City of San Clemente,
California

2009

Long Term Financial Plan

City of San Clemente

City Council

• Lori Donchak	Mayor
• Jim Dahl	Mayor Pro Tem
• Joe Anderson	Councilmember
• Bob Baker	Councilmember
• G. Wayne Eggleston	Councilmember

City Manager

• George Scarborough	City Manager

Executive Team

• Joanne Baade	City Clerk
• William E. Cameron	Director, Public Works/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
• Rick Robinson	Fire Services Division Chief

Project Director

• Pall Gudgeirsson	Assistant City Manager/City Treasurer

Project Team

• Tom Bonigut	Assistant City Engineer
• Sandee Chiswick	Senior Accountant
• Kumi Elston	Central Services Officer
• Jake Rahn	Accounting Supervisor
• Dave Rebensdorf	Assistant City 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, Senior Administrative Assistant (Administrative Support)

Steering Committee

George Scarborough, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Tom Bonigut, Assistant City Engineer

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Kumi Elston, Central Services Officer

Reserve Analysis

Jake Rahn, Accounting Supervisor

Fiscal Policy

Pall Gudgeirsson, Assistant City Manager/City Treasurer
Kumi Elston, Central Services Officer

Capital Projects Analysis

Jake Rahn, Accounting, Supervisor
David Rebensdorf, Assistant City Engineer

Debt Analysis

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

Gap Closing Strategies

Pall Gudgeirsson, Assistant City Manager/City Treasurer
Tom Rendina, Finance Manager

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.

Debt Analysis

Objective

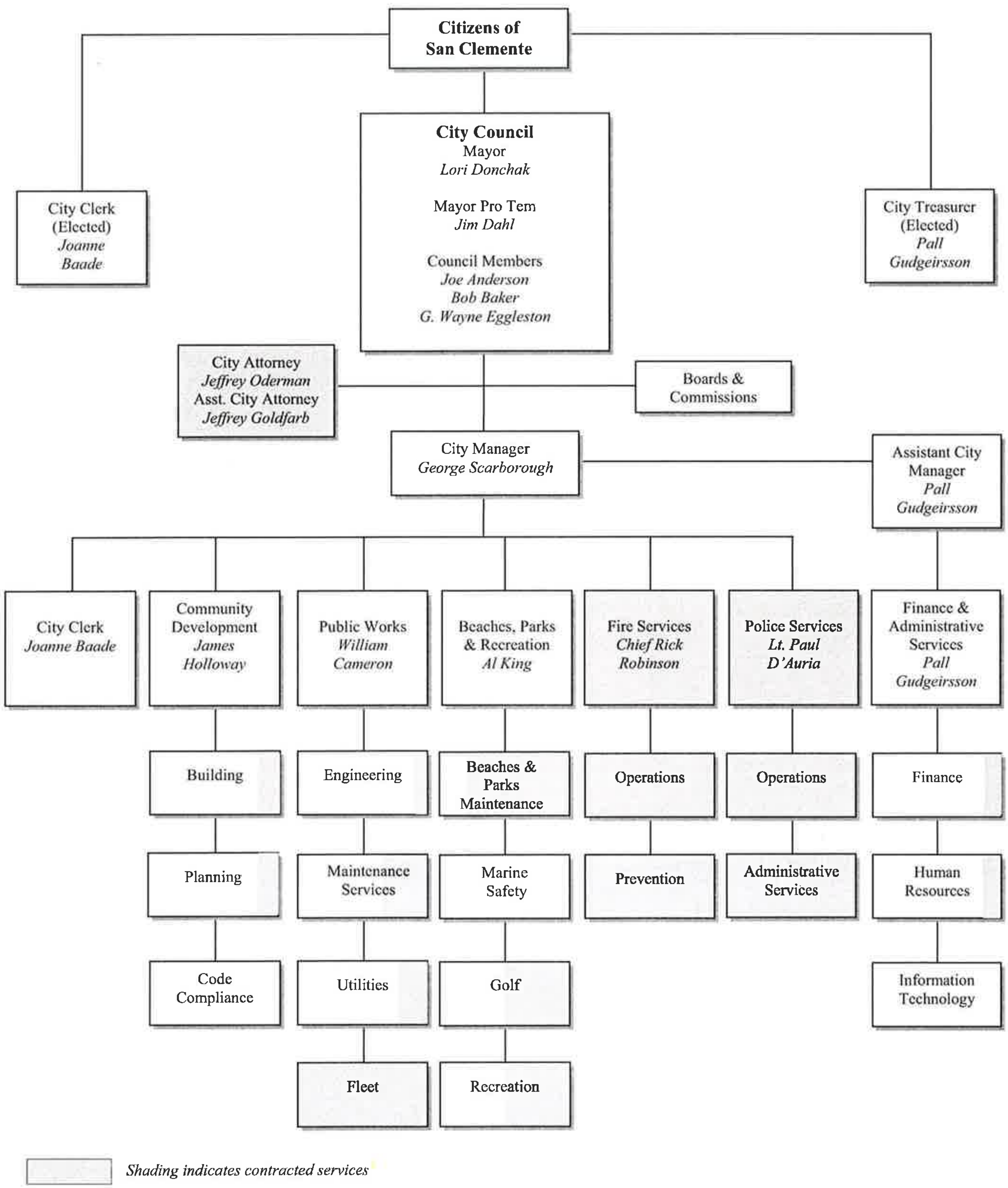
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs.

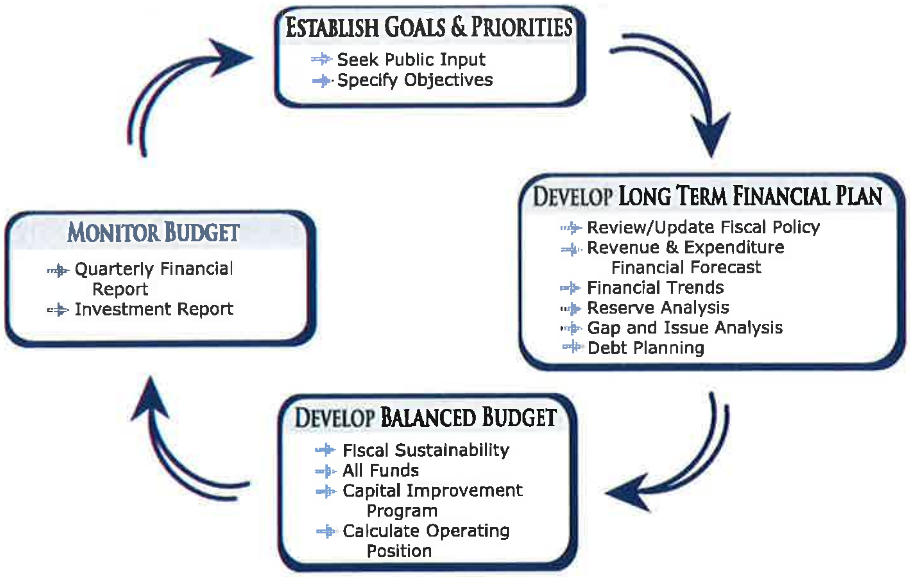
Gap Closing Strategies

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





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.

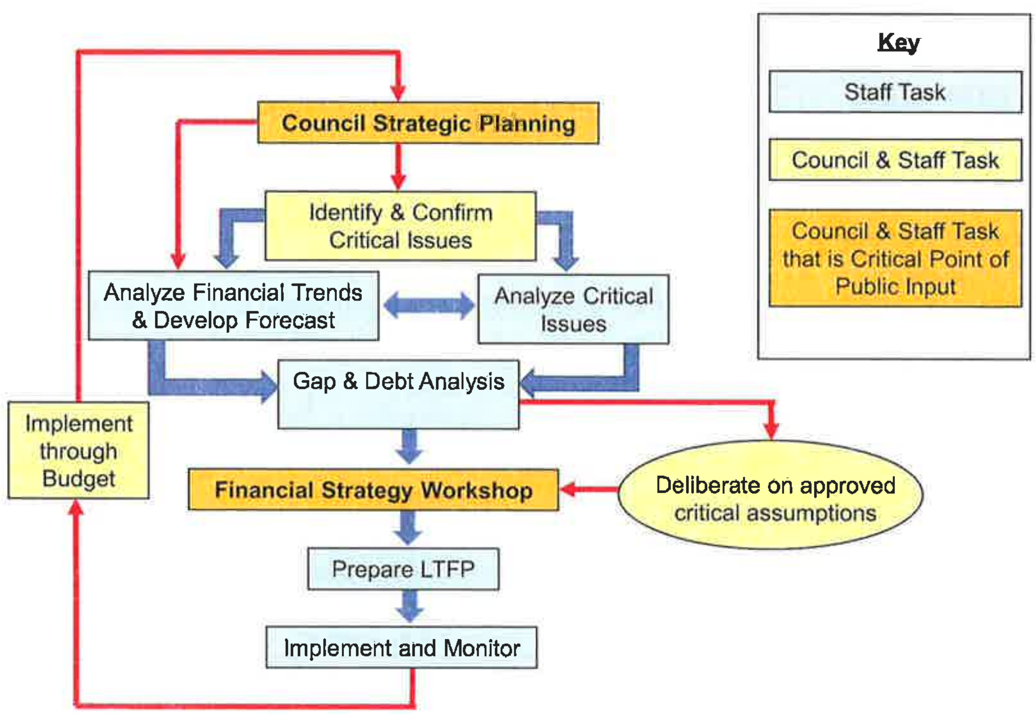
The 2009 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Debt Analysis
- Gap Closing Strategies
- Glossary

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, 7 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 6 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

LTFP Process

The process of developing the Long Term Financial Plan began with a Council priority setting 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 is 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.

Schedule

February 24, 2009	Long Term Financial Plan Workshop (Special City Council Meeting)
May 21, 2009	Budget Workshop (Special City Council Meeting)
June 16, 2009	FY 2010 Budget Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2009 LTFP represents the seventeenth 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.

2007	• The voter approved Clean Ocean fee was scheduled to sunset in 2008. This fee was established to protect local water quality and meet State and Federal regulations regarding storm water runoff.	• The Clean Ocean fee was renewed by property owners in San Clemente for an additional six years by a majority of 75% of the votes cast.
	• An operational gap was identified for the Golf Course Fund.	• A $3.00 per round increase was approved.

The following is an update of the 2008 Long Term Financial Plan issues:

Fiscal Policy	**Status**
The fiscal policy was changed to increase the City's Emergency Reserve level to 9% of operating expenditures.	Implemented over a four year period, the Emergency Reserve level will be increased in 0.25% increments until the 9% goal is reached.

Financial Trend Analysis	**Status**
None.	None

Financial Forecast	**Status**
None.	None

Reserve Analysis	**Status**
Budget sufficient funds for FY2008-09 in order to bring the emergency reserve to the 8.25% level of projected General Fund operating expenditures. Based on the Financial Forecast, this would amount to $205,000.	Council approved the $205,000 transfer in the FY 2008-09 Operating Budget.
Budget sufficient funds for FY 2008-09 in order to bring the emergency reserve to the 8% level of projected Water ($44,000), Sewer ($11,000), Storm Drain ($3,000) Solid Waste ($2,000) and Golf ($0) Funds.	Council approved the transfers in the FY 2008-09 Operating Budget.

Long Term Financial Plan Review

Reserve Analysis	Status
Revise the City's Fiscal Policy for the Council Contingency Reserve which eliminates a funding level of 0.5% of operating expenditures and revises the funding level at $100,000 annually.	Council approved $100,000 to the Council Contingency Reserve in the FY 2008-09 Operating Budget.

Capital Projects Analysis	Status
None.	None.

Park Infrastructure Depreciation	Status
Create a new reserve for Park Equipment.	Staff was directed to prepare a detailed assessment of the City's park assets. Analysis of the impact of the park assessment will be used to determine the appropriate reserve level. This analysis will be presented in the 2009 Reserve Paper.

Cost of Service Study	Status
Analyze the Water and Sewer utility rate structures and make recommendations for modifications to rates, tiers, customer types and classification to achieve equity among all customer classes while promoting conservation.	Utility rate changes were implemented in the FY 2008-09 Water and Sewer budgets.

Revenue and Fee Analysis	Status
Review certain fees and service charges to determine if changes should be adopted to recover the costs of providing the service.	Proposed changes to Building, Planning, Engineering service charges and ambulance transport and subscription fees were implemented in November 2008.

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

Gap Closing Strategies	Status
Funding gaps were indentified La Pata/Vista Hermosa Park, Civic Center, Downtown Fire Station and Senior Center, Beach Trail and Golf Clubhouse.	Funding strategies were identified in the FY 2008-09 budget and included the use of the proceeds from the sale of the City owned nine acre parcel on La Pata and General Fund transfers.

Americans with Disabilities Act	Status
Determine if the City is in compliance with the Americans with Disabilities Act.	The following paper analyzes the City's current implementation plan and status of the American Disabilities Act.

Americans with Disabilities Act Progress Report

Objective

To provide an update to the progress made in meeting the primary requirements of the Americans with Disabilities Act, and discuss the strategy to accomplish the remaining requirements 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. The 2008 approved LTFP recommended a comprehensive review of all City programs, policies, practices, and facilities be conducted, and a mitigation plan developed, to ensure that San Clemente meets both the letter and the intent of the ADA. This paper provides an update to the actions approved last year.

Background and Discussion

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 following steps are required for all agencies. The 2008 approved LTFP recommended that staff address the first three of the following steps and form a compliance team to address steps four and five.

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. *Hanne Walker, Risk Management Analyst in the Human Resources Division has been designated as the ADA Coordinator.*
2. Provide public notice about the City's ADA nondiscrimination obligations and policies, accessible facilities and services, and complaint or grievance procedures. *The grievance policy and complaint form are available on the City website. Staff will continue to monitor and update information made available to the public regarding the City's obligations under Title II of the ADA.*
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. *A formal grievance procedure and claim form(s) that may be submitted by the public for resolution have been completed. This information is available on the City website.*
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. *The ADA Compliance team met to discuss this and determined that staff does not have the in-house expertise nor resources to complete a comprehensive self evaluation of all City programs, services, and activities. A plan is being developed to use outside experts to meet this requirement.*

5. Develop a transition plan that identifies modifications that will be made to programs and facilities to ensure compliance with ADA Standards. *As it would apply to City facilities, the ADA is a fairly complex body of regulations that governs such things as slopes of ramps, ramp access, ramp location, handrail size and distance, path of travel, curb height, signage size, height, location, etc., amount of force needed to open a door, height of counters, clearances adjacent to a door, force necessary to turn a faucet on, and more. The City has the necessary equipment to conduct a facilities assessment, and in March 2009 the City is scheduled to use existing staff to begin documenting current facilities and making recommendations regarding necessary compliance efforts.*

   Conversely, in-house staff does not have the knowledge and expertise necessary to assess the City's compliance efforts related to programs and activities. An outside expert is needed to assess this, and funds will be requested as part of the 2010 budget to hire an ADA implementation specialist who can identify the City's most critical needs related to programs and activities.

Recommendations

The recommendation would be to budget for an ADA specialist who could at least begin the process of assessing the City's programs and activities and provide recommendations for compliance efforts. Depending upon how much the specialist is able to complete given the budget limitations, an analysis could be developed to outline the required cost as well as an estimated time schedule for completion.

Fiscal Impact of Recommendations

A $10,000 decision package will be submitted for consideration in the FY2010 to begin what would be referred to as the Phase I assessment of the City's programs and activities.

City of San Clemente

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

Honorable Mayor and Councilmembers:

I am pleased to present the 2009 edition of the City's Long Term Financial Plan (LTFP) to the City Council and San Clemente residents and businesses. The City's strategic fiscal plan has been presented on an annual basis since 1993, and has been 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 specific recommendations to address the City's budgetary forecast. The focus of this year's financial plan is clearly on addressing projected deficits in the City's operating position in the General Fund and maintaining a healthy fund balance and reserves. In view of the sudden decline in both the national and local economy over the last year, this financial plan is devoted to examining the City's current and projected financial condition and establishing a clear fiscal course of action beginning this year and over the next five years. The emphasis of the financial plan is to stabilize the City's finances while continuing to maintain the current level of services to our community.

Once again, included in the LTFP is a comprehensive analysis of major capital projects including funding recommendations and analysis of debt options. Where applicable, gap closing strategies are also presented for Council consideration. The reserve analysis annually reviews the types of reserves and appropriate funding levels. Included this year is also a comprehensive review and update of the City's Fiscal Policy. A new glossary section has been added this year to provide clarification on terms used throughout the financial plan.

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 provides analysis of regarding the impact of *current* spending plans on future budgets. The 2009 LTFP forecast begins with the forecast presented to the City Council in January and updates the forecast by incorporating (a) immediate budgetary reductions (b) projected budget for 2010 as submitted by all City departments (c) modified forecast assumptions, and (d) outlines potential operational reductions and revenue options. The financial forecast is a starting point for developing the Fiscal 2010 Proposed Budget which is currently under development and will be presented to the Council in May. The Proposed Budget will incorporate any adopted recommendations from the LTFP as well as my budgetary recommendations based on a comprehensive review of submitted budgets.

Strategic Priorities as identified by Council earlier this month, along with Administration's recommendations for budget modifications, will determine the funding requests that will be brought forth in the FY 2010 Proposed Budget.

Although additional critical issues were not examined in the 2009 Long Term Financial Plan, the *Capital Projects Analysis* provides an update of 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, Civic Center, Downtown Fire Station/Senior Center, and Upper Chiquita Reservoir and recycled water expansion projects. Also, updates are provided for two projects that required additional analysis in last year's financial plan: First, a recommendation to establish and begin funding a Park Asset Reserve is provided. Second, an update to what we have accomplished to assure compliance with the Americans with Disabilities Act (ADA) is included with further recommendations to assess the City's programs and activities to assure ongoing compliance.

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, if necessary.

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 2009 Long Term Financial Plan. I look forward to working with you, staff and our community as we determine a solid course of action as we attempt to balance the needs of our citizenry with realistic fiscal projections.

George Scarborough
City Manager

Executive Summary

The *Executive Summary* portion of the 2009 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 2009 Long Term Financial Plan Summary

Included within 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 2009 LTFP is the 17th edition of the City's financial strategic plan...

This is the seventeenth 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. This year the focus of the LTFP is a "back to basics" approach to financial planning, whereby the emphasis of the study is to analyze the City's financial condition during these uncertain economic times. Thus, the focus of the LTFP leans toward a review of capital projects and how to close budget and cash flow gaps as well as projecting the City's operating position for the next fiscal year as well as five years into the future.

...and focuses on closing budgetary gaps

Utilizing the financial tools already in place, the LTFP looks at the Fiscal Policy, Financial Trends, Financial Forecast, Reserve Analysis, Debt Analysis and Gap Closing Strategies to diagnose the "fiscal health" of the City of San Clemente and once again chart a sound financial course for the future.

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.

Based on City Council input, *fiscal policies* have been substantially revised

Fiscal policies established by City Council provide guidance and long-range direction for planning a sustainable financial future. Fiscal policies were carefully reviewed and updated to establish core financial guidelines and policy statements that ensure the City remains financially secure even in uncertain economic times. Based on City Council input, these policies have been substantially revised in this year's LTFP.

The *financial trends & reserves* act 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 Administration of trend changes that will have an impact on the financial condition.

The *five-year financial 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.

In January 2009, City Council and the public were presented with a forecast that showed the effects of the current economic conditions, both nationally and locally, upon City finances. Property and sales tax projections were significantly reduced in the forecast, resulting in operating deficits in all five-years of the forecast. Immediate action was taken to reduce all non-essential expenditures and maintain a balanced budget for the current fiscal year. Further cost cutting measures will also be implemented to produce a balanced budget with a positive operating position for the FY 2010 budget year and throughout the forecast period. The forecast included in this document shows the results of these expenditure reductions and somewhat improves the forecast operating position. The revised forecast reduces the operating deficits shown previously, but further changes to the forecast assumptions and other cost reduction measures should be considered to achieve a positive operating position in all years of the forecast.

The revised forecast also improves projected negative fund balances during the forecast period. Fund balances decline over the five-year forecast period due to higher operating expenditures than operating revenues and $2.1 million in capital expenditures. Because funding of 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. Total fund balances, which include $10.0 million in sustainability fund balance and $4.2 million in undesignated fund balance, average $14.2 million over the forecast period.

The LTFP focuses primarily on funding gaps identified for the construction of major capital projects. The Gap Closing Strategies paper identifies potential temporary funding sources to bridge the cash flow demands.

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 2009 fiscal year with a total balance of $16 million, which includes $10.0 million in Sustainability Fund balance and $6 million in undesignated fund balance. The General Fund emergency reserve, at year-end will amount to $4.1 million (8.25%). Total General Fund revenues amount to $63.3 million. General Fund operating revenues, which excludes $13.7 million in one-time revenues, amounts to $49.6 million. Total General Fund expenditures amount to $65.1 million. Operating expenditures, which excludes $17.4 million in prior year encumbrances, one-time programs, projects and transfers, amounts to $47.8 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 $13.8 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 General Fund reserve funds are now funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels, transfers will be included in the FY 2010 budget. Reserve Analysis recommendations include:

General Liability charges reduced by $300,000

- A reduction of $300,000 in General Liability charges to a total of $1.3 million is recommended which will maintain an adequate reserve level per fiscal policy.

One-time refund of $500,000 in Worker's Comp rates

- To avoid an accumulation of excess reserves in the Workers' Compensation Fund, a 5% rate reduction and a one-time return of $500,000 is recommended to appropriate funds.

Establish a new Park Asset Replacement Reserve

- A new Park Asset Replacement Reserve is recommended per the recommendation in the 2009 LTFP for the accumulation of funds for replacement of park assets. First year funding of the reserve will come from the General Fund allocation of the Workers' Compensation refund which amounts to $276,100.

General Fund Transfers
For FY 2010, transfers total $1.3 million and include $692,120 for the Street Improvement Program, $510,000 for debt and operational support of the Negocio building and $50,700 for low income subsidies.

Street Improvement Program is scheduled to sunset in FY2013

Street Improvement Program: General Fund contributions to the Street Improvement Program have totaled $7.7 million during the past fourteen fiscal years. Annual contributions will be made through FY 2013 which is the year the street improvement program is scheduled to sunset.

General Fund Loans
The General Fund has two internal outstanding loans that were made from the General Fund to the Redevelopment Agency (RDA) Debt Service Fund and the Golf Operating Fund. The interagency 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 $2.3 million. This debt will be retired in FY 2018-19.

RDA debt is $2.3 million

The General Fund also provided short-term loans, totaling $984,000 to the Golf Operating Fund over the last five years. The Golf Operating Fund repaid $144,000 of the outstanding balance in FY 2008 and will continue to make annual principal reductions of approximately $150,000 until the $840,000 balance is repaid or an external loan is obtained to finance the remaining balance of the clubhouse construction costs.

Golf Operating Fund debt is $840,000

Financial Trend Analysis
The City's financial condition is also quantitatively measured using a financial trend monitoring system. The annual Financial Trend Analysis report for the year ending June 30, 2008 indicates that 14 out of 21 indicators are favorable as compared to 18 out of 21 last year. One indicator received a warning rating, four received a favorable/caution rating and two indicators received an unfavorable rating. In total, these results are a decrease from the prior year when three indicators received warning ratings. However, because of the commitment to financial planning, funding of necessary reserves and cost reduction and streamlining efforts, the City has taken the initiative to analyze these unfavorable ratings and develop a plan to address the negative ratings in the Financial Forecast section of this document.

14 out of 21 indicators are favorable

Licenses and Permit Revenues and Community Development Charges: These two indicators have been downgraded from favorable/caution to unfavorable due to the slowdown in construction activity and as the City approaches build-

"Unfavorable" rating has been assigned to license and permit revenues and

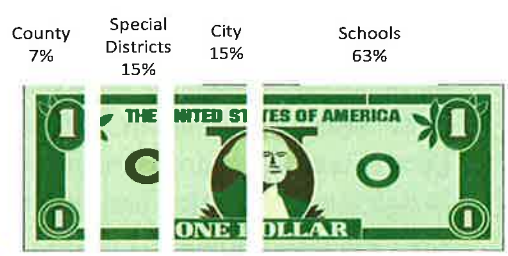
out. Expenditure reductions have already been made to address the declining workload.

Revenues per Capita, Property Tax Revenues, Property Values and Sales Tax Revenues: These four indicators have been changed from favorable to favorable/caution as the City starts to feel the effects of the current economic environment on City resources.

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

Indicator	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*
Revenues Per Capita	**F/C**	F	F/C	F/C	W	W	F	F	F	F
Property Tax Revenues	**F/C**	F	F	F	F	F	F	F	F	F
Property Values	**F/C**	F	F	F	F	F	F	F	F	F
Elastic Revenues	**W**	W	F/C	F	F	F	F	F	F	F
Sales Tax Revenues	**F/C**	F	F	F	F	F	F	F	F	F
Licenses & Permits	**U**	W	F	F/C	F	F	F	F	F	F
Comm. Develop. Charges	**U**	W	F/C	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	F/C	F	F	F	F
Expenditures Per Capita	**F**	F	F/C	F	F	F	F/C	F	F	F
Expenditures by Function	**F**	F	F	F	F/C	F/C	N/A	N/A	N/A	N/A
Employees Per Capita	**F**	F	F	F	F	F	F	F	F	U
Fringe Benefits	**F**	F	F	F	F/C	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	F/C	F	F	F
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Compensated Absences	**F**	F	F	F	F	F	F	F/C	F/C	F/C
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:



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 is 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 6.2% 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 if debt were to be used to finance the projects.

