City of San Clemente
2005
Long Term Financial Plan

City of San Clemente

City Council

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

City Manager

• George Scarborough	City Manager

Executive Team

• William E. Cameron	City Engineer
• Myrna Erway	City Clerk
• Pall Gudgeirsson	Assistant City Manager/City Treasurer
• James S. Holloway	Director, Community Development
• Lt. William Hunt	Police Services Chief
• Al King	Director, Beaches, Parks & Recreation
• David N. Lund	Director, Public Works/Economic Development
• Chief Dave Pierce	Fire Services Division Chief

Project Director

• Pall Gudgeirsson	Assistant City Manager/City Treasurer

Project Leaders

• John M. Beck	Senior Park Planner
• George Buell	City Planner
• Kumi Elston	Purchasing & Budget Officer
• Laura Ferguson	Assistant to the City Manager
• Bill Humphreys	Marine Safety Chief
• David N. Lund	Director, Public Works/Economic Development
• Jake Rahn	Accounting Supervisor
• 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 Teams

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

Steering Committee
George Scarborough, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer

Financial Trend Analysis
Jake Rahn, Accounting Supervisor

Financial Forecast
Kumi Elston, Purchasing & Budget Officer

Reserve Analysis
Tom Rendina, Finance Manager

Overhead Analysis
Tom Rendina, Finance Manager

Environmental Program Update
Bill Humphreys, Marine Safety Captain
Danna McIntosh, Environmental Services Coordinator
Brandi Outwin, Senior Civil Engineer
Bruce Wegner, Director, Beaches, Parks & Recreation

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

Revenue/Fee Analysis
Kumi Elston, Purchasing & Budget Officer

State Impact Financial Analysis Update
Laura Ferguson, Assistant to the City Manager

Downtown Strategic Plan Implementation
George Buell, City Planner

Long Term Financial Plan

Master Plan for City Facilities Update

John M. Beck, Senior Park Planner

PERS Unfunded Liability

Pall Gudgeirsson, Assistant City Manager/City Treasurer
Kumi Elston, Purchasing & Budget Officer

Financial Trend Analysis

Objective

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.

Financial Forecast

Objective

Annually, the City prepares a five-year financial forecast as a part of the Long Term Financial Plan. The financial forecast, along with an analysis of financial trends, becomes the foundation of the City's strategic plan. The financial forecast allows the City to determine how current spending plans will impact future budgets.

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.

Overhead Analysis

Objective

To analyze and recommend appropriate overhead rates for Planning, Engineering and Beaches, Parks and Recreation. The overhead rates impact the costs for providing engineering and planning services to developers and capital projects.

Environmental Program Update

Objective

To update the City Council and the public concerning the progress that has been made managing issues relating to the coastal environment including the Urban Runoff Management Plan (URMP), city-wide recycling efforts, coastal erosion and sand replenishment. These projects include continued implementation of the URMP, also known as "Project Surf"; Recycling; U.S. Army Corps of Engineers Feasibility Study; Sand Monitoring; and the Opportunistic Sand Replenishment Program.

Street Improvement Program Update

Objective

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

Long Term Financial Plan

Revenue and Fee Analysis

Objective

To review the City's current charges for services and fees and determine:

1. *If the charges or fees are appropriate for the services or programs offered.*
2. *If the charges or fees should be adjusted based upon current competitive conditions or recovery of current program costs.*
3. *If the methodology to setting fees and charges is documented.*
4. *If the extent of fee waivers or exemptions has an effect on individual revenue sources and the programs or services that these sources fund.*

State Impact Financial Analysis Update

Objective

This is the fourth year the City has addressed the impacts of the loss of control over local revenue and the associated shifts in revenue to the State due to a history of State budget crises. Although community leaders make decisions for the community and approve the City's budget, decisions made by state and federal legislators frequently affect the amount of local control that local governments have over local circumstances. For this reason, constitutional protection of local revenues has been a top priority for local government.

Downtown Strategic Plan Implementation

Objective

To implement recommendations of the Downtown Vision and Strategic Plan, which include updating and revising the General Plan, Zoning Ordinance and related documents, and performing requisite environmental analysis and related special studies.

Master Plan for City Facilities Update

Objective

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

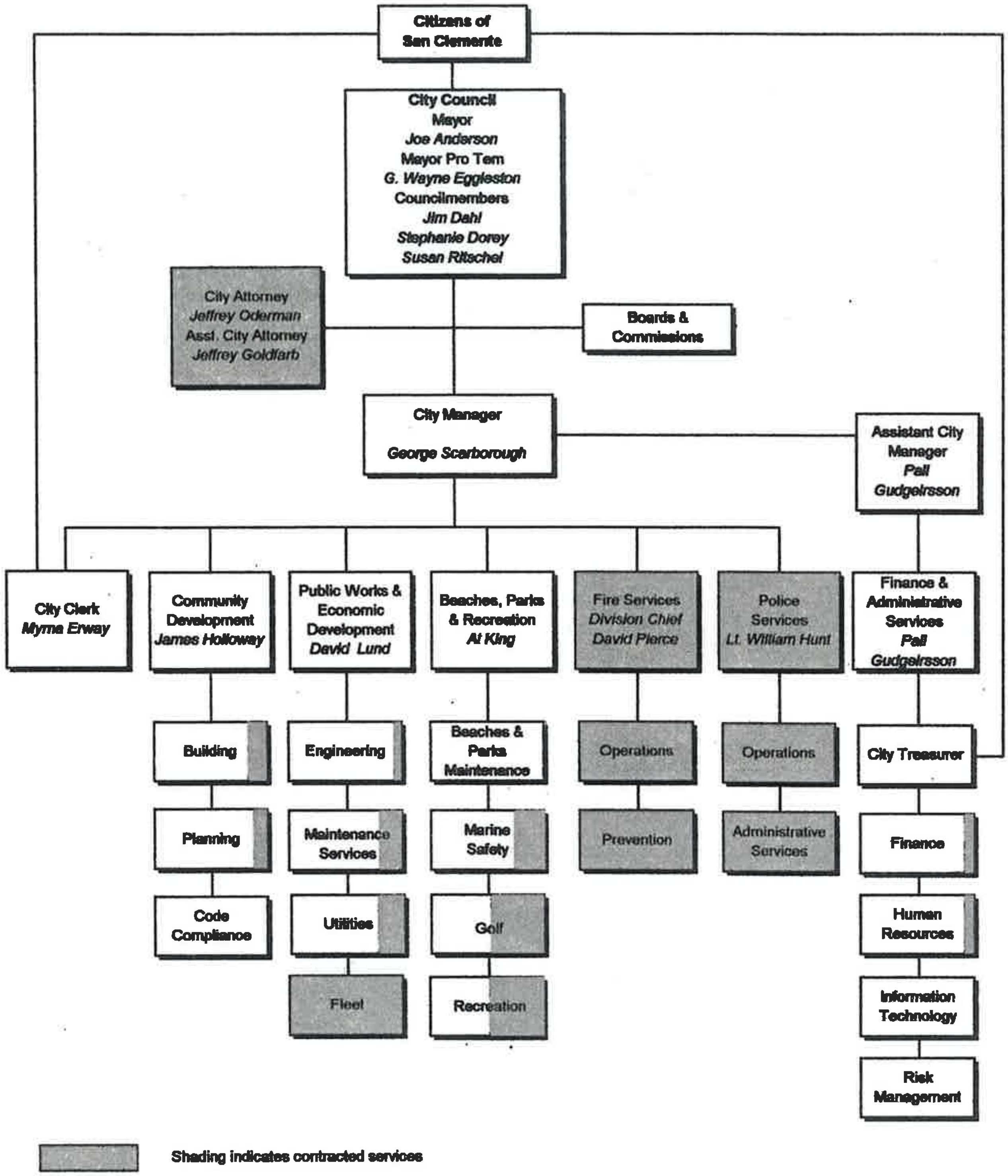
1. *Has the tax base grown?*
2. *Have costs grown?*
3. *Have facilities been phased as anticipated?*
4. *Is the operation and maintenance of new facilities sustainable?*

PERS Unfunded Liability

Objective

Review the City's frozen safety CalPERS actuarial valuation report to determine the cause of the City's unfunded liability and provide alternative solutions for funding the liability.

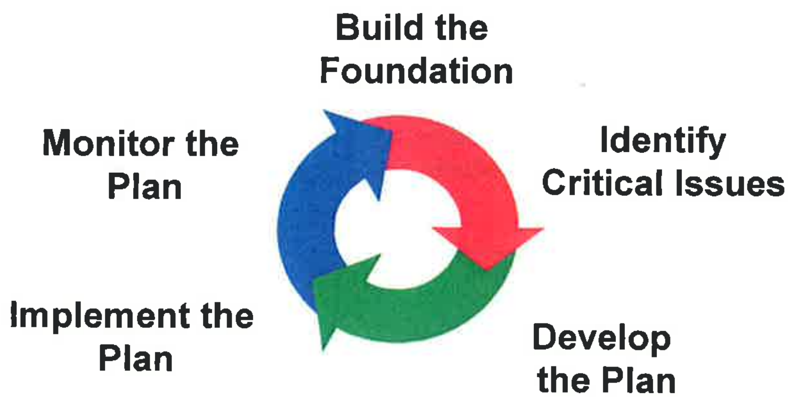
City Organization Chart



Long Term Financial Plan

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 Paper section which provides supporting documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition.

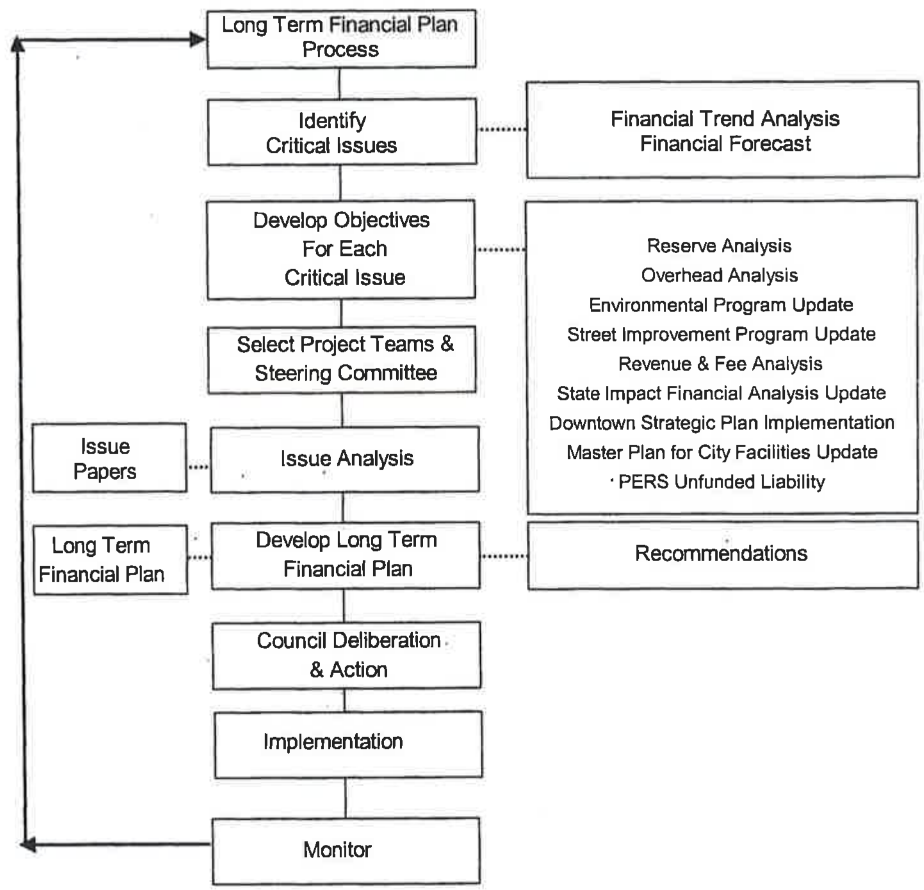
The 2005 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Fiscal & Debt Policy
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Overhead Analysis
- Environmental Program Update
- Street Improvement Program Update
- Revenue and Fee Analysis
- State Impact Financial Analysis Update
- Downtown Strategic Plan Implementation
- Master Plan for City Facilities Update
- PERS Unfunded Liability

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, 14 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 8 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 was presented to the City Council on March 1, 2005 and adopted on March 9, 2005. Following is the project schedule.

Schedule

March 1, 2005	Long Term Financial Plan provided to Council and public for review.
March 9, 2005	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input & City Council adoption.
March 15, 2005	Vital Few Priority Meeting. City Council and City Manager.

City Manager's Transmittal Letter

Honorable Mayor and Councilmembers:

Introduction

The 2005 LTFP represents the City's thirteenth financial strategic plan

I am pleased to present the *2005 Long Term Financial Plan* to the City Council and San Clemente residents. This financial plan represents the thirteenth 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 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.

Two revisions to existing fiscal policies are recommended

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 two changes are recommended to the Fiscal Policy. No changes are recommended to the City's Debt Policy.

A total of 11 issues are included in the 2005 edition of the Long Term Financial Plan

A total of eleven issues were examined in the last section of the LTFP. This includes the City's Financial Trend Analysis, Financial Forecast and Reserve Analysis. The 2005 Long Term Financial Plan also consists of several updates to previous issue papers, including the Street Improvement Program, Master Plan for City Facilities, Environmental Program, Downtown Implementation Plan and State Impact Financial Analysis. New issues examined include an Overhead Analysis and Revenue and Fee Analysis. An issue paper previously addressed in the 1995 plan, the status of the City's Unfunded Public Safety Liability, has been revisited because of the large contribution increases required by CalPERS.

Although all these issues are critical, the Master Plan for City Facilities looks twenty years into the future to determine if the City is in a position to build and maintain new facilities identified in the master plan. The paper analyzes the City's Park Acquisition and Development Fund to determine if sufficient funding is in place to build new facilities. Then, on-going maintenance costs are identified. These on-going costs will be borne by the City's General Fund and will have a major effect on the General Fund operating position in the future.

The City's overall financial position is good

Currently, the City's overall financial position is good 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 financial foundation is solid, however several choices will have to be made in the next few years to maintain a solid foundation and still provide the services and facilities that our residents desire and deserve. Careful consideration of current decisions must be made in order to sustain our financial future.

The 2005 LTFP presents issues that require careful deliberation

The 2005 financial plan presents issues that require careful deliberation. Any of these issues, separately or combined, will force the City to make some tough choices in the coming years. Fortunately, the City has two financial tools, the Fiscal Impact Model and the Financial Forecast, which will help analyze the City's financial condition and assist in the decision making process.

The Fiscal Impact Model looks at land uses and current development plans

The Fiscal Impact Model looks at the City's land uses and current development plans and projects future revenues and expenditures resulting from changes in service levels caused by population growth and new facilities. The Fiscal Impact Model increases staffing and maintenance costs for each new facility included in the Master Plan for City Facilities, along with new staffing and service level increases proposed by the City Department Heads over the next twenty years. These costs are shown in the Master Plan to be unsustainable in the future. As a result, we must use the time to make changes to the delivery of City services which will lower future costs or increase revenues.

The Financial Forecast is based on continuation of current service levels

The Financial Forecast provides a more balanced look into the financial forecast, in that, revenues and expenditures are increased based on the current service levels. The Financial Forecast predicts a positive operating position in all five years of the forecast and balances averaging $5.8 million. The Forecast shows that we are in a position to maintain existing service levels, but any increases to that service level will have an effect on the City's finances.

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.

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 2005 Long Term Financial Plan and the proposed budget for Fiscal Year 2005-06.

George Scarborough
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 2005 LTFP represents the thirteenth 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:

Year	Challenge	Solution
1993	• Annual shortfall of $6 million • Operating deficit of $1.8 milllion • Critical capital needs of $2.4 million	• Contracted Police services • Established storm drain fee • Reorganized & downsized • Salary & benefit reductions • Established economic development program • Established reserves
1994	• Shortfall of $2.7 million • Operating deficit of $785,000 • Street capital & maintenance needs of $1.8 million • Capital equipment needs of $100,000 • ERAF shift of $1.2 million annually	• Contracted Fire, fleet maintenance, meter reading, street striping and beach/park maintenance • Continued salary & benefit reductions • No cost of living increases • Established cost allocation plan to recover costs • Established capital equipment replacement reserve
1995	• Forecast deficit in years two through five	• Cutback on funding of emergency reserves • Reduced number of projected positions added • Reduced maintenance costs • Established 18 year/$55 million Street Improvement Program
1996	• Emergency reserve level reached 5%	• Expedited Street Improvement Program • Issued $7 million in street bonds • Saved on bond issuance costs

Year	Challenge	Solution
1997	• $2.8 million shortage created by Proposition 218	• Increased revenues • Transferred $425,000 from Golf Fund • Employee lay-offs • Program reductions • Transferred police dispatch operation to County • Closure of Stead Park
1998	• All reserves except Capital Equipment Replacement Reserve fully funded	• Funded Capital Equipment Replacement Reserve • Funded a market study and downtown improvement plan
1999	• Water Fund operating position negative • No formal plan in place for City facilities	• Long-term water rate structure approved • Funded a City Facilities Master Plan
2000	• New projects identified as priorities	• Funded studies for the restoration of the Casa Romantica Cultural Center, Rail Corridor Safety and Education, Coastal Resources and Downtown Revitalization
2001	• Public safety needs identified • Document imaging system needed • Facilities maintenance needs identified	• Conducted a Fire Authority staffing analysis and increased to a four-person engine company for Engine 60 • Established a document management plan • Established a new Facilities Maintenance Reserve for future maintenance needs of all City facilities
2002	• Identified financial impact of City's capital facility plan • Sidewalk restoration needs identified • Urban Runoff Plan implementation costs identified	• Restricted the use of special development fees • Funded sidewalk restoration plan • Established urban runoff fee
2003	• New fire station with operating costs of $1.5 million planned • Projected deficit balance in Golf Course Fund • Identified interest costs associated with long-term loans to the RDA	• Eliminated new fire station. Relocated another fire station to central location and increased staffing • Established two-year loan to Golf Course • Repaid RDA loan from the General Fund and lowered interest costs

Year	Challenge	Solution
2004	• State of California proposed budget impact of $522,000 • Potential $2.0 million refund of property taxes based on a taxpayer lawsuit	• Reduced General Fund revenue to reflect State shift • Reserved $2.0 million in a designated reserve

Financial Summary

The 2005 Long Term Financial Plan Executive Summary includes a Financial Summary

The *Executive Summary* portion of the 2005 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 year's LTFP adopted 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 2005 LTFP is the 13th edition of the City's financial strategic plan

The thirteenth 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 2005 Long Term Financial Plan.

The LTFP serves as an "early detection system"

The 2005 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. For example, the 2004 Long Term Financial Plan set aside $2.0 million in a designated reserve for the property tax recapture lawsuit that was under consideration by the State Court of Appeal. The lawsuit, if it was upheld, would have caused the City of San Clemente to refund $2.0 million in property taxes. In March 2004, the State Court of Appeal reversed the ruling of the Superior Court and ruled that counties and cities did not have to provide property tax refunds. In July 2004, the State Supreme Court declined to review the decision of the State Court of Appeal. This action concluded the legal review of this case. The City is no longer under the potential threat of a $2.0 million refund and the reserve is no longer necessary.

The 2005 Long Term Financial Plan also includes pro-active recommendations to address future financial challenges and opportunities. It is recommended that the $2.0 million that was set aside for the property tax recapture case be used for two other purposes. The first recommendation, which is included in the Reserve paper, is to transfer $1.0 million of the currently specified reserve to the General Liability Fund to establish a liability reserve for potential land subsidence claims.

The second recommendation, which was withdrawn by the Assistant City Manager during the Long Term Financial Plan presentation, would use $1.0 million to take advantage of the current interest rate environment and refund the Series A Certificate of Participation (COP). In 1993, the City issued $1,240,000 in Series A tax-exempt

COPs and $2,555,000 in Series B taxable COPs to finance the acquisition of the Community Development/Public Works Building at 910 Calle Negocio. The City's independent financial advisor has analyzed the economic benefit of using General Fund or reserve monies to refund or "call" the outstanding Series A COPs. They have recommended that if the City has available monies that are earning less (or projected to earn less) than the interest rate on the certificates, it would be advantageous to call the COPs. An analysis using current interest rates shows that the City would realize a net benefit of $37,220 each year by refunding the COPs. Although this analysis might overstate the interest savings since interest rates are at historically low levels, the City would still realize a $10,000 to $12,000 annual savings in debt service payments from 2004 through 2023. The refunding of the Series A COPs, which are tax-exempt, would also be beneficial if the City sells the building in the next few years. If the COPs are refunded, the tax-exempt occupancy requirement would be removed. A Civic Center Feasibility study will be discussed during the Vital Few Priority process and options for the use or sale of the Negocio building will be included.

This financial plan is based on the City's current financial condition

It is important to remember that this financial plan is based upon the City's current financial condition and the maintenance of existing service levels. As pointed out in the City Manager's Transmittal Letter, we are at a fork in the financial road whereby several decisions must be made that will affect the future of the City's positive financial condition. The Fiscal Impact Model assumes that all present and future financial requests will be fully funded and that all the facilities identified in the Master Plan for City Facilities will be built. If implemented, operating expenditures increase considerably in the future. The model clearly shows that the City can not sustain these operating costs and remain in a positive operating position. Tough decisions face this City Council which will determine if these future costs can be avoided or alternative service delivery methods can be found to maintain a positive operating position in the future.

Current Financial Condition - Overview

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

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 Clean Ocean Fund.

The General Fund is projected to end the year with an $8.5 million fund balance

The City's General Fund is projected to end the fiscal year with an $8.5 million fund balance. Revenues are expected to amount to $39.1 million and expenditures including one-time capital and transfers will amount to $44.5 million.

The City's current financial condition is good

The City's current financial condition can be termed good. All reserves are fully funded, although contributions will have to be made in order to maintain prudent reserve levels. Property taxes, sales taxes and transient occupancy taxes are anticipated to increase due to the Marblehead Coastal Development. This 248 acre development project was approved by the Coastal Commission by a vote of 12-0 and has now cleared its last major hurdle in the development review process. The project includes 313 homes, a retail outlet center, parks and a hotel. Grading is expected to begin this summer; taking up to a year and buildings could be completed as early as April 2007. The City's Financial Forecast includes revenues and maintenance expenditures that will be generated from Marblehead.

The Golf Course Fund is facing financial difficulty

In July 2004, City Council approved revenue enhancements and expenditure reductions to balance the Golf Operating Fund. City Council also directed staff to review an on-going transfer from the Golf Operating Fund to the General Fund. The five-year forecast for the Golf Operating Fund shows that the fund is negative in all five years of the forecast period. This is largely due to the fact that revenue enhancements and expenditure reductions will not be fully implemented until the 2005-06 fiscal year. The fund is projected to end the 2004-05 fiscal with a negative balance of approximately $207,000, which continues to grow throughout the forecast period. The City's General Fund has already loaned the Golf Operating Fund a total of $474,000 in prior years. Another General Fund loan of $370,000, in the current fiscal year, is recommended to maintain a positive balance in the Golf Operating Fund. The Golf Operating Fund could continue to transfer $425,000 per year to the General Fund while maintaining positive balances. This transfer is important to the City's General Fund and will help maintain a positive operating position in future years when operating expenditures are anticipated to increase due to staffing increases and the demand for new facilities. City Council did not take action on this recommendation and directed staff to return with an analysis of the Golf Operating Fund for discussion during the budget process.

The 2005 LTFP examines the City's fiscal future

The Long Term Financial Plan for the year 2005 continues to provide a clear path to the City's fiscal future. Although there are certainly many challenges which lay 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 2005 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 *$12.0 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 are proposed:

A transfer of $165,000 to the Accrued Leave Reserve

The 2005 LTFP recommends that the City allocate $165,000 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 $280,000 contribution to the General Fund Emergency reserve is recommended for FY 2005-06 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.

Transfers of $1.1 million were included in the FY 2004-05 budget.

General Fund Transfers

Several annual transfers from the General Fund to other funds are normally included in the annual budget (not including reserve allocations). In FY 2004-05, these include total transfers of $1.1 million for items such as the Street Improvement Program ($597,020), Information Technology Fund for the computer room upgrade ($167,270) and miscellaneous transfers ($123,370).

For FY 2005-06, a transfer from the General Fund to the Street Improvement Program of $614,930 and miscellaneous transfers of $125,200 have been proposed.

Funding will continue in FY 2005-06 with a $614,930 contribution to the Street Improvement Program

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled $4.4 million during the past nine fiscal years. Funding for this program will continue in FY 2005-06 with a contribution of $614,930. Annual contributions, which include an inflationary factor, will be made through the remainder of the program.

20 out of 21 financial indicators are positive...

...however, a "Warning" rating has been assigned to Revenues per Capita

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 warning rating assigned to Revenues per Capita and a favorable/caution rating assigned to the Expenditures by Function and Population trends. The annual Financial Trend Analysis report for the year ending June 30, 2004 indicates that 20 of 21 indicators are favorable, with a warning flag for Revenues Per Capita for the second year in a row. Two other trends, Fringe Benefits and Expenditures By Function have been assigned a "favorable/caution" rating. Only six indicators were considered favorable in 1993, the first year of the Long Term Financial Plan and trends generally have shown improvement.

Revenues Per Capita: This category was again assigned a warning flag as the trend continues in a downward slope. The City anticipates that this warning trend will improve in the future with the addition of the Marblehead Retail Center, which will increase revenues, and that the population growth will slow due to the build out of the City in fiscal year 2008.

Fringe Benefits: This category was assigned a favorable/caution flag because fringe benefits including Social Security contributions, as a percentage of General Fund salaries and wages, have increased from 33.8% to 42.7%. The City's fringe benefit rate without Social Security is 37.46%. San Clemente and other cities have recently experienced similar increases in benefits costs due to increased contributions to retirement and medical insurance. Retirement contributions have increased due to plan changes which increased the benefit level. In addition, negotiations with City employees resulted in an increase in the amount of the City's contribution toward medical benefit costs. A caution rating has been assigned, since the increase was part of a negotiated process and the fringe benefit as a percentage of salaries and wages is comparable to other cities in the area. Social security contributions have been removed from the comparison to other cities since most cities are not part of the Social Security system.

Expenditures By Function: This category was assigned a favorable/caution flag due to changes in the City's make-up from FY 1999-00 to FY 2003-04. This is the second year in which this trend has been evaluated. Actual Public Safety expenditures increased $2.6 million or 25%, while actual Community Development expenditures increased 56% and Beaches, Parks and Recreation increased 76% from FY 1999-00 to FY 2003-04. These large increases are due to increased development in Talega and Forster Highland areas of the City and increased expenditures for added recreation positions, two newly added parks, increased or enhanced park and beach maintenance and other operational expenditure increases.

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

Indicator	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Revenues Per Capita	W	W	F	F	F	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	U	U
Property Values	F	F	F	F	F	F	F	F	U	U
Population	F	F/C	F	F	F	F	F	F	F	F
Elastic Revenues	F	F	F	F	F	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	F
Licenses & Permits	F	F	F	F	F	F	F	U	F	F
Comm. Develop. Charges	F	F	F	F	F	F	F	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	F
Revenue Overage	F	F	F	F	F	F	F	F	F	F
Expenditures Per Capita	F	F	F/C	F	F	F	F	F	F	F
Expenditures by Function	F/C	F/C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	U	U	F	F	F
Fringe Benefits	F/C	F	F	F	F	F	F	F	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Positions	F	F	F/C	F	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F/C	F/C	F/C	F	F	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

The trend report also includes a section describing 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 4.1%

City revenues are anticipated to grow by an annual average increase of 4.1% a year. Property taxes increase by $5.2 million or 5.9% over the five-year period due to new residential homes and resale activity. Sales taxes increase by $3.7 million over the forecast period, primarily from sales taxes generated from the Marblehead retail facility. However, any delays to development projects included in the forecast will change the financial outlook substantially.

Expenditures will increase 2.3%

Expenditures are projected to increase at an average rate of 2.3%. The majority of this growth is due to increases in staffing levels and contractual services. Known increases to the Police and Fire contracts have been included in the forecast. The Police Services contract has been increased to include anticipated overtime hours added to each deputy position and one deputy position in each year of the forecast. Fire services costs include a contractual increase of 4% per year for the remainder of the forecast period. Costs for park maintenance also increase due to construction and acceptance of two parks in Talega, two parks in Marblehead that are included in the development agreement and a new senior center.

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 positive in all five years of the forecast period

Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements) are shown in the following graph:

2005 LTFP forecast - operating position

2005 Forecast Summary (LTFP)*

Amounts in $1,000

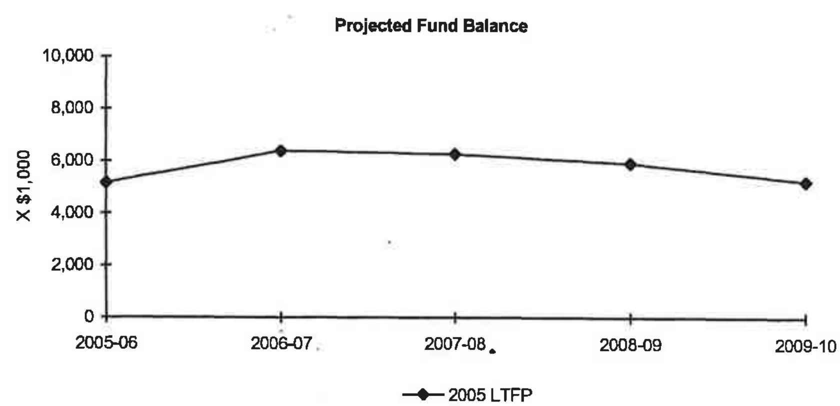
	2005-06	2006-07	2007-08	2008-09	2009-10
Operating receipts	$41,193	$44,666	$45,573	$46,733	$47,870
Operating disbursements	40,274	41,851	43,035	44,405	45,824
Projected surplus/deficit	$919	$2,815	$2,538	$2,328	$2,046

*One-time revenues and expenditures have been excluded. One-time revenues include grants and the scheduled repayment of vehicle license fees by the State in FY 2006-07. One-time expenditures include transfers to other funds, capital outlay, unfunded public safety liability payments and special projects.

The City's projected fund balance averages $5.8 million over the forecast period

Fund Balances

Fund balances, averaging $5.8 million over the forecast period, are projected. However, if revenues are reduced or do not materialize as anticipated in the forecast, fund balances will decline. Fiscal policy does not allow for the development of new park acreage if the General Fund can not afford to provide on-going maintenance. However, current agreements with Marblehead *require* the construction of parks once certain pre-established thresholds are met. Thus, the City will be forced to accept these parks and provide on-going maintenance. As a result, development of other parks may be delayed until the City's financial position improves enough to handle on-going maintenance.



Long Term Financial Plan

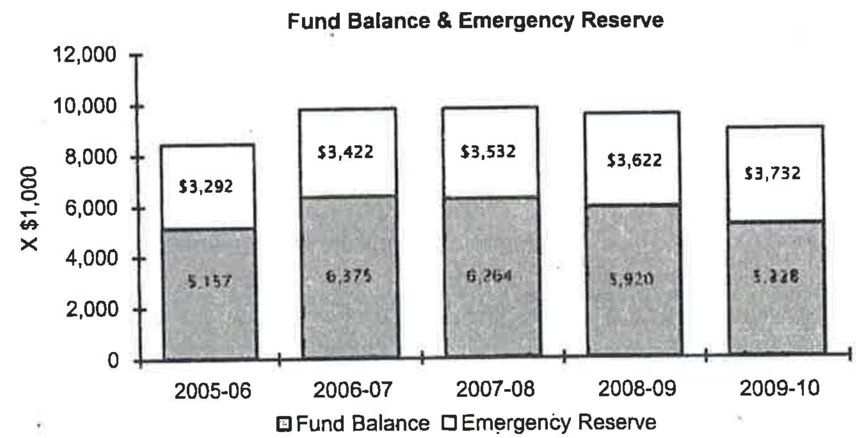
Fund balances are projected to be positive

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

Fund Balance & Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Fund Balance	$5,157	$6,375	$6,264	$5,920	$5,228
Emergency Reserves (8%)	$3,292	$3,422	$3,532	$3,622	$3,732

Fund balances and emergency reserves



Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if current fiscal trends were to continue.

A minimum number of funding requests have been submitted

Based on the issue papers contained in the 2005 Long Term Financial Plan, there are a minimal number of new funding requests. General Fund transfers to maintain reserve levels are recommended. It is recommended to shift the $2.0 million currently reserved for the property tax recapture case to refund the Negocio Series A COPs and to establish a reserve for potential land subsidence claims. An additional loan to the Golf Operating Fund of $370,000 in FY 2004-05 is recommended to maintain positive balances in the fund. In total, the Golf Operating Fund will have an outstanding loan balance of $804,000 to the General Fund.

As detailed in the PERS Unfunded Liability issue paper, the City's unfunded actuarial liability is $6.1 million. The contribution for FY 2005-06 is $980,000. This contribution is based on an eight year amortization and a 7-3/4% interest rate. It is recommended to increase the amortization period to fifteen years, thus reducing the City's contribution by $326,000 for a total payment of $654,000. Although extending the amortization period increases the total interest the City will pay and guard against over funding the plan.

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 if LTFP financial recommendations are adopted by the City Council and potential outside financial impacts are implemented. The first table summarizes current projected fund balances prior to the adoption of 2005 LTFP recommendations:

Current projected fund balances

Fund Balance

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Fund Balance	$6,957,000	$5,157,000	$6,375,000	$6,264,000	$5,920,000	$5,228,000

The following table indicates the impact on fund balances if recommendations contained in the 2005 Long Term Financial Plan are adopted by the City Council. The only items below which are not included as LTFP issue recommendations are the potential impacts from the State and others that may have a financial effect upon the City.

Projected fund balances including 2005 LTFP recommendations & potential state and legal actions

Fund Balance

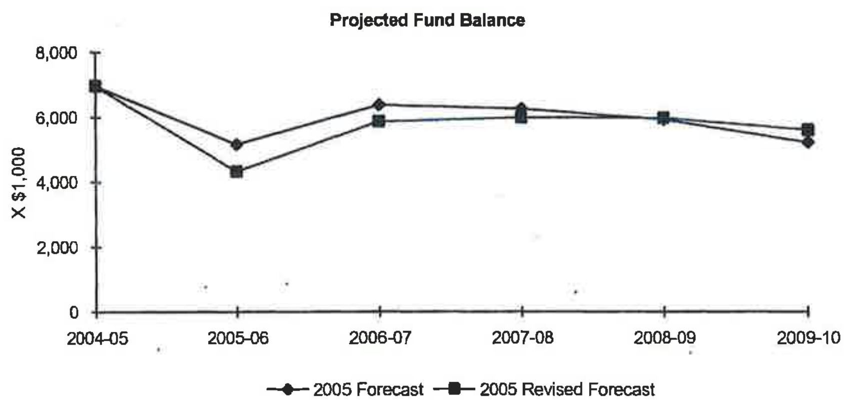
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Projected Ending Fund Balance	$6,957,000	$6,957,000	*$4,319,000*	*$6,493,000*	*$5,989,000*	*$5,971,000*
Revenues less expenditures[1]	0	-1,799,000	1,218,000	-110,000	-344,000	-691,000
Golf Course Operating Fund loan[2]	0	0	0	0	0	0
Property Tax Recapture Reserve[3]	0	0	0	0	0	0
General Liability[4]	0	-1,000,000	0	0	0	0
Accrued Leave Reserve[5]	0	-165,000	0	0	0	0
Refund Series A COPs[6]	0	0	0	0	0	0
PERS Unfunded Liability[7]	0	326,000	326,000	326,000	326,000	326,000
Revised Ending Fund Balance	$6,957,000	*$4,319,000*	*$5,863,000*	*$5,989,000*	*$5,971,000*	*$5,606,000*

[1] This is the change in fund balance caused by revenues higher than expenditures or one-time expenditures higher than revenues.
[2] $370,000 recommended loan to the Golf Operating Fund to maintain a positive ending balance. This recommendation was not approved by City

Impact on fund balance with LTFP recommendations

Council.
[3] Eliminate $2.0 million specified reserve for the property tax recapture lawsuit. This recommendation was not approved by City Council.
[4] $1.0 million transfer recommend in Reserve paper to fund a reserve for potential land subsidence claims.
[5] $165,000 recommended in Reserve paper to fully fund the Accrued Leave Reserve.
[6] Refund Series A COPs, saving $10,000 to $12,000 in future debt service payments. This recommendation was not approved by City Council.
[7] Reduce the City' PERS unfunded liability contribution by $326,000 by extending the amortization period from eight years to fifteen years.

The following graph shows the impact of adopting the 2005 LTFP recommendations on projected fund balances:



As illustrated, the overall impact of adopting LTFP recommendations, fund balances increase from an average of $5.8 million to $6.9 million over the forecast period.

Summary of Long Term Financial Plan recommendations

Recommendations

This section summarizes the recommendations contained in the 2005 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.

Fiscal Policy

1. The City will develop an annual six-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.
2. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered

claims. The City shall reserve 25% of the estimated claim amount for outstanding subsidence claims.

Financial Trend Analysis

3. None.

Financial Forecast

4. None.

Reserve Analysis

1. Budget sufficient funds for FY 2005-06 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 $280,000.
2. Recommend that $404,600 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2005-06 to fund the Council Contingency Reserve.
3. Increase the specified reserve in the General Liability Self-Insurance Fund from the current reserve of $625,000 to $2,592,675 for the fiscal year 2005-06. The reserve includes three times the self-insurance retention ($300,000), plus the average of the previous five years of claims costs not covered by the insurance pool ($292,675), plus $2,000,000 for subsidence claims.
4. Transfer $1,000,000 from the City's unspecified Fund balance to the General Liability Self-Insurance Fund. This will further increase the specified reserve in the fund for subsidence claims from $2,000,000 to $3,000,000 for fiscal year 2005-06.
5. Reduce the existing worker's compensation rates for fiscal year 2005-06 by 30% to the following;
   a. 8810 Clerical $0.66/$100 of payroll
   b. 9410 Non-manual $1.84/$100 of payroll
   c. 9420 Manual $6.13/$100 of payroll.
6. Transfer $165,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2005-06.
7. Budget an additional $250,000 transfer from the Water Operating Fund to the Water Depreciation Fund for Fiscal Year 2005-06.
8. Budget $11,000 from the Sewer Operating Fund in FY 2005-06 in order to bring the emergency reserve to $476,000, which represents 8% of the projected Sewer Fund operating expenditures level.
9. Defer policy changes until the completion of the Water and Sewer System Asset Study.
10. Budget $1,000 from the Solid Waste Fund in FY 2005-06 in order to bring the emergency reserve to $12,000, which represents 8% of the projected Solid Waste Fund operating expenditures level.
11. Budget $7,000 from the Golf Course Operating Fund in FY 2005-06 in order to bring the emergency reserve to $168,000, which represents 8% of the projected Golf Course Operating Fund operating expenditures level.

Overhead Analysis

1. It is recommended that the Engineering overhead rate be set at 38.10%, the Planning overhead rate be set at 159.58%, and the Beach, Park and Recreation overhead rate be set at 67.45% for the Fiscal Year 2005-06

Budget. It is further recommended that the additional 28% Planning overhead rate for updates to the City Master Plan remain the same.

Environmental Program Update

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

Street Improvement Program

1. Approve and authorize the allocation of a General Fund contribution of $614,930 for the coming FY 2005/06.
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.
4. Approve the Street Improvement Program schedule modification to accelerate four street projects east of the freeway area from FY 2007/08, and combine them with other street projects within the same area in FY 2005/06 due to the proximity of these streets.
5. Approve the Street Improvement Program schedule modification to accelerate Camino San Clemente from the FY 2007/08 to FY 2005/06.

Revenue & Fee Analysis

1. Conduct an in-house study on construction permits fees and include an automatic fee escalator in the fee resolution, when appropriate.
2. Repeal the municipal code section which requires the licensing of bicycles.
3. Investigate the possibility of returning the code enforcement of mobile home parks to the State Department of Housing and Community Development.
4. Review the sewer connection fee.
5. Conduct an in-house study on development processing charges and include an automatic fee escalator in the fee resolution, when appropriate.
6. Conduct a comparative rate analysis of ambulance transport rates.
7. Prepare a resolution for City Council to approve change in the fee structures for special events and commercial filming.
8. Conduct an in-house study on community development service charges and include an automatic fee escalator in the fee resolution, when appropriate.
9. Conduct an analysis of the basis of the charge and determine the cost recovery and market comparability study for all recreation program fees.

