City of San Clemente,
California

2008

Long Term Financial Plan

City of San Clemente

City Council

• Joe Anderson	Mayor
• Lori Donchak	Mayor Pro Tem
• Jim Dahl	Councilmember
• G. Wayne Eggleston	Councilmember
• Steve Knoblock	Councilmember

City Manager

• George Scarborough	City Manager

Executive Team

• Joanne Baade	City Clerk
• William E. Cameron	City Engineer
• Paul D'Auria	Police Services Chief
• Pall Gudgeirsson	Assistant City Manager/City Treasurer
• James S. Holloway	Director, Community Development
• Al King	Director, Beaches, Parks & Recreation
• David N. Lund	Director, Public Works/Economic Development
• Rick Robinson	Fire Services Division Chief

Project Director

• Pall Gudgeirsson	Assistant City Manager/City Treasurer

Project Team

• Nathan Adams	Management Analyst II
• Stacy Blackwood	Management Analyst I
• Tom Bonigut	Principal Civil Engineer
• Sandee Chiswick	Accountant II
• Kumi Elston	Purchasing & Budget Officer
• Jake Rahn	Accounting Supervisor
• Dave Rebensdorf	Principal Civil Engineer
• Tom Rendina	Finance Manager

Mission Statement

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

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

Project Team

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
Dave Lund, Economic Development/Public Works Director
Tom Bonigut, Principal Civil Engineer

Financial Trend Analysis

Sandee Chiswick, Accountant II

Financial Forecast

Kumi Elston, Purchasing & Budget Officer

Reserve Analysis

Jake Rahn, Accounting Supervisor

Fiscal Policy

Tom Rendina, Finance Manager

Capital Projects Analysis

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

Park Infrastructure Depreciation

Stacy Blackwood, Management Analyst I
Tom Rendina, Finance Manager

Cost of Service Study

Tom Rendina, Finance Manager
Nathan Adams, Management Analyst II
AJ Howard, Utilities Manager

Revenue & Fee Analysis

Kumi Elston, Purchasing & Budget Officer
Eric Johnson, Revenue & Cost Specialist

ADA Compliance

Stacy Blackwood, Management Analyst I

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

Issues & Objectives

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 Fund, 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.

Fiscal Policy

Objective

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

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.

Park Infrastructure Depreciation

Objective

To present the basic principles of depreciation for General Fund assets relating to Parks and Park Infrastructure and provide an overview of the estimate of San Clemente Parks and Park Infrastructure valuations and costs to build replacement reserves.

Cost of Service

Objective

To analyze the Water and Sewer utility rate structures and make recommendations for future modifications to rates, tiers, customer types and classifications to achieve equity among the customer classes while promoting conservation by all customer classes.

Issues & Objectives

Revenue & Fee Analysis

Objective

To provide a comprehensive review of the city's revenue sources to determine:

1. *If the charges or fees are appropriate for the services offered.*
2. *If the charges or fees should be adjusted based upon fees from comparable cities or recovery of current program costs.*
3. *If the City's revenue sources are well diversified.*

ADA Compliance

Objective

To present an overview of the primary requirements of the Americans with Disabilities Act, and to discuss a preliminary strategy for bringing the City into compliance with federal regulations.

Debt Analysis

Objective

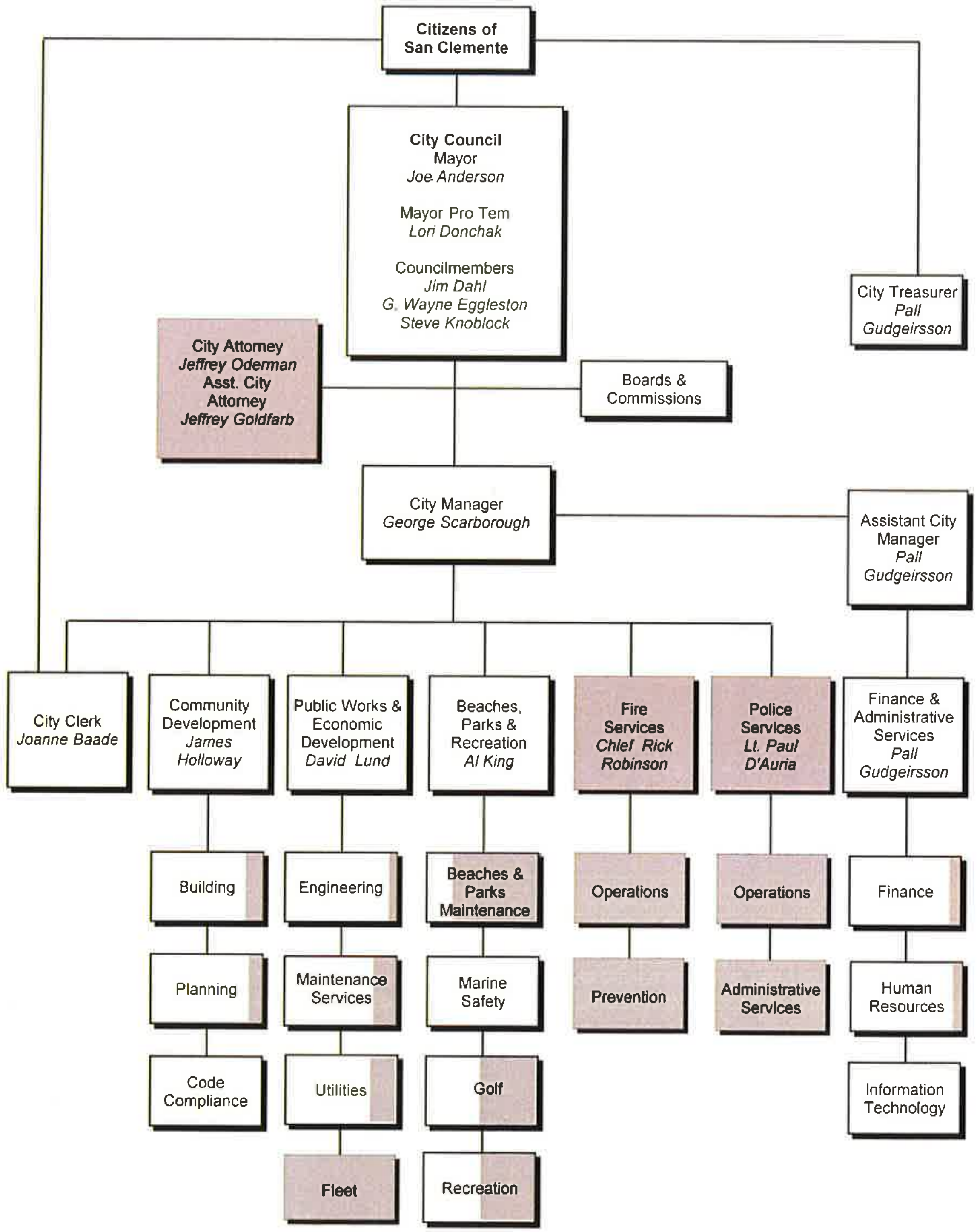
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs.

Gap Closing Strategies

Objective

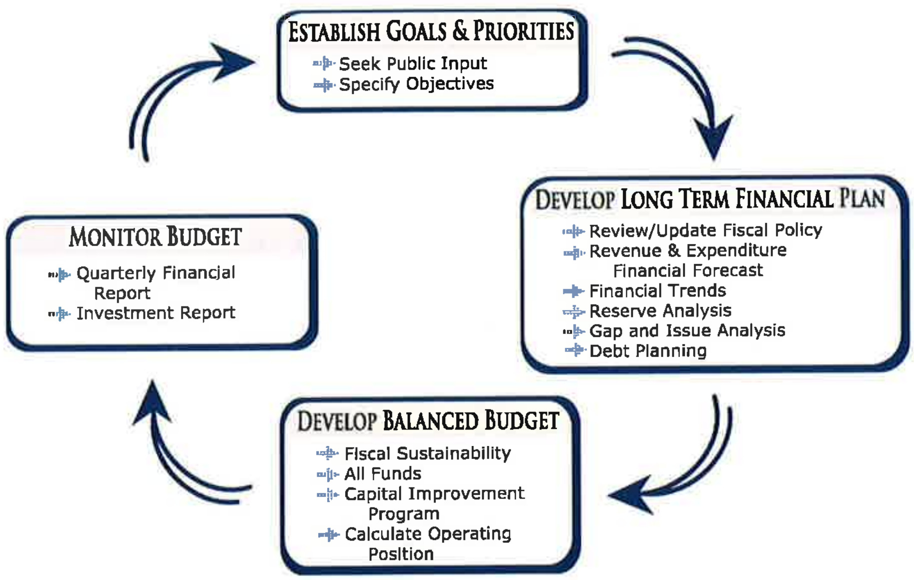
To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.

City Organization Chart



Shading indicates contracted services

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.

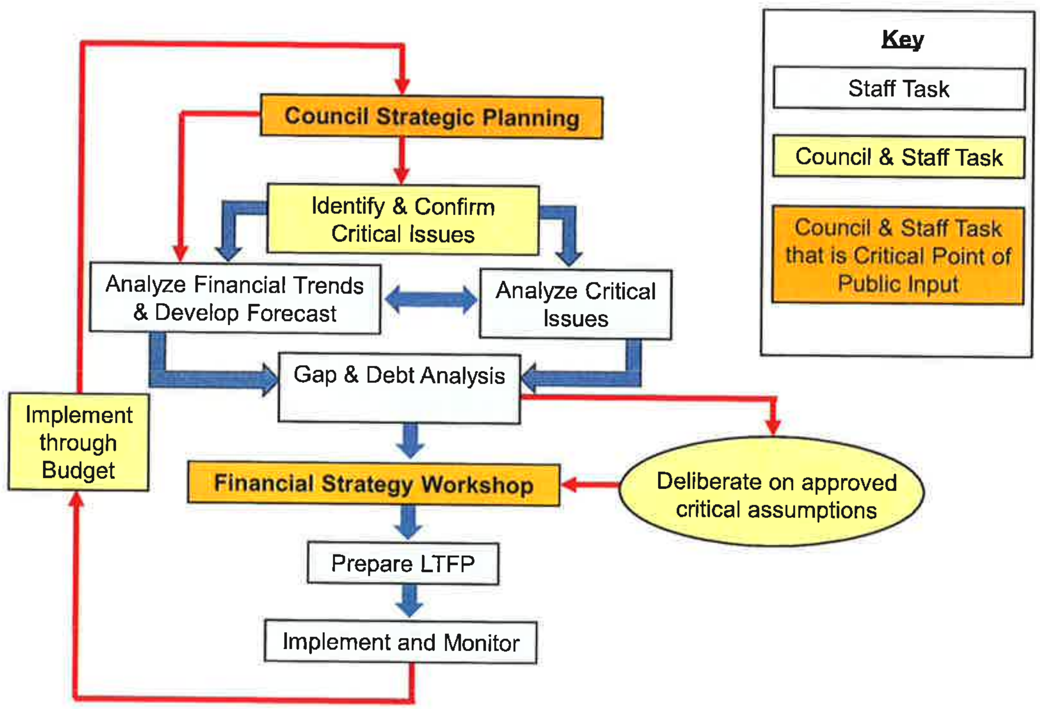
The 2008 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Park Infrastructure Depreciation
- Cost of Service Study
- Revenue & Fee Analysis
- ADA Compliance
- Debt Analysis
- Gap Closing Strategies

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.



Long Term Financial Plan

In October 2007, Shayne Kavanaugh, from the Government Financial Officers Association (GFOA), gave a presentation on the ten key concepts of a financial planning process. Based upon input provided by City Council, the City's financial planning process has been modified to incorporate these concepts.

Goals & Objectives

As indicated, the process of developing the Long Term Financial Plan began with a Council strategic planning session. At this public meeting, City Council determined the priority projects or objectives for the upcoming fiscal year. Once priorities have been established, Council and staff identified the critical areas which have, or are expected to have, an impact on the financial condition of the City over the next five years. For each of the critical areas, specific goals and objectives are developed for each project which are designed to meet the overall goal of the project:

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

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

Trends & Forecast are the Foundation of the LTFP

Once the issue papers were completed, the actual Long Term Financial Plan was developed by using the Financial Trend Analysis and Financial Forecast as the *foundation* of the plan. If funding gaps were identified in any of the issue papers, the City's financial advisor reviewed options and associated costs of using debt issuance as a gap closing strategy. Then, funding gaps identified in the individual papers are consolidated into a gap closing strategy, which can essentially be described as a long-term financial strategic plan.

This Financial Plan was presented to the City Council on February 7, 2008 with public input and adoption on February 26, 2008. Following is the project schedule.

Schedule

January 29, 2008 6:00 p.m. to 9:00 p.m.	Vital Few Priorities Meeting. City Council and City Manager.
February 7, 2008	Long Term Financial Plan provided to Council and public for review.
February 26, 2008 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.
June 11 & 12, 2008 4:00 p.m. – 9:00 p.m.	Proposed Budget Workshops
June 26, 2008 6:00 p.m.	FY 2008-09 Budget Public Hearing and Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2008 LTFP represents the sixteenth plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

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

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

Year	Challenge	Solution
1996	• Emergency reserve level reached 5%	• Expedited Street Improvement Program • Issued $7 million in street bonds • Saved on bond issuance costs
1997	• $2.8 million shortage created by Proposition 218	• Increased revenues • Transferred $425,000 from Golf Fund • Employee lay-offs • Program reductions • Transferred police dispatch operation to County • Closure of Steed Park
1998	• All reserves except Capital Equipment Replacement Reserve fully funded	• Funded Capital Equipment Replacement Reserve • Funded a market study and downtown improvement plan
1999	• Water Fund operating position negative • No formal plan in place for City facilities	• Long-term water rate structure approved • Funded a City Facilities Master Plan
2000	• New projects identified as priorities	• Funded studies for the restoration of the Casa Romantica Cultural Center, Rail Corridor Safety and Education, Coastal Resources and Downtown Revitalization
2001	• Public safety needs identified • Document imaging system needed • Facilities maintenance needs identified	• Conducted a Fire Authority staffing analysis and increased to a four-person engine company for Engine 60 • Established a document management plan • Established a new Facilities Maintenance Reserve for future maintenance needs of all City facilities

Year	Challenge	Solution
2002	• Identified financial impact of City's capital facility plan • Sidewalk restoration needs identified • Urban Runoff Plan implementation costs identified	• Restricted the use of special development fees • Funded sidewalk restoration plan • Established urban runoff fee
2003	• New fire station with operating costs of $1.5 million planned • Projected deficit balance in Golf Course Fund • Identified interest costs associated with long-term loans to the RDA	• Eliminated new fire station. Relocated another fire station to central location and increased staffing • Established two-year loan to Golf Course • Repaid RDA loan from the General Fund and lowered interest costs
2004	• State of California proposed budget impact of $522,000 • Potential $2.0 million refund of property taxes based on a taxpayer lawsuit	• Reduced General Fund revenue to reflect State shift • Reserved $2.0 million in a designated reserve
2005	• Increase in the overhead rates charged by Engineering, Planning and Beaches, Parks & Recreation. • Increase revenue in the General Fund to recover the cost of providing services. • PER's Frozen Public Safety unfunded liability contribution increased.	• City Council requested further analysis and a presentation at a later date. • Established new rental rates for the Beach Club and Community Center. • Extended the amortization period from 8 years to 15 years and reduced the required contribution by $326,000 annually.
2006	• Identified shortfall in the amount of depreciation funding set aside annually for replacement of water and sewer assets.	• Established annual depreciation transfers based on Water and Sewer Asset System model.

Long Term Financial Plan Review

The following is an update of the 2007 Long Term Financial Plan issues:

Fiscal Policy	Status
The fiscal policy was reviewed to provide clear fiscal direction in a concise format.	Several policy statements were moved for easier reference; emergency reserve objectives for the General Fund and Enterprise Funds were consolidated; and water, sewer, storm drain and gold depreciation policies were consolidated.

Financial Trend Analysis	Status
None.	None

Financial Forecast	Status
None.	None

Reserve Analysis	Status
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.	Council approved the $90,000 transfer in the FY 2007-08 Operating Budget.
Budget sufficient funds for FY 2007-08 in order to bring the emergency reserve to the 8% level of projected Water ($134,000), Sewer ($72,000), Storm Drain ($11,000) and Golf ($17,500) Funds.	Council approved the transfers in the FY 2007-08 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 $225,000 be set aside in fiscal year 2007-08 to fund the Council Contingency Reserve.	Council approved $225,000 transfer to the Council Contingency Reserve in the FY 2007-08 Operating Budget.

Capital Projects Analysis	Status
Identified funding gaps for capital projects.	Gaps closed by funding identified in the Gap Closing Strategies paper.

Clean Ocean Program Review and Renewal	Status
Begin planning for a renewal of the Clean Ocean Fee, including obtaining public input on the future of the Clean Ocean program.	Council approved $100,000 to be included in the FY 2007-08 for the election to renew the fee. Clean Ocean Fee passed Nov. 2007

Golf Analysis	Status
Identify any potential funding gaps in the Golf operating fund and explore potential closing solutions	A fee increase was approved that averages approximately $3 per round.

Debt Analysis	Status
Analyze and recommend appropriate use and amount of long-term debt for major capital projects.	Done

Gap Closing Strategies	Status
A funding gap of $16.2 million for La Pata/Vista Hermosa Park, Phase 1 was identified.	A transfer from the General Fund (sale of City Hall land) of $11.71 million[1] and a transfer of $4,464,700 for the Talega Developer Agreement was used to bridge the funding gap.
A funding gap of $7,590,000 for the Civic Center was identified.	Public Safety reserves ($2.8 million) and the balance of the sale of City Hall property ($4.79 million) was used to bridge the funding gap.
A funding gap of $355,000 for the Senior Center was identified.	A transfer from the General Fund undesignated fund balance was approved.
A funding gap of $1.1 million for the Via Bellota slope repair was identified.	A transfer from the General Fund undesignated fund balance was approved.
A funding gap for the Rail Corridor Pedestrian Trail, phase II was identified.	Project was funded.

[1] The FY 2007-08 adopted budget included an $11.9 million transfer from the General Fund from the sale of the *nine acre parcel on La Pata/Vista Hermosa*, not from the sale of City Hall land.

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

Honorable Mayor and Council members:

I am pleased to present the 2008 Long Term Financial Plan (LTFP) to the City Council and San Clemente residents. The City's strategic fiscal plan has been presented on an annual basis since 1993, and continues to be nationally recognized as a model financial planning tool for local government.

The Long Term Financial Plan includes an executive summary which describes the City's current and projected financial condition. The summary section provides a financial overview of the financial plan and outlines recommendations to address financial issues that have been analyzed over the past several months by City staff. Included in the plan is a comprehensive analysis of major capital projects including funding recommendations and, where applicable, gap closing strategies are presented for Council consideration.

The foundation of the LTFP is built from the Financial Trends Analysis, the Financial Forecast and the Reserve Analysis. The trend analysis examines the General Fund revenue and expenditure trends to determine the fiscal health of the City. The forecast allows the City to determine how *current* spending plans will impact future budgets. The forecast presented during the Long Term Financial Plan is *not* the budget that will be presented to City Council for the 2008-09 fiscal year. Projects prioritized by Council, along with Administration's recommendations for changes or enhancements to the current service levels, will determine the funding requests that will be brought forth in the FY 2008-09 budget. The reserve analysis annually reviews the types of reserves and appropriate funding levels.

A total of eight critical issues were examined in the Long Term Financial Plan. The Capital Projects Analysis provides a review of the major capital projects scheduled for design and construction within the next few years. The paper identifies the current cost estimates and funding sources for construction of La Pata/Vista Hermosa Park, phase one, Civic Center, Downtown Fire Station/Senior Center, Upper Chiquita Reservoir and recycled water expansion projects.

A Cost of Service Study was conducted to ensure that all customer categories are charged equitably and bear their respective direct and indirect costs. The rate structures were also examined to determine if existing tier allotments encourage and promote water conservation.

A Revenue and Fee Analysis was initiated to determine if the service charges or fees that are set by City ordinance should be adjusted to generate sufficient revenues to sustain current services and service levels. The report recommends increases in building and engineering service charges, ambulance fees, ambulance subscription fees, parking meter fees, parking permit fees and parking citation fines. An attachment to the report is provided that shows the impact of the State initiated "triple flip", vehicle license fee backfill and the on-going Educational Revenue Augmentation Fund (ERAF) property tax diversion on the City's property taxes and sales taxes.

The Park Infrastructure Depreciation issue paper presents the basic principles of depreciation for the General Fund and provides alternatives for potentially funding a new replacement reserve. Currently, capital assets in the General Fund are charged an annual depreciation expense in the year-end financial report; however, cash for funding a depreciation reserve is not set aside. Therefore, funding for major park renovations must compete with other General Fund requests because a dedicated source of funding has not been established. This paper addresses the need for establishing a reserve for park assets.

The Americans with Disabilities Act (ADA) report outlines a strategy for bringing the City into compliance with federal regulations requiring all State and local government to make all public services, programs and activities accessible to persons with disabilities. A citywide evaluation and transition plan must be developed, along with the designation of a ADA Compliance Officer, for the City to be in compliance with this regulation.

The Debt Analysis section provides an analysis of the City's current debt and makes recommendations on the appropriate use and types of long-term debt available for funding major capital projects.

The Gap Closing Strategies section summarizes the City's major funding gaps or requirements and makes recommendations for closing identified funding gaps.

The City Council is to be commended for encouraging an analytical and long-term approach to examining the City's fiscal issues on an annual basis. This business like approach to fiscal management will continue to serve the City well as we plan for the future.

I would like to thank all staff members involved with the City's 2008 Long Term Financial Plan. I look forward to working with you, staff and our community as we review and implement the 2008 Long Term Financial Plan.

George Scarborough
City Manager

Executive Summary

The *Executive Summary* portion of the 2008 Long Term Financial Plan (LTFP) includes a financial summary section which provides a profile of the City's financial condition and a summary of this year's LTFP recommendations.

The 2008 Long Term Financial Plan Summary

Included with the *Executive Summary* section:

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

Introduction

The 2008 LTFP is the 16th edition of the City's financial strategic plan

This is the sixteenth year that the City of San Clemente has produced a Long Term Financial Plan. The LTFP provides an objective look at the current financial issues facing the City of San Clemente and crafts a plan to meet the needs of the community without sacrificing the financial future. Sustainability, which the International City Managers' Association (ICMA) calls the "issue of our age",[1] encompasses not only growth and environmental issues, but fiscal viability, which is the focus of the City's Long Term Financial Plan.

The LTFP produces a financial pan and provides solutions

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 trend analysis acts as an early warning system

A comprehensive analysis of the City's financial trends and reserves is conducted annually for the Long Term Financial Plan. The financial trends and reserve papers document the progress that has been made in implementing long-term solutions to improve the financial condition of the City. The trend analysis also acts as an early warning system to alert Council and the

[1] ICMA Management Perspective – Sustainability, October 2007.

Administration of trend changes that will have an impact on the financial condition.

The forecast shows the potential impact of current decisions on the future

The five-year financial forecast identifies the City's current and projected financial condition to determine if funding levels are adequate and if projected expenditures can be sustained. The forecast provides a basis for decision making and shows the potential impact of current decisions on the future.

The LTFP focuses primarily on funding gaps identified for the construction of major capital projects. Funding solutions have been identified, however, the cash flow timing issues during construction of these projects will be challenging. The Gap Closing Strategies paper identifies potential temporary funding sources to bridge the cash flow demands.

It is recommended to update building and engineering fees to reflect the cost of providing the services

Ambulance transport, ambulance subscription, parking meter, parking permits and parking citation increases are also recommended

The 2008 LTFP also includes a paper on updating General Fund revenues to ensure that the City's revenue sources are well diversified. Revenue diversification increases the probability that sufficient revenues are generated to sustain current services and service levels. Diversification practices include updating fees and charges on a regular basis, justifying the underlying assumptions and accounting for cost of living adjustments. After analysis of General Fund revenues, some of which have not been changed since 1992, it is recommended that certain building and engineering fees be updated to accurately reflect the cost of providing the services. Planning service fees, which were also reviewed, will be studied further before recommendations are presented to City Council. Increases in ambulance transport fees, ambulance subscription rate, parking meter fees, parking permit fees and parking citation fines are also recommended. The actual amount of revenue generated from these increases can not be quantified at this time because the revenue is dependent upon the number of actual transactions that are made on the recommended fee schedules. Further analysis and estimates will be provided based on Council direction.

The purpose of the cost of service study is to create equity and promote water conservation

A Water and Sewer cost of service analysis is also included in the 2008 Long Term Financial Plan. The main purpose of the study is to create equity between all customer classes and promote water conservation. The study was conducted to determine if water and sewer rates are adequately recovering the cost of operations, maintenance and capital infrastructure improvements for the Water and Sewer Funds. The existing rate structures and tier allotments were also examined to determine if the present structure promotes and encourages water conservation. Any recommended changes from the study would not increase total revenue collected.

Executive Summary

The LTFP focuses on the financial condition of the General Fund

Current Financial Condition – Overview

The City's Long Term Financial Plan focuses on the financial condition of the General Fund, the City's key operating fund. The City's General Fund is anticipated to end the 2007-08 fiscal year with a balance of $12.2 million, excluding General Fund emergency reserves of $3.8 million. General Fund revenues, including mid-year adjustments, amount to $61.5 million. General Fund operating revenues, which excludes $12.1 million in one-time revenues, amounts to $49.4 million. Total General Fund expenditures with mid-year adjustments amount to $68.0 million. Operating expenditures, which excludes $19.7 million in prior year encumbrances, one-time programs, projects and transfers, amounts to $48.3 million.

All General Fund reserves 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. 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 for inclusion into the FY 2008-09 budget:

A transfer of $160,000 to the Accrued Leave Reserve

An increase of $100,000 in General Liability

- The LTFP Reserve paper recommends an allocation of $160,000 to the Accrued Leave Reserve to accumulate funds for the payment of accrued leave benefits (owed vacation, overtime and sick leave) to employees leaving City employment.
- An increase of $100,000 in General Liability charges to a total of $1.6 million is recommended to replenish the reserve and maintain an adequate reserve level.
- To avoid an accumulation of excess reserves in the Workers' Compensation Fund, a 5% rate reduction and a one-time refund of $500,000 is recommended.

Changes to the General Fund Emergency and Council Contingency reserves are also recommended in the Reserve Paper. These changes include:

Increase GF Emergency Reserve from 8% to 9%

- Increasing the General Fund Emergency Reserve level from 8% of operating expenditures to 9%. Contributions to the reserve will be increased in 0.25% increments until the 9% goal is met.

Eliminate the Council Contingency Reserve

- Eliminate the Council Contingency Reserve which is currently funded at 0.5% of General Fund operating expenditures and create a line-item within City Council's program budget for Council initiated projects funded annually at $100,000, which is close to the average expenditure level for City Council initiated items.

Reserve Funding – Enterprise Funds

The City has established depreciation reserves for costs associated with major maintenance and capital improvements for the Water, Sewer, Storm Drain and Golf Funds. Significant funding gaps were identified in last year's Long Term Financial Plan for the Water, Sewer and Storm Drain depreciation reserves; and a multi-year commitment to build these reserves was implemented. The 2008 LTFP Reserve paper further recommends:

Increase annual Water depreciation contribution to $2.9 million

Increase annual Storm Drain depreciation contribution to $724,000

- An increase from $2.7 million to $2.9 million in the Water depreciation reserve contribution. The annual increase of $200,000 will narrow the $7.4 million funding gap by approximately 75% over a twenty year period.
- No change to the current $2.325 million contribution to the Sewer depreciation reserve, although a $4.8 million gap currently exists. The current contribution level will narrow the gap and comply in the future with fiscal policy.
- An increase of $136,000 in the annual contribution to the Storm Drain depreciation reserve is proposed to bridge the $3.3 million gap. Annual contributions to the reserve will increase from $588,000 to $724,000.

The recommended increase to the Water depreciation contribution will result in potential increases to the Water rates. A rate analysis for water and sewer will be presented to Council in May 2008. The recommended increase in the Storm Drain depreciation contribution will decrease the amount available for capital projects.

General Fund Transfers

In FY 2007-08, a total of $14.9 million in transfers is included in the budget

Several transfers from the General Fund to other funds are included in the annual budget. These transfers exclude annual allocations to maintain required reserve balances. In FY 2007-08, a total of $14.9 million is included in the budget. One-time transfers include $1.0 million for the beach trail, $11.9 million for La Pata/Vista Hermosa Park, $355,000 for the Senior Center and $1.65 million for the Bellota landslide. Routine transfers amount to $1.2 million and include a transfer of $652,390 to the Street Improvement Program, $533,850 to the Negocio Debt Service Fund for the operation, maintenance and debt service on the 910 Calle Negocio building and $37,700 to provide low income subsidies for qualified water and sewer customers.

Transfers for FY 2008-09 include $671,960 for Streets and $510,000 for Negocio Building debt

For FY 2008-09, transfers total $1.2 million and include $671,960 for the Street Improvement Program and $510,000 for debt and operational support of the Negocio building.

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled $7.0 million during the past thirteen fiscal years. Annual contributions will be made at least through FY 2012-13 which is the year the street improvement program is scheduled to sunset.

General Fund Loans

RDA debt is $2.5 million

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 operation deficits. The loan, which was made in 2002, is structured with an annual interest rate of 2.9% and a term of 16 years with an outstanding balance of $2.5 million. This debt will be retired in FY 2018-19.

Golf Operating Fund debt is $984,000

The General Fund also provided short-term loans, totaling $984,000 to the Golf Operating Fund over the last five years. This loan will be repaid upon the issuance of a $3.45 million clubhouse construction loan.

Financial Trend Analysis

18 out of 21 indicators are favorable

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, 2007 indicates that 18 out of 21 indicators are favorable. Two trends, Revenues per Capita and Expenditures per Capita were upgraded from "favorable/warning" to "favorable" due to population slowing as revenue continues to grow and expenditures keep up with growth. However, elastic revenues, license and permit revenues and community development charges were downgraded to a "warning" rating.

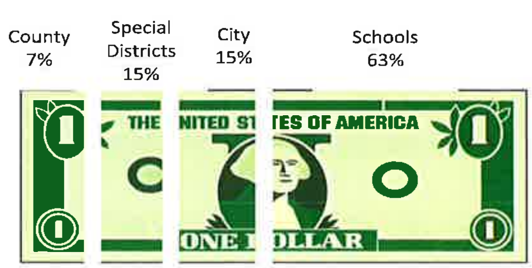
"Warning" rating has been assigned to elastic revenues, license and permit revenues and Community development charges

Elastic revenues, license and permit revenues and community development charges: The three indicators at the warning level reflect the City's transition from a fast growing, high development area to a city that is stabilizing its growth as development slows. The elastic revenues, which include sales tax, transient occupancy taxes and licenses and permits, have declined for the third consecutive year. License and permits receives a warning rating due to a continual decline in development and the delay of the Marblehead Coastal project. Community development service charges also receive a warning rating due to a decline in development as the City nears build out.

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

Indicator	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*
Revenues Per Capita	**F**	F/C	F/C	W	W	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	**W**	F/C	F	F	F	F	F	F	F	F
Sales Tax Revenues	**F**	F	F	F	F	F	F	F	F	F
Licenses & Permits	**W**	F	F/C	F	F	F	F	F	F	F
Comm. Develop. Charges	**W**	F/C	F	F	F	F	F	F	F	F
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	F/C	F	F	F	F	F
Expenditures Per Capita	**F**	F/C	F	F	F	F/C	F	F	F	F
Expenditures by Function	**F**	F	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	**F**	F	F	F	F	F	F	F	U	U
Fringe Benefits	**F**	F	F	F/C	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	F/C	F	F	F	F
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Compensated Absences	**F**	F	F	F	F	F	F/C	F/C	F/C	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 on the distribution of the property tax dollar. HdL Coren & Cone, whom the City has engaged to perform property tax audit and analysis, has determined that the City's average share of the property tax dollar is $0.153. Excluding the RDA, the distribution of the property tax is shown below:



2008 forecast indicates a tightening in the GF operating position and lower fund balances

Five Year Financial Forecast

The 2008 financial forecast has been updated to reflect recent changes to the City's budget due to declines in building and planning related revenues. Development activity in the City has abruptly declined and building permit and plan check revenues have been reduced at mid-year by 33%. As a result of lower revenues, the 2008 financial forecast is showing a tightening in the General Fund operating position and lower fund balances than previously shown in October 2007. The forecast still predicts a positive operating position, starting at $1.3 million but declining to $0.8 million by the end of the forecast period. Fund balances are reduced from an average of $15.0 million to $10.2 million over the forecast period.

Revenues grow by average of 3.6% a year

The forecast does not include any property tax or sales tax revenues from Marblehead

Over the five year forecast period, City revenues are anticipated to grow by an annual average increase of 3.6% a year. The 2008 financial forecast allows for much slower growth than previous forecasts. For example, property taxes average 4.0% per year or $4.0 million over the five-year period, as compared to an average growth rate of 20% from 2002 to 2006. Sales taxes grow by $397,000 per year or $2.0 million over the forecast period and have been lowered as a result of new assumptions for consumer spending. Rising fuel prices have reduced the amount of disposable cash that is available to consumers, which economic analysts now predict will result in lower retail sales. The forecast does not include any property or sales tax revenues from the Marblehead development project.

