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# City of San Clemente

## 2006

# Long Term Financial Plan

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# City of San Clemente

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## City Council

- G. Wayne Eggleston Mayor
- Jim Dahl Mayor Pro Tem
- Joe Anderson Councilmember
- Steve Knoblock 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
- Bill Humphreys Marine Safety Chief
- David N. Lund Director, Public Works/Economic Development
- Jake Rahn Accounting Supervisor
- Dave Rebensdorf Associate Civil Engineer
- Tom Rendina Finance Manager

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# Long Term Financial Plan

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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.

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## **Long Term Financial Plan**

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### **Project Director**

*Pall Gudgeirsson, Assistant City Manager/City Treasurer*  
*Veronica Ferencz, 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*

### **Master Plan for City Facilities**

*John Beck, Senior Park Planner*

### **Downtown Vision & Strategic Plan Implementation Update**

*George Buell, City Planner*

### **Environmental Program Update**

*Bill Humphreys, Marine Safety Captain*  
*Danna McIntosh, Environmental Services Coordinator*  
*Brandi Outwin, Senior Civil Engineer*  
*Al King, Director, Beaches, Parks & Recreation*

### **Street Improvement Program Update**

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

### **Water/Sewer Asset Management Study**

*Dave Rebensdorf, Associate Civil Engineer*

### **Enterprise Fund Depreciation Analysis**

*Tom Rendina, Finance Manager*

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# Long Term Financial Plan

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### **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**

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

### **Reserve Analysis**

#### **Objective**

*To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program and (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.*

### **Master Plan for City Facilities Update**

#### **Objective**

*To review and update critical funding and timing strategies for projects listed on the Master Plan for City Facilities (MPCF) in relationship to the City's current and future financial condition.*

### **Downtown Strategic Plan Update**

#### **Objective**

*To implement recommendations of the Downtown Vision and Strategic Plan, current priorities include: 1) Update the City Land Use Policy for consistency of the Downtown Vision; 2) Prepare a Request for Proposal (RFP) for the creation of a public/private partnership for the development of City-owned properties in the North Beach area; 3) Pursue the establishment of public parking resources on private property in the T-Zone; 4) Create a subcommittee to study the feasibility of establishing a transit circulator; 5) Develop a plan for a downtown information signs, locator signs and gateway features in key locations; 6) Develop a strategy for improving the safety of pedestrians crossing at El Camino Real/El Portal triangle.*

### **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.*

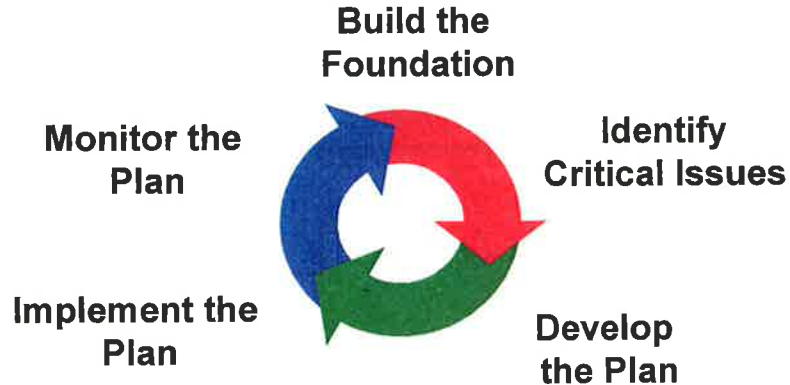
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## **Long Term Financial Plan**

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### 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 2006 Long Term Financial Plan* consists of the following sections:

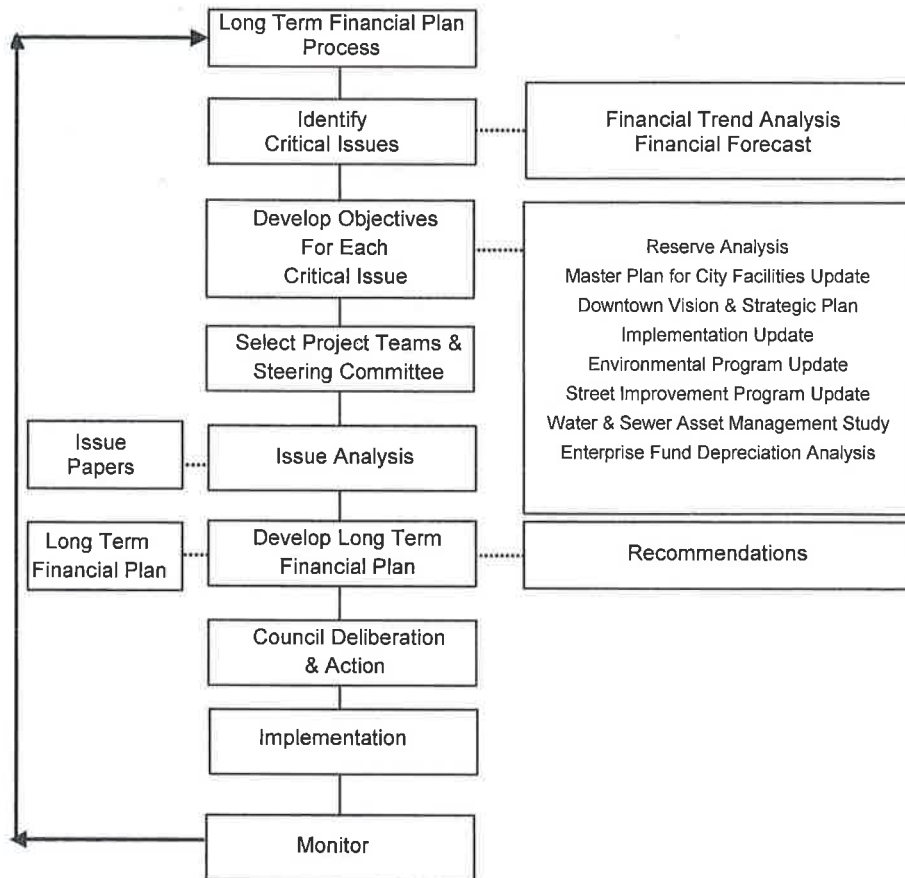
- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Fiscal & Debt Policy
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Master Plan for City Facilities Update
- Downtown Strategic Plan Implementation
- Environmental Program Update
- Street Improvement Program Update
- Water & Sewer Asset Management Study
- Enterprise Fund Depreciation Analysis

# Long Term Financial Plan

## Long Term Financial Plan Process

### The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted by City staff. In fact, 13 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

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## Process & Schedule

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to keep the project on track and on schedule. Each team was then asked to prepare option papers that met the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After several months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan.

### **Trends & Forecast are the Foundation of the LTFP**

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

This Financial Plan will be presented to the City Council on February 7, 2006 with public input and adoption scheduled for February 15, 2006. Following is the project schedule.

### **Schedule**

February 7, 2006	Long Term Financial Plan provided to Council and public for review.
February 15, 2006	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input & City Council adoption.
March 1, 2006	Vital Few Priority Meeting. City Council and City Manager.

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## **Long Term Financial Plan**

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# Long Term Financial Plan Review

## **Long Term Financial Plan Review**

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2006 LTFP represents the fourteenth 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	<ul style="list-style-type: none"> <li>• Annual shortfall of \$6 million</li> <li>• Operating deficit of \$1.8 million</li> <li>• Critical capital needs of \$2.4 million</li> </ul>	<ul style="list-style-type: none"> <li>• Contracted Police services</li> <li>• Established storm drain fee</li> <li>• Reorganized &amp; downsized</li> <li>• Salary &amp; benefit reductions</li> <li>• Established economic development program</li> <li>• Established reserves</li> </ul>
1994	<ul style="list-style-type: none"> <li>• Shortfall of \$2.7 million</li> <li>• Operating deficit of \$785,000</li> <li>• Street capital &amp; maintenance needs of \$1.8 million</li> <li>• Capital equipment needs of \$100,000</li> <li>• ERAF shift of \$1.2 million annually</li> </ul>	<ul style="list-style-type: none"> <li>• Contracted Fire, fleet maintenance, meter reading, street striping and beach/park maintenance</li> <li>• Continued salary &amp; benefit reductions</li> <li>• No cost of living increases</li> <li>• Established cost allocation plan to recover costs</li> <li>• Established capital equipment replacement reserve</li> </ul>
1995	<ul style="list-style-type: none"> <li>• Forecast deficit in years two through five</li> </ul>	<ul style="list-style-type: none"> <li>• Cutback on funding of emergency reserves</li> <li>• Reduced number of projected positions added</li> <li>• Reduced maintenance costs</li> <li>• Established 18 year/\$55 million Street Improvement Program</li> </ul>
1996	<ul style="list-style-type: none"> <li>• Emergency reserve level reached 5%</li> </ul>	<ul style="list-style-type: none"> <li>• Expedited Street Improvement Program</li> <li>• Issued \$7 million in street bonds</li> <li>• Saved on bond issuance costs</li> </ul>
1997	<ul style="list-style-type: none"> <li>• \$2.8 million shortage created by Proposition 218</li> </ul>	<ul style="list-style-type: none"> <li>• Increased revenues</li> <li>• Transferred \$425,000 from Golf Fund</li> <li>• Employee lay-offs</li> <li>• Program reductions</li> <li>• Transferred police dispatch operation to County</li> <li>• Closure of Stead Park</li> </ul>

## Long Term Financial Plan

Year	Challenge	Solution
1998	<ul style="list-style-type: none"> <li>• All reserves except Capital Equipment Replacement Reserve fully funded</li> </ul>	<ul style="list-style-type: none"> <li>• Funded Capital Equipment Replacement Reserve</li> <li>• Funded a market study and downtown improvement plan</li> </ul>
1999	<ul style="list-style-type: none"> <li>• Water Fund operating position negative</li> <li>• No formal plan in place for City facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term water rate structure approved</li> <li>• Funded a City Facilities Master Plan</li> </ul>
2000	<ul style="list-style-type: none"> <li>• New projects identified as priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Funded studies for the restoration of the Casa Romantica Cultural Center, Rail Corridor Safety and Education, Coastal Resources and Downtown Revitalization</li> </ul>
2001	<ul style="list-style-type: none"> <li>• Public safety needs identified</li> <li>• Document imaging system needed</li> <li>• Facilities maintenance needs identified</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted a Fire Authority staffing analysis and increased to a four-person engine company for Engine 60</li> <li>• Established a document management plan</li> <li>• Established a new Facilities Maintenance Reserve for future maintenance needs of all City facilities</li> </ul>
2002	<ul style="list-style-type: none"> <li>• Identified financial impact of City's capital facility plan</li> <li>• Sidewalk restoration needs identified</li> <li>• Urban Runoff Plan implementation costs identified</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted the use of special development fees</li> <li>• Funded sidewalk restoration plan</li> <li>• Established urban runoff fee</li> </ul>
2003	<ul style="list-style-type: none"> <li>• New fire station with operating costs of \$1.5 million planned</li> <li>• Projected deficit balance in Golf Course Fund</li> <li>• Identified interest costs associated with long-term loans to the RDA</li> </ul>	<ul style="list-style-type: none"> <li>• Eliminated new fire station. Relocated another fire station to central location and increased staffing</li> <li>• Established two-year loan to Golf Course</li> <li>• Repaid RDA loan from the General Fund and lowered interest costs</li> </ul>
2004	<ul style="list-style-type: none"> <li>• State of California proposed budget impact of \$522,000</li> <li>• Potential \$2.0 million refund of property taxes based on a taxpayer lawsuit</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced General Fund revenue to reflect State shift</li> <li>• Reserved \$2.0 million in a designated reserve</li> </ul>



## Long Term Financial Plan Review

The following is an update of the 2005 Long Term Financial Plan issues:

<b>Fiscal Policy</b>	<b>Status</b>
The City will develop an annual six-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	Implemented in the 2005-06 Capital Improvement Program.
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.	This recommended change in Fiscal Policy was not adopted by council.
<b>Financial Trend Analysis</b>	<b>Status</b>
None.	None
<b>Financial Forecast</b>	<b>Status</b>
None.	None
<b>Reserve Analysis</b>	<b>Status</b>
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.	Council approved the \$280,000 transfer in the FY 2005-06 Operating Budget
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.	Council approved \$404,620 transfer to the Council Contingency Reserve in the FY 2005-06 Operating Budget.
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.	Council elected to not increase the specified reserve in the General Liability Self-Insurance Reserve.
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.	Council elected to not transfer \$1,000,000 from the general Fund to the General Liability Self-Insurance Fund.

## Long Term Financial Plan

<b>Reserve Analysis - continued</b>	<b>Status</b>
Reduce the existing worker's compensation rates for fiscal year 2005-06 by 30% to the following;	Worker's Compensation rates were reduced by Council action in the FY 2005-06 Operating Budget.
a. 8810-Clerical      \$0.66/\$100 of payroll	Implemented
b. 9410-Non-manual    \$1.84/\$100 of payroll	Implemented
c. 9420-Manual        \$6.13/\$100 of payroll	Implemented
Transfer \$165,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2005-06.	Council approved the transfer of \$165,000 from the general Fund to the Accrued Leave Reserve in the FY 2005-06 Operating Budget
Budget an additional \$250,000 transfer from the Water Operating Fund to the Water Depreciation Fund for Fiscal Year 2005-06.	Council approved the transfer of \$250,000 from the Water Operating Fund to the Water Depreciation Fund in the FY 2005-06 Operating Budget.
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.	Council approved the transfer of \$11,000 to the emergency reserve of the Sewer Operating Fund in the FY 2005-06 Operating Budget
Defer policy changes until the completion of the Water and Sewer System Asset Study.	Policy decisions were deferred.
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.	Council approved the transfer of \$1,000 to the emergency reserve of the Solid Waste Operating Fund in the FY 2005-06 Operating Budget
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.	Council approved the transfer of \$7,000 to the emergency reserve of the Golf Course Operating Fund in the FY 2005-06 Operating Budget

<b>Overhead Analysis</b>	<b>Status</b>
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.	Recommended overhead rates were not approved by Council. Additional information was requested by council to be agendized for a future Council meeting

<b>Environmental Program Update</b>	<b>Status</b>
Receive and file with City Council making decisions as individual projects reach milestones.	On Going

## Long Term Financial Plan Review

<b>Street Improvement Program</b>	<b>Status</b>
Approve and authorize the allocation of a General Fund contribution of \$614,930 for the coming FY 2005/06.	Done
Confirm the City Council's continuing commitment to the fiscal policy requiring General Fund contributions to the program as resources become available.	Done
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.	Done
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.	Done. The projects are being designed for construction.
Approve the Street Improvement Program schedule modification to accelerate Camino San Clemente from the FY 2007/08 to FY 2005/06.	Done. The project is being designed for construction.

<b>Revenue &amp; Fee Analysis</b>	<b>Status</b>
Conduct an in-house study on construction permits fees and include an automatic fee escalator in the fee resolution, when appropriate.	Study pending
Repeal the municipal code section which requires the licensing of bicycles.	Will be brought to City Council in Dec/Jan timeframe, along with other public safety fees.
Investigate the possibility of returning the code enforcement of mobile home parks to the State Department of Housing and Community Development.	Council presentation on July. 5, 2005. Item to be brought back to Council by Community Development in Sept. 2005
Review the sewer connection fee.	Study pending
Conduct an in-house study on development processing charges and include an automatic fee escalator in the fee resolution, when appropriate.	Study pending.
Conduct a comparative rate analysis of ambulance transport rates.	Will be brought to City Council in Dec/Jan timeframe, along with other public safety fees.
Prepare a resolution for City Council to approve change in the fee structures for special events and commercial filming.	Will be brought to City Council in Dec/Jan timeframe, along with other public safety fees.
Conduct an in-house study on community development service charges and include an automatic fee escalator in the fee resolution, when appropriate.	Study pending.
Conduct an analysis of the basis of the charge and determine the cost recovery and market comparability study for all recreation program fees.	Recreation is taking the lead on this project. Rental fee changes have been approved by City Council.

## Long Term Financial Plan

<b>State Impact Financial Analysis</b>	<b>Status</b>
Work with other cities and the League of California Cities towards control of local revenues.	Serve on Legislative Network comprised of staff from OC cities. Communicate in person and via e-mail regarding issues impacting local government, recommend course of take action, follow up, etc
Push for stable sources of local tax money.	Prepared letters to members of the Legislature and the Governor on pending legislation impacting local government revenues. City received \$1 million plus in VLF backfill that was borrowed from the State (repaid a year early).
Share information with community/civic groups.	Prepared State of the City speech which Mayor and CM have used to address groups.
Report back to City Council as needed.	Provided updates to City Council members via E-mail

<b>Downtown Strategic Plan Implementation</b>	<b>Status</b>
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.	Complete. The Downtown Vision and Strategic Plan was finalized in April 2005.
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.	Complete. This was added as a 2005 Vital Few Priority
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.	Complete. This was added as a 2005 Vital Few Priority.

## Long Term Financial Plan Review

<b>Master Plan for City Facilities</b>	<b>Status</b>
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.	Park Maintenance Standards updated, and incorporated into a Parks maintenance contracts rebid. New contracts in affect.
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.	Residential and commercial lease sites have been identified with the LPVH Master Plan.
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 <i>operations and maintenance</i> and operations of those facilities.	All mandated park projects are progressing. (see below)
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.	<p>Construction is complete for Talega parks (Liberty and Tierra Grande) and opening is progressing.</p> <p>Talega trails construction is progressing</p> <p>La Pata/Vista Hermosa Park Phase I has entered working drawing phase and is progressing towards construction start next year. Grading activities continue.</p> <p>Senior Center site design is progressing</p>
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.	<p>Roller hockey evaluation progresses on two fronts; physical relocation study complete; operations study pending.</p> <p>Joint-Use discussions with CUSD over several park/school locations are in progress.</p>
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.	LTFP/MPCF 2006 will review projects list and show hold for any new projects.
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.	LTFP/MPCF 2006 will review this question.

## Long Term Financial Plan

<b>Master Plan for City Facilities - continued</b>	<b>Status</b>
Annually review the status of previous recommendations for the Master Plan for City Facilities as part of the Long Term Financial Plan.	LTFP/MPCF 2006 project list review is under way.
Explore cost-sharing partnerships for operation of new facilities;	Cost sharing partnership discussions with various non-profit organizations have started.
Revisit the schedule of fees and charges associated with Beaches, Parks & Recreation facilities and services.	Facility rental fee changes have been reviewed and adopted.  Field rental fee changes have been proposed, and public review is pending
Evaluate the near term and long term prospects for a Civic Center as part of the Vital Few Priority process for next fiscal year.	

<b>PERS Unfunded Liability</b>	<b>Status</b>
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.	The amortization period for the unfunded portion of the City's Frozen Safety CalPERS plan was extended from 8 years to 15 years. This action was approved to mitigate rate fluctuations and to insure against over-funding the City's contribution to the plan. As a result, the required payment was reduced from \$980,118 to \$654,212. The City will continue to monitor the plan and revisit the amortization period, if necessary, to guard against over-funding.
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.	

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# City Manager's Transmittal Letter

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Honorable Mayor and Councilmembers:

***The 2006 LTFP represents the City's fourteenth financial strategic plan***

## ***Introduction***

I am pleased to present the *2006 Long Term Financial Plan* to the City Council and San Clemente residents. This financial plan represents the fourteenth 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 in the introduction 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.

***Three new fiscal policy statements are recommended***

The next section includes the City's Fiscal and Debt Policy. These policies are reviewed and modified, as appropriate, on an annual basis. This year, three new fiscal policy statements are recommended to be added to the Fiscal Policy. No changes are recommended to the City's Debt Policy.

***A total of 9 issues are included in the 2006 edition of the Long Term Financial Plan***

A total of nine issues were examined in the 2006 Long Term Financial Plan. This includes the City's Financial Trend Analysis, Financial Forecast and Reserve Analysis. These three papers provide the foundation for the City's strategic plan. The Financial Trend Analysis focuses on the City's General Fund and examines specific financial indicators designed to measure the fiscal health of the City of San Clemente. The City's five-year Financial Forecast looks into the future to determine how current spending plans will impact future budgets. The Reserve Analysis focuses on the *appropriate levels* of reserve funding. Since the inception of the long-term financial plan, reserves have been established to maintain essential service programs during periods of economic downturn or to build and maintain critical infrastructure.

The 2006 Long Term Financial Plan also consists of several updates to previous issue papers, including the Master Plan for City Facilities, Downtown Strategic Plan, Environmental Program and Street Improvement Program. The update papers included in the Long Term Financial Plan allows City Council and the public to see the significant progress that has been made on projects identified in the past. These update papers, specifically the Master Plan for City Facilities (MPCF), also identify financial challenges continues to face the City. As pointed out in this report, there is a \$39.7 million shortfall in funding projects included in the MPCF and operation and maintenance costs for these facilities will result in a negative operating position by FY 2011-12 unless addressed during the budget process. While recognizing the critical need for additional recreational facilities, City Council and the public may need to consider

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# Long Term Financial Plan

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phasing in new facilities to match the projected increases in sustainable General Fund revenues.

***New issues include a Water/Sewer asset study and funding of these replacement reserves***

New issues examined this year include the results of a recently completed Water and Sewer asset study and its' subsequent effects on depreciation funding and rates. The Water and Sewer asset study identifies appropriate reserve levels, asset replacement schedules and major repair and maintenance schedules for the City's water and sewer infrastructure. The City has established depreciation reserves in the Water and Sewer Funds to fund future maintenance and replacement; however the asset study has determined that the Water Depreciation Reserve is currently under funded by \$3.0 million. The Sewer Depreciation Reserve meets the minimum requirement determined by the asset study. However, the Sewer Operating Fund, as pointed out in the Financial Forecast, has a projected negative operating position (expenditures in excess of revenues) in all five years of the forecast.

***The depreciation analysis recommends changes to the water and sewer rate models***

The Enterprise Fund Depreciation Analysis recommends changes to the funding of depreciation reserves based on funding requirements calculated by the asset model. The paper also recommends changes to the water and sewer rate models to require a balanced operating position that is consistent with the City's current fiscal policy. Implementation of both of these recommendations is projected to result in water and sewer rate increases in future years.

***The City's financial foundation is solid***

As a result of decisions made in the past to fund reserves and prepare for the future, the City's financial foundation is solid. However, it is critical that we plan for the future fiscal health and stability of the City, while supporting the customer service and growth related needs of the community.

