City of San Clemente
2002
Long Term Financial Plan

Volume II

City of San Clemente

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
• Jim Hare	City Planner
• James S. Holloway	Director, Community Development
• Bill Humphreys	Marine Safety Captain
• David N. Lund	Director, Public Works/Economic Development
• Christine Morehead	Senior Accountant
• Laura Reinsimar	Assistant to the City Manager
• Cherie Roberts	Finance Manager

Project Teams

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

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

Financial 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 Hindiyeh, 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
Jim Hare, City Planner
David N. Lund, Director, Public Works & Economic Development
James S. Holloway, Director, Community 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 Manager
Bruce Wegner, Director, Beaches, Parks & Recreation

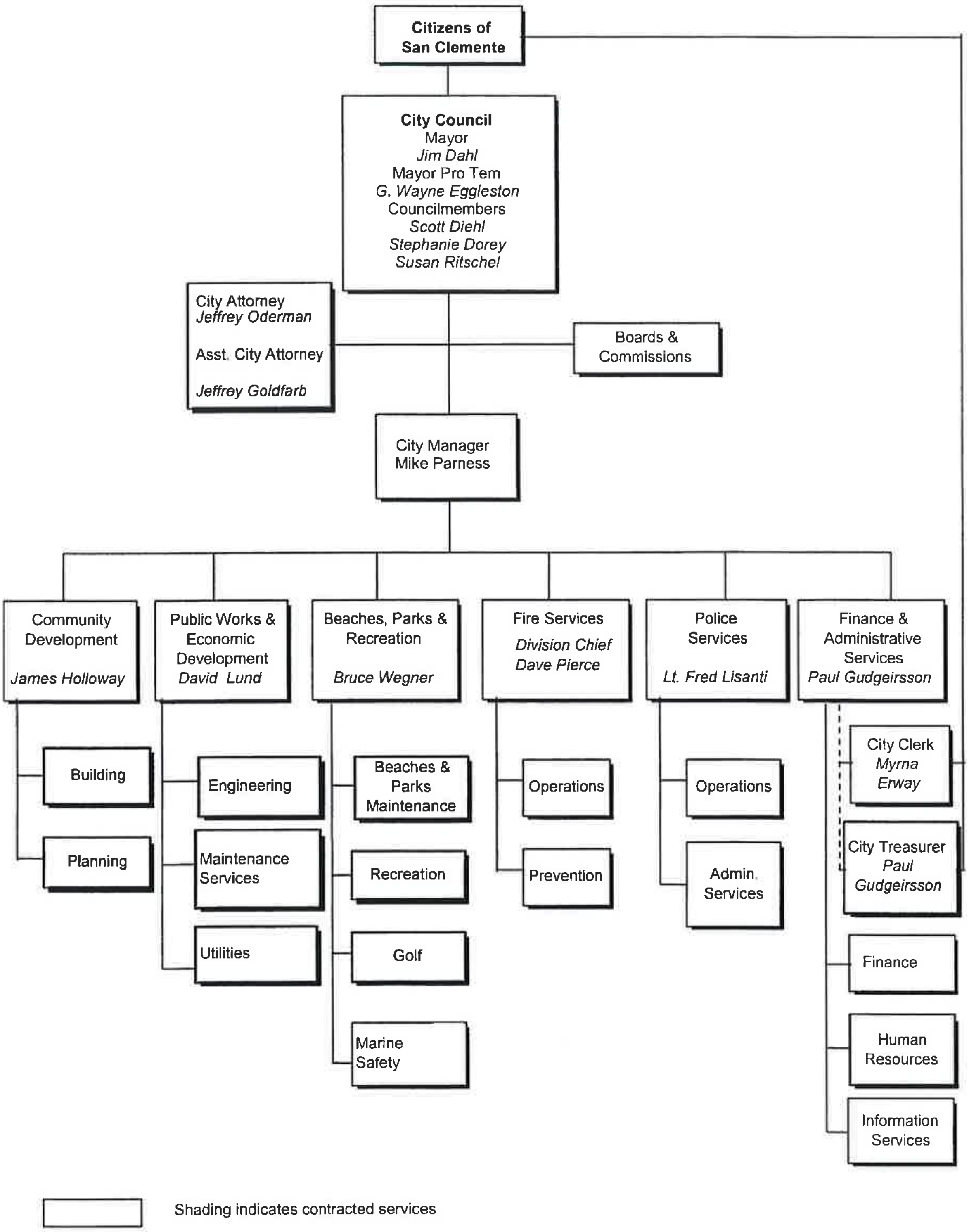
Sidewalk Restoration Project
William E. Cameron, City Engineer
David N. Lund, Director, Public Works/Economic Development
Bruce Wegner, Director, Beaches, Parks & Recreation

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

City Organizational Chart



Long Term Financial Plan

The LTFP is a financial strategic plan

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

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

The LTFP consists of the complete financial plan

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

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

The Issue Papers provide support documents used to develop the plan

Long Term Financial Plan - Issue Papers: This volume of the Long Term Financial Plan, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. The issues outlined on the following pages were analyzed as a part of the 2002 Long Term Financial Plan process:

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
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.

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

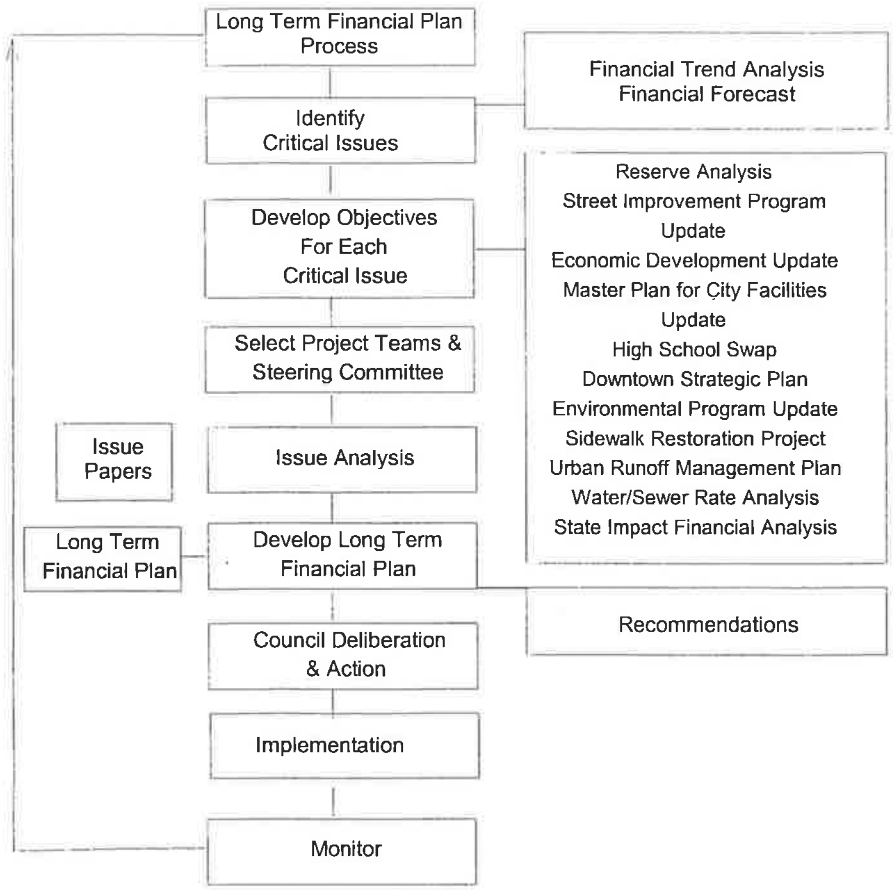
Objective

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.

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted largely by City staff. In fact, 18 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 12 project leaders each assigned to teams addressing a specific critical issue.



Goals & Objectives

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

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

Project teams and team leaders were then selected based on individual talents and expertise in given critical issue areas. A steering committee was formed in order to keep the project on track and on schedule. Each team was then asked to prepare option papers which met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After 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 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 will be followed by the Council as they develop an action plan that the City will implement 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 & City Council adoption.
March 13, 2002	Vital Few Priority Meeting. City Council and City Manager.

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).

Background

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

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

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

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

- Standard & Poors, an independent firm that issues ratings indicating the credit worthiness of entities active in the marketplace, has provided the City of San Clemente with an issuer credit rating of AA-. This is an improvement from the prior rating of A. This rating, which is based on an objective measurement and ranges from the highest being AAA and the lowest CC, reflects how well the City is doing from a financial perspective. The rationale provided for the rating is: high income levels and per capita market values, strong financial performance and sound management, and moderate debt levels.

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

- The City's internal audit program, which was first implemented in FY 1994-95, proved successful during the past fiscal years, as operational divisions were analyzed for proper accounting, financial reporting, and efficiency. Audits have been performed on the Golf, Recreation, Animal Services, Engineering, Building and Planning divisions, which handle cash on a daily basis, to ensure that proper controls are in place. Internal audits have also been performed on all departments to ensure that purchasing policies and procedures have been followed and computer security is in place.

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

- The City's General Fund has made significant contributions to establish and fund reserves in other funds. The fiscal policy reserve requirement of the General Liability Self-Insurance Fund of $300,000 has been fully funded. In addition, a Facilities Maintenance Capital Asset Reserve was established through the 2001 Long Term Financial Plan process. This fund will provide a funding source for the maintenance of all City facilities. The Capital Equipment Replacement Reserve and Accrued Leave Reserve were both established in FY 1994-95. The Capital Equipment Replacement Reserve provides a funding source for the replacement of existing fixed assets as equipment, machinery, and building improvements become unserviceable or obsolete. Updated equipment and machinery allows added efficiency on the part of City employees. During the past seven years, the General Fund has contributed $740,000 for the purpose of replacing equipment. The Accrued Leave Reserve was established to ensure that adequate reserves are in place in which to pay accumulated compensated absences (vacation, sick, and compensatory leave) of terminated or retiring employees. During the past fiscal year, the General Fund contributed $100,000 to this fund. And finally, the General Fund Emergency Reserve, at $1,619,640, is not fully funded at 8% of operating expenditures. The City has budgeted $682,000 in FY 2001-02 in order to bring the emergency reserve to $2,301,640 or 8% of projected General Fund operating expenditures. It is important to note that annual contributions will be needed to maintain the 8% reserve level.

- In FY 1994-95, the City's Street Improvement Program was established. This 18-year program is designed to address the City's deteriorating local street system. The General Fund has contributed a total of $2,845,450 to this program since its establishment.

- To continue to provide a quality level of services, the City established a centralized volunteer program to assist employees with their high level of workload. During FY 2000-01, community volunteers contributed 13,200 hours, the equivalent of $224,400, in code enforcement, administration, special projects, youth programs, and police services.

- The City's economic development program, which was established in FY 1993-94, has assisted in bringing financial stability to the community by evaluating the economic climate and making recommendations for improvement. The current Long Term Financial Plan presents solutions to a number of economic development projects that have been studied in the past. Areas of concentration include: 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; 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; with respect to older commercial shopping centers, provide appropriate assistance and support for the revitalization of the these centers with specific emphasis on Pico Plaza Shopping Center and the K-Mart Shopping Center; continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program; 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.

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

- The City's organizational structure has been streamlined through reorganization and contracting of various City services. This streamlining has resulted in the downsizing of city staff by 163 positions over the past ten years.

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

The 2002 trend report analyzes the City's current financial condition, taking into consideration the above changes, and making recommendations, where necessary, for areas of improvement.

The three major areas of the General Fund analyzed include:

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

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

The 2002 financial trend analysis combines several sources of data into a meaningful overview of the General Fund's current financial position, and assists the City Administration and Council in making determinations as to improvements to the City's fiscal policy. Reports examined as part of this analysis include those from FY 1996-97 through FY 2000-01, combining information from Annual Budgets, Comprehensive Annual Financial Reports, Annual State Controller's Reports, and the International City Management Association's (ICMA) Trend Monitoring System. The City's adopted fiscal policies, as well as other national standards, have been considered in analyzing the financial indicators. One of the following ratings will be assigned to each indicator:

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

The City of San Clemente's FY 2000-01 General Fund operating position is summarized in the following sections.

Overview of the City's Financial Condition

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

The indicators in the report show that the City's fiscal position continues to show signs of positive growth. This is due to several factors. First, property taxes and sales taxes continued to increase with the completion of several residential and commercial development projects. Second, development related charges and fees increased as development activity continued. Finally, the City continues to plan for the future and continues funding reserves such as the Capital Equipment Replacement Reserve and the Facilities Maintenance Capital Asset Reserve to ensure that future capital needs are met.

Overall, the City's General Fund revenues show a significant increase from the previous year, with an increase of $5,305,000, or 17.9%. Of this increase, $3,115,000 is from elastic revenues. Property taxes show an increase for the fifth consecutive year, ending the year with an increase over the prior year of $624,000. Other revenue increases for FY 2000-01 include sales tax revenues of $717,000, license and permit revenues of $1,263,000, community development service charges of $1,128,000, and intergovernmental revenues of $170,000, all of which are considered to be elastic revenues. The large increases vary directly with fluctuations in the economy. The City continues to follow its fiscal policy of utilizing one-time revenues for one-time expenditures and not operations.

General Fund expenditures also show positive trends in the following analysis. Expenditures came in $3,603,000, or 11.2%, under budgeted expenditures for FY 2000-01. When analyzing constant dollars, total expenditures increased by $4,936,000 which is a substantial increase over the five-year period. Two departments represent the majority of this increase, Community Development and Beaches, Parks and Recreation. Community Development expenditures are increasing due to the high volume of development activity while Beaches, Parks and Recreation restored programs and positions previously cut in FY 1997-98. Total expenditures include the General Fund's contributions to fund reserves and the Street Improvement Program. These transfers for FY 2000-01 included Capital Equipment Replacement Reserve ($100,000), Accrued Leave Reserve ($100,000), and Street Improvement Fund ($530,450). The net effect of positive revenues and expenditures was a General Fund year-end fund balance of $16.5 million ($14.1 million unreserved, $100,000 in miscellaneous reserves, $740,000 encumbrances from the prior year, and $1.6 million emergency reserves).

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

- The City's **revenue base** continues to expand as almost every revenue category increases in FY 2000-01. The General Fund revenue base is sufficient at the present time to support current services provided to the residents. However, it should be pointed out that elastic revenues (e.g. development fees) contributed heavily to the expanded revenue base and are not anticipated to continue in future years. Revenues in FY 2000-01 have also boosted the unreserved fund balance, making more funds available to address future needs as they arise. The City's total operating revenues have grown 65.6 percent from FY 1996-97 to FY 2000-01.

- The City's **elastic revenues** continue to increase as the local economy shows signs of continued stabilization. Elastic revenues increased $3,115,000 from FY 1999-00 to FY 2000-01. Sales tax revenues, license and permit revenues, and community development service charges all increased during the fiscal year. Although the City continues to rely heavily on elastic revenues (39.9% of operating revenues), the City's commitment to funding the General Fund emergency reserve will prove beneficial in safeguarding the City against any future short-term unforeseen economic downturns that may have an effect on elastic revenues.

- The City continues to **monitor expenditures** in an effort to contain spending and remain in a positive operating position. In total, staffing levels have been reduced over the past ten years by 46.2%, from 353 full-time equivalents (FTE's) in FY 1991-92 to 190 FTE's in FY 2000-01. The City is fully aware of the consequences this brings. Therefore the number of municipal employees in the General Fund has increased by 18 FTE's since FY 1997-98 and warrants a favorable rating. The City will continue to monitor the employees per capita levels as the population is anticipated to increase as well.

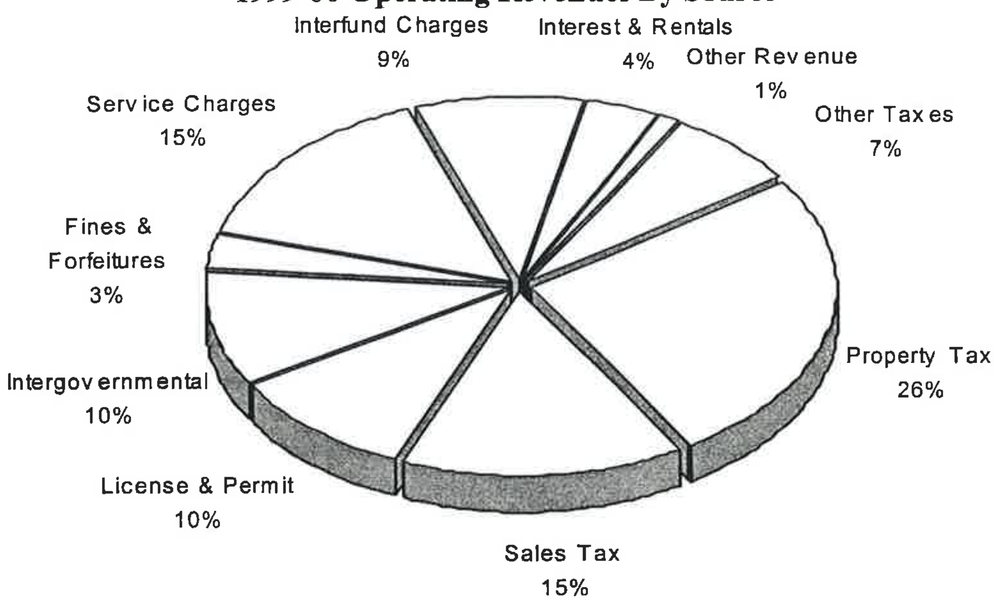
- **Unreserved fund balance** is at an all-time high of 44.77% when calculated as a percentage of operating revenues. This is an increase over the prior year of $6,715,000 and is the direct result of an operating surplus for the year in the amount of $6,304,000. The unreserved fund balance includes the General Fund's emergency reserve, which has been set at 8% of operating expenditures, and is not fully funded at the present time at $1,619,640. The General Fund emergency reserve is anticipated to be fully funded in FY 2001-02. During the budget process, the unreserved fund balance is taken into consideration when funding priority projects as well as reserve transfers. In total, the fund balance was decreased by $7.1 million in FY 2001-02, resulting in a 20.27% decrease when calculated as a percentage of FY 2000-01 operating revenues.

General Fund Operating Results - Revenues

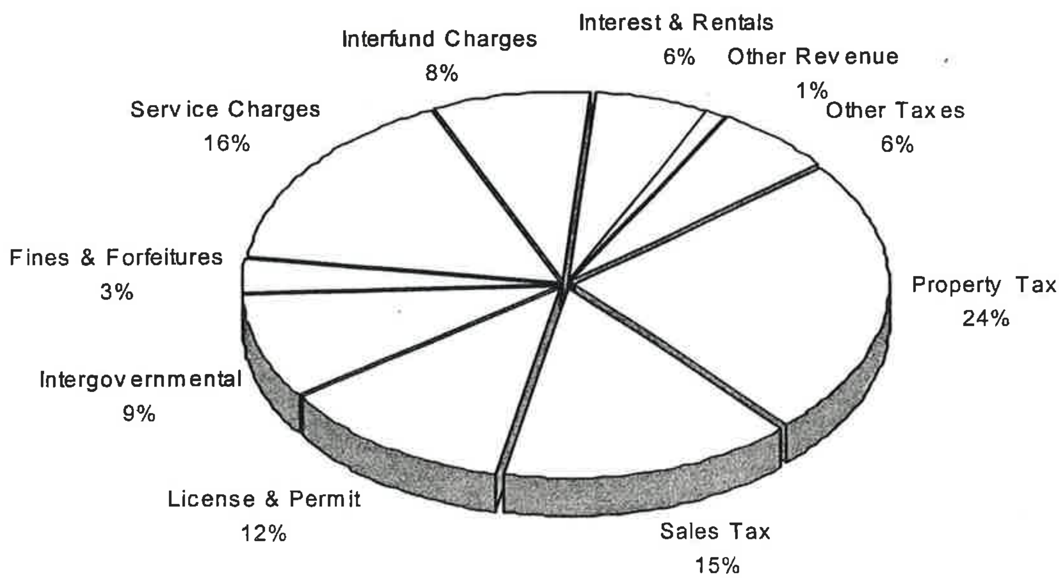
The City's General Fund operating revenues increased from $29,718,860 to $35,024,245, an increase of 17.9%, or $5,305,000 over the prior fiscal year. License and permit revenues showed the most significant increase of $1,263,000 or 41.5% over FY 1999-00. The City continues to utilize one-time revenues to offset one-time expenditures.

The General Fund's revenue sources with related percentages of total operating revenues are shown in the charts on the next page. Taxes, including property, sales and other taxes make up the largest category of General Fund revenues at 45% of revenues generated from the General Fund.

1999-00 Operating Revenues By Source



2000-01 Operating Revenues By Source



The City continues to receive its largest share of revenues from property taxes and sales taxes. One percent of the 7.5% in sales tax generated within the City limits is distributed to the City, with 5.5% distributed to the State, 0.5% to the Orange County Transportation Authority (OCTA) under Measure M for street improvements, and 0.5% to Orange County and local governments under Proposition 172 for public safety. Fiscal year 2000-01 property taxes paid by a typical resident of San Clemente were apportioned to local governments with school districts receiving 64.0%, special districts receiving 11.0%, the County 7.0%, the Redevelopment Agency 7.0%, and the City receiving 11.0%. 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%. Since San Clemente has never received structural fire fund monies, the property tax allocation has always been 11%.

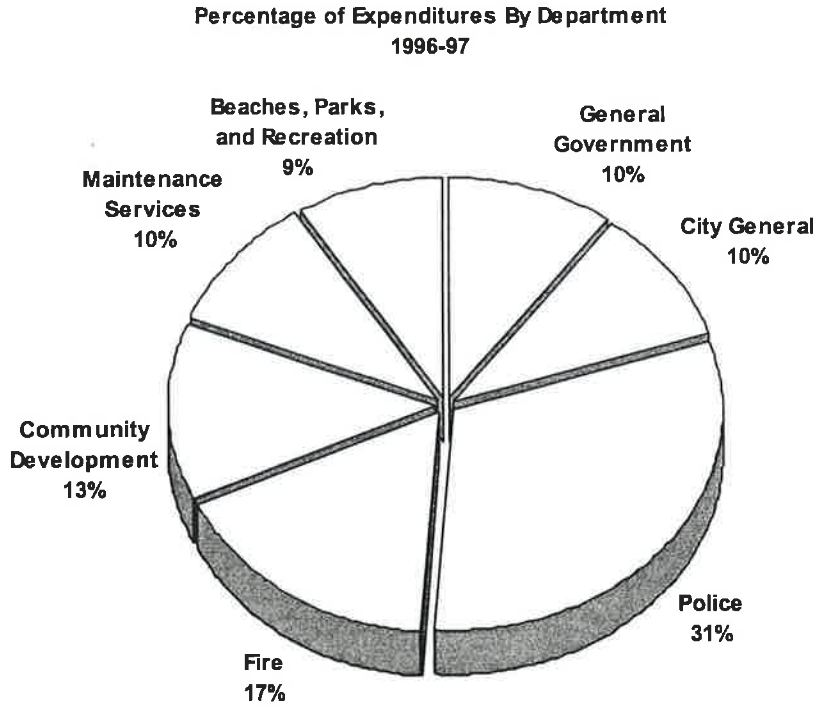
Several changes between FY 1999-00 and FY 2000-01 percentages by revenue source were noted. Service charges increased slightly to 16% and now make up a greater percentage of operating revenue than sales tax. License and permit revenues increased from 10% in FY 1999-00 to 12% in FY 2000-01 due to an increase in business license and construction-related permits. Total tax revenues decreased in percentage of total operating revenues from the prior year as a direct result of increases in other revenue sources. Interfund charges also declined from 9% to 8%.

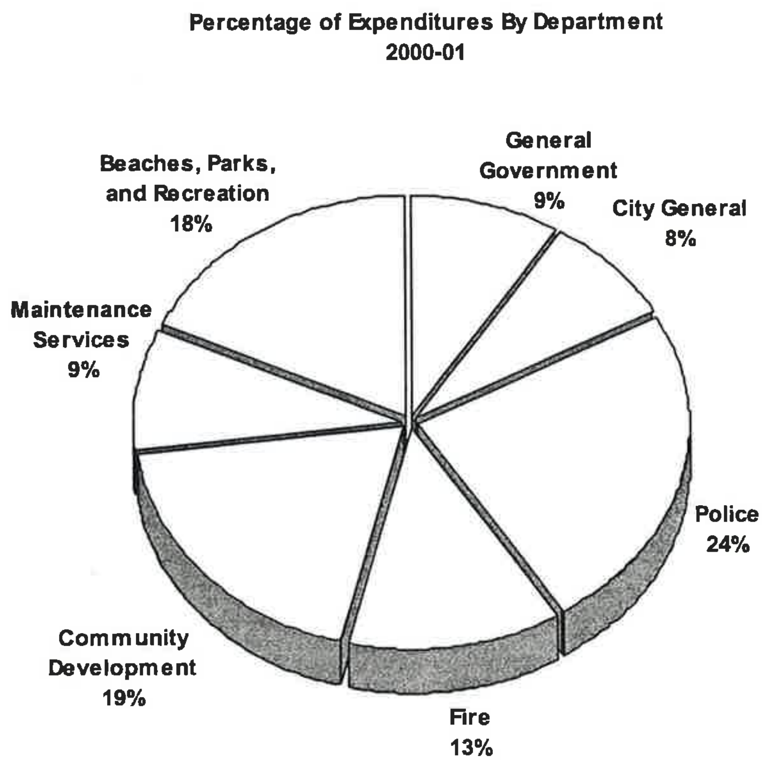
General Fund Operating Results - Expenditures

The largest portion of the City's operating costs reside in the General Fund. Fiscal year 2000-01 showed an actual increase of $2,748,000 in total General Fund expenditures from the prior fiscal year. The expenditures for FY 2000-01 include $1,080,000 of transfers to other funds, including a contribution of $530,450 to the Street Improvement Program.

The following charts compare expenditures both by department and category for FY 1996-97 and FY 2000-01.

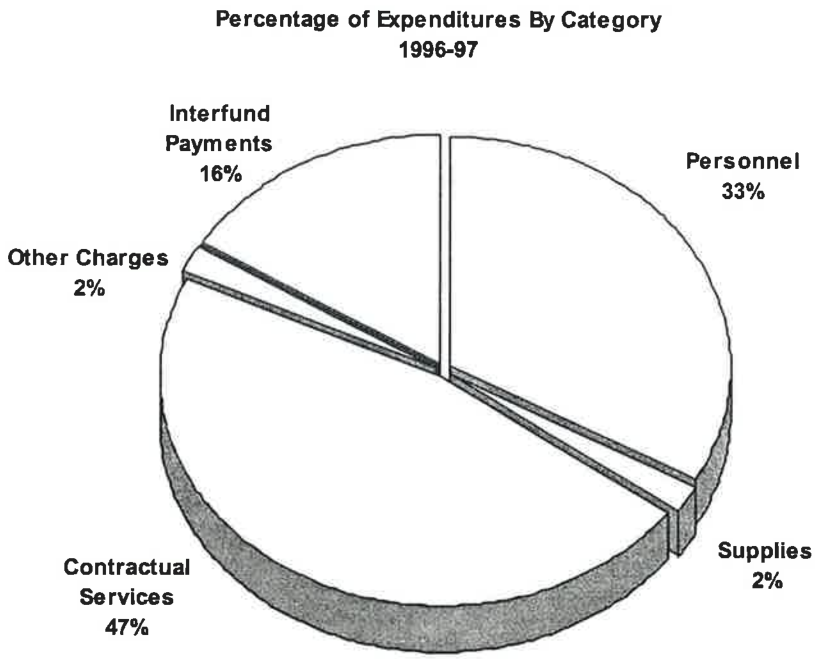
Comparison of Expenditures By Department - 1996-97 vs. 2000-01

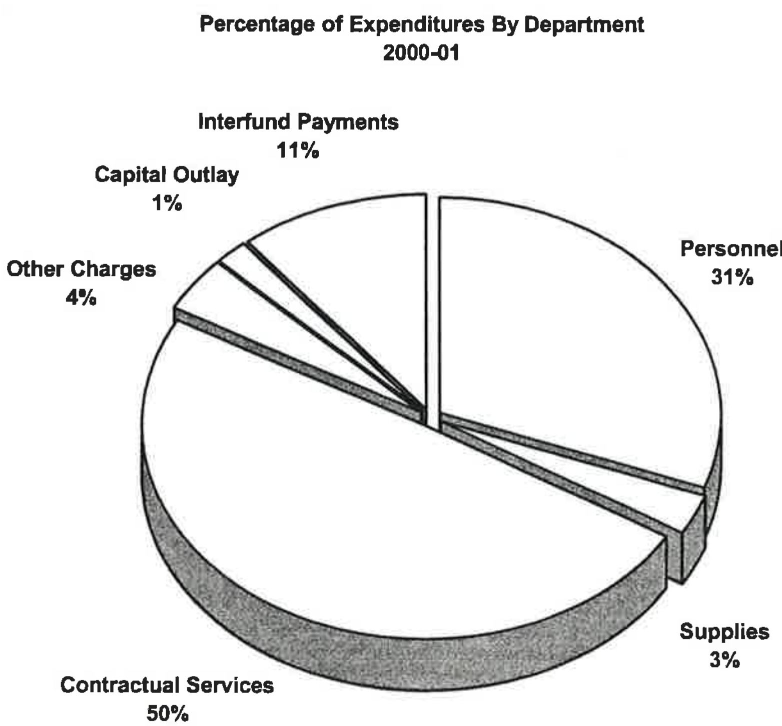




Changes in the above comparison of General Fund expenditures by department worthy of mention include an increase from 9% to 18% in Beaches, Parks & Recreation because this division absorbed the costs of the former Lighting and Landscape Assessment District, with expenditures totaling $2,619,000 for FY 2000-01 for these services alone. If the Lighting and Landscape Assessment District had not been dissolved, Beaches, Parks, and Recreation expenditures would only amount to 9% of total General Fund expenditures instead of the current 18% level. Community Development increased from13% to 19% due to the funding of several one-time projects, such as the Local Coastal Plan and Zoning Amendment updates. Police Services decreased from 31% to 24% as a result of the transfer of grant funded positions and expenditures from the General Fund to a newly created Police Grant Fund in FY 2000-01.

Comparison of Expenditures by Category- 1996-97 vs. 2000-01





Personnel costs, as a percentage of General Fund expenditures, decreased from 33% in FY 1996-97 to 31% in FY 2000-01. Contractual services increased from 47% in FY 1996-97 to 50% in FY 2000-01 due to the addition of the costs of the former Lighting and Landscape Assessment District. All other categories of General Fund expenditures remained relatively constant over the five-year period, with the exception of interfund payments which tend to fluctuate.

In summary, the City's financial condition continues to stabilize, and definite signs of growth are evident in many areas. The unreserved fund balance is at an all-time high of 44.77%, when calculated as a percentage of operating revenues, a total of $15,679,000. For FY 2001-02, the General Fund's emergency reserve will be fully funded at 8% of operating expenditures. The City will annually review the General Fund operating position (revenues less expenditures) to insure proper funding for future expenditures.

General Obligation Debt

According to California State law, the City's legal debt capacity for general obligation indebtedness is equal to 3.75% of total assessed property values within the City, or $193 million. The City had no general obligation debt at June 30, 2001.

Summary of Trends

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

Summary of Trends

Indicator Number	Description	Trend	Comments
General Fund Revenues			
1	Revenues Per Capita	F	Revenues per capita reflected an increase from the prior fiscal year. Rating unchanged from prior year.
2	Property Tax Revenues	F	Property tax revenues showed a fifth year of increases. This increase was significant at $624,000 over the previous fiscal year. This rating is unchanged with the fifth favorable rating during the five year history.
3	Sales Tax Revenues	F	Sales tax revenues once again showed increases. This year amounted to $717,000 over the prior fiscal year. This revenue source is the third highest source of the City's General Fund. Rating unchanged from prior year.
4	License & Permit	F	License and permit revenues rose to an all time high in FY 2000-01. The increase in development within the City resulted in an increase in revenues of $1,263,000, or 41.5%, over the prior fiscal year in actual dollars and $1,000,000, or 35.3%, in constant dollars. Rating unchanged from prior year.
5	Com. Dev. Service Chgs.	F	Community Development Service Charges increased by $1,128,000, or 49.7%, from FY 1999-00. These charges are the second highest revenue source in the General Fund. Rating unchanged from prior year.
6	Elastic Revenues	F	Elastic revenues increased by $3,115,000 in FY 2000-01, or 28.7% over the prior year. Rating unchanged from prior year.
7	One-Time Revenues	F	One-time revenues increased 30.9% in FY 2000-01 from FY 1999-00. The City will continue to apply one-time revenues towards one-time expenditures. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable
C Caution

Indicator Number	Description	Trend	Comments
8	Intergovernmental	F	Intergovernmental revenues have maintained a level trend for the past five years with FY 2000-01 showing 9% of operating revenues, up $170,000 from the prior fiscal year. This level trend is positive, in that the City should not rely too heavily on revenue sources which are out of its control. Rating unchanged from prior year.
9	Revenue Overages	F	Revenue overages, as a percentage of operating revenues, is at 12.20% this year. This indicator examines the differences between revenues budgeted and revenues actually received. Rating unchanged from prior year.
General Fund Expenditures			
10	Exp. Per Capita	F	Expenditures per capita increased in both constant and actual dollars in comparison to the prior year. The Community Development department expenditures increased due to the high volume of development activity. Recreation and beach/park maintenance costs increased with the restoration of services.
11	Employees Per Capita	F	This indicator maintains a favorable rating due to the increase of FTE's over the last four years. The City will continue to monitor this trend on an annual basis as population is projected to increase. Rating unchanged from prior year.
12	Fringe Benefits	F	Fringe benefits, as a percentage of salaries and wages, has remained relatively stable over the past seven years. Rating unchanged from prior year.
13	Capital Outlay	F	Capital Outlay decreased from the prior fiscal year by 27.3%. A $100,000 annual contribution was made to the Capital Equipment Replacement Reserve. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable
C Caution

Indicator Number	Description	Trend	Comments
General Fund Operating Position			
14	Operating Surplus	F	This indicator has remained positive for the seventh consecutive year. The City's operating surplus for FY 2000-01 was 18.0% of operating revenues, the highest level since this indicator was first tracked. Rating unchanged from prior year.
15	Unreserved Fund Balance	F	The City's unreserved fund balance at June 30, 2001, as a percentage of operating revenues, increased over the prior year to 44.77%. The emergency reserve is not fully funded at 8% of General Fund operating expenditures, as required by the City's Fiscal Policy. Rating unchanged from prior year.
16	Liquidity Ratio	F	The General Fund liquidity ratio (current assets to current liabilities) at June 30, 2001 was 4.3:1 which is above the 1:1 ratio viewed as favorable by credit rating firms. Rating unchanged from prior year.
17	Debt Service	F	The City General Fund's debt service, as a percentage of operating revenues, remains at less than 1%. The City's debt is well below the 20% of net operating revenues which is used as a indicator by credit rating firms. Rating unchanged from prior year.
18	Compensated Absences	F/C	Accumulated compensated absences (unpaid vacation, sick leave, and compensatory time) show an increase of $274,000, or 22.4%, from the prior fiscal year. This indicator will be monitored to insure adequate funding. Rating unchanged from prior year.
19	Property Values	F	Like property tax revenues, property values continue to show a positive trend for the fifth consecutive year. This indicator shows an increase over the prior year of 11.3%. Because the City relies heavily on property tax revenues, representing 24% of all General Fund revenues, this indicator will continue to be closely monitored. Rating unchanged from prior year as this trend has continued for a five-year period.

F Favorable
W Warning
U Unfavorable
C Caution

Indicator Number	Description	Trend	Comments
Additional Indicators			
20	Population	F	This trend continues to receive a favorable rating because the population growth has been a steady, non-rapid, increase over the last twelve years and has been relatively planned and controlled. Rating unchanged from prior year.

F Favorable
W Warning
U Unfavorable
C Caution

Comparison of Trend Reports

Twenty financial indicators are summarized on the following page. These indicators are analyzed on an annual basis as part of the Long Term Financial Plan. The current year being analyzed shows every indicator receiving a favorable rating, concurrent with the previous year. This is an improvement over 1998 where two indicators received unfavorable ratings, and an even more significant improvement over the first financial trend analysis with only six favorable ratings.

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

Recommendations presented in the Long Term Financial Plan continue to play an important role in the improved financial health of the City. Since the first Long Term Financial Plan, reserves have been established and funded on an annual basis. The Emergency Reserve will be fully funded at 8% of operating expenditures in FY 2001-02. Reserves have been established for the replacement of capital equipment, facility improvements and payment of accrued leave. Improvements in the City's financial condition are summarized in the chart on the following page, showing the past five years of ratings.

Summary of Annual Trends

Indicator Number	Description	2002	2001	2000	1999	1998
1	Revenues Per Capita	F	F	F	F	F
2	Property Tax Revenues	F	F	F	F	F
3	Sales Tax Revenues	F	F	F	F	F
4	License & Permit Revenues	F	F	F	F	U
5	Community Development Service Charges	F	F	F	F	U
6	Elastic Revenues	F	F	F	F	F
7	One-Time Revenues	F	F	F	F	F
8	Intergovernmental Revenues	F	F	F	F	F
9	Revenues Overages/Shortages	F	F	F	F	F
10	Expenditures Per Capita	F	F	F	F	F
11	Employees Per Capita	F	F	U	U	F
12	Fringe Benefits	F	F	F	F	F
13	Capital Outlay	F	F	F	F	F
14	Operating Surplus	F	F	F	F	F
15	Unreserved Fund Balance	F	F	F	F	F
16	Liquidity Ratio	F	F	F	F	F
17	Debt Service	F	F	F	F	F
18	Compensated Absences	F/C	F/C	F/C	F	F
19	Property Value	F	F	F	F	F
20	Population	F	F	F	F	F

F **Favorable**
W **Warning**
U **Unfavorable**
C **Caution**

City Fiscal Policy

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

General Financial Goals

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

Operating Budget Policies

4. The City will adopt a balanced budget by June 30 of each year.
5. The City Manager will prepare a budget calendar no later than January of each year.
6. An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.
7. During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
8. Current revenues will be sufficient to support current operating expenditures.
9. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.
10. The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.
11. The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.
12. The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.
13. The City will establish a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.
14. The purchase of new or replacement capital equipment with a value of $1,000 or more and with a minimum useful life of five years will require budget approval.

Revenue Policies

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

19. One-time revenues will be used for one time expenditures only (including capital and reserves).
20. The City will annually review the General Fund operating position (revenues less expenditures) to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.

Expenditure Policies

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

Utility Rates and Fees

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

Capital Improvement Budget Policies

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

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

Long-Term Debt Policies

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

Reserve Policies

37. The City will maintain General Fund reserves (emergency reserves) at a level at least equal to 8% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.
38. A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.
39. Council approval is required before expending General Fund or Contingency Reserves.
40. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be established based on an annual projection of employee retirements.
41. 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.
42. The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.
43. 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 five-year facilities maintenance costs.

Investment Policies

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

Accounting, Auditing, and Financial Reporting

46. 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.
47. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.
48. Quarterly financial reports will be submitted to the City Council and will be made available to the public.
49. Full and continuing disclosure will be provided in the general financial statements and bond representations.
50. The City will maintain a good credit rating in the financial community.
51. 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.
52. The City will maintain a liquidity ratio of at least 1:1.

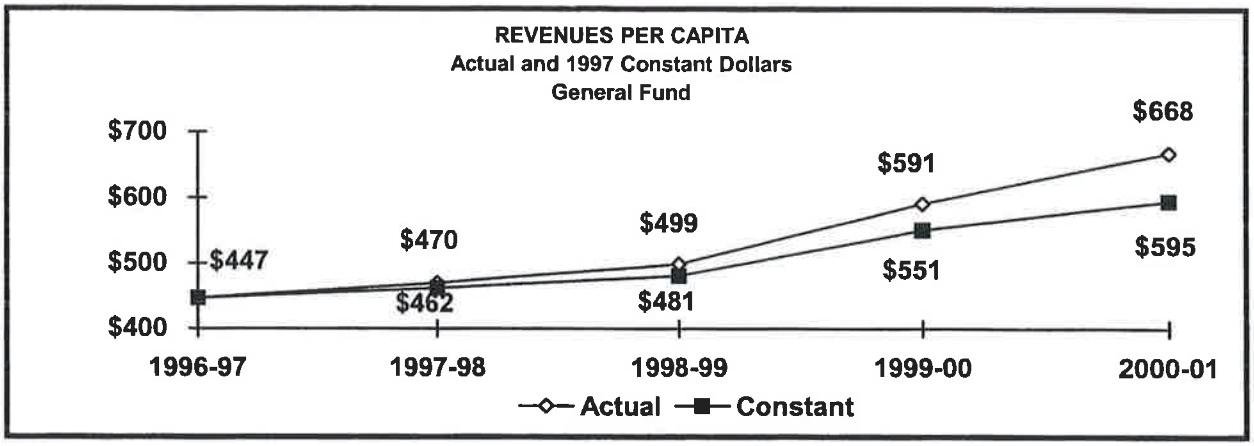
General Fund Revenues

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

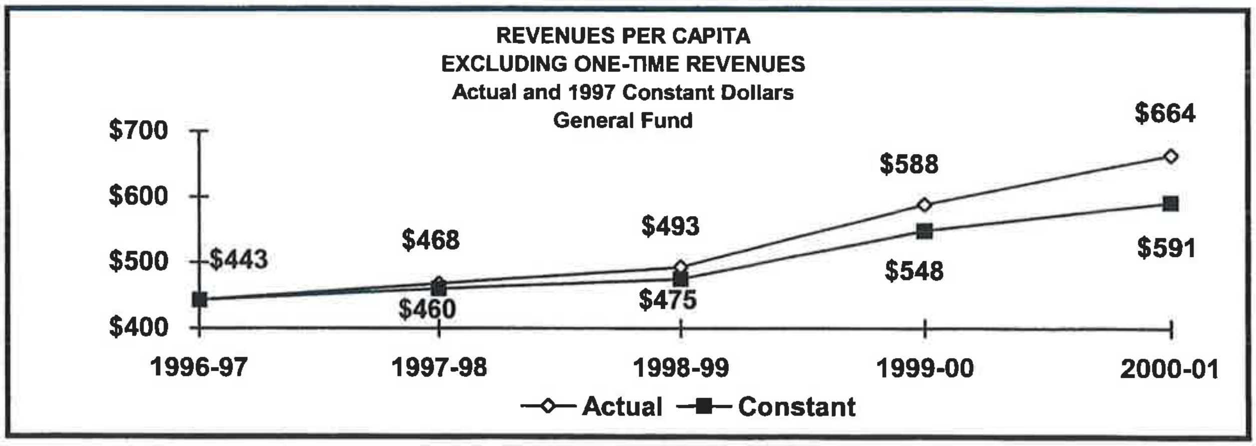
The following section evaluates nine indicators used to determine the financial condition of the City's revenue base. The City of San Clemente continues to show significant improvement in revenues due to gradual economic growth. Property tax revenues, for the fifth consecutive year, show a positive trend.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

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

Indicator 1



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



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

Description

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

Comments and Analysis

Revenues per capita, excluding one-time revenues shown in the above chart, reflect an increase when analyzing both actual and constant dollars. Two factors contribute to this positive trend. First, the population increased 4.3 percent from the previous year, compared to the previous two years increasing by 2.1 percent. Second, most major revenue categories registered increases over the prior fiscal year. License and permit revenues increased over the prior fiscal year by $1,263,000. Other revenue increases include: community development service charges of $1,128,000, sales tax revenues of $717,000, property tax revenues of $624,000, intergovernmental revenues of $170,000, and fines and forfeitures of $50,000.

A clear favorable trend has emerged since FY 1997-98 with increases in all major categories of general fund revenues over this time frame.

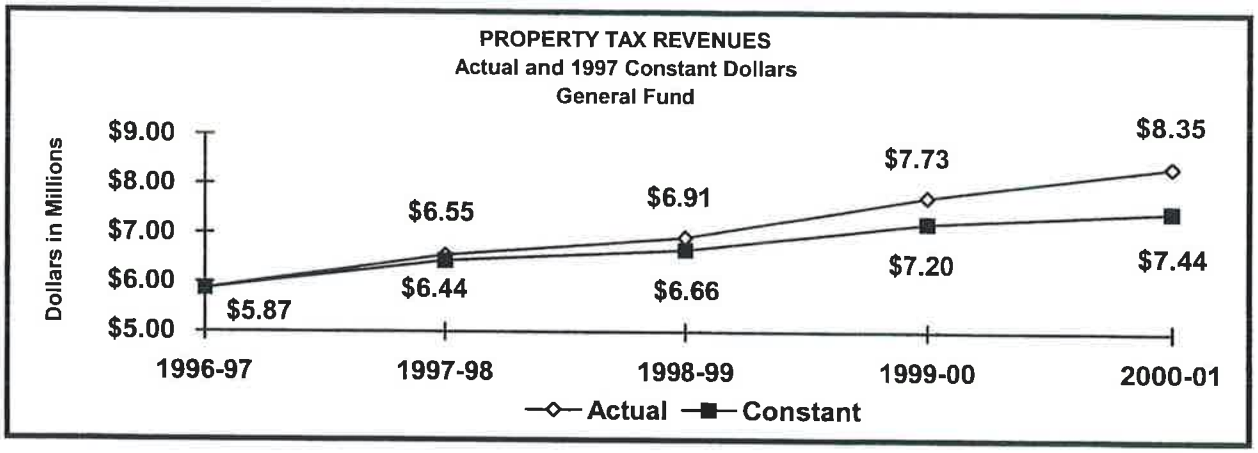
Related Fiscal Policy

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

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

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

Indicator 2



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

Description

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

Through June 30, 1992, the City received a share of the basic levy proportionate to the amount received at the time Proposition 13 was passed, approximately 19 percent. From July 1992 through July 1993, the City's share of the basic levy dropped from 19 percent to 15 percent, as the State imposed a property tax shift in an attempt to solve its budgetary problems. 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%. Since San Clemente has never received structural fire fund monies, the property tax allocation has always been 11%.

Comments and Analysis

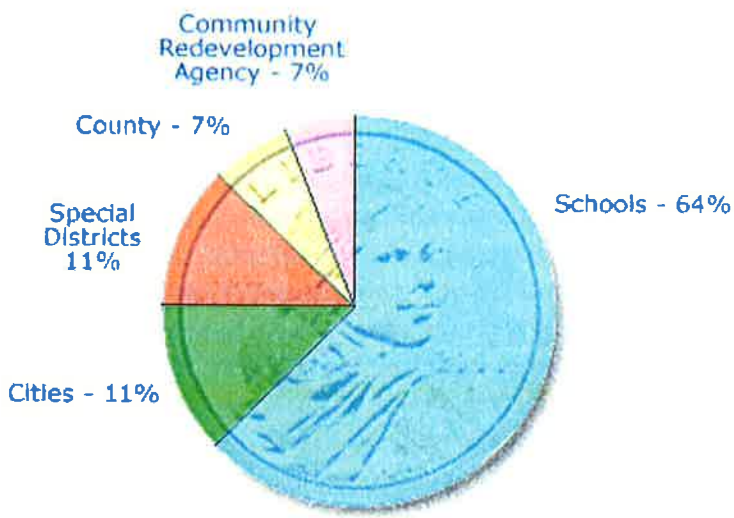
Property tax revenues showed a significant increase for fiscal year 2000-01, continuing the positive trend which was initiated three years earlier. The significant increase in property tax revenues over the previous fiscal year amounted to $624,000, or 8.1%, in actual dollars. Constant dollars also showed an increase from the previous year of $238,000, or 3.3 percent. These increases are due to the residential resale growth and residential sales primarily from Talega and Forster Highland residential housing sites, along with increases in property valuation. Property taxes are projected to continue this positive trend as future sales continue to grow as the development takes place in Talega, the newest residential housing site. Therefore, this trend receives a favorable rating for the fifth consecutive year.

Related Fiscal Policy

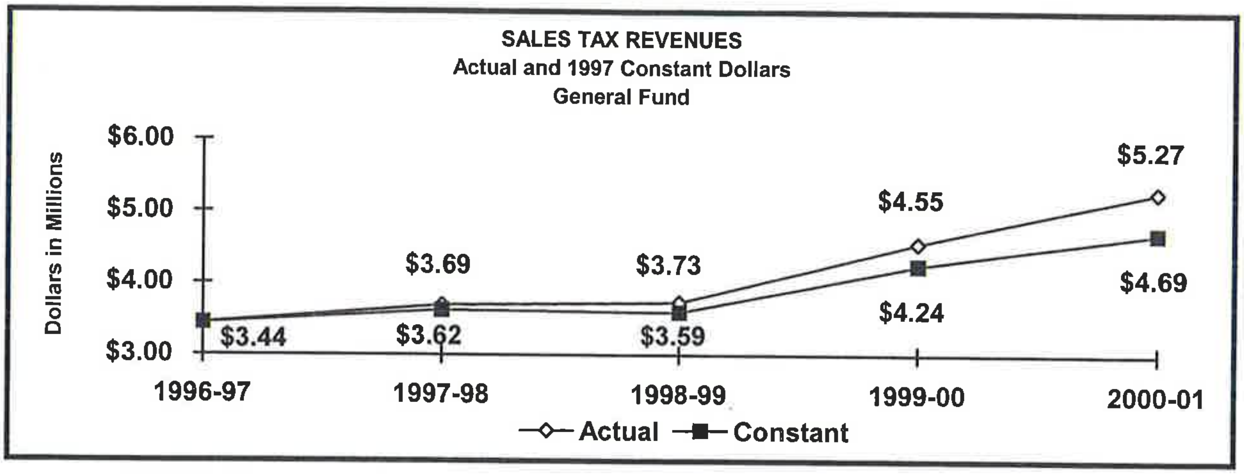
#15 The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

Where the Typical Orange County Property Tax Dollar Goes

(Locally Assessed 1% Basic Levy)



Indicator 3



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

Description

Sales tax revenue is a strong indicator of the City's economic health. Sales taxes are the City's third largest source of revenue and are elastic in nature, varying with changes in the economy. Constant dollars are examined in order to evaluate the sales tax revenue changes not related to inflation. The State Board of Equalization levies the sales tax on most retail sales with principal exemptions applying to sales of food for home consumption and prescription drugs. Since June 1993, the Board has been collecting and administering 1.0% of local sales tax for the City which is part of the overall County of Orange sales tax rate of 7.5%. Since July 1993, the City also receives a portion of the 0.5% earmarked for public safety as mandated by the State. The total Orange County sales tax rate dropped a quarter of percent to 7.5% on January 1, 2001. This will go back up to 7.75% on January 1, 2002, with the 0.25% addition going to the State, as originally designated.

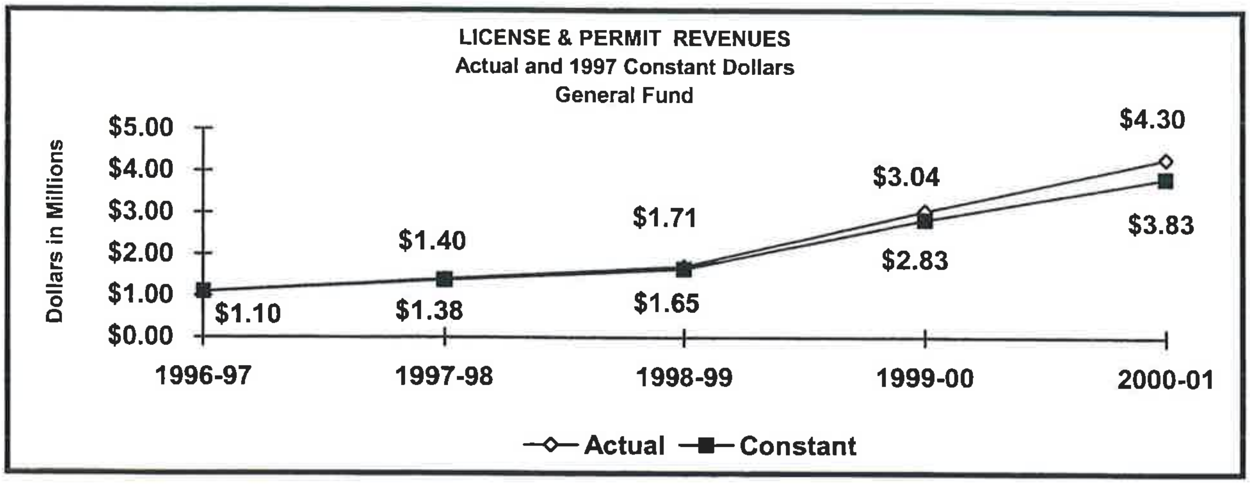
Comments and Analysis

As summarized in the chart above, sales tax revenues showed increases of $717,300, or 15.8%, in actual dollars over the prior fiscal year. There was also an increase in constant dollars amounting to $452,000, or 10.7%. The chart shows a favorable trend over the past five years in actual dollars and constant dollars. In fact, actual sales tax revenues have increased a total of 52.9% over the five year period presented above, and 36.2% in constant dollars for the same time period. The continued upward trend in actual and constant dollar is due to the growth of personal income and new retail establishments downtown and in Plaza Pacifica. This trend is projected to continue into FY 2001-02, therefore resulting in a favorable rating.

