City of San Clemente, California

Long Term Financial Plan

2011

City of San Clemente

City Council

• Lori Donchak	Mayor
• Jim Evert	Mayor Pro Tem
• Bob Baker	Councilmember
• Tim Brown	Councilmember
• Jim Dahl	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
• Sharon Heider	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
• Bill Cameron	Director, Public Works/City Engineer
• Sandee Chiswick	Senior Accountant
• Dave Dendel	Maintenance Services Manager
• Kumi Elston	Central Services Officer
• Sharon Heider	Director, Beaches, Parks & Recreation
• Akram Hindiyeh	City Traffic Engineer
• Mike Jorgenson	Building Official
• Gus Nelson	Golf Course Manager
• Sam Penrod	Human Resources Manager
• Jake Rahn	Financial Services Manager
• Dave Rebensdorf	Assistant City Engineer
• Tom Rendina	Municipal Services Manager
• Tim Shaw	Landscape Architect
• Hanne Walker	Human Resources Analyst I
• Brenda Wisneski	Principal Planner

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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.

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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
William Cameron, Director of Public Works/City Engineer

Financial Trend Analysis
Sandee Chiswick, Senior Accountant

Financial Forecast
Kumi Elston, Central Services Officer

Reserve Analysis
Jake Rahn, Financial Services Manager

Fiscal Policy
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Tom Rendina, Municipal Services Manager

Capital Projects Analysis
David Rebensdorf, Assistant City Engineer
Tom Rendina, Municipal Services Manager

Street Improvement Program Update
Bill Cameron, Director Public Works /City Engineer
Akram Hindiyeh, City Traffic Engineer

Sidewalk Improvement Program
Tom Bonigut, Assistant City Engineer

Golf Course Fund Analysis
Gus Nelson, Golf Course Manager
Tom Rendina, Municipal Services Manager

Beach and Park Restroom Master Plan
Sharon Heider, Director Beaches, Parks & Recreation

Facilities Rehabilitation and Maintenance
Dave Dendel, Maintenance Services Manager

Revenue Update
Kumi Elston, Central Services Officer
Tom Rendina, Municipal Services Manager

Revenue Enhancement
Tom Rendina, Municipal Services Manager

Americans with Disability Act

Sam Penrod, Human Resources Manager
Hanne Walker, Human Resources Analyst I
Mike Jorgenson, Building Official

Debt Analysis

Tom Rendina, Municipal Services Manager

Gap Closing Strategies

Tom Rendina, Municipal Services Manager
Kumi Elston, Central Services Officer
Jake Rahn, Financial Services 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 with funding challenges. 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.

Street Improvement Program Update

Objective

To provide an update on the City's Street Improvement Program progress.

Sidewalk Improvement Program

Objective

To discuss issues and considerations for repairing existing and constructing new sidewalks in compliance with requirements of the Americans with Disabilities Act (ADA).

Golf Course Fund Analysis

Objective

Two objectives are presented in the Golf Analysis:

1. *Perform a periodic review of the Golf Fund operating position by developing a three-year forecast for the Golf Course Operations. Based on the three-year forecast, develop recommendations to maintain a positive operating position.*
2. *Review the outstanding debt incurred for the construction of the Golf Course Clubhouse. Develop recommendations and/or alternatives for future debt servicing.*

Beach and Park Restroom Master Plan

Objective

To improve the condition and function of our existing Beach Restroom inventory to prevent further deterioration, potential loss, and provide a better quality of service for our users.

Facilities Rehabilitation and Maintenance

Objective

Analyze all City owned facilities and develop a strategic programmed plan of facility rehabilitation and building maintenance.

Revenue Update

Objective

To review and update all general fund revenue sources in accordance with the City's Fiscal Policy

Revenue Enhancement

Objective

To identify any potential on-going revenue enhancements or new revenues that could be considered to help eliminate projected future deficits in the City's operating position.

American with Disability Act (ADA)

Objective

To present an overview of the primary requirements of the Americans with Disabilities Act (ADA), and to discuss the steps the City has taken and is currently involved in to bring the City into full compliance with the federal regulations.

Debt Analysis

Objective

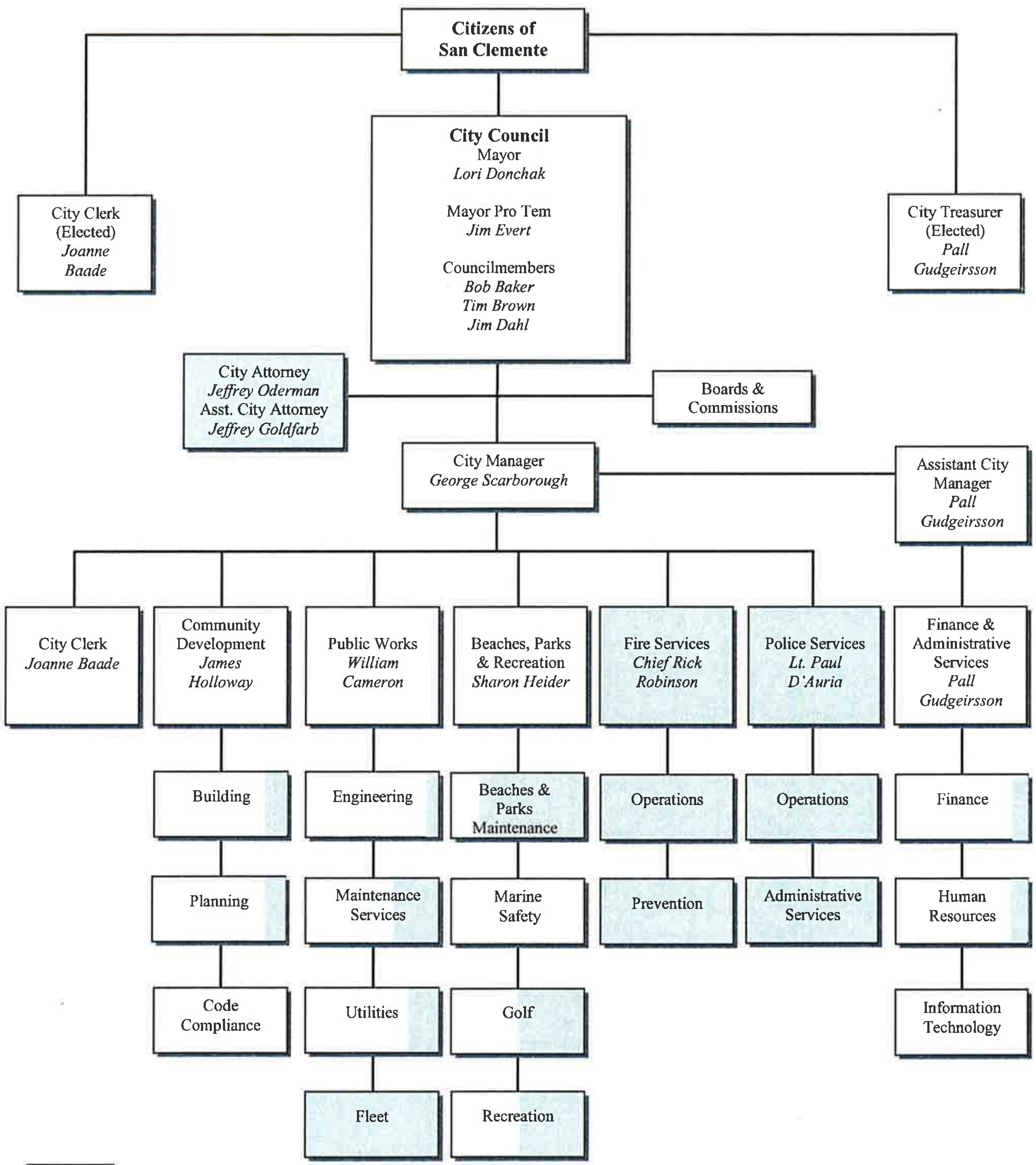
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs

Gap Closing Strategies

Objective

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

City Organizational Chart



Shading indicates contracted services

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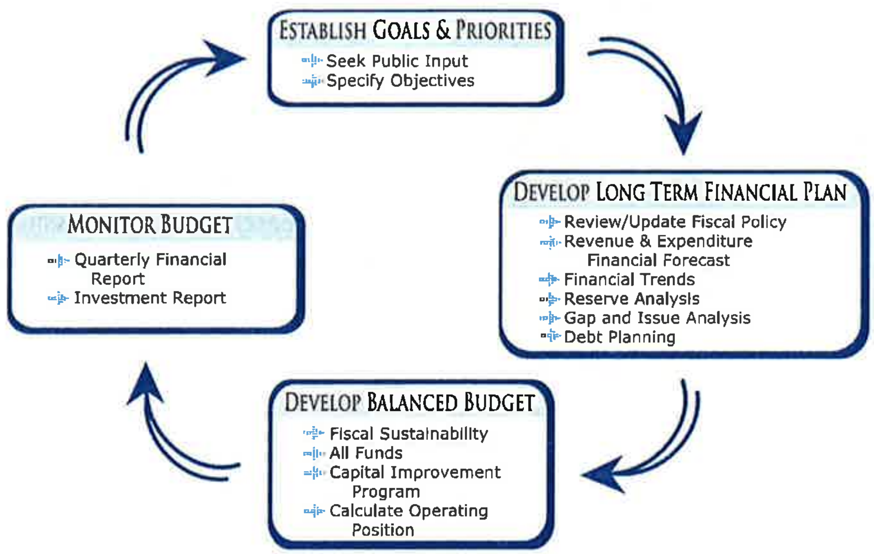
Long Term Financial Plan



The LTFP is a financial strategic plan

The Issue Papers provide support documents used to develop the plan

The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The LTFP consists of a complete financial plan and an Issue Paper section which provides supporting documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition.

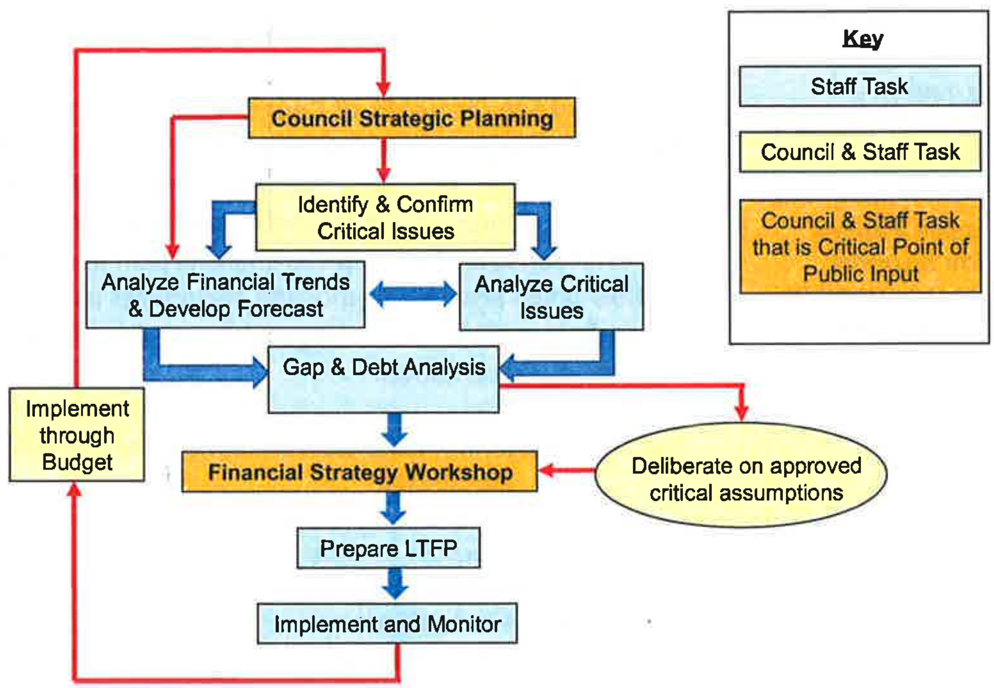
The 2011 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Street Improvement Program Update
- Sidewalk Improvement Program
- Golf Course Fund Analysis
- Beach and Park Restroom Master Plan
- Facilities Rehabilitation and Maintenance
- Revenue Update
- Revenue Enhancement
- Americans with Disability Act
- 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, 16 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 9 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

Annually, City Council identifies which projects and programs are of the highest priorities for the coming year. Since most of the projects prioritized two years ago are multi-year projects, City Council will be presented with an update on February 22, 2011. Once priorities have been updated, Council and staff will identify the critical phases 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 8, 2011	Long Term Financial Plan Workshop (Special Council Meeting)
February 22, 2011	Priority Update & Program Prioritization Workshop
May 19, 2011	Budget Workshop (Special City Council Meeting)
June 21, 2011	FY 2012 Budget Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2011 LTFP represents the nineteenth 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.

The following is an update of the 2010 Long Term Financial Plan issues:

Financial Trend **Analysis**	**Status**
A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition."	Done.

Financial Forecast	**Status**
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.	Done.

Reserve Analysis	**Status**
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 ensure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.	General Fund Emergency Reserve funding equals 9% of operating expenditures in the 2011 budget. Transfer of $80,000 to the Accrued Leave Reserve was included in the 2011 budget. Workers' Compensation and General Liability Insurance premiums were reduced. Reserves of $268,000 were moved from the Golf Depreciation Reserve to the Golf Improvement Reserve.

Fiscal Policy	Status
Review the City's adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.	The City added language to establish a target fund balance for the Park Asset Replacement Reserve.

Capital Projects Analysis	Status
To provide a summary of significant capital projects with funding challenges. 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.	The projects included: La Pata/Vista Hermosa Park (Phase I), Civic Center, and Recycled Water Expansion. Status and updates will be provided for La Pata Vista Hermosa Park (Phase I), Civic Center and Recycled Water Expansion as part of the 2010 LTFP.

Street Improvement Program Renewal	Status
To provide an update on the progress of the City's Street Improvement Program and to discuss considerations for renewing the assessment program for another term.	Staff is investigating options for continuing the Assessment District of the Street Improvement Program.

Revenue Update	Status
To review and update all general fund revenue sources in accordance with the City's Fiscal Policy.	Done

Debt Analysis	Status
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.	Debt alternatives were presented for all funding gaps identified in the Capital Projects Analysis paper. No Debt recommendations were approved by Council to be implemented in the FY 2011 Budget.

Gap Closing Strategies	Status
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 ongoing operation and maintenance costs.	Done.

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
2009	• To provide a summary of significant capital projects on the horizon as part of the continuing development of the City. • Review the City's adopted Fiscal Policy on an annual basis to determine appropriate changes, additions, or deletions. • Determine if the City is in compliance with the American with Disabilities Act.	• Funding was secured for the downtown Fire Station/Senior Center and Upper Chiquita Reservoir projects which are now under construction. • The City established and partially funded a Park Asset Replacement Reserve as part of the 2010 budget. • The minimum funding level for Enterprise depreciation reserves was reduced from five years of projected costs to three years. • An ADA consultant selected to complete an assessment of City programs, services and policies.

2008	• It was necessary to budget sufficient funds in order to bring the emergency reserve to the 8.25% level. • Modifications were needed for water and sewer rate structures • Funding gaps were identified in La Pata/Vista Hermosa Park, Civic Center, Downtown Fire Station and Senior Center, Coastal Trail and Golf Clubhouse • It was necessary for the City to determine if it was compliant with the Americans with Disabilities Act.	• Council approved the $205,000 transfer to the Operating Budget. • Utility rate changes were implemented in the FY 2008-09 Water and Sewer Budgets. • 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. • Internal analysis conducted and $10,000 budgeted to hire a consultant to do remaining analysis required.
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. • An operational gap was identified for the Golf Course Fund.	• 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. • A $3.00 per round increase was approved.
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.
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.

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
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
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
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
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
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
1998	• All reserves except Capital Equipment Replacement Reserve fully funded	• Funded Capital Equipment Replacement Reserve • Funded a market study and downtown improvement plan

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
1996	• Emergency reserve level reached 5%	• Expedited Street Improvement Program • Issued $7 million in street bonds • Saved on bond issuance costs
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
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
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

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 2011 edition of the City's *Long Term Financial Plan (LTFP)* to the City Council and our San Clemente residents. 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. Decisions made as a part of previous Long Term Financial Plans have enabled us to weather the past economic storm that was produced by the national recession and State of California's shifting of local revenues.

The City's Long Term Financial Plan (LTFP) is a long-range planning tool that allows City Council to make strategic decisions on the City's financial sustainability. The foundation of the LTFP is built from the *Financial Trend Analysis, Financial Forecast* and the City's *Fiscal Policy.* 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 financial plan begins by reviewing the City's financial position utilizing the ICMA *Financial Trend Analysis* model to examine five-year trend data. The analysis identifies specific areas where new policies should be implemented or if existing policies need revision. The analysis also guides the budget process to implement actions to reverse negative trends and improve the fiscal health of the City. Although there are indications that certain negative fiscal trends will soon reverse course, the trend monitoring system only identifies 11 out of 21 trends as favorable.

The results of the City *financial forecast* indicate improvement in the City's financial outlook for 2012 and beyond. The City's General Fund operating position has turned slightly *positive* in the first three years of the five-year forecast. This is largely due to improvement in property valuation during the forecast period, as compared to negative or flat growth projected in last year's financial forecast. Beginning in FY 2012, the forecast includes funding from the sale of land to Target to offset the operation and maintenance of La Pata/Vista Hermosa Park for the first three years. However, the forecast clearly shows that once this one-time funding source is depleted, the projected General Fund operating position enters negative territory in 2015 unless expenditures are further reduced or operating revenues grow beyond current projections. As an alternative, the funds from the Target sale could be spread over the five year period to maintain a neutral operating position.

Fiscal policies, established by City Council to provide long-term stability and financial guidance, are updated annually in the Long Term Financial Plan. Clarification to emergency reserve policies in the

General Fund and other funds are provided along with more specific guidance for inter-fund loans. Additionally, the policy for use of one-time revenues for on-going operating expenditures is modified to allow for Council approved exceptions to the policy. This formalizes the policy exception for utilizing the land sale proceeds from Target for temporary funding of maintenance and operations for the LPVH Sports Park.

Our *reserve position* continues to be strong with the Sustainability Reserve fully funded at $10 million and the General Fund Emergency Reserve fully funded at 9% of operating expenditures or $4.2 million. The City's AAA bond rating from Standard & Poor's attests to our current excellent financial position which we will strive to maintain.

The *Capital Projects Analysis* provides a summary of significant capital projects projected to start construction within the next six years. City staff has analyzed the project costs and available funding sources to determine if funding gaps exist to complete these projects.

The *Street Improvement Program Renewal* provides an update on the progress of the City's Street Improvement Program. This successful program has completed a total of 207 street projects or 65 miles of improvements. The street assessment district, which was formed by City Council in July 1995, will expire in 2011. Several options for the future funding of street rehabilitation are presented in the paper with the goal of continued improvement in the quality of all city streets.

The *Sidewalk Improvement Program* discusses the issues involved with sidewalks to conform to the requirements of the American with Disabilities Act (ADA). A review of the sidewalk network, along with the results from the Bicycle and Pedestrian Master Plan, will support development of a comprehensive sidewalk policy which sets priorities for construction of new sidewalks and repair of existing sidewalks.

The *Golf Fund Analysis* provides a review of the Golf Fund operating position and existing debt which was incurred to construct the Golf Course Clubhouse. A negative operating position is projected throughout the three-year forecast period. Two rate increase scenarios are proposed to eliminate the negative operating position, along with options to refinance the golf course debt service payments.

The *Beach and Park Restroom Master Plan* identifies improvements to the condition and function of existing beach and park restrooms. Beach restrooms, the initial focus of the study, are all in need of repair and retrofit to be in compliance with ADA standards. Park restrooms, which were added to the study by City Council, have similar issues but have been prioritized after beach restrooms because they are in better condition. In addition to the structural and ADA improvements, on-going maintenance upgrades and repairs are recommended to maintain the restroom conditions.

A *Facilities Rehabilitation and Maintenance* analysis of all City owned buildings was conducted to develop a strategic plan for facility rehabilitation and building maintenance. Building evaluations and structural analysis, combined with projects identified by the ADA Analysis, will determine the priority of projects for future capital improvement budgets. On-going maintenance will be programmed into future operating budgets based on the plan. To address an immediate need at the Ole Hanson Beach Club, a $1.5 million transfer from the General Fund is recommended to begin rehabilitation of this historic building.

The *Revenue Update* is an annual review of user fees to determine if any adjustments should be made to City fees or service charges. Out of the six fees analyzed, the commercial filming permit fee is the only fee recommended for revision and implementation in the FY 2012 budget.

An overview of the requirements of the *American with Disabilities Act (ADA)* is presented to discuss the necessary steps the City must take to bring City facilities, programs, services and activities in full compliance with federal regulations. An ADA self-evaluation report will assist the City in developing a transition plan for compliance. While it is not known exactly how much funding will be required to implement the plan, projects will be identified and prioritized during the annual budget process.

Potential *Revenue Enhancements* are identified for further consideration by City Council. Revenue enhancement opportunities include rental of beach and park sites for private parties or weddings, wedding permits, rental of beach amenities, expansion of parking meters to currently unmetered streets and minor beach access points and enhanced promotion of the City's commercial filming program.

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 2011 Long Term Financial Plan continues to look ahead to plan for the financial issues and challenges facing the City over the next five years. There are a number of infrastructure issues presented in this year's plan that need to be programmed into the City's capital improvement program to ensure that City buildings, restrooms, parks, streets and sidewalks are rehabilitated and maintained in a safe and operationally sound condition.

I would like to thank all staff members involved with the City's 2011 Long Term Financial Plan. I look forward to working with City Council, staff and our community as we determine a solid course of action for our financial future.

George Scarborough
City Manager

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Executive Summary

The *Executive Summary* portion of the 2011 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 2011 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*
- *Debt Analysis*
- *Gap Closing Strategies*
- *Five Year Financial Forecast*
- *Fund Balances*
- *Conclusion & Projected Financial Condition*
- *Summary of Recommendations*

Introduction

The 2011 LTFP is the 19th edition of the City's financial strategic plan

This is the nineteenth 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 City's financial future.

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 in order to chart a sound financial course.

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.

***Fiscal policies* provide guidance for planning a sustainable financial future**

Fiscal policies established by City Council provide guidance and long-range direction for planning a sustainable financial future. Fiscal policies are reviewed annually to determine if new policies or revisions are necessary. Included in the 2011 Long Term Financial Plan are recommendations to revise the Fiscal Policy to modify an existing policy to allow one-time revenues to be used for on-going expenditures with City Council approval, modify an existing policy on short-term loans, create a new policy for long-term loans and separate the existing emergency reserve policy for the General Fund and the Enterprise Funds into two separate policy statements.

Staff is recommending changes to the commercial filming permits

The Fiscal Policy also requires an annual review of General Fund revenues to determine if any changes should be made to fees or service charges. The Revenue Update paper included in the 2011 Long Term Financial Plan, reviews fees and charges for business licenses, commercial filming, special beach events, restricted parking passes, financial documents and developer impact fees. Staff is recommending changes to the commercial filming permits from a fixed permit fee plus daily charges to a fixed permit fee plus a deposit to recover the actual time spent on the application and inspection of the filming site.

The *financial trend analysis* acts as an early warning system

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

The five-year financial forecast was last updated after adoption of the FY 2011 budget. The General Fund operating position was projected to be positive in the first year of the forecast and negative beginning in FY 2012. The forecast showed that General Fund operating revenues were anticipated to grow by an annual average increase of 1.1% a year. Property taxes, which account for 50% of General Fund revenues, were anticipated to decline by 3.5% in FY 2012 and remain flat for the remaining three years of the forecast. A 1.9% increase in expenditures was forecasted due to increases in contractual services, primarily police and fire services.

Property Tax projections are improving

The 2011 LTFP forecast shows an improving financial picture with property tax revenues now projected to increase by 0.5% in the first year and indicates average increases of 1.9% through the remaining four years. Sales taxes are also projected to grow by 3% annually.

Forecast expenditures are increased by inflation, other forecast assumptions or known contractual increases. As an example, the forecast assumes a transfer

Fire contract increased by 4.5% which is the maximum allowed

of $712,880 to the Street Improvement Fund in FY 2011. This transfer is increased annually by 3%. The police contract has been increased by 2.1% for FY 2012 based on the Strategic Financial Plan developed by the Orange County Sheriff's Department (OCSD). The Sheriff's strategic plan projects increases averaging 2.2% over the remaining four years of the forecast. The fire contract with the Orange County Fire Authority (OCFA) has been increased by 4.5% annually, which is the maximum amount the contract allows. For FY 2011, the OCFA Board of Directors rejected staff's budget proposal and requested a mid-year adjustment to include a $5.0 million reduction to the General Fund budget. This adjustment should reduce the City's 2011 cash contract amount and lower the base year cost of the contract. Although the City does not anticipate 4.5% increases throughout the forecast period, OCFA has not officially advised the City of the contract charges for FY 2012 and beyond.

Positive operating position in first three years with a deficit beginning in FY 2015

As a result of revised forecast projections, City revenues are anticipated to grow by 1.7% a year and expenditures are projected to grow by 3.0%, primarily due to the additional cost of operation and maintenance of La Pata/Vista Hermosa Park. The 2011 forecast shows a positive operating position in the first three years of the forecast with an operating deficit beginning in FY 2015. The City Council strategy to use a portion from the sale of land to Target Corporation to partially subsidize the operation and maintenance of La Pata/Vista Hermosa Park provides for the positive outlook in the first three years. Clearly, an additional subsidy would need to be made or revenues would need to increase more than currently projected in order to maintain a positive operating position throughout the forecast period.

Other financial challenges include funding of capital projects and renewal of the Street Improvement Program

Other financial challenges identified in the 2011 Long Term Financial Plan include funding of capital projects, renewal of the Street Improvement Program, necessary infrastructure upgrades to City facilities, restrooms and sidewalks, required improvements to comply with the Americans with Disabilities Act (ADA) and a projected Golf operating deficit.

The Capital Projects Analysis provides a summary of the significant capital projects with funding challenges. The analysis reviews the funding status of the beach and park restrooms, quiet zone improvements, recycled water expansion and six potential projects that do not have identified project costs and funding.

Street Improvement Program expires in 2011

The Street Improvement Program Update and Renewal paper provides an update of the street rehabilitation program that was approved in 1995. The program was funded through the establishment of a street assessment district and transfers from the General Fund and Gas Tax Fund. The assessment district is scheduled to expire in 2011 and revenue of $1.2 million from the combined assessments will cease unless voter approval is obtained to renew the assessment.

Sidewalk Improvement Program update

The Sidewalk Improvement Program discusses issues associated with construction of new sidewalks and repair of existing sidewalks for compliance with the requirements of the Americans with Disabilities Act (ADA). Although actual costs and funding sources have not been identified, an update of the 2006 sidewalk inventory will provide the City with the information to develop a policy to implement ADA compliant sidewalks. Initial work to develop a policy would require staff time and consultant support, which is roughly estimated to amount to $100,000.

All six of the beach restrooms need repair and retrofit

The Beach and Park Restroom Master Plan has been developed to identify a strategy to improve the condition and function of existing beach and park restrooms. An inventory and assessment of beach restrooms for structural integrity, accessibility and function has identified that all six of the beach restrooms are in need of repair and retrofit. Phase one of the master plan prioritizes the "Base of Pier" restroom for immediate repair and redesign to provide handicap access. Approximately $250,000 is needed for this phase and the City's Redevelopment Agency Fund is the recommended funding source. The estimated cost of phase two restroom improvements ranges from $1.7 million to $2.3 million and would need to be funded from the General Fund. An additional $25,000 (bringing annual funding to $50,000) is also recommended to provide on-going building maintenance to the restroom's overhead wood, masonry walls, doors and fixtures.

Need to develop a strategic plan for facility rehabilitation and building maintenance

The Facilities Rehabilitation and Maintenance Analysis emphasizes the need to develop a strategic plan for facility rehabilitation and major building maintenance. In 2010, a building evaluation and structural analysis was completed on the Community Center, Ole Hanson Beach Club, Corporation Yard Maintenance building (Building A) and the Animal Shelter. The report prioritizes the rehabilitation of the Ole Hanson Beach Club and $1.5 million is needed from the General Fund to repair the structural, electrical and HVAC issues, as well as restore the architectural elements to preserve the building's historic integrity. Future projects and funding sources will be developed from the building structural analysis and the ADA assessment to implement a strategic plan for rehabilitation and on-going maintenance of City facilities. Project costs and funding sources will need to be identified during the annual Capital Improvement Program development.

A $1 per round fee increase is recommended

A Golf Fund Analysis has identified a negative operating position in the Golf operating fund beginning in FY 2012. The Golf operating fund incurred $400,000 in new debt service and depreciation expense due to the construction of the clubhouse in 2007. Since the number of rounds played on the course is relatedly stable, a $1 per round fee increase is recommended, beginning July 1, 2011, as a way to increase revenue. The Golf operating fund also has an outstanding balance on two short term loans made by the General Fund and the In-lieu Beach Parking Reserve to complete construction of the clubhouse. Reductions to the debt service payment for 2012 are recommended, along with the refinance of the remaining balance in 2013.

Potential revenue enhancements have been identified

Potential revenue enhancements have been identified that could increase General Fund operating revenues. Rental of portions of the beach and parks for private parties or weddings, along with rental of beach amenities such as shade structures, picnic tables and fire rings are under consideration. Expansion of the metered parking program along T-Street and other beach access points is also suggested. A focused approach to enhance the commercial filming opportunities will enhance revenue from still and video photographers. Ideas include determining and promoting desirable filming locations and developing on-line applications and program information.

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 2011 fiscal year with a total balance of $18 million, which includes $10.0 million in Sustainability Fund balance and $4 million in undesignated fund balance. The General Fund emergency reserve, at year-end will amount to $4.3 million. Total General Fund revenues amount to $57.8 million. General Fund operating revenues, which excludes $10.2 million in one-time revenues, amounts to $47.5 million. Total General Fund expenditures amount to $57.4 million. Operating expenditures, which excludes one-time program costs, projects and transfers, amounts to $47.0 million.

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 $14.3 million has been dedicated to the funding of reserves and deficit fund balances. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, facilities' maintenance, park asset, contingency and emergency reserves. With the exception of the Park Asset Replacement Reserve, all General Fund reserve funds are funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels, transfers will be included in the FY 2012 budget. Reserve Analysis recommendations include:

Contribute $121,410 to the Emergency Reserve

- A contribution of $121,410 to the General Fund emergency reserve to maintain the 9% target reserve level.

General Liability charges increase by $400,000

- An increase of $400,000 in General Liability charges to a total of $1.6 million Based on premium increases and anticipated retrospective liability assessment for past claims.

- Maintain the existing worker's compensation rates and refund $300,000 to the contributing funds in FY 2012.

- A transfer of $100,000 from the General Fund to the Accrued Leave Reserve in FY 2012.

- Transfer $60,000 to the Facilities Maintenance reserve in FY 2012 to maintain the reserve level set by fiscal policy.

Transfer $1.0 million to Park Asset Reserve

- Transfer $1.0 million from the proceeds of the Target land sale to Park Asset Reserve to reach the $1.2 million target reserve level.

General Fund Transfers

Transfers total $1.1 million

For FY 2012, transfers total $1.1 million and include $734,260 for the Street Improvement Program, $215,000 for debt and operational support of the Negocio building, $80,000 in reserve contributions, $16,000 for the Senior Mobility subsidy and $52,220 for low income subsidies.

Annual contributions to the Street Improvement Program are included in the forecast

Street Improvement Program: The Street Improvement Program originally intended that bonds would be issued in 1997 and would mature in 2013 for a total eighteen year program. However, the bonds were actually sold in 1996 and mature in 2011, resulting in a sixteen year program. The Street Assessment District 95-1 will expire in late 2011, along with the associated commitment of General Fund and Gas Tax transfers unless City Council approves continuation of the transfers. For forecast purposes, annual contributions to the Street Improvement Program are included in each year of the forecast.

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.

RDA debt is $2.0 million

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 $2.0 million. This debt will be retired in FY 2019.

Golf Operating Fund debt is $394,000

The General Fund also provided loans totaling $984,000 to the Golf Operating Fund between fiscal years 2003 and 2006. The Golf Operating Fund repaid $590,000 of the outstanding balance through June 30, 2010 and will continue to make annual principal reductions of approximately $260,000 until the $394,000 balance is repaid or an external loan is obtained to finance the remaining balance of the clubhouse construction costs.

Financial Trend Analysis

Only 11 out of 21 indicators are favorable as of June 30, 2010

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, 2010 indicates a continuing decline and only 11 out of 21 indicators are favorable as compared to 12 out of 21 last year. Two indicators received a warning rating, four received a favorable/caution rating and four indicators received an unfavorable rating. In total, these current year results are a decrease from the prior year when three indicators received a Warning rating, three received Favorable/Caution ratings and three were Unfavorable. 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 future fiscal health of the City. As a result, the City's 2011 budget reflects a number of changes designed to reverse all negative trends.

There were four trend changes from the last fiscal year; three in the negative direction and one in a positive direction.

"Unfavorable" rating has been assigned to revenues per capita and property values

Revenues per capita: This indicator has changed from a *favorable/caution* to an *unfavorable* rating due to the third consecutive year of decreases.

Property tax values: This indicator has changed from a *warning* to an *unfavorable* rating due to a negative growth rate for secured values during the last year. This is due to the economic downturn in the housing market.

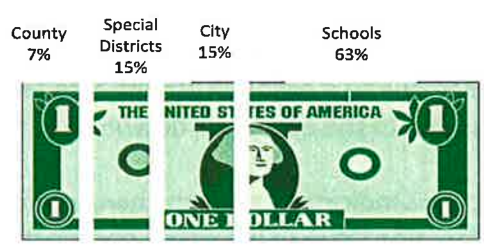
Fringe Benefits: This indicator has been changed from *favorable* to *favorable/caution* rating due to increased benefit costs as a percentage of frozen salaries. Fringe benefits increased in FY 2010 to 38.7% of salaries and wages due to an increase in retirement contribution percentage, SDI and medical costs; while salaries remained frozen for the second consecutive year.

License and Permit Revenues: This indicator has changed from an *unfavorable* to a *favorable/caution* rating due to an increase in revenue from the prior year. Increase in licenses and permits are due to construction on projects that were previously suspended. These increases may only last another year and may never recover to what was experienced in fiscal years 2006 through 2008.

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

Indicator	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*
Revenues Per Capita	**U**	F/C	F/C	F	F/C	F/C	W	W	F	F
Property Tax Revenues	**W**	W	F/C	F	F	F	F	F	F	F
Property Values	**U**	W	F/C	F	F	F	F	F	F	F
Elastic Revenues	**W**	W	W	W	F/C	F	F	F	F	F
Sales Tax Revenues	**U**	U	F/C	F	F	F	F	F	F	F
Licenses & Permits	**F/C**	U	U	W	F	F/C	F	F	F	F
Comm. Develop. Charges	**U**	U	U	W	F/C	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/C**	F/C	F	F	F	F	F	F	F	F
Population	**F**	F	F	F	F	F	F	F/C	F	F
Expenditures Per Capita	**F**	F	F	F	F/C	F	F	F	F/C	F
Expenditures by Function	**F**	F	F	F	F	F	F/C	F/C	N/A	N/A
Employees Per Capita	**F**	F	F	F	F	F	F	F	F	F
Fringe Benefits	**F/C**	F	F	F	F	F	F/C	F	F	F
Capital Outlay	**F**	F	F	F	F	F	F	F	F	F
Operating Positions	**F/C**	F/C	F	F	F	F	F	F	F/C	F
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Compensated Absences	**F**	F	F	F	F	F	F	F	F	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 on the below table:



Debt options as a potential gap closing strategy

Debt Analysis and Closing Strategies

The City has a formal debt policy which provides guidance to the issuance and management of short-term and long-term debt issued by the City. The policy provides guidance to the City Council to ensure that debt does not exceed acceptable levels and risk.

Recommendations to the City's *Fiscal Policy*, specifically to address short-term and long-term debt, are included in the 2011 Long Term Financial Plan. The current policy statement allows the City to issue interfund loans to meet short-term cash flow needs. Short-term is defined as a period of one year or less. Recommended changes include a modification of the existing short-term debt policy for interfund loans to include language to require identification of a specific source of repayment from the borrowing fund. A recommendation to create a formal policy for long-term interfund loans is also recommended. Similar to the short-term loan policy, interfund loans are permitted only if a specific source of repayment is identified. Both short-term and long-term loans require City Council approval.

Estimated costs of debt issuance, as a potential gap closing strategy, are presented

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 (COP) 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 $19.2 million bond issue). For General Obligation (GO) bonds, the financed amount typically exceeds the capital project by 8% (e.g. $16 million project would result in a $17.3 million bond issue). The assumed interest rate is 5.08% and the terms equal 20 years.

The recycled water expansion project is eligible to obtain funding from the State Revolving Fund (SRF) loan program that has an approximate interest rate of 2.2%.

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.

Capital Project	Required Funding	Debt Issuance	Annual Debt Service
Beach restroom - COP	$2.5M	$3.0M	$242,000
Civic Center - COP	$9.0M	$10.8M	$873,000
Beach Club - COP	$1.5M	$1.8M	$145,000
USACE Sand Project - GO	$4.2M	$4.5M	$364,000

Capital Project	Required Funding	Debt Issuance	Annual Debt Service
Wayfinding Master Signs - GO	$1.9M	$2.3M	$182,000
Quiet Zone - COP	$3.4M	$4.1M	$331,000
Recycled Water Expansion - SRF	$12.3M	$12.3M	$778,600

The Debt Analysis presents borrowing alternatives but does not recommend the use of debt due to the negative impact to the City's General Fund operating position.

Capital projects and identified gap closing strategies

Gap Closing Strategies

The 2011 Capital Projects Analysis paper identifies funding requirements for the construction of major projects. Potential funding sources have been identified for the all of the capital projects.

The Beach Restrooms and Wayfinding Master Sign programs will be implemented over multiple years and suited to a pay-as-you-go funding approach by the General Fund and RDA Fund. The Ole Hanson Beach Club renovation project will require a commitment of General Fund money and will be programmed in the City's Capital Improvement Program budget.

The adaptive reuse of the Negocio building will continue to be delayed until more favorable market conditions exist to sell the City Hall site. The Quiet Zone Improvements will be funded through the match program with OCTA.

The USACE Sand Replenishment design phase can be funded with $100,000 from the unspent balance remaining from the feasibility study and from a $150,000 grant from the Department of Boats and Waterways. The initial sand replenishment portion of the project is not funded at this time.

The Recycled Water Expansion project is dependent upon Prop 50 funding and the loan from the State's Revolving Fund. Both components are necessary to proceed with this project. Staff should continue with the application process to fund the Recycled Water Expansion project through the State's Revolving Fund.

2011 forecast has been updated

Five Year Financial Forecast

The 2011 forecast has been updated with revised revenue, as well as decreases in operating expenditures through salary freezes and a hiring freeze. The forecast shows a positive operating position in the first three years and turns negative beginning in FY 2015. The forecast includes the known increases such as police and fire, as well as the forecast assumptions to maintain current level of services.

	2012	2013	2014	2015	2016
Operating receipts	$48.6	$50.0	$51.2	$52.3	$52.5
Operating disbursements	48.2	49.7	51.1	52.6	54.0
Projected surplus/deficit	$0.4	$0.3	$0.1	-$0.3	-$1.5

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

Revenues:

- Property taxes are projected to increase by 0.5% in FY 2012. Increases averaging 1.9% are included beginning in FY 2013. HdL Coren and Cone, the City's property tax advisors, produces the City's property tax projections.
- Sales taxes are projected to increase 3% per year based on Fullerton's Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily reduced by $540,000 due to the rehabilitation of the Ole Hanson Beach Club.
- A total of $2.9 million, set aside from the Target land sale, will temporarily subsidize the operation and maintenance of La Pata/Vista Hermosa Park beginning in 2012.
- The State shift of $2.2 million from the City's property taxes in FY 2010 is scheduled to be returned to the City, with interest, in FY 2013.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Eight vacant positions, currently unfunded in FY 2011, are not funded in the forecast.
- New Police positions – Police contract costs are increased based upon the Sheriff Department's five-year Strategic Plan. The Plan projects 2.1%, 1.5%, 3%, 3.1% and 1.4% increases to the contract costs. No new Police positions have been added.
- Fire Services costs –The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, as well as annual contributions to a station maintenance reserve and fleet replacement reserve. For forecast purposes, the contract is increased by 4.5% in each year of the forecast based upon OCFA's assumptions for the five year period. If budget reductions to OCFA's General Fund budget reduce contract charges, the changes will be implemented in the FY 2012 budget.
- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 1.7% beginning in FY 2012 and 2.1% the remaining four years.

- Retirement - Retirement rates are increased by 2% in FY 2012, with 1% increases thereafter.
- Medical – Medical rates are increased 6% per year throughout the forecast period based upon recommendations by CalPERS.
- Negocio Building – An annual transfer of $215,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building. City staff currently occupies the first floor and a portion of the second floor. The lease of the third floor and a portion of the second floor will reduce the transfer from $510,000 to $215,000. Continued efforts to lease the building and the old fire station at 1030 Calle Negocio will further reduce the need for this transfer.
- La Pata/Vista Hermosa Park – A net increase of $750,000 in operating expenditures has been included in the forecast beginning in 2012 for field and aquatic complex operation and maintenance. The cost is based upon operating scenarios presented by Beaches, Parks & Recreation in November 2009.
- 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 the target reserve level of 9% of operating expenditures.
- Reserves - For forecast purposes, $80,000 has been included in each year of the forecast for reserve transfers.
- PERS Unfunded liability - The City's unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system was paid in FY 2011 with a portion of the proceeds from the Target land sale. However, a payment of $200,000 is included in the forecast for FY 2012 to pay costs due to actuarial changes and CalPERS poor investment performance. This amount is subject to annual revisions.
- Capital Improvement Program – The forecast includes an average of $2.1 million in capital improvement projects. These projects are outlined in the FY 2011 budget.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2011 amounts to $734,260. The forecast assumes that the transfer will increase by 3% each year and continue throughout the forecast period.
- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 1% over budget and expenditures are projected to be 1.5% under budget.

