City of San Clemente
2003
Long Term Financial Plan

City of San Clemente

City Council

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

City Manager

• William O. Talley	City Manager

Executive Team

• William E. Cameron	City Engineer
• Pall Gudgeirsson	Assistant City Manager/City 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

• Pall Gudgeirsson	Assistant City Manager/City Treasurer

Project Leaders

• Christine Brower	Senior Accountant
• George Buell	City Planner
• William E. Cameron	City Engineer
• Kumi Elston	Budget Officer
• James S. Holloway	Director, Community Development
• Bill Humphreys	Marine Safety Captain
• David N. Lund	Director, Public Works/Economic Development
• Laura Reinsimar	Assistant to the City Manager
• Tom Rendina	Finance Manager

Mission Statement

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

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

Project Director
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Julie Schmidt, Administrative Assistant (Administrative Support)

Steering Committee
William O. Talley, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer

Financial Trend Analysis
Christine Brower,, Senior Accountant

Financial Forecast
Kumi Elston, Budget Officer

Reserve Analysis
Tom Rendina, Finance Manager

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

Environmental Program Update
Bill Humphreys, Marine Safety Manager
Bruce Wegner, Director, Beaches, Parks & Recreation

State Impact Financial Analysis
Laura Reinsimar, Assistant to the City Manager
Wai Gordon, Financial Analyst

Quality Assurance Project
George Buell, City Planner
James S. Holloway, Director, Community Development
Larry Longenecker, Associate Planner
Jim Pechous, Senior Planner

Financial Trend Analysis

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

Financial Forecast

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

Reserve Analysis

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

Street Improvement Program Update

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

Economic Development Update

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

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

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, Opportunistic Sand Replenishment Policy, Sand Monitoring, Coastal Advisory Committee, and the Opportunistic Sand Replenishment Programs.

State Impact Financial Analysis

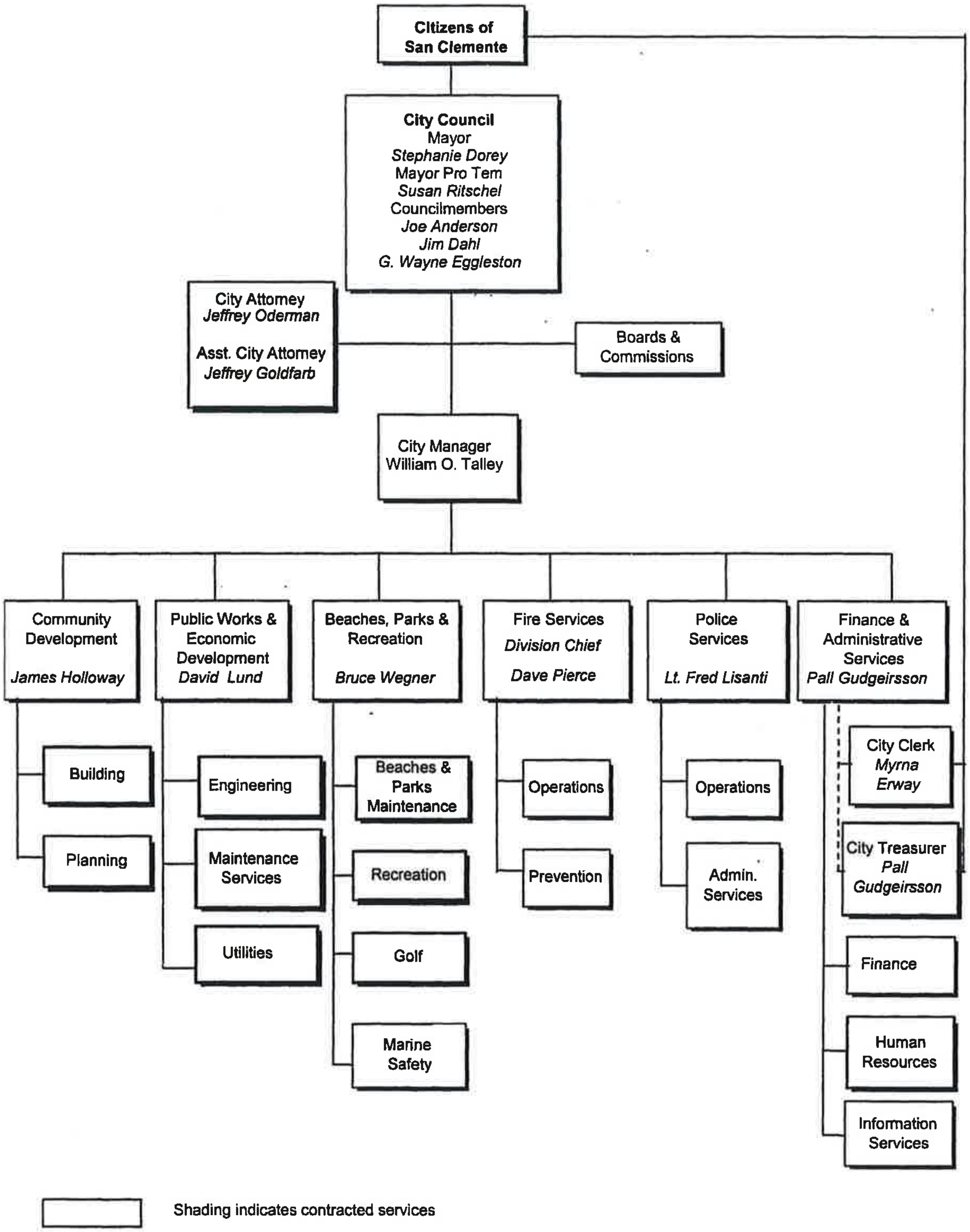
Objective

To update the impacts of the loss of local control over local revenue and the associated shifts in revenue to the State of California due to a history of budget crises experienced by the state.

Quality Assurance Project

Objective

To inform the City Council of the growing interest among the Planning Commission and staff to improve their skills and abilities in making design-related decisions of development projects that are subject to design review, particularly those of Spanish Colonial Revival architecture; and to initiate a process by which the Planning Commission and staff will recommend specific improvements to the planning, development and review process of Spanish Colonial projects, with the goal of reducing the number of development projects that are not built according to approved plans.


Citizens of San Clemente
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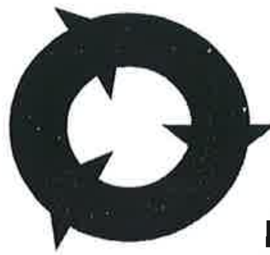
Jeffrey Oderman
Asst. City Attorney
Jeffrey Goldfarb
Boards & Commissions
City Manager
William O. Talley
Community Development
James Holloway
Building
Planning
Public Works & Economic Development
David Lund
Engineering
Maintenance Services
Utilities
Beaches, Parks & Recreation
Bruce Wegner
Beaches & Parks Maintenance
Recreation
Golf
Marine Safety
Fire Services
Division Chief
Dave Pierce
Operations
Prevention
Police Services
Lt. Fred Lisanti
Operations
Admin. Services
Finance & Administrative Services
Pall Gudgeirsson
City Clerk
Myrna Erway
City Treasurer
Pall Gudgeirsson
Finance
Human Resources
Information Services
Shading indicates contracted services

Long Term Financial Plan

Long Term Financial Plan Overview



The LTFP is a financial strategic plan

The Issue Papers provide support documents used to develop the 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 LTFP consists of a complete financial plan, and an Issue Papers section which provides support documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition.

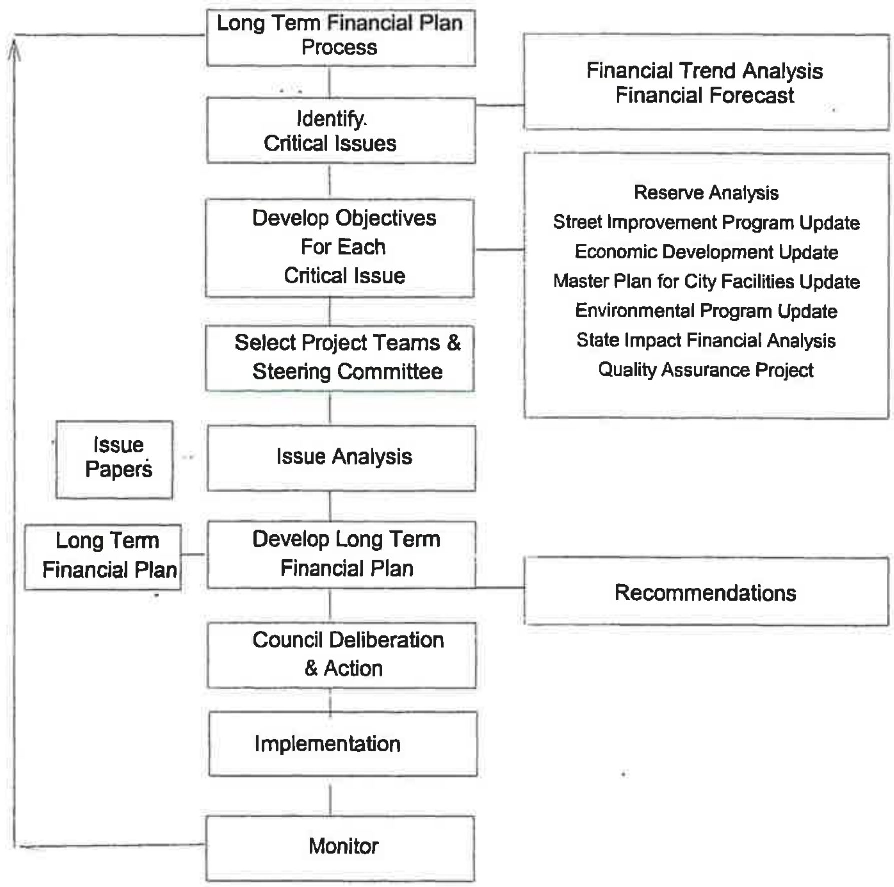
The 2003 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Fiscal & Debt Policy
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Street Improvement Program Update
- Economic Development Update
- Master Plan for City Facilities Update
- Environmental Program Update
- State Impact Financial Analysis
- Quality Assurance Project

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 by City staff. In fact, 15 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 9 project leaders each assigned to teams addressing a specific critical issue.



Goals & Objectives

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

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

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

Trends & Forecast are the Foundation of the LTFP

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

This Financial Plan will be presented in detail to the City Council on January 22, 2003. Following is the project schedule.

Schedule

January 29, 2003	Long Term Financial Plan provided to Council and public for review.
February 4, 2003	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input & City Council adoption.
February 11, 2003	Vital Few Priority Meeting. City Council and City Manager.

City Manager's Transmittal Letter

Honorable Mayor and Councilmembers:

Introduction

The 2003 LTFP represents the City's eleventh financial strategic plan

I am pleased to present the *2003 Long Term Financial Plan.* to the City Council and San Clemente residents. This financial plan represents the eleventh in a series of financial strategic plans that have been presented on an annual basis since 1993. The plan is intended to be a well thought-out analysis of issues that may affect the finances of the City of San Clemente. To provide some historical perspective, a brief review of each past financial plan is included at the end of this section.

The City's LTFP has been nationally recognized

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

The Long Term Financial Plan (LTFP) includes an executive summary which describes the City's current and projected financial condition along with providing specific recommendations to maintain a positive fiscal balance over the next five years. Also included are all recommendations from each of the issue papers.

Three revisions to existing fiscal policies were approved

The next section includes the City's Fiscal and Debt Policy. These policies are dynamic in the sense that they are reviewed and modified, as appropriate, on an annual basis. This year three changes were approved to the Fiscal Policy which will continue to improve the financial stability of the City over the long-term. No changes were recommended to the City's Debt Policy.

A total of 9 issues are included in the 2003 edition of the Long Term Financial Plan

A total of nine issues were examined in the last section of the LTFP. This includes the City's Financial Trend Analysis, Financial Forecast and Reserve Analysis. The 2003 Long Term Financial Plan also consists of several updates to previous issue papers, including the Street Improvement Program, Economic Development, Master Plan for City Facilities, Environmental Program and State Impact Financial Analysis. One new issue, a Community Development Quality Assurance project, was examined in this edition of the Long Term Financial Plan.

The 2003 LTFP consists of issue or project updates rather than new issues

The 2003 financial plan consists almost entirely of issue or project updates rather than new issues. This is largely due to the fact that the City has once again been forced to deal with externally imposed increases in the cost of providing services, such as public safety retirements and rising medical costs.

Due to the uncertainty of the State's budget crisis, the City's Financial Plan does not include the impact of the proposed motor vehicle fee reduction to cities.

The Financial Plan does not include the potential impact of property tax refunds, currently projected at $2.0 million, if the 2% property-tax suit is upheld. Additionally, $608,000 will be cut from future property tax revenues annually.

The City of San Clemente is in excellent financial shape

The City's overall financial position is excellent as we are well prepared for contingencies and emergencies. With the adoption of this financial plan, all City reserves will continue to be fully funded. The City's General Fund is in very good shape, although development income is beginning to decline as expected and fund balances will also decline as operating expenses exceed revenues...unless fixed. The City's tax base, which includes property and sales taxes, continues to improve and the financial forecast indicates ongoing increases in major revenue categories over the next five years.

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

All financial indicators are positive

For the third time, all City financial trend indicators are positive as described in detail in the Trend Analysis report. The General Fund fund balance is positive; however on-going operating expenditures for police and fire services will erode fund balances in the future. The City's mid-year financial report, which was presented in February, indicated that expenditure levels are well within budgetary parameters and, although development related revenues are beginning to decline, these decreases were anticipated and will continue to be closely monitored.

A loan to the Golf Fund was approved

Continuing the fiscal trend of the past several years, the City's operating position is positive. With the exception of the City's Golf Course Fund, all funds are in very good condition. A loan to the Golf Course Fund was recommended and approved to avoid a deficit position in the fund.

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

The 2003 Long Term Financial Plan

The fiscally related issues examined this year include:

Financial trends and five-year forecast remain positive

- *Financial Trend Analysis* – The series of fiscal trends, reviewed annually, continue to remain positive as of June 30, 2002. For the third year, all 20 trends were determined to be positive. However, a "favorable/caution" rating has been assigned to Expenditures per Capita and Operating Position. This rating is given to a trend currently in compliance with adopted fiscal policies, but may change negatively in the future.

- *Financial Forecast* - The City's five-year financial forecast, based on current operating trends, has changed dramatically from past forecasts due to increases in operational expenditures and reductions in development income. A negative operating position is projected in four of the five years.

All reserves are fully funded

- *Reserves* - This issue paper updates the status of the City's reserve program and outlines future funding requirements. A total of $10.1 million has been contributed to reserve accounts over the past eleven years. All reserves are fully funded.

138 street projects have been completed

- *Street Improvement Program* - Since the adoption of this $55 million program in 1995, 138 street projects have been completed and an additional 4 projects are under construction. A total of 55 projects were accelerated from the original schedule.

Economic development is focused on three key areas

- *Economic Development Update* – A comprehensive update of the City's economic development program is provided and is focused on (1) business retention (2) business marketing and promotion, and (3) reinvestment and revitalization.

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

- *Master Plan for City Facilities* – This critical report provides an update to the City's comprehensive capital facilities master plan and identifies the need for future public facilities, including a civic center, senior center, community center, aquatic center, and park facilities.
- *Environmental Program Update* – This report provides an update on the progress that has been made in areas of coastal erosion and sand replenishment, low-flow diversion projects, rail corridor pedestrian beach trail, and related environmental management initiatives.

State fiscal impacts on the City are examined

- *State Impact Financial Analysis* – The impacts of ongoing loss of local control over local revenues is examined. The impact on the City of San Clemente is quantified.
- *Quality Assurance Project* – This paper examines the City's planning, development and review processes with the goal of reducing the number of development projects that are not built to approved plans, especially Spanish Colonial projects.

The 2003 Long Term Financial Plan continues the tradition of studying a variety of issues which require the attention of the City Council and public. Where possible, alternative solutions to the issues raised are provided for Council consideration. Also, the status of the City's current and projected fiscal condition is explored and recommendations are put forth to further solidify the City's positive financial standing.

Along with the Vital Few Priorities that were discussed with Council on February 11, 2003, the direction that the City Council provided as the result of Long Term Financial Plan discussions will set the stage for fiscal year 2003-04 budget preparation process.

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

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

I look forward to working with you, staff, and our community as we review and implement the 2003 Long Term Financial Plan and the proposed budget for Fiscal Year 2003-04.

W O Talley

William O. Talley
City Manager

Long Term Financial Plan Review

Financial plans have been prepared since 1993

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2003 LTFP represents the eleventh plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

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

The 1993 Plan

The projected annual shortfall in 1993 was $6 million

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

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

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

The 1994 Plan

The projected shortfall in 1994 amounted to $2.7 million

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

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

The projected shortfall in 1994 was once again aggressively tackled by the City Council. Actions to close the financial gap included the continued contracting of City services, including the City's Fire Department, fleet maintenance services, meter reading, street programs, and beach/park maintenance. City employees agreed to a new medical benefit package which saved 30% in premiums, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost allocation plan was implemented to recover actual General Fund costs. Again, the Council also recognized the value of funding critical reserves, and addressed the City's long term financial health by establishing a wellness program and funding a capital equipment replacement reserve fund to meet future capital equipment needs.

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

The 1995 Plan

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

Funding was provided for a $55 million street improvement program

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

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

A financial turnaround was evident in the 1996 financial plan

The 1996 Plan

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

Street bonds totaling $7 million were issued

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

Proposition 218 resulted in a $2.8 million General Fund shortfall

The 1997 Plan

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

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

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

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

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

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

The 1998 Plan

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

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

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

The 1999 Plan

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

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

...this resulted in a 7.5% rate increase

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

The 2000 Plan

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

The 2001 Plan

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

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

The 2002 Plan

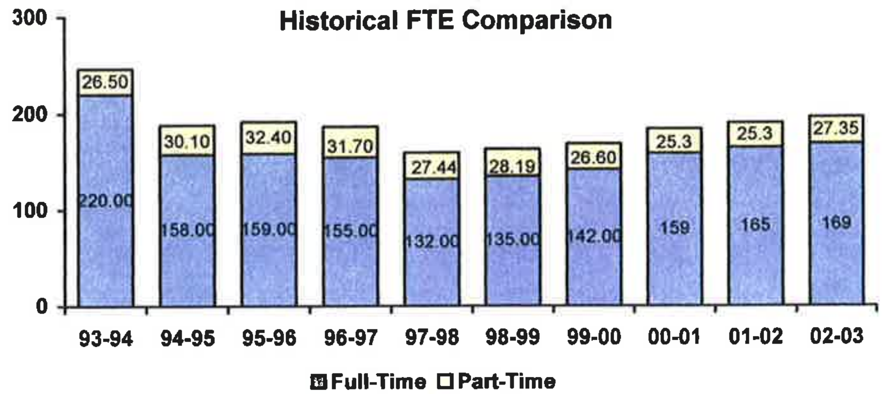
The 2002 plan examined the ongoing financial impact of the City's capital facility plans (Master Plan for City Facilities), a High School Swap analysis, an Environmental Program Update, the Sidewalk Restoration Project, the Downtown Strategic Plan, the Urban Runoff Plan, and a detailed Water/Sewer Rate and methodology analysis.

As a result of the plan, a new fee to implement the Urban Runoff Management Plan was approved in October 2002 and included in the FY 2002-03 budget. A sidewalk restoration plan was funded and water rates were increased so that service levels could be maintained.

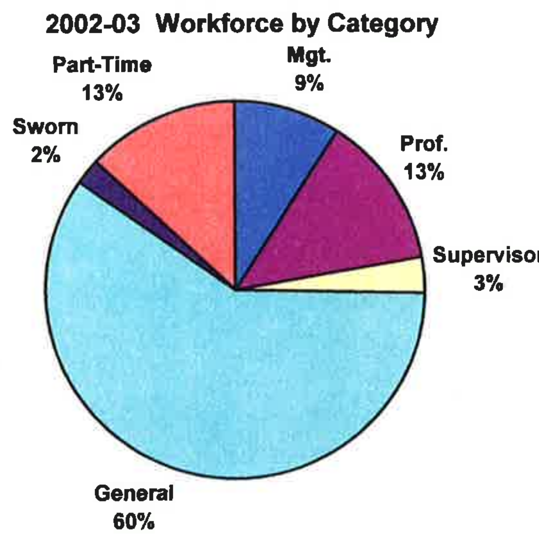
Historical Staffing Levels

Historical Staffing levels

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



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



Executive Summary

Financial Summary

The 2003 Long Term Financial Plan Executive Summary includes a Financial Summary

The *Executive Summary* portion of the 2003 Long Term Financial Plan includes a Financial Summary section which provides a profile of the City's present financial condition, including a summary of this years LTFP recommendations.

Included within the *Financial Summary* section:

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

Introduction

The 2003 LTFP is the 11th edition of the City's financial strategic plan

The eleventh edition of the City's Long Term Financial Plan documents the progress that the City has made in attaining its financial goals, and continues to provide the City Council and citizens with an objective analysis of the fiscal issues facing the City of San Clemente. A number of issues affecting the financial condition of the City were studied and are documented in the 2003 Long Term Financial Plan.

The LTFP serves as an "early detection system"

The 2003 Long Term Financial Plan continues the tradition of reviewing the City's current financial condition and identifying potential fiscal pitfalls. This "early detection system" has served the City as a tool for quickly reacting to financial challenges and opportunities. Furthermore, the strategic fiscal planning process allows the City to thoughtfully plan for the future. To provide a framework for the study of fiscal issues, a comprehensive trend analysis report and a five-year financial forecast has been prepared.

There are several key issues included in the fiscal plan

The key issues that the City will face this year include the potential effects of the State of California's budgetary crisis on the City of San Clemente. Also provided in this year's LTFP are updates to prior year issue papers including reserves, environmental programs, street improvement program, economic development, Master Plan for City Facilities (Fiscal Impact Model), and the State Impact Financial Analysis. A new issue paper has been developed to improve the quality of the development process.

Other major issues facing the City Council were brought forward during the Vital Few Priorities deliberation process on February 11, 2003. The City Council should note that the proposals contained in the Long Term Financial Plan are intended to be used in conjunction with the Vital Few Priorities process as the City Administration develops the proposed budget for Fiscal Year 2003-04.

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

Current Financial Condition - Overview

The City's Long Term Financial Plan typically focuses on the financial condition of the General Fund, the City's key operating fund. The LTFP also includes an examination of the city's major operating funds, including, Water, Sewer, Storm Drain, Golf and the new Clean Ocean Fund.

The General Fund is projected to end the year with a $3.8 million fund balance

The City's financial condition at December 31, 2002 was presented in detail in the fiscal 2002-03 mid-year financial report. Budgeted revenues are anticipated to amount to $34.9. million at June 30, 2003. Expenditures, including reserve and project transfers, will amount to $41.0 million. Current projections indicate that the City's General Fund will end the year with a positive fund balance of $3.8 million, as compared to original projections of $3.0 million.

The City's current financial condition is very good

Notwithstanding potential State budget impacts and future operating impacts such as public safety contractual costs (discussed later in this report), the City's current financial condition can be termed very good. All reserves are fully funded, although contributions will have to be made in order to maintain prudent reserve levels. Property taxes are increasing as anticipated and other budgetary revenue goals will be achieved. Development revenues, as expected, are declining which will result in lower expenditure levels. If the Governor's proposed budget is adopted, the City will stand to lose over $1 million in the loss of vehicle license fees during the current fiscal year and $2.2 million next year (9% of General Fund revenues).

Due to temporary declines in revenue, a loan to the Golf Course fund was approved

The Golf Course Fund is facing financial difficulty due to reductions in revenue and increased expenditures as a result of golf course improvements and debt service required for the Golf Course Clubhouse. A loan from the General Fund was approved to prevent the Golf Course operating fund from ending the year in a deficit position. The loan, amounting to approximately $474,000 over a two year period, will be paid back to the General Fund once the Golf Fund is back to par so to speak.

The 2003 LTFP examines the City's fiscal future

The Long Term Financial Plan for the year 2003 continues to provide a clear path to the City's fiscal future. Although there are certainly many challenges which lie ahead, the process of adopting and implementing a comprehensive financial strategic plan will assist the City Council in thoughtfully choosing a viable route to a secure future.

We believe that the 2003 Long Term Financial plan once again provides viable solutions to a series of financial and quality of life issues.

Reserve Funding – General Fund

All reserve funds are fully funded

Several fiscal policy statements adopted by the City Council over the past several years relate to the funding of various reserve funds and accounts. This is largely due to the fact that most reserve accounts were non-existent, depleted or in a deficit position when the first financial plan was developed. In fact, since 1993, a total of *$10.1 million* has been dedicated to the funding of reserves and deficit fund balances by all City funds. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, facilities maintenance, contingency, and emergency reserves. All reserve funds are now entirely funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels the following transfers were approved:

A transfer of $50,000 to the Facilities Maintenance Reserve

Projected five-year replacement costs for the Facilities Maintenance Reserve are estimated at $689,600. A transfer of $50,000 from the General Fund to the Facilities Maintenance Reserve is recommended for FY 2003-04

A transfer of $40,000 to the Accrued Leave Reserve

The 2003 LTFP recommends that the City allocate $40,000 to the Accrued Leave Reserve to accumulate funds for the payment of accrued employee benefits (leave) to terminated employees.

Emergency reserves are funded at the required 8% level

A $170,000 contribution to the General Fund Emergency reserve is recommended for FY 2003-04 to continue full funding of the reserve at 8% of General operating expenditures.

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

General Fund Transfers

Transfers of $4.4 million were included in the FY 2002-03 budget.

Several annual transfers from the General Fund to other funds are normally included in the annual budget (not including reserve allocations). In FY 2002-03, these include total transfers of $4.4 million for projects such as the refinancing loan from the General Fund to the City's Redevelopment Agency ($3,420,690), Casa Romantica ($40,700), Street Improvement Program ($562,750), Workers' Compensation ($170,100) and miscellaneous transfers ($160,000).

For FY 2003-04, two transfers from the General Fund will be included in the proposed budget..

The General Fund will contribute $276,710 to the Worker's Compensation Fund in FY 2003-04...

Worker's Compensation Fund: A transfer to the Worker's Compensation Fund amounting to $276,710 is recommended in FY 2003-04 in order to provide sufficient funding for outstanding claims through June 30, 2004.

... and $579,630 to the Street Improvement Program

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled $3.4 million during the past six fiscal years. Funding for this program will continue in FY 2003-04 with a contribution of $579,630. Annual contributions of $597,020, plus an inflationary factor, will be made through the remainder of the program.

All 20 financial indicators are positive...

...however, a "Favorable/ Caution" rating has been assigned to Expenditures per Capita and Operating Position

Financial Trend Analysis

The City's financial condition is also quantitatively measured using a financial trend monitoring system. Last year, all financial trends were found to be positive with a favorable/cautionary rating assigned to the Compensated Absences trend. The annual Financial Trend Analysis report for the year ending June 30, 2002 indicates that all 20 indicators are favorable, with a cautionary flag for expenditures per capita and operating position. Only six indicators were considered favorable in 1993, the first year of the Long Term Financial Plan and trends generally have shown improvement.

Expenditures Per Capita: This category was assigned a favorable/caution flag due to a large amount of one-time interfund transfers totaling $6.1 million in FY 2002-03. The indicator also reflects a steady increase in expenditures while development revenues are beginning to decline.

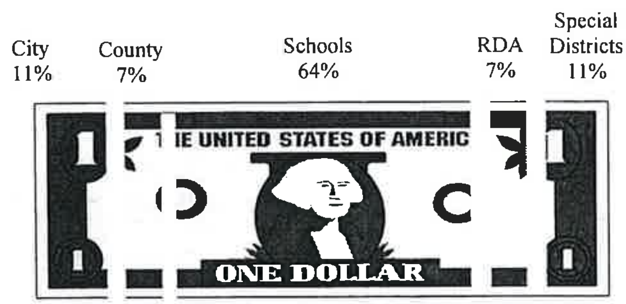
Operating Position: This category was assigned a favorable/caution flag for the first year. FY 2001-02 finished with an operating deficit when calculated as a percentage of General Fund revenues. This is also due to the amount of interfund transfers which the City has committed to.

A detailed review of the indicators is contained in the Financial Trend section of this report. A summary of indicators is provided below:

Indicator	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenues Per Capita	F	F	F	F	F	F	F	F	U	U
Property Tax Revenues	F	F	F	F	F	F	U	U	U	W
Property Values	F	F	F	F	F	F	U	U	U	W
Population	F	F	F	F	F	F	F	F	F	F
Elastic Revenues	F	F	F	F	F	F	F	F	F	U
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	U
Licenses & Permits	F	F	F	F	F	U	F	F	F	U
Comm. Develop. Charges	F	F	F	F	F	U	U	U	U	U
Inter-governmental Revenues	F	F	F	F	F	F	F	F	F	F
One-Time Revenues	F	F	F	F	F	F	F	F	F	W
Revenue Overage	F	F	F	F	F	F	F	F	F	F
Expenditures Per Capita	F/C	F	F	F	F	F	F	F	F	W
Employees Per Capita	F	F	F	U	U	F	F	F	F	W

Indicator	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Fringe Benefits	**F**	F	F	F	F	F	F	F	W	W
Capital Outlay	**F**	F	F	F	F	F	F	F	U	U
Operating Positions	**F/C**	F	F	F	F	F	F	F	W	W
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Compensated Absences	**F**	F/C	F/C	F/C	F	F	F	F	F	F
Fund Balance	**F**	F	F	F	F	F	F	F	F	W
Liquidity Ratio	**F**	F	F	F	F	F	F	F	F	F

The trend report also includes a section as regards the distribution of the property tax dollar. As indicated below, the City currently receives 11% of the property tax dollar and the remainder is distributed as shown.



Five Year Financial Forecast

Revenue growth is projected at 2.6%

Revenues are anticipated to grow by an annual average increase of 2.6% a year, compared to the 2002 forecast average of 2.8%. The lingering economic slowdown, combined with the anticipated reduction in development related activities in the City, result in a more conservative revenue forecast. Of course, the revenue forecast could also be further affected by State actions reducing or shifting local revenues back to the State. For example, the Governor's proposed budget includes the elimination of the vehicle license fee "backfill" to cities. Vehicle license fees amount to 9% of the City's General Fund revenue. The proposed backfill elimination of 67% of VLF fees would result in a reduction of $1.0 million in the current fiscal year and over $2.2 million in the 2003-04 fiscal year.

Expenditures will increase 3.6%, after adjusting for one-time expenditures/transfers

Expenditures are projected to increase at an average rate of 0.6% as compared to the 2002 forecast average of –0.6%. However, one-time expenditures and transfers ($5.7 million) have been reduced from the base year of the forecast. Expenditure growth including one-time expenditures and transfers is projected to increase 3.6% due to on-going operational expenditures added in FY 2002-03, primarily in Police Services, Fire Services and maintenance contracts.

Operating position and fund balances are examined in the financial forecast

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

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

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

The City's projected operating position is negative in four of the five years of the forecast period

Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a negative operating position in four of the 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 2002-03 adopted budget forecast to the 2003 LTFP forecast:

2003 LTFP forecast - operating position

2003 Forecast Summary (LTFP)*

Amounts in $1,000

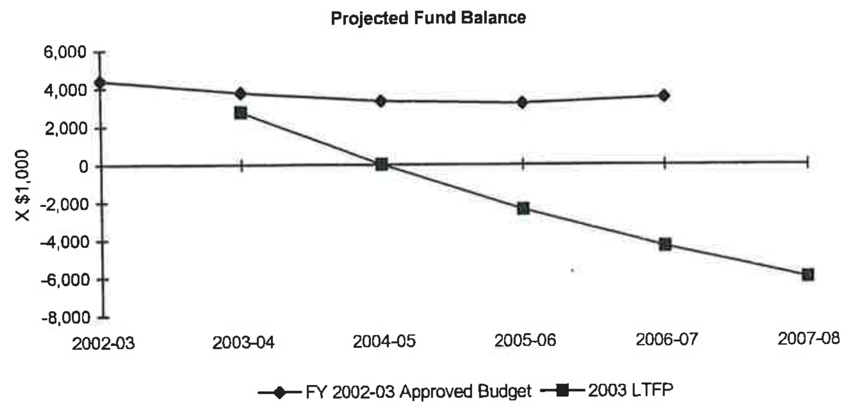
	2003-04	2004-05	2005-06	2006-07	2007-08
Operating receipts	$34,350	$34,015	$35,317	$36,786	$38,382
Operating disbursements	33,343	35,197	36,170	37,199	38,449
Projected surplus/deficit	$1,006	-$1,182	-$854	-$413	-$67

*One-time revenues and expenditures have been excluded. One-time revenues include grants and development fees from the Talega Joint Powers Authority. One-time expenditures include transfers to other funds, capital outlay and special projects such as the Railroad Corridor Monitoring study.

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

Fund Balances

Fund balance is significantly reduced in the 2004-05 fiscal year as a result of operational increases, primarily the proposed fourth fire station at Talega. Total expenditures are $2.6 million higher than revenues, resulting in a negative fund balance in the third year of the forecast. If current revenue and expenditure patterns are maintained, the General Fund deficit would accumulate to approximately $6.0 million by FY 2007-08. Recommendations to eliminate deficit spending are outlined below.



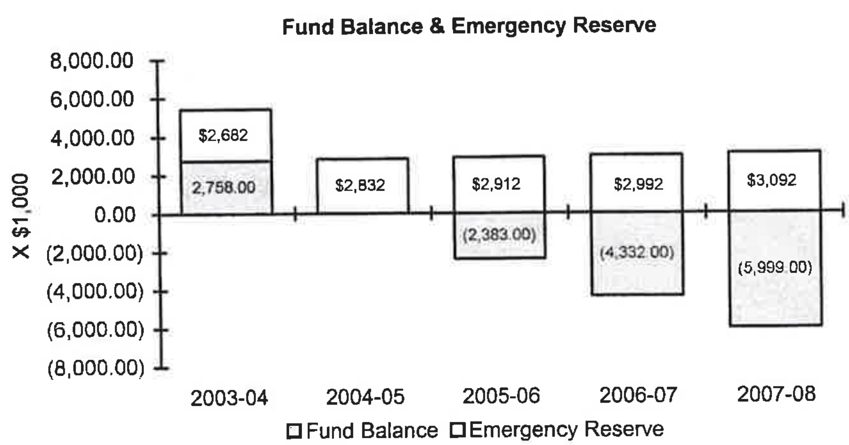
Fund balances are projected to be negative in three of the five forecast years

As shown on the following table and graph, the projected ending fund balance over the five year forecast period will be negative in three of the five years. Emergency reserve levels have been maintained at the required 8% level.

Fund Balance & Emergency Reserve

Amounts in $1,000	2003-04	2004-05	2005-06	2006-07	2007-08
Fund Balance	$2,758	$7	-$2,383	-$4,332	-$5,999
Emergency Reserves (8%)	$2,682	$2,832	$2,912	$2,992	$3,092

Fund balances and emergency reserves



Conclusion & Projected Financial Condition

Operating expenditures will have to be reduced, revenues increased or a combination of the two

A minimum number of funding requests have been submitted

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue. The projected negative operating position will reduce fund balances, resulting in negative balances in three of the five years. The City's fiscal policy does not allow for the adoption of an unbalanced budget. Consequently, operating expenditures will have to be reduced, revenues increased, or a combination of the two. Based on the issue papers contained in the 2003 Long Term Financial Plan, there are a minimal number of new funding requests. General Fund transfers to maintain reserve levels are recommended; however, the major problem from a fiscal perspective is the annual $1.5 million in added costs if the Talega fire station is activated. An analysis is currently under way by the City Administration and the Orange County Fire Authority to determine if current fire stations can possibly be relocated to avoid this annual cost while maintaining satisfactory response times.

It should be noted that programs prioritized by the City Council as a part of the Vital Few Priority process are not included in the financial forecast. Other program needs will be identified through the annual Vital Few Priority process.

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

This section provides an updated fund balance forecast when LTFP financial recommendations were adopted by the City Council. The first table summarizes current projected fund balances prior to the adoption of 2003 LTFP recommendations:

Current projected fund balances

Fund Balance

	2003-04	2004-05	2005-06	2006-07	2007-08
Fund Balance	$2,758,000	$7,000	-$2,383,000	-$4,332,000	-$5,999,000

The following table indicates the impact on fund balances when recommendations contained in the 2003 Long Term Financial Plan were adopted by the City Council. The only items below which are not included as LTFP issue recommendations were the potential elimination of the Talega fire station and the repayment of an RDA loan from the General Fund to the Redevelopment Agency. This payment was omitted from the City's financial forecast.

Projected fund balances including 2003 LTFP recommendations

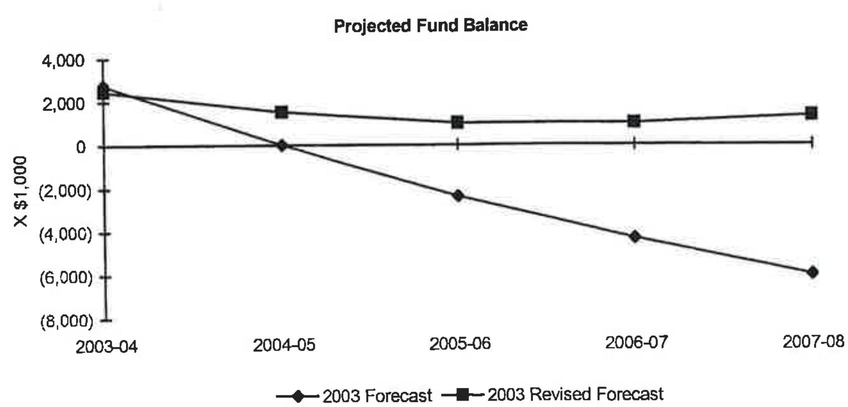
Fund Balance

	2003-04	2004-05	2005-06	2006-07	2007-08
Projected Ending Fund Balance	$2,758,000	*$2,469,122*	*$1,527,954*	*$1,010,386*	*$996,8780*
Operating deficit	0	-2,751,000	-2,389,000	-1,949,000	-1,667,000
Workers' Compensation Fund[1]	-276,710	0	0	0	0
Accrued Leave Reserve[2]	-40,000	0	0	0	0
Facilities Maintenance Capital Asset Fund[3]	-50,000	0	0	0	0
Golf loan[4]	-192,000	0	0	0	0
Eliminate fourth Fire Station[5]	0	1,540,000	1,601,600	1,665,660	1,732,290
RDA loan repayment[6]	269,832	269,832	269,832	269,832	269,832
Revised Ending Fund Balance	*$2,469,122*	*$1,527,954*	*$1,010,386*	*$996,878*	*$1,332,000*

[1] $276,710 transfer proposed in FY 2003-04.
[2] $40,000 recommended in Reserve paper to fully fund the Accrued Leave Reserve.
[3] $50,000 recommended in Reserve paper to fully fund the Facilities Maintenance Capital Asset Fund.
[4] Loan to Golf Fund.
[5] Eliminate proposed 4th fire station, saving $1.54 million in the first year. Subsequent year savings is based on the contract cap increase in place each year.
[6] Repayment of loan to RDA made in FY2002-03

Impact on fund balance with LTFP recommendations

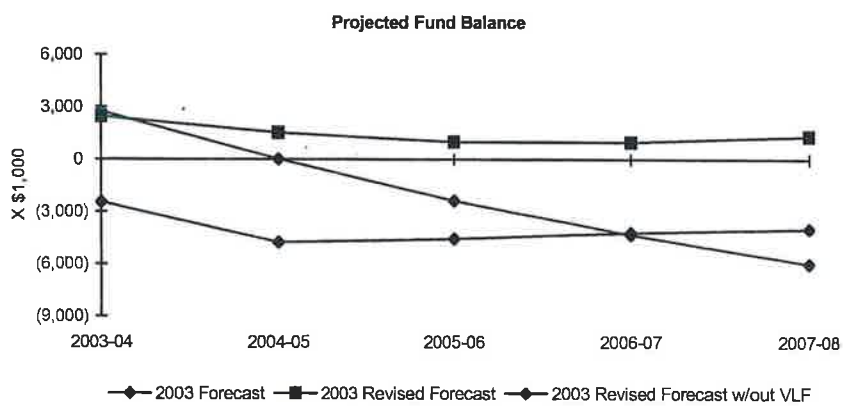
The following graph shows the impact of adopting the 2003 LTFP recommendations on projected fund balances:



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

By adopting the above recommendations, the General Fund fund balance will remain positive over the next 5 years. Any new program increases or decreases will, of course, impact the projected fund balance but this analysis provides the City Council with a baseline forecast if LTFP recommendations are adopted. The ending projected fund balance in FY 2006-07 would amount to $1.3 million as compared to last year's estimate of $3.6 million. Over the last five years, fund balance has averaged $7.7 million.

