



City of San Clemente,  
California

# 2007 LONG TERM FINANCIAL PLAN



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# City of San Clemente

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## City Council

- Jim Dahl Mayor
- Joe Anderson Mayor Pro Tem
- Lori Donchak Councilmember
- G. Wayne Eggleston Councilmember
- Steve Knoblock 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
- Paul D'Auria 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

- Stacy Blackwood Management Analyst I
- Tom Bonigut Principal Civil Engineer
- Kumi Elston Purchasing & Budget Officer
- Gus Nelson Golf Course Manager
- Jake Rahn Accounting Supervisor
- Dave Rebensdorf Principal Civil Engineer
- Tom Rendina Finance Manager

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## **Long Term Financial Plan**

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## Mission Statement

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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 Teams

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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*

### **Fiscal Policy**

*Tom Rendina, Finance Manager*

### **Financial Trend Analysis**

*Jake Rahn, Accounting Supervisor*

### **Financial Forecast**

*Kumi Elston, Purchasing & Budget Officer*

### **Reserve Analysis**

*Tom Rendina, Finance Manager*

### **Capital Projects Analysis**

*Jake Rahn, Accounting, Supervisor  
David Rebensdorf, Principal Civil Engineer  
Stacy Blackwood, Management Analyst I*

### **Clean Ocean Program Review & Renewal**

*Tom Bonigut, Principal Civil Engineer*

### **Golf Analysis**

*Gus Nelson, Golf Course Manager*

### **Debt Analysis**

*Tom Rendina, Finance Manager  
Larry Rolapp, Financial Advisor, Fieldman, Rolapp and Associates*

### **Gap Closing Strategies**

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

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## **Long Term Financial Plan**

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## Issues & Objectives

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### **Fiscal Policy**

#### **Objective**

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

### **Financial Trend Analysis**

#### **Objective**

*A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition". The analysis of these indicators is designed to present information on the fiscal health of the City of San Clemente as part of the Long Term Financial Plan. This annual financial trend analysis focuses on the City's General Fund.*

### **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 fund balances 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, (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.*

### **Capital Projects Analysis**

#### **Objective**

*To provide a summary of significant capital projects on the horizon as part of the continuing development of the City. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.*

### **Clean Ocean Program Review & Renewal**

#### **Objective**

*To update the City Council and the public on the progress that has been made in implementing the Clean Ocean Fee Program approved by property owners and to discuss considerations for renewing the fee program for another term.*

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## **Long Term Financial Plan**

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### **Golf Analysis**

#### **Objective**

*To identify any funding gaps over a five year forecast for Golf Operations and identify possible solutions.*

### **Debt Analysis**

#### **Objective**

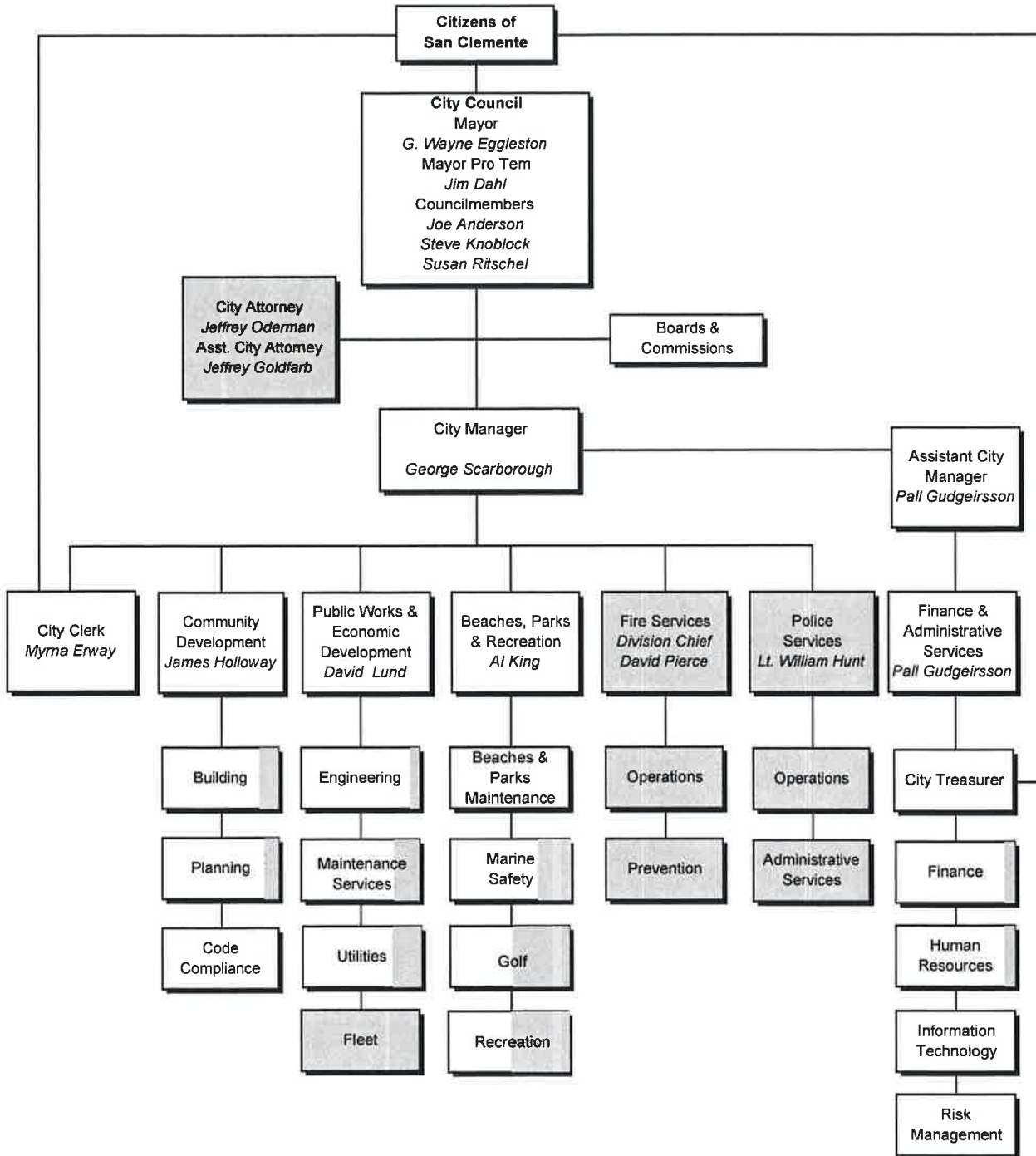
*To analyze and recommend appropriate use and amount of long term debt by (a) conducting a review of existing debt, (b) developing long-range financing guidelines, (c) determining revenue sources for debt service and repayment, (d) recommending alternatives to fund major capital programs, and (e) making recommendations for refinancing existing debt.*


### **Gap Closing Strategies**

#### **Objective**

*To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.*

# City Organization Chart



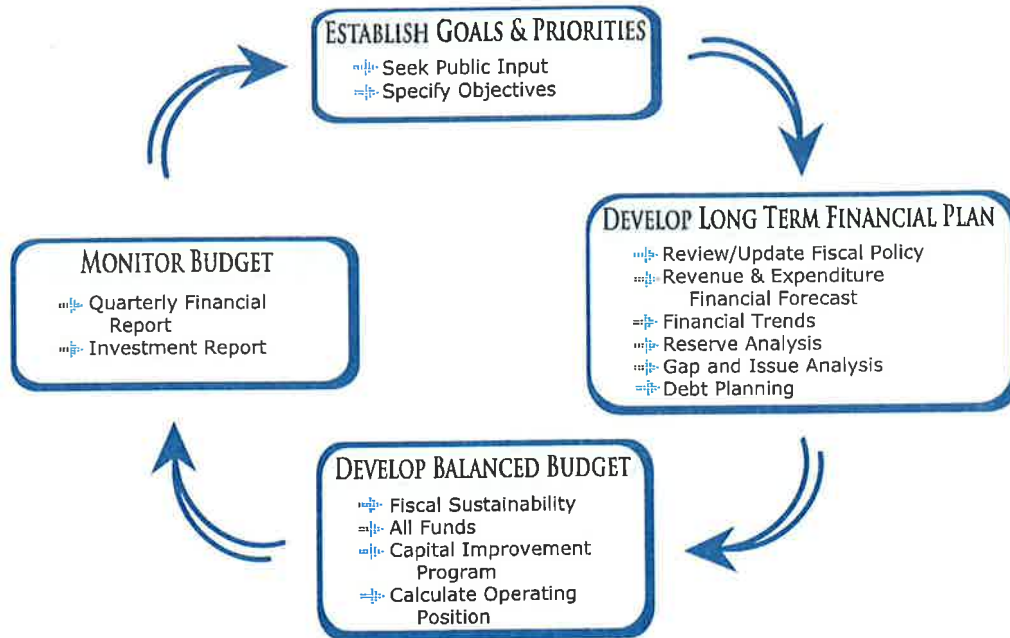
 Shading indicates contracted services

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## **Long Term Financial Plan**

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### Long Term Financial Plan



***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 2007 Long Term Financial Plan* consists of the following sections:

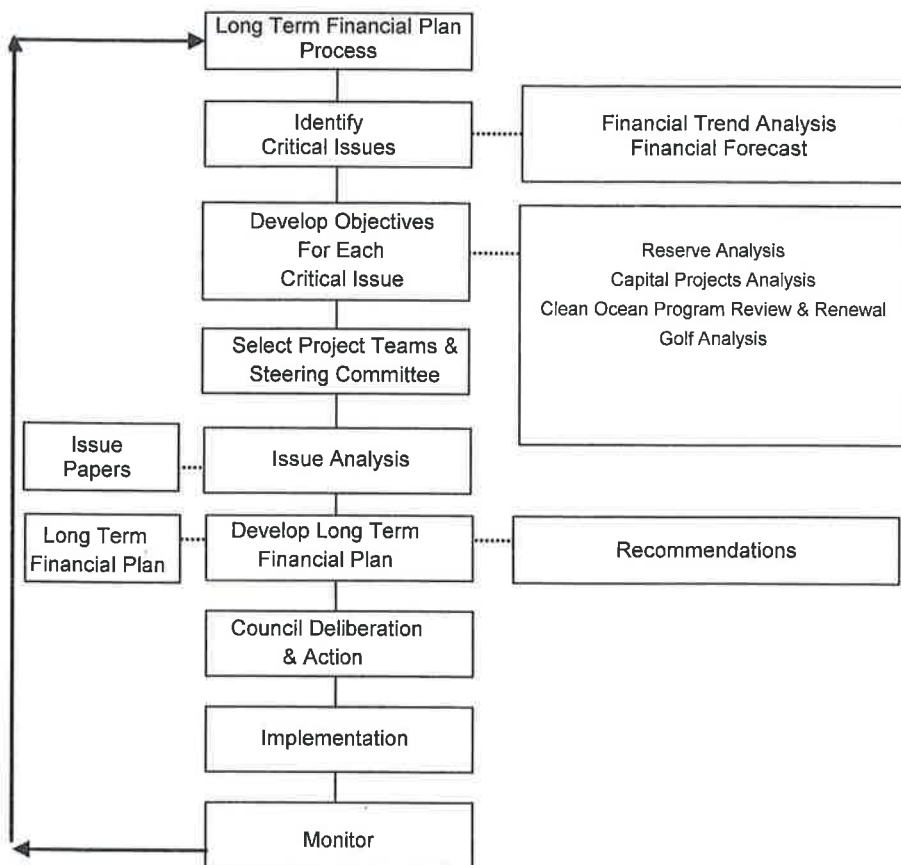
- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Fiscal Policy
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Capital Projects Analysis
- Clean Ocean Program Review & Renewal
- Golf Analysis
- Debt Analysis
- Gap Closing Strategies

# 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, 10 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 7 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.*

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## Process & Schedule

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

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

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

This Financial Plan will be presented to the City Council on February 6, 2007 with public input and adoption scheduled for February 27, 2007. Following is the project schedule.

**Schedule**

February 6, 2007	Long Term Financial Plan provided to Council and public for review.
February 27, 2007 4:00 p.m. to 6:00 p.m.	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction. Public input & City Council adoption.
February 27, 2007 6:30 p.m. to 9:00 p.m.	Vital Few Priority Meeting. City Council and City Manager.
May 21 & 22, 2007 6:00 p.m. – 9:00 p.m.	Proposed Budget Workshops
June 19, 2007 7:00 p.m.	FY 2007-08 Budget Public Hearing and Adoption

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## **Long Term Financial Plan**

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## Long Term Financial Plan Review

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### **Long Term Financial Plan Review**

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2007 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>

## Long Term Financial Plan

Year	Challenge	Solution
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>
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>

## Long Term Financial Plan Review

Year	Challenge	Solution
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>
2005	<ul style="list-style-type: none"> <li>• Increase in the overhead rates charged by Engineering, Planning and Beaches, Parks &amp; Recreation.</li> <li>• Increase revenue in the General Fund to recover the cost of providing services.</li> <li>• PER's Frozen Public Safety unfunded liability contribution increased.</li> </ul>	<ul style="list-style-type: none"> <li>• City Council requested further analysis and a presentation at a later date.</li> <li>• Established new rental rates for the Beach Club and Community Center.</li> <li>• Extended the amortization period from 8 years to 15 years and reduced the required contribution by \$326,000 annually.</li> </ul>

## Long Term Financial Plan

The following is an update of the 2006 Long Term Financial Plan issues:

<b>Fiscal Policy</b>	<b>Status</b>
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.	This fiscal policy was added to the City's Fiscal Policy.
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.	This fiscal policy was added to the City's Fiscal Policy.
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.	This fiscal policy was added to the City's Fiscal Policy.
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.	The Council Contingency Reserve level was reduced from 1% of operating expenditures to 0.5% of operating expenditures.

<b>Financial Trend Analysis</b>	<b>Status</b>
None.	None

<b>Financial Forecast</b>	<b>Status</b>
None.	None

## Long Term Financial Plan Review

<b>Reserve Analysis</b>	<b>Status</b>
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.	Council approved the \$150,000 transfer in the FY 2006-07 Operating Budget
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.	Council approved \$218,000 transfer to the Council Contingency Reserve in the FY 2006-07 Operating Budget.
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).	Council approved a decrease to the specified reserve in the General Liability Self-Insurance Reserve.
Increase the annual City-wide charge for General Liability insurance to \$1.5 million.	Council approved \$1,500,000 in insurance charges for the General Liability Self-Insurance Fund.
Reduce the existing worker's compensation rates for fiscal year 2006-07 by 15% to the following;	Worker's Compensation rates were reduced by Council action in the FY 2006-07 Operating Budget.
a. 8810-Clerical      \$0.56/\$100 of payroll	Implemented
b. 9410-Non-manual    \$1.56/\$100 of payroll	Implemented
c. 9420-Manual        \$5.21/\$100 of payroll	Implemented
Transfer \$180,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2006-07.	Council approved the transfer of \$180,000 from the general Fund to the Accrued Leave Reserve in the FY 2006-07 Operating Budget
Transfer \$85,000 from the General Fund to the Facilities Maintenance Capital Assets Reserve for fiscal year 2006-07.	Council approved the transfer of \$85,000 from the Facilities Maintenance Capital Assets Reserve in the FY 2006-07 Operating Budget.

## Long Term Financial Plan

Reserve Analysis-continued	Status
Budget an additional \$650,000 transfer from the Water Operating Fund to the Water Depreciation Fund for Fiscal Year 2006-07.	Council approved the transfer of \$650,000 from the Water Operating Fund to the Water Depreciation Fund in the FY 2006-07 Operating Budget.
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.	Council approved the transfer of \$85,000 from the Water Operating Fund to the Water Depreciation Fund in the FY 2006-07 Operating Budget
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 expenditures level.	Council approved the transfer of \$42,000 to the emergency reserve of the Sewer Operating Fund in the FY 2006-07 Operating Budget
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."	This fiscal policy was added to the City's Fiscal Policy.
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."	This fiscal policy was added to the City's Fiscal Policy.

Master Plan for City Facilities	Status
Continue to analyze long-term costs of service, and strategize options for bringing the long-term budget into balance.	Council noted the importance of seeking creative ways to fund both the capital and operations and maintenance costs of City parks.
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.	This is addressed in the 2007 Long Term Financial Plan.

## Long Term Financial Plan Review

<b>Master Plan for City Facilities-continued</b>	<b>Status</b>
<p>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.</p> <p style="padding-left: 40px;">Continuation of planning/design/construction of the following: Talega parks &amp; trails; Marblehead Coastal parks &amp; trails; La Pata/Vista Hermosa Community Park, Phase I, and Senior Center.</p> <p style="padding-left: 40px;">Recommend continued study until O&amp;M/capital sources are verified for the following: Steed roller hockey phase; Ave. La Pata streetscape extension to City border.</p> <p>Any major capital projects proposed by Staff or the public shall be placed on indefinite hold until O&amp;M/capital costs sources are found and are to be submitted to Council for consideration.</p>	<p>Design for these projects was included in the FY 2006-07 Capital Improvement Program.</p>
<p>Continue to explore cost-sharing partnerships for operation of new facilities.</p>	<p>Council noted the importance of seeking creative ways to fund both the capital and operations and maintenance costs of City parks.</p>
<p>Continue the evaluation of fees schedules and charges associated with Beaches, Parks &amp; Recreation facilities and services.</p>	<p>Fee schedules have been reviewed and recommended facility rental fees have been implemented.</p>
<p>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.</p>	<p>The Civic Center project was prioritized by City Council in the top five priorities.</p>

## Long Term Financial Plan

<b>Downtown Vision &amp; Strategic Plan Implementation Update</b>	<b>Status</b>
<p>Update the City land use policy for consistency of the downtown vision.</p> <p>Public/private partnership for the development of City-owned properties in the North Beach area.</p> <p>Pursue the establishment of public parking resources on private property in the T-Zone.</p> <p>Subcommittee to study the feasibility of establishing a transit circulator.</p> <p>Development of a plan for a downtown information signs, locator signs and gateway features in key locations.</p> <p>Development of a strategy for improving the safety of pedestrians crossing at El Camino Real/ El Portal triangle.</p>	On Going

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

<b>Street Improvement Program</b>	<b>Status</b>
Approve and authorize the allocation of a General Fund contribution of \$633,380 for the coming FY 2006-07.	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 five street projects with the San Clemente Golf Course area from FY 2007/08 to FY 2006-07.	Done. The projects are being designed for construction.



## Long Term Financial Plan Review

<b>Street Improvement Program-continued</b>	<b>Status</b>
Approve the Street Improvement Program schedule modification to accelerate three street projects within the Rancho San Clemente area from FY 2009/10 to FY 2007-08.	Done. The projects are being designed for construction.
Approve the Street Improvement Program schedule modification to accelerate Portico Del Sur/Del Norte within Forster Ranch area from the FY 2009/10 to FY 2007/08.	Done. The project is being designed for construction.

<b>Water &amp; Sewer Asset Management Study</b>	<b>Status</b>
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	Done.

<b>Enterprise Fund Depreciation Analysis</b>	<b>Status</b>
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.	Done.
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.	Done.
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.	Done.

## Long Term Financial Plan

<b>Enterprise Fund Depreciation Analysis-continued</b>	<b>Status</b>
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.	Done.
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.	Done.
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”.	Done.
Amend the Water and Sewer Rate Models to comply with the Ordinance changes for a neutral operating position.	Done.
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.	Done.



# City of San Clemente

George Scarborough, City Manager  
100 Avenida Presidio, San Clemente, CA 92672

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## Honorable Mayor and Councilmembers:

### ***Introduction***

I am pleased to present the *2007 Long Term Financial Plan* to the City Council and San Clemente residents. This financial plan represents the fifteenth 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.

Although the City has been producing a financial plan since 1993, the format of the process has been revised based upon a soon to be released book by the Government Finance Officers Association (GFOA) on Long-Term Financial Planning.<sup>1</sup> This book features case studies of the long-term financial processes in use by governments and the City of San Clemente is included as one of the case studies. The book introduces two new features to the financial planning process, debt affordability and gap analysis, which have been incorporated into the 2007 Long Term Financial Plan.

The revised Long Term Financial Plan (LTFP) includes an executive summary which describes the City's current and projected financial condition. The executive summary combines all recommendations from the individual issue papers into one "gap closing" strategy.

The next section includes the City's Fiscal Policy. The Fiscal Policy has been established to provide guidelines for operational and strategic decision making related to financial matters. As stated in the GFOA publication, *Financial Policies: Design and Implementation*<sup>2</sup>, "Financial policies identify acceptable and unacceptable courses of action, establish parameters in which the government can operate, and provide a standard against which the government's fiscal performance can be judged." The City of San Clemente's fiscal policy has been completely revised based on "best practice" recommendations from GFOA.

A total of eight issues were examined in the 2007 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

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<sup>1</sup> Shayne Kavanagh. "Long-Term Financial Planning" (Government Finance Officers Association 2007.)

<sup>2</sup> Shayne Kavanagh and Wright Anderson Williams "Financial Policies: Design and Implementation" (Government Finance Officers Association, 2004.)

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## Long Term Financial Plan

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financial plan, reserves have been established to maintain essential service programs during periods of economic downturn or to build and maintain critical infrastructure assets.

The remaining issues identify financial funding gaps for the completion of major capital projects, continuation of the environmental program and future operation and maintenance of the golf course.

The Capital Projects Analysis provides a summary of capital projects that have been identified as priority projects for the City. A funding gap of \$32.0 million has been identified for the construction of La Pata/Vista Hermosa Park, phase I; signalization and road widening of Vista Hermosa; Rail Corridor Pedestrian Trail, phase II; Civic Center, Senior Center and the Bellota slope renovation. Descriptions of these projects, along with the anticipated costs for construction, have been provided in this paper.

An additional \$9.2 million funding gap exists for two projects in the Water and Sewer Enterprise Funds. The Upper Chiquita Reservoir project is a joint venture with the City of San Clemente, the Municipal Water District of Orange County (MWDOC) and the Santa Margarita Water District for emergency water storage at an estimated cost of \$70.0 million. The Recycled Water Expansion project will potentially expand the delivery of recycled water to new developments in Marblehead Coastal, Talega and Pacific Golf Course.

The Clean Ocean Program Review and Renewal provides an update of the progress that has been made by the City's environmental program. The Clean Ocean program is currently funded through a utility fee, which generates \$1.8 million annually. The fee will expire at the end of 2007 and requires a formal election process to renew the fee. If the fee is not renewed, an alternate funding source must be found for the program elements mandated by the City's National Pollutant Discharge Elimination System (NPDES) storm water permit.

The Golf Analysis utilizes the financial forecast model to project revenues and expenditures over a five-year period. The forecast projects a negative operating position and a deficit net working capital balance by the fourth year of the forecast. While revenues remain relatively stable, expenditures continue to rise due to debt service payments and depreciation charges for the new clubhouse.

The two new elements of the 2007 Long Term Financial Plan, Debt Analysis and Gap Closing Strategies, provide a long-term solution to close current financial gaps while ensuring future fiscal sustainability.

The Debt Analysis provides an analysis of the City's current debt and makes recommendations on the appropriate use and types of long-term debt that can be used. The GFOA book on Long-Term Financial Planning incorporates this analysis into the process in order to determine if long-term debt should be used to bridge current financial funding gaps and to determine the impact of long-term debt on future operating budgets.

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## City Manager's Transmittal Letter

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The Gap Closing Strategies paper brings together the City's entire financial situation and makes recommendations for closing the funding gaps identified in the issue papers. Adoption of these gap closing strategies will set the course for development of the 2007-08 fiscal year budget.

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 2007 Long Term Financial Plan and the budget for Fiscal Year 2007-08.

**George Scarborough**  
City Manager

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# Long Term Financial Plan

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# Executive Summary

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## Financial Summary

The *Executive Summary* portion of the 2007 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:

### **The 2007 Long Term Financial Plan Summary**

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

### **The 2007 LTFP is the 15th edition of the City's financial strategic plan**

#### **Introduction**

The fifteenth 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 note 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 its 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 its financial future.

The comprehensive analysis of the City's financial trends and reserves shows the progress that has been made in implementing long-term financial solutions to address issues identified in previous plans.

### **The Capital Projects Analysis projects a \$32.0 million funding gap for priority projects**

The 2007 Long Term Financial Plan focuses on funding gaps between available resources and projected construction and maintenance costs. The current bid climate, along with global market conditions for raw materials, has caused construction costs to rise beyond budget estimates. The Capital

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## Long Term Financial Plan

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Projects Analysis projects a \$32.0 million funding gap for priority projects. An additional \$9.2 million gap exists for the completion of two projects in the Water and Sewer Enterprise Funds. The LTFP also projects negative operating positions for the Clean Ocean and Golf Funds during the forecast period.

***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.

***The General Fund is projected to end the year with a \$10.8 million fund balance***

The City's General Fund forecast projects a 2006-07 fiscal year ending fund balance of \$10.8 million, excluding General Fund emergency reserves of \$3.5 million. General Fund revenues are expected to amount to \$48.4 million. General Fund *operating revenues*, which excludes \$3.0 million in one-time revenue, amounts to \$45.5 million. Total General Fund expenditures amount to \$58.7 million. Operating expenditures, which excludes \$13.4 million in one-time programs, projects and transfers, amounts to \$45.2 million.

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

As the City moves into fiscal year 2007-08, the overall financial condition can be considered positive, however, as indicated above, funding gaps for major capital projects exist. Property taxes, sales taxes and transient occupancy taxes are anticipated to increase due to the Marblehead Coastal Development beginning in FY 2009-10. The City's financial forecast includes revenues and maintenance expenditures associated with the Marblehead development. All reserves, with the exception of Enterprise Depreciation reserves, are fully funded, although minimal contributions will have to be made in order to maintain prudent reserve levels.

***All General Fund 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 \$13.3 million has been dedicated to the funding of reserves and deficit fund balances. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, facilities maintenance, contingency, and emergency reserves. All reserve funds are now funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels the following transfers are proposed:



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## Executive Summary

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**A transfer of \$170,000 to the Accrued Leave Reserve**

**A transfer of \$83,000 to Facilities Maintenance Reserve**

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

**Depreciation funding gaps for Water, Sewer and Storm Drain have been identified**

**Annual increases of \$500,000 for Water, \$250,000 for Sewer and \$200,000 for Storm Drain are recommended**

- The 2007 LTFP recommends that the City allocate \$170,000 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 \$83,000 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 \$90,000 contribution to the General Fund Emergency reserve is recommended for FY 2007-08 to continue full funding of the reserve at 8% of General Fund operating expenditures.
- A total of \$225,000 is recommended for FY 2007-08 to fund the Council Contingency reserve at 0.5% of General Fund operating expenditures. This reserve is used to provide for non-recurring, unanticipated expenditures.

### **Reserve Funding – Enterprise Funds**

Funding gaps between the amount of the annual contributions to depreciation reserves and the amounts required to maintain infrastructure assets exist in the Water, Sewer and Storm Drain Depreciation Reserves.

A \$7.8 million gap has been identified for the Water Depreciation Reserve. To narrow the gap, a one-time transfer of \$1.0 million from the Water Operating Fund is recommended, along with an increase in the annual replacement charges. Replacement charges are recommended to increase from \$1.5 million per year to \$2.0 million per year.

The Sewer Depreciation Reserve is projected to be under funded by \$5.3 million by June 30, 2007 and will not be in compliance with the City's Fiscal Policy. An increase from \$1.8 million to \$2.05 million is recommended to fund the Sewer Depreciation Reserve.

A total of \$2.6 million is required to fund the Storm Drain Depreciation Reserve at a level in compliance with the City's Fiscal Policy. An increase from \$387,900 to \$587,900 is recommended.

Recommended increases to the Water and Sewer depreciation contributions will result in potential increases to the Water and Sewer rates. A rate analysis for water and sewer will be presented to City Council and the public in May 2007. The increase in the Storm Drain depreciation contribution will decrease the amount available for capital projects.

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## Long Term Financial Plan

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**Transfers of \$9.6 million were included in the FY 2006-07 budget.**

### **General Fund Transfers**

Several transfers from the General Fund to other funds are included in the annual budget (not including reserve allocations). In FY 2006-07, these include total transfers of \$9.6 million, of which, \$759,000 were for routine items such as the Street Improvement Program (\$633,000) and miscellaneous transfers<sup>1</sup> (\$126,000). One-time transfers of \$9.0 million included a \$7.65 million transfer for construction of La Pata/Vista Hermosa Park, \$172,000 debt service subsidy to the Negocio Debt Service Fund and a \$1.029 million transfer to the Golf Fund for construction of the clubhouse.

For FY 2007-08, a transfer from the General Fund to the Street Improvement Program of \$652,380 and miscellaneous transfers of \$95,640 have been recommended.

**Funding will continue in FY 2007-08 with a \$652,380 contribution to the Street Improvement Program**

*Street Improvement Program:* General Fund contributions to the Street Improvement Program have totaled \$6.4 million during the past twelve fiscal years. Funding for this program will continue in FY 2007-08 with a contribution of \$652,380. Annual contributions, which include an inflationary factor, will be made through the remainder of the program.

**RDA debt is \$2.9 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 provided short-term loans, totaling \$984,000, to the Golf Operating Fund over the last three years. This loan will be repaid upon the issuance of a \$3.45 million clubhouse construction loan in April 2007.

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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, a 10% grant match to the Gas Tax Fund for the Senior Mobility program and a transfer to the Water and Sewer Funds to subsidize fixed fees to low income households.

## Executive Summary

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

**A “Favorable/Caution” rating has been assigned to Revenues per Capita, Elastic Revenues, Community Service Charges and Expenditures per Capita**

### **Financial Trend Analysis**

The City’s financial condition is also quantitatively measured using a financial trend monitoring system. The annual Financial Trend Analysis report for the year ending June 30, 2006 indicates that 17 out of 21 indicators are favorable. However, Revenues per Capita, elastic revenues, Community Service charges and Expenditures per Capita received a “favorable/caution” rating.

*Revenues Per Capita, Elastic Revenues, Community Service Charges and Expenditures per Capita:* Four trends with a “favorable/caution” rating are due to the City’s transition from a fast growing, high development area to a City reaching build out. The Revenues per Capita trend will need monitoring to determine if population growth translates into sustainable revenues that keep pace with inflation. Development revenues, which include a decline in Community Service Charges, are causing Elastic Revenues to decline as a percentage of all revenues. The “favorable/caution” rating for Expenditures per Capita is based on an increase in actual and constant expenditures for City services.

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

<b>Indicator</b>	<b>2007</b>	<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>
Revenues Per Capita	F/C	F/C	W	W	F	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	F	F	F	F	F
Elastic Revenues	F/C	F	F	F	F	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	F
Licenses & Permits	F	F/C	F	F	F	F	F	F	F	U
Comm. Develop. Charges	F/C	F	F	F	F	F	F	F	F	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	F/C	F	F	F	F	F	F
Expenditures Per Capita	F/C	F	F	F	F/C	F	F	F	F	F
Expenditures by Function	F	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A	N/A

# Long Term Financial Plan

<i>Indicator</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Employees										
Per Capita	F	F	F	F	F	F	F	U	U	F
Fringe Benefits	F	F	F/C	F	F	F	F	F	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Positions	F	F	F	F	F/C	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F/C	F/C	F/C	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

The trend report also includes a section describing the distribution of the property tax dollar. As indicated below, the City normally receives 11% of the property tax dollar. Due to shifts made by the State for sales tax triple flip and property tax for State vehicle license fees, the City's share increases to 19%.

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



### **Five Year Financial Forecast**

**Revenue growth is projected at 4.0%**

City revenues are anticipated to grow by an annual average increase of 4.0% a year. Property taxes increase by an annual average of \$1.1 million over the five-year period with the anticipated completion of all new housing units in Talega and Marblehead. Sales taxes increase by \$760,000 annually over the forecast period, primarily from sales taxes generated from the Marblehead retail facility. Transient occupancy taxes are expected to grow by almost \$400,000 from the hotel/conference center on Marblehead. However, development related revenues from building permits, construction inspection and plan check fees are anticipated to decline beginning in FY 2009-10.

**Expenditures will increase 3.5%**

Expenditures are projected to increase at an average rate of 3.5%, largely due to the projected addition of five contract police positions, anticipated increases in the fire contract and maintenance for the coastal trail and new parks and medians in Talega and Marblehead.