Factors Not Included in the Forecast

- The forecast is based on the General Fund only.
- No new or enhanced programs.

- 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.

Forecasted operating position is positive in the first three years

Forecast Operating Position
Based on revised revenue and expenditure trends, the financial forecast predicts a positive operating position in first three years of the forecast period and a negative operating position in the last two years. 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

2011 Forecast Summary* (in millions)

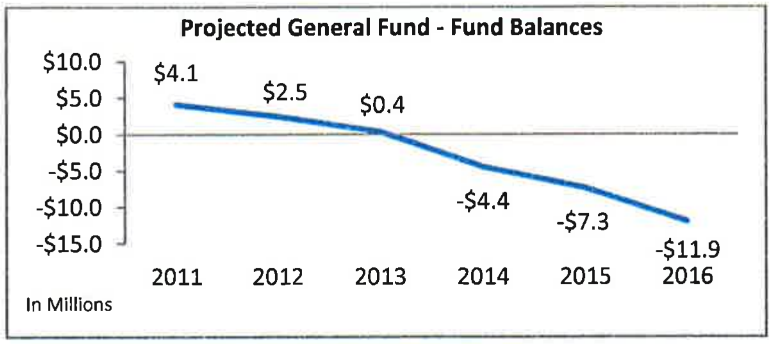
	2012	2013	2014	2015	2016
Operating receipts	$48.6	$50.0	$51.2	$52.3	$52.5
Operating disbursements	48.2	49.7	51.1	52.6	54.0
Projected surplus/deficit	$0.4	$0.3	$0.1	-$0.3	-$1.5

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

The City's five year forecast is a very conservative view of the City's future financial position. City revenues are anticipated to grow by 1.7% a year and expenditures are projected to grow by 3.5%, resulting in a negative operating position in FY 2015 and beyond. Expenditures increase an average of 4.0% in the first three years of the forecast period due to the addition of La Pata/Vista Hermosa operation and maintenance. With 50% of total General Fund revenues generated from property taxes, the City's five year forecast could improve if the economy recovers at a faster rate than currently anticipated.

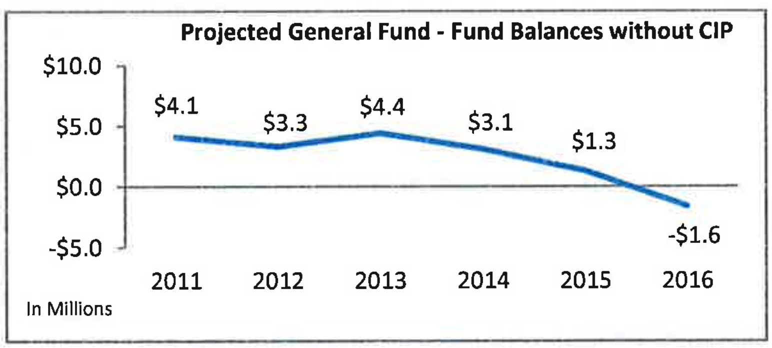
Fund Balances
Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. Fund balance should be used for one-time expenditures only. The forecast assumes an average of $2.1 million per year in capital projects. However, funding of capital projects is determined annually during the budget process and is dependent upon available funds.

The following chart illustrates projected unassigned fund balances in the General Fund for the 2011 Long Term Financial Plan forecast.



One-time expenditures and transfers plus a negative operating position beginning in FY 2015 reduce fund balance from a positive $4.1 million to a negative $11.9 million. The forecast assumes an average of $2.1 million per year in capital projects. However, funding of capital projects is determined annually during the budget process and is dependent upon available funds. Unassigned fund balance would not be allowed to go negative.

If capital projects are removed from the forecast, fund balance would improve.



Projected fund balances do not assume the use of the $10 million in sustainability reserve or 9% emergency reserve of $4.2 million.

Fund Balances

The City's fund balances include the Sustainability Fund Balance Reserve and the Emergency Reserve. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Emergency Reserve is currently funded at 9% of operating expenditures. Contributions to the reserve are included in the forecast to maintain the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

General Fund – Emergency & Sustainability Reserves (in millions)

	2012	2013	2014	2015	2016
Emergency	$4.4	$4.6	$4.7	$4.8	$4.9
Sustainability	10.0	10.0	10.0	10.0	10.0
Total Reserves	**$14.4**	**$14.6**	**$14.7**	**$14.8**	**$14.9**

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 2011 Financial Forecast projects a positive operating position in three of the five forecast years:

In millions	2011	2012	2013	2014	2015	2016
Forecast Operating Position	$0.5	$0.4	$0.3	$0.1	-$0.3	-$1.5

The following table outlines alternative options such as budget reductions, changes in forecast assumptions, revenue increases and operational reductions to improve the General Fund operating position.

x 1,000	2011	2012	2013	2014	2015	2016
Operating Revenue	**47,536**	**48,577**	**50,013**	**51,219**	**52,294**	**52,484**
Revenue Increases:						
Target opening[1]	0	75	300	306	312	319
One-time contribution for OHBC[2]	0	265	275	0	0	0
Revised Operating Revenue	**47,536**	**48,917**	**50,588**	**51,525**	**52,606**	**52,803**
Operating Expenditures	**46,998**	**48,225**	**49,676**	**51,116**	**52,597**	**53,972**
Forecast Assumptions:						
Increase GL charge[3]	0	131	2	2	2	2
Increase restroom maintenance[4]	0	0	0	25	25	25
Operating Reductions:						
Reduce transfer to SIP to $500,000 annually[5]	0	-234	-256	-279	-302	-311
Reduce major street maintenance by one-half[6]	0	-275	-275	-275	-275	-275
Reduce slurry seal by one-half[7]	0	-125	-125	-125	-125	-125
Revised Operating Expenditures	**46,998**	**47,722**	**49,022**	**50,464**	**51,922**	**53,288**
Revised Operating Position	**538**	**1,195**	**1,566**	**1,061**	**684**	**-485**

The options to improve the General Fund operating position will be discussed in more detail during the budget process.

Fund Balance

Recommendations from the Reserve Analysis, Beach and Park Restroom, Sidewalk and Facilities Rehabilitation and Maintenance papers include one-time funding in FY 2012. If approved, unassigned fund balances will be eliminated and would need to be funded with sustainability or emergency reserves in FY 2012. This is unlikely to occur due to modifications that will be

[1] Assumes Target opening in October 2011. Sales taxes are received two quarters in arrears.
[2] One-time contribution from fund balance to backfill lost revenue from the closure of the Ole Hanson Beach Club.
[3] 2010 Long Term Financial Plan Reserve paper recommends an increase in the General Liability charge to all City funds. For the General Fund, this increase amounts to $131,000 in FY 2012.
[4] Beach and Park Master Plan paper recommends an increase to on-going building maintenance.
[5] The annual transfer to the Street Improvement Program is included in each year of the forecast. Beginning in 1999, the transfer of $500,000 was increased annually by 3%.
[6] Major street maintenance is funded annually at $550,000. This option will reduce the funding level by one-half.
[7] The slurry seal program is funded annually at $250,000. This option will reduce the funding level by one-half.

made during the FY 2012 budget process to produce a balanced budget and an acceptable level of fund balance and reserves.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations
This section summarizes the recommendations contained in the 2011 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. Council Actions are included under the Recommendation section of each paper.

Financial Trend Analysis

1. None

Financial Forecast

1. To reduce the impact on operating position in the later years of the forecast, consider spreading the funds from the Target sale over the five year forecast period.

Reserve Analysis

1. Fund the General Fund Emergency Reserve to equal 9% of operating expenditures.
2. As part of the annual rate review and Golf Course Analysis paper take steps to maintain the emergency reserve at 8% of operating expense levels.
3. Maintain the Sustainability Fund Balance Reserve at $10 million.
4. Transfer $100,000 from the General Fund to the Accrued Leave Reserve for FY 2012.
5. The General Liability charges to the operating funds should increase from $1.2 million to $1.6 million based on premium increases and anticipated retrospective liability assessments for past claims.
6. Maintain the existing workers' compensation rates. Refund an amount of $300,000 from the Workers' Compensation fund to the applicable funds on a pro-rata basis in FY 2012.
7. Transfer $60,000 from the General Fund to the Facilities Maintenance Capital Asset Reserve for FY 2012.
8. Transfer $1.0 million from the Parks Acquisition and Development Fund to the Parks Asset Reserve to obtain compliance with the established $1.2 million threshold.

Fiscal Policy

It is recommended that the City's Fiscal Policy be modified to:

1. Add new language to require Council approval of exceptions to the use of one-time revenues for on going expenditures.
2. Include new language in the existing short-term debt policy to require a specified source of repayment from the borrowing fund.
3. Create a formal long-term inter-fund debt policy.
4. Separate the existing Emergency Reserve policy for the General Fund and the Enterprise Funds into two separate policy statements.

Capital Projects Analysis

1. Funding recommendations will come from the gap closing paper.

Street Improvement Program Update & Renewal

1. Staff recommends that the City Council direct staff to pursue planning for the renewal of the Street Improvement Assessment to maintain the integrity of the program.

Sidewalk Improvement Program

1. Provide direction to staff to pursue development of a comprehensive sidewalk policy and to include the cost in the proposed FY2012 budget.

Golf Fund Analysis

Staff recommends that City Council direct staff and the Golf Committee to:

1. Develop a fee increase for approval that averages approximately $1 per round effective July 1, 2011.
2. Approve a debt service amount of $158,500 for FY 2012 to repay the balance of the General Fund advances and pay interest only on the remaining $2.5 million note.
3. Consider alternative to amortize the $2.5 million note over a 15 year period, with annual debt service payments not to exceed $233,000 beginning in Fiscal Year 2013.

Beach and Park Restroom Master Plan

1. Include funding of $250,000 for phase one improvements for consideration during the FY 2012 budget process.
2. Prepare projects estimated at $2.3 million for phase two improvements for consideration in the FY 2013 CIP budget.
3. Consider increasing the annual funding of beach restroom maintenance by 25,000 in FY 2014 and years forward for maintenance of improvements.

Facilities Rehabilitation and Maintenance

1. Include $1.5 million for the Ole Hanson Beach Clubhouse rehabilitation as a CIP project for City Council consideration during the FY 2012 budget process.
2. Direct staff to continue further investigation and structural analysis of City facilities and develop a strategic programmed plan of facility rehabilitation and building maintenance.

Revenue Update

1. Direct staff to revise the commercial filming permit fees as a part of the FY 2012 budget process.

Revenue Enhancements

Staff recommends that City Council directs staff to further investigate and include in the 2012 budget:

1. Expand beach and park rentals, including private party rentals, beach amenities and wedding sites and permits.
2. Expand and standardize the hours of operation of parking meters
3. Meet with local residents to discuss expanding the number of metered spaces at T-Street and install modern pay stations.
4. Meet with local residents to discuss adding parking meters to minor beach access points.
5. Enhance the promotion of the still photography, film and video program.

Americans with Disabilities Act

1. None

Debt Analysis

1. None

Gap Closing Strategies

1. Fund the Beach Restroom Master Plan on a "pay-as-you-go" basis from the General Fund and RDA Fund.
2. Delay the Civic Center project until the sale of the City Hall site.
3. Fund the Ole Hanson Beach Club renovation from the General Fund and include the project in the Capital Improvement Program budget.
4. Fund the design phase of the USACE Sand Replenishment project from the feasibility project balance and $150,000 from a Department of Boats and Waterways grant.
5. Fund the Wayfinding Master Sign program on a "pay-as-you-go" basis from the General Fund.

6. Fund the Quiet Zone Improvements through the OCTA matching program.
7. Fund the Recycled Water Expansion through a State Revolving Fund loan.

Financial Trend Analysis

Objective

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

Background

The City's financial trends are analyzed annually with many factors utilized in order to understand the financial condition of the City of San Clemente. These factors include:

- The economic condition of the City and the surrounding region;
- Types and amounts of revenues and whether they are sufficient and the right mix to support the population as it continues to grow;
- Expenditure levels and whether these expenditures are sufficient to provide the desired level of services currently and as the City continues to grow;
- Fund balances and debt levels and their impact upon current City financial resources.

This report examines these issues and others in determining the current financial condition of the City of San Clemente. The City's adopted fiscal policies have been considered in connection with this analysis.

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal years FY 2006 through FY 2010. Consequently, all trends are based on data available as of June 30, 2010, 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.
Favorable (Caution) (C):	This Favorable caution 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	11	10	09	08	07	06	05	04	03	02
Revenues Per Capita	U	F/C	F/C	F	F/C	F/C	W	W	F	F
Property Tax Revenues	W	W	F/C	F	F	F	F	F	F	F
Property Values	U	W	F/C	F	F	F	F	F	F	F
Elastic Revenues	W	W	W	W	F/C	F	F	F	F	F
Sales Tax Revenues	U	U	F/C	F	F	F	F	F	F	F
License & Permit Revenues	F/C	U	U	W	F	F/C	F	F	F	F
Comm. Develop. Charges	U	U	U	W	F/C	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/C	F/C	F	F	F	F	F	F	F	F
Population	F	F	F	F	F	F	F	F/C	F	F
Expenditures Per Capita	F	F	F	F	F/C	F	F	F	F/C	F
Expenditures By Function	F	F	F	F	F	F	F/C	F/C	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	F/C	F	F	F	F	F	F/C	F	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F/C	F/C	F	F	F	F	F	F	F/C	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F	F	F	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 2011 Long Term Financial Plan includes the analysis of twenty-one trends. Two indicators received a Warning rating, four received a Favorable/Caution rating and four indicators received an Unfavorable rating. In total, these current year results represent a decrease in ratings from the prior year when three indicators received a Warning rating, three received Favorable/Caution ratings and three were Unfavorable. 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 address these Warning and Unfavorable signs to improve the fiscal health of the City for the future. As a result, the City's 2011 budget reflects a number of changes designed to reverse all negative trends.

Rating changes

There were four trend changes from the last fiscal year; three in a negative direction and one in a positive direction.

The negative changes were:

- *Revenues Per Capita* – Downgrade to Unfavorable
- *Property Values* – Downgrade to Unfavorable
- *Fringe Benefits* – Downgrade to Favorable/Caution

The positive change was:

- *License and Permit Revenues* – Increased to Favorable/Caution

Rating discussion

The two indicators at a warning level, four at the favorable/caution level and four at an unfavorable level reflect the economic impact on the City as it transitions from a fast growing, high development area and as the City continues to suffer from the effects of the current economic environment. The City has also been impacted by State borrowing or taking away revenues in the past year.

Revenues per Capita has changed from a Favorable/Caution to an Unfavorable rating due to the third consecutive year of decreases.

Property tax revenues remain a Warning rating, as the decrease of $2.5 million is due mainly to a $2.2 million borrowing from the State to address the State budget.

Property Values has changed from a Warning to an Unfavorable rating due to a negative growth rate for secured values during the last year. This is due to the economic downturn in the housing market, and the City will most likely see more reductions in the near future, as property values continue to decline.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues receive a Warning rating for the fourth year in a row due to ongoing decreases in revenues that make up these categories. This trend showed the first increase in the last five years; however, it is the fifth year below the historical average. Sales taxes decreased substantially between FY 2009 and FY 2010 due to the economic recession in which consumers continue to restrict spending; as well as a reduction of $200,000 for Triple-flip payments. Due to this decline, Sales Tax is unfavorable.

Licenses and Permits increased from FY 2009 to FY 2010 in business licenses and construction permits. This trend has changed from an Unfavorable to a Favorable/Caution rating, due to this increase over the prior year. Increases in licenses and permits are due to construction on projects that were previously suspended. Therefore, these increases may only last another year and may never recover to what was experienced in fiscal years 2006 through 2008.

Community Development Service Charges also receives an Unfavorable rating because although these revenues have increased due to Marblehead Coastal construction and the Target land purchase, there is still a continuing decline in development as the City nears build-out.

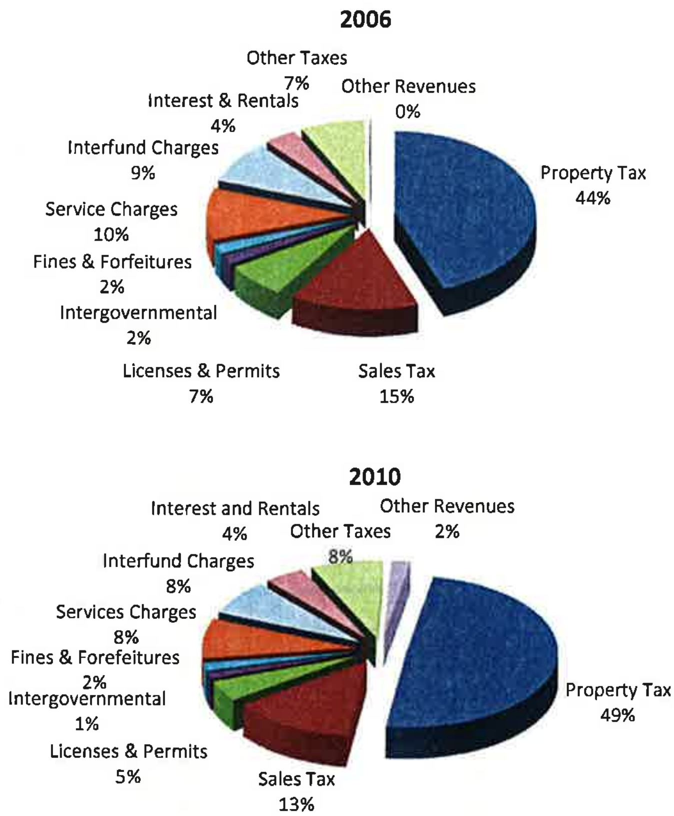
Fringe Benefits increased in FY 2010 to 43.7% of salaries and wages. This increase was due to an increase in the retirement contribution percentage, SDI and medical costs; while salaries remained unchanged for the second consecutive year. This trend changed from a Favorable to a Favorable/Caution rating due to these increased benefit costs as a percentage of frozen salaries.

Operating Position has decreased by 4.07% from the prior year to a $1.4 million deficit. However, when considering the State borrowing of $2.2 million in property taxes for fiscal year 2010, the operating position is at a surplus $0.8 million. A Favorable/Caution rating remains, as the State borrowing is the main cause of this deficit.

The City has taken action in the trends that received an Unfavorable rating. This was initiated in the fiscal year 2007. The City Council reviewed planning, building and engineering activity and made changes to the fee structure to better address the needs of the community. Costs were decreased in the Building and Planning departments based on the lower activity levels by freezing unfilled positions that have been vacated. Currently, the City has increased parking fee rates and added more parking meters to the beach areas. The City also continues to review the budget annually at a department level for any expenditure savings.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2006 vs. FY 2010

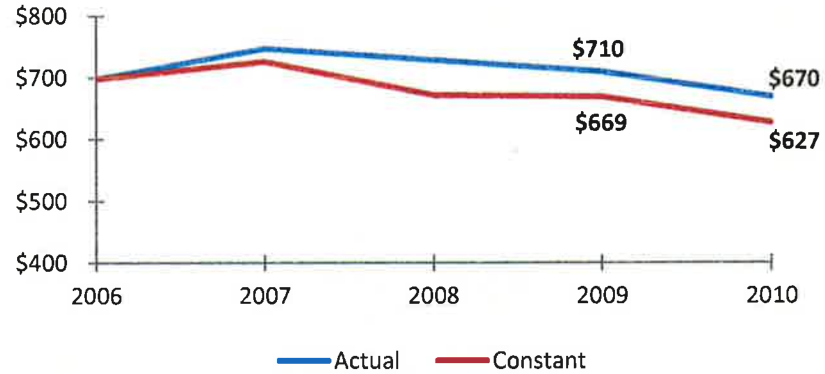


Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property Tax, Sales Tax, Licenses and Permits, Service Charges, and Other Revenue categories. Property tax revenues, as a percent of general fund revenues, increased from 44% in FY 2006 to 49% in FY 2010 due to a change in property tax legislation that started in the 2005 fiscal year, new development in the City and housing price increases. The change in legislation increased property taxes by $4.9 million and decreased the City's motor vehicle license fees by the same amount. [1] Sales tax decreased from 15% in FY 2006 to 13% in FY 2010 due to a decrease in consumer spending as a result of the economy. The decrease in licenses and permits from 7% in FY 2006 to 5% in FY 2010 is due to declining construction permit fees as anticipated. Service Charges have also decreased from 10% in FY 2006 to 8% in FY 2010 due to significant reductions in plan check and construction inspection fees.

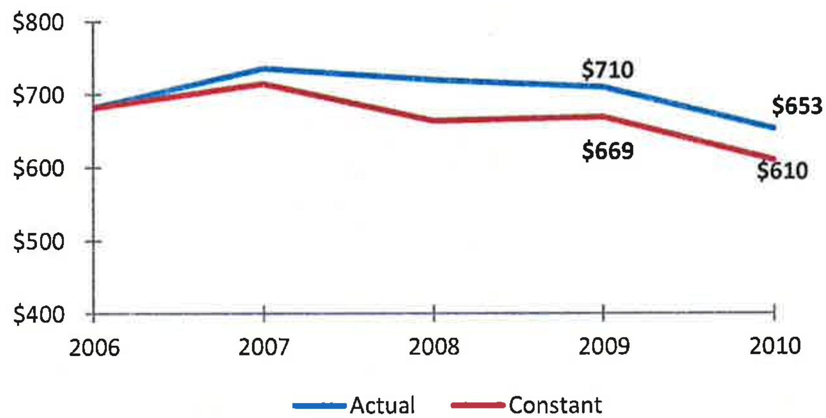
[1] See "Attachment A" at the end of the Trend section.

Revenues Per Capita

REVENUES PER CAPITA
Operating Revenues *Including* One-Time Revenues
Actual and 2006 Constant Dollars
General Fund



REVENUES PER CAPITA
Operating Revenues *Excluding* One-Time Revenues
Actual and 2006 Constant Dollars
General Fund



Finding: ***Unfavorable***. Revenues per capita in both charts reflect a decrease when analyzing actual amounts and constant dollars for FY 2010. This trend has changed from a Favorable/Caution to an Unfavorable rating due to the declines over the last three years. Revenues per capita, in actual dollars, experienced a decline from FY 2009 of 5% (including one-time revenues) and 8% (excluding one-time revenues) related to decreases in Property Tax, Sales Tax, Fines and Forfeitures, and Interest and Rents. In constant dollars the decrease was 6%, when including one-time revenues and 9% when excluding one-time revenues.

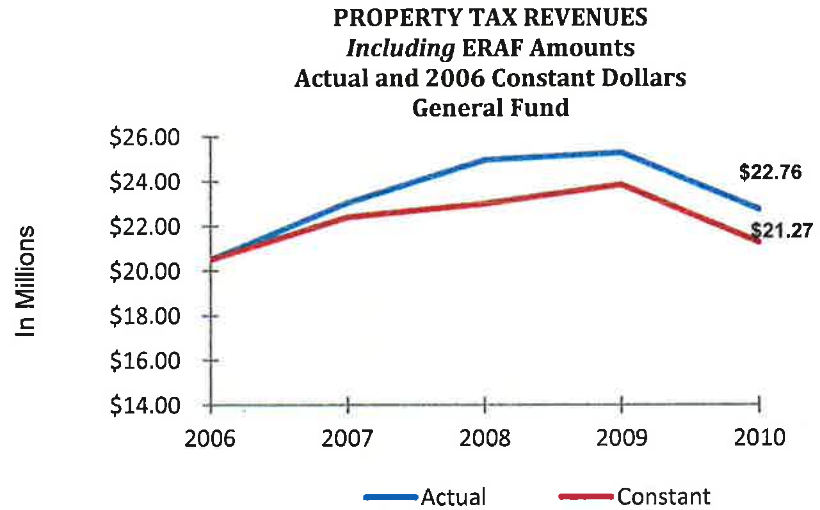
The consumer price index increased from the prior year and shows a positive inflation rate of 0.88%. The population of the City has also increased by approximately 2,500 from FY 2006. Because population is used as a denominator in the calculation of revenues per capita, this also has had a slight impact on its decline over the past five years.

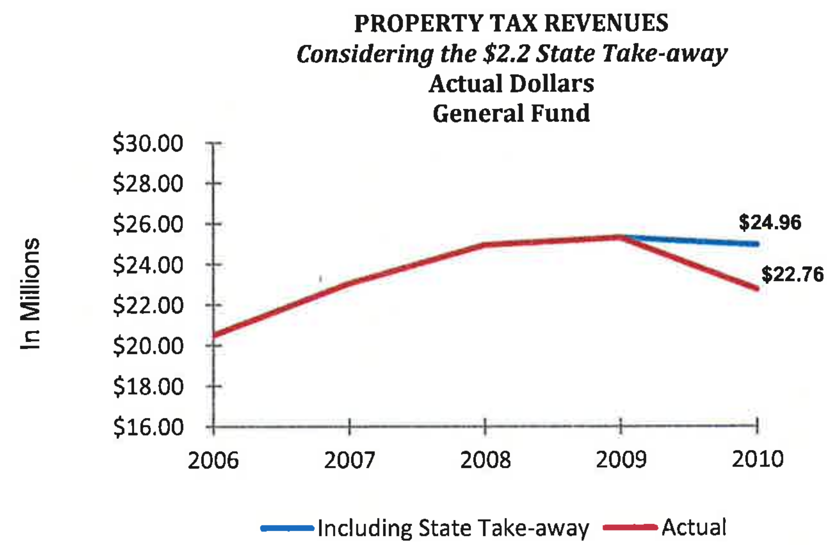
Comments: The first chart (which includes one-time revenues) shows a downward trend from $710 to $670 in actual dollars and a decrease from $669 to $627 in constant dollars. Total revenues for fiscal year 2010 decreased by $2.4 million. The revenue categories with the most significant decreases include Property Taxes (10%), Sales Tax (11%), Fines and Forfeitures (21%), and Interest and Rents (13%).

The second chart (which excludes one-time revenues) shows a decrease in actual dollars from $710 to $653 and a decrease in constant dollars from $669 to $610. 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 in accordance with the City's Fiscal Policy. General Fund revenues are declining for the third year; and, therefore, receive an Unfavorable rating.

Property Tax decreases were $2.5 million, of which $2.2 million was from a State borrowing. Sales Tax decreases were $0.7 million due to economic factors. These categories are discussed in detail in the following sections. Fines and Forfeitures decreased by $0.2 million related to a reduction in the amount of tickets issued due to a vacant Community Services Officer position. And low interest rates on investments decreased the interest and rents category by $0.3 million.

Property Tax Revenues



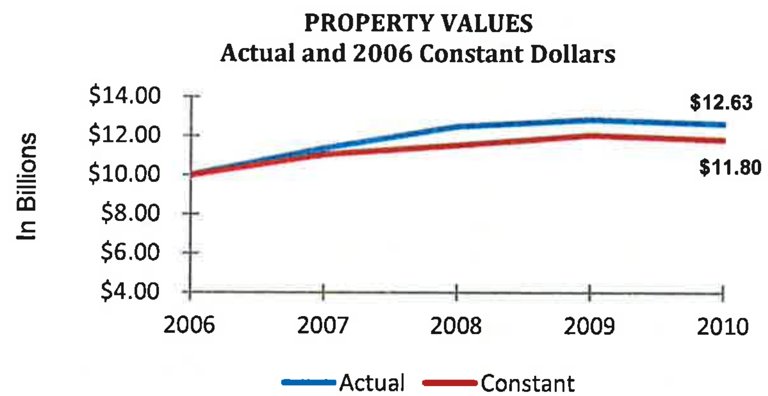


Finding: ***Warning.*** Property tax revenues show a significant decrease for FY 2010. This decrease is due to lower property tax receipts, but mostly a State borrowing of Property tax from the City in FY 2010.

Comments: The first chart shows property tax revenues declining by $2.5 million or 10% in actual dollars, and 11% in constant dollars ending the year $2.6 million below the prior fiscal year. The actual dollar decrease is the result of a $0.3 million decrease in property tax receipts as a result of property valuation declines from short sale and foreclosure activity and a State borrowing of $2.2 million of City property taxes to address the State budget.

The second chart considers the effect of the State borrowings on the City's property tax. If the State had not borrowed money in the form of property taxes in FY 2010, property tax would have remained relatively flat at $2.5 million. This indicator has remained a Warning rating because this decrease over the past year is mainly due to a State borrowing and otherwise would have remained stable.

Property Values



Finding: ***Unfavorable***. Property values showed a negative growth rate for the first time in FY 2010.

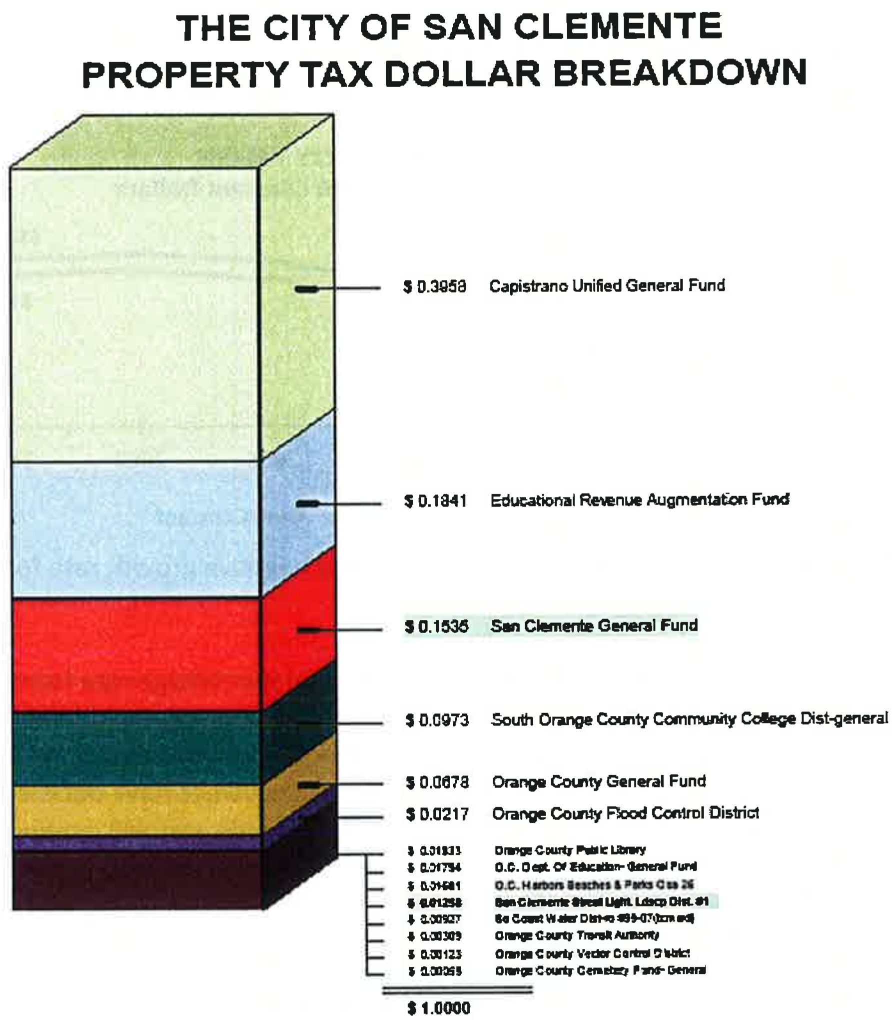
Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars was negative 1.62%. This indicator has been changed from Warning to an Unfavorable rating due to the rapid decline in the growth rate as seen in the chart below. Due to the housing bubble and the economy, property tax values have declined rapidly and the City will see the effect of this decline in future years. This indicator will continue to be closely monitored due to the significant impact in property tax revenues on the City's General Fund. The chart below shows the percentage change in secured values for the past ten tax years based on 2010 Property Tax Data.

City of San Clemente
Assesed Value History
(In Thousands)

Tax Year	Secured Values	% Change
2001	$5,021,140	12.01%
2002	$5,749,544	14.50%
2003	$6,670,544	15.86%
2004	$7,353,148	12.98%
2005	$8,528,143	13.19%
2006	$9,762,930	14.61%
2007	$11,106,184	13.76%
2008	$12,248,078	10.28%
2009	$12,582,840	2.73%
2010	$12,379,602	-1.62%

Source: HDL Coren & Cone Reports 2010

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.



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

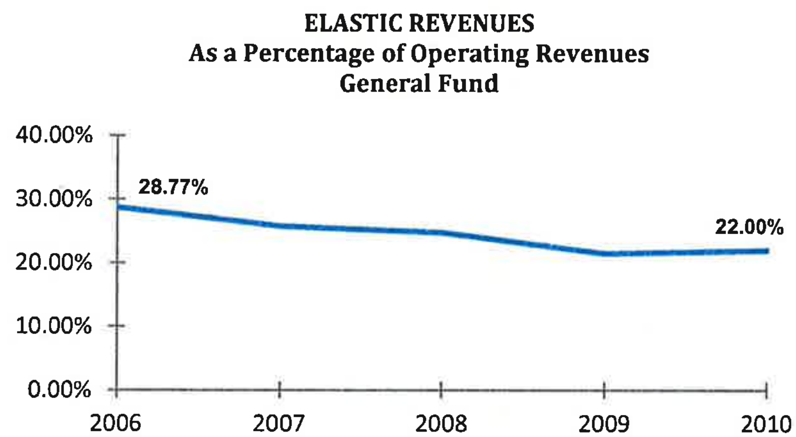
Data Source: Orange County Assessor 2009/10 Annual Tax Increment Tables Prepared On 8/10/2010 By NEC

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)

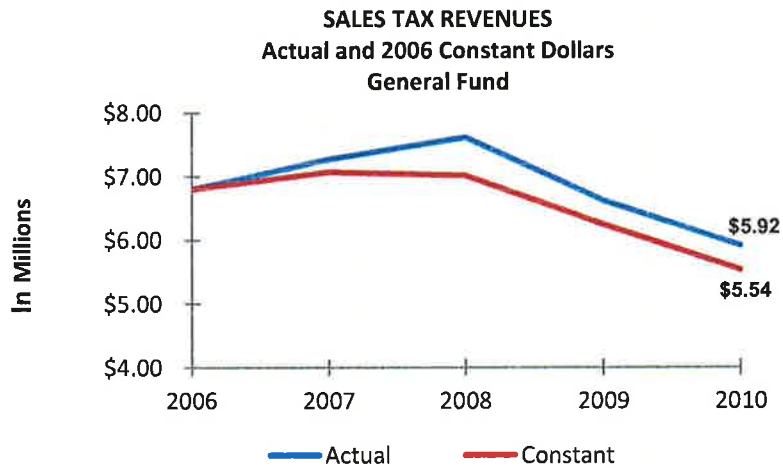


Finding: ***Warning.*** Elastic revenues are revenues that are highly responsive to changes in the economy and inflation. The City has defined Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges as Elastic revenue, because these revenues are the most sensitive to change.

Elastic revenues, as a percentage of total revenues, show a slight increase from FY 2009 to FY 2010 which is the first increase in the last five years. Actual elastic revenues decreased $0.3 million, while operating revenues decreased by $2.6 million. A Warning rating remains because, while licenses and permits have increased over the prior year, there was a decrease in revenue of $704,000 in the Sales Tax category.

Comments: Elastic revenues, as a percentage of total revenues, increased from 21.49% in FY 2009 to 22.00% in FY 2010. This is still below the historical average of 31.0% from FY 1996 to FY 2000 before significant development occurred in the City. The largest decline in dollars in elastic revenues was in Sales Taxes. The decline in Sales Tax was $704,000, or 11%. A Warning rating remains because of sales tax being unfavorable and other revenues receive a warning rating.

Sales Tax Revenues

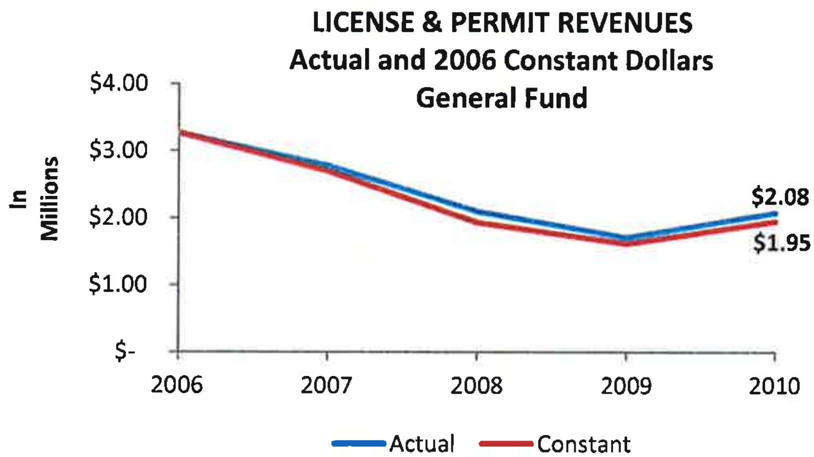


Finding: ***Unfavorable.*** As summarized in the chart above, sales tax revenues showed a decrease of $704,000, or 11% in actual dollars over the prior fiscal year. In constant dollars, the decrease amounted to $712,000, or 11% for FY 2010. The inflation rate during this period was a 0.88%.

Comments: As summarized in the chart, sales tax revenues have declined for the second consecutive year in actual and constant dollars. This decline is due to the economic recession which consumers are continuing to restrict spending; as well as, $200,000 owed to the City related to the Triple-Flip payments. Because of this decline and the unpredictability as to further decline due to the economic recession, this indicator remains Unfavorable. City of San Clemente sales taxes are currently ranked 21st out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed.

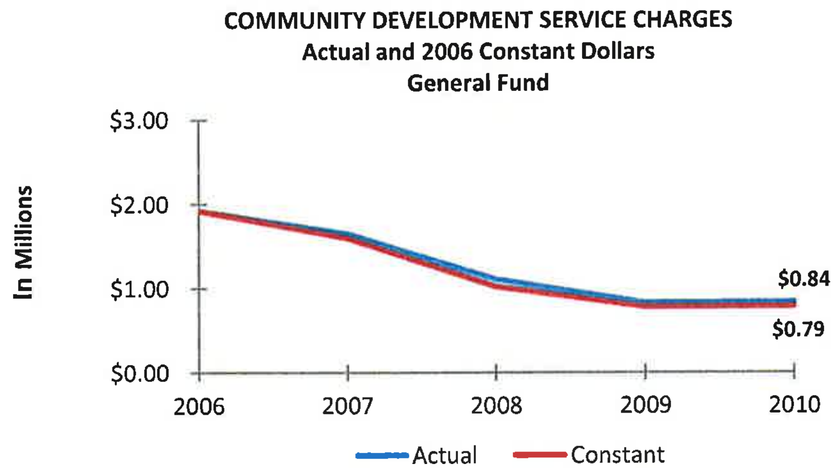
License and Permit Revenues



Finding: ***FAVORABLE/CAUTION.*** License and permit revenues increased in actual dollars in the amount of $370,000 or 22% from the prior fiscal year. The constant dollar increase was $331,000 or 21% from FY 2009. This indicator was changed from Unfavorable to a Favorable/Caution rating due to this increase over the prior year.

Comments: Construction permit revenue increased $209,000, or 29% over the past year, and business license income increased from the prior year by $130,000 or 16%. A Favorable/Caution rating has been assigned due to this being the first year of increase in this five year trend period. Increases in this trend are due to construction on projects that were previously suspended; therefore, these increases may only last through another year and may not recover to what was experienced in fiscal years 2006 through 2008.

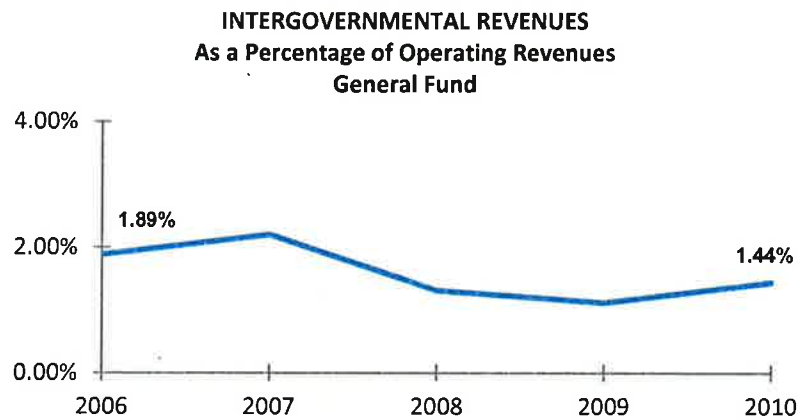
Community Development Service Charges Revenues



Finding: ***Unfavorable.*** Total community development service charges increased by 2%, or $17,750 from the prior year. Although minor, this represents the first increase over the five year period. This trend remains an Unfavorable rating as development has leveled out and showed a very small increase for the current year.

Comments: This trend remains Unfavorable because, although there were increases in construction administration, building plan check, and construction inspection fees, they were almost totally offset by decreases in improvement plan check fees, and other planning service fees as the City nears build-out. Community development service charges will need to see an increase over the next two years to receive a positive rating.