State Impact Financial Analysis

1. Work with other cities and the League of California Cities towards control of local revenues.
2. Push for stable sources of local tax money.
3. Share information with community/civic groups.
4. Report back to City Council as needed.

Downtown Strategic Plan Implementation

1. Continue meeting with the Downtown Visioning Task Force, to finalize the Draft Downtown Vision and Strategic Plan and refine policy recommendations related to parking resources and the potential need to

update the 2002 Downtown Parking Needs Assessment, and potential for a Civic Center relocation.

2. Develop a timeline and budget, for possible amendment to the 2005 Vital Few Priorities, policy-level implementation of the Downtown Vision and Strategic Plan, once the visioning and strategic planning process is complete.
3. Develop a timeline and budget, for possible amendment to the 2005 Vital Few Priorities, work required to establish public/private partnerships for the revitalization of "catalytic opportunity" sites, once the visioning and strategic planning process is complete.

Master Plan for City Facilities

1. Continue to analyze long-term costs of service, including contract Fire and Police Services, as well as contract Park Maintenance services, and strategize options for bringing the long-term budget into balance.
2. Continue consideration for revenue-generating uses for the La Pata/Vista Hermosa site that help address long-term budget concerns. Options for disposition of land in the "development area" of the La Pata/Vista Hermosa site should look first to balance land lease revenue with operations & maintenance increases created by each phase; only then consider the selling of land to make up the shortfall of capital costs of park construction.
3. Recognizing the critical need for additional community recreational facilities, direct staff to proceed with the planning and design of mandated park projects in the MPCF. Delay construction of some facilities within the MPCF until sustainable revenue is ensured and verifiable that can be used for *operations and maintenance* and operations of those facilities.
   a. Continuation of planning/design/construction of the following: Talega parks & trails; Marblehead Coastal parks & trails; La Pata/Vista Hermosa Community Park, Phase I and Senior Center.
   b. Recommend continued study until O&M/capital sources are verified for the following: Steed roller hockey phase; Ave. La Pata streetscape extension (to City border), and; Joint-Use of CUSD school sites where City maintenance funds are required.
   c. Any projects proposed by Staff to be placed on indefinite hold until O&M/capital costs sources are found are to be submitted to Council for consideration.
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 $38.7 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.
6. Explore cost-sharing partnerships for operation of new facilities;
7. Revisit the schedule of fees and charges associated with Beaches, Parks & Recreation facilities and services.
8. Evaluate the near term and long term prospects for a Civic Center as part of the Vital Few Priority process for next fiscal year.

PERS Unfunded Liability

1. Extend the amortization period of the City's PERS unfunded liability from eight years to fifteen years. This will reduce the amount of the City's FY

2005-06 payment by $326,000.

2. Move to a 15 year amortization period for FY 2005-06, allowing the amortization period to decrease for five years, then re-establish a new fifteen year amortization period.

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 increases the annual capital plan from five years to six years.

Current Policy Statement	*Approved Policy Statement*
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 develop an annual six-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.

2. **Reserve Policies: This change adds specific reserve requirements for outstanding subsidence claims.**

Current Policy Statement	*Approved Policy Statement*
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims. The City shall reserve 25% of the estimated claim amount for outstanding subsidence claims.

Long Term Financial Plan

Recommendation

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

Council Action

The Capital Improvement Budget Policy recommendation was approved by the City Council by a vote of 5-0 on March 9, 2005. The recommended change to Reserve Policy was not approved by City Council on March 9, 2005.

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.	√	

Long Term Financial Plan

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

Fiscal Policy Statement	Status	Comments
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual six-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).	√	

Fiscal Policy Statement	Status	Comments
The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the Master Plan for City Facilities.	√	
Short-Term Debt Policies		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	√	
The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	
Long-Term Debt Policies		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current ongoing operations.	√	

Fiscal Policy Statement	Status	Comments
Reserve Policies		
The City will maintain General Fund Emergency reserves at a level at least equal to 8% of general fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	√	Emergency Reserve = \$3,291,640, or 8% of General Fund operating expenditures for FY 2005-06
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 = \$405,500 for FY 2005-06
Council approval is required before expending General Fund Emergency or Contingency Reserves.	√	
The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employee. The level of this reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.	√	Accrued Leave Reserve = \$390,350 for FY 2005-06
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims. The City shall reserve 25% of the estimated claim amount for outstanding subsidence claims	--	General Liability Reserve = \$300,000 (Additional \$292,675 reserve for claims not covered by insurance pool and \$2,575,000 for subsidence claims) Workers Compensation Reserve = \$900,000 (Additional \$531,569 for claims not covered by insurance pool)

Fiscal Policy Statement	Status	Comments
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.	√	Water $395,000 Sewer $476,000 Solid Waste $12,000 Golf $168,000 Storm Drain $64,000
The City will establish a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles. The reserve will be maintained at a level at least equal to the projected five-year capital asset replacement costs.	√	Capital Equipment Reserve = $895,350 for FY 2005-06
The City will establish a Facilities Maintenance Capital Asset Reserve for costs associated with the maintenance of all City facilities. The reserve will be maintained at a level at least equal to the projected 5-year facilities maintenance costs.	√	Facilities Maintenance Reserve = $707,285 for FY 2005-06
The City will maintain an Employee Computer Purchase Program Reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. This reserve will be reviewed annually to determine if reserve balances are adequate to cover estimated loan balances.	√	Employee Computer Purchase Reserve = $75,000 for FY 2005-06
The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	Fleet Replacement Reserve = $3,981,578 for FY 2005-06

Fiscal Policy Statement	Status	Comments
The City will establish a Golf Course Depreciation Reserve for costs associated with the replacement of equipment/physical plant and course improvements 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 Golf Course replacement costs.	√	Golf Depreciation Reserve = $663,700 for FY 2005-06
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.	--	Golf Course Improvement Reserve = (510,000) for FY 2005-06
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	A Fixed Asset physical inventory was conducted for GASB34 conversion
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	

Fiscal Policy Statement	Status	Comments
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Standard & Poor's = AA This change reflects an upgrade in the City's credit rating from AA- to AA in December 2002.
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

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

Debt Policy

Debt Policy Statement	Status	Comments
Purposes and Uses of Debt		
Debt will be issued for a capital project only in the case of emergency. Debt will only be undertaken when the City believes that the project revenues or specific resources will be available to service the debt over its life.	√	
The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if debt will not be issued for periods exceeding the useful life or average useful lives of the projects to be financed.	√	
The City will issue general obligation bonds only for the purpose of acquiring, improving or constructing real property.	√	
The City may use lease revenue debt or financing leases for those projects which must be financed at a time, or in a manner which do not permit the use of general obligation bonds.	√	
The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives.	√	
The City will approve conduit financing only for those projects that demonstrate a "significant public benefit."	√	
The City will consider conduit debt financing only for those applicants which are credit-enhanced or guaranteed so as to attain a rating of at least "A" from any one of the three major credit rating agencies.	√	

Debt Policy Statement	Status	Comments
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.	√	

Debt Policy Statement		Comments
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	√	
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.	√	

Debt Policy Statement	Status	Comments
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 fourteen 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 are presented and identify 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, 2004

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal year 1999-00 through fiscal year 2003-04. Consequently, all trends are based on data available as of June 30, 2004, 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.
Caution:	This rating indicates that a trend, currently in compliance with adopted fiscal policies, may change from a positive direction in the future.
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.
Unfavorable:	This trend is negative, and there is an immediate need for the City to take corrective action.

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 with the exception of Revenues Per Capita, which received a warning

Indicator	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Revenues Per Capita	**W**	W	F	F	F	F	F	F	F	F
Property Tax Revenues	**F**	F	F	F	F	F	F	F	U	U
Property Values	**F**	F	F	F	F	F	F	F	U	U
Population	**F**	F/C	F	F	F	F	F	F	F	F
Elastic Revenues	**F**	F	F	F	F	F	F	F	F	F
Sales Tax Revenues	**F**	F	F	F	F	F	F	F	F	F
License & Permit Revenues	**F**	F	F	F	F	F	F	U	F	F
Comm. Develop. Charges	**F**	F	F	F	F	F	F	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	F
Revenue Overage	**F**	F	F	F	F	F	F	F	F	F
Expenditures Per Capita	**F**	F	F/C	F	F	F	F	F	F	F
Expenditures By Function	**F/C**	F/C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	**F**	F	F	F	F	U	U	F	F	F
Fringe Benefits	**F/C**	F	F	F	F	F	F	F	F	F
Capital Outlay	**F**	F	F	F	F	F	F	F	F	F
Operating Position	**F**	F	F/C	F	F	F	F	F	F	F
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	**F**	F	F	F/C	F/C	F/C	F	F	F	F
Fund Balance	**F**	F	F	F	F	F	F	F	F	F
Liquidity Ratio	**F**	F	F	F	F	F	F	F	F	F

The Favorable/Caution rating has been assigned to Expenditures By Function and Fringe Benefits

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

Overview of the City's Financial Condition

The improved fiscal health of the City as 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. In addition, the City regularly updates a Fiscal Impact Model, created to analyze the impact of future land-use alternatives on the fiscal health of the City. The Fiscal Impact Model projects the effects of residential and commercial development, population increases and changes to the City's Master Plan for Facilities over a twenty-year time-frame. The model acts as an early warning system, providing City Council and staff the opportunity to consider and react to potential changes to the City's fiscal health.

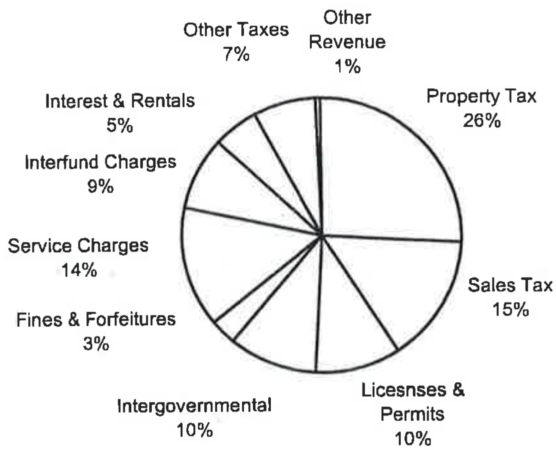
The 2005 Long Term Financial Plan again includes the analysis of twenty-one trends. The current year being analyzed shows every indicator receiving a *favorable* rating except for Revenues Per Capita. The Expenditures By Function and the Fringe Benefit indicators, although receiving a favorable rating, received an additional caution rating. In total, these current year results are an improvement over 1996, wheen three indicators received unfavorable signs.

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 substantially. 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.

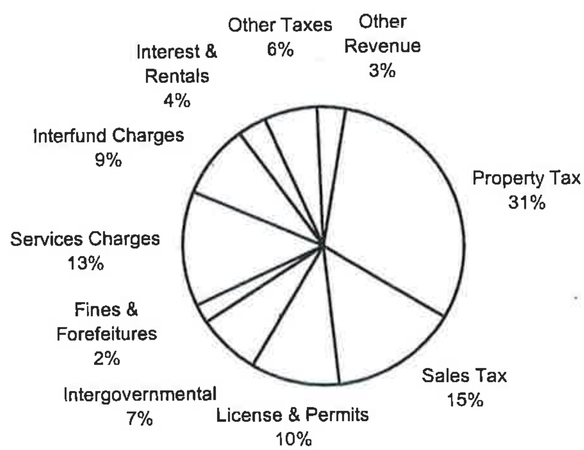
The following sections provide an overview of the indicators listed in the preceding table.

Comparison of Revenues by Source 1999-00 vs. 2003-04

1999-00



2003-04

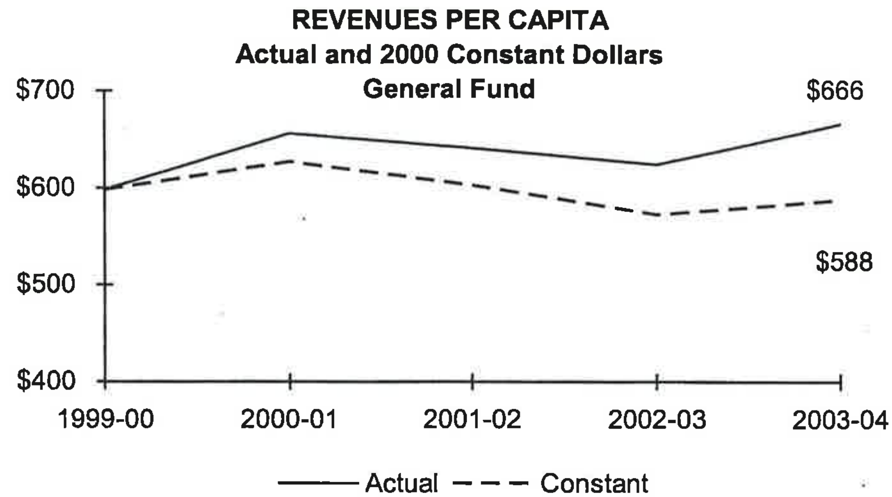


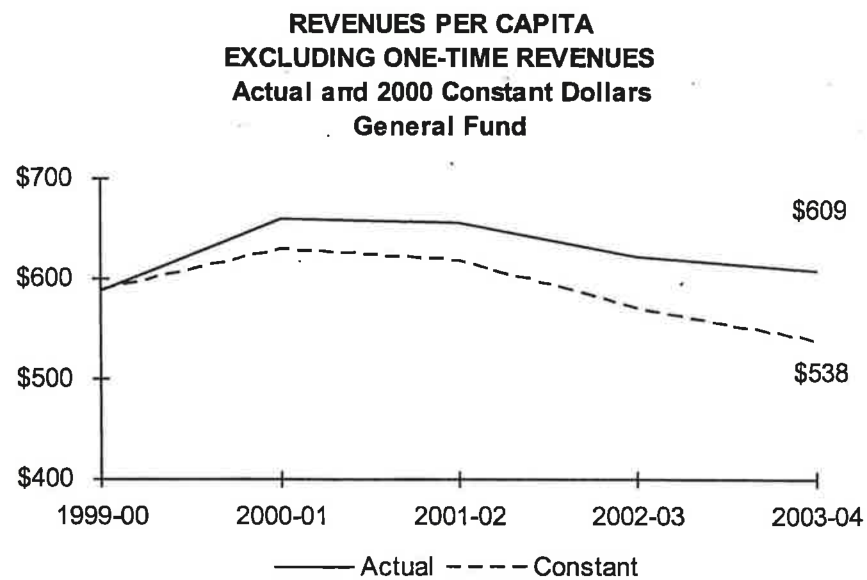
Property Tax revenues increased from 26% in 1999-00 to 31% in 2003-04

Comments: These charts indicate that most revenue sources, as a percentage of the total General Fund revenues, have remained stable with the exception of Property Tax. Property Tax revenues increased from 26% in FY 1999-00 to 31% in FY 2003-04 due to an increase in housing prices and an increase in new housing production and the related development.

Revenues

Revenues Per Capita





Revenues per capita (excluding one-time revenues) show a downward trend

Finding: ***Warning.*** Revenues per capita (excluding one-time revenues) reflect a slight decrease when analyzing both actual and constant dollars for FY 2003-04. According to the ICMA guidelines, decreasing revenues per capita in constant dollars suggest a warning trend.

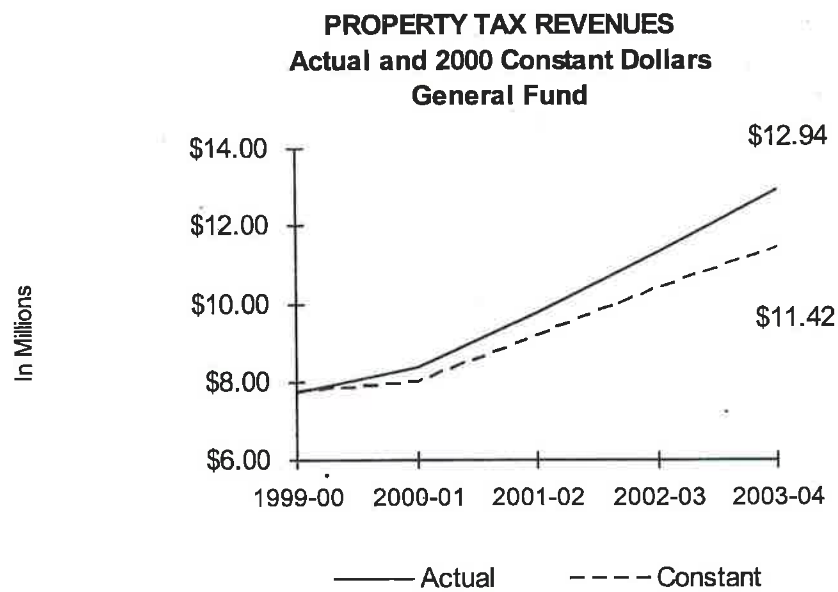
Comments: The first chart above shows a slightly upward trend from $624 to $666 in constant dollars due to two major factors. First, one-time revenue of $1,402,000 was included. One-time revenue includes the sale of land totaling $1,104,000. Second, total revenues for FY 2003-04 increased as the City's major revenue category, property taxes increased by $1,618,300.

The second chart (which excludes one-time revenues) shows a decrease in both actual and constant dollars for FY 2003-04. 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. While General Fund revenues remain stable, a warning trend is issued as the trend continues in a downward slope.

The City anticipates that this warning trend will improve in the future due to the addition of the Marblehead Retail Center, which will increase revenues, and that the population growth will slow due to the build out of the City in fiscal year 2008.

Property Tax Revenues

Property tax revenues increased by 14.3%, the eighth consecutive increase

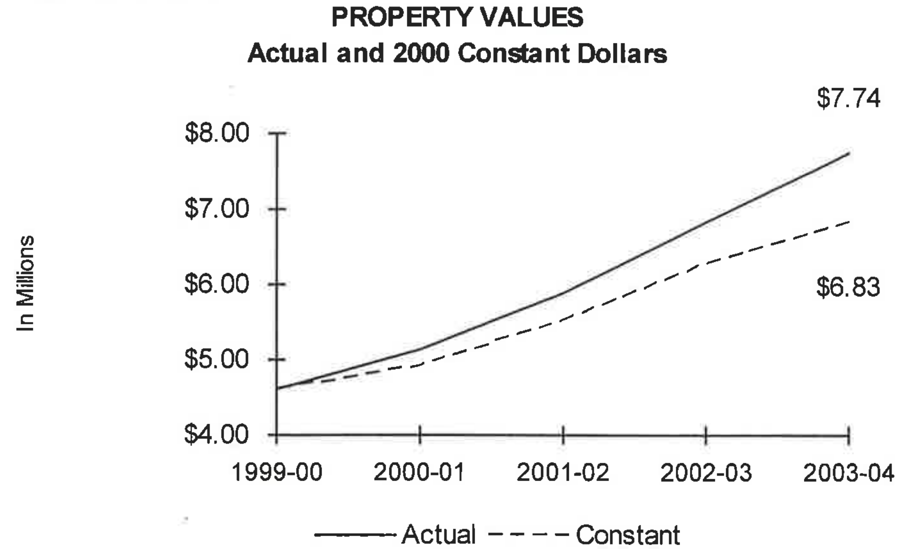


Finding: ***FAVORABLE.*** Property tax revenues showed a significant increase for FY 2003-04, continuing the positive trend which began seven years earlier.

This increase amounted to $1,618,300

Comments: Property tax revenues increased by $1,618,300 or 14.3% in actual dollars, and show a 9.9% increase in constant dollars, ending the year $1,031,400 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 eighth consecutive year.

Property Values

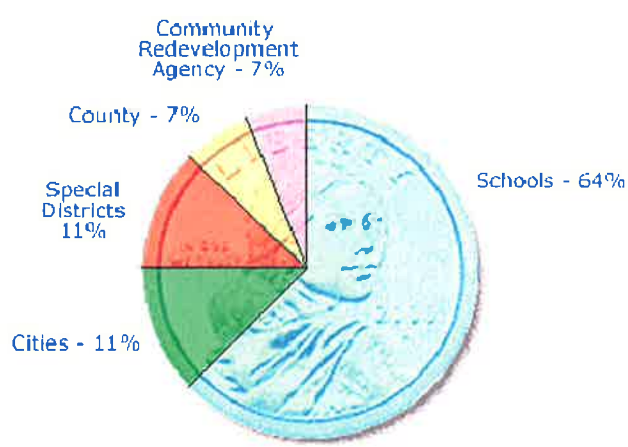


A positive growth rate in property values was observed for the eighth consecutive year

Finding: ***FAVORABLE.*** Property values showed a positive growth rate for the eighth consecutive year in FY 2003-04.

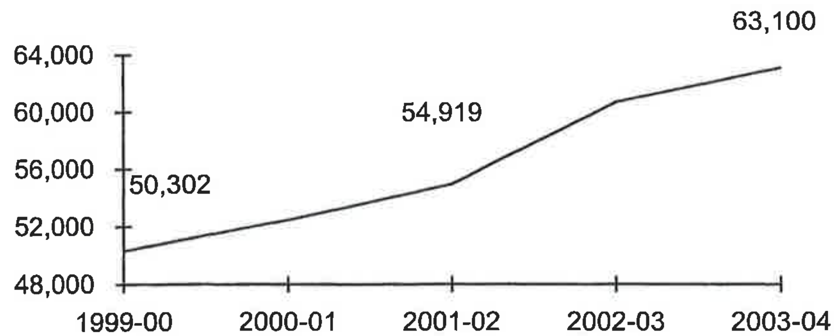
Comments: The growth rate in property values as a percentage rate from the previous year shows an increase of 13.3%. This is the eighth consecutive year where a positive trend has continued. As a result of the positive changes, this indicator remains favorable. It should be noted, however, that this 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

POPULATION
City of San Clemente



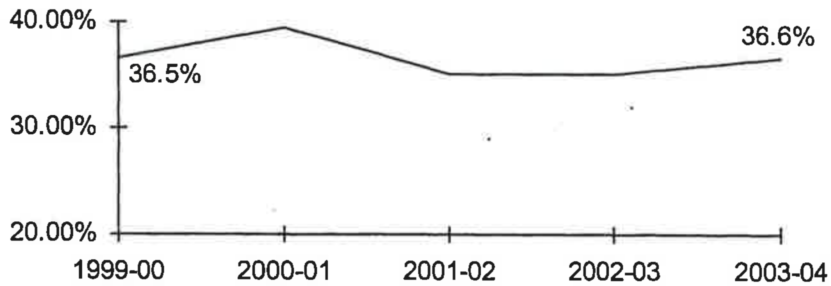
5.9% average growth over the last five years

Finding: ***FAVORABLE.*** The City's population growth, an average of 5.9% over the last five years, is considered favorable because this growth has been planned and controlled. The trend upgrades from favorable/caution to favorable as growth from FY 2002-03 to FY 2003-04 came in at 4.0%, down 6.5% from the prior year change.

Comments: The exact relationship between population change and other economic and demographic factors is uncertain. However, a sudden increase in population can create immediate pressures for new capital expenditures and higher levels of service. Conversely, a rapid decline in population allows for a smaller tax base for spreading City costs that cannot be reduced in the short run. 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
As a Percentage of Operating Revenues
General Fund

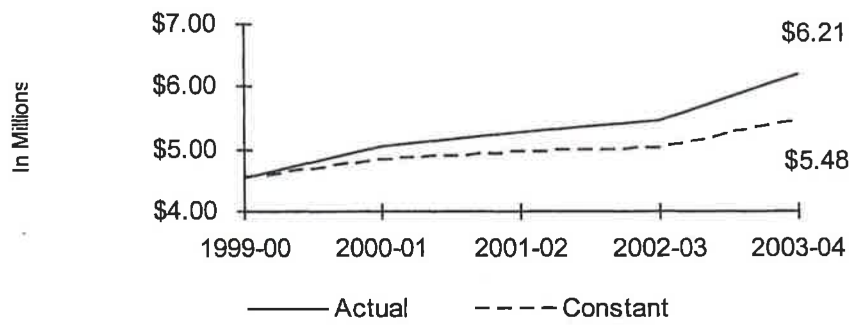


Elastic revenues increased slightly when calculated as a percentage of total revenues

Finding: ***FAVORABLE.*** Elastic revenues, as a percentage of total revenues, show a slight increase from FY 2002-03 to FY 2003-04. Actual elastic revenues increased $1,264,400, while total revenues increased by $1,787,800.

Comments: The City's largest elastic revenue source, sales tax revenue, was up 13.5%, or $739,800. License and permit revenues increased $628,200 while community development service charges decreased $172,800 from the previous year. Elastic revenues, as a percentage of total revenues, increased slightly in FY 2003-04 due to the increase in both sales tax and license and permit revenues. 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
Actual and 2000 Constant Dollars
General Fund

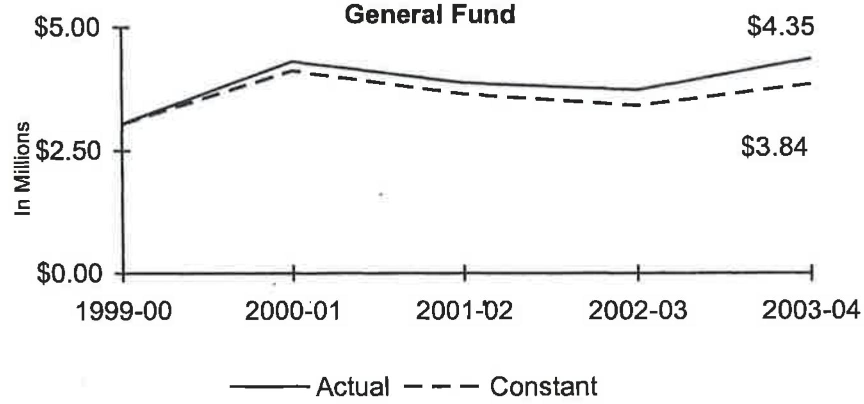


Sales tax revenues increased $739,800 in FY 2003-04

Finding: ***FAVORABLE.*** As summarized in the chart above, sales tax revenues showed an increase of $739,800, or 13.5%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to $461,000, or 9.2%.

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 36.6% from sales tax revenues recorded in FY 1999-00. These increases boost sales tax revenue to a fifteen-year high in actual dollars and the result is a favorable rating.

LICENSE & PERMIT REVENUES
Actual and 2000 Constant Dollars
General Fund

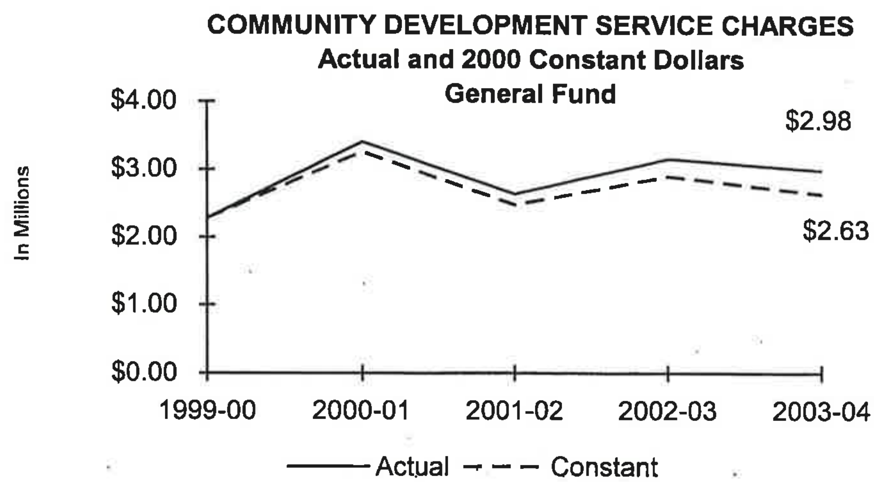


License and permit revenues increased

Finding: ***FAVORABLE.*** License and permit revenues increased for the first time in three years. The increase in actual dollars amounted to $628,200, or 16.9%, above the prior fiscal year. The constant dollar increase registered $424,200, or 12.4%, over fiscal year 2002-03.

Construction permit revenue increased while business license revenue declined

Comments: While construction permit revenue increased $808,500, or 33.1% over the past year, business license income decreased from the prior year. A favorable rating has been assigned based on the development activity continuing as planned.

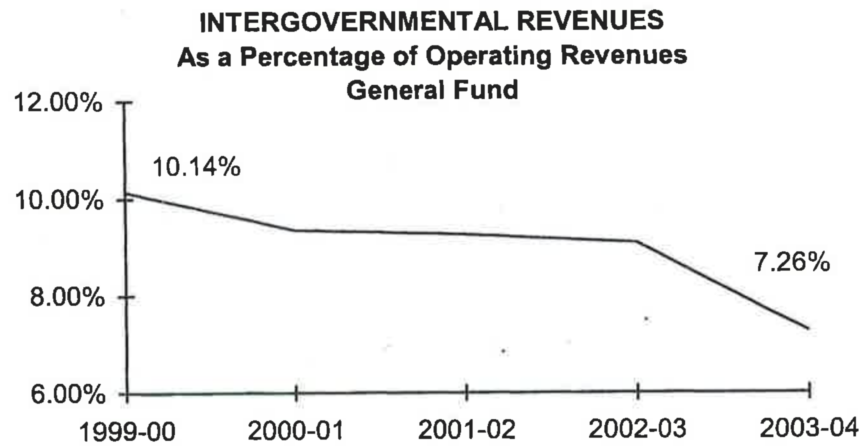


Finding: ***FAVORABLE.*** Total community development service charges decreased by 5.5%, or $172,800 from the prior year. This revenue source shows a decrease from the previous year and is more comparable to the revenues received two years prior. This trend is anticipated to decline as development within the City slows down.

Community Development Service Charges recorded a decrease of $172,800

Comments: Building plan check fees increased by $230,100 and single family residence plan check fees increased $55,200. Specific revenue sources showing decreases include construction inspection fees of $423,200 and improvement plan check fees of $38,900. This indicator has been assigned a favorable rating.

Intergovernmental Revenues

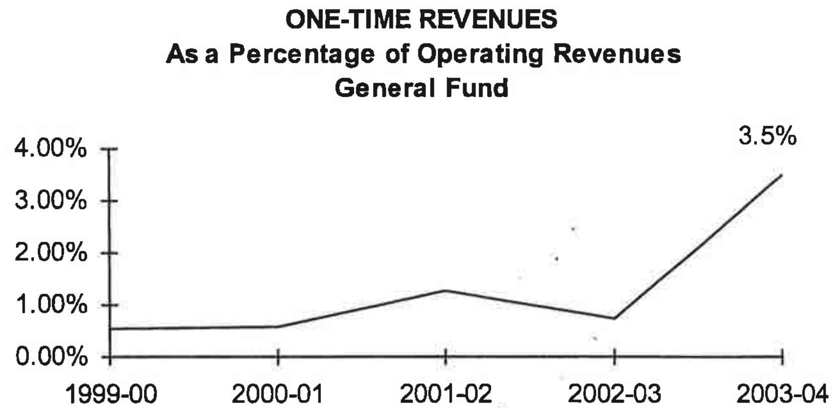


Intergovernmental revenues show a downward trend

Finding: ***FAVORABLE***. General Fund Intergovernmental revenues, as a percentage of operating revenues, showed a downward trend.

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 91% of the total intergovernmental category. Motor vehicle tax declined as a result of the State's termination of the backfill of payments to the City for a portion of the 2003-04 fiscal year.

One-Time Revenues

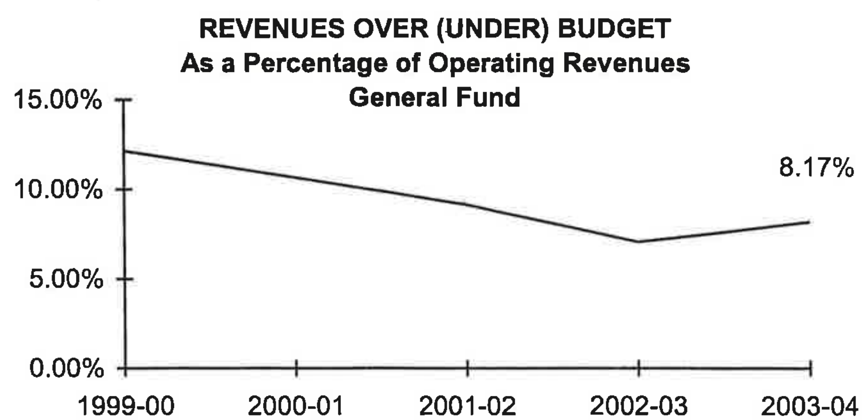


In accordance with fiscal policies, one-time revenues are used to fund one-time expenditures

Finding: ***FAVORABLE***. One-time revenues, as a percentage of total General Fund revenues, equaled 3.5% in FY 2003-04, higher than the prior year.

Comments: One-time revenues have increased from the prior fiscal year by $1,121,200. FY 2003-04 one-time revenues, totaling $1,401,800, includes $1,103,900 for the sale of land parcels 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



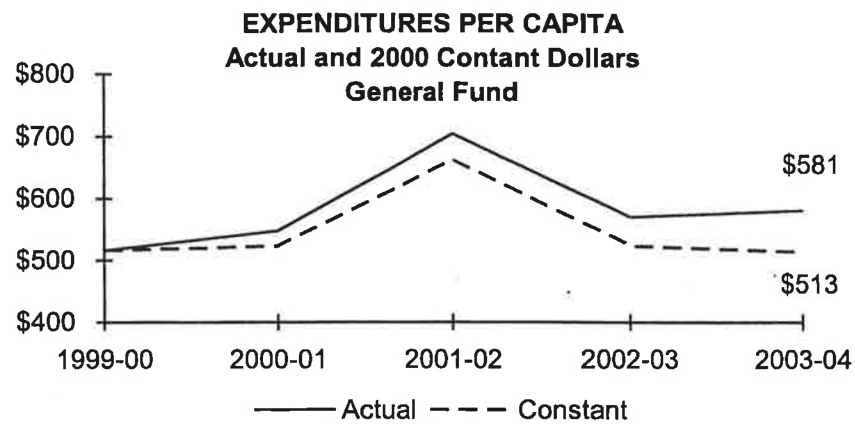
The City experienced increases in many revenue categories

Finding: ***FAVORABLE.*** Actual revenues exceeded budget by $3,436,500 for fiscal year 2003-04 and ends with a positive revenue position over budget by 8.17%. The City experienced revenues over budget in many categories, including service charges ($1,272,500), license and permit revenues ($502,900), sales tax ($497,100), property taxes ($328,000), other taxes ($245,600), and fines and forfeitures ($165,900). 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 12.14% and ended FY 2003-04 at 8.17%. 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.

Expenditures

Expenditures Per Capita



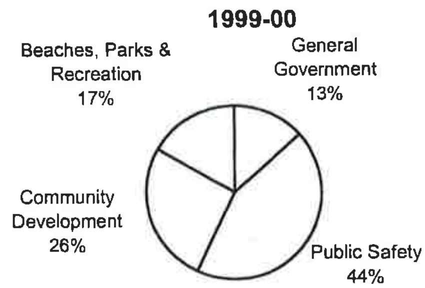
Finding: ***FAVORABLE.*** Expenditures per capita increased slightly in actual dollars and decreased slightly in constant dollars for the past fiscal year when compared to the prior year.

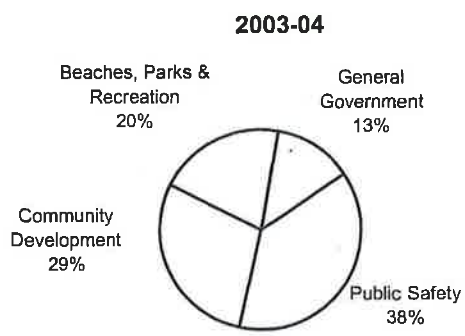
General Fund expenditures increased $2,093,500 in FY 2003-04

Comments: In FY 2003-04, expenditures increased in actual dollars by $2,093,500 when compared with FY 2002-03, and $634,700 in constant dollars for the same time period. These amounts are in line with all fiscal years analyzed with the exception of FY 2001-02 which included planned transfers to other City funds.

With the exception of FY 2001-02, expenditures per capita in constant dollars shows a relatively flat expenditure level throughout the five-year period. A favorable 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 Function 1999-00 vs. 2003-04





Expenditures by function is a newly added trend

Finding: ***FAVORABLE/CAUTION***. Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay), varied in three out of the four areas noted. While this could be cause for concern, this is the second year in which this trend has been evaluated and many changes occurred in the City's make-up between FY 1999-00 and FY 2003-04 which help explain the changes.

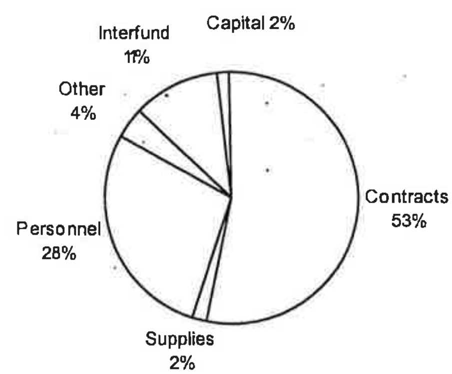
Comments: While a 6% decrease of the percentage of expenditures in Public Safety is depicted, this is directly related to the percentage of actual dollars increased from FY 1999-00 to FY 2003-04 in Community Development and Beaches, Parks and Recreation expenditures. Actual Public Safety expenditures increased $2.6 million, or 25%, while actual Community Development expenditures increased 56% and Beaches, Parks and Recreation increased 76% from FY 1999-00 to FY 2003-04. These large increases are due to increased development in the Talega and Forster Highland areas of the City and increased expenditures for eleven added recreation positions, two newly added parks, increased or enhanced park and beach maintenance and other operational expenditure increases.

The City has recorded increased revenues to offset the development costs. This is not the case with the beaches, parks and recreation expenditures. Due to Proposition 218 the lighting and landscape expenditures, which were once paid for through special assessment revenues, were cut back drastically in 1997-98 and absorbed by the General Fund. Thus, many of the increased expenditures were needed to reinstate or restore previous services funded through the special district. This trend will be closely monitored to insure that adequate funding is available to continue supporting beach and park maintenance and recreation programs.

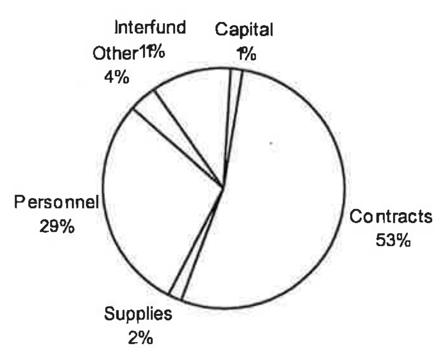
All expenditure categories were relatively unchanged from FY 1999-00 to FY 2003-04

Comparison of Expenditures by Category
1999-00 vs. 2003-04

1999-00

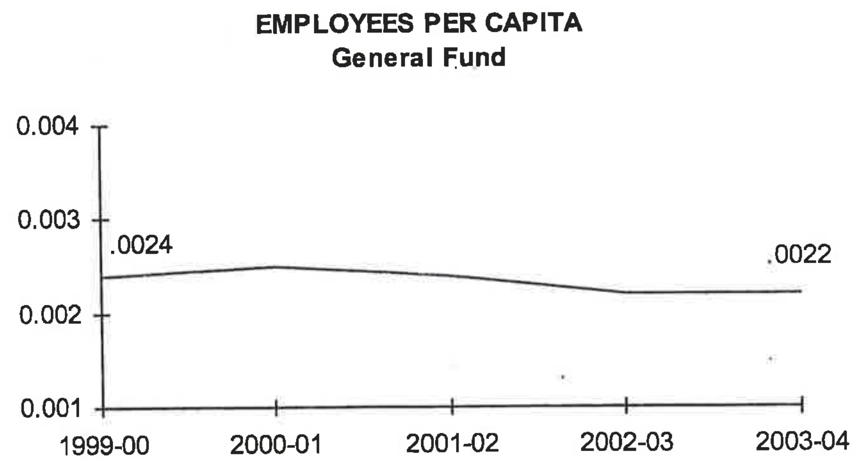


2003-04



Comments: The previous charts indicate that all expenditure categories, as a percentage of the total General Fund expenditures, were relatively unchanged from FY 1999-00 to FY 2003-04.