## Executive Summary

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

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

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

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

***The City's projected operating position is positive in all years of the forecast period***

*Forecast Operating Position*

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

<b>2007 Forecast Summary (LTFP)*</b>					
Amounts in \$1,000					
	2007-08	2008-09	2009-10	2010-11	2011-12
Operating receipts	\$48,158	\$50,532	\$52,795	\$54,679	\$56,939
Operating disbursements	44,749	46,839	48,219	50,253	52,259
Projected surplus/deficit	\$3,409	\$3,693	\$4,576	\$4,426	\$4,680

***2007 LTFP forecast - operating position***

\* One-time revenues and expenditures have been excluded. There are no one-time revenues in FY 2007-08. One-time expenditures include transfers to other funds, capital outlay and special projects.

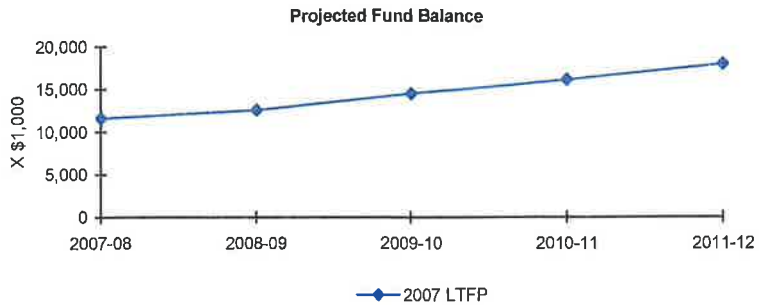
The 2007 financial forecast projects surpluses averaging \$4.2 million due to an increase of \$3.8 million in property taxes in the base year (FY 2005-06) of the forecast. Revenue growth is offset by an increase of \$750,000 in operating expenditures in the base year of the forecast.

***The City's projected fund balance averages \$14.6 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.

# Long Term Financial Plan



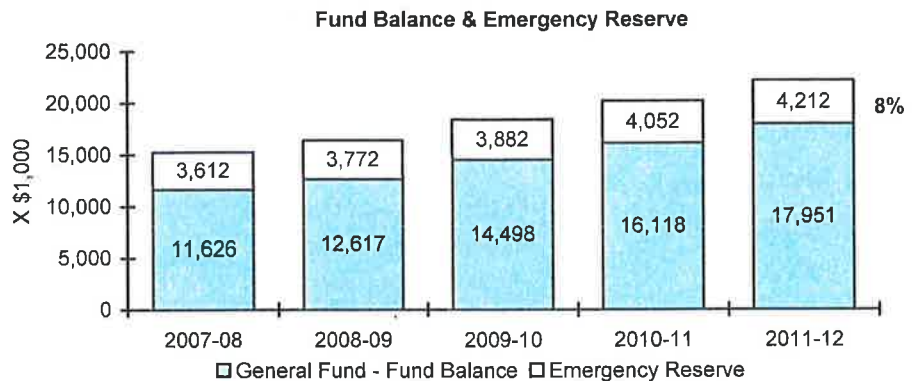
As shown on the following table and graph, the projected ending fund balance over the five year forecast period will be positive. Emergency reserve levels have been maintained at the required 8% level.

**Fund balances are projected to be positive**

### Fund Balance & Emergency Reserve

Amounts in \$1,000	2007-08	2008-09	2009-10	2010-11	2011-12
Fund Balance	\$11,626	\$12,617	\$14,498	\$16,118	\$17,951
Emergency Reserves (8%)	\$3,612	\$3,772	\$3,882	\$4,052	\$4,212

**Fund balances and emergency reserves**



**Sale of City properties, developer fees and undesignated fund balances are potential gap closing strategies**

### Gap Closing Strategies

Each of the major capital projects included in the 2007 Long Term Financial Plan has dedicated funding for a portion of the construction costs. A \$32.0 million funding gaps exists for construction of La Pata/Vista Hermosa Park, phase I; signalization and widening of Vista Hermosa; rail corridor pedestrian trail, phase II; Civic Center, Senior Center and Bellota slope renovation. Potential gap closing strategies include the sale of City properties, use of developer fees and undesignated fund balances to bridge the funding gaps.

## Executive Summary

The table below summarizes the capital projects and potential gap closing strategies:

<b>Gap Closing Strategies</b>	
<b>La Pata/Vista Hermosa Park, phase I</b>	
<b>(Including widening and signalization of Vista Hermosa) funding gap</b>	<b>(16,174,700)</b>
Sale of City Hall land	11,710,000
Use of Talega Developer Agreement monies	4,464,700
<b>Civic Center funding gap</b>	
Sale of City Hall land	4,590,000
Public Safety Reserve	2,800,000
<b>Senior Center funding gap</b>	
One-time transfer from the General Fund fund balance	355,000
<b>Via Bellota Slope Repair funding gap</b>	
One-time transfer from the General Fund fund balance	1,130,170
<b>Rail Corridor Pedestrian Trail, phase II funding gap</b>	
One-time transfer from the Beach Parking Reserve	2,921,600
One-time transfer from RDA fund balance	2,000,000

In addition, proceeds from the land lease of nine acres across from the La Pata/Vista Hermosa park site could be utilized to fund on-going operational and maintenance costs for the park.

Two projects in the Water and Sewer Enterprise Funds have been identified that are only partially funded at this time. The City's estimated share of a Municipal Water District of Orange County (MWD OC) Upper Chiquita emergency reservoir is \$8.8 million, of which, \$6.7 million is the current shortfall. The Recycled Water expansion project is estimated at a design and construction cost of \$14.0 million. A funding gap of \$2.5 million is currently estimated. Gap closing strategies for the two Water/Sewer projects have not been included because there are some opportunities for a regional debt issuance or grants to fund these shortfalls. These funding gaps will be addressed once these opportunities have been explored.

Operating deficits in the Clean Ocean and Golf Funds can be resolved through a renewal of the Clean Ocean fee and an increase in the golf course greens fee.

### **Debt Analysis**

A debt analysis was conducted to analyze and recommend appropriate use and amount of long term debt by the City. The analysis presents an overview of the City's current debt, a discussion of the opportunities for refinancing some or all of the current outstanding debt, and an examination of options and strategies for use of debt as a potential gap-closing strategy.

## Long Term Financial Plan

Eligible funding methods are identified for each capital project, along with the projected funding gap. General assumptions for debt issuance costs and estimated debt service payment assumptions are also presented. The following table describes the funding gap, amount of the debt issue and annual debt service payments for each of the capital projects. The analysis concludes by identifying appropriate forms of debt for five of the capital projects. Three of the projects are fully funded or will not qualify for public debt issuance.

Capital Project	Funding Gap	Debt Issue	Annual Debt Service
La Pata/Vista Hermosa Park & Vista Hermosa signalization – Certificate of Participation or Assessment District	\$16,200,000	\$20,300,000	\$1,600,000
La Pata/Vista Hermosa Park & Vista Hermosa signalization – General Obligation Bonds	\$16,200,000	\$17,100,000	\$1,300,000
Rail Corridor Pedestrian Trail – Certificates of Participation	\$4,900,000	\$6,500,000	\$510,000
Rail Corridor Pedestrian Trail – Certificates of Participation – General Obligation Bonds	\$4,900,000	\$5,200,000	\$390,000
Civic Center – Certificates of Participation	\$7,600,000	9,500,000	\$745,000
Civic Center – General Obligation Bonds	\$7,600,000	8,000,000	\$600,000
Senior Center	\$306,000	\$360,000	\$35,000
Upper Chiquita Reservoir	\$6,700,000	\$7,900,000	\$700,000
Recycled Water Expansion	\$2,500,000	\$3,300,000	\$260,000

Should Council consider utilizing bonded debt, the following options are available:

1. Combine the La Pata/Vista Hermosa Park, Phase I project with the Avenida Vista Hermosa signalization and widening improvement project. Finance the projected funding gap of \$16.2 million with an estimated \$20.3 million Certificate of Participation debt issuance. Annual installment payments would total an estimated \$1.6 million to the General Fund. Should the project gap be funded through an Assessment District or General Obligation bond, debt service



## Executive Summary

payments of \$1.6 million or \$1.3 million respectively would be assessed upon property owners and would not be a General Fund obligation.

2. Finance the Rail Corridor Pedestrian Trail, Phase II with a \$6.5 million Certificate of Participation debt issuance. Estimated annual installment payments from the General Fund would total \$510,000. Should the project gap be funded through an Assessment District or General Obligation bond, debt service payments of \$390,000 would be assessed upon property owners and would not be a General Fund obligation.
3. Finance the \$7.6 million Civic Center project gap with a \$9.5 million Certificate of Participation debt issuance. Annual installment payments from the General Fund are estimated at \$745,000. Should the project gap be funded through an Assessment District or General Obligation bond, debt service payments of \$600,000 would be assessed upon property owners and would not be a General Fund obligation.

Assuming the three projects are financed by Certificate of Participation debt issues, annual installment payments would be paid by the General Fund.

The following table presents the impact of issuing Certificate of Participation debt to the operating position of the General Fund.

### 2007 Forecast Summary (LTFP)\*

Amounts in \$1,000

**2007 LTFP forecast –  
revised operating  
position for debt option**

	2007-08	2008-09	2009-10	2010-11	2011-12
Operating receipts	\$48,158	\$50,532	\$52,795	\$54,679	\$56,939
Operating disbursements	44,749	46,839	48,219	50,253	52,259
Projected surplus/deficit	\$3,409	\$3,693	\$4,576	\$4,426	\$4,680
La Pata/VH Park	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Rail Corridor	(510)	(510)	(510)	(510)	(510)
Civic Center	(745)	(745)	(745)	(745)	(745)
Revised surplus/deficit	\$554	\$837	\$1,721	\$1,571	\$1,826

### 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.

**2007 LTFP  
recommendations**

The 2007 Long Term Financial Plan recommendations include funding of reserves and a special election for the Clean Ocean fee. A transfer of \$170,000 is recommended to the Accrued Leave reserve and a transfer of \$83,000 is recommended to the Facilities Maintenance Capital Asset reserve.

# Long Term Financial Plan

If direction is given by City Council to pursue an election on the renewal of the Clean Ocean fee, it is recommended that \$100,000 be allocated in the General Fund for election costs. These are “one-time” transfers or expenditures and do not affect the General Fund operating position.

## 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 2007 LTFP recommendations:

**Current  
projected fund  
balances**

Fund Balance						
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Fund Balance	10,801,000	\$11,626,000	\$12,617,000	\$14,498,000	\$16,118,000	\$17,951,000

The following table indicates the impact on fund balances if recommendations contained in the 2007 Long Term Financial Plan are adopted by the City Council.

**Projected fund  
balances including  
2007 LTFP  
recommendations**

Fund Balance						
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<i>Projected Ending Fund Balance</i>	\$10,801,000	\$11,626,000	\$12,060,540	\$13,051,540	\$14,932,540	\$16,552,540
Revenues less expenditures <sup>1</sup>	0	825,000	991,000	1,881,000	1,620,000	1,833,000
Accrued Leave Reserve <sup>2</sup>	0	-180,000	0	0	0	0
Facilities Maint. Reserve <sup>3</sup>	0	-83,000	0	0	0	0
Clean Ocean Election Costs	0	-100,000	0	0	0	0
General Liability Insurance	0	-27,460	0	0	0	0
<i>Revised Ending Fund Balance</i>	\$10,801,000	\$12,060,540	\$13,051,540	\$14,932,540	\$16,552,540	\$18,385,540

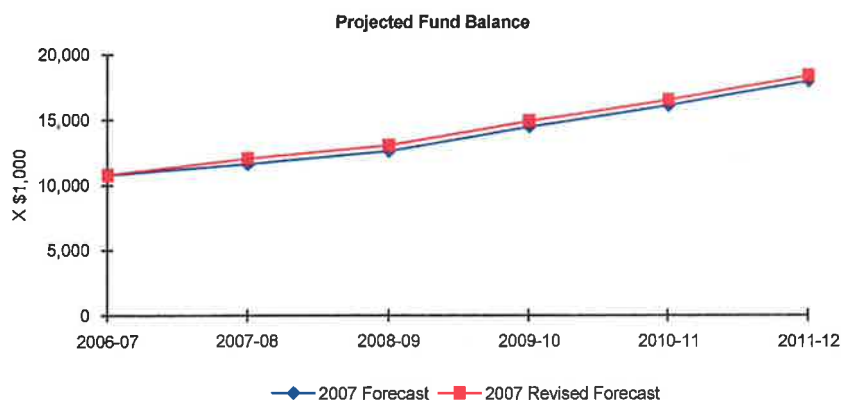
<sup>1</sup> This is the change in fund balance caused by revenues higher than expenditures or one-time expenditures higher than revenues.

<sup>2</sup> Recommended 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>3</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.

## Executive Summary

The following graph shows the impact of adopting the 2007 LTFP recommendations on projected fund balances:



As illustrated, the overall impact of adopting LTFP recommendations, fund balances increase from an average of \$14.7 million to \$15.0 million over the forecast period.

### Operating Position

Based on the revised expenditure and revenue trends, the financial forecast still predicts a positive operating position in all years of the forecast period.

### 2007 Forecast Summary (LTFP)\*

Amounts in \$1,000

#### 2007 LTFP forecast - operating position

	2007-08	2008-09	2009-10	2010-11	2011-12
Operating receipts	\$48,158	\$50,532	\$52,795	\$54,679	\$56,939
Operating disbursements	44,776	46,839	48,219	50,253	52,259
Projected surplus/deficit	\$3,382	\$3,693	\$4,576	\$4,426	\$4,680

### Conclusion and Recommendations for Enterprise Funds

The 2007 financial forecast for the Water, Sewer, Golf and Clean Ocean Enterprise Funds identifies negative operating positions over the forecast period. The Storm Drain Funds projects a positive operating position.

The Water Fund is projected to have a negative operating position in all five years of the forecast period. However, net working capital balances are sufficient to sustain the fund through the first two years of the forecast. If recommendations to increase the annual depreciation are approved, the operating deficit would grow by \$500,000 per year.

The Sewer Fund is projected to have a negative operating position in the last four years of the forecast and ending net working capital balances are negative after the first year. Forecast expenses do not include a recommendation to increase the annual depreciation charges by \$250,000.

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## Long Term Financial Plan

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A formal review of the water and sewer rate structure will be conducted in March 2007 to determine what the proposed rates would be to balance the operating position and fund on-going maintenance projects.

The Golf Fund maintains a positive operating position in the first two years of the forecast. To maintain a positive operating balance in the Golf Fund, an increase in green fees is recommended in the Golf Analysis paper.

The Storm Drain Fund has a positive ending net working capital balance and a positive operating position throughout the forecast period. Revenues are sufficient to sustain operating expenses, maintenance and planned capital improvements. Expenditures do not include any recommendations of the Reserve Analysis paper, which includes an increase of \$200,000 annually to the Storm Drain Fund for funding the projected Storm Depreciation Reserve gap.

The 2007 Clean Ocean Fund forecast includes revenue from the Clean Ocean fee for only six months of the fiscal year. This fee is currently scheduled to sunset in December 2007. Forecasted expenses presume the present level of services and have been increase based upon inflation. A negative operating position is projected in all five years of the forecast. The net working capital balances are negative after the first year of the forecast. The Clean Ocean Program Review and Renewal seeks City Council action upon the renewal of the Clean Ocean fee.

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

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

This section summarizes the recommendations contained in the 2007 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. Adopt the City's revised Fiscal Policy.

#### *Financial Trend Analysis*

1. None.

#### *Financial Forecast*

1. None.

#### *Reserve Analysis*

1. Budget sufficient funds for FY 2007-08 in order to bring the emergency reserve to the 8% level of projected General Fund
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## Executive Summary

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- operating expenditures. Based on the Financial Forecast, this would amount to \$90,000.
2. Budget \$134,000 for Water, \$72,000 for Sewer, \$11,000 for Storm Drain and \$17,500 for Golf Operating Funds in FY 2007-08 to maintain emergency reserves at 8% of projected operating expense levels.
  3. Staff recommends that \$225,000 be set aside in fiscal year 2007-08 to fund the Council Contingency Reserve.
  4. Transfer \$170,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2007-08.
  5. Maintain the annual City-wide charge for General Liability insurance at \$1.5 million for fiscal year 2007-08.
  6. Maintain the existing Workers' Compensation rates for fiscal year 2007-08.
  7. Transfer \$83,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2007-08.
  8. Increase the annual depreciation contribution from the Water Operating Fund from \$1.5 million to \$2.0 million for fiscal year 2007-08.
  9. Budget a one-time transfer of \$1.0 million from the Water Operating Fund to the Water Depreciation Reserve to bring the fund balance into compliance with the proposed Fiscal Policy for fiscal year 2007-08.
  10. Increase the annual depreciation contribution from the Sewer Operating Fund from \$1.8 million to \$2.05 million for fiscal year 2007-08.
  11. 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."
  12. Increase the annual depreciation contribution from the Storm Drain Operating Fund from \$387,900 to \$587,900 for fiscal year 2007-08.

### *Capital Projects Analysis*

1. Recommendations will be included in the Gap Closing Strategies paper.

### *Clean Ocean Program Review and Renewal*

1. Staff recommends that the City Council direct staff to begin planning for a renewal of the Clean Ocean Fee, including obtaining public input on the future of the Clean Ocean Program (e.g. program goals, specific projects and/or activities etc.), developing implementation alternatives, costs and associated Clean Ocean Fee rate impacts, and preparing implementation recommendations for City Council

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## Long Term Financial Plan

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consideration. The Council would then decide which program alternative to pursue, and how it should be funded. If so directed, staff would then begin the formal election process for renewal of the Clean Ocean Fee and \$100,000 would need to be included in the City Clerk's FY 2007-08 budget. If the City Council chooses not to pursue renewal of the fee, then the Clean Ocean Program would need support from other City funds to continue to meet its regulatory obligations.

### *Golf Analysis*

1. Staff recommends that City Council direct staff and the Golf Committee to develop a fee increase for approval that averages approximately \$3 per round and is ready for implementation in spring 2008.

### *Debt Analysis*

1. None.

### *Gap Closing Strategies*

1. Direct staff to continue to explore the funding options as defined in the Gap Closing Strategies and Debt Analysis sections

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# Fiscal Policy

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## **Objective**

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

## **Background**

As a part of the City's annual Long Term Financial Planning process and the Government Finance Officers Association (GFOA) best practices, City staff developed, and Council adopted, a set of Fiscal Policy's which address the following fiscal categories;

- General Financial Goals
- Operating Budget Policies
- Revenue Policies
- Expenditure Policies
- Utility Rate and Fees Policies
- Capital Improvement Budget Policies
- Short-Term Debt Policies
- Long-Term Debt Policies
- Reserve Policies
- Investment Policies
- Accounting, Auditing & Financial Reporting Policies

The annual review of fiscal policies 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.

Over the course of many years, the City's Fiscal Policy has been expanded. In an effort to present clear fiscal direction in a concise format, each policy was reviewed in 2007 and Policy statements were clarified and/or consolidated. Although significant changes have been made to the policies, three general objectives were accomplished; 1) Several policy statements were moved from one heading to another for easier reference, 2) Emergency reserve objectives for the General Fund and the Enterprise Funds were consolidated into a single objective, and 3) Water, Sewer, Storm Drain, and Golf Depreciation policies were consolidated.

## **Recommendation**

Adopt the City's revised Fiscal Policy.

## **Council Action**

Recommendation was approved by the City Council by a vote of 5-0 on February 22, 2007.

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## Long Term Financial Plan

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Fiscal Policy Statement	Status	Comments
<b>General Financial Goals</b>		
1. To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
2. To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
3. To maintain and enhance the sound fiscal condition of the City.	√	
<b>Operating Budget Policies</b>		
1. The City will adopt a balanced budget by June 30 of each year.	√	
2. An annual base operating budget will be developed by conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	√	
4. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant and equipment.	√	
5. 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.	√	
6. The City will annually project its equipment replacement and maintenance needs for the next five years. A maintenance and replacement schedule will be developed and followed.	√	



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## Fiscal Policy

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Fiscal Policy Statement	Status	Comments
7. The City will annually review the General Fund operating position 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>Revenue Policies</b>		
1. The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
2. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates adopted by the City Council must be conservative.	√	
3. 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.	√	
4. One-time operating, capital and reserve revenues will be used for one-time expenditures only.	√	
5. The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development and use those funds to meet peak workload requirements.	√	

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## Long Term Financial Plan

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Fiscal Policy Statement	Status	Comments
<b>Expenditure Policies</b>		
1. 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>		
1. 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 is conducted in March.
2. Utility rates will be projected for each of the next five years and updated annually.	√	
<b>Capital Improvement Budget Policies</b>		
1. The City will make all capital improvements in accordance with an adopted and funded capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs).	√	
2. 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.	√	
3. 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.	√	

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## Fiscal Policy

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### Fiscal Policy Statement

### Status

### Comments

4. The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the city's master plans.

√

### Short-Term Debt Policies

1. 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.
2. 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.

√

√

### Long-Term Debt Policies

1. The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.
2. Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
3. The City will establish and maintain a Debt Policy.

√

√

√

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## Long Term Financial Plan

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Fiscal Policy Statement	Status	Comments
<b>Reserve Policies</b>		
1. The City will maintain General Fund and Enterprise Fund Emergency reserves at a level at least equal to 8% of operating expenditures. The primary purpose of these reserves 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 unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	√	Emergency Reserve = \$3.6 million, or 8% of General Fund operating expenditures for FY 2007-08 Water = \$529,000 Sewer = \$590,000 Storm Drain = \$75,000 Solid Waste = \$12,000 Golf = \$185,500
2. 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 shall not be less than ½ % of General Fund operating expenditures.	√	Council Contingency Reserve = \$225,000 for FY 2007-08
3. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained as a level at least equal to projected costs for employees who are eligible for retirement.	√	Accrued Leave Reserve = \$400,000 for FY 2007-08
4. 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). The City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = \$90,000 (Additional \$330,000 reserve for claims not covered by insurance pool)  Workers Compensation Reserve = \$900,000 (Additional \$385,000 for claims not covered by insurance pool)

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## Fiscal Policy

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Fiscal Policy Statement	Status	Comments
5. The City will establish a Capital Equipment Replacement Reserve and a Facilities Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.	√	Capital Equipment Reserve = \$875,000 Facilities Maintenance Reserve = \$597,000 for FY 2007-08
6. The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	Fleet Replacement Reserve = \$4.3 million for FY 2007-08
7. The City will establish Water, Sewer, Storm Drain, and Golf Depreciation Reserves for costs associated with the major maintenance and capital improvement costs included in the Enterprise Funds. The minimum Reserve level shall be at a level equal to the projected five-year capital and major maintenance costs.	--	Water Depreciation Reserve = \$4.9 million Sewer Depreciation Reserve = \$1.2 million Storm Drain Depreciation Reserve = \$696,000 Golf Depreciation Reserve = \$882,000 for FY 2007-08
8. The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected five-year costs.	√	Golf Course Improvement Reserve = \$100,000 for FY 2007-08

### Investment Policies

- |  |   |
|--|---|
| 1. The City Treasurer will annually submit an investment policy to the City Council for review and adoption. | √ |
|--|---|

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## Long Term Financial Plan

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Fiscal Policy Statement	Status	Comments
2. The City Treasurer will invest the City's monies in accordance with applicable laws and adopted investment policies and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indentures or issuance document.	√	
<b>Accounting, Auditing &amp; Financial Reporting Policies</b>		
1. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
2. An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
3. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	A Fixed Asset physical inventory was conducted for GASB34 conversion
4. Quarterly financial, Capital Improvement Program, and Investment reports will be submitted to the City Council and will be made available to the public.	√	
5. Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
6. Maintain a positive municipal credit rating.	√	Standard & Poor's = AA

Legend:

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

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# Financial Trend Analysis

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## Objective

A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition". The analysis of these indicators is designed to present information on the fiscal health of the City of San Clemente as part of the Long Term Financial Plan. This annual financial trend analysis focuses on the City's General Fund.

## Background

The City's financial trends are analyzed annually with many factors utilized in order to understand 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 desired level of services currently and as the City continues to grow;
- Fund balances and debt levels and their impact upon current City financial resources.

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 have been considered in connection with this analysis.

## Executive Summary

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 of the twenty-one indicators:

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

## Long Term Financial Plan

A summary of the indicators analyzed and the rating assigned to each is listed below. The past ten trend reports are presented and identify strengths and weaknesses of the City's financial condition and to illustrate any positive or negative changes.

Indicator	07	06	05	04	03	02	01	00	99	98
Revenues Per Capita	F/C	F/C	W	W	F	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	F	F	F	F	F
Elastic Revenues	F/C	F	F	F	F	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	F
License & Permit Revenues	F	F/C	F	F	F	F	F	F	F	U
Comm. Develop. Charges	F/C	F	F	F	F	F	F	F	F	U
Intergovernmental Revenues	F	F	F	F	F	F	F	F	F	F
One-Time Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overage	F	F	F	F	F	F	F	F	F	F
Population	F	F	F	F/C	F	F	F	F	F	F
Expenditures Per Capita	F/C	F	F	F	F/C	F	F	F	F	F
Expenditures By Function	F	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	F	U	U	F
Fringe Benefits	F	F	F/C	F	F	F	F	F	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F	F	F	F	F/C	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F/C	F/C	F/C	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

### Overview of the City's Financial Condition

The improved long term fiscal health of the City as evidenced previously is not only the result of external factors, such as a strong local economy, but also the direct result of a conscious effort and continual planning on the part of City Council and staff. Because of the commitment to financial planning the City's fiscal position has improved which is the result of implementing Long Term Financial Plan recommendations, funding of necessary reserves, an improved local and regional economy, and cost reductions and streamlining efforts made by many of the City's departments.



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## Financial Trend Analysis

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The 2007 Long Term Financial Plan includes the analysis of twenty-one trends. No indicators received a warning or unfavorable rating. However, four indicators were assigned a caution rating in addition to favorable ratings. In total, these current year results are a decrease from the prior year when only two indicators received caution ratings.

### Rating changes

There were four trend changes from the last fiscal year, with one of the changes in a positive direction and three in a negative direction. The positive change was in *License and Permit* revenues, which showed improvement from last year. The negative changes were:

- *Elastic Revenues* – Downgrade to Favorable/Caution
- *Community Service Charges* – Downgrade to Favorable/Caution
- *Expenditures Per Capita* – Downgrade to Favorable/Caution

### Rating discussion

The four indicators at the Favorable/Caution level reflect the City's transition from being a fast growing, high development area to a City that is stabilizing its growth as development slows.

The Favorable/Caution rating on *Revenues Per Capita*, *Elastic Revenues* and *Community Development Service Charges* need to be monitored on an on-going basis. Revenues per Capita should improve as development translates into recognizing full year revenues from property taxes, sales taxes and other City revenues from the population increases. Elastic revenues, which include Community Development Service Charges, are slowing. These charges will be undergoing a fee study to determine that the cost of service is being recovered through development charges. Development Service Charges were anticipated to decrease in construction permits and inspection fees. These revenues will continue to decrease, except for the exception of Marblehead Coastal activity. If development slows more than anticipated (e.g. if Marblehead Coastal is delayed) and elastic revenues do not level off in the near future this indicator could transition to a warning.

The Favorable/Caution rating on *Expenditures Per Capita* is based on an increase in actual and constant dollars. This increase was due to the start of the major street maintenance program and a one-time contribution to the General Liability Fund. Expenditures should stabilize in the future; if not, this could signal that the City's service demands have increased on a per capita basis, which could affect future available resources.

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal years 2001-02 through 2005-06. Consequently, all trends are based on data available as of June 30, 2006, and do not incorporate any changes that have occurred since that time. The following sections provide additional information on the indicators listed in the preceding table.

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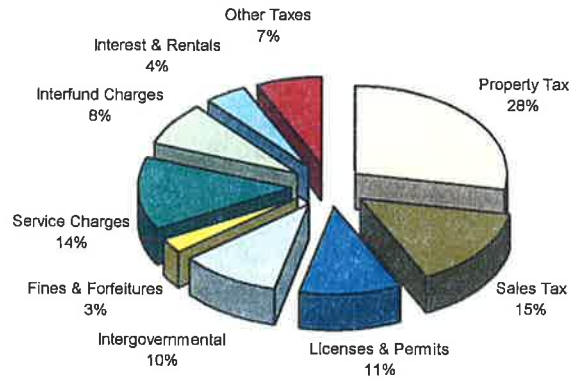
# Long Term Financial Plan

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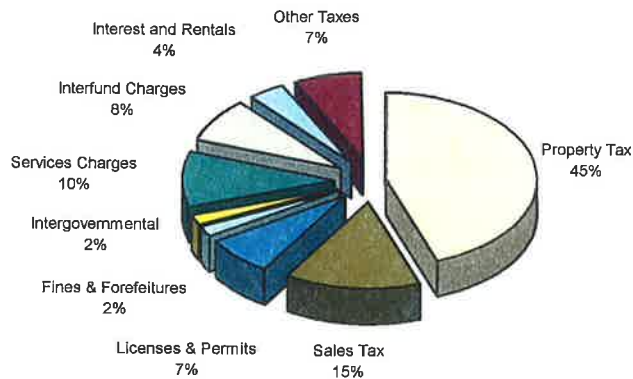
## Trend Analysis

### Comparison of Revenues by Source 2001-02 vs. 2005-06

2001-02



2005-06



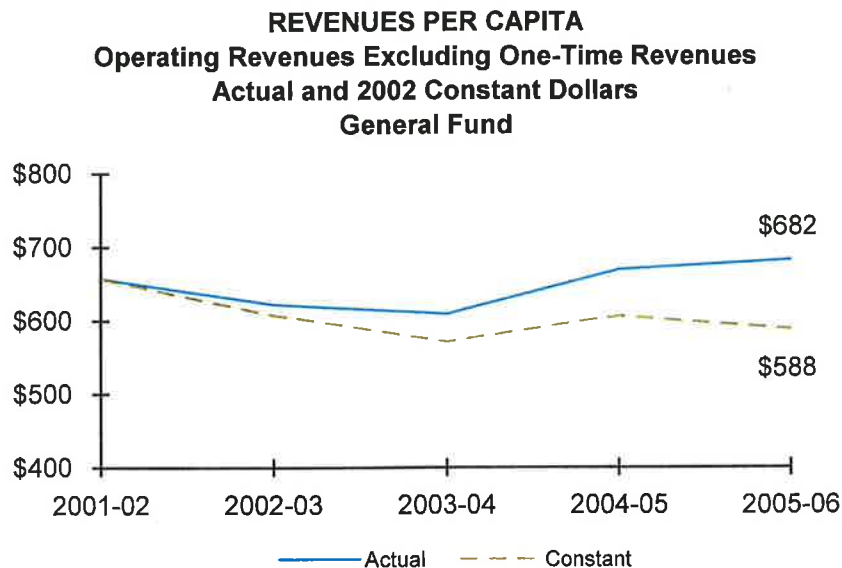
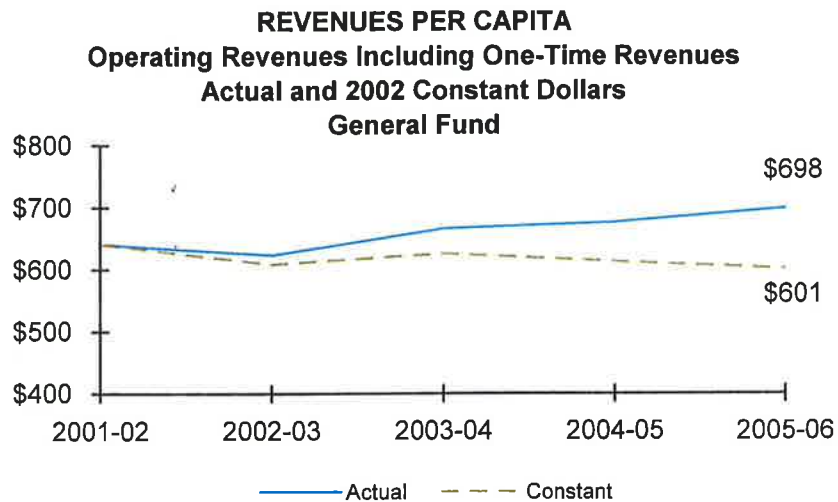
Comments: These charts show significant changes in the revenue percentages by source for General Fund revenues in the Property tax, Intergovernmental, Service charges and License and permits categories. Property tax revenues increased from 28% in FY 2001-02 to 45% in FY 2005-06 due to a change in property tax legislation that started in the 2004-05 fiscal year, increases in housing prices, and new development in the City. The change in legislation increased property taxes by \$3.8 million and decreased the City's motor vehicle license fees by the same amount, decreasing the intergovernmental percentage from 10% in 2001-02 to 2% in 2005-06. The decrease in licenses and permits from 11% in 2001-02 to 7% in 2005-06 is due to declining construction permit fees as anticipated. Service charges decreased from 14% in 2001-02 to 10% in 2005-06 were to lower planning inspection fees as a result of slowing development in the City.