Expenditures increase at an average rate of 3.4%

Expenditures are projected to increase at an average rate of 3.4% due to the projected addition of five contract police positions (one per year), fifteen (3 per year) City positions and anticipated increases in police, fire and park maintenance contracts. For example, maintenance costs for La Pata/Vista Hermosa Park, which were originally supplied in 2005, have been increased by inflation to reflect current dollars. Police contract costs will increase by $200,000 per year as a result of a recent contract settlement with sworn employees of the Orange County Sheriff's Department. Fire contract costs will increase beginning in FY 2010-11 due to an increase of the contract cap and on-going contributions to facility and fleet replacement reserves.

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.

Forecast Operating Position

Forecasted operating position is positive

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 revenues and expenditures) are shown in the following table.

General Fund Operating Position

2008 Forecast Summary* (in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Operating receipts	$50.3	$52.1	$54.3	$56.2	$57.5
Operating disbursements	49.0	50.9	53.7	54.9	56.7
Projected surplus/deficit	$1.3	$1.2	$0.6	$1.3	$0.8

*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

Operating position declines in FY 2010-11 due to a projected full year of operation and maintenance for La Pata/Vista Hermosa Park which increases expenditures by a net $1.4 million. Operating position increases in the next fiscal year due to the elimination of development related contractual positions in building engineering and planning. In the final year of the forecast, revenues increase at a more modest rate of 2% and operating expenditures increase by 3% which tightens the operating position.

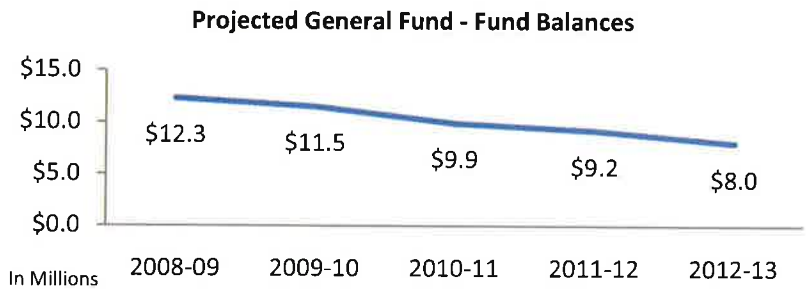
The 2008 forecast excludes all revenue from Marblehead

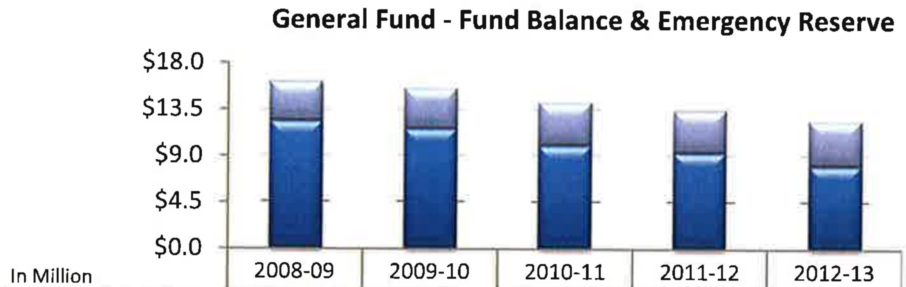
It should be noted that the operating position predicted in the 2008 financial forecast differs from the 2007 forecast due to the exclusion of all revenue from the Marblehead commercial and residential development site. Expenditures for park maintenance are included in the budget beginning in FY 2008-09.

Fund Balances

Fund balances will decline but remain positive

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 graph, the projected ending undesignated fund balance over the five year forecast period will decline but remain positive. Designated emergency reserve levels have been maintained at the required 8% level.





In Million	2008-09	2009-10	2010-11	2011-12	2012-13
Emergency Reserve	$3.9	$4.0	$4.2	$4.2	$4.4
Fund Balance	$12.3	$11.5	$9.9	$9.2	$8.0

Although operating position remains positive throughout the forecast, fund balances decline as a result of one-time expenditures, transfers and capital outlay included in the forecast. For forecast purposes, an average of $2.2 million in capital expenditures and major maintenance projects identified in the current five year Capital Improvement Program is included. These projects include renovations or major maintenance to parks, beach structures, buildings and streets. Transfers totaling $4.7 million to support the Street Improvement Program and maintain reserve levels are also included.

Debt Analysis

Debt options as a potential gap closing strategy

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 types of debt instruments that are available and the estimated costs of debt issuance as a potential gap closing strategy.

A standard set of assumptions was used to project the amount of debt issuance and the associated costs. For Assessment District or Certificates of Participation debt instruments, the industry standard dictates that the financed amount should exceed the capital project by 20% (e.g. $16 million project would result in a$20 million bond issue). For General Obligation bonds, the financed amount typically exceeds the capital project by 7% (e.g. $16 million project would result in a $17.1 million bond issue). The assumed interest rate is 6.5% and the terms equal 20 years.

The table below lists the capital project, required funding, debt issue and annual debt service payments for the projects identified in the Capital Projects Analysis paper.

Cost of debt options

Capital Project	Required Funding	Debt Issuance	Annual Debt Service
LPVH Park/Ave Hermosa - COP/AD	$16.2M	$20.3M	$1.7M
LPVH Park/Ave Hermosa - GO	$16.2M	$17.1M	$1.3M
Civic Center - COP	$6.3M	$7.875M	$0.665M
Civic Center - GO	$6.3M	$6.625M	$0.504M
Downtown Fire Station	Fully funded		
Upper Chiquita Reservoir	$5.7M	$6.7M	$0.595M

Should Council consider utilizing bonded debt for La Pata/Vista Hermosa and the Civic Center, the following options are available:

1. Finance the projected funding requirement of $16.2 million with an estimated $20.3 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.8 million from the General Fund. If the project is financed through an Assessment District or General Obligation bond, debt service payments of $1.7 million or $1.6 million respectively would be assessed upon property owners and would not be a General Fund obligation.
2. Finance the $6.3 million Civic Center project with a $7.9 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $710,000. Should the project be financed through a General Obligation bond, debt service payments of $610,000 would be assessed upon San Clemente property owners and would not be a General Fund obligation.

Debt service payments are considered an operating expense and would result in a deficit operating position in the General Fund under the current forecast, unless other budgetary adjustments are made.

Gap Closing Strategies

The 2008 Capital Projects Analysis paper identifies funding requirements for the construction of major projects. However the sale of property will ultimately resolve the funding gaps.

Executive Summary

Each of the major capital projects included in the 2008 Long Term Financial Plan has dedicated funding for a portion of the construction costs. The table below summarizes the capital projects and identified gap closing strategies:

Capital projects and identified gap closing strategies

Gap Closing Strategies	
La Pata/Vista Hermosa Park, phase I	(16,200,000)
Sale or lease of nine acres of land	16,200,000
Civic Center	(6,300,000)
Sale of City Hall site	6,300,000
Downtown Fire Station/Sr. Center	(355,000)
Appropriation from the General Fund fund balance	355,000
Recycled Water Expansion	(8,300,000)
State revolving fund loan	8,300,000
Upper Chiquita Reservoir	(5,700,000)
Loan or local/regional bond	5,700,000

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. The table below summarizes current projected ending fund balances prior to the adoption of 2008 LTFP recommendations:

Current projected fund balances

Fund Balance					
2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
$13,332,000	$12,214,000	$11,495,000	$9,814,000	$9,164,000	$7,970,000

The following table indicates the impact on fund balances if recommendations contained in the 2008 Long Term Financial Plan are adopted by the City Council.

Fund Balance					
	2008-09	2009-10	2010-11	2011-12	2012-13
Projected Ending Fund Balance	$12,214,000	$12,407,630	$11,718,130	$10,080,630	$9,480,130
Revenues less expenditures[2]	0	-719,000	-1,681,000	-650,000	-1,194,000
Accrued Leave[3]	54,200	0	0	0	0
Eliminate Council Contingency[4]	245,000	254,500	268,500	274,500	283,500
Increase Emergency Reserve to 9%[5]	-125,000	-125,000	-125,000	-125,000	0
Create Council Initiative Item[6]	-100,000	-100,000	-100,000	-100,000	-100,000
General Liability rate increase[7]	-149,370	0	0	0	0
Workers' Comp Refund[8]	268,800	0	0	0	0
Revised Ending Fund Balance	$12,407,630	$11,718,130	$10,080,630	$9,480,130	$8,469,630

Projected fund balances including 2008 LTFP recommendations

Over the five year forecast period, fund balance increases by almost $500,000 due to the elimination of the Council Contingency reserve and the one-time refund from the Workers' Compensation Fund in FY 2008-09. Adoption of the 2008 Long Term Financial Plan recommendations will increase fund balances from an average of $10.2 million to $10.4 million.

If the proposed changes to revenues identified in the Revenue and Fee Analysis paper are adopted, fund balances will increase. However, it is hard to quantify the amount of the increase because revenues are dependent upon the amount of actual activity that occurs.

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[2] This is the change in fund balance caused by revenues higher than expenditures or one-time expenditures higher than revenues.

[3] This is the recommended transfer of $160,000 to Accrued Leave Fund to maintain fiscal policy. The forecast assumed an average of $214,200 in reserve funding. The balance between the amount in the forecast and the actual recommended transfer is noted above.

[4] Council contingency, funded at 0.5% of operating expenditures, is included in the base forecast.

[5] Increase the General Fund emergency reserve from 8% of operating expenditures to 9% of operating expenditures over a four year period.

[6] Creation of a line-item in the City Council's program budget for Council initiated items.

[7] General Liability contribution changes due to claims experience and a premium increase.

[8] Refund of excess workers' compensation contributions.

Executive Summary

2008 revised forecast operating position

Operating Position

Based on the revised expenditure and revenue forecast, the General Fund operation position will remain positive in all years of the forecast period.

2008 Forecast Summary* (in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Operating receipts	$50.3	$52.1	$54.3	$56.2	$57.5
Operating disbursements	49.0	50.9	53.7	54.9	56.5
Projected surplus/deficit	$1.3	$1.2	$0.6	$1.3	$1.0

*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2008 long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by City Administration.

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

Financial Trend Analysis

1. None.

Financial Forecast

1. None.

Reserve Analysis and Fiscal Policy

1. Increase the General Fund Emergency reserve level to 9% of operating expenditures.
2. Maintain the levels at 8% of Enterprise operating expenses.
3. Eliminate the Council Contingency Reserve.
4. Approve the creation of the City Council Initiative line item budget in the amount of $100,000.
5. Transfer $160,000 to the Accrued Leave Reserve from the General Fund.
6. Increase the General Liability charges by $100,000.
7. Reduce Workers' Compensation rates by 5%.
8. Refund $500,000 to various funds from the Workers' Compensation fund.
9. Maintain capital replacement reserve levels.
10. Increase water depreciation charges by $200,000 from $2.7 million to $2.9 million for FY 2008-09.

11. Increase storm drain depreciation charges by $136,000 from $588,000 to $724,000 for FY 2008-09.

Capital Projects Analysis

1. None.

Park Infrastructure Depreciation

1. Staff recommends Alternative 3 which would utilize the currently established Facilities Maintenance and Capital Equipment reserves and create one new reserve for Park Equipment. To quantify this alternative, staff proposes a detailed assessment be conducted for the City's park assets. Following the assessment, assets will be classified into major asset types. Useful lives and replacement assumptions will be determined, and replacement charges will be calculated. Analysis of the impact of each asset type and the appropriate reserve to capture replacement costs will be presented during the 2009 LTFP, for implementation in the FY 2009-10 Budget. Funding to complete the assessment and asset analysis will be requested as part of the FY 2008-09 Budget.

Cost of Service Study

1. Water – Change the monthly fixed meter charge for meter sizes in excess of 1".
2. Water – Increase the cost relationship between Tier 1 to Tier 3 pricing from the existing 225% to 350%, in line with Industry standards.
3. Water – Combine what are now medium (7,000 – 9,000 sq. ft.) and large (9,000 – 14,000 sq. ft.) single family lots into a single "large lot" category using the existing tier allocations of the medium lot category.
4. Water - Eliminate the X-Large (14,000+ sq. ft.) single family lot category. Grandfather the existing x-large lot customers.
5. Water - Amend the Ordinance to require re-application for large lot status when a property changes ownership.
6. Water – Split the existing multi-family customer class into two categories:
    a. Individually metered multi-family
    b. Master metered multi-family
7. Sewer – Change the monthly flat rate charge for meter sizes in excess of 1".
8. Sewer – Change the cost per unit of the Sewer commodity charge to achieve full cost recovery for each customer class.
9. Sewer – Reduce the number of commercial customer classifications from 10 to 7.

Revenue and Fee Analysis

1. Adopt the proposed changes outlined in the Revenue and Cost Specialist report for building and engineering fees.
2. Continue to study the planning fees and make recommendations for changes during the FY 2008-09 budget review.
3. Increase the ambulance transport fees for basic life support and advanced life support to $637.50 and $976.25 for non-residents and $437.50 and $776.25 for residents, plus mileage. Fees will be adjusted annually to the rate set by the County of Orange.
4. Increase the ambulance subscription rate to $40.00 for residents and $170.00 for businesses.
5. Increase parking meter fees to $1.50 per hour, parking permit fees to $65.00 per year for residents and $80.00 per year for non-residents and parking citation fines to $40.00 per violation.
6. Include an annual cost adjustment based upon the cost of living adjustments granted to employees on all building and engineering fees and charges and parking permit charges.

Americans with Disabilities Act

1. It is recommended that the City Council direct staff to develop a plan to address the first three steps which include designation of a staff Compliance Officer, revision and expansion of current City ADA public notification mechanisms and development of a formal grievance process for Council consideration and approval by the end of FY 2008-09.

Debt Analysis

Should Council consider utilizing bonded debt for La Pata/Vista Hermosa and the Civic Center, the following options are available:

1. Finance the projected funding requirement of $16.2 million with an estimated $20.3 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.8 million from the General Fund. If the project is financed through an Assessment District or General Obligation bond, debt service payments of $1.7 million or $1.6 million respectively would be assessed upon property owners and would not be a General Fund obligation.
2. Finance the $6.3 million Civic Center project with a $7.9 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $710,000. Should the project be financed through a General Obligation bond, debt service payments of $610,000 would be assessed upon San Clemente property owners and would not be a General Fund obligation.

3. Finance the Upper Chiquita Reservoir project of $6.7 million with Certificates of Participation. Estimated annual payments from the Water Operating Fund amount to $595,000 and would represent a 5.0% increase to existing water rates.

Gap Closing Strategies

1. Direct staff to continue to explore the funding options as defined in the Debt Analysis and Gap Closing sections of the Long Term Financial Plan.

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.

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.

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal years 2002-03 through 2006-07. Consequently, all trends are based on data available as of June 30, 2007, and do not incorporate any changes that have occurred since that time.

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:

Financial Trend Analysis

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

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	08	07	06	05	04	03	02	01	00	99
Revenues Per Capita	F	F/C	F/C	W	W	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	W	F/C	F	F	F	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	F
License & Permit Revenues	W	F	F/C	F	F	F	F	F	F	F
Comm. Develop. Charges	W	F/C	F	F	F	F	F	F	F	F
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	F/C	F	F	F	F	F
Expenditures Per Capita	F	F/C	F	F	F	F/C	F	F	F	F
Expenditures By Function	F	F	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	U	U
Fringe Benefits	F	F	F	F/C	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	F/C	F	F	F	F

Financial Trend Analysis

Indicator	08	07	06	05	04	03	02	01	00	99
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F/C	F/C	F/C	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 2008 Long Term Financial Plan includes the analysis of twenty-one trends. Three indicators received a warning rating. No indicators received an unfavorable rating. In total, these current year results are a decrease from the prior year when four indicators received caution ratings. However, because of the commitment to financial planning, funding of necessary reserves, and cost reduction and streamlining efforts made by many of the City's departments the City has already taken the initiative to analyze these warning signs and improve the fiscal health of the City for the future.

Rating changes

There were five trend changes from the last fiscal year, with two of the changes in a positive direction and three in a negative direction. The positive changes were in *Revenues per Capita and Expenditures per capita*, which showed improvement from last year. The negative changes were:

- *`Elastic Revenues* – Downgrade to Warning
- *License & Permit Revenues* – Downgrade to Warning
- *Community Development Charges* – Downgrade to Warning

Rating discussion

The three indicators at the Warning level reflect the City's transition from a fast growing, high development area to a City that is stabilizing its growth as development slows.

Revenues per Capita has changed from a favorable/caution to a favorable rating for FY 2006-07 as revenue continues to grow, population growth has slowed with development throughout the City. The slowdown in development has started to allow the City tax revenues to realize these population and growth increases.

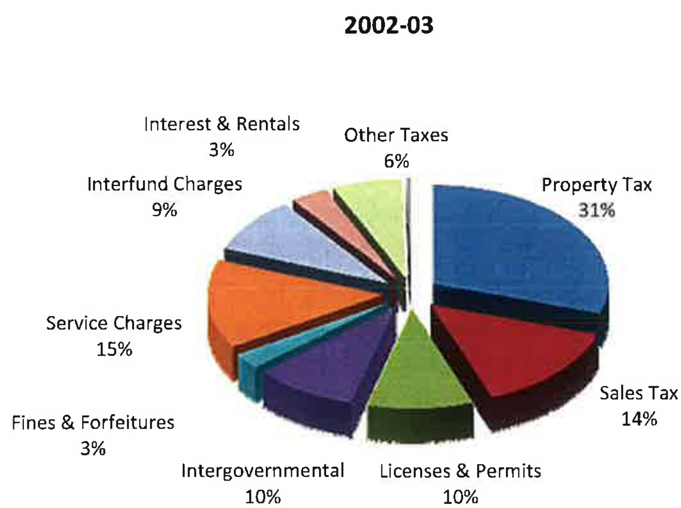
Expenditures Per Capita changed from a favorable/caution rating to a favorable rating due to expenditures keeping up with the growth of the City. However, the City as part of its development needs to continue to monitor the effects of park development and operational costs. A Park Depreciation paper is included in this year's long term financial plan to present alternatives to fund future capital and maintenance costs related to park infrastructure. Expenditures should continue to stabilize in the future; if not, this could signal that the City's service demands have increased on a per capita basis and this trend may be downgraded. *Elastic Revenues* are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues receive a Warning rating following the third consecutive decrease and the second year below the historical average. Although the total actual amounts for community development service charges and licenses and permits are greater than the original budget amounts, this difference was still less than the prior year, due to the City approaching build-out and the delay of the Marblehead Coastal development.

Licenses and Permits need to be monitored on an on-going basis. Licenses and Permits were anticipated to decrease in construction permits and inspection fees and these revenues will continue to decrease, except for the Marblehead Coastal related activity, in future years. This trend receives a Warning rating due to a continual decline in development and the delay of the Marblehead Coastal project.

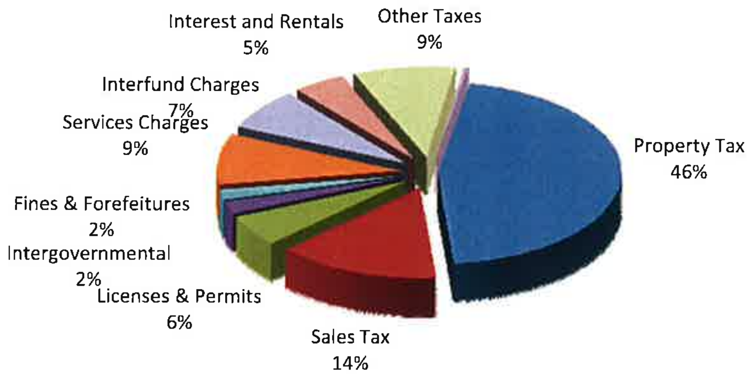
Community Development Service Charges also receives a warning rating due to a decline in development as the City nears build-out and leveling out of service charges.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2002-03 vs. FY 2006-07

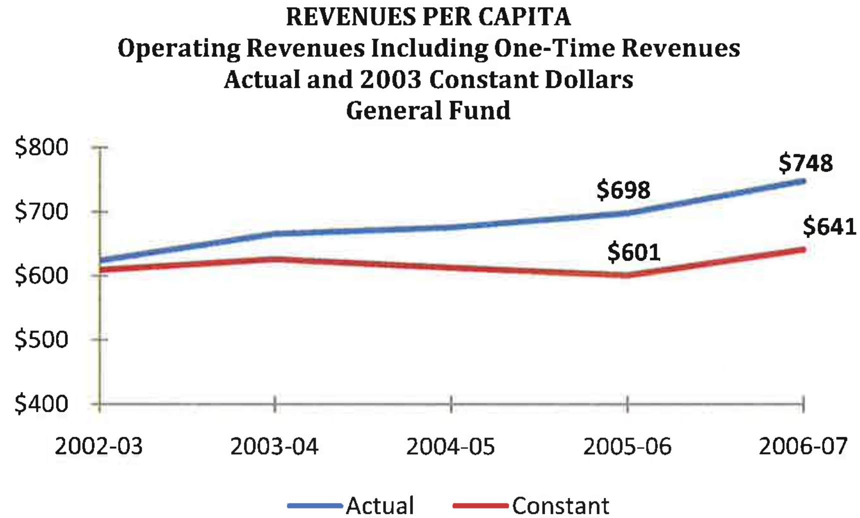


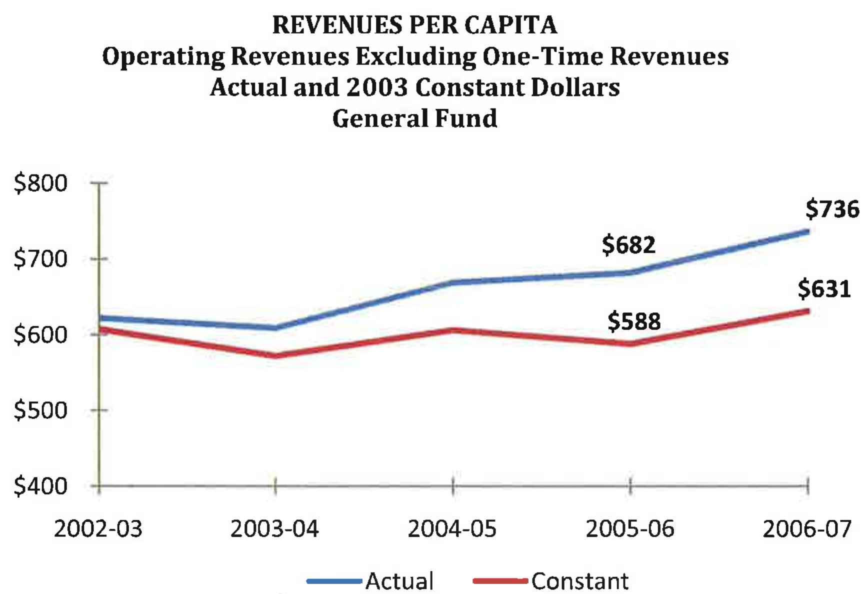
2006-07



Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property tax, Intergovernmental, Service charges and License and Permit categories. Property tax revenues increased from 31% in FY 2002-03 to 46% in FY 2006-07 due to a change in property tax legislation that started in the 2004-05 fiscal year, and increases in housing prices and new development in the City. The change in legislation increased property taxes by $4.9 million and decreased the City's motor vehicle license fees by the same amount, thereby decreasing the intergovernmental percentage from 9% in 2002-03 to 2% in 2006-07. (See Revenue and Fee Analysis issue paper.) The decrease in licenses and permits from 10% in 2002-03 to 6% in 2006-07 is due to declining construction permit fees as anticipated. Service charges decreased from 15% in 2002-03 to 9% in 2006-07 due to lower planning inspection fees as a result of slowing development in the City.

Revenues Per Capita





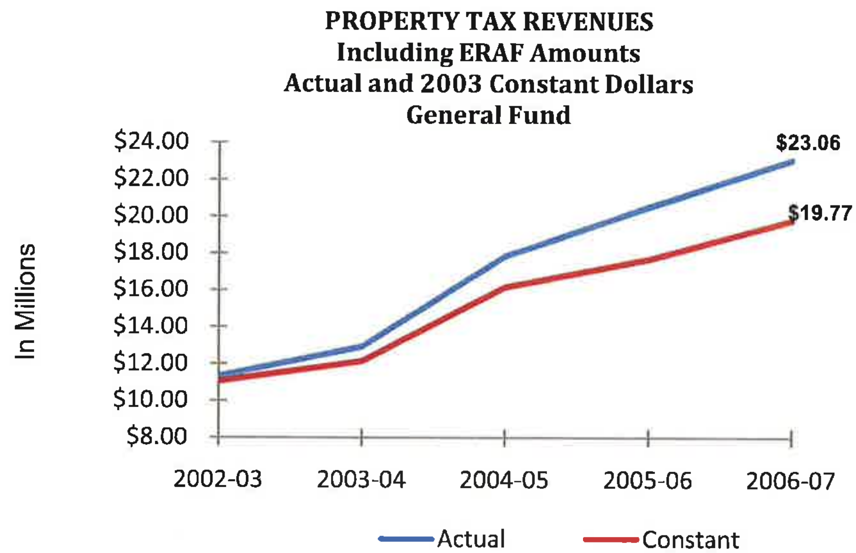
Finding: ***FAVORABLE***. Revenues per capita in both charts reflect an increase when analyzing actual amounts and constant dollars for FY 2006-07. This trend has changed to favorable from a favorable/caution rating in the prior year as revenues continue to grow while the population growth rate has slowed. Revenues per capita, in actual dollars, experienced growth from FY 2005-06 of 7.16% (including one-time revenues) and 7.92% (excluding one-time revenues) related to increases in actual property tax revenues. In constant dollars the increase was 6.67% (including one-time revenues) and 7.31% (excluding one-time revenues) due to the actual dollar growth rate exceeding inflation growth of 2.92%.

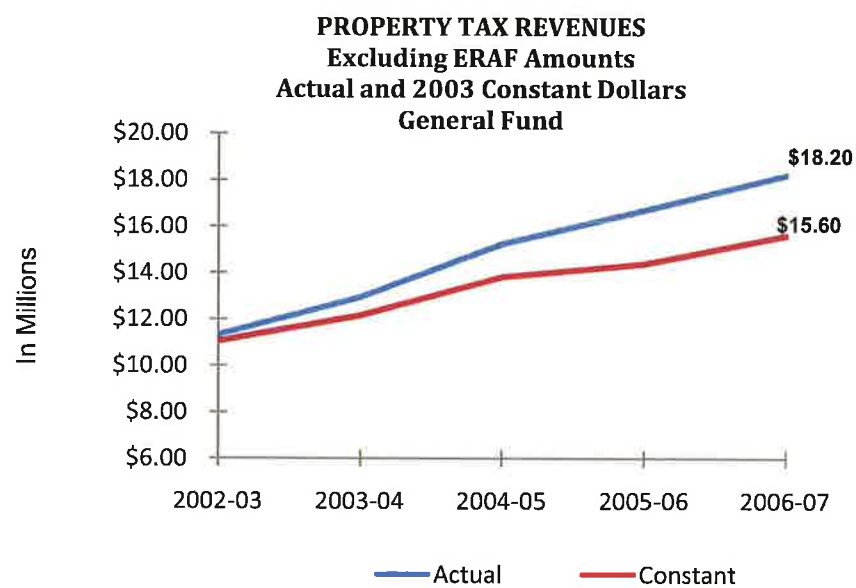
Comments: The first chart which includes one-time revenues shows an upward trend from

$698 to $748 in actual dollars and an increase from $601 to $641 in constant dollars. Total revenues for FY 2006-07 increased with the City's major revenue category of property taxes increasing by $2.5 million. This property tax increase includes the property tax shift of motor vehicle fees that started in FY 2004-05. This increased property tax revenues by $1.0 million from the FY 2005-06 with total ERAF property taxes of $4.9 million. The overall increase in revenues far exceeded inflation growth during the last year.

The second chart (which excludes one-time revenues) shows an increase in actual dollars from $682 to $736 from FY 2005-06 and an increase in constant dollars from $588 to $631. 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. General Fund revenues remain stable, and the favorable/caution trend has been changed to favorable due to revenues exceeding inflation growth.

Property Tax Revenues

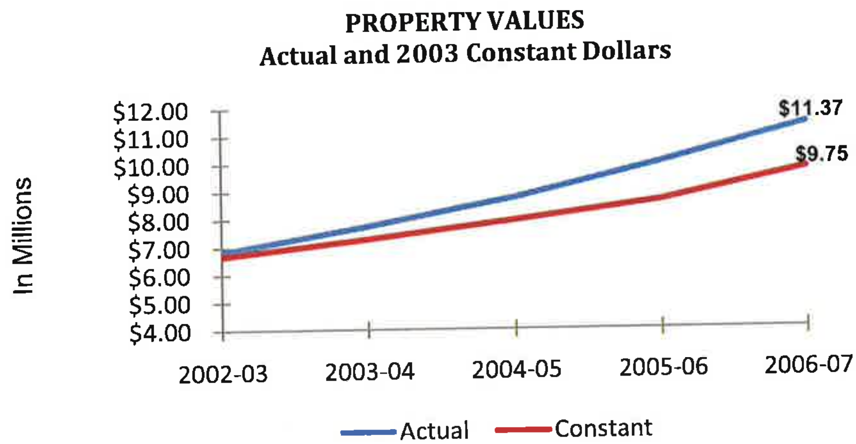




Finding: ***Favorable.*** Property tax revenues showed a significant increase for FY 2006-07, continuing a very positive trend, as indicated in the graph above.

Comments: Property tax revenues increased by $2.6 million or 12.4% in actual dollars, and increase 11.8% in constant dollars ending the year $2.1 million above the prior fiscal year. The actual dollar increase is the result of an additional $1.0 million in property taxes received in lieu of motor vehicle fees and $1.6 million related to new home sales and increased property valuations. This indicator receives a favorable rating for the eleventh consecutive year.

Property Values

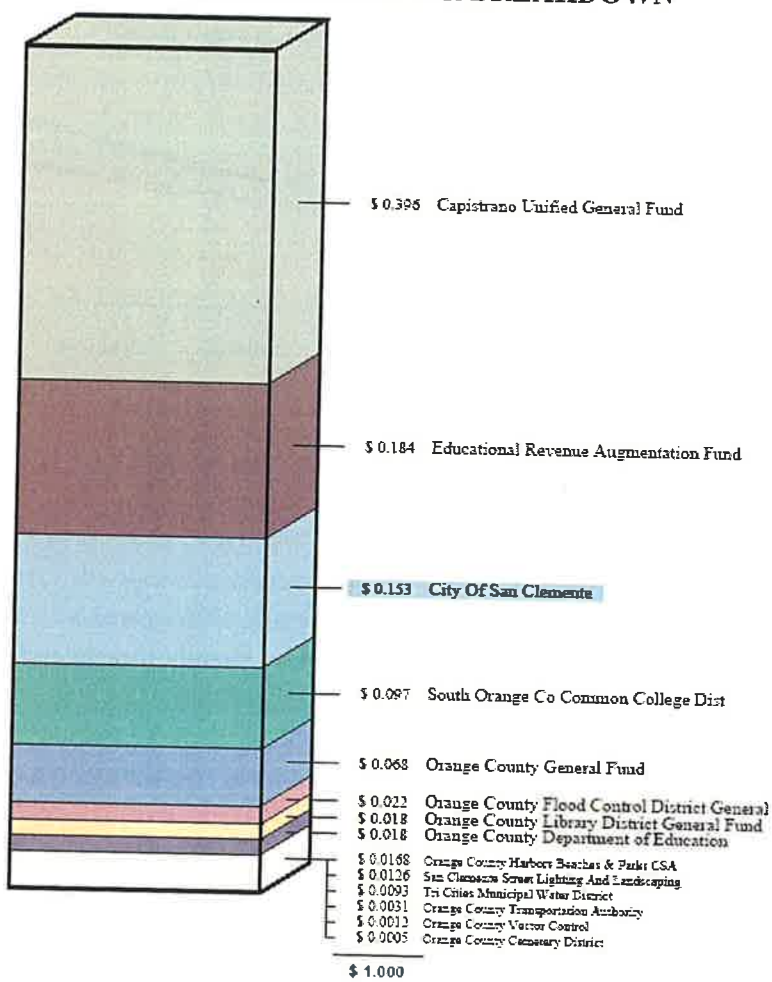


Finding: ***Favorable.*** Property values showed a positive growth rate for the eleventh consecutive year in FY 2006-07.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars shows an increase of 13.7%. 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.

Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San Clemente receives $0.153 of each property tax dollar collected within the City. The following graph shows the distribution of the total property tax levy for each property tax dollar paid for the City.