***The 2006 LTFF presents issues that require careful deliberation***

The 2006 financial plan presents issues that require careful deliberation. While we are showing significant progress toward our goals for maintaining our streets, implementing the downtown vision and desired environmental programs, we still face challenges in our financial ability to build and adequately maintain our parks and facilities. 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.

***Evaluate all programs and proposals with an eye on maintaining the City's fiscal balance***

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 and new facilities*. The fiscal impact model increases staffing and maintenance costs for each new facility included in the Master Plan for City Facilities. Staffing increases are also included in the fiscal impact model to *increase* the level of City services. For example, police positions are added in the future to increase preventative patrol times or provide a higher level of services.

The financial forecast provides a more balanced look into the future, in that revenues and expenditures are increased based upon maintaining the *existing*



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## City Manager's Transmittal Letter

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service levels. The forecast, for example, includes police positions added in the future to *maintain* response times even though calls for services are anticipated to increase and the service area is larger.

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.

I look forward to working with you, staff, and our community as we review and implement the 2006 Long Term Financial Plan and the proposed budget for Fiscal Year 2006-07.



George Scarborough  
City Manager

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# Long Term Financial Plan

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# Executive Summary

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**The 2006 Long Term Financial Plan Executive Summary includes a Financial Summary**

## Financial Summary

The *Executive Summary* portion of the 2006 Long Term Financial Plan (LTFP) includes a Financial Summary section which provides a profile of the City's present financial condition, including a summary of this year's LTFP recommendations.

Included within the *Financial Summary* section:

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

**The 2006 LTFP is the 14th edition of the City's financial strategic plan**

### **Introduction**

The fourteenth 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 City Council and citizens with an objective analysis of the fiscal issues facing the City of San Clemente. It is important to remember that this financial plan is based upon the City's current financial condition and the maintenance of current service levels.

**The LTFP allows the City to focus on long-term initiatives without compromising the financial future**

The Long Term Financial Plan can be defined as a plan that identifies fiscal issues and opportunities, establishes fiscal policies and goals, examines fiscal trends, produces a financial plan and provides for feasible solutions. The LTFP allows the City to focus its efforts on long-term initiatives, including funding for necessary infrastructure, maintenance and capital needs, without compromising the financial future.

The comprehensive analysis of the City's financial trends, reserves and program updates such as the Downtown Vision & Strategic Plan Implementation, Environmental Program and Street Improvement Program, shows the progress that has been made in implementing long-term financial solutions to address issues identified in previous plans.

The 2006 Long Term Financial Plan identifies other financial challenges for the City. The Master Plan for City Facilities and Enterprise Fund Depreciation Analysis issue papers analyze the City's ability to build new infrastructure, such as parks or water & sewer facilities, while maintaining a positive operating position and providing operation and maintenance of these assets in the future.

**The City's Financial Plan focuses on the City's operating funds**

### **Current Financial Condition - Overview**

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

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# Long Term Financial Plan

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***The General Fund is projected to end the year with a \$12.7 million fund balance***

The City's General Fund forecast projects ending the fiscal year with a \$12.7 million fund balance, excluding General Fund emergency reserve of \$3.3 million. General Fund revenues are expected to amount to \$42.0 million. General Fund *operating revenues*, which excludes \$1.5 million in one-time revenue, amounts to \$40.5 million. Total General Fund expenditures amount to \$46.2 million. Operating expenditures, which excludes \$5.8 million in one-time programs, projects and transfers, amounts to \$40.4 million. Revenues, expenditures and fund balance would change if recommended mid-year adjustments are approved by City Council.

***The City's current financial condition is generally positive***

As the City moves into fiscal year 2006-07, the overall financial condition can be considered positive, although there are several fiscal challenges ahead. All reserves are fully funded, although minimal 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 beginning in FY 2007-08. The City's financial forecast includes revenues and maintenance expenditures associated with the Marblehead development.

***The 2006 LTFP examines the City's fiscal future***

The Long Term Financial Plan for the year 2006 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 2006 Long Term Financial plan once again provides viable solutions to a series of financial and quality of life issues.

***All reserve funds are fully funded***

### ***Reserve Funding – General Fund***

Several fiscal policy statements adopted by the City Council over the 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 *\$12.8 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 \$180,000 to the Accrued Leave Reserve***

- The 2006 LTFP recommends that the City allocate \$180,000 to the Accrued Leave Reserve to accumulate funds for the payment of accrued employee benefits (owed vacation, overtime and sick leave) to terminated employees.
- A transfer of \$85,000 to the Facilities Maintenance Capital Asset reserve is also recommended. This reserve is dedicated to the capital maintenance and rehabilitation of General Fund facilities.
- A \$150,000 contribution to the General Fund Emergency reserve is recommended for FY 2006-07 to continue full funding of the reserve at 8% of General Fund operating expenditures.

***Emergency reserves are funded at the required 8% level***

The 2006 LTFP is also recommending a change to the City's fiscal policy as it relates to the funding level of the Council Contingency Reserve. Fiscal policy currently has this reserve funded at 1% of General Fund operating expenditures. The recommended funding level of the Council Contingency Reserve is projected at \$436,000 for FY 2006-07 and increasing to almost \$500,000 by the end of the five-year forecast period. However, average expenditures made from the Council Contingency Reserve equal

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## Executive Summary

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\$266,000 over the past ten years. It is recommended to reduce the required funding level of the reserve to 0.5% of General Fund operating expenditures or \$218,000 for FY 2006-07.

**Transfers of \$740,000 were included in the FY 2005-06 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 2005-06, these include total transfers of \$740,000 for items such as the Street Improvement Program (\$615,000) and miscellaneous transfers<sup>1</sup> (\$125,000).

For FY 2006-07, a transfer from the General Fund to the Street Improvement Program of \$633,380 and miscellaneous transfers of \$118,000 have been proposed.

**Funding will continue in FY 2006-07 with a \$633,380 contribution to the Street Improvement Program**

*Street Improvement Program:* General Fund contributions to the Street Improvement Program have totaled \$5.7 million during the past eleven fiscal years. Funding for this program will continue in FY 2006-07 with a contribution of \$633,380. Annual contributions, which include an inflationary factor, will be made through the remainder of the program.

**RDA debt is \$3.1 million**

### **General Fund Loans**

The General Fund has two internal outstanding loans that were made from the General Fund to the Redevelopment Agency (RDA) Debt Service Fund and the Golf Operating Fund. The loan to the RDA – Debt Service Fund consolidated and repaid \$3.4 million from two prior interfund loans to purchase the Casa Romantica, fund capital projects in the RDA and fund operating deficits. The loan, which was made in 2002, is structured with an annual interest rate of 2.9% and a term of 16 years. This debt will be retired in FY 2018-19.

**Golf Operating Fund debt is \$984,000**

The General Fund has also loaned the Golf Operating Fund a total of \$784,000 over the last two years and another \$200,000 loan is included in the FY 2005-06 mid-year adjustment report. If approved, the total loan of \$984,000 will be added to the loan amount necessary to construct the golf course clubhouse. Debt service for a \$3.4 million loan is included in the Golf Operating Fund forecast. This loan repays the General Fund loan of \$984,000 and the balance required to build the golf clubhouse.

**21 out of 21 financial indicators are positive**

### **Financial Trend Analysis**

The City's financial condition is also quantitatively measured using a financial trend monitoring system. Last year, 20 of 21 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 Fringe Benefits trends. The annual Financial Trend Analysis report for the year ending June 30, 2005 indicates that all 21 indicators are favorable. However, two trends, Revenues per Capita and License & Permit Revenues 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 have shown gradual improvement.

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<sup>1</sup> Miscellaneous transfers include funding to the Solid Waste Fund to promote residential recycling, a loan repayment to the Public Safety Construction Fee Fund for the lot adjacent to the animal shelter and a transfer to the Water and Sewer Funds to subsidize fixed fees to low income households.

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# Long Term Financial Plan

**A "Favorable/Caution" rating has been assigned to Revenues per Capita and License & Permit Revenues**

*Revenues Per Capita:* This category was upgraded from warning to favorable/caution as growth from the prior year in actual dollars was 9.9% and 5.9% in constant dollars largely due to increases in actual property tax revenues. While General Fund revenues remain stable, a favorable/caution trend was assigned because this is the first year of the reversing trend. A warning trend would be issued if the trend starts in a downward direction. The City anticipates that this 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 projected build out of the City in fiscal year 2008-09.

*License & Permit Revenues:* License and permit revenues decreased three times in the four years compared. The decrease in actual dollars amounted to \$1.1 million, or 26%, below the prior fiscal year. The constant dollar decrease registered \$1.2 million or 29%, under fiscal year 2003-04. This indicator received a favorable/caution rating to reflect that development is still anticipated in the future as part of the Marblehead development, so decreases should be minor. If there are still significant future declines leading up to and past the 2008-09 fiscal year in which build out would be completed this would be cause for concern. A favorable rating/caution rating has been assigned based on development activity continuing as planned.

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

<i>Indicator</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Revenues Per Capita	F/C	W	W	F	F	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	F	U
Property Values	F	F	F	F	F	F	F	F	F	U
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/C	F	F	F	F	F	F	F	U	F
Comm. Develop. Charges	F	F	F	F	F	F	F	F	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
Population	F	F	F/C	F	F	F	F	F	F	F
Expenditures Per Capita	F	F	F	F/C	F	F	F	F	F	F
Expenditures by Function	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	U	U	F	F

## Executive Summary

<i>Indicator</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Fringe Benefits	<b>F</b>	F/C	F	F	F	F	F	F	F	F
Capital Outlay	<b>F</b>	F	F	F	F	F	F	F	F	F
Operating Positions	<b>F</b>	F	F	F/C	F	F	F	F	F	F
Debt Service	<b>F</b>	F	F	F	F	F	F	F	F	F
Compensated Absences	<b>F</b>	F	F	F	F/C	F/C	F/C	F	F	F
Fund Balance	<b>F</b>	F	F	F	F	F	F	F	F	F
Liquidity Ratio	<b>F</b>	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.

City	County	Schools	RDA	Special Districts
11%	7%	63%	8%	11%



# Long Term Financial Plan

## Five Year Financial Forecast

**Revenue growth is projected at 3.7%**

City revenues are anticipated to grow by an annual average increase of 3.7% a year. Property taxes increase by \$3.4 million over the five-year period due to new residential homes, resale activity and the return of state diverted property taxes. Sales taxes increase by \$3.9 million over the forecast period, primarily from sales taxes generated from the Marblehead retail facility.

**Expenditures will increase 2.9%**

Expenditures are projected to increase at an average rate of 1.4%, which is misleading due to a one-time \$3.4 million transfer in the base year of the forecast to the General Liability Fund that causes expenditures to drop by 4.0% in the first year of the forecast. When adjusted to exclude the one-time transfer, an expenditure growth rate of 2.9% is more realistic. The majority of this growth is due to projected increases in staffing levels, police and maintenance contractual positions and an anticipated 8% increase in the fire contract in the last year of the forecast.

**Operating position and fund balances are examined in the financial forecast**

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

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

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

**The City's projected operating position is negative the first year of the forecast period**

### Forecast Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a negative operating position in the first year of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements) are shown in the following table:

### 2006 Forecast Summary (LTFP)\*

Amounts in \$1,000

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating receipts	\$42,801	\$44,885	\$46,558	\$47,978	\$50,342
Operating disbursements	43,234	44,683	45,760	47,124	49,109
Projected surplus/deficit	-\$433	\$202	\$798	\$854	\$1,233

**2006 LTFP forecast - operating position**

\* One-time revenues and expenditures have been excluded. One-time revenues include construction inspection fees from the Marblehead development. One-time expenditures include transfers to other funds, capital outlay and special projects.

The General Fund operating position is negative in the first year of the forecast primarily due to the following:



## Executive Summary

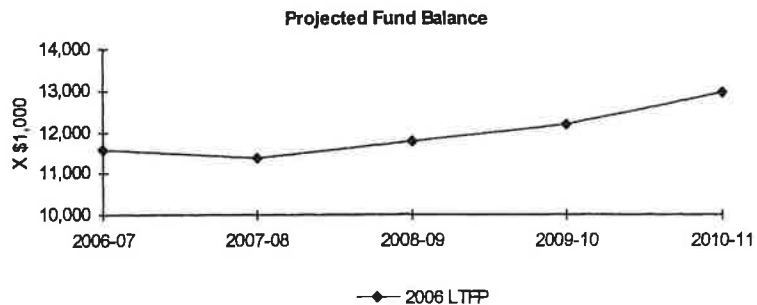
- Elimination of \$425,000 transfer from the Golf Course Operating Fund to the General Fund.
- One Police position added for \$192,000 and two City positions added for \$172,000.
- Annual 4% increase to the fire contract amounts to \$290,000.

Since fiscal policy does not allow the City to adopt an unbalanced operating budget, expenditure reductions or revenue enhancements must be made during the FY 2006-07 budget review process. The budget that is presented to City Council and the public will be in balance with on-going operating revenues higher than on-going operating expenditures.

**The City's projected fund balance averages \$12.0 million over the forecast period**

### Fund Balances

One of the main financial 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 undesignated fund balance over the five year forecast period will be positive. Designated emergency reserve levels have been maintained at the required 8% level.



**Fund balances are projected to be positive**

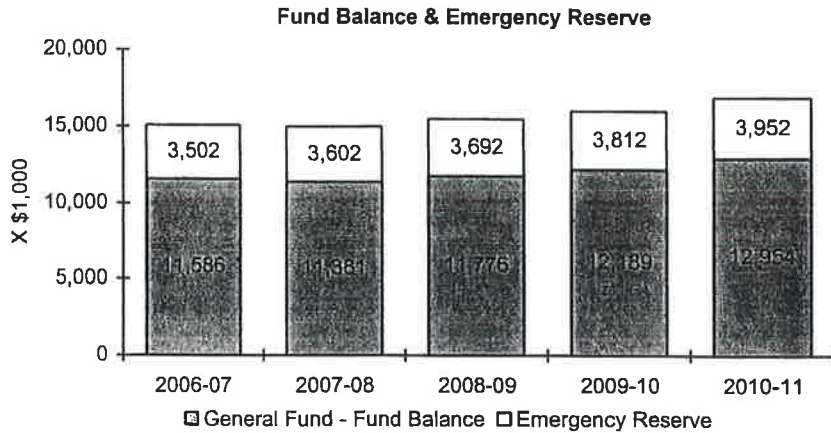
As shown on the following table and graph, the projected ending fund balance over the five year forecast period will be positive. Emergency reserve levels have been maintained at the required 8% level.

### Fund Balance & Emergency Reserve

Amounts in \$1,000	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Fund Balance	\$11,586	\$11,381	\$11,776	\$12,189	\$12,954
Emergency Reserves (8%)	\$3,502	\$3,602	\$3,692	\$3,812	\$3,952

# Long Term Financial Plan

**Fund balances and emergency reserves**



**Requests are for continued funding of reserves in accordance with fiscal policy**

### **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.

There are a minimum amount of new funding requests included in the 2006 Long Term Financial Plan recommendations. Two of the requests are for continued funding of reserves in accordance with fiscal policy. A transfer of \$180,000 is recommended to the Accrued Leave reserve and a transfer of \$85,000 is recommended to the Facilities Maintenance Capital Asset reserve. These are “one-time” transfers and do not effect the General Fund operating position.

The other recommended requests will have a slight impact on the General Fund operating position. The fiscal policy recommendation to lower the Council Contingency reserve from 1% of operating expenditures to 0.5% of operating expenditures results in an average annual savings of \$231,600 or \$1.2 million over the forecast period. However, a recommendation to increase the General Liability premium charge to \$1.5 million to the General Fund and other operating funds will increase expenditures in FY 2006-07 by \$230,180.

**A funding shortfall in the City’s current ability to build and maintain facilities has been identified**

The Master Plan for City Facilities issue paper also identifies a funding shortfall in the City’s current ability to build and maintain facilities included in the plan. The Fiscal Impact Model, which is used to predict future operation and maintenance costs for facilities included in the master plan, also that the City’s General Fund will have a negative balance in FY 2006-07, but increases in revenue from the Marblehead project changes the operating position to positive for the next four years. The fiscal impact model also shows an operating deficit beginning in FY 2011-12 and continuing into the future if all facilities are built as scheduled.

The Master Plan for City Facilities also identifies a \$39.7 million shortfall to construct all facilities identified in the plan, including an \$8.0 million shortfall for La Pata/Vista Hermosa, phase I, which is scheduled for construction in FY 2006-07. Dedicated funding for future park development has been set aside in the restricted Parks Acquisition and Development Fund; however, rising costs and expanded amenities have substantially increased construction costs and diminished the reserve balance.

## Executive Summary

Funding for future capital improvements, expansions or renovations to parks and facilities must come from other undetermined sources.

Recommendations included in the Master Plan for City Facilities include the continuation of planning/design/construction of Talega parks and trails, Marblehead Coastal parks and trails, La Pata/Vista Hermosa Community Park, Phase I and the Senior Center. Continued study is recommended on the Steed roller hockey and Avenida La Pata streetscape extension to the City border projects. Any other major capital projects shall be placed on indefinite hold until operations and maintenance and capital costs are found.

### Summary of Recommendations

This section provides an updated fund balance forecast if LTFP financial recommendations are adopted by the City Council. The first table summarizes current projected ending fund balances prior to the adoption of 2006 LTFP recommendations:

**Current  
projected fund  
balances**

<b>Fund Balance</b>						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Fund Balance	\$12,720,000	\$11,586,000	\$11,381,000	\$11,776,000	\$12,189,000	\$12,954,000

The following table indicates the impact on fund balances if recommendations contained in the 2006 Long Term Financial Plan are adopted by the City Council.

**Projected fund  
balances including  
2006 LTFP  
recommendations**

<b>Fund Balance</b>						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<i>Projected Ending Fund Balance</i>	\$12,720,000	\$11,586,000	\$10,174,820	\$10,194,820	\$10,819,820	\$11,470,820
Revenues less expenditures <sup>1</sup>	0	-1,134,000	-205,000	394,000	413,000	765,000
Council Contingency <sup>2</sup>	0	218,000	225,000	231,000	238,000	246,000
Accrued Leave Reserve <sup>3</sup>	0	-180,000	0	0	0	0
Facilities Maint. Reserve <sup>4</sup>	0	-85,000	0	0	0	0
General Liability Insurance <sup>5</sup>	0	-230,180	0	0	0	0
<i>Revised Ending Fund Balance</i>	\$12,720,000	\$10,174,820	\$10,194,820	\$10,819,820	\$11,470,820	\$12,481,820

<sup>1</sup> This is the change in fund balance caused by revenues higher than expenditures or one-time expenditures higher than revenues.

<sup>2</sup> Recommended fiscal policy change reducing Council Contingency reserve from 1% of General Fund operating expenditures to 0.5% of General Fund operating expenditures.

<sup>3</sup> Recommended transfer from the General Fund to the Accrued Leave reserve to maintain the fiscal policy requirement of a reserve at least equal to projected costs for employees eligible for retirement.

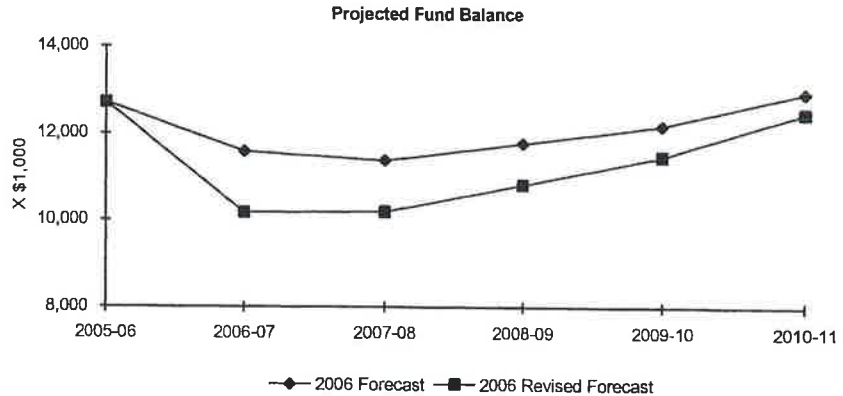
<sup>4</sup> Recommended transfer from the General Fund to the Facilities Maintenance Capital Asset reserve to maintain the fiscal policy requirement of a reserve at least equal to projected five-year facilities maintenance costs.

<sup>5</sup> Recommended increase in the transfer from the General Fund for general liability premium charges.

# Long Term Financial Plan

The following graph shows the impact of adopting the 2006 LTFP recommendations on projected fund balances:

**Impact on fund balance with LTFP recommendations**



As illustrated, the overall impact of adopting LTFP recommendations, fund balances decrease from an average of \$12.0 million to \$11.0 million over the forecast period.

## Operating Position

Based on the revised expenditure and revenue trends, the financial forecast predicts a negative operating position in the first year of the forecast period. The negative operating position increases from \$433,000 to \$445,000 due to the recommended increase in the general liability premium charge which is partially offset by the decrease funding requirement for the Council Contingency reserve.

## 2006 Forecast Summary (LTFP)\*

Amounts in \$1,000

**2006 LTFP forecast - operating position**

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating receipts	\$42,801	\$44,885	\$46,558	\$47,978	\$50,342
Operating disbursements	43,246	44,458	45,529	46,886	48,863
Projected surplus/deficit	-\$445	\$427	\$1,029	\$1,092	\$1,479

## Conclusion and Recommendations for the Water & Sewer Funds

The 2006 financial forecasts for the Water and Sewer Enterprise Funds also identifies negative operating positions over the forecast period. The Water Fund has a negative operating position in all five years of the forecast and the Sewer Fund is projected to have a negative operating position in the last four years of the forecast. In addition, the Water Fund projects a \$1.8 million negative ending balance by FY 2010-11 and the Sewer Fund projects negative ending balances ranging from \$9,000 to \$2.9 million.

The recently completed Water & Sewer Asset Management Study resulted in a computer model to maintain the asset inventory. The model also projects future maintenance and capital replacement costs. This model was used as the basis for a comprehensive analysis of the Water & Sewer depreciation funds. These restricted funds have been established to build adequate reserves to replace or rehabilitate water

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## Executive Summary

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and sewer infrastructure and assets. The model established a recommended depreciation expense of \$1.5 million annually for the Water Fund and \$1.7 million annually for the Sewer Fund.

