City of San Clemente

City Council

• Bob Baker	Mayor
• Tim Brown	Mayor Pro Tem
• Lori Donchak	Councilmember
• Chris Hamm	Councilmember
• Jim Evert	Councilmember

City Manager

• Pall Gudgeirsson	City Manager

Executive Team

• Joanne Baade	City Clerk
• William E. Cameron	Director, Public Works/City Engineer
• John Coppock	Police Services Chief
• Pall Gudgeirsson	City Manager
• James S. Holloway	Director, Community Development
• Sharon Heider	Director, Beaches, Parks & Recreation
• Rick Robinson	Fire Services Division Chief

Project Director

• Pall Gudgeirsson	City Manager

Project Team

• Tom Bonigut	Assistant City Engineer
• Bill Cameron	Director, Public Works/City Engineer
• John Ciampa	Associate Planner
• Sandee Chiswick	Senior Accountant
• Ken Knatz	Principal Civil Engineer
• Sam Penrod	Human Resources Manager
• Jake Rahn	Financial Services Officer
• David Rebensdorf	Assistant City Engineer
• Tom Rendina	Business Services Officer
• Hanne Thordahl	Human Resources Analyst II
• Judi Vincent	Finance Manager

Mission Statement

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

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

Project Team

Project Director

Pall Gudgeirsson, City Manager
Veronica Ferencz, Senior Administrative Assistant

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Judi Vincent, Finance Manager

Reserve Analysis

Jake Rahn, Financial Services Officer

Fiscal Policy

Pall Gudgeirsson, City Manager
Tom Rendina, Business Services Officer
Judi Vincent, Finance Manager

Capital Projects Analysis

Ken Knatz, Principal Civil Engineer
David Rebensdorf, Assistant City Engineer
Tom Rendina, Business Services Officer

Clean Ocean Fee Renewal

Tom Bonigut, Assistant City Engineer

Fleet Maintenance Services Evaluation

Tom Rendina, Business Services Officer
Tom Bonigut, Assistant City Engineer

Street Improvement Program

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

General Plan Implementation Review Processt

John Ciampa, Associate Planner
Pall Gudgeirsson, City Manager

Americans with Disability Act

Sam Penrod, Human Resources Manager
Hanne Thordahl, Human Resources Analyst II
Mike Jorgenson, Building Official

General Liability Insurance Analysis

Hanne Thordahl, Human Resources Analyst
Sam Penrod, Human Resource Manager
Judi Vincent, Finance Manager

Debt Analysis

Tom Rendina, Business Services Officer

Gap Closing Strategies

Pall Gudgeirsson, City Manager
Jake Rahn, Financial Services Officer
Tom Rendina, Business Services Officer

Issues & Objectives

Financial Trend Analysis

Objective

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

Financial Forecast

Objective

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

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (b) meet program needs without unnecessarily obligating scare 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 on the progress of the City's Street.

Fleet Maintenance Services Evaluation

Objective

To review analyze the current delivery of fleet vehicle maintenance services , which are currently performed at the City's corporate yard, and present alternatives to consider for future service delivery.

Clean Ocean Fee Renewal

Objective

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

General Plan Implementation Review Process

Objective

To establish procedures for the annual review of General Plan Strategic Implementation Priorities and General Plan implementation measures, and to determine which projects/programs will be implemented in the coming fiscal year.

American with Disability Act (ADA)

Objective

To provide an annual update on the progress made in meeting the requirements of the Americans with Disability Act (ADA), including the implementation of the prioritized recommendations based on the City's self-assessment of City facilities, programs, services, and activities.

General Liability Insurance Analysis

Objective

To provid an overview of the City's liability coverage as a member of California Joint Powers Insurance Authority (CJPIA), discuss the funding allocation models used by CJPIA over time, and explain the "retrospective" balance owed, including options for payment.

Debt Analysis

Objective

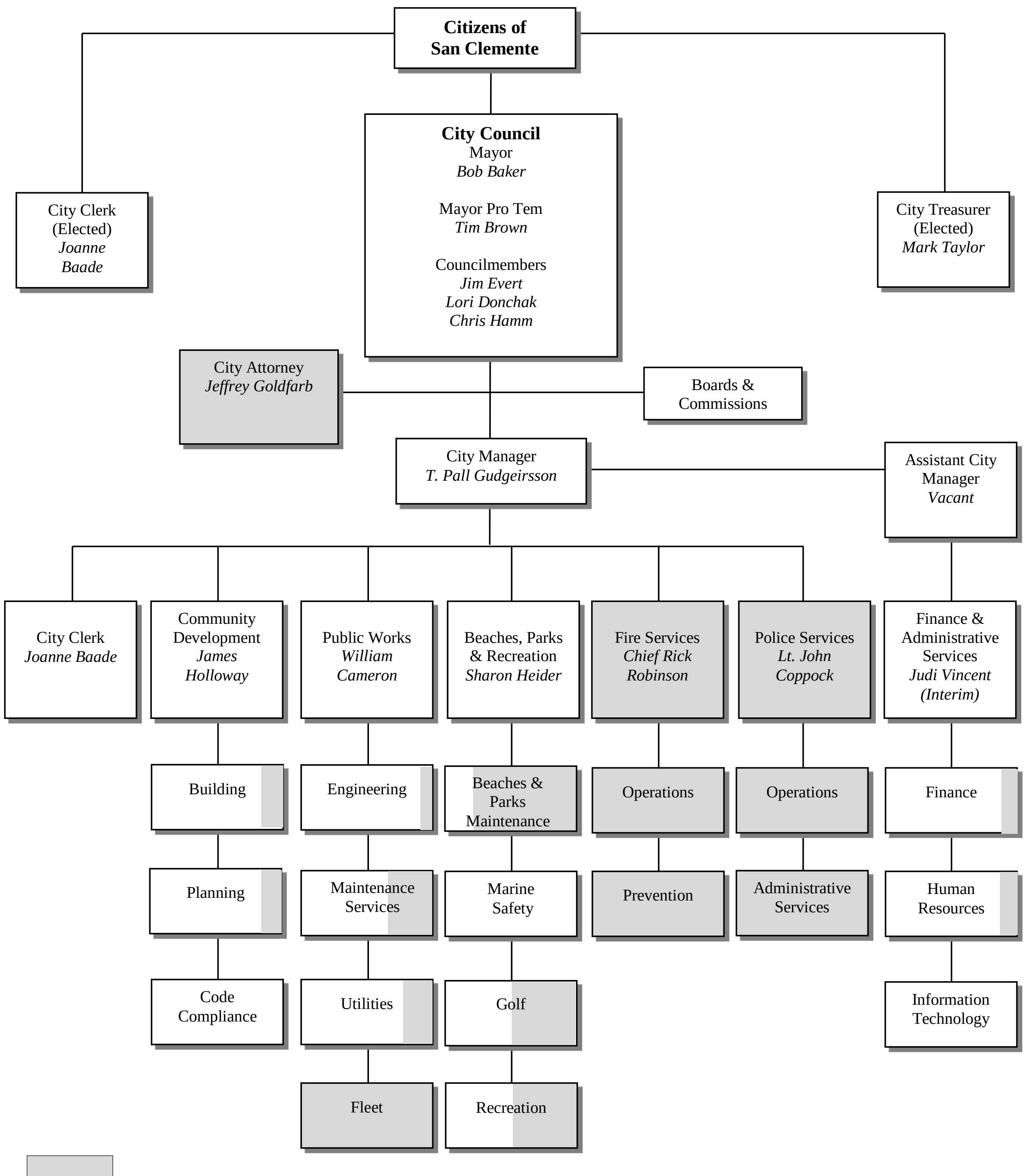
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs

Gap Closing Strategies

Objective

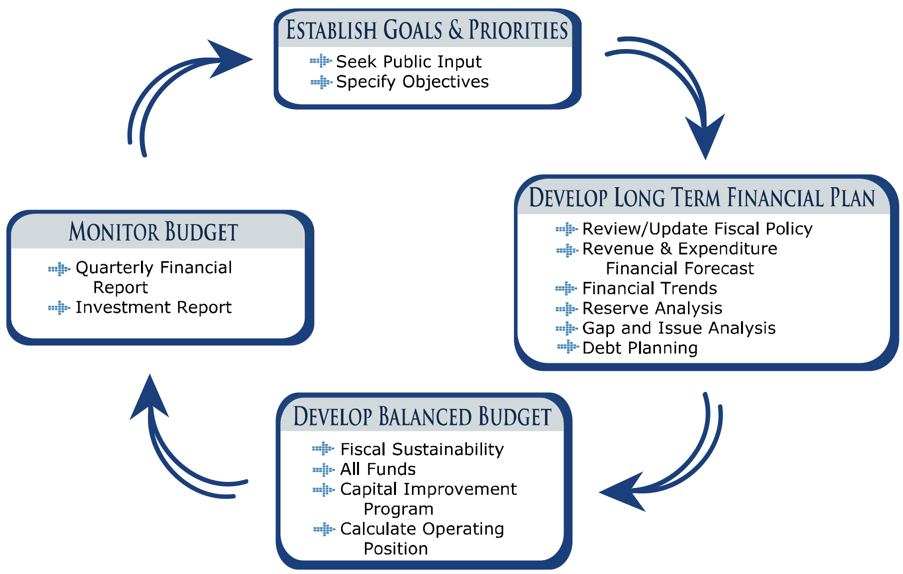
To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.

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.

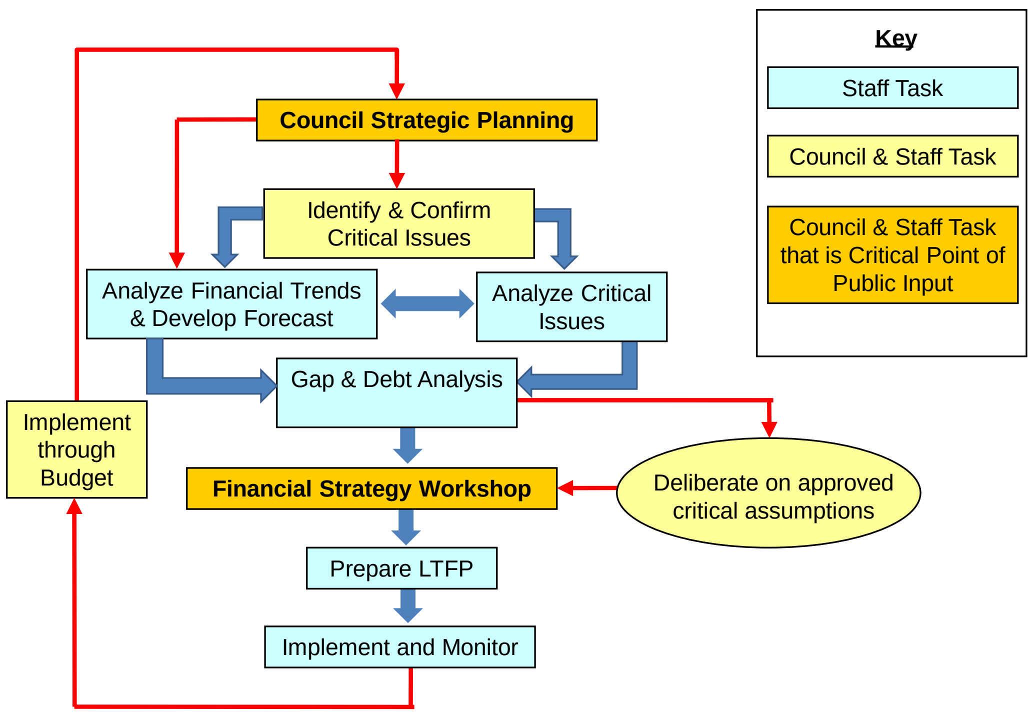
The 2013 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Clean Ocean Fee Renewal
- Fleet Maintenance Services Evaluation
- Street Improvement Program Update
- General Plan Financial Forecast
- Americans with Disability Act
- General Liability Insurance Analysis
- Debt Analysis
- Gap Closing Strategies
- Glossary

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted by City staff. In fact, 14 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 9 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

Annually, City Council identifies which projects and programs are of the highest priorities for the coming year. 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 meet 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

	March 26, 2013	Long Term Financial Plan Workshop (Special Council Meeting)
	March 26, 2013	Priority Workshop
	May 16, 2013	Budget Workshop (Special City Council Meeting)
	June 18, 2013	FY 2014 Budget Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2013 LTFP represents the twenty-first 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 2012 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". 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.	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 2013 budget. General Liability charges increased to a total of $1,650,000. A transfer of $110,000 from the General Fund to the Accrued Leave Reserve was included in the budget. Reduce the Vista Hermosa Sports Park reserve based on operations and maintenance costs during the year.

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

Capital Projects Analysis	Status
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.	Significant capital projects have been projected in the City's 6-year Capital Improvement Program budget. These are broken into 3 categories (City projects – Non-Enterprise, City projects-Enterprise, and Prospective projects). Due to their major impact on the General Fund, and recent elimination of RDA funding, the implementation of these projects is addressed over a period of time.

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.

Review of Developer Fee Reserves	Status
To review all development related reserves and present the amount and available uses of the reserves.	Done

General Liability Fund Analysis	Status
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.	Done

Business License Review	Status
To review the existing business license tax structure to determine if any changes should be made in the process or tax structure.	No changes were made to the business license tax structure as a result of the Business License Review. Council

	directed staff to pursue “electronic enhancements” and staff successfully implemented online business license payment processing for business license renewals in late 2012.

Legal Cost Analysis	**Status**
To review and analyze legal costs and determine methods of cost reduction and efficiencies.	Modified the existing city attorney services contract to reduce the monthly retainer from $9,450 to $8,000/month, reduce the hourly fee for non-retainer services from $240 to $229, and modify weekly office hours.

General Plan Financial Forecast	**Status**
To establish procedures for the annual review of General Plan Strategic Implementation Priorities and General Plan implementation measures, and to determine which projects/programs will be implemented in the coming fiscal year.	Done

Utility Cost of Services	**Status**
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.	A comprehensive Cost-of-Service Study was performed in 2012 on the water and sewer utilities. In addition to a review of the overall rate structure which resulted in a sewer rate increase of 8% and a water rate increase of 7%, unit allocations were examined and amended for single family and irrigation customer classifications in tiers I and II. Season definitions were examined and modified as well. Changes were adopted by Council on June 12, 2012 and went into effect on August 1, 2012.

American Disabilities Act	**Status**
To present an overview of the ADA assessments completed by the City’s consultant, Disability Access Consultants, Inc. (DAC); review the steps already taken by the City to comply with ADA requirements;	The recommendation is done, however the efforts to comply with ADA will be ongoing. Staff is currently addressing making corrections to non-

and, outline an approach to address the DAC recommendations to ensure the City’s facilities, programs, services, and activities are ADA compliant.	compliant ADA items.

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.	Done

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

Year	Challenge	Solution
2011	• To discuss considerations for the repair of existing sidewalks and the construction of new sidewalks in compliance with the American Disabilities Act.	• City Council directed staff to pursue development of a comprehensive sidewalk policy, which was completed and adopted. It cost approximately $13,000 to develop (staff time).
	• To identify potential on-going revenue enhancements or new revenues that could help eliminate 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.
	• 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.	• The rehabilitation of the restroom at the base of the pier is funded and estimated completion is winter of 2013.
2010	• To provide an update on the progress of the City's Street Improvement Program.	• City is updating a pavement analysis to try to predict needs, costs and how big an assessment the city would need to charge.
	• To provide a summary of significant capital projects with funding challenges.	• 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

T. Pall Gudgeirsson, City Manager
100 Avenida Presidio, San Clemente, CA 92672

Honorable Mayor and Council Members:

I am pleased to present the 2013 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 continues a tradition of examining our present financial picture and making prudent decisions in assuring the City's strong and stable financial future. The City's AAA bond rating reflects that strength.

The City's business plan is a long-range planning tool that allows City Council to make strategic decisions regarding the City's fiscal sustainability both in the short and the long term. The foundation of the LTFP is built from a *financial forecast, financial trend analysis* and the City's underlying *fiscal policies.* The plan includes an *executive summary* which describes the City's current and projected financial condition and a financial overview which outlines specific recommendations to address outstanding fiscal issues. The substance of the plan is contained in the *critical issue papers,* which analyze topics that have or may have a substantial impact on City finances.

This year's financial plan identifies a series of significant fiscal challenges along with recommended actions designed to deal with them as directly and quickly as possible. In the past few years, the City has been fortunate in having sufficient dollars to fund major capital projects while maintaining a balanced budget. For fiscal year 2014, projections point to a continued negative *operating position* in the General Fund, as well as lower *unassigned fund balances* than we have become accustomed to.

Operating position (operating revenues less operating expenditures that don't include one-time revenues or capital expenditures) is projected to be negative this year and over the next several years mostly due to moderate economic growth, public safety contractual increases, lower interest earnings, insurance premium increases, and full absorption of maintenance costs at the Aquatics & Sports Center. As always, adjustments will be made during the budget process in order to ensure a positive operating position. It should be noted that new development, including the Marblehead project, are not included in future projections.

Unassigned fund balances (fund balances available for appropriation) are projected to end the year at a very moderate $1.2 million. Fund balances have been used over the past several years to finance major capital projects including the sports park and $2.5 million has been set aside out of these balances to fund the renovation of the Ole Hanson Beach Club and Pool. Further, the capital budget calls for additional 2014 capital and maintenance projects totaling $2.7 million, including an additional $1.2 million for the Ole Hanson project as well as proposed expenditures for Recycled Water Retrofit of City Parks ($190,000), an Operational Continuity Data Center ($110,000), Major Street Maintenance ($550,000), ADA Improvements ($150,000), the annual Sidewalk Repair and Improvements program ($150,000), and the annual Slurry Seal program ($250,000). The loss of Redevelopment Agency funds has also altered our ability to fund major projects in the Pier Bowl area.

In addition to capital projects and issues noted above, we were recently notified that a 'retrospective' payment totaling $3 million, up from last year's initial estimate of $963,000, is payable to our insurance pool (California Joint Powers Insurance Authority or CJPIA). These payments are the result of our claim history and a change in the methodology used to allocate costs to members. This substantial liability is due July 1, 2013 and, although a 'payment plan' is available, I do not recommend that option. Additionally, annual liability insurance premiums are slated to rise from $931,143 to $1.4 million in FY 2014 and up to approximately $1.9 million in FY 2015. A recommendation to fund this liability along with a comprehensive external review of our insurance program is outlined in the General Liability Insurance issue paper.

Fund balances include the City's Emergency Reserve of $4.5 million and a Sustainability Reserve of $10 million. Spending of these reserves would, of course, further reduce our total fund balances and would be difficult to replenish in light of our projected negative operating position. On the positive side, we anticipate repayment of $2.2 million from the State of California in June, which will enhance our fund balances. Although the timing of cash flows and specific dollar amounts are uncertain, the City anticipates about $5.8 million from the sale of mobile home lots as part of the Bellota settlement proceeds; and proceeds from the future sale of 2.5 acres of land the City owns at Vista Hermosa and La Pata, estimated between $2.6 to $3.5 million. More uncertain at this time is the possibility that the State may approve $1.7 million repayment of a General Fund loan to the RDA, which was disallowed with the demise of redevelopment agencies.

To address this fiscal maze, a summary of LTFP recommendations are outlined below. Full explanations are contained in the summary and issue papers.

- Utilize $3 million temporarily from Sustainability Reserve to pay General Insurance liability
- Replenish $3 million Sustainability Reserve from Bellota mobile home lot sales
- Utilize $800,000 proceeds from Bellota land sales to fund General Liability Reserve requirements
- Use $1-2 million from Bellota land sales to establish Pier Rehab Reserve. Remainder, if any, to Unassigned Fund Balance
- If $1.7 million proceeds from existing RDA loan are approved by State, add net receipts to Unassigned Fund Balance
- Use $2.2 million State loan repayment to add to Unassigned Fund Balance
- Use Vista Hermosa future land sale proceeds, estimated at $2.6 to $3.5 million, to add to Unassigned Fund Balance

Careful deliberation and consideration by the City Council will be required as important projects are weighed against fiscal reality and our ability to fund many competing capital priorities. If LTFP recommendations are adopted, we will reduce our existing liabilities, increase fund balances for allocation to critical capital projects, and enhance our overall financial position.

I would very much like to pass along my sincere thanks to the many staff members that contributed to this financial plan. Fiscal challenges lie ahead but I am sure that the recommendations offered in this plan will result in immediate and future improvements to our fiscal picture.

T. Pall Gudgeirsson
City Manager

Executive Summary

The *Executive Summary* portion of the 2013 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 2013 Long Term Financial Plan Summary

Included within the *Executive Summary* section:

- *Introduction*
- *2013 LTFP Summary*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *General Fund Loan*
- *Financial Trend Analysis*
- *Debt Analysis*
- *Gap Closing Strategies*
- *Five Year Financial Forecast*
- *Fund Balances*
- *Conclusion & Projected Financial Condition*
- *Summary of LTFP Recommendations*

Introduction

The LTFP produces a financial plan and provides solutions

The LTFP provides an objective look at the current financial issues facing the City of San Clemente and outlines a plan to meet the needs of the community without sacrificing the City's financial future.

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

The *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 future impact of current decisions.

2013 Long Term Financial Plan Summary
The *five-year financial forecast* was last updated after adoption of the FY 2013 budget. At that time, the General Fund operating position was projected to be positive in the first year of the forecast and negative beginning in FY 2014.

Five-year forecast projects average growth of 2.1% for revenues and 2.6% for expenditures

The 2013 LTFP forecast shows a similar financial picture with operating deficits projected beginning in FY 2014. The forecast does show a slowly improving financial picture for City revenues, with operating revenues projected to increase by an average of 2.1% per year over the five year forecast period. Operating expenditures are expected to grow 2.6%, on average, over the same period. Based on these expected growth rates, operating deficits are projected in all five years of the forecast.