THE CITY OF SAN CLEMENTE
PROPERTY TAX DOLLAR BREAKDOWN



ATI (Annual Tax Increment) Ratios For Tax Rate Area 10000, Excluding Redevelopment Factors & Additional Debt Service

Source: HdL Coren & Cone, Orange County Assessor 2006/07 Annual Tax Increment Tables

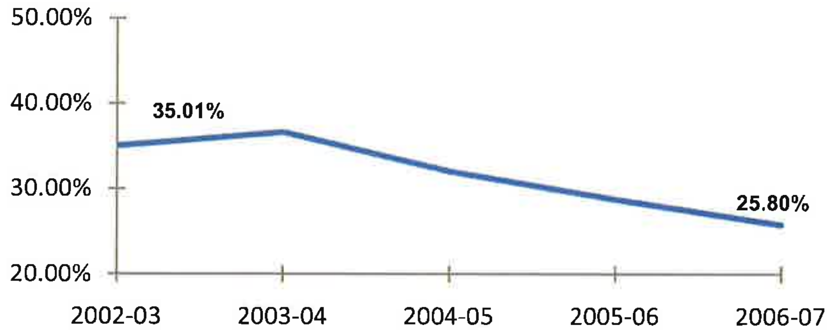
This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone. *Page 1*

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

Elastic Revenues

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

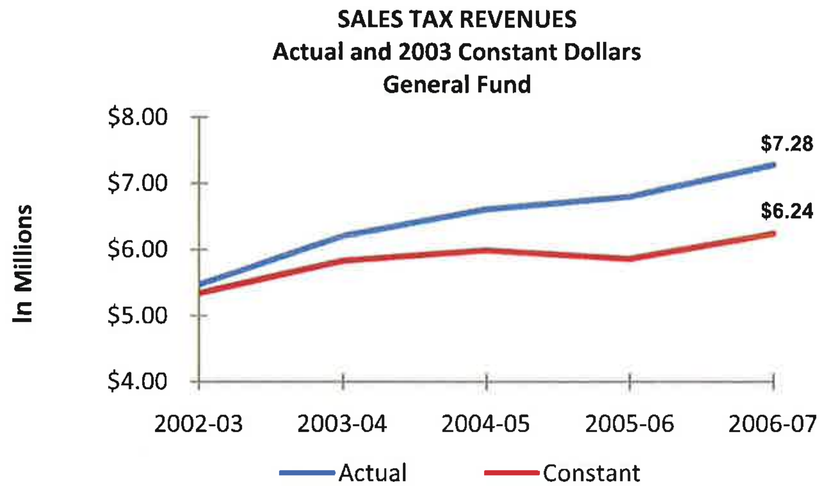
ELASTIC REVENUES
As a Percentage of Operating Revenues
General Fund



Finding: ***Warning.*** Elastic revenues, as a percentage of total revenues, show a decrease from FY 2005-06 to FY 2006-07 which is the third consecutive decrease. Actual elastic revenues decreased $179,665, while operating revenues increased by $4.6 million. A warning rating is assigned due to a decrease in revenue of $268,645 in community development service charges and $488,109 from licenses and permits; however, sales taxes increased by 7.1% or $479,588.

Comments: Elastic revenues, as a percentage of total revenues, decreased from 28.8% in FY 2005-06 to 25.8% in FY 2006-07 and is below the historical average of 31.0% from FY 1995-96 to FY 1999-2000. This was the result of a $268,645, or 14%, drop in community development service charges and a drop in licenses and permits of $488,109, or 14.9%. A warning rating has been assigned because of the decreases in community development service charges and licenses and permits from the previous year. Details concerning each major elastic revenue source can be found in the following pages.

Sales Tax Revenues

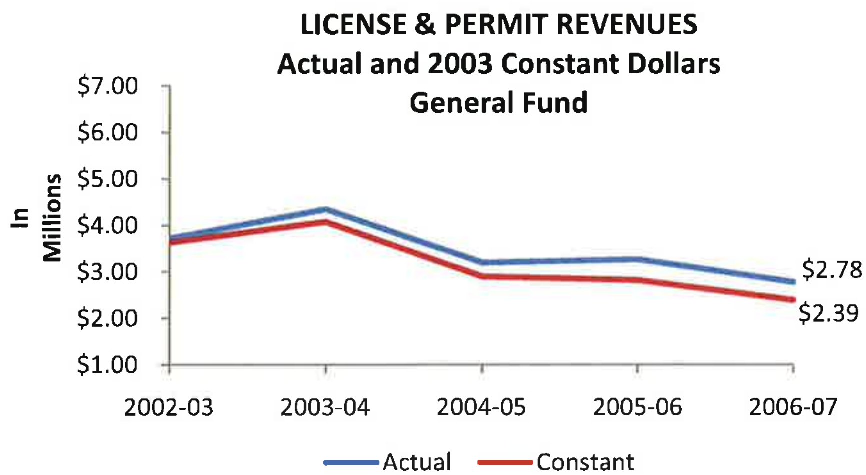


Finding: ***Favorable.*** As summarized in the chart above, sales tax revenues showed an increase of $479,588, or 7.1% in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to $382,081, or 6.5%, which is higher than the inflation rate.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past five years in actual and constant dollars. In fact, actual dollars increased 32.9% and constant dollars increased 16.7% from sales tax revenues recorded in FY 2002-03. These increases boost sales tax revenue to an eighteen-year high in actual dollars and the result is a continued favorable rating. The City of San Clemente sales taxes are ranked 22nd out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed:

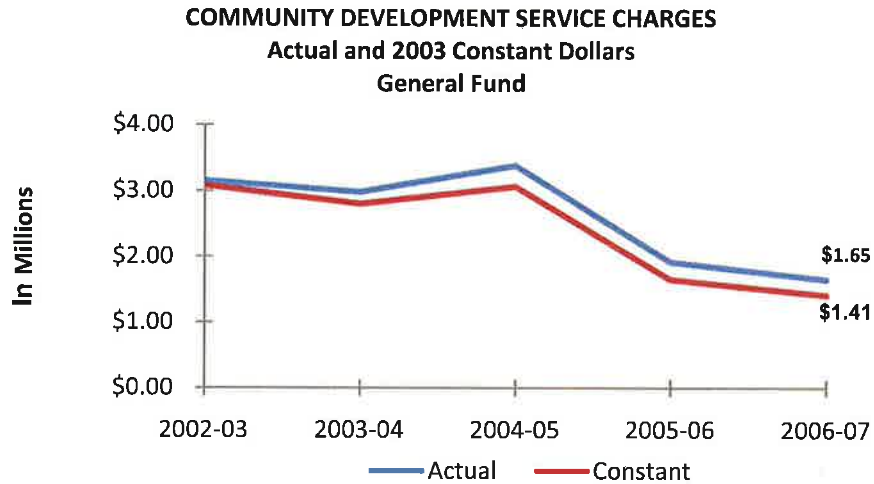
License and Permit Revenues



Finding: ***WARNING.*** License and permit revenues decreased in actual dollars in the amount of $488,109 or 14.9% from the prior fiscal year. The constant dollar decrease registered at $432,528 or 15.4% from FY 2005-06. This indicator received a warning rating to reflect the change to a downward trend in actual dollars.

Comments: While construction permit revenue decreased $558,626, or 27.3% over the past year, business license income increased from the prior year by $66,741 or 6.3%. A warning rating has been assigned based on the development activity decrease causing a downward shift in elastic revenues. 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. Although these decreases were anticipated during the mid-year adjustments the amounts for permits were below the City's original anticipated budget for FY 2006-07.

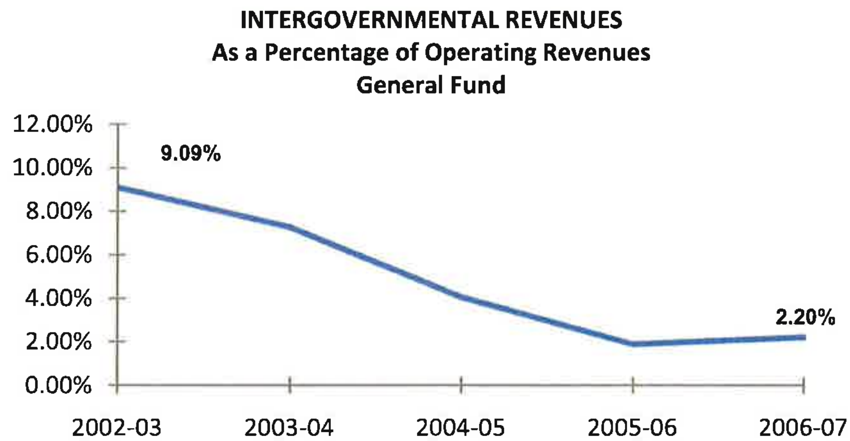
Community Development Service Charges Revenues



Finding: ***Warning.*** Total community development service charges decreased by 14%, or $268,645 from the prior year. This represents the second consecutive year of decreases. This trend is assigned a warning rating due to the decline in development as the City nears build-out; the leveling of the service charges; and the possible effects of the revenue fee structure review.

Comments: Other community development revenues, such as plan check fees and zoning application fees account for most of the $268,645 decrease. Although the total actual amounts for community development service charges are greater than the original budget amounts, this difference was still less than the prior year, due to the City approaching build-out and the delay of the Marblehead Coastal development.

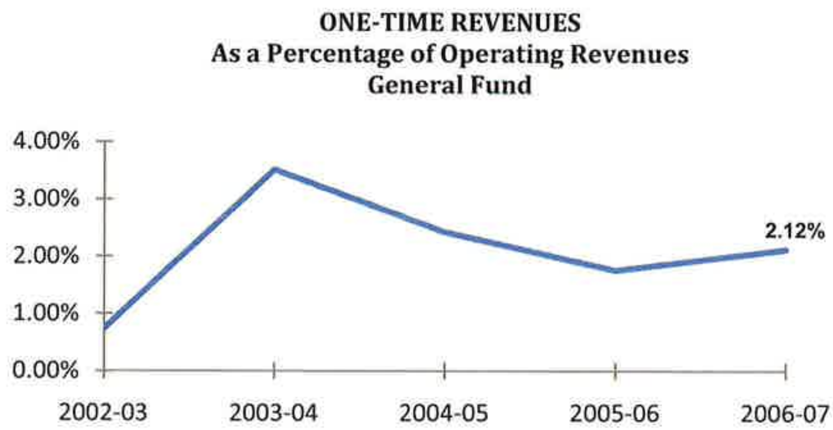
Intergovernmental Revenues



Finding: ***Favorable.*** General Fund Intergovernmental revenues, as a percentage of operating revenues flattened out to 2.2% in FY 2006-07.

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 33% 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 $3.8 million in FY 2005-06 and $4.9 million in FY 2006-07, which would have made the intergovernmental percentages 10.2% and 11.8%, respectively, which would still have supporting the favorable rating.

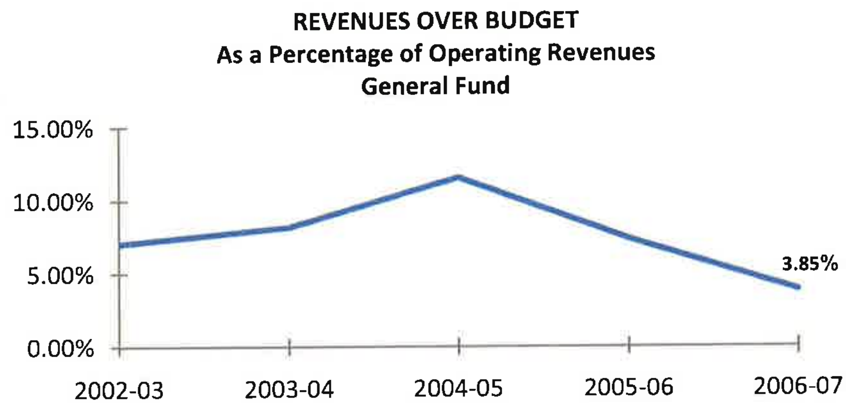
One-Time Revenues



Finding: ***Favorable***. One-time revenues, as a percentage of total General Fund revenues, equaled 2.12% in FY 2006-07, a slight increase from the prior year.

Comments: One-time revenues increased by $264,941 from the prior fiscal year. FY 2006-07 one-time revenues of $1.1 million include $920,246 of grant funds. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a favorable rating.

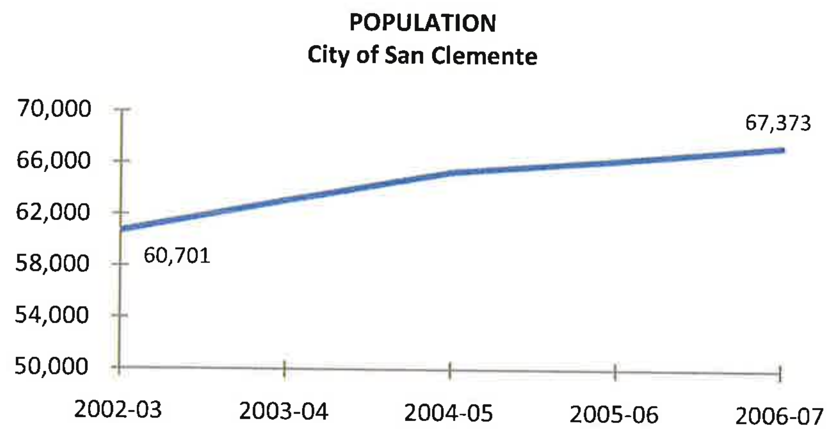
Revenue Overage



Finding: ***Favorable***. Actual revenues exceeded budget by $1.9 million for fiscal year 2006-07 and ends with a positive revenue position over budget by 3.85%. The City experienced revenues in excess of budget in tax revenue in the following categories: property taxes ($1.5 million), sales taxes ($0.3 million), and transient occupancy taxes ($0.2 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 7.03% and ended FY 2006-07 at 3.85%. 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 development revenues, such as license and permit fees, conservatively, as the timing of projects entering the building permit stage cannot always be predicted.

Population

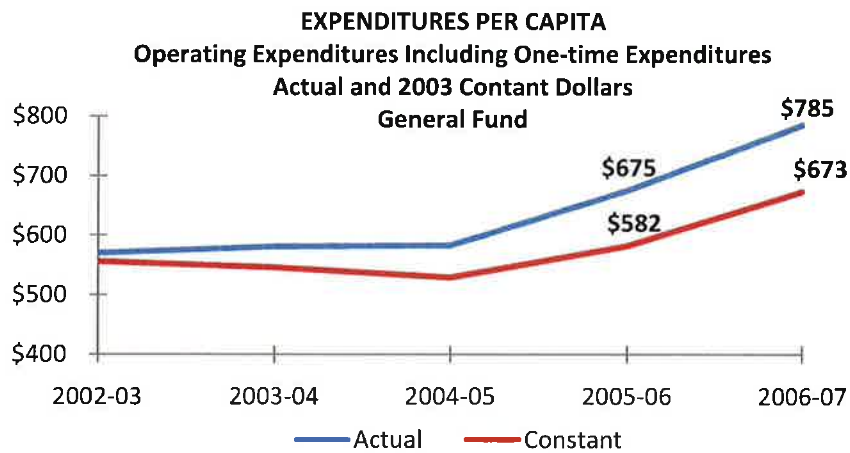


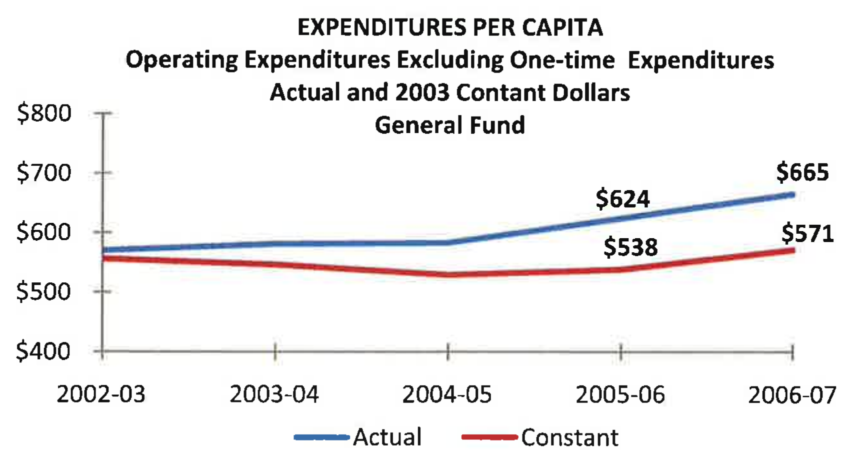
Finding: ***Favorable***. The City's population growth, an average of 4.54% over the last five years, is considered favorable because this growth has been planned and controlled. Growth from 2005-06 to 2006-07 was 1.65%, which indicates the City's growth pattern continues to slow.

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.).

Expenditures Trend Analysis

Expenditures Per Capita



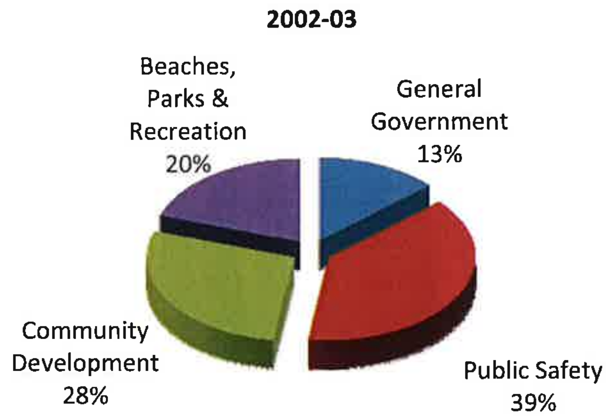


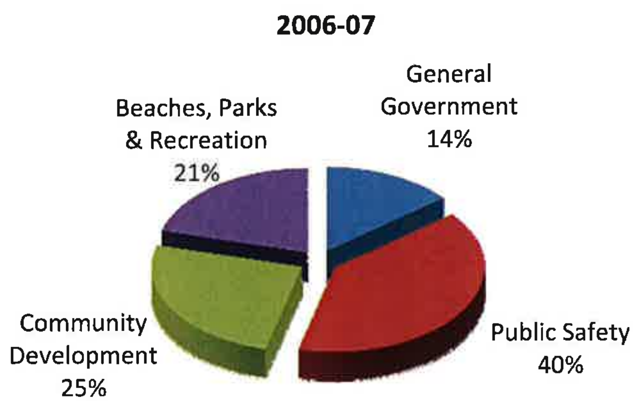
Finding: ***FAVORABLE***. Expenditures per capita in both charts reflect an increase when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. This trend has changed from a favorable/caution rating to a favorable rating due to expenditures keeping up with growth of the City.

Comments: The first chart which includes one-time expenditures shows an increase from $675 to $785 in per capita actual dollars and an increase from $582 to $673 in per capita constant dollars. This reflects the increase in actual dollars of $8.1 million and the increase in constant dollars of $6.8 million when compared FY 2005-06. The increase in actual dollars was in City general ($6.3 million), beaches, parks and recreation ($0.8 million), police ($0.5 million), fire ($0.3 million), and general government ($0.2 million). The increase in the City general is due to a one-time $8.1 million contribution to the Parks Acquisition and Development Fund, of which $7.7 million will go toward the further development of La Pata/ Vista Hermosa Sports Park and $400,000 is a contribution to Steed Memorial Park. The other portion of the increase is primarily due to an increase in beaches, parks and recreation services in FY 2006-07 by $.8 million mainly to fund increased contractual activities which are not offset by revenues. The increase of $836,225 or 5.5% in police and fire expenditures is due to negotiated increases as part of the police and fire contracts with the County of Orange.

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $538 to $571 and an increase in constant dollars from $624 to $665. The approach of excluding one-time expenditures is a realistic approach since the City applies one-time expenditures to one-time revenues in accordance with the City's Fiscal Policy.

Comparison of Expenditures by Function
2002-03 vs. 2006-07



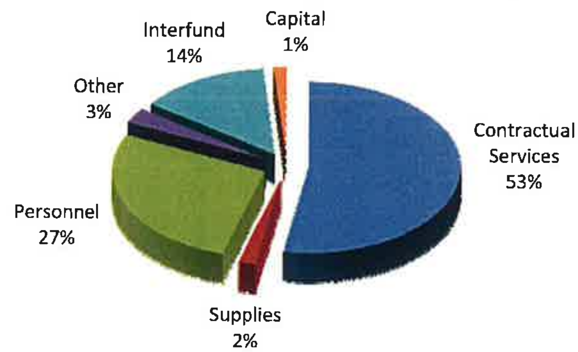


Finding: ***Favorable.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay), did not change significantly.

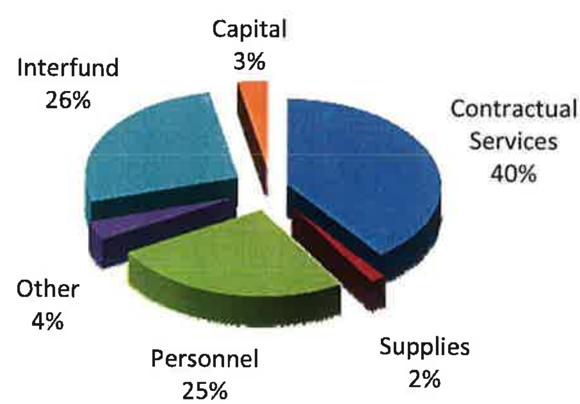
Comments: These charts indicate that most expenditure categories have remained stable, with only minor increases and decreases in percentages. Beaches, Parks and Recreation while experiencing expenditure growth has also experienced growth in class revenues. Community Development decrease is due to the slowing of development as the City nears build out.

Comparison of Expenditures by Category
2002-03 vs. 2006-07

2002-03



2006-07



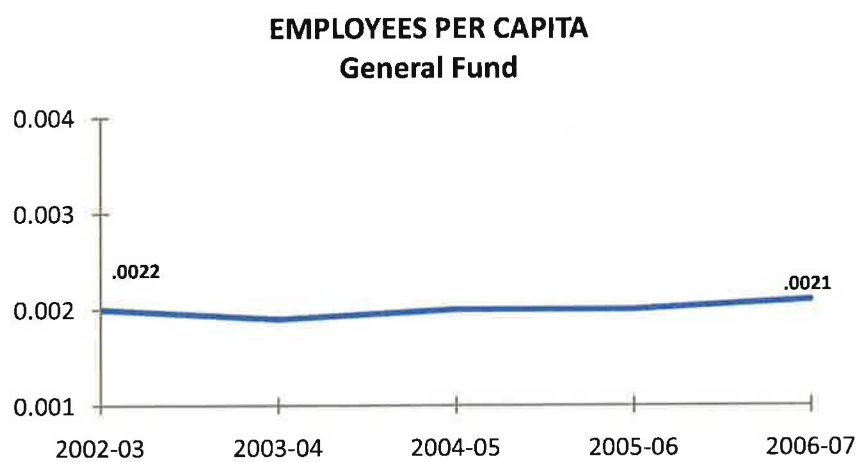
Comments: The charts above indicate that the Contractual Services, Personnel, and Interfund expenditure categories, as a percentage of the total General Fund expenditures, changed between FY 2002-03 and FY 2006-07.

The contractual category changed from 53% to 40%. Although there was a growth in public safety contractual costs from FY 2002-03, increases in interfund payments cause the contractual category to be a lower percentage of expenditures in FY 2006-07 than in FY 2002-03.

Interfund amounts have increased due to one-time reserve transfers increasing from $7.0 million in FY 2002-03 to $8.1 million in FY 2006-07. The City transferred $8.1 million contribution to the Parks Acquisition and Development Fund, of which $7.7 million will go toward the further development of La Pata/ Vista Hermosa Sports Park. If these interfund transfers had not been included in FY 2006-07, contractual services would have increased in percentage from FY 2002-03 to 55% while interfund amounts would have decreased to 11%.

The personnel category decreased from 27% to 25% of expenditures. Personnel costs as a percentage of total expenditures have decreased from five years ago. These costs are analyzed in more detail in the Employees per Capita trend and the Fringe Benefit trend. 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.

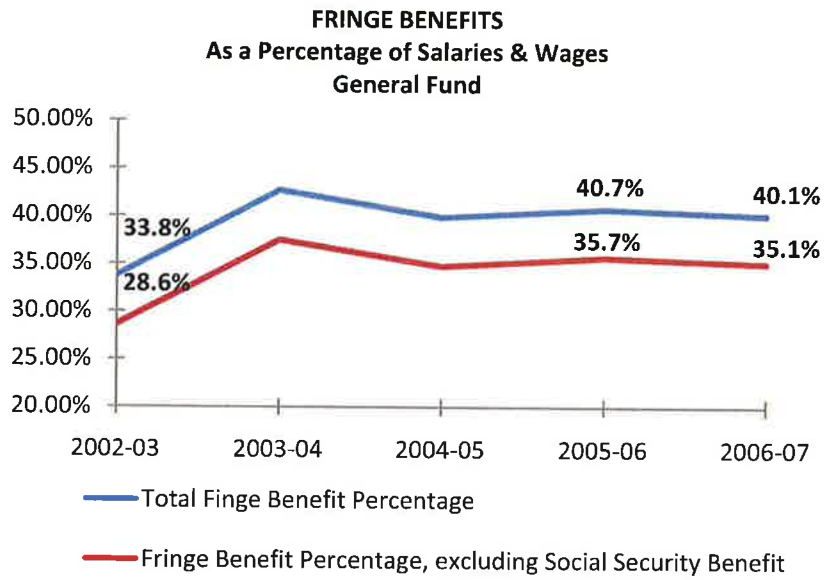
Employees Per Capita



Finding: ***Favorable.*** Employees per capita have remained relatively stable over the last five years; however, it has increased slightly from FY 2005-06 due to a slight increase in the number of employees and a population increase.

Comments: This indicator is awarded a favorable rating as growth in Full Time Equivalent's (FTE's) keep up with service level demands. This trend will be closely monitored to insure the City's ability to support current and future service levels.

Fringe Benefits

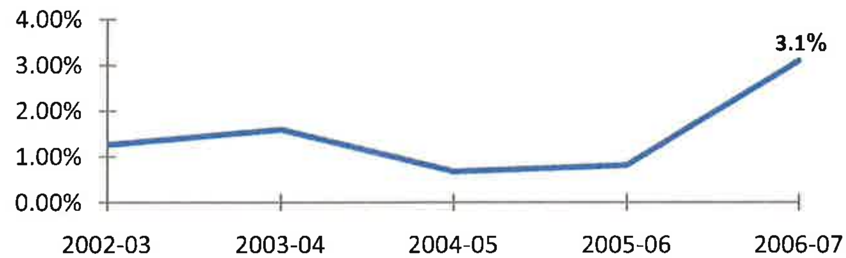


Finding: ***Favorable.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, decreased slightly from 40.7% to 40.1%. Fringe benefits (excluding social security benefits) show a corresponding decrease when compared to FY 2005-06. This indicates a 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 percent of pay has remained flat 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, although these changes resulted in only a small portion of the benefit percentage change.

Capital Outlay

CAPITAL OUTLAY
As a Percentage of Operating Expenditures
General Fund

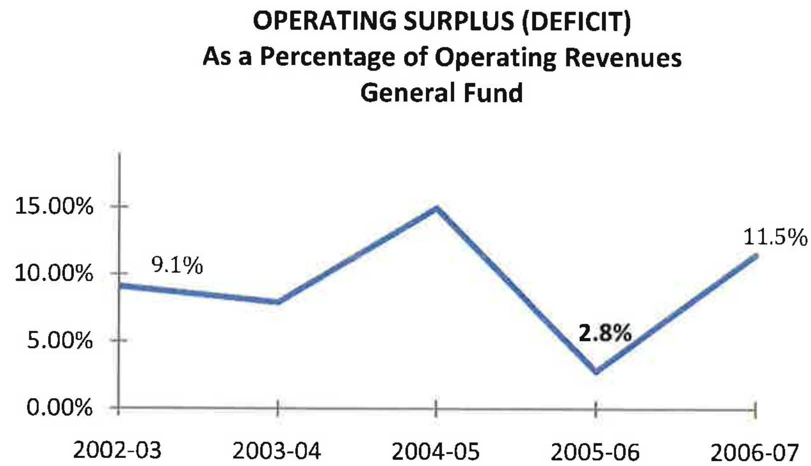


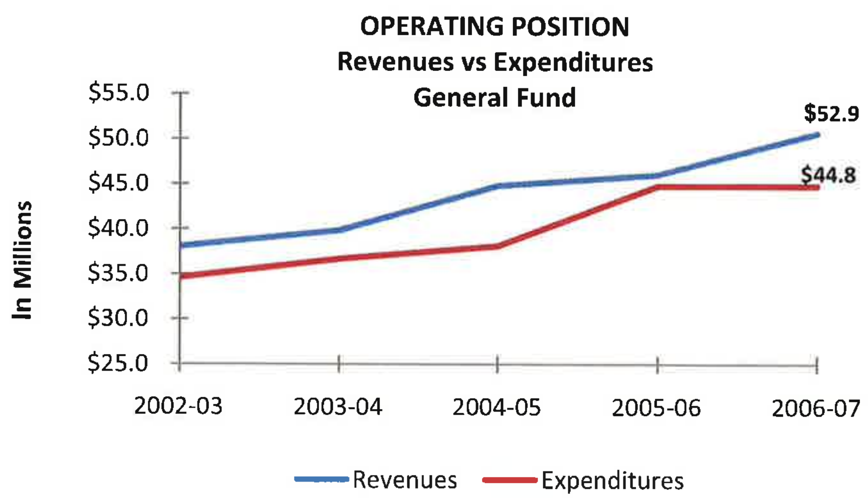
Finding: ***FAVORABLE.*** Capital outlay expenditures increased by $1.3 million, or 34.5%, from the 2005-06 fiscal year. Capital outlay expenditures totaled $1.6 million.

Comments: Spending on capital outlay has increased due to several maintenance contractual services accounts and projects in the General fund being moved from the contractual services account category to the capital outlay category during the FY 07/08 budget process to better reflect capital with regards to maintenance and capital studies in the General fund.

The Capital Equipment Replacement Reserve was established in FY 1994-95. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the twelfth consecutive year because of the continued commitment to upgrading capital assets, which improves the efficiency of City operations.

Operating Position

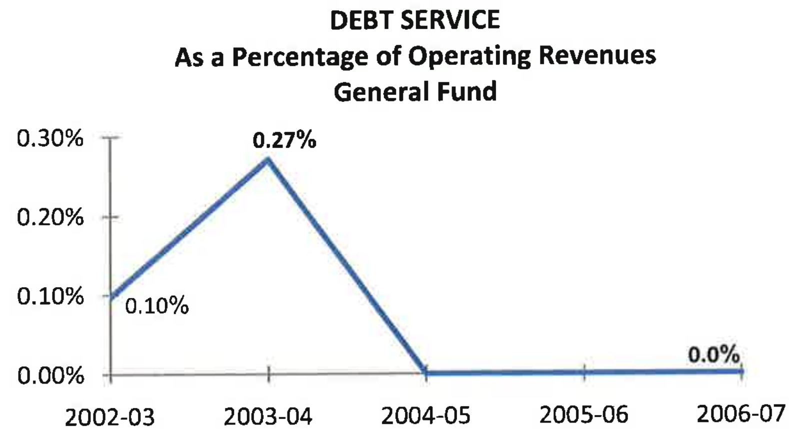




Finding: ***Favorable.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. FY 2006-07 finished with an operating surplus of 11.5%, an increase from 2.8%, when calculated as a percentage of General Fund revenues.

Comments: The City ended FY 2006-07 with an operating surplus. The expenditures used to calculate this surplus does not include a one-time capital contribution of $8.1 million to the Parks Acquisition and Development Fund, of which $7.7 million will go toward the further development of La Pata/Vista Hermosa Sports Park. This trend receives a favorable rating due to the positive operating position and continued increase in revenues.

Debt Service

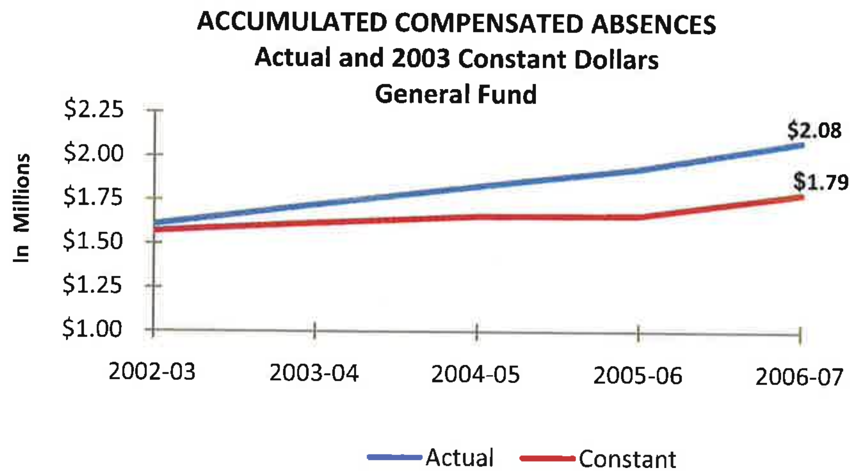


Finding: ***FAVORABLE***. General Fund debt service receives a favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last eleven years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. Standard & Poor's, an independent firm that issues ratings, reaffirmed the City of San Clemente's credit rating of AA in 2005.

Comments: The City's debt service cost was due to the payoff of the outstanding balance of its capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings in 2003-04. The lease was not due until 2006 but was paid off early as a money saving measure.

Additionally, it should be noted that the debt service for the Negocio Building bonds, the City's street assessment bonds, and capital equipment leases are accounted for in a separate funds, and are not part of this analysis.

