Long Term Financial Plan

2012

City of San Clemente

City Council

• Jim Evert	Mayor
• Tim Brown	Mayor Pro Tem
• Bob Baker	Councilmember
• Jim Dahl	Councilmember
• Lori Donchak	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
• Brian Brower	Information Services Analyst
• Bill Cameron	Director, Public Works/City Engineer
• John Ciampa	Associate Planner
• Sandee Chiswick	Senior Accountant
• Kumi Elston	Central Services Officer
• Mike Jorgenson	Building Official
• Ken Knatz	Principal Civil Engineer
• Sam Penrod	Human Resources Manager
• Jake Rahn	Financial Services Manager
• David Rebensdorf	Assistant City Engineer
• Tom Rendina	Municipal Services Manager
• Hanne Walker	Human Resources Analyst I

Mission Statement

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

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

Project Team

Project Director

Pall Gudgeirsson, Assistant City Manager/City Treasurer
Veronica Ferencz, Senior Administrative Assistant (Administrative Support)

Steering Committee

George Scarborough, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer
William Cameron, Director of Public Works/City Engineer

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Brian Brower, Information Systems Analyst
Kumi Elston, Central Services Officer
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Jake Rahn, Financial Services Manager
Tom Rendina, Municipal Services Manager

Reserve Analysis

Jake Rahn, Financial Services Manager

Fiscal Policy

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

Capital Projects Analysis

Ken Knatz, Principal Civil Engineer
David Rebensdorf, Assistant City Engineer
Tom Rendina, Municipal Services Manager

Street Improvement Program Update

Tom Bonigut, Assistant City Engineer
Bill Cameron, Director Public Works /City Engineer

Review of Development Fee Reserves

Jake Rahn, Financial Services Manager

General Liability Fund Analysis/Insurance

Hanne Walker, Human Resources Analyst I

Business License Review

Kumi Elston, Central Services Officer

Legal Cost Analysis

Joanne Baade, City Clerk
Kumi Elston, Central Services Officer
Denise Gee, Administrative Assistant
Jim Holloway, Community Development Director
Ken Knatz, Principal Civil Engineer
Anthony Mejia, Assistant City Clerk
Sam Penrod, Human Resources Manager
Dennis Reed, Beaches & Parks Maintenance Manager
Hanne Walker, Human Resources Analyst I

Project Team

General Plan Financial Forecast

Brian Brower, Information Systems Analyst
John Ciampa, Associate Planner
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Tom Rendina, Municipal Services Manager

Utility Cost of Services

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

Kumi Elston, Central Services Officer
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Jake Rahn, Financial Services Manager
Tom Rendina, Municipal 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 capital projects with funding challenges and funding obligations for significant projects. 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.

Review of Development Fee Reserves

Objective

To review all development related reserves and determine the amount and available uses of reserves.

General Liability Fund Analysis/Insurance

Objective

To review the current reserve requirements and methodology for charging other funds in order to maintain the General Liability Self Insurance Fund program and recommend changes if necessary.

Issues & Objectives

Business License Review

Objective
To review the existing business license tax structure to determine if any changes should be made in the process or tax structure.

Legal Cost Analysis

Objective
To review and analyze legal costs and determine methods of cost reduction and efficiencies.

General Plan Financial Forecast

Objective
To develop a module for preparing long term financial forecast which incorporates proposed development projects to determine fiscal impact of these decisions on the City's finances.

Utility Cost of Services

Objective
To analyze the cost to provide water and wastewater services with the objective of developing a fair and equitable rate structure for the utility customers.

American with Disability Act (ADA)

Objective
To present an overview of the Americans with Disabilities Act (ADA) assessments completed by the City's consultant, Disability Access Consultants, Inc. (DAC), review the steps already taken by the City to become compliant with certain ADA requirements, and outline a recommended approach to address the thousands of recommendations made by DAC to ensure the City's facilities, programs, services and activities are fully compliant with the ADA.

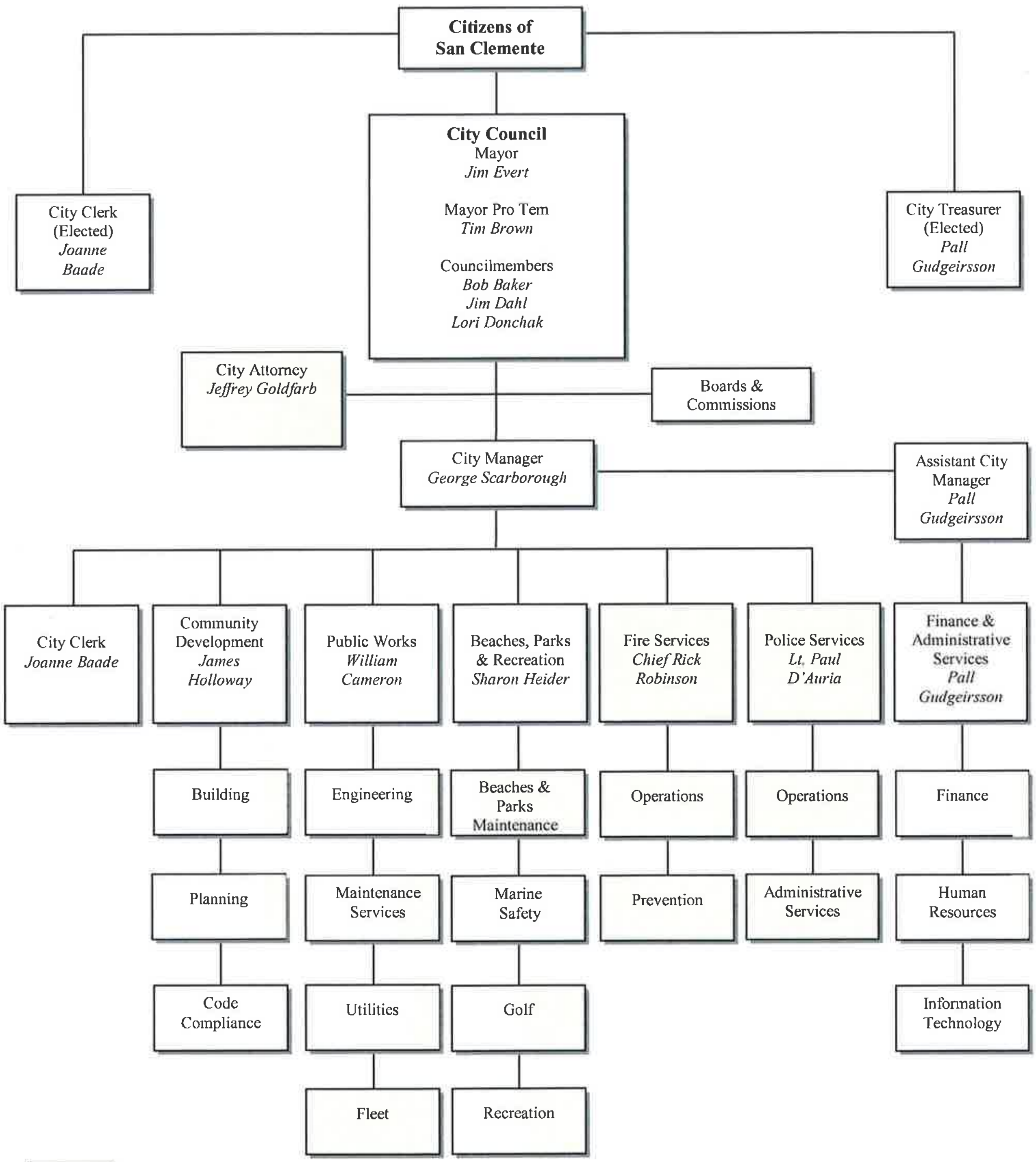
Debt Analysis

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

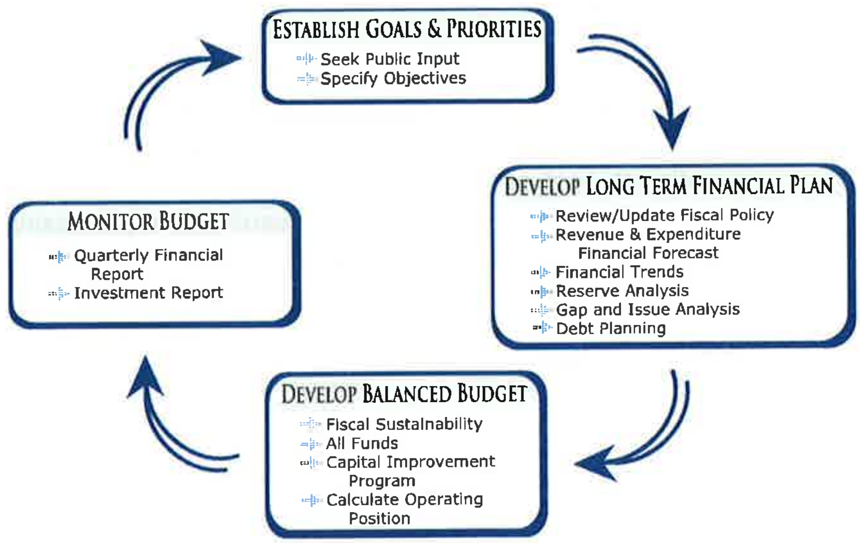
Objective
To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.

City Organizational Chart



Shading indicates contracted services

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.

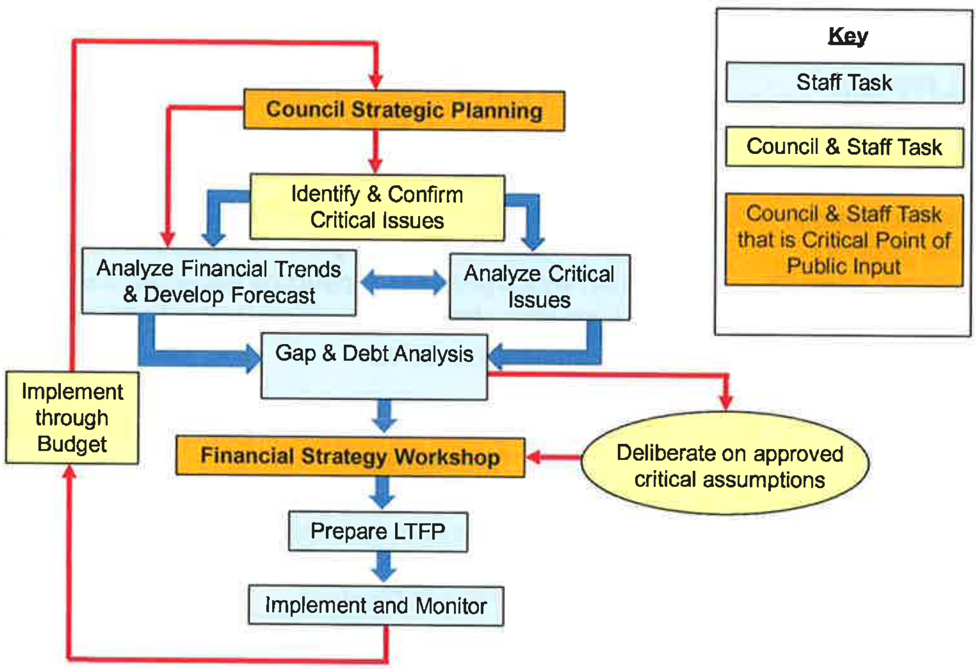
The 2012 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Street Improvement Program Update
- Review of Development Fee Reserves
- General Liability Fund Analysis/Insurance
- Business License Review
- Legal Cost Analysis
- General Plan Financial Forecast
- Utility Cost of Services
- 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, 20 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 8 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

Annually, City Council identifies which projects and programs are of the highest priorities for the coming year. Once priorities have been identified, 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 15, 2012	Long Term Financial Plan Workshop (Special Council Meeting)
February 15, 2012	Priority Workshop
May 17, 2012	Budget Workshop (Special City Council Meeting)
June 19, 2012	FY 2012 Budget Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2012 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 2011 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 FY 2012 budget. General Liability charges increased to a total of $1.6 million. Excess workers' compensation reserves were refunded to contributing funds. A transfer of $100,000 from the General Fund to the Accrued Leave Reserve was included in the budget. A transfer of $600,000 from the General Fund to the Facility Maintenance Reserve was included in the budget. A transfer of $1.0 million from the proceeds of the Target land sale was included to reach the $1.2 million target reserve level.

Fiscal Policy	Status
Review the City's adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.	Fiscal Policy was modified to allow one-time revenues to be used for on-going expenditures with City Council approval. New policies for short-term and long-term loans were approved. Emergency reserve policy for General Fund and Enterprise Funds were made into separate policy statements.

Capital Projects Analysis	Status
To provide a summary of significant capital projects with funding challenges. This analysis will review the	Done

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	**Status**
To provide an update on the progress of the City's Street Improvement Program progress.	Staff is investigating options for continuing the Assessment District of the Street Improvement Program.

Sidewalk Improvement Program	**Status**
To discuss issues and considerations for repairing existing and constructing new sidewalks in compliance with requirements of the American Disabilities Act (ADA).	City Council directed staff to pursue development of a comprehensive sidewalk policy.

Golf Course Fund Analysis	**Status**
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.	A fee increase that averages at least $1.00 per round was approved for implementation on July 1, 2011.

Beach and Park Restroom Master Plan	**Status**
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.	The rehabilitation of the restroom at the base of the pier is discussed in the 2012 Capital Projects Analysis.

Facilities Rehabilitation and Maintenance	**Status**
Analyze all City owned facilities and develop a strategic programmed plan of facility rehabilitation and building maintenance.	Include $1.5 million for rehabilitation of the Ole Hanson Beach Club in the FY 2012 budget
Revenue Update	**Status**

Long Term Financial Plan Review

To review and update all general fund revenue sources in accordance with the City's Fiscal Policy.	Done
American Disabilities Act	**Status**
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.	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.	Done
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 on-going operation and maintenance costs.	Potential funding sources have been identified for all of the capital projects.
Revenue Enhancement	**Status**
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.	The City increased its parking rates at San Clemente's beaches from $1.00 to $1.50 an hour.

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
2010	• To provide an update on the progress of the City's Street Improvement Program. • To provide a summary of significant capital projects with funding challenges.	• City is updating a pavement analysis to try to predict needs, costs and how big an assessment the city would need to charge. • The funding gap was closed for Vista Hermosa Sports Park project with land sale to Target. Funding was obtained for the recycled water expansion project from a \$5.6-million State grant, \$477,000 from the EPA, \$12.4 million to be borrowed from a state low-interest revolving loan fund and city money.
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 2012 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 our comprehensive planning process continue to positively impact our current financial condition as well as providing a basis for sound decision making for the future. The City's AAA bond rating from Standard & Poor's attests to our current strong financial position which we will strive to maintain.

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.

It is not atypical for events beyond our control to impact the City's finances and this year is no exception as we saw the elimination of statewide Redevelopment Agencies (RDA). Although the details of dissolution are still vague, the removal of a key funding source for projects within the City's RDA area will have a significant impact on scheduled projects. The City will have to face this new fiscal dilemma by revisiting our capital improvement program and reassessing project priorities and funding sources.

2012 LTFP

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 existing policies revised. 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 10 out of 21 trends as favorable.

The results of the City *financial forecast* indicate improvement in the City's financial outlook for the first two years of the forecast; however, operating deficits are projected in the final three years of the projection largely due to projected increases in police and fire contracts and Vista Hermosa Sports Park maintenance and operating costs in the final year. Projected revenues increase an average of 2.3% over the forecast period while estimated expenditures average 3.1%. This disparity will be addressed during the financial plan and budgetary process.

Fiscal policies, established by City Council to provide long-term stability and financial guidance, are updated annually in the Long Term Financial Plan. Two recommended changes will clarify policy statements for self-insurance reserves and increase the emergency reserve requirement for Enterprise Funds from 8% to 12% of operating expenses.

Our *reserve position* continues to be strong with the Sustainability Reserve fully funded at $10 million, General Fund Emergency Reserve fully funded at 9% of operating expenditures or $4.4 million and $2.5 million in the Vista Hermosa maintenance and operations reserve.

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 status of developing a proposal for renewal of the street rehabilitation program. A pavement management assessment is currently underway which will determine the current status of the City's street system and help to develop the street improvement objectives under a new program.

The *Review of Development Fee Reserves* presents a summary of all development reserves and examines the allowable uses of those reserves.

The *General Liability Fund Analysis/Insurance* paper analyzes the current reserve requirements for the City's General Liability Insurance fund. The paper examines the methodology for charging premiums to other funds to maintain appropriate reserve levels.

The *Business License Review* section examines the current tax structure for obtaining a City business license. Tax structures vary dependent upon the type of business conducted. The current program has been analyzed to determine the potential impact of changing the current business license tax structure to an alternate schedule across all business types.

A *Legal Costs Analysis* was conducted to determine if cost reduction or operational efficiencies could be achieved.

The *General Plan Financial Forecast* briefly examines the concept of incorporating the projects and programs prioritized in the General Plan into a model that will determine the future impacts on the City's finances.

The *Utility Cost of Services* study examines the cost to provide water and wastewater services with the objective of developing a fair and equitable rate structure for utility customers.

The *American with Disabilities Act (ADA)* paper describes the progress the City has made to meet the requirements of the ADA. An implementation plan is the next step in this long-range and potentially costly project.

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. This year's paper also recommends the payoff of the Series A Certificates of Participation originally issued to finance the purchase of the Negocio building. Payment of the $745,000 principal will save $89,500 per year in interest expense over the remaining twelve-year life. A one-time transfer from the General Fund is recommended to retire this debt.

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

The 2012 Long Term Financial Plan continues to look ahead to plan for the financial issues and challenges facing the City over the next five years. The funding of the City's infrastructure continues to be a challenge, especially with RDA projects competing with other projects for available funds.

As always, I would like to thank all staff members involved with the City's 2012 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

Executive Summary
The *Executive Summary* portion of the 2012 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 2012 Long Term Financial Plan Summary

Included within the *Executive Summary* section:
- *Introduction*
- *2012 LTFP Issues*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *General Fund Loans*
- *Financial Trend Analysis*
- *Debt Analysis and Closing Strategies*
- *Five Year Financial Forecast*
- *Fund Balances*
- *Conclusion & Projected Financial Condition*
- *Summary of LTFP Recommendations*

Introduction

The 2012 LTFP is the 20th edition of the City's financial strategic plan

This is the twentieth 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.

Elimination of the RDA will reduce RDA property taxes and shift $1.34 million in costs

The development of this year's plan has been challenging due to the State of California's successful efforts to eliminate redevelopment agencies and redirect property tax revenues away from local governments. In December 2011, the California Supreme Court upheld the State's authority to dissolve redevelopment agencies as of February 1, 2012, freeze current transactions and transfer responsibilities and assets to successor agencies. Elimination of the City's Redevelopment Agency (RDA) will reduce RDA property tax revenues by $2.3 million and shift $38,000[1] in operating costs and $1.3 million[2] in capital costs to the City's General Fund in the current fiscal year. The State will only provide pass-through payments to retire the current agency debt and contractual obligations. The balance of RDA property tax revenues will be

[1] $38,000 for personal costs currently included in the RDA Low & Moderate Housing Fund.
[2] Projects include nuisance water discharge, trail lighting enhancements, handicapped parking, trail signs, street and drainage improvements, restroom rehabilitation, pier structural construction, Marine Safety sheet piles and crossing improvements.

allocated to schools, cities, counties and special districts under a funding schedule identified in the revised State budget (January 2012). HdL Coren & Cone, the City's property tax advisors, estimate that the City will receive $300,000 to $400,000 in property tax revenues based on this funding schedule beginning in FY 2013.

At this time, no provisions have been made to continue the housing set aside for low/moderate housing projects beyond the current fiscal year. Projects included in the RDA's five-year capital project plan will need to be evaluated and prioritized during the FY 2013 budget process to determine if funding is available to complete these projects.

Because the RDA issue was emerging as the 2012 LTFP was being prepared, the impacts associated with the elimination of the RDA have not been included in the base forecast. City Council will be presented with the FY 2012 2nd quarter report, proposed mid-year adjustments, the 2012 LTFP issue papers and the financial impacts of the elimination of the RDA at a workshop on February 15, 2012.

2012 Long Term Financial Plan Issues

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.

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 2012 budget. The General Fund operating position was projected to be positive in the first two years of the forecast and negative beginning in FY 2015. The forecast showed that General Fund operating revenues were anticipated to grow by an annual average increase of 2.3% a year. Property taxes, which account for 48% of General Fund revenues, were anticipated to grow by 0.5% in FY 2012 and average 1.9% growth for the remaining three years of the forecast. A 3.1% increase in expenditures was forecasted due to increases in contractual services, primarily police and fire services.

Property Tax projections are improving

The 2012 LTFP forecast shows an improving financial picture with property tax revenues now projected to increase by 1.5% in the first year and indicates average increases of 2% through the remaining four years. Sales taxes are also projected to grow by 3.3% annually.

Fire contract increased by 4.5% which is the maximum allowed

Forecast expenditures are increased by inflation, other forecast assumptions or known contractual increases. As an example, the police contract has been increased by 2.1% for FY 2013 based on the Strategic Financial Plan developed by the Orange County Sheriff's Department (OCSD). The Sheriff's strategic plan projects increases averaging 3% 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.

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

As a result of revised forecast projections, City revenues are anticipated to grow by 2.3% a year and expenditures are projected to grow by 3.1%, primarily due to the projected costs of the police and fire contracts and additional cost of operation and maintenance of Vista Hermosa Sports Park. The 2012 forecast shows a positive operating position in the first two years of the forecast with an operating deficit beginning in FY 2015. Significant cost increases in the Police contract in FY 2015 for projected 3% per year salary increases, plus projected increases in retirement and workers' compensation rates, will increase the contract by $564,000 or 4.5%. The $2.9 million reserve from the sale of land to Target is allocated in the first four years of the forecast to bridge the gap between operating revenues and expenditures at Vista Hermosa Park. The reserve is fully depleted in FY 2016.

***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 2012 Long Term Financial Plan are two recommendations to revise the Fiscal Policy. The first recommendation is to increase the target reserve level of Enterprise Fund emergency reserves from 8% to 12% of operating expenditures. This change would apply to the Water, Sewer, Storm Drain, Clean Ocean and Golf Funds. Contributions to the reserve will be phased over multiple years with the goal of fully funding the emergency reserves by FY 2017. The second recommendation is to modify the existing self-insurance reserve policy into two separate policy statements. The General Liability policy statement recommends a reserve of one times its annual insurance premium and an additional reserve amount for claims not covered by the insurance pool. The Workers' Compensation policy recommends a reserve of three times its self insurance retention and an additional reserve amount for claims not covered by the insurance pool.

Modify the self-insurance reserve policy into two separate statements

Financial challenges include funding of capital projects, renewal of the Street Improvement Program and ADA implementation

The 2012 LTFP identifies the financial challenges of funding capital projects, renewal of the street improvement program and implementation of the Americans with Disabilities (ADA) plan.

The Capital Projects Analysis provides a summary of the significant capital projects with funding challenges. The analysis reviews the funding status of the beach restroom master plan, Steed Park lighting improvements, Bonito Canyon Park rehabilitation, Civic Center and Ole Hanson Beach Club construction, sand replenishment, wayfinding sign program and pier rehabilitation. With the elimination of the City's redevelopment agency, projects previously funded by the RDA will need to be prioritized during the FY 2013 budget process to determine which projects will be funded.

Street Improvement Program debt was retired in 2011, along with the maintenance portion

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's bonded debt was retired in late 2011, along with the maintenance portion that was specifically defined to end upon bond maturity date. In order to establish another street assessment district, a property owner election under the provisions of Proposition 218, is required.

A strategy to implement the ADA transition plan must be developed

The Americans with Disabilities Act (ADA) paper describes the progress the City has made to meet the requirements of the ADA. In order for the City to be fully compliant, a strategy must be developed to prioritize and fund implementation of the items on the transition plan. Implementation of the plan will require significant financial resources over the next twenty years.

There are five LTFP papers included in this year's plan that examine the City's operational functions to determine if changes should be made to achieve efficiencies, reduce costs or revise tax and fee structures.

Development fees are restricted for a specific use

A review of the City's development fee reserves was conducted to report the current amount and allowable uses of the reserves. Development fees are collected to fund capital infrastructure impacted by development. In addition to development fees, the City can enter into development agreements that require contributions to provide additional services or capital infrastructure to support the impacts from development. The fees are restricted for a specific use and may be accumulated over time to fund projects. Based on the FY 2012 budget, a total of $26.7 million in development reserves will be available as of June 30, 2012.

Review of General Liability reserve and self insurance funding methodology

The General Liability Fund analysis paper reviews the current reserve requirements and the methodology for charging other funds to maintain the reserve. The General Liability Self Insurance Fund provides purchased insurance through California Joint Powers Insurance Authority (CJPIA) for pooled liability coverage and legal fees or other costs for uncovered losses. A change in the self-insurance retention factor from three times its self insurance retention to one times the annual contribution to CJPIA is recommended.

The tax schedules vary dependent upon the type of business conducted

The business license review paper examines the tax schedules currently in place for conducting business in San Clemente. The paper also examines the business license process to determine if a reduction in staffing or changes to the process would produce savings. The tax schedules vary dependent upon the type of business conducted. A flat rate or gross sales is the basis for the tax. The majority of businesses pay the business license tax under schedule one for retail establishments or schedule two for professions and occupations. With the same amount of gross receipts, a business under schedule one pays a lower amount of business license tax than a business under schedule two. If changes were implemented to provide a more equitable tax structure, the change would lower the tax for 766 or 14% of businesses. The net loss in General Fund revenue is $200,000 per year. In addition, elimination of business license staff would negatively impact the Negocio customer service counter and could negate the progress that has been made to improve customer service at the counter.

Legal analysis recommends potential cost reductions and operational efficiencies

A legal cost analysis was conducted to determine if cost reductions or operational efficiencies could be achieved. A team of City staff members conducted the analysis and made recommendations to provide staff training, potentially reduce the retainer fee, revise the City's policy and procedure for use of legal services and revise the current business practices to work more efficiently. As an example, staff and the City Attorney will use video conference meetings to eliminate driving between offices and save time and fuel.

Utility cost of service study to produce a fair and equitable rate structure

The utility cost of services study is currently under development with the goal of providing a fair and equitable rate structure for utility customers. The issue paper provides the cost of service process, challenges and rate structures. The study, which is in the final phase, will produce a strategy to generate stable revenues, promote conservation and recover the full cost of providing water and sewer utilities. Recommendations will be presented to City Council in May 2012.

General Plan Financial Forecast will integrate General Plan into LTFP process

The final LTFP paper, the General Plan Financial Forecast, begins the process of incorporating the projects and programs prioritized in the General Plan into a model that will determine future fiscal impacts on the City's finances. The model can become a tool for looking 20 to 30 years forward to evaluate the long term impact of decisions made today, as well as decision needed in the future, to ensure the City's financial stability. While the new General Plan has not yet been adopted, staff seeks confirmation for integrating the General Plan into the LTFP process.

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 2012 fiscal year with a total balance of $21 million, which includes $10 million in Sustainability Fund balance, $4.4 million in emergency reserves, $2.5 million in Vista Hermosa O&M reserves and $4.2 million in unassigned fund balance. Total General Fund revenues amount to $49.5 million. General Fund operating revenues, which excludes one-time revenues and use of reserves, amounts to $49.3 million. Total General Fund expenditures amount to $56.3 million. Operating expenditures, which excludes one-time program costs, projects and transfers, amounts to $49.3 million.

Reserve Funding

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 $14.7 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. 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 2013 budget. Reserve Analysis recommendations include:

- A contribution of $153,000 to the General fund emergency reserve to maintain the 9% target reserve level.

Increase Enterprise Fund emergency reserves to 12%

- Modification of fiscal policy to change the Enterprise operating funds emergency reserve level from 8% to 12%.
- General Liability Self-Insurance fund maintains charges to funds in the amount of $1.6 million based on anticipated premiums and anticipated retrospective liability assessments.
- Maintain the existing worker's compensation rates.
- A transfer of $110,000 from the General fund to the Accrued Leave Reserve in FY 2013.

- Transfer $40,000 from the General fund to the Capital Equipment Replacement reserve in FY 2013 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.

Transfer $67,000 to Park Asset Replacement Reserve

- Transfer $67,000 from the General fund to Park Asset Replacement Reserve for FY 2013 and implement annual charges for the replacement of park assets in the amount of $10,000.

General Fund Transfers

Transfers total $1.3 million

For FY 2012, transfers total $1.3 million and include $734,260 for the Street Improvement Program, $337,000 for debt and operational support of the Negocio building, $160,000 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 bond debt for the Street Improvement Program was retired in late 2011. For FY 2013, the street program will complete the remaining projects using existing funds and contributions from the General Fund and Gas Tax Fund. For forecast purposes, annual General Fund contributions to the Street Improvement Program of $734,260 annually 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. Repayment of this loan will need to be considered in conjunction with the RDA dissolution.

Golf Operating Fund debt is $134,000

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 $850,000 of the outstanding balance through June 30, 2011 and will continue to make annual principal reductions until the $134,000 balance is repaid. This loan is anticipated to be paid in full by June 30, 2012.

Financial Trend Analysis

10 out of 21 indicators are favorable as of June 30, 2011

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, 2011 indicates 10 out of 21 indicators are favorable as compared to 11 out of 21 last year. Three indicators received a warning rating, six received a favorable/caution rating and two indicators received an unfavorable rating. In total, these current year results reflect a positive change in several ratings from the prior year when two indicators received a Warning rating, four received Favorable/Caution ratings and four 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 address these Warning and Unfavorable signs to improve the fiscal health of the City. As a result, the City's 2012 budget reflects a number of changes designed to improve negative trends.

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

"Unfavorable" rating has been assigned to property tax revenues

Revenues per capita: This indicator has changed from an *unfavorable* to a *warning* rating due to the first year of increases in the five year trend period.

Property tax revenues: This indicator has decreased from a *warning* to an *unfavorable*, because after adjusting for the FY 2010 State borrowing, the City saw a decline of $0.6 million in FY 2011.

Elastic Revenues: This indicator has changed from a *warning* to a *favorable/caution* rating due to improvements in taxes and community development charges in FY 2011.

Sales Taxes: This indicator has been changed from *unfavorable* to a *warning* rating due to an increase in gasoline prices and a $600,000 Triple-flip "true-up" payment.