2013 LTFP Forecast (In millions)	**2014**	**2015**	**2016**	**2017**	**2018**
Projected surplus/deficit	-$ 0.6	-$ 0.8	-$ 1.7	-$ 2.3	-$ 2.7

Sales Tax revenue expected to increase an average of 2.6% per year

Forecasted increases of 2.1%, on average, for operating revenues is largely due to continued slow economic growth projected over the next several years. Property tax revenues are expected to increase by 1.1% in the first year and to average increases of 2.0% through the remaining four years. Sales taxes are projected to grow by an average of 2.6% annually over the forecast period.

Fire contract increased by 4.5% which is the maximum allowed

Projected annual increases for operating expenditures average 2.6% over the next five-years and are mainly the result of anticipated increases in police and fire services contract costs. In general, forecast expenditures are increased by inflation, other forecast assumptions or known contractual increases. The police services contract has been increased by 0.5% for FY 2014 based on the initial estimates for FY 2014 provided by the Orange County Sheriff's Department's (OCSD). The last published Strategic Financial Plan developed by the OCSD has been incorporated in the forecast for the remaining years, and projects increases for the police services contract averaging 3.4% over that time period. The fire services contract with the Orange County Fire Authority (OCFA) has been increased by 4.5% annually, which is the maximum amount the contract allows.

In later years of the forecast, operating costs for Vista Hermosa Sports Park are no longer covered by a subsidy from reserves, negatively impacting operating position. The $2.9 million Vista Hermosa Park reserve is included in the first two years of the forecast to bridge the gap between operating revenues and expenditures at the park. The reserve is fully depleted by 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. Policies are reviewed annually to determine if new policies or revisions are necessary. Based on this year's review, no changes are recommended to the City's Fiscal Policy.

The 2013 LTFP identifies the financial and implementation challenges of funding capital projects, renewing the Street Improvement Program, implementing the Americans with Disabilities (ADA) plan, renewing the Clean Ocean Fee Program, delivering fleet vehicle maintenance services, establishing a General Plan Implementation review process, and funding the City's General Liability Insurance needs.

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

- 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, the USACE Sand Replenishment project, the Wayfinding Sign program and a future Municipal Pier Rehabilitation project.

An update on the renewal of a Street Improvement Assessment District is presented

- The Street Improvement Program paper provides an update of efforts by staff to renew a street assessment district for ongoing maintenance of City streets. The original assessment district expired in late 2011, resulting in the loss of a significant revenue source to fund the existing program. 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 in the transition plan. Implementation of the plan will require significant financial resources over the next twenty years.

The Clean Ocean Fee program expires in December 2013

- The Clean Ocean Fee Renewal paper provides an update on the progress of the Clean Ocean Fee Program, originally passed by voters in 2002 and subsequently renewed in 2007. The current program expires in December 2013. The paper describes the program elements in detail and provides recommendations to begin planning for a renewal of the Clean Ocean Fee.

The future delivery of Fleet Maintenance Services is examined

- The Fleet Maintenance Services Evaluation provides an analysis of the current contracted fleet maintenance function. With the current contract due to expire in June 2014, the paper presents alternative scenarios for the future delivery of fleet maintenance services to the City.

General Plan Implementation Review process will integrate the General Plan into the LTFP process

- The General Plan Implementation Review Process paper establishes procedures for the annual review of General Plan Strategic Implementation Priorities in order to determine which projects/programs will be implemented in future fiscal years. The process will allow for the integration of the General Plan Strategic Priorities with the LTFP. While the new General Plan has not yet been adopted, staff seeks confirmation of the process for evaluating priorities and selecting implementation measures to focus on in the next fiscal year.

Retrospective insurance payment of $3.0 million due in July, 2013

- The General Liability Insurance Analysis provides an overview of the City's liability insurance coverage as a member of the California Joint Powers Insurance Company (CJPIA). The paper explains and recommends a payment option for the $3.0 million retrospective balance due to the CJPIA from the City in July, 2013.

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 2013 fiscal year with a total fund balance of $17.4 million, which includes $10 million in Sustainability Fund balance, $4.5 million in emergency reserves, $1.7 million in Vista Hermosa O&M reserves and $1.2 million in unassigned fund balance. The unassigned fund balance is a concern, as this is a relatively low balance and impacts the City's ability to fund capital projects in the General Fund.

For FY 2013, General Fund operating revenues, excluding one-time revenues but including the use of Vista Hermosa Sports Park subsidy reserve, are expected to amount to $50.2 million, while General Fund operating expenditures, excluding one-time program costs, projects and transfers, are estimated to total $50.1 million..

Reserve Funding
Several fiscal policy statements adopted by the City Council over the years relate to the funding of various reserve funds. 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 2014 budget. Reserve Analysis recommendations include:

- Maintain the General Fund emergency reserve at the target reserve level of 9% of operating expenditures.

- Maintain charges to funds in the amount of $1.65 million for the General Liability Self-Insurance Fund, based on anticipated premiums and anticipated retrospective liability assessments. In addition, a plan to comply with the fund's reserve policy by retaining $800,000 of the future proceeds from the Bellota land sale is addressed.

- Maintain existing worker's compensation rates.

- Make routine transfer of $110,000 from the General fund to the Accrued Leave Reserve in FY 2014.

- Transfer $20,000 from the General fund to the Capital Equipment Replacement reserve in FY 2014 and maintain capital equipment replacement charges to keep the reserve at an adequate level.

Transfer $50,000 to Park Asset Replacement Reserve

- Transfer $50,000 from the General fund to Park Asset Replacement Reserve for FY 2014.

General Fund Transfers

Transfers total $1.2 million

For FY 2014, forecasted transfers total $1.2 million and include $756,290 for the Street Improvement Program, $150,000 for debt and operational support of the Negocio Building, $180,000 in reserve contributions as detailed above, $14,180 for the Senior Mobility subsidy and $115,100 for utility 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 2014, the street program will complete the remaining projects using existing funds and contributions from the General Fund and Gas Tax Fund. For forecast purposes, General Fund contributions to the Street Improvement Program of $756,290 are included in each year of the forecast.

General Fund Loan

RDA debt to the General Fund is $1.7 million

The General Fund has an outstanding loan made from the General Fund to the Redevelopment Agency (RDA) – Debt Service Fund. The interagency loan to the RDA – Debt Service Fund consolidated and repaid $3.4 million from two prior Interfund loans to purchase the Casa Romantica and fund other activities in the RDA. The loan, which was made in 2002, is structured with an annual interest rate of 2.9% and a term of 16 years, and has a $1.7 million balance due.

Due to the dissolution of all RDA's in the State of California, this loan is still currently outstanding and may not be repaid without State approval. Whether this loan will be repaid and the potential repayment amount and timeframe are all uncertain at this point, as unresolved RDA dissolution issues are still being addressed. If it is determined by the State that the General Fund loan can be repaid, the receipts would provide additional unassigned fund balance in the General Fund.

12 out of 21 indicators are favorable as of June 30, 2012

Financial Trend Analysis
The City's financial condition is also quantitatively measured using a financial trend monitoring system. The annual Financial Trend Analysis report for the year ending June 30, 2012 indicates 12 out of 21 indicators are favorable as compared to 10 out of 21 in the prior year. Because of the commitment to financial planning, funding of necessary reserves, and cost reduction efforts made by many City departments, the City has already taken the initiative to address these unfavorable trends in order to improve the City's long term fiscal health.

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

"Favorable" rating for Sales Tax Revenue

The positive changes were:
- *Sales Tax Revenue: increased to Favorable.*
- *Population: increased to Favorable*

"Warning" rating has been assigned to Fringe Benefits

The negative change was:
- *Fringe Benefits-decreased to Warning*

<u>Rating Discussions</u>
Although there are indications of an improving local economy, it is not yet fully reflected in the trend analysis:

Revenues per Capita have remained at a Warning rating due to decreases in both actual and constant amounts.

Property tax revenues remain an Unfavorable rating due to a minor decrease in actual and constant dollars from the prior year. Property tax revenues are starting to level out, and it appears that housing prices are increasing as the inventory of housing declines.

Property Values remains at an Unfavorable rating due to the second year of negative growth rate for secured values during the last year. Due to the housing bubble and the economy, property tax values declined in FY2010 and 2011 and the City is still seeing the effects of this decline in FY 2012 as well.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. This trend remains at a Favorable/Caution rating due to decreases in community development charges, construction permits and business licenses.

Sales Taxes were up in 2012 due to Target opening in the fall of 2011

Sales Taxes increased slightly between FY 2011 and FY 2012, in actual dollars, due to increased sales activity as a result of the opening of Target in October 2011. Sales taxes have improved from a Warning to a Favorable rating because this is the second consecutive year of increases and sales tax revenue

should continue to increase due to sales at the Target center and improvements in the economy.
Community Development Service Charges remains at a Favorable/Caution rating because, although these decreases were anticipated during the FY 2012 budget, development continues to level out showing a slight decrease for the current year.

Population has changed from a Warning to a Favorable rating due to an increase of 1.08% over the prior year. This increase is due to the California Department of Finance estimates based on 2010 Census numbers.

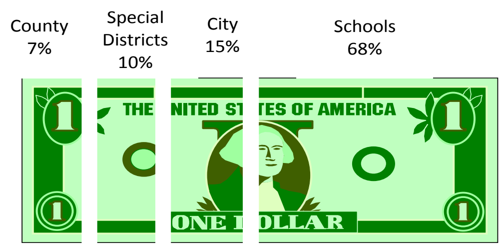
Operating Position moved from FY 2011 $1.1 million surplus to flat in FY 2012

Operating Position has decreased from a surplus of $1.1 million in the prior year to a flat operating position in FY 2012. This operating position is based on operating revenues and expenditures, which exclude one-time amounts and include the use of one-time reserves. Favorable/Caution rating remains due to this flat operating position.

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

Indicator	13	12	11	10	09	08	07	06	05	04
Revenues Per Capita	**W**	W	U	F/C	F/C	F	F/C	F/C	W	W
Property Tax Revenues	**U**	U	W	W	F/C	F	F	F	F	F
Property Values	**U**	U	U	W	F/C	F	F	F	F	F
Elastic Revenues	**F/C**	F/C	W	W	W	W	F/C	F	F	F
Sales Tax Revenues	**F**	W	U	U	F/C	F	F	F	F	F
License & Permit Revenues	**F/C**	F/C	F/C	U	U	W	F	F/C	F	F
Comm. Develop. Charges	**F/C**	F/C	U	U	U	W	F/C	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/C	F	F	F	F	F	F
Population	**F**	W	F	F	F	F	F	F	F	F/C
Expenditures Per Capita	**F**	F	F	F	F	F	F/C	F	F	F
Expenditures By Function	**F**	F	F	F	F	F	F	F	F/C	F/C
Employees Per Capita	**F**	F	F	F	F	F	F	F	F	F
Fringe Benefits	**W**	F/C	F/C	F	F	F	F	F	F/C	F
Capital Outlay	**F**	F	F	F	F	F	F	F	F	F
Operating Position	**F/C**	F/C	F/C	F/C	F	F	F	F	F	F
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	**F**	F	F	F	F	F	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
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.

Gap Closing Strategies

Capital projects and identified gap closing strategies

The 2013 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 are suited to a pay-as-you-go funding approach by the General Fund. The Ole Hanson Beach Club renovation project may require an additional commitment of General Fund money and will be programmed in the City's Capital Improvement Program budget.

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.

Sand replenishment design is funded

The USACE Sand Replenishment design phase is fully funded. The initial sand replenishment portion of the project, estimated at $4.2 million, is not funded at this time.

2013 forecast has been updated

Five Year Financial Forecast

The 2013 forecast has been updated with revised revenue and expenditure assumptions. The forecast shows a negative operating position in all five forecast years, beginning in FY 2014. The forecast assumptions are to maintain current level of services.

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

Revenues:

- Property taxes are projected to increase by 1.1% in total for FY 2014. Increases averaging 2% are included beginning in FY 2015.
- Sales taxes are projected to increase 3.0% in FY 2014. Increases averaging 2.5% per year beginning in FY 2015 are projected based on CPI increases projected in 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 2014 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues and related expenditures are included beginning in FY 2015, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first two years, with a small remainder depleting the reserve in year three.

Expenditures:

- New positions – No new city positions are projected to be added.
- Frozen positions – Of a total of eight frozen positions, five are in the General Fund and are not funded in the forecast.
- Police services contract – Police contract costs are increased for FY 2014 based on the Orange County Sherriff Department's initial estimates for the coming year. Future year's projected increases are based on the Sheriff Department's last published five-year Strategic Plan. The Plan projects 4.6%, 2.7% and 3.1% increases to the contract costs from FY 2015 through FY 2018. Contract increases average $347,000 per year over the five-year period. No new Police positions have been added. Also, no amounts have yet been added for proposed 800MHZ radio system facility and equipment upgrades until exact costs, timing and funding sources have been identified.
- Fire services contract –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% each year, based on OCFA's assumptions for the five year period. If reductions to OCFA's General Fund budget reduce contract charges, the changes will be adjusted in the City's FY 2014 budget.

- Cost of living - For salary and benefit forecast purposes only, it is presumed that cost of living increases will be 2.0% in FY 2014, and 2.5% for the remaining four years.
- Retirement – City share of retirement cost is increased by 4% in FY 2014, and 2% for the remaining four years.
- Medical – Medical rates are not increased in FY 2014, based on terms in the City's negotiated employment contract. Medical Rates are projected to increase 6% per year, in total, through the remainder of the forecast, based upon recommendations by CalPers.
- Negocio Building – An annual transfer of $150,000 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 – Operations of the Park will continue to be subsidized by a contribution from the Vista Hermosa reserve through FY 2015, with a small remainder projected to be used in FY 2016. A subsidy of $840,000 is projected for FY 2014.
- 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, $180,000 has been included in each year of the forecast for reserve transfers. This is based on average contributions to reserves over the past two years and projected reserve needs.
- 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. However, a payment of $271,000 is included in the forecast for FY 2014 to pay costs due to actuarial changes and CalPERS investment performance. This annual amount is subject to annual revisions.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund amounts to $756,290 per year.
- Capital and Major Maintenance - The forecast includes a total of $950,000 for ongoing major street maintenance, slurry seal and sidewalk repair programs, but does not assume any spending for capital projects or one-time maintenance projects.

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, including potential park and trail maintenance costs, have not been included in the forecast.

- Proceeds of an estimated $5.8 million from the sale of the Bellota land are not included. The $5.8 million estimate was provided in 2005 and will be updated soon to reflect current market conditions.
- The repayment of $2.2 million from the State of California for borrowed property taxes is not included in the forecast. The repayment is due in June, 2013; however, the State has the ability to repay the loan and borrow it back.
- The forecast does not include any spending for capital or one-time maintenance projects.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Operating Position

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

2013 LTFP Forecast (In millions)	**2014**	**2015**	**2016**	**2017**	**2018**
Operating receipts	$50.9	$52.3	$52.8	$53.7	$54.9
Operating disbursements	51.5	53.1	54.5	56.0	57.6
Projected surplus/deficit	-$ 0.6	-$ 0.8	-$ 1.7	-$ 2.3	-$ 2.7

*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 and does not include major future projects like the Marblehead commercial development. .

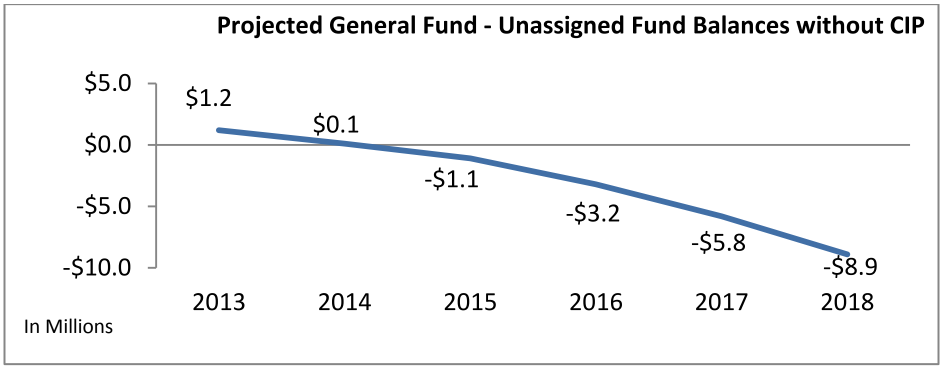
General Fund Fund Balances

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 capital or other one-time expenditures. Fund balance should be used for one-time expenditures only.

For FY 2014, a projected negative operating position along with one-time expenditures and reserve transfers eliminates almost all of the $1.2 million unassigned fund balance expected at the end of FY 2013. Modifications will be made during the FY 2014 budget process to produce a positive operating position, which will increase available unassigned fund balance.

Negative operating positions for the remaining years of the forecast, reduce unassigned fund balance to negative $8.9 million by FY 2018. The forecast does not assume any spending for capital projects or one-time maintenance projects, but does include a annual total of $950,000 for ongoing major maintenance projects (major maintenance, slurry seal and sidewalk repair programs).

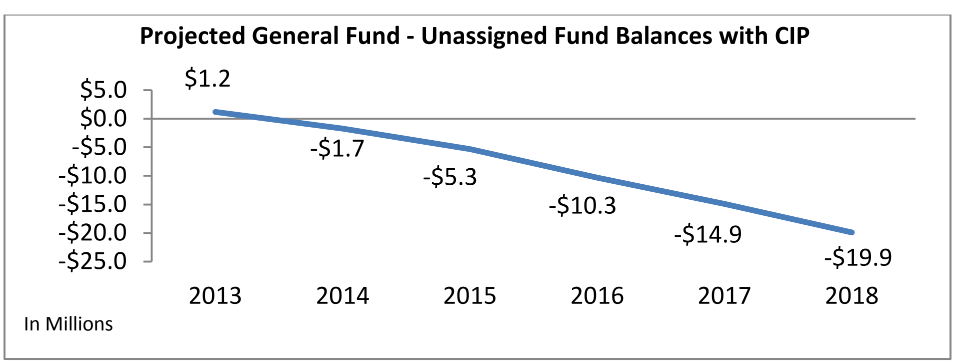
The following chart illustrates projected unassigned fund balances in the General Fund per the 2013 Long Term Financial Plan forecast.



If projected capital and one-time maintenance projects are added the forecast, the projected unassigned fund balance would decrease substantially. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. The table below shows costs for General Fund capital and one-time maintenance projects that are proposed for the next five years. Detail on these amounts can be found in the Capital Projects analysis paper.

2013 Proposed Projects (In millions)	**2014**	**2015**	**2016**	**2017**	**2018**
Capital Projects	$1.5	$1.4	$2.5	$1.8	$1.7
Maintenance (not ongoing)	0.2	1.0	0 .5	0.2	0.2
Totals	$1.7	$ 2.5	$3.0	$ 2.0	$ 1.9

The chart below modifies the General Fund unassigned fund balance to show the impact of these proposed capital and one-time maintenance projects on fund balances.



Fund Balance Issues- Several events are anticipated over the next several years which may enable the City to add to its unassigned fund balance, somewhat offsetting the negative balances shown above. The actual amounts and timing for these receipts is not assured; therefore, they are not included in the long-term projections.

State of California Loan: A repayment to the City from the State of California in the amount of $2.2 million (for property tax revenue borrowed in FY 2010) is due by June 30, 2013. It should be noted that the State has the right to borrow funds from the City again, for up to a three year period. Maintaining adequate reserves will ensure that City operations are not negatively impacted should that occur.

Bellota: Proceeds from the Bellota Land sale, originally estimated to net $5.8 million, will become available once the applicable lots are sold. A past subsidence claim related to Bellota exceeding $11 million was paid from the General Liability fund, with the General Fund contributing $7 million towards the claim directly. As discussed in the General Liability Insurance Analysis and the Reserve Analysis papers, it is recommended that proceeds from selling the Bellota land be used to fund a retrospective payment of $3.0 million and $800,000 to meet reserve fiscal policy in the City's General Liability Fund. Remaining proceeds are recommended to fund approximately $2.0 million for a Pier Maintenance and Repair reserve as discussed in the Gap Closing Strategies paper. (Actual net proceeds may differ from the $5.8 million estimate that was made several years ago. The City is in process of having an appraisal performed to determine the current value of the mobile home lots).

Marblehead: The city will ultimately realize ongoing property, sales and hotel tax revenues, originally estimated at $3.0 million, once all phases of of the Marblehead Development are complete. The first phase of the commercial project may be completed by December 2014. A portion of these revenues are slated to fund the ongoing operating costs for the Vista Hermosa Sports Park, as the reserve funds set aside for these operations are projected to be depleted by FY 2016.

Revenues will also be needed to fund the ongoing operation and maintenance costs associated with the development's parks and trails, as ownership will pass to the City once those are completed. (Actual ongoing revenues may differ from the $3.0 million estimate that was prepared several years ago. City staff is working on obtaining updated estimates for the ongoing revenue that will be generated by the project).

LaPata/Vista Hermosa Land: Receipt of proceeds from the sale of 2.5 acres of land at the corner of La Pata and Vista Hermosa, estimated at between $2.6 and $3.5 million, is anticipated in the next few years.