Cost of debt options

Capital Project	Required Funding	Debt Issuance	Annual Debt Service
LPVH Park/Ave Hermosa - COP/AD	$13.725M	$17.15M	$1.52M
LPVH Park/Ave Hermosa - GO	$13.725M	$14.76M	$1.367M
Civic Center - COP	$8.95M	$11.19M	$1.01M
Civic Center - GO	$8.95M	$9.625M	$867,000
Downtown Fire Station	Fully funded	-0-	-0-
Upper Chiquita Reservoir	$4.2M	$5.25M	$350,000
Recycled Water Expansion	$10.9M	10.9M	$679,500

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 $13.7 million *La Pata/Vista Hermosa* phase I project with an estimated $17.1 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.5 million from the General Fund. Should the project be financed through an Assessment District or General Obligation bond, debt service payments of $1.5 million or $1.4 million respectively would be assessed upon property owners and would not be a General Fund obligation. This option assumes the 9 acre parcel is not sold to provide the required funding.

2. Finance the $8.9 million *Civic Center* project with an $11.9 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $1.0 million. Should the project be financed through a General Obligation bond, debt service payments of $867,000 would be assessed upon property owners and would not be a General Fund obligation. This option assumes that the City Hall site is not sold to provide required funding.

3. Finance the $4.2 million *Upper Chiquita Reservoir* project with a $5.3 million Certificate of Participation debt issuance. Annual payments from the Water Operating Fund are estimated at $350,000. This represents a 2-3% increase in operating expenses for the Water Fund and would require a rate increase to accommodate the debt service payments. This assumes the project is not fully funded from the Water Acreage Fee fund balance.

4. Finance the *Recycled Water Expansion* project with a $10.9 million State Revolving Fund loan. Annual payments from the Sewer Operating Fund are estimated at $679,500. This represents a 9% increase in operating expenses for the Sewer Fund and would require a corresponding rate increase to fund this debt service.

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.

Capital projects and identified gap closing strategies

Gap Closing Strategies

The 2009 Capital Projects Analysis paper identifies funding requirements for the construction of major projects. However the potential sale of property would ultimately resolve the funding gaps.

Each of the major capital projects included in the 2009 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:

Gap Closing Strategies	
La Pata/Vista Hermosa Park, phase I	(13,725,000)
Sale or lease of nine acres of land	13,725,000
Civic Center	(8,950,000)
Sale of City Hall site	8,950,000
Downtown Fire Station/Sr. Center	(395,000)
Appropriation from the General Fund fund balance	395,000
Recycled Water Expansion	(20,100,000)
Federal funding obtained by Congressman Calvert	500,000
State grant funding through Prop 50	5,700,000
Sewer connection fee fund	3,000,000
State revolving fund loan	10,900,000
Upper Chiquita Reservoir	(5,700,000)
Water acreage fund	1,500,000
Certificate of Participation	4,200,000

Five Year Financial Forecast

2009 forecast has been updated

The 2009 financial forecast has been updated since it was last presented to City Council in January 2009. The forecast presented projected a current year positive operating position of $530,000 and a negative operating position in each of the five years of the forecast period. The forecast showed that changes in the economic assumptions, particularly property taxes and sales taxes, were negatively affected by the downturn in the national and local economy. As a result, City finances were showing declines in several major revenue categories and options were presented to maintain a balanced budget in future years.

Immediate action was taken to assure a positive operating position

Based on the dire financial forecast, immediate steps were taken to assure a positive operating position in the current fiscal year. These actions included:

- Vacant positions were frozen on a case-by-case basis.
- Contractual positions were reduced or eliminated.
- Overtime hours were reduced.
- Non-essential expenditures were reduced or eliminated and have been carefully monitored.

These above cost control measures have been carried into the proposed FY 2010 budget. Additionally, staff was directed to develop a plan for addressing future fiscal deficits. The revised forecast presented in this paper is intended to develop solutions to the on-going fiscal gaps. These solutions along with other cost reductions will be further refined in the proposed FY 2010 budget.

As a result of the above actions, the revised 2009 LTFP financial forecast improved from $530,000 to a projected $1.9 million positive ending operating position for the current year due to salary savings and expenditure reductions across all City departments, plus more positive revenue projections for ambulance and recreation fees.

Preliminary projections for FY 2010 expenditures reflect salary and benefit savings from vacant positions, elimination of contractual positions, reductions in general liability contributions and an increase in the amount of General Fund personnel costs that can be charged to other projects and funds outside of the General Fund. The operating expenditure cuts of $1.1 million in the first year of the forecast result in overall expenditure savings because future years are inflating from a lower base amount. In total, expenditures in the 2009 LTFP forecast were reduced by $7.8 million.

As shown below, the five-year forecast still projects a negative operating position in four of the five years of the forecast period resulting in negative fund balances beginning in FY 2013. The forecast *includes* the known increases such as police and fire, as well as the forecast assumptions to maintain current level of services.

2009 LTFP Financial Forecast (in millions)

	2009	2010	2011	2012	2013	2014
Operating receipts	$49.6	$49.5	$50.3	$51.1	51.2	$52.0
Operating disbursements	47.7	49.3	53.5	54.9	56.2	57.9
Projected surplus/deficit	$1.9	$0.2	-$3.2	-$3.8	-$5.0	-$5.9

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

- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 0% for FY 2010 and 90% of inflation beginning in FY 2011 ($238,000).
- New positions - Over the last six years, an average 3.1 positions have been added annually to the General Fund budget. For forecast purposes, three positions ($250,000) have been added in each year of the forecast, for a total of fifteen positions ($1.25 million).
- New Police contract positions - One contract police position per year ($214,000), for a total cost of $1.1 million over the forecast period, has been added to the forecast.
- Fire Services costs – The fire contract increases by an average of $344,000 per year over the forecast period.

- La Pata/Vista Hermosa Park - The forecast assumes operation and maintenance at La Pata/Vista Hermosa Park beginning in 2011. 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 $510,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building since the top two floors is scheduled to remain vacant until 2010. In the meantime, the City is attempting to lease the top two floors of the facility. If successful, rental revenue will be available to offset maintenance and debt service costs.
- Council Contingency Reserve – The reserve is funded at $100,000 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 at 8.25% in accordance with City Fiscal Policy. A 0.25% contribution over the next three years, plus the normal annual contributions are included in order to increase the reserve to the new 9% level. Over the forecast period, a total of $1.1 million will be contributed to the Emergency Reserve.
- Reserves - The five-year average contribution from the General Fund to the Accrued Leave, Facility Maintenance and Capital Equipment reserves amounts to $214,000. For forecast purposes, $214,000 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 $5.2 million and requires annual contributions of $683,000 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, which averages $2.1 million.
- Based on historical trends, revenues have been projected to be 1% over budget and expenditures are projected to be 0.5% under budget.

Factors Not Included in the Forecast

- This forecast is based on the General Fund only.
- No new or enhanced programs, except for La Pata/Vista Hermosa Park, are included in the forecast.
- Revenues and expenditures associated with the Marblehead, North Beach or Target development projects have not been included in the forecast.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Operating Position

Forecasted operating position is negative

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

General Fund Operating Position

2009 Forecast Summary* (in millions)

	2010	2011	2012	2013	2014
Operating receipts	$49.5	$50.3	$51.1	$51.2	$52.0
Operating disbursements	49.3	53.5	54.9	56.2	57.9
Projected surplus/deficit	$ 0.2	-$ 3.2	- $ 3.8	-$ 5.0	-$ 5.9

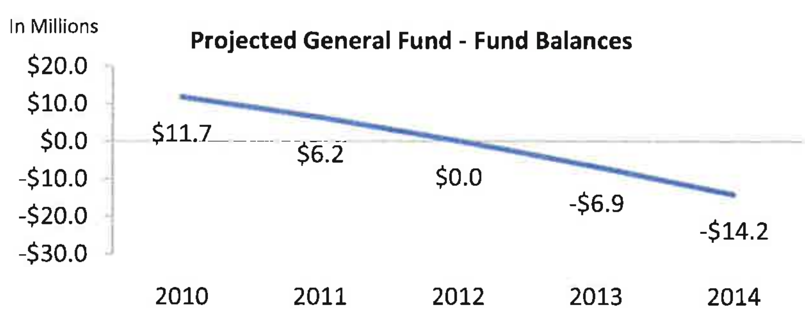
*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

Projected negative operating position is due to significant reductions in property and sales taxes, service charges and interest income. Forecasted expenditures also show an increase due to the assumptions built into the forecast to maintain the current level of services. Expenditures must be reduced in order to maintain a positive operating position in all years of the forecast.

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 graph, the projected ending fund balance (undesignated and sustainability) over the five year forecast period will decline, with negative fund balances beginning in FY 2013. Designated emergency reserve levels have been maintained at the required 9% level.



Fund balances decline due to projected higher operating expenditures than operating revenues and $2.1 million in capital expenditures. Because funding of 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. In addition, the forecast makes a number of assumptions that will require modification in order to maintain a positive operating position and adequate fund balances.

Current projected fund balances

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 fiscal trends and forecast assumptions were to continue. The table below summarizes ending fund balances projected in the forecast presented in January 2009.

2009	2010	2011	2012	2013	2014
$12,082,000	$9,265,000	$3,334,000	-$3,039,000	-$10,283,000	-$18,869,000

The following table shows the results of implementation of cost cutting measures, changes in forecast assumptions, revenue increases and operational reductions on the General Fund operating position and fund balances.

	Fund Balance					
In 1,000	2009	2010	2011	2012	2013	2014
Projected Ending Fund Balance	***$12,082***	***$13,964***	***$15,971***	***$16,115***	***$15,107***	***$13,477***
Operating position	901	-701	-3,521	-4,566	-5,664	-6,808
FY2009 & FY2010 Budget Reductions						
Freeze positions	138	235	0	0	0	0
Overtime reductions	40	33	0	0	0	0
Reduce supplies	112	78	0	0	0	0
Reduce maintenance contingencies	271	183	0	0	0	0
Reduce contractual services & positions	161	404	0	0	0	0
Eliminate development inspection positions	259	364	0	0	0	0
General liability rate reduction	0	264	264	264	264	264
Subtotal Budget Reductions	**981**	**1,561**	**264**	**264**	**264**	**264**
Forecast Assumption Changes						
Reduce one-half of O&M for La Pata Vista Hermosa Park	0	0	700	715	730	745
Remove cost of living increase for FY 2010	0	255	0	0	0	0
Salary & Benefit savings from vacant positions	0	0	403	403	403	403

In 1,000	2009	2010	2011	2012	2013	2014
Remove 3 FTE's per Year from forecast	0	258	534	829	1,145	1,481
Add one deputy per year beginning in FY 2012	0	220	440	220	440	440
Subtotal Assumption Changes	**0**	**733**	**2,077**	**2,167**	**2,718**	**3,069**
Revenue Increases						
Increase parking meters by $0.50 per hour	**0**	**150**	**150**	**150**	**150**	**150**
Operating Reductions						
Remove limited term position	0	108	110	112	115	117
Reduce Council special meeting by one-half	0	6	6	6	6	6
Reduce transfer to SIP to $500,000 annually	0	0	213	234	256	0
Reduce major street maint. by one-half	0	0	275	275	275	275
Reduce sidewalk maint. by one-half	0	0	75	75	75	75
Reduce slurry seal by one-half	0	0	125	125	125	125
Subtotal Operating Reductions	**0**	**114**	**804**	**827**	**852**	**598**
Revised Operating Position	**1,882**	**1,857**	**-226**	**-1,158**	**-1,680**	**-2,727**
Reduce Emergency Reserve to 8%	0	150	370	150	50	-50
Revised Ending Fund Balance	***$13,964***	***$15,971***	***$16,115***	***$15,107***	***$13,477***	***$10,700***

Fund Balance

Projected fund alances including ₂009 LTFP recommendations

Operating Position

Based on the revised expenditure and revenue forecast, the General Fund operating position will be positive in the first year of the forecast period, with negative operating position in the last four years.

2009 revised forecast operating position

2009 Revised Forecast Summary* (in millions)

	2010	2011	2012	2013	2014
Operating receipts	$49.9	$51.0	$51.9	$52.7	$53.6
Operating disbursements	48.0	51.2	53.0	54.4	56.3
Projected surplus/deficit	$1.9	-$0.2	-$1.1	-$1.7	-$2.7

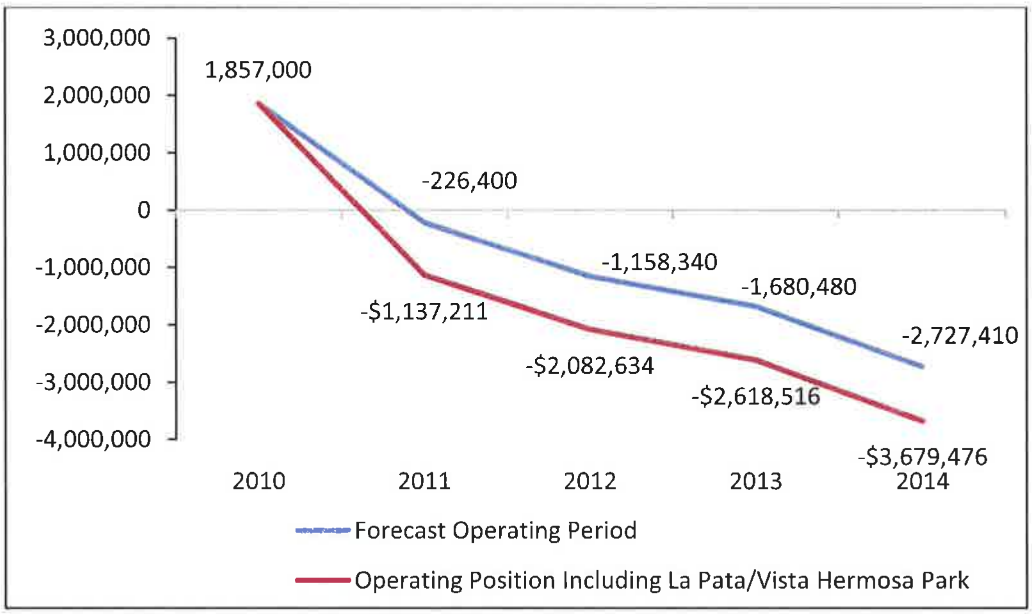
*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

Operating revenues, primarily property and sales taxes, remain flat for the first three years of the forecast period and are projected to grow 0.8% in total.

Further reductions need to be made to forecasted expenditures beginning in FY 2011 to maintain a positive operating position in all five years of the forecast period.

Operating Position Including O&M for La Pata/Vista Hermosa Park

The forecast presented above shows the operating position improving with the implementation of budget reductions, assumption changes and operational reductions. One of the assumption changes removed half of the O&M for La Pata/Vista Hermosa Park from the forecast. The following chart shows the impact on operating position if the entire projected amount of O&M for La Pata/Vista Hermosa Park is included in the forecast beginning in FY 2011.



Conclusion and Recommendation

Further changes to the forecast must be made to incorporate the operation and maintenance of La Pata/Vista Hermosa Park and maintain a positive operating position in the General Fund. In addition, Beaches, Parks & Recreation will present to City Council on March 3, 2009 various options which may lower expenditures to improve the operating position.

It is recommended that City Council adopt the forecast modifications proposed above and direct staff to further review the budget for reductions that will improve the General Fund operating position.

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

1. None

Fiscal Policy

1. Adopt the "Core Values of Financial Sustainability" and amend the fiscal policy as follows:
    a. Amend the fiscal policy statement for capital improvement projects to include "Projects that are not fully funded must be removed or delayed until adequate funding exists for design, construction, operating and maintenance."
    b. Amend the fiscal policy statement for Enterprise Depreciation reserves to require "a minimum reserve level equal to the projected three-year capital and major maintenance costs."
    c. Add the fiscal policy statement "The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets in the future."

Capital Projects Analysis

1. None

Debt Analysis

1. None

Gap Closing Strategies

1. None

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 FY 2004 through FY 2008. Consequently, all trends are based on data available as of June 30, 2008, 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:

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	09	08	07	06	05	04	03	02	01	00
Revenues Per Capita	F/C	F	F/C	F/C	W	W	F	F	F	F
Property Tax Revenues	F/C	F	F	F	F	F	F	F	F	F
Property Values	F/C	F	F	F	F	F	F	F	F	F
Elastic Revenues	W	W	F/C	F	F	F	F	F	F	F
Sales Tax Revenues	F/C	F	F	F	F	F	F	F	F	F
License & Permit Revenues	U	W	F	F/C	F	F	F	F	F	F
Comm. Develop. Charges	U	W	F/C	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	F/C	F	F	F	F
Expenditures Per Capita	F	F	F/C	F	F	F	F/C	F	F	F
Expenditures By Function	F	F	F	F	F/C	F/C	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	F	U
Fringe Benefits	F	F	F	F	F/C	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	F/C	F	F	F

Indicator	09	08	07	06	05	04	03	02	01	00
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F	F/C	F/C	F/C
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 2009 Long Term Financial Plan includes the analysis of twenty-one trends. One indicator received a Warning rating, four received a Favorable/Caution rating and two indicators received an Unfavorable rating. In total, these current year results are a decrease from the prior year when three indicators received Warning 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 and Unfavorable signs to improve the fiscal health of the City for the future.

Rating changes

There were six trend changes from the last fiscal year; all in a negative direction.

The negative changes were:

- *Revenues per Capita* – Downgrade to Favorable/Caution
- *Property Tax Revenues* – Downgrade to Favorable/Caution
- *Property Values* – Downgrade to Favorable/Caution
- *Sales Tax Revenue* – Downgrade to Favorable/Caution
- *Licenses & Permit Revenues* – Downgrade to Unfavorable
- *Community Development Charges* – Downgrade to Unfavorable

Rating discussion

The two indicators at an Unfavorable level and four at the Favorable/Caution level reflect the economic impact on the City as it transitions from a fast growing, high development area and as the City is starting to feel the effects of the current economic environment.

Revenues per Capita has changed from a Favorable to a Favorable/Caution rating as revenue has started to slow on a constant basis in connection with the population changes throughout the City.

Property Tax Revenues has changed from a Favorable to a Favorable/Caution rating due to a slowing of the revenue growth rate during the last year. This is an indication that property tax growth will slow in the future.

Property Values has changed from a Favorable to a Favorable/Caution rating due to a decline in the secured values growth rate during the last year. The City should see a slowdown in the growth rate of property values in the near term future due to the economic downturn in the housing market.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues receive a Warning rating due to both increases and decreases in the revenues that make up these categories. Overall, this trend showed the fourth consecutive decrease and the third year below the historical average. Decreases were anticipated due to the City approaching build-out. However, revenues were lower than anticipated. The decreases occurred in community development service charges where actual amounts ended greater than the lower revised (adjusted) budget but only slightly and in licenses and permits where the actual amounts ended below the lower revised budget amount. In addition, delay of the Marblehead Coastal development has put additional pressure on these revenues.

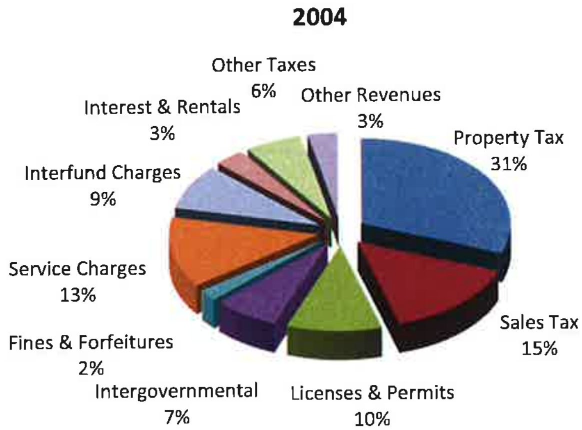
Licenses and Permits need to be monitored on an on-going basis. Licenses and Permits were anticipated to decrease in construction permits and inspection fees and these revenues will continue to decrease in future years. This trend receives an Unfavorable rating due to a continual decline in development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

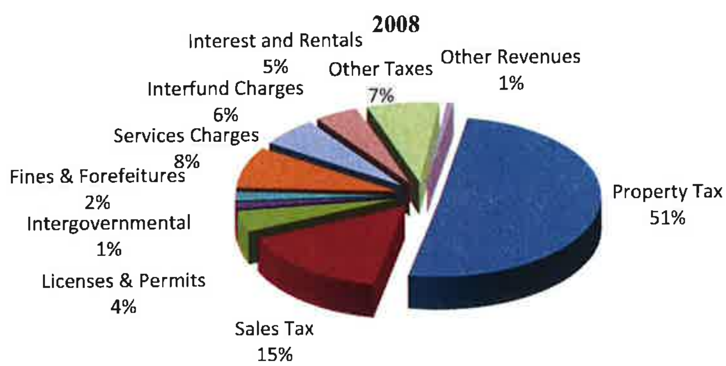
Community Development Service Charges also receives an Unfavorable rating due to a continuing decline in development as the City nears build-out and leveling out of service charges.

The City has taken action in the trends that received an Unfavorable rating. This was initiated in the last fiscal year. The City Council reviewed planning, building and engineering activity and made changes to the fee structure to better address the needs of the community. In addition, costs were decreased in the Building department based on the lower activity levels.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2004 vs. FY 2008





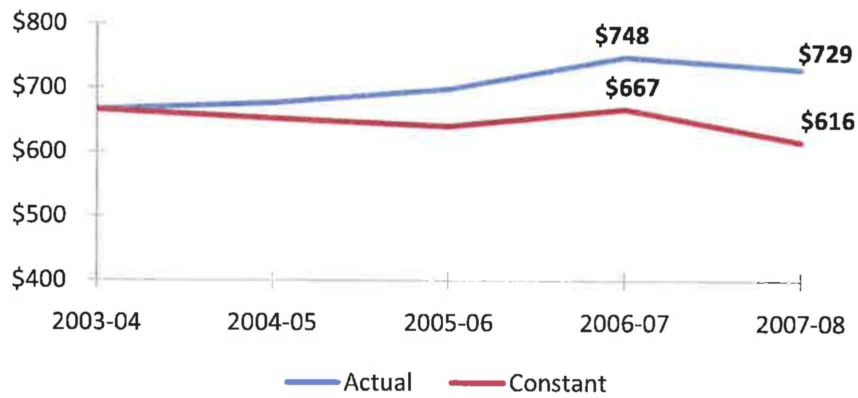
Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property tax, Intergovernmental, Service charges, License and Permit and Interfund categories. Property tax revenues increased from 31% in FY 2004 to 51% in FY 2008 due to a change in property tax legislation that started in the 2005 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 7% in FY 2004 to 1% in FY 2008.[1] The decrease in licenses and permits from 10% in FY 2004 to 4% in FY 2008 is due to declining construction permit fees as anticipated. Service charges decreased from 13% in FY 2004 to 8% in FY 2008 due to lower planning inspection fees as a result of slowing development in the City. Interfund charges have also decreased from 9% in FY 2004 to 6% in FY 2008 due to decreases in

[1] See "Attachment A" page 71.

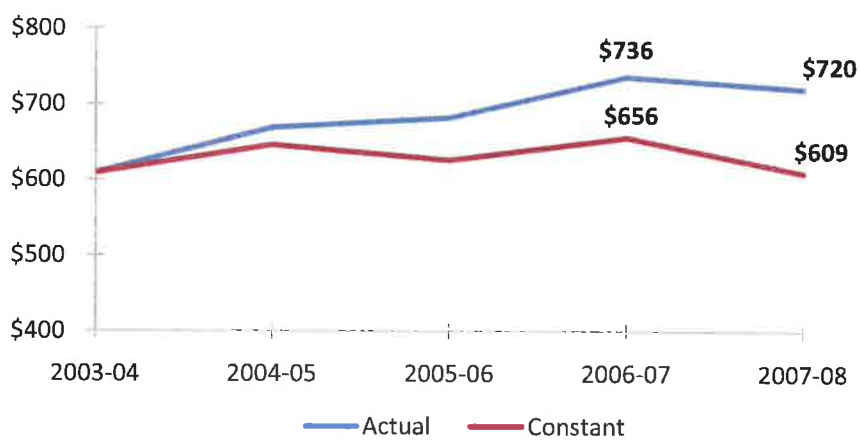
transfers from Gas Tax, Parks Acquisition, Golf Course and Other funds and a 3% decrease in overhead charges.