Up until now, funding for these reserves has been based on “book depreciation” which replenishes the reserve based on the original construction cost over a predetermined amount of years (usually the life of the asset). This method does not build the reserve to the amount necessary to replace or rehabilitate the asset in the future. This funding gap, along with the projected negative operating position and negative ending balances in both the Water and Sewer Funds, will not provide adequate funds for scheduled capital projects unless rates are adjusted.

Existing city ordinances provide for an annual review of the water and sewer rates. This review is conducted during the annual budget process. The current rate model includes an “automatic rate adjustment” feature to provide for rate stability and to avoid large “one-time” rate increases experienced in prior years. The rate model, however, is not consistent with current fiscal policy which requires a balanced budget. The rate model is based upon fund balance and allows expenditures to exceed revenues as long as a minimum reserve of 8% of operating expenditures is maintained. It is recommended to amend the ordinance to include a requirement in the rate model to maintain a positive operating position in the Water and Sewer Funds and provide adequate depreciation funding for maintenance and capital replacement projects identified in the asset model. If the recommendations included in the Enterprise Fund Depreciation Analysis are approved by City Council, rate increases for the Water and Sewer Funds will be presented in May 2006. The rates will include adequate funding for operation and maintenance, capital replacement and achieve a positive operating position during the next five fiscal years.

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# Long Term Financial Plan

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## ***Summary of Long Term Financial Plan recommendations***

## **Summary of Long Term Financial Plan Recommendations**

This section summarizes the recommendations contained in the 2006 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 establish a Water Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Water Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
2. The City will establish a Sewer Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Sewer Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
3. The City will establish a Storm Drain Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Storm Drain Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
4. 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 0.5% of General Fund operating expenditures annually.

### ***Financial Trend Analysis***

1. None.

### ***Financial Forecast***

2. None.

### ***Reserve Analysis***

1. Budget sufficient funds for FY 2006-07 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 \$150,000.
2. Revise the City's Fiscal Policy for the Council Contingency Reserve. "The level of the Council Contingency Reserve will be established as needed, but will not be less than 0.5% of General Fund operating expenditures annually." Staff recommends that \$218,000 be set aside in fiscal year 2006-07 to fund the Council Contingency Reserve.
3. Decrease the specified reserve in the General Liability Self-Insurance Fund from the current reserve of \$593,000 to \$390,000 for the fiscal year 2006-07. The reserve includes three times the self-insurance retention (\$150,000), plus the average of the previous five years of claims costs not covered by the insurance pool (\$240,000).
4. Increase the annual City-wide charge for General Liability insurance to \$1.5 million.
5. Reduce the existing worker's compensation rates for fiscal year 2006-07 by 15% to the following;

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## Executive Summary

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- a. 8810 Clerical \$0.56/\$100 of payroll
  - b. 9410 Non-manual \$1.56/\$100 of payroll
  - c. 9420 Manual \$5.21/\$100 of payroll
6. Transfer \$180,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2006-07.
  7. Transfer \$85,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2006-07.
  8. Revise the City's Fiscal Policy to include the Water Depreciation Reserve. "The City will establish a Water Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Water Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs."
  9. Budget an additional \$650,000 transfer from the Water Operating Fund to the Water Depreciation Reserve for FY 2006-07. This transfer, along with the projected depreciation charge of \$850,000 will meet the minimum funding requirement of \$1.5 million provided by the Water System Asset Model.
  10. Budget a one-time transfer of \$3.7 million from the Water Operating Fund to the Water Depreciation Fund for FY 2006-07 to bring the fund balance into compliance with the proposed Fiscal Policy.
  11. Budget \$42,000 from the Sewer Operating Fund in FY 2006-07 in order to bring the emergency reserve to \$518,000, which represents 8% of the projected Sewer Fund operating expense level.
  12. Revise the Fiscal Policy to include the Sewer Depreciation Reserve. "The City will establish a Sewer Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Sewer Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs."
  13. Revise the Fiscal Policy to include the Storm Drain Depreciation Reserve. "The City will establish a Storm Drain Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Storm Drain Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs."

### *Master Plan for City Facilities*

1. Continue to analyze long-term costs of service, 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 disposition revenue with operations and 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 insured and verifiable that can be used for operations and maintenance 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.

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## Long Term Financial Plan

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- 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.
  - c. Any major capital projects proposed by Staff or the public shall be placed on indefinite hold until O&M/capital costs sources are found and are to be submitted to Council for consideration.
4. Continue to explore cost-sharing partnerships for operation of new facilities.
5. Continue the evaluation of fees schedules and charges associated with Beaches, Parks & Recreation facilities and services.
6. Continue to evaluate the near term and long term prospects for a Civic Center as part of the Vital Few process for next fiscal year.

### *Downtown Vision & Strategic Plan Implementation Update*

1. Update the City land use policy for consistency of the downtown vision.
2. Public/private partnership for the development of City-owned properties in the North Beach area.
3. Pursue the establishment of public parking resources on private property in the T-Zone.
4. Subcommittee to study the feasibility of establishing a transit circulator.
5. Development of a plan for a downtown information signs, locator signs and gateway features in key locations.
6. Development of a strategy for improving the safety of pedestrians crossing at El Camino Real/ El Portal triangle.

### *Environmental Program Update*

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

### *Street Improvement Program Update*

1. Direct Staff to include in the draft budget for Council consideration the allocation of a General Fund contribution of \$633,380 for the coming FY 2006-07.
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 five (5) street projects within the San Clemente Golf Course area from FY 2007-08 to FY 2006-07.
5. Approve the Street Improvement Program schedule modification to accelerate five (5) street projects within the southwest area of the City from FY 2007-08 and FY 2008-09 to FY 2006-07.
6. Approve the Street Improvement Program schedule modification to accelerate three (3) street projects within Rancho San Clemente area from FY 2008-09 and 2009-10 to FY 2007-08.
7. Approve the Street Improvement Program schedule modification to accelerate Portico Del Sur / Del Norte street project within Forester Ranch area from FY 2009-10 to FY 2007-08.



### *Water & Sewer Asset Management Study*

1. Approve the Water and Sewer Asset Management model and utilize the model on an annual basis to set minimum Sewer and Water Depreciation funding levels as part of the annual utility financial analysis.

### *Enterprise Fund Depreciation Analysis*

1. Require annual transfers from the Water Operating Fund to the Water Depreciation Reserve for depreciation to be based on the greater of book depreciation or the Brown and Caldwell Water Asset System Model calculated funding requirement.
2. Require annual transfers from the Sewer Operating Fund to the Sewer Depreciation Reserve for depreciation to be based on the greater of book depreciation or the Brown and Caldwell Water Asset System Model calculated funding requirement.
3. Transfer the minor maintenance requirement of \$75,000 annually from the Sewer Depreciation Reserve to the Sewer Operating Fund. All future minor maintenance costs will be funded from the Operating Fund.
4. Transfer the minor maintenance requirement of \$11,000 annually from the Water Depreciation Reserve to the Water Operating Fund. All future minor maintenance costs will be funded from the Operating Fund.
5. Create a specified reserve in both the Water and Sewer Depreciation Reserves to provide funding for major maintenance and capital projects for non-City owned assets. The annual reserve contributions will be calculated as one fifth of the projected five-year project costs provided by SOCWA, JRWSS and the City of San Clemente.
6. Transfer the annual charges from SOCWA and JRWSS for major maintenance and capital projects from the Operating Funds to the newly created specified reserves within the Water and Sewer Depreciation Funds.
7. Amend the “automatic rate adjustment” sections of the Water and Sewer Ordinances to require a neutral operating position in place of the “minimum fund balance equal to 8% of operating expenditures”.
8. Amend the Water and Sewer Rate Models to comply with the Ordinance changes for a neutral operating position.
9. Amend the Water and Sewer Rate Models to include a funding line for annual transfers to fund the major maintenance and capital improvements for non-City owned assets.

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# Long Term Financial Plan

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# Fiscal Policy

**Objective**

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

**Background**

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

Following are approved changes to the current Fiscal Policy:

- Reserve Policies:** The first three changes add language to specifically address Water, Sewer and Storm Drain Depreciation Reserves. The fourth change modifies the annual contribution amount to the Council Contingency Reserve.

<i>Current Policy Statement</i>	<i>Approved Policy Statement</i>
None	The City will establish a Water Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Water Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
None	The City will establish a Sewer Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Sewer Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
None	The City will establish a Storm Drain Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Storm Drain Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs.
A Council Contingency Reserve will be established to provide for non-recurring	A Council Contingency Reserve will be established to provide for non-recurring

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## Long Term Financial Plan

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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.	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 1/2% of General Fund operating expenditures annually.
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### **Recommendation**

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

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## Fiscal Policy

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Fiscal Policy Statement	Status	Comments
<b>General Financial Goals</b>		
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.	√	
<b>Operating Budget Policies</b>		
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.	√	

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## Long Term Financial Plan

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<b>Fiscal Policy Statement</b>	<b>Status</b>	<b>Comments</b>
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.	√	
<b>Revenue Policies</b>		
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).	√	

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## Fiscal Policy

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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.	√	
<b>Expenditure Policies</b>		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
<b>Utility Rates and Fees Policies</b>		
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.	√	

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## Long Term Financial Plan

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Fiscal Policy Statement	Status	Comments
<b>Capital Improvement Budget Policies</b>		
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).	√	



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## Fiscal Policy

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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.	√	
<b>Short-Term Debt Policies</b>		
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.	√	
<b>Long-Term Debt Policies</b>		
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.	√	

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# Long Term Financial Plan

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Debt Policy Statement	Status	Comments
<b>Credit Worthiness Objectives</b>		
The City of San Clemente seeks to maintain the highest possible credit ratings for all categories of short- and long-term direct debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.	√	Standard & Poor's = AA.
Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous disclosure statements will meet the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and generally accepted accounting principles (GAAP).	√	
To enhance creditworthiness and prudent financial management, the City of San Clemente is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning.	√	
The City will keep outstanding debt within the limits prescribed by State statute and at levels consistent with its creditworthiness objectives.	√	
<b>Debt Standards and Structure</b>		
Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users which will generally require that debt be issued only for a time period that is consistent with the life span of the project for which the debt was issued.	√	
Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, and the nature and type of security provided.	√	
In the case of issues structured with term bonds, the City will use a sinking fund to retire the term bonds.	√	

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## Debt Policy

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Debt Policy Statement	Status	Comments
The City will not issue debt that commences principal payment beyond the fiscal year in which the financed asset is completed or is substantially available to the City.	√	
The City will seek to structure debt with level principal and interest costs over the life of the debt.	√	
The City may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions.	√	
The City shall issue subordinate lien debt only if it is financially beneficial to the City and is consistent with the City's creditworthiness objectives.	√	
The City will consider the use of non-traditional financial products on a case by case basis and consistent with state law and financial prudence.	√	
Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities.	√	
Use of short-term borrowing, such as bond anticipation notes (BANs), tax and revenue anticipation notes (TRANs), tax-exempt commercial paper and other similar short-term borrowing vehicles will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal financing, or available cash is insufficient to meet working capital requirements.	√	
Credit enhancement will be used to the extent that net debt service on the bonds is reduced by more than the costs of the enhancement, measured in present value terms.	√	
<b>Debt Administration and Process</b>		
No City Department, agency, or sub-unit shall incur long-term debt without the approval of the City Council.	√	

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## Long Term Financial Plan

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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

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# Financial Trend Analysis

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## Financial Trend Analysis

***Indicators measure the fiscal health of the City of San***

### **Introduction**

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

### **Background**

As part of the long term financial planning process, the City's financial trends have been analyzed for the past fifteen 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***

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, 2005***

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal year 2000-01 through fiscal year 2004-05. Consequently, all trends are based on data available as of June 30, 2005, and do not incorporate any changes that have occurred since that time.

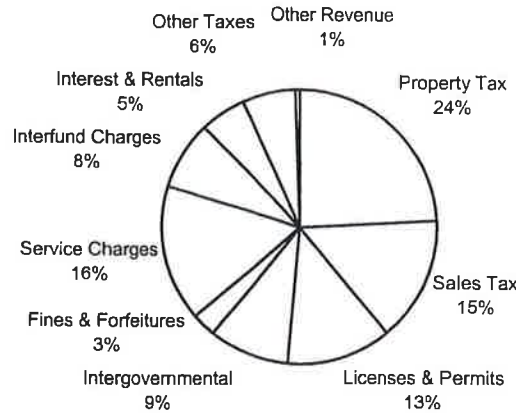
### **Summary of Trend Analysis**

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:

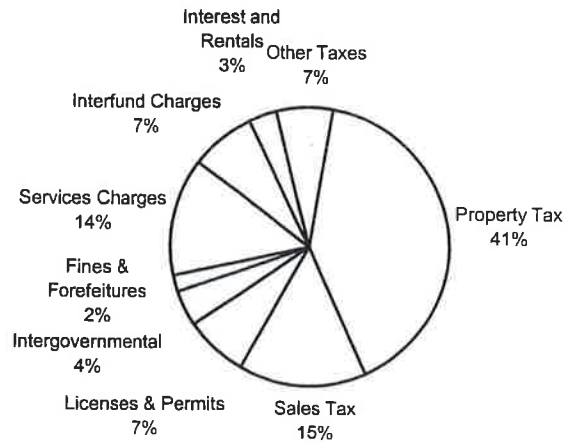
# Long Term Financial Plan

## Comparison of Revenues by Source 2000-01 vs. 2004-05

2000-01



2004-05



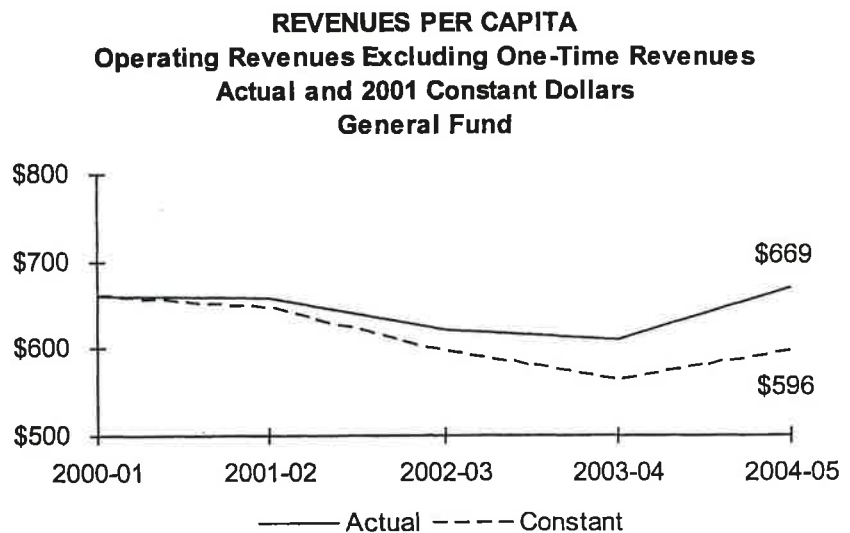
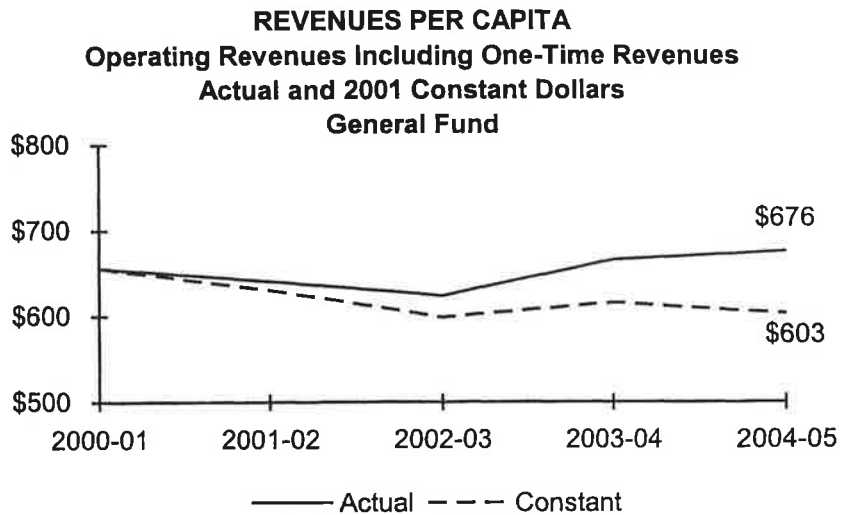
**Property Tax revenues increased and Intergovernmental and License and Fee Revenues decreased as a percentage of the General Fund revenues**

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, Intergovernmental and License and Permits. Property Tax revenues increased from 24% in FY 2000-01 to 41% in FY 2004-05 due to an increase in housing prices, new development, and a change in property tax legislation for the 2004-05 fiscal year. This change in legislation increased property taxes and decreased the City's motor vehicle license fees, which decreased the Intergovernmental revenues from 9% in 2000-01 to 4% in 2004-05. The decrease in licenses and permits from 13% in 2000-01 to 7% in 2004-05 is due to a slow down in development as the City nears build out.

# Financial Trend Analysis

## Revenues

### Revenues Per Capita



**Revenues per capita (excluding one-time revenues) have reversed course**

**Finding: FAVORABLE/CAUTION.** Revenues per capita (excluding one-time revenues) reflect an increase when analyzing both actual and constant dollars for FY 2004-05. This trend upgrades from warning to favorable/caution as growth from 2003-04 in actual dollars was 9.9% and 5.9% in constant dollars largely due to increases in actual property tax revenues.

**Comments:** The first chart above which includes one-time revenues shows a upward trend from \$666 to \$676 in actual dollars [and a decrease from \$616 to \$603 in constant dollars] due to two major factors. First, one-time

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# Long Term Financial Plan

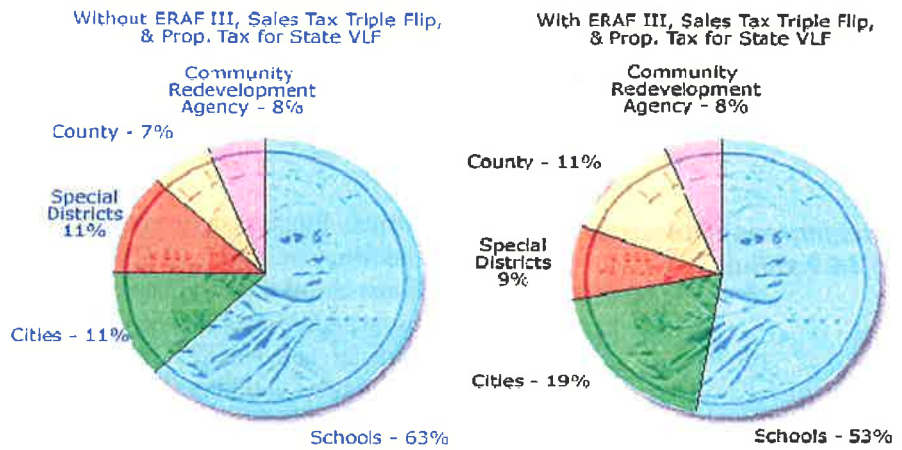
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Finding: **FAVORABLE.** Property values showed a positive growth rate for the ninth consecutive year in FY 2004-05.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars shows an increase of 13.0%. This is the ninth 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.

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





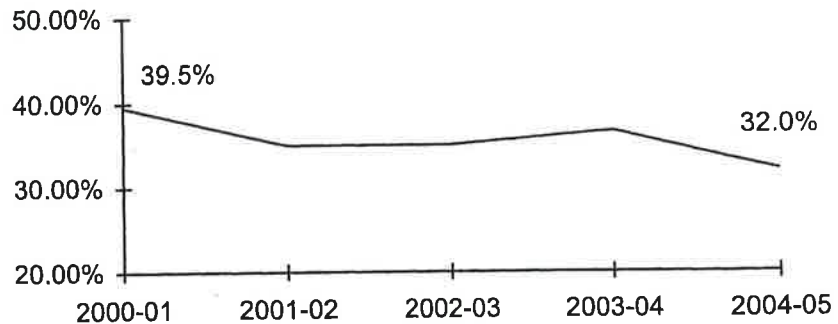
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# Financial Trend Analysis

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## Elastic Revenues

**ELASTIC REVENUES**  
As a Percentage of Operating Revenues  
General Fund



**Elastic revenues decreased when calculated as a percentage of total revenues**

Finding: **FAVORABLE**. Elastic revenues, as a percentage of total revenues, show a decrease from FY 2003-04 to FY 2004-05. Actual elastic revenues decreased \$232,000, while operating revenues increased by \$5.0 million. A favorable rating has been assigned based on the development activity continuing as planned and the elastic operating dollar amounts showing only a 1.6% decrease in total from the 2003-04 actual dollar amounts.

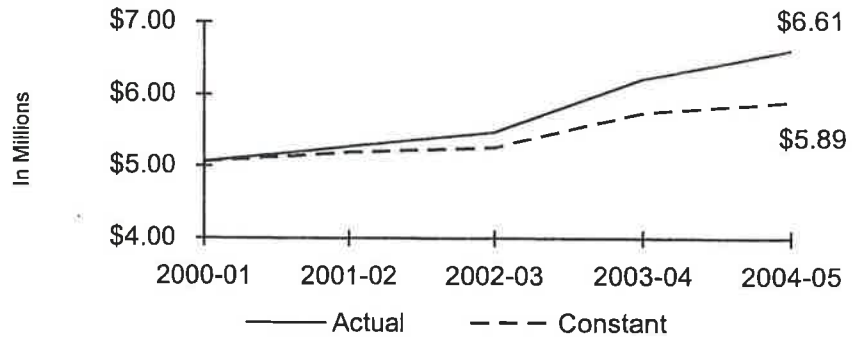
Comments: The City's largest elastic revenue source, sales tax revenue, was up 6.4%, or \$397,000. License and permit revenues decreased \$1.1 million while community development service charges increased \$403,500 from the previous year. Elastic revenues, as a percentage of total revenues, decreased from 36.6% last year to 32.0% in 2004-05 and was primarily a result of the operating revenue increase and a 44.1% decrease in building permit revenues. A favorable rating was assigned because the percentage of elastic revenues are returning to the historical average of 31.0% in place from 1995-96 fiscal year to 1999-2000 fiscal year. The decrease over the last five years is due to the Talega development and the related slow down through the 2004-05 fiscal year. Details concerning each major elastic revenue source can be found in the following pages.