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# Financial Trend Analysis

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## Revenues Per Capita



Finding: **FAVORABLE/CAUTION**. Revenues per capita in both charts reflect an increase when analyzing actual amounts and a decrease in constant dollars for FY 2005-06. This trend remains at favorable/caution as actual amounts continued to grow, however, the consumer price index was higher than anticipated. This trend is anticipated to level out in the near future as population growth and development in the City slows. The slowdown in development will allow City tax revenues to realize these population and growth increases. Revenues per capita, in actual dollars, experienced growth from FY 2004-05 of 4.7% (including one-time revenues) and 3.5% (excluding one-time revenues) related to increases in actual property tax revenues. However, in constant dollars decreased 0.4% (including one-time revenues) and 1.6% (excluding one-time revenues) due to inflation growth of 5.18% exceeding the actual dollar growth.

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## Long Term Financial Plan

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Comments: The first chart which includes one-time revenues shows an upward trend from \$676 to \$698 in actual dollars and a decrease from \$613 to \$601 in constant dollars. Total revenues for FY 2005-06 increased with the City's major revenue category of property taxes increasing by \$2.7 million. This property tax increase includes the property tax shift of motor vehicle fees that started in FY 2004-05 which increased property taxes by \$1.2 million from the FY 2004-05 amount and increased other property taxes by \$1.5 million. However, the overall increase in revenues did not keep pace with inflation during the last year.

The second chart (which excludes one-time revenues) shows an increase in actual dollars from \$669 to \$682 from FY 2004-05 and a decrease in constant dollars from \$606 to \$588. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. While General Fund revenues remain stable, a favorable/caution trend was assigned due to revenues not keeping pace with inflation over the last two years and a downward direction in constant dollars occurring.

The City anticipates this trend will improve in the future with the addition of the Marblehead Retail Center, which will increase revenues, and growth in the population slowing due to the anticipated build-out of the City in fiscal year 2009-10.

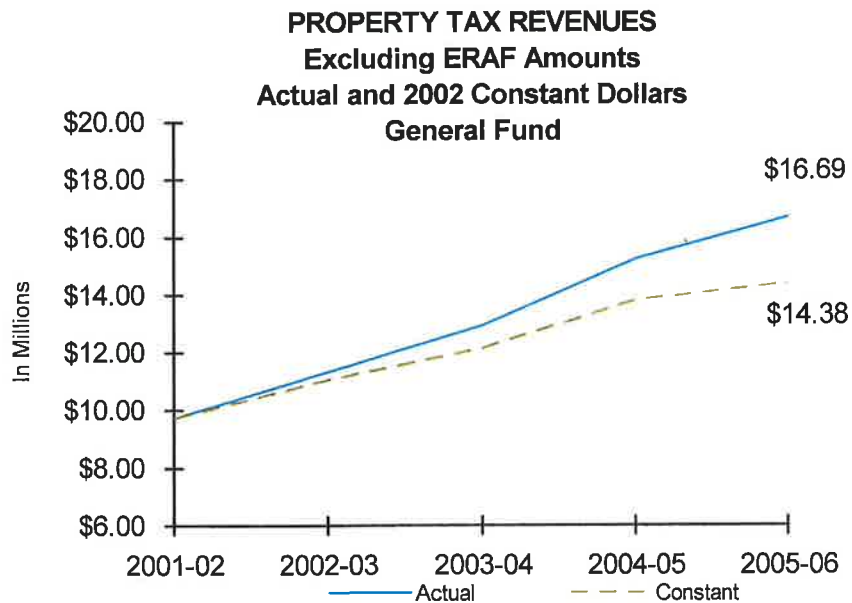
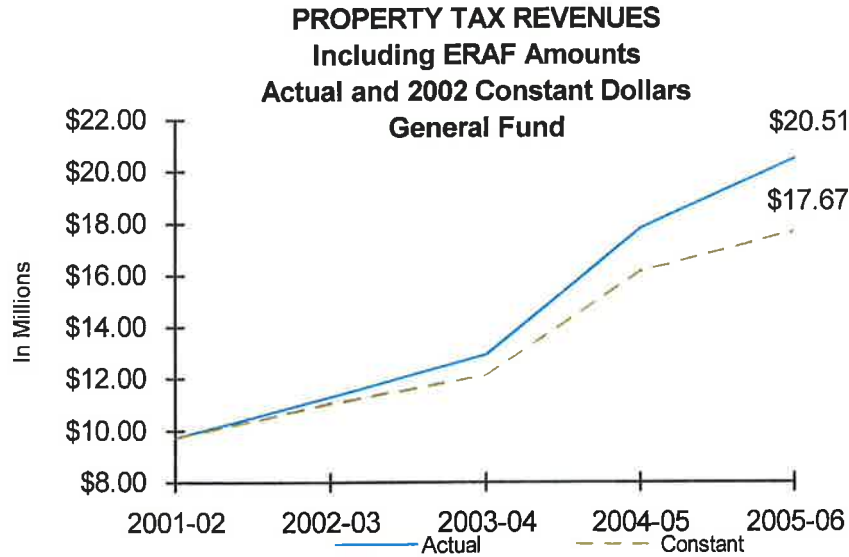
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# Financial Trend Analysis

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## Property Tax Revenues



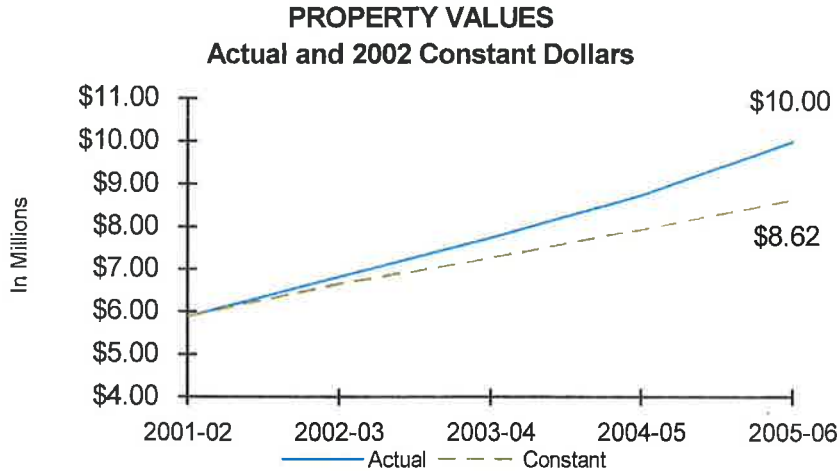
Finding: **FAVORABLE**. Property tax revenues showed a significant increase for FY 2005-06, continuing a very positive trend, as indicated in the graph above.

Comments: Property tax revenues increased by \$2.7 million or 15.0% in actual dollars, and show a 9.3% increase in constant dollars ending the year \$1.5 million above the prior fiscal year. The actual dollar increase is the result of an additional \$1.2 million in property taxes received (in lieu of motor vehicle fees) and \$1.5 million related to new home sales and increased property valuations. This indicator receives a favorable rating for the tenth consecutive year.

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# Long Term Financial Plan

## Property Values

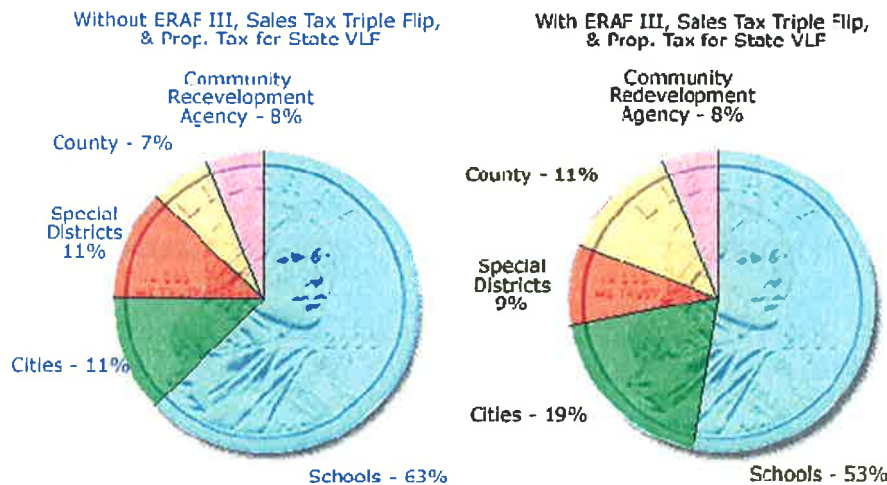


Finding: **FAVORABLE.** Property values showed a positive growth rate for the tenth consecutive year in FY 2005-06.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars shows an increase of 14.3%. As a result of the positive changes, this indicator remains favorable. This indicator will continue to be closely monitored due to the significant impact in property tax revenues on the City's General Fund.

### Where the Typical Orange County Property Tax Dollar Goes

(Locally Assessed 1% Basic Levy)



*The chart above shows the portion each respective government agency receives of the typical Orange County property tax dollar.*

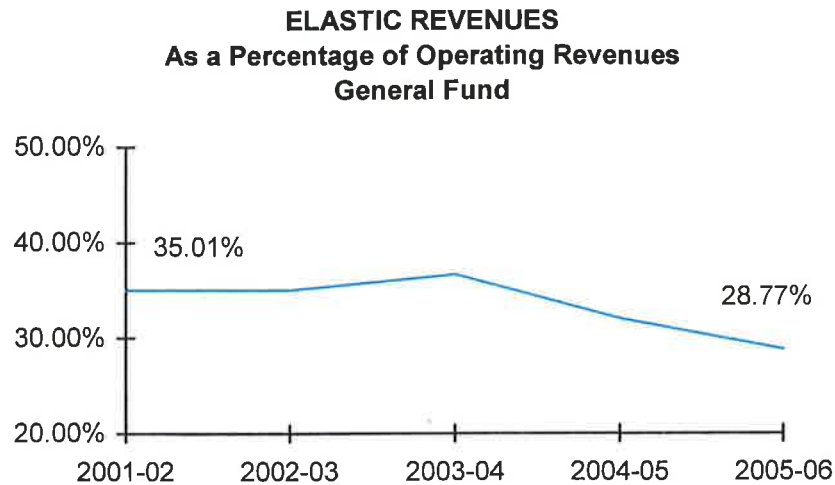
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## Financial Trend Analysis

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### **Elastic Revenues**

(Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges)



Finding: **FAVORABLE/CAUTION.** Elastic revenues, as a percentage of total revenues, show a decrease from FY 2004-05 to FY 2005-06 which is the second consecutive decrease. Actual elastic revenues decreased \$1.1 million, while operating revenues increased by \$1.2 million. A favorable/caution rating was assigned due to a significant revenue drop of \$1.5 million in community development service charges from the prior year and sales tax dollars and license almost keeping pace with inflation.

Comments: Elastic revenues, as a percentage of total revenues, decreased from last years 32.0% to 28.8% in FY 2005-06 and are below the historical average of 31.0% from FY 1995-96 to FY 1999-2000. This was the result of a \$1.5 million, or 43.3%, drop in community development service charges. A favorable/caution rating has been assigned because the City has anticipated a decrease as part of the Talega development nearing build-out. The elastic revenues will be monitored in the future for a possible warning indicator since this is the first year below the historical average and the decrease occurring in community development services charges where decreases were anticipated. Details concerning each major elastic revenue source can be found in the following pages. Major elastic revenues include sales tax, license and permits, and community development service charges.

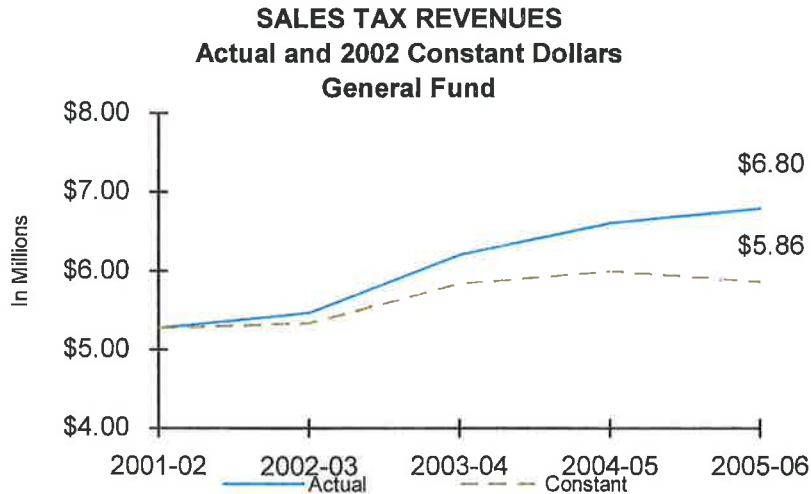
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# Long Term Financial Plan

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## Sales Tax Revenues



Finding: **FAVORABLE**. As summarized in the chart above, sales tax revenues showed an increase of \$186,000, or 2.8% in actual dollars over the prior fiscal year. In constant dollars, the decrease amounted to \$134,000, or 2.2%, which was less than the higher than anticipated inflation rate.

Comments: As summarized in the chart, Sales tax revenues have gradually increased over the past five years in actual dollars and constant dollars. In fact, actual dollars increased 28.8% and constant dollars increase 11.0% from sales tax revenues recorded in FY 2001-02. These increases boost sales tax revenue to a seventeen-year high in actual dollars and the result is a continued favorable rating.

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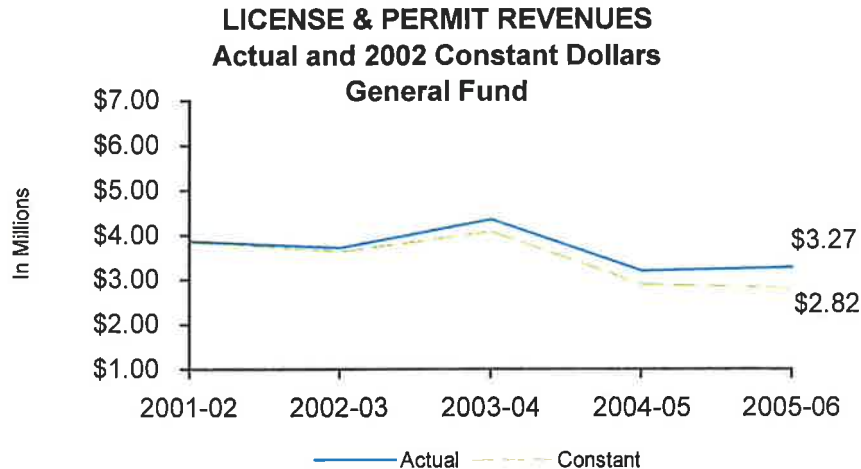


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## Financial Trend Analysis

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### License and Permit Revenues



Finding: **FAVORABLE**. License and permit revenues increased in actual dollars in the amount of \$70,000 or 2.2% from the prior fiscal year. The constant dollar decrease registered at \$82,000 or 2.8% from FY 2004-05. This indicator received a favorable rating to reflect the change from a downward trend in actual dollars to a slight upward trend. If there are continual declines leading up to and past the FY 2009-10 due to slowing development this will result in a warning rating.

Comments: While construction permit revenue increased \$230,000, or 12.6% over the past year, business license income decreased from the prior year by \$171,000 or 14.8%. A favorable rating has been assigned based on the development activity continuing as planned and the reversal of the downward trend in actual dollars. It should be noted that the City projects developmental revenues, such as license and permit fees conservatively due to the timing of projects entering the building permit stage which cannot always be predicted accurately.

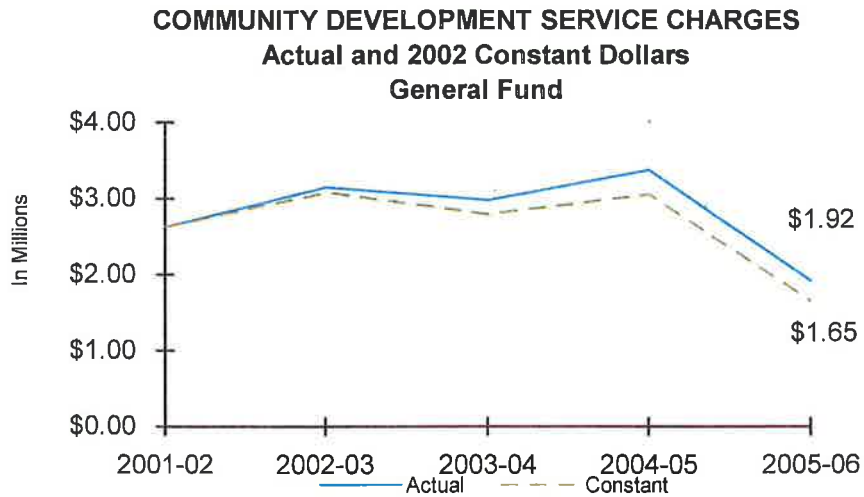
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# Long Term Financial Plan

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## Community Development Service Charges Revenues



Finding: **FAVORABLE/CAUTION.** Total community development service charges decreased by 43.3%, or \$1.5 million from the prior year for the first year. This trend is assigned a favorable/caution rating due to the City expecting a decline in development as Talega nears build-out. This trend will become a warning if development service charges do not level off in the future.

Comments: Other community development revenues, such as plan check fees and zoning application fees, remained flat compared to the prior year. Construction inspection fees accounted for most of the \$1.5 million decrease.

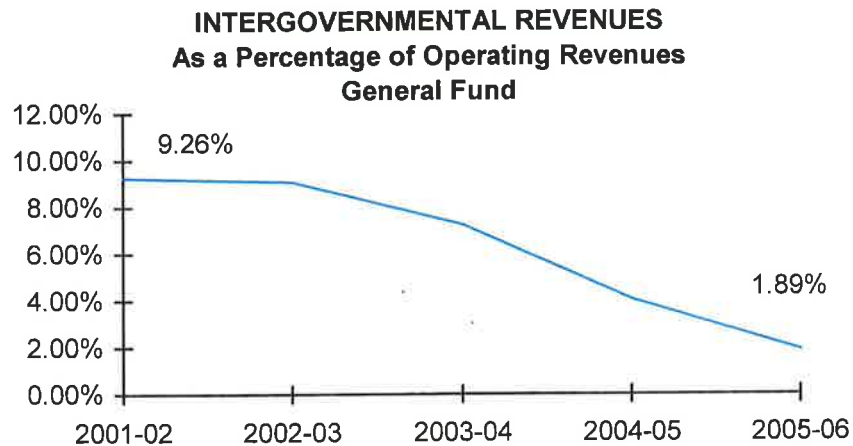
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## Financial Trend Analysis

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### Intergovernmental Revenues



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

**Comments:** By analyzing intergovernmental 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 52% of the total intergovernmental category. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City receives property tax dollars in-lieu of the motor vehicle fees which started in FY 2004-05. Motor vehicle fees received as in-lieu property taxes totaled \$2.6 million in FY 2004-05 and \$3.8 million in FY 2005-06, which would have made the intergovernmental percentages 9.9% and 10.2%, respectively, which would still be a favorable rating.

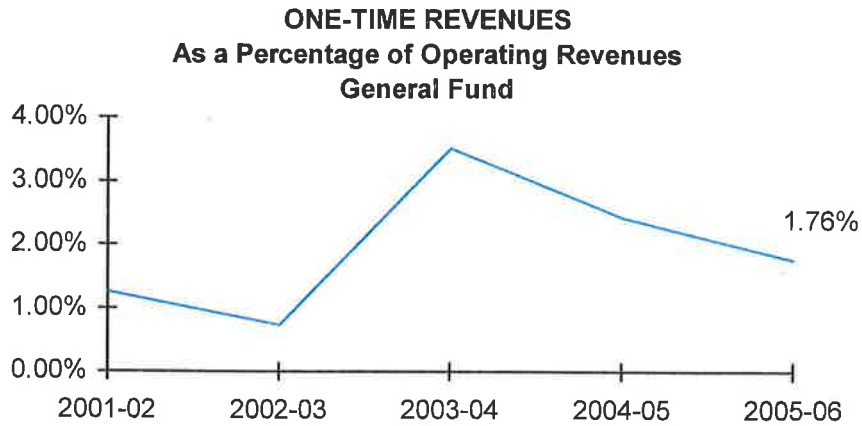
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## Long Term Financial Plan

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### One-Time Revenues



Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled 1.76% in FY 2005-06, a decline from the prior year.

Comments: One-time revenues decreased by \$277,878 from the prior fiscal year. FY 2005-06 one-time revenues of \$0.8 million include \$196,000 of grant funds and \$256,000 related to a franchise settlement. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a favorable rating.

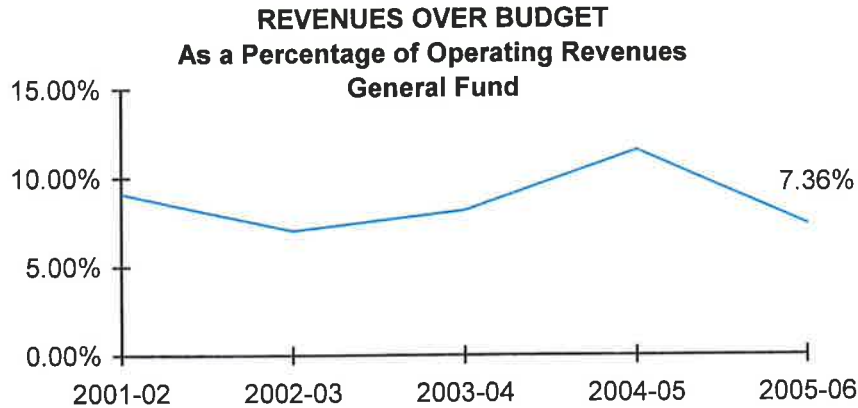
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## Financial Trend Analysis

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### Revenue Overage



Finding: **FAVORABLE**. Actual revenues exceeded budget by \$3.4 million for fiscal year 2005-06 and ends with a positive revenue position over budget by 7.36%. The City experienced revenues in excess of budget in tax revenue in the following categories: property taxes (\$1.7 million), other taxes (\$0.7 million), and charges for services (\$0.5 million). This trend continues to receive a favorable rating since 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 9.12% and ended FY 2005-06 at 7.36%. 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.

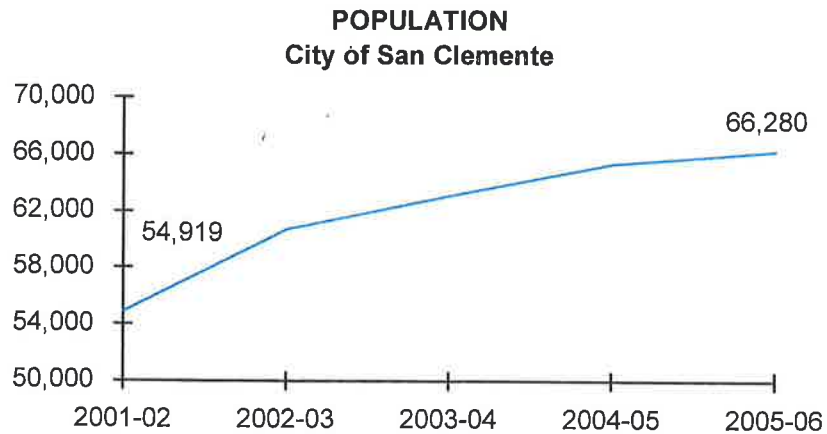
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## Long Term Financial Plan

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### Population



Finding: **FAVORABLE**. The City's population growth, an average of 5.3% over the last five years, is considered favorable because this growth has been planned and controlled. Growth from 2004-05 to 2005-06 was 1.44%, which indicates the City's growth pattern continues to slow.

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. Additionally, increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.).

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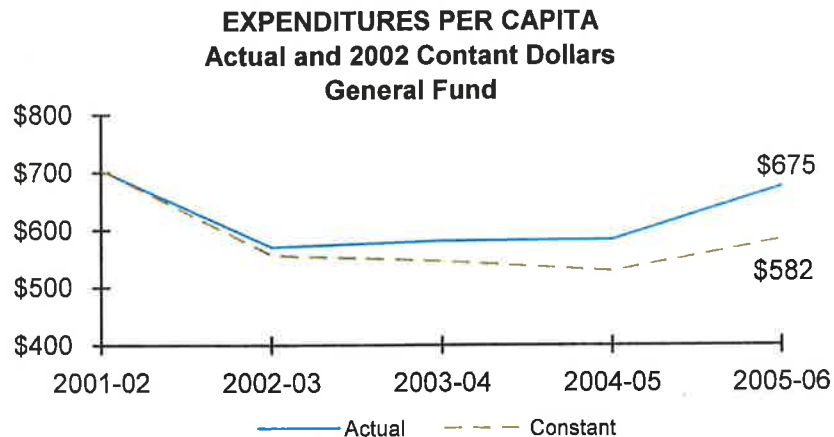
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## Financial Trend Analysis

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### Expenditures

#### Expenditures Per Capita



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

Comments: In FY 2005-06, expenditures increased in actual dollars by \$6.7 million when compared with FY 2004-05, and \$4.0 million in constant dollars for the same time period. The increases were in City general (\$3.2 million), community development (\$1.4 million) and police (\$0.7 million). The increase in the City general is due to a one-time \$3.4 million contribution to the General Liability Fund, which represents approximately half of the increase from the prior year in actual dollars. The other portion of the increase is primarily due to the implementation of the major street maintenance program increasing the community development program in FY 2005-06 by \$1.0 million. The increase in the police expenditures is due to negotiated increases as part of the police contract with the County of Orange.

With the exception of FY 2001-02 (which had \$7.0 million of reserve contributions) and FY 2005-06, expenditures per capita in constant dollars shows a relatively flat expenditure level throughout the five-year period. A favorable/caution rating is assigned to this indicator since the increase in FY 2005-06 was related to the one-time contribution to the General Liability Fund and the major street maintenance program incurring its first year of costs. This indicator will be closely monitored to ensure that expenditure levels are maintained in the future to provide a consistent and adequate level of service without depleting fund balances.

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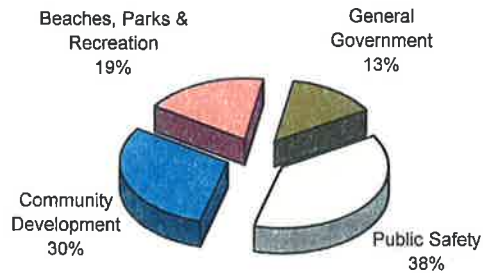
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# Long Term Financial Plan

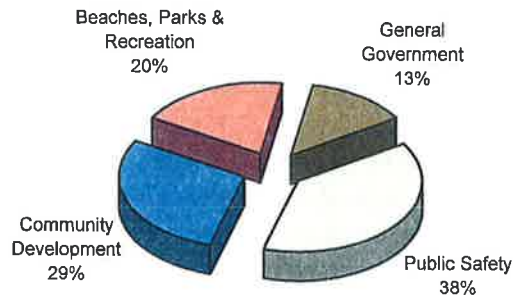
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## Comparison of Expenditures by Function 2001-02 vs. 2005-06

2001-02



2005-06



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 only minor increases and decreases in percentages. Beaches, Parks and Recreation while experiencing expenditure growth has also experienced growth in class revenues.

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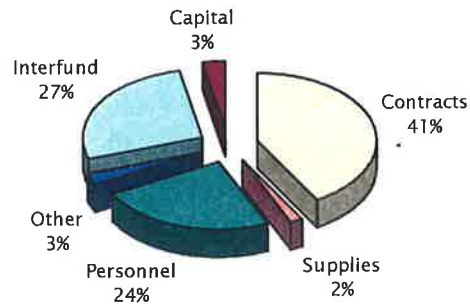
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## Financial Trend Analysis

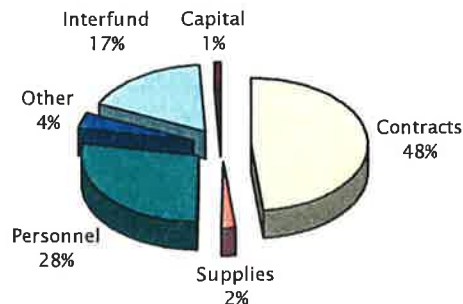
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### Comparison of Expenditures by Category 2001-02 vs. 2005-06

2001-02



2005-06



Comments: The charts above indicate that the Contracts, Personnel, and Interfund expenditure categories, as a percentage of the total General Fund expenditures, changed between FY 2001-02 and FY 2005-06.

The contractual category change from 41% to 48% of expenditures is due to growth in the public safety and community development categories. Public safety costs increased by \$3.8 million in actual dollars since 2001-02 due to increased staffing under the fire contract (\$1.4 million) and cost escalations greater than inflation in the police contract (\$2.4 million). The City also implemented a street and sidewalk maintenance program in the General fund which increased the contracts category by \$1.2 million compared to five years ago.

The personnel category increased as the City's population expanded from 24% to 28% of expenditures. Although, personnel costs overall have increased from five years ago, these costs were analyzed in more detail in the Employees per Capita trend and the Fringe Benefit trend.

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## Long Term Financial Plan

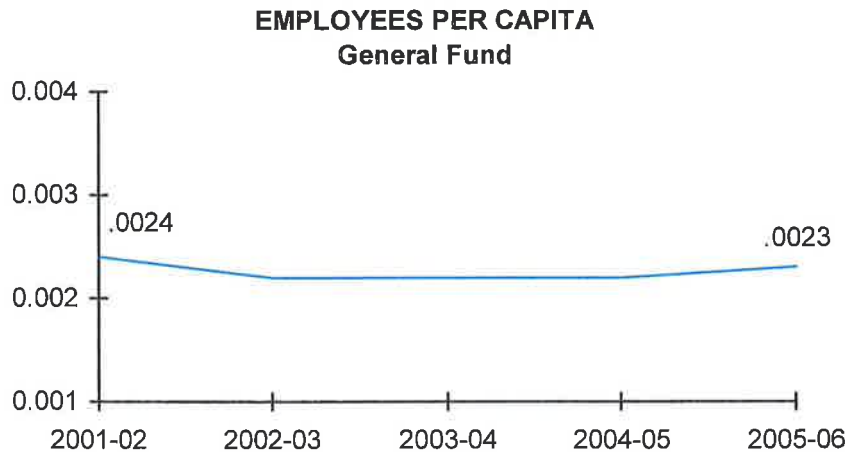
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These trends show that employee growth remained stable with population growth and fringe benefits costs over the last two years have stabilized due to retirement contribution percentages leveling over the last two years and that change to workers compensation laws lowered costs.

Interfund amounts have decreased due to one-time reserve transfers decreasing from \$7.0 million in FY 2001-02 to only \$3.4 million in FY 2005-06. The City's transferred \$3.4 million as a contribution to the General Liability fund in FY 2005-06.

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### Employees Per Capita



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

Comments: This indicator is awarded a favorable rating as Full Time Equivalent's (FTE's) were added 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.