Revenues Per Capita

REVENUES PER CAPITA
Operating Revenues Including One-Time Revenues
Actual and 2004 Constant Dollars
General Fund



REVENUES PER CAPITA
Operating Revenues Excluding One-Time Revenues
Actual and 2004 Constant Dollars
General Fund

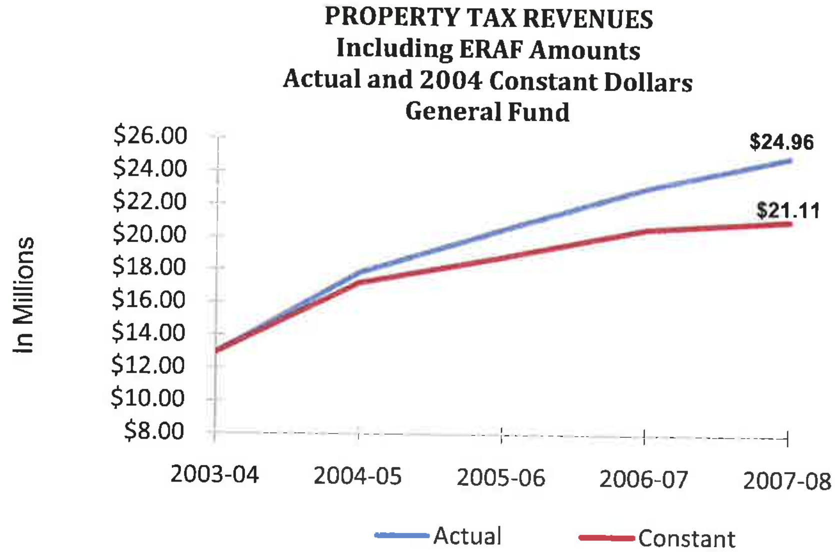


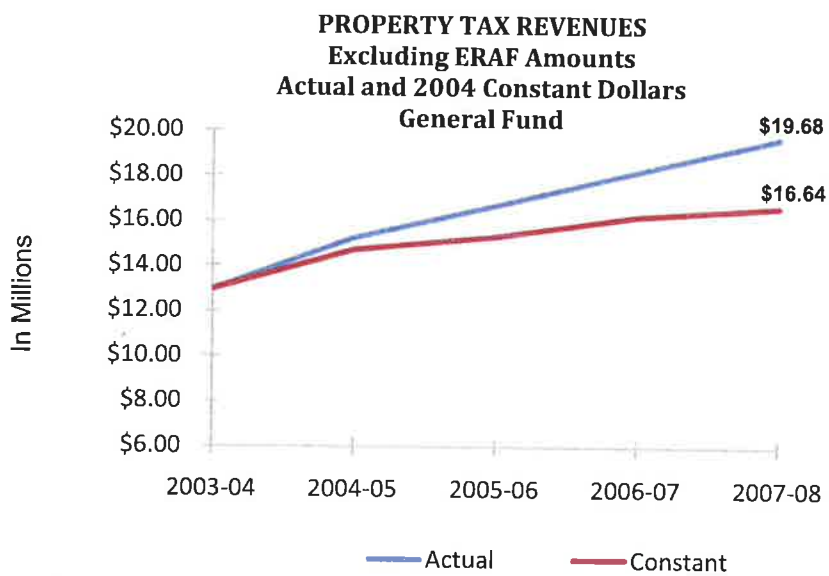
Finding: ***FAVORABLE/CAUTION***. Revenues per capita in both charts reflect a decrease when analyzing actual amounts and constant dollars for FY 2008. This trend has changed to Favorable/Caution from a Favorable rating in the prior year due to this being the first year of decline. Revenues per capita, in actual dollars, experienced a decline from FY 2007 of 3% (including one-time revenues) and 2% (excluding one-time revenues) related to decreases in licenses and permits and charges for services. In constant dollars the decrease was 8% (including one-time revenues) and 7% (excluding one-time revenues) due to the 5.41% inflation growth rate exceeding the actual dollar growth rate.

Comments: The first chart which includes one-time revenues shows a downward trend from $748 to $729 in actual dollars and a decrease from $667 to $616 in constant dollars. Total revenues for FY 2008 decreased with the City's licenses and permit category decreasing by $0.7 million or 25% and the charges for services category decreasing by $0.5 million or 8%. These decreases are due to a decline in construction and planning fees. Although these decreases were anticipated, the revenue received was still below the City's lower revised mid-year budget projections for FY 2008.

The second chart (which excludes one-time revenues) shows a decrease in actual dollars from $736 to $720 from FY 2007 and a decrease in constant dollars from $656 to $609. 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 are beginning to decline, and the Favorable trend has been changed to Favorable/Caution due to the decline of revenues on a per capita basis.

Property Tax Revenues

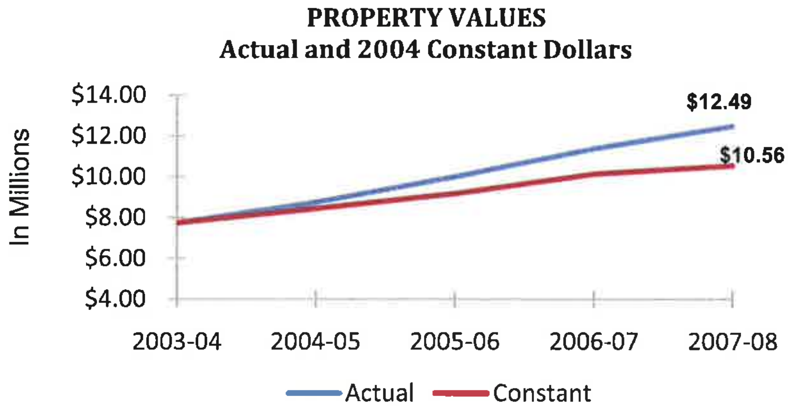




Finding: ***FAVORABLE/CAUTION***. Property tax revenues showed an increase for FY 2008; however, this increase is 4% lower than last year's increase. Due to the declining economy and decreased property values, an even lower growth rate is predicted for future years.

Comments: Property tax revenues increased by $1.9 million or 8% in actual dollars, and increased 3% in constant dollars ending the year $0.6 million above the prior fiscal year. The actual dollar increase is the result of an additional $0.4 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 has been changed from Favorable to Favorable/Caution due to the decrease in growth rate over the past year. There has been a steady decrease in property tax growth over the last 5 years and we will continue to see a decline in growth in the future.

Property Values



Finding: ***FAVORABLE/CAUTION***. Property values showed a positive growth rate for the twelfth consecutive year in FY 2008; however this growth rate is lower than the prior year's growth rate.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars shows an increase of 10%. This indicator has been changed from Favorable to Favorable/Caution due to a decline in the growth rate between years as the FY 2007 growth rate was 13%. Due to the economy, property tax values have declined significantly and the City will see the effect of this decline in future years as the growth rate begins to level out. This indicator will continue to be closely monitored due to the significant impact in property tax revenues on the City's General Fund. Below is a chart showing the percentage change in secured values for the past ten tax years, from the HDL Coren & Cone Preliminary Property Tax Reports based on 2008-09 Property Tax Data.

City of San Clemente
Assesed Value History
(In Thousands)

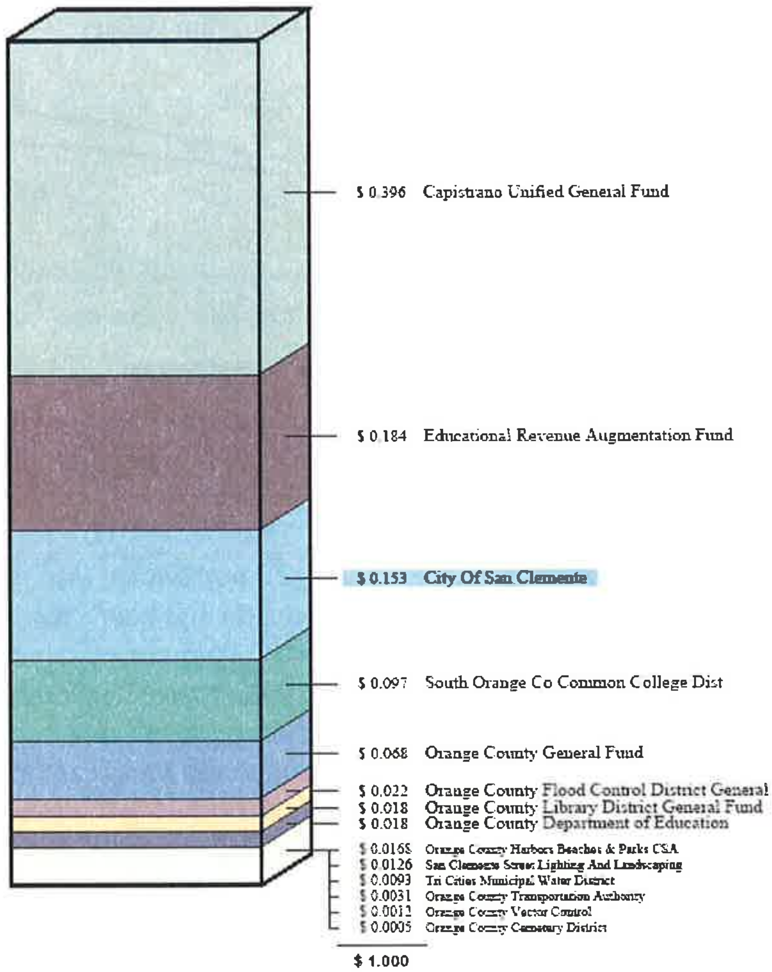
Tax Year	Secured Values	% Change
1998-99	$4,062,002	5.08%
1999-00	$4,482,896	10.36%
2000-01	$5,021,140	12.01%
2001-02	$5,749,418	14.50%
2002-03	$6,661,104	15.86%
2003-04	$7,525,674	12.98%
2004-05	$8,518,575	13.19%
2005-06	$9,762,930	14.61%
2006-07	$11,106,184	13.76%
2007-08	$12,248,078	10.28%

Source: HDL Reports 2008-09

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

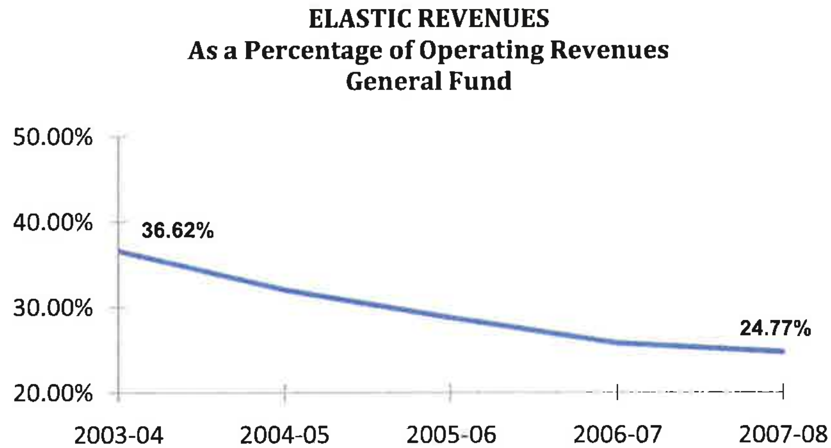
Source: HdL Coren & Cone, Orange County Assessor 2006/07 Annual Tax Increment Tables *Page 1*

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

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

Elastic Revenues

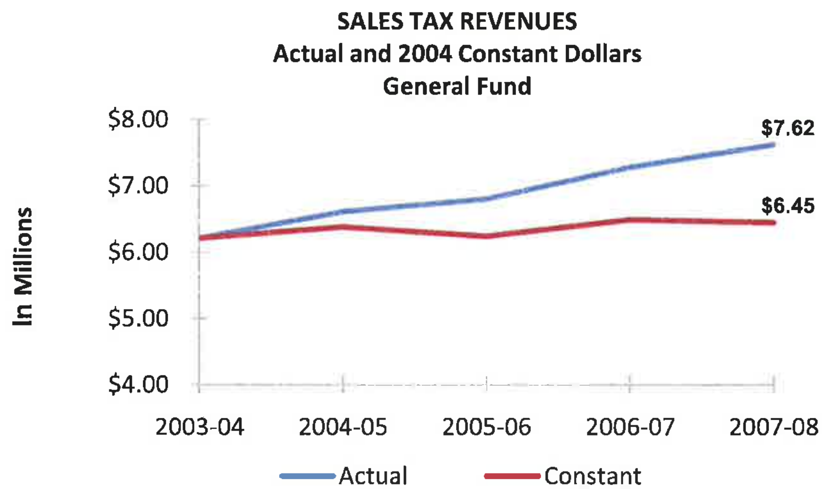
(Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges)



Finding: ***WARNING.*** Elastic revenues, as a percentage of total revenues, show a decrease from FY 2007 to FY 2008 which is the fourth consecutive decrease. Actual elastic revenues decreased $776,821, while operating revenues decreased by $1.0 million. A Warning rating is assigned due to a decrease in revenue of $539,201 in community development service charges, $101,028 in business licenses and permits and $584,162 from construction permits; however, sales taxes increased by 5% or $345,750 and transient occupancy tax increased by 8% or $103,837.

Comments: Elastic revenues, as a percentage of total revenues, decreased from 25.80% in FY 2007 to 24.77% in FY 2008. This is below the historical average of 31.0% from FY 1996 to FY 2000. This was the result of a $539,201, or 33%, drop in community development service charges, a $584,162 or 39% decrease in construction permits and a drop in licenses and permits of $101,028, or 9%. A Warning rating has been assigned because of the decreases in community development service charges, construction permits and licenses and permits from the previous year. This rating is also due to the mix of Unfavorable, Favorable and Favorable/Caution ratings given to the revenue sources that make up the elastic revenues. Details concerning each major elastic revenue source can be found on the following pages.

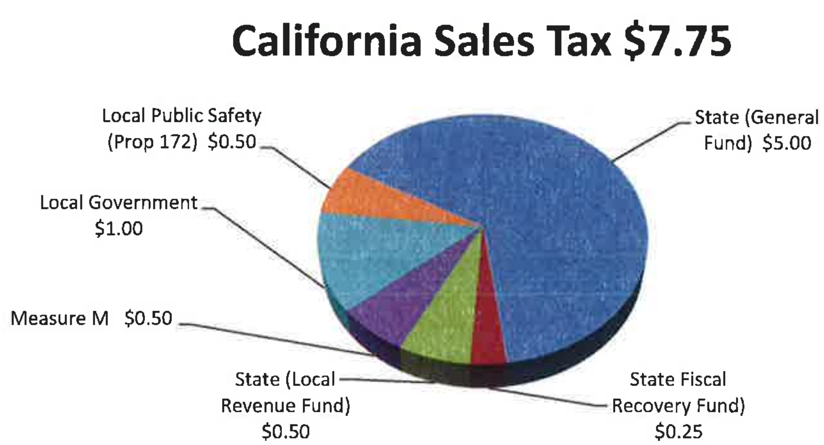
Sales Tax Revenues



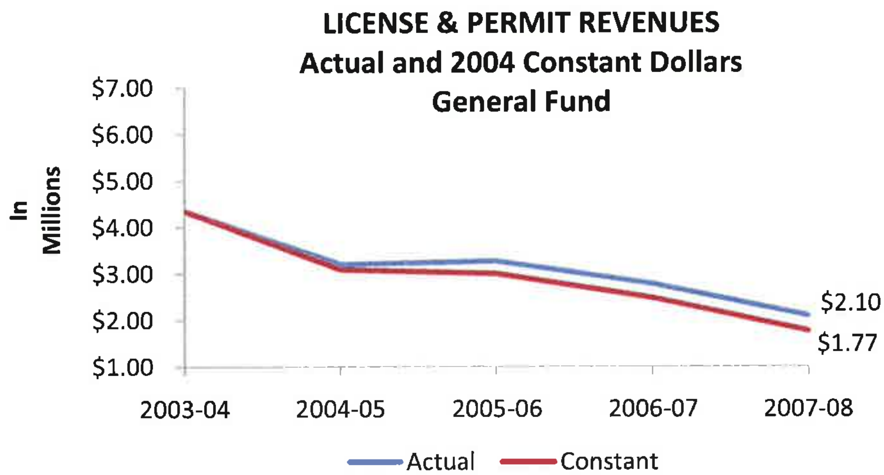
Finding: ***FAVORABLE/CAUTION***. As summarized in the chart above, sales tax revenues showed an increase of $345,750, or 5% in actual dollars over the prior fiscal year. In constant dollars, the decrease amounted to $40,578, or 1% for FY 2008. The inflation rate during this period was 5.41%.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past five years in actual and constant dollars. However, the increase in sales tax has declined from the prior year by 2%. Because of this decline in growth, this indicator has been changed from Favorable to Favorable/Caution. 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:



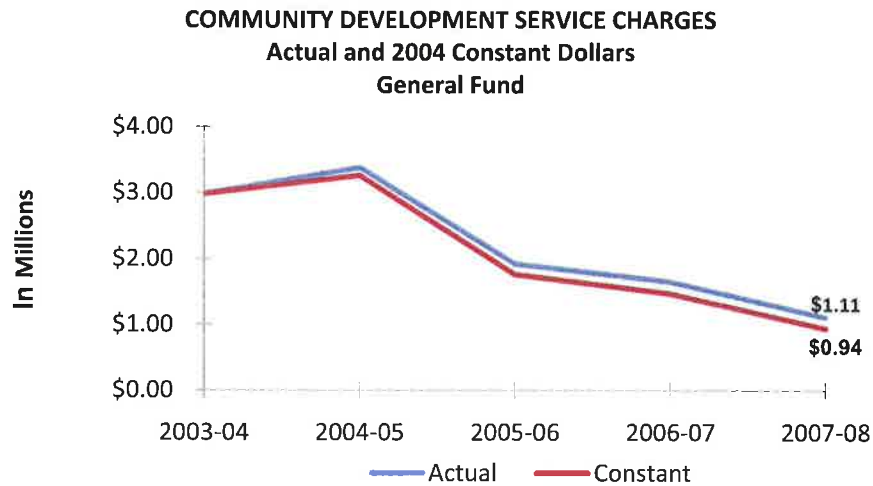
License and Permit Revenues



Finding: ***Unfavorable.*** License and permit revenues decreased in actual dollars in the amount of $687,207 or 25% from the prior fiscal year. The constant dollar decrease registered at $708,561 or 29% from FY 2007. This indicator received an Unfavorable rating due to the second year of decreases and to reflect the change to a downward trend in actual dollars.

Comments: Construction permit revenue decreased $584,162, or 39% over the past year, and business license income decreased from the prior year by $101,028 or 9%. An Unfavorable 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 decreases were anticipated the amounts for permits were below the City's lower revised mid-year budget for FY 2008.

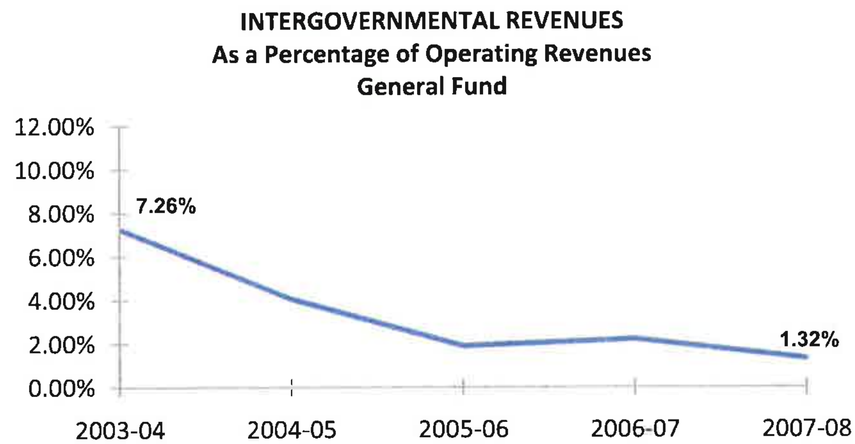
Community Development Service Charges Revenues



Finding: ***Unfavorable.*** Total community development service charges decreased by 33%, or $539,201 from the prior year. This represents the third consecutive year of decreases. This trend is assigned an Unfavorable 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 construction inspection fees and plan check fees account for most of the $539,201 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.

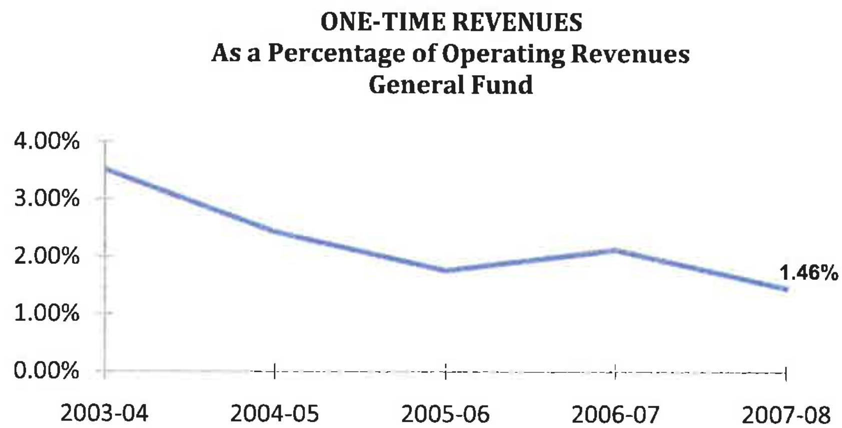
Intergovernmental Revenues



Finding: ***Favorable***. General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 1.32% in FY 2008.

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 46% of this 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 2005. Motor vehicle fees received as in-lieu property taxes totaled $4.9 million in FY 2007 and $5.3 million in FY 2008, which would have made the intergovernmental percentages 11.8% and 12.0%, respectively, which still supports the Favorable rating.

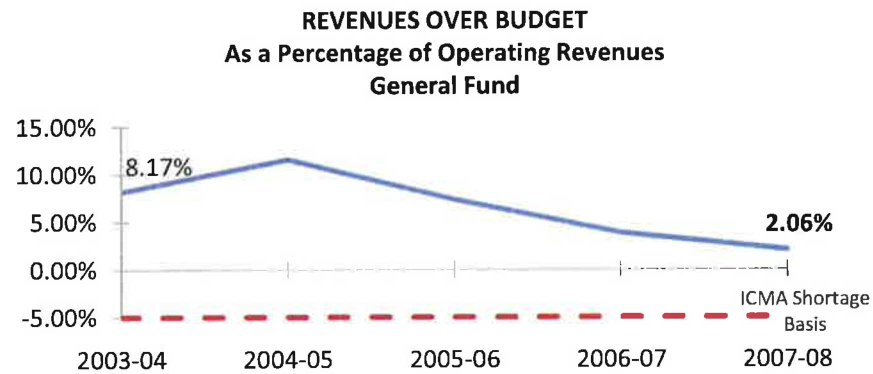
One-Time Revenues



Finding: ***Favorable***. One-time revenues, as a percentage of total General Fund revenues, equaled 1.46% in FY 2008, a slight decrease from the prior year.

Comments: One-time revenues decreased by $350,191 from the prior fiscal year. FY 2008 one-time revenues of $0.7 million include $179,315 of grant funds and $282,500 from miscellaneous reimbursements. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a Favorable rating.

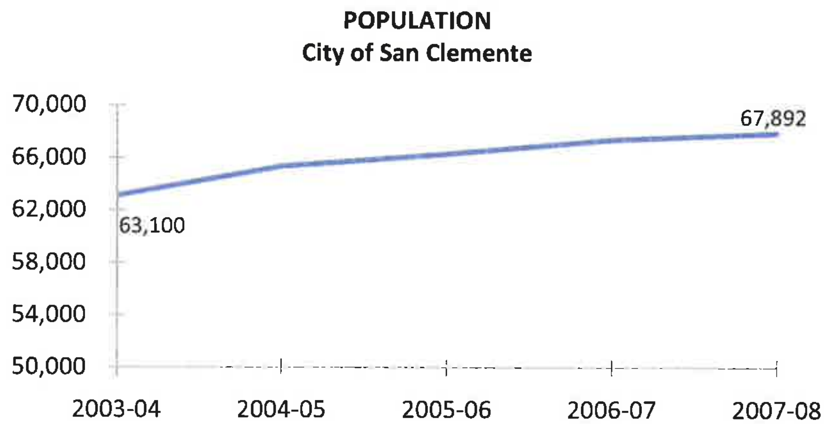
Revenue Overage



Finding: ***FAVORABLE***. Actual revenues exceeded budget by $1.0 million for FY 2008 and ends with a positive revenue position of 2.06%. The City experienced a revenue shortfall in the following categories: transfers in ($1.3 million), intergovernmental ($0.1 million), and fines and forfeits ($0.1 million). And it should be noted that the budgeted amount of $1.17 million for repayment of principal was not included in this calculation. 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 8.17% and ended FY 2008 at 2.06%. 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

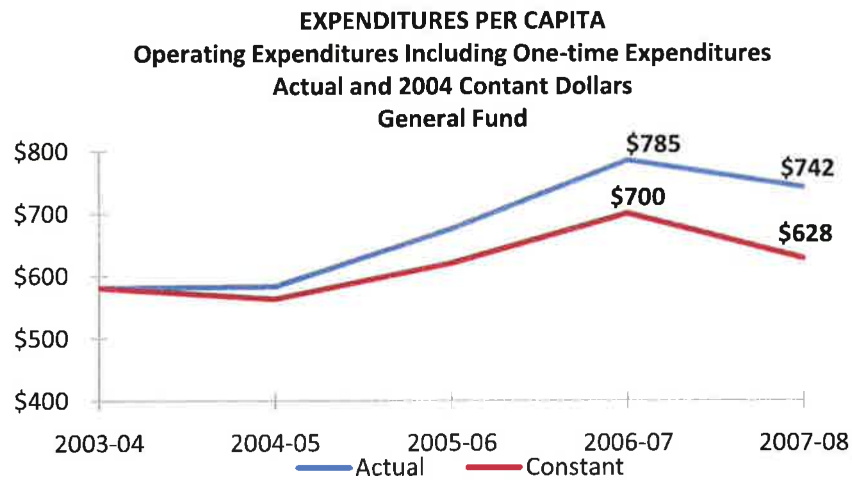


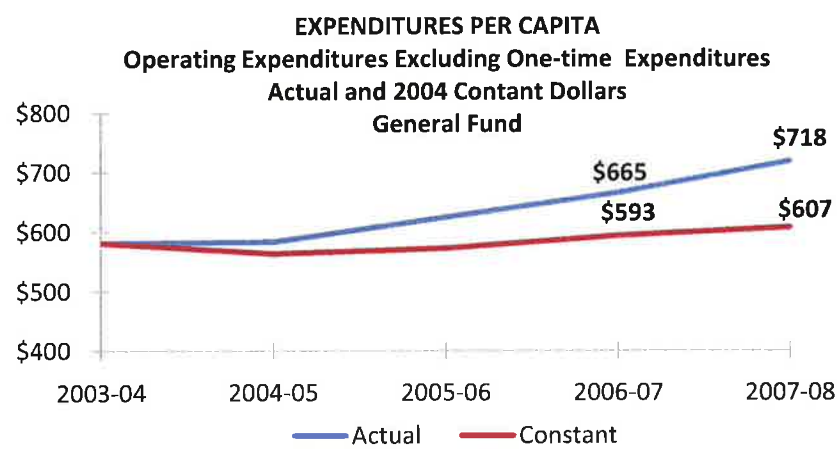
Finding: ***Favorable***. The City's population growth, an average of 2.37% over the last five years, is considered Favorable because this growth has been planned and controlled. Growth from FY 2007 to FY 2008 was 0.77%, which indicates the City's growth pattern continues to slow.