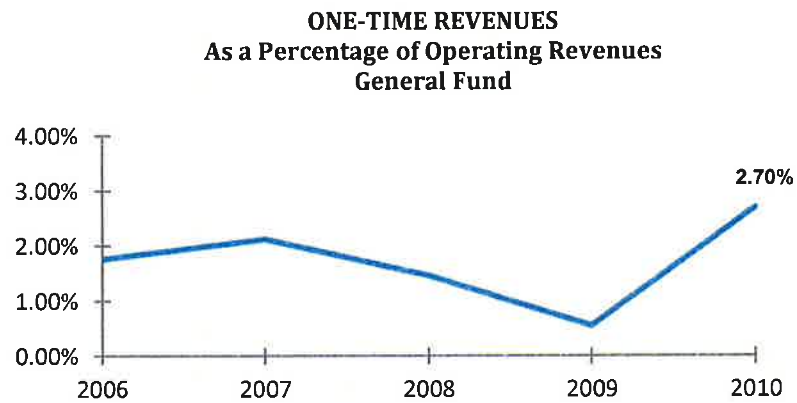
Intergovernmental Revenues



Finding: ***FAVORABLE***. General Fund Intergovernmental revenues, as a percentage of operating revenues increased to 1.44% in FY 2010.

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 second largest intergovernmental revenue is Motor Vehicle tax at 31%. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City started to receive property tax dollars in-lieu of the motor vehicle fees in FY 2005. Once this change was adjusted for, it shows that motor vehicle fees received as in-lieu property taxes totaled $5.2 million and the intergovernmental percentages were 12.1% in FY 2009 and 12.8% in FY 2010, which still supports the Favorable rating.

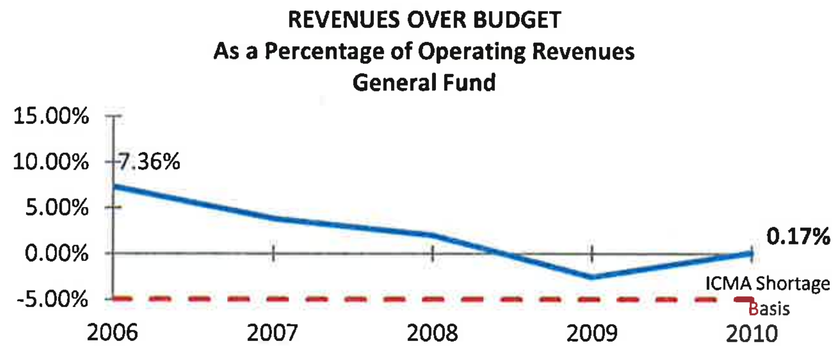
One-Time Revenues



Finding: ***Favorable.*** One-time revenues, as a percentage of total General Fund revenues, equaled 2.70% in FY 2010, a large increase from the prior year.

Comments: One-time revenues increased by $978,000 from the prior fiscal year. FY 2010 one-time revenues of $1.2 million include $298,000 of grant funds and $949,000 from miscellaneous reimbursements; which is due to $602,000 received from a recovery of legal costs. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditures. Therefore, this indicator continues with a Favorable rating.

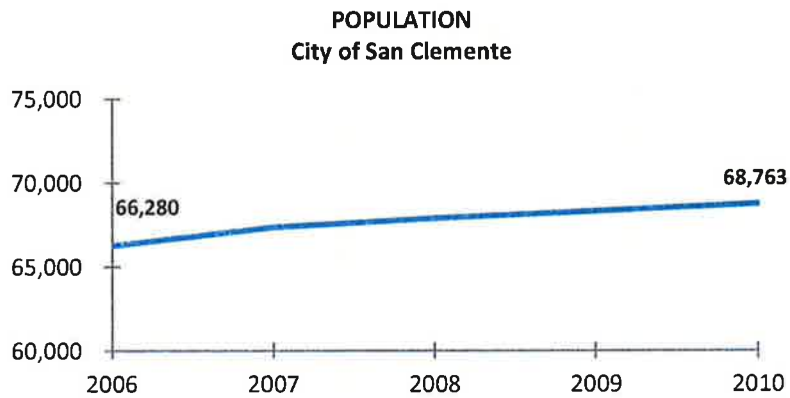
Revenue Overage



Finding: ***Favorable/Caution***. Actual revenues were greater than the adjusted budget by $78,000 for FY 2010 and ends with a positive revenue position of 0.17%. The City experienced revenues over budget in the permits and fees ($410,250) and service charges ($51,235) categories; however shortages, based on the adjusted budget, were seen in taxes ($180,466) and fines and forfeitures ($196,330). This trend remains a Favorable/Caution because of its low positive position and continues to be monitored for the future.

Comments: This trend began the five-year analysis with a positive revenue position of 7.36% and ended FY 2010 at 0.17%. The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues.

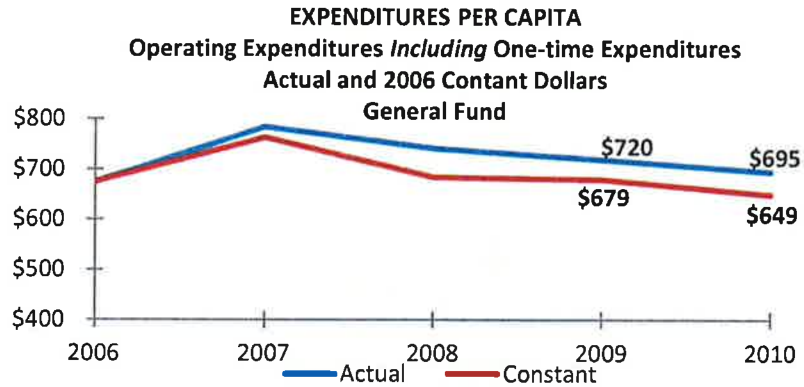
Population

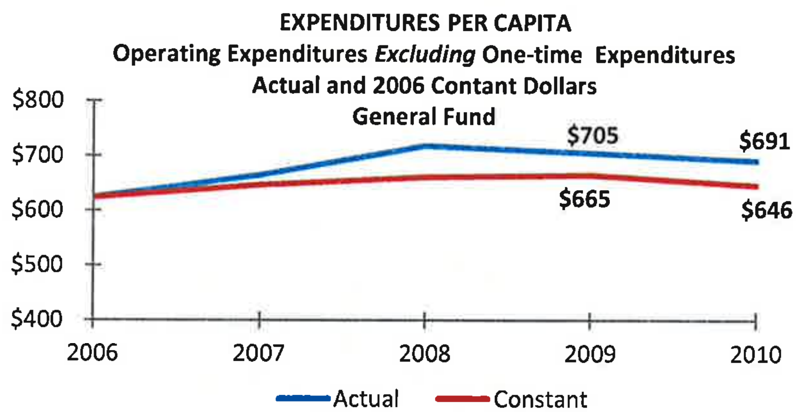


Finding: ***Favorable***. The City's population has grown an average of 1.09% over the last five years. This rate of growth is considered Favorable because this growth has been planned and controlled. Growth from FY 2009 to FY 2010 was 0.65%, which indicates slowing growth, as Talega is near build-out, and the growth that the City experienced previously can be accommodated.

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. Increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.). 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, the level of business activity grows along with the increase in residential development, and growth does not strain the sewer system capacity, traffic circulation, and off-street parking.

Expenditures Trend Analysis



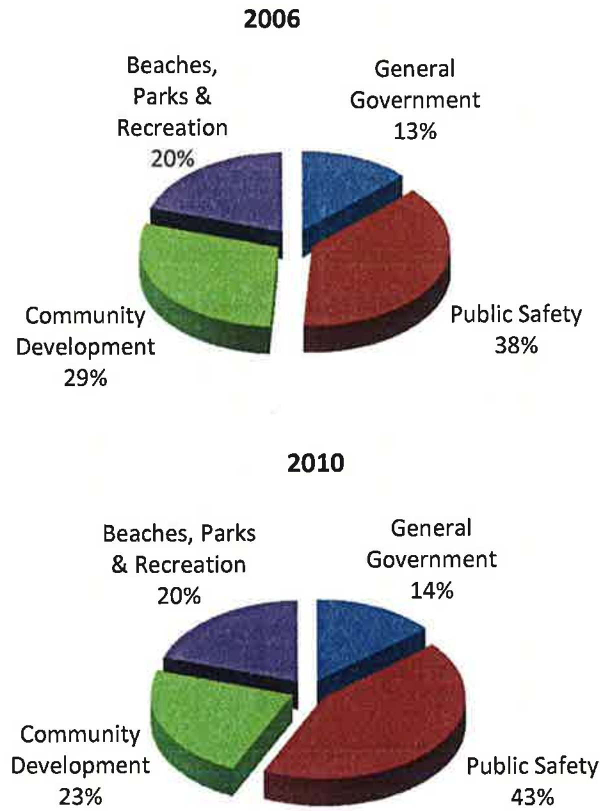


Finding: ***Favorable***. Expenditures per capita in the first and second charts reflect a decrease when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. Changes in per capita expenditures reflect the changes in expenditures relative to changes in the population. The City is experiencing decreases in expenditures as the population is increasing; therefore, there is a slight decrease in per capita expenditures. This trend receives a Favorable rating due to per capita expenditures remaining level as the City has shown cost discipline.

Comments: The first chart which includes one-time expenditures shows a decrease from $720 to $695 in per capita actual dollars and a decrease from $679 to $649 in per capita constant dollars. This reflects the decrease in actual dollars of $1.4 million and the decrease in constant dollars of $1.7 million when compared to FY 2009. The decrease in actual dollars was in City General ($2.3 million) and Beaches, Parks & Recreation ($0.4 million). The decrease in City General is due to a decrease in transfers of $1.9 million from FY 2009 to FY 2010. Beaches, Parks & Recreation decreased contractual services in FY 2010.

The second chart (which excludes one-time expenditures) shows a decrease in actual dollars from $705 to $691 and a decrease in constant dollars from $665 to $646.

Comparison of Expenditures by Function
FY 2006 vs. FY 2010

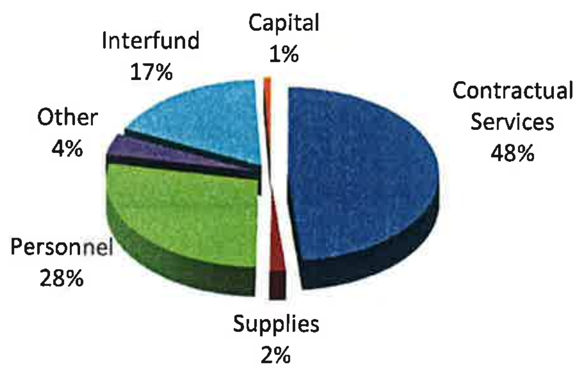


Finding: ***Favorable.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) show changes in the allocation of resources from FY 2006 to FY 2010. These charts indicate that there is a large fluctuation in the community development and public safety categories with an increase of 5% in public safety and a decrease of 6% in community development expenditures.

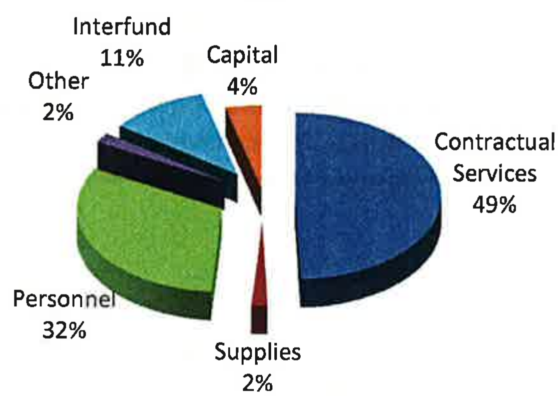
Comments: The community development decrease is a result of the slowing of development and the related decrease in costs for building inspection and plan reviews. Public Safety increased from 38% in FY 2006 to 43% in FY 2010 due to contractual increases with Orange County Fire Authority (OCFA) and Orange County Sheriffs Department (OCSD). These increases are mainly due to cost of living and pension increases and increased contract staffing. Overall, the changes were expected as the City's population grew and major development has slowed.

Comparison of Expenditures by Category
FY 2006 vs. FY 2010

2006



2010



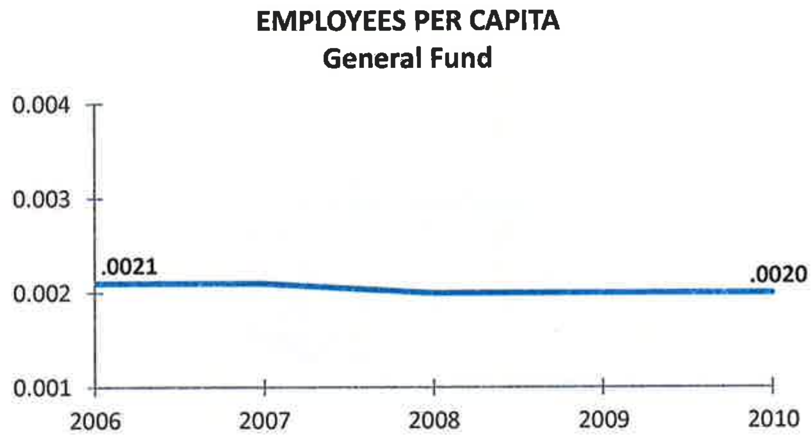
Comments: The charts above indicate that the Personnel, Interfund, and Capital expenditure categories, as a percentage of the total General Fund expenditures, changed significantly between FY 2006 and FY 2010.

The personnel category has changed from 28% to 32%, which reflects an increase in staffing levels and increases in salary and benefit costs.

Interfund amounts have decreased by 6% due to a decrease in interfund transfers of 69% from FY 2006 to FY 2010. A one-time transfer of $3.4 million in FY 2006 was completed from the General fund to the General Liability fund to fund reserves.

The capital category increased from 0.81% to 4.04% of expenditures due to an increase in capital improvement project activity and moving of contractual maintenance projects from the contractual category to capital outlay in FY 2008. FY 2010 projects included $0.76 million for major street maintenance and slurry seal programs and $0.53 million for one-time studies/costs.

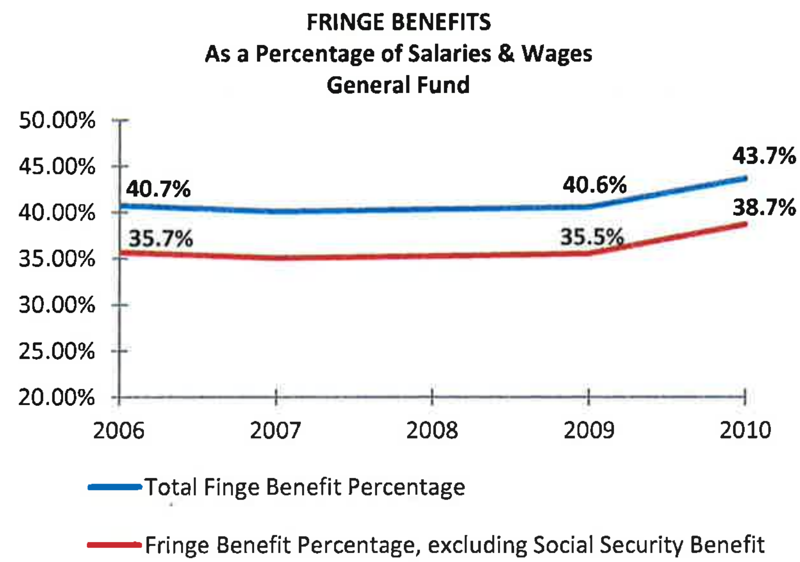
Employees per Capita



Finding: ***Favorable.*** Employees per capita have remained relatively stable over the last five years.

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.

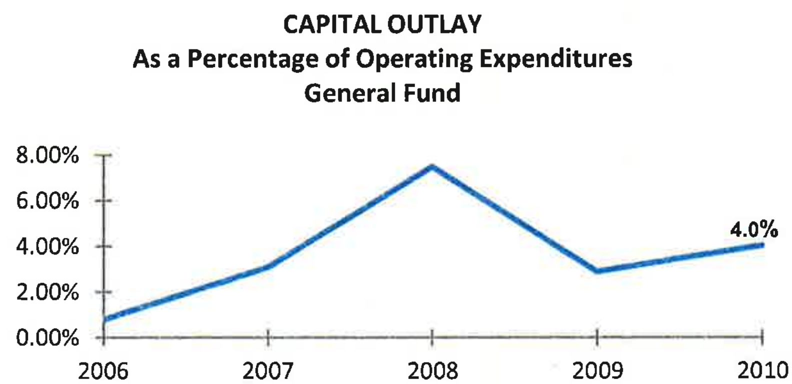
Fringe Benefits



Finding: ***FAVORABLE/CAUTION.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 40.6% to 43.7%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2009.

Comments: The largest component of the benefit percentage is the contribution to the City's defined benefit retirement program. The retirement contribution percentage, as a percent of salaries increased from the prior year. In addition, SDI and medical costs increased while salaries remained frozen for the past two years. This trend has changed from a favorable to a favorable/caution rating due to these increased benefit costs in relationship to static salary levels.

Capital Outlay

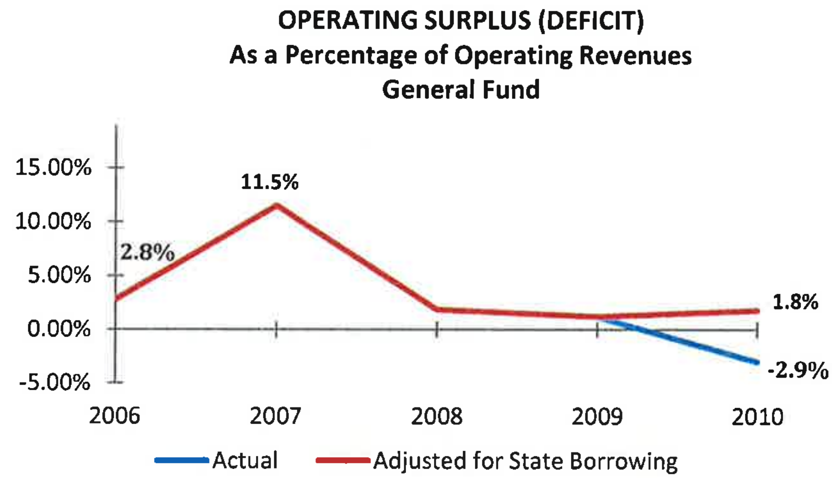


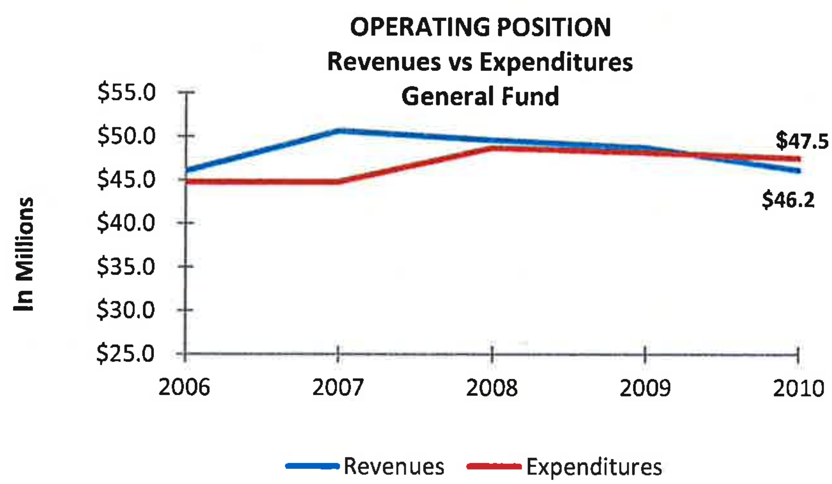
Finding: ***Favorable.*** Capital outlay expenditures increased by $0.5 million, or 35%, from the 2009 fiscal year. Capital outlay expenditures totaled $1.9 million.

Comments: Spending on capital outlay has increased due to an increase in sidewalk repair and improvements and one-time costs/studies.

The Capital Equipment Replacement Reserve was established in FY 1995. This reserve fund ensures 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

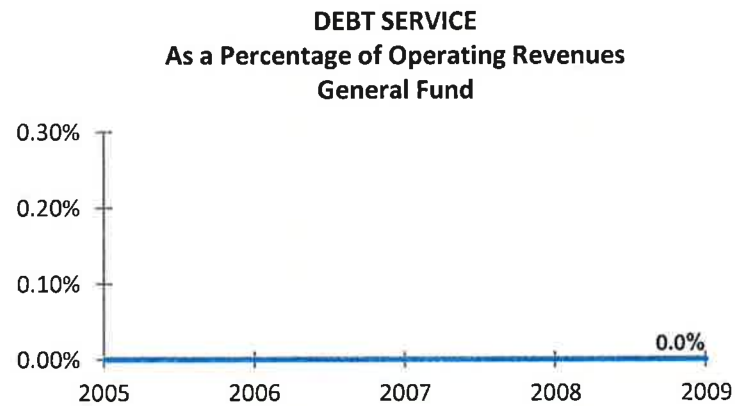




Finding: ***Favorable/Caution.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. Due to the State borrowing $2.2 million of property taxes, FY 2010 finished with an operating deficit of 2.9%. Once the borrowing is taken into consideration, the operating position would be positive, as shown in the first chart above.

Comments: The expenditures used to calculate this surplus does not include a one-time transfer of $0.23 million from the General fund for payment of General Plan Update fees. The total operating deficit was $1.4 million in FY 2010, compared to a surplus of $0.5 million in FY 2009. If the State borrowing of $2.2 million was added back to revenue, the operating position would be a surplus of $0.8 million. This trend remains Favorable/Caution, as this deficit is due mainly to the State borrowing.

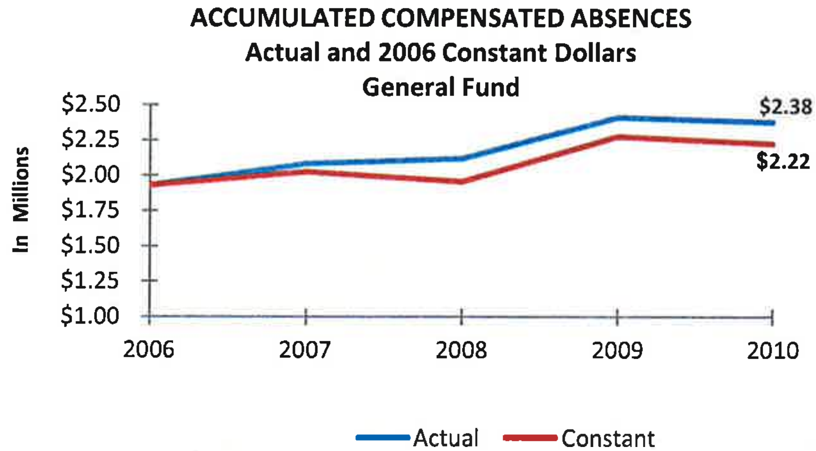
Debt Service



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 thirteen 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, increased the City of San Clemente's credit rating to AAA in 2009 from AA in 2005.

Comments: The City does not include debt service payments in the General fund. Debt service for the Negocio Building bonds, the City's street assessment bonds, and capital equipment leases are accounted for in separate funds, and are not part of this analysis.

Accumulated Compensated Absences

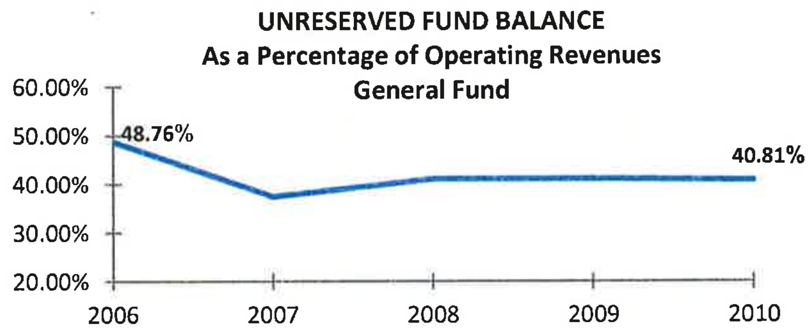


Finding: ***Favorable***. This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. The reserve is continually funded to insure an adequate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

Comments: At June 30, 2010, the balance of the liability for compensated absences was $2.38 million consisting of $1.17 million for vacation, $1.15 million for sick leave, and $60,000 for compensatory time. This is a decrease of $32,000 or 1.3% from the prior year's liability of $2.4 million. The decrease is due to several retirements of employees that have been with the City with hire dates before January 1, 2000. Before January 1, 2000, employees were eligible to receive a percentage of their sick leave upon retirement. Since several long-time employees have retired, the City accrued sick leave balance has decreased.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2010, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $40,000 for the payment of accrued leave for terminated employees. As of June 30, 2010 the Accrued Leave Reserve balance was $659,000.

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.

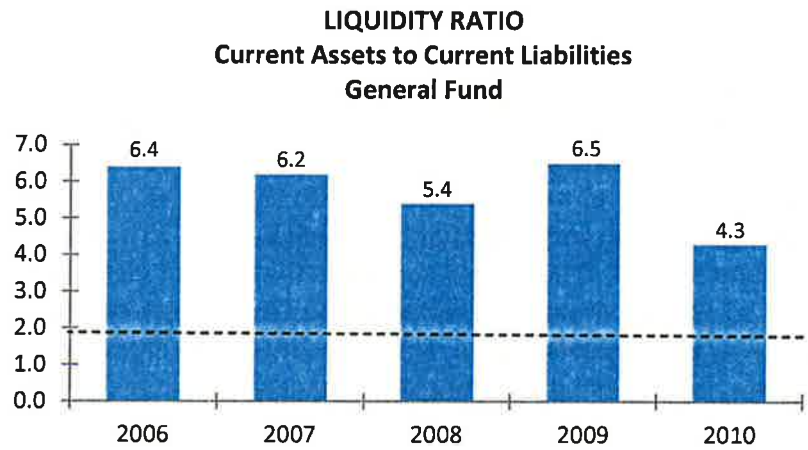
Comments: Unreserved fund balance excluding long term receivable reserves increased 6.2% in FY 2010 as a percentage of total revenues. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

Included within the total FY 2010 unreserved fund balances of $18.8 million are undesignated funds of $4.6 million and designated funds of $4.2 million for contingencies and $10.0 million designated for sustainability. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.

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

	Fiscal Year				
Project	***2006***	***2007***	***2008***	***2009***	***2010***
La Pata/Vista Hermosa Park		$ 7,650,000			
Bellota Settlement	$ 3,400,000		$ 1,650,000	$ 1,000,000	
Golf Course Clubhouse		$ 1,029,020	$ 145,530		
Steed Park Renovation		$ 407,405			
Total General Fund Amounts Transferred to Projects	***$ 3,400,000***	***$ 9,086,425***	***$ 1,795,530***	***$ 1,000,000***	***$ -***

Liquidity Ratio



Finding: ***Favorable.*** In FY 2010, the City's liquidity ratio remains positive at 4.3:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 4.3:1 current asset to current liability ratio is considered excellent.

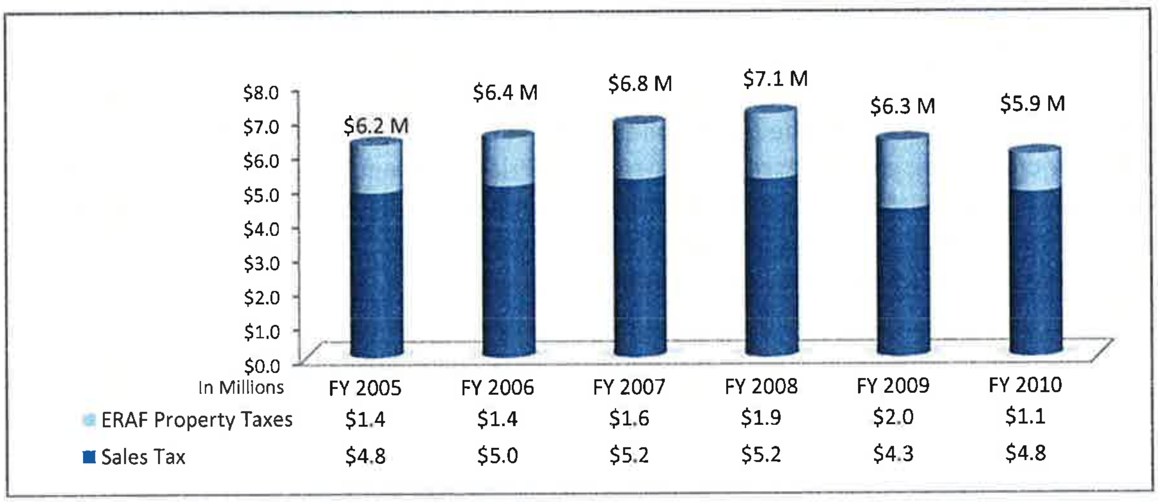
Comments: Liquidity measures the City's ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable and other assets that can be readily converted to cash. Current liabilities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

Attachment "A"

Triple Flip

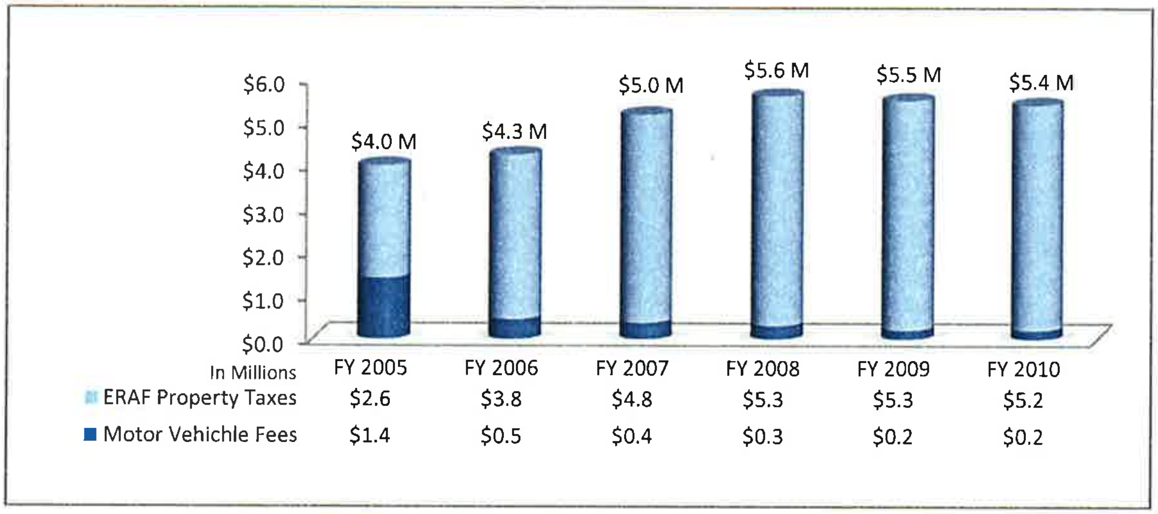
In March 2004, the voters of California approved Proposition 57, the California Economic Recovery Bond Act. The measure, commonly referred to as the "triple flip" consists of 1) reducing the City's local sales and use tax rate by 0.25% and increasing the State's sales tax rate by 0.25% to fund the fiscal 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 receive the amount of sales taxes generated locally, but the timing of any growth in receipts will 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:



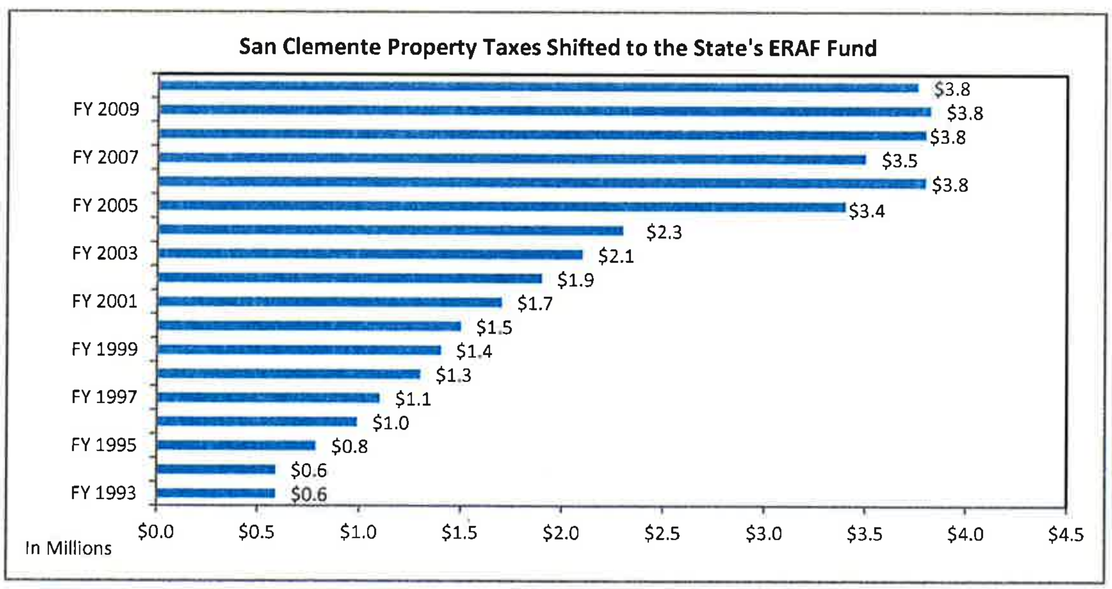
Vehicle License Fee (VLF)

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.



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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 five-year financial forecast was last updated after adoption of the FY 2011 budget. The forecast showed that General Fund operating revenues were anticipated to increase by an annual average of 1.1% a year. Property taxes were anticipated to decline by 3.5% in FY 2012 and remain flat throughout the forecast period. Expenditures were projected to increase at an average rate of 1.9% over the forecast period with the majority of the growth attributed to increases in the police and fire contracts. The projected forecast results, shown below, projected a positive operating position in only the first year of the forecast and a negative operating position in the remaining four years.

FY 2011 Budget Forecast	2011	2012	2013	2014	2015
Operating receipts	$47.5	$47.5	$48.1	$48.5	$49.2
Operating disbursements	47.4	49.4	49.8	51.0	52.5
Projected surplus/deficit	$ 0.1	-$ 0.9	-$ 1.7	-$ 2.5	-$ 3.3

As the economy gradually begins to recover, the impacts are beginning to be seen in the 2011 Long Term Financial Plan forecast. Property tax revenues, which account for 50% of total General Fund revenues, are now anticipated to grow by 0.5% in FY 2012 with increases averaging 1.9% throughout the remaining four years of the forecast period. Sales taxes also show signs of recovery in the current year and are projected to grow 3% annually. As a result of an unusually cool and cloudy summer, parking meter and parking citation revenues were reduced at mid-year, but are anticipated to return to more normal levels beginning in FY 2012.

Construction has begun on the new sports park and aquatics complex at the corner of Avenida La Pata and Avenida Vista Hermosa. Operation and maintenance costs for the park are included in the forecast beginning in January 2012 based upon costs presented to City Council by the Beaches, Parks and Recreation Department in November 2009. The annual cost to operate and maintain the park exceeds revenue generated by an estimated $750,000 annually and would result in a negative operating position in the General Fund. In order to avoid that scenario, the City Council decided to utilize a portion of the proceeds from the sale of 14 acres to Target to offset the net increase in operating expenditures over the first three and a half years. Thus, the operating position improves in the first three years of the forecast by including the subsidy.

With the revised revenue projections, as well as decreases in operating expenditures through salary freezes and a hiring freeze, the 2011 five-year forecast now shows a positive operating position in the first three years and a negative operating position in the last two years once the park subsidy, explained previously, is depleted.

2011 LTFP Forecast	2012	2013	2014	2015	2016
Operating receipts	$48.6	$50.0	$51.2	$52.3	$52.5
Operating disbursements	48.2	49.7	51.1	52.6	54.0
Projected surplus/deficit	$ 0.4	$ 0.3	$ 0.1	-$ 0.3	-$ 1.5

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 2012 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 2012 budget.

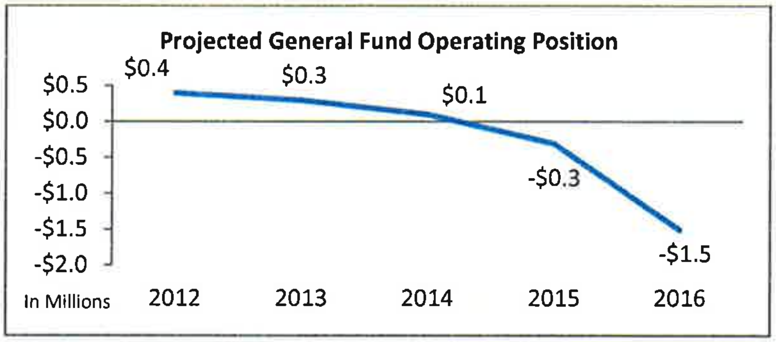
The base forecast is developed using the *present level of services* provided by the City. Inflation or historical growth rates are used to predict expenditure patterns. Revenues are projected by trend or by specific circumstances that are certain to occur during the forecast period.

No revenue or expenditures for the Marblehead, North Beach or Target development projects have been included in the base forecast. Although the Target store is anticipated to open in October 2011, revenue will not be included in the base forecast until the project is actually complete.

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 2010 Economic Forecast for Southern California and Orange County. As a result of the economic projections, the City's financial forecast shows a slight improvement in property and sales taxes. For example, the prior year's forecast projected a 3.5% reduction in property taxes and no growth over the remaining years of the forecast. The 2011 forecast assumes a 0.5% increase in property valuation growth in FY 2012. Most properties will see a 0.753% increase in property taxes for CPI. However, a wave of commercial/industrial properties in the County are anticipated to be reassessed through appeals in FY 2012 and will reduce overall gains. Sales taxes are projected to grow 3% per year.

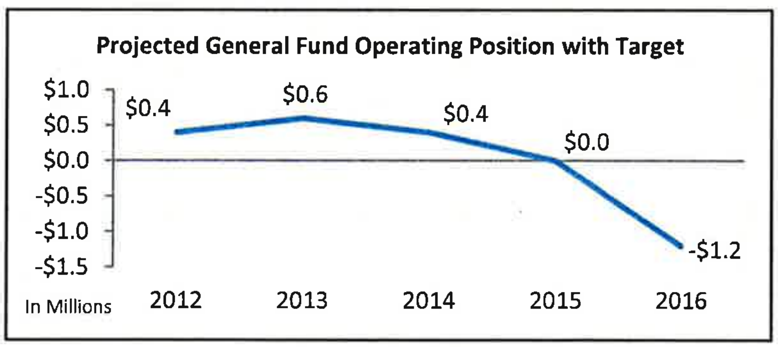
The financial forecast focuses on two critical elements, *operating position* and *fund balances*, to determine the fiscal health of the City.

Operating position – Based on revised expenditure and revenue trends, the financial forecast indicates a positive operating position in the first three years of the forecast period with a significant drop into negative territory in the final two years. 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.



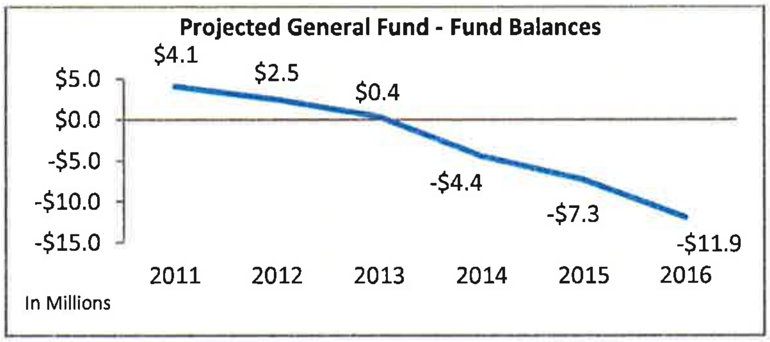
The projected operating position is negative beginning in FY 2015 due to the depletion of $2.9 million of revenue offset from the Target sale over the first 3 and a half years. As an alternative, the funds from the Target sale could be spread over the five year period to maintain a neutral operating position. Each year during the budget process, the City would determine how much was needed. Any excess funds would then be used to reduce the deficit position.

The forecast does not include any sales tax revenues from the opening of the Target store. However, if the Target store opens in October 2011 as scheduled, the City would receive approximately $75,000 in sales tax for FY 2012 and an estimated $300,000 per year thereafter. This would improve the operating position shown below, but would not completely eliminate the deficit in FY 2016. Property tax revenue from the Target location is estimated at $32,000 annually.



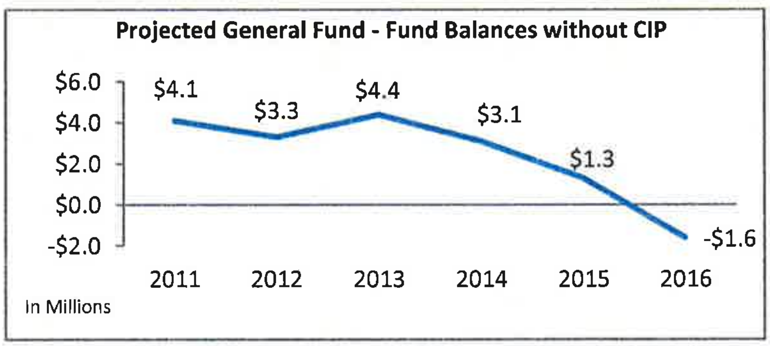
Fund balances – Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. However, fund balance should be used for one-time expenditures only. The City's *designated* fund balances include the Sustainability Fund Balance Reserve and the Emergency Reserve. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Emergency Reserve is funded at 9% of operating expenditures. Annual contributions are included in the forecast to maintain 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 based on the 2011 Long Term Financial Plan forecast. The beginning fund balance of $4.1 million does not include the sustainability or emergency reserves.



One-time expenditures and transfers plus a negative operating position beginning in FY 2015 reduce fund balance from a positive $4.1 million to a negative $11.9 million. The forecast assumes an average of $2.1 million per year in capital projects. However, funding of capital projects is determined annually during the budget process and is dependent upon available funds. Unassigned fund balance would not be allowed to go negative.