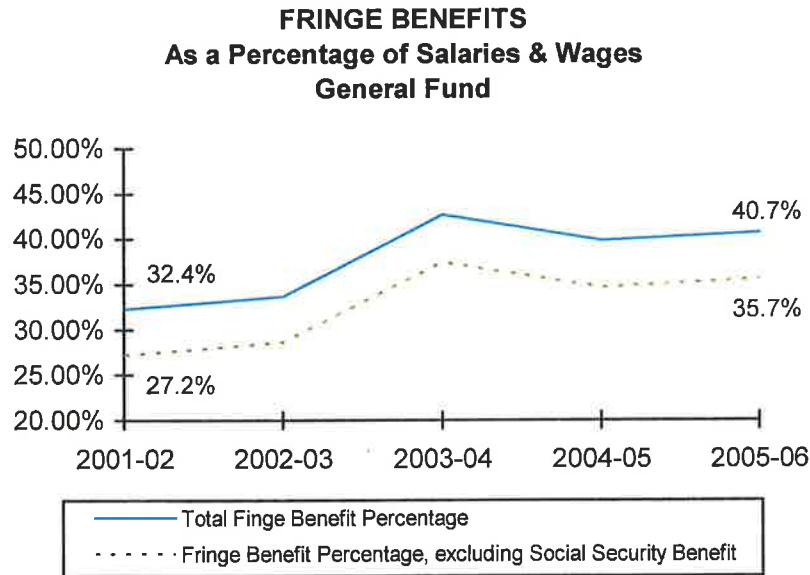
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## Financial Trend Analysis

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### *Fringe Benefits*



Finding: **FAVORABLE**. Fringe benefits, as a percentage of General Fund salaries and wages, increased slightly from 39.9% to 40.7%. This continual change indicates a leveling of fringe benefit costs resulting in a favorable rating.

Comments: The largest component of the benefit percentage is the contribution to the City's defined benefit retirement program. The retirement contribution amount has increased, but the increase has slowed due to a stable interest rate environment. Another benefit change resulted from the 2003-04 negotiations with the City employees which increased medical benefit costs for the City in FY 2004-05. However, in FY 2005-06 the amount was capped. In addition, workers compensation rates have decreased from the prior year, however these changes resulted in only a small portion of the benefit percentage.

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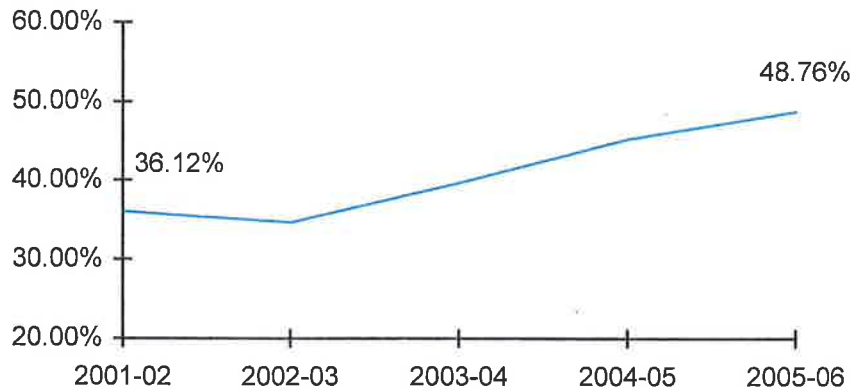
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## Long Term Financial Plan

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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.

Comments: Unreserved fund balance excluding long term receivable reserves rose 3.0% in FY 2005-06 as a percentage of total revenues. The increase in fund balance is due to an operating surplus of \$1.3 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.

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 2005-06 unreserved fund balance of \$21.6 million are undesignated funds of \$18.3 million and designated funds of \$3.3 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. In addition, the unreserved fund balance has been used to support one-time projects/costs and reserve transfers.

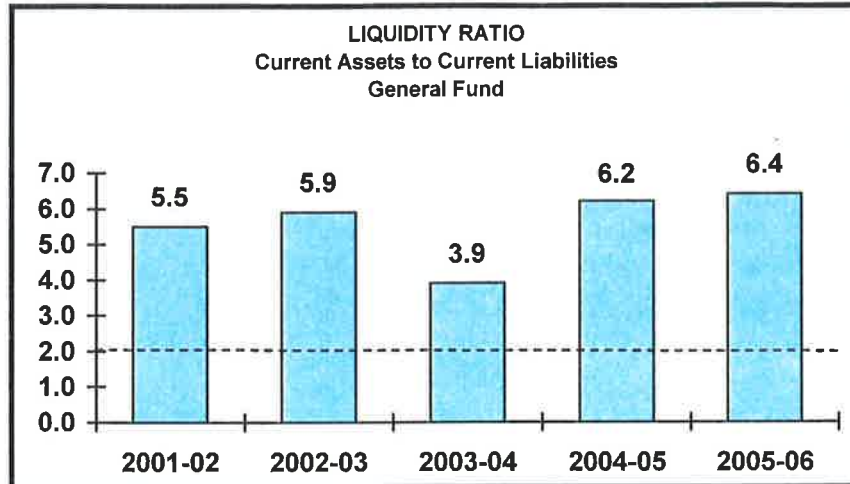
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## Financial Trend Analysis

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### Liquidity Ratio



Finding: **FAVORABLE**. In FY 2005-06, the City's liquidity ratio remains positive at 6.4:1. Credit rating firms consider a ratio of 1:1 favorable. The City's 6.4:1 current asset to current liability ratio is considered excellent.

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.

### Conclusion

None

### Recommendations

None

### Fiscal Impact of Recommendations

None

### Council Action (After Council Adoption)

No Council action is required

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# Long Term Financial Plan

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# Financial Forecast

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## **Objective**

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

## **Executive Summary**

The forecast is developed utilizing guidelines provided by the Government Finance Officers Association (GFOA)<sup>1</sup>. The financial forecast allows the City to determine how current spending plans will impact future budgets. The base forecast is developed using the *present level of services* provided by the City. Inflation and historical growth rates are used to predict expenditure patterns. Revenues are projected by trend or by specific circumstances that are certain to occur during the forecast period. 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 beginning in FY 2008-09. Maintenance costs from new facilities already designed or included in developer agreements, such as the Marblehead parks and trails, are also included.

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 2006 Economic Forecast for Southern California and Orange County. The forecast predicts "slower growth of the economy in Orange County, but not a decline in overall employment."<sup>2</sup>

## **Background and Discussion**

Annually, the City prepares a five-year financial forecast as a part of the Long Term Financial Plan. The forecast identifies the City's current and projected financial condition to determine whether funding levels are adequate and if projected expenditures can be sustained. The financial forecast, along with the Trends Analysis, provides the foundation of the Long Term Financial Plan process. The forecast focuses on two critical elements, operating position and fund balances, to determine the fiscal health of the City.

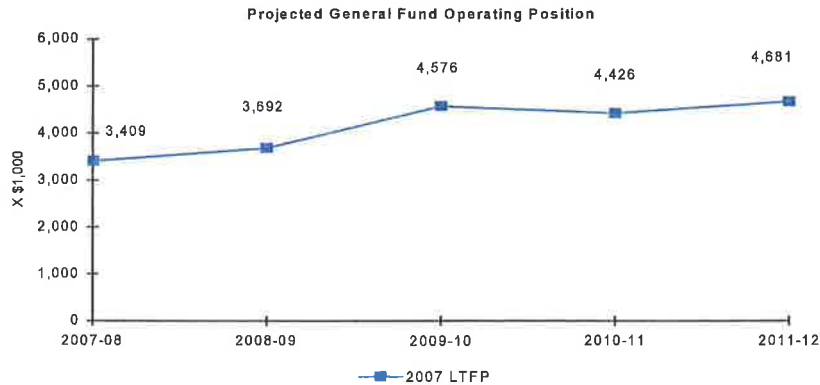
***Operating position*** – Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements and excluding one-time revenue and expenditures) are shown in the following chart and table.

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<sup>1</sup> Government Finance Officers Association, "Revenue Analysis and Forecasting", Barry Blom and Salomon Guarjardo, 2001.

<sup>2</sup> Cal State Fullerton, College of Business and Economics, Economic Forecast, October 2006.

# Long Term Financial Plan



## 2007 Forecast Summary (LTFP)\*

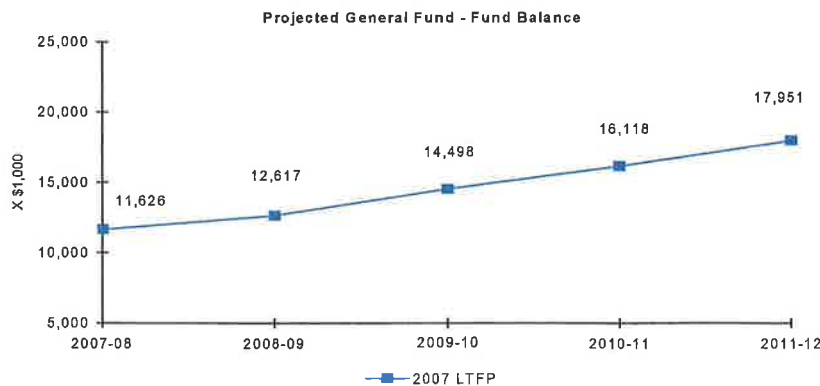
Amounts in \$1,000

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Operating receipts	\$48,158	\$50,532	\$52,795	\$54,679	\$56,939
Operating disbursements	44,749	46,839	48,219	50,253	52,259
Projected surplus/deficit	\$3,409	\$3,692	\$4,576	\$4,426	\$4,681

\*One-time revenues and expenditures have been excluded. There are no one-time revenues in FY 2007-08. One-time expenditures include transfers to reserves, street improvement program and PERS unfunded liability.<sup>3</sup>

**Fund balances** – Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *undesignated* fund balance is the portion that is available for appropriation by the City Council. The City’s *designated* fund balance, the Emergency Reserve, is funded at 8% of operating expenditures and annual contributions are made to keep the reserve fully funded. Council approval is required before expending the Emergency Reserve.

The chart below illustrates projected undesignated fund balances in the General Fund for the 2007 Long Term Financial Plan forecast.



<sup>3</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 \$685,490 over a fifteen year period (FY 2005-06 through FY 2020-21) to fully fund the liability.



## Financial Forecast

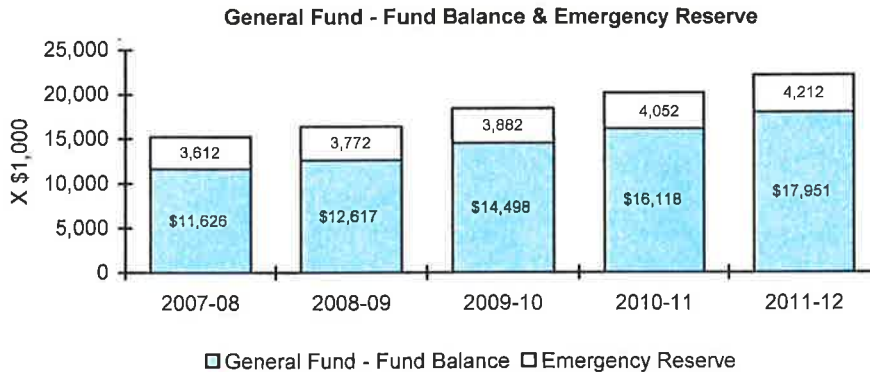
Undesignated fund balances average \$14.6 million over the forecast period. Projected fund balances *do not* include full funding of capital projects identified in the City’s five-year Capital Improvement Program. This is because funding for capital projects is determined annually during the budget process. For forecast purposes, \$500,000 per year is included.

**Undesignated fund balance and Emergency Reserve** – One of the main financial goals of the City, 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 are maintained at the required 8% level.

### General Fund – Undesignated Fund Balance & Emergency Reserve

Amounts in \$1,000

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Fund Balance	\$11,626	\$12,617	\$14,498	\$16,118	\$17,951
Emergency Reserve 8%	3,612	3,772	3,882	4,052	4,212



### Forecast Summary

Over the five year forecast period, City revenues are anticipated to grow by an annual average increase of 4.0% a year. Property taxes increase by \$5.3 million over the five-year period with the anticipated completion of all new housing units in Talega and Marblehead. Sales taxes increase by \$3.8 million, primarily from sales generated from the Marblehead retail facility. Transient occupancy taxes are expected to grow by \$398,000 from the hotel/conference center on Marblehead. However, development related revenues from building permits, construction inspection and plan check fees are anticipated to decline beginning in FY 2009-10.

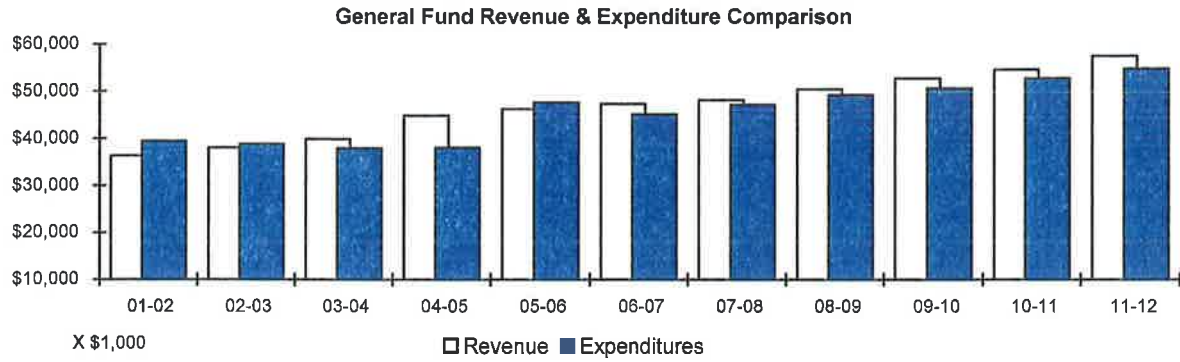
Expenditures are projected to increase at an average rate of 3.5% due to the projected addition of five contract police positions, anticipated increases in the fire contract and maintenance for the coastal trail and new parks and medians in Talega and Marblehead.

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# Long Term Financial Plan

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



## Financial Forecast

### Forecast Results

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

#### General Fund – Cash Inflows and Outflows by Year

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Fund Balance</b>	10,801	11,626	12,617	14,498	16,118
<b>Receipts</b>					
Taxes	34,065	35,943	39,553	41,605	43,641
Licenses & Permits	3,177	3,486	2,500	2,024	2,048
Intergovernmental	792	810	825	841	843
Service Charges	4,217	4,318	3,781	3,884	3,952
Fines & Forfeitures	1,008	1,030	1,045	1,062	1,069
Interest & Rents	1,704	1,771	1,837	1,910	1,966
Interfund Transfers	3,193	3,172	3,254	3,353	3,421
<b>Total GF Receipts</b>	<b>48,158</b>	<b>50,532</b>	<b>52,795</b>	<b>54,679</b>	<b>56,939</b>
<b>Disbursements</b>					
City Council	69	70	71	73	74
City Manager	497	513	525	540	555
City General	4,389	4,484	4,570	4,673	4,779
Finance & Admin. Services	544	562	575	592	608
City Clerk	645	730	680	767	722
Finance	1,298	1,339	1,372	1,412	1,452
Human Resources	637	657	673	693	713
Police Services	10,662	11,233	11,823	12,437	13,075
Fire Services	6,231	6,479	6,736	7,252	7,808
Comm Dev. Admin.	303	313	320	329	339
Building	2,482	2,562	2,433	2,394	2,369
Planning	1,376	1,420	1,454	1,495	1,538
Code Enforcement	598	617	632	650	669
PWAdmin/Economic Dev.	623	643	659	678	699
Engineering	4,393	4,529	4,342	4,467	4,596
PW Maintenance Services	3,181	3,279	3,361	3,460	3,562
B, P & R Admin.	513	530	542	558	573
Recreation	2,785	2,873	2,943	3,030	3,119
Beach & Park Maintenance	4,545	4,946	5,367	5,530	5,699
Marine Safety	1,275	1,317	1,348	1,387	1,426
New Employees & Neg. Inc.	194	284	377	472	571
One-time Expenditures	0	0	0	0	0
<b>Total GF Disbursements</b>	<b>47,243</b>	<b>49,381</b>	<b>50,804</b>	<b>52,889</b>	<b>54,947</b>
<b>Emergency Reserve</b>	<b>90</b>	<b>160</b>	<b>110</b>	<b>170</b>	<b>160</b>
<b>Ending Fund Balance</b>	<b>11,626</b>	<b>12,617</b>	<b>14,498</b>	<b>16,118</b>	<b>17,951</b>

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# Long Term Financial Plan

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## General Fund Disbursements by Category

Disbursements by Category	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries & wages	10,750	11,180	11,308	11,586	11,872
Employee benefits	4,456	4,604	4,740	4,885	5,049
Supplies	924	951	976	1,006	1,037
Contractual services	23,561	24,910	25,875	27,303	28,667
Other charges	1,194	1,230	1,262	1,301	1,341
Capital outlay	505	520	534	550	567
Interdepartmental charges	3,788	3,824	3,924	4,045	4,171
Interfund transfers	2,299	2,332	2,362	2,396	2,431
<b>Total</b>	<b>47,243</b>	<b>49,381</b>	<b>50,804</b>	<b>52,889</b>	<b>54,947</b>

### Forecast Assumptions

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

- Previously approved cost of living increases are included in the forecast. A 3.75% increase in salaries is included in FY 2007-08 and another 3.5% increase is included in FY 2008-09. For forecast purposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 2009-10.
- The forecast projections assume one new City position added each year for a total of five positions.
- Police Services increase by one new contract position per year at a cost of \$184,000 per year. In total, five new positions or \$920,000 is added during the forecast period.
- Negotiated increases approved by City Council for the Orange County Fire Authority (OCFA) contract are included in the first three years of the forecast. The current contract is "capped" at a maximum 4% increase per year. The contract is not contractually capped for FY 2010-11 and beyond. For forecast purposes, an 8% increase is included in the final two years of the forecast period, although the City has not received any indication of proposed rate increases.
- Maintenance costs have been increased beginning in FY 2007-08 for a higher level of maintenance on ball fields at San Gorgonio Park and Steed Park.
- Costs for park and beach maintenance also increase due to construction and acceptance of the coastal trail and new parks, trails and medians in Talega and Marblehead. In total, maintenance costs are estimated to increase by \$619,000 over the forecast period for these facilities. However, the operations and maintenance costs for La Pata/Vista Hermosa Sports Park, Phase One have *not* been included in the base forecast because estimated

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## Financial Forecast

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costs have not been developed.

- Revenue from the Marblehead/Sun Cal development is included in the forecast beginning in FY 2008-09. Property tax is *conservatively* based upon 313 residential units at a sale price of \$1.8 million each. The City receives approximately 11% of the 1% of valuation assessed and a total of \$603,000 is included in the forecast. Sales tax is included for the retail development site and \$1.2 million is included in FY 2009-10, with an additional \$650,000 in FY 2011-12. Transient occupancy taxes have been added for a new hotel and \$398,000 is included in FY 2009-10. If this project is delayed, there is a potential that the General Fund operating position may become negative beginning in the second year of the forecast period. This is because maintenance for the parks, trails and medians will become the City's responsibility upon acceptance of the amenities.
- Contract staffing levels and limited term employees related to development activities will be reduced beginning in FY 2009-10, along with corresponding revenues. This includes contract engineering inspectors, limited-term building inspectors and plan checking staff.
- The lease term for the tenants on the third floor of the Negocio building expires June 30, 2007. Because decisions regarding the tenancy of the building are unresolved at this time, it is assumed that the General Fund will transfer the entire amount of the debt service payments to the Negocio Debt Service Fund. This amounts to \$326,000 per year. No increases have been made for the operations and maintenance of the building.
- Expenditures for capital projects do not include the funding levels identified in the City's five-year Capital Improvement Program. This is because funding for capital projects is determined annually during the budget process. For forecast purposes, \$500,000 per year is included.
- Council Contingency Reserve is funded at 0.5% of operating expenditures in each of the forecast years, in accordance with 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. Funding levels are shown below:

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### Council Contingency & Emergency Reserve

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Council Contingency	\$225,500	\$235,300	\$241,870	\$252,090	\$262,160
Emergency Reserve	90,000	160,000	110,000	170,000	160,000
<b>Total</b>	<b>\$315,500</b>	<b>\$395,300</b>	<b>\$351,870</b>	<b>\$422,090</b>	<b>\$422,160</b>

- The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is \$5.4 million and requires annual contributions of

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## Long Term Financial Plan

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\$685,490 to eliminate the liability.

- A total of \$111,000 is included in the forecast beginning in FY 2007-08 for the implementation of a proposed “pay for performance” incentive program. This amount is increased by inflation in future years.
- Actual revenue is projected to exceed budget by 1.0% in all five years of the forecast based on current revenue projections and conservative estimating techniques.
- Actual expenditures are projected at 1.0% less than budget for all five years of the forecast. This is conservatively based on projected actual expenditures versus budgeted expenditures.

### 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, Clean Ocean and Golf operating funds and are presented later in this paper.
- No new or enhanced programs are included in the forecast.
- No increases to current employee benefits are included.
- The forecast *does not* include operating and maintenance costs for La Pata/Vista Hermosa Sports Park, Phase One.
- Revenue and expenditures for projects still in the planning stages are not included in the forecast. For instance, sales tax revenue from the Talega Village Center is not included in the forecast because the project has not begun construction.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

### General Fund Revenue and Expenditure 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 2001-02 to FY 2005-06
- **2007 Projected Growth Rate:** Average annual rate of growth projected for the current five-year forecast.

# Financial Forecast

## General Fund Revenue Growth Rate

Historic Growth Rate	5.8%
2007 Projected Growth Rate	4.0%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 4.0%, compared to a historical five year growth rate of 5.8%. The historical growth rate includes steady increases in property values, sales taxes and development related fees and charges. The 2007 forecast rate of 4.0% anticipates that property taxes, sales taxes and TOT increases due to completion of development in Talega and Marblehead, while permit fees and service charges will begin to decline starting in FY 2008-09.

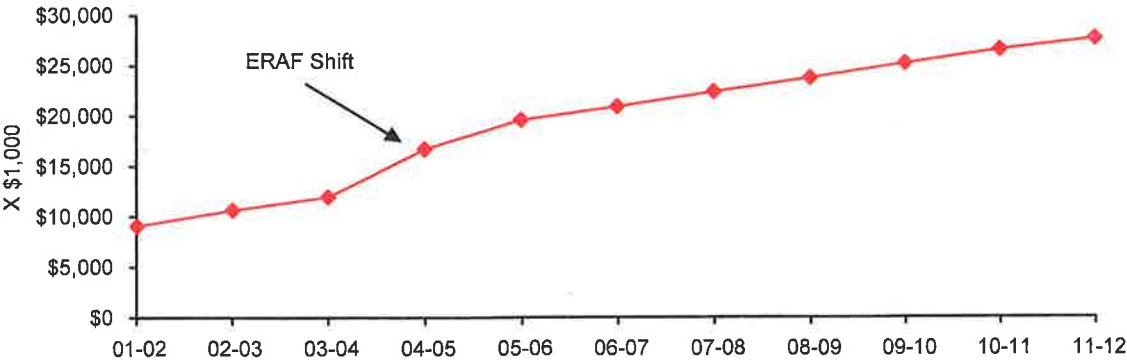
## Property Tax

Historic Growth Rate	20.7%
2007 Projected Growth Rate	5.8%

Property Tax is the City's single largest revenue source and represents 44% of total General Fund budgeted revenue. The historic growth rate of 20.7% is the result of new development in the City's western section (Forster Highlands and Talega), dramatic increases in property valuation and low interest rates. The 2007 projected rate of 5.8% includes property taxes for the forecast period based upon the Building and Planning divisions' projections for new housing units scheduled through build-out. 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.

The forecast assumes that the balance of the homes allocated to Talega will be built over the first two years and that Marblehead will start to build residential homes beginning in FY 2007-08. As a result, property taxes increase by \$5.2 million over the forecast period.

**Property Tax**



89 30,188 / 950    30,716 / 1125    31,243 / 1122

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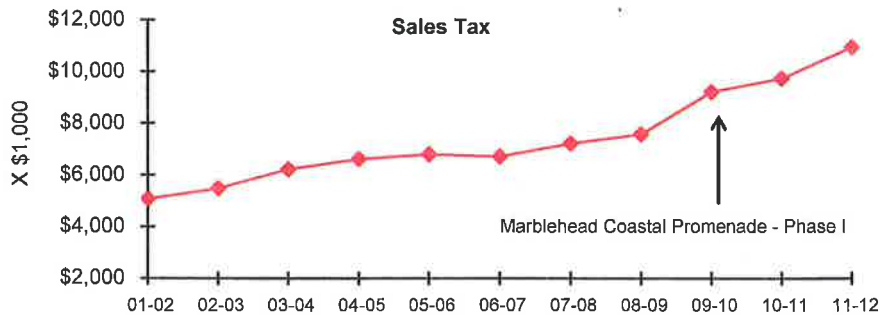
## Long Term Financial Plan

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### Sales Tax

Historic Growth Rate	5.4%
2007 Projected Growth Rate	10.5%

The City's sales tax base increased from \$5.1 million to \$6.8 million over the last five years for a historic growth rate of 5.4%. Sales tax is anticipated to grow an average of 10.5% 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 2009-10 for phase I and \$649,500 for phase II in FY 2011-12. The project is expected to generate a total of \$2.2 million in annual sales taxes. By FY 2011-12, sales tax is anticipated to amount to \$10.9 million.



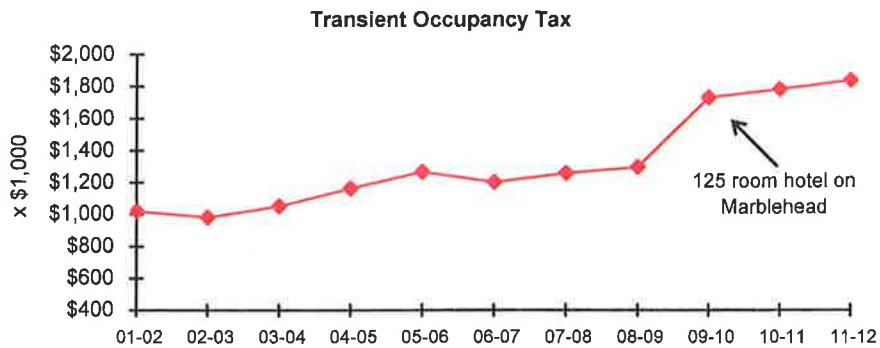
### Transient Occupancy Tax

Historic Growth Rate	5.0%
2007 Projected Growth Rate	9.5%

Transient Occupancy Tax is an added charge to room rates at local hotels. San Clemente's rate is 10% per occupancy. It is an elastic revenue source affected by swings in the economy and, for San Clemente, the weather. Over the forecast period, the average growth is projected at 9.5% 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 2009-10.



# Financial Forecast



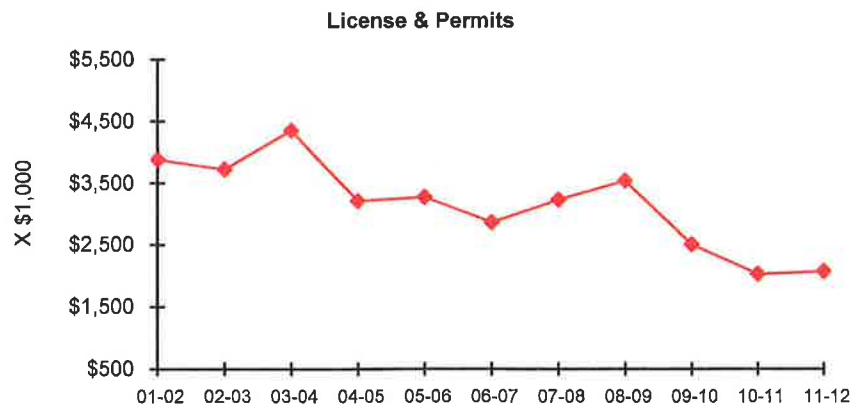
## License and Permit

Historic Growth Rate	-4.3%
2007 Projected Growth Rate	-4.8%

Revenue from license and permit revenue declined over the historic period by 4.3%. Revenue peaked in FY 2003-04 at \$4.4 million from rapid development of the Talega and Reserve projects.

License and Permit revenues include Business Licenses, Construction Permits and miscellaneous licenses and permits which are projected to decrease an average of 4.8%. For forecast purposes, revenue for development activity is not anticipated to continue and is reduced in the last three years of the forecast to reflect a slowing of development activity.

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits, are projected to continue during the first two years of the forecast, with development activity continuing in Talega and Marblehead. However, development fees have been reduced in FY 2009-10, as the City reaches build-out.



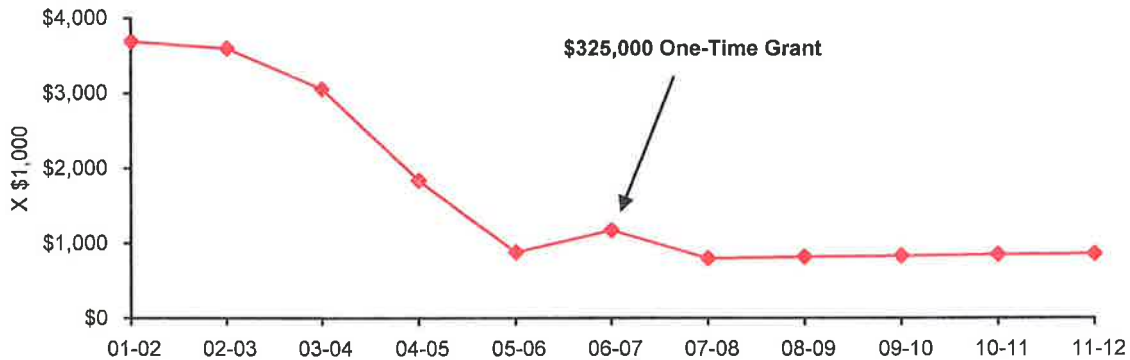
# Long Term Financial Plan

## Grants and Subventions

Historic Growth Rate	-19.1%
2007 Projected Growth Rate	-5.0%

In total, Grant and Subvention revenues are projected to decrease at a rate of -5.0% over the forecast period, compared to an historical rate of -19.1%. Motor Vehicle Tax revenues, which make up the majority of the revenue in this category, were reduced beginning in FY 2004-05, when the State suspended the “backfill” of vehicle license fees from the previous rate of 2.0% to the current 0.65% rate. The State now provides a “dollar for dollar” amount of State ERAF property taxes instead of the backfill. A one-time repayment of \$1.0 million in vehicle license fees that had been used by the State to balance the State budget was made to the City in FY 2004-05. An average of \$1.0 million per year is anticipated over the forecast period. However, in FY 2006-07 this category includes a one-time grant of \$325,000 to support the U.S. Army Corps of Engineers sand study.

**Grants & Subventions**

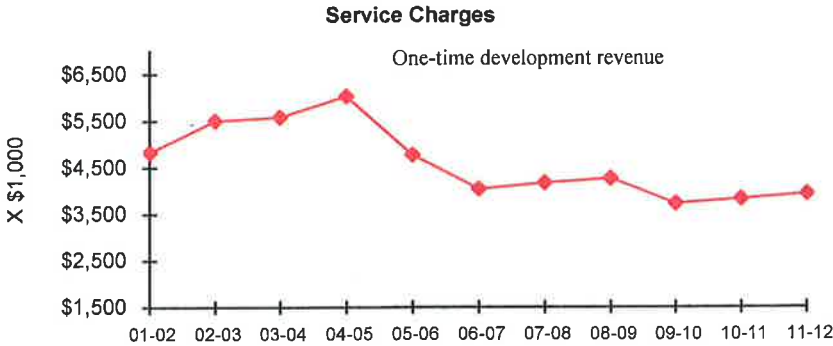


## Service Charges

Historic Growth Rate	-2.0%
2007 Projected Growth Rate	-0.3%

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

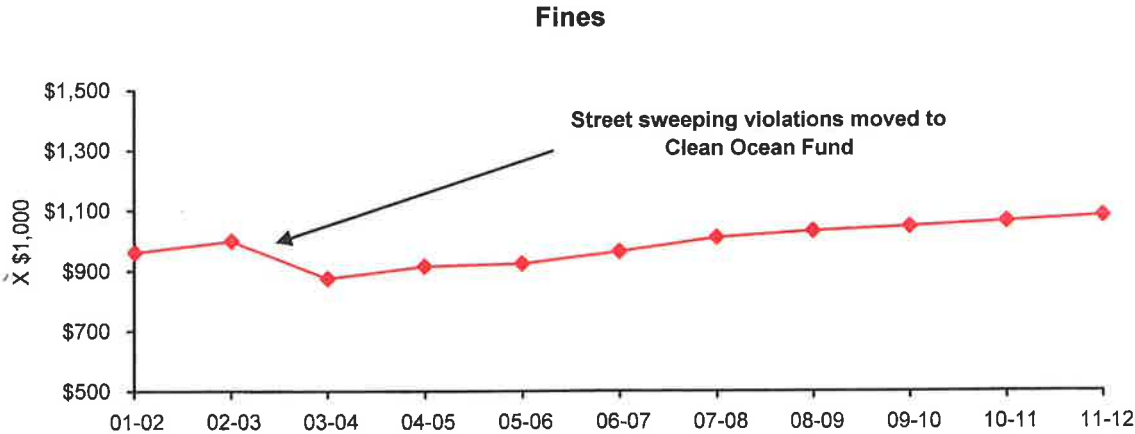
# Financial Forecast



## Fines

Historic Growth Rate	-0.5%
2007 Projected Growth Rate	2.4%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms, and other fines. The 2007 projected growth rate of 2.4% is based on population growth in the City. Fines from street sweeping parking violations were reduced beginning in FY 2003-04, since monies generated from this source are now reported in the Clean Ocean Fund. Fine revenue is anticipated to generate an average of \$1.0 million per year.