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# Long Term Financial Plan

## Elastic Revenues

**SALES TAX REVENUES**  
Actual and 2001 Constant Dollars  
General Fund

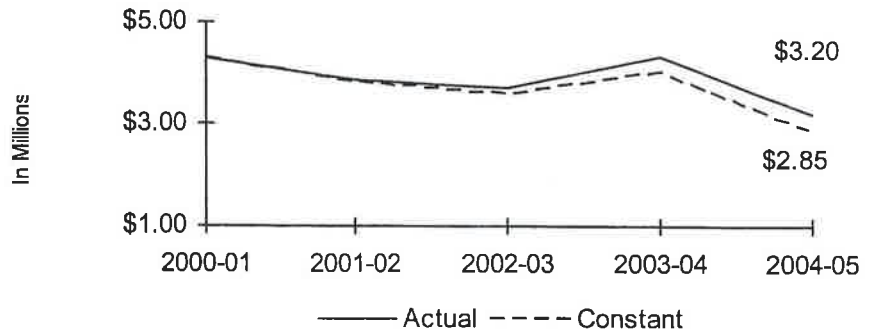


**Sales tax revenues increased \$397,000 in FY 2004-05**

Finding: **FAVORABLE**. As summarized in the chart above, sales tax revenues showed an increase of \$397,000, or 6.4%, in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to \$153,300, or 2.7%.

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 30.7% from sales tax revenues recorded in FY 2000-01. These increases boost sales tax revenue to a sixteen-year high in actual dollars and the result is a continued favorable rating.

**LICENSE & PERMIT REVENUES**  
Actual and 2001 Constant Dollars  
General Fund



**License and permit revenues decreased**

Finding: **FAVORABLE/CAUTION**. License and permit revenues decreased three times in the four years compared. The decrease in actual dollars amounted to \$1.1 million, or 26.3%, below the prior fiscal year. The constant dollar decrease registered \$1.2 million or 28.9%, under fiscal year

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## Financial Trend Analysis

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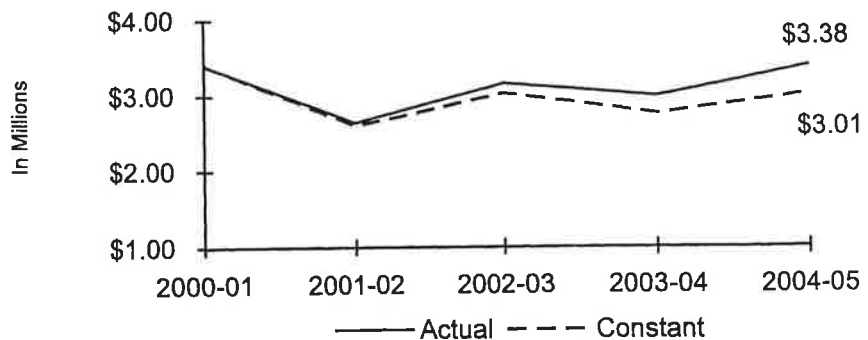
2003-04. This indicator received a caution rating to reflect that development is still anticipated in the future as part of the Marblehead development so decreases should be minor. If there are still significant future declines leading up to and past the 2008-09 fiscal year in which build out would be completed this would be cause for concern.

**Construction permit revenue decreased while business license revenue increased**

Comments: While construction permit revenue decreased \$1.0 million, or 44.1% over the past year, business license income increased from the prior year by \$285,000 or 30.0%. A favorable rating has been assigned based on the development activity continuing as planned.

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**COMMUNITY DEVELOPMENT SERVICE CHARGES**  
Actual and 2001 Constant Dollars  
General Fund



**Community Development Service Charges recorded an increase of \$403,500**

Finding: **FAVORABLE**. Total community development service charges increased by 10.2%, or \$403,500 from the prior year. This revenue source shows an increase from the previous year and is comparable with the revenues received on average over the last five years. This trend is anticipated to decline as development within the City slows down.

Comments: Construction inspection fees increased by \$899,400. Specific revenue sources showing decreases include building plan check fees of \$344,900 and single family residence plan check fees of \$37,800. This indicator has been assigned a favorable rating.

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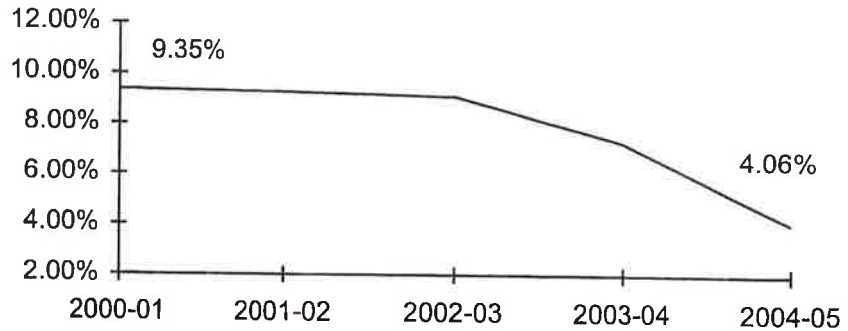
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# Long Term Financial Plan

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## *Intergovernmental Revenues*

**INTERGOVERNMENTAL REVENUES  
As a Percentage of Operating Revenues  
General Fund**



***Intergovernmental revenues show a downward trend***

Finding: ***FAVORABLE***. General Fund Intergovernmental revenues, as a percentage of operating revenues, continue 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 80% of the total intergovernmental category. Motor vehicle tax declined due to legislation that was passed that transferred motor vehicle fees to the state and in its place the City would receive property tax dollars. The motor vehicle fees received as in-lieu property taxes in 2004-05 were \$2.6 million, which would have made the Intergovernmental percentage 9.9%.

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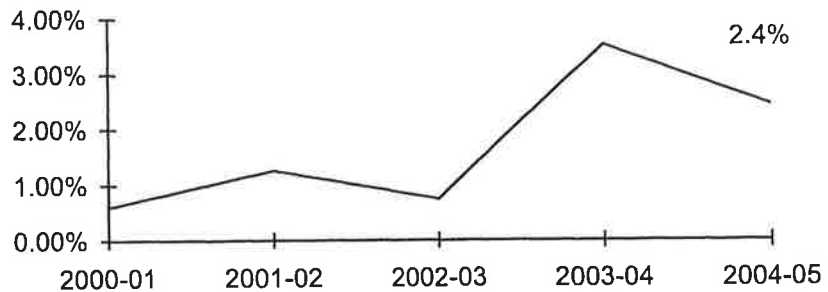
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# Financial Trend Analysis

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## One-Time Revenues

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



Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled 2.4% in FY 2004-05 a decline from the prior year.

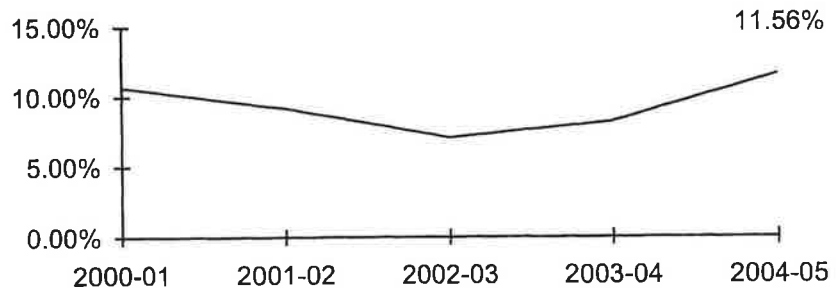
**In accordance with fiscal policies, one-time revenues are used to fund one-time expenditures**

Comments: One-time revenues have decreased from the prior fiscal year by \$313,400. FY 2004-05 one-time revenues, totaling \$1.1 million includes \$1.0 million from the state as a repayment of prior year's motor vehicle fees. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a favorable rating.

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## Revenue Overage/Shortage

**REVENUES OVER (UNDER) BUDGET**  
As a Percentage of Operating Revenues  
General Fund



Finding: **FAVORABLE**. Actual revenues exceeded budget by \$5.1 million for fiscal year 2004-05 and ends with a positive revenue position over budget by 11.56%. The City experienced revenues over budget in many categories,

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## Long Term Financial Plan

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***The City experienced increases in many revenue categories***

including service charges (\$1.6 million), property taxes (\$1.5 million), intergovernmental (\$893,100), license and permit revenues (\$482,480), and sales tax (\$446,200). 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 10.65% and ended FY 2004-05 at 11.56%. 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.

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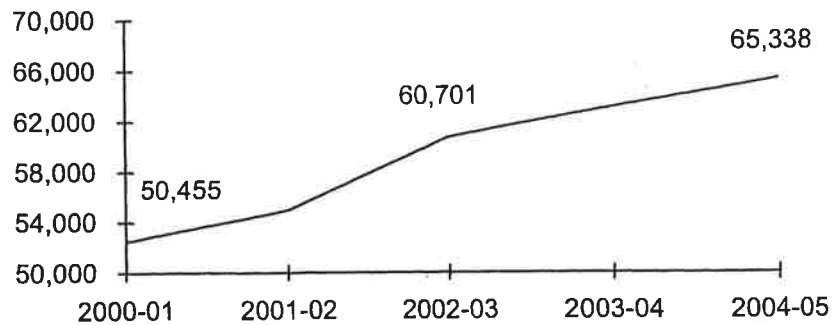
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## Financial Trend Analysis

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### Population

POPULATION  
City of San Clemente



**6.0% average growth  
over the last five years**

Finding: **FAVORABLE**. The City's population growth, an average of 6.0% over the last five years, is considered favorable because this growth has been planned and controlled. Growth from 2003-04 to 2004-05 was 3.55%, which indicates that the City's growth pattern is slowing.

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.).

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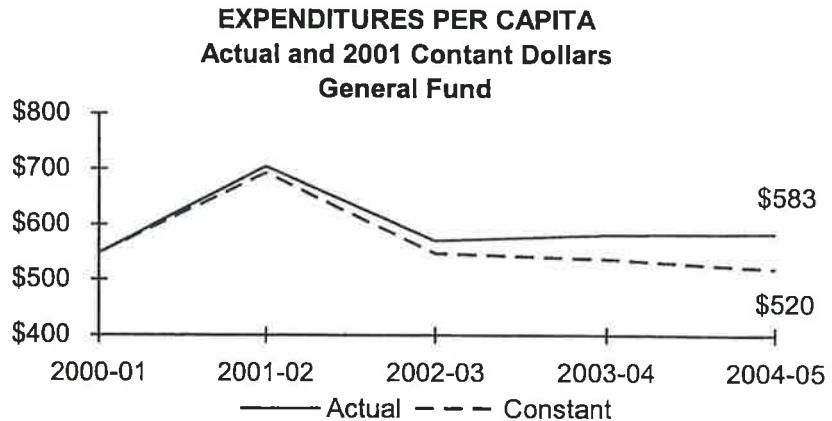
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# Long Term Financial Plan

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## 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 \$1.4 million in FY 2004-05**

Comments: In FY 2004-05, expenditures increased in actual dollars by \$1.4 million when compared with FY 2003-04, and \$88,614 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.

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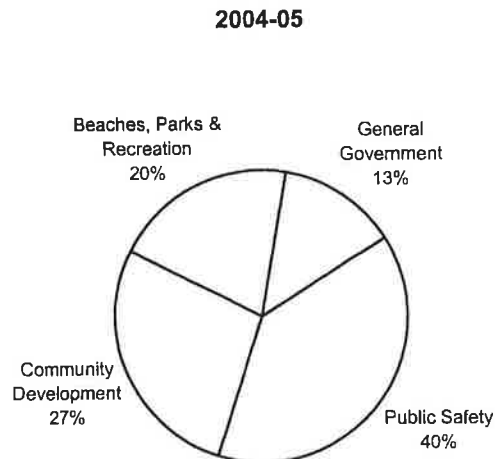
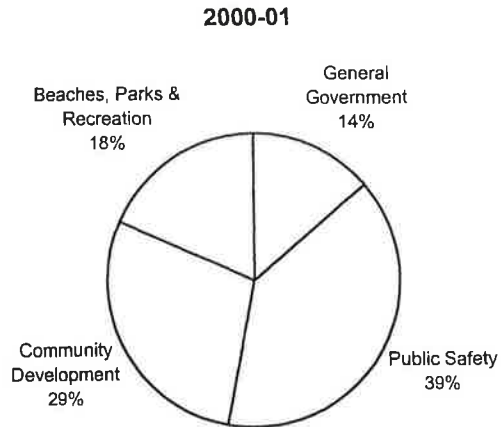


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# Financial Trend Analysis

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## Comparison of Expenditures by Function 2000-01 vs. 2004-05



### **Expenditures by function is a recently added trend**

Finding: **FAVORABLE.** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay), did not change significantly.

Comments: These charts indicate that most expenditure categories have remained stable, with a minor decrease from 29% in 2000-01 to 27% in 2004-05 for Community Development. As the development activities have slowed the community development expenses have leveled, while the other categories have continued to grow. The largest increased area was public safety where expenditures have increased \$856,300 from 2003-04, which is an increase of 6.5% from the prior year. The increase is primarily the result of outside contract increases.

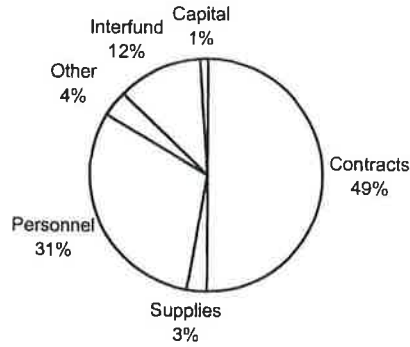
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# Long Term Financial Plan

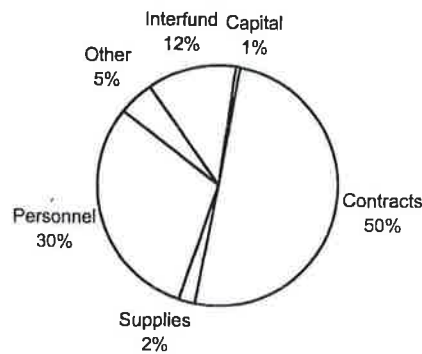
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## Comparison of Expenditures by Category 2000-01 vs. 2004-05

2000-01



2004-05



**All expenditure categories were relatively unchanged from FY 2000-01 to FY 2004-05**

Comments: The previous charts indicate that all expenditure categories, as a percentage of the total General Fund expenditures, were relatively unchanged from FY 2000-01 to FY 2004-05.

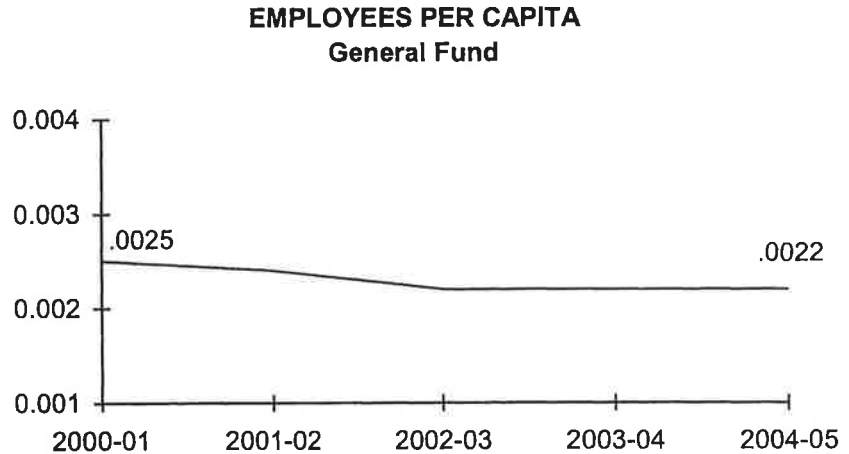
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## Financial Trend Analysis

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### 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 sixth 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.

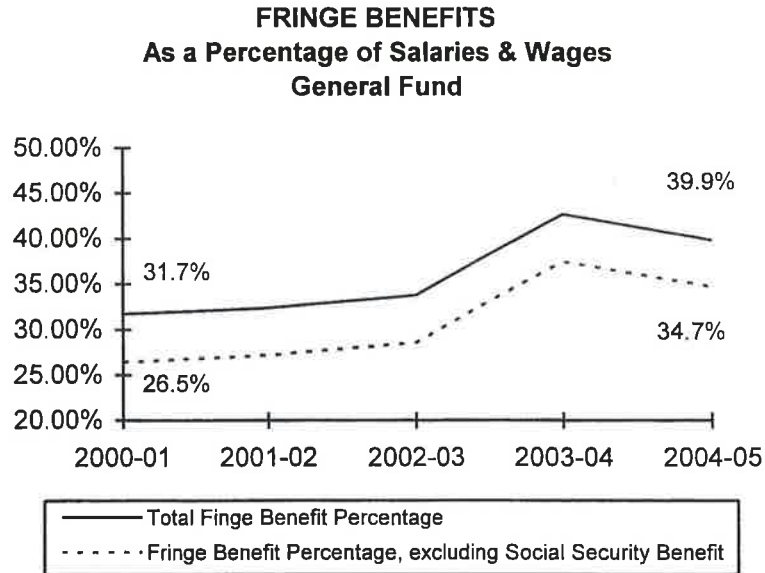
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# Long Term Financial Plan

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## Fringe Benefits



**Benefit costs have decreased as a percentage of salary from 42.7% to 39.9%**

Finding: *FAVORABLE*. Fringe benefits, as a percentage of General Fund salaries and wages, have decreased from 42.7% to 39.9%. This is the first year in which this trend has decreased toward the average fringe benefit rate of thirty-six percent experienced by the City for the previous five fiscal years.

Comments: One major component of the benefit percentage is the retirement contribution whose increase has slowed due to a rising interest rate environment. Another component resulted from the 2003-04 negotiations with the City employees that resulted in increased medical benefit costs for the City and for 2004-05 that amount has remained fixed. In addition, the workers compensation rates have decreased due to lower costs and amounts available for claims in the workers compensation fund. The City's 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.

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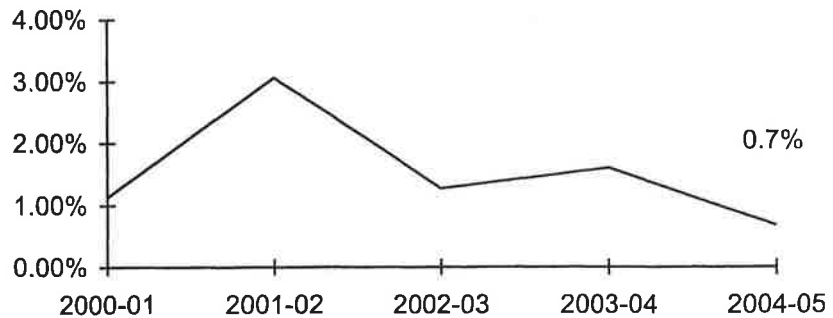
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## Financial Trend Analysis

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### Capital Outlay

**CAPITAL OUTLAY**  
As a Percentage of Operating Expenditures  
General Fund



Finding: **FAVORABLE**. Capital outlay expenditures decreased by \$327,300, or 56.0%, from the prior fiscal year. Capital outlay expenditures totaled \$257,600. A major project included \$223,500 for a new development tracking and permit system.

Comments: With the exception of FY 2001-02, spending on capital outlay has been relatively constant. While the City saw a decrease from the prior year, 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 has funded the capital equipment replacement program**

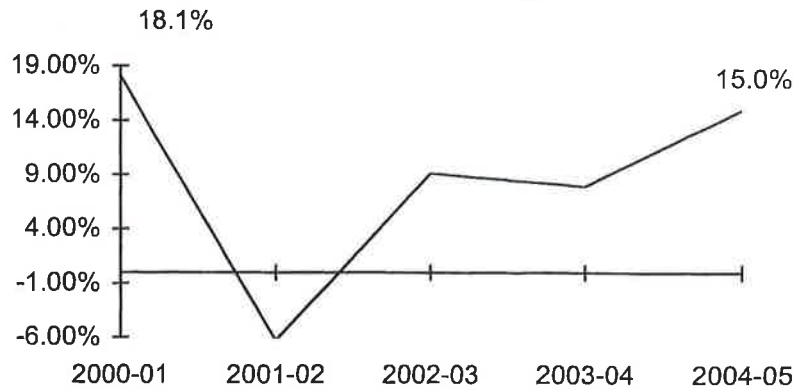
The Capital Equipment Replacement Reserve was established in FY 1994-95. This was the second year in which the reserve was fully funded and a transfer from the General Fund was not needed. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive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

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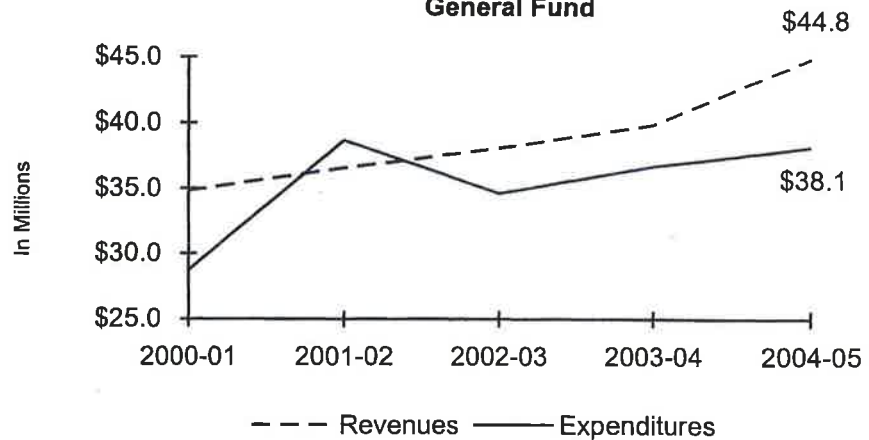
# Long Term Financial Plan

## Operating Position

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



**OPERATING POSITION  
Revenues vs Expenditures  
General Fund**



Finding: **FAVORABLE.** FY 2004-05 finished with an operating surplus of 15.0% when calculated as a percentage of General Fund revenues.

**FY 2004-05 finished with an operating surplus**

Comments: The City ended FY 2004-05 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 revenue growth. Therefore, a favorable rating has been assigned.