Related Fiscal Policy

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

Indicator 4



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

Description

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

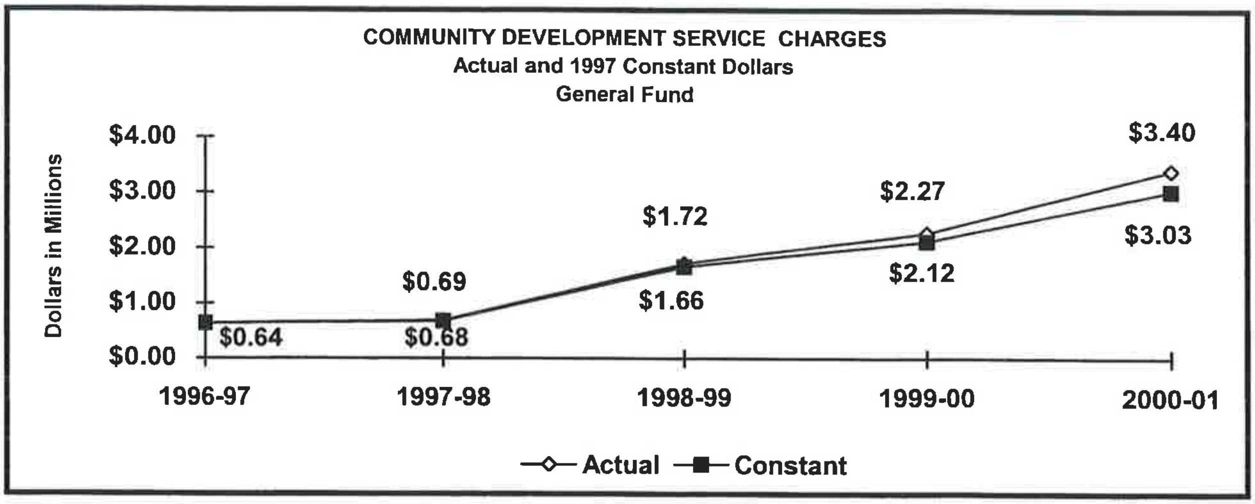
Comments and Analysis

License and permit revenues increased for the fourth time in five years. The increase in actual dollars was significant, amounting to $1,263,000, or 41.5%, above the prior fiscal year. The constant dollar increase was substantial as well, with license and permit revenues registering $1,000,000, or 35.3%, over fiscal year 1999-00. This increase indicates that construction activity has increased substantially over the past year. Included in this increase is construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, which increased $1,113,000, or 48.9%, in actual dollars over the prior year and an increase in business licenses of $62,000, or 9.3%. The majority of the increase in construction-related revenue is the result of an increase in the number of new residential permits issued and continued construction within Talega, Forster Ranch, Plaza Pacifica and the Rancho San Clemente Business Park. In addition to the increased follow-up performed by City staff in the area of business licenses, the City has experienced an increase in this revenue category due to the increase in sales by local businesses. The City's business licenses are based on gross sales; thus with the improved economy and local sales, business license revenues have also increased over the past few years. Because this indicator shows another dramatic increase for the past year, a favorable rating has been assigned.

Related Fiscal Policy

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

Indicator 5



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

Description

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

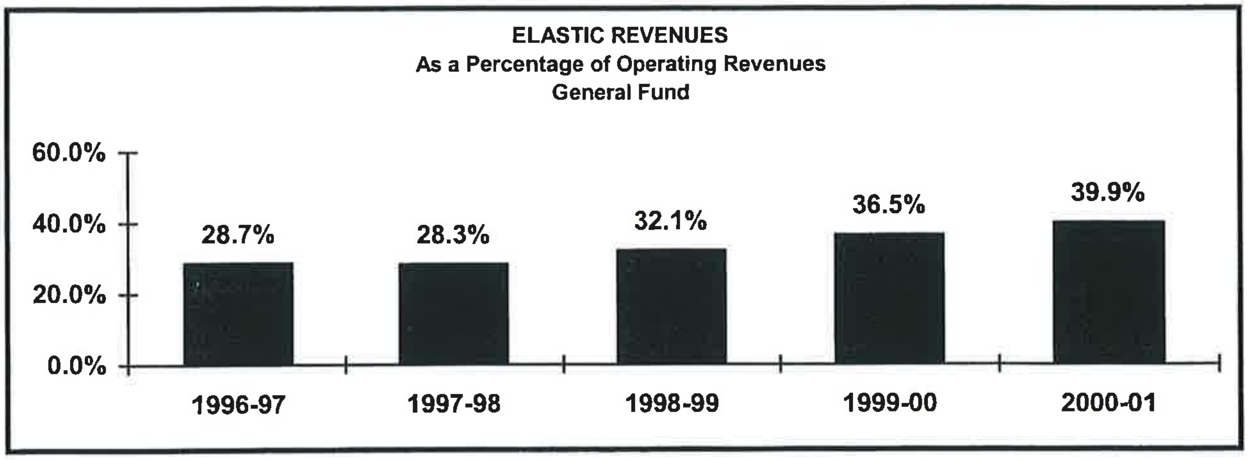
Comments and Analysis

For fiscal year 2000-01, community development service charges increased by 49.7%, or $1,128,000 from fiscal year 1999-00. Specific revenue sources showing increases include building plan check fees of $164,000, grading plan check fees of $168,000, construction inspection fees of $566,000, and improvement plan check fees of $155,000. This indicator has been assigned a favorable rating, however, this trend is not anticipated to continue.

Related Fiscal Policy

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

Indicator 6



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

Description

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

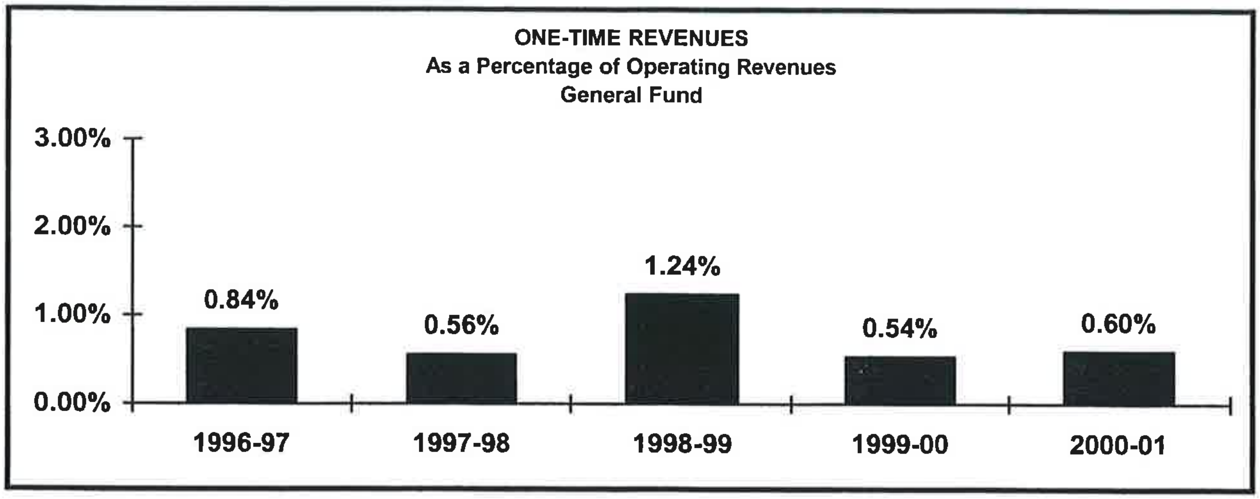
Comments and Analysis

Elastic revenues, as a percentage of operating revenues, rose 3.4% in fiscal year 2000-01 following an increase of 4.4% in FY 1999-00. Revenues in this category, increased $3,115,000, while total operating revenues increased by $5,305,000. The City's largest elastic revenue source, sales tax revenue, was up 15.8%, or $717,000, from the prior year. In the past, San Clemente had been one of the lowest sales tax producers in the County. Through the economic development efforts beginning in 1993, San Clemente focused on increasing the number of businesses generating sales tax revenue thus resulting in the increase. In addition, license and permit revenues came in $1,263,000 over the previous year, and community development service charges increased $1,128,000. Elastic revenues, as a percentage of operating revenues, increased in FY 2000-01 due to development and economic growth. Under certain circumstances, elastic revenues that make up 39.9% of the City's operating revenues are seen as a caution. However, the City has identified the developmental revenue and spends it on one-time expenditures as opposed to operational and on-going costs. Based on current development in the planning and building stages, sales tax revenues, and the fact that the City is not using development revenues for on-going costs, the rating is unchanged from prior year.

Related Fiscal Policy

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

Indicator 7



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

Description

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

Comments and Analysis

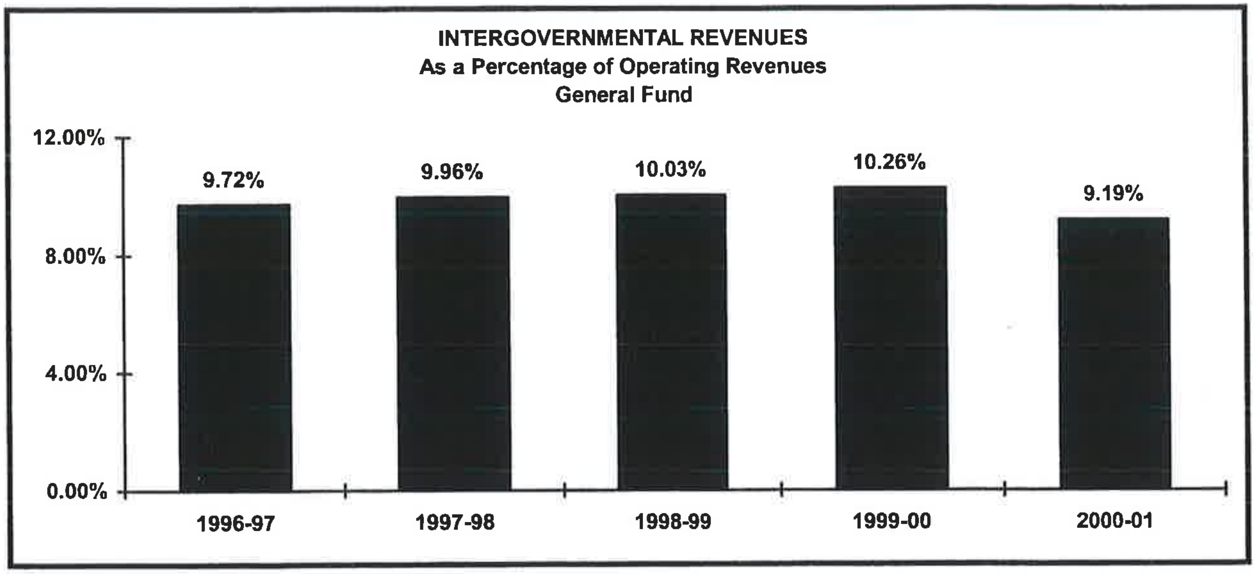
One-time revenues increased slightly from the prior fiscal year by $49,000, or 30.9%. Fiscal year 2000-01 one-time revenues totaled $209,000. This includes $109,000 for an energy program reimbursement grant and $84,000 in miscellaneous reimbursements. In accordance with the City's fiscal policy, one-time revenues were used for one-time expenditures (e.g., reserve and operational transfers).

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

Related Fiscal Policy

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

Indicator 8



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

Description

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

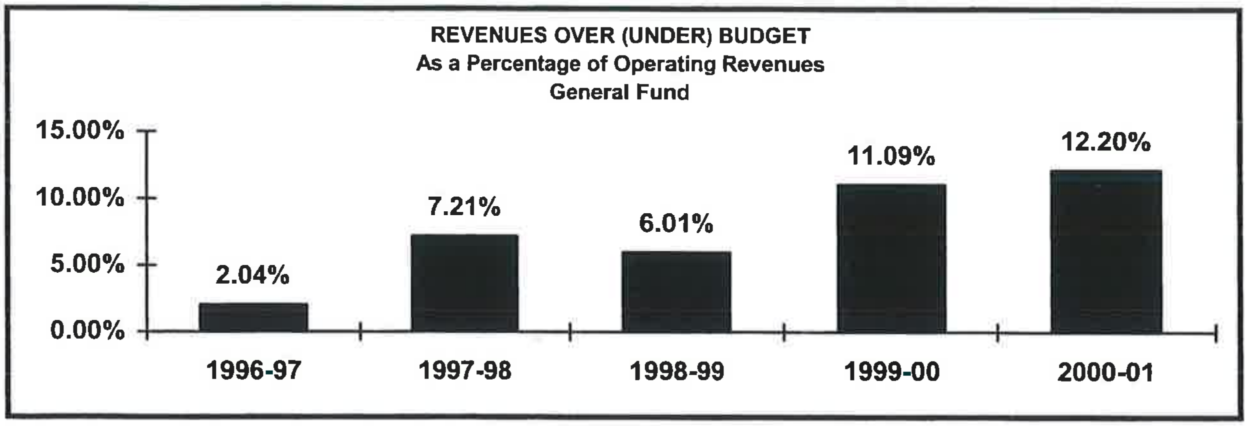
Comments and Analysis

General Fund intergovernmental revenues, as a percentage of operating revenues, showed a fairly level trend for the sixth consecutive year, with a small decrease. This decrease is based on a 5.6% increase in intergovernmental revenues while operating revenues increased by 17.9%, or $5,305,000. The increase in intergovernmental revenues is mostly attributable to motor vehicle taxes, which increased $259,000, or 11%, over the previous fiscal year. Additionally, State E.R.A.F. Local Relief increased $48,000. This trend remains favorable as dependence on intergovernmental revenues has remained at stable levels over the last twelve years. However, this favorable rating contains a note of caution as State and Federal governments continue to mandate programs, along with the cost burden, to local governments. Examples of these mandates include compliance with the Federal Americans with Disabilities Act, Revised California Pollution Discharge Elimination System Standards for storm drains, and regulations regarding underground storage tanks and toxic waste disposal. These reasons make it mandatory for the City to continue its aggressive pursuit of State mandated cost reimbursements under SB 90.

Related Fiscal Policy

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

Indicator 9



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

Description

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

Comments and Analysis

Actual revenues exceeded budget by $4,272,000 for fiscal year 2000-01. The City experienced increases in almost every category, including license and permit revenues ($1,263,000), community development service charges ($1,128,000), sales taxes ($717,000), property taxes ($624,000), and intergovernmental revenues ($170,000).

This trend began the five-year analysis with a positive revenue position of 2.04% and ends FY 2000-01 over budget by 12.20%. The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues. It should be noted that the City projects developmental revenues, such as license and permit fees, conservatively as the timing of projects entering the building permit stage cannot always be predicted. As an example, development related revenues were increased by $2.3 million at mid-year, but actual revenues amounted to $700,000 over projections due to development activity in the last quarter of the fiscal year. This trend continues to receive a favorable rating, as it maintains a level above the ICMA basis of a shortage of 5% or more for an unfavorable rating.

Related Fiscal Policy

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

General Fund Expenditures

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

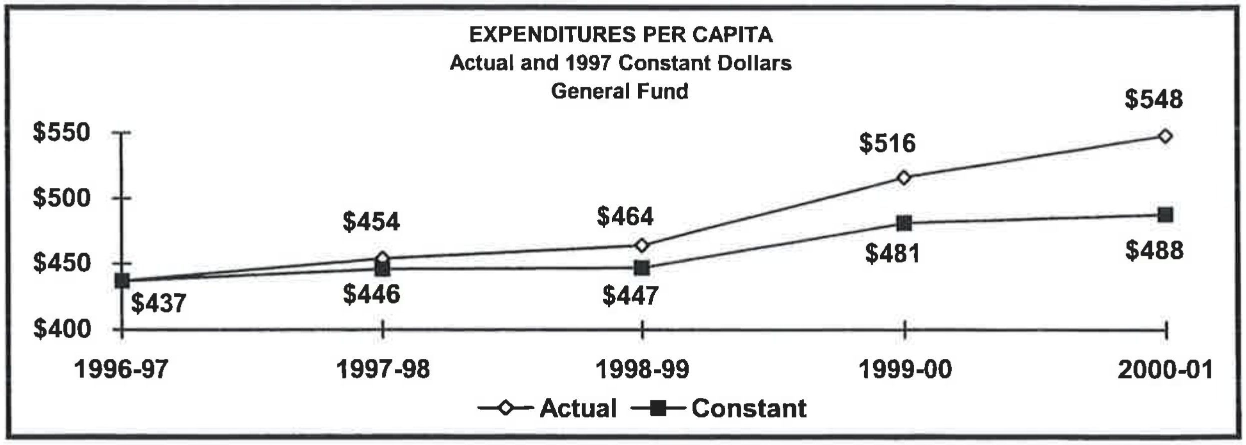
When analyzing constant dollars, the analysis shows that expenditures, while relatively constant for the past five years, have taken a turn upward. In fact, from FY 1996-97 to FY 2000-01, total expenditures in constant dollars increased $4,936,000, or 23.9%, over the five-year period. During the past three years, the City has focused on re-establishing programs that were eliminated in prior years, largely as the result of Proposition 218. As a result of past cuts and the current growth of the community, a total of 31 FTE's have been added to address expanded programs and development growth. The City has been able to adhere to its long term financial planning process and establish reserve funds to plan for the future. During the past six years, the General Fund has made contributions to the Accrued Leave Reserve ($365,000), Capital Equipment Replacement Reserve ($740,000), Workers' Compensation Fund ($356,000), and General Liability Self-Insurance Fund ($415,000). Additionally, the General Fund has contributed $2,845,450 to the Street Improvement Fund for improvement of the City's street system.

As discussed further in the analysis of employees per capita, the City has increased the number of employees in order to continue providing quality service and to restore programs previously eliminated. The increase over the previous year is 13% for all municipal employees or 4% for General Fund employees.

A full expenditure analysis is provided for the following:

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

Indicator 10



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

Description

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

Comments and Analysis

During the past fiscal year, expenditures per capita in both constant and actual dollars increased to the current level of $548 (actual) and $488 (constant). Total expenditures increased by $2,748,000 when compared to the prior fiscal year, and show an increase of $1,381,000 when comparing constant dollars for the same time period. The largest influx in both actual and constant dollars is seen between FY 1998-99 and FY 1999-00 and is based on an independent, City-Wide Organizational Review which was conducted in September 1998. The review stated, "comparison indicates that the City of San Clemente is tightly organized and staffed when compared to other jurisdictions", and went on to say that general fund expenditures per capita fell well below comparable survey cities.

The majority of the increases have resulted from the Community Development and Beaches, Parks and Recreation departments and transfers to other funds. The high volume of development within the City has brought with it higher expenditures for Community Development. Proposition 218 forced Beaches, Parks and Recreation to absorb the City's lighting and landscape costs, and expenditures have increased in recent years with the restoration of services provided by the department. Additionally, during FY 2000-01, transfers to fund reserves and capital improvement projects included transfers to the Accrued Leave Reserve ($100,000), Capital

Equipment Replacement Reserve ($100,000) and Street Improvement Fund ($530,450). All of these funds currently have sufficient reserves in place to comply with the City's fiscal policy, except for the Capital Equipment Replacement Reserve and the newly created Facilities Maintenance Capital Asset Reserve. The City also continues to demonstrate its commitment to the Street Improvement Program, with a scheduled $546,400 transfer during the 2001-02 fiscal year.

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

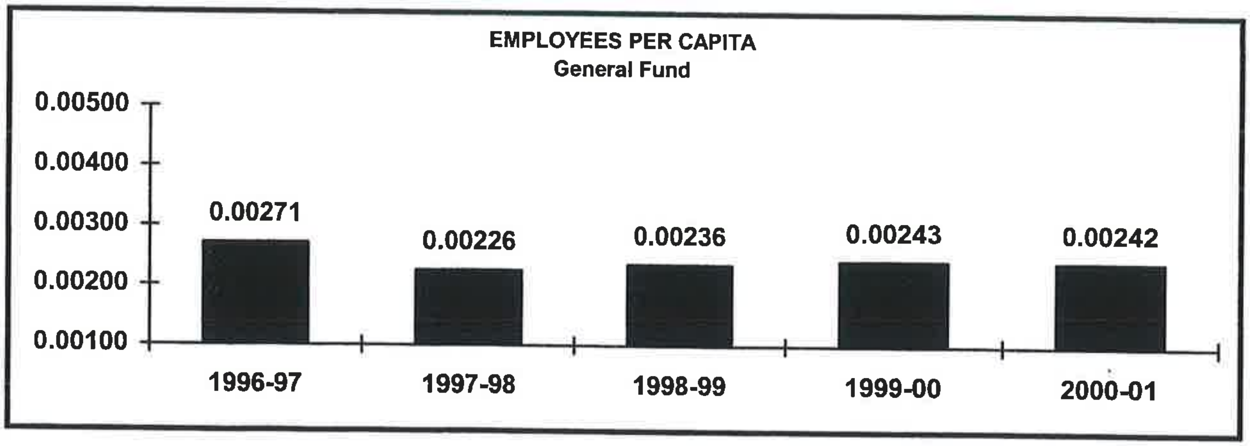
Related Fiscal Policy

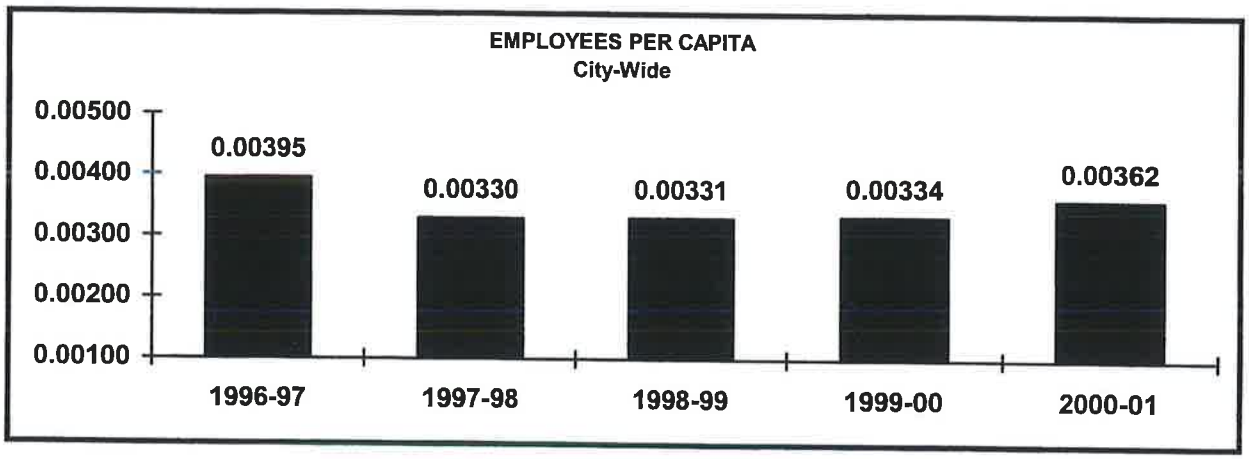
#12 The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.

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

#43 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 five-year facilities maintenance costs.

Indicator 11





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

Description

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

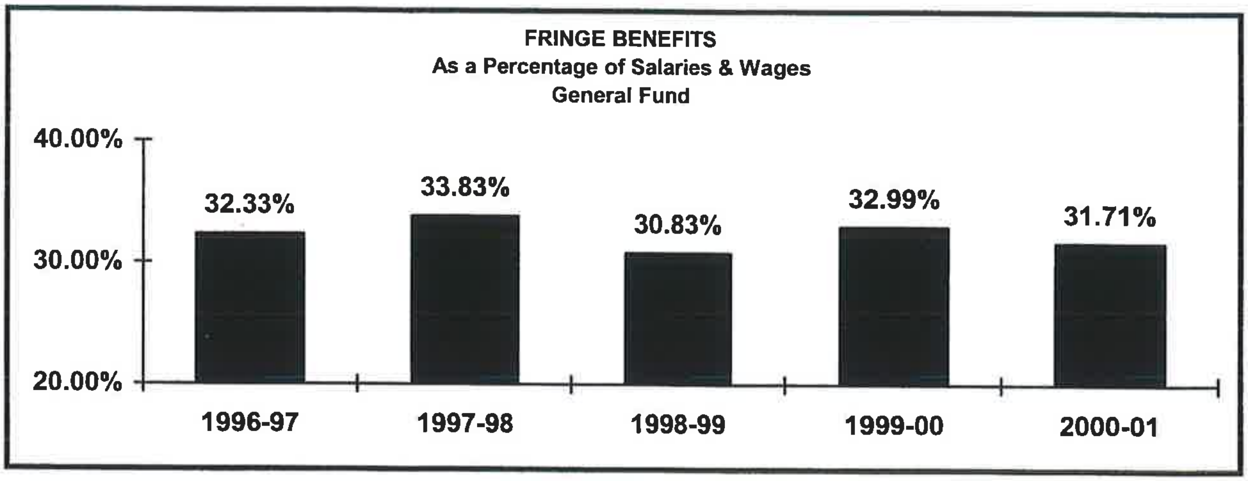
Comments and Analysis

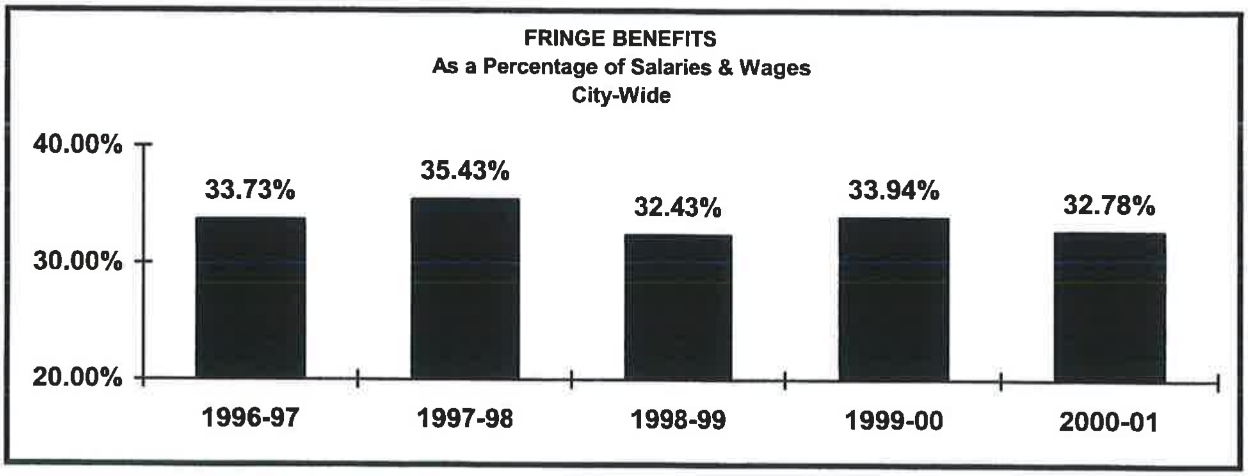
During the 1997 long term financial planning process, a total of 27.22 FTE's were reduced as a number of programs, including at-risk youth programs, City sponsorship of special events, recreation programs, social service subsidies, and programs for improving sports fields for youth groups, were reduced or eliminated. The City has monitored this indicator and as a result, increased the number of FTE's over the last four years. In total, 9.5 positions were added to the General Fund in FY 2000-01 in order to continue providing quality customer service and to restore programs previously eliminated. A favorable rating has been assigned, however, this indicator will be closely monitored to insure the ability to support future service levels.

Related Fiscal Policy

No related fiscal policy.

Indicator 12





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

Description

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

Comments and Analysis

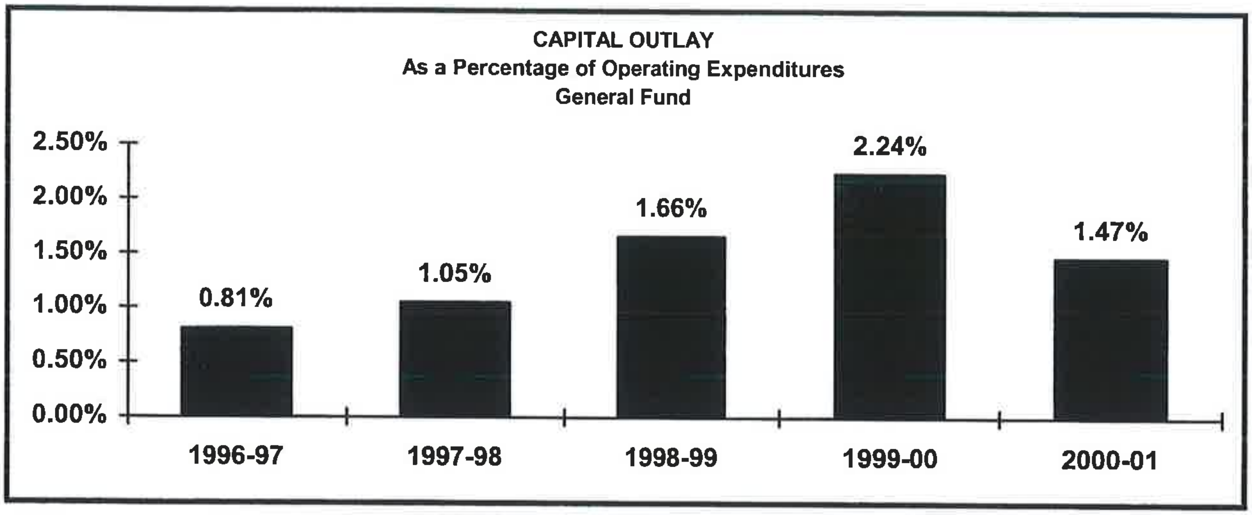
Fiscal year 2000-01 continues the relatively level trend over the past five years, as shown in the above charts. The slight drop from 32.99% in FY 1999-00 to 31.71% in FY 2000-01 is a result of a one-time "catch-up" contribution in FY 1999-00 to the Public Employee Retirement System

(PERS) for a sworn lifeguard. A favorable trend has been assigned for FY 2000-01, since this trend remains stable.

Related Fiscal Policy

No related fiscal policy.

Indicator 13



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

Description

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

Comments and Analysis

As depicted in the above chart, capital outlay, as a percentage of operating expenditures, is 1.47% down from 2.24% in FY 1999-00. A number of projects, such as the replacement of irrigation controllers ($80,000) and traffic signal controllers ($70,000) were completed in the prior year, thus accounting for the drop in capital outlay.

A Capital Equipment Replacement Reserve was established in FY 1994-95 in order to make it possible to build a reserve from which to replace general fixed assets that were worn or obsolete. The General Fund has made annual contributions to this fund since that time. During FY 2000-01, the General Fund continued its contribution, transferring $100,000 to this fund. When this fund was established, a replacement schedule was also established to ensure that, as equipment, machinery or building improvements become unserviceable or obsolete, they could be replaced with more efficient assets. As new assets are purchased from the Capital Equipment Replacement Reserve, General Fund programs are charged a replacement charge for assets purchased for their individual programs. This ensures that funding is available when this equipment needs to be replaced in the future.

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

Capital outlay expenditures, as a five-year average have been 1.44% of net operating expenditures. This trend receives a favorable rating for the seventh consecutive year because the City continues to upgrade to newer and more efficient fixed assets.

Related Fiscal Policy

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

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

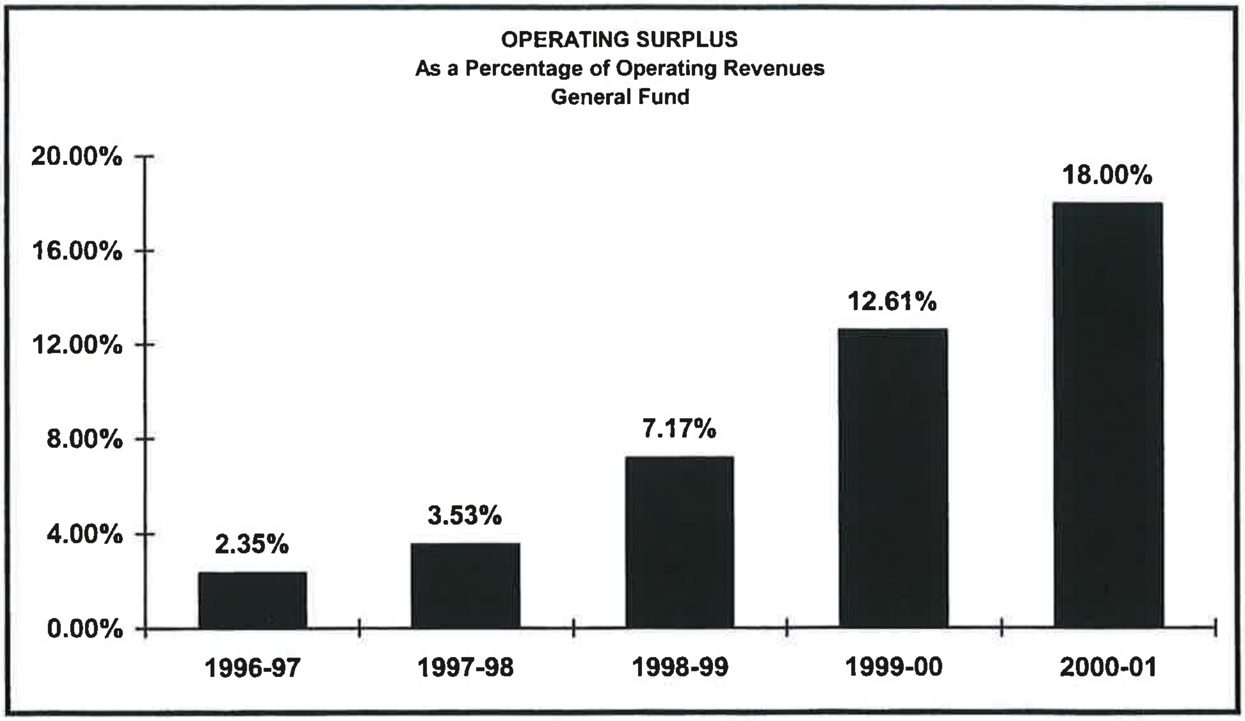
General Fund Operating Position

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

The next group of trends shows the City's economic recovery and stabilization over the past five years. This stabilization has been possible because of several reasons. Improvement in the local and regional economy has greatly contributed to this recovery, as well as the City's implementation of cost reduction and streamlining measures within every department in the City. These measures have contributed to a positive operating position for the seventh consecutive year. Another noteworthy trend is the City's unreserved fund balance, which reflects more than a 4% increase over the previous year as a percentage of operating revenues. Unreserved fund balance is at an all-time high of 44.77% of operating revenues. City Council's commitment to the long term financial planning process on an annual basis has contributed greatly to the General Fund's fiscal health. A complete analysis is provided in this section, and the following indicators are examined in detail:

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

Indicator 14



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

Description

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

Comments and Analysis

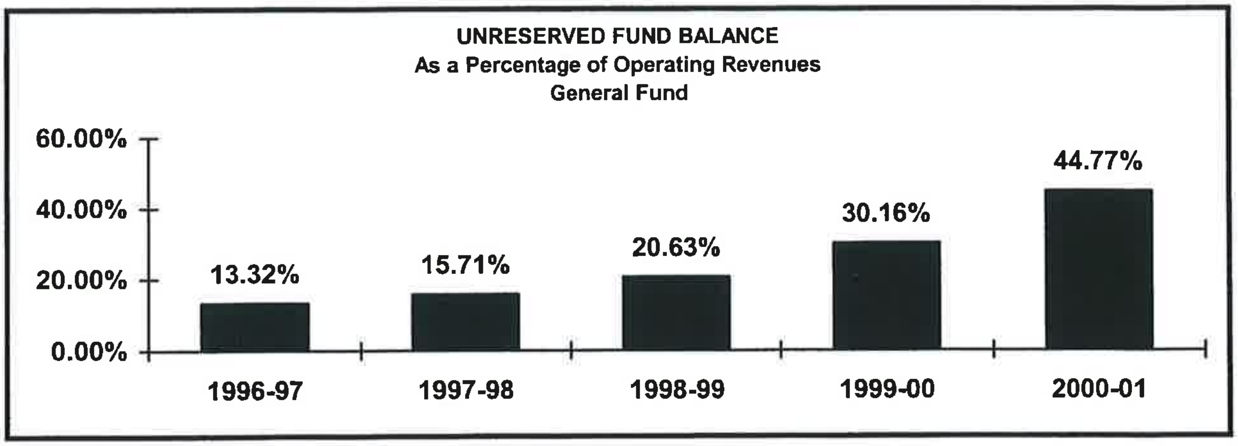
The City has had operating surpluses for the past seven consecutive years. Contributing to these operating surpluses has been the cost-saving measures implemented by City Council and Administration and the significant increase in several revenues sources such as elastic revenues. The FY 2000-01 operating surplus amounts to $6,304,300 or 18.00% of operating revenues. This is the highest the City has shown since this trend was first tracked. Sufficient revenues were once again produced to support operating expenditures, while maintaining adequate emergency reserves. The above reasons result in a favorable rating for this indicator.

Long Term Financial Plan

Related Fiscal Policy

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

Indicator 15



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

Description

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

Comments and Analysis

For the seventh consecutive year, unreserved fund balance, as a percentage of operating revenues, increased in FY 2000-01. This increase is the result of an increased unreserved fund balance of $6,715,000, and this is due to an operating surplus of $6,304,000, and maintenance of General Fund emergency reserves. This stable trend is a strong indicator of the financial stability of the City's General Fund.

As part of the long term financial planning process, the City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. The General Fund emergency reserve is anticipated to be fully funded in FY 2001-02. Included within the total FY 2000-01 unreserved fund balance of $15.7 million ($840,000 is reserved) are General Fund Emergency Reserves totaling $1,620,000, or 5.91% of General Fund operating expenditures. In addition to funding the emergency reserve, the General Fund continues to contribute to other funds. Included in the FY 2000-01 General Fund transfers are Capital Equipment Replacement Reserve ($100,000) and Accrued Leave Reserve ($100,000).

It should be noted that unreserved fund balance was deliberately drawn down in FY 2001-02 for the funding of 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

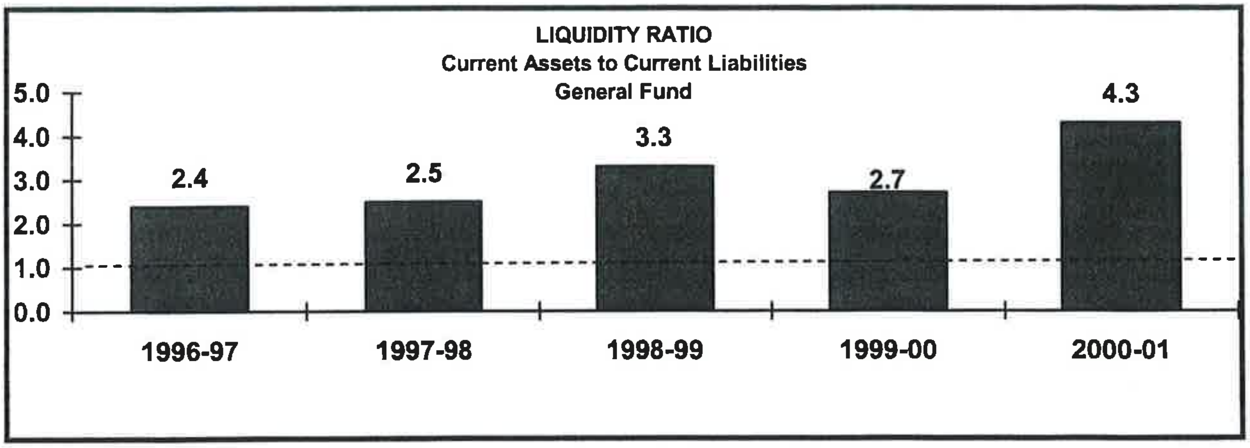
Acquisition and Development Fund ($1.5 million) were approved as a part of last year's LTFP and included in the FY 2001-02 budget. In total, $5.6 million from unreserved fund balance was used.

Related Fiscal Policy

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

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

Indicator 16



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

Description

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

Comments and Analysis

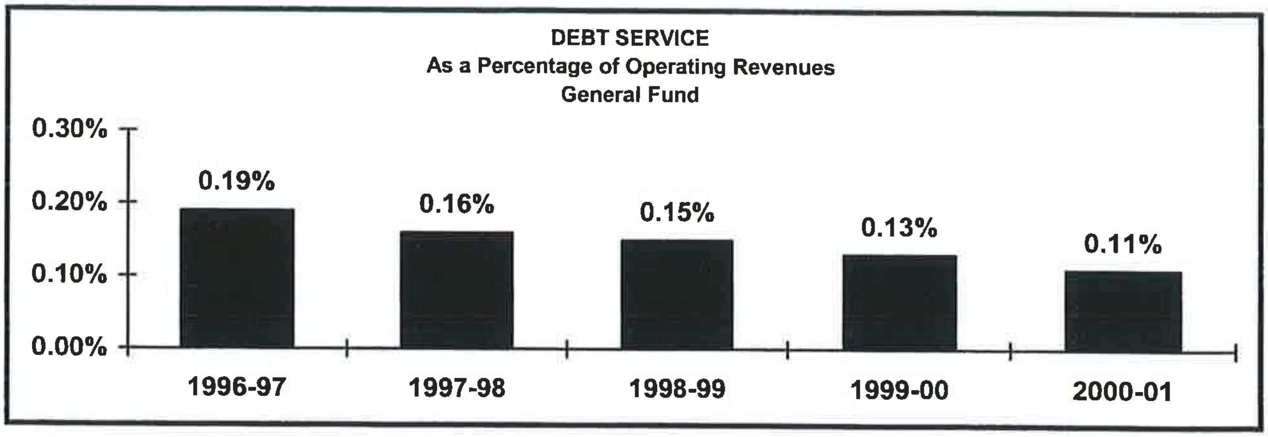
In FY 2000-01, the City's liquidity ratio remains high at 4.3:1. This increase over FY 1996-97 demonstrates that the City's liquidity remains extremely strong.

Credit rating firms consider a ratio of 1:1 as favorable. The City's 4.3:1 current asset to current liability ratio is excellent.

Related Fiscal Policy

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

Indicator 17



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

Description

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

Comments and Analysis

General Fund debt service remains immaterial (less than 1%) in comparison to operating revenues. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. In addition, Standard & Poors, an independent firm that issues ratings indicating the credit worthiness of entities, provided San Clemente with an issuer credit rating of AA-.

During FY 2000-01, the City made debt service payments on its capital lease with City National Bank. This lease includes heating, ventilating and air conditioning units and all related control devices for several City facilities. The City's obligation for this capital lease extends into 2006.

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

Related Fiscal Policy

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

Additional Indicators

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

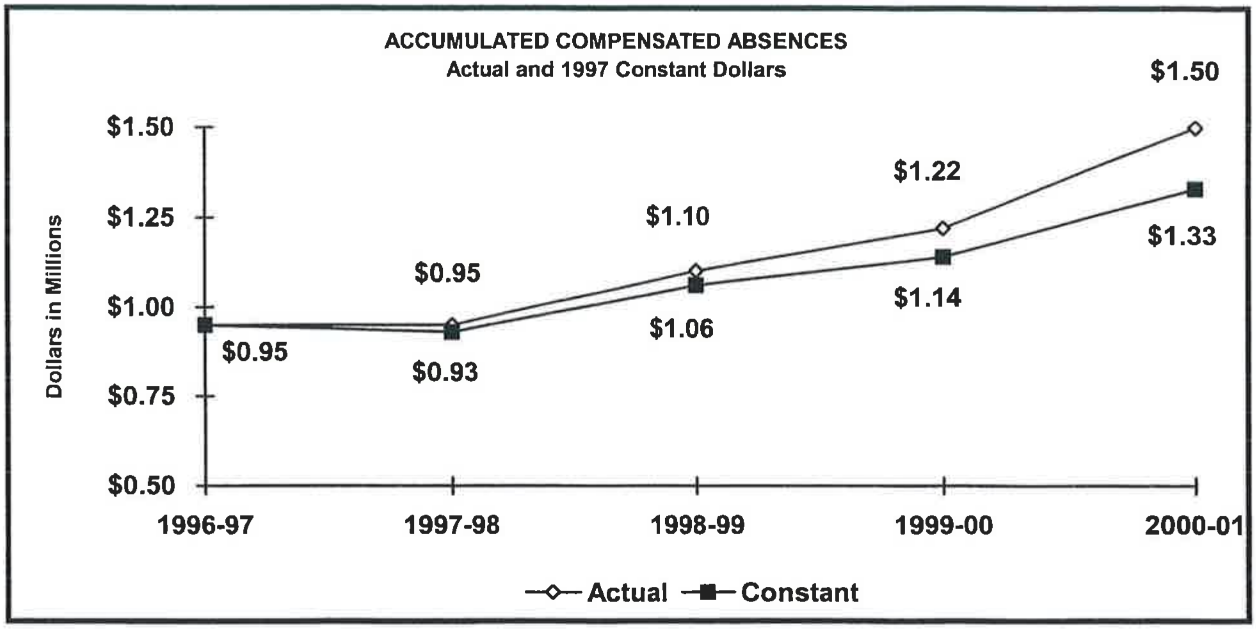
Because of the City's dependence on property tax revenues, the City's largest source of operating revenue (24%), a further analysis has been done on the change in property values from year to year. Property values show the fifth consecutive year with an upward trend.

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

The following indicators are detailed in this section:

- Accumulated Compensated Absences
- Property Tax Values
- Population

Indicator 18



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

Description

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

Comments and Analysis

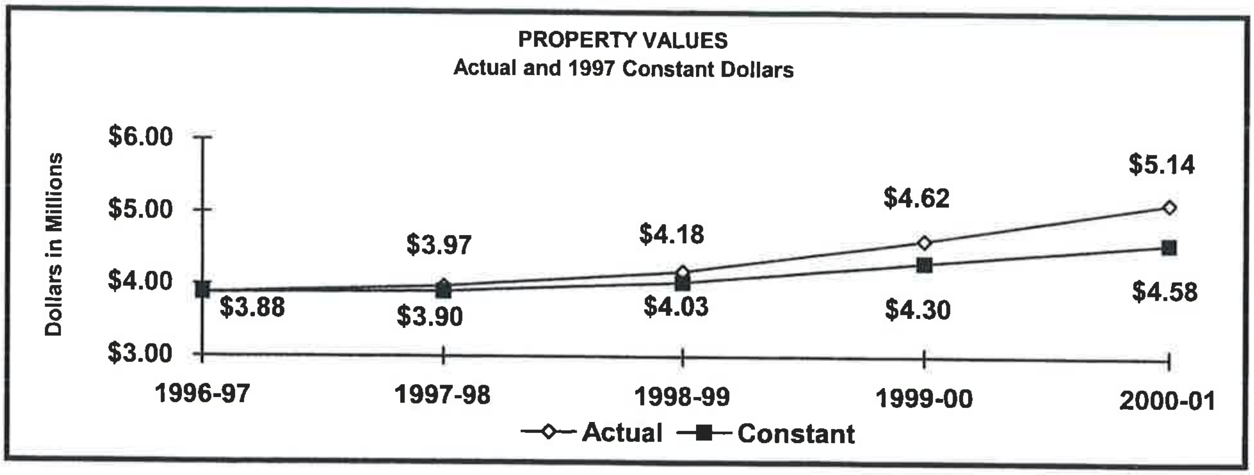
This indicator receives a favorable/caution rating as the costs continue to increase for compensated absences. It will continue to be monitored to insure adequate funding. At June 30, 2001, the balance of the liability for compensated absences was $1,497,360 consisting of $744,310 for vacation, $697,880 for sick leave, and $55,170 for compensatory time. This is a $273,790 increase from the previous fiscal year. The increase over the last two years is due to the following factors. First, the Governmental Accounting Standards Board Statement No. 16, which requires that the accrual of compensated absences should be based on pay rates that are in effect as of the balance sheet date. In addition to the basic pay rate, the accrual of compensated absences should include estimated employer payments related to the payroll such as Medicare and FICA which total $106,408. Secondly, payroll costs have increased as pay rates have increased based on the compensation study. Lastly, as employees remain with the City, their percentage of sick time accrued also increases.

In FY 1994-95, an Accrued Leave Reserve was established for the payoff of accrued leave time to employees leaving the City. Since that time, the General Fund has contributed a total of $365,000 to this fund and has a balance of $113,689 as of June 30, 2001. As we see the City's liability increase, it should be noted that the funding of the reserve continues. The FY 2001-02 budget includes an additional transfer of $100,000 for accrued leave. Recommendations to fund the Accrued Leave Reserve are made in the Long Term Financial Paper's Reserve section.

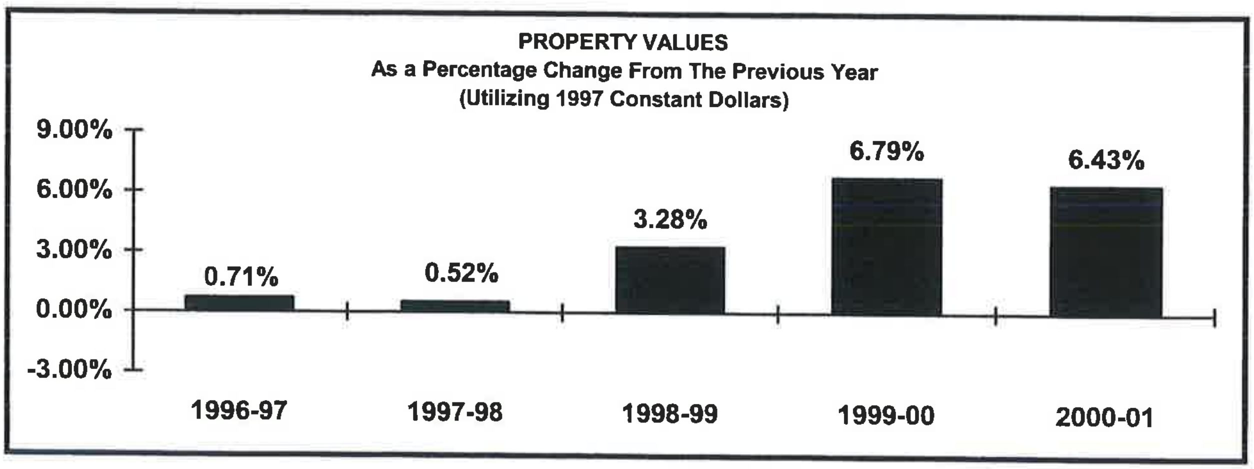
Related Fiscal Policy

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

Indicator 19



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



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

Description

Property values, in both actual and constant dollars, are of primary importance to the City because property tax revenue, comprising 24% of total General Fund operating revenues in FY 2000-01, is the City's single largest source of revenue. The effect of declining property values on total General Fund revenues is a significant concern considering the City's reliance on property taxes. Likewise, a positive trend indicates an improvement in the City's financial condition.

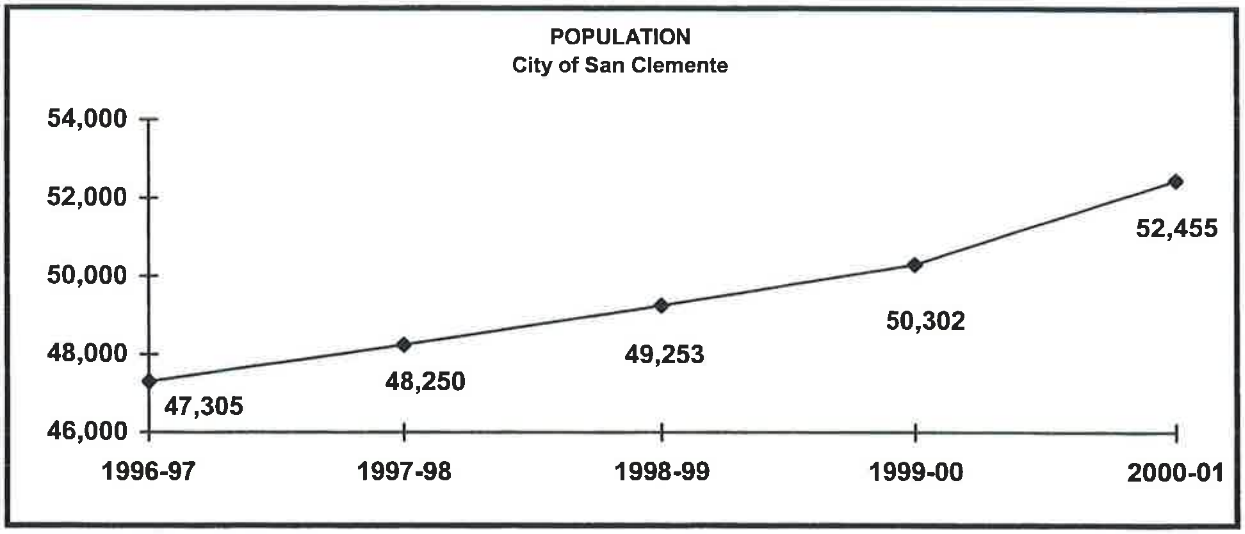
Comments and Analysis

Fiscal year 2000-01 shows a percentage increase in property values for the fifth consecutive year. Increases in new residential sales and residential resales result in the increase depicted in the graph. Past and projected increases in sales result in another favorable rating for this trend.

Related Fiscal Policy

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

Indicator 20



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

Description

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

Comments and Analysis

The City's population growth, an average of 2.62% over the last five years, is considered favorable because this growth has been relatively planned and controlled. This planned growth is allowing the City the opportunity to ensure that the cost of servicing new residents does not exceed the City's ability to generate new revenues, that the level of business activity grows along with the increase in residential development, and that the growth does not strain the sewer system capacity, traffic circulation, and off-street parking. The City is also aware that increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.).

Related Fiscal Policy

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

Financial Forecast

Objective

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

Development of the Financial Forecast

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

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 still projects growth over the five-year period, however that growth is less than previously reported. Consequently, a number of forecast parameters used by San Clemente are substantially lower than those used in the previous year's forecast. 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.