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



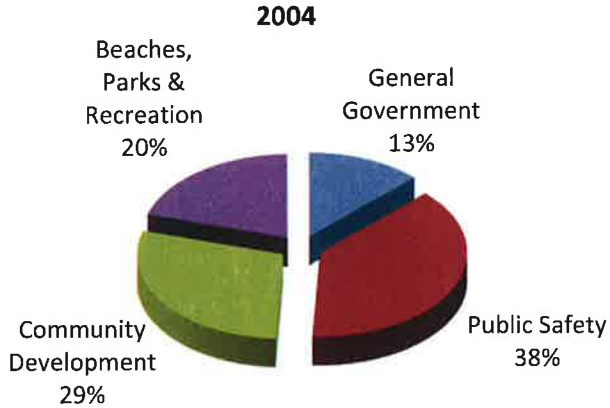


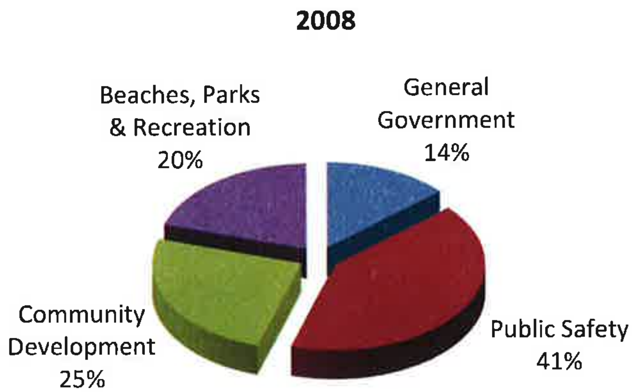
Finding: ***Favorable***. Expenditures per capita in the first charts reflect a decrease when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. However, when excluding one-time expenditures in the second chart, there is an increase in actual and constant dollars from the prior year. This trend receives a Favorable rating due to expenditures keeping pace with the slight increases in the population growth of the City.

Comments: The first chart which includes one-time expenditures shows a decrease from $785 to $742 in per capita actual dollars and a decrease from $700 to $628 in per capita constant dollars. This reflects the decrease in actual dollars of $2.5 million and the decrease in constant dollars of $4.5 million when compared to FY 2007. The decrease in actual dollars was in City general ($7.0 million); which is mainly due to a one-time $8.1 million contribution to the Parks Acquisition and Development Fund in the prior year.

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $665 to $718 and an increase in constant dollars from $593 to $607. This increase is mainly due to an increase in capital outlay from prior year; since several contractual maintenance projects were moved to capital outlay as part of the budget process for FY 2008. There were also increases in personnel, supplies and contractual services from the prior year. 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
FY 2004 vs. FY 2008

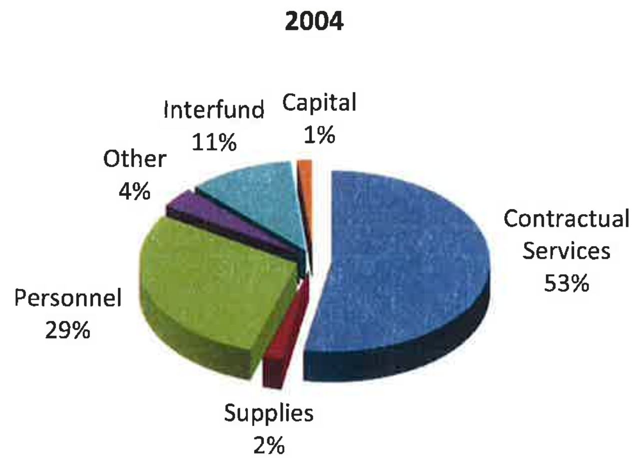


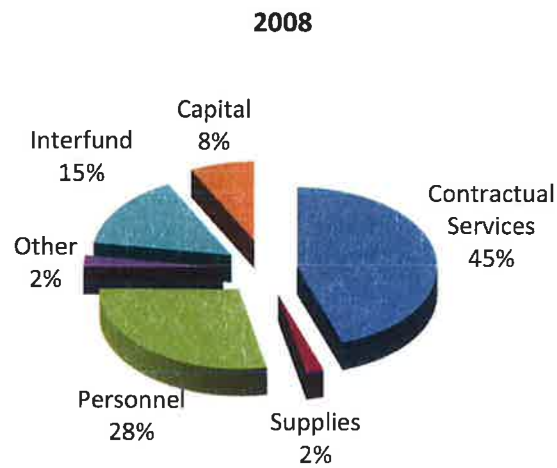


Finding: ***FAVORABLE.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay), did not change significantly.

Comments: These charts indicate that most expenditure categories have remained stable, with only minor increases and decreases in percentages. Community Development decrease is due to the slowing of development as the City nears build out. Public Safety increased from 38% in FY 2004 to 41% in FY 2008 due to increases in the contracts with Orange County Fire Authority (OCFA) and Orange County Sheriffs Department (OCSD). These increases are mainly due to inflation and increased staffing.

Comparison of Expenditures by Category
FY 2004 vs. FY 2008





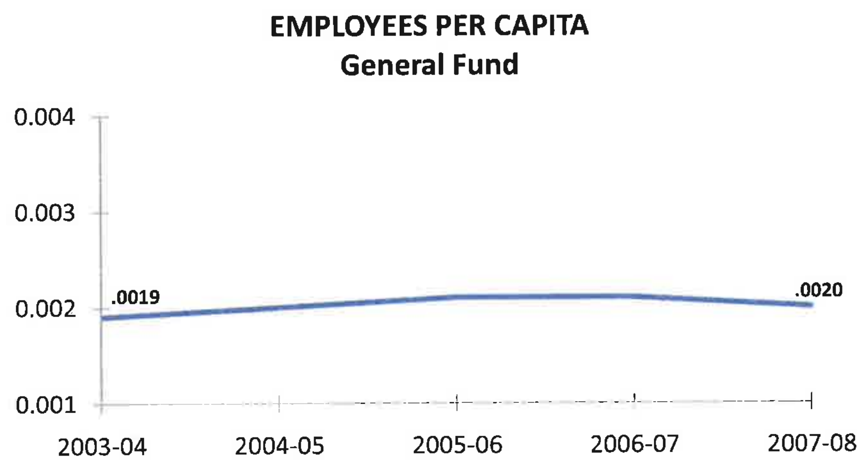
Comments: The charts above indicate that the Contractual Services, Interfund, and Capital expenditure categories, as a percentage of the total General Fund expenditures, changed significantly between FY 2004 and FY 2008.

The contractual category changed from 53% to 45%. Although there was a growth in public safety contractual costs from FY 2004, increases in interfund payments cause the contractual category to be a lower percentage of expenditures in FY 2008 than in FY 2004. Also, during the budget for FY 2008 several contractual maintenance costs were moved from the contractual category to capital outlay.

Interfund amounts have increased due to an increase in interdepartmental charges of 24% from FY 2004 to FY 2008. Also, FY 2008 includes a one-time transfer of $1.65 million to the general liability fund.
The capital category increased from 1% to 8% of expenditures due to an increase in capital

improvement projects and the moving of contractual maintenance projects from the contractual category to capital outlay. Fiscal year 2008 projects include a $1.4 million for San Gorgonio field lighting and fence project and $0.6 million spend on major street maintenance.

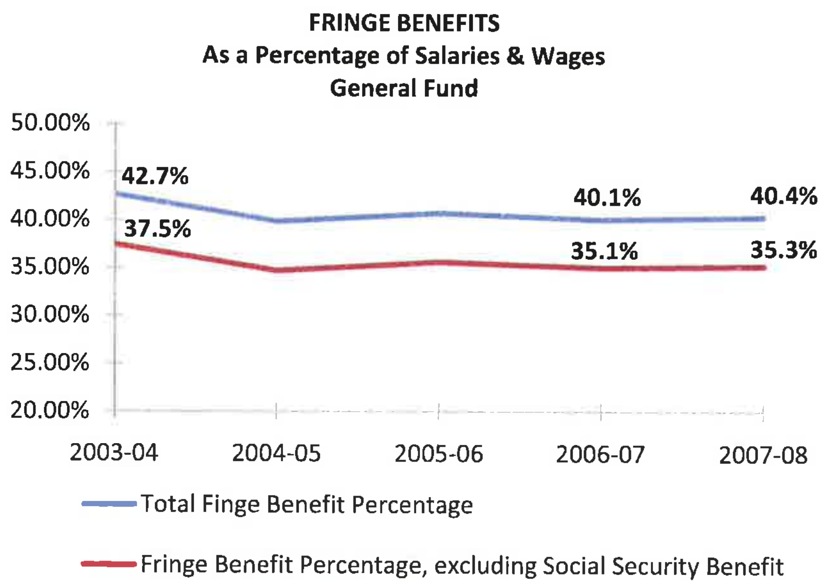
Employees Per Capita



Finding: ***Favorable.*** Employees per capita have remained relatively stable over the last five years; however, it has decreased slightly from FY 2007 due to a slight decrease 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

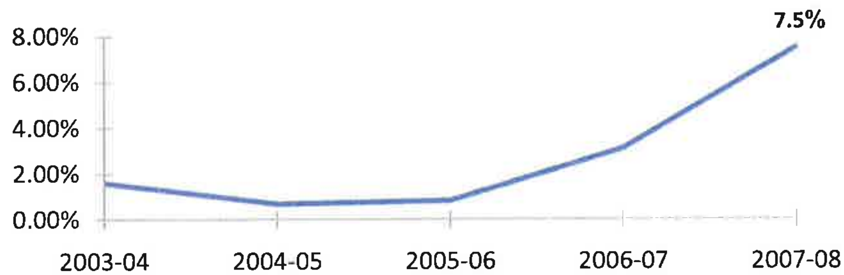


Finding: ***FAVORABLE.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased slightly from 40.1% to 40.4%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2007. This indicates a leveling 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 remained stable. In addition, the City has taken steps to limit the growth of the City paid portion of the medical benefit.

Capital Outlay

CAPITAL OUTLAY
As a Percentage of Operating Expenditures
General Fund

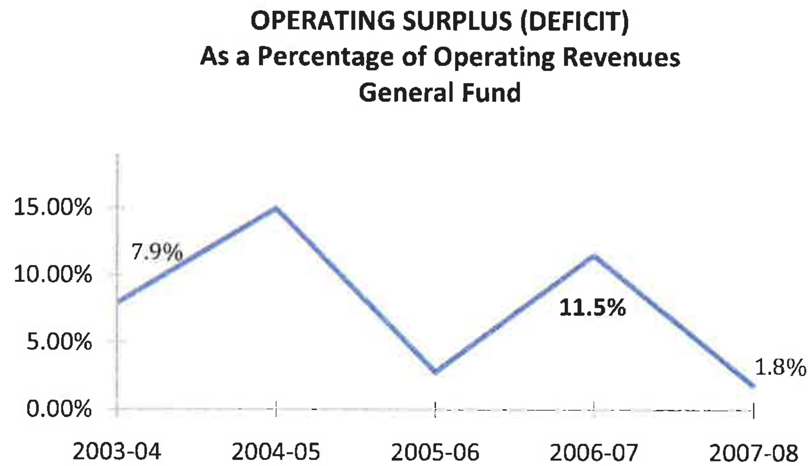


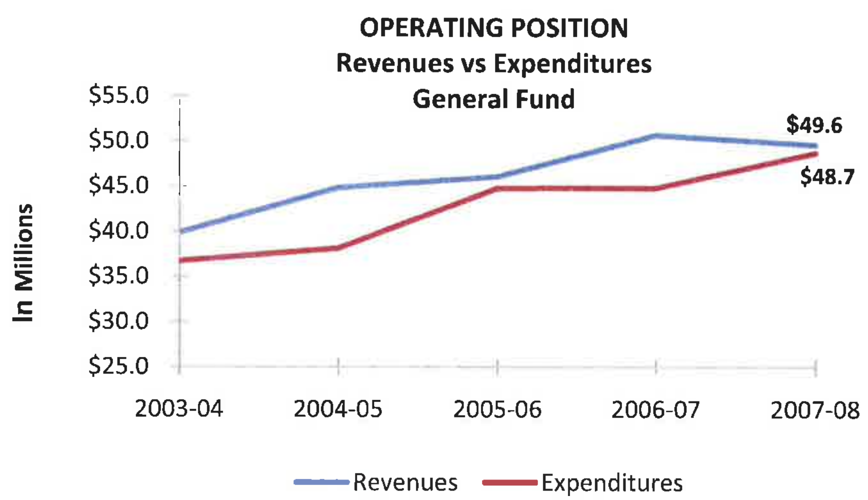
Finding: ***Favorable.*** Capital outlay expenditures increased by $2.1 million, or 103%, from the 2007 fiscal year. Capital outlay expenditures totaled $3.8 million.

Comments: Spending on capital outlay has increased due to spending on San Gorgonio Field Lighting and Fence project in the amount of $1.4 million and street improvement projects totaling $0.6 million in FY 2008. In addition, several contractual maintenance charges were moved to capital during for FY 2008.

The Capital Equipment Replacement Reserve was established in FY 1995. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend continues to be a Favorable rating due to the City's continual commitment to maintaining capital assets, which improves the efficiency of City operations.

Operating Position

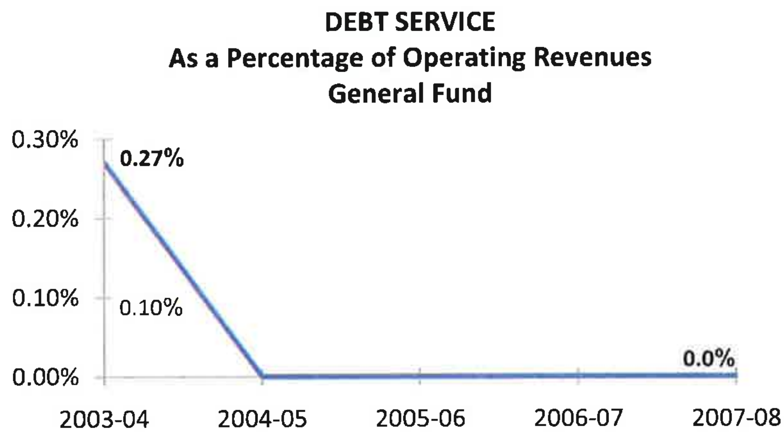




Finding: ***Favorable.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. FY 2008 finished with an operating surplus of 1.8%, a decrease from 11.5%, when calculated as a percentage of General Fund revenues.

Comments: The City ended FY 2008 with an operating surplus. The expenditures used to calculate this surplus does not include a one-time transfer of $1.65 million from the general fund to the general liability fund. This trend receives a Favorable rating due to the positive operating position.

Debt Service

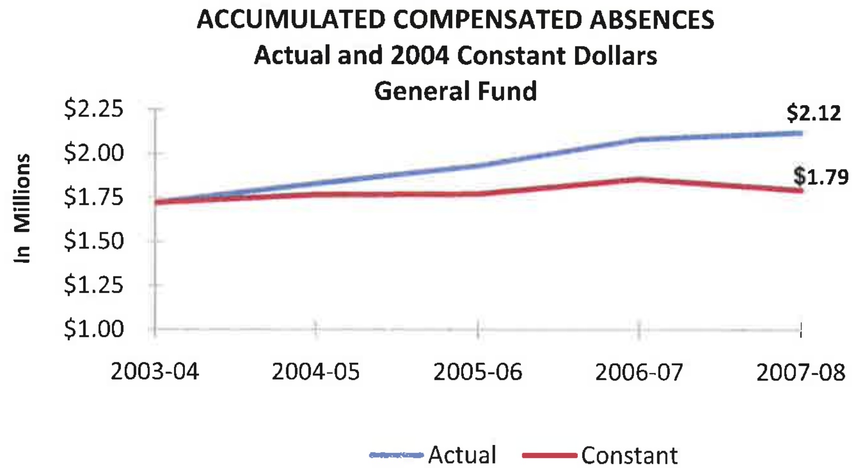


Finding: ***Favorable***. General Fund debt service receives a Favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last twelve years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating 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 FY 2004. The lease was not due until FY 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

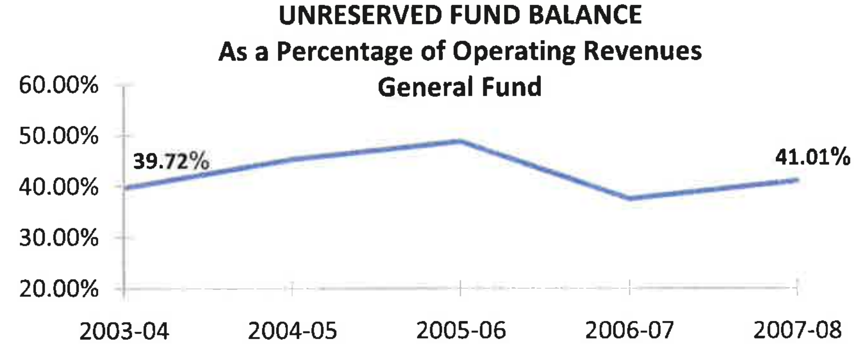


Finding: ***Favorable***. This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. While the accumulated compensated absences have shown 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, 2008, the balance of the liability for compensated absences was $2.12 million consisting of $1.0 million for vacation, $0.9 million for sick leave, and $68,000 for compensatory time. This is an increase of $38,224 or 2.0% from the prior year's liability of $2.10 million. The increase is due to an increase of 3.50% for cost of living in FY 2008.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2008, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $170,000 for the payment of accrued leave for terminated employees. As of June 30, 2008 the Accrued Leave Reserve balance was $563,458.

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.

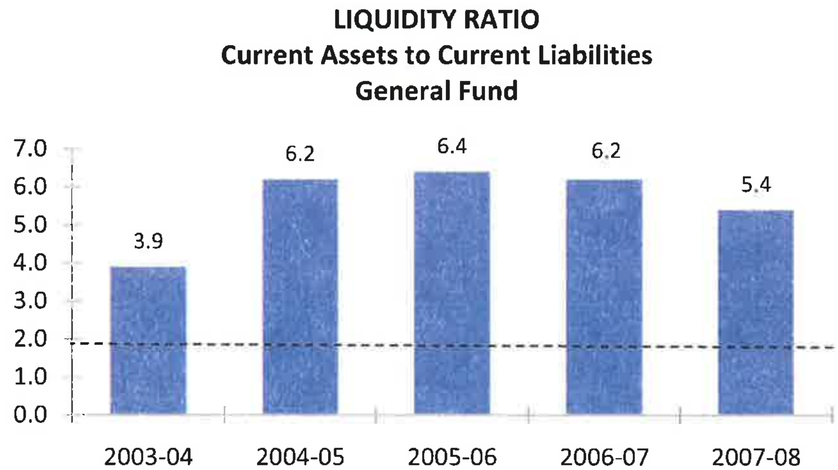
Comments: Unreserved fund balance excluding long term receivable reserves increased 7.0% in FY 2008 as a percentage of total revenues. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

City Council adopted a fiscal policy requiring that emergency reserves be set at 8.25% of General Fund operating expenditures. Included within the total FY 2008 unreserved fund balances of $20.4 million are undesignated funds of $16.5 million and designated funds of $3.8 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.

The following table summarizes the General Fund year-end undesignated fund balance and the amounts transferred for capital projects during the past five fiscal years:

	Fiscal Year				
Project	***2004***	***2005***	***2006***	***2007***	***2008***
La Pata/Vista Hermosa Park	$ 61,562			$ 7,650,000	
Bellota Settlement			$ 3,400,000		$ 1,650,000
Golf Course Clubhouse				$ 1,029,020	$ 145,530
Steed Park Renovation				$ 407,405	
Computer Room Improvements		$ 167,270			
La Pata & Del Rio Extention Study				$ 9,648	
Total General Fund Amounts Transferred to Projects	***$ 63,566***	***$ 169,275***	***$ 3,402,006***	***$ 9,098,080***	***$ 1,797,538***
General Fund Balance (Undesignated)	**$ 16,862,480**	**$ 21,146,531**	**$ 18,296,959**	**$ 15,475,231**	**$ 16,533,750**

Liquidity Ratio



Finding: ***FAVORABLE***. In FY 2008, the City's liquidity ratio remains positive at 5.4:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 5.4:1 current asset to current liability ratio is considered excellent.

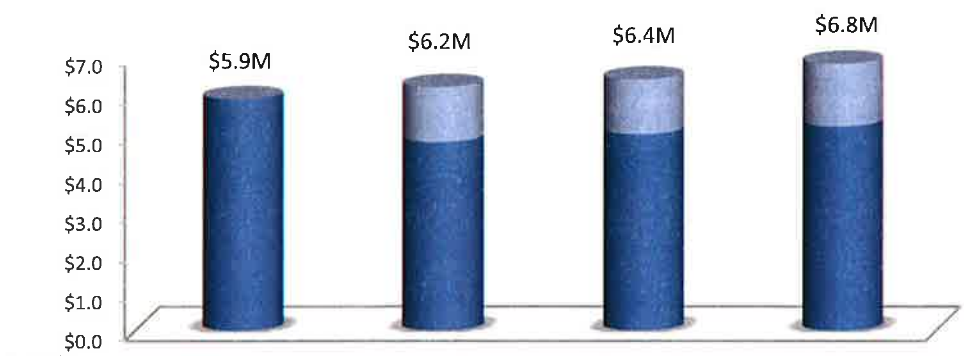
Comments: Liquidity measures the City's ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable and other assets that can be readily converted to cash. Current liabilities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

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.

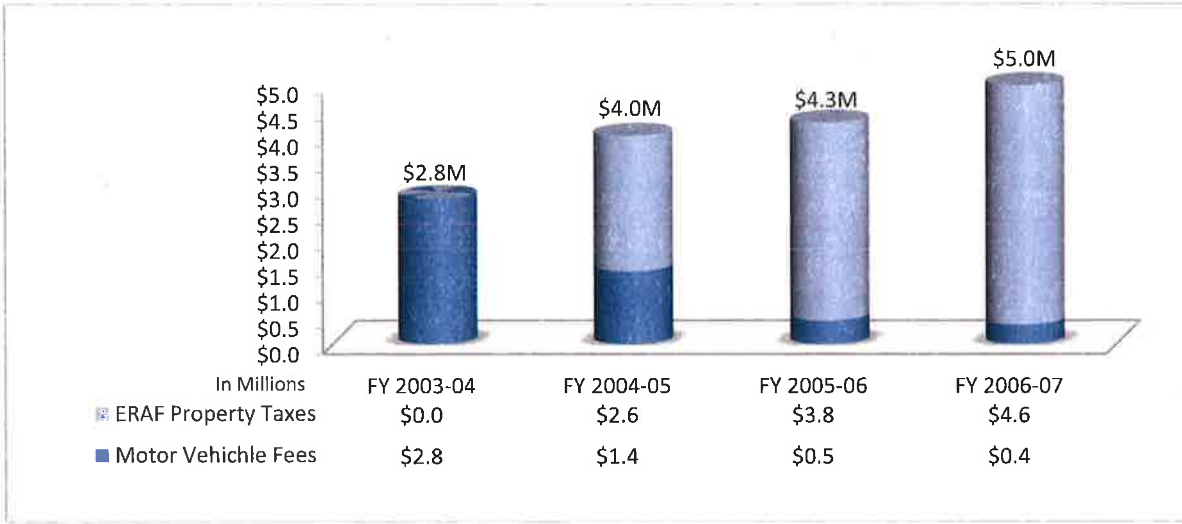
The City of San Clemente has been receiving ERAF property taxes from the State since 2005. The chart below graphically depicts the changes to the City's sales taxes and ERAF property taxes over the last four years:



In Millions	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

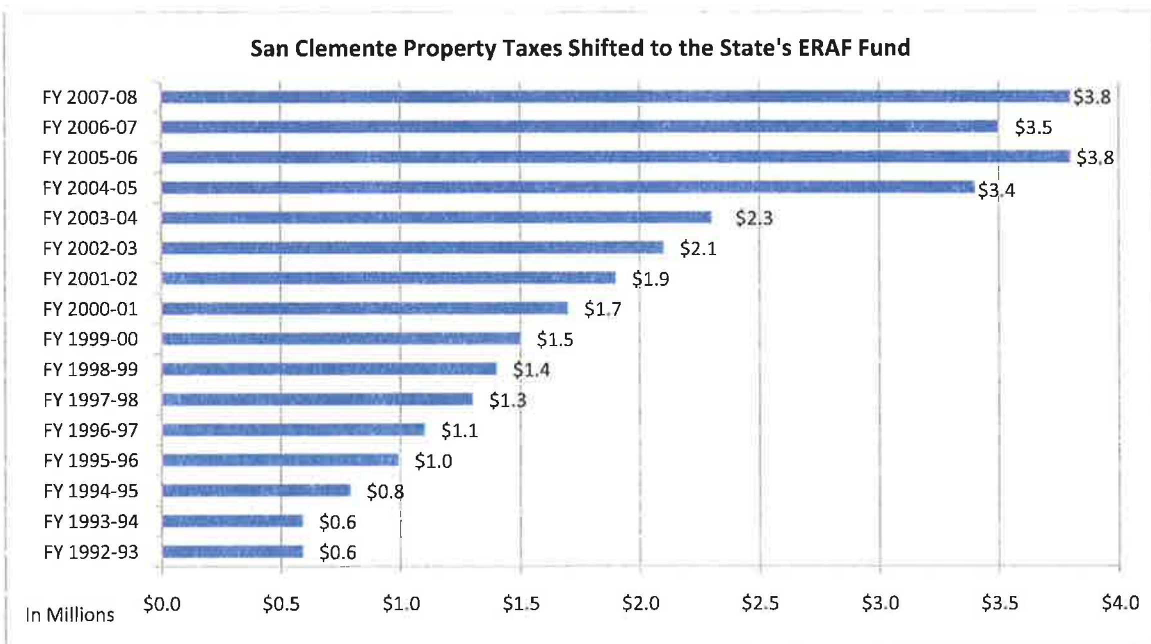
Vehicle License Fee (VLF)

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.