Accumulated Compensated Absences

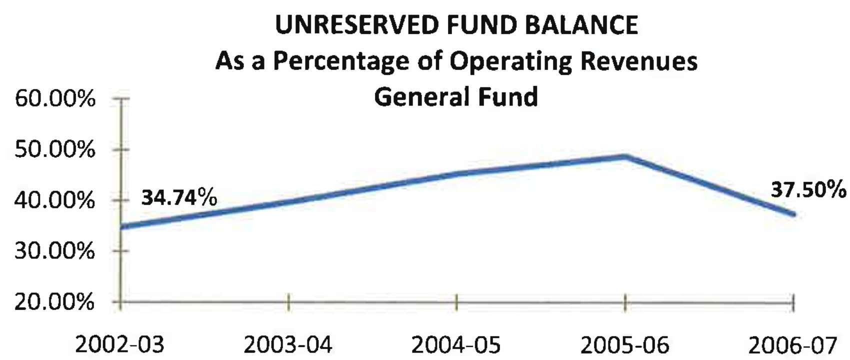


Finding: ***Favorable***. This indicator receives a favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. While the accumulated compensated absences have shown increases over the last five years, the reserve is continually funded to insure an adequate reserve, as outlined in the Long Term Financial Plan's Reserve section.

Comments: At June 30, 2007, the balance of the liability for compensated absences was $2.08 million consisting of $1.1 million for vacation, $0.9 million for sick leave, and $74,000 for compensatory time. This is an increase of $153,558, or 7.9% from the prior year's liability of $1.9 million. The increase is due to an increase number of City employees in the General Fund and an increase of 3.75% for cost of living in FY 2006-07.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2006-07, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $230,000 for the payment of accrued leave for terminated employees. As of June 30, 2007 the Accrued Leave Reserve balance was $486,261.

Fund Balance



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

Comments: Unreserved fund balance excluding long term receivable reserves declined 12.3% in FY 2006-07 as a percentage of total revenues. Although there was a decrease in FY 2006-07, the stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

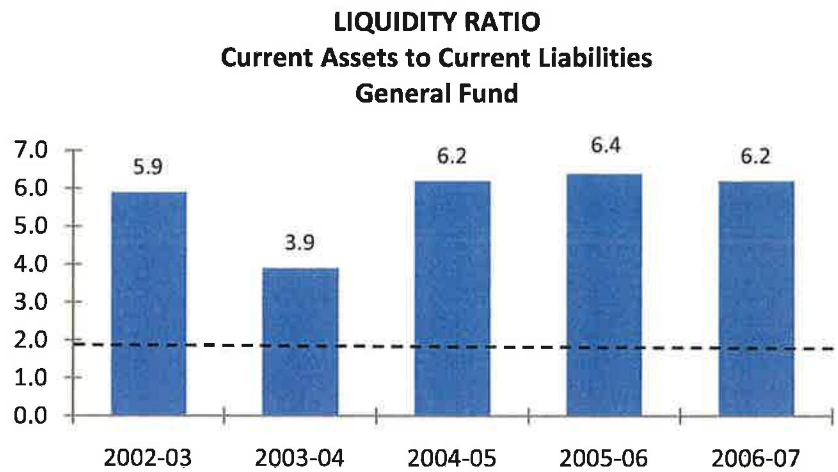
City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. Included within the total FY 2006-07 unreserved fund balances of $19.0 million are undesignated funds of $15.5 million and designated funds of $3.5 million for the General Fund 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.

The following table summarizes the General Fund year-end undesignated fund balance and the amount transferred for the La Pata/Vista Hermosa Sports Park Project during the past five fiscal years:

Fiscal Year	General Fund Balance (undesignated)	Amount transferred to project
2002-03	$14,408,404	
2003-04	$16,862,480	$61,562
2004-05	$21,146,531	
2005-06	$18,296,959	
2006-07*	$15,475,231	$7,650,000

*The FY 2006-07 actual ending fund balance exceeded the projected ending fund balance amount of $12,718,242 by $2,756,989.

Liquidity Ratio



Finding: ***Favorable***. In FY 2006-07, the City's liquidity ratio remains positive at 6.2:1. Credit rating firms consider a ratio of 1:1 favorable. The City's 6.2:1 current asset to current liability ratio is considered excellent.

Comments: Liquidity measures the City's ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable and other assets that can be readily converted to cash. Current liabilities include accounts payable, accrued wages, accrued expenses and all obligations that can be immediately demanded for payment.

Financial Forecast

Objective

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

Executive Summary

The 2008 financial forecast prepared as part of the 2008 Long Term Financial Plan, has been updated to reflect recent changes to the City's budget due to declines in building and planning related revenues.

Development activity in the City has abruptly declined and building permit and plan check revenues have been reduced at mid-year by 33%. Additionally, future sales tax increases have been lowered as a result of new assumptions for consumer spending. Rising fuel prices have also reduced the amount of disposable cash that is available to consumers, which economic analysts now predict will result in lower retail sales.

Maintenance costs for La Pata/Vista Hermosa Park, which were supplied by Beaches, Parks & Recreation for the 2005 Master Plan for City Facilities paper, have been increased by inflation to reflect current dollars. Police contract costs will increase by $200,000 per year as a result of a recent contract settlement with sworn employees of the Orange County Sheriff's Department. The sworn deputies were awarded retroactive pay increases and one-time payment of $841,000 was passed through to San Clemente. The prior and current year's budgets included contingency amounts in anticipation of the contract settlement, however, the contingency estimates provided by the Orange County Sheriff's Department were not enough to cover the actual contract increase.

As a result of lower revenues and higher expenditures, the 2008 financial forecast is showing a tightening in the General Fund operating position and lower fund balances than previously shown in October 2007. The forecast is still predicting a positive operating position, starting at $1.3 million but declining to $0.8 million by the end of the forecast period. Fund balances are reduced from an average of $15.0 million to $10.2 million over the forecast period.

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 Financial Trend Analysis, provides the foundation of the Long Term Financial Plan process.

The forecast is developed based upon guidelines provided by the Government Finance Officers Association (GFOA). In addition, a new forecasting tool called Muni-cast[1] was used to forecast revenues and expenditures. The financial forecast allows the City to determine how current spending plans will impact future budgets, but the forecast presented during the Long Term Financial Plan is *not* the budget that will be presented to City Council for the 2008-09 fiscal year. Projects prioritized by the Council, along with Administration's recommendation for changes or enhancements to the current service levels, will determine the funding requests that will be brought forth in the FY 2008-09 budget.

The base forecast is developed using the *present level of services* provided by the City. Inflation or 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 new infrastructure that has entered the construction phase during the base year of the forecast. For example, revenues and expenditures for La Pata/Vista Hermosa Park phase 1A and 1B have been included in the forecast beginning the spring of 2010. However, no revenue for the Marblehead commercial or residential development has been included in the forecast. Maintenance expenditures for the Marblehead parks are included beginning in FY 2008-09 based upon Sun-Cal's current schedule for park construction.

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 2007 Economic Forecast for Southern California and Orange County. The forecast predicts that "much like the U.S. economy, Orange County's growth has slowed down this year compared to 2006. Orange County has historically grown at a higher rate than the national economy and has had a lower unemployment rate. Given the diversity of its economy, it has in the past, borne the effects of slow growth better than some other regions."[2] As a result of Fullerton's economic assumptions, the City's financial forecast allows for much slower growth than previous forecasts. For example, assessed valuation averages 4% over the forecast period, as compared to an average growth rate of 20% from 2002 to 2006. Inflation averages 2.3% over the forecast period.

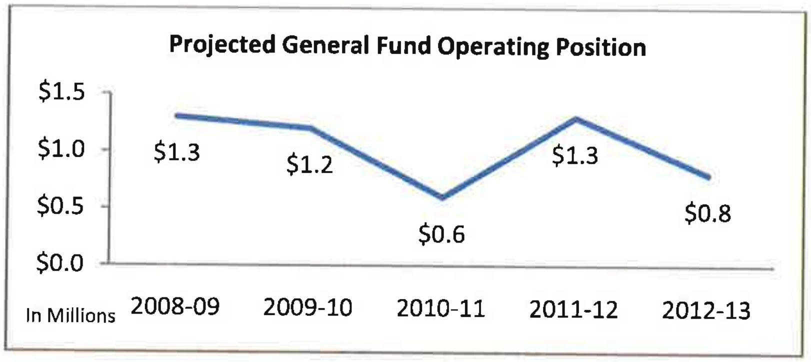
The forecast focuses on two critical elements, operating position and fund balances, to determine the fiscal health of the City.

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 revenues and expenditures) are shown in the following chart and table.

[1] Muni-Cast Long Range Financial Model was developed by Christopher J. Swanson, the founder of the Government Finance Research Group.

[2] California State Fullerton, College of Business and Economics, Economic Forecast, October 2007.

Financial Forecast



2008 Forecast Summary* (in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Operating receipts	$50.3	$52.1	$54.3	$56.2	$57.5
Operating disbursements	49.0	50.9	53.7	54.9	56.7
Projected surplus/deficit	$1.3	$1.2	$0.6	$1.3	$0.8

*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

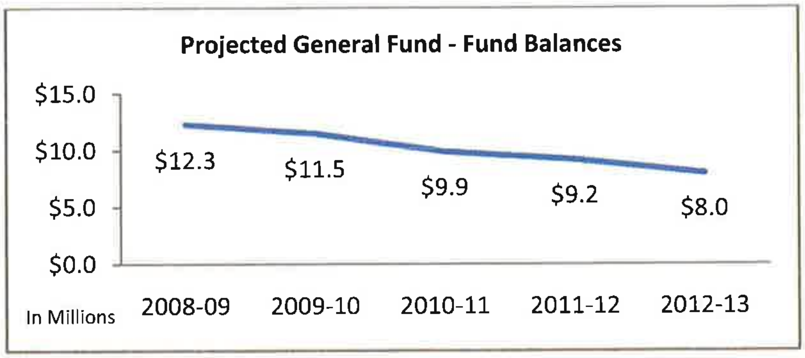
Operating position declines in FY 2010-11 due to a full year of operation and maintenance for La Pata/Vista Hermosa Park which increases expenditures by $1.4 million. Operating position increases in the next fiscal year due to the elimination of development related contractual positions in building, engineering and planning. In the final year of the forecast, revenues increase at a more modest rate of 2% and operating expenditures increase by 3% which tightens the operating position.

It should be noted that the operating position predicted in the 2008 financial forecast differs from the 2007 forecast due to the ***exclusion*** of all revenue from the Marblehead commercial and residential development site.

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. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. However, fund balance should be used for one-time expenditures only. 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.

Financial Forecast

The chart below illustrates projected undesignated fund balances in the General Fund for the 2008 Long Term Financial Plan forecast.

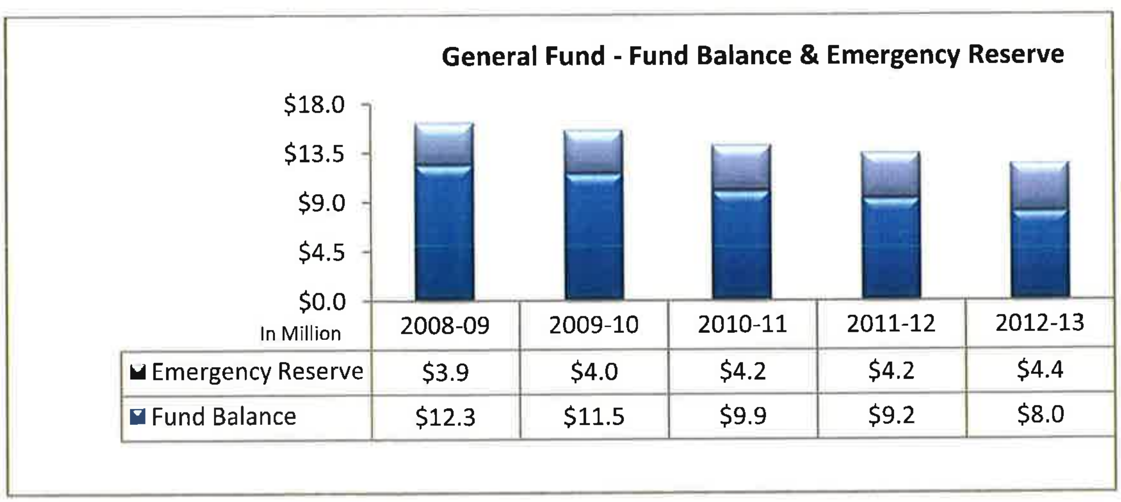


Undesignated fund balances average $10.2 million over the forecast period. Projected fund balances include full funding of capital projects identified in the City's FY 2007-08 five-year General Fund Capital Improvement Program. However, because funding for capital projects is determined annually during the budget process and project priorities may change, the amount included in future budget years may differ from forecasted expenditures.

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 forecast period will be positive. Designated emergency reserve levels are maintained at the required 8% level.

General Fund – Undesignated Fund Balance & Emergency Reserve (in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Fund Balance	$12.3	$11.5	$9.9	$9.2	$8.0
Emergency Reserve	$3.9	$4.0	$4.2	$4.2	$4.4



Forecast Assumptions

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

- Cost of living - A negotiated cost of living increase of 3.5% is included in the forecast 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.
- New positions - Over the last six years, an average 3.48 positions have been added annually to the General Fund budget. For forecast purposes, three positions have been added in each year of the forecast, for a total of fifteen positions. The positions were added at a cost of $72,520 per position and are based on an annual salary of $51,800 plus a 40% benefit rate.
- New Police contract positions - One contract police position per year ($220,000), for a total cost of $1.1 million over the forecast period, has been added to the forecast.
- Fire Services costs - The current contractual agreement with the Orange County Fire Authority (OCFA) is capped at a maximum 4% increase per year. The contract expires in June 2010, and the new twenty year contract includes a 4.5% contract cap with annual contributions to OCFA's station maintenance and vehicle maintenance funds. These costs have been built into the forecast beginning in FY 2010-11.
- Marblehead parks - Maintenance costs for the new trails, parks and streetscapes in Marblehead Coastal have been included in the forecast beginning in FY 2008-09. These estimates have been provided by the Beaches & Parks Maintenance division.
- La Pata/Vista Hermosa Park - The forecast assumes a quarter year of operation and maintenance at La Pata/Vista Hermosa Park beginning in spring of 2010. The net operating cost of the park is estimated at $1.4 million with annual revenue of $435,000 and expenses of $1.8 million as currently projected by the Beaches, Parks and Recreation Department.
- Negocio Building – An annual transfer of $534,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building since the top two floors will remain vacant until 2010.
- Development related expenditures - Contract staffing levels related to development activities will be reduced beginning in FY 2010-11. This includes contract engineering inspectors, project managers and plan check positions.
- Council Contingency Reserve – The reserve is funded at 0.5% of operating expenditures in each of the forecast years, in accordance with the City's Fiscal Policy.

- General Fund Emergency Reserve - The General Fund Emergency Reserve is fully funded in accordance with City Fiscal Policy. Annual contributions are recommended in order to maintain the reserve at the required 8% level. Funding levels to maintain the 8% reserve are shown below:

Council Contingency & Emergency Reserve Contributions

	2008-09	2009-10	2010-11	2011-12	2012-13
Council Contingency	$245,000	$254,500	$268,500	$274,500	$283,500
Emergency Reserve	80,000	155,360	170,000	84,000	160,000
Total	$325,000	$409,860	$438,500	$358,500	$443,500

- Reserves - The five-year average contribution from the General Fund to the Accrued Leave, Facility Maintenance and Capital Equipment reserves amounts to $214,200. For forecast purposes, $214,200 has been included in each year of the forecast.
- PERS Unfunded liability - 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 $654,000 to eliminate the liability.
- Capital Improvement Program - The forecast includes the actual amounts currently stated in the City's Capital Improvement Program for capital projects and major maintenance in the General Fund. For the 2012-13 fiscal year, the five-year average of capital expenditures or $2.1 million has been included in the forecast.
- Social Security - To assist with recruitment and retention efforts, a previously authorized City paid offset to the employee's social security contribution is included in the forecast. The City will provide a benefit of 1% of salary the first year, 2.1% in the second year and 3.2% in the third year and each year thereafter as an offset to the employee's social security contribution.
- Pay for Performance - A total of $150,000 is included in the first year of the forecast for the implementation of a "pay for performance" incentive program. This amount is increased by inflation in future years.

Factors Not Included in the Forecast

- This forecast is based on the General Fund only.
- No new or enhanced programs are included in the forecast.
- No increases to current employee benefits are included.
- Revenue for the Marblehead Coastal project has not been included in the base forecast.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Summary

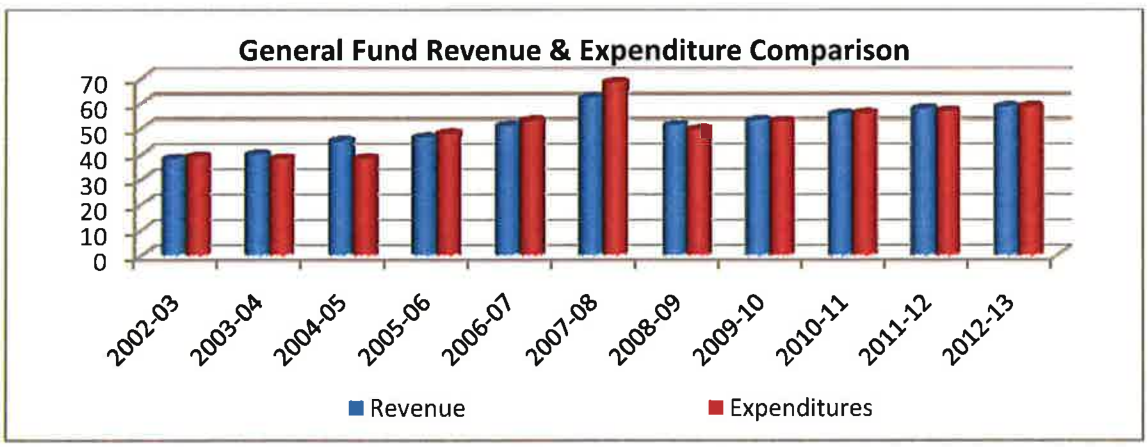
Over the five year forecast period, City revenues are anticipated to grow by an annual average increase of 3.6% a year. Property taxes increase 4.0% per year or $4.0 million over the five-year period. Sales taxes grow by $397,000 per year or $2.0 million over the forecast period. Beginning in FY 2009-10, a quarter year of revenue from the La Pata/Vista Hermosa Park is included in the forecast based upon estimates provided by the Beaches, Parks and Recreation

Department. The remaining years of the forecast include $435,000 per year in revenue from the park.

Building permit, plan check fees, property or sales tax revenues from the Marblehead project are not included in the forecast. When development of the Marblehead project moves into the plan check phase, contractual staff will be utilized and the City will recover approximately 30% of the fees. Revenue from building permits will be offset by contract inspection costs. However, once property and sales tax revenues become a reality, the City's financial forecast will show increases in operating position and fund balances.

Expenditures are projected to increase at an average rate of 3.4% due to the projected addition of five contract police positions, fifteen (3 per year) City positions and anticipated increases in police, fire and park maintenance contracts. Maintenance for La Pata/Vista Hermosa Park of $435,000 is included beginning in FY 2009-10 and $1.8 million in the remaining three years are also included in the forecast. The cost estimates originated from the 2005 Master Plan for City Facilities issue paper have been inflated to current dollars. Maintenance of the fields, parking lot, road and perimeter landscape is estimated at $600,000. Operation and maintenance of the aquatics complex is estimated at $1.2 million. Operation and maintenance of the park is currently included in the forecast at $1.8 million, along with revenue of $435,000 for a net cost of $1.4 million. Beaches, Parks and Recreation will continue to refine these estimates, along with the revenue estimates, once design plans are finalized on the park.

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



Revenues and expenditures for FY 2007-08 include revenue from the sale of land and a transfer to the Parks Acquisition and Development Fund for bridge funding on La Pata/Vista Hermosa Park.

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 (In millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Fund Balance					
	13,332	12,214	11,495	9,814	9,161
Receipts					
Taxes	36,756	38,171	39,664	41,216	42,829
Licenses & Permits	2,057	2,086	2,116	2,146	1,831
Intergovernmental	789	803	817	832	847
Service Charges	4,155	4,275	4,739	4,835	4,619
Fines & Forfeitures	1,037	1,052	1,069	1,087	1,105
Interest & Rents	2,436	2,525	2,618	2,715	2,816
Interfund Transfers	3,065	3,139	3,229	3,322	3,417
	50,295	52,051	54,252	56,153	57,464
Disbursements					
Salaries	10,520	10,762	11,010	11,263	11,522
Benefits	4,780	5,209	5,666	6,044	6,449
Supplies	1,066	1,090	1,115	1,141	1,167
Contractual Services	24,418	26,050	28,265	28,595	29,268
Other Charges	1,583	1,619	1,657	1,695	1,734
Capital or One-Time	3,166	2,020	2,055	1,867	2,109
Interdepartmental Charges	3,588	3,670	3,755	3,841	3,929
Transfers & Debt	2,212	2,198	2,237	2,276	2,317
	51,333	52,618	55,760	56,722	58,495
Emergency Reserve	80	155	170	84	160
Ending Fund Balance	12,214	11,492	9,814	9,161	7,970

General Fund Revenue and Expenditure Growth

In each revenue and expenditure category an initial summary is provided with the following:

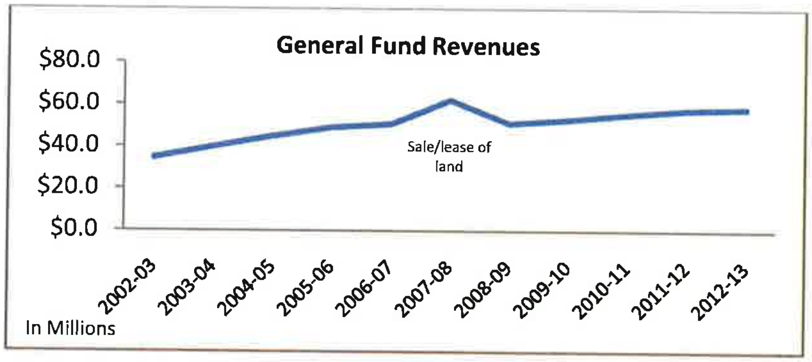
- Historic Growth Rate – The average annual rate of growth for the past five years from FY 2002-03 to FY 2006-07.
- 2008 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate

Historic Growth Rate	5.7%
2008 Projected Growth Rate	3.6%

Financial Forecast

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.6% compared to a historical five year growth rate of 5.7%. The historic growth rate includes property tax increases averaging 20% per year. The forecast average has more modest increases for property taxes, averaging 4.0% per year. Revenue from development related activity from the Marblehead project are not included in the forecast.

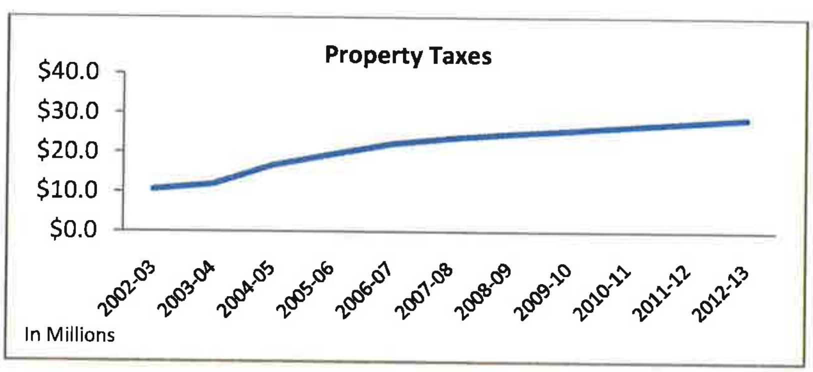


Property Taxes

Property Taxes	
Historic Growth Rate	20.1%
2008 Projected Growth Rate	4.0%

Property tax is the City's single largest revenue source and represents 48% of total General Fund operating revenue. The historic growth rate of 20.1% is attributed to new residential and commercial development in Forster Highlands, the Reserve and Talega, increases in property valuation and Educational Relief Augmentation Fund (ERAF) property taxes received from the State beginning in FY 2004-05.

Property tax growth over the forecast period is expected to increase 4%. Most properties in the City will continue to increase by the 2% per year assessed value cap. Homes purchased within the last two years might be subject to devaluation, but out of approximately 34,000 residential units only 200 might be affected.



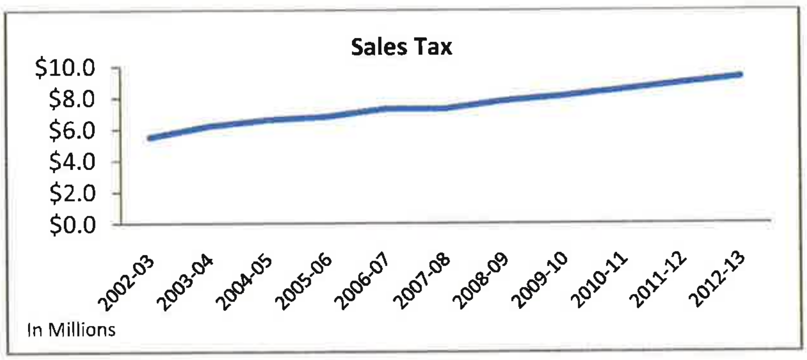
Sales Taxes

Sales Taxes

Historic Growth Rate	7.6%
2008 Projected Growth Rate	4.9%

The City's sales tax base has averaged a growth rate of 7.6% over the last five years due to increased activity in the consumer goods, restaurants and building and construction categories. Rising fuel prices also resulted in increased sales tax. Although sales tax has slowed in the past year due to the decline in construction activity, San Clemente's "core" sales tax producers are anticipated to continue to increase sales taxes by 4.9% during the forecast period. The core sales tax producers are in the restaurants, fuel stations, food and drugs categories.

Sales tax revenue from the planned Marblehead project has not been included in the base forecast.



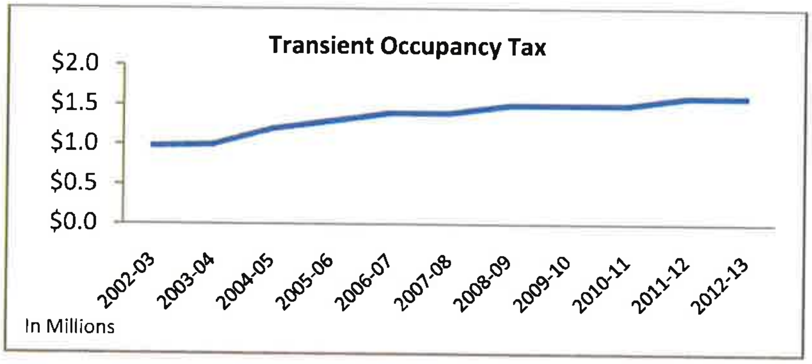
Transient Occupancy Tax

Transient Occupancy Tax

Historic Growth Rate	6.1%
2008 Projected Growth Rate	3.2%

Transient Occupancy Tax is an added charge to room rates at local hotels. San Clemente's rate is 10% per occupancy. It is a revenue source affected by swings in the economy and, for San Clemente, the weather. Over the forecast period, the average growth is projected at 3.2%.

Transient Occupancy Tax revenue from the Marblehead project has not been included in the base forecast.

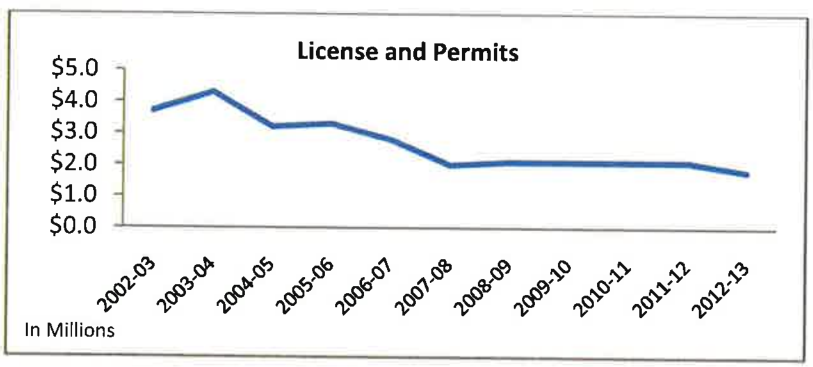


License and Permits

License and Permits	
Historic Growth Rate	-5.2%
2008 Projected Growth Rate	-1.7%

License and permit revenue declined over the historic period by 5.2%. Revenue peaked in FY 2003-04 at $4.4 million from development of Talega and Reserve projects.

License and permit revenues, which consist of Business Licenses, Construction Permits and miscellaneous licenses and permits, are anticipated to decline by 1.7% during the forecast period. This decline begins in the base year of the forecast (FY 2007-08) with a budget reduction of $631,000 in development permit revenue.

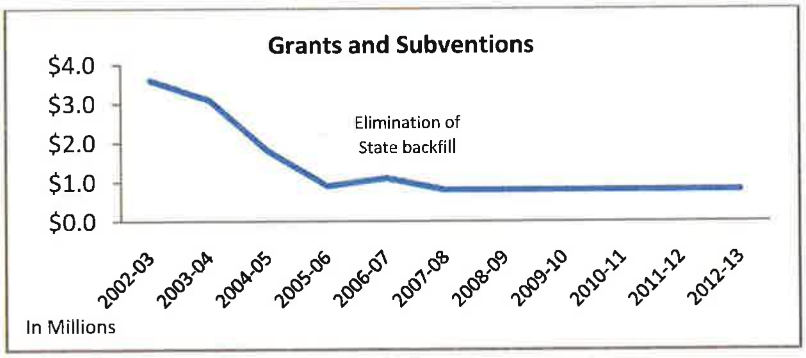


Grants and Subventions

Grants and Subventions	
Historic Growth Rate	-16.6%
2008 Projected Growth Rate	1.8%

Grant and subvention revenues have declined by 16.6% over the historic period due to the reduction in motor vehicle fees beginning in FY 2004-05. Motor vehicle fees, which made up the majority of the revenue in this category, were reduced when the State reduced the rate from 2.0% to 0.67% of valuation. The State now provides a "dollar for dollar" amount of the State's ERAF share of property taxes, in-lieu of motor vehicle fees. (See Revenue and Fee Analysis issue paper for more detail on the ERAF property taxes that are received in-lieu of motor vehicle fees.)

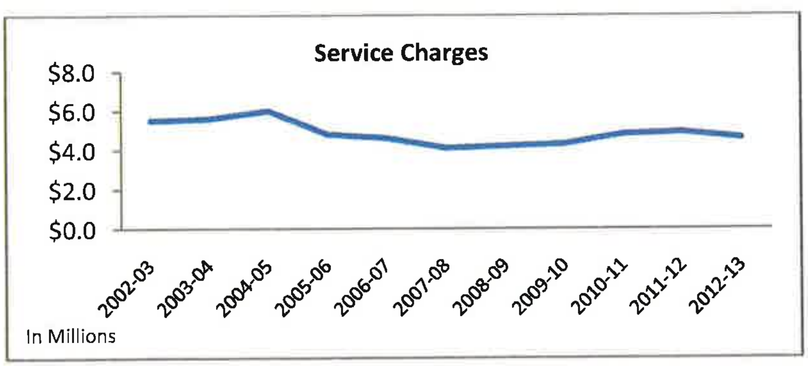
An average of $825,000 or 1.8% growth in grants and subventions is anticipated in the forecast.



Service Charges

Service Charges	
Historic Growth Rate	-0.4%
2008 Projected Growth Rate	2.6%

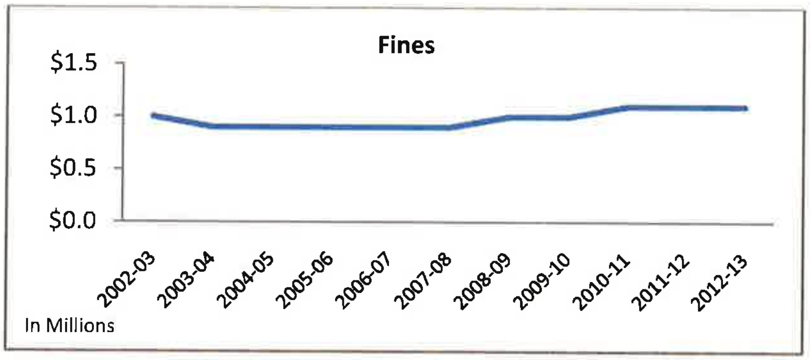
Service Charges are projected to increase by 2.6% over the forecast period. This category includes a variety of fees charged for specific services provided by the City including development fees, recreation program fees and public safety fees. Historically, service charges have declined 0.4% due to a decline in construction activity, which peaked in FY 2004-05. Revenue from La Pata/Vista Hermosa Park is included beginning in Spring 2010 and annually is expected to amount to $435,000. A study is currently underway by the Beaches, Parks and Recreation department to better refine this estimate. Service charges for development related activity is anticipated to decline in the last year of the forecast as the City approaches build out.



Fines

Fines	
Historic Growth Rate	-1.2%
2008 Projected Growth Rate	2.2%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms and court fines. The 2.2% projected growth rate is based on population growth in the City. The negative historic growth rate is due to the transfer of street sweeping parking violation revenue to the Clean Ocean Fund.