The forecast fund balance, however, changes dramatically if the State takes away vehicle license fees. As previously mentioned, the potential impact to the City is $1.0 million in the current fiscal year and a total loss of approximately $12.4 million over the forecast period as illustrated in the chart below:



Summary of Long Term Financial Plan recommendations

Recommendations

This section summarizes the recommendations contained in the 2003 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by the City Administration.

A narrative description and rationale for each recommendation is contained in the individual issue papers under separate tabs in this document.

Forecast

1. Recommend a loan from the General Fund to the Golf Operating Fund in the amount of $282,000 for fiscal year 2002-03 and $192,000 for fiscal year 2003-04 to balance the Golf Operating Fund budget.

Reserves

1. Budget sufficient funds for FY 2003-04 in order to bring the emergency reserve to the 8% level of projected General Fund operating expenditures. Based on the Financial Forecast, this would amount to $170,000; however, expenditures may be less.

2. Recommend that $335,180 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2003-04 to fund the Council Contingency Reserve.
3. Transfer $276,710 during FY 2003-04 from the General Fund to the Workers' Compensation Fund to fully fund the reserve requirements and cover the estimated outstanding claims through June 30, 2004.
4. Transfer $40,000 from the General Fund to the Accrued Leave Reserve for FY 2003-04.
5. Transfer $50,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for FY 2003-04.
6. Budget $30,000 from the Water Operating Fund in FY 2003-04 in order to bring the emergency reserve to $390,000, which will maintain the 8% of projected Water Fund operating expenditures level.
7. Budget an additional $400,000 transfer from the Water Operating Fund to the Water Depreciation Fund for FY 2003-04.
8. Budget $19,000 from the Storm Drain Operating Fund for FY 2003-04 in order to bring the emergency reserve to $55,000, which will maintain the 8% of projected Storm Drain Fund operating expenditures level.
9. Budget $1,000 from the Solid Waste Operating Fund to increase the reserve balance by $1,000 for FY 2003-04 in the Solid Waste Fund.
10. Budget $8,000 from the Golf Course Operating Fund for FY 2003-04 in order to bring the emergency reserve to $161,000, which will maintain 8% of projected Golf Course Fund operating expenditures level.
11. Continue the annual transfer of $160,000 from the Golf Course Operating Fund to the Golf Course Improvement Fund.
12. Change the Fiscal Policy to eliminate the acquisition of property to develop a second municipal golf course.

Street Improvement Program

1. Approve and authorize the allocation of a General Fund contribution of $579,630 for the coming FY 2003-04.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Confirm the City Council's continuing commitment to the Major Street Maintenance Program and the Slurry Seal Program to provide a programmed preventive maintenance for the streets.

Economic Development

1. Based upon the availability of funding, 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 receiving Main Street Program Certification by the State of California and the final designation of 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.
7. Continue to market and promote the recruitment of a new grocery store for the area of South San Clemente.
8. In concert with the efforts of the City's Planning Division to undertake a Specific Plan process, coordinate marketing and promotion of appropriate and viable economic development initiatives and projects for the North Beach area.

Master Plan for City Facilities

1. Continue to analyze long-term costs of service, including contract Fire and Police Services, and strategize options for bringing the long-term budget into balance.
2. Consider revenue-generating uses for the La Pata/Vista Hermosa site that help address long-term budget concerns.
3. Recognizing the critical need for additional community recreational facilities, direct staff to proceed with the planning and design of park projects in the MPCF. Delay construction of facilities until sustainable revenue is insured and verifiable.
4. 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 $8.2 million capital shortfall for the approved MPCF parks facilities.
5. Annually review the status of previous recommendations for the Master Plan for City Facilities as part of the Long Term Financial Plan.

Environmental Program Update

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

State Impact Financial Analysis

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.

Development Process Quality Assurance

1. Direct staff to work with the Planning Commission to refine recommendations. Council's direction should be defined within parameters of:
   A. Administrative refinement with little or no impact to the General Fund; and/or
   B. Refinements that may require additional General Fund support.
2. Direct staff and the Planning Commission to present recommendations to the City Council for final approval and implementation by September 2003.

Long Term Financial Plan

Fiscal Policy

Objective

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

Background

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

Following are approved changes to the current Fiscal Policy:

1. ***Capital Improvement Budget Policies:*** This change expands the definition of estimated costs with regard to capital project proposals.

Current Policy Statement	*Approved Policy Statement*
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	The City will identify the estimated capital and on-going maintenance costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.

2. ***Utility Rates and Fees Policies:*** This change clarifies the language of the policy specific to utility fund fees and user charges.

Current Policy Statement	*Approved Policy Statement*
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.	The City will set fees and user charges for each utility 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.

3. ***Reserve Policies:*** This change eliminates the objective of funding the acquisition of property for the development of a second municipal golf course.

Current Policy Statement	*Approved Policy Statement*
The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will also provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs.	The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected five-year costs.

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

Council Action
All recommendations were approved by the City Council by a vote of 5-0 on February 4, 2003.

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.	√	
The purchase of new or replacement capital equipment with a value of $5,000 or more and with a minimum useful life of two years will require budget approval.	√	

Fiscal Policy Statement	Status	Comments
The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
Revenue Policies		
The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time revenues will be used for one-time expenditures only. (Including capital and reserves)	√	

Fiscal Policy Statement	Status	Comments
Capital improvements will be financed primarily through user fees, services charges or developer agreements when benefits can be specifically attributed to users of the facility. The City will analyze the impact of capital improvements to ensure that operational and maintenance costs are balanced with on-going revenue to support the facilities.	√	
The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development. Revenue from these sources will be used to meet peak workload requirements.	√	
The City will annually review the General Fund operating position (operating revenues less operating expenditures) to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.	√	
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Utility Rates and Fees Policies		
The City will set fees and user charges for each utility 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.	√	An annual review of the water and sewer rates was completed. Water rates will increase 1.9% in FY 2003-04. Sewer rates will not change.
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	

Long Term Financial Plan

Fiscal Policy Statement	Status	Comments
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated capital and on-going maintenance costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	
The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the Master Plan for City Facilities.	√	

Short-Term Debt Policies

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

Long-Term Debt Policies

Fiscal Policy Statement	Status	Comments
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current ongoing operations.	√	

Reserve Policies

Fiscal Policy Statement	Status	Comments
The City will maintain General Fund Emergency reserves at a level at least equal to 8% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	√	Emergency Reserve = $2,681,640, or 8% of General Fund operating expenditures for FY 2003-04
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of the Council Contingency Reserve will be established as needed but will not be less than 1% of General Fund operating expenditures annually.	√	Council Contingency Reserve = $335,180 for FY 2003-04

Debt Policy Statement	Status	Comments
The City will keep outstanding debt within the limits prescribed by State statute and at levels consistent with its creditworthiness objectives.	√	

Debt Standards and Structure

Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users which will generally require that debt be issued only for a time period that is consistent with the life span of the project for which the debt was issued.	√	
Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, and the nature and type of security provided.	√	
In the case of issues structured with term bonds, the City will use a sinking fund to retire the term bonds.	√	
The City will not issue debt that commences principal payment beyond the fiscal year in which the financed asset is completed or is substantially available to the City.	√	
The City will seek to structure debt with level principal and interest costs over the life of the debt.	√	
The City may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions.	√	
The City shall issue subordinate lien debt only if it is financially beneficial to the City and is consistent with the City's creditworthiness objectives.	√	
The City will consider the use of non-traditional financial products on a case by case basis and consistent with state law and financial prudence.	√	
Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities.	√	
Use of short-term borrowing, such as bond anticipation notes (BANs), tax and revenue anticipation notes (TRANs), tax-exempt commercial paper and other similar short-term borrowing vehicles will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.	√	
Credit enhancement will be used to the extent that net debt service on the bonds is reduced by more than the costs of the enhancement, measured in present value terms.	√	

Debt Policy Statement	Status	Comments
Debt Administration and Process		
No City Department, agency, or sub-unit shall incur long-term debt without the approval of the City Council.	√	
All General Fund supported and revenue bond proceeds shall be invested in accordance with bond covenants, unless otherwise specified by law. Investments will be consistent with those authorized by existing state law and by the City's investment policies.	√	
All costs and fees related to issuance of bonds will be paid out of bond proceeds.	√	
In general, City debt will be issued through a competitive bidding process.	√	
Negotiated sales of debt will be considered in circumstances when the complexity of the issue requires specialized expertise, when a change of underwriter may result in losses, when the negotiated sale would result in substantial savings in time or money, or when market conditions or City credit are unusually volatile or uncertain.	√	
For all debt sales, the City will require that the action taken by the City Council to incur the debt will be taken as a regular business item, and at a regular or special City Council meeting, consistent with state law.	√	
Underwriters, Consultants and Counsel		
For all competitive and negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt.	√	
City payments for underwriter's counsel in negotiated sales will be authorized on a case by case basis depending on the nature and complexity of the transaction.	√	
The City will retain external bond counsel for all debt issues. All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all statutory requirements necessary for issuance, and determining the federal income tax status of such debt.	√	
The City may choose to engage the services of a disclosure counsel for the purposes of assisting in the various aspects of the preparation of an official statement, private placement memorandum or other form of offering, disclosure or continuing disclosure document to be disseminated in connection with the sale of the City's debt or conduit debt	√	

Debt Policy Statement	Status	Comments
The utilization of a financial advisor for particular bond sales will be at the discretion of the Finance and Administrative Services Department on a case by case basis and pursuant to a written financial advisory service contract.	√	
The Finance and Administrative Services Department will utilize a fiscal agent, paying agent or trustee on all City indebtedness.	√	
Compensation for bond counsel, underwriter's counsel, disclosure counsel, financial advisors, trustees, and other financial service providers will be consistent with industry standards.	√	
The City Council shall make all final determinations of selection for underwriters, bond counsel, and financial advisors.	√	
The City Council shall have the authority to periodically select other service providers as necessary to meet legal requirements and minimize net City debt costs.	√	
Other Policies		
The Finance and Administrative Services Department shall maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the Federal Tax Code.	√	
Any unsolicited financing proposal shall be referred to the Finance and Administrative Services Department for review by the City's Debt Management Team prior to submittal to the City Council for consideration.	√	
Provided that sufficient resources are available, liquidity will not be impaired, and a defined source of repayment is available, the City will generally favor internal borrowings over external borrowings for short-term liquidity purposes.	√	

Legend:

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

Financial Trend Analysis

Introduction

Indicators measure the fiscal health of the City of San Clemente

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

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 currently and as the City continues to grow;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic downturn;
- Debt levels and their impacts upon current City financial resources.

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

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

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.

Trend data is as of June 30, 2002

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal year 1997-98 through fiscal year 2001-02. Consequently, all trends are based on data available as of June 30, 2002, and do not incorporate any changes that have occurred since that time.

Summary of Trend Analysis

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

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

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

All indicators are favorable for the third consecutive year

Indicator	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*
Revenues Per Capita	**F**	F	F	F	F	F	F	F	U	U
Property Tax Revenues	**F**	F	F	F	F	F	U	U	U	W
Property Values	**F**	F	F	F	F	F	U	U	U	W
Population	**F**	F	F	F	F	F	F	F	F	F
Elastic Revenues	**F**	F	F	F	F	F	F	F	F	U
Sales Tax Revenues	**F**	F	F	F	F	F	F	F	F	U
License & Permit Revenues	**F**	F	F	F	F	U	F	F	F	U
Comm. Develop. Charges	**F**	F	F	F	F	U	U	U	U	U
Intergovernmental Revenues	**F**	F	F	F	F	F	F	F	F	F
One-Time Revenues	**F**	F	F	F	F	F	F	F	F	W
Revenue Overage	**F**	F	F	F	F	F	F	F	U	U
Expenditures Per Capita	**F/C**	F	F	F	F	F	F	F	F	W
Employees Per Capita	**F**	F	F	U	U	F	F	F	F	W
Fringe Benefits	**F**	F	F	F	F	F	F	F	W	W
Capital Outlay	**F**	F	F	F	F	F	F	F	U	U
Operating Position	**F/C**	F	F	F	F	F	F	F	W	W
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Compensated Absences	**F**	F/C	F/C	F/C	F	F	F	F	F	F
Fund Balance	**F**	F	F	F	F	F	F	F	F	W
Liquidity Ratio	**F**	F	F	F	F	F	F	F	F	F

...however, a "Favorable/Caution rating has been assigned to Expenditures Per Capita and Operating Position

Overview of the City's Financial Condition

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

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

The 2003 Long Term Financial Plan again includes the analysis of twenty trends. The current year being analyzed shows every indicator receiving a *favorable* rating. This is the third consecutive year with all favorable indicators and is much improved over 1994 where only five indicators showed favorable signs.

Emergency reserves are fully funded in FY 2001-02

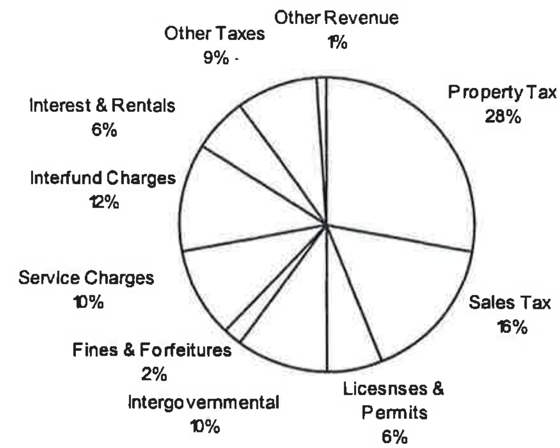
It should be noted that the City's improved fiscal health has been partially attained by funding emergency reserves. The 2001 Long Term Financial Plan established the General Fund Emergency Reserve at 8% of the operating expenditures. This reserve is fully funded in FY 2001-02.

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

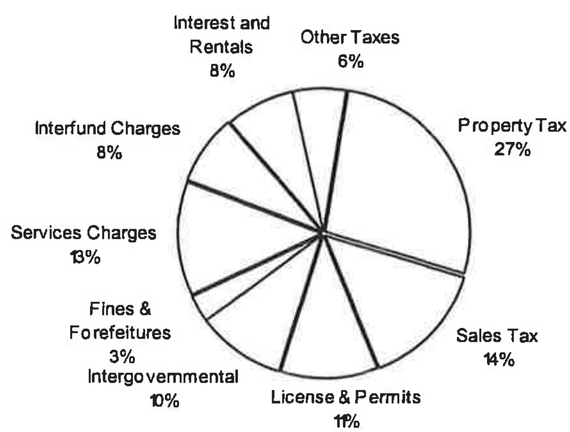
The following sections provide an overview of the indicators listed in the table above.

Comparison of Revenues by Source
1997-98 vs. 2001-02

1997-98



2001-02

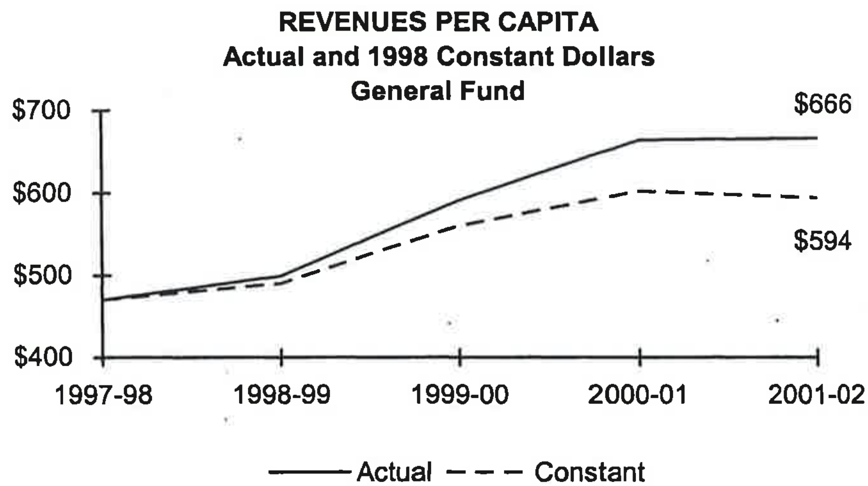


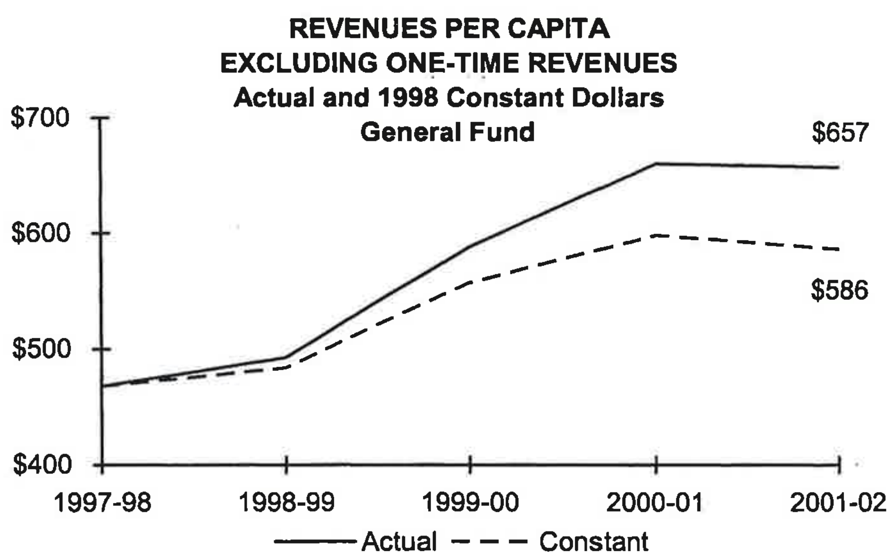
License and Permit revenues increased from 6% in 1997-98 to 11% in 2001-02

Comments: These charts indicate that most revenue sources, as a percentage of the total General Fund revenues, have remained stable with the exception of License and Permits and Interfund Charges. License and Permits increased from 6% in FY 1997-98 to 11% in FY 2001-02 due to an increase in business license and construction-related permits. Interfund Charges decreased from 12% to 8% of total operating revenues from FY1997-98 as a direct result of increases in other revenue sources.

Revenues

Revenues Per Capita



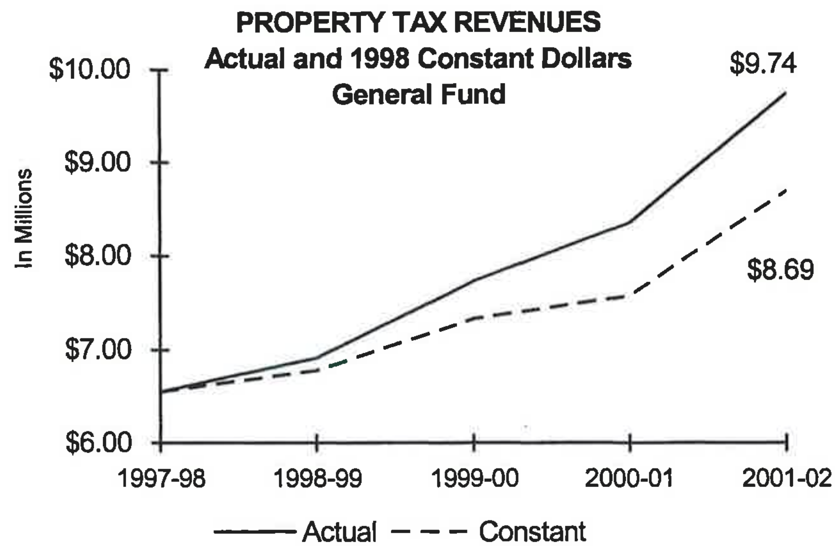


Revenues per capita show a downward trend

Finding: ***FAVORABLE.*** Revenues per capita (excluding one-time revenues) reflect a slight decrease when analyzing both actual and constant dollars for FY 2001-02.

Comments: The first chart above shows a slightly downward trend for constant dollars due to population increasing at a higher rate than operating revenues. However, total revenues for FY 2001-02 increased as the city's major revenue category, property tax went up by $1,389,700. Other revenue categories actually decreased as expected due to development activity tapering off. License and permit revenues decreased over the prior fiscal year by $430,890. The second chart (which excludes one-time revenues) shows a decrease in both actual and constant dollars for FY 2001-02. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. Additionally, the City no longer has to rely on one-time revenues for its operational needs. A favorable trend continues as General Fund revenues remain stable. Thus, a favorable rating has been assigned.

Property Tax Revenues



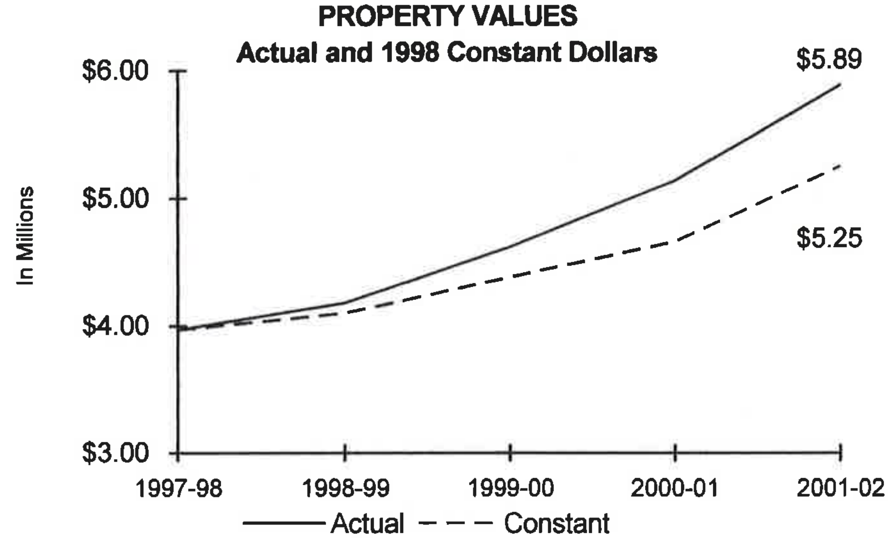
Property tax revenues increased by 16.6%, the sixth consecutive increase

Finding: ***FAVORABLE.*** Property tax revenues showed a significant increase for FY 2001-02, continuing the positive trend which began five years earlier.

This increase amounted to $1,389,700

Comments: Property tax revenues increased by $1,389,700 or 16.6% in actual dollars, and show a 14.7% increase in constant dollars, ending the year $1,114,300 above the prior fiscal year. This increase demonstrates solid property valuations and new home sales within the City. This indicator receives a favorable rating for the sixth consecutive year.

Property Values

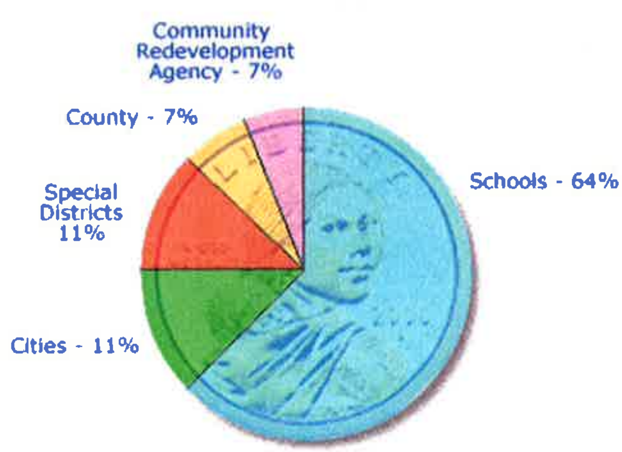


A positive growth rate in property values was observed for the sixth consecutive year

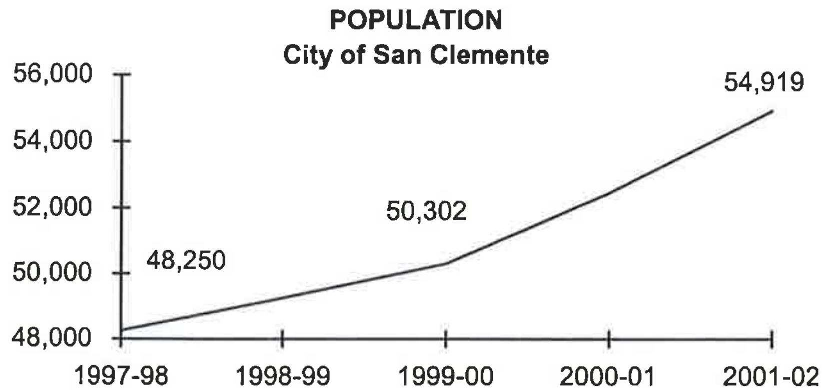
Finding: ***FAVORABLE.*** Property values showed a positive growth rate for the sixth consecutive year in FY 2001-02.

Comments: The growth rate in property values as a percentage rate from the previous year shows an increase of 14.6%. This is the sixth consecutive year where a positive trend has emerged. As a result of the positive changes, this indicator remains favorable. It should be noted, however, that this indicator needs to be continually monitored due to the impact of property tax revenues on the General Fund.

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



Population

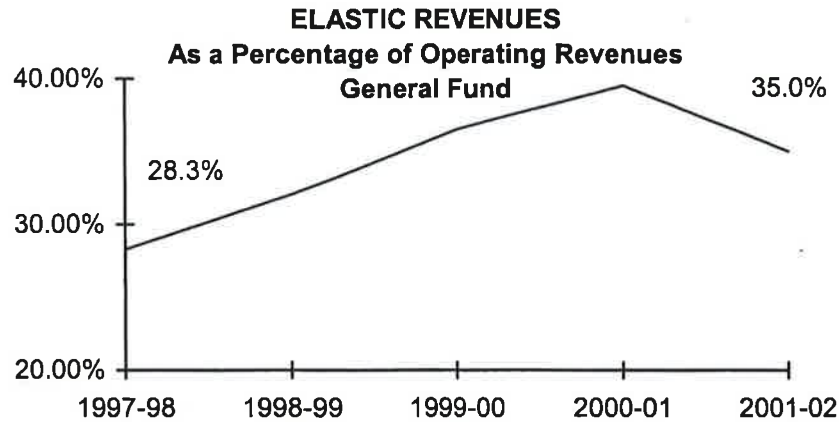


3.3% average growth over the last five years

Finding: ***FAVORABLE***. The City's population growth, an average of 3.3% over the last five years, is considered favorable because this growth has been planned and controlled.

Comments: The exact relationship between population change and other economic and demographic factors in 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. The 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.).

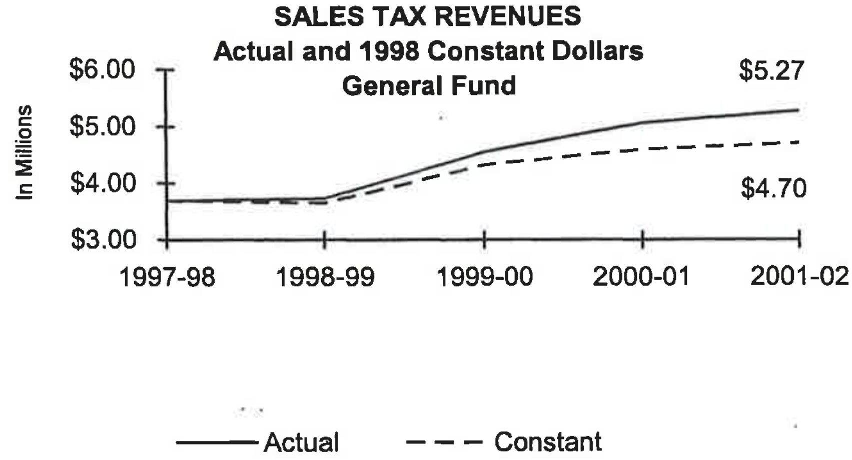
Elastic Revenues



Elastic revenues showed a decrease when calculated as a percentage of total revenues

Finding: ***FAVORABLE***. Elastic revenues, as a percentage of total revenues, decreased 4.5% in FY 2001-02. Actual elastic revenues decreased $957,900, while total revenues increased by $1,745,700. The result is the decrease shown above.

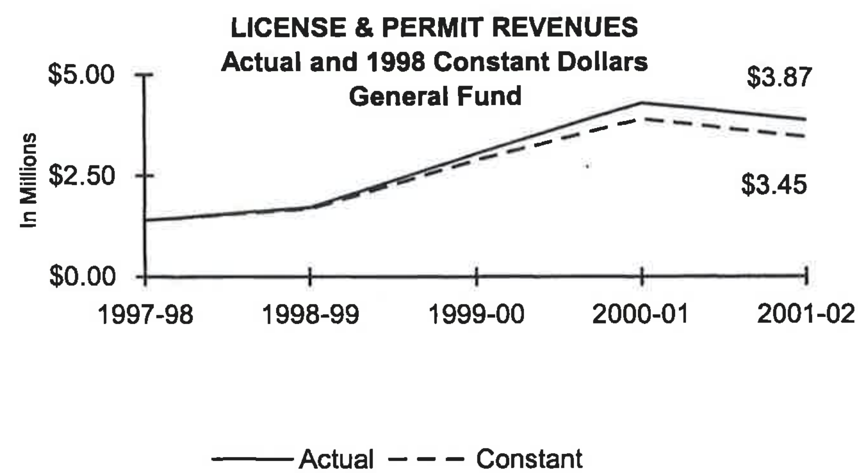
Comments: The City's largest elastic revenue source, sales tax revenue, was up 4.3%, or $216,500. License and permit revenues decreased $430,900 and community development service charges came in $767,300 under the previous year. Elastic revenues, as a percentage of total revenues, decreased in FY 2001-02 due to the anticipated decline in development activity. This rating is unchanged from prior year. Details concerning each major elastic revenue source can be found in the following five pages.



Sales tax revenues increased $216,500 in FY 2001-02

Finding: ***FAVORABLE.*** As summarized in the chart above, sales tax revenues showed a slight increase of $216,500, or 4.3%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to $117,400, or 2.6%.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past five years in actual dollars. In fact, actual dollars increased 43.1% from sales tax revenues recorded in FY 1997-98. These increases boost sales tax revenue to a thirteen-year high in actual dollars and the result is a favorable rating.

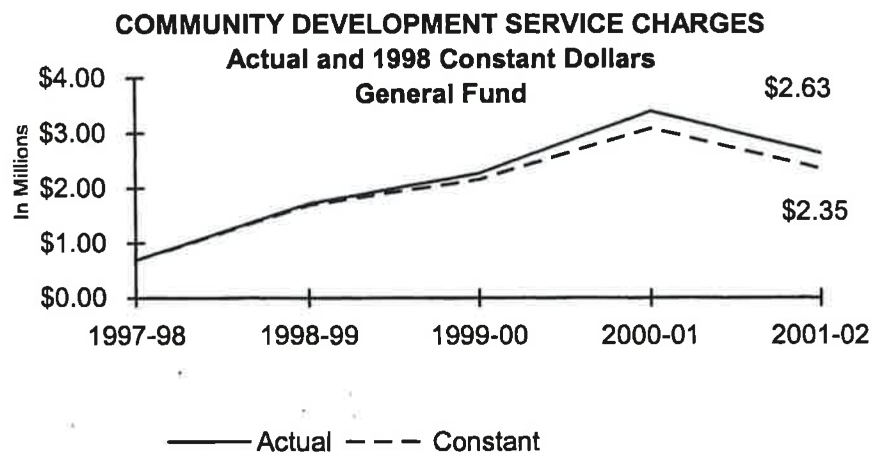


License and permit revenues decreased for the first time in five years

Finding: ***FAVORABLE.*** As anticipated, license and permit revenues decreased for the first time in five years in FY 2001-02. The decrease in actual dollars amounted to $430,900, or 10.0%, below the prior fiscal year. The constant dollar decrease registered $448,600, or 11.5%, under fiscal year 2000-01.

Construction permit revenue declined dramatically

Comments: This trend indicates that construction activity decreased from the past year. Included in this decrease are construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, which decreased $565,300, or 16.7%. This indicator displays a decrease due to completion of planned development in Talega and Forster Highlands. A favorable rating has been assigned based on the development activity continuing as planned.

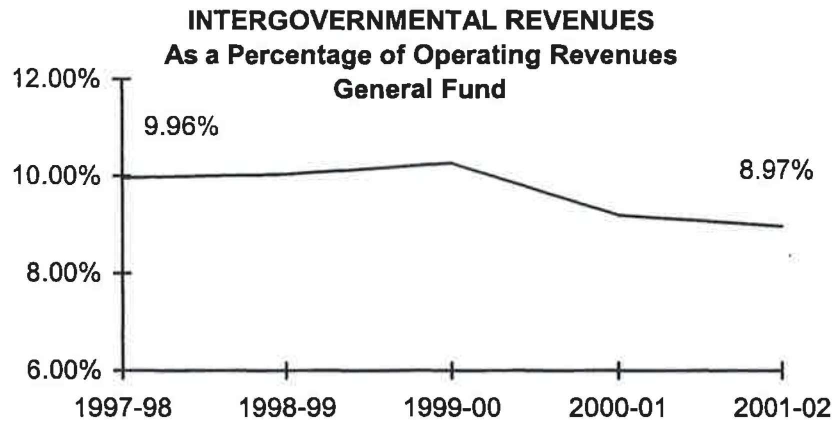


Finding: ***FAVORABLE.*** Total community development service charges decreased by 22.6%, or $767,300 from the prior year. This revenue source shows a decrease under the last year when compared to the relative increase in the previous two years. This trend was anticipated to decline as development within the City slows down.

Community Development Service Charges recorded a decrease of $767,300

Comments: Specific revenue sources showing decreases include construction inspection fees of $373,800, grading plan check fees of $211,900 and building plan check fees of $48,300. This indicator has been assigned a favorable rating as reductions in service charges were expected.

Intergovernmental Revenues

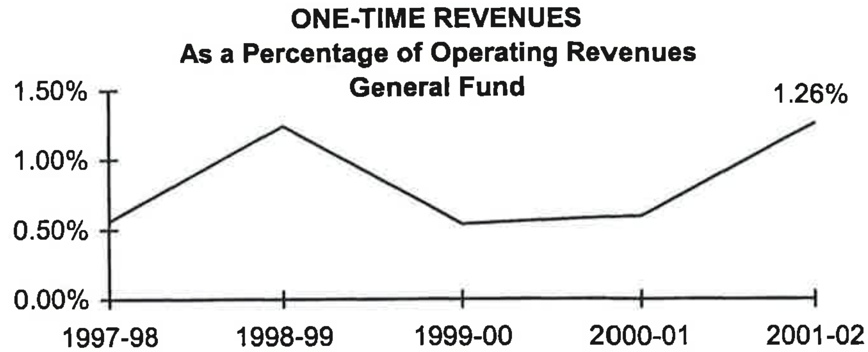


Intergovernmental revenues show a fairly level trend

Finding: ***FAVORABLE.*** General Fund Intergovernmental revenues, as a percentage of operating revenues, showed a fairly level trend for the seventh consecutive year.

Comments: 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. The city's largest intergovernmental revenue is motor vehicle tax which makes up 80% of the total intergovernmental category.

One-Time Revenues

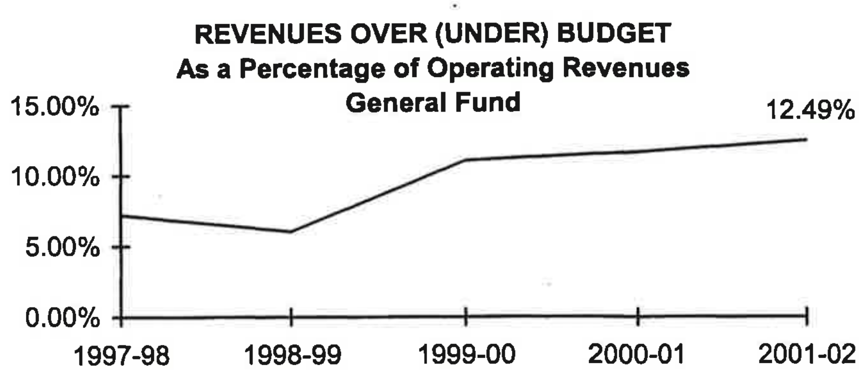


Finding: ***Favorable***. One-time revenues, as a percentage of total General Fund revenues, equaled 1.26% in FY 2001-02, higher than the prior year.

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

Comments: One-time revenues have increased from the prior fiscal year by $249,000, or 119.3%. FY 2001-02 one-time revenues, totaling $457,730, includes a state grant for sand replenishment and other miscellaneous reimbursements. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a favorable rating.

Revenue Overage/Shortage



Finding: ***Favorable***. Actual revenues exceeded budget by $4,566,000 for fiscal year 2001-02 and ends with a positive revenue position over budget by 12.49%. The City experienced increases in many categories, including

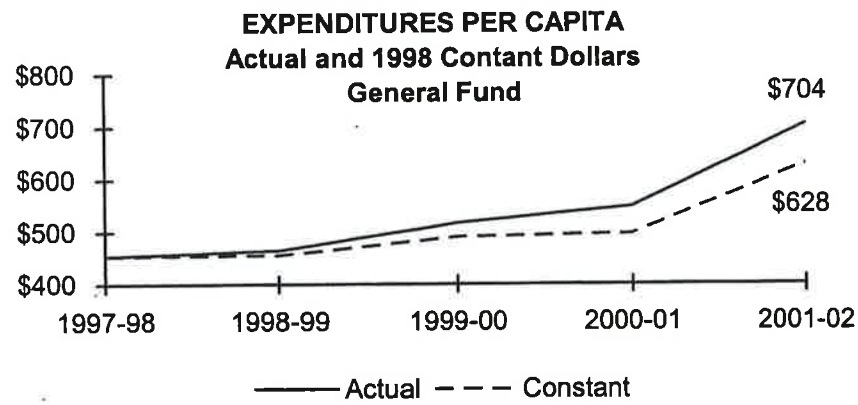
The City experienced increases in many revenue categories

interest and rental income ($1,680,000), service charges ($1,049,000), license and permit revenues ($554,900), other taxes ($427,200) and intergovernmental revenues ($307,900). 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.

Comments: This trend began the five-year analysis with a positive revenue position of 7.21% and ended FY 2001-02 at 11.98%. 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. In addition, the City does not budget unrealized gains or losses on investments as this is a reporting requirement and does not reflect actual revenue.

Expenditures

Expenditures Per Capita



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

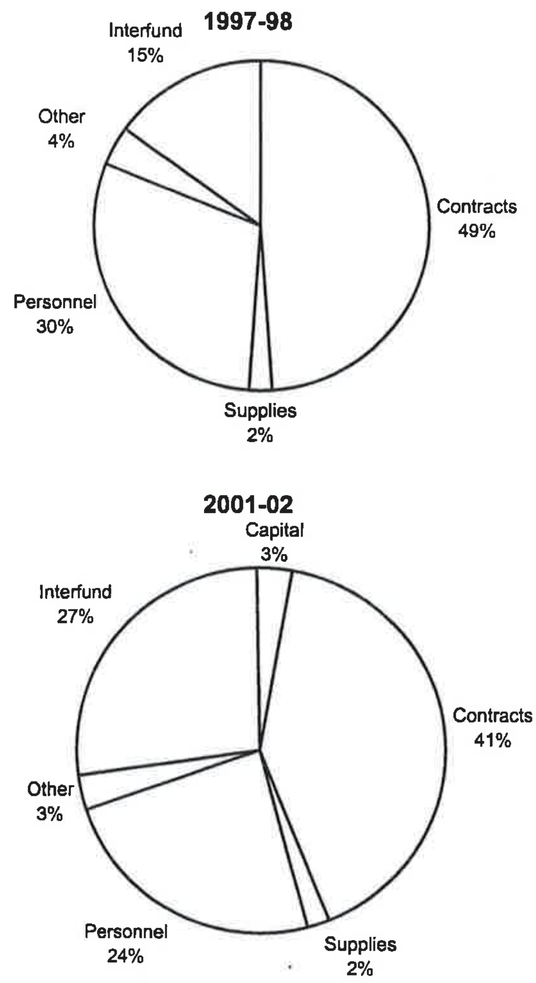
General Fund expenditures increased $9,930,800 in FY 2001-02

Comments: In FY 2001-02, expenditures increased in actual dollars by $9,930,800 when compared with FY 2000-01, and $8,426,200 in constant dollars for the same time period. Expenditures per capita for FY 2001-02 are higher than FY 1997-98. This is mainly due to the General Fund's transfer of over seven million dollars, in FY 2001-02, to other funds within the City in order to fund reserves and priority projects. Had the City not made the one-time transfers, actual and constant expenditures per capita would have been $592 and $528, respectively.

Actual expenditures include interfund transfers. For example, FY 2001-02 General Fund expenditures included transfers to the General Liability Fund ($1,500,000), Parks Acquisition and Development Fund ($1,500,000), Golf Fund ($1,250,000), Workers' Compensation Fund ($1,199,710), Street Improvement Fund ($546,400), and Storm Drain Fund ($500,000). These transfers help to ensure that the other funds have adequate reserves to meet emergency needs and complete priority projects.

Although expenditures included the one-time transfers noted above, a favorable/caution rating is assigned and this indicator will be closely monitored to ensure that expenditure levels are maintained to provide a consistent and adequate level of service without depleting fund balances.