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.



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 2009 financial forecast has been updated since it was last presented to City Council in January 2009. The forecast presented projected a current year positive operating position of $530,000 and a negative operating position in each of the five years of the forecast period.

2009 Mid-Year Financial Forecast (in millions)

	2009	2010	2011	2012	2013	2014
Operating receipts	$48.5	$49.7	$50.8	$51.7	52.6	$53.5
Operating disbursements	48.0	50.4	54.4	56.3	58.2	60.3
Projected surplus/deficit	$0.5	-$0.7	-$3.5	-$4.6	-$5.7	-$6.8

The forecast showed that changes in economic assumptions, particularly property taxes and sales taxes, were negatively affected by the downturn in the national and local economy. As a result, City finances were showing declines in several major revenue categories and options were presented to maintain a balanced budget in future years.

Based on the dire financial forecast and City Council action, immediate steps were taken to assure a positive operating position in the current fiscal year. These actions included:

- Vacant positions were frozen on a case-by-case basis.
- Contractual positions were reduced or eliminated.
- Overtime hours were reduced.
- Non-essential expenditures were reduced or eliminated and all expenditures are carefully monitored.

The above cost control measures have also been carried into the proposed FY 2010 budget. Additionally, staff was directed to develop a plan for addressing future fiscal deficits. The revised forecast presented in this paper is intended to develop solutions to the on-going fiscal gaps. These solutions along with other cost reductions will be further refined in the proposed FY 2010 budget.

As a result of the above actions, the revised 2009 LTFP financial forecast improved from $530,000 to a projected $1.9 million positive ending operating position for the current year due to salary savings and expenditure reductions across all City departments, plus more positive revenue projections for ambulance and recreation fees.

Preliminary projections for FY 2010 expenditures reflect salary and benefit savings from vacant positions, elimination of contractual positions, reductions in general liability contributions and an increase in the amount of General Fund personnel costs that can be charged to other projects and funds outside of the General Fund. The operating expenditure cuts of $1.1 million in the first year of the forecast result in overall expenditure savings because future years are inflating from a lower base amount. In total, expenditures in the 2009 LTFP forecast were reduced by $7.8 million.

As shown below, the five-year forecast still projects a negative operating position in four of the five years of the forecast period resulting in negative fund balances beginning in FY 2013. The forecast *includes* the known increases such as police and fire, as well as the forecast assumptions to maintain current level of services.

2009 LTFP Financial Forecast (in millions)

	2009	2010	2011	2012	2013	2014
Operating receipts	$49.6	$49.5	$50.3	$51.1	51.2	$52.0
Operating disbursements	47.7	49.3	53.5	54.9	56.2	57.9
Projected surplus/deficit	$1.9	$0.2	-$3.2	-$3.8	-$5.0	-$5.9

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.

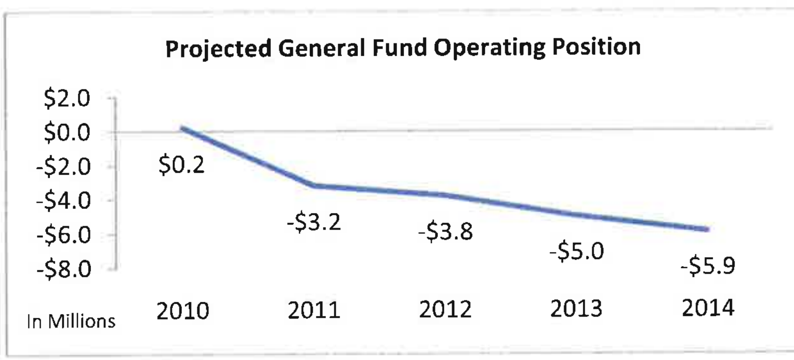
The forecast is developed based upon guidelines provided by the Government Finance Officers Association (GFOA). The financial forecast allows the City to determine how current spending plans will impact future budgets, but the forecast presented during the Long Term Financial Plan is *not* the budget that will be presented to City Council for the 2010 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 2010 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 the first phase of La Pata/Vista Hermosa Park have been included in the forecast beginning in 2011. However, no revenue or expenditures for the Marblehead, North Beach or Target development projects have been included in the forecast.

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 2008 Economic Forecast for Southern California and Orange County and the Chapman University 2008 Business and Economic Review. As a result of the economic projections, the City's financial forecast allows for much slower growth than previous forecasts. For example, assessed valuation previously averaged 4% over the forecast period, while the revised forecast now projects no growth in the first two years of the forecast and 1.3% growth per year for the remaining three years. By revising the growth factors beginning in the first year of the forecast, the result is a reduction of $8.8 million in projected property tax revenue over the five-year forecast period. Similarly, the 2008 forecast grew sales taxes by an average of 4.9%, while the revised forecast now projects an average of 2.4%. As a result, projected sales taxes decline by $2.7 million in the five-year 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 revised expenditure and revenue trends, the financial forecast predicts a negative operating position in four of the five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements and excluding one-time revenues and expenditures) are shown in the following chart and table.



2009 Forecast Summary* (in millions)

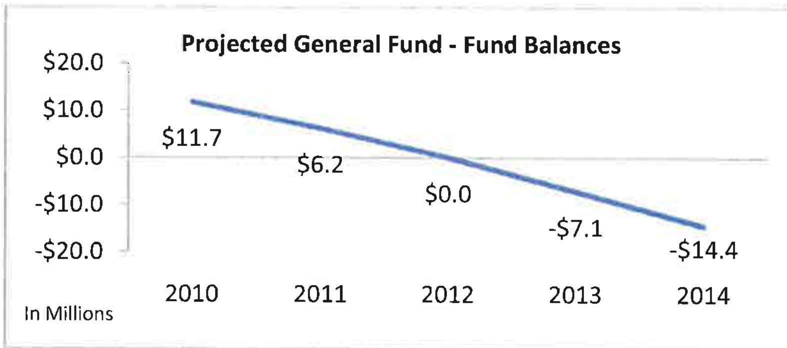
	2010	2011	2012	2013	2014
Operating receipts	$49.5	$50.3	$51.1	$51.2	$52.0
Operating disbursements	49.3	53.5	54.9	56.2	57.9
Projected surplus/deficit	$0.2	-$3.2	-$3.8	-$5.0	-$5.9

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

Projected negative operating position is due to significant reductions in property and sales taxes, service charges and interest income. Forecasted expenditures also show an increase due to the *assumptions* built into the forecast to maintain current level of services. Expenditures must be reduced in order to maintain a positive operating position in all years of the forecast. Options for expenditure reductions or revenue enhancements will be presented in the Executive Summary section of the 2009 LTFP.

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 and includes $10.0 million in Sustainability Fund Balance Reserve. 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 8.25% of operating expenditures. Contributions to the reserve are scheduled to increase in 0.25% increments, along with annual contributions to reach the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

The chart below illustrates projected undesignated fund balances in the General Fund for the 2009 Long Term Financial Plan forecast.

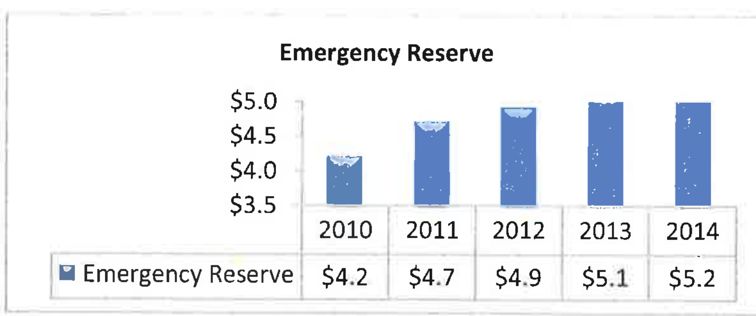


Fund balances decline due to projected higher operating expenditures than operating revenues and $2.1 million in capital expenditures. Because funding of for capital projects is determined annually during the budget process and project priorities may change, the amount included in future budget years may differ from forecasted expenditures. In addition, the forecast makes a number of assumptions that will require modification in order to maintain a positive operating position and adequate fund balances.

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. Designated emergency reserve levels are maintained at the required 9% level beginning in FY 2012.

General Fund – Emergency Reserve (in millions)

	2010	2011	2012	2013	2014
Emergency Reserve	$4.2	$4.7	$4.9	$5.1	$5.2



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 - For forecast purposes only, it is presumed that cost of living increases will be 0% for FY 2010 and 90% of inflation beginning in FY 2011 ($238,000).
- New positions - Over the last six years, an average 3.1 positions have been added annually to the General Fund budget. For forecast purposes, three positions ($250,000) have been added in each year of the forecast, for a total of fifteen positions ($1.25 million).
- New Police contract positions - One contract police position per year ($214,000), for a total cost of $1.1 million over the forecast period, has been added to the forecast.
- Fire Services costs – The fire contract increases by an average of $344,000 per year over the forecast period.
- La Pata/Vista Hermosa Park - The forecast assumes operation and maintenance at La Pata/Vista Hermosa Park beginning in 2011. 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 $510,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building since the top two floors is scheduled to remain vacant until Civic Center construction begins. In the meantime, the City is attempting to lease the top two floors of the facility. If successful, rental revenue will be available to offset maintenance and debt service costs.
- Council Contingency Reserve – The reserve is funded at $100,000 in each of the forecast years, in accordance with the City's Fiscal Policy.
- General Fund Emergency Reserve - The General Fund emergency reserve is funded at 8.25% of operating expenditures in accordance with City Fiscal Policy. A 0.25% contribution over the next three years, plus the normal annual contributions are included in order to increase the reserve to the new 9% level. Contributions to maintain the 9% reserve are shown below:

Council Contingency & Emergency Reserve Contributions

	2010	2011	2012	2013	2014
Council Contingency	$100,000	$100,000	$100,000	$100,000	$100,000
Emergency Reserve	150,000	440,000[1]	270,000	150,000	90,000
Total	$250,000	$540,000	$370,000	$250,000	$190,000

- Reserves - The five-year average contribution from the General Fund to the Accrued Leave, Facility Maintenance and Capital Equipment reserves amounts to $214,000. For forecast purposes, $214,000 has been included in each year of the forecast.

[1] The emergency reserve contribution increases significantly due to the addition of $1.8 million in O&M for La Pata/Vista Hermosa Park.

- PERS Unfunded liability - The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is $5.2 million and requires annual contributions of $683,000 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, which averages $2.1 million.
- Based on historical trends, revenues have been projected to be 1% over budget and expenditures are projected to be 0.5% under budget.

Factors Not Included in the Forecast

- This forecast is based on the General Fund only.
- No new or enhanced programs, except for La Pata/Vista Hermosa Park, are included in the forecast.
- Revenues and expenditures associated with the Marblehead, North Beach or Target development projects have not been included in the 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 0.8% a year, compared to historical growth of 6.2%. Property taxes increase 0.7% per year or $1.0 million over the five-year period. Sales taxes grow by $530,000 over the forecast period. Beginning in FY 2011, revenue of $435,000 from La Pata/Vista Hermosa Park is included in the forecast based upon estimates provided by the Beaches, Parks and Recreation Department.

Building permit, plan check fees, engineering fees, property or sales tax revenues from the Marblehead, North Beach or Target projects are not included in the forecast. When development of the projects move 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 4.1%, as compared to 7.0% historical growth, 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 is also included in the forecast beginning in 2011. 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.

Forecast Results

The following cash flow table provides a review of beginning fund balances, operating and one-time receipts and disbursements and ending fund balances over the five-year forecast period.

General Fund – Cash Inflows and Outflows by Year (In millions)

	2010	2011	2012	2013	2014
Beginning Fund Balance	14,086	11,676	6,138	14	-7,133
Receipts					
Taxes	36,148	36,234	36,818	37,411	38,015
Licenses & Permits	1,834	1,856	1,934	1,445	1,465
Intergovernmental	654	602	609	615	621
Service Charges	3,889	4,401	4,305	4,387	4,472
Fines & Forfeitures	1,118	1,133	1,149	1,163	1,177
Interest & Rents	1,972	2,023	2,076	2,131	2,187
Interfund Transfers	3,963	4,087	4,159	4,052	4,040
	49,578	50,336	51,050	51,204	51,977
Disbursements					
Salaries	11,514	12,533	12,774	13,128	13,499
Benefits	4,771	5,040	5,224	5,398	5,597
Supplies	1,030	1,147	1,171	1,195	1,220
Contractual Services	24,292	26,346	27,239	28,304	29,276
Other Charges	1,216	1,236	1,262	1,289	1,316
Capital or One-Time	3,625	3,634	3,643	3,200	3,200
Interdepartmental Charges	3,234	3,251	3,319	3,389	3,460
Transfers & Debt	2,153	2,161	2,184	2,207	1,457
	51,836	55,433	56,902	58,199	59,115
Emergency Reserve	150	440	270	150	90
Ending Fund Balance	11,676	6,138	14	-7,133	-14,362

General Fund Revenue and Expenditure Growth

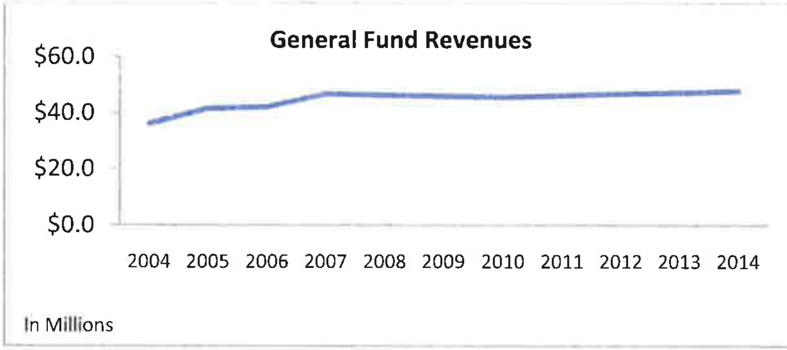
In each revenue and expenditure category an initial summary is provided with the following:

- Historic Growth Rate – The average annual rate of growth for the past five years from FY 2004 to FY 2008.
- 2009 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate

Historic Growth Rate	6.2%
2009 Projected Growth Rate	0.8%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 0.8% compared to a historical five year growth rate of 6.2%. The historic growth rate includes property tax increases averaging 18% per year. The forecast average has little or no growth for property taxes, averaging 0.8% per year.

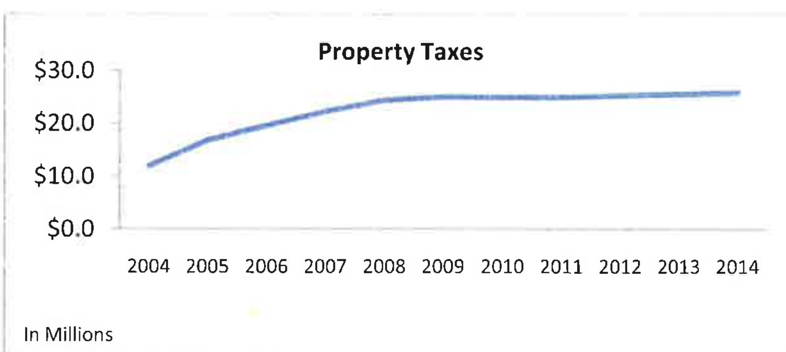


Property Taxes

Property Taxes	
Historic Growth Rate	18.4%
2009 Projected Growth Rate	0.7%

Property tax is the City's single largest revenue source and represents 50% of total General Fund operating revenue. The historic growth rate of 18.4% 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 2005.

Property tax growth over the forecast period is expected to increase 0.7%. Property valuation in San Clemente, as well as other beach communities, is not experiencing the dramatic reductions that other cities have seen over the past year. However, median residential housing prices peaked in 2006 and home sales in 2007 and 2008 were at lower sales prices. Property tax growth projections have been revised upon the advice of the City's property tax consultant, HdL, Coren and Cone, who has stated that negative growth from further property tax appeals, combined with lower sales prices on residential properties over the next two years will surpass the normal 2% valuation growth.

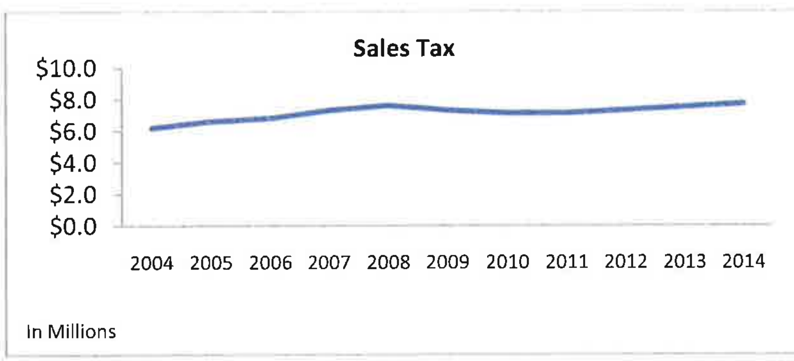


Sales Taxes

Sales Taxes	
Historic Growth Rate	6.9%
2009 Projected Growth Rate	1.0%

The City's sales tax base has averaged a growth rate of 6.9% over the last five years due to increased activity in the consumer goods, restaurants and building and construction categories. Rising fuel prices and several one-time payments have also resulted in increased sales tax. Due to the current economy, consumers are not spending on non-essential goods or services. Sales tax activity has declined in all categories and is now starting to affect the City's core sales tax producers such as restaurants, gasoline stations and general retail sales. Fortunately the City is not heavily dependent on automobile sales or large retail facilities that create large revenue swings when the economy declines. However, the City's Public Safety sales taxes are also declining because the basis of allocation is countrywide sales tax production.

Sales tax revenue from the Marblehead, North Beach and Target projects has not been included in the forecast.



Transient Occupancy Tax

Transient Occupancy Tax	
Historic Growth Rate	8.4%
2009 Projected Growth Rate	3.0%

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. TOT activity over the 2008 calendar year declined by 11% due to high gasoline prices which reduced driving habits and the lack of discretionary funds for vacations or pleasure trips. Over the forecast period, the average growth is projected at 3.0%.

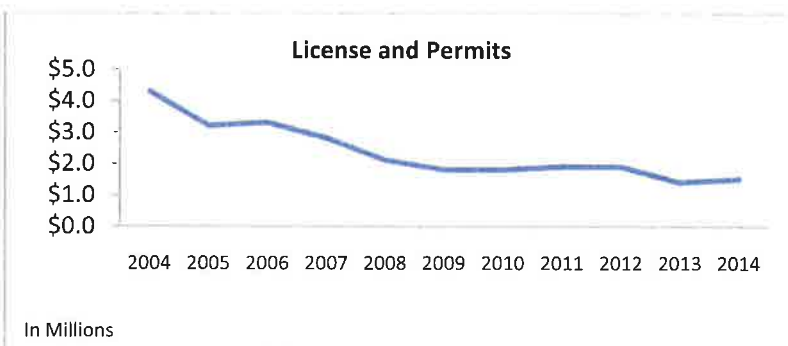
Transient Occupancy Tax revenue from the Marblehead project has not been included in the base forecast.

License and Permits

License and Permits	
Historic Growth Rate	-9.4%
2009 Projected Growth Rate	-3.0%

License and permit revenue declined over the historic period by 9.4%. Revenue peaked in FY 2004 at $4.4 million from development of Talega and Reserve projects.

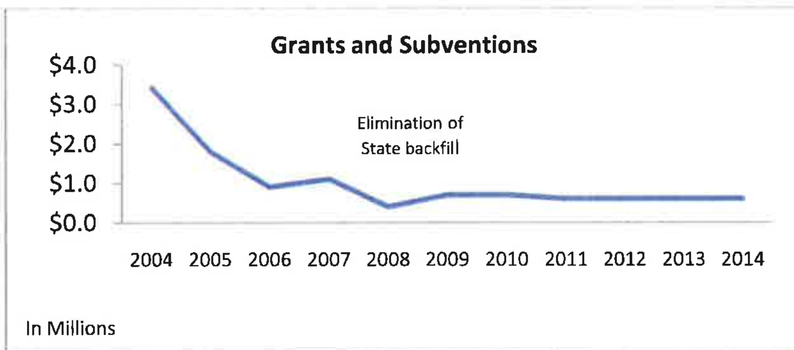
License and permit revenues, which consist of Business Licenses, Construction Permits and miscellaneous licenses and permits, are anticipated to decline by 3.0% during the forecast period. This decline begins in the base year of the forecast (FY 2009) with a budget reduction of $390,000 in development permit and business license revenue. Permit activity is projected to remain flat over the first three years of the forecast period, with a slight decline in FY 2013. The forecast does not include any development revenue from Marblehead, North Beach or Target projects.



Grants and Subventions

Grants and Subventions	
Historic Growth Rate	-24.3%
2009 Projected Growth Rate	-0.9%

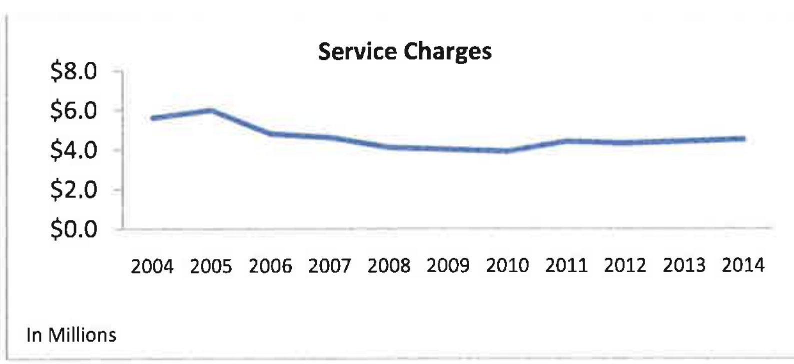
Grant and subvention revenues have declined by 24.3% over the historic period due to the reduction in motor vehicle fees beginning in FY 2005. Motor vehicle fees, which made up the majority of the revenue in this category, were reduced when the State reduced the rate from 2.0% to 0.67% of valuation. 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 Trend issue paper for more detail on the ERAF property taxes that are received in-lieu of motor vehicle fees.)



Service Charges

Service Charges	
Historic Growth Rate	-6.4%
2009 Projected Growth Rate	0.4%

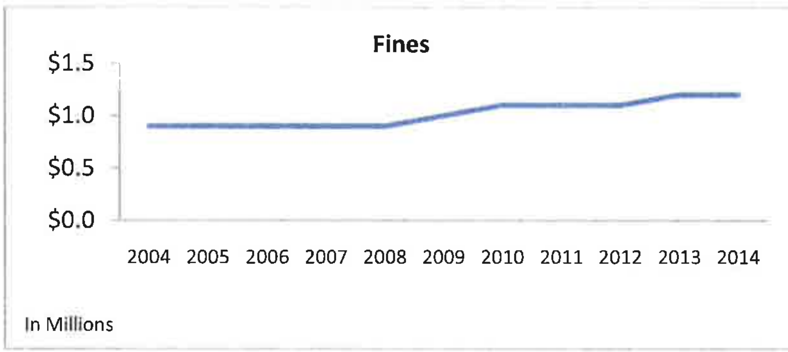
Service Charges are projected to increase by 0.4% over the forecast period. This category includes a variety of fees charged for specific services provided by the City including development fees, recreation program fees and public safety fees. Historically, service charges have declined 6.4% due to a decline in construction activity, which peaked in FY 2005. Revenue from La Pata/Vista Hermosa Park is included beginning in 2011 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 not included in the forecast.