RDA: The City recently lost RDA funding for the Pier Bowl area, which funded repairs and maintenance for the pier. As discussed in the LTFP Gap Closing paper, pier rehabilitation is recommended to be performed every 5 years and will need to be funded by the General Fund in the CIP budget. These repair and maintenance costs may have a significant impact on the General Fund fund balance in the future. Ongoing funding of a Pier Maintenance and Repair reserve would be needed to ensure the pier is adequately maintained in future years. The Bellota land sale is recommended as a source to fund $2.0 million for a Pier Maintenance and Repair Reserve in order to adjust for the loss of RDA funding that was previously used for this purpose,

Fund Balance Reserves

The City's fund balances include the Sustainability Fund Balance, Vista Hermosa Park and Emergency Reserves. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Vista Hermosa Park Reserve balance is $1.7 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 – Assigned Reserves (in millions)

	2013	2014	2015	2016	2017	2018
VH Park	$1.7	$1.1	$0.2	$0	$0	$0
Emergency	4.5	4.6	4.8	4.9	5.0	5.2
Sustainability	10.0	10.0	10.0	10.0	10.0	10.0
Assigned Reserves	$16.2	$15.7	$15.0	$14.9	$15.0	$15.2

Reserve Recommendations - The LTFP General Liability Insurance Analysis paper recommends making a $3.0 million retrospective payment to the CJPIA, due July 1, 2013, by advancing $3.0 million from the General Fund Sustainability Reserve. The Sustainability Reserve would be replenished when the Bellota land sale is complete, estimated in FY 2015. The Bellota land sale is also recommended as a source to fund $2.0 million for a Pier Maintenance and Repairs Reserve in order to adjust for the loss of RDA funding that was previously used for this purpose, as discussed in the LTFP Gap Closing Paper. The chart below shows the projected balances of the General Fund Assigned Reserves if these recommendations are approved.

General Fund – Assigned Reserves (in millions)

	2013	2014	2015	2016	2017	2018
VH Park	$1.7	$1.1	$0.2	$0	$0	$0
Emergency	4.5	4.6	4.8	4.9	5.0	5.2
Pier Maint. & Repair	-0-	-0-	2.0	2.0	2.0	2.0
Sustainability	10.0	7.0	10.0	10.0	10.0	10.0
Assigned Reserves	$16.2	$12.7	$17.0	$16.9	$17.0	$17.2

Conclusion & Projected Financial Condition

The Financial Summary has provided an overview of the City's current financial condition and presented a five year financial forecast if fiscal trends and forecast assumptions were to continue. Projected operating position is shown below.

In millions	2013	2014	2015	2016	2017	2018
Forecast Operating Position	$0.1	$-0.6	$-0.8	-$1.7	-$2.3	-$2.7

Below are several potential changes to consider if budgetary operating position is still negative when City Council is presented with the FY 2014 budget. Options to bring projected operating deficits to a positive position in the first year of the forecast are the review of existing annual contributions from the General Fund to the Street Improvement Program, and the annual funding of the major street maintenance and slurry seal programs.

In thousands	2013	2014	2015	2016	2017	2018
Operating Revenue	**50,249**	**50,905**	**52,314**	**52,753**	**53,696**	**54,858**
Proposed Adjustments	0	0	0	0	0	0
Revised Operating Revenue	**50,249**	**50,905**	**52,314**	**52,753**	**53,696**	**54,858**
Operating Expenditures *Operating Reductions:*	**50,116**	**51,468**	**53,127**	**54,478**	**55,988**	**57,550**
Reduce transfer to SIP to $500,000 annually[1]	0	-256	-256	-256	-256	-256
Reduce major street maintenance by one-half[2]	0	-275	-275	-275	-275	-275
Reduce slurry seal by one-half[3]	0	-125	-125	-125	-125	-125
Revised Operating Expenditures	**50,116**	**50,812**	**52,471**	**53,822**	**55,332**	**56,894**
Revised Operating Position	**133**	**93**	**-157**	**-1,069**	**-1,636**	**-2,036**

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

[1] The annual transfer to the Street Improvement Program is included in each year of the forecast. Beginning in 1999, the transfer of $500,000 was increased annually by 3%, and was changed to a flat amount of $756,290 beginning in FY 2013.

[2] Major street maintenance is funded annually at $550,000. This option will reduce the funding level by one-half.

[3] The slurry seal program is funded annually at $250,000. This option will reduce the funding level by one-half.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2013 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by City Administration.

A narrative description and rationale for each recommendation is contained in the individual issue papers under separate tabs in this document. Council Actions are included under the Recommendation section of each paper.

Financial Trend Analysis

1. None

Financial Forecast

1. None.

Reserve Analysis

1. Maintain the General Fund Emergency Reserve at a level of 9% of operating expenditures.
2. Maintain the Sustainability Fund Balance Reserve at $10 million.
3. Maintain the Enterprise funds emergency reserve level at 12% of operating expenses.
4. Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2014, estimated at $840,000.
5. Transfer $110,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2014 ($110,000 was the FY 2013 transfer).
6. Authorize the General Liability Self-Insurance Fund to charge funds in the amount of $1.65 million based on anticipated premiums and operating costs of each fund (see Attachment "A" in the Reserve Paper for the fund charges).
7. Retain $800,000 of the proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.
8. Maintain the existing workers' compensation rates at the current levels to maintain reserves at an adequate level.
9. Maintain contributions for the replacement of the City fleet vehicles and equipment to keep the reserve at an adequate level.
10. Transfer $20,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2014 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
11. Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
12. Transfer $50,000 from the General Fund to the Park Asset Replacement Reserve for FY 2014 and contribute annual amounts for the replacement of park assets.

13. Maintain annual depreciation fund charges and asset model contributions to the Water Operating fund to achieve three years worth of future capital projects.
14. Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.
15. 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.
16. Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.
17. Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

Fiscal Policy

1. None

Capital Projects Analysis

1. Funding recommendations will come from the FY2014 Proposed Budget.

Street Improvement Program

1. None

Clean Ocean Program Review and Renewal

1. Direct Staff to begin planning for a renewal of the Clean Ocean Fee.

Fleet Maintenance Services Evaluation

1. Direct Staff to further evaluate potential fleet maintenance approaches.

General Plan Implementation Review Process

1. None

Americans with Disabilities Act (ADA) Update

1. Allocate $150,000 from the General Fund for the ADA Improvements as part of the CIP for Fiscal Year 2014.

General Liability Insurance Analysis

1. Transfer $3.0 million from the General Fund Sustainability Reserve to the General Liability Insurance Fund to pay the retrospective balance due on July 1, 2013. Reimburse $3.0 million to the General Fund Sustainability Reserve when proceeds from the Bellota land sales are realized.

Debt Analysis

1. None

Gap Closing Strategies

1. None

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 drawn from the City's Comprehensive Annual Financial Reports for fiscal years FY 2008 through FY 2012. Consequently, all trends are based on data available as of June 30, 2012, and do not incorporate any changes that have occurred since that time.

Executive Summary

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

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

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

Indicator	13	12	11	10	09	08	07	06	05	04
Revenues Per Capita	W	W	U	F/C	F/C	F	F/C	F/C	W	W
Property Tax Revenues	U	U	W	W	F/C	F	F	F	F	F
Property Values	U	U	U	W	F/C	F	F	F	F	F
Elastic Revenues	F/C	F/C	W	W	W	W	F/C	F	F	F
Sales Tax Revenues	F	W	U	U	F/C	F	F	F	F	F
License & Permit Revenues	F/C	F/C	F/C	U	U	W	F	F/C	F	F
Comm. Develop. Charges	F/C	F/C	U	U	U	W	F/C	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/C	F	F	F	F	F	F
Population	F	W	F	F	F	F	F	F	F	F/C
Expenditures Per Capita	F	F	F	F	F	F	F/C	F	F	F
Expenditures By Function	F	F	F	F	F	F	F	F	F/C	F/C
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	W	F/C	F/C	F	F	F	F	F	F/C	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F/C	F/C	F/C	F/C	F	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	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 2013 Long Term Financial Plan includes the analysis of twenty-one trends. Two indicators received a Warning rating, five received a Favorable/Caution rating and two indicators received an Unfavorable rating. In total, these current year results reflect a positive change from the prior year when three indicators received a Warning rating, six received Favorable/Caution ratings and two 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 long term fiscal health of the City.

Rating changes

There were 3 trend changes from the last fiscal year. Two were changes in a positive direction and one was in a negative direction.

The positive changes were:

- *Sales Tax Revenue* – increased to Favorable
- *Population* – increase to Favorable

The negative change was:

- *Fringe Benefits* – decrease to Warning

Rating discussion

Two changes in a positive direction and one in a negative direction in the indicators' ratings show that the City is starting to improve; although there are indications of an improving local economy, it is not yet fully reflected in the trends.

Revenues per Capita has remained at a Warning rating due to decreases in both actual and constant amounts.

Property tax revenues remain an Unfavorable rating due to a minor decrease in actual and constant dollars from the prior year. Property tax revenues are starting to level out; however, it appears that housing prices are increasing as the inventory of housing declines.

Property Values remains at an Unfavorable rating due to the second year of negative growth rate for secured values during the last year. Due to the housing bubble and the economy, property tax values declined in FY 2010 and 2011 and the City is still seeing the effects of this decline in FY 2012 as well.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. This trend remains at a Favorable/Caution rating due to decreases in community development charges, construction permits and business licenses.

Sales taxes increased slightly between FY 2011 and FY 2012, in actual dollars, due to increased sales activity as a result of the opening of Target in October 2011. Sales taxes have improved from a Warning to a Favorable rating because this is the second consecutive year of increases and sales tax revenue should continue to increase due to sales at the Target center.

Community Development Service Charges remains at a Favorable/Caution rating; because although these decreases were anticipated during the FY 2012 budget, development continues to level out; showing a slight decrease for the current year.

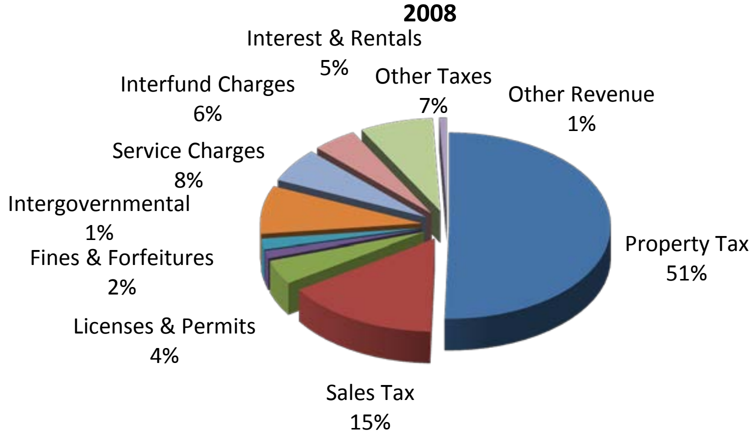
Population has changed from a Warning to a Favorable rating due to an increase of 1.08% over the prior year. This increase is due to the California Department of Finance estimates based on 2010 Census numbers.

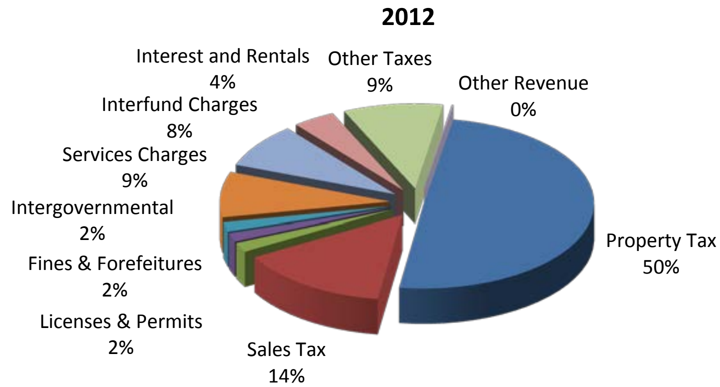
Operating Position has decreased from a surplus of $1.1 million in the prior year to a flat operating position in FY 2012. This operating position is based on operating revenues and expenditures, which exclude one-time amounts and include the use of one-time reserves. Favorable/Caution rating remains due to this flat operating position and the instability of the current economy.

The City is seeing the effects of its efforts to mitigate the economic downturn in the stabilization or leveling out of revenues and expenditures over the past year. With an ever changing and unpredictable economy the City continues to be selective in filling positions and conservative in budgeting. 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 negative affects of these unstable economic times.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2008 vs. FY 2012



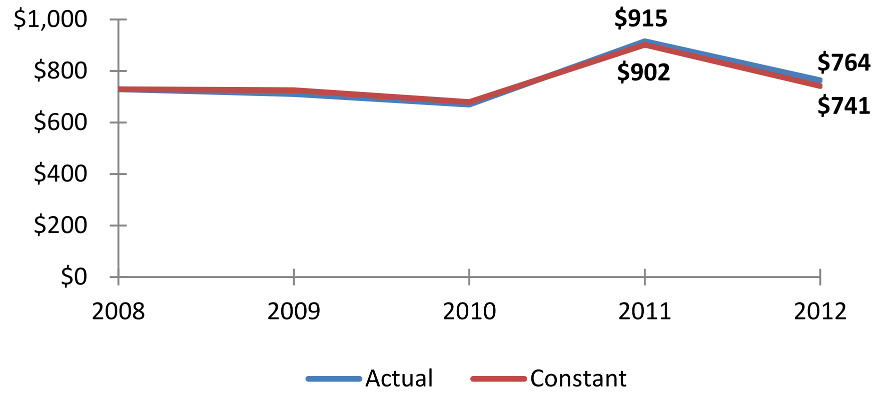


Comments: These charts, which compare current revenue sources to those five years ago, show changes in the revenue percentages by source for General Fund revenues in the Property Tax, Sales Tax, Licenses and Permits, Interfund Charges, and Other Taxes categories. Property tax revenues, as a percent of general fund revenues, decreased from 51% in FY 2008 to 50% in FY 2012 due to a change in property tax legislation that started in the 2005 fiscal year, new development in the City and housing price increases. The change in legislation increased property taxes by $4.9 million and decreased the City's motor vehicle license fees by the same amount. [1] Sales tax decreased from 15% in FY 2008 to 14% in FY 2012 due to a decrease in consumer spending as a result of the economic downturn. The decrease in licenses and permits from 4% in FY 2008 to 2% in FY 2012 is due to a moving of business license revenues from licenses and permits to other taxes. This change has therefore led to an increase in other taxes from 7% in FY 2008 to 9% in FY 2012. Interfund charges have increased from 6% in FY 2008 to 8% in FY 2012 mainly due to recovery of overhead charges from other funds.

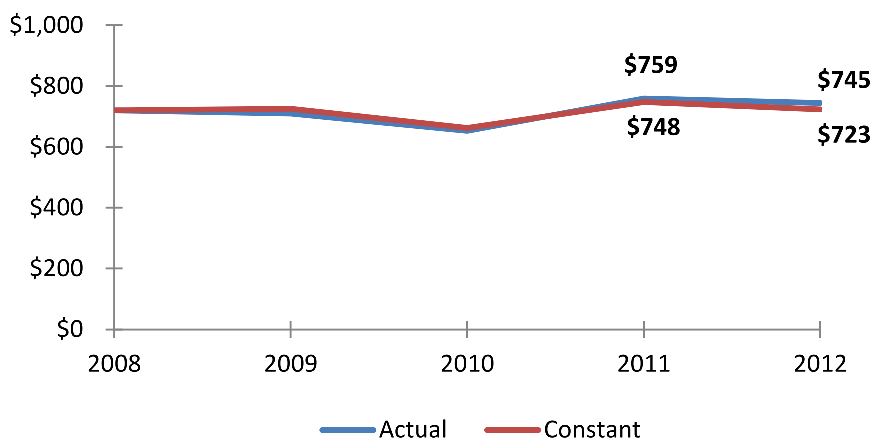
[1] See "Attachment A" at the end of the Trend section.

Revenues Per Capita

REVENUES PER CAPITA
Operating Revenues *Including* One-Time Revenues
Actual and 2008 Constant Dollars
General Fund



REVENUES PER CAPITA
Operating Revenues *Excluding* One-Time Revenues
Actual and 2008 Constant Dollars
General Fund



Finding: ***WARNING***. Revenues per capita in both charts reflect a decrease when analyzing actual amounts and constant dollars for FY 2012. This trend remains a warning rating due to this decrease. Revenues per capita, in actual dollars, experienced a decrease from FY 2011 of 16.5% (including one-time revenues) and 2% (excluding one-time revenues) related to decreases in property tax, licenses and permits, Intergovernmental, Fines and Forfeitures, and Interfund Charges and other revenues. In constant dollars the decrease was 17.8%, when including one-time revenues and 3% when excluding one-time revenues.

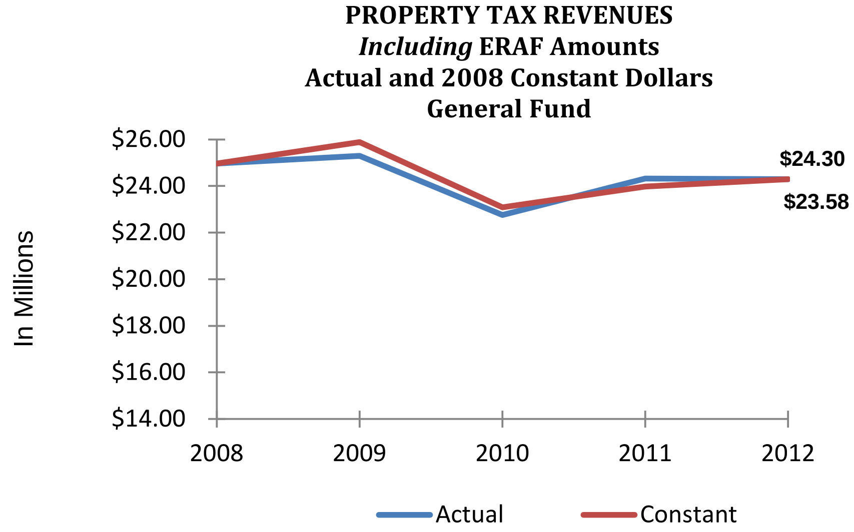
The consumer price index decreased from the prior year and shows a positive inflation rate of 1.59%. The population of the City has increased by approximately 686 from FY 2011 due to estimates made by the State based on calculations made to the 2010 Census number.

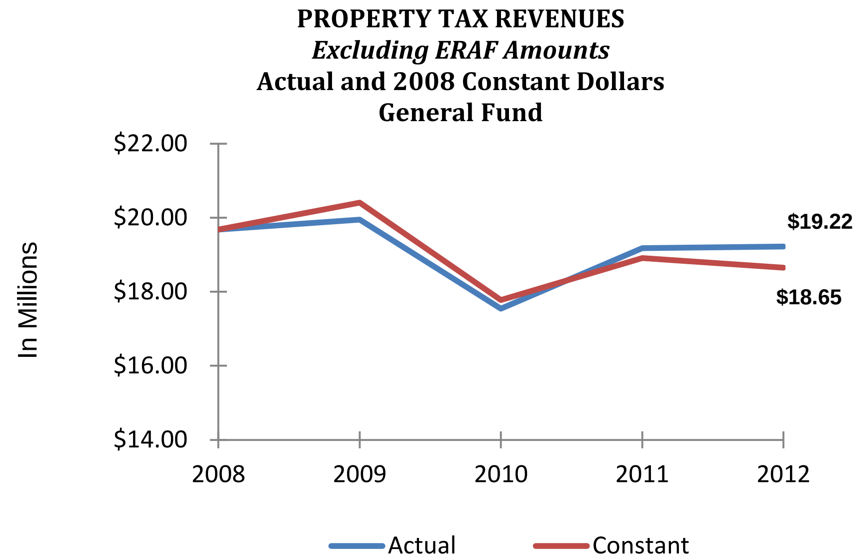
Comments: The first chart (which includes one-time revenues) shows a downward trend from $915 to $764 in actual dollars and a corresponding decrease from $902 to $741 in constant dollars. Total revenues for fiscal year 2012 decreased by $9.1 million from the prior year, due to a one-time $9.15 million transfer from the Parks Acquisition fund in FY 2011. The revenue categories with the most significant decreases include Interfund Charges (69%), Licenses and permits (53%), Intergovernmental (22%), and Fines and Forfeitures (6%). The decrease in interfund charges of $9.1 million, along with decreases in Licenses and permits of $1.0 million; had a significant impact on the decreases in revenues from the prior year.

The second chart (which excludes one-time revenues) shows a slight decrease in actual dollars from $759 to $745 and a decrease in constant dollars from $748 to $723. 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. Since population is the denominator in this equation, this decrease is also due to the population increase.

This trend stays at a Warning rating due to these decreases. This trend needs to be monitored for the next few years due to the unpredictability of revenues during these economic times.

Property Tax Revenues





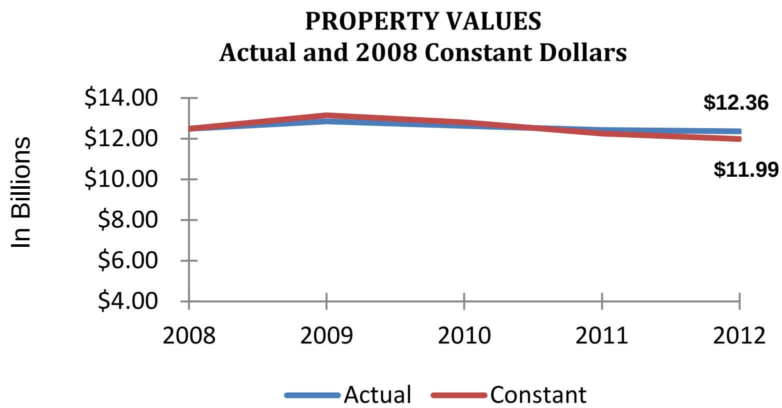
Finding: ***Unfavorable.*** Property tax revenues are indicating a leveling out of revenues. This is also the case when excluding Educational Revenue Augmentation Fund (ERAF) amounts. This reflects the property tax value trend later discussed.

Comments: The first chart shows property tax revenues decreasing slightly by $19,900 in actual dollars, and 1.6% in constant dollars ending the year $393,926 below the prior fiscal year.

The second chart considers the effect of excluding ERAF . (see Attachement "A" following the trends).

This indicator remains at a Warning rating because, although property taxes show a leveling out in both actual and constant dollars, this trend does not yet show an increase for two consecutive years.

Property Values



Finding: ***UNFAVORABLE***. Property values exhibited a continued negative growth rate in FY 2012.