Comparison of Expenditures by Category 1997-98 vs. 2001-02

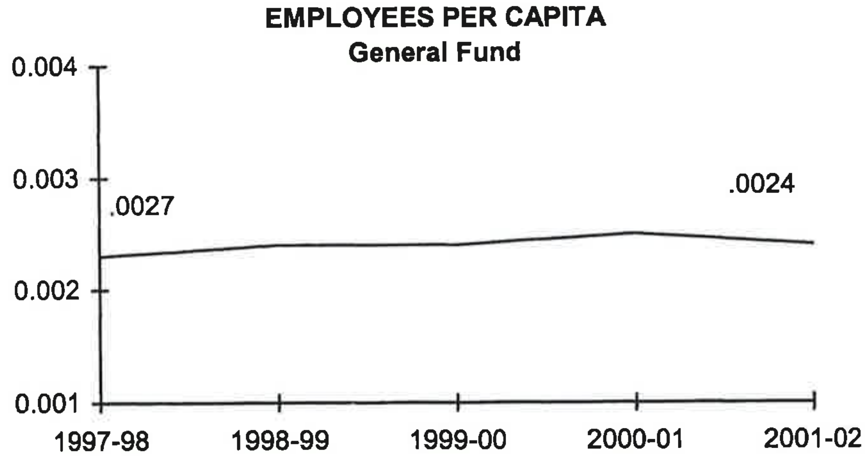


Interfund transfers increased from 15% in 1997-98 to 27% in 2001-02

Comments: These charts indicate that all expenditure categories, as a percentage of the total General Fund expenditures, changed as a result of the increased spending in interfund transfers. Interfund transfers increased from 15% in FY 1997-98 to 27% in FY 2001-02 while capital outlay increased from 0% to 3%.

Had the City omitted one-time interfund transfers in FY 2001-02 all categories of the General Fund expenditures, other than interfund transfers, would have remained relatively constant over the five-year period illustrated above.

Employees Per Capita

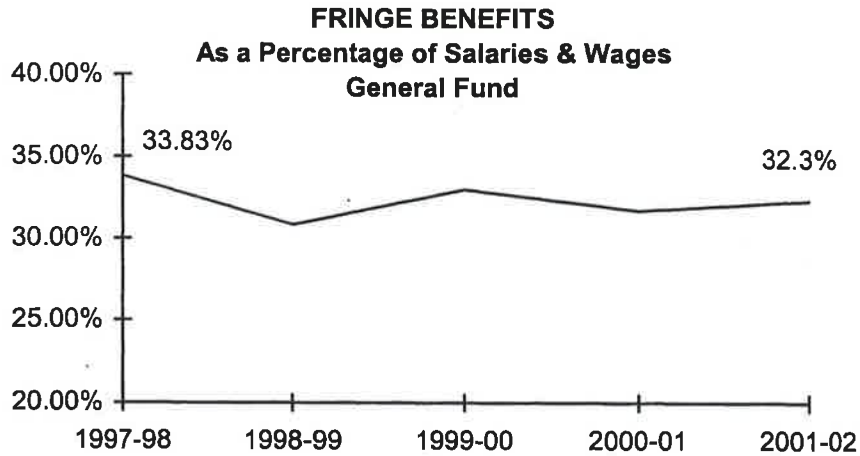


Finding: ***FAVORABLE.*** Employees per capita has remained stable over the last five years as both population and the number of employees have increased.

FTE's keep up with service level demands

Comments: This indicator is awarded a favorable rating for the third consecutive year due to the increase in FTE's to keep up with service level demands. This trend will be closely monitored to insure the City's ability to support current and future service levels.

Fringe Benefits

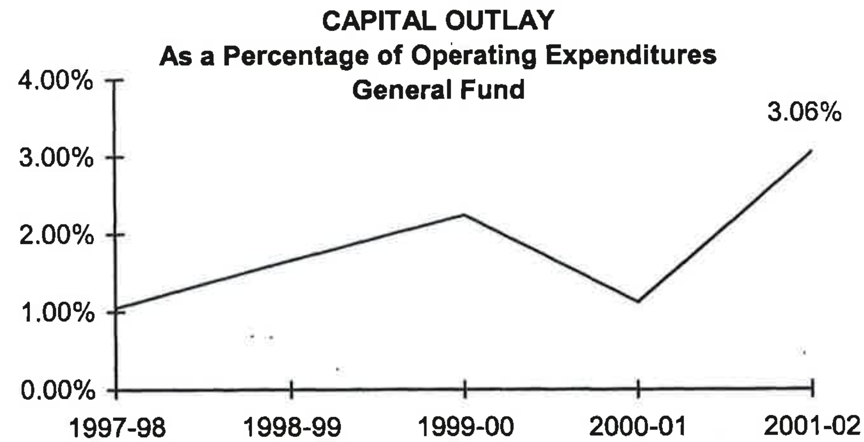


Benefit costs are up 0.6% over the prior year

Finding: ***Favorable.*** Fringe benefits, as a percentage of General Fund salaries and wages, have increased slightly from 31.7% to 32.3%.

Comments: The slight increase is the result of a workers' compensation premium increase. A favorable rating has been assigned for FY 2001-02, since this trend remains between thirty and thirty-five percent of salaries and wages.

Capital Outlay

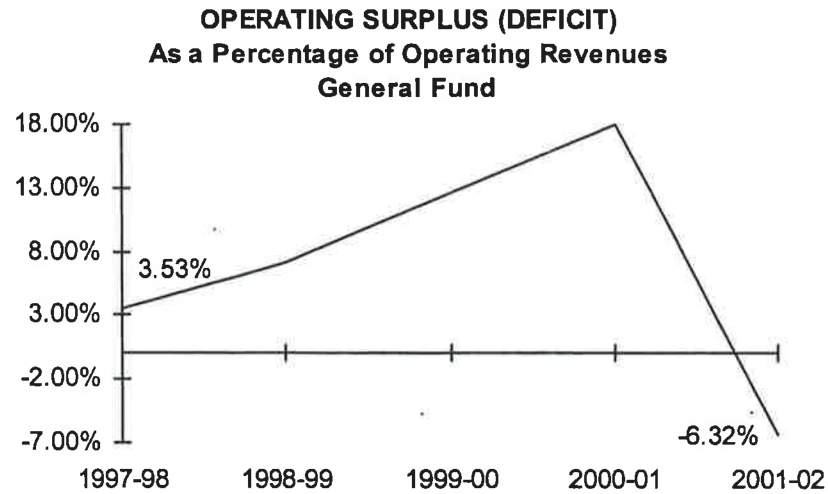


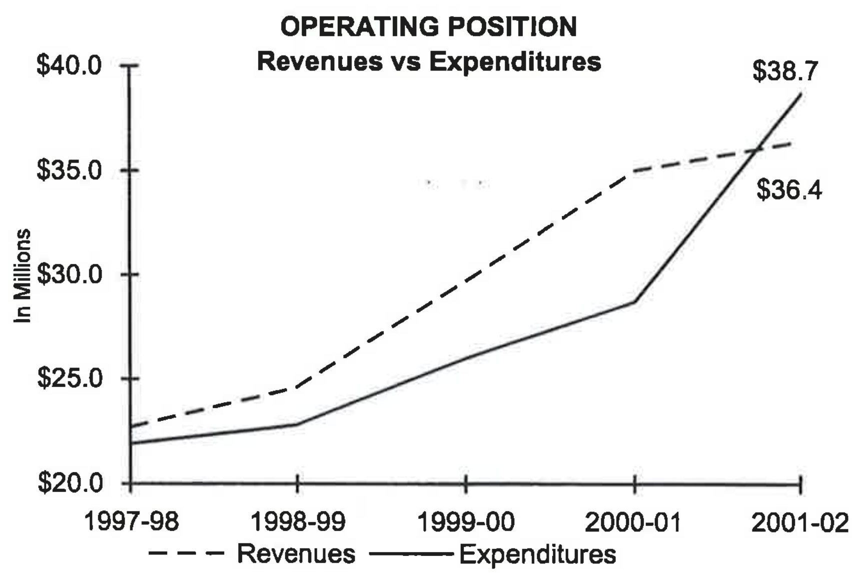
Finding: ***FAVORABLE.*** Capital outlay expenditures increased by $860,000, or 266.9%, from the prior fiscal year. Major capital projects included in FY 2001-02 are: Major Street Maintenance ($103,600), Beach Club ($75,600), Park Maintenance ($143,000), and Beach Maintenance ($729,700). This is a positive trend, as the City continues to display a commitment to repair and replace aging facilities.

City continues to fund the capital equipment replacement program

Comments: The Capital Equipment Replacement Reserve was established in FY 1994-95 and the General Fund contributed $100,000 in FY 2001-02 to fund this reserve. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the eighth consecutive year because of the renewed commitment to upgrading fixed assets, which improves the efficiency of City operations.

Operating Position



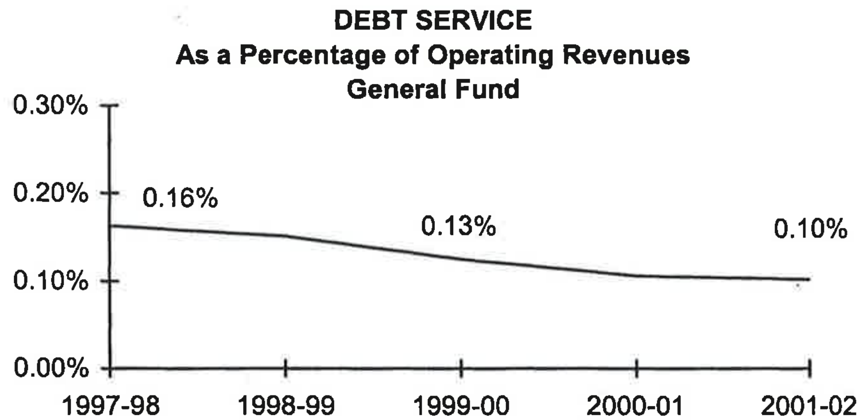


Finding: ***FAVORABLE/CAUTION.*** FY 2001-02 finished with an operating deficit of 6.3% when calculated as a percentage of General Fund revenues.

FY 2001-02 shows the first operating deficit in eight years

Comments: After experiencing seven consecutive years of operating surpluses, the City faces a downward trend with an operating deficit. This operating deficit was planned and comes as a result of increased spending in interfund transfers. However, this trend cannot continue in this direction without depleting fund balance. Therefore, a favorable/caution rating has been assigned.

Debt Service



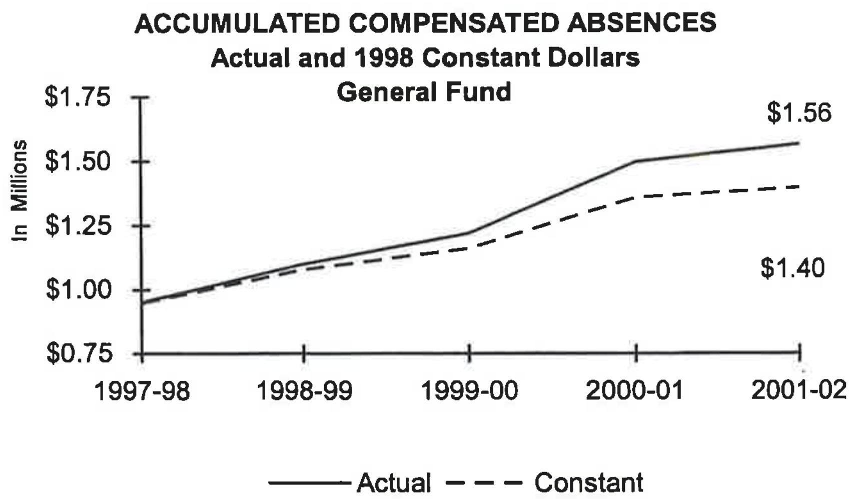
General Fund's debt service remains at less than 1% of total revenues

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

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

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

Accumulated Compensated Absences



Contingent liabilities for accrued leave receives favorable rating

Finding: ***FAVORABLE.*** This indicator receives a favorable rating which is an upgrade from the prior three years. The City's average annual payments for terminated employees accumulated compensated absences amount to one-third of the reserve. While the accumulated compensated absences have shown increases over the last four years, the reserve is continually funded to insure an adequate reserve, as discussed in the Long Term Financial Plan's Reserve section.

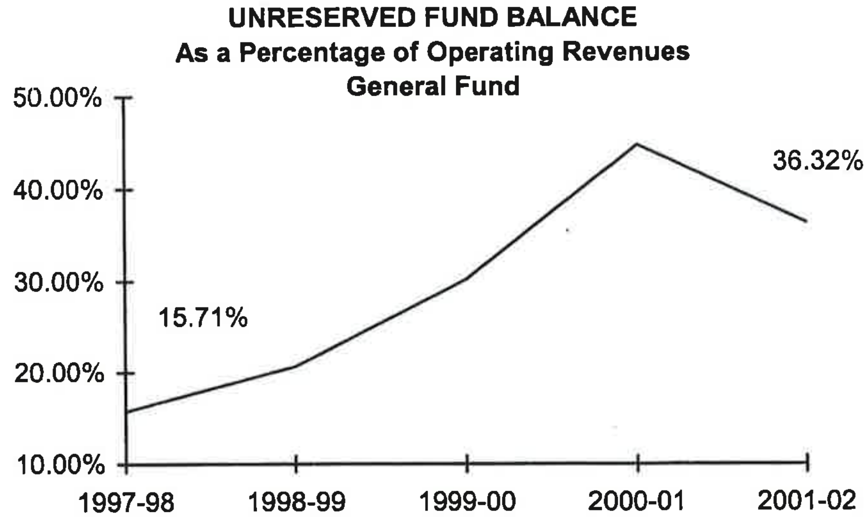
Comments: The increase in compensated absences liability is due to multiple factors, including the implementation of Governmental Accounting Standards Board (GASB) Pronouncement 16 in FY 1998-99, an increased pay scale, and employee longevity.

The balance of the liability for compensated absences is $1,564,840

At June 30, 2002, the balance of the liability for compensated absences was $1,564,840 consisting of $757,760 for vacation, $747,170 for sick leave, and $59,910 for compensatory time. This is an increase of $67,480, or 4.5% from the prior year's liability of $1,497,360.

In FY 1994-95, an Accrued Leave Reserve was established with a $75,000 transfer from the General Fund. In FY 2001-02, the General Fund continued its annual contribution of $100,000 for the payment of accrued leave for terminated employees. As of June 30, 2002 the Accrued Leave Reserve balance was $158,440.

Fund Balance



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

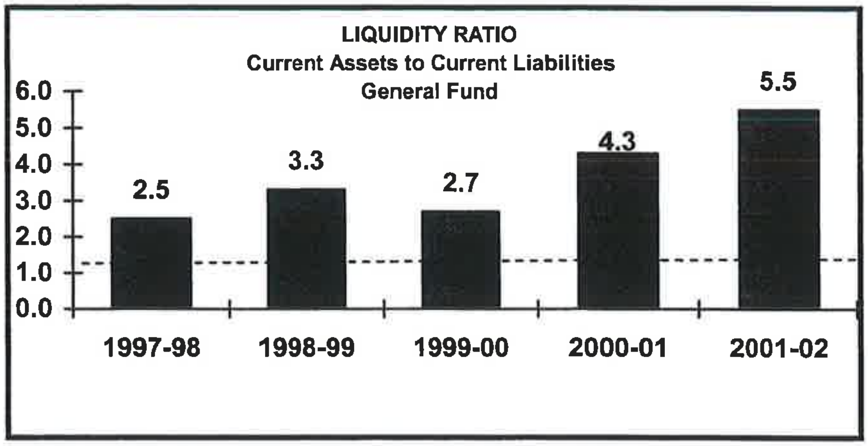
Unreserved fund balances decreased to 36.32% in FY 2001-02

Comments: Unreserved fund balance, as a percentage of total revenues, fell 8.4% in FY 2001-02 as a result of a decrease in unreserved fund balance of $2,475,000. The decrease in fund balance is due to an intentional drawdown of fund balance for one-time projects and funding of other reserves. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

General Fund Emergency Reserve = $2,301,600

The City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. Included within the total FY 2001-02 unreserved fund balance of $13.2 million is the General Fund Emergency Reserve totaling $2,301,600, or 8.7% of General Fund operating expenditures. The General Fund Emergency Reserve is fully funded in FY 2001-02.

Liquidity Ratio



Finding: ***FAVORABLE***. In FY 2001-02, the City's liquidity ratio remains high at 5.5:1. Credit rating firms consider a ratio of 1:1 favorable. The City's 5.5:1 current asset to current liability ratio is considered excellent.

Liquidity is measured by comparing current assets to current liabilities.

Comments: 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 included accounts payable, accrued wages, accrued expenses and all obligations that can be immediately demanded for payment.

Financial Forecast

The five-year financial forecast for the General Fund has been updated to reflect current economic projections and the adjusted FY 2002-03 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 2002-03 adopted budget.

Development of the Financial Forecast

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

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 and after the administration's proposed budget is prepared.

The forecast is developed using the present level of services provided by the City. Inflation and historical growth rates are used to predict expenditure patterns while revenues are projected by trend or by specific circumstances as the case warrants.

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

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Cal State Fullerton's College of Business and Economics, November 2002 Economic Forecast for Southern California and Orange County. While the forecast for Southern California and Orange County was slightly more optimistic than the national forecast, the current economic slowdown will continue through mid-2003 according to Cal State Fullerton. However, uncertainties such as a prolonged war or reductions in employment may trigger a more prolonged downturn.

The 2003 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

Revenue growth rates will average 2.6%

Expenditure growth rates will average 0.6%

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 2.6% a year, compared to the 2002 forecast average of 2.8%. The lingering economic slowdown, combined with the anticipated reduction in development related activities in the City, result in a more conservative revenue forecast. The revenue forecast could also be further affected by State actions reducing or shifting local revenues back to the State. For example, the Governor's proposed budget includes the elimination of the vehicle license fee "backfill" to cities. Vehicle license fees amount to 8% of the City's General Fund revenue. The proposed backfill elimination of 67% of VLF fees would result in a reduction of $1.0 million in the current fiscal year and over $2.2 million in the 2003-04 fiscal year.

Expenditure growth including one-time expenditures and transfers is projected to increase 3.6%

Expenditures are projected to increase at an average rate of 0.6% as compared to the 2002 forecast average of –0.6%. However, one-time expenditures and transfers ($5.7 million) have been reduced from the base year of the forecast. Expenditure growth including one-time expenditures and transfers is projected to increase 3.6% due to on-going operational expenditures added in FY 2002-03, primarily in Police Services, Fire Services and maintenance contracts.

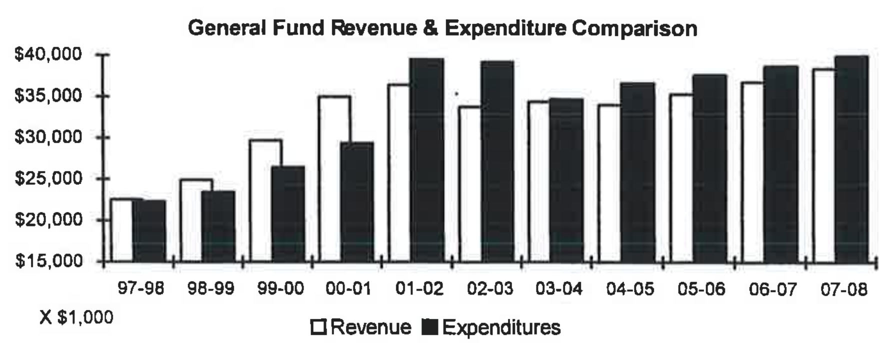
The police services contract increased by 16% due to retirement benefits (3% at 50) granted to sworn employees and the addition of one position. Over the forecast period, the police services budget is anticipated to increase 13.9%.

The addition of a fourth fire station in the city in FY 2004-05, increases operating costs by $1.54 million. Consequently, fire services are anticipated to increase 55.8% over the forecast period.

Costs for park and beach maintenance also increased by $300,000 in FY 2002-03 due to the addition of a new park, new landscaped medians and an extension of the ridgeline trail. Over the forecast period, no new acreage is included and costs are projected to increase only by inflation.

These increases erode the City's operating position, thus reducing fund balances and creating an operational deficit beginning in the third year of the forecast.

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



Historical and projected revenues and expenditures

Expenditures in fiscal years 2001-02 and 2002-03 are higher than revenues due to the intentional drawdown of $13.5 million from fund balance to provide transfers for reserves, Street Improvement Program and various projects. These one-time expenditures were funded from one-time revenues, primarily development related permits and service charges received in the prior three fiscal years. This spending of one-time revenues for one-time expenditures is in accordance with the City's fiscal policies.

Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a negative operating position in four of the 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 2002-03 adopted budget forecast to the 2003 LTFP forecast:

FY 2002-03 adopted budget forecast - operating position

2002 Forecast Summary (FY 2002-03 Adopted Budget)*

Amounts in $1,000

	2002-03	2003-04	2004-05	2005-06	2006-07
Operating receipts	$33,221	$33,949	$35,427	$36,961	$38,675
Operating disbursements	32,503	33,522	34,761	35,948	37,234
Projected surplus/deficit	$718	$427	$666	$1,012	$1,441

2003 LTFP forecast - operating position

2003 Forecast Summary (LTFP)*

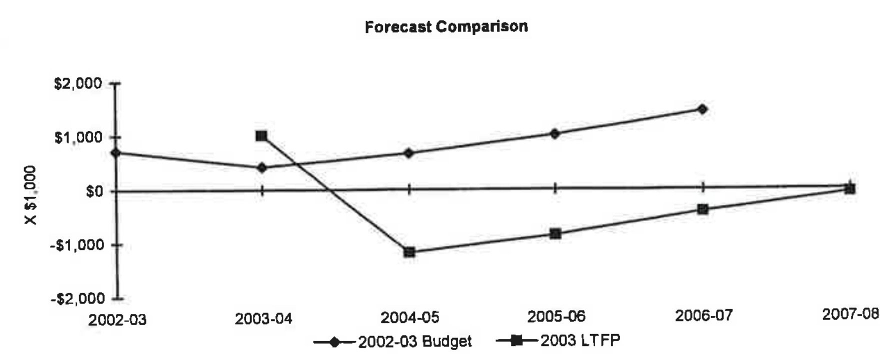
Amounts in $1,000

	2003-04	2004-05	2005-06	2006-07	2007-08
Operating receipts	$34,350	$34,015	$35,317	$36,786	$38,382
Operating disbursements	33,343	35,197	36,170	37,199	38,449
Projected surplus/deficit	$1,006	-$1,182	-$854	-$413	-$67

*One-time revenues and expenditures have been excluded. One-time revenues include grants and development fees from the Talega Joint Powers Authority. One-time expenditures include transfers to other funds, capital outlay and special projects such as the Railroad Corridor Monitoring study.

Operational Position
FY 2002-03 Adopted Budget vs. 2003 LTFP Forecast

The following chart provides a graphical comparison of the City's operational position for the FY 2002-03 adopted budget forecast and the 2003 LTFP forecast.



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

The difference between the two forecasts is due to:

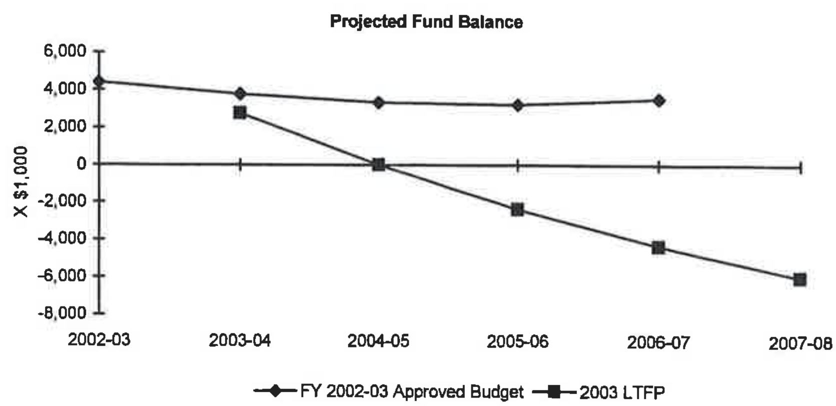
- On-going operating expenditures added in FY 2002-03, which are increased throughout the forecast by inflation, amount to $0.5 million.
- Revenue is reduced in FY 2004-05 by $350,000 due to an anticipated decline in development related revenue.
- As a part of the City's development agreement with Talega L.L.C., a total of $1.68 million was received in October 2002 for the construction of a fourth fire station. Construction of the fire station is currently anticipated to be complete by June 2004. The addition of a fourth fire station in FY 2004-05 increases operating costs by $1.54 million annually. Although the fire station was included in the Fiscal Impact Model, this operating increase was not included in previous forecasts. For forecast purposes, expenditures are not included until actual construction has commenced.

The resulting operating deficit (revenues lower than expenditures) will reduce fund balances, as illustrated below. The City's fiscal policy does not allow for the adoption of an unbalanced budget. Consequently, operating expenditures will have to be reduced, revenues increased, or a combination of the two.

The City's projected fund balance position is negative in the last three years of the forecast

Fund Balance

The chart below illustrates projected fund balances from the FY 2002-03 adopted budget forecast to the 2003 Long Term Financial Plan forecast.



The ending fund balance for fiscal year 2003-04 decreased $1.0 million from the budget forecast, primarily due to an increase in police and fire costs and employee retirement benefits. Retirement rates increased from 13.2% to 16.9% of salaries as a result of the benefit increase to 2% at 55 previously approved by City Council.

Fund balance is significantly reduced in the 2004-05 fiscal year as a result of operational increases, primarily the fourth fire station. Total expenditures are $2.6 million higher than revenues, resulting in a negative fund balance in the third year of the forecast. If revenues and expenditures were allowed to

Fund Balance and Emergency Reserve

continue at the forecast pace, the General Fund deficit would amount to approximately $6.0 million by FY 2007-08.

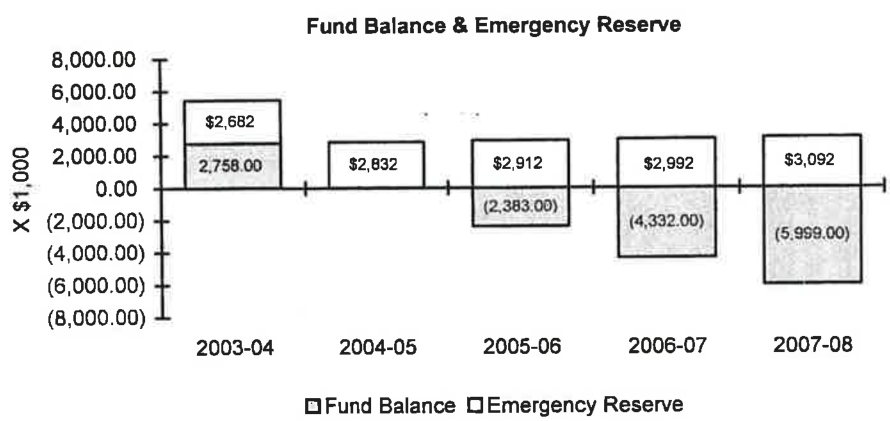
Fund Balance and Reserves

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. As shown on the following table and graph, the projected ending fund balance over the five year forecast period will be negative in three of the five years. Emergency reserve levels have been maintained at the required 8% level.

Fund balances are projected to be negative in three of the four forecast years

Fund Balance & Emergency Reserve

Amounts in $1,000	2003-04	2004-05	2005-06	2006-07	2007-08
Fund Balance	$2,758	$7	-$2,383	-$4,332	-$5,999
Emergency Reserves (8%)	$2,682	$2,832	$2,912	$2,992	$3,092



Long Term Financial Plan

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

Cash inflows and outflows by year

Cash Inflows and Outflows By Year

Amount in 1,000's

	2003-04	2004-05	2005-06	2006-07	2007-08
Beginning Fund Balance	3,296	2,758	7	-2,383	-4,332
Receipts					
Taxes	19,130	19,699	20,575	21,621	22,776
Licenses & Permits	2,553	2,050	2,106	2,164	2,227
Intergovernmental	3,377	3,508	3,647	3,774	3,909
Service Charges	3,650	2,997	3,075	3,151	3,236
Fines & Forfeitures	1,004	1,045	1,088	1,127	1,169
Interest & Rents	1,351	1,381	1,420	1,470	1,605
Interfund Transfers	3,286	3,335	3,406	3,478	3,460
Total G F Receipts	34,350	34,015	35,317	36,786	38,382
Disbursements					
City Council	48	48	49	50	51
City Manager	418	425	434	444	455
City General	2,369	2,430	2,493	2,520	2,592
Finance & Admin. Services	290	295	302	309	317
City Clerk	553	562	576	589	604
Finance	1,265	1,286	1,316	1,347	1,382
Human Resources	463	471	482	493	506
Police Services	8,081	8,226	8,432	8,802	9,207
Fire Services	4,552	6,286	6,564	6,819	7,092
Comm Dev. Admin.	246	250	255	261	268
Building	1,725	1,775	1,817	1,759	1,805
Planning	1,139	1,059	1,083	1,108	1,137
PWAdmin/Economic Dev.	623	633	648	664	682
Engineering	3,444	3,201	3,275	3,351	3,439
PW Maintenance Services	2,635	2,680	2,745	2,810	2,885
B, P & R Admin.	457	464	475	486	499
Recreation	1,739	1,769	1,811	1,854	1,903
Beach & Park Maintenance	3,609	3,673	3,763	3,856	3,963
Marine Safety	865	879	899	920	943
Retirement Benefits	199	204	208	213	218
Total GF Disbursements	34,719	36,616	37,626	38,655	39,949
Emergency Reserve	170	150	80	80	100
Ending Fund Balance	2,758	7	-2,383	-4,332	-5,999

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

Disbursements by Category	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Salaries & wages	7,658	7,782	7,957	8,082	8,285
Employee benefits	2,893	2,940	3,006	3,058	3,135
Supplies	761	775	794	814	837
Contractual services	18,508	20,117	20,740	21,480	22,322
Other charges	745	759	778	797	820
Capital outlay	307	313	321	329	338
Interdepartmental charges	2,785	2,832	2,902	2,975	3,058
Interfund transfers	1,060	1,097	1,127	1,120	1,153
Total	34,719	36,616	37,626	38,655	39,949

Financial Forecast - Assumptions

Economic and demographic assumptions affect projections

Economic and Demographic Assumptions

Economic and demographic assumptions used in the forecast measure the anticipated changes in economic activity and population growth and affect many of the revenue and expenditure projections. The economic assumptions utilized in this forecast are based primarily on the annual Economic Forecast developed by Cal State Fullerton and published in November 2002. Additionally, data is provided by the various City of San Clemente departments.

The forecast predicts an uncertain economy in Orange County

The Fullerton forecast predicts that Orange County's economy is uncertain due to the possibility of war. The County unemployment growth forecasts reflect a 1% annual growth rate, with the majority of the jobs coming on-line in the second half of the year. Technology jobs, as well as services, wholesale trade and non-durable goods will contribute to the gain in employment growth. Personal income is forecasted to average 4.9%, compared to 5.2% in the prior year. Local inflation is projected to average 2.2% and taxable sales are anticipated to grow at an annual average rate of 5.7%. Housing appreciation for resale homes is predicted to increase an average of 3.6%.

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

Summary of forecast parameters

A summary of the parameters utilized in the 2003 Financial Forecast to project the various revenue and expenditures categories are delineated below:

Par #	Description	2003-04	2004-05	2005-06	2006-07	2007-08	Average
1	Inflation	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
2	Population	4.1%	3.2%	2.9%	2.4%	2.2%	3.0%
3	Assessed Valuation	3.6%	3.6%	3.6%	3.6%	3.7%	3.6%
4	Personal Income	2.2%	3.8%	5.2%	6.5%	7.0%	4.9%
5	Taxable Sales	0.3%	2.5%	7.1%	9.0%	9.4%	5.7%
6	Property Taxes	3.6%	3.6%	3.6%	3.6%	3.7%	3.6%
7	Trans. Occup. Tax	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
8	Franchise Taxes	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
9	Prop. Transfer Tax	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
10	Construction Permits	3.6%	3.6%	3.6%	3.6%	3.7%	3.6%
11	State Subventions	4.7%	4.1%	4.2%	3.7%	3.6%	4.0%
12	Service Charges	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
13	Interest Earnings	4.0%	4.2%	4.8%	5.0%	5.2%	4.6%
14	Pier & Beach Concessions	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
15	Interfund Charges	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
16	Salaries & Wages	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
17	Employee Benefits	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
18	Supplies	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
19	Services/Other Charges	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%
20	Capital Outlay	1.2%	1.8%	2.5%	2.5%	2.8%	2.2%

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

Inflation is projected to average 2.2%

- *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 2.2% per year.

Population estimates average 3.0% over the forecast period

- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes; one of the City's larger revenue sources (8% of total General Fund revenue) and is also reflective of the scale of residential and commercial development within the City. In addition, year-to-year population growth is a useful factor in predicting increases in several other revenue categories, such as Franchise Fees and Business Licenses. Population estimates developed by the City's Planning Division project growth to average 3.0% over the forecast period.

2003-04	2004-05	2005-06	2006-07	2006-07
56,608	58,415	60,126	61,543	63,020
4.1%	3.2%	2.9%	2.4%	2.4%

Assessed Valuation is projected to grow by an average of 3.6%

- *Assessed Valuation*: This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property that drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 3.6% per year.

Personal Income is projected to increase an average of 4.9%

- *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 4.9% per year.

Taxable Sales in Orange County are projected at 5.7%

- *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 2003-04 are projected at 0.3% and 5.7% forecasted over the five-year period.

Financial Forecast Assumptions

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

Forecast assumptions includes contributions to reserves, and staffing projections

- 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 no new positions are added during the forecast period. This differs from previous forecasts which included an additional two positions per year for a total of 10 positions.

- Retirement rates were increased beginning in FY 2003-04, from 13.2% to 16.9% of salaries, an increase of $200,000 annually for employees in the General Fund.

- The Police Services budget includes one new contract position per year beginning in FY 2006-07. In total, two new contract positions are added during the forecast period. Previous forecasts included one new contract position per year, for a total of five contract positions.

- Contract staffing levels and contractual agreements for development related activities are reduced beginning in FY 2004-05, along with corresponding revenue. This includes contract engineering inspectors, contract plan checking and administrative support staff in the Building Planning 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 2002-03) have been excluded from the forecast. For example, the City will receive a $150,000 grant for sand replenishment in FY 2002-03. This is considered "one-time" revenue and has been reduced from the base forecast. The $5.7 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 $792,000 in FY 2002-03 of the forecast for one-time capital improvements and capital equipment. Approximately $309,000, which is the average amount spent over the last five years, is included in each year of the forecast thereafter.

- Negotiated increases approved by City Council for the Orange County Fire Authority (OCFA) contract[1] 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.

[1] San Clemente and OCFA have a "cash contract" agreement. The City pays quarterly for the cost of fire and paramedic services, along with appropriate overhead, based upon the basic service costs. There are seven cities (Buena Park, Placentia, San Clemente, Seal Beach, Stanton, Tustin and Westminster) with cash contract agreements with OCFA. The remaining cities have a portion of property taxes shifted to OCFA. These cities are considered "structural fire fund" cities and the amount contributed through property taxes is not directly related to the cost of services provided by the Fire Authority.

The cap, however, does not apply to the cost of the fourth person 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 contract does allow the City to revert back to a three person engine company upon thirty day notice to the Orange County Fire Authority.

- The cost of a three person engine company for the Talega Fire Station is included beginning in FY 2004-05, thus adding $1.54 million annually to the OCFA contract. The contract cap will apply to these costs beginning in FY 2005-06.

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at $505,180 for FY 2003-04:

	2003-04	2004-05	2005-06	2006-07	2007-08
Council Contingency	335,180	353,800	363,580	373,920	386,490
Emergency Reserve	170,000	150,000	80,000	80,000	100,000
Total	$505,180	$503,800	$443,580	$453,920	$486,490

- 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 2002-03, in accordance with City Fiscal Policies. Annual contributions are recommended in order to maintain the reserve at the required 8% level. (Also see the Reserve issue paper.)

- In addition to the allocations for reserves, funding has been included in the forecast for the Street Improvement Program, as well as debt service contributions. The General Fund contribution to the Street Improvement Program includes an annual 3% increase for inflation. (Also see the Street Improvement Program Update issue paper.)

Other transfers and debt payments

	2003-04	2004-05	2005-06	2006-07	2007-08
Street Program	$579,630	$597,020	$614,930	$633,380	$652,380
Energy Program[2]	37,800	37,800	37,800	0	0
Animal Shelter Land[3]	32,000	32,000	32,000	32,000	32,000
Utility Lifeline Rates[4]	30,000	30,000	30,000	30,000	30,000
Solid Waste Fund[5]	50,490	52,260	54,090	55,980	57,940
Total	$729,920	$749,080	$768,820	$751,360	$772,320

[2] Principal and interest payments on heating, air conditioning and lighting improvements. This is the last three years of a ten year commitment.
[3] Principal and interest payments on land purchased for the animal shelter. This is a thirty year interfund loan from the Public Facilities Construction Fund.
[4] Proposition 218 prohibited the use of Enterprise Funds for public benefit. Consequently, a General Fund transfer to the Water Fund subsidizes water fees to low income households.
[5] Ten percent of the solid waste franchise fee is transferred to the Solid Waste Fund annually for household conservation efforts.

Factors Not Included In The Forecast

Forecast pertains to the General Fund only

- This forecast is based on the General Fund only.

No new or enhanced programs are included

- No new or enhanced programs are included in the forecast.
- Projected 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 potential 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, this five-year forecast indicates the fiscal impact of *current* programs and revenues.

No proposed or potential development projects are included in the forecast

- Unless currently in the planning or building permit stage, service fees from major new proposed or potential development projects such as Marblehead Coastal 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.
- Potential increases from the Orange County Fire Authority at the end of the contract period. The current contract expires in 2010. It is possible that the City will be charged in arrears for the implementation of "3% at 50" retirement benefit that was granted to sworn personnel.
- The forecast does not include the establishment of any of the capital facilities (City Hall, new parks, etc.) noted in the updated "Master Plan for City Facilities".
- The forecast does not include the potential cost of recommendations from the other Long Term Financial Plan issue papers.

General Fund Revenues

Revenues are projected to increase an average of 2.6%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 2.6%, compared to a historical five year growth rate of 11.6%.

Property Tax revenue is projected to increase an average of 3.6%

- Property Tax revenue is projected to increase an average of 3.6% per year compared to a 10.6% average historical increase over the past five years.
- Construction permit revenue is projected to decrease from a historical average of 48.6% to an average of –3.4% for the forecast period, as revenues are reduced in the last four years to reflect the anticipated level of decreased development activity.

- Service Charges are projected to decrease in the first year of the forecast to –1.6%, compared to a 19.5% average historical growth rate over the past five years.

- Fines are projected to increase an average of 4.0% per year compared to a 15.0% 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 1997-98 to FY 2001-02.
- **2002 Projected Growth Rate**: Average annual rate of growth projected for the five years as indicated in the FY 2002-03 adopted budget forecast.
- **2003 Projected Growth Rate**: Average annual rate of growth projected for the current five-year forecast.

General Fund Growth Rate

Historic Growth Rate	11.6%
2002 Projected Growth Rate	2.8%
2003 Projected Growth Rate	2.6%

Economic growth throughout the forecast period is slower than previously anticipated

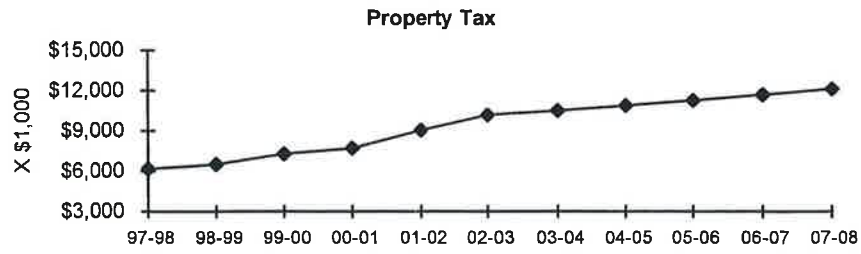
During the past five years, the General Fund revenue growth rate was 11.6% primarily due to steady increases in property values, sales taxes and development related fees and charges. The 2003 forecast rate of 2.6% anticipates that the development activity will start to drop off in FY 2003-04. Property taxes will continue to rise, however, at a much slower rate than the past five years. Sales taxes will also continue to increase, but at a slower pace than previously anticipated due to the lingering effects of the recession.

