates that operating revenues are not sufficient to maintain operating expenditures and a rate adjustment is recommended for implementation in fiscal year 2005-06. The forecast does not include any anticipated expenditures associated with the implementation of the Storm Drain Master Plan or Urban Runoff Master Plan. Those additional costs and potential rate adjustments are addressed in a separate issue paper.

A total of \$35,000 is recommended to be set aside to meet the fiscal policy requirement of 8% of operating expenditures in the 2001-02 fiscal year. Additional contributions in the next five years are required to maintain the 8% level.

Emergency Reserve

Amounts in \$1,000	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Emergency Reserves (8%)	\$36	\$37	\$38	\$39	\$40

Additionally, \$728,000 (increased by inflation) has been designated in each year of the forecast as a transfer from the Storm Drain operating fund to the Storm Drain Depreciation Reserve fund.

Fiscal Impact Model—Master Plan for City Facilities

Fiscal Impact Model – Master Plan for City Facilities

The Fiscal Impact Model is used to forecast the long-term impacts of future development and City facilities upon the General Fund

An integral part of the Master Plan for City Facilities (MPCF), the Fiscal Impact Model (FIM) analyzes the impact of future development on the City's operating position. On-going revenues, such as property and sales taxes, are increased based upon the projected amount of development anticipated through buildout. Operational expenditures are increased based upon the current level of services, plus operational and maintenance costs for proposed facilities. The net balances that are forecasted (revenues minus expenditures) by the fiscal impact model reveal the "fiscal impacts" of the MPCF.

Summary

The fiscal impact model was developed by the City of San Clemente to assure that the balance of land uses included in the General Plan would have a positive fiscal impact upon the City, that is, at buildout the City's annual General Fund net operating position would be positive. The fiscal impact model is also used to project the fiscal impacts of the MPCF and of individual projects.

The 1999 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. As a result of City Council direction regarding LTFP 2001, three facilities were added last year to the MPCF: 1) Casa Romantica; 2) Railroad Corridor Safety Improvement; and 3) Downtown Revitalization 2000. As part of the MPCF update in each LTFP, the fiscal impact model is used to assess whether the City's development and buildout scenario will produce adequate net revenues to operate and maintain the approved schedule for and projects included in the MPCF.

With an "aggressive" buildout scenario, the City can afford all MPCF O&M costs by 2007

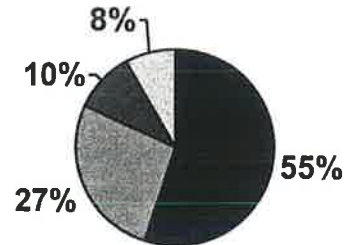
The fiscal impact model's projections for future funds available to operate and maintain facilities included in the MPCF are slightly healthier than they were in LTFP 2001, primarily because the projected value of future residential development in the City has risen significantly since LTFP 2001. As the projected value of future homes rise, the projected property tax revenues from those homes rise accordingly. These healthier revenue projections mean that under an "aggressive" buildout scenario—a scenario that includes construction of the Marblehead Coastal Retail Development, the City's realization of its full retail market potential in infill areas and in Talega, relatively high sales tax generation rates for new retail, and continued high assessed values for new housing—the City would be receiving enough revenue to operate and maintain most all of the project in the MPCF in the next six years, two years ahead of last year's projections. The benefits from the healthier revenue projections allow parks previously scheduled (in LTFP 2001) to be constructed in 2008 and 2009 to be constructed in 2007.

Projections regarding the City's future ability to operate and maintain new parks and other City facilities are extremely sensitive to the value of future development. Funding for operation and maintenance is also extremely dependent upon future sales tax revenue, particularly the revenue projected for the retail development at the Marblehead Coastal site. Marblehead

Long Term Financial Plan

55% of future sales tax growth is dependent on the Marblehead Coastal project

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



- **Marblehead Coastal Commercial: 700,000 sf**
- **Plaza Pacifica: 470,000 sf**
- **Downtown Revitalization: Infill (300,000 sf)**
- **Talega: 200,000 sf**