Employees Per Capita

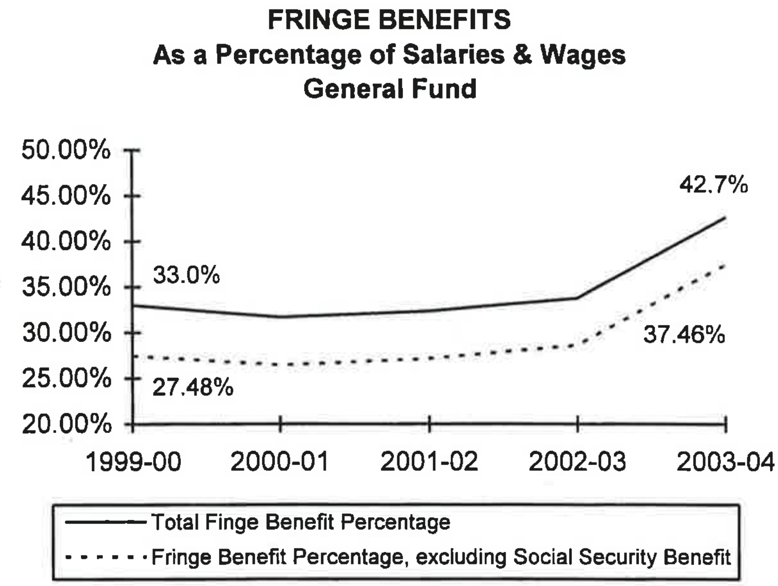


Finding: ***FAVORABLE.*** Employees per capita has remained stable over the last five years as both population and the number of employees have increased.

FTE's keep up with service level demands

Comments: This indicator is awarded a favorable rating for the fifth consecutive year due to the increase in Full Time Equivalent's (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

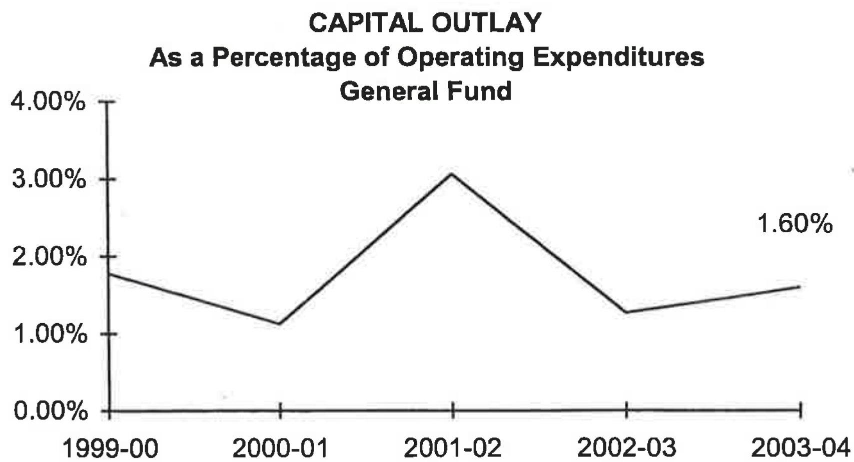


Benefit costs are up 8.9% over the prior year

Finding: ***FAVORABLE/CAUTION.*** Fringe benefits, as a percentage of General Fund salaries and wages, have increased from 33.0% to 42.7%. While this would be cause for concern, this is the first year in which this trend has exceeded the average fringe benefit rate of thirty-five percent experienced by the City for the previous five fiscal years. Other cities have also recently experienced similar increases in benefit costs.

Comments: One major component of the increased benefit percentage is due to the rising retirement contribution after several years of low interest rates on the investments of the pension fund due to the low interest rate environment. Another component resulted from the prior year negotiations with the City employees that resulted in increased medical benefit costs for the City and limited growth in employee's salaries for both full-time and part-time employees. A caution rating has been assigned, since this increase was part of a negotiated process. The fringe benefit percentage is comparable to other cities in the area, once the employer contribution made by the City to the Social Security system is removed, as other cities do not participate in the Social Security system. Please refer to the graph above, which shows the City's fringe benefit percentage with and without the Social Security benefit.

Capital Outlay



Finding: ***FAVORABLE.*** Capital outlay expenditures increased by $148,200, or 34.0%, from the prior fiscal year. Capital outlay expenditures totaled $584,925. Major capital projects within the Parks and Recreation function included $419,000 for park lighting, $40,000 for park equipment and $35,000 for vehicles in FY 2003-04.

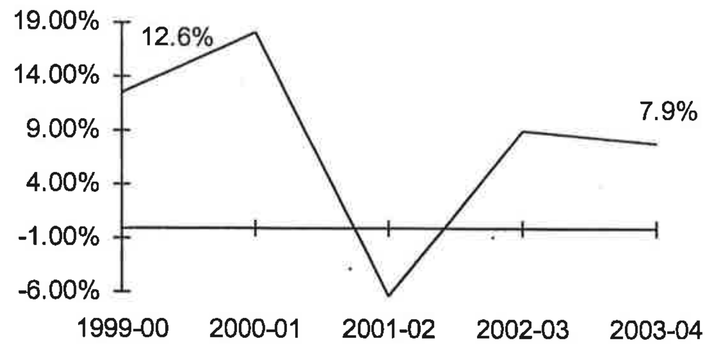
Comments: With the exception of FY 2001-02, spending on capital outlay has been relatively constant. While the City saw an increase from the prior year, the ICMA deems this as favorable. A warning would be issued only if the City had seen a three or more year decline in capital outlay, as a percentage of operating expenditures.

City continues to fund the capital equipment replacement program

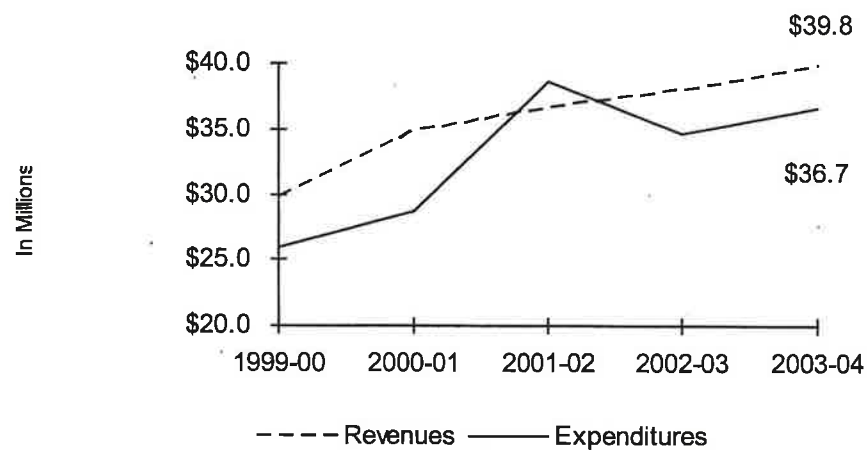
The Capital Equipment Replacement Reserve was established in FY 1994-95. This was the first year in which the reserve was fully funded and a transfer from the General Fund was not needed. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the tenth consecutive year because of the renewed commitment to upgrading fixed assets, which improves the efficiency of City operations.

Operating Position

OPERATING SURPLUS (DEFICIT)
As a Percentage of Operating Revenues
General Fund



OPERATING POSITION
Revenues vs Expenditures



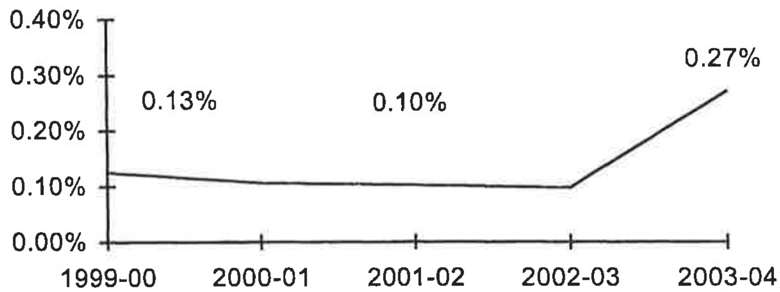
FY 2003-04 finished with an operating surplus

Finding: ***FAVORABLE.*** FY 2003-04 finished with an operating surplus of 7.9% when calculated as a percentage of General Fund revenues.

Comments: The City ended FY 2003-04 with another operating surplus. The operating surplus has come as a result of cost-saving measures implemented by the City Council and Administration in previous years and continued increases in revenues. Therefore, a favorable rating has been assigned.

Debt Service

DEBT SERVICE
As a Percentage of Operating Revenues
General Fund



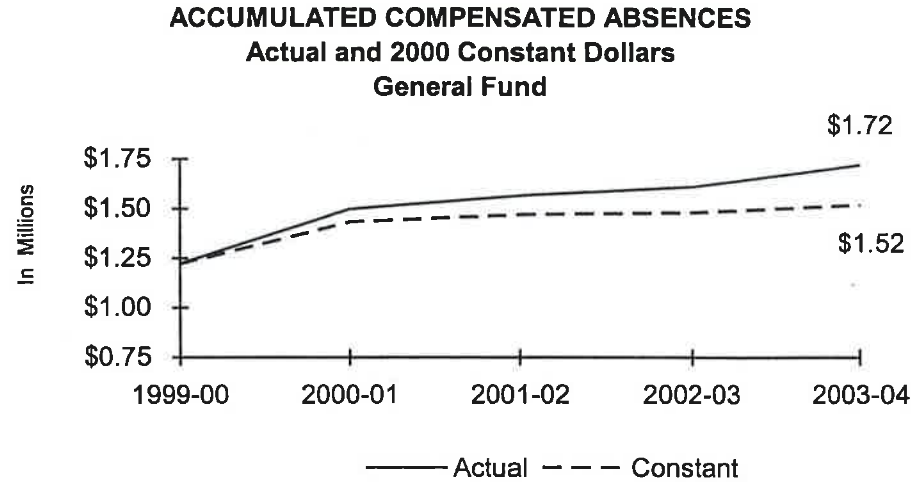
General Fund's debt service remains at less than 1% of total revenues

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 ten 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, upgraded the City of San Clemente's credit rating from AA- to AA in December 2002.

Comments: The City's slight increase in debt service cost is due to the payment of the outstanding balance of its capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings. This lease included heating, ventilating and air conditioning units and all related control devices. The lease was not due until 2006 but was paid off early as a money saving measure.

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

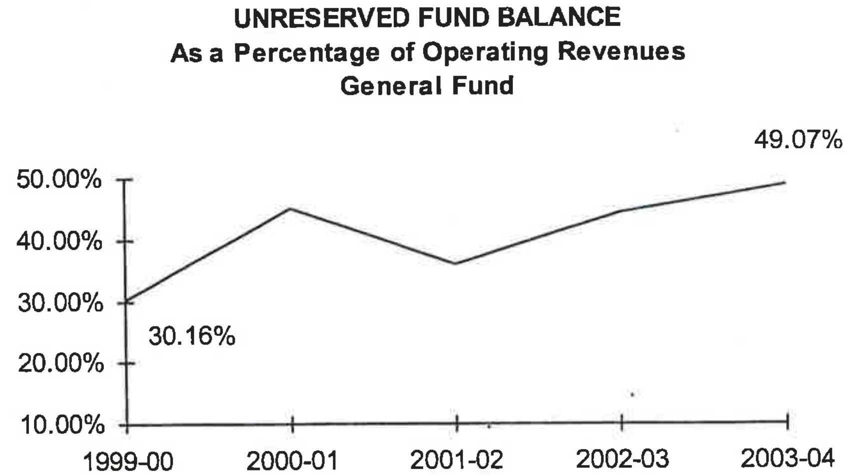
Finding: ***FAVORABLE.*** This indicator receives a favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-fourth of the reserve. While the accumulated compensated absences have shown increases over 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.

The balance of the liability for compensated absences is $1,721,960

Comments: At June 30, 2004, the balance of the liability for compensated absences was $1,721,960 consisting of $821,260 for vacation, $829,130 for sick leave, and $71,570 for compensatory time. This is an increase of $113,150, or 7.0% from the prior year's liability of $1,608,810. The number of City employees in the General Fund increased by 8 FTE's in FY 2003-04, thus explaining the increase in the compensated absences liability.

In FY 1994-95, an Accrued Leave Reserve was established with a $75,000 transfer from the General Fund. In FY 2003-04, the General Fund continued its annual contribution of $40,000 for the payment of accrued leave for terminated employees. As of June 30, 2004 the Accrued Leave Reserve balance was $226,390.

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.

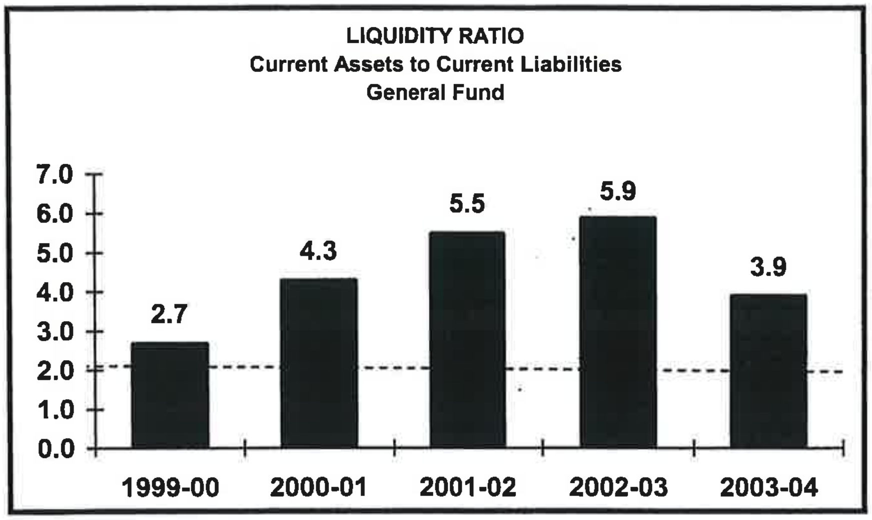
Unreserved fund balances increased to 49.07% in FY 2003-04

Comments: Unreserved fund balance, as a percentage of total revenues, rose 4.6% in FY 2003-04 as a result of an increase in unreserved fund balance of $2,624,100. The increase in fund balance is due to an operating surplus of $3,152,700. 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 = $2,681,600

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 2003-04 unreserved fund balance of $19.5 million is undesignated funds of $16.8 million and designated funds of $2.7 million for the General Fund Emergency Reserve. The annual contribution to the emergency reserve is discussed in detail in the Reserve Analysis section of the LTFP.

Liquidity Ratio



Finding: ***FAVORABLE***. In FY 2003-04, the City's liquidity ratio remains high at 3.9:1. Credit rating firms consider a ratio of 1:1 favorable. The City's 3.9:1 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 include accounts payable, accrued wages, accrued expenses and all obligations that can be immediately demanded for payment.

Financial Forecast

Annually, the City prepares a five-year financial forecast as a part of the Long Term Financial Plan. The financial forecast, along with an analysis of financial trends, becomes the foundation of the City's strategic plan. The financial forecast allows the City to determine how current spending plans will impact future budgets.

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 during 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. Revenues and expenditures are also increased for growth from development that will occur within the five-year forecast timeframe. For instance, property taxes, sales taxes and transient occupancy taxes for the Marblehead development are included in the forecast. Increased contractual costs for police and fire services, if known, are also included. Maintenance costs from new facilities already designed or included in developer agreements, such as the Talega and Marblehead parks, are also included.

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, October 2004 Economic Forecast for Southern California and Orange County. The forecast predicts that, "our overall assessment of the U.S. economy for 2005 and beyond is positive."[1]

Forecast Summary & Results

Revenue growth rates will average 4.1%

Over the five year forecast period, City's revenues are anticipated to grow by an annual average increase of 4.1% a year. Property taxes increase by $5.2 million over the five-year period due to new residential homes that will be sold in the Reserve, Talega and Marblehead and resale activity throughout the city. Sales taxes increase by $3.7 million over the forecast period, primarily from sales taxes generated from the Marblehead retail facility.

Expenditure growth rates will average 2.3%

Expenditures are projected to increase at an average rate of 2.3%. The majority of this growth is due to projected increases in staffing levels and contractual services.

- Anticipated increases to the police services contract include a $248,000 increase in FY 2005-06 to add overtime to each deputy position. One

[1] Cal State Fullerton, College of Business and Economics, Economic Forecast, October 2004.

position per year is also added to the forecast. Over the forecast period, the police services budget is anticipated to increase 26% from the current budget.

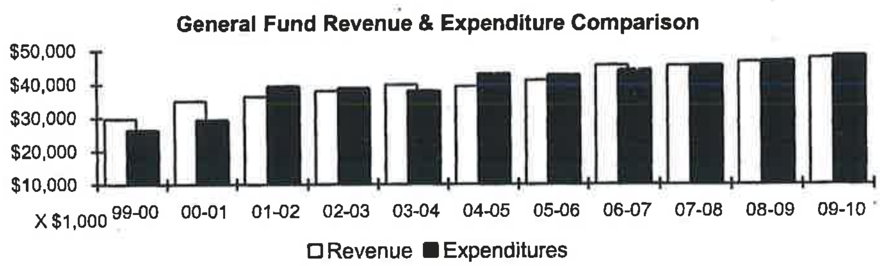
- Fire services costs are also anticipated to rise during the forecast period. The cap increases by 0.5% in FY 2005-06 to 4% for the remainder of the forecast period[2]. In FY 2005-06, another fourth firefighter position on Engine 60 will be converted from overtime to a full-time position. In FY 2006-07, the final position will also be converted from overtime to a full-time position and future costs will be under the contract cap. In total, the addition of the fourth firefighter increases costs by 23% during the forecast period.

- Costs for park and beach maintenance also increase due to construction and acceptance of two parks in Talega currently under construction, two parks in Marblehead that are included in the development agreement and a new senior center within the forecast period. In total, park maintenance costs are estimated to increase by $518,000 over the forecast period for these facilities.

- The forecast currently predicts a positive operating position in all five years of the forecast.

Historical and projected revenues and expenditures

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



Beginning in FY 2007-08, one-time revenue from development activity will begin to decline as the City reaches build-out. Revenue from licenses and permits, primarily from building permits, declines by $1.0 million. Service charges, primarily from construction inspection fees, will decline by $408,000 in FY 2007-08 followed by another decline of $800,000 in FY 2008-09.

Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts

[2] 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.

less operating disbursements and excluding one-time revenue and expenditures) are shown in the following graph.

2005 LTFP forecast - operating position

2005 Forecast Summary (LTFP)*

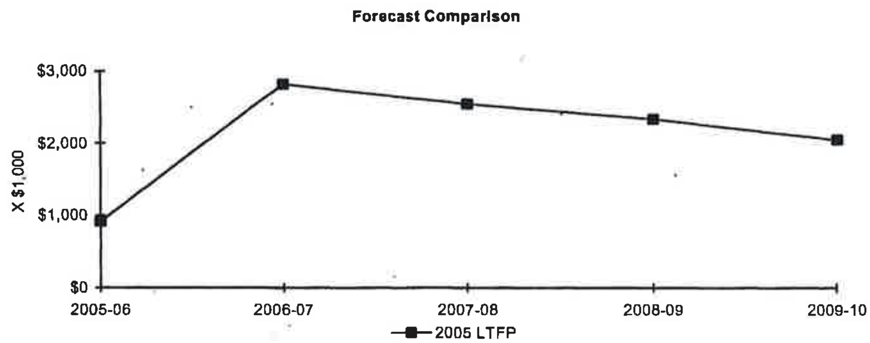
Amounts in $1,000

	2005-06	2006-07	2007-08	2008-09	2009-10
Operating receipts	$41,193	$44,666	$45,573	$46,733	$47,870
Operating disbursements	40,274	41,851	43,035	44,405	45,824
Projected surplus/deficit	$919	$2,815	$2,538	$2,328	$2,046

*One-time revenues and expenditures have been excluded. One-time revenues include state or federal grants and the scheduled repayment of vehicle license fees by the State in FY 2006-07. One-time expenditures include transfers to other funds, capital outlay, unfunded public safety liability payments and special projects.

General Fund Operational Position 2005 LTFP Forecast

The following chart shows the City's General Fund operational position for the 2005 LTFP forecast as projected.



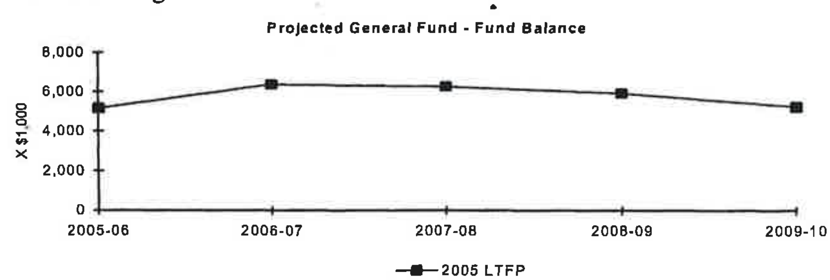
The forecast predicts a positive operating position in all five years

The positive operating position for all five years of the forecast is due to growth in revenue from property taxes, sale taxes and transient occupancy taxes from the Marblehead development. Offsetting these increases, revenue from development activity will decline dramatically as the City reaches build out.

Fund Balance

The City's projected fund balance in the General Fund averages $5.8 million over the forecast period

The chart below illustrates projected fund balances in the General Fund for the 2005 Long Term Financial Plan forecast.



Fund balances average $5.8 million over the forecast period.

General Fund - Fund Balance and Emergency Reserve

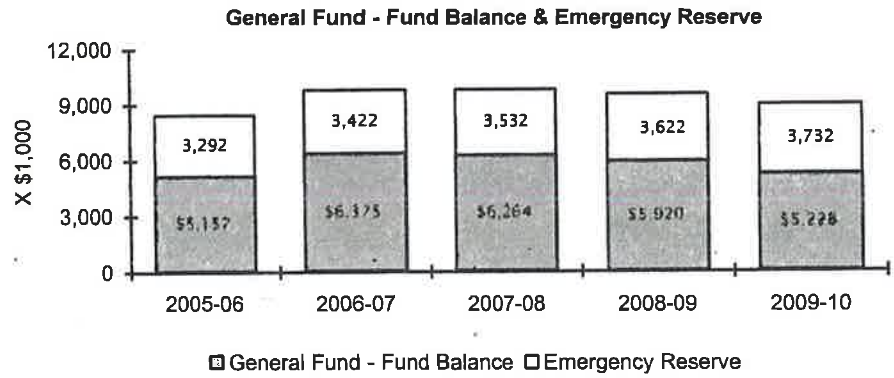
General Fund - Fund Balance and Reserves

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 positive. Emergency reserve levels have been maintained at the required 8% level.

Fund balance is projected to be positive in all five years of the forecast

General Fund - Fund Balance & Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Fund Balance	$,5157	$6,375	$6,264	$5,920	$5,228
Emergency Reserves (8%)	$3,292	$3,422	$3,532	$3,622	$3,732



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

General Fund - Cash Inflows and Outflows By Year

Amount in 1,000's

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Fund Balance	6,957	5,157	6,375	6,264	5,920
Receipts					
Taxes	26,883	30,070	31,684	33,870	35,245
Licenses & Permits	2,813	2,831	2,872	2,286	1,802
Intergovernmental	864	1,925	922	941	955
Service Charges	4,547	4,637	3,817	3,289	3,365
Fines & Forfeitures	995	1,021	1,040	1,058	1,074
Interest & Rents	1,456	1,508	1,641	1,699	1,759
Interfund Transfers	3,634	3,703	3,595	3,590	3,672
Total GF Receipts	41,193	45,695	45,573	46,733	47,870
Disbursements					
City Council	63	63	64	65	66
City Manager	481	491	503	515	527
City General	3,679	3,766	3,841	3,920	3,999
Finance & Admin. Services	470	480	492	503	515
City Clerk	592	669	621	700	653
Finance	1,204	1,230	1,260	1,290	1,321
Human Resources	436	446	457	468	479
Police Services	9,652	10,032	10,452	10,882	11,323
Fire Services	5,586	5,841	6,032	6,231	6,437
Comm Dev. Admin.	272	278	285	292	299
Building	1,949	1,991	2,038	1,919	1,965
Planning	2,017	2,060	2,110	2,162	2,214
PWAdmin/Economic Dev.	532	543	557	571	585
Engineering	4,121	4,207	4,013	4,111	4,211
PW Maintenance Services	2,897	2,961	3,035	3,110	3,187
B, P & R Admin.	514	524	537	549	562
Recreation	2,285	2,336	2,393	2,453	2,513
Beach & Park Maintenance	4,423	4,691	4,942	5,095	5,226
Marine Safety	1,079	1,102	1,128	1,155	1,182
New Employees	164	335	507	684	864
Negotiated Increases	296	302	308	315	321
Total GF Disbursements	42,712	44,347	45,573	46,987	48,451
Emergency Reserve	280	130	110	90	110
Reservation of FB	0	0	0	0	0
Ending Fund Balance	5,157	6,375	6,264	5,920	5,228

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

Disbursements by Category	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Salaries & wages	9,083	9,390	9,728	10,019	10,370
Employee benefits	3,690	3,812	3,946	4,067	4,208
Supplies	828	847	869	892	915
Contractual services	22,514	23,552	24,130	24,951	25,739
Other charges	945	967	992	1,018	1,044
Capital outlay	320	327	336	344	353
Interdepartmental charges	3,438	3,514	3,606	3,699	3,796
Interfund transfers	2,105	2,156	2,189	2,224	2,259
Total	42,712	44,347	45,573	46,987	48,451

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 October 2004. Additionally, data is provided by various City of San Clemente departments.

The forecast predicts Orange County's economy will begin to improve in 2005 and beyond

The Fullerton forecast predicts that Orange County's economy continues to improve in 2005 and beyond. The County employment growth forecast reflects a 0.3% growth rate in 2004 and 1.6% percent growth expected in 2005, with the majority of the jobs in the service providing industries. Business and professional services, followed by tourism and entertainment will contribute to the gain in employment growth. Personal income is forecasted to average 5.3%, compared to 4.6% in the prior year. Taxable sales are anticipated to grow at an annual average rate of 4.9%. Housing appreciation for resale homes is predicted to increase an average of 3.8%.

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 2.6 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 2005 Financial Forecast to project the various revenue and expenditure categories are delineated below:

Par #	Description	2005-06	2006-07	2007-08	2008-09	2009-10	Average
1	Inflation	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
2	Population	2.1%	1.5%	0.6%	0.6%	0.2%	1.0%
3	Assessed Valuation	3.8%	3.7%	3.8%	3.8%	3.8%	3.8%
4	Personal Income	5.9%	6.2%	4.8%	4.8%	4.8%	5.3%
5	Taxable Sales	5.7%	5.7%	4.4%	4.4%	4.4%	4.9%
6	Property Taxes	3.8%	3.7%	3.8%	3.8%	3.8%	3.8%
7	Trans. Occup. Tax	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
8	Franchise Taxes	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
9	Prop. Transfer Tax	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
10	Construction Permits	2.1%	1.5%	0.6%	0.6%	0.2%	1.0%
11	State Subventions	3.6%	2.7%	1.9%	1.9%	1.5%	2.3%
12	Service Charges	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
13	Interest Earnings	5.0%	5.2%	5.1%	5.1%	5.1%	5.1%
14	Pier & Beach Concessions	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
15	Interfund Charges	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
16	Salaries & Wages	2.6%	2.1%	2.3%	2.3%	2.3%	2.3%
17	Employee Benefits	2.6%	2.1%	2.3%	2.3%	2.3%	2.3%
18	Supplies	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
19	Services/Other Charges	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%
20	Capital Outlay	2.9%	2.3%	2.6%	2.6%	2.6%	2.6%

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

Inflation is projected to average 2.6%

- *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 2.6% per year.

Population estimates average 1.0% over the forecast period

- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes 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 1.0% over the forecast period.

2005-06	2006-07	2007-08	2008-09	2009-10
70,627	71,700	72,108	72,510	72,642
2.1%	1.5%	0.6%	0.6%	0.2%

Assessed Valuation is projected to grow by an average of 3.8%

- *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 3.8%.

Personal Income is projected to increase an average of 5.3%

- *Personal Income*: As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 5.3% 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 2005-06 are projected at 5.7% and 4.9% 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 2005-06.

- The forecast projections assume two new positions are added per year for a total of 10 positions.

- The Police Services budget includes one new contract position per year in each year of the forecast. In total, five new contract positions are added during the forecast period. This is consistent with previous forecasts which included one new contract position per year. In addition, a total of $248,000 has been added in FY 2005-06 to increase overtime for each deputy position.

- Contract staffing levels and contractual agreements for development related activities are reduced beginning in FY 2007-08, along with corresponding revenue. This includes contract engineering inspectors, limited-term building inspectors, contract plan checking and administrative support staff in the Building, Planning and Engineering divisions.

- Actual expenditures are projected at 1.0% 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 1.0% in all five years based on current revenue projections and conservative estimating techniques.

- One-time expenditures in the base year (FY 2004-05) have been excluded from the forecast. For example, the City's budget includes $35,000 for a compensation study, $72,900 for equipment and various reserve transfers including a $145,000 transfer to the Accrued Leave reserve and a $100,000 transfers to the Facilities Maintenance reserve. One-time revenues, such as a $186,600 transfer from the Miscellaneous Grants Fund for sidewalk repairs, have been removed from base year revenues.

- Capital Outlay amounts to $1.7 million in FY 2004-05 of the forecast for one-time capital improvements and capital equipment. These funds have been earmarked for lighting improvements at San Gorgonio Park and design of the beach access at Dije Court. Approximately $322,000, 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 are included for all five years of the forecast. The contract is capped at a total increase of 4% until FY 2010-11.

  The cap, however, does not apply to the cost of the fourth person added to each shift on Engine 60. These positions were filled by overtime in FY 2003-04. One full-time position per year was added to the contract cost the base year (FY 2004-05) of the forecast. Another position will be converted from overtime to a full-time position in FY 2005-06. By the second year of the forecast, the positions are all filled with permanent OCFA staff. *It should be noted that 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.*

- Maintenance costs for Talega Park II and Talega Park III are included in the forecast based upon operating costs provided by Beaches & Park Maintenance staff. Operations and maintenance costs for the approved Marblehead parks and the Senior Center have also been included. Since these parks are required developer contributions, these parks have to be maintained by the City once completed.

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at $684,620 for FY 2005-06:

	2005-06	2006-07	2007-08	2008-09	2009-10
Council Contingency	404,620	420,060	432,320	446,470	459,540
Emergency Reserve	280,000	130,000	110,000	90,000	110,000
Total	$684,620	$550,060	$542,320	$536,470	$569,540

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

- The General Fund Emergency Reserve was 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

	2005-06	2006-07	2007-08	2008-09	2009-10
Street Program	$614,930	$633,380	$652,380	$671,950	$692,110
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]	54,090	55,980	57,940	59,970	62,070
PERS Unfunded	980,120	995,000	995,000	995,000	995,000
Total	$1,711,140	$1,746,360	$1,767,320	$1,788,920	$1,811,180

- The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is $6.1 million and requires annual contributions to eliminate the liability. A separate issue paper has been included in the Long Term Financial Plan to address this liability, including recommendations.

[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. Five year forecasts have been prepared for the Water, Sewer, Golf, Storm Drain and Clean Ocean operating funds and are detailed beginning on page 23 of this issue paper.

No new or enhanced programs are included

- No new or enhanced programs are included in the forecast.
- The forecast does not include the establishment of any of the capital facilities (City Hall, beach replenishment, etc.) noted in the updated "Master Plan for City Facilities".
- Projected revenues or expenditures included in the City's Fiscal Impact Model are not included in the forecast. For instance, staffing levels are increased in the Fiscal Impact Model based upon service demands from new facilities. Maintenance costs are increased in the Fiscal Impact Model based upon new facilities identified in the Master Plan for City Facilities. As the Fiscal Impact Model identifies, these future costs are not financially sustainable and decisions must be made to change service delivery or identify revenue opportunities to provide a balanced financial future. The five-year forecast, in contrast, provides a more balanced picture of the City's future financial condition. It includes two new staff members and one new contractual police position per year to maintain the current levels of services dictated by population growth in the City during the forecast period.
- The forecast does not include any compensation adjustments that may result from the Compensation Study currently under review by the City.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan issue papers.

General Fund Revenues

Revenues are projected to increase an average of 4.1%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 4.1%, compared to a historical five year growth rate of 10%.

Property Tax revenue is projected to increase an average of 5.9%

- Property Tax revenue is projected to increase an average of 5.9% per year compared to a 12.8% average historical increase over the past five years.
- Sales taxes are anticipated to increase 10.1% over the forecast period due to the inclusion of the Marblehead Coastal retail development.
- Transient occupancy taxes are projected to increase by 10.3% due to the development of a 79,000 s.f. hotel that is scheduled to be built on the Marblehead property by FY 2006-07.

Construction permit revenues are reduced in the last two years to reflect decreased development activity

- Construction permit revenue is projected to decrease from a historical average of 34.2% to an average of –17.2% for the forecast period, as revenues are reduced in the last two years to reflect the anticipated level of decreased development activity.

- Service Charges are projected to decline an average -4.9% in the forecast period, compared to an 11.6% average historical growth rate over the past five years.

General Fund Revenue Growth

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 1999-00 to FY 2003-04.
- **2005 Projected Growth Rate**: Average annual rate of growth projected for the current five-year forecast.

General Fund Growth Rate

Historic Growth Rate	10.0%
2005 Projected Growth Rate	4.1%

Development activity will continue through FY 2007-08

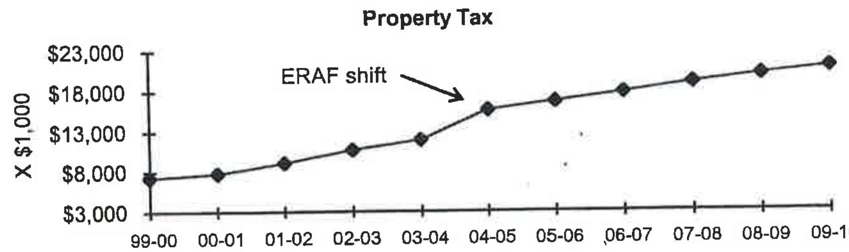
During the past five years, the General Fund revenue growth rate was 10%. primarily due to steady increases in property values, sales taxes and development related fees and charges. The 2005 forecast rate of 4.1% anticipates that development activity will continue through FY 2007-08 when the City is anticipated to reach build out. Property taxes, sales taxes and TOT are anticipated to increase due to this development, while permit fees and service charges will begin to decline starting in FY 2007-08.

Property Tax

Historic Growth Rate	12.8%
2005 Projected Growth Rate	5.9%

Property Tax revenues will increase by an average of 5.9%

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 39% 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 12.8%. Property taxes also increased due to the State's budget solution to "swap" the vehicle license fee backfill with Educational Revenue Augmentation Fund (ERAF) property taxes. ERAF property taxes are included in the base year of the forecast and increased annually. Property taxes for the forecast period have been increased using the Building and Planning divisions' projections for new housing units built over the forecast period. The Finance division then uses an average price per development to project the City's share of property taxes. Property taxes on resale units are also increased over the forecast period using Fullerton's projection of assessed valuations. Housing prices in Orange County increased 24% from 2003.

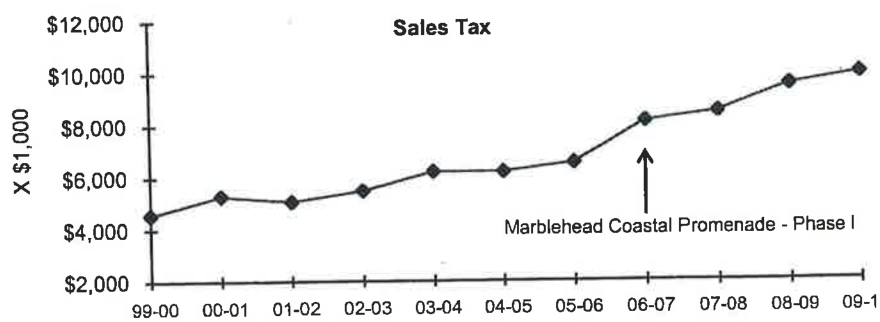


Sales Tax

Historic Growth Rate	11.1%
2005 Projected Growth Rate	10.1%

Sales tax revenue is anticipated to grow an average of 10.1% in the forecast

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 10.1% in the forecast period due to projected growth from the Marblehead retail project. The project is anticipated to generate $1.2 million in sales taxes beginning in FY 2006-07 for phase I and $649,500 for phase II in FY 2008-09. The project is expected to generate a total of $2.2 million in sales taxes by FY 2010-11.

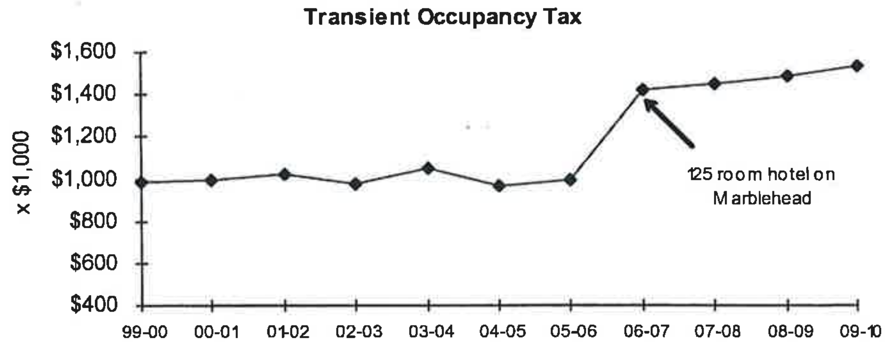


Transient Occupancy Tax

TOT is projected to increase an average of 10.3%

Historic Growth Rate	8.6%
2005 Projected Growth Rate	10.3%

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. Over the forecast period, the average growth is projected at 10.3% per year and is based on the addition of a new 88,000 s.f. hotel that will be built on the Marblehead property by FY 2006-07.



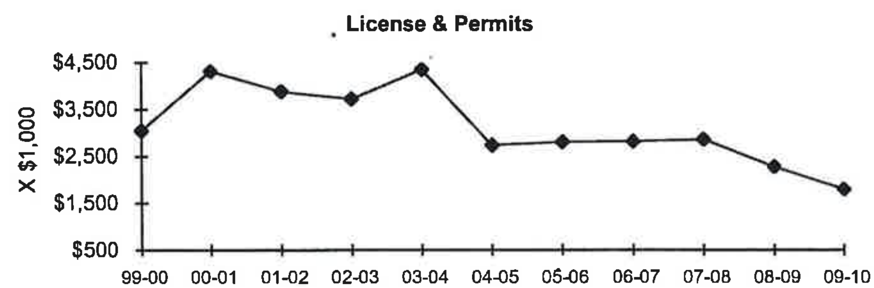
License and Permit

Historic Growth Rate	24.4%
2005 Projected Growth Rate	-7.4%

License and Permit revenues include Business Licenses, Construction Permits and miscellaneous licenses and permits which are projected to decrease an average of –7.4%. For forecast purposes, revenue for development activity is considered "one-time" and is reduced in the last two years of the forecast to reflect anticipated development activity.

License and Permit revenue is reduced beginning in FY 2008-09

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits, are projected to continue during the first three years of the forecast, with development activity continuing in Talega and new development activity starting in Marblehead. However, one-time development fees have been reduced in FY 2008-09, as the City reaches build-out.



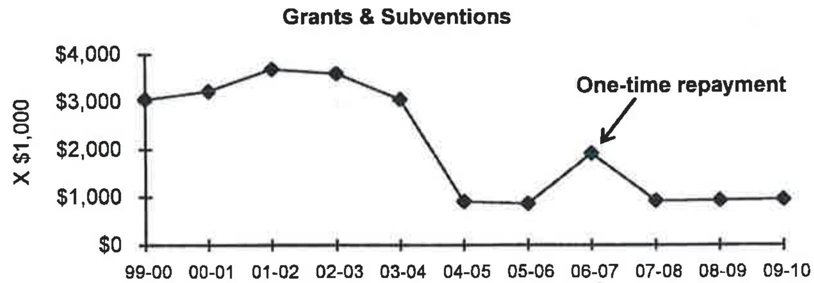
Grants and Subventions

Historic Growth Rate	5.2%
2005 Projected Growth Rate	13.9%

Motor Vehicle Tax, is projected to grow at a 13.9% rate

In total, Grant and Subvention revenues are projected to increase at a rate of 13.9% over the forecast period, compared to an historical growth rate of 5.2%. Motor Vehicle Tax revenues, which make up the majority of the revenue in this category, skews the projected growth rate due to a one-time reimbursement of $1,029,000 in vehicle license fees taken from the City in FY 2003-04.