Property Tax

Historic Growth Rate	10.6%
2002 Projected Growth Rate	6.0%
2003 Projected Growth Rate	3.6%

Property Tax revenues will increase by an average of 3.6%

Property Tax has been the most relied upon local government revenue for decades. It continues to be the City's single largest revenue source and represents 31% of total General Fund budgeted revenue. As a result of rising home valuation, lower mortgage rates and new residential housing built during the last few years, property taxes have increased dramatically to a historical average of 10.6%. However, the forecast growth rate of 3.6% reflects the Fullerton forecast's cautious position that personal income and job growth in the County has not kept up with the rising cost of housing. The forecast states that the median single-family home in Orange County increased over 43% from January 1999 to August 2002. For that reason, the forecast suggests that housing sales will begin to slow down.



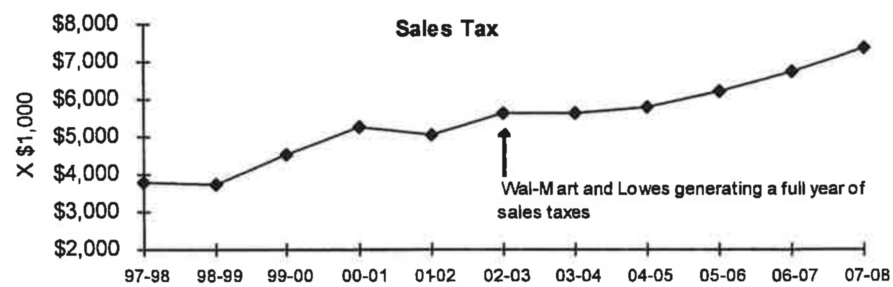
Sales Tax

Historic Growth Rate	9.3%
2002 Projected Growth Rate	5.7%
2003 Projected Growth Rate	5.7%

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

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 5.7% in the forecast period due to projected growth in personal income combined with annual inflation of 2.2%. 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 2002.

Sales tax is projected to grow from $5.6 million to $7.4 million over the forecast period. This is due to growth in retail sales and the Rancho San Clemente and Talega business parks. The five-year forecast does not include sales tax growth associated with proposed retail or commercial properties in the planning or development stages.

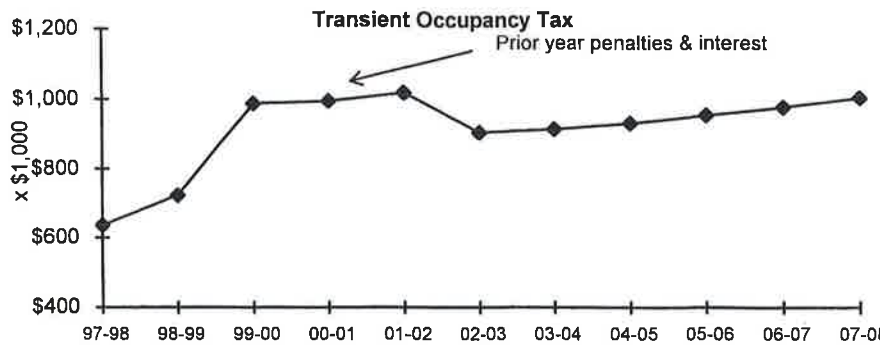


Transient Occupancy Tax

TOT is projected to increase an average of 2.2%

Historic Growth Rate	10.7%
2002 Projected Growth Rate	3.1%
2003 Projected Growth Rate	2.2%

Transient Occupancy Tax is an added charge to room rates at local hotels. It is an elastic revenue source affected by swings in the economy. The historic growth rate of 10.7% includes an increase in TOT revenue, which began in FY 1997-98, 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 2.2% per year, and is based on the consumer price index projections for Orange County.



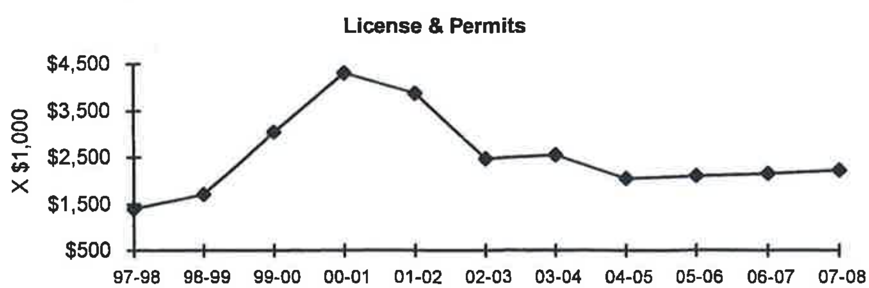
License and Permit

Historic Growth Rate	31.7%
2002 Projected Growth Rate	-3.6%
2003 Projected Growth Rate	-1.6%

License and Permit revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits are projected to decrease an average of –1.6%. For forecast purposes, revenue for development activity is considered "one-time" and is reduced beginning in FY 2003-04 to reflect anticipated development activity.

License and Permit revenue from development activity is slowing

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to decrease from the base year of the forecast, with development activity continuing in Talega and Forster Ranch. However, one-time development fees have been reduced beginning in FY 2004-05 to reflect a slowing of development activity during the forecast period. Proposed development activity for Marblehead is not included in the forecast projections.



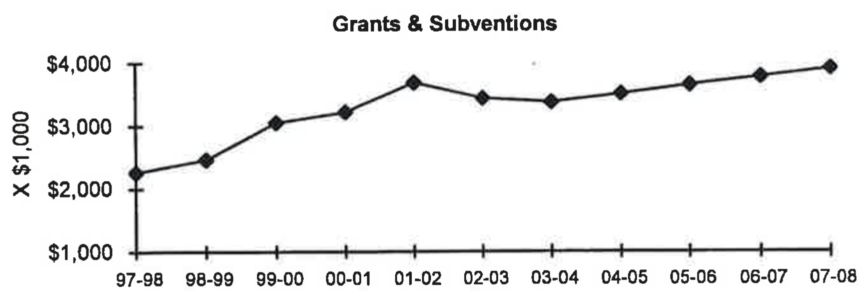
Grants and Subventions

Historic Growth Rate	12.6%
2002 Projected Growth Rate	1.2%
2003 Projected Growth Rate	2.6%

Motor Vehicle Tax, is projected to grow at a 4.4% rate

In total, Grant and Subvention revenues are projected to increase at a rate of 2.6% over the forecast period, compared to an historical growth rate of 12.6%. For forecast purposes, grant revenue for the sand monitoring project has been removed, as this is one-time revenue. Motor Vehicle Tax revenues, which make up the majority of the revenue in this category, are projected to increase by an annual average of 4.4% and are based on 50% of expected inflation plus 100% of anticipated population growth. Over the last five years, motor vehicles taxes have increased an average of 9.2% annually.

Potential state impacts, such as a reduction in motor vehicle taxes, have not been included in the forecast. The Governor's proposed budget currently reduces $1.0 million in motor vehicle taxes in the 2002-03 fiscal year and an additional $2.2 million in the 2003-04 fiscal year. The amount represents a 67.5% reduction of motor vehicle taxes previously received by the City.

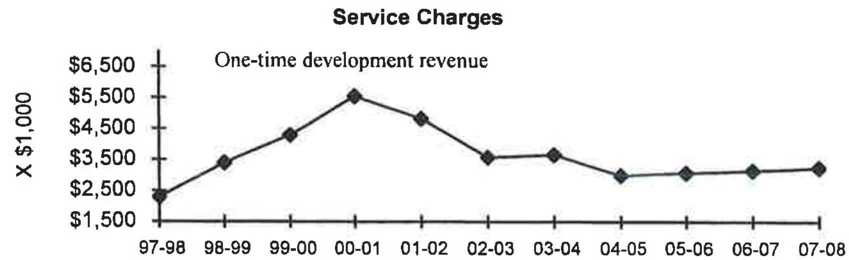


Service Charges

Historic Growth Rate	19.5%
2002 Projected Growth Rate	-4.2%
2003 Projected Growth Rate	-1.6%

Service Charges show a historic growth rate of 19.5%. Projected growth rate amounts to –1.6%

This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. For forecasting purposes, construction fees are considered "one-time" revenue and gradually reduced in the forecast period beginning in FY 2004-05. The projected growth in service charges over the forecast period is –1.6% due to a dramatic drop in construction related service charges. On-going revenues, such as recreation service charges and ambulance fees, have been increased based on projected population changes.

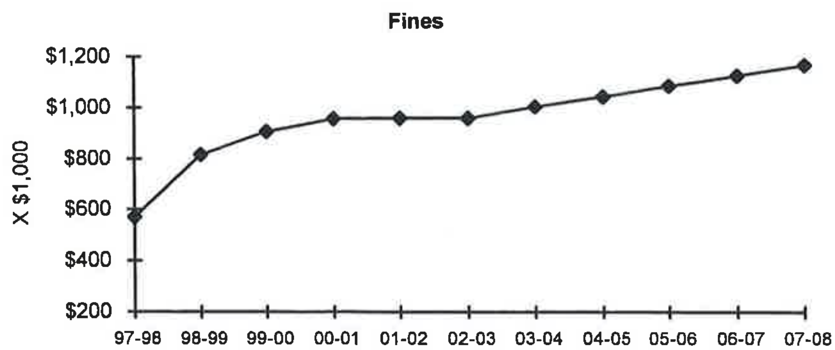


Fines

Revenue for Fines is projected to grow 4.0%

Historic Growth Rate	15.0%
2002 Projected Growth Rate	3.1%
2003 Projected Growth Rate	4.0%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms, and other fines. The 2003 projected growth rate of 4.0% 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.

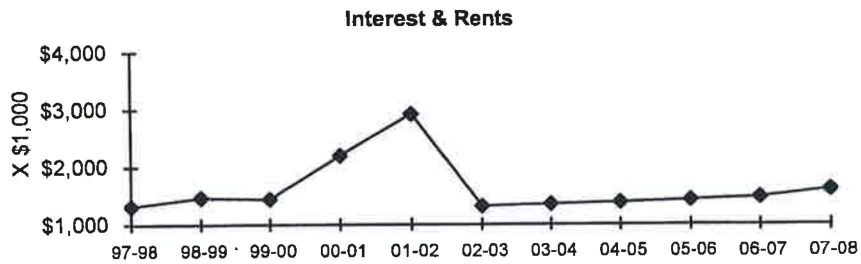


Interest And Rents

Historic Growth Rate	20.1%
2002 Projected Growth Rate	3.3%
2003 Projected Growth Rate	4.1%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the prime interest rate. In accordance with an existing agreement, the concession rate for the Fisherman's Restaurant is capped at $255,000 per year. Beginning in FY 2003-04, the rate is capped at $265,000 per year.

Interest & rents are projected to grow 4.1%

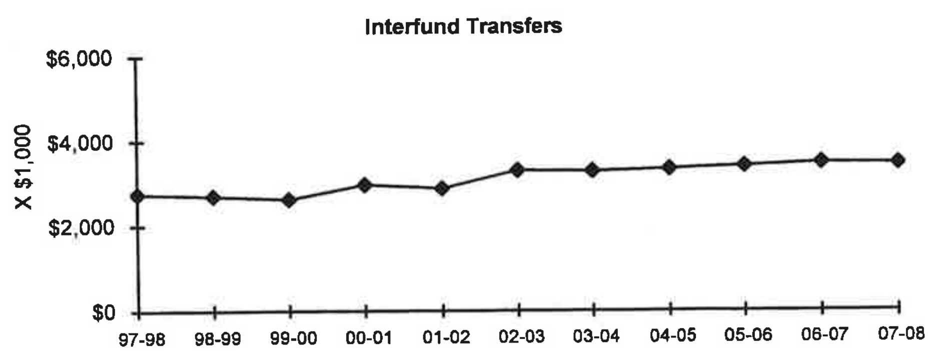


Interfund Transfers

Historic Growth Rate	-1.6%
2002 Projected Growth Rate	3.6%
2003 Projected Growth Rate	0.9%

Interfund transfers include General Fund overhead charges and transfers

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



General Fund Expenditures

The average expenditure rate is projected at 0.6%

Historic Growth Rate	14.3%
2002 Projected Growth Rate	-0.6%
2003 Projected Growth Rate	0.6%

Projected expenditures presume that service levels approved in fiscal 2002-03 will remain constant

Projected expenditures presume that service levels in effect in FY 2002-03 will remain constant. No new programs are assumed, with the exception of adding the Talega fire station.

The 2003 projection from the base year is based primarily on inflation. One-time and capital outlay expenditures are removed for forecast purposes. A total of $5.7 million in one-time transfers have also been removed. As a result, projected expenditures in the first year of the forecast (FY 2003-04) reflect a negative growth rate of 11.3%. When the first year's negative growth rate is averaged with the remaining four years of the forecast, the 2003 average expenditure rate for the forecast period is projected at 0.6%. However, expenditures for the last four years of the forecast average an increase of 3.6% and more accurately projects the anticipated expenditure trend.

Expenditures for the last four years average 3.6% and more accurately projects the trend

The City's operating position shifts dramatically over the forecast period. This is due, primarily, to the addition of $1.54 million in operating costs for the funding of personnel for the new fire station.

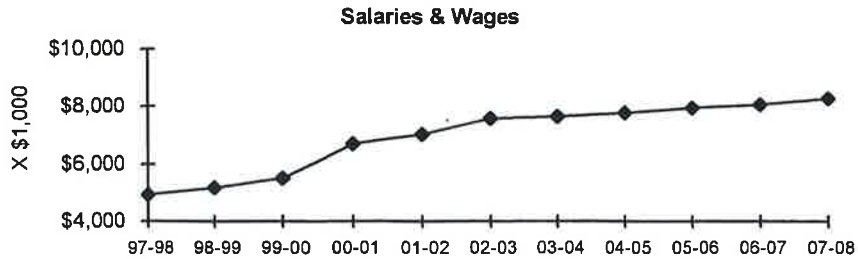
Salaries and Wages

Historic Growth Rate	14.3%
2002 Projected Growth Rate	3.9%
2003 Projected Growth Rate	1.8%

The forecast projections assume that no additions will be made to General Fund staffing over the next five years. This differs from previous forecasts, which included the addition of one or two staff positions to maintain service levels. For forecast purposes only, an annual cost of living increase equal to 90% of the inflation rate is included. The Fullerton forecast anticipates minimal increases in the inflation rate and averages 2.2% over the forecast period.

Total personnel costs are projected to average 1.8%

The average annual growth rate for Salaries and Wages is 1.8% for the five-year projection. In contrast, the historical growth rate of 14.3% reflects the restoration of staff positions previously eliminated as a result of the passage of Proposition 218 and new positions added in response to service level demands.

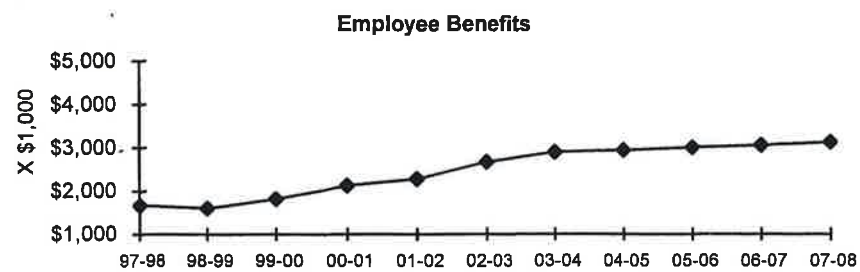


Employee Benefits

Historic Growth Rate	6.9%
2002 Projected Growth Rate	6.7%
2003 Projected Growth Rate	3.3%

Employee Benefits are projected to increase by 3.3%

The employee benefits category reflects an average projected growth rate of 3.3% for the forecast period. This growth rate is the result of an increase in the retirement rate from 13.2% to 16.9% of salaries beginning in FY 2003-04 for the implementation of the 2% at 55 retirement benefit. This equates to a total of $200,000 in additional retirement contributions and has been increased throughout the forecast period by inflation.



Contractual Services

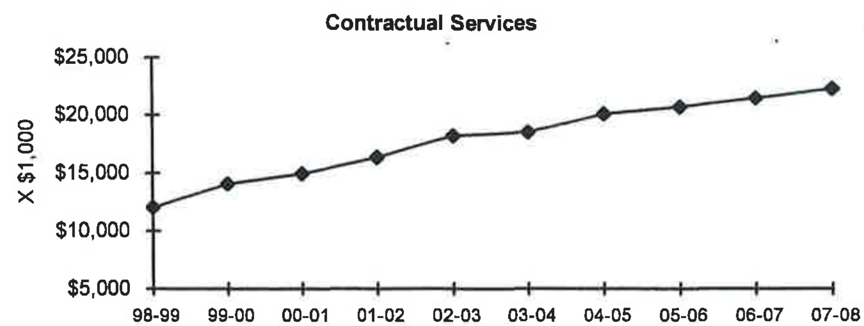
Historic Growth Rate	11.1%
2002 Projected Growth Rate	4.5%
2003 Projected Growth Rate	4.2%

Contractual Services are projected to increase 4.2%

Overall, this category is expected to experience an average annual increase of 4.2% over the forecast period, well below the historical average of 11.1%. However, in the second year of the forecast, contractual services increase 8.69% due to the addition of a fourth fire station in the City. 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. The cost of providing personnel for the new fire station will be based on the updated "Company Costs" provided by the OCFA. After the first year, the cost of the new station will be "capped" under the present negotiated agreement with OCFA.

The Police Services contract includes two new deputy positions added in the fourth and fifth years of the contract. The first three years of the contract are increased by inflation. Overall, the contract will increase by 13.9% over the forecast period.

Contractual services for the major street maintenance program is included at $550,000 in the current fiscal year and increased by inflation in the remaining years of the forecast. Contractual building and engineering inspection personnel, along with contractual Planning staff are reduced beginning in FY 2004-05 in anticipation of reduced development activity. Contractual services for all other major contracts such as park and beach maintenance have been increased by inflation.

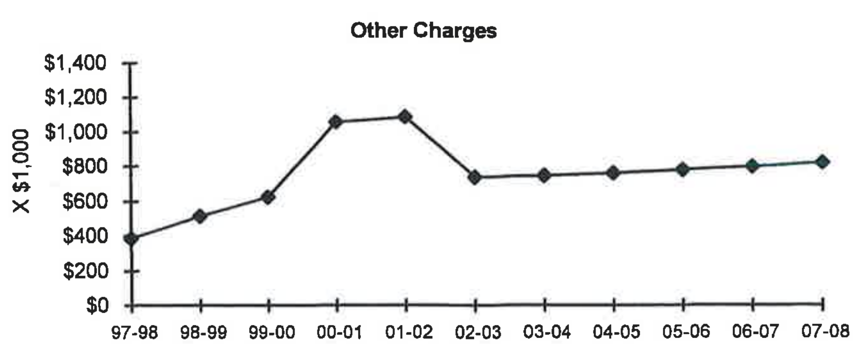


Other Charges

Historic Growth Rate	24.2%
2002 Projected Growth Rate	-3.3%
2003 Projected Growth Rate	2.2%

Other Charges will increase by 2.2% over the forecast period

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

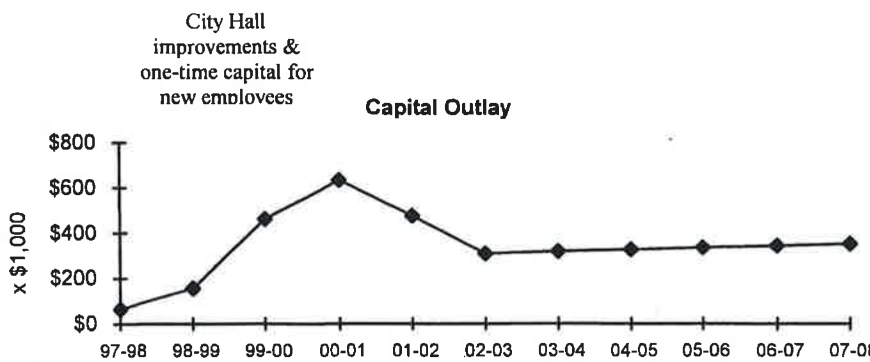


Capital Outlay

The projected growth rate for Capital Outlay is -10.3%

Historic Growth Rate	120.2%
2002 Projected Growth Rate	-27.9%
2003 Projected Growth Rate	-10.3%

The projected growth rate for Capital Outlay is -10.3%. One-time capital expenditures are excluded from the base year of the forecast. For purposes of this forecast, Capital Outlay includes funding of $300,000 (increased by inflation) beginning in FY 2003-04 for facility improvements or new capital equipment.

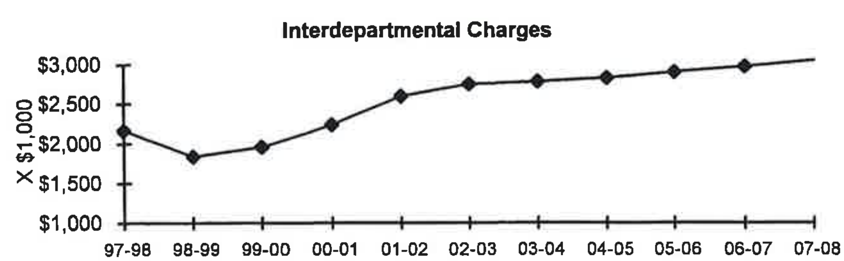


Interdepartmental Charges

Historic Growth Rate	1.7%
2002 Projected Growth Rate	-20.7%
2003 Projected Growth Rate	2.1%

Interdepartmental Charges are projected to increase by 2.1%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.1% increase over the five year forecast and is based upon inflation.



Storm Drain Operating Fund

The Storm Drain Operating Fund receives revenue 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.

Storm Drain Operating Fund forecast

2003 FINANCIAL FORECAST

Storm Drain Fund Realistic Cash Flow from 2002-03 Adjusted Budget

(Amounts in Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08
Beginning Net Working Balance	97	416	774	1,146	1,528
Receipts					
Service Charges	989	1,021	1,050	1,075	1,101
Interest & Rents	34	36	37	39	41
Miscellaneous Income	0	0	0	0	0
Total Receipts	1,023	1,056	1,088	1,115	1,143
Disbursements					
Storm Drain Administration	505	514	527	540	555
Storm Drain Maintenance	180	183	187	192	197
Trans. to Capital Improvement	0	0	0	0	0
Total Disbursements	685	697	714	732	752
Emergency Reserve	19	1	1	2	1
Ending Net Working Balance	416	774	1,146	1,528	1,917

Revenues are sufficient to sustain operating expenditures

The Storm Drain Operating Fund has a positive ending net working capital balance throughout the forecast period. Revenues are sufficient to sustain operating expenditures, maintenance and planned capital improvements.

A total of $35,000 was 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	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Emergency Reserves (8%)	$56	$57	$58	$60	$61

Clean Ocean Fund Forecast

Clean Ocean Operating Fund

The Clean Ocean Operating Fund receives revenue from the newly adopted Urban Runoff Management fee. 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.

2003 FINANCIAL FORECAST

Clean Ocean Fund Realistic Cash Flow from 2002-03 Adjusted Budget

(Amounts in Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08
Beginning Fund Balance	1,086	0	0	0	0
Revenues					
Service Charges	1770	1,826	1,879	1,924	1,971
Interest & Rents	34	36	37	39	41
Miscellaneous Income	0	0	0	0	0
Total Revenues	1,804	1,862	1,917	1,964	2,012
Expenditures					
Storm Drain Administration	274	278	285	292	300
Storm Drain Maintenance	376	382	392	401	412
Trans. to Capital Improvement	2,241	1,201	1,240	1,270	1,300
Total Expenditures	2,890	1,862	1,917	1,963	2,012
Emergency Reserve	0	0	0	0	0
Ending Fund Balance	0	0	0	0	0

All available balances are transferred to the Clean Ocean Improvement Fund for capital infrastructure projects. No reserve requirement has been established for the fund, since the Urban Runoff Management fee has only been approved for five years.

Reserve Analysis

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

Summary
The reserve funds analyzed include:

General Fund:
- General Fund – Emergency Reserve
- General Fund – City Council Contingency Reserve
- General Fund – Employee Computer Purchase Program Reserve

Internal Service Funds:
- General Liability Self-Insurance Fund
- Workers' Compensation Fund
- Fleet Replacement Reserve Fund

Special Revenue Funds:
- Accrued Leave Reserve
- Capital Equipment Replacement Reserve
- Facilities Maintenance Capital Asset Reserve

Enterprise Funds:
- 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 as 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 and 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 Fund which is classified as a special revenue fund. These reserves are supported by charges to other City departments and by transfers from the General Fund.

Background

The initial Long Term Financial Plan (LTFP) was completed in January 1993 and included a Reserve Analysis issue paper which has been updated on an annual basis. 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 developed or expanded to appropriate levels (e.g. 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 Fund). The establishment of these reserve funds, along with reserve criteria, is contained in the City's Fiscal Policy. Please refer to the Fiscal Policy section of the LTFP for specific reserve criteria.

The following table summarizes the estimated balances of the various reserve and self-insurance funds through June 30, 2003.

Reserves	Funding Source	Estimated Reserve Balances At June 30, 2003	In Compliance With Fiscal Policy
General Fund Emergency Reserve	General Fund	$2,511,640	**Yes**
Council Contingency Reserve	General Fund	$335,180	**Yes**[1]
Employee Computer Purchase Program	General Fund	$7,025	**Yes**
General Liability Self-Insurance	All Funds	$1,675,067	**Yes**
Workers' Compensation	All Funds	$1,135,934	**No**
Fleet Replacement	All Funds	$2,927,330	**Yes**
Accrued Leave	General Fund	$180,900	**Yes**
Capital Equipment Replacement	All Funds	$786,050	**Yes**
Facilities Maintenance Capital Asset	General Fund	$593,000	**Yes**
Water Operating Fund – Emergency Reserve	Water Fund	$360,000	**Yes**
Water Fund Depreciation	Water Fund	$1,762,100	N/A[2]
Sewer Operating Fund – Emergency Reserve	Sewer Fund	$438,000	**Yes**
Sewer Fund Depreciation	Sewer Fund	$8,774,200	N/A[2]
Storm Drain Operating Fund – Emergency Reserve	Storm Drain Fund	$36,000	**Yes**
Storm Drain Fund Depreciation	Storm Drain Fund	$654,100	N/A[2]

Solid Waste Fund – Emergency Reserve	Solid Waste Fund	$10,000	**Yes**
Golf Course Operating Fund – Emergency Reserve	Golf Course Fund	$153,000	**Yes**
Golf Course Fund Depreciation	Golf Course Fund	$387,600	N/A[2]
Golf Course Fund Improvement	Golf Course Fund	($65,200)	**No**
Total		**$22,661,926**	

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

An infrastructure valuation and a fixed asset physical inventory were conducted during FY 2001-02. The infrastructure valuation was done in conjunction with the implementation of Government Accounting Standards Board (GASB) No. 34, and resulted in the recognition of a variety of assets in the City's Enterprise Funds, specifically, the Water, Sewer and Storm Drain Funds. Assets, such as the water, sewer and storm drain lines, which were not previously recognized on the City's books, were capitalized, which increased depreciation expenses within these funds. The physical inventory of existing assets resulted in some asset reclassifications, and other assets were written off as a result of the increase of the capitalization threshold from $1,000 to $5,000 per the revised City Policy. As a result of these two projects, annual depreciation expenses increased dramatically in the Sewer and Storm Drain funds, and decreased slightly in the Water Fund. Specific changes will be addressed in greater detail in the Water, Sewer and Storm Drain Depreciation Reserve sections of this paper.

The infrastructure valuation and the fixed asset physical inventory provided a complete listing of existing assets and historical (or book) cost of each asset. The annual depreciation expense is deposited into the Depreciation Reserve as a means of building reserves to replace existing equipment. This depreciation expense, which is based on the historical or book cost of the assets over their lives, does not factor inflation or replacement of the assets before the end of their estimated lives into the replacement cost. To make these determinations, the City Engineering Department proposed a Water and Sewer System Asset Study during the FY 2002-03 budget process. This study will assess the current condition of the Water and Sewer System assets and determine the future replacement costs. The study was approved for the FY 2002-03 Budget and an RFP has been released for bidding. Following the completion of the infrastructure valuation, staff determined that the proposed Water and Sewer Asset Study should be expanded to address the Storm Drain and Golf assets as well. The RFP was modified to include the Storm Drain and Golf asset systems. It is estimated that the study will take approximately six months to complete. Once the study has been completed, staff will provide recommendations to Council regarding asset replacement scheduling, reserve target levels and policies for funding the Water, Sewer, Storm Drain and Golf Depreciation Reserves.

Each reserve is detailed in the following sections along with the staff recommendations for the 2003-04 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 and 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%.

The current Financial Trend Analysis indicates that the City had an operating deficit in fiscal year 2001-02. This was the first operating deficit in the last eight years. Also, unreserved fund balance, as a percentage of operating revenues, decreased in FY 2001-02. It is therefore recommended that the emergency reserve be maintained at 8% of General Fund operating expenditures for FY 2003-04.

The following chart summarizes contributions made since the establishment of the 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% [1]
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% [2]
FY 2002-03	$210,000	$2,511,640	7.66% [3]

1 Fiscal Policy established reserve at 5% in FY 1996-97
2 Fiscal Policy established reserve at 8% in FY 2001-02
3 At the time the 2002 LTFP was prepared, the $210,000 contribution brought the emergency reserve up to the required 8% level. Due to subsequent budget adjustments during the year, the emergency reserve now represents 7.66% of projected General Fund operating expenditures.

Recommendations: Budget sufficient funds for FY 2003-04 in order to bring the emergency reserve to the 8% level of projected General Fund operating expenditures. Based on the Financial Forecast, this would amount to $170,000; however, expenditures may be less.

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 the average expenditures from the Council Contingency Reserve for the past ten years and the year-to-date expenditures for FY 2002-03:

Average expenditures –10 years	191,725
FY 2002-03 (through 1/15/03)	100,578 [1]

1 $2,558 for Police Supplemental services, $15,000 for Broadmoor street signs, $8,590 for Senior transportation, $6,930 for Human Affairs and Coastal Advisory committee member compensation, $2,500 for San Clemente Health survey, $50,000 to recondition the Stand-by Street sweeper and $15,000 for provision of crossing guard services at Truman Benedict and Bernice Ayer schools.

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 $335,180 for FY 2003-04.

Recommendation: Recommend that $335,180 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2003-04 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 $1,812,970.

General Fund – Employee Computer Purchase Program Reserve
City Council Fiscal Policy: Maintain a reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. The reserve will be reviewed annually to determine if the reserve balance is adequate to cover estimated loan balances.

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. The reserve was reduced to $75,000 based on the Reserve Analysis conducted during the 2002 LTFP.

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 average number of employees participating and the amount loaned over the last five fiscal years:

Fiscal Year	Ave. Employees Participating	Ave. Amount Loaned
FY 97-98 to FY 01-02	18	$42,650

To date, there has been adequate funding to support the Employee Computer Purchase Program. The reserve balance as of June 30, 2003 is estimated to be $7,025. This balance plus loan repayments during the year is expected to be more than adequate to cover new loan approvals for FY 2003-04.

Recommendation: None

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 2002-03.

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 2002-03 is $939,067. This balance is in addition to the $300,000 reserve for SIR losses, and the $436,000 reserve established per the 2002 LTFP for uncovered claims losses.

There are several types of occurrences that are excluded from the liability insurance coverage purchased through the California Insurance Pool Authority (CIPA). 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 five years have been analyzed to determine the appropriate reserve requirement for these claims. The total cost for these claims was $1,230,086, or a five-year average of $246,000. This is a decrease of $190,000 from the prior year average of $436,000. This would decrease the total reserve for claims losses from $736,000 to $546,000.

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 $10.3 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.

During fiscal year 2001-02, a transfer from the General Fund of $1.5 million dollars was made to the General Liability Fund to cover the increased costs related to the legal defense of the uncovered claims referenced above and to bring the General Liability Fund reserve into Fiscal Policy compliance. In addition, a comprehensive analysis of the General Liability Fund was proposed and approved as recommended in the 2002 LTFP. That analysis will be conducted internally during the last half of the 2002-03 fiscal year.

Charges to other funds are based on a five-year average of historical claims (25%), and 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 2003-04:

	% of Past Claims (25%)	**% of Budgeted Expenditures (75%)**	**Total % of General Liability Charges (weighted average)**	**Total Charge for General Liability FY 2003-04**	**Total Charge for General Liability FY 2002-03**
General Fund	56.0%	58.0%	57.8%	$ 599,850	$ 470,590
Water Fund	4.0%	16.0%	13.1%	135,620	134,450
Sewer Fund	9.0%	8.0%	8.1%	84,400	74,260
Solid Waste Fund	0.0%	0.0%	0.1%	1,450	1,410
Storm Drain Fund	22.0%	5.0%	9.1%	94,900	64,010
Golf Course Fund	9.0%	4.0%	5.0%	52,010	39,190
Information Services Fund	0.0%	1.0%	0.9%	9,020	12,160
Central Services Fund	0.0%	1.0%	0.5%	5,620	5,830
Fleet Maintenance Fund	0.0%	1.0%	0.8%	8,620	13,160
Redevelopment Agency	0.0%	6.0%	4.6%	46,920	39,790
Total	**100.0%**	**100.0%**	**100.0%**	**$1,038,410**	**$ 854,850**

The total charge for General Liability will increase by $183,560 from FY 2002-03 to FY 2003-04. The increase is largely a result of the estimated increase in excess insurance premiums of $168,500 for the coming year.

The General Fund's total percentage of liability charges decreased from the previous year by 4% due to the decrease in the percentage of past claims. The Storm Drain Fund's percentage increased in total by 2.73% as a result of an increase in the past claims history and an increase in budget as a percentage of the total.

Recommendation:

1. Due to the uncertainty of the uncovered claims, as identified above, no reduction in the reserve is recommended at this time.

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 2002-03 and its basic reserve requirement of $300,000 fully funded. In addition, $246,000 will be reserved for payment of those claims not covered by CIPA.

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's fully-insured workers' compensation program through the State Compensation Insurance Fund expired on December 1, 2002. The State Fund proposed rate increases of 52% due to market conditions and the passage of Assembly Bill 749, which increases the weekly benefit, death benefits and a number of other procedural changes effective January 1, 2003. Staff conducted an analysis of the workers' compensation program in order to determine a more cost-effective approach. Kiser & Company was engaged to assist the City in the analysis of the various options available. Three options were presented to Council; 1) Fully insure through the State Workers' Compensation Fund; 2) Self-insure through CPEIA (California Public Entity Insurance Authority); and 3) Self-insure through CIPA (California Insurance Pool Authority). Based on the analysis, the City Council authorized the City to self-insure for workers' compensation coverage with CIPA

There are three components to the City's worker compensation exposure: 1) Outstanding claims prior to 1995 when the City was previously self-insured. 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; 2) Claims for the period beginning in 1995 and ending December 1, 2002. These claims are fully insured and represent no liability to the City; and 3) Claims under the new self-insurance program which began December 1, 2002.

Annually, the City's third-party administrator calculates the outstanding liability of the remaining "tail" of claims incurred when the City was previously self-insured. As of November 30, 2002, these estimated claims total $752,620. This is a reduction from last year's estimate of $811,834 for these "tail" claims.

Since claims for the period from 1995 through December 1, 2002 are fully insured, there is no exposure to the City, and therefore, no reserve is recommended.

Under the newly adopted self-insurance program, the City is responsible for a $300,000 Self-Insurance Retention. CIPA provides pooled liability coverage for claims in excess of the $300,000 SIR limit. The City's average annual claims amount paid for the prior three years is $98,245. The reserve balance at the end of fiscal year 2001-02 totaled $327,456 and is projected to decrease slightly to $324,100 through June 30, 2003.

The City's fiscal policy, as noted above, requires three times the self-insurance retention, plus an amount equal to the total uncovered claims which amounts to $300,000. This will require a reserve equal to $900,000, plus the estimated total for the "tail" claims of $752,620 noted above, for a total reserve of $1,652,620. The estimated reserve balance at June 30, 2003 totals $1,135,934 (currently comprised of $811,834 set aside specifically for the "tail" claims and $324,100 in general reserves). Based on this analysis, a transfer of $520,000 is required to fully fund the Workers Compensation Reserve. The transfer will be charged to various funds, based on the pro-rata premium charges in the FY 2002-03 budget, as depicted in the table below.

	% of FY 2002-03 Budget	**Total Charge for Workers Comp.**
General Fund	53.2%	$276,710
Water Fund	13.7%	70,985
Sewer Fund	13.9%	72,215
Golf Course Fund	9.8%	50,850
Clean Ocean Fund	0.9%	4,620
Solid Waste Fund	0.7%	3,460
Storm Drain Fund	1.0%	5,375
Central Services Fund	0.6%	3,230
Data Processing Fund	1.3%	6,590
CASA	4.7%	24,350
RDA	0.3%	1,615
Total	100.0%	$520,000

All City funds will continue to be 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 will be held constant for the next fiscal year, that is, they will remain the same as currently charged.

Recommendation:

1. Transfer $276,710 during fiscal year 2003-04 from the General Fund to the Workers' Compensation Fund to fully fund the reserve requirements and cover the estimated outstanding claims through June 30, 2004.

Fiscal Impact of Recommendation: The total transfer of $520,000 should be sufficient to fully fund the reserve requirements and cover the estimated outstanding claims through June 30, 2004, assuming no additional significant changes are made to the estimates for outstanding claims. Existing rates charged to other funds 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: Maintain a 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.

Assessment of the current situation/conclusions: The City's Fiscal Policy was revised in the 2002 LTFP to include the Fleet Replacement Reserve. The reserve is reviewed annually to verify funding is adequate to cover projected replacement costs for the next five years. This reserve is fully funded with a projected ending balance of $2,927,329 at June 30, 2003.

Recommendation: None.

Fiscal Impact of Recommendation: Contributions for the replacement of City fleet vehicles and equipment will continue to be charged to user funds. The FY 2003-04 budget will contain normal replacement charges to other funds of $604,060.

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 maintained at a level at least equal to projected costs for employees who are eligible for retirement.

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).

Average Annual Payoffs	$ 54,800

The projected ending balance for the Accrued Leave Reserve as of June 30, 2003 is $180,900. At June 30, 2002, the total General Fund liability for accrued leave was $860,220. Of this amount, $258,940 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2004. While these employees may not all retire at once, it is recommended that $40,000 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 $40,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2003-04.

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 $298,800.

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, 2002, the General Fund capital equipment asset balance was $915,000. Since the time of this fund's establishment in FY 1994-95, the General Fund has made annual transfers of $100,000 to fund this reserve and will transfer $260,100 in FY 2002-03. Over the past eight years, these transfers total $960,100. The projected fund balance at June 30, 2003 is $786,050. The reserve has been analyzed for the five-year forecast period, based on average historical costs adjusted for inflation. No transfer is required for FY 2003-04, as the reserve is fully funded for 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: None.

Fiscal Impact of Recommendations: Contributions for the replacement of capital equipment will continue to be charged to user funds. The FY 2003-04 budget will contain normal replacement charges to other funds of $112,000.

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 2001. 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 $689,600. The reserve balance is projected to be $593,000 as of the end of fiscal year 2002-03. The recommendation will be to transfer $50,000 to the reserve annually for the next five fiscal years 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 $50,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2003-04.

Fiscal Impact of Recommendations: Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of $270,000.

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%
FY 2002-03	$15,000	$360,000	8.00%

Recommendations: Budget $30,000 from the Water Operating Fund in FY 2003-04 in order to bring the emergency reserve to $390,000, 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 $110,000. 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, 2003 is $1,762,100. The projected replacement costs for the next five-year period totals $5,260,000. Based on this, the Depreciation Reserve is currently under funded by $1,888,700.

As a result of the infrastructure valuation and the physical inventory, annual depreciation expense decreased from $750,000 to $690,000 per year. The City's Engineering Department has initiated a Water System Asset Study, which when completed, will provide recommendations regarding asset replacement scheduling and revised polices for funding the Water Depreciation Reserve.

Recommendation:

1. Budget an additional $400,000 transfer from the Water Operating Fund to the Water Depreciation Fund for Fiscal Year 2003-04.
2. Defer policy changes until the completion of the Water and Sewer System Asset Study.

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 $3,650,800. An additional $2,000,000 will be required over the next five years to properly fund the Depreciation Reserve.

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%
FY 2002-03	$13,000	$438,000	8.25%

Recommendations: Based on the Financial Forecast, no contribution is necessary for FY 2003-04 in order to maintain the emergency reserve at $438,000, which represents 8% of the 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 $40,000. 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, 2003 is $8,774,200

As a result of the infrastructure valuation and physical inventory, annual depreciation expense increased from $1,339,170 to $1,634,800 per year. The City's Engineering Department has initiated a Sewer System Asset Study, which when completed, will provide recommendations regarding asset replacement scheduling and revised polices for funding the Sewer Depreciation Reserve.

Recommendation: Defer policy changes until the completion of the Sewer System Asset Study.

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 $8,653,400.

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%
FY 2002-03	$1,000	$36,000	5.35%

Recommendations: Budget $19,000 from the Storm Drain Operating Fund for FY 2003-04 in order to bring the emergency reserve to $55,000, 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 $24,000. 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 an ending balance of $654,100 at June 30, 2003. However, over the five-year forecast, proposed capital project expenditures total $4,017,000. Based on these expenditure levels, the Storm Drain Depreciation Reserve will be depleted within four fiscal years.