Fines

Fines	
Historic Growth Rate	-2.3%
2009 Projected Growth Rate	2.9%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms and court fines. The 2.9% projected growth rate is based on population growth in the City. Parking citation fines are increasing by $3.00 per citation, but the additional revenue generated will be used for statewide courthouse construction and renovation projects.

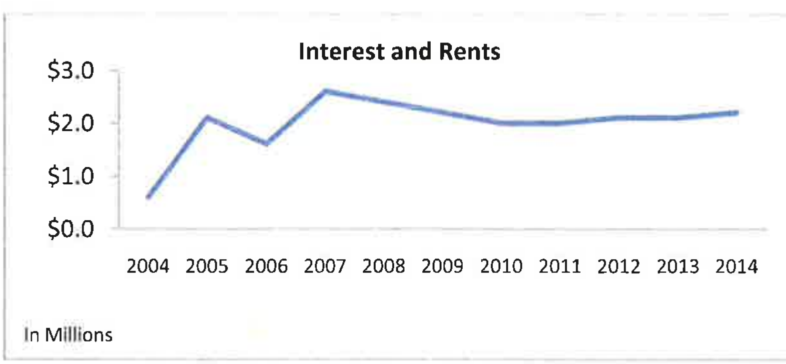


Interest and Rents

Interest and Rents	
Historic Growth Rate	45.6%
2009 Projected Growth Rate	-0.3%

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 45.6%. 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.

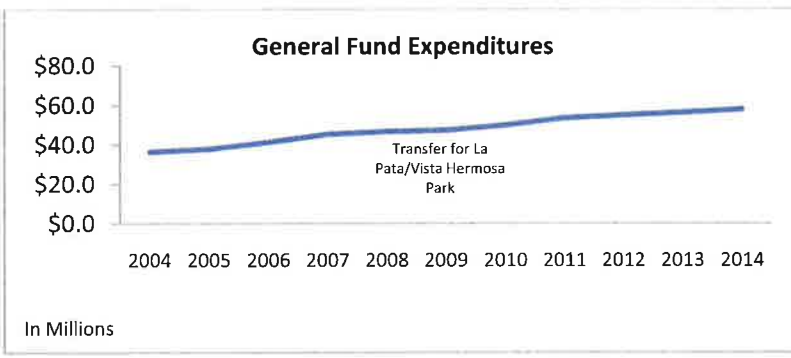
The 2008 projected growth rate will decline by 0.3% due to lower projections on investment earnings and the local economic affect on recreation classes and programs.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	7.0%
2009 Projected Growth Rate	4.1%

General Fund expenditures are anticipated to increase by 4.1% 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. Fifteen new City positions and five new contract police positions have also been added to the forecast. Beginning in FY 2011, $1.8 million, which represents a full year of maintenance for La Pata/Vista Hermosa Park, is also included in the forecast.



Salaries and Wages

Salaries and Wages	
Historic Growth Rate	7.8%
2009 Projected Growth Rate	4.4%

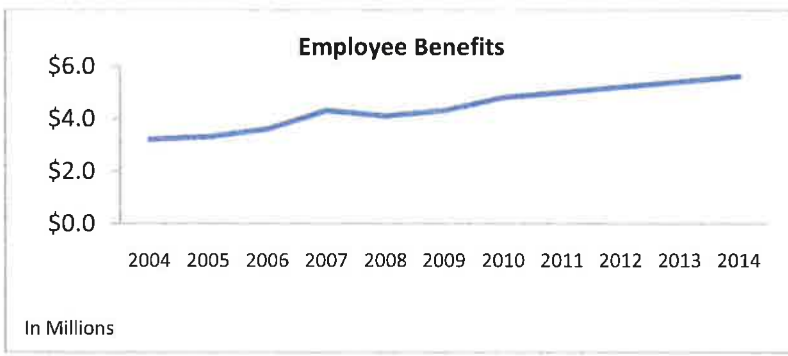
Salaries and Wages are projected to grow 4.3% over the forecast period. Cost of living increases beginning in 2011 and three new positions per year are included in the forecast, for a total of fifteen positions. The positions are added to maintain, not enhance, the current level of services and is based upon the average number of positions added over the past five years.

The historic growth rate of 7.8% reflects the addition of new positions and cost of living increases that have been granted over the period.

Employee Benefits

Employee Benefits	
Historic Growth Rate	12.1%
2009 Projected Growth Rate	5.4%

Employee benefits grew 12.1% 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 2004 and FY 2007. The projected forecast rate of 5.4% is the result of new positions.



Contractual Services

Contractual Services	
Historic Growth Rate	4.3%
2009 Projected Growth Rate	3.8%

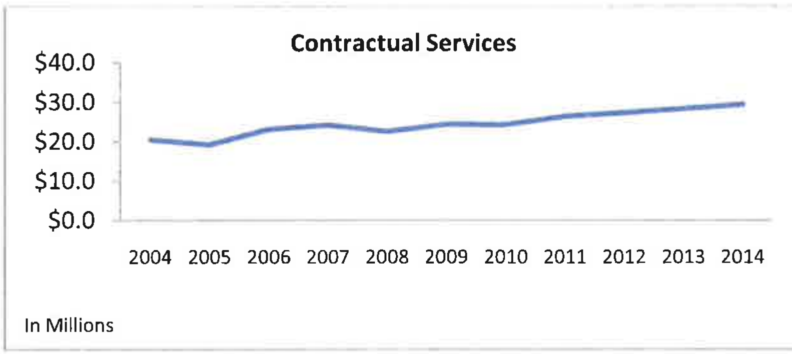
The contractual services category is anticipated to increase 3.8%, as compared to the 4.3% historical growth rates. The historical growth rate includes the addition of new police positions and increased medical and retirement rates for sworn and non-sworn contract employees.

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 2008. Maintenance for La Pata/Vista Hermosa Park is also included in the forecast beginning in 2011.

The Orange County Fire Authority (OCFA) contract includes a 4.5% increase annually beginning in FY 2011, along with annual contributions to the capital maintenance and vehicle replacement reserves.

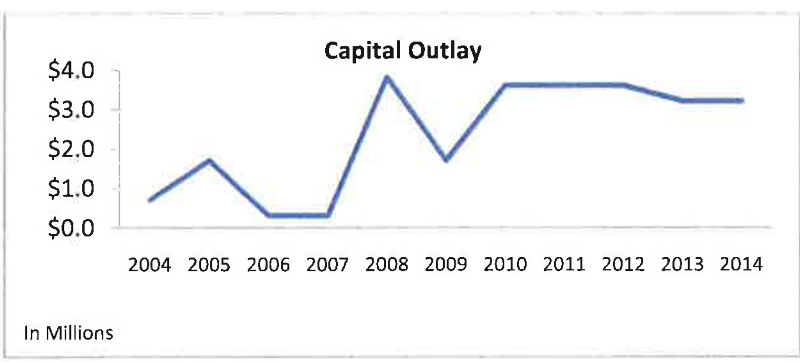
Contractual services in building, planning and engineering are reduced beginning in the base year of the forecast (FY 2009) due to the declining development activity.



Capital Outlay

Capital Outlay	
Historic Growth Rate	1.4%
2009 Projected Growth Rate	3.4%

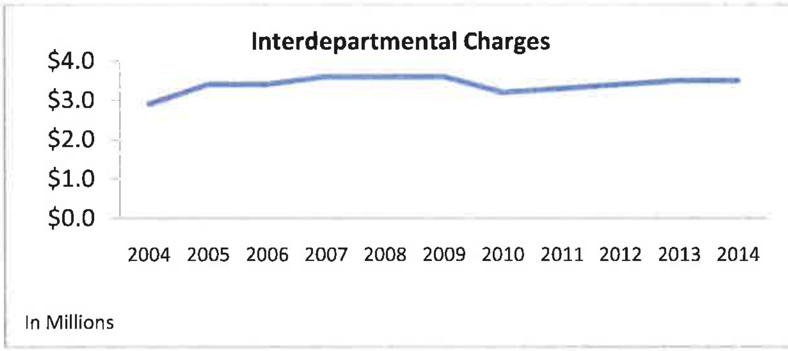
Capital outlay, which includes the projects currently scheduled in the City's five-year Capital Improvement Plan, is projected to grow 0.5%. The forecast includes $2.1 million in each year for capital improvement or maintenance projects, along with $1.5 million for major street maintenance, slurry seal and sidewalk improvement projects.



Interdepartmental Charges

Interdepartmental Charges	
Historic Growth Rate	5.0%
2009 Projected Growth Rate	-0.2%

Interdepartmental charges include general liability, postage, duplicating, imaging, information technology, communications, Negocio rent, capital replacement, facilities replacement and engineering charges to Enterprise Funds. Beginning in FY 2010, general liability charges decline by $260,000 and Engineering charges to other funds reduce General Fund expenditures by $346,000. The reductions achieved in the first year of the forecast reduce total forecasted expenditures by $2.1 million.



Conclusion

The 2009 LTFP Financial Forecast shows deficits beginning in 2011 and negative fund balances beginning in 2013. Contained with the Executive Summary section of the LTFP, options to improve operating position and fund balances will be addressed to maintain a positive operating position in all years of the forecast.

Reserve Analysis

Objective
To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (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, 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 per Fiscal Policy 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, 2009.

Reserves	Restricted (Y-Yes/ N-No)	Funding Source	Estimated Reserve Balances at June 30, 2009	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Y	General Fund	$ 4,061,640	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	$ 78,000	Yes
Solid Waste Fund – Emergency Reserve	Y	Solid Waste Fund	$ 14,000	Yes
Golf Course Operating Fund – Emergency Reserve	N	Golf Course Fund	$ 185,500	Yes
Miscellaneous General Fund Reserves:				
Sustainability Reserve	N	General Fund	$ 10,000,000	Yes
Employee Computer Purchase Program	N	General Fund	$ 21,000	Yes
Accrued Leave	N	General Fund	$ 612,000	Yes
Self-Insurance Reserves:				
General Liability Self-Insurance	Y	All Funds	$ 250,000	Yes
Workers' Compensation	N	All Funds	$ 1,955,000	Yes
Capital Replacement Reserves:				
Fleet Replacement	N	All Funds	$ 4,813,000	Yes
Capital Equipment Replacement	N	All Funds	$ 1,028,000	Yes
Facilities Maintenance Capital Asset	N	General Fund	$ 846,000	Yes
Infrastructure Reserves:				
Water Fund Depreciation	Y	Water Fund	$ 7,280,000	*No*[1]
Sewer Fund Depreciation	Y	Sewer Fund	$4,667,000	*No*[2]
Storm Drain Fund Depreciation	Y	Storm Drain Fund	$ 2,265,000	*No*[3]
Golf Course Fund Depreciation	N	Golf Course Fund	$ 1,360,000	Yes
Golf Capital Improvement Reserve	N	Golf Course Fund	$ 32,000	Yes
Total			**$ 40,642,140**	

[1] This reserve is under funded by $2.3 million. Refer to Infrastructure Reserves section.
[2] This reserve is under funded by $0.1 million. Refer to Infrastructure Reserves section.
[3] This reserve is under funded by $1.9 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 FY 2010. A summary of the recommendations by reserve section are as follows:

- ***Emergency Reserves*** –
  - Increase in the General Fund Emergency Reserve level to 8.50% of operating expenditures to achieve the 9% target (0.25% annually)
  - Maintain the levels at 8% of Enterprise operating expenses.
- ***Miscellaneous General Fund Reserves*** –
  - Maintain the Sustainability Fund Balance Reserve at $10 million.
  - Transfer $40,000 to the Accrued Leave Reserve from the General Fund.
- ***Self-Insurance Reserves*** –
  - Reduce General Liability charges by $300,000
  - Reduce Workers Compensation rates by 5%
    (Insurance charges are listed on Attachment A).
  - Refund $500,000 to various funds from the Workers Compensation fund.
- ***Capital Replacement Reserves*** –
  - Transfer a one-time amount of $276,100 to a Park Asset Reserve Fund.
- ***Infrastructure Reserves*** –
  - Maintain charges to fund reserves at the current levels.

Emergency Reserves

General Fund - Emergency Reserve

City Council Fiscal Policy: Maintain an emergency reserve of no less than 9% of General Fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn, lasting two years or more, or other unforeseen catastrophic costs. 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%.

Based on a review of reserve requirements and fiscal policies, the emergency reserve level for the General Fund was increased to 9% from the 8% in effect for FY 2008. Annual increases of 0.25% are projected in order to meet the 9% funding level.

The following chart summarizes the projected balance for the emergency reserve, the recommended contribution includes $37,000 to increase the reserve level by 0.25% and $53,000 to reflect expenditure level changes in FY 2010 for a total contribution of $223,740.

	Projected Balance June 30, 2009	FY 2010 Recommended Contribution	Percentage June 30, 2010
General Fund	$4,061,640	$90,000	8.50%

Recommendation and Fiscal Impact: Budget sufficient funds for FY 2010 in order to increase the General Fund emergency reserve from 8.25% that was in effect for FY 2009 to 8.50% of operating expenditures for FY 2010. This annual increase of 0.25% will cease once the 9% emergency reserve level has been achieved.

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 FY 2010, and the projected percentage reached at the end of FY 2010.

	Projected Balance June 30, 2009	FY 2010 Recommended Contribution	Percentage June 30, 2010
Water Fund	$ 573,000	$ 54,000	8.00%
Sewer Fund	601,000	$ 18,000	8.00%
Storm Drain Fund	78,000	$ 8,000	8.00%
Solid Waste Fund	14,000	$ -0-	8.00%
Golf Course Fund	185,500	$ 10,000	8.00%

Recommendation and Fiscal Impact: Budget sufficient funds for FY 2010 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

Sustainability Fund Balance Reserve:
City Council Fiscal Policy: Maintain $10 million as a Sustainability fund balance in the General Fund. This fund balance will provide for economic and financial stability. Sustainability fund balance can be used only by formal action of the City Council for specific purposed such as providing consistent and adequate level of services, provide for future capital needs, or provide for asset replacement.

Assessment of the current situation/conclusions: The Sustainability fund balance was adopted as part of the FY 2009 budget and was funded in the amount of $10,000,000 from undesignated General fund balance. This balance will be maintained at a Council set amount and will be kept at the current level.

Recommendation and Fiscal Impact: Maintain the Council approved Sustainability fund balance level at $10,000,000.

Accrued Leave Reserve
City Council Fiscal Policy: Maintain an account to accumulate funds for the payment of accrued employee benefits to terminated employees. This reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.

Assessment of the current situation/conclusions: The accrued leave reserve balance is based on average annual General Fund expenditures for vacation and sick leave payoffs. The amount of this reserve fluctuates annually based upon the number of employees and the length of service (amount of accrued leave).

Average Annual Payoffs (3 year average)	*$ 115,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2009 is $612,000. At June 30, 2008, the total General Fund liability for accrued leave was $1,180,000. Of this amount, $642,000 represents the liability for employees who will be age 55 or older by June 30, 2010. Based on the projected ending balance and anticipated payouts transfer an amount of $40,000.

Recommendation and Fiscal Impact: Transfer $40,000 from the General Fund to the Accrued Leave Reserve for FY 2010 ($160,000 was the FY 2009 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 2009 is $250,000. This balance includes $90,000 SIR reserve and $25,000 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) release of toxic materials, 5) punitive damages, 6) earthquakes, and 7) a $100,000 deductible on floods.

Charges to other funds to maintain the reserve level 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 for allocation of charges is based on standards recognized by the Insurance Institute of America regarding essentials of risk financing.

Recommendation and Fiscal Impact: Reduce the annual City-wide General Liability charge by $300,000 to $1.3 million for FY 2010. 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 $300,000, for a total reserve of $1,200,000. The estimated reserve balance at June 30, 2009 totals $1,955,000 and is fully funded as of June 30, 2008. The reserve has accumulated excess reserves due to lower than budgeted claims. To avoid the continued accumulation of excess reserves in FY 2010, 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 FY 2010 from the Workers Compensation Fund to reduce the projected excess fund balance (approximately $276,100 will be for the General Fund).

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 FY 2010. The General Fund portion of the refund will be transferred to the Park Asset Reserve. 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 $7.0 million. $2.8 million is scheduled for replacement during the next five years and $4.2 million is scheduled for replacement during the next six to ten years. This reserve is fully funded with a projected ending balance of $4.8 million at June 30, 2009.

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 2010 budget will contain normal replacement charges to other funds of $700,000.

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, 2009 is $1,028,000, 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 2010 budget will contain normal replacement charges to other funds of $153,260.

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 and maintenance costs for the next five years. The City's estimated facilities maintenance costs for the next five years amount to $467,000. The reserve balance is projected to be $846,000 as of the end of FY 2009.

Recommendation and Fiscal Impact: Maintain contributions to the facilities maintenance capital asset reserve to keep the reserve at an adequate level. The FY 2010 budget will contain normal facilities charges to other funds of $76,300.

Park Asset Replacement Reserves
City Council Fiscal Policy: None. The City currently does not have a fiscal policy that addresses park assets and the funding of future replacement costs.

Assessment of the current situation/conclusions: As part of the 2008 LTFP, an issue paper was prepared to present alternatives to funding all or a portion of Park assets. The City currently pays for parks on a "pay as you go" basis and has not set aside amounts for park asset replacement. Before any funding plan was to be implemented, an assessment of the City's park assets in service needed to be completed. An analysis of park assets was performed by City staff during FY 2009. This assessment took into consideration the following assets – buildings, fencing, lighting, playground and sports equipment, benches and bleachers, sports surfaces and other miscellaneous.

Approximately $45 million in assets have been identified as a part of the park asset review. Staff estimates an annual contribution requirement of $2.9 million to reserve for all existing Park Assets. Based on the magnitude to reserve for all Park Assets, staff is proposing to set aside funds to reserve only for buildings, fencing, lights, playground equipment, and benches and bleachers at the current time. Parking lots, access roads, sidewalks, and turf will not be covered by the proposed Park Asset reserves. This will allow the City to manage the shorter life assets on a routine basis.

Reserve Analysis

The table that follows identifies the type of assets and where reserve funds would be set aside to fund replacement of park assets. As part of the assessment an annual funding requirement based on the useful life was determined and is presented in the chart.

Type of Asset:	Facilities Maintenance Reserve	Capital Equipment Reserve	Park Asset Reserve	Estimated Value	Useful Life (years)	Annual Funding Required
Buildings	X			$ 15,200,000	30-50	$ 310,000
Fencing			X	$ 4,580,000	5-25	$ 270,000
Lighting			X	$ 5,150,000	20-40	$ 195,000
Playground Equipment			X	$ 2,800,000	10	$275,000
Benches and Bleachers			X	$ 525,000	10-15	$ 50,000
					Total	$1,100,000

The required contribution of $1.1 million based on the above table is not economically feasible at this time. Costs for the replacement of the above identified park assets will continue as a "pay-as you go" type basis and budgeted at the program level in the General Fund.

Recommendation and Fiscal Impact: Revise the fiscal policy to "The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets (buildings, fencing, lights, equipment and seating) in the future."

The City should make a one-time transfer of $276,100 to the Park Asset Reserve. This one-time transfer is funded through a refund from the Worker's Compensation fund to the General Fund. The implementing of the Park Asset reserve policy will allow for the amount in the Reserve to earn interest. Staff will annually review the ability of the General Fund to make contributions to the Park Asset Reserve as part of future LTFP assessments. At some future point, the cost of any capital activity will be paid from the Reserve and annual contributions will be made to fund projects through reserve charges to the respective departments.

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. At that time, a commitment was made to build these reserves due to significant funding gaps in the Water, Sewer, and Storm Drain Depreciation Reserves. At that time, we realized it would take multiple years and impact Water and Sewer rates.

This funding policy has now been in effect for several years and amounts in the reserves are assessed annually in connection with the funding progress made during the last year. As part of the annual review, we have reviewed the length of the timeframe that the City is reserving for. The fiscal policy of five years takes into consideration amounts currently budgeted projects as spent. However, current projects take various timeframes and on average last two years. Therefore, this fiscal policy in essence requires that almost seven years of cash be held in the Water Depreciation Fund. In light of this assessment, we recommend that the timeframe for funding five years of future capital projects be reduced to funding three years worth of future projects. This recommendation to change fiscal policy will have less impact on rates and still provide adequate funds to provide for any emergency capital activity.

The following discussion addresses the current Fiscal Policy and addresses each of the Enterprise Depreciation Reserves by fund.

Water Depreciation Reserves
Assessment of the current situation/conclusions: The water infrastructure reserves have been under funded for a long period of time. In previous years, Council took steps to make additional contributions based on the Asset Model to narrow this significant funding gap. The funding gap has been narrowed, however the underfunding based on the policy was significant. Staff has reviewed the Fiscal Policy and determined that a three year funding period replace the current five year funding policy as noted previously.

The projected ending depreciation reserve balance at June 30, 2009 is $7.3 million. The three-years of capital cost total $9.6 million. Based on the amounts, the Depreciation Reserve is under funded by $2.3 million.

The Water Operating Fund currently contributes the following amounts:

Depreciation Funding	$ 0.90 million
Asset Model Contribution	2.00 million
Total FY 2009 reserve funding	$ 2.90 million

The City is continuing to make progress toward the funding of three years worth of capital activity based on these contributions and the interest earned on the reserve currently held. The depreciation funding amount is based on the estimated useful life of the capital assets. The asset model contribution amount is to address past underfunding, major maintenance costs and set aside funds for assets that are not owned by City, such as joint agency assets.

Recommendation and Fiscal Impact of Recommendations: Recommend the minimum reserve level be reduced from the current five years of project capital and maintenance costs to three years of project capital and maintenance costs.

Sewer Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2009 is $4.6 million. The projected replacement costs for the next three-year period totals $4.7 million. Based on this, the Depreciation Reserve is currently under funded by $0.1 million.

The Sewer Operating Fund currently contributes the following amounts:

Depreciation Funding	$ 2.100 million
Asset Model Contribution	0.275 million
Total FY 2009 reserve funding	$ 2.375 million

The depreciation funding amount is based on the estimated useful life of the capital assets. The asset model contribution amount is to set aside funds for assets that are not owned by City. The City continues to make progress toward the funding capital activity based on these contributions.

Recommendation and Fiscal Impact: Recommend the minimum reserve level be reduced from the current five years of project capital and maintenance costs to three years of project capital and maintenance costs.

Storm Drain Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2009 is $2.3 million. The projected replacement costs for the next three-year period totals $4.2 million. Based on this, the Depreciation Reserve is currently under funded by $1.9 million.

The Storm Drain Depreciation Fund currently contributes a depreciation funding amount of $664,000 and an additional reserve contribution of $60,000 for a total contribution of $724,000 in FY 2009.

The City is continuing to make progress toward the funding of three years worth of capital activity based on these contributions, the interest earned on the reserve, and contributions to be received from other funds. The depreciation funding amount is based on the estimated useful life of the capital assets. The additional contribution is to fund past underfunding of the reserve.

Recommendation and Fiscal Impact: Recommend the minimum reserve level be reduced from the current five years of project capital and maintenance costs to three years of project capital and maintenance costs.

Golf Course Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2009 is $1.4 million. Projected capital expenses for the next three years total $300,000. Recent improvements at the Golf Course have cycles of fifteen years or longer, such as the $1.7 million Golf Course Improvements Project completed in FY 2003. These improvements require continued accumulation of depreciation reserves, but replacement of these assets will not appear in the three-year replacement schedule. As a result, the Depreciation Reserve balance should exceed the projected three-year expenditures while replacement funds accumulate for longer term assets.

Recommendation and Fiscal Impact: None.

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 three-year costs.

Assessment of the current situation/conclusions: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements budgeted in the Golf Course Fund. The Golf Capital Improvement Reserve is projected to have an ending balance of $32,000 as of June 30, 2009. No transfer from the Golf Depreciation Reserve is necessary during the FY 2010 to fund projects.

Recommendation and Fiscal Impact: None.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2010:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2009-10	Total Charge for General Liability FY 2008-09
General Fund	74.4%	61.6%	64.8%	$ 841,920	$ 1,105,537
Water Fund	4.9%	18.5%	15.2%	196,590	250,225
Sewer Fund	1.5%	9.2%	7.2%	94,210	120,471
Solid Waste Fund	0.0%	0.2%	0.1%	1,900	2,462
Storm Drain Fund	18.9%	1.4%	5.8%	74,850	14,030
Golf Course Fund	0.2%	2.6%	2.0%	26,150	31,428
Clean Ocean Fund	0.1%	2.4%	1.8%	23,850	19,949
Information Services Fund	0.0%	1.5%	1.1%	14,410	7,424
Central Services Fund	0.0%	0.6%	0.5%	6,090	21,688
Fleet Maintenance Fund	0.0%	1.3%	1.0%	12,980	15,888
Redevelopment Agency	0.0%	0.7%	0.5%	7,050	10,898
Total	**100.0%**	**100.0%**	**100.0%**	**$1,300,000**	**$1,600,000**

Workers Compensation charges

The following rates are in effect for FY 2008-09:

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

The proposed rates for FY 2010 are:

8810	Clerical	$0.50/$100 of payroll
9410	Non-Manual	$1.41/$100 of payroll
9420	Manual Labor	$4.69/$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. **General financials Goals:** This introductory section of the Fiscal Policy is replaced with the **Core Values of Financial Sustainability** section which provides clearer overall objectives for the City's Fiscal Policy.