The base year of the forecast includes the new local government share of vehicle license fees. Beginning in FY 2004-05, the State suspended the "backfill" of vehicle license fees from the previous rate of 2.0% to the current 0.65% rate. The State now provides a "dollar for dollar" amount of State ERAF property taxes instead of the backfill.

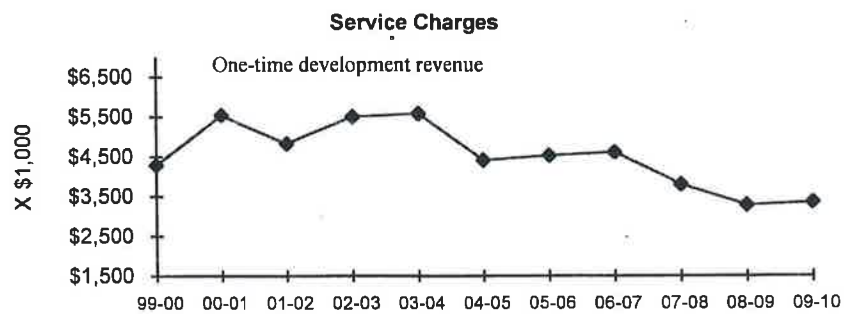


Service Charges

Historic Growth Rate	11.6%
2005 Projected Growth Rate	-4.9%

Service Charges show a historic growth rate of 11.6%. Projected growth rate amounts to -4.9%

This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. For forecasting purposes, construction fees are considered "one-time" revenue and reduced in the last three years of the forecast period as development activity is expected to slow down. On-going revenues, such as public safety service charges, ambulance and recreation charges have been increased based on projected population changes.

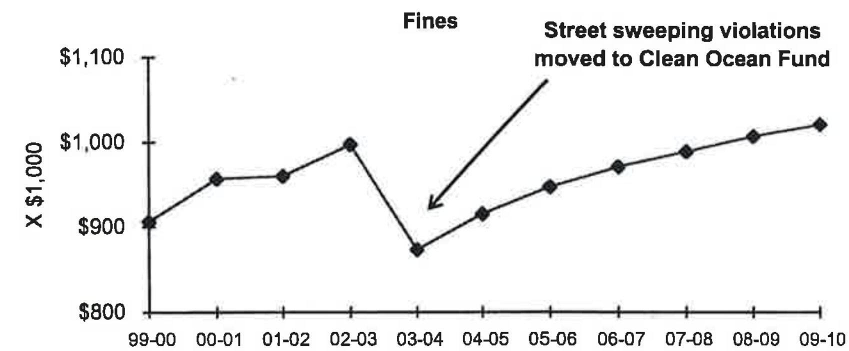


Fines

Revenue for Fines is projected to grow 2.2%

Historic Growth Rate	1.7%
2005 Projected Growth Rate	2.2%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms, and other fines. The 2005 projected growth rate of 2.2% is based on population growth in the City. Fines from street sweeping parking violations were reduced beginning in FY 2003-04, since monies generated from this source are now reported in the Clean Ocean Fund.

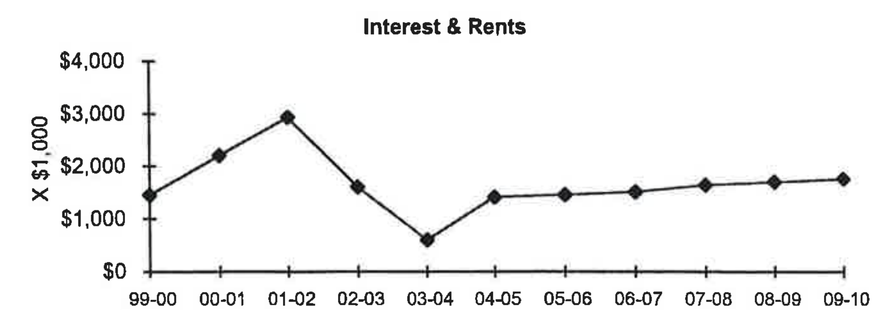


Interest And Rents

Historic Growth Rate	-4.8%
2005 Projected Growth Rate	4.5%

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 $265,000 per year for the first two years. The cap is removed in FY 2007-08 and the City's share will be 6% of gross revenues for an estimated $360,000 per year.

Interest & rents are projected to grow 4.5%

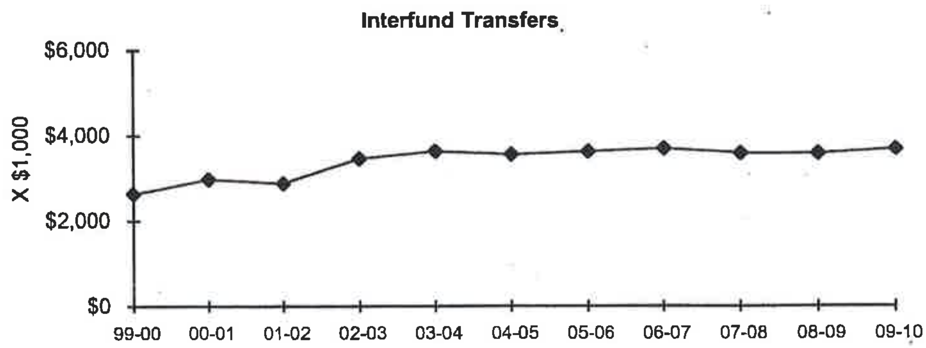


Interfund Transfers

Historic Growth Rate	6.4%
2005 Projected Growth Rate	0.7%

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 2.3%

Historic Growth Rate	10.8%
2005 Projected Growth Rate	2.3%

Projected expenditures presume that service levels approved in fiscal 2004-05 will remain constant

Projected expenditures presume that service levels in effect in FY 2004-05 will remain constant. No new programs are assumed.

The 2005 projected growth rate assumes costs will increase due to inflation, added personnel to maintain service levels, known operation and maintenance costs for new parks and contractual costs for police and fire.

Salaries and Wages

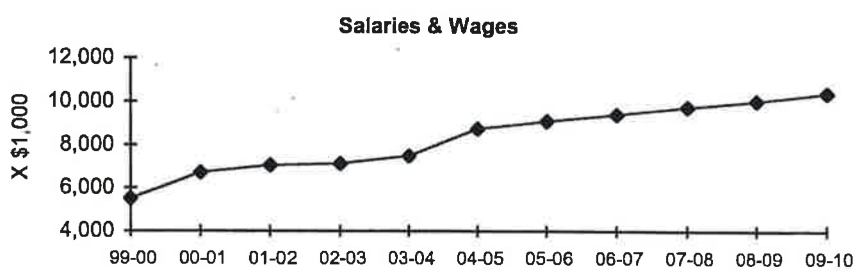
Ten new positions are added during the forecast period

Historic Growth Rate	7.8%
2005 Projected Growth Rate	3.5%

The forecast projections assume that two new positions are added each year, for a total of ten new positions added during the forecast period. 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 2.6% over the forecast period.

Total personnel costs are projected to average 3.5%

The average annual growth rate for Salaries and Wages is 3.5% for the five-year projection. Potential increases recommended by the Compensation Study have not been included in the forecast.



Employee Benefits

Historic Growth Rate	15.2%
2005 Projected Growth Rate	3.4%

Employee Benefits are projected to increase by 3.4%

The employee benefits category reflects an average projected growth rate of 3.4% for the forecast period. This growth rate is the result of the addition of benefits for the ten new positions and existing employee benefits increasing by inflation. The historic growth rate of 15.2% is the result of increased medical benefits granted in FY 2003-04 and the addition of staff over the five-year historical growth period.

As shown on the table below, the General Fund operating position narrows considerably.

2005 LTFP forecast - operating position without $425,000 transfer from Golf Fund

2005 Forecast Summary excluding $425K transfer from Golf Fund*

Amounts in $1,000

	2005-06	2006-07	2007-08	2008-09	2009-10
Operating receipts	$40,768	$44,241	$45,148	$46,308	$47,445
Operating disbursements	40,274	41,851	43,035	44,405	45,824
Projected surplus/deficit	$494	$2,390	$2,113	$1,903	$1,621

* One-time revenues and expenditures have been removed.

2005 LTFP forecast - operating position

2005 Forecast Summary (LTFP)*

Amounts in $1,000

	2005-06	2006-07	2007-08	2008-09	2009-10
Operating receipts	$41,193	$44,666	$45,573	$46,733	$47,870
Operating disbursements	40,274	41,851	43,035	44,405	45,824
Projected surplus/deficit	$919	$2,815	$2,538	$2,328	$2,046

* One-time revenues and expenditures have been removed.

Any changes or further delays to the development plans currently in place will narrow the City's operating position to an unacceptable position, which could delay the construction of new parks or otherwise alter expenditures included in the forecast.

The five-year forecast of the Golf Operating Fund shows that with the implementation of revenue enhancements and expenditure savings, the Golf Operating Fund can not continue to make the annual $425,000 transfer. Net working capital balances and operating position will be negative in all five-years of the forecast.

Other Operating Fund Forecasts

Water, Sewer, Storm Drain, Golf and Clean Ocean operating fund forecasts are included

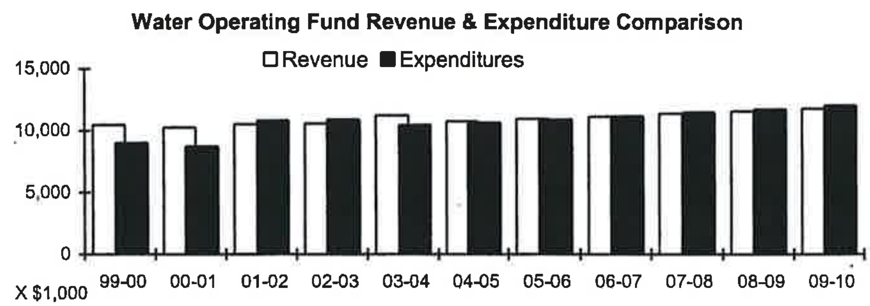
Five-year financial forecasts are also included for the Water, Sewer, Storm Drain, Golf and Clean Ocean operating funds. As with the General Fund forecast, the operating fund projections are developed using a baseline environment. Revenues are projected based upon growth or inflation factors, utilizing the fees and charges currently in place. Expenditures are based upon the present level of services provided by the City and increased by inflation.

Water Operating Fund Forecast

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

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

The Water operating position is negative in the four of the five years of the forecast period



The Water Operating Fund's operational position (revenues less expenditures) is negative in four of the five years of the forecast. However, net working capital balances are sufficient to sustain the fund. A formal review of the rate structure was conducted in January 2005, to determine if rates should be adjusted. If adjustments are warranted, the proposed rates will be presented during the budget process.

8% of operating expenditures have been set aside for emergency reserves

The fund has been able to set aside the fiscal policy requirement of 8% of operating expenditures. Additional contributions over the next five years are required to maintain the 8% level.

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

Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Emergency Reserves (8%)	$395	$400	$421	$444	$467

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

2005 FINANCIAL FORECAST

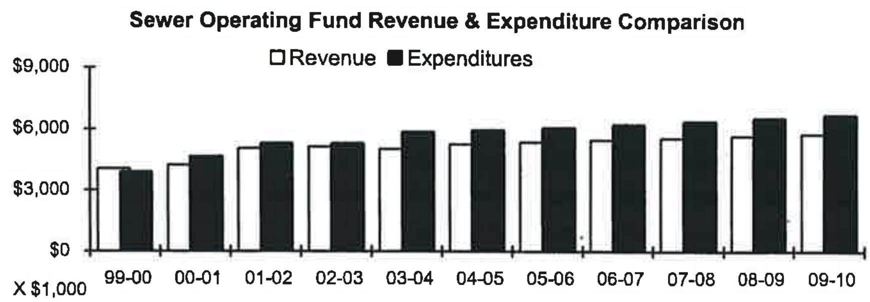
Water Operating Realistic Cash Flow based on FY 2004-05 Adjusted Budget

(Amounts in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Net Working Capital Balance	7,017	7,052	7,041	6,940	6,760
Receipts					
Service Charges	318	324	332	339	346
Water Charges	10,361	10,549	10,740	10,936	11,134
Miscellaneous Charges	249	260	272	284	297
Interfund Transfers	31	32	33	33	34
Total Receipts	10,959	11,165	11,376	11,592	11,811
Disbursements					
Water Administration	2,513	2,566	2,628	2,691	2,756
Water Production	6,802	6,959	7,140	7,325	7,516
Transmission	1,289	1,319	1,353	1,388	1,425
Conservation	91	93	96	98	101
Reclaimed Water	228	234	240	246	252
New Employees	0	0	0	0	0
Total Disbursements	10,924	11,171	11,456	11,749	12,049
Emergency Reserve	0	5	21	23	23
Ending Net Working Capital Balance	7,052	7,041	6,940	6,760	6,499

Sewer Operating Fund Forecast

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



The Sewer operating position is negative throughout the forecast period

As shown on the chart above, the Sewer Operating Fund is projected to have a negative operating position over the forecast period and ending net working capital balances are negative in the last three years of the forecast period. A formal analysis of the Sewer rate structure was conducted in January 2005. If adjustments are warranted, the proposed rates will be presented during the budget process.

2005 FINANCIAL FORECAST

Sewer Operating Realistic Cash Flow from 2004-05 Adjusted Budget

(Amounts in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Net Working Capital Balance	2,016	1,272	490	-344	-1,234
Receipts					
Service Charges	5,277	5,372	5,469	5,567	5,667
Miscellaneous Charges	77	81	85	89	93
Interfund Transfers	0	0	0	0	0
Total Receipts	5,354	5,453	5,553	5,656	5,761
Disbursements					
Sewer Administration	2,507	2,558	2,616	2,676	2,737
Treatment	1,800	1,842	1,889	1,939	1,989
Collection	1,779	1,820	1,868	1,916	1,966
New Employees	0	0	0	0	0
Total Disbursements	6,087	6,220	6,373	6,531	6,692
Emergency Reserve	11	15	14	15	15
Ending Net Working Capital Balance	1,272	490	-344	-1,234	-2,181

The emergency reserve is maintained at 8% of operating expenditures

The Sewer Operating Fund, however, does have the required 8% of operating expenditures in reserve. Contributions are necessary in all five years to maintain the 8% requirement.

Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Emergency Reserves (8%)	$476	$491	$505	$520	$535

Golf Operating Fund

The forecast assumes that an average of 90,000 rounds per year will be played on the course

The Golf Operating Fund receives revenue primarily from green fees. The forecast utilizes the present fee structure and historical information to forecast revenues, thus the revenue remains constant throughout the forecast period. An average of 90,000 rounds per year is assumed. It should be noted that the multi-tiered fee structure and seasonal variances in play make forecasting revenue difficult.

Expenditures presume the present level of services for golf course maintenance and have been increased based upon inflation. Golf starter personnel will be transitioned to the pro shop concessionaire beginning in FY 2005-06. The $425,000 transfer to the General Fund is included in all five years of the forecast.

2005 FINANCIAL FORECAST

Golf Fund Realistic Cash Flow from 2004-05 Adjusted Budget

(Amounts in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Net Working Capital Balance	-207	-367	-313	-303	-335
Receipts					
Service Charges	2,120	2,260	2,260	2,260	2,260
Interest & Rents	189	301	308	315	322
Miscellaneous Income	10	11	11	11	11
Total Receipts	2,319	2,571	2,578	2,586	2,593
Disbursements					
GC Maintenance	2,426	2,467	2,515	2,564	2,614
Starter Operations	46	47	49	50	51
Depreciation	0	0	0	0	0
Total Disbursements	2,472	2,515	2,563	2,613	2,665
Emergency Reserve	7	3	5	4	4
Ending Net Working Capital Balance	-367	-313	-303	-335	-411

The Golf Operating Fund maintains a negative operating position in all five years of the forecast with the $425,000 transfer included in each year of the forecast.

The Golf Course has an outstanding debt to the General Fund of $474,000

The Golf Course Operating Fund also has an outstanding debt to the General Fund of $474,000 that is not scheduled to be repaid until a positive operating position has been obtained. *This repayment amount is not included in the 2005 forecast.* In addition, the General Fund returned $1.25 million to the Golf Operating Fund in FY 2001-02 to help maintain a positive operating balance. Combining the $1.25 million and the outstanding debt of $474,000 returned back to the Golf Fund, the net amount contributed to the General Fund amounts to $1,676,000 since FY 1997-98.

To maintain a positive operating balance in the Golf Fund, the General Fund may provide another loan to the Golf Fund. A loan of $370,000 in the current fiscal year will maintain positive balances in the first four years of the forecast period. Once the fund is positive, the fund can begin to repay the General Fund for the outstanding debt incurred.

The Golf Course Operating Fund does have the required 8% of operating expenditures in reserve. Additional contributions are necessary to sustain the 8% level.

Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Emergency Reserves (8%)	$168	$171	$176	$180	$184

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

2005 FINANCIAL FORECAST
Storm Drain Fund Realistic Cash Flow from 2004-05 Adjusted Budget
(Amounts in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Net Working Capital Balance	35	288	541	783	1,013
Receipts					
Service Charges	1,108	1,124	1,131	1,137	1,139
Interest & Rents	7	7	8	8	9
Miscellaneous Income	0	0	0	0	0
Total Receipts	1,115	1,132	1,139	1,145	1,148
Disbursements					
Storm Drain Administration	779	793	810	827	844
Storm Drain Maintenance	83	85	87	89	92
Trans. to Capital Improvement	0	0	0	0	0
Total Disbursements	862	878	897	916	936
Emergency Reserve	0	0	0	0	0
Ending Net Working Capital Balance	288	541	783	1,013	1,225

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 $64,000 has been set aside to meet the fiscal policy requirement of 8% of operating expenditures. Additional contributions in the next five years are *not* required to maintain the 8% level.

Emergency Reserve

Amounts in $1,000	2005-06	2006-07	2007-08	2008-09	2009-10
Emergency Reserves (8%)	$64	$64	$64	$64	$64

Clean Ocean Fund Forecast

Revenue from the fee is only included through the remaining three and a half years

Clean Ocean Operating Fund

The Clean Ocean Operating Fund receives revenue from the Urban Runoff Management fee. The Urban Runoff Management Fee was approved by San Clemente voters for a five year period and *revenue from the fee is only included through the remaining three and a half years*. Other revenues have been increased over the forecast period by anticipated growth in the City. Revenues from interest and fines are anticipated to continue in the last year of the forecast. Expenditures presume the present level of services and have been increased based upon inflation.

2005 FINANCIAL FORECAST

Clean Ocean Fund Realistic Cash Flow from 2004-05 Adjusted Budget

(Amounts in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Net Working Capital Balance	835	889	949	311	-636
Receipts					
Service Charges	1,734	1,760	885	0	0
Interest & Rents	15	15	16	17	9
Fines	201	205	211	216	222
Total Receipts	1,949	1,980	1,112	233	231
Disbursements					
Water Quality Inspection	1,088	1,103	922	742	761
Street Cleaning	408	417	427	438	449
Trans. to Capital Improvement	400	400	400	0	0
Total Disbursements	1,895	1,920	1,750	1,180	1,210
Emergency Reserve	0	0	0	0	0
Ending Net Working Capital Balance	889	949	311	-636	-1,615

Expenditures for the fund are continued through the five years of the forecast period since it is uncertain where these expenditures would be absorbed once the fees are discontinued at the end of the approved five year period. This forecast shows the net affect on the fund if the fee revenue is discontinued and the expenditures are not absorbed by another funding source.

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.

City Council Recommendations

The Financial Forecast was discussed at the Long Term Financial Plan Workshop on March 9, 2005 and the City Council requested:

1. An issue paper identifying the long-term implications associated with the $425,000 transfer from the Golf Operating Fund to the General Fund.
2. More information relating to the assumptions utilized in the Fiscal Impact Model and Financial Forecast.

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 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 and subsequent plans 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, 2005.

Reserves	Funding Source	Estimated Reserve Balances At June 30, 2005	In Compliance With Fiscal Policy
General Fund Emergency Reserve	General Fund	$3,011,640	**Yes**
Council Contingency Reserve	General Fund	$404,600	**Yes**[1]
Employee Computer Purchase Program	General Fund	$41,775	**Yes**
General Liability Self-Insurance	All Funds	$2,874,250	**Yes**
Workers' Compensation	All Funds	$2,625,104	**Yes**
Fleet Replacement	All Funds	$3,981,578	**Yes**
Accrued Leave	General Fund	$272,550	**No**
Capital Equipment Replacement	All Funds	$895,350	**Yes**
Facilities Maintenance Capital Asset	General Fund	$707,290	**Yes**
Water Operating Fund – Emergency Reserve	Water Fund	$395,000	**Yes**
Water Fund Depreciation	Water Fund	$4,502,000	N/A[2]
Sewer Operating Fund – Emergency Reserve	Sewer Fund	$465,000	**Yes**
Sewer Fund Depreciation	Sewer Fund	$9,136,660	N/A[2]
Storm Drain Operating Fund – Emergency Reserve	Storm Drain Fund	$64,000	**Yes**

Storm Drain Fund Depreciation	Storm Drain Fund	$1,849,100	N/A[2]
Solid Waste Fund – Emergency Reserve	Solid Waste Fund	$11,000	**Yes**
Golf Course Operating Fund – Emergency Reserve	Golf Course Fund	$161,000	**Yes**
Golf Course Fund Depreciation	Golf Course Fund	$663,700	**Yes**
Golf Capital Improvement Reserve	Golf Course Fund	($510,865)	**No**
Total		**$31,550,732**	

[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.

The City implemented Government Accounting Standards Board (GASB) No. 34, at the end of fiscal year 2001-02. As part of the implementation, the City conducted a fixed asset physical inventory and an infrastructure valuation, which resulted in the recognition of a variety of assets in the City's General Fund and 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. Assets, such as the road network, which includes streets, sidewalks and curbs and gutters, were capitalized on the books of the General Fund. As a result of these two projects, annual depreciation expenses increased dramatically. However, the replacement reserves, which are comprised entirely of cash, did not increase at the time the assets were recognized and added to the City's books. Current depreciation charges recognize the annual replacement costs for all assets, including the infrastructure assets added as a result of the GASB No. 34 conversion, but it is likely that the present depreciation reserves will not be adequate to replace the newly recognized assets at the time they require replacement.

To address the possible gap between the current depreciation reserves and the actual replacement costs of infrastructure assets, the City Engineering Department proposed a Water and Sewer System Asset Study during the FY 2002-03 budget process. That Study was approved and a Request For Proposal (RFP) was subsequently issued. The consulting firm of Brown and Caldwell was ultimately selected to conduct the Study, which is expected to be completed in June, 2005. This study will assess the current condition of the Water and Sewer System assets and determine the future replacement costs. 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 and Sewer System Assets. Staff will also provide recommendations to Council regarding asset replacement scheduling and reserve target levels for other funds affected by the infrastructure valuation project.

Each reserve listed on the first page of this report is detailed in the following sections along with the staff recommendations for the 2005-06 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 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%
FY 2003-04	$170,000	$2,681,640	7.79%
FY 2004-05	$330,000	$3,011,640	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 2004 LTFP was prepared, the $330,000 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 2005-06 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 $280,000.

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 $720,000. 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 2004-05:

Average expenditures –10 years	$221,788
FY 2004-05 (through 1/31/05)	$350,970 [1]

1 $32,800 for Mansionization study, $1,020 for Fire Ant assessment, $35,000 for De-watering project at Seapoint Estates, $12,900 for Downtown Visioning, $39,560 for Valencia Medians and $30,000 for CA Dept. of Boating & Waterways agreement, $25,000 for DBA, $3,500 for 4th of July Fireworks,$167,270 for Computer Room upgrades and $3,900 for Residential massing..

Expenditures made from this reserve are analyzed annually during the LTFP process. Current fiscal policy for the Council Contingency Reserve, revised in fiscal year 1999-00, reads as follows, "...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 $404,600 for FY 2005-06.

Recommendation: Recommend that $404,600 (which represents 1% of the estimated General Fund operating expenditures) be set aside in fiscal year 2005-06 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 $2,163,010.

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 99-00 to FY 03-04	15	$35,275

To date, there has been adequate funding to support the Employee Computer Purchase Program. The reserve balance as of June 30, 2005 is estimated to be $41,775. This balance plus loan repayments during the year is expected to be more than adequate to cover new loan approvals for FY 2005-06.

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 2004-05.

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 2004-05 is $2,249,250. This balance is in addition to the $300,000 reserve for SIR losses, and the $325,000 reserve established per the 2004 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 $1,463,370, or a five-year average of $292,675. This is a decrease of $32,325 from the prior year average of $325,000. This would decrease the total reserve for claims losses from $625,000 to $592,675.

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. No reserves have been specified in the past for these potential claims. As noted above, $2,249,250 is the projected unspecified portion of the General Liability Self-Insurance Fund balance for FY 2004-05 year-end. It is recommended that a specified reserve of 25% of the potential land subsidence claim amount be set aside in this fund to cover those claims. The unspecified portion of the reserve is projected to be less than 25% of the potential claims ($10.3 million x 25% = $2,575,000), so it is recommended that $2,000,000 be specified in the FY 2005-06 Budget.

During Fiscal Year 2004-05, Council approved the creation of a specified reserve of $2.0 million related to the Poole Case for the potential refund of property taxes, pending the outcome of an appeal before the State Appeals Court. The appeal was ultimately denied and the State Supreme

Court refused to hear the matter. As a result, the Poole Case is closed and property values will not be rolled back, resulting in large property tax refunds and lower future property tax revenues.

In light of the magnitude of the potential land subsidence claims noted above, staff is recommending that $1.0 million of the specified Poole reserve be transferred to the General Liability Self-Insurance Fund. This transfer, combined with the recommendations above, will provide the City with a $3.0 million specified reserve for land subsidence claims.

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 2005-06:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2005-06	Total Charge for General Liability FY 2004-05
General Fund	69.0%	60.8%	62.7%	$ 753,449	$ 721,230
Water Fund	0.0%	15.2%	11.5%	137,781	155,849
Sewer Fund	4.0%	8.2%	7.3%	87,027	95,302
Solid Waste Fund	0.0%	0.4%	0.3%	3,306	2,387
Storm Drain Fund	15.0%	1.2%	4.6%	55,179	58,572
Golf Course Fund	12.0%	3.5%	5.6%	67,181	75,805
Clean Ocean Fund	0.0%	2.9%	2.2%	26,703	23,238
Information Services Fund	0.0%	1.4%	1.0%	12,163	11,153
Central Services Fund	0.0%	0.7%	0.5%	5,935	6,464
Fleet Maintenance Fund	0.0%	1.1%	0.8%	9,686	11,905
Redevelopment Agency	0.0%	1.8%	1.4%	16,450	18,528
Total	**100.0%**	**100.0%**	**100.0%**	**$1,174,860**	**$1,180,433**

The total charge for General Liability will decrease by $5,573 from FY 2004-05 to FY 2005-06. The decrease is largely a result of the decrease of the five-year average of actual claims.

The General Fund's total percentage of liability charges increased from the previous year by 3.2% due to the increase of actual claims associated with the General Fund and the resulting increase in the percentage of past claims to total claims.

Recommendation:

1. Increase the specified reserve in the General Liability Self-Insurance Fund from the current reserve of $625,000 to $2,592,675 for the fiscal year 2005-06. The reserve includes three times the self-insurance retention ($300,000), plus the average of the previous five years of claims costs not covered by the insurance pool ($292,675), plus $2,000,000 for subsidence claims.
2. Transfer $1,000,000 from the City's unspecified Fund balance to the General Liability Self-Insurance Fund. This will further increase the specified reserve in the fund for subsidence claims from $2,000,000 to $3,000,000 for fiscal year 2005-06.

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 2004-05 and its basic reserve requirement of $300,000 fully funded. In addition, $292,675 will be reserved for payment of those claims not covered by CIPA, and $3,000,000 for potential subsidence claims.

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: During fiscal year 2002-03, the City converted from a fully-insured to a self-insured program. Prior to 1995, the City had been self-insured. Two factors; the conversion of Police and Fire personnel to outside contract, and the favorable insurance market, led the City to convert to a fully-insured program in 1995. Unfortunately, the City experienced excessive rate increases, beginning in fiscal year 2000-01, as the market for Worker's Compensation insurance in California became uncompetitive. During this period the City's actual claims experience averaged only $90,000 per year. As a result of these conditions, City Council authorized the City to self-insure for worker's compensation coverage through the California Public Insurance Agency (CIPA) in December 2002.

There are currently 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, 2004, these estimated claims total $531,569. This is a reduction from last year's estimate of $638,704 for these "tail" claims.

Under the self-insurance program adopted December 1, 2002, 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 six years is $101,934. The reserve balance at the end of fiscal year 2003-04 totaled $2,451,393 and is projected to increase to $2,625,104 through June 30, 2005.

The City's fiscal policy, as noted above, requires three times the self-insurance retention, plus an amount equal to the total uncovered claims. This will require a reserve equal to $900,000, plus the estimated total for the "tail" claims of $531,569 noted above, for a total reserve of $1,431,569. The estimated reserve balance at June 30, 2005 totals $2,625,104 (currently comprised of $638,704 set aside specifically for the "tail" claims and $1,986,400 in general reserves). Based on this analysis, the reserve is projected to be fully funded as of June 30, 2005.

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, non-manual and clerical, etc.).

As noted above, the City elected to self-insure effective December 1, 2002. The following rates were in effect at the time of the conversion, and have remained in effect for the past two fiscal years;

8810	Clerical	$0.94/$100 of payroll
9410	Non-Manual	$2.63/$100 of payroll
9420	Manual Labor	$8.76/$100 of payroll

These rates were held constant for fiscal years 2003-04 and 2004-05. During this two-year period, actual claim expenses increased slightly, and because the City was not paying third-party insurance premiums, the reserve balance increased dramatically

Recommendation: Reduce the existing worker's compensation rates for fiscal year 2005-06 by 30% to the following;

8810	Clerical	$0.66/$100 of payroll
9410	Non-manual	$1.84/$100 of payroll
9420	Manual	$6.13/$100 of payroll

Fiscal Impact of Recommendation: Existing rates charged to all funds will be sufficient to pay for all premium expenses and administrative expenses incurred by the Workers' Compensation Fund. An estimated savings to all City funds of $150,000 will be realized by the recommended rate reduction.

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 if funding is adequate to cover projected replacement costs for the next five years. This reserve is fully funded with a projected ending balance of $3,981,578 at June 30, 2005.

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 2005-06 budget will contain normal replacement charges to other funds of $658,700.

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	$ 49,990

The projected ending balance for the Accrued Leave Reserve as of June 30, 2005 is $272,550. At June 30, 2004, the total General Fund liability for accrued leave was $941,830. Of this amount, $389,250 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2006. While these employees may not all retire at once, it is recommended that $165,000 be transferred from the General Fund to the Accrued Leave Reserve to ensure adequate funds are available for payment of potential liabilities.

Recommendation: Transfer $165,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2005-06.

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 $365,000.

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, 2004, the General Fund capital equipment asset balance was $1,153,650. Since the time of this fund's establishment in FY 1994-95, the General Fund has made transfers of $960,100 to fund this reserve. The projected fund balance at June 30, 2005 is $895,350. 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 2005-06, 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 2005-06 budget will contain normal replacement charges to other funds of $118,030.

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 $523,250. The reserve balance is projected to be $707,290 as of the end of fiscal year 2004-05. The reserve will be fully funded at the end of fiscal year 2004-05, but will require transfers totaling $160,000 to the reserve over 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: None.

Fiscal Impact of Recommendations: Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of $160,000.

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%
FY 2003-04	$30,000	$390,000	8.35%
FY 2004-05	$5,000	$395,000	8.86%

Recommendations: Based on the Financial Forecast, no contribution is necessary for FY 2005-06 in order to maintain the emergency reserve at $395,000, which represents 8% of the projected Water Operating 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 $72,000. 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 and maintenance 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, 2005 is $4,502,000. The projected replacement costs for the next five-year period totals $5,075,000. Based on this, the Depreciation Reserve is currently under funded by $573,000.

Depreciation expenses have increased from $746,000 to $817,000 per year as a result of major capital projects completed and placed into service in the past year. As a result of the GASB 34 conversion, completed June 30, 2002, additional infrastructure was recognized by the City. The additional infrastructure was not addressed by the annual depreciation charges prior to June 30, 2002, and thus, has not contributed to the depreciation reserve in the past. In an effort to address this potential shortfall, the City's Engineering Department initiated a Water System Asset Study, which when completed, will provide recommendations regarding appropriate reserve levels, asset replacement scheduling and revised polices for funding the Water Depreciation Reserve.

Recommendations:

1. Budget an additional $250,000 transfer from the Water Operating Fund to the Water Depreciation Fund for Fiscal Year 2005-06.
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 $4,414,400. An additional $1,285,000 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%
FY 2003-04	-0-	$438,000	7.74%
FY 2004-05	$27,000	$465,000	8.02%

Recommendations: Budget $11,000 from the Sewer Operating Fund in FY 2005-06 in order to bring the emergency reserve to $476,000, 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 $70,000. 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 and maintenance 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, 2005 is $9,136,660.

Current depreciation charges amount to $1,696,865 per year. There are a number of significant projects planned and in process, which will further increase the annual depreciation charges. As a result of the GASB 34 conversion, completed June 30, 2002, additional infrastructure was recognized by the City. The additional infrastructure was not addressed by the annual depreciation charges prior to June 30, 2002, and thus, has not contributed to the depreciation reserve in the past. As a result, the City's Engineering Department has initiated a Sewer System Asset Study, which when completed, will provide additional recommendations regarding appropriate reserve levels, 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 $9,007,200.

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%
FY 2003-04	$19,000	$55,000	6.92%
FY 2004-05	$9,000	$64,000	9.17%

Recommendations: Based on the Financial Forecast, no contribution is necessary for FY 2005-06 in order to maintain the emergency reserve at $64,000, which represents 8% of the projected Storm Drain Operating 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 $17,000. 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 and maintenance 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 $1,849,100 at June 30, 2005. Proposed capital project expenditures for the next five fiscal years total $3,650,000.

Current annual depreciation expense amounts to $356,000 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 $2,109,710. Continuing transfers from the Storm Drain and Clean Ocean Operating Funds are projected to be $700,000 and $980,000 respectively 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%
FY 2003-04	$1,000	$11,000	8.80%
FY 2004-05	-0-	$11,000	8.29%

Recommendations: Budget $1,000 from the Solid Waste Fund in FY 2005-06 in order to bring the emergency reserve to $12,000, which represents 8% of the projected Solid Waste Fund operating expenditures level.

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 $3,000. 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%

FY 2003-04	$8,000	$161,000	8.57%
FY 2004-05	-0-	$161,000	7.91%

The Golf Course Operating Fund has contributed $425,000 annually to the City's General Fund and $160,000 annually to the Golf Capital Improvement Reserve. Lower revenues in fiscal years 2002-03 and 2003-04 resulting from disruptions to play caused by improvement projects to the golf course and the general downturn in golf revenues as a result of increased competition from newly opened courses in South Orange County necessitated short-term loans from the General Fund to balance the Golf Course Operating Fund at both year-ends. In the fiscal year 2004-05 Budget, the $425,000 transfer was approved and the $160,000 transfer to the Golf Capital Improvement Reserve was eliminated.

Recommendations:

1. Budget $7,000 from the Golf Course Operating Fund in FY 2005-06 in order to bring the emergency reserve to $168,000, which represents 8% of the projected Golf Course Operating Fund operating expenditures level.

Fiscal Impact of Recommendations: Projected Golf Course Operating 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 Operating 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, 2005 is $663,700. Projected expenditures for the next five years total $400,000.

Recommendation: None

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 $1,528,500.

Golf Capital Improvement Reserve

City Council Fiscal Policy: The City will maintain a Golf Capital 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.

Assessment of the current situation/conclusions: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements budgeted in the Golf Course Fund. The reserve is reviewed annually to verify funding is adequate to cover projected costs for the next five years. Two major projects; the Golf Course Improvement Project, completed at a cost of $1,695,000, and the New Golf Course Clubhouse Project, projected at $3,626,890 have been budgeted and charged to this reserve. At the time the New Clubhouse project was planned, a projected shortfall of $1,750,000 existed in this reserve. Two loans of $875,000, funded from the Water Average Fund Reserve and the Sewer Connection Fee Reserve, were approved during the FY 2002-03 Budget process to cover the projected shortfall.

As noted above, the Golf Course Improvement project was completed and funded from available fund balances from the Golf Capital Improvement Reserve. Design of the New Golf Course Clubhouse project, originally approved in the FY 2001-02 Budget, has been completed and funded from available fund balances. Construction of the Clubhouse was approved in the FY 2002-03 Budget, at an amount of $3,440,830. Actual construction has been delayed for a variety of reasons and is now scheduled to begin during fiscal year 2004-05, for completion in fiscal year 2005-06.

During the FY 2003-04 Budget process, the cost of the New Clubhouse project was increased from $3,440,830 to $3,721,290. The increased cost of the Clubhouse project was projected to be covered by an annual transfer of $160,000 from the Golf Operating Fund to the Golf Capital Improvement Reserve. Unfortunately, as a result of lower revenues in the Golf Operating Fund for the past two years, the annual transfer of $160,000 was discontinued for fiscal years 2003-04 and 2004-05. As indicated in the Golf Course Operating Fund section of this paper, no transfer is being recommended from the Golf Course Operating Fund to the Golf Capital Improvement Reserve for fiscal year 2005-06 and beyond. Therefore, the New Clubhouse Improvement project, if completed as planned during fiscal year 2005-06, is projected to have a negative ending balance of $527,000 at June 30, 2006. The New Clubhouse Improvement project in under review at this time. Since a construction contract has not been executed, it is possible that the project will be scaled back or cancelled and could be replaced with a project to remodel the existing facilities at a much-reduced cost.

Assuming the New Clubhouse Improvement project is completed as budgeted, at the end of the five-year forecast, the reserve is projected to have a negative balance of $592,000. This is based on the New Clubhouse Improvement project cost of $3,721,290 and relining of the golf course reservoir for $200,000.

Recommendation: **None**

Fiscal Impact of Recommendation: The Golf Capital Improvement Reserve will maintain a negative fund balance over the five-year forecast period.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 9, 2005.

Overhead Analysis

Objective

To analyze and recommend appropriate overhead rates for Planning, Engineering and Beaches, Parks and Recreation. The overhead rates impact the costs for providing engineering and planning services to developers and capital projects.

Summary

The overhead rates analyzed include:

- Planning overhead rate
- Engineering overhead rate
- Beach, Park and Recreation Planning overhead rate

Background

Sound accounting and budgeting practices require the allocation of costs for government services to the programs benefiting from those services. The Government Finance Officers Association (GFOA) added to their recommended practices *costing government* services that calls for governments to calculate the full cost of the different services they provide. Full costs are defined as direct and indirect costs. Direct costs are those that can be identified specifically with a particular cost objective. Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to cost objectives. A good example of a direct cost would be the time spent by a Plan Check Engineer reviewing plans for a developer. A good example of an indirect cost would include time spent by a Plan Check Engineer in developing a City Master Plan or participation in the annual budgeting process.

The City presently charges the direct costs of Engineers and Planners to the specific projects they work on. These included Capital Improvement Program (CIP) projects, as well as Developer Deposit accounts, established by the Developer to pay for the costs incurred by the City for the submittal and approval of their specific projects. City employees record their actual time, by project number, during the bi-weekly payroll process. The actual cost of their time is then *burdened* with overhead, stated as a percentage of their actual costs, at month-end. These costs are charged to the specific projects identified by each employee through the payroll process. The total cost charged to a project is credited to the employees' home department, thereby reducing costs to the General Fund. Total costs of each CIP project are tracked in the City's Project Accounting system and provide management and other governmental agencies with the necessary information to report and track project costs.