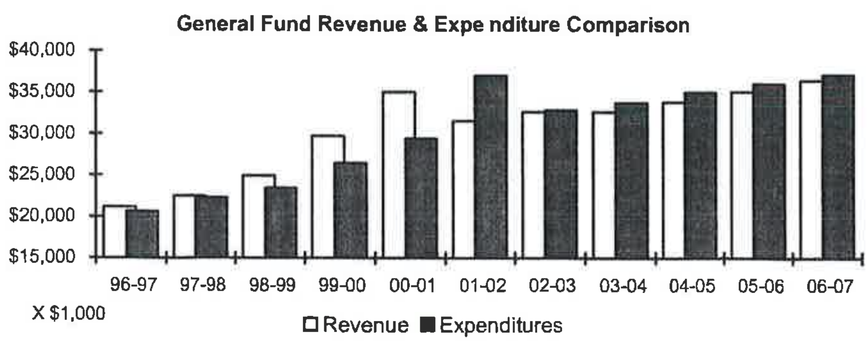
The 2002 Financial Forecast updates the assumptions and data utilized in the last Financial Forecast and will provide a comparison of this year's Forecast to historic data.

Forecast Summary & Results

Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 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 result 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:



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.

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)*

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)*

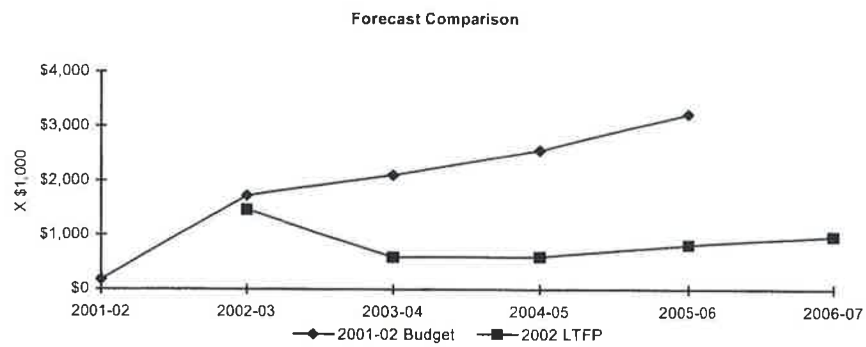
Amounts in $1,000

	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.

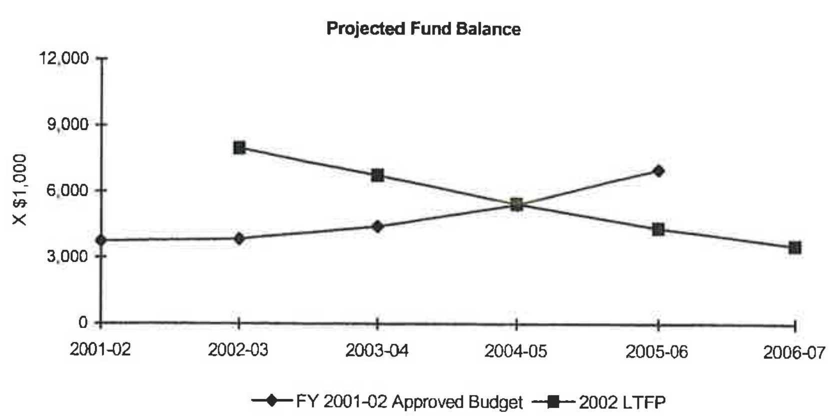


The difference between the two forecasts is due to:

- Forecast assumptions, primarily sales taxes and assessed valuation, were lower than assumptions used for the approved budget forecast. Thus, 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. These increases were not known during the preparation of the approved budget forecast.

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. the projected fund balance was projected at $9.2 million and actual fund balance was $14.1 million). The positive 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 due to savings achieved in each department and the carryover of many project related transfers to other funds. For instance, an approved $1.25 million transfer to the Golf Fund for the clubhouse was deferred to FY 2001-02 because construction had not begun by the end of the fiscal year.

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

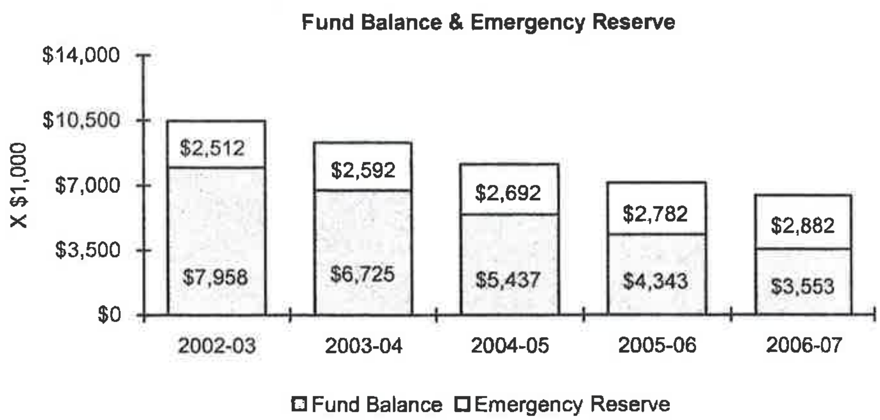
Fund Balance and Reserves

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

Fund Balance & Emergency Reserve

Amounts in $1,000	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.



Fund Balance & Emergency Reserve
$14,000
$10,500
$7,000
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X $1,000
$2,512
$7,958
$2,592
$6,725
$2,692
$5,437
$2,782
$4,343
$2,882
$3,553
2002-03
2003-04
2004-05
2005-06
2006-07
Fund Balance
Emergency Reserve

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

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

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 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:

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	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%

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

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

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

- 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.

- 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.

- Contractual agreements for temporary staff assigned to 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:

	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.)

	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. Forecasts for the Water, Sewer, Storm Drain and Golf operating funds have been developed and are included in this report beginning on page 30.

- 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.

- 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.

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

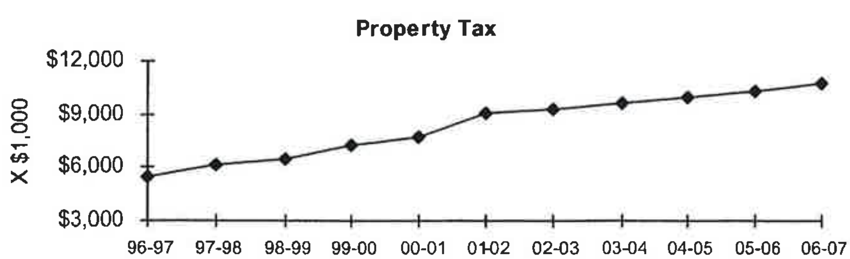
Historic Growth Rate	10.8%
2001 Projected Growth Rate	2.5%
2002 Projected Growth Rate	2.7%

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 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.

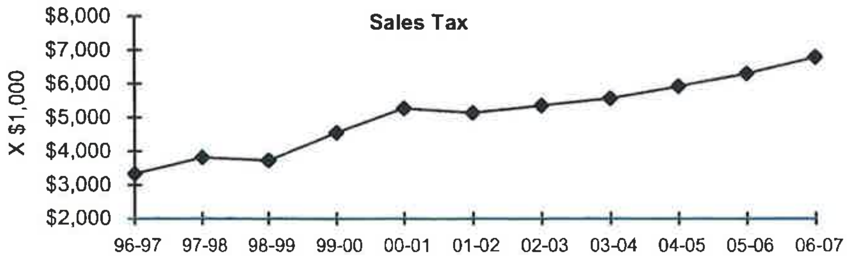


Sales Tax

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

Sales tax 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.

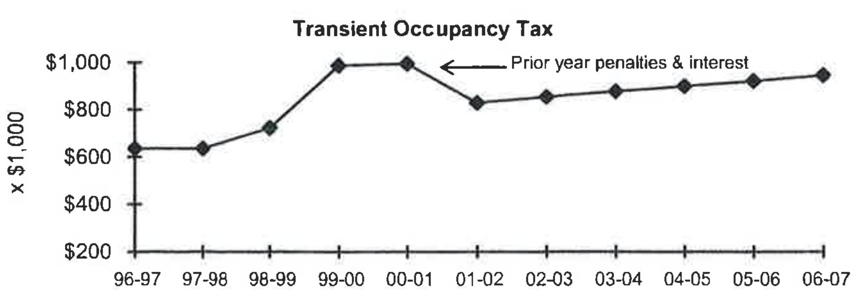
Sales tax is projected to grow from $5.4 million to $6.8 million over the forecast period. This is due to a full year of sales tax revenue included in the base year from Lowe's. Lower sales tax revenue is projected in the current forecast due to lower growth rates presented in the Fullerton Forecast. 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.

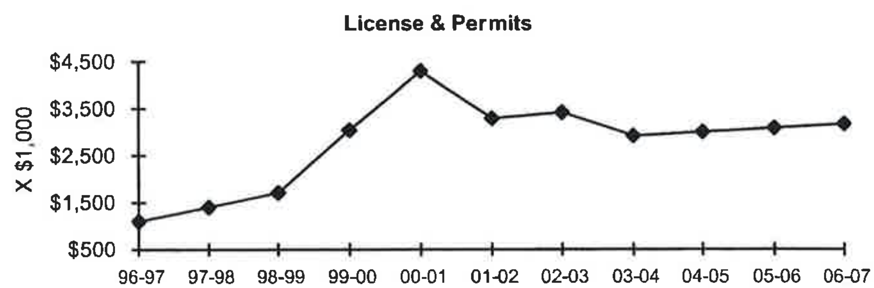


Licenses and Permits

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

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to 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.

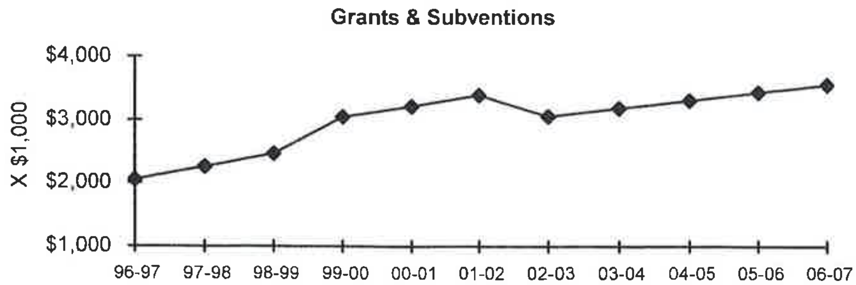


Grants and Subventions

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

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.

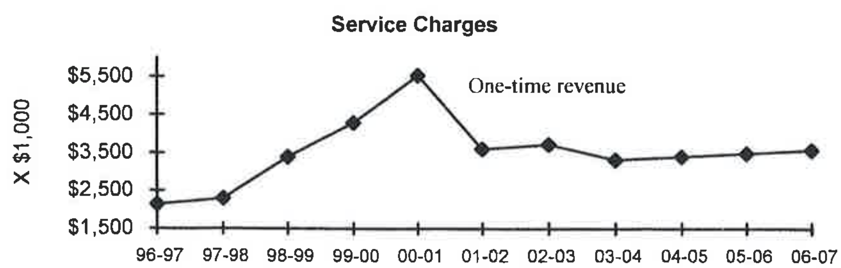
Potential state impacts, such as a reduction in motor vehicle taxes, have not been incorporated into the forecast.



Service Charges

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

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.

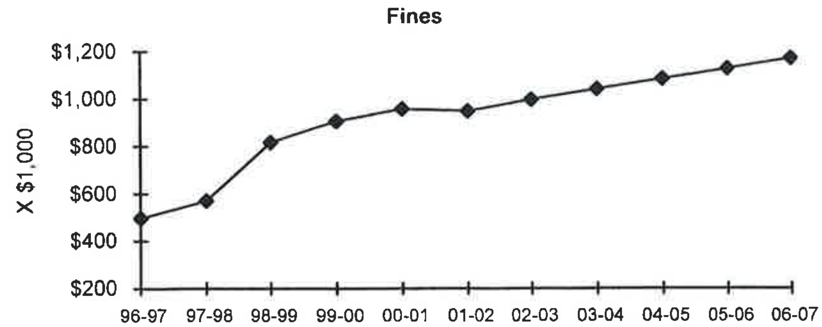


Fines

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.

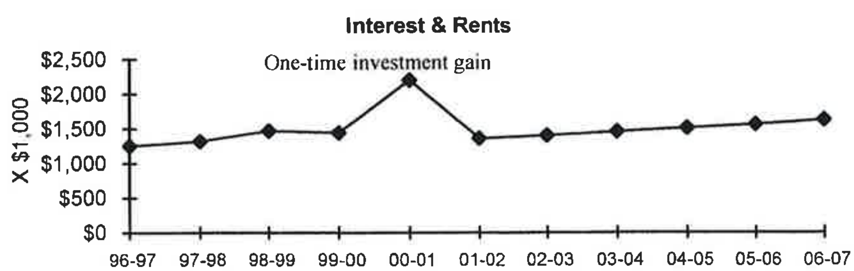
Over the past three years parking and vehicle code fines have increased steadily. Alarm fines peaked in FY 1998-99 when Police Services dedicated a part-time person to enforcement of the City's alarm ordinance. Since that time, alarm fine revenues have dropped each year as more alarm owners are in compliance with the ordinance. Consequently, there is a drop in revenue from alarm fines from FY 2001-02, which lowers the 2002 forecast from a projected growth rate of 6.2% in 2001 to 4.3%.



Interest And Rents

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

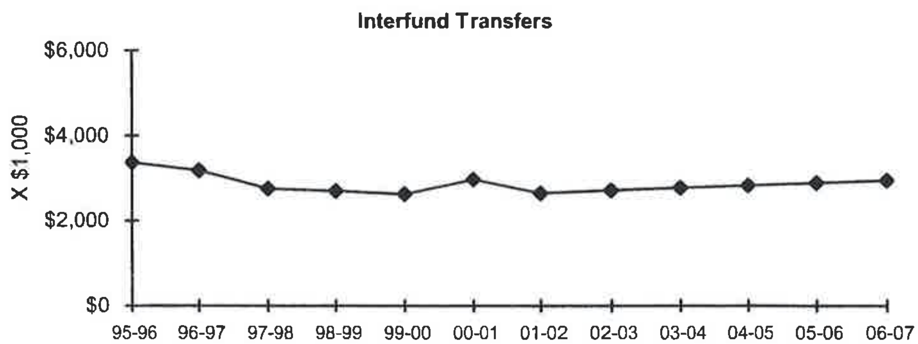
This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the projected prime interest rate and historic data. In accordance with 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 for three years. In FY 2007-08, the rate increases to $265,000 plus 3% of gross sales over $265,000.



Interfund Transfers

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

This revenue category is comprised predominantly of overhead charges assessed by the General Fund to other operating funds of the City that are self-supporting. Other revenues that make up this category include transfers from other funds, such as the Golf Fund and Gas Tax Fund. The transfer of $425,000 annually from the Golf Fund is included in all five years of the forecast.



General Fund Expenditures

Historic Growth Rate	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.

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

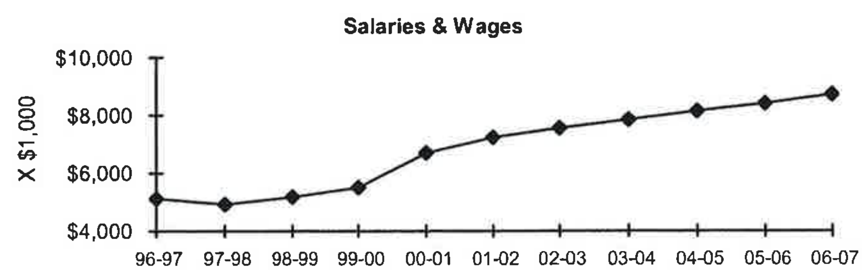
The 2001 projected growth rate of 3.0% differs dramatically from the 2002 expenditures rate of 0.2%. This is due to the reduction of $5.6 million in transfers that are included in the base year of the forecast, resulting in a -11.2% reduction in the first year of the forecast. The average expenditure 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. Scheduled merit increases, for eligible employees, have also been included.

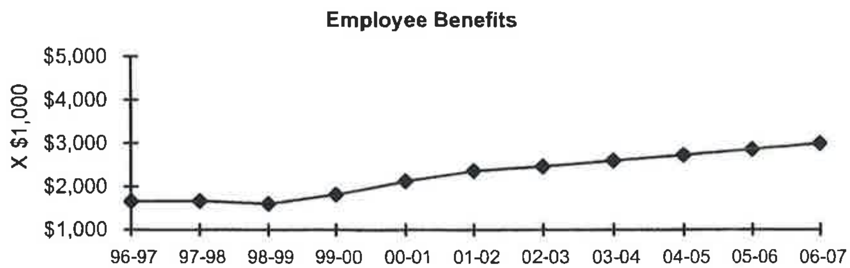
The average annual growth rate for Salaries and Wages is 3.8% for the five-year projection.



Employee Benefits

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

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.



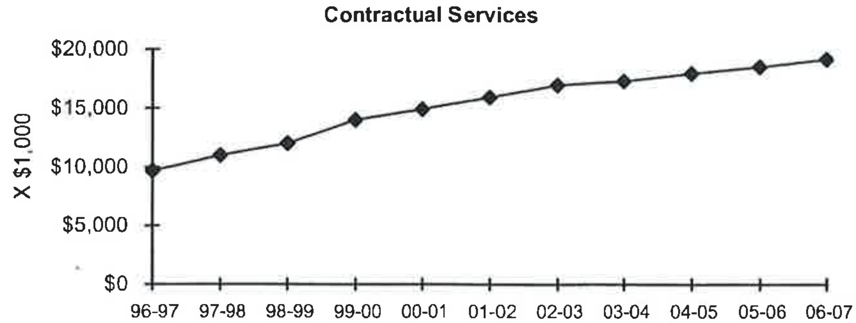
Contractual Services

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

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.

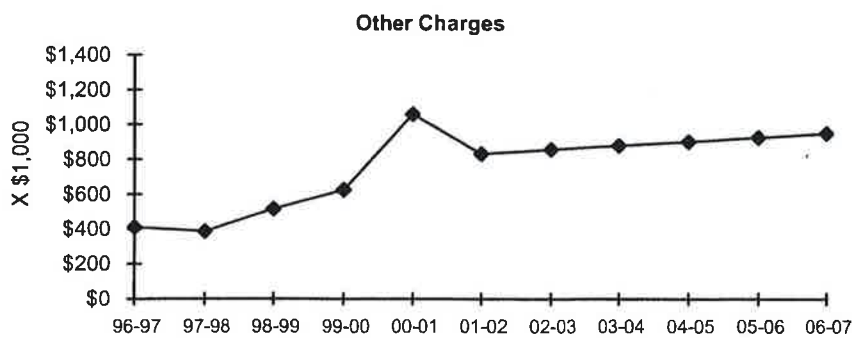
Contractual services for the major street maintenance program is included at $300,000 in the current fiscal year and increased by inflation in the remaining years of the forecast. Contractual services for all other major contracts such as park and beach maintenance have been increased by inflation.



Other Charges

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

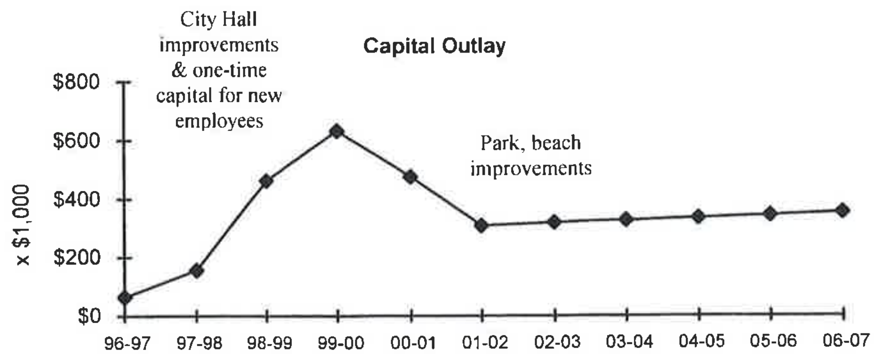
The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Also, this expenditure category includes funding for the Council Contingency reserve. The projected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



Capital Outlay

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

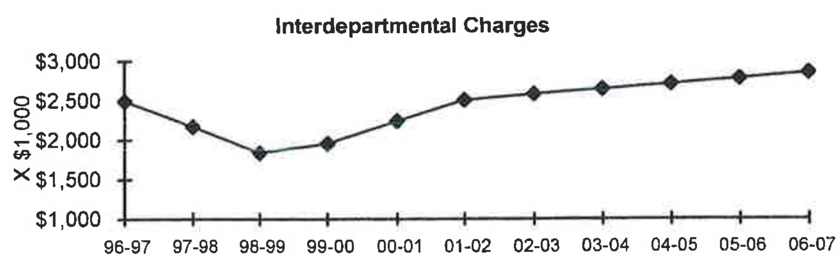
The projected growth rate for Capital Outlay is 2.7%. For purposes of this forecast, Capital Outlay includes funding of $300,000 (increased by inflation) beginning in FY 2002-03 for facility improvements or new capital equipment. A total of $750,000 in one-time capital expenditures are excluded from the base year of the LTFP forecast, but were included in the first year of the budget forecast.



Interdepartmental Charges

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

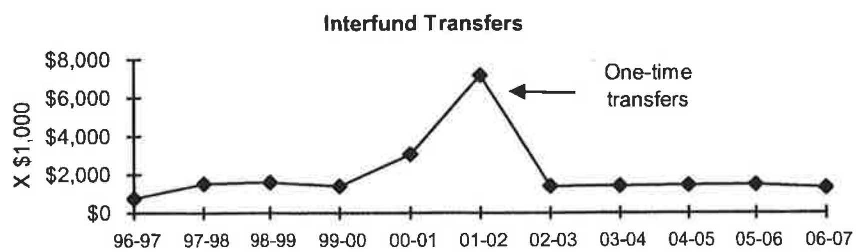
Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.6% increase over the five year forecast and is based upon inflation. Interdepartmental charges for postage, fleet and information services increased by 15% in FY 2001-02 and are included in the first year of the 2001 budget forecast, resulting in a 6.9% growth rate when averaged over the five-year period. The 2002 projected growth rate uses the 15% increase in the base year of the forecast and increases subsequent years by inflation, thus a 2.6% growth rate.



Interfund Transfers

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%. A total of $5.6 million in one-time transfers for Council priority projects are only included in the base year of the forecast, resulting in a first year decrease in expenditures. All other scheduled reserve transfers, such as 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. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Attachments:
This section includes the General Fund base forecast developed from the 2001-02 adjusted budget. Summaries of projected receipts and disbursements, including fund balances, are provided on the following pages. Three different Cash Flow scenarios are provided:

- Optimistic Cash Flow – Assumes that budgeted receipts will be exceeded by 1.5% in all five years of the forecast and that actual disbursements will be 1.5% under budget each year.
- Pessimistic Cash Flow – Assumes that budgeted receipts will not be exceeded and that actual disbursements will be equal to budget each year.
- Realistic Cash Flow – Assumes that budgeted receipts will exceed budget by 0.5% all five years of the forecast and that actual disbursements will be 0.5% under budget each year. This is the cash flow scenario that is used for the 2002 forecast.

As indicated at the bottom of the summary, any unexpended funds increase the ending fund balance, which are then carried over and become the beginning fund balances for the next year. Conversely, as new programs are added to the General Fund, they have an impact on the ending fund balance that can cause a reduction in fund balance and affect the financial stability of the City in future years.

2002 FINANCIAL FORECAST
General Fund Receipts - Base Forecast from 2001-02 Adjusted Budget
(Amounts in Thousands)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
Taxes							
Property Taxes	8,984	9,305	9,629	9,966	10,316	10,682	49,897
Sales Tax	5,116	5,331	5,539	5,899	6,270	6,753	29,792
Trans.Occup. Tax	825	851	873	895	917	941	4,475
In-Lieu	0	0	0	0	0	0	0
Franchise Tax	1,185	1,222	1,254	1,285	1,317	1,351	6,428
Property Trans.Tax	500	516	529	542	556	570	2,712
Delinquent Taxes	15	15	16	16	17	17	81
Total	16,625	17,239	17,838	18,602	19,393	20,314	93,386
Licenses & Permits							
Business Licenses	610	629	645	661	678	696	3,309
Business Permits	8	8	9	9	10	10	46
Construction Permits	2,535	2,629	2,116	2,176	2,238	2,302	11,462
Non-Bus. Lic.& Permits	125	129	132	136	139	143	678
Total	3,278	3,395	2,902	2,983	3,065	3,151	15,495
Intergovernmental							
Mandated Cost Reim.	38	30	30	30	30	30	150
SONGS Grant	164	120	120	120	120	120	600
Other State Grants	425	0	0	0	0	0	0
Motor Vehicle Tax	2,606	2,743	2,866	2,983	3,102	3,223	14,917
Homeowner Exemptions	120	124	129	133	138	143	666
OCTA Sr. Transportation	22	23	23	24	24	25	119
Other Govern. Receipts	2	2	2	2	2	0	9
Total	3,377	3,042	3,170	3,293	3,416	3,541	16,462
Service Charges							
Building Plan Check Fees	345	358	341	350	360	369	1,778
Plan Check Fees	248	257	265	272	280	287	1,361
Inspection Fees	613	636	175	180	185	190	1,367
Otr Gen. Gov Svc. Chgs.	542	559	573	588	602	618	2,940
Weed Abatement	81	84	86	88	90	92	439
Ambulance Serv. Chgs.	430	443	455	466	478	490	2,333
Ambulance Subscr. Fees	23	24	24	25	26	26	125
Other Pub. Safety Chgs.	154	159	163	167	171	176	835
Parking Meter Rev.	517	533	547	561	575	590	2,805
Recreation Charges	629	648	665	682	699	717	3,412
Total	3,582	3,700	3,294	3,379	3,466	3,556	17,394
Fines & Forfeitures							
Parking Violations	596	627	655	682	709	737	3,412
Vehicle Code Fines	315	332	346	361	375	390	1,803
Court Fines	8	8	8	8	8	9	41
Other Fines & Penalties	25	26	27	28	28	29	137
Total	944	992	1,037	1,079	1,121	1,164	5,393
Interest & Rents	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Interest Earnings	465	488	515	547	582	619	2,752
Comm. Site Leases	426	439	451	462	473	486	2,311
Casa Romantica Lease	0	0	0	0	0	0	0
Fisherman's Restaurant	255	255	265	265	265	273	1,323
Pier & Beach Concession	29	30	32	33	35	37	167
Facility Rentals	161	166	170	175	179	184	873
Other Receipts	13	13	13	14	14	15	69
Total	1,349	1,392	1,446	1,496	1,549	1,613	7,496

Interfund Transfers							
Sale Of Fixed Assets	0	0	0	0	0	0	0
2107 Gas Tax	419	432	443	454	466	478	2,273
Golf Fund	425	425	425	425	425	425	2,125
Storm Drain	0	0	0	0	0	0	0
Fleet Maint.	0	0	0	0	0	0	0
Other Funds	50	0	0	0	0	0	0
G. F. Overhead Charges	1,917	1,976	2,028	2,079	2,130	2,186	10,399
Total	2,811	2,833	2,896	2,958	3,021	3,089	14,797
General Fund Total	31,965	32,593	32,583	33,789	35,031	36,428	170,423

TOTAL ALL RECEIPTS	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 TOTAL
Taxes	16,625	17,239	17,838	18,602	19,393	20,314	93,386
Licenses & Permits	3,278	3,395	2,902	2,983	3,065	3,151	15,495
Intergovernmental	3,377	3,042	3,170	3,293	3,416	3,541	16,462
Service Charges	3,582	3,700	3,294	3,379	3,466	3,556	17,394
Fines & Forfeitures	944	992	1,037	1,079	1,121	1,164	5,393
Interest & Rents	1,349	1,392	1,446	1,496	1,549	1,613	7,496
Interfund Transfers	2,811	2,833	2,896	2,958	3,021	3,089	14,797
General Fund Total	31,965	32,593	32,583	33,789	35,031	36,428	170,423

PERCENTAGE CHANGE	2002-03	2003-04	2004-05	2005-06	2006-07	Total 03-07	Average
Taxes	3.7%	3.5%	4.3%	4.3%	4.7%	20.5%	4.1%
Licenses & Permits	3.6%	-14.5%	2.8%	2.8%	2.8%	-2.6%	-0.5%
Intergovernmental	-9.9%	4.2%	3.9%	3.8%	3.6%	5.6%	1.1%
Service Charges	3.3%	-11.0%	2.6%	2.6%	2.6%	0.1%	0.0%
Fines & Forfeitures	5.2%	4.5%	4.1%	3.9%	3.9%	21.5%	4.3%
Interest & Rents	3.2%	3.9%	3.4%	3.6%	4.2%	18.2%	3.6%
Interfund Transfers	0.8%	2.2%	2.1%	2.1%	2.2%	9.5%	1.9%
General Fund Total	2.0%	0.0%	3.7%	3.7%	4.0%	13.3%	2.7%

2002 FINANCIAL FORECAST
General Fund Disbursements - Base Forecast from 2001-02 Adjusted Budget
(Amounts in Thousands)

Program/ Account	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
City Council							
Salaries & Wages	24	13	13	13	13	13	65
Employee Benefits	1	1	1	1	1	1	5
Supplies	1	1	1	1	1	1	3
Contractual Services	24	25	25	26	27	27	131
Other Charges	3	3	3	3	3	3	15
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	3	3	4	4	4	4	18
Interfund Transfers	0	0	0	0	0	0	0
Total	56	46	46	47	48	49	237
City Manager							
Salaries & Wages	255	263	269	275	281	288	1,376
Employee Benefits	90	92	94	96	98	101	482
Supplies	2	2	2	2	2	2	10
Contractual Services	7	7	8	8	8	8	39
Other Charges	3	3	3	3	3	3	15
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	35	36	37	38	39	40	188
Interfund Transfers	0	0	0	0	0	0	0
Total	391	403	412	422	431	442	2,110
City General							
Salaries & Wages	0	0	0	0	0	0	0
Employee Benefits	0	0	0	0	0	0	0
Supplies	16	16	17	17	18	18	87
Contractual Services	520	536	550	564	578	593	2,821
Other Charges	231	238	245	251	257	264	1,254
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	279	288	295	303	310	318	1,514
Interfund Transfers	7,175	1,387	1,415	1,447	1,478	1,311	7,037
Total	8,221	2,465	2,522	2,581	2,640	2,504	12,712
Finance & Admin. Services							
Salaries & Wages	166	171	175	179	183	187	893
Employee Benefits	59	61	62	63	65	66	317
Supplies	5	5	5	5	5	6	26
Contractual Services	11	11	12	12	12	13	60
Other Charges	3	3	3	3	4	4	17
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	24	25	26	26	27	28	131
Interfund Transfers	0	0	0	0	0	0	0
Total	268	276	282	289	296	303	1,445
City Clerk							
Salaries & Wages	263	271	277	283	289	296	1,416
Employee Benefits	82	84	86	88	90	92	442
Supplies	8	8	9	9	9	9	44
Contractual Services	67	69	71	72	74	76	362
Other Charges	1	1	1	1	1	1	6
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	60	62	63	65	67	68	325
Interfund Transfers	0	0	0	0	0	0	0
Total	481	495	507	519	531	544	2,595

Long Term Financial Plan

Program/ Account	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
Finance							
Salaries & Wages	584	602	616	629	644	659	3,149
Employee Benefits	203	209	214	218	223	229	1,092
Supplies	72	75	77	78	80	82	392
Contractual Services	233	240	247	253	259	266	1,264
Other Charges	4	4	5	5	5	5	24
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	114	118	121	124	127	130	618
Interfund Transfers	0	0	0	0	0	0	0
Total	1,211	1,247	1,277	1,307	1,338	1,370	6,540
Human Resources							
Salaries & Wages	206	213	218	222	227	233	1,113
Employee Benefits	54	56	57	58	60	61	293
Supplies	5	5	5	5	5	5	25
Contractual Services	102	105	107	110	113	116	551
Other Charges	6	6	6	6	7	7	32
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	51	53	54	55	57	58	277
Interfund Transfers	0	0	0	0	0	0	0
Total	424	437	447	458	469	480	2,290
Police Services							
Salaries & Wages	0	0	0	0	0	0	0
Employee Benefits	0	0	0	0	0	0	0
Supplies	3	4	4	4	4	4	19
Contractual Services	6,409	7,158	7,465	7,771	8,085	8,416	38,895
Other Charges	112	115	118	121	124	128	608
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	611	630	646	662	679	697	3,314
Interfund Transfers	0	0	0	0	0	0	0
Total	7,136	7,907	8,233	8,559	8,893	9,244	42,836
Fire Services							
Salaries & Wages	0	0	0	0	0	0	0
Employee Benefits	0	0	0	0	0	0	0
Supplies	0	0	0	0	0	0	0
Contractual Services	4,424	4,574	4,732	4,963	5,188	5,389	24,847
Other Charges	2	2	2	2	2	2	11
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	25	26	27	28	28	29	138
Interfund Transfers	0	0	0	0	0	0	0
Total	4,451	4,602	4,761	4,992	5,219	5,421	24,996
Comm Dev. Admin.							
Salaries & Wages	134	139	142	145	148	152	725
Employee Benefits	47	48	49	50	52	53	252
Supplies	8	8	9	9	9	9	44
Contractual Services	29	30	30	31	32	33	156
Other Charges	1	1	1	1	1	1	5
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	21	21	22	22	23	23	111
Interfund Transfers	0	0	0	0	0	0	0
Total	240	247	253	259	265	271	1,295

Program/ Account	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
Building							
Salaries & Wages	847	873	893	913	880	900	4,460
Employee Benefits	278	286	293	299	290	297	1,465
Supplies	11	12	12	12	13	13	61
Contractual Services	319	329	359	368	347	356	1,759
Other Charges	2	2	2	2	2	2	10
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	196	202	208	213	218	224	1,065
Interfund Transfers	0	0	0	0	0	0	0
Total	1,654	1,704	1,766	1,807	1,749	1,792	8,819
Planning							
Salaries & Wages	574	592	605	619	633	648	3,097
Employee Benefits	183	188	193	197	202	206	987
Supplies	8	9	9	9	9	10	46
Contractual Services	320	330	239	245	151	155	1,119
Other Charges	1	1	1	1	1	1	5
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	115	119	122	125	128	131	624
Interfund Transfers	0	0	0	0	0	0	0
Total	1,202	1,238	1,169	1,196	1,124	1,151	5,878
PWAdmin/Economic Dev.							
Salaries & Wages	206	212	217	222	227	232	1,111
Employee Benefits	66	68	69	71	73	74	355
Supplies	13	13	14	14	15	15	71
Contractual Services	93	96	98	101	103	106	504
Other Charges	42	43	44	46	47	48	228
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	73	75	77	79	81	83	396
Interfund Transfers	0	0	0	0	0	0	0
Total	493	508	520	533	545	559	2,665
Engineering							
Salaries & Wages	1,504	1,549	1,586	1,621	1,658	1,697	8,111
Employee Benefits	503	517	529	541	553	566	2,705
Supplies	22	22	23	23	24	25	117
Contractual Services	283	292	99	102	104	107	705
Other Charges	2	2	2	2	2	2	10
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	176	178	180	184	189	194	925
Interfund Transfers	0	0	0	0	0	0	0
Total	2,489	2,560	2,418	2,473	2,530	2,590	12,572
Maintenance Services							
Salaries & Wages	780	803	822	841	860	880	4,206
Employee Benefits	321	330	337	345	353	361	1,726
Supplies	293	303	310	318	326	335	1,592
Contractual Services	882	909	933	956	980	1,006	4,784
Other Charges	1	1	1	1	1	1	3
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	429	442	454	465	477	489	2,328
Interfund Transfers	0	0	0	0	0	0	0
Total	2,706	2,788	2,857	2,926	2,996	3,071	14,638

Program/ Account	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
B, P & R Admin.							
Salaries & Wages	222	229	234	239	245	250	1,196
Employee Benefits	82	84	86	88	90	92	441
Supplies	12	13	13	13	14	14	67
Contractual Services	-12	-12	-13	-13	-13	-14	-64
Other Charges	11	11	11	12	12	12	58
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	32	33	34	35	36	37	175
Interfund Transfers	0	0	0	0	0	0	0
Total	347	358	366	374	383	392	1,873
Recreation							
Salaries & Wages	619	637	652	667	682	698	3,336
Employee Benefits	160	165	169	173	176	181	863
Supplies	48	49	51	52	53	55	260
Contractual Services	184	190	195	200	205	210	998
Other Charges	410	422	433	444	455	467	2,222
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	86	88	90	93	95	98	464
Interfund Transfers	0	0	0	0	0	0	0
Total	1,506	1,552	1,590	1,628	1,666	1,707	8,143
Beach & Park Maintenance							
Salaries & Wages	325	335	343	350	358	366	1,752
Employee Benefits	128	132	135	138	141	144	689
Supplies	160	164	169	173	177	182	865
Contractual Services	2,060	2,124	2,179	2,234	2,290	2,349	11,176
Other Charges	0	0	0	0	0	0	2
Capital Outlay	310	320	328	336	345	353	1,682
Interdepartmental Charges	129	133	136	140	143	147	698
Interfund Transfers	0	0	0	0	0	0	0
Total	3,112	3,208	3,290	3,371	3,454	3,542	16,864
Marine Safety							
Salaries & Wages	556	573	586	599	613	627	2,999
Employee Benefits	112	115	118	120	123	126	602
Supplies	25	26	26	27	28	29	136
Contractual Services	54	55	57	58	60	61	291
Other Charges	2	2	2	2	3	3	12
Capital Outlay	0	0	0	0	0	0	0
Interdepartmental Charges	58	60	62	63	65	67	316
Interfund Transfers	0	0	0	0	0	0	0
Total	807	831	851	871	891	912	4,356
New Employees							
Salaries & Wages	0	120	243	368	497	629	1,228
Employee Benefits	0	38	115	194	274	357	621
Total	0	158	358	562	771	985	1,849

Total All Disbursements	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	03-07 Total
Salaries & Wages	7,266	7,592	7,890	8,187	8,437	8,755	40,233
Employee Benefits	2,370	2,473	2,607	2,742	2,864	3,007	13,336
Supplies	713	735	754	773	792	812	3,865
Contractual Services	16,009	17,069	17,393	18,060	18,603	19,273	90,397
Other Charges	836	862	885	907	929	954	4,537
Capital Outlay	310	320	328	336	345	353	1,682
Interdepartmental Charges	2,518	2,593	2,657	2,723	2,791	2,864	13,627
Interfund Transfers	7,175	1,387	1,415	1,447	1,478	1,311	7,037
Total	37,197	33,030	33,928	35,174	36,239	37,328	174,714

Percentage Change	2002-03	2003-04	2004-05	2005-06	2006-07	Total 03-07	Average
Salaries & Wages	4.5%	3.9%	3.8%	3.1%	3.8%	19.0%	3.8%
Employee Benefits	4.4%	5.4%	5.2%	4.4%	5.0%	24.4%	4.9%
Supplies	3.1%	2.6%	2.5%	2.5%	2.6%	13.3%	2.7%
Contractual Services	6.6%	1.9%	3.8%	3.0%	3.6%	19.0%	3.8%
Other Charges	3.1%	2.6%	2.5%	2.5%	2.6%	13.3%	2.7%
Capital Outlay	3.1%	2.6%	2.5%	2.5%	2.6%	13.3%	2.7%
Interdepartmental Charges	3.0%	2.5%	2.5%	2.5%	2.6%	13.0%	2.6%
Interfund Transfers	-80.7%	2.1%	2.2%	2.1%	-11.3%	-85.5%	-17.1%
Total	-11.2%	2.7%	3.7%	3.0%	3.0%	1.2%	0.2%

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

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Fund Balance	9,283	9,617	9,185	8,725	8,484
Receipts					
Taxes	17,497	18,106	18,881	19,684	20,619
Licenses & Permits	3,446	2,946	3,027	3,111	3,198
Intergovernmental	3,087	3,218	3,342	3,468	3,594
Service Charges	3,755	3,344	3,430	3,518	3,609
Fines & Forfeitures	1,007	1,052	1,095	1,138	1,182
Interest & Rents	1,413	1,468	1,518	1,572	1,638
Interfund Transfers	2,876	2,939	3,002	3,066	3,135
Total G F Receipts	33,082	33,072	34,295	35,556	36,974
Disbursements					
City Council	45	46	47	47	48
City Manager	397	406	416	425	435
City General	2,428	2,484	2,542	2,601	2,466
Finance & Admin. Services	272	278	285	291	298
City Clerk	488	499	511	523	536
Finance	1,228	1,258	1,288	1,318	1,350
Human Resources	430	441	451	461	473
Police Services	7,789	8,110	8,430	8,759	9,105
Fire Services	4,533	4,690	4,918	5,140	5,339
Comm Dev. Admin.	243	249	255	261	267
Building	1,678	1,740	1,780	1,723	1,765
Planning	1,220	1,151	1,178	1,107	1,134
PWAdmin/Economic Dev.	500	513	525	537	550
Engineering	2,522	2,382	2,436	2,492	2,551
PW Maintenance Services	2,746	2,815	2,882	2,951	3,025
B, P & R Admin.	352	361	369	377	386
Recreation	1,529	1,566	1,603	1,641	1,682
Beach & Park Maintenance	3,159	3,240	3,320	3,402	3,489
Marine Safety	819	839	858	877	898
New Employees	158	358	562	771	985
Total GF Disbursements	32,537	33,425	34,655	35,707	36,783
Emergency Reserve	210	80	100	90	100
Ending Fund Balance	9,617	9,185	8,725	8,484	8,576

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

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Fund Balance	8,245	7,598	6,173	4,687	3,389
Receipts					
Taxes	17,239	17,838	18,602	19,393	20,314
Licenses & Permits	3,395	2,902	2,983	3,065	3,151
Intergovernmental	3,042	3,170	3,293	3,416	3,541
Service Charges	3,700	3,294	3,379	3,466	3,556
Fines & Forfeitures	992	1,037	1,079	1,121	1,164
Interest & Rents	1,392	1,446	1,496	1,549	1,613
Interfund Transfers	2,833	2,896	2,958	3,021	3,089
Total G F Receipts	32,593	32,583	33,789	35,031	36,428
Disbursements					
City Council	46	46	47	48	49
City Manager	403	412	422	431	442
City General	2,465	2,522	2,581	2,640	2,504
Finance & Admin. Services	276	282	289	296	303
City Clerk	495	507	519	531	544
Finance	1,247	1,277	1,307	1,338	1,370
Human Resources	437	447	458	469	480
Police Services	7,907	8,233	8,559	8,893	9,244
Fire Services	4,602	4,761	4,992	5,219	5,421
Comm Dev. Admin.	247	253	259	265	271
Building	1,704	1,766	1,807	1,749	1,792
Planning	1,238	1,169	1,196	1,124	1,151
PWAdmin/Economic Dev.	508	520	533	545	559
Engineering	2,560	2,418	2,473	2,530	2,590
PW Maintenance Services	2,788	2,857	2,926	2,996	3,071
B, P & R Admin.	358	366	374	383	392
Recreation	1,552	1,590	1,628	1,666	1,707
Beach & Park Maintenance	3,208	3,290	3,371	3,454	3,542
Marine Safety	831	851	871	891	912
New Employees	158	358	562	771	985
Total GF Disbursements	33,030	33,928	35,174	36,239	37,328
Emergency Reserve	210	80	100	90	100
Ending Fund Balance	7,598	6,173	4,687	3,389	2,389

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

	2002-03	2003-04	2004-05	2005-06	2006-07
Beginning Fund Balance	8,577	8,243	7,134	5,976	5,015
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	2,833	2,896	2,958	3,021	3,089
Total G F Receipts	32,742	32,732	33,943	35,191	36,594
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	8,243	7,134	5,976	5,015	4,363

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.

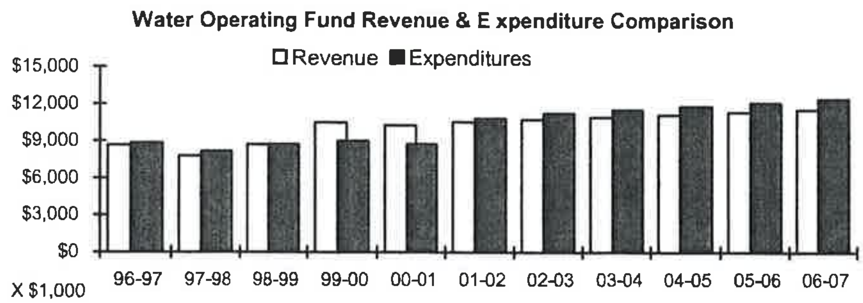
Staff recommends using "net working capital" as the basis for budget. Net working capital is a common accounting formula used for financial analysis. It is defined as current assets minus current liabilities. Essentially, that means that items such as the value of fixed assets will be left out of the 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 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.

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

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.

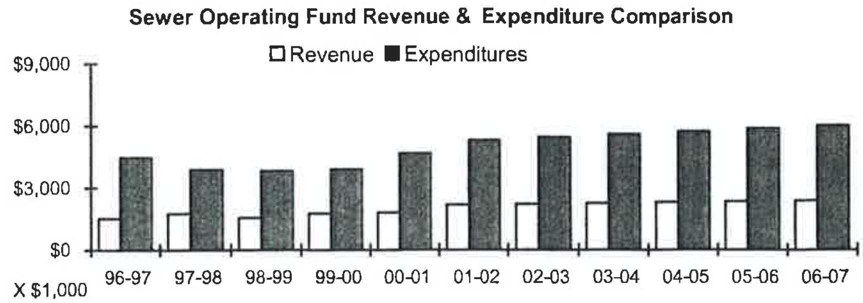
2002 FINANCIAL FORECAST
Water Operating Realistic Cash Flow based on FY 2001-02 Adjusted Budget
(Amounts in Thousands)

	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	7934
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.



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

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 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 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	2002-03	2003-04	2004-05	2005-06	2006-07
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.

Reserve Analysis

Objective

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

Summary

The reserve funds analyzed in this year's LTFP have been expanded to include all funds. The reserve funds analyzed include:

- General Fund Emergency Reserve
- General Fund – City Council Contingency Reserve
- General Fund – Employee Computer Purchase Program Reserve
- General Liability Self-Insurance Fund
- Workers' Compensation Fund
- Fleet Replacement Reserve Fund
- Accrued Leave Reserve
- Capital Equipment Replacement Reserve
- Facilities Maintenance Capital Asset Reserve
- Water Operating Fund – Emergency Reserve
- Water Fund Depreciation Reserve
- Sewer Operating Fund – Emergency Reserve
- Sewer Fund Depreciation Reserve
- Storm Drain Operating Fund – Emergency Reserve
- Storm Drain Fund Depreciation Reserve
- Solid Waste Fund – Emergency Reserve
- Golf Course Operating Fund – Emergency Reserve
- Golf Course Fund Depreciation Reserve
- Golf Course Fund Capital Improvement Reserve

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

Long Term Financial Plan

Background

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

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

- The City will maintain General Fund Emergency Reserves at a level at least equal to 8% of General Fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.

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

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

- 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 (SIR) for those claims covered by the City's insurance pool, Orange County Cities Risk Management Agency (OCCRMA). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.

- The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

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

- 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.

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

The following table summarizes the estimated balances of the various reserve and self-insurance funds through June 30, 2002.

Reserves	Funding Source	Estimated Reserve Balances At June 30, 2002	In Compliance With Fiscal Policy
General Fund Emergency Reserve	General Fund	$2,301,640	**Yes**
Council Contingency Reserve	General Fund	$0	N/A[1]
Employee Computer Purchase Program	General Fund	$47,570	N/A[2]
General Liability Self-Insurance	All Funds	$1,668,880	**Yes**
Workers' Compensation	All Funds	$316,730	**Yes**
Fleet Replacement	All Funds	$2,310,630	**Yes**
Accrued Leave	General Fund	$116,790	**Yes**
Capital Equipment Replacement	All Funds	$549,450	N/A[2]
Facilities Maintenance Capital Asset	General Fund	$65,780	No
Water Operating Fund – Emergency Reserve	Water Fund	$345,000	**Yes**
Water Fund Depreciation	Water Fund	$2,596,590	N/A[2]
Sewer Operating Fund – Emergency Reserve	Sewer Fund	$425,000	**Yes**
Sewer Fund Depreciation	Sewer Fund	$5,166,410	N/A[2]
Storm Drain Operating Fund – Emergency Reserve	Storm Drain Fund	$35,000	**Yes**
Storm Drain Fund Depreciation	Storm Drain Fund	($650,490)	N/A[2]
Solid Waste Fund – Emergency Reserve	Solid Waste Fund	$10,000	**Yes**
Golf Course Operating Fund – Emergency Reserve	Golf Course Fund	$149,000	**Yes**
Golf Course Fund Depreciation	Golf Course Fund	$844,640	N/A[2]
Golf Course Fund Improvement	Golf Course Fund	$1,281,560	N/A[2]
Total		**$17,580,180**	

[1] The Council Contingency Reserve is "zeroed out" at the end of each fiscal year, and reestablished at the beginning of the next fiscal year.
[2] Currently, there is no target level established for these reserves.

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

Analysis of the Funds/Reserves

The following guidelines have been used to analyze each fund or reserve:

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

General Fund Emergency Reserve

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

Assessment of the current situation/conclusions: Since the establishment of this reserve, no portion of it has been utilized. The current 8% reserve level is based on the City's aging infrastructure, history of naturally-caused damage (flooding, storms, etc.), potential recessionary or inflationary conditions and other such factors. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10%, depending on the factors indicated above. The Government Finance Officer's Association (GFOA) recommends a level equivalent to one month's operating expenditures, or 8.33%. This emergency reserve was originally targeted at 8% of General Fund operating expenditures, but was reduced to 5% in 1997, due to the financial crisis experienced by the City as a result of Proposition 218. At Council direction, the reserve requirement has been increased back to 8%.

The current Financial Trend Analysis indicates that the City has had operating surpluses for the past seven consecutive years. Also, for the seventh consecutive year, unreserved fund balance as a percentage of operating revenues increased in FY 2000-01. It is therefore recommended that the emergency reserve be maintained at 8% of General Fund operating expenditures for FY 2002-03.

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

	Contribution	Cumulative Total	Percentage
FY 1992-93	$509,640	$509,640	
FY 1993-94	$120,000	$629,640	3.30%
FY 1994-95	$150,000	$779,640	4.00%
FY 1995-96	$250,000	$1,029,640	5.02%
FY 1996-97	-0-	$1,029,640	5.00%
FY 1997-98	-0-	$1,029,640	4.97%
FY 1998-99	$ 40,000	$1,069,640	4.94%
FY 1999-00	$ 50,000	$1,119,640	5.05%
FY 2000-01	$500,000	$1,619,640	5.91%
FY 2001-02	$682,000	$2,301,640	7.77%

At the time the 2001 LTFP was prepared, the $682,000 contribution brought the emergency reserve up to the required 8% level. Due to subsequent budget adjustments during the year, the emergency reserve now represents 7.77% of projected General Fund operating expenditures.

Recommendations: 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.

Fiscal Impact of Recommendations: Projected General Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $580,000. The reserve will be maintained at the 8% level throughout the five-year forecast as General Fund operating expenditures increase.

General Fund - City Council Contingency Reserve

City Council Fiscal Policy: Maintain a reserve of no less than 1% of General Fund operating expenditures per year. The purpose of this reserve is to provide for non-recurring, unanticipated expenditures, or to set aside funds to cover known contingencies with unknown costs. This reserve requires City Council approval prior to expenditure.

Assessment of the current situation/conclusions: Unlike the General Fund Emergency Reserve, this reserve has been drawn upon annually to fund unanticipated expenditures as they have occurred over the past several years. It is anticipated that the need to draw upon this contingency reserve will continue in future years.

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

FY 1992-93	$200,000
FY 1993-94	72,420
FY 1994-95	180,700
FY 1995-96	167,840
FY 1996-97	81,700
FY 1997-98	205,860
FY 1998-99	331,670
FY 1999-00	206,210
FY 2000-01	172,520
FY 2001-02 (through 1/17/02)	90,980 [1]

1 $9,000 for consulting services to secure Proposition 12 and 13 grant funding; $4,280 for City matching portion of LLEBG; $13,200 for Ole Hanson Beach Club pool deck replacement; $3,000 for donation to Orange County Fire Authority Firefighters' Memorial Trust; $15,000 for consulting services to conduct public opinion poll; $20,000 for contract services for nuisance abatement on vacant lots; $26,500 for lobbyist for US Army Corps of Engineers Feasibility Study.

The expenditures made from this reserve are analyzed on an annual basis. Based upon this analysis and the budget shortfall created by the elimination of the Lighting and Landscape District in FY 1996-97, this reserve was reduced from the previous $200,000 annually to $100,000 annually. In fiscal year 1999-00, the City's fiscal policy was changed to read, "…The level of the Council Contingency Reserve will be established as needed, but will not be less than 1% of General Fund operating expenditures annually". Based on this policy, it is recommended that the Council Contingency Reserve be set at $313,230 for FY 2002-03.

Recommendation: 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.

Fiscal Impact of Recommendation: General Fund expenditures for the Council Contingency Reserve for the five-year forecast period will total $1,678,190.

General Fund – Employee Computer Purchase Program Reserve

City Council Fiscal Policy: None. Established by Administrative Policy and Procedure No. 602-1.

Assessment of the current situation/conclusions: The Employee Computer Purchase Program was established in fiscal year 1990-91. This program is a partnership agreement between the City and employees whereby the City provides three-year, no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. Each eligible employee can participate up to a maximum loan amount of $3,000. Loans must be repaid over the three-year period through bi-weekly payroll deductions. This is a self-funding program by which available funds come from loan repayments from other employees. The program was initially established with a $100,000 transfer from the General Fund in fiscal year 1990-91.

To be eligible to participate in this program, individuals must be a regular, full-time employee or a regular, part-time employee with more than one year of continuous service. Applications must demonstrate how the City would benefit by providing a computer loan. Computer loan requests are reviewed and approved by the City's Computer Action Team (CAT).