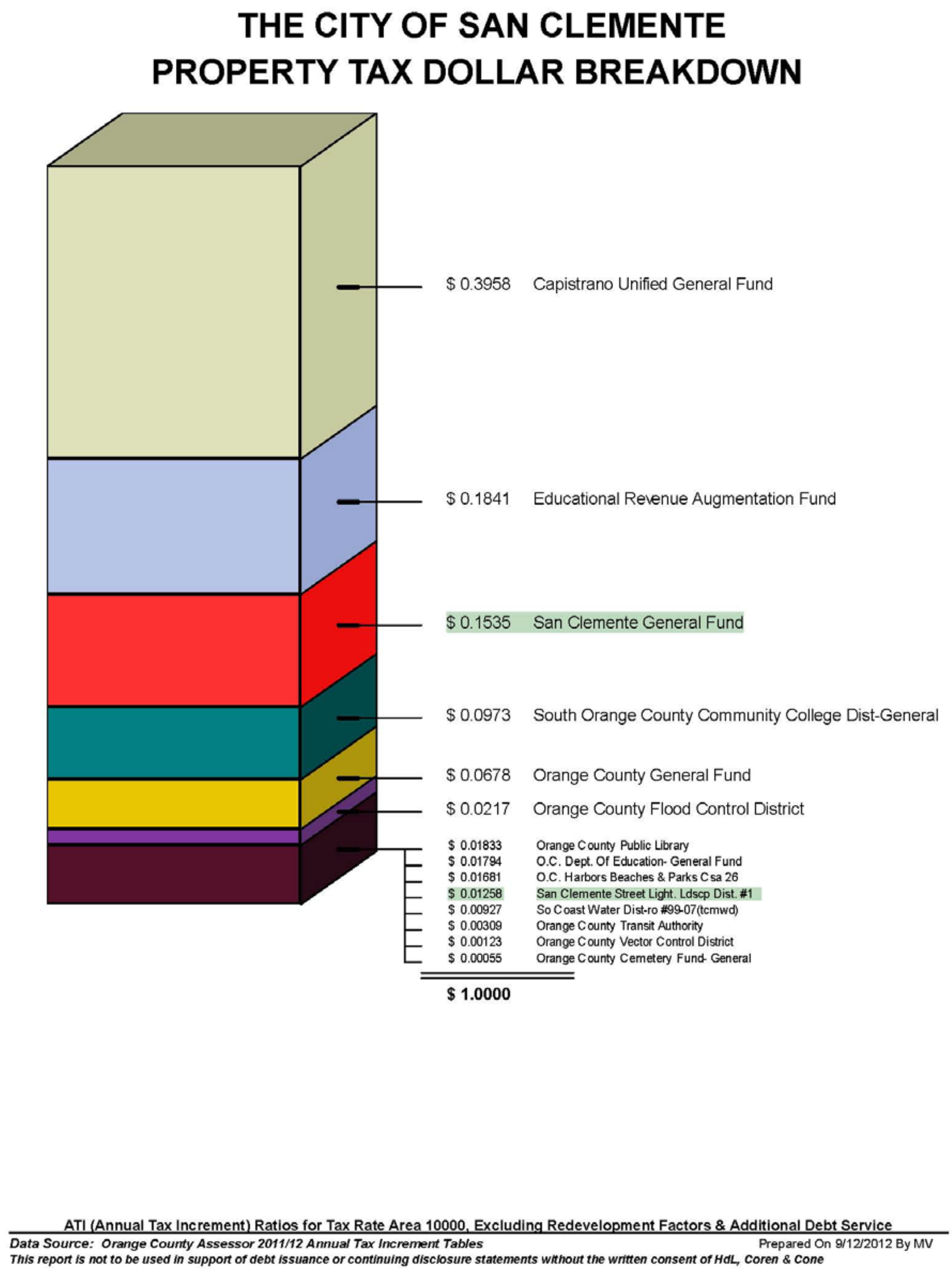
Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars was negative 1.22%. This indicator will remain as Unfavorable due to the third year of decline. Due to the housing bubble and the economy, property tax values declined in FY 2010 and 2011 and the City is still seeing the effects of this decline in FY 2012 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 2012 Property Tax Data.

City of San Clemente
Assesed Value History
(In Thousands)

Tax Year	Secured Values	% Change
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%
2012	$12,054,219	-1.22%

Source: HDL Coren & Cone Reports 2010

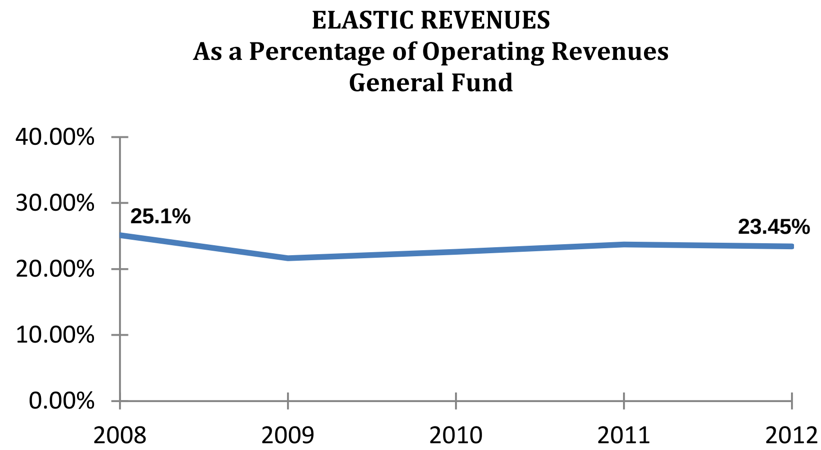
Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San Clemente receives $0.153 of each property tax dollar collected within the City. The following graph shows the distribution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



The 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)

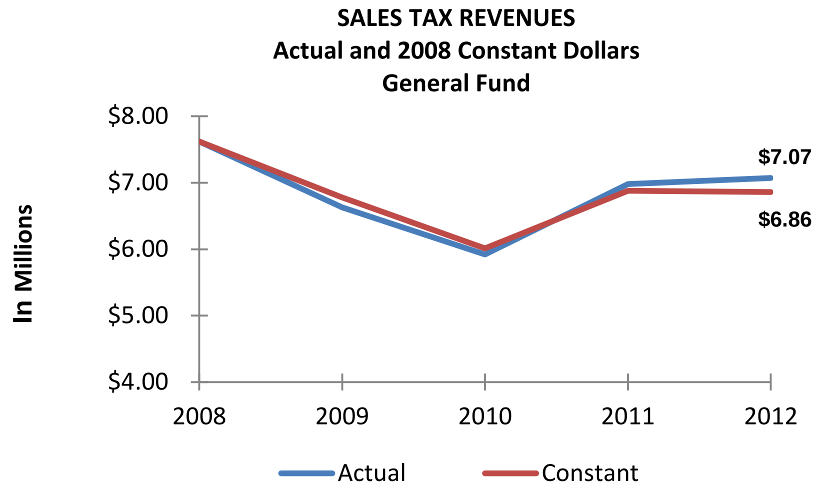


Finding: ***FAVORABLE/CAUTION.*** Elastic revenues are revenues that are highly responsive to changes in the economy and inflation. The City has defined Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges as Elastic revenue, because these revenues are the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

Elastic revenues, as a percentage of total revenues, show a minor decrease from FY 2011 to FY 2012. Actual elastic revenues decreased by $207,318. This trend has remained a Favorable/Caution rating due to these decreases in community development charges and construction permits, and business licenses. Although business licenses were reclassified in the accounting system from licenses and permits to a tax based revenue; they are included in the elastic revenue category for comparative purposes.

Comments: Elastic revenues, as a percentage of total revenues, decreased from 23.7% in FY 2011 to 23.4% in FY 2012. The decrease in construction permits, community development service charges and business licenses and permits contributed to this decline. The increases in elastic revenues were in the Sales taxes and Transient Occupancy Taxes.

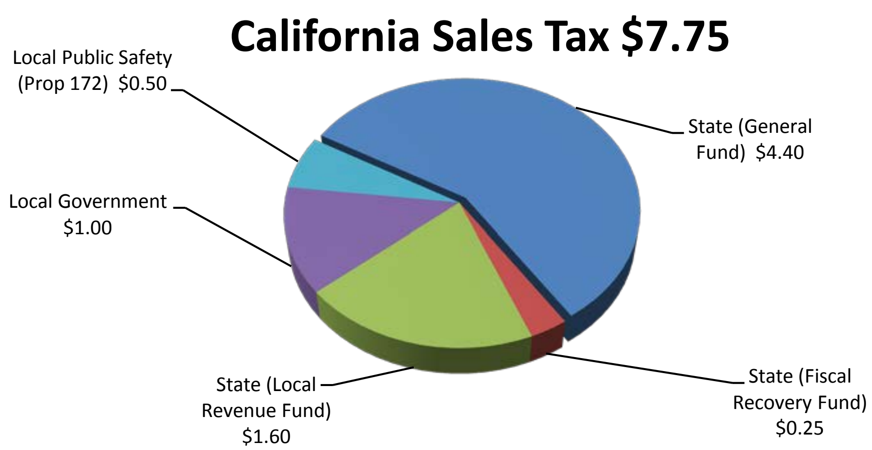
Sales Tax Revenues



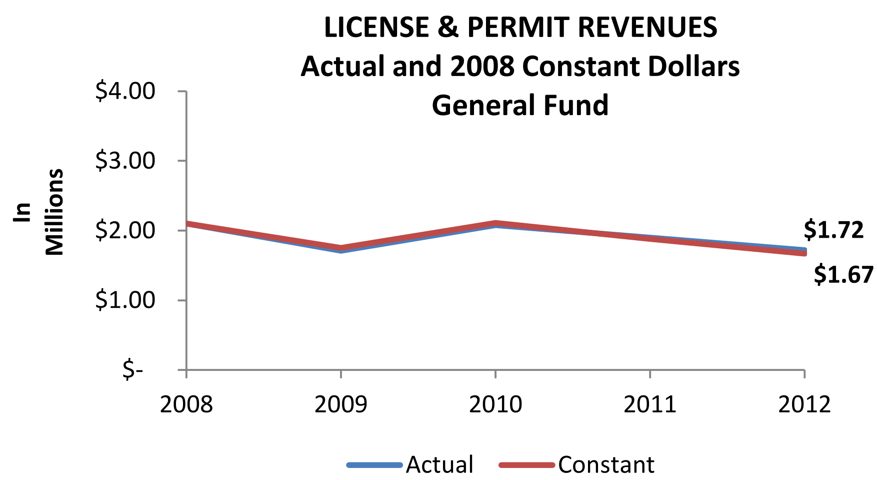
Finding: ***FAVORABLE.*** As summarized in the chart above, sales tax revenues show an increase of $95,000, or 1.4% in actual dollars over the prior fiscal year. In constant dollars, there was a decrease of $15,300, or 0.2% for FY 2012. The inflation rate during this period was 1.59%. However, sales tax revenues are still below FY 2007 and 2008 levels.

Comments: As summarized in the chart, sales tax revenues have increased for the second time since FY 2008 in actual dollars. The opening of Target in October 2011, the partial year of sales contributed to this increase. The small decrease in constant dollars is due to an increase in the consumer price index factor, which is the denominator in the calculation. This indicator has increased from a Warning to a Favorable rating, because sales have increase for the second consecutive year and should continue to increase due to Target sales. 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.



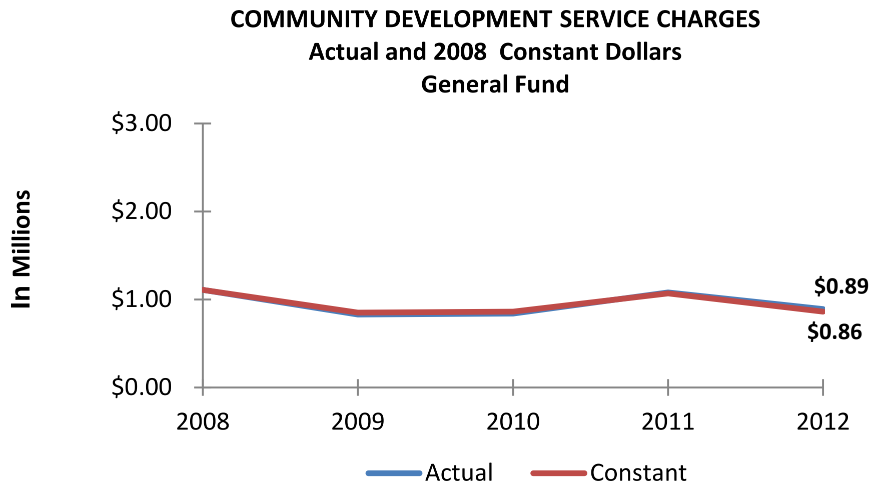
License and Permit Revenues



Finding: ***FAVORABLE/CAUTION.*** License and permit revenues decreased in actual dollars in the amount of $186,958 or 9.8% from the prior fiscal year. The constant dollar decrease was $210,743 or 11.2% from FY 2011. This indicator remains a Favorable/Caution rating due to this ongoing decrease.

Comments: Construction permit revenue decreased $101,500, or 12.5% over the past year, due to low construction activity; and business licenses decreased $76,937 or 8.5%, due to a one time refund. Although business licenses were reclassified as other tax revenue for recording purposes in FY 2012; the amounts remain in licenses and permits for comparative purposes. A Favorable/Caution rating remains due to this decrease.

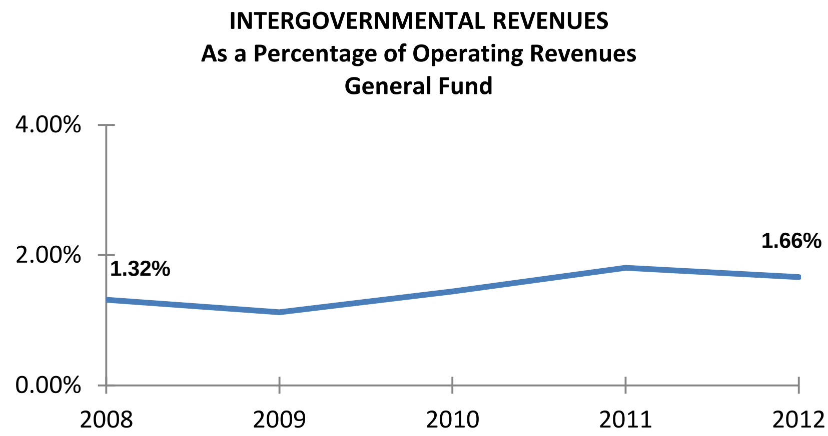
Community Development Service Charges Revenues



Finding: ***FAVORABLE/CAUTION.*** Total community development service charges decreased by 18%, or $195,700 from the prior year. This trend remains at a Favorable/Caution rating; because although these decreases were anticipated during the FY 2012 budget, development continues to level out; showing a slight decrease for the current year.

Comments: This trend remains at a Favorable/Caution due mainly to a decrease in construction inspection fees of $212,780 or 52% from the prior year.

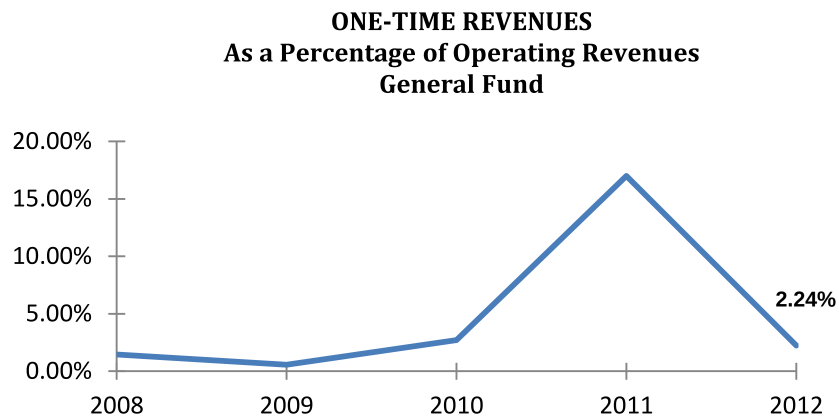
Intergovernmental Revenues



Finding: ***Favorable***. General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 1.66% in FY 2012.

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 10.6% in FY 2011 and 12.1% in FY 2012, which still supports the Favorable rating.

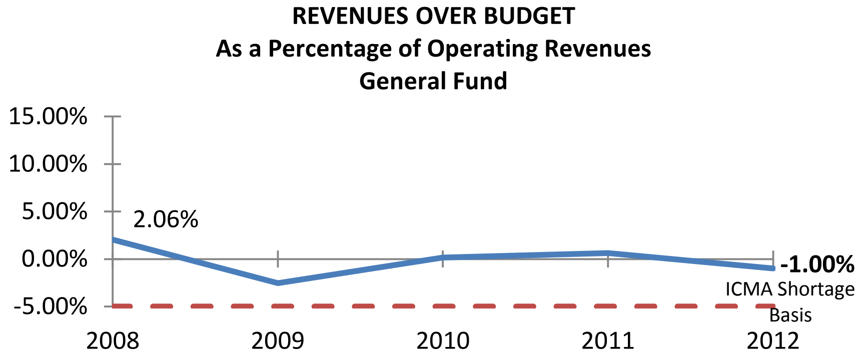
One-Time Revenues



Finding: ***FAVORABLE***. One-time revenues, as a percentage of total General Fund revenues, equaled 2.24% in FY 2012, a significant decrease over the prior year.

Comments: One-time revenues decreased by $8.8 million from the prior fiscal year. FY 2012 one-time revenues of $1.1 million include $625,260 of grant funds, $229,060 from beach trail refund, $160,800 Workers' Compensation refund, and $58,080 from miscellaneous reimbursements. 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 to provide a subsidy for ongoing expenditures for the Vista Hermosa Sports Park. Therefore, this indicator continues with a Favorable rating.

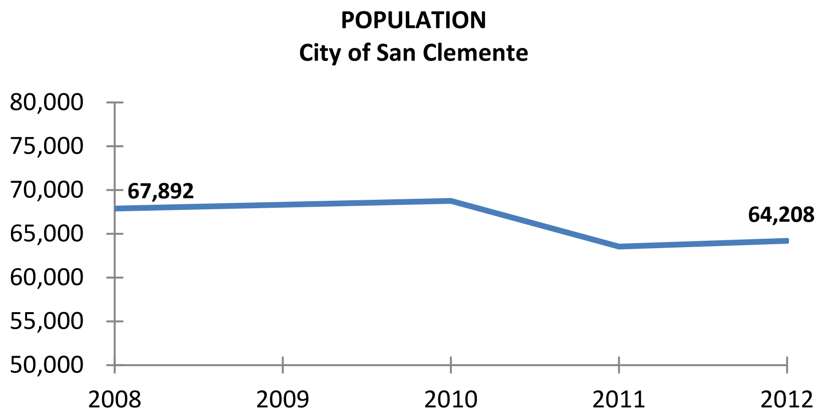
Revenue Overage



Finding: ***FAVORABLE/CAUTION***. Actual revenues were less than the adjusted budget by $489,730 for FY 2012 and ends with a negative revenue position of 1.00%. Although the City experienced revenues over budget of $197,280 in taxes and $208,400 in the charges for services categories; shortages, based on the adjusted budget, were seen in transfers ($647,000), licenses and permits ($78,700), Intergovernmental ($65,820), Fines and Forfeitures ($61,400), and Investment and rentals ($52,700). This trend remains a Favorable/Caution because of this negative position.

Comments: This trend began the five-year analysis with a positive revenue position of 2.06% and ended FY 2012 at (1.00%). The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues.

Population

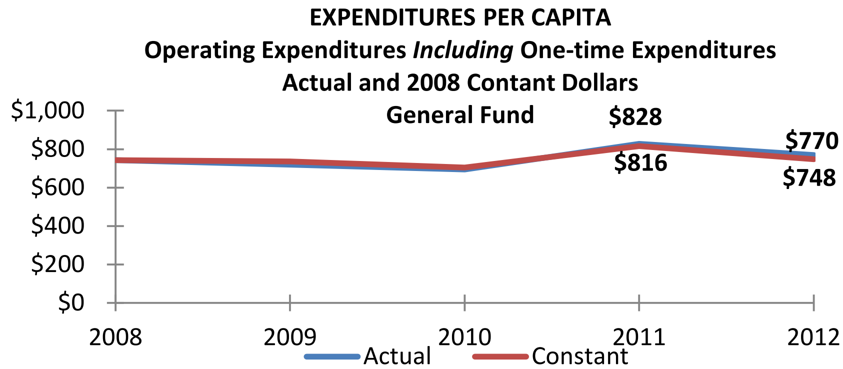


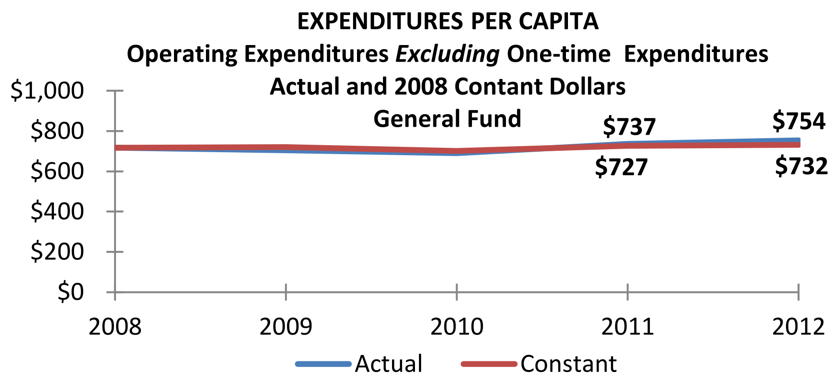
Finding: ***FAVORABLE.*** The City's population has increased by 1.08% over the prior fiscal year. This increase is due to the California Department of Finance estimates bases on 2010 Census numbers.

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 and 2010 Census, the numbers used by the City are based on numbers from the California Department of Finance and estimates of growth from the Planning department. The years between the two Census years showed an over inflated growth rate. At this point the estimate for FY 2012 does not appear to be as inflated based on the 2010 Census. This indicator has changed from a Warning to a Favorable rating due to this change in estimation, based on the prior year.