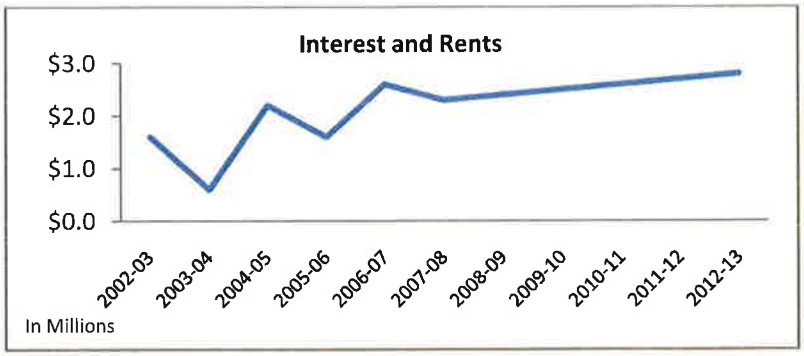


Interest and Rents

Interest and Rents	
Historic Growth Rate	38.3%
2008 Projected Growth Rate	4.2%

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 38.3%. 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.

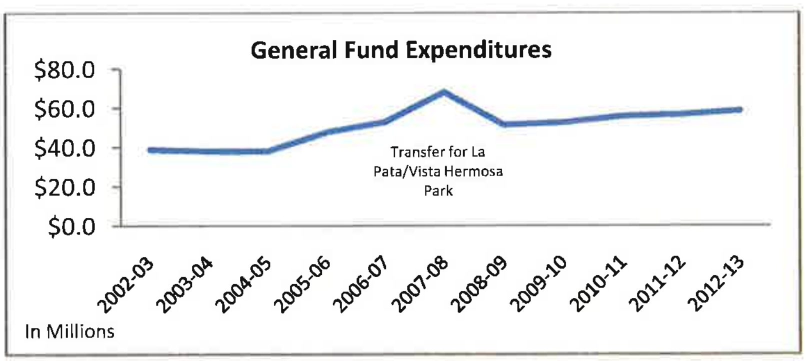
The 2008 projected growth rate is 4.2%, with most of the revenue included in this category increasing by inflation. The revenue cap on the Fisherman's Restaurant was removed in July 2007 and the City's share of revenue will be increased to 6% of gross revenues.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	7.0%
2008 Projected Growth Rate	3.4%

General Fund expenditures are anticipated to increase by 3.4% during the forecast period, compared to a 7.0% historical growth rate. One-time transfers and projects, which can result in major fluctuations in the rate, have been removed. Expenditures have been forecasted to increase primarily by inflation. Beginning in FY 2010-11, $1.8 million, which represents a full year of maintenance for La Pata/Vista Hermosa Park, is included in the forecast.

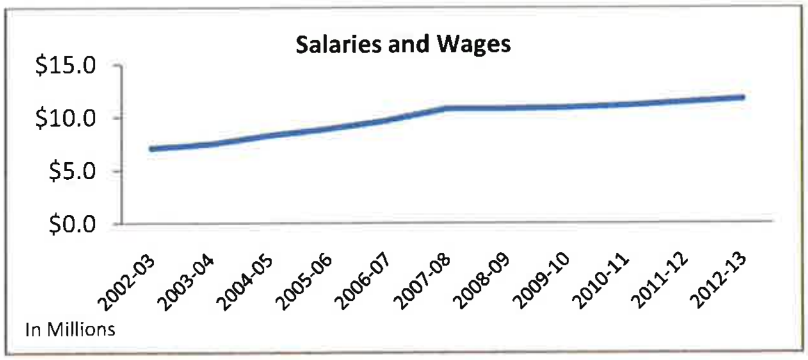


Salaries and Wages

Salaries and Wages	
Historic Growth Rate	6.7%
2008 Projected Growth Rate	1.7%

Salaries and Wages are projected to grow 1.7% over the forecast period. Cost of living increases and three new positions are included in the forecast. The historic growth rate of 6.7% reflects the addition of new positions, cost of living increases that have been granted over the period.

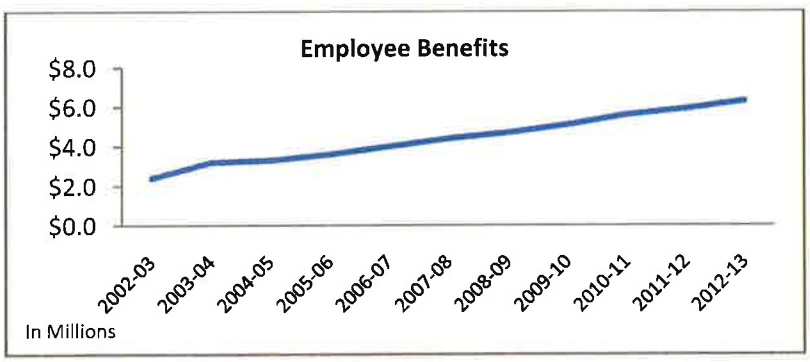
Financial Forecast



Employee Benefits

Employee Benefits	
Historic Growth Rate	12.5%
2008 Projected Growth Rate	7.4%

Employee benefits grew 12.5% due to added positions, salary driven increases in benefits (such as social security and retirement) and increases in the employee medical cap granted in FY 2003-04 and FY 2006-07. The projected forecast rate of 7.4% is the result of projected increases in medical cap, new positions and the social security offset that is included in the forecast beginning in FY 2008-09.



Contractual Services

Contractual Services	
Historic Growth Rate	6.9%
2008 Projected Growth Rate	3.8%

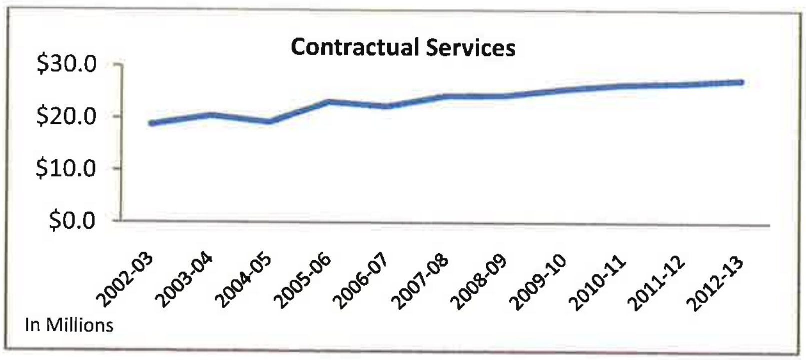
The contractual services category is anticipated to increase 3.8%, as compared to the 6.9% historical growth rates. The historical growth rate includes the addition of new police positions and increased medical and retirement rates for sworn and non-sworn contract employees.

The forecast includes the projected addition of one contract position per year for a total cost of $1.1 million over the five year period.

Sports field maintenance levels were increased beginning in FY 2007-08. Maintenance for La Pata/Vista Hermosa Park is also included in the forecast beginning in 2010.

The Orange County Fire Authority (OCFA) contract includes a 4.5% increase annually beginning in FY 2010-11, along with annual contributions to the capital maintenance and vehicle replacement reserves.

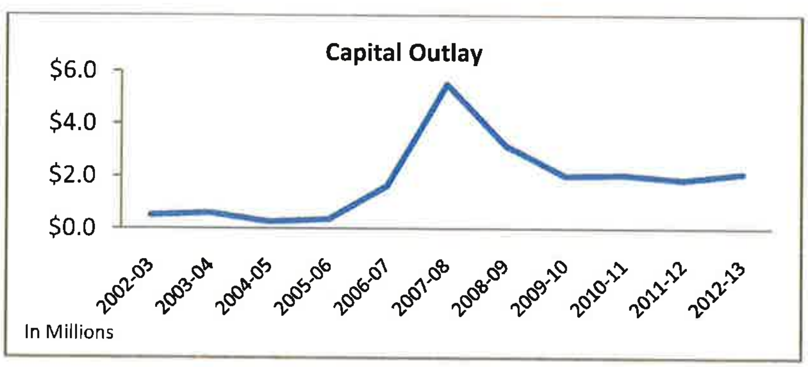
Contractual services in building, planning and engineering are reduced beginning in FY 2010-11 when development is anticipated to slowdown.



Capital Outlay

Capital Outlay	
Historic Growth Rate	1.7%
2008 Projected Growth Rate	2.2%

Capital outlay, which includes the projects currently scheduled in the City's five-year Capital Improvement Plan, is projected to grow 2.2%. The FY 2007-08 budget includes $5.5 million in capital improvements and major maintenance projects such as San Gorgonio Park renovations, street and parking lot maintenance, trash enclosures and beach structures.



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.

Background
The General Fund, the primary governmental fund of the City, maintains an emergency reserve to protect essential service programs during periods of economic downturn, a Council Contingency reserve and a reserve for an Employee Computer Purchase Program. The 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 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.

Executive Summary
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 City's reserves are reviewed annually as part of the LTFP process. The City's Fiscal Policy defines the types and criteria for funding levels for each of the City's reserves based on guidelines of the Insurance Institute of America, industry practice and GFOA recommendations.

The City's reserves are divided into five basic categories:

- Emergency Reserves
- Miscellaneous General Fund Reserves
- Self-Insurance Reserves
- Capital Replacement Reserves
- Infrastructure Reserves

Reserves can be made up of Restricted and Unrestricted amounts. Restricted Reserves derive their funding from specific fees or revenue sources or are restricted by State, County or Local Ordinances.

Reserve Analysis

The following table summarizes reserve type, the restricted status, and the estimated balances of reserves as of June 30, 2008.

Reserves	Restricted (Y-Yes/ N-No)	Funding Source	Estimated Reserve Balances at June 30, 2008	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Y	General Fund	$ 3,846,640	Yes
Water Operating Fund – Emergency Reserve	Y	Water Fund	$ 573,000	Yes
Sewer Operating Fund – Emergency Reserve	Y	Sewer Fund	$ 601,000	Yes
Storm Drain Operating Fund – Emergency Reserve	Y	Storm Drain Fund	$ 75,000	Yes
Solid Waste Fund – Emergency Reserve	Y	Solid Waste Fund	$ 12,000	Yes
Golf Course Operating Fund – Emergency Reserve	N	Golf Course Fund	$ 185,500	Yes
Miscellaneous General Fund Reserves:				
Council Contingency Reserve	N	General Fund	$ -0-	Yes[1]
Employee Computer Purchase Program	N	General Fund	$ 44,000	Yes
Accrued Leave	N	General Fund	$ 526,000	Yes
Self-Insurance Reserves:				
General Liability Self-Insurance	Y	All Funds	$ 155,000	Yes
Workers' Compensation	N	All Funds	$ 1,931,000	Yes
Capital Replacement Reserves:				
Fleet Replacement	N	All Funds	$ 4,200,000	Yes
Capital Equipment Replacement	N	All Funds	$ 806,000	Yes
Facilities Maintenance Capital Asset	N	General Fund	$ 680,000	Yes
Infrastructure Reserves:				
Water Fund Depreciation	Y	Water Fund	$ 7,990,000	No[2]
Sewer Fund Depreciation	Y	Sewer Fund	$2,876,000	No[3]
Storm Drain Fund Depreciation	Y	Storm Drain Fund	$ 1,361,000	No[4]
Golf Course Fund Depreciation	N	Golf Course Fund	$ 1,087,000	Yes
Golf Capital Improvement Reserve	N	Golf Course Fund	$ 435,000	Yes
Total			**$27,384,140**	

[1]The Council Contingency Reserve is "zeroed out" at the end of each fiscal year.
[2]This reserve is under funded by $7.4 million. Refer to Infrastructure Reserves section.
[3]This reserve is under funded by $4.8 million. Refer to Infrastructure Reserves section.
[4]This reserve is under funded by $3.3 million. Refer to Infrastructure Reserves section.

Reserve Analysis:

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

Each reserve listed is addressed in more detail in the following section along with detailed explanation of the recommendations for fiscal year 2008-09. A summary of the recommendations by reserve section are as follows:

- ***Emergency Reserves*** –
  - Increase the General Fund Emergency Reserve level to 9% of operating expenditures
  - Maintain the levels at 8% of Enterprise operating expenses.
- ***Miscellaneous General Fund Reserves*** –
  - Eliminate the Council Contingency Reserve
  - Approve the creation of the City Council Initiative line item budget in the amount of $100,000
  - Transfer $160,000 to the Accrued Leave Reserve from the General Fund.
- ***Self-Insurance Reserves*** –
  - Increase the General Liability charges by $100,000
  - Reduce Workers Compensation rates by 5%
  - Refund $500,000 to various funds from the Workers Compensation fund. (Insurance charges are listed on Attachment A).
- ***Capital Replacement Reserves*** –
  - Maintain reserve levels.
- ***Infrastructure Reserves*** –
  - Increase water depreciation charges by $200,000 from $2.7 million to $2.9 million for FY 2008-09
  - Increase storm drain depreciation charges by $136,000 from $588,000 to $724,000 for FY 2008-09.

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 Government Finance Officer's Association (GFOA) recommends a level equivalent to one month's operating expenditures, or 8.33%. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10%. The City's current reserve level is 8%, which is below the GFOA recommendation representing one month's operating expenditures. City Council has expressed interest in increasing the current reserve level.

Based on GFOA and Rating Agency recommendations, staff proposes to increase the emergency reserve level for the General Fund only to 9%. In order to meet this recommendation, additional contributions of approximately $500,000 would be required above the normal yearly contributions to maintain the reserve level as General Fund expenditure levels increase. Staff recommends that additional contributions could be phased in at 1/4% per year until the required level is obtained.

The following chart summarizes the projected balance for the emergency reserve, the recommended contribution, which includes $80,000 for expenditure level increases for fiscal year 2008-09 and $125,000 to increase the reserve level by 1/4% for fiscal year 2008-09, and the projected percentage reached at the end of fiscal year 2008-09.

	Projected Balance June 30, 2008	FY 2008-09 Recommended Contribution	Percentage June 30, 2009
General Fund	$3,846,640	$205,000	8.25%

Recommendation and Fiscal Impact: Budget sufficient funds for FY 2008-09 in order to increase the General Fund emergency reserve to 8.25% of operating expenditures. In addition, modify the Fiscal Policy to state "The City will maintain Emergency reserves at the following levels; 9% of operating expenditures of the General Fund and 8% of operating expenses for Enterprise Funds. 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."

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 2008-09, and the projected percentage reached at the end of fiscal year 2008-09.

	Projected Balance June 30, 2008	FY 2008-09 Recommended Contribution	Percentage June 30, 2009
Water Fund	$ 529,000	$ 44,000	8.00%
Sewer Fund	$ 590,000	$ 11,000	8.00%
Storm Drain Fund	$ 75,000	$ 3,000	8.00%
Solid Waste Fund	$ 12,000	$ 2,000	8.00%
Golf Course Fund	$ 185,500	$ -0-	8.00%

Recommendation and Fiscal Impact: Budget sufficient funds for FY 2008-09 in order to maintain the emergency reserve at the 8% level to maintain emergency reserves at 8% of projected operating expense levels.

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.

Assessment of the current situation/conclusions: The Council Contingency budget over the last three years has funded two types of activities. The first activity was related to activities that have been initiated by City Council, such as the noise ordinance, studies and certain consultants. The second activity that was funded through the Council Contingency was department requests related to purchases of equipment, program activities or specific projects.

Identified in the table below is the Council Contingency spent by fiscal year, with additional information on where the request for Council Contingency was initiated:

Fiscal Year	Amount	Source of request
Fiscal Year 2004-05	$ 372,857	(Council- $ 96,511, Staff- $276,346)
Fiscal Year 2005-06	186,950	(Council- $ 71,950, Staff- $115,000)
Fiscal Year 2006-07	226,834	(Council- $145,834, Staff- $ 81,000)
Fiscal Year 2007-08 (to date)	32,810	(Council- $ 32,810)

Council costs include items such as the Shorecliff's Massing Study, Civic Center Study, Historic Study, Noise Ordinance, signature verification and various other consultant activities and donations. The Staff costs include additional monies needed for Radar Speed Trailers, Utility

Web payments, Sand study, and additional capital project costs on items such as major street maintenance and Valencia Median Renovation. The three year average for Council Contingency spent by Council was $104,765 and the three year average staff used was $157,449 for general activities.

Staff recommends the creation of a Council Initiative line item in Program 111 (City Council) to allow Council to clearly fund Council initiated activities described above. An initial appropriation of $100,000, which represents the three-year average, is recommended for fiscal year 2008-09 for this new line item. The staff requests (the second activity listed above) should be presented to City Council through admin Reports and supplemental appropriations can be allocated from available fund balance to prioritize and fund these non-recurring or unanticipated expenditures. This will allow the elimination of the Council Contingency reserve while not impacting Council's ability to appropriate funds for necessary purposes.

Recommendation and Fiscal Impact: Revise fiscal policy to eliminate the Council Contingency Reserve. In City Council Program 111 budget a Council Initiative line item of $100,000 to be used to fund Council related projects beginning in fiscal year 2008-09.

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)	*$ 100,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2008 is $526,000. At June 30, 2007, the total General Fund liability for accrued leave was $1,240,000. Of this amount, $672,000 represents the liability for employees who currently are age 55 or older or will be age 55 or older by June 30, 2009.

Recommendation and Fiscal Impact: Transfer $160,000 from the General Fund to the Accrued Leave Reserve for FY 2008-09 ($170,000 was the FY 2007-08 transfer).

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 2008-09 is $155,000. This balance includes $90,000 SIR reserve and $65,000 for claims prior to the conversion to CJPIA.

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.

Charges to other funds are based on two factors. The first factor (25%) is a five-year average of historical claims to account for risk related to each fund. This second factor (75%) 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. To replenish the reserve and maintain an adequate reserve level the insurance charge will need to be increased by $100,000.

Recommendation and Fiscal Impact: Increase the annual City-wide charge for General Liability insurance by $100,000 to $1.6 million for FY 2008-09. The General Liability Self-Insurance Fund basic SIR reserve requirement of $90,000 is fully funded.

Workers' Compensation Fund
City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self-insurance retention (SIR). Additionally, this fund will be evaluated on an annual basis to document those claims which are not covered, and reserve an additional appropriate amount to pay for such uncovered claims.
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 City's fiscal policy requires a reserve equal to $900,000, plus the estimated total for the "tail" claims of $220,000, for a total reserve of $1,120,000. The estimated reserve balance at June 30, 2008 totals $1,930,000 and is fully funded as of June 30, 2008. To avoid the continued accumulation of excess reserves in fiscal year 2008-09, the following steps are recommended:

- Implement a 5% reduction in workers compensation rates to obtain a more neutral operating position (total reduction of $20,000 a year)
- Perform a one-time refund of $500,000 in fiscal year 2008-09 from the Workers Compensation Fund to reduce the projected excess fund balance.

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.).

Recommendations and Fiscal Impact: Reduce the existing worker's compensation rates by 5% as outlined in Attachment A and refund $500,000 from the Workers Compensation fund to the applicable funds on a pro-rata basis in fiscal year 2008/09. Rates charged to all funds will be sufficient to pay for all premium expenses and administrative expenses incurred by the Workers' Compensation Fund and maintain the appropriate reserve level.

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 $6.4 million. $1.6 million is scheduled for replacement during the next five years and $4.8 million is scheduled for replacement during the next six to ten years. This reserve is fully funded with a projected ending balance of $4.2 million at June 30, 2008.

Recommendation and Fiscal Impact: Maintain contributions for the replacement of City fleet vehicles and equipment to keep the reserve at an adequate level. The FY 2008-09 budget will contain normal replacement charges to other funds of $530,000.

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, 2008 is $806,000, and is fully funded for the projected five-year costs. As General Fund fixed assets are replaced, the capital expenditures are made from this fund. The replacement costs for these assets are charged to the benefiting General Fund program and transferred back to the Capital

Equipment Replacement Reserve, thus accumulating funds to pay for future replacement of these assets.

Recommendation and Fiscal Impact: Maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level. The FY 2008-09 budget will contain normal replacement charges to other funds of $148,000.

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 estimated facilities maintenance costs for the next five years amount to $405,000. The reserve balance is projected to be $680,000 as of the end of fiscal year 2007-08.

Recommendation and Fiscal Impact: Maintain contributions to the facilities maintenance capital asset reserve to keep the reserve at an adequate level. The FY 2008-09 budget will contain normal replacement charges to other funds of $75,500.

Infrastructure Reserves

City Council Fiscal Policy: The City will establish a Water, Sewer, Storm Drain and Golf Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Enterprise Funds budget. The minimum reserve level shall be at a level equal to the projected five-year costs.

Recommendations from the 2006 LTFP were approved to address the long-term funding requirements for the City's Water, Sewer, and Storm Drain infrastructure. As explained in the following sections of this paper, significant funding gaps exist in the Water, Sewer, and Storm Drain Depreciation Reserves. This commitment to build these reserves will take multiple years and impact Water and Sewer rates. The following discussion states the City Council Fiscal Policy and addresses each of the Enterprise Depreciation Reserves by fund.

Water Depreciation Reserves

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2008 is $8.0 million. The projected capital replacement costs for the next five-year period totals $15.4 million. Based on this, the Depreciation Reserve is currently under funded by $7.4 million.

The Water Operating Fund currently contributes $2.0 million per year to the reserve for City-owned assets and $.7 million per year for non-City owned assets, for a total contribution of $2.7 million in FY 2007-08. 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.

With the gap clearly identified as $7.4 million, staff is recommending an increase from $2.7 million previously approved by the Council to $2.9 million per year for the replacement contribution for all infrastructure assets. The water infrastructure reserves have been under funded over a long period of time and these additional contributions will continue to narrow the funding gap on these long lived assets. The annual increase of $0.2 million will narrow the funding gap by approximately 75% over a twenty year period. With continued diligence in the future the additional funding should lead to eventual compliance.

Recommendation and Fiscal Impact of Recommendations: An increase of $200,000 to the annual depreciation contribution from the Water Operating Fund ($2.7 million to $2.9 million) for fiscal year 2008-09.

Sewer Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2008 is $2.9 million. The projected replacement costs for the next five-year period totals $7.7 million. Based on this, the Depreciation Reserve is currently under funded by $4.8 million.

The Sewer Operating Fund currently contributes $2.05 million per year to the reserve for City-owned assets, based on the Sewer Asset Model, and $0.275 million per year for non-City owned assets, for a total contribution of $2.325 million in FY 2007-08. As noted above, the Sewer Depreciation Reserve is projected to be under funded by $4.8 million as of June 30, 2008. The current contribution level will narrow the gap in the future, leading to eventual compliance with the City's Fiscal Policy.

Recommendation and Fiscal Impact: Maintain current annual depreciation charges charged to the Sewer Operating Fund.

Storm Drain Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2008 is $1.4 million. The projected replacement costs for the next five-year period totals $4.7 million. Based on this, the Depreciation Reserve is currently under funded by $3.3 million.
In the previous LTFP reserve paper, it was determined that reserves were not adequate and the Storm Drain Operating Fund reserve contribution was increased to $587,900 based on Council direction in FY 2007-08. 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. As noted above, the Storm Drain Depreciation Reserve is projected to be under funded by $3.3 million as of June 30, 2008. Staff recommends an increase from $588,000 to $724,000 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 $1.4 million to lead to eventual compliance.

Recommendation and Fiscal Impact: An additional increase of $136,000 to the annual depreciation contribution from the Storm Drain Operating Fund ($588,000 to $724,000) for FY 2008-09. Annual depreciation charges will continue to be charged to the Storm Drain Operating Fund.

Golf Course Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2008 is $1.1 million. Projected capital 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.

Recommendation and Fiscal Impact: Maintain annual depreciation charges to the Golf Course Operating Fund to keep the reserve at an adequate level.

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. With the exception of the Golf Course Clubhouse, discussed below, one new capital project is anticipated within the next five fiscal years, totaling $350,000.

The new Golf Course Clubhouse is presently budgeted from this reserve and has been completed. The Golf Capital Improvement Reserve is projected to have an ending balance of $0.4 million as of June 30, 2009. No transfer from the Golf Depreciation Reserve is necessary during the fiscal year 2008-09.
Recommendation and Fiscal Impact: Maintain the Golf Capital Improvement Reserve at the current level.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2008-09:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2008-09	Total Charge for General Liability FY 2007-08
General Fund	87.1%	63.1%	69.0%	$ 1,105,537	$ 956,167
Water Fund	10.9%	17.2%	15.6%	250,225	263,600
Sewer Fund	1.6%	9.5%	7.5%	120,471	129,106
Solid Waste Fund	0.0%	0.2%	0.2%	2,462	1,919
Storm Drain Fund	0.0%	1.2%	0.9%	14,030	13,138
Golf Course Fund	0.3%	2.5%	2.0%	31,428	67,166
Clean Ocean Fund	0.1%	1.8%	1.2%	19,949	23,867
Information Services Fund	0.0%	1.7%	0.5%	7,424	17,382
Central Services Fund	0.0%	0.6%	1.4%	21,688	7,216
Fleet Maintenance Fund	0.0%	1.3%	1.0%	15,888	14,009
Redevelopment Agency	0.0%	0.9%	0.7%	10,898	6,430
Total	**100.0%**	**100.0%**	**100.0%**	**$1,600,000**	**$1,500,000**

Workers Compensation charges

The following rates are in effect for fiscal year 2007-08:

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

The proposed rates for fiscal year 2008-09 are:

8810	Clerical	$0.53/$100 of payroll
9410	Non-Manual	$1.48/$100 of payroll
9420	Manual Labor	$4.94/$100 of payroll

Fiscal Policy

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

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

Following are proposed changes to the current fiscal Policy:

1. **Reserve Policies:** The first change eliminates the existing Reserve Policy for the Council Contingency Reserve. The second change increases the General fund Emergency Reserve level from 8% to 9% of operating expenditures.

Current Policy Statement	Proposed Policy Statement
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.	None
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.	The City will maintain Emergency reserves at the following levels; 9% of operating expenditures of the General Fund and 8% of operating expenses for Enterprise Funds. 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.

Recommendation

It is recommended that the City's fiscal Policy be modified to include the changes outlined above. The original purpose of the Council Contingency reserve was to provide for non-recurring, unanticipated expenditures, or to set aside funds to cover known contingencies with unknown costs. Since use of this reserve requires City Council approval prior to expenditure, elimination of the reserve has no impact on council's ability to appropriate funds for the originally intended purpose of these reserves. City Council can continue to use the General Fund balance to fund non-recurring, unanticipated expenditures, or set aside funds to cover known contingencies.

Council Action

The recommendations will be incorporated into the Fiscal Year 2008-09 Budget.

Fiscal Policy Statement	Status	Comments
General Financial Goals		
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.	✓	
Operating Budget Policies		
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.	✓	

Fiscal Policy Statement	Status	Comments
Operating Budget Policies (continued)		
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.	√	
Revenue Policies		
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 bust 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 indentify 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.	√	
Expenditure Policies		
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.	√	

Fiscal Policy Statement	Status	Comments
Utility Rates and Fees Policies		
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.	√	
2. Utility rates will be projected for each of the next five years and updated annually	√	
Capital Improvement Budget Policies		
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.	√	
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.	√	

Fiscal Policy

Fiscal Policy Statement	Status	Comments
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.	√	
Reserve Policies		
1. The City will maintain Emergency reserves at the following levels; 9% of operating expenditures of the General Fund and 8% of operating expenses for Enterprise Funds. 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 reasonable 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. 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

Fiscal Policy Statement	Status	Comments
Reserve Policies (continued)		
3. 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)
4. 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 fine-year capital asset replacement and maintenance costs.	√	Capital Equipment Reserve = $875,000 Facilities Maintenance Reserve = $597,000 for FY 2007-08
5. 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
6. 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
7. 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

Fiscal Policy

Fiscal Policy Statement	Status	Comments
Investment Policies		
1. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
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.	√	
Accounting, Auditing & Financial Reporting Policies		
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 eh 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	√	
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 and Poor's = AA

Legend:

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

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 required funding. The information is summarized below:

***CITY PROJECTS* – Non-Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Parks				
La Pata Vista Hermosa Park (LPVH) – Phase 1	Parks Acquisition and Development Fund	$22,500,000[1]	$38,700,00	($16,200,00)
[1]Excludes transfer from the General Fund to be done based on a sale or lease of City property.				
Building				
Civic Center	Public Facilities Fund-Civic Center Reserve	$3,950,000[2]	$10,250,000	($6,300,000)
[2]This includes $1.4 million from the Public Safety Reserve, $2.55 million from the Public Facilities Construction Funs. Excludes any transfer from the sale or lease of City property				
Downtown Fire Station/Senior Center	Public Facilities Fund-Public Safety Reserve	$6,800,000[3]	$9,250,000	($2,450,000)
[3]This includes $5.5 million from the Public Safety Reserve and $0.9million from development fees, and $0.4 million from the City General Fund. Excludes the South County Seniors Contribution ($2.1 million).				

***CITY PROJECTS* - Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Water and Sewer				
Upper Chiquita Reservoir	Grant/MWDOC/Water and Sewer Fund	$1,000,000[4]	$6,700,000	($5,700,00)
[4]Excludes any proceeds from a State revolving fund loan				
Recycled Water Expansion	Grant/Water and Sewer Fund	$8,200,000[5]	$16,500,000	($8,300,000)
[5]Excludes any proceeds from Loan or local/regional bond issue				

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:

- USACE Sand Project
- La Pata Vista Hermosa – Phase II
- Pier Bowl Specific Plan
- Marine Safety Headquarters Repair/Relocation
- Quiet Zone Improvements

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 and Signalization and Road Widening of Avenida Vista Hermosa

Background and Current Status:
Since last year's LTFP was published, the City's project team has made adjustments to the way in which the project is to be bid and constructed. All of the park amenities that were previously proposed for Phase I of La Pata/Vista Hermosa Park are still included in the project plans and specifications, but to take advantage of potential cost savings, the construction has now been split into two stages. Phase 1a includes all of the general site improvements such as demolition and clearing, earthwork and grading, installation of utilities, and construction of curbs, gutters, parking lots, and internal roadways. Phase 1b includes the remaining park amenities such as the Soccer Hub, Youth Baseball Hub, Aquatics Complex, Football Field and Perimeter Landscaping.

An additional change in the management of the project involves the merger of the LPVH Park design and construction with that of the Signalization and Road Widening. Previously, the roadwork, although a requisite companion to the LPVH park development, was treated as a distinct, unfunded project. Subsequently, based on revised projections of the number of park users and analysis of internal and external traffic circulation, staff determined that the signalization and widening of Avenida vista Hermosa must be completed before the park can be opened for use. To take advantage of potential savings generated from economies of scale, and to provide for a safe, secure access to the park site during construction, the Roadwork portion of this project has been added to Phase 1a construction. Signalization will be completed during construction of Phase 1b.

It is anticipated that Phase 1a construction will be underway by January 2008, with work estimated to last approximately nine calendar months. The project team intends to have the Phase 1b plans and specifications ready for bid by fall of 2008, to coincide with the completion of Phase 1a. Staff has estimated that the construction of Phase 1b will take between 14 and 18 months, with completion of La Pata/Vista Hermosa Park in the spring or summer of 2010.

Expenditures

Design

As of December 1007, approximately $750,000 remains to be paid to the design consultant to complete the bid package for Phase 1b and for support during bidding and construction.

Construction

Phase 1a was put out to bid in October 2007, with 13 qualified contractors submitting proposals ranging in from $4.1 million to $6.2 million. The City Council awarded a contract to the low bidder, Sequel Contractors, Inc. of Santa Fe Springs, on November 6, 2007.

As Phase 1b plans and specifications are not yet complete, the consultant has not submitted an updated construction cost estimate to the City. However, extrapolating from the detailed estimate that was prepared in April 2006 upon completion of the "intermediate plans" phase, staff estimates that the remaining portions of the project will cost $34.6 million, for a total project cost of $38.7 million. This figure includes construction of the Base Bid amenities (soccer, baseball, aquatics, and landscaping), some or all of the Alternates (synthetic turf and football), and the Signalization of Avenida Vista Hermosa. It also accounts for construction cost escalation, contingencies, project management and overhead.

If the construction industry remains competitive, staff is hopeful that bids will be lower than currently estimated. Additionally, in the intervening months before completion of the Phase 1b bid package, staff and the consultant team will continue to identify value engineering solutions that will reduce cost of construction without compromising the overall quality of the park.

Operating and Maintenance

La Pata/Vista Hermosa 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 city's park system.

Staff estimates the O&M costs associated with the sports fields and landscaping to total approximately $600,000 per year. These figures are based on unit costs calculated by the BP&R Maintenance Division for streetscape, open space/slopes, and active-use parks. All sports fields - soccer, football, and baseball - are high- maintenance amenities, particularly when lighted to extend usable hours during winter months. The cost to maintain the soccer and football fields will depend on whether or not they are synthetic or natural turf areas. The cost to maintain the baseball fields may be deduced from recent bids received from landscape maintenance companies for Steed Park. Undeveloped spaces in the park may be seeded for water quality/erosion control, but maintenance costs are assumed to be negligible.

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. Staff is currently engaged in development of an operational model for the LPVH pools using City staff, and is simultaneously conducting a cost-benefit analysis of contracting with a non-city operator such as the YMCA. Based on similar facilities in other California municipalities, it is assumed that the cost to operate and maintain the aquatics complex will be approximately $1.2 million.