The City established the Engineering and Planning overhead rate at 50% in the late 1980's. The rate was determined by Engineering and Finance staff at that time. This rate has been applied to all time charged to CIP and Developer Deposit account activity since then. The Planning department instituted an additional 28% overhead rate on Developer Deposit account activity in 2002, to a maximum of $10,000, to defer the cost of updating City Master Plans.

During the development of the fiscal year 2004-05 Operating Budget, Finance staff recommended a review of the Engineering and Planning overhead rates. That recommendation was approved and funds were appropriated in the FY 2004-05 Budget. An RFP was issued and Revenue and Cost Specialist, a consulting firm specializing in overhead rate, cost allocation plans and revenue analysis was selected to conduct the analysis of the Engineering and Planning overhead rates.

The consulting firm examined the City's Cost Allocation Plan and the existing overhead rate structure. They presented the City with an overhead calculation model utilized by a number of other governmental agencies and considered to represent current "industry practices". This model was loaded with both the FY 2001-02 and FY 2002-03 financial information and overhead rates were calculated for both years. The model was designed to calculate overhead rates based on the prior fiscal year actual financial results. This is true for the Cost Allocation Plan, which projects the allocation of City General Fund overhead based on the prior years actual information. This explains why the consultants calculated overhead rates for fiscal years 01-02 and 02-03.

Fiscal Year 03-04 Overhead Rates

Following the close of fiscal year 2003-04 and the generation of the 2005 Cost Allocation Plan, staff updated the Overhead Models for Engineering, Planning and Beaches, Parks and Recreation. Each model and recommended rates for fiscal year 2005-06 are detailed below.

Engineering Overhead Rate

Based on the actual 2003-04 financial data, the overhead model calculates the Engineering overhead rate at 38.10% for the FY 05-06 Budget year. As noted earlier, the City has been using an Engineering overhead rate of 50.00%, so this new rate represents a 25% decrease to the existing rate. Two factors have driven the overhead rate down. First, personnel costs in Engineering have increased from $1,852,000 in FY 02-03 to $2,033,100 in FY 03-04. Second, the overhead charges to Engineering have decreased from $306,180 in FY 02-03 to $266,400 in FY 03-04. The relationship of higher Engineering costs and lower overhead to absorb decreases the overhead rate.

Based on the FY 2003-04 charges for Engineering Services to Developers and Projects, the recommended rate adjustment would decrease revenue to the General Fund by approximately $45,500 in fiscal year 2005-06.

Planning Overhead Rate

Based on the actual 2003-04 financial data, the overhead model calculates the Planning overhead rate at 159.60% for the FY 05-06 Budget year. As noted earlier, the City has been using a Planning overhead rate of 50.00%, so this new rate represents a 320% increase to the existing rate. The Planning overhead rate was originally established as the same rate charged by Engineering. It is clear from the calculations by the model that the City has undercharged for the Planning department services. The new rate of 159.6% means that for every one ($1.00) dollar charged for Planning time, an additional dollar and fifty-nine cents ($1.596) will be charged for overhead recovery.

Based on the FY 2003-04 charges for Planning Services to Developers and Projects, the recommended rate adjustment would increase revenue to the General Fund by approximately $62,500 in fiscal Year 2005-06.

Beaches, Parks and Recreation (BP&R)
Based on the actual 2003-04 financial data, the overhead model calculates the BP&R overhead rate at 67.45% for the FY 05-06 Budget year. As noted earlier, the City has been using a BP&R overhead rate of 50.00%, so this new rate represents a 135% increase to the existing rate. The BP&R overhead rate was originally established as the same rate charged by Engineering. It is clear from the calculations by the model that the City has undercharged for the BP&R department services.

Based on the FY 2003-04 charges for BP&R Services to Developers and Projects, the recommended rate adjustment would increase revenue to the General Fund by approximately $5,650 in fiscal Year 2005-06.

Recommendations

It is recommended that the Engineering overhead rate be set at 38.10%, the Planning overhead rate be set at 159.58%, and the Beach, Park and Recreation overhead rate be set at 67.45% for the Fiscal Year 2005-06 Budget. It is further recommended that the additional 28% Planning overhead rate for updates to the City Master Plan remain the same.

Fiscal Impact of Recommendations

Based on the proposed changes to the Engineering, Planning and BP&R overhead rates, budgeted revenue for Fiscal Year 2005-06 would increase by $22,650 to the General Fund.

Council Action

Recommendations were not approved by the City Council on March 9, 2005 for changes to the City's Overhead Rates and Fiscal Year 2005-06 revenue adjustments as a result of proposed rate changes. Further study will be conducted and this issue will be agendized for a future City Council meeting.

Council Recommendations

The City Council requested additional information concerning the computation of overhead rates, with an emphasis on the proposed Planning overhead rate of 159.58%

Environmental Program Update

Objective:

To update the City Council and the public concerning the progress that has been made managing issues relating to the coastal environment including the Urban Runoff Management Plan (URMP), city-wide recycling efforts, coastal erosion and sand replenishment. These projects include continued implementation of the URMP, also known as "Project Surf"; Recycling; U.S. Army Corps of Engineers Feasibility Study; Sand Monitoring; and the Opportunistic Sand Replenishment Program.

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 (FY2004-05) approved work plans, as well as other efforts, are discussed below.

Urban Runoff Management Plan (URMP) – "Project Surf"

Purpose: In February 1999, the City Council created a Beach Ad Hoc Committee, with the mission to identify and prioritize issues associated with San Clemente's beaches and coastal zone. As discussed in the final report, the Committee's primary request relating to water quality was that the City "create and implement a comprehensive Urban Runoff Management Plan (URMP) that includes increased enforcement of existing laws and codes, review of public and private maintenance practices, and public education on how to reduce non-point source pollution." Work on the URMP began in Fall 2000, and the final document was produced in December 2001.

The fundamental strategy of the URMP is to develop programs intended to reduce or eliminate pollutant and non-stormwater discharges to the City's storm drain system to the maximum extent practicable, thereby protecting local receiving waters and complying with state and federal regulations. A significant focus of this strategy is based on changing the public's behavior and attitude toward reducing urban runoff pollution and helping to promote community stewardship of local watercourses such that local water quality is enhanced and continually improved. The URMP contains specific guidance regarding existing conditions, non-structural and structural pollution reduction measures, water quality monitoring, illicit connection and illegal discharge identification, code enforcement, public participation and education, and program effectiveness assessment.

Status: URMP implementation began immediately and is on-going. With the addition of code compliance and administrative staff, the program has evolved to include program management, code enforcement, dry weather water quality monitoring, structural urban runoff treatment, and public outreach. Current initiatives include the development of structural treatment solutions to urban runoff pollution at North Beach, Poche Beach, and other coastal outlets; the addition of administrative intern staff to oversee the activities of the San Clemente Watershed Task Force;

increased street sweeping; drafting of a request for professional services to assist with the rollout of an improved public participation and education program; contracting with consultants to improve current construction outreach materials and staff training; and, drafting of an updated, comprehensive URMP. Program activities are anticipated to be on-going.

Fiscal Impact: URMP implementation is funded primarily by the Urban Runoff Management Fee, which was approved by voters in October 2002. The fee provides approximately $1.9 million annually. Additional costs are met with grant funding including a special EPA appropriation for $1 million, Proposition 40 grant funding for $1.8 million (pending), and County of Orange grant funding for $20,000. Grant funds are dedicated to specific program goals.

Recycling

Purpose: In 1989, the State of California approved AB939 which mandated that local jurisdictions divert 50% of all solid waste landfilled by December 31, 2000. Since that time, the City of San Clemente has applied for and received two time extensions, most recently granting the City a new compliance deadline of December 31, 2005. Failure to comply with this revised date could result in fines up to $10,000 per day. Additionally, San Clemente recognizes that recycling helps with efforts to keep our streets, beaches and parks free of debris and helps to improve the overall health of our environment.

Status: The current citywide diversion rate is 37%. In an effort to ultimately attain the mandated 50% goal, the City has implemented several new programs:

- The residential green waste program was introduced in two phases - phase I for communities east of Interstate 5 (I5) in September 2003 and phase II for communities west of I5 in September 2004. Citywide, homeowners are now able to recycle all green waste via curbside pickup.
- City Council adopted the Construction & Demolition Ordinance in March 2004. Recognizing that most construction debris is recyclable, the ordinance attempts to divert such debris to recycling centers rather than to the landfill.
- The City instituted "MRF" (Material Recovery Facility) recycling for all multi-family complexes in October 2004. MRF waste is processed to recover most of the recyclable materials.
- Street sweeping waste materials are being used as a landfill cap rather than being disposed of within the landfill.
- Sludge from the City's wastewater treatment plant is being composted to ultimately be disposed of as a soil amendment.
- Capital improvement projects divert all concrete, road debris, metal utilities pipes, metal pipes fittings, and fire hydrants for recycling.
- Used oil generated at City facilities is recycled.
- All City street projects include the use of pavement containing recycled tires.
- Staff have received guidance regarding the importance of recycling.
- The City purchases recycled products whenever possible.
- Public outreach initiatives include the presentation of a recycling public service

announcement on local cable, utility billing inserts, advertisements in the Sun Post News and other local publications, information of the City's webpage, and participation in community outreach programs such as Earth Day, Compost Giveaway Events, Cinco de Mayo, San Clemente Ocean Festival, Character COUNTS!, and a Recycling Magic Show that attends all the local elementary schools.

Fiscal Impact: None. Expenditures for recycling activities are included in the FY 2004-05 Solid Waste Fund budget.

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

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

Phase I of the process was the completion of a Reconnaissance Study to determine if there was Federal interest in proceeding to a Feasibility Study. The study cost of $100,000 was funded entirely by the Corps and resulted in Federal support of initiating a Feasibility Study, which is now in progress (Phase II). If the Feasibility Study determines that there is Federal interest in pursuing a sand replenishment project, Phase III of the project will begin, which is the Project Engineering and Design phase (Design). The Design phase is projected to cost a total of $1,125,000, with a projected cost to the City of $375,000. This phase is expected to take two years to complete. Phase IV will be the Construction phase, and is expected to cost approximately $11 million, with the Corps paying 65% of the cost and the City paying the remaining 35% ($3.9 million).

Status: The Corps of Engineers' 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 underway and expected to conclude in the fall/winter of 2005.

Fiscal Impact: Potentially significant. The City is 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. This cost may be increased if necessary. The Council appropriated $75,000 in FY 02 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 received one additional grant from DBW for the FY 03 in the amount of $150,000. The City has also received approximately $143,000 of in-kind credit for work performed for sand monitoring and an economic analysis. The table on the following page summarizes the funding sources for the Feasibility Study.

Feasibility Study Funding Sources

Federal 50% share	$ 850,000
State grant for FY02	$ 425,000
State grant for FY 03	$150,000
City in-kind contribution	$143,461
City FY 01 cash contribution	$ 75,000
City FY 04 cash contribution	$ 56,539
Total Feasibility Study Cost	$1,700,000

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, six additional surveys have been completed for the spring and fall of 2002, 2003, and 2004.

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

Opportunistic Sand Replenishment Programs

Purpose: This program began in February, 2000, with an initial purpose to obtain permits for a one-time beach nourishment project and for other future opportunistic sand sources. The Lusk Development Company, the developer of the Marblehead Coastal project, agreed to pay the cost to obtain two permits. The first permit was designed for the placement of 30,000 cubic yards of sand (stockpiled on the project site) onto City beaches, subject to obtaining a Coastal Development Permit for the project. This project has been cancelled due to California Coastal Commission conditions placed on the Lusk Development Company to not remove the stockpiled sand due to environmental reasons.

The second permit, for the 5-Year Opportunistic Sand Replenishment Program, is designed to create a "streamlined" process and permit to allow for future sand nourishment projects, as opportunistic sand and funds become available.

Status: The final permit for the 5-Year Opportunistic Sand Replenishment Program was approved in February of 2005.

The first "opportunistic" sand project under this pending permit came to the City's attention in fall of 2004. The City opted to accept and pay for the transportation of 5,000 cubic yards of high quality sand being excavated from the Santa Ana River. The sand was offered to the City free of charge, with the caveat that the City would pay for transportation. The cost for transportation of the sand was approximately $130,000, with another $50,000 required for monitoring. This project, while not designed to dramatically increase beach widths, will provide sand to help replenish San Clemente's diminishing supply. It will also serve as a test of the environmental impacts of bringing sand to San Clemente, including the impacts on: traffic; delivery methods; biological impacts to the beach and ocean; recreational impacts; and the impact to surfing and wave quality. This project will additionally fulfill permit conditions that require the City to test a small scale project prior to the implementation of any large scale projects and is on track for delivery in April or May of 2005.

Fiscal Impact: Undetermined. The initial Lusk contribution of $75,000 has been expended. The City Council authorized an additional $35,000 in FY 04 to complete the approval process for the permit. Additional City contributions may be substantial for the purchase of sand, transportation, and street repairs after the placement of sand is completed for individual projects over the five year permit period as they arise. The first project under this permit, the Santa Ana River Sand project described above, has an estimated cost of $180,000.

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 March 9, 2005.

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 provides for the restoration of 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 half the streets included in the Street Improvement Program were originally scheduled to be rehabilitated in the first six years, the City has accelerated the program. Bonds were sold in the second year versus the originally planned third year of the program. In addition, cost 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 fifty eight (158) street projects have been completed. An additional seventeen (17) projects are scheduled to be constructed in FY 2004/05. Of the 175 street projects, 69 projects were accelerated from their original schedule. Fifty-three (53) street projects programmed in the first 10 years were constructed in an earlier year than originally programmed. There were sixteen (16) street projects constructed that were originally programmed for construction after the first 10 years of the program.

- **Completed projects (totaling 45.46 miles):**
  There are one hundred and fifty eight (158) completed street projects. Approximately 76% of the program mileage has been completed since the Street Program approval. Exhibit "A" lists all the completed projects.

- **Projects scheduled for construction during FY2004/05 (totaling 3.48 miles):**
  The following seventeen (17) street projects are scheduled to be constructed during FY2004/05:
  1. Avenida Hacienda from Sacramento to Avenida Florencia.
  2. Calle Las Bolas from Avenida Florencia to El Camino Real.
  3. Boca De La Playa from cul-de-sac to El Camino Real.
  4. Avenida Pico from El Camino Real to Boca De La Playa.
  5. Calle Majorca from La Riviera to cul-de-sac.
  6. Calle Monte Carlo from La Riviera to cul-de-sac.
  7. Calle Monaco from La Costa to La Riviera.

8. Calle Monte Cristo from La Costa to La Riviera.
9. Plaza a La Playa from cul-de-sac to cul-de-sac.
10. Calle Capri from La Riviera to cul-de-sac.
11. Calle Las Palmas from La Costa to La Riviera.
12. Calle Madiera from La Riviera to cul-de-sac.
13. Avenida de la Riviera from Ola Vista to cul-de-sac.
14. Avenida la Costa from Calle Las Palmas to Plaza a La Playa.
15. Calle Del Cerro from Avenida Pico to Avenida La Pata.
16. Calle de Los Molinos from El Camino Real to the MO2 Channel.
17. Calle Valle from Calle De Los Molinos to Calle De Los Molinos.

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 and result in a savings of about $4,613,000 or about 19% of the original estimated street projects costs.

Original estimated projects costs (FY 95/96 to FY 04/05)	$24,419,200
Actual projected projects costs (FY95/96 to FY04/05)	$19,806,200
Projected savings (FY 95/96 to FY 04/05)	$ 4,613,000
Projects constructed that were programmed beyond first 10 years	$ 3,757,300
Cash Balance due to savings	$ 855,700

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 have been aggressively pursuing various grants for funding the arterial streets and the City has received AHRP grant approval for nine streets for an amount of approximately $2,300,000.

On the negative side, the actual annual collected assessment is approximately $1.325 million which is about $175,000 less than the original projected amount. The reduction is due to an adjustment of about $100,000 per year to private golf courses, plus adjustments to various parcels based on refined information from the Tax Assessor's office. Table "A" describes the financial comparison between the actual and the original projected revenues for ten years of the 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	13,584,873	(2,135,127)
Debt Service / Redemption fund (1)	(6,090,800)	(6,099,606)	(8,806)
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**	**$23,247,107**	**($1,856,093)**
OTHER REVENUES			
Investment Earnings (2)	-	1,741,571	1,741,571
Other Revenues	-	44,719	44,719
Expenditures Other Than CIP (3)	-	(897,665)	(897,665)
SUB TOTAL	-	**$888,625**	**$888,625**
TOTAL REVENUES	**$25,103,200**	**$24,135,732**	**($967,468)**
GRANTS / SAVINGS			
State Local Transp Partn Program (4)	-	1,741,571	1,741,571
Other Grants (CDBG)		422,845	422,845
Savings from Street CIP (5)	-	4,613,018	4,613,018
SUBTOTAL	-	**$6,777,434**	**$6,777,434**
ADDITIONAL IMPROVEMENTS			
Accelerated Completed Projects (6)	-	(3,757.343)	(3,757,343)
Additional Improvements (CDBG) (7)		(422,845)	(422,845)
Proposed Accelerated Projects (FY05/06)		(810,000)	(810,000)
SUBTOTAL	-	**($4,990,188)**	**($4,990,188)**
CASH BALANCE	**$25,103,200**	**$25,922,978**	**$819,778**

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) Sixteen streets were accelerated from beyond the first 10 years.
(7) Improvements funded by the CDBG grant.

- **<u>Long Term</u>**

  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, Proposition 111 and Measure M Turnback. The total annual Gas Tax Fund revenues are approximately $1,000,000 as follows:

2106 Gas Tax	$ 200,000
Proposition 111	300,000
Measure M	500,000
Total	$1,000,000

  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 $500,000 (current dollars) annually in revenues, plus other 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.

  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
10	2004/2005	$597,020	$506,710
11	2005/2006	$614,930	$521,910
12	2006/2007	$633,380	$537,570
13	2007/2008	$652,390	$553,700
14	2008/2009	$671,960	$570,300
15	2009/2010	$692,120	$587,410

  - 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)	$1,500,000
Total	$4,750,000

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 FY 1995/96 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 combination of the County's bankruptcy, the impact of Proposition 218 on the City's General Fund, and the Measure M sunset created substantial obstacles to achieving the Council's stated goal.

Schedule Modification

Since the approval of the program, 69 street projects were accelerated from their original schedule. Staff is recommending the following schedule modifications (refer to Table "**B**"):

- To accelerate four street projects from FY 2007/08 east of the freeway Area, and combine them with other street projects within the same area in FY 2005/06 due to the proximity of these streets. Originally the street projects were divided into two fiscal years. It is prudent to combine these projects together due to their proximity to each other. These four streets are:
  - Avenida San Carlos from El Levante to Presidio
  - Calle Cortez from Balboa to San Carlos
  - Calle Sonora from E.O.P to Presidio
  - Calle de Soto from Presidio to Salvador
- To accelerate Camino San Clemente street improvement project from the FY 2007/08 to FY 2005/06. The pavement conditions of the street are deteriorating very quickly.

Funding appropriation for the accelerated projects will be required at the time of awarding the construction contract. There are sufficient funds available in the Street Improvement Program Fund due to the savings from completed projects.

TABLE "B"

Proposed Schedule Modifications

	Project Names	Original Schedule	Modified Schedule	Comments
1	Algodon from E.C.R. to Monterey	2005-06		
2	Avenida Aragon from Buena Vista to Puente	2005-06		
3	Avenida Miramar from E.C.R. to Palizada	2005-06		
4	El Oriente from Caballeros to La Paz	2005-06		
5	Patero De Oro from La Cuesta to El Levante	2005-06		
6	Avenida De La Paz from Solano to Esperanza	2005-06		
7	Avenida San Carlos from El Levante to Presidio	2007-08	2005-06	Accelerate
8	Calle Cortez from Balboa to San Carlos	2007-08	2005-06	Accelerate
9	Calle Sonora from E.O.P to Presidio	2007-08	2005-06	Accelerate
10	Calle de Soto from Presidio to Salvador	2007-08	2005-06	Accelerate
11	Calle de Industrias / Pico Plaza	2005-06		
12	Camino San Clemente from Pacific Coast Hwy to EOP	2007-08	2005-06	Accelerate

Street Maintenance Program

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

As part of the FY 1999/00 budget, the City Council re-established the City's Major Street Maintenance Program. Furthermore, 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.

This Major Street Maintenance Program provides 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 slow down 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 a reasonable cost.

Since the re-establishment of the City's Major Street Maintenance Program as part of the FY 1999/00 budget, thirty-eight (38) 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 cul-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.
32. Avenida Columbo from Avenida Teresa to cul-de-sac.
33. East Avenida Marquita from El Camino Real to Avenida de la Estrella
34. East Avenida Mariposa from El Camino Real to Avenida de la Estrella.
35. East Escalones from El Camino Real to Avenida de la Estrella.
36. East Canada from El Camino Real to Avenida de la Estrella.
37. Avenida Mateo from El Camino Real to Avenida Monterey
38. Calle Borrego from Mira Costa to end of cul-de-sac

In addition, the following streets will be rehabilitated as part of the Major Maintenance Program during FY 2004/05 & FY 2005/06:

<u>FY 2004/05</u>:

1. Avenida Florencia from Avenida Pelayo to El Camino Real.
2. Calle Sacramento from Avenida Florencia to Calle Las Bolas.
3. Calle Colina from Buena Vista to Calle Sacramento.
4. Calle Deshecha from Avenida Pico to MO2.
5. Avenida Del Repose from Avenida De La Grulla to Calle Mirador.

<u>FY 2005/06</u>:

1. Calle Mendoza from Avenida Presidio to end of cul de sac.
2. Calle Balboa from Calle Cortez to end of cul de sac.
3. Calle Mirador from Avenida Florencia to Ave. De La Grulla.
4. Calle Puente from Avenida Aragon to Avenida De La Grulla.
5. Avenida De La Estrella from Avenida Palizada to Avenida Presidio.
6. Avenida Palizada from Interstate 5 to El Camino Real.
7. Avenida Cabrillo from Avenida De La Estrella to El Camino Real.
8. Avenida San Pablo from Avenida Acapulco to E. Avenida San Gabriel.
9. Del Gado Road (portion of road within City limits)
10. Other streets if funding is available.

Conclusion

In summary, the Street Improvement Program is ahead of the originally approved schedule. One hundred and fifty eight (158) street projects are complete. An additional seventeen (17) projects are scheduled to be constructed in FY 2004/05. Due to the savings in the street projects' costs, staff was able to accelerate and complete sixteen (16) street projects that were scheduled beyond the first ten years of the program. In addition, fifty-three (53) other streets were accelerated within the first ten years of the program.

The City will continue to monitor annual revenues and expenditures of the Street Improvement Program. The long-term financial forecast of the Street Improvement Program is very good. 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 $614,930 for the coming FY 2005/06.
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.
4. Approve the Street Improvement Program schedule modification to accelerate four street projects east of the freeway area from FY 2007/08, and combine them with other street projects within the same area in FY 2005/06 due to the proximity of these streets.
5. Approve the Street Improvement Program schedule modification to accelerate Camino San Clemente street project from FY 2007/08 to FY 2005/06.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 9, 2005.

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 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 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 Del Presidente.
100. Calle Serena from Los Alamos to De Los Lobos Marinos.
101. Avenida Gaviota from Valencia to Calle Toledo.
102. Calle De Los Alamos from Gaviota to Avenida De Los Lobos Marinos.
103. Calle Lasuen from Calle De Los Alamos to West Los Lobos Marinos.
104. East Cordoba, Phase II from Via Avila to Via La Jolla.
105. West Avenida Santiago from South Ola Vista to El Camino Real.
106. East Avenida Ramona Phase I from El Camino Real to Entrada Paraiso.
107. East Avenida Ramona Phase II from Entrada Paraiso to cul-de-sac.
108. Avenida Serra from Avenida Palizada to El Camino Real.
109. 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 San Carlos to Avenida Presidio.
115. Avenida Arlena from Esperanza to Cordoba.
116. Bella Loma from cul-de-sac to La Cuesta.
117. Calle Neblina I from Miguel to Empalme.
118. Calle Neblina II from cul-de-sac to 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 Miguel to Presidio.
122. Calle Rica from cul de sac to cul-de-sac.
123. Robles from Empalme to Presidio.
124. Avenida La Cuesta from Solano to Miguel.
125. Calle Sandia from cul-de-sac to Escuela.
126. Calle Salida from cul-de-sac to Escuela.

127. Calle Del Juego from cul-de-sac to Escuela.
128. San Luis Rey from El Camino Real to Santa Margarita.
129. Calle Escuela from Presidio to Miguel.
130. Calle Fiesta from Empalme to cul-de-sac.
131. Calle Pueblo from Presidio to cul-de-sac.
132. Calle Villario from Presidio to cul-de-sac.
133. Calle Felicidad from Presidio to cul-de-sac.
134. Calle Dorado from 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.
139. Avenida Palizada from Calle Seville to Avenida Del Mar.
140. Avenida Cabrillo from Calle Seville to Avenida Palizada.
141. Avenida Salvador from Avenida San Juan to Avenida San Pablo.
142. Avenida Salvador from Calle Malaguena to Avenida San Juan.
143. Calle La Serna from Avenida San Pablo to cul-de-sac.
144. Via Arboleda from Via Montego to Via Alegre.
145. Via Bandita from Via Montego to Via Alegre.
146. Via Verbena from Via Montego to Via Alegre.
147. Via Casa Loma from Via Montego to Via Alegre.
148. Via Lado from Via Montego to Via Alegre.
149. Via Montecito from Via Montego to Via Alegre.
150. Via Montezuma from Via Montego to Via Alegre.
151. Via Santo Tomas from Via Montego to Via Alegre.
152. Via Vistosa from Via Montego to Via Alegre.
153. Calle Alondra from Mira Costa to Quieta.
154. Calle Quieto from Calle Grande Vista to Calle Grande Vista.
155. Calle Guaymas from Calle La Veta to Camino Mira Costa.
156. Calle La Veta from Camino Mira Costa to cul-de-sac.
157. Grande Vista from Calle Quieto to Avenida Vaquero.
158. Via Nada from Calle Grande Vista to cul-de-sac.

Revenue and Fee Analysis

Objective

To review the City's current charges for services and determine:

1. If the charges or fees are appropriate for the services or programs offered.
2. If the charges or fees should be adjusted based upon current competitive conditions or recovery of current program costs.
3. If the methodology to setting fees and charges is documented.
4. If the extent of fee waivers or exemptions has an effect on individual revenue sources and the programs or services that these sources fund.

Summary

The City of San Clemente charges fees for a variety of public services. These services range from building related fees for permits, plan check or construction inspection fees to recreation services charges for classes, sponsored trips and facility rentals. By fiscal policy, "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."

An internal review of all fees and service charges was conducted by the division directly responsible for collecting the fees or charges. It was determined that the methodologies for setting fees and charges are adequately documented, however some fees have not been reviewed for a number of years. This paper consolidates the fee analysis by category and makes recommendations for City Council approval.

Background

Annually, the City prepares a Revenue Handbook that provides a description, legal authorization, receipt timing, fee schedule and overview of each major revenue source. The handbook also gives a five-year history of receipts, as well as monthly receipts for the prior year. The Revenue Handbook, which is produced under separate cover, was used as a basis for this revenue and fee analysis.

According to "A Revenue Guide for Local Government", a publication produced by the International City Management Association (ICMA), "Public opinion polls reveal that when local governments must raise revenues, citizens prefer that they do so by increasing charges to those using the services. Service charges are perceived by citizens to be fair and understandable".[1]

There are a variety of acceptable methodologies to determine the appropriateness and fairness of fees and service charges. Building and planning fees and service charges are generally set based on a cost recovery basis or by valuation. Large or complex development projects are charged on a direct time and material basis, whereby all costs for staff time and consultant services are fully recovered. Recreation service charges are based on market conditions or competition from other

[1] "A Revenue Guide for Local Government" by Robert L. Bland 1989.

sources. City Council can also set policy to provide low cost or subsidized class and program fees.

Analysis

The following revenue categories were analyzed to determine if the fees or service charges should be changed:

- Business Licenses & Permits
- Construction Permits
- Non-business Licenses & Permits
- General Government Service Charges
- Public Safety Service Charges
- Parking Service Charges
- Health Service Charges
- Community Development Service Charges
- Recreation Service Charges
- Water Service Charges

Business Licenses & Permits

This category consists of Business Licenses and Home Occupation permit fees. These permit fees are set by City ordinances. The Business License fee schedule is based on a flat rate or percentage of gross receipts, depending on the type of business. The Business License fee was last increased in 1991. This fee is subject to the provisions of proposition 218[2] and increases to this fee would be subject to the approval of 51% of the votes cast. The Home Occupation fee is a one-time fee to engage in a home business.

No changes to these permit fees are recommended at this time.

Construction Permits

This category consists of building, electrical, mechanical, plumbing, grading and sewer permits. The fees are set by City ordinances. The fee schedule is based upon a valuation schedule set by the Uniform Building Code. A number of lawsuits have been initiated by the development community regarding this method of determining permit fees. In March 1993, the State Attorney General concluded the following:[3]

- A local agency is prohibited from charging building permit and similar fees which exceed the estimated reasonable costs of providing the services rendered unless the amounts of the fees are approved by the electorate.
- A local agency may not charge building permit and similar fees based upon the Uniform Building Code Valuation Tables which are in excess of the estimated reasonable costs of

[2] Proposition 218 was a statewide initiative passed by in 1996. The initiative provided voters with the right to vote on new or increased taxes.

[3] Office of the Attorney General Opinion No. 92-506.

providing the services rendered unless the amounts of the fees are approved by the electorate.

- If a local agency charges building permit and similar fees based upon the Uniform Building Code Valuation Tables without supporting evidence regarding the relationship between the fees and the services rendered, such fees are invalid to the extent they exceed the reasonable costs of providing the services rendered.

An in-house review of all fees will be conducted utilizing Building, Planning and Engineering staff and recommended adjustments, if any, will be presented to City Council at a later date. Once the fee schedule is determined, it is recommended that the fee schedule be increased or decreased annually by a cost of living adjustment. The City Attorney has determined that automatic fee escalators are permissible and do not require separate justification as long as the base fee is valid, the amount of the escalator is objectively verifiable, the escalator index is justified and the escalator is included in the fee resolution.

Non-business Business Licenses & Permits

This category is a mixture of license fees and permit fees, such as bicycle permits, mobile home inspection fees, street encroachment permits, alarm permits, animal licenses and development impact fees. There are no recommended changes to street encroachment permits, alarm permits or animal license fees because these fees have recently been analyzed and adjusted.

Changes are recommended for the other fees listed in this category.

A bicycle permit is required of all owners of bicycles who ride upon any public street, sidewalk, alley, bicycle lane, path or any other public property. The fee is $2.00 per permit. Over the last five years, revenue from bicycle permits has ranged from $46.00 in FY 1999-2000 to $4.00 last year. It is recommended that this fee be eliminated because enforcement efforts to ensure compliance would surpass the revenue received from the permits.

An inspection fee is charged for the annual inspection of mobile home parks within City limits to ensure compliance with City codes and ordinances. The fees are established by the State Department of Housing and Community Development. The City receives $1,632 per year from the Shorecliff's Mobile Home Park on El Camino Real. Staff does not believe the fees are adequate to perform the required inspection. It is recommended that the City investigate the possibility of returning the code enforcement of mobile home parks to the State Department of Housing and Community Development.

Development impact fees are charged to mitigate the impact of new development on service demands such as affordable housing, beach parking, public safety, parks or infrastructure. Examples of these fees include: in-lieu affordable housing, beach parking impact, public safety construction, civic center construction, storm drain, water acreage, sewer connection, regional circulation and park fees. These fees are set by City ordinance. The majority of these fees are indexed to an annual cost of living adjustment; however, the sewer connection fee currently calls for an annual 10% adjustment to the fee. It is recommended that staff conducts an in-house study to review the 10% adjustment. In addition, it is recommended that an internal review of the fee structure is performed to ensure that the projects included in the various master plans are adequately funded in the future. This will be an in-house analysis performed by the Finance and Engineering divisions.

General Government Service Charges

This is a broad category which includes development processing service charges, administrative charges and charges for contracted services. Development processing charges are based upon the actual or average cost for providing services such as environmental impact reports, plan check and land use changes. Staff time spent processing applications for permits and appeals are also based upon the cost for providing the services. For most complex and expensive projects, the applicant is charged on a time and material basis and 100% of the costs are recovered. However, projects that are smaller in scope are charged set fees based on the average cost to provide the service. It is recommended that these fees should be reviewed by in-house staff and performed in conjunction with a review of permit fees.

Administrative charges include charges for the reproduction of documents, bad check service charges or late payment charges. No changes to these fees are recommended at this time because it has been determined that the current fees adequately recover the cost of the services.

Charges for contracted services are the fees paid by the Cities of San Clemente and Dana Point for the provision of animal control and animal sheltering services by the Coastal Animal Services Authority. These rates are reviewed annually by the cities. The rates are allocated based on a combination of population and the number animals in the shelter.

Public Safety Service Charges

The City charges fees or charges for services performed in the public's interest or by public safety personnel. Examples of these services include weed abatement, ambulance transport, special beach events or services, fingerprinting, animal adoption fees and police/fire services over the basic level of service.

Ambulance transport is performed under contract with the Orange County Fire Authority (OCFA). The City pays OCFA for the direct costs of transport personnel, supplies and equipment. The City, in turn, charges for the cost of the ambulance transport. Currently there is a two-tiered rate structure with different rates for residents and non-residents and different rates for basic transport (BLS) and paramedic assisted transport (ALS). The rate structure is shown below:

Type of Transport	Resident	Non-Resident
Basic life support (BLS)	$300	$500
Advanced life support (ALS)	$450	$650

The City's resident and non-resident BLS rates are under the BLS basic rate of $531.75 approved by the County on May 11, 2004. This rate, which is set by the County, is the rate that private ambulance companies are allowed to charge for basic emergency transport. If paramedic assistance is necessary on the transport, a $282 charge is added to the BLS rate. Compared to the County approved rate, The City's BLS rate is $31.75 lower than private ambulances. The City's ALS rate is $163.75 lower. In order to make recommendations on ambulance transport rates, it is proposed that the City perform a comparative rate analysis of other City provided ambulance services. This can be an in-house study and recommended changes to the rates will be presented to City Council upon completion.

The Marine Safety division charges a special event fee for the exclusive use of more than 250 feet of beach. The application fee and permit ensures that the event organizers bear the cost of any municipal services required to support the event. It is recommended to leave the application fee the same, but increase the daily charges to reflect the staff time involved in oversight of the event and the impact on public property. The table below shows the current and proposed charges:

	Current	Proposed
Application Fee	$50	$50
Event Requiring Staff Assistance – 1st day	$400	$500
Event Requiring Staff Assistance – 2nd day	$250	$300
Event Requiring Staff Assistance – each day thereafter	$150	$200
For Profit Event Without Staff Assistance – 1st day	$150	$250
For Profit Event Without Staff Assistance – each day thereafter	$100	$150
Non-Profit Event Without Staff Assistance – 1st day	$30	$50
Non-Profit Event Without Staff Assistance – each day thereafter	$10	$25

The Marine Safety division is also responsible for the oversight of the commercial filming process. A non-refundable fee is charged to review and process the application. Location fees are charged with different rate structures for still and motion photography. It is recommended to increase the application fee to reflect the time spent by staff reviewing the application. It is also recommended to increase the location fees based on a comparative market study perform by staff for similar beach locations. The table below shows the current and proposed charges:

	Current	Proposed
Application fee	$10	$100
Processing fee for still photography	$50 - $90	$0
Processing fee for motion photography	$50 per day	$0
Daily location fee for still photography	$100	$150
Daily location fee for motion photography	$200	$300
Daily location fee for student filming	$0	$0

Public safety service charges are also collected by the Coastal Animal Services Authority (CASA) to license, adopt or impound animals. These fees are based upon the average cost to provide the services and were updated in March 2003. The current charges are also consistent with similar services in other agencies.

CASA does provide exceptions or waivers to established fees for assistance dogs. These include guide dogs for the blind, hearing dogs for the deaf or hard of hearing and service dogs for people with disabilities. The number of exceptions is minimal and does not have a significant impact on programs or services.

Parking Service Charges

Parking service charges consists of parking meter and parking permit charges. Parking meter charges are collected in the metered areas at North Beach, Linda Lane Park, the Pier, T-Street, Poche and Calafia beaches. The fee is $1.00 per hour or $0.25 per fifteen minute period. The fees are comparable to fees charged by other beach cities in the surrounding area. No changes are recommended at this time.

The City also provides a parking permit that allows the permit holder to park in municipal parking lots without payment the parking meter charge. The permit is good for twelve consecutive months. The fee is $50.00 for residents and $65.00 for non-residents. No changes are recommended at this time.

Health Services Charges

Service charges for residential/commercial recycling and sewer service charges are included in this category. Residential and commercial recycling charges are received from the City's solid waste franchisee. The revenue is used to promote recycling efforts. Sewer charges are set by City ordinance and are based upon the cost to provide the services. A fee study is currently underway to determine if sewer charges should be changed. Any recommended changes will be brought forth during the annual budget process.

Community Development Service Charges

The City charges developers for inspection services of public works improvements made in conjunction with a particular development. Fees are set on a sliding scale based on the cost of all on-site and off-site improvements to water, sewer, storm drain and streets. The fee structure is 3.5% of the first $25,000; 3.0% of the next $75,000 and 2.5% of the cost over $100,000. As with building permits, it can be argued that the cost of the improvements may not directly correlate with the cost to provide the services. It is recommended to include all community development services charges in the proposed in-house study.

Recreation Services Charges

The City charges fees for recreational programs and activities. Fees for the use of the municipal golf course are also included in this category. A thorough review of golf fees was presented to the Golf Committee and City Council in July 2004. No additional changes are recommended at this time.

The goal of the recreation department is to provide high quality programs and activities at a reasonable cost. There are two ways to evaluate the services charges for recreation programs.

The first is to conduct a simple cost analysis to determine the cost recovery of the program fees. The second analysis would be to determine what program fees are being charged for similar programs in the surrounding area and see if the City's rates are comparable. It is recommended that all recreation charges are examined to determine the basis of the charge and to determine the cost recovery ratio and market comparability. Recommended changes would be brought to City Council for review and approval.

Water Services Charges

Service charges are levied on the cost to provide water to residential, commercial and undeveloped properties. These charges include metered water sales, fixed water charges, hydrant meter water sales, meter rentals and meter installation fees. All water service charges are reviewed annually in January as a part of the budget process and recommended rate adjustments are proposed in May if necessary.

Recommendations

Staff recommends that the City Council direct staff to:

1. Conduct an in-house study on construction permits fees and include an automatic fee escalator in the fee resolution, when appropriate.
2. Repeal the municipal code section which requires the licensing of bicycles.
3. Investigate the possibility of returning the code enforcement of mobile home parks to the State Department of Housing and Community Development.
4. Review the sewer connection fee.
5. Conduct an in-house study on development processing charges and include an automatic fee escalator in the fee resolution, when appropriate.
6. Conduct a comparative rate analysis of ambulance transport rates.
7. Prepare a resolution for City Council to approve change in the fee structures for special events and commercial filming.
8. Conduct an in-house study on community development service charges and include an automatic fee escalator in the fee resolution, when appropriate.
9. Conduct an analysis of the basis of the charge and determine the cost recovery and market comparability study for all recreation program fees.

Fiscal Impact of Recommendations

Depending upon the recommendations of the various studies, revenues may increase or decrease.

Council Action

All recommendations were approved by the City Council by a vote of 5-0 on March 9, 2005.

Council Recommendation

The City Council requested an issue paper identifying the amount the City pays the Orange County Fire Authority for medical transport services as compared to revenue collected from service users.

Acknowledgements

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- George Buell, City Planner
- Leslie Davis, Housing Coordinator
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State Impact Financial Analysis Update

Objective

This is the fourth year the City has addressed the impacts of the loss of control over local revenue and the associated shifts in revenue to the State due to a history of State budget crises. Although community leaders make decisions for the community and approve the City's budget, decisions made by state and federal legislators often affect the amount of local control that local governments have over local circumstances. For this reason, constitutional protection of local revenues has been a top priority for local government.

Summary

The initial State Impact Financial Analysis paper was developed in FY 2001-02 and throughout former Governor Gray Davis' entire term, the State's budget situation only grew worse. This paper has continued to be updated, citing further shifts in local revenue to the State. History has clearly demonstrated that California's budget deficit cannot be resolved by raiding local government funds to resolve State budget deficits.