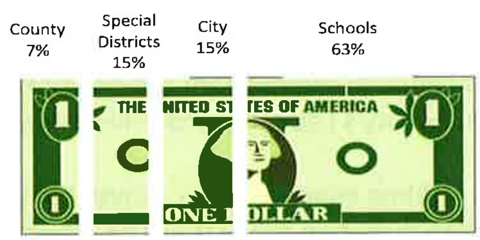
Community Development Service Charges: This indicator has changed from an *unfavorable* to a *favorable/caution* rating because these revenues have started to show growth and stabilize over the past year.

Population: This indicator has changed from a *favorable* to a *warning* rating based on a decrease in the population from an estimated amount by the Department of Finance in the prior year to a figure based on the official 2010 Census report.

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

Indicator	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues Per Capita	W	U	F/C	F/C	F	F/C	F/C	W	W	F
Property Tax Revenues	U	W	W	F/C	F	F	F	F	F	F
Property Values	U	U	W	F/C	F	F	F	F	F	F
Elastic Revenues	F/C	W	W	W	W	F/C	F	F	F	F
Sales Tax Revenues	W	U	U	F/C	F	F	F	F	F	F
Licenses & Permits	F/C	F/C	U	U	W	F	F/C	F	F	F
Comm. Develop. Charges	F/C	U	U	U	W	F/C	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/C	F	F	F	F	F	F	F
Population	W	F	F	F	F	F	F	F	F/C	F
Expenditures Per Capita	F	F	F	F	F	F/C	F	F	F	F/C
Expenditures by Function	F	F	F	F	F	F	F	F/C	F/C	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	F/C	F/C	F	F	F	F	F	F/C	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Positions	F/C	F/C	F/C	F	F	F	F	F	F	F/C
Debt Service	F	F	F	F	F	F	F	F	F	F
Compensated Absences	F	F	F	F	F	F	F	F	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

The trend report also includes a section 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 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.

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.

Fully amortize an outstanding $2.5 million interfund loan

A $2.5 million interfund loan from the In-Lieu Parking Reserve to the Golf Fund is recommended to be converted to a fully-amortized 15-year loan. As part of the debt analysis, staff reviewed the impact to the In-Lieu Parking Reserve and concluded that the repayment schedule would not affect funding of future projects from the reserve.

Pay off the Series A COP and save interest expense

The debt analysis also examined the potential cost savings from paying off the Series A Certificates of Participation (COP's) originally issued to finance the purchase of the Negocio Building. The interest rates range between 5.9% and 6%. Repayment of the $745,000 principal will save $89,500 per year in interest and principal expense over the remaining twelve-year life of the Series A COP's. A one-time transfer from the General Fund is recommended to Negocio Debt Service Fund to retire the Series A COP.

The recycled water expansion project is eligible to obtain funding of $12.3 million from the State Revolving Fund (SRF) loan program that has an approximate interest rate of 2.2%.

Gap Closing Strategies

Capital projects and identified gap closing strategies

The 2012 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. The Ole Hanson Beach Club renovation project will require an additional commitment of General Fund money and will be programmed in the City's Capital Improvement Program budget.

The Steed Park Lighting Improvements, Bonito Canyon Park Rehabilitation, and Municipal Pier Rehabilitation projects will be scheduled for future year implementation as part of the General Fund capital improvement program.

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.

Sand replenishment design is funded

The USACE Sand Replenishment design phase is funded with $85,000 from the unspent balance remaining from the feasibility study and from a $191,000 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 on the loan from the State's Revolving Fund. Staff should continue with the application process to fund the Recycled Water Expansion project through the State's Revolving Fund program.

2012 forecast has been updated

Five Year Financial Forecast

The 2012 forecast has been updated with revised revenue, as well as forecast assumptions. The forecast shows a positive operating position in the first two 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.

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 1.5% in FY 2013. Increases averaging 2% are included beginning in FY 2014. HdL Coren and Cone, the City's property tax advisors, produces the City's property tax projections.
- Sales taxes are projected to increase 3.3% per year based on Fullerton's Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily removed from the forecast in FY 2013 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues are included beginning in FY 2014, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first four years until the reserve is depleted.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Five vacant General Fund positions, currently unfunded in FY 2012, are not funded in the forecast.
- Police contract – Police contract costs are increased based upon the Sheriff Department's five-year Strategic Plan. The Plan projects 1.4%, 1.7%, 4.6%, 2.7% and 3.1% increases to the contract costs. Contract increases average $335,000 per year over the five-year period. 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 2013 budget.
- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 2.4% beginning in FY 2013 and 2.5% the remaining four years.

- Retirement - Retirement rates are increased by 0.5% per year.
- Medical – Medical rates are increased 6% per year throughout the forecast period based upon recommendations by CalPers.
- Negocio Building – An annual transfer of $337,000 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. Continued efforts to lease the building will further reduce the need for this transfer.
- Vista Hermosa Sports Park – Revenues of $600,000 and expenditures of $1.2 million for field and aquatic complex operation and maintenance are included in FY 2013 for the first full year of operation. The cost is based upon operating costs projected by Beaches, Parks & Recreation. This will require a contribution from the Vista Hermosa reserve of $639,000.
- 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, $120,000 has been included in each year of the forecast for reserve transfers. This is based on the average contribution to reserves over the past two years.
- 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 $230,000 is included in the forecast for FY 2013 to pay costs due to actuarial changes and CalPERS poor investment performance. This annual amount is subject to annual revisions.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2013 amounts to $734,260 per year.
- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 0.5% 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 development project have not been included in the forecast.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.
- The forecast does not include the impact of the dissolution of the City's redevelopment agency.
- One-time proceeds of $5.8 million from the Bellota sale of land are not included. It should be noted that the $5.8 million estimate was

provided in 2005 and may not be fully realized due to the current market conditions.

- The repayment of $2.2 million (one-time) property taxes is not included in the forecast. The repayment is due in FY 2013, however, the State has the ability to repay it and borrow it back.

Forecasted operating position is positive in the first two years

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

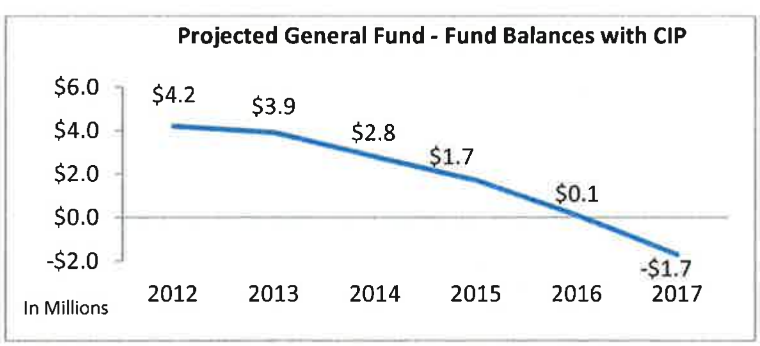
2012 LTFP Forecast (In millions)	**2013**	**2014**	**2015**	**2016**	**2017**
Operating receipts	$50.8	$52.3	$53.4	$54.5	$55.7
Operating disbursements	50.4	52.2	53.9	55.4	57.0
Projected surplus/deficit	$ 0.4	$ 0.1	-$ 0.5	-$ 0.9	-$ 1.3

*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 2.3% a year and expenditures are projected to grow by 3.1%, resulting in a negative operating position in FY 2015 and beyond.

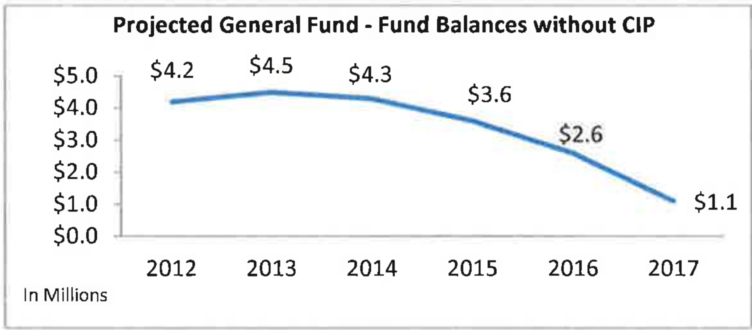
General Fund Fund Balances
Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. Fund balance should be used for one-time expenditures only.

The following chart illustrates projected unassigned fund balances in the General Fund for the 2012 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 $4.2 million to a negative $1.7 million. The forecast assumes an average of $600,000 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 projections improve.



Projected fund balances do not assume the use of the $10 million in sustainability reserve or 9% emergency reserve of $4.3 million.

Fund Balance Reserves

The City's fund balances include the Sustainability Fund Balance Reserve, Vista Hermosa Park Reserve and the Emergency Reserve. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Vista Hermosa Park Reserve balance is $1.9 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 – Designated Reserves (in millions)

	2012	2013	2014	2015	2016	2017
VH Park	$2.5	$1.9	$1.2	$0.5	$0	$0
Emergency	4.3	4.4	4.7	4.9	5.0	5.1
Sustainability	10.0	10.0	10.0	10.0	10.0	10.0
Designated Reserves	$16.8	$16.3	$15.9	$15.4	$15.0	$15.1

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.

In millions	2012	2013	2014	2015	2016	2017
Forecast Operating Position	$1.0	$0.4	$0.1	-$0.5	-$0.9	-$1.4

The following table outlines operating revenue and expenditure changes that will revise the General Fund operating position.

In thousands	2012	2013	2014	2015	2016	2017
Operating Revenue	**49,589**	**50,834**	**52,262**	**53,376**	**54,514**	**55,676**
Impact of RDA[3]	0	230	230	230	230	230
Rent from 1030 Negocio[4]	15	51	54	62	89	85
Revised Operating Revenue	**49,604**	**51,115**	**52,546**	**53,668**	**54,833**	**55,991**
Operating Expenditures	**48,553**	**50,445**	**52,183**	**53,892**	**55,423**	**57,043**
Increase GL charge[5]	0	46	0	0	0	0
Impact of RDA staff position	38	39	40	41	42	38
Revised Operating Expenditures	**48,591**	**50,530**	**52,223**	**53,933**	**55,465**	**57,081**
Revised Operating Position	**1,013**	**585**	**323**	**-265**	**-632**	**-1,090**

Other options that may have to be considered to bring projected operating deficits into a positive position include the review of existing annual contributions from the General Fund to the Street Improvement Program, major street maintenance, and slurry seal program. Recommendations to improve the General Fund operating position will be discussed in more detail during the budget process.

Fund Balance Summary

The recommendation from the Capital Projects Analysis to fund an additional $1.0 million for the Ole Hanson Beach Club reconstruction will reduce fund balance in FY 2012 to $3.2 million. If projects currently included in the RDA for FY 2013 are shifted to the General Fund at mid-year, fund balance will decreased an additional $1.3 million to $1.9 million. Projects funded from the RDA in the five-year CIP program will be prioritized during the FY 2013 budget process.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2012 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.

[3] $300,000 from reallocation of RDA property tax and $30,000 from Casa Romantica obligation, offset by a $100,000 loss in General Fund overhead.

[4] Rent from Family Assistance Ministries beginning in May 2012.

[5] 2012 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 $46,200 in FY 2013.

Financial Trend Analysis

1. None

Financial Forecast

1. None.

Reserve Analysis

1. Maintain the General Fund Emergency Reserve at a level of 9% of operating expenditures.
2. Modify the fiscal policy to change the emergency reserve levels of Enterprise funds from 8% to 12% of operating expenses.
3. Transfer the Accrued Leave Reserve and report as a restricted amount within the General Fund. In addition, transfer $110,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2013 ($100,000 was the FY 2012 transfer).
4. Authorize the General Liability Self-Insurance Fund to maintain charges to funds in the amount of $1.6 million based on anticipated premiums and anticipated retrospective liability assessments. This allocation is listed in Attachment "A" in the Reserve Paper. In addition, the General Liability Reserve policy should be separated from the Workers' Compensation Reserve Policy. The General Liability policy reserve level will be based on the annual premium charge and any additional claims.
5. Maintain the existing workers' compensation rates as outlined in Attachment A. Staff recommends the Workers' Compensation Reserve policy be separated from the General Liability Reserve policy. The Workers' Compensation policy reserve level will be based on the SIR and any additional claims.
6. Maintain contributions for the replacement of the City fleet vehicles and equipment to keep the reserve at an adequate level.
7. Transfer $40,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2013 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
8. Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
9. Transfer $67,000 from the General Fund to the Park Asset Replacement Reserve for FY 2013 and implement annual charges for the replacement of park assets in the amount of $10,000. Direct staff to review park assets placed in service at the Vista Hermosa Sports Park and present park assets that should be covered as part of the 2013 LTFP.

Fiscal Policy

Modify the City's Fiscal Policy to:

1. Increase the emergency reserve requirement for Enterprise funds from the current 8% of operating expenses to 12% of operating expenses.
2. Separate the existing Self-insurance reserve policy into two policy statements; a General Liability and a Workers' Compensation policy statement.

Capital Projects Analysis

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

Street Improvement Program Update & Renewal

1. None

Review of Development Fee Reserves

1. None

General Liability Fund Analysis/Insurance

1. Recommendations are included in the Fiscal Policy paper.

Business License Review

1. Consider any modifications to the City's business license tax structure which result in a reduction in revenue to the General Fund as part of the FY 2012 mid-year budget review process.

Legal Cost Analysis

1. Staff will determine the appropriate level of services provided by the City Attorney's office.
2. Review and potentially reduce the retainer fee.
3. Revise the City's Policy and Procedure for the use of legal services and revise the request for legal services form.
4. Work with Rutan and Tucker to revise some of the current business practices to work more efficiently with the potential of reducing cost where possible.

General Plan Financial Forecast

1. Confirm the concept of developing a tracking and feedback system which would combine the General Plan and LTFP/Budget process.

Utility Cost of Service Study

1. None

Americans with Disabilities Act

1. Create an ADA Transition Plan line item in the budget and allocate funds for the Fiscal Year 2013.

Debt Analysis

1. Refinance the existing short-term $2.5 million between the Golf Operating Fund and the In-Lieu Parking Reserve with a 15-year, fully amortized loan. The interest rate shall be set at 2%. Annual payments will total $194,000.
2. Retire the outstanding Negocio Series A COP's in the amount of $745,000. Transfer $745,000 from the General Fund undesignated fund balance to the Negocio Debt Service Fund.
3. 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.

Gap Closing Strategies

1. Fund the Beach Restroom Master Plan on a "pay-as-you-go" basis from the General Fund over the next five fiscal years.
2. Fund the Steed Park Lighting Improvements project from the General Fund with $100,000 for design in FY 2014 and construction in FY 2015.
3. Fund the Bonito Canyon Park Rehabilitation project from the General Fund with $100,000 in design in FY2016 and construction in FY 2017.
4. Delay the Civic Center project until the sale of the City Hall site.
5. Fund an additional $1.0 million for the Ole Hanson Beach Club renovation from the General Fund and include the project in the Capital Improvement Program budget for FY 2013.
6. Fund the design phase of the USACE Sand Replenishment project in FY 2013 with $85,000 from the feasibility project balance and $191,000 from the Department of Boats and Waterways grant.
7. Fund the Wayfinding Master Sign program on a "pay-as-you-go" basis from the General Fund over multiple years.
8. Fund the Municipal Pier Rehabilitation project from the General Fund with design in FY 2016 and construction in FY 2017.
9. Fund the Recycled Water Expansion through a State Revolving Fund loan. Final approval of the loan is expected in 2012.

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 2007 through FY 2011. Consequently, all trends are based on data available as of June 30, 2011, and do not incorporate any changes that have occurred since that time.

Executive Summary

The financial trends that follow provide City Council and Administration with insight into the overall financial position of the City by analyzing the City's General Fund. This analysis makes it possible to identify specific areas where new policies should be implemented or existing ones revised. One of the following ratings has been assigned to each of the twenty-one indicators:

Financial Trend Analysis

Favorable (F):	This trend is **positive** with respect to the City's goals, policies, and national criteria.
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	12	11	10	09	08	07	06	05	04	03
Revenues Per Capita	W	U	F/C	F/C	F	F/C	F/C	W	W	F
Property Tax Revenues	U	W	W	F/C	F	F	F	F	F	F
Property Values	U	U	W	F/C	F	F	F	F	F	F
Elastic Revenues	F/C	W	W	W	W	F/C	F	F	F	F
Sales Tax Revenues	W	U	U	F/C	F	F	F	F	F	F
License & Permit Revenues	F/C	F/C	U	U	W	F	F/C	F	F	F
Comm. Develop. Charges	F/C	U	U	U	W	F/C	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/C	F	F	F	F	F	F	F
Population	W	F	F	F	F	F	F	F	F/C	F
Expenditures Per Capita	F	F	F	F	F	F/C	F	F	F	F/C
Expenditures By Function	F	F	F	F	F	F	F	F/C	F/C	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	F/C	F/C	F	F	F	F	F	F/C	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F/C	F/C	F/C	F	F	F	F	F	F	F/C
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
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 2012 Long Term Financial Plan includes the analysis of twenty-one trends. Three indicators received a Warning rating, six received a Favorable/Caution rating and two indicators received an Unfavorable rating. In total, these current year results reflect a positive change in several ratings from the prior year when two indicators received a Warning rating, four received Favorable/Caution ratings and four were Unfavorable. Because of the commitment to financial planning, funding of necessary reserves, and cost reduction 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 2012 budget reflects a number of changes designed to improve negative trends.

Rating changes

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

The negative changes were:

- *Property Tax Revenues* – Downgrade to Unfavorable
- *Population* – Downgrade to Warning

The positive changes were:

- *Revenues Per Capita* – Increased to Warning
- *Elastic Revenues* – Increased to Favorable/Caution
- *Sales Tax Revenues* – Increased to Warning
- *Community Development Charges* – Increase to Favorable/Caution

Rating discussion

The five negative indicators reflect the economic impact on the City as it continues to suffer from the effects of the current economic environment. The City also decreased in population over the past year from what was estimated in the prior year to an actual recording based on current 2010 Census numbers. This population change was a large decrease over the prior year which has impacted the per capita amounts for 2011.

Revenues per Capita has changed from an Unfavorable to an Warning rating due to the first year of increases in the five year trend period.

Property tax revenues decrease to an Unfavorable rating because, although there was an increase in revenues, this increase was due to the $2.2 million loan from the State in FY 2010. After adjusting for the $2.2 million loan in 2010, the City would have seen a decline of $0.6 million from the prior year in FY 2011 due to declines in property tax values.

Property Values has remained at an Unfavorable rating due to the second year of 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 instability in the near future in property values.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues increased to a Favorable/Caution rating for the first time in five years due to improvements in taxes and community development charges in FY 2011.

Sales taxes increased between FY 2010 and FY 2011 due to an increase in gasoline prices and a $600,000 Triple-flip "true-up" payment. Sales taxes have improved to a Warning rating due to this increase.

Community Development Service Charges has changed from an Unfavorable to a Favorable/Caution rating because these revenues have started to show slow growth and stabilization over the past year; however, they still need to be monitored in the future.

Population has changed from a Favorable rating to a Warning rating based on a decrease in the population from an estimated amount by the Department of Finance and the Planning Department in the prior year to a figure based on the official 2010 Census report. Population changes can occur for different reasons. This population decline could mean lower revenues in the future for revenues based on per capita amounts.

Operating Position has increased from a deficit of $1.4 million in the prior year to a $1.1 million surplus in FY 2011. This surplus is based on operating (excluding one-time dollars) revenues and expenditures. Favorable/Caution rating remains due to the instability of the current economy.

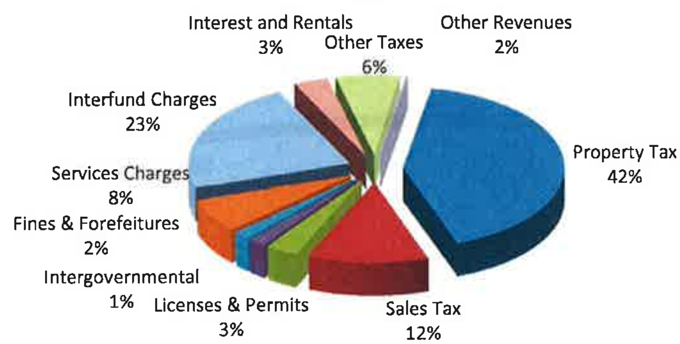
As seen in the past year, several trends are starting to turn in a positive direction with a couple of trends declining. The City has seen the effects of these trying economic times and is taking action for the future, by selectively filling positions, reviewing fees, and cutting costs at a department level during the annual budget. However, there are those unforeseen and unpredictable changes that have had a profound effect on the trends, such as the change in population from the prior year and further declines in property values. Therefore, the City continues to review the budget annually at a department level for any expenditure savings and continues to look for ways to increase revenues to avoid the affects of these unstable economic times.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2007 vs. FY 2011

2007

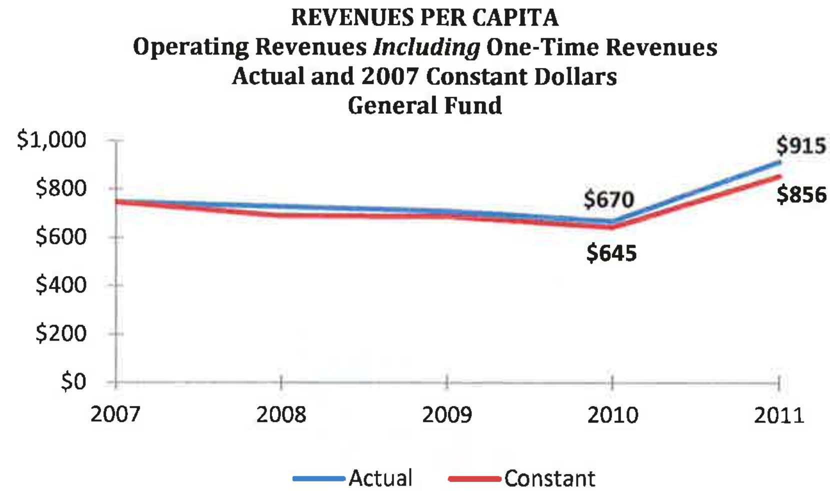
2011

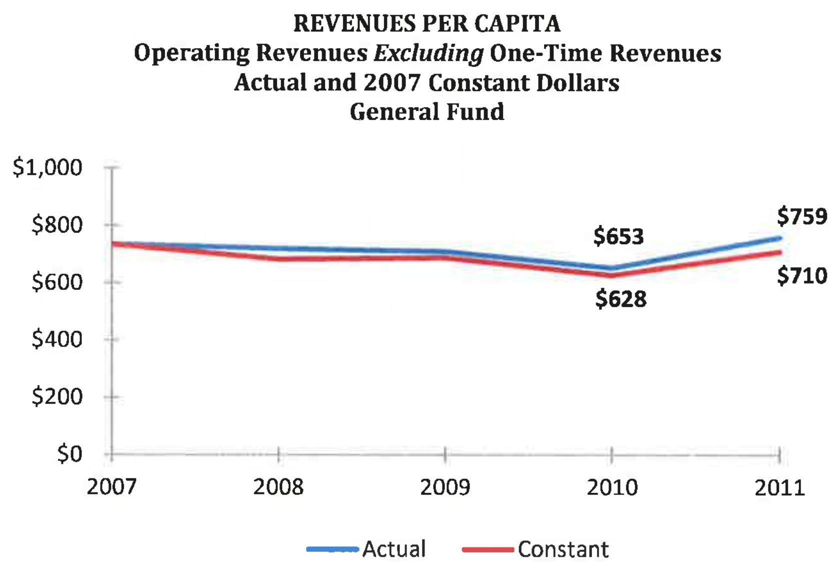


Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property Tax, Sales Tax, Licenses and Permits, Interfund Charges, and Other Taxes categories. Property tax revenues, as a percent of general fund revenues, decreased from 44% in FY 2007 to 42% in FY 2011 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 14% in FY 2007 to 12% in FY 2011 due to a decrease in consumer spending as a result of the economy. The decrease in licenses and permits from 6% in FY 2007 to 3% in FY 2011 is due to declining construction permit fees as anticipated. A decrease in other taxes from 9% in FY 2007 to 6% in FY 2011 is due to a one-time renegotiation fee from Cox in the amount of $1.2 million received in FY 2007. Interfund charges have increased from 9% in FY 2007 to 23% in FY 2011 due to a large one-time transfer from the Parks Acquisition fund in FY 2011.

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

Revenues Per Capita





Finding: ***WARNING.*** Revenues per capita in both charts reflect an increase when analyzing actual amounts and constant dollars for FY 2011. This trend has changed from an Unfavorable to a Warning rating due to this significant increase over the past year. Revenues per capita, in actual dollars, experienced an increase from FY 2010 of 37% (including one-time revenues) and 16% (excluding one-time revenues) related to increases in Sales Tax, Intergovernmental, Fines and Forfeitures, and Interfund Charges. In constant dollars the increase was 32%, when including one-time revenues and 13% when excluding one-time revenues.

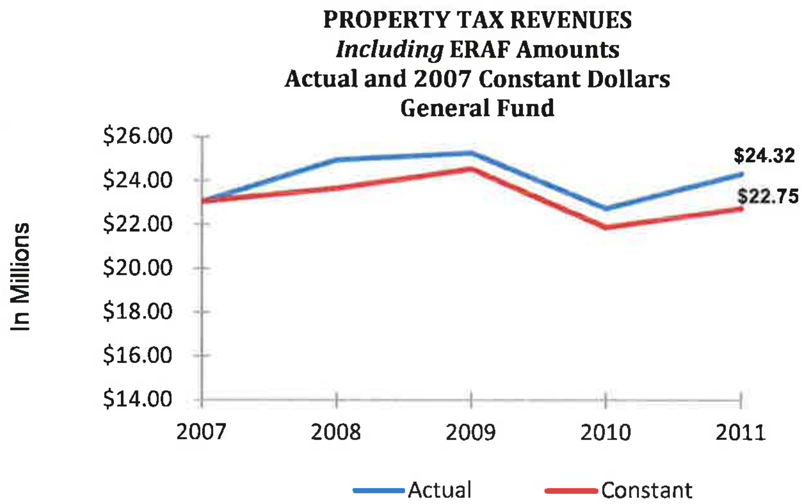
The consumer price index increased from the prior year and shows a positive inflation rate of 2.86%. The population of the City has decreased by approximately 5,241 from FY 2010 due to the completion of the 2010 Census. Population for the years between the 2000 and 2010 Census years were estimates made by the State based on calculations made to the 2000 Census number. When the 2010 Census was completed, the actual amount ended up to be lower than what was estimated. Because population is used as a denominator in the calculation of revenues per capita, this also has had a major impact on the increase over the past year.

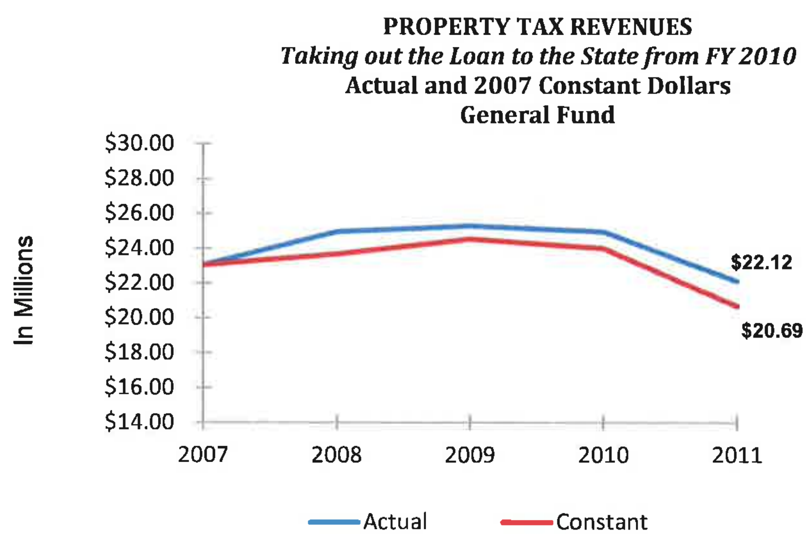
Comments: The first chart (which includes one-time revenues) shows an upward trend from $670 to $915 in actual dollars and an increase from $645 to $856 in constant dollars. Total revenues for fiscal year 2011 increased by $12.0 million from the prior year. The revenue categories with the most significant increases include Interfund Charges (281%), Intergovernmental (58%), Sales Tax (18%), and Fines and Forfeitures (14%). An increase in interfund charges of $9.7 million, along with increases in sales taxes $1.0 million; has had a significant impact on the increases in revenues from the prior year. The increase in interfund charges is due to a $9.15 million transfer from the Parks Acquisition fund in FY 2011. This transfer was completed from the proceeds of a land sale.

The second chart (which excludes one-time revenues) shows an increase in actual dollars from $653 to $759 and an increase in constant dollars from $628 to $710. 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.

This trend has improved from an Unfavorable to a Warning rating due to these increases. This trend needs to be monitored for the next few years due to the unpredictability of revenues during these economic times.

Property Tax Revenues



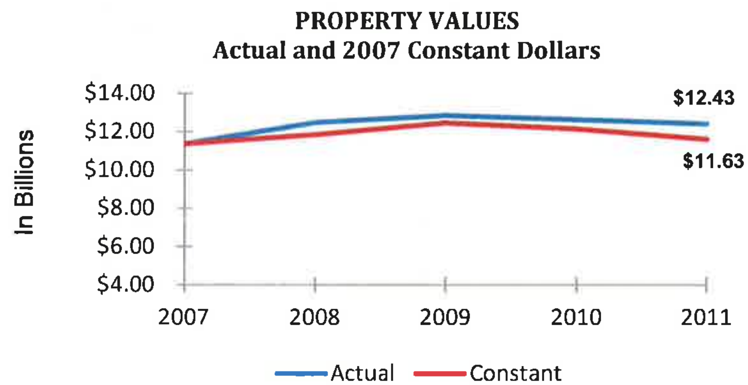


Finding: ***Unfavorable.*** Property tax revenues show an increase for FY 2011. However, when adjusted for the State borrowing in FY 2010, property taxes are actually lower by $0.6 million as a result of lower assessed valuations. This reflects the property tax value trend discussed later.

Comments: The first chart shows property tax revenues increasing by $1.6 million or 7% in actual dollars, and 4% in constant dollars ending the year $854,100 above the prior fiscal year. However, this increase is not reflected when the loan made by the City to the State in FY 2010 is considered.

The second chart considers the effect of the State borrowing on the City's property tax. This indicator has changed from a Warning to an Unfavorable rating because, although property taxes show an increase, without the adjustment of the $2.2 million from the State borrowing in the prior year, there would be a decrease of $0.6 million due to declines in property tax values.