Market Demand for Additional Retail S.F.: 1.7 Million Square Feet @ \$250 /SF

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

Permanent increases in expenditures, such as increased personnel or contract costs, have a long-term impact on the General Fund

General Fund Expenditures:

On-going and one-time expenditures out of the General Fund affect the City's ability to build, operate, and maintain new projects in the MPCF. On-going expenditures, such as adding FTE's, have long-term impacts on the City's ability to support operations and maintenance for facilities discussed in the MPCF. One-time expenditures, such as the addition of contractual services to handle one-time projects do not have a long-term impact on future facilities. The following information regarding on-going and one-time expenditures is particularly relevant to the City's future ability to operate and maintain the MPCF:

- **On-going expenditures during 2001-2002:** Over the last year, the City experienced moderate increases in ongoing costs associated with a few additional on-going personnel (5%), including the addition of a fourth firefighter (an additional firefighter for each of three shifts) at Fire Station No. 60. This year the fourth firefighter was covered in the City's budget using overtime. Over the next four years, three additional FTE's will be added to the City's budget to cover the fourth firefighter at Fire Station No. 60. These additional FTE's will permanently impact the

Fiscal Impact Model—Master Plan for City Facilities

City's ability to support operations and maintenance for facilities included in the MPCF.

- Future on-going expenditures: Along with the three additional FTE's for Fire Station No. 60, significant on-going increases in the police services contract and the contract with the Orange County Fire Authority (OCFA) are expected in the next three years. The police services contract is expected to increase by more than \$700,000 in FY 2002-2003 due to increased retirement benefits for sworn officers, a cost of living adjustment, maintenance on new mobile data terminals, and the City's assumption of maintenance costs for radios. Cost increases are also expected in the next several years for OCFA (capped at 3.5% until FY 2005-2006 and then at 4% for the remaining five years of the contract).

Unanticipated new programs, such as those discussed later in this paper, will have an impact on the future operation and maintenance of City facilities. Anticipated costs, but ones for which there is no ongoing funding mechanism, such as the cost of street replacement, will have an impact on the future operation and maintenance of City facilities as the funds required to replace the City's existing and future infrastructure compete with operations and maintenance funds for the MPCF. The Issue Paper provided by the Public Works Department on the Street Improvement Program discusses in more detail the potential impacts of street replacement upon the City's budget.

One-time contributions do not have a long-term impact

- One-time expenditures during FY 2001-2002: One-time expenditures do not have long-term impacts on the City's ability to sustain the MPCF; however, one-time expenditures can affect the City's ability to initiate or sustain facilities in the years in which the one-time expenditures occur. The most significant increases in the City's budget in FY 2001-2002 were related to one-time expenditures, totaling over \$5 million, including:
 - Significant changes in one-time expenditures in the City General Budget. These include transfers to the General Liability Self-Insurance Fund for potential outstanding claims (\$1.5 million) and to the Parks Acquisition and Development Fund for reimbursements for park improvements (\$1.5 million, as recommended in LTFP 2001).
 - Increases in Beaches, Parks, and Recreation Department expenses due to one-time expenditures of \$1 million for capital improvements to the City's existing parks. Projects included in this expenditure are upgrades to park children's play areas, new sidewalk and stairs in Pier Bowl, handicapped parking stalls at the base of the Pier Bowl, Pier pile replacements, Pier fire water line, etc.
 - Increases in the Public Works Department budget due to an urban runoff water quality study (\$500,000).