Expenditures Trend Analysis





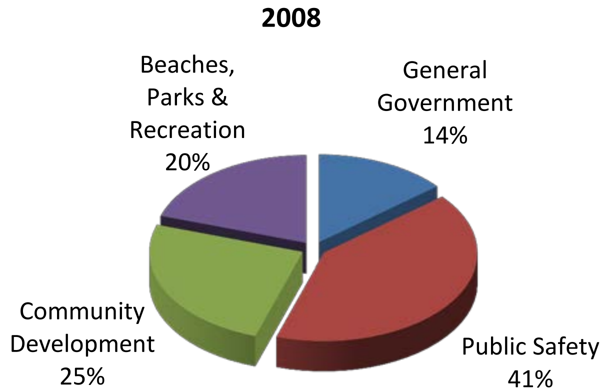
Finding: ***Favorable***. Expenditures per capita (including one-time expenditures) reflect a decrease when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. However when one-time expenditures are included; both actual and constant dollars have increased. Changes in per capita expenditures reflect the changes in expenditures relative to changes in the population.

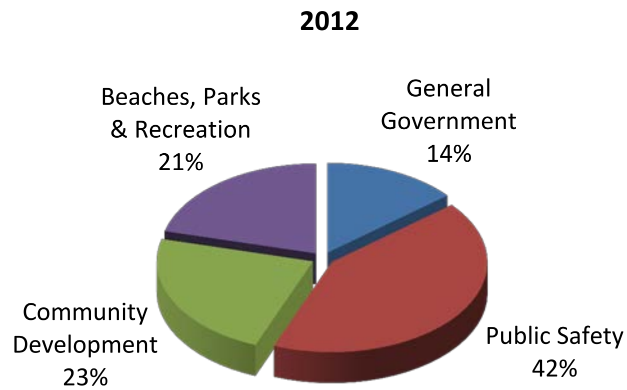
Comments: The first chart which includes one-time expenditures shows a decrease from $828 to $770 in per capita actual dollars and a decrease from $816 to $748 in per capita constant dollars. This reflects the decrease in actual dollars of $3.1 million and the decrease in constant dollars of $3.9 million when compared to FY 2011. The decrease in actual dollars was in City General ($5.4 million). The decrease in City General is a result of a one-time payment of unfunded PERS (Public Safety) liability ($4.8 million) in FY 2011.

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $737 to $754 and an increase in constant dollars from $727 to $732. This chart depicts the effects of the decrease in one-time expenditures from FY 2011 to FY 2012.

This trend remains favorable because expenditures per capita have decreased when including one-time expenditures. However, when excluding one time expenditures the per capita costs have remained fairly stable over the last year.

Comparison of Expenditures by Function
FY 2008 vs. FY 2012

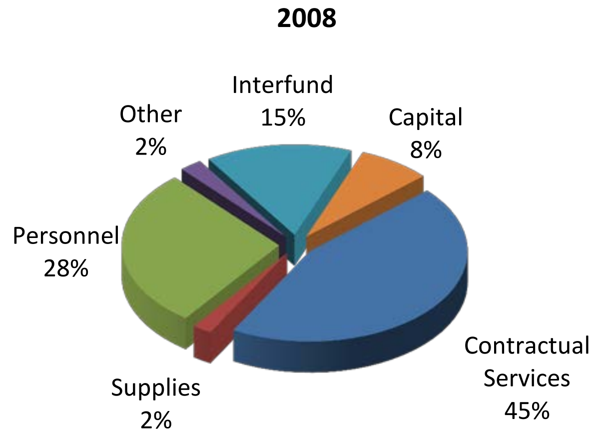


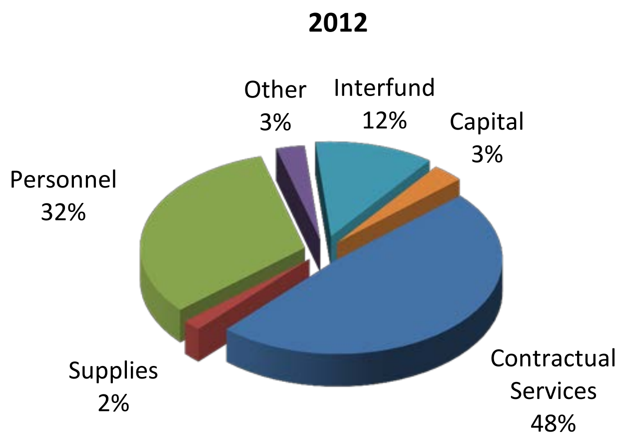


Finding: ***FAVORABLE.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) show slight changes in the allocation of resources from FY 2008 to FY 2012. These charts indicate that the largest fluctuations of expenditures are in Community Development and Public Safety with a decrease of 2% and an increase of 1% respectively.

Comments: Although there appears to be a substantial decrease in the community development category as a percentage of total operating expenditures from 25% in FY 2008 to 23% in FY 2012; the actual change in amounts, excluding capital outlay, is only $54,000 when comparing FY 2008 to FY 2012. The real reason for the change is due to higher interfund transfers and capital outlay, therefore reducing operating expenditures in FY 2008 when compared to FY 2012. The Public Safety category increased from 41% to 42% in FY 2012 due to contractual increases with Orange County Fire Authority (OCFA) and Orange County Sheriffs Department (OCSD). These increases are mainly due to salary and benefit 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 2008 vs. FY 2012





Comments: The charts above indicate that the Personnel, Contractual, Capital and Interfund expenditure categories, as a percentage of the total General Fund expenditures, changed significantly between FY 2008 and FY 2012.

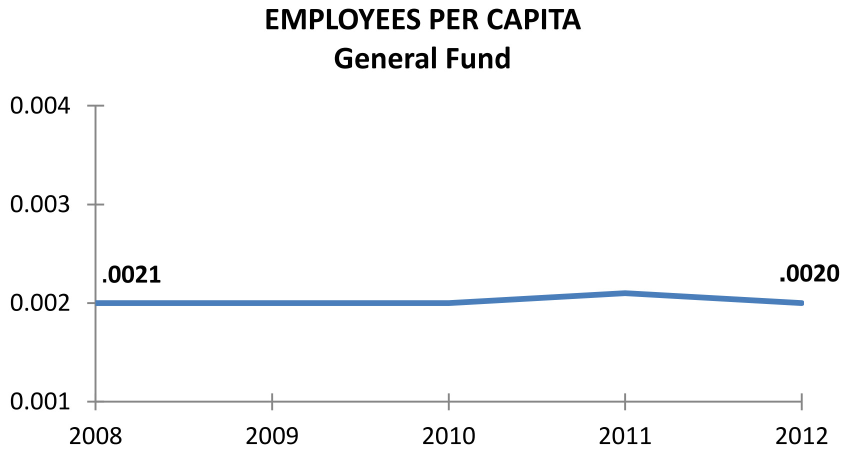
The personnel category has changed from 28% to 32%, which reflects increases in pension, medical costs and pay levels. Pension costs will change as a result of legislative changes over in the future.

The Contractual Services category changed from 45% to 48%, which reflects an increase in service contracts with external parties.

Interfund amounts have decreased by 3% due to a decrease in interfund transfers of 23% from FY 2008 to FY 2012. This decrease is due to a $1.65 million transfer in FY 2008 from the General Fund to the General Liability Fund for payment of the Bellota Landslide settlement.

Capital has also decreased by 5% from FY 2008 to FY 2012, due to decreases in major capital improvements in FY 2012.

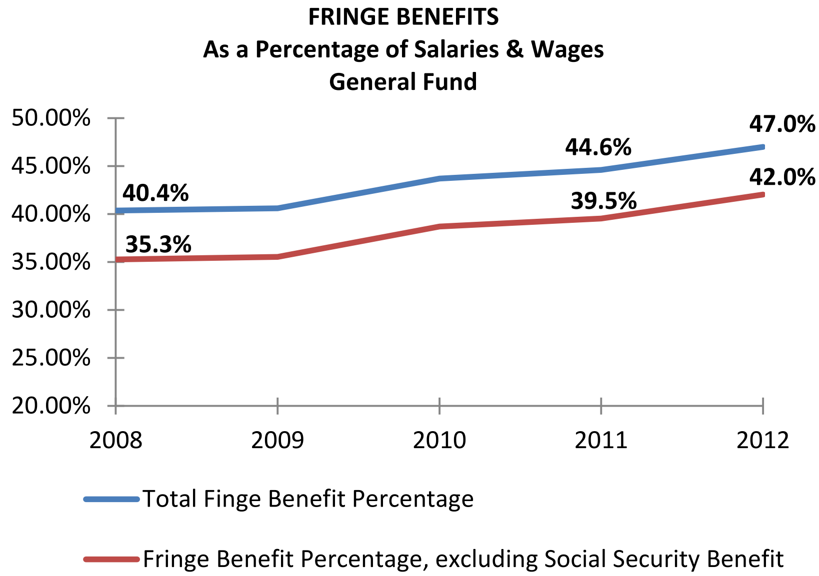
Employees per Capita



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.

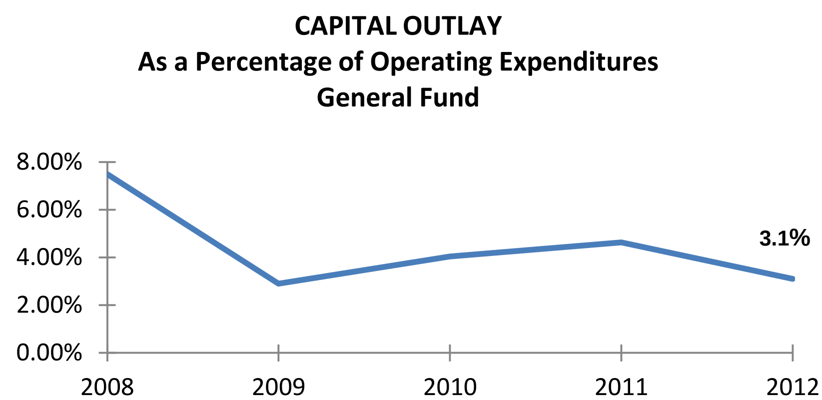
Fringe Benefits



Finding: ***Warning.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 44.6% to 47.0%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2011.

Comments: The actual amounts of benefits in the general fund have increased from $4.57 million in FY 2011 to $5.07 million in FY 2012, a 10.9% increase from the prior year. While salary and wages in the general fund have increased from $10.26 million in FY 2011 to $10.79 million in FY 2012, a 5% 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. The benefits increased because of an increase in the pension rates, and due to increases to the medical portion of the costs. In the future, the City, in agreement with the San Clemente Employee Association, has kept medical costs at the same rate and changes to pension are subject to recent legislation. This trend has changed from a Favorable/Caution to a Warning rating due to this percentage increase in comparison to the prior year.

Capital Outlay

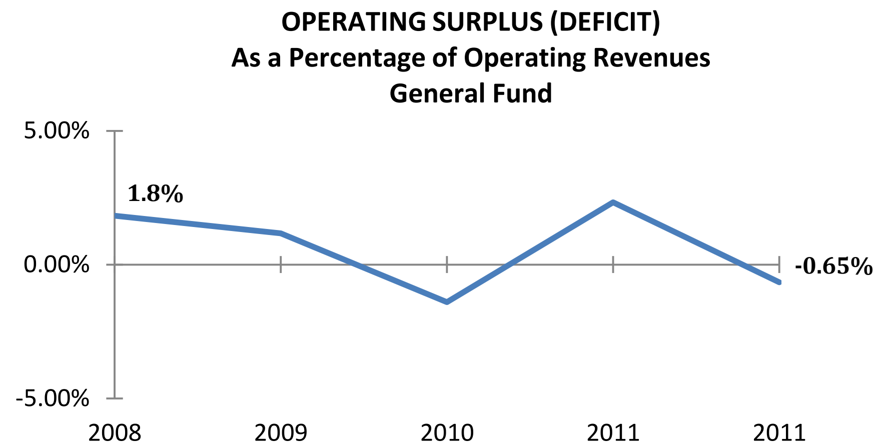


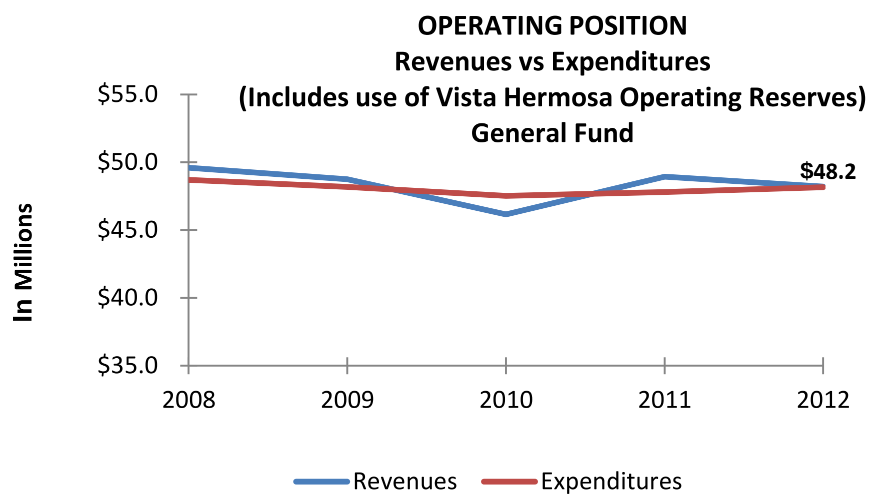
Finding: ***FAVORABLE.*** Capital outlay expenditures decreased by $0.9 million, or 37%, from the 2011 fiscal year. Capital outlay expenditures totaled $1.5 million.

Comments: Spending on capital outlay has decreased due to a decrease 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

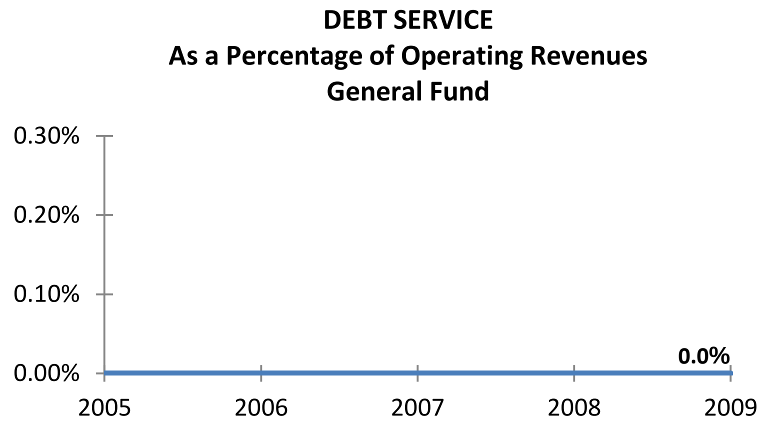




Finding: ***FAVORABLE/CAUTION.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. Fiscal year 2012 ended with a flat operating position. However, this includes the offset of the Vista Hermosa Sports Park operating reserves.

Comments: Revenues used to calculate the operating do not include a one-time transfers and revenues of $1.0 million; which includes $645,240 of grant revenue, $229,060 one-time transfer for a refund of Beach Trail expenditures, and $60,400 in miscellaneous one-time revenues. Also expenditures used to calculate this surplus do not include a one-time transfer from the General fund to the Negocio Debt Service Fund for the partial payoff of debt in the amount of $750,000, General Plan costs of $234,800 and expenditure of grants in the amount of $314,650. Then, the Vista Hermosa Sports Park operating reserves were used to offset and the maintenance expense for the park in the amount of $0.3 million. The total operating position was $0 in FY 2012, compared to a surplus of $1.1 million in FY 2011 (before adding back the $2.2 million in Sate borrowing). This trend remains Favorable/Caution due to this flat operating position and the instability of the current economy.

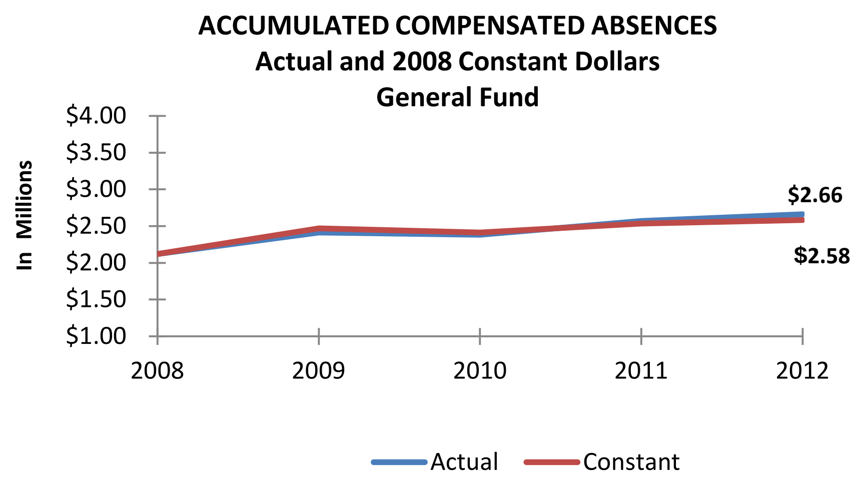
Debt Service



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

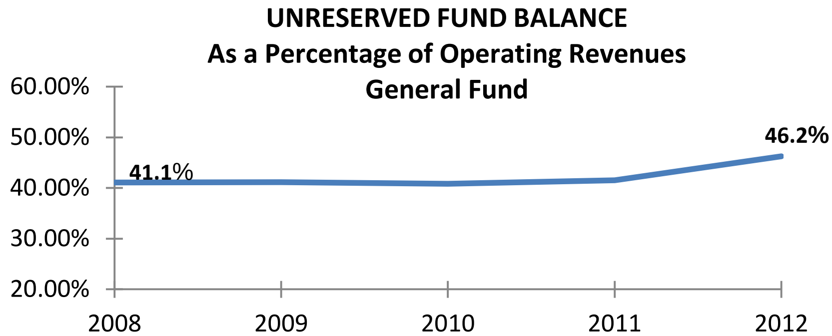


Finding: ***FAVORABLE***. This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. The reserve is continually funded to insure an adequate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

Comments: At June 30, 2012, the balance of the liability for compensated absences was $2.66 million consisting of $1.28 million for vacation, $1.28 million for sick leave, and $94,245 for compensatory time. This is an increase of $87,400 or 3% from the prior year's liability of $2.57 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 2012, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $100,000 for the payment of accrued leave for terminated employees. As of June 30, 2012 the Accrued Leave Reserve balance was $687,034.

Fund Balance

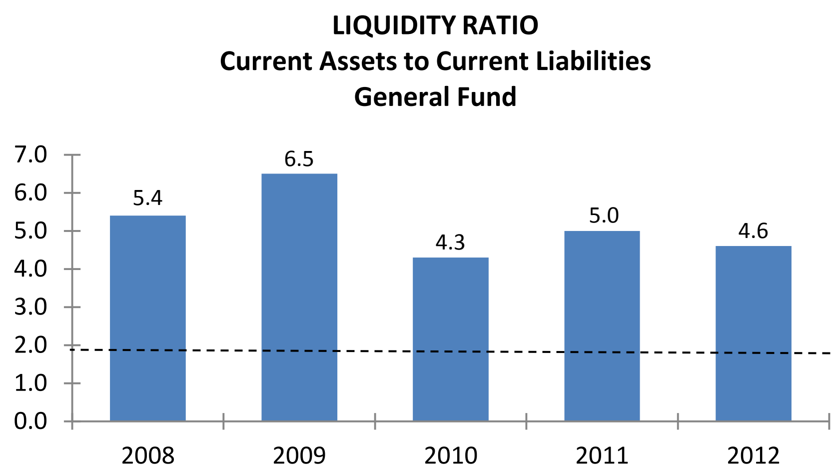


Finding: ***FAVORABLE***. Unreserved fund balance refers to those dollars available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The City attempts to operate each year at a surplus to ensure the maintenance of adequate reserve levels.

Comments: Unreserved fund balance excluding long term receivable reserves decreased by 6.3% in FY 2012 from $24.14 million to $22.63 million. However, this is an increase of 4.3% when taken as a percentage of operating revenue. 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 2012 unreserved fund balances of $22.6 million are undesignated funds of $8.2 million (of which, $4.2 million will be used in FY 2013 budget for one-time expenditures) and designated funds of $4.4 million for contingencies and $10.0 million designated for sustainability. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.

Liquidity Ratio



Finding: ***FAVORABLE***. In FY 2012, the City's liquidity ratio remains positive at 4.6:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 4.6:1 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.

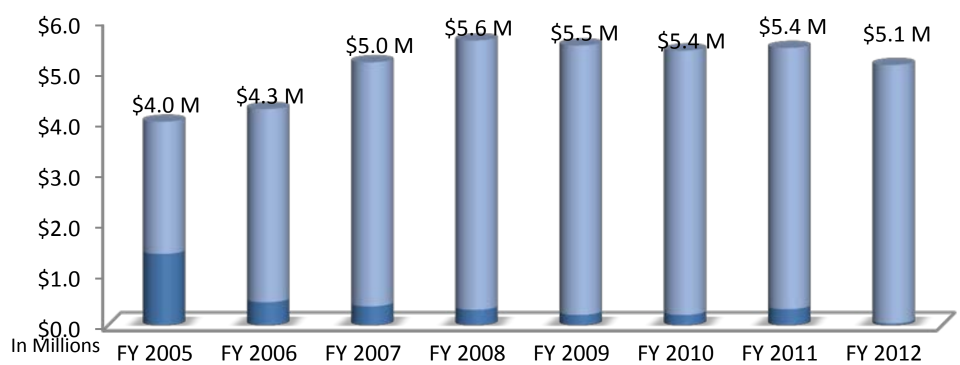
Attachment “A”

Sales Tax - 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. In practical terms, the City’s sales tax revenue distributions are reduced by 0.25% each month. Twice a year, in January and May, the City receives “triple flip adjustment” distributions to reimburse for the 0.25% reduction. These distributions are an estimate of what is owed, based on prior year sales and use tax receipts, adjusted for a projected growth factor. Any difference between the estimate and what is actually owed to the City is treated as an adjustment in the subsequent year’s “triple flip adjustment” payments.