The table below shows the number of employees participating and the amount loaned for each of the last five fiscal years:

Fiscal Year	Employees Participating	Amount Loaned
FY 1996-97	23	$42,620
FY 1997-98	12	$31,800
FY 1998-99	24	$55,010
FY 1999-00	16	$40,800
FY 2000-01	15	$33,420

To date, there has been adequate funding to support the Employee Computer Purchase Program. The reserve balance as of June 30, 2002 is estimated to be $47,570. This balance plus loan repayments during the year is expected to be more than adequate to cover new loan approvals for FY 2002-03.

Recommendation:

1. 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.
2. 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."

Fiscal Impact of Recommendation: The Employee Computer Purchase Program Reserve is in a positive financial position with an estimated positive balance at the end of FY 2001-02; $25,000 will be transferred from the reserve back to the General Fund.

General Liability Self-Insurance Fund

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

Assessment of the current situation/conclusions: The City's SIR is currently $100,000, which requires a reserve in this fund of $300,000, or three times the SIR. The projected year-end fund balance in the General Liability Self-Insurance Fund for FY 2001-02 is $997,883. This balance is in addition to the $300,000 reserve for SIR losses, and the $371,000 reserve established per the 2001 LTFP for uncovered claims losses.

There are several types of occurrences that are excluded from the liability insurance coverage purchased through the Orange County Cities Risk Management Agency (OCCRMA). These uncovered losses include: 1) breach of contract, 2) inverse condemnation, 3) eminent domain, 4) land subsidence, 5) earth movement, 6) employment-related issues, 7) release of toxic material, 8) punitive damages, 9) earthquakes, and 10) a $250,000 deductible on floods. All uncovered claims losses for the past six years have been analyzed to determine the appropriate reserve requirement for these claims. The total cost for these claims was $2,616,096, or a six-year average of $436,000. This is an increase of $65,000 over the prior year average of $371,000. This would increase the total reserves for claims losses from $671,000 to $736,000.

In addition, there are currently some outstanding claims for unusually large amounts. In the annual confirmation letter that the City Attorney prepares for the auditors, it has been estimated that total outstanding claims not covered by insurance are in excess of $6.3 million. This does not include the costs of defending these cases. While the City does not anticipate that the final cost of these claims will be this high, it is always prudent to set aside reserves to cover potential uncovered claims.

In FY 1998-99, an interfund loan of $550,000 was made from the General Liability Fund to the RDA – Debt Service Fund to provide partial funding for capital projects resulting from a settlement agreement with the Fisherman's Restaurant. The settlement agreement required the City to provide funding for the expansion of the restaurant, side deck and pier/beam improvements. The loan was structured over ten years with an interest rate of 5.7% and will not be completely repaid until June 30, 2009. In order to build up the reserve in the General Liability Fund, it is recommended that the loan be repaid immediately. A transfer of $416,000 from the General Fund is recommended for FY 2002-03 to pay off the balance of the RDA loan.

At this time, an annual transfer of $750,000 is recommended to build up the reserve for potential uncovered claims. A review of these claims will be conducted annually to ensure adequate funding is available. In addition, it is recommended that a comprehensive analysis of the General Liability Fund be conducted in the 2002-03 fiscal year.

Prior to the 1998 Reserve Analysis, individual fund payments for general liability were based solely on a five-year claim history. As approved in the 1998 Long Term Financial Plan, charges to other funds are now based not only on a five-year average of historical claims (25%), but also on an allocation basis to account for risk related to each fund. This second (75%) factor is based on prior year budgeted expenditures as a percentage of total budgeted expenditures. This methodology is based on standards recognized by the Insurance Institute of America regarding essentials of risk financing. The following table shows the calculations for charges to other funds for FY 2002-03:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2002-03	Total Charge for General Liability FY 2001-02
General Fund	70%	59.03%	61.76%	$ 620,590	$ 271,240
Water Fund	2%	17.17%	13.38%	134,450	85,790
Sewer Fund	4%	8.52%	7.39%	74,260	33,110
Solid Waste Fund	0%	.19%	.14%	1,410	880
Storm Drain Fund	20%	1.82%	6.37%	64,010	16,830
Golf Course Fund	4%	3.87%	3.9%	39,190	19,810
Information Services Fund	0%	1.61%	1.21%	12,160	6,700
Central Services Fund	0%	1.77%	.58%	5,830	4,930
Fleet Maintenance Fund	0%	1.74%	1.31%	13,160	4,460
Redevelopment Agency	0%	5.28%	3.96%	39,790	21,250
Total	**100%**	**100.00%**	**100.00%**	**$1,004,850**	**$ 465,000**

The total charge for General Liability increased by $539,850 from FY 2001-02 to FY 2002-03. The majority of the increase is to "make up" for a mid-year adjustment made in FY 2001-02 for the Mitchell claim.

The General Fund's total percentage of liability charges increased from the previous year by 3.43% due to an increase in the percentage of past claims. The Water Operating Fund's percentage of liability charges decreased by 5.07% due to a decrease in the percentage of past claims. The Storm Drain Fund's percentage increased in total by 2.75% as a result of an increase in the past claims history.

Recommendation:

1. 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).
2. 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.
3. Approve a comprehensive analysis of the General Liability Fund in FY 2002-03.

Fiscal Impact of Recommendation: The General Liability Self-Insurance Fund is in a positive financial position with an estimated positive balance at the end of FY 2001-02 and its basic reserve requirement of $300,000 fully funded. In addition, $436,000 will be reserved for payment of those claims not covered by OCCRMA. An additional $750,000 will be transferred annually from the General Fund to cover outstanding claims not covered by insurance, amounting to $3,750,000 over the next five years. The remaining transfers from other funds will be required only to pay for premiums, future claims, and administrative costs incurred by the funds.

Workers' Compensation Fund

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

Assessment of the current situation/conclusions: The City became fully insured for workers' compensation in 1995. The City currently pays a third-party administrator, and is responsible for paying the remaining "tail" of claims incurred when the City was self-insured. Most of these open, self-insured claims are related to police and fire services employees who are no longer City employees. During FY 1998-99, the City changed third party administrators to the State Compensation Insurance Fund, to which the City pays premiums. This new carrier has a much more aggressive approach to settling open claims and makes every attempt to close open claims and pay claimants for future medical expenses now. Therefore, the only reserve requirement for the Workers' Compensation Fund is to provide adequate funds to pay for these uncovered claims. Through annual transfers from other funds, the original Workers' Compensation Fund's deficit balance of $950,000 from the first reserve analysis in 1993 was eliminated in FY 1998-99.

The Workers' Compensation Fund finished FY 2000-01 with a positive reserve balance of $316,730. However, the claims outstanding as of June 30, 2001 were $1,113,215. Therefore, the Fund ended FY 2000-01 with a deficit in retained earnings of $796,485. The deficit in retained earnings is projected to increase to $974,330 by the end of FY 2001-02. The deficit was caused by (1) changes in workers' compensation classifications of some employees due to an audit performed by the administrator, and (2) significant increases in the estimates of outstanding claims due to recent surgeries and medical treatments. It is recommended that a transfer of $1,000,000 be made during the current fiscal year to cover the increase in the remaining "tail" of claims. In addition, a deficit in retained earnings of $170,100 is projected for June 30, 2003. It is recommended that a transfer of $170,100 be made during fiscal year 2002-03 to cover the additional increase in the remaining "tail" of claims. Reserves will continue to be reviewed annually to cover any further adjustments made by the claims administrator.

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

Recommendation:

1. 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:

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

2. 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.

Fiscal Impact of Recommendation: The transfers of $1,000,000 and $170,100 should be sufficient to cover the estimated outstanding claims through June 30, 2003, assuming no additional significant changes are made to the estimates for outstanding claims. Rates charged to other funds (which will be set during the FY 2002-03 budget process) will be sufficient to pay for all premium expenses and administrative expenses incurred by the Workers' Compensation Fund.

Fleet Replacement Reserve Fund

City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: A complete analysis of the fleet replacement reserve was conducted and approved by the City Council in February 1994. As a result of the fleet replacement reserve analysis, a policy was established to annually update the Fleet Replacement Reserve schedule. This reserve is fully funded with a projected ending balance of $2,310,630 at June 30, 2002.

Recommendation: 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."

Fiscal Impact of Recommendation: Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. The FY 2002-03 budget will contain normal replacement charges to other funds of $483,330.

Accrued Leave Reserve

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

Assessment of the current situation/conclusions: The accrued leave reserve was established in FY 1994-95 based on average annual General Fund expenditures for vacation and sick leave payoffs. The amount of this reserve fluctuates annually based upon the number of employees and the length of service (amount of accrued leave). The following table indicates accrued leave payments during the past eight years with a projection for FY 2001-02:

FY 1993-94 through FY 2001-02

	Annual Vacation and Sick Leave Payments
FY 1993-94	$ 50,500
FY 1994-95	$ 17,850
FY 1995-96	$ 47,940
FY 1996-97	$ 77,550
FY 1997-98	$ 53,890
FY 1998-99	$ 41,410
FY 1999-00	$ 34,770
FY 2000-01	$ 63,200
FY 2001-02 (Projected)	$100,000
Average Annual Payoffs	$ 60,100

The projected ending balance for the Accrued Leave Reserve as of June 30, 2002 is $116,800. At June 30, 2001, the total General Fund liability for accrued leave was $843,690. Of this amount, $232,480 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2003. While these employees may not all retire at once, it is recommended that $115,680 be transferred from the General Fund to the Accrued Leave Reserve to ensure adequate funds are available for payment of potential liabilities.

Recommendation:

1. Transfer $115,680 from the General Fund to the Accrued Leave Reserve for fiscal year 2002-03.
2. 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."

Fiscal Impact of Recommendation: The Accrued Leave Reserve will be reviewed annually to determine additional transfers necessary to fund the on-going liabilities. For the five-year forecast, transfers to fund the Accrued Leave Reserve are estimated at $315,730.

Capital Equipment Replacement Reserve

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

Assessment of the current situation/conclusions: As of June 30, 2001, the General Fund capital equipment asset balance was $5,677,207. Since the time of this fund's establishment in FY 1994-95, the General Fund has made annual transfers of $100,000 to fund this reserve. Over the past seven years, these transfers total $700,000. The projected fund balance at June 30, 2002 is $549,400. The reserve has been analyzed for the five-year forecast period, based on average historical costs adjusted for inflation. A transfer of $260,100 is proposed for FY 2002-03 to fully fund the projected five-year costs. Therefore, if the City were to hit an economic downturn and no funding was available for capital needs, the reserve would be available to cover those capital needs for the next five years without having to lower the City's standards on capital purchases.

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

Recommendation:

1. Transfer $260,100 from the General Fund to the Capital Equipment Replacement Reserve to fully fund projected five-year costs.
2. 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."

Fiscal Impact of Recommendation: The $260,100 transfer will cover the capital equipment replacement costs over the five-year period.

Facilities Maintenance Capital Asset Reserve

City Council Fiscal Policy: Maintain an account to cover the costs associated with the maintenance of all City facilities. The reserve should be maintained at a level at least equal to the projected five-year facilities maintenance costs.

Assessment of the current situation/conclusions: The City established the Facilities Maintenance Capital Asset Reserve in the 2001 LTFP. As City facilities age, maintenance expenditures become more critical. A reserve to fund these maintenance expenditures was established and covers costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/striping for all City facilities, plus the compressor, speed drive and boiler for the City pool.

An analysis has been completed projecting out the facilities maintenance costs for the next five years using estimated replacement cycles between seven and thirty years depending upon the type of maintenance to be performed. The projected costs were then allocated over the term of the estimated replacement cycle. The projected cost for the next five years has been calculated as $729,720. The reserve balance is projected to be $65,780 as of the end of fiscal year 2001-02. The recommendation will be to transfer $663,940 to the reserve to fully fund the five-year projected costs. Annually, projected five-year costs for maintenance of all City facilities will be determined by the Maintenance Services Division and reviewed by the Finance Division.

Recommendations: Transfer $663,940 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2002-03.

Fiscal Impact of Recommendations: Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of $663,940.

Water Operating Fund - Emergency Reserve

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 2000-01	$335,000	$335,000	8.00%
FY 2001-02	$10,000	$345,000	8.00%

Recommendations: Budget $15,000 for FY 2002-03 in order to bring the emergency reserve to $360,000, which will maintain the 8% of projected Water Fund operating expenditures level.

Fiscal Impact of Recommendations: Projected Water Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $53,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Water Fund operating expenditures increase.

Water Depreciation Reserve

City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: The Water Depreciation 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. The reserve is reviewed annually to verify funding is adequate to cover at least projected costs for the next five years. The projected ending balance at June 30, 2002 is $2,596,590. An infrastructure valuation and a fixed asset inventory are currently in progress. Once the consultant has completed these analyses, staff will provide recommendations to Council regarding target levels and policies for funding the Reserve.

Recommendation: Defer policy changes until the completion of the infrastructure valuation and fixed asset inventory.

Fiscal Impact of Recommendation: Annual depreciation charges will continue to be charged to the Water Operating Fund. The depreciation charges for the five-year forecast period are $4,092,210.

Sewer Operating Fund - Emergency Reserve

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 1998-99	$310,000	$310,000	8.00%
FY 1999-00	$5,000	$315,000	8.00%
FY 2000-01	$69,000	$384,000	8.00%
FY 2001-02	$41,000	$425,000	8.00%

Recommendations: Budget $13,000 for FY 2002-03 in order to bring the emergency reserve to $438,000, which will maintain the 8% of projected Sewer Fund operating expenditures level.

Fiscal Impact of Recommendations: Projected Sewer Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $61,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Sewer Fund operating expenditures increase.

Sewer Depreciation Reserve

City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: The Sewer Depreciation 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. The reserve is reviewed annually to verify funding is adequate to cover at least projected costs for the next five years. The projected ending balance at June 30, 2002 is $5,166,410. An infrastructure valuation and a fixed asset inventory are currently in progress. Once the consultant has completed these analyses, staff will provide recommendations to Council regarding target levels and policies for funding the Reserve.

The Sewer Depreciation Reserve provided an interfund loan of $3.2 million to the City's Redevelopment Agency (RDA) in FY 1994-95 to restructure an existing debt at a lower interest rate and to provide funding for capital improvements. This loan is not scheduled for full repayment until June 30, 2019. However, several sewer projects are included in the Sewer Master Plan utilizing funds accumulated in the Sewer Depreciation Reserve. To prepare for these projects, a transfer of $3,005,000 is recommended from the General Fund to the Sewer Depreciation Reserve to pay off the balance of the RDA loan.

Recommendation:

1. Defer policy changes until the completion of the infrastructure valuation and fixed asset inventory.
2. Transfer $3,005,000 from the General Fund to the Sewer Depreciation Reserve to pay off the RDA loan.

Fiscal Impact of Recommendation: Annual depreciation charges will continue to be charged to the Sewer Operating Fund. The depreciation charges for the five-year forecast period are $7,087,380. A transfer of $3,005,000 from the General Fund to the Sewer Depreciation Reserve is recommended for FY 2002-03.

Storm Drain Operating Fund - Emergency Reserve

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 2001-02	$35,000	$35,000	8.00%

Recommendations: Budget $1,000 for FY 2002-03 in order to bring the emergency reserve to $36,000, which will maintain the 8% of projected Storm Drain Fund operating expenditures level.

Fiscal Impact of Recommendations: Projected Storm Drain Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $5,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Storm Drain Fund operating expenditures increase.

Storm Drain Depreciation Reserve
City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: The Storm Drain Depreciation 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 utility system infrastructure. The reserve is reviewed annually to verify funding is adequate to cover at least projected costs for the next five years. This reserve is projected to have a deficit ending balance of $650,490 at June 30, 2002. However, over the five-year forecast with the continuance of transfers from the Storm Drain Operating Fund, the reserve balance is projected grow to approximately a positive $2.6 million in excess of projected costs. An infrastructure valuation and a fixed asset inventory are currently in progress. Once the consultant has completed these analyses, staff will provide recommendations to Council regarding target levels and policies for funding the Reserve.

Recommendation: Defer policy changes until the completion of the infrastructure valuation and fixed asset inventory.

Fiscal Impact of Recommendation: Annual depreciation charges will continue to be charged to the Storm Drain Operating Fund. The depreciation charges for the five-year forecast period are $473,300. Continuing transfers from the Storm Drain Operating Fund are projected to be $3,829,000 over the five-year period.

Solid Waste Fund - Emergency Reserve
City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 2001-02	$10,000	$10,000	8.00%

The current reserve balance will be adequate to cover the 8% level requirement through FY 2002-03. Therefore, no additional contributions will be needed for FY 2002-03.

Recommendations: None.

Fiscal Impact of Recommendations: Projected Solid Waste Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $1,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Solid Waste Fund operating expenditures increase.

Golf Course Operating Fund - Emergency Reserve

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes all contributions made since the establishment of this emergency reserve and the percentage reached at the end of each fiscal year.

	Contribution	Cumulative Total	Percentage
FY 2001-02	$149,000	$149,000	8.00%

Recommendations: 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.

Fiscal Impact of Recommendations: Projected Golf Course Fund expenditures over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of $20,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Golf Course Fund operating expenditures increase.

Golf Course Depreciation Reserve

City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: The Golf Course Depreciation 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. The reserve is reviewed annually to verify funding is adequate to cover at least projected costs for the next five years. The projected ending balance at June 30, 2002 is $844,640. An infrastructure valuation and a fixed asset inventory are currently in progress. Once the consultant has completed these analyses, staff will provide recommendations to Council regarding target levels and policies for funding the Reserve.

Recommendation: Defer policy changes until the completion of the infrastructure valuation and fixed asset inventory.

Fiscal Impact of Recommendation: Annual depreciation charges will continue to be charged to the Golf Course Operating Fund. The depreciation charges for the five-year forecast period are $855,420.

Golf Course Improvement Reserve

City Council Fiscal Policy: None.

Assessment of the current situation/conclusions: The Golf Course Improvement 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 reviewed annually to verify funding is adequate to cover projected costs for the next five years. This reserve is projected to have an ending balance of $1,281,560 at June 30, 2002.

At the end of the five-year forecast, the reserve is projected to have a deficit balance of $1,893,400 (assumptions include the continuance of the annual $160,000 transfer from the Golf Course Operating Fund). The projects scheduled to be paid out of the reserve over the next five years are the golf course improvement project ($1,660,000), the new clubhouse improvement project ($3,175,000), the golf storm drain project ($600,000), and the golf reservoir relining project ($200,000).

The funding of the new clubhouse was discussed at the June 20, 2000 Council Meeting. Several options were offered, and Council chose the "compromise proposal". This included a one-time transfer from the General Fund of $1,250,000, a $1 rate increase in all categories except Juniors, and an in-house loan for $1,750,000. The one-time transfer and the fee increase were approved at that time. The in-house loan was delayed until such time that the loan would be needed to pay for the construction costs. The clubhouse construction has been scheduled for fiscal year 2002-03.

In order to fund the clubhouse construction and the other golf improvement projects, the following transfers are recommended: (1) an annual transfer of $160,000 from the Golf Course Operating Fund to the Golf Course Improvement Reserve; (2) a transfer of $450,000 from the Golf Course Depreciation Reserve; and (3) internal loans of $875,000 each from the Water Acreage Fee Reserve and $875,000 from the Sewer Connection Fee Reserve. The recommended loans will be repaid over a period of 20 years. The interest rates will be based on the LAIF rate and adjusted annually. Currently the LAIF rate is 3.3 percent. The loans will be repaid with revenues of the Golf Operating Fund.

Recommendation:

1. 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."
2. Continue the annual transfer of $160,000 from the Golf Course Operating Fund.
3. Transfer $450,000 from the Golf Course Depreciation Reserve to the Golf Course Improvement Reserve for fiscal year 2002-03.
4. Loan $875,000 from the Water Acreage Fee Reserve and $875,000 from 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.

Fiscal Impact of Recommendation: Annual transfers of $160,000 will continue to be charged to the Golf Course Operating Fund. The transfer charges for the five-year forecast period are $800,000. Also, a transfer of $450,000 from the Golf Course Depreciation Reserve to the Golf Course Improvement Reserve is proposed for fiscal year 2002-03. In addition, loans are proposed from the Water Acreage Fee Reserve and the Sewer Connection Fee Reserve to the Golf Course Improvement Reserve with total payments over the 20-year term estimated at $2,420,000.

Council Action

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

Street Improvement Program

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

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

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

Program Status
Since the approval of the program in July, 1995, one hundred and thirteen (113) street projects have been completed, an additional twenty one (21) are under construction and two (2) projects are to be constructed and will be completed by the end of 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.

<u>Completed projects</u> (totaling 31.90 miles):

There are one hundred and thirteen (113) street projects, approximately 53% of the program mileage, that have been completed since the Street Program approval. Exhibit "A" lists all the completed projects.

<u>Still to be constructed during FY 2001-02</u> (totaling 6.04 miles):

These projects are under construction. It is anticipated that the construction of these street projects will be completed prior to the end of FY 2001-02:

1. Los Molinos from El Camino Real to the MO2 Channel.
2. Calle Valle from Calle De Los Molinos to Calle De Los Molinos.
3. Calle de Anza (from San Carlos to Ave. Presidio)
4. Avenida Arlena (from Esperanza to Cordoba)
5. Bella Loma (from cul de sac to La Cuesta)
6. Calle Neblina I (from Miguel to Empalme)
7. Calle Neblina II (from cul de sac to Miguel)

8. Calle Familia (from cul de sac to cul de sac)
9. Calle Delicada (from cul de sac to cul de sac)
10. Calle Pescador (from Miguel to Presidio)
11. Calle Rica (from cul de sac to cul de sac)
12. Robles (from Empalme to Presidio)
13. Avenida La Cuesta (from Solano to Miguel)
14. Calle Sandia (from cul de sac to Escuela)
15. Calle Salida (from cul de sac to Escuela)
16. Calle Del Juego (from cul de sac to Escuela)
17. San Luis Rey (from El Camino Real to Santa Margarita)
18. Calle Escuela (from Presidio to Miguel)
19. Calle Fiesta (from Empalme to cul de sac)
20. Calle Pueblo (from Presidio to cul de sac)
21. Calle Villario (from Presidio to cul de sac)
22. Calle Felicidad (from Presidio to cul de sac)
23. Calle Dorado (from Presidio to cul de sac)

Design Stage:

There are another six (6) street projects in the early planning and design stages. The designs should be completed prior to the end of this Fiscal Year. Construction of these projects will start at various periods during FY 2002-03.

1. Calle Guadalajara (from Avenida Vaquero to Calle Vallarta),
2. Calle Vallarta (from Avenida Vaquero to Calle Guadalajara),
3. Calle Frontera (from Avenida Vista Hermosa to Calle Vallarta),
4. Calle Agua (from Camino de los Mares to Calle Verano),
5. Avenida Cabrillo (from Calle Seville to Avenida Palizada),
6. Avenida Palizada (from Calle Seville to Avenida Del Mar).

Funding Status

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

Short Term - The Street Improvement Program's short term financial picture is mixed. On the positive side, the majority of the street projects awarded have cost less to build resulting in a savings of about $3,595,000 or about 17.5 % of the original estimated street projects costs.

Original estimated projects costs (FY95/96 to FY01/02)	$20,525,000
Actual projected projects costs (FY95/96 to FY01/02)	16,930,000
Projected savings (FY95/96 to FY01/02)	$3,595,000
Accelerated projects beyond first 7 years	3,210,000
Cash Balance due to savings	$385,000

Engineering Division staff have been successful in applying for and receiving State Local Transportation Partnership Program (SLTPP) grants for eligible street projects. The grant amounts awarded have varied from 5% to 20% of the construction award costs. The City has received about $1,741,600 in SLTPP funds for certain completed projects. Also, the City has received approximately $422,845 in CDBG Grant Funds for certain completed street improvements. Engineering Division staff has been aggressively pursuing various grants for funding the arterial streets. The City has received AHRP grant approval for six streets for an amount of approximately $1,600,000.

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

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

Major sources of the Gas Tax Fund are 2106 State Gas Tax Funds, Measure M Turnback, and Proposition 111. The total annual Gas Tax fund revenues are approximately $900,000 as follows:

2106 Gas Tax	$200,000
Proposition 111	275,000
Measure M	425,000
Total	$900,000

Measure M is a 20-year sales tax program that was approved in 1990 and is scheduled to sunset in year 2010. If a new tax measure is not approved at that time to replace Measure M, the City will lose about $425,000 (current dollars) annually in revenues, in addition to the competitive grants. In addition, the Street Improvement Program Assessment District sunsets after 18 years in (FY 2013-14). The City will have to identify a continuing source of revenue in the future if it is to maintain its street quality standards.

Recently the Governor has approved AB 2928 (formerly known as the local rehabilitation money from the Governor). The City of San Clemente will be receiving a total of approximately $780,000 over the next five years. These funds will be utilized to rehabilitate other city streets, including arterials that are not part of the Street Improvement Program.

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

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

- The contributions are escalated at 3% annually.

In summary, the City's current annual funding for street rehabilitation and maintenance is as follows:

SIP projects	$2,500,000
Major Maintenance	$ 300,000
Slurry Seal	$ 100,000
Arterial projects / Gas Tax & Grants	$1,000,000
Total	$3,900,000

The life of a new street is approximately 20 years. In order to extend the life of the street to about 45 years, a programmed preventive maintenance should be scheduled. The street should be slurry sealed on a seven year cycle and also overlayed every ten to fifteen years.

New street	Year 0
Slurry Seal	Year 7
Slurry Seal	Year 14
Overlay	Year 20
Slurry Seal	Year 27
Overlay	Year 35

This will require expanding the Street Major Maintenance Program to a $500,000 program, and the Slurry Seal Program to $250,000 program.

TABLE "A"

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

	ORIGINAL	ACTUAL	DIFFERENCE
ORIGINAL REVENUES			
Street Improvement Assess.	10,836,000	9,343,751	(1,492,249)
Debt Service / Redemption fund (1)	(3,599,000)	(3,984,904)	(385,904)
Proceeds From Sale of Bonds	6,000,000	6,566,890	566,890
Transfer from General Fund	3,670,900	3,391,850	(279,050)
Transfer from Gas Fund / Measure M	2,587,400	2,587,400	-
SUBTOTAL	**$19,495,300**	**$17,904,987**	**($1,590,313)**
OTHER REVENUES			
Investment Earnings (2)	-	1,505,249	1,505,249
Other Revenues	-	18,721	18,721
Expenditures Other Than CIP (3)	-	(730,415)	(730,415)
SUBTOTAL	**-**	**$793,555**	**$793,555**
TOTAL REVENUES	**$19,495,300**	**$18,698,542**	**($796,758)**
GRANTS / SAVINGS			
State Local Transp Partn Program (4)	-	1,741,571	1,741,571
Other Grants		422,845	422,845
Savings from street CIP (5)	-	3,594,124	3,594,124
SUBTOTAL	**-**	**$5,758,540**	**$5,758,540**
Accelerated completed projects (6)		(3,208,632)	(3,208,632)
Additional Improvements (CDBG) (7)	0	(422,845)	(422,845)
SUBTOTAL	**-**	**($3,631,477)**	**($3,631,477)**
CASH BALANCE	**$19,495,300**	**$20,825,605**	**$1,330,305**

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

TABLE "B"

TEN YEARS FINANCIAL COMPARISON
(FY 1995-96 to FY 2004/05)

	ORIGINAL	ACTUAL	DIFFERENCE
ORIGINAL REVENUES			
Street Improvement Assess.	15,720,000	13,387,751	(2,332,249)
Debt Service / Redemption fund (1)	(6,090,800)	(5,934,904)	155,896
Proceeds From Sale of Bonds	6,000,000	6,566,890	566,890
Transfer from General Fund	5,410,300	5,131,250	(279,050)
Transfer from Gas Fund / Measure M	4,063,700	4,063,700	0
SUB TOTAL	**$25,103,200**	**$23,214,687**	**($1,888,513)**
OTHER REVENUES			
Investment Earnings (2)	-	1,705,249	1,705,249
Other Revenues	-	18,721	18,721
Expenditures Other Than CIP (3)	-	(897,665)	(897,665)
SUB TOTAL	-	**$826,305**	**$826,305**
TOTAL REVENUES	**$25,103,200**	**$24,040,992**	**($1,062,208)**
GRANTS / SAVINGS			
State Local Transp Partn Program (4)	-	1,741,571	1,741,571
Other Grants		422,845	422,845
Savings from street CIP (5)	-	3,594,124	3,594,124
SUBTOTAL	-	**$5,758,540**	**$5,758,540**
Accelerated completed projects (6)	-	(2,993,138)	(2,993,138
Additional Improvements (CDBG) (7)		(422,845)	(422,845)
SUBTOTAL	-	**($3,415,983)**	**($3,415,983)**
CASH BALANCE	**$25,103,200**	**$26,383,549**	**$1,280,349**

NOTES:

(1) The bonds were sold earlier than original schedule
(2) Minimal interest in the future years since bond funds will be spent.
(3) One time cost of the bonds sale.
(4) The program was eliminated in FY 1999-00.
(5) Savings from completed street projects.
(6) Thirteen streets were accelerated from beyond the first 10 years.
(7) Improvements funded by the CDBG grant.

General Fund Contribution

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

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

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

Expenditures

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

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

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

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

Schedule Modification

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

1. Calle Frontera: This street was originally scheduled to be rehabilitated in FY2005/06. The pavement conditions are deteriorating very quickly. Since there are various streets within the 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. Avenida Cabrillo: The section of Avenida Cabrillo from Calle Seville to Avenida Palizada was originally scheduled to be rehabilitated in FY2005/06. Since the section of Avenida Palizada within the same neighborhood is scheduled to be rehabilitated during FY2002/03, 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.

Street Maintenance Program

As part of the FY 99/00 budget, the City Council re-established the City's Major Street Maintenance Program. This Major Street Maintenance Program will provide moderate and major maintenance service on streets that were not scheduled in the Street Improvement Program or improvements that were scheduled several years into the future.

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

The advantages are:

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

Since the re-establishment of the City's Major Street Maintenance Program as part of the FY1999/00 budget, twenty six (26) streets were rehabilitated, as listed below:

1. West Ave. San Antonio from El Camino Real to cul-de-sac.
2. West Ave. Ramona from El Camino Real to cul-de-sac.
3. West Ave. Cornelio from El Camino Real to cu-de-sac.
4. West Ave. Junipero from El Camino Real to cul-de-sac.
5. West Ave. San Gabriel from El Camino Real to cul-de-sac.
6. East Ave. de Los Lobos Marinos from Calle Alcazar to cul-de-sac.
7. Ave. Verde from Calle Alcazar to cul-de-sac.
8. Calle Oso from Ave. Del Poniente to West El Portal.
9. West El Portal from Calle Oso to Buena Vista.
10. Monterey Lane from Ave Victoria to Corona Lane.
11. Corona Lane from Monterey Lane to Ave Victoria.
12. Ave. Santa Barbara from Ave. Victoria to Ave. Del Mar.
13. Acebo Lane from Ave. Santa Barbara to Ave. Del Mar.

14. Elena Lane from Ave Victoria to Cazador Lane.
15. Cazador Lane from South Ola Vista to Ave. Victoria.
16. Via Del Campo from Via Manzana to Via Bienvenido.
17. Calle Patricia from La Esperanza to cul-de-sac.
18. Via Robina from Calle Patricia to cul-de-sac.
19. East Avenida San Antonio from El Camino Real to cul-de-sac.
20. East Avenida Cornelio from El Camino Real to cul-de-sac.
21. Police Department Parking Lot
22. West Avenida Mariposa from West Escalones to El Camino Real.
23. West Avenida Marquita from La Paloma to El Camino Real.
24. La Paloma from Calle Puente to cul-de-sac.
25. West Escalones from Avenida Del Poniente to West Mariposa
26. Avenida Barcelona from El Camino Real to Ola Vista.

Staff is recommending the following streets for Major Maintenance during fiscal years 2002/03 & 2003/04:

1. Avenida Columbo from Teresa to cul-de-sac.
2. Teresa from Avenida Salvador to cul-de-sac.
3. Avenida Acapulco from San Pablo to San Pablo.
4. Via Promontorio from Acapulco to cul-de-sac.
5. Paseo De la Seranata from Ola Vista to cul-de-sac.
6. East Avenida Marquita from El Camino Real to Avenida de la Estrella
7. East Avenida Mariposa from El Camino Real to Avenida de la Estrella.
8. East Escalones from El Camino Real to Avenida de la Estrella.
9. East Canada from El Camino Real to Avenida de la Estrella.
10. Avenida Mateo from El Camino Real to Avenida Monterey.
11. Avenida Pelayo from Avenida Aragon to Avenida Florencia.
12. Other streets depending on the availability of funds.

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.

Conclusion
In summary, the Street Improvement Program is ahead of the originally approved schedule. One hundred and thirteen (113) street projects are complete and another twenty three (23) are under construction. Also another six (6) streets are scheduled for construction in the next fiscal year 2002-03. Due to the savings in the street projects costs, staff was able to accelerate and complete twenty (20) street projects that were scheduled beyond the first seven years of the program. In addition, other streets were accelerated within the first seven years of the program.

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

Reconfirming the Major Street Maintenance Program and expand the annual funding from \$300,000 to \$500,000 for the next five (5) years, will provide the short term funding needed for the maintenance of various streets that are either not scheduled for improvement or were not scheduled for several years. 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.

Recommendations

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.

Council Action

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

EXHIBIT "A"
Completed projects

1. Via Cascadita from Via Socorro to Camino Capistrano. The project also included storm drain improvements.
2. Avenida Presidio (Phase I) from the San Clemente High School boundary to Calle Miguel, including one block of Calle Miguel.
3. Avenida Presidio (Phase II) from Calle Miguel to Calle Esperanza. The City utilized rubberized asphalt for the first time when paving the street.
4. Calle Real from the City limits to Via Del Campo.
5. Calle Bienvenido from the City limits to Via Del Campo.
6. Avenida Cabrillo from El Camino Real to Calle Seville. The project also included water improvements.
7. Avenida Valencia (Phase I) from El Camino Real to Ola Vista. The project also included the rehabilitation of the landscaped median. Median improvements were funded from the Lighting and Landscape District capital budget.
8. Avenida Valencia (Phase II) from Ola Vista to Calle Toledo. The project also included the rehabilitation of the landscaped median.
9. Calle Toledo from Esplanade to Avenida Valencia. The project also included major storm drain improvements.
10. Avenida Santa Barbara from Calle Seville to Ola Vista. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
11. Avenida Buena Vista (Phase I) from the southern cul-de-sac to Avenida Pelayo. The project consisted of complete reconstruction of the pavement and the installation of a new water line and major storm drain improvements.
12. Avenida Buena Vista (Phase II) from Avenida Pelayo to the northern cul-de-sac. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
13. Avenida Del Poniente from Calle Oso to Avenida Buena Vista.
14. Dije Court from Avenida Buena Vista to cul-de-sac.
15. Calle Frontera from Avenida Pico to Avenida Vista Hermosa.
16. Via Alegre from Via Montego to cul-de-sac.
17. Via Montego from Via Cascadita to Vista Torito. The project also included sewer improvements.
18. Vista Torito from Avenida Vaquero to Via Montezuma. The project also included storm drain improvements.
19. Calle Del Commercio from El Camino Real to San Luis Rey. In addition to the complete reconstruction of the pavement, the project also included water and storm drain improvements.
20. West Avenida Canada from Del Poniente to Buena Vista. The project consisted of complete reconstruction of the pavement, and also included new sidewalks and water improvements.

21. Via Escalones from El Camino Real to West Canada. The project consisted of complete reconstruction of the pavement, and also included water improvements.
22. Avenida Palizada from El Camino Real to Seville.
23. Calle Seville from Avenida Palizada to Avenida Victoria.
24. Loma Lane from Avenida Palizada to Avenida Palizada. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
25. Avenida Salvador from Avenida Presidio to Malaguena.
26. Calle Miguel from Avenida Presidio to Avenida Presidio. The project also included the installation of a new water system pressure reducing station.
27. Calle Nina from Calle de Soto to cul-de-sac.
28. Via Socorro from Camino San Clemente to Via Ballena. The project also included the installation of new water services.
29. Via Ballena from Via Cascadita to Via Socorro. The project consisted of complete reconstruction of the pavement.
30. Via San Andreas from Via Cascadita to Via Ballena. The project consisted of complete reconstruction of the pavement.
31. East Avenida San Juan from El Camino Real to Avenida Salvador. In addition to the complete reconstruction of the pavement, the project also included lining of the existing sewer main line and storm drain improvements.
32. Avenida Monterey (Phase I) from Avenida Victoria to Avenida Madrid. The project consisted of complete reconstruction of the pavement and new sidewalks on one side of the street.
33. Avenida Monterey (Phase II) from Avenida Madrid to Algadon.
34. Avenida Monterey (Phase III) from Algadon to Avenida Rosa. The project consisted of complete reconstruction of the pavement and the installation of a major storm drain line.
35. Ave. Rosa (100 block) from Ola Vista to Victoria. The project also included the installation of a major storm drain line.
36. Ave. de la Estrella, (Phase I) from Calle de los Molinos to El Portal.
37. Ave. de la Estrella, (Phase II) from Ave. Palizada to El Portal.
38. Calle Redondel from Avenida de la Estrella to Avenida de la Estrella. This project consisted of complete reconstruction of the pavement.
39. East Ave. Magdalena from S. El Camino Real to Ave. Santa Margarita. The project consisted of complete reconstruction of the pavement.
40. Ave. Santa Margarita from Ave. San Luis Rey to E. Ave. Magdalena. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
41. Barcelona from Ola Vista to Esplanade.
42. Esplanade from S. El Camino Real to Trafalgar Lane. The project also included the rehabilitation of the landscaped median.
43. Calle Conchita from cul de sac to Esplanade.
44. North La Esperanza from La Paz to Ave. Presidio.
45. De La Paz from La Esperanza to Ave. Palizada.
46. Ave. Caballeros from E. El Oriente to W. Ave. Palizada.

47. El Levante. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
48. Terra Vista Bahia from El Levante to cul-de sac.
49. Pizarro from N. La Esperanza to El Levante.
50. West Ave. Cornelio from S. Ola Vista to Ave. Del Presidente.
51. W. Ave. Alessandro from W. Ave. San Antonio to Ave. Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm drain improvements and the lining of the existing sewer line.
52. W. Ave. San Antonio from W. Ave. Alessandro to Ave. Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm improvements and the lining of the existing sewer line.
53. Calle Juarez from Calle Frontera to Guadalajara.
54. Calle Empalme from Ave. La Cuesta to Calle Familia.
55. Ave Granada, Phase I from Ola Vista to Ave. Del Mar.
56. Ave Granada, Phase II from Ola Vista to El Camino Real.
57. Ave de la Grulla from Florencia to El Camino Real.
58. Sierra from Ave. De La Estrella to Ave. Las Flores.
59. Calle Campo from Ave. Sierra to end of pavement.
60. El Oriente from Ave. De la Estrella to Ave. Las Flores.
61. La Placentia from Ave. Sierra to end of pavement
62. Revuelta Court from La Placentia to end of pavement.
63. Ola Vista from Rosa to Santa Barbara.
64. Avenida Rosa from Ola Vista to Victoria.
65. Alcazar from end of pavement to E. San Juan.
66. East Cordoba, Phase I from Calle Alcazar to Ladera Lane.
67. East Cordoba, Phase III from Ladera Lane to Via Avila.
68. E. Ave. Junipero, Phase I from Ave. Trieste to Entrada Paraiso.
69. E. Ave. Junipero, Phase II from El Camino Real to Ave. Trieste.
70. Entrada Paraiso from Ave. San Juan to end of pavement.
71. Calle Abril from Calle Bienvenido to Calle Real.
72. Calle Mayo from Calle Bienvenido to Calle Real.
73. Calle Monterey from City limit to Calle Juno.
74. Via Sacramento from City limit to Calle Juno.
75. Calle Andalucia from Calle Bienvenido to City limit.
76. Via Manzana from City limit to Calle Real.
77. Calle Juno from Calle Bienvenido to Calle Mayo.
78. Buena Suerte from E. Cordoba to Avenida San Juan.
79. So. La Esperanza from Calle Patricia to East Ave. Cordoba
80. Calle Puente (Phase I) from Ave Palizada to Ave. Del Poniente
81. Calle Puente (Phase II) from Lave. Del Poniente to Ave. Aragon
82. El Portal from del Prado to El Camino Real and Del Prado from Ave. Del Poniente to Aragon
83. Ave. Del Poniente from Calle Puente to El Camino Real
84. Ave. Aragon from Calle Puente to El Camino Real

85. Ave. Cadiz from Ola Vista to El Camino Real
86. W. Ave Cordoba from El Camino Real to Calle Toledo
87. Ave. Gaviota from El Camino Real to Valencia
88. Avenida Trieste from Ave. Junipero to cul de sac.
89. Via. San Gorgonio from Ave. Vaquero to Vista Torito
90. Via San Jacinto from Via San Gorgonio to Calle Vista Torito
91. Via Corbina from Calle Vista Torito to Cul De Sac
92. Via Montecito from Avenida Vaquero to Vista Montego
93. Ave. Princesa from Ave. Presidente to Toledo.
94. Calle Del Pacifico from cul de sac to S. Ola Vista.
95. Calle Marina from Calle De Los Alamos to W. Los Lobos Marinos.
96. Calle Primavera from Calle De Los Alamos to Calle Roca Vista.
97. Calle Roca Vista from Calle De Los Alamos to W. Los Lobos Marinos.
98. W. Junipero from Ola Vista to Ave. Del Presidente
99. Ave. de Los Lobos Marinos from Calle de Los Alamos to Del Presidente
100. Calle Serena from Los Alamos to Los Lobos Marinos
101. Ave. Gaviota from Valencia to Calle Toledo
102. Calle de Los Alamos from Gaviota to Ave. de Los Lobos Marinos
103. Calle Lasuen from Calle De Los Alamos to W. Los Lobos Marinos.
104. East Cordoba, Phase II from Via Avila to Via La Jolla.
105. West Avenida Santiago (from south Ola Vista to El Camino Real)
106. East Avenida Ramona Phase I (from El Camino Real to Entrada Paraiso)
107. East Avenida Ramona Phase II (from Entrada Paraiso to Cul De Sac)
108. Avenida Serra (from Avenida Palizada to El Camino Real)
109. W. Paseo De Cristobal (from El Camino Real to cul de sac)
110. Poco Paseo (from Calle Toledo to La Rambla)
111. La Rambla (from Calle Toledo to cul de sac)
112. Vista Marina (from Trafalgar Lane to W. Paseo De Cristobal)
113. Avenida Madrid (from Avenida Victoria to Avenida Monterey)

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

Summary
The 1996-97 Economic Development Plan called for the City to focus its program efforts on three specific areas which were 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization.

In conjunction with the continuation of these three program initiatives, the City Council directed staff to undertake the following activities for Fiscal Year 2001-02: 1.) based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement needed public improvement projects and related programs for the Downtown area; 2.) continue to aggressively market and promote the recruitment and attraction of new business firms to the Rancho San Clemente Business Park and the Talega Business Park; 3.) with respect to older commercial shopping centers, provide appropriate assistance and support for the revitalization of the these centers with specific emphasis on Pico Plaza Shopping Center and the K-Mart Shopping Center; 4.) continue to provide staff support for the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program and 5.) continue to diligently provide business ombudsman and developer advocacy services to the business community and continue to coordinate resolution and response to complaints and requests for business related support services.

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

- **Business Retention**

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

- **Business Marketing and Promotion**

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

- **Reinvestment and Revitalization**

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

With these three program elements in place, let's proceed with a review of the progress that has been made with respect to certain economic development issues that were identified in the previous 2001 Long Term Financial Report.

Background

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

In its 1998 retail sales tax analysis report (Orange County cities), Ultra Research Inc. (URI) indicated that the City's taxable retail sales leakage was 53%. This leakage factor translated to a loss of $350.4 million in all taxable sales and a reciprocal loss of sales tax revenue to the City of $3.5 million. URI's most recent sales tax analysis report for the year ended 2000 reflects a taxable retail sales leakage factor of 49%, which translates to a loss of $388.6 million in all taxable sales and a loss of sales tax revenues to the City of $3.88 million. In order to keep these numbers in perspective, it is important to understand that the estimated loss of sales tax is inferentially calculated on the basis of all cities and unincorporated areas in Orange County. In some cases the loss of sales tax dollars (leakage) for the City is based upon retail sales generators that the City does not currently have in the community and more than likely never will. Examples of this type of sales tax generator would be new car dealerships and shopping malls. According to data provided by URI, in 1998 and 1999 the City was ranked 24th in total taxable sales and once again is ranked 24th in total taxable sales in 2000 (see Table 2). With respect to per capita taxable sales, the City ranked 29th in 1998, a very modest improvement was noted in 1999 with a ranking of 28th, which remains unchanged in 2000 (See Table 3). It should be kept in mind that with the steady increase of new families coming to the City vis a vis Talega and Laing Forster Ranch, it will be very difficult to significantly increase per capita sales tax generation even in the face of increasing overall sales tax generation.

Major taxable retail sales leakage sources cited by category in the URI report are compared in Table I below.

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

Table I

It is interesting to note that the City's comparative performance (relative to all cities in Orange County) appears to have improved in 2000 in three categories while showing minor deterioration in three other categories. What accounts for these differences is not clear; however, it should also be noted that the City has experienced significant retail development during the past two years and a decided improvement in General Merchandise sales tax generation performance has been experienced due to WalMart's operations. Similarly, Lowe's Home Improvement Center should result in a dramatic change in sales tax generation for Building Materials in the current and upcoming fiscal year. These retail developments along with future planned development will be discussed later in this report.

2000 Taxable Sales in Orange County Cities

City	Taxable Sales (1)	Ranking (2)
Anaheim	$4,263	1
Irvine	3,982	2
Santa Ana	3,704	3
Costa Mesa	3,108	4
Orange	2,337	5
Huntington Beach	2,335	6
Newport Beach	1,763	7
Tustin	1,568	8
Garden Grove	1,483	9
Fullerton	1,480	10
Brea	1,299	11
Westminster	1,260	12
Buena Park	1,192	13
Mission Viejo	1,184	14
Fountain Valley	870	15
Lake Forest	860	16
Cypress	827	17
Laguna Niguel	673	18
Laguna Hills	617	19
La Habra	553	20
San Juan Capistrano	548	21
Yorba Linda	475	22
Placentia	436	23
San Clemente	399	24
Dana Point	310	25
Laguna Beach	300	26
Stanton	293	27
La Palma	244	28
Los Alamitos	241	29
Rancho S. Margarita	236	30
Seal Beach	171	31
Laguna Woods	77	32
Villa Park	17	33

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

Table II

2000 Taxable Sales Per Capita In Orange County Cities

City	Per Capita (1)	Ranking (2)
Brea	$36,249	1
Costa Mesa	28,168	2
Irvine	27,221	3
Newport Beach	24,996	4
Tustin	22,859	5
Los Alamitos	20,666	6
Laguna Hills	18,925	7
Orange	17,785	8
Cypress	17,670	9
San Juan Capistrano	15,954	10
La Palma	15,654	11
Fountain Valley	15,647	12
Buena Park	14,987	13
Westminster	14,096	14
Anaheim	12,756	15
Lake Forest	12,666	16
Laguna Beach	12,495	17
Mission Viejo	12,480	18
Huntington Beach	12,163	19
Fullerton	11,543	20
Laguna Niguel	10,752	21
Santa Ana	10,692	22
Placentia	9,227	23
La Habra	9,194	24
Garden Grove	8,824	25
Dana Point	8,735	26
Yorba Linda	7,965	27
San Clemente	7,774	28
Stanton	7,695	29
Seal Beach	6,996	30
Rancho S. Margarita	4,993	31
Laguna Woods	4,621	32
Villa Park	2,800	33

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

Table III

Municipal Resources Consultants, now known as MBIA Muni Services, has provided per capita sales tax data by retail sales categories which can be used to compare the City's performance with the County of Orange as a whole. Chart I below shows how the City's sales tax generation compares to the Orange County average for the four quarters, ending the fourth quarter 2000.

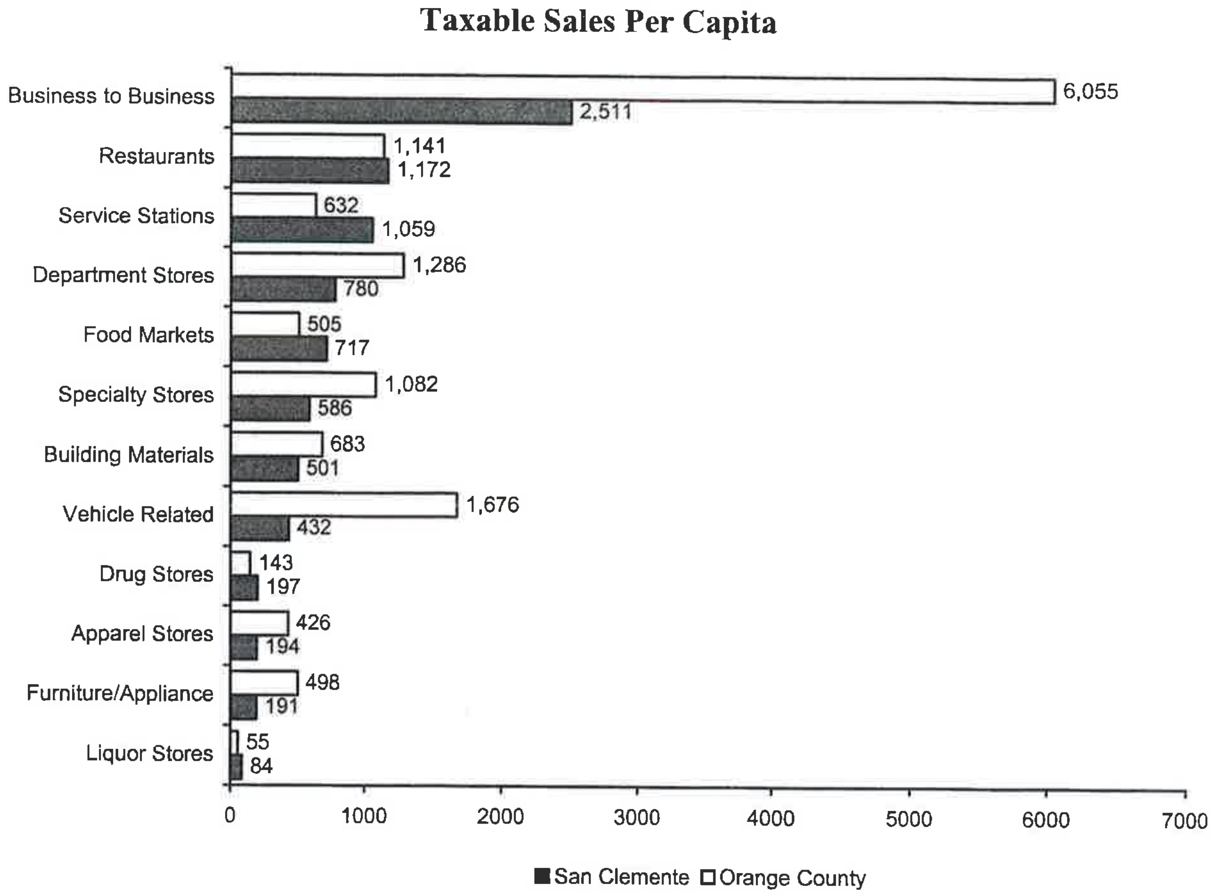


Chart I

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

- **Business to Business** – The City was 36% of the County average in 1999 and is 41.5% in 2000, a modest improvement.
- **Restaurants** – City was 88% of the County average in 1999 and is 103% in 2000. Since 2000 there have been several new restaurants and fast food establishments added, and the City's strategic location and easy access to and from the I-5 Freeway continue to provide strong support for the City's performance in this category.

- **Service Stations** – City was 120% of the County average in 1999 and is 168% in 2000. Sales performance in this category is obviously reflective of the City's location on the I-5 Freeway and, of course, the seemingly high price of gasoline relative to other communities.
- **Food Markets** – City was 134% of the County average in 1999 and is 142% in 2000. It is not clear why the City's performance in this category is so high relative to the County average. It may well have to do with the City's location to the I-5 Freeway and the fact that there are two State parks in or near the community.
- **Vehicle Related** – City was 21% of the County average in 1999 and is 26% in 2000. Not surprisingly, the City's performance in this area reflects the fact that there are no new car dealerships in the community and, excepting a few used car operations, residents are forced to buy or lease their automobiles in other communities such as San Juan Capistrano, Irvine or in the Oceanside-Carlsbad area.
- **Building Materials** – City was 49% of the County average in 1999 and is 73% in 2000. There has been a significant increase in performance between the two reporting periods and one possible reason may be attributable to the new housing development in Laing Forster Ranch and Talega. For the past few years City residents have had to rely upon DeNault's Hardware for their building material needs. In many cases, residents have had no other choice but to patronize Ganahl's in Capistrano Beach and the Home Depot in Mission Viejo. The good news is Lowe's Home Improvement Store opened in February of 2001 and the new DeNault's Hardware store will be completed in the first quarter of 2002. The City will see significant retail sales capture and an overall increase in sales performance during the current fiscal year and future years ahead.
- **Specialty Stores** – City was 44% of the County average in 1999 and is 54% in 2000. This represents a rather sizable increase over the prior year and the reasons underlying this increase in sales tax performance are unknown.
- **Department Stores** – City was 35% of the County average in 1999 and is 61% in 2000. Historically, K-Mart had been the perennial highest sales tax producer in the City; however with the opening of Wal-Mart in September 1999, Wal-Mart has now become the highest sales tax producer in the community. Wal-Mart's overall sales performance clearly underscores the significant increase in this category and, depending on how the State Board of Equalization reports its sales (categorically), the entrance of Lowe's to San Clemente will result in continued improvement in sales tax generation.
- **Drug Stores** – City was 125% of the County average in 1999 and is 138% in 2000. The factors influencing the 13% increase in year to year drug store sales in the community and the City's overall 38% performance in excess of the County average are unknown.
- **Furniture/Appliance** – City was 27% of the County average in 1999 and is 38% in 2000. Dewey's has historically contributed heavy sales in this category.
- **Apparel Stores** – City was 39% of the County average in 1999 and remains at 39% in 2000. Although there was a 15% increase in apparel sales between 1996 and 1999, historically, the community's resident consumers have had no choice but to go to other communities for their clothing purchases and, with the opening of the Shops at Mission Viejo, this trend in the near term is not likely to change. There is, however, reason for optimism regarding the Marblehead Coastal project. A large percentage of the "Company" stores proposed for this development will be apparel stores. The regional

draw of this project and local resident demand for quality clothing/apparel stores should produce a very positive sales performance increase starting hopefully in 2004.