Long Term Financial Plan

Project	Capital Cost and Funding	O & M and Funding
Water Quality (Urban Runoff and NPDES)	\$153,000 up to \$7,200,000. Capital costs vary depending on specific water quality programs authorized by Council. The low end of the range is for implementation of Alternative 4 under the Urban Runoff Management Plan (URMP) LTFP (purchase of a new street sweeper as part of an enhanced street sweeping program). The high end of the range is for implementation of URMP LTFP Alternative 6 (all structural projects developed in the URMP plus other NPDES activities). <u>Funding source: Storm Drain Fund, General Fund and grants.</u>	\$147,000 up to \$1,600,000. O&M costs vary depending on specific water quality programs authorized by Council. The low end of the range is for implementation of URMP LTFP Alternative 4 (enhanced street sweeping program). The high end of the range is for implementation of URMP LTFP Alternative 6 (all structural projects developed in the URMP plus other NPDES activities). <u>Funding source: Storm Drain Fund and General Fund</u>
San Clemente High School Land Swap	Capital costs not currently known and will vary depending on ultimate uses selected for the site.	Operating costs for facilities, such as community park, civic center, emergency services center, etc., which may be located at this site would be in place of such costs already programmed at other locations.
Sidewalk Restoration project	\$250,000 the first year and then \$40,000 per year if the City continues to require property owners to maintain sidewalks fronting their parcels. If the City accepts maintenance responsibilities, the cost will be a minimum of \$250,000 per year and could be substantially more. ¹ <u>Funding source: General Fund</u>	
Street Improvement Program	<p>Potential Impacts:</p> <p>Beginning 2002-2003: Staff is recommending that the City Council consider—as part of the Vital Few Process—increases of \$200,000 annually (for major maintenance) and \$150,000 annually (for slurry seal). <u>Source: General Fund.</u></p> <p>Long-term: Unless extended, two major sources of funding for street maintenance and replacement are scheduled to be terminated: Measure M (\$450,000 annually scheduled to terminate in 2010) and the Assessment District (\$1.3 million annually scheduled to terminate in 2013). Termination of this funding could impact the General Fund.</p>	

Status of MPCF 2001 Recommendations

¹ The operations and maintenance costs associated with the sidewalk restoration project are on-going capital costs.

Fiscal Impact Model—Master Plan for City Facilities

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. *This entire effort has now become a part of the High School Swap and Downtown Strategic Plan projects. Major public outreach efforts are anticipated in 2002.*
- 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 by City Council in 2000. Minor modification resulting from SPA will be made.*
- 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. *This is being evaluated as a part of the High School Swap analysis.*
- 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 is on hold due to High School Swap issues and Marblehead approval delay.*
- Negotiate an operating agreement and financing plan for the development of a Senior Citizens Center with South County Seniors. *Negotiation on hold due to lack of funding because of Marblehead Coastal delay.*
- 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.*
- Amend the Parks and Recreation Master Plan, eliminating special use facilities (Community Center, gymnasium and pool complex) from the future La Pata/Vista Hermosa Community Park site. 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 finalized in December 2001. The revision was handled through the Talega Specific Plan Amendment since this amendment implements other Parks and Recreation Master Plan revisions.*
- Update the MPCF report annually and include a fiscal analysis as an element of the Long Term Financial Plan (LTFP). *Completed for this year 2002 LTFP.*
- Compare actual retail/commercial development and revenue growth with projections. *Completed for this LTFP 2002 issue paper.*

Long Term Financial Plan

- Compare actual expenditure growth with those projected in the financial model. *Included in this LTFP 2002 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 key new proposal that has developed over the last year is to swap the LaPata/Vista Hermosa Park/Cultural Use site for the SCHS site. This proposal is analyzed in a separate issue paper.*

Conclusions

Recent growth in revenues has been healthy, but future growth has been delayed by the Marblehead Coastal project

General Fund Revenues:

- Current revenue growth is very healthy, as projected last year.
- Significant future sustainable revenue growth is highly dependent on the value of new residential development planned to occur and on the construction of retail development.
- Healthier revenue projections resulting from higher than previously projected property tax revenues mean that, under a buildout scenario that includes the Marblehead Coastal retail development, the City would be receiving enough revenue to sustain—operate and maintain—most major facilities in the next six years, two years ahead of last year’s projections. The benefits from the healthier revenue projections allow parks previously scheduled to be constructed in 2008 and 2009 (in LTFP 2001) to be constructed in 2007.
- Significant one-time fees are being taken in for construction permits and processing.