Revenues:
Staff is developing a detailed analysis of programming and tournament/rental revenue potential before the fields are scheduled for use. At this time, Recreation Division assumes that the soccer fields will be used during the majority of the year by AYSO and SC Football, who are City partners and pay $500 per year for unlimited field use. A similar scenario is anticipated for the little league ballfields. The large ballfield may be rented on weekends for overflow tournament use, and but staff does not anticipate that this will generate a significant revenue stream.

The majority of the revenues from La Pata/Vista Hermosa Park are associated with aquatics programming. How much is available to the City will be contingent upon whether or not the pools are operated by the City or via a contract with another organization, such as the YMCA. For the purposes of this LTFP, staff assumes a conservative cost recovery level of 35%, or $435,000.

Potential Cash Flow Issues:
The FY 07-08 CIP budget assumed a funding gap of approximately $11 million, based on a detailed project cost estimate that is now two years outdated. Adjusting for inflation and other factors, there is now a projected shortfall of approximately $16.2 million to complete construction of La Pata/Vista Hermosa Park. Last year's budget bridged the funding gap with an $11 million transfer from the General Fund, a transfer that was predicated upon the estimated proceeds from the lease or sale of the nine-acre residential parcel adjacent to the park site.

Staff remains confident that the lease or sale revenue will be sufficient to fund construction of the park, but there are a number of variables that will impact how and when the park is completed. In July 2007, the parcel was assumed to have a market value of approximately

$15.2 million[1], but the downturn of the real estate market over the past several months brings into question whether the property can be marketed for the identified amount within the required time frame. It is critical that cash be available before Phase 1b is awarded in winter of2008. If the property is not leased or sold by that time, or if proceeds are insufficient to meet the project budget gap, the City will have to do one of three things:

1. Construction can be further phased, or all of Phase 1b can be delayed, until such time as funding is available to complete the project; or
2. The scope of construction can be reduced to meet available funding at the time of contract award; or
3. Alternative funding mechanisms, such as the use of reserves, may be considered.

Buildings

Civic Center

Project Background:
Based upon City Council direction, numerous development options were evaluated with estimated construction costs ranging from $62.9 million for a new Civic Center in the Downtown area to $10.25 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 and 1030 Calle Negocio facilities.

Gensler of Newport Beach has been retained by the City to prepare construction drawings and specifications for the consolidated facility. Construction plans and specifications will be completed and ready for project bidding by April 1, 2008. At that juncture, the project will go into a hold mode pending the completion of construction of the new Fire Station No. 60 and Senior Center on Avenida Victoria. Current estimates call for the start of construction on Fire Station No. 60 and the new Senior Center by September 2008 with an approximate 13 month construction period and projected completion date of October 2009. Occupancy by the OCFA into the new Fire Station 60 will permit the sale of the existing City Hall site and subsequent funding for the completion of the Civic Center improvements at Negocio. Although the City Hall site may not be sold at the time, it is anticipated that construction will commence on the new Civic Center by February 1010 with an estimated 7 month construction period and final occupancy of the new Civic Center will occur by no late than September 2010.

Expenditures:
The total estimated cost for this project is estimated at $10.25 million includes the estimated cost for preparation of the plans and construction specifications which is $450,000. Funding sources identified for this project include the Public Safety reserve ($1.4 million), the Public Facilities Construction Fund ($2.5 million). The General Fund portion of project funding will be obtained from the anticipated sale of the existing Civic Center Site at 100 Avenida Presidio. However, it should be noted that the timing of the proposed sale of this site will in some measure be predicated on both the scheduling required for completion of the Negocio improvements and the time required to support continued occupancy by affected City staff in the Presidio location. Stated another way, the City may need to formally sell the existing Civic Center site and then remain in it for a brief period of time while improvements are completed at the Negocio facilities.

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. Goth 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.

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 provide space for meeting, games, fitness, reading, meals, offices and other uses. The fire station apparatus bay would be located on the 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. The project has been delayed until the City and South County Senior Services complete negotiations regarding the terms of a lease agreement. Once an agreement has been reached, staff anticipated the following timeline:

- Construction document preparation (6 months)
- Plan check (2 months)
- Project bidding and contract award (3 months)
- Construction (13 months)

Assuming the lease agreement is authorized in early 2008, the project will be completed by approximately late 2009 or early in 2010.

Expenditures
The cost estimate for the downtown fire station portion of the project is $5.5 million and the Senior Center project construction portion is $3.75 million.

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

Potential Cash Flow Issues
Terms of the funding of the Senior Center are subject to ongoing negotiation between the City and South County Senior Services. The most recent terms of the agreement require the following:

The senior center project is to be funded in the amount f $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 paid by the city up to $3.75 million. The City has currently budgeted $355,000 as a transfer from the General Fund. The remaining balance of approximately $395,000 is unfunded. However, any failure to meet the fundraising goals by south County Seniors will result in costs to the City since the City would advance funds for the completion of the senior center project.

Other Projects

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. The storage amount may be reduced by 6.5 million gallons if the City expands its Recycled Water System as recommended in the 2007 Recycled Water Master Plan.

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 260 million gallons and is located on the western slope of Chiquita Canyon north of Oso Parkway, on approximately 24 acres of land within the City of Rancho Santa margarita. The reservoir will be the largest domestic water storage facility in Orange County and will consist of a regional partnership between Santa Margarita Water District, Moulton Niguel Water District, City of San Clemente and other South Orange County water agencies.

The project is under design and environmental approval is anticipated in early 2008, with construction anticipated by summer of 2008. Construction completion is anticipated by fall of 2010 to coincide with a scheduled shutdown of the imported water supply by Metropolitan Water District.

Expenditures:
The total estimate cost for the reservoir is $50 million; the City's estimated share is $6.7 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 $4.0 million (with $1.0 million available for Chiquita), the remaining fund balance is allocated for improvements recommended in the City's 2006 Water Master Plan. There is a shortfall of $5.7 million that may be funded through a low interest loan, local bond or regional bond administered by MWDOC.

Recycled Water Expanasion

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 ant eh water Reclamation Plant. Due to grant funding opportunities, the Recycled Water Master Plan was updated by AKM Consulting and a negative declaration for the proposed projects was approved by City Council in October of 2007.

The master plan recommended expanding the treatment capacity from 2.2 to 4.4 million gallons per day and recycled water demand from 1,030 to 2,105 acre feet per year. The recommended phase 1 projects include nearly 8 miles of pipelines, conversion of a domestic water reservoir to recycled water storage, expansion of the Water Reclamation Plant, 2 pressure reducing stations and an interconnection with Santa Margarita Water District.

The project provides benefits to the City's water system by reducing dependency on imported water by approximately 10%. In addition, up to 6.5 million gallons of average day weekly demand from the potable water system that is used for irrigation will be stored and consumed from the recycled water system. The reduced demand for potable water by using recycled water reduces the amount of potable water that needs to be stored in the system and avoids approximately $1.2 million is potable water emergency storage reservoir costs. Customers using recycled water benefit during drought periods by having uninterrupted recycled water use. Other benefits include offsetting potential new demand charges imposed by Metropolitan Water District.

The schedule for the Recycled Water Expansion is dictated by the Proposition 50 Grant (%5.7 million) deadline to complete construction by summer of 2011. The next steps for the project include preparing the applications, review of the financing and overall project funding. Concurrent with the applications, design consultants will need to be hired in the spring of 2008 to complete design by early 2009 and construction in 2010/2011.

Expenditures:
City staff is estimating the cost of design and construction of the expansion at $16.5 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. The regional grant will provide the City with $5.7 million in funding. Congressman Ken Calvert has been working for a number of years to obtain federal funding for the city's recycled water expansion. In December of 2007, the Untied States Congress reached agreement with the President to provide $500,000 for the project. The remaining cost will be funded through $2 million form the Sewer Fund Connection Fee and $8.3 million from a low interest Sate Revolving Fund Loan with an approximate interest rate at 2.2%. Additional funding is anticipated once the project is operational form Metropolitan Water District for each acre foot of water sold the City will be reimbursed up to $250 per acre foot for a period of 25 years. HDR Consulting has been retained to assist City staff with the preparation of the State Revolving Fund Loan and Metropolitan Water District Local Resource Project applications.

Prospective Projects

USACE Sand Project

Project Background:
San Clement has suffered a sever erosion of beach sand n 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:

Project Identification
Should the study continue on schedule, barring any other unanticipated complications, in early 2008 the Corps will utilize the analysis of hydrodynamic data and storm damage predictions to formulate a number of alternative remediation measures. Each alternative plan formula 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 estimate 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. Project design will be shared 75%-25% by the Federal government and the City respectively, and project construction will be similarly split at a 65%-35% ratio. 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.

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. 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, nor will the project be included in the five-year Capital Improvements Program.

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 and Phase II 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 currently under review by City staff with a representative from City Council, 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.

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 Building is critical to the provision of life-safety 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 f $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. It is unknown at this time what the estimated cost of the design and construction will be to repair or relocate the building, 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.

Quiet Zone

Project Background:

The concern over train horn noise escalated since the Final Rule by the Federal Railroad Administration (FRA) implemented in 2006. The Final Rule resulted in increased train noise, not only in San Clemente, but throughout the State. The City Council has made an application for quiet zone status one of the top priorities of the City. A quiet zone is a designated section or railroad including one or more consecutive public grade crossings in which trains are prohibited from sounding their horns. The intent of a quiet zone is to decrease the levels of noise for residents.

The Orange County Transportation Authority (OCTA) established a quiet zone working group to assist in finding solutions to the train horn noise problem with other Orange County cities along the railroad corridor. A Notice of Intent (NOI) has been filed to establish a quiet zone and city Council has allocated $100,000 for related costs. The formal response to the NOI will result in meetings to identify safety issues that may exist at each crossing and to determine improvements to be implemented to address safety issues.

Expenditures:
The amount of infrastructure improvements and number of projects required is currently unknown to achieve a quiet zone status. The projects are dependent on the improvements required outside agencies, but some additional improvements in the future may be:

- Signage improvements
- Additional barriers
- Rail signalization improvements
- Pedestrian crossings
- Improvements to beach access points

Future funding sources may come from Redevelopment Agency funds, grants from other agencies, including the County or available city funds.

Conclusion
The Gap Closing Strategy paper summarizes how the City will meet the funding requirements of the identified projects.

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

Fiscal Impact of Recommendations
None

Council Action
None

Park Infrastructure Depreciation

Objective

To present the basic principles of depreciation for General Fund assets relating to Parks and Park Infrastructure and provide an overview of the estimate of San Clemente Parks and Park Infrastructure valuations and costs to build replacement reserves.

Background
The City's fiscal policy determines appropriate levels for reserves for the following categories;

- Emergency reserves for Operating Funds
- Self-Insurance reserves
- Capital Replacement reserves (Fleet, Facilities, and Capital Equipment)
- Infrastructure reserves (Water, Sewer, Storm Drain and Golf)
- Miscellaneous General Fund (Accrued leave, Employee Computer program)

These reserves are analyzed annually and recommendations for adjustments or changes are presented in the Reserve analysis of this Long Term Financial Plan to comply with the City's Fiscal Policy.

All of the City's reserves are funded with cash. That is, each individual reserve maintained by the City is fully funded and consist entirely of cash.

Depreciation versus Depreciation Reserve
Depreciation expenses differ for Governmental Funds, like the General Fund, and Proprietary, or business-type funds, such as the Water, Sewer and Golf Operating Funds in San Clemente.

For Proprietary Funds,"depreciation" is an accounting practice for recognizing the cost of capital assets over the life of the asset. By example, a $120,000 asset, estimated to last ten years, would carry an annual depreciation charge of $12,000 per year. Capital assets are placed on an entity's balance sheet, and each year, a charge for the depreciation amount is recognized as an operating expense, and the asset value reduced by that charge, until the entire value of that asset has been reduced to zero. This practice depreciates the asset over its useful life, and accumulates cash in an amount equal to the original purchase price of the asset in a *depreciation reserve.*

Governmental accounting is unique, in that acquisition of capital assets for the General Fund, are treated as *expenditures* at the time of purchase. Until implementation of GASB 34, depreciation was not recorded on general capital assets in the General Fund, but accumulated depreciation was reported in the General Fixed Asset Account Group, a "reporting fund" used to track gross asset dollars and accumulated book depreciation. Book depreciation did not represent cash, but was an accounting entry on the "books" to recognize the cost of the depletion or depreciation of the asset. Following implementation of GASB 34, governmental entities began recognizing depreciation expenses on their year-end financial statements directly in the General Fund, rather than the Genera Fixed Asset Account Group. This clear that construction of the 18 parks identified above could easily fall into a range of $50 to $100 million to construct today. The present estimates for the new La Pata/Vista Hermosa Sports Park, Phase I totals $38.7 million, giving further credibility to the higher end of the valuation range of $100 million.

Reserve Alternatives

Based on this preliminary analysis, several alternatives have been developed to address park and park infrastructure replacement.

Alternative 1

The most conservative approach to address park and park infrastructure replacement would create a formal reserve policy for all park and park infrastructure assets. A complete assessment of all park assets would be required, followed by adoption of policies to define major asset categories, useful lives, and replacement cycles. Upon completion of the assessment of all parks and park asses, a formal funding methodology could be implemented. Assuming replacement of all City park assets totals $100 million with a 50 year replacement cycle this reserve would require approximately $2.0 million contributions per year to properly fund.

Alternative 2

This alternative would reduce the scope of assets to develop replacement reserves for major asset categories to: buildings, parking lots, trails and sidewalks, sports fields, and park equipment (such as backstops, playground equipment, etc.). An assessment to determine assets within each major category would be required and useful lives, by major category defined. This alternative would be less costly than Alternative 1, but difficult to quantify at this time.

Alternative 3

Given that the General Fund presently reserves for Facilities Maintenance and Capital Equipment, this alternative would utilize these existing reserves and create one new reserve for Park Equipment. Few, if any, of the park assets are currently listed in the Facilities and Capital Equipment Replacement Reserves. Parking lots would be added to the existing Slurry Seal program and not included in any of the reserves.

This alternative would require the addition of applicable park assets to the existing reserves, thus increasing the annual Interdepartmental Charges in the General Fund. A new reserve would be created for park equipment to cover a variety of items, such as backstops, fencing, playground equipment, and field lights. An assessment would be required to determine actual assets to include and replacement cycles to adopt. The cost of this proposal is unknown, but less than Alternative 1. It is assumed that most assets covered by this new reserve would have fairly short lives, between 5 and 20 years.

Alternative 4
Parks and park assets are presently maintained, refurbished, or replaced on a "pay-as-you-go" basis. Under this alternative, no change is recommended. Park assets would continue to be maintained through the City's Operating budget and Capital Improvement Program.

Recommendations
Staff recommends Alternative 3. To quantify this alternative, staff proposes a detailed assessment be conducted for the City's park assets. Following the assessment, assets will be classified into major asset types. Useful lives and replacement assumptions will be determined, and replacement charges will be calculated. Analysis of the impact of each asset type and the appropriate reserve to capture replacement costs will be presented during the 2009 LTFP, for implementation in the FY 2009-10 Budget. Funding to complete the assessment and asset analysis will be requested as part of the FY 2008-09 Budget.

Council Action

Staff will conduct an assessment of the city's park assets during FY 2008-09 to determine which asset categories should be included in the existing Capital Equipment Replacement and Facilities Maintenance Reserves beginning in FY 2009-10.

Cost of Service Study

Objective
To analyze the Water and Sewer utility rate structures and make recommendations for future modifications to rates, tiers, customer types and classifications to achieve equity among the customer classes while promoting conservation by all customer classes.

Executive Summary
A Cost of Service Study for Water and Sewer utilities was last performed in October of 1993. The study was initiated to develop water and sewer rates which would recover adequate funds to provide operating and maintenance revenues, as well as capital construction funding, for the Water and Sewer Funds. At the time of that Study, the City had approximately 14,000 customers.

During the 17 year period since the last Study, the number of connections in the city has grown to over 17,500, a 25% increase, and is expected to grow by an additional 1,000 connections when the City reaches full build-out.

Staff reviews the utility rates on an annual basis, based on language in the Water and Sewer Ordinances which provide for automatic rate reviews during the budget process. During fiscal year 2006-07, Staff engaged Black &Veatch, a nationally recognized consulting firm in the areas of Utility operations and rates, to analyze the existing Ordinances, customer classifications, and billing practices. A number of key issues were identified and a recommendation to conduct a Cost of Service Study was made by Black & Veatch. Staff requested funding in the fiscal year 2007-08 budget which was subsequently approved and appropriated by Council.

Background and Discussion
A Cost of Service Study is an analysis of the cost structure of an existing utility (water and sewer in the case of San Clemente) and the recovery of those costs by major customer classes. The costs of operations, maintenance and capital replacements are all considered. The various components of the utility system; meters, in-ground lines, pumping stations, pressure reduction stations, treatment facilities, storage facilities, maintenance requirements, personnel, billing and collection systems, to name a few, are all analyzed and allocated in support of the customer classes which make up the utility users. In San Clemente, four major customer classes exist:

- Residential
- Multifamily
- Commercial
- Irrigation

Each customer class places discreet demands on the utility system(s), which through analysis, allows the allocation of the various cost categories to be distributed between the customer classes and ultimately compared to the cost recovery by each customer class to validate that each customer class is paying the costs of service. As part of the study, a number of key utility employees were interviewed to understand job functions and support the allocation of direct personnel and facilities expenses to the appropriate customer classes. In addition, key City operations, engineering, and management employees were also interviewed to further understand the indirect cost structure of Water and Sewer administration. These indirect costs are allocated through Interdepartmental Charges. Based on the interviews, experience, and industry-standard practices, Black & Veatch developed a cost allocation model to distribute all direct and indirect expenses to the identified customer classes.

An analysis of historical revenue, by customer class, was then conducted. In the case of this Cost of Service Study, information from fiscal year 2006-07 was utilized. In fact, information from 2005-06 was also analyzed as part of the analysis to compare to the more current data ultimately used in the study. Comparison of the data for both years further confirmed the conclusions presented later in this paper. Revenues are easily correlated to customer classes, as the billing system generates charges by customer class.

Upon completion of the collection and analysis of expense and revenues by customer class, a spreadsheet is developed to compare the allocation of expenses to the revenue collected. This spreadsheet presents the amount of revenue recovery, as a percentage of the total revenue collected, by customer class. In a simple way, this spreadsheet allows the reader to determine if full or partial cost recovery is being achieved by each of the customer classes.

The purpose of a Cost-of-Service Analysis is to align the charges for services to the major customer classes. The study is not intended to increase or decrease total revenue, but rather, to balance the charges between applicable customer classes so that all classes bear their respective direct and indirect costs they impart on the system. Therefore, any proposed changes to Water or Sewer charges will presumably shift charges between the major customer classes, if required. Changes may also alter the charges for services within individual customer classes. If, by example, the cost to provide water to higher water users is determined to be more expensive, by default, lower water users within that user group may experience reductions to their cost structure.

The Cost of Service Study has been conducted for both the Water and Sewer utilities. Each of these utilities has unique billing structures and potential issues. As a result, staff will present each portion of the study separately.

The existing water rate structures and tier allotments will also be examined to determine to what extent, if any, they support, promote, and encourage water conservation. Consumption patterns of each major customer class will be examined to determine the percentage of water consumption within each tier allotment. Industry standards exist to compare the consumption habits of the City's customers against. The relationship between unit pricing for tier one, two, and three will also be examined by Black & Veatch as this is a common method utilized today to discourage excessive water consumption. The number of units allocated to each tier and/or the price relationship between tiers may be altered to promote conservation through an effective pricing policy. Again, any recommended changes will not increase the total revenue collected

but will reallocate costs between high, medium, and low consumption customers.
A committee was created, consisting of personnel from Finance, Engineering, Water & Sewer Utilities, and Management to participate in and oversee this study. The committee has met regularly to assist in the collection of data, review of relevant issues, examine information presented by the consultant, and to ultimately make recommendations to address key issues resulting from the Cost-of-Service Analysis.

Water Cost of Service
The Water Utility charges a fixed monthly meter charge, based on the size of the meter, and a commodity charge, based on number of units consumed per month. The City uses a "tiered" method for commodity charges. There are three tiers. Each tier is allotted a number of units, based on the customer class and the summer or winter season, and each tier is progressively more expensive. Water at Tier 1 is the least expensive, with Tier 2 and Tier 3 prices progressively higher. This method is nationally accepted to encourage water conservation and complies with the California Urban Water Conservation Council's (CUWCC) Best Management Practices (BMP) guidelines.

The following issues were identified by Black & Veatch after conducting the Cost of Service Analysis for the Water utility;

1) **The relationship between the various meter sizes, 3/4", 1", 2", etc., are not consistent with national standards**, which typically increase the fixed meter charge by percentages as the size of the meter increases. Black & Veatch's research indicated that the City is undercharging for larger meter sizes relative to the smaller meter sizes.
2) **The percentage of revenue collected for the fixed monthly meter charge was low in proportion to the total revenue collected**. The industry standard for fixed monthly charges typically represents 25% of total revenue. The City's existing fixed monthly charge amounts to 17% of total revenue. Black & Veatch recommends an increase in the fixed rates, as well as a rebalancing of the charges by meter size, and a corresponding reduction in the consumption charges, to shift more of the monthly revenue to fixed fees. This theoretically yields a more stable revenue stream. However, it presents complications to balancing the total monthly charge, particularly for the low-use customers. The majority of accounts in San Clemente utilize 1" meters.
3) **The pricing differential between tiers is too low**. Typically, pricing at Tier 3, the most expensive tier, is based on a percentage of Tier 1 pricing, often 300% to 350% of that pricing. The City's Tier 3 relationship to Tier 1 is 225%. In essence, the City's existing tiered-rate structure does not provide a strong pricing signal to discourage high usage which in turn fails to promote conservation.
4) **The large lot residential customers place higher demands on the water system and receive larger allocations of water than standard residential lot sizes.** The City presently has three single family "large lot" categories:
    i. 7,000 – 9,000 sq. ft
    ii. 9,000 – 14,000 sq. ft.
    iii. 14,000+ sq ft

Residential customers must apply for the large lot status, or "exemption". Based on information provided in the application and verification through the City's GIS system, if approved, the customer is placed into one of the three large-lot categories. Each of the categories provides more units of water per tier than a regular residential lot size. This system was designed to provide additional water for irrigation on larger properties. Currently, 2,750 large lot exemptions are on file which represents 19% of all residential customers. In total, 5,700 lots exist in the City which could qualify for large lot exemption status.

Several issues related to the large lot exemption have been identified by Black & Veatch:

- 9 – 14,000 sq. ft. lot size group uses less water on average than the 7-9,000 sq. ft. lot sizes. Many of the customers within this category have obtained the large lot exemption for total property size but belong to Home Owner Associations which irrigate a portion of their properties (e.g. back slope areas).
- Usage by the large lot customers drives disproportionate peak demand.
- Large lot customers pay less per unit of water consumed than regular lot customers due to larger tier allotments.
- The number of large lot categories is high. This complicates billing, customer service, and customer understanding of utility bills.

5) **Multi-Family customers receive a marginal increase of water allotments in the summer.** The City utilizes a winter and summer tier system where the number of units per tier is increased during the summer period. This allows for greater water consumption for irrigation purposes. Multi-Family accounts receive a one unit increase for summer months, based on the assumption that multi-family accounts comprise condos and apartments, which are generally metered separately for irrigation. In fact, many multi-family accounts are duplex and triplex units, each with individual or private landscaping areas. There are different usage patterns for multi-family accounts based on whether they are individually or master-metered.
6) **Individual versus multi-metered Multi-Family properties.** Most multi-family properties, which are individually metered (a meter exists for each unit), have 1" service. The monthly flat fee for a 1" meter is $7.67. In properties where a single meter provides service to multiple units, the meter size is typically larger. For a three-unit complex, a 2" meter monthly flat fee is $16.13. On a similar property individually metered, the City would collect $23.01 per month (3 units times $7.67). This pricing disparity is further exasperated when considering the impact to sewer connection fees, explained later in this paper.
7) **Residential customers are paying greater than 100% of their allocated costs.** The following table presents the current water revenue recovery information by major customer class;

Customer Class	2007 Cost of Service ($)	Revenue recovery under existing rates ($)	Total percent Recovered %
Single Family Residence	$ 5,358,900	$ 5,591,900	104.35%
Multi Family Residence	1,849,100	1,717,500	90.68%
Commercial	905,300	846,300	93.48%
Irrigation	1,865,500	1,868,100	100.14%
Total System	$ 10,023,800	$ 10,023,800	100.00%

8) **Multi-Family and commercial customers are paying less than 100% of their allocated costs.**

Sewer Cost of Service

The Sewer Utility charges a monthly fixed fee, based on the size of the water meter, and a commodity charge, based on 90% of the number of water units consumed per month. Unlike Water, a flat rate per unit is applied to the commodity charges regardless of number of units consumed. The cost per unit differs for each customer class within the City, and many sub-classes exist within the commercial category. This presumably accounts for the different types of demands commercial customers place on the wastewater system.

Monthly commodity charges for residential and multi-family properties are based on a "wet winter month" calculation. The number of units the commodity fee is based on is determined by the average number of units used during the winter period, defined as January, February, March, and April. These are typically the wettest months of the winter which would require the least amount of water consumption for irrigation, thus billing customers for that portion of indoor water consumption which will be treated at the City's wastewater facility. This average is calculated every August and the new wet winter month calculation is billed for the following twelve month period. In essence, sewer fees are fixed for residential and multi-family properties for each twelve month period based on the previous winter's average water consumption.

The following issues were identified by Black & Veatch after conducting the Cost of Service Analysis for the Sewer utility;

1) **The relationship between the various meter sizes, 3/4", 1", 2", etc., are not consistent with national standards**, which typically increase the fixed meter charge by percentages as the size of the meter increases. Black & Veatch's research indicated that the City was undercharging for larger meter sizes relative to smaller meter sizes.
2) **Residential and Multi-Family customers are paying greater than 100% of their allocated costs.** The following table presents the current sewer revenue recovery information by major customer class;

Sewer

The primary objective of the cost of Service analysis for Sewer was to achieve equity amongst the customer classes. As with Water above, it was the objective of the committee to present a balanced and equitable solution while minimizing the amount of disruption to each of the customer classes for the Sewer Utility.

The following recommendations are proposed:

1) Change the monthly flat rate charge for meter sizes in excess of 1". This correlates the charge for larger meters with costs and minimizes the impact to the majority of existing single family accounts. While the consultant recommended that the percentage of revenue collected from flat rate charge should be increased, this approach required elimination of the commodity fee structure, which the committee considered overly complex. This approach also penalized the low-consumption customers, who already display positive conservation tendencies.
2) Change the cost per unit of the Sewer commodity charge to balance the revenue recovery by customer class. The Cost-of-Service analysis clearly shows the commercial customer class is not achieving full cost recovery. Commodity charges will be adjusted to achieve full cost recovery. Commercial accounts will see the most significant impact from this recommendation, supporting the findings of the analysis, which indicates commercial accounts presently only achieve 64% of cost recovery.
3) Reduce the number of customer classifications from 10 to 7. This recommendation will simplify billing and customer service issues. Existing classifications have common rates, such as Multi-Family/Mobile Home, so combining these has no rate impacts. Other reclassifications, such as combining the *Church* into Low Strength Commercial, will result in a lower cost per unit charge for the Church customer within the commercial categories, but an overall cost increase resulting from recommendation #2 above.

Fiscal Impact of Recommendations

Exhibit's I, II, and III have been prepared to present a sample of the impact for each of the customer classes. Actual accounts have been analyzed for summer usage for this analysis, when water usage is highest, and tier allotments are increased. Exhibit's I & II present the average impact by customer class, providing an average change for low, medium and high use customers. Exhibit III presents a sample of actual individual commercial account changes, rather than average impacts. Accounts with the highest percent of change were presented to understand the most dramatic changes commercial accounts might experience.

In most cases, low, medium, and high usage accounts have been presented to understand the effects of the water and sewer recommendations on a sample of each user group. As expected, the average residential customers will see monthly cost reductions, with the exception of the "high usage" and 9,000-14,000 sq. ft. large-lot customers.

The majority of Multifamily customers will experience cost reductions. This is caused by three factors; 1) Cost per unit of water is reduced for tiers 1 & 2, 2) the newly created "multifamily-individually metered" customer class provides for additional water usage in tiers 1 & 2 for the summer months, and 3) the multifamily-individually metered class is given more units of water per tier than the master-metered multifamily accounts. This was done to provide irrigation water to the individually metered property owners who have small lawns or gardens.

As expected, the impact to commercial accounts is substantial. The Cost-of-Service analysis concluded that the commercial accounts are being subsidized by the other customer classes. Rates were recalculated to achieve 100% recovery amongst all existing commercial customer classes. The total annual revenue from commercial accounts relative to the annual system revenue causes a large *percentage* increase for commercial customers. That increase ranges from approximately 40% to 60% for the combined water and sewer bills for commercial accounts.

Two commercial customer classes, Schools and Churches, were given special consideration during the analysis. The actual number of customers within each of the two categories is minor. There are 9 schools and 4 churches in the City's utility system today.

Schools have benefited from an extremely low sewer rate structure as compared to other commercial customers within the City. When compared to surrounding south county sewer districts, the San Clemente rates for schools are significantly lower. Black & Veatch recommended combining the School category with the Low Strength category, which is consistent with their recommendation to consolidate customer classes and places the school customer class into the rate category with the lowest cost structure for commercial accounts. Thus, their per-unit rate increases from $0.82 to $1.44.

Churches will be reclassified from the *Church* category into the Low Strength Commercial category along with the Schools and other existing commercial customers. Their per-unit rate will increase from $1.29 to $1.44 per unit, as compared to the existing Low Strength customer rate increase from $0.97 to $1.44.

Overall, the Cost of Service Analysis indicated that revenue from commercial accounts is not achieving full cost recovery. The recommendations presented in this paper will fulfill the two primary objectives; 1) Equity amongst customer classes, and 2) Promotion of conservation, which ultimately impact the commercial accounts and customers consuming large amounts of water most.

Council Action

A public workshop has been scheduled for further review and consideration of the recommendations presented in this paper. Final recommendations adopted at that workshop will be incorporated into the FY 2008-09 budget.

Exhibit I

Cost of Service Analysis

Average Impact on Single and Multi Family Customer Classes

(All figures in dollars except % Change column)

Customer Class	Water		Sewer		Total Service		Change (reduction)	% Change
	Existing	Proposed	Existing	Proposed	Existing	Proposed		
Single Family								
Low user	12.83	12.14	22.02	21.20	34.85	33.34	(1.51)	(4.3%)
Medium user	35.19	31.52	31.31	28.83	66.50	60.35	(6.15)	(9.2%)
High user	178.38	217.22	44.08	39.32	222.46	256.54	34.08	15.3%
Large Lots								
7,000-9,000								
Low	24.87	22.57	28.99	26.92	53.86	49.49	(4.37)	(8.1%)
Medium	26.59	24.06	30.28	27.98	56.87	52.04	(4.83)	(8.5%)
High	42.07	37.48	41.89	37.52	83.96	75.00	(8.96)	(10.7%)
9,000-14,000								
Low	97.64	116.56	65.11	56.60	162.75	173.16	10.41	6.4%
Medium	185.26	215.74	87.04	74.62	272.30	290.36	18.06	6.6%
High	262.66	320.14	110.26	93.70	372.92	413.84	40.92	10.9%
14,000+								
Low	31.75	28.53	34.15	31.16	65.90	59.69	(6.21)	(9.4%)
Medium	116.03	101.54	125.74	77.49	241.77	179.03	(62.74)	(26.0%)
High	157.31	137.30	167.02	100.38	324.33	237.68	(86.65)	(26.7%)
Multifamily -Master								
Low	26.59	23.95	30.15	27.87	56.74	51.82	(4.92)	(8.6%)
Medium	56.69	49.85	46.41	41.23	103.10	91.08	(12.02)	(11.6%)
High	103.13	89.81	74.27	64.13	177.40	153.94	(23.46)	(13.2%)
Multifamily -individual								
Low	14.55	5.92	22.02	21.20	36.57	27.12	(9.45)	(25.8%)
Medium	24.87	17.76	25.51	24.06	50.38	41.82	(8.56)	(16.9%)
High	59.27	59.20	38.28	34.55	97.55	93.75	(3.80)	(3.9%)

Exhibit II

Cost of Service Analysis
Average Impact on Commercial Customer Classes
(All figures in dollars except % Change column)

Customer Class	Water		Sewer		Total Service		Change (reduction)	% Change
	Existing	Proposed	Existing	Proposed	Existing	Proposed		
Commercial Accounts								
Low strength								
Low usage	22.89	22.05	24.49	34.56	47.38	56.61	9.23	19.5%
Medium usage	60.05	57.12	40.68	65.21	100.73	122.33	21.6	21.4%
High usage	458.26	433.62	235.35	368.13	693.61	801.75	108.14	15.6%
Medium strength								
Low usage	24.15	23.24	27.06	38.35	51.21	61.59	10.38	20.3%
Medium usage	62.98	59.96	50.89	83.78	113.87	143.74	29.87	26.2%
High usage	282.01	266.72	175.13	286.21	457.14	552.93	95.79	20.9%
Medium-High strength								
Low usage	23.71	22.79	32.77	40.16	56.48	62.95	6.47	11.4%
Medium usage	73.09	69.53	83.64	131.38	156.73	200.91	44.18	28.2%
High usage	388.50	368.58	422.33	630.70	810.83	999.28	188.45	23.2%
High strength								
Low usage	42.70	40.80	65.74	98.56	108.44	139.36	30.92	28.5%
Medium usage	104.34	99.06	150.14	239.74	254.48	338.8	84.32	33.1%
High usage	312.43	295.37	429.65	666.92	742.08	962.29	220.21	29.7%
Church	33.53	39.65	39.13	85.44	72.66	125.09	52.43	72.1%
School	200.62	192.51	152.67	331.61	353.29	524.12	170.83	48.4%

Exhibit III

Cost of Service Analysis

Most Impacted (Not Average) Commercial Customers

(All figures in dollars except % Change column)

Customer Class	Water		Sewer		Total Service		Change (reduction)	% Change
	Existing	Proposed	Existing	Proposed	Existing	Proposed		
Commercial Accounts								
Low strength								
Low user	39.44	37.76	34.59	76.05	74.03	113.81	39.78	53.7%
Medium user	71.09	67.61	47.69	95.49	118.78	163.10	44.32	37.3%
High user	119.52	113.64	78.71	156.16	198.23	269.80	71.57	36.1%
Medium strength								
Low user	31.00	29.80	33.80	74.83	64.80	104.63	39.83	61.5%
Medium user	70.99	67.87	65.65	136.65	136.64	204.52	67.88	49.7%
High user	142.73	135.53	104.51	194.18	247.24	329.71	82.47	33.4%
Medium-High strength								
Low user	37.21	35.51	45.73	59.34	82.94	94.87	11.93	14.4%
Medium user	83.65	79.81	100.73	188.56	184.38	268.37	83.99	45.6%
High user	298.87	282.79	307.28	494.26	606.15	777.05	170.90	28.2%
High strength								
Low user	60.44	57.92	95.28	180.55	155.72	238.47	82.75	53.1%
Medium user	104.75	99.71	154.62	268.43	259.37	368.14	108.77	41.9%
High user	216.58	205.18	304.40	490.24	520.98	695.42	174.44	33.5%
Church	22.46	31.74	39.41	97.82	61.87	129.56	67.69	109.4%
School	99.96	97.56	144.54	304.02	244.50	401.58	157.08	64.2%

Revenue & Fee Analysis

Objective

To provide a comprehensive review of the City's revenue sources to determine:

1. If the charges or fees are appropriate for the services offered.
2. If the charges or fees should be adjusted based upon fees from comparable cities or recovery of current program costs.
3. If the City's revenue sources are well diversified.