During his term, Davis also proposed more actions to bring the budget into balance, such as tripling the cost of vehicle license fees for Californians. This action was later rescinded after Davis was voted out of office on October 7, 2003 and voters elected Arnold Schwarzenegger as California's new governor. However, because Governor Schwarzenegger rolled back the 300% increase in license fees on November 18, 2003, the shortfall the State faced increased substantially -- by as much as $14 billion – in order to resume backfill payments to localities.

Failure to reinstate the backfill or some other means of reimbursement to local governments would have resulted in a $3.6 billion loss in funding for essential local services provided by cities and counties. The VLF revenues are an economically stable resource and because the VLF is allocated to cities in relation to population, it tracks favorably with the growth in local service demand related to residential development. In response to Governor Schwarzenegger's request, the Legislature appropriated these funds to make local governments whole during a special session of the Legislature that addressed California's fiscal crisis.

Many of the State's actions for more than two decades have negatively impacted the City of San Clemente because the State turned to local government to solve its budgetary problems. Governor Schwarzenegger inherited the budget deficit and as he and policymakers confronted the FY 2004-05 budget, they faced even more fiscal shortfalls that were the product of nearly four years of imbalances between revenues and expenditures. This included an unfunded gap of slightly over $17 billion.[1]

[1] Legislative Analyst's Office, "The 2004-05 Budget: Perspectives and Issues: Report from the Legislative Analyst's Office to the Joint Legislative Budget Committee." February 18, 2004, Writer: Elizabeth Hill, Legislative Analyst.

The State's fiscal situation deteriorated for a number of reasons, including the fact that Davis did not set aside sufficient funds when the economy was healthy and instead expanded government programs. Over time, this resulted in an imbalance of revenue and spending, especially after the stock market decline and the economic downturn.

One element of the State's recovery plan -- the Governor's Economic Recovery Bonds -- was approved by California voters in March 2004. This measure authorized the issuance of $15 billion in bonds to finance a portion of the state's deficit. Included in this measure is a funding mechanism called the "triple flip"[2] that allows the State to "swap" one-quarter percent of local sales taxes and backfill the loss with an equal amount of property taxes. This will cause a cash flow problem for the City, as sales taxes are currently received monthly and property taxes are received bi-annually in January and May. The biggest impact of this measure is that there are no guarantees currently in place that the State will backfill the local sales tax loss. However, the proposed constitutional amendment will guarantee the backfill and also guarantee the return of the one-quarter percent of local sales taxes once the bonds are repaid. More detail on the triple flip is provided in this paper.

The State's fiscal crisis had significant impacts on the City's budget, including reductions in General Fund revenue, specifically motor vehicles fees, which are provisions of the Governor's budget. The State's May revised budget includes a $350 million – two-year takeaway of motor vehicles fees (VLF) from all cities. For San Clemente, this amounted to $731,180 in FY 2004-05 and FY 2005-06. The Governor promised to give back $995,190 in FY 2006-07 from vehicle license fees taken in FY 2003-04 to fix the State budget problem. The net effect of the State's budget proposal is a loss of $467,170. However, the passage of Proposition 1A which enacts substantial reforms to the legislature's ability to raid the local government shares of the property tax, sales tax and vehicle license fee to pay for state programs, (discussed in detail later in this paper) guarantees the return of the backfill from July – October 2003. The amount is $1,029,320 in the projections for the City of San Clemente.

Cities and counties operate on lean budgets, so cutbacks seriously affect services that impact all members of the community. As the State has taken more money from local government to close large budget deficits, it continued to place more restrictions on cities' ability to raise revenues despite the fact that cities and counties provide the frontline services to make neighborhoods safer, more livable and economically viable. The rates and bases of the three largest sources of general purpose revenues – the sales tax, property tax and VLF – are no longer under the control of the local agencies that rely upon them to fund essential services. As a result, these critical local revenues are subject to substantial political risk. When the State faces a financial crisis, local government is left in a vulnerable position as the State seeks to balance its budget by using local dollars, leaving local governments with less ability to ensure that local tax dollars stay in the communities where they were generated.

[2] The "triple flip" is a method whereby the State implemented a swap for ¼ cent of local sales tax for an equal amount of property tax to create a dedicated revenue source; the City will lose $17,000 in interest.

San Clemente was negatively affected during the recession of the early 1990's when the State took local revenue (property taxes) to meet its obligations to fund schools. To compensate for the revenue reduction, the City increased service user fees and implemented layoffs while contracting many services formerly provided by employees.

This paper provides an overview and analysis of how San Clemente has been impacted by the State's fiscal position over the years resulting in the State's increasing fiscal control of local government which for years resulted in a decline of local influence on how tax dollars are spent. With the passage of Proposition 1A, cities will see significant and positive change to the state-local fiscal relationship.

Background

For decades, local government has lost more control over its revenue to the State. The diversion of local funds has allowed the State to meet its funding obligations at the expense of important local services. Likewise, voters 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 forced the City of San Clemente and other cities to find 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's tactics, although further shifts in revenue would be devastating considering the City's increasing service demands and growing population which was 63,100 in January 2004, nearly a 4% increase from the prior year.

On the positive side, the Legislative Analyst's Office projects that California will see a continued strengthening of economic activity that will continue throughout 2004 and 2005. Overall State revenues for FY 2004-05 are projected to increase 2.4% from $74.6 billion (exclusive of any economic recovery bond proceeds) to $76.4 billion in 2004-05. Expenditures are projected to decline from $78 billion in 2003-04 to $76.1 billion in 2004-05. Current year spending totals have been increased by a transfer of $3 billion in bond proceeds to the new "deficit recovery" special fund. The reserve at the end of FY 2004-05 is projected to be $635 million.[3]

State control over cities

Cities are perpetual creatures of the State. The State has, for many years, treated local government's revenue as if it was up for grabs and legally has exercised its ability to take this revenue when needed. One of the most effective ways the State has closed its budget gaps has been to shift the responsibility for providing some public services to local governments without providing adequate funding to carry out their new responsibilities. These unfunded mandates have cost local governments a significant amount of money over the years. Local governments

[3] Legislative Analyst's Office, "The 2004-05 Budget: Perspectives and Issues: Report from the Legislative Analyst's Office to the Joint Legislative Budget Committee." February 18, 2004, Writer: Elizabeth Hill, Legislative Analyst.

have very few options when deciding how to respond to a reduction in state funding. Local governments operate under strict balanced budget requirements and essentially have two options: 1) enact an increase in locally-raised revenue or 2) reduce spending. In the event spending is cut, local government services will be reduced. Local governments are in a quandary when it comes to reducing service or even in a situation where the State stops providing funding for a particular service that local governments have no legal responsibility of providing, local governments still end up bearing much of the direct costs of providing services.

The State's uncontrolled spending created further budget deterioration for the State and local governments. It is difficult to remember a time when the State was not experiencing a deficit. Looking back, this was the case following fiscal year 1991-1992 when then Governor Pete Wilson faced closing a two-year budget shortfall of upwards of $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.

Governor Schwarzenegger vowed to change the "government as usual" approach to managing the State. In less than a year, he has already proven that he can garner the support of the people for his proposals for his restructuring plan.

Prior to his Governorship, Davis and even some officials in the Legislature insisted that the States' fiscal troubles were a result of factors beyond their control--including federal spending policies, the downturn in the national economy and the energy crisis. In response Davis found ways to make up the budget gap through means that adversely impacted local government.[4]

Fiscal relationship between Cities and the State

The relationship between local government and State government is complex. The fiscal conditions of State and local governments are also closely intertwined.

This fiscal relationship between local governments and the State is complicated and ambiguous in California than it is in most other states.[5] 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% 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

[4] Coleman, Michael and Colantuono, Michael. August 2003. "Local Fiscal Authority and Stability: Control and Risk in California City Revenues. *Western City*.

[5] 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.

causing increased fiscal problems for cities and 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 from development.

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. For this reason, the City of San Clemente is looking forward to increasing its sales tax base with the development of Marblehead Coastal's designer outlet shopping center. Over the years, the City has also sought alternative financing sources. These include locally-generated taxing measures such as utility taxes and fees for sanitation, sewage treatment, and solid waste removal and urban runoff management. 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 clearly evident 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 VLF revenues) are the major single sources of discretionary income that may be used for general purposes by cities.

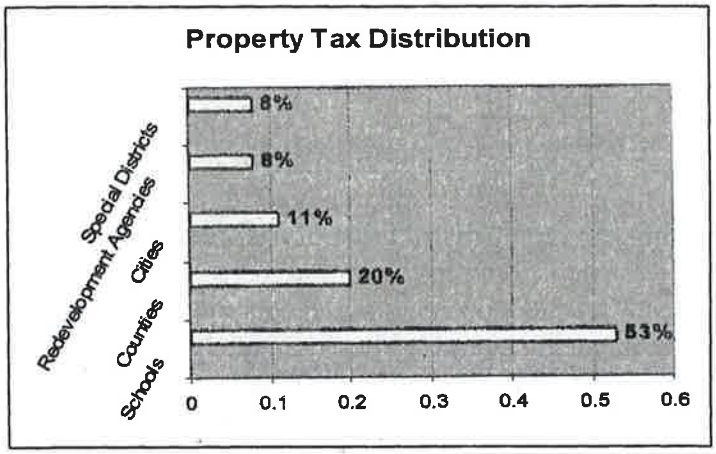
What has changed?

Voter initiatives have often had a negative impact on local government revenues. California has the most liberal initiative process in the country, so this tool is used frequently, with confusion and a misunderstanding of the consequences. The 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% per year on those who owned homes before the initiative went into effect. Since then, local governments have had to get by with less money which has impacted service delivery. The State can no longer allocate money for its own purposes. Proposition 13 collects property tax and distributes it to local agencies according to a complex formula. Proposition 13 made it more difficult for local officials to raise new taxes by requiring a two-thirds majority vote. These constraints forced local government to turn to other revenue sources, so any problems that surface needing new taxation must be put to a vote.

The chart on the following page outlines the current distribution of property tax dollars:



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.

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 3% in the budget year. The initial impact of the $1.5 million ERAF shift from the City of San Clemente to the State in fiscal years 1992-93 and 1993-94 was severe as cuts in programs, services, and staffing levels resulted. These property tax shifts for San Clemente comprised of cumulative losses of $8,110,120 for FY 1992-93 and $7,319,440 for FY 1993-94. There has been no sign that the annual ERAF shift is going to end; in fact, Governor Schwarzenegger's FY 2004-05 budget proposal looked to local government to help the State balance its budget and to meet its statutory requirement to fund schools. Included in this budget was $1.3 billion diverted from local governments to ERAF. For San Clemente, this resulted in a loss of an additional $521,630 annually in property taxes.

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 182 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 with the passage of Proposition 218, which placed 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. 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 endangered cities' fiscal health causing them to lose local control of local revenues. 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 also has seen a change and is more subject to fluctuations in the economy and development activity which causes 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 pursuing alternative sources of revenue, such as increasing the level of fees charged for residential development, seeking 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 pursuit of 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 local decisions and can be helpful in replacing local 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 in spending has been reduced given mandates for funding levels in schools and spiraling costs 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 fill. 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: San Clemente forced to find ways to replace lost revenue

The City of San Clemente's reaction to the State taking local revenues was to increase fees where appropriate in order to replace revenues lost while continuing to provide services. These actions have had mixed outcomes. Additional options are very limited without extreme consequences.

Business License Fee Increases

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, at the close of the 2004 calendar year, the City collected $1,042,012.84 for 5,855 business licenses.

Golf Fund Transfers

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 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 because funds were not available to cover the costs. The "Clean Ocean Water" Initiative passed by a 13.2% 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:

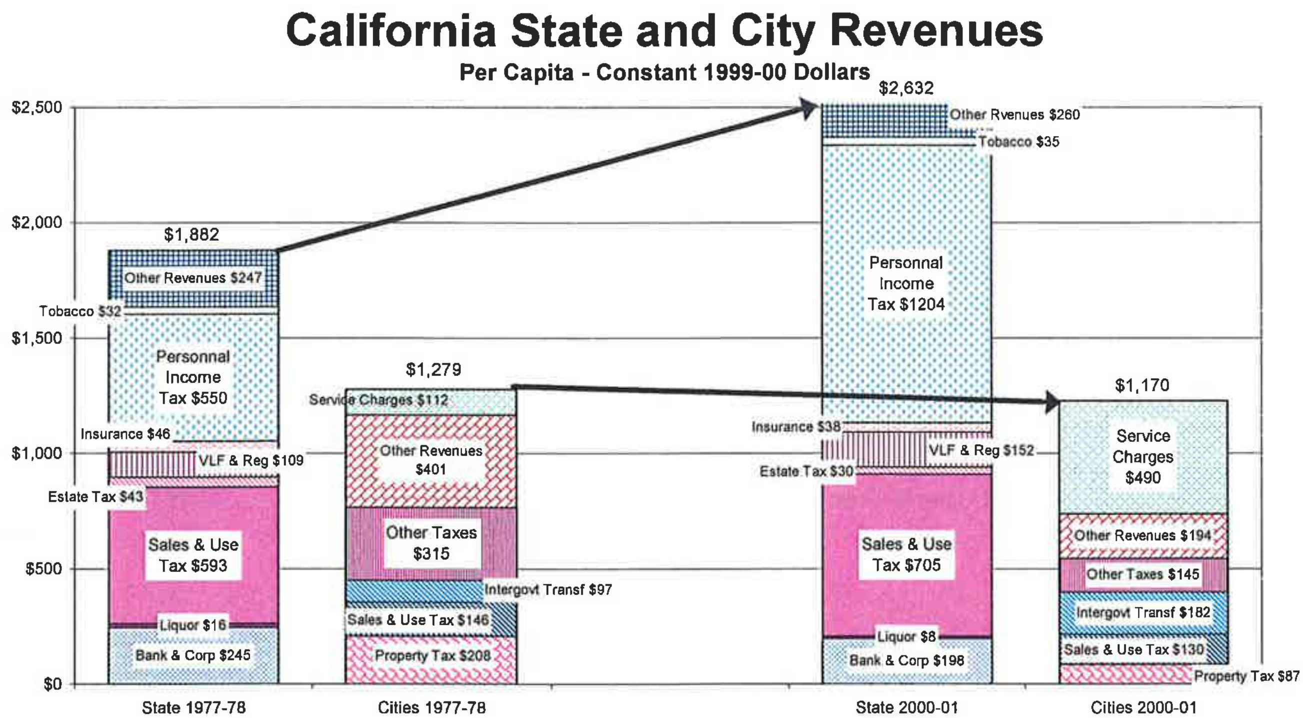
- *Increased public education;*
- *Dry weather water quality monitoring;*
- *Structural urban runoff treatment projects;*
- *Installation of systems to clean and filter storm drain runoff;*
- *Increased street sweeping;*
- *Increased storm drain capital projects; and*
- *Two new water quality inspector/enforcement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

The amount of the new fees total $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, such as 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, several restaurants and retail shops, a hotel with convention facilities and 313 single family homes. The plan won approval by the Coastal Commission on April 9, 2003 and is scheduled for completion by fall 2006. The City's Wal-Mart and Lowe's shopping center consists of several 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 the rehabilitation of 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. Since 1981, the City of San Clemente has lost $23.5 million in revenue to the State. The City will face fewer challenges as a result of the passage of Proposition 1A.

The below chart from the League of California Cities shows how cities' revenues have actually dipped below fiscal year 1977-78 levels while the State's have increased significantly 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, even more than 20 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 local governments, representing a loss of over $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 $4,930,960 cumulative loss for San Clemente and a $327,130 annual revenue loss. The chart below itemizes the reductions specific to San Clemente.

Estimated Revenue Losses Due to State Budget Actions
City of San Clemente 1981-2004

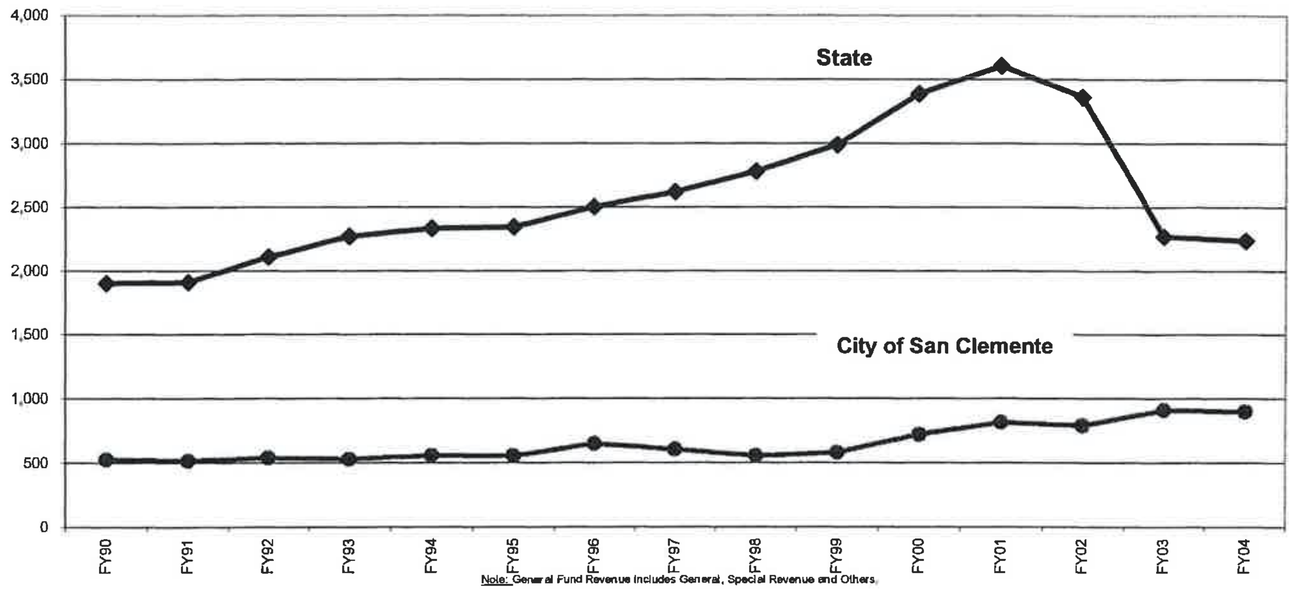
Revenue Item		FY Effective	Initial Year Loss	Continuing Annual Loss	04/05 Cumulative Loss
State Continuing Losses					
Liquor License Fees		81-82	$20,410	$41,530	$716,470
Highway Carries Uniform Business Tax		81-82	$6,510	$13,250	$228,510
Financial Aid to Local Agencies		81-82	$42,514	$86,510	$1,492,420
Business Inventory Exemption Reimb Repealed		84-85	$51,890	$92,450	$1,451,570
Admin Costs of Cigarette Tax Subventions		90-91	$12,484	$17,260	$207,040
Cigarette Tax Subventions		91-92	$33,544	$45,020	$507,460
50% of Non-Parking Fines		91-92	$103,825	$139,350	$1,570,680
Remaining Cigarette Tax Subventions		92-93	$20,531	$26,760	$281,740
Trailer Coach\ Mobile Home Fees		92-93	$3,334	$4,350	$45,750
ERAF Property Tax Shift		92-93	$591,000	$770,440	$8,110,120
ERAF Property Tax Shift		93-94	$591,000	$749,980	$7,319,440
Subtotal				$1,986,900	$21,931,200
State One-Time Losses					
Vehicle License Fees	One Time	81-82	$219,186	$446,020	$446,020
Vehicle License Fees and Other Subventions	One Time	82-83	$175,315	$336,140	$336,140
Vehicle License Fees	One Time	03-04	$995,190		$995,190
Vehicle License Fees	One Time	04-05	$757,930		$757,930
Subtotal					$3,634,205
Totals				**$1,986,900**	**$25,565,405**

Notes:
Continuing and cumulative losses have been adjusted to reflect 2003 dollars based on Oct. 2003 U.S. CPI.
Excludes revenue losses applicable to Redevelopment Agency.
Data Sources: US Department of Labor, City of San Clemente Budget, 1994 & 1995 Trend Reports.

Over the past dozen years, in both good economic times and bad, the State Legislature has shifted more than $40 billion in property taxes to the state from cities, counties, special districts and redevelopment agencies, in order to help pay for State responsibilities. The City of San Clemente experiences a continuing annual loss of local revenue in the amount of $1,986,900 and since 1981 has experienced a cumulative loss of $25,565,405.

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 even more efficient. Since 1990, the City of San Clemente has seen a 49.97% increase in its general governmental spending per resident while the State government has experienced a 76.65% increase.

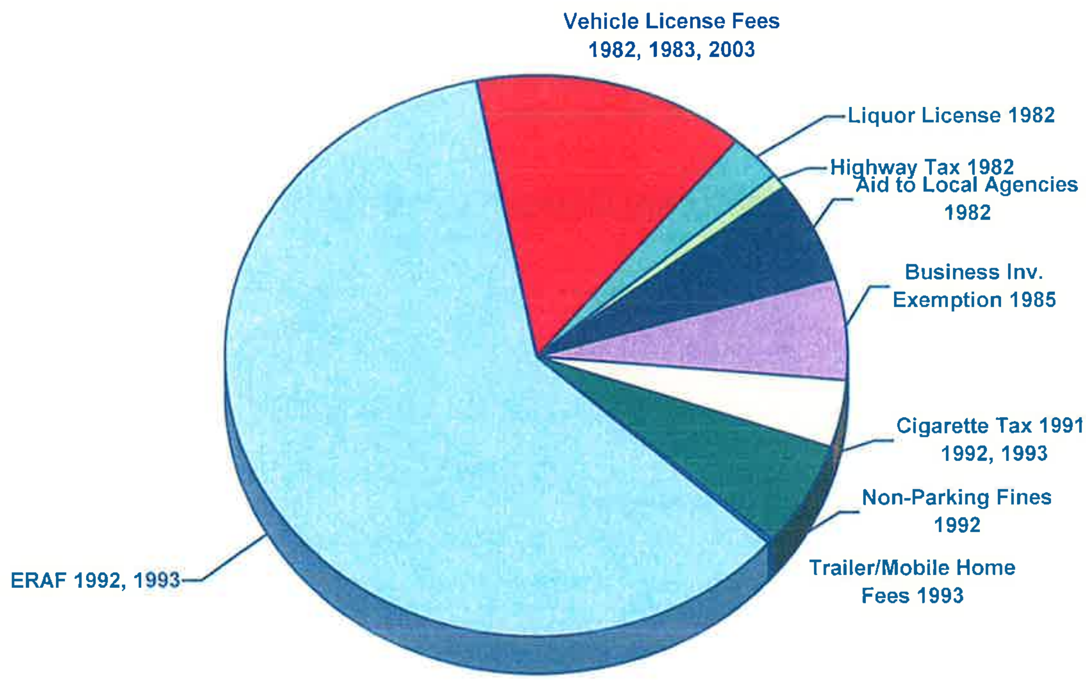
California General Government Spending
Per Resident



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

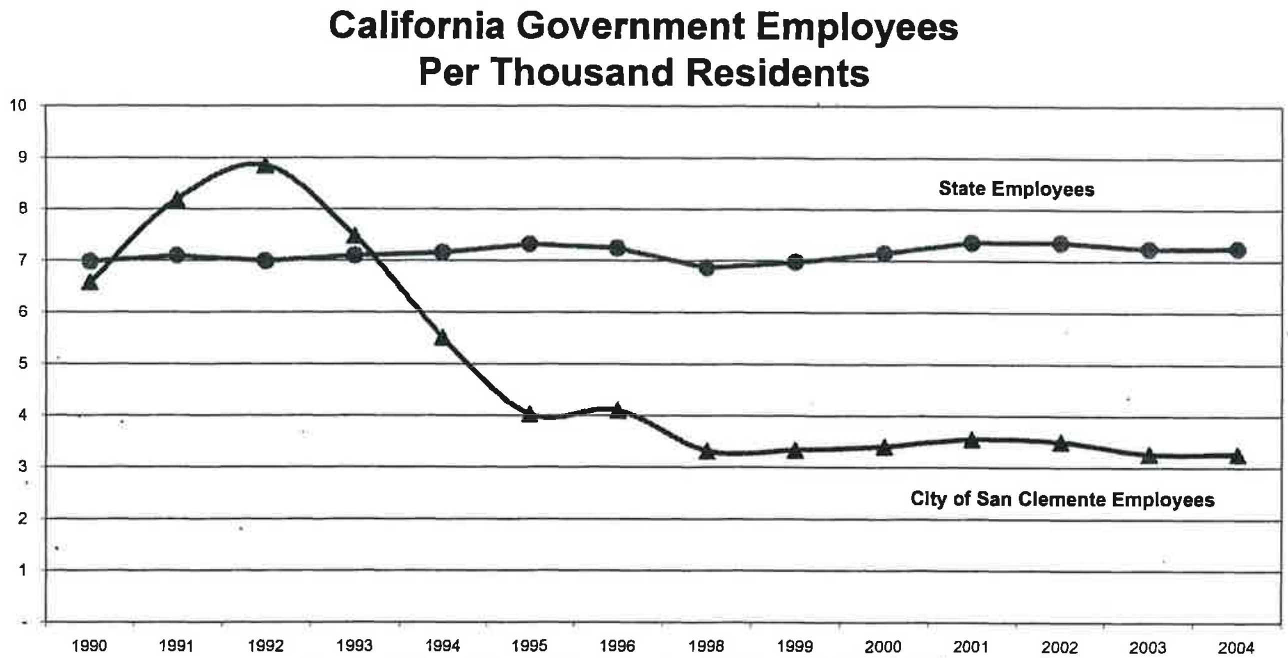
SOURCES: State CAFR, State Dept of Finance (population #s), League of California Cities and the City of San Clemente CAFR

Distribution of $25.5 million in losses to San Clemente



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 try to maintain the same standards in quality. In view of this, it has been documented that for over 20 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% of all City revenue. Today that support is less than 13%.

Additionally, State budgets have grown significantly over the past 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 3.25 in 2002 while the State employees per thousand residents have increased from 6.98 in 1990 to 7.23 in 2004.



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

Constitutional Protection of Local Revenues – Relief in Sight

A coalition of local government officials organized by the League of California Cities placed Proposition 65, "Local Taxpayers and Public Safety Protection Act," on the ballot earlier this year to stop the State from taking local government funding. However, that was before passage of the historic bipartisan agreement that put Proposition 1A on the ballot.

The Governor endorsed Proposition 1A on the November 2004 ballot which constitutionally protects local governments from future fiscal raids by the State. The measure was also approved by a two-thirds vote of both houses of the Legislature. Voters successfully passed the ballot measure and now local government funding will be stabilized. Proposition 1A will go a long way toward protecting the vital local services that every Californian depends on every day. These services include healthcare, parks, roads, libraries and water delivery. Cities can now plan and budget at the local level in a way that was never possible when the State viewed local revenue as its own.

Prop 1A was viewed as a better, more flexible approach to protecting local services and local tax dollars. That's why the official proponents of Prop 65 are now supporting Proposition 1A and opposing Proposition 65.

For more than a dozen years, the State legislature has been taking local tax dollars that local governments use to provide vital services. If these funding raids continue, it could mean fewer firefighters, fewer law enforcement officers and longer waits at emergency rooms -- or higher local taxes and fees.

Proposition 1A which was approved by voters on November 2, 2004, will allow for the implementation of constitutional reform, which is key to protecting taxpayer dollars and local services. This measure will prevent the State from taking and using local government funds in the future and will protect local taxpayer dollars that fund our vital local services like police and fire protection, emergency medical and health care, parks, roads and libraries.

Proposition 1A was carefully written to allow flexibility. It allows the State to borrow local government revenues – only in the event of a fiscal emergency – if funds are needed to support schools or other state programs. It also protects funding for local services like fire and paramedic response, law enforcement, emergency and trauma care, parks, roads, libraries, transportation and more. Proposition 1A also requires the State to provide funding for any program or service the State forces local governments to provide. If the State fails to provide the funding (the reimbursement), the Legislature must repeal these state-mandates, except for specified employee rights and benefits.

Potential Threats to Local Government

State Budget Shortfall

Just four years ago 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 resulting in reduced State income tax receipts from capital gains and stock options. Consequently, this resulted in substantially lower personal income tax, sales tax, and corporation tax revenues. In former Governor Davis' first term, California's budget went from a record $14 billion surplus to a record $38 billion deficit by the end of Davis' term while State revenues plummeted 15%, the largest drop since the Great Depression.[6] The energy crises did not help matters as the State's cash reserves were being depleted by $6 billion on spending for power purchases.

During 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 nearly $8 billion in fiscal year 1998-99 to $17.6 billion in fiscal year 2000-01.[7] State spending during his term increased by 28% while spending increased by 36%. 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.

Governor Schwarzenegger continues to manage the budget deficit he inherited while keeping his promise to not raise taxes and trying to ensure the State does not end up in this position again. Governor Schwarzenegger's proposed budget includes $7.3 billion in program reductions and

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

related cost savings in the current and budget years combined. The budget highlights and impacts of budget reductions on San Clemente are as follows:

- *Local Revenues*: Two years worth of property tax revenue reductions from cities, counties, special districts and redevelopment agencies. This totals $1.3 billion in local revenues in both FY 2004-05 and 2005-06 ($2.6 billion total). The cities' share of this loss will be $350 million for each of the two years. San Clemente will lose $757,930 for each of these two fiscal years ($1.5 million total).

- *ERAF*: The State will continue to shift local property taxes to pay for schools (the "ERAF" shift – currently about $5 billion annually), but cannot shift any additional property or sales tax or vehicle license fees as a result of passage of Proposition 1A. The ongoing cost to San Clemente is $1.5 million annually.

- *Elimination of VLF backfill:* The State will eliminate current VLF backfill from the State general fund. Instead, the State will provide these amounts to cities and counties from the countywide ERAF fund.

- *Triple-flip ¼ cent sales tax*: the State implemented the swap for ¼ cent of local sales tax for an equal amount of property tax to create a dedicated revenue source; the City will lose $17,000 in interest.

- *State mandated claims*: there have been no reimbursements for State mandated projects since 2002. The total loss to San Clemente is $165,850. As a result of Proposition 1A, any new mandated projects must receive reimbursement funding from the State.

- *Redevelopment Agency*: an estimated loss of $73,730 in RDA tax increment is expected.

- *Traffic Congestion Relief Act (AB 2928)*: further elimination of apportionments to local agencies for street and road maintenance. The total estimated impact for San Clemente for 2005-06 is $217,015.

- *State Promise*: In an emergency, the State can borrow property tax from local government but only if prior loans have been repaid, and only twice within a 10-year period.

- *Budget Requirement:* Amend the current requirement for the Governor to present a balanced budget to also require the Legislature to adopt and the Governor to sign only if balanced. The Legislature will be prohibited from authorizing bonds for deficit closure after the current bond is authorized by the voters.

- *Mid-year adjustments to ensure balance:* Governor may, at his discretion, declare a fiscal emergency and call a special session and present a package of bills to bring the budget back into balance. Legislation takes effect immediately without need for an urgency clause. This keeps the required two-thirds vote on appropriations and taxes, but allows a simple majority for statutory changes that do not currently require a two-thirds vote.

- *Reserve Requirement*: Beginning with FY 2006-07, 1% of the estimated General Fund revenue will be transferred into a Budget Stabilization Account of the General Fund. In FY 2007-08 this would increase to 2% and in 2008-09 and thereafter a 3% increase would be implemented. Transfers will be "trued up." If the Governor declares fiscal necessity, the Legislature by a two-thirds vote, may reduce or eliminate the transfer for the fiscal year in which the Governor declared necessity to do so.

- *Bond pre-payment*. At the end of each fiscal year, the Controller shall transfer 50% of the BSA balance into a sinking fund that may be used only for pre-payment of the deficit reduction bonds or the fiscal recovery bonds. Once a total of $5 billion has been so transferred, this requirement ceases.

- *Limits on Reserve*. Once the $5 billion total has been reached, the Bureau of State Audits (BSA) will continue to build a balance until it reaches 10% of General Fund Revenues. When that occurs, the requirement to transfer shall not be in effect for the fiscal year in which the 10% is achieved.

- *Spending from the Reserve*. If the Governor declares a necessity, the Legislature may authorize a transfer of funds from the BSA back into the General Fund with a two-thirds vote.

- *General Obligation Bond:* Amend the General Obligation Bond bill to state intent of Legislature that bonds be retired within 15 years.

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 ever facing the problem again of borrowing billions from the future to pay today's and yesterday's debts. With this latest proposal, the State can build up reserves and establish a "rainy day" fund – a key element in the agreement.

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) and the majority of VLF goes directly to fund law enforcement, fire protection, emergency medical response and health care.

Because of the State's budget deficit, Davis tripled the VLF, returning the fee to pre-1998 levels. The State ended the backfill of two-thirds of VLF on June 20, 2003 while the State then "borrowed" three months of backfill without interest until 2006. Without Governor

Schwarzenegger's Executive Order on November 17 which rescinded the increase, the average annual fee would have increased from $64 per car to $148.[8] If the backfill had not been appropriated to local governments, cities and counties would have experienced a $3.6 billion loss. San Clemente would have experienced a $2.3 million loss in FY 03-04 without the VLF backfill.

The City of San Clemente's VLF represents 9.5% of the City's general fund revenue. If the VLF backfill had not been restored, San Clemente would have lost two-thirds of its total VLF revenues. The City received $2,944,823 in VLF in FY 2002-03 and will receive $3,382,200 for FY 2004-05. The elimination of the VLF backfill would have resulted in a $2.8 million loss in FY 2004-05, which would have jeopardized the City's police, fire and emergency medical services. Prior to the VLF reinstatement, the State began withholding the backfill on June 21, 2003. San Clemente lost $740,000 for the months of June, July, August and September. The State is scheduled to repay the amounts withheld by mid-2006.

For FY 2004-05, Governor Schwarzenegger implemented program reductions and savings of $6.5 billion. To have achieved an additional $3.6 billion in VLF-driven reductions it would have required legislative authorization, although administrative flexibilities within the current budget make it possible for Governor Schwarzenegger to make program reforms and resulting fund transfers to accomplish these savings. This would require expert and aggressive internal management reform of virtually every state operation under the authority of the Governor.[9]

2% Assessment Appeals Case

A court case filed during fiscal year 2001-02 in Orange County that limits assessed valuation increases remains of 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 2% in a single year when the local real estate market had recovered. Citing Propositions 13 and 8 (adopted by voters in 1978), in December 2001 the Orange County Superior Court ruled this practice unconstitutional. County assessors in California uniformly interpret the these provisions, as permitting assessed value growth in excess of 2% when reassessing a property that had previously been granted a reduction due to market value declines. In the case before the Superior Court, the Orange County assessor had increased the property owner's value by approximately 4% in a single year.

A March 2004 ruling of the 4th District Court of Appeal upheld the County of Orange's practice of increasing the value of property above the Proposition 13 annual 2% limit after years of declining or flat valuation. A previous lower court ruling had opened the possibility of property tax refunds and as much as $10 billion in property tax revenue would have been at stake. The County's Auditor Controller estimated that the City of San Clemente would be responsible for

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

[9] DeMaio, Carl. October 10, 2003. "New Analysis Confirms Failure of State Budget Deal $16.5 Billion Deficit Greets Schwarzenegger." Government Redesign for Reason Foundation and President of the Performance Institute.

Long Term Financial Plan

It is widely recognized that the State-local fiscal relationship is dysfunctional, requiring a major overhaul, thus the support for the constitutional amendment to protect local finances. It once seemed that reform was years away but with a new governor supportive of local government and his endorsement and campaigning for the passage of Proposition 1A, cities can breath a sigh of relief that the raid on local funds will finally subside.

LOCAL GOVERNMENT RESPONSE

LOCAL RESPONSE	IMPLEMENTATION
Maintain cooperative working relationship between local and state government	- Letters to legislators and Governor. - Mayor/Council visits to Sacramento. - Partner with League of California Cities.
City should continue long term planning to ensure stability during good and bad times	- Fiscal policies include reserves. - Balanced revenue sources through development and land use control. - Balanced operating spending and revenue growth.

Recommendations

Staff recommends that City Council direct staff to:

1. Work with other cities and the League of California Cities towards control of local revenues.
2. Push for stable sources of local tax money.
3. Share information with community/civic groups.
4. Report back to Council as needed.

Fiscal Impact of Recommendation

Unknown.

Downtown Strategic Plan Implementation

Objective

To implement recommendations of the Downtown Vision and Strategic Plan, which include updating and revising the General Plan, Zoning Ordinance and related documents, and performing requisite environmental analysis and related special studies.

Summary

As part of the 2002 Long Term Financial Plan, the City Council set the creation of a Downtown Strategic Plan as a priority for the Planning Division. The action items associated with the Issue Paper prepared at that time include:

- Continuing a high school land-swap analysis (complete);
- Preparing a Downtown Parking Study (complete); and
- Develop a refined timeline and budget for Vital Few Priorities to consider: Land Use policy update, Main Street Program implementation, Economic Analysis Design review, and parking facilities (in progress).

With the exception of the Main Street Program that has been suspended due to State budget constraints, the tasks identified in this last bullet point are the subject of this report. This Issue Paper is provided as a progress report on the development of the Downtown Strategic Plan, and it is also a proposal to translate the community-based vision for Downtown San Clemente into land use policy and standards.

Background

In 2003, the City Council directed staff to engage stakeholders from a broad cross-section of the community to develop a Downtown Vision and Strategic Plan. With the assistance of the consulting firm of Moore Iacofano Goltsman, Inc. (MIG), this project commenced. As part of this, Council established a nineteen-member Downtown Visioning Task Force. Representation included, but was not limited to, members from the City Council, Planning Commission, Downtown Business Association, Chamber of Commerce and the Historical Society. Over the course of nine months, seven public meetings were held to seek concurrence and direction and report progress to the City Council and Planning Commission. It is anticipated that the final Downtown Vision and Strategic Plan document will be presented to the City Council in Spring 2005. That document will present a number of recommended action items that include General Plan Revisions, Zoning Ordinance Amendments, and other implementation items.

Visioning and Strategic Planning Basics
The term "visioning" refers to a tool used among the urban planners that typically uses a collaborative process, with multiple stakeholders, to define a clear statement of what a community desires for itself. Though this process can be lengthy, establishing or amending a vision is a vital community exercise due to changes resulting from internal and/or external pressures for growth or growth control, more or less stringent architectural/design controls, transportation system modifications, and other aspects of urban design. At its core, this kind of process is grass-roots democracy in action, as it provides a check point for those who govern. This process also provides constituents an opportunity to express to policy makers their concurrence or desired modifications to a given course for the future physical development of a jurisdiction.

In order to translate a vision into a strategic plan that can be implemented, a series of land use policy changes are required so that future physical development conforms to the established vision. These policy changes come in the form of General Plan Revisions and Zoning Ordinance and Specific Plan Amendments, and changes to other policy and regulatory guidelines.

San Clemente's First Vision Statement

"I vision a place where people can live together more pleasantly than any other place in America. I am going to build a beautiful city on the ocean where the city will be one great park; the architecture will be of all one type, and the homes will be located on sites where nearly everyone will have his wonderful view preserved forever. The whole picture is very clear before me. I can see hundreds of white walled homes bonneted with red tile, with trees, shrubs, hedges of hibiscus, palms, and geraniums lining the drives, and a profusion of flowers framing the patios and gardens. I can see gay sidewalks of red Spanish tile and streets curving picturesquely over the land. I want plazas, playgrounds, schools, clubs, swimming pools, a golf course, a fishing pier and a beach enlivened by people getting a healthy joy out of their life."
- Ole Hanson

San Clemente's Visioning and Strategic Planning Initiative

In early 2004, at the outset of the City of San Clemente's Downtown Visioning and Strategic Planning project, the City Council directed staff and MIG to address the geographic area that runs along El Camino Real, from North Beach to Avenida Valencia, the Architectural Overlay District, and the Pier Bowl. This area is displayed as Exhibit A on page 3.