Property Tax – ERAF Property Tax replaces Vehicle License Fees (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 charged to vehicle owners, but continued to allocate funding to cities and counties based on the original rate of 2% of market value of the vehicle. The State ultimately reduced the rate to vehicle owners to 0.65% of market value. The 1.35% revenue loss to cities and counties was offset, or “backfilled,” with a contribution from the State’s General Fund. In FY 2004-05, the offset from the State’s General Fund was eliminated and replaced with additional property tax revenue to the cities and counties. This additional revenue is often known as “ERAF Property Tax Revenue”, as the property taxes used to replace counties and cities VLF funds are diverted from each county’s Educational Revenue Augmentation Fund (ERAF). Annual growth in ERAF property taxes corresponds to the City’s annual growth in overall assessed valuation. In FY 2011-12, the State Legislature enacted SB 89, terminating the allocation to cities and counties of the remaining 0.65% VLF revenues and diverting these monies to fund state law enforcement grants.



	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
ERAF Property Taxes	$2.6	$3.8	$4.8	$5.3	$5.3	$5.2	$5.1	$5.1
Motor Vehichle Fees	$1.4	$0.5	$0.4	$0.3	$0.2	$0.2	$0.3	$0.0

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 2013 budget. The prior forecast identified a small surplus in 2013 followed by projected deficits through 2017 as follows:

FY 2013 Budget Forecast (In millions)	2013	2014	2015	2016	2017
Projected surplus/deficit	$ 0.2	-$ 0.2	-$ 0.8	-$ 1.6	-$ 2.0

The updated 2013 LTFP five-year financial forecast reflects a negative operating position in all years of the forecast, beginning in FY 2014. This is mainly due to projected increases in police and fire contractual costs as well as the additional operating costs for Vista Hermosa Park which will no longer be covered by reserve subsidies beginning in FY 2016.

2013 LTFP Forecast (In millions)	2014	2015	2016	2017	2018
Operating receipts	$50.9	$52.3	$52.8	$53.7	$54.9
Operating disbursements	51.5	53.1	54.5	56.0	57.6
Projected surplus/deficit	-$ 0.6	-$ 0.8	-$ 1.7	-$ 2.3	-$ 2.7

The 2013 Long Term Financial Plan forecast shows a decline in operating position from the forecast presented at budget adoption.

Revenues increase an average of 2.1% over the forecast period. Property taxes are beginning to recover, with the City seeing a slight increase in valuation after three consecutive years of valuation decreases. The median home price in San Clemente for calendar year 2012 was $630,000, which is above the median price of $615,000 seen in calendar year 2003. Sales taxes included in the forecast are higher due to continued growth in consumer spending as well as increases in prices of consumable goods.

Expenditures increase an average of 2.6% over the forecast period, excluding the impact of one-time capital and maintenance costs. The projected increases are primarily due to growth in the police and fire services contracts. Based on the latest strategic plan prepared by the County of Orange, the police services contract will increase by an average of $347,000, or 2.9%, over the forecast period. In FY 2015, the contract is expected to increase by $543,000 or 4.62% based on a projected 3% salary adjustment, plus 4% retirement and 7% workers' compensation increases. The fire services contract includes an average increase of $332,000, or 4.5%, per year.

Revenue and expenditures for the new Vista Hermosa Sports Park and San Clemente Aquatics Center are included in the forecast. A portion of the proceeds from the sale of land to Target have been placed in a designated reserve and are being used to offset maintenance and operating deficits for Vista Hermosa Park for the first few years of operation, which began in early 2012. Use of the reserve for full operational subsidy has been included in the forecast through FY 2015, with a small projected remainder to be depleted in FY 2016. While the Ole Hanson Beach Club is under construction, for FY 2014 revenues have been eliminated and expenditures have been reduced due to the closure of the building and pool. The cost of operation and maintenance of the facility returns in FY 2015, along with associated revenues.

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 Officer's 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 2014 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 2014 budget.

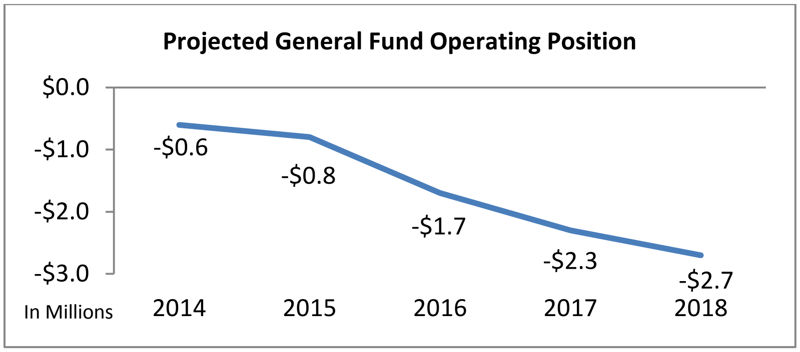
The base forecast is developed using the *present level of services* provided by the City. Inflation or historical growth rates are used to predict expenditure patterns. Revenues are projected by inflation, current trends, or by specific circumstances that are certain to occur during the forecast period.

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 2013 Economic Forecast for Southern California and Orange County, presented in October 2012.

As presented at the Fullerton Forecast, the economic outlook points to a continuation of slow to moderate growth. The economy is expected to grow over the forecast period; however, growth in the short term is expected to remain subdued due to policy uncertainty, both in the US and abroad, as well a downshift in the global economy. Growth in consumer spending, business investments, and exports is expected to continue, but at a slower pace than seen in the last two years. The housing market has begun recovery and is expected to become more robust over time. In addition, the unemployment rate, which averaged 8.0% in 2012 is continuing to decline, and is expected to average 7.7% in 2013.

In order to strategically address future needs and to ensure the City maintains a positive operating position in the long-term, the City's five year forecast focuses on two critical elements, *operating position* and *fund balances*, to determine the fiscal health of the City.

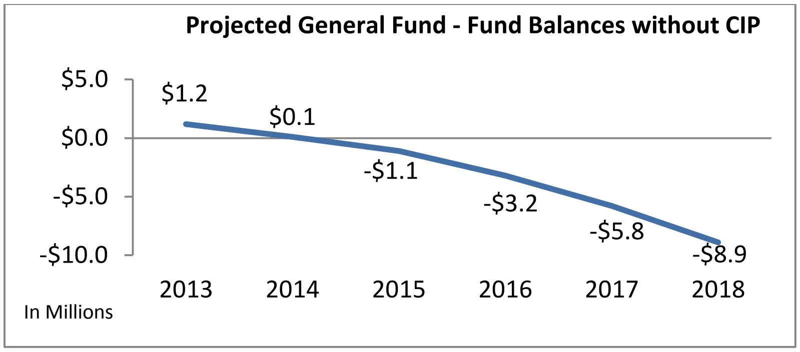
Operating position – Based on revised expenditure and revenue trends, the financial forecast indicates a negative operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements, excluding one-time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



The projected operating position is negative beginning in FY2014, mainly due to projected increases in police and fire contractual costs as well as the addition of operating costs for Vista Hermosa Park that are no longer covered by a subsidy from reserves beginning in FY 2016. It should be noted that these are *projections* only and negative operating position will not actually occur, as adjustments will be made to ensure the city remains in a positive operating position.

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, based on current policies. 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 *committed* fund balances include the Sustainability Reserve, the Emergency Reserve, and the Vista Hermosa Park O&M Reserve. The Sustainability 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 balance in the General Fund based on the 2013 Long Term Financial Plan forecast. The projected unassigned beginning fund balance of $1.2 million does not include the Sustainability, Emergency, or Vista Hermosa Park Reserves.

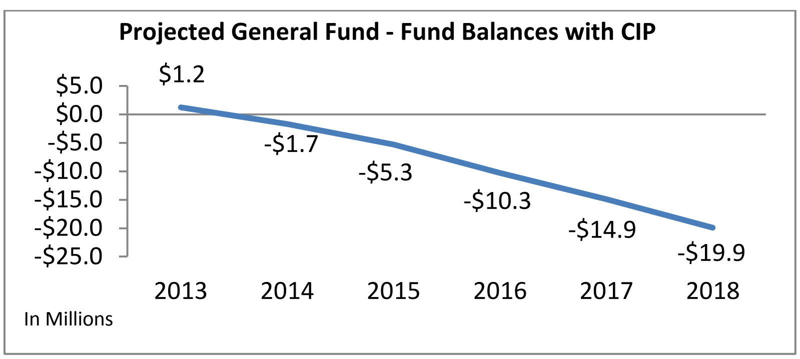


One-time expenditures and transfers plus a projected negative operating position beginning in FY2014 reduce fund balance from a positive $1.2 million to a negative $8.9 million in FY 2018. The forecast includes a total of $950,000 for ongoing major maintenance projects (major street maintenance, slurry seal and sidewalk repair programs), but does not assume any spending for capital projects or one-time maintenance projects.

If projected capital and one-time maintenance projects are added the forecast, the projected unassigned fund balance would decrease substantially. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. The table below shows costs for General Fund capital and one-time maintenance projects that are proposed for the next five years. Detail on these amounts can be found in the Capital Projects analysis paper.

2013 Proposed Projects (In millions)	**2014**	**2015**	**2016**	**2017**	**2018**
Capital Projects	$1.5	$1.4	$2.5	$1.8	$1.7
Maintenance Projects (not ongoing)	0.2	1.0	0 .5	0.2	0.2
Totals	$1.7	$ 2.5	$3.0	$ 2.0	$ 1.9

The chart below modifies the General Fund unassigned fund balance to indicate the impact of these proposed capital and one-time maintenance projects on fund balances:



The above fund balance projections do not assume the use of either the $10 million Sustainability Reserve or the $4.6 million Emergency Reserve.

Fund Balance Issues - Several events are anticipated over the next several years which may enable the City to add to its unassigned fund balance, somewhat offsetting the negative balances shown above. The actual amounts and timing for these receipts is not assured; therefore, they are not included in the long-term projections.

State of California Loan: A repayment to the City from the State of California in the amount of $2.2 million (for property tax revenue borrowed in FY 2010) is due by June 30, 2013. It should be noted that the State has the right to borrow funds from the City again, for up to a three year period. Maintaining adequate reserves will ensure that City operations are not negatively impacted should that occur.

Bellota: Proceeds from the Bellota Land sale, originally estimated to net $5.8 million, will become available once the applicable lots are sold. A past subsidence claim related to Bellota exceeding $11 million was paid from the General Liability fund, with the General Fund contributing $7 million towards the claim directly. As discussed in the General Liability Insurance Analysis and the Reserve Analysis papers, it is recommended that proceeds from selling the Bellota land be used to fund a retrospective payment of $3.0 million and $800,000 to meet reserve fiscal policy in the City's General Liability Fund. Remaining proceeds are recommended to fund approximately $2.0 million for a Pier Maintenance and Repair reserve as discussed in the Gap Closing Strategies paper. (Actual net proceeds may differ from the $5.8 million estimate that was made several years ago. The City is in process of having an appraisal performed to determine the current value of the mobile home lots).

Marblehead: The city will ultimately realize ongoing property, sales and hotel tax revenues, originally estimated at $3.0 million, once all phases of of the Marblehead Development are complete. The first phase of the commercial project may be completed by December 2014. A portion of these revenues are slated to fund the ongoing operating costs for the Vista Hermosa Sports Park, as the reserve funds set aside for these operations are projected to be depleted by FY 2016. Revenues will also be needed to fund the ongoing operation and maintenance costs associated with the development's parks and trails, as ownership will pass to the City once those are completed. (Actual ongoing revenues may differ from the $3.0 million estimate that was prepared several years ago. City staff is working on obtaining updated estimates for the ongoing revenue that will be generated by the project).

LaPata/Vista Hermosa Land: Receipt of proceeds from the sale of 2.5 acres of land at the corner of La Pata and Vista Hermosa, estimated at between $2.6 and $3.5 million, is anticipated in the next few years.

RDA: The City recently lost RDA funding for the Pier Bowl area, which funded repairs and maintenance for the pier. As discussed in the LTFP Gap Closing paper, Pier rehabilitation is recommended to be performed every 5 year and will need to be funded by the General Fund in the CIP budget. These repair and maintenance costs may have a significant impact on the General Fund fund balance in the future. Ongoing funding of a

Pier Maintenance and Repairs reserve would be needed to ensure the pier is adequately maintained in future years.

Committed Fund Balances
Sustainability Reserve – In FY 2009, City Council established a General Fund Sustainability 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 have been maintained at the required level of 9% of operating expenditures.

Vista Hermosa O&M Reserve – In FY 2011, Council established the Vista Hermosa (VH) Park Operations and Maintenance reserve in the amount of $2.9 million to provide resources for the first years of the park facility's operations. An amount, determined annually, is used to subsidize park operations until the reserve is depleted. The fund will be depleted by FY 2016.

General Fund – Assigned Reserves (in millions)

	2014	2015	2016	2017	2018
VH Park	$1.1	$0.2	$0	$0	$0
Emergency	4.6	4.8	4.9	5.0	5.2
Sustainability	10.0	10.0	10.0	10.0	10.0
Assigned Reserves	$15.7	$15.0	$14.9	$15.0	$15.2

Recommendations regarding fund balance reserves in the General Fund are discussed further in the LTFP Executive Summary.

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 1.1% in total for FY 2014. Increases averaging 2% are included beginning in FY 2015. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.
- Sales taxes are projected to increase 3.0% in FY 2014. Increases averaging 2.5% per year beginning in FY 2015 are projected based on CPI increases projected in 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 2014 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues and related expenditures are included beginning in FY 2015, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first two years, with a small remainder in the third year, when 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 the forecast.
- Police contract – Police contract costs are increased for FY 2014 based on the Sherriff Department's initial estimates for the coming year. Future year's projected increases are based on the Sheriff Department's last published five-year Strategic Plan. The Plan projects 4.6%, 2.7% and 3.1% increases to the contract costs from FY 2015 through FY 2018. Contract increases average $347,000 per year over the five-year period. No new Police positions have been added. Also, no amounts have yet been added for proposed 800MHZ radio system facility and equipment upgrades until exact costs, timing and funding sources have been identified.
- 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 adjusted in the FY 2014 budget.
- Cost of living - For salary and benefit forecast purposes only, it is presumed that cost of living increases will be 2.0% in FY 2014, and 2.5% for the remaining four years.
- Retirement – City share of retirement rates is increased by approximately 4.0% per year.
- Medical – Medical rates are not increased in FY 2014, based on terms in the City's negotiated employment contract. Medical Rates are projected at 6% increase per year, in total, through the remainder of the forecast, based upon recommendations by CalPers.
- Negocio Building – An annual transfer of $150,000 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 – Operations of the Park will continue to be subsidized by a contribution from the Vista Hermosa reserve through FY 2015, with a small remainder projected to be used in FY 2016. A subsidy of $840,000 is projected for FY 2014.
- 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, $180,000 has been included in each year of the forecast for reserve transfers. This is based on average contributions to reserves over the past two years and projected reserve needs.
- 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. However, a payment of $271,000 is included in the forecast for FY 2014 to pay costs due to actuarial changes and CalPERS investment performance. This annual amount is subject to annual revisions.

- Street Improvement Program - The General Fund transfer to the Street Improvement Fund amounts to $756,290 per year.
- Capital and Major Maintenance - The forecast includes a total of $950,000 for ongoing major maintenance projects (major street maintenance, slurry seal and sidewalk repair programs), but does not assume any spending for capital projects or one-time maintenance projects.

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, including potential park and trail maintenance costs, have not been included in the forecast.
- Proceeds of an estimated $5.8 million from the future sale of Bellota land are not included. It should be noted that the $5.8 million estimate was provided in 2005 and will be updated soon to reflect current market conditions.
- The repayment of $2.2 million from the State of California for borrowed property taxes is not included in the forecast. The repayment is due in June, 2013; however, the State has the ability to repay the loan and borrow it back.
- The forecast does not include any spending for capital or one-time maintenance projects.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Summary

Over the five year forecast period, the city's revenues are anticipated to grow by an annual average increase of 2.1% a year. Property taxes are projected to increase by an average of $2.0 million per year, or 1.8%, and sales taxes by an average of $800,000 per year, or 2.6%, over the forecast period.

Expenditures are projected to increase at an average rate of 2.6% per year over the forecast period, excluding the impact of one-time capital and maintenance costs, mainly due to projected increases in contractual services. The police and fire services contract projections include forecasted increases identified in the Orange County Sheriff's Department 2012 strategic plan and the Orange County Fire Authority's contract. No amounts have been included for any proposed capital or one-time maintenance projects.

Building permit, plan check fees, engineering fees, as well as property and sales tax revenues from the Marblehead project are not included in the forecast, nor are the potential costs for operation and maintenance of new parks and trails associated with the project. Once property and sales tax revenues become a reality, the city's financial forecast will show increases in operating position and fund balances.

The financial forecast indicates a negative operating position in all five years of the forecast period. These are projections only and negative operating position will not actually occur, as adjustments will made to ensure the city remains in a positive operating position.

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, excluding any one-time capital or one-time maintenance costs:

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

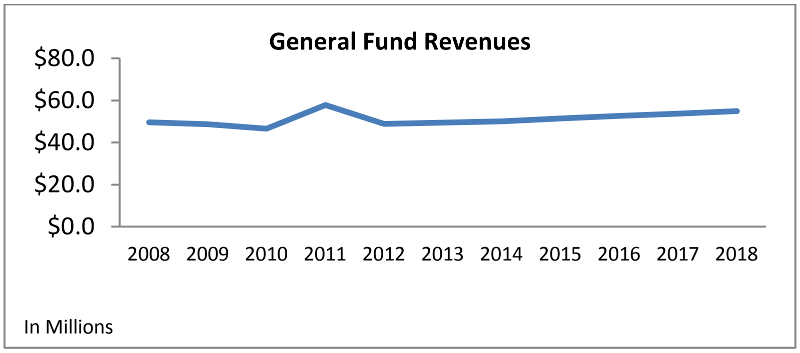
	2014	2015	2016	2017	2018
Beginning Fund Balance	1,192	86	(1,093)	(3,158)	(5,804)
Receipts:					
Taxes	36,794	37,591	38,405	39,237	40,087
Licenses & Permits	1,812	1,857	1,904	1,951	2,000
Intergovernmental	400	409	417	425	434
Service Charges	4,367	4,555	4,646	4,739	4,834
Fines & Forfeitures	958	977	996	1,016	1,037
Interest & Rents	2,080	2,317	2,360	2,404	2,448
Interfund Transfers	3,692	3,781	3,872	3,965	4,060
Total Receipts	50,104	51,487	52,600	53,737	54,900
Disbursements:					
Salaries	11,534	11,764	12,000	12,240	12,484
Benefits	5,523	5,689	5,859	6,035	6,216
Supplies	1,148	1,177	1,206	1,237	1,268
Contractual Services	26,124	27,166	28,017	28,947	29,910
Other Charges	2,308	2,442	2,479	2,518	2,557
Capital or One-Time	-	-	-	-	-
Interdepartmental Charges	3,600	3,690	3,782	3,877	3,974
Transfers & Debt	1,486	1,456	1,394	1,395	1,404
Total Disbursements	51,723	53,384	54,737	56,248	57,813
VHSP Reserve	608	867	193	0	0
Emergency Reserve	(95)	(149)	(122)	(135)	(141)
Ending Unassigned Fund Balance	86	(1,093)	(3,158)	(5,804)	(8,858)

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 2008 to FY 2012.
- 2013 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate	
Historic Growth Rate	0.1%
2013 Projected Growth Rate	2.1%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 2.1% compared to a historical five year growth rate of 0.1%. The forecast shows property taxes increasing by 1.8% and sales taxes increasing by 2.6% over the five-year period. 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

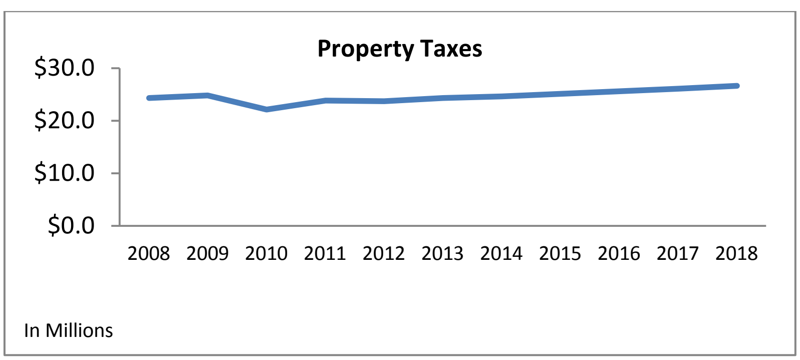
Property Taxes	
Historic Growth Rate	0.2%
2013 Projected Growth Rate	1.8%

Property Tax is the City's single largest revenue source and represents 48% of total General Fund operating revenue. The historic growth rate of 0.2% is attributed to overall decreases in property values in the last several years as a result of the economic recession, somewhat offset by growth from new home sales in Talega. Historically, the City's median sales prices for single family residences peaked in 2006, and then decreased for five straight years. Also, the last growth the City saw in assessed valuation had been 3% growth in 2008. Assessed valuation then decreased for three subsequent years due to lower sales prices, foreclosure activity, and negative property reassessments rendered by the County Assessor's office.

There are three major factors that contribute to year to year assessed valuation changes. First, Proposition 13 allows the County Assessor to increase property 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 or new construction in the prior calendar year. Third, when property values decline, Proposition 8 allows properties to be temporarily reassessed at a lower value by the County Assessor through individual appeals, or through mass appeals if warranted by market conditions. Once the property's value begins to rise again, the County Assessor may "recapture" the value through valuation increases of more than 2% per year, until reaching the Proposition 13 cap of no more than 2% annual growth over time.