If capital projects are removed from the forecast, fund balance would improve.



Projected fund balances do not assume the use of the $10 million in sustainability reserve or the $4.4 emergency reserve.

Designated Fund Balances

Sustainability Reserve – In FY 2009, City Council established a sustainability fund balance reserve funded at $10 million.

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. Emergency reserve levels are maintained at the required 9% level beginning in FY 2011.

General Fund – Emergency & Sustainability Reserves (in millions)

	2012	2013	2014	2015	2016
Emergency	$4.4	$4.6	$4.7	$4.8	$4.9
Sustainability	10.0	10.0	10.0	10.0	10.0
Designated Reserves	$14.4	$14.6	$14.7	$14.8	$14.9

Designated Reserves

	2012	2013	2014	2015	2016
Emergency Reserve	$4.4	$4.6	$4.7	$4.8	$4.9
Sustainablility	$10.0	$10.0	$10.0	$10.0	$10.0

Forecast Assumptions

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

Revenues:

- Property taxes are projected to increase by 0.5% in FY 2012. Increases averaging 1.9% are included beginning in FY 2013. HdL Coren and Cone, the City's property tax advisors, produces the City's property tax projections.
- Sales taxes are projected to increase 3% per year based on Fullerton's Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily reduced by $540,000 due to the rehabilitation of the Ole Hanson Beach Club.
- A total of $2.9 million, set aside from the Target land sale, will subsidize the operation and maintenance of La Pata/Vista Hermosa Park over a three and a half year period beginning in 2012.
- The State shift of $2.2 million from the City's property taxes in FY 2010 is scheduled to be returned to the City, with interest, in FY 2013.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Eight vacant positions, currently unfunded in FY 2011, are not funded in the forecast.

- New Police positions – Police contract costs are increased based upon the Sheriff Department's five-year Strategic Plan. The Plan projects 2.1%, 1.5%, 3%, 3.1% and 1.4% increases to the contract costs. No new Police positions have been added.
- Fire Services costs –The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, as well as annual contributions to a station maintenance reserve and fleet replacement reserve. For forecast purposes, the contract is increased by 4.5% in each year of the forecast based upon OCFA's assumptions for the five year period. If budget reductions to OCFA's General Fund budget reduce contract charges, the changes will be implemented in the FY 2012 budget.
- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 1.7% beginning in FY 2012 and 2.1% the remaining four years.
- Retirement - Retirement rates are increased by 2% in FY 2012, with 1% increases thereafter.
- Medical – Medical rates are increased 6% per year throughout the forecast period based upon recommendations by CalPers.
- Negocio Building – An annual transfer of $215,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building. City staff currently occupies the first floor and a portion of the second floor. The lease of the third floor and a portion of the second floor will reduce the transfer from $510,000 to $215,000. Continued efforts to lease the building and the old fire station at 1030 Calle Negocio will further reduce the need for this transfer.
- La Pata/Vista Hermosa Park – A net increase of $750,000 in operating expenditures has been included in the forecast beginning in 2012 for field and aquatic complex operation and maintenance. The cost is based upon operating scenarios presented by Beaches, Parks & Recreation in November 2009.
- 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 the target reserve level of 9% of operating expenditures.
- Reserves - For forecast purposes, $80,000 has been included in each year of the forecast for reserve transfers.
- PERS Unfunded liability - The City's unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system was paid in FY 2011 with a portion of the proceeds from the Target land sale. However, a payment of $200,000 is included in the forecast for FY 2012 to pay costs due to actuarial changes and CalPERS poor investment performance. This annual amount is subject to annual revisions.
- Capital Improvement Program – The forecast includes an average of $2.1 million per year in proposed capital improvement projects. These projects are included in the FY 2011 CIP budget.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2011 amounts to $734,260. The forecast assumes that the transfer will increase by 3% each year and continue throughout the forecast period.
- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 1% over budget and expenditures are projected to be 1.5% under budget.

Factors Not Included in the Forecast

- The forecast is based on the General Fund only.
- No new or enhanced programs.
- 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 operating revenues are anticipated to grow by an annual average increase of 1.5% a year, compared to historical growth of 1.1%. Property taxes increase by $1.5 million and sales taxes grow by $1.0 million over the forecast period.

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 3.5%, as compared to 2.8% historical growth, due to projected increases in salaries, benefits and contractual services. Expenditures increase an average of 4.0% in the first three years of forecast period due to the addition of La Pata/Vista Hermosa operation and maintenance. Expenditures in the remaining years of the forecast increase primarily by inflation.

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)

	2012	2013	2014	2015	2016
Beginning Fund Balance	4,090	2,571	427	-4,399	-7,295
Receipts					
Taxes	34,450	35,211	35,873	36,669	37,480
Licenses & Permits	1,780	1,805	1,832	1,857	1,881
Intergovernmental	518	520	523	524	526
Service Charges	3,915	4,007	4,238	4,315	4,394
Fines & Forfeitures	971	991	1,012	1,033	1,055
Interest & Rents	1,942	1,977	2,132	2,177	2,222
Interfund Transfers	4,679	7,207	5,102	5,202	4,406
Total Receipts	48,255	51,718	50,712	51,777	51,964
Disbursements					
Salaries	10,967	11,197	11,432	11,671	11,915
Benefits	5,032	5,243	5,456	5,669	5,882
Supplies	987	1,007	1,029	1,050	1,072
Contractual Services	25,977	27,018	27,890	28,794	29,513
Other Charges	1,333	1,411	1,439	1,468	1,498
Capital or One-Time	695	3,250	3,513	1,145	1,663
Interdepartmental Charges	3,388	3,456	3,525	3,596	3,667
Transfers & Debt	1,275	1,100	1,124	1,150	1,246
Total Disbursements	49,654	53,682	55,408	54,543	56,456
Emergency Reserve	120	180	130	130	120
Ending Fund Balance	2,571	427	-4,399	-7,295	-11,907

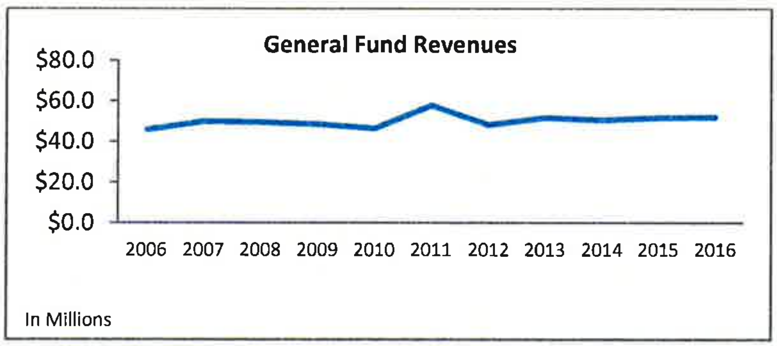
General Fund Revenue and Expenditure Growth
In each revenue and expenditure category an initial summary is provided with the following:

- Historic Growth Rate – The average annual rate of growth for the past five years from FY 2006 to FY 2010.
- 2011 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate

Historic Growth Rate	1.1%
2011 Projected Growth Rate	1.5%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 1.5% compared to a historical five year growth rate of 1.1%. The forecast shows property taxes increasing by 1.6% and sales taxes increasing by 3%. One-time revenue of $10.2 million from the sale of land to Target is responsible for the increase in General Fund revenues in FY 2011.



Property Taxes

Property Taxes

Historic Growth Rate	6.3%
2011 Projected Growth Rate	1.6%

Property tax is the City's single largest revenue source and represents 50% of total General Fund operating revenue. The historic growth rate of 6.3% is attributed to new home sales in Talega and residential resale activity with median prices at the highest level in San Clemente history. Assessed valuation grew 14% in 2006, but has since declined due to lower sales prices and foreclosure activity.

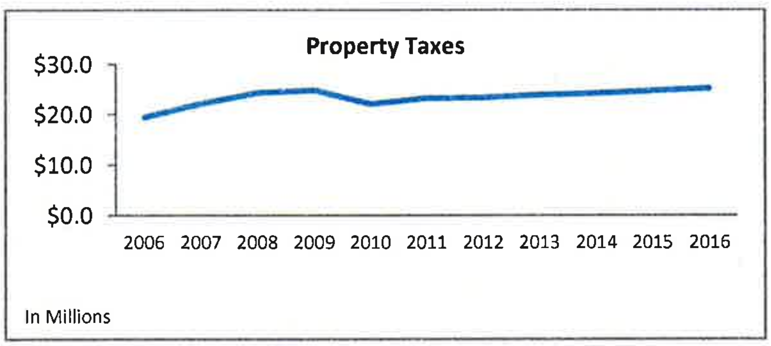
There are three major factors that contribute to year to year valuation changes. First, Proposition 13 allows the County Assessor to increase or decrease valuation by the net change in CPI growth, with a cap of 2% growth per year. Second, property valuation is increased or decreased annually by transfer of ownership transactions that occur in the prior calendar year.

Third, valuation can be decreased by the County Assessor through individual appeals or mass appeals if warranted by market conditions.

For the current fiscal year, property valuation in San Clemente declined by -1.6%, and is slightly more than the decrease experienced countywide at -.05%.

Property taxes are projected to grow by 0.5% in FY 2012 due to a 0.753% CPI adjustment and increases in valuation due to ownership changes. Single family home transactions and average prices increased by 2% from the prior year. However, commercial/industrial property appeals are anticipated to reduce valuations beginning in FY 2012. It is anticipated that vacant land in the county will be reassessed with 50% or more reductions. Since commercial/industrial property tax appeal reductions are "pooled", each of the cities and the county share in the total loss in valuation.

Property tax growth projections have been revised from the prior year upon the advice of the City's property tax consultant, HdL, Coren and Cone, who has stated that property taxes are expected to increase over the forecast period.



Sales Taxes

Sales Taxes	
Historic Growth Rate	-5.1%
2011 Projected Growth Rate	3.0%

The City's sales tax average growth rate of -5.1% over the last five years is due to negative adjustments of previously misallocated taxes. As an example, a solar energy company with an installation office in the San Clemente business park was allocated over $500,000 in sales tax revenues over a two year period. The State Board of Equalization (BOE) found that the allocation of sales taxes should have been reported from a sales office in Riverside County. The BOE reversed the allocation to San Clemente in FY 2009 which reduced sales tax receipts in the historic growth period.

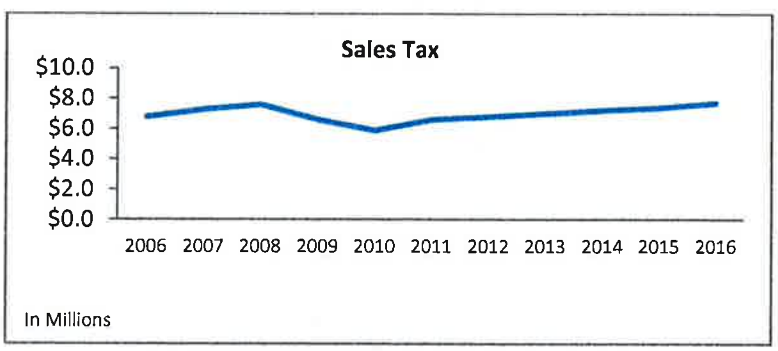
The misallocation also factors into the amount the City received in FY 2010 from the "triple flip". The voter approved Proposition 57, the California Economic Recovery Bond Act, authorized the issuance of up to $15 billion in bonds to close the State's budget deficit. One-quarter of the sales and use taxes, levied for local governments under the Bradley-Burns Uniform Sales Tax Law, was used to guarantee the bond repayment. Local sales tax is reimbursed through a series of revenue swapping procedures. These exchanges are referred to as the "triple flip". Flip #1 shifts ¼ of the one percent local sales and use taxes to the State to guarantee the bonds. Flip #2 backfills the lost ¼ of one percent to local agencies with property tax revenue from the County Education Revenue Augmentation Fund (ERAF). Flip #3 uses State General Fund monies to backfill any shortfall in County ERAF monies to meet the minimum funding requirement for schools. To further complicate matters, the State reimbursement of the ¼ of the one percent is based upon the *estimated* sales and use tax revenues allocated to the jurisdiction in the prior fiscal year, plus an adjustment based on projected statewide growth or decline. Because the triple flip amounts reimbursed to local governments are based upon estimates, there is a "true-up" adjustment each year. The "true-up" adjustment is added or deducted to the following year's backfill payment.

The State is required to send notification of the "true-up" adjustment prior to September 1 of each year. Because of the misallocations of sales taxes over a two year period, San Clemente's "true-up" adjustment was -$514,000. This reduced the City's "true-up" from $1.5 million in the prior year to $760,000 for FY 2010. An estimate of $340,000 in FY 2009 sales taxes were deferred to FY 2010 to help mitigate the impact of the true-up adjustment, however, the estimate does not cover the total amount of the loss.

For the current fiscal year, sales taxes are starting to show signs of recovery. Receipts for San Clemente sales increased 6.9% over the prior year for the last reported quarter (July, August and September 2010). Although more than half of the gain was from sales taxes from higher fuel prices, increases from the general consumer goods, business services and home furnishings categories are improving the City's taxable sales base.

Over the forecast period, sales taxes are projected to grow by 3.0% as consumer confidence grows and the economy recovers.

Sales tax revenue from the Marblehead, North Beach and Target projects has not been included in the forecast. Previous sales tax estimates identified potential sales taxes totaling $2.2 million from the Marblehead retail development.

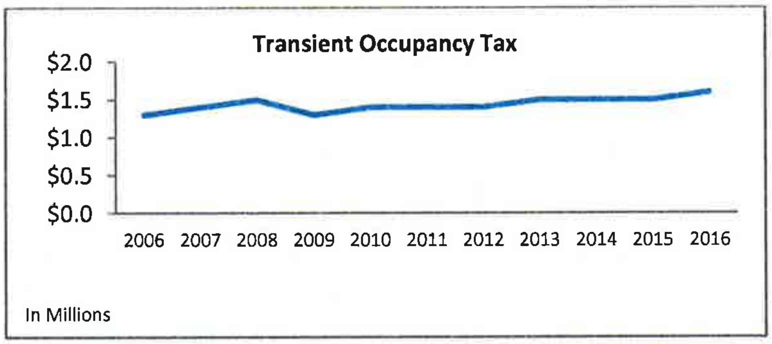


Transient Occupancy Tax

Transient Occupancy Tax	
Historic Growth Rate	3.7%
2011 Projected Growth Rate	2.0%

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. Over the forecast period, the average growth is projected at 2.0% as the economy recovers.

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

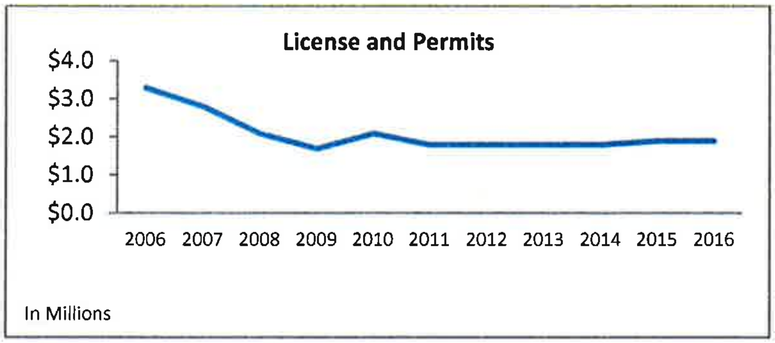


License and Permits

License and Permits	
Historic Growth Rate	-2.6%
2011 Projected Growth Rate	1.5%

License and permit revenue declined over the historic period by 2.6%. The license and permits category consists of business license, construction permits and miscellaneous permits such as alarm permits. Construction Permits are anticipated to increase by 1.5% during the forecast period, mainly from residential remodeling and some in-fill projects.

The forecast does not include any development revenue from Marblehead, North Beach or Target projects.



Grants and Subventions

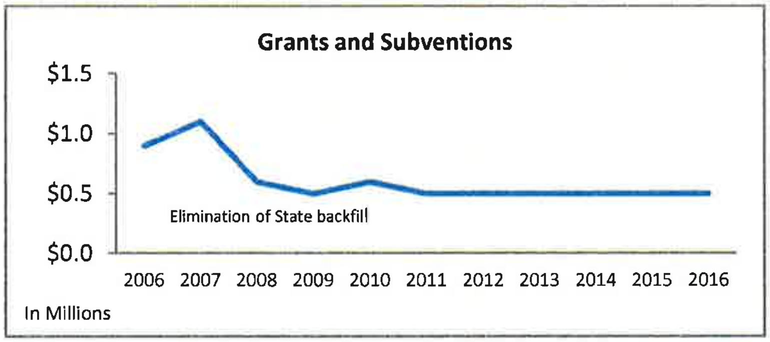
Grants and Subventions	
Historic Growth Rate	-1.2%
2011 Projected Growth Rate	0.3%

Grant and subvention revenues have declined by 1.2% over the historic period due to the reduction in motor vehicle fees. 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 instead 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.)

The forecast growth rate of 0.3% is a result of lower motor vehicle fees and a reduction in homeowners' subvention fees from the State.

Since FY 2005, the State budget has included increases to the administrative charges for the collection and distribution of motor vehicle fees. The administrative charges are allocated based on the amount of revenue that would have been received from motor vehicle fees charged at the full two percent of market value for a vehicle. The charges are set in the annual budget and apportioned monthly without regard for actual motor vehicle fees collected. As a result, administrative fees have grown from 50% of revenue collected to 73%. And with motor vehicle fee collections declining, the total amount of revenue to the cities has also dropped.

Another outcome of the downturn in the housing market is an unexpected reduction in the amount of homeowner subvention money from the State. The State exempts the first $7,000 in property taxes to property owners that occupy the homes. Cities are reimbursed for this loss in property tax income from the State. With property owners losing their primary dwelling units to banks or choosing to rent rather than own, the amount of subvention money has also declined.

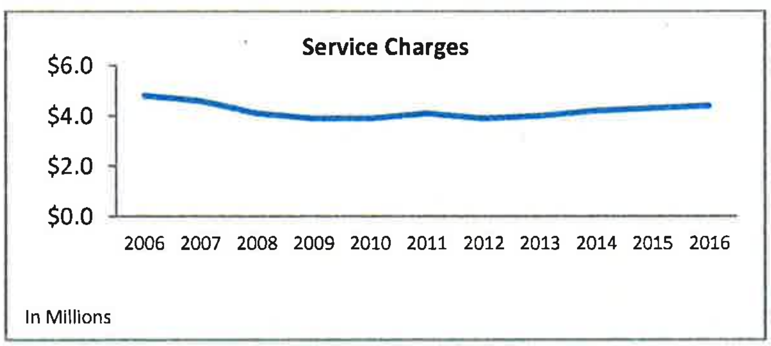


Service Charges

Service Charges	
Historic Growth Rate	-2.2%
2011 Projected Growth Rate	-0.6%

Service charges consist of development, public safety and recreation charges for services provided to the community. Service Charges are projected to decrease by 0.6% over the forecast period, primarily due to anticipated reductions in one-time development fees. Development fees received in the current fiscal year from the construction of Avenida Pico have been removed from the forecast because the revenue is considered one-time. Service charges also decline in the first two years of the forecast due to the anticipated closure of the Ole Hanson Beach Club for renovation.

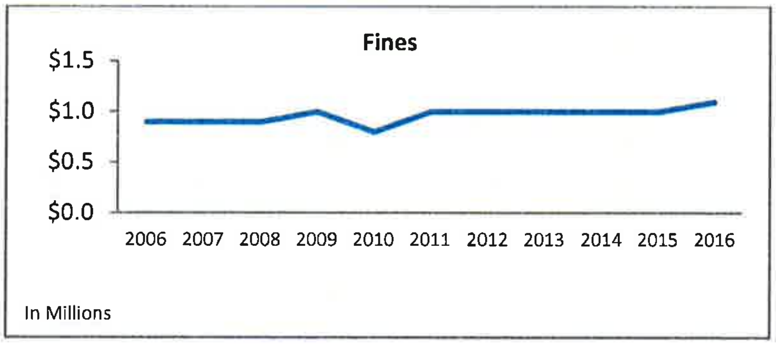
Historically, service charges have declined 2.2% due to a decline in construction activity.



Fines

Fines	
Historic Growth Rate	-1.4%
2011 Projected Growth Rate	2.0%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms and court fines. The 2.0% projected growth rate is based on a recent increase in the parking fine structure. Parking citation fines were increased by $3.00 per citation, but the money will be passed through to the State. Future years of the forecast are increased by projected cost of living increases.

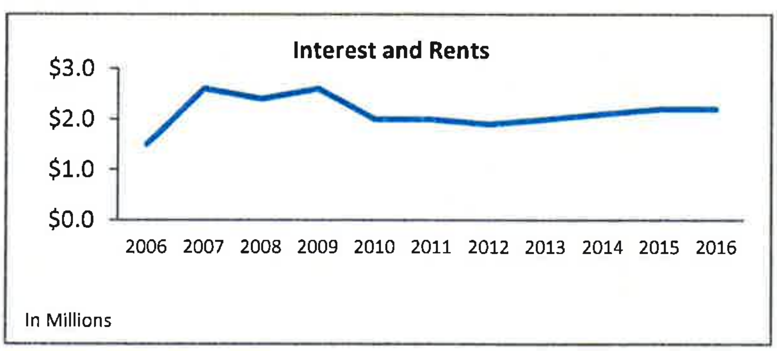


Interest and Rents

Interest and Rents	
Historic Growth Rate	6.8%
2011 Projected Growth Rate	2.4%

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 6.8%. 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.

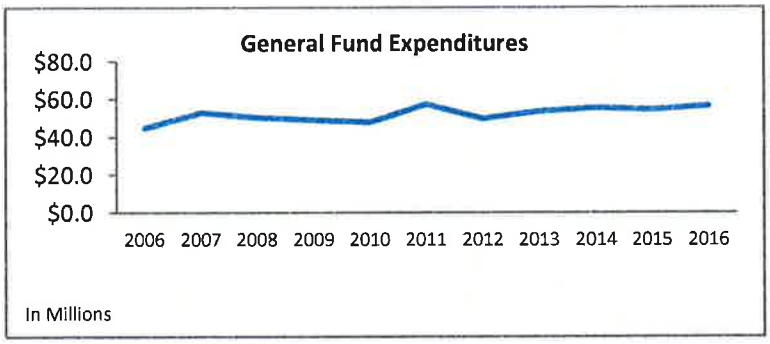
The 2011 projected growth rate will increase by 2.4% due to Cal State Fullerton's forecast for interest rates.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	2.8%
2011 Projected Growth Rate	3.5%

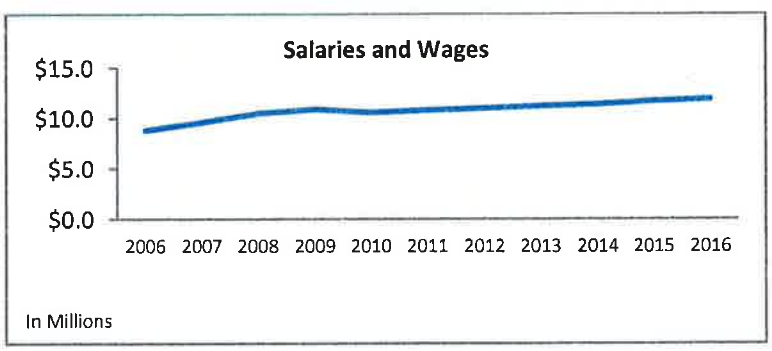
General Fund expenditures are anticipated to increase by 3.5% during the forecast period, compared to a 2.8% historical growth rate. One-time transfers and projects, which can result in major fluctuations in the rate, have been removed. Expenditures have been forecasted to increase primarily by inflation.



Salaries and Wages

Salaries and Wages	
Historic Growth Rate	5.3%
2011 Projected Growth Rate	2.0%

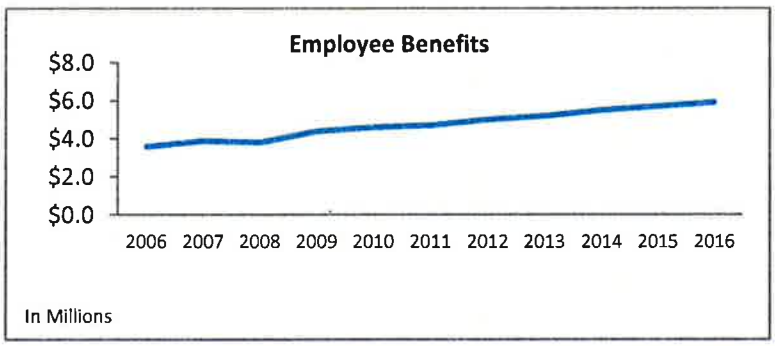
Salaries and Wages are projected to grow 2.0% over the forecast period. For forecast purposes only, cost of living increases are included beginning in FY 2012. The historic growth rate of 5.3% reflects the addition of new positions and cost of living increases that were granted over the period. Positions that have been frozen in the FY 2011 budget have not been added back to the forecast.



Employee Benefits

Employee Benefits	
Historic Growth Rate	7.0%
2011 Projected Growth Rate	4.6%

Employee benefits historically grew 7.0% due to added positions, salary driven increases in benefits (such as social security and retirement) and increases in the employee medical cap. The projected forecast rate of 4.6% has been increased based on forecast assumptions for retirement and medical premiums. Retirement rates have been increased by 2% in FY 2012 with 1% per year increases thereafter. Medical rates have been increased by 6% per year based on recommendations from CalPers, the City's medical insurance provider.



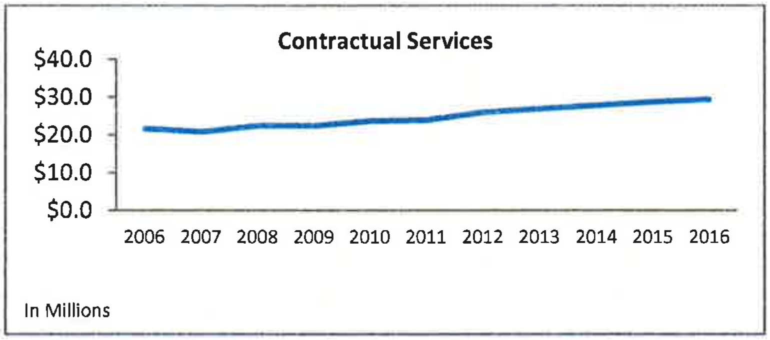
Contractual Services

Contractual Services	
Historic Growth Rate	4.0%
2011 Projected Growth Rate	4.8%

The contractual services category is anticipated to increase 4.8%, as compared to the 4.0% 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 Orange County Sheriff's Department contract with the City has been increased by the costs identified in the County's Strategic Financial Plan. The Orange County City Managers Association asked the Sheriff's Department to develop the plan to assist contract cities with budget projections over the next five years. The current plan assumes a 1.5% increase in the contract cost for FY 2012 and increases averaging 2.2% over the remaining four years.

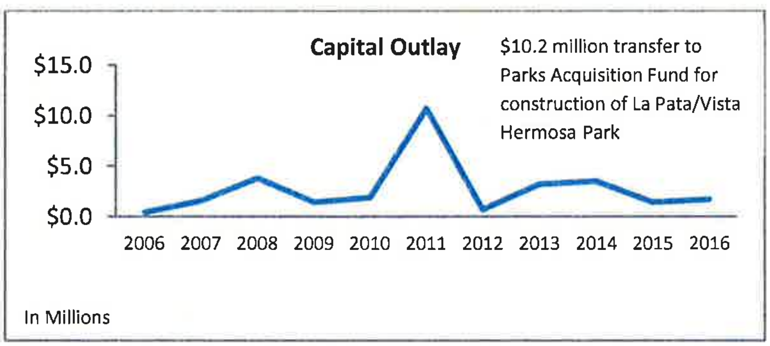
The Orange County Fire Authority (OCFA) contract projection includes a 4.5% increase which is the maximum amount allowed annually. Additional contributions to the capital maintenance and vehicle replacement reserves are also included in the forecast. Although the contract costs are capped at a maximum of 4.5% per year, the contract costs can only be increased by the actual increase in OCFA's operating expenditures.



Capital Outlay

Capital Outlay	
Historic Growth Rate	98.9%
2011 Projected Growth Rate	52%

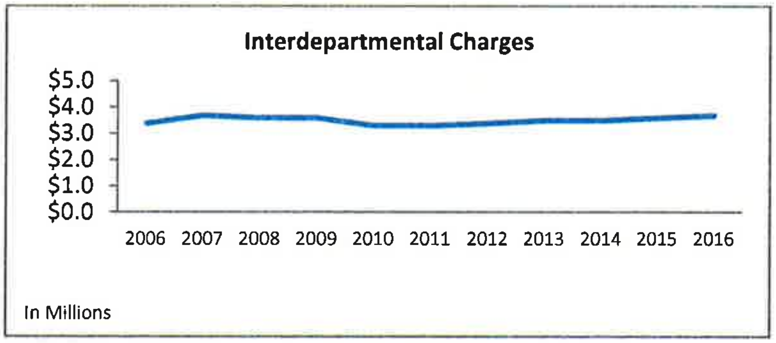
Capital outlay, which includes the projects currently scheduled in the City's five-year Capital Improvement Plan, averages $2.1 million per year. The forecast also includes $950,000 for major street maintenance, slurry seal and sidewalk improvement projects. Prior year encumbrances, one-time capital and one-time transfers increase FY 2011 expenditures.



Interdepartmental Charges

Interdepartmental Charges	
Historic Growth Rate	-0.3%
2011 Projected Growth Rate	2.0%

Interdepartmental charges include general liability, postage, duplicating, imaging, information technology, communications, Negocio rent, capital replacement, facilities replacement and engineering charges to Enterprise Funds. These charges have been adjusted primarily by inflation.



Conclusion
The 2011 LTFP Financial Forecast shows deficits beginning in 2015. 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.

Recommendation
To reduce the impact on operating position in the later years of the forecast, consider spreading the funds from the Target sale over the five year forecast period.

Council Action: The Financial Forecast recommendation was approved by City Council.

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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. 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 Fund 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 were categorized as Restricted and Unrestricted amounts prior to Governmental Accounting Standards Board Statement 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***. Under this new Accounting Statement, restricted and unrestricted categories were expanded into the following categories or classifications:

- Restricted - amounts are considered subject to externally enforceable restrictions.
- Committed - amounts are based on a limitations set at the highest level of decision making authority and requires formal action to remove, such as a resolution.

- Assigned - amounts under an informal limitation based on an intended use established by the highest level of decision making authority or the official designated
- Unassigned – remaining resources

The following table summarizes reserve type, the fund balance category, and the estimated balances of reserves as of June 30, 2011.

Reserves	Type of Fund Balance	Funding Source	Estimated Reserve Balances at June 30, 2011	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Assigned	General Fund	$ 4,262,000	Yes
Water Operating Fund – Emergency Reserve	Assigned	Water Fund	$ 30,000	No[1]
Sewer Operating Fund – Emergency Reserve	Assigned	Sewer Fund	$ 285,000	No[1]
Storm Drain Operating Fund – Emergency Reserve	Assigned	Storm Drain Fund	$ 99,000	Yes
Solid Waste Fund – Emergency Reserve	Assigned	Solid Waste Fund	$ 15,000	Yes
Golf Course Operating Fund – Emergency Reserve	Assigned	Golf Course Fund	$ 40,000	No[1]
Miscellaneous General Fund Reserves:				
Sustainability Reserve	Committed	General Fund	$ 10,000,000	Yes
Accrued Leave	Assigned	General Fund	$ 600,000	Yes
Self-Insurance Reserves:				
General Liability Self-Insurance	Assigned	All Funds	$ 500,000	Yes
Workers' Compensation	Assigned	All Funds	$ 1,460,000	Yes
Capital Replacement Reserves:				
Fleet Replacement	Assigned	All Funds	$ 3,440,000	Yes
Capital Equipment Replacement	Assigned	All Funds	$ 965,000	Yes
Facilities Maintenance Capital Asset	Assigned	General Fund	$ 898,000	Yes
Park Asset Replacement	Assigned	All Funds	$ 280,000	N/A[2]
Infrastructure Reserves:				
Water Fund Depreciation	Assigned	Water Fund	$ 9,000,000	*No[3]*
Sewer Fund Depreciation	Assigned	Sewer Fund	$ 6,500,000	Yes
Storm Drain Fund Depreciation	Assigned	Storm Drain Fund	$ 2,270,000	*No[4]*
Golf Course Fund Depreciation	Assigned	Golf Course Fund	$ 1,420,000	Yes
Golf Capital Improvement Reserve	Assigned	Golf Course Fund	$ 402,000	Yes
Total			**$ 40,466,000**	

[1] These reserves are below the minimum reserve level and in FY 2012 adjustments will be done to achieve compliance with these reserves. Refer to the Emergency Reserve section.
[2] This reserve is under funded by $0.9 million. Refer to Capital Replacement Reserve section.
[3] This reserve is under funded by $0.9 million. Refer to Infrastructure Reserves section.
[4] This reserve is under funded by $2.2 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 a detailed explanation of the recommendations for FY 2012. A summary of the recommendations by reserve section are as follows:

- ***Emergency Reserves*** –
  - Maintain the General Fund Emergency Reserve at 9% of operating expenditures.
  - Maintain the Emergency Reserves level at 8% of Enterprise operating expenses.
- ***Miscellaneous General Fund Reserves*** –
  - Maintain the Sustainability Fund Balance Reserve at $10 million.
  - Transfer $100,000 to the Accrued Leave Reserve from the General Fund.
- ***Self-Insurance Reserves*** –
  - Increase General Liability charges by $400,000 (As listed in Attachment "A")
  - Refund $300,000 to various funds from the Workers Compensation fund.
- ***Capital Replacement Reserves*** –
  - Transfer $60,000 to the Facilities Maintenance Reserve from the General Fund.
  - Transfer $1.0 million from the Parks Acquisition and Development Fund to the Park Asset Reserve.
- ***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) based on best practices recommends a level equivalent to at least two month's operating expenditures, or 16.67%. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10%. The emergency reserve and the sustainability reserve in total are approximately 30% of operating expenditures.

Based on a review of reserve requirements, fiscal policy and sustainability reserves in place, the emergency reserve level for the General Fund is kept at 9% of FY 2012 operating expenditures.

The following chart summarizes the FY 2011 projected balance for the emergency reserve and the recommended contribution to maintain the 9% reserve level for FY 2012.

	Projected Balance June 30, 2011	FY 2012 Recommended Contribution	Percentage June 30, 2011
General Fund	$4,262,000	$121,500	9%

Recommendation and Fiscal Impact: None

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 reserve for FY 2012, and the projected percentage reached at the end of FY 2012.

	Reserve Balance Available at June 30, 2011	Required Reserve Balance at June 30, 2012	Percentage June 30, 2012
Water Fund (a)	$ 30,000	$ 627,000	8.00%
Sewer Fund (a)	285,000	629,000	8.00%
Storm Drain Fund	99,000	99,000	8.00%
Solid Waste Fund	15,000	15,000	8.00%
Golf Course Fund (b)	40,000	195,000	8.00%

(a) The Water and Sewer fund amounts will decline below the required reserve level due to fund balances being depleted. These emergency reserves will be corrected in connection with the annual rate review and a transfer of depreciation reserves in FY 2012.

(b) During 2011, Emergency Reserve funds available in the Golf Course fund will be reduced to $40,000, which is below the required reserve amount. The Golf Course Fund Analysis paper reviews the operational position of the Golf Course and through the recommended actions will restore the emergency reserve.

Recommendation and Fiscal Impact: As part of the annual rate review and Golf Course Analysis paper take steps to maintain the emergency reserve at 8% of 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 (Resolution) of the City Council for a specific purpose such as to provide 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: None.

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, length of service, pay rates and hours accrued (dollar value of accrued leave).

Average Annual Payoffs (3 year average)	*$ 91,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2011 is $610,000. At June 30, 2010, the total General Fund liability for accrued leave was $1,471,000. Of this amount, $715,000 represents the liability for employees who will be age 55 or older by June 30, 2011. Based on the projected ending balance and anticipated payouts transfer an amount of $100,000.

Recommendation and Fiscal Impact: Transfer $100,000 from the General Fund to the Accrued Leave Reserve for FY 2012 ($80,000 was the FY 2011 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 2011 is $250,000. This balance includes $90,000 SIR reserve and $160,000 for claims prior to the conversion to California Joint Powers Insurance Authority (CJPIA).

CJPIA arranges and administers programs for the pooling of self-insured losses, and the purchase of excess insurance or reinsurance. Several types of occurrences are excluded from the liability coverage through membership within the CJPIA. Excluded losses include; 1) breach of contract, 2) land use entitlement, 3) eminent domain, 4) release of hazardous materials, and 5) punitive damages.

Charges to maintain the General Liability reserve level are based on a methodology recognized by the Insurance Institute of America regarding essentials of risk financing. The methodology is based on two key factors, as listed below:

1. A five-year average of historical claims for risk related to each fund which accounts for 25% of the basis for the charge.
2. A fund's budgeted expenditures as a percentage of total budgeted expenditures which accounts for 75% of the basis for the charge.

The annual charge to other funds fluctuates based on the City claims activity, CJPIA premiums and other operational costs (such as legal). In FY 2010, CJPIA adopted a funding model shift from a retrospective funding model to a prospective funding model. This resulted in the following items:

- The City experienced an annual aggregate retrospective liability of $536,000 based on past claims activity. There may be additional retrospective liabilities for the next three to five years.
- CJPIA also will increase its premium to most member agencies based on loss experience. The City will see an increase of approximately 35% in the premiums charged by CJPIA based on its recent loss history, which included several large claims.

The above items result in higher insurance charges to City funds. The insurance charges will need to increase by $400,000 to $1.6 million. This returns the insurance charges to levels experienced in FY 2009.

Recommendation and Fiscal Impact: The General Liability Self-Insurance Fund basic SIR reserve requirement of $90,000 is fully funded. However, the charges to funds should increase from $1.2 million to $1.6 million based on premium increases and anticipated retrospective liability assessments for past claims. This allocation is listed in Attachment "A".

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 CSAC Excess Insurance Authority provides coverage for Workers' Compensation claims in excess of $300,000, which represents the City's Self-Insurance Retention (SIR) amount.

All City funds will continue to be charged for premiums and administrative costs paid by the Workers' Compensation Fund. The rates charged to these funds are based on each fund's employees' classifications and the type of work performed (e.g. manual labor, non-manual and clerical, etc.).

The City's fiscal policy requires a reserve equal to $900,000 (three times the SIR), plus the estimated total for the "tail" claims of $115,000, for a total reserve requirement of $1,015,000. The estimated reserve balance is fully funded with $1,640,000 at June 30, 2011. In FY 2010 a refund of $500,000 to contributing funds was done to reduce the accumulated excess reserves. The current excess reserves of $600,000 should be split into two groups of $300,000 for two distinct purposes. The recommendation for each $300,000 follows:

- The first $300,000 should be refunded to the contributing funds in FY 2012.
- The second $300,000 should be maintained in the Workers Compensation Fund to offset a small annual negative operating position that may exist due a reduction in the salary base (resulting in lower revenue to the fund) and an anticipated increase to excess insurance premiums in FY 2012.

Recommendations and Fiscal Impact: Maintain the existing worker's compensation rates as outlined in Attachment A. Refund an amount of $300,000 from the Workers Compensation fund to the applicable funds on a pro-rata basis in FY 2012.

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. Currently, the City's fleet is valued at $6.8 million. $1.9 million is scheduled for replacement during the next five years, $1.0 million is scheduled for replacement during the next six to ten years and $3.9 million is scheduled for replacement after ten years. In FY 2011, $500,000 was refunded to the contributing funds. This reserve is fully funded with a projected ending balance of $3.2 million at June 30, 2011.

Recommendation and Fiscal Impact: Maintain contributions for the replacement of City fleet vehicles and equipment to keep the reserve at an adequate level.

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, 2011 is $914,000, 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.

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 $945,000. The reserve balance is projected to be $886,000 as of the end of FY 2011.

Recommendation and Fiscal Impact: Transfer $60,000 from the General Fund to the Facilities Maintenance for FY 2012 (there was no FY 2011 transfer). Additional funding may be recommended as part of other LTFP papers, such as Beach Restroom and Facilities papers.

Park Asset Replacement Reserves
City Council Fiscal Policy: The City will establish a Park Asset Replacement Reserve with a target balance of $1.2 million for the replacement of park assets. The reserve balance will be reviewed annually and funded through one-time revenues or undesignated General Fund balance transfers, when available. *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. An analysis of park assets was performed by City staff during FY 2009 This assessment identified approximately $28.3 million of buildings, fencing, lighting, playground and sports equipment, and benches and bleachers related to parks (parking lots, access roads, sidewalks, and natural turf are excluded from this amount).

The annual contribution of $1.1 million to replace these items was not economically feasible at that time, so a target reserve level of $1.2 million was set to fund. The reserve was initially funded with $276,000 with additional contributions to be considered as funds are available.

In FY 2010, the City sold land to Target and the proceeds were placed into the Parks Acquisition and Development Fund. Based on the schedule below, $1.0 million is remaining.

Proceeds from sale	$ 13.4 million
Repayment to the General Fund	- 9.2 million
La Pata Vista Hermosa Funding gap	- 3.2 million
Remaining proceeds	$ 1.0 million

The remaining proceeds of $1.0 million of one-time revenues assigned to the Park Acquisition and Development should be transferred to the Park Asset Reserve to achieve the $1.2 million funding gap in the Park Asset Reserve.

The Park Asset Reserve can then be used for replacement of park capital assets valued over $25,000. Once a replacement project is identified and funded, the reserve's will start replacement charges to the benefiting program to replenish the Park Asset Reserve based on a reasonable life.