2. **Operating Budget Objectives:** Additional language to clarify the acceptable use of undesignated fund balance.

3. **Capital Improvement Budget Policies:** Additional language to address unfunded capital projects.

Current Policy Statement	Proposed Policy Statement
General Financial Goals To maintain a financially viable City that can maintain an adequate level of municipal services. To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes. To maintain and enhance the sound fiscal condition of the City.	**Core Values of Financial Sustainability** **Financial stability** – The City will create financial stability to provide the community with a consistent and adequate level of public services. The City will take a long-term approach to its finances by developing and maintaining long-term plans, carefully weighing the cost and benefits of development opportunities and adhering to sound debt, reserve and investment policies. **Quality of life and local economic vitality** – The City will provide effective and efficient services to ensure a safe and healthy atmosphere for its residents, businesses and visitors, while preserving and enhancing its unique cultural and environmental attributes.

	Accountability and Financial Planning – The City will institute financial planning that ensures City services are provided at the best value and that the services are in alignment with the needs and wants of the community. **Environmental and economic sustainability** – The City's financial strategy will support continued investment in the renovation and maintenance of physical infrastructure/facilities and in policies and programs that support a clean and healthy natural environment. **Transparency and engagement** – The City will be accountable for producing value for the community by producing planning and report mechanisms that make it clear how the City plans to use its resources to achieve the community vision. The City is committed to engaging the public as a partner in formulating plans and delivering services.
None	The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets (buildings, fencing, lights, equipment and seating) in the future.
The City will make all capital improvements in accordance with an adopted capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs. The first year of the six-year plan must be fully funded in the adopted budget.	The City will make all capital improvements in accordance with an adopted capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs. The first year of the six-year plan must be fully funded in the adopted budget. Projects that are not fully funded must be removed or delayed until adequate funding exists for design, construction, operating and maintenance.

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.	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 three-year capital and major maintenance costs.

Recommendation
It is recommended that the City's Fiscal Policy be modified to include the changes outlined above. The General Financial Goals of the Fiscal Policy have been rewritten to provide clear financial values and strengthen the City's objectives for financial sustainability. The Policy also strengthens the use of undesignated fund balances, as well as the requirement for capital projects to be properly funded.

Council Action
The Fiscal Policy additions and changes were approved by the City Council by a 5-0 vote on February 24, 2009.

Core Values of Financial Sustainability

Financial stability – The City will create financial stability to provide the community with a consistent and adequate level of public services. The City will take a long-term approach to its finances by developing and maintaining long-term plans, carefully weighing the cost and benefits of development opportunities and adhering to sound debt, reserve and investment policies.

Quality of life and local economic vitality – The City will provide effective and efficient services to ensure a safe and healthy atmosphere for its residents, businesses and visitors, while preserving and enhancing its unique cultural and environmental attributes.

Accountability and Financial Planning – The City will institute financial planning that ensures City services are provided at the best value and that the services are in alignment with the needs and wants of the community.

Environmental and economic sustainability – The City's financial strategy will support continued investment in the renovation and maintenance of physical infrastructure/facilities and in policies and programs that support a clean and healthy natural environment.

Transparency and engagement – The City will be accountable for producing value for the community by producing planning and report mechanisms that make it clear how the City plans to use its resources to achieve the community vision. The City is committed to engaging the public as a partner in formulating plans and delivering services.

Fiscal Policy Statement	Status	Comments
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	√	

Fiscal Policy Statement	Status	Comments
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		
The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
All City Council-established General Fund User fees will be reviewed and adjusted annually as part of the budget process by each City department and the analysis with recommended changes will be provided to the City Council. The basis for adjustment will be the cost of providing services, inflationary impacts, or other budgetary factors as appropriate. User fees will be established to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time operating, capital and reserve revenues will be used for one-time expenditures only. One-time resources, such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new on-going operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other nonrecurring expenditures.	√	

Fiscal Policy Statement	Status	Comments
The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development and use those funds to meet peak workload requirements.	√	
Expenditure Policies		
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.	√	
The City will annually project its equipment replacement and maintenance needs for the next five years and will update this projection each year. A maintenance and replacement schedule will be developed and followed.	√	
Utility Rates and Fees Policies		
The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.	√	Annual review completed. Water rates increased 9.2%. Sewer rates increased 5.3%.
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs. The first year of the six-year plan must be fully funded in the adopted budget. Projects that are not fully funded must be removed or delayed until adequate funding exists for design, construction, operating and maintenance.	√	31 new Capital projects = $12.9 million.

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

Fund Balance and Reserve Policies

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.

Emergency Reserve = $4.1, or 8.4% of General Fund operating expenditures, Water $573,000 Sewer $601,000 Storm Drain $75,000 Solid Waste $12,000 Golf $185,500

The City will maintain $10 million as a Sustainability fund balance in the General Fund. This fund balance will provide for economic and financial stability. Sustainability fund balance can be used only by formal action of City Council for specific purposes such as providing consistent and adequate level of services, provide for future capital needs, or provide for asset replacement.

√ Sustainability fund balance = $10 million

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

√ Accrued Leave Reserve = $612,000

The City will establish a Capital Equipment Replacement Reserve and a Facilities Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.

√ Capital Equipment Reserve = $1,028,000 Facilities Maintenance Reserve = $846,000

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 three-year capital and major maintenance costs.	√	Water Depreciation Reserve = $7.3 million Sewer Depreciation Reserve = $4.6 million Storm Drain Depreciation Reserve = $2.3 million Golf Depreciation Reserve = $1.4 million
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 three year costs.	√	Golf Course Improvement reserve = $32,000
The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets in the future.	--	Recommendation for funding level is included in 2009 Reserve Paper
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = $90,000 Workers Compensation Reserve = $900,000
The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	Fleet Replacement Reserve = $4.8 million

Investment Policies

The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
Accounting, Auditing & Financial Reporting Policies		
The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	A Fixed Asset inventory is maintained as part of GASB34
Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
An annual revenue manual will be prepared after the close of the fiscal year. The manual will provide information on the revenue source, legal authorization, timing of receipts and historical collection over the last five year period. Fee schedules or calculations will also be provided.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AA
Establish and maintain a formal compensation plan for all employee salary or wage ranges.	√	
Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	√	

Long Term Financial Policies

Annually prepare a five year forecast that maintains the current level of services, including known changes that will occur during the forecast period. If the forecast does not depict a positive operating position in all five-years of the forecast, management strategies must be implemented to maintain positive future operating positions.	√
Annually evaluate trends from a budget-to-actual perspective and from a historical year-to-year perspective to identify areas where resources have been over allocated. This would improve the accuracy of revenue and expenditure forecast by eliminating the impact of recurring historical variances.	√

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 6 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	$19,675,000[1]	$33,400,000	($13,725,000)
[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]	$12,900,000	($8,950,000)
[2]This includes $1.4 million from the Public Safety Reserve, $2.55 million from the Public Facilities Construction Fund. 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 $0.9 million 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	$1,500,000[4]	$5,700,000	($4,200,000)
[4]Excludes any proceeds from debt				
Recycled Water Expansion	Grant/Water and Sewer Fund	$9,200,000[5]	$20,100,000	($10,900,000)
[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).

Non-Enterprise Projects

Parks

La Pata /Vista Hermosa Park and Signalization and Road Widening of Avenida Vista Hermosa
The City's project team 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, a portion of the roadwork has been completed as part of the Phase 1a construction. Signalization as well as median realignment will be completed during construction of Phase 1b.

Phase 1a construction began in January 2008, with all work completed in January 2009. In the fall of 2008, City Council instructed to the design team to incorporate changes in the plans and specifications to make the project more "green". Since this direction, the project team has worked on these changes and intends to have the Phase 1b plans and specifications ready for bid in spring 2009 with bidding to be scheduled per Council direction. Staff has estimated that the construction of Phase 1b will take between 15 and 18 months.

Expenditures

Design

As of January 2009, $2.1 million has been spent on design services for the project. Approximately $375,000 remains to be paid to the design consultant to complete the bid package for Phase 1b and for support during bidding and construction. This figure also includes the amendment to their contract to incorporate "green" changes to the plans.

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 lowest responsive bidder, Sequel Contractors, Inc. of Santa Fe Springs, on November 6, 2007. Although the original budget for this phase was established at $5.3 million, total costs for Phase 1a are anticipated to be approximately $5.0 million.

Phase 1b plans and specifications are not yet 100% complete, but recent estimates by the consultant and staff indicates that Phase 1b will cost approximately $33.4 million, for a total project cost of $40.7 million. This figure includes construction of the Base Bid amenities (soccer, baseball, aquatics, and landscaping), and the Alternates (synthetic turf and football), and the Signalization of Avenida Vista Hermosa. It also accounts for construction contingencies, construction & project management, geotechnical services during construction and overhead.

Operation 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 $585,000 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 for these areas are assumed to be negligible.

There will also be significant additional expenditures related to the maintenance, staffing and operation of the Aquatics Complex. In the past year, staff has developed multiple operating scenarios for the facility, as well as explored an opportunity to contract services out to the YMCA or privately held companies for the management and operation of the aquatic center. Unfortunately, in both instances, the contractor expects the City to absorb any unrecoverable costs of operating the facilities. That amount could be $800,000 or more per year. Although there are no cost savings from contracting with the YMCA, this idea may be considered by the City based on staffing considerations. The baseline estimate for the operations of the facility remains at $1.2 million, a figure that is aligned with the operating costs of similar facilities in other California municipalities. Ongoing analysis of operating options is being evaluated by staff.

Revenues:
The assumption remains that the fields at the new sports park will be allocated with priority given to the existing partnered youth sports organizations in San Clemente at the rate of $500 per year for unlimited use (AYSO, SC Football, Little League). As with other City parks, the fields may enjoy a brief opportunity for rentals throughout the year between seasons for the partnered groups, however 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. For the purposes of this LTFP, staff assumes a conservative cost recovery level of 35%, or $435,000.

Potential Cash Flow Issues:
Based on the nearly complete design plans and estimate from RBF Consulting, the updated cost estimate for the park is $40.7 million. The project currently has a fund balance of $19.7 million with a funding gap of $13.7 million. The additional funding needed for the project is anticipated from a transfer from the General Fund predicated upon estimated proceeds from the sale of the nine-acre parcel adjacent to the park site.

Staff remains confident that the sales 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, 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. A new appraisal of the land is planned to validate current market value. 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. Alternative funding mechanisms, such as the use of reserves, may be considered.
2. 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
3. The scope of construction can be reduced to meet available funding at the time of contract award.

Buildings

Civic Center

Project Background:

After reviewing a feasibility assessment of numerous development options for a new Civic Center, the City Council directed staff to pursue a design for the adaptive reuse of the City-owned office facility at 910 Calle Negocio. To this end, Gensler of Newport Beach was retained to prepare construction drawings and specifications for the consolidated facility. As originally conceived in fall of 2006, the project was principally focused on extensive tenant improvements, with an estimated construction cost of approximately $10 million. Since that time, the scope of work has evolved to include the replacement of major mechanical systems (HVAC) and roof, improvements required for ADA compliance, and amendments related to the LEED certification of the project, among other things. The revised cost for the project is estimated to be $12.9 million, including the cost for preparation of the plans, specifications, LEED and bidding, which is $827,000.

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. The timing of the sale of the City Hall site will depend on market conditions.

Bid documents will be finalized by May 2009. At that time, 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 April 2009 with an approximate 13-month construction period and projected completion date of May 2010. Occupancy by the OCFA of 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. Construction will not begin on the new Civic Center until the sale has occurred. However, the earliest that construction would commence on the new Civic Center is February 2010 with an estimated 7 month construction period.

Expenditures:
The total estimated cost for this project is estimated at $12.9 million, this includes the cost for preparation of the plans, specifications, LEED and bidding, which is $827,000. Funding sources identified for this project include the Public Safety reserve ($1.4 million) and 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.

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:

1. An approximately 8,000 square-foot senior center and an approximately 7,500 square-foot fire station.
2. The new facilities will replace the existing Senior Center on Avenida Del Mar and the Orange County Fire Authority Station No. 60, currently located adjacent to City Hall.

The existing Senior Center and Fire Station No. 60 are both considered substandard and inadequate. One of the City's public safety goals is to locate a Fire Station on the west side of Interstate 5; this will allow for emergency response should an earthquake or other disaster make the freeway unusable. The replacement of both facilities has been in the City's Capital Improvement Program for a number of years. Both facilities were anticipated to be located on the subject site. Although the site is constrained, the proposed project has been designed in a very creative manner and the resulting project has the support of the ultimate users: the South County Senior Services and Orange County Fire Authority.

Orange County Fire Authority requires a facility with approximately 7,500 square-feet of interior space to accommodate a four man fire engine company and two medics. The South County Seniors desire approximately 8,000 square feet of space to accommodate approximately 40 to 50 people. In order to most efficiently use the limited size of the site, both facilities would be constructed as a single building. The Senior Center uses would be accommodated in a single-story on the east side of the site. The Senior Center provides space for 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 will 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 completed negotiations regarding the terms of a lease agreement. A lease agreement was authorized in February 2008. Construction documents are now being finalized with the goal of starting construction by summer 2009. Construction is expected to take approximately 13 months. The facility should be occupied by Fall 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 are subject to the Project Funding Agreement
n Clemente and South County Senior Services, Inc.; the terms of
ıllowing:

o be funded in the amount of $2.1 million from the South County
from a contribution under the Marblehead Development
osts above these funded amounts are to be paid by the City up to
ırrently budgeted $355,000 as a transfer from the General Fund.
ıroximately $395,000 is unfunded. The South County Seniors have
ir fundraising goal. Any delay in the receipt by the South County
ult in the City advancing funds for the completion of the Senior

Enterprise 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. The City has entered into an agreement with Irvine Ranch Water District to obtain up to 1.9 million gallons a day of well water during planned shutdowns or emergencies. In addition, the City is participating in the pilot project for desalinization in Dana Point.

Currently, the most cost effective long term 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 245 million gallons and is located on the western slope of Chiquita Canyon, north of Oso Parkway, on approximately 34 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 is complete, construction is anticipated by spring of 2009. 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 $40 million; the City's estimated share is $5.7 million for design and construction.

Potential Cash Flow Issues:
The City has approximately $5.0 million available in the Water Acreage Fee Fund for this project and other projects recommended in the 2006 Water Master Plan. Staff has identified 2 funding options:

1. Fund Upper Chiquita Reservoir with remaining fund balance and utilize Water Depreciation Fund for the gap. The remaining Water Master Planned Projects will be funded from grants, loans or the Water Depreciation Fund in the future.
2. Utilize $1.5 million of Water Acreage Fee Fund for Upper Chiquita Reservoir and fully fund the remaining Water Master Planned projects. This will leave a gap of $4.2 million for Upper Chiquita Reservoir.

Option 1 may be the best choice since there is an immediate need for funding and it may be easier to obtain loans or grants for Water Master Planned Projects that are not reimbursements and under City control.

Recycled Water Expansion

Project Background:
The City has a long history of providing recycled water to the Municipal Golf Course since the 1950's. Upon expansion of the City's Water Reclamation Plant in 1991, water quality was improved to meet Title 22 standards for tertiary treated recycled water. The capacity is 2.2 million gallons per day and service was expanded to Pacific Golf Course and the Water Reclamation Plant. 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 2,000 acre feet per year. The recommended project includes nearly 8 miles of pipelines, conversion of a domestic water reservoir to recycled water storage, expansion of the Water Reclamation Plant, two 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 million in 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 and lowering the City's overall imported water demand which will help if water allocations are mandated in the future.

The schedule for the Recycled Water Expansion is dictated by Proposition 50 Grant ($5.7 million) deadline to complete construction by summer of 2011. The project is under design by Carollo Engineers, and is nearly 30% complete. To meet the Proposition 50 Grant deadline, design will be completed by fall 2009 and construction in 2010/2011.

Expenditures:
Based on preliminary design estimates, which include additional project expansion from pipeline alignments to service existing meter locations and additional sand filters at the treatment plant, the estimated total project cost has increased from $16.5 to $20.1 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; the grant is currently on hold while the State evaluates its budget. 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 United States Congress reached agreement with the President to provide $500,000 for the project. The remaining cost will be funded through $3 million from the Sewer Fund Connection Fee Fund and $10.9 million from a low interest State Revolving Fund Loan with an approximate interest rate at 3%. Additional funding is anticipated once the project is operational from 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.

Prospective Projects

USACE Sand Project

Project Background:
San Clemente has suffered a severe erosion of beach sand in recent years which has resulted in the loss of recreational beach, damage, destruction to beachfront facilities, and increased risk to beach patrons due to the exposure of underlying facilities. The City and the U.S. 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.

Current Status and Schedule:
The study has been underway since 2001, but a significant milestone was reached in July 2008 when Corps staff started their formal review of the preliminary draft report findings. The Mayor and City staff attended this meeting and learned that there is a sand replenishment project with a Federal interest, and that there were no significant issues with the study methodology or preliminary findings. Key upcoming anticipated milestones include:

- April 2009: release of the draft report for public review and comment.
- April/May 2009: public meeting on the draft report.
- July 2009: final report.

The City's Coastal Advisory Committee will help with review and comment on the draft Feasibility Report, and will also facilitate a meeting anticipated for April or early May 2009 to engage the community in discussion and comment on the study findings and recommended project. A review conference at the Corps' Washington D.C. Headquarters is planned for April 2009, which City staff and one or more City Council members will participate. By the final Corps review planned for July 2009, before the final report is completed and released, staff will seek an official position from the City Council on the recommended project and future steps. If the City Council supports continuing with a project, a Cost Sharing Agreement will be executed to proceed to project design and ultimately construction of a sand replenishment project.

Estimated Costs:
The total cost for the Feasibility Study is $3.2 million, of which the City is obligated to provide 50% or $1.6 million. Most of the City's share, about $900,000, has been funded with grants from the California Department of Boating and Waterways, and the rest from the City's General Fund.

The design phase is estimated to cost $1.5 million, with the Corps responsible for 75% of the cost, and the City 25%. The cost for the preliminary recommended project is estimated at $7.7 million for the initial sand placement, with the Corps providing 65% of the cost. The cost for ongoing sand placement over the 50-year project life is estimated at $13.2 million, with a 50-50 cost share. The following table summarizes the estimated design and construction costs and funding obligations.

Phase	Cost Share	Federal Share (millions)	City Share (millions)
Design	75% Federal 25% City	$1.125	$0.375
Initial Construction	65% Federal 35% City	$5.0	$2.7
Ongoing Sand Replenishment	50% Federal 50% City	$6.6	$6.6
Total		**$12.725**	**$9.675**

Over the course of the Feasibility Study, the City has provided various in-kind services in support of the study (e.g. beach width surveys, City staff project management, etc.) that will be credited toward the City's total cost sharing obligation. The final value that will be credited to the City will be determined during a Corps audit toward the end of the Feasibility Study. However, the current FY 2009 project budget of $208,000 is sufficient to cover the City's remaining Feasibility Study cost sharing obligations, with the potential for some remaining funds that could be applied toward a possible subsequent Design Phase. Additional detail on Feasibility Study phase and potential future design phase financial obligations will be provided for City Council consideration during the upcoming FY 2010 budget process.

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, 3 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. City Council has authorized the development of several projects by City staff in conjunction with a representative from City Council. Once this process has been completed the proposed progress will be presented to the City Council for approval. The City Council will initiate a formal review of the Pier Bowl Specific Plan once the City's General Plan Update has been completed. The funding for Pier Bowl Specific Plan projects is currently in 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 of $110,000 to perform a minimal scope of repairs to the Marine Safety Headquarters. Repairs were made to the concrete caissons, concrete beams, and shotcrete beneath the existing slab. These repairs were made to prevent further corrosion of the building's structural members, but will not protect it from the impacts of future beach erosion or storm damage. 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 Improvements

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 as 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. The Council has approved two agreements with OCTA, which have lead to the design and bidding for construction of improvements that will be needed at North Beach and the Pier.

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 by 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. The North Beach and Pier vehicle crossing improvements will be funded by OCTA and the City on a 88% to 12% match basis.

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

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 Debt Analysis issue paper is updated annually 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.

Typically, debt instruments are *long-term* in nature. Government debt instruments are costly to place, with legal expenses, underwriting costs, and administrative expenses all necessary to properly document and raise capital. Long-term debt can fund major capital projects while spreading repayment out over long periods of time. Because of the costs of issuance, which are added onto the net amount of money actually required, the use of long-term debt is not cost effective or practical in every circumstance. 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 use of *short-term debt* is sometimes more practical than long-term borrowing. Bridging a temporary cash flow requirement or advancing available funds while market conditions for long-term borrowing are unfavorable are two examples of the rationale for incurring short-term debt.

Interfund loans are the primary form of short-term debt incurred by the City. 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.

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 Inter-Agency loan
    a. RDA obligation to the General Fund

3) Short-Term interfund loans
    a. Golf Enterprise Operating Fund to the General Fund
    b. Golf Enterprise Operating Fund to the In-Lieu Parking Reserve

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

The reader is encouraged to refer to Exhibit I "*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.

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. It should be noted that the Street Improvement Program sunsets in 2013.

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 in the original amount of $3.8 million 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.

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.

Long Term Inter-Agency 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 inter-agency loans from the Sewer Depreciation Reserve and the General Liability Self-Insurance Fund. In July, 2002 both of the existing inter-agency loans were consolidated and repaid with a new inter-agency 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.

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 was made from the In-Lieu Parking Reserve to fund the completion of the Golf Course Clubhouse project. This loan was renewed for one year on June 30, 2008.

Short Term Interfund Debt

Advances from the General Fund to the Golf Course Operating Fund totaling $984,000 were made between fiscal years 2002-03 and 2005-06 to fund operating deficits. The Golf Operating fund began making principal payments during FY 2007-08. The outstanding balance is $840,000 and will be repaid through budgeted debt service payments from the Golf Operating Fund or through the placement of a Golf Course Clubhouse Financing discussed above.

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 $2,500,000 to fund completion of the Golf Course Clubhouse project. The advance will be repaid, along with the advances from the General Fund, based on the successful placement of the Golf Course Clubhouse Financing discussed above. (See Enterprise Loan Financing above).

Debt Summary Matrix
The following table provides a reference guide to the existing long and short-term debt issued and outstanding.

Debt	Type	Origination Date	Current Balance	Annual Payment
Long Term Debt				
Street Overlay AD 95-1	Assessment District	Sept., 1996	$1,775,000	$666,200
Sewer Improvements AD 98-1	Reassessment District	June, 2007	$14,065,000	$1,128,000
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$785,000	$99,800
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Dec., 1999	$5,530,000	$410,700
Negocio Series A	Certificates of Participation	June, 1993	$825,000	$88,400
Negocio Series B	Certificates of Participation	June, 1993	$1,895,000	$238,000
City Copiers	Capital lease	August, 2006	$166,000	$36,500
Long-Term Inter-Agency Loan				
RDA	Inter-agency loan	July, 2002	$2,315,900	$269,800
Short-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2003	$840,000	$203,000
Golf Operating	Interfund loan	June, 2007	$2,500,000	$74,300

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. All potential debt sources should be analyzed and considered as part of any long term planning process. Appropriate 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 the 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 II, which follows this discussion, presents each capital project and eligible financing and funding methods available.

Eligible Funding Methods – (Reference Exhibit II)
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 II presents each project and indicates which of the Financing/Funding methods is eligible, referenced by 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 II only identifies possible funding and financing methods or recommending any single method. 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 6.2% and the term equals 20 years. Due to current financial market dislocations and market perceptions, Assessment District and Community Facility District financing is significantly more expensive that Certificates of Participation financing. These assumptions are 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.

Capital Project Summary
The *La Pata/Vista Hermosa*, Phase I project, with a funding requirement of $13.7 million, is eligible for funding by General Obligation debt or Certificates of Participation, requiring a total of $17.1 million (20% in excess of the combined capital projects). Estimated annual debt payments amount to $1.5 million. Assuming General Obligation debt, a total of $14.8 million (7% in excess of the combined capital projects) would fund the combined capital projects. Estimated debt service payments amount to $1.3 million.

The *Civic Center* project, with an $8.9 million funding requirement, could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $11.2 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $985,000. Assuming General Obligation debt, a total of $9.6 million (7% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $847,000.

The *Upper Chiquita Reservoir* project, with a $4.2 million funding requirement, could be financed by Special Taxes or Certificates of Participation, with debt serviced by the Water Enterprise Fund. Bonded debt totals $5.3 million with estimated annual payments of $462,000. A second alternative is to fund the Upper Chiquita project from available cash balances in the

Water Acreage Fee Fund and Water Depreciation Reserve.

The *Recycled Water Expansion* project, with a $10.9 million funding requirement, can be financed through the State Revolving Fund (SRF) loan, with debt serviced by the Sewer Operating Fund. The SRF loan totals $10.9 million with estimated annual payments of $679,500.