As was the case in the 2001 report and this year's LTFP report, the data in Chart 1 continues to demonstrate that a large percentage of our residents have had no alternative but to go to other communities to meet their most basic consumer needs. During the past four years the City has made every effort to attract additional "much needed" retailing resources to the community and, as a result, approximately 430,000 square feet of new retail space is being completed at the Plaza Pacifica Shopping Center. In addition to this retailing space, the Marblehead Coastal project will add another 700,140 square feet of retailing, restaurant and theater uses which will meet not only local consumer needs but also serve as a major regional retailing draw for South Orange County and for hundreds of thousands of visitors and travelers annually passing through our community on the I-5 Freeway.

MBIA Muni Services has provided sales tax data by selected categories extending over a period of three years starting with the second quarter, 1998 to the second quarter, 2001. The sales tax trends developed from this information are reflected in Chart 2.

Sales Tax by Category

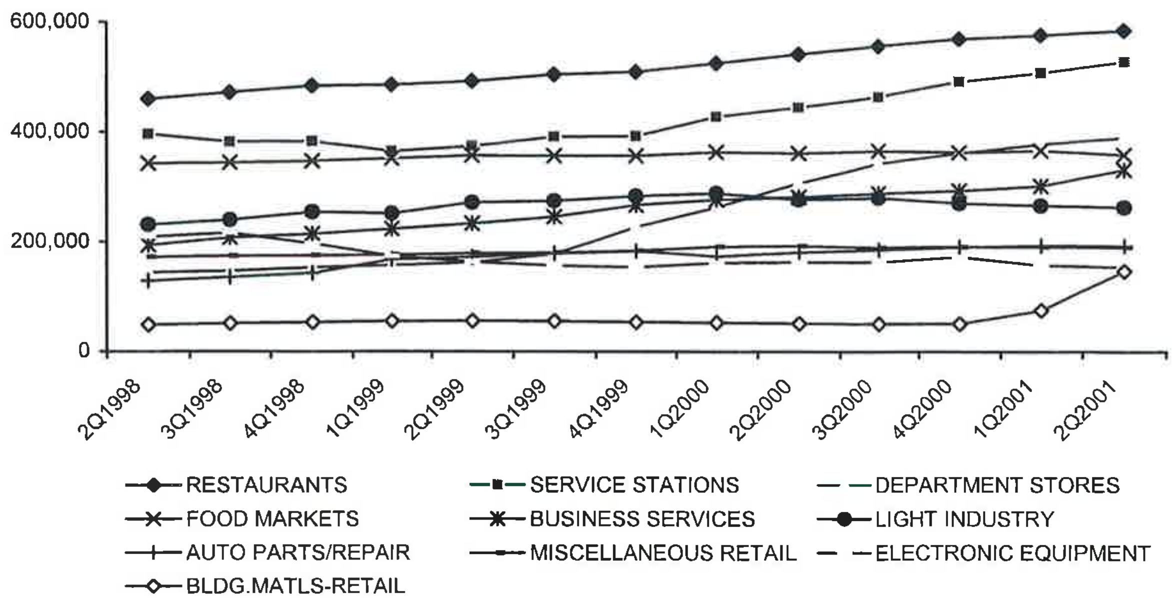


Chart II

- **Restaurants** – Showing slow but sustained growth to the fourth quarter, 1998, a slight decline to the first quarter, 1999 and slight increases to the second quarter 2001.
- **Service Stations** – Sustained decreases to the first quarter, 1999, static for the next three quarters with an upward trend for the next six quarters. The downward pattern reflects the closure of several service stations during the reporting period. Typically, the removal and replacement of underground gasoline tanks (including soils remediation) and the provision of new hardscape improvements can take anywhere from 3 to 6 months.

Conversely, the upward trend reflects stations being brought back into service and significant increases in gasoline prices.

- **Food Markets** – Fairly static throughout the reporting period with a slight decline in the last two quarters.
- **Light Industry** – Modest, but sustained growth through the first quarter, 2000 and then slight downward movements through the remaining second quarter, 2001.
- **Business to Business Services** – Gradual and sustained growth throughout the reporting period. This increase may be in part attributable to the growth of existing and development of new businesses in the Rancho San Clemente Business Park.
- **Miscellaneous Retail** – Very minor decreases and increases with an overall performance indicator of stable and static.
- **Department Stores** – Historically, as K-Mart has gone, so has the department store category for the City. However, there is significant upward trending from the fourth quarter of 1999 to the second quarter, 2001. The operation of Wal-Mart and Lowe's is having a most beneficial effect on overall retail sales performance in this category.
- **Auto Parts/Repairs** – Minor variations in quarterly performance but static for the most part for the entire reporting period.

The City Council has on previous occasions seen versions of Chart III below. This particular pie chart reflects how the various retail sales categories contributed by percentage to the total sales tax generated in the four quarters ending December 2000.

City of San Clemente
Total City of $4,206,106

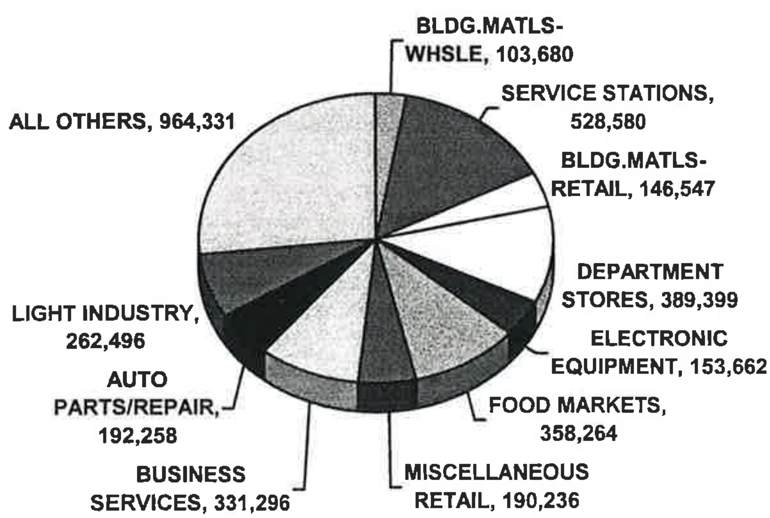


Chart III

Chart IV below provides certain trending information which compares actual quarterly sales tax production from the second quarter, 1996, to the second quarter, 2001 on a four-quarter rolling average. It is particularly interesting to note that the down cycles reflected in the quarterly reporting periods correlate to the winter season wet months of the year. What this chart is telling us is that the months of January, February and March are slow months for our retailers, which also reinforces the notion that San Clemente is unquestionably a "seasonally sensitive" retailing community. It is also interesting to note that the first quarter dips in 2000 and 2001 are in range with the other first quarter reporting periods but overall sales tax production is markedly improved in both first quarter periods.

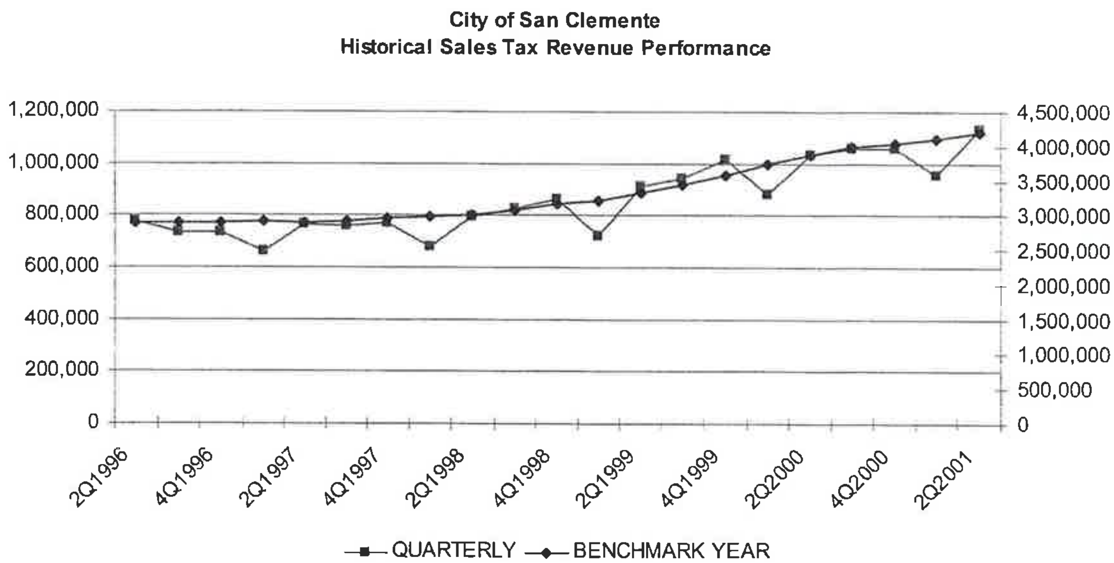


Chart IV

According to the City's annual financial forecast, sales tax revenues are projected to increase by an average of 4.2 percent per annum. Chart V shows this projection of sales tax revenues extending out to Fiscal Year 2007-08

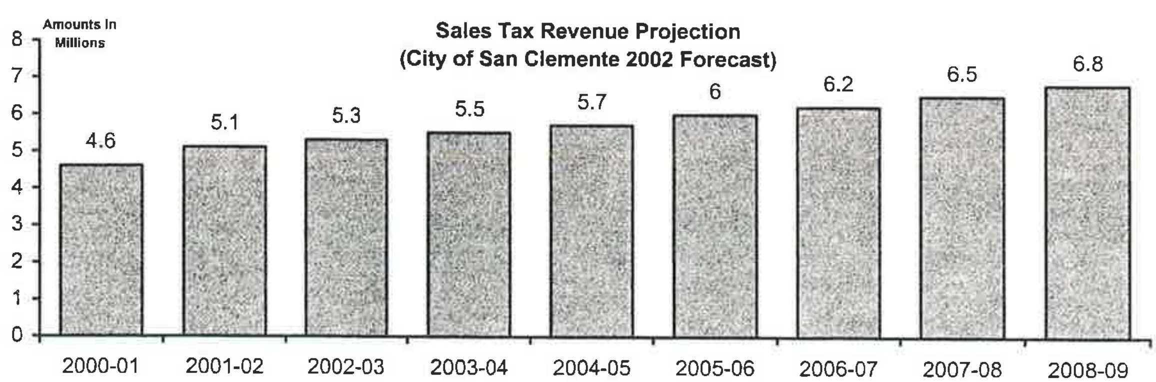


Chart V

The revenue projection in Chart V does take into account the new retail development that has been recently completed or will soon start construction in the Plaza Pacifica Shopping Center project (430,000 square feet). The positive revenue production impacts associated with this project will yield an estimated $280,000 during the Fiscal Year 2001-02 and another $325,000 (Lowe's Home Improvement Center and Michael's Art Store) for Fiscal Year 2002-03. The balance of the Plaza Pacifica project (not including recently completed fast food pads) will likely be completed with the new Albertson's Grocery Store and other ancillary retail development (total of 140,00 square feet) by the second quarter of the calendar year 2002.

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

Phase I - 250,000 sq. ft. of Specialty Retail (Craig Realty) completed by 3/1/2004
Stabilized FY 2004-05 sales tax projection is $937,000 ($375/sq. ft.)
150,000 sq. ft. of Entertainment and General Retail (SDC) by 3/1/2004
Stabilized FY 2004-05 sales tax projection is $450,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2004-05 = $1,387,000 (Phase I)

Phase II - 100,000 sq. ft. of Specialty Retail (Craig Realty) completed by 3/1/2006
Stabilized FY 2006-07 sales tax projection is $400,000 ($400/sq. ft.)
56,280 sq. ft. of General Retail and Restaurants (SDC) by 3/1/2006
Stabilized FY 2006-07 sales tax projection is $169,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2006-07 = $569,000 (Phase II)

Phase III - 93,860 sq. ft. of Specialty Retail (Craig Realty) completed by 3/1/2008
Stabilized FY 2008-09 sales tax projection is $375,000 ($400/sq. ft.)
50,000 sq. ft. of General Retail and Restaurants (SDC) by 3/1/2008
Stabilized FY 2008-09 sales tax projection is $175,000 ($350/sq. ft.)
Total estimated (additional) sales tax for FY 2008-2009 = $550,000 (Phase III)

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

Utilizing the sales projections for the Plaza Pacifica Shopping Center and the phasing estimates for the Marblehead Coastal Promenade project, Chart VI provides an adjusted projection of sales tax revenues extending out to FY 2009-10.

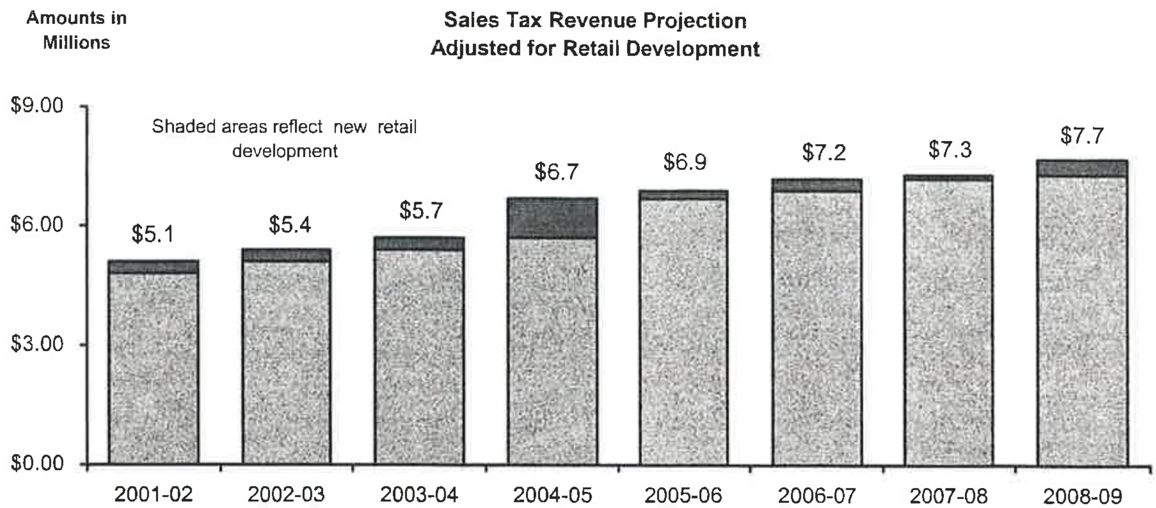


Chart VI

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

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

- **Downtown Revitalization – Central Business District Transition Program**
  At the direction of the City Council, staff has worked closely with the leaders of the Downtown Business Association (DBA) to implement a revitalization program for the Downtown area known as the T-zone. The boundaries of the project are El Camino Real, from Palizada to Presidio, and Avenida Del Mar, from El Camino Real to Calle Seville including Avenida Granada and Avenida Cabrillo.

  During the past five years the City has assisted in the design and construction of new monument entrance signs, the fabrication of special brackets and installation of decorative hanging flower baskets, the design and installation of special uplighting systems in the tree wells on Avenida Del Mar, the installation of information kiosks for placement of promotional brochures, the design and installation of decorative vertical banners on El Camino Real, the installation of City entrance signs at Avenida Palizada and Avenida Presidio, and the placement of new decorative trash receptacles throughout the Downtown area. New decorative benches have also been placed in the bulbout areas on Avenida Del Mar. In conjunction with the physical improvements that have been made, the City has, over the past three years, assisted the DBA in the funding and promotion of its shuttle transportation program for the summer Beach Train program and also assisted in the funding of special marketing brochures. The City's investment in both hard and soft dollar costs for the CBD Transition program over the past six years is estimated at $250,000.

Because the Downtown is considered to be one of the most important historical and commercial assets for the community, the City Council appointed business and community representatives to serve on a special task force called the San Clemente Revitalization 2000 Committee. The Committee engaged in a thoughtful and thorough assessment of the types of program and project improvements that could be implemented with private developer impact funds to further strengthen and enhance the economic viability and aesthetic appeal of the Downtown area. The Committee made its recommendations to the City Council and as a result of the Committee's efforts and the City Council's policy direction to staff, several millions of dollars of public improvements will be made in the Downtown area over the next 5-10 years. The design of the first phase of these improvements will be completed by the end of the calendar year 2001; however, the construction phase will not be commenced until sufficient funds (developer fees) are on hand. At this juncture, it does not look like the Downtown Improvement Project will commence construction until the first quarter of calendar year 2003.

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

The Chart below provides a 5-year recap of the total amount of sales tax revenue that has been generated by the T-Zone area.

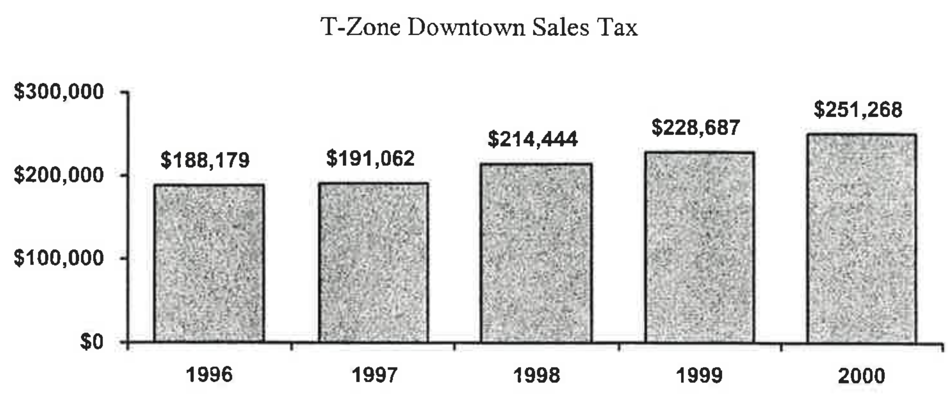


Chart VII

- **Main Street Program**
  Another program initiative approved by the City Council during the current fiscal year is the evaluation and possible implementation of a "Main Street Program" for the Downtown area. In response to the City Council's support of the program, in 2001 the DBA Board of Directors formed a " Main Street Organizing Committee" for the express purpose of preparing a draft Main Street Certification Application. The Organizing Committee has conducted 15 meetings since that time and the Draft Certification Application received preliminary consideration by the DBA Board of Directors in December 2001. It is the DBA's intention to make revisions and refine the Application for subsequent transmittal to the California Main Street Division of the State Trade and Commerce Agency. As result of anticipated budgetary cuts for the State, the Division responsible for processing applications has indicated that in all likelihood applications will not be accepted until sometime in late 2003.

Proposed Main Street District Sales Tax

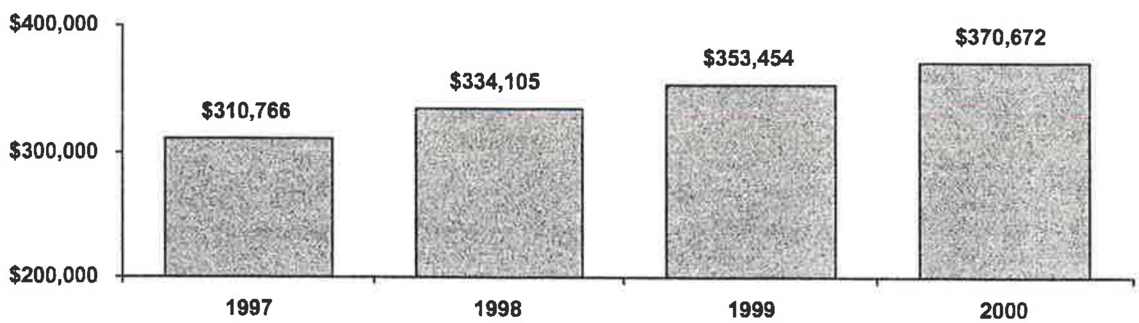
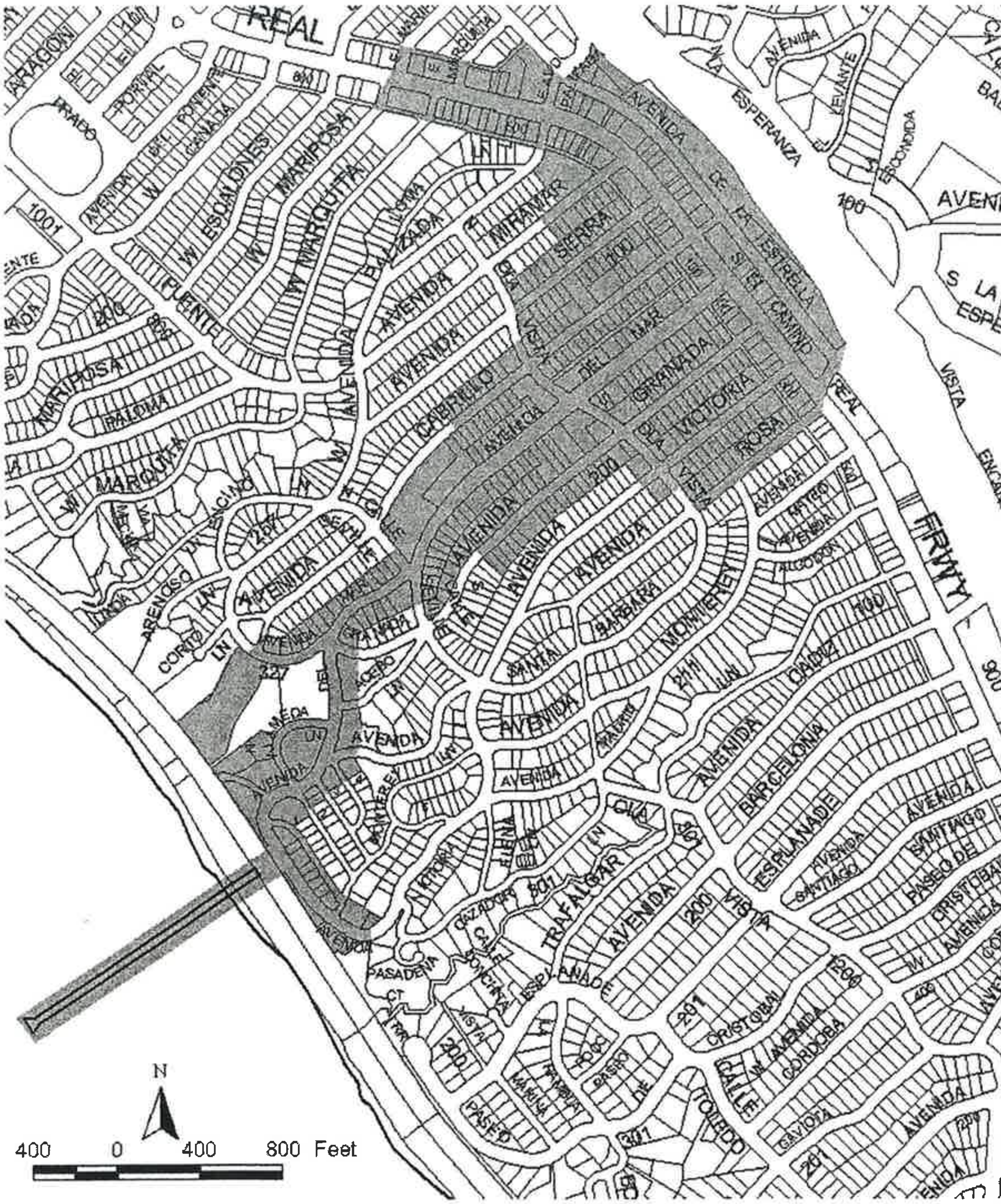


Chart VIII

The actual boundaries of the proposed Main Street District conform to the City's designated MU3 overlay zone and is much larger than the traditional Downtown T-Zone (see below).

Proposed Main Street District Boundaries



The table below reveals interesting information about the business characteristics of the proposed Main Street District and its sales tax performance from calendar year 1997 through 2000.

2001 Inventory of Businesses
Summary

Main Street District Area

No. of Businesses	Percentage of Business	Classification	Square Footage	Percentage of S.F.
22	6.70	Retail (Clothing)	25,400	4.60
80	24.39	Retail (Other)	146,350	26.50
45	13.71	Food Service	69,100	12.51
9	2.74	Medical Service	12,380	2.24
119	36.28	Service (Other)	220,860	39.99
53	16.15	Office	77,880	14.10
328	100.00		552,170	100.00

Sales Tax Generation

Year	Sales Tax	Square Footage	Gross Sales/S.F.
1997	$310,766	265,000	$117.27
1998	$334,105	265,000	$126.07
1999	$353,454	265,000	$133.37
2000	$370,672	265,000	$139.87

Project Area Sales Tax as % of Total Sales Tax

Year	Area Sales Tax	% of Change	Total Sales Tax	% of Change	% of Total Sales Tax	% of Change
1997	$310,776		3,565,000		8.72	
1998	$334,105	7.51	3,710,000	5.78	9.01	3.33
1999	$353,454	5.79	4,140,000	11.59	8.54	(5.22)
2000	$370,672	4.87	4,545,000	9.78	8.16	(4.45)

Based upon this inventory, it is apparent that active retail uses constitute approximately 31.09% of all the businesses in the Main Street District while service uses (54.74%) represent the majority of land uses in the proposed project area. It is interesting to note that the average gross sales per square foot of District retail space ranges from $117.17 in 1997 to $139.87 in 2000. This compares to the projected gross sales of $200 to 250 per square foot for such stores as Lowe's and Wal-Mart. The total amount of sales tax generated by the District area compared to the City's total sales tax revenues for the past four years reveals that District sales tax revenues represent an average of 8.6% of total sales tax revenues collected City-wide. Interesting too is the apparent short term trend of District sales tax revenues actually decreasing as a percent of total City sales tax revenues.

The implementation of a Main Street program for the revised Downtown area will address the need for professional management of the DBA's activities, the enhancement of architectural treatments and general reinvestment in the Downtown's buildings and properties. It will also focus on improved marketing and promotion for Downtown businesses, activities and special events and also provide information and direction concerning economic restructuring activities that will strengthen the overall business climate and performance of the Downtown area.

- **Los Molinos Public/Private Partnership Program**
  Several years ago, the City Council selected property owners and business operators in the Los Molinos business/industrial area to serve as a special Business Advisory Committee. The purpose of the Committee is to assist in guiding the City's efforts in stimulating interest and participation in the revitalization of this important commercial area. Primary emphasis has been placed upon the development of a partnership that encourages private investment in cleaning up and making more attractive the various properties in the Los Molinos area. In concert with these private investment efforts, the City has responded with the development of the West Pico Corridor Specific Plan which provides assurances with respect to current business uses and incentives concerning future land use and City funded infrastructure improvement programs.

  In an effort to encourage future private reinvestment, the City has embarked on a major public works improvement program which calls for the design and installation of new storm drain system through Bonita Canyon to the MO2 Channel, the undergrounding of various utilities and the rehabilitation of Calle de los Molinos and Calle Valle. The various elements of this improvement project were expected to be completed by the fall of 2000 at a total public cost of $2.5 million. However, there have been numerous delays with SDG&E's design and construction of undergrounding project and as result the utility conversion and rehabilitation of Calle de los Molinos will not be completed until the third quarter of 2002. In addition to these improvements, the City Council annually appropriates funds to assist the Committee in beautifying area rights-of-way, installing decorative directional signage, the funding for an annual spring clean-up program and other improvements that are needed and recommended by Committee members. As a result of the public investment that has or will be made, the appearance of the Los Molinos area has significantly improved and several property owners and business operators are making future plans to improve their properties.

- **Revitalization of Older Commercial Shopping Center Projects**
  During the past two years, several older shopping centers have undertaken significant improvements. Under new management (M&H Property Management Inc., from the San Diego area) implemented the demolition of a three-story section of the existing Ocean View Plaza shopping center located on Camino De Los Mares and replaced it with a single level 25,000 square foot building pad. As part of its overall development program, M&H relocated Savon Drug into the newly created single story space, maintained the important presence of the Automobile Club of Southern California by relocating its offices elsewhere in the center, and they secured other new retailing and restaurant tenants for the remaining new space. In addition to the physical improvements and new tenants that have been introduced, M&H also reconfigured portions of the parking and traffic circulation making it more convenient and easier to navigate through the parking areas of the center. Sales tax performance for the period 1996 through 2000 for Ocean View Plaza is reflected below in Chart IX

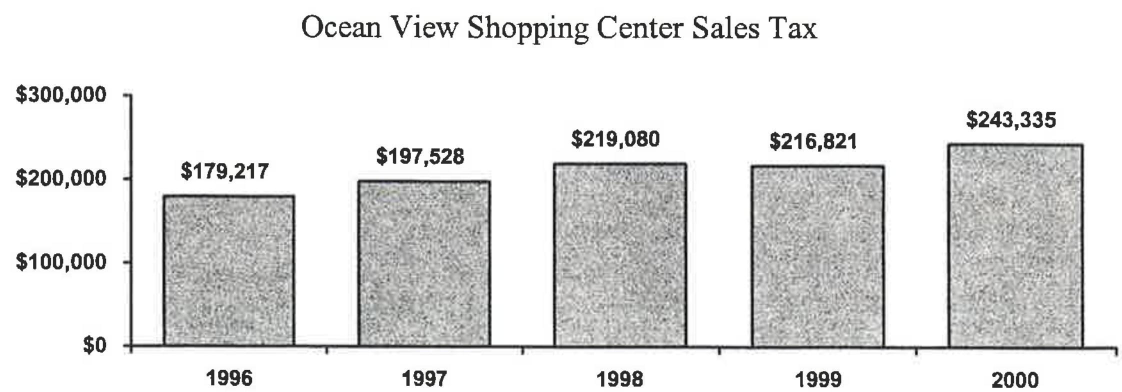


Chart IX

Companion to the reinvestment efforts at Ocean View Plaza, a local developer, Hunter Wilson, has developed the Los Mares Theater complex and shopping center located directly across the street. This project is comprised of a six-screen movie complex operated by Krikorian Theaters, a major bank and a variety of in-line restaurants and retail shops.

Krikorian Center Sales Tax

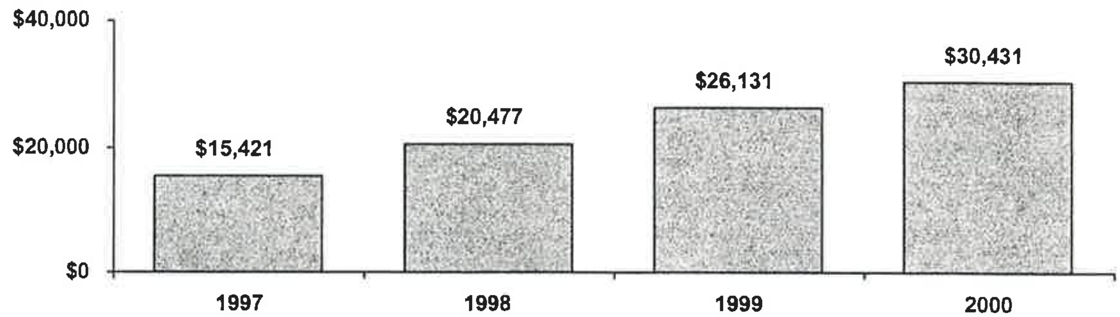


Chart X

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

Pico Plaza Shopping Center Sales Tax

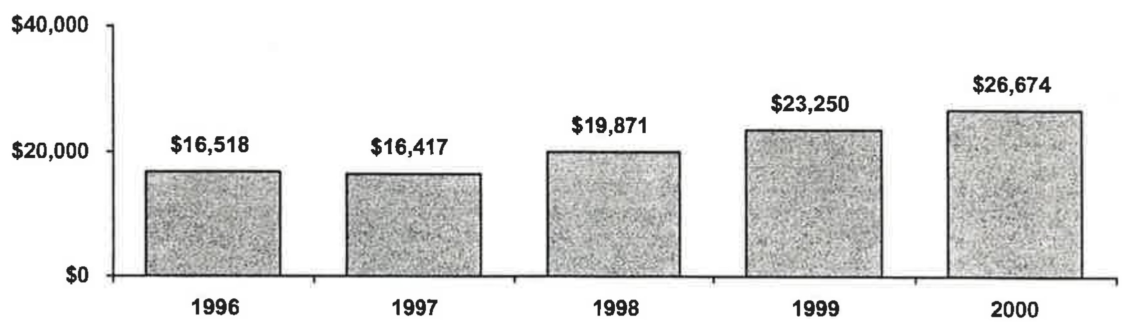


Chart XI

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

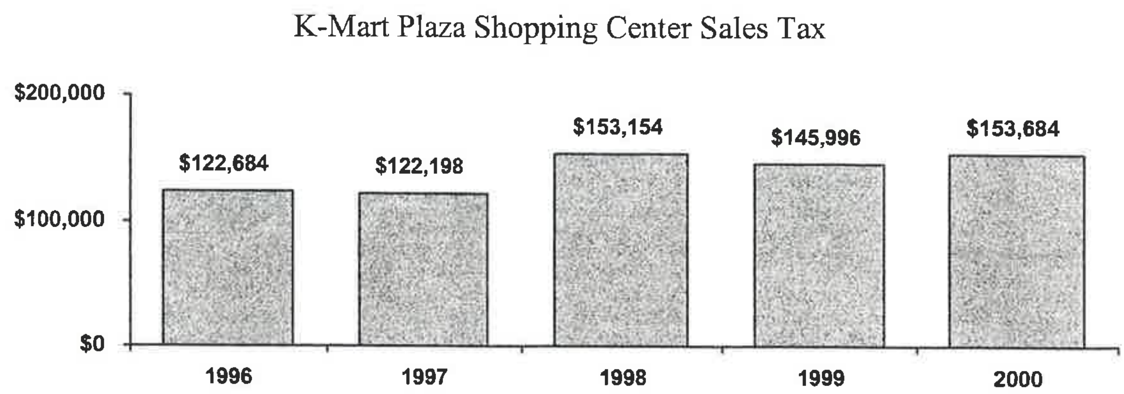


Chart XII

As previously referenced, the Plaza Pacifica Shopping Center, when completed, will be comprised of 430,000 square feet of retail and restaurant uses. Lowe's Home Improvement Center opened in February of 2001 and the amount of sales tax revenue generated is not available for this report. The sales tax revenue information below reflects the operation of five businesses during the 2000 reporting year.

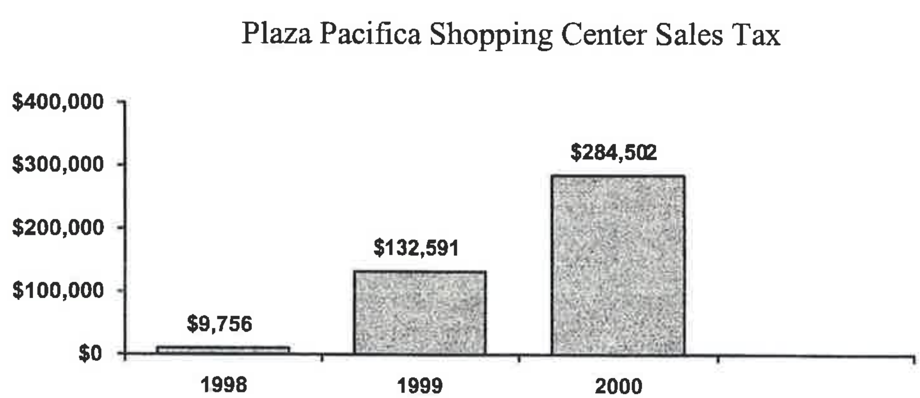


Chart XIII

The Gateway Village Plaza is a relatively new shopping center with its major anchor being Albertson's (formerly Lucky's). Unfortunately much of the center's space remains vacant and some of the existing tenants are not retail uses. The centers overall performance since its opening in 1994 has been reasonably stable due principally to the operations of the grocery store.

Gateway Village Plaza

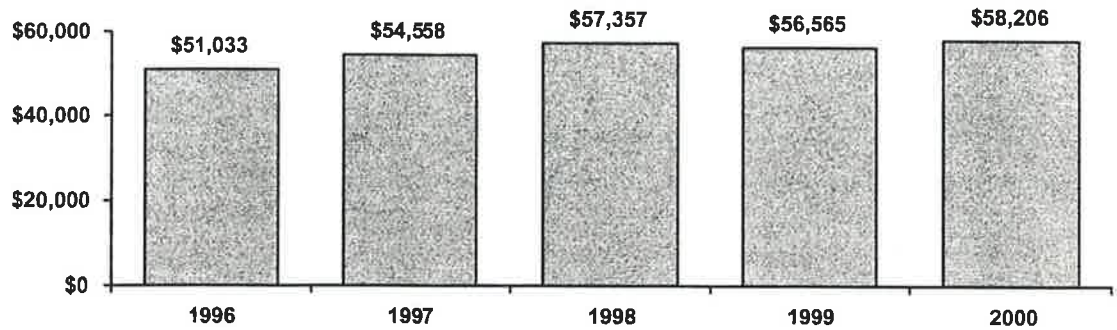


Chart XIV

The former Lucky's Center, located immediately north of Ocean View Plaza, has been a stable performer; however, for reasons that are not clear, the center's performance has show significant improvement starting in 1999. The actual increase in overall sales tax production from 1998 to 2000 is $28,653 or an increase of 58 percent.

Stater Bros. Center (Formerly Lucky's Center)

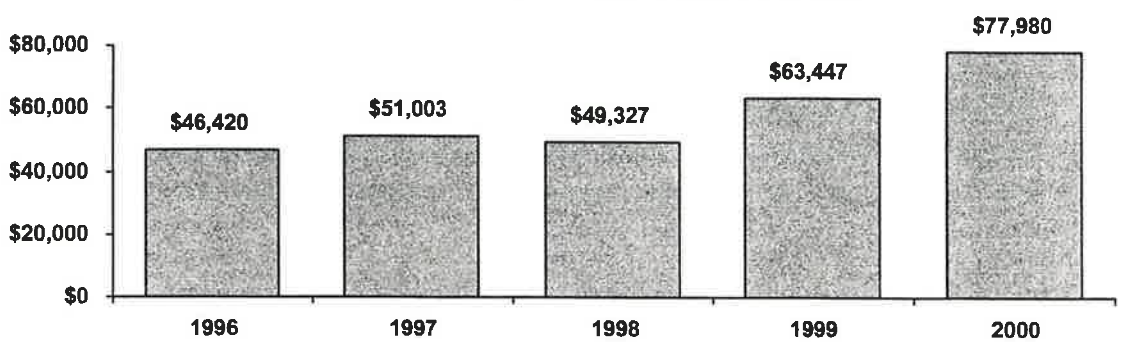


Chart XV

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

Over the past six years, the City has enjoyed considerable success in its efforts to attract new businesses to the community. The new retail/entertainment developments (Plaza Pacifica, Marblehead Coastal Promenade, Los Mares Theater Complex – total of 1,177,000 square feet) previously referenced in this report are excellent examples of what has been accomplished. Equally important has been the City's demonstrated ability to facilitate and secure new development in the Rancho San Clemente (RSC) and Talega Business Parks. In the last quarter of 1993 there was a total of 1,805,351 square feet of existing R&D, Multi-tenant, Office and Auto related uses in the RSC Business Park. Since 1997, a total of 32 additional buildings have been built which has resulted in the addition of 799,000 square feet (44% increase) to the RSC Business Park. At the time of this report there are 30 buildings (481,158 square feet) for the Talega Business Park under construction this year. These projects include the Burke Talega Corporate Center (15 buildings with 271,330 square feet), the San Clemente Technology Center (11 buildings with 62,974 square feet), Nichols Diagnostics (86,090 square feet) Talega Medical Center (25,800 square feet), McKenna Office Complex (24,964 square feet) and the KinderCare facility (10,000 square feet). This means that in a period of six years the City will have increased its overall business park development by 1,270,158 square feet, an increase of over 70%.

Although the RSC Business Park has enjoyed a relatively low vacancy rate (4.2% last year), there appear to be signs of softening in the San Clemente market in the last quarter of 2001. According to Lee & Associates, the vacancy factor for R&D/Industrial buildings is 5% or 80,109 square feet, for Multi-tenant space it is 8% or 49,794 square feet, for Office space it is 38% or 119,680 square feet, for Condominium space 0% and for Automotive buildings it is 17% or 4,325 square feet (refer to Chart XVI). The overall vacancy factor for the Park (all products) is estimated to be 9.6%; however, the recently completed Olsen office products (two 45,000 square foot office buildings) next to the Sunstone Hotels office building have not been on the market very long and the recent availability of these buildings is skewing overall market performance for the year. Deducting the 90,000 square feet of Olsen office space from the total Park space currently available results in an adjusted vacancy factor of 6.2% for 2001. Although the Chapman University Business Forecast and UCLA Business Forecast suggest that Southern California may not be as negatively impacted by the recession as other parts of the State or the country, it is clear that demand for lease space and new development in both RSC and Talega Business Parks is evidencing some weakness.

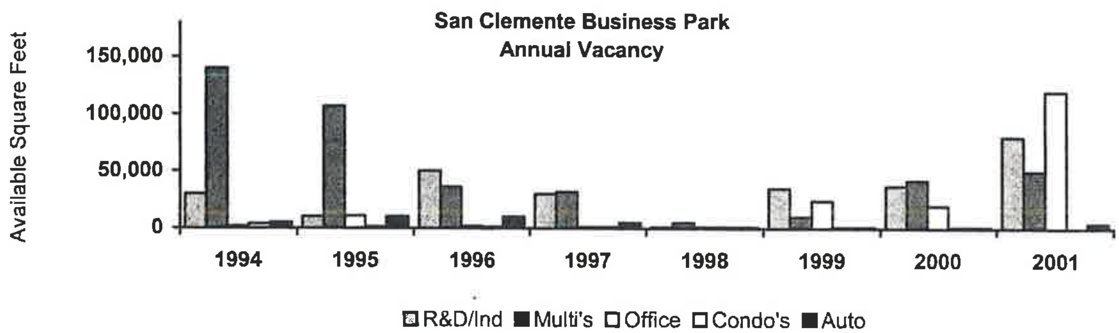


Chart XVI

Notwithstanding current market conditions, the RSC Business Park will more than likely reach buildout within the next two to three years. Therefore, it is important that additional business park uses be developed by Talega and, as part of its overall development plan, Talega has set aside approximately 60 net acres for the development of R&D, Multi-tenant, Warehouse and Office uses. Using a .35 floor area ratio, the Talega Business Park should produce an additional 900,000 square feet of development resulting in the potential creation of another 3,000 to 3,500 new jobs for the community. The previously referenced 481,158 square feet of new development under construction in Talega Business Park lends support to the fact that San Clemente remains a viable and strong contender in the regional market place.

Rob Johnston of Johnston Pacific has provided data concerning comparative data for South Orange County business park lease rate averages and for building sale pricing averages. Lease rates for Rancho San Clemente Business Park have increased from a low of $.55 per square foot in 1993 to a rate of $.85 per square foot in 2001, an overall increase of 54.5%. From a regional market perspective, the Business Park's rents are well below those of the Irvine Spectrum ($1.10/sf) and Aliso Viejo ($1.05/sf) and Santa Margarita ($.98/sf). This is understandable considering San Clemente's geographic location relative to the Orange County Airport and the other competitive business center locations. From sales price perspective, the Business Park has evidenced considerable strength showing a building sales price per square foot in 1993 of $56.00 and a 2001 sales price per square foot of $115, an increase of 105% (refer to Charts XVII and XVIII). With respect to employment statistics, it is estimated that over 6,500 employees currently work in the Business Park and at full build out that number will increase to 9,000.

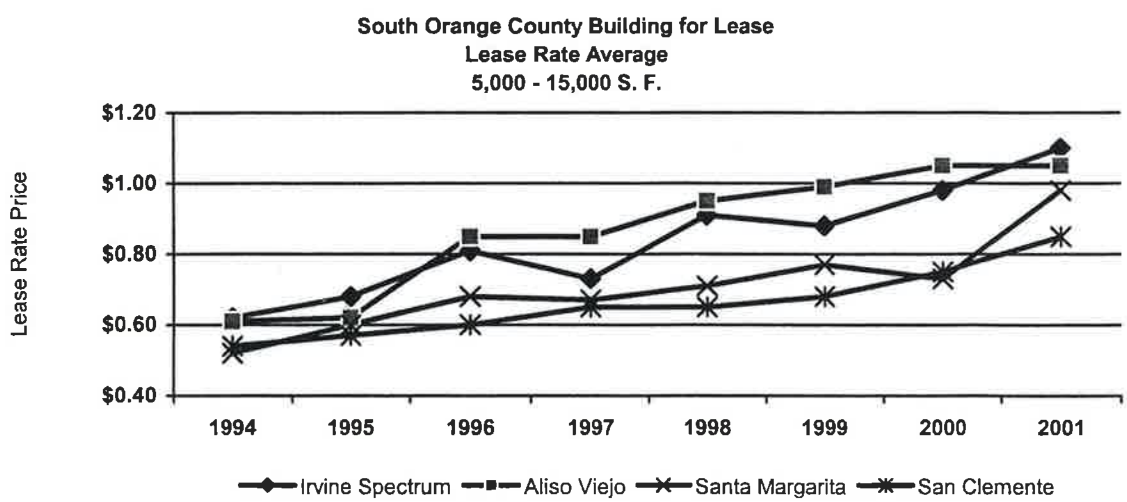


Chart XVII

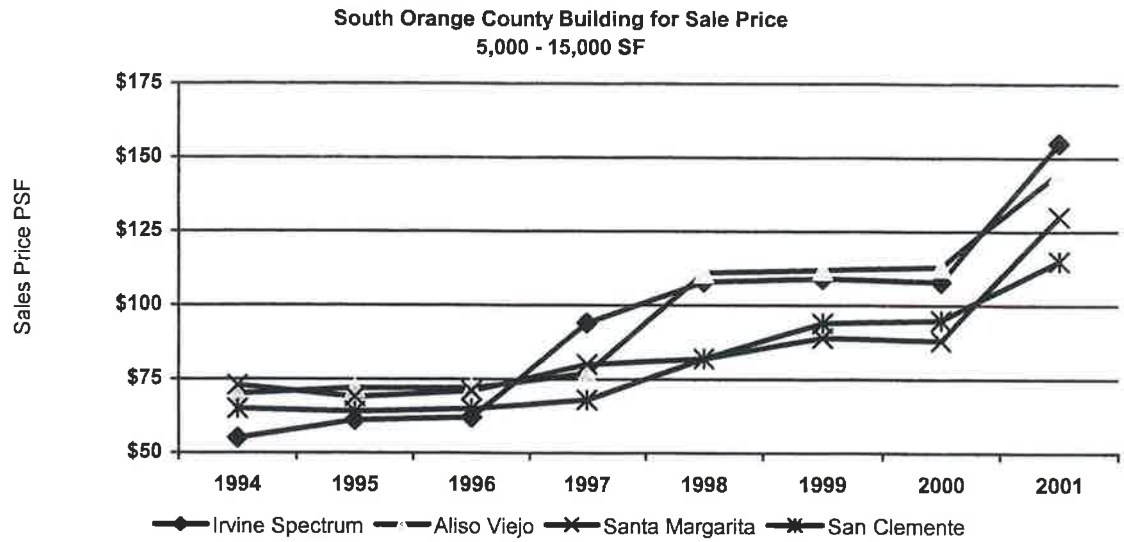


Chart XVIII

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

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

Recommendations

1. Based upon the recommendations submitted to the City Council by the San Clemente Revitalization 2000 Committee, direct staff to continue to work closely with the Downtown Business Association, Chamber of Commerce and other stakeholders to implement 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.
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.

Master Plan For City Facilities Update

Objective

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

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

Summary

The Master Plan for City Facilities (MPCF) was developed 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.

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.

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 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 operations 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.

In addition to the facilities that were studied in the MPCF, new priorities have emerged over the past two years that could significantly affect the City's ability to both construct and sustain projects in 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.

Background

Park Development Program and Capital Needs for Parks

The City has invested a substantial amount of effort into park development over the past decade. The park system has doubled in size since the late 1980's. Both community (serving large portions of the City) and neighborhood (serving local neighborhoods) parks have been built to serve active and passive recreational pursuits. In addition, many existing parks have received renovations and expansions to improve or add recreational amenities. This effort has been well received by the residents who use the parks on a regular basis.

As the City continues to grow, so have the expectations of its residents. Over the past few years, these expectations have revealed themselves in a couple of ways.

1. The quality of park amenities has increased. For instance, architectural treatments of park buildings have expanded dramatically as have other park amenities such as the quality and aesthetics of benches, picnic tables, lighting fixtures, landscape treatments, etc.
2. Federal requirements relating to park children's play areas have expanded in order to meet the American's with Disabilities Act that was enacted in the middle 1990's. This has resulted in substantial cost increases for existing and new children's play areas in all City parks.
3. Youth sports organizations throughout the City have experienced substantial growth in participation over the past decade. These organizations use City park sports fields for soccer, football, baseball and softball. In addition to their growth, they have expanded the length of their programs. In the past, baseball and softball was played in the spring while soccer and football were played in the fall. Today, these sports are now year round programs. Finally, new youth sports organizations have been created within the City and they are requesting use of sports fields.

The above emergent community expectations coupled with a growing economy and general increase in the cost of construction has created a shortfall within the park development budget. Currently it is projected that the City will experience a $7.5 million shortfall in the funds needed to construct the parks included in the MPCF. While construction costs are escalating (in some cases estimated park costs have escalated more than 100% in the past two years), construction funds remain essentially fixed, having been established at specific amounts in the City's development agreements. This past spring, the City conducted a survey of Orange, San Diego and San Bernardino county park development costs and found the average cost to be approximately $260,000. Prior to this survey, the City was using $170,000 for budgeting park development. It should be noted that the $260,000 cost is an average. The reality of the direction that San Clemente is moving with respect to park development quality and aesthetics is more toward a cost that is above the average. Please refer to Attachment C that illustrates the increase in park construction costs and the use of Park Acquisition and Development Funds provided in the LTFP.

Community Desires to Build Future Parks More Rapidly Than Projected

In addition to the above park development funding shortfall, residents in San Clemente are interested in building future park amenities more rapidly than provided for in the attached MPCF schedule (Attachment B). The attached schedule already includes an accelerated timeline for parks previously scheduled to occur after 2006. The further acceleration of the schedule—for parks scheduled to be constructed prior to 2006—might result in undesirable and significant deficits in the City's General Fund and in the Parks Acquisition and Development Fund.

The desire for a further accelerated development timeline is community-based. For instance, there is strong support for the proposed community center, gymnasium and pool complex at Forster Ranch Community Park to be built now due to limited space at the existing Community Center, Ole Hanson Beach Club and pools. In addition, youth sports organizations are requesting that more sports fields be built due to expanded participation and extended league programs that maximize the use of existing fields. Community-based "thresholds" for the use of existing facilities are being exceeded. Residents in the Talega planned community are interested in seeing their neighborhood level parks built now as well. Please note the first Talega neighborhood park is currently under construction with an anticipated opening date of late spring 2002.

When the City reaches build out, the LTFP estimates that it will be financially stable from revenue to expenditure standpoint (based upon all economic development opportunities being successfully implemented). This means that ongoing revenue will be sufficient to meet maintenance and operational expenditures. However, the above accelerated development requests are problematic prior to 2006, when revenues from new residential and retail development become significant enough to sustain large park facilities. Ongoing maintenance and operations revenue is based upon all city wide proposed economic development opportunities being implemented and successful. These opportunities will take time to implement and the MPCF bases future park development on a calculated timeline that estimates when revenue will be generated to sustain the proposed improvements. Building the improvements prior to the sustainable revenue being available creates shortfalls in the maintenance and operations budgets.

With respect to the future development of the Forster Ranch Community Park community center, gymnasium and pool complex, it is estimated that these amenities will take approximately three years to build. The first year will be spent on determining city wide consensus on the type of recreational uses that will be provided by the proposed buildings and pools. The second year will be in the design of the structures. The final year will be for development of the buildings and pools. This timeline cannot be shortened substantially and still provide the community input needed.

With respect to the future development of sports fields, it is estimated that these amenities will take approximately two years to build. The first year is set aside for design and bidding the projects. The Second year will be for development of the amenities and establishment of the turfgrass for use.

There is an option, which youth sports organizations are interested in pursuing, to provide additional sports field space sooner. Sports field lighting can be added to community park sports fields already within the City's park inventory. This would effectively increase usage. There are sport fields at both Forster Ranch Community Park (one baseball/softball field and three soccer/football fields) and San Gorgonio Park (one softball/baseball field and one soccer/football field) that could be lighted for evening play. This would add between two and five hours per day in additional field use, depending upon sunset times during the year. Lighting these fields can be accomplished in a single fiscal year, including design and installation. It should be noted that lighting of sports fields within community level parks is an appropriate park amenity within the Parks and Recreation Master Plan. However, sports field lighting has drawn opposition in the past from residents adjacent to the proposed lighting projects. Residents within the Forster Ranch, Shorecliffs, and Coast communities would be most affected by the proposed lighting at Forster Ranch Community Park and San Gorgonio Park.