## Interest And Rents

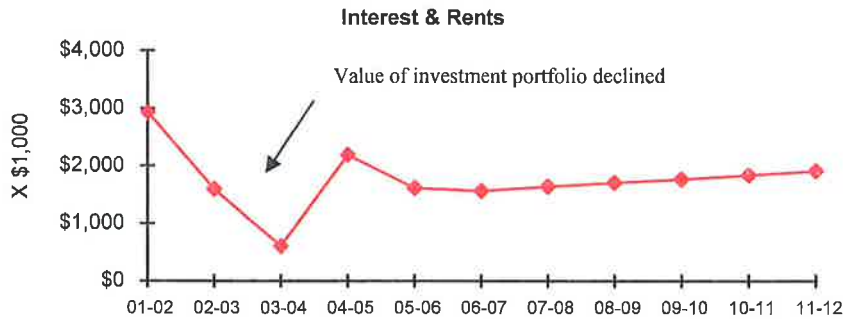
Historic Growth Rate	32.7%
2007 Projected Growth Rate	4.1%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. The unrealized loss or gain on the market value of the City’s investment portfolio resulted in a historical growth rate of 32.7%. Between FY 2001-02 and FY 2003-04,

## Long Term Financial Plan

the market value declined. In FY 2004-05 and beyond, the unrealized gain on the investment portfolio increased sharply. Although the City did not actually realize a loss or gain, Government Accounting Standards Board (GASB) guidelines require the City to “book” the gain or loss on an annual basis.

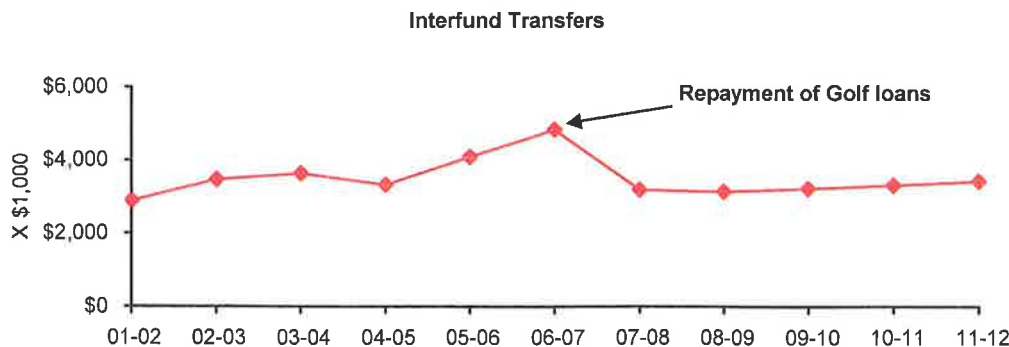
The 2007 projected growth rate is 4.1%. Communications site lease projections have been increased by inflation. Interest earning increases are based upon 70% of the prime interest rate. In accordance with an existing agreement, the concession rate for the Fisherman’s Restaurant is capped at \$265,000 plus 3% of gross revenues for the base year of the forecast. The cap is removed in FY 2007-08 and the City’s share will be 6% of gross revenues for an estimated \$360,000 per year.



### Interfund Transfers

Historic Growth Rate	7.3%
2007 Projected Growth Rate	-5.4%

This revenue category is comprised predominantly of overhead charges assessed by the General Fund to other operating funds of the City that are self-supporting. Other revenues that make up this category include transfers from other funds, such as the Clean Ocean Fund and Gas Tax Fund. The transfer of \$425,000 annually from the Golf Fund was eliminated in FY 2006-07. A one-time repayment of \$984,000 from a short-term loan to the Golf Fund is included in FY 2006-07. Interfund transfers average \$3.3 million over the forecast



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# Financial Forecast

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## General Fund Expenditures

Historic Growth Rate	11.1%
2007 Projected Growth Rate	3.5%

Expenditures are projected to increase at an average rate of 3.5% during the forecast period.

Projected expenditures presume that service levels in effect in FY 2006-07 will remain constant. No new programs are assumed.

The 2007 projected growth rate assumes costs will increase due to inflation, added personnel to maintain service levels, known operation and maintenance costs for new parks and contractual costs for police and fire.

## Salaries and Wages

Historic Growth Rate	5.8%
2007 Projected Growth Rate	2.8%

The forecast projections assume that one new position is added each year, for a total of five new positions added during the forecast period. Council approved cost of living increases of 3.75% for FY 2007-08 and 3.5% for FY 2008-09 are included in the forecast. For forecast purposes only, an annual cost of living increase equal to 90% of the inflation rate is included in the last three years. The Fullerton forecast anticipates minimal increases in the inflation rate and averages 3.1% over the forecast period.

The historic growth rate of 5.8% is due to the addition of 15 full time equivalent (FTE's) positions from FY 2001-02 through FY 2005-06. These positions were added to respond to service level demands from increases in population and infrastructure.

The average projected annual growth rate for Salaries and Wages is 2.8% for the five-year projection.



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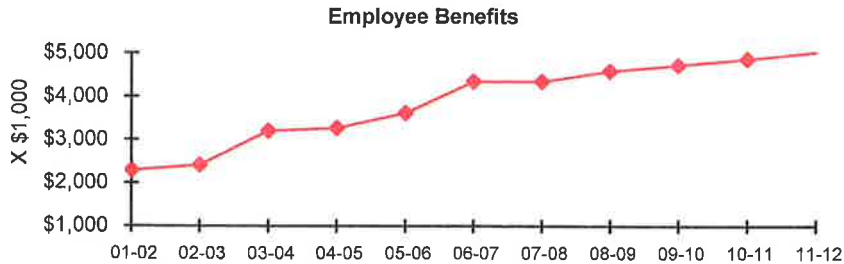
# Long Term Financial Plan

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## Employee Benefits

Historic Growth Rate	11.7%
2007 Projected Growth Rate	3.0%

The employee benefits category reflects an average projected growth rate of 3.0% for the forecast period. This growth rate is the result of the addition of benefits for the five new positions and existing employee benefits increasing by inflation. The historic growth rate of 11.7% is the result of increased medical benefits granted in FY 2003-04 and the addition of 15 positions over the five-year historical growth period.



## Contractual Services

Historic Growth Rate	9.5%
2007 Projected Growth Rate	4.8%

Overall, the contractual category is expected to experience an average annual increase of 4.8% over the forecast period, well below the historical average of 9.5%. Known increases in the police and fire contracts have been included in the forecast.

Historical expenditures grew 9.5% due to the addition of one police position, additional police overtime and increased retirement benefits for sworn and non-sworn police services. Historical expenditures also increased due to contractual increases in the fire contract, the addition of one position on Engine 60 and additional park acreage.

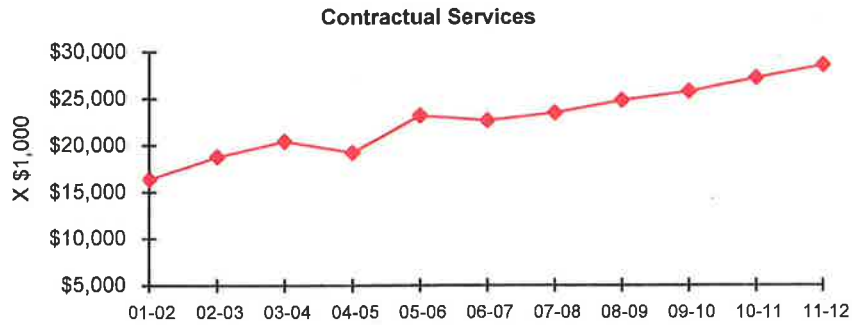
The Police Services budget includes one new deputy position added in each year of the contract. Overall, the contract will increase by an average of \$586,000 per year over the forecast period.

The Fire Service contract with the Orange County Fire Authority (OCFA) includes scheduled 4% increases through FY 2009-10. For forecast purposes, an estimated 8% increase is included for FY 2010-11 and FY 2011-12, although the actual amount of the increase is unknown at this time.

Engineering inspection contract personnel, contractual planning staff and limited-term building

## Financial Forecast

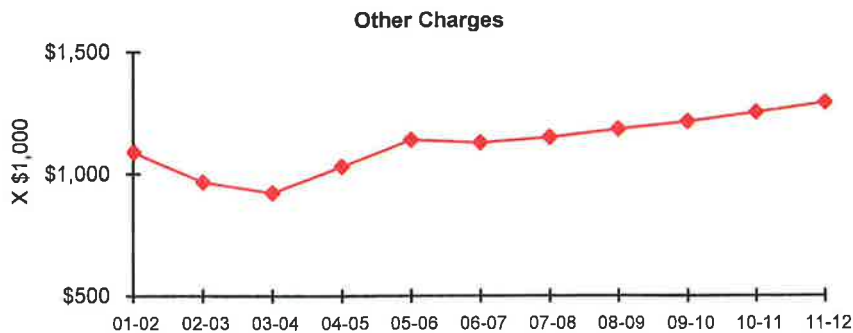
inspectors are reduced beginning in FY 2009-10 in anticipation of a decline in development activity. Contractual services for all other major contracts such as park and beach maintenance have been increased by inflation. Maintenance for the coastal trail and new parks, trails and medians in Talega and Marblehead amount to a total increase of \$619,000.



### Other Charges

Historic Growth Rate	1.8%
2007 Projected Growth Rate	2.8%

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Also, this expenditure category includes funding for the Council Contingency reserve. The projected growth rate when averaged is misleading, in that funds are transferred out of the Council Contingency reserve to the operating division's budget for approved expenditures and the account is replenished with an annual contribution. The current policy requires replenishment of the contingency reserve with no less than 0.5% of General Fund operating expenditures. Historical expenditures increased 1.8%, primarily due to increases in recreation program expenditures.

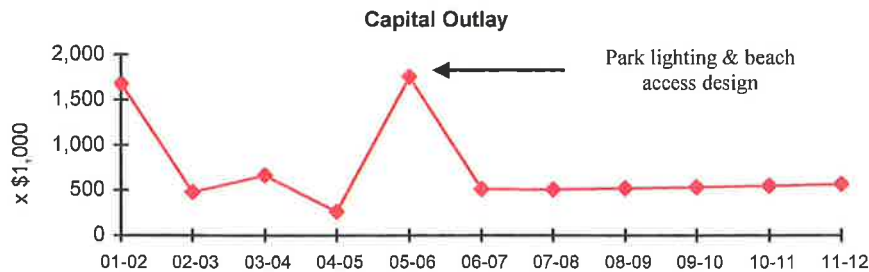


# Long Term Financial Plan

## Capital Outlay

Historic Growth Rate	147.4%
2007 Projected Growth Rate	2.2%

The historical growth rate of 147% includes a one-time capital expenditure to upgrade the lighting at San Gorgonio Park. The projected growth rate for Capital Outlay is 2.2%. One-time capital expenditures of \$507,500 for equipment to implement the traffic calming policy and two utility trucks are excluded from the base year of the forecast. For purposes of this forecast, Capital Outlay includes funding of \$500,000 (increased by inflation) beginning in FY 2007-08 for facility improvements or new capital equipment.



## Interdepartmental Charges

Historic Growth Rate	8.8%
2007 Projected Growth Rate	2.3%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 2.3% increase over the five year forecast and is based upon inflation.

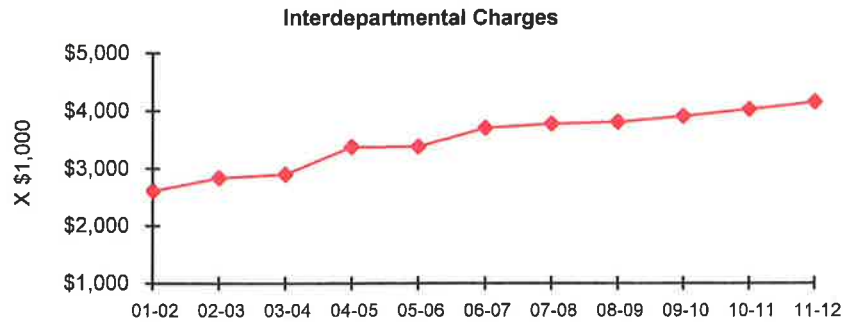
The historical growth rate of 8.8% is due to increases in capital equipment and facilities maintenance replacement charges as equipment and maintenance projects are completed. In addition, a new rental charge to support the debt service on the 910 Calle Negocio building was implemented in FY 2004-05.



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## Financial Forecast

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### ***Interfund Transfers***

Historic Growth Rate	134.7%
2007 Projected Growth Rate	-2.4%

The Interfund Transfers category provides for the transfer of General Fund monies to other funds to fund special projects outside the General Fund or to maintain required reserve levels.

The Interfund Transfer expenditure category is projected to experience an average annual decrease of -2.4% with a decline in one-time transfers to support priority projects. On-going transfers to the Street Improvement Fund and the Solid Waste Fund have been increased annually by inflation.

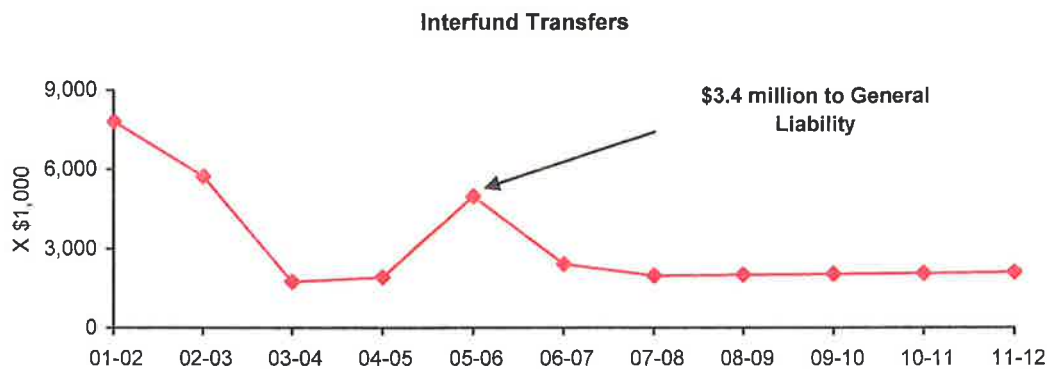
Historical expenditures reflect a growth rate of 134.7%, which includes \$5.9 million in one-time transfers to other funds in FY 2001-02. These transfers included \$1.25 million to the Golf Fund, \$500,000 to the Storm Drain Fund, \$195,000 to the Communications Fund, \$948,710 to the Workers' Compensation Fund, \$1.5 million to General Liability and \$1.5 million to the Parks Acquisition and Development Fund. These transfers were made upon the recommendations included in the 2001 Long Term Financial Plan. In addition, a \$3.4 million one-time transfer to the General Liability Fund was made in FY 2005-06 as a part of a liability claim settlement agreement.

A total of \$3.4 million or an average of \$685,490 per year, has been included in each year of the forecast for the City's estimated PERS unfunded liability for former public safety employees that continue to be members of CalPERS retirement plan.

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## Long Term Financial Plan

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### Conclusion

The City's five-year financial forecast predicts a positive operating position in all five years. Fund balances are increasing in each year of the forecast with an average balance of \$14.6 million. Planned development of the City and rising property valuation have increased revenues to levels that can sustain on-going expenditures.

### Recommendations

None.

### Fiscal Impact of Recommendations

None.

### Variation on the 2007 Financial Forecast

The 2007 financial forecast projections are developed assuming the current level of City services. If known, future revenue and expenditure increases or decreases are built into the base forecast. For example, revenue from the Marblehead development is included in the base forecast along with expenditures to maintain the parks, medians and trails. However, the base forecast *does not* include maintenance and operating costs for the La Pata/Vista Hermosa Park. In a separate issue paper, the Capital Projects Analysis, a rough estimate of \$2.5 million in maintenance and operating costs have been identified for the park, with offsetting revenues of \$1.3 million.

In order to show the effect of La Pata/Vista Hermosa Park on the General Fund forecast, these rough numbers have been included in a variation of the base financial forecast. Revenue and expenditures for the park have been included in the last three years of the forecast.

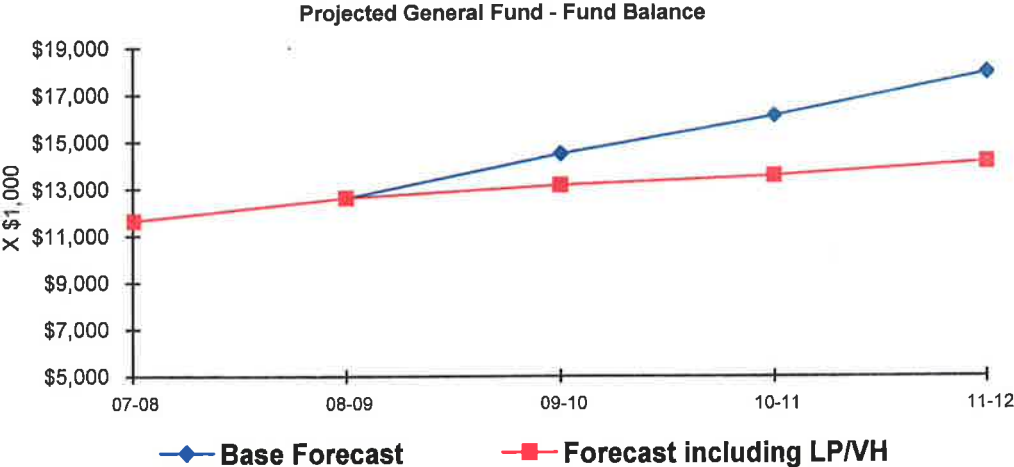
The operating position continues to be positive in all five years of the forecast. However, the forecast shows that projected expenditures will increase an average of 5.0%, while projected revenues are only averaging a 4.5% growth rate. Fund balances decline from an average of \$14.6 million in the base forecast to \$13.0 million in the forecast variation.

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# Financial Forecast

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The graph below compares fund balances from the base forecast and the forecast variation:



Any changes or further delays to the development plans currently in place will have a negative effect on fund balances and operating position.

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## Long Term Financial Plan

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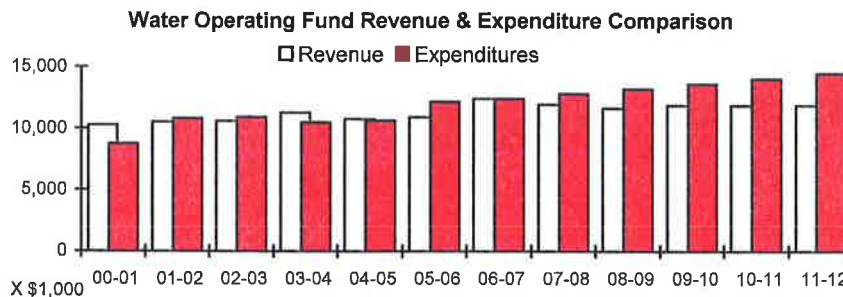
### Other Operating Fund Forecasts

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

### Water Operating Fund Forecast

The Water Operating Fund receives revenue primarily from fees charged for water. Revenues have been increased over the forecast period by anticipated growth in the City, excluding the Talega development which is served by the Santa Margarita Water District. No rate increases have been assumed in the base forecast. Expenditures have been increased by inflation. Additional contributions to the Water Depreciation Reserve identified in the Reserve Analysis paper have not been incorporated in this forecast.

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



The Water Operating Fund's operational position (revenues less expenditures) is negative in all five years of the forecast. Expenditures exceed revenues by an average of \$1.8 million per year. However, net working capital balances are sufficient to sustain the fund through the first two years of the forecast. If recommendations from the Enterprise Depreciation Reserve Analysis are adopted, the operating deficit would grow by approximately \$500,000 per year.

A formal review of the rate structure will be conducted in March 2007 to determine what the proposed rate would be to balance the operating position and fund future capital requirements. Once determined, the proposed rates will be presented to City Council for review and potential adoption during the budget process.

The Water Operating fund has been able to set aside the fiscal policy requirement of 8% of operating expenditures. Additional contributions over the next five years are required to maintain the 8% level. This reserve has been designated to provide for unanticipated or emergency Water Fund expenditures that could not be reasonably foreseen during the preparation of the budget.

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## Financial Forecast

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

### Emergency Reserve

Amounts in \$1,000	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Emergency Reserves (8%)	\$545	\$562	\$580	\$598	\$616

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

### 2007 FINANCIAL FORECAST

#### Water Operating Realistic Cash Flow based on FY 2006-07 Adjusted Budget

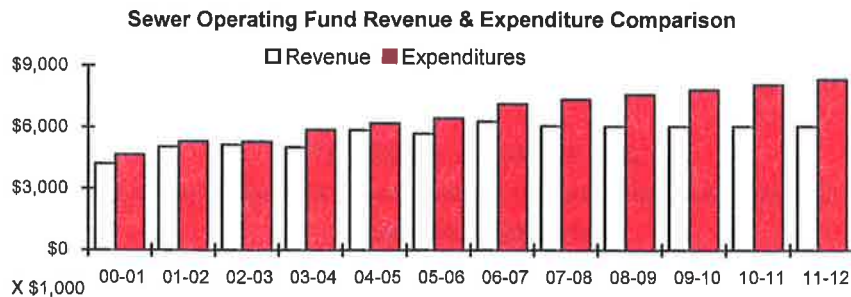
(Amounts in Thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
<b>Beginning Net Working Capital Balance</b>	3,746	2,849	1,242	(553)	(2,771)
<b>Receipts</b>					
Service Charges	325	325	325	325	325
Water Charges	11,262	10,990	11,262	11,262	11,262
Miscellaneous Charges	321	281	231	231	231
Interfund Transfers	31	31	31	31	31
<b>Total Receipts</b>	11,939	11,627	11,849	11,849	11,849
<b>Disbursements</b>					
Water Administration	2,929	3,019	3,113	3,210	3,309
Water Production	8,120	8,372	8,632	8,899	9,175
Transmission	1,431	1,475	1,521	1,568	1,616
Conservation	80	83	85	88	91
Reclaimed Water	260	268	276	284	294
New Employees	0	0	0	0	0
<b>Total Disbursements</b>	12,820	13,217	13,627	14,049	14,485
<b>Emergency Reserve</b>	16	17	17	18	19
<b>Ending Net Working Capital Balance</b>	2,849	1,242	(553)	(2,771)	(5,426)

# 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 identified in the Reserve Analysis paper have not been incorporated in this forecast.



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 Reserve Analysis paper, which includes an increase of \$250,000 annually to the Sewer Operating Fund for funding the projected Sewer Depreciation Reserve gap.

A formal review of the rate structure will be conducted in March 2007 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	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Emergency Reserves (8%)	\$589	\$608	\$627	\$646	\$667

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.

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## Financial Forecast

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### 2007 FINANCIAL FORECAST

#### Sewer Operating Realistic Cash Flow from 2006-07 Adjusted Budget

(Amounts in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Net Working Capital Balance</b>	1,561	174	(1,400)	(3,211)	(5,266)
<b>Receipts</b>					
Service Charges	5,972	5,972	5,972	5,972	5,972
Miscellaneous Charges	85	72	72	72	72
Interfund Transfers	0	0	0	0	0
Total Receipts	6,057	6,044	6,044	6,044	6,044
<b>Disbursements</b>					
Sewer Administration	3,334	3,437	3,544	3,654	3,766
Treatment	2,189	2,257	2,327	2,399	2,474
Collection	1,849	1,906	1,965	2,026	2,089
New Employees	0	0	0	0	0
Total Disbursements	7,372	7,600	7,836	8,079	8,329
<b>Emergency Reserve</b>	72	18	19	20	20
<b>Ending Net Working Capital Balance</b>	174	(1,400)	(3,211)	(5,266)	(7,571)

### ***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.

Expenditures presume the present level of services for golf course maintenance and have been increased based upon inflation. Operating expenditures do not include any potential transfers to the Capital Equipment Reserve for major course improvements during the five-year forecast period.

The forecast does include Golf Operating Fund costs associated with the construction of the clubhouse, anticipated for completion in October, 2007. Nine months of revenue from the new concessionaire has been included in the 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.

# Long Term Financial Plan

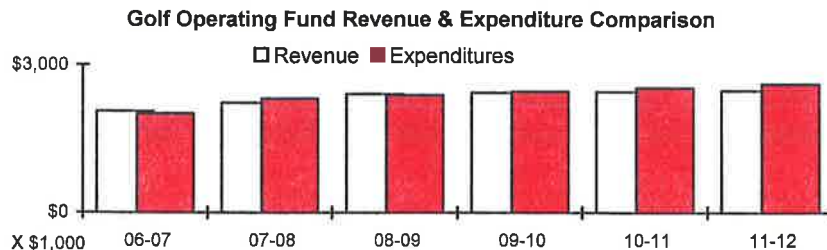
## 2007 FINANCIAL FORECAST

### Golf Fund Realistic Cash Flow from 2006-07 Adjusted Budget

(Amounts in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Net Working Capital Balance</b>	177	67	81	49	(42)
<b>Receipts</b>					
Service Charges	2,028	2,185	2,199	2,211	2,225
Interest & Rents	198	224	239	245	258
Miscellaneous Income	0	0	0	0	0
<b>Total Receipts</b>	<b>2,226</b>	<b>2,409</b>	<b>2,438</b>	<b>2,456</b>	<b>2,483</b>
<b>Disbursements</b>					
GC Maintenance	2,318	2,390	2,464	2,541	2,619
Starter Operations	0	0	0	0	0
Depreciation	0	0	0	0	0
<b>Total Disbursements</b>	<b>2,318</b>	<b>2,390</b>	<b>2,464</b>	<b>2,541</b>	<b>2,619</b>
<b>Emergency Reserve</b>	18	5	6	6	6
<b>Ending Net Working Capital Balance</b>	67	81	49	(42)	(184)

The Golf Operating Fund maintains a positive operating position in the first two years of the forecast. To maintain a positive operating balance in the Golf Fund, an increase in green fees may be necessary. The Golf Operating Fund is examined in more detail in the Gap Analysis section of the LTFP.





## 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	2007-08	2008-09	2009-10	2010-11	2011-12
Emergency Reserves (8%)	\$186	\$191	\$197	\$203	\$209

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. Additional contributions to the Storm Drain Depreciation Reserve identified in the Reserve Analysis paper have not been incorporated in this forecast.

#### 2007 FINANCIAL FORECAST

##### Storm Drain Fund Realistic Cash Flow from 2006-07 Adjusted Budget

(Amounts in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Net Working Capital Balance</b>	1,046	1,280	1,493	1,677	1,831
<b>Receipts</b>					
Service Charges	1,150	1,150	1,150	1,150	1,150
Interest & Rents	26	26	26	26	26
Miscellaneous Income	5	5	5	5	5
<b>Total Receipts</b>	1,181	1,181	1,181	1,181	1,181
<b>Disbursements</b>					
Storm Drain Administration	850	877	904	932	961
Storm Drain Maintenance	86	88	91	93	97
Trans. to Capital Improvement	0	0	0	0	0
<b>Total Disbursements</b>	936	965	995	1,025	1,058
<b>Emergency Reserve</b>	11	3	2	2	2
<b>Ending Net Working Capital Balance</b>	1,280	1,493	1,677	1,831	1,952

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

## Long Term Financial Plan

expenditures, maintenance and planned capital improvements. Expenditures do not include any recommendations of the Reserve Analysis paper, which includes an increase of \$200,000 annually to the Storm Drain Operating Fund for funding the projected Storm Depreciation Reserve gap.

A total of \$20,000 has been set aside to meet the fiscal policy requirement of 8% of operating expenditures. Additional contributions in the next five years are required to maintain the 8% level.

### Emergency Reserve

Amounts in \$1,000	2007-08	2008-09	2009-10	2010-11	2011-12
Emergency Reserves (8%)	\$75	\$77	\$80	\$82	\$84

### Clean Ocean Operating Fund

The Clean Ocean Operating Fund receives revenue from the Urban Runoff Management fee. The Urban Runoff Management Fee was approved by San Clemente voters for a five year period and *revenue from the fee is only included through December 2007 in the base forecast*. Other revenues have been increased over the forecast period by anticipated growth in the City. Revenues from interest and fines are anticipated to continue in the last year of the forecast. Expenditures presume the present level of services and have been increased based upon inflation.

#### 2007 FINANCIAL BASE FORECAST

##### Clean Ocean Fund Realistic Cash Flow from 2006-07 Adjusted Budget

(Amounts in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Net Working Capital Balance</b>	770	182	(2,314)	(4,472)	(7,330)
<b>Receipts</b>					
Service Charges	900	0	0	0	0
Interest & Rents	38	20	0	0	0
Fines	320	315	310	305	300
<b>Total Receipts</b>	<b>1,258</b>	<b>335</b>	<b>310</b>	<b>305</b>	<b>300</b>
<b>Disbursements</b>					
Water Quality Inspection	1,336	1,695	1,750	1,876	1,846
Street Cleaning	510	736	588	617	648
Trans. to Capital Improvement	0	400	400	400	400
<b>Total Disbursements</b>	<b>1,846</b>	<b>2,831</b>	<b>2,738</b>	<b>2,893</b>	<b>2,894</b>
<b>Emergency Reserve</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Ending Net Working Capital Balance</b>	<b>182</b>	<b>(2,314)</b>	<b>(4,742)</b>	<b>(7,330)</b>	<b>(9,924)</b>

## Financial Forecast

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

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

### ***Clean Ocean Operating Fund with Fee renewed***

The following table presents the Clean Ocean Fund, assuming the existing Urban Runoff Management Fee is renewed by voters beginning January, 2008. Based on the existing Clean Ocean Fee, the operating position of the fund will be negative in all five years of the five-year forecast. The net working capital balance goes negative in the second year of the five-year forecast period.

**2007 FINANCIAL FORECAST With FEE RENEWAL**  
**Clean Ocean Fund Realistic Cash Flow from 2006-07 Adjusted Budget**  
 (Amounts in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Beginning Net Working Capital Balance</b>	770	1,082	376	(252)	(1,040)
<b>Receipts</b>					
Service Charges	1,800	1,800	1,800	1,800	1,800
Interest & Rents	38	10	0	0	0
Fines	320	315	310	305	300
<b>Total Receipts</b>	<b>2,158</b>	<b>2,125</b>	<b>2,110</b>	<b>2,105</b>	<b>2,100</b>
<b>Disbursements</b>					
Water Quality Inspection	1,336	1,695	1,750	1,876	1,846
Street Cleaning	510	736	588	617	648
Trans. to Capital Improvement	0	400	400	400	400
<b>Total Disbursements</b>	<b>1,846</b>	<b>2,831</b>	<b>2,738</b>	<b>2,893</b>	<b>2,894</b>
<b>Emergency Reserve</b>	0	0	0	0	0
<b>Ending Net Working Capital Balance</b>	<b>1,082</b>	<b>376</b>	<b>(252)</b>	<b>(1,040)</b>	<b>(1,834)</b>

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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.