Next year, staff will review the La Pata Vista Hermosa Park assets. Assets will be reviewed to determine if funds should be set aside for "shorter" lived assets, such as artificial turf.

Recommendation and Fiscal Impact: Staff recommends a transfer of $1.0 million from the Parks Acquisition and Development Fund to the Parks Asset Reserve to obtain compliance with the $1.2 million threshold.

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 Fund budgets. The minimum reserve level shall be at a level equal to the projected three-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 the significant funding gaps identified. Achieving fully funded reserves will take multiple fiscal years and may impact Water and Sewer rates.

This Council approved funding policy has now been in effect for several years. In the 2009 LTFP, the reserve funding targets were modified from five years of projected costs to three years of projected costs. This change was made based on the typical two-year cycle of major capital projects, which are appropriated (fully funded) by the Capital Improvement Budget funded from the depreciation reserves, but have construction cycles which cover multiple fiscal years. The combination of the funded capital projects and the targeted three years of projected future costs in the reserves represent funding for five years of capital projects.

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 to 75% of the targeted amount .

The projected ending depreciation reserve balance at June 30, 2011 is $9.0 million. The three-year capital costs total $10.0 million. Therefore, the Depreciation Reserve is under funded by $1.0 million.

The Water Operating Fund contributes $1.1 million based on depreciation and $2.0 million through an additional contribution required based on the asset model implemented in FY 2006. The City is making progress toward funding three years worth of capital activity based on the contributions and the interest earned on the reserve amounts. The depreciation contribution amount is based on the estimated useful life of the capital assets. The asset model contribution amount was identified to address past underfunding, major maintenance costs and set aside funds for assets that are not owned by the City, such as joint agency assets. During FY 2012, the $2.0 million asset model contribution should be adjusted to $2.1 million due to anticipated joint agency asset activity.

Recommendation and Fiscal Impact of Recommendations: Maintain annual depreciation fund charges to the Water Operating fund to achieve three years worth of future capital projects. The FY 2012 budget will contain reserve contributions of $3.2 million.

Sewer Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2011 is $6.5 million. The three-year capital costs total $6.3 million. Therefore, the Sewer Depreciation Reserve is currently fully funded.

The Sewer Operating Fund currently contributes $2.5 million based on depreciation and $0.3 million to set aside funds for assets that are not owned by the City. The depreciation funding amount is based on the estimated useful life of the capital assets. The City continues to make progress toward the funding capital activity based on these contributions.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects. The FY 2012 budget will contain reserve contributions of $2.8 million.

Storm Drain Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2011 is $2.3 million. The three-year capital costs total $4.5 million. Therefore, the Depreciation Reserve is currently under funded by $2.2 million.

The Storm Drain Depreciation Fund will contribute $845,000 based on depreciation funding and an additional reserve contribution of $60,000 for a total contribution of $905,000 in FY 2012. The City continues to make progress toward the funding of three years worth of capital activity based on these contributions, the interest earned on the reserve, and amounts 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 costs of the reserve.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Storm Drain Depreciation Operating fund to achieve three years worth of future capital projects. The FY 2012 budget will contain normal reserve contributions of $905,000.

Golf Course Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2011 is $1.4 million. Projected capital expenses for the next three years total $310,000. The depreciation reserve is utilized for setting aside amounts for buildings, and machinery and equipment replacements, which can have lives between 5-50 years.

Recommendation and Fiscal Impact: Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.

Golf Capital Improvement Reserve
City Council Fiscal Policy: The City will maintain a Golf Capital Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected three-year costs.

Assessment of the current situation/conclusions: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements in the Golf Course Fund. However, this Improvement Fund had no funding mechanism due to all depreciation funds being placed in the Golf Depreciation Reserve. During FY 2011, Council approved the allocation of depreciation funds related to green and tee reconstruction, fencing and other miscellaneous golf improvements to be placed into the Golf Capital Improvement Reserve providing funds for the eventual replacement of these assets. The Golf Capital Improvement Reserve at June 30, 2011 is projected to have an ending balance of $402,000. Projected capital expenses for the next three years total $374,000. Therefore the fund is in compliance.

Recommendation and Fiscal Impact: Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.

Council Action: The Reserve Analysis recommendations were approved by City Council.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2012:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2012	Total Charge for General Liability FY 2011
General Fund	59.7%	54.6%	55.9%	$ 894,080	$ 763,320
Street Improvement Fund	0.0%	3.7%	2.8%	44,520	-
Water Fund	11.6%	19.6%	17.6%	281,720	188,740
Sewer Fund	8.5%	9.5%	9.3%	147,900	92,600
Solid Waste Fund	2.7%	0.2%	0.9%	13,520	1,680
Storm Drain Fund	14.8%	1.6%	4.9%	78,250	55,490
Golf Course Fund	0.0%	2.3%	1.7%	28,000	21,640
Clean Ocean Fund	2.7%	2.2%	2.3%	36,680	19,990
Information Services Fund	0.0%	1.5%	1.1%	18,250	12,690
Central Services Fund	0.0%	0.9%	0.6%	10,090	4,810
Fleet Maintenance Fund	0.0%	1.4%	1.0%	16,490	11,250
Redevelopment Agency	0.0%	2.5%	1.9%	30,500	27,790
Total	**100.0%**	**100.0%**	**100.0%**	**$1,600,000**	**$1,200,000**

Workers Compensation charges

The following rates are in effect for FY 2011:

8810	Clerical	\$0.47/\$100 of payroll
9410	Non-Manual	\$1.33/\$100 of payroll
9420	Manual Labor	\$4.41/\$100 of payroll

The proposed rates for FY 2012 are:

8810	Clerical	\$0.47/\$100 of payroll
9410	Non-Manual	\$1.33/\$100 of payroll
9420	Manual Labor	\$4.41/\$100 of payroll

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

Background
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. **Revenue Policies:** Modify the existing policy restricting the use of one-time operating, capital and reserve revenues for one-time expenditures to allow exceptions based on Council approval.

Current Policy Statement	Proposed Policy Statement
Policy #8 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.	**Policy #8** 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. Exceptions to the use of one-time revenues for new operating expenditures must be formally adopted by Council Action and may only offset operating expenditures for a limited time period of less than five fiscal years.

2. **Short-Term Debt Policies:** Modify the existing policy for interfund loans to include language to require identification of a specific source of repayment from the borrowing fund.

Current Policy Statement	Proposed Policy Statement
Policy #18 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.	**Policy #18** The City may issue interfund loans 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 a specific source of repayment is identified within the "borrowing" fund. Excess funds must be available and the use of these funds will not impact the "lending" fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund. Short-term interfund loans require Council approval.

3. **Long-Term Debt Policies:** Create a formal policy for long-term interfund loans.

Current Policy Statement	Proposed Policy Statement
None	**Policy #20** The City may issue long-term interfund loans to fund capital improvements. Interfund loans will be permitted only if a specific source of repayment is identified within the "borrowing" fund. Excess funds must be available and the use of these funds will not impact the "lending" fund's long-term operations. Long-term interfund loans will be fully amortized (principal and interest included in payment). The prevailing interest rate and duration of the loan will be established by the City Treasurer. Principal and interest will be paid to the lending fund. Long-term interfund loans require Council approval. Long-term interfund loans will be disclosed in the City's annual Operating Budget.

4. **Fund Balance and Reserve Policies:** Separate the existing Emergency Reserve policy for the General Fund and the Enterprise Funds into two separate policy statements.

Current Policy Statement	Proposed Policy Statement
Policy #23 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.	**General Fund Policy - #23** The City will maintain an emergency reserve equal to 9% of operating expenditures of the General Fund. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget. **Enterprise Fund Policy - #24** The City will maintain an emergency reserve equal to 8% of operating expenses for Enterprise Funds. The primary purpose of these reserves is to protect the Funds during periods of economic downturn, other unanticipated expenses, or emergency expenses that could not be reasonably foreseen during preparation of the budget.

Recommendation

It is recommended that the City's Fiscal Policy be modified to:

1. Add new language to require Council approval of exceptions to the use of one-time revenues for on-going expenditures.
2. Include new language in the existing short-term debt policy to require a specified source of repayment from the borrowing fund.
3. Create a formal long-term interfund debt policy.
4. Separate the existing Emergency Reserve policy for the General Fund and the Enterprise Funds into two separate policy statements.

Council Action: The Fiscal Policy recommendations were approved by the City Council with recommendation # 1 to read as follows:

1. One-time operating, capital, and reserve revenues will be used for one-time expenditures. Exceptions must be formally adopted by Council action and may only offset operating fiscal expenditures for a limited time period of less than five years.

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			
1	The City will adopt a balanced budget by June 30 of each year. A balanced budget is defined as 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.	√	

	Fiscal Policy Statement	Status	Comments
2	An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
3	Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	√	
4	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			
5	The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
6	The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
7	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.	√	Annual review is presented in the Revenue Update section of the LTFP

	Fiscal Policy Statement	Status	Comments
8	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. Exceptions to the use of one-time revenues for new operating expenditures must be formally adopted by Council Action and may only offset operating expenditures for a limited time period of less than five fiscal years.	√	
9	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			
10	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.	√	
11	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.	√	

Fiscal Policy Statement	Status	Comments
Utility Rates and Fees Policies		
12 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 over-head charges.	√	Annual review completed. Water rates increased 12.6%. Sewer rates increased 3.2%.
13 Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
14 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.	√	17 new Capital projects = $11.1 million.
15 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.	√	
16 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.	√	

Fiscal Policy Statement	Status	Comments
Short-Term Debt Policies		
17 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.	√	
18 The City may issue interfund loans 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 a specific source of repayment is identified within the "borrowing" fund. Excess funds must be available and the use of these funds will not impact the "lending" fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund. Short-term interfund loans require Council approval.	√	
Long-Term Debt Policies		
19 The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
20 The City may issue long-term interfund loans to fund capital improvements. Interfund loans will be permitted only if a specific source of repayment is identified within the "borrowing" fund. Excess funds must be available and the use of these funds will not impact the "lending" fund's long-term operations. Long-term interfund loans will be fully amortized (principal and interest included in payment). The prevailing interest rate and duration of the loan will be established by the City Treasurer. Principal and interest will be paid to the lending fund. Long-term interfund loans require Council approval. Long-term interfund loans will be disclosed in the City's annual Operating Budget.	√	
21 The City will establish and maintain a Debt Policy	√	

Fiscal Policy Statement	Status	Comments
Fund Balance and Reserve Policies		
22 The City will maintain emergency reserves equal to 9% of operating expenditures of the General Fund. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	✓	Emergency Reserve = $4.3, or 9.00% of General Fund operating expenditures.
23 The City will maintain emergency reserves equal to 8% of the operating expenses for Enterprise Funds. The primary purpose of these reserves is to protect the Funds during periods of economic downturn, other unanticipated expenses, or emergency expenses that could not be reasonably foreseen during preparation of the budget.	--	Emergency Reserves = 8% of expenses for the following Enterprise Funds: Storm Drain $99,000, Solid Waste $15,000. The following Funds are not in compliance: Water $30,000, Sewer $285,000, and Golf $40,000

	Fiscal Policy Statement	Status	Comments
24	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
25	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 = $600,000
26	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 = $965,000 Facilities Maintenance Reserve = $898,000
27	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 = $9.0 million Sewer Depreciation Reserve = $6.5 million Storm Drain Depreciation Reserve = $2.3 million Golf Depreciation Reserve = $1.5 million

	Fiscal Policy Statement	Status	Comments
28	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 = $402,000
29	The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets in the future.	--	Park Asset Replacement Reserve = $280,000
30	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 = $500,000 Workers Compensation Reserve = $1,460,000
31	The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	Fleet Replacement Reserve = $3.4 million

	Fiscal Policy Statement	Status	Comments
	Investment Policies		
32	The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
	Accounting, Auditing & Financial Reporting Policies		
33	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.	√	
34	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.	√	
35	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
36	Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
37	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.	√	
38	Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
39	A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AAA
40	Establish and maintain a formal compensation plan for all employee salary or wage ranges.	√	

	Fiscal Policy Statement	Status	Comments
41	Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	√	
	Long Term Financial Policies		
42	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, the City will strive to balance the operating budget for all years included in the five-year financial forecast.	√	
43	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*

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Capital Projects Analysis

Objective

To provide a summary of significant capital projects with funding challenges. 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 are projected to start construction 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 available funding, 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 and Medians				
Beach Restroom Master Plan (refer to separate issue paper within the LTFP)	General Fund and RDA Fund	$0[1]	$1,970,000 to $2,500,000	($1,970,000 to $2,500,000)
Facilities and Other Improvements				
Civic Center	Public Facilities Construction Fund and Public Safety Reserve	$3,900,000[2]	$12,900,000	($9,000,000)[3]
North Beach Parking Improvements (M02 Channel and Marblehead Coastal)	In-Lieu Beach Parking Fund	$1,592,000	$1,592,000	$0
Ole Hanson Beach Club	General Fund	$0	$1,500,000	($1,500,000)
USACE Sand Project	General Fund and RDA Fund	$0	$12,200,000[4]	($4,170,000)[5]
Wayfinding Master Sign Program	General Fund and RDA Fund	$122,860[6]	$1,500,000 to $2,000,000	($1,377,140 to $1,877,140)
Quiet Zone Improvements	OCTA Match, General Fund and RDA Fund	$468,000[7]	$3,900,000	($3,432,000)[8]

[1] $250,000 in funding from the RDA will be evaluated in the 2012 Capital Improvement Program for the Base of Pier Restroom.
[2] This includes $2,500,000 from the Public Facilities Construction Fund and $1,400,000 from the Public Safety Reserve.
[3] Funding is anticipated from the potential sale of the existing City Hall site at 100 Avenida Presidio.
[4] Project cost includes $1,000,000 for design and $11,200,000 for initial construction with the City's cost share with Federal Government at 25% for design and 35% for initial construction.
[5] There is a potential for 85% of the construction funds to be provided to the City by the California Department of Boating and Waterways.
[6] This includes $75,000 from RDA and $47,860 from the Public Facilities Construction Fund.
[7] This includes $334,000 from the General Fund and $134,000 from the RDA.
[8] Additional funding is anticipated from OCTA as part of an 88% match.

CITY PROJECTS - Enterprise

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Water, Sewer and Storm Drain				
Prima Deshecha Canada Channel (M01) Reconstruction	Storm Drain Depreciation Reserve	$1,700,000	$1,700,000	$0
Recycled Water Expansion	Grant/Water and Sewer Funds	$9,700,000[9]	$22,000,000	($12,300,000)
Reservoir No. 1 Expansion	Water Depreciation and Acreage Fee Funds	$3,500,000	$3,500,000	$0
South Orange County Ocean Desalination (SOCOD)	Water Acreage Fee Fund	$660,000	$660,000[10]	$0

[9]Excludes any proceeds from State Water Resources Control Board (State Revolving Fund Loan).
[10]Funding includes the City's share of the pilot project and testing, total project cost is estimated at $175,000,000.

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 and Medians

Beach Restroom Master Plan

Project Background:
The City's Beach Restrooms serve over two million visitors each year and are showing signs of deterioration from heavy use. Staff has reviewed the facilities, met with Americans with Disability (ADA) Consultants, and identified a number of deficiencies in the structural integrity, accessibility, attractiveness, and function, which are discussed in the Master Plan for Beach Restrooms. Each of the six restroom buildings is in need of repair and retrofit. Additional research is needed regarding the Coastal Commission requirements for some of the buildings; however, the "Base of Pier" restroom is prioritized for immediate repair and redesign since it has the highest use and is in the best structural condition of the Beach Restrooms. Therefore, repairs can be completed without major reconstruction and it can be adapted to provide handicap access to meet ADA standards. In addition, the repair may include upgrades to the building style to be more consistent with the Spanish Colonial Architectural Overlay Zone and to provide cosmetic upgrade to the other buildings. Long-term repairs are needed to bring all six restroom buildings into ADA compliance, to improve aesthetics and repair structural issues.

Expenditures:
Short-term improvement costs to address Base of Pier Restroom are estimated at $250,000. Long-term improvement costs to address all six facilities are estimated between $1,720,000 and $2,304,000.

Potential Cash Flow Issues:
The $250,000 for the Base of Pier Restroom can be funded from the Redevelopment Agency Fund while the remaining $1,720,000 to $2,304,000 for the other restrooms is proposed from the General Fund and Redevelopment Agency for Linda Land and End of Pier Restroom.

Non-Enterprise Projects – Facilities and Other Improvements

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 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. At this time, construction documents have been completed but the project has been put on hold indefinitely and the City has leased the second and third floors of the 910 Negocio Building to tenants with multi-year commitments.

Expenditures:
In 2009 the total estimated cost for this project was $12.9 million; this includes $827,000 spent to date for architectural services related to preparation of the plans, and specifications.

Potential Cash Flow Issues:
Funding sources identified for this project include the Public Safety Reserve ($1.4 million) and the Public Facilities Construction Fund ($2.5 million). The remaining funding can be obtained from the potential sale of the existing City Hall Site at 100 Avenida Presidio.

The City has leased the second and third floors of the 910 Negocio Building to tenants with multi-year commitments. This will delay the adaptive reuse into the Civic Center until such time that the lease periods end.

Additionally, the project requires the sale of the City Hall site and completion of construction of the new Downtown Fire Station No. 60 and Senior Center on Avenida Victoria anticipated by May 2011. While occupancy of the new Downtown Fire Station 60 will permit the sale of the existing City Hall site, the current real estate market is not favorable enough to warrant the sale of the property at this time. Once the real estate market begins to turn around, the sale of the City Hall site should be re-evaluated.

Delaying the construction of this project will also require additional expenses for architectural services related to upgrading the project design drawings to future codes requirements.

North Beach Parking Improvements (MO2 Channel and Marblehead Coastal)

Project Background:

The North Beach Parking Master Plan (NBPMP) identified both the need for public parking and how that can be accomplished through 2035. The NBPMP was approved in February of 2008 and identified the need for 365 public parking spaces in North Beach by the year 2035. Currently, there are 340 public parking spaces in North Beach. In December of 2009 the City committed to provide 64 parking spaces for the preservation and rehabilitation of the Historic Casino building. Overall, this has increased the need for additional parking in North Beach to 89 public parking spaces (365-340= 25+64=89).

Per the NBPMP the additional 89 spaces can be located on the M02 Channel and Marblehead Coastal (MHC) site. The M02 Channel can accommodate approximately 70 spaces and the MHC site can accommodate 93 surface parking spaces. Therefore, the Channel should be developed, along with a minimum of 19 spaces on the MHC site (70+19=89). However, the City Council has taken a proactive position regarding providing a parking waiver incentive for the restoration of the Miramar Theater. To accommodate a waiver and Historic Preservation Agreement, parking resources need to be identified and planned for. While the exact amount of parking needed for the Miramar Theater is unknown until a specific plan is presented, the NBPMP has identified the MHC site as appropriate for providing this parking.

Expenditures:

Infrastructure work (grading, retaining walls, water quality devices, landscaping, etc.) will need to be completed on the MHC site whether 19 spaces are developed or the full build out of the site. The initial cost for final design of the facilities is $392,000, which will come from the In-Lieu Beach Parking Fund. On top of the design costs, it is estimated that the full build out of the MO2 channel and MHC parking lots will cost $1.2 million (with more definitive estimates coming following formal design). The In-Lieu Beach Parking Fund has a balance of $9.3 million following the allocation of the design costs.

Ole Hanson Beach Club

Project Background:
The Ole Hanson Beach Club is listed as a Historic Resource and was built in 1928 as part of the original San Clemente plan. Since that time, a number of alterations have been made to the building; however, it has never had a complete restoration, and many of the repairs, made over the years, are not appropriate to the historic integrity of the structure, and currently, the building has a number of items that are in need of immediate attention to ensure its long-term viability. Of immediate concern are water leaks from the roof decks into the ceilings that may undermine the ceiling beams and joists, and water damage to the exterior restroom walls. In addition, there are areas of work that have been delayed due to funding challenges such as the current closure of the upstairs balcony due to structural concerns, replacement and /or restoration of tile, lights, and other architectural items.

Work has been completed on an assessment of the structural deficiencies and building systems. A historic architect is being retained to provide a scope of work for preservation/restoration items needed to comply with the Secretary of the Interior guidelines for historic preservation. Short-term repairs will commence this year to address the immediate damages; however, the building is in need of substantial work that will require the closure of the facility to complete. This closure will affect the City's revenues as Beach Club rentals produce approximately $200,000 per year. This project currently addresses the building only and does not include the pool facility which may also need upgrades.

Expenditures:
The estimated project cost is preliminary at $1.5 million and includes the cost for structural repair, electrical, HVAC issues and some Historical Architectural review.

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. Depending on the results of the final report and ultimate schedule to replenish the sand, the City will need to reevaluate the condition of the Marine Safety Headquarters and decide if it is feasible to make repairs or relocate the facility.

Current Status and Schedule:
The study has been underway since 2001, and will be completed by mid-2011. The Corps has prepared a Preliminary Draft Feasibility Study Report along with a Preliminary Draft Environmental Impact Statement. The Corps circulated a Draft Feasibility Study Report along with a Draft Environmental Impact Statement for public review, and is now responding to comments and continuing with its internal technical and policy review. Revised documents will be completed and available in January 2011. Corps staff anticipates that its Washington headquarters review will occur in April 2011 (exact date to be determined). At their January meetings, both the Coastal Advisory Committee (CAC) and the Beaches, Parks & Recreation Commission recommended that the City Council should support the recommended plan, which is a 50-foot wide beach fill from Linda Lane to South T-Street beach. Staff anticipates consideration by the City Council in February 2011. If the City Council supports the recommended plan, the final report will proceed to the Corps headquarters for final review and approval by the Chief of Engineers. This would allow the project to be included in congressional legislation that is required to authorize and proceed with project construction. Note that in February the City Council will only be asked whether or not it supports the plan recommended by the Corps. A decision on whether or not to proceed to the design phase and commit funds to do so would occur during the FY2012 budget process. If the City approves continuing to the design phase, then staff would coordinate with the Corps on a Project Management Plan and cost sharing agreement for design only, as design work can proceed in advance of congressional construction authorization.

Expenditures:
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 (DBW) and the remainder from the City's General Fund. 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 at the end of the study, however it appears at this time that the City has fulfilled its Feasibility Study cost sharing obligation.

The design phase is estimated at $1 million, with the Corps responsible for 75% of the cost and the City 25%. The cost for the recommended plan is estimated at $11.2 million for the initial sand placement, with the Corps providing 65% of the cost. The total cost for ongoing sand placement over the 50-year project life is estimated at $155.6 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)	Total (millions)
Design	75% Federal 25% City	$0.75	$0.25	$1.0
Initial Construction	65% Federal 35% City	$7.3	$3.9	$11.2
Ongoing Sand Replenishment	50% Federal 50% City	$71.7	$71.7	$143.4
Total		**$79.75**	**$75.85**	**$155.6**

If the City Council and Corps agree to continue into the design phase, this work could begin during FY2012. The City would then be obligated to provide $250,000 to the Corps for design work, although the entire City contribution may not be required in FY2012, since design will likely continue into FY2013. There is approximately $100,000 available in the City's project balance that could be applied toward the FY2012 design cost. Additionally, DBW is preparing an agreement to provide a $191,000 grant to the City, which combined with available City funds, could provide the City's total design phase contribution. Also, DBW is planning to "reserve" $90,000 in its FY2012 budget for the City, although this can't be confirmed until the State's FY2012 budget is approved in mid-2011. Construction of the beach nourishment project would also be eligible for DBW grant funds (up to 85% of the City's cost share obligation), subject to State funding availability which is not guaranteed. Unlike the City's funding contributions for the feasibility study phase and potential design phase, which are paid over the duration of each phase, the City's $3.9 million payment for the initial construction would be due in full before the start of construction. Without significant DBW grant support, the City may not be able to provide its local cost share required to proceed with project construction.

Wayfinding Master Sign Program

The Wayfinding Master Sign Program, approved February 16, 2010, establishes sign design guidelines for a variety of signs, such as: identification, historic landmark, entry, points of interest, directional and regulatory signs. The Sign Program places a special focus on five key areas: City Beaches, Points of Entry, Downtown, North Beach, and Pier Bowl. The Sign Program includes pedestrian, vehicular, and bicycle orientation to identify and lead visitors and residents to their destinations and various points of interest in the City.

The estimated cost of the overall program is $1.5 to $2 million dollars. The intent of the program is to not implement it all at once, but over the course of several years. Most of the signs will be replaced on an as needed basis, such as, when a sign is need of scheduled for routine replacement. Funding from the program will be shared between the Redevelopment Agency and the General Fund. Staff will return to the City Council yearly as part of the Capital Improvement Project (CIP) process to request funding to replace needed signs with the Wayfinding signs.

Expenditures:
The City is currently implementing Phase I of the program which focuses on the Downtown and Pier Bowl areas. This phase costs approximately $125,000.

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 construction of improvements at North Beach and the Pier.

Throughout 2010, considerable progress has been made by exploring multiple strategies and options. It now appears that wayside horns in combination with safety improvements may be the solution for all concerned parties.

Expenditures:
OCTA's consultant Parsons Brinckerhoff estimates infrastructure improvements including wayside horns and safety improvements at $3,900,000. Those improvements include:

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

Currently, funding for the North Beach and Pier vehicle crossing improvements is shared by the OCTA and the City on an 88% to 12% match basis. OCTA's executive staff has shown willingness to support a continued 88% funding level for the $3,900,000 improvements. To meet the City's 12% potential match, the City's portion of $468,000 is funded from the General Fund and RDA Fund in the amount of $334,000 and $134,000 respectively.

Enterprise Projects

Prima Deshecha Canada Channel (M01) Reconstruction

Project Background:
Prima Deshecha Canada Channel (M01), between Calle Grande Vista and Avenida Vaquero, is a concrete trapezoidal channel constructed in the late 1960s and is in need of rehabilitation. This reach of M01 is considered a major regional flood control facility and has a tributary drainage area of about 3,770 acres. The proposed improvements will be designed to provide 100-year flood protection in this reach in accordance with the current Orange County Flood Control District standards and regulations.

Based on a recently completed hydrology report that provides 100-year flow discharges, the project is under design with construction commencement anticipated in the spring of 2012. Regulatory permits such as a Coastal Commission, Regional Water Quality Control Board and Army Corp of Engineers are required prior to construction.

Expenditures:
The total project cost is estimated at $1.7 million, $200,000 for design was budgeted in FY 2010 and the remaining $1.5 million will be proposed in the FY 2012 CIP budget.

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 Bella Collina Towne and Golf Club, formally (Pacific Golf Course), and the Water Reclamation Plant. Due to grant funding opportunities, the Recycled Water Master Plan was updated by AKM Consulting and adopted by the City Council in October of 2007.

Based upon the recommended projects in the Master Plan, Carollo Engineers and City staff have completed the design of the following: expansion of the Water Reclamation Plant treatment capacity from 2.2 to 4.4 million gallons per day, approximately 9 miles of pipelines, a pump station, conversion of a domestic water reservoir to recycled water storage, a new 200,000 gallon potable water reservoir and a pressure reducing station. The expanded system will serve approximately 115 service connections consisting of 25 customers. The total recycled water demand from the expansion is estimated at 930 acre feet per year.

The project provides benefits to the City's water system by reducing dependency on imported water by approximately 8%. 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 the City meet State mandated water reductions by 2020 as defined in Senate Bill 7.

Construction is anticipated by the summer/fall 2011 and will take approximately 1.5 to 2 years to complete. Once construction is complete, it will take approximately 3 years for the City's customers to convert their sites. Customers will be required to convert their sites as stated in the City's Mandatory Recycled Water Use Ordinance. To assist customers with conversion costs, staff is working on a loan program to minimize initial out of pocket costs for customers. The loan repayment may be paid through the 10% difference between the potable and recycled water rates. Customers will not notice a difference in their water bills during loan repayment, once the loan is repaid, they will receive the lower recycled water rate.

Expenditures:
Based on final design, the total project cost is anticipated at $22 million.

Potential Cash Flow Issues:
The City is participating in the Proposition 50 State Grant Funding as part of a Regional Grant with South Orange County. The Regional Grant provides the City with $5.7 million in funding; although the State is in a fiscal crisis, the City is continuing to receive reimbursements from the State for the design of the project. 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 an agreement with the President to provide $500,000 for the project. The remaining cost will be funded through $2.8 million from the Sewer Fund Connection Fee Fund, $500,000 from the Sewer Depreciation Reserve Fund and $12.3 million from a low interest State Revolving Fund Loan with an approximate interest rate at 2.3%.

Additional Funding is anticipated from a Local Resource Project rebate from the Metropolitan Water District for up $250 per acre foot of recycled water sold to new customers. The City is eligible for this program and is in the process of applying for funding.

Reservoir No. 1 Expansion

Project Background:
The City's largest potable water service zone is served by Reservoir No. 1, which receives its supply from several turnouts off the Joint Regional Water Supply System Local Transmission Main and the City's wells. The reservoir is located near the Municipal Golf Course and provides

water to customers west of Interstate 5, down to the beach. Reservoir No. 1 is the City's oldest reservoir built in 1955 with a 450,000 gallon storage capacity. The reservoir was constructed with concrete walls and floor, and has a combination wood and sheet metal roof structure.

In late June 2010, City Water Operations staff noticed a sag in the roof structure while conducting routine maintenance rounds of the water system. The roof structure was found to be in poor condition with corrosion of nails and missing framing members. The roof was temporarily repaired and design commenced to replace the structure. The reservoir was identified in the City's 2006 Water Master Plan for increasing capacity from 450,000 to 1,000,000 gallons and subsequently scheduled in the City's CIP for replacement in FY 2015. Given the condition of the reservoir and the highly competitive bidding market, the replacement has been rescheduled for FY 2012.

Expenditures:
The total project cost is estimated at $3.5 million with funding from the Water Depreciation and Water Acreage Fee Funds.

South Orange County Orange Ocean Desalination

Project Background:
The City is participating with 4 other agencies (City of San Juan Capistrano, City of Laguna Beach, South Coast Water District and Moulton Niguel Water District) to explore construction of an ocean water desalination plant in Dana Point. The construction of ocean water desalination facilities will provide South Orange County a new dependable water supply source that is independent of drought cycles, which will help to supplement Delta judicially mandated cutbacks and will be considered an increased local supply under Metropolitan Water Districts supply allocation plan. Also, just as importantly, under local control, there will be a new water supply of up to 25 cubic feet per second or 15 million gallons per day that will improve South Orange County's water supply system reliability.

This project is especially important for San Clemente since it is at the south end of the regional pipeline distribution system, with only 2 pipelines providing imported water to the City from the north. There is no water available from the east or south.

A pilot plant has been constructed and is being operated for 18 months. During the operation, the following is being studied: water quality from a slant well in Doheny Beach, effects on the San Juan Basin Aquifer, corrosion analysis, reverse osmosis filter testing, microbial testing and post treatment testing. Based on the results from the pilot plant testing, a full plant design and construction may be recommended depending on projected construction and operation and maintenance costs. The City portion for participation in the pilot plant and analysis of the project is $660,000. The total project cost is currently estimated at $175 million.

Conclusion
The Gap Closing Strategy paper summarizes how the City may 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

Street Improvement Program Renewal

Objective

To provide an update on the City's Street Improvement Program progress.

Background

The Street Improvement Program was adopted by the City Council in July 1995. As of 1995, this program provided for the restoration of about 60 miles or one-half of the City's street system over 18 years. The program is being funded by a combination of revenues from (1) Street Assessment District 95-1, which assesses all developed properties; (2) the General Fund; and (3) the Gas Tax Fund. In addition, the Water, Sewer, and Storm Drain Funds pay for work done to various underground facilities in conjunction with the street work.

Even though half the streets included in the Street Improvement Program were originally scheduled to be rehabilitated in the first six years, the City has accelerated the program. Bonds were sold in the second year versus the originally planned third year of the program.

Since the approval of the program in July 1995, two hundred.and seven (207) street projects have been completed. An additional seven (7) projects are scheduled to be constructed in FY 2010-11 & FY 2011-12 (Exhibit "A"). This will complete about **65** miles of streets improvements funded by this program. The remaining seven street projects are:

- Vista Montana Phase II (from Lower Calle Del Cerro to Calle Pastadero),
- Calle Aguila (from Vista Montana to Calle Pastadero),
- Calle Amanacer Phase II (from Avenida Pico to Calle Trepadero),
- Calle Cordillera (from Calle Amanacer to cul-de-sac),
- Calle Sarmentoso (from Camino Vera Cruz to Camino Del Rio),
- Calle De Los Molinos (from El Camino Real to the MO2 Channel), and
- Calle Valle (from El Camino Real to Calle De Los Molinos), including the alley.

In addition, as part of the FY 1999-00 budget, the City Council re-established the City's Major Street Maintenance Program. Furthermore, the City Council, in July 2002, approved expanding the Major Street Maintenance Program to a $500,000 program, and the Slurry Seal Program to a $250,000 program. This Major Street Maintenance Program provides moderate and major improvements on streets that were not scheduled in the Street Improvement Program or improvements that were scheduled several years into the future. Since the re-establishment of the City's Major Street Maintenance Program as part of the FY 1999-00 budget, sixty-four (64) streets were rehabilitated for a length of approximately **12** miles (Exhibit "B").

Also, Engineering Division staff has been aggressively pursuing various grants for funding street improvements. especially the arterial streets. The City has received more than $7M in (Arterial Highway Rehabilitation Program (AHRP), State Local Transportation Partnership Program (SLTPP), CDBG, ARRA and other Grant Funds for certain street improvements.

Existing Funding Status

As previously mentioned, the Street Improvement Program is funded from the City's General Fund, the Gas Tax Fund, and the City-wide Street Improvement Assessment District. The program proposed that approximately 60 miles of streets be resurfaced or reconstructed over an 18-year period at an estimated cost of $43.1 million. An annual inflation factor of 3% was used to project the program's revenues and expenditures. The Street Improvement Assessment District is funded through two combined assessments. These assessments are:

- Bonded District is formed under the Municipal Improvement Act of 1913 with bonds sold under the 1915 Act. This portion of the assessment is retired in September 2011 (15 years after the bonds sales).
- Maintenance District is formed under the Benefit Assessment Act of 1982 for the maintenance and rehabilitation of streets. This portion of the assessment may be extended. The City Council would conduct a public hearing prior to extending the maintenance assessment beyond the maturity of the assessment bond.

Both assessments together are equivalent to $90 per single family house on a public street, per year. Annually, both Assessments generate approximately $1.2M.

There are several revenue sources being utilized to fund street rehabilitation and major maintenance programs. The City does not have complete control of outside funding sources, but does have a stable and known funding amount from the Street Assessment District. When the Street Improvement Program was originally presented, staff estimated a reasonable revenue and expenditure forecast based on a 3% annual inflation rate used for both revenues and expenditures. Major sources of the Gas Tax Fund are 2106 State Gas Tax Funds, Proposition 111 and Measure M Turnback. The total annual Gas Tax Fund revenues were estimated to be $1.165M for FY 2010/11 as follows:

2106 Gas Tax	$ 230,000
Proposition 111	360,000
Measure M	575,000
Total	$1,165,000

The original Measure M was a 20-year sales tax program that was approved in 1990 and is scheduled to sunset in year 2010. Measure M2 was approved to extend the sales tax program for an additional 30 years. In addition, originally the Street Improvement Program assumed that the bonds would be issued in 1997 and would mature in the year 2013 resulting in an 18 year program. However the bonds were actually sold in 1996 and were set up to mature in 2011 resulting in a 16 years program. **Therefore the Assessment District will expire in 2011.** The City will have to identify a continuing source of revenue in the future if it is to maintain the streets pavement quality standards.

The Street Improvement Program Financing Plan included contributions from the General Fund and the Gas Tax Fund, in addition to the assessment. The contributions are escalated at a 3% annual rate. The table below shows the contribution projections from the various funds.

Program Year	Fiscal Year	General Fund Contribution	Gas Tax/Measure M Contribution
16	2010-2011	$712,870	$605,030
17	2011-2012	$734,260	$623,190

- The contributions are escalated at 3% annually.

In summary, the recent funding (average of FYs 08, 09 & 10) for street rehabilitation and major maintenance has averaged about $5.75M annually as shown below:

SIP projects	$1,900,000
Major Maintenance	$ 550,000
Slurry Seal	$ 250,000
Arterial projects (Gas Tax & Measure M)	$ 800,000
Subtotal	**$3,500,000**
Other Funds (Prop 42, 1B & Grants)	$2,250,000
Total	**$5,750,000**

The projected revenues for FY 2012 show no revenues from the Proposition 42 and/or Proposition 1B. In addition the Street Assessment District will expire in late 2011. This will reduce the available funds for street improvements from an average of $5.75M to $2.75M. This is based on the following funding consideration:

- The original Measure M was a 20-year sales tax program approved in 1990 and will sunset in 2011. Measure M2 was approved to extend this sales tax program for an additional 30 years; however OCTA has lowered its revenue forecast due to economic conditions.
- The Traffic Congestion Relief Fund (Proposition 42) and Transportation Bond Program (Proposition 1B) are not stable funds and the State has a record of suspending payments. The State may suspend Proposition 42 and 1B payments in the upcoming fiscal years.
- General Fund and Gas Tax Fund contributions to the Street Improvement Program are assumed to continue, when Assessment District 95-1 ends.
- The Major Maintenance and Slurry Seal Programs are assumed to continue.
- Grant fund revenues going forward are much less certain as OCTA is revising its Arterial Street Rehabilitation Program.

The table below details the various revenues available for the street rehabilitation and maintenance programs.

Street & Transportation Revenue Funds					
Description	**FY 2008 Actual**	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Proposed**	**FY 2012 Proposed**
Gas Tax Revenues:					
2106 Apportionment	166,713	324,991	234,574	230,000	236,900
2105 Apportionment (Prop. 111)	268,477	466,392	367,878	360,000	370,800
Measure M Apportionment	732,357	651,739	568,868	575,000	592,250
Transfer to Street Improvement	(553,700)	(570,300)	(587,410)	(605,000)	(623,150)
Subtotal Gas Tax *Revenues*	**613,847**	**872,822**	**583,910**	**560,000**	**576,800**
Street Improvement Revenues:					
Street Improvement Assessments	654,464	660,370	717,306	661,000	0
Transfer from General Fund	652,390	671,960	692,120	712,900	734,300
Transfer from 2106 Gas Tax Fund	553,700	570,300	587,410	605,000	623,150
Subtotal Street Improvement *Revenues*	**1,860,554**	**1,902,630**	**1,996,836**	**1,978,900**	**1,357,450**
Major Maintenance Program Revenues:					
Transfer from General Fund (Major Maint.)	550,000	550,000	550,000	550,000	550,000
	250,000	250,000	250,000	250,000	250,000
Transfer from General Fund (Slurry Seal)	**800,000**	**800,000**	**800,000**	**800,000**	**800,000**
Subtotal Major Maintenance *Revenues*					
Subtotal Revenues	**3,274,401**	**3,575,452**	**3,380,746**	**3,338,900**	**2,734,250**
Other Revenues and Grants					
Measure M Grant	150,000	0	0		
A.H.R.P. Grant	1,874,353	713,360	0		
City Aid Program (Prop 42 & Prop 1B)		100,000	226,085		
Safe Route to School Grant	0	0	262,080		
Traffic Congestion Relief (AB2928 - Prop 42)	0	575,303	618,908	630,000	
Transportation Bond Program (Prop. 1B)[1]	1,083,649	0	1,001,590		
Federal Grants (Stimulus)			500,000		
Subtotal Other Revenues and Grants	**3,108,002**	**1,388,663**	**2,608,663**	**630,000**	**0**
Total Funds	**6,382,403**	**4,964,115**	**5,989,409**	**3,968,900**	**2,734,250**

Future Needs

In order to estimate future rehabilitation requirements of a pavement network over a period of time, the first step is to determine when pavement sections require rehabilitation. The deterioration of pavement sections depends on many factors such as the traffic loading, subgrade strength and the properties and thickness of the pavement structure layers. The life of a new street is approximately 25 years. In order to extend the life of streets, programmed preventive maintenance and rehabilitation should be scheduled. Generally, streets should be slurry sealed on an approximately seven-year cycle and also overlaid every 20 to 25 years. Arterials typically are overlaid on a more frequent basis because of higher traffic and truck volumes.

The City has retained a professional consultant to update the City's Pavement Management System program. The program will:

- analyze the existing pavement conditions for the entire street network,
- project pavement conditions over the next seven years,
- provide recommendations for rehabilitation treatment per street section over the next seven years, and
- provide recommendations for alternative funding levels required to maintain and improve the existing average network performance condition index.

This will provide a comparison of the funding recommendations and its results to the street network pavement quality index (PQI).

The estimated replacement value of the road network and associated appurtenances is approximately $300 million. It is prudent to continue to invest in maintaining the network rather than allowing streets to fail and then require full reconstruction of the streets. Pavement reconstruction costs are two to four times more than rehabilitation. Below are some examples of street pavement conditions prior to the Street Improvement Program.


Avenida Madrid


Via Cascadita

The City will have to identify a continuing source of revenue in the future if it is to maintain its street quality standards. Some of the options are:

- Establish a new assessment for the Street Improvement Program:
  a) The Bond Assessment will expire in September 2011,
  b) Create a new Maintenance Assessment equivalent to the retired Bond Assessment, and the existing Maintenance Assessment. The existing assessment is $90 per single family house on a public street, per year. This option will not increase the existing assessment amount per year per parcel. At the same time it will continue to generate approximately $1.2M to be available for the street improvements. It will be subject to Proposition 218 and will require a majority vote of property owners to approve.
  OR
  c) Create a new Maintenance Assessment with a higher assessment in order to cover the inflation cost increase. The assessment amount will be based upon the updated Pavement Management System. Even though the original program included a 3% inflation annual rate, the construction boom and the increase of the oil cost exceeded the original inflation rate. As an example, the asphalt (AC) cost almost doubled since 1995. This option may increase the existing assessment amount per year per parcel. At the same time, it will continue to generate the needed funds to be available for the street improvements. It will be subject to Proposition 218 and will require a majority vote of property owners to approve.