As a result of the infrastructure valuation and physical inventory, annual depreciation expense increased from $90,300 to $341,000 per year. The City's Engineering Department has initiated a Storm Drain System Asset Study, which when completed, will provide recommendations regarding asset replacement scheduling and revised polices for funding the Storm Drain Depreciation Reserve.

Recommendation: Defer policy changes until the completion of the Storm Drain System Asset Study.

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 $1,839,000. Continuing transfers from the Storm Drain Operating Fund are projected to be $1,350,000 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%
FY 2002-03	-0-	$10,000	7.91%

The current reserve balance will be less than the required 8% level for the projected year-end of FY 2002-03. Therefore, a contribution of $1,000 will be needed for FY 2003-04.

Recommendations: Budget $1,000 from the Solid Waste Operating Fund to increase the reserve balance by $1,000 for FY 2003-04.

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 $2,000. 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%
FY 2002-03	$4,000	$153,000	8.79%

Recommendations: Budget $8,000 from the Golf Course Operating Fund for FY 2003-04 in order to bring the emergency reserve to $161,000, 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 $23,000. 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, 2003 is $387,600.

As a result of the infrastructure valuation and physical asset inventory, depreciation expense decreased for the fiscal year by $32,000. One of two major projects, the golf course improvement project, will be completed in fiscal year 2002-03 and result in an increase to depreciation expense of approximately $60,000 per year. This increase in depreciation expense has been taken into account for purposes of this analysis. The City's Engineering Department has initiated a Golf System Asset Study, which when completed, will provide recommendations regarding asset replacement scheduling and revised polices for funding the Golf Depreciation Reserve.

Recommendation: Defer policy changes until the completion of the Golf Course System Asset Study.

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 $1,025,000.

Golf Course Improvement Reserve

City Council Fiscal Policy: The City will maintain a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will also provide a funding source for the acquisition of property for the development of a second municipal golf course. The reserve will be maintained at a level at least equal to the projected five-year costs.

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. The golf course improvement project and the new clubhouse improvement project are assumed to be completed during fiscal year 2002-03. Based on the project costs indicated below, the Golf Course Improvement Reserve is projected to have a negative ending balance of ($65,200) at June 30, 2003.

Based on a review of the Master Plan for City Facilities, a second municipal golf course has not been identified as a priority for the City of San Clemente. A lack of available property within the City and escalating property values has led staff to recommend that a second municipal golf course is not economically feasible and that the Fiscal Policy should be amended to reflect this change.

At the end of the five-year forecast, the reserve is projected to have a positive balance of $734,800 (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 ($1,521,200) and the new clubhouse improvement project ($3,721,300).

In order to fund the clubhouse construction and the other golf improvement projects, the following transfer is recommended: (1) an annual transfer of $160,000 from the Golf Course Operating Fund to the Golf Course Improvement Reserve.

Recommendation:

1. Continue the annual transfer of $160,000 from the Golf Course Operating Fund to the Golf Course Improvement Fund.
2. Change the Fiscal Policy to eliminate the acquisition of property to develop a second municipal golf course.

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.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on February 4, 2003.

Street Improvement Program Update

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 thirty-eight (138) street projects have been completed; an additional four (4) projects are to be constructed and will be completed by the end of FY 2002-03. Of the 142 street projects, 55 projects were accelerated from their original schedule. Thirty-eight (38) projects were accelerated within the first 8-year period and seventeen (17) street projects were accelerated from beyond the 8-year period.

- **Completed projects (totaling 40.38 miles):**
  There are one hundred and thirty eight (138) street projects, approximately 67% of the program mileage, that have been completed since the Street Program approval. Exhibit "A" lists all the completed projects.

- **Still to be constructed during FY 2002-03 (totaling 0.95 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 2002-03:
  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. Avenida Palizada from Calle Seville to Avenida Del Mar
  4. Avenida Cabrillo from Calle Seville to Avenida Palizada

- **Design Stage**
  There are another twenty one (21) 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 is scheduled in the coming FY 2003-04 and FY 2004-05.
  1. Via Arboleda from Via Montego to Via Alegre
  2. Via Bandita from Via Montego to Via Alegre
  3. Via Verbena from Via Montego to Via Alegre
  4. Via Casa Loma from Via Montego to Via Alegre
  5. Via Lado from Via Montego to Via Alegre
  6. Via Montecito from Via Montego to Via Alegre
  7. Via Montezuma from Via Montego to Via Alegre
  8. Via Santo Tomas from Via Montego to Via Alegre
  9. Via Vistosa from Via Montego to Via Alegre
  10. Calle Alondra from Mira Costa to Calle Quieto
  11. Calle Quieto from Calle Grande Vista to Calle Grande Vista
  12. Calle Guaymas from Calle La Veta to Camino Mira Costa
  13. Calle La Veta from Camino Mira Costa to cul de sac
  14. Grande Vista from Calle Quieto to Avenida Vaquero
  15. Via Nada from Calle Grande Vista to cul de sac
  16. Avenida Salvador from Avenida San Juan to Avenida San Pablo
  17. Avenida Salvador from Calle Malaguena to Avenida San Juan
  18. Avenida Hacienda from Sacramento to Avenida Florencia
  19. Calle Las Bolas from Avenida Florencia to El Camino Real
  20. Boca De La Playa from cul de sac to El Camino Real
  21. Avenida Pico from El Camino Real to Boca De La Playa.

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 $3,412,000 or about 16.5 % of the original estimated street projects costs.

Original estimated projects costs (FY95/96 to FY02/03)	$20,583,000
Actual projected projects costs (FY95/96 to FY02/03)	$17,171,000
Projected savings (FY95/96 to FY02/03)	$ 3,412,000
Accelerated projects beyond first 8 years	$ 3,210,000
Cash Balance due to savings	$ 202,000

Engineering Division staff has 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 nine streets for an amount of approximately $2,300,000.

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.

Table "**A**" describes the financial comparison between the actual and the original projected revenues for 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 has received about $500,000 and also is projected to receive an additional $280,000 during the next two years. The Governor has temporarily frozen the release of AB2928 funds. If received, 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
8	2002/2003	$562,750	$477,620
9	2003/2004	$579,630	$491,950
10	2004/2005	$597,020	$506,710
11	2005/2006	$614,930	$521,910
12	2006/2007	$633,380	$537,570

- 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	$ 500,000
Slurry Seal	$ 250,000
Arterial projects / Gas Tax & Grants	$1,000,000
Total	$4,250,000

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

The City Council in July 2002 approved expanding the Major Street Maintenance Program to a $500,000 program, and the Slurry Seal Program to $250,000 program.

TABLE "A"

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)	-	3,411,902	3,411,902
SUBTOTAL	-	**$5,576,318**	**$5,576,318**
Accelerated completed projects (6)	-	(2,902,440)	(2,902,440)
Additional Improvements (CDBG) (7)		(422,845)	(422,845)
SUBTOTAL	-	**($3,325,285)**	**($3,325,285)**
CASH BALANCE	**$25,103,200**	**$26,292,025**	**$1,188,825**

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 into the future. Drought conditions help lengthen pavement life while wet winters and heavy traffic shorten pavement life.

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

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

Street Maintenance Program

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, thirty-one (31) streets were rehabilitated, as listed below:

1. West Avenida San Antonio from El Camino Real to cul-de-sac.
2. West Avenida Ramona from El Camino Real to cul-de-sac.
3. West Avenida Cornelio from El Camino Real to cu-de-sac.
4. West Avenida Junipero from El Camino Real to cul-de-sac.
5. West Avenida San Gabriel from El Camino Real to cul-de-sac.
6. East Avenida de Los Lobos Marinos from Calle Alcazar to cul-de-sac.
7. Avenida Verde from Calle Alcazar to cul-de-sac.
8. Calle Oso from Avenida Del Poniente to West El Portal.
9. West El Portal from Calle Oso to Buena Vista.
10. Monterey Lane from Avenida Victoria to Corona Lane.
11. Corona Lane from Monterey Lane to Avenida Victoria.
12. Avenida Santa Barbara from Avenida Victoria to Avenida Del Mar.
13. Acebo Lane from Avenida Santa Barbara to Avenida Del Mar.
14. Elena Lane from Avenida Victoria to Cazador Lane.
15. Cazador Lane from South Ola Vista to Avenida 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.
27. Avenida Teresa from Avenida Salvador to cul-de-sac.
28. Avenida Acapulco from San Pablo to San Pablo.
29. Via Promontorio from Acapulco to cul-de-sac.
30. Paseo De la Serenata from Ola Vista to cul-de-sac.
31. Avenida Pelayo from Avenida Aragon to Avenida Florencia.

Staff is recommending the following streets for Major Maintenance during FY 2003/04:

1. Avenida Columbo from Avenida Teresa to cul-de-sac.
2. East Avenida Marquita from El Camino Real to Avenida de la Estrella.
3. East Avenida Mariposa from El Camino Real to Avenida de la Estrella.
4. East Escalones from El Camino Real to Avenida de la Estrella.
5. East Canada from El Camino Real to Avenida de la Estrella.
6. Avenida Mateo from El Camino Real to Avenida Monterey.
7. Other streets depending on the availability of funds.

Conclusion

In summary, the Street Improvement Program is ahead of the originally approved schedule. One hundred and thirty eight (138) street projects are complete and another four (4) are under construction. Also, another twenty-one (21) street projects are under design and construction is scheduled during FY 2003-04 and FY 2004-05. Due to the savings in the street projects' costs, staff was able to accelerate and complete seventeen (17) street projects that were scheduled beyond the first eight years of the program. In addition, thirty-eight (38) other streets were accelerated within the first eight 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.

Recommendations

1. Approve and authorize the allocation of a General Fund contribution of $579,630 for the coming FY 2003-04.
2. Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.
3. Confirm the City Council's continuing commitment to the Major Street Maintenance Program and the Slurry Seal Program to provide a programmed preventive maintenance for the streets.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on February 04, 2003.

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 Calle Vista Torito. The project also included sewer improvements.
18. Calle Vista Torito from Avenida Vaquero to Via Montezuma. The project also included storm drain improvements.
19. Calle Del Comercio 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 Calle 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 Calle 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. Avenida Rosa (100 block) from Ola Vista to Victoria. The project also included the installation of a major storm drain line.
36. Avenida de la Estrella, (Phase I) from Calle de los Molinos to El Portal.
37. Avenida de la Estrella, (Phase II) from Avenida 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 Avenida Magdalena from South El Camino Real to Avenida Santa Margarita. The project consisted of complete reconstruction of the pavement.
40. Avenida Santa Margarita from Avenida San Luis Rey to East Avenida 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 South 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 Avenida Presidio.
45. De La Paz from La Esperanza to Avenida Palizada.
46. Avenida Caballeros from East El Oriente to West Avenida 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 North La Esperanza to El Levante.
50. West Avenida Cornelio from South Ola Vista to Avenida Del Presidente.
51. West Avenida Alessandro from West Avenida San Antonio to Avenida 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. West Avenida San Antonio from West Avenida Alessandro to Avenida 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 Avenida La Cuesta to Calle Familia.
55. Avenida Granada, Phase I from Ola Vista to Avenida Del Mar.
56. Avenida Granada, Phase II from Ola Vista to El Camino Real.
57. Avenida De La Grulla from Florencia to El Camino Real.
58. Sierra from Avenida De La Estrella to Avenida Las Flores.
59. Calle Campo from Avenida Sierra to end of pavement.
60. El Oriente from Avenida De la Estrella to Avenida Las Flores.
61. La Placentia from Avenida 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 East 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. East Avenida Junipero, Phase I from Avenida Trieste to Entrada Paraiso.
69. East Avenida Junipero, Phase II from El Camino Real to Avenida Trieste.
70. Entrada Paraiso from Avenida 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 East Cordoba to Avenida San Juan.
79. South La Esperanza from Calle Patricia to East Avenida Cordoba.
80. Calle Puente (Phase I) from Avenida Palizada to Avenida Del Poniente.
81. Calle Puente (Phase II) from Avenida Del Poniente to Avenida Aragon.
82. El Portal from Del Prado to El Camino Real and Del Prado from Avenida Del Poniente to Aragon.

83. Avenida Del Poniente from Calle Puente to El Camino Real.
84. Avenida Aragon from Calle Puente to El Camino Real.
85. Avenida Cadiz from Ola Vista to El Camino Real.
86. West Avenida Cordoba from El Camino Real to Calle Toledo.
87. Avenida Gaviota from El Camino Real to Avenida Valencia.
88. Avenida Trieste from Avenida Junipero to cul-de-sac.
89. Via San Gorgonio from Avenida 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. Avenida Princesa from Avenida Presidente to Calle Toledo.
94. Calle Del Pacifico from cul-de-sac to South Ola Vista.
95. Calle Marina from Calle De Los Alamos to West 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 West Los Lobos Marinos.
98. West Junipero from Ola Vista to Avenida Del Presidente.
99. Avenida De Los Lobos Marinos from Calle De Los Alamos to Avenida Del Presidente.
100. Calle Serena from Calle De Los Alamos to Avenida De Los Lobos Marinos.
101. Avenida Gaviota from Avenida Valencia to Calle Toledo.
102. Calle De Los Alamos from Avenida Gaviota to Avenida De Los Lobos Marinos.
103. Calle Lasuen from Calle De Los Alamos to WestAvenida De Los Lobos Marinos.
104. East Avenida 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. West 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 West Paseo De Cristobal.
113. Avenida Madrid from Avenida Victoria to Avenida Monterey.
114. Calle De Anza from Avenida San Carlos to Avenida Presidio.
115. Avenida Arlena from La Esperanza to Avenida Cordoba.
116. Calle Bella Loma from cul-de-sac to Avenida La Cuesta.
117. Calle Neblina I from Calle Miguel to Calle Empalme.
118. Calle Neblina II from cul-de-sac to Calle Miguel.
119. Calle Familia from cul-de-sac to cul-de-sac.
120. Calle Delicada from cul-de-sac to cul-de-sac.
121. Calle Pescador from Calle Miguel to Avenida Presidio.
122. Calle Rica from cul-de-sac to cul-de-sac.
123. Calle Robles from Calle Empalme to Avenida Presidio.
124. Avenida La Cuesta from Avenida Solano to Avenida Miguel.
125. Calle Sandia from cul-de-sac to Calle Escuela.

126. Calle Salida from cul-de-sac to Calle Escuela.
127. Calle Del Juego from cul-de-sac to Calle Escuela.
128. Avenida San Luis Rey from El Camino Real to Avenida Santa Margarita.
129. Calle Escuela from Avenida Presidio to Calle Miguel.
130. Calle Fiesta from Calle Empalme to cul-de-sac.
131. Calle Pueblo from Avenida Presidio to cul-de-sac.
132. Calle Villario from Avenida Presidio to cul-de-sac.
133. Calle Felicidad from Avenida Presidio to cul-de-sac.
134. Calle Dorado from Avenida Presidio to cul-de-sac.
135. Calle Guadalajara from Avenida Vaquero to Calle Vallarta.
136. Calle Vallarta from Avenida Vaquero to Calle Guadalajara.
137. Calle Frontera from Avenida Vista Hermosa to Calle Vallarta.
138. Calle Agua from Camino de los Mares to Calle Verano.

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.

Summary
The City's Economic Development Plan for Fiscal Year 2002-03 called for the City to continue focusing its program efforts on three specific areas: 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization.

In conjunction with these three program initiatives, the City Council directed staff to undertake the following activities: 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 and other stakeholders to implement needed public improvement projects and related programs for the Downtown area; 2) working closely 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 and 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, provide appropriate assistance and support for the revitalization of the 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; 7) market and promote the recruitment of a food market grocery store operation to the general area of south San Clemente; and 8) focus staff efforts and programs on the economic development potential of the North Beach area.

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 service 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, we will proceed with a review of the progress that has been made with respect to certain economic development issues that were identified in the previous 2002 Long Term Financial Report.

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 sales tax analysis report for the calendar year ended 2000 reflected a taxable retail sales leakage factor of 49%, which translated 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 the City's sales tax consultant, The HdL Companies (HdL), in 1999 and 2000 the City was ranked 24th in total taxable sales and modest improvement is noted with a ranking 23rd in total taxable sales in 2001 (see Table 2). With respect to per capita taxable sales, the City ranked 28th in 2000, and once again a modest improvement was noted in 2001 with a ranking of 27th (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 prove difficult to significantly increase per capita sales tax generation even in the face of increasing overall sales tax generation.

Unfortunately, URI has advised staff that the State Board of Equalization has not yet completed its analysis and preparation of sales tax data by categories for the calendar year 2001. Therefore, the major taxable retail sales leakage sources (by category) previously provided in URI annual reports are not available for the printing of this year's LTFP report. Staff will present this information to the City Council when URI completes its analysis and makes this data available to the City.

Retail Sales Leakage by Category

1999 Percent	2000 Percent	2001 Percent	Type of Retail Store
90	89	n/a	Auto Dealers and Auto Suppliers
80	75	n/a	Home Furnishings and Appliances
56	40	n/a	General Merchandise Stores
75	77	n/a	Building Materials and Farm Implements
60	63	n/a	Apparel Stores
53	55	n/a	Other Retail Stores

Table I

2001 Taxable Sales in Orange County Cities

City	Taxable Sales (1)	Ranking (2)
Anaheim	$4,661	1
Irvine	3,944	2
Santa Ana	3,561	3
Costa Mesa	3,204	4
Orange	2,355	5
Huntington Beach	2,160	6
Newport Beach	1,748	7
Garden Grove	1,585	8
Tustin	1,582	9
Fullerton	1,374	10
Brea	1,335	11
Westminster	1,332	12
Buena Park	1,270	13
Mission Viejo	1,240	14
Lake Forest	997	15
Cypress	933	16
Fountain Valley	845	17
Laguna Niguel	731	18
Laguna Hills	603	19
La Habra	601	20
San Juan Capistrano	596	21
Yorba Linda	494	22
San Clemente	449	23
Placentia	439	24
Rancho Santa Margarita	406	25
Dana Point	316	26
Stanton	298	27
Laguna Beach	297	28
La Palma	292	29
Los Alamitos	220	30
Seal Beach	201	31
Aliso Viejo	84	32
Laguna Woods	82	33
Villa Park	18	34

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

Table II

2001 Taxable Sales Per Capita In Orange County Cities

City	Per Capita (1)	Ranking (2)
Brea	$36,993	1
Costa Mesa	28,892	2
Irvine	26,276	3
Newport Beach	24,278	4
Tustin	22,856	5
Cypress	19,787	6
Los Alamitos	18,755	7
La Palma	18,572	8
Laguna Hills	17,798	9
Orange	17,734	10
San Juan Capistrano	17,215	11
Buena Park	15,851	12
Fountain Valley	15,120	13
Westminster	14,813	14
Anaheim	13,858	15
Lake Forest	12,995	16
Mission Viejo	12,840	17
Laguna Beach	12,301	18
Laguna Niguel	11,571	19
Huntington Beach	11,151	20
Fullerton	10,636	21
Santa Ana	10,231	22
La Habra	9,878	23
Garden Grove	9,365	24
Placentia	9,217	25
Dana Point	8,826	26
San Clemente	8,547	27
Rancho Santa Margarita	8,407	28
Yorba Linda	8,238	29
Seal Beach	8,188	30
Stanton	7,768	31
Laguna Woods	4,922	32
Villa Park	2,928	33
Aliso Viejo	n/a	n/a

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

Table III

HdL 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 2001.

Taxable Sales Per Capita

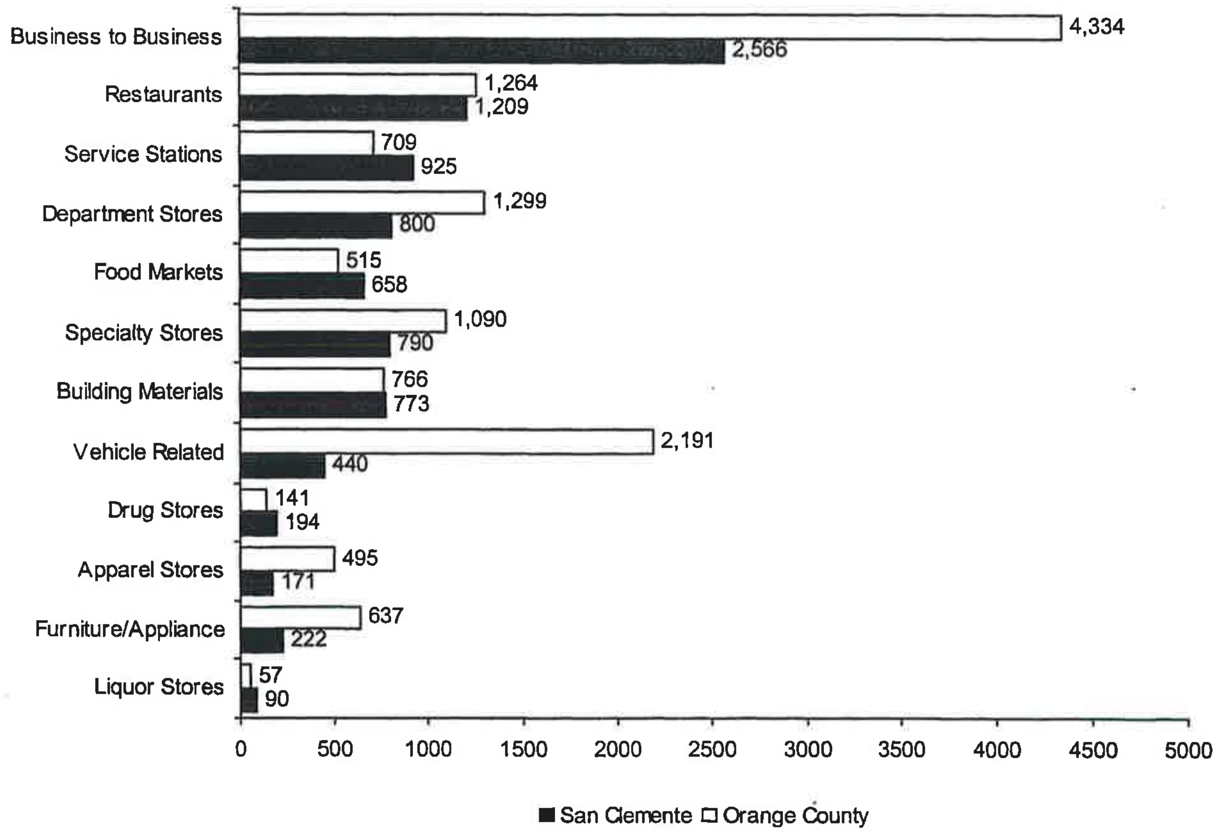


Chart I

This chart provides an interesting comparison of how the City's taxable sales match up to the County averages for the 2001 reporting period.

- **Business to Business** – The City was 41.5% of the County average in 2000 and is 59% in 2001. The City's overall performance compared with the prior year has not significantly increased and the City's percentage increase merely reflects a decrease in business to business taxable transactions throughout the County for 2001.
- **Restaurants** – City was 103% of the County average in 2000 and is 96% in 2001. Although there was a modest year to year decline of 7%, 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 168% of the County average in 2000 and is 130% in 2001. The City's comparative performance has declined by 38% from the prior year however; some of this decline may be reflective of lower market prices for gasoline. Over the years, sales performance in this category has consistently been reflective of the City's location on the I-5 Freeway and, of course, the inclination by dealers to charge a higher price for gasoline relative to other inland communities.
- **Food Markets** – City was 142% of the County average in 2000 and is 128% in 2001. It is not clear why the City's performance in this category continues to be so high relative to the County average. It may well have to do with the City's location next to the I-5 Freeway and the fact that there are two State parks in or near the community.
- **Vehicle Related** – City was 26% of the County average in 2000 and is 20% in 2001. 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 73% of the County average in 2000 and is 96% in 2001. There has once again been a significant increase in performance between the two reporting periods and this good news is attributable to Lowe's Home Improvement Store which opened in February of 2001. The new DeNault's Hardware store which was completed in the first quarter of 2002 will also help the City's overall performance in this category. The City will continue 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 54% of the County average in 2000 and is 73% in 2001. 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 61% of the County average in 2000 and is 62% in 2001. Historically, K-Mart had perennially been the highest sales tax producer in the City; however, with the opening of Wal-Mart in September 1999, Wal-Mart has now surpassed K-Mart and, with the addition of Michael's Art Store, the City's overall sales tax generation should continue to strengthen and improve.
- **Drug Stores** – City was 138% of the County average in 2000 and is 138% in 2001. The factors influencing the City's continued overall 38% performance in excess of the County average are unknown.
- **Furniture/Appliance** – City was 38% of the County average in 2000 and is 35% in 2001. Dewey's continues to contribute heavily in this category.
- **Apparel Stores** – City was 39% of the County average in 2000 and came in at 35% in 2001. Historically, the community's resident consumers have had no choice but to go to other communities for their clothing purchases and, with the convenience 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 mid-scale and up-scale 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 2005.

- **Liquor Stores** – The City was 153% of the County average in 2000 and is 158% in 2001. Because the City is a beachside visitor-serving destination, a large portion of the City's performance in this category may be attributable to this important tourist-oriented seasonal business activity.

As was the case in last year's 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 has been completed at the Plaza Pacifica Shopping Center. In addition to this retailing space, the Marblehead Coastal project is proposed to add another 700,140 square feet of retailing, restaurant and entertainment uses that 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.

HdL has also 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 II. Please note there are two scales and the scale to the right applies only to Business to Business sales transactions.

Sales Tax by Category

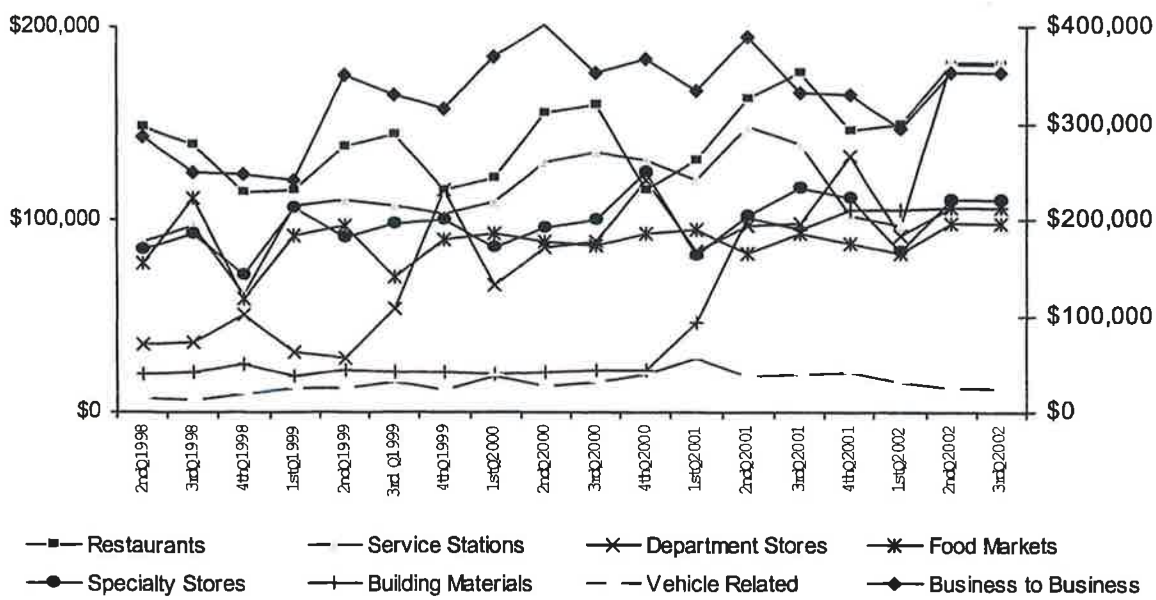


Chart II

- **Restaurants** – Overall, for the 17 quarters reported, showing slow but sustained growth to the second quarter, 2001. Not surprisingly, it appears that the City's restaurant businesses are truly seasonally sensitive and generally their performance weakens in the fourth and first quarters.

- **Service Stations** – The performance for the City's service stations curiously mirrors the performance of the restaurants. Although prior year's data provided by MBIA Muni Services did not reveal this relationship, HdL's data clearly show a distinct seasonal tracking of gasoline sales with restaurant sales. Overall performance for sales tax generation shows steadily increasing revenue production through the 2nd Quarter, 2001, a steep three-quarter decline to the 1st Quarter, 2002 and a significant increase in the 2nd Quarter, 2002.
- **Food Markets** – Fairly static throughout the reporting periods with significant declines in the 4th Quarter, 1998 and the 3rd Quarter, 1999.
- **Business to Business Services** – Excepting a three-quarter decline from the 3rd Quarter, 1998 through the 1st Quarter, 1999, an overall gradual and sustained growth throughout the reporting periods. This increase may be in part attributable to the growth of existing and development of new businesses in the Rancho San Clemente Business Park.
- **Specialty Retail** – Seasonally sensitive performance with minor decreases and increases with an overall performance indicator of stable and static.
- **Department Stores** – Even with seasonal influences in the 1st Quarter, 2000, there is significant upward trending from the 2nd Quarter of 1999 to the 4th 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 throughout. Chart III below reflects how the various retail sales categories contributed by percentage to the total sales tax generated in the four quarters ending December 2001.

City of San Clemente - Total City of $4,487,288

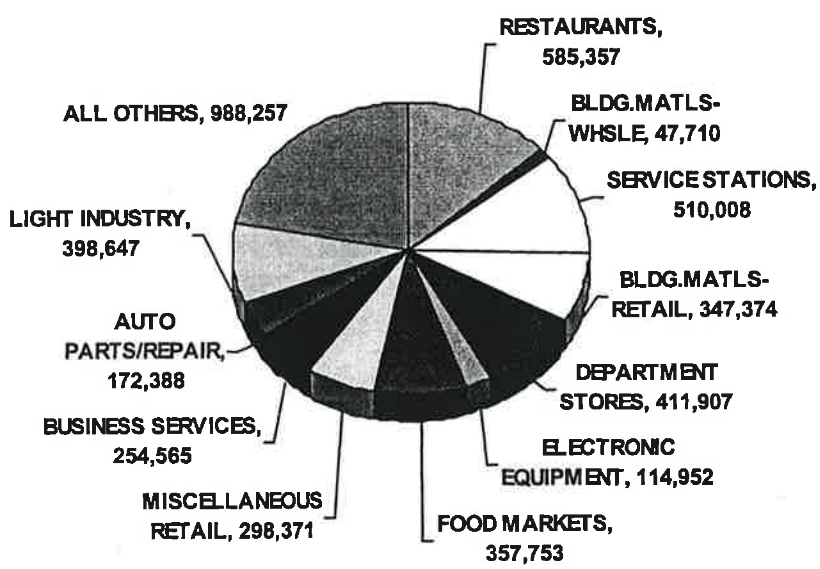


Chart III

Chart IV below provides certain trending information which compares actual quarterly sales tax production from the second quarter, 1996, to the second quarter, 2002 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 2001 and 2002 are in range with the other first quarter reporting periods but overall sales tax production continues to show stable growth. The left scale reflects quarterly receipts and the right scale is the adjusted annual total sales tax.

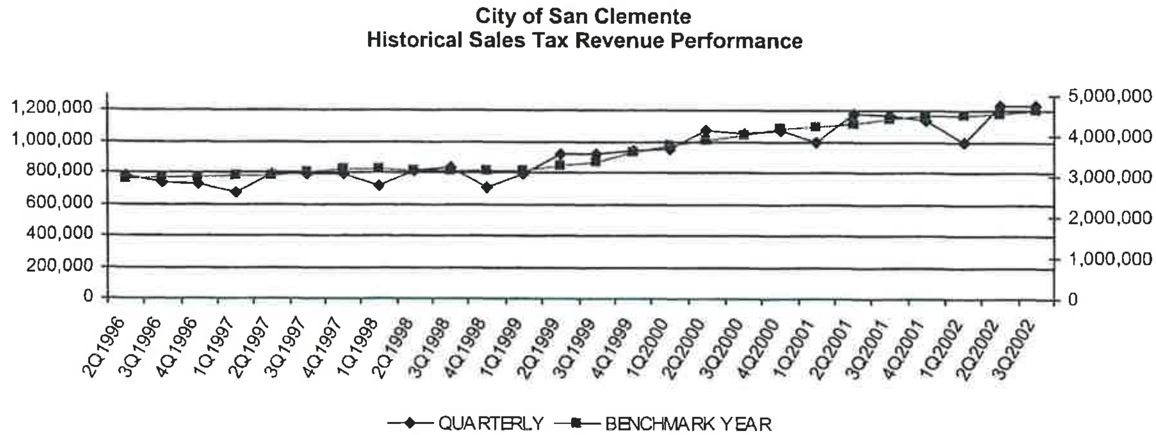


Chart IV

According to the City's annual financial forecast, Chart V below shows this projection of sales tax revenues extending out to Fiscal Year 2008-09. It should be noted that the last three years of the forecast go up significantly, with a 7%, 9% and 9.4% increase respectively. These projections are driven by the assumptions provided by the Cal-State University Fullerton Business Forecast.

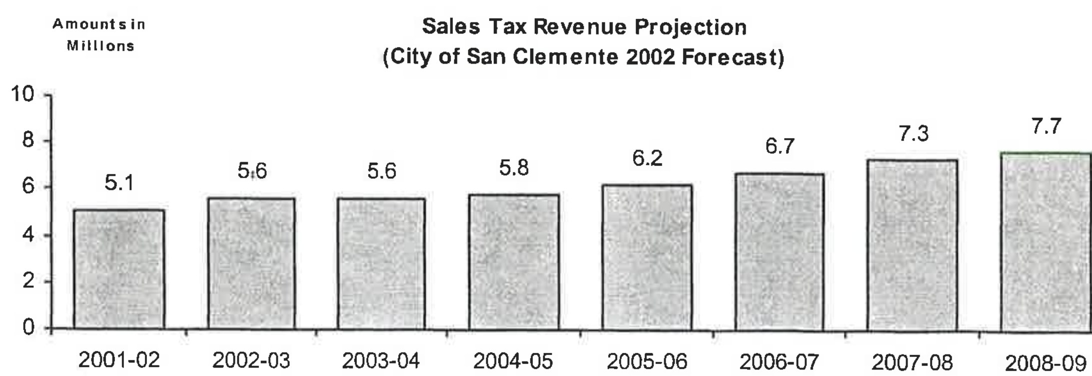


Chart V

The revenue projection in Chart V takes into account the new retail development that has been recently completed in the Plaza Pacifica Shopping Center project (430,000 square feet). The positive revenue production impacts associated with this project yielded an estimated $280,000 during the Fiscal Year 2001-02 and another $325,000 (Lowe's Home Improvement Center and Michael's Art Store) in Fiscal Year 2002-03. The balance of the Plaza Pacifica project was completed with the new Albertson's Grocery Store and other ancillary retail development (total of 140,00 square feet) in the second quarter of the calendar year 2002. There is one remaining pad (immediately east of Albertson's) that will be developed for a 25,000 square foot Office Depot.

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 of eight 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. It should be noted that these projections were shared with the developers of the Promenade and they concur with this information.

Phase I - 250,000 sq. ft. of Specialty Retail (Craig Realty) completed by 2/1/2005
Stabilized FY 2005-06 sales tax projection is $937,000 ($375/sq. ft.)
150,000 sq. ft. of Entertainment and General Retail (SDC) by 2/1/2005
Stabilized FY 2005-06 sales tax projection is $450,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2005-06 = $1,387,000 (Phase I)

Phase II - 100,000 sq. ft. of Specialty Retail (Craig Realty) completed by 2/1/2007
Stabilized FY 2007-08 sales tax projection is $400,000 ($400/sq. ft.)
56,280 sq. ft. of General Retail and Restaurants (SDC) by 2/1/2007
Stabilized FY 2007-08 sales tax projection is $169,000 ($300/sq. ft.)
Total estimated (additional) sales tax for FY 2007-08 = $569,000 (Phase II)

Phase III - 93,860 sq. ft. of Specialty Retail (Craig Realty) completed by 7/1/2009
Stabilized FY 2009-10 sales tax projection is $375,000 ($400/sq. ft.)
50,000 sq. ft. of General Retail and Restaurants (SDC) by 7/1/2009
Stabilized FY 2009-10 sales tax projection is $175,000 ($350/sq. ft.)
Total estimated (additional) sales tax for FY 2009-20010 = $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.

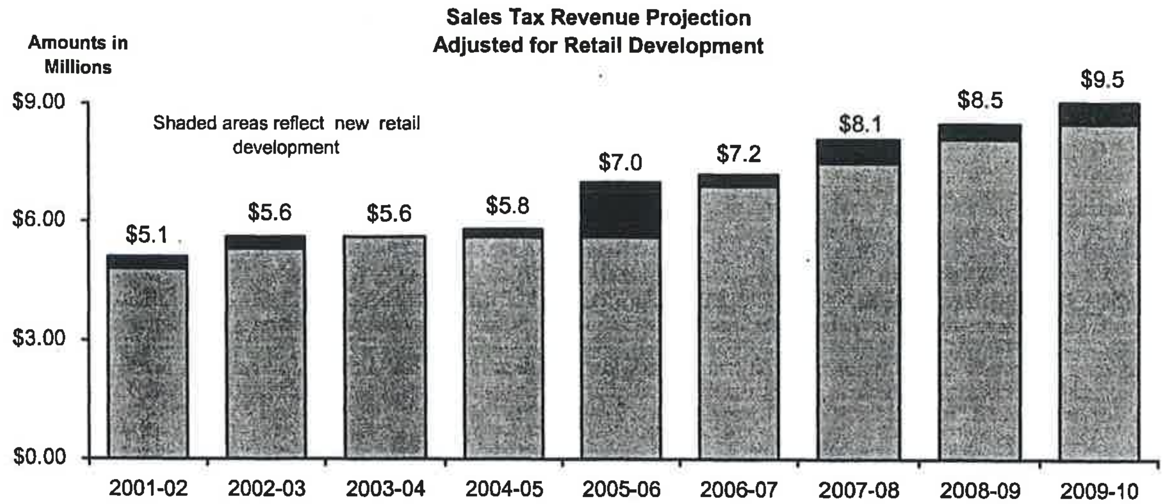


Chart VI

The importance of successfully completing the development of the Plaza Pacifica and pursuing the development of the Marblehead Coastal retail project 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.

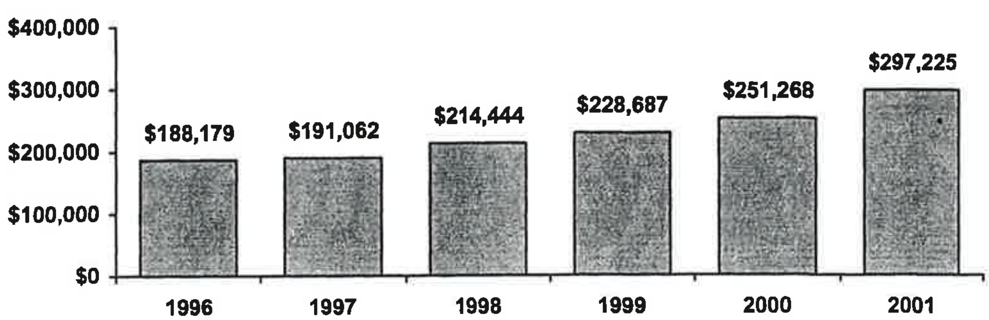
- **Downtown Revitalization – Central Business District Transition Program**
  At the direction of the City Council, staff has worked closely with the leaders of the Downtown Business Association (DBA) to implement a revitalization program for the Downtown area known as the T-zone. The boundaries of 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 six 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. More recently the City has completed the resurfacing of the public parking lots on Avenida Granada and Avenida Cabrillo, repainted the street light poles on Del Mar, installed new decorative globes on these street lights and effected repairs to the sidewalks on Del Mar. In conjunction with the physical improvements that have been made, the City has, in prior 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 $300,000.

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 first quarter of calendar year 2003; however, the construction phase will not be commenced until sufficient funds (developer fees) are on hand. At this juncture, it is not known when the Downtown Improvement Project will commence construction.

Coincident with these program investment efforts, the City has completed the creation of two "Rule 20-A" utility undergrounding districts 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.

T-Zone Downtown Sales Tax – Chart VII



- **Main Street Program**
  Another program initiative approved by the City Council during the current fiscal year is the implementation by the Downtown Business Association 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. After conducting 15 meetings over a six month period, the Organizing Committee completed the Draft Certification Application in late December 2001. Subsequently, the DBA Board of Directors, through a vote of the general DBA membership, approved new bylaws for its organization and it is their intention to make final revisions to the Certification Application for subsequent transmittal to the California Main Street Division of the State Trade and Commerce Agency. As a result of unanticipated 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. In conjunction with the DBA's Main Street Certification efforts, the City Council has appropriated $50,000 in the current budget for implementation of the program.