The housing market began to rebound during 2012, as home buying increased due to low interest rates and more affordable pricing. As recovery in the housing sector takes hold, property valuation in San Clemente is reflecting an increase for the first time in four years. For the current fiscal year, property valuation in San Clemente increased by 1.2%, slightly less than the 1.9% increase experienced countywide. In addition, in 2012 the median sales price for single family residences in San Clemente increased to $630,000, or 10.1%, the first increase seen in 6 years.

Property taxes are projected to grow by 1.1% in FY 2014. Valuation increases are anticipated due to 2% CPI adjustments, changes in valuation due to property resales, and some recapture of temporary assessment reductions. These increases are somewhat offset by the negative impact expected from assessment reduction appeals pending from prior years. Commercial/industrial property appeals are also anticipated to continue to reduce valuations in FY2014.



Sales Taxes

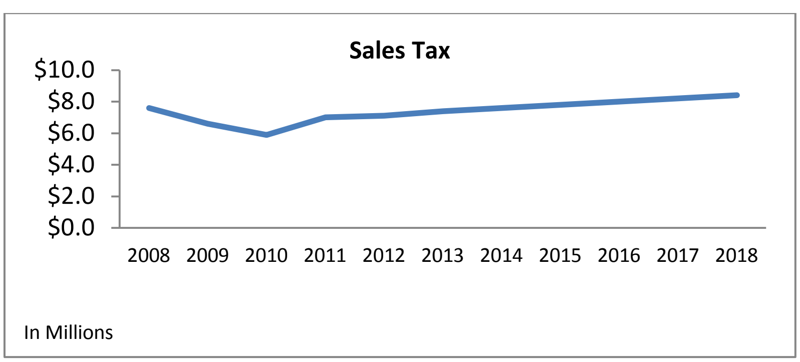
Sales Taxes	
Historic Growth Rate	0.1%
2013 Projected Growth Rate	2.6%

The City's sales tax average growth rate of 0.1% over the last five years is due to a decrease in sales tax revenues in the last several years due to the economic recession, as well as negative adjustments of previously misallocated taxes. As an example, San Clemente was allocated over $500,000 in sales tax revenues over a two year period from a solar energy company with an installation office in the San Clemente business park. The State Board of Equalization (BOE) found that the 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, skewing growth rate results.

For the current fiscal year, sales taxes continue to show signs of recovery. Receipts for San Clemente sales increased 8.2% over the prior year sales for the last reported quarter (July, August and September 2012). Much of the gain is due to increased sales of general consumer goods, largely driven by the opening of Target in late 2011 but also due to increased consumer demand. As the economic recovery continues, the City can expect slight growth in sales tax revenues to continue.

Over the forecast period, sales taxes are projected to grow by about 2.6% as consumer confidence grows.

Sales tax revenue anticipated from the Marblehead project has not been included in the forecast. Previous sales tax estimates identified potential sales tax revenue totaling $2.2 million from the Marblehead retail development.

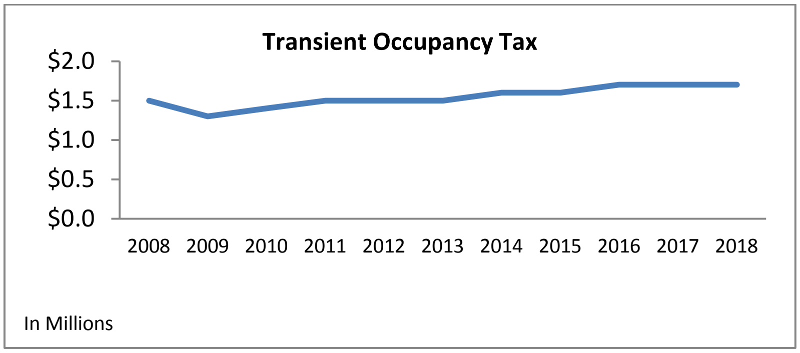


Transient Occupancy Tax

Transient Occupancy Tax	
Historic Growth Rate	2.7%
2013 Projected Growth Rate	2.4%

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 impacted by swings in the economy and, for San Clemente, the weather. Over the forecast period, the average growth is projected at 2.4% with anticipated growth from TOT collected from vacation rental properties.

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

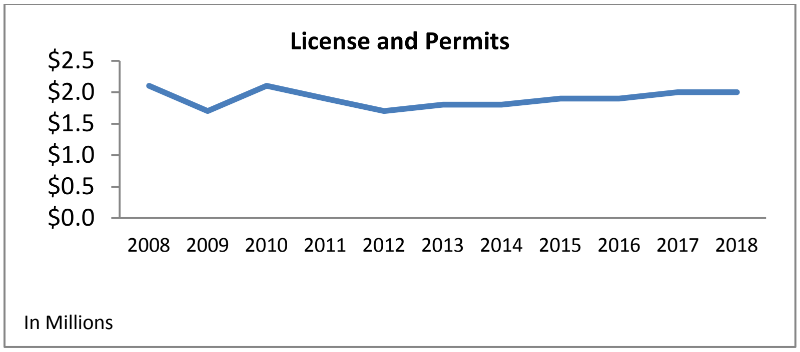


License and Permits

License and Permits	
Historic Growth Rate	-8.0%
2013 Projected Growth Rate	2.4%

License and permit revenue declined over the historic period by 8.0%. 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 2.4% during the forecast period, mainly from residential remodeling and some in-fill projects.

The forecast does not include any development revenue from the proposed Marblehead project.

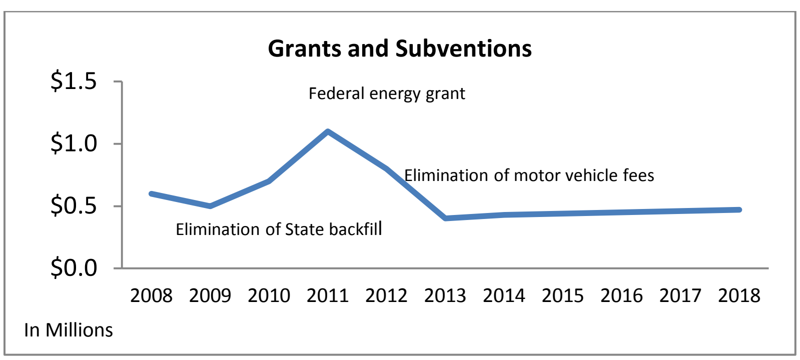


Grants and Subventions

Grants and Subventions	
Historic Growth Rate	0.0%
2013 Projected Growth Rate	2.0%

Grant and subvention revenue was flat overall through the historic period. Grants are mainly one-time grants from State and Federal governments, and the amounts fluctuate each year depending on the particular grants received. Motor vehicle license fees, an allocation received from the State was largely eliminated beginning in July 2011, when the State enacted SB89 and transferred the fees to instead fund law enforcement grants. A small amount of motor vehicle license fee revenue, related to compliance procedures, is still allocated to the city on an annual basis.

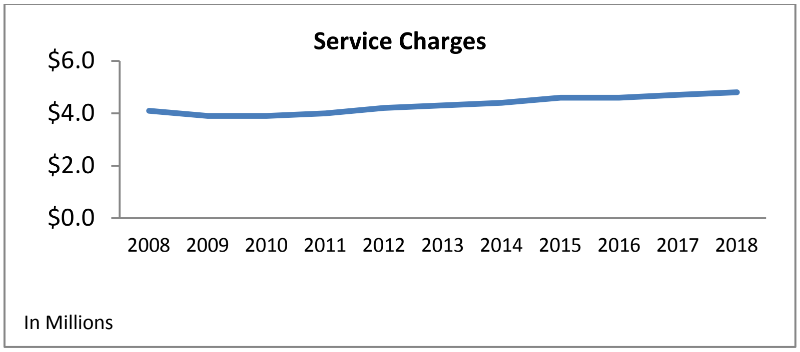
The forecast increase of 2.0% reflects proposed inflationary increases in the motor vehicle license tax compliance revenue and in grant revenue.



Service Charges

Service Charges	
Historic Growth Rate	-1.2%
2013 Projected Growth Rate	2.5%

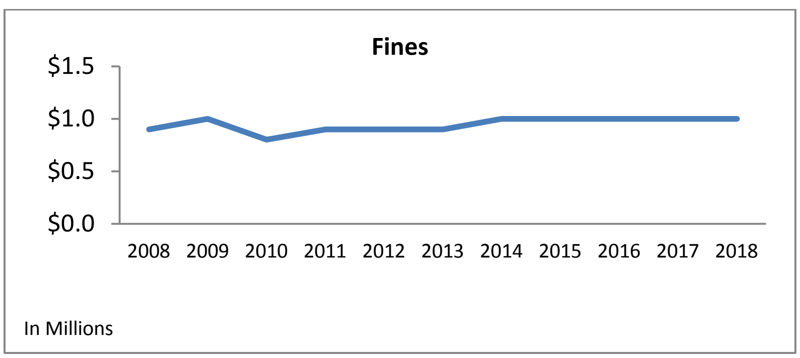
Service charges consist of development, public safety and recreation charges for services provided to the community. Historically, service charges have decline by 1.2%, mainly due to a decline in construction activity as well as declines in recreation program fees due to the economic recession. Service Charges are projected to increase by 2.5% over the forecast period, primarily due to anticipated increases in parking and recreation service charges.



Fines

Fines	
Historic Growth Rate	0.6%
2013 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.

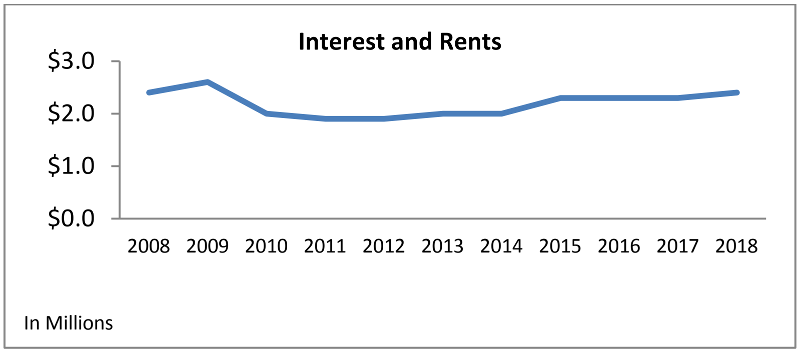


Interest and Rents

Interest and Rents	
Historic Growth Rate	-5.7%
2013 Projected Growth Rate	3.8%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Gains in lease and rental revenue were offset by decreases in interest earnings, mainly due to lower yields over the last few years, resulting in an historic growth rate of -5.7%. The unrealized loss or gain on the market value of the City's investment portfolio is reflected in the growth rate. 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 decrease in interest earnings is mainly a function of lower yields over the last few years.

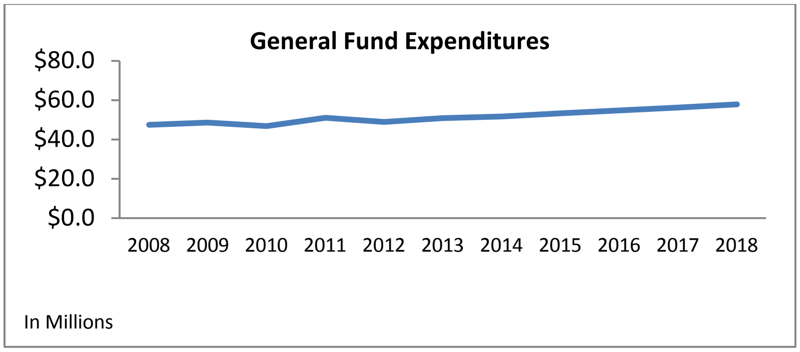
The 2013 projected growth rate for rentals will increase by 3.8% based on Cal State Fullerton's forecast for cost of living increases, as well as the OHBC rentals being added back to the forecast beginning in FY 2015.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	-1.1%
2013 Projected Growth Rate	2.6%

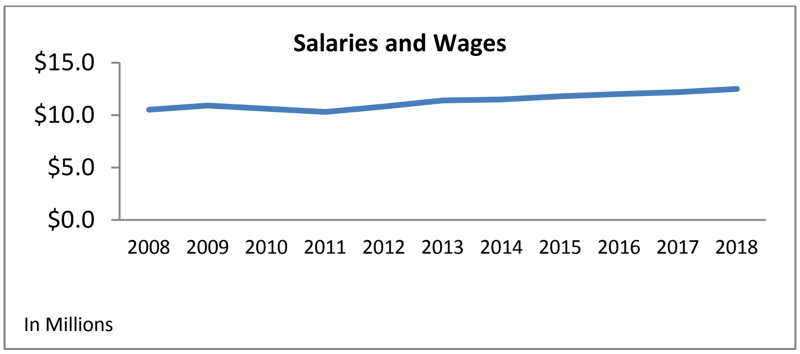
General Fund expenditures are anticipated to increase by 2.6% during the forecast period, compared to a -1.1% historical growth rate. One-time capital expenditures and maintenance projects, which can result in major fluctuations in the rate, have been removed. Expenditures have been forecasted to increase primarily by inflation.



Salaries and Wages

Salaries and Wages	
Historic Growth Rate	2.5%
2013 Projected Growth Rate	1.9%

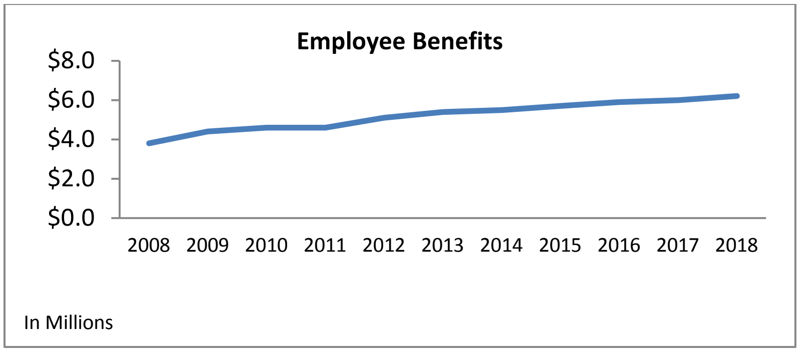
Salaries and Wages are projected to grow 1.9% over the forecast period. For forecast purposes only, cost of living increases are included beginning in FY 2014. The historic growth rate of 1.7% reflects the addition of new Recreation positions and step and cost of living increases that were granted over the period, as well as the impact of eliminated and frozen positions. Positions that had been frozen in the FY 2012 budget have not been added back to the forecast.



Employee Benefits

Employee Benefits	
Historic Growth Rate	5.8%
2013 Projected Growth Rate	2.8%

Employee benefits historically grew 7.4% due to added positions, salary driven increases in benefits (such as social security and retirement), increases in retirement rates, and increases in the employer paid portion of medical premiums. The projected forecast rate of 2.8% has been based on forecast assumptions for retirement and medical premiums. Retirement rates have been increased by an average of 2.4% per year, based on historic trends. Medical rates assume a 3% per year city increase beginning FY 2015, based on recommendations from CalPers, the City's medical insurance provider. No additional positions have been assumed.



Contractual Services

Contractual Services	
Historic Growth Rate	2.8%
2013 Projected Growth Rate	3.2%

The contractual services category is anticipated to increase 3.2%, as compared to the 2.8% 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 2.4% per year over the past five years and skews the historical growth rate.

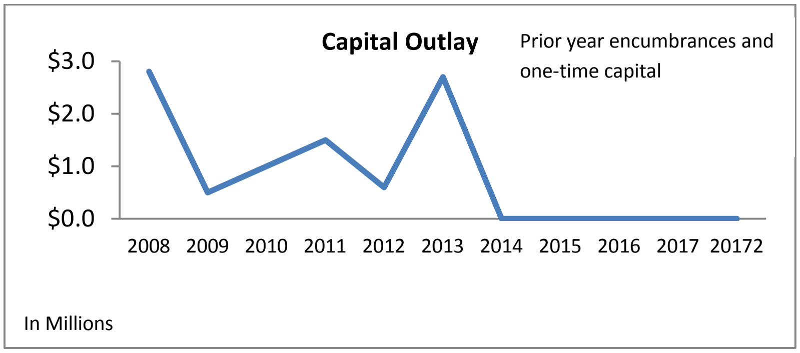
The Orange County Sheriff's Department (OCSD) contract with the City has been increased by the OCSD's initial estimates for FY 2014 and by the costs identified in the County's Strategic Financial Plan, developed in FY 2012 to assist contract cities with budget projections through FY 2017. The current forecast assumes a 0.5% increase in the contract cost for FY 2014 and increases averaging 3.4% over the remaining 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, which have historically been lower than the 4.5% cap.

Capital Outlay

Capital Outlay	
Historic Growth Rate	65%
2013 Projected Growth Rate	0.0%

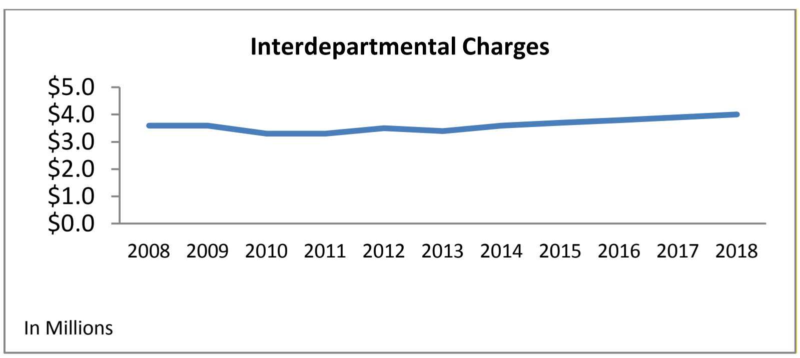
Capital outlay is shown for historical purposes. Prior year encumbrances and one-time capital costs can increase expenditures in any given year. No one-time capital or maintenance expenditures have been included for the forecast period. The forecast does include $950,000 for major street maintenance, slurry seal and sidewalk improvement projects, but those expenditures are not shown here, as they are treated as ongoing operating expenses.



Interdepartmental Charges

Interdepartmental Charges	
Historic Growth Rate	-1.0%
2013 Projected Growth Rate	3.0%

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



Conclusion
The 2013 LTFP Financial Forecast shows deficits beginning in FY 2014. 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 are categorized as Restricted and Unrestricted amounts under Governmental Accounting Standards Board Statement 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***. As part of this Statement, restricted and unrestricted categories are defined in 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.

The following table summarizes reserve type, the fund balance category, and the estimated balances of reserves as of June 30, 2013.

Reserves	Type of Fund Balance	Funding Source	Estimated Reserve Balances at June 30, 2013	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Committed	General Fund	$ 4,538,000	**Yes**
Sustainability Reserve	Committed	General Fund	$ 10,000,000	**Yes**
Water Operating Fund – Emergency Reserve	Committed	Water Fund	$ 77,000	**No**[1]
Sewer Operating Fund – Emergency Reserve	Committed	Sewer Fund	$ 461,000	**No**[1]
Golf Course Operating Fund – Emergency Reserve	Committed	Golf Course Fund	$ 20,000	**No**[1]
Storm Drain Operating Fund – Emergency Reserve	Committed	Storm Drain Fund	$ 179,500	**Yes**
Solid Waste Fund – Emergency Reserve	Committed	Solid Waste Fund	$ 26,500	**Yes**
Miscellaneous General Fund Reserve:				
VHSP – Maintenance & Operations	Committed	General Fund	$1,857,000	**Yes**
Accrued Leave	Committed	General Fund	$ 652,000	**Yes**
Self-Insurance Reserves:				
General Liability Self-Insurance	Assigned	All Funds	$ 530,000	**No**[2]
Workers' Compensation	Assigned	All Funds	$ 1,121,000	**Yes**
Capital Replacement Reserves:				
Fleet Replacement	Assigned	All Funds	$ 3,680,000	**Yes**
Capital Equipment Replacement	Assigned	All Funds	$ 680,000	**Yes**
Facilities Maintenance Capital Asset	Assigned	General Fund	$ 839,000	**Yes**
Park Asset Replacement	Assigned	All Funds	$ 1,145,000	**Yes**
Infrastructure Reserves:				
Water Fund Depreciation	Assigned	Water Fund	$ 6,500,000	***No***[3]
Sewer Fund Depreciation	Assigned	Sewer Fund	$ 6,400,000	**Yes**
Storm Drain Fund Depreciation	Assigned	Storm Drain Fund	$ 1,200,000	***No***[4]
Golf Course Fund Depreciation	Assigned	Golf Course Fund	$ 152,000	**Yes**[5]
Golf Capital Improvement Reserve	Assigned	Golf Course Fund	$ 180,000	**Yes**[5]

[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 will achieve full funding of the new reserve levels implemented in FY 2013 with the Bellota land sale proceeds.
[3] This reserve is under funded by $5.5 million. Refer to Infrastructure Reserves section.
[4] This reserve is under funded by $1.1 million. Refer to Infrastructure Reserves section.
[5] This reserve is under funded, however once the internal loan to the Golf Operating fund is taken into consideration the reserve is in compliance.

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 2014. 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.
  - Maintain the Enterprise funds emergency reserve level of at 12% of operating expenses.
- ***Miscellaneous General Fund Reserves*** –
  - Transfer $110,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2014.
  - Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2014, estimated at $840,000.
- ***Self-Insurance Reserves*** –
  - Authorize the General Liability Self-Insurance Fund to charge funds in the amount of $1.65 million based on anticipated premiums and operating costs of each fund (see Attachment "A" in the Reserve Paper for the fund charges).
  - Retain $800,000 of proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.
- ***Worker's Comp Reserves*** –
  - Maintain the existing worker's compensation rates at the current levels to maintain reserves at an adequate level.
- ***Capital Replacement Reserves*** –
  - Transfer $20,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2014 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
  - Transfer $50,000 from the General Fund to the Park Asset Replacement Reserve for FY 2014 and contribute annual amounts for the replacement of park assets.
  - Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
  - Maintain contributions for the replacement of City fleet vehicles and equipment to keep the reserve at an adequate level.
- ***Infrastructure Reserves*** –
  - Maintain annual depreciation fund charges and asset model contributions to the Water Operating fund to achieve three years worth of future capital projects.
  - Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.