Capital Project Summary Table

Capital Project	Required Funding	Debt Issue	Annual debt Service
LPVH Park/Ave Hermosa COP	$13,725,000	$17,150,000	$1,510,000
LPVH Park/Ave Hermosa - GO	$13,725,000	$14,760,000	$1,300,000
Civic Center - COP	$8,950,000	$11,190,000	$985,000
Civic Center - GO	$8,950,000	$9,625,000	$847,000
Downtown Fire Station	Fully funded	-0-	-0-
Upper Chiquita Reservoir COP	$4,200,000	$5,250,000	$462,000
Recycled Water Expansion Project SRF	$10,900,000	$10,900,000	$679,500

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 assuming that the 9 acre parcel and the City Hall sites are not sold, should Council consider utilizing bonded debt, the following options are available:

1. This option assumes the 9 acre parcel is not sold to provide the required funding. Finance the projected funding requirement of $13.7 million *La Pata/Vista Hermosa* phase I project with an estimated $17.1 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.5 million from the General Fund. Should the project be financed through an Assessment District or General Obligation bond, debt service payments of $1.5 million or $1.3 million respectively would be assessed upon property owners and would not be a General Fund obligation.

2. This option assumes that the City Hall site is not sold to provide required funding. Finance the $8.9 million *Civic Center* project with an $11.9 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $985,000. Should the project be financed through a General Obligation bond, debt service payments of $847,000 would be assessed upon property owners and would not be a General Fund obligation.

3. This option assumes the project is not fully funded from the Water Acreage Fee fund balance. Finance the $4.2 million *Upper Chiquita Reservoir* project with a $5.3 million Certificate of Participation debt issuance. Annual payments from the Water Operating

Fund are estimated at $462,000. This represents a 3-4% increase in operating expenses for the Water Fund and would require a rate increase to accommodate the debt service payments.

4. Finance the *Recycled Water Expansion* project with a $10.9 million State Revolving Fund loan. Annual payments from the Sewer Operating Fund are estimated at $679,500. This represents a 9% increase in operating expenses for the Sewer Fund and would require a corresponding rate increase to fund this debt service.

Impact to the General Fund

The following table presents the impact of debt Options 1 and 2 presented above to the operating position of the General Fund assuming Certificates of Participation are issues. Given the negative operating position in all five years of the Forecast prior to adding additional debt service, financing the La Pata/Vista Hermosa and/or the Civic Center projects with Certificates of Participation is not practical.

2009 Forecast Summary (LTFP)*

Amounts in $1,000

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Operating receipts	$49,542	$50,337	$51,051	$51,204	$51,978
Operating disbursements	49,331	53,476	54,922	56,196	57,866
Projected surplus/deficit	$212	($3,139)	($3,872)	($4,991)	($5,888)
1.LaPata/VH Park COP	(755)[1]	(1,510)	(1,510)	(1,510)	(1,510)
2.Civic Center COP		(985)	(985)	(985)	(985)
Revised surplus/deficit	($543)	($5,634)	($6,367)	($7,486)	($8,383)

[1] Assumes ½ year of debt service

Financing/Funding Method Descriptions

The purpose of this exhibit is to provide a descriptive summary of each financing/funding method 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.

Exhibit II
Eligible Funding Method

CAPITAL PROJECTS							
Financing / Funding Methods	**Parks**	LaPata Vista Hermosa Park (LPVH) - Phase I $40.7 M construction costs $13.725 M gap	**Building**	Civic Center $12.9 M construction costs $8.95 M gap	**Water and Sewer** (Enterprise)	Upper Chiquita Reservoir $5.7 M construction costs $4.2 M gap	Recycled Water Expansion $20.1 M construction costs $10.9 M gap
A. Assessments							
B. Taxes		X		X		X	X
C. Fees / Charges						X	X
D. Existing Revenue and Fund Balances				X		X	X
E. Federal, State and Other Gov't Agency Funding Programs							X
F. Proceeds from sale of assets		X		X			

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 2009 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 three 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 $23.1 million for General Fund and Capital Projects Fund projects and $15.1 million for Enterprise Fund projects.

La Pata/Vista Hermosa Park, Phase I
The 2009 Capital Projects Analysis indicates the total cost of Phase 1 at $40.7 million, with an identified funding gap of $13.7 million. During the FY 2007-08 budget year, Council appropriated a transfer of $13.6 million from the proceeds of the sale or lease of *nine acres of land* to fund the construction gap identified during the 2008 LTFP. However, that transfer has not been completed, as the sale of the land has not been completed.

Based on this year's Capital Project Analysis paper, the funding gap has increased by $125,000. Assuming that the sale or lease of the nine acres is sufficient to cover the cost of the project, the existing $13.6 million transfer will need to be increased by $125,000, for a total transfer of $13.725 million.

Gap Closing Strategies	
La Pata/Vista Hermosa Park, phase I	(13,725,000)
Sale or lease of nine acres of land	13,725,000

The La Pata/Vista Hermosa design and construction timeline by quarter shows that there is available cash in the Parks Acquisition Fund for the construction of phase 1a. Chart 1 is attached to this paper and presents a realistic cash flow projection for the construction of

Phase 1b. The chart assumes no proceeds from the sale of the 9 acre parcel in order to determine the approximate time when existing cash resources are exhausted. Based on the anticipated construction timeline presented in the Capital Projects Analysis paper, the project will exhaust all cash reserves by June, 2010.

Based on the analysis presented in Chart 1, the receipt of the proceeds from the 9 acre parcel would need to be in hand by June, 2010. Assuming a one year entitlement process, a sale transaction will need to be consummated before the end of the current fiscal year.

If the sale of the 9 acre parcel is not completed by the projected timelines in Chart 1, short-term borrowings would be necessary to continue to fund the project. The $13.7 million requirement could be funded through interfund loans. Possible funding sources for the interfund loans would include the General Fund, the In-Lieu Parking Reserve, the Sewer Connection Fee Reserve, and the Fleet Replacement Reserve. It should be noted that short-term borrowing is limited to a one-year period.

To borrow from the General Fund would require Council action to temporarily reduce the $10 million Sustainability Reserve. Given the size of the funding requirement, a prudent approach would be to fund the interfund loan from several, if not all, of the funds presented above.

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 $12.9 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 $8.95 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.

Chart 2 has been prepared to project the actual cash flow for design and construction of the Civic Center project. The Chart assumes no proceeds from the sale of the City Hall site to project the point at which existing funding is depleted. In order to complete the project, based on Chart 2, proceeds from the sale of the City Hall site or an alternative temporary funding source must be available by February, 2010. Assuming a 12 to 18 month sales cycle for the City Hall site, a decision to market the property will be required in the near future. The strength of the market should be a consideration for the timing of the sale of the property.

The alternative option of a short-term loan from another City fund or reserve can be considered. The General Fund, In-Lieu Parking Reserve, Sewer Connection Fee Reserve, and the Fleet Reserves are all potential funding sources. Given that these funds have been suggested as short-term funding sources for the La Pata/Vista Hermosa project as well, the ability to fund both seems unlikely. Available reserve balances cannot support the combined borrowing of $13.7 million for La Pata/Vista Hermosa and $8.95 million for the Civic Center projects.

Gap Closing Strategies	
Civic Center	(8,950,000)
Sale of City Hall Site	8,950,000

Sale of the existing City Hall site presents the best solution for the Civic Center project. Given this alternative, it is likely that the timeframe for redevelopment of the Negocio building will be delayed for 18 to 24 months.

Downtown Fire Station and Senior Center

The cost estimate for the downtown fire station is $5.5 million and the Senior Center cost estimate is $3.75 million. The fire station is completely funded through reserves in the Public Facilities Construction Fee Fund. The Senior Center is funded by $2.1 million from the South County Seniors, $900,000 from the Marblehead development agreement, and a $355,000 transfer from the General Fund appropriated in the FY 2007-08 budget. The City has agreed to fund any additional costs above $3.335 million, up to a maximum of $3.75 million. If costs for the Senior Center exceed $3.335 million, an appropriation to transfer up to an additional $395,000 will be considered by City Council.

The South County Seniors organization has received commitments for the $2.1 million funding requirement from private donors and a non-profit organization which specializes in Senior Organizations facilities grant funding. None of the $2.1 million has been transferred to the City at this time.

Gap Closing Strategies	
Fire Station/Senior Center	(9,250,000)
Public Facilities Construction Fee Fund	5,855,000
South County Seniors	2,100,000
Marblehead Development contribution	900,000
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 have depleted existing cash sources. Current project timelines and cash flow schedules, presented in Chart's 1 and 2, estimate that the first quarter of 2010 will be the time when a temporary funding sources will be required to support the cash demands of these projects.

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 $8.0 million to La Pata/Vista Hermosa Park and the Senior Center over the last three fiscal years.

  The General Fund has already contributed undesignated fund balances to support La Pata/Vista Hermosa and the Senior Center as shown on the table below:

General Fund Transfers	Amount
La Pata/Vista Hermosa Park	$7.65 million
Senior Center	$0.355 million
Total	**$8.0 million**

- In-Lieu Parking Reserve – $6.8 million available reserve balance exists which could be utilized for short-term borrowing.
- Sewer Connection Fee Reserve – $7.6 million available fund balance exists. The Capital Projects Analysis paper has recommended that a minimum of $1.5 million of this reserve be committed to the Upper Chiquita reservoir project, leaving a balance of $6.0 for short-term borrowing.
- Fleet Replacement Reserve – $4.8 million fund balance exists. Vehicle replacements for the 2010 and 2011 budget years should be set aside to calculate an amount potentially available for borrowing.

The FA&S Department and the project coordinators will continue to monitor the project schedules and cash flow needs. Options for temporary funding of the La Pata and Civic Center projects have been presented above, but appear to be inadequate to fund all of the projected temporary cash flow requirements of the City at this time.

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 $20.1 million. A State Revolving Fund (SRF) loan of $10.9 million has been identified to fund a portion of this project. Given the uncertainties of State's budget crises, Proposition 50 funding, which is included in the funding sources for this project, may be in jeopardy. The Capital Project Analysis presents the funding options listed below to design and construct the project.

Gap Closing Strategy	
Recycled Water Expansion	(20,100,000)
Federal funding obtained through Congressman Calvert	500,000
State grant funding through Proposition 50	5,700,000
Sewer Connection Fee Fund	3,000,000
State revolving fund loan (2.2% interest)	10,900,000

The application for the SRF loan has been processed and submitted to the State to place the City into the que for funding priority. Thus far, SRF personnel have indicated that the loan program has not been impacted by the fiscal problems of the State.

Upper Chiquita Reservoir

Participation in a regional water storage project, the Upper Chiquita Reservoir, will cost the City an estimated $5.7 million of the total $40 million project. A total of $5.0 million in the Water Acreage Fee Fund is available, with $1.5 million committed to this project and the remaining $3.5 million committed to other projects identified in the City's 2006 Water Master Plan. Based on the $1.5 million commitment to this project, a shortfall of $4.2 million has been identified.

Two funding alternatives were presented in the Capital Project Analysis Paper:

- Fund the entire project through the Water Acreage Fee Fund. The Water Acreage Fee Fund balance is approximately $5.0 million, which would leave a $0.7 million shortfall. A transfer from the Water Depreciation Reserve would be used to complete the funding requirements under this scenario.
- Issue Certificates of Participation through the Water Operating Fund in the amount of $4.2 million and contribute $1.5 million from the Water Acreage Fee Fund for the total $5.7 million requirement. Debt service payments will likely require an increase to the water rates.

The first option will deplete the Water Acreage Fee Fund balance, eliminating funding for other projects identified under the Water Master Plan. Therefore, issuance of Certificates of Participation is being recommended to close the gap for this project.

Gap Closing Strategy	
Upper Chiquita Reservoir	(5,700,000)
Water Acreage Fee Fund – fund balance	1,500,000
Certificates of Participation	4,200,000

Conclusion

Potential funding sources have been identified for the all of the Capital projects. Although short-term funding solutions have been presented for the construction of La Pata/Vista

Hermosa Park and the Civic Center, the long-term solutions depend upon sale or lease of the nine areas adjacent to the La Pata/Vista Hermosa site and the City Hall site. The sale of property will ultimately resolve the funding gaps for the City's major projects over the next five years. However, the timing of the land sales will cause temporary cash problems during construction. Beginning in February 2010, the cash demands of the projects will start depleting existing funding sources. If the cash requirements of the projects are depleted prior to any sale of land, there is the possibility that $23.1 million will be needed to continue uninterrupted construction of these projects and the Fire Station/Senior Center.

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 even though the complete funding has not been resolved.

Recommendation

1. Fund the La Pata/Vista Hermosa project gap through the sale of the 9 acre parcel.
2. Delay the Civic Center project until the sale of the City Hall site.
3. Fund the Recycled Water Expansion through a State Revolving Fund loan.
4. Fund the Upper Chiquita Reservoir project through Certificates of Participation.

Glossary

ADA (Americans with Disabilities Act of 1990):
Federal legislation requires State and local governments to make all public services, programs, and activities accessible to persons with disabilities.

Appropriation:
An authorization made by the City Council which permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are typically granted for a one-year period.

Assessed Valuation:
The estimated value of real and personal property established by the Orange County Assessor as the basis for levying property taxes.

Assessment District (AD):
A defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Assessments:
The levy of a tax against real property.

Balanced Budget:
A balanced budget is one in which total expenditures equal total revenue. An entity has a budget surplus if expenditures are less than revenues. It has a budget deficit if expenditures are greater than revenues.

Bond (Debt Instrument):
A written promise to pay a specified sum of money at a specified future date, at a specified interest rate. Bonds are typically used to finance capital facilities.

Bond Rating:
The City has an "issuer bond rating" of AA awarded by the rating firm of Standard & Poor's. An obligation rated "AAA" is the highest rating assigned by Standard & Poor's. This means that the City's capacity to meet its financial commitment on the debt obligation is extremely strong. An obligation rated "AA" differs from the highest-rated ("AAA") obligations only in small degree.

Budget:
A financial plan, including proposed expenditures and estimated revenues, for a period in the future.

CalPERS:
Public Employees Retirement System provided for Public Safety personnel by the State of California.

Capital Assets:
Assets of significant value and having a useful life of several years. Capital assets are also called fixed assets.

Capital Improvements:
Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains and sewers.

Capital Improvement Program (CIP):
A plan over a period of six years setting forth each capital project, the amount to be expended in each year and the method of financing capital expenditures.

Capital Projects Fund:
In governmental accounting, a fund that accounts for financial resources to be used for the acquisition or construction of capital facilities. The total cost of a capital project is accumulated in a single expenditures account which accumulates until the project is completed, at which time the fund ceases to exist.

Capital Outlay:
Expenditures which result in the acquisition of or additions to fixed assets. Examples include land, buildings, machinery and equipment, and construction projects.

Capital Projects:
Projects typically included in the Capital Improvement Program (CIP) which result in the acquisition or addition of fixed assets.

CDBG (Community Development Block Grant):
Federal grant funds distributed from the U.S. Department of Housing and Urban Development that are passed through to the City from the Orange County Environmental Management Agency. The City primarily uses these funds for housing rehabilitation, public improvements, and local social programs.

Certificates of Participation (COP):
A method of financing capital facilities through a debt instrument, where a long term lease is entered into with the investors for constructed facilities. Lease payments are then used to service the debt instrument.

California Joint Powers Insurance Authority (CJPIA):
This is a public-entity risk pool comprised of a cooperative group of governmental agencies joined together to finance the exposure of liability and workers' compensation risks. The City is self-insured for both liability and workers' compensation insurance. CJPIA provides coverage for liability claims in excess of $50,000.

COLA:
Cost of Living Allowance.

Glossary

Community Facility District (CFD):
A method of financing capital facilities through a debt instrument through a defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Comprehensive Annual Financial Report (CAFR):
The official financial report of the City. It includes an audit opinion as well as basic financial statements and supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

Contingency:
A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted.

Contract Services:
Services provided to the City from the private sector or other public agencies.

Cost of Service:
An analysis of the cost structure of a particular service or function. The costs of operations, maintenance and capital replacements are considered.

Debt Service:
Payment of interest and repayment of principal to holders of the City's debt instruments.

Defease:
To pay off an outstanding liability. To replace a higher interest rate with a lower rate.

Deficit:
The excess of liabilities over assets.

Depreciation:
Is the reduction in value of assets over a defined period of life of that asset. In accounting, depreciation represents a charge to expense the value of an asset over its useful life.

Elastic Revenues:
Revenues which can vary depending upon changing economic conditions. Revenue categories include; sales taxes, transient occupancy taxes, license and permits, and community development charges.

Emergency Reserve:
Restricted money set aside to appropriate under serious conditions which warrant emergency measures. Money can only be appropriated by Council action.

Enterprise Fund:
In governmental accounting, a fund that provides goods or services to the public for a fee that makes the entity self-supporting. It basically follows GAAP as does a commercial enterprise.

ERAF:
Educational Revenue Augmentation Fund

ERAF Property Tax Shift:
Funding for California public school spending generated by shifting a portion of property taxes from cities, counties and special districts.

Expenditures:
Where accounts are kept on the accrual or modified accrual basis of accounting, expenditures are recognized when goods are received or services rendered.

Facilities Maintenance Reserve:
The Facilities Maintenance Reserve provides a funding source for maintenance of City facilities. Facilities maintenance expenditures include costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/striping for all City facilities, plus the compressor, speed drive and boiler for the City pool.

Fiscal Policy:
A written set of policies adopted by City Council which establishes formal guidelines for financial activities of the City.

Fiscal Year:
A 12-month period to which the annual operating budget applies and at the end of which the City determines its financial position and results of its operations. San Clemente's fiscal year runs from July 1 - June 30.

Five-Year Financial Forecast:
Estimates of future revenues and expenditures to help predict the future financial condition of the community. The Five Year Financial Forecast is included in the City's annual Long Term Financial Plan.

Fixed Assets:
Assets which are intended to be held or used for a long term, such as land, buildings, improvements other than buildings, machinery and equipment.

Fleet Maintenance Fund:
The Fleet Maintenance Fund is used to account for the operation, maintenance and replacement of City owned vehicles and equipment.

Fleet Replacement Reserve:
The Fleet Replacement Reserve accounts for funds set aside for replacement of Fleet vehicles and equipment.

Full Time Equivalents (FTE):
The amount of time a position has been budgeted for in terms of the amount of time a regular, full-time employee normally works in a year. For example, a full-time employee (1 FTE) is paid for 2,080 hours per year, while a .5 FTE would work 1,040 hours per year.

Fund Balance:
The excess of fund assets and resources over fund liabilities is defined as Fund Equity. A portion of Fund Equity may be reserved or designated; the remainder is available for appropriation, and is referred to as the Fund Balance.

Fund Equity:
The excess of fund assets and resources over fund liabilities. A portion of the equity of a governmental fund may be reserved or designated; the remainder is referred to as fund balance.

General Fund:
In governmental accounting, the fund used to account for all assets and liabilities of a nonprofit entity, except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund of the City of San Clemente.

General Liability Self-Insurance Fund:
The General Liability Self-Insurance Fund is used to provide the City with liability and property insurance. Coverage is provided through the City's participation in a joint powers agreement through the CJPIA.

General Obligation Bonds:
Bonds for which the full faith and credit of the City is pledged for payment.

Golf Course Capital Improvement Reserve:
The Golf Course Capital Improvement Reserve provides for capital improvements to the existing golf course.

Government Accounting Standards Board (GASB):
An organization created to provide comparability and consistency between different government agencies. GASB issues statements regarding various accounting issues and provides guidelines on how accounting transactions should be recorded.

Government Finance Officers Association (GFOA):
A national organization of governmental finance officers.

Improvements:
Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains and sewers.

Infrastructure:
The term refers to the technical structures necessary to provide basic services, such as roads, water supplies, sewage treatment facilities, and so forth.

Inter-Agency Loans:
Loans made between related Agencies.

Interdepartmental/Interfund Transfers:
Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.

Interfund Loans:
Loans made between City Funds.

Internal Service Fund:
Funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City.

Liquidity Ratio:
A calculation of the relationship between available assets (cash or near cash) and current liabilities (accounts payable, wages payable, etc.).

Long-Term External Debt:
Debt borrowed from a source outside the City with a maturity of more than one year after the date of issuance.

Long-Term Financial Plan (LTFP):
A plan which identifies fiscal issues and opportunities, establishes fiscal policies and goals, examines fiscal trends, produces a financial forecast, and provides for feasible solutions.

Maintenance:
Expenditures made to keep an asset in proper condition or to keep an asset in working order to operate within its original capacity.

Negocio Debt Service Fund:
The Negocio Debt Service Fund is used to account for the accumulation of funds for the payment of interest and principal on Certificates of Participation (COP). Proceeds from the COP were used for the purchase of the building located at 910 Negocio, San Clemente. Debt service is financed by revenues generated from the lease of the building.

One-time Expenditures:
Non-recurring expenditures, such as capital asset purchases, one-time studies, etc.

Operating and Maintenance Costs (O&M):
Refers to costs directly associated with the operation and maintenance of a program or activity.

Operating Budget:
The operating budget is the primary means by which most of the financing of acquisition, spending and service delivery activities of a government are controlled. The use of annual operating budgets is required by law.

Operating Position:
Refers to the difference between on-going revenues and expenditures. When revenues exceed expenditures, a "positive operating position" exists.

Operating Transfer:
Routine or recurring transfer of assets between funds.

Orange County Fire Authority (OCFA):
A joint powers agency (JPA) which provides fire protection services within Orange County.

Orange County Transportation Authority (OCTA):
A joint powers agency (JPA) which provides transportation services within Orange County.

Parks Acquisition and Development Fund:
The Parks Acquisition and Development Fund is used to account for the revenues received from developer fees and the expenditures for the acquisition, construction, improvement or renovation of City owned parks.

Personnel:
Salaries paid to City employees. Included are items such as regular full time, regular part time, premium overtime and special duty pay.

Personnel Benefits:
Those benefits paid by the City as conditions of employment. Examples include insurance and retirement benefits.

Projected Surplus/Deficit:
The projected surplus/deficit is the net of forecasted receipts and forecasted disbursements. A surplus is the result of receipts exceeding disbursements, and a deficit is the result of disbursements exceeding receipts.

Public Facilities Construction Fund:
The Public Facilities Construction Fund is used to account for developer fees collected at the time a building permit is issued to provide for future public facilities necessitated by new development and expenditures for construction of beach parking facilities, public safety buildings or equipment and public facilities.

Rates:
Refers to established fees for water, sewer, storm drain and clean ocean programs. Rates include fixed charges, such as water base fees, and variable charges, such as the sewer commodity fees.

RDA:
Redevelopment Agency.

Redevelopment Agency Capital Projects Fund:
The Redevelopment Agency Capital Projects Fund is used to account for the proceeds of notes, advances and other forms of indebtedness, and the expenditure of these funds for improvement, reconstruction and redevelopment projects within the specified boundaries of the San Clemente Redevelopment Agency.

Redevelopment Agency Debt Service Fund:
The Redevelopment Agency Debt Service Fund is used to account for the accumulation of funds for the payment of interest and principal on advances from the City of San Clemente and other long-term debt. Debt service is financed through property tax revenues.

Replacement Reserve:
An account used to accumulate funds for the replacement of specified capital assets or major maintenance of capital assets.

Reserve:
An account used to indicate that a portion of fund equity is legally restricted for a specific purpose.

Reserve Fund:
The Reserve Fund is used to account for funds set aside for capital equipment replacement, facilities maintenance and accrued employee benefits for retired, terminated or former employees funded from the General Fund.

Revenue Bonds:
Bonds issued pledging future revenues, usually water or sewer charges to cover debt payments.

Self-Insurance Reserves:
Money set aside to pay insurance claims below the deductible limit of workers' compensation and general liability insurance policies.

Glossary

Special Assessment Bonds:
Bonds payable from the proceeds of special assessments.

Street Improvement Fund:
The Street Improvement Fund is used to account for revenues and expenditures related to the rehabilitation of City streets.

Subsidence Claims:
Claims pending against the City's General Liability Self-insurance Fund for land movement.

Subventions:
Revenues collected by the State which are allocated to the City on a formula basis. For example, motor vehicle and gasoline taxes.

Supplemental Appropriation:
An appropriation approved by the Council after the initial budget is adopted.

Sustainability:
Is the capacity to maintain a certain process or state.

Sustainability fund balance:
$10 million designation of the General Fund fund balance to provide for economic and financial stability. This fund balance can be used only by formal action of the City Council.

Taxes:
Compulsory charges levied by the City, County & State for the purpose of financing services performed for the common benefit.

Transient Occupancy Tax (TOT):
Commonly referred to as a "bed tax", transient occupancy taxes are applied to all short-term rentals (less than 29 days of occupancy) within the City limits. The tax rate is 10% of the gross room rate.

Triple Flip:
The "triple flip" swaps one-quarter of the City's local sales taxes to secure $15 billion in deficit financing bonds approved through the passage of Proposition 57 (flip #1). The State intends to replace this revenue with Educational Revenue Augmentation Fund (ERAF) property tax money that was taken from cities and counties in the early '90's (flip #2). Using ERAF money to backfill the sales tax taken from cities will increase the States obligation to fund schools from *other* general fund resources (flip #3). Another impact of the triple flip upon the City will be cash flow. Sales tax, which is received monthly, will be reduced by 25% and will be "backfilled" with property tax, which will be received bi-annually in January and May.

Undesignated Fund Balance:
Refers to fund balances available for spending, ie; funds not designated for any other purposes.

Vital Few Priorities:
The key issues facing the City which are prioritized annually by the City Council. These priorities are then utilized to develop workplans within the adopted budget prepared by City staff.

Workers' Compensation Fund:
The Workers' Compensation Fund accounts for the cost to provide Workers' Compensation insurance coverage to all City employees in compliance with State of California requirements.