Proposed Main Street District Sales Tax

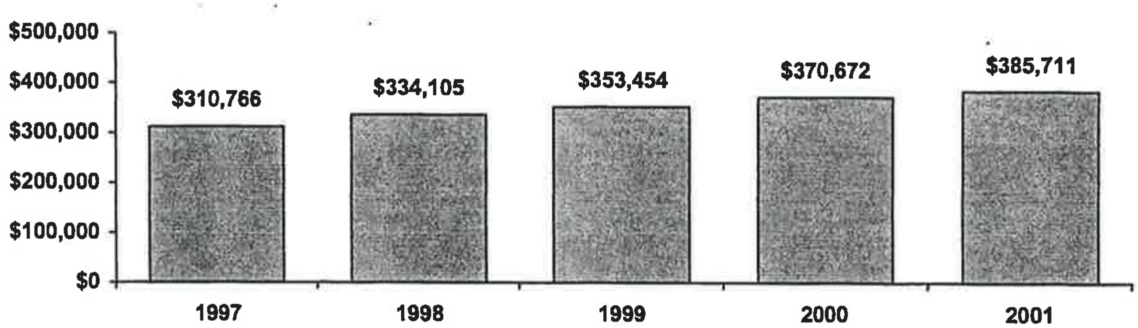
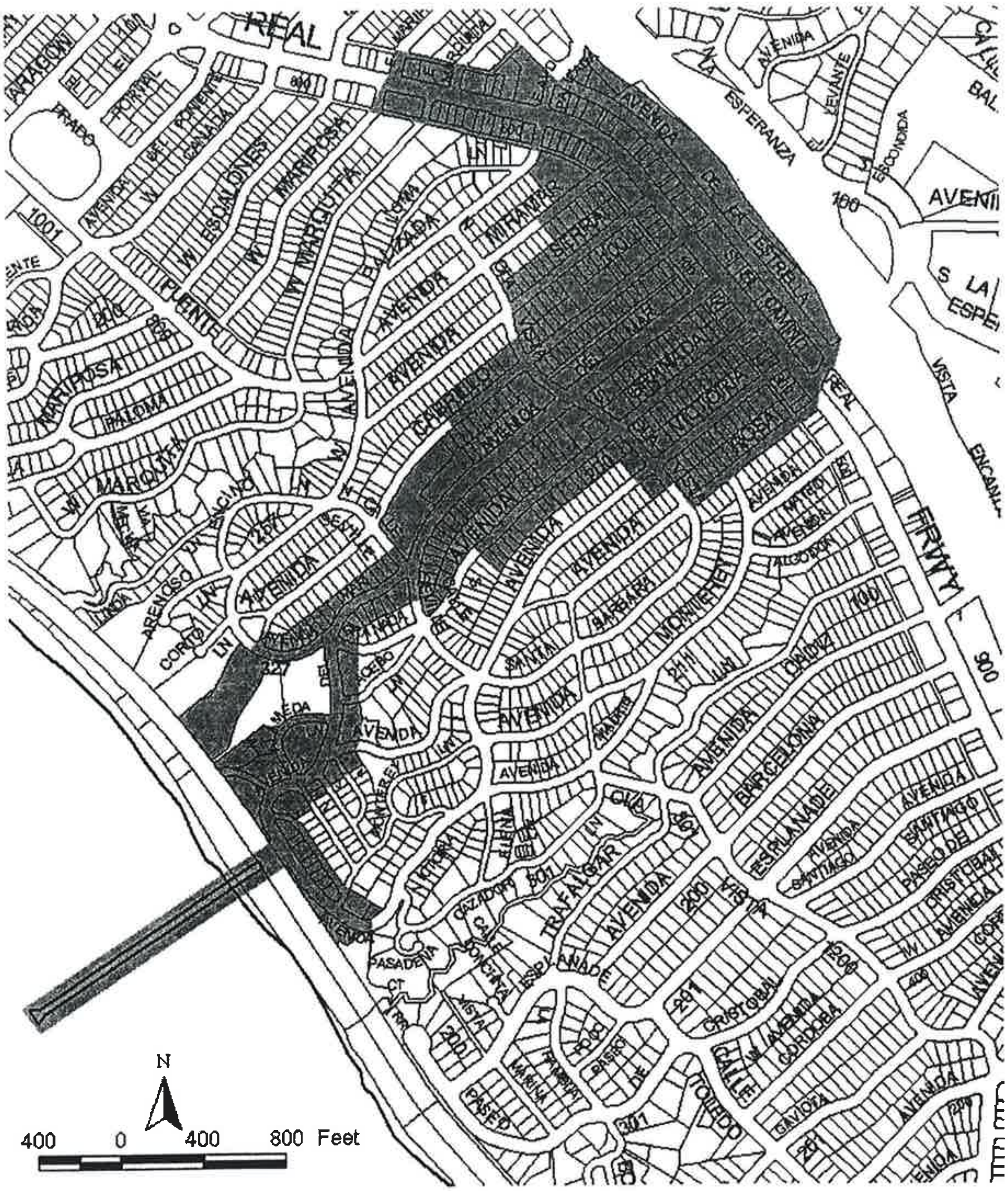


Chart VIII

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 2001.

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
2001	$385,711	265,000	$145.55

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	4,206,106	1.60	8.81	3.16
2001	$385,711	4.05	4,487,288	6.68	8.59	(2.99)

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 $117.27 in 1997 to $145.55 in 2001. 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 8.7% of total sales tax revenues collected City-wide.

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. It should be noted that the as part of its program implementation efforts, the DBA has officially opened an office on Avenida Del Mar and retained the services of a paid professional to staff the office.

- **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 the undergrounding project and as a result the utility conversion and rehabilitation of Calle de los Molinos will not be completed until the third quarter of 2003. 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 three years, several older shopping centers have undertaken significant improvements. M&H Property Management Inc., headquartered in 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 Sav-On 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 2001 for Ocean View Plaza is reflected below in Chart IX

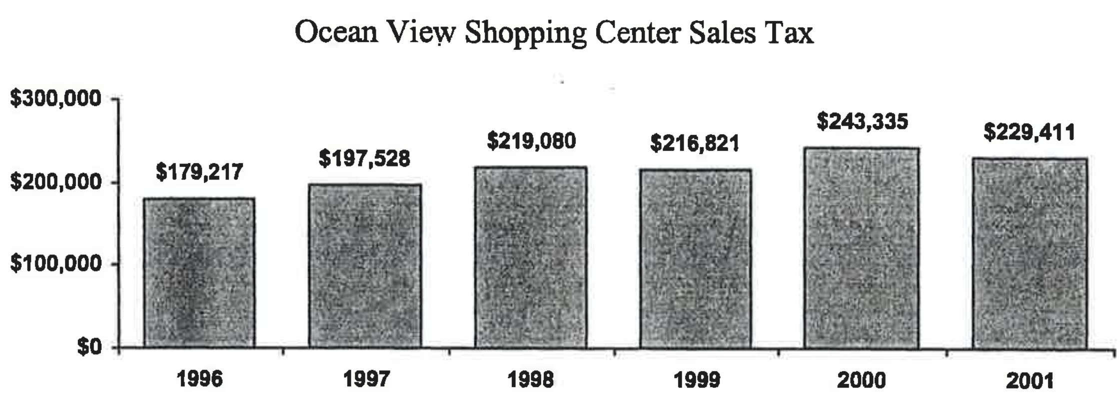


Chart IX

Companion to the reinvestment efforts at Ocean View Plaza, a local developer, Hunter Wilson, 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. The five year sales performance of this center is reflected on Chart X.

Krikorian Center Sales Tax

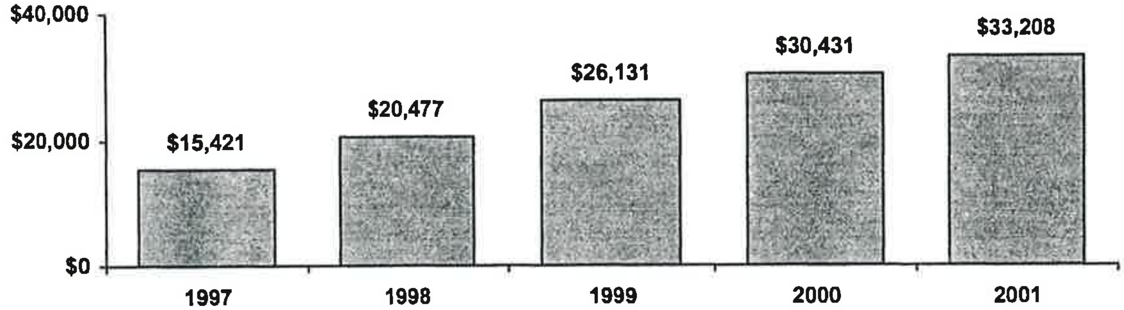


Chart X

Pico Plaza, located near the Avenida Pico/I-5 Freeway interchange on Via Pico Plaza, 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 including a new restaurant, The Waffle Lady, in the former restaurant facility located on the left side of the drive entrance to the shopping center.

Pico Plaza Shopping Center Sales Tax

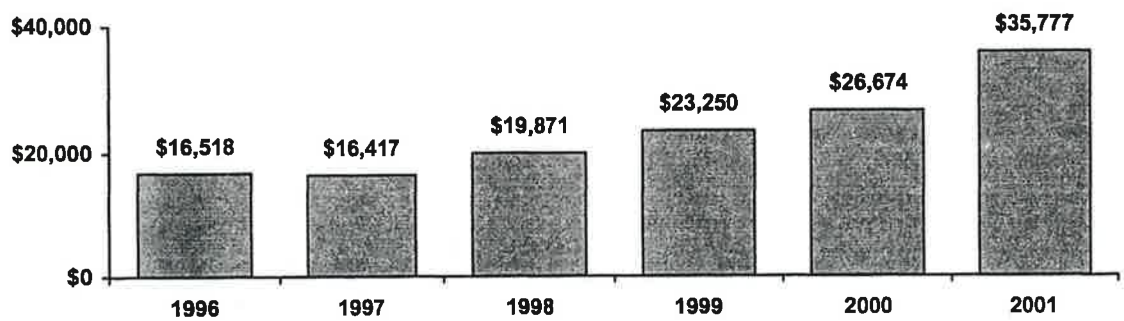


Chart XI

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 site for a Kragen Auto Parts Store and Las Golondrinas Mexican Food.

K-Mart Plaza Shopping Center Sales Tax

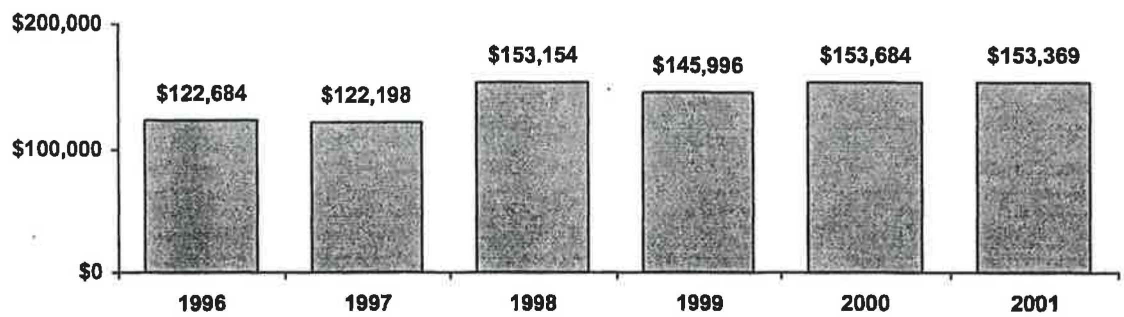


Chart XII

As previously referenced, the Plaza Pacifica Shopping Center has for the most part been completed and is 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 in combination with Wal-Mart and other shopping center tenants is reflected in Chart XIII below. It should be noted that staff has taken the liberty of reflecting fiscal year 2001-02 sales tax revenues instead of calendar year 2001.

Plaza Pacifica Shopping Center Sales Tax

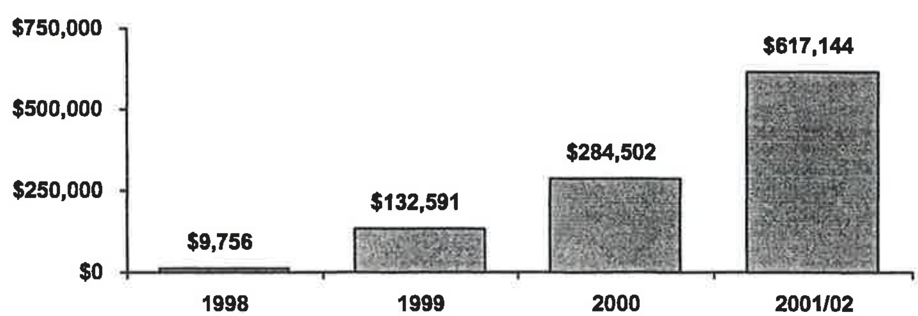


Chart XIII

The Gateway Village Plaza is a relatively new shopping center with its major anchor being Albertson's (formerly Lucky's). The center was sold last year and much of the space that had been vacant has now been occupied. The centers overall performance since its opening in 1994 has been reasonably stable due principally to the operations of the grocery store.

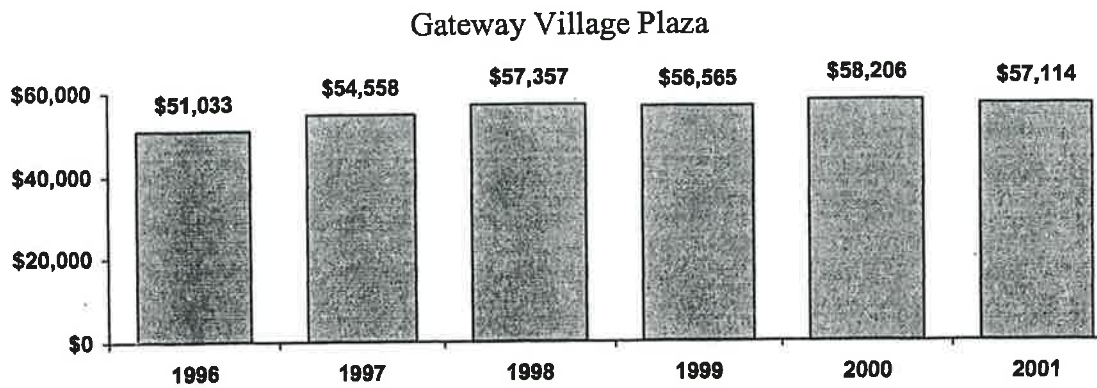


Chart XIV

The former Lucky's Center (now Stater Bros.), located immediately north of Ocean View Plaza, has been a stable performer; however, for reasons that are not clear, the center's performance has shown 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. Performance for 2001 was stable at the same level of sales tax production as the prior year.

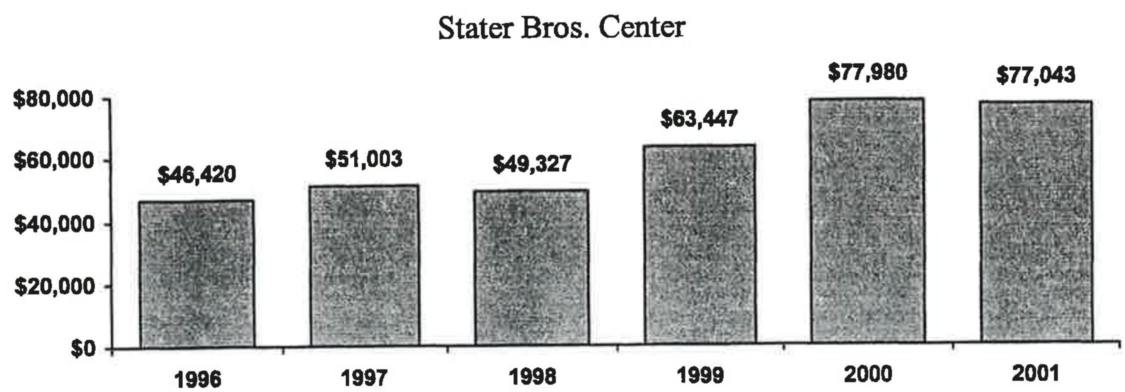


Chart XV

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 or will be accomplished. Equally important has been the City's demonstrated ability to facilitate and secure new development in the Rancho San Clemente (RSC) and Talega Business Parks. 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 that have completed 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 increased its overall business park development by 1,270,158 square feet, an increase of over 70%.

According to Johnston Pacific, a commercial brokerage firm in the City, during 2002 approximately 21 buildings were sold in the Talega and Rancho San Clemente Business Parks setting an all time record for the number of buildings sold in one year. The building sizes that sold ranged from 5,000 to 20,000 square feet. The price per sq. ft. ranged from $114.00 to $132.00, depending upon size, percentage of office build-out and location. The current vacancy factor for R&D/Industrial buildings in both business parks combined is approximately 7%. Overall leasing activity for these types of buildings has been slow during 2002; however, it has picked up substantially during the months of November and December.

With respect to the office market, the current vacancy factor for both parks combined is in excess of 20%. Throughout Orange County (particularly South County) and Southern California, the office space market remains weak and very sluggish. There is approximately 100,000 sq. ft. of first and second generation office space on the market for lease at this time. Office rents for leases recently signed are from $1.57 to $1.80 Full Service Gross per sq. ft. per month. Absorption in the office market in 2003 is expected to remain slow and vacancy rates will likewise remain in the 20% area until the third quarter of 2003. The overall vacancy factor for both parks combined for all products is estimated at 9.5%.

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 recently completed in the Talega Business Park lends support to the fact that San Clemente remains a viable and strong contender in the regional market place.

Johnston Pacific has also provided comparative data for light industrial uses for South Orange County business park lease rate averages and for building sale pricing averages. Lease rates for RSC Business Park have increased from a low of $.55 per square foot in 1993 to an average rate of $.85 per square foot in 2002, an overall increase of 54%. From a regional market perspective, the Business Park's rents are well below those of the Irvine Spectrum ($1.15/sf) and Aliso Viejo ($1.15/sf) and Rancho Santa Margarita ($.95/sf). This is understandable considering San Clemente's geographic location relative to the Orange County Airport and the other competitive business center locations. From a 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 2002 average sales price per square foot of $120.00, an increase of 114% (refer to Charts XVI and XVII. With respect to employment statistics, it is estimated that over 6,500 employees currently work in the Rancho San Clemente Business Park and at full build out that number will increase to 9,000.

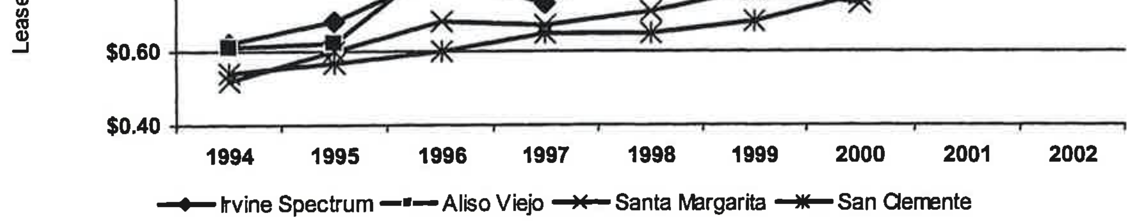


Chart XVI

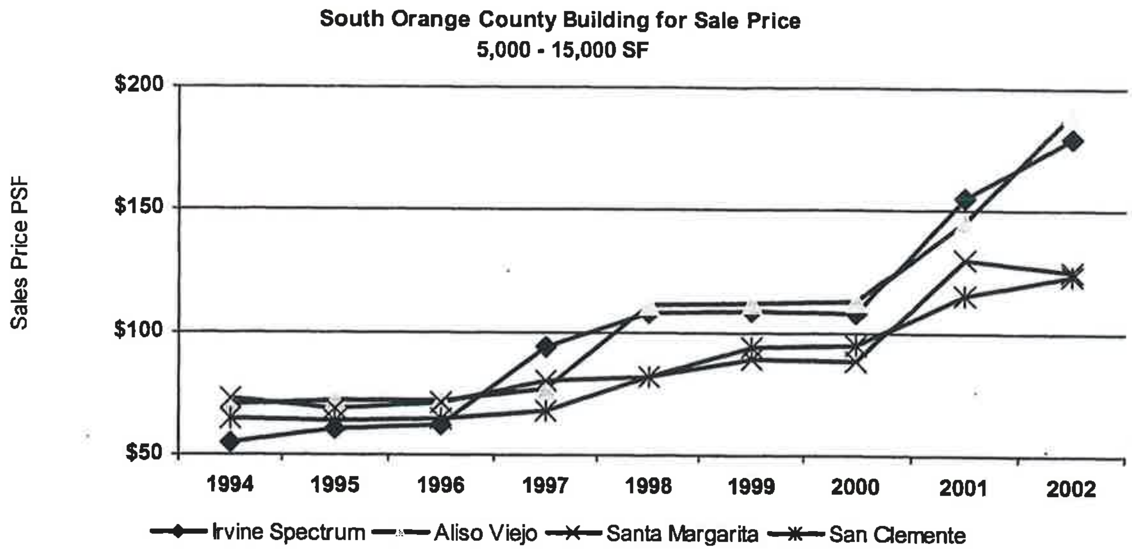


Chart XVII

Issue: **New Grocery Store for South San Clemente** – The City Council directed staff to market, promote and recruit a new grocery store for the south area of the community. Staff has contacted several firms who specialize in site evaluation and development for new grocery stores and staff has spoken directly with two of the major chain grocery store operators in Southern California. City staff undertook preliminary due diligence on prospective "candidate" sites in the south area and offered several alternative site configurations to one of the chains for their evaluation. Unfortunately, after an extensive evaluation of these site alternatives, the chain store determined that the cost of the affected properties in San Clemente were just too expensive and they couldn't get close to making the numbers work for a new 55,000 square foot store. Since then, staff has been working with the property owner of the existing Ralph's Shopping Center on south El Camino Real and there may be a possibility to site a new grocery store on this property. The property owner is involved in very early due diligence on the project and in the next six months he will consider getting back to the Planning Division with a preliminary application for required entitlements.

Issue: **Economic Development Potential for North Beach** – The development of a new Specific Plan for North Beach has been on hold for several years. The reasons for delays have to do with the lack of available staff and financial resources coupled with more pressing planning program priorities elsewhere in the community. As Council is aware, Mr. Steve Delson, a local developer, has placed the Miramar Theater property (owned by Richard Lee) into a 500 day escrow. Mr. Delson has proposed to adaptively reuse the old theater and he has secured a highly qualified architectural team specializing in historic building restoration. It is anticipated that Mr. Delson will initiate a formal planning entitlement application later during the calendar year 2003. With regard to other development options and alternatives for the North Beach area, the fate of the Marblehead Coastal project is of critical importance to future marketing and development efforts. Until we know what the ultimate fate of the Marblehead Coastal project is vis a vis the California Coastal Commission, it may prove difficult and somewhat problematic to go forward with the development of a Specific Plan for North Beach.

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 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 availability of funding, 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 receiving Main Street Program Certification by the State of California and the final designation of 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.
7. Continue to market and promote the recruitment of a new grocery store for the area of South San Clemente.
8. In concert with the efforts of the City's Planning Division to undertake a Specific Plan process, coordinate marketing and promotion of appropriate and viable economic development initiatives and projects for the North Beach area.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on February 04, 2003.

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 in 2001 regarding the Long Term Financial Plan (LTFP), three facilities were added last year to the MPCF: 1) Casa Romantica; 2) Railroad Corridor Safety Improvement; and 3) Downtown Revitalization 2000.

The primary objectives of the MPCF analysis are to monitor growth of the tax base, departmental expenditures and phasing of City facilities, and to project how these factors might affect the City's ability to operate and maintain new facilities. The following are the findings of this year's analysis:

- The tax base has grown as anticipated. Property tax revenue projections for buildout increased significantly as a result of escalated property values projected for new development;

- Increased costs, especially for public safety, have greatly exceeded expectations;

- Some facilities are phasing in slightly ahead of schedule—Talega neighborhood parks—while others are slightly behind schedule—Steed Park, Railroad Corridor Safety Improvements, Downtown Revitalization 2000 (partially completed), and the Senior Center. Casa Romantica is on schedule. (Please see Attachment B for a specific schedule for the MPCF). The Talega Fire Station is on schedule but currently on hold;

- Operations and maintenance of future new facilities and services are projected to be <u>unsustainable</u>. Over the next 20 years and after buildout, the City's fiscal impact model projects a negative fiscal balance (ranging from $500,000 to $1 million per year), growing

increasingly more negative in current dollars as Proposition 13 has its detrimental effect upon total property tax revenues. The projected deficit is the result of significant increases in ongoing expenditures, the most significant of which are additional Police Services and street maintenance costs, along with increases in future projected expenditures.

If the fiscal trends projected in this MPCF analysis continue, the City will need to reevaluate commitments to future facilities and services in an effort to limit new ongoing expenditures. The City may also wish to strategize about ways to encourage and attract revenue-generating land uses beyond those currently anticipated for San Clemente (Plaza Pacifica, Marblehead Coastal and the Talega Village Center).

In addition to the expenditures, programs and facilities that were studied in the MPCF, other potential expenditures have been identified 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 Long Term Financial Plan and others are new: beach sand replenishment, water quality/urban runoff, the sidewalk restoration project, use of the La Pata/Vista Hermosa site, Street Improvement Program costs, expanded Recreation and Marine Safety programs to meet the needs and desires of a growing community, adjustment of the Fire contract for new retirement benefits and COLA increases for public safety personnel that outpace inflation. These projects/programs all imply additional capital and/or operations/maintenance costs not included in the projections for the MPCF summarized on the previous page and discussed in detail in the "Operations and Maintenance of City Facilities" section of this report.

This year, there is continued community interest in building proposed parks faster than provided for in the MPCF. This interest sharply contrasts with the City's forecasted shortfall in revenues (both short-term and long-term) to operate and maintain some of these facilities. In addition, park development costs continue to increase. Currently, it is projected that the City will experience an approximately $8.2 million 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. These issues are discussed in detail in Attachment D of this paper.

Background

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 fourth firefighter at Fire Station No. 60 and the cost of providing additional

Police Services personnel to serve 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.

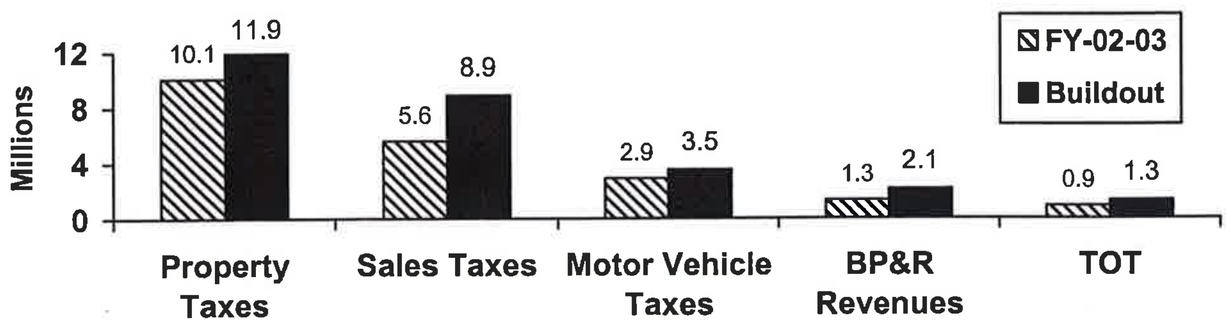
General Fund Revenues

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 2002-03: Sustainable revenues have grown over the past year. Sustainable revenues include property taxes (which are budgeted to increase $700,000 or approximately 7.5% this year) and sales taxes (which are budgeted to increase $200,000 or 3.7% 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. Despite new retail development at Plaza Pacifica, new sales tax growth has been weakened in response to a sluggish economy.

- 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 revenue growth projections are particularly important to the future of the MPCF:

FIGURE 1
PROJECTED BUILDOUT REVENUES



  - ➢ Projections for future revenues are slightly greater than they were in LTFP 2002, primarily because the projected value of future residential development in the City has risen significantly since LTFP 2002. As the projected value of future homes rise, the projected property tax revenues from those homes rise accordingly. The projected average value of new single family homes to be built in the City is $630,000, up from approximately $500,000 last year. The increase in average value of new single family homes has driven up projected annual property tax revenues at buildout by approximately $700,000.

- A moderate increase is anticipated for all major revenue sources except sales tax revenues, which are assumed to increase significantly.

- 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 2006.

- 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 $277 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 $250 per square foot—as opposed to $277 per square foot assumed in this analysis—the total annual sales tax generated by new retail development decreases by $300,000.

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

FIGURE 2
PROJECTED BUILDOUT REVENUES BY PROJECT/AREA

- As Figure 1 illustrates, motor vehicle taxes are a significant source of revenue to the City. The State's current budget deficit is proposed to impact the City's motor vehicle taxes. This impact has not been included in this analysis, but is discussed in another issue paper in LTFP 2003.

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

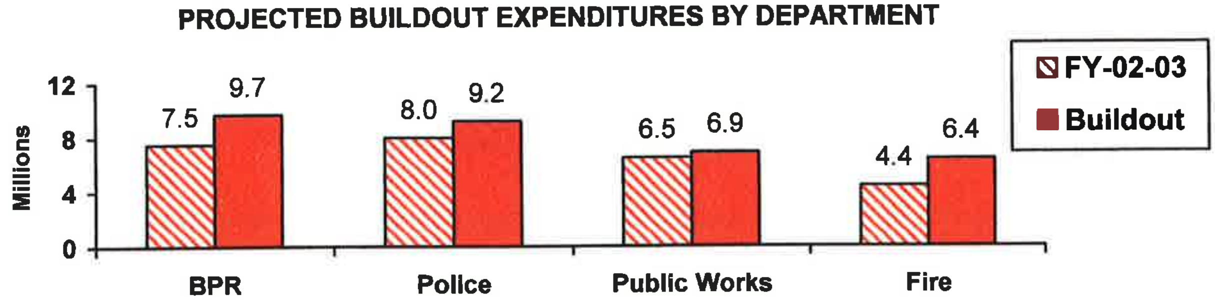
General Fund Expenditures

Ongoing and one-time expenditures out of the General Fund affect the City's ability to build, operate and maintain new projects in the MPCF. Ongoing 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 ongoing expenditures is particularly relevant to the City's future ability to operate and maintain the MPCF:

- Ongoing expenditures during FY 2002-03: Several increases in ongoing expenses in FY 2002-03 have the potential to negatively impact the City's ability to support operations and maintenance of the facilities included in the MPCF. The most significant among these was a 15% increase in the Police Services budget (an ongoing increase of approximately $1 million per year) to provide new retirement benefits. Ongoing expenditures in the Public Works Department were increased by approximately $350,000 per year for major street maintenance and slurry programs. The sidewalk restoration project was budgeted for $150,000 this fiscal year (and recently increased to $250,000); however, future funding for this project will depend on the City's fiscal health. Ongoing expenditures in Beaches, Parks and Recreation were increased by approximately $312,000, with restoration of recreation staffing levels adding $96,000 per year and expanded maintenance contracts related to newly developed park acreage adding $216,000 per year. Over the next three years, additional Fire FTE's will increase the City's ongoing expenditures by approximately $400,000 per year to cover the fourth firefighter at Fire Station No. 60.

- Future ongoing expenditures: Several of the City's departments are expected to grow as the City moves toward buildout. The following is a summary of the budgets (in current dollars) currently projected for the four largest departments:

FIGURE 3
PROJECTED BUILDOUT EXPENDITURES BY DEPARTMENT



These increases in ongoing expenditures are required primarily to fund the following new responsibilities associated with new development:

- In Beaches, Parks and Recreation, increased maintenance and recreation costs associated with new parks (please see Attachment B);

- In Police, increased personnel primarily to serve Talega, Marblehead and the newly developed areas of Forster Ranch;

- In Public Works, increased street maintenance costs as the City's newest roadways (in Forster Ranch and Talega) begin to age and require maintenance; and

- In Fire, the potential addition of a fourth Fire Station, primarily to serve Talega and other new development east of I-5 and the addition of a fourth person at Fire Station No. 60.

With the exception of anticipated increases in FTE's in Police, Fire, BPR and street maintenance as listed above, minimal increases in other City departments are assumed as part of this analysis. Cost of living increases that do not outpace inflation are also assumed in developing these projections.

The department budgets projected on the previous page include estimates of future programs/expenditures that are highly probable; for instance, it is virtually certain additional Police Services personnel will be needed to serve newly developed areas of the City. In addition to these probable future expenditures, City staff has identified a number of **potential** future expenditures that are still uncertain. These potential future expenditures, discussed later in this paper under "New Expenditures, Programs and Facilities: Capital and O&M Summary," are not included in the projected department budgets illustrated on the previous page. These programs may have a significant impact upon the City's ability to fund the future operation and maintenance of City facilities. In some cases, the projected costs of these programs are highly tentative.

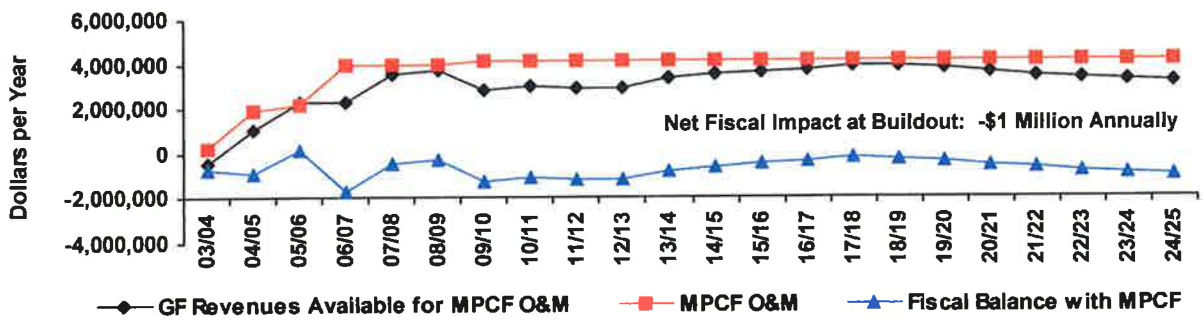
One example of a potential yet unknown future expenditure is the adjustment of the Fire Services contract after its termination in FY 2009-10. Fire personnel recently received an increase in retirement benefits similar to Police Services personnel. The current Fire Services contract limits cost increases to 3.5% until FY 2004-05 and then to 4% for the remaining five years of the contract until FY 2009-10. These yearly increases are not large enough to accommodate the new retirement benefits received by Fire personnel. With the termination of the current Fire Services contract in FY 2009-10, the City may experience a significant increase in the cost of Fire Services, such as the City experienced with the cost of Police Services this year, to accommodate new retirement benefits.

The following are other examples of potential increases in future expenditures that are excluded from the projected budgets on the previous page but are discussed under "New Expenditures, Programs and Facilities: Capital and O&M Summary:" terminations of the Street Improvement Program fee and Clean Ocean fee, Police and Fire COLA's that outpace inflation, increased retirement benefits for Fire personnel, beach sand replenishment and additional increases in Recreation and Marine Safety services.

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:

FIGURE 4
FISCAL IMPACTS OF MPCF



Over the next 20 years and after buildout, the City's fiscal impact model projects a negative fiscal balance. The annual deficit in the General Fund (revenues minus expenditures) after buildout (2020) is projected to range from $500,000 to $1 million per year, growing increasingly negative in current dollars as Proposition 13 has its detrimental effect on total property tax revenues. (Additional details related to these projections are included in Attachment A.) The chart illustrates several interesting factors:

- The projected fiscal balance for buildout has moved from a positive one to a negative one in just one year. This is the result of significant increases in ongoing expenditures in FY 2002-03, the most significant of which are additional Police Services and street maintenance costs, along with increases in future projected expenditures.

- While property tax revenue projections have increased significantly as a result of the escalating property values for new development, these additional revenues may not be adequate to cover the new ongoing expenditures approved in FY 2002-03 in combination with future expenditures (discussed in the General Fund Expenditures section of this paper) necessary to adequately serve new areas of the City.

- The two most costly facilities in the MPCF are the Talega Fire Station and the community center, gymnasium and pool complex. Operations and maintenance expenditures increase in FY 2004-05 as a result of the Talega Fire Station coming online. Another significant increase in expenditures is experienced in FY 2006-07 as a result of a community center, gymnasium and pool complex at Forster Ranch Community Park or La Pata/Vista Hermosa community park site coming online.

- In this analysis the development of the community center, gymnasium and pool complex is delayed an additional year (from FY 2005-06 to FY 2006-07) due to the delay of the Marblehead Coastal project. As the net General Fund revenues available for operations and maintenance (black line) increase, the planning and design of the Community Park can continue. However, actual construction should be delayed until the City is certain that Marblehead Coastal will be constructed and other revenues become available. The schedule for other City facilities has been delayed, as well, and explanations of these delays are provided in Attachment B.

- The projections shown on the previous page do not include costs for new expenditures, programs or facilities beyond those listed in the MPCF. Potential expenditures, programs and facilities that have not been officially included in the MPCF, but may impact the City's ability to operate and maintain future new facilities, are discussed under "New Expenditures, Programs and Facilities: Capital and O&M Analysis."

- The projections shown on the previous page do not include the potential fiscal impacts of a legal challenge to the Orange County Tax Assessor's method of assessing property taxes. The class action lawsuit challenges the "recapturing" method of calculating property values and taxes by asserting that it violates the 2% limit imposed by Proposition 13. The "recapturing" method is used across the State on properties that dropped in value in the 1990's and had their assessments lowered. When the values rebound, the new assessment routinely exceeds the 2% limit. In December 2001, an Orange County Superior Court ruled that the "recapturing" method violated Proposition 13. If upheld on appeal, the County has estimated that up to $1 billion in collected taxes may have to be refunded to Orange County taxpayers. In addition, a decrease in annual property tax revenues would be expected.

Capital Needs and Phasing Issues for Parks

For detailed background information regarding capital needs and phasing issues for parks, please see Attachments C and D.

New Expenditures, Programs and Facilities: Capital and O&M Analysis

The following is a brief listing of several potential expenditures, programs or projects 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 and $350,000 for design (this is considered an extremely tentative estimation). Funding source: Grants and General Fund	$1,100,000-$5,000,000 for each sand placement cycle estimated to be five to ten years apart (this is considered an extremely tentative estimation). Funding source: General Fund.
Sidewalk Restoration Project	$150,000 approved in FY 2002-03 budget. On January 8, 2003, the City Council increased FY 2002-03 funding by $100,000; however, the Council indicated that future funding will depend upon the City's fiscal health.). Funding source: General Fund.	
Water Quality (Urban Runoff and NPDES)	A cumulative total of approximately $1.4 million in capital costs over a five-year period. Funding source: Clean Ocean Fund	$910,000 annually is the minimal amount necessary to maintain a "bare bones" program. This amount does not include an additional $500,000 annually (approximation) in ongoing expenditures vital to the program. Funding source: Clean Ocean Fund. If the Clean Ocean fee is not renewed at its termination, General Fund funding may be necessary to maintain a "bare bones" program.
Street Improvement Program	Potential Long-term Impacts: 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.	
Expanded Recreational Services and Marine Safety Personnel	As the City continues to grow, so does the community need and desire for expanded recreation and leisure services. Traditionally, this need has been provided as new facilities are built (community centers, gymnasiums and pool complexes). However, recently, community expectations have prompted the City to provide additional services now. The City has responded by creating services at off-site locations (such as after school programming at Capistrano Unified School District facilities). These ongoing annual expenditures have not been a part of the MPCF. It is expected that the desire for expansion of these services will continue into the foreseeable future.	Increase in staffing: Part-time: A $16,000 increase each year from 2004 to 2022, reaching $304,000 annually at buildout. Full-time: $50,000 position to oversee programming beginning in 2004 totaling $50,000 annually at buildout. Funding source: General Fund.

Project	Capital Cost and Funding	O & M and Funding
Expanded Marine Safety Services	As the City and surrounding counties continue to grow, so does beach attendance. This past year, the "Beach Train" schedule was expanded to every summer weekend day, bringing visitors from San Bernardino and Riverside Counties. Marine Safety lifeguards experienced a dramatic increase in rescues. An average number of rescues per year is 1,100. This year, rescues jumped to 1,700. This trend of less experienced ocean swimmers is expected to continue. The increased crowd density will also result in higher levels of service on the sand and in the water. Finally, increased management of coastal environmental issues is pulling Marine Safety staff away from safety operations for which compensation is necessary.	Increase in staffing: Part-time: A $6,000 increase each year from 2004 to 2022, reaching $114,000 annually at buildout. Full-time: $70,000 position to oversee operations beginning in 2005 totaling $70,000 annually at buildout. Funding source: General Fund.
Adjustment of Fire Services Contract in FY 2010-11	N/A	A potential increase of $500,000 annually for retirement benefits. (This estimate is extremely tentative.) Funding source: General Fund.
Police COLA 4% Annually (1% greater than 3% inflation rate assumed)	N/A	A potential increase of $1.5 million annually. Funding source: General Fund.
Fire COLA 4% Annually (1% greater than 3% inflation rate assumed)	N/A	A potential increase of $700,000 annually. Funding source: General Fund.