- Extend the maintenance portion of the assessment of the Street Improvement Program:
  a) The Bond Assessment will expire in September 2011,
  b) Extend only the existing Maintenance Assessment, beyond Year 2011.

This option will only generate approximately $660,000. This option will impact the quality of the pavement section of the City street network, especially the residential and collector streets. This will be subject to Proposition 218 and will require a majority vote of property owners to approve.

- Retire both assessments of the Street Improvement Program:
  a) Retire both assessments after their expiration.
  b) Maintain the existing General Fund contribution.

If the City allows both assessments to expire, and provide no other funds to replace the $1.2M, over time, the street network pavement section will deteriorate to unacceptable conditions. The street improvement programs will be reduced according to the available funds and it is recommended that priority will be given to the main arterials, as was the case prior to 1995. The scarce City funds available for street rehabilitation were used to leverage 50% matching grants to rehabilitate arterials. No residential streets were rehabilitated until after the Street Improvement Program was formed.

- Increase the General Fund contribution:
    a) The City may decide to provide additional General Fund contributions to offset the loss from the assessments.

The program will be competing with other City programs for General Fund and thus may impact the funding of the other programs.

- Eliminate the Street improvement Program.
  Overtime, this will cause the street pavement conditions to deteriorate to poor and unsatisfactory conditions.

Proposition 218 Approval Process

To renew the Street Assessment District, the City must provide San Clemente property owners with the opportunity to vote on the proposed assessment in accordance with Proposition 218. For a proposed assessment, the Proposition 218 process begins by mailing a notice to all property owners in the City that would be subject to the assessment. The notice would include:

- Date, time and location of a public hearing on the proposed assessment;
- Proposed assessment amount for each parcel and other required information; and
- Ballot for the property owner to indicate support or opposition to the proposed assessment.

A public hearing on the proposed assessment must be held not less than 45 days after mailing the required notice and ballot to the record owner of each identified parcel. At the public hearing, the City would consider all protests against the proposed assessment and tabulate the ballots. The City could not impose the assessment if there is a majority protest, which exists if, after the conclusion of the hearing, ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment, weighted by the dollar amount of each assessment.

Conclusion

The Street Improvement Program has achieved its goal by significantly improving the condition of the City's streets. The program has been a highly visible success, because citizens can see and feel the improvement in the quality of their streets. Since the approval of the program in July 1995, two hundred and seven (207) street projects have been completed. An additional seven (7) projects are scheduled to be constructed in FY 2010-11 & FY 2011-12. This will complete about 65 miles of streets improvements funded by this program. Also, since the re-establishment of the City's Major Street Maintenance Program as part of the FY 1999-00 budget, sixty-four (64) streets were rehabilitated for a length of approximately **12** miles. This is in addition to the rehabilitation of several miles of the arterial roadways, using a mix of City and various funds.

However, if the Street Assessment District is not extended and/or replaced by other sources of funds, street pavement conditions will eventually revert to the conditions at the beginning of the program. Also, it is much less expensive to overlay a street before it fails and requires reconstruction at two to four times the cost. Therefore it would be prudent to maintain the funding of the Street Improvement Program and the Major Maintenance Program, by renewing the Street Assessment and continuing the General Fund contribution to these successful programs.

Recommendation

Staff recommends that the City Council direct Staff to pursue the planning for the renewal of the Street Improvement Assessment to maintain the integrity of the program.

Council Action: The Street Improvement Program Renewal recommendation was approved by City Council.

EXHIBIT "A"
Completed Street Improvement Program Projects

1. Via Cascadita from Via Socorro to Camino Capistrano. The project also included storm drain improvements.
2. Avenida Presidio (Phase I) from the San Clemente High School boundary to Calle Miguel, including one block of Calle Miguel.
3. Avenida Presidio (Phase II) from Calle Miguel to Calle Esperanza. The City utilized rubberized asphalt for the first time when paving the street.
4. Calle Real from the City limits to Via Del Campo.
5. Calle Bienvenido from the City limits to Via Del Campo.
6. Avenida Cabrillo from El Camino Real to Calle Seville. The project also included water improvements.
7. Avenida Valencia (Phase I) from El Camino Real to Ola Vista. The project also included the rehabilitation of the landscaped median. Median improvements were funded from the Lighting and Landscape District capital budget.
8. Avenida Valencia (Phase II) from Ola Vista to Calle Toledo. The project also included the rehabilitation of the landscaped median.
9. Calle Toledo from Esplanade to Avenida Valencia. The project also included major storm drain improvements.
10. Avenida Santa Barbara from Calle Seville to Ola Vista. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
11. Avenida Buena Vista (Phase I) from the southern cul-de-sac to Avenida Pelayo. The project consisted of complete reconstruction of the pavement and the installation of a new water line and major storm drain improvements.
12. Avenida Buena Vista (Phase II) from Avenida Pelayo to the northern cul-de-sac. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
13. Avenida Del Poniente from Calle Oso to Avenida Buena Vista.
14. Dije Court from Avenida Buena Vista to cul-de-sac.
15. Calle Frontera from Avenida Pico to Avenida Vista Hermosa.
16. Via Alegre from Via Montego to cul-de-sac.
17. Via Montego from Via Cascadita to Calle Vista Torito. The project also included sewer improvements.
18. Calle Vista Torito from Avenida Vaquero to Via Montezuma. The project also included storm drain improvements.
19. Calle Del Comercio from El Camino Real to San Luis Rey. In addition to the complete reconstruction of the pavement, the project also included water and storm drain improvements.

20. West Avenida Canada from Del Poniente to Buena Vista. The project consisted of complete reconstruction of the pavement, and also included new sidewalks and water improvements.
21. Via Escalones from El Camino Real to West Canada. The project consisted of complete reconstruction of the pavement, and also included water improvements.
22. Avenida Palizada from El Camino Real to Calle Seville.
23. Calle Seville from Avenida Palizada to Avenida Victoria.
24. Loma Lane from Avenida Palizada to Avenida Palizada. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
25. Avenida Salvador from Avenida Presidio to Calle Malaguena.
26. Calle Miguel from Avenida Presidio to Avenida Presidio. The project also included the installation of a new water system pressure reducing station.
27. Calle Nina from Calle de Soto to cul-de-sac.
28. Via Socorro from Camino San Clemente to Via Ballena. The project also included the installation of new water services.
29. Via Ballena from Via Cascadita to Via Socorro. The project consisted of complete reconstruction of the pavement.
30. Via San Andreas from Via Cascadita to Via Ballena. The project consisted of complete reconstruction of the pavement.
31. East Avenida San Juan from El Camino Real to Avenida Salvador. In addition to the complete reconstruction of the pavement, the project also included lining of the existing sewer main line and storm drain improvements.
32. Avenida Monterey (Phase I) from Avenida Victoria to Avenida Madrid. The project consisted of complete reconstruction of the pavement and new sidewalks on one side of the street.
33. Avenida Monterey (Phase II) from Avenida Madrid to Algadon.
34. Avenida Monterey (Phase III) from Algadon to Avenida Rosa. The project consisted of complete reconstruction of the pavement and the installation of a major storm drain line.
35. Avenida Rosa (100 block) from Ola Vista to Victoria. The project also included the installation of a major storm drain line.
36. Avenida de la Estrella, (Phase I) from Calle de los Molinos to El Portal.
37. Avenida de la Estrella, (Phase II) from Avenida Palizada to El Portal.
38. Calle Redondel from Avenida de la Estrella to Avenida de la Estrella. This project consisted of complete reconstruction of the pavement.
39. East Avenida Magdalena from South El Camino Real to Avenida Santa Margarita. The project consisted of complete reconstruction of the pavement.
40. Avenida Santa Margarita from Avenida San Luis Rey to East Avenida Magdalena. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
41. Barcelona from Ola Vista to Esplanade.

42. Esplanade from South El Camino Real to Trafalgar Lane. The project also included the rehabilitation of the landscaped median.
43. Calle Conchita from cul-de-sac to Esplanade.
44. North La Esperanza from La Paz to Avenida Presidio.
45. De La Paz from La Esperanza to Avenida Palizada.
46. Avenida Caballeros from East El Oriente to West Avenida Palizada.
47. El Levante. The project consisted of complete reconstruction of the pavement and the installation of a new water line.
48. Terra Vista Bahia from El Levante to cul-de sac.
49. Pizarro from North La Esperanza to El Levante.
50. West Avenida Cornelio from South Ola Vista to Avenida Del Presidente.
51. West Avenida Alessandro from West Avenida San Antonio to Avenida Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm drain improvements and the lining of the existing sewer line.
52. West Avenida San Antonio from West Avenida Alessandro to Avenida Del Presidente. The project consisted of complete reconstruction of the pavement, and also included water, storm improvements and the lining of the existing sewer line.
53. Calle Juarez from Calle Frontera to Guadalajara.
54. Calle Empalme from Avenida La Cuesta to Calle Familia.
55. Avenida Granada, Phase I from Ola Vista to Avenida Del Mar.
56. Avenida Granada, Phase II from Ola Vista to El Camino Real.
57. Avenida De La Grulla from Florencia to El Camino Real.
58. Sierra from Avenida De La Estrella to Avenida Las Flores.
59. Calle Campo from Avenida Sierra to end of pavement.
60. El Oriente from Avenida De la Estrella to Avenida Las Flores.
61. La Placentia from Avenida Sierra to end of pavement.
62. Revuelta Court from La Placentia to end of pavement.
63. Ola Vista from Rosa to Santa Barbara.
64. Avenida Rosa from Ola Vista to Victoria.
65. Alcazar from end of pavement to East San Juan.
66. East Cordoba, Phase I from Calle Alcazar to Ladera Lane.
67. East Cordoba, Phase III from Ladera Lane to Via Avila.
68. East Avenida Junipero, Phase I from Avenida Trieste to Entrada Paraiso.
69. East Avenida Junipero, Phase II from El Camino Real to Avenida Trieste.
70. Entrada Paraiso from Avenida San Juan to end of pavement.
71. Calle Abril from Calle Bienvenido to Calle Real.
72. Calle Mayo from Calle Bienvenido to Calle Real.
73. Calle Monterey from City limit to Calle Juno.
74. Via Sacramento from City limit to Calle Juno.
75. Calle Andalucia from Calle Bienvenido to City limit.
76. Via Manzana from City limit to Calle Real.
77. Calle Juno from Calle Bienvenido to Calle Mayo.

78. Buena Suerte from East Cordoba to Avenida San Juan.
79. South La Esperanza from Calle Patricia to East Avenida Cordoba.
80. Calle Puente (Phase I) from Avenida Palizada to Avenida Del Poniente.
81. Calle Puente (Phase II) from Avenida Del Poniente to Avenida Aragon.
82. El Portal from Del Prado to El Camino Real and Del Prado from Avenida Del Poniente to Aragon.
83. Avenida Del Poniente from Calle Puente to El Camino Real.
84. Avenida Aragon from Calle Puente to El Camino Real.
85. Avenida Cadiz from Ola Vista to El Camino Real.
86. West Avenida Cordoba from El Camino Real to Calle Toledo.
87. Avenida Gaviota from El Camino Real to Valencia.
88. Avenida Trieste from Avenida Junipero to cul-de-sac.
89. Via. San Gorgonio from Avenida Vaquero to Vista Torito.
90. Via San Jacinto from Via San Gorgonio to Calle Vista Torito.
91. Via Corbina from Calle Vista Torito to cul-de-sac.
92. Via Montecito from Avenida Vaquero to Vista Montego.
93. Avenida Princessa from Avenida Presidente to Toledo.
94. Calle Del Pacifico from cul-de-sac to South Ola Vista.
95. Calle Marina from Calle De Los Alamos to West Los Lobos Marinos.
96. Calle Primavera from Calle De Los Alamos to Calle Roca Vista.
97. Calle Roca Vista from Calle De Los Alamos to West Los Lobos Marinos.
98. West Junipero from Ola Vista to Avenida Del Presidente.
99. Avenida De Los Lobos Marinos from Calle De Los Alamos to Del Presidente.
100. Calle Serena from Los Alamos to De Los Lobos Marinos.
101. Avenida Gaviota from Valencia to Calle Toledo.
102. Calle De Los Alamos from Gaviota to Avenida De Los Lobos Marinos.
103. Calle Lasuen from Calle De Los Alamos to West Los Lobos Marinos.
104. East Cordoba, Phase II from Via Avila to Via La Jolla.
105. West Avenida Santiago from South Ola Vista to El Camino Real.
106. East Avenida Ramona Phase I from El Camino Real to Entrada Paraiso.
107. East Avenida Ramona Phase II from Entrada Paraiso to cul-de-sac.
108. Avenida Serra from Avenida Palizada to El Camino Real.
109. West Paseo De Cristobal from El Camino Real to cul-de-sac.
110. Poco Paseo from Calle Toledo to La Rambla.
111. La Rambla from Calle Toledo to cul-de-sac.
112. Vista Marina from Trafalgar Lane to West Paseo De Cristobal.
113. Avenida Madrid from Avenida Victoria to Avenida Monterey.
114. Calle De Anza from San Carlos to Avenida Presidio.
115. Avenida Arlena from Esperanza to Cordoba.
116. Bella Loma from cul-de-sac to La Cuesta.
117. Calle Neblina I from Miguel to Empalme.
118. Calle Neblina II from cul-de-sac to Miguel.
119. Calle Familia from cul-de-sac to cul-de-sac.
120. Calle Delicada from cul-de-sac to cul-de-sac.

121. Calle Pescador from Miguel to Presidio.
122. Calle Rica from cul de sac to cul-de-sac.
123. Robles from Empalme to Presidio.
124. Avenida La Cuesta from Solano to Miguel.
125. Calle Sandia from cul-de-sac to Escuela.
126. Calle Salida from cul-de-sac to Escuela.
127. Calle Del Juego from cul-de-sac to Escuela.
128. San Luis Rey from El Camino Real to Santa Margarita.
129. Calle Escuela from Presidio to Miguel.
130. Calle Fiesta from Empalme to cul-de-sac.
131. Calle Pueblo from Presidio to cul-de-sac.
132. Calle Villario from Presidio to cul-de-sac.
133. Calle Felicidad from Presidio to cul-de-sac.
134. Calle Dorado from Presidio to cul-de-sac.
135. Calle Guadalajara from Avenida Vaquero to Calle Vallarta.
136. Calle Vallarta from Avenida Vaquero to Calle Guadalajara.
137. Calle Frontera from Avenida Vista Hermosa to Calle Vallarta.
138. Calle Agua from Camino de los Mares to Calle Verano.
139. Avenida Palizada from Calle Seville to Avenida Del Mar.
140. Avenida Cabrillo from Calle Seville to Avenida Palizada.
141. Avenida Salvador from Avenida San Juan to Avenida San Pablo.
142. Avenida Salvador from Calle Malaguena to Avenida San Juan.
143. Calle La Serna from Avenida San Pablo to cul-de-sac.
144. Via Arboleda from Via Montego to Via Alegre.
145. Via Bandita from Via Montego to Via Alegre.
146. Via Verbena from Via Montego to Via Alegre.
147. Via Casa Loma from Via Montego to Via Alegre.
148. Via Lado from Via Montego to Via Alegre.
149. Via Montecito from Via Montego to Via Alegre.
150. Via Montezuma from Via Montego to Via Alegre.
151. Via Santo Tomas from Via Montego to Via Alegre.
152. Via Vistosa from Via Montego to Via Alegre.
153. Calle Alondra from Mira Costa to Quieta.
154. Calle Quieto from Calle Grande Vista to Calle Grande Vista.
155. Calle Guaymas from Calle La Veta to Camino Mira Costa.
156. Calle La Veta from Camino Mira Costa to cul-de-sac.
157. Grande Vista from Calle Quieto to Avenida Vaquero.
158. Via Nada from Calle Grande Vista to cul-de-sac.
159. Avenida Hacienda from Sacramento to Avenida Florencia.
160. Calle Las Bolas from Avenida Florencia to El Camino Real.
161. Boca De La Playa from cul-de-sac to El Camino Real.
162. Avenida Pico from El Camino Real to Boca De La Playa.
163. Calle Majorca from La Riviera to cul-de-sac.
164. Calle Monte Carlo from La Riviera to cul-de-sac.

165. Calle Monaco from La Costa to La Riviera.
166. Calle Monte Cristo from La Costa to La Riviera.
167. Plaza a La Playa from cul-de-sac to cul-de-sac.
168. Calle Capri from La Riviera to cul-de-sac.
169. Calle Las Palmas from La Costa to La Riviera.
170. Calle Madiera from La Riviera to cul-de-sac.
171. Avenida de la Riviera from Ola Vista to cul-de-sac.
172. Avenida la Costa from Calle Las Palmas to Plaza a La Playa.
173. Calle Del Cerro from Avenida Pico to Avenida La Pata.
174. Avenida San Carlos from Avenida Presidio to El Levante
175 Calle Cortez from Avenida Presidio to Avenida San Carlos
176. Calle Sonora from Avenida Presidio to end of cul-de-sac
177. Calle De Soto from Avenida Presidio to Avenida Salvador
178. Avenida Algodon from Avenida Monterey to S. El Camino Real
179. Avendia Aragon from Avenida Buena Vista to Calle Puente
180. Avenida Miramar from N. El Camino Real to Avenida Palizada
181. Calle De Industrias from Avenida Pico to Los Molinos
182. Camino San Clemente from N. El Camino Real to end of cul-de-sac
183. E. El Oriente from Avenida Caballeros to Avenida De La Paz
184. Patero De Oro from Avenida La Cuesta to El Levante
185. Avenida De La Paz from Avenida La Cuesta to Avenida Caballeros
186. Avenida Cota I from Avenida Santa Margarita to Avenida Costanso
187. Avenida Cota II from Avenida Costanso to end of cul-de-sac
188. Calle Bahia from Avenida Santa Margarita to end of public street
189. Avenida Costanso from Avenida Cota to end of cul-de-sac
190. Avenida Crespi from E. Avenida Magdalena to Calle Gomez
191. W. Avenida Magdalena from Avenida Del Presidente to S. Ola Vista
192. Avenida Lobiero from Avenida Montalvo to Avenida Montalvo
193. Avenida Montalvo from Avenida Calafia to Avenida Lobiero
194. W. Avenida Ramona from Avenida Del Presidente to S. Ola Vista
194. Avenida Del Presidente I from Avenida Valencia to Avenida Calafia
195. Avenida Del Presidente II from Avenida Calafia to Cristianitos Road
196. Calle Negocio from Calle Amanecer to end of cul-de-sac
197. Calle Trepadora from Calle Negocio to Calle Amanecer
198. Portico De Sur/Norte from Camino De Los Mares to Camino De Los Mares
199. Ola Vista Phase I from Avenida Palizada to 63.57' north of Avenida Princessa
200. Ola Vista Phase II from 63.57' north of Avenida Princessa to Avenida Calafia
201 Calle Amanecer Phase I from Calle Trepadora to Avenida La Pata
202 Calle Recodo from Calle Amanecer to end of cul-de-sac
203 Calle Sombra from Calle Amanecer to end of north cul-de-sac
204. Vista Montana Phase I from upper Calle Del Cerro to Calle Pastadero
205. Calle Guadalajara from Calle Nuevo to Calle Vallarta
206. Via Amapola from Calle Nuevo to end of cul-de-sac
207. Via Bellota from Calle Piedras to end of cul-de-sac.

EXHIBIT "B"

Completed Major Maintenance Projects

1. West Avenida San Antonio from El Camino Real to cul-de-sac.
2. West Avenida Ramona from El Camino Real to cul-de-sac.
3. West Avenida Cornelio from El Camino Real to cul-de-sac.
4. West Avenida Junipero from El Camino Real to cul-de-sac.
5. West Avenida San Gabriel from El Camino Real to cul-de-sac.
6. East Avenida de Los Lobos Marinos from Calle Alcazar to cul-de-sac.
7. Avenida Verde from Calle Alcazar to cul-de-sac.
8. Calle Oso from Avenida Del Poniente to West El Portal.
9. West El Portal from Calle Oso to Buena Vista.
10. Monterey Lane from Avenida Victoria to Corona Lane.
11. Corona Lane from Monterey Lane to Avenida Victoria.
12. Avenida Santa Barbara from Avenida Victoria to Avenida Del Mar.
13. Acebo Lane from Avenida Santa Barbara to Avenida Del Mar.
14. Elena Lane from Avenida Victoria to Cazador Lane.
15. Cazador Lane from South Ola Vista to Avenida Victoria.
16. Via Del Campo from Via Manzana to Via Bienvenido.
17. Calle Patricia from La Esperanza to cul-de-sac.
18. Via Robina from Calle Patricia to cul-de-sac.
19. East Avenida San Antonio from El Camino Real to cul-de-sac.
20. East Avenida Cornelio from El Camino Real to cul-de-sac.
21. Police Services Parking Lot.
22. West Avenida Mariposa from West Escalones to El Camino Real.
23. West Avenida Marquita from La Paloma to El Camino Real.
24. La Paloma from Calle Puente to cul-de-sac.
25. West Escalones from Avenida Del Poniente to West Mariposa.
26. Avenida Barcelona from El Camino Real to Ola Vista.
27. Avenida Teresa from Avenida Salvador to cul-de-sac.
28. Avenida Acapulco from San Pablo to San Pablo.
29. Via Promontorio from Acapulco to cul-de-sac.
30. Paseo De la Serenata from Ola Vista to cul-de-sac.
31. Avenida Pelayo from Avenida Aragon to Avenida Florencia.
32. Avenida Columbo from Avenida Teresa to cul-de-sac.
33. East Avenida Marquita from El Camino Real to Avenida de la Estrella
34. East Avenida Mariposa from El Camino Real to Avenida de la Estrella.
35. East Escalones from El Camino Real to Avenida de la Estrella.
36. East Canada from El Camino Real to Avenida de la Estrella.
37. East El Portal from El Camino Real to Avenida de la Estrella.
38. Avenida Mateo from El Camino Real to Avenida Monterey.

39. Calle Cuadra from Calle Frontera to Calle Gaucho.
40. Calle Borrego from Mira Costa to end of cul-de-sac.
41. Avenida Florencia from Avenida Pelayo to El Camino Real.
42. Calle Sacramento from Avenida Florencia to Calle Las Bolas.
43. Calle Colina from Buena Vista to Calle Sacramento.
44. Calle Deshecha from Avenida Pico to MO2.
45. Avenida Del Reposo from Avenida De La Grulla to Calle Mirador.
46. Calle Mirador from Avenida Florencia to Ave. De La Grulla.
47. Calle Puente from Avenida Aragon to Avenida De La Grulla.
48. Del Gado Road from Camino Capistrano to City limit.
49. Via Blanco from Camino Vera Cruz to Calle Heraldo.
50. Calle Balboa from Calle Cortez to end of cul-de-sac.
51. Calle Mendoza from Avenida Presidio to end of cul-de-sac.
52. Avenida Dominguez from S. El Camino Real to Avenida San Luis Rey.
53. Avenida San Fernando from S. El Camino Real to Avenida San Luis Rey.
54. Avenida Pala from S. El Camino Real to Avenida Santa Margarita.
55. Avenida San Dimas from S. El Camino Real to Avenida San Luis Rey.
56. Avenida Buena Ventura from S. El Camino Real to Avenida San Luis Rey.
57. Avenida Dolores from S. El Camino Real to Avenida San Luis Rey.
58. Avenida San Diego from S. El Camino Real to Avenida Santa Margarita.
59. Avenida Lucia from S. El Camino Real to Avenida Santa Margarita.
60. Calle Maria from E. Avenida San Juan to end of cul-de-sac.
61. Calle Leticia from E. Avenida San Juan to end of cul-de-sac.
62. Calle Mayita from E. Avenida San Juan to end of cul-de-sac.
63. La Cima from E. Avenida San Juan to end of cul-de-sac.
64. Calle Morada from Calle Nuevo to end of cul-de-sac.

Sidewalk Improvement Program

Objective

To discuss issues and considerations for repairing existing and constructing new sidewalks in compliance with requirements of the Americans with Disabilities Act (ADA).

Executive Summary

The City is already taking action to address ADA requirements for its sidewalk network, including a sidewalk repair program to correct trip hazards and the inclusion of curb ramps during street alterations. Also, the City pursues installation of new sidewalks where none exist. However, more aggressive efforts will be needed to fully comply with the ADA, especially with respect to retrofitting of existing sidewalks. The City has begun a review of its facilities and programs which will support the development of a transition plan for removing barriers to achieve compliance with ADA requirements. To help develop a plan for expanding the City's sidewalk network, a comprehensive policy is needed to provide direction on how and when the City will construct new sidewalks while complying with ADA requirements.

Background and Discussion

Under the ADA, construction of new sidewalks must comply with ADA design standards and must include curb ramps at pedestrian intersections. Additionally, when existing streets or sidewalks are altered, curb ramps must be added where required to bring the sidewalks into compliance. Court rulings have further interpreted ADA to require that public entities repair and maintain existing sidewalks to remove barriers (e.g. narrow pathways, abrupt changes in grade, excessive cross slopes, etc.) that deny pedestrians with disabilities access to sidewalks.

Since sidewalks are considered a "program" under the ADA, the City needs to include a strategy for implementing ADA-compliant sidewalks in the ADA Transition Plan that will be developed. This will require adoption of a policy that specifies how the City will achieve ADA compliance for new and existing sidewalks and that supports a programmatic approach for doing so. The policy would also need to address the City's approach toward installation of new sidewalks to clearly describe when and where new sidewalks will be constructed. The following are example issues and policy statements that should be considered when developing a sidewalk policy:

- If a new sidewalk cannot be constructed to meet ADA requirements, then it should not be constructed at all (i.e. don't create new barriers).
- For private development, if adequate right-of-way does not exist to meet minimum ADA sidewalk widths, then the requirement for new sidewalk should be waived.
- The City will not use condemnation to acquire right-of-way for new sidewalk or to widen existing sidewalk. It should be recognized that even if right-of-way is available or could be obtained from a willing property owner, it may not be feasible to install sidewalk due to other constraints (e.g. topography).
- The City will identify target areas for construction of new sidewalk. The Bicycle and Pedestrian Master Plan that is currently being developed would be a good mechanism to identify these target areas.

- When constructing street or sidewalk improvements, the City will comply with ADA requirements to remove obstructions along the entire path of travel, unless there is a basis (supported with findings) for leaving the obstruction. The basis can be: 1) undue burden; 2) structurally impractical; 3) technically infeasible; or 4) cost disproportionate to the overall project.
- The ability to comply with the ADA to construct new sidewalks or remove obstructions in existing sidewalks must consider the availability of right-of-way, topography, street grade, private driveway depths (potential for reduction of parking capacity), utility locations and potential conflicts, street widths (potential to narrow width to accommodate sidewalk), and existing trees (removal or avoidance).

Complying with ADA requirements, for both existing and new sidewalks, will result in more aggressive and costly projects unless there is a basis for not removing one or more barriers as noted above. Currently, the City upgrades and/or installs curb ramps during street rehabilitation or reconstruction projects, but does not address any existing sidewalk obstructions. For example, a 2006 survey of the City's sidewalk network resulted in an estimated cost of $4.2 million just to correct over 1,100 obstructions at point locations such as fire hydrants, power and streetlight poles, street sign posts, etc. Also, to meaningfully expand the City's sidewalk network would require a significant increase in funds for new sidewalk construction. The same 2006 study also estimated that at minimum, about $30 million would be needed to complete missing sidewalks. The City's current program for constructing new sidewalks is via the Community Development Block Grant (CDBG) program, in which the City receives about $150,000 annually for sidewalk construction in certain target areas only. At that funding level, it would take 200 years to complete all missing sidewalks and would require other funding sources since CDBG funds are limited for use in certain target areas only. The City also requires that property owners install new sidewalks when the valuation of their proposed improvements exceeds $50,000. In addition to the policy considerations noted previously, the City will need to identify how a sidewalk improvement program will be funded. Potential funding sources include:

- General Fund.
- Community Development Block Grant (CDBG) funds for certain target areas.
- Gas Tax Funds. Note that gas tax revenues are declining as vehicles become more fuel efficient.
- Property Owners. In addition to making property owners responsible for maintaining sidewalks that front their property, the State Streets and Highways Code also requires property owners to construct new sidewalk on their property frontage in certain circumstances. This provision needs further investigation, but potentially could lead to a City/property owner cost sharing program for new sidewalk similar to the existing cost-shared sidewalk repair program.

If the Street Assessment District is not renewed, then there will be an even greater challenge to fund sidewalk improvements, since maintaining functional and safe streets is also a priority.

- Initial work to develop a policy will require a commitment of staff time and some consultant support. The first step would be for staff to prepare a draft policy which considers policy statements like the examples described previously. The next step would then consist of an evaluation of limited target areas, with consultant support, to "test" the draft policy and identify potential implementation challenges and costs. Examples of potential challenges include lack of available right-of-way in which to construct new sidewalks or address existing obstructions, topography which could preclude installation or expansion of sidewalks due to steep slopes, and building setbacks from the street frontage which could result in shortened driveways (and possible elimination of driveway parking) if sidewalks are installed or widened. The 2006 sidewalk inventory should be sufficient to begin work to develop a draft policy, as staff or a consultant could develop additional information (e.g. right-of-way availability, setbacks/driveway lengths, etc.) needed to evaluate application of the draft policy to selected target areas. Sidewalk target areas identified in the Bicycle and Pedestrian Master Plan would be used to evaluate the draft policy. The cost for initial work to develop a draft sidewalk policy is roughly estimated at $100,000 (includes staff time and consultant costs).

- **Conclusion**
- The City is undertaking several efforts to address sidewalks, including: constructing new sidewalks under the CDBG program and requiring property owners to install new sidewalks along with certain improvements; upgrading or installing curb ramps during street rehabilitation or reconstruction projects; and repairing trip hazards under the sidewalk repair program. However, more aggressive efforts will be needed to comply with the ADA and meaningfully expand the City's sidewalk network. Development of a comprehensive policy is needed to clearly articulate how, when and where new sidewalks will be constructed and existing sidewalks will be maintained, and to address ADA compliance of new and existing sidewalk construction. The policy will then provide the basis for a strategy to address sidewalks in the ADA Transition Plan.

- **Recommendations**
- Provide direction to staff on when to pursue development of a comprehensive sidewalk policy.

- **Fiscal Impact of Recommendations**
- Initial work to develop a sidewalk policy would require staff time and consultant support, roughly estimated at $100,000.

- **Council Action:** The Sidewalk Improvement Program recommendation was approved by City Council with the following modification:

  To direct Staff to pursue development of a comprehensive sidewalk policy and to include the cost in the proposed FY2012 budget

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Golf Fund Analysis

Objective

Two objectives are presented in the Golf Analysis:

1. Perform a periodic review of the Golf Fund operating position by developing a three-year forecast for the Golf Course Operations. Based on the three-year forecast, develop recommendations to maintain a positive operating position.

2. Review the outstanding debt incurred for the construction of the Golf Course Clubhouse. Develop recommendations and/or alternatives for future debt servicing.

Executive Summary

Exhibit I, attached to this paper, provides a three-year forecast for the Golf Operating Fund. Revenues are held constant while cost-of-living increases are applied to expenses. As reflected in Exhibit I, the three year forecast indicates a negative operating position throughout the forecast period. This is not surprising, given that the number of rounds played (revenue) at the course is relatively stable and costs in the forecast model are adjusted for inflation. Periodic fee increases are the typical method of bridging funding gaps, along with the examination of all operating expenses on a regular basis. A $1 per round fee increase will eliminate the negative operating position in the three-year forecast period.

The Golf Course Operating Fund has debt totaling $2,894,000. The General Fund advanced $984,000 between 2003 and 2006 to the Golf Operating Fund for general operating purposes. These advances were not related to the clubhouse construction project. $394,000 remains outstanding from the General Fund advances. The General Fund advances will be repaid by the end of Fiscal Year 2012. The remaining $2.5 million was borrowed from the In-Lieu Beach Parking Reserve to complete the construction of the Golf Course Clubhouse. Following repayment of the General Fund advances, the outstanding $2.5 million could then be financed to be repaid over a ten to fifteen year period.

Background and Discussion

The Golf Division is responsible for maintaining, preserving, and operating the Municipal Golf Course. This includes 133 acres of property with approximately 900 trees. The course also includes a pro shop and restaurant/clubhouse that are operated by concessionaires under lease agreements with the City of San Clemente. The course is operated as a self sufficient enterprise fund, with operations, capital projects, and equipment replacements funded by user fees and concession revenues. The Golf Division's finances were significantly impacted by the new clubhouse construction. New debt service and depreciation expense of approximately $400,000 dollars per year were incurred with only marginal gains in offsetting new revenues in 2007.

To address the increased operating costs of the Golf Fund, a fee increase that averaged $3 per round was implemented in January 2008. That fee increase resulted from discussions and recommendations in the 2007 LTFP process. The fee increase has helped to maintain a positive fund balance for golf operating despite the nationwide economic recession that negatively affected businesses across the country. No additional fee increases have been implemented since January 2008. In order to maintain a positive fund balance going forward, some combination of fee increases and spending cuts will be required. The 2011 LTFP process is being utilized to help identify these solutions.

Operating Position Recommendation

Two rate increase scenarios were examined to eliminate the negative operating position over the three-year forecast: a $1 per round and a $2 per round rate increase scenario. A modification to the debt service expense, examined in detail in the "Golf Debt" section, was applied to both rate increase scenarios. The following table presents a summary of the Golf Operating position for the next three years, with no increase or adjustments to the debt service:

No change	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Revenue	$2,263,820	$2,256,000	$2,269,000	$2,272,000
Expenses	2,263,410	2,304,043	2,321,577	2,359,058
Operating position	410	(48,043)	(52,577)	(87,058)
Fund Balance	40,391	(7,652)	(60,228)	(147,286)

Golf Debt

At the end of 2007, the outstanding Golf Operating Fund debt totaled $3.6 million:

- $984,000 in General Fund Advances
- $2.5 million to complete the Clubhouse construction

The Golf Fund budgets $278,000 per year for debt service. This amount was based on the outstanding debt balance of $3.6 million. A fully-amortized 20-year bond, at 6.13% interest, which represented the market rates in 2007, yielded the $278,000 annual debt service number, which was approved by Council action in anticipation of issuing bonds. Unfavorable market conditions prevented a successful bond issuance at that time. A short-term loan from the In-Lieu Beach Parking Reserve provided the funding necessary to complete the construction of the Clubhouse. The interest rate charged for this loan is based on the Local Agency Investment Fund (LAIF) interest rate in effect on July 1st of each year. Because the LAIF interest rate has been below the 6.13% rate used to develop the annual debt service number, the Golf Operating fund has saved approximately $350,000 in interest expenses during the past four years.

The table below provides the annual interest expense paid for the short-term loan and the amount applied to the General Fund advances. As the LAIF interest rates declined over the past three years, the amount applied to principal payments increased.

	2008	2009	2010	2011
Interest expense	$131,250	$ 74,600	$ 34,425	$ 15,000
Principal payment	$146,750	$203,400	$243,575	$263,000
Total payment	$278,000	$278,000	$278,000	$278,000

The outstanding balance of the General Fund advances as of June 30, 2011 will be $121,000. By budgeting the $121,000 balance due the General Fund, plus estimated interest on a one-year, $2.5 million loan from the In-Lieu Beach Parking Reserve of $37,500 ($2.5 million @ 1.5% interest), or a total of $158,500 for Fiscal Year 2012, a one-time operating expense reduction of $119,500 would be recognized for next year. This would allow the Golf Operating Fund to build fund balance above the minimum level prescribed by fiscal policy, which is 8% of budgeted expenses, or $195,000 for fiscal year 2012.

If market conditions allow, a bond for $2.5 million could be issued to repay the In-Lieu Beach Parking Reserve. If market conditions are not favorable, a 15 year, fully amortized internal loan is recommended. Assuming a 4.5% interest rate, which represents current market conditions, annual debt service would amount to $233,000. An internal loan will require a modification to the City's Fiscal Policy regarding internal loans.

Impact of proposals

Option 1

Option 1 assumes the following:

- A $1 per round rate increase
- Adjust the debt service budget to $158,500 in 2012 to repay the final General Fund loan (balance of $121,000) and pay interest only ($37,500) to the In-Lieu Beach Parking Reserve
- Re-Finance the remaining $2.5 million loan balance, assuming $233,000 in annual principal and interest payments, over a fifteen year period beginning in fiscal year 2013.

The following table presents the effect on the Golf Fund operating position under Option 1. A positive operating position is achieved in each of the three years in the forecast and the minimum fund balance exceeds the estimated requirement of $195,000, which represents 8% of the operating expenses, as defined under the City's Fiscal Policy.

$1 Increase & Debt Service Adjustment*	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Revenue	$2,263,820	$2,351,000	$2,364,000	$2,367,000
Expenses	2,263,410	2,194,543	2,276,577	2,314,058
Operating position	410	156,457	87,423	52,942
Fund Balance	40,391	196,848	284,272	337,214

Option 2

Option 2 assumes the following:

- A $2 per round rate increase
- Adjust the debt service budget to $158,500 in 2012 to repay the final General Fund loan (balance of $121,000) and pay interest only ($37,500) to the In-Lieu Beach Parking Reserve
- Re-Finance the remaining $2.5 million loan balance, assuming $233,000 in annual principal and interest payments, over a fifteen year period beginning in fiscal year 2013.

The following table presents the effect on the Golf Fund operating position under Option 2. A positive operating position is achieved in each of the three years in the forecast and the minimum fund balance significantly exceeds the estimated requirement of $195,000, which represents 8% of the operating expenses, as defined under the City's Fiscal Policy.

$2 Increase & Debt Service Adjustment*	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Revenue	$2,263,820	$2,446,000	$2,459,000	$2,462,000
Expenses	2,263,410	2,194,543	2,276,577	2,314,058
Operating position	410	251,457	182,423	147,942
Fund Balance	40,391	291,848	474,272	622,214

*Detailed Exhibit's for each of the scenarios summarized above are provided for reference at the end of this paper. As indicated in the summary tables above, both the $1 and $2 per round fee increases, effective July 1, 2011 and modifications to the golf debt discussed below, balance the Golf fund's operating position.

Conclusion

Both the $1 and $2 fee increase scenarios, coupled with a one-time reduction of the debt service expense to $158,500 for FY 2012, eliminate the negative operating position for the three-year forecast period. Given the fact that the $1 fee increase builds fund balance above the minimum level defined by fiscal policy, it is unnecessary to implement a $2 rate increase at this time.

Recommendations

Staff recommends that City Council direct staff and the Golf Committee to;

1. Develop a fee increase for approval that averages approximately $1 per round effective July 1, 2011.
2. Approve a debt service amount of $158,500 for FY 2012 to repay the balance of the General Fund advances and pay interest only on the remaining $2.5 million note.
3. Consider alternatives to amortize the $2.5 million note over a 15 year period, with annual debt service payments not to exceed $233,000 beginning in Fiscal Year 2013.

Fiscal Impact of Recommendations

With the implementation July 1, 2011 of a fee increase averaging $1 per round and adjustments to the golf debt service, annual golf operations are forecasted to be positive for all three years of the forecast term. In addition, the fund balance is projected to exceed the minimum reserve threshold per fiscal policy.

Council Action: The Golf Fund Analysis recommendations were approved by City Council with the following modifications:

To approve Staff recommendations, with amendment that item 1 be amended to read "Develop a fee increase for approval that averages at least $1.00 per round, effective July 1, 2011."