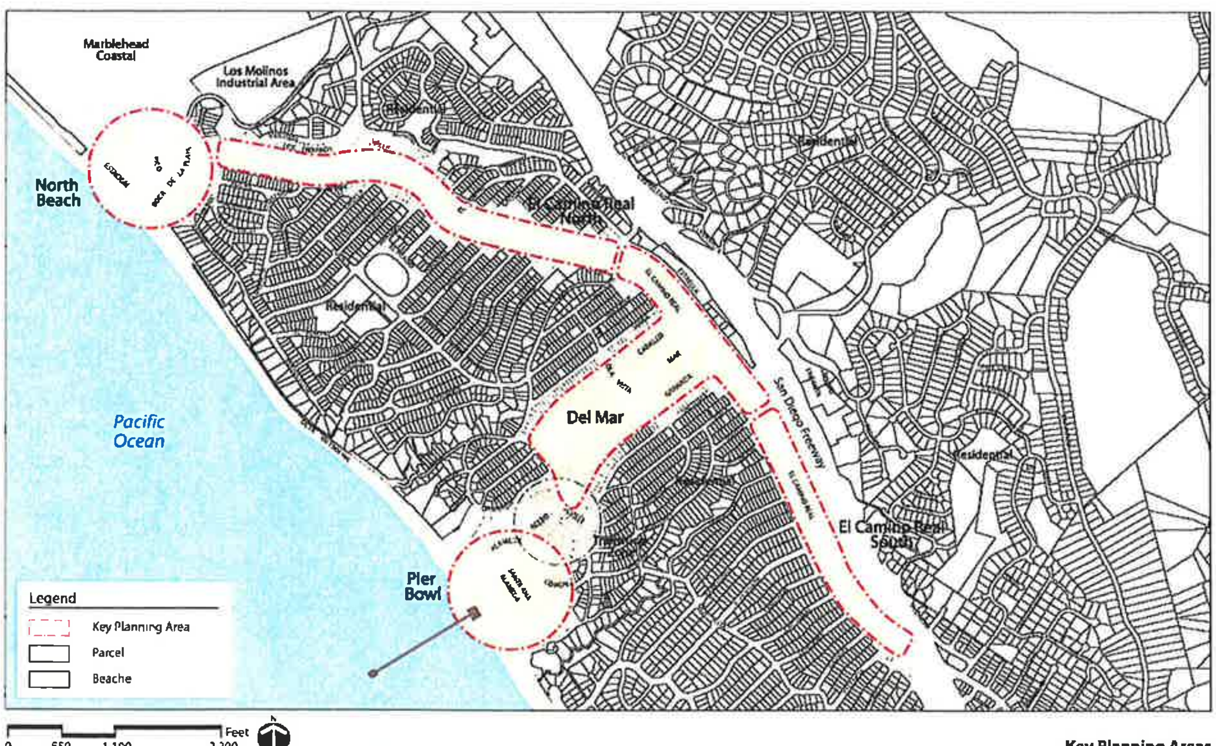
It is important to note that, at the time of this report's preparation, neither the Task Force nor the City Council have approved any project recommendations for implementation. It is anticipated that this will occur in Spring 2005. All work described below is still in draft form and is subject to change.

Overall Supporting Strategies
Prior to exploring the need for specific land use policy amendments, a number of overall supporting strategies for a Downtown Strategic Plan were identified in the visioning process. These draft strategies would likely apply throughout the entire Downtown Strategic Plan area and

include the following:

- Establish a financially independent transit circulator (shuttle);
- Continue to strengthen business retention and attraction programs;
- Develop a signage and wayfinding program;
- Preserve and enhance view opportunities;
- Develop a healthy balance between auto and pedestrian needs;
- Pursue infrastructure improvements that will facilitate development of "catalytic opportunity sites" and partnerships that will facilitate development consistent with the vision.
- Initiate targeted property negotiation, parcel consolidation and developer solicitation efforts; and
- The employment of a person to serve as "champion" to oversee and guide plan implementation. (The term "champion" has yet to be specifically defined.)

In addition, the visioning and strategic planning process identified "catalytic opportunity sites." These properties were identified as locations where entitlement applications were either in process or where potential development appeared very likely. Development of these sites is expected to prompt additional development interest in the sub-area.



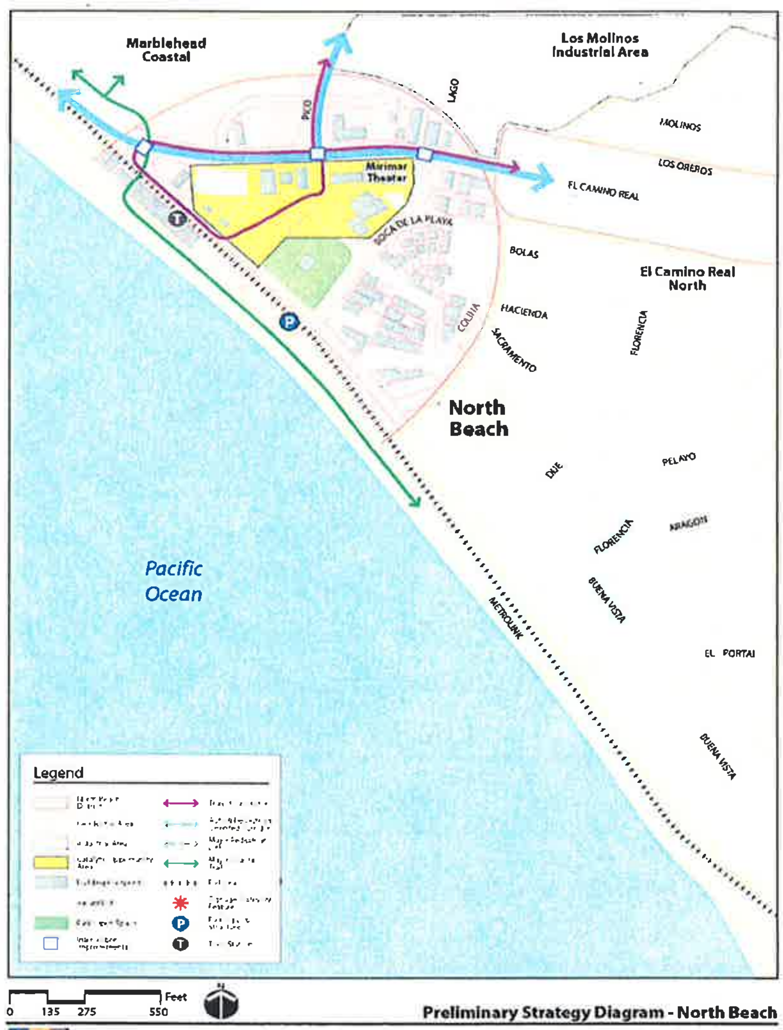
Key Planning Areas

City of San Clemente Downtown Vision and Strategic Plan

Downtown Visioning and Strategic Plan Sub-Areas

For the purpose of focused analysis, the Downtown study area was divided into the following five distinct sub-areas: North Beach, El Camino Real-North, The "T-Zone," The Pier Bowl, and El Camino Real-South. Establishing these sub-areas enabled the task force and decision makers to consider the distinct character of each area, including land use patterns, pedestrian connections, historic and architectural features. The Task Force has developed draft policy recommendations for each sub-area as well as those that apply to the whole Downtown. Exhibits B – F, on pages 5 – 9.

Exhibit B - North Beach

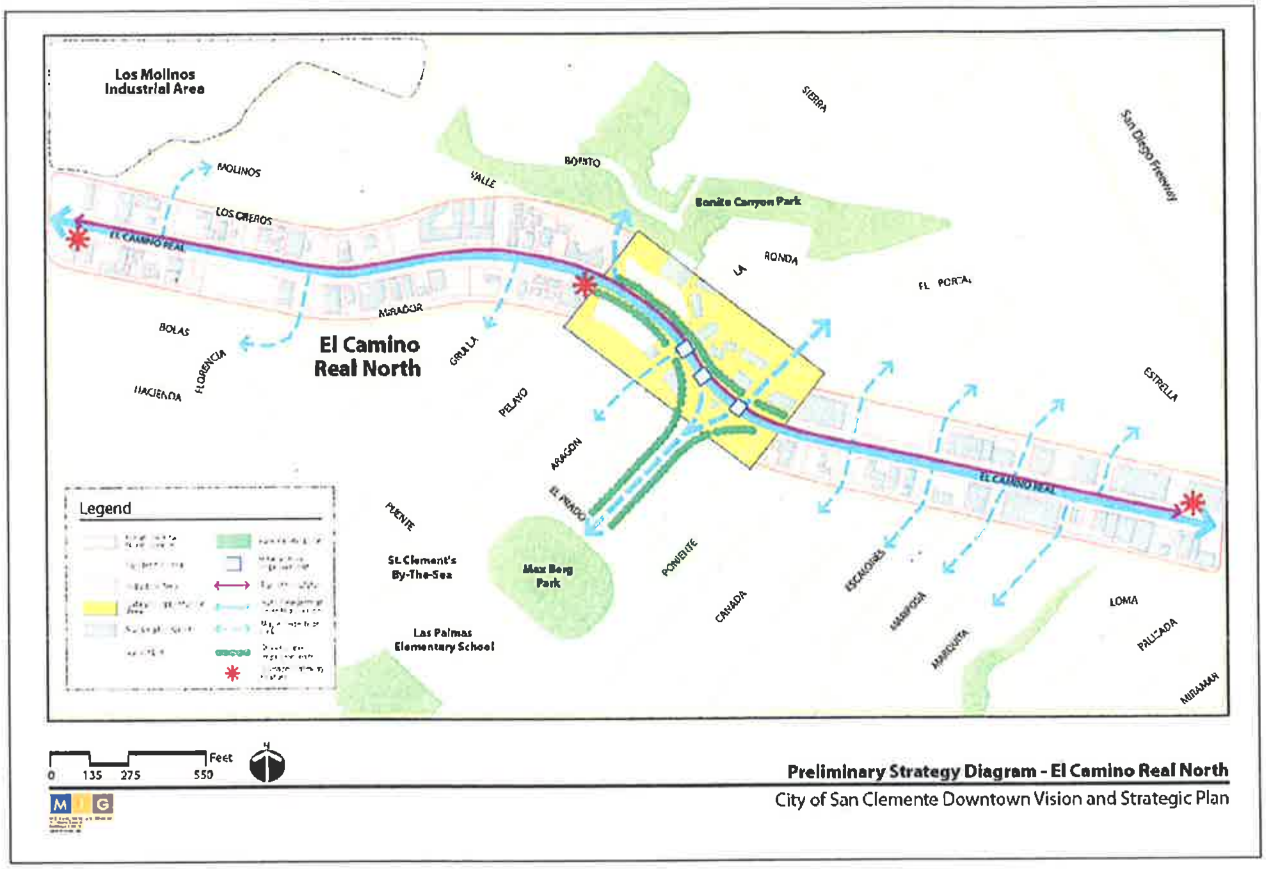


Preliminary Strategy Diagram - North Beach
City of San Clemente Downtown Vision and Strategic Plan

Examples of Draft North Beach Policies

- Balance entertainment center with mixed-use (including residential)
- Preserve public views of Pacific Ocean through new building height limits
- Low-intensity development with dispersed surface parking
- Provide gateway features, including signage and landscaping
- Create pedestrian connections in and around area

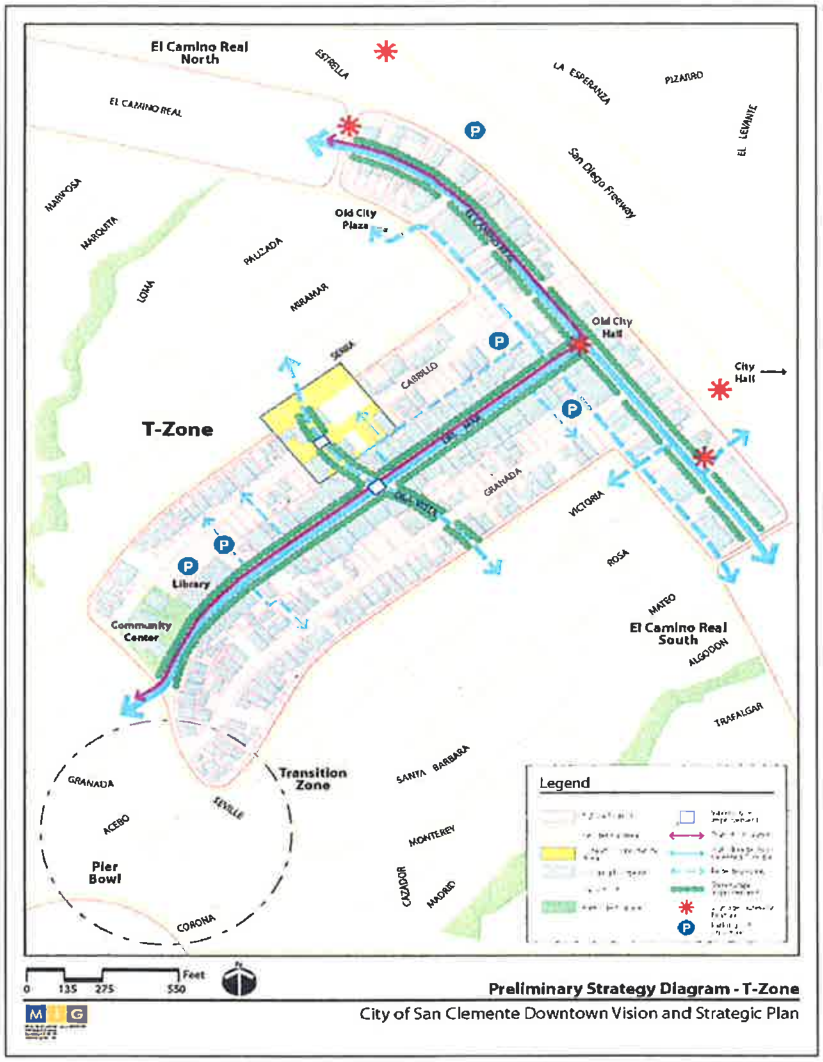
Exhibit C- El Camino Real- North



Examples of Draft El Camino Real – North Policies

- Reconfiguration of the El Portal/North El Camino Real intersection to provide pedestrian access and development opportunities
- Create a mixed-use neighborhood center including affordable housing
- Improve pedestrian linkages
- Provide streetscape improvements
- Establish architectural standards

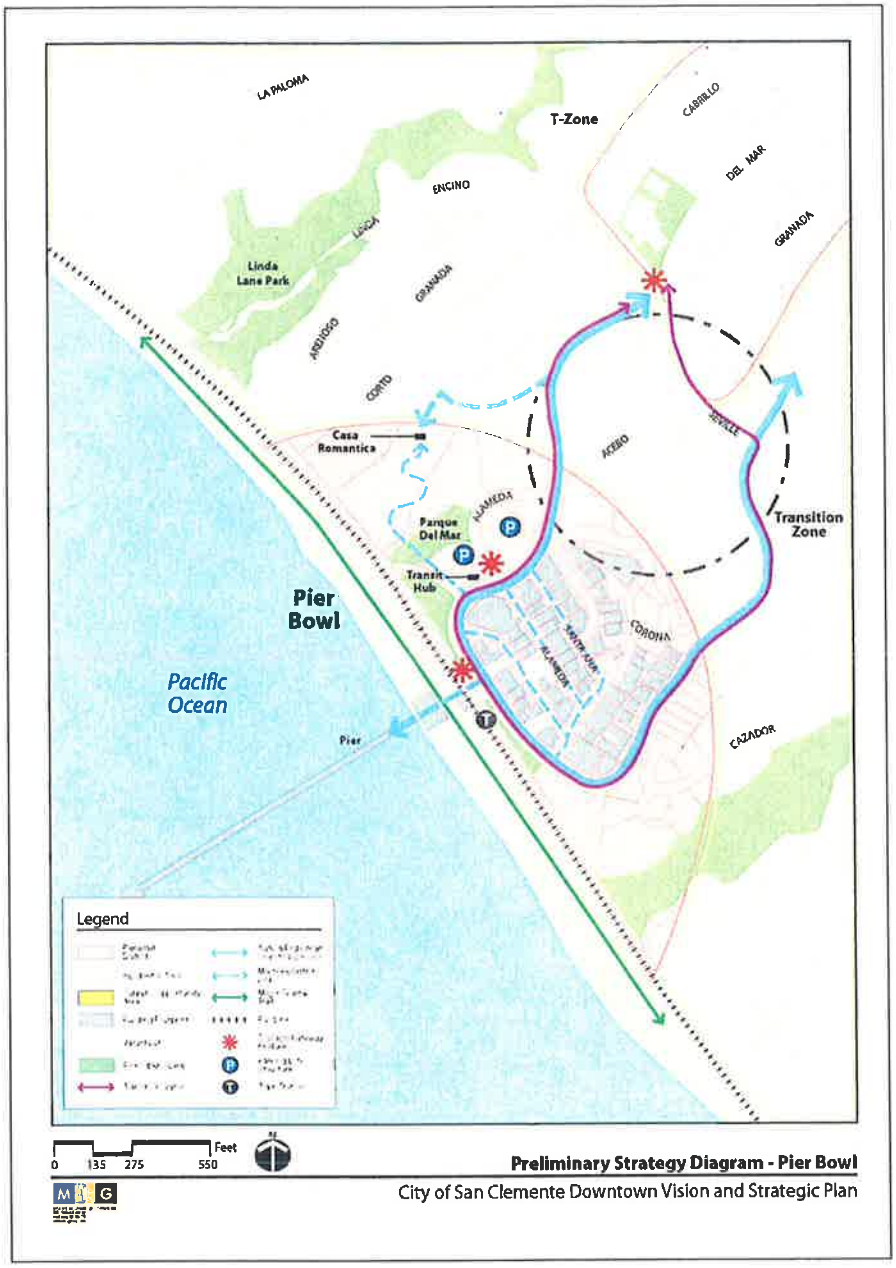
Exhibit D – The "T" Zone



Examples of Draft "T" Zone Policies

- Develop a Mixed-Use Strategy in the T-Zone, concentrating retail/professional office on Avenida Del Mar and residential uses, including for sale condominiums,on peripheral streets
- Provide a network of paseos and pedestrian connections to parking resources
- Continue discussion on parking strategies
- Continue to explore the feasibility of Civic Center relocation.

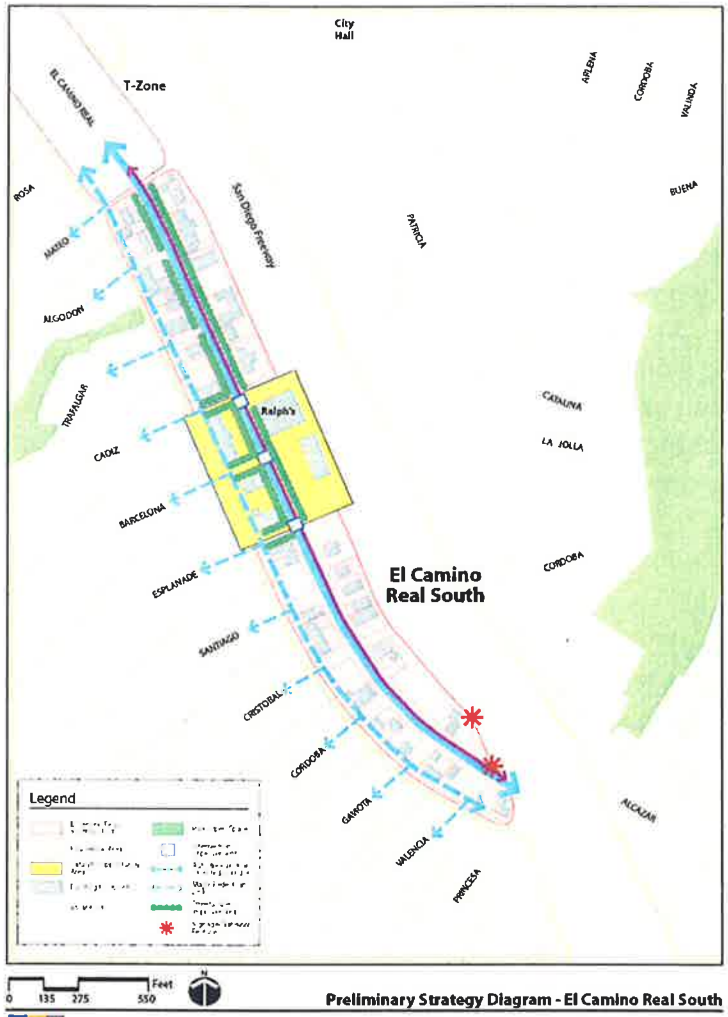
Exhibit E - The Pier Bowl



Examples of Draft Pier Bowl Policies

- Continue to implement the Pier Bowl Specific Plan
- Improve signage and wayfinding in and around the Pier Bowl
- Streetscape improvements linking T-Zone and Pier Bowl

Exhibit F - El Camino Real - South



Preliminary Strategy Diagram - El Camino Real South
City of San Clemente Downtown Vision and Strategic Plan

Examples of Draft El Camino Real – South Policies

- Establish the area around the "Ralph's Site" at the eastern terminus of Avenida Barcelona as a catalytic opportunity area to spur development.
- Consider mixed-use zoning as well as greater building heights where properties back to the freeway
- Using the north-south alley parallel to El Camino Real as a pedestrian way, taking advantage of views.
- Improve pedestrian and bicycle connections to other study areas

Analyses of these areas included detailing land uses, urban and architectural design, economic feasibility and impacts, adjacency relationships, and analyzing specific potential development sites. Again, in order to bring the Downtown Vision to fruition, consideration of a number of land use policy changes and model updates will be required. Specific examples of this include but are not limited to, amending zoning designations in North Beach, increasing the floor-area ratio in certain commercial zones, amending building height limits in certain areas, updating of the City's traffic model, and creation of new and/or expansion of existing Architectural Overlay Districts. Recommended changes would be supported by economic analysis prepared by Economic and Planning Systems (EPS), which served as a sub-consultant to MIG.

New, Emerging Issues
While in the visioning process, it became clear that there were a number of issues that need further consideration. At a joint meeting in December 2004, there was consensus among the City Council and Planning Commission that further consideration of a potential Civic Center relocation and updating of the 2002 Downtown Parking Needs Assessment (including consideration of a parking structure over Avenida Cabrillo between El Camino Real and Avenida de la Estrella as a joint project with the San Clemente Presbyterian Church).

Recommendations

Staff recommends that the City Council direct staff to:

1. Continue meeting with the Downtown Visioning Task Force, to finalize the Draft Downtown Vision and Strategic Plan and refine policy recommendations related to parking resources and the potential need to update the 2002 Downtown Parking Needs Assessment, and potential for a Civic Center relocation.

2. Develop a timeline and budget, for possible amendment to the 2005 Vital Few Priorities, policy-level implementation of the Downtown Vision and Strategic Plan, once the visioning and strategic planning process is complete.

3. Develop a timeline and budget, for possible amendment to the 2005 Vital Few Priorities, work required to establish public/private partnerships for the revitalization of "catalytic opportunity" sites, once the visioning and strategic planning process is complete.

Fiscal Impact of Recommendations

It is anticipated that a majority of the recommended work can be achieved with existing in-house staff. However, consultant assistance will be required with graphic design, environmental analysis and related special studies. Consultant-related expenses are estimated to range from $50,000 - $150,000. This estimate does not include any work that may result from recommendations to formally study Civic Center relocation nor to update the Downtown Parking Needs Assessment.

Council Action
All recommendations were approved by the City Council by a vote of 5-0 on March 9, 2005.

Master Plan for City Facilities Update

Introduction

The Master Plan for City Facilities Update seeks to address several key issues associated with the planning, development and operations of proposed new City facilities and their impact on the City's General Fund. 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, from fire stations to parks, to recreation complexes, to downtown improvements and a Civic Center. The primary focus of the MPCF since 2003 has changed to parks, trails and recreation facilities, rather than other Public Works projects.

The primary tools used in developing the MPCF analysis are:

- The monitoring of general growth of the tax base (as defined in the Financial Trends chapter of the LTFP and the Fiscal Impact Model).
- Utilizing City-wide expenditure trends (from the Fiscal Impact Model) for comparison to Beaches Parks & Recreation expenditure forecasts.
- Developing operations & maintenance expenditure forecasts related to parks, trails, landscape and related facilities and their impact on the City's General Fund.
- Identifying and understanding the Capital Needs that will be required for new park development projects.
- The development of a new City facilities and project phasing program to better assess the financial impacts to the General Fund created when bringing new facilities on line.

Through the use of these tools, the MPCF Report is then able to provide a greater understanding of the following key report components:

- Growth in projected operations and maintenance costs for new Beaches, Parks & Recreation facilities.
- Future capital costs needs for the planning and development of new parks and public facilities.
- The City's economic ability to sustain higher levels of operational and maintenance cost in the future for new facilities.
- The importance of considering a new facility phasing program in order to avoid fiscal problems in either the cost to develop parks & public facilities or their operations and maintenance areas.

Summary Findings

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.
- Public safety costs will greatly exceed expectations due to several factors:
  - Retirement cost increases.
  - Staffing on Engines 59 & 60 with four-person engine companies.
- Parks & Recreation O&M costs are projected to increase dramatically due to several factors:
  - Increased acreage at La Pata/Vista Hermosa Park in both phases and increased streetscapes with street extensions.
  - 20 added acres of parks; 54 acres of medians, parkways and slopes.
  - Increased size and number of recreation amenities (pools, community center, gym) in both phases of La Pata/Vista Hermosa Park over previous Forster Park concepts.
  - Increased maintenance level from 'C' to 'B' for all ballfields and one park.
- Costs for development of park and recreation facilities have continued to increase dramatically. Construction costs have increased; combined with increases in the size and number of parks & recreation amenities. The Park Acquisition & Development Fund is projected to have a 38.7 million shortfall if all phases are constructed.
- Existing General Fund service levels plus future expenditure trends plus new operations and maintenance cost increases from future parks are projected to be unsustainable. Starting in 2006 and continuing until build-out, the City's Fiscal Impact Model projects a negative fiscal balance (ranging from $2.4 to $4.0 million per year; see Figures 2A). The 5-year Financial Forecast of the LTFP shows more room for optimism (see Figures 2B & 2C in this document). Either way, the timing or phasing of each park and other public improvements must be weighed carefully.

Operations and Maintenance of City Facilities

The operations & maintenance analysis included in this MPCF starts with the City's Fiscal Impact Model (FIM). In the FIM, 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. Chart 2A below shows how all the potential impacts to the General Fund, if accepted immediately, would put the GF in a negative balance. This O&M analysis then utilizes the Financial Forecast of the LTFP to make a more short term comparison.

A detailed discussion of some of the revenues and expenditures that affect the City's ability to sustain the MPCF follows.

Overview of the General Fund

Revenue Trends

Key to the City's ability to build new facilities and implement new programs is growth in the "sustainable" tax base. The City's ability to operate and maintain the projects shown in the MPCF are highly sensitive to assumptions regarding the growth of sustainable revenue in the General Fund:

- Sustainable revenues have grown over the past year. Sustainable revenues include property taxes and sales taxes.
- Sustainable revenue growth is projected as moderate: As previously noted, the City's future fiscal health is greatly dependent upon the growth of property and sales tax revenue.
- Projections for future revenues are slightly higher than they were in the LTFP 2003, primarily because the projected value of future residential development in the City has risen significantly since the LTFP 2003. As the projected value of future homes rise, the projected property tax revenues from those homes rise accordingly.
- A moderate increase is anticipated for all major revenue sources except sales tax revenues, which are assumed to increase significantly.
- Motor vehicle tax projections have decreased since the last MPCF in 2003.
- Funds for the operations and maintenance of future City facilities are highly dependent upon the sales tax increases that will come from development of new retail square footage in the City and, particularly, upon the development of the retail portion of the Marblehead Coastal Development. Development at Marblehead Coastal currently processing through California Coastal Commission, with the first stabilized sales tax revenues projected to be received by 2007.
- Fees for new development and infill redevelopment contribute significant one-time revenues, but are not sustainable through buildout. As development slows in the City, the funds for capital improvements decrease. This is especially true for the Park Acquisition & Development Fund. Funds for future capital improvements, expansions or renovations to parks and recreation facilities must then come from General Fund.

Expenditure Trends

The General Fund is the source for nearly all operating & maintenance (O&M) costs. 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.

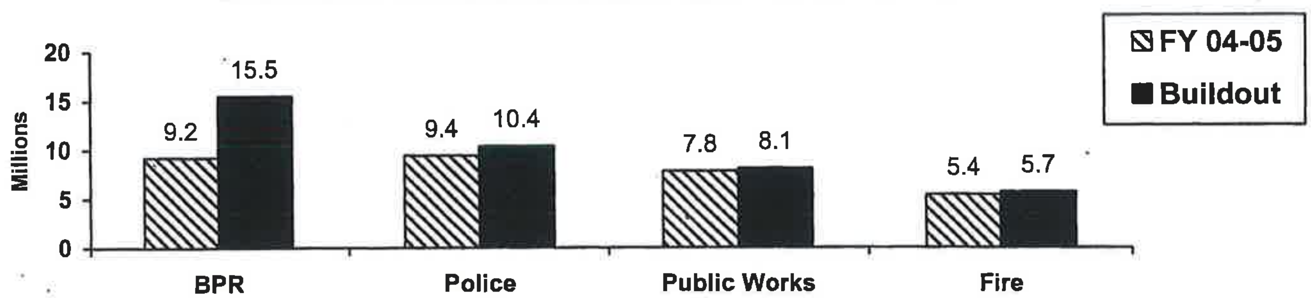
- Ongoing expenditures, such as adding of permanent staff (described in FTE's), have long-term impacts on the City's ability to support operations and maintenance for facilities discussed in the MPCF.
- One-time expenditures, such as one-time projects, do not have a long-term impact on funds available for 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 2003-04 & 2004-05:

Several projected increases in ongoing expenses in FY 2004-05 have the potential to negatively impact the City's ability to support long term operations and maintenance of the facilities included in the MPCF.

- The most significant among these was a 17.5% 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 $ 1.2 million per year for major street maintenance, slurry programs and sidewalk restoration project; however; future funding for these projects will depend on the City's fiscal health.
- Ongoing expenditures in Beaches, Parks and Recreation were increased by approximately $1.7 million for expanded maintenance contracts related to newly developed park acreage, and higher park maintenance standards for ballfields.
- In FY 2005-06, two positions on Engine 60 are filled by full-time OCFA staff and the third position is filled by overtime. By FY 2006-07, all positions will be filled by OCFA staff.
- 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 1
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, pools, and community centers , as well as changes in maintenance standards for ballfields (please see Attachment A).
- In Police, increased personnel.
- In Public Works, increased street maintenance costs as the City's newest roadways begin to age and require maintenance.

With the exception of anticipated increases in FTE's in Police, 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 above 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.

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 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 to accommodate new retirement benefits.

The following are other examples of potential increases in future expenditures that are excluded from the projected budgets above: terminations of the Street Improvement Program fee and Clean Ocean fee, Police and Fire COLA's that outpace inflation, beach sand replenishment; plus any additional unscheduled projects like the potential relocation of the Marine Safety Building or the median & slope landscaping with the potential Avenida La Pata extension to the city border.

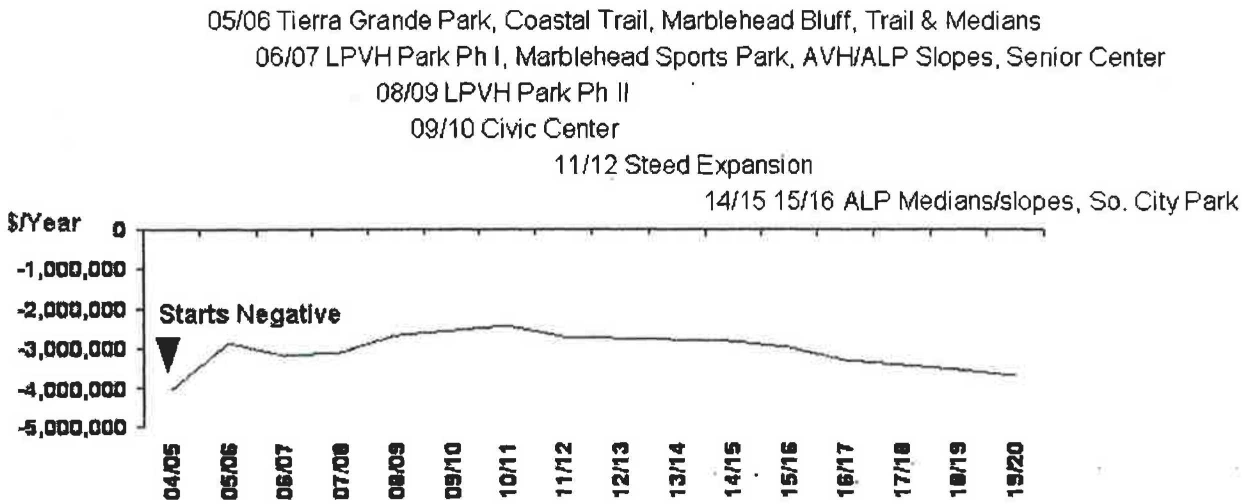
Recreation service costs will rise substantially in the future with the opening of each phase of La Pata/Vista Hermosa Community Park; first phase anticipated in 2007 and second phase possible in 2009. LP/VH Park will increase operations and maintenance costs $1.57 million in FY 06-07 and $2.3 million in FY 08-09. Recreation –related revenues will bring back $673,000 and $1.7 million in Phase I and Phase II, respectively, for an average of 43% and 73% self-sufficiency.

A tentative goal of the development portion of the La Pata/Vista Hermosa planning effort has been to bring in $900,000 per year from land lease. This estimated amount of revenue is now shown in the balance of the Fiscal Impact Model (FIM). Staff will recommend the goal to first balance land lease revenue with BP&R operations and maintenance costs for the park, then second to consider selling a portion of land to fund capital costs of park construction. Difficult choices will have to be made with each phase of LP/VH Park, as to whether all improvements—pools, ball fields, buildings and amenities—can be afforded.

Comparison of MPCF to Fiscal Impact Model

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

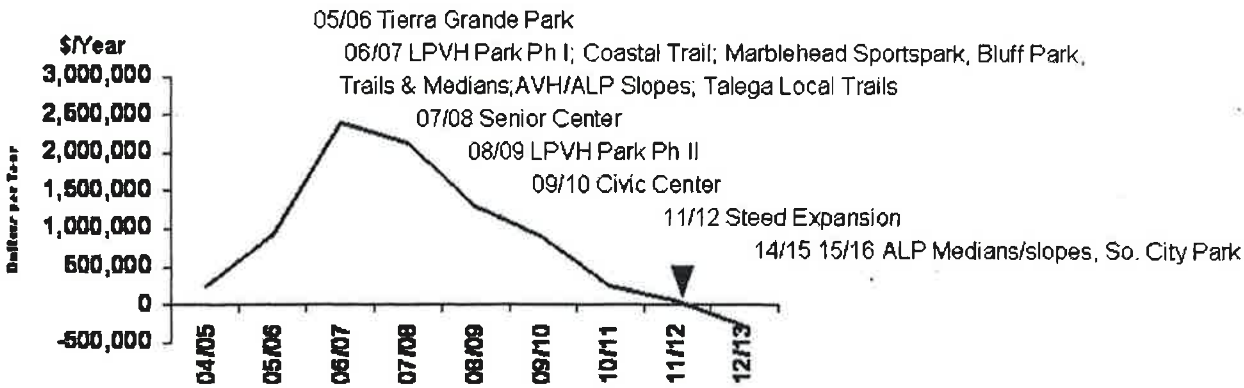
FIGURE 2A
IMPACTS OF MPCF USING THE "FISCAL IMPACT MODEL"



This chart illustrates several interesting factors:

- Over the next five years and after buildout, the City's fiscal impact model projects a negative balance, starting in FY 2005-06. The annual deficit in the General Fund (revenues minus expenditures) is projected to range from $2.4 to $4.0 million per year, growing increasingly negative in current dollars.
- Not all the potential impacts to the General Fund can be sustained.
- If the fiscal trends projected in this MPCF analysis continue, the City will need to reevaluate commitments to timing of future facilities and services in an effort to limit new ongoing 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 2004-05 in combination with future expenditures (discussed in the General Fund Expenditures section of this paper).
- The two most costly facilities in the MPCF are the Phase I and Phase II of the La Pata/Vista Hermosa Community Park Operations and maintenance expenditures increase in FY 2006-07 as a result of the La Pata/Vista Hermosa Park Phase I, including aquatics complex operations, coming online. Another significant increase in expenditures is experienced in FY 2008-09 as a result of a community center, gymnasium and pool complex expansion at La Pata/Vista Hermosa Community Park coming online.

COMPARISON OF MPCF TO FINANCIAL FORECAST MODEL
FIGURE 2B
FISCAL IMPACTS OF MPCF USING THE "FINANCIAL FORECAST"

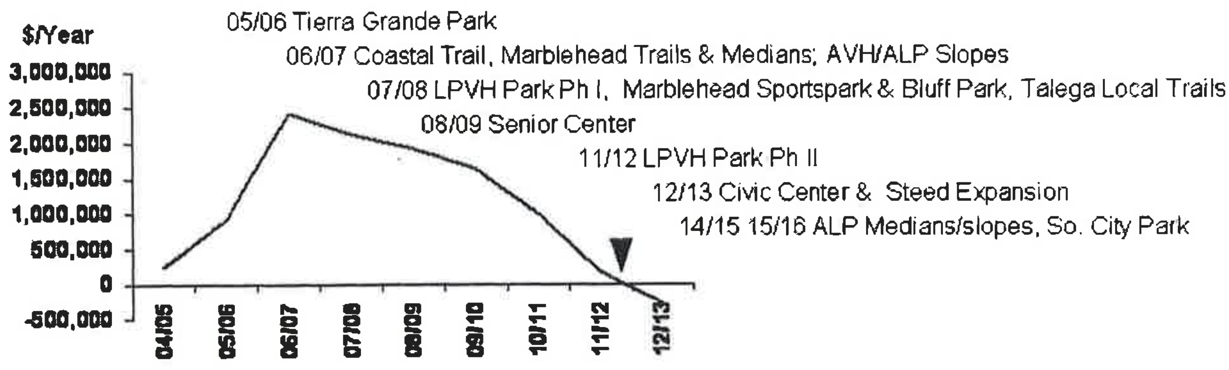


The chart illustrates several interesting factors:

- The 5-year Financial Forecast has more room for optimism for the inclusion of parks and other public facilities than the Fiscal Impact Model. The 5-year "Financial Forecast" is a more optimistic model, because it assumes programs, services and FTE's will remain near today's levels; FIM assumes a more expansive set of programs, services and FTE's.
- The operations & maintenance costs of the following projects listed with the MPCF could be accommodated and still maintain a $1 million fiscal balance: Tierra Grande Park, the Coastal Trail, Marblehead Bluff Park, Marblehead Trails & Medians, Marblehead Sportspark, La Pata/Vista Hermosa Park phase I, the AVH/ALP Slopes & Medians, and potentially the new Senior Center.
- The operations & maintenance costs of the following projects listed with the MPCF will likely bring the annual fiscal balance too low to be considered sustainable in the future: La Pata/Vista Hermosa Park phase II, new Civic Center, Steed Park Expansion, Ave La Pata slopes & medians (extension to City border), South City Park, and possibly the new Senior Center.

COMPARISON OF A PHASED MPCF TO FINANCIAL FORECAST MODEL

FIGURE 2C
FISCAL IMPACTS OF DELAYED MPCF USING THE "FINANCIAL FORECAST"



The chart illustrates several interesting factors:

- A fiscal balance of over $1 million is created by delaying the impact of O&M cost of several projects (La Pata/Vista Hermosa Park phase I, Senior Center) for one year, and delaying the impact of one project by half a year (Marblehead Sportspark).
- In this analysis the development of the Phase II of the La Pata/Vista Hermosa Park, including community center, gymnasium and pool complex expansion is shown delayed one year (from FY 2008-09) due to the unavailability of O&M moneys in the General Fund. It will be recommended that LP/VH Park phase II is delayed indefinitely, due to a combination of the lack of Park Development funds and uncertainty of O&M funding . 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 other revenues become available.
- A delay in construction phasing is also shown for the future Civic Center, Steed Expansion, the Ave. La Pata (extension to City border) streetscapes and other projects.
- The projections shown on the previous pages 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 Capital Needs below.