Operations and Maintenance of City Facilities

The operations/maintenance analysis done for the MPCF utilizes the City's fiscal impact model. Future revenues and expenditures are projected based on the City's buildout scenario and on comments from the City's departments and divisions about future needs and potential revenue sources. Sales tax revenues from a retail development on Marblehead Coastal and property tax revenues from new development in the City are two new sources of sustainable revenue. The future maintenance and replacement of Talega's streets (except for residential streets, which are private), the cost of a 4th firefighter at Fire Station No. 60, and the cost of providing police services to the Talega community are examples of new ongoing expenditures.

The difference between future revenues and costs—net revenues—is the funding available to sustain the projects in the MPCF. A detailed discussion of some of the revenues and expenditures that affect the City's ability to sustain the MPCF follows:

General Fund Revenues:

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

- Growth of sustainable revenues in FY 2001-2002: Growth of sustainable revenues has been very healthy over the past year. Sustainable revenues include property taxes (which are budgeted to increase $1.2 million or approximately 16% this year) and sales taxes (which are budgeted to increase $500,000 or 11% this year). The increase in property taxes is attributable to increases in assessed valuation of existing development and the assessed value of new construction, including recently annexed property in Talega. The increase in sales taxes is attributable to the healthy economy and a significant new sales tax base derived from Plaza Pacifica.

- Projected sustainable revenue growth: As previously noted, the City's future fiscal health is greatly dependent upon the growth of property and sales tax revenue. Forecasts of the City's ability to operate and maintain the projects in the MPCF are highly sensitive to assumptions regarding the growth of property and sales tax. The following projections are particularly important to the future of the MPCF:

  - 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. The average value of all new single family homes to be built in the City is $500,000, up from approximately $400,000 last year. This means that the projections for future property tax revenues from new residential development have increased by almost 25%. This increase in projected assessed value boosts the net fiscal balance at buildout by approximately $600,000 per year (from net revenues of $1 million to $1.6 million annually).

  - Funds for the operations and maintenance of future City facilities are highly dependent upon the development of new retail square footage in the City and, particularly, upon the development of the retail portion of the Marblehead Coastal Development. (See chart below.) Development at Marblehead Coastal continues to be delayed from its originally anticipated schedule, with the first stabilized sales tax revenues projected to be received by 2005.

  - Forecasts of the amount of sales tax revenue that the City will receive in the future are extremely sensitive to the sales tax generation rates assumed for retail development in the City. This analysis assumes that new retail development in the City will generate an average sales tax of $250 per square foot, with the commercial portion of Marblehead Coastal assumed to generate the relatively high rate of $350 per square foot. If the average sales tax generated by new retail development is reduced to $200 per square foot—as opposed to $250 per square foot assumed in this analysis—the total annual sales tax generated by new retail development decreases by $600,000.

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

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.

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 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, under "New Facilities: Capital and O&M Summary," 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 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:

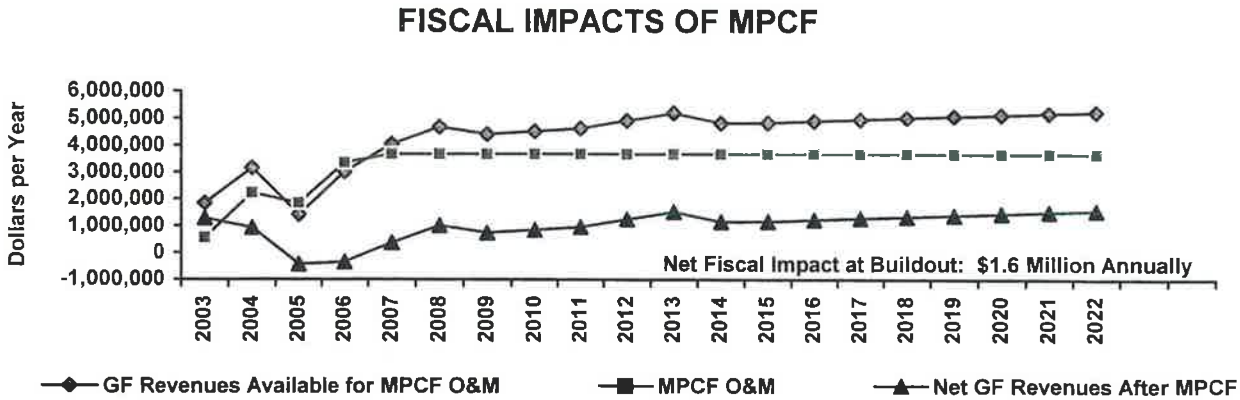
  - Significant changes in one-time expenditures in the City General Budget. These include transfers to the General Liability Self-Insurance Fund for potential outstanding claims ($1.5 million) and to the Parks Acquisition and Development Fund for reimbursements for park improvements ($1.5 million, as 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).

Fiscal Impacts of the MPCF:

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



Over the next 20 years and after buildout, the City's fiscal impact model projects a relatively neutral revenue/expenditure balance (neither extremely positive nor extremely negative.) No major surpluses in revenues or deficits in expenditures are projected. The annual balance in the General Fund (revenues minus expenditures) after buildout is projected at approximately $1.6 million per year. (Additional details related to these projections are included in Attachment A.) The chart illustrates several interesting factors:

- Operations and maintenance expenditures increase in 2004 as a result of the Talega fire station coming online. Another significant increase in expenditures is experienced in 2006 as a result of Phase III (community center, gymnasium and pool complex) of the Forster Ranch Community Park coming online.

- Revenues available for the operations and maintenance of MPCF facilities decreases significantly between 2004 and 2005, when development is expected to slowdown and one-time revenues for permits along with it.

- 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 (see Attachment B).

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

The fiscal impact projections are dependent upon several factors:

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

- The projections shown on the previous page do not include costs for new programs or facilities beyond those listed in the MPCF. New facilities that have not been officially included in the MPCF, but are discussed in this report, are: beach sand replenishment, water quality/urban runoff, use of the La Pata/Vista Hermosa site, the sidewalk restoration project, and street improvement program costs. Summary information regarding the potential costs of these programs is provided later in this report. Issue Papers on water quality, the La Pata/Vista Hermosa site, and the sidewalk restoration project are included in LTFP 2002.

- 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.

- 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 6 of this report, is dependent upon the Marblehead Coastal project.

New Facilities: Capital and O&M Analysis

The following is a brief listing of five projects/programs that may affect the availability of funds for the MPCF. These projects have not been included in the forecasts of operations and maintenance costs owing to their uncertainty:

Project	Capital Cost and Funding	O & M and Funding
Beach Sand Replenishment	$900,000 for study plus $350,000 for design (this is considered an extremely tentative estimation). Funding source: Grants and General Fund	**$1,100,000** (this is considered an extremely tentative estimation). Funding source: General Fund.

Project	Capital Cost and Funding	O & M and Funding
Water Quality (Urban Runoff and NPDES)	$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	Potential Impacts: 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>. 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.	

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*

[1] The operations and maintenance costs associated with the Sidewalk Restoration Project are on-going capital costs.

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.*

- 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

Capital Needs for Parks

- There is increasing community interest in building proposed parks (in particular, sport fields, community center, gymnasium, and pools) more quickly than provided within the MPCF.

- There is a desire with local youth sports organizations to light existing sports fields (softball/baseball, soccer/football) in community parks to enhance current use of existing fields.

- Currently it is projected that the City will experience a $7.5 million shortfall in funds needed to construct the parks included in the MPCF.

- Projections for the development costs of future park facilities continue to increase based upon (a) a strong economy that pushes construction cost upward, (b) increasing Federal mandates and, (c) increasing community expectations on the quality and aesthetics of park amenities.

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

Per current policy, the City should continue to retain any interest from balances in the Parks Acquisition and Development Fund within the Fund. Additionally, over the next two-to-three years, if the economy continues to hold steady or recover, the City is predicted to experience positive net balances in the General Fund, owing to increasing property taxes, sales taxes, and one time fees. These net balances could be used in-part to offset the $7.5 million dollar shortfall in parks funding.

Additional Issues

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

- Marblehead Coastal: Further delay of the Marblehead Coastal project has the potential to delay the Senior Center and additional phases of Revitalization 2000 improvements and further delay the construction of Phase III (community center, gymnasium and pool complex) of the Forster Ranch Community Park.

- City Beaches: Water quality/sand replenishment project costs are extremely speculative and, currently, a funding source is not known. Federal and State mandates regarding water quality may impact future City expenditures.

Operations and Maintenance of City Facilities

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.

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 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 under New Facilities: Capital and O&M Summary, 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.

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 6 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:

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).

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.

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;
   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

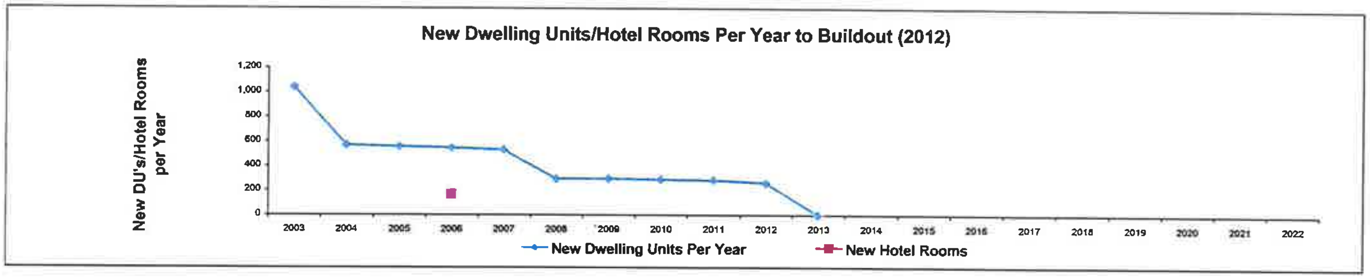
All recommendations were approved by the City Council by a vote of 5-0 on March 2, 2002.

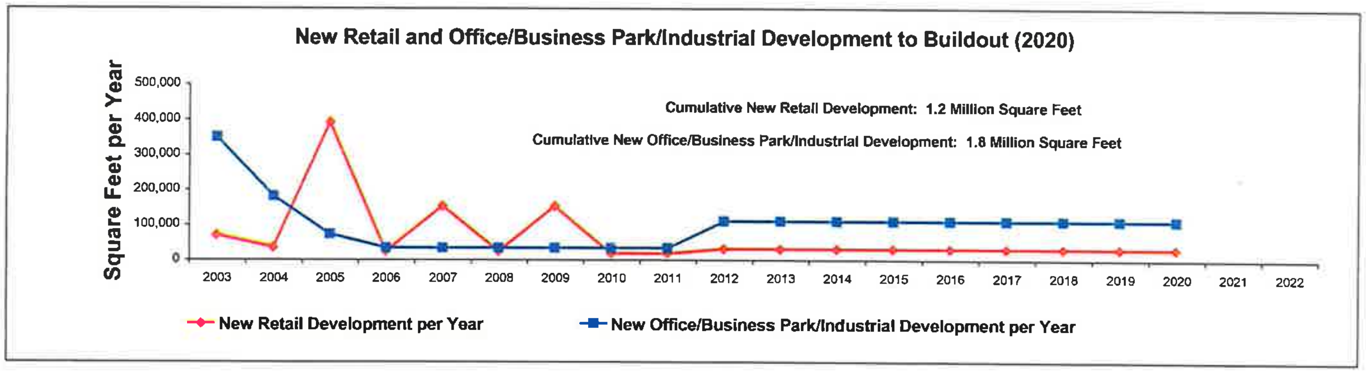
Attachments:

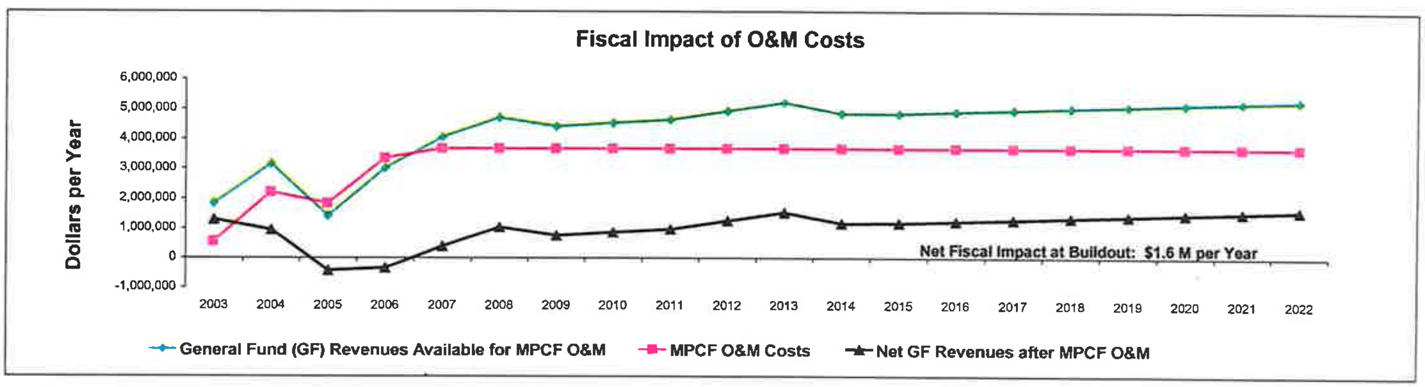
A. Fiscal Impacts of O&M Costs
B. MPCF Phasing Plan
C. Funding and Construction Costs for Parks
D. Letters from Youth Sports

FISCAL IMPACTS OF MPCF O&M COSTS

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016-2020	2021	Total New At Buildout
Land Use Components/New Development																
Residential (Dwelling Units)	1,039	567	557	547	530	295	295	285	281	261	0	0	0	0	0	4,657
Retail (Square Feet)	71,000	36,000	392,000	25,000	154,000	25,000	154,000	19,000	19,000	32,000	32,000	32,000	32,000	32,000	0	1,180,000
Office/Business Park/Industrial (SF)	350,000	181,000	74,000	34,000	34,000	34,000	34,000	34,000	34,000	112,000	112,000	112,000	112,000	112,000	0	1,820,000
Hotels (Rooms)	0	0	165	0	0	0	0	0	0	0	0	0	0	0	0	165
Fiscal Impact of O&M																
Net G.F. Revenues Available O&M	1,843,665	3,150,124	1,414,234	3,014,923	4,052,256	4,696,174	4,415,492	4,527,764	4,633,245	4,927,115	5,204,373	4,837,848	4,844,917	Varies	5,253,225	
Net O&M Costs	559,200	2,222,300	1,844,050	3,361,500	3,681,573	3,681,573	3,681,573	3,681,573	3,681,573	3,681,573	3,681,573	3,681,573	3,681,573	Varies	3,681,573	
Fiscal Impact	1,284,465	927,824	-429,816	-346,577	370,683	1,014,601	733,920	846,191	951,672	1,245,543	1,522,800	1,156,275	1,163,345	Varies	1,571,652	


New Dwelling Units/Hotel Rooms Per Year to Buildout (2012)


New Retail and Office/Business Park/Industrial Development to Buildout (2020)


Fiscal Impact of O&M Costs

MPCF PHASING PLAN 2002

Capital Facility	Net O&M Costs	On-line Date
Talega 1 Park	64,800	2002
Fire Station #60	0	2003
Senior Center (Avenida Victoria Site)	26,000	2003
Steed Sports Park (8 acres)	145,200	2003
Downtown Revitalization 2000	50,000	2003
Casa Romantica	0	2003
Railroad Corridor Safety Improvement	128,000	2003
Fire Station #59	0	2004
Marblehead Coastal Bluff Park	79,860	2004
Talega Fire Station	1,202,490	2004
Forster Ranch CC, Gym, Pool	1,100,000	**2006**
Talega 2 Park	114,950	2006
Vista Hermosa Sports Park	302,500	2006
Civic Center	110,173	2007
Marblehead Coastal Sports Park	84,700	2007
South City Park	40,500	**2007**
Talega 3 Park	84,700	**2007**

***Blue indicates accelerated date (from LTFP 2000 schedule)**
***Red indicates delayed date (from LTFP 2000 schedule)**

ATTACHMENT B

Parks Funding and Construction Costs
LTFP 2002

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

Beginning balance 01-02			8,800,000	
Expenditures 01-02			-5,874,670	
Revenues 01-02 through Buildout:				
Reimbursement 01-02	1,500,000			
Interest Earned	200,000			
Remaining Talega Development Fees For Parks	9,500,282			
Marblehead Coastal Development Park Fees	2,000,000			
Infill Development	80,000			
Proposition 12 Funds	600,000			
Total Revenues 01-02 through Buildout			13,880,282	
Total		$	**16,805,612**	12/19/2001

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

	Acres		Current Projections			MPCF 2001 Projections		MPCF 2000 Projections
Steed Park	12	$	3,120,000			3,000,000		3,000,000
Marblehead Coastal Bluff Park	9	$	2,340,000			1,530,000		1,000,000
La Pata/Vista Hermosa Sports Park	25	$	6,500,000			2,550,000		2,250,000
South City	5	$	1,300,000			850,000		750,000
Marblehead Coastal Sports Park	7	$	1,820,000			1,200,000		1,200,000
Talega Neighborhood Park No. 2	9.5	$	1,200,000			1,530,000		1,200,000
Talega Neighborhood Park No. 3	7	$	1,000,000			1,530,000		1,200,000
Forster Ranch Community C (Phase III)		$	7,000,000			6,800,000		6,000,000
Total		$	**24,280,000**			18,990,000		16,600,000
Net Difference:								
Park Funds Available minus Expenditures		$	**(7,474,388)**			$ **(2,184,388)**	$	**205,612**
				Forster Ranch Ph. II	(Actual $3.1)	2,700,000		3,000,000
				Talega NP No. 1	(Actual $1.8)	1,020,000		1,200,000
					Total:	$ 22,710,000	$	20,800,000

Notes on Funding for Parks:
Source, projected beginning balance and expenditures, Kumi Elston, 12/11/01. Beginning balance included $9 million including encumbered funds.
Source, projected revenues 01-02, Kumi Elston, Char Bailey Crowe, Garth Nagel (see sheet 2).
Revenues included $4 million in park fees collected from Talega in 01-02 (see sheet 2)
Expenditures include Talega NP 1, FR Phase 11, San Gorgonio, San Bonito, Steed.
Projected expenditures include revised numbers based on Talega Development Agreement approved 2001.
Talega's park fees:
*1.5 Million dollars from Talega's development agreement was collected in 1998.
*$6,136,454 out of $15.5 M in park fees collected from Talega by 12/10/01. Source: Char Bailey
Other park fees: Monarch Development Park Fees (in FY 99/00) and Rancho San Clemente's Park Fees ($457,000 in 11/00) have been collected
Notes on Construction Costs for Parks: Costs have increased from $150,000 in 2000 to $170,000 in 2001 to $260,000 per acre in 2002. Costs updated 11/01, Bruce Wegner.
Steed Park: Remaining cost is $3.12 M. Original cost $3.5 M. $500,000 spent on partial improvements during Skate park improvements. $1.2 million added to cost level of park.
$3.12 excludes slope renovation (13 acres)
La Pata/Vista Hermosa: Costs projected for a portion of the site (15 acres); no funding identified for remainder of site.
Forster Ranch II: Cost listed for Phase IIb. Costs for Phase IIa ($1.8 M) have been covered by the developer.
Forster Ranch III: Costs shown are for facility listed in 98 PRMP. Facility comprises 28,000 (x $175 s.f.), and Olympic pool and a teaching pool (25 meter) (lump sum of $1.9 M).
Talega 2 & 3 costs indicated are for concept plan agreed upon by City and Developer. As long as the City builds parks that substantially conform with concept plan, the City only costs indicated above and the Developer will cover the remaining costs.
Reimbursements of 1.5 million (decided last year) for non-Master Plan costs are included in revenues for 01-02:
Expenditures from this fund for non-Master Plan parks were included this year for the following parks:
Bonito Park: $258,000
San Gorgonio Park RR and Youth Concession Stand: $330,000 spent in 00-01
These expenditures were paid for out of this fund because the City reimbursed this fund for the expenditures (included in 1.5 million noted above) this year.

AMERICAN YOUTH SOCCER ORGANIZATION
a nonprofit corporation dedicated to youth soccer
everyone plays®

January 1, 2002

01-09-02 P03:

Bruce Wegner
City of San Clemente
Parks and Recreation

Dear Bruce,

Thank you for this opportunity to update you on the status of AYSO soccer in the City of San Clemente.

AYSO soccer's Fall 2001/Spring 2002 season is now meeting the needs of 1650 players, and their respective families. We are fielding numerous calls from new residents to the City of San Clemente and anticipate in excess of 2000 players in Fall 2002. Our current resources (practice fields, game fields, and lighted fields) are stretched very thin. We literally play dawn to dusk to accommodate the number of games each weekend during our primary season, and teams are practicing on very small patches of grass due to the number of teams attempting to practice each week. Additional field lighting would extend the use of existing fields, relieve current overcrowding, and help us meet the needs of new and future residents of the City of San Clemente.

Our AYSO Board of Directors has committed to a long term goal of support and partnership with the City of San Clemente to locate available land for fields, field and light construction, and field maintenance. Our Mission Statement expresses "Everyone plays". We take this very seriously and have never turned a player away. Unfortunately, we are looking at a situation, with the continued growth of San Clemente, where we may have to limit some age groups in the future due to fields limitations. We hope that with the cooperation of the AYSO Board, the Youth Sport Coalition, Parks and Recreation and the City of San Clemente we can all work together for the children of San Clemente.

Thank you for your time and effort. Please feel free to contact me with any questions.

Sincerely,

Patricia A. Turpen, Regional Commissioner, Region 111 AYSO
949-492-4547

ATTACHMENT D

San Clemente Girls Softball
P. O. Box 4586 - San Clemente, CA 92674
Hotline: (949) 388-7881
www.sanclementegirlssoftball.org

December 29, 2001

Mr. Bruce Wegner
San Clemente Parks and Recreation Director
100 N. Calle Seville
San Clemente, CA 92672

Dear Mr. Wegner:

San Clemente Girls Softball (SCGS) is writing this letter to inform you of our current and future needs for our league's field usage for practice and game play.

Current Needs - 2002 Spring Season: With our current registration numbers we anticipate there will be 25 teams. Each team will practice and/or play a total of 3 times per week. Each team will require one hour and 30 minuties for each event. 3 Events/Week * 1.5 Hours/Event * 25 Teams = Field Usage in Hours or 3 * 1.5 * 25 = 112.5 Total Weekly Hours * 20 Weeks = 2,250 Hours. Add in All Stars (4 Teams * 3 Events * 2 Hours * 8 Weeks = 192 Hours) and we need 2,442 Hours in the season. Current City Allocation - 911 Hours.

Anticipated Growth - Future Spring Seasons: As is true with all of our youth sports counterparts, we anticipate our program to grow along with the expansion of our family base. We see a minimum of a 50% growth by the end of 5 years. To put that into numbers, we believe that by 2006 we will have, a very conservative estimate of, 400 girls playing softball. 3 Events/Week * 1.5 Hours/Event * 34 Teams = Field Usage in Hours or 3 * 1.5 * 34 = 153 Total Weekly Hours * 20 Weeks = 3,060 Hours. Add in All Stars and we will need 3,252 hours

Current and Future Needs - Fall Ball: We currently have no City (or CUSD) allotment for our Fall Ball program. From early September to early December (14 weeks) we have 4 teams with a need for 8 hours/team/week, or a total of 448 hours.

Our league has depended heavily on CUSD for the use of the High School fields. As we saw last year, we have no guarantee of usage. As an interim solution to the field shortage, we believe that lighting additional fields in the community to extend the usage times would alleviate some of the shortage issues. Short term lighting of these additional fields we believe would enhance life in our community. However, we firmly believe that there is a need to build additional fields sooner versus later.

As is the case with our affiliated youth sports organizations, we believe that by working together we will benefit all of the youth of San Clemente.

Sincerely,

Jan Galati, President
San Clemente Girls Softball
Member, San Clemente Youth Sports Coalition

Mr. Bruce Wegner
Parks & Recreation Department
City of San Clemente
100 N. Seville
San Clemente, CA 92672

December 11, 2001

Mr. Wegner,

On behalf of San Clemente Little League (SCLL) I would like to take this opportunity to share with you and the City of San Clemente some concerns and facts relative to SCLL. I would also like to take the time to address future needs, SCLL willingness to assist the city as it is able, and how these matters are directly related to the growth of San Clemente as a whole and of Little League baseball in San Clemente.

As I sit to compose this letter, the SCLL membership sits at approximately 650 families. This is all accomplished without any effort being put into advertising of Little League Baseball (LLB) in the area. The greatest extent of SCLL registration advertising is a flyer that goes home with children from school. This is both great and sad at the same time. On one hand, one may realize that we service and accommodate more than 600 families each year...and on the other hand, we've not even touched many of the families who may benefit from youth sports and LLB. When I was first elected to serve on the Board of Directors at SCLL, I had high hopes and dreams of extending all the possibilities and benefits of LLB to EVERY youngster in SC – I fondly remembered the times I had in LLB and the foundation it helped to lay in my life. Cold water was thrown on that thought right away as I was informed that SCLL was in a bind regarding membership and we "needed to keep the enrollment down".

Each year, Little League organizations (such as SCLL) affiliated with LLB, of Williamsport, VA are granted a charter. That charter is granted (annually, not once for life), in part, based upon the population of a given area/city. Right now in SC there should be at least two Little Leagues and we would be in line for a third should the current growth cycle continue. Currently SCLL has to request a waiver from the population limits [Regulation II (g)] in order to be granted its charter each year...and of course, there may come a day when that waiver may be. Should this happen, SCLL will be requested to split into two separate leagues. While this may be inevitable, until the community is prepared for the increase in participation and the associated need for additional facilities that will be created, the Board of SCLL has determined it to be in the best interest of the league and the city to delay the addition of a new league.

SCLL currently plays all games at four locations – Vista Bahia, Forster Ranch, San Gorgonio, and Concordia Elementary. SCLL needs the use of seven "game-shape" fields at those locations. We currently have only six and are lobbying the school district for one more at Concordia. Envision the number of practice sites that are needed and the time that is taken at those sites...along with the number of formal games that are played – the volunteer umpire program of SCLL worked over 350 games last year during a 14 week regular season.

Currently SCLL simply does not have the allotted field space to service this load – many days are there when coaches wait for practice space and/or end up in heated debate over "who was there first" or "whose field it is". The lack of space for the older divisions filters down to the younger divisions as the older teams look for their piece of practice real estate each day.

The city has been helpful and considerate of our challenges, assisting as they are able. The cooperation set forth by your department in regards to joint management of maintenance issues and the like is exemplary. Projects such as the current renovation at VB are good and positive examples of what can be accomplished together.

Even with a spirit of cooperation and in looking at one another's needs, the current situation just does not work. Softball and SCLL are going on at the same time and they both have a growing membership and list of needs.

While the ultimate solution to these problems seems to be the construction of additional fields, we also need to look at ways to increase the amount of time the current fields can stay open as a short-term remedy. Two of three "community park" fields we currently utilize (Forster Ranch and San Gorgonio) are plumbed for lighting, yet do not utilize that feature – even though it is city policy to light all "community parks".

These same fields are also utilized by AYSO (youth soccer) and ASA (softball). So, allowing for the lights to be installed and turned on would benefit at least three youth sports organizations by increasing the amount of time those fields are available...and doing so within the parameters of current policy. This is obviously a short-term solution to a growing matter, and would definitely help without harming others.

As evidenced by the project at VB, SCLL is more than willing to assist where we may – renovations, maintenance, etc... I have never seen a more willing group and a membership so devoted to their children as that of SCLL. That devotion has manifested itself in many forms in my short time at SCLL and I see even greater projects and commitments on the horizon. Many BoD members have children at the younger divisions and will probably be around SCLL for many years to come. Now is a good opportunity to nurture a spirit of cooperation and set positive examples (like VB) of what we may do together. Building upon those successes will then come all the easier once people have been shown the path.

On behalf of SCLL we appreciate your time and consideration of these matters and we look forward to hearing from you regarding what may be done about short-term field time issues. We also look forward to continuing to work with you on long-term solutions and in doing so with a spirit that is beneficial to all.

Kind Regards,

Bret Snyder
Sponsorship Coordinator
Land Use Committee

John Tully
Land Use Committee

Chris Garcia
President

Bob Cooney
Fields & Buildings
Land Use Committee

Alex Haynes
Commissioner
Land Use Committee

San Clemente Little League, P.O. Box 84, San Clemente, CA 92674 • 949/248-5941

Pop Warner Football & Cheerleading
S C Youth Football, Inc.
Seahawks

January 4, 2002

Mr. Bruce Wegner
City of San Clemente
Parks and Recreation Department
San Clemente CA

Dear Mr. Wegner:

Attached is the letter of support detailing the need for more sports fields and field lighting as it pertains to SCY Football.

Hopefully, this letter is helpful in your presentation to City Council. Please let me know if more information or if clarifications are required on the attached.

Thank you for the opportunity to present this to you.

Michelle S. Baratta
President of the Board
SCY Football
Pop Warner Organization

1901 Via Pimpollo, San Clemente, California 92673
949.388.5572

Pop Warner Football & Cheerleading
S C Youth Football, Inc.

Seahawks

January 4, 2002

It is encouraging and exciting to see the city of San Clemente embrace the needs of the youth and of our leaders of tomorrow. The support we provide our youth today, will pay great dividends in how they lead us tomorrow. The strength we give our youth and the direction provided through youth activities and sports will develop them into strong leaders, team players and participants in the City of San Clemente of the future. Most importantly, the support will strengthen the sense of community among the youth and their families.

I. Purpose of This Report:

This report was developed to provide a background on the objectives, number of participants and potential growth of the SCY Football Organization. The intent of this letter is to help the City define and determine realistic demands and needs in the years 2002, 2003 and 2004.

SCY Football paid approximately $25,000 in fees for field use in 2001. In the future, it is the hope of SCY Football that this amount of money along with private monies and donations available to other youth sports organizations, can be used to develop and maintain new and lighted fields.

Given the limited field space available for youth sports and the even more limited lighted field space available, we hope that The City Council can work into the Long Term Financial Plan for The City of San Clemente a way to use both private funds and city funds in order to develop and maintain new fields and to install lights on already existing fields.

This report encompasses short and long term solutions to the limited field availability issue. We would be happy to present these ideas to the City Council or discuss with them the potentials of each of these solutions.

II. Background of The Pop Warner SCY Football Program:

The SCY Football organization began as an idea of five (5) San Clemente families which had been involved with the Pop Warner Laguna Beach League. It was apparent to these families that the community of San Clemente would be better served if a Pop Warner

1906 Via Pimpollo, San Clemente, California 92673
949.388.5572

organization was located in San Clemente. This program was formed and accepted by National Pop Warner and Orange Empire Conference in July 1999.

SCY Football is a local Pop Warner organization which reports directly to the overseeing body known as The Orange Empire Conference. This conference requires that all participants submit address, zip codes and birth certificates to verify that the members live in the community in which the organization is located.

III. Organization Goals:

SCY Football is a member of the National Pop Warner organization; The objective of SCYFL as stated in the By laws is:

> To seek to implant firmly in the youth of the communities the ideals of good sportsmanship, honesty, loyalty, courage and scholarship so that they become stronger, happier and healthier youths who reflect credibility upon themselves their families and their communities. The attainment of exceptional athletic skill or the winning of games is of secondary importance, and the development of desirable character traits in future adults is of prime importance.

IV. Membership Selection:

In the simplest terms the SCY Football's membership is comprised of any person regardless of athletic ability, race, creed, etc. In an attempt to accomplish this goal, SCY Football registers its team memberships based on a first come, first serve policy. Tryouts of any kind within SCY Football are prohibited.

V. Number of Participants:

SCY is presently comprised of approximately 325 participants and families. In the past 3 years we have grown to be the fourth largest Pop Warner organization in the Orange Empire Conference (the regional overseeing body for National Pop Warner). The largest organizations are Santa Margarita with approximately 500 participants, Saddleback (Mission Viejo and Aliso Viejo) with approximately 450 participants and Long Beach with approximately 450 participants. It is interesting to note that SCY has exceeded the number of participants in Orange county cities such as Anaheim, La Habra, Cerritos etc, despite the fact that these cities are substantially larger than San Clemente and that their organizations have been in existence for over 10 years.

VI. Projections on Number of Future Participants:

Membership has grown considerably in the past three years. In 2001 SCY had 325 participants. Registration was closed due to a lack of field availability. SCY Football fielded 11 teams in 2001, 9 teams in the year 2000 and 8 teams in 1999. If field availability were not problematical and growth were unlimited SCY projects that they could field at least 13 to 14 teams in 2002 and 18 to 20 teams in 2003. Our membership growth's potential is summarized below:

Year	Membership	Number of teams
1999	+/- 175	8 teams
2000	+/- 285	9 teams
2001	325	11 teams
Projections:		
2002	400 to 450	13 to 14 teams
2003	550 to 600	18 to 20 teams
2004	650 to 750	21 to 25 teams

These figures are estimates based on expressed interest in the community and previous registration experiences.

VII. Practice Requirements:

Practices are strictly regulated by National Pop Warner. The Pop Warner's season begins with practice and conditioning. The earliest this can take place is August 1st.

Each participant must have at least 10 hours of conditioning in the first week and 10 hours of practice in the second week in order to meet certification requirements.

Further, practices are limited to 2 1/2 hours a day prior to Labor Day and 2 hours a day after Labor Day. In short, in order to certify the first two weeks of August, each participant must practice 5 days a week for 2 1/2 hours a day. The player cannot participate in any scrimmages or games until these requirements are met.

The SCY scrimmages commence the third week in August and games begin the first Saturday after Labor Day. Scrimmages and Games are typically 2 to 3 hours long and are played on a regulation size football field. Only the games played by the flag teams (5 and 6 year olds) and the Mitey Mite Teams (7 and 8 year olds) are played on smaller fields.

VIII. Field needs:

Practice Fields:

In order to have a successful practice, each team must have available to them a field which is approximately 1/2 the size of a regular football field. The smaller teams (Mitey Mites and Flag) can practice on fields which are approximately 1/4 to 1/3 the size of a regular football field. Goal posts are not required for practice but are almost a necessity for the older teams. Full size/Regulation Baseball outfields are typically large enough for two teams to practice on and Multi-purpose fields can be used by 2 or 3 teams.

Game fields:

Presently, game fields are being provided by San Clemente High School. The stadium field is being used for the older teams and the Pico Field or Snack Bar field is being used for Mitey Mites and Flag teams. City fields are presently not used for games.

In order to use City fields for games, goal posts will be required on at least one field. SCY would be willing to absorb some or all of the costs of installing these goal posts on a field such as Forester Ranch multi-use field.

Games are scheduled by the Orange Empire Conference. Each team is typically scheduled for 5 home games and 5 away games. Given the number of teams that SCY presently has, home games occur almost every weekend.

Projections:

Year	No. of teams	No. of Fields For Practice*	No. of Fields For Games**
2002	13 to 14 teams	7 Practice Fields	2 Game Fields
2003	18 to 20 teams	10 Practice Fields	3 Game Fields
2004	21 to 25 teams	12 Practice Fields	3 Game Fields

* Practice Fields: 5 days a week in August; 3 days a week after Labor Day--Lights are required.
** Game Fields: Saturdays only starting 3rd Saturday in August; Lights are required.

Practices are held typically from 6 to 9 in August for five days a week and from 6 to 9 for three days a week after Labor Day until the end of November. There is no field use required from December to August.

IX. Conclusion:

SCYFL is aware that field space is limited and that lighted fields are scarce. The installation of lights at the Forester Ranch facility would be a tremendous step in resolving this problem. Steed Park has been also made available to SCY for practice field use. This use is contingent upon availability and use by other sports groups often takes precedence over SCY.

Proposed Solutions:

Short Term:

Use of temporary lights (Light Trees) on fields such as Forester Ranch and San Gregornio. These Light Trees would be furnished and maintained by the youth sports group wishing to use the fields.

Installation of goal posts on either the Forester Ranch or San Gregornio Multi-Use Field. These posts would be paid for either in part or in total by SCY Football and private funds.

Identification of fields not currently under use but which could be leased by youth sports groups who would then be responsible for turning these fields into practice or game fields through the use of private funds.

Creation of "hubs" in which each sports group would be assigned a field that they would be primarily assigned to and be responsible for helping maintain and absorb costs of field lights.

Long Term:

If spaces could be identified for use by youth sports group and if these groups work together, then it may be feasible to identify and develop fields not yet under construction. Many of these Youth Sports groups including SCY have donations available to them which can be used toward the development of a "Sports park". These funds can be used not only to develop but also to maintain and to pay for the use of lights.

Installation of Permanent Lights at the Forester Ranch, San Greagonio and proposed Talega Multi-Use Fields.

Development of additional fields at the Steed Park complex and pinpointing Steed Park as a Major Youth sports complex which could be funded through both Municipal funds and Private Donations.

High School Swap

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

Summary
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.

Background

Discussion

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 which sets circulation and land use patterns for the Talega properties and surrounding properties including the City/Avenida LaPata/Avenida Vista Hermosa sites.

- The City has also approved a Talega Development Agreement (DA) which will guarantee construction of Avenida LaPata and Avenida Vista Hermosa to the site, and guarantees that utilities will be brought to the site.

- The Development Agreement (DA) will also guarantee grading of the actual site. The DA guarantees that a 44 acre minimum site and up to 48 acres will be created as a result of this grading operation. The DA 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. Traffic circulation in the area of the SCHS site would be significantly improved as a result of the relocation of the SCHS facility. The LaPata/Vista Hermosa site is ideally situated to better handle peak traffic demands created by high school operations.

- An efficient distribution of services would be enabled by the use the current SCHS site, as a community recreation and civic complex. Specifically, location of a fire station at that site would provide optimal city-wide coverage for a four station coverage configuration for the City. The site is also well situated for a consolidated tri-cities police substation complex. A civic center could be located on this site, or other sites could be utilized for civic center operations.

- CUSD has completed negotiations with Talega to provide additional funding for school improvements. These funds could be used to help construct new high school facilities at the LaPata/Vista Hermosa site.

  While both sites are able to meet the needs of the City and CUSD, both sites have some relative strengths and weaknesses.

- Avenida LaPata/Avendia Vista Hermosa (LP/VH)
  - This site would be adequate for sports fields and special recreation facilities. 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 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. Locating Station 59 on this site would not provide optimal fire coverage for the City. Therefore, an additional minimum 1 acre site would need to be acquired somewhere else, in order to provide optimal fire coverage and the relocation of Station 59 from its current site in the Rancho San Clemente Business Park.

- The LP/VH site is not optimal for the tri-cities police substation. Both sites might work for the police substation, but the SCHS site is closer to the freeway (which is an advantage) and could be co-located with fire services at the SCHS site.

- The LP/VH site is considered not optimal for a civic center.

Outstanding Issues Not Yet Addressed

- 404 Permit - A 404 permit from the Army Corp of Engineers has not been obtained by Talega. Optimal grading work for the LaPata/Vista Hermosa site is contingent upon receiving this permit.

- Funding – While some funding sources have been identified, it appears there is a funding gap that will require funds from an as yet unidentified source. Due to financial difficulties at the State level, looking to the State for significant help and/or cooperation is problematic at this time.

- 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. Only after the new high school is open could reconstruction begin on the San Clemente High School site. It is anticipated that most facilities will be removed and the entire SCHS site plan will be reworked with the possible exception of the pool and gymnasium buildings. This will mean a long delay in construction of sports fields for the City unless in the interim sports field could be constructed at the new High School site and used by the community, until community fields could be constructed at the current San Clemente High School site.

- 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. Preliminary public survey information indicates that there is a definite interest in pursuing the concept, however critical details such as gap funding sources may or may not diminish support for this project. Public process leading up to final decisions to pursue this project or drop it, will be crucial.

Design Consideration

Preliminary site planning and cost information has been prepared by RBF consulting and Thirtieth Street Architects. The high school site includes a total of 43 gross acres with a net buildable area of 37.0 acres. A number of design considerations were explored, including the potential reuse of existing buildings, building adjacency issues, and site access. All of the proposed buildings would incorporate a Spanish Colonial Design, durable construction, and be ADA compliant. Use of existing buildings would require façade improvements.

Another design aspect taken into consideration is the amount of parking to be provided. A total of 1000 parking spaces are provided for the recreation facilities based on the assumption that not all facilities would be utilized at the same time, and the fact that the City will be programming use of the facilities. Note: Subsequent to the development of the schematic site plans, beaches, parks and recreation staff further reviewed parking requirements and determined that 800 to 850 spaces would be adequate for these facilities. Site plans have not however been adjusted.

Table 1 - Community Park with Special Use Amenities

AMENITY	FACILITY REQUIREMENTS/USAGE
Community Center 20,000 sq.ft.	Facility would be used for recreational classes, workshops, meetings and conferences, community special events; weddings, receptions, parties, concerts, plays, recitals and other productions. Optional uses may include a complete fitness center and expanded conference facilities with full audio/visual/computer/ teleconferencing capabilities.
Public Plaza 25,000 sq.ft.	Plaza area as an added amenity adjacent to the community center.
Gymnasium- Shower/Locker Room 20,000 sq.ft.	Facility would be used for youth and adult sports, special events, and assemblies.
Pool Complex 50x25 meter Pool 25 yard Pool Therapy Pool	The pool complex and associated concrete deck area shall be located to access the shower/locker rooms associated with the gymnasium.
Sports Field Complex 15 Acres	Four (4) lighted baseball/softball fields (300 feet to the home run fence) and four (4) lighted soccer/football fields (225 feet by 360 feet) with restroom/food concession building.
Children's Play Area 15,000 sq.ft	Playground with equipment including slides swings, climbing toys, decks, etc. Playground to be totally barrier free for access. Includes the covered seating area for parents so they can watch their children.
Parking Lot	Parking to accommodate all amenities proposed within the park.
Skate Court 25,000 sq.ft.	Lighted concrete skate court for skateboards, in-line skates, and bicycles. For concept design purposes, the facility will be in an oval shape.
Picnic Area	Large group covered picnic pavilion with concrete patio area, picnic tables, bar-be-cues, and etc. for major company gatherings and smaller picnic tables/bar-be-cues for more intimate family gatherings. Included in this area horseshoe courts (50 feet by 10 feet), bocce ball courts (92 feet by 14 feet) and open turf for other pickup games.
Tennis Courts 4 – Courts	Four (4) lighted tennis courts (78 feet by 36 feet)
Volleyball Courts 2 – Courts	Two (2) lighted sand volleyball courts (60 feet by 30 feet)
Basketball Courts 6 – Courts	Six (6) lighted basketball courts (84 feet by 50 feet)
Open Turf Area	Non-designated open turf areas for general recreation, pickup sports.

Alternative Development Schemes

The alternative development schemes include a mixture of proposed recreational uses incorporating new facilities and in some cases utilizing existing facilities. A total of seven alternative schemes have been identified as described below.

Scheme A – Programmed Recreational Facilities

***Scheme A1,* Programmed Recreational Facilities (New),** includes all new amenities identified within the Community Park and Special Amenities Program (Table 1), encompassing 28.3 acres for recreational uses and 6.9 acres of parking providing 1,000 parking spaces. A 1.8-acre police/fire facility would be provided along Avenida Presidio. This is in lieu of the preferred 3-acre site, in order to accommodate all of the desired recreation facilities. Access to the recreational facilities would be from the existing signalized intersection along Avenida Pico, with the police/fire facility access along Avenida Presidio. A 25,000 sq.ft. public plaza would be provided adjacent to the Community Center. *Scheme A1, Programmed Recreation Facilities (New).*

Scheme A2,* Programmed Recreational Facilities *(Reuse), includes all of the amenities in Scheme A1 with reuse/rehabilitation of the existing gym, and 25-meter pool. *Scheme A2, Programmed Recreation Facilities (Reuse).*

Scheme B – Reduced Recreational Facilities

Scheme B1, Reduced Recreational Facilities (New), includes only a portion of the City's Community Park and Special Amenities requirement (Table 1) within 21.9 acres of the site. This Scheme combines the gym and community center into one building, provides a picnic/skate park, children's play area, and 6.9 acres of parking providing 1,000 parking spaces. The number of soccer/football fields is reduced from 4 to 2. A 3.0-acre police/fire facility is located at the corner of Avenida Pico and Avenida Presidio. Access to the recreational facilities would be from the existing intersection along Avenida Pico. The remaining civic center or residual land would be 5.2 acres. 2.3-3, *Scheme B1, Reduced Recreational Facilities (New).*

Scheme B2, Reduced Recreational Facilities (New & Reuse), includes a portion of the City's Community Park and Special Amenities requirement within 22.2 acres of the site with reuse/rehabilitation of the gym and 25 meter pool. This Scheme provides a picnic/skate park and a children's play area. Access to the recreational facilities would be from the existing intersection along Avenida Pico. A total of 6.9 acres of parking providing 1,000 parking spaces would be included. A 3.0-acre Police/Fire Facility is located at the corner of Avenida Pico and Avenida Presidio. The remaining civic center or residual land would be 4.9 acres. *Scheme B2, Reduced Recreational Facilities (New & Reuse).*

Scheme B3, Reduced Recreational Facilities (Reuse 2), includes a portion of the City's Community Park and Special Amenities requirement within 22.5 acres of the site. This Scheme includes the reuse/rehabilitation of the gym, 25-meter pool, in addition to Building 18, Theater and Building 14, Classrooms to be redeveloped for the community center. This Scheme provides a picnic/skate park and a children's play area. Parking for this Scheme includes 6.9 acres adjacent to the 3.0-acre police/fire administration facility. Further study regarding facility access from Avenida Pico is recommended. The remaining civic center or residual land would be a somewhat narrow 4.7 acre parcel, due to the reuse of Building 14 for the community center. *Scheme B3, Reduced Recreational Facilities (Reuse Only).*

__Scheme C – Minimum Recreational Facilities__

Scheme C1, Minimum Recreational Facilities (New), would limit the number of baseball fields to two and soccer fields to one for a total of 15.5 acres of new recreational facilities. A new community center, gym, 50-meter pool, and a children's play area would be provided. Parking for this scheme would be reduced to 800 parking spaces within 5.5 acres. The 3.0-acre Police/Fire Facility would be located adjacent to the recreational parking area, providing a buffer with the residual land. Further study regarding Police/Fire Facility access from Avenida Pico is recommended. The remaining civic center or residual land would be 13.0 acres. *Scheme C1, Minimum Recreational Facilities (New).*

Scheme C2, Minimum Recreational Facilities (Reuse), would provide all of the facilities in Alternative Scheme C1, and would include the reuse/rehabilitation of the gym, 25-meter pool, Building 18, Theater, and Building 14, Classrooms to be utilized for the community center. A total of 16.8 acres of new recreational facilities would be provided. Parking for this scheme would be reduced to 800 parking spaces within 5.5 acres. The 3.0-acre police/fire facility located along Avenida Pico and could share access with the recreational facilities. Further study regarding access to the police/fire facilities is recommended. The remaining civic center or residual land would be 11.7 acres. *Scheme C2, Minimum Recreational Facilities (Reuse).*

Cost Comparison

Redevelopment of the high school site would require demolition of the existing facilities and construction of new facilities. Demolition costs include the demolition of the existing buildings (modules could be moved) and existing recreational facilities. The demolition cost includes approximately 37 acres of land. Per discussions with CUSD, an asbestos abatement program has been conducted; however, costs may increase in the event hazardous materials are found during demolition.

In addition to demolition costs, construction cost estimates (including cost of building rehabilitation) were made. Based on costs of recently completed buildings of similar size and function, estimated new construction costs for this study are as follows: gym at $243/sq.ft. community center at $320/sq.ft.; and concession/restrooms $270/sq.ft. Rehabilitation costs estimated for existing buildings include the gym at $203/sq.ft, and community center at $266/sq.ft. Additional costs will be incurred for site development (e.g. hardscape, landscape, etc.) These costs cannot be definitively estimated without a detailed site plan. Conceptual project costs estimates are shown on Table 2.

Table 2 - Cost Comparison by Scheme

SCHEMES	*Demolition*		*Rehab & New Construction*		*Sub Total*		Total Costs Of Development
	[i]Rec. Facilities	[ii]Building	[iii]Rec. Facilities	[iv]Buildings	Rec. Facilities	Buildings	
SCHEME A1	$1,346,004	$627,300	$8,487,750	$16,349,000	$9,833,754	$16,976,000	**$26,810,054**
SCHEME A2	$1,337,204	$507,300	$8,197,750	$16,349,000	$9,534,954	$16,856,300	**$26,391,254**
SCHEME B1	$1,346,004	$627,300	$6,979,750	$15,349,000	$8,325,754	$15,976,300	**$24,302,054**
SCHEME B2	$1,337,204	$507,300	$7,255,910	$14,919,245	$8,593,114	$15,426,545	**$24,019,659**
SCHEME B3	$1,337,204	$368,190	$6,819,750	$14,009,213	$8,156,954	$14,377,403	**$22,534,357**
SCHEME C1	$1,346,004	$627,300	$5,315,750	$14,869,000	$6,661,754	$15,496,300	**$22,158,054**
SCHEME C2	$1,337,204	$368,190	$5,363,750	$13,529,213	$6,700,954	$13,897,403	**$20,598,357**

Conclusions

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 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.

Recommendation

Staff recommends that City Council direct staff to:

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.

Fiscal Impact of Recommendation

Unknown at this time.

Council Action

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

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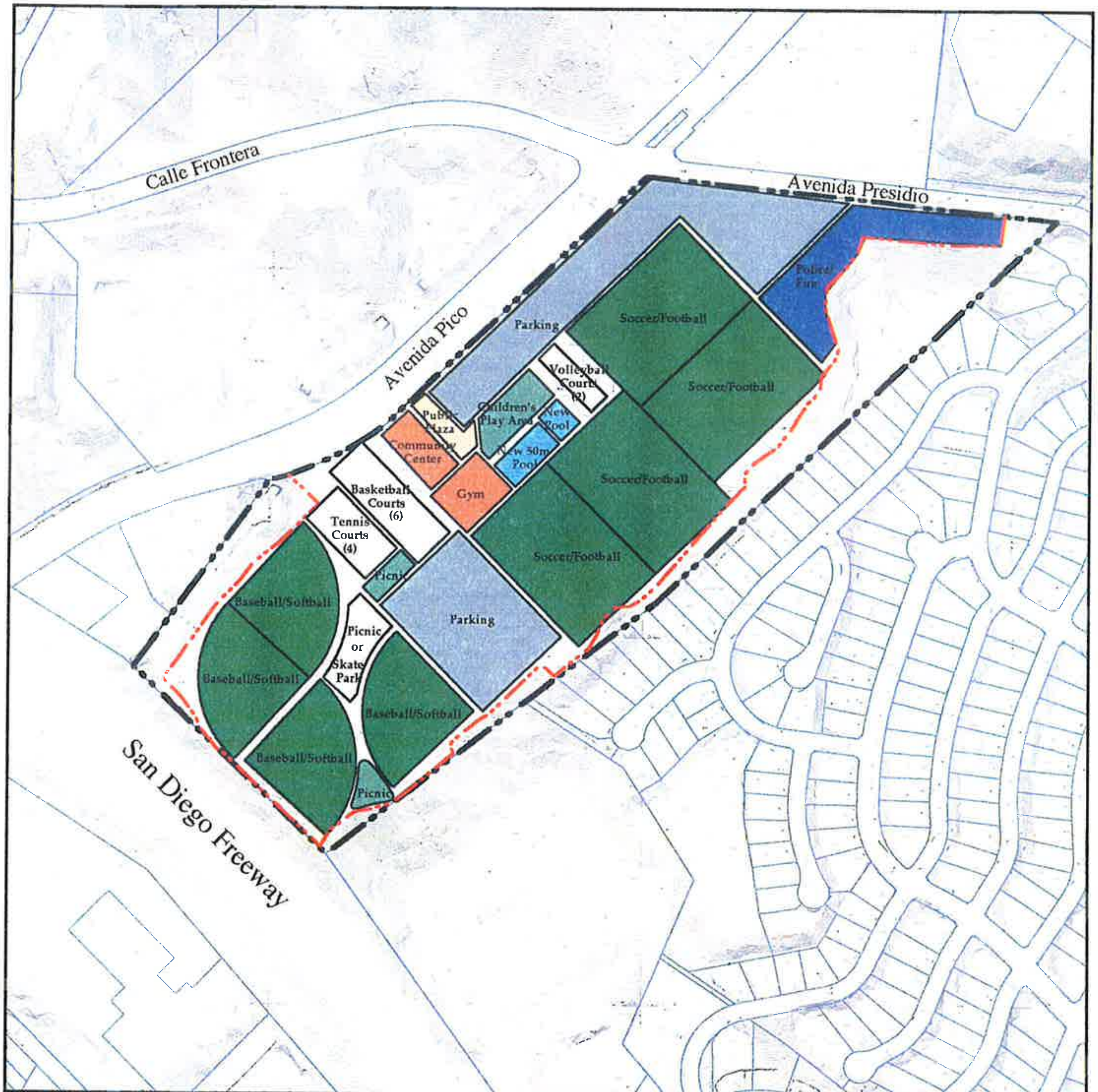
[i] Demolition of Recreational Facilities includes the fields, courts, support structures.
[ii] Demolition of Buildings includes the existing structures, modular removal, parking area.
[iii] New or rehab of Recreational Facilities includes the pools, fields, courts, concession/restrooms.
[iv] New or rehab of Buildings includes the gym, community center, parking lots, and within Scheme A the plaza.