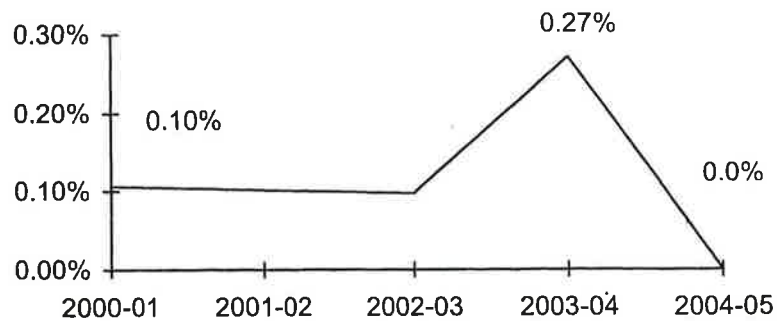
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## Financial Trend Analysis

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### Debt Service

**DEBT SERVICE**  
As a Percentage of Operating Revenues  
General Fund



### **General Fund's debt service rating is AA**

**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 decrease in debt service cost is due to the payoff of the outstanding balance of its capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings in 2003-04. 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.

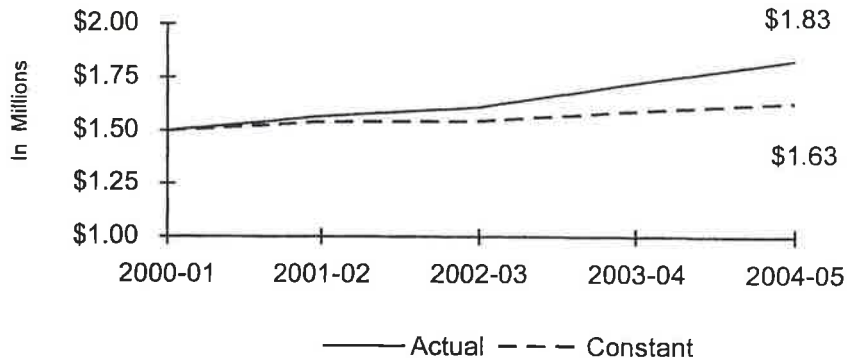
Additionally, it should be noted that the debt service for the Negocio Building bonds is in a separate fund, as well as the City's street assessment bonds, and are not part of this analysis.

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# Long Term Financial Plan

## Accumulated Compensated Absences

ACCUMULATED COMPENSATED ABSENCES  
Actual and 2001 Constant Dollars  
General Fund



**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 for the governmental funds. While the accumulated compensated absences have shown increases over the last five 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 \$1.8 million**

Comments: At June 30, 2005, the balance of the liability for compensated absences was \$1.8 million consisting of \$908,415 for vacation, \$836,670 for sick leave, and \$84,835 for compensatory time. This is an increase of \$113,150, or 6.3% from the prior year's liability of \$1.7 million. The number of City employees in the General Fund increased by 6 FTE's in FY 2004-05, 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 2004-05, the General Fund continued its annual contribution of \$145,000 for the payment of accrued leave for terminated employees. As of June 30, 2005 the Accrued Leave Reserve balance was \$300,340.



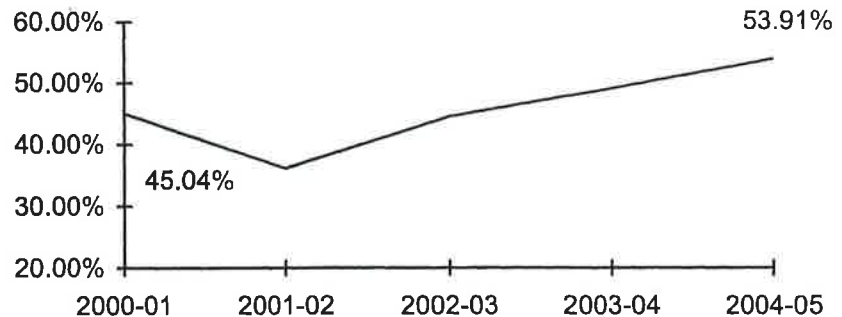
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## Financial Trend Analysis

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### Fund Balance

**UNRESERVED FUND BALANCE**  
As a Percentage of Operating Revenues  
General Fund



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

**Unreserved fund balances increased to 54% in FY 2004-05**

Comments: Unreserved fund balance, as a percentage of total revenues, rose 4.8% in FY 2004-05 as a result of an increase in unreserved fund balance of \$4.6 million. The increase in fund balance is due to an operating surplus of \$6.7 million. 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 = \$3.0 million**

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 2004-05 unreserved fund balance of \$24.2 million is undesignated funds of \$21.2 million and designated funds of \$3.0 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.

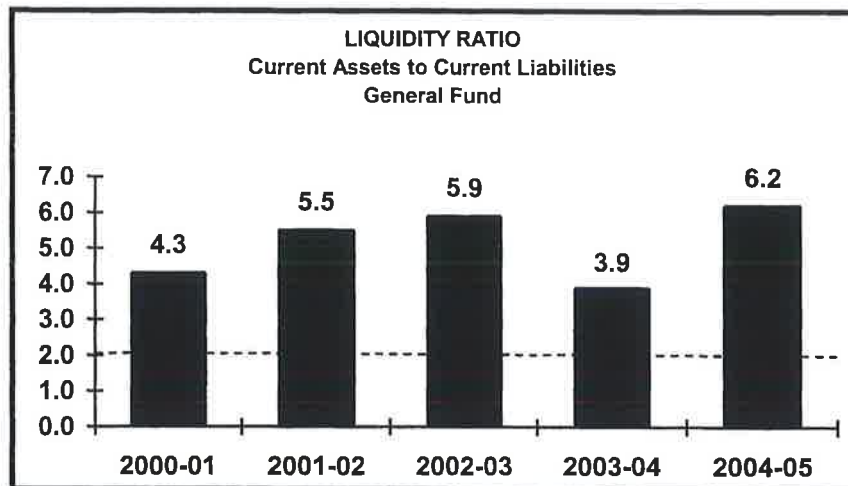
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# Long Term Financial Plan

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## Liquidity Ratio



Finding: *FAVORABLE*. In FY 2004-05, the City's liquidity ratio remains high at 6.2:1. Credit rating firms consider a ratio of 1:1 favorable. The City's 6.2:1 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.

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# Financial Forecast

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## 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.

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

### Development of the Financial Forecast

The objective of the financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision making. The forecast is updated annually 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 Marblehead parks and trails, 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 2005 Economic Forecast for Southern California and Orange County. The forecast predicts that, "the Orange County economy and the Southern California regional economies will also continue to grow, but at moderate rates."<sup>1</sup>

***Revenue growth rates will average 3.7%***

### Forecast Summary & Results

Over the five year forecast period, City's revenues are anticipated to grow by an annual average increase of 3.7% a year. Property taxes increase by \$3.4 million over the five-year period due to new residential homes, resale activity throughout the city and the return of state diverted property taxes<sup>2</sup>. Sales taxes increase by \$3.9 million over the forecast period, primarily from sales taxes generated from the Marblehead retail facility.

***Expenditure growth rates (adjusted) will average 2.9%***

Expenditures are projected to increase at an average rate of 1.4%, which is misleading due to a one-time \$3.4 million transfer in the base year of the forecast to General Liability that causes expenditures to drop by 4.0% in the first year of the forecast. When adjusted to exclude the one-time transfer, an

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<sup>1</sup> Cal State Fullerton, College of Business and Economics, Economic Forecast, October 2005.

<sup>2</sup> To balance the State of California budget for FY 2004-05, the State diverted \$350 million in property taxes from cities for two fiscal years. For San Clemente, this amounted to \$760,000 each year, for a total of \$1.52 million.

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## Long Term Financial Plan

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expenditure growth rate of 2.9% is a more realistic. The majority of this growth is due to projected increases in staffing levels, police and maintenance contractual positions and an anticipated 8% increase in the fire contract in the last year of the forecast as detailed below:

- For forecast purposes, two positions per year are included for a total of ten new positions. These positions are anticipated to maintain the current level of services.
- Anticipated increases to the police services contract includes one position per year added to the forecast for a total of five new positions. This increase is to *maintain current service levels* for the expanding population. This does not include an expanded level of police services or new police programs. Over the forecast period, the police services budget is anticipated to increase \$2.4 million or 25% from the current budget.
- Costs for park and beach maintenance also increase due to construction and acceptance of one park in Talega currently under construction, two parks and trails 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 \$361,300 over the forecast period for these facilities.
- Fire services costs are also anticipated to rise during the forecast period. The contract costs are capped at 4% for the first four years of the forecast period<sup>3</sup> with the exception of one of the overtime fourth firefighter positions on Engine 60. In FY 2006-07, the final position will be converted from overtime to a full-time position and future costs will be under the contract cap. The contract is not contractually capped for FY 2010-11 and beyond. For forecast purposes, an 8% increase is included for FY 2010-11, although there is no indication what, if any, increases will be negotiated. In total, fire services costs increase by 21% during the forecast period.
- The forecast currently predicts a negative operating position in the first year of the forecast.

### **Historical and projected revenues and expenditures**

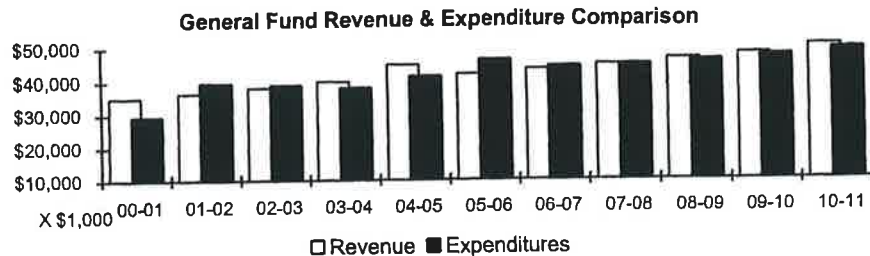
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<sup>3</sup> San Clemente and OCFA have a "cash contract" agreement. The City pays quarterly for the cost of fire and paramedic services, along with appropriate overhead, based upon the basic service costs. There are seven cities (Buena Park, Placentia, 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.

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# Financial Forecast

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



Beginning in FY 2008-09, one-time revenue from development activity will begin to decline as the City reaches build-out. Revenue from licenses and permits, mostly from building permits, declines by \$700,000. Building plan check fee changes are anticipated to decline in FY 2008-09 by \$600,000. Service charges, primarily from construction inspection fees, will decline by \$157,000 in FY 2007-08. Offsetting these loses, property and sales taxes from the Marblehead development project are anticipated beginning in FY 2008-09.

## Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a negative operating position in the first year of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements and excluding one-time revenue and expenditures) are shown in the following table.

### 2006 Forecast Summary (LTFP)\*

Amounts in \$1,000

#### 2006 LTFP forecast - operating position

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating receipts	\$42,801	\$44,885	\$46,558	\$47,978	\$50,342
Operating disbursements	43,234	44,683	45,760	47,124	49,109
Projected surplus/deficit	-\$433	\$202	\$798	\$854	\$1,233

\*One-time revenues and expenditures have been excluded. One-time revenues include construction inspection fees from the Marblehead development. One-time expenditures include transfers to other funds, capital outlay and special projects.

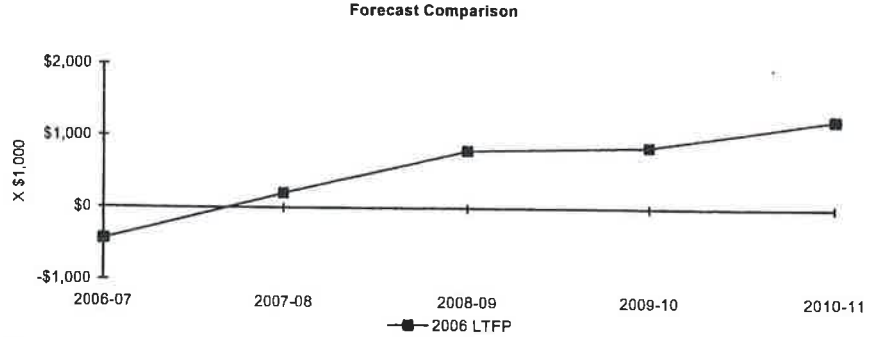
The General Fund operating position is negative in the first year of the forecast primarily due to the following:

- Elimination of \$425,000 transfer from the Golf Course Operating Fund to the General Fund.
- One Police position added for \$192,000 and two City positions added for \$172,000.
- Annual 4% increase to the fire contract amounts to \$290,000.

# Long Term Financial Plan

## General Fund Operational Position 2006 LTFP Forecast

The following chart shows the City's General Fund operational position for the 2006 LTFP forecast as projected.



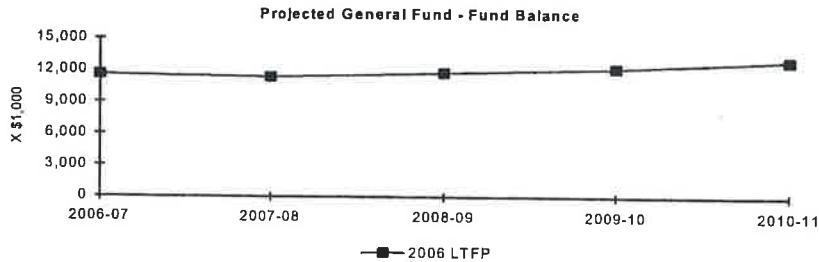
**The forecast predicts a negative operating position in the first year of the forecast**

The negative operating position for the first year of the forecast is due to anticipated increases in contractual services, staffing increases and the elimination of a \$425,000 transfer previously received from the Golf Operating Fund. Revenue from the Marblehead retail development site is not anticipated until FY 2008-09 but will immediately improve the operating position based on projected completion dates of the commercial center.

**The City's projected undesignated fund balance in the General Fund averages \$12.0 million over the forecast period**

## Fund Balance

The chart below illustrates projected undesignated fund balances in the General Fund for the 2006 Long Term Financial Plan forecast.



Undesignated fund balances average \$12.0 million over the forecast period. Projected fund balances *do not* include full funding of capital projects currently identified in the City's five-year Capital Improvement Program. For forecast purposes, \$322,000 per year is included. This is because the funding of capital projects is determined annually during the budget process.

# Financial Forecast

## General Fund – Undesignated Fund Balance and Emergency Reserve

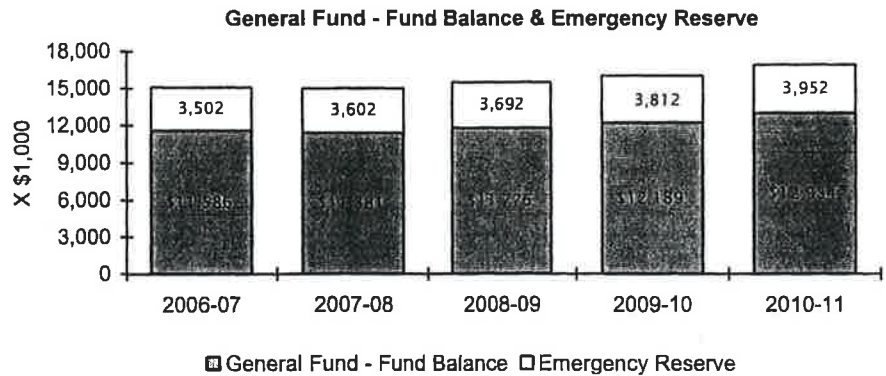
**Fund balance is projected to be positive in all five years of the forecast**

## General Fund – Undesignated Fund Balance<sup>4</sup> and Emergency Reserve<sup>5</sup>

One of the main financial 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 undesignated fund balance over the five year forecast period will be positive. Designated emergency reserve levels have been maintained at the required 8% level.

### General Fund - Fund Balance & Emergency Reserve

Amounts in \$1,000	2006-07	2007-08	2008-09	2009-10	2010-11
Fund Balance	\$11,586	\$11,381	\$11,776	\$12,189	\$12,954
Emergency Reserves (8%)	\$3,502	\$3,602	\$3,692	\$3,812	\$3,952



<sup>4</sup> Undesignated Fund Balance – Fund Balance is the excess of assets and resources over the amount of liabilities. The undesignated fund balance is the portion that is available and can be appropriated by the City Council. Undesignated fund balances average \$12.0 million over the forecast period.

<sup>5</sup> Emergency Reserve – Designated fund balance set aside by the City’s fiscal policy. 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. Council approval is required before expending General Fund Emergency or Contingency Reserves.

# Long Term Financial Plan

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

**Cash inflows  
and outflows  
by year**

## General Fund - Cash Inflows and Outflows By Year

	Amount in 1,000's				
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Beginning Fund Balance</b>	12,720	11,586	11,381	11,776	12,189
<b>Receipts</b>					
Taxes	29,424	30,807	33,847	35,478	37,526
Licenses & Permits	3,135	3,144	2,435	1,939	1,975
Intergovernmental	750	769	790	812	829
Service Charges	4,249	4,189	3,477	3,556	3,642
Fines & Forfeitures	1,022	1,058	1,095	1,137	1,172
Interest & Rents	1,518	1,652	1,709	1,768	1,830
Interfund Transfers	3,326	3,266	3,207	3,287	3,368
<b>Total GF Receipts</b>	<b>43,424</b>	<b>44,885</b>	<b>46,558</b>	<b>47,978</b>	<b>50,342</b>
<b>Disbursements</b>					
City Council	56	56	57	58	59
City Manager	551	563	576	589	603
City General	4,383	3,575	3,652	3,734	3,820
Finance & Admin. Services	507	519	531	543	555
City Clerk	782	736	818	773	855
Finance	1,242	1,271	1,300	1,331	1,362
Human Resources	452	462	473	484	496
Police Services	10,019	10,505	11,006	11,523	12,057
Fire Services	5,961	6,192	6,432	6,682	7,215
Comm Dev. Admin.	288	294	301	308	315
Building	2,114	2,163	1,955	1,826	1,867
Planning	1,423	1,456	1,490	1,524	1,559
Code Enforcement	574	588	602	616	630
PWAdmin/Economic Dev.	594	608	623	638	653
Engineering	3,933	4,022	3,818	3,907	3,997
PW Maintenance Services	2,919	2,988	3,059	3,132	3,207
B, P & R Admin.	487	498	509	521	532
Recreation	2,457	2,515	2,575	2,637	2,699
Beach & Park Maintenance	3,762	3,855	3,950	4,047	4,147
Marine Safety	1,431	1,464	1,498	1,533	1,569
New Employees & Neg. Inc.	172	352	534	720	910
One-time Expenditures	300	307	314	321	328
<b>Total GF Disbursements</b>	<b>44,408</b>	<b>44,990</b>	<b>46,074</b>	<b>47,445</b>	<b>49,437</b>
<b>Emergency Reserve</b>	150	100	90	120	140
<b>Reservation of FB</b>	0	0	0	0	0
<b>Ending Fund Balance</b>	<b>11,586</b>	<b>11,381</b>	<b>11,776</b>	<b>12,189</b>	<b>12,954</b>

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

Disbursements by Category	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries & wages	9,748	10,087	10,273	10,464	10,818
Employee benefits	3,961	4,104	4,250	4,383	4,535
Supplies	859	881	903	925	949
Contractual services	22,482	23,298	23,873	24,738	26,036
Other charges	1,131	1,160	1,189	1,218	1,249
Capital outlay	299	305	312	319	326
Interdepartmental charges	3,369	3,450	3,537	3,625	3,716
Interfund transfers	2,698	1,843	1,877	1,914	1,955
<b>Total</b>	<b>44,408</b>	<b>44,990</b>	<b>46,074</b>	<b>47,445</b>	<b>49,437</b>



## Financial Forecast - Assumptions

**Economic and demographic assumptions affect projections**

**The Fullerton forecast indicates a growing concern for the overall economy**

### 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 2005. Additionally, data is provided by various City of San Clemente departments.

The Fullerton forecast “indicates growing concern for the overall economy but business executives are not ready to cutback on their plans”<sup>6</sup>. The County employment growth forecast reflects a 1.2% growth rate in 2005 and 1.5% percent growth expected in 2006, with the majority of the jobs in the service providing industries. Personal income growth is forecasted to average 5.6%, compared to 5.3% in the prior year. Taxable sales are anticipated to grow at an annual average rate of 6.1%. Housing appreciation for resale homes is predicted to increase an average of 2.0%.

Population projections provided by the City’s Planning and Building divisions are based upon a reasonable rate of absorption for the number of housing units approved through the development review process. It is presumed, for forecasting purposes, that 2.6 persons will occupy each housing unit, which is the average household size in San Clemente.

A summary of the parameters utilized in the 2006 Financial Forecast to project the various revenue and expenditure categories are delineated below:

**Summary of forecast parameters**

Par #	Description	2006-07	2007-08	2008-09	2009-10	2010-11	Average
1	Inflation	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
2	Population	3.8%	2.4%	2.3%	2.7%	1.8%	2.6%
3	Assessed Valuation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
4	Personal Income	6.0%	5.4%	5.6%	5.6%	5.6%	5.6%
5	Taxable Sales	6.4%	6.0%	6.0%	6.0%	6.0%	6.1%
6	Property Taxes	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
7	Trans. Occup. Tax	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
8	Franchise Taxes	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
9	Prop. Transfer Tax	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
10	Construction Permits	3.8%	2.4%	2.3%	2.7%	1.8%	2.6%
11	State Subventions	5.4%	3.6%	3.6%	4.0%	3.1%	3.9%
12	Service Charges	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
13	Interest Earnings	4.9%	5.2%	5.1%	5.1%	5.1%	5.1%
14	Pier & Beach Concessions	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
15	Interfund Charges	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
16	Salaries & Wages	2.9%	2.3%	2.3%	2.3%	2.3%	2.4%
17	Employee Benefits	2.9%	2.3%	2.3%	2.3%	2.3%	2.4%
18	Supplies	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
19	Services/Other Charges	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%
20	Capital Outlay	3.2%	2.5%	2.5%	2.5%	2.5%	2.6%

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

<sup>6</sup> Cal State Fullerton 2006 Economic Forecast Report

# Long Term Financial Plan

**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 2.6% 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 2.6% over the forecast period.

2006-07	2007-08	2008-09	2009-10	2010-11
69,991	71,673	73,321	75,313	76,698
3.8%	2.4%	2.3%	2.7%	1.8%

**Assessed Valuation is projected to grow by an average of 2.0%**

- *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 2.0%.

**Personal Income is projected to increase an average of 5.6%**

- *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 5.6% per year.