On-going cost increases were made to add programs and positions

General Fund Expenditures:

- Moderate on-going cost increases were made to add programs or for additional personnel, and these increases will have a moderate long-term impact on the City’s ability to provide operations and maintenance for future planned facilities. Significant increases in on-going expenditures are expected over the next several years, however. Over the next four years, three additional FTE’s will be added to the City’s budget to cover the fourth firefighter at Fire Station No. 60. These additional FTE’s will permanently impact the City’s ability to support operations and maintenance for projects included in the MPCF. Along with the three additional FTE’s for Fire Station No. 60, significant on-going increases in the police services contract and the contract with the Orange County Fire Authority (OCFA) are expected in the next three years. The police services contract is expected to increase by approximately \$700,000 in FY 2002-2003 due to increased retirement benefits for sworn officers, a

Fiscal Impact Model—Master Plan for City Facilities

cost of living adjustment, maintenance on new mobile data terminals, and the City's assumption of maintenance costs for radios. Cost increases are also expected in the next several years for OCFA (capped at 3.5% until FY 2005-2006 and then at 4% for the remaining five years of the contract).

- Unanticipated new programs, such as those discussed earlier in this paper have the potential to significantly affect future operation and maintenance of City facilities.
- Anticipated costs, but ones for which there is no ongoing funding mechanism, such as the cost of street replacement, have the potential to significantly affect future operation and maintenance of City facilities.
- Significant one-time expenditures, totaling over \$5 million, were experienced in FY 2001-2002. These expenditures included: transfers to the General Liability Self-Insurance Fund for potential outstanding claims (\$1.5 million) and to the Parks Acquisition and Development Fund for reimbursements for park improvements (\$1.5 million, as recommended in LTFP 2001); \$1 million for capital improvements to the City's existing parks; and a water quality study (\$500,000). These expenditures will not have a long-term impact on the operations and maintenance of future City facilities.

The net General Fund balance after buildout is projected at \$1.6 million per year

Fiscal Impacts of the MPCF:

- 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 \$1.6 million per year.
- For the revenues available for operations and maintenance (green line) to continue to grow at the forecasted rate, assessed value of new housing units must be relatively high, the retail market potential for the City must be realized, and the sales tax generation rates of new retail development must remain relatively high. A significant portion of projected sales tax growth, as illustrated by the pie chart on page 4 of this report, is dependent upon the Marblehead Coastal project.

Phasing:

There are four City facilities included in the MPCF that are the focus of community interest to build sooner versus later and/or that require the availability of significant additional operations and maintenance funds:

Two facilities, Talega Fire Station & Forster Ranch Park require significant O&M

1. The Talega Fire Station (requiring \$1.2 million per year),
2. Forster Ranch Community Park Phase III (community center, gymnasium, and pool complex) Special Use Amenities (requiring \$1.1 million per year),
3. Marblehead Coastal Community Sports Park (requiring \$84,700 per year), and
4. La Pata/Vista Hermosa Community Sports Parks (requiring \$302,500 per year).

Long Term Financial Plan

Current projections of future revenues for operations and maintenance indicate that only one of these four 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 Special Use Amenities of the Forster Ranch Community Park, Marblehead Coastal Community Sports Park and La Pata/Vista Hermosa Community Sports Park will need to be delayed. The Phase III Special Use Amenities of the Forster Ranch Community Park will be delayed to 2006 (one year out from MPCF 2000's projection of 2005). The Marblehead Coastal Community Sports Park is scheduled to open in 2007 and the La Pata/Vista Hermosa Community Sports Park is scheduled to open in 2006. These delays are 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 in the MPCF Update report in Volume II).

Recommendations

2002 Fiscal Impact Model/MPCF Recommendations

1. Recognizing the critical need for additional community recreational facilities and, particularly, the immediate need for additional lighted sports fields:
 - a) Direct staff to proceed with all due diligence in the planning, design, and development of projects in the MPCF in accordance with the schedule provided in Attachment B, MPCF Update report, Volume II;
 - b) Direct staff to establish and proceed with the public review process necessary to provide interim lighting solutions—lighting of existing sports fields—in time for the City Council's consideration in the FY 2002-2003 budget process.
2. Direct staff to annually review the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to transfer to the Parks Acquisition and Development Fund to cover a portion of the projected \$7.5 capital shortfall for the approved MPCF.
3. Annually review the status of previous recommendations for the Master Plan for City Facilities as a part of the Long Term Financial Plan.