Note: Police/Fire Area = 1.8 AC

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

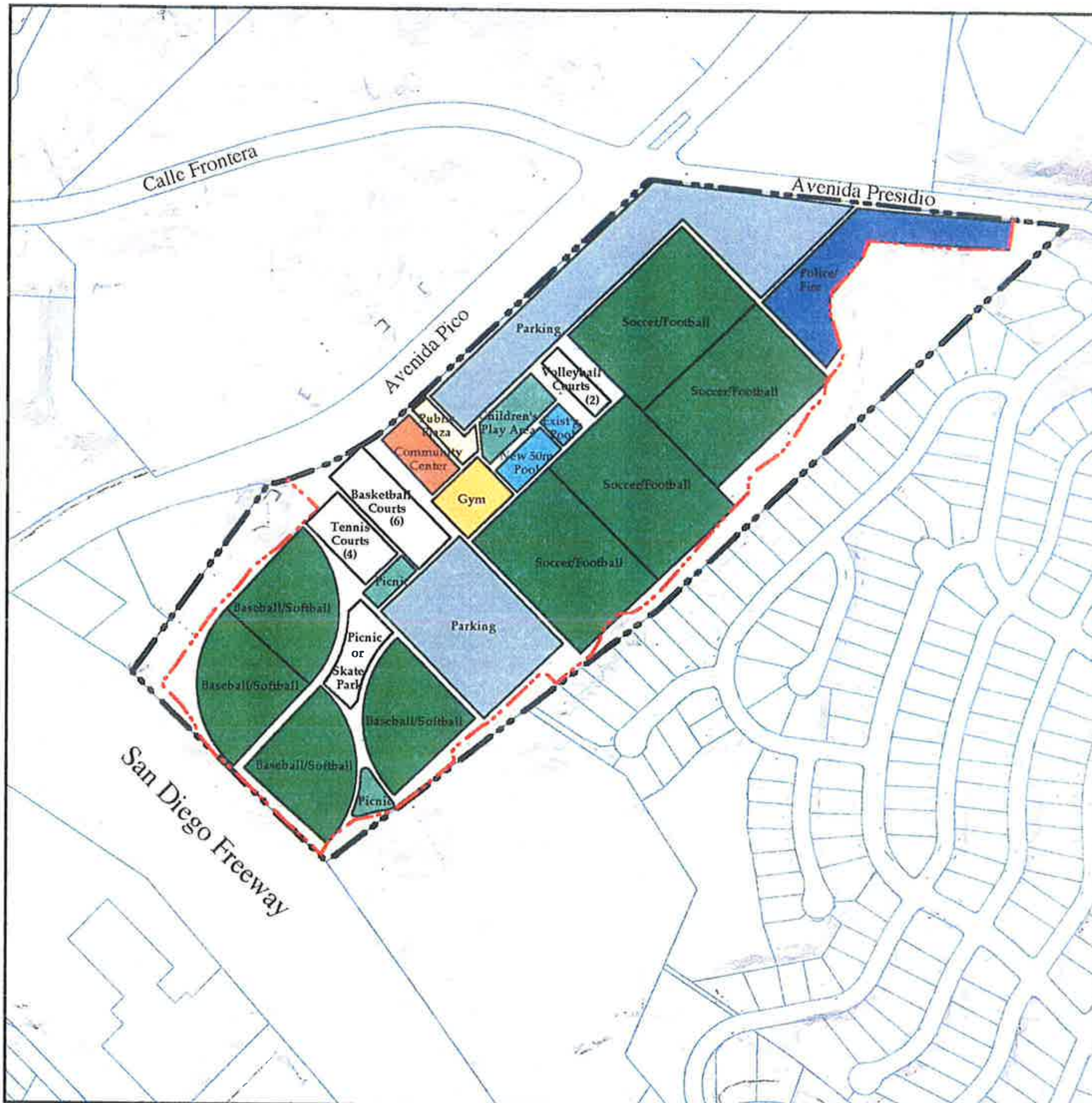
Scheme A1
Programmed Recreational Facilities (New)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-1



Note: Police/Fire Area = 1.8 AC

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

Scheme- A2

Programmed Recreational Facilities (New & Reuse)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-2

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

Scheme B1-Reduced Recreational Facilities (New)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-3

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

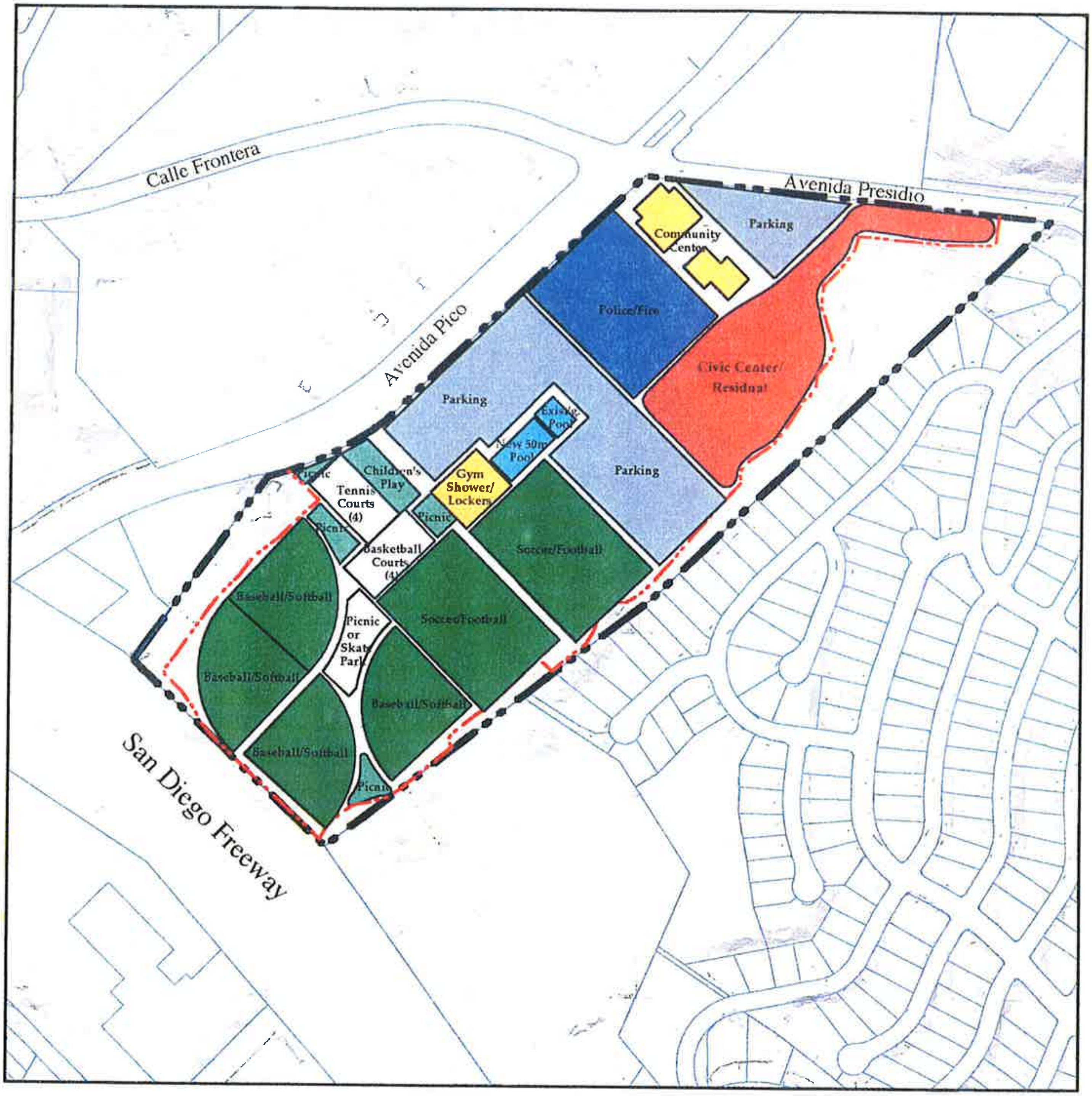
Scheme B2-Reduced Recreational Facilities (New & Reuse)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-4



Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

Scheme B3-Reduced Recreational Facilities (Reuse Only)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-5

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

Scheme C1-Minimum Recreational Facilities (New)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-6

Not to Scale

CITY OF SAN CLEMENTE
HIGH SCHOOL SITE ASSESSMENT

Scheme C2-Minimum Recreational Facilities (Reuse)

RBF CONSULTING

PLANNING ■ DESIGN ■ CONSTRUCTION

1/21/02

Exhibit 2.3-7

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.

Summary

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, or blue print, for the downtown, a sequence of events needs to occur which will be discussed latter in this report. Considerable public input will also 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.

Background

Infrastructure

In the mid 1980's, the City of San Clemente made significant infrastructure improvements to Avenida Del Mar. These improvements were primarily for the purpose of beautification and creating a pedestrian atmosphere. Trees, landscaping, sidewalk pavers, lighting, street furniture, and bulb-outs were installed. In the year 2002 and 2003, the City will make similar beautification improvements to El Camino Real between Palizada and Presidio. These improvements along El Camino Real are also for the purpose of creating a more pedestrian friendly atmosphere and psychologically slowing of traffic. The beautification efforts will consist of the addition of canopy trees, landscaping, new sidewalks, street lighting, street furniture, and bulb-outs, primarily located at major intersections. In addition, alley improvements will be made to alleys running parallel to El Camino Real at the top of Del Mar. The purpose of those improvements will be to create and encourage pedestrian access between parking resources, located primarily at the rear of buildings along Del Mar, and the pedestrian streetscape that runs along Del Mar and El Camino Real. Those improvements will also include an enhanced walking surface, the addition of lighting, landscaping, street furniture and urban artwork.

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.

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?

The parking resources discussion must be thoughtfully examined. A parking analysis of current situations needs to be conducted in order to determine how much parking there is, given today's economy. Where is that parking located? What are the future needs given various build-out scenarios, and how can that parking be best provided (surface lots, structures, etc.), and who should pay for additional parking resources.

Other important observations regarding parking programs that should be noted are:

- Prior to Council authorization of a parking waiver program for outdoor seating for cafés in 1990, there were no outdoor cafés on DelMar or El Camino Real between Palizada and Presidio.
- A parking in-lieu fee program, in existence between 1988 and 1998, resulted in no significant new construction in the downtown area for that 10 year period of time.
- In 1998, the Council implemented a parking waiver program, which leads directly to the processing, approval, and construction of Plaza Del Mar and the Goshawk Plaza projects, currently under construction.
- The increased parking demands that most people have noticed in the downtown area is not the result of new construction, but rather it is the result of increased business at existing business locations.

Other infrastructure improvements may include additional beautification efforts. For example, additional alley access and beautification would be highly desirable. Another type of infrastructure improvement would include the location of civic offices, cultural, or recreational facilities in the downtown area. The pros and cons of locating various civic offices, meeting rooms, library expansions, senior centers, cultural facilities, and/or recreational facilities in the downtown area will be considered in the analysis of the high school land-swap that is discussed in a separate issue paper of the LTFP.

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. After data is collected from the high school land-swap study, and parking resource studies, community outreach and community committees should be established to discuss and recommend updates to current land use policy affecting the downtown area. 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. Therefore, parking infrastructure planning, land use policy, and economic analysis, will need to be an iterative process before policies are finalized. Lastly, should the limits of the design district overlay be extended? Currently the design district runs up and down DelMar and along El Camino Real from Palizada to Presidio, should those boundaries be extended? How rigid or flexible should the design requirements within the architectural overlay district be applied?

Obviously, there are many interesting questions that need to be discussed in an open community forum. Staff can not answer these questions. However, the community should not begin a discussion and reach conclusions until staff has had time to prepare technical information that will flow from the already commissioned high school land-swap study and the to be commissioned parking analysis studies and economic studies that will be developed in the coming year.

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.

To date the following progress has been made toward establishing a Main Street Program.

In concert with the City Council's interest and direction in pursuing a Main Street Program for the Downtown, the Downtown Business Association in May 2001, sanctioned the creation of a special Main Street Formation Committee (MSFC). The purpose of this committee has been to develop and submit a Main Street Certification Application for State approval with the end objective to be designated as a Certified Main Street program. The MSFC has been meeting regularly (at least twice a month) since May and excellent progress has been made in the completion of the Certification Application. There are four key elements in the Application:

- Organization – Provides the historical background of the community with particular focus on the proposed Main Street District and provides requisite informational background on the proposed structure of the Main Street organization, its bylaws, operating budget, staffing requirements and office location.
- Design – Provides program guidance in educating landlords and tenants about quality exterior and interior design elements with an emphasis on City provided design standards and incentives.
- Marketing – Provides an understanding of current market trends and related dynamics taking place locally and regionally; identification of key assets possessed by the District including architecture, heritage, businesses and geographic location and developing an understanding and promotion of the District actual market niche.
- Economic Restructuring – Identifies new market opportunities for the District; finds adaptive or new uses for historic commercial buildings; facilitates and stimulates new investment and reinvestment in existing structures or undeveloped properties; and strengthens existing businesses while effectively recruiting new businesses to the District.

It is the Committee's intention to complete the final draft of the Certification Application by the end of the calendar year and then present it to various organizational stakeholders in the community for input and revision. Notable among these stakeholders will be the Downtown Business Association, the San Clemente Chamber of Commerce, and the San Clemente City Council. Once the local review process has been completed, necessary revisions are made, and the Downtown Business Association gives its authorization, the Certification Application will be submitted to the State California Trade & Commerce Agency for review and approval in April or May of 2002.

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

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. San Clemente was one of the first communities in the State to establish (1928) an architectural overlay district. The architectural design style that was established was of course, the Spanish Colonial Revival style. New found appreciation and commitment to this style began in 1980, and has continued to evolve over the past 20 years. 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 deign 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.

Next Steps

Development of Downtown Strategic Plan (DSP) will require a number of interactive and interrelated steps (Chart). 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, P.C., CC.
- Design Committee (possibly the PC/DRC).
- Economic Analysis.
- Refined parking facilities plan, Infrastructure Master Plan, and Land Use policies.

Conclusions

Historically, San Clemente citizens have reacted best to slow gradual and incremental change. This requires a consistent and long-term strategic approach by the Council, Commissions, and citizens of the City. The Downtown Strategic Plan outlined above, consist of four major components: 1) Infrastructure, 2) Land Use policy, 3) Marketing, and 4) Design. While downtown revitalization is important from a tax base standpoint, it is perhaps even more important due to impacts of a revitalized downtown and Pier area upon the social and cultural fabric of the community. Photographic evidence indicates that, positive yet incremental enhancements can and do happen over time (See attached photos of San Clemente in 1981 and 1996.)

Recommendation

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.

Fiscal Impact of Recommendation

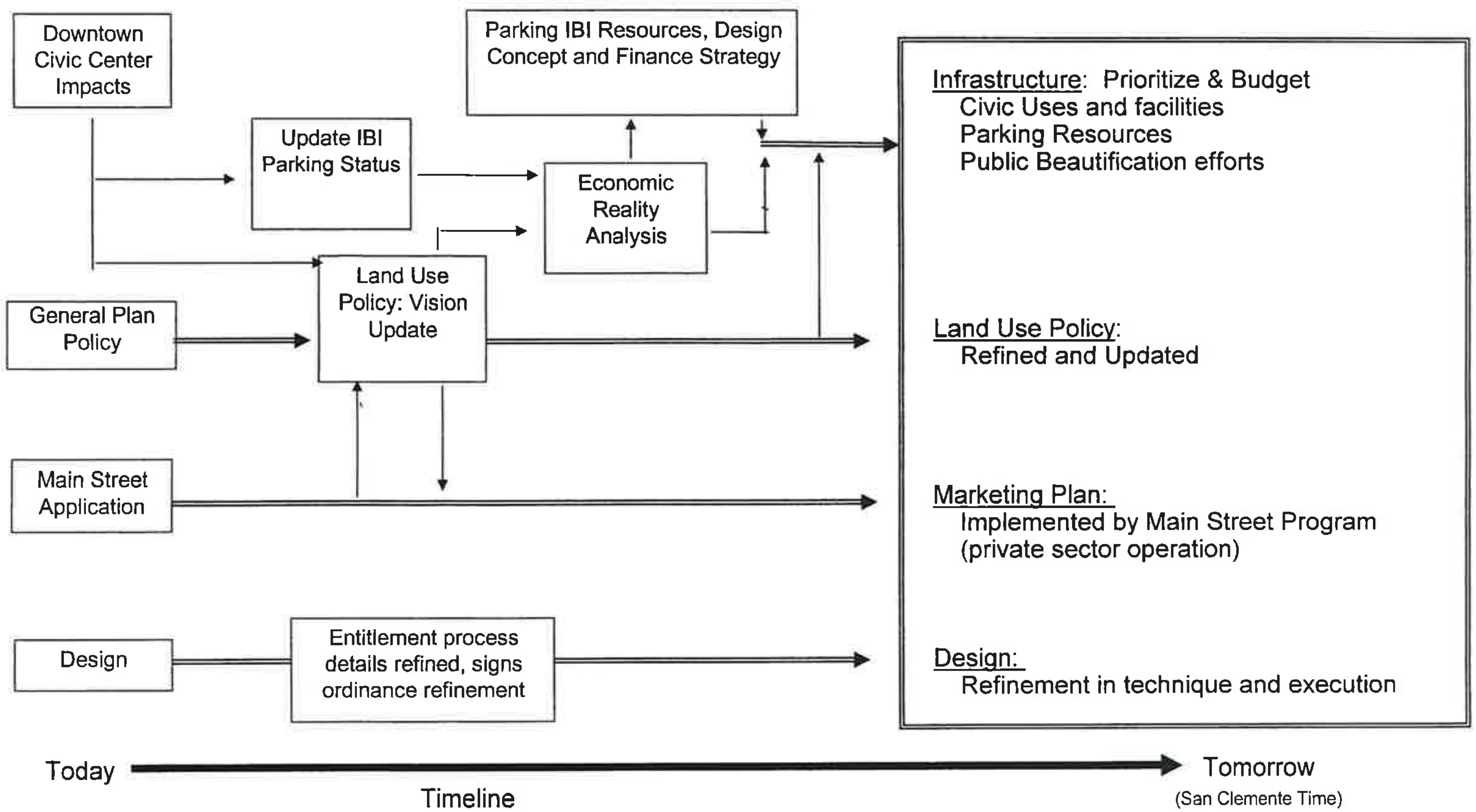
Money already budgeted for the General Plan Update ($100,000) can be used for this project. Public workshops and meetings will be needed before a more definite Downtown Strategic Plan process and budget can be established. Long Term Capital and O&M cost will be determined as the plans are developed and recommended for implementation approval.

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.

Strategic Plan or Blueprint for Downtown



ATTACHMENT A

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.

Background

The Environmental Program consists of various projects and initiatives that collectively address environmental and related issues facing the City. The purpose, status, and fiscal impacts of current (FY2001-02) approved work plans, as well as other efforts, are discussed below.

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

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

Status: The Corps of Engineers' recently completed Reconnaissance Study determined that there is a Federal interest in proceeding to the Feasibility Study Phase. The Corps completed, and staff reviewed, a Draft Project Management Plan (PMP) which describes the tasks to be conducted during the Feasibility Study, along with the overall schedule and associated study cost. The Corps has finalized the PMP and entered into a cost-sharing agreement, which was approved by Council on September 5, 2001. The Feasibility Study is expected to last approximately 2-1/2 years.

Fiscal Impact: Potentially significant. The City will be required to fund 50% of the estimated $1.7 million dollar cost of the Feasibility Study, which may come from City or non-Federal grant funds as well as in-kind services. The Council appropriated $75,000 this fiscal year (FY02) toward the first year of the Feasibility Study. The City was also awarded a State grant from the Department of Boating and Waterways in the amount of $425,000. The City will also receive approximately $125,000 of in-kind credit for work performed for sand monitoring and an economic analysis. The table on the following page summarizes the funding sources for the Feasibility Study. If the City isn't able to reduce or satisfy the remaining $225,000 cash contribution by obtaining another State grant for FY02 or FY03, the City will be required to fund this shortfall unless it is successful in obtaining a grant(s) to offset its "local" share in subsequent years.

Feasibility Study Funding Sources

Federal 50% share	$ 850,000
State grant for FY2001-02	$ 425,000
City in-kind contribution	$ 125,000
City FY2000-01 cash contribution	$ 75,000
City remaining cash contribution	$ 225,000
Total Feasibility Study Cost	$1,700,000

Coastal Bluffs and Canyons Management Guidelines

Purpose: To create a comprehensive set of guidelines for the management of coastal canyons and bluffs.

Status: Staff has hired a Landscape Architect to develop the scope of work that will inventory coastal bluffs and canyons, and this inventory will be used to develop management guidelines regarding the use of plant materials, drainage structures and methods, and access improvements along the canyons and bluffs. The initial inventory of properties and a related draft report have been completed. A multi-color educational brochure, describing suggested guidelines for owner improvements and related resources is being developed for property owners and is based on successful model templates used in Dana Point and other cities. The report and draft brochure is expected to be presented to the Coastal Advisory Committee in February or March 2002, with City Council review in April 2002.

Fiscal Impact: No impact. The City Council approved $20,000 in the FY 2000-01 budget for this work effort.

Management of Beach Facilities Policy

Purpose: To develop policies regarding the protection, retreat, or replacement of beach facilities threatened by sand erosion.

Status: A Policy for the Management of Beach Facilities was developed by staff and the Coastal Advisory Committee in June 2001. The policy will be used to determine which facilities should be protected and by what methods, which facilities should be replaced with improved structures (permanent or portable), or which facilities should be relocated out of harms way. This policy was approved by the Parks and Recreation Commission in July 2001 and the City Council in August 2001.

Fiscal Impact: No impact.

Sand Replenishment Policy or Ordinance

Purpose: To develop a policy or ordinance regulating the quantity, quality, and environmental impact of future sand replenishment or nourishment projects.

Status: A request was submitted to the City Council on September 5, 2001 to assign the Coastal Advisory Committee the task of creating a Sand Replenishment Policy. This task was approved and preliminary work began in November 2001. A consultant was hired to assist in researching the current regulations, parameters, and environmental impacts of sand replenishment.

The project will involve obtaining parameters and regulations currently in effect, studying the natural processes in this coastal region in order to best mimic nature, and determining the environmental impacts of such projects. Once the research is completed and parameters have been drafted, staff and the Coastal Advisory Committee will work to draft the policy or ordinance with a target date for a first draft of March 2002. Revisions will be presented to the Coastal Advisory Committee in May, with the final policy going to the Parks and Recreation Commission and the City Council in May or June 2002.

Fiscal Impact: The total budget for this project is $4,000 for consultant work, approved by Council in September 2001.

Sand Monitoring

Purpose: To provide necessary field data for sand nourishment studies, particularly the upcoming U.S. Army Corps of Engineers Shoreline Erosion Feasibility Study.

Status: A coastal engineering firm has been contracted to perform bi-annual sand monitoring, for five years, at 11 sites between Dana Point and San Mateo, with work beginning in October of 2001. This Sand Monitoring Program will meet the needs of the U.S. Army Corps' of Engineers' pending Feasibility Study on beach sand erosion.

The first monitoring survey was completed in October 2001, with the initial report released in December 2001. Historical data, from surveys taken from 1983-1988, were compared with this initial data. While one data set such as this is inconclusive, the data does point to an accelerated rate of erosion from 1983-88 (following the intense El Niño of 1983) and a reduced, but consistent rate of erosion from 1988 through 2001.

Fiscal Impact: The total budget for bi-annual monitoring and reporting on 11 sites is $117,000. This will be compensated by an in-kind credit towards the Feasibility Study as described above.

Coastal Advisory Committee (CAC)

Purpose: Due to shoreline erosion and urban runoff/water quality concerns, the City Council established a Coastal Advisory Committee to advise the City Council, Planning Commission, Parks and Recreation Commission, and staff on general coastal zone policies and to serve as an advocate on coastal related issues.

Status: The CAC started meeting in November 2000 and has met at least monthly since then. The CAC meets on the second Thursday of each month at 7:00 p.m. in Multi-Purpose Rooms #1 and #2 at the Senior Center, located at 242 Avenida Del Mar.

Fiscal Impact: No impact. The City Council approved $8,000 in the current FY2001-02 budget (under Beaches, Parks, and Recreation Administration) to support the CAC activities. Since the CAC is a continuing effort, it is expected that funds to cover CAC support functions will continue to be budgeted in future fiscal years.

Marblehead Coastal and Opportunistic Sand Replenishment Programs

Purpose: The purpose of these programs is to obtain permits for a one-time beach nourishment project and for other future opportunistic sand sources. Lusk Development Company, the developer of the Marblehead Coastal project, has agreed to pay the cost to obtain two permits. The first permit would be for the placement of 30,000 cubic yards of sand (currently stockpiled on the project site) onto City beaches, subject to their obtaining a Coastal Development Permit for their project. This project is currently on-hold and may not be possible due to new constraints placed upon the Lusk Development Company, by the California Coastal Commission, regarding excavation of the stockpiled sand.

The second permit would be designed to create a "streamlined" process and permit to allow for future sand nourishment projects, as opportunistic sand and funds become available. This project is still in the permit application process.

Status: The Final Mitigated Negative Declaration for the Marblehead Coastal Sand Replenishment Project has been completed. Final approvals by interested resource agencies, including the Coastal Commission, State Lands Commission, U.S. Army Corps of Engineers, and Regional Water Quality Control Board, have not been obtained, due to the possibility of the project being halted by the Coastal Commission. The permit process for a streamlined opportunistic replenishment permit should be completed by June 2002.

Fiscal Impact: Undetermined. The Lusk Company has agreed to obtain the specific permit for a one-time nourishment project, should it occur, and to obtain the blanket permit for continuing nourishment project opportunities. The Lusk contribution is capped at $75,000. City funding contributions will be substantial street repairs after the placement of sand is completed for each project and sand sifting to remove fines for the Lusk or other opportunistic projects.

Rail Corridor Pedestrian Beach Trail

Purpose: To address safety and access issues along the coastal railroad tracks, the Council formed the Railroad Corridor Safety and Education Panel (RCSEP). The RCSEP developed specific design criteria and a list of recommendations for coastal access from Poche Beach to San Clemente State Park. Their recommended improvement plan addresses both safety issues associated with crossing the railroad tracks at designated beach access points and safety issues with pedestrians traveling parallel to the railroad tracks within the railroad right of way.

Status: On January 19, 2000, the City Council unanimously accepted the Railroad Corridor Safety Improvement Plan and directed staff to work with Orange County Transportation Authority (OCTA) to implement the project. On April 24, 2000, the OCTA Board of Directors also unanimously accepted the Railroad Corridor Safety Improvement Plan. The City and OCTA then worked jointly to redefine the existing Federal Transportation Enhancement Activities (TEA) grant based on the recommendations in the Railroad Corridor Safety Improvement Plan. The City then reapplied for the TEA grant. The revised project has been renamed the "Rail Corridor Pedestrian Beach Trail". OCTA and Caltrans have approved the TEA funding and obligated funds for the design phase of the Rail Corridor Pedestrian Beach Trail. The project limits extends from North Beach to San Clemente State Park and includes rail crossing improvements and a trail.

A design services agreement with a consultant team to prepare a preliminary design and environmental documentation (Phase I of the project) was approved by the Council in December 2000. The notice to proceed with this work was issued in January 2001 with a scheduled completion by summer 2001. Phase II of the project consists of final design, regulatory agency permitting and execution of a license agreement between OCTA and the City to define trail and rail crossings, as well as ownership and maintenance responsibilities. Phase II of the project is scheduled to be completed by May 2002 with project bid advertisement and project construction to commence thereafter.

In the fall of 2001, a draft design concept that meets the needs of the community while balancing the need for a natural, but structurally safe trail, one that meets federal Americans with Disabilities Act (ADA) requirements, considers appropriate and aesthetically pleasing fencing materials, and is engineered to overcome major obstacles such as Mariposa Point. This design was presented to the railroad authorities, and unfortunately, was rejected. Staff believes that it would not be in the best interest of the community to dramatically deviate from this design, but rather, believes the community will be best served by working with the railroad agencies to hopefully obtain exemption to their current policies as partners in the development of this project.

With the above in mind, City staff is proceeding to complete the preliminary design and draft environmental documentation to present to the Public in February or March 2002 using the direction of RCSEP report with some exceptions recommended by the design team and SCRRA/CPUC. At the suggestion of SCRRA/CPUC possible pedestrian rail under-crossings are also being considered at Linda Lane and Calafia Parks. Permitting of the project by CPUC will most likely delay anticipated final design completion for the project and may require request for funding time extension from OCTA. However, it is critical that the design of the trail be acceptable to the community and the extra time to hopefully obtain compromises from the rail authorities is considered appropriate and necessary.

Fiscal Impact: The total budget for the design and construction phases of the project is estimated to be $5.26 million. Funding for the design and construction of the project is planned to be provided from a Federal TEA grant ($3.285 million), a State Coastal Conservancy grant ($590,000), a State Bicycle and Pedestrian Facilities grant ($228,000), the City's Air Quality Improvement Fund ($336,650, State Proposition 13 grant (176,000) and the City's General Fund ($644,000).

Low-Flow Diversion Projects

Purpose: The purpose of the projects discussed below is to alleviate dry weather water quality and nuisance problems at several locations within the City by diverting dry weather low-flows for treatment at the City's wastewater treatment plant.

Status: Staff completed work on two low-flow diversion projects in October 2001, one at Linda Lane Beach and one at Riviera Beach.

Fiscal Impact: The City Council approved $20,000 in the FY 2001-02 budget for the Linda Lane and Riviera diversion projects, and the City received $10,000 as part of the 50/50 cost-sharing agreement with the County for these two projects. An additional $29,580 was transferred into the project from the City Council contingency, due to the expansion of the project to include a handicap parking space and attendant facilities at Linda Lane Park.

City staff continues to coordinate with the County of Orange on its proposed diversion project for Poche Beach. At a meeting in November 2001 with the County of Orange, South Coast Water District (SCWD), South Orange County Wastewater Authority (SOCWA) and the City, it was agreed that the County will proceed with the development of a project to divert dry-weather flows into a nearby SCWD sewer main and the City's land outfall. However, diversion into the land outfall will require approvals from the Regional Water Quality Control Board, Coastal Commission, SOCWA and the City. It is unknown whether the regulatory agencies will allow diversion of dry-weather flows directly to a sewer outfall. This project, if constructed, would be intended as an interim measure to treat dry-weather runoff until longer-term non-structural and/or structural measures identified in the City's Urban Runoff Management Plan take effect.

Recommendation

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

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 will discuss a general city-wide sidewalk inspection and replacement program and more specific alternatives for a historical red tile sidewalk preservation, repair and replacement program.

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 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.

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

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.

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.

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.

The City Council has discussed the possibility of reconstructing entire blocks of historical red tile sidewalks versus repairing them piecemeal, as has been the practice. Historical tile sidewalk locations are shown on the attached Exhibit A maps. City Engineering Division staff performed a detailed sampling of several streets with red tile sidewalks. The combination of mixing and matching concrete and tile and the poor condition of significant sections of tile sidewalks on many blocks make it virtually impossible to reasonably preserve or repair the tile sidewalks. For many blocks having tile sidewalks, the only logical solution may be to replace all of the sidewalks with a new walkway surface to achieve any reasonable consistency.

Another factor discussed by City Council was the proximity of tile sidewalks to designated historical structures. A preliminary survey identified only 15 designated historical structures in the immediate area of historic tile sidewalks.

If the City Council wishes to preserve the historical tile sidewalk style, Engineering Division staff has recently identified a manufacturer willing to provide a concrete tile which complies with ADA skid-resistance standards to match the size and color of the existing historical red tiles. The cost of installing concrete tile over a 4-inch concrete base versus a 4-inch red concrete sidewalk is conservatively estimated at $22.50 and $14.50 per square foot (SF), respectively. Replacing the 148,800 SF of existing tiles with concrete tiles at $22.50/SF, will cost approximately $3.35 million as compared to $2.16 million for red concrete and $1.93 million for standard gray concrete. These estimates understate the true cost of replacing entire blocks of sidewalks where sections of tile sidewalks exist because there are no streets on the survey whose sidewalks are 100% tile. They range from 21.6% to 90.2% tile, meaning there are significant areas of concrete sidewalks and drive approaches that may also require replacement. If 100% of the tile and concrete sidewalks and drive approaches were replaced with tile, construction costs could increase to an estimated $6 million range. If the City Council wishes to develop a tile sidewalk preservation and replacement program, Engineering Division staff recommend that the City Council require drive approaches to be constructed of concrete, unless it can be clearly demonstrated the new concrete tile can withstand vehicular loads.

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.

Background

There are approximately 146.6 miles of sidewalks along the 120 miles of public streets and many miles of sidewalks along the approximate 30 to 40 miles of private streets in San Clemente. This report only discusses issues concerning sidewalks in public rights-of-way since those sidewalks in private rights-of-way are the responsibility of homeowner associations and adjacent property owners. The proper repair and maintenance of sidewalks is important to maintaining safe paths for pedestrians and neighborhood aesthetics. Broken and cracked sidewalks with vertical and horizontal separations can be hazardous and unattractive.

The California Streets and Highways Code Chapter 22 places the responsibility for maintenance of sidewalks on the owners of lots or portions of lots fronting public streets. The Street and

Highways Code sets forth the manner in which local governments provide property owners with "Notice to Repair", the process to require property owners to repair or replace defective sidewalks, authority for local governments to do so if the property owner does not and to obtain reimbursement from the property owner.

The City of San Clemente has followed the State Streets and Highways Code with Engineering Division and Code Enforcement staff providing notice to property owners to repair their sidewalks except where it has been determined that a City-owned street tree or utility has caused the sidewalk defect. In that instance, the City performs the repair at City cost. In 1993 these practices were memorialized with the passage of Ordinance 1115 that created Section 12.24.050 of the Municipal Code relating to sidewalk maintenance.

Many property owners are surprised to learn that they are responsible for repairing and replacing sidewalks in the public rights-of-way fronting their properties. This is especially true when they report sidewalk defects to the City and then are required by the City to repair them. No formal survey has been performed, but many Orange County cities have accepted sidewalk repair responsibilities and they include the repair costs in their annual budgets. There are cities in other parts of the State and country that require property owners to maintain sidewalks. The attached Exhibit B provides results of a sidewalk repair responsibility survey conducted by staff.

The City has never had a Sidewalk Inspection Program where staff inspects sidewalks to locate hazardous sidewalk sections and then have the City or property owners perform the necessary repairs, depending on which party is responsible. This has resulted in a large backlog of unrepaired sidewalk defects at unknown locations.

This fall the City hired Berryman and Henigar (B&H) to perform a sidewalk inventory and condition survey to determine how many types and miles of sidewalk there are in the public right-of-way and their general condition. The sidewalk network in public rights-of-way includes approximately 146.6 linear miles or about 3,666,000 SF of sidewalk. Of that amount, approximately 30,760SF or 1%, requires replacement and another 9,255 linear feet (LF) need to be ramped or ground.

Below is a summary of the survey:

Length (MI)	Sidewalk Type	Ramp/Grind (LF)	Replace (SF)	Total Area (SF)
130.38	PCC – Gray	7,143	19,470	3,173,460
5.35	Tile	988	8,808	148,842
9.30	PCC – Red	984	1,541	327,816
0.91	Pavers	69	481	39,624
0.13	Brick	50	462	3,275
0.03	PCC – Yellow	31	-0-	646
0.54	Asphaltic Concrete			17,955

Section 12.24.050 C of the Municipal Code states:

A. Sidewalk Maintenance

1. The property owner shall repair and/or replace any sidewalk adjacent to other property in accordance with City specifications as follows
    a. When there is a three-quarter (3/4) inch to one (1) inch vertical separation in any portion of the sidewalk, the property owner shall ramp or grind the sidewalk to eliminate the vertical separation.
    b. When there is over one (1) inch vertical separation, the property owner shall replace the damaged section of sidewalk to eliminate the separation.
2. The property owner shall not be responsible to repair and replace sidewalks adjacent to their property when vertical offset is greater than one (1) inch and:
    a. The damage was caused by the City street trees:
    b. The damage was due to City utility cuts.

The sidewalk survey performed by B&H placed sidewalk defects into three categories based upon degree of vertical separation. A summary of the number of sidewalk deficiencies follows:

Vertical Separation	Repair Method	Number of Locations/Sidewalk Type			
		Tile	Grey Concrete	Red Concrete	Total
Low ¾" to 1"	Ramp/grind	225	1,848	234	**2,307**
Medium 1" to 2"	Replace	108	437	37	**582**
High < 2"	Replace	50	205	18	**273**
	Total	**383**	**2,490**	**289**	**3,162**

The results of the survey reveal there are 2,307 locations with ¾-inch to 1-inch vertical separations that require ramping/grinding and 855 locations with vertical separations exceeding 1-inch that require replacement. If the cost of ramping/grinding is estimated at $100 per location, the total cost would be about $250,000.

Cost estimations to replace the 855 sidewalk locations with vertical separations is much more problematic. Differing conditions, size and locations of defective sidewalks make it difficult to precisely estimate replacement costs. Staff asked 6 contractors to provide rough cost estimates to replace sidewalks in small quantities at various locations. Only one contractor provided estimates and others were reluctant to do so or do not pay their employees prevailing wages. Experience over the years in this community has shown that rough estimates are often optimistic. Governmental agencies typically pay higher construction costs than private companies or individuals because State laws require cities to pay prevailing wages on all public works improvements projects. The cost estimates provided in this report are intended to show the relative cost differences of repair/replacement alternatives. Individuals may be able to obtain bids for substantially less.

Below are one contractor's estimates and estimates used by staff for this report:

	Contractor's Est. ($ per SF)	Staff Est. ($ per SF)
1. Remove & replace std. gray concrete at 20 locations with 50SF to 300SF per location.	$ 9.75	$13.00
2. Remove & replace red concrete at 20 locations with 50SF to 300SF per location	10.75	14.50
3. Remove & replace red tile on 4" concrete base at 20 locations with 50SF to 300SF per location	16.75	22.50
4. Remove & replace one City block with red tile on concrete base	16.75	22.50

Removing and replacing 30,160 SF of deficient sidewalks is estimated to be about $500,000. When the City has had to replace tile sidewalks where City street trees have damaged them, the cost has been much higher than originally anticipated because customarily a much larger area than that containing the vertical separation has required replacement. This is because of the generally poor condition and original installation methods of the historical tile sidewalks. Sometimes the entire frontage of a lot must be replaced even though the vertical separation or heaved section of sidewalk is only a few feet in length.

The City will have some responsibility in repairing/replacing sidewalks where the City has determined that a City-maintained street tree or City-owned utility has caused the damage. Of the 3,162 defects noted by Berryman and Henigar, there were 668 in the vicinity of a tree (City or property owner maintained) and 1,411 near a utility box (City or other utility company). A more thorough investigation will be necessary to determine both whether a tree or utility box is City-maintained and whether that tree or utility box is the cause of the sidewalk deficiency.

Historical Tile Sidewalks

The preservation or replacement of historical red tile sidewalks has been an ongoing source of discussion and concern for years. City Councils, City staff and property owners have struggled to develop acceptable solutions to repairing and replacing the deteriorating tile sidewalks. In June 2001, the Beaches, Parks and Recreation Director presented a report to the City Council on replacement alternatives and cost estimates. Some of the options discussed by the Council have ranged from preserving as much of the existing tile as possible to replacing entire blocks so as to provide some consistency in the replacement of the sidewalks.

The preservation and replacement of historical tile sidewalks has been considered problematic because of staff's inability to locate similarly sized and colored replacement materials. As Council is already aware, historical tiles are no longer manufactured. Within the past several weeks, the Engineering Division's Management Analyst contacted a manufacturer of concrete tiles who is willing to develop a mold and make concrete tiles in a color and size acceptable to

City. Samples have been submitted that comply with ADA skid-resistance standards and cost from $2.70 to $3.00 per square foot for the material.

The B&H sidewalk inventory accounted for vertical separations exceeding 3/4-inch, but did not evaluate other factors affecting the overall condition of the tile sidewalks. Engineering Division staff then performed a sample survey of several blocks with tile sidewalks. The Historical Tile Sidewalk Survey results are shown on Exhibit C. Of the blocks surveyed, approximately 52.5% of the total sidewalk frontage is tile with the remainder of the sidewalk being red and gray concrete and other surface materials. Staff then evaluated the overall condition of the tile sidewalks and found approximately 31.5% to be in poor condition and in need of replacement. On average this means, that 15% of the sidewalks should be replaced on the streets surveyed by City staff. It will be very expensive and may prove difficult to justify the removal of the remaining 85% of concrete and tile sidewalks in serviceable condition if there is a desire to replace all the sidewalks with tile sections to provide consistency.

City staff also inventoried the number of segments of good tile, poor tile and concrete sidewalks and found that in 28,635 LF of sidewalk there were 935 different segments. This results in each segment averaging 30.6 LF, meaning that it would be impossible to preserve the sidewalks through repairs and not have a patchwork quilt effect of preserved tile, replacement tile or new concrete and existing concrete sidewalks and drive approaches. There are, however, some existing blocks where longer sections of good tile sidewalks can be preserved. Development of a comprehensive historical tile sidewalk preservation and replacement policy continues to be a very complex task.

Further complicating matters in older parts of town with sidewalks, are the treatments property owners have applied to parkways between the curb and tile and concrete sidewalks. Some parkways are landscaped, but many have been filled in with a variety of materials including gray and red concrete, stamped red concrete, bricks, pavers, etc. Any efforts to preserve or replace the tile and concrete sidewalks will need to consider what should or should not be done with the parkways. The cost of any tile preservation or replacement program will be significantly impacted by decisions made to retain or replace the non-conforming parkway hard surfaces. In certain instances, the parkway hard surface will have to be replaced because of incompatibility of the new sidewalk grade or deficiencies in the parkway hardscape.

Implementing any sidewalk repair and replacement program option will entail a major effort for City staff to manage and inspect these improvements. If property owners are required to pay the entire cost, the City will prepare and post/mail notices for replacement of at least 855 sidewalk sections. Citizens will need to obtain no fee permits and the City will, of course, perform inspections. Using the City's $120 permit and inspection fee cost, the City's cost to provide this service will be $102,600. For those property owners not responding to the notice to repair, additional follow-up will be required and the City will ultimately have to perform the repairs if the property owners do not. The City will then invoice the property owners for the administrative and construction costs. If these costs are not paid, the unpaid invoices will be brought before the City Council at a Public Hearing to place a lien on affected properties. The staff time and cost to perform this work is significant and could add another $100,000 expense. Theoretically, the City should be able to recover these costs when liens are paid.

If the City performs the sidewalk repairs at City cost, or cost-shares with property owners the repairs would be performed through the public contracting process. City staff or consultants would prepare bid documents for the sidewalk locations to be replaced. A determination would be made by staff as to the nature and extent of each repair required at each location. Property owners would be notified of the City's intent to repair. Some property owners might choose to contact the City and request additional sidewalk be replaced beyond those sections considered deficient. This could significantly increase the sidewalk repair program cost. The administrative and construction management costs of this alternative would be similar to those of the alternative where the property owner is responsible for the repair cost.

Sidewalk Repair/Replacement Financing Alternatives

Four options for financing the cost of sidewalk repair/replacement are:

1. City pays entire cost from General Fund
2. The Street Assessment District is amended to include sidewalk repair/replacement and assessments to property owners within the entire City are increased
3. Property owners are required to finance the cost of repairing/replacing their sidewalks
4. Assessment Districts are initiated by the City or property owners of individual streets or neighborhoods to replace historical tile sidewalks with new concrete tile sidewalks

City Pays From General Fund

Advantages

- City can develop a long-term repair/replacement program that systematically repairs and replaces sidewalks with available funds
- Lowest administrative costs option since no assessment district administration and less property owner notification/interaction required
- Cost of sidewalk repair/replacement will not be a burden on individual property owners

Disadvantages

- Transfers the financial and liability responsibilities of repairing/replacing sidewalks onto the City from the property owners
- Assuming an optimistic 100-year sidewalk life, approximately 1% or 37,000 square feet of the City's 3.67 million square feet of sidewalk should be programmed for replacement each year at an approximate annual cost of $400,000

- The City's Fiscal Impact Model does not contemplate the City's General Fund paying for repair/replacement of the City's sidewalks. Reduction or elimination of other programs could be a result of this funding option.
- If City pays entire repair/replacement cost, demand from residents for higher quality sidewalks can be expected, similar to what has been experienced when the City began upgrading its substandard streets.

Street Assessment District

Advantages

- City can develop a long-term repair/replacement program that systematically repairs and replaces sidewalks with available funds
- A stable funding source not impacting the General Fund will pay for sidewalk repair/maintenance
- Costs can be spread among all property owners in the City
- Administrative costs will initially be high, but will be relatively low once the district amendments are completed

Disadvantages

- Any amendment increasing property owner assessment will require a majority affirmative vote of those property owners voting on the issue. There will be a significant cost to prepare and mail ballots to 24,000 plus property owners and to tally the results.
- Assessing sidewalk repair/replacement costs on a City-wide basis may be more complicated than the street pavement overlay and replacement program
- The Street Assessment District only differentiates assessments on those properties fronting private and public streets for residential and non-residential properties
- The City may need to consider a differential assessment for those properties who do not have sidewalks fronting their properties versus those that do
- Properties fronting on private streets will receive a lesser sidewalk repair/replacement assessment than those fronting public streets, as now occurs for the street overlay/replacement program
- There will be a cost to develop a new assessment methodology for sidewalk repair/replacement and then to prepare the assessment roll
- The Street Assessment District is scheduled to expire in 2013, meaning this source of funds will sunset, unless the City Council votes to continue the ongoing Benefit Assessment Act portion of the district.
- For this report's purposes, a $250,000 annual assessment for sidewalk repair/replacement using current assessment methodologies, would mean that property owners' assessments would rise from a total of $1,350,000 to $1,600,000 per year or an average of 19%.

Property Owner Pays

Advantages

- Property owners who benefit from having well-maintained sidewalks will pay for repairing/replacing sidewalks fronting their properties
- Burden on the City's General Fund or other City financing mechanisms will be minimized

Disadvantages

- Higher City administrative costs to notify property owners to repair for, follow through and placing liens on properties if they do not cooperate
- Property owners dissatisfaction with the City because they believe it should be the City's responsibility to maintain sidewalks on the public rights-of-way
- Lack of a comprehensive program to repair/replace and, if desired, to develop a neighborhood-wide means to replace historic tile sidewalks

Assessment Districts For Historical Tile Sidewalk Replacement

Advantages

- Entire blocks or neighborhoods with historical tile sidewalks can be replaced at same time, providing an aesthetic, high quality and consistent walkway surface
- Assessment districts allow the majority of property owners to determine if the entire block or neighborhood will be replaced with new concrete tile sidewalks
- For those property owners who wish to use low interest financing, the City will sell tax-exempt bonds
- Property owners benefiting from the more aesthetic and costly tile sidewalk construction will pay the cost of those improvements fronting their properties

Disadvantages

- Significant staff time and consultant costs are required to initiate and form assessment districts
- City normally desires at least 60% of the property owners to petition for, versus the City initiating, an assessment district so as to reduce the potential of an assessment district failing on a property owner vote. If the district does not proceed, the City absorbs all of the costs to that point.
- No streets have 100% tile sidewalks and some non-tile sections and tile sections are in acceptable condition. Property owners may object to replacing and paying for sidewalks that are still serviceable.

- Property owners may object to paying a higher cost for installation of new tile sidewalks as compared to concrete
- Many property owners have filled in parkways between the curb and sidewalk with a variety of hardscape (concrete, brick, pavers, etc.) materials. A decision will be required to remove and replace or leave alone these hardscape surfaces. Replacing the parkway hardscape will significantly increase the projects costs and assessments.
- The City must pay prevailing wages while private property owners may use contractors paying lower wages. Also, there will be significant assessment district formation and administration costs that could override the cost advantage of replacing entire blocks of tile sidewalks versus property owners replacing their own sidewalks.
- The cost of removing and replacing a 4-foot to 5-foot wide sidewalk and drive approach with concrete tile for a typical 50-foot frontage lot could be in the $5,000 range.

Potential Ramifications of a Repair/Replacement Decision

If the City accepts responsibility for the city-wide sidewalk repair/replacement program, that responsibility could be extended to the City also accepting responsibility of funding a comprehensive historical tile sidewalk preservation, repair and replacement program.

Recommendation

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
    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 FY02/03 Budget and beyond.

Fiscal Impact of Recommendation

All sidewalk repair/replacement alternatives involve financial participation by the City. Below is a summary of estimated costs for a city-wide sidewalk repair/replacement program, only considering repair/replacement of deficient concrete and tile sections of sidewalk.

Item	Property Owner Responsible		City Responsible
	City Participation	Prop. Owner Participation	
Ramp/Grind ¾"-1"	250,000		250,000
Replace >1"		500,000	500,000
Admin. & Insp.	120,000*		120,000
Total	**370,000**	**500,000**	**870,000****

*These costs do not include administrative costs of follow through and liens if property owners do not cooperate.

**Assumes defective tile sidewalk sections are replaced with colored concrete.

Accepting total responsibility for sidewalk repair and replacement will likely result in increased requests by property owners to replace cracked sidewalks that do not have vertical separations exceeding 1-inch. To control costs, the City will need to develop strict standards as to what sidewalks it will repair and replace.

<u>Tile Sidewalk Repair/Replacement</u>

Preservation of tile sidewalks in satisfactory condition is the least costly alternative for property owners and/or the City. Replacement of deficient tile sidewalk sections with concrete is the least expensive replacement option at about $128,000 for red concrete. Replacement of deficient tile sections with tile will increase the construction cost about 55% to $198,000. The city-wide sidewalk repair/replacement cost included replacement of deficient tile sidewalk sections with tile.

The replacement cost of the entire 148,842 SF of tile sidewalk would be: red concrete at $2.16 million; red concrete tile at $3.35 million. To expand installation of tile sidewalks the entire length of all streets containing tile sidewalks could double the construction cost to over $6 million.

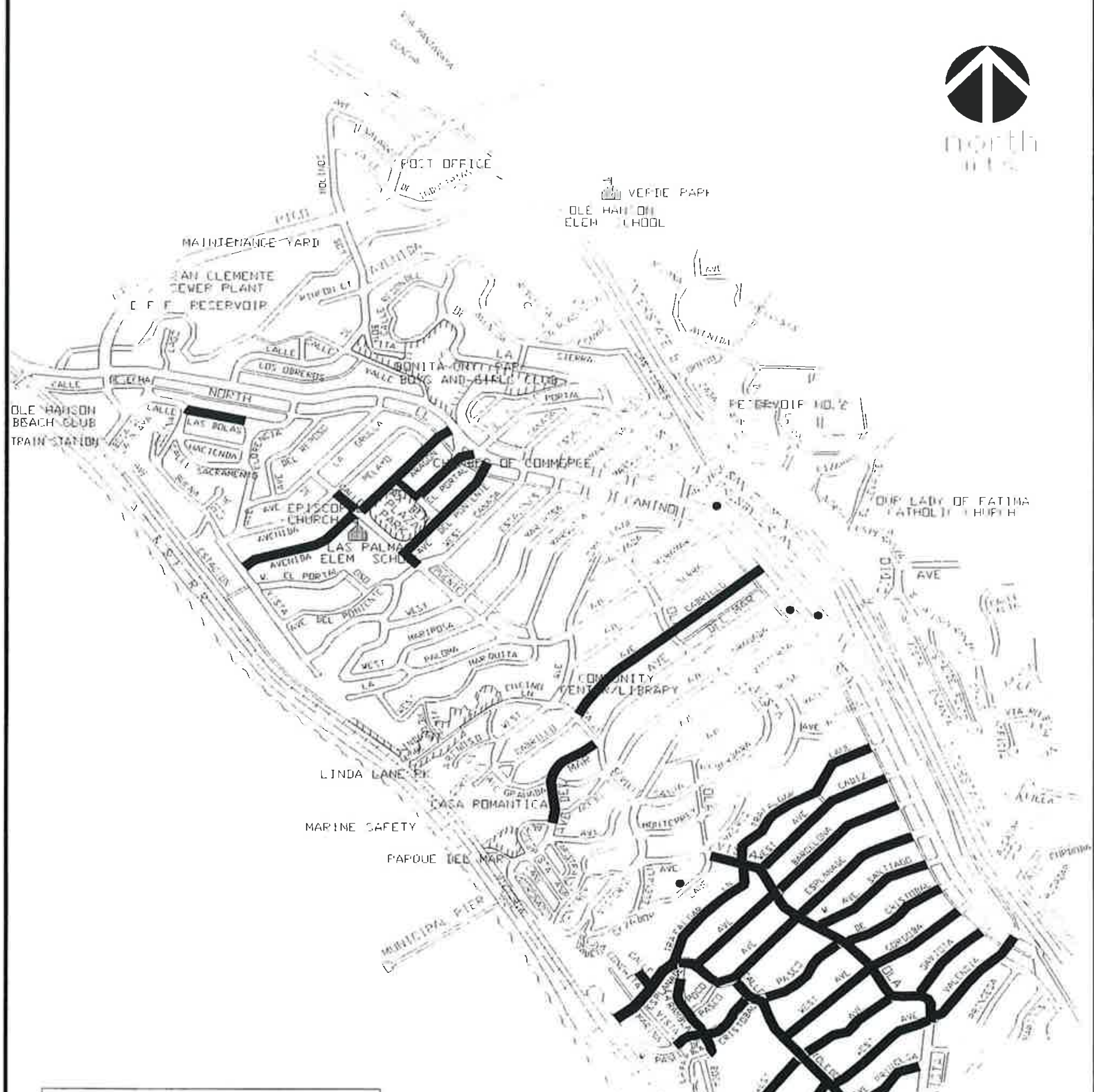
Once the City Council has determined a course of action, a more detailed fiscal impact analysis will be prepared of both the city-wide and historical tile sidewalk repair/replacement programs.

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 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.
5. Direct staff to come back with a proposed at-cost replacement type of program that could be offered to the property owners at the time they receive their notice requiring them to repair their damaged sidewalk as part of the Vital Few Priorities.
6. Direct staff to include an appropriation for sidewalk inspection in the FY 2002-03 Budget.