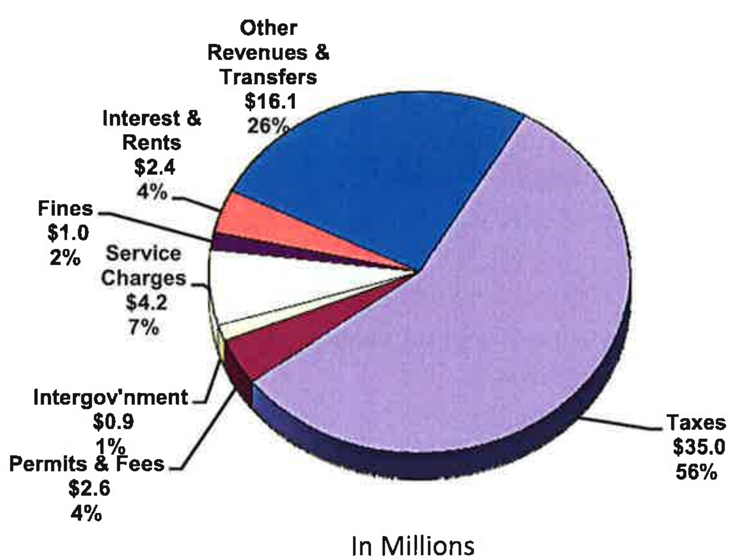
Executive Summary

The Government Finance Officers Association (GFOA) has adopted a "best practices" policy that encourages the diversity of revenue sources. Revenue diversification "can improve a government's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services. Revenue diversification increases the probability that sufficient revenues are generated to sustain current services and service levels." [1] However, since the majority of all General Fund revenues are not controlled by the City, diversification practices can only be applied to service fees or charges and some fines. Diversification practices include updating fees and charges on a regular basis, justifying the underlying policies or assumptions and accounting for cost of living adjustments.

A comprehensive review of General Fund revenue sources was conducted. By category and line-item, revenues were examined to determine:

- What legislative body (Federal, State, County or local) can enact changes or increases to rates or allocation methods used to distribute revenue?
- When was the last time the rate or allocation methods were changed?
- Which revenue sources should be adjusted annually for cost of living adjustments?

For FY 2007-08, the City anticipates a total of $62.1 million in revenue from the General Fund. The graph below shows the major revenue categories, budget amounts and the percentage of total revenues by category.



In Millions

[1] "Building a Healthy Financial Foundation through Revenue Diversification", Institute for Local Government, 2006.

The largest category, Other Revenues and Transfers, consists primarily of transfers between funds for capital improvement projects or funding of reserves. These amounts are determined annually during the budget process.

Taxes, which consist of property, sales, transient occupancy and franchise fee taxes, total $37.9 million or 28% of total revenues. The State of California, Revenue and Taxation code sections, have established the tax based upon the "ad valorem" or property tax value of real property and tangible personal property located within the State. The City also receives State ERAF property taxes in lieu of the motor vehicle backfill and County ERAF property taxes as a result of the State's "triple flip" budget balancing act in 2004. Attachment "A" provides a detailed analysis of the motor vehicle backfill suspension and the "triple flip", plus annual revenue received from these sources.

Sales tax rates are also established by State of California with various other local rates for transportation and other purposes. The main components are a) the statewide rate of 6.25%, commonly referred to as the "Bradley-Burns uniform local rate", b) the local 1% rate and c) the 0.5% for Measure M transportation rate. The current sales tax allocation method is shown below using an example of a $100 purchase and $7.75 in sales taxes:

Entity	Distribution
State (General Fund)	$4.75
State (Fiscal Recovery Fund – triple flip)	0.25
State (Local Revenue Fund)	0.50
State (General Fund)	0.25
State (Local Public Safety – Prop 172)	0.50
Local Government	1.00
Local Transportation (Measure M)	0.50
Total Sales Tax	**$7.75**

The transient occupancy rate of 10% per occupancy is established by City Ordinance, but any increases to the rate are subject to special election provisions established by Proposition 218. Franchise fee taxes, which are collected for the use of City streets and rights-of-ways, are established by written agreement between the City and the utility providers under the guidelines established by the State of California, Public Utility codes.

Intergovernmental revenues, such as motor vehicle fees, gas tax allocations and grants are allocated based upon population or pre-determined competitive process guidelines established by the State, County or Federal governments.

The remaining revenue categories of Permits & Fees, Service Charges, Fines and Rental Charges are normally established by City Ordinance. Rates are based upon fees and charges from comparable cities or cost recovery for the services performed. In some cases, specifically recreation charges, City Council may decide to recover less than the total cost of providing services as a general benefit to the community. For the last two years, the Recreation division has been reviewing the cost and cost recovery of providing recreation services and facility rentals with the Parks and Recreation Committee and City Council. Several recommendations for fee increases have been implemented and incorporated into the current year's budget.

Over the last seven years, half of the fees and services charges established by City ordinance have been reviewed and updated. However, the following revenues have not been comprehensively reviewed and updated to ensure that they are comparable to other cities or if they adequately recapture the cost of providing the service.

Revenue Description	Last Updated
Building fees	2005
Planning fees	1991
Engineering fees	2001
Ambulance fees	1992
Ambulance subscription fees	1992
Parking citations	2004
Parking meters	1997
Parking permits	1997

Background and Discussion

Building, Planning and Engineering Fees - The established method for determining fair and equitable fees for building, planning and engineering services is to perform an independent study of the cost to provide the services. Revenue and Cost Specialists (RCS), LLC was engaged by the City to perform this analysis. RCS interviewed City staff to determine the amount of actual time involved with performing fee financed City services. The determination of the costs included:

- All direct salary and wages
- Employee benefits, including City provided benefits such as retirement, social security, workers' compensation insurance, disability insurance, medical and life insurance and Medicare.
- Maintenance and operation costs, including direct material costs, professional services, insurance, operating supplies included in the FY 2007-08 budget. The costs were allocated by percentages or through actual allocation to each service center identified in the City's overhead cost allocation report.
- City overhead for the general administration of the City, specifically City Council, City Manager, City Clerk, City Attorney and Finance functions, are based on the City's cost allocation plan.
- Departmental overhead has been calculated by RCS.

These costs elements have been determined in a businesslike manner using basic business principles. The costs are applied to each fee-financed or fee-financeable service provided by the City and conform to the published intent and definitions of the Federal Uniform Cost Accounting Act.

To determine the Engineering fees, the position costs were matched up with the time allocated by staff to determine the cost of each service. Depending on the service, the fee was set as either a flat fee, fee set at actual costs or a fee set as a percentage of the construction valuation. If it is a flat fee, then the fee is set at the cost of the service as determined through the RCS study. If it is an actual cost fee, then the fee is determined by staff tracking their actual time and that cost is charged back to the project. If it is a valuation based fee, then the fee is determined by calculating the valuation of the construction and then a percentage is applied against that valuation to determine the fee. The RCS study has determined that the current percentages are appropriate.

Building plan check and inspection fees are determined by calculating the valuation of the construction, then various rates are charged depending on the calculated valuation. To calculate the valuation, the square footage and the type of construction is determined. That is then applied against an updated International Conference of Building Officials (ICBO) table. The existing table was last updated by ICBO in 2002. RCS has updated that table by inflation to better reflect current construction valuations. Once the valuation is determined, it is then applied against the fee schedule to determine the actual fee. This fee schedule was increased to reflect the actual cost of providing the service.

Mechanical, electrical and plumbing plan check and inspection fees were determined on a flat fee basis. The position costs were matched up with the time allocated by staff to determine the cost of each service. The fee is set at the cost of the service as determined through the RCS study.

Planning services fees have not been updated since 1992. Recent examination of these fees revealed that application of the recommended overhead rate and the processes by which various discretionary applications are reviewed warrant additional study by a qualified consultant. Included in this study will be a comparison of overhead rates, review processes and fees with similar cities. Once complete, recommendations for increases or decreases will be presented for City Council consideration.

The attached report from Revenue & Cost Specialists includes recommendations to modify the City's existing fee schedule for building and engineering services. If the fee schedule allowing for 100% of the cost of services is adopted, building fees would increase approximately 24% and engineering fees would increase by 17%.

Ambulance Transport Fees - The City contracts with the Orange County Fire Authority to provide ambulance services for San Clemente at the actual cost to provide the services (less overhead and billing). The City also contracts with an ambulance billing service, who invoices patients and insurance companies for ambulance transports. In FY 2006-07, $560,000 was received in ambulance fees with 77% recovery of all amounts billed. Ambulance fees have not been increased since 1992 and are the lowest in the County. The current fee schedule is as follows:

Revenue & Fee Analysis

	Resident	Non-Resident
Basic Life Support (BLS)	$300	$500
Advanced Life Support (ALS)	$450	$650

The City does not currently charge for mileage.

The Orange County Health Care Agency establishes BLS ambulance and ALS paramedic assessment rates for all of OCFA's jurisdictional areas except San Clemente[2], Westminster and Buena Park, at the following rates:

OCFA Established Rates (July 1, 2007)	
Basic Life Support (BLS)	$338.75
Mileage	$ 14.75
Advanced Life Support (ALS)	$637.50

The ambulance rates established by the Orange County Health Care Agency are annually adjusted and independently audited to ensure that fees do not exceed the cost of providing basic and advance life support service. The rates are comparable with the other jurisdictions (Orange, Huntington Beach, and Santa Ana) that provide ambulance transport services. It is recommended that the City adopt the annually established OCFA rates for non-resident transport services and provide a $200 discount for resident transport services. In addition, it is recommended to charge the adopted mileage rate due to rising fuel costs.

Adoption of the OCFA established rates will increase revenue, however, it is unclear how much revenue the City will actually receive since Medicare and Medi-Cal transports have a maximum allowable reimbursement. During the 2006-07 fiscal year, 23% of ambulance transports were for Medicare and Medi-Cal patients.

Ambulance Subscription Fees – The City provides residents with the opportunity to subscribe to an emergency medical transportation services for an annual fee, rather than a per trip charge. The current rate of $35 per year for residential and $150 per year for businesses, has not been updated since 1992. There are currently 514 residential and no business subscriptions. Over the last five years, the City has averaged $20,000 in revenue from ambulance subscription fees. Subscription fees charged by other Orange County agencies are shown below:

Agency	Ambulance Subscription Fees
Orange	$36.00 year
Newport Beach	$48.00 year
Santa Ana	$38.00 year

[2] At the time of transition from City provided services to OCFA provided services, City officials wanted to retain control to set ambulance rates and provide for resident discounts.

Revenue & Fee Analysis

A 14% increase is proposed for residential and business subscriptions which will bring rates in line with the average fee charged by Orange, Newport Beach and Santa Ana. This will equate to a $5.00 increase for residential subscriptions and $20.00 increase for business subscriptions.

Parking Fees and Fines – The San Clemente coastal trail, which can be accessed by parking in three municipal parking lots, has increased General Fund revenues from parking meters and parking permits by $113,000 from the prior year. Parking citation revenue shows a $20,000 decline from the prior year. In total, revenue from these three sources amounted to $1.4 million for FY 2006-07. The popularity of the trail has also increased maintenance and enforcement costs. It is proposed to raise parking meter, parking permit and citation revenue to partially offset the cost of the trail maintenance. A survey of coastal cities was conducted to determine what other cities are charging for these fees.

Agency	Parking Meters	Parking Permits	Parking Citations
San Clemente	$1.00/hr	$50/resident $65/non-resident	$35.00
Newport Beach	$0.25 to $1.00/hr depending on the zone	$100/yr $50.00/senior	$47.00
Huntington Beach	$1.50/hr	$125/yr $75/senior	$42.00
County of Orange (Dana Point)	$1.50/hr	$55/yr $35/senior	$40.00
Laguna Beach	$1.00/hr on street $1.50/hr in lots	$80/resident	$36.00

Proposed increases for San Clemente are:

- Increase the hourly parking meter fee from $1.00 per hour to $1.50 per hour, resulting in an increase of approximately $350,000 in revenue. This would bring the City more in line with the parking rates charged by the majority of the beach cities. This change would require a one-time capital expenditure to upgrade the meters at Linda Lane Park.
- Increase the residential parking permit to $65.00/year and the non-residential parking permit to $80.00/year. The parking permit fee has not been increased since 1997. If a 3% inflation factor per year for ten years was applied, parking permits would be increased from the current rate of $50.00 to $65.00 for residents and from $65.00 to $80.00 for non-residents. A total of $33,150 in new revenue would be generated if the proposed increases were adopted.
- Increase the parking citation for parking in an expired metered space from $35.00 to $40.00 which is the average of the cities surveyed above. Approximately $100,000 in new revenue could potentially be generated if this change was adopted.

Conclusion

Fees and charges for service should be inflated annually to ensure that the cost of providing the services is commensurate with the fees charged. It is also recommended to include in the fee resolution, an annual cost adjustment based upon the cost of living adjustments granted to employees, on all building, and engineering fees and charges.

Revenue & Fee Analysis

Recommendations

1. Adopt the proposed changes outlined in the Revenue and Cost Specialist report for building and engineering fees.
2. Continue to study the planning fees and make recommendations for changes during the FY 2008-09 budget review.
3. Increase the ambulance transport fees for basic life support and advanced life support to $637.50 and $976.25 for non-residents and $437.50 and $776.25 for residents, plus mileage. Fees will be adjusted annually to the rate set by the County of Orange.
4. Increase the ambulance subscription rate to $40.00 for residents and $170.00 for businesses.
5. Increase parking meter fees to $1.50 per hour, parking permit fees to $65.00 per year for residents and $80.00 per year for non-residents and parking citation fines to $40.00 per violation.
6. Include an annual cost adjustment based upon the cost of living adjustments granted to employees on all building and engineering fees and charges and parking permit charges.

Fiscal Impact of Recommendations

If the recommended actions are adopted, General Fund revenues will be increased and will recover the actual cost of the services provided or recover a rate comparable to other cities providing the same services. The following chart shows the current fee charged by the City and the proposed fee if adopted:

Description	Current Rate	Proposed Rate
Building & Engineering	See attachments	See attachments
Basic life support (BLS) resident	$300	$437.50 plus mileage
Basic life support (BLS) non-resident	$500	$637.50 plus mileage
Advanced life support (ALS) resident	$450	$776.25 plus mileage
Advanced life support (ALS) non-resident	$650	$976.25 plus mileage
Ambulance subscription - residential	$35	$40
Ambulance subscription - business	$150	$170
Parking meters	$1.00/hr	$1.50/hr
Parking permit – resident	$50	$65
Parking permit – non-resident	$65	$80
Parking citation – expired meter	$35	$40

Council Action (After Council Adoption)

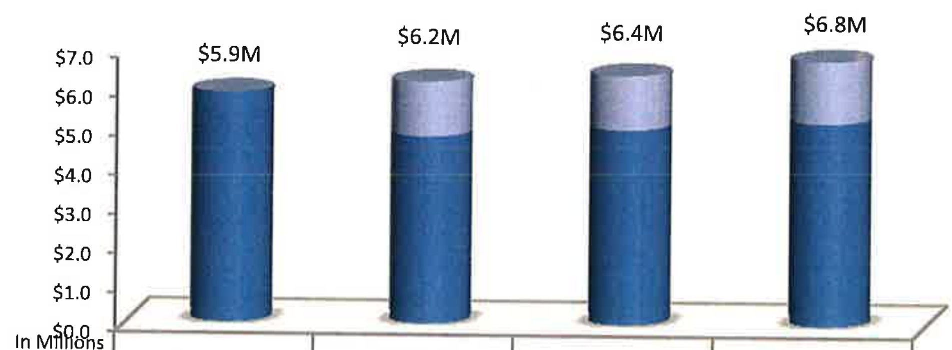
No action was taken by City Council. A separate workshop on fees will be conducted with City Council on April 29, 2008. Actions taken by the City Council will be incorporated in the FY 2008-09 budget.

Attachment "A"

Triple Flip

In March 2004, the voters of California approved Proposition 57, the California Economic Recovery Bond Act. The measure, commonly referred to as the "triple flip" consists of 1) reducing the City's local sales and use tax rate by 0.25% and increasing the State's sales tax rate by 0.25% to fund the fiscal recovery bond payments, 2) repayment to cities and counties, on a dollar-for-dollar basis, of 0.25% the sales and use tax with Educational Revenue Augmentation Fund (ERAF) property tax money; and 3) repayment to schools of 0.25% of lost ERAF monies with State General Fund monies. The County compares the amount distributed in the prior fiscal year to the actual amount of sales tax revenues the City has earned and makes a positive or negative adjustment in the following year. Thus, the City will always receive the amount of sales taxes generated locally, but the timing of any growth in receipts will always be one year in arrears.

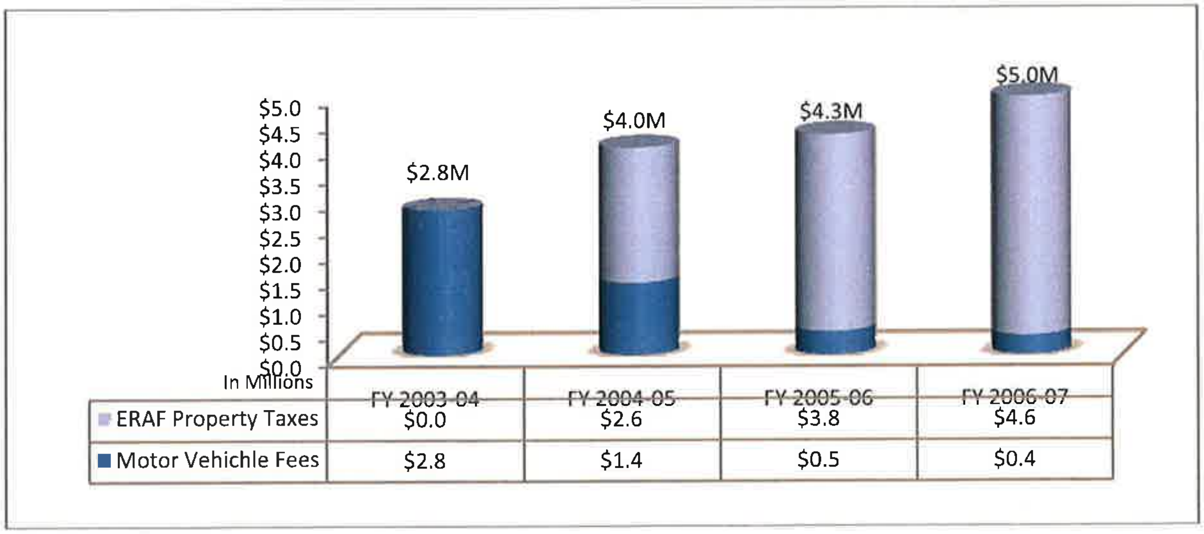
The City of San Clemente has been receiving ERAF property taxes from the State since 2005. The chart below graphically depicts the changes to the City's sales taxes and ERAF property taxes over the last four years:



	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
ERAF Property Taxes	$0.0	$1.4	$1.4	$1.6
Sales Tax	$5.9	$4.8	$5.0	$5.2

Vehicle License Fee (VLF)

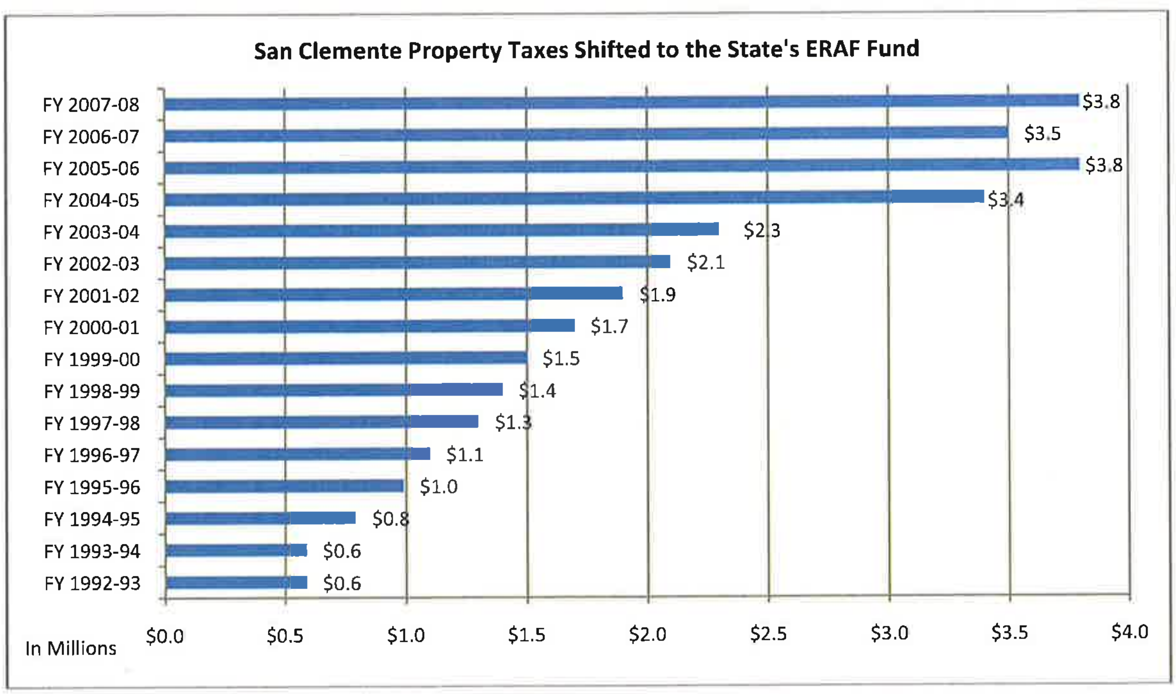
Prior to the State's budget crisis, vehicle license fees had been known as a "local" revenue source. The fees were allocated to cities and counties based on population. Beginning in 1998, the State Legislature began a series of reductions in the VLF rate to the vehicle owner but continued to allocate funding to cities and counties at the rate of 2% of market value of the vehicle. The State ultimately reduced the rate to 0.65% of market value and "backfilled" 1.35% of the revenue with other State revenues. In FY 2004-05, the State discontinued the "backfill" of vehicle license fees and augments the loss of 1.35% with State Educational Revenue Augmentation Fund (ERAF) property taxes. The City receives the growth in ERAF property taxes based on the City's annual growth in valuation.



	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
ERAF Property Taxes	$0.0	$2.6	$3.8	$4.6
Motor Vehichle Fees	$2.8	$1.4	$0.5	$0.4

The ERAF Property Tax Shift

Since 1992, the State of California has enacted legislation to shift local property taxes from cities and counties to the State's Educational Revenue Augmentation Fund (ERAF). Commonly referred to as ERAF I and ERAF II, the State directed specific amounts of local property tax revenue from local government to ERAF annually. As part of a budget agreement in 2004, cities, counties and special districts agreed to contribute an additional $1.3 billion per year in FY 2004-05 and FY 2005-06. For San Clemente, this amounted to an additional $760,000 in each year. In total, San Clemente has contributed $30.8 million in local property tax revenue to ERAF. The chart below shows the City of San Clemente's contributions to the State's Educational Revenue Augmentation Fund.



CITY OF SAN CLEMENTE
BUILDING & SAFETY FEE SCHEDULE
BUILDING PERMIT FEES

SERVICE	CURRENT FEE	PROPOSED FEE
BUILDING PERMITS		
Permit Issuance		
Building Permit Under $500 Valuation	$23.50	$25.25
Building Permit $501-$2,000 Valuation	$23.50 + $3.05 for each $100 over $500	$25.25 + $3.30 for each $100 over $500
Building Permit $2,001-$25,000 Valuation	$69.25 + $14 for each $1,000 over $2,000	$74.75 + $15 for each $1,000 over $2,000
Building Permit $25,001-$50,000 Valuation	$391.25 + $10.10 for each $1,000 over $25,000	$419.75 + $10.85 for each $1,000 over $25,000
Building Permit $50,001-$100,000 Valuation	$643.75 + $7 for each $1,000 over $50,000	$691 + $7.55 for each $1,000 over $50,000
Building Permit $100,001-$500,000 Valuation	$993.75 + $5.60 for each $1,000 over $100,000	$1,068.50 + $6 for each $1,000 over $100,000
Building Permit $500,001-$1,000,000 Valuation	$3,233.75 + $4.75 for each $1,000 over $500,000	$3,468.50 + $5.10 for each $1,000 over $500,000
Building Permit Over $1,000,000 Valuation	$5,608.75 + $3.15 for each $1,000 over $1,000,000	$6,018.50 + $3.40 for each $1,000 over $1,000,000
Duplicate Inspection Card	$15.00	$26.00
Relocation Permit Fee	$150.00	$150.00
Request for Termporary Utility Release	$15.00	$15.00
Other Inspections not specified	Hourly Rate	Hourly Rate
Overtime Inspection	Hourly Rate	Hourly Rate
Building Plan Check	65% of Bldg Permit Fee	65% of Bldg Permit Fee
Energy Regulation Plan Check	10% of Bldg Permit Fee	10% of Bldg Permit Fee
Accessibility Regulations Plan Check	10% of Bldg Permit Fee	10% of Bldg Permit Fee
Repetitive Plan Check	30% of Plan Check Fee	30% of Plan Check Fee
Additional Plan Review	Hourly Rate	Hourly Rate
Expedited Plan Review in addition to regular Plan Review Fee	Hourly Rate	Hourly Rate

Exhibit A-1

Exhibit A-2

CITY OF SAN CLEMENTE
BUILDING & SAFETY FEE SCHEDULE
MECHANICAL, ELECTRICAL, AND PLUMBING PERMIT FEES

	CURRENT	PROPOSED
ELECTRICAL PERMITS		
Permit Issuance	$22.00	$35
Supplemental Permit Issuance	$6.50	$11
New Residential Buildings		
Multifamily	$0.045 per sq ft	$0.055 per sq ft
Single and Two Family	$0.05 per sq ft	$0.06 per sq ft
Private Swimming Pools	$44.25	$136
Residential Appliances, up to 1 hp	$4.25	$17
Non-Residential Appliances, up to 1 hp	$4.25	$17
Electrical Sign	$22.00	$102
Power Apparatus (Ratings in HP, KW, KVA, or KVAR)		
up to 1	$4.25	$17
1 - 10	$11.00	$17
11 - 50	$22.00	$34
51 - 100	$44.25	$34
100 +	$66.50	$68
Temporary Power Pole for Construction Site	$22.00	$118
Temporary Power for Christmas Tree Lots, Fireworks Stands, et	$11.00	$68
Services, Switchboards, Control Centers, & Panels		
up to 600 volts		
up to 200 amps	$27.25	$118
200 amps - 1,000 amps	$55.50	$118
greater than 600 volts or 1,000 amps	$111.00	$152
Receptacle, Switch, and Lighting Outlet, per fixture	$1.00	$2
Lighting Fixture, per fixture	$1.00	$2
Pole or Platform Mounted Fixtures, per fixture	$1.00	$3
Theatrical Lighting, per fixture	$1.00	$2
Carnivals and Circuses		
Electrical Generator/Electrically Driven Rides	$22.00	$68
Mechanically Driven Rides and Attractions w/Elec Lighting	$6.50	$34
System of Area and Booth Lighting	$6.50	$34
Miscellaneous Conduits and Conductors	$16.25	$3
Inspections not specified	Hourly Rate	Hourly Rate
Reinspections	Hourly Rate	Hourly Rate

Exhibit A-2

CITY OF SAN CLEMENTE
BUILDING & SAFETY FEE SCHEDULE
MECHANICAL, ELECTRICAL, AND PLUMBING PERMIT FEES

	CURRENT	PROPOSED
PLUMBING PERMITS		
Permit Issuance	$20.00	$35
Supplemental Permit Issuance	$10.00	$18
Plumbing Fixtures and Vents	$7.00	$17
Repair or Alteration of Drainage or Vent Piping	$7.00	$17
Grease Interceptor	$7.00	$102
Piping		
Single Family Residential (per dwelling unit)	$7.00	$68
Multi Family Residential (per dwelling unit)	$7.00	$68
Repipe		
Single Family Residential (per dwelling unit)	$7.00	$68
Multi Family Residential (per dwelling unit)	$7.00	$68
Lawn Sprinklers, Vacuum Breakers, and Backflow Protection Dev.		
Each Lawn Sprinkler System on any one meter	$7.00	$7
Each Vacuum Breaker or Backflow Protection Device	$5.00	$7
Other than atmospheric vacuum breaker 2 inches or smaller	$7.00	$7
Other than atmospheric vacuum breaker greater than 2 inches	$15.00	$15
Gas System		
For Each System	$5.00	$102
For Each Outlet	$1.00	$3
Water Heater	$7.00	$51
Solar Water Heating system	$7.00	$68
Connection of House Sewer to Public Sewer	$15.00	$34
Private Sewage Disposal System	$40.00	Hourly Rate
Grey Water System	$25.00	Hourly Rate
Abandonment of Private Sewage Disposal System	$0.00	Hourly Rate
Repair of House Sewer	$15.00	$68
Abandonment of Sewer Line	$0.00	$34
On-Site Sewer (per 100 linear feet)	$0.00	$17
Public Pool	$30.00	$85
Public Spa	$30.00	$85
Private Pool	$20.00	$85
Private Spa	$20.00	$85
Pool/Spa Heater	$25.45	$51
Miscellaneous	$7.00	$17
Inspections not specified	Hourly Rate	Hourly Rate
Reinspections	Hourly Rate	Hourly Rate

Exhibit A-2

CITY OF SAN CLEMENTE
BUILDING & SAFETY FEE SCHEDULE
MECHANICAL, ELECTRICAL, AND PLUMBING PERMIT FEES

	CURRENT	PROPOSED
MECHANICAL PERMITS		
Permit Issuance	$23.50	$35
Supplemental Permit Issuance	$7.25	$11
Forced-Air or Gravity-Type Furnace or Burner		
Up to 100,000 btu	$14.80	$51
Over 100,000 btu	$18.20	$68
Floor Furnace - Installation or Relocation	$14.80	$34
Suspended/Recessed Wall/Floor Mounted Heater - Install/Reloc	$14.80	$34
Appliance Vents per each Inlet/Outlet	$7.25	$34
Air Handling Units		
Up to 10,000 cfm	$10.65	$17
Over 10,000 cfm	$18.10	$34
Evaporative Cooler	$10.65	$34
Single Register Ventilation Fan	$7.25	$7
Independent Venting System	$10.65	$102
Hood served by Mechanical Exhaust	$10.65	$102
Boilers, Compressors, and Absorption Systems		
0-3 HP or 0-100,000 Btu/h	$14.70	$68
3-15 HP or 100,001-500,000 Btu/h	$27.15	$85
15-30 HP or 500,001-1,000,000 Btu/h	$37.25	$102
30-50 HP or 1,000,001-1,750,000 Btu/h	$55.45	$119
50+ HP or 1,750,001+ Btu/h	$92.65	$153
Alteration to Duct Work not otherwise noted	$13.70	$34
Miscellaneous	$10.65	$34
Inspections not specified	Hourly Rate	Hourly Rate
Reinspections	Hourly Rate	Hourly Rate