- o 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.
- o Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.
- o Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

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 and funded as part of the FY 2009 budget in the amount of $10,000,000 from undesignated General fund balance. This balance was a Council set amount to be maintained at this level and amounts can only be spent through the approval of a resolution by the City Council.

Recommendation and Fiscal Impact: Maintain the Sustainability Fund balance Reserve at $10 million.

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 2013 projected emergency reserve balance and the recommended contribution to maintain the 9% reserve level for FY 2014.

	Projected Balance June 30, 2013	FY 2014 Recommended Contribution	Percentage June 30, 2013
General Fund	$4,538,000	$91,000	9%

Recommendation and Fiscal Impact: Maintain the General Fund Emergency Reserve at 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 12% 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 12% of the operating costs which is in accordance with Government Finance Officers Association's best practices. This level has been in place since the 2012 LTFP and the level is almost two months of operating expenses.

The change to the emergency reserves was implemented immediately to the Storm Drain and Solid Waste Funds. However, the funding of the Water, Sewer and Golf emergency reserves have taken 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 2013 and the targeted reserve balance (12%) of operating costs.

	Reserve Balance Funding Availability at June 30, 2013	Target Reserve Balance
Water Fund (a)	$ 77,000	$ 950,500
Sewer Fund (a)	461,000	989,500
Golf Course Fund (b)	20,000	251,700
Storm Drain Fund	179,500	179,500
Solid Waste Fund	26,500	26,500

(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 the future through rate changes, and adjustments to depreciation reserves.
(b) During 2013, Emergency Reserve funds available in the Golf Course fund are $20,000, which is below the required reserve amount. The Golf Course Fund's operating position will improve since the General Fund advance is fully repaid and amortization of an interfund loan will reduce annual debt service payments.

Recommendation and Fiscal Impact: Maintain the Enterprise funds emergency reserve level at 12% of operating expenses.

Miscellaneous General Fund Reserves

Vista Hermosa Sports Park (VHSP) Maintenance and Operations Reserve
City Council Fiscal Policy: Approve and authorize the creation of the La Pata Sports Park Operations and Maintenance Reserve.

Assessment of the current situation/conclusions: The Maintenance and Operations Reserve was created in FY 2010, with $2.9 million of the proceeds recognized from the sale of land to Target. The $2.9 million represented approximately 3 ½ years of Operations and Maintenance costs for the new sports park. At June 30, 2013 there will be a projected amount of $1,857,000 in the reserve. Based on the original reserve the amount to be subsidized during FY 2014 will be $840,000. The amount that will be subsidized in FY 2015 is estimated to be $867,000, with the remaining reserve of $150,000 to be used in FY 2016.

Recommendation and Fiscal Impact: Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2014, estimated at $840,000.

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

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

Average Annual Payoffs (3 year average)	*$ 100,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2013 is $652,000. At June 30, 2012, the total General Fund liability for accrued leave was $1.6 million. Of this amount, $843,000 represents the liability for employees who will be age 55 or older by June 30, 2013. Based on the projected ending balance and anticipated payouts transfer an amount of $110,000 to the Accrued Leave Reserve.

Based on GASB 54, the amount will be transferred to the General Fund and separated from unassigned General Fund balance, with accrued leave amounts still paid from this separate reserve.

Recommendation and Fiscal Impact: Transfer $110,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2014 ($110,000 was the FY 2013 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 one times its annual insurance authority premium. In addition, the City will perform an annual analysis to document 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 follows:

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.

In the FY 2012 LTFP, the City modified the reserve level to be based on a minimum of one times the annual premium. This change will allow the City to better absorb annual contributions fluctuations based on claim activity. However, the City, during this time of transition, is also affected by changes resulting from the 2010 CJPIA funding model shift from a retrospective funding model to a prospective funding model. The City's annual insurance premium is projected to be $1.3 million in FY 2014, which would create a reserve requirement of $1.3 million. However, the projected ending balance of the General Liability fund at June 30, 2013 is $530,000, which results in an underfunding of the reserve requirement by $800,000.

In addition to this underfunding, there is also a retrospective balance due of $3.0 million. At June 30, 2012, the City of San Clemente had a retrospective liability of $963,000 with the pool. However, based on current adjustments to past claims liability estimates, additional funding to the self-insurance pool is now required for past claim years. This additional funding is called a retrospective adjustment. The adjustment is assessed as part of the October 2012 retrospective calculations and is approximately $2.0 million as a result of prior subsidence claims. When added to the balance of $963,000, the cumulative retrospective balance is now $3.0 million.

A past subsidence claim (Bellota) was paid from the General Liability fund. The total of the Bellota claim has exceeded $11 million, with the General Fund contributing $7 million towards the claim directly. Soon, the Bellota property will be sold and proceeds from the land sales will be placed into the General Liability Fund. As originally proposed in the 2012 LTFP, the General

Liability fund should use these one-time revenues to fund one-time costs/claims and retain the proceeds to fund the reserve deficiency. In addition, the proceeds should be used to fund the $3.0 million retrospective liability. Funding these amounts will protect against significant fluctuations in future operating charges to the General Fund. Any excess proceeds, once the reserves are funded, would be distributed to the General Fund.

The $3.0 million retrospective balance must be paid to the CJPIA starting in FY 2014. The balance can be paid in one lump sum, due July 1, 2013, or the City can elect payment terms up to seven years, with interest being charged. However, the CJPIA has not yet determined formal interest rates. Further discussion and recommendations for funding the $3.0 million retrospective balance can be found in the LTFP General Liability Insurance Analysis paper.

Recommendations and Fiscal Impact:
1. Authorize the General Liability Self-Insurance Fund to charge funds in the amount of $1.65 million based on anticipated premiums and operating costs of each fund (see Attachment "A "in the Reserve Paper for the fund charges).

2. Retain $800,000 of proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.

Workers' Compensation Fund
City Council Fiscal Policy: Maintain a reserve 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. 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.

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.) as listed in "Attachment A'. These rates allow the City to maintain compliance and funding with the applicable State law and maintain compliance with Governmental Accounting Standards Board Statement No. 10.
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 $96,000, for a total reserve requirement of $996,000. The estimated reserve balance is fully funded with $1,121,000 at June 30, 2013.

Recommendations and Fiscal Impact: Maintain the existing worker's compensation rates at the current levels to maintain reserves at an adequate level.

Capital Replacement Reserves

Fleet Replacement Reserve Fund

City Council Fiscal Policy: Maintain a reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.

Assessment of the current situation/conclusions: The reserve is reviewed annually to verify if funding is adequate to cover projected replacement costs for the next five years. Currently, the City's fleet is valued at $7.6 million. $4.1 million is scheduled for replacement during the next five years, $1.4 million is scheduled for replacement during the next six to ten years and $2.1 million is scheduled for replacement after ten years. This reserve is fully funded with a projected ending balance of $3.6 million at June 30, 2013.

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, 2013 is $680,000, and with a one-time contribution of $20,000 from the General Fund is fully funded for the projected five-year costs.

Recommendation and Fiscal Impact: Transfer $20,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2014 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 $515,000. The reserve balance is projected to be $839,000 as of the end of FY 2013.

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: The City currently pays for parks on a “pay as you go” basis. However, recognizing the need for the replacement of park assets, an analysis was performed by City staff in FY 2009 that identified approximately $28.3 million of buildings, fencing, lighting, playground, sports equipment, 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 the $28.3 million of park system assets in FY 2009 was not done. However, the City Council was interested in funding an amount for park asset replacement reserve. A park replacement target reserve level of $1.2 million (essentially one-years funding) was adopted in fiscal policy to fund a minimum level. This was funded by one-time transfers to start the reserve, with other contributions in future years considered from one-time resources.

In order to maintain these reserves, restrictions were made on projects funded from the Park Asset Reserve. The Park Asset Reserve shall be used only for replacement of park capital assets valued over $50,000 for assets located within city parks. As replacement projects are identified, the reserve starts annual replacement charges to the benefiting program to replenish the Park Asset Reserve based on a reasonable asset life. In FY 2012 the Vista Hermosa Sports park was added which has artificial turf that will require replacement after a life of approximately 10-15 years. Staff is recommending an annual charge of $50,000 to advance fund a portion of the artificial turf replacement in the future.

The reserve balance is projected to be $1.1 million as of the end of FY 2013 and requires a $50,000 transfer from the General Fund to maintain the fiscal policy target balance.

Recommendation and Fiscal Impact: Transfer $50,000 from the General Fund to the Park Asset Replacement Reserve for FY 2014 and contribute annual amounts for the replacement of park assets.

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.

As part of the 2006 LTFP, a commitment was made to address the long-term funding requirements for the City's Water, Sewer, and Storm Drain infrastructure reserves due to the significant funding gaps identified at that time. The City also realized that achieving fully funded reserves would take multiple fiscal 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 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 project costs.

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, 2013 is $6.5 million. The three-year capital costs total $12.0 million. Therefore, the Depreciation Reserve is under funded by $5.5 million.

The City is making progress toward funding three years worth of capital activity based on depreciation contributions, asset model contributions, and the interest earned on the reserve amounts. The Water Operating Fund contributed depreciation amounts of $1.1 million based on the estimated useful life of the water capital assets. The asset model contribution amount of $2.1 million 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.

Recommendation and Fiscal Impact of Recommendations: Maintain annual depreciation fund charges and asset model contributions 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, 2013 is $6.4 million and the three-year capital costs total $6.3 million. Therefore, the Sewer Depreciation Reserve is currently fully funded.

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

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.

Storm Drain Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2013 is $1.2 million and the three-year capital costs total $2.3 million. Therefore, the Depreciation Reserve is currently under funded by $1.1 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.

Golf Course Depreciation Reserve
Assessment of the current situation/conclusions: The Golf Depreciation Reserve is utilized for setting aside amounts for buildings, machinery, and equipment replacements, which can have lives between 5-50 years. The available ending balance projected at June 30, 2013 is $152,000. This amount does not include the receivable from an internal loan of $1.3 million to Golf Operating, which is not considered available. Projected capital expenses for the next three years total $360,000. Annual amounts placed into this reserve are $190,000 and with the available balance at June 30, 2012 will meet the capital requirements over the next three 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. The Improvement Reserve is to provide funds for green and tee reconstruction, fencing and other miscellaneous golf improvements based on depreciation of these improvement assets. The Golf Capital Improvement Reserve at June 30, 2013 is projected to have an ending balance of $180,000. Projected capital expenses for the next three years total $364,000. Annual amounts placed into this reserve are $130,000 and with the available balance at June 30, 2013 the capital requirements over the next three years will be met.

Recommendation and Fiscal Impact: Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement 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 2014:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2014	Total Charge for General Liability FY 2013
General Fund	80.9%	57.9%	63.6%	$ 1,050,050	$ 940,280
Street Improvement Fund	0.0%	2.8%	2.1%	34,310	29,720
Water Fund	13.1%	19.4%	17.8%	293,650	301,170
Sewer Fund	2.9%	9.8%	8.1%	133,600	142,070
Solid Waste Fund	0.0%	0.3%	0.2%	3,040	13,080
Storm Drain Fund	3.1%	1.7%	2.0%	34,170	62,830
Golf Course Fund	0.0%	2.3%	1.8%	29,080	29,360
Clean Ocean Fund	0.0%	2.2%	1.7%	27,580	36,330
Central Services Fund	0.0%	0.6%	0.5%	7,720	9,760
Information Services Fund	0.0%	1.7%	1.2%	20,250	19,560
Fleet Maintenance Fund	0.0%	1.3%	1.0%	16,550	15,840
Total	**100.0%**	**100.0%**	**100.0%**	**$1,650,000**	**$1,600,000**

Workers Compensation charges

The following rates are in effect for FY 2013:

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 2014 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.

The Fiscal Policy statements are presented by major categories, which include;

- Core Values of Financial Sustainability
- Operating Budget
- Revenue
- Expenditure
- Utility Rates and Fees
- Capital Improvements
- Short Term Debt
- Long Term Debt
- Fund Balance and Reserves
- Investment Policies
- Accounting, Auditing, and Financial Reporting
- Long Term Financial

A **Status** for each Policy Statement is presented, with a ✓ for "in compliance", or -- if the policy is "not in compliance" with the current Policy statement.

Comments are provided next to many of the policy statements to provide additional relevant information to the reader. Unless otherwise noted, reserve balances provided in the comment section are based on projected numbers as of June 30, 2013, presented within the Reserve Paper in this year's Long Term Financial Plan.

Based on this years review, no changes are recommended to the City's Fiscal Policy at this time.

Recommendation
None

Council Action:
None

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.	√	
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	√	

Fiscal Policy Statement	Status	Comments
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 Operating 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.	√	

Expenditure Policies

Fiscal Policy Statement	Status	Comments
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 7.0% and Sewer rates increased 8.0% effective August 1, 2012.
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.	√	33 new Capital projects = $13.4 million are included in the 2013 CIP Budget
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.	√	The Golf Fund borrowed $750,000 from the Workers' Compensation Self-insurance reserve on July 1, 2012. The loan is fully amortized over a five-year period with annual payments due on June 30 beginning in 2013.
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 = $4.5million, or 9.00%, of General Fund operating expenditures.
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.	--	Emergency Reserves for: Water = $77,000; Sewer = $461,000; Storm Drain = $179,500; Solid Waste = $26,500; and Golf = $20,000
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 = $652,000

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 = $680,000 Facilities Maintenance Reserve = $839,000
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 = $6.4 million; Golf Depreciation Reserve = $152,000; Water Depreciation Reserve = $6.5 million; and Storm Drain Depreciation Reserve = $1.2 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 = $180,000
29. The City will establish a Park Asset Replacement Reserve with a target of $1.2 million for the replacement of park assets in the future. The reserve balance will be reviewed annually and funded through one-time revenues or undesignated General Fund balance transfers, when available.	√	Park Asset Replacement Reserve = $1,145,000

Fiscal Policy Statement	Status	Comments
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.	--	General Liability Reserve = $530,000
31. 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.	√	Workers Compensation Reserve = $1.1 million
32. 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 = $3.7 million

Investment Policies

Fiscal Policy Statement	Status	Comments
33. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	

Accounting, Auditing & Financial Reporting Policies

Fiscal Policy Statement	Status	Comments
34. 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.	√	

Fiscal Policy Statement	Status	Comments
35. 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.	√	
36. 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
37. Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
38. 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.	√	
39. Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
40. A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AAA
41. Establish and maintain a formal compensation plan for all employee salary or wage ranges.	√	
42. Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	√	
Long Term Financial Policies		
43. 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.	√	

Fiscal Policy Statement	Status	Comments
44. 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.

***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	$6,100,000[2]	$12,900,000	($6,800,000)[3]
Ole Hanson Beach Club	General Fund	$2,500,000	$3,700,000	($1,200,000)[4]
USACE Sand Project	General Fund	$252,000	$12,200,000[5]	($4,170,000)[6]
Wayfinding Master Sign Program	General Fund	$169,860[7]	$675,000 to $900,000	($505,140 to $730,140)
Municipal Pier Rehabilitation	General Fund	$0	$1,000,000	($1,000,000)

[1]This includes $300,000 from the General Fund for the Base of Pier Restroom.
[2]This includes $2,100,000 from the Civic Center Construction Fund and $4,100,000 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 may vary dependent on City Council selected design options.
[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 $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				
Reservoir No. 1 Expansion	Water Depreciation and Acreage Fee Funds	$2,500,000	$2,500,000	$0
South Orange County Ocean Desalination (SOCOD)	Water Acreage Fee Fund	$710,000	$710,000[8]	$0
Highland Light Ductile Iron Pipeline Replacements	Water Depreciation Fund	$2,400,000	$2,400,000	$0
[8]Funding includes the City's share of the pilot project and testing, total project cost is estimated between $175 million and $200 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.

<u>Non-Enterprise Projects – Parks and Medians</u>

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 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. 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 2013 budget process, the phasing of the restroom improvements was re-evaluated due to the loss of the Redevelopment Agency as a funding source. Consequently, funding for improvements to the Beach Restrooms was phased into the 6-year General Fund Capital Improvement Program budget. The phasing plan includes funding for the improvement of one restroom each year with funding allocated through FY 2018 based on a prioritization by Beaches, Parks & Recreation (BP&R) staff.

Design work for the Base of Pier Restroom is underway and the preliminary design work has been completed. Staff will present the preliminary design to the City Council in early 2013 for approval of the concept plans. To minimize beach user inconvenience, project construction will be planned outside of peak summer months. Due to the recent loss of key BP&R project management project has been delayed and construction is anticipated fall 2013. The planned rehabilitation of Boca Del Canon restroom will be considered for funding in FY 2014 in connection with other projects funded from the General Fund.

Expenditures:
The Base of Pier Restroom was budgeted for $300,000 from the General Fund. Long-term improvement costs to address the remaining five restroom facilities are estimated between $1,720,000 and $2,054,000. Staff will review cost saving opportunities by evaluating the compatibility of a modular restroom facility design that can be used at multiple locations.

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 lose 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.

A master plan of Steed Park was prepared to incorporate additional facilities into the park property in 2002. 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 energy efficiency, lightening intensity improvements and will 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 are currently projected as part of the FY 2016 Capital Improvement Program from the General Fund. The project will be considered for funding in connection with other projects funded from the General Fund.

Potential Cash Flow Issues:
Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

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 poor condition as compared to other parks in San Clemente. Although park facilities are nearing their useful life, the park continues to be well used by both the surrounding community and the Boys and Girls Club. Improvement of the tennis courts was deemed to be a high priority by Beaches, Parks and Recreation while other planned improvements were not deemed to be an immediate need and were deferred to future years.

To address immediate maintenance concerns to repair the tennis courts, $145,000 was budgeted in FY 2012 to rehabilitate the failing tennis courts. Following a geotechnical analysis, it was determined that the project budget was not sufficient to complete necessary drainage and incidental improvements to protect the proposed court rehabilitation. As a result of the budget shortfall, staff presented options to the City Council on December 2, 2012, which included: Replace Courts; and Replace Courts and Lighting. The City Council directed staff to delay any action and open negotiations with the Capistrano Unified School District to see if an agreement between the City and school district could be reached to allow citizens the right to use the San Clemente High School courts during non-school hours. Staff will report back to the City Council in 2013 once the school districts position on the matter is made clear.

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 completely renovated park facility.

Expenditures:
The complete park rehabilitation project is estimated to cost $1,000,000 and proposed to be budgeted over a two year cycle in FY's 2018 & 2019. In FY 2018 $200,000 is proposed for design in FY 2019 $800,000 is proposed for construction in FY 2019 from the General Fund. A total budget of $1,300,000 would be required if the City Council decides to defer court improvements and include the court replacement as part of the comprehensive park rehabilitation.

Potential Cash Flow Issues:
Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

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 1,250 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. Every few years, pilings were replaced until more recent major repairs and rehabilitation work completed in 2005 and 2011 was performed 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, which no longer exists for funding of future planned improvements.

To ensure the pier's long term use and viability, it is recommended that pier maintenance and repairs be reviewed every few years due to the dynamic nature of the facility. Anticipated future improvements include systematic replacement of deteriorated timber decking, bracing and pile rehabilitation as well as railing upgrades. 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.

In addition to design and construction of major improvements in future years, smaller maintenance and monitoring activities of the pier will continue in 2013. The City is required to conduct a biennial inspection of the timber piles as a condition of the California Coastal Commission development permit that was secured for the 2011 rehabilitation. The inspection was budgeted in FY 2013 for $25,000 from the General Fund and will be completed spring 2013. Findings and recommendations of the inspection will be prioritized and considered for improvements as part of the next rehabilitation planned for FY 2016.

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 dissolution of the Redevelopment Agency, the funding must now come from the General Fund. Staff will review potential grant funding sources in order to reduce the financial impact to the City's 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 due to the City leasing third floor and a portion of the second floor of the building to tenants with multi-year commitments.

Expenditures:
The total estimated cost for this project is $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 ($4.0 million) and the Civic Center Construction Fund ($2.1 million). The remaining funding can be obtained from the potential sale of the existing City Hall Site at 100 Avenida Presidio.

The lease terms for the Negocio Building are outlined in the table below:

Tenant	Lease Area	Lease Expiration	Renewal Option	Lease Termination
Corrective Solutions	3rd Floor Negocio	May 2015	5-years	May 2020
AMMCOR	2nd Floor Negocio (portion of)	July 2017	3-years	July 2020

The adaptive reuse of the Civic Center will be delayed until such time that the lease periods end. The earliest funding for updating the design work would be requested is FY 2017. Funding for constructing the adaptive re-use of the building would follow in FY 2018, assuming the tenants do not exercise their option to extend their leases to 2020.

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, lease commitments prevent the City from considering the sale of the property at this time. The sale of the City Hall site should be re-evaluated in conjunction with the timing of the 910 Negocio lease expirations.

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 buildings structural, mechanical, plumbing and electrical systems have exceeded their useful life and need to be rehabilitated to ensure the beach club's long-term viability. In addition to the core building systems, there are numerous improvements that can be incorporated into the rehabilitation project to improve the layout and functionality of the existing space and pool, as well as reestablish the Spanish Colonial Revival architectural features and elements that were part of the original construction. Although the core building systems can be rehabilitated within the current budget of $2.5 million to satisfy code requirements, there is not sufficient funding to incorporate all desired layout and architectural improvements.

On November 15, 2011, a historic architect was retained 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. Ole Hanson Beach Club staff was moved to support programs at the new Vista Hermosa Sports Park and the facility was closed to perform destructive testing to evaluate the structural design requirements for the rehabilitation and complete the project's preliminary design report. Although the public pools are currently closed, rentals of the facility continue to be available until start of the project construction. Historically, Ole Hanson Beach Club rentals have generated approximately $200,000 per year.