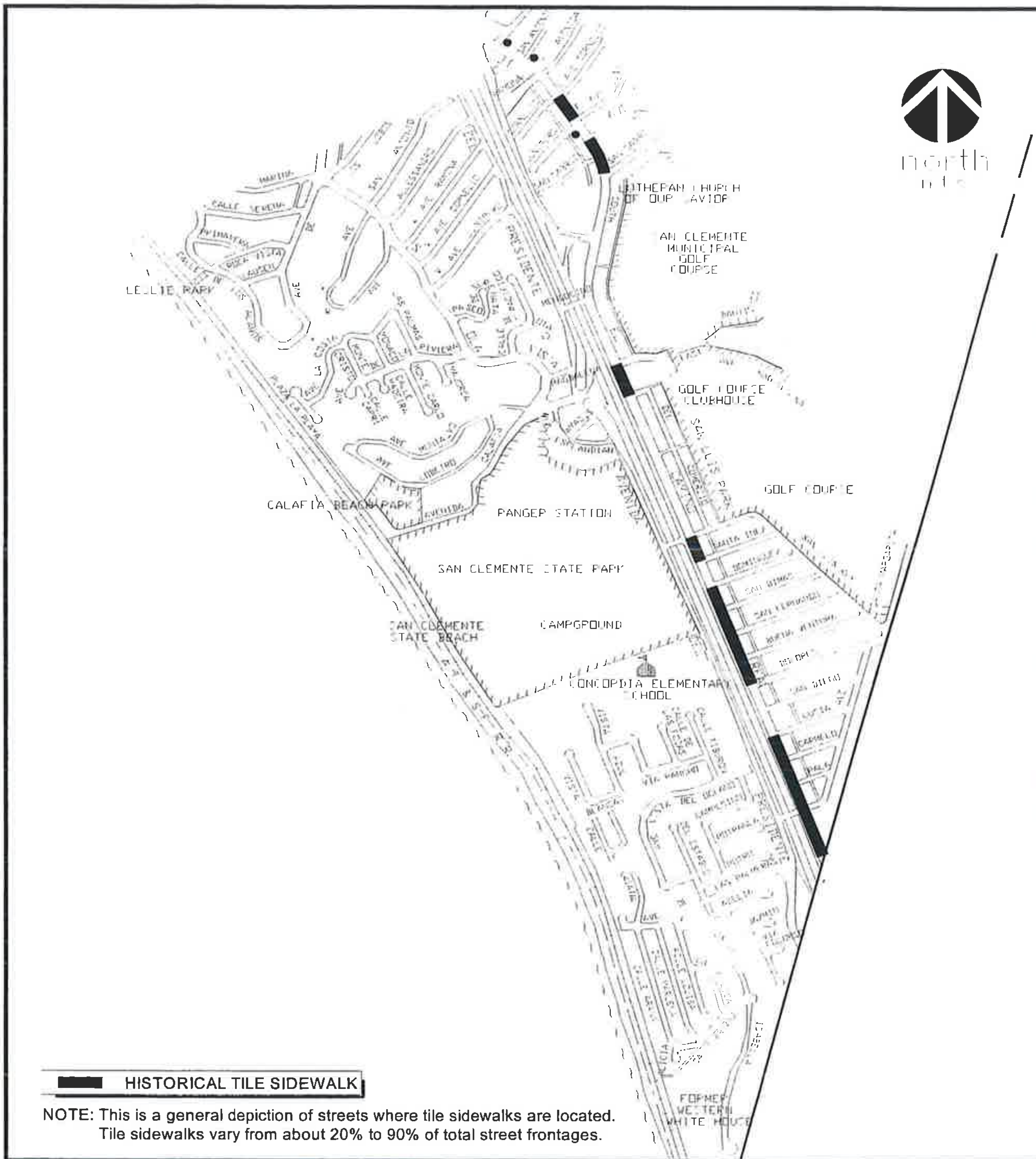
Exhibit "A"



NOTE: This is a general depiction of streets where tile sidewalks are located.
Tile sidewalks vary from about 20% to 90% of total street frontages.

City of San Clemente Engineering Division 910 Calle Negocio Suite 100 San Clemente, CA 92673 Tel (949)361-6100 Fax (949) 361-8316	LOCATION MAP **HISTORICAL TILE SIDEWALK LOCATIONS**

Exhibit "A"



HISTORICAL TILE SIDEWALK

NOTE: This is a general depiction of streets where tile sidewalks are located.
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City of San Clemente
Engineering Division 910 Calle Negocio
Suite 100
San Clemente, CA 92673
Tel (949)361-6100
Fax (949) 361-8316

LOCATION MAP

HISTORICAL TILE SIDEWALK LOCATIONS

EXHIBIT "B"

CITY SIDEWALK REPAIR PROGRAMS SURVEY

CITY	RESPONSIBLE DEPARTMENT	REPAIR RESPONSIBILITY: PROPERTY OWNER	REPAIR RESPONSIBILITY: CITY	PROGRAM	COMPLAINT	BUDGET ITEM: YES	BUDGET ITEM: NO	BUDGETED ANNUAL AMOUNT
ORANGE COUNTY CITIES								
Laguna Niguel	Public Works		X	Inspection by Consultant	Program supplemented by complaints and staff observation.	X		$160,000
Dana Point	Public Works		X	Inspection by staff as part of field work.	Inspection supplemented by complaints.	X		$100,000
Lake Forest	Public Works		X	Inspection by Maintenance	Responds to complaints	X		$50,000
Tustin	Public Works/Engineering		X	Annual Inspection		X		$276,000
Costa Mesa	Public Works	X	X	Formal inspection program	Complaint based program	X		$300,000
ALL OTHER CITIES								
Chico	Public Works	Owner, except for areas that falls into the project annually budgeted.		Engineering Div. performs design, plans and specs for bidding on program.	Operations & Maintenance makes temporary repairs on complaint basis.	X		$250,000
El Segundo	Public Works		X	Periodic inspections by Staff.		X		$50,000 to $100,000

<table>
<tr><td>LaVerne</td><td>Public Works</td><td>Only when property owner is making improvements to their property.</td><td>X</td><td>Annual sidewalk inspection program prioritizes repairs based on severity of condition and complaints received.</td><td></td><td>X Included in CIP</td><td></td><td>$50,000</td></tr>
<tr><td>Rancho Palos Verdes</td><td>Public Works</td><td></td><td>X</td><td colspan="2">Annual Program includes reimbursement from property owners.</td><td>X</td><td></td><td>$80,000</td></tr>
<tr><td>Menlo Park</td><td>Public Works</td><td></td><td>X</td><td colspan="2">City wide landscape assessment district and gas tax. Focus on certain neighborhoods and setting a portion of the budget for high pedestrian areas.</td><td>X</td><td></td><td>$280,000</td></tr>
<tr><td>Santa Rosa</td><td>Public Works</td><td>Property owner responsible for permanent repair.</td><td>City shares cost for City trees, utility</td><td>Downtown inspection annual by light duty workers comp. persons.</td><td>Repair by contract and wheel chair ramp program</td><td>X</td><td></td><td>$350,000 (Gas tax)</td></tr>
<tr><td>Signal Hill</td><td colspan="2">Public Works, Maintenance</td><td>City repairs sidewalks in r-o-w, curbs, driveway approaches.</td><td colspan="2">Inspect all sidewalks annually, databased prioritization</td><td>X</td><td></td><td>$50,000 line item plus $15,000 in-house to repair and replace.</td></tr>
<tr><td>Stockton</td><td>Public Works</td><td colspan="2">X Unless Street trees</td><td></td><td>Complaint based</td><td>X</td><td></td><td>$275,000</td></tr>
</table>

El Cajon	Public Works	Damage caused by action or inaction by property owner, they pay.	City repairs/replaces all others.	Inspection program divides City into 5 zones. Engineering Performs inspections and noticing; Maintenance performs repairs.		X		Part of operating budget for Eng. & Maintenance.
Long Beach	Public Works		City, unless damage result of an action by property owner or their contractors	Yes		X		$2,500,000
Torrance	Engineering and Streets Services in CIP Program	Muni. Code states Property Owner, but vague.	City Council direction has City bearing costs of repairs.	Both; City did city-wide survey in '94 and plans to update in the near future. Eng. & Street Services receive and log in complaints.	Eng. and Street Services data bases and updated survey to be used in future CIP repair programs.	X		Streets Services - $950,000 (Concrete crew operating budget.) Engineering - $1,000,000 (cost of construction contract.)
La Canada Flintridge	Public Works		City since most of the repair is due to City trees.	Monthly inspection including curb and gutter repair. Annual list is put out to bid and City pays $3.25 to $3.75 per sq.ft. for removal and replacement.		X		$75,000
Monterey Park	Public Works		X		X	X		$300,000
Corona	Public Works		X	Annual Consultant Contract	Responds immediately to citizen concerns.	X		$92,000
Ontario	Parks & Maintenance		X	Consultant Survey		X		$1,500,000 (includes sidewalk, curb & gutter)

EXHIBIT C

Street	Limits	St. Length (FT.)	Good OHT (FT.)	Bad OHT (FT.)	Total OHT (FT.)	% Good OHT	% Bad OHT	% OHT (Street)	OHT Segments	OHT Sub-Segments
W. Ave. Cordoba	ECR to Ola Vista - 100 Blk. Westbnd.	987	440	152	592	74.3	25.7	60.0	12	27
W. Ave. Cordoba	Ola Vista to Toledo - 200 Blk. Wstbnd.	922	241	230	471	51.2	48.8	51.1	7	23
W. Ave. Cordoba	Toledo to Ola Vista - 200 Blk. Eastbnd.	907	391	162	553	70.7	29.3	61.0	9	42
W. Ave. Cordoba	Ola Vista to ECR - 100 Blk. Eastbnd.	981	419	270	689	60.8	39.2	70.2	7	25
W. Paseo de Cristobal	ECR to Ola Vista - 100 Blk. Westbnd.	1059	669	75	744	89.9	10.1	70.3	8	35
W. Paseo de Cristobal	Ola Vista to Toledo - 200 Blk. Westbnd.	864	663	116	779	85.1	14.9	90.2	6	27
W. Paseo de Cristobal	Toledo to Ola Vista - 200 Blk. Eastbnd.	839	463	208	671	69.0	31.0	80.0	8	46
W. Paseo de Cristobal	Ola Vista to ECR - 100 Blk. Eastbnd.	1011	543	151	694	78.2	21.8	68.6	11	58
W. Ave. Santiago	ECR to Ola Vista - 100 Blk. Westbnd.	1217	472	235	707	66.8	33.2	58.1	10	47
W. Ave. Santiago	Ola Vista to ECR - 100 Blk. Eastbnd.	1171	639	199	838	76.3	23.7	71.6	12	72
Esplanade	Ola Vista to ECR - 100 Blk. Eastbnd.	1289	422	116	538	78.4	21.6	41.7	13	41
Esplanade	ECR to Ola Vista - 100 Blk. Westbnd.	1359	356	285	641	55.5	44.5	47.2	11	50
Esplanade	Ola Vista to Toledo - 200 Blk. Westbnd.	711	214	121	335	63.9	36.1	47.1	7	19
Esplanade	Toledo to Ola Vista - 200 Blk. Eastbnd.	718	179	85	264	67.8	32.2	36.8	7	25
Ave. Barcelona	Esplanade to Ola Vista - 200 Blk. Eastbnd.	850	380	155	535	71.0	29.0	62.9	6	25
Ave. Barcelona	Ola Vista to ECR - 100 Blk. Eastbnd.	1409	422	195	617	68.4	31.6	43.8	18	54
Ave. Barcelona	ECR to Ola Vista - 100 Blk. Westbnd.	1427	270	272	542	49.8	50.2	38.0	11	43

Ave. Barcelona	Ola Vista to Esplanade - 200 Blk. Westbnd.	892	326	176	502	64.9	35.1	56.3	10	39
Ave. Cadiz	Ola Vista to ECR - 100 Blk. Eastbnd.	1452	507	286	793	63.9	36.1	54.6	14	62
Ave. Cadiz	ECR to Ola Vista - 100 Blk. Westbnd.	1477	136	183	319	42.6	57.4	21.6	10	21
W. Ave. Valencia	ECR to Ola Vista - 100 Blk. Westbnd.	952	148	122	270	54.8	45.2	28.4	3	7
W. Ave. Valencia	Ola Vista to Toledo - 200 Blk. Westbnd.	979	530	159	689	76.9	23.1	70.4	9	30
W. Ave. Valencia	Toledo to Ola Vista - 200 Blk. Eastbnd.	873	441	86	527	83.7	16.3	60.4	9	25
W. Ave. Valencia	Ola Vista to ECR - 100 Blk. Eastbnd.	774	222	151	373	59.5	40.5	48.2	8	15
W. Ave. Gaviota	ECR to Ola Vista - Westbnd.	919	238	249	487	48.9	51.1	53.0	9	23
W. Ave. Gaviota	Ola Vista to Toledo - Westbnd.	868	121	127	248	48.8	51.2	28.6	7	18
W. Ave. Gaviota	Toledo to Ola Vista - 200 Blk. Eastbnd.	894	121	91	212	57.1	42.9	23.7	8	15
W. Ave. Gaviota	Ola Vista to ECR - 100 Blk. Eastbnd.	834	319	93	412	77.4	22.6	49.4	29	21
	TOTALS =	**28635**	**10292**	**4750**	**15042**	**68.4**	**31.6**	**52.5**	**279**	**935**

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 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. This report discusses activities identified in the City's Urban Runoff Plan as well as those that will be required by a new regional storm water permit, and presents several implementation alternatives along with associated fiscal impacts.

Background

Urban Runoff Management Plan

The purpose of the Urban Runoff Management Plan (URMP) is to identify projects and programs that, when implemented, will reduce or eliminate polluted discharges and thus improve local water quality. At the direction of the City Council, staff began work in late 2000 to develop the URMP. The URMP was completed in December 2001, and consists of three principal components including structural treatment projects, dry-weather monitoring/illegal discharge detection and elimination, and public education. The URMP is intended to be a living guidance document and thus will be modified over time, particularly in the coming year to address and incorporate new storm water permit requirements as discussed below.

Other components in the URMP include aerial photography and other mapping data, watershed hydrologic modeling and a manual of Best Management Practices (BMPs), all of which will serve to support future anticipated URMP and/or municipal storm water permit activities. Wherever applicable, projects and programs in the URMP have been developed in accordance with anticipated requirements of the forthcoming municipal storm water permit.

The cost to implement projects and programs developed in the URMP will vary depending on the desired level of treatment (for structural projects) and on the number of programs selected for implementation. Structural project costs range from $25,000 for trash screens on smaller south coast drainages to $3.5 million for a facility that will treat "first-flush" storm flows on the Prima Deshecha Canada Channel (which drains to Poche Beach). Water quality monitoring is estimated at about $50,000 annually and public education could initially cost up to about $120,000 and between $80,000 and $100,000 annually depending on the number and type of specific components that are selected under this program. Several implementation scenarios along with the associated costs are discussed in the Fiscal Impact Section.

Several public meetings were held to discuss the URMP. With respect to implementation, citizens that attended the public meetings expressed a general preference toward first implementing source (non-structural) controls for pollution reduction such as public education and water quality monitoring/code enforcement before implementing structural measures. The exception to this was with respect to Poche Beach, for which there was general support for pursuing a smaller-scale ("dry-weather") structural project.

South Orange County Storm Water Permit

The Federal Clean Water Act requires that municipalities obtain permits for regulating storm water and urban runoff. Under the National Pollutant Discharge Elimination System (NPDES) program, these storm water permits require that municipalities develop and implement storm water management programs to control and reduce the amount of pollutants discharged from municipal storm drain systems. The San Diego Regional Water Quality Control Board (SDRWQCB) first issued a regional storm water permit to the County of Orange, the City of San Clemente and other South Orange County cities in 1990. This initial storm water permit required the creation of a Drainage Area Management Plan (DAMP) to guide the County NPDES storm water program. The NPDES permit was renewed for a second term in 1996, and the SDRWQCB is expected to adopt a new third term permit on January 9, 2002.

The new third term NPDES permit departs significantly from the past storm water management approach. Instead of the regional DAMP, the new permit requires each city to develop a Jurisdictional Urban Runoff Management Plan (JURMP). JURMP requirements place much emphasis on conducting site inventories and inspections of construction, municipal, commercial, industrial and residential sites and/or activities. The JURMP also places much emphasis on public education, and specifies both the audiences that must be reached and the content that must be provided. Implementation scenarios for JURMP requirements are presented in the Fiscal Impacts Section. As discussed previously, the City's recently-developed URMP will be modified over the next year to incorporate the Regional Board's JURMP requirements. When this process is completed, what began as the City's URMP will become the City's JURMP.

Fiscal Impact

In 1993, the City adopted a Storm Drain Service Fee to fund the cost of providing storm drain facility services to parcels assessed the fee. The fee was deemed necessary to pay for improving the quality of storm and surface water as well as the design, construction, operation, maintenance, improvement and replacement of the City's storm drainage facilities. The base monthly fee for a single-family residential unit was set at $2.96 and has never been increased.

Since requirements set forth in NPDES storm water permits relate directly to controlling and improving the quality of storm drain discharges, it is appropriate to fund these activities from storm drain service fee revenue. This is also true for activities identified in the URMP (such as structural projects, water quality monitoring and public education) and current activities such as street sweeping that are currently not being funded from the Storm Drain fee. Several implementation alternatives are discussed below along with the corresponding rate impact to the existing storm drain service fee. Summary tables are presented at the end of this section.

Alternative 1 – NPDES Permit Compliance

This alternative consists solely of new additional activities that are necessary to fulfill requirements of the new NPDES storm water permit. Since the permit emphasizes inspection and enforcement as a source control measure to improve the quality of storm water and urban runoff discharges, it is estimated that two new permanent code enforcement/inspector positions will be needed to fulfill this requirement. The permit also emphasizes public education and requires a city-wide water quality monitoring program for dry-weather flows. These activities were developed in the City's URMP and are included in this program since they directly support the requirements of the NPDES permit. The average annual cost of activities under this alternative is approximately $465,000, resulting in an increase of $1.71 to the existing storm drain fee, for a new monthly fee of $4.67.

Alternative 2 – Minimal Structural Treatment

This alternative consists of a structural retrofit project developed in the URMP to treat dry-weather flows that discharge to Poche Beach from the Prima Deshecha drainage. The City's Coastal Advisory Committee, as well as citizens that attended public meetings on the URMP, expressed a preference for non-structural pollution reduction measures as included in Alternative 1 above. Support for implementation of structural measures identified in the URMP was generally limited to a dry-weather project at Poche. Therefore, only this project is included in this alternative. The capital cost of this project is estimated at $375,000 with an annual operation and maintenance cost of $87,000, resulting in an increase of $1.38 for a new monthly fee of $4.34. This assumes that the fee recovers the entire capital cost of the project in the first year, and therefore generates about $288,000 annually in subsequent years that could be used for additional projects or activities (such as additional public education measures, additional structural projects, or special water quality studies etc.). Also, while the City has additional grant funds potentially available under an existing Federal appropriation, formal approval has not yet been requested or granted. Therefore, grant funds which might be used to partially offset the capital cost of this project are not reflected in this alternative.

Alternative 3 – Transfer of Expenditures to the Storm Drain Fund

This alternative consists of permanently assigning to the Storm Drain Fund activities that the City already conducts in support of NPDES requirements, but that are currently paid for primarily from the General Fund rather than from storm drain service fee revenue. Activities under this alternative include street sweeping, maintenance equipment replacement, the annual salary for the Senior Environmental Engineer position in the Engineering Division (for NPDES program management and coordination) and one-fifth of the annual salary for the Water Conservation Specialist position in the Utilities Division (for NPDES public education). Also, this alternative includes a fee component to bridge the gap between the amount needed to support the storm drain program and the amount actually collected from storm drain service fees. The average annual cost of this alternative is $804,600, resulting in an increase of $2.97 to the existing storm drain fee, for a new monthly fee of $5.93. Implementation of this alternative would result in an average annual savings to the General Fund of about $272,600, since the existing street sweeping program and Senior Environmental Engineer position would no longer be funded with General Fund contributions.

Alternative 4 – Increased Street Sweeping Service

This alternative consists of increasing the level of street sweeping service from that currently provided. Maintenance Division staff recently conducted a study to determine the costs associated with increasing residential street sweeping service in the non-posted areas from once per month to twice per month service. Respondents to a Request for Quotations quoted unit costs ranging from $22.90 per curb mile to $46.36 per curb mile. By adding a street sweeper operator and sweeper unit to the City's resources, Maintenance Division determined that current street sweeping frequencies for all residential areas (except Neighborhood Pride areas) and commercial areas could be doubled at a unit cost of $15.06 per curb mile. Given renewed interest in street sweeping as a litter control management practice, this alternative is included for consideration. The average annual cost of an increased street sweeping program, expressed as an increment over the existing program cost, is estimated at $177,400, resulting in an increase of $0.65 to the existing storm drain fee, for a new monthly fee of $3.61.

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. Therefore, this includes projects to treat first flush flows that discharge from the Prima Deshecha, Segunda Deshecha, Mariposa, Pier-Bowl, Trafalgar and Montalvo drainage areas. The total capital cost of these projects is estimated at $6,730,000 with a total annual operation and maintenance cost of $324,000 when all projects are completed. The total average annual cost of this alternative is $1,439,000, resulting in an increase of $5.30 to the existing storm drain fee for a new monthly fee of $8.26. As with Alternative 2, grant funds which might be used to partially offset the capital costs of these projects are not reflected in this alternative.

Alternative 6 – The "All-inclusive" Alternative

This alternative combines all of the activities included in Alternatives 1, 3, 4 and 5 for an all-inclusive program. Alternative 2, the dry-weather treatment project at Poche Beach, is not included in this alternative since it would be replaced with the full-scale treatment project under Alternative 5. The average annual cost of this alternative is estimated at $2,886,200, resulting in an increase of $10.64 to the existing storm drain fee, for a new monthly fee of $13.60.

The tables on the following page summarize the rate impact to the monthly residential storm drain service fee, and also present the rate impact to the monthly non-residential storm drain service fee for commercial sites of one-half and five acres in size.

Summary of Rate Impact To Monthly RESIDENTIAL Storm Drain Service Fee			
Alternative	Description	Existing Fee = $2.96	
		Avg. Fee Increment	Avg. New Fee
1	New activities to comply with NPDES permit requirements, including two new inspector positions, public education and water quality monitoring from URMP, and County shared program cost.	$ 1.71	$ 4.67
2	New structural retrofit project for Poche Beach.	$ 1.38	$ 4.34
3	Permanent transfer of staff time and current street sweeping program costs to Storm Drain fund.	$ 2.97	$ 5.93
4	Increase street sweeping level of service.	$ 0.65	$ 3.61
5	All structural retrofit projects identified in the URMP (full scale treatment level).	$ 5.30	$ 8.26
6	"All-inclusive" (Alternatives 1, 3, 4 and 5).	$ 10.64	$ 13.60

Summary of Rate Impact To Monthly NON-RESIDENTIAL Storm Drain Service Fee					
Alternative	Description	1/2-acre site Existing fee = $14.80		5-acre site Existing fee = $148	
		Avg. Fee Increase	Avg. New Fee	Avg. Fee Increase	Avg. New Fee
1	New activities to comply with NPDES permit requirements, including two new inspector positions, public education and water quality monitoring from URMP, and County shared program cost.	$ 8.55	$ 23.35	$ 85.50	$ 233.50
2	New structural retrofit project for Poche Beach.	$ 6.90	$ 21.70	$ 69	$ 217
3	Permanent transfer of staff time and current street sweeping program costs to Storm Drain fund.	$ 14.85	$ 29.65	$ 148.50	$ 296.50
4	Increase street sweeping level of service.	$ 3.25	$ 18.05	$ 32.50	$ 180.50
5	All structural retrofit projects identified in the URMP (full scale treatment level).	$ 26.50	$ 41.30	$ 265	$ 413
6	"All-inclusive" (Alternatives 1, 3, 4 and 5).	$ 53.20	$ 68	$ 532	$ 680

Applicability of Proposition 218 to Fee Increase

Proposition 218, adopted by voters in November 1996, prohibits the imposition of fees or charges upon a parcel or person as an incident of property ownership, including user fees or charges for property-related services, without voter approval. Fees or charges for sewer, water and refuse collection services were specifically exempted from this requirement. However, storm drains (sometimes also referred to as storm sewers) were not mentioned in the text of Proposition 218, thus the applicability of Proposition 218 to the City's storm drain fee is an open question.

In late 2000, a Superior Court judge in Monterey County ruled that Proposition 218 was not applicable to a similar fee imposed by the City of Salinas. Since the justification and underlying methodology for the City of Salinas' storm drain fee is very similar to that for San Clemente's storm drain fee, the court ruling would appear to likewise exempt San Clemente's storm drain fee from Proposition 218. However, the ruling was appealed and a decision is not expected until the first quarter of 2002. The Court of Appeal decision will likely be published, thereby creating a binding precedent throughout the State (unless the case is not further appealed to the California Supreme Court).

The City Attorney has indicated that there is nothing that would prohibit the City from initiating a proposed increase to the existing storm drain fee. However, the City Attorney advised that any increase to the fee not become effective until mid-2002 to allow the City time to respond accordingly should the lower court ruling be overturned.

Recommendations

Due to increasing regulatory requirements to control storm water and urban runoff pollution, as well as heightened citizen interest to protect and improve local water quality, staff recommends that the combination of Alternatives 1 through 4 be selected for implementation. The combination of these alternatives will result in a new monthly residential fee of $9.68, and new monthly fees of $48.40 and $484 for non-residential (commercial) sites of one-half and five acres, respectively. Selection of Alternatives 1 through 4 would create an enhanced storm water/urban runoff management program that responds to both regulatory requirements and citizen requests for increased effort in a cost-effective manner, resulting in improved local water quality.

1. Approve implementation of Alternatives 1 through 4.
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

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.

Summary

As directed by City Council, staff has reviewed the City Ordinance for the automatic adjustments to water rates to determine recommended changes that will provide for rate stability. The Ordinance as currently written does not provide for rate stability because it does not take into consideration the operating position of the Water Fund or the effect of rate adjustments on future years. In addition, there is no provision in the Sewer Fund Ordinance for automatic rate adjustments.

Background

In 1999, water rates were increased by 7.5 percent. Additionally, Council approved provisions for automatic rate adjustments in the Water Fund as an effort to provide water rate stability.

At the budget workshop held 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* (revenues less expenditures) 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.

Also, at the same budget workshop, Council approved the following staff recommended action:

- 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.

The rate increase of 7.5 percent in fiscal year 1999-00 was the last adjustment to the water rates. The last adjustment to the City's sewer rate was an increase of twenty percent in fiscal year 2001-02. 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. See the Financial Forecast section for details on the projected balances of the Water and Sewer Operating Funds.

The current Ordinance on water rates includes a provision for automatic rate adjustments based on certain criteria. According to the current 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, 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. Also, the current 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.

Staff has revised and reviewed the Ordinance with the City Attorney, and the following changes are 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. The table below compares “leveling” of rate adjustments vs. not-“leveling” rate adjustments and rate adjustments under the current Ordinance. Please note that as explained above, the rate adjustments as provided for in the current Ordinance would mean that the ending balance in FY 2006-07 would be a negative 31 percent as apposed to the required eight to ten percent.

Water Operating Fund	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Rate adjustments under current Ordinance	-10%	3%	3%	3%	3%
Rate adjustments without "leveling"	-4%	12%	0%	1%	0%
Rate adjustments with "leveling" (proposed)	1.8%	1.8%	1.8%	1.8%	1.8%

- 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.
- 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.
- In order to provide sufficient time for implementing any potential rate adjustments, perform the calculations for the fund analysis in January of each year instead of May.
- Ensure that adequate funding is available in the Water Operating Fund for annual reserve contributions prior to implementing any rate decreases.
- 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.

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. The comparison of "leveling" of rate adjustments vs. not-"leveling" rate adjustments for the Sewer Operating Fund are as follows. Also included is a comparison of rate adjustments if the current Water Ordinance was applied to the Sewer Operating Fund. Please note that as explained above, the rate adjustments as provided for in the current Ordinance would mean that the ending balance in FY 2006-07 would be a negative 215 percent as apposed to the required eight to ten percent.

Sewer Operating Fund	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Rate adjustments under current Water Ordinance	-53%	3%	3%	3%	3%
Rate adjustments without "leveling"	0%	0%	0%	9%	7%
Rate adjustments with "leveling"	1.7%	1.7%	1.7%	1.7%	1.7%

Upon Council approval of these recommended changes in the water and sewer rates, the Ordinance revisions will be drafted by the City Attorney. Standard procedures will be followed for the public hearing process and adoption of the changes to both Ordinances at subsequent City Council meetings.

Conclusions

The Water Fund Ordinance as currently written does not provide for maintenance of the sound fiscal condition of the Water Fund or for stability of water rates. In addition, there is no provision for automatic rate adjustments in the Sewer Fund.

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.

Fiscal Impact

The changes to both the Water and Sewer Ordinances will improve the City's ability to maintain the sound fiscal condition of the Water and Sewer Funds and to provide for stability of rates.

Council Action

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

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 over the past 20 years. As the state takes more money from local government, it also places more restrictions on cities' ability to raise revenues. Local government is left in a vulnerable position as the state looks for a way to balance its budget, leaving local governments with less ability to ensure that local tax dollars stay in the communities they came from.

This report provides an overview and analysis of how the City of San Clemente has been impacted by the state's fiscal position and how the state has obtained greater fiscal control of local government, resulting in a decline of local influence on how tax dollars are spent. These issues are analyzed to show how they have caused the City of San Clemente to make major changes over the years in its staffing levels and service delivery.

Background

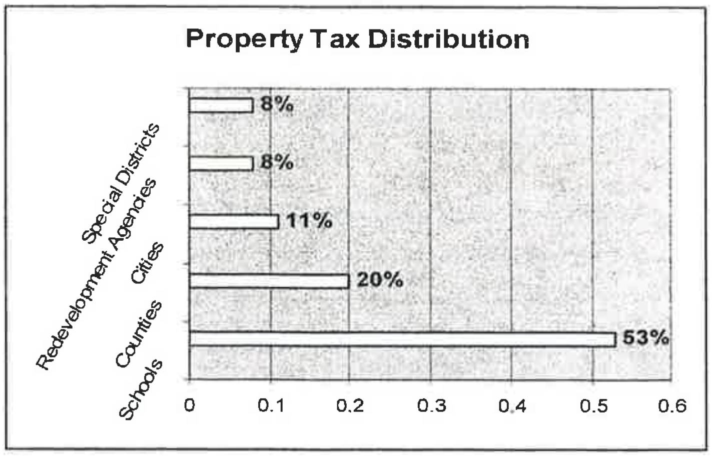
In the past 20 years, local government has lost more control over its revenue to the hands of the state. The diversion of local funds has allowed the state to meet their program funding obligations at the expense of important local services. Likewise, voters have passed seven propositions in an 18-year period that focused on state-local finance – some which contributed to the reduction in local government revenue and more control over how cities raise revenue.

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. The City was hardest hit during 1992 to 1994 when staff reductions and cuts in operations were imposed, but through conservative fiscal policies and sound budgeting plans, the City has managed to cope with the state take aways, although further shifts in revenue would be devasting considering the City's increasing population which now totals 52,455 and is expected to reach 65,000 by 2015.

History of Major Revenue Shifts

Proposition 13

Proposition 13, which was 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 governments have had to get by on less money which has impacted service delivery. The state can no longer allocate money for its own purposes. Proposition 13 collects property tax and distributes it to local agencies according to a complex formula. Proposition 13 made it more difficult for local officials to raise new taxes by requiring a two-thirds majority vote. These constraints forced local government to turn to other revenue sources, so any problems that surface needing new taxation must be put to a vote. The chart below outlines the current distribution of property tax dollars:



The below table, prepared by the Public Policy Institute of California shows how the share of self-controlled revenues has declined for local government (excludes public service enterprise revenues). Since the transfer of the property tax allocation authority to the state, local government has become more dependent on the State for the funds needed to carry out their obligations. The percentage of total revenues that are self-controlled for cities has declined from 66 percent to 43 percent.

Percentage of Total Revenues that are Self-Controlled

	1978	*1981*	*1988*	*1992*	*1995*
Counties	50	18	19	19	20
Cities	66	36	43	43	43
Special Districts	59	37	49	49	38
School Districts	54	7	5	5	6
Higher Education	30	15	18	21	24

Educational Revenue Augmentation Fund (ERAF)

In fiscal years 1992-1993 and 1993-1994, in response to serious 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. (Schools and community colleges did not experience any change in their total revenues from this shift, merely a shift in the relative amounts of funding from the state's General Fund and local property taxes.)

The property tax monies were deposited into the Educational Revenue Augmentation Fund (ERAF). In fiscal year 1996-1997, cities, counties, and special districts deposited about $3.4 billion of property taxes into ERAF. The amount of required ERAF contributions grows annually along with the property tax growth rate, which is estimated to be three percent in the budget year. Despite signs of a slowing economy, real estate remains extremely strong in the Southern California region, resulting in strong property tax growth.

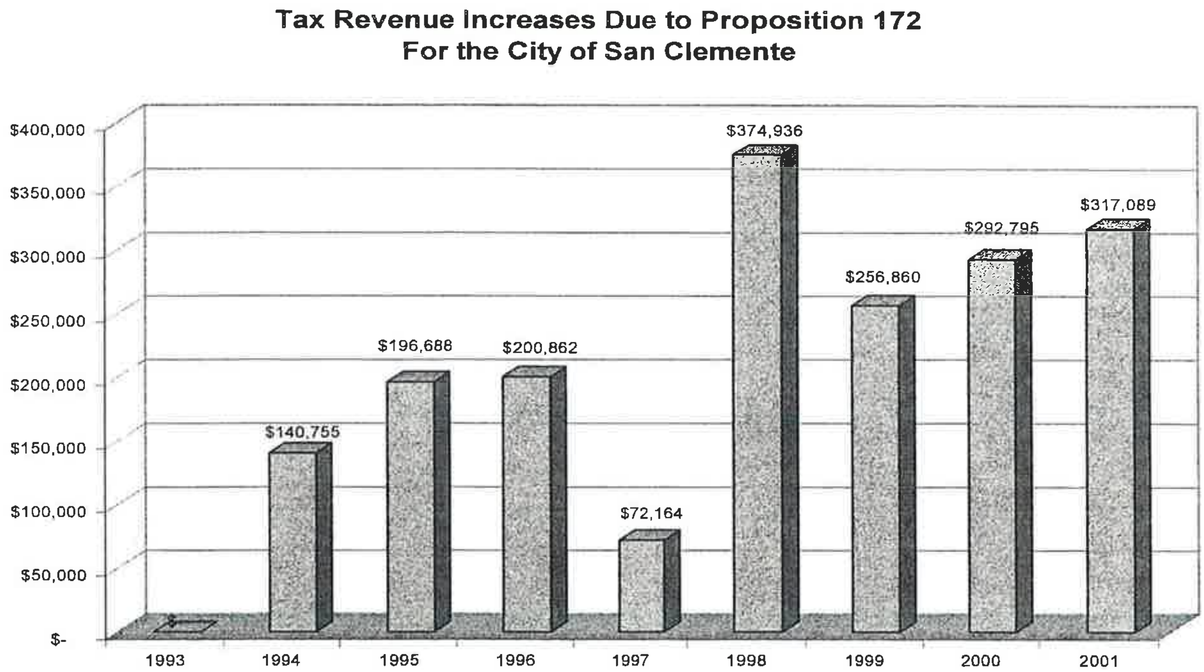
These property tax shifts as a result of the Legislature's actions in fiscal years 1992-1993 and 1993-1994 resulted in cumulative revenue losses (as of fiscal year 2001-2002) of $6,584,810 and $5,834,630 respectively for the City of San Clemente. There has been no sign that the ERAF shift, which currently amounts to $1.5 million annually for San Clemente, is going to end, especially if the state runs out of options and looks to local government to balance the budget and meet its statutory requirement to fund schools.

Proposition 172

To mitigate the ongoing impact of the fiscal year 1993-94 property tax shifts, the Legislature proposed and the voters approved Proposition 172. This measure provides counties and cities with a share of a half-cent of sales tax for public safety purposes and programs.

Under state law, counties and cities were required to use their Proposition 172 funds strictly for maintaining or restoring public safety spending to its fiscal year 1992-93 level, and then to annually increase public safety spending by the dollar growth in Proposition 172 funds.

Although it was helpful to have new resources for public safety programs, the restrictions on how the money was spent did not help other areas of government that were being impacted by the shifts in local revenue to the state. Accordingly, most of the Proposition 172 funds provided in fiscal year 1993-94 effectively functioned as a replacement for lost general purpose property taxes. In 2001, the City of San Clemente received $317,089 in revenue increases due to Proposition 172 and a cumulative total of $1,852,149 since the enactment of Proposition 172.



Proposition 218

Proposition 218, the "Right to Vote on Taxes" initiative was passed in November 1996 and amended the California Constitution (Articles XIIIC and XIIID) which, as it relates to assessments, requires the local government to have a vote of the affected property owners for any proposed new or increased assessment before it could be levied and required that two-thirds of the voters approve a special tax.

This impacted cities' ability to generate new revenues through various coping mechanisms that were implemented to provide services and led to voter resistance and the passage of Proposition 218, placing new limits on local fees, charges, property-related assessments, and taxes. In the past, the City was not required to obtain ballot approval before levying street lighting assessments; only Council approval was required, even if there were protests.

The passage of 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. These general benefits included beach and park maintenance which represented the majority of expenditures within the District. Significant reductions in spending for local public programs and services resulted.

Impacts on the City of San Clemente

The initial impact of the $1.2 million ERAF shift from the City of San Clemente to the state in fiscal years 1992-93 and 1993-94 was devastating as cuts in programs, services, and staffing levels resulted. The ERAF shift reduced local governments' ability to respond to constituent needs while straining their fiscal condition and in response, the City was forced to undergo a comprehensive review of all programs provided by the General Fund and make reductions. In fiscal year 1993-94 San Clemente laid off or contracted nearly half of its full-time equivalent employees (FTE), going from 299 FTE's to 158 as a result of ERAF. The above reductions coupled with the $1.5 million ongoing annual ERAF shift, have had a notable impact on the City of San Clemente.

The timing could not have been worse considering the San Clemente economy was feeling the pains of the state-wide recession. The fiscal shortfall in 1993 that resulted from the operating deficit and other critical capital needs, annual reserve needs and the property tax diversion was addressed by contracting public safety services, 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 to replenish the City's reserve levels.

The impact of Proposition 218 on the City was severe. In fiscal year 1997-98, the City made severe reductions in costs and related services. The reductions which totaled $1.8 million undoubtedly affected the quality of life in San Clemente, nevertheless the budget had to balance.

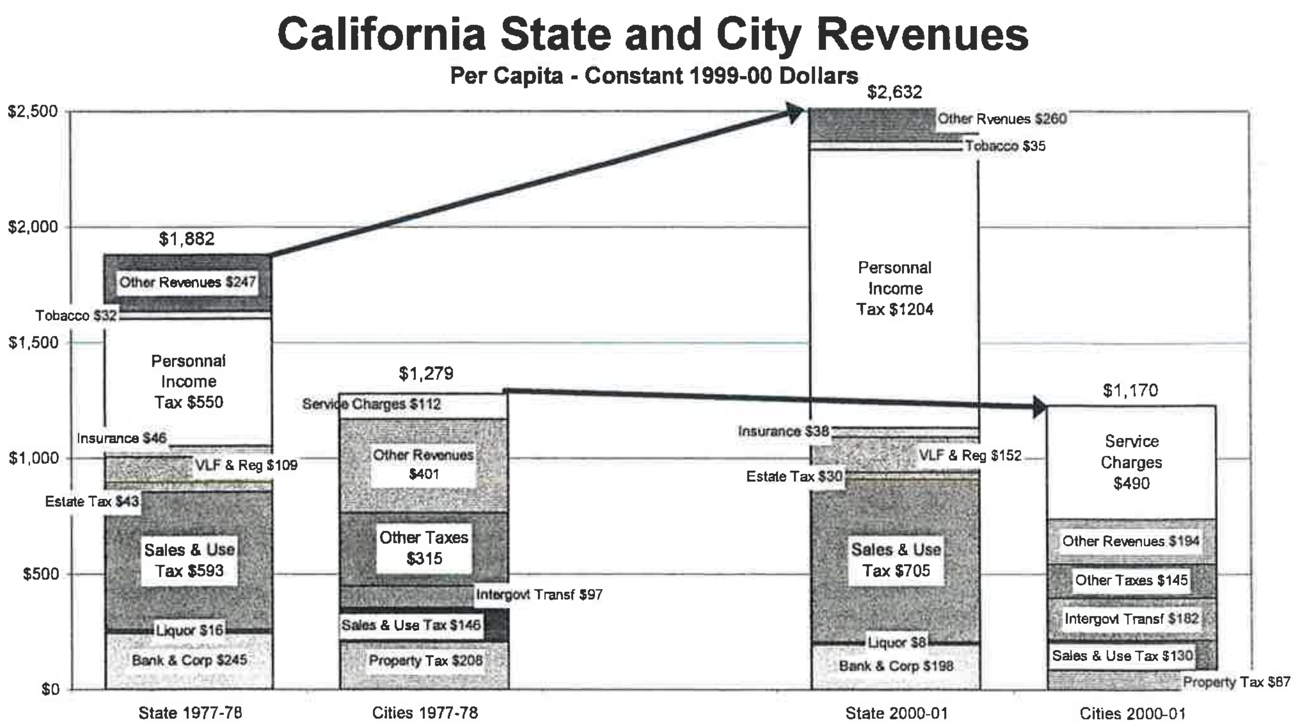
City of San Clemente Reductions Due to Passage of Proposition 218

Program Reductions/Revenue	*Savings/Revenue*
Reduction of liability insurance costs	$200,000
Emergency reserves reduced from targeted 8% to 5%	$250,000
Reduced Council Contingency reserve to $100,000	$110,000
Eliminated program for improving sports fields for youth groups	$100,000
Eliminated management benefits	$38,000
Reduced renovation/upgrades to parks, beaches and streetscapes	$100,000
Eliminated 1 executive management position	$100,000
Contract Public Works maintenance	$430,000
Downgrade of 1 management position	$11,200
Eliminated bi-monthly newsletter	$23,000
Transfer of revenue from Golf Fund	$250,000
Increase parking meters to $1/hour	$120,000
Total	***$1.8 Million***

Data Sources: City of San Clemente Budget books.

The noted reductions are in addition to significant cost reductions that have been implemented from the early to mid 1990's in response to a decline in revenue, including the property tax shift. Further cuts amounting to $1 million were made to the City's programs and revenues because of the failure of Measure A in fiscal year 1997-1998. In the last 20 years, the City of San Clemente has lost $18,744,290 in revenue to the state. Once again, the City will face challenges as a result of the changing economic climate, which proves the natural volatility and cyclic nature of the economy, making the preservation of local revenue all that much more critical.

As the below chart indicates, cities' revenues have actually dipped below fiscal year 1977-78 levels while the state's have increased dramatically when calculated in constant 1990-00 dollars. The state became dependent over the past few years on personal income tax growth (capital gains taxes) due to a strong stock market – a period of phenomenal growth that has now come to a screeching halt. The state now finds itself in a quandary involving its budget deficit that the State Legislative Analyst believes was grossly understated by as much as $5 billion, bringing the total deficit to $17 billion. Following history, there is no reason to believe that the state won't once again target local revenue and shift even more money to its coffers so it can solve its budgetary crisis once the personal income tax windfall dwindles. As demonstrated in this chart, an inequity continues to exist, even some 20 plus years later in the state-local fiscal environment as cities continue to lose control over their local dollars. Cities are also running out of ways to raise needed revenue, relying primarily on increases in fees for its services, i.e., recreation programs and residential development fees, especially after Proposition 218 eliminated the cities' ability to increase revenue through proposition-related taxes and fees without a two-thirds vote by the public.



After Proposition 13, the state reduced or eliminated many subventions to cities and counties, representing a loss of $300 million annually to cities since 1981. These include liquor license fees, highway carrier's uniform business tax, financial aid to local agencies, cigarette taxes, trailer coach/mobile home fees and business inventory exemption reimbursements and equates to a $4,283,310 cumulative loss for San Clemente and a $312,320 annual revenue loss. The chart below itemizes the reductions specific to the City of San Clemente.

Estimated Revenue Losses Due to State Budget Actions
For the City of San Clemente 1981-2002

Revenue Item	FY Effective	Initial CPI	Initial Year Loss	Continuing Annual Loss	01/02 Cumulative Loss
State Continuing Losses					
Liquor License Fees	81-82	272.4	$20,410	$39,650	$634,250
Highway Carries Uniform Business Tax	81-82	272.4	$6,510	$12,650	$202,280
Financial Aid to Local Agencies	81-82	272.4	$42,514	$82,590	$1,321,150
Business Inventory Exemption Reimb Repealed	84-85	311.1	$51,890	$88,270	$1,268,530
Admin Costs of Cigarette Tax Subventions	90-91	400.9	$12,484	$16,480	$172,870
Cigarette Tax Subventions	91-92	413.0	$33,544	$42,980	$418,330
50% of Non-Parking Fines	91-92	413.0	$103,825	$133,040	$1,294,800
Remaining Cigarette Tax Subventions	92-93	425.2	$20,531	$25,550	$228,760
Trailer Coach\ Mobile Home Fees	92-93	425.2	$3,334	$4,150	$37,140
ERAF Property Tax Shift	92-93	425.2	$591,000	$735,550	$6,584,810
ERAF Property Tax Shift	93-94	436.8	$591,000	$716,020	$5,834,630
Subtotal				$1,896,930	$17,997,550
State One-Time Losses					
Vehicle License Fees	81-82	272.4	$219,186		$425,820
Vehicle License Fees and Other Subventions	82-83	289.1	$175,315		$320,920
Subtotal					$746,740
Totals				$1,896,930	$18,744,290

Notes:

Continuing and cumulative losses have been adjusted to reflect 2002 dollars using U.S. CPI.

Excludes revenue losses applicable to Redevelopment Agency.

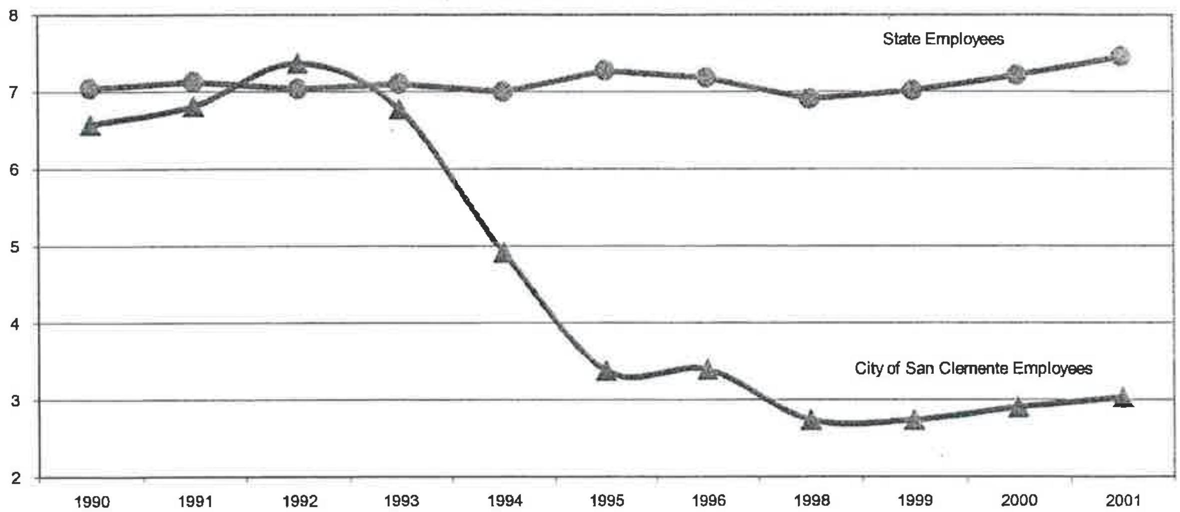
Data Sources: City of San Clemente Budget books, 1994 & 1995 Trend Reports.

As a result of continuous revenue shifts to the state, 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. For example, in 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.

Local government is doing all that it can with the resources available and many cities have looked to offset their declining share of local revenues, by finding creative ways to pursue alternative sources of revenues, i.e. increase the level of fees charged for residential development and seeking increases in sales tax revenues by encouraging retail businesses to locate within their jurisdictions.

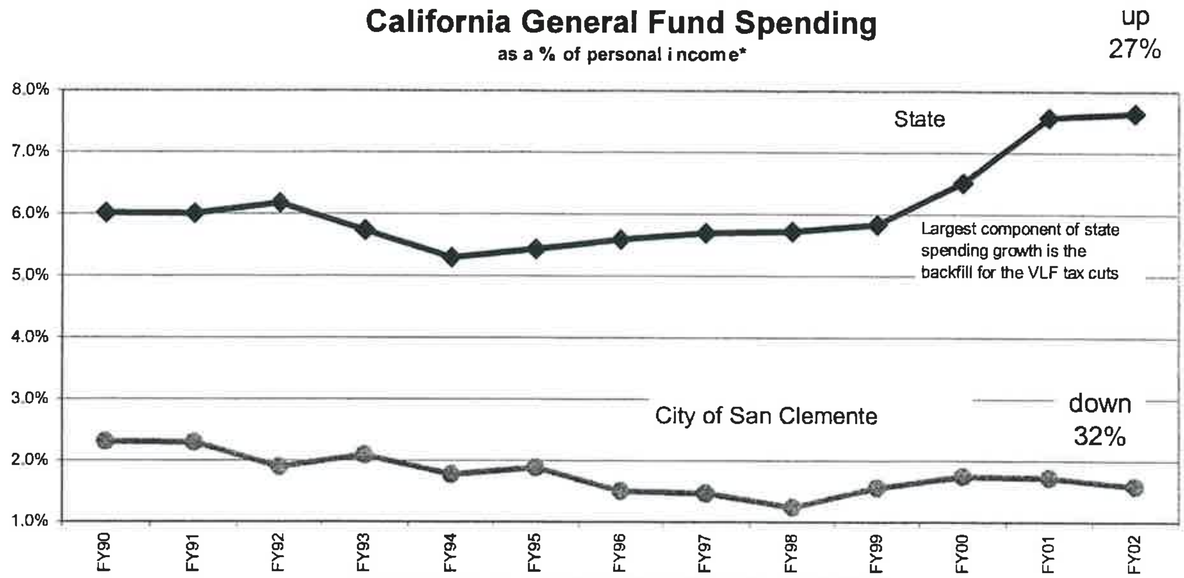
The City of San Clemente enters into developer agreements with developers to commit millions of dollars for infrastructure and community improvements and in turn, give the developers reduced risk and legal assurances that the development rules won't change on their projects. This allows the City to fill community facility needs they otherwise would not be able to.

California Government Employees Per Thousand Residents



Source: US Census Bureau, City of San Clemente Budget Books and CAFR

Since 1990, the City of San Clemente has seen a 32 percent decline in its general fund spending, while State government has experienced a 27 percent increase. The 32 percent decrease indicated in the below chart represents the City General Fund revenue divided by the total personal income of residents.



* State revenues as a percentage of total state personal income; City revenues as personal income of city residents.
SOURCES: Governor's Budget Summary (state $), State Controller reports (city $), Calif Dept of Finance (population #s), US Dept of Commerce Bureau of Economic Analysis (personal income data) & the City of San Clemente CAFR

Potential Threats to Local Government

State Budget Shortfall

Just one year ago the State of California faced a $12 billion surplus. Much of this phenomenal revenue growth came from taxes on gains in the, then, rising stock market. This year the Governor estimates that the state will face a budget deficit of $12.4 billion and points to the electricity crisis and recession as the cause of the state's budgetary crisis. There is always the prospect that the state will turn to local government -- as it has in years past – to balance its budget and meet the state's statutory requirement to fund schools. Local government may be given some reprieve this fiscal year, but there is no guarantee that the commitment will continue.

Vehicle License Fee Backfill

The vehicle license fee (VLF) is an annual fee on the ownership of a registered vehicle in California, in place of taxing vehicles as personal property. The VLF is paid to the Department of Motor Vehicles (DMV) at the time of annual vehicle registration. The fee is charged in addition to other fees, i.e., the vehicle registration fee, air quality fees, and commercial vehicle weight fees. The VLF is local governments' third largest source of general purpose tax revenues (after the property and sales taxes).

Proposition 47, passed by voters in 1986 constitutionally guaranteed that VLF revenues are sent to local governments. However, the state retains authority over both the amount of revenues that are collected and the method of their distribution and the Legislature holds the authority to alter the level of VLF revenues. Under the law, local governments are backfilled by the state general fund for any loss of revenue due to VLF reductions and the local government VLF backfill mechanism occurs automatically without being subject to the annual budget process. Because of

Long Term Financial Plan

Having weathered rough times due to the continuing state revenue shifts, past economic downturn and the current recession, the City of San Clemente remains fiscally conservative, allowing it to plan for the future, given the prosperous times we have experienced and the uncertain times ahead. This position will be jeopardized if the state takes more money from the City. The state's fiscal crunch means there exists a potential for the risk of further losses in revenue for local government – if not this year, then next.

Continued constraints on the ability of local government to generate revenues will become that much more important if the state continues to take local revenue away. Unfunded mandates and forced shifts in local revenue to the state may further hinder the ability of cities to respond to the needs of the public.

The current fiscal environment is threatening, and once again local government is in the position of not knowing how much money it stands to lose at the hands of the state. Local government must continue to work towards local control of their 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.

Recommendation

Staff recommends that City Council direct staff to:

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.

Fiscal Impact of Recommendation

Unknown

Council Action

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