## Executive Summary

The reserves analyzed include:

<b>Emergency Reserves:</b>	<b>Restricted</b>	<b>Unrestricted</b>
• General Fund	X	
• Other Funds		
Water Operating fund	X	
Sewer Operating Fund	X	
Storm Drain Operating Fund	X	
Solid Waste Operating fund	X	
Golf Course Operating Fund		X
<b>Miscellaneous General Fund Reserves:</b>		
• City Council Contingency Reserve		X
• Employee Computer Purchase Reserve		X
• Accrued Leave Reserve		X
<b>Self-Insurance Reserves:</b>		
• General Liability Self-Insurance Reserve	X	
• Workers' Compensation Reserve		X
<b>Capital Replacement Reserves:</b>		
• Fleet Replacement Reserve		X
• Capital Equipment Replacement Reserve		X
• Facilities Maintenance Capital Asset Reserve		X
<b>Infrastructure Reserves:</b>		
• Water Fund Depreciation Reserve	X	
• Sewer Fund Depreciation Reserve	X	
• Storm Drain Fund Depreciation Reserve	X	
• Golf Course Fund Depreciation Reserve		X
• Golf Capital Improvement Reserve		X

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

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## Long Term Financial Plan

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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 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 General Liability Self-Insurance Fund, Workers' Compensation Fund, and Fleet Funds are classified as Internal Service Funds. These funds charge other City departments for services they provide and are designed to fully recover the costs of providing the services. Additionally, these internal service funds should not carry excess fund balances beyond what is necessary to maintain adequate reserves and recover operating costs.

The Water, Sewer, Storm Drain, Solid Waste and Golf Funds are classified as Enterprise Funds. Each of these funds maintain an emergency reserve similar to the General Fund to protect essential service programs during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for the maintenance and replacement of assets essential to the operation of these business-type activities.

### **Reserve Restrictions**

The City's reserves are divided into two basic groups; Restricted Reserves and Unrestricted Reserves, as presented in the above chart. Restricted Reserves derive their funding from specific fees or revenue sources or are restricted by State, County or Local Ordinances. The City's Enterprise Reserves, with the exception of Golf, are legally restricted. These restricted reserves may only be used to support the specific Enterprise in which they were created. General Fund Reserves are also unrestricted, with the exception of the Emergency Reserve, which was restricted by City Ordinance when it was created. The City has Fiscal Policy requirements which may also place some limitations on the use of individual reserves.

### **Background**

The City's reserves are reviewed annually as part of the LTFP process. The City's Fiscal Policy, which is included in the LTFP document under a separate section, defines the types and criteria for funding levels for each of the City's reserves. Utilizing guidelines established by the Government Finance Officers Association (GFOA), the City maintains emergency reserves in the General Fund and each of the Enterprise Operating Funds to protect essential service programs or other unforeseen catastrophic costs. Throughout this paper, each emergency reserve is examined and recommendations made to increase or maintain these reserves as defined by the City's Fiscal Policy.

Depreciation Reserves exists in each of the City's Enterprise Funds to provide funding for the replacement of equipment that has reached the end of its useful life and major repairs and maintenance of infrastructure assets. A combination of industry practice and GFOA guidelines were used to develop Fiscal Policies to determine the appropriate funding levels for these reserves, which are routinely examined as part of this paper.

## Reserve Analysis

Reserves for the replacement and maintenance of General Fund assets, as recommended by the GFOA, have also been included in the City's Fiscal Policy. The City also maintains reserves for General Liability and Workers' Compensation self-insurance programs. The City's Fiscal Policy is based on guidelines developed by the Insurance Institute of America and GFOA recommendations.

The following table summarizes the estimated balances of the various reserve and self-insurance funds as of June 30, 2007.

Reserves	Funding Source	Estimated Reserve Balances At June 30, 2007	In Compliance With Fiscal Policy
General Fund Emergency Reserve	General Fund	\$3,521,640	Yes
Council Contingency Reserve	General Fund	\$225,000	Yes <sup>1</sup>
Employee Computer Purchase Program	General Fund	\$31,600	Yes
General Liability Self-Insurance	All Funds	\$595,000	Yes
Workers' Compensation	All Funds	\$1,802,000	Yes
Fleet Replacement	All Funds	\$4,300,000	Yes
Accrued Leave	General Fund	\$394,000	No <sup>2</sup>
Capital Equipment Replacement	All Funds	\$875,000	Yes
Facilities Maintenance Capital Asset	General Fund	\$597,000	No <sup>3</sup>
Water Operating Fund – Emergency Reserve	Water Fund	\$395,000	Yes
Water Fund Depreciation	Water Fund	\$4,920,000	No <sup>4</sup>
Sewer Operating Fund – Emergency Reserve	Sewer Fund	\$518,000	Yes
Sewer Fund Depreciation	Sewer Fund	\$1,178,000	No <sup>5</sup>
Storm Drain Operating Fund – Emergency Reserve	Storm Drain Fund	\$64,000	Yes
Storm Drain Fund Depreciation	Storm Drain Fund	\$696,000	No <sup>6</sup>
Solid Waste Fund – Emergency Reserve	Solid Waste Fund	\$12,000	Yes
Golf Course Operating Fund – Emergency Reserve	Golf Course Fund	\$168,000	Yes
Golf Course Fund Depreciation	Golf Course Fund	\$882,000	Yes
Golf Capital Improvement Reserve	Golf Course Fund	<u>\$100,000</u>	No <sup>7</sup>
<b>Total</b>		<b>\$21,274,240</b>	

<sup>1</sup>The Council Contingency Reserve is "zeroed out" at the end of each fiscal year, and re-established at the beginning of the next fiscal year.

<sup>2</sup>This reserve is under funded by \$138,000. Refer to Miscellaneous General Fund Reserves section.

<sup>3</sup>This reserve is under funded by \$83,000. Refer to Capital Replacement Reserves section.

<sup>4</sup>This reserve is under funded by \$7.8 million. Refer to Infrastructure Reserves section.

<sup>5</sup>This reserve is under funded by \$5.3 million. Refer to Infrastructure Reserves section.

<sup>6</sup>This reserve is under funded by \$2.6 million. Refer to Infrastructure Reserves section.

<sup>7</sup>This reserve is under funded by \$0.1 million. Refer to Infrastructure Reserves section.

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## Long Term Financial Plan

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Each reserve listed on the first page of this report is addressed in the following sections along with the staff recommendations for the 2007-08 fiscal year.

### Analysis of the Funds/Reserves

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

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

### Emergency Reserves

#### 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:* 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 the projected balance for the emergency reserve, the recommended contribution, if required, for fiscal year 2007-08, and the projected percentage reached at the end of fiscal year 2007-08.

	<b>Projected Balance June 30, 2007</b>	<b>FY 2007-08 Recommended Contribution</b>	<b>Percentage June 30, 2008</b>
General Fund	\$3,521,640	\$90,000	8.0%

*Recommendation:* Budget sufficient funds for FY 2007-08 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 \$90,000.

*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 approximately \$690,000. The reserve will be maintained at the 8% level throughout the five-year forecast as General Fund operating expenditures increase.



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## Reserve Analysis

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### Other Operating Funds - Emergency Reserves

*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 these reserves 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 the projected balances for each Enterprise Fund emergency reserve, the recommended contribution, if required, for fiscal year 2007-08, and the projected percentage reached at the end of fiscal year 2007-08.

	<b>Projected Balance June 30, 2007</b>	<b>FY 2007-08 Recommended Contribution</b>	<b>Percentage June 30, 2008</b>
Water Fund	\$395,000	\$134,000	8.00%
Sewer Fund	\$518,000	\$72,000	8.00%
Storm Drain Fund	\$64,000	\$11,000	8.00%
Solid Waste Fund	\$12,000	-0-	8.00%
Golf Course Fund	\$168,000	\$17,500	8.00%

*Recommendation:* Budget \$134,000 for Water, \$72,000 for Sewer, \$11,000 for Storm Drain, and \$17,500 for Golf Operating Funds in FY 2007-08 to maintain emergency reserves at 8% of projected operating expense levels.

*Fiscal Impact of Recommendation:* Projected Operating Fund expenses over the next five years will require total five-year contributions to the Enterprise Funds emergency reserves of \$413,000, beginning in fiscal year 2007-08. The reserves will be maintained at 8% levels throughout the five-year forecast as Fund operating expenses increase.

### Miscellaneous General Fund Reserves

#### City Council Contingency Reserve

*City Council Fiscal Policy:* Maintain a reserve of no less than 1/2% 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.

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## Long Term Financial Plan

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*Recommendation:* Staff recommends that \$225,000 be set aside in fiscal year 2007-08 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 approximately \$1.2 million.

### **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.

*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 2007-08.

### **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 (3 year average)	\$ 125,000
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The projected ending balance for the Accrued Leave Reserve as of June 30, 2007 is \$394,000. At June 30, 2006, the total General Fund liability for accrued leave was \$1,135,000. Of this amount, \$532,000 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2008.

The average annual payoff has doubled in the last three fiscal years to \$125,000 and is expected to continue this upward trend as eligible employees retire. It is recommended that \$170,000 be transferred from the General Fund to the Accrued Leave Reserve to ensure adequate funds are available for payment of potential liabilities. This amount equals the projected payout for fiscal year 2006-07 and will maintain the reserve balance at approximately \$400,000, or 75% of the fiscal policy requirement.

*Recommendation:* Transfer \$170,000 from the General Fund to the Accrued Leave Reserve for fiscal year 2007-08.

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## Reserve Analysis

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*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 \$537,000.

### Self-Insurance Reserves

#### General Liability Self-Insurance Fund

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

*Assessment of the current situation/conclusions:* The City's SIR is currently \$30,000, which requires a reserve in this fund of \$90,000 (three times the SIR). The projected year-end fund balance in the General Liability Self-Insurance Fund for FY 2007-08 is \$595,000. This balance is in addition to the \$330,000 reserve established for uncovered claims losses.

Several types of occurrences are excluded from the liability insurance coverage purchased through the California joint Powers insurance Authority (CJPIA). These 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. These claims have totaled \$790,000 over the past five years. As indicated above, \$330,000 is currently set aside for potential uncovered claim losses.

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 2007-08:

## Long Term Financial Plan

	<b>% of Past Claims (25%)</b>	<b>% of Budgeted Expenditures (75%)</b>	<b>Total % of General Liability Charges (weighted average)</b>	<b>Total Charge for General Liability FY 2007-08</b>	<b>Total Charge for General Liability FY 2006-07</b>
General Fund	63.7%	63.7%	63.7%	\$ 956,167	\$ 983,625
Water Fund	19.5%	17.0%	17.6%	263,600	202,125
Sewer Fund	5.7%	9.6%	8.6%	129,106	102,000
Solid Waste Fund	0.0%	0.2%	0.1%	1,919	3,375
Storm Drain Fund	0.5%	1.0%	0.9%	13,138	60,750
Golf Course Fund	10.4%	2.5%	4.5%	67,166	43,500
Clean Ocean Fund	0.2%	2.1%	1.6%	23,867	36,000
Information Services Fund	0.0%	1.5%	1.2%	17,382	15,750
Central Services Fund	0.0%	0.6%	0.5%	7,216	6,750
Fleet Maintenance Fund	0.0%	1.2%	0.9%	14,009	13,500
Redevelopment Agency	0.0%	0.6%	0.4%	6,430	32,625
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$1,500,000</b>	<b>\$1,500,000</b>

The total charge for General Liability will remain the same for FY 2007-08, as compared to the current fiscal year. This is largely due to the impact to the reserve balance by the Callan settlement. The General Liability Self Insurance Fund balance declined significantly as a result of settlement payments for the Callan land subsidence claim during fiscal year 2006-07. The claim settlement amount totaled \$9.9 million, consisting of a \$1.5 million settlement to the Plaintiffs, \$1.4 million for attorney fees, \$6.4 million for slope repairs, and \$0.6 million for storm drain repairs. The City was responsible for \$6.7 million of the settlement amount. Current estimates for the slope repair project now total \$7.6 million, as compared to the \$6.4 million agreed to under the settlement agreement. The projected reserve balance at June 30, 2007 adequately covers the fiscal policy requirements and the existing Callan settlement amount. However the additional \$1.2 million slope repair estimates noted above could deplete the balance of the reserve. This potential claim increase will likely impact future year General Liability charges.

### *Recommendations:*

1. Maintain the annual City-wide charge for General Liability insurance at \$1.5 million for fiscal year 2007-08.

***Fiscal Impact of Recommendations:*** The General Liability Self-Insurance Fund basic reserve requirement of \$90,000 is fully funded. An additional \$330,000 is reserved for payment of claims not covered by CJPIA, the City's insurance pool.

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## Reserve Analysis

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### **Workers' Compensation Fund**

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

*Assessment of the current situation/conclusions:* The City is self-insured for Workers' Compensation coverage. The California Public Entity Insurance Authority (CPEIA) provides coverage for Workers' Compensation claims in excess of \$300,000, which represents the City's Self-Insurance Retention (SIR) amount. The Workers' Compensation Fund sets aside reserves for the following exposures:

- 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, 2006, these estimated claims total \$385,000. This is a reduction from last year's estimate of \$454,000 for these "tail" claims.

The City's average annual claims amount paid for the prior seven years is \$113,000. The reserve balance at the end of fiscal year 2005-06 totaled \$2.3 million and is projected to decrease to \$1.8 million through June 30, 2007, largely as a result of a premium refund of \$500,000.

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 \$385,000 noted above, for a total reserve of \$1,285,000. The estimated reserve balance at June 30, 2007 totals \$1,802,000 (currently comprised of \$385,000 set aside specifically for the "tail" claims and \$1,417,000 in general reserves). Based on this analysis, the reserve is projected to be fully funded as of June 30, 2007.

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.).

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## Long Term Financial Plan

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The following rates are in effect for fiscal year 2006-07;

8810	Clerical	\$0.56/\$100 of payroll
9410	Non-Manual	\$1.56/\$100 of payroll
9420	Manual Labor	\$5.21/\$100 of payroll

*Recommendation:* Maintain the existing rates for fiscal year 2007-08.

*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.

### Capital Replacement Reserves

#### 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. The City's fleet is valued at \$6.1 million. \$3.8 million is scheduled for replacement during the next five years and \$0.5 million is scheduled for replacement during the next six to ten years. This reserve is fully funded with a projected ending balance of \$4.3 million at June 30, 2007.

*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 2007-08 budget will contain normal replacement charges to other funds of \$414,000.

#### 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:* The projected fund balance at June 30, 2007 is \$875,000, 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

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## Reserve Analysis

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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 2007-08 budget will contain normal replacement charges to other funds of \$158,000.

### **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 reserve is reviewed annually to verify if funding is adequate to cover projected replacement costs for the next five years. The City's facilities maintenance costs for the next five years amount to \$680,000. The reserve balance is projected to be \$597,000 as of the end of fiscal year 2006-07. The Reserve is under funded by \$83,000.

*Recommendation:* Transfer \$83,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for fiscal year 2007-08.

*Fiscal Impact of Recommendation:* Projected General Fund expenditures over the next five years will require total five-year contributions to the reserve of \$98,000.

### **Infrastructure Reserves**

In 2001-02 the City conducted a fixed asset physical inventory and an infrastructure valuation, which resulted in the recognition of infrastructure in the City's General Fund and Enterprise Funds, specifically, the Water, Sewer and Storm Drain Funds. Enterprise infrastructure assets, such as the water, sewer and storm drain lines, which were not previously recognized on the City's books, were capitalized, which significantly increased depreciation expenses within these funds. General Fund infrastructure assets, such as streets, sidewalks and curbs and gutters, were capitalized on the books of the General Fund. General Fund assets are treated as expenditures and are depreciated for book purposes only, therefore, cash is not accumulated for the replacement of General Fund assets. As a result of the physical inventory and infrastructure valuation, annual depreciation expenses increased dramatically. However, the replacement reserves, which are comprised entirely of cash, did not increase at the time the assets were recognized and added to the City's books.

Current depreciation charges recognize the annual replacement costs for all assets, including the infrastructure assets added as a result of the GASB No. 34 conversion. Recommendations from the 2006 LTFP and the Water and Sewer Rate increases presented to Council in May of 2006 was implemented in the FY 2006-07 Budget to address the long-term funding requirements for

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## Long Term Financial Plan

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the City's Water, Sewer, and Storm Drain infrastructure. As explained in following sections of this paper, significant funding gaps exist in the Water, Sewer, and Storm Drain Depreciation Reserves. Additional reserve contributions, in excess of the book depreciation amounts, will be made on an annual basis from the Operating Funds. It will take excess contributions, now being made, for a period of five to ten fiscal years to properly bring these reserves into fiscal compliance. Additionally, the commitment to build these reserves would impact Water and Sewer rates. The discussion which follows addresses each of the Enterprise Depreciation Reserves in detail.

### **Water Depreciation Reserve**

*City Council Fiscal Policy:* 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.

*Assessment of the current situation/conclusions:* The reserve is reviewed annually to verify if funding is adequate to cover projected replacement and maintenance costs for the next five years. The projected ending balance at June 30, 2007 is \$4.9 million. The projected replacement costs for the next five-year period totals \$12.7 million. Based on this, the Depreciation Reserve is currently under funded by \$7.8 million.

The Water Operating Fund currently contributes \$1.5 million per year to the reserve for City-owned assets, based on the Water Asset Model, and \$.75 million per year for non-City owned assets, for a total contribution of \$2.25 million in FY 2006-07. This funding level will not provide adequate resources in the future to fund projected project costs and build the Water Depreciation Reserve to the level prescribed in the City's Fiscal Policy.

As noted, the Water Depreciation Reserve is projected to be under funded by \$7.8 million as of June 30, 2007. This is based on the Fiscal Policy implemented in 2006 and the recommendations of the Water Asset model adopted by Council in 2006, which projects repair and replacement costs for the City's Water System assets over the next 20 years. The model identified a gap between the amount of the annual contribution to the reserve based on "book" depreciation and the amount required to maintain the assets. Depreciation contributions were increased for the current fiscal year by \$800,000.

With the gap clearly identified as \$7.8 million, staff is recommending a one-time transfer from the Water Operating Fund of \$1.0 million for fiscal year 2007-08 and an increase from \$1.5 million to \$2.0 million per year for the City-owned assets replacement contribution. The \$0.5 million increase will narrow the gap during the next ten fiscal years, leading to compliance with the City's Fiscal Policy.



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## Reserve Analysis

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### *Recommendations:*

1. Increase the annual depreciation contribution from the Water Operating Fund from \$1.5 million to \$2.0 million for fiscal year 2007-08.
2. Budget a one-time transfer of \$1.0 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 2007-08.

*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 \$13.8 million. An additional \$6.7 million will be required over the next five years to properly fund the Depreciation Reserve requirements defined in the Water System Asset Model.

### **Sewer Depreciation Reserve**

*City Council Fiscal Policy:* 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.

*Assessment of the current situation/conclusions:* The reserve is reviewed annually to verify if funding is adequate to cover projected replacement and maintenance costs for the next five years. The projected ending balance at June 30, 2007 is \$1.2 million. The projected replacement costs for the next five-year period totals \$6.5 million. Based on this, the Depreciation Reserve is currently under funded by \$5.3 million.

The Sewer Operating Fund currently contributes \$1.8 million per year to the reserve for City-owned assets, based on the Sewer Asset Model, and \$0.3 million per year for non-City owned assets, for a total contribution of \$2.1 million in FY 2006-07. This funding level will not provide adequate resources in the future to fund projected project costs and build the Sewer Depreciation Reserve to the level prescribed in the City's Fiscal Policy.

As noted above, the Sewer Depreciation Reserve is projected to be under funded by \$5.3 million as of June 30, 2007. This is based on the Fiscal Policy implemented in 2006 and the recommendations of the Sewer Asset model adopted by Council in 2006, which projects repair and replacement costs for the City's Sewer System assets over the next 20 years. Staff recommends an increase from \$1.8 million to \$2.05 million per year for the City-owned assets replacement contribution.

### *Recommendation:*

1. Increase the annual depreciation contribution from the Sewer Operating Fund from \$1.8 million to \$2.05 million for fiscal year 2007-08.

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## Long Term Financial Plan

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*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 \$11.8 million. Projected expenses for the five-year Capital Improvement Budget equal \$6.5 million.

### **Storm Drain Depreciation Reserve**

*City Council Fiscal Policy:* None.

*Assessment of the current situation/conclusions:* The reserve is reviewed annually to verify if funding is adequate to cover projected replacement and maintenance costs for the next five years. The projected ending balance at June 30, 2007 is \$696,000. The projected replacement costs for the next five-year period totals \$3.3 million. Based on this, the Depreciation Reserve is currently under funded by \$2.6 million.

The Storm Drain Operating Fund will contribute \$387,900 to the reserve in FY 2006-07. This funding level will not provide adequate resources in the future to fund projected project costs and build the Storm Drain Depreciation Reserve to the level consistent with the City's Fiscal Policy for Enterprise assets.

Since its inception, the Clean Ocean Operating Fund has also contributed about \$1.0 million to the Storm Drain Depreciation Reserve. Structural water quality projects funded by the Clean Ocean Fund are accumulated as assets, when completed, in the Storm Drain Depreciation Reserve since these are components of the storm drainage system. Ongoing transfers from the Clean Ocean Operating Fund to the Storm Drain Depreciation Reserve will be required to fund maintenance and replacement costs of these transferred assets.

As noted above, the Storm Drain Depreciation Reserve is projected to be under funded by \$2.6 million as of June 30, 2007. Staff recommends an increase from \$387,900 to \$587,900 per year for the City-owned assets replacement contribution. The projected fund balance will not be in full compliance with the recommended fiscal policy over the five-year period, but will reduce the projected gap by \$1.0 million.

### *Recommendation:*

1. Revise the fiscal Policy to include the Storm Drain Depreciation Reserve. "The City will establish Water, Sewer, Storm Drain, and Golf Depreciation Reserves for costs associated with the major maintenance and capital improvement costs included in the Enterprise Operating Fund budget. The minimum reserve level shall be at a level equal to the projected five-year costs."
2. Increase the annual depreciation contribution from the Storm Drain Operating Fund from \$387,900 to \$587,900 for fiscal year 2007-08.

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## Reserve Analysis

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*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 \$2,939,500. 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.

### **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, 2007 is \$882,000. Projected expenses for the next five years total \$500,000. 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 \$1.8 million.

### **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. With the exception of the Golf Course Clubhouse, discussed below, one new capital project is anticipated within the next five fiscal years, totaling \$300,000.

The new Golf Course Clubhouse is presently budgeted from this reserve and anticipated to be completed by October, 2007. Following completion of the new clubhouse, the Golf Capital Improvement Reserve is projected to have an ending balance of \$0.1 million as of June 30, 2008. No transfer from the Golf Depreciation Reserve is necessary during the fiscal year 2007-08.

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## Long Term Financial Plan

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*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**

#### **Council Action**

All recommendations were approved by the City Council by a vote of 5-0 on February 27, 2007.

# Capital Projects Analysis

## Objective

To provide a summary of significant capital projects on the horizon as part of the continuing development of the City. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.

## Executive Summary

The City has reviewed capital projects that are significant and will be started within the next six years. The capital projects were broken into 3 categories (*City Projects – Non-Enterprise, City Projects – Enterprise and Prospective Projects*) with the significant individual projects identified by area. City staff has analyzed the projects as to the funding available, the estimated project costs and the current funding position or gap. The information is summarized below:

### ***CITY PROJECTS - Non-Enterprise***

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Funding Position (Gap)
<b><i>Parks</i></b>				
La Pata Vista Hermosa Park (LPVH) – Phase I <sup>2</sup>	Parks Acquisition and Development Fund <sup>1</sup>	\$ 20,640,000	\$ 35,220,000	(\$14,580,000)
Ave. Vista Hermosa - Signalization and Road Widening (LPVH)	Parks Acquisition and Development Fund <sup>1</sup>	\$ 0	\$ 1,470,000	(\$ 1,470,000)
Rail Corridor Pedestrian Beach Trail – Phase II	Grants/Gas Tax Fund <sup>1</sup>	\$ 2,910,000	\$ 7,835,000	(\$ 4,925,000)
<b><i>Building</i></b>				
Civic Center	Public Facilities Fund–Civic Center Reserve <sup>1</sup>	\$ 2,660,000	\$ 10,250,000	(\$ 7,590,000)
Downtown Fire Station	Public Facilities Fund–Public Safety Reserve <sup>1</sup>	\$ 7,530,000	\$ 5,530,000	\$ 2,000,000
Senior Center	Developer Impr. Fund –Commercial Reserve <sup>1</sup>	\$ 3,505,000	\$ 3,810,000	(\$ 305,000)
<b><i>Other Project</i></b>				
Bellota Slope Renovation	General Liability Fund	\$ 6,920,000	\$ 8,050,000	(\$ 1,130,000)

### ***CITY PROJECTS - Enterprise***

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Funding Position (Gap)
<b><i>Water and Sewer</i></b>				
Upper Chiquita Reservoir	Grant / MWDOC / Water and Sewer Fund	\$ 2,100,000	\$ 8,800,000	(\$ 6,700,000)
Recycled Water Expansion	Grant / Water and Sewer Fund	\$ 11,500,000	\$ 14,000,000	(\$ 2,500,000)

Notes:

<sup>1</sup>Reserves show all current reserves and projected amounts until project completion.

<sup>2</sup>Project cost reflects balance of existing design contract and estimated base bid for construction.

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# Long Term Financial Plan

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## ***Prospective Projects***

The City of San Clemente has other prospective projects that may fall within the timeframe however funding resources and the estimated project costs are unknown at this time due to limited knowledge as to the scope of the projects. These projects are listed on a prospective basis. The projects are listed below:

- La Pata Vista Hermosa – Phase II
- USACE Sand Project
- Marine Safety Headquarters
- Pier Bowl Specific Plan

## **Background and Discussion**

To provide information on individual projects addressing the project background (history) and expenditures related to each project (projects have been grouped in the previously identified categories).

## **Parks**

### **La Pata Vista Hermosa Park – Phase I**

#### ***Project Background:***

In October 2005, the City Council awarded a contract to David Volz Design (DVD) of Fountain Valley for development of plans and specifications for the Phase I elements of the La Pata/Vista Hermosa Park project, as conceptualized in the approved MIG Master Plan. Since that time, staff and the design team have completed the *Intermediate Park Plans* process, which involved refining the initial programming and design of the Master Plan based on public participation, engineering and environmental studies, local zoning and building code review, and user-group input, among other factors. Anticipating completion of the *Final Design* process in fall of 2007, staff and the design team are now working to develop the final construction drawings and bid package for Phase I, which will include the following amenities:



#### **Base Bid**

- General Improvements:
  - Site Demolition and Clearing
  - Earthwork
  - Utilities
- Site Improvements:
  - Roadways and Parking
  - Perimeter Landscaping
  - Soccer Hub (including 2 full-size, 2 youth, and 1 practice field)

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## Capital Projects Analysis

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- Youth Baseball Hub (including 1 baseball and 2 little league fields)
- Aquatics Complex (including a 50M x 25YD competition pool, a combined recreation and warm-up pool with a zero-depth entry and wet play recreational equipment, a public bathhouse building and a secondary pool mechanical equipment structure)

### Alternatives

- Artificial turf and associated improvements for 2 full-size fields at Soccer Hub
- Restroom/concessions buildings at Soccer and Youth Baseball Hubs
- Seatwalls, trellises, and extra deck at Aquatics Complex
- Football Field and associated improvements
- Artificial turf and associated improvements for Football Field

It has been determined that project will be bid and constructed in two stages. Staff and the design team are currently engaged in fast-tracking the final construction documents for the major civil work – including Site Demolition and Clearing, Earthwork, Utilities, and Roadways and Parking – with the intention of bidding in late spring and starting construction in summer of 2007. Simultaneously, work continues on the Final Design process for the remainder of the park amenities, with the goal of this second stage of construction being underway in early 2008.

### ***Expenditures:***

#### Design

As of November 2006, approximately \$1.5 million of the design contract remains to be paid. This does not account for any additional costs that may be incurred as a result of fast-tracking certain elements, coordination with related improvement projects, or reimbursable expenses.

#### Construction

The construction cost estimates that were prepared in January 2005 as part of the approved Master Plan indicated construction costs ranging from \$19.6 million (Base Bid) to \$25.6 million, depending on the Alternatives selected. Revised estimates were prepared at the conclusion of the *Intermediate Park Plans* process, reflecting changes that had been made to the Base Bid and Alternatives, which indicated mid-point construction costs ranging from \$39.4 million to \$45.7 million. Much of the project cost escalation can be attributed to the current bid climate, as well as global market conditions such as the price of oil, gas, steel, concrete, and other raw materials. Staff and the design team have been working to ascertain ways to reduce costs, including identification of elements that can be removed from the project. If the decision is made not to construct several of the Alternatives (the football field, synthetic turf, and enhancements to landscape and hardscape), and if other recommended modifications - such as reduction of building square footage and elimination of non-essential elements - are made, the Base Bid construction cost may be as low as \$33.6 million.

## Long Term Financial Plan

<u>LPVH Capital Expenditures</u>	<u>Amount</u>
<i>Project Element</i>	
Design Contract (remaining)	\$ 1.5 million
Construction Cost – Phase I (Base + Alternates)	\$ 31.2 million
Alternate 1: Synthetic Turf (Soccer)	(\$ 1.5 million)
Alternate 3: Pool Trellis	(\$ 316,000)
Alternate 4: Football Field	(\$ 556,000)
Alternate 5: Synthetic Turf (Football)	(\$ 832,000)
Other Modifications	(\$ 2.5 million)
City Soft Costs (32%)	\$ 8.1 million
<b>Total Phase I Capital Expenditures</b>	<b>\$ 35.2 million</b>

### Operating and Maintenance

This park incorporates a substantial number of active recreation amenities, and the contractual cost to maintain the park acreage will undoubtedly be significantly higher than the maintenance costs for passive acreage in the park system. All sports fields – soccer, football, or baseball – are high-maintenance amenities, particularly when lighted to extend usable hours during winter months. Given the number of sports fields included in the La Pata/Vista Hermosa project, as well as the sizeable turf-ed areas, the associated maintenance and renovation costs for this project will be substantially higher than the existing park acreage.

There will also be significant additional expenditures related to the upkeep and operation of the Aquatics Complex, much of which are dedicated to personnel expenses. At this time, it is anticipated that approximately 22 FTE in additional staff will be required, primarily new lifeguards and swim instructors needed to accommodate the high volume of users anticipated with the opening of the two pools. Pool and pool deck maintenance is currently handled by city staff at the Ole Hanson Beach Club, but it is likely that given the size of the new Aquatics Complex that the pool cleaning and janitorial services for the Bathhouse will have to be contracted rather than managed by staff.

Annual operations and maintenance costs are estimated to be \$2.5 million for the La Pata/Vista Hermosa Park, with offsetting revenues of \$1.3 million.

<u>LPVH O&amp;M Expenditures</u>	<u>Amount</u>
<i>Aquatics Complex</i>	
Personnel - Salaries & Benefits (22.39 FTE)	\$ 1.0 million
Supplies	\$ 88,000
Utilities & Contractual Services	\$ 227,000
Other Expenses	\$ 592,000
<i>Fields and Other Facilities</i>	
Maintenance of Passive Park Acres (5.1 ac)	\$ 67,000
Maintenance of Active Recreation Acres (18.7 ac)	\$ 402,000
Maintenance of Slope/Open Space Acres (5.9 ac)	\$ 28,000
<b>Total Phase I O&amp;M Expenditures</b>	<b>\$2.5 million</b>



## Capital Projects Analysis

<u>LPVH Operating Revenues</u>	<u>Amount</u>
<i>Aquatics Complex</i>	
Special Events	\$ 6,000
Swim (Open and Classes) <sup>1</sup>	\$ 1.0 million
Other <sup>2</sup>	\$ 268,000
<b>Total Phase I Operating Revenues</b>	<b>\$ 1.3 million</b>

*Notes:*

<sup>1</sup>Pool revenues are based on current rates charged for open swim and lessons at the Ole Hanson Beach Club, adjusted for spaces available in pools at the LPVH Aquatics Complex (61,200 space-hours at the recreation/warm-up pool, and 112,200 space-hours at the competition pool).

<sup>2</sup>Other revenues reflect new non-aquatics classes and other recreation activities. Revenues from youth sports organizations are anticipated to be minimal, due to the partnership fee structure.

***Potential Cash Flow Issues:***

**Park Acquisition and Development Fund**

It is estimated that sixty percent of the remaining design contract, approximately \$940,000, will be expended in the last half of FY06-07, and the remainder in FY07-08. It is the City's intention to bid and award a contract for the construction of the major civil work at the beginning of FY07-08, and to bid and award a contract for construction of the rest of the park at the end of that same fiscal year. Assuming a construction cost of \$33.6 million (no alternates awarded, and value engineering measures taken), and that the cost does not increase, the PA&D fund balance will be fully consumed in mid-to-late FY08-09.