Note: A relocated roller hockey rink and 2,000 seat amphitheater are not included in this chart but are discussed in Attachment D.

Status of MPCF 2002 Recommendations

- 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. *Staff is moving forward with projects in the MPCF. Talega Neighborhood Park No. I was completed in June 2002. Forster Ranch Community Park Phase IIb is currently under construction with an expected opening date in the fall or winter of 2003. The next phase* *of development of Richard T. Steed Memorial Park is in the master planning phase. Talega Neighborhood Park No. II is in the design phase with construction anticipated by summer 2003. Talega Neighborhood Park No III is in the master planning phase with construction expected in the spring or summer of 2004.*

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 2002-03 budget process. *Completed. The City Council gave staff direction to light a baseball field, soccer field and basketball courts at San Gorgonio Park and to cancel plans to light a baseball field and two soccer fields at Forster Ranch Community Park. Staff is in the process of hiring a sports lighting electrical engineer to design the improvements at San Gorgonio Park.*

- 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 million capital shortfall (LTFP 2002 projection) for the approved MPCF. *This review is done annually during the Long Term Financial Plan process. Information on the City's operating position can be found in the Financial Forecast issue paper.*

- Annually review the status of previous recommendations for the Master Plan for City Facilities as a part of the Long Term Financial Plan. *Completed.*

Conclusions

Operations and Maintenance of City Facilities

General Fund Revenues

- Projections for future revenues are slightly greater than they were in LTFP 2002, primarily because the projected value of future residential development in the City has risen significantly since LTFP 2002. This analysis assumes assessed value of new housing units will be relatively high, the retail market potential for the City will be realized (to the degree possible given land constraints) and the sales tax generation rates of new retail development will remain relatively high. A significant portion of projected sales tax growth is dependent upon the Marblehead Coastal project.

- The State's current budget deficit may significantly impact the City's revenues. This is discussed in a separate issue paper.

- A legal challenge to the Orange County Tax Assessor's method of assessing property taxes may have significant impacts upon the property tax revenues collected by counties and dispersed to cities. The potential revenue reduction has not been included in this analysis.

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Attachment B

MPCF PHASING PLAN 2003

New Capital Facility	Net Annual O&M Costs	On-line Date
Fire Station #59 - Relocation	0	04/05
Talega Fire Station	1,500,000	04/05
Talega 2 Park	114,950	03/04
Talega 3 Park	84,700	04/05
Senior Center (Avenida Victoria Site)	26,000	04/05
Fire Station #60 - Relocation	0	04/05
Steed Sports Park (8 acres)	145,200	04/05
Downtown Revitalization 2000	50,000	04/05
Railroad Corridor Safety Improvement	128,000	05/06
Marblehead Coastal Bluff Park	79,860	05/06
Marblehead Coastal Community Sports Park	84,700	06/07
Community Center, Gym, Pools	1,500,000	06/07
La Pata/Vista Hermosa Community Park	302,500	06/07
Civic Center	110,173	09/10
South City Park	40,500	09/10

Completed Capital Facility	Net O&M Costs	On-line Date
Forster Ranch Phase II	192,700	02/03
Talega 1 Park	64,800	02/03
Casa Romantica	0	02/03

On-line dates:
Blue text indicates accelerated date (from LTFP 2002 schedule)
Red text indicates delayed date (from LTFP 2002 schedule)

Revenues from Community Center, Gym and Pool: It is anticipated that the community center, gymnasium and pool complex will generate approximately $750,000 in revenue after three years of operation that will offset half of the $1.5 million in annual expenditures.

Project delays noted above are based upon the following:

a. Delays with the Marblehead Coastal Project that provides a substantial amount of the development & ongoing maintenance for many of these projects.
b. Other projects (such as the Talega neighborhood parks) becoming priorities based upon development agreement commitments.
c. Community interest in adding recreational amenities at specific community parks (roller hockey and amphitheater), extending the timeline for master planning of these parks.
d. Modifications to ECR plans required General Plan and Municipal Code amendments, resulting in further study and public input from a City Council appointed committee charged with overseeing the details of the project. Alley improvements included in Downtown Revitalization 2000 have been completed.

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Attachment C

Parks Funding and Construction Costs
LTFP 2003

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

Ending Balance 02-03		$ 6,962,390
Revenues 03-04 through Buildout:		
Remaining Talega Development Fees For Parks	$ 6,900,000	
Marblehead Coastal Development Park Fees	$ 2,000,000	
Interest Earned	$ 400,000	
Infill Development	$ 80,000	
Proposition 12 Funds	$ 600,000	
Proposition 40 Funds	$ 380,000	
Total Revenues 03-04 through Buildout		$ 10,360,000
Total Revenues Available for Parks Master Plan		**$ 17,322,390**

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

	Acres	. Current Projections		MPCF 2002 Projections	MPCF 2000 Projections
Steed Park	12.0	$ 3,300,000		3,120,000	3,000,000
Marblehead Coastal Bluff Park	9.0	$ 2,475,000		2,340,000	1,000,000
La Pata/Vista Hermosa Sports Park	25.0	$ 6,875,000		6,500,000	2,250,000
South City Neighborhood Park	5.0	$ 1,375,000		1,300,000	750,000
Marblehead Coastal Sports Park	7.0	$ 1,925,000		1,820,000	1,200,000
Talega Neighborhood Park No. 2	9.5	$ 1,200,000	In progress/1/2 cost expended in 02-03	1,200,000	1,200,000
Talega Neighborhood Park No. 3	7.0	$ 1,000,000		1,000,000 .	1,200,000
Forster Ranch Commun (Phase III)		$ 7,350,000		7,000,000	6,000,000
Total		**$ 25,500,000**		24,280,000	16,600,000
Net Difference: Park Funds Available minus Expenditures		**$ (8,177,610)**		**$ (6,957,610)**	**$ 722,390**

Notes on Funding for Parks:

Projected Ending Balance for FY 02-03—Source FY 02-03 Budget with the following adjustments:

Use ending balance of 5,517,390 from FY 02-03 Budget, which excludes reserved amount for Forster Ranch maintenance.

Increased balance by 3,300,000 for Steed and $615,000 for Talega NP 2 (listed as FY 02-03 expenditures) since they are shown on this page as projected expenditures (after FY 02-03).

Decreased balance by 2,740,000 in developer contributions since they are to be spent if Talega NP exceed estimated costs.

Talega's park fees:

*1.5 Million dollars from Talega's development agreement was collected in 1998.

*$8,815,646 out of $15.5 M in park fees actually collected from Talega by 1/20/03. Source: Char Bailey Crowe.

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 5% from $260,000 in 2002 to $275,000 in 2003 per acre. Costs updated 01/03, Bruce Wagner.

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 (25 acres); no funding identified for remainder of site.

Community Center, Gym, Pool Complex: Costs shown are for facility listed in 99 Parks and Recreation Master Plan. Facility comprises 26,000 square foot building (x $190 s.f.), an Olympic pool (50 meter) and a teaching pool (25 yard) (lump sum of $ 2.0 million).

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 will pay only costs indicated above and the Developer will cover the remaining costs.

An expenditure from this fund for a non-Master Plan park was budgeted for FY 02-03 (San Gorgonio Park RR and Youth Concession Stand). This expenditure is allowed because the fund was reimbursed for this expenditure and other non-Master Plan expenditures (1.5 million) in FY 01-02.

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Attachment D

Capital Needs and Phasing Issues for Parks, Analysis and Conclusions

Park Development Program and Capital Needs for Parks

As was noted in the 2002 Master Plan of City Facilities Update, there has been a continued commitment and investment by the City into its parks and recreation facilities since the late 1980's. In 2002, this commitment continued with the opening of the first neighborhood park (5.5 acres) in the Talega planned community as well as the opening of approximately one mile of hiking trail in the Forster Ranch planned community. In addition, twelve new acres of park land are currently being developed at Forster Ranch Community Park with completion anticipated in the fall of 2003. Ongoing park renovations are also a part of this commitment. Examples of renovation projects include the upgrading of children's play areas, pile and deck replacements on the Historical Pier and replastering of the Ole Hanson Beach Club pools.

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 number 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 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.

4. Local community based organizations are requesting special use amenities be added to community parks such as a roller hockey arena and a 2,000 seat amphitheater.

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 an $8.2 million shortfall in the funds needed to construct the parks included in the MPCF. While construction costs are escalating, construction funds remain essentially fixed, having been established at specific amounts in the City's development agreements. In the spring of 2001, 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. A 5% escalator has been added to this number for the 2002 MPCF report based upon current inflation and a strong bidding climate. This effectively brings the average cost to develop an acre of park land to $275,000. 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 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 a schedule that works with current staffing allocations and anticipated revenue generation as the City grows. The further acceleration of the schedule will 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 support for the proposed community center, gymnasium and pool complex at Forster Ranch Community Park or, as an alternative, at the La Pata/Vista Hermosa community park site, 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 lighted sports fields be built due to expanded participation, extended league programs that maximize the use of existing fields and limited existing fields with sports lighting. 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 opened this past summer, the second park (9.2 acres) is in the design phase and the third park (7.0 acres) is in the master planning phase. It is anticipated that both of these parks will be completed within the next 24 to 30 months.

Finally, there is a group of residents that desire to relocate an existing privately operated roller hockey facility to Richard T. Steed Memorial Park and another group of residents that desire to build a 2,000 seat amphitheater at either Richard T. Steed Memorial Park or La Pata/Vista Hermosa community park site. Both of these recreation amenities are unfunded and would negatively impact the Park Acquisition and Development Fund and General fund if alternative funding sources are not utilized (for development, operations and maintenance).

As noted in the main body of this report, when the City reaches buildout, the LTFP now estimates that it will be financially in the red from between $500,000 to $1 million annually. This means that ongoing revenue will not be sufficient to meet maintenance and operational expenditures (this shortfall would be further accentuated if new requests for park amenities such as the roller hockey arena and 2,000 seat amphitheater are added to the park system with the City funding a portion or all of the operations and maintenance). 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.

Future Community Center Gymnasium and Pool Complex

With respect to the future development of a 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 and their location (Forster Ranch Community Park or La Pata/Vista Hermosa community park site). The second year will be in the design and bidding of the structures. The final year will be for development of the buildings and pools. Staff does not recommend that this timeline be shortened since community input is imperative to reaching an appropriate consensus which then translates into a successful final product.

Additional Lighted Sports Fields—La Pata/ Vista Hermosa Community Park

There is an ongoing community desire for additional lighted sports fields. In 2002, City Council grappled with lighting existing community park sports fields to expand use. This became controversial as residents in close proximity to the proposed sports lighting argued that the lights would be detrimental to their quality of life. In the final decision, City Council opted to light some fields but not others. Therefore, there remains a shortage of fields.

With respect to the future development of sports fields, it is estimated that these amenities will take approximately three years to build as well. The first year is set aside for master planning since the fields will be built in un-master planned community parks. The second year is for design and bidding. The third year will be for development of the amenities and establishment of the turfgrass for use. The most reasonable parks in which to build these sports amenities are the Marblehead Coastal community sports park site or the La Pata/Vista Hermosa community park site. Marblehead Coastal community sports park site is not ready for development since the owner of the property has not been able to obtain approval from the California Coastal Commission for its overall development plan, of which the park is a part. The La Pata/Vista Hermosa property has 25 acres allocated for community park purposes. The property is approximately 54 acres in size (45 acres on the southwest corner and nine acres on the northwest corner of La Pata and Vista Hermosa).

Staff estimates that the master planning of the Vista Hermosa/La Pata community park site will be a major endeavor. This is one of the last community parks to be built within the park system and it will be the largest park in the City when completed. Therefore, it will be the repository of a number of important community recreational amenities. For instance, the Parks and Recreation Master Plan calls for a 15 acre sports park at this location. The remaining 10 acres are open for additional amenities, such as a 2,000 seat amphitheater (which is being promoted by a local theater group), skate court, or roller hockey arena (which is also being promoted by a local sports group). Other amenities may include group and individual picnic areas, lighted sports courts (such as basketball, tennis, volleyball) and a dog park. Then there are the 29 acres that are not specifically allocated to the community park. This acreage has a number of uses that the City Council will need to consider as the master planning of the property moves forward. It is anticipated that there will be substantial public input into the master planning and funding of this property with challenging decisions to be made by the Parks and Recreation Commission, Planning Commission and City Council.

Staff Capacity to Manage Park Development Program

Capacity to manage an enhanced park development program is a concern for staff. Park development projects, by nature, are complicated and require substantial public input. All of this results in large expenditures of staff time. Current approved capital improvement projects have maximized staff time allocations in both the Beaches, Parks and Recreation Department and Public Works Department. If a further enhanced park development program is desired with more parks to be built sooner versus later, then additional staff will need to be hired to provide the necessary project management.

Capital Needs for Parks

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

- Currently it is projected that the City will experience an $8.2 million shortfall in funds needed to construct the parks included in the MPCF through buildout of the City.

- 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 regarding 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.

Additional Issues

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

- Marblehead Coastal: Further delay of the Marblehead Coastal project will effectively delay the proposed new Senior Center, additional phases of Revitalization 2000 improvements, construction of the proposed community center, gymnasium and pool complex and development of the La Pata/Vista Hermosa community park site. All of these projects derive a substantial amount of their development and/or ongoing maintenance and operational funds from the Marblehead Coastal project.

- City Beaches: Water quality/sand replenishment project costs are extremely expensive and speculative and, currently, an ongoing sustainable funding source is not known. Federal and State mandates regarding water quality will impact future City expenditures if the current City wide water quality fee is not extended beyond the current five year sunset.

- Roller Hockey Arena: As noted above, there is community interest in relocating an existing privately owned and operated roller hockey facility from its current location (108 Calle Lago) to Richard T. Steed Memorial Park. It is estimated that the relocation cost for this facility will be between $250,000-$500,000, including development of office and storage space and provision of utilities. Ongoing maintenance and operational expenditures are estimated to be approximately $50,000-$100,000 annually depending upon the number of youth and adult leagues and tournaments provided. Revenue projections are estimated to offset between 60% to 100% of the expenditures. Operations can be provided through the City or a public/private partnership lease arrangement. Funding for this facility is not a part of the MPCF. Therefore, all costs associated with the development and operation of the facility would need to come from alternative sources outside of the Park Acquisition and Development Fund and General Fund so that the current $8.2 million shortfall is not further expanded. All of the above estimated costs are extremely tentative.

- 2,000 Seat Amphitheater: As noted above, there is community interest in building a 2,000 seat amphitheater within a City community park. It is estimated that the development cost of such a facility would range from $3 million to $7 million, depending upon the amenities provided. Revenue projections are estimated to offset 25% of expenditures. Operations can be provided through the City or a public/private partnership lease arrangement. Funding for this facility is not a part of the MPCF. Therefore, all costs associated with the development and operation of the facility would need to come from alternative sources outside of the Park Acquisition and Development Fund and General Fund so that the current $8.2 million shortfall is not further expanded. All of the above estimated costs are extremely tentative.

Facility Phasing

There are four City facilities included in the MPCF that are a primary 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 $1.5 million per year for operations),

2. Community Center, Gymnasium and Pool Complex at Forster Ranch Community Park or the future La Pata/Vista Hermosa community park (requiring $1.5 million per year for operations),

3. Marblehead Coastal community sports park (requiring $84,700 per year for maintenance) and

4. La Pata/Vista Hermosa community park (requiring $302,500 per year for maintenance).

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 (FY 2004-05); therefore, construction of the community center, gymnasium and pool complex, Marblehead Coastal community park and La Pata/Vista Hermosa community park will need to be delayed. The community center, gymnasium and pool complex will be delayed from FY 2005-06 to FY 2006-07. The Marblehead Coastal community park is scheduled to open in FY 2006-07 and the La Pata/Vista Hermosa community park is scheduled to open in FY 2006-07. 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.)

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, Opportunistic Sand Replenishment Policy, Sand Monitoring, Coastal Advisory Committee, and the Opportunistic Sand Replenishment Programs.

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 (FY2002-03) 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 in FY02 toward the first year of the Feasibility Study and was awarded a State grant from the Department of Boating and Waterways (DBW) in the amount of \$425,000. The City has tentatively received another grant from DBW for the current FY in the amount of \$150,000. The City will also receive approximately \$125,000 of in-kind credit for work performed for sand monitoring and an economic analysis. Staff will pursue further grant opportunities from the DBW in order to offset some of the remaining obligation if possible. The table on the following page summarizes the funding sources for the Feasibility Study.

Feasibility Study Funding Sources

Federal 50% share	$ 850,000
State grant for FY2001-02	$ 425,000
State grant for FY 2002-03	$150,000
City in-kind contribution	$ 125,000
City FY2000-01 cash contribution	$ 75,000
City remaining cash contribution	$ 75,000
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: Over the past two fiscal years, the Beaches, Parks and Recreation Department has been in the process of developing a management plan to administer the City's important coastal bluffs and canyons. This project consisted of hiring a Landscape Architect to develop the scope of work and performing an inventory of the coastal bluffs and canyons. This inventory was 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, was developed for property owners and is based on successful model templates used in Dana Point and other cities. The report and draft brochure was presented to the Coastal Advisory Committee in on April 11, 2002 and again in December 2002 and will be presented for a third review in January 2003. The project is anticipated to be ready for City Council review in April or May 2003.

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

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 involves 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. Initial drafts have been completed, but further research is required. Once the research is completed and parameters have been drafted, staff and the Coastal Advisory Committee will work to draft the policy or ordinance. 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 2003.

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. Since that time, two additional surveys have been completed for the spring and fall of 2002.

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. Other duties include serving as a sounding board for citizen input on matters relating to the Coastal Zone and to provide City Council with updates or pertinent information regarding coastal management practices and issues. These functions are more fully described in San Clemente Municipal Code Section 2.42.020.

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 the Ole Hanson Room at the Community Center, located at 100 N. Calle Seville.

Fiscal Impact: No impact. The City Council approved $8,000 in the current FY2002-03 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.

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. Work efforts have now been shifted to the completion of the generic opportunistic permit. The permit process for a streamlined opportunistic replenishment permit should be completed by June 2003.

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.

Environmental Program Recommendation:

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

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on February 04, 2003.

State Impact Financial Analysis Update

Objective

To update impacts of the loss of local control over local revenue and the associated shifts in revenue to the State of California due to a history of 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. Last fiscal year 2002-03, the State experienced a budget deficit of $23.6 billion and for fiscal year 2003-04, the State is anticipating a deficit $34.8 billion over the next 18 months.

The State's fiscal situation has worsened for a number of reasons, including the fact that the governor did not set aside enough money when the economy was healthy and instead expanded government programs which over time resulted in an imbalance of revenue and spending. Also, most of the easy, one-time budget solutions or essentially a series of stop gap measures which included extensive borrowing to produce a $98.9 billion budget were used to close the fiscal year 2002-03 budget gap. The governor relied on speeding up some tax collections and pushing expenditures into the next fiscal year while these actions did little to help the budget deficit concerns in future years.

In December 2002, the governor released his Mid-Year Spending Reduction Proposals. The governor proposed a number of current-year General Fund spending reductions and other adjustments totaling $3.4 billion and these reductions and adjustments would likely result in additional budget year savings of $6.8 billion, totaling $10.2 billion in savings over two years. The governor has proposed reductions in funding for health care programs, education, housing, and more. More actions have been proposed to bring the budget into balance, such as increasing the cost of vehicle license fees and reducing the amount of the cities' vehicle license fees, which, if approved, represents a loss of $2.1 million annually for the City of San Clemente for fiscal year 2003-04. The proposed cuts would result in a direct $1.43 billion impact on programs affecting cities and if the VLF reductions are approved, the impact would be an additional $4 billion reduction for local government over the next 18 months.

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. The impact to the City of San Clemente and its citizens has been significant. Over the years but most recently in the early 1990's when the entire State suffered from a lengthy five-year recession, San Clemente suffered serious consequences due to State shifts of local revenue.

The impacts to services were severe for San Clemente residents and to compensate for the reductions due to the State take aways, service user fees increased. Layoffs of City employees

were inevitable and many services, formerly provided by employees, were contracted. 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 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 in a bind having to search 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 devastating considering the City's increasing service demands and growing population which was 54,919 in January 2002 and is expected to reach 65,000 by 2015.

Respective roles of State vs. Cities

After close examination of the fiscal behavior of the State during the preparation of the State Impact Financial Analysis for the Long Term Financial Plan last year, it became clear that cities are perpetual creatures of the State. The State's uncontrolled spending became apparent and is clear again this year as the State faces further budget deterioration. This was also the case following fiscal year 1991-1992 when California then Governor Pete Wilson faced the challenge of closing a staggering two-year budget shortfall of $6 billion to $10 billion. In fiscal years 1992-1993 and 1993-1994, in response to the serious budgetary shortfalls, the Legislature and administration turned to local government and permanently redirected over $3 billion of property taxes from cities, counties, and special districts to schools and community college districts.

Another factor making cities creatures of the State is the form of government. The City of San Clemente is a General Law City with a Council-Manager form of government. This form of government provides for the Council, as the legislative body, to set policy, approve the budget, pass local laws which are incorporated into the Municipal Code, and to give direction on matters concerning the City. The City Manager, appointed by the Council, is responsible for carrying out Council policy and direction, and supervising the administrative staff and functions of the City. The State is divided into counties which are legal subdivisions of the State and, most importantly, Article XI of the California State Constitution dictates what cities can do.

The root cause of the budget crisis has been misdiagnosed by State lawmakers, economic analysts, and the media. Most blame the crisis on a variety of economic, political, and fiscal factors all beyond the State's direct control. Those factors include (1) a national economic recession that has drained the State's revenue, (2) citizen resistance in the 1980s to new State taxes, (3) steep declines in federal aid during the 1980s, (4) new spending mandated by Washington, and (5) court-imposed spending requirements for education and corrections. Although each of those factors may be partially responsible for the record red ink in the State, they are of minor significance compared with the primary culprit: a decade of runaway State government expenditures.[1]

Despite Proposition 13, the Gann Amendment, and other tax limits enacted in the late 1970s, California saw revenues grow by a healthy 8 percent per year over the 1980's. The downside of this revenue growth was that expenditures climbed by 11 percent annually. A bipartisan gasoline tax hike of 9 cents a gallon was narrowly approved by voters in 1990 on the basis of arguments that the State's 1978 expenditure limitation had starved the public sector. Politicians managed to obscure the reality that, since 1983, the State budget had expanded by 50 percent, to $54 billion, and that State spending had risen from 7.5 to 8.5 percent of Californians' personal income.[2]

State officials, including the governor, continue to repeatedly insist that the States' fiscal plight is a result of factors beyond their control--including federal spending policies and the downturn in the national economy—and in response find ways to make up the budget gap through means that adversely impact local government.

Fiscal relationship between Cities and the State

The relationship between local government and State government is complex. In most States, local governments make decisions about how much property tax revenue they wish to raise. For this reason, among others, this fiscal relationship is more complicated and ambiguous than in most other States.[3] In California, the property tax base and determination of the property tax rate are out of local control and have become more restrictive over time as a result of Proposition 13 and a series of other voter-enacted initiatives that have greatly reduced both local and State discretion and property tax revenue. By fiscal year 1995-96, real property taxes per capita were still 46 percent lower than their 1977-78 level. Over time the State legislature adjusted the allocations of the property tax in response to local pressure and State fiscal emergencies. After reallocating over $3 billion of property taxes away from counties, cities and special districts to school districts, the State proceeded to decrease State aid to schools and the result was increased fiscal problems for cities and other non-school jurisdictions. As a result, cities have had to offset the reductions in intergovernmental aid with a wide variety of user fees and dedicated tax revenues for development.

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[1] Cato Institute, Policy Analysis, Policy Analysis No. 152. "State Spending Spurge: The Real Story Behind the Fiscal Crisis in State Government." May 23, 1991, Writer: Stephen Moore.

[2] Cato Institute, Policy Analysis, Policy Analysis No. 152. "State Spending Spurge: The Real Story Behind the Fiscal Crisis in State Government." May 23, 1991, Writer: Stephen Moore.

[3] Chernick, Howard, Professor of Economics Hunter College, City University of New York and Andrew Reschovsky, Professor of Public Policy and Applied Economics. March 2001. "Lost in the Balance: How State Policies Affect the Fiscal Health of Cities." University of Wisconsin-Madison.

State policies affect the fiscal condition of cities in many ways. On the revenue side, these include the amount and distribution of State aid, the types of taxes cities are allowed to impose, and the State's rules for the geographic distribution of user fees and taxes collected. California cities have become less dependent on traditional municipal funding sources, like sales and property taxes, and far more reliant on alternative financing sources like local generated taxing measures such as utility taxes and fees for sanitation, sewage treatment, and solid waste removal and an increase in fees for the urban runoff management plan which was approved by voters in October 2002. These actions have created a stronger relationship between service delivery responsibility and control over revenue sources to pay for them.

Local government's dependence on sales taxes is obvious when considering how many revenue sources have their proceeds restricted to certain types of uses. For example, City enterprise revenues--the rates and service charges paid by users of City-provided water, electricity, or other such utility-like functions--normally must flow back into the operation of the enterprise in question. Similarly, many State subventions and federal grants are earmarked for particular functions or programs. Sales and property taxes (along with Vehicle License Fee revenues) are the major single sources of discretionary income that may be used for general purposes by cities.

After years of the State legislature not requiring taxation on Internet purchases by carving out numerous exemptions to the sales tax, State and local governments are seeing a decreasing sales tax base. The California Budget Project determined that taxable sales as a proportion of personal income in the State fell by more than a third between 1950 and 1995.[4] These trends have further constrained California's local governments' ability to squeeze any growth from this desirable revenue source. Not surprisingly, the ratio of local sales tax revenues to personal income in cities has declined since the 1970s. Consequently, with the State fiscal crises before us, legislation for Internet taxation is gaining support.

What has changed?

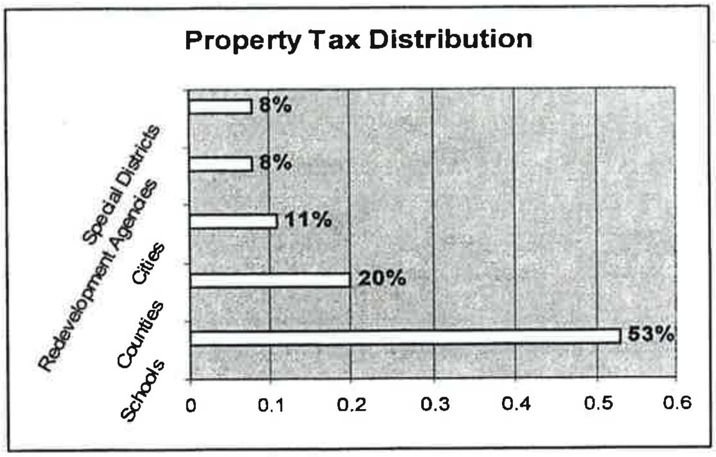
Voter actions through initiatives have also more often than not had a negative impact on local government. California has the most liberal initiative process in the country so this tool is used often, with confusion and misunderstanding of the consequences that predominantly hurt government. The various voter initiatives that have had the greatest impact on local government are examined below.

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

[4] Lewis, Paul G. and Elisa Barbour. July 1999. "California Cities and the Local Sales Tax." Policy Institute of California, San Francisco, CA.

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 in 1978 to 43 percent in 2002. Since the law has not changed, the percentage of total revenues that are self-controlled in 2002 is the same as the percentage in 1995.

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. The initial impact of the $1.4 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. These property tax shifts for San Clemente comprised of $7,339,680 for fiscal year 1992-93 and $6,569,460 cumulative for fiscal year 1993-94. There has been no sign that the annual ERAF shift is going to end, especially if the State looks to local government to balance the budget and to meet its statutory requirement to fund schools.

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 undergoing a comprehensive review of all programs provided by the general fund and 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, which involved contracting public safety services (police and fire), prisons/jails, some parks and recreation operation and maintenance positions, some parks and landscaping and maintenance positions, fleet management and vehicle maintenance, some building and grounds maintenance and building security positions, solid waste collection services, some street repair positions, some tree trimming and planting services, and parking meter maintenance and collection positions. Currently the City has 174 FTE's and does not plan any increases in staff for the next fiscal year.

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 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, cities were not required to obtain ballot approval before levying street lighting assessments; only City 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.

The impact of Proposition 218 on the City was severe. In fiscal year 1997-98, the City made 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.

General results/trends due to initiatives and State actions

State actions have imperiled cities causing them to lose local control to the hands of the State. Counties and schools have become totally dependent on the State for funding, and today most State support now comes with restrictions on spending. City funding too has seen a change and is now more subject to fluctuations in the economy and development activity causing instability. Several development-related revenue sources are declining and are expected to stabilize at normal levels over the next few years.

Local government is doing all that it can with the resources available and many cities have looked to offset their declining share of local revenue by finding creative ways to pursue alternative sources of revenue, i.e. increase the level of fees charged for residential development, seek increases in sales tax revenues by encouraging retail businesses to locate within their jurisdictions, and encouraging development. There is more interest and reliance today on

redevelopment and cities are more prone to fiscalization of land use, pursuing sales tax generating retail uses rather than housing/job generating commercial development.
The quest for sales tax dollars has led local governments to establish their development/land use decisions in favor of retail because of the net tax revenue they will generate for the City. The local sales tax is one of the few revenue sources with the potential for substantial growth as a result of City decisions and can be helpful in replacing City revenues that are taken by the State. The result is a "fiscalization" of land use that can have negative consequences for regional land-use planning. If cities are not careful to balance retail with other types of development, they run the risk of sacrificing the long-term fiscal and environmental health of communities for short-term gains in sales tax producing land uses. The City of San Clemente has remained cautious and ensures balanced sources of revenue and has never been dependent on sales tax revenue.

The State flexibility for spending has been reduced given mandates for funding levels in schools and spiraling cost for prisons and mandated social, and health programs, limiting the State funds for local programs and projects. Therefore, local governments have grown to rely on development fees and financing arrangements to provide public facilities such as schools, community centers and roads. San Clemente enters into developer agreements with developers who 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 and infrastructure needs they otherwise would not be able to. Such mechanisms have become far more prevalent and important as the State and federal governments have withdrawn from providing funds for local public infrastructure.

Local response: Finding ways to replace lost revenue

The City of San Clemente's reaction to the State's taking of local revenues was to increase fees where appropriate in order to replace revenues lost and continue providing necessary services. These actions and the end results have had both positive and negative outcomes. Additional options are very limited without extreme consequences.

<u>Business License Fee Increases</u>

Business license fee increases took place on July 3, 1991 when the City Council adopted Ordinance No. 1055 and fees were increased significantly, creating a much needed increase in this revenue stream. Caps on fees were removed. As an example of the growth in this revenue source, by close of the 1988 calendar year the City collected $250,000 for approximately 2,500 business licenses and, by the close of the 2002 calendar year, the City collected $925,000 annually for approximately 6,000 business licenses.

<u>Golf Fund Transfers</u>

As additional means of increasing revenue to the general fund for recreation programs, the City of San Clemente transfers $425,000 annually from the golf fund to the general fund. This was implemented in fiscal year 1996-97 due to City-wide financial problems and is still in place today. The financial problems resulted from the passage of State Proposition 218 which stated that certain fees cities were charging were in fact taxes and to pass taxes a majority vote was required. A subsequent vote on a utility tax (Measure A) in San Clemente failed and prompted the need to transfer money from the golf fund to the general fund to cover recreation programs. Many general fund services were simultaneously cut to make ends meet.

Street Assessment District Formed

The City also created the Street Assessment District which was adopted by the City Council in July 1995. This program was established to provide a designated fund for the rehabilitation of City streets by restoring approximately 60 miles or one-half of the City's street system over 18 years. The program is funded by a combination of revenues from (1) Street Assessment District 95-1, which assesses all developed properties (the amount assessed totaled $760,000 in fiscal year 2002-03); (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.

Storm Drain Fee Increase

The City's efforts to control storm water and urban runoff pollution to improve local water quality needed to be increased after stringent regulations were imposed by the San Diego Regional Water Quality Control Board (SDRWQCB). In response to the City Council's direction, staff pursued a successful mail ballot election to increase the existing storm drain fee as funds were not available to cover the costs. The "Clean Ocean Water" Initiative passed by a 13.2 percent margin, or by 1,084 "Yes" votes. Of the 8,167 property owners whose ballots were validated, 4,627, or 56.7% voted "Yes", while 3,540 or 43.3% voted "No." The revenue collected from the fee increase funds various activities such as public education, increased enforcement, water quality monitoring and structural urban runoff treatment projects – all geared towards improving local water quality. The specific activities outlined include:

- *Increased public education;*
- *Dry weather water quality monitoring;*
- *Structural urban runoff treatment projects;*
- *Installation of systems to clean and filter storm drain runoff;*
- *Increased street sweeping;*
- *Increased storm drain capital projects; and*
- *Two new water quality inspector/enforcement staff positions.*

The amount of the new fees collected total about $1.7 million annually or $8.5 million over the five-year fee implementation period. If the ballot initiative had failed, the City would have been faced with finding alternatives to fund the new requirements, which meant possible staff and service reductions.

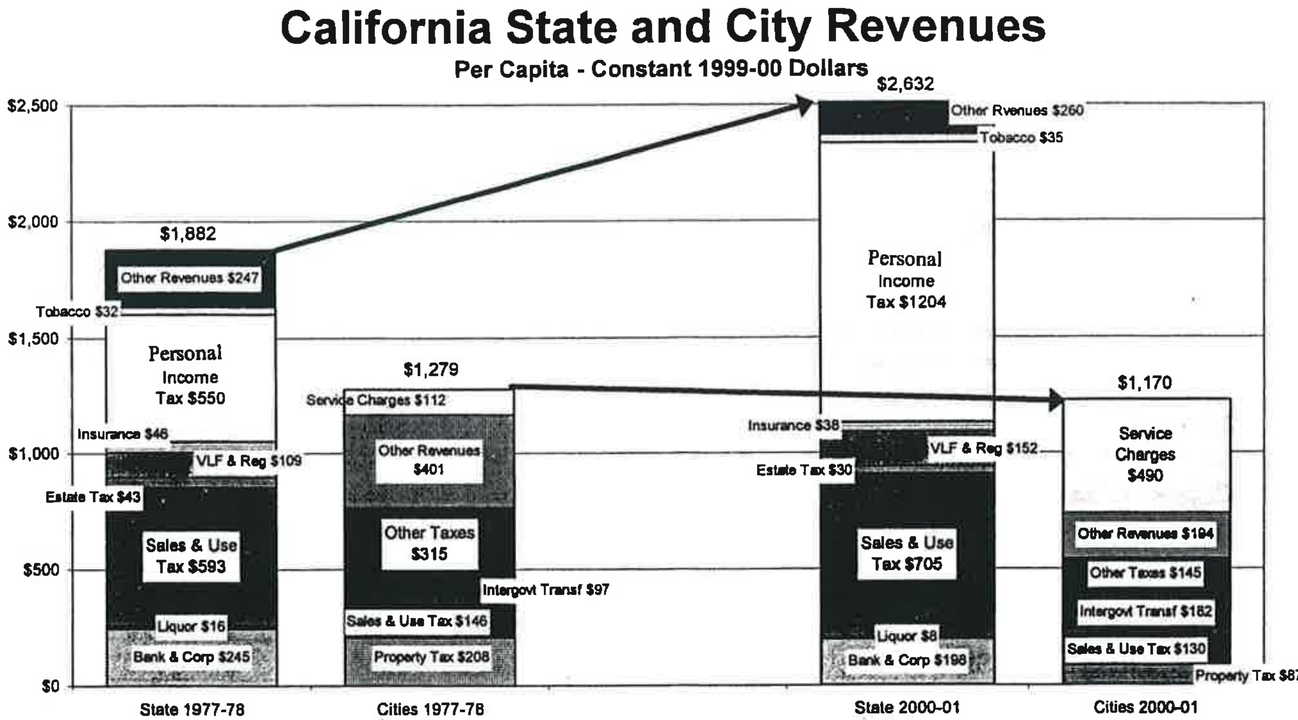
Greater Focus on Sales Tax Revenue

The City of San Clemente has developed a heavier reliance on new development to meet long term needs. The Marblehead Coastal project for example would bring over $2 million in annual sales tax revenue to the City. This project proposes to develop factory designer clothing outlets, a movie theater, a large bookstore and several restaurants and retail shops and single family homes once the plan is approved by the Coastal Commission. The City's Wal-Mart and Lowe's shopping center, houses various retail stores and an Albertsons grocery store, which since 2000 has contributed sales tax dollars to the City. Other smaller centers have been developed and rehabilitation of the older centers such as the K-Mart Center and the Pico Plaza has helped increase the City's sales tax base.

Local impacts of State revenue shifts

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 $20,710,640 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 from the League of California Cities indicates, cities' revenues have actually dipped below fiscal year 1977-78 levels while the State's have increased dramatically when calculated in constant 1999-00 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. 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 limited today, especially as a result of Proposition 218, in their ability to raise needed revenue, relying primarily on increases in fees for its services, such as recreation programs and residential development fees.



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 which equate to a $4,603,830 cumulative loss for San Clemente and a $320,520 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 1981-2003

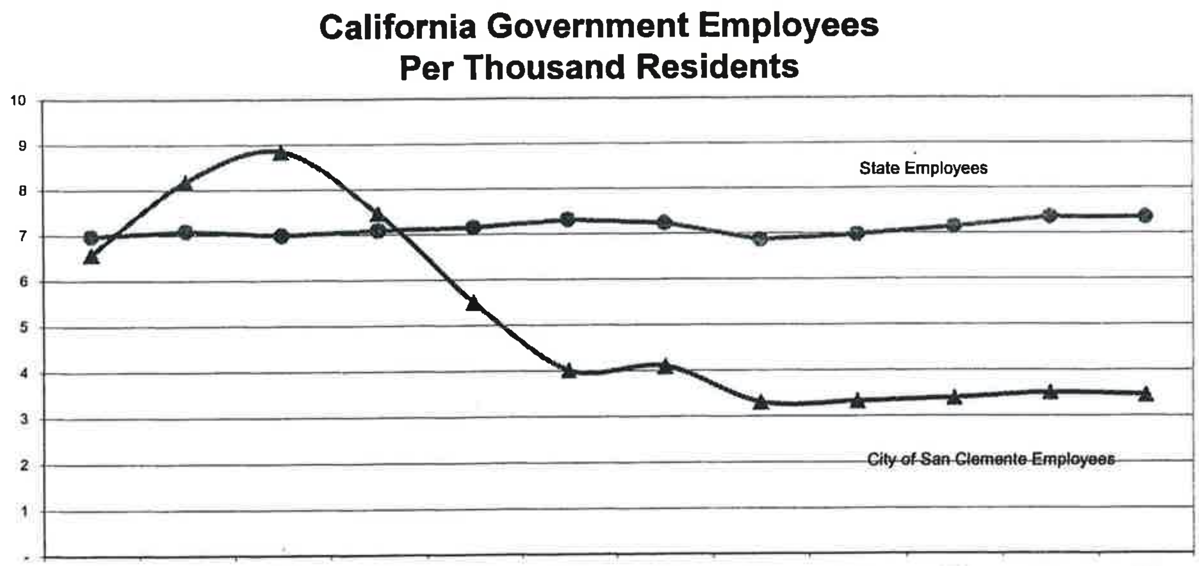
Revenue Item	FY Effective	Initial CPI	Initial Year Loss	Continuing Annual Loss	02/03 Cumulative Loss
State Continuing Losses					
Liquor License Fees	81-82	272.4	$20,410	$40,690	$674,940
Highway Carries Uniform Business Tax	81-82	272.4	$6,510	$12,980	$215,260
Financial Aid to Local Agencies	81-82	272.4	$42,514	$84,760	$1,405,910
Business Inventory Exemption Reimb Repealed	84-85	311.1	$51,890	$90,590	$1,359,120
Admin Costs of Cigarette Tax Subventions	90-91	400.9	$12,484	$16,910	$189,780
Cigarette Tax Subventions	91-92	413.0	$33,544	$44,110	$462,440
50% of Non-Parking Fines	91-92	413.0	$103,825	$136,530	$1,431,330
Remaining Cigarette Tax Subventions	92-93	425.2	$20,531	$26,220	$254,980
Trailer Coach/Mobile Home Fees	92-93	425.2	$3,334	$4,260	$41,400
ERAF Property Tax Shift	92-93	425.2	$591,000	$754,870	$7,339,680
ERAF Property Tax Shift	93-94	436.8	$591,000	$734,830	$6,569,460
Subtotal				$1,946,750	$19,944,300
State One-Time Losses					
Vehicle License Fees	81-82	272.4	$219,186		$437,000
Vehicle License Fees and Other Subventions	82-83	289.1	$175,315		$329,340
Subtotal					$766,340
Totals				$1,946,750	$20,710,640

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: US Department of Labor, City of San Clemente Budget books, 1994 & 1995 Trend Reports.