Golf Fund Forecast
No Fee Increase

	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Beginning Fund Balance	39,981	40,391	(7,652)	(60,228)	(147,286)	2,065,214
Revenues						
Green Fees	1,900,000	1,900,000	1,900,000	1,900,000	1,875,000	1,875,000
Registration Fees	111,500	111,500	109,500	107,500	103,000	103,000
Concessions	235,500	240,500	255,500	260,500	230,500	230,500
Interest	3,000	3,000	3,000	3,000	3,000	3,000
Other	13,820	1,000	1,000	1,000	1,000	1,000
Total Revenue	2,263,820	2,256,000	2,269,000	2,272,000	2,212,500	2,212,500
Expenditures						
Personnel Services	806,300	821,992	838,142	854,766	-	-
Supplies	136,150	152,650	154,150	163,150	-	-
Contractual serivces	446,100	467,022	464,362	473,650	-	-
Other Charges	330,000	330,000	330,000	330,000	-	-
Capital	15,000	-	-	-	-	-
Interdepartment	251,860	254,379	256,922	259,492	-	-
Debt Service	278,000	278,000	278,000	278,000	-	-
Golf Maintenance	2,263,410	2,304,043	2,321,577	2,359,058	-	-
Total Expenditures	2,263,410	2,304,043	2,321,577	2,359,058	-	-
Operating position	410	(48,043)	(52,577)	(87,058)		
Ending Fund balance	40,391	(7,652)	(60,228)	(147,286)	2,065,214	4,277,714

Golf Fund Forecast
$1 Fee Increase

	2011	2012	2013	2014	2015	2016
	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Beginning Fund Balance	39,981	40,391	196,848	284,272	337,214	2,549,714
Revenues						
Green Fees	1,900,000	1,995,000	1,995,000	1,995,000	1,875,000	1,875,000
Registration Fees	111,500	111,500	109,500	107,500	103,000	103,000
Concessions	235,500	240,500	255,500	260,500	230,500	230,500
Interest	3,000	3,000	3,000	3,000	3,000	3,000
Other	13,820	1,000	1,000	1,000	1,000	1,000
Total Revenue	2,263,820	2,351,000	2,364,000	2,367,000	2,212,500	2,212,500
Expenditures						
Personnel Services	806,300	821,992	838,142	854,766	-	-
Supplies	136,150	152,650	154,150	163,150	-	-
Contractual serivces	446,100	467,022	464,362	473,650	-	-
Other Charges	330,000	330,000	330,000	330,000	-	-
Capital	15,000	-	-	-	-	-
Interdepartment	251,860	254,379	256,922	259,492	-	-
Debt Service	278,000	168,500	233,000	233,000	-	-
Golf Maintenance	2,263,410	2,194,543	2,276,577	2,314,058	-	-
Total Expenditures	2,263,410	2,194,543	2,276,577	2,314,058	-	-
Operating position	410	156,457	87,423	52,942		
Ending Fund balance	40,391	196,848	284,272	337,214	2,549,714	4,762,214

Golf Fund Forecast
$2 Fee Increase

	2011 Budget	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Beginning Fund Balance	39,981	40,391	291,848	474,272	622,214	2,834,714
Revenues						
Green Fees	1,900,000	2,090,000	2,090,000	2,090,000	1,875,000	1,875,000
Registration Fees	111,500	111,500	109,500	107,500	103,000	103,000
Concessions	235,500	240,500	255,500	260,500	230,500	230,500
Interest	3,000	3,000	3,000	3,000	3,000	3,000
Other	13,820	1,000	1,000	1,000	1,000	1,000
Total Revenue	2,263,820	2,446,000	2,459,000	2,462,000	2,212,500	2,212,500
Expenditures						
Personnel Services	806,300	821,992	838,142	854,766	-	-
Supplies	136,150	152,650	154,150	163,150	-	-
Contractual serivces	446,100	467,022	464,362	473,650	-	-
Other Charges	330,000	330,000	330,000	330,000	-	-
Capital	15,000	-	-	-	-	-
Interdepartment	251,860	254,379	256,922	259,492	-	-
Debt Service	278,000	168,500	233,000	233,000	-	-
Golf Maintenance	2,263,410	2,194,543	2,276,577	2,314,058	-	-
Total Expenditures	2,263,410	2,194,543	2,276,577	2,314,058	-	-
Operating position	410	251,457	182,423	147,942		
Ending Fund balance	40,391	291,848	474,272	622,214	2,834,714	5,047,214

Beach & Park Restroom Master Plan

Objective

To improve the condition and function of our existing Beach Restroom inventory to prevent further deterioration, potential loss, and provide a better quality of service for our users.

Executive Summary

During the City Council consideration of the FY 2010-11 Budget, a proposal to fund improvements to Beach Restrooms by allocating approximately $230,000 of General Funds directed toward street improvements was discussed. No action was taken, and instead, the City Council directed staff to prepare a Plan for maintenance and upgrade of the six beach restroom facilities. Staff has reviewed the facilities, met with Americans with Disability (ADA) Consultants, and identified a number of deficiencies in the structural integrity, accessibility, attractiveness, and function. Each of the six restroom buildings is in need of repair and retrofit.

Additional research is needed regarding the Coastal Commission requirements for some of the buildings; however, the "Base of Pier" restroom is prioritized for immediate repair and redesign as it currently serves the most users, is in the best structural condition, repairs can be completed without major reconstruction, and can be adapted to provide handicap access. Staff sought to create a scope of work that responded to the potential use of $230,000 in General Funds originally discussed by the City Council, and recommends that between $200,000 and $250,000 (see Phase One potential costs for range of costs), be allocated to complete the Phase one improvements outlined within this report. In addition, a long-term funding strategy is needed to provide the $1,720,000 to $2,304,000 needed to determine the specific scope of work and Coastal Commission requirements to replace or repair the other five restrooms.

During the review of the Beach Restroom Master Plan, Council also requested that the Park restrooms be assessed in a similar manner. This work is underway, and although the Master Plan for Park Restrooms is not complete, there are similar issues and potential costs for these facilities as well. Upon initial review, staff still recommends that the beach restrooms be prioritized ahead of the park restrooms as most of the park facilities are in better condition than the beach restrooms.

Background and Discussion

Public restrooms are often a measure people use to determine their perception of a city. The impression one gains entering a well designed, well maintained, bright and clean facility, rather than a dark and unappealing one, is significant. With over two million visitors to our beaches each year, our six beach/pier restroom facilities are well worn and showing signs of deterioration. A Master Plan for Beach Restrooms was prepared and identifies both long and short term maintenance upgrades, including ways to move toward compliance with the Americans with Disabilities Act (ADA) requirements, and provides better aesthetics for our civic buildings. This paper is intended to identify the funding needed for the Master Plan improvements by implementing this project into the Long Term Financial Plan.

Existing Conditions

The six existing restrooms are referred to by their location and include: North Beach Restroom, Linda Lane Restroom, Pier Base Restroom, End of Pier Restroom, "T" Street Restroom, and Boca Del Canon Restroom. These restrooms were originally designed to serve beach use only; however, with the success of the Beach Trail, these are now serving a whole new user group, shifting from primarily summer use to year-round use. With the exception of North Beach and End of Pier Restrooms, each facility is constructed of "slump block" concrete units with wood framing and wood shake or composite roofs. The color has evolved from light beige with brown trim to a darker sienna color with dark brown trim. A specific architectural style is difficult to categorize. North Beach Restroom is a contemporary Spanish style while the End of Pier is a wood-sided cottage style, with white siding and blue trim. It should be noted that the restroom architecture in the Architectural Overlay Areas, (Pier and North Beach) do not follow the Spanish Colonial Revival style.

The interiors are quite utilitarian and have unfinished concrete floors, beige painted walls, some stalls have doors and some do not. Fixtures are penal type stainless steel, some with seats and some without. This style is typical of older facilities that were designed for maximum durability and ease of maintenance. Most of the facilities are designed with an interior shower (of which only one location had working plumbing), and a large changing area. The shower/changing areas appear to be little used. Most restrooms have been modified to have showers located outdoors, and the indoor shower fixtures have been abandoned.



Since the facilities were constructed, the Americans with Disability Act (ADA) defined new requirements for restrooms. City Building Division staff conducted an "Accessibility Compliance Assessment" of the existing restrooms and identified a number of retrofits and improvements that are required to be compliant with current standards. Copies of these assessments are provided as attachments to this report. In general, the report identifies that many existing fixtures need to be relocated to provide appropriate heights for use and clearances; grab bars should be added; some areas do not have sufficient width between walls to provide access for wheelchairs; signage is missing, and trashcans have been placed in locations that impede access.

In addition, the city is conducting a city-wide assessment and has hired Disability Access Consultants, Inc. to complete an Assessment of Programs, Services, Activities and Events for ADA/Title 24 Accessibility Compliance. Staff met with this firm on-site to review the existing conditions and confirm the assumptions in this report. The scope of this Master Plan addresses the Beach Restrooms only, and it should be noted that there are larger projects needed to provide a, "path of travel" from the parking areas, across the railroad tracks, to the pier and access to some restrooms buildings. Most notable are the access paths from the Pier Bowl handicap parking, and the access ramp at North Beach. Both of these projects will require significant design, grading, and approvals, and should be addressed within the Capital Improvement Project process for project funding and prioritization. However, since persons in wheelchairs are using the Pier area now, the provision for appropriate bathroom facilities should be prioritized here first.

In addition to the ADA retrofits of the restrooms, there are signs of structural deterioration. The wood members of the overheads and roof supports show signs of deterioration and dry rot, and there is cracking along the joints of the concrete blocks causing heaving of portions of the walls. The foundations appear to be intact with little significant cracking; however, the movement of sand does create challenges in maintaining access to stairs and entries. Currently, there are no complaints of odor in the restrooms; however, it should be noted that previous service to sanitize and deodorize the restrooms was cut due to funding constraints. This reduction may become more apparent as the heat increases and will be monitored by staff. Replacement of this service would assist in providing better restroom conditions and could be accomplished at a cost of approximately $9,000 per year.

As each of these buildings is located on the beach and within the coastal zone, work may require review and permitting by the Coastal Commission. One of the primary issues staff may have to deal with is the potential that the Coastal Commission requirements may limit our options for building any new facilities, and may restrict us to retrofitting and improving existing facilities.

<u>Strategy for Improvements</u>

Given the deteriorated condition of wood members, the need to retrofit existing plumbing fixtures to meet current ADA requirements, and the lack of remarkable architectural style, demolition and reconstruction may be the most desirable solution for some of our restrooms. However, the location on the beach adds significant constraints that must be considered. New requirements from the Coastal Commission may not allow the reconstruction of new buildings even if at the same location. The potential of losing the ability to provide restrooms at these beach locations would be a significant loss for the City.

City staff will be meeting with Coastal Commission staff in the near future and will discuss the potential risk of non-replacement should buildings be demolished. In addition, if new buildings were allowed to be constructed, they may also be required to be built on piers rather than the existing building concrete foundations. If this is the case, it may potentially double the cost of building a new restroom.

Staff will pursue the option of potential replacement with newly built or prefabricated restrooms with the Coastal Commission. However, not all of the six restrooms are in need of extensive structural retrofit. The restrooms at Base of Pier and North Beach appear to be in the best condition, and staff would recommend that the Base of Pier restroom be prioritized first for upgrade due to its high use and visibility. Focusing upgrades to this restroom will serve the greatest users and provide more attractive facilities in the Pier Bowl area. This would allow improvements to go forward while staff researches Coastal Commission requirements for those buildings with larger structural issues to address.

General Recommendations For All Facilities

In addition to the phased recommendations, there are a number of general recommendations that apply to all of the facilities as discussed below:

Maintenance - While the current levels of daily maintenance for cleaning is prioritized for funding, it appears there has not been a regular cycle for maintaining the structure itself, and protecting the public investment in the facilities. There are signs of deterioration at each of the facilities, including rust, water damage, wood rot, missing overhead members, etc. Staff recommends that a policy of, "Only minor visible signs of deterioration permitted," be adopted for our facilities. This would require a higher funding of facility repairs; however, this on-going replacement of broken or damaged items, scheduled painting, reroofing, and maintenance would reduce the potential of long-term replacement costs and protect the public investment of civic facilities.

Unfortunately, instead of doing minor repairs each year and spreading the costs out, The City is now looking at the need for major upgrades to all of our restrooms which would be best done at this time; however, funding of that magnitude is most likely not available, and items of work will need to be prioritized for a multi-year approach.

Once the restrooms are brought up to acceptable conditions, it will be important to maintain those upgrades by funding on-going repairs as they become needed rather than allow deterioration to its present degree. The City now spends an average of $25,000 per year on restroom building repairs; a funding level of approximately $50,000 per year should be allocated to maintain a standard of only minor signs of visible deterioration after the restrooms are brought back to an acceptable condition. This will be part of a larger maintenance strategy city-wide for all facilities; however, for purposes of this report, a funding level of $50,000 per year should be considered as part of Phase Three for these facilities. The current standards established for maintenance is a level "C" in an "A" through "F" criteria. While the daily maintenance does meet this, staff believes the long-term maintenance with the visible signs of deterioration is below a "C" average standard.

Fixtures – Currently, the fixtures are of the most utilitarian design and are not considered attractive. In addition, their age and condition make them even less appealing. However, stainless steel is the best material available for public uses as it does not break or crack like porcelain, and it withstands the marine elements well. Staff recommends the use of stainless steel be continued due to its longevity, and the placement of seats on toilets would at least provide a higher level of comfort and reduce the appearance of a jail cell. In addition, a policy of replacement of fixtures showing significant signs of deterioration should be adopted, as well as the placement of a baby changing station in each location and soap dispensers stocked regularly to protect public health.

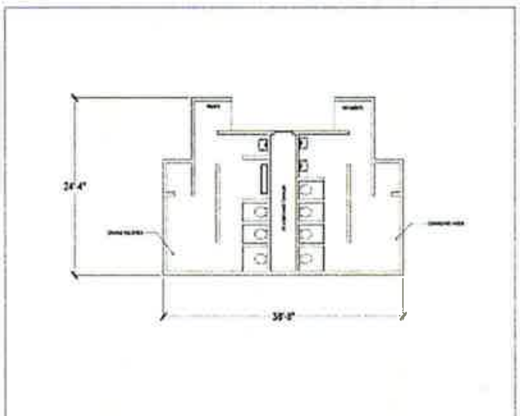
Materials and Finishes – The existing color is a dark beige or sienna with brown trim. This color combination has apparently evolved from the previous light beige or white with red tile. Staff have relayed that these colors have been used to hide dirt and is potentially favored by the Coastal Commission as it tends to blend in with the surrounding bluffs. The City Lifeguard towers also use the color combination. Unfortunately, the color gives the appearance of being dirty and does not allow for easy reference and locating, as they do tend to blend in with the surrounding hills. Staff recommends the gradual shifting toward lighter beige to provide a cleaner appearance, and the use of white with red tile roofs in the Architectural Overlay Zones. Tile roofing is however more expensive than a wood shake. Replacement costs for wood are estimated at $8,000, while tile is at $10,000.

In addition, the use of color could add an attractive quality, assist with way finding, and reinforce the Spanish influences. A vocabulary of tile signage has already been established for the Beach Trail, and the use of similar type styles and design could add to the architectural interest of the restroom buildings. Spanish murals or images could be used at the Pier Bowl and North Beach, and simple color bands or designs could be used elsewhere, such as an orange color tile band at "T" Street to coordinate with the tile on the overpass, or surf motif.
The bare concrete floors are clean; however, when wet, it is difficult to discern whether the restroom has just been cleaned, or if it is in need of cleaning. Coating the floors with an industrial quality textured finish in a light color would contribute to a more polished look and appearance of cleanliness. City of Hermosa Beach has coated their new restrooms with a light colored textured-non skid, urethane which appears to be holding up well to use and provides an attractive finish.

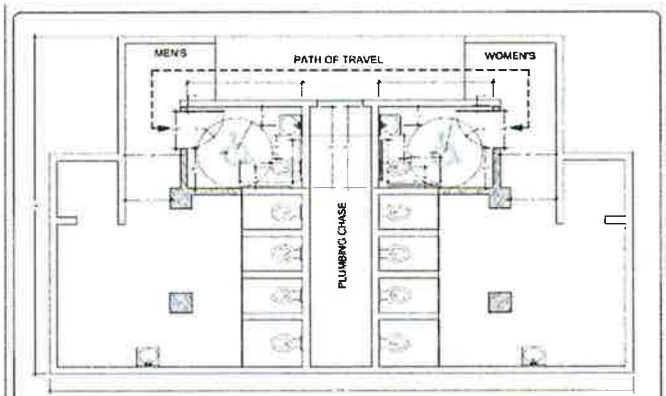
Phase One:
Base of Pier restroom as noted previously is not reflective of the Spanish Colonial Revival Architecture as noted in the Architectural Overlay Zone. In addition, there may have been previous planning work done to identify a wood siding, "Nautical Style", for areas west of the railroad tracks. The restroom meets neither. Nor is the use of wood siding consistent west of the railroad tracks, as the underpass is a white stucco wall with red tile cap, and will be further reinforced with Spanish styling with the addition of the Pier Bowl lighting upgrades. Research of old photos show that in 1972, the restroom building was a light color with what appears to be a tile roof. In 1979, the trash enclosure addition was added with what appears to be a wood shake roof.

Given that the restroom building is of masonry construction and is civic in nature, it could be retrofitted in a Spanish Colonial Revival style. The existing masonry walls could be covered with smooth stucco, the low pitch roof could be replaced with red tile, the use of colorful tiles to note the location (Pier Bowl), and signage could meet the Spanish design guidelines for the Pier Bowl District.

The interior would need to be retrofitted to adjust fixtures to meet current ADA requirements. Since this restroom has the highest use and is potentially the best access for those in wheelchairs, it is appropriate to focus efforts and funding here first to make diligent efforts toward providing accessible facilities at the beach. One of the biggest constraints for this (and other) building(s) is that the interior walls of the restrooms do not meet width requirements for wheelchair access.
In addition, the restrooms need to provide an accessible stall for wheelchair use. The existing handicap stalls do not meet current standards. New standards require more space than the current stall wing walls permit. Staff met on-site with the ADA consultants and determined that the existing building envelope could accommodate a new accessible stall by converting the area where the sinks are currently located to a wheelchair accessible stall, and shifting the sinks to use a portion of the dressing area. Given the high use of this location, the addition of one new stall on each side will be a benefit, and the reduction of a portion of the dressing area is not anticipated to be a significant detriment.



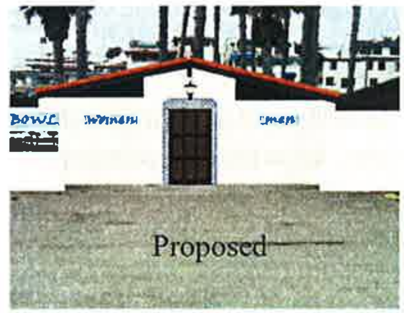
EXISTING PIER BOWL RESTROOM (BASE OF PIER)



base of pier restroom - ADA stall - preliminary layout

Summary of Phase One recommendations (Pier Bowl Restroom)

- Review and recommendations by Structural Engineer.
- Stucco masonry block with smooth stucco, replace existing rotted wood overhead and roof members as needed.
- Remodel interior for Handicap accessibility: new handicap stall location, adjust fixtures for proper heights and clearances, add tile, replace stall doors.
- Add tile signage and detail similar to tile type and font as used on the Beach Trail.
- Add new decorative iron gates at wing walls if needed.
- Repair and replace doors, seats, missing slats on overheads, and paint other restrooms – no structural work at this time, maintenance of existing only.



Phase Two:

Before proceeding the work on the other restrooms, Staff will need to get direction from the Coastal Commission on: 1) The ability of the City to demolish and then rebuild restrooms at the same locations, and 2) If we can rebuild, will the Commission require the structure to be built on piers or other more expensive construction type. The answers to these two questions will dictate the approach to restoration of T Street, Linda Lane, and Boca Del Canon restrooms. North Beach structure is in relatively good condition and does not appear to need structural work; however, the access ramp to the facility does not meet current ADA standards and will need reconstruction to make a path of travel available to the restroom, in addition to the interior repairs needed. Depending on the outcome to the research, there could be two scenarios for Phase Two:

Scenario A: If Coastal Commission will allow the demolition of the existing restroom building and replacement of a similar size building in the same location, an Architect will need to be retained to provide cost evaluations to determine what would be the most cost effective; making the repairs to the existing block walls, adjusting fixtures, and replacing the roofs/overheads; building a new structure; or purchasing and placing a prefabricated building. In addition, staff will need to know if Coastal Commission will require new buildings to be built on piers which would most likely increase costs significantly. If new buildings are possible, then the City may wish to consider the new style of several single room restrooms which do not require closing of all to clean one, thus maintaining more use for the public, as well as address privacy issues better.

Scenario B: If Coastal Commission will not allow the replacement of the existing buildings, then it will be necessary to repair the buildings we have. If this is the case, an Architect and Structural Engineer will be retained to determine the extent of structural and architectural redesign.

Conclusion

The six Beach Restrooms comprise a significant investment of City funds. The investment in these facilities should be protected by the on-going maintenance to ensure they provide needed beach amenities for our residents, contribution toward our economic viability by providing services for our tourist industry, represent the City of San Clemente as a possessing good civic architecture and public services.

Potential costs

This paper provides only conceptual ideas for improvements and specific costs would be determined through a bidding process.

Phase One – estimate of probable construction costs

Pier Bowl Restroom (Highest Priority)	
Structural Engineering	$ 15,000
Replace existing wood supports/overhead	$ 50,000
Replace wood roof with tile	$ 10,000
Adjust and/or replace fixtures as necessary	$ 15,000
Replace existing partition doors	$ 6,000
Float smooth plaster surface and stucco	$ 15,000
Add accent tiles and signs	$ 5,000
Plumbing/Utilities for new Accessible stall	$ 10,000
Install new iron entry doors if necessary	$ 7,000
Contingency	$ 26,600
Total estimated costs at Pier Bowl	$159,600
Other restrooms	
Paint interiors	$ 50,000
Repair fixtures as needed (in place)	$ 10,000
Repair/Replace missing overhead slats	$ 10,000
Install toilet seats and changing stations	$ 3,000
Replace missing signage	$ 1,500
Contingency	$ 15,000
Total estimated costs for other buildings	$ 89,500
TOTAL TO COMPLETE ALL PHASE ONE IMPROVEMENTS	**$ 249,100**

Phase Two – estimate of probable construction costs

Scenario A – Demolition and construction of new buildings

Until a determination of the requirement of either a pier or slab foundation is given by Coastal Commission, exact costs are not known. For purposes of this report, both costs are estimated below. In addition, design costs of $40,000 are included for retaining an Architect to provide a new building design.

Slab Foundation (assume $300/s.f. due to difficult access)		**Pier Foundation** (assume $450/s.f. due to difficult access)	
Design fees	$ 60,000	Design Fees	$ 60,000
North Beach Restroom and Concession (no demo, rehab existing at $275/s.f.)	$268,000	North Beach Restroom and Concession (no demo, rehab existing at $275/s.f.)	$268,000
Linda Lane	$293,000	Linda Lane	$439,000
Base of Pier	$293,000	Base of Pier	$439,000
End of Pier (no demo, rehab exist.)	$220,000	End of Pier (no demo, rehab exist)	$220,000
T Street	$293,000	T Street	$439,000
Boca Del Canon	$293,000	Boca Del Canon	$439,000
Total	$1,720,000		$2,304,000

Scenario B – Rehabilitation of Existing Restrooms

Rehabilitate existing restroom buildings (assume $275/s.f.)	
Structural and Architectural design	$ 40,000
North Beach Restroom and Concession, and construct new accessible ramp and path of travel from parking area.	$265,000 $100,000
Linda Lane	$268,000
Base of Pier	$268,000
End of Pier	$220,000
T Street	$268,000
Boca Del Canon	$268,000
Total	$1,697,000

Phase Three – Allocate $50K per year for on-going building maintenance

Currently, $25,000 per year is allocated for on-going building maintenance for all of the six beach restrooms. While this funding has been sufficient to replace plumbing fixtures, paint, and make minor repairs to keep the restrooms functioning, it has not been sufficient to address larger repair items. Items such as loss of overhead wood members, repairs of cracks in the masonry walls, replacement of rotted doors etc., have been either deferred or the item has been removed with no plan for replacement. After the restrooms are repaired or replaced it is necessary to provide adequate funding for repairs each year so that items in need of attention are not deferred or eliminated.

Recommendations

1. Include funding of $250,000 for phase one improvements for consideration during the FY 2012 budget process.
2. Prepare projects estimated at $2.3 million for phase two improvements for consideration in the FY 2013 CIP budget.
3. Consider increasing the annual funding of beach restroom maintenance by 25,000 in FY 2014 and years forward for maintenance of improvements.

Fiscal Impact of Recommendations

Capital Impact $250,000 (Phase One), $2,304,000 (Phase Two)
Operations & Maintenance Impact $50,000 each year
Forecast Impact

Council Action: The Beach and Park Restroom Master Plan recommendations were approved by City Council with the following modification:

To approve Staff recommendation, with the modification that the amount in item 1 be changed from $250,000 to $300,000.

Facilities Rehabilitation and Maintenance

Objective
Analyze all City owned facilities and develop a strategic programmed plan of facility rehabilitation and building maintenance.

Executive Summary
The City's building/facility infrastructure is of various ages and construction types. To maintain those facilities two types of programmed strategic plans are proposed. The first phase is a programmed plan for facility rehabilitation and the second phase is a building maintenance evaluation and assessment.

1. **Engineering building evaluation and structural assessment.**
   Facilities in need of rehabilitation first need to be identified. This process would be developed through an engineering building evaluation and structural assessment. After completing this assessment a list of Capital Improvement Projects (CIP) would be developed for budgeting and action. Through this process the facilities would be improved to acceptable standards and ADA compliance.

2. **Building maintenance evaluation and assessment.**
   The internal and external components of each facility have a specific duration and life span. Each of those components would be evaluated. Based on age and condition a schedule for replacement would be developed. From that schedule, funding would be budgeted and would be added to either the program budget or added to the CIP budget.

Background and Discussion
The consolidation and streamlining of building/facilities maintenance has been discussed and strategized for the past several years between the Beaches, Parks & Recreation (BP&R) and the Public Works (PW) Departments. After much discussion and analysis it was determined that the deciding factor for facility maintenance responsibilities between the departments is tied to whether the facility was staff occupied or not staff occupied. It was agreed that Public Works Maintenance would handle the rehabilitation and maintenance of staff occupied buildings/facilities.

As of April 2010, three (3) additional staff occupied facilities became the responsibility of the Public Works Department. Those facilities include the Marine Safety Headquarters, Community Center and Ole Hanson Beach Club. Attachment "A" provides detail on the duties assigned to Public Works and BP&R.

As part of the analysis of department responsibilities for building/facilities maintenance, an assessment of job responsibilities within the building maintenance functions was initiated. Further review will be done in this area to align existing resources most efficiently within the departments to manage the City's facilities.

Below is a listing of the facilities currently maintained by Public Works Maintenance:

Building/Location	Square Footage
City Hall buildings, including Police Services and Fire Station #60	24,594
Ole Hanson Beach Club	6,266
Community Development Building, 910 Negocio	50,000
Community Center Facility	16,425
Water/Sewer Reclamation Plant buildings, 380 Pico, total of 15 buildings	48,000
Marine Safety Headquarters	5,445
Golf Course Maintenance/Equipment Facility	6,400
Library (external), its Lobby and attached Senior Center	3,500
Old Fire Station #59	8,490
Corporation Yard, Maintenance Services Bldg A, including Fleet Maintenance Garage	16,344
Corp. Yard Equipment parking/storage Butler Bldgs.	13,200
Fuel Island maintenance and repair, contractual certification	
Animal Shelter	2,660

During the fiscal year 2010 a CIP building evaluation and structural analysis was completed on four (4) facilities with the assistance of an engineering consultant. The four (4) facilities included the Community Center, Ole Hanson Beach Club (OHBC), Corporation Yard Bldg. A and the CASA Animal Shelter. The summary breakdown of the building evaluation and structural assessment analysis is contained in Attachment B. The facility analysis has laid the foundation to expand and formalize the purpose, structure and measurable objectives to produce a long term strategy for facility rehabilitation and building maintenance.

The OHBC is the facility with the greatest importance and preliminary funding estimates start at $1.5 million. This preliminary amount may change as the final rehabilitation project(s) are clarified and defined.

From the structural analysis a list of major CIP facility related projects has been discussed and identified for implementation and construction. The items identified in the ADA Analysis should also be incorporated in the final projects. Those projects identified are then added to the short and long range CIP budget as funding sources are identified.

The remaining City facilities should also be evaluated to continue development of a facility rehabilitation and building maintenance program. This on-going process will determine the future cost to maintain City facilities in a safe and operationally sound condition.

Conclusion
To continue the process and develop a comprehensive City wide facility rehabilitation plan, additional building evaluations and structural analysis are needed for selected facilities referenced on the building/location chart, page 2. As each analysis is completed, a long term facility maintenance reserve CIP schedule will be developed to include and reflect the necessary building rehabilitation projects and funding requirements.

Recommendations

1. Include $1.5 million for the Ole Hanson Beach Clubhouse rehabilitation as a CIP project for City Council consideration during the FY 2012 budget process.

2. Direct staff to continue further investigation and structural analysis of City facilities and develop a strategic programmed plan of facility rehabilitation and building maintenance.

Fiscal Impact of Recommendations

Capital Impact –Projects will be identified and implemented in future CIP budgets.
Operations & Maintenance Impact – The costs of on-going maintenance will be programmed as needed into future operating budgets based on this plan. Replacement costs for Facilities Maintenance Reserve projects will be included in future budgets as charges to benefiting program so funds for longer lived capital assets will be available in the future.
Forecast Impact – Unknown until specific project costs are identified.

Council Action: The Facilities Rehabilitation and Maintenance recommendations were approved by City Council.

City of San Clemente **2011 Maintenance Analysis** **1/6/2011**

ATTACHMENT "A"

Buildings/Facilities	Facilities Maintenance	Beaches & Parks Maintenance
Animal Shelter	✓	
Beach Lifeguard towers		✓
City Hall Buildings: City Hall, Police Services, Fire Administration, Fire Station #60.	✓	
Community Center Facility	✓	
Community Development Building	✓	
Concession structures: some responsibility for leased structures dependent on City agreements.		✓
Corporation Yard: Building A, Fleet Maintenance Garage and Equipment Storage Butler Buildings	✓	
Fuel Island, contractual certification	✓	
Golf Course Maintenance/Equipment Facility	✓	
Library: External, Lobby and Senior Center	✓	
Marine Safety Headquarters	✓	
Old Fire Station #59	✓	
Ole Hanson Beach Club: Building	✓	
Ole Hanson Beach Club: Pool		✓
Pier, Zero Tower and Pier Snack Bar		✓
Public Restrooms, 20 beach and park locations		✓
Shade/picnic structures in parks and on beaches		✓
Steed Park Offices and restrooms		✓
Water/Sewer Reclamation Plant Buildings	✓	
Services	**Facilities Maintenance**	**Beaches & Parks Maintenance**
Carpentry	✓	✓
Electrical	✓	✓
Graffiti Removal		✓
Locksmith	✓	
Miscellaneous	✓	✓
Plumbing	✓	✓
HVAC	✓	
Pool Inspections		✓
Skill Set	**Facilities Maintenance**	**Beaches & Parks Maintenance**
Administrative Skills	✓	✓
Carpentry Skills	✓	✓
Carpeting Skills	✓	
Electrical Skills	✓	✓
Glazier Skills	✓	
HVAC maintenance and repair Skills	✓	
Locksmith Skills	✓	✓
Masonry Skills	✓	✓
Mechanical Skills	✓	✓
Painting Skills	✓	✓
Plumbing Skills	✓	✓
Pool maintenance Skills		✓
Roofing Skills	✓	✓
Sheet Metal Skills	✓	✓
Sheet Rock Skills	✓	✓
Supervisory Skills	✓	✓

Building Evaluation and Structural Assessment Summary

from T M Engineers, Inc. Report Dated April 19, 2010

ATTACHMENT "B"

Short Term Repair and Maintenance Items

Short Term items are of an immediate nature; for either safety reasons or operational reasons. Components receiving a letter grade of "F" are included in short term items. See report for component grading and definition of grading system. Safety items related to electrical issues and emergency lighting and exit signs should be repaired/replaced immediately. Other items should be repaired or replaced as soon as is economically and operationally feasible to do so. Total costs below from each section:

#	Component	Animal Shelter	Beach Club	Building "A"	Community Center
1	HVAC	$300	$3,654	$450	$37,586
2	Electrical	$1,770	$750	$4,260	$4,750
3	Plumbing	$4,600	$6,450	$0	$2,000
4	Structural	$0	$72,500 - $172,500	$69,000	$0
5	Architectural	$27,785	$88,500	$22,900	$0
	Total	**$34,455**	**$171,864 - $289,210**	**$96,610**	**$44,336**

Medium Term Repair and Maintenance Items

Medium Term items should be scheduled for repair or replacement in 1-2 years. Components receiving a letter grade of "D" are included in medium term items. See report for component grading and definition of grading system. When repairing or replacing other items of a similar nature, it may become economically advantageous to group some medium term items with short term items. Total costs below from each section:

#	Component	Animal Shelter	Beach Club	Building "A"	Community Center
1	HVAC	$1,500	$0	$22,122	$15,986
2	Electrical	$0	$600	$0	$0
3	Plumbing	$0	$0	$2,500	$1,500
4	Structural	$0	$0	$0	$0
5	Architectural	$25,000	$30,000 - $100,000	$0	$0
	Total	**$26,500**	**$30,600 - $130,600**	**$24,622**	**$17,486**

Long Term Repair and Maintenance Items

Long Term items should be scheduled for repair, replacement or re-evaluation in 5 years or more. Components receiving a grade of "C", "B" or "A" are generally included in long term items. See report for component grading and definition of grading system. Quarterly and 5 year Recommended Scheduled Maintenance items are included in long term items. Total costs below from each section:

#	Component	Animal Shelter	Beach Club	Building "A"	Community Center
1	HVAC	$1,600 annually	$1,600 annually	$1,600 annually	$1,600 annually
2	Electrical	$1,440 annually	$1,440 annually	$1,440 annually	$1,440 annually
3	Plumbing	$3,600	$7,500	$0	$1,200
4	Structural	$0	$0	$60,000 - $350,000	$0
5	Architectural	$1,000 annually	$1,000 annually	$1,500 annually	$0
	Total	**$3,600 plus $4,040 Annually**	**$7,500 plus $4,040 Annually**	**$60,000 - $350,000 plus $4,540 Annually**	**$1,200 plus $3,040 Annually**

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Revenue Update

Objective
To review and update all general fund revenue sources in accordance with the City's Fiscal Policy.

Executive Summary
The City's Fiscal Policy states that user fees will be reviewed on an annual basis. Any recommendations for adjustments to user fees are presented to City Council for review and implementation in the next fiscal year's budget. The basis for adjustment is the actual cost to provide services, inflationary impacts or other budgetary factors as appropriate. User fees are 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.

Recent legislation actions passed by the California voters have imposed certain conditions on the City's ability to increase fees and service charges. An analysis of the two propositions is included as Attachment "A".

The City annually develops a Revenue Handbook after the auditors have approved the year-end financial statements. The revenue handbook provides information on most of the revenues from the General Fund and other funds. The Revenue Handbook includes background information on each revenue source, including legal authorization, description, timing of receipts and fee schedules or calculations. The Revenue Handbook also lists the last time the fees or changes were adjusted and reviewed. Fees and service charges are reviewed annually, but any fees or service charges that have not been adjusted in the past five years are subject to an in-depth analysis. The analysis includes a comparison of the fee against the cost to provide the service.

The following revenue sources were analyzed for potential adjustment in the 2012 fiscal year:

- Business License Fee
- Commercial Filming Charge
- Special Beach Events Fee
- Restricted parking pass (Montalvo/Lobiero and Broadmoor)
- Financial Documents
- Developer Impact Fees

Background and Discussion
Business License Fee – The business license fee is a requirement to conduct business within the City. The business license review process ensures that businesses are in compliance with all City health, safety and zoning ordinances. The application and review process is regulatory, however, the fee structure is considered "revenue generating" under the provisions of Proposition 26. The fee schedules vary dependent upon the type of business conducted. A flat rate or gross receipts is the basis for the fee. For example, state licensed contractors pay a flat rate of $100 per year or $25 per quarter. A retail store or service provider pays a business

license fee based upon gross receipts. The tables below contain the business license fee schedules:

Fee Code 1:	Retail, Wholesale, Manufacturing and Telephone Services
0-$25,000	$50.00
$25,001-$100,000	$65.00
$100,001-$200,000	$80.00
$200,001-$300,000	$125.00
$300,001-$400,000	$150.00
$400,001-$500,000	$175.00
$500,001-$1,000,000	$200.00
$1,000,001-$2,000,000	$250.00
$2,000,001-$3,000,000	$300.00
Each additional $1,000,000 or fraction thereof add	$50.00

Fee Code 2:	Professions and Occupations
0-$20,000	$50.00
$20,001-$40,000	$65.00
$40,001-$60,000	$80.00
$60,001-$100,000	$95.00
Each additional $25,000 or fraction thereof add	$25.00

The average cost of a retail (fee code 1) business license is $167.10, while the professions (fee code 2) business license is $235.70. Any modifications to business license fees would require voter approval and is not recommended at this time.

Commercial Filming Charge – A permit is issued for filming of commercial still or motion photography within City limits. The permit is issued to regulate filming on public property and to ensure recovery of all City costs associated with the filming activity. The charge for the filming permit is considered a special benefit or privilege and is not subject to the provisions of Proposition 26.

The permit specifies the dates, times and conditions for filming. The process involves an application review, a draft proposal for the permit and final review by the City's Recreation Supervisor. The draft permit is also reviewed, if applicable, by Business License, Marine Safety, Parks Maintenance, Public Safety, Water Quality and Risk Management personnel. The permit may also require on-site management by Marine Safety or Recreation staff. The table below shows the cost of a still and motion filming permit compared to the actual costs of staff processing of permits:

Type of Permit	# of Hours	Cost of Permit	Actual Staff Cost
Still photography	3	$50 plus $100 day	$172.71
Motion photography	5	$50 plus $200 day	$340.49

In order to recover the full cost of the permit process, staff is recommending an application fee of $100 plus a deposit of $500.

Occasionally, a reality show, made for TV movie or major motion picture is partially shot in San Clemente. As an example, "Frost/Nixon" was filmed in San Clemente in 2008. This application involved a site check plan, security plan, catering plan and daily site review. The applicant paid $450 for the filming permit, but the actual cost of staff time for this application was $1,230. For this type of application, staff is recommending an application fee of $100 plus a deposit of $2,000 to recover the actual cost of application processing. Any funds remaining at the end of the filming permit would be remitted to the applicant or any amounts owing to the City would be reimbursed.

If changes to the filming permit are approved, revenue will increase by approximately $5,000.

Special Beach Events Fee – A permit fee is charged for the exclusive use of more than 250 feet of the beach and water for special events. The fee ensures that the event organizers pay for the cost of any municipal services required to maintain a safe and orderly event. Sheriff or security personnel are required for large events or for those involving alcohol and are paid in addition to the permit fee. Since the permit is for the exclusive use of the beach, the fee is considered a special benefit or privilege and is not subject to Proposition 26 provisions.

Type of Permit	1st Day	2nd Day	Each Additional Day
Lifeguard Assistance	$400	$250	$150
For Profit – No Lifeguards	$150	$100	$100
Non Profit – No Lifeguards	$30	$10	$10

The process involves application review by the Marine Safety Lt., as well as lifeguard assistance if requested. For permits that require lifeguard assistance and for profit events, the fees adequately cover the costs associated with the issuance of the permit. However, non-profit events do not recover full costs. City policy allows City Council to recover less than actual costs if it is in the best interest of the public to subsidize the event. Staff is not recommending any changes to the fee structure.

Restricted parking pass – Permits are issued in two residential neighborhoods to restrict parking to the residents of the neighborhood. In order to discourage people from parking on Montalvo and Lobiero streets, which is above Calafia Beach, the City restricted parking to two hours. The City offers an annual permit to allow residents of those streets to park in excess of the time limit. Residents must show valid car registration as proof of residency. Permits are

$10 per calendar year and are renewed annually due to the transient nature of the neighborhood.

Parking is also restricted in parts of the Broadmoor development, above San Clemente High School, to discourage students from parking in this area. Residents can receive a free permit to park on the residential streets of the development. No changes to the fee structure are recommended at this time.

Financial documents – There are public copies of the City's financial documents available at City Hall and the library. The documents are also available on the City's website and can be downloaded and printed for free. However, if anyone wishes to purchase a budget document or financial report, the charge is $25 each. Changes to the charge for documents are allowed under the provisions of Proposition 26 as long as the charge does not exceed the actual cost of the document. Based on the actual cost to produce the budget document, it is recommended to increase this fee to $50. No changes to the cost of the City's Long Term Financial Plan or Comprehensive Annual Report are recommended at this time.

Developer Impact Fees – Water acreage, sewer connection, traffic model and park fees are all developer impact fees charged at the time of final subdivision map or issuance of building permits. As the City reaches build out, the projects that would pay developer impact fees are mostly small in-fill projects or small subdivision projects such as the project recently approved on Via Socorro. Changes to developer impact fees without voter approval are allowed under the provisions of Proposition 218.

The water acreage fee is paid by developers or builders to improve or construct new City water facilities impacted by development. Fees vary between $2,388 per acre to $10,500 per acre, depending on the type of development (residential, commercial and industrial) and the estimated amount of demand the development will have on the water system. Developments which exceed estimated water demand limits are subject to additional fees. No changes are recommended at this time.

The sewer connection fee is charged to mitigate the impact of new development on the City's water reclamation plant. A permit is issued to ensure regulatory compliance with the wastewater discharge permit. Although the sewer connection fee was updated in January 2009, the fee for changing the terms and conditions of the discharge permit has not been updated since 1997. The fee for changes to discharge permit is $8.50 per gallon and is adequate to recover the costs for reviewing the changes. No changes are recommended at this time.

The traffic model fee is required for all proposed developments to cover the administrative cost of maintaining and updating the City's traffic model. The model monitors the traffic impacts on the street network and provides data necessary to identify needed roadway improvements. The fee is \$250 plus \$25 per dwelling unit (\$4,000 maximum) for residential and \$250 plus \$0.05 per square foot (\$5,250 maximum) for non residential development. No changes are recommended at this time.

The City of San Clemente requires 5,000 acres of park land dedication per one thousand residents in the new development or the payment of a park fee. Park land dedication and fees paid "in-lieu" of park land dedication is governed by State legislation known as the "Quimby Act". The fees are based upon the size of the development and range from \$400 for a single dwelling unit to \$5,080 for a project that is 25.6 acres or more. No changes are recommended at this time.

Recommendations

Direct staff to revise the commercial filming permit fees as a part of the FY 2012 budget process.

Fiscal Impact of Recommendations

Capital Impact - None
Operations & Maintenance Impact - None
Forecast Impact – Estimated \$5,000 increase in revenue

Council Action: The Revenue Update recommendation was approved by City Council.

Attachment "A"

There are two voter approved initiatives that revised the laws governing taxes, fees, assessments and other government charges. The two measures imposed new requirements for noticing and voting on taxes or property assessments.