**Ave. Vista Hermosa - Signalization and Road Widening**

***Project Background:***

There are two access points to the park located along Ave. Vista Hermosa, both of which will require signalization and widening of the road to accommodate new acceleration and deceleration lanes. At the time the Master Plan was approved, this work was not anticipated to be required until Phase II park development, and was therefore excluded from the design scope for Phase I. Subsequently, based on revised projections of the number of park users and analysis of internal and external traffic circulation, City Engineering staff has ascertained that the signalization and roadwork should not be deferred to a later phase of construction.



***Expenditures:***

The project will involve removal of existing sidewalk and pavement, relocation of existing storm drain catch basins, construction of new concrete walks, and installation of new traffic signals. The most current estimate indicates a construction cost of \$1.3 million for the primary entrance, and \$168,000 for the secondary entrance, for a total of \$1.4 million. Operating and maintenance costs associated with this improvement are anticipated to be minimal.

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## Long Term Financial Plan

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### Rail Corridor Pedestrian Trail Phase II

#### ***Project Background:***

The Rail Corridor Pedestrian Trail (Beach Trail) is being financed and constructed in two phases. Phase I construction will be completed by February, 2007. Phase II trail improvements include completing the Mariposa boardwalk, the Mariposa undercrossing of the railroad tracks and three at-grade rail crossings at Dije, El Portal and Lost Winds.



#### ***Expenditures:***

Including stairway construction to the beach at Dije and El Portal, the total estimated Phase II cost of \$7.83 million is \$4.92 million over the Phase II budget of \$2.91 million. The estimated budget deficit is \$3.67 million if the two stairways at Dije and El Portal are not constructed.

The City Council has directed staff to evaluate constructability, redesign and rebid of the project with the intent of reducing the project's cost and budget deficit. The City is also pursuing additional grant funds to reduce the deficit. The City must award the Phase II construction bid by June 30, 2007 or be in jeopardy of losing \$2.76 million in federal grants allocated for the project. It is difficult to estimate the amount of additional funds the City will need to complete Phase II because new construction bids will not be opened until April 2007 and new funding commitments from others may not be known until after the bid opening. The City should plan on allocating another \$2.5 million to \$4 million for the project and is reviewing funding availability from the Redevelopment Agency and In-Lieu Parking Reserve in the Public Facilities Construction Fee Fund.

### **Buildings**

#### **Civic Center**

#### ***Project Background:***

Based upon City Council direction, since the fall of 2005, staff has been involved in a feasibility analysis for a new Civic Center. There have been numerous development options evaluated with estimated construction costs ranging from \$62.9 million for a new Civic Center in the Downtown area to \$10.2 million for the adaptive reuse of the City-owned office facility at 910 Calle Negocio and the ancillary use of the former Fire Station 59 located at 1030 Calle Negocio.



Based upon the costs associated with several new construction alternatives, the City Council has determined that the City cannot realistically pursue the construction of a new Civic Center and has instead directed staff to concentrate its efforts on the refinement of development plans for the consolidation of City offices to the 910 Calle Negocio office facility.

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## Capital Projects Analysis

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As part of the City's Long Term Financial Planning process for the upcoming Fiscal Year 07-08, the Council has requested staff to obtain a cost estimate from the architectural firm of Gensler, Newport Beach, for the preparation of construction plans and specifications for interior office improvements for the Civic Center consolidation.

### ***Expenditures:***

The total estimated cost for this project is estimated at \$10.25 million and the cost for preparation of plans and specifications is estimated at \$450,000. Funding sources may include the Public Safety Reserve (\$2.8 million), the Public Facilities Construction Fund (\$2.5 million) and the General Fund (\$4.9 million). The provision of General Fund monies will be derived from the proposed sale of the existing Civic Center site at 100 Avenida Presidio with an estimated sales value of \$16.5 million.

### **Downtown Fire Station/Senior Center**

#### ***Project Background:***

The City owns a 0.75 acre site located at 121 Avenida Victoria west of El Camino Real. The City has identified this site as the location for two facilities: an approximately 8,000 square-foot senior center and an approximately 7,500 square-foot fire station. The new facilities will replace the existing Senior Center on Avenida Del Mar and the Orange County Fire Authority Station No. 60, currently located adjacent to City Hall.



The existing senior center and Fire Station No. 60 are both considered substandard and inadequate. One of the City's public safety goals is to locate a fire station on the west side of Interstate 5; this will allow for emergency response should an earthquake or other disaster make the freeway unusable. The replacement of both facilities has been in the City's Capital Improvement Program for a number of years. Both facilities were anticipated to be located on the subject site. Although the site is constrained, the proposed project has been designed in a very creative manner and the resulting project has the support of the ultimate users: the South County Senior Services and Orange County Fire Authority. It is staff's position that concerns about parking for the senior center and any potential concerns about compatibility of the fire station or senior center with other uses downtown have been addressed through the design of the project and through the existing operational policies of the users or conditions of approval.

Orange County Fire Authority requires a facility with approximately 7,500 square feet of interior space to accommodate a four man fire engine company and two medics. The South County Seniors desire approximately 8,000 square feet of space to accommodate approximately 40 to 50 people. In order to most efficiently use the limited size of the site, both facilities would be constructed as a single building. The senior center uses would be accommodated in a single-story on the east side of the site. The senior center provides space for meetings, games, fitness, reading, meals, offices and other uses. The fire station apparatus bay would be located on the

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## Long Term Financial Plan

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west side of the site. Fire station offices and other support space would connect to the apparatus bay and be adjacent to senior center uses. Fire station dorm rooms, kitchen and other living areas would be located above the senior center. For security reasons, there would be no internal circulation connecting the senior center and fire station. Both facilities would be insulated for sound attenuation.

On October 18, 2006 the Planning Commission approved the design of the project and on December 5, 2006 the City Council authorized proceeding with construction drawings. Staff anticipates that construction will begin in November 2007 and be completed in December 2008.

### ***Expenditures:***

The cost estimate for the downtown fire station portion of the project is \$5.47 million and the Senior Center project construction portion is \$3.71 million.

Annual operations and maintenance costs are estimated at \$100,000 for the fire station and senior center.

### ***Potential Cash Flow Issues:***

The senior center project is to be funded in the amount of \$2.1 million from the South County Seniors and \$0.9 million funded from a contribution under the Marblehead development agreement. Any additional costs above these funded amounts are to be split 50%-50% between the City and the South County Seniors. This would result based on the \$3.71 million cost of an additional contribution of \$355,000 from South County Seniors and a \$355,000 contribution from the City. However, any failure to meet the fundraising goals by South County Seniors will result in costs to the City since the City is advancing funds for the senior center project.

## **Other Projects**

### **Bellota Slope Renovation**

#### ***Project Background:***

In the summer of 2005, the Callan lawsuit was settled after a long and complex mediation process. The settlement agreement provided for the stabilization of a landslide in a canyon below damaged homes on Via Bellota. Parties to the lawsuit contributed land and funds to allow for the landslide repair, reconstruction of 3 homes, stabilization of 4 existing vacant single family lots, and future installation of 24 mobile homes (10 existing and 14 new lots) are a part of and will be added to the Shorecliffs Mobile Home Park Association.



Land use changes to allow the creation of 14 additional mobile home lots were approved. Construction plans for the grading work and most of the improvements plans have been

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## Capital Projects Analysis

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completed. Seaview Repair LLC has awarded construction contracts for the grading and all improvements except underground utilities and landscaping/environmental mitigation. The City has completed construction plans for the restoration of the Bellota cul-de-sac street and utility improvements with bidding to occur near the completion of grading repairs.

### ***Expenditures:***

Volatility in construction costs and increased environmental mitigation costs will result in the City contributing an estimated \$1.3 million above the \$6.75 million it has already committed to the project. It is possible for construction costs to increase above the latest estimate if soil conditions are worse than expected, requiring additional work and expense.

### **Water and Sewer**

#### **Upper Chiquita Reservoir (Emergency Storage)**

##### ***Project Background:***

The City's 2006 Water Master Plan identified a shortfall in the City's available emergency storage to meet an interruption in supply over a 7 day period. The City's ultimate shortfall at build out is 35 million gallons. The shortfall is based on recommendations from the Water Master Plan, which assumes average day demands and 70% of useable storage within the City reservoirs.



Municipal Water District of Orange County (MWDOC) has been looking into regional projects to help alleviate shortfalls for City's and Districts without the capability of producing or storing water for emergencies. Some of the options reviewed include using well capacity from Irvine Ranch Water District to augment flow into South Orange County, desalinization from a proposed plant in Dana Point, and the construction of a Reservoir in Santa Margarita Water District.

Currently, the most cost effective option to meet the City's storage or supply need is to participate in the design and construction of the Upper Chiquita Regional Reservoir. The reservoir is proposed with a capacity of 285 million gallons and is located in the Ranch Development area within Santa Margarita Water District's Service Area.

##### ***Expenditures:***

The total estimated cost for the reservoir is \$70 million, the City's estimated share is \$8.8 million for design and construction.

##### ***Potential Cash Flow Issues:***

Partial funding for the project has been recommended as part of the CIP budgeting process to be allocated from the Water Acreage Fee Fund. The projected fund balance is approximately \$6.3 million (with \$2.1 million available for Chiquita), but the City's 2005 Water Master Plan recommended approximately \$13 million in improvements which included the Upper Chiquita

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## Long Term Financial Plan

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Reservoir. There is a shortfall of \$6.7 million that may be funded through a low interest loan, local bond or regional bond administered by MWDOC.

### Recycled Water Expansion

#### ***Project Background:***

The City has a long history of providing recycled water to the Municipal Golf Course since the 1950's. Upon expansion of the City's Water Reclamation Plant in 1991, water quality was improved to meet Title 22 standards for tertiary treated recycled water. The capacity is 2.2 million gallons per day and service was expanded to Pacific Golf Course and the Water Reclamation Plant. To further evaluate the expansion of the City's recycled water system, AKM Consulting prepared a Recycled Water Master Plan in 1994. The expansion of the system was found to be too costly due to the need for additional infrastructure such as pipelines, a reservoir, pump station and treatment plant expansion.



Since the completion of the master plan, recycled water lines have been constructed or are planned in conjunction with new developments such as Marblehead Coastal, Talega (La Pata), and Pacific Golf Course. In addition, potential grant funding from the state and federal governments may improve the cost effectiveness for the expansion of the City's system. Based on the changes, AKM Consulting was hired in 2006 to update the Recycled Water Master Plan. The completion of the master plan is anticipated by March 2007. The updated master plan will review potential customers, pipeline alignments, reservoir locations, treatment plant expansion and cost effectiveness. The estimated demand is anticipated to be increased from 1370 to 2,300 acre-feet per year.

The expansion of the system would benefit the City by reducing its dependency on imported water from Metropolitan Water District. The City currently imports approximately 90% of its water. The system would also lower the City's need for additional emergency storage.

#### ***Expenditures:***

City staff is estimating the cost of design and construction of the expansion at \$14 million.

#### ***Potential Cash Flow Issues:***

The City is participating in Proposition 50 State grant funding as part of a regional application with South Orange County. If the regional grant is approved in May 2007, the City could receive \$5.7 million. Additional funding for the project may come from a \$5.8 million projected balance in the Sewer Connection Fee Fund. Based on the estimated, there is a \$2.5 million funding gap. Possible funding sources to close the gap include Water Operating Fund, Sewer Operating Fund, low interest loans or bonds.

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## Capital Projects Analysis

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### Prospective Projects

#### **La Pata/Vista Hermosa Park, Phase II**

In addition to the improvements listed above in the LPVH Phase I Project Background section, the approved La Pata/Vista Hermosa Master Plan ultimately envisioned a number of other significant park elements to be constructed in a second development phase. Phase II, which includes a 20,000 square foot Community Center, a 14,000 square foot Gymnasium, three Basketball Courts, a Group Picnic Area, and additional parking and interior roadways, was initially estimated at \$25.0 million, and budgeted in FY11-12. Given the tremendous cost escalations impacting Phase I construction, it is reasonable to assume that a revision of the cost estimate for Phase II would reveal similar conditions. Until more accurate cost estimates and funding expectations can be developed, LPVH Phase II will not be included in the LTFP cash flow and gap closure analysis.

#### **USACE Sand Project**

##### ***Project Background:***

San Clemente has suffered a severe erosion of beach sand in recent years which has resulted in the loss of recreational beach, damage and destruction to beachfront facilities, and increased the risk to beach patrons due to the exposure of underlying facilities. The City and the US Army Corps of Engineers (Corps) are currently engaged in a Feasibility Study to identify and quantify the need to protect the shoreline in San Clemente against sand erosion, and to develop a sand replenishment and erosion mitigation program. Initiated in September 2001, the study was originally expected to take 2.5 years to complete, but due to unanticipated complications throughout the process, the Corps has recently set a new milestone for study completion in October 2008.

##### ***Expenditures:***

###### Feasibility Study

The cost of the feasibility study was estimated to be \$1.7 million to be shared 50%-50% by the Federal government and the City. In 2005, there was an increase of \$400,000, bringing the City's share for the study to \$1.1 million. The State of California Department of Boating and Waterways has provided a major portion of the City's share of the cash requirements thus far, and the City has also been credited for in-kind services, helping to defray the cost.

The Corps has recently notified the City of an additional cost increase, estimated at \$1.1 million. The reasons for the increase include unanticipated additional offshore survey work; development of new risk and uncertainty models to address new Corps study requirements, additional engineering and economic work; additional technical review; and project delays. The City share of the cost increase – \$550,000 – must be provided in FY07-08 to ensure that the study does not experience any further delays. A \$325,000 State grant has already been approved for this purpose, leaving \$225,000 still to be identified.

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### Project Identification

Should the study continue on schedule, barring any other unanticipated complications, in late 2007 or early 2008 the Corps will utilize the analysis of hydrodynamic data and storm damage predictions to formulate a number of alternative remediation measures including beach nourishment with and without retention structures, and potential protective armoring solutions such as revetments, sheet pile walls, and breakwaters. Each alternative plan formulation will be evaluated for applicability and effectiveness, and a preferred option will be selected by the Corps and presented to the City. At that point, the City will undertake an independent evaluation of the options, including cost estimates, and either approve a project for design and construction, or discontinue the Feasibility Study.

Assuming that the Corps and the City come to consensus on a plan, the Corps will undertake the remainder of the tasks associated with preliminary development of the selected plan formulation, for finalization by the milestone date of October 2008. The cost of project design would be shared 50%-50% by the Federal Government and the City, but the City's portion of the construction cost would be reduced to 35%. It is unknown at this time what the estimated cost of the design and construction will be, as both are contingent upon the determinations made at the conclusion of the Feasibility Study regarding the scope of the project. Additionally, it is unknown whether State grant funding will be available to offset the City's share of the project, or if other City funding will need to be identified.

### **Marine Safety Headquarters Repair/Relocation**

#### ***Project Background:***

It has been recognized by both the community and the City's policy on the management of beach facilities that the Marine Safety Headquarters is an important building to the community and should remain on the beach in order to maintain services to the public. However, the future structural integrity of the building is uncertain given the erosion of the shoreline and the potential for storm damage, particularly during El Nino years. Data collection and analysis of these conditions is currently being performed as part of the U.S. Army Corps of Engineers (Corps) Feasibility Study (discussed above). Until the City is presented with the Corps' recommendations for remediation and/or replenishment, there is insufficient information available on the long-term condition of the beach to determine whether or not the Marine Safety Headquarters must be relocated.



In April 2005, the City Council awarded a construction contract in the amount of \$110,000 to perform a minimal scope of repairs to the Marine Safety Headquarters. Repairs were made to the concrete caissons, concrete beams, and shotcrete beneath the existing slab. These repairs were made to prevent further corrosion of the building's structural members, but will not protect it from the impacts of future beach erosion or storm damage. If, as a result of the USACE



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## Capital Projects Analysis

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Feasibility Study, sand replenishment and/or retention structures are determined to be too expensive or unrealistic to implement, then an evaluation of the need to relocate the Marine Safety Headquarters must be conducted, based on predictions for unmitigated erosion rates and future shoreline conditions. Should removal of the building from the beach to a different site inland of the railroad tracks be required – despite the accompanying loss of services – there must be an additional study of potential relocation alternatives, and a cost-benefit analysis of each.

### ***Expenditures:***

At this time, there is approximately \$50,000 budgeted for a Relocation Study, intended to accomplish the following objectives:

1. An assessment and analysis of the operational and public service needs of the Marine Safety Division and the Beach Maintenance activities housed in the Marine Safety Building;
2. A general assessment and analysis of all feasible alternatives (including the rehabilitation of the existing facility as well as alternate locations), with consideration of future beach erosion rates and environmental impacts, that can meet the operational and public service needs of the Marine Safety Division along with a preliminary cost estimate associated with each alternative;
3. A detailed assessment of a “best” or preferred alternative along with a detailed cost-benefit analysis of the location relative to the other options; and
4. A compilation of data, regulatory constraints or requirements, and environmental documents that would be required for multiple agency review for the “best” or preferred location.

It is unknown at this time what the estimated cost of the design and construction will be, as both are contingent upon the determinations made at the conclusion of both the USACE Feasibility Study and the Relocation Study regarding the scope of the project.

### **Pier Bowl Specific Plan (PBSP)**

#### ***Project Background:***

The PBSP was adopted in 1993 by the City Council. Several of the projects have been completed or are under construction which includes Phase I of the Beach Trail, Marine Safety Headquarters, Casa Romantica Cultural Center and Gardens and Granada Streetscape. Several of the projects remaining in the plan need to be reviewed for practicality, cost, funding and prioritized. This effort is planned for the next fiscal year, once completed the proposed modification will be presented to the City Council for approval. The funding for the Pier Bowl Specific Plan Projects is currently listed under the Redevelopment Agency Fund.

### **Conclusion**

The City Council will need to review the Gap Closing Strategy paper in conjunction with the Debt Analysis paper to determine how to meet the funding requirements of the identified projects.

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### **Recommendations**

None. Funding recommendations will come from the Gap Closing Strategies paper.

### **Fiscal Impact of Recommendations**

None

### **Council Action**

None

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# Clean Ocean Program Review & Renewal

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## **Objective**

To update the City Council and the public on the progress that has been made in implementing the Clean Ocean Fee Program approved by property owners and to discuss considerations for renewing the fee program for another term.

## **Executive Summary**

The City adopted a formal Urban Runoff Management Program in 2002, followed by a utility fee effective at the start of 2003 to fund the program. All of the projects and activities envisioned by the original program have either been completed or are in progress. Although the Clean Ocean Fee will expire in December 2007, the City needs to continue its Clean Ocean Program to meet ongoing and future regulatory requirements. The City needs to begin its planning now to determine the scope of activities and associated funding impacts for the Clean Ocean Program for the next five to ten years.

## **Background**

In early 2002, the City Council approved implementation of the Urban Runoff Management Plan (URMP) to help meet new runoff/water quality regulations that were issued by the State to south Orange County cities. The URMP was developed with public participation and input, and details activities intended protect local water quality and comply with State and Federal regulations by reducing or eliminating pollutant discharges to the City's storm drain system and local streams and beaches. The URMP strives to protect local water quality through structural treatment systems to clean runoff before it reaches the ocean as well as measures such as enforcement and education to help change behavior and prevent polluted runoff in the first place.

In late 2002, San Clemente property owners approved an Urban Runoff Management Fee that went into effect in January 2003 to help fund URMP activities. Funds generated by this fee were placed in a newly-created "Clean Ocean" enterprise fund, thus the Urban Runoff Management Fee became more commonly referred to as the "Clean Ocean Fee," and the entire program commonly referred to as the "Clean Ocean Program." The Clean Ocean Fee generates about \$1.8 million annually to support the program, but will expire at the end of 2007 unless it is renewed by another affirmative vote.

## **Clean Ocean Program Progress**

Key activities under the URMP/Clean Ocean Program include: structural treatment and storm drain projects; increased street sweeping; water quality code enforcement; commercial, industrial and municipal facility inspection; water quality monitoring; and expanded public education. The following subsections summarize what was envisioned when the program was established and what has been accomplished so far.

### *Structural Treatment and Storm Drain System Improvement Projects*

The Clean Ocean Program includes a number of structural projects to treat urban runoff, help prevent discharges of pollutants from City operations and help with storm drain system operation and maintenance. These include:

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- **Poche Beach Bacteria Reduction.** This project is intended to remove bacteria and other pollutants that discharge from dry-weather flows to Poche Beach at the northern City boundary. Since the County of Orange received a State grant to fund its own similar project (the beach at the outlet is owned by the County), the City partnered with the County on a common project whereby the County would have primary responsibility for construction as well as operation and maintenance. Thus the City is sharing the cost of project construction with the County. A pilot project installed near the end of the channel in 2004 demonstrated that UltraViolet (UV) Light technology was successful in removing bacteria. The ultimate project will consist of a small package UV treatment plant on the north side of the channel near the outlet to take runoff from the channel, treat it, and send it directly out to the ocean. A rubber dam will help prevent a large pond from restricting access on the existing pedestrian underpass. This project will treat up to about 1.1 million gallons per day of urban runoff to improve water quality at this beach, which routinely is posted for bacteria warnings. Construction is expected to start in mid-2007.



Aerial view of Poche Beach<sup>1</sup>.

- **North Beach Bacteria Reduction.** In November 2006, the City started construction on a project to divert and treat dry-weather runoff that discharges to North Beach. A diversion system will direct about 970,000 gallons per day of urban runoff from the channel to a new filter unit at the City's Water Reclamation Plant site, and then directly into the Reclamation Plant land outfall discharge pipe. This project will eliminate virtually all runoff discharges to North Beach during dry weather periods, resulting in improved water quality at this heavily-used beach.



Aerial view of North Beach<sup>1</sup>.

- **Storm Drain Runoff Treatment Units.** The City installed four (4) underground treatment units on storm drains discharging to Calafia Beach, Parque Del Mar (beach just south of Marine Safety Headquarters), Mariposa beach access, and El Portal beach access. These units help remove trash, debris, sediment, and oils/grease from runoff before it gets discharged to the ocean. About 1.3 cubic yards total of material is collected from these units each month – enough to fill three dump trucks each year.



Underground unit installed at Parque Del Mar (next to Pier Bowl parking lot).

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## Clean Ocean Program Review & Renewal

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- **Storm Drain System Improvements.** The Clean Ocean Program has helped fund a number of storm drain system repair and improvement projects. Completed projects have included storm drains at the City Pier, Cabrillo to Palizada, El Camino Real at Margarita, South El Camino Real at Magdalena, Calle Las Bolsas and West Marquita. A project at Plaza La Playa is in the design stage.



Before and after views of the Municipal Pier storm drain repair.

- **Other Projects.** A portion of the police station parking lot at City Hall was modified to serve as a vehicle wash area. Washwater from police vehicle cleaning is now directed to the sanitary sewer instead of discharged to the storm drain system. A material storage area at the Golf Yard was covered to reduce discharges of material from storm water runoff, and a cover for the material bins at the Maintenance/Utilities Yard is in design. To prevent discharges of trash and other pollutants when it rains, a cover was added to an existing City trash enclosure at Calafia and a cover is being designed for the existing trash enclosure at the Community Center. Trash enclosures at other City facilities are also planned to be covered.



Covered trash enclosure at Calafia.

### *Street Sweeping*

Under the Clean Ocean Program, the City was able to increase the level of street sweeping service so that more trash, litter, debris, sediment, etc. could be picked up before it was washed into City storm drains and out to the ocean. Public residential streets are swept at least twice per month and commercial areas and major streets are swept at least three times per week. Since the increased program started in Fiscal Year 2003-2004, about 4,000 tons of material has been collected through street sweeping. The City also realized an ongoing savings to the General Fund because the street sweeping program was moved from the General Fund into the Clean Ocean Fund.



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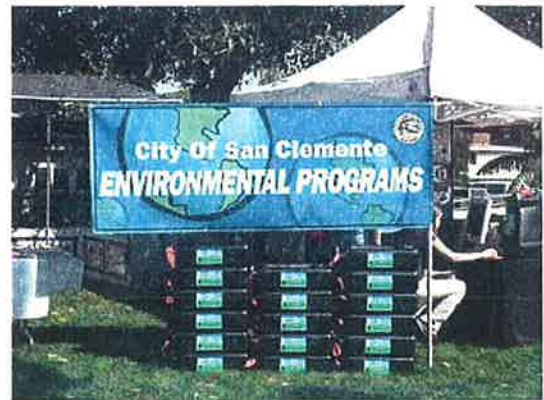
### *Water Quality Enforcement, Inspection and Monitoring*

A major emphasis of the URMP/Clean Ocean Program was protection and improvement of local water quality through more rigorous enforcement, inspection and monitoring activities. The program now has several dedicated staff for conducting water quality code enforcement and inspections of commercial and industrial businesses and construction sites as required by the City's storm water permit. City Public Works and Building Inspectors, as well as city facility managers, also conduct required inspections. Each year City staff completes literally hundreds of inspections and enforcement actions to identify and correct water quality violations.



### *Public Education*

Public education is a key element of the URMP/Clean Ocean Program to help encourage behavior that promotes water quality protection and pollution prevention. The original program envisioned public education initiatives such as: developing and distributing mailers, brochures and fact sheets to City residents and businesses; acquiring a booth and informative promotional items for local events; and enhancing the City's website to provide information related to storm water and urban runoff. Not only have these activities have been implemented, a number of additional public education activities have been conducted or are ongoing. Just some of the activities that have been recently conducted include:



- Participation and/or sponsorship of clean up events (e.g. International Coastal Cleanup Day)
- Educational booths at community events (e.g. Cinco de Mayo, SC Ocean Festival, Earth Day, SC Community Garden Festival, and Barefoot Beach Run)
- Participation in the regional Children's Water Education Festival
- Implementation of a Bag-2-Bag plastic film recycling program
- Implementation of a water conservation Smart Timer rebate program to residents in the Prima Deshecha (M01) Watershed which drains to Poche Beach
- Compost giveaways and special waste collection events
- Educational mailer to all Commercial Trash Accounts
- Co-sponsorship of Adopt-a-Beach and Blue Water Business Awards
- Educational signage on all City vehicles
- Advertisements in local print media (e.g. SC Journal, SC Times, South Coast Magazine)
- Information articles and advertisements in the quarterly San Clemente City Magazine
- Educational flyers in all business license renewal packets

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## Clean Ocean Program Review & Renewal

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### Future Needs

In addition to protecting local surface water quality, a fundamental goal of the Clean Ocean Program is to ensure that the City remains in compliance with the National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit issued to all south Orange County cities. Barring significant changes to State and Federal law, the City will be subject to NPDES Stormwater Permit requirements on an on-going basis. In fact, the current Permit will be renewed in early 2007, and is expected to include additional requirements that the City must comply with. This means that the City needs to continue conducting activities such as street sweeping, public education, water quality code enforcement, facility inspections, and monitoring. In addition to the Permit, the State is developing an additional regulation known as a Total Maximum Daily Load (TMDL) for south Orange County coastal cities. This TMDL is anticipated to be adopted sometime in 2007 or 2008, and will designate limits on the amount of bacteria that can be discharged to the ocean from City storm drains. Although the Poche and North Beach projects discussed previously should help with compliance, additional activities and projects may be needed, especially in drainage areas not served by these two projects.

Due to existing and new permit requirements, as well as other regulatory requirements that will be issued soon, there is strong need to continue the Clean Ocean Program and the fee program that supports it. At a minimum, the current program activities must be continued, including operation and maintenance of structural projects that have been, or soon will be, completed. Depending on future permit and TMDL requirements, potential future additional Clean Ocean Program activities might include:

- Focused scientific studies/investigations to identify the source(s) of bacteria discharges to the storm drain and local beaches, including advanced testing to determine if the bacteria come from birds, domestic animals, wildlife etc.
- Incentive programs for residences and businesses to install satellite irrigation controllers (known as “Smart Timers”) and/or low-water use landscaping to reduce excess runoff.
- Increased street sweeping level of service (e.g. weekly service in higher-density areas).
- Flow monitoring to better characterize and measure runoff trends.
- Funding to provide local grants to community service groups for water quality related projects.
- Additional smaller-scale structural projects for storm drain treatment or water quality improvement at existing facilities (e.g. replace asphalt parking lots with “greener” alternatives).

### Funding Sources

The primary source of funds to support the Clean Ocean Program is the Clean Ocean Fee, which generates about \$1.8 million annually. This fee was approved by San Clemente property owners in 2002, went into effect in January 2003, and will expire in December 2007. Although at the time of the fee adoption it was recognized that water quality protection would be an ongoing need, a fee expiration date was included to provide an automatic evaluation of the overall five-year program as well as an assessment of future anticipated needs. Per the City Council’s direction when the program was adopted, the City has pursued and received about \$2.5 million in

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grant funding to help fund the program. This has allowed construction of structural treatment projects despite the current climate of greatly increasing construction costs. Grant programs are competitive and usually require local matching funds. There is no guarantee as to the amount of grant funds, if any, the City would receive in the future.

### **Recommendations**

Staff recommends that the City Council direct staff to begin planning for a renewal of the Clean Ocean Fee, including obtaining public input on the future of the Clean Ocean Program (e.g. program goals, specific projects and/or activities etc.), developing implementation alternatives, costs and associated Clean Ocean Fee rate impacts, and preparing implementation recommendations for City Council consideration.

The Council would then decide which program alternative to pursue, and how it should be funded. If so directed, staff would then begin the formal election process for renewal of the Clean Ocean Fee and \$100,000 would need to be included in the City Clerk's FY 2007-08 budget. If the City Council chooses not to pursue renewal of the fee, then the Clean Ocean Program would need support from other City funds to continue to meet its regulatory obligations.

### **Fiscal Impact of Recommendations**

There are no new costs associated with early fee renewal planning efforts. If the City Council decides to proceed with a fee renewal election (upon subsequent presentation and consideration of specific implementation alternatives), then the cost to conduct this election is estimated at about \$100,000 (not including existing staff time). It is anticipated that this cost would be included in the City Clerk's Fiscal Year 2007-2008 budget, since existing Clean Ocean Fee funds can't be used for the fee renewal process.

### **Council Action**

All recommendations were approved by the City Council by a vote of 5-0 on February 27, 2007.

#### Note:

1. Aerial photos of Poche Beach and North Beach used with permission. Copyright (©) 2002-2007 Kenneth & Gabrielle Adelman, California Coastal Records Project, [www.Californiacoastline.org](http://www.Californiacoastline.org).



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# Golf Analysis

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## **Objective**

To identify any funding gaps over a five year forecast for Golf Operations and identify possible solutions.

## **Executive Summary**

The five year forecast shows golf operations facing funding gaps over the entire period. This is normal and expected given that play (revenue) at the course is relatively stable and costs in the forecast model are continually rising. The onset of debt service and depreciation expense for the new clubhouse project is the largest contributors to increasing costs over the five year period. Periodic fee increases are the typical method of bridging funding gaps.

## **Background and Discussion**

The Golf Division is responsible for maintaining, preserving, and operating the Municipal Golf Course. This includes 133 acres of landscaped area with approximately 900 trees. The course also includes a pro shop and restaurant/ clubhouse that are operated by concessionaires under lease agreements with the City of San Clemente. The course is operated as a self sufficient enterprise fund, with operations, capital projects, and equipment replacements funded by user fees. The Golf Divisions finances were severely impacted between FY 1996-97 and FY 2004-05 when the City transferred revenues from the course operations to provide funding for general city services. Despite this, a \$1.6M renovation of the course was completed in FY 2002-03, and a new \$5.3M clubhouse project is currently under construction and slated for completion in fall of 2008. In 2005-06, the course completed a staff reorganization designed to create savings and reallocate some of the savings to improving course maintenance.

The period of 2000-2005 was an extremely difficult time for the golf industry. Oversupply combined with a waning interest in the game itself created a situation of declining rounds and revenue at the individual golf facility level. Financial hardships led to bankruptcies and a significant turnover in course ownerships. The Municipal Golf Course fared relatively well during this period despite the predictable downturn in rounds and the need to fund general city services with golf course revenues. In fact, with improved staffing resulting from the 2005-06 reorganization, an improved course and a new clubhouse, the Municipal Golf Course is well positioned to capitalize on a predicted upswing in business over the next twenty years resulting from the gradual retirement of members of the "Baby Boomer" generation.