**Taxable Sales in Orange County are projected at 6.4%**

- *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 2006-07 are projected at 6.4% and 6.1% forecasted over the five-year period. The forecast includes anticipated sales tax increases resulting from the retail development on Marblehead.

## Financial Forecast Assumptions

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

**Forecast assumptions include 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 2006-07.
- The \$425,000 transfer from the Golf Operating Fund to the General Fund has been removed beginning in FY 2006-07 at City Council direction.
- 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 at a cost of \$192,000 per year. In total, five new

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## Financial Forecast

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contract positions or \$960,000 is added during the forecast period. This is consistent with previous forecasts which included one new contract position per year.

- 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 2009-10. It is unknown what the potential increase will be, but for forecast purposes, an 8% increase has been assumed for FY 2010-11.
- Contract staffing levels and contractual agreements for development related activities are reduced beginning in FY 2008-09, 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.
- Property tax revenue that was diverted by the State in FY 2004-05 and FY 2005-06 to balance the deficit State budget will return to the City in FY 2006-07. This amounts to a one-time increase of \$760,000 in the City's property tax base.
- A total of \$1.6 million in one-time expenditures have been excluded from the forecast in the base year (FY 2005-06). For example, the City's budget includes \$150,000 for a General Plan update, \$200,000 for the U.S. Army Corp. Shoreline Feasibility Study and \$50,000 for a study on the Marine Safety building have been excluded.
- In the base year, one-time transfers amount to \$3.6 million and include a \$3.4 million transfer to General Liability for a subsidence claim settlement and a \$165,000 transfer to the Accrued Leave Reserve.
- The lease term for the tenants on the second and third floors of the Negocio building expires June 30, 2006. The forecast assumes that new tenants will occupy the building by January 2007. In order to fund debt service, maintenance, broker commissions and tenant improvements during the six months that the floors will not be producing income, a one-time transfer of \$874,000 from the General Fund to the Negocio Debt Service Fund is included in FY 2006-07.
- Capital Outlay amounts to \$276,500 in FY 2005-06 of the forecast for one-time capital improvements and capital equipment. These funds have

# Long Term Financial Plan

been earmarked for a new utility vehicle, surplus parking at Bonito Canyon Park, traffic signal optics at various locations throughout the City and trash enclosure covers in some parks. Approximately \$322,000, which is the average amount spent over the last five years, is included in each year of the forecast thereafter.

- Maintenance costs for the Marblehead parks and the Senior Center are included in the forecast based upon operating costs provided by Beaches & Park Maintenance staff. Since these parks are required developer contributions, these parks have to be maintained by the City once completed. In total, park maintenance costs are estimated to increase by \$361,300 over the forecast period for these facilities.

	2006-07	2007-08	2008-09	2009-10	2010-11
Council Contingency	435,910	450,410	461,260	475,010	492,250
Emergency Reserve	150,000	100,000	90,000	120,000	140,000
<b>Total</b>	<b>\$585,910</b>	<b>\$450,410</b>	<b>\$551,260</b>	<b>\$595,010</b>	<b>\$632,250</b>

- 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 is fully funded 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

	2006-07	2007-08	2008-09	2009-10	2010-11
Street Program	\$633,380	\$652,380	\$671,950	\$692,110	\$712,870
Animal Shelter Land <sup>7</sup>	32,000	21,380	0	0	0
Utility Lifeline Rates <sup>8</sup>	36,600	37,700	38,830	39,990	41,190
Solid Waste Fund <sup>9</sup>	55,980	57,940	59,970	62,070	64,240
PERS Unfunded	654,120	654,120	654,120	654,120	654,120
<b>Total</b>	<b>\$1,412,080</b>	<b>\$1,423,520</b>	<b>\$1,424,870</b>	<b>\$1,448,2900</b>	<b>\$1,472,420</b>

- The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is \$5.9 million and requires annual contributions to eliminate the liability.<sup>10</sup>

<sup>7</sup> Principal and interest payments on land purchased for the animal shelter. This is a ten year interfund loan from the Public Facilities Construction Fund.

<sup>8</sup> Proposition 218 prohibited the use of Enterprise Funds for public benefit. Consequently, a General Fund transfer to the Water and Sewer Funds subsidizes fixed fees to low income households.

<sup>9</sup> Ten percent of the solid waste franchise fee is transferred to the Solid Waste Fund annually for household conservation efforts.

**Forecast pertains to the  
General Fund only**

**No new or enhanced  
programs are included**

## Factors Not Included In The Forecast

- This forecast is based on the General Fund only. Five year forecasts have been prepared for the Water, Sewer, Golf, Storm Drain, Solid Waste and Clean Ocean operating funds and are presented later in this paper.
- 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. If these future costs are not financially sustainable, decisions must be made to change service delivery or identify revenue opportunities. The five-year financial forecast, in contrast, provides a more balanced picture of the City's future financial condition. For example, it includes projections for two new employees and one new contractual police position per year to maintain the current levels of services as dictated by forecasted population growth in the City .
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan issue papers.

**Revenues are  
projected to increase  
an average of 3.7%**

## General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.7%, compared to a historical five year growth rate of 8.7%. The historical grow rate includes substantial increases in one-time revenue from development activity and increases in operating revenue from property taxes and sales taxes.

**Property Tax revenue  
is projected to  
increase an average  
of 5.5%**

- Property Tax revenue is projected to increase an average of 5.5% per year compared to an 18.6% average historical increase over the past five years.
- Sales taxes are anticipated to increase 10.6% over the forecast period largely due to the inclusion of the Marblehead Coastal retail development.
- Transient occupancy taxes are projected to increase by 9.7% due to the development of a 79,000 s.f. hotel that is scheduled to be built on the Marblehead property by FY 2008-09.

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<sup>10</sup> The City is still required to pay for the unfunded pension benefits that accrued while police and fire personnel were employed by the City. CalPERS currently requires an annual contribution of \$654,120 over a fifteen year period to fully fund the liability.

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# Long Term Financial Plan

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

- Construction permit revenue is projected to decrease from a historical average of 1.5% to an average of -18.0% for the forecast period, as revenues are reduced in the last three years to reflect decreased development activity.
- Service Charges are projected to decline an average -4.8% in the forecast period, compared to an 8.0% 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 2000-01 to FY 2004-05
- **2006 Projected Growth Rate:** Average annual rate of growth projected for the current five-year forecast.

### General Fund Growth Rate

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Historic Growth Rate	8.7%
2006 Projected Growth Rate	3.7%

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During the past five years, the General Fund revenue growth rate was 8.7% primarily due to steady increases in property values, sales taxes and development related fees and charges. The 2006 forecast rate of 3.7% anticipates that property taxes, sales taxes and TOT increase due to completion of development in Talega and Marblehead, while permit fees and service charges will begin to decline starting in FY 2008-09.

### Property Tax

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Historic Growth Rate	18.6%
2006 Projected Growth Rate	5.5%

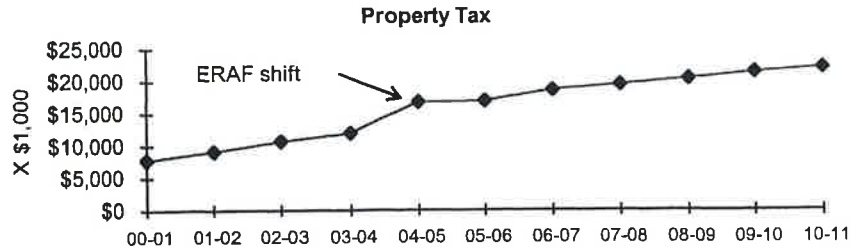
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Property Tax has been the most relied upon local government revenue source for decades. It continues to be the City's single largest revenue source and represents 41% of total General Fund budgeted revenue. As a result of rising home valuation, lower mortgage rates and new residential housing built during the last few years, property taxes have increased dramatically to a historical average of 18.6%. 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, beginning in FY 2004-05 and increased annually. Beginning in FY 2006-07, \$760,000 in property taxes previously diverted to the State will be added to the property tax base for a 4.5% increase from the base year. In addition, 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.

**Property Tax revenues will increase by an average of 5.5%**

# Financial Forecast

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.

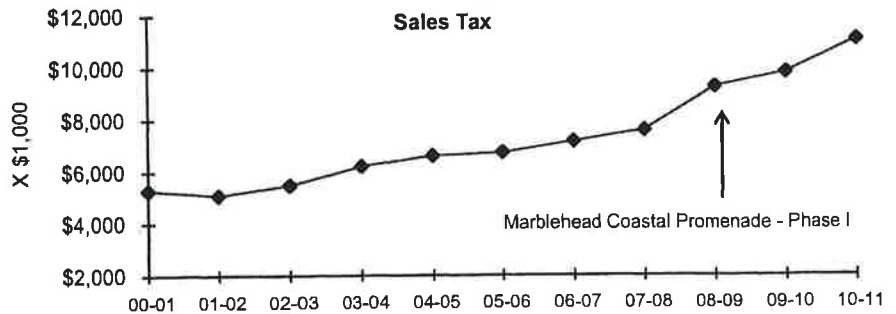


## Sales Tax

Historic Growth Rate	8.0%
2006 Projected Growth Rate	10.6%

**Sales tax revenue is anticipated to grow an average of 10.6% in the forecast**

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 10.6% 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 2008-09 for phase I and \$649,500 for phase II in FY 2010-11. The project is expected to generate a total of \$2.2 million in annual sales taxes.



**TOT is projected to increase an average of 9.7%**

## Transient Occupancy Tax

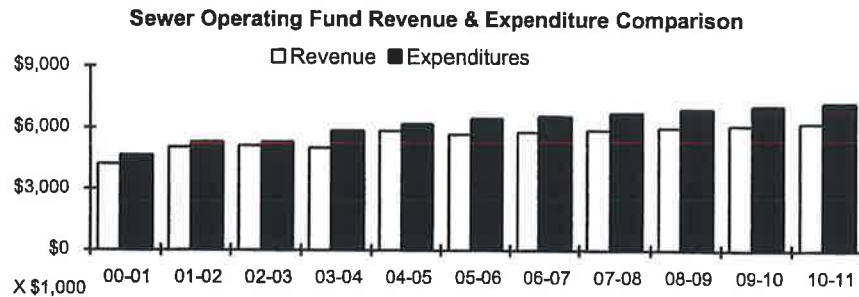
Historic Growth Rate	3.4%
2006 Projected Growth Rate	9.7%

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 9.7% per year and is based on the addition of a new 79,000 s.f. hotel that will be built on the Marblehead property by FY 2008-09.

# Long Term Financial Plan

## 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. No rate increases have been included during the forecast period. Expenditures have been increased by inflation. Additional contributions to the Sewer Depreciation Reserve or funding for on-going maintenance projects, identified in the Enterprise Depreciation Reserve Analysis paper have not been incorporated in this forecast.



**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 four years of the forecast period. Expenditures do not include any recommendations of the Enterprise Depreciation Reserve Analysis paper, which includes an increase of \$75,000 annually to the Sewer Operating Fund for routine maintenance projects.

A formal review of the rate structure will be conducted in January 2006 to determine what the proposed rate would be to balance the operating position and fund on-going maintenance projects. Once determined, the proposed rates will be presented during the budget process.

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	2006-07	2007-08	2008-09	2009-10	2010-11
Emergency Reserves (8%)	\$518	\$530	\$544	\$559	\$569

This reserve has been designated to provide for unanticipated or emergency Sewer Fund expenditures that could not be reasonably foreseen during the preparation of the budget.



# Financial Forecast

## 2006 FINANCIAL FORECAST

### Sewer Operating Realistic Cash Flow from 2005-06 Adjusted Budget

(Amounts in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Beginning Net Working Capital Balance</b>	1,698	854	-9	-925	-1,894
<b>Receipts</b>					
Service Charges	5,705	5,807	5,912	6,018	6,127
Miscellaneous Charges	83	87	91	96	101
Interfund Transfers	0	0	0	0	0
<b>Total Receipts</b>	<b>5,788</b>	<b>5,894</b>	<b>6,003</b>	<b>6,114</b>	<b>6,227</b>
<b>Disbursements</b>					
Sewer Administration	3,152	3,221	3,292	3,365	3,440
Treatment	1,692	1,735	1,778	1,823	1,868
Collection	1,746	1,790	1,834	1,880	1,927
New Employees	0	0	0	0	0
<b>Total Disbursements</b>	<b>6,590</b>	<b>6,746</b>	<b>6,905</b>	<b>7,068</b>	<b>7,235</b>
<b>Emergency Reserve</b>	42	12	14	15	10
<b>Ending Net Working Capital Balance</b>	854	-9	-925	-1,894	-2,912

### **Golf Operating Fund**

The Golf Operating Fund receives revenue primarily from green fees. The forecast utilizes the present fee structure 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.

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

Expenditures presume the present level of services for golf course maintenance and have been increased based upon inflation. Golf starter personnel transitioned to the pro shop concessionaire beginning in December 2005. Contractual expenditures for advertising, printing of tee cards and promotional items and interdepartmental charges for phones and overhead charges will remain in the Golf Operating Fund budget. The \$425,000 transfer to the General Fund has been eliminated beginning in FY 2006-07. Operating expenditures do not include any potential transfers to the Capital Equipment Reserve for major course improvements during the five-year forecast period.

**The \$425,000 transfer to the General Fun has been eliminated beginning in FY 2006-07**

**The Golf Course costs associated with the construction of the clubhouse are included**

The forecast does include Golf Operating Fund costs associated with the construction of the clubhouse. During construction, revenue from the current restaurant concessionaire is eliminated beginning in FY 2006-07. A half year of revenue from the new concessionaire has been included in the

# Long Term Financial Plan

forecast beginning in FY 2007-08 and revenue is fully realized in FY 2008-09. Building depreciation costs are included beginning in FY 2007-08. In addition, debt service payments to repay the General Fund loan and finance the clubhouse construction is included beginning in FY 2006-07.

## 2006 FINANCIAL FORECAST

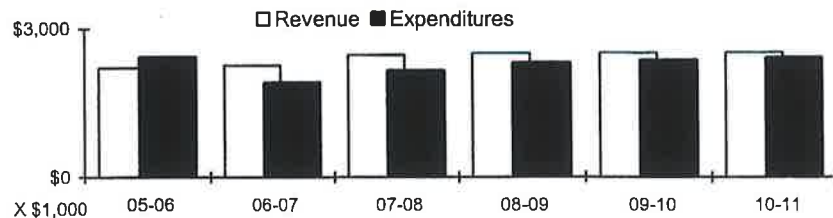
### Golf Fund Realistic Cash Flow from 2005-06 Adjusted Budget

(Amounts in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Beginning Net Working Capital Balance</b>	-195	152	467	661	811
<b>Receipts</b>					
Service Charges	2,110	2,280	2,280	2,280	2,280
Interest & Rents	144	184	224	230	235
Miscellaneous Income	5	5	5	6	6
<b>Total Receipts</b>	<b>2,259</b>	<b>2,469</b>	<b>2,509</b>	<b>2,515</b>	<b>2,521</b>
<b>Disbursements</b>					
GC Maintenance	1,869	2,109	2,266	2,315	2,365
Starter Operations	44	45	46	47	48
Depreciation	0	0	0	0	0
<b>Total Disbursements</b>	<b>1,913</b>	<b>2,154</b>	<b>2,312</b>	<b>2,362</b>	<b>2,414</b>
<b>Emergency Reserve</b>	0	0	3	3	3
<b>Ending Net Working Capital Balance</b>	152	467	661	811	916

The Golf Operating Fund maintains a positive operating position in all five years of the forecast due to the elimination of the \$425,000 transfer to the General Fund. However, the Golf Operating Fund is anticipated to end the 2005-06 fiscal year with a negative \$195,000 net working capital balance. The City's fiscal policy does not allow funds to go negative at year-end. To maintain a positive operating balance in the Golf Fund, the General Fund may provide another loan to the Golf Fund. A recommendation to loan \$200,000 in the current fiscal year will be included as a mid-year adjustment.

### Golf Operating Fund Revenue & Expenditure Comparison



## Financial Forecast

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	2006-07	2007-08	2008-09	2009-10	2010-11
Emergency Reserves (8%)	\$168	\$168	\$171	\$174	\$177

This reserve has been designated to provide for unanticipated or emergency Golf Fund expenditures that could not be reasonably foreseen during the preparation of the budget.

### 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

#### 2006 FINANCIAL FORECAST

#### Storm Drain Fund Realistic Cash Flow from 2005-06 Adjusted Budget

(Amounts in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Beginning Net Working Capital Balance</b>	660	902	1,153	1,411	1,682
<b>Receipts</b>					
Service Charges	1,143	1,171	1,198	1,230	1,252
Interest & Rents	14	15	16	17	18
Miscellaneous Income	0	0	0	0	0
<b>Total Receipts</b>	1,158	1,186	1,214	1,247	1,270
<b>Disbursements</b>					
Storm Drain Administration	833	850	867	885	903
Storm Drain Maintenance	83	85	87	89	91
Trans. to Capital Improvement	0	0	0	0	0
<b>Total Disbursements</b>	916	935	954	974	994
<b>Emergency Reserve</b>	0	0	1	2	1
<b>Ending Net Working Capital Balance</b>	902	1,153	1,411	1,682	1,957

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## **Long Term Financial Plan**

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# Reserve Analysis

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## 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, (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

## 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 Fund, the primary governmental fund of the City, maintains an emergency reserve to protect essential service programs during periods of economic downturn, a Council Contingency reserve and a reserve for an Employee Computer Purchase Program. 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. The Water, Sewer, Storm Drain, Solid Waste and Golf Funds are classified as Enterprise Funds. Each of these funds maintains an emergency reserve similar to the General Fund, to protect essential service programs during

# Long Term Financial Plan

## 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.

	<b>Contribution</b>	<b>Cumulative Total</b>	<b>Percentage</b>
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% <sup>1</sup>
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% <sup>2</sup>
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	7.27%
FY 2005-06	\$340,000	\$3,351,640	8.01%

<sup>1</sup> Fiscal Policy established reserve at 5% in FY 1996-97

<sup>2</sup> Fiscal Policy established reserve at 8% in FY 2001-02

*Recommendation:* Budget sufficient funds for FY 2006-07 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 \$150,000.

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## Reserve Analysis

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*Fiscal Impact of Recommendation:* 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 \$600,000. 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. 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 five and ten year periods and the year-to-date expenditures for FY 2005-06:

Ave. expenditures –10 years	\$265,000
FY 2005-06 (through 12/31/05)	\$30,350 <sup>1</sup>
Ave. expenditures – 5 years	\$284,000

<sup>1</sup> \$29,350 for Civic Center Feasibility analysis, \$1,000 for Police Services overtime for Marine Monument Dedication.

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". General Fund operating expenditures have increased dramatically over the past ten years and will continue to increase, as indicated in the Financial Forecast. Average expenditures made from the Council Contingency Reserve equal \$265,000 over the past ten years, and \$284,000 over the past five years.

Staff conducted a survey through the California Society of Municipal Finance Officers (CSMFO) to determine if other agencies provide a Council Contingency Reserve, and if so, the size of that reserve. Fifteen agencies responded, with reserve levels established between \$30,000 and \$250,000 per year. Thirteen of the fifteen agencies surveyed had Council Contingency Reserves below \$50,000. The majority of agencies provided a flat sum per Councilmember, typically \$5,000 to \$10,000 each. Based on the information gathered, it is recommended that the City's Fiscal Policy be amended to reduce the Council Contingency from 1% of General Fund operating expenditures to ½% of General Fund operating expenditures.

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## Long Term Financial Plan

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*Recommendation:* Revise the City's Fiscal Policy for the Council Contingency Reserve. "The level of the Council Contingency Reserve will be established as needed, but will not be less than ½% of General Fund operating expenditures annually." Staff recommends that \$218,000 be set aside in fiscal year 2006-07 to fund the Council Contingency Reserve.

*Fiscal Impact of Recommendation:* General Fund expenditures for the Council Contingency Reserve for the five-year forecast period will total \$1,160,000.

### **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, interest-free 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.

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:

<u>Fiscal Year</u>	<u>Ave. Employees Participating</u>	<u>Ave. Amount Loaned</u>
FY 00-01 to FY 04-05	15	\$32,400

To date, there has been adequate funding to support the Employee Computer Purchase Program. The reserve balance as of June 30, 2006 is estimated to be \$30,600. This balance plus loan repayments during the year is expected to be more than adequate to cover new loan approvals for FY 2006-07.

*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 2005-06.

### **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.



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## Reserve Analysis

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*Assessment of the current situation/conclusions:* During fiscal year 2004-05, the City, with the assistance of the risk-management consulting firm Armtech, solicited bids for its General Liability insurance coverage. In accordance with Council actions, the City terminated its membership with the California Insurance Pool Authority (CIPA) and executed an agreement with the California Joint Powers Insurance Authority (CJPIA) for General Liability insurance effective July 1, 2005. Under the new agreement, the City obtained land subsidence coverage, lowered the SIR from \$100,000 to \$50,000 per incident and increased the total liability coverage per incident from \$42 million to \$50 million.

The City's SIR is currently \$50,000, which requires a reserve in this fund of \$150,000, or three times the SIR. The projected year-end fund balance in the General Liability Self-Insurance Fund for FY 2005-06 is \$360,000. This balance is in addition to the \$430,000 reserve established for uncovered claims losses.

The General Liability Self-Insurance Fund balance decreased dramatically from the previous year as a result of the settlement of the Callan vs. San Clemente subsidence claim. Under terms of the settlement, the City will contribute \$6.4 million of the \$9.7 million settlement. The Plaintiffs receive \$1.5 million, attorney fees total \$1.4 million, \$6.1 million will be used to repair slopes and \$0.6 million will be used to repair storm drains. The City will manage the storm drain repair project and will be entitled to certain proceeds from the sale of 24 lots created through the remediation of the slope. The projected year-end fund balance assumes the full payout of the settlement amount.

There are several types of occurrences that are excluded from the liability insurance coverage purchased through the California Joint Powers Insurance Authority (CJPIA). These uncovered losses include: 1) breach of contract, 2) inverse condemnation, 3) eminent domain, 4) earth movement, 5) employment-related issues, 6) release of toxic material, 7) punitive damages, 8) earthquakes, and 9) a \$100,000 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 \$1.2 million, or a five-year average of \$240,000. This is a decrease of \$53,000 from the prior year average of \$293,000. This, with the reduction of \$150,000 from the self-insurance retention (SIR), would decrease the total reserve for claims losses from \$593,000 to \$390,000.