Proposition 218, the "Right to Vote on Taxes" initiative, was approved by California voters in 1996. The proposition states that no local government may impose, extend or increase any general or special tax without voter approval. At that time, a thorough review of all City revenue sources was conducted to determine if the provisions of Proposition 218 applied. As a result, the City's Lighting and Landscaping assessment was eliminated. The City's Clean Ocean fee, enacted in 2002, was approved in via a mail ballot election in accordance with Proposition 218. The fee was reestablished for a six year term by voter approval in 2007.

In November 2010, California voters passed Proposition 26, the "Stop Hidden Taxes Initiative," by a 53% majority. The proposition redefines many local fees as taxes and imposes a two-thirds vote of approval for any changes to the tax or tax structure. As a part of this review, all revenue sources were analyzed to determine if changes would be subject to the new provisions of Proposition 26. The City's business license fee is redefined by Proposition 26 as a tax and is subject to voter approval if the fee or fee structure is changed.

There are certain fees or charges that remain exceptions to Proposition 26 and may be adopted by simple majority by the City Council. Voter approval is not required for these exceptions. The exceptions are noted below, along with some specific examples of City revenue sources that are exempt.

Exceptions	Examples
A charge for a specific benefit or privilege	Street encroachment permits, street closure (block party) permits, parking permits in restricted zones, franchise fees
A charge for a service or product (provided that the fee does not exceed the reasonable cost of the service or product)	User fees such as water, sewer, recycling, documents, ambulance transport, recreation classes, street or sidewalk repairs
A charge for reasonable regulatory costs for issuing licenses or performing investigations, inspections or audits	Plan check, fire, building, health, environmental or safety permits, application processing fees
Rental, use or entrance of government property	Facility rental, parking lot fees or golf green fees
A fine, penalty or monetary charge imposed as a violation of law	Late payment fees, administrative citations, parking or speeding citations
A charge imposed as a condition of property development	Construction permits, development impact fees
A benefit assessment or property related fee approved under the provisions of Proposition 218	Clean ocean fee

Revenue Enhancements

Objective

To identify any potential on-going revenue enhancements or new revenues that could be considered to help eliminate projected future deficits in the City's operating position.

Introduction

Last year, the Financial Forecast projected significant budgetary deficits beginning in 2011 and increasing through 2015. A comprehensive process to deal with the economic downturn and the resulting projected deficits was warranted. As a result, three Budget Enhancement Team (BET) committees were formed; a *Program Review Team*, a *Cost Savings Team*, and a *Revenue Enhancement Team*. The Revenue Enhancement Team collected revenue ideas from all City employees, categorized those ideas by the department most likely to oversee the revenue, and presented the findings to the Steering Committee and the City Manager for consideration and inclusion in the FY 2011 budget.

The Revenue Team has been reassembled to continue the review of ideas and to make additional recommendations for Council consideration to enhance revenues in the fiscal year 2012 budget. Additionally, the Cost Savings and Streamlining Teams have developed further cost reduction measures for consideration in the development of the 2012 Proposed Budget.

Executive Summary

The 2011 Revenue Enhancement paper is the result of a continuation of the process which began in 2010. For 2011, the Team identified revenue enhancement opportunities in three general areas;

- Beach rentals
- Parking Enhancements
- Still Photography, Film and Video permits

Each of the three areas presented above will be discussed separately below. Within each general area, opportunities will be presented which can be considered for implementation individually or collectively. The Team sought to present ideas which represent significant new or enhanced revenue to the General Fund.

Background and Discussion

Ideas were solicited from two sources; 1) the members of the Teams which were created during development of the 2011 Long Term Financial Plan, and 2) ideas collected by the Revenue Enhancement Team from all employees City-wide. These ideas were reviewed in detail by the team. The Team conducted additional research which included contacting neighboring beach cities for comparative purposes. The revenue ideas presented for consideration in this paper are consistent with the approach taken be other beach cities and represent legitimate revenue enhancement opportunities.

Beach Rentals

Option for Private Rentals

The City receives many requests from the public to rent beaches and parks exclusively for private parties. Currently the City offers rentals at park sites, but does not offer exclusive use. At this time, there is no policy to privately rent beach space or amenities. The BET revenue committee sought to explore new options of providing a service to meet this demand, considering both the costs and potential revenues. The details in the proposals here, are in the first phase of review, but offer some rough estimates for the number of permits that could be managed and ranges of potential revenue. If the concept is given consideration for further review, the Beaches, Parks and Recreation Department would continue to research the opportunity, and develop a concrete plan of implementation. The details would then be presented both to the City Beaches, Parks and Recreation Commission and City Council for the official process of review and final recommendation.

Wedding Permits

The City receives many requests from the public and local banquet halls to utilize city beaches or park sites to conduct wedding ceremonies. Although the beaches and parks may be used for this purpose, current city policy does not offer the opportunity to rent the beach or designate exclusive space at the parks for private use. The reservation of a specific location for a wedding ceremony is necessary for wedding planners. The City can meet this demand by designating specific locations for wedding ceremonies, and use our existing reservation system and park monitors to implement this new service. This is an opportunity to provide for both the service demand and establish a new source of revenue for the City.

Possible Sites:

Areas at North Beach, and north of Marine Safety, as well as the Pier offer beach beautiful locations which can accommodate group use most of the year, with little impact to the general public. These locations also provide beach access, public parking, and ease of staff oversight. In addition, locations at ocean view parks (Linda Lane, Park Del Mar, Leslie, Semper Fi, and San Gorgonio) are frequently rented for general use. An additional site at Tierra Grande which offers a small facility for inside parties is also a good location. Offering these sites with exclusive use for longer blocks of time would increase the marketability, and add value to the rental.

Miscellaneous Beach Rental Permits

Beach Amenities

Beach amenities, such as shade structures, picnic tables, and fire rings are currently available to the public at no cost, on a first come first serve basis. With limited amenities, and no management plan for their use, conflicts and frustration often arise for our residents simply hoping to set aside specific space for their gatherings. A program to reserve a portion of the beach amenities would meet the demand from the public to host small private parties at the beach, and would be an opportunity for the City to gain new revenue. This service is offered in neighboring beach cities, and is extremely popular.

Beach Sites

Open beach sites are generally permitted only for non profit organizations conducting special events or activities that offer public benefit. Updating the policy and fees to allow use by any organization or group would create new revenue opportunities for the City. This would include rental of beach sites for events or activities planned for profit such as commercial camps, classes, and large events. Updating existing policy would also allow greater control over these types of activities, many of which are already taking place without City authorization.

This option presents some challenges in developing new policy that will be endorsed by the public, given the limited beach space and potential public impacts, as well as the consideration of existing beach concession contracts. These options are concurrently under review by Beaches, Parks and Recreation staff and will be presented to the City Beaches, Parks and Recreation Commission for discussion and recommendations mid year 2011. Recommendation is pending the research from this committee, and to implement their suggestions in the near future.

Associated Costs, Revenues and Implementation

If just Wedding Permits and Beach Amenities programs were implemented, total Revenues are anticipated to be in the range of $45,000 as detailed in Exhibit #1. Revenues were projected at the low end of the spectrum considering minimal rentals in the beginning, so that the program could be established as a pilot plan. The recommendation is to implement this program in phases, with a public outreach campaign for the public impacts, and marketing strategies to be set in place. Consideration to roll the revenues from initial first years to assist the development of either new shade structures for additional rentals, or offer upgrades to existing amenities as the program builds momentum.

Expenses to manage both beach and park rentals are estimated at $15,000. The Recreation Division currently has a reservation system in place for various facility rentals. Part time staffing to manage this type of monitoring is also already in place. An estimated 500 hours would need to be added to Recreation Division part time staff budget to schedule park monitors and manage periodic maintenance. In addition, one time expenses to purchase area signage, temporary barricade/pilons, and marketing materials would be required.

Parking Enhancements

Consideration for expansion and alignment of hours of operation for parking meter program

The consideration of expansion and alignment of hours of operation for the parking meter program is the most cost effective means to increase parking meter revenue. A modest capital expense would be necessary to implement this program since the metered parking already exists. Signage modifications and parking meter re-programming would necessary to accomplish the proposed changes.

Currently, the hours of operation of the City's parking meter program are inconsistent throughout the various beach parking areas. Linda Lane and Pier Bowl lots operate from 10am to 5pm, T-Street is 9am to 7pm, Calafia, North Beach and Camino Capistrano areas are 9am to 6pm. In February, 2009 City Council adopted modifications to the San Clemente Municipal Code section 10.40.010 for hours of operation of the Pier Bowl on-street parking meters and Linda Lane parking lot meters. The hours of operation were changed to 10am to 5pm to be consistent with the Pier Bowl parking lots based upon a request to the City Council from the Pier Bowl Merchants Association.

The proposal is to increase and align the hours of operation in the parking meter program. This standardized approach City-wide would simplify the program for the public and align the hours of operation with other beach community practices. The new hours of operation that are proposed, begin at 6am and end at 10pm, system wide. This will add an average of six hours per day per meter in additional potential revenue. The conservative estimated additional revenue is $50,000 annually.

Consideration of T-Street parking meter expansion

T- Street is a major access point to the ocean in San Clemente. Currently, fifty-one (51) metered parking spaces are in place on one side of the street. Beach goers tend to park in unmetered areas first, which reduces revenue potential of the area and impacts residential parking. Adding meters to the unmetered street areas and developing a permit plan for local residents will help address the existing parking conditions around T-Street while enhancing revenues. The expansion of paid parking to both sides of the street and up Avenida Esplanade will add an additional fifty one (51) metered parking spaces.

To develop this parking plan, staff recommends meeting with the area residents to discuss the potential impacts of the installation of additional parking meter stalls and discuss options for resident and guest parking passes.

Adding acceptance of credit cards in meters enhances customer payment options and encourages expanded use of the parking spaces. It also allows the removal of multiple individual meters, improving the appearance of the area, and reduces maintenance and servicing costs for the City. Two new pay stations are recommended along with the removal of the existing single space parking meters. The new pay stations have an estimated capital cost of $40,000.

The current 9AM to 7PM T-street metered parking area generates approximately $50,000 in parking meter revenue annually. A conservative estimate of additional revenue is $20,000 per year.

Consider adding parking meters to minor beach access points

There are several minor beach access points throughout San Clemente that provide access to the beach. These are free parking areas for the public. They are located in residential neighborhoods and attract beachgoers from surrounding neighborhoods and cities. Some of those beach accesses are utilized extensively due to their "exclusive" less crowded nature. The areas are Dije Court stairs on Buena Vista, Mariposa/Escalones loop, Corto Lane, Los Alamos access, Riviera, Calafia and the Montalvo/Lobiero parking area above Calafia Beach Park.

Installing parking meters adjacent to the residential beach access points would require the installation of single space parking meters. Existing parking meters that were removed from previous pay station installations could be reused, thus reducing any capital costs dramatically. As a first step, staff recommends meeting with the area residents to discuss the potential impacts of the installation of additional parking meters and discuss options for resident and guest parking passes.

Additional parking meter revenue would be based upon the extent and numbers of parking meters installed. The conservative estimated additional revenue is $20,000 annually.

Parking enhancement summary

All of the parking enhancement recommendations will increase the cost to park and utilize the City's beaches. This should not dramatically affect non-resident visitors, as the parking meter rates in San Clemente are very competitive when compared to neighboring Cities. The City's resident parking pass program, at $50 per year, provides a cost effective way for local residents to minimize, if not eliminate, the impact of these proposed enhancements.

Revenue estimates of each element of the proposed parking enhancements have been provided in this paper. None of these estimates assume a shift to increased resident parking pass sales, but it is likely that this will occur, given the cost-benefit of the parking passes to the hourly metered parking rate of $1.50.

Still Photography, Film and Video Permits

The City sees limited activity from commercial still photography, film, and video production companies, with annual revenue in the $10,000 range. Currently, a $200 per day permit is required, plus a $50 application fee. Staff examined fee structures and program elements from other beach Cities to determine if the existing fee structure is reasonable.

Research indicates that the City's fee structure is well below that of neighboring beach cities, which charge double San Clemente's existing rates. Recommendations to modify the fee structure are presented in the Revenue Update paper.

While conducting the research, staff noted that the programs are well-organized, with pricing and program requirements available on-line, as well as application forms and general program information. It became apparent that neighboring cities promote their filming programs. Annual revenues reported by Laguna Beach, Huntington Beach, and Newport Beach are three to five times greater than those recorded in San Clemente.

Staff recommends a focused approach to enhance this program.

The following actions are recommended:

- determine locations within the City to promote filming
- develop brochures or video images to promote desirable filming locations
- promote the filming opportunities on the City's web site
- develop on-line applications and program information
- consider other marketing avenues to promote more filming

Conclusion

The Revenue Enhancement Team has developed a number of viable revenue enhancement alternatives for Council's consideration. The team has conducted research, interviewed employees, citizens, management, and staff from neighboring cities to support recommendations which are reasonable and competitive with other beach communities, and presented in this paper.

The beach represents one of the City's most valuable assets, and is an expensive asset to maintain. Recreation receives frequent requests for beach uses beyond their current program offerings. Many ideas presented in this paper look to address those requests and to benefit from similar programs currently offered by other beach communities.

Parking revenues are largely driven by the proximity to the City's beaches. The recommendations presented in this paper look to standardize the parking program and the treatment of public parking for beach access.

Recommendations

Staff recommends that City Council directs staff to further investigate and include in the 2012 budget:

1. Expand beach and park rentals, including private party rentals, beach amenities, and wedding sites and permits.
2. Expand and standardize the hours of operation of parking meters.
3. Meet with local residents to discuss expanding the number of metered spaces at T-Street and install modern pay stations.
4. Meet with local residents to discuss adding parking meters to minor beach access points.
5. Enhance the promotion of the still photography, film and video program.

Fiscal Impact of Recommendations

Council Action: The Revenue Enhancements recommendations, #1 & #2, were approved by City Council with the following modifications:

> Item 1: To direct Beaches, Parks & Recreation to develop a policy to expand beach & park rentals.
> Item 2: To direct Staff to investigate the possibility of a policy relating to consistent City wide parking meter hours. The hours of operation will be determined at a later date.

City Council did not take action on recommendations #3, 4 & 5.

Exhibit #1

Revenue Projections for Wedding Ceremony Permits

BEACH	3 Locations Suggested : North Beach, Pier, and Near Marine Safety			2 Hour blocks of time			Min. Range Projected
						1 site, 1 hr	
	DATES	SIZE OF GROUP PERMITTED	DAY	TIME	FEE	# PERMITS	REVENUE
High	April-Aug	Small Group (30 less)	Sat	7-10am	$150 hr	20	3000
Season	April-Aug	Large Group (up to 100)	Sat	7-10am	$200 hr	10	5000
Low	Sept-March	Small Group (30 less)	All	All	$125 hr	30	3750
Season	Sept-March	Large Group (up to 150)	Sat	7-11am	$200 hr	10	2000
	Total Permits for Beach Sites					**70**	**13750**

PARKS	5 Locations Suggested: Linda Lane, Leslie, Semper Fi, Park de Mar, San Gorgonio				Min 3 hr Block required		Min. Range Projected
						1 site, 3 hrs	
	DATES	SIZE OF GROUP PERMITTED	DAY	TIME	FEE	# PERMITS	REVENUE
Year	Jan-Dec	Small Group (30 less)	All	All	$75 hr	20	4500
Round	Jan-Dec	Large Group (up to 100)	All	All	$150 hr	15	6750
	Total Permits for Park Sites					**35**	**11250**
	TOTAL PERMITS FOR WEDDING SITES					**105**	**25,000**

Revenue Projections for Beach Rental Permits

SHELTERS	Locations Suggested :Picnic Shelter South ofMarine Safety			5 Hour blocks /$120hr			Min. Range Projected
	DATES	SIZE OF GROUP PERMITTED	DAY	TIME	FEE	# PERMITS	REVENUE
Year	Jan-Dec	30- 100	Sat.	8am-1pm	$600	15	9000
Round	Jan-Dec	30-100	Sat.	1pm-7pm	$600	15	9000
	TOTAL PERMITS FOR PICNIC SHELTER					**30**	**18000**

This is under review by Beaches, Parks and Recreation Department

BEACH SITES	Misc areas designated for Camps, Classes, Events
Non Profit Rates	Fee
Private/Comm	Fee
Areas:	Surf Contests - Water and Sand
	5 K runs
	Event Space
	Camps
	Classes

Americans with Disabilities Act

Objective

To present an overview of the primary requirements of the Americans with Disabilities Act (ADA), and to discuss the steps the City has taken and is currently involved in to bring the City into full compliance with the 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 all persons with disabilities have equal participation and effective communication in all functions of civic life. While many of the City of San Clemente's existing facilities are not in complete compliance with federal accessibility statutes, the City recently hired Disability Access Consultants, Inc. (DAC) who has begun a systematic review of City facilities, programs, services, and activities. A review of City sidewalks is a component of an overall ADA review and is being addressed through Engineering.

Background and Discussion

Purpose of ADA

Title II of ADA applies to all state and local government agencies, including counties, cities and townships, schools, water districts, special districts, and other small local governments and instrumentalities. It prohibits discrimination on the basis of disability in all services, programs, and activities provided by cities. Protection under ADA is currently granted to individuals with physical or mental impairments, such as: orthopedic, visual, speech, and hearing impairments; cerebral palsy, epilepsy, muscular dystrophy, and multiple sclerosis; cancer, heart disease, diabetes, HIV, and tuberculosis; and mental illness, emotional illness, specific learning disabilities, drug addiction, and alcoholism.

To accomplish this, the ADA sets requirements for five primary areas of compliance by local government: program accessibility in existing facilities; new construction and alterations; maintenance of accessible amenities; communications with the public; and policies and procedures governing city programs, services, and activities.

Liability and ADA

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

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

Processes for ADA Compliance

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

1. Designate an ADA Compliance Officer to coordinate the required self-evaluation and develop a transition plan, handle requests for auxiliary aids, provide information about accessible facilities and services, ensure new facilities or alterations meet ADA requirements, and serve as a resource to the City Council and the public. *The City of San Clemente has a designated ADA Compliance Officer and is in the process of performing a comprehensive self-evaluation.*
2. Provide public notice about the City's ADA nondiscrimination obligations and policies, accessible facilities and services, and complaint or grievance procedures. *This is completed in part, and on-going in part. ADA information is located on the City website; job postings, facility rental forms, and recreation class registration forms include ADA-related information. The City of San Clemente provides minimal public accessibility information.*
3. Develop a grievance procedure that provides for a formal public complaint process, which encourages prompt and equitable resolution of the problem at the local level without forcing individuals to file a federal complaint or lawsuit. *The City of San Clemente has a formal grievance procedure that is located on the City's website, and claim forms are available for the public.*
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. *An initial assessment of City facilities was conducted in July 1992, but did not include a comprehensive review of City programs, activities, and facilities. Within the past year, in-house staff also conducted another assessment of City facilities insofar as it was possible to do so. The federal regulations recently changed, and DAC is now conducting a comprehensive review of City facilities, programs, activities, and services.*
5. Develop a transition plan that identifies modifications that will be made to programs and facilities to ensure compliance with ADA Standards. *This will be developed once the self-assessment is complete. According to DAC, it is not uncommon for a transition plan*

to have a timeframe of 15-20 years. The plan would identify areas of focus, a recommended prioritization of those needs, and allow for a systematic approach to address the City's needs based on financial considerations and final prioritization of the needs. The City of San Clemente may have developed a transition plan in the early nineties, but like the self-assessment, documentation of the results cannot be located.

Steps That Remain To Be Completed
While the City has made progress in certain areas, additional work needs to be done before a transition plan can be put together, and DAC has and is assisting staff with the following:

A. Inspection of all City facilities including buildings, parking lots, parks and restrooms for compliance with the ADA Accessibility Guidelines for Facilities (ADAAG) and California Title 24 of the California Building Code (CBC) Accessibility Guidelines. The inspections include the identification of barriers and recommended solutions for removal of structural barriers in order to ensure compliance with the recently implemented revised regulations. There are approximately twenty (20) buildings, nine (9) stand-alone restrooms, fourteen (14) parks including their restrooms and snack bars, and sixteen (16) public parking lots that are included in this phase of the self assessment. The inspection of all City facilities was started in December of 2010 and is estimated to be completed in the first quarter of 2011.

B. Seek public input regarding the self evaluation and transition plan. This includes:
   a. Soliciting input regarding programs, services, and activities; and
   b. Soliciting input regarding the removal of any barriers to participation or access.

   This will be accomplished through surveys of facility users and organizations representing persons with disabilities.

C. Posting public notices to advise the public of their rights and the City's responsibility under the ADA and how it applies to the programs, services and activities of the City. Notices should be posted in the most effective way and can include the website, recreation magazine, meeting notices and at facilities.

D. Compiling additional input from interested parties by soliciting input from local organizations representing individuals with disabilities.

E. Creating a summary report that will be entitled "City of San Clemente ADA Self-Evaluation". The purpose of the report is to document the results of the City of San Clemente's review of access to programs, services and activities in order to determine if any discriminatory or potentially discriminatory practices, policies or procedures exist.

Conclusion

The City is continuing its efforts for compliance with Title II of the Americans with Disabilities Act to effectively safeguard against potential violations. Staff continues to work with an ADA compliance consultant for the assessment of programs, services, activities and facilities. Trained and certified employees of DAC are performing inspections of all City facilities including buildings, parking lots, parks and restrooms. The inspections identify barriers and recommend solutions for removal of the barriers. The compilation of the information will enable to City to create a transition plan that will identity physical barriers, provide solutions for barrier removal, prioritize and schedule their removal. The review of City sidewalks must also be done, and the Engineering Division will be helping to coordinate this effort.

Transition Plan

As DAC completes its review of the City's operations and facilities, they will assist the City in developing a comprehensive transition plan. It is important to recognize that implementation of the anticipated plan will occur over a 15-20 year period, with a variety of capital improvement program requests to be submitted during this time period. Once the review of City sidewalks has been completed, that information will be folded into the overall transition plan to ensure the sidewalks are brought into full compliance.

Fiscal Impact of Transition Plan

In order for the City to be fully compliant, it will require a concerted effort to address the items identified in the transition plan. While it is not currently known exactly how much funding will be required to implement the plan, the City needs to be prepared to make consistent, long-term financial decisions that will allow for a systematic approach to address whatever needs are identified. Staff will be including verbiage in future project requests to Council that the given project is being proposed in order to implement a portion of the ADA transition plan.

The transition plan will be maintained in an accessibility management software package that will allow the City to revise and track compliance throughout the implementation process. Non ADA compliant findings can be prioritized and projects identified. Cost estimates will be developed and funding sources identified to ensure the City becomes fully compliant with the requirements of the ADA.

The self assessment and development of the transition plan, excluding sidewalks, is expected to be completed by June 2011.

Recommendation: 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 ability to raise capital through debt instruments is dependent upon many factors, including market conditions and the City's debt rating, which is assigned by independent rating agencies such as Standard and Poors. The City has an AAA rating, an excellent rating in the investment community.

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 to not 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 obligation to the General Fund
    b. Golf Enterprise Operating Fund obligation to the In-Lieu Parking Reserve

The City Treasurer's 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 Officers Association (GFOA) represents another excellent resource for information regarding governmental debt and is presented in a concise and readable format. This information can also be found in The *Elected Officials Guide to Debt Issuance* 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. A separate paper is included in this year's Long Term Financial Plan which addresses renewal of the Street program, which is subject to Prop 218 approval by property owners.

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. Given the favorable interest rate environment, the City is working with its financial advisors to refinance this District debt. Under the proposed refinancing, a lower interest rate may reduce the property owner's annual debt service while not extending the final maturity date beyond 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. Rent charged to unrelated tenants on the third floor and charges to City departments occupying the first and second floors of the building are used to repay installments of principal and interest on the COP's. The combined outstanding balance of Series A & B is $2.6 million. 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. The outstanding balance is $2.1 million. 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 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. The small size of the proposed financing, the costs of issuance, and unfavorable market conditions have prevented the placement of the Golf Course Financing within the constraints approved by Council. A short-term interfund loan in the amount of $2.5 million was made from the In-Lieu Parking Reserve to fund the completion of the Golf Course Clubhouse project. This loan has been renewed annually and is currently due on June 30, 2011. Recommended modifications to the

Fiscal Policy will establish criteria for long-term interfund loans for capital projects such as the Golf Course Clubhouse, which could then be converted to a fully-amortized long-term loan.

Short Term Interfund Debt

Advances from the General Fund to the Golf Course Operating Fund totaling $984,000 were made between fiscal years 2003 and 2006 to fund operating deficits. The Golf Operating fund began making principal payments in FY 2008. The outstanding balance is $394,000 and will be repaid by fiscal year 2012 through budgeted debt service payments from the Golf Operating Fund. (Refer to the *Golf Course Analysis Paper* for additional information).

Advance from the Public Facilities Construction Fee Fund (In-Lieu Parking Reserve) to the Golf Capital Improvement Reserve was made in June 2007 in the amount of $2,500,000 to fund completion of the Golf Course Clubhouse project. The advance will be converted to a fully-amortized long-term loan, as discussed above. (See Enterprise Loan Financing section and *Fiscal Policy Paper*).

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	$625,000	$657,800
Sewer Improvements AD 98-1	Reassessment District	June, 2007	$13,405,000	$1,197,100
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$585,000	$91,450
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Dec., 1999	$5,190,000	$437,000
Negocio Series A	Certificates of Participation	June, 1993	$785,000	$86,900
Negocio Series B	Certificates of Participation	June, 1993	$1,825,000	$235,100

Debt	Type	Origination Date	Current Balance	Annual Payment
City Copiers	Capital lease	August, 2006	$166,000	$36,500
Long-Term Inter-Agency Loan				
RDA	Inter-agency loan	July, 2002	$2,112,700	$269,800
Short-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2003	$394,000	$263,000
Golf Operating	Interfund loan	June, 2007	$2,500,000	$15,000

Debt Options for Capital Project Funding

Options and Strategies
The information presented in the previous section of this paper is intended to provide a basic analysis of existing long and short-term debt outstanding. All potential debt sources are analyzed and considered as part of the long term planning process. Appropriate use of debt can allow the City to develop and maintain infrastructure otherwise not affordable. However, inappropriate use 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 but does not recommend 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 5.08% and the term equals 20 years. Due to current financial market conditions and market perceptions, Assessment District and Community Facility District financing is significantly more expensive than 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 $19.2 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 8% (e.g. $16 million project would result in a $17.3 million bond issue). For smaller financings or private placement debt, the percentages will vary.

Capital Project Summary

The *Beach Restroom Master Plan* project has a $2.5 million funding requirement. The project could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $3.0 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $242,000. Assuming General Obligation debt, a total of $2.7 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $218,000.

The *Civic Center* project, with a $9.0 million funding requirement, has been delayed for three to five years. Unfavorable real estate market conditions prevent the sale of the City Hall site at this time. Ultimately, proceeds from the sale of the City Hall site, when sold, are likely to provide adequate funding to complete the Civic Center project. If not, the project could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $10.8 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $873,000. Assuming General Obligation debt, a total of $9.7 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $785,000.

The *Ole Hanson Beach Club* project has a $1.5 million funding requirement. The project could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $1.8 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $145,000. Assuming General Obligation debt, a total of $1.62 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $131,000. General Obligation bonds are subject to voter approval under Prop 218.

The *USACE Sand Project* has a $4.2 million funding requirement. The project could be financed with General Obligation Bonds. Assuming General Obligation debt, a total of $4.5 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $364,000. General Obligation bonds are subject to voter approval under Prop 218.

The *Wayfinding Master Sign Program* project has a funding requirement ranging from $1.375 million to $1.877 million. The project could be financed with General Obligation Bonds. Assuming General Obligation debt for the $1.877 million estimate, a total of $2.25 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $182,000.

The *Quiet Zone Improvements* project has a $3.4 million funding gap. The project could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $4.1 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $331,000. Assuming General Obligation debt, a total of $3.7 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $299,000.

The *Recycled Water Expansion* project will begin construction in FY 2012. The $12.3 million funding requirement will be financed through the State Revolving Fund (SRF) loan, with debt serviced by the Water Operating Fund. The SRF loan totals $12.3 million with estimated annual payments of $778,600.

Capital Project Summary Table

Capital Project	Required Funding	Debt Issue	Annual debt Service
Beach Restrooms - Certificate of Participation	$2,500,000	$3,000,000	$242,000
Beach Restrooms - General Obligation Bonds	$2,500,000	$2,700,000	$218,000
Civic Center - Certificate of Participation	$9,000,000	$10,800,000	$873,000
Civic Center - General Obligation Bonds	$9,000,000	$9,720,000	$785,000
Beach Club – Certificate of Participation	$1,500,000	$1,800,000	$145,000
Beach Club – General Obligation Bonds	$1,500,000	$1,620,000	$131,000
USACE Sand Project – General Obligation Bonds	$4,170,000	$4,504,000	$364,000
Wayfinding Master Sign Program – General Obligation Bonds	$1,877,000	$2,250,000	$182,000
Quiet Zone - Certificate of Participation	$3,432,000	$4,100,000	$331,000
Quiet Zone - General Obligation Bonds	$3,432,000	$3,700,000	$299,000
Recycled Water Expansion Project SRF	$12,300,000	$12,300,000	$778,600

Debt Options Summary

Based on the above analysis and assuming that the City Hall site is not sold, should Council consider utilizing bonded debt, the following options are available:

1. Finance the *Beach Restroom Master Plan* with a $3.0 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $242,000. Should the project be financed through a General Obligation bond, debt service payments of $218,000 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 $9.0 million *Civic Center* project with a $10.8 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $873,000. Should the project be financed through a General Obligation bond, debt service payments of $785,000 would be assessed upon property owners and would not be a General Fund obligation.

3. Finance the *Ole Hanson Beach Club* project with a $1.8 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $145,000. Should the project be financed through a General Obligation bond, debt service payments of $131,000 would be assessed upon property owners and would not be a General Fund obligation.
4. Finance the *USACE Sand Project* with a $4.5 million General Obligation debt issuance. Annual payments are estimated at $364,000 and would not be a General Fund obligation.

5. Finance the *Wayfinding Master Sign Program* with a $2.25 million General Obligation debt issuance. Annual payments are estimated at $182,000 and would not be a General Fund obligation.

6. Finance the *Quiet Zone Improvements* with a $4.1 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $331,000. Should the project be financed through a General Obligation bond, debt service payments of $299,000 would be assessed upon property owners and would not be a General Fund obligation.

7. Finance the *Recycled Water Expansion* project with a $12.3 million State Revolving Fund loan. Annual payments from the Water Operating Fund are estimated at $778,600. This represents a one-time 4.8% increase in operating expenses for the Water 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, 2, 3, and 6 presented above to the operating position of the General Fund assuming Certificates of Participation are issued. The combined debt service payments would result in a negative operating position in all five years of the Forecast. Given this impact, financing the Beach Restroom, Civic Center, Ole Hanson Beach Club and/or the Quiet Zone projects with Certificates of Participation is not practical.

2011 Forecast Summary (LTFP)*
Amounts in $1,000

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Operating receipts	$48,577	$50,013	$51,219	$52,294	$52,483
Operating disbursements	48,225	49,676	51,116	52,597	53,972
Projected surplus/deficit	$352	$337	$103	($303)	($1,488)
1. Beach Restroom COP	(242)	(242)	(242)	(242)	(242)
2. Civic Center COP				(873)	(873)
3. Ole Hanson COP	(145)	(145)	(145)	(145)	(145)
4. Quiet Zone COP	(331)	(331)	(331)	(331)	(331)
Revised surplus/deficit	($366)	($381)	($615)	($1,894)	($3,079)

EXHIBIT I

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

CAPITAL PROJECTS

CAPITAL PROJECTS	FINANCING/FUNDING METHODS: A. Assessments	B. Taxes	C. Fees / Charges	D. Existing Revenue and Fund Balances	E. Federal, State and Other Gov't Agency Funding Programs	F. Proceeds from sale of assets
Parks and Medians						
Beach Restroom Master Plan $2.5 M construction costs $2.5 M gap		X		X		
Facilities						
Civic Center $12.9 M construction costs $8.95 M gap		X		X		X
Ole Hanson Beach Club $1.5 M construction costs $1.5 M gap		X		X		X
USACE Sand Project $12.2 M construction costs $4.2 M gap		X			X	
Wayfinding Master sign Program $2.0 M construction costs $1.875 M gap		X		X		
Quiet Zone Improvements $3.9 M construction costs $3.4 M gap		X		X		
Water and Sewer (Enterprise)						
Recycled Water Expansion $22.0 M construction costs $12.3 M gap		X	X	X	X	

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 2011 Capital Projects Analysis paper identifies funding requirements for the construction of major capital projects which will be challenging over the next five years. Gap-closing strategies for the following projects include:

- Construction of Non-Enterprise Fund Projects:
    - Beach Restroom Master Plan
    - Civic Center
    - Ole Hanson Beach Club
    - USACE Sand Project
    - Wayfinding Master Sign Program
    - Quiet Zone Improvements
- Construction of Enterprise Fund Projects:
    - Recycled Water Expansion

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 $22.5 million for General Fund and Capital Projects Fund projects and $12.3 million for Enterprise Fund project.

Beach Restroom Master Plan
The 2011 Capital Projects Analysis and the Beach Restroom Master Plan issue paper indicate the anticipated cost of renovations of the beach restrooms at $2.5 million, with no funding source specifically identified. The renovation project could be funded in a single year, which will have a significant impact to fund balance, or split into individual projects and funded over a five or six-year period from the General Fund and RDA Fund. This approach seems most reasonable given the requirements of working with and obtaining permits from the Coastal Commission for work on buildings within the coastal zone. Alternatively, the project could be funded with Certificates of Participation, as described in the Debt paper.

Gap Closing Strategies	
Beach Restroom Master Plan	(2,500,000)
General Fund & RDA Fund	2,500,000

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 $3.9 million is currently funded through existing reserves, of which $1.4 million is in the Public Safety Reserve and $2.6 million is in the

Public Facilities Construction Reserve. The remaining balance of $9.0 million is anticipated to be obtained from the sale of the existing City Hall site at 100 Avenida Presidio.

The unfavorable real estate market led to a re-evaluation of the sale of the City Hall site in the near-term future. As a result, City Council authorized a commercial broker to list the second and third floors of the Negocio building for lease. The third floor was successfully leased and the broker continues to look for suitable tenants for a portion of the second floor. This strategy is providing additional revenues to service the existing debt on the Negocio building and ease the demands on the General Fund by as much as $295,000 per year. The broker has also listed the 1030 Calle Negocio building (former fire station), which if leased, will further reduce the demands on the General Fund.

Ultimately, sale of the City Hall site to fund the adaptive reuse of the Negocio building represents the optimal strategy. The cash flow requirements to fund the construction costs prior to relocating the existing City Hall staff will require further analysis and could be addressed through a lease-back arrangement with the buyer of the City Hall site, or some other short-term funding from existing City reserves could be considered.

The General Fund, In-Lieu Parking Reserve, and the Fleet Reserves are currently all potential short-term funding sources. Given the uncertainty of the timeframe of the Civic Center project, these may not be viable short-term funding sources in the future.

Gap Closing Strategies	
Civic Center	(9,000,000)
Sale of City Hall Site	9,000,000

Sale of the existing City Hall site presents the best solution for the Civic Center project.

Ole Hanson Beach Club

The 2011 Capital Projects Analysis indicates a $1.5 million cost for renovations of the Beach Club. No specific reserves have been identified within the General Fund for this project. The project could be funded with Certificates of Participation, as described in the Debt paper, but the small size of the offering makes this alternative unviable. With no other funding alternative, the renovation project should be funded by the General Fund in the Capital Improvement Program (CIP) budget, which will have a significant impact to fund balance.

Gap Closing Strategies	
Ole Hanson Beach Club	(1,500,000)
General Fund	1,500,000

USACE Sand Project

The 2011 Capital Projects Analysis indicates a $12.2 million cost for completion of the design phase ($1.0 million) and the initial sand replenishment ($11.2 million). The design phase funding requirement of 25% requires a $250,000 contribution by the City. The City has approximately $100,000 available from the Feasibility Study project which can be committed to the design phase. The Department of Boats and Waterways (DBW) has committed to fund the balance of the City's $250,000 contribution requirement, or approximately $150,000, through a grant. Thus, no new City funds would be needed should the City Council approve continuing to the design phase.

The initial sand replenishment portion for the City amounts to $3.9 million. Based on the proposed project timeline in the Capital Projects Analysis, the replenishment project will not begin until fiscal year 2013 at the earliest. The initial sand replenishment portion of this project is unfunded and should be examined further to develop funding strategies in the future. The project may not be feasible without grant funding assistance or other funding alternatives to fund the City's $3.9 million portion. Much of the area designated for sand replenishment is within the RDA zone. If funded internally, the replenishment project should be split between the General Fund and the RDA. Alternatively, the project could be funded with General Obligation Bonds which would not be a General Fund obligation.

Gap Closing Strategies	
USACE Sand Project – Design Phase	(250,000)
Available balance from the Feasibility project	100,000
Department of Boats & Waterways (DBW) grant	150,000

Wayfinding Master Sign Program

The 2011 Capital Projects Analysis indicates a $2.0 million cost estimate for the Wayfinding Master Sign program over a multi-year period. Funding of $123,000 will be provided by the Redevelopment Agency ($75,000) and the Public Facilities Construction Fee Fund ($48,000). This leaves a funding gap of $1.877 million. The exact timing of the expenditures for this program suggest it may be better suited to take a "fund as you go" approach and budget over multiple years within the CIP budget process. Alternative funding sources can be pursued, such as grants, but the project will ultimately remain a General Fund cost. Alternatively, the project could be funded with General Obligation Bonds, as described in the Debt paper. The small size of the offering makes this an unviable alternative, unless this project was bundled with other projects, such as the Ole Hanson Beach Club to create a larger offering.

Gap Closing Strategies	
Wayfinding Master Sign Program	(1,877,000)
General Fund	1,877,000

Quiet Zone Improvements

The 2011 Capital Projects Analysis indicates a $3.9 million cost for the Quiet Zone Improvements, with $468,000 of available funding identified. A $3.4 million funding gap exists.

Current funding for the North Beach and Pier vehicle crossing improvements is shared by the Orange County Transit Authority (OCTA) and the City on an 88% to 12% match basis. OCTA's executive staff has shown willingness to support a continued 88% funding level for the $3,900,000 Quiet Zone improvements. This presents the best alternative for funding the Quiet Zone Improvements. To meet the City's 12% potential match, the City's portion of $468,000 is funded from the General Fund and RDA Fund in the amount of $334,000 and $134,000 respectively. Alternatively, the project could be funded with Certificates of Participation, as outlined in the Debt paper.

Gap Closing Strategies	
Quiet Zone Improvements	(3,900,000)
OCTA Funding Match – 88%	3,400,000

Enterprise Fund Construction Gaps
There is one project, the Recycled Water Expansion, identified in the Capital Projects Analysis paper with a funding gap.

Recycled Water Expansion
The estimated cost of design and construction of the recycled water expansion is currently $22.0 million. A State Revolving Fund (SRF) loan of $12.3 million has been identified to fund a portion of this project. The uncertainties of State's budget crises continue. Proposition 50 funding, which represents a significant funding source for this project, is being received by the City for eligible design expenses thus far. The Capital Project Analysis presents the funding options listed below to design and construct the project.

Gap Closing Strategy	
Recycled Water Expansion	(22,000,000)
Federal funding obtained through Congressman Calvert	500,000
State grant funding through Proposition 50	5,700,000
Sewer Connection Fee Fund	3,000,000
Sewer Depreciation Reserve	500,000
State revolving fund loan (2.2% interest)	12,300,000

The application for the SRF loan has been processed and submitted to the State to place the City into the queue for funding priority. Thus far, SRF personnel have indicated that the loan program has not been impacted by the fiscal problems of the State. Staff completed the necessary documentation for Council authorization to obtain the SRF loan and final approval by the State expected by late spring of 2011.

Conclusion
Potential funding sources have been identified for the all of the capital projects. The Beach Restrooms and Wayfinding Master Sign programs will be implemented over multiple years and suited to a pay-as-you-go funding approach by the General Fund and RDA Fund. The Ole

Hanson Beach Club renovation project will require a commitment of General Fund money in Capital Improvement Program budget.

The adaptive reuse of the Negocio building will continue to be delayed until more favorable market conditions exist to sell the City Hall site. The Quiet Zone Improvements will be funded through the match program with OCTA.

The USACE Sand Replenishment design phase can be funded with $100,000 from the Feasibility Project balance and $150,000 from a DBW grant. The initial sand replenishment phase is not funded at this time.

The Recycled Water Expansion project is dependent upon Prop 50 funding and the loan from the State's Revolving Fund. Both components are necessary to proceed with this project. Staff should continue with the application process to fund the Recycled Water Expansion project through the State's Revolving Fund.

Recommendation

1. Fund the Beach Restroom Master Plan on a "pay-as-you-go" basis from the General Fund and RDA Fund.
2. Delay the Civic Center project until the sale of the City Hall site.
3. Fund the Ole Hanson Beach Club renovation from the General Fund and include the project in the Capital Improvement Program budget.
4. Fund the design phase of the USACE Sand Replenishment project with $100,000 from the feasibility project balance and $150,000 from a Department of Boats and Waterways grant.
5. Fund the Wayfinding Master Sign program on a "pay-as-you-go" basis from the General Fund.
6. Fund the Quiet Zone Improvements through the OCTA matching program.
7. Fund the Recycled Water Expansion through a State Revolving Fund loan.

Council Action: The Gap Closing Strategies recommendations were approved by City Council 1 with the following modification:

To approve Staff recommendations for the Gap Closing Strategies, with the exception of #3. (See recommendation #1 under Facilities Rehabilitation and Maintenance Issue Paper for action concerning the renovation of the Ole Hanson Beach Club).

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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 AAA 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.

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.

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.

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