Property Values



Finding: ***UNFAVORABLE***. Property values showed a negative growth rate for the second time in FY 2011.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars was negative 1.43%. This indicator will remain an Unfavorable rating due to this second year of decline. Due to the housing bubble and the economy, property tax values declined rapidly in FY 2010 and the City is still seeing the effects of this decline in FY 2011 as well. This indicator will continue to be closely monitored due to the significant impact on property tax revenues in the City's General Fund. The chart below shows the percentage change in secured values for the past ten tax years based on 2011 Property Tax Data.

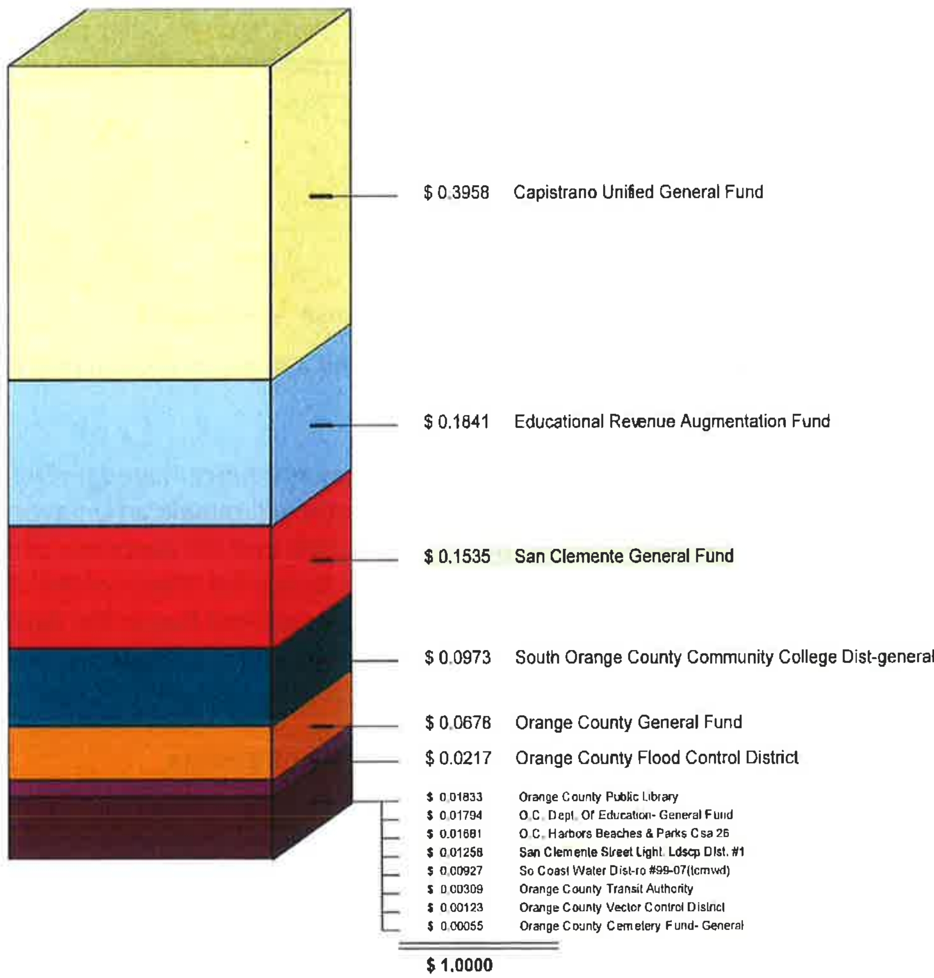
City of San Clemente
Assesed Value History
(In Thousands)

Tax Year	Secured Values	% Change
2002	$5,749,544	14.50%
2003	$6,670,544	16.02%
2004	$7,353,148	10.23%
2005	$8,528,143	15.98%
2006	$9,762,930	14.48%
2007	$11,106,184	13.76%
2008	$12,248,078	10.28%
2009	$12,582,840	2.73%
2010	$12,379,602	-1.62%
2011	$12,203,097	-1.43%

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.

THE CITY OF SAN CLEMENTE
PROPERTY TAX DOLLAR BREAKDOWN



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

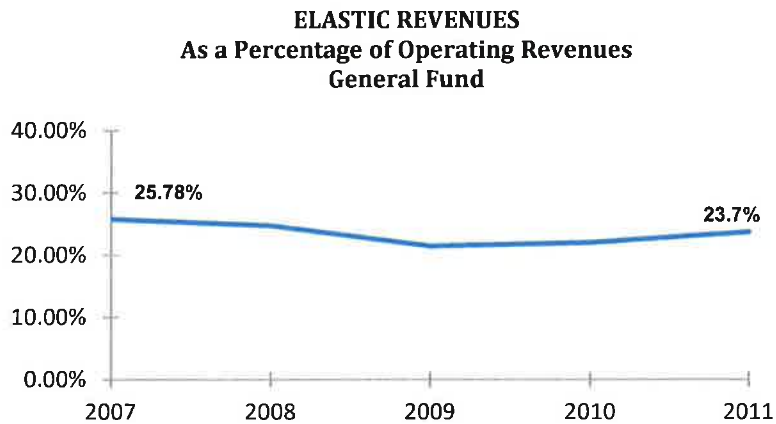
Data Source: Orange County Assessor 2010/11 Annual Tax Increment Tables Prepared On 9/13/2011 By MV

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)

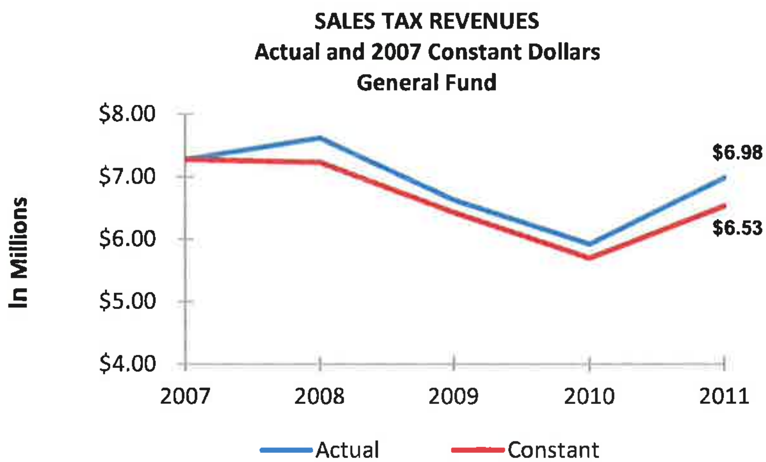


Finding: ***Favorable/Caution.*** Elastic revenues are revenues that are highly responsive to changes in the economy and inflation. The City has defined Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges as Elastic revenue, because these revenues are the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

Elastic revenues, as a percentage of total revenues, show an increase from FY 2010 to FY 2011. Actual elastic revenues increased by $1.3 million. This trend has improved to a Favorable/Caution rating due to increases in taxes and community development charges.

Comments: Elastic revenues, as a percentage of total revenues, increased from 22.0% in FY 2010 to 23.7% in FY 2011. This is still below the historical average of 31.0% from FY 1996 to FY 2000 before significant development occurred in the City. The increases in elastic revenues were in the Sales Tax, Transient Occupancy Tax and Community Development categories. A decline in dollars in elastic revenues was seen in the license and permits category.

Sales Tax Revenues

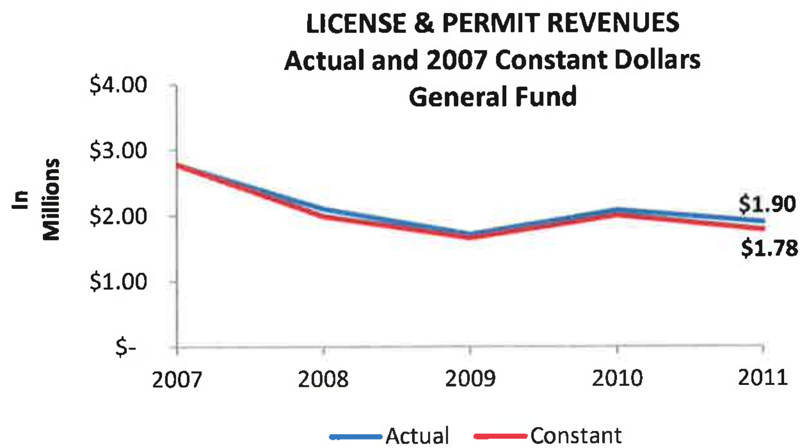


Finding: ***Warning.*** As summarized in the chart above, sales tax revenues showed an increase of $1.1 million, or 18% in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to $828,000, or 15% for FY 2011. The inflation rate during this period was 2.86%. However, sales tax revenues are still below FY 2007 and 2008 levels.

Comments: As summarized in the chart, sales tax revenues have increased for the first time since FY 2008. This increase is due to an increase in gasoline prices and $600,000 is related to a triple flip "true-up" payment. This indicator has changed from an Unfavorable to a Warning rating due to this increase and the need to monitor because of the unpredictability as to further increases due to the reduction of the tax percentage rate in early July 2011 and these unstable economic times. City of San Clemente sales taxes per capita are currently ranked 21st out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed.

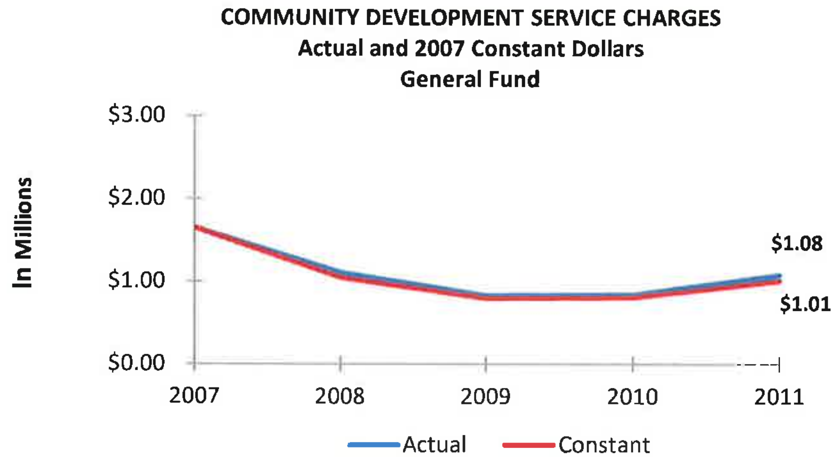
License and Permit Revenues



Finding: ***FAVORABLE/CAUTION.*** License and permit revenues decreased in actual dollars in the amount of $180,000 or 9% from the prior fiscal year. The constant dollar decrease was $224,000 or 11% from FY 2010. This indicator remains a Favorable/Caution rating due to this decrease over the prior year.

Comments: Construction permit revenue decreased $116,000, or 12% over the past year, and business license income decreased from the prior year by $65,400 or 7%. A Favorable/Caution rating remains due to this decrease and the continued monitoring of this trend.

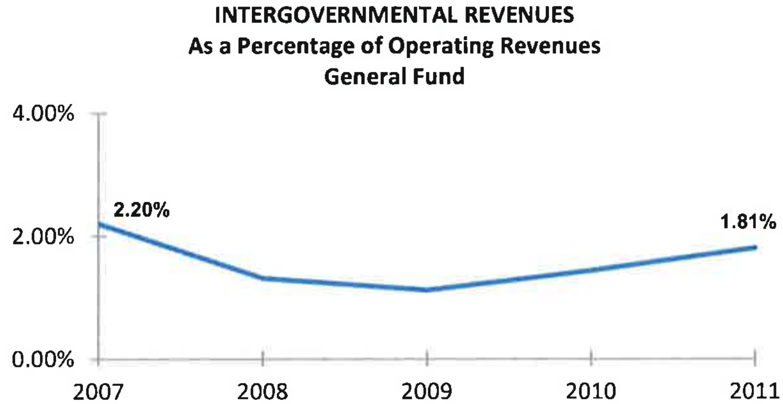
Community Development Service Charges Revenues



Finding: ***FAVORABLE/CAUTION.*** Total community development service charges increased by 28%, or $238,800 from the prior year. Although minor, this represents the second increase over the five year period. This trend has changed from an Unfavorable to a Favorable/Caution rating as development has started to level out and showed a small increase for the current year.

Comments: This trend has been changed from an Unfavorable to a Favorable/Caution due to increases in construction inspection and planning application fees. There were some decreases in building and improvement plan check fees, and other planning service fees, however they minor in comparison to the increases.

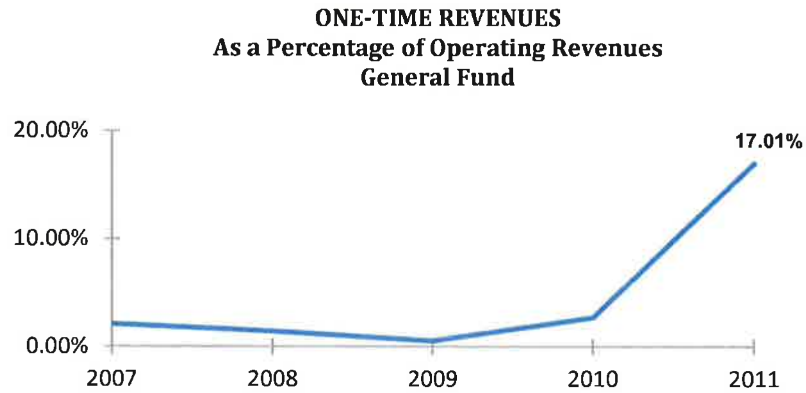
Intergovernmental Revenues



Finding: ***FAVORABLE***. General Fund Intergovernmental revenues, as a percentage of operating revenues increased to 1.81% in FY 2011.

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 30%. 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 is adjusted for, it shows that motor vehicle fees received as in-lieu property taxes totaled $5.1 million and the intergovernmental percentages were 12.8% in FY 2010 and 10.6% in FY 2011, which still supports the Favorable rating.

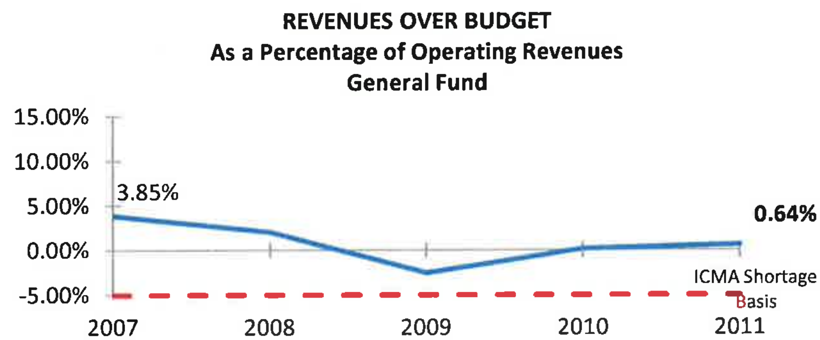
One-Time Revenues



Finding: ***Favorable***. One-time revenues, as a percentage of total General Fund revenues, equaled 17.01% in FY 2011, a large increase from the prior year.

Comments: One-time revenues increased by $8.6 million from the prior fiscal year. FY 2011 one-time revenues of $9.9 million include $548,000 of grant funds, $185,000 from miscellaneous reimbursements, and a $9.15 million transfer from the Parks Acquisition and Development fund; which is due to $13 million received from a sale of land to Target. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditure, except in the case of a one-time policy change in FY 2011 to use these one-time revenues for ongoing expenditures for the Vista Hermosa Sports Park. Therefore, this indicator continues with a Favorable rating.

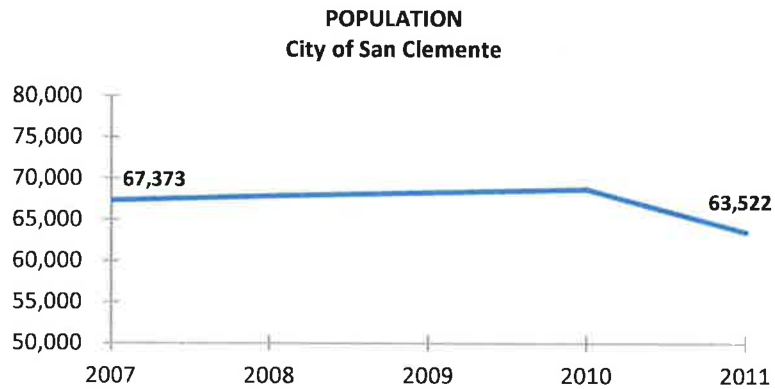
Revenue Overage



Finding: ***Favorable/Caution***. Actual revenues were greater than the adjusted budget by $374,000 for FY 2011 and ends with a positive revenue position of 0.64%. The City experienced revenues over budget in taxes ($935,000) and licenses and permits ($140,000) categories; however shortages, based on the adjusted budget, were seen in charges for services ($107,000) and Intergovernmental ($79,000). This trend remains a Favorable/Caution because of its low positive position.

Comments: This trend began the five-year analysis with a positive revenue position of 3.85% and ended FY 2011 at 0.64%. 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

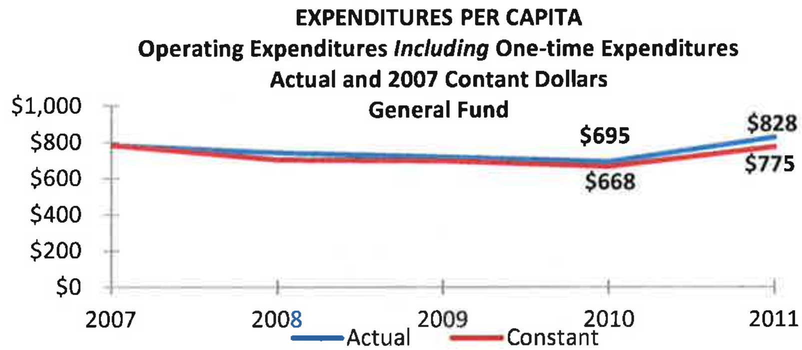


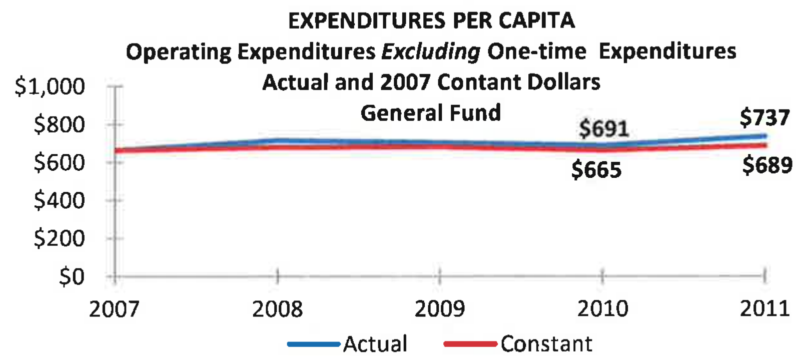
Finding: ***Warning***. The City's population has decreased an average of 1.14% over the last five years. However, there was an increase between Census years from 2000 (49,936) and 2010 (63,522) of 27.2%. The decrease from estimated to actual growth from FY 2010 to FY 2011 was 7.62%, which reflects the completed 2010 Census numbers.

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 Census is completed every ten years. In the years following the 2000 Census, the numbers used by the City were based on numbers from the California Department of Finance and estimates of growth from the Planning department. Based on the new 2010 Census numbers, the increase reported by the California Department of Finance overestimated the growth of the City's population over the ten year period covered by the Census. This indicator has changed from a Favorable to a Warning rating due to this decline from the estimated number used in the prior year. This indicator needs to be closely monitored, because it could have an affect on future tax based revenues.

Expenditures Trend Analysis



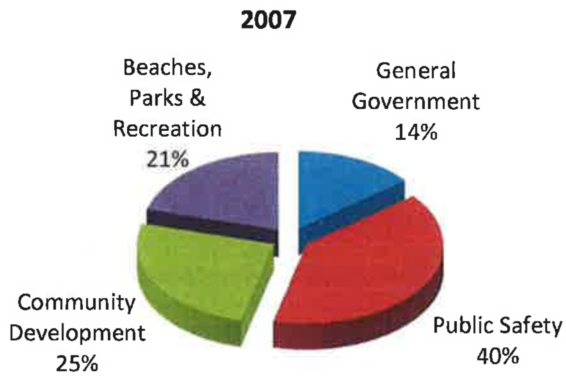


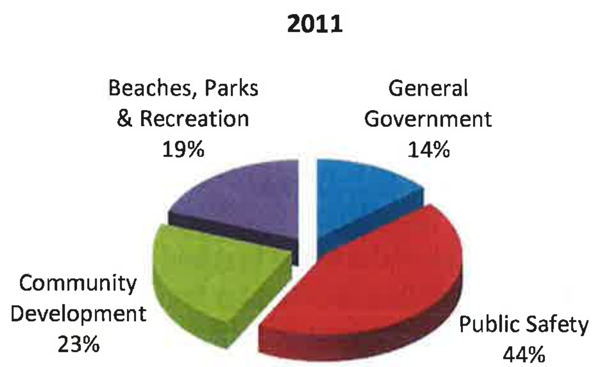
Finding: ***FAVORABLE***. Expenditures per capita in the first and second charts reflect an increase when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. Changes in per capita expenditures reflect the changes in expenditures relative to changes in the population.

Comments: The first chart which includes one-time expenditures shows an increase from $695 to $828 in per capita actual dollars and an increase from $668 to $775 in per capita constant dollars. This reflects the increase in actual dollars of $4.8 million and the increase in constant dollars of $3.3 million when compared to FY 2010. The increase in actual dollars was in City General ($5.4 million). The increase in City General is a result of a one-time payment of unfunded PERS (Public Safety) liability ($4.8 million).

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $691 to $737 and an increase in constant dollars from $665 to $689. This chart depicts the effects of the population decrease when one-time expenditures are excluded from the total expenditures. If the population number had remained the same as in FY 2010, actual and constant dollars would have decreased by 1.6% and 4.4% respectively. As a result, this trend remains favorable because although the expenditures per capita increased considerably when including one-time expenditures, it is only increasing slightly when one-times were excluded, and was due primarily to the change from the FY 2010 estimated population to the final 2010 Census population.

Comparison of Expenditures by Function
FY 2006 vs. FY 2010





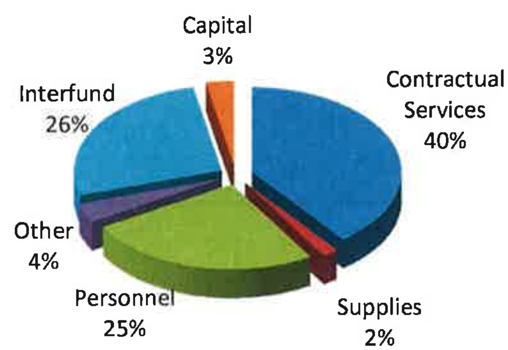
Finding: ***FAVORABLE.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) show slight changes in the allocation of resources from FY 2007 to FY 2011. These charts indicate that the largest fluctuations of expenditures are in public safety with an increase of 4%.

Comments: Public Safety increased from 40% in FY 2007 to 44% in FY 2011 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 major development has slowed and expenditures are becoming stable on a functional basis.

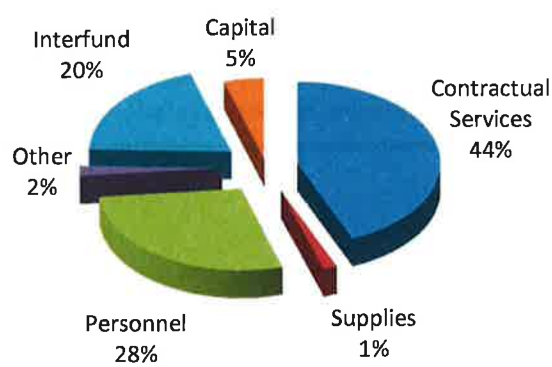
Comparison of Expenditures by Category

FY 2007 vs. FY 2011

2007



2011



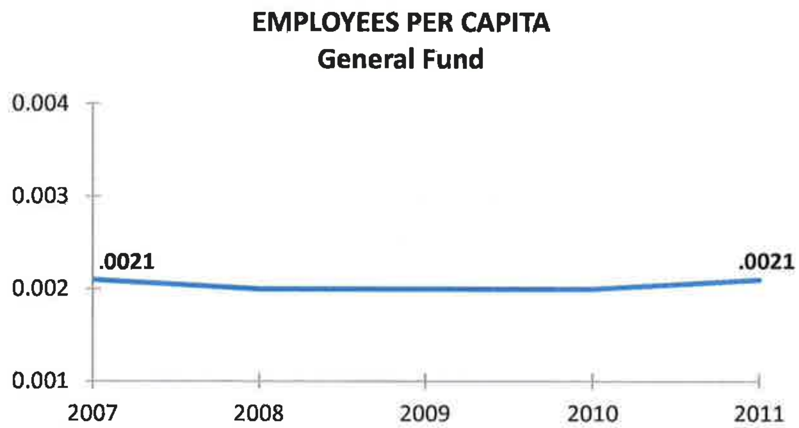
Comments: The charts above indicate that the Personnel, Contractual, and Interfund expenditure categories, as a percentage of the total General Fund expenditures, changed significantly between FY 2007 and FY 2011.

The personnel category has changed from 25% to 28%, which reflects an increase in staffing levels and the resulted salary and benefit costs.

The Contractual Services category changed from 40% to 44%, which reflects an increase in service contracts with external parties.

Interfund amounts have decreased by 6% due to a decrease in interfund transfers of 77% from FY 2007 to FY 2011. A one-time transfer of $8.1 million in FY 2007 was completed from the General fund to the Parks Acquisition and Development fund to fund park development projects.

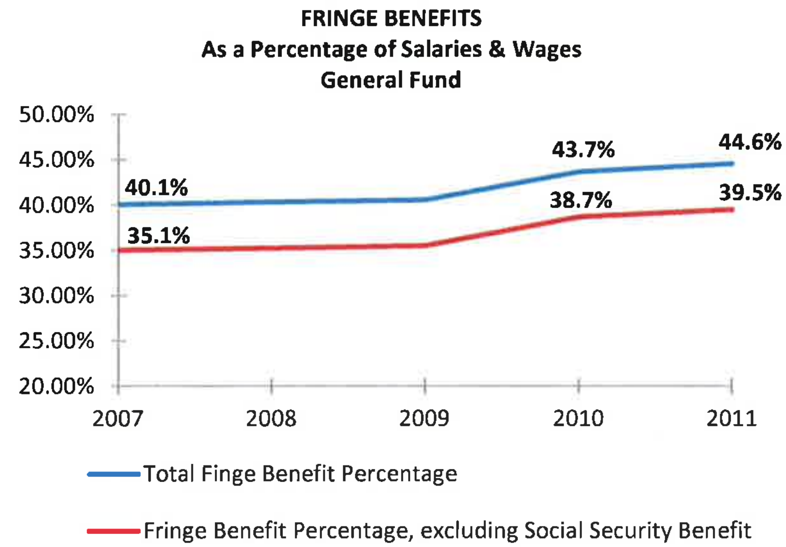
Employees per Capita



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

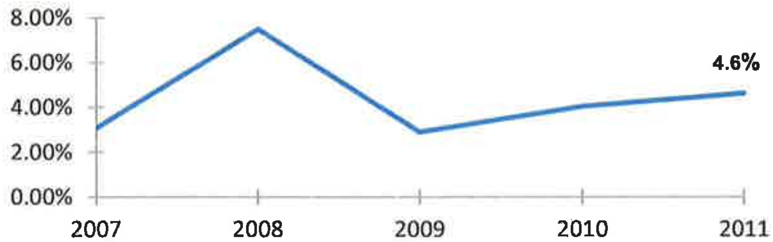


Finding: ***Favorable/Caution.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 43.7% to 44.6%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2010.

Comments: The actual amounts of benefits in the general fund have decreased slightly from $4.62 million in FY 2010 to $4.57 million in FY 2011, a 1% decrease from the prior year. While salary and wages in the general fund have decreased from $10.57 million in FY 2010 to $10.26 million in FY 2011, a 3% increase from the prior year. These two factors together have caused the increase in the fringe benefits as a percentage of General fund salaries and wages to increase over the prior year. This trend remains a Favorable/Caution rating due to this percentage increase in comparison to the prior year.

Capital Outlay

CAPITAL OUTLAY
As a Percentage of Operating Expenditures
General Fund

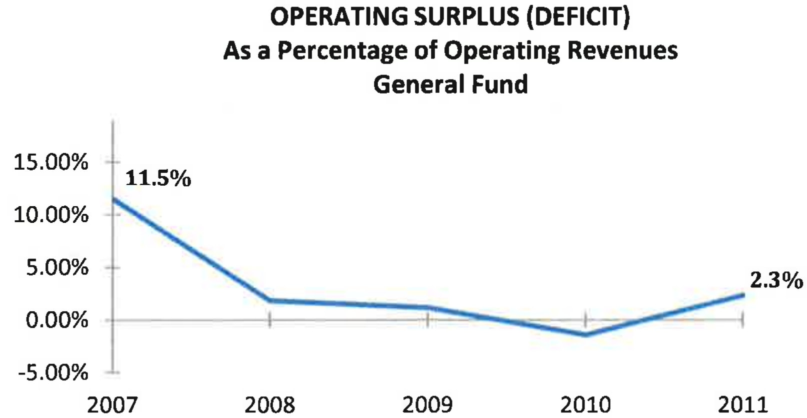


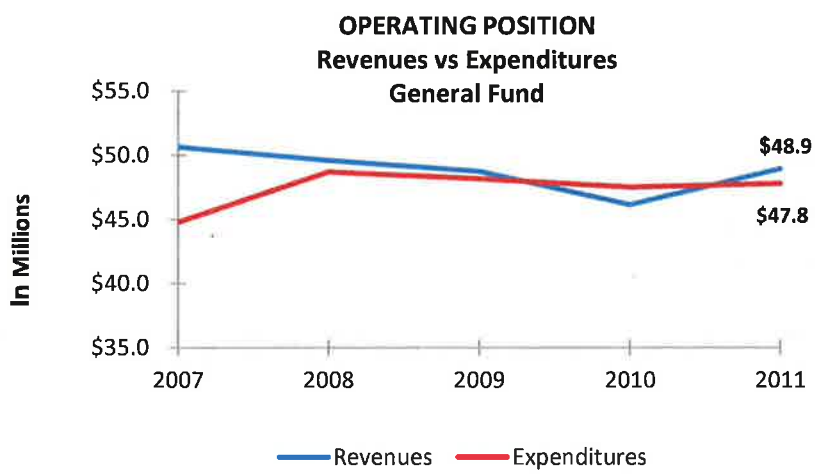
Finding: ***FAVORABLE.*** Capital outlay expenditures increased by $0.5 million, or 26%, from the 2010 fiscal year. Capital outlay expenditures totaled $2.4 million.