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 2006-07:

## Long Term Financial Plan

	% of Past Claims (25%)	% of Budgeted Expenditure s (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2006-07	Total Charge for General Liability FY 2005-06
General Fund	79.0%	61.1%	65.4%	\$ 983,625	\$ 753,449
Water Fund	4.4%	16.5%	13.5%	202,125	137,781
Sewer Fund	1.7%	8.5%	6.8%	102,000	87,027
Solid Waste Fund	0.0%	0.3%	0.2%	3,375	3,306
Storm Drain Fund	12.6%	1.2%	4.1%	60,750	55,179
Golf Course Fund	2.3%	3.1%	2.9%	43,500	67,181
Clean Ocean Fund	0.0%	3.2%	2.4%	36,000	26,703
Information Services Fund	0.0%	1.4%	1.1%	15,750	12,163
Central Services Fund	0.0%	0.6%	0.5%	6,750	5,935
Fleet Maintenance Fund	0.0%	1.2%	0.9%	13,500	9,686
Redevelopment Agency	0.0%	2.9%	2.2%	32,625	16,450
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$1,500,000</b>	<b>\$1,174,860</b>

The total charge for General Liability will increase by \$325,000 from FY 2005-06 to FY 2006-07. The increase is largely a result of the addition of land subsidence coverage. The increase in annual premiums should be offset by savings from defense and settlement of land subsidence claims in future years.

The General Fund's total percentage of liability charges increased from the previous year by 2.7% 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.

### Recommendations:

1. Decrease the specified reserve in the General Liability Self-Insurance Fund from the current reserve of \$593,000 to \$390,000 for the fiscal year 2006-07. The reserve includes three times the self-insurance retention (\$150,000), plus the average of the previous five years of claims costs not covered by the insurance pool (\$240,000).
2. Increase the annual City-wide charge for General Liability insurance to \$1.5 million for fiscal year 2006-07.

**Fiscal Impact of Recommendations:** The General Liability Self-Insurance Fund is in a negative financial position, under funded by a projected \$30,000 at the end of fiscal year 2005-06. The basic reserve requirement of \$150,000 is fully funded. The additional \$240,000 reserved for payment of those claims not covered by CJPIA is not fully funded.

### 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.

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## Reserve Analysis

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*Assessment of the current situation/conclusions:* During fiscal year 2004-05, the City, with the assistance of the risk-management consulting firm Armtech, solicited bids for its General Liability and Workers' Compensation insurance coverage. In accordance with Council actions, the City terminated its membership with the California Insurance Pool Authority (CIPA) and executed an agreement with the California Joint Powers Insurance Authority (CJPIA) for General Liability insurance effective July 1, 2005. The City elected to not place its excess coverage with CJPIA for Workers' Compensation due to the initial cost of the program. Staff requested that Driver Alliant, a benefits broker, solicit proposals from insurance carriers that were equivalent to the City's current coverage. In accordance with Council actions, the City executed an agreement with the California Public Entity Insurance Authority (CPEIA) to provide excess coverage for Workers' Compensation, equivalent to the coverage previously provided by CIPA, at a cost of \$89,000, which represented a \$3,000 annual savings.

There are currently three components to the City's worker compensation exposure:

- 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
- Claims for the period beginning in 1995 and ending December 1, 2002. These claims are fully insured and represent no liability to the City
- Claims under the self-insurance programs 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, 2005, these estimated claims total \$454,000. This is a reduction from last year's estimate of \$532,000 for these "tail" claims.

Under the self-insurance program adopted July 1, 2005, the City is responsible for a \$300,000 Self-Insurance Retention. CPEIA 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 seven years is \$111,000. The reserve balance at the end of fiscal year 2004-05 totaled \$2.7 million and is projected to decrease to \$1.8 million through June 30, 2006, largely as a result of a \$1.0 million loan to the General Liability Self-Insurance Fund for the Callan settlement.

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 \$454,000 noted above, for a total reserve of \$1,354,000. The estimated reserve balance at June 30, 2006 totals \$1,767,000 (currently comprised of \$454,000 set aside specifically for the "tail" claims and \$1,313,000 in general reserves). Based on this analysis, the reserve is projected to be fully funded as of June 30, 2006.

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.).

The following rates are in effect for fiscal year 2005-06;

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

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## Long Term Financial Plan

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As noted above, the projected year-end reserve balance exceeds the minimum requirement defined by the Fiscal Policy. Generally, the market for Workers' Compensation premiums has softened in recent years. California Insurance Commissioner John Garamendi recommended a 15% reduction in Workers' Compensation premiums in his November 10<sup>th</sup> press release, the fourth such recommendation to California insurers, following reforms implemented under his administration. The State's Worker's Compensation premiums have declined 26% since these reforms began.

*Recommendation:* Reduce the existing worker's compensation rates for fiscal year 2006-07 by 15% to the following;

8810	Clerical	\$0.56/\$100 of payroll
9410	Non-manual	\$1.56/\$100 of payroll
9420	Manual	\$5.21/\$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 \$51,000 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 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 \$4.4 million at June 30, 2006.

*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 2006-07 budget will contain normal replacement charges to other funds of \$517,000.

### **Accrued Leave Reserve**

*City Council Fiscal Policy:* Maintain an account to accumulate funds for the payment of accrued employee benefits to terminated employees. 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 balance is 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 (5 year average)	\$ 60,200
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The projected ending balance for the Accrued Leave Reserve as of June 30, 2006 is \$370,000. At June 30, 2005, the total General Fund liability for accrued leave was \$998,000. Of this amount, \$490,000 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2007. While these employees may not all retire at once, it is recommended that \$180,000 (\$120,000 for the gap between the projected Reserve balance of \$370,000 and the \$490,000 liability of eligible employees, plus

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## Reserve Analysis

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\$110,000 for projected payouts during the next fiscal year) be transferred from the General Fund to the Accrued Leave Reserve to ensure adequate funds are available for payment of potential liabilities.

*Recommendation:* Transfer \$180,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2006-07.

*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 \$420,000.

### **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, 2005, the General Fund capital equipment asset balance was \$1,311,000. 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, 2006 is \$560,000, and is fully funded for the projected five-year costs. If the City were to hit an economic downturn and no funding was available for capital needs, the reserve would be available to cover 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 Recommendation:* Contributions for the replacement of capital equipment will continue to be charged to user funds. The FY 2006-07 budget will contain normal replacement charges to other funds of \$141,000.

### **Facilities Maintenance Capital Asset Reserve**

*City Council Fiscal Policy:* Maintain an account to cover the costs associated with the maintenance of all General Fund 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/stripping 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 \$575,000. The reserve balance is projected to be \$542,000 as of the end of fiscal year 2005-06. 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.

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## Long Term Financial Plan

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*Recommendation:* Transfer \$85,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2006-07.

*Fiscal Impact of Recommendation:* Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of \$280,000.

### 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 expenses. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenses 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.

	<u>Contribution</u>	<u>Cumulative Total</u>	<u>Percentage</u>
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%
FY 2005-06	-0-	\$395,000	8.65%

Based on the Financial Forecast, no contribution is necessary for FY 2006-07 in order to maintain the emergency reserve at \$395,000, which represents 8.65% of the projected Water Operating Fund operating expenses level.

*Recommendation:* None

*Fiscal Impact of Recommendation:* Projected Water Fund expenses over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of \$84,000, beginning in fiscal year 2007-08. The reserve will be maintained at the 8% level throughout the five-year forecast as the Water Fund operating expenses 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, 2006 is \$604,000. The projected replacement costs for the next five-year period totals \$4.3 million. Based on this, the Depreciation Reserve is currently under funded by \$3.7 million.

Book depreciation expenses have increased from \$746,000 to \$771,000 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, additional infrastructure had to be 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 Division initiated a Water System Asset Study to provide recommendations regarding appropriate reserve levels and asset replacement

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## Reserve Analysis

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scheduling, leading to revised polices for funding the Water Depreciation Reserve. For additional information please refer to the Enterprise Depreciation Fund Analysis paper under a separate tab of this Long Term Financial Plan.

The Water System Asset Study indicates the need to fund major maintenance and capital improvements in an amount equal to \$1.5 million annually for the next twenty years, as compared to the current book depreciation amount of \$771,000. When compared to the projected book depreciation of \$850,000 for fiscal year 2006-07, an additional transfer of \$650,000 will be required to achieve the \$1.5 million funding requirement as determined in the Water System Asset Study.

Each year, during the budget process, the Water System Asset Model will be updated and a funding requirement will be generated and provided to Finance as the minimum funding requirement for the following fiscal year. This amount will be compared to the book depreciation projection and an additional transfer, if required, will be recommended for the following budget year to fully fund the Water System Asset Model recommendation.

As noted above, the Water Depreciation Reserve is projected to be under funded by \$3.7 million as of June 30, 2006. Staff recommends a one-time transfer from the Water Operating Fund of \$3.7 million for fiscal year 2006-07 to remedy this projected shortfall. Staff further recommends that the City's Fiscal Policy be amended to require a minimum fund balance equal to the projected expenditures over the five-year forecast period in the Water Depreciation Reserve.

### *Recommendations:*

1. Revise the City's Fiscal Policy to include the Water Depreciation Reserve. "The City will establish a Water Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Water Fund budget. The minimum Reserve level shall be at a level equal to the projected five-year costs."
2. Budget an additional \$650,000 transfer from the Water Operating Fund to the Water Depreciation Reserve for fiscal year 2006-07. This transfer, along with the projected depreciation charge of \$850,000 will meet the minimum funding requirement of \$1.5 million provided by the Water System Asset Model.
3. Budget a one-time transfer of \$3.7 million from the Water Operating Fund to the Water Depreciation Fund to bring the Fund balance into compliance with the proposed Fiscal Policy for fiscal year 2006-07.

*Fiscal Impact of Recommendations:* Annual depreciation charges will continue to be charged to the Water Operating Fund. The depreciation charges for the five-year forecast period are \$4.3 million. An additional \$3.2 million will be required over the next five years to properly fund the Depreciation Reserve requirements defined in the Water System Asset Model.

### **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.

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## Long Term Financial Plan

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*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.

	<b>Contribution</b>	<b>Cumulative Total</b>	<b>Percentage</b>
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%
FY 2005-06	\$11,000	\$476,000	7.59%

*Recommendation:* Budget \$42,000 from the Sewer Operating Fund in FY 2006-07 in order to bring the emergency reserve to \$518,000, which represents 8% of the projected Sewer Fund operating expense level.

*Fiscal Impact of Recommendation:* Projected Sewer Fund expenses over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of \$93,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Sewer Fund operating expenses 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, 2006 is \$1.7 million.

Current depreciation charges amount to \$1.7 million 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, additional infrastructure had to be 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 Division initiated a Sewer System Asset Study to provide additional recommendations regarding appropriate reserve levels and asset replacement scheduling, leading to revised policies for funding the Sewer Depreciation Reserve. For additional information please refer to the Enterprise Depreciation Fund Analysis paper under a separate tab of this Long Term Financial Plan.

The Sewer System Asset Study indicates the need to fund major maintenance and capital improvements in an amount equal to \$1.7 million annually for the next twenty years, as compared to the current book depreciation amount of \$1.7 million. Since the current book depreciation amount meets the minimum requirement determined by the Asset Study, no additional transfers are recommended for fiscal year 2006-07.

Each year, during the budget process, the Sewer System Asset Model will be updated and a funding requirement will be generated and provided to Finance as the minimum funding requirement for the following fiscal year. This amount will be compared to the book depreciation projection and an additional transfer, if required, will be recommended for the following budget year to fully fund the Sewer System Asset Model recommendation.



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## Reserve Analysis

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**Recommendation:** Revise the Fiscal Policy to include the Sewer Depreciation Reserve. “The City will establish a Sewer Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Sewer Fund budget. The minimum Reserve level shall be at a level equal to the projected five-year costs.”

**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 \$9.4 million. Projected expenses for the five-year Capital Improvement Budget equal \$10.7 million. An additional \$1.3 million will be required over the next five years to properly fund the Depreciation Reserve.

### 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 expenses. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenses 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.

	<u>Contribution</u>	<u>Cumulative Total</u>	<u>Percentage</u>
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%
FY 2005-06	-0-	\$64,000	8.55%

Based on the Financial Forecast, no contribution is necessary for FY 2006-07 in order to maintain the emergency reserve at \$64,000, which represents 8% of the projected Storm Drain Operating Fund operating expenses level.

**Recommendation:** None

**Fiscal Impact of Recommendation:** 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 \$4,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Storm Drain Fund operating expenses 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 \$1.6 million at June 30, 2006. Proposed capital project expenses for the next five fiscal years total \$3.6 million. Based on these projections, the Depreciation Reserve is presently under funded. Current annual depreciation expense amounts to \$388,000 per year and annual transfers of \$140,000 from the Storm Drain Operating Fund and \$196,000 from the Clean Ocean Operating Fund are made to the reserve.

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## Long Term Financial Plan

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*Recommendation:* Revise the Fiscal Policy to include the Storm Drain Depreciation Reserve. “The City will establish a Storm Drain Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Storm Drain Fund budget. The minimum Reserve level shall be at a level equal to the projected five-year costs.”

*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 \$2,209,000. 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 expenses. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenses 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.

	<b>Contribution</b>	<b>Cumulative Total</b>	<b>Percentage</b>
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%
FY 2005-06	\$1,000	\$12,000	10.80%

Based on the Financial Forecast, no contribution is necessary for FY 2006-07 in order to maintain the emergency reserve at \$12,000, which represents 8% of the projected Solid Waste Operating Fund operating expenses level.

*Recommendation:* None

*Fiscal Impact of Recommendation:* Projected Solid Waste Fund expenses over the next five years, as outlined in the Financial Forecast, will require no contributions to the emergency reserve. The reserve will be maintained at the 8% level throughout the five-year forecast as the Solid Waste Fund operating expenses gradually 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 expenses. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenses 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.

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## Reserve Analysis

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	<u>Contribution</u>	<u>Cumulative Total</u>	<u>Percentage</u>
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%
FY 2005-06	\$7,000	\$168,000	8.37%

Based on the Financial Forecast, no contribution is necessary for FY 2006-07 in order to maintain the emergency reserve at \$168,000, which represents 8% of the projected Golf Course Operating Fund operating expenses level.

*Recommendation:* None

*Fiscal Impact of Recommendation:* Projected Golf Course Operating Fund expenses over the next five years, as outlined in the Financial Forecast, will require total five-year contributions to the emergency reserve of \$9,000. The reserve will be maintained at the 8% level throughout the five-year forecast as the Golf Course Operating Fund operating expenses 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, 2006 is \$780,000. Projected expenses for the next five years total \$450,000. Several of the recent improvements at the Golf Course have replacement cycles of fifteen years, such as the \$1.7 million Golf Course Improvements Project completed in fiscal year 2002-03. These assets will require the accumulation of depreciation reserves but will not appear in the five-year replacement projections for another ten fiscal years. As a result, the Depreciation Reserve balance should exceed the projected five-year expenditures while these replacement funds accumulate. Simply put, while the Depreciation Reserve presently exceeds the projected five-year expenses, the Reserve is not over-funded.

*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 \$1,985,000.

### **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.

One major project, the new Golf Course Clubhouse, is presently budgeted from this reserve. Bids for the construction of the new Clubhouse were received by the City in June, 2005 and ranged from \$6.4 million to \$7.0 million, considerably higher than the budget of \$3.6 million approved in fiscal year 2002-03. Council

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## Long Term Financial Plan

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directed staff to develop plans and specifications for an alternative clubhouse design. With the assistance of Burge Corporation, an alternative design was presented and approved by Council for a 12,000 square foot clubhouse at a cost not to exceed \$4.1 million.

The Golf Capital Improvement Reserve is projected to have an ending balance of \$1.7 million as of June 30, 2006. A projected shortfall of \$2.4 million exists to complete the construction of the new clubhouse. Council has directed staff to provide proposals to fund the \$2.4 million project gap and to repay three existing loans to the General Fund totaling \$0.8 million, for a total loan amount of \$3.2 million. Proposals for funding the \$3.2 million loan will be presented to City Council and will not be a part of the recommendations included in this Reserve Paper.

Assuming the New Clubhouse project is completed and funded with a \$3.2 million loan, at the end of the five-year forecast, the reserve is projected to have a zero balance. This is based on the New Clubhouse Improvement project cost of \$4.1 million.

*Recommendation:* None

*Fiscal Impact of Recommendation:* The Golf Capital Improvement Reserve fund balance is projected to be zero at the end of the five-year forecast period.

### **Council Action**

All recommendations were approved by the City Council by a vote of 4-0 on February 15, 2006.

Table 1

City of San Clemente  
 Listing of Funds and Restrictions on Usage

	<u>Restrictions</u>	<u>Note 1</u>	<u>Note 2</u>	<u>Note 3</u>	<u>Note 4</u>	<u>Note 5</u>	<u>Note 6</u>	<u>Legal Basis</u>
<b>General Fund</b>	U							
<b>Special Revenue Funds</b>								
Street Improvement	R		X	X				Resolution # 95-48
Gas Tax	R			X				State Streets & Highways Code
Miscellaneous Grants	R			X				Community Development Block Grant
Air Quality Improvement	R		X	X				Ordinance #1047, State Health & Safety Code
Police Grants	R			X				State Government Code
Reserve	U							
<b>Capital Project Funds</b>								
Parks Acquisition & Dev.	R		X		X			Ordinance # 718, State Quimby Act
Local Drainage Facilities	R		X		X			Ordinance # 874
RCFPP	R		X		X			Ordinance # 998
Public Facilities Construction Fee	R		X		X			Ordinance # 1174
Developers Improvement	R				X			Developer Agreements, Court Ordered Settlements
<b>Debt Service Funds</b>								
Negocio Debt Service	R							
<b>Enterprise Funds</b>								
Water - Operating	R	X						State Health & Safety Code
- Depreciation Reserve	R	X						State Health & Safety Code
- Acreage Fee	R	X	X					Ordinance # 874
Sewer - Operating	R	X						State Health & Safety Code
- Depreciation Reserve	R	X						State Health & Safety Code
- Connection Fee	R	X	X					Ordinance # 878
Storm Drain - Operating	R	X						State Health & Safety Code
- Depreciation Reserve	R	X						State Health & Safety Code
Solid Waste Management	R	X						State Health & Safety Code
Golf - Operating	U							
- Depreciation Reserve	U							
- Capital Improvement	U							
Clean Ocean - Operating	R				X			Ordinance #1273
- Capital Improvement	R				X			Ordinance #1273

Table 1

City of San Clemente  
Listing of Funds and Restrictions on Usage

	<u>Restrictions</u>	<u>Note 1</u>	<u>Note 2</u>	<u>Note 3</u>	<u>Note 4</u>	<u>Note 5</u>	<u>Note 6</u>	<u>Legal Basis</u>
<b>Internal Service Funds</b>								
Central Services	U			X				
Medical Insurance	U			X				
Information Services	U			X				
Contract Fleet Services	U			X				
Fleet Replacement Reserve	U			X				
Workers' Compensation	U			X				
General Liability Self Insurance	R		X					Resolution # 67-78 & 18-80
<b>Redevelopment Agency Funds</b>								
Low & Moderate Housing	R		X				X	Ordinance # 642, State Health & Safety Code
Debt Service	R						X	State Health & Safety Code
Capital Projects	R		X				X	Ordinance # 642, State Health & Safety Code

R - Funds are restricted

U - Funds are unrestricted

(1) Enterprise Funds account for the goods or services provided to the general public on a continuing basis that are financed through user charges. The California Government Code and Health and Safety code prohibits the transfer of user charges collected for water, sewer, storm drains, and solid waste services to the City's General Fund for the purpose of subsidizing the City's General Fund operations. There is no such restriction on the City's Golf Course Fund. According to the City's fiscal policy, fund balances are to be maintained at recommended reserve levels.

(2) These funds are restricted for the specific use as established by City ordinance/resolution.

(3) Internal Service Funds account for the financing of goods and services provided by one department or agency to other departments or agencies of a government on a cost reimbursement basis. Charges from these funds are adjusted annually based on prior year actual costs and estimated future costs. According to the City's fiscal policy, fund balances are to be maintained at recommended reserve levels.

(4) Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These revenue sources include special assessments, Federal and State revenue apportionments, developer fees and Federal & County grants.

(5) Capital Project Funds account for the financial resources used for the acquisition or construction of major capital facilities (other than financed by Enterprise Funds). Developer fees collected for the construction of projects are restricted for this purpose.

(6) The principal objectives of the Redevelopment Agency is to improve the commercial environment, upgrade residential neighborhoods, provide for new public improvements, strengthen the City's economic base, generate added employment opportunities and improve and expand the City's industrial base. The Agency's primary source of revenue is property tax increment and is restricted by State law for the payment of debt service on improvements.

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# Master Plan for City Facilities Update

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## Objective

To review and update critical funding and timing strategies for projects listed on the Master Plan for City Facilities (MPCF) in relationship to the City's current and future financial condition.

## 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:

- Fiscal Impact Model (FIM) and Financial Forecast chapters of the LTFP.
- MPCF Phasing Plan, Attachment A, which shows operations & maintenance (O&M) expenditure forecasts related to parks, trails, and streetscapes (street frontage landscapes) to assess the financial impacts to the General Fund created when bringing new facilities on line.
- Parks Funding and Construction Costs Chart, Attachment B, which shows the capital needs that will be required for new park development projects.

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 park and streetscape phasing program in order to avoid fiscal problems in either parks operations and maintenance or the cost to develop parks & public facilities.

## Summary Findings

The following are the findings of this year's analysis:

- The tax base has grown as anticipated (per Financial Forecast and FIM)
- Parks O&M costs plateaued in FY 2004-05. This leveling out is not expected to continue, as other trend increases will likely drive up overall O&M in FY 2005-06:
  - Fuel cost increases
  - New contact cost increases starting Oct 2005
  - New park acreage to be accepted by the City during FY 2005-06
- Parks & Recreation O&M costs are projected to increase dramatically in upcoming years 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.
  - Increased maintenance level from 'C' to 'B' for all ballfields and one park—Parque Del Mar. Potential to increase maintenance level 'B' to 'A-' at several ballfields, in conjunction with upcoming renovations and new construction.