Objective

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

Background

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

Following are proposed changes to the current Fiscal Policy:

1. *Operating Budget Policies:* This change is to increase the fixed asset capitalization threshold to \$5,000. This is the Government Finance Officers Association (GFOA) recommended level of individual assets that have an estimated useful life of at least two years.

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
The purchase of new or replacement capital equipment with a value of \$1,000 or more and with a minimum useful life of five years will require budget approval.	The purchase of new or replacement capital equipment with a value of \$5,000 or more and with a minimum useful life of <i>two</i> years will require budget approval.

2. *Reserve Policies:* This change is to reflect a proposed additions to the City's Reserve Policies as recommended in the Reserve Analysis issue paper:

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	The City will maintain an Employee Computer Purchase Program Reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. This reserve will be reviewed annually to determine if reserve balances are adequate to cover estimated loan balances.

Long Term Financial Plan

<i>Current Policy Statement</i>	<i>Proposed Policy Statement</i>
None	The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employee. The level of this reserve will be based on an annual projection of employee retirements.	The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employee. The level of this reserve will be <i>maintained at a level at least equal to projected costs for employees who are eligible for retirement.</i>
The City will establish a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.	The City will establish a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles. <i>The reserve will be maintained at a level at least equal to the projected five-year capital asset replacement costs.</i>
None	The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will also provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs.

Recommendation

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

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.	√	

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
The purchase of new or replacement capital equipment with a value of \$5,000 or more and with a minimum useful life of two years will require budget approval.	√	
The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
Revenue Policies		
The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	

Legend:

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

Fiscal Policy

Fiscal Policy Statement	Status	Comments
<p>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.</p>	√	
<p>One-time revenues will be used for one-time expenditures only. (Including capital and reserves)</p>	√	
<p>Capital improvements will be financed primarily through user fees, services charges or developer agreements when benefits can be specifically attributed to users of the facility. The City will analyze the impact of capital improvements to ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.</p>	√	
<p>The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.</p>	√	
<p>The City will annually review the General Fund operating position (operating revenues less operating 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.</p>	√	
Expenditure Policies		
<p>The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.</p>	√	

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
Utility Rates and Fees Policies		
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.	--	Storm Drain Fees are not adequate to cover all costs. The rates will be reviewed during the fiscal year 2002-03, and any proposed rate adjustments will be presented to the City Council for approval.
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	

Legend:

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

Fiscal Policy

Fiscal Policy Statement	Status	Comments
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	
The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the Master Plan for City Facilities.	√	

Short-Term Debt Policies

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

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
Long-Term Debt Policies		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current on-going operations.	√	
Reserve Policies		
The City will maintain General Fund Emergency reserves at a level at least equal to 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.	√	Emergency Reserve = \$2,511,640, or 8% of General Fund operating expenditures.
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.	√	Council Contingency Reserve = \$313,230 recommended for FY 2002-03.
Council approval is required before expending General Fund Emergency or Contingency Reserves.	√	

Legend:

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

Fiscal Policy

Fiscal Policy Statement	Status	Comments
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employee. The level of this reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.	√	Accrued Leave Reserve = \$115,680 recommended for FY 2002-03
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.	√	General Liability Reserve = \$300,000 (Additional \$436,000 reserve for claims not covered by insurance pool)
The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonable foreseen during the preparation of the budget.	√	Water \$345,000 Sewer \$425,000 Storm Drain \$35,000 Solid Waste \$10,000 Golf \$149,000
The City will establish a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles. The reserve will be maintained at a level at least equal to the projected five-year capital asset replacement costs.	√	Capital Equipment Reserve = \$260,100 recommended for FY 2002-03
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.	√	Facilities Maintenance Reserve = \$663,940

Legend:

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

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
The City will maintain an Employee Computer Purchase Program Reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. This reserve will be reviewed annually to determine if reserve balances are adequate to cover estimated loan balances.	√	
The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	
The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will also provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs.	√	
Investment Policies	√	
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	

Legend:

√ Budget Complies with Fiscal Policy Standard

-- Fiscal Policy Standard is not met in Budget

Fiscal Policy

Fiscal Policy Statement	Status	Comments
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Moody's Rating = AA- Standard & Poor's = A
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

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

Long Term Financial Plan

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

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