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

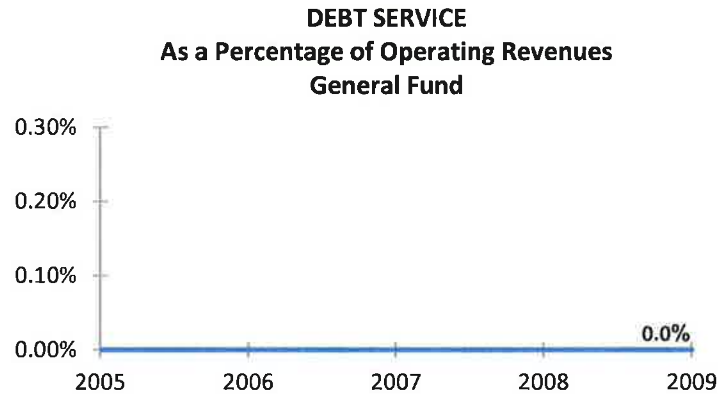




Finding: ***FAVORABLE/CAUTION.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. Fiscal year 2011 ended with an operating surplus of $1.1 million or 2.3% of net operating revenues.

Comments: Revenues used to calculate this surplus does not include a one-time transfer from Parks Acquisition fund in the amount of $9.15 million. Also expenditures used to calculate this surplus does not include a one-time debt service payment of $4.8 million to PERS for the unfunded liability. The total operating surplus was $1.1 million in FY 2011, compared to a deficit of $1.4 million in FY 2010 (before adding back the $2.2 million in State borrowing). This trend remains Favorable/Caution due to the instability of the current economy.

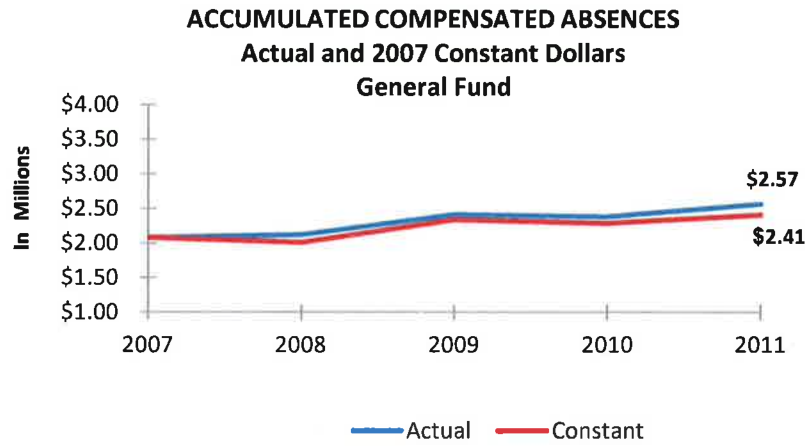
Debt Service



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

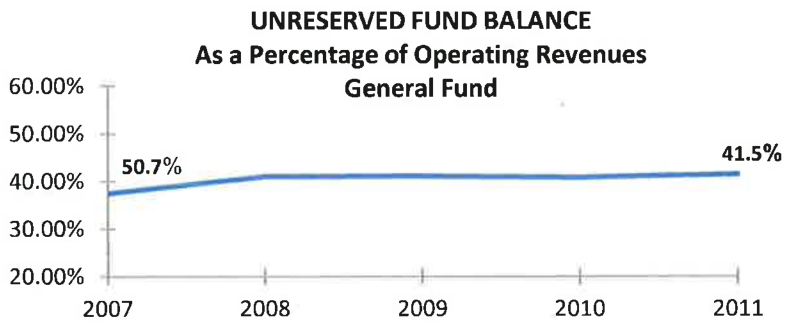


Finding: ***Favorable***. This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. The reserve is continually funded to insure an adequate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

Comments: At June 30, 2011, the balance of the liability for compensated absences was $2.57 million consisting of $1.16 million for vacation, $1.18 million for sick leave, and $230,000 for compensatory time. This is an increase of $193,000 or 8% from the prior year's liability of $2.4 million. The increase is due to several employees with hire dates before January 1, 2000 reaching celebratory years of services with the City that require a higher percentage of sick leave payout. Before January 1, 2000, employees were eligible to receive a percentage of their sick leave upon their years of retirement.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2011, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $80,000 for the payment of accrued leave for terminated employees. As of June 30, 2011 the Accrued Leave Reserve balance was $701,000.

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.

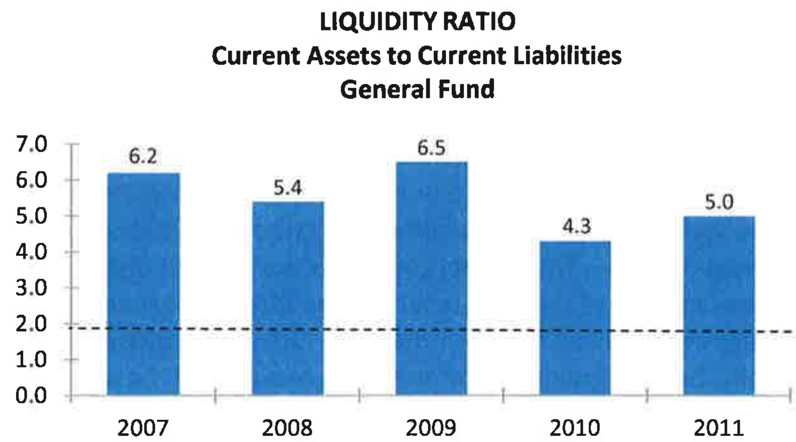
Comments: Unreserved fund balance excluding long term receivable reserves increased 28.2% in FY 2011 as a percentage of total revenues. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

Included within the total FY 2011 unreserved fund balances of $24.1 million are undesignated funds of $9.8 million and designated funds of $4.3 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	***2007***	***2008***	***2009***	***2010***	***2011***
La Pata/Vista Hermosa Park	$ 7,650,000				
Bellota Settlement		$ 1,650,000	$ 1,000,000		$ 1,000,000
Golf Course Clubhouse	$ 1,029,020	$ 145,530			
Steed Park Renovation	$ 407,405				
Total General Fund Amounts Transferred to Projects	***$ 9,086,425***	***$ 1,795,530***	***$ 1,000,000***	***$ -***	***$ 1,000,000***

Liquidity Ratio



Finding: ***Favorable***. In FY 2011, the City's liquidity ratio remains positive at 5.0:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 5.0:1 current asset to current liability ratio is considered excellent.

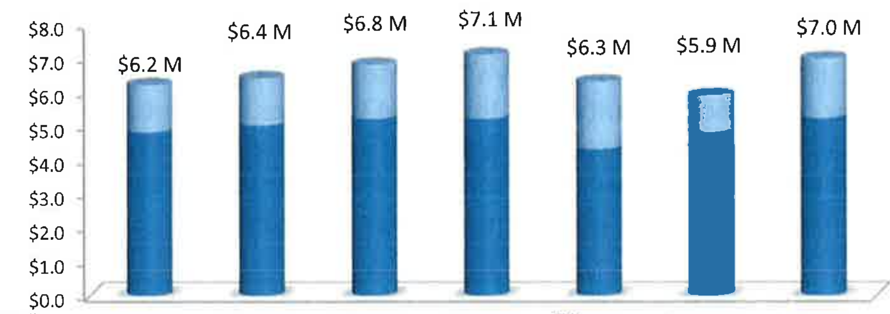
Comments: Liquidity measures the City's ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable and other assets that can be readily converted to cash. Current liabilities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

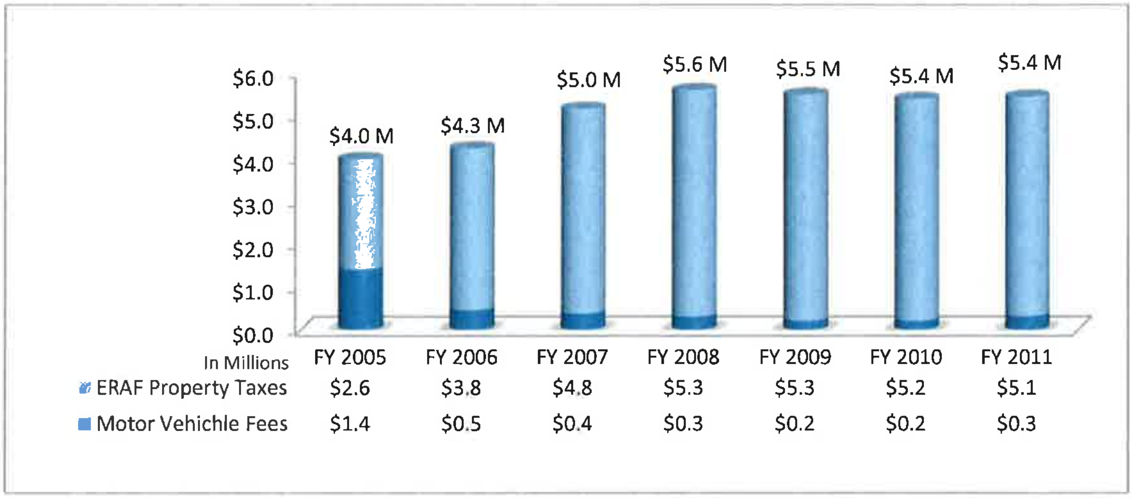
The City of San Clemente has been receiving ERAF property taxes from the State since 2005. The chart below graphically depicts the changes to the City's sales taxes and ERAF property taxes over the last four years:



In Millions	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
ERAF Property Taxes	$1.4	$1.4	$1.6	$1.9	$2.0	$1.1	$1.8
Sales Tax	$4.8	$5.0	$5.2	$5.2	$4.3	$4.8	$5.2

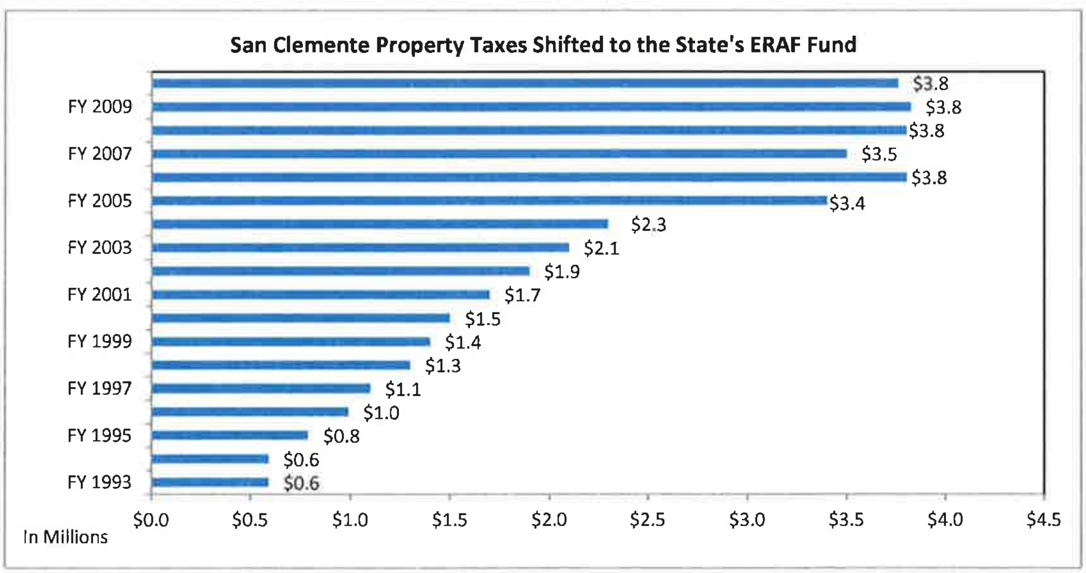
Vehicle License Fee (VLF)

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



The ERAF Property Tax Shift

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



Financial Forecast

Objective

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

Executive Summary

The five-year financial forecast was last updated after adoption of the FY 2012 budget. The forecast showed that General Fund operating revenues were anticipated to increase by an annual average of 2% a year. Taxes, which include property, sales, transient occupancy and franchise taxes, increase by 1.6% annually over the forecast period. Expenditures were projected to increase at an average rate of 3.6% over the forecast period with the majority of the growth attributed to increases in the police and fire contracts. The forecast results, shown below, projected a positive operating position in the first three years of the forecast and a negative operating position in the remaining years.

FY 2012 Budget Forecast (In millions)	2012	2013	2014	2015	2016
Operating receipts	$48.6	$50.3	$51.5	$52.6	$52.9
Operating disbursements	48.5	50.0	51.4	52.9	54.2
Projected surplus/deficit	$ 0.1	$ 0.3	$ 0.1	-$ 0.3	-$ 1.3

The 2012 Long Term Financial Plan forecast shows a slight improvement from the forecast presented at budget adoption. Revenues increase an average of 2.3% over the forecast period. Property taxes are slowly recovering, but the increases in valuation are due to projected 2% CPI increases by the Assessor's Office and not actual growth due to increases in housing prices. The median home price in San Clemente for 2012 was $585,000, which is slightly below the median price of $592,500 in 2003. Sales taxes included in the forecast are higher due to the opening of Target and an increase in consumer spending.

Revenue and expenditures for the Vista Hermosa Sports Park and San Clemente Aquatics Center are included for the entire year beginning in FY 2013. A portion of the proceeds from the sale of land to Target have been placed in a designated reserve and will be used to offset maintenance and operating deficits. Use of the reserve has been included in the forecast until the projected reserve is depleted in FY 2015. While the Ole Hanson Beach Club is under construction, revenues have been eliminated and expenditures have been reduced in FY 2013 due to the closure of the building and pool. The cost of operation and maintenance of the facility returns in FY 2014, along with associated revenues.

Expenditures average 3.1% over the forecast period and are primarily due to projected increases in the police and fire contracts. Based on the latest strategic plan prepared by the County of Orange, the police contract will increase by an average of $335,000 or 2.69%. In FY 2015, the contract increases by $564,000 or 4.62% based on a projected 3% salary adjustment, plus 4% retirement and 7% workers' compensation increases. The fire contract includes an average increase of $327,000 or 4.5% per year increase.

Financial Forecast

The updated 2012 LTFP five-year financial forecast shows a positive operating position in the first two years of the forecast with negative balances in the final three years beginning in FY 2015 due to the projected police and fire costs.

2012 LTFP Forecast (In millions)	2013	2014	2015	2016	2017
Operating receipts	$50.8	$52.3	$53.4	$54.5	$55.7
Operating disbursements	50.4	52.2	53.9	55.4	57.0
Projected surplus/deficit	$ 0.4	$ 0.1	-$ 0.5	-$ 0.9	-$ 1.3

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 2013 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 2013 budget.

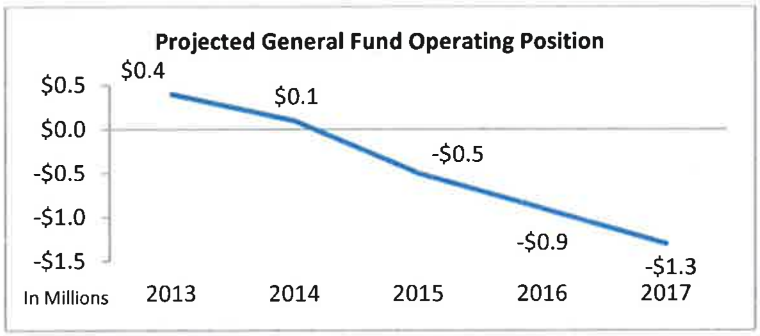
The base forecast is developed using the *present level of services* provided by the City. Inflation or historical growth rates are used to predict expenditure patterns. Revenues are projected by trend or by specific circumstances that are certain to occur during the forecast period.

Revenues and expenditures from the Marblehead development project and the impacts of the dissolution of the RDA are not included in the base forecast.

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Cal State Fullerton's College of Business and Economics, October 2011 Economic Forecast for Southern California and Orange County. As presented at the Fullerton Forecast, the economy is not anticipated to slide or "double dip" back into a recession. Consumer spending, business investments, healthy corporate balance sheets and export growth are expected to sustain growth in the economy. However, unemployment averaged 9.1% in 2011 and is expected to continue close to that rate through 2012. The housing market remains depressed and home values are unlikely to recover to pre-crisis levels until 2021.

While the economic forecast is not particularly optimistic for the next few years, the City's five-year financial forecast puts the City in the position to prepare for the future. The forecast focuses on two critical elements, *operating position* and *fund balances*, to determine the fiscal health of the City.

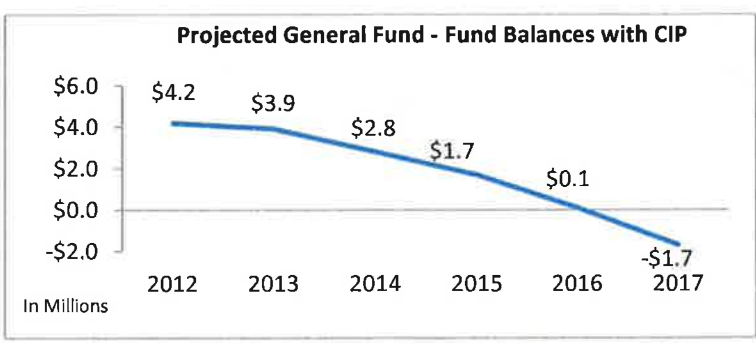
Operating position – Based on revised expenditure and revenue trends, the financial forecast indicates a positive operating position in the first two years of the forecast period with a drop into negative territory in the final three years. Results of the forecast with respect to operating position (operating 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 projected costs of the police and fire contracts. It should be noted that these are *projections* only and negative operating position will not actually occur.

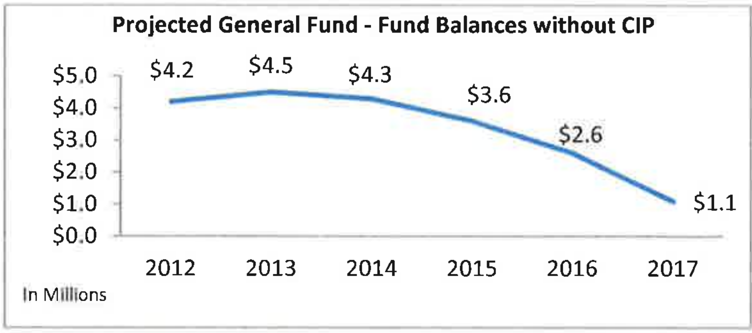
Fund balances – Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance 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, Vista Hermosa Park O&M 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 unassigned fund balances in the General Fund based on the 2012 Long Term Financial Plan forecast. The unassigned beginning fund balance of $4.2 million does not include the sustainability, park or emergency reserves.



One-time expenditures and transfers plus a negative operating position beginning in FY 2015 reduce fund balance from a positive $4.2 million to a negative $1.7 million. The forecast assumes an average of $600,000 per year in capital projects. However, funding of capital projects is determined annually during the budget process and is dependent upon available funds.

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 $4.3 emergency reserve.

Designated Fund Balances

Sustainability Reserve – In FY 2009, City Council established a sustainability fund balance reserve in the amount of $10 million.

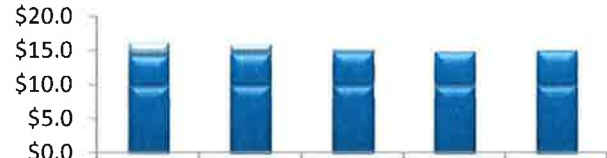
Emergency Reserve – One of the main financial goals of the City, as defined in the City's Fiscal Policy, is to ensure that adequate resources will be available to fund emergency reserves. Emergency reserve levels are maintained at the required 9% level beginning in FY 2012.

Vista Hermosa O&M Reserve – In FY 2011, Council established the Vista Hermosa (VH) Operations and Maintenance reserve in the amount of $2.9 million to provide resources for operation of the park facility. An amount, to be determined annually, will be used to subsidize park operations until the reserve is depleted.

General Fund – Designated Reserves (in millions)

	2013	2014	2015	2016	2017
VH Park	$1.9	$1.2	$0.5	$0	$0
Emergency	4.4	4.7	4.9	5.0	5.1
Sustainability	10.0	10.0	10.0	10.0	10.0
Designated Reserves	$16.3	$15.9	$15.4	$15.0	$15.1

Designated Reserves



	2013	2014	2015	2016	2017
VH Park	$1.9	$1.2	$0.5	$0.0	$0.0
Emergency Reserve	$4.4	$4.7	$4.9	$5.0	$5.1
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 1.5% in FY 2013. Increases averaging 2% are included beginning in FY 2014. HdL Coren and Cone, the City's property tax advisors, produces the City's property tax projections.
- Sales taxes are projected to increase 3.3% per year based on Fullerton's Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily removed from the forecast in FY 2013 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues are included beginning in FY 2014, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first four years until the reserve is depleted.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Of a total of eight positions, five positions in the General Fund are frozen and are not funded in FY 2012 budget and this forecast.
- Police contract – Police contract costs are increased based upon the Sheriff Department's five-year Strategic Plan. The Plan projects 1.4%, 1.7%, 4.6%, 2.7% and 3.1% increases to the contract costs. Contract increases average $335,000 per year over the five-year period. 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 2013 budget.
- Cost of living - For salary and benefit forecast purposes only, it is presumed that cost of living increases will be 2.4% beginning in FY 2013 and 2.5% the remaining four years.

- Retirement - Retirement rates are increased by 0.5% per year.
- Medical – Medical rates are increased 6% per year throughout the forecast period based upon recommendations by CalPers.
- Negocio Building – An annual transfer of $337,000 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. Continued efforts to lease the building will further reduce the need for this transfer.
- Vista Hermosa Sports Park – Revenues of $600,000 and expenditures of $1.2 million for field and aquatic complex operation and maintenance are included in FY 2013 for the first full year of operation. The cost is based upon operating costs projected by Beaches, Parks & Recreation. This will require a contribution from the Vista Hermosa reserve of $639,000.
- 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, $120,000 has been included in each year of the forecast for reserve transfers. This is based on the average contribution to reserves over the past two years.
- 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 $230,000 is included in the forecast for FY 2013 to pay costs due to actuarial changes and CalPERS poor investment performance. This annual amount is subject to annual revisions.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2013 amounts to $734,260 per year.
- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 0.5% 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 have been included.
- Revenues and expenditures associated with the Marblehead development project have not been included in the forecast.
- Proceeds of $5.8 million from the Bellota sale of land are not included. It should be noted that the $5.8 million estimate was provided in 2005 and may not be fully realized due to the current market conditions.
- The repayment of $2.2 million in property taxes is not included in the forecast. The repayment is due in FY 2013, however, the State has the ability to repay it and borrow it back.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.
- The forecast does not include the impact of the dissolution of the City's redevelopment agency.

Forecast Summary

Over the five year forecast period, City operating revenues are anticipated to grow by an annual average increase of 2.3% a year, compared to historical growth of 4.8%. Property taxes increase by $2.0 million and sales taxes grow by $725,000 over the forecast period.

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

Expenditures are projected to increase at an average rate of 3.1%, as compared to 1.2% historical growth, due to projected increases in contractual services. The police and fire contract include projected increases identified in the Orange County Sheriff's 2012 strategic plan and the Orange County Fire Authority contract.

Financial Forecast

Forecast Results

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

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

	2013	2014	2015	2016	2017
Beginning Fund Balance	4,250	3,937	2,782	1,690	107
Receipts					
Taxes	36,023	36,792	37,577	38,380	39,199
Licenses & Permits	1,866	1,912	1,961	2,009	2,060
Intergovernmental	385	393	401	409	417
Service Charges	4,135	4,562	4,653	4,746	4,841
Fines & Forfeitures	965	984	1,004	1,024	1,045
Interest & Rents	2,093	2,135	2,177	2,221	2,265
Interfund Transfers	5,367	5,484	5,603	5,725	5,849
Total Receipts	50,834	52,262	53,376	54,514	55,676
Disbursements					
Salaries	11,217	11,724	12,017	12,317	12,625
Benefits	5,226	5,445	5,612	5,782	5,956
Supplies	1,075	1,130	1,158	1,187	1,217
Contractual Services	25,268	25,989	27,036	27,888	28,813
Other Charges	2,560	2,749	2,817	2,888	2,960
Capital or One-Time	552	957	424	538	291
Interdepartmental Charges	3,536	3,663	3,755	3,849	3,945
Transfers & Debt	1,560	1,479	1,495	1,510	1,526
Total Disbursements	50,994	53,136	54,314	55,959	57,333
Emergency Reserve	153	281	154	138	146
Ending Unassigned Fund Balance	3,937	2,782	1,690	107	-1,696

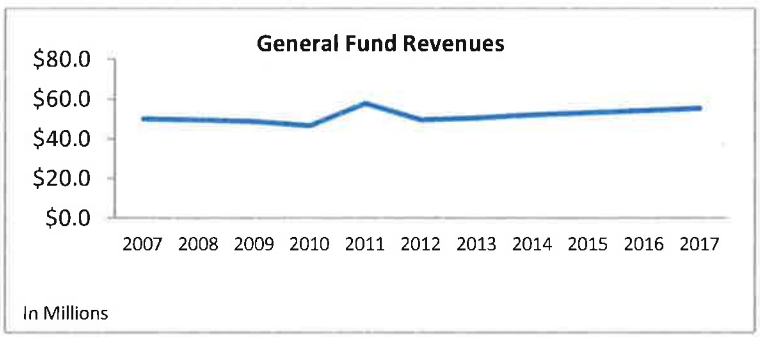
General Fund Revenue and Expenditure Growth

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 2007 to FY 2011.
- 2012 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate	
Historic Growth Rate	4.8%
2012 Projected Growth Rate	2.3%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 2.3% compared to a historical five year growth rate of 4.8%. The forecast shows property taxes increasing by 1.9% and sales taxes increasing by 3.3%. 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	4.4%
2012 Projected Growth Rate	1.9%

Property tax is the City's single largest revenue source and represents 48% of total General Fund operating revenue. The historic growth rate of 4.4% is attributed to new home sales in Talega and residential resale activity with median prices starting to come down from the peak in 2006. Assessed valuation grew 13.7% in 2007, but has since declined due to lower sales prices and foreclosure activity.

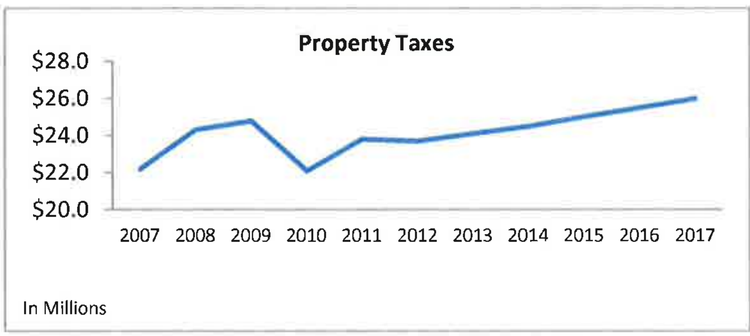
There are three major factors that contribute to year to year valuation changes. First, Proposition 13 allows the County Assessor to increase or decrease valuation by the net change in CPI growth, with a cap of 2% growth per year. Second, property valuation is increased or decreased annually by transfer 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 -0.6%, and is slightly less than the decrease experienced countywide at -0.9%.

Property taxes are projected to grow by 1.5% in FY 2013 due to a 2% CPI adjustment and changes in valuation due to foreclosures and resales. Single family home transactions and average prices decreased by 6% from the prior year. Commercial/industrial property appeals are anticipated to reduce valuations beginning in FY 2013. It is anticipated that vacant land in the county will be reassessed with 30% 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	-2.9%
2012 Projected Growth Rate	3.3%

The City's sales tax average growth rate of -2.9% 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.

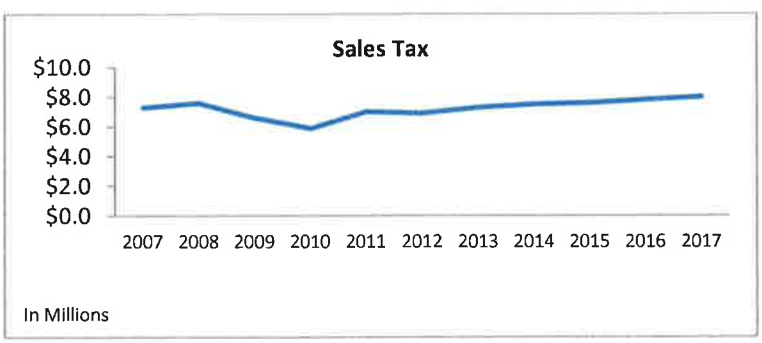
The misallocation also factors into the amount the City received in FY 2010 from the "triple flip". The voter approved Proposition 57, the California Economic Recovery Bond Act, authorized the issuance of up to $15 billion in bonds to close the State's budget deficit. One-quarter of the sales and use 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 from 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 6.2% over the prior year for the last reported quarter (July, August and September 2011). Although more than half of the gain was from sales taxes from higher fuel prices, increases from the general consumer goods, business services and restaurants categories are improving the City's taxable sales base.

Over the forecast period, sales taxes are projected to grow by 3.3% as consumer confidence grows.

Sales tax revenue from the Marblehead project 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	4.2%
2012 Projected Growth Rate	2.5%

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 2.5% with anticipated growth from TOT collected from vacation rental properties.

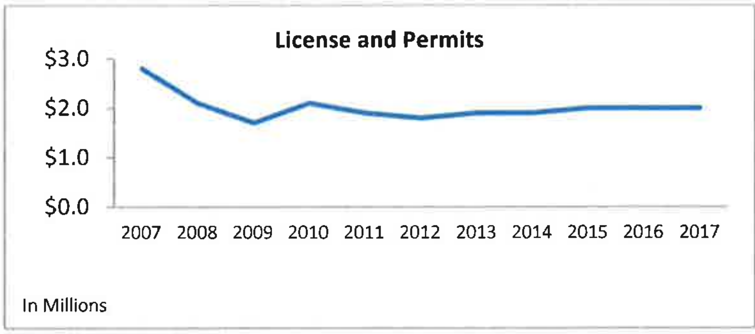
Transient Occupancy Tax revenue from the Marblehead project has not been included in the forecast.

License and Permits

License and Permits	
Historic Growth Rate	-4.3%
2012 Projected Growth Rate	2.5%

License and permit revenue declined over the historic period by 4.3%. 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 2.5% during the forecast period, mainly from residential remodeling and some in-fill projects.

The forecast does not include any development revenue from Marblehead.