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## Long Term Financial Plan

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- Costs for development of park and recreation facilities have continued to increase, following dramatic increases in the recent past. Construction costs have increased; partly due to bidding climate in South Orange County for Public Works projects, and partly due to increases in concrete and steel. The Park Acquisition & Development Fund is projected to have a \$39.7 million shortfall if all parks or park phases are constructed through City build-out.
- 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 2007 and continuing until build-out, the City's Fiscal Impact Model projects a negative fiscal balance (ranging from \$500,000 to \$1.5 million per year; see *Figure 1*). This trend suggests that the timing or phasing of each park and other public improvements must be weighed carefully.
- Park phasing approved with the 2005 MPCF/LTFP and the "cut-off" in 2009 after specific projects (LPVH Park Phase I, Marblehead Parks and the Senior Center) have been completed, allows for a \$1.2 to \$2.0 million per year positive balance.

### **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 in *Figure 1* below shows how all the potential impacts to the General Fund, if accepted as scheduled, would put the GF in a negative balance starting in FY 2011/12.

FIM trend lines with the previous (2005) park phasing has allowed for some of the highest priority parks to be built and accepted, while keeping a neutral operating balance in the General Fund. A detailed discussion of some of the revenues and expenditures that affect the City's ability to sustain the MPCF follows.

### **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.
- Funds for the operations and maintenance of future City parks 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 FY 2007/2008.
- Recreation revenues will increase significantly with the operation of the La Pata Vista Hermosa Park, Phase I Aquatics complex. Overall, the revenues from the aquatics complex will off-set O&M expenditures for the entire park site by a range of 40%-50%.
- Fees for new development and infill redevelopment contribute significant one-time revenues—including park development revenues—but are not sustainable through buildout. As development slows in the City, the funding for capital improvements decrease. This is especially true for the Park Acquisition & Development Fund (PA&D). Funding for future capital improvements, expansions or renovations to parks and recreation facilities must then come from General Fund or other undetermined sources.

### **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



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## Master Plan for City Facilities Update

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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.
- 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 FY 2007-08 and second phase possible in FY 2011-12. La Pata/Vista Hermosa Park will increase operations and maintenance costs \$1.57 million in FY 2007-08 and \$2.3 million in FY 2011-12. 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 goal of the development portion of the La Pata/Vista Hermosa planning effort has been to bring in \$900,000 per year from disposal of non-park land. This estimated amount of revenue is now shown in the balance of the Fiscal Impact Model (FIM). The 2005 MPCF/LTFP established the goal to first balance land dispositions revenue with BP&R operations and maintenance costs for the park, then second to consider 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.

### **On-going expenditures during FY 2004-05 & 2005-06:**

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.

- Ongoing expenditures in Beaches, Parks and Recreation were increased by approximately \$560,000 for expanded maintenance contracts related to newly developed park acreage, and higher park maintenance standards for ballfields.
- 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
- The following are examples of potential future projects that might increase future expenditures, if approved, that are excluded from the current analysis:
  - any future beach sand replenishment project;
  - the potential relocation of the Marine Safety Building;
  - streetscaping with the potential *Avenida La Pata Extension* to the northern City border.

### **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:

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## Long Term Financial Plan

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**ATTACHMENT A**  
**MPCF PHASING PLAN 2006**  
 Projects Phasing List

New Capital Facility	Net Annual O&M Costs	On-line Date
<i>Tierra Grande Park (Talega 3)</i>	\$129,450	05/06
<i>Senior Center (Avenida Victoria Site)</i>	\$50,000	08/09
<i>Coastal Trail/Railroad Corridor Safety Improvement</i>	\$128,000 ✓	06/07 ✓
<i>Marblehead Coastal Bluff Parks</i>	\$36,200 ✓	06/07 ✓
<i>Marblehead Coastal Trails</i>	\$20,500 ✓	06/07 ✓
<i>Marblehead Coastal Medians</i>	\$20,145 ✓	06/07 ✓
<i>Marblehead Coastal Community Sports Park</i>	\$113,170 ✓	06/07
<i>Talega Trails (City/local only)</i>	\$10,700	06/07
<i>Ave. Vista Hermosa/Ave La Pata Parkways &amp; Slopes</i>	\$224,500	06/07
<i>La Pata/Vista Hermosa Community Park, Phase I</i>	\$1,578,701	07/08
<i>La Pata/Vista Hermosa Park, Full Development</i>	\$2,327,025	11/12
<i>Civic Center</i>	\$110,173	12/13
<i>Steed Sports Park Expansion</i>	\$103,820	12/13
<i>Ave La Pata Medians &amp; Slopes, North Extension</i>	\$78,700	14/15
<i>South City Park</i>	\$64,900	15/16

**On-line dates:**

Green text indicates accelerated date (from LTFP 2005 schedule)

Red text indicates recommended revised phasing date

Black text indicates same date (from LTFP 2005 schedule)

Blue text indicates new project/item added (tentative 2006 LTFP)

**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 expansion at LP/VH Park:** It is anticipated that the community center & gymnasium 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 2006

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

Projected Ending Balance 05-06 *	\$	11,749,000	(final verification from FAS needed)
Revenues 06-07 through Buildout:			
Remaining Development Fees For Parks **	\$	284,200	
Interest Earned	\$	100,000	
Infill Development 05-06 through 09-10			
Total Revenues 06-07 through Buildout	\$	384,200	(final verification from FAS needed)
<b>Total Revenues Available for Parks Master Plan</b>	<b>\$</b>	<b>12,133,200</b>	<b>(final verification from FAS needed)</b>

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

	Acres	Current Projections-City Cost	MPCF 2005 Projections	MPCF 2003 Projections
			Acres	Acres
Marblehead Coastal Bluff Park	8.3	\$ -	-	8.25 \$ 2,475,000
Marblehead Coastal Sports Park	8.2	\$ -	-	8.2 \$ 1,925,000
La Pata/Vista Hermosa Park, Phase I w/Pool complex	36.2	\$ 20,000,000	36.2	\$ 6,875,000
Steed Park--roller hockey facility	0.0	\$ 1,200,000		Not included
La Pata/Vista Hermosa Park, Remaining Phases Dev.	9.1	\$ 26,100,000	9.1	Not included
Forster Ranch Community Park, Ph III (M bldg only)	0.0	\$ -	0	7,350,000
Steed Park Expansion--remaining acres****	8.0	\$ 2,950,000	8	\$ 3,300,000
South City Neighborhood Park****	5.0	\$ 1,625,000	5	\$ 1,375,000
	74.75		74.75	47.66
<b>Total</b>		<b>\$ 51,875,000</b>		<b>23,300,000</b>
<b>Net Difference:</b>				
<b>Park Funds Available minus Expenditures</b>		<b>\$ (39,741,800)</b>		<b>(\$10,401,572)</b>

#### Notes on Funding for Parks:

\* Projected Ending Balance for FY 05-06--Source FAS Projected 12-20-05 (Tom Ry; Actual fund balance minus projects approved in FY 05-06

\*\* Park Fees from all sources FY 05-06; Infill only; Talega previously collected; Marblehead not applicable; 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 Geronimo Baseball Conversion, Beach Sand Replenishment

\*\*\*\* 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 for field renovation only is \$1.3 mil; current evaluation pending for management and maintenance of softball complex; funding source for 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; this park is included in 1989 Parks & Recreation Master Plan/GPA; two previous lease locations unsuccessful

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

Update: 1/10/06

# Downtown Vision & Strategic Plan Implementation Update

## Objective

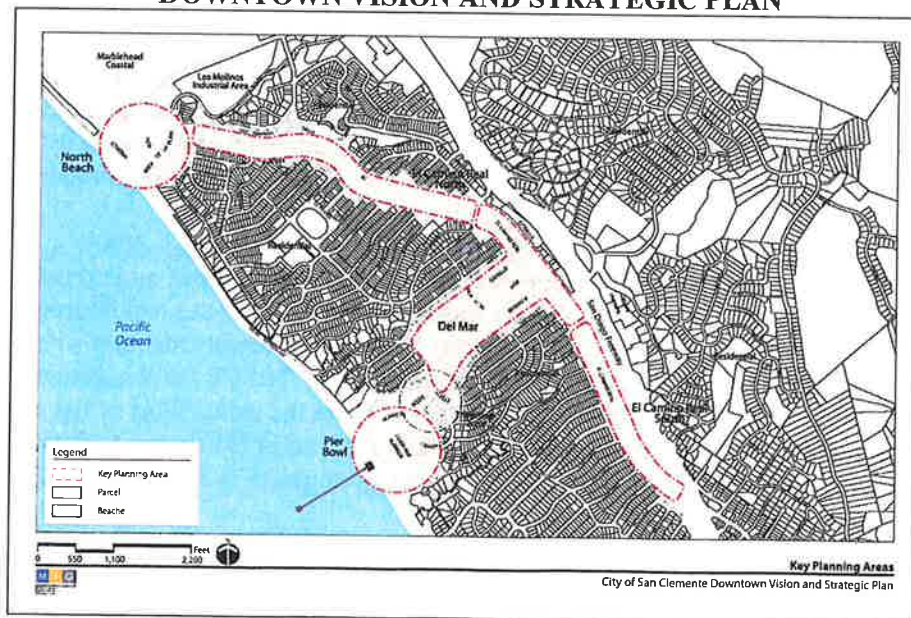
To implement recommendations of the Downtown Vision and Strategic Plan, current priorities include:

1. Update the City Land Use Policy for consistency of the Downtown Vision.
2. Prepare a Request for Proposal (RFP) for the creation of a public/private partnership for the development of City-owned properties in the North Beach area.
3. Pursue the establishment of public parking resources on private property in the T-Zone.
4. Create a subcommittee to study the feasibility of establishing a transit circulator.
5. Develop a plan for downtown information signs, locator signs and gateway features in key locations.
6. Develop a strategy for improving the safety of pedestrians crossing at El Camino Real/ El Portal triangle.

## Background

In 2003, the City in partnership with a diverse group of stakeholders began the development of a Downtown Vision and Strategic Plan. Facilitated by Moore, Iacofano, Goltsman, Inc. and City staff, the task force held numerous public meetings to seek consensus on a vision for the downtown. This process culminated with the Downtown Vision and Strategic Plan being adopted by the City Council on April 28, 2005. The plan provides San Clemente's vision for five downtown districts (North Beach, North El Camino Real, T-Zone, Pier Bowl and South El Camino Real) and list implementation measures to carry out the Downtown Vision and Strategic Plan. The City Council also directed staff to begin implementing the Plan, including priorities and directing the City Manager to appoint a downtown advocate to oversee implementation and to prepare an annual progress report.

## DOWNTOWN VISION AND STRATEGIC PLAN



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## Conclusion

2005 marked the completion of the Downtown Vision and Strategic Plan process and the beginning of the Plan's implementation. The six priority implementation measures combined with preexisting City programs provide a good beginning to the implementation of our City "Vision" for the Downtown. The six priority implementation measures are in the early stages of the process. Four of these, the City Land Use Policy Update, North Beach RFP, Public Parking Resources in the Pier Bowl and Transit Circulator Ad Hoc have been active since the summer of 2005. The way-finding signs and the Safety of pedestrians crossing at El Camino Real/ El Portal triangle have recently been initiated. In 2006 the work on these measures will be in full swing and be the primary focus of the Downtown Advocate and City staff.

## Recommendations

Staff recommends that the City Council direct staff to continue the following Downtown Vision and Strategic Plan implementation measures:

1. Update the City land use policy for consistency of the downtown vision.
2. Public/private partnership for the development of City-owned properties in the North Beach area.
3. Pursue the establishment of public parking resources on private property in the T-Zone.
4. Subcommittee to study the feasibility of establishing a transit circulator.
5. Development of a plan for downtown information signs, locator signs and gateway features in key locations.
6. Development of a strategy for improving the safety of pedestrians crossing at the El Camino Real/ El Portal triangle.

## 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 for the following:

1. \$150,000 is budgeted for the Update of City Land Use Policy for Consistency of the Downtown Vision and the North Beach RFP/Master Plan.
2. \$1,000,000 is budgeted for the establishment of public parking resources on private property in the T-Zone.
3. The Transit Ad Hoc Committee is studying the feasibility of establishing a transit circulator. There is no fiscal impact at this time, however, the Ad Hoc Committee will determine the fiscal feasibility of the project which may lead to future funding needs if the project is implemented.
4. In order to move forward with the downtown information signs, locator signs and gateway features it is estimated that the cost for development and constructing the first 15 gateway monument sign is in the range of \$200,000 to \$325,000.
5. There are no fiscal impacts to develop a strategy for improving the safety of pedestrians crossing at El Camino Real/ El Portal triangle. Once safety recommendations and cost are determined staff will present the information to City Council for their consideration

## Council Action

All recommendations were approved by the City Council by a vote of 4-0 with slight modifications on February 15, 2006.

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# Environmental Program Update

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## **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 (FY 2005-06) 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 (see project status below); a professional services agreement to assist with revision of the public participation and education program; the addition of a management analyst position to oversee implementation of the public participation and education program; contracting with consultants to improve staff training and the Project Surf website; and drafting of an updated comprehensive URMP. Program activities are anticipated to be on-going.

### *Poche Beach (M01) Dry Weather Structural Treatment Project*

An agreement exists between the City and the County of Orange relative to the Poche Beach (M01) Dry Weather Structural Treatment Project. The County is the project lead, responsible for all project-related costs, including operations and maintenance, exceeding \$320,000. The County is also responsible for coordinating the design, construction, operations and maintenance of the facility. The City has the authority to comment on the ultimate project design and operation. Due to high costs of construction, subsequent to the agreement, the City agreed to invest an additional \$180,000 toward project costs. The project has been split into two phases. Phase I, installed in April 2004, included installation of an in-line ultraviolet (UV) treatment system to reduce or remove bacteria from the flows exiting the Prima Deshecha Canada Channel during the dry season only. Phase II includes filtering the channel water prior to UV treatment before disposing of the water directly into

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## **Long Term Financial Plan**

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and for street repairs after the placement of sand.

**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 4-0 on February 15, 2006.P



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# Street Improvement Program Update

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## 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 seventy-three (173) street projects have been completed. An additional fourteen (14) projects are scheduled to be constructed in FY 2005-06. Of the 187 street projects, 74 projects were accelerated from their original schedule. Fifty-seven (57) street projects programmed in the first 11 years were constructed in an earlier year than originally programmed. There were seventeen (17) street projects constructed that were originally programmed for construction after the first 11 years of the program.

- **Completed projects (totaling 48.43 miles):**

There are one hundred and seventy-three (173) completed street projects. Approximately 81% of the program mileage has been completed since the Street Program approval. Exhibit "A" lists all the completed projects.

- **Projects scheduled for construction during FY 2005-06 (totaling 3.16 miles):**

The following fourteen (14) street projects are scheduled to be constructed during FY 2005-06:

1. Avenida San Carlos from El Levante to Avenida Presidio
2. Calle Cortez from Avenida Presidio to Avenida San Carlos
3. Calle Sonora from End of Pavement to Avenida Presidio
4. Calle de Soto from Avenida Presidio to Avenida Salvador
5. Camino San Clemente from El Camino Real to End of Pavement
6. Calle Industrias / Via Pico Plaza from Calle De Los Molinos to End of Pavement
7. Avenida Algodon from El Camino Real to Avenida Monterey
8. Avenida Aragon from Buena Vista to Calle Puente
9. Avenida Miramar from El Camino Real to Avenida Palizada
10. El Oriente from Avenida Caballeros to Avenida De La Paz
11. Pateo De Oro from Avenida La Cuesta to El Levante
12. Avenida De La Paz from Avenida La Cuesta to La Esperanza
13. Calle de Los Molinos from El Camino Real to the MO2 Channel
14. Calle Valle from Calle De Los Molinos to Calle De Los Molinos

**Long Term Financial Plan**

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# Enterprise Fund Depreciation Analysis

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## Objective

To analyze the current depreciation funding for the Water and Sewer Depreciation Funds and make recommendations and modifications to existing fiscal policy to build and maintain adequate depreciation reserves for the future; and to analyze the existing Water and Sewer rate models and make modifications in support of the recommended changes to fiscal policies for depreciation reserve funds.

## Summary

Funding of Enterprise Depreciation Funds is based on the accounting concept of "book depreciation" where the original purchase price of an asset is depreciated over a defined period of time, typically 25 to 75 years for Utility assets. This method fails to take into account the future "replacement cost" of assets. The majority of the City's utility assets were placed into service between twenty and fifty years ago. Current replacement costs are significantly higher today than the reserve money set aside based on the "book depreciation" method.

The City has experienced declining balances in the Water and Sewer Depreciation Reserves over the past several years as a result of this difference between original construction cost (book value) and current replacement costs. At the same time, the City is experiencing declining fund balances in the Water and Sewer Operating Funds. This is due to a combination of factors; 1) The replacement costs of utility assets has required transfers to the Depreciation Reserves in excess of the annual book depreciation transfers, 2) The existing rate models require a minimum reserve balance of 8% of operating expenditures. Since the Operating Funds have historically maintained healthy fund balances, the current model actually allows for the Operating Funds to run with expenditures exceeding revenues, consuming fund balances, and lastly; 3) The City is funding maintenance and capital projects for non-City owned assets (as required in the operating agreements with the South Orange County Wastewater Authority (SOCWA) and the Joint Regional Water Supply System (JRWSS) from both the Operating and Depreciation reserves.

As a result, staff has conducted an analysis of the present funding mechanisms and engaged the consulting firm of Bartle Wells Associates, to study and make recommendations regarding changes to fiscal policy and the City's Water and Sewer Rate models to provide adequate funding for future asset replacements.

## Background

The City presently builds replacement reserves for Water and Sewer assets through annual depreciation charges to the Operating Funds. These charges, as indicated above, are based on the accounting concept of book depreciation. While this method satisfies Generally Accepted Accounting Principles (GAAP) it fails to build adequate reserve levels for assets with long lives or assets which can increase dramatically in cost over twenty-five to fifty year periods, such as the utility assets. In addition, when the City converted to GASB 34, which recognized infrastructure assets such as water and sewer lines in 2002, no provision was made to fund the depreciation reserves for the "book" depreciation which should have been recognized for these assets, had they been depreciated from their original construction dates. Depreciation reserves are actually cash balances maintained in the Depreciation Reserve Funds. It was not economically feasible to transfer cash into the Depreciation Reserves at the time the infrastructure was recognized due to the large cash balances required to fund the depreciation reserves for the infrastructure assets. The accumulated book depreciation for the infrastructure assets amounted to \$19.6 million at June 30, 2002.

Depreciation reserves are presently utilized for capital projects, minor maintenance and major maintenance activity. Given that the reserves are built on book depreciation, the reserves have not been funded for minor and major maintenance costs. Minor maintenance costs are defined as expenditures of less than \$5,000 to repair and maintain individual assets. Major maintenance is comprised of expenditures in excess of \$5,000 to

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budgets to the corresponding Depreciation Reserves. Staff proposed that the City utilize the five-year forecast of capital and maintenance projects to develop a constant or level funding transfer from the Operating Funds to the Depreciation Funds to smooth the impact on the Water and Sewer rates. A “specified reserve” will be created in both the Water and Sewer Depreciation Reserves to accumulate transferred funds, dedicated to support the capital and maintenance requirements for these non-City owned assets.

### Water and Sewer Rate Models

Existing City Ordinances provide for an annual review of the City’s Water and Sewer rates. This review is carried out each fiscal year during the budget process. An “automatic rate adjustment” feature within the Ordinances provides for rate stability by projecting the costs of operating the Water and Sewer systems over a forward-looking five-year period. Any increase required to keep the projected ending operating fund balance of no less than 8% of operating expenditures over the five-year period must be constant over that five-year period. That is, the percentage of rate increase to existing rates must be the same for each of the five years covered by the forecast. This methodology has proved an effective tool to prevent large one-time rate increases (or decreases) experienced by the City prior to enacting this current methodology.

Staff believes that the automatic rate adjustment feature and the rate stabilization methodology are solid fiscally-responsible approaches to maintaining stable utility rates. However, staff believes that the model needs to be amended to address two concerns; 1) the model does not require a “balanced” operating position, where operating expenditures equal operating revenues. Because the model is based on fund balance, it allows expenditures to exceed revenues as long as the minimum 8% of operating expenditures is maintained in the ending fund balance. In fact, fund balances for both the Water and Sewer Operating Funds have been declining during the last four fiscal years. This trend cannot continue. 2) The model does not account for capital and maintenance costs for non-City owned assets.

Staff recommends that the model be modified to require a neutral operating position throughout the five-year forecast period. In addition, staff recommends that a line item is added to the model to build reserves to provide a funding mechanism for the non-City owned assets.

### Recommendations

Staff proposes the following recommendations:

1. Require annual transfers from the Water Operating Fund to the Water Depreciation Reserve for depreciation to be based on the greater of book depreciation or the Brown and Caldwell Water Asset System Model calculated funding requirement.
2. Require annual transfers from the Sewer Operating Fund to the Sewer Depreciation Reserve for depreciation to be based on the greater of book depreciation or the Brown and Caldwell Water Asset System Model calculated funding requirement.
3. Transfer the minor maintenance requirement of \$75,000 annually from the Sewer Depreciation Reserve to the Sewer Operating Fund. All future minor maintenance costs will be funded from the Operating Fund.
4. Transfer the minor maintenance requirement of \$11,000 annually from the Water Depreciation Reserve to the Water Operating Fund. All future minor maintenance costs will be funded from the Operating Fund.
5. Create a specified reserve in both the Water and Sewer Depreciation Reserves to provide funding for major maintenance and capital projects for non-City owned assets. The annual reserve contributions will be calculated as one fifth of the projected five-year project costs provided by SOCWA, JRWSS and the City of San Clemente.

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## Enterprise Fund Depreciation Analysis

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6. Transfer the annual charges from SOCWA and JRWSS for major maintenance and capital projects from the Operating Funds to the newly created specified reserves within the Water and Sewer Depreciation Funds.
7. Amend the “automatic rate adjustment” sections of the Water and Sewer Ordinances to require a neutral operating position in place of the “minimum fund balance equal to 8% of operating expenditures”.
8. Amend the Water and Sewer Rate Models to comply with the Ordinance changes for a neutral operating position.
9. Amend the Water and Sewer Rate Models to include a funding line for annual transfers to fund the major maintenance and capital improvements for non-City owned assets.

### **Council Action**

All recommendations were approved by the City Council by a vote of 4-0 on February 15, 2006.

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