As a result of the ongoing revenue shifts to the State, cities have had to discover more innovative means of providing services with less staff and less money, yet trying to maintain the same standards in quality. 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 has 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.

In addition, the State budgets have grown significantly over the last ten years while the local government budgets have not kept up with the population growth. The following chart shows that the City employees per thousand residents have dropped significantly from 6.58 in 1990 to

3.46 in 1992 while the State employees per thousand residents have increased from 6.98 in 1990 to 7.36 in 1992.



Sources: US Census Bureau, State Department of Finance, League of California Cities and the City of San Clemente Budget Books & CAFR.

Potential Threats to Local Government

State Budget Shortfall

Just two years ago the State of California had a $14 billion surplus. Much of this revenue growth came from taxes on gains in the, then, rising stock market which began to decline leading to reduced State income tax receipts from capital gains and stock options and has resulted in substantially lower personal income tax, sales tax, and corporation tax revenues. In the governor's first term, California's budget went from a record surplus to a record deficit with State revenue plummeting by 15 percent, the largest drop since the Great Depression.[5] The energy crises didn't help matters as the State's cash reserves were being depleted by $6 billion on spending for power purchases.

During fiscal year 2002-03, the governor initially estimated a budget deficit of $12.4 billion that swelled to $23.6 billion. Fortunate for cities, the State did not turn to local government to balance its budget and meet the State's statutory requirement to fund schools. The fact that it was an election year influenced that decision and cities were spared. Now that deficit is $34.8 billion and local government is targeted for the State's bailout.

During Governor Davis' first term in office which began in January of 1999, the surging stock market created a surplus of $8 billion, then State income tax receipts just from taxpayers exercising stock options and taking capital gains on the sale of assets more than doubled from

[5] Rabin, Jeffrey, L. October 29, 2002. "State Spent its Way into Budget Crisis." *The Los Angeles Times.*

nearly $8 billion in fiscal year 1998-99 to $17.6 billion in fiscal year 2000-01.[6] State spending over three years increased by 26% (from $15 billion to $56 billion and more than double the rate of inflation and growth in population) mainly because the State treasury's cash flow was plentiful and the governor and lawmakers from both political parties increased State spending to expand programs, especially educational programs that forced the State into future spending. The State also embarked on a major expansion of health care coverage for uninsured children, more college scholarships and raises for State employees, while lawmakers also refunded money to taxpayers in the form of reduced motor vehicle fees. More recently, the State controller was forced to take out a $7.5 billion payday loan to avoid running out of cash to pay its bills.[7] Because the State used short-term revenue growth that could not be sustained (income tax/capital gains) to address program needs and political interests, the result was an immediate economic crisis with the predictable collapse of the stock market gains in recent years. The State will likely revisit their "shift and shaft approach" to budget crisis management by redistributing revenue under their control or delegating program responsibilities.

The current State budget crisis is the most serious in history as the State faces an immediate $6 billion shortfall and a shortfall of $21 to $25 billion next year and over $70 billion over five years. To deal with the immediate shortfall, the Governor proposed spending reductions and budget adjustments totaling $10.2 billion over the next two years. The League of California Cities reviewed the proposals undertaken and calculated a direct $1.43 billion impact on programs affecting cities. Changes are in order to establish a new State spending limit to ensure that the State doesn't find itself facing this sort of budget crisis ever again. If the budget deficit estimates hold true, the Governor's proposals represent only 40 to 50 percent of the total expected budget deficit. More actions are needed to bring the budget into balance. The list of items known so far that will most likely impact cities are:

1) Local Street and Road Maintenance - Funding in the Traffic Congestion Relief Act (AB 2928): Assembly Bill 2928 implemented the Traffic Congestion Relief Plan and made a major new commitment to ongoing transportation funding. The Transportation Investment Fund accounts for all the sales tax on gasoline, which now goes to the State General Fund. AB 2928 dedicates gasoline sales tax revenues to transportation for five years, provides more funding for local streets and roads, increases funding for the State Transportation Improvement Program, and adds funding to the Public Transportation Account for transit operations. The State's proposed elimination of second, third, and fourth quarter 02-03 apportionments to local agencies for street and road maintenance totals $90 million. If the State follows through with its plan for budget cuts and adjustments which include reducing Local Street and Road Maintenance Funding in the Traffic Congestion Relief Act, the City of San Clemente could lose approximately $106,900 for fiscal year 2003-04 and $106,900 for fiscal year 2004-05 if the State cuts back the AB 2928 funding. The City has received

6 Rabin, Jeffrey, L. October 29, 2002. "State Spent its Way into Budget Crisis." *The Los Angeles Times*.

7 Demarco, Peter. May 13, 2002. "Don't Raise Taxes Or Cut Education Funds To Solve Your Budget Crisis, Assembly GOP Warns Davis: Republicans Call For New Spending Limits To Prevent Another Fiscal Train Wreck." California State Assembly Republican Caucus.

$61,321 in AB 2928 funds for the current fiscal year 2002-03 and is slated to receive $100,000 in fiscal year 2003-04.

2) Local Flood Control Subventions: Reversion of $58.1 million from this program (out of $128.3 million appropriated in the past three years to the General Fund).

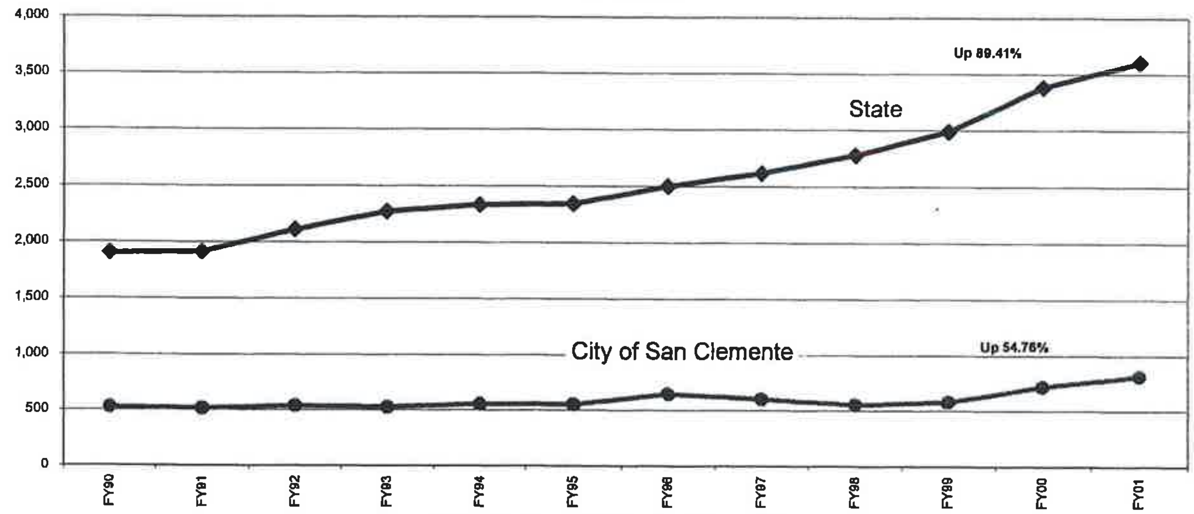
3) Public Library Foundation: Reduction in the Public Library Foundation per capita formula grants to local libraries totaling $15.8 million. The City of San Clemente will not be impacted by these reductions but the County of Orange, the agency that operates the libraries, will be affected.

4) Redevelopment Agencies: Immediate transfer of any balances in their Low and Moderate Income Housing Funds that were unencumbered on December 1, 2002 to the General Fund totaling $500 million: The City of San Clemente's City Attorney provided his legal opinion and stated that it would take a new State law for the State to take any of the housing funds from the RDA; therefore, it is unlikely that the State will be able to take any funds this fiscal year. The City of San Clemente has approximately $600,000 available in the City budget and $300,000 of this amount is being proposed for 10 of the senior housing units at the Vintage Shores, by February or March 2003.

5) State-Funded Mandates totaling $769.4 million: Continue the suspension of payment for various budget years and prior year reimbursable non-Proposition 98 mandates.

Despite experiencing a budget crisis and economic recession that hit California hard for about five years, the State continued to expand costs and programs in the 1990's at a time when cities were forced to cut back and be more efficient. Since 1990, the City of San Clemente has seen a 54.76 percent increase in its general governmental spending per resident while the State government has experienced an 89.41 percent increase.

California General Government Spending
Per Resident



Note: General Fund Revenue includes General, Special Revenue and Others.

SOURCES: State CAFR, State Dept of Finance (population #s), League of California Cities and the City of San Clemente CAFR

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). Because of the impending $34.8 billion State budget shortfall, the governor proposes major tax increases on the vehicle license fees. If the vehicle license fee were returned to 1998 levels, the average annual fee would go from $64 per car to $148.[8]

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 the State's budget crisis, it has been proposed by the governor that the State should reduce the level of these backfill funds provided to local government.

If the VLF backfill were shifted to the State, cities and counties in California would lose an estimated $4 billion in revenue. The City's VLF currently represents 8 percent of the City's general fund revenue. There is no definite answer yet as to whether the VLF backfill will be targeted as the proposal must be voted on by the legislature. If the governor were able to enact the revenue shifts in February 2002 as proposed, San Clemente would lose $1 million in the

[8] Quach, Hanh Kim and John Howard. December 19, 2002. "Davis projects deficit of $34.8 billion." *The Orange County Register.*

current fiscal year. This annual reduction represents a 67.5% cut to this critical $2.8 million revenue source. If implemented in the next fiscal year 2003-04, the City will lose $2.1 million of its total fiscal year 2003-04 VLF tax revenue and backfill which is estimated at $3.2 million combined. If cities and counties lose this revenue, they must find a way to keep their services and programs going or make reductions, while balancing their own budgets. Any reductions will seriously impair the ability for City officials to keep their communities safe and strong. Overall, California cities will lose approximately $1 billion of this critically needed revenue if the State shifts a portion of the vehicle license fees and counties will lose $3 billion.

Cities and counties already operate on very lean budgets, so these cutbacks will negatively affect services that impact all members of the community. Some communities will cut back youth after-school programs, some will curtail senior center activities, and others will eliminate road maintenance programs. Many will be forced to raise fees for recreation programs, permits, and licenses.

2% Assessment Appeals Case

A court case filed during fiscal year 2001-02 in Orange County that limits assessed valuation increases is of potentially great but as yet uncertain significance. For properties that had previously been granted a reduction in assessed value to reflect reduced market values, county assessors routinely increased assessed value by more than two percent in a single year when the local real estate market had recovered. Citing Propositions 13 and 8, in December 2001 the Orange County Superior Court ruled this practice unconstitutional.

Moody's Investors Service believes this case could potentially have important long-term revenue ramifications, as over time it could dampen the growth of the assessed value base upon which property taxes are levied. Also, if prior years' increases are reversed, a limited number of jurisdictions could suffer a year-to-year decline in property tax revenues. Property tax refunds might also be required, putting additional pressure on local governments' budgets. The effects would be felt by all local jurisdictions that receive property taxes: counties, cities, school districts and many special districts.

County assessors in California uniformly interpret the provisions of Proposition 13 and 8, adopted by voters in 1978, as permitting assessed value growth in excess of two percent when reassessing a property that had previously been granted a reduction due to market value declines. Their methodology conforms with implementing legislation passed in response to Proposition 13 and 8, and codified into the California Revenue and Taxation Code.

Pursuant to the code, county assessors set the taxable value of real property as the lower of market value on the lien date or a figure that the Orange County assessor calls the Factored Base Year Value (FBYV). To establish the FBYV, first the base year value is set (at the market value when purchased for all property acquired after 1975), then it is increased annually by the value of any new construction plus the lesser of inflation or two percent. Assessors keep track of the FBYV, and each year compares it to market values. When a property's market value falls below its FBYV, the property is granted a reduction in assessed value. This may be the result of a property owner appeal, or may be initiated by the county assessor. Each year the assessor compares the property's FBYV with its market value, and as soon as market value exceeds the FBYV the assessed value is restored to the FBYV. Assessors thereby "recapture" the market decline. The adjustment to allow the recapture may result in a rise in assessed value greater than two percent in a single year.

In the case before the Superior Court, the Orange County assessor had increased the property owner's value by approximately four percent in a single year. The Superior Court found this to be unconstitutional, stating that it violated the requirement that "in no event shall the percentage increase for any assessment year...exceed two percent of the prior year's value."

This court's decision contradicts an unpublished decision at the Appellate Court level in 1994. Initially the Orange County Superior Court case applied only to the individual taxpayer that brought suit, although on December 12, 2002, Orange County Superior Court Judge Watson ruled that the case should be certified as a class action case and open to those who might be eligible to file as part of a class action lawsuit. Judge Watson set a January 30, 2003 court date for the court to determine how property owners will be notified of this decision. It is unknown at this point if the County Assessor's computer systems can select those property owners whose property taxes were increased at a rate of more than 2% in one year using the recapture method or whether another method to locate these property owners will have to be used. The process will be determined at this court hearing. It is expected that the County of Orange will appeal the decision.

Differing circumstances combined with differing interpretations of the potential impact of the case have led to widely varying estimates by counties of the potential revenue impact. Individual counties' estimates range from several hundred thousand dollars to many millions. It is too early in the process to know the exact consequences of this litigation or how far in the future they might occur, but according to the Orange County County Counsel, the estimated allocation of refunds to homeowners in San Clemente is $1,004,105 for this fiscal year and the estimated future reduction in the allocation of the City's secured tax base is $512,149.

Conclusion

The State of California's budget deficit of $34.8 billion dollars over the next 18 months is an unprecedented deficit, which adds up to about $1,000.00 for each of the State's 34 million residents. This means local government will again be facing a difficult road ahead and there are no quick and easy solutions. Despite local leaders' decisions about their respective communities and their approvals of local budgets, the decisions made by State and federal legislators frequently affect the amount of local taxes paid by citizens and the amount and kind of control that local governments have over local circumstances.

Budget Proposals Not Enough

Even if the governor's budget proposals were adopted and work, the State would still face a shortfall because of overstated revenues and understated expenditures. The budget problems present critical challenges to healthcare, social services and education as a result of the State cutting funding. As preliminary information is released from the governor, the solutions to cover part of the shortage have some impact on local government and the proposed cuts are not yet final, leaving local government fearing the worst. If severe, it is expected that even counties will drop non-mandated social, health service and other programs due to loss of State support. These programs include library, homeless programs, animal control, youth programs, job training, and employment programs. The impacts will be felt painfully by cities, increasing their pressure to respond with support to those individuals who need access to these programs.

Having experienced cyclical downturns in the economy in years past, the State must be better prepared by setting aside reserve funds for the downturns so it is better able to handle the deficits without borrowing billions from the future to pay today's debts. As a result of the current economic downturn with an unemployment rate of 6.5 percent, demand for State services and financial assistance has grown significantly. All of these factors will require a strong State-local government partnership in order to solve the statewide issues that are increasingly impacting the budgets of both cities and the State.

Unforeseen Expenditures

Unforeseen incidents, such as that of 9-11, caused local governments to face new costs to increase security within their municipalities. The City of San Clemente's costs totaled approximately $25,000 by the end of fiscal year 2001-2002 to provide increased security lighting outside of City buildings, security lock systems on buildings, police and fire services, computer security upgrades and more. Although congress passed the "Homeland Security Act of 2002", it does not include authorization of the President's $3.5 billion first response initiative. That initiative would provide resources for emergency planning, training, exercises, and equipment for local police, fire and medical services. So, local government must plan, budget and prepare for the unforeseen expenditures, however, to do so effectively, local government needs the first-responder funds among other resources promised to them. The City of San Clemente did not incur expenditures on 9-11 related security measures in fiscal year 2002-03 and does not anticipate any expenditures for fiscal year 2003-04.

Conservative Local Fiscal Policies

The numbers are clear. At the local level, employee numbers have decreased while the opposite is true for the State. Each year local government is asked to provide more with less. The City of San Clemente must address service demands resulting from growth and cannot continue to slash municipal spending without facing unfavorable consequences.

Having weathered rough times due to the continuing State revenue shifts and past economic downturns, the City of San Clemente remains fiscally conservative, allowing it to plan for the future. This position however, will be jeopardized if the State takes more money from the City. Continued constraints on the ability of local government to generate revenues will become that much more important if the State continues to take away local revenue. 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, making the current fiscal environment very threatening as cities are yet to know the full impact of State take aways.

Unquestionably, the State fiscal relationship with local government is dysfunctional, requiring a major overhaul, and 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. Immediate reform, however, is unlikely given the complexity of the State's budget crisis and the fact that the State has no resources to balance the impacts over time. The State went from a $14 billion surplus to a $34.8 billion deficit in just a two year period. This budget year the State will likely revert to their practice of taking local revenue and delegating responsibilities that will require a local response, such as the following:

LOCAL GOVERNMENT RESPONSE TO STATE TAKE AWAYS

LOCAL RESPONSE	IMPLEMENTATION
Aggressive and sophisticated lobbying	- Letters to legislators and governor. - Mayor/Councilmember visits to Sacramento. - Partnership with League of California Cities.
Educate the public as to what is happening and how they will be affected utilizing a variety of means of outreach and educational tools, including	- Presentations at local service clubs and business organizations (Kiwanis, Rotary, Chamber of Commerce, Downtown Business Association). - Briefings to Councilmembers at televised City Council meetings. - Articles in the City's quarterly magazine and the Sun Post News. - Information posted on the City's website.
Form coalitions	- Coordinate with interest groups that have influence in Sacramento including labor, business, environmental groups and organizations, schools. - Continually inform them of mutual interests.
Seek constitutional protection from further State takeaways	- Work with other local governments and the League of Cities to get a ballot initiative passed that would change State law and allows local governments to retain local dollars.
Hold State electeds accountable	- Meet directly with State electeds. - Communicate through newsletters to constituents locally and through the League of Cities. - Inform the public of direct or secondary impacts of State actions and how their elected representatives voted.
City must continue long term planning to ensure stability during these times	- Fiscal policies including adequate reserves - Balanced revenue sources through development and land use control. - Balanced operating spending and revenue growth.

Long Term Financial Plan

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 February 04, 2003.

Development Process Quality Assurance

Objective

The objectives of this report are as follows:

1. To inform the City Council of the growing interest among the Planning Commission and staff to improve their skills and abilities in making design-related decisions of development projects that are subject to design review, particularly those of Spanish Colonial Revival architecture; and

2. To initiate a process by which the Planning Commission and staff will recommend specific improvements to the planning, development and review process of Spanish Colonial projects, with the goal of reducing the number of development projects that are not built according to approved plans.

Summary

In an effort to assure development projects are reviewed and constructed as they are approved, the Planning Commission and staff have become aware of a need to improve the process by which development projects are reviewed and constructed. This need is particularly evident in the review of projects with Spanish Colonial Revival architecture. Rather than focusing on legislative solutions that would require changes to the General Plan and/or other policy documents, this report identifies and discusses thirteen "Opportunity Points," or stages, in the development process, where modifications may be implemented. Potential modifications are identified in twelve of the Opportunity Points, and one point has already been implemented. Examples of existing opportunities are:

- Mandatory attendance at a pre-application meeting. This would ensure applicants receive necessary project design guidelines and would provide a forum to discuss critical issues;
- Adopting a policy requiring the Planning Division, prior to submittal to the Building Division, to review and approve plans for compliance with project design approvals; and
- Expanding the number of people who attend pre-construction meetings to include Planning staff and the project applicant/architect/designer. This will provide additional assurance that all parties understand the need to construct design details as approved.

Numerous other modifications are identified in the body of this report.

This report concludes with the recommendation that the Planning Commission and staff continue to define and refine viable opportunities for improvement, and that they return to the Council with final recommendations for review and approval.

Introduction

One of the essential elements to creating a place that serves a high quality of life is a commitment to the quality of its physical development. The perception of a place is greatly influenced by the investment of excellent planning and top-quality materials that are used to craft structures, signs, streets, sidewalks, landscape and other, similar elements. Indeed, when a significant, broad investment into the physical development of a community is coupled with a beautiful Pacific coastal setting, the potential for a world-class destination is realized.

The Urban Design Element of the City's General Plan sets as an Architectural and Landscape Character Goal the preservation of San Clemente's unique atmosphere and historic identity as "The Spanish Village by the Sea." In accord with that goal, this report is provided to address the needs and steps which can lead to improvements in the overall assurance of quality in the planning, review and implementation of development projects within the City. The objective of such improvements are two-fold: 1) the future production of site plans and structures that reflect exceptionally high design standards, especially those of Spanish Colonial Revival design, and 2) a reduction in the number of instances where projects are not constructed according to approved plans or are built without any review/approval at all. This report also reviews the continuum of project development, from concept to occupancy. This continuum is depicted on Attachment 1, which lists a total of thirteen "Opportunity Points" at which specific process improvements may be considered.

Background

Those familiar with the planning and development process in San Clemente know that the quality of built projects in San Clemente has improved many-fold in the past several years, and excellence abounds. However, in an effort toward continued improvement, for the past several years, there has been growing interest among the Planning Commission and staff to improve its design-related decisions to produce higher quality Spanish Colonial Revival projects. This has been occurring incrementally, through the intentional education of decision makers (e.g. Planning Commission workshops and a field trip to Santa Barbara) and on a project-by-project basis.

Using expertise gained over time, decision makers have also learned from direct observation of some prominent completed projects, and have drawn further understanding from those projects as to particular design standards and review processes which work and which do not.
To see how far this education, action and critical evaluation of design has gone, one need only look at the intersection of El Camino Real and Avenida Presidio, where:

1. A modern, contemporary-style of architecture built in the 1960's, on the southwest corner;

2. A contemporary interpretation of Mediterranean design was approved in the mid 1980's on the southeast corner;

3. At the northeast corner, a more rustic remodel of the El Dorado bank building using Spanish elements, such as iron work, awnings, trellis and landscape features (as well as neon parapet signs) reflects dual aesthetic and economic development goals of the mid 1990's; and

4. The recently completed Goshawk Plaza, on the northwest corner, represents near-ideal massing and design on a difficult site, but nevertheless has drawn criticism for the execution of particular details.

In each of these instances, these projects did not completely reflect true elements of Spanish Colonial Revival design. The details on the Goshawk Plaza project, for example, were a part of plans approved only two years before the completion of construction. As a result of the Design Review Subcommittee growing in its knowledge of and ability to critique Spanish Colonial Revival design, a similar project proposed today would be subject to finer scrutiny of such details.

Proposal

Provided as Attachment 2 to this report is a detailed description and analysis of a number of potential upgrades to the existing development review process, which have been identified by both Planning Commissioners and staff. For each process change, order of magnitude indications of costs and/or modifications to existing processing timeframes are provided.

Of noteworthiness is that, taken individually, most of the possible changes are small and not particularly costly. However, commitment to design quality necessitates a commitment of resources. As a measure of budgetary commitment, on a per capita basis the City of Santa Barbara has three times the number of professional planners on staff, as compared to San Clemente.

Such comparisons beg an important question, which is preceded by a statement: Five years ago, our standards were directed towards administrative efficiency and providing incentives to develop quality buildings within San Clemente. Since that time, have we determined as a community to make the budgetary and policy changes to be more selective and restrictive in development review? This discussion and resulting policy direction will be necessary, since at this point, staff can absorb few unbudgeted process enhancements.

Discussion

To date, most of the ideas which have been forwarded to improve the result of the development review process have been suggestions for changes to ordinances. These have included downtown sign standards and the application of historic proximity regulations to commercial buildings. While a review of the regulations may be warranted, the effort discussed here focuses instead on the improvements which can be administratively implemented within the existing regulatory scheme. This is the most direct means of addressing the issue, since regulations already on the books are intended to channel the most significant projects through a discretionary design review process. Thus, design review is usually assured for most substantial new development. Within that process, attuned attention to style and detail can have dramatic and immediate results.

Further Observations on Achieving a Spanish Village

At the conclusion of a Planning Commission workshop last year, where the guest speaker was Henry Lenny, a Santa Barbara-based architect and principal of Lenny-Yates-VanHoy Architects, who specializes in Spanish Colonial Revival design, staff made the following observations:

1. We have a long way to go to reach a point where staff and the Commission are well-prepared to review Spanish Colonial Revival projects authoritatively, and we will need a long time to get there;
2. We will need a unified mandate among all stakeholders (public and private) to bring the kind of change required; and
3. To demand an applicant-shared commitment to high quality design will require reputation and expertise, not regulations.

Although a thematic thread of Spanish Colonial Revival design pervades San Clemente, architecturally contributing buildings of that design make up a small minority of total structures. In the commercial districts, they are notable exceptions to an uneven rule, which is composed of the indistinct, the corporate, the charming anomalies, the auto-oriented and the odd, evolutionary, period attempts at "contemporary Spanish." Even on the landmark Avenida Del Mar, few buildings exist which can be thought of as Spanish Colonial Revival. Given our experience with the façade program, it is difficult to see these non-contributors being readily converted in a meaningful way to conform, in the short term.

Therefore, it is important to realize that an encompassing and unifying Spanish Colonial theme will take decades of consistency. The only means by which such consistency emerges is through crystalline vision, concise design guidelines, consistent application of those guidelines by staff and developers and, most of all, the vigilance of a broad group of citizens and leaders who will consistently require adherence.

The breadth of this mandate has yet to be firmly established in San Clemente. However, the Planning Commission and Council have both taken important steps in the emergence of such an interest.

A byproduct of a strongly held architectural vision is the necessity to forego certain otherwise attractive projects, improvements and private investments. Cost arguments notwithstanding, some individuals and many corporations will simply not tolerate even the perception of lengthy and detailed development project processing, the imposition of detailed design features, nor the creative limitations which they believe are associated with an unwavering demand for quality production in a single architectural style. In short, we must be willing to accept the consequences and byproducts of just saying 'no'. The payoff for persistence may not occur for many years, when those same individuals and corporations come back, and willingly bend themselves to become a part of the city's hard-earned "quality of place."

Recommendation

1. Direct staff to work with the Planning Commission to refine recommendations. Council's direction should be defined within parameters of:
   A. Administrative refinement with little or no impact to the General Fund; and/or
   B. Refinements that may require additional General Fund support.

2. Direct staff and the Planning Commission to present recommendations to the City Council for final approval and implementation by September 2003.

Fiscal Impact of Recommendation

Because staff recommends that further refinements be made to and costs estimates be made for this program, at this time there is no fiscal impact beyond previously approved/budgeted items (e.g. Commission/staff training with Lenny-Yates-VanHoy Architects).

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on February 04, 2003.

ATTACHMENT 1
DEVELOPMENT PROCESS OPPORTUNITY POINTS

PHASE I: CONCEPT / PRE-APPLICATION → PHASE II: REVIEW AND HEARINGS → PHASE III: PLAN CHECK AND PERMITS → PHASE IV: CONSTRUCT AND INSPECT → PHASE V: OCCUPANCY →

1. Pre-Application Information
2. Pre-Application Meeting
3. Application Submittal
4. Planning Discretionary Review
5. Public Hearings
6. Plans Reconciling to Approvals
7. Planning Plan Check
8. Preconstruction Meeting
9. Field Inspections
10. Occupancy Permit Issuance
11. Occupancy/Use
12. Compliance

GENERAL MANAGEMENT →

13. Training, Budgeting, Interdivisional/Interdepartmental Coordination (year-to-year process management)

Opportunity Point 2: Pre-Application Meeting

Current Process: As an optional step in the development process, some project proponents desire to meet with staff to discuss specific project-related issues. Many times critical issues are addressed and detailed information is conveyed. Following this meeting, a formal application is typically submitted.

I.2.a Possible Procedure Refinement Considered: Rather than offering this as an optional step in the entitlement process, require that pre-application meetings be conducted prior to formal project submittal on projects with Spanish Colonial Revival architecture. This will lead to greater assurance that applicants understand specific design/quality requirements that must be adequately addressed in order to gain necessary approvals.
Implementation: As a new, formal step in the entitlement process on Spanish Colonial projects, this would either require staff and applicants to conduct an additional meeting, or it may be combined with issues typically addressed at Development Management Team (DMT) meetings.
Cost: If combined with DMT meetings, little to no additional direct cost would result. However, if established as a new, separate requirement, additional costs resulting from staff time preparing for this meeting would result.
Applicant Impact: This would result in the need to prepare for and attend an additional meeting. If combined with DMT process, no additional time would be added to the process. However, if established as a separate step, an estimated 1-3 weeks of processing time would be added.

Opportunity Point 3: Application Submittal

Current Process: A standard application checklist is used to assure that all necessary components of the application are available to begin the process.

I.3.a Possible Procedure Refinement Considered: Require that "tear sheets" and actual installation specifications be supplied, versus generic referrals to types of materials. For example, instead of a note on an elevation indicating "two-piece clay tile roof", actual installation specifications would need to be supplied at initial submittal.
Implementation: Requires example specifications and successful product and installation details, per I.1.a above.
Cost: Staff time increment to assemble standards.
Applicant Impact: Serves applicants by providing useful information. May add initial application preparation time.

I.3.b Possible Procedure Refinement Considered: Require that a notification plan be submitted by the applicant. The plan would indicate the means by which additional notification of neighbors and other interested parties would be conducted, above and beyond the radius noticing, if necessary. The plan would be carried out by the applicant.
Implementation: Notification has not been an apparent problem to date, and this step is not recommended.

Cost: Staff time costs for review and acceptance of noticing plan.
Applicant Impact: Onus in place on the applicant; possible controversies at later date if noticing plan were found unacceptable by stakeholders.

1.3.c Possible Procedure Refinement Considered: Require a fire appliance plan at time of submittal. The plan would show the location for valves and standpipe equipment for all commercial, industrial and mixed use projects. The post-approval requirement for added fire appliances has marred the appearance of several projects which underwent design review.
Implementation: Requires submittal of additional information by applicants, probably with consultation with the Orange County Fire Authority. Most such installations are now planned and purchased at the time of sprinkler installation, sometimes as late as the time of framing. Possible hindrance to applicants. Also requires example specifications and successful product and installation details, per I.1.a above.
Cost: Small staff time increment over time to assemble standards; staff time on each project to evaluate design impact and functionality of the proposed location.
Applicant impacts: Cost to applicants far in advance of usual timing and prior to the Planning Commission approval of the basic project concept.

PHASE II:
REVIEW AND
HEARINGS

<u>Opportunity Points 4 & 5: Discretionary Review and Public Hearings</u>

Current Process: Projects are reviewed against the standards of applicable policies, ordinances and guidelines by staff, informally reviewed by the Design Review Subcommittee and forwarded to public hearing where decisions are rendered. On a case-by-case basis, this process forms the track record of decision making which shapes the standards to which applicants are held. One key component of understanding standards and thresholds comes in call-ups and inquiries, regarding administrative actions of staff in approving field changes and project modifications.

II.4.a Possible Procedure Refinement Considered: Incorporate the incremental change in quality as established by decision maker determinations during public hearings, and apply these changes in applicant dealings and staff analysis.
Implementation: This is an ongoing process to which staff is obligated.
Cost: No added cost.
Applicant Impact: With increased staff and Commission expectations and expertise in Spanish Colonial Revival design, subtle, incremental change may lead to applicant and architect confusion and frustration over standards that change on a project-to-project basis.

II.4.b Possible Procedure Refinement Considered: Require models or digital simulations for all DRSC-reviewed projects.

Implementation: Application submittal requirement or, alternatively, DRSC determines when models or simulation is needed and requires it prior to Planning Commission consideration.
Cost: Added processing component and consultation; very little change in current procedures if DRSC determination. Major impact on customer service if an application submittal requirement.
Applicant Impact: Significant added cost; time delay likely.

II.4.c Possible Procedure Refinement Considered: Require "story poles" for all DRSC-reviewed projects.
Implementation: Application submittal requirement or, alternatively, DRSC determines when story poles are needed and requires it prior to Planning Commission consideration. This has been a requirement on a couple of recent projects where view-related issues were of concern.
Cost: Added processing component and consultation; very little change in current procedures if DRSC determination. Major impact on customer service if an application submittal requirement.
Applicant Impact: On small projects, applicant impact would be minimal. On large projects, increases potential for significant added cost and likely time delay.

II.5.a Possible Procedure Refinement Considered: Adopt greater stringency in administrative project changes and in selection of process avenues. This would include:
(1) Requiring a greater number of administrative approvals to be heard by the Zoning Administrator;
(2) Requiring a greater number of Zoning Administrator hearings to be elevated to full Planning Commission/City Council Amendment hearings; and
(3) Requiring Cultural Heritage Permit waivers to be processed as full Cultural Heritage Permits.
Implementation: The Zoning Ordinance provides findings which allow some adjustment and greater stringency of process. To some degree, an adjustment to greater stringency has already been implemented. In the last three years, a far greater number of Zoning Administrator hearings have been conducted where administrative sign-offs might have previously been utilized. Full public hearings for a greater number of projects will increase the burden on applicants and increase the workload on Current Planning staff. Although the fee schedule works towards cost recovery on these applications, the capacity of staff to provide this additional load-with heightened quality standard-will still be a significant issue.
Cost: Significant Current Planning staff cost increment (partial position).
Applicant Impact: Change in hearing venue, more frequent public notice hearings.

PHASE III:
PLAN CHECK
AND PERMITS

Opportunity Point 6: Plan Reconciliation

Current Process: After project approval, standard conditions require that the applicant (1) sign a letter agreeing to the conditions of approval and (2) meet the conditions of approval as if they were rendered on the project plans. In this way, the plan sets which are submitted for building review and permits are made consistent with the final decision on the project.

III.6.a Possible Procedure Refinement Considered: Adopt a policy requiring the applicant to amend the plans and submit them for review by the Planning Division or Design Review Subcommittee prior to submittal for building permit review. These revised plans would show both:

(1) Alterations as required by conditions of approval, if such alterations change the shape of the building; and
(2) Specific details of materials and installation methods shown on a plan sheet, with references.

Implementation: Plans would not be accepted for Building Permit processing without reconciled plans submitted and approved.
Cost: One additional round of plan check or of DRSC review.
Applicant Impacts: This approach will be unpopular with project applicants, since it will require preparation of an additional set of plans prior to preparation of final construction sets, if any significant changes are required as a result of public hearings on the project. Has the potential to reduce confusion or error in subsequent plan check process, which would be beneficial.

III.6.b Possible Procedure Refinement Considered: Review of building permit plan sets by the Design Review Subcommittee. This approach has been placed as a condition of approval of some recent projects, with the acquiescence of applicants. While staff appreciates the direct review by the subcommittee, depending on submittal date an applicant may wait up to three weeks for an agenda place for consideration, greatly delaying the process. Staff believes that the process, the subcommittee and the decision makers need to make clear their requirements on a project, rather than recapturing it at a very late point in process. Hopefully, the other approaches in this paper will accomplish the aims of quality assurance in a more direct fashion.
Implementation: Not recommended.
Cost: Current Planning staff cost increment, due to an added time of project review for projects with significant alterations.
Applicant Impacts: Applicants will be concerned about building permit timing and possible 'late hits.' Difficult to phase DRSC review with progress on Building Permits, while allowing adequate staff review time prior to DRSC consideration.

Opportunity Point 7: Planning Plan Check

Current Process: Upon submittal of plans for building permits, Planning staff conducts a review of the project for zoning and consistency with any discretionary project approvals. In the past, such projects would be assigned to the Planning's counter service staff.

III.7.a Possible Procedure Refinement Considered: Assign plan check responsibility to the planner who managed the project through the entitlement process. This person was involved in the public hearing and is most directly familiar with the nuances of the final decision.

Implementation: Implemented.

Cost: Has had minor cost implications due to review by higher-position staff for some applications.

Applicant Impacts: Helps maintain overall customer service level due to applicant familiarity with the project planner. However, some delay may result due to availability of particular planner versus assignment to 'next available' plan checker.

PHASE IV:
CONSTRUCT
AND INSPECT

Opportunity Point 8: Pre-Construction Meeting

Current Process: The Building Division currently conducts a pre-construction meeting amongst the City inspectors and the project contractor to go over logistics and particular permit review issues prior to commencement of work. In instances where special inspections are required, the Building Division uses a checklist form. Building inspectors have demonstrated an understanding of many of the nuances which Planning requires, and does a good job of reporting to planning when issues regarding design features arise. However, not all design nuances are effectively communicated and sometimes project construction is not completely reflective of approved plans.

IV.8.a Possible Procedure Refinement Considered: Expand the pre-construction meeting to include the project planner and the applicant/designer, in order to emphasize design issues and standards of approval, the subtleties of which may not otherwise be known by the contractor. Modifications to Building Division standard field inspection schedule (Attached).

Implementation: Requires additional coordination to include other participants in the meeting. Requires an investment of approximately one staff hour per meeting by Planning.

Cost: Current Planning staff cost increments for meeting preparation, attendance and possible follow-up time.

Applicant Impact: Cost of design professional attendance at meeting, timing and scheduling concerns.

Opportunity Point 9: Field Inspection

Current Process: The Building Division currently conducts field inspections at pre-determined times, upon completion of certain aspects of the project. At times the project will express certain features critical to design conformance. Examples of this are as follows: When the foundation location is established, setbacks are measured; when roofing is completed, height can be confirmed; when finishes are applied, their consistency with project material boards can be reviewed. The Planning Division often conducts in-progress inspections on design features and always does a final review of the finished project for consistency, before occupancy is granted. At times, projects or portions thereof may be found to have been built incorrectly or with no approval at all. At this juncture, a stop work order is issued, and the applicant is given the opportunity to correct the problem or process a request for a change to the approved plans.

IV.9.a Possible Procedure Refinement Considered: Establish a specific schedule of Planning Division inspections, timed to coincide with the installation of design features.
Implementation: Requires staff time and scheduling to meet the ongoing needs of applicants in keeping construction processes moving forward. See Table 1 for the number of steps necessary to ascertain particular Spanish Colonial design features.
Cost: Significant Current Planning staff cost increment, partial additional position. Staff evaluated the number of Spanish Colonial-type buildings reviewed by the Design Review Subcommittee over the course of one year and determined that 34 projects would be subject to such inspections and would require over 250 staff hours not currently budgeted. These staff hours would be "on-call" and would further result in breaks in staff's office day, decreasing staff efficiencies beyond the actual hours attributed.
Applicant Impacts: Delays in scheduling staff inspections and scheduling call-backs for subcontractor trade work.

Table 1.
INSPECTION POINTS AND UNIT TIMES FOR QUALITY ASSURANCE
(Example: Spanish Colonial Building)

Time Point	**Planning Items Reviewed**	**Staff Time**
Pre-Consultation Meeting	Coordination between designer and builder; Staff contact; Ground rules; Inspection schedule	1 hour
Rough Framing	Roof: Pitch, overhang, material Framing: Window, door and niche openings and recesses. Wood sills, headers and corbels. Fenestration: Windows and doors	1.5 hours
Lath	Bullnosing; Returns and niche details; Instruction to stucco contractor.	1 hour
Scratch and/or Brown Coat	Bullnosing; Undulation; Sills, cornices and surrounds (if foam).	1 hour
Color Coat	Finish texture/troweling; Color (if integrated)	1 hour
Final	Hardware, fixtures, and railings; Landscaping; Color (if paint-on); Other operational Planning conditions prior to occupancy, if any.	1.5 hours
Occupancy	TOTAL:	7 HOURS

PHASE V:
OCCUPANCY

Opportunity Points 10/11: Occupancy

Current Process: For several years, it has been a task of staff assigned to projects to do a "drive by" inspection of projects, to generally ascertain that the projects (1) are complete within the anticipated time frames, (2) generally conform to key conditions of approval, and (3) show no outward signs of non-compliance with operational codes. This process is somewhat informal, and relies on planners checking projects as a part of their other field duties. During times of high project processing activities, this function is often done quickly or ignored.

V.10.a Possible Procedure Refinement Considered: Adopt a policy establishing an operating inspection approximately six months after occupancy to insure compliance with operational and maintenance standards.
Implementation: This approach would require keeping a project on the Planning Division's "active" list and assignment of project planners to do a post-occupancy inspection at six months from occupancy.
Cost: Significant staff expense of approximately one staff hour for each project approved, for approximately 175 approved projects per year.
Applicant Impact: No loss in process time or developer impacts; possible code compliance issues.

V.11.a Possible Procedure Refinement Considered: Planning Commission field inspection of completed projects as a quarterly 'Study Session' field trip, to assess project outcomes and features. This would utilize four 'Study Session' meetings per year for a trip to see completed projects and learn from the successes and near-misses of particular conditions and features. It would provide direct feedback to staff and be useful in the ongoing refinement of standard design features. (See Item I.1.a, above.)
Implementation: The Planning Commission can implement this by their own direction.
Cost: Reduces available Study Session times for other purposes, but no significant cost implications; spin-off projects and assignments of policy and ordinance amendments will likely be generated.
Applicant Impact: Further incremental changes in standards.