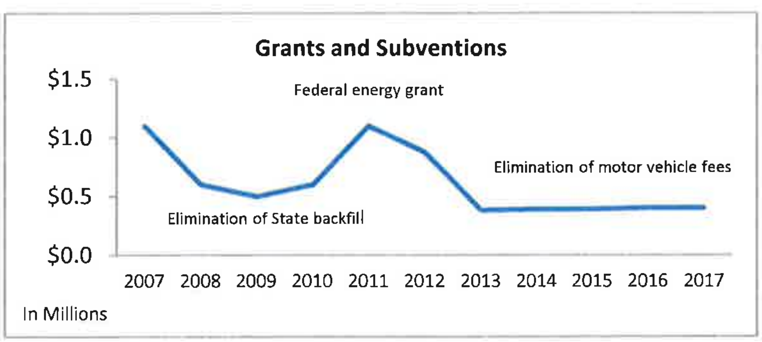


Grants and Subventions

Grants and Subventions	
Historic Growth Rate	36.2%
2012 Projected Growth Rate	-11.3%

Grant and subvention revenues increased by 36.2% over the historic period due to one-time grants from the State and Federal governments. 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.)

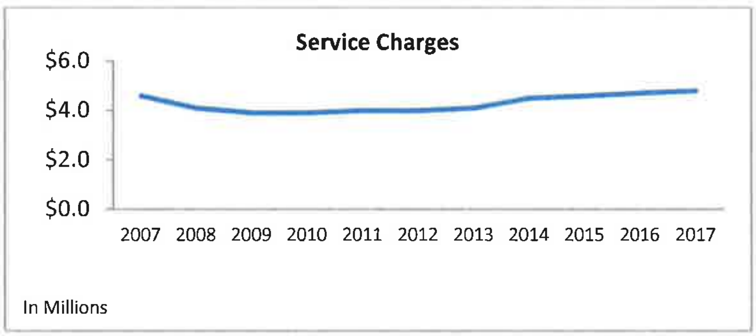
The forecast decline of 11.3% is a result of the elimination of motor vehicle fees beginning in FY 2012 and a reduction in one-time grant revenue.



Service Charges

Service Charges	
Historic Growth Rate	19%
2012 Projected Growth Rate	2%

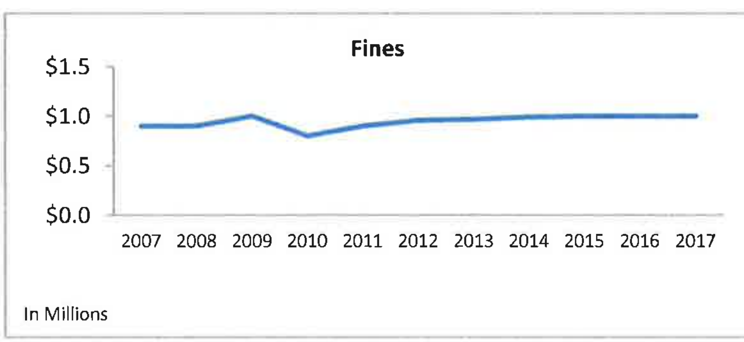
Service charges consist of development, public safety and recreation charges for services provided to the community. Service Charges are projected to increase by 2% over the forecast period, primarily due to anticipated increases in parking and recreation service charges. Development fees received in the current fiscal year from the construction of Avenida Pico have been removed from the forecast because the revenue is considered one-time. The receipt, however, skews the historic growth rate. Service charges also decline in the first year of the forecast due to the anticipated closure of the Ole Hanson Beach Club for renovation.



Fines

Fines	
Historic Growth Rate	1.2%
2012 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 inflationary growth.

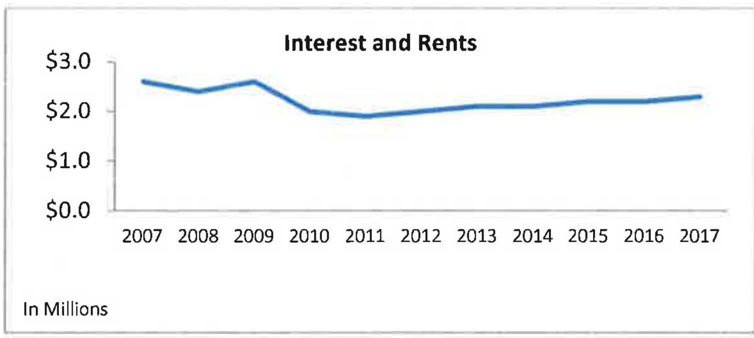


Interest and Rents

Interest and Rents	
Historic Growth Rate	9.8%
2012 Projected Growth Rate	2.0%

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 9.8%. Although the City did not actually realize a gain or loss, Government Accounting Standards Board (GASB) guidelines require the City to "book" the gain or loss on an annual basis.

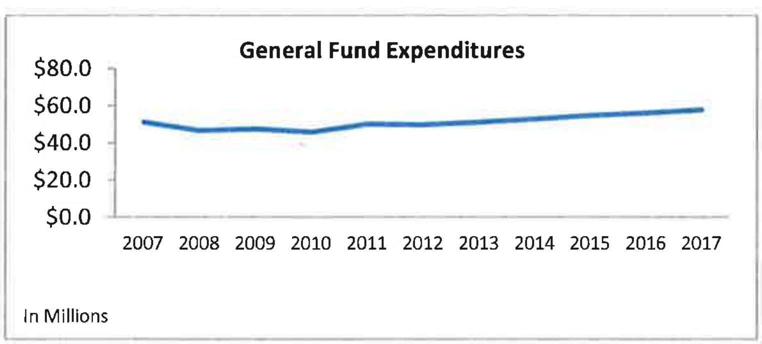
The 2012 projected growth rate for rentals will increase by 2.4% due to Cal State Fullerton's forecast for cost of living increases.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	2.9%
2012 Projected Growth Rate	3.1%

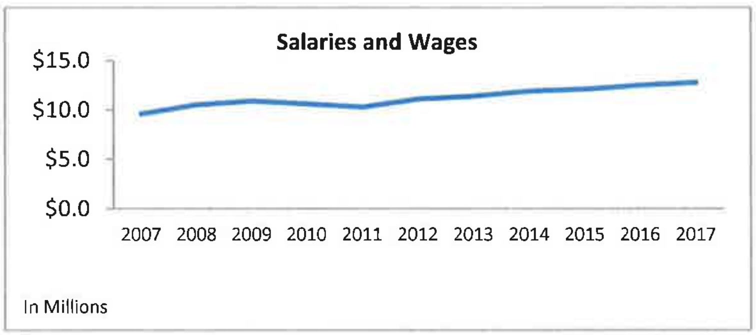
General Fund expenditures are anticipated to increase by 3.1% during the forecast period, compared to a 2.9% historical growth rate. One-time capital and projects, which can result in major fluctuations in the rate, have been removed. Expenditures have been forecasted to increase primarily by inflation.



Salaries and Wages

Salaries and Wages	
Historic Growth Rate	3.2%
2012 Projected Growth Rate	2.9%

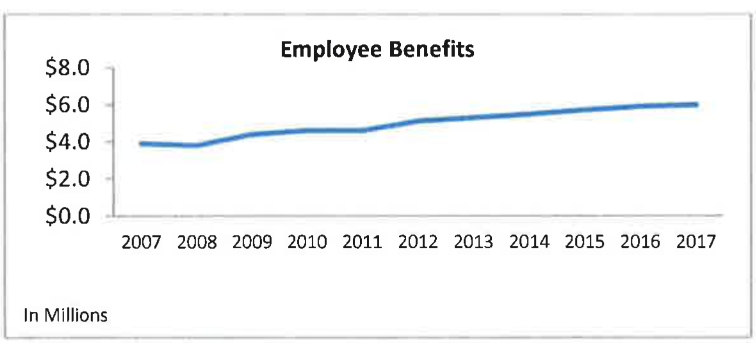
Salaries and Wages are projected to grow 2.9% over the forecast period. For forecast purposes only, cost of living increases are included beginning in FY 2013. The historic growth rate of 3.2% reflects the addition of new Recreation positions and cost of living increases that were granted over the period. Positions that have been frozen in the FY 2012 budget have not been added back to the forecast.



Employee Benefits

Employee Benefits	
Historic Growth Rate	4.9%
2012 Projected Growth Rate	3.3%

Employee benefits historically grew 4.9% 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 3.3% has been based on forecast assumptions for retirement and medical premiums. Retirement rates have been increased by 0.5% per year. Medical rates have been increased by 6% per year based on recommendations from CalPers, the City's medical insurance provider.



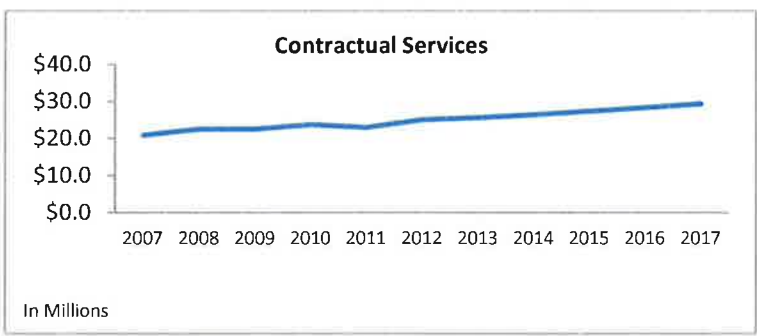
Contractual Services

Contractual Services	
Historic Growth Rate	0.8%
2012 Projected Growth Rate	3.3%

The contractual services category is anticipated to increase 3.3%, as compared to the 0.8% 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. However, the police contract allows for deductions for unfilled positions due to vacancies or workers' compensation injuries. This reduction in the actual contract has averaged 2.5% per year over the past five years and skews the historical growth rate.

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 2.1% increase in the contract cost for FY 2013 and increases averaging 3% over the remaining four years.

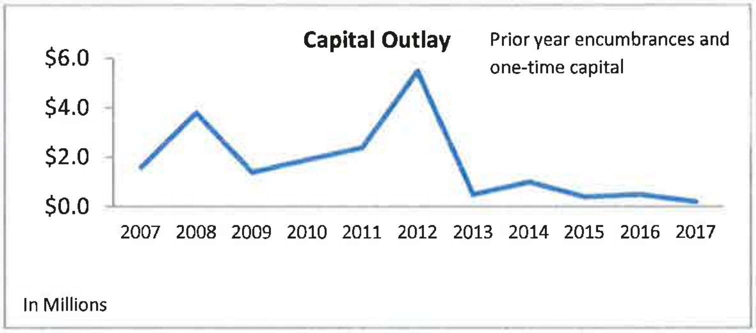
The Orange County Fire Authority (OCFA) contract projection includes a 4.5% increase which is the maximum amount allowed annually. Additional contributions to the capital maintenance and vehicle replacement reserves are also included in the forecast. Although the contract costs are capped at a maximum 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	96%
2012 Projected Growth Rate	-0.3%

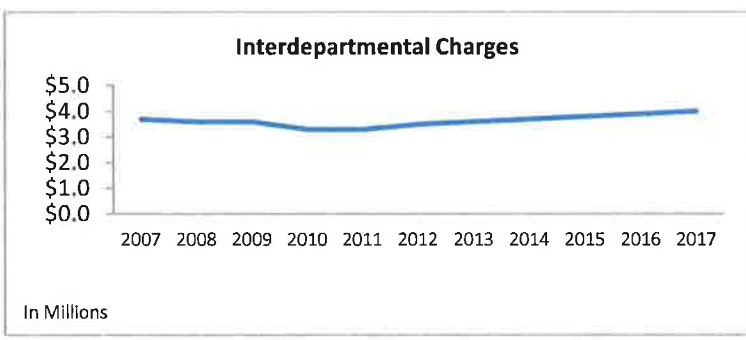
Capital outlay, which includes the projects currently scheduled in the City's five-year Capital Improvement Plan, averages $600,000 per year. The forecast also includes $950,000 for major street maintenance, slurry seal and sidewalk improvement projects but is not shown here, as it is treated as an operating expense. Prior year encumbrances and one-time capital increase FY 2012 expenditures.



Interdepartmental Charges

Interdepartmental Charges	
Historic Growth Rate	-0.1%
2012 Projected Growth Rate	2.7%

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 2012 LTFP Financial Forecast shows deficits beginning in FY 2015. The Executive Summary section of the LTFP includes options to improve the operating position and fund balances to maintain a positive operating position in all years of the forecast.

Recommendation
None.

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 and a sustainability reserve to protect essential service programs during periods of economic downturn and a reserve for the payment of Accrued Leave. The Park Asset, Capital Equipment Replacement, and Facilities Maintenance Capital Asset Reserves comprise the Reserve Capital Projects Fund. These reserves are supported by charges 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 have excess fund balances beyond what is necessary to maintain reserves and recover operating costs.

The Water, Sewer, Golf, Storm Drain, and Solid Waste 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***. As part of this 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 available.

Reserve Analysis

The following table summarizes reserve type, the fund balance category, and the estimated balances of reserves as of June 30, 2012.

Reserves	Type of Fund Balance	Funding Source	Estimated Reserve Balances at June 30, 2012	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Committed	General Fund	$ 4,367,000	**Yes**
Sustainability Reserve	Committed	General Fund	$ 10,000,000	**Yes**
Water Operating Fund – Emergency Reserve	Committed	Water Fund	$ 30,000	**No**[1]
Sewer Operating Fund – Emergency Reserve	Committed	Sewer Fund	$ 60,000	**No**[1]
Golf Course Operating Fund – Emergency Reserve	Committed	Golf Course Fund	$ 10,000	**No**[1]
Storm Drain Operating Fund – Emergency Reserve	Committed	Storm Drain Fund	$ 159,000	**Yes**
Solid Waste Fund – Emergency Reserve	Committed	Solid Waste Fund	$ 23,000	**Yes**
Miscellaneous General Fund Reserve:				
Accrued Leave	Committed	General Fund	$ 676,000	**Yes**
Self-Insurance Reserves:				
General Liability Self-Insurance	Assigned	All Funds	$ 90,000	**Yes**
Workers' Compensation	Committed	All Funds	$ 1,460,000	**Yes**
Capital Replacement Reserves:				
Fleet Replacement	Assigned	All Funds	$ 3,430,000	**Yes**
Capital Equipment Replacement	Assigned	All Funds	$ 751,000	**Yes**
Facilities Maintenance Capital Asset	Assigned	General Fund	$ 726,000	**Yes**
Park Asset Replacement	Assigned	All Funds	$ 1,133,000	**Yes**
Infrastructure Reserves:				
Water Fund Depreciation	Assigned	Water Fund	$ 7,100,000	***No***[2]
Sewer Fund Depreciation	Assigned	Sewer Fund	$ 6,900,000	**Yes**
Storm Drain Fund Depreciation	Assigned	Storm Drain Fund	$ 1,500,000	***No***[3]
Golf Course Fund Depreciation	Assigned	Golf Course Fund	$ 1,600,000	**Yes**
Golf Capital Improvement Reserve	Assigned	Golf Course Fund	$ 550,000	**Yes**
Total			**$ 40,565,000**	

[1] These reserves are below the minimum reserve level and adjustments will be done to achieve compliance with these reserves by FY 2017. Refer to the Emergency Reserve section.
[2] This reserve is under funded by $4.6 million. Refer to Infrastructure Reserves section.
[3] This reserve is under funded by $1.4 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 2013. 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 Sustainability Fund Balance Reserve at $10 million.
  - Increase the Emergency Reserves percentage to 12% from 8% of Enterprise operating expenses for the other funds.
- ***Miscellaneous General Fund Reserves*** –
  - Transfer the Accrued Leave Reserve to the General Fund and allocate $110,000 of General Fund unassigned fund balance to the Accrued Leave Reserve.
  - Reduce the Vista Hermosa Sports Park reserve based on operations and maintenance costs during the year.
- ***Self-Insurance Reserves*** –
  - Modify the fiscal policy to require the General Liability Reserve to be based on the annual insurance premium.
- ***Capital Replacement Reserves*** –
  - Transfer $40,000 to the Capital Equipment Replacement Reserve from the General Fund unassigned fund balance.
  - Transfer $67,000 to the Park Asset Reserve from the General Fund unassigned fund balance to maintain compliance with the reserve level and implement annual charges for replacement projects budgeted.
- ***Infrastructure Reserves*** –
  - Maintain charges to fund reserves at the current levels.

Emergency Reserves

General Fund – Emergency/Sustainability 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 was a Council set amount and will be kept at this level.

Recommendation and Fiscal Impact: None.

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 Emergency Reserve and the Sustainability Fund provide resources to allow the City to continue operations in the occurrence of any serious conditions. The emergency reserve and the sustainability reserve in total are approximately 30% of operating expenditures. The Government Finance Officer's Association (GFOA) based on best practices recommends emergency reserves 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%.

Including sustainability reserves in place, maintaining the 9% emergency reserve level for the General Fund is appropriate. The increase in the current year emergency reserve amount is partially due to operating expenditures related to a full year's operation of the Vista Hermosa Sports Park. The following chart lists the FY 2012 projected emergency reserve balance and the recommended contribution to maintain the 9% reserve level for FY 2013.

	Projected Balance June 30, 2012	FY 2013 Recommended Contribution	Percentage June 30, 2012
General Fund	$4,367,000	$153,000	9%

Recommendation and Fiscal Impact: Maintain the General Fund Emergency Reserve at a level of 9% of operating expenditures.

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 emergency reserves for the Enterprise operating funds are funded at 8% of the operating costs. Recently, GFOA has changed best practices for Enterprise funds stating that a minimum reserve level of 12% of operating expenses (or two months of costs) is appropriate. This change in best practices necessitates a change in the City's fiscal policy and requires an additional contribution to make the reserves properly funded. The emergency reserve requirement will be changed from 8% to 12% of operating expenses.

The changes to the emergency reserves can be implemented immediately for FY 2013 for the Storm Drain and Solid Waste Funds. The funding of the Water, Sewer and Golf emergency reserves will take more time to fund and are anticipated to achieve full funding by FY 2017 or sooner. The following chart summarizes the projected balances for each Enterprise Fund emergency reserve for FY 2012 and the targeted reserve balance (12%) of operating costs.

	Reserve Balance Funding Availability at June 30, 2012	**Target Reserve Balance**
Water Fund (a)	$ 30,000	$ 961,000
Sewer Fund (a)	60,000	959,000
Golf Course Fund (b)	10,000	263,000
Storm Drain Fund	178,000	178,000
Solid Waste Fund	26,000	26,000

(a) The Water and Sewer fund amounts are below the required reserve level due to fund balances being depleted. These emergency reserves will be corrected in connection with the annual rate review, the cost of service study and adjustments to depreciation reserves.

(b) During 2012, Emergency Reserve funds available in the Golf Course fund will be reduced to $10,000, which is below the required reserve amount. The Golf Course Fund's operating position will improve as the General Fund advance is fully repaid and amortization of an interfund loan will reduce annual debt service payments.

Recommendation and Fiscal Impact: Modify the fiscal policy to change the emergency reserve level from 8% to 12% of operating expenses.

Miscellaneous General Fund Reserves

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)	*$ 66,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2012 is $676,000. At June 30, 2011, the total General Fund liability for accrued leave was $1,540,000. Of this amount, $799,000 represents the liability for employees who will be age 55 or older by June 30, 2012. Based on the projected ending balance and anticipated payouts transfer an amount of $110,000 to the Accrued Leave Reserve.

The Accrued Leave Reserve is reported with other "Capital" Reserves. Due to GASB 54, the remaining amounts should be separated from these capital reserves and transferred to the General Fund, with accrued leave amounts paid from this separate reserve.

Recommendation and Fiscal Impact: Transfer the Accrued Leave Reserve and report as a restricted amount within the General Fund. In addition, transfer $110,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2013 ($100,000 was the FY 2012 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: California Joint Powers Insurance Authority (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 (limited to the claims coverage level).
2. A fund's budgeted expenditures as a percentage of total budgeted expenditures which accounts for 75% of the basis for the charge.

The City's SIR is currently $30,000, which requires a reserve in this fund of $90,000 (three times the SIR), which is the anticipated balance at June 30, 2012. 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 liabilities of $536,000 and $690,000 based on past claims activity. There may be additional retrospective liabilities for the next three 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.

Based on the potential for annual changes in premiums, staff has determined that maintaining a reserve based on the annual premium seems more appropriate. This change in philosophy, once the reserve has been funded, will allow the City to better absorb fluctuations based on claims activity, CJPIA premiums and other operational costs (such as legal). Based on the premium in FY 2012, this reserve will need approximately $790,000.

This increase in the reserve of $790,000 can be funded with a portion of the proceeds from the sale of the land as part of the Bellota claim, which may start to be received in FY 2013. The remaining proceeds from the sale of the Bellota properties can be transferred back to the General Fund to reimburse previous transfer of $7.1 million to pay costs related to the claim.

Recommendation and Fiscal Impact: Authorize the General Liability Self-Insurance Fund to maintain charges to funds in the amount of $1.6 million based on anticipated premiums and anticipated retrospective liability assessments. This allocation is listed in Attachment "A "in the Reserve Paper. In addition, the General Liability Reserve policy should be separated from the Workers' Compensation Reserve policy. The General Liability policy reserve level will be based on the annual premium charge and any additional claims.

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 $148,000, for a total reserve requirement of $1,048,000. The estimated reserve balance is fully funded with $1,080,000 at June 30, 2012. In FY 2012, a refund of $300,000 to contributing funds was done to reduce the accumulated excess reserves.

Recommendations and Fiscal Impact: Maintain the existing worker's compensation rates. Staff recommends the Workers' Compensation Reserve policy be separated from the General Liability Reserve policy. The Workers' Compensation policy reserve level will be based on the SIR and any additional claims.

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 $7.3 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 $4.4 million is scheduled for replacement after ten years. This reserve is fully funded with a projected ending balance of $3.4 million at June 30, 2012.

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: 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. The projected fund balance at June 30, 2012 is $751,000, and with a one-time contribution of $40,000 from the General Fund is fully funded for the projected five-year costs.

Recommendation and Fiscal Impact: Transfer $40,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2013 and 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 $540,000. The reserve balance is projected to be $726,000 as of the end of FY 2012.

Recommendation and Fiscal Impact: Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.

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 required contribution of $1.1 million to set aside funds for the replacement of all park system assets is not economically feasible, so a target reserve level of $1.2 million (one-years funding) was set and funded through one-time transfers. In FY 2010, the reserve was initially funded with $276,000. In FY 2012, a $1.0 million transfer from the Park Acquisition and Development Fund was done from excess proceeds of the Target land sale to achieve the $1.2 million target balance. Other contributions from one-time resources may be considered in future years as funds are available.

In order to maintain ongoing reserves, restrictions need to be made on funded projects from the Park Asset Reserve. Therefore, the Park Asset Reserve shall be used only for replacement of park capital assets valued over $50,000. Once a replacement project is identified and funded, the reserve will start replacement charges to the benefiting program to replenish the Park Asset Reserve based on a reasonable asset life. In addition to this funding, staff will review the Vista Hermosa Sports park assets (once the park has been accepted by the City) to determine if additional funds should be set aside or charged to that program for "shorter" lived assets that will have a significant replacement cost, such as artificial turf. Any additions based on this review will be recommended in next years Long Term Financial Plan.

In FY 2012, a playground equipment replacement project was funded from the reserve. Therefore, a park asset replacement charge will be started. The reserve balance is projected to be $1.1 million as of the end of FY 2012 and requires an additional $67,000 transfer from the General Fund to meet the target balance.

Recommendation and Fiscal Impact: Transfer $67,000 from the General Fund to the Park Asset Replacement Reserve for FY 2013 and implement annual charges for the replacement of park assets in the amount of $10,000. Direct staff to review park assets placed in service at the Vista Hermosa Sports Park and present park assets that should be covered as part of the 2013 LTFP.

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 61% of the targeted amount.

The projected ending depreciation reserve balance at June 30, 2012 is $7.1 million. The three-year capital costs total $11.7 million. Therefore, the Depreciation Reserve is under funded by $4.6 million.

The Water Operating Fund contributes $1.1 million based on depreciation and 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 2013, the asset model contribution of $2.0 million may be adjusted in connection with the Cost of Service Study and to maintain a positive operation position in the Water Operating Fund.

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.

Sewer Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2012 is $6.9 million. The three-year capital costs total $5.4 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. During FY 2013, the depreciation contribution will be adjusted in connection with the Cost of Service Study and to maintain a positive operating position in the Sewer Operating Fund.

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.

Storm Drain Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2012 is $1.5 million. The three-year capital costs total $2.9 million. Therefore, the Depreciation Reserve is currently under funded by $1.4 million.

The Storm Drain Depreciation Fund will contribute $750,000 based on depreciation funding and an additional reserve contribution of $70,000 for a total contribution of $820,000 in FY 2013. 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 2013 budget will contain normal reserve contributions of $820,000.

Golf Course Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2012 is $1.6 million. Projected capital expenses for the next three years total $290,000. 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, 2012 is projected to have an ending balance of $550,000. Projected capital expenses for the next three years total $364,000. 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 2013:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2013	Total Charge for General Liability FY 2012
General Fund	62.1%	57.7%	58.8%	$ 940,280	$ 894,080
Street Improvement Fund	0.0%	2.5%	1.9%	29,720	44,520
Water Fund	17.1%	19.4%	18.8%	301,170	281,720
Sewer Fund	5.4%	10.0%	8.9%	142,070	147,900
Solid Waste Fund	2.5%	0.2%	0.8%	13,080	13,520
Storm Drain Fund	10.3%	1.8%	3.9%	62,830	78,250
Golf Course Fund	0.1%	2.4%	1.8%	29,360	28,000
Clean Ocean Fund	2.5%	2.2%	2.3%	36,330	36,680
Central Services Fund	0.0%	0.8%	0.6%	9,760	10,090
Information Services Fund	0.0%	1.7%	1.2%	19,560	18,250
Fleet Maintenance Fund	0.0%	1.3%	1.0%	15,840	16,490
Redevelopment Agency	0.0%	0.0%	0%	0	30,500
Total	**100.0%**	**100.0%**	**100.0%**	**$1,600,000**	**$1,600,000**

Workers Compensation charges

The following rates are in effect for FY 2012:

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 2013 are:

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

Fiscal Policy

Objective

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

Background

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

Following are proposed changes to the current Fiscal Policy:

1. **Fund Balance and Reserve Policies:** Modify the existing policy for Enterprise Fund emergency reserve levels from 8% to 12% of operating expenses as recommended by the GFOA. Reaching the new target reserve levels is expected to take multiple fiscal years.

Current Policy Statement	Proposed Policy Statement
Policy #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.	**Policy #23** The City will maintain emergency reserves equal to 12% 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.

2. **Fund Balance and Reserve Policies:** Modify the existing policy for self-insurance reserves to create two policy statements; a General Liability reserve policy statement and a Workers' Compensation reserve policy statement.

Current Policy Statement	Proposed Policy Statement
Policy #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.	**Policy #30** The General Liability self-insurance reserve will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of one times its annual insurance authority premium. In addition, the City will perform an annual analysis 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. **New** The Workers' compensation self-insurance reserve 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.

Recommendation

Modify City's Fiscal Policy to:

1. Increase the emergency reserve requirement for Enterprise funds from the current 8% of operating expenses to 12% of operating expenses.
2. Separate the existing Self-insurance reserve policy into two policy statements; a General Liability and a Workers' Compensation policy statement.

Council Action:

The Fiscal Policy recommendations were approved by City Council.

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.	√	
2	An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	

	Fiscal Policy Statement	Status	Comments
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 Fee Schedule section of the Annual Budget
8	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 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.	√	

Fiscal Policy Statement	Status	Comments
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.	√	
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 overhead charges.	√	Annual review completed. Water rates increased 12.6%. Sewer rates increased 6.0%.
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.	√	25 new Capital projects = $10.1 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 = $4.4, 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 $159,000, Solid Waste $23,000. The following Funds are not in compliance: Water $30,000, Sewer $60,000, and Golf $10,000
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 reserve 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 = $667,000

	Fiscal Policy Statement	Status	Comments
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 = $751,000 Facilities Maintenance Reserve = $726,000
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.	--	Sewer Depreciation Reserve = $6.9 million. Golf Depreciation Reserve = $1.6 million. The following Funds are not in compliance: Water Depreciation Reserve = $7.1 million and the Storm Drain Depreciation Reserve = $1.5 million
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 = $550,000
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 = $1,133,000

	Fiscal Policy Statement	Status	Comments
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 = $90,000 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

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.	√	

	Fiscal Policy Statement	Status	Comments
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.	√	
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

Capital Projects Analysis

Objective

To provide a summary of capital projects with funding challenges and funding obligations for significant projects. 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 that are projected in the City's 6-year Capital Improvement Program budget. 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.

In early January, the State's Supreme Court upheld legislation dissolving California Redevelopment Agencies. The likelihood that funding for capital projects will be provided by the RDA or a potential successor agency in the future is extremely low. As a result, no funding from the RDA is included as a potential funding source for future capital projects in this year's analysis.

CITY PROJECTS **– Non-Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Parks and Medians				
Beach Restroom Master Plan	General Fund	$300,000[1]	$2,020,000 to $2,354,000	($1,720,000 to $2,054,000)
Steed Park Lighting Improvements	General Fund	$0	$1,000,000	($1,000,000)
Bonito Canyon Park Rehabilitation	General Fund	$0	$1,000,000	($1,000,000)
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]
Ole Hanson Beach Club	General Fund	$1,500,000	$2,500,000	($1,000,000)[4]
USACE Sand Project	General Fund	$276,000	$12,200,000[5]	($4,170,000)[6]
Wayfinding Master Sign Program	General Fund	$319,860[7]	$1,500,000 to $2,000,000	($1,177,140 to $1,677,140)
Municipal Pier Rehabilitation	General Fund	$0	$1,000,000	($1,000,000)

[1]This includes $140,400 from the General Fund and $159,600 from RDA, which is no longer available, 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]Required funding to be confirmed in April 2012 through preliminary design report.
[5]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.
[6]There is a potential for 85% of the construction funds to be provided to the City by the California Department of Boating and Waterways.
[7]This includes $150,000 from RDA, which is no longer available, $125,000 from the General Fund and $44,860 from the Public Facilities Construction Fund.

***CITY PROJECTS* - Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Water, Sewer and Storm Drain				
Recycled Water Expansion	Grant/Water and Sewer Funds	$9,700,000[8]	$22,200,000	($12,500,000)
Reservoir No. 1 Expansion	Water Depreciation and Acreage Fee Funds	$3,250,000	$3,250,000	$0
South Orange County Ocean Desalination (SOCOD)	Water Acreage Fee Fund	$685,000	$685,000[9]	$0

[8]Excludes any proceeds from State Water Resources Control Board (State Revolving Fund Loan).
[9]Funding includes the City's share of the pilot project and testing, total project cost is estimated between $154 million and $207 million.

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 were summarized 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 currently budgeted 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.