CITY OF SAN CLEMENTE

SUMMARY OF REVENUES, COSTS, AND SUBSIDIES

FISCAL YEAR 2007-2008

REF # (1)	SERVICE CENTER (2)	TOTAL REVENUE (3)	TOTAL COST (4)	TOTAL PROFIT/ (SUBSIDY) (5)	% RECOVERY ACTUAL (6)	% RECOVERY SUGGEST (7)	POSSIBLE NEW REVENUE (8)
S-054	SFR GRADING PLAN - PRECISE GRADING	$46,000	$58,843	($12,843)	78.2%	100%	$12,800
S-055	SFR GRADING PLAN - RETAINING WALL	$21,500	$25,461	($3,961)	84.4%	100%	$4,000
S-056	SFR GRADING PLAN - SHORING	$2,580	$3,055	($475)	84.5%	100%	$500
S-057	SFR GRADING PLAN - GEOTECHNICAL REV	$15,000	$15,000	$0	100.0%	100%	$0
S-058	LOT MERGER	$1,000	$1,185	($185)	84.4%	100%	$200
S-059	LOT LINE ADJUSTMENT	$2,000	$2,371	($371)	84.4%	100%	$400
S-060	CERTIFICATE OF CORRECTION	$0	$527	($527)	0.0%	100%	$500
S-061	CERTIFICATE OF COMPLIANCE	NA	NA	NA	NA	100%	NA
S-062	STREET/R-O-W ABANDONMENT PROCESS.	NA	NA	NA	NA	100%	NA
S-063	ENGINEERING PLAN REVIEW	$150,000	$182,634	($32,634)	82.1%	100%	$32,600
S-064	TRAFFIC REVIEW	NA	NA	NA	NA	100%	NA
S-065	BUILDING PLAN REVIEW - ENGINEERING	$0	$31,678	($31,678)	0.0%	100%	$31,700
S-066	WATER QUALITY MANAGEMENT PLAN	$0	$8,367	($8,367)	0.0%	100%	$8,400
S-067	WASTE MANAGEMENT PLAN	$20,000	$38,822	($18,822)	51.5%	100%	$18,800
S-068	DRIVEWAY/RAMP APPROACH ENCROACH PMT	$1,750	$3,517	($1,767)	49.8%	100%	$1,800
S-069	CURB/GUTTER ENCROACHMENT PERMIT	$1,750	$3,593	($1,843)	48.7%	100%	$1,800
S-070	SIDEWALK ENCROACHMENT PERMIT	$3,500	$6,496	($2,996)	53.9%	100%	$3,000
S-071	CURB CORE ONLY ENCROACHMENT PERMIT	$1,750	$1,727	$23	101.3%	100%	$0
S-072	SEWER/WATER LATERAL EXCAV. PMT	$23,600	$58,266	($34,666)	40.5%	100%	$34,700
S-073	OTHER STREET EXCAVATION	$12,400	$17,541	($5,141)	70.7%	100%	$5,100
S-074	TRAFFIC CONTROL ENCROACHMENT PERMIT	$3,125	$6,042	($2,917)	51.7%	100%	$2,900
S-075	DUMPSTER ENCROACHMENT PERMIT	$420	$740	($320)	56.8%	100%	$300
S-076	ADMINISTRATIVE ENCROACHMENT PERMIT	$930	$1,160	($230)	80.2%	100%	$200
S-077	TRANSPORTATION PERMIT	$2,085	$3,093	($1,008)	67.4%	100%	$0
S-078	BORING/DRILLING/WELL PERMIT	$1,194	$6,443	($5,249)	18.5%	100%	$5,200
S-079	GRADING INSPECTION/PERMIT	$23,000	$33,724	($10,724)	68.2%	100%	$10,700
S-080	ENG. CONSTRUCTION INSPECTION/PERMIT	$584,691	$565,116	$19,575	103.5%	100%	$0
S-081	ENGINEERING RE-INSPECTION	$0	$102	($102)	0.0%	100%	$100
S-082	DOCUMENT IMAGING/MICROFILMING	$30,000	$61,782	($31,782)	48.6%	100%	$31,800

Exhibit A-3

SCHEDULE 1

CITY OF SAN CLEMENTE

SUMMARY OF REVENUES, COSTS, AND SUBSIDIES

FISCAL YEAR 2007-2008

REF # (1)	SERVICE CENTER (2)	TOTAL REVENUE (3)	TOTAL COST (4)	TOTAL PROFIT/ (SUBSIDY) (5)	% RECOVERY ACTUAL (6)	% RECOVERY SUGGEST (7)	POSSIBLE NEW REVENUE (8)
S-083	OVERSIZE DOCUMENT/MAP COPYING	$220	$455	($235)	48.4%	100%	$200
	SUBTOTAL - ENGINEERING	**$948,495**	**$1,137,740**	**($189,245)**	**83.4%**		**$207,700**
	BUILDING PLAN CHECK & INSPECTION	$2,033,685	$2,665,199	($631,514)	76.3%	100%	$631,500
	SUBTOTAL - BUILDING & SAFETY	**$2,033,685**	**$2,665,199**	**($631,514)**	**76.3%**		**$631,500**
S-084	DOCUMENT REPRODUCTION	$8,000	$2,360	$5,640	339.0%	100.0%	$0
S-085	DOCUMENT CERTIFICATION	$0	$28	($28)	0.0%	100.0%	$0
S-086	CD/DVD COPY	$1,000	$462	$538	216.5%	100.0%	($500)
S-087	TAPE COPY	$25	$10	$15	250.0%	100.0%	$0
S-088	AGENDA MAILING SERVICE	NA	NA	NA	NA	100.0%	NA
	SUBTOTAL - CITY CLERK	**$9,025**	**$2,860**	**$6,165**	**315.6%**		**($500)**
	GRAND TOTAL	**$3,263,320**	**$4,829,004**	**($1,565,684)**	**67.6%**		**$1,494,300**

Exhibit A-3

Exhibit A-4

2007 ICBO BUILDING VALUATION DATA

1.	APARTMENT HOUSES		
	* I or II F R		108.16
	V-Masonry or III		88.28
	V-Wood Frame		77.80
	I-Basement Garage		45.61
2.	AUDITORIUMS		
	I or II F.R.		127.79
	II — 1-Hr		92.55
	II-N		87.55
	III- 1-Hr		97.31
	III-N		92.31
	V-1-Hr		93.04
	V-N		86.82
3.	BANKS		
	* I or II F.R.		180.59
	II — 1-Hr		133.04
	II — N		128.77
	III — 1-Hr		146.82
	III — N		141.57
	V — 1-Hr		133.04
	V-N		127.43
4.	BOWLING ALLEYS		
	II —1-Hr		62.19
	II — N		58.04
	III — 1-Hr		67.68
	III — N		63.29
	V — 1-Hr		45.61
5.	CHURCHES		
	I or II F.R.		120.96
	II — 1-Hr		90.85
	II — N		86.33
	III — 1-Hr		98.77
	III — N		94.38
	V- 1-Hr		92.31
	V — N		86.82
6.	CONVALESCENT HOSPITALS		
	*I or II F.R.		169.74
	II—1-Hr		117.79
	III — 1-Hr		120.72
	V — 1-Hr		113.77
7.	DWELLINGS		
	V — Masonry	92.31	118.16
	V — Wood Frame	82.07	112.67
	Basements:		
	Semi-Finished	24.51	28.29
	Unfinished	17.80	21.58
8.	FIRE STATIONS		
	I or II F R.		139.50
	II — 1-Hr		91.82
	II — N		86.58
	III — 1-Hr		100.48
	III — N		96.21
	V — 1-Hr		94.26
	V-N		89.38
9.	HOMES FOR THE ELDERLY		
	I or II F.R.		126.45
	II — 1-Hr		102.67
	II- N		98.28
	III — 1-Hr		106.94
	III-N		102.55
	V — 1-Hr		103.28
	V — N		99.75
10.	HOSPITALS		
	* I or II F.R.		199.01
	III — 1-Hr		164.74
	V — 1-Hr		157.18
11.	HOTELS & MOTELS		
	* I or II F.R.		123.16
	III — 1-Hr		106.70
	III — N		101.70
	V — 1-Hr		92.92
	V — N		91.09
12.	INDUSTRIAL PLANTS		
	I or II F.R.		69.38
	II — 1-Hr		48.29
	II — N		44.39
	III — 1-Hr		53.17
	III — N		50.12
	Tilt-up		36.58
	V — 1-Hr		50.12
	V — N		45.85
13.	JAILS		
	I or II F.R.		194.01
	III — 1-Hr		177.42
	V — 1-Hr		133.04
14.	LIBRARIES		
	I or II F.R.		141.94
	II — 1-Hr		103.89
	II — N		98.77
	III — 1-Hr		109.75
	III — N		104.26
	V — 1-Hr		103.04
	V — N		98.77
15.	MEDICAL OFFICES		
	* I or II F.R.		145.72
	II — 1-Hr		112.43
	II — N		106.82
	III — 1-Hr		121.94
	III — N		113.53
	V — 1-Hr		109.99
	V — N		106.09
16.	OFFICES**		
	* I or II F.R.		130.23
	II — 1-Hr		87.19
	II — N		83.04
	III — 1-Hr		94.14
	III — N		89.99
	V — 1-Hr		88.16
	V — N		83.04
17.	PRIVATE GARAGES		
	Wood Frame		29.63
	Masonry		33.41
	Open Carports		20.24
18.	PUBLIC BUILDINGS		
	*I or II F.R		150.47
	II-1-Hr		121.94
	II — N		116.57
	III — 1-Hr		126.57
	III — N		122.18
	V — 1-Hr		115.84
	V-N		111.70
19.	PUBLIC GARAGES		
	* I or II F.R.		59.63
	* I or II (Open Parking)		44.75
	II — N		34.14
	III — 1-Hr		45.12
	III — N		40.12
	V — 1-Hr		41.09
20.	RESTAURANTS		
	III — 1-Hr		118.77
	III — N		114.75
	V — 1-Hr		108.77
	V —N		104.50
21.	SCHOOLS		
	I or II F.R.		135.60
	II — 1-Hr		92.55
	III — 1-Hr		99.02
	III — N		95.24
	V — 1-Hr		92.80
	V — N		88.53
22.	SERVICE STATIONS		
	II — N		81.94
	III — 1-Hr		85.48
	V — 1-Hr		72.80
	Canopies		34.14
23.	STORES		
	* I or II F.R		100.48
	II — 1-Hr		61.46
	II — N		60.12
	III — 1-Hr		74.75
	III — N		70.12
	V — 1-Hr		62.92
	V — N		58.17
24.	THEATERS		
	I or II F.R.		133.89
	III — 1-Hr		97.55
	III — N		92.92
	V — 1-Hr		91.82
	V — N		86.82
25.	WAREHOUSES***		
	I or II F.R.		60.24
	II or V-1-Hr		35.73
	II or V-N		33.53
	III — 1-Hr		40.48
	III — N		38.53
	EQUIPMENT/AIR CONDITIONING		
	Commercial A/C		5.12
	Residential A/C		4.27
	Sprinkler Systems		3.17

Note:
* Add 0.5% to total cost for each story over three.
** Deduct 20% for shell-only building.
*** Deduct 11% for mini-warehouses

Americans with Disabilities Act

Objective
To present an overview of the primary requirements of the Americans with Disabilities Act, and to discuss a preliminary strategy for bringing the City into compliance with federal regulations.

Executive Summary
Equal access to civic life by persons with disabilities is a fundamental goal of the Americans with Disabilities Act (ADA), signed into law on July 26, 1990. To this end, Title II of the ADA requires all State and local governments to make all public services, programs and activities accessible to persons with disabilities. This requirement extends not only to physical access at existing and new facilities, but also to policy changes that ensure that all persons with disabilities have equal participation and effective communication in all functions of civic life. Many of the City of San Clemente's existing facilities are not in compliance with federal accessibility statutes. A comprehensive review of all City programs, policies, practices, and facilities should be conducted, and a mitigation plan developed, to ensure that San Clemente meets both the letter and the intent of the ADA.

Background and Discussion
Purpose of ADA
Title II of ADA applies to all state and local government agencies, including counties, cities and townships, school and water districts, special districts, and other small local governments and instrumentalities. It prohibits discrimination on the basis of disability in all services, programs, and activities provided by cities. Protection under ADA is currently granted to individuals with physical or mental impairments, such as: orthopedic, visual, speech, and hearing impairments; cerebral palsy, epilepsy, muscular dystrophy, and multiple sclerosis; cancer, heart disease, diabetes, HIV, and tuberculosis; and mental retardation, emotional illness, specific learning disabilities, drug addiction, and alcoholism. To accomplish this, the ADA sets requirements for five primary areas of compliance by local government: program accessibility in existing facilities; new construction and alterations; maintenance of accessible amenities; communications with the public; and policies and procedures governing city programs, services, and activities.

Liability and ADA
Over the past 15 years, tens of thousands of lawsuits have been filed in the State of California, primarily against small businesses, for alleged violations of the ADA accessibility requirements. ADA allows a person who has been discriminated against or physically precluded from enjoying equal access to public facilities, services, or activities due to a disability to make a complaint or even file a lawsuit against an entity in order to force the entity to remedy the violation. However, California is one of three states in the nation that currently allow plaintiffs filing ADA lawsuits to not only enforce compliance with accessibility regulations, but also seek punitive damages and compensation for attorney fees.

This has facilitated a high volume of what some would refer to as "predatory lawsuits" filed by "professional plaintiffs," and has generated significant interest in ADA reform by the State legislature. Frivolous or not, until the law is changed, the best way for business and public agencies alike to avoid exposure to such lawsuits is to become compliant.

Processes for ADA Compliance

The sheer scale of the modifications required under ADA has led to compliance problems for many agencies, particularly those that are small in size and resource capacity. The Department of Justice's Project Civic Access has published a number of guides that help public agencies identify and remedy areas of non-compliance. The following steps were required for all agencies when ADA became effective in January 1992:

1. Designate an ADA Compliance Officer to coordinate the required self-evaluation and develop a transition plan, handle requests for auxiliary aids, provide information about accessible facilities and services, ensure new facilities or alterations meet ADA requirements, and serve as a resource to the City Council and the public. *The City of San Clemente does not have a designated ADA Compliance Officer, although some of these functions are performed by Public Works and Recreation staff.*
2. Provide public notice about the City's ADA nondiscrimination obligations and policies, accessible facilities and services, and complaint or grievance procedures. *The City of San Clemente provides minimal public accessibility information. A brief statement or disclaimer is printed in all job postings, facility rental forms, and recreation class registrations, but there is no central source for questions or information published either in print form or on the City's website.*
3. Develop a grievance procedure that provides for a formal public complaint process, which encourages prompt and equitable resolution of the problem at the local level without forcing individuals to file a federal complaint or lawsuit. *The City of San Clemente does not have a formal grievance procedure, nor claim forms that may be submitted by the public for resolution.*
4. Conduct a self-evaluation or assessment of all city services, programs, and activities to identify any physical barriers or policies, practices, or procedures that may limit or exclude participation by people with disabilities. The assessment is intended to identify discriminatory programs and facilities, and provide recommendations for mitigation of accessibility issues in both the short and long-term. *City staff conducted an assessment in the early nineties, but documentation of the results cannot be located. A July 1992 memo from the Building Official indicated that this Self-Evaluation was only required by law to be kept on file for three years. Nevertheless, it is also clear from the text of the memo that the staff inspection and assessment process undertaken at that time was limited to compliance issues at City buildings, rather than a comprehensive review of all City programs, services, activities, and facilities.*
5. Develop a transition plan that identifies modifications that will be made to programs and facilities to ensure compliance with ADA Standards. *The City of San Clemente may have developed a transition plan in the early nineties, but like the self-assessment, documentation of the results cannot be located.*

   Several ADA-related projects were budgeted in the CIP in 1995 and 1996. However, it is evident that there still exist a number of compliance issues that would benefit from a new assessment and mitigation plan.

Conclusion

The Americans with Disabilities Act has extensive implications for the City of San Clemente in all areas of civic activity. There are potential compliance concerns that impact every department in the organization, as well as programs, services, facilities, policies, and procedures citywide. Although staff in Public Works, Maintenance, Risk Management, Human Resources, and Recreation may all have developed some understanding of the federal accessibility requirements, outside expertise may be needed if the City is to undertake a thorough review of current access issues and development of a strategy for addressing compliance with ADA in the future.

The first steps that the City should take towards full compliance with ADA Title II are to designate a Compliance Officer, meet the public noticing requirements, and develop a grievance procedure. These simple steps would have little financial impact, and would help to encourage resolution of accessibility compliance issues in an informal, rather than legal, forum. Based on a cursory survey, most municipalities do not have a full-time staff position dedicated to compliance. The designated Compliance Officer is often an existing staff person, generally in an administrative or management position, who assumes responsibility as the primary point of contact within the City and to the public in coordinating compliance with ADA requirements. Public noticing and grievance procedures are also available from other municipalities or from CJPIA, and easily augmented to address the City's specific needs and standards.

As indicated in the Background and Discussion section, the City would also benefit from a thorough evaluation of programs, services, communications, and facilities, conducted by staff, a consultant, or a combination of both. At minimum, an assessment of "red flags" or common targets for ADA litigation should be undertaken, involving parking, signage, building entrances (both path of travel and door hardware), sidewalks, and public restrooms. ADA improvements citywide may be costly, so it is assumed that a multi-year or phased program will need to be developed in order to ensure that sufficient resources are available to complete any necessary projects.

Recommendations

It is recommended that the City Council direct staff to develop a plan to address the first three steps on the preceding page – including designation of a staff Compliance Officer, revision and expansion of current City ADA public notification mechanisms, and development of a formal Grievance Process – for Council consideration and approval by the end of Fiscal Year 08-09.

It is also recommended that the City Council direct staff to form a task force to address steps four and five on the preceding page – including an evaluation of ADA compliance issues, and development of a multi-year plan to bring the City's programs, services, communications, and facilities into full compliance with ADA Title II requirements.

Fiscal Impact of Recommendations

Staff anticipates minimal costs associated with completion of the first three steps, although reclassification of an existing position may be necessary to reflect the designation of the ADA Compliance Officer.

The compliance assessment, if completed by City staff using Department of Justice checklists and associated publications, will also have a minimal fiscal impact. If it is necessary to solicit outside expertise, staff will need to develop a detailed scope of work and budget for a professional services contract. Preliminary fee estimates from accessibility consulting firms range from $60,000 to $100,000 to provide a detailed citywide compliance evaluation and a compliance transition plan.

Council Action:
ADA Compliance Officer will be appointed and a committee established to develop an ADA compliance plan during FY 2008/09.

Debt Analysis

Objective
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs.

Background
The City issued the first Debt Analysis issue paper for the 2007 Long Term Financial Plan. The paper has been updated to review existing debt and to present potential funding alternatives identified in the Capital Projects Analysis.

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
    c. Golf Enterprise Operating Fund to the In-Lieu Parking Reserve

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.

Debt Analysis

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 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/.

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 three Assessment Districts, one Community Facilities District, and one Certificate of Participation financing outstanding. The Assessment and Community Facility District bonds 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.

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.

Reassessment District 98-1, issued in June, 2007 in the amount of $14.2 million to defease a portion of AD 98-1 Series A and B Bonds, originally issued in 1999 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.

Debt Analysis

Capital Leases, issued in August 2006 to finance the lease of fourteen digital copiers and April 2007 to finance the lease of one color copier in City offices. A total of $166,000 was financed over two 60 month terms. Interdepartmental charges to departments are used to repay the lease.

Enterprise Loan Financing
A *Golf Course Clubhouse financing*, which was intended 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, was not completed. Unfavorable market conditions developed during FY 2006-07 and prevented the placement of Golf Course Financing within the constraints approved by Council. A short-term loan, discussed later in this paper, was made from the In-Lieu Parking Reserve to fund the completion of the Golf Course Clubhouse project.

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.

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.

Advance from the Public Facilities Construction Fee Fund (In-Lieu Parking Reserve) to the Golf Capital Improvement Reserve, made in June 2007 in the amount of $2,450,000 to fund completion of the Golf Course Clubhouse project. The advance is scheduled for repayment in June 2008 based on the successful placement of the Golf Course Clubhouse Financing discussed above.

Debt Analysis

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
Long Term Debt				
Street Overlay AD 95-1	Assessment District	Sept., 1996	$2,310,000	$666,200
Sewer Improvements AD 98-1	Reassessment District	June, 2007	$14,235,000	$1,128,000
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$835,000	$99,800
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Dec., 1999	$5,595,000	$410,700
Negocio Series A	Certificates of Participation	June, 1993	$865,000	$88,400
Negocio Series B	Certificates of Participation	June, 1993	$1,965,000	$238,000
City Copiers	Capital lease	August, 2006	$166,000	$36,500
Long-Term Interfund Loan				
RDA	Interfund loan	July, 2002	$2,315,900	$269,800
Short-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2003	$984,000	$984,000
General Liability Fund	Interfund loan	June, 2006	$200,000	$200,000
Golf Operating	Interfund loan	June, 2007	$2,450,000	$278,000

Debt Analysis

Debt Options for Capital Project 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. The funding required, 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, 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, the potential funding requirement 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. Except as noted, the assumed interest rate is 6.5% and the term equals 20 years. These are conservative assumptions and intended to provide a general estimate of the costs and debt service requirements. Given these assumptions, industry standards for these two debt instruments dictate the financed amount exceed the capital project by 20% (e.g. $16 million project would result in a $20.0 million bond issue). Industry standards for General Obligation bonds are slightly different. The financed amount for General Obligation bonds typically exceeds the capital project by 7% (e.g. $16 million project would result in a $17.2 million bond issue). For smaller financings or private placement debt, the percentages will vary.

The La Pata/Vista Hermosa, Phase I project is eligible for funding by Certificates of Participation or Assessment District debt, requiring a total of $20.3 million (20% in excess of the combined capital projects). Estimated annual debt payments amount to $1.8 million. Assuming General Obligation debt, a total of $17.4 million (7% in excess of the combined capital projects) would fund the combined capital projects. Estimated debt service payments amount to $1.6 million.

The Civic Center project required funding could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $7.9 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $710,000. Assuming General Obligation debt, a total of $6.8 million (7% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $610,000.

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 $7.1 million with estimated annual payments of $640,000.

Debt Analysis

Capital Project	Required Funding	Debt Issue	Annual debt Service
LPVH Park/Ave Hermosa COP/AD	$16,200,000	$20,300,000	$1,800,000
LPVH Park/Ave Hermosa – GO	$16,200,000	$17,400,000	$1,600,000
Civic Center - COP	$6,300,000	$7,875,000	$710,000
Civic Center – GO	$6,300,000	$6,775,000	$610,000
Downtown Fire Station	Fully funded	-0-	-0-
Upper Chiquita Reservoir	$5,700,000	$7,125,000	$640,000

Recommendations for debt have not been made for the Downtown Fire Station, which is fully funded from available fund balances in the Public Facilities Construction Fee Fund.

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. Finance the projected funding requirement of $16.2 million with an estimated $20.3 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.8 million from the General Fund. Should the project be financed through an Assessment District or General Obligation bond, debt service payments of $1.7 million or $1.6 million respectively would be assessed upon property owners and would not be a General Fund obligation.

2. Finance the $6.3 million Civic Center project with a $7.9 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $710,000. Should the project be financed through a General Obligation bond, debt service payments of $610,000 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.

2008 Forecast Summary (LTFP)*
Amounts in $1,000

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Operating receipts	$50,300	$52,100	$54,300	$56,200	$57,500
Operating disbursements	49,000	50,900	53,700	54,900	56,700
Projected surplus/deficit	$1,300	$1,200	$600	$1,300	$800
1.LaPata/VH Park COP	(900)[1]	(1,800)	(1,800)	(1,800)	(1,800)
2.Civic Center COP		(355)[2]	(710)	(710)	(710)
Revised surplus/deficit	$400	($955)	($1,910)	($1,210)	($1,710)

[1] Assumes ½ year of annual debt service
[2] Assume ½ year of annual debt service

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

1. Finance the Upper Chiquita Reservoir project of $5.7 million with $7.1 million Certificates of Participation. Estimated annual payments from the Water Operating Fund amount to $640,000 and would represent a 5.0% increase to existing water rates.

Exhibit I

CITY OF SAN CLEMENTE
Capital Projects
Eligible Funding Methods

CAPITAL PROJECTS			
Financing / Funding Methods	**Parks** LaPata Vista Hermodsa Park (LPVH) - Phase I *$38.7 M construction costs* *$16.2 M gap*	**Building** Civic Center *$10.3 M construction costs* *$7.7 M gap*	**Water and Sewer** (Enterprise) Upper Chiquita Reservoir *$6.7 M construction costs* *$5.7 M gap*
A. Assessments	X		
B. Taxes	X	X	X
C. Fees / Charges			X
D. Exisiting Revenue and Fund Balances		X	X
E. Federal, State and Other Gov't Agency Funding Programs			
F. Proceeds from sale of assets	X	X	

Exhibit II

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 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.

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.

Executive Summary
The 2008 Capital Projects Analysis paper identifies funding requirements for the construction of major capital projects, plus cash flow timing issues, which will be challenging over the next five years. Gap-closing strategies for the following projects include:

- Construction of Non-Enterprise Fund Projects:
  - La Pata/Vista Hermosa Park – Phase 1
  - Civic Center
  - Downtown Fire Station/Senior Center
- Construction of Enterprise Fund Projects:
  - Recycled Water Expansion
  - Upper Chiquita Reservoir

Background and Discussion
Each of the projects under discussion has dedicated funding for a portion of the construction costs. The total funding requirement, the amount between the project costs and available funding, is $24.95 million for Non-Enterprise Fund projects and $14.0 million for Enterprise Fund projects.

La Pata/Vista Hermosa Park, Phase I
During the 2007 Long Term Financial Plan, the Capital Projects Analysis identified a $16.1 million funding gap for La Pata/Vista Hermosa, phase I and the signalization of the park. The gap closing strategy, which was implemented in the FY 2007-08 budget, included an $11.7 million transfer from the General Fund from the proceeds of the sale of the *City Hall* land and the use of $4.4 million in developer impact fees from Talega. The balance of the City Hall land proceeds was to be used for the Civic Center. Proceeds from the sale of the La Pata/Vista Hermosa nine acre site was to be used for future operations and maintenance of the park.

The 2008 Capital Projects Analysis updates the total cost of phase one at $38.7 million. The identified funding gap for phase one of La Pata/Vista Hermosa Park was $16.2 million which was closed when City Council adopted a budget including the sale or lease of *nine acres of land* with the proceeds dedicated to complete the construction of the park. Consequently, the funding gap for this project has been eliminated assuming that the sale or lease of the nine acres is sufficient to cover the cost of the project.

Gap Closing Strategies	
La Pata/Vista Hermosa Park, phase I	(16,200,000)
Sale or lease of nine acres of land	16,200,000

The La Pata/Vista Hermosa design and construction timeline by quarter (attachment A) shows that there is available cash in the Parks Acquisition Fund for the construction of phase 1a. In order to award a contract for construction of phase 1b, proceeds from the sale or lease of the nine acres must be available by December 2008 or temporary funding sources must be identified to proceed with the project.

Civic Center

The total estimated cost for the adaptive reuse of the 910 Calle Negocio and ancillary use of the 1030 Calle Negocio buildings is $10.25 million. A total of $3.95 million is currently funded through existing reserves, of which $1.4 million is in the Public Safety Reserve and $2.55 million is in the Public Facilities Construction Reserve. The remaining balance of $6.3 million is anticipated to be obtained from the sale of the existing City Hall site at 100 Avenida Presidio. Although the City Hall site may not be sold at the time, construction of the new Civic Center improvements are anticipated to commence by February 2010 with occupancy by September 2010. The current timeline (attachment B) projects that all funding dedicated from the Public Safety and Public Facilities reserves will be required by January 2010. In order to complete the project, temporary funding sources must be identified.

One option would be a short-term loan from another City fund or reserve. Fiscal policy allows the use of short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing is subject to City Council approval.

Gap Closing Strategies	
Civic Center	(6,300,000)
Sale of City Hall site	6,300,000

Downtown Fire Station and Senior Center

The cost estimate for the downtown fire station is $5.5 million with the Senior Center portion estimated at $3.75 million. The fire station is completely funded through reserves in the Public Facilities Construction Fee Fund. The Senior Center portion is funded by $2.1 million from the South County Seniors and $0.9 million from the Marblehead development agreement. Any additional costs above $3.0 million are to be paid by the City up to $3.75 million. The FY 2007-08 budget includes a $355,000 transfer from the General Fund to the Public Facilities Construction Fee Fund. If costs for the Senior Center reach $3.75 million, an appropriation to transfer an additional $395,000 will be considered by City Council.

However, if fundraising goals do not produce adequate cash from the South County Seniors, the City would be obligated to advance funds for the completion of the project. The timing of this cash advance (attachment C) would most likely be late in 2008 or early in 2009.

Gap Closing Strategies

Gap Closing Strategies	
Fire Station/Senior Center	(9,250,000)
Public Facilities Construction Fee Fund	5,500,000
South County Seniors	3,000,000
Transfer from General Fund FY 2007-08	355,000
Transfer from General Fund (if necessary)	395,000

Cash Demands/Cash Flow

The cash demands for construction of La Pata/Vista Hermosa Park and Fire Station/Senior Center will deplete existing cash sources. Current project timelines and cash flow schedules estimate that the fourth calendar quarter of 2008 or the first quarter of 2009 will be the time when a total of $18.65 million in temporary funding sources will begin supplementing the cash demands of these projects. In January 2010, another $6.3 million from the Civic Center will add to the cash flow problem. The following resources have been identified as potential temporary funding sources to bridge the cash flow demands:

- General Fund undesignated fund balances – Fiscal policy allows for one-time monies to be used to fund one-time expenditures. The General Fund has already committed a total of $9.0 million to La Pata/Vista Hermosa Park, the Senior Center and the coastal trail over the last two fiscal years. It should be noted that the 2008 financial forecast shows a tightening in the operating position which reduces the General Fund undesignated balance to an average of $10.2 million over the forecast period. The General Fund has already contributed undesignated fund balances to support priority projects as shown on the table below:

General Fund Transfers	Amount
Bellota settlement (initial funding)	$3.4 million
La Pata/Vista Hermosa Park	$7.65 million
Beach trail	$1.0 million
Transfer to Golf Clubhouse	$1.0 million
Bellota settlement increase	$1.65 million
Total	**$14.65 million**

- Bellota settlement – The Bellota settlement was increased by $2.65 million in early September, of which $1.65 million was funded from the General Fund. In total, $5.05 million from the General Fund has been contributed. The settlement may continue to escalate and may require additional funding from the General Fund. Ultimately, proceeds from the sale of 22 lots will provide funding back to the General Fund, but the timing of that revenue is not expected before the 2009-10 fiscal year.

Gap Closing Strategies

Staff is recommending that Finance and the project coordinators monitor the project schedules and cash flow needs. Recommendations for temporary funding sources will be presented to City Council prior to the depletion of available cash.

Enterprise Fund Construction Gaps

There are two projects, Recycled Water Expansion and the Upper Chiquita Reservoir, identified in the Capital Projects Analysis paper with funding gaps.

Recycled Water Expansion

The estimated cost of design and construction of the recycled water expansion is currently $16.5 million. Although a funding gap of $8.3 million has been identified, the funding sources listed below will be used to design and construct the project.

Gap Closing Strategy	
Recycled Water Expansion	(16,500,000)
Federal funding obtained through Congressman Calvert	500,000
State grant funding through Proposition 50	5,700,000
Sewer Connection Fee Fund	2,000,000
State revolving fund loan (2.2% interest)	8,300,000

Upper Chiquita Reservoir

Participation in a regional water storage project, the Upper Chiquita Reservoir, will cost the City an estimated $6.7 million of the total $50 million project. A total of $1.0 million in the Water Acreage Fee Fund is available and a shortfall of $5.7 million has been identified. Because this is a regional project, there may be funding available through a low interest loan, local bond or regional bond administered by the Municipal Water District of Orange County.

Gap Closing Strategy	
Upper Chiquita Reservoir	(6,700,000)
Water Acreage Fee Fund – fund balance	1,000,000
Low interest loan, local or regional bond	5,700,000

Conclusion

Potential funding sources have been identified for the Enterprise Fund projects. However, the construction of La Pata/Vista Hermosa Park and the Civic Center depend upon sale or lease of nine areas adjacent to the La Pata/Vista Hermosa site and the City Hall site. Although the sale of property will ultimately resolve the funding gaps for the City's major projects over the next five years, the timing of the land sales will cause temporary cash problems during construction. Beginning in December 2008, the cash demands of the projects will deplete existing funding sources. If the cash requirements of the projects are depleted prior to any sale of land, there is the possibility that $24.95 million will be needed to continue uninterrupted construction of these projects and the Fire Station/Senior Center.

Gap Closing Strategies

Given the current favorable bidding climate, it is recommended that design and construction efforts continue as planned to take advantage of the competitive environment and reduced bid estimates.

Recommendation

1. Direct staff to continue to explore the funding options as defined in the Debt Analysis and Gap Closing sections of the Long Term Financial Plan.