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## **Long Term Financial Plan**

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### **Conclusion**

Although the forecast model shows a cumulative funding gap of \$702,000 for the Golf Division over the five year term of the forecast, this is predictable given the initiation of debt service for the new clubhouse project and the fact that there has not been a fee increase at the course since 2002. A fee increase that averages approximately \$3 per round and is implemented shortly after the completion of the clubhouse should resolve funding gaps for the Golf Division for the duration of the five year forecast.

### **Recommendations**

Staff recommends that City Council direct staff and the Golf Committee to develop a fee increase for approval that averages approximately \$3 per round and is ready for implementation in spring 2008.

### **Fiscal Impact of Recommendations**

With the implementation in spring 2008 of a fee increase averaging \$3 per round, annual golf operations are forecasted to be positive for all five years of the forecast term. In addition, the fund balance is projected to increase by approximately 50% over five year term of the forecast.

### **Council Action**

Recommendation was approved by the City Council by a vote of 5-0 on February 27, 2007.

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# Debt Analysis

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## **Objective**

To analyze and recommend appropriate use and amount of long term debt by (a) conducting a review of existing debt, (b) developing long-range financing guidelines, (c) determining revenue sources for debt service and repayment, (d) recommending alternatives to fund major capital programs, and (e) making recommendations for refinancing existing debt.

## **Background**

The City has a formal Debt Policy which provides guidance pertaining to the issuance and management of short-term and long-term debt issued by the City and its component units. The Policy provides guidance to the City Council so as not to exceed acceptable levels of indebtedness and risk; directs staff on objectives to be achieved; facilitates the debt issuance process; and promotes objectivity in decision making.

The Fiscal Policy limits the use of interfund loans to cover temporary or emergency cash flow shortages and requires an analysis of the affected fund's operating position to limit the impact of short-term loans. Long-term borrowing is confined to capital improvements that cannot be funded from current revenues. It further restricts the use of proceeds from paying for current on-going operational costs.

The City has three general categories of existing debt;

- 1) Long-Term bonded debt, comprised of the following:
  - a. Assessment Districts
  - b. Community Facilities District
  - c. Certificates of Participation
  - d. Enterprise Loans
  - e. Capital Leases
- 2) Long-Term interfund loan
  - a. RDA obligation to the General Fund
- 3) Short-Term interfund loans
  - a. Golf Enterprise Operating Fund to the General Fund
  - b. General Liability Insurance Fund to the Workers' Compensation Fund

The City Treasurer maintains documentation for the various debt instruments utilized by the City. An overview is presented in the City's annual Operating Budget of all outstanding debt and repayment schedules. The Bank of New York provides trustee and administration services for the City's bonded debt.

The reader is encouraged to refer to Exhibit II "*Financing/Funding Method Descriptions*," following this paper, for an overview of financing and funding types and common terminology

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## Long Term Financial Plan

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referred to throughout this paper. The Government Finance Officer's Association (GFOA) represents another excellent resource for information regarding governmental debt and is presented in a concise and readable format. The *Elected Officials Guide to Debt Issuance* is recommended and additional information can be found on the GFOA website: [gfoa.org/](http://gfoa.org/).

### Existing Debt

The following information provides a brief overview of each of the City's current debt obligations.

### Long Term External Debt

The City currently has four Assessment Districts and one Community Facilities District outstanding and a pending Golf Course Clubhouse loan. The Assessment and Community Facility Districts are not direct obligations of the City. Each district is tracked in an Agency Fund, since most of the activities recorded within these funds are outside the control of the City. The pending Golf course Clubhouse loan will be recorded as a liability to the Golf Enterprise Operating Fund.

### Bonded Debt

*Street Overlay and Replacement District 95-1*, issued in September, 1996 in the original amount of \$6.9 million to finance the rehabilitation of streets within the City of San Clemente. The month and year of the final maturity of the bonds for this district is September, 2011.

*Improvement and Sewer Refinancing District 98-1*, issued in June, 1999 in the amount of \$15.4 million to finance public improvements within the Forster Ranch development and to defease a portion of Series A and B Bonds, originally issued in 1985 to construct the City's wastewater treatment plant. The month and year of the final maturity of the bonds for this district is September, 2028.

*Underground Utility Assessment District 99-1*, issued in September, 1999 in the amount of \$1.2 million to finance the construction and acquisition of underground electrical and communication facilities within the district. The month and year of the final maturity of the bonds for this district is September, 2019.

*Community Facilities District 99-1*, issued in December, 1999 in the original amount of \$5.8 million to finance construction of various public improvements within the district, commonly referred to as Plaza Pacifica. The month and year of the final maturity of the bonds for this district is September, 2030.

*Certificates of Participation, Series A & B, (COP)* issued in June 1993 to finance the purchase of a commercial building for use by the City's Public Works and Community Development departments. Of this amount, \$1.2 million was tax-exempt and \$2.6 million was taxable debt. Lease payments from tenants and charges to departments are used to repay installments of principal and interest on the COP's. The month and year of the final maturity of the COP's is September, 2023.

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## Debt Analysis

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*Capital Leases*, issued in August 2006 to finance the lease of fourteen digital copiers in City offices. A total of \$161,000 was financed over a 60 month term. Interdepartmental charges to departments are used to repay the lease.

### **Enterprise Loan Financing**

*Golf Course Clubhouse financing*, to be issued in April, 2007 in the approximate amount of \$3.5 million, to finance construction of a new golf course clubhouse and reimburse General Fund advances of \$984,000. Annual installment payments will be budgeted from the Golf Course Operating Fund and are estimated to be \$278,000.

### **Long Term Interfund Debt**

*Redevelopment Agency debt*, issued originally in July 1998, to refinance the purchase of the Casa Romantica historical site. Additionally, financing was included for the expansion of the Fisherman's Restaurant and side deck and to fund operating deficits at that time in the RDA. This initial borrowing was in the form of two interfund loans from the Sewer Depreciation Reserve and the General Liability Self-Insurance Fund. In July, 2002 both of the existing interfund loans were consolidated and repaid with a new interfund loan from the General Fund. The new loan amounted to \$3,420,690. The loan is structured with payments due on June 30 each year and a term of 16 years. Debt service principal and interest is budgeted in the RDA Debt Service Fund and is paid from RDA property tax increment which is projected to be available in future years to meet the repayment schedule.

### **Short Term Interfund Debt**

*Advances from the General Fund to the Golf Course Operating Fund* totaling \$984,000 were made in fiscal years 2002-03 (\$282,000), 2003-04 (\$192,000), 2004-05 (\$310,000), and 2005-06 (\$200,000) to fund operating deficits. These advances will be repaid from a pending Golf Course Clubhouse financing discussed earlier in this paper.

*Advance from the Workers' Compensation Fund to the General Liability Self-Insurance Fund*, made during fiscal year 2005-06 in the amount of \$1.0 million, to partially fund the Callan land-subsidence claim settlement. The advance is scheduled for repayment over a five-year period in equal installments of \$200,000 per year.

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## Long Term Financial Plan

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### Debt Summary Matrix

The following table provides a reference guide to the existing long and short-term debt issued and outstanding, with the exception of the Golf Course Clubhouse Enterprise Loan, which has been included in the table, based on the anticipated execution of loan documents in April, 2007.

Debt	Type	Origination Date	Current Balance	Annual Payment
<b>Long Term Debt</b>				
Street Overlay AD 95-1	Assessment District	Sept., 1996	\$2,815,000	\$666,200
Sewer Improvements AD 98-1	Assessment District	June, 1999	\$14,570,000	\$1,084,000
Underground Utilities AD 99-1	Assessment District	Sept., 1999	\$880,000	\$99,800
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Dec., 1999	\$5,645,000	\$410,700
Negocio Series A	Certificates of Participation	June, 1993	\$900,000	\$90,500
Negocio Series B	Certificates of Participation	June, 1993	\$2,030,000	\$238,100
Golf Course Clubhouse	Enterprise loan	April, 2007	\$3,450,000	\$278,000
City Copiers	Capital lease	August, 2006	\$161,000	\$36,200
<b>Long-Term Interfund Loan</b>				
RDA	Interfund loan	July, 2002	\$2,705,250	\$269,800
<b>Short-Term Interfund Loans</b>				
Golf Operating	Interfund loan	June, 2003	\$984,000	\$984,000
General Liability Fund	Interfund loan	June, 2006	\$400,000	\$200,000

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### **Refinancing Strategies**

As part of the 2007 Long Term Financial Planning process, the City Treasurer is conducting a review of existing Assessment District and Community Facilities District debt to examine the costs and benefits of refinancing some or all of this outstanding debt. While long-term municipal interest rates have increased from historic lows over the past 30 years, they are still near these recent lows and opportunities to refinance existing debt may still exist. Refinancing existing debt under more favorable terms could benefit property owners within the district through lower annual assessments/special taxes or increased investment in the district's infrastructure.

### **Debt Options for Capital Project Gap Funding**

#### **Options and Strategies**

The information presented in the previous section of this paper is intended to provide the reader with a basic understanding of the existing long and short-term debt outstanding today. Debt represents a powerful instrument for managing governmental resources. As such, it should be analyzed and considered as part of any long term planning process. Proper use of debt can allow the City to develop and maintain infrastructure otherwise not affordable. However, misuse of debt can limit financial flexibility or strain on-going operating budgets.

The analysis of debt is driven in large part by the Capital Projects Analysis section of this Long Term Financial Plan. Major capital projects are identified in that section and existing resources identified. Funding gaps, or deficiencies, are also identified.

This paper will examine each of the major projects and identify eligible funding alternatives for City Council consideration. Exhibit I, which follows this discussion, presents each capital project and eligible financing and funding methods available.

#### **Eligible Funding Methods – Exhibit I**

The Eligible Funding Methods exhibit has been prepared with the assistance of the City's financial advisor to present, in a simple format, funding alternatives for each of the major capital projects identified earlier in the LTFP. Six Financing/Funding methods are presented;

- A. Assessments – a number of specific assessment options exist in this category. Each involves the levy of assessments as their source of revenue generally on real property to pay for specific benefits.
- B. Taxes – this category includes General Obligation bonds, Community Facilities Districts, Certificates Of Participation, and Special taxes. Each method imposes a tax on either people or property to raise revenue to support activities of the taxing authority.
- C. Fees/Charges – Sewer Connection, Facility User Fee, and Park Fees are examples of fees/charges imposed as sources of revenue. The fee/charge is a monetary exaction paid by the user of the public improvement or service funded.
- D. Existing Revenue and Fund Balances – this method considers existing General Fund,

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## Long Term Financial Plan

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Restricted Fund and the Redevelopment Agency Fund revenues to pay for capital improvements.

- E. Federal, State and Other Governmental Agency Funding Programs – this method considers availability of grants and loans which may be available from various governmental agencies.
- F. Proceeds from sale of assets – this method of funding considers the sale of specific City land parcels.

Each major capital project has been examined to determine which Financing/Funding Methods are available or eligible to fund the project. Exhibit I presents each project and indicates which of the Financing/Funding methods is eligible, by placing an “X” beside the Financing/Funding Method listed below each capital project. Many of the projects have more than one eligible funding source identified.

Exhibit I only identifies possible funding and financing methods. It is not a recommendation for any single method and it is critical to understand that while any single capital project may be financed by a listed method, such as *Assessments*, no single Financing/Funding Method could finance all of the projects. The Eligible Funding Methods exhibit merely provides the reader with options available for each individual capital project.

### General Debt Assumptions

A variety of debt instruments exist, each with specific requirements and restrictions. In the table below, potential gap funding in the form of debt is presented for each major capital project. A standard set of assumptions have been applied to Assessment District and Certificates of Participation debt instruments proposed in this paper for simplification. Industry standards for these two debt instruments dictate the financed amount exceed the capital project by 25% (e.g. \$16 million project would result in a \$20 million bond issue). Industry standards for General Obligation bonds are slightly different. The Financed amount typically exceeds the capital project by 7% (e.g. \$16 million project would result in a \$17.1 million bond issue). For smaller financings or private placement debt, the percentages will vary. Except as noted, the assumed interest rate is 7.5% and the term equals 20 years. These are conservative assumptions and intended to provide a general estimate of the costs and debt service requirements.

For purposes of this analysis, Phase I of the La Pata/Vista Hermosa Park (\$14.6 million) and the Avenida Hermosa Signalization and Road Widening project (\$1.5 million) have been combined in the table below.

As an independent project, the Avenida Hermosa Signalization and Road Widening project could be funded from *Existing Revenue and Fund Balances*, as indicated in Exhibit I. If combined with La Pata/Vista Hermosa, Phase I, available fund balances are insufficient. The combination of these two projects when considering debt would be cost effective. Assuming Certificates of Participation or Assessment District debt, a total of \$20.3 million (25% in excess of the combined capital projects) would fund the combined capital projects. Estimated annual debt payments amount to \$1.6 million. Assuming General Obligation debt, a total of \$17.1 million



## Debt Analysis

(7% in excess of the combined capital projects) would fund the combined capital projects. Estimated debt service payments amount to \$1.3 million.

The Rail Corridor Pedestrian Beach Trail – Phase II project is eligible for funding by Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of \$6.5 million (25% excess of the project cost) would fund this project. Estimated annual payments amount to \$510,000. Assuming General Obligation debt, a total of \$5.2 million (7% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to \$390,000.

The Civic Center project gap could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of \$9.5 million (25% excess of the project cost) would fund this project. Estimated annual payments amount to \$745,000. Assuming General Obligation debt, a total of \$8.0 million (7% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to \$600,000.

The Upper Chiquita Reservoir project could be financed by Special Taxes or Certificates of Participation, with debt serviced by the Water Enterprise Fund. Bonded debt totals \$7.9 million with estimated annual payments of \$700,000.

Expansion of the Recycled Water System may also be financed by Special Taxes or Certificates of Participation. Bonded debt totals \$3.3 million, with estimated annual payments of \$260,000.

Capital Project	Funding Gap	Debt Issue	Annual debt service
LPVH Park/Ave Hermosa Signalization – COP or AD	\$16,200,000	\$20,300,000	\$1,600,000
LPVH Park/Ave Hermosa Signalization – GO	\$16,200,000	\$17,100,000	\$1,300,000
Rail Corridor Beach Trail - COP	\$4,900,000	\$6,500,000	\$510,000
Rail Corridor Beach Trail – GO	\$4,900,000	\$5,200,000	\$390,000
Civic Center - COP	\$7,600,000	\$9,500,000	\$745,000
Civic Center – GO	\$7,600,000	\$8,000,000	\$600,000
Downtown Fire Station	Fully funded	-0-	
Senior Center	\$305,000	\$360,000	\$35,000
Bellota Slope Renovation	Ineligible	-0-	
Upper Chiquita Reservoir	\$6,700,000	\$7,900,000	\$700,000
Recycled Water Expansion	\$2,500,000	\$3,300,000	\$260,000

Recommendations for debt have not been made for three of the capital projects identified above; the Downtown Fire Station, which is fully funded from available fund balances in the Public Facilities Construction Fee Fund, the Senior Center, where financing a gap of \$0.3 million is not economically reasonable, and the Bellota Slope Renovation project, which likely does not qualify for public debt.

# Long Term Financial Plan

## Debt Options

Based on the above analysis and review by the City’s financial advisor, summarized in Exhibit I, should Council consider utilizing bonded debt, the following options are available;

1. Combine the La Pata/Vista Hermosa Park, Phase I project with the Ave. Vista Hermosa Signalization and Road improvement project. Finance the projected Funding Gap of \$16.2 million with an estimated \$20.3 million Certificate of Participation debt issuance. Annual payments would total an estimated \$1.6 million from the General Fund. Should the project gap be financed through an Assessment District or General Obligation bond, debt service payments of \$1.6 million or \$1.3 million respectively would be assessed upon property owners and would not be a General Fund obligation.
2. Finance the Rail Corridor Pedestrian Beach Trail – Phase II with a \$6.5 million Certificate of Participation debt issuance. Estimated annual payments from the General Fund would total \$510,000. Should the project be financed through a General Obligation bond, debt service payments of \$390,000 would be assessed upon property owners and would not be a General Fund obligation.
3. Finance the \$7.6 million Civic Center project with a \$9.5 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at \$745,000. Should the project be financed through a General Obligation bond, debt service payments of \$600,000 would be assessed upon property owners and would not be a General Fund obligation.

The following table presents the impact of each of the debt issues to the operating position of the General Fund assuming Certificates of Participation are issues.

### 2007 Forecast Summary (LTFP)

Amounts in \$1,000

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Operating receipts	\$48,158	\$50,532	\$52,795	\$54,679	\$56,939
Operating disbursements	44,749	46,839	48,219	50,253	52,259
Projected surplus/deficit	\$3,409	\$3,692	\$4,576	\$4,426	\$4,681
1.LaPata/VH Park COP	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
2.Rail Corridor COP	(510)	(510)	(510)	(510)	(510)
3.Civic Center COP	(745)	(745)	(745)	(745)	(745)
Revised surplus/deficit	\$554	\$837	\$1,721	\$1,571	\$1,826

For the two projects identified for the Water and Sewer Enterprise Funds, the following alternatives are presented;

1. Finance the Upper Chiquita Reservoir project of \$7.9 million with Certificates of Participation. Estimated annual payments from the Water Operating Fund amount to \$700,000 and would represent a 5.8% increase to existing water rates.

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## Debt Analysis

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2. Finance the Recycled Water Expansion project of \$2.5 million with a \$3.3 million Certificate of participation. Annual payments are estimated at \$260,000 and represent a 4.3% increase to existing sewer rates.

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## **Long Term Financial Plan**

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## Exhibit II

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### Financing/Funding Method Descriptions

The purpose of this exhibit is to provide a descriptive summary of each financing/funding methods identified in the Eligible Funding Methods Matrix (Exhibit I).

Each financing/funding method includes two components:

- A **source of revenue** which may be either a new source of revenue or an existing source of revenue. For example, a new source of revenue may be a new tax, fee or charge, or may be a federal or state grant. An existing source of revenue may mean reprioritizing and redirecting existing revenues to finance all or a portion of the cost of the construction and/or maintenance of improvements or facilities.
- A **financing method or methods** which may be implemented to use a source of revenue to finance the construction and/or maintenance improvements or facilities. For example, one financing method which may be available is “pay-as-you-go,” i.e., as revenues are received by the City the revenues are aggregated until such time as sufficient revenue has been collected to pay for the construction of projects. Another example of a financing method for capital improvements would be debt financing, i.e., incurring a short or long-term debt to finance the construction of projects now, and repaying that debt using an eligible source of revenue.

The Financing/Funding Methods are identified as follows:

- A. Assessments** – These financing/ funding methods involve the levy of assessments as their source of revenue. An assessment may be described as a charge which is generally levied upon real property or businesses to pay for special benefits received by such property or business from an improvement or service which is financed from the proceeds of such assessments.
- B. Taxes** – The levy of a tax is a financing/funding method available as a source of revenue. The tax may be described as a monetary imposition by a legislative body such as the City Council on either people or property for the purpose of raising revenue to support the activities of the City Council. Unlike an assessment, the person or property taxed does not have to benefit from the activity being paid for from the proceeds of the taxes.
- C. Fees/Charges** – These financing/funding methods involve the imposition of fees or charges as their source of revenue. A fee or a charge is a monetary exaction paid by the user of or one entitled or eligible to use a public improvement or service to reflect the cost to the public agency of providing the improvement or the service to the public. If the amount of the fee or charge exceeds the cost to the public agency of providing the improvement or service, then it is subject to be classified as a tax.
- D. Existing Revenue and Fund Balances** – The City may utilize currently existing sources of revenue to the City to pay for or finance capital improvements and/or the maintenance of

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## Exhibit II

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such capital improvements. The City may also utilize fund balances that are currently available in City funds. These financing/funding methods could involve the reprioritizing and redirecting of all or a portion of existing revenue sources or available fund balances.

- E. Federal, State and Other Governmental Agency Funding Programs** – Federal and state grants and loans may be available for projects depending on specific eligibility requirements of each grant or loan program. In addition, there are other governmental agency funding programs available to cities, such as those made available by the Orange County Transportation Authority for various types of street and highway projects.
  
- F. Certificates of Participation** – The City finances the construction of capital facilities by undertaking a long term lease with investors. The local government takes debt proceeds from the investors and in turn makes an obligation to make ongoing installment payments to the investors up to the full price of the facility. At the end of the payments, the facility becomes the property of the City.



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# Gap Closing Strategies

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## Objective

To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.

## Executive Summary

The 2007 Long Term Financial Plan issue papers have identified significant funding gaps for the construction of major capital projects and potential operating deficits in the Clean Ocean and Golf Funds. Four gap-closing strategies are proposed to address:

- Construction gaps (Non-Enterprise Funds):
  - La Pata/Vista Hermosa Park, phase I
  - Civic Center
  - Senior Center
  - Via Bellota slope renovation
  - Rail Corridor Pedestrian Trail, phase II
- Construction gaps (Enterprise Funds):
  - Upper Chiquita Reservoir
  - Recycled Water Expansion
- Potential operating deficits:
  - Clean Ocean Fund
  - Golf Operating Fund
- Management of Surpluses in the General Fund

## Background and Discussion

Each of the projects included in the 2007 Long Term Financial Plan have dedicated funding for a *portion* of the construction costs. For Non-Enterprise Funds, the gap between the estimated project costs and available funding is \$32.0 million. The funding gap for Enterprise Fund projects is \$9.2 million. In addition, financial forecasts for the Clean Ocean Fund and Golf Operating Fund project potential operating deficits. For FY 2007-08, the Clean Ocean Fund forecast projects a negative cash and operating position if the Clean Ocean Fee is not renewed. The Golf Operating Fund forecast projects a negative operating position in the final three years of the five-year forecast. There is also the potential for a short-term negative operating position in the General Fund if development of Marblehead Coastal and the remaining portions of Talega do not occur as forecasted.

In addition to the funding gaps, there are cash flow timing issues that must be addressed. Each project has been analyzed on a cash flow basis to determine if temporary inflows of money must be provided to keep the construction schedule on track.

Options and strategies for the use of debt as a gap closing strategy have also been included. The Debt Analysis paper of the Long Term Financial Plan provides an explanation of the eligible funding methods and costs for debt issuance. These options have been noted by project in the

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## Long Term Financial Plan

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following pages; however, refer to the Debt Analysis paper for more detail.

### **Construction Gaps - Non-Enterprise Funds**

The projects included in the Non-Enterprise Funds are the La Pata/Vista Hermosa Park, phase I, Civic Center, Senior Center, Via Bellota slope renovation and the Rail Corridor Pedestrian Trail, phase II. There are four available sources and one potential source of funding to use as a gap closing strategy for these projects. The available sources are:

**Talega Development Agreement** – Upon issuance of a building permit in the Talega area, a per unit “Community Enhancement Fee” is paid to the City. The first \$3.5 million collected was dedicated for improvements to the Casa Romantica, Downtown and North Beach areas. The balance of \$4.5 million does not have a specified use assigned and can be used by the City as needed. Approximately \$3.4 million has been collected to date and is available immediately.

**La Pata/Vista Hermosa Property (9 acres)** – The site (an elevated parcel) is approximately nine acres, located southwest of Avenida La Pata and directly across the street from the proposed 49-acre Community Park site on Avenida Vista Hermosa. The City is presently processing planning entitlements to facilitate the future sale and development of the property for a 15 unit per acre town home development project. The land was appraised in June 2005 at \$15.0 million. Proceeds from the sale of this property could be available in FY 2007-08.

**City Hall Property** – Over the past year, Council and the public have been involved in a study to determine the feasibility of a consolidated Civic Center building. If City offices were moved to the Negocio Building, the City Hall property at 100 Avenida Presidio could be sold. The land was appraised in June 2005 at \$16.5 million. Proceeds from the sale of this property could be available in FY 2008-09.

**Undesignated Fund Balance** – There are undesignated fund balances available in the Public Safety reserve, Beach Parking reserve and General Fund that could be used as a gap closing strategy.

Another potential source of funding, the Pacific Golf project, was recommended for approval by the Planning Commission in January 2007. City Council has not scheduled a public hearing to discuss the matter and the developer agreement is still in draft form. A total of \$13.0 million in developer contributions are included in the draft agreement. The following amounts for projects identified in this section have been included in the preliminary developer agreement. If approved, the construction gaps will be reduced by:

La Pata/Vista Hermosa Park	\$10.65 million
Downtown Senior Center	\$500,000
Recycled Water Improvements	\$500,000

For purposes of this discussion, the gap closing strategy will only focus on the available sources of funding.

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## Gap Closing Strategies

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### La Pata/Vista Hermosa Park, Phase I

The funding gap, including the signalization and widening of Vista Hermosa, is \$16.2 million. Current balances in the Parks Acquisition and Development Fund are adequate to fund design and construction until FY 2008-09. The table below shows the ending balances in the Parks Acquisition and Development Fund during the two year construction period and the gap closing strategy:

	FY 2007-08	FY 2008-09
Funding Gap	0	(16,174,700)
Gap Closing Strategy		
Transfer from General Fund (sale of CH land)	0	11,710,000
Talega Developer Agreement	0	4,464,700

Proceeds from the sale of the La Pata/Vista Hermosa nine acre site could be used for future operation and maintenance of the La Pata/Vista Hermosa Park. However, if the cost of park construction escalates beyond current estimates or if the sale of the City Hall property generates less than projected, a portion of the proceeds from the nine acres could be directed to construction of the park.

If debt financing is used for construction of the park, including the widening and signalization of Vista Hermosa, the debt issuance would total \$20.3 million with an annual debt service of \$1.6 million.

### Civic Center

The funding gap for the consolidation of City offices to the 910 Calle Negocio building is \$7.6 million.

	FY 2007-08	FY 2008-09
Funding Gap	0	(7,590,000)
Gap Closing Strategy		
Public Safety Reserve	0	2,800,000
Transfer from General Fund (sale of CH land)	0	4,790,000

Debt closing strategies include the use of Public Safety fees for the portion of the 910 Calle Negocio building that will be occupied by Police Services. Proceeds of the sale of the City Hall property could be used to bridge the balance of the gap.

Debt financing for the construction gap for the Civic Center would amount to a total bond of \$9.5 million with an estimated annual payment of \$745,000.

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## Long Term Financial Plan

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### Senior Center

Based on a construction cost of \$3.71 million, the funding gap for construction of the Senior Center is \$306,000. Depending upon the timing of the receipt of funds from South County Seniors, the City may have to provide additional cash to keep the construction of the project on schedule.

	FY 2007-08	FY 2008-09
Funding Gap	0	(355,000)
Gap Closing Strategy		
Transfer from General Fund (fund balance)	0	355,000

### Via Bellota Slope Repair

The current funding gap for renovation of the Via Bellota slope is \$1.1 million.

	FY 2007-08	FY 2008-09
Funding Gap	(1,130,170)	0
Gap Closing Strategy		
Transfer from the General Fund (fund balance )	1,130,170	0

The General Fund has already committed a total of \$3.4 million toward the settlement agreement. The additional transfer, recommended above, will increase the General Fund contribution to \$4.5 million. Conditions of the Callan settlement agreement include the proceeds, estimated at \$5.7 million, from the sale of the 3 single family residential lots and 24 new mobile home lots that will be added to the Shorecliffs Mobile Home Park. It is anticipated that this money would reimburse the General Fund for prior contributions to the project. Any remaining balances would be available for general use.

### Rail Corridor Pedestrian Trail, Phase II

The current funding gap for construction of Phase II of the Rail Corridor Pedestrian Trail is \$4.9 million and is based on the \$7.83 million bid received in January 2007 for Phase II. Council directed staff to redesign and rebid the project and final construction bids will not be available until April 2007. This will potentially reduce the amount of funding necessary for completion of this project, but for purposes of this discussion, the funding gap of \$4.9 million is used.

	FY 2007-08	FY 2008-09
Funding Gap	(3,921,600)	(1,000,000)
Gap Closing Strategy		
Transfer from Beach Parking Reserve (fund balance)	2,921,600	0
Transfer from RDA (fund balance)	1,000,000	1,000,000

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## Gap Closing Strategies

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A beach parking impact fee is charged on all new development in the City to reflect the development's fair share of increased demand for beach parking. Use of these funds for construction of the trail will encourage more pedestrian and bicycle access to the beach and pier and reduce the need for beach parking. Pier bowl parking will also be dispersed to the Calafia, Linda Lane and North Beach parking lots due to the easy access to the pier area from the coastal trail.

If construction bids come in lower than \$7.83 million, recommended transfers from these sources can be reduced.

The funding gap for the Rail Corridor Pedestrian Trail could also be financed. A total of \$6.5 million would be financed with annual debt service payments of \$510,000.

### ***Construction Gaps - Enterprise Funds***

Two projects in the Water and Sewer Enterprise Funds have been identified that are only partially funded at this time. The City's estimated share of a Municipal Water District of Orange County (MWDOC) Upper Chiquita emergency storage reservoir is \$8.8 million, of which, \$6.7 million is the current shortfall. The Recycled Water expansion project is estimated at a design and construction cost of \$14.0 million. A funding gap of \$2.5 million is currently estimated. It is based upon the City receiving \$5.7 million in State grants and utilizing \$5.8 million in fund balance from the Sewer Connection Fee Fund.

Possible funding sources to close the gaps include increasing water and sewer service charges, local or regional bonds, Federal or State grants and loans. Due to a number of uncertainties regarding the financing of these projects, no specific gap closing recommendations are included. These funding gaps will be addressed once regional debt and grant opportunities are explored.

However, if the City proposed using debt as a gap closing strategy, the Upper Chiquita Reservoir and Recycled Water System projects could be financed. Bonded debt for the Upper Chiquita Reservoir project totals \$7.9 million with an estimated annual debt service payment of \$700,000. The Recycled Water expansion project would require a debt issuance of \$3.3 million and a debt service payment of \$260,000 annually.

### ***Potential Operating Deficits***

The "Clean Ocean" fee, which was approved by San Clemente voters for a five-year period, is scheduled to sunset in December 2007. If the fee is not renewed, the Clean Ocean Fund will experience a negative operating position beginning in FY 2007-08. To bridge this funding gap, it is recommended that Council direct staff to begin preparation of the fee renewal process.

The Golf Operating Fund forecast for the next five years projects a negative operating position in the last three years of the forecast. As a result, the Golf Fund Analysis is preliminarily recommending a \$3.00 per round fee increase for implementation in spring 2008. Implementation of this fee would provide a positive operating position in all five years of the forecast.

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# Long Term Financial Plan

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## **Management of Surpluses in the General Fund**

The Government Finance Officer's Association (GFOA) states that "the key principle is to put the surplus to a use that provides benefits while not obligating the government to on-going or long-term cost that it won't be able to support once the surplus dissipates."<sup>1</sup> The three main beneficial uses of surpluses, according to GFOA, are:

- Reduce future costs.
- Build fund balances.
- One-time projects.

The City's current fiscal policies are in-line with these practices.

## **Conclusion**

In order to close the funding gaps identified in the 2007 Long Term Financial Plan, a combination of sources have been identified including:

- Proceeds from the sale of the La Pata/Vista Hermosa acreage and the City Hall site.
- Undesignated money from the Talega Development Agreement.
- Undesignated fund balances in the Public Safety Reserve, Beach Parking Reserve and the General Fund.
- Debt financing.
- Renewal of the "Clean Ocean" fee.
- Increase in the golf course fee.

Other options include the use of debt financing as a gap closing strategy for certain projects. This strategy is outlined in more detail in the Debt Analysis section.

## **Recommendations**

1. Direct staff to continue to explore the funding options as defined in the Gap Closing and Debt sections.

## **Fiscal Impact of Recommendations**

If debt financing is used as an option, General Fund fund balances will be reduced by the amount of the annual debt service as discussed in the Debt Analysis section of the Long Term Financial Plan.

## **Council Action**

Recommendation was approved by the City Council by a vote of 5-0 on February 27, 2007.

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<sup>1</sup> Shanyne Kavanagh, "Long-Term Financial Planning" (Government Finance Officers Association 2007.)