As part of the FY 2012 budget process, required funding for improvements to the Beach Restrooms was phased into the 6-year General Fund and Redevelopment Agency Capital Improvement Program budgets. The phasing plan programmed funding for the improvement of one restroom each year starting in FY 2012 with funding allocated through FY 2017. With the loss of the Redevelopment Agency as a funding source, the phasing of the restroom improvement program will need to be re-evaluated during the FY 2013 CIP process. Additionally, a supplemental appropriation may be necessary from the General Fund to offset the loss of Redevelopment Agency funding to complete the Base of Pier restroom project appropriated in the FY 2012 Budget.

Beaches, Parks & Recreation (BP&R) has solicited design services proposals for the Base of Pier Restroom to prepare plans and specifications for the project. Design work is anticipated to be completed in the first half of 2012. To minimize beach user inconvenience during peak summer months, project construction is planned for Fall 2012. BP&R will await the City Council's direction regarding prioritization of General Fund and Redevelopment Agency projects prior to budgeting an additional restroom project in FY 2013.

Expenditures:
The Base of Pier Restroom was budgeted for $300,000 in FY 2012 from the General Fund ($140,400) and the Redevelopment Agency ($159,600). A supplemental appropriation from the General Fund will be required to offset the loss of the RDA's contribution for this project. Long-term improvement costs to address the remaining five restroom facilities are estimated between $1,720,000 and $2,054,000.

Potential Cash Flow Issues:
Funding for the remaining $1,720,000 to $2,054,000 for the remaining five restrooms will be requested for approval through the annual capital improvement program budget from the General Fund.

Steed Park Lighting Improvements

Project Background:
Steed Memorial Park is named after San Clemente Police Officer Richard T. Steed, the only officer in San Clemente history to loss his life in the line of duty. It provides the community a softball and/or baseball facility with 4 lighted fields, batting cages, bull pens, tot lot and a concession stand with seating areas. The park is extremely popular with travel and adult softball leagues. Directly adjacent to the park is a community skate park that shares a common parking lot area with the park.

Approximately 10 years ago, a master plan of Steed Park was prepared to incorporate additional facilities into the park property. The expanded facility was planned to address the proposed lighting needs and provide two additional softball fields, new concession building, basketball courts, amphitheater seating, picnic shelters, a main entrance courtyard plaza and additional parking. The cost of the implementing the master plan was estimated at approximately $4M. As a result, none of these improvements ever materialized due to lack of available funding. Instead, the City performed a more limited renovation of the existing facility that was completed in Spring 2007. The renovation which totaled $1.5M included drainage improvements, field renovations, backstop netting, batting cages, bull pens, hardscape, playground equipment and landscaping. Field lighting improvements were not included in the project due to budgetary constraints. The park master plan is outdated and would need to be updated to evaluate community needs and future park development opportunities. However, with the completion of the Vista Hermosa Sports Park, expansion of Steed Park is not anticipated for many years.

The field lighting was originally installed in the mid-1980s and has met its useful life. Main power switchgear and electrical lines will be upgraded through the project. Proposed lighting will provide both energy efficiency and lightening intensity improvements and reduce spill light to conform to the proposed General Plan 'Dark Sky' recommendations.

Expenditures:
The lighting improvements are estimated to cost $1,000,000 and proposed to be budgeted from the General Fund in FY 2014.

Potential Cash Flow Issues:
The General Fund has historically contributed approximately $2 million a year to capital improvement projects. Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget cycle.

Bonito Canyon Park Rehabilitation

Project Background:
Bonito Canyon Bicentennial Park was formally developed in 1976. The park is compromised of a baseball field, tennis courts, recreational green space, restroom facility and a parking lot. The San Clemente Boys and Girls Club is located on a portion of the park property and shares use of the park facilities through a lease agreement with the City.

Beaches, Parks and Recreation Department staff considers the park to be in the worst condition of any in San Clemente. Although park facilities are in poor condition, the park continues to be well used by both the surrounding community and the Boys and Girls Club. To address immediate maintenance concerns, $145,000 was budgeted in FY 2012 to rehabilitate the failing tennis courts, one of which is currently not playable due to large spalls and cracks throughout its surface. Improvement of the tennis courts was deemed to be a high priority by Beaches and Parks capital improvement program committee stakeholders due to persistent citizen input regarding conditions of the courts. However, other planned improvements were not deemed to be an immediate need and were deferred to future years.

The proposed Bonito Canyon Park Rehabilitation project will comprehensively address numerous electrical and lighting needs including: Tennis Court Light Replacements, Security

Light Replacement, Field Light Replacements and the replacement of the electrical switchgear to support the proposed lighting improvements. In addition, per the Americans with Disability (ADA) Consultants City-wide assessment, the restroom is proposed for rehabilitation to address ADA, mechanical and plumbing system needs. Further, replacement of deteriorated fencing and extensive landscape improvements are also planned as part of the project to allow for delivery of a 'like-new' park facility to the community.

Expenditures:
The complete park rehabilitation project is estimated to cost $1,000,000 and proposed to be budgeted in FY 2017 from the General Fund.

Potential Cash Flow Issues:
The General Fund has historically contributed approximately $2 million a year to capital improvement projects. Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget cycle.

Non-Enterprise Projects – Facilities and Other Improvements

Municipal Pier Rehabilitation

Project Background:
The municipal pier is considered one of the City's most treasured public assets by residents and visitors alike. The pier was originally constructed by the San Clemente's founder, Ole Hanson, in the late 1920's. Since that time, the 1250 foot long structure has been a prominent landmark of southern Orange County and clearly identifies San Clemente from coastal waters.

Due to the harsh marine environment and storms throughout the years, the pier has undergone numerous repairs and some reconstruction. In the mid-1980's, 440 feet of the pier was destroyed and reconstructed due to high surf produced by a severe winter storm. More recently, major repairs and rehabilitation work were completed in both 2005 and 2011 in order to address deterioration and maintain the overall integrity and safety of the pier structure. Work performed in 2011 included partial replacement of piles, bracing & decking, electrical upgrades, installation of new lights, new sewer line and related incidental improvements. The project totaled $2.8M and was funded from the City's Redevelopment Agency.

To ensure the pier's long term use and viability, it is recommended that pier maintenance and repairs be performed on a 5-year basis. Anticipated improvements include systematic replacement of deteriorated timber decking, bracing and piles, as well as railing upgrades for code compliance. The recommended repairs will be prioritized through a structural assessment proposed to be commissioned in FY 2016. The assessment report will track and monitor structural deterioration, and be used as a basis for preparation of rehabilitation plans and specifications for public bid. Construction of the next pier rehabilitation is anticipated to commence fall 2016 and be completed spring 2017.

Expenditures:
The Municipal Pier Rehabilitation is estimated to cost a total of $1,000,000. Funding for the project will be budgeted over a two year cycle in FY's 2016 & 2017. The structural assessment and design is proposed to be budgeted for $200,000 in FY 2016. Construction funding in the amount of $800,000 is proposed for FY 2017.

Potential Cash Flow Issues:
Pier improvements have historically been budgeted from the City's Redevelopment Agency since its inception in 1975. Given the recent developments, without grants or alternative funding sources, the funding must now come from the General Fund.

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 third floor of the 910 Negocio Building to a tenant with multi-year commitment.

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 third floor of the 910 Negocio Building to a tenant with a 5-year lease beginning in June 2010. The lease includes a 5-year renewal option for a total lease period of up to 10-years. This will delay the adaptive reuse of the Civic Center until such time that the lease periods ends. Consequently, the earliest funding for updating the design work would be requested is FY 2016. Funding for constructing the adaptive re-use of the building would follow in FY 2017.

Additionally, funding the project requires the sale of the City Hall site. Although the completion of the new Downtown Fire Station 60 has allowed Orange County Fire Authority personnel to vacate the City Hall station, 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 in conjunction with the timing of the 910 Negocio lease expiration.

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

Ole Hanson Beach Club

Project Background:

The Ole Hanson Beach Club was built in 1928 as part of the original San Clemente plan and is listed as a Historic Resource on the National Register of Historic Places. Since its original construction, 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 fitting with the historic nature of the structure. 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.

A preliminary assessment of the structural deficiencies and building systems was completed and used as a basis to solicit professional services' proposals. A historic architect was selected and retained in November 2011 to prepare plans and specifications for a comprehensive restoration of the facility in compliance with the Secretary of the Interior guidelines for historic preservation and also includes minor upgrades to the pool. With the opening of the La Pata Vista Hermosa Sports Park in January 2012, Ole Hanson Beach Club staff will be moved to support programs at the new park and the facility will be closed until the restoration is completed. The closure will allow the consultant to perform destructive testing necessary to complete the structural design. This closure will affect the City's revenues as the Ole Hanson Beach Club rentals generate approximately $200,000 per year.

Expenditures:
The project was preliminarily budgeted at $1.5 million as part of the FY 2012 Capital Improvement Program. Based on the proposed scope of work and consultant feedback, the project team recommends allocating an additional $1 million for the project in the FY 2013 budget. Estimated project costs will be confirmed through a project stakeholder approved preliminary design report expected in April 2012. Consequently, final project costs are unknown at this time but are not anticipated to exceed $2.5 million.

Potential Cash Flow Issues:
The General Fund has historically contributed approximately $2 million a year to capital improvement projects. Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget cycle.

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 is now being completed. The City Council supported the recommended 50-foot beach nourishment plan, and the Corps completed its Washington level review briefing and public review of the Final Environmental Impact Statement (EIS) and final feasibility study report. The Coastal Commission issued its Consistency Determination in December 2011 and the Corps staff is now preparing the final Chief of Engineers report, which is anticipated to be transmitted to the Assistant Secretary of the Army (Civil Works) in January or February 2012, and then on to Congress for authorization in the next Water Resources Development Act (WRDA).

A decision on whether or not to proceed to the design phase and commit funds to do so would occur during the FY 2014 budget process. If the City approves continuing 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. As explained below, there is adequate funding to proceed with the design phase.

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 FY 2012. 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 FY 2012, since design will likely continue into FY 2013. There is approximately $85,000 available in the City's project balance that could be applied toward the FY 2012 design cost. Additionally, DBW has awarded a $191,000 grant to the City, which combined with available City funds, could provide the City's total design phase contribution.

Initial 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 project will need to be financed by the General Fund in order to proceed with the construction phase.

Wayfinding Master Sign Program

The Wayfinding Master Sign Program, approved by City Council on 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. The intent of the program is to not implement it all at once, but over the course of several years in various phases. Most of the signs will be replaced on an as needed basis, such as, when a sign is scheduled for routine replacement. Funding from the program was originally intended to be shared between the Redevelopment Agency and the General Fund. It must now be assumed that all funding for this program will come from the General Fund. Staff will return to the City Council yearly as part of the annual Capital Improvement Program budget process to request funding to replace needed signs with the Wayfinding Signs.

Expenditures:
The Planning Division is in the process of finalizing sign details for Phase I implementation which focuses on the Downtown and Pier Bowl areas. Phase I construction has been delayed due to design updates to incorporate elements for compliance with the Federal Manual for Uniform Traffic Control Devices. Phase I was budgeted for $215,000 from the Public Facility Construction Fund ($140,000) and the Redevelopment Agency ($75,000). In FY 2012, $200,000 was budgeted for Phase II from the General Fund ($125,000) and Redevelopment Agency ($75,000). However, in light of the recent legislation to dissolve Redevelopment Agencies state-wide, funding from the RDA is no longer available for the implementation of the currently budgeted phases. Without RDA funding contributions to the program, there is only sufficient funding available to construct Phase 1 without an additional appropriation from the General Fund. As a result of an anticipated completion for Phase 1 in spring 2013, no further funding will be requested for the program in FY 2013. A request for Phase II funding in the amount of $200,000 is anticipated in the FY 2014 budget cycle.

Potential Cash Flow Issues:
Funding for the remaining $1,117,140 to 1,677,140 necessary to fully implement the program will be requested for approval through the annual capital improvement program budget from the General Fund.

Enterprise Projects

Recycled Water System 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 5.0 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 additional recycled water use 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 X 7.

Construction is anticipated to commence by summer 2012 and will take approximately 1.5 to 2 years to complete.

Expenditures:
Based on final design, the total project cost is estimated at $22.2 million.

Potential Cash Flow Issues:
Project funding totaling $22.2 million is to be provided from the State Proposition 50 grant ($5.6 Million), Federal Environmental Protection Agency grant ($470,000), State Water Resources Control Board (SWRCB) low interest State Revolving Fund (SRF) loan ($12.37 Million), City's Sewer Fund Connection Fee Reserve ($3.3 Million) and the Sewer Fund Depreciation Reserve ($520,000).

The City's SRF loan application is in final stages of State's review. The anticipated interest rate for a 20-year loan is approximately 2.3%. The estimated cost for the conversion of City owned sites (e.g. parks, medians) to reclaimed water use is approximately $250,000. Funding for these conversions will be recommended for approval in FY 2013 to allow City owned sites to receive recycled water upon completion of facilities in summer 2014. This funding may be provided through the General Fund or from the SRF loan. The conversion of private properties (e.g. slopes, common areas, golf course) to receive recycled water is anticipated to be completed within 3 years of construction completion of the City recycled water facilities. Staff plans to recommend that the City Council consider providing low interest loans to the private property owners to assist in conversions. The City's Mandatory Recycled Water Use Ordinance requires conversions upon availability of the recycled water to the users.

Payments for the SRF loan are planned to be provided from the recycled water sale revenues and from the potential Metropolitan Water District (MWD) Local Resources Rebate program. Staff is currently pursuing an application to the MWD which may provide up to $250 per acre foot of recycled water sold to the new customers.

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.

Reservoir expansion was once considered vital for the City to maximize its groundwater pumping capacity. In addition to storage, potable water treatment regulations were a factor in considering the increase in reservoir capacity. Through the preliminary design process, a phasing approach has been considered to delay reservoir construction for approximately 5-years. In order to allow for this approach, a larger diameter conveyance pipeline from the well treatment plant would be constructed ahead of the reservoir expansion to meet regulatory benchmarks required by chemical residence time for contaminant removal. The conveyance pipeline and chemical addition system will be budgeted for construction in FY 2013 which will allow for deferral of the reservoir expansion to FY 2016.

Expenditures:
The total cost for the conveyance pipeline and chemical improvements to be proposed in the FY 2013 budget are estimated at $750,000. The project cost for the reservoir, to be deferred to FY 2016, is estimated at $2.5 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 may 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. The projected water supply of up to 25 cubic feet per second or 15 million gallons per day will significantly 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 approximately 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. Results from the pilot plant testing, are anticipated by summer 2012. Additional analysis is needed with regards to feasibility investigations prior to any decisions being made to move forward with full-scale design and construction phases. Remaining feasibility investigations may include: Offshore geology investigation, San Juan Basin groundwater impacts, water supply reliability and economic analysis.

Expenditures:
To date, the City has budgeted $685,000 for participation in the pilot plant and feasibility analysis of the project. Additional funding in the amount of $25,000 will be proposed in FY 2013 Capital Improvement Program to cover MWDOC management and administration costs on behalf of the City. The full scale plant total project cost is estimated at $154 million or $207 million if iron and manganese treatment facilities are determined to be needed.

Capital Project Analysis Conclusions:
The Gap Closing Strategy paper summarizes how the City may consider to meet funding requirements of the identified projects.

Recommendations:
Funding recommendations will come from the Gap Closing Strategies paper.

Fiscal Impact of Recommendations:
None

Street Improvement Program

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

Background
In the past, the lack of adequate funding to rehabilitate its streets system resulted in a slow deterioration of the City's streets, resulting in much dissatisfaction throughout the more established areas of San Clemente. By the early 1990s, many of the City's streets were deemed to be in a substandard condition due to potholes, cracks, "alligatored" sections and other obvious pavement failures. The City had no programs and minimal funds to properly rehabilitate its aging streets. Rehabilitation entailed patching potholes and City street maintenance crews performing minor overlays of short street segments, resulting in patchwork quilt pavement surfaces. To improve the condition of City streets, the City Council adopted the Street Improvement Program in July 1995, which provided for the restoration of about 60 miles, or one-half, of the City's street system over a period of 18 years. The program has been funded by several revenue sources, including: 1) Street Assessment District 95-1, which assessed all developed properties; 2) the General Fund; 3) the Gas Tax Fund (in which State gas tax allocations are deposited); and 4) grants. 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 accelerated the program and bonds were sold in the second year versus the originally planned third year of the program. Also, cost savings and grants allowed several projects to be constructed a few years earlier than originally scheduled.

Street Improvement Program Progress

Projects/Miles Completed
Since the approval of the program in July 1995, two hundred twelve (212) street projects have been completed (refer to attached Exhibit A). In addition, the following seven (7) street projects will be constructed once planned recycled water pipeline and SDG&E undergrounding projects are completed:

- 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 Phase II (from Camino Vera Cruz to Via Solana);
- 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 section.

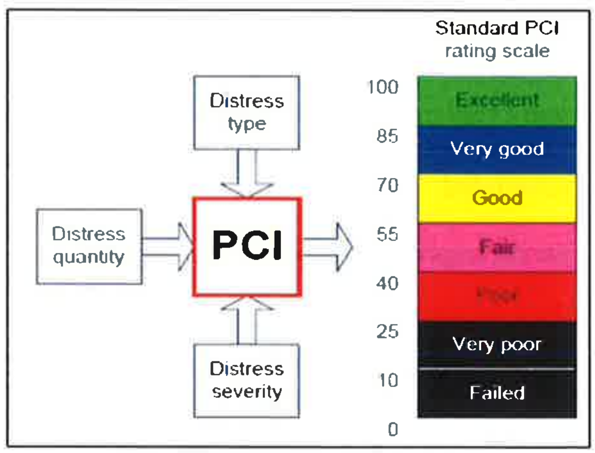
Altogether this will complete about **67** miles of streets improvements funded by this program. To further address street rehabilitation needs, the City Council re-established the City's Major Street Maintenance Program in FY2000. In FY2003, the City Council further expanded the Major Street Maintenance Program to a $550,000 annual program, and the Slurry Seal Program to a

Street Improvement Program

$250,000 annual program. The 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, sixty seven (67) streets were rehabilitated for a length of approximately **13** miles (refer to attached Exhibit B).

Engineering Division staff has aggressively pursued grants for funding street improvements, especially arterial streets. The City has received more than $7M in Arterial Highway Rehabilitation Program (AHRP), State Local Transportation Partnership Program (SLTPP), Community Development Block Grant (CDBG) and other grant funds for specific street improvements. These grant funds, combined with the re-establishment of the Major Maintenance Program, resulted in the rehabilitation about 13 miles of streets noted above. In addition, Gas Tax contributions and grants resulted in the rehabilitation of another **13** miles of arterial streets. The contributions from grants and the Major Maintenance Program were a major factor in the City being able to maintain its street rehabilitation schedule, as asphalt prices have risen dramatically since the Street Improvement Program was started. Despite this, the Street Improvement Program, Major Maintenance Program, and Arterial Street improvements have rehabilitated about **93** miles of streets in total.

<u>Street/Pavement Quality</u>



Implementation of the Street Improvement Program has significantly improved the pavement quality of the City's street system. To assess the condition of the City's streets, Engineering Division staff uses the Pavement Condition Index (PCI), which is a standardized rating system for describing pavement surface conditions on a scale from 0 to 100. The PCI measures the type, extent and severity of pavement surface distresses such as alligator (fatigue) cracking, distortions, longitudinal and transverse cracking, pothole and utility cut patching, rutting and depressions, weathering and raveling. A PCI value of 100 would correspond to a new street with proper engineering design and construction at the beginning of its life cycle, while a failed street pavement (e.g. with extensive potholes, alligator cracks, ruts, etc.) would have a PCI value of 10 or less. A PCI value of 75 generally marks the point at which pavement distresses are starting to become significant, and a PCI value of 65 is recommended in the City's model to trigger pavement rehabilitation (i.e. asphalt overlay). As pavement continues to deteriorate, an increasing amount of street section reconstruction would be needed. At a PCI value of 40 even more expensive full pavement section reconstruction would be triggered.

Before the start of the Street Improvement Program, the City's street network consisted of about 238 lane miles, and the overall network condition index was 57 (fair condition). Today, the street network consists of about 325 lane miles with an overall network condition index of

81 (very good condition).

Funding Approach and Status

The City's street improvement efforts focus on arterial and collector/local streets. There is currently no formal program for the City's public alleys, and maintenance of public alleys is limited to as-needed patching. When it was established, the Street Improvement Program proposed resurfacing or reconstructing about 60 miles of streets at a cost of about $43 million[1]. To help fund the program, the City Council adopted Street Assessment District 95-1 in 1995, which included the following two assessments:

- Bonded District formed under the Municipal Improvement Act of 1913 with bonds sold under the 1915 Act; and
- Maintenance District formed under the Benefit Assessment Act of 1982 for the maintenance and rehabilitation of streets.

The combined assessment was equivalent to $90 annually (fixed amount with no annual adjustments) per single family house fronting a public street, and generated approximately $1.3 million annually before it expired. About half of the total assessment was for repayment of the bond debt noted above, which was retired in late 2011. Similarly, the maintenance portion of the assessment expired at the end of FY 2010-11 because the Assessment District was specifically defined to end upon the bond maturity date.

The Street Assessment District was used for collector and local streets in the approved Street Improvement Program (SIP). In addition, the City Council committed ongoing revenue contributions from the General Fund and Gas Tax Fund[2], each of which included an annual 3% inflation adjustment. Since arterial streets were not included in the SIP, Gas Tax funds have also been used for arterial street rehabilitation, as well as related projects such as new signals and signal synchronization. In addition to the General Fund contribution to the SIP, the City Council has approved annual General Fund allocations of $550,000 for major street maintenance projects (to address collector and local streets not included in the SIP) and $250,000 for street slurry sealing. The following table summarizes all of the current funding sources for the City's street improvement efforts, based on the approved FY2012 budget.

Revenue Source	FY2012 Amount
Street Improvement Program	
General Fund contribution	$734,200
Gas Tax contribution	$623,150
Subtotal	*$1,357,410*
Gas Tax	
2103, 2105 and 2106 accounts	$1,356,760
Measure M	$739,680
Transfer to SIP	($623,150)

[1] An annual inflation factor of 3% was used when projecting expenditures over the 18-year program.

[2] Major sources of revenue into the Gas Tax Fund are apportionments from the 2103, 2105, and 2106 State gas tax accounts, and Orange County Measure M.

Subtotal	*$1,473,290*
Other General Fund	
Major Maintenance	$550,000
Slurry Seal	$250,000
Subtotal	*$800,000*
Total	$3,630,700

Pavement Management Assessment / Future Needs

The City's pavement management system was updated in 2011 and the final report, including future modeling scenarios, is being finalized. As noted above, the overall condition of the City's streets is very good, which is a significant improvement since the Street Improvement Program began. However, while more than 80% of the City's streets are in a very good or excellent condition, about 15% of the streets are in fair to very poor condition. This represents a "backlog" of streets to repair, with an estimated cost of $14 million to raise the condition of these streets to a very good condition. While these lower quality streets are being addressed, those other higher quality streets will continue to deteriorate over time, and thus efforts must also be directed to these streets so they can be rehabilitated with less expensive methods to maintain their quality before they fall into lower quality ranges.

Next Steps

Staff is finalizing the pavement management assessment and will provide a detailed report to the City Council within the next two months. For the remainder of FY2012 and FY2013, staff will pursue completion of the remaining planned SIP projects noted previously, using funds already budgeted plus the annual General Fund and Gas Tax SIP contributions. If the City Council wishes to establish another Street Assessment District, a property owner election under Proposition 218 will be required. To be included on the Fall 2013 assessment roll, this election must occur in Spring 2013 in order to be submitted to the County Assessor's Office by its late July 2013 deadline. To conduct the assessment election in Spring 2013, staff would need City Council direction to proceed in Fall 2012.

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
208. Calle Piedras from Calle Guadalajara to Via Amapola
209. Calle Nuevo from Camino De Los Mares to end of cul-de-sac
210. Calle Sarmentoso Phase I from Camino del Rio to Via Solana
211. Calle Doncella from Calle Heraldo to Calle Guadalajara
212. Calle Esteban from Calle Guadaalajara to Calle Doncella

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. 3902-3904 Via Del Campo knuckle.
65. Calle Morada from Calle Nuevo to end of cul-de-sac.
66. Calle Camapana from Camino De Los Mares to end of cul-de-sac, including alleys.
67. Calle Canasta from Calle Campana to end of cul-de-sac including alleys.

Review of Development Fee Reserves

Objective
To review all development related reserves and present the amount and available uses of the reserves.

Executive Summary
Staff was requested to provide a summary of the development reserves available and the allowable uses of those reserves. Development fees are collected in order to help fund capital infrastructure based on the impacts to the City of development. These fees are restricted to the specific use for which they are collected and may be accumulated over many years in order to provide enough funds to properly carry out a large infrastructure project.

A summary of the development impact fee and the amount of the projected balance as of June 30, 2012 is listed in the following table:

Development fee reserve	Balance as of June 30, 2012
Regional Circulation Financing and Phasing Program Fees (RCFPP)	$ 3,037,220
Park Acquisition and Development	1,250,880
Beach Parking (in-lieu parking)	8,224,420
Public Safety Construction	3,076,110
Civic Center Construction	2,092,650
Storm Drain Fees	3,915,130
Water Acreage	824,679
Sewer Connection	4,272,664

In addition to development fees, the City can enter into development agreements. These developer agreements can require contributions to provide for additional services or capital based on the impact from that specific development. Since 1995, the City has entered into agreements related to Plaza Pacifica Development, the Monarch Development, the Laing Forster Ranch Development, the Marblehead Coastal Development, and the Talega Development. Funds under agreements with developers can also be restricted based on legal settlements. There is currently $7.2 million that has been received under these developer agreements and settlements for specific purposes, including street improvements, revitalization, and other items.

Although these developer fees and contribution amounts may seem large, the cost of capital projects can exceed the amount of the fees collected.

Background and Discussion
The City of San Clemente was first incorporated in 1928, over that time the City has grown to a

Review of Development Fee Reserves

City with a population of approximately 63,500. As the City has developed, there are been new infrastructure and public facility projects that were needed based on this growth. These projects have been constructed through the use of city funds, grants, developer fees and developer contributions.

The City collects development fees on development projects in order to help fund the cost of capital infrastructure need for services related to the development. In addition to development fees, developer contributions through developer agreements can require that amounts be paid to the City. These developer fees and developer contributions are both typically placed into separate funds for accounting purposes. These fees or contributions are typically received and reside in Capital Project Funds or in Enterprise Funds until they are "drawn" upon for the original purpose intended. The fund structure of the City is as follows:

Governmental Funds				Proprietary Funds	
General Fund*	***Special Revenue Funds***	***Capital Projects Funds***	***Debt Service Funds***	***Enterprise Funds***	***Internal Service Funds***
	Gas Tax	Public Facilities Construction*	Negocio Building	Water Fund*	Employee Benefits
	Air Quality Improvement	Parks Aquisition and Development*	RDA Debt Service*	Sewer Fund*	Central Services
	Street Improvement	Local Drainage Facilities		Golf Course*	Information Technology
	Police Grants	Developers Improvement		Clean Ocean	Fleet Maintenance
	Miscellaneous Grants	RCFPP		Solid Waste	Employee Medical
	RDA Low and Moderate Income Housing*	RDA Capital Projects		Storm Drain	Workers' Compensation
		Reserve			General Liability

<u>Developer fees:</u>
Developer fees are assessed on development projects in order to help fund the cost of infrastructure to improve service levels related to the development. The City collects the following development fees: Regional Circulation Financing and Phasing Program Fees (RCFPP), Park Acquisition and Development Fees, Beach Parking Impact Fees, Public Safety Construction Fees, Civic Center Construction Fund Fees, Storm Drain Fees, Water Acreage Fees, and Sewer Connection Fees.

Under state law, annual reports on the development fees are required to be presented to the City Council. The last report was to Council on December 20, 2011. This report includes a brief description, amount of the developer fee, beginning and ending balance, fees collected and interest earned, and information on projects, and some other general information.

The following table lists the name of the development fee, the basis under which the fee is being collected and the purpose of the fee (what the fees can be used for).

Name of fee (reserve)	Collection Basis	Purpose or allowed use of developer fee
RCFPP	Ordinance 998	Used to pay for the cost of installing major roadway systems in the City.
Park Acquisition and Development	State Quimby Act	Used to provide funds to acquire park land and develop park infrastructure or recreational facilities.
Beach Parking	Ordinance 999 & 1174	Used to mitigate the impact of new development on beach parking and provide for the acquisition and development of new parking within the beach zone.
Public Safety	Ordinance 1174	Used to mitigate the impact of new development on public safety services.
Civic Center	Ordinance 1174	Used to mitigate the impact of new development on municipal staff
Storm Drain Fees	Ordinance 874	Provide for the design and construction of drainage facilities in development areas: including Prima Deshecha, Segunda Deshecha, Marblehead Coastal and other areas.
Water Acreage	Ordinance 874	Used to plan, design, inspect and construct telemetry systems, distribution lines, service lines, water takeouts, filtration plants, wells, reservoirs, and chlorination systems
Sewer Connection	Ordinance 874	Used to construct new facilities required to collect, transport, and treat additional sewage activity generated by new development

The development fees received and the related interest earned on those fees accumulate over time in order to "build" enough funds for a capital project. Annually, as part of the budget process, the Capital Improvement Program takes into consideration the funds available and the projects to be completed with these resources and the upcoming need for the infrastructure.

The following table lists the development fee and the budgeted funds available as of June 30, 2012 based on the City's adopted budget.

Review of Development Fee Reserves

Developer fee reserve	Balance as of June 30, 2012
RCFPP	$ 3,037,220
Park Acquisition and Development	1,250,880
Beach Parking (in-lieu parking)	8,224,420
Public Safety Construction	3,076,110
Civic Center Construction	2,092,650
Storm Drain Fees	3,915,130
Water Acreage	824,679
Sewer Connection	4,272,664

Generally there are no restrictions as to the area of the City that the developer funds are restricted to, except for the Beach Parking and the Storm Drain Fees. The Beach Parking fees can be used for acquisition and/or construction of parking facilities at or near the beach. However, the Beach Parking impact study also identified alternatives that could improve parking accessibility including restriping, providing shuttle areas or shuttle/bus access. The Storm Drain fees are collected to mitigate storm drain costs in specific areas, these areas are broken into four areas: Prima Deschecha, Segunda Dechecha, Marblehead Coastal, and Other Areas.

Developer contributions:
In addition, contributions from developers under development agreements may require that certain amounts be paid to the City. This contribution can be either through development agreements or as part of settlement agreements. The City of San Clemente has entered into the following development agreements which required contributions from the developer.

- Plaza Pacifica Development Agreement – November 1995
- Monarch Development Agreement – November 1998
- Laing Forster Ranch Development Agreement – March 1998
- Marblehead Coastal Development Agreement – September 1998
- Talega Development Agreement – December 2001

Developer contributions or amounts that are restricted under agreements often relate to development, and maintenance of specific facilities or items. Amounts that are contributed to the City under these development agreements are typically generally placed in the Developers Improvement Capital Project Fund.

Annually, these developer contribution/agreement amounts are tracked and presented through the budget process. These amounts include a wide variety of purposes. The purpose for which these funds are received and are summarized in the following table:

Restricted purpose	Balance as of June 30, 2012
Daon street improvement reserve[1]	438,638
Forster Ranch Lighting/Improvement[2]	103,805
Talega Bridge Maintenance[3]	679,512
Storm Drain-Segunda Deshecha[4]	855,322
Commercial Improvements:[5]	
Library Expansion	300,248
Pico/La Pedriza	326,210
Vista Hermosa Park Entrance	52,411
North Beach	1,231,855
Talega fees	587,948
In Lieu Affordable Housing Fees[6]	2,619,590

Developer contributions or agreement amounts are usually smaller and are more specific to use. A summary for each restricted purpose (by category) is provided below:

Daon street improvement reserve was received under a settlement and is to be used to pay for street improvements and other infrastructure related to Tracts 9066 and 9272.

Forster Ranch Lighting/Improvement is to be used for improvements to streets and other infrastructure within Forester Ranch.

Talega Bridge maintenance fee is an annual fee to reimburse the City for future added costs of maintaining the bridges in Talega. These annual fees will cease in January 1, 2033.

Storm Drain – Segunda Deshecha is an amount of $700,000 received to conduct studies or construct mitigation improvements to the Segunda Desecha (MO2) Channel downstream of Camino Vera Cruz.

Commercial Improvements include one time contributions for improvements to certain items/areas:

- Library Expansion is for the construction of improvements to the San Clemente Library, or support of programs at the Library.
- Pico/La Pedriza is a cash payment in lieu of the installation of the traffic signal system located at Avenida Pico and Camino La Pedriza.
- Vista Hermosa Park entrance improvement is a one-time payment which will be used to for the Vista Hermosa Sports Park street entrance.
- North Beach fees are to be used for the revitalization of the North Beach area.
- Talega fees are currently in a timeframe where the City is acting a conduit and collecting the fees and refunding them to Talega LLC. Although there are some funds presented, these are subject to a reimbursement agreement.

In Lieu Affordable housing fees are amounts received that are limited to the purpose of providing affordable housing.

Conclusion

Provided for Council informational purposes.

Review of Development Fee Reserves

Recommendations

No staff recommendations.

Fiscal Impact of Recommendations

Capital Impact - none
Operations & Maintenance Impact - none
Forecast Impact - none

General Liability Fund Analysis/Insurance

Objective

To review the current reserve requirements and methodology for charging other funds in order to maintain the General Liability Self Insurance Fund program and recommend changes if necessary.

Executive Summary

The purpose of the General Liability Self Insurance Fund program is to provide liability protection for the City and to pay for losses associated with claims and litigation. The expenses necessary to maintain this fund include the annual allocation paid to the California Joint Powers Insurance Authority (CJPIA) for pooled liability coverage, legal fees for uncovered losses, and operational costs. In order to maintain the fund, costs are allocated to the operating funds based on a methodology recognized by the Insurance Institute of American regarding the essentials of risk financing. The General Liability Self Insurance Fund maintains a reserve balance as established by City Council fiscal policy.

Background and Discussion

Self Insurance Reserve

The current City Council Fiscal Policy statement for the General Liability Self Insurance Fund reserve balance is as follows:

Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.

The City is a member of the CJPIA for liability protection. As a member, the City pays an annual contribution to the pool and there is no self insured retention for claims covered by the pool. All covered losses are paid by the pool and shared among member based on an allocation method that takes into account experience (loss history) and exposure (member size). The City's annual contribution for liability protection for FY2012 was $745,000. Initial information provided by the CJPIA is that the City can expect the maximum increase to our annual contribution for the next fiscal year. The increase is projected to be from 20% to 35%.

In addition to maintaining a reserve balance based on a self insured retention, the policy directs an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims. 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) adoption or administrative of an ordinance, and 5) punitive damages. These types of claims are referred to the City Attorney for handling and the primary cost associated with them is legal fees which are budgeted annually.

General Liability Fund Analysis/Insurance

The average cost for legal fees associated with uncovered losses is approximately $300,000 annually. In addition, the cost of uncovered claims may include any settlement amount or judgment entered by the Courts.

Cost Allocation Methodology
A good cost allocation system has the right amount of risk bearing (experience) and risk sharing (exposure). The purpose is to distribute the costs to ensure the financial integrity of an entire organization. The current allocation methodology used by the City is recognized by the Insurance Institute of America and is based on two key factors, experience and exposure. Experience allocates costs based on past losses incurred within the fund. Exposure allocates costs based on exposure regardless of past losses. The weight given to each of these factors is dependent on the goals of the organization. The current weight given to these two key factors is as follows:

1. Experience – 25% of the charge is based on a five-year average of historical claims for risk related to each fund.
2. Exposure – 75% of the charge is based on a fund's budgeted expenditures as a percentage of total budgeted expenditures.

The current weighting of experience and exposure promotes greater risk sharing among the funds. It recognizes that some losses are beyond the control of a particular department (i.e. land movement and frivolous lawsuits) and should be bourn by the City as a whole. In addition, the current weighting shields the funds from significant fluctuation in annual liability charges due to the occasional large loss.

The experience period used in the current allocation method takes into account five years of historical claims data. The amount of each claim is either the actual cost incurred on a closed claim or the amount reserved on an open claim for each loss in each of the years. Using a period of five years allows for loss development and ensures less fluctuation of charges due to unusually good or bad claims experience.

Conclusion

Self Insurance Reserve
The current fiscal policy directs the City to maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool. Since there is technically no self insured retention, the policy should be updated using a more comparative factor. The reserve balance should contain an amount appropriate to pay uncovered losses, provide relief in a fiscal emergency, and pay any CJPIA adjustments for prior loss years after all claims are closed. A more appropriate reserve would be an amount equal to one times the annual contribution for liability protection. A proposed policy statement for self insurance reserves is included in the Fiscal Policy paper. The Reserve Analysis paper discusses the reserve amount necessary to be in compliance with the recommended change to the fiscal policy.

Cost Allocation Methodology

All operating funds benefit from the services and liability protection afforded by the General Liability Self Insurance Fund program. The current allocation method promotes sharing of losses and consistency in the annual charges for each of the operating funds. The experience factor of the allocation method takes into account a five year claims history for each fund using the actual cost of each claim. Any one large loss can impact an operating fund and cause annual charges to fluctuate. Therefore, a maximum amount should be placed on claims when calculating the loss history for the experience factor of the allocation method. This maximum will be determined by Finance and Risk Management when calculating the five year loss history.

Recommendations

Recommendations are included in the Fiscal Policy

Fiscal Impact of Recommendations

Refer to the Reserve Analysis paper section on Self-Insurance Reserves for the fiscal impact.

Business License Review

Objective

To review the existing business license tax structure to determine if any changes should be made in the process or tax structure.

Executive Summary

The business license tax is a requirement to conduct business within the City. A license is required for all San Clemente home based and commercial location businesses, as well as out of town companies conducting business in San Clemente. A business license is valid for twelve months and must be renewed annually.

The tax schedules vary dependent upon the type of business conducted. A flat rate or gross receipts is the basis for the tax. For businesses that renewal upon gross receipts, there are fifteen different tax schedules with the majority of the businesses paying under schedule1 - "Retail, Wholesale and Manufacturing" or schedule 2 - "Professions and Occupations". Based on the same amount of gross receipts, businesses under schedule 1 pay a lower amount of business licenses tax than a business under schedule 2.

Over the past year, staff has evaluated the business license program to determine the impact of changing the business license tax structure to be more equitable across all business types. In addition, the business license program has been evaluated to determine if modifications to the process could reduce costs or improve efficiencies.

Background and Discussion

A business license tax is levied on all businesses, trades, professions and occupations conducting any business activity in the City. The amount of the tax is a flat amount for certain businesses (contractors or rental units) or is based upon gross receipts of the business.

The table below shows the amount paid in FY 2011 by tax schedule.

Schedule	Description	Number of Businesses	Revenue YTD
1	Retail, Wholesale, Manufacturing and Telephone Services	934	$186,020
2	Professions and Occupations	1,444	$387,990
3	Rental Units - Commercial & Dwelling	516	$30,100
6	Contractors with Correlated Businesses	41	$39,490
8	Contractors	1,525	$148,630
Other	All other fee codes not detailed above	828	$114,200
		5,288	**$906,430**

There are fifteen different tax schedules, but the majority of businesses renew based upon schedule 1 or 2. Schedule 1 is for retail, wholesale, manufacturing and telephone services and schedule 2 is for professions and occupations. The two schedules are shown below:

Schedule One:	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

Schedule Two:	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

Because of the way the tiers were established, a business with gross receipts of $500,000 on a schedule 1 would pay $175. On a schedule 2, a business with gross receipts of $500,000 would pay $495.

Proposition 218, the "Right to Vote on Taxes" initiative, was approved by California voters in 1996. The proposition states that local governments may not impose, extend or increase any tax without voter approval. The law does not apply if taxes are lowered.

If the business license tax structure was modified to move the majority of in-City businesses to schedule 1, the following changes are recommended:

- Change all San Clemente businesses currently paying on a schedule 2 to a schedule 1. This will reduce the business license tax for service based businesses in San Clemente.
- Leave all service based businesses not located in San Clemente on schedule 2. These are entities conducting business in the San Clemente, but they are not contributing any property or sales taxes to the City.
- Continue applying schedule 2 to medical/surgical establishments. Businesses in this category are relatively large employers with patients coming into the City for treatment. The types of businesses would include surgery centers or out patient medical facilities. This category would not include individual or group practices.

If these changes were made to the tax methodology, 766 or 14% of the businesses that paid from schedule 2 in FY 2011 would pay less in business license taxes. The revenue loss to the City's General Fund would be $199,860.

There is another change to the tax structure that would be necessary to implement recent court decisions regarding fortune telling and tattoo establishments. The current code establishes a $20 flat rate per day for these businesses and could be perceived as discriminating against these types of businesses. These businesses should be categorized as "professions and occupations".

The table below shows the number of businesses and the range of amounts paid in FY 2011 for a business license.

Amount Paid	Number of Businesses	Revenue YTD
Under $200	4,693	$437,340
$201-$500	379	$121,810
$501-$1,000	122	$87,700
$1,001-$5,000	88	$157,280
Over $5,001	6	$102,300
	5,288	**$906,430**

With a majority of the businesses paying under $200, an analysis was conducted to determine the amount of business license revenue that would be produced if the business license tax was "capped" at a certain amount. The table below compares the amount of revenue generated in FY 2011 against the amount that would be generated with a capped amount. Only businesses that would pay more than the capped amount have been adjusted.

	$200	**$250**	**$300**	**$400**	**$500**
FY 2011 Revenue	$906,430	$906,430	$906,430	$906,430	$906,430
Revenue Capped	$556,110	$584,670	$607,520	$641,260	$666,620
Net Loss of Revenue	**-$350,320**	**-$321,760**	**-$298,910**	**-$265,170**	**-$239,810**

The net loss in revenue from a capped amount is $350,000 to $240,000 depending on the amount of the cap.

An evaluation was also conducted to determine if a reduction of business license personnel or elimination of the business license program would produce savings that would offset the loss in revenue from the proposed changes. The attached memo describes the services provided by Business License, but concludes that the customer service impacts and potential loss of revenues could exceed the cost savings. The elimination of the business license staff would negatively impact the Negocio customer service counter, resulting in longer counter times at Community Development. This could negate the progress that has been made to improve customer service at the Community Development counter.

Business License Review

Conclusion

Any potential reduction in business license tax revenue would have an impact on the General Fund operating position. The reduction would apply to 766 or 14% of businesses. The revenue loss to the City's General Fund would be approximately $200,000.

In addition, if any changes are implemented in the current fiscal year, refunds would have to be issued for all licenses already paid on schedule 2. The staff time and cost of issuing refund checks should also factor into the decision to modify the tax structure.

Recommendations

1. Consider any modifications to the City's business license tax structure which result in a reduction in revenue to the General Fund as part of the FY 2012 mid-year budget review process.

Fiscal Impact of Recommendations

Capital Impact - None

Operations & Maintenance Impact – Reduction of General Fund revenues if changes to the business license tax structure are implemented.

Forecast Impact – General Fund revenues would be significantly reduced and would have an impact on the General Fund operating position.

Council Action:

City Council action (3-1) to receive and file Staff's presentation relating to business licenses, with direction to pursue electronic enhancements. Tattoos and fortune telling to be considered by Council at a later date.

Attachment No. 1

Memorandum
Finance

June 7, 2011

To: George Scarborough, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer
From Kumi Elston, Central Services Officer
Subject: Services Provided by Business License
Copies:

The Business License program provides the following services:

- Provide customer service and support of the permit process (20% of time)
- Maintenance of the Trak-it software system business license module (20% of time)
- Process business licenses (30% of time)
- Respond to inquires regarding licensed or unlicensed businesses (10% of time)
- Ensure that businesses that are licensed by the State have current licenses (5% of time)
- Interpret and enforce City ordinances (15% of time)

Customer Service - The Q-Matic system used at the Community Development building directs customers to the different divisions involved in permit processing. During FY 2010, business license staff processed 1,620 applications and answered 540 general inquiries at the public counter. Staff provided customer service to an average of 10 customers per day with an average processing time of 7:56 minutes. The maximum wait time for customers in the business license queue was 4:52. Staff also responded to an average of 20 telephone inquires and 2 e-mails per day. Staff also generates between 200 to 400 "follow-up" calls per month to businesses that are delinquent in paying their business license renewal.

Maintenance of the Trak-it software system business license module – The business license application is one of the programs on the Community Development Trak-it system. Business license maintains the database and enters business information, contacts and payment history in the business license module. The application is linked to the City's GIS system, as well as permit processing, code compliance and project tracking. By linking all information to the assessor's parcel number, staff can see historical information on previous business licenses, building permit activity, code violations and land use. The original database was converted from the older system and requires business license to systematically review each license to update the program.

Business License Review

Process business licenses – As of June 30, 2010, there were 5,169 active business licenses in the Trak-it system. Processing of the license includes input of the business, contact and payment information into the Trak-it system. Renewal forms are also generated and mailed to license holders.

Licensed or unlicensed businesses – Staff receives a number of inquires each day on the status of a business license. Residents call to inquire if a contractor has a business license and a state contractor's license. Staff also receives a number of inquires from other staff members, particularly police services, code compliance, water quality and utilities, for contact information regarding a business. If a business does not have a license, staff will make contact until an application has been received.

Staff also produces mailing lists from the business license program that are used to notify businesses of pending changes that would impact that type of business. As an example, notices were sent to all restaurants on the changes to take-out containers. Staff recently produced a list for the Downtown Business Association to solicit membership from businesses on specific streets in the downtown area.

Ensure valid State license – Upon initial application and upon renewal, business license staff ensures that individuals and companies are properly licensed to perform the duties as regulated by the State or County of Orange. Business licenses or building permits are not issued to unlicensed companies.

Enforce City Ordinance – The business license program ensures compliance with zoning, building, traffic, parking, water quality, fire and noise ordinances. As an example, a commercial location application is reviewed by the Planning division for compliance with zoning, parking and noise ordinances. Building and Fire perform physical inspections upon receipt of a new application and look for safety or tenant improvement issues. Water quality staff reviews the application to determine if the business is in compliance with best management practices regarding water and grease disposal.

The business license function is an integral part of the team delivering customer service at the Community Development permit counter. Staff interactions with other members of the team improve the quality of the information given to customers.

Lock Box – The suggestion to use a lock box service to process business license payments is not possible due to the way lock box functions. Utility billing, which uses a lock box service, can produce an invoice to the customer with a fixed amount due. The amount and customer number is keyed into the bar code on the invoice. Payment amounts are matched to the invoice amounts and processed through the lock box service. The business license invoice does not have a fixed amount due. The amount due is based upon gross sales for the business and the appropriate schedule. The schedule is printed on the form and the amount is filled out by the business license holder. The form is returned to our office along with the payment.

In order to process the payment through lock box, it would involve a number of additional steps. The City would produce the renewal form and mail it to the business. The business would fill out the form and return it to the City. An invoice would be generated and the business would return payment with the invoice. Lock box service would work, however, if all the renewal rates were fixed at one rate. It would not work with a capped rate because there would be multiple amounts due under the cap amount.

With the support of the payment processing options, there would still be a need for administrative support and customer service front counter support for the business license program. In addition, enforcement of the business license ordinance would need to continue. This includes identification and notification of new businesses operating without a license and businesses operating under a delinquent or expired license.

Future enhancements – There are plans to enhance the business license function to provide better customer service and lower the cost of collection and enforcement. The following enhancements are on the business license work plan:

- Revise the application form and make it available on the City's website as a download form that can be filled out in Adobe Acrobat.
- Save on postage by sending renewal and business license forms to e-mail addresses.
- Revise the City's website to make application and payment available on-line.

Legal Cost Analysis

Objective
To review and analyze legal costs and determine methods of cost reduction and efficiencies

Executive Summary
Rutan and Tucker, LLC has provided legal services to the City of San Clemente for the past 44 years. The contract with Rutan and Tucker provides City Attorney and Assistant City Attorney services, designated office hours and attendance at all regular City Council and Planning Commission meetings.

The services provided by Rutan and Tucker are a valuable resource to the City. The law firm provides a depth of knowledge with attorneys specializing in every aspect of the law. The firm has helped guide the development of the City from a small beach community to a City with over 63,000 residents.

The City, as a member of the California Joint Powers Authority (CJPIA), has pooled coverage for liability claims filed against the City. Legal fees for claims and litigation for covered events or situations are included in the City's annual liability premium. Rutan and Tucker handles the liability claims and lawsuits filed against the City that are excluded from coverage. These claims are typically the result of 1) breach of contract issues, 2) land use entitlements, or 3) administration of an ordinance.

The cost of providing legal services varies from year to year, primarily due to the amount of litigation initiated by the City or against the City by other parties. In order to determine if cost reductions or greater efficiencies could be achieved, an internal team of City staff members examined the cost of legal services, the contract with Rutan and Tucker and the City's policies and procedures. The result of that review is the basis for the recommendations contained in this report.

Background and Discussion
In FY 2011, the City spent $674,000 for legal services provided by Rutan and Tucker. A retainer fee of $113,400 a year is paid to provide office hours and meeting attendance. Legal services provided outside of office hours are billed in six minute increments at $240 per hour. An analysis of legal invoices showed 56% of the cost was liability claims or lawsuits filed, 15% was the retainer and 29% or $204,000 was staff requests for attorney services. Attachment "A" provides a ten-year summary of legal expenses by fund.

A team of City staff members, representing every department, was formed to review and analyze the City's legal services costs and process for services. The team's objectives were:

- Identify the services that should be provided by the City Attorney
- Identify the inefficiencies in the current system

Legal Cost Analysis

- Identify consistent ways to monitor and control costs
- Identify other service delivery methods that would boost productivity and potentially lower costs

The team reviewed the City's contract with Rutan and Tucker, along with the existing policies and procedures, to develop a number of recommendations for consideration.

Recommendation #1 – Staff will determine the appropriate level of services provided by the City Attorney's office.
At least an hour each week is set aside to allow the City Attorney's office to review agenda reports, contracts, resolutions and ordinances during office hours. Often, the reports come back to staff with corrections to grammar or sentence structure. The legal review team recommends changes to the departmental internal controls to ensure the quality of the documents prior to submittal to the City Clerk for processing. This would allow the City Attorney more time to concentrate on contracts, resolutions and ordinances.

The review team also recommends additional staff training by the Attorney's office on preparation of contracts, resolutions and ordinances in order to reduce the amount of time the Attorney's office spends on these tasks during office hours and "billable" hours. Training will be video recorded and would be required training for all new staff joining the City.

The City has established templates for Public Works and Professional Services agreements. The basic terms and conditions contained in the document are protected so changes can not be made. The review team's observation is that Attorney review is not always consistent and is dependent upon which attorney is reviewing the agreements. A policy should be established to ensure proper review and approval while maintaining consistency.

Recommendation #2 – Review and potentially reduce the retainer fee.
The City's contract with Rutan and Tucker provides for City Attorney services for unlimited attendance at all regular City Council and Planning Commission meetings, attendance at special meetings on an as-requested basis and weekly office hours at City Hall. Office hours are defined in the contract as 3-1/2 hours on the first and third Tuesdays, 8 hours on the second and fourth Tuesdays and alternating hours (3-1/2 or 8 hours) on the months with five Tuesdays.

The legal review team is recommending a decrease in the number of hours allocated to office hours and a reduction in the retainer based on the following observations:

- Office hours are not fully utilized by staff and internal procedures should be changed for efficient use of attorney hours. Schedule A contains the suggestions the team is recommending for better utilization of attorney time.
- More complex issues require research that can not be completed during office hours. A reduction in office hours and retainer cost would offset the cost of attorney work charged on an hourly basis.

The legal review team also recommends a reduction in the retainer fee for City Attorney attendance at Planning Commission meetings. The Community Development Director estimates that there were at least 14 meetings over the past year where the issues discussed during the meetings did not require City Attorney attendance. With the issuance of the agenda one week prior to the meeting, staff can give notice to the City Attorney of their need to be at the meeting.

The legal review team recommends either a negotiated reduction in the retainer fee or a "credit" for unused attorney hours, similar to the way the Police Contract handles unused hours included in the contract. The savings would be offset by an increase in the number of requests for services that would be billed at the hourly rate. However, the review team believes that the attorney time would be more productive and focused than hours spent during office hours.

Recommendation #3 – Revise the City's Policy and Procedure for the use of legal services and revise the request for legal services form.
An internal policy and procedure was developed in 1991 to manage staff's use of legal services and control costs. The policy requires staff to budget by program for legal services; review monthly charges and manage the use of attorney services through a formal request for attorney services that must be signed by the Department Director.

The legal review team is recommending that the policy be expanded to document the proper procedure for use of office hours and requests for attorney services. It is also recommended to revise the form to include a "not to exceed" amount that must be agreed upon by the attorney and Department Head. The City Attorney's office would be responsible for monitoring expenditures for the request and once the negotiated amount is reached, staff would be notified before any more work was performed. Any additional work would be negotiated and both parties would agree upon the remaining time and cost.

The City Attorney is recommending that the City build and maintain a library of written opinions previously provided to staff and City Council. The opinions will be scanned into the City's electronic document management system (EDMS) and can be easily accessed. Staff could refer to prior opinions and verify its applicability before engaging the City Attorney's office for services.

Recommendation #4 – Work with Rutan and Tucker to revise some of the current business practices to work more efficiently with the potential of reducing cost where possible.
Currently, City Attorney hours are scheduled in half-hour or hour increments. If meetings are concluded within a shorter time frame, the City Attorney is free to discuss other issues but does not have staff waiting in queue. In order to use City Attorney office hours more productively, the legal team is recommending changes to the scheduling of appointments and the use of the City's in-house "Lync" system to conduct video conference meetings. Staff issues that did not get on the day's schedule will be put on a "waiting" list. If the Attorney has available time, staff on the wait list can be contacted by video call. Staff and the City Attorney can talk, video conference or share documents via the Lync system. This would maximize the use of office

hours. Another use for the Lync system would be for "virtual meetings" conducted with staff from offices outside of City Hall joining the meeting via video conference. This would eliminate driving between offices and save staff time and fuel.

Conclusion

The legal review team has recommended action items that would provide for a more efficient system. In addition, the items listed on Schedule "B" are common sense and practical tips that will improve staff's depth of knowledge and help streamline and improve internal processes.

Recommendations

Staff recommends the following actions:

1. Staff will determine the appropriate level of services provided by the City Attorney's office
2. Review and potentially reduce the retainer fee
3. Revise the City's Policy and Procedure for the use of legal services and revise the request for legal services form
4. Work with Rutan and Tucker to revise some of the current business practices to work more efficiently with the potential of reducing cost where possible

Fiscal Impact of Recommendations

Capital Impact
Operations & Maintenance Impact
Forecast Impact

Council Action:

The Legal Cost Analysis recommendations were approved by City Council.

Attachment "A"

Ten-Year History of Legal Expenses

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
General Fund	266,438	233,982	279,731	227,048	256,261	287,796	313,353[1]	266,808	977,575 [2]	458,210[3]
Special Revenue Funds										
Street Improvement	0	0	0	0	0	0	0	0	1,152	0
Gas Tax	0	0	0	0	0	0	0	0	0	0
Misc. Grants	0	0	0	0	0	0	0	0	0	0
Air Quality Imp.	0	0	0	0	0	0	0	0	0	0
Police Grants	0	0	0	0	0	0	0	0	0	0
Reserve	0	0	0	0	0	0	0	0	0	0
Capital Project Funds										
Parks Acquisition & Dev.	0	0	0	0	0	0	0	0	0	0
Local Drainage Facilities	0	0	0	0	0	0	0	0	0	0
RCFPP	6,698	37	0	250	4,257	0	0	3,456	0	0
Public Facilities Const.	0	0	0	0	0	0	0	0	0	0
Developers Imp.	0	0	0	0	0	0	0	0	0	0
Debt Service Funds										
Negocio Debt Svc	0	0	963	0	525	0	0	0	9,438	5,881
Enterprise Funds										
Water	158	518	597	15,169	824	2,795	7,809	10,747	3,264	888
Sewer	1,893	56	1,136	9,995	5,785	2,817	1,407	3,743	624	96
Storm Drain	8,803	2,144	96	40	0	0	0	0	0	0
Solid Waste	3,506	9,754	14,631	3,170	0	440	667	2,464	648	15,700
Golf	0	0	0		0	44	0	710	0	0
Clean Ocean	0	9,071	2,607	200	1,156	2,590	4,571	2,155	6,075	3,017
Internal Service Funds										
Central Services	0	0	39	0	1,035	110	3,672	4,279	0	0
Information Technology	0	0	0	160	0	0	115	0	0	0
Contract Fleet Services	0	0	0	0	0	0	0	0	0	0
Fleet Replace. Reserve	0	0	0	0	0	0	0	0	0	0
Medical Insurance	0	0	0	0	0	0	0	0	0	0
Workers' Compensation	0	0	0	0	0	0	0	0	0	6,227
General Liability Ins.[4]	303,696	475,158	341,188	374,836	143,775	339,469	247,601	273,853	355,119	173,208
Redevelopment Agency Funds										
Low & Moderate Housing	13,356	6,116	5,757	5,227	555	1,884	962	7,730	15,610	10,645
Debt Service	1,137	0	0	0	0	0	0	1,129	0	0
Capital Projects	58,976	22	386	2,759	0	176	966	250	1,194	200
Total All Funds	**664,661**	**736,858**	**647,130**	**638,853**	**414,172**	**638,120**	**581,122**	**577,324**	**1,370,699**	**674,072**

1 Lehman Brothers/Sun Cal

2 North Beach, Target purchase agreement, HOA litigation, public improvement bond.

3 North Beach, code enforcement, public improvement bond.

4 Avenida San Juan, Callan, HOA litigation

Schedule "B"
Legal Review Team Suggestions for Staff Use of Legal Services

Develop and provide staff training on:

1. Policy and procedure for appropriate use of legal services during office hours
2. Preparation of standard contracts, resolutions or ordinances
3. The cost of legal services and what is considered "billable".

Manage the City Attorney Calendar:

1. Specify which attorney will be at office hours. Staff will strive to consult with the same attorney on an issue to avoid conflicting opinions or corrections to another attorney's work.
2. Be prepared for your meeting. Be on time and stay on topic. Scan and send documents for City Attorney review prior to the meeting.
3. Discuss the issue with your supervisor and other staff members to determine if your topic is a legal issue requiring interpretation or a City policy issue. Only take legal issues to the City Attorney.
4. Prioritize items prior to the meeting to make sure critical items are discussed. Gauge how much time is needed for the meeting and schedule the appropriate amount of time.
5. Do not use office hours to obtain City Attorney signatures on standard agreements. The Clerk's office will be responsible for obtaining signatures on these agreements.

Division Library:

1. Maintain files with specific legal questions already answered by the attorney.
2. Keep copies of e-mails or other written correspondence produced by the attorneys filed by general topics (easements, elections, vehicle vending, etc.).
3. Refer to the files to determine if the question/issue has already been addressed by the attorney. If so, check to see if the legal opinion is still valid or if attorney hours are needed to update the opinion.

Develop Division Related Templates:

1. If your division has specialized documents that are used only by your division, develop a standard document template that can be used by all staff in your division. Have the City Attorney's office review and approve the template.

General Plan Financial Forecast

Objective
To develop a module for preparing long term financial forecast which incorporates proposed development projects to determine fiscal impact of these decisions on the City's finances.

Executive Summary
The new General Plan (anticipated adoption in June 2012) reflects input from the community, City staff and decision-makers. Along with goals and policies which provide direction for decisions related to various issues in the City, the General Plan includes an Implementation Program which prioritizes projects and programs. So that the ideas presented in the General Plan are regularly considered by the public, each city department, and decision makers it is recommended that the Implementation Program be evaluated as part of the annual LTFP process.

The City's new General Plan will identify potential growth in the community which may create additional revenue and projects/programs which will likely require additional public expenditures. The MuniCast financial model can become a tool for looking 20 to 30 years forward to evaluate the long term impact of decisions made today, as well as what decisions may be needed in the future, to ensure the City's financial stability.

Background and Discussion
While the new General Plan has not yet been adopted, staff seeks confirmation for integrating the General Plan into the LTFP process. The following outlines the potential steps for linking the two documents:

1. LTFP Review - At the early stages of the LTFP process, planning staff will review the General Plan Implementation Program and forward relevant projects and programs to each department for consideration as part of the LTFP. The responsible department, with input from the Executive Development Management Team (ExDMT), will develop recommendations to prepare or not prepare scheduled projects/ programs. Depending on the type of project/program, it will be included in the proposed CIP of a decision packet will be developed.

2. LTFP Issue Paper – A paper will be developed annually listing the programs/projects scheduled for implementation and staff's recommendation. The paper will also evaluate the progress in achieving the goals of the General Plan. If projects/programs are recommended for removal from the Implementation Program, alternative methods should be identified to accomplish the relevant goal(s).

3. Financial Model - The City's long term financial obligations are currently evaluated within 5 years based in the CIP. The model has the capabilities of forecasting out to 20 to 30 years. The model can be used as a tool to understand the impacts of decisions made today, as well as predict what could occur in the future.

   Based on in-fill/new development assumed in the General Plan, revenues in the form of new property and sales tax can be estimated. In addition, the costs of implementing many of the General Plan Implementation Programs can also be forecasted. For example:

- What additional revenues would be created if the vacant properties South El Camino Real were developed?
- How should the City best utilize these additional revenues?
- How can some of the ideas presented in the General Plan be funded?
- If the City seeks to implement these projects, when would it be financially able?
- Should the additional revenues from SECR be used to construct public improvements on SECR which have been identified in the General Plan?

The model can be used as a tool in evaluating projects on an as needed basis. The forecast assumptions will be somewhat speculative and should be updated as better information becomes available.

4. Update Implementation Program – The Implementation Program will not be adopted as part of the General Plan. The Implementation Program includes concepts which are intended to achieve the goals of the General Plan. But often time these concepts are not implemented because other projects/programs are determined to be more desirable which may also achieve the goals. For this reason, the Implementation Program is designed to be a fluid document which can be reassessed and amended as needed.

   In regularly evaluating the Implementation Program, staff can recommend and the Council may amend the Implementation Program to reflect the decisions and priorities of today.

Conclusion

Integration of the General Plan and LTFP has the following benefits:

1. Fulfills potential for the General Plan to provide day-to-day policy direction
2. Guide decision making beyond land use
3. Allows for inevitable shifts in the economic and regulatory environment
4. Positions General Plan in on-going LTFP/Budget process

Recommendations

Confirm the concept of developing a tracking and feedback system which would combine the General Plan and LTFP/Budget process

Fiscal Impact of Recommendations

No fiscal impacts for 2012 Budget.

Council Action

The General Plan Financial Forecast recommendation was approved by City Council.

Utility Cost of Services

Objective

To analyze the cost to provide water and wastewater services with the objective of developing a fair and equitable rate structure for the utility customers.

Executive Summary

The City's Fiscal Policy states that user charges for each utility fund will be set at a level that fully supports the total direct and indirect cost of the activity. Water and Sewer rates are reviewed annually to comply with this policy.

Periodically, a more substantive analysis should be performed. A Cost-of-Service analysis accomplishes this objective by examining the costs to provide services by major customer classification and modeling the revenues generated within each classification to determine if full cost recovery is being accomplished. Each customer classification places different demands on the water and wastewater systems and the costs to support these demands needs to be determined and incorporated into the utility rate structure.

The last Cost-of-Service study was conducted in 2007. After examining the costs to provide services, the fixed meter charge for meters in excess of 1" were increased in both the water and wastewater utilities. A stronger water conservation message was incorporated into the water commodity tier pricing, essentially increasing tier 3 prices to 350% of tier 1 prices. Also in the water utility, two new categories were created to segregate individually-metered multi-family residences from master-metered multi-family residences. On the wastewater side, customer classifications were consolidated and classified to align with industry standards.

Cost-of-Service studies are typically recommended every five years. Several factors influenced the City's decision to conduct a study at this time;

- Dramatic changes have been experienced in consumption over the last four years
- Revenues have become extremely volatile
- A Recycled Water Expansion project is underway
- Water and Wastewater utilities are failing to fully recover their costs
- Revenue recovery from fixed and variable charges are out of proportion and leads to volatility.

Raftelis Financial Consultants has been engaged to examine these issues and assist the City in developing a five to ten year strategy for the Water and Wastewater utilities to; generate stable revenues, promote conservation, and provide fair and equitable rate structures for the utility customers.

Background and Discussion

There are several reasons impacting the City's ability to recover all of the costs associated with operating the water and wastewater utilities. Water supplies have become increasingly more expensive for water agencies in California today; drought conditions on top of court mandated pumping restrictions in water deliveries from the Sacramento-San Joaquin Delta put a significant strain on available water supplies; and the continuing effects of the economic recession.

The City's ability to recover costs has become strained from a variety of factors, some which the City can control and others outside the City's control, and stem from the following challenges:

- Cost of Water Increasing
  - Drought conditions on top of court mandated pumping restrictions from the Sacramento-San Joaquin Delta (City can't control)
  - MWD has increased wholesale rates by 75% in the last six years to water agencies (City can't control)
  - MWD rate increases to fund water transfers & rising pumping and chemical costs (City can't control)
- Revenue recovery volatility and decline in consumption
  - Economic recession (City can't control)
  - Cooler than normal weather (City can't control)
  - Enhanced conservation due to drought conditions (City has some control)
  - Revenue recovery imbalance between fixed & variable rates (City can control)

Over the past two years costs have escalated, particularly imported water costs, while revenue recovered through the City's variable consumption rates have declined as consumption itself has significantly dropped. A key component of this cost-of-service analysis is to correct this positive feedback loop which is now causing the City's revenue volatility.

While the City does not have a significant amount of control concerning the rising cost structure in purchased water, it can develop a rate strategy to provide better revenue stability by adjusting the revenue received from the fixed and variable elements. Currently, the City's water utility collects 78% of revenue from the variable water consumption rates and 22% from the fixed meter charge. While having a greater revenue recovery coming from the variable side provides a strong conservation message, the City's current proportion of variable to fixed revenue recovery leans too heavy to the variable side, thereby causing the revenue volatility and shortfall the City is currently experiencing.

The Cost of Service analysis will correctly align fixed and variable costs and make recommendations to adjust the City's revenue recovery to match the costs through a fair and equitable cost structure.

The reduced water consumption has also impacted wastewater revenues. The City's wastewater utility collects 44% or revenue from variable sewer commodity charges, which are based on 90% of the water consumed during wet winter months for residential customers, and 56% from the fixed meter charge. This represents a more stable mix between variable and fixed revenues than the water utility but has still resulted in negative operating positions in recent years as a result of the impact from lower water consumption.

The Cost of Service analysis will identify a revenue recovery strategy to generate a balanced operating position for the future.

Recycled Water Expansion

The Cost of Service analysis will also examine the implications of the recycled water expansion project on recycled rates. The City currently produces approximately 900 acre feet of recycled water annually. The expansion project will double the City's recycled water production capability. An existing reservoir will be converted to store recycled water and serve approximately 110 existing irrigation accounts which will be converted from potable to non-potable water usage. The expanded recycled water production will reduce the City's demand on purchasing potable water where costs are beyond the City's control. It will also provide the City with a sustainable source of water to serve existing irrigation customers.

Existing recycled water customers pay a flat rate for non-potable water while existing irrigation customers, who currently purchase potable water, pay under the tiered rate structure. The Cost-of-Service Study will examine this issue and make recommendations for a fair and equitable pricing strategy for both the existing customers and the irrigation customers who will be converted to recycled water use after the expansion is completed.

Process

A Cost-of-Service analysis consists of the following three phases;

- Phase I - Data collection and analysis
- Phase II – financial modeling
- Phase III – develop and implement rate strategies

Phase I

The data collection and analysis began late August and was completed at the end of November.

Phase II

Phase II began in early December. For modeling purposes, the consultants recommended three financial models, with water and recycled water modeled separately, as well as a model for wastewater. This allows the City to establish rate structures for the recycled water system to operate independently, without subsidy from the potable water customer. It will also enable the City to set future rates independently for potable and non-potable water.

The models were developed during the month of December and were finalized in early January 2012.

Phase III

The final phase, which is the most complex, will take place between mid-January and early March. Each of the three models will be reviewed and analyzed by staff and Raftelis Consulting to develop recommendations for Council consideration. Alternate strategies will be examined within the models, leading to a workshop with City Council, planned for early March, to review the models, rate strategies, and recommendations. Based on Council direction during the workshop, a final report and recommendations for Council adoption will be presented during the annual utility rate review process in late May or early June. Any changes adopted by Council will take effect in August, the normal implementation timeframe for the city's annual rate reviews.

Conclusion
None

Recommendations
No recommendations are included in this issue paper. Recommendations from the Cost-of-Service Study will be made following the completion of the analysis and presentation at the Council workshop in May. Final recommendations will be presented at a public hearing for the annual rate reviews to be held in late May or early June 2012.

Fiscal Impact of Recommendations
None at this time

Americans with Disabilities Act

Objective

To present an overview of the Americans with Disabilities Act (ADA) assessments completed by the City's consultant, Disability Access Consultants, Inc. (DAC), review the steps already taken by the City to become compliant with certain ADA requirements, and outline a recommended approach to address the thousands of recommendations made by DAC to ensure the City's facilities, programs, services, and activities are fully compliant with the ADA.

Executive Summary

The City recently completed a comprehensive review of all City facilities, programs, services, and activities to identify areas of non-compliance that need to be addressed in order to bring the City into full compliance with the Americans with Disabilities Act (ADA). The ADA requires all state and local governments to make all public services, programs and activities accessible to persons with disabilities. Access includes physical access into existing and new facilities as well as policy changes that ensure all persons with disabilities have equal participation and effective communication in all functions of civic life.

Background and Discussion

Disability Access Consultants, Inc. (DAC) completed a self- assessment of City programs, services, and activities and the results of the review are documented in the report *ADA Study of City of San Clemente Programs, Services and Activities*. The self assessment included a review of all relevant City policies, procedures and documents. Surveys for facility users and organizations representing individuals with disabilities were developed and used for the public input process. This public outreach component elicited feedback from interested persons as well as organizations who service individuals with disabilities. At the end of the self- assessment, DAC provided ADA training for City staff. Two training sessions were designed; one for Administrators and Supervisors and a second for Facilities, Engineering, Public Works, and Maintenance staff.

In addition to the self-assessment of programs, services, and activities, DAC completed assessments of City facilities. The all-inclusive review resulted in 57 reports of the following:

- 19 City owned buildings
- 16 City parking lots (owned and leased)
- 8 City beach areas (restrooms and concessions)
- 14 City parks

DAC staff completed the facility assessments by taking measurements of things such as:

- Weight of a door
- Slope of a walkway
- Height of a sink
- Height of door thresholds
- Width of hallways
- Size of parking spaces
- Inventoried the number of parking spaces

This information and data from all the locations was entered into a tablet computer and loaded into DACTrak, a web-based Accessibility Management System. The system is licensed to the

City and allows staff to generate reports for individual locations, multiple locations, or by categories (e.g., parking, signage). The report for all City facilities is:

- 3,000 plus pages; with
- 6,000 plus items identified that the City needs to address.

The items include several categories, both exterior (e.g., path of travel, pressure required to open a door, parking, signage, bench height and/or availability) and interior (e.g., restrooms, counter heights, door hardware, and door width). Refer to Attachment A for a listing of all categories.

Cost estimates are included for most items but it is important to note that they are provided for *estimating purposes only and do not represent total construction, repair totals or design fees.* The scope of the report is significant in nature; revisions are required at every City facility and parking lot in addition to various activities and functions (e.g., public notices and communication devices for the deaf). The total current estimated cost for all findings included in the assessment is in excess of 10 million dollars. To provide an overall sense of the specific dollars needed to address the items, the table below illustrates a sampling of the cost estimate for various categories and locations.

CATEGORY	LOCATION	ESTIMATED COST
Signage	All Facilities	$59,000
Parking	All Facilities	$1,017,678
Restrooms	All Facilities	$1,659,931
Doors	All Facilities	$2,203,953

LOCATION	ESTIMATED COST
Community Center	$376,708
City Hall (1st floor only)	$511,266
Community Development	$522,288

The magnitude of the recommendations could be overwhelming, unless it is understood that it is common practice by other public agencies to implement the required changes over a period of 15-20 years. It is important to point out that the City has already taken important steps to enhance its compliance with other ADA requirements. These include the following:

1. The designation of an ADA Coordinator to oversee the required self-evaluation and the development of a transition plan, and serve as a resource to the City Council and the public.

2. Provide public notice about the City's ADA nondiscrimination obligations and policies, accessible facilities and services, and complaint or grievance procedures.

3. Develop a grievance procedure that provides for a formal public complaint process.

4. Completion of a self assessment of programs, services, activities, and facilities.

This step by step approach allowed staff to accomplish the administrative steps in-house and work with a compliance consultant on the more complex steps. The ADA compliance consultant completed the self-assessment of programs, services, activities and facilities but the scope of their work did not include the public-rights-of way. Sidewalks, street crossing and other elements of the public rights-of way provide unique challenges to accessibility and will require considerable thought. In the future, the City will need to budget to update the current transition plan to include any identified obligations of the City for public-rights-of way.

The final step required by the ADA is to develop a transition plan that prioritizes all of the recommendations and to identify a target date when the items will be accomplished. To help in this process, the City has assembled an ADA Transition Team (Team) comprised of representatives of each department. Many of the Team members served on the initial ADA review committee that provided feedback on the City's past ADA compliance efforts.

The Team has had an initial meeting and has reviewed a recommended prioritized set of criteria to help provide some structure to dealing with the over-6,000 required changes. The most significant of the recommended criteria includes the following:

1. Issues involving health and safety of the public; and

2. Issues that involve general access to the most frequently used public facilities.

The lower-end priorities would include such things as:

1. Staff work areas not generally accessed by the public, yet may need to be addressed at a future time as the result of staff who may have disabilities and need access to certain work sites; and

2. Issues involving facilities that may either be renovated or uninhabited in the future.

While some of the maintenance-type issues that need to be addressed may cost a few dollars (e.g., wrapping the water pipes at the sinks in the public restrooms), other issues like widening an access ramp at the Community Center is estimated to cost about $10,000. Other items like providing a compliant means of access to a public counter can be achieved at no cost through a programmatic change such as having a staff member come out from behind a counter to assist a citizen.

A review of the report indicates a significant area of focus is basic compliant access to City facilities and proper parking stalls. Issues include the path of travel, existing slopes, ramps, handrails, detectable warnings where people are crossing in front of traffic at driveways, parking lot signage, and parking stall dimensions, striping, and signage.

The recommendation is a systematic approach that allows progress to be made towards full compliance with the ADA. The Team is recommending that a specific dollar amount be set aside each year and that the Team then prioritize the changes that would be addressed with the designated funds. The recommendation is to start by addressing the "drive-by" issues.

These include such things as the required signage for parking lots and stalls. The estimated cost for signage at all facilities is approximately $60,000.

Conclusion

The City has made significant progress in its compliance efforts to meet the requirements of the ADA. In order for the City to be fully compliant, it will require a concerted effort to address the items identified in the transition plan. It will take approximately 20 years to complete and will require significant financial resources. The transition plan should be viewed as a fluid document. Items to address may change in priority over time as City finances allow for the accomplishment of the issues noted in the plan.

The ADA Transition Team will meet over the next year to develop a strategy to prioritize the transition plan. Annually, thereafter, the Team will review the plan, update the plan where necessary, and provide a recommended list of items to be addressed based on the resources allocated in a given year. The City will need to spend millions of dollars over the course of the implementation of the transition plan. How much is designated each year will be up to the Council.

Fiscal Impact of Transition Plan

The City will have to invest millions of dollars over the course of the 20 years. While some the identified items could be incorporated into the CIP process, other items will need to be addressed separately through the annual budget process.

Recommendation

Create an ADA Transition Plan line item in the budget and allocate funds for Fiscal Year 2013.

Council Action

The Americans with Disabilities Act recommendation was approved by City Council.

ATTACHMENT A

Categories of ADA findings at City facilities

Assembly Areas – Exterior: assembly area
Assembly Areas – Interior: assembly area
Benches – Exterior: benches
Break Room – Interior: break room
Break Room – Interior: sink
Counters – Exterior/Interior: counter
Counters –Interior: counter
Curb Ramps – Exterior: curb ramps, landings, transitions
Doors – Restrooms: door hardware
Doors – Exterior/Interior: door, hardware
Doors – Interior: door, hardware
Drinking Fountains – Exterior: drinking fountain
Locker Rooms – Interior: locker room, bench, mirror
Outdoor Sports Area – Exterior: ticket booth, seating
Parking – Exterior: Parking lot, parking space, warning sign
Passenger Loading Zones – Exterior: passenger loading zones
Path of travel – Exterior: path of travel, walking surfaces
Picnic Areas- Exterior: Picnic tables
Playgrounds – Exterior: Play area
Pools – Exterior: swimming pool – wading pool, lifts
Restrooms – Restrooms: restroom, grab bars
Restrooms – Restrooms: restroom, toilet
Restrooms – Restrooms: restroom, lavatory
Restrooms – Restrooms: restroom, compartment door
Restrooms – Restrooms: restroom, dispensers
Restrooms – Interior: restroom, toilet compartment
Restrooms – Interior: restroom, compartment door
Restrooms – Interior: restroom, grab bars
Restrooms – Interior: restroom, toilet
Restrooms – Interior: restroom, urinal
Restrooms – Interior: restroom, door signage
Restrooms – Interior: restroom, lavatory
Restrooms – Interior: restroom, wall signage
Restrooms – Interior: restroom, mirror
Restrooms – Interior: restroom, paper dispenser
Restrooms – Interior: restroom, disposal
Signage – Exterior/Interior: signage, signage
Sink – Interior: sink
Stairs – Exterior: Stairway, handrails, risers striping

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 two 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.

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, originally 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 District was refunded in August, 2011 in the amount of $5.05 million. Lower interest rates reduced 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 September 2011 to finance the lease of 16 multi-functional devices to copy, scan, fax and print in City offices. A total of $193,300 was financed over a 60 month term. 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 $1.9 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. Redevelopment Agency's are scheduled to be dissolved by State action on February 1, 2012. It is unclear at this time if the outstanding balance owed to the City will be repaid.

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, 2012. Fiscal Policy was modified in 2011 to establish criteria for long-term interfund loans for capital projects, such as the Golf Course Clubhouse. The outstanding $2.5 million balance is being recommended for conversion to a fully-amortized long-term loan in this year's LTFP.

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 $134,000 and will be repaid in full by June 30, 2012 through budgeted debt service payments from the Golf Operating Fund.

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 is recommended to be converted to a fully-amortized long-term loan, as discussed above. (See Enterprise Loan Financing section).

Debt Analysis

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				
Sewer Improvements AD 98-1	Reassessment District	June, 2007	$13,015,000	$1,224,500
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$330,000	$55,600
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Aug., 2011	$5,005,000	$381,400
Negocio Series A	Certificates of Participation	June, 1993	$745,000	$86,900
Negocio Series B	Certificates of Participation	June, 1993	$1,745,000	$235,100
City Copiers	Capital lease	September, 2011	$199,300	$39,900
Long-Term Inter-Agency Loan				
RDA	Inter-agency loan	July, 2002	$1,903,800	$269,800
Short-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2003	$134,000	$134,000
Golf Operating	Interfund loan	June, 2007	$2,500,000	$15,000

Recommendations on Existing Debt

Golf Enterprise Loan

As part of last year's LTFP, a Golf Fund Analysis paper made recommendations to:

1. Retire the remaining General Fund advances made between 2003 and 2006 in the 2012 budget, and
2. Consider alternatives to amortizing the $2.5 million interfund loan between the Golf Operating Fund and the In-Lieu Parking reserve beginning in 2013.

The final repayment of the General Fund advances was adopted as part of the City's 2012 budget, as recommended in item #1 above. With the repayment complete this year, the Golf Operating Fund could now afford to debt service a 15 year, fully amortized loan beginning in the 2013 fiscal year. Assuming a 2% interest rate, which represents an average rate of return on the City's investment portfolio over the past five years, annual payments of $194,600 would be required. This is within the range of the original debt service estimates approved by Council on May 15, 2007 when Certificates of Participation were recommended to finance the construction of the Golf Course Clubhouse project.

As required by Fiscal Policy, staff reviewed the potential impact of this loan to the In-Lieu Parking Reserve and has concluded that the repayment schedule will not affect funding of future projects from the In-Lieu reserve. Should the In-Lieu reserve require the funding committed to the proposed 15-year loan earlier, other funding sources could be examined to repay the remaining outstanding balance back to the In-Lieu reserve.

Negocio Certificates of Participation

The Negocio building is financed with two Certificates of Participation, Series A & B. Here are the outstanding balances, maturity, coupon rates, and current annual debt payments.

Series A

The Series A COPs are tax-exempt and callable without premium after June 1, 2005. The bonds mature in 2023. Coupon rates range between 5.9% and 6%.

Outstanding principal is $745,000.
Annual debt service is $89,500

Series B

The Series B COPs are taxable and structured without an optional call provision. The bonds mature in 2023. Coupon rates are all 8.5%.

Outstanding principal is $1,745,000.
Annual debt service is $238,000

Since the Series A COP's are callable, staff analyzed the potential cost savings to paying the Series A COP's in advance. Twelve years remain on the debt service schedule for the Series A COP's, with outstanding principal of $745,000. Assuming the City retires the Series A COP's immediately, gross interest savings of $347,000 will be realized over the remaining twelve years of the debt service schedule.

If the COP's are not retired, interest earnings on the $745,000, which would remain in the City's investment portfolio, were calculated at $139,200. For sake of analysis, interest rates for the City's portfolio ranged between 1.3%, (the current return on the City's portfolio), and 3.5% over the twelve-year period.

Based on this analysis, the interest expense ($347,325) of the bonds exceeds the interest earnings ($139,200) of retaining the $745,000 in the City's investment portfolio over the next twelve years by $208,125. The net present value of the projected savings amounts to $185,700.

Years remaining	Principal	Total Interest paid to maturity on Series A COP's	Total Payments to maturity	Projected interest earnings forfeited by early payoff	Benefit to early retirement of Series A
12	$745,000	$347,325	$1,092,325	$139,200	$208,125

Debt Options for Capital Project Funding

Options and Strategies

The information presented in the previous sections 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 has historically examined each of the major projects and identified eligible funding alternatives for City Council consideration. In this year's Capital Project Analysis paper, only three projects would warrant long-term debt considerations; the Civic Center project, the USACE Sand project, and the Recycled Water Expansion project. Because the third floor of the Negocio building has been leased until 2015, the Civic Center project will be delayed for several years and no recommendations for long term debt will be made at this time. Additionally, the Recycled Water Expansion project will be financed by a State Revolving Fund (SRF) loan, which has been approved. 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 4.0% 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 *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 $307,000. General Obligation bonds are subject to voter approval under Prop 218.

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.

Debt Analysis

Capital Project Summary Table

Capital Project	Required Funding	Debt Issue	Annual debt Service
USACE Sand Project – General Obligation Bonds	$4,170,000	$4,504,000	$307,000
Recycled Water Expansion Project SRF	$12,300,000	$12,300,000	$778,600

Debt Options Summary

Based on the above analysis, staff recommends;

1. Refinance the existing short-term $2.5 million loan from the Golf Operating Fund to the In-Lieu Parking Reserve with a 15-year, fully amortized loan. The interest rate shall be set at 2%. Annual payments will total $194,600.

2. Retire the outstanding Negocio Series A COP's in the amount of $745,000. Transfer $745,000 from the General Fund undesignated fund balance to the Negocio Debt Service Fund.

3. 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.

Should Council consider utilizing bonded debt for the USACE sand project, the following option is available;

1. 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.

Council Action

1. City Council deferred action on Staff recommendation #1. City Attorney to evaluate the legality of refinancing the existing short-term loan of $2.5 million between the Golf Operating Fund and the Beach Parking Fund.
2. Recommendations 2 and 3 were approved by City Council.
3. No action was taken on USACE Sand Project.

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	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
	FINANCING/FUNDING METHODS					
Parks and Medians						
Beach Restroom Master Plan $2.3 M construction costs $2.0 M gap		X		X		
Facilities						
Civic Center $12.9 M construction costs $9.0 M gap		X		X		X
Ole Hanson Beach Club $1.5 M construction costs $1.0 M gap		X		X		X
USACE Sand Project $12.2 M construction costs $4.2 M gap		X			X	
Wayfinding Master sign Program $1.2 M construction costs $1.677 M gap		X		X		
Water and Sewer (Enterprise)						
Recycled Water Expansion $22.0 M construction costs $12.3 M gap		X	X	X	X	

Gap Closing Strategies

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

Executive Summary
The 2012 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
    - Steed Park Lighting Improvements
    - Bonito Canyon Park Rehabilitation
    - Civic Center
    - Ole Hanson Beach Club
    - USACE Sand Project
    - Wayfinding Master Sign Program
    - Municipal Pier Rehabilitation
- 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 $21.2 million for General Fund and Capital Projects Fund projects and $12.3 million for an Enterprise Fund project.

Beach Restroom Master Plan
The 2012 Capital Projects Analysis indicates the anticipated cost of renovations of six beach restrooms at $2.4 million. The first restroom, at the base of the pier, was funded with $300,000 in fiscal year 2012; $140,400 from the General Fund and $159, 600 from the RDA. The RDA portion is no longer available, leaving a funding gap of $159,600 for the current year. The existing project should be re-evaluated to determine what renovations could be funded with the $140,400 contribution from the General Fund. If the existing funding is not adequate to renovate the base of the pier restroom, a supplemental appropriation in the current year from the General Fund will be necessary, or alternatively, additional funding could be requested as part of the 2013 Capital Improvement Program. The remaining five restrooms will be funded by the General Fund over the next five fiscal years.

Gap Closing Strategies

Gap Closing Strategies	
Beach Restroom Master Plan	(2,354,000)
General Fund – appropriated in 2012	140,400
RDA – appropriated in 2012 (no longer available)	159,600
General Fund	2,054,000

Steed Park Lighting Improvements

The field lighting improvements are estimated to cost $1.0 million. No specific reserves have been set aside for this project. With no other funding alternative, the improvement project should be funded from the General Fund in the Capital Improvement Program (CIP) budget, in two phases, a design phase of $100,000 in 2014 and the construction phase in 2015.

Gap Closing Strategies	
Steed Park Lighting Improvements	(1,000,000)
General Fund	1,000,000

Bonito Canyon Park Rehabilitation

The complete park rehabilitation project is estimated to cost $1.0 million. No specific reserves have been set aside for this project. With no other funding alternative, the improvement project should be funded from the General Fund in the Capital Improvement Program (CIP) budget, in two phases, a design phase of $100,000 in 2016 and the construction phase in 2017.

Gap Closing Strategies	
Bonito Canyon Park Rehabilitation	(1,000,000)
General Fund	1,000,000

Civic Center

In 2009, the total estimated cost for the adaptive reuse of the 910 Calle Negocio was $12.9 million. A total of $3.9 million is currently available through existing reserves, of which $1.4 million is in the Public Safety Reserve and $2.5 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.

In 2010, 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 in 2010 for a 5-year period, with a renewal option for an additional 5 years. 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.

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 2012 Capital Improvement Program (CIP) includes $1.5 million for renovations of the Beach Club. Based on the proposed scope of work and consultant feedback, the project team is now recommending an additional $1.0 million for the project in the 2013 budget. 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	(1,000,000)
General Fund	1,000,000

USACE Sand Project

The 2012 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 $85,000 available from the Feasibility Study project which can be committed to the design phase and the Department of Boats and Waterways (DBW) has awarded a $191,000 grant to the City for the design phase. Thus, no new City funds are necessary to continue 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 2014 at the earliest. This phase is eligible for DBW grant funds of up to 85% of the City's share, or $3.3 million, leaving a minimum funding gap of $0.6 million. The grants are subject to State funding availability which is not guaranteed. The project may not be feasible without grant funding assistance or other funding alternatives to fund the City's $3.9 million portion. If funded internally, the replenishment project would be a General Fund obligation.

Gap Closing Strategies

Gap Closing Strategies	
USACE Sand Project – Design Phase	(250,000)
Available balance from the Feasibility project	85,000
Department of Boats & Waterways (DBW) grant	191,000

Wayfinding Master Sign Program

The 2012 Capital Projects Analysis indicates a $2.0 million cost estimate for the Wayfinding Master Sign program over a multi-year period. Program funding in the amount of $45,000 remains available from the Public Facilities Construction Fee Fund for Phase I. Funding of $200,000 was budgeted from the General Fund ($125,000) and the RDA ($75,000) in 2012 for Phase II. With the loss of the RDA funding, only $125,000 is available. This will be combined with the remaining balance of $45,000 from the Public Facilities Construction Fee Fund to complete the Phase I implementation, which is not expected until spring of 2013. This leaves a funding gap of $1.83 million. Phase II will be resubmitted as part of the 2014 CIP. The remaining 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.

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

Municipal Pier Rehabilitation

The 2012 Capital Projects Analysis indicates a $1.0 million cost for the Municipal Pier Rehabilitation, which is recommended to be performed every 5 years. The Capital Projects Analysis is recommending this maintenance be budgeted in fiscal years 2016 (design) and 2017 (construction). Pier Rehabilitation was previously budgeted in the RDA which is no longer a viable funding source. As a result, a $1.0 million funding gap exists. With no other funding alternative, the rehabilitation project should be funded by the General Fund in the Capital Improvement Program (CIP) budget, which may have a significant impact to fund balance in the future.

Gap Closing Strategies	
Municipal Pier Rehabilitation	(1,000,000)
General Fund	1,000,000

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 $22.2 million. A State Revolving Fund (SRF) loan of $12.3 million has been identified to fund a portion of this project. 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	(22,200,000)
Federal funding obtained through Congressman Calvert	500,000
State grant funding through Proposition 50	5,600,000
Sewer Connection Fee Fund	3,300,000
Sewer Depreciation Reserve	500,000
State revolving fund loan (2.3% interest)	12,300,000

The application for the SRF loan has been processed and is in the final stages of review by the State. 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 early in calendar year 2012.

Conclusion

Potential funding sources have been identified for 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 lease obligations are fulfilled and 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 over the next five fiscal years.
2. Fund the Steed Park Lighting Improvements project from the General Fund with $100,000 for design in FY 2014 and construction in FY 2015.
3. Fund the Bonito Canyon Park Rehabilitation project from the General Fund with $100,000 in design in FY2016 and construction in FY 2017.
4. Delay the Civic Center project until the sale of the City Hall site.

5. Fund an additional $1.0 million for the Ole Hanson Beach Club renovation from the General Fund and include the project in the Capital Improvement Program budget for FY 2013.
6. Fund the design phase of the USACE Sand Replenishment project in FY 2013 with $85,000 from the feasibility project balance and $191,000 from the Department of Boats and Waterways grant.
7. Fund the Wayfinding Master Sign program on a "pay-as-you-go" basis from the General Fund over multiple years.
8. Fund the Municipal Pier Rehabilitation project from the General Fund with design in FY 2016 and construction in FY 2017.
9. Fund the Recycled Water Expansion through a State Revolving Fund loan. Final approval of the loan is expected in 2012.

Council Action

The Gap Closing Strategies recommendations were approved by City Council.

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.