Developing a Phased MPCF Approach

Capital Needs and Phasing Issues for Parks

This year, there is continued community interest in building proposed parks faster, with more acreage and improvements, than provided for in the previous 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 $38.7 million shortfall in the funds needed to construct the parks included in the MPCF. (For detailed background information regarding capital needs and phasing issues for parks, please see Attachments B and C).

Park development cost increases are attributed to several trends: expanding park acreages, expanding park amenities within given parks, expanding expectations for quality and aesthetics of park amenities, and a strong economy that has substantially increased the cost of construction—both in bidding climate and construction materials. These issues are discussed in detail in Attachment C "Capital Needs and Phasing Issues of Parks".

La Pata/Vista Hermosa Park Phases

La Pata/Vista Hermosa Community Park phases I and II create the majority of shortfall of capital reserves, but also the majority of future increases in recreation operations and parks maintenance. Phase I is estimated to cost between $20-$24 million; Phase II is estimated at $20--$25 million, depending on the timing of some of the approved pools or sports fields. Staff recommends that the options for disposition of land in the "development area" of the La Pata/Vista Hermosa site should look first to balance land lease revenue with operations & maintenance increases created by each phase, then consider selling of land to make up the shortfall of capital costs of park construction.

New Civic Center

In October 2001, Gary L. Vogt & Associates prepared a "Limited Restricted Appraisal" for all of the downtown properties (excepting the City's property purchased from Ray Campbell's children) located between El Camino Real, Avenida Victoria, Avenida Rosa to Ola Vista. The interest in this area was predicated on the fact that the City was proposing to build a new Fire Station and new Senior Center on the Campbell property. There were a total of 29 lots which had a total appraised range of value of $7,215,000 to $8,225,000. There were a number of active business concerns in the affected block and no consideration was given to the estimated cost of relocation under the Uniform Relocation Act.

Based upon new development that has occurred in the block and sales transactions that have occurred during this interim time, staff estimates the high range of value for these properties to be somewhere in the vicinity of $10,825,000. Once again no consideration has been given to relocation costs.

Over the past several years, there have been several "Civic Center Needs Analyses" prepared by consultants and the total amount of square footage needed for a Civic Center is estimated to be between 45,000 and 50,000 square feet. From a hypothetical point of view, if the Council decided to acquire the former site previously considered in 2001 and built a new Civic Center in 2005 dollars, the costs for such an undertaking would be as follows:

Land Acquisition (including legal expense)	$12,000,000
Relocation	$ 2,000,000

Design and Construction		
50,000 SF @ $300/SF		$15,000,000
Other Site Amenities		$ 1,500,000
Soft Costs and Inspection		$ 2,800,000
	Total	$33,300,000

In view of the fact that the City's Public Facilities Fund has an uncommitted balance of $2,087,240, the ability to realistically plan for the financing and construction of a new Civic Center is to say the least problematic. Also, very recently, the City has been informed that its primary tenant, Campus Crusade for Christ, will not be extending its lease past June 30, 2006. An interim combining and relocation of appropriate City operations to the Negocio office building should be evaluated along with the longer term issues associated with siting and building a new Civic Center. Staff recommends that the near term and long term prospects for a Civic Center should be evaluated as part of the Vital Few process for next fiscal year.

New Expenditures, Programs and Facilities: Capital and O&M Analysis
Several potential projects or programs have not been included in the forecasts of operations and maintenance costs owing to their uncertainty. These could significantly affect the City's ability to both construct and sustain projects in the MPCF. Some of these additional projects were described in the 2003 Long Term Financial Plan and others are new: beach sand replenishment, water quality/urban runoff, the sidewalk restoration project, Street Improvement Program costs, expanded Marine Safety programs to meet the needs and desires of a growing community, 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 or summarized on the previous page.

Summary Conclusions

Operations and Maintenance of City Facilities

General Fund Revenues Trends

- Projections for future revenues are somewhat greater than they were in LTFP 2003, primarily because the projected value of future residential development in the City has risen significantly since LTFP 2003. A significant portion of projected sales tax growth is dependent upon the Marblehead Coastal project.
- Significant one-time fees are being taken in for construction permits and processing. These revenues are expected to drop significantly by FY 2009-10 when new residential development is substantially completed.
- Property taxes are projected to remain the most significant revenue-generating source in the City.

General Fund Expenditures Trends

- Ongoing expenditures increased in recent fiscal years. If this trend of increases in ongoing expenses continue, they have the potential to negatively impact the City's ability to support future operations and maintenance of the facilities included in the MPCF. Primary among these increases are ongoing expenditures for Police Services, Public Works, Beaches, Parks and Recreation and Fire.
- Future on-going expenditures for Beaches, Parks & Recreation are expected to increase significantly with the completion of two phases of the La Pata/Vista Hermosa Community Park, in FY 2006-07 and FY 2008-09.
- Minimal increases in FTE's, with the exception of anticipated increases in Police, BPR, are critical and assumed as part of this analysis.
- Potential expenditures, programs and facilities that have not been officially included in the MPCF, but are discussed in this report, may have significant negative impacts on the City's ability to operate and maintain City facilities.

Fiscal Impacts of the MPCF to the General Fund

This year's MPCF analysis produced the following projections:

- By the year 2006, the City's Fiscal Impact Model projects a negative fiscal balance.
- If the fiscal trends projected in the Fiscal Impact Model continue, the City will need to reevaluate commitments to future programs and facilities if it is to contain ongoing expenditures and maintain a neutral fiscal balance.
- The 5-year "Financial Forecast" is a more optimistic model, because it assumes programs, services and FTE's will remain at today's levels; FIM assumes a more expansive set of programs, services and FTE's.
- Utilizing "Financial Forecast" assumptions, O&M costs for park and streetscape projects that are mandated by development agreements (like Talega and Marblehead parks, trails & streetscapes) can be accommodated. O & M costs for La Pata/Vista Hermosa Park, phase I can also be accommodated, if slightly delayed to match increasing General Fund Revenue forecasts.

Capital Needs and Phasing Issues for Parks

Continued community interest in building proposed parks faster, larger and with more amenities than provided in the original MPCF sharply contrasts with the City's forecasted shortfall (both short-term and long-term) in revenues 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 $38.7 million shortfall in the funds needed to construct the parks included in the MPCF. Additional details are provided in Attachments B and C.

Phasing of park improvements, like the La Pata/Vista Hermosa Phase II, the Civic Center and other public facilities should be timed to match the projected increase in sustained General Fund revenues so that O&M costs can be sustained. Timing or phasing should also be held until capital funds are sufficient for each project.

Long Term Financial Plan

ATTACHMENT A

MPCF PHASING PLAN 2005-06

Updated February 24, 2005

New Capital Facility	Net Annual O&M Costs	On-line Date
Tierra Grande Park (Talega 3)	**$134,650**	05/06
Senior Center (Avenida Victoria Site)	**$50,000**	07/08
Fire Station #60 - Relocation	**$0**	07/08
Coastal Trail/Railroad Corridor Safety Improvement	**$128,000**	06/07
Marblehead Coastal Bluff Parks	**$37,930**	07/08
Marblehead Coastal Trails	**$20,500**	06/07
Marblehead Coastal Medians	**$20,145**	06/07
Marblehead Coastal Community Sports Park	**$118,550**	07/08
Talega Trails (City/local only)	**$10,700**	06/07
Ave. Vista Hermosa/Ave La Pata Parkways & Slopes	**$222,554**	06/07
La Pata/Vista Hermosa Community Park, Phase I	**$1,578,701**	06/07
La Pata/Vista Hermosa Park, Full Development	**$2,327,025**	08/09
Civic Center	**$110,173**	09/10
Steed Sports Park	**$108,760**	11/12
Ave La Pata Medians & Slopes, North Extension	**$77,202**	14/15
South City Park	**$67,800**	15/16

On-line dates:
Blue text indicates accelerated date (from LTFP 2003 schedule)
Red text indicates delayed date (from LTFP 2003 schedule)
Black text indicates same date (from LTFP 2003 schedule)

Revenues from *Phase I pool complex* at LP/VH Park: It is anticipated that the phase I pool complex will generate approximately $673,000 in revenue after three years of operation that will offset 43% of the $1.57 million in annual expenditures

Revenues from *community center, gym and pool complex expansion* at LP/VH Park: It is anticipated that the community center, gymnasium and pool complex expansion will generate approximately $1,708,800 in revenue after three years of operation that will offset 73% of the $2.3 million in annual expenditures.

ATTACHMENT A

MPCF PHASING PLAN 2005-06

RECOMMENDED DELAYED PHASING

Updated February 24, 2005

New Capital Facility	Net Annual O&M Costs	On-line Date
Tierra Grande Park (Talega 3)	**$134,650**	05/06
Senior Center (Avenida Victoria Site)	**$50,000**	08/09
Fire Station #60 - Relocation	**$0**	07/08
Coastal Trail/Railroad Corridor Safety Improvement	**$128,000**	06/07
Marblehead Coastal Bluff Parks	**$37,930**	07/08
Marblehead Coastal Trails	**$20,500**	06/07
Marblehead Coastal Medians	**$20,145**	06/07
Marblehead Coastal Community Sports Park	**$118,550**	07/08
Talega Trails (City/local only)	**$10,700**	07/08
Ave. Vista Hermosa/Ave La Pata Parkways & Slopes	**$222,554**	06/07
La Pata/Vista Hermosa Community Park, Phase I	**$1,578,701**	07/08
La Pata/Vista Hermosa Park, Full Development	**$2,327,025**	11/12
Civic Center	**$110,173**	12/13
Steed Sports Park	**$108,760**	12/13
Ave La Pata Medians & Slopes, North Extension	**$77,202**	14/15
South City Park	**$67,800**	15/16

On-line dates:

Red text indicates recommended delayed phasing date
Black text indicates same date (from LTFP 2005 schedule)

Revenues from *Phase I pool complex* at LP/VH Park: It is anticipated that the phase I pool complex will generate approximately $673,000 in revenue after three years of operation that will offset 43% of the $1.57 million in annual expenditures

Revenues from *community center, gym and pool complex expansion* at LP/VH Park: It is anticipated that the community center, gymnasium and pool complex expansion will generate approximately $1,708,800 in revenue after three years of operation that will offset 73% of the $2.3 million in annual expenditures.

ATTACHMENT B

Parks Funding and Construction Costs
Master Plan for City Facilities 2005

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

Ending Balance 04-05 *		$ 4,764,584
Revenues 05-06 through Buildout:		
Remaining Development Fees For Parks **	$ 6,981,044	
Interest Earned	$ 500,000	
Infill Development 04-05 through 09-10	$ 652,800	
Total Revenues 04-05 through Buildout		$ 8,133,844
Total Revenues Available for Parks Master Plan		**$ 12,898,428**

Projected Expenditures: Future Park*** Construction Costs per MPCF

	Acres		Current Projections-City Cost	MPCF 2003 Projections	Acres	MPCF 2002 Projections	Acres
Steed Park--remaining acres****	8.00	funding unidentified	$ 2,950,000	$ 3,300,000	11	3,120,000	11.3
Steed Park--roller hockey facility	0.00	funding unidentified	$ 600,000	Not included		Not included	
Marblehead Coastal Bluff Park	2.79	Dev funds project	$ -	$ 2,475,000	8.25	2,340,000	8.25
La Pata/Vista Hermosa Park, Phase I w/Pool complex	36.20		$ 20,000,000	$ 6,875,000	15	6,500,000	15
La Pata/Vista Hermosa Park, Remaining Phases Dev.	9.10	funding unidentified	$ 26,100,000	Not included	10	Not included	10
South City Neighborhood Park	5.00	funding unidentified	$ 1,625,000	$ 1,375,000	5	1,300,000	5
Marblehead Coastal Sports Park	8.72	Dev funds project	$ -	$ 1,925,000	6.41	1,820,000	6.41
Forster Ranch Community Park, Ph III (M bldg only)	0.00	funding unidentified	$ 350,000	$ 7,350,000	0	7,000,000	0
	69.81				55.66		55.96
Total			**$ 51,625,000**	23,300,000		22,080,000	
Net Difference: **Park Funds Available minus Expenditures**			**$ (38,726,572)**	**$ (10,401,572)**		**$ (9,181,572)**	

Notes on Funding for Parks:

* Projected Ending Balance for FY 04-05--Source FAS Projected 12-13-04 (Tom R); Actual fund balance minus projects approved in FY 04-05

** Park Fees from all sources FY 04-05; Talega, Forster, infill. Current budgeted grant revenue and future unguaranteed grant revenue not included.

*** INCLUDES: La Pata/Vista Hermosa Community Center/Gym/ & Phased Pools. EXCLUDES: Talega Parks already budgeted (Liberty, Tierra Grande) Senior Center, San Gorgonio Baseball Conversion, Beach Sand Replenishment, Forster phasing beyond Maintenance Building

Notes on Construction Costs for Parks: Costs have increased 27% from $275,000/acre in 2003 to $350,000/acre in 2005. Costs updated 10/04 & 12/04.

Steed Park: Budget is $3.59mil; current negociations for management and renovation of softball complex; remaining 8 acres development cost of $2.95 mil unidentified.

La Pata/Vista Hermosa: Costs projected for a portion of the site (36 acres); no funding identified for remainder of site.

South City park funding unidentified

Forster Ranch Com Park Phase III definition is changing, due to consideration of La Pata/Vista Hermosa park. Remaining master planned facilities include Maintenance Building to house inspection staff; funding unidentified.

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Attachment C

2004-05 Master Plan for City Facilities
Capital Needs and Phasing Issues for Parks, Analysis and Conclusions

Park Development Program Background

As was noted in the 2002 & 2003 Master Plan of City Facilities Update (MPCF), there has been a continued commitment and investment by the City into its parks and recreation facilities since the late 1980's. In 2003 & 2004, this commitment continued with the opening of the second neighborhood park in the Talega planned community (Liberty Park, 9.2 acres), the opening of the 3rd phase (called Phase IIB, approximately 12 acres) of Forster Ranch Community Park, the lighting of two fields at San Gorgonio Park, as well as the opening of approximately two miles of hiking trail in the Talega planned community. In addition, the third neighborhood park in Talega (Tierra Grande Park, 8.36 acres) is currently being developed, with completion anticipated in the summer of 2005. Ongoing park renovations are also a part of this commitment. Examples of renovation projects include the renovation of the Community Center auditorium and kitchen, pile and deck replacements on the Historical Pier, as well as renovation to baseball fields, fencing and field lighting at the remaining field at San Gorgonio Park.

Public Expectations and Needs

As the City continues to grow, so have the expectations and Needs of its residents. Over the past few years, this has been 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. 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. Increased adult use of fields through 'pick-up games' has added further pressure on sports fields and open turf areas, and a need for fields to reduce overlays.

3. Growth of youth sports organizations has resulted in a need for expanded number of fields proposed on the La Pata/Vista Hermosa Community Park Master Plan, with corresponding increase in future maintained acres. Phase I of the park was originally planned at 15 acres, but is now proposed at 36.2 acres; full park acres were originally 25 acres, but are now 45.3 acres.

4. A renewed focus on aquatics facilities and programs have expanded pool use at the existing Ole Hanson Beach Club to maximum, and resulted in the expansion of the proposed pool facilities within the La Pata/Vista Hermosa Master Plan.

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

Capital Needs for Parks and Projected Shortfall

The above emergent community expectations and Needs and resultant park expansions, coupled with a growing economy and general increase in the cost of construction, has created a shortfall within the long range park development budget. Currently it is projected that the City will experience an $38.7 million shortfall in the funds needed to construct the parks included in the MPCF (See Attachment C, Parks Funding & Construction Costs) While construction costs and park acreage are escalating, construction funds remain essentially fixed, having been established at specific amounts in the City's development agreements. A shortfall at buildout has been projected in the MPCF and the Parks & Recreation Master Plan (P&RMP) for approximately eight years, but has jumped dramatically since the last update to the MPCF in 2003. In 2002, the projected shortfall was 9.1 million, in 2003, 10.4 million. A significant portion of the increase in projected shortfall is due to the additional 20.3 acres of park land added to La Pata/Vista Hermosa park; another portion to the increased size and number of proposed pools; another significant portion is due to the escalating cost per acre to develop parks, and; still another portion is due to the escalating cost per square foot to develop public buildings.

Construction costs have escalated greatly in the past several years in Orange County, especially in the South of the County. In 1999, the estimated park development cost used for the Parks & Recreation Master Plan was $170,000 per acre. 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. The effective average cost to develop an acre of park land was raised to $275,000 with the 2002 MPCF. With comparison of actual bids in 2003 and 2004 for the Talega Parks, this MPCF update must use a figure of $325,000 per acre for park development. Please refer to Attachment C that illustrates park construction costs and the use of Park Acquisition and Development Funds provided in the LTFP. A parallel escalation in the cost of construction for public buildings can be described: in 2001, the cost per square foot was estimated at $200 per square foot; by 2003, $300 per square foot, and by 2004 $350-$370 per square foot.

The additional capital costs to the City for the development of parks within the planned communities of Talega and Marblehead Inland have been avoided since the last update to the MPCF in 2003. Development agreements have been renegotiated to either: 1) limit the financial contribution by the City, regardless of actual park cost, or; 2) require the developer to fund full development of parks to City standards, regardless of escalating park costs.

Capital Needs for Parks--Summary

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

- Currently it is projected that the City will experience a $38.7 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 community expectations and Needs regarding the quantity, size, 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.

MPCF Operations & Maintenance Effect on Long Term Financial Plan (LTFP)

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 $2.8 million to $7.8 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 those described under "Additional Issues" (below) 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.

Facility Phasing Recommendations

There are five 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. Lighted Youth Sports Fields and Pool Complex at La Pata/Vista Hermosa Community Park (requiring $1.57 million per year for operations & maintenance, and bringing in $673,000 in recreation-based revenue);

2. Marblehead Coastal community sports park and Bluff Parks & Trails(requiring $118,000, $37,900, and $20,500 per year, respectively for maintenance);

3. Coastal Trail/Railroad Corridor Safety Improvement (requiring $128,000 per year for maintenance);

4. Senior Center, with relocation to the Avenida Victoria site (requiring $26,000 per year of City funds for maintenance);

5. La Pata/Vista Hermosa Phase II, including Community Center and Gymnasium and pool expansion (requiring $2.3 million per year for operations and maintenance, and bringing in $1.7 million in recreation-based revenue).

Current projections of future revenues for operations and maintenance indicate that only the first four of these five facilities can be maintained before 2009. Therefore, construction of the community center, gymnasium and expansion of pool complex at La Pata/Vista Hermosa, as well as other MPCF facilities will need to be delayed indefinitely, until maintenance and operations funding can be secured. (See Attachments A, Fiscal Impacts of O&M Costs, and B, MPCF Phasing Plan.)

Additional Issues

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

- Marblehead Coastal: several projects are linked to the Marblehead Coastal schedule by development agreement: the proposed new Senior Center, additional phases of *Revitalization 2000* improvements, Marblehead Sportspark, Marblehead Bluff Parks, and Marblehead Trails. All of these projects derive a substantial amount of their development and/or ongoing maintenance and operational funds from the Marblehead Coastal project, which is currently under review by the California Coastal Commission.

- 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 $500,000--$1 million, including development of storage space and provision for 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 a significant percentage 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 $38.7 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 $38.7 million shortfall is not further expanded. All of the above estimated costs are extremely tentative.

- Street Expansions Causing Increased Landscaped Medians & Slopes. There are two areas of street expansion which necessitate maintenance of landscaped medians and adjacent slope, both of which were not previously considered with the MPCF or the LTFP:
    - 1) Avenida Vista Hermosa and Avenida La Pata expansion over "Forster East Ridge", which represents 41.5 acres of additional landscaping and $222,554 annual maintenance costs, after turnover from Talega in FY 2006-07.
    - 2) Avenida La Pata (& Camino Del Rio) expansion north to City border. This newly proposed expansion over City property will require the City to bear maintenance costs of 12.24 acres of additional landscaping and $77,200 annual cost per year in approximately FY 2014-15.

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PERS Unfunded Liability

Objective

Review the City's frozen safety CalPERS actuarial valuation report to determine the cause of the City's unfunded liability and provide alternative solutions for funding the liability.

Summary

The City engaged Bartel Associates, LLC to review and make recommendations on the City's CalPERS actuarial valuation report. Bartel Associates' analysis is included as part of this issue paper. The City's latest CalPERS actuarial valuation report shows that the City has a $6.1 million unfunded liability at June 30, 2003. The primary reason for the plan's funded status change were significant PERS investment losses over the past several years. Based upon the funded status, the City contribution for FY 2005-06 is identified at $980,000 and increasing to $995,000 in FY 2006-07 and beyond. The current contribution is based on an eight year amortization and a 7 ¾% interest rate.

Background

The pension valuation is determined by participant data at the valuation date. Using this data and some actuarial assumptions, CalPERS projects future benefit payments. The future benefit payments are discounted, using expected future investment return, back to the valuation date. This represents the amount the plan needs as of the valuation date to pay all future benefits, if all assumptions are met and no future contributions are made. Once the above amounts are calculated, the actuary compares plan assets to the actuarial liability. At June 30, 2003, the plan assets are less than liabilities and the City's plan has an unfunded liability of $6.1 million.

The status of the City's funded status has changed over the past few years. At June 30, 2000, the plan was super-funded by $164,000. However, significant PERS investment losses have increased the City's unfunded liability from $4.52 million at June 30, 2002 to the present $6.1 million. It is important to note that the City's Safety Plan is frozen at a payroll cost of approximately $7.0 million. A comparable current payroll would be approximately $15 million. Most agencies with public safety plans have unfunded liabilities that exceed two times their current payroll. If the plan had not been frozen, the City's unfunded liability could have been as high as $30 million.

Recommendations

Recent positive investment returns have offset prior investment losses and the City's contributions should be relatively stable over the next several years. Bartel Associates is recommending that the City extend the amortization period of the City's PERS unfunded liability from eight years to fifteen years. This will reduce the amount of the City's FY 2005-06 payment by $326,000. Extending the period increases the total interest the City will pay, however it will guard against over funding the plan. Bartel Associates also recommends that the City move to a 15 year amortization period for FY 2005-06, allowing the amortization period to decrease for five years, then re-establish a new fifteen year amortization period.

Fiscal Impact of Recommendations

Contributions to the City's unfunded liability will be decreased by $326,000 annually or $1.63 million over the five-year forecast period. CalPERS' actual investment return will significantly impact future City contributions.

Council Action

All recommendations were approved by the City Council by a vote of 4-0-1 (Councilmember Dahl abstained) on March 9, 2005.

Attachment A

City of San Clemente CalPERS Frozen Safety Plan
Actuarial Information Summary

1. **Recent Changes in Plan Funded Status**
   The Plan was Super-Funded at June 30, 2000 by $164 thousand, but has a $6.1 million unfunded liability at June 30, 2003. The primary reasons the Plan's funded status changed were:
   - Significant asset losses over the past several years:
     - $0.6 million for 2000/01;
     - $2.6 million for 2001/02 and
     - $1.1 million for 2002/03.
   - $1.6 million actuarial (non-asset) loss for 2000/01, offset by modest subsequent gains.

2. **Funded Status Relative to Other Agencies**
   By itself, the June 30, 2003 Unfunded Actuarial Liability seems quite large. However, before the City's Safety Plan was frozen, its' payroll was approximately $7 million. A comparable current payroll would be approximately $15 million. The above June 30, 2003 Unfunded Actuarial Liability is less than 50% of what the City's current payroll would be. By comparison, most agencies with a Safety plan have unfunded liabilities that exceed two times their current payroll. *One should not minimize the current unfunded liability, but it could easily have been four to five times this amount if the City's plan was not frozen.*

3. **Guard Against Over Funding**
   Because the plan has no active employees it becomes problematic if the plan becomes over funded. When a plan has current participants, over funding can be absorbed by future benefits. However, this does not happen when there are no current participants. Consequently, *the City should guard against over funding this plan.*

4. **Contribution, Amortization Period and City Policy**
   The Plan's June 30, 2003 funded status generates a $980 thousand 2005/06 fiscal year contribution. This contribution is based on an 8 year amortization period and a 7¾% interest rate. The City may extend the amortization period. A 10 year amortization reduces the 2005/06 payment by $142 thousand and a 15 year amortization reduces the 2005/06 payment by $326 thousand. Of course extending the amortization period increases the total interest the City will likely pay. However it's important to note that extending the amortization period also somewhat guards against over funding. *We suggest the City consider establishing a policy whereby they move to a 15-year amortization period for 2005/06, letting the amortization period decrease for a few (for example 5) years and then re-establish a 15-year amortization period.*

5. **Future Contribution Levels**
   Recent positive investment returns have offset unrecognized prior investment losses. This means City contributions should be relatively stable over the next several years. However, *CalPERS' actual investment return will significantly impact future City contributions.*

6. **Pooling and Pension Obligation Bond**
   CalPERS, beginning with the June 30, 2003 valuation, is pooling all agencies with similar benefit formulas that have fewer than 100 active members. Both the City's Lifeguard and Frozen Safety plans are now pooled with other similar plans. For pooled plans CalPERS will spread all gains and losses over the entire pool. For this reason, *the City may want to consider issuing a Pension Obligation Bond to fund a portion of its' Unfunded Actuarial Liability.*

Attachment B

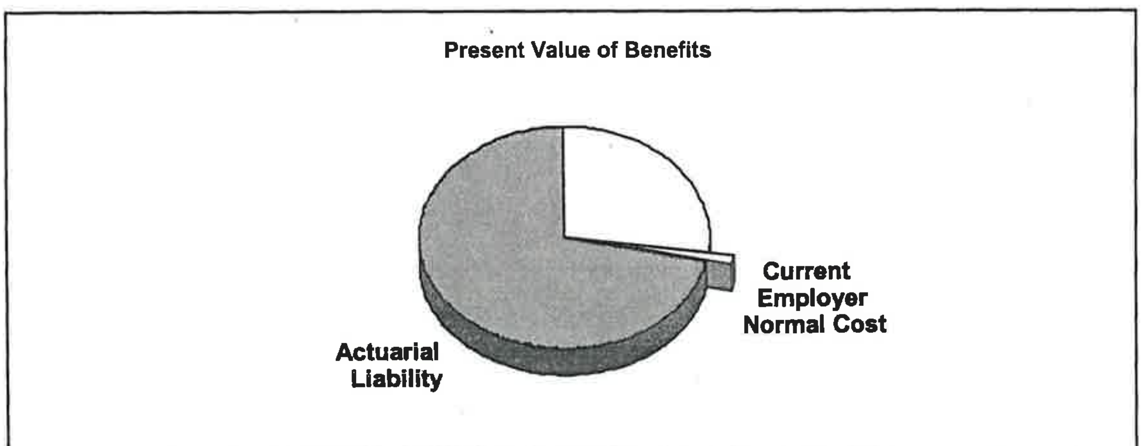
CalPERS Actuarial Terminology

Background
When discussing actuarial issues, it's important to understand some basic terms. The following has been taken from the January 2001 issue of Western City magazine. Understanding these terms makes it easier to understand how well funded the City's CalPERS plans are.

Present Value of Benefits: When CalPERS (or any actuary) prepares a pension valuation, they first gather participant data (including active employees, former employees not in payment status, participants and beneficiaries in payment status) at the valuation date (for example June 30, 2003). Using this data and some actuarial assumptions, they project future benefit payments. (The assumptions predict, among other things, when people will retire, terminate, die or become disabled, as well as what salary increases, inflation and investment return might be.) Those future benefit payments are discounted, using expected future investment return, back to the valuation date. This discounted present value is the plan's present value of benefits. It represents the amount the plan needs as of the valuation date to pay all future benefits – if all assumptions are met and no future contributions (employee or employer) are made.

Actuarial Liability: This represents the Present Value of Benefits portion participants have earned (on an actuarial, not actual, basis) through the valuation date. *In the City's Frozen Safety Plan the Present Value of Benefits equals the Actuarial Liability, while in the Safety Lifeguard Plan the Present Value of Benefits is greater than the Actuarial Liability.*

Current Employer Normal Cost: The total normal cost represents the portion of the present value of benefits expected to be earned (on an actuarial, not actual, basis) in the coming year. The current employer normal cost represents the employer's portion of the total normal cost – that is, the total normal cost offset by employee contributions. *In the City's Frozen Safety Plan the Current Employer Normal Cost is zero, while in the Safety Lifeguard Plan the Current Normal Cost is not zero.*



Funded Status: Once the above amounts are calculated, the actuary compares Plan Assets to the Actuarial Liability. When assets equal liabilities, a plan is considered on track for funding. When assets are greater than liabilities, the plan has Excess Assets. When assets are less than liabilities, the plan has an Unfunded Actuarial Liability.

Plan Assets: CalPERS does not use a Plan's actual (or Market) value to determine the funded status. Rather CalPERS uses a smoothed Market or Actuarial Value of Assets. This means that when CalPERS has market gains, then the Actuarial value is less than the Market value, while when CalPERS has market losses, then the Actuarial value is greater than the market.

CalPERS Actuarial Terminology

Contribution Rate: CalPERS does not require an agency to make up any shortfall (unfunded liability) immediately, nor do they allow an immediate credit for any excess assets. Instead, the difference is amortized over time. An agency's contribution rate is nothing more complicated than the current employer normal cost, plus the amortized unfunded liability or less the amortized excess assets. Simply put, this contribution is the value of employer benefits earned during the year plus something to move the plan toward being on track for funding. There is a two-year delay from the valuation date to the contribution effective date. For example, the June 30, 2003 valuation generates an agency's 2005/06 fiscal year contribution.

Fresh Start: When CalPERS amortizes the unfunded liability/excess assets, it's usually in layers, such as gains/losses or plan changes, with each layer (base) adding up to the total amortization payment. But if that calculation, plus the normal cost, results in a zero contribution rate, CalPERS combines it into one base and tells the agency it will have a zero contribution for a fixed period. That combination is called a "fresh start." An agency with a fresh start will know it; the actuarial report will show a single base (labeled *fresh start*).

Super-Funded: When actuarial assets are greater than the present value of benefits, a plan is super-funded. When a plan is super-funded, if assumptions are met after the valuation date, then the plan does not need any more (City or Employee) contributions.

Attachment C

BARTEL ASSOCIATES, LLC

February 21, 2005

Pall Gudgeirsson, CCM
Assistant City Manager
City of San Clemente
100 Aveneda Precidio
San Clemente, CA 9267

Re: ***CalPERS Actuarial Information***

Dear Mr. Gudgeirsson:

As requested we have reviewed the City's Frozen Safety CalPERS Actuarial Valuation Reports. The following information summarizes our review.

Background

Before describing how well the City's Frozen Safety plan is funded, it's important to understand some basic terms. The following has been taken from the January 2001 issue of Western City magazine. Understanding these terms makes it easier to understand how well funded the City's CalPERS plans are.

Present Value of Benefits: When CalPERS (or any actuary) prepares a pension valuation, they first gather participant data (including active employees, former employees not in payment status, participants and beneficiaries in payment status) at the valuation date (for example June 30, 2003). Using this data and some actuarial assumptions, they project future benefit payments. (The assumptions predict, among other things, when people will retire, terminate, die or become disabled, as well as what salary increases, inflation and investment return might be.) Those future benefit payments are discounted, using expected future investment return, back to the valuation date. This discounted present value is the plan's present value of benefits. It represents the amount the plan needs as of the valuation date to pay all future benefits – if all assumptions are met and no future contributions (employee or employer) are made.

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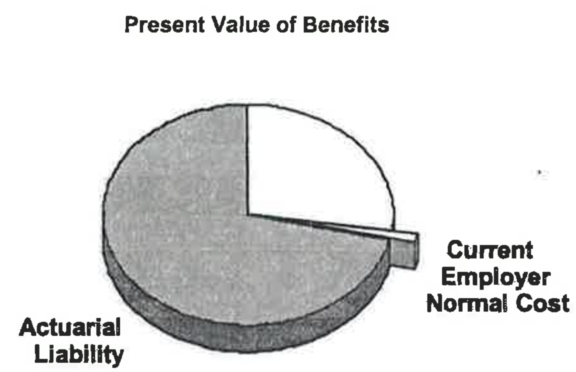

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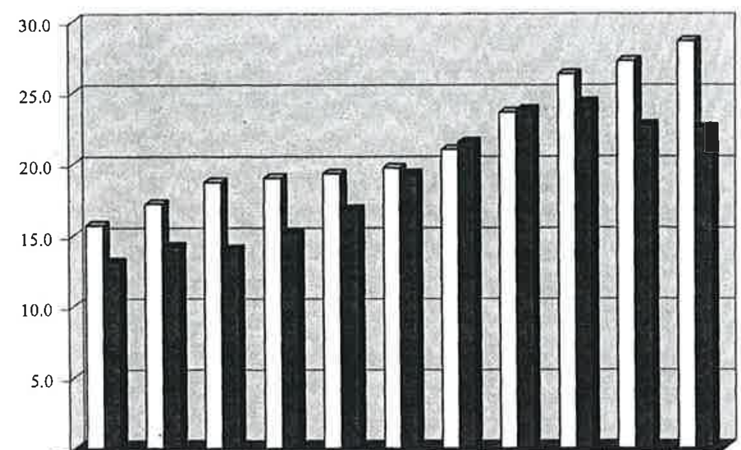
Pooling

CalPERS, beginning with the June 30, 2003 valuation, is pooling all agencies with similar benefit formulas that have fewer than 100 active members. Both the City's Lifeguard and Frozen Safety plans are now pooled with other similar plans.

Funded Status

The following chart shows the plan's funded status over the last several years.

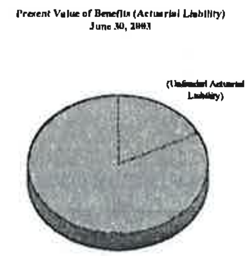


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
□ Actuarial Liability	15.7	17.2	18.7	19.0	19.3	19.7	21.0	23.6	26.3	27.2	28.6
■ Actuarial Asset Value	13.1	14.2	14.0	15.1	16.8	19.3	21.5	23.8	24.3	22.7	22.5

The plan was Super-Funded at June 30, 2000 by $164 thousand, but has a $6.1 million unfunded liability at June 30, 2003. The primary reasons the plan's funded status changed were:

- Significant asset losses over the past several years:
  - $0.6 million for 2000/01;
  - $2.6 million for 2001/02 and
  - $1.1 million for 2002/03.
- $1.6 million actuarial (non-asset) loss for 2000/01, offset by modest subsequent gains.

The following shows how well the Frozen Safety plan was funded at the 2 most recent valuation dates (June 30, 2002 and June 30, 2003):



June 30, 2002		June 30, 2003
$ 22,720,000	Actuarial Assets	$ 22,470,000
27,240,000	Actuarial Liability	28,570,000
(4,520,000)	(Unfunded Actuarial Liability)	(6,100,000)

By itself, the June 30, 2003 Unfunded Actuarial Liability seems quite large. However, before the City's Safety Plan was frozen, its' payroll was approximately $7 million. A comparable current payroll would be approximately $15 million. The above June 30, 2003 Unfunded Actuarial Liability is less than 50% of what the City's current payroll would be. By comparison, most agencies that have a Safety plan have unfunded liabilities that exceed two time their current payroll. One should not minimize the current unfunded liability, but it could easily have been four to five times this amount if the City's plan was not frozen.

Because the plan has no active employees it becomes problematic if the plan becomes over funded. When a plan has current participants, over funding can be absorbed by future benefits. However, this does not happen when there are no current participants. Consequently, the City should guard against over funding this plan.

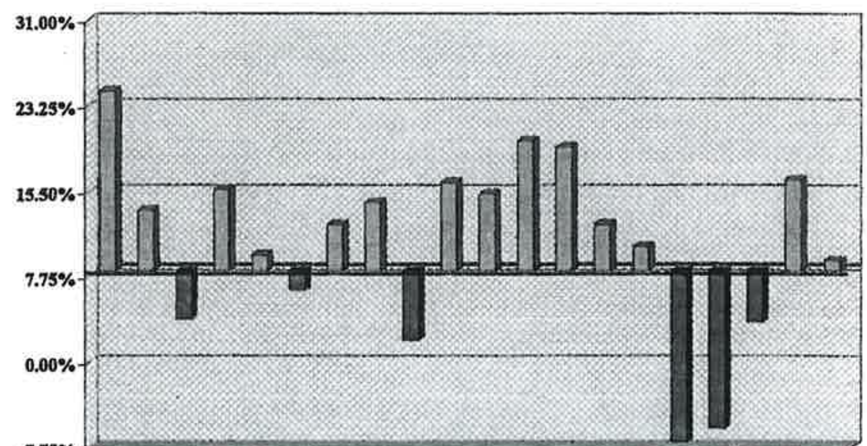
The above June 30, 2003 funded status generates a $980 thousand 2005/06 fiscal year contribution. This contribution is based on an 8 year amortization and a 7¾% interest rate. The City may extend the amortization period. A 10 year amortization period reduces the 2005/06 payment by $142 thousand and a 15 year amortization period reduces the 2005/06 payment by $326 thousand. Of course extending the period increases the total interest the City will pay. However it's important to note that extending the amortization period also somewhat guards against over funding. We suggest the City consider establishing a policy whereby they move to a 15-year amortization period for 2005/06, letting the amortization period decrease for a few (for example 5) years and then re-establish a 15-year amortization period.

CalPERS Investment Return

The above information partially reflects CalPERS' investment losses through June 30, 2003 and does not at all reflect CalPERS' investment return after June 30, 2003. The following table shows

CalPERS historical investment return through December 31, 2004 (6 months into the June 30, 2005 fiscal year).

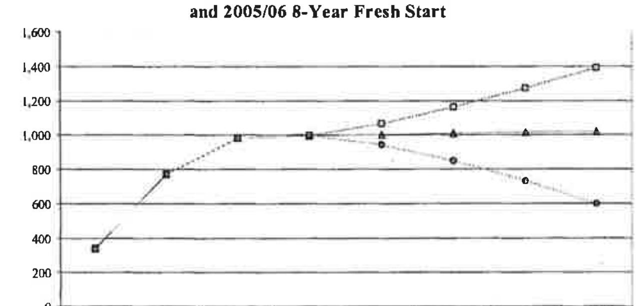
CalPERS Historical Market Value Rates of Return - June 30 Year Ends
Actuarial Assumed Investment Return = 7.75%



1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	12/04
24.6	13.8	3.9%	15.7	9.7%	6.5%	12.5	14.5	2.0%	16.3	15.3	20.1	19.5	12.5	10.5	-7.2%	-6.0%	3.7%	16.6	9.2%

Recent positive investment returns have offset unrecognized prior investment losses. This means City contributions should be relatively stable over the next several years. However, CalPERS' actual investment return will significantly impact future City contributions. The following chart shows the City's projected contributions, retaining the 8-year fresh start and assuming future (6/30/05 and beyond) investment returns will average 2.6%, 7.75% and 12.9% (the 75th, 50th and 25th confidence limits[1]) respectively.

Investment Return Varies
and 2005/06 8-Year Fresh Start



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
75th	339	769	980	993	1,063	1,161	1,273	1,389
50th	339	769	980	993	1,002	1,009	1,014	1,017
25th	339	769	980	993	940	847	729	594

[1] Investment Return will exceed the confidence limit by the given probability

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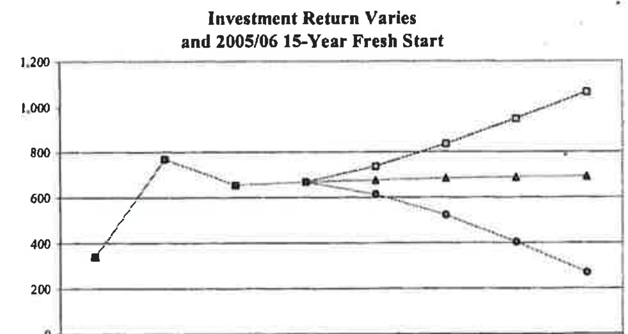
main: 650/377-1600 • *fax:* 650/345-8057 • *web:* www.bartel-associates.com

The following chart shows the City's projected contributions, with a 15-year fresh start and assuming future (6/30/05 and beyond) investment returns will average 2.6%, 7.75% and 12.9% (the 75th, 50th and 25th confidence limits) respectively.



	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
75th	339	769	654	667	737	835	947	1,063
50th	339	769	654	667	676	683	688	691
25th	339	769	654	667	614	521	403	268

Please call me with any questions you might have about the above information.

Sincerely,

John E. Bartel
President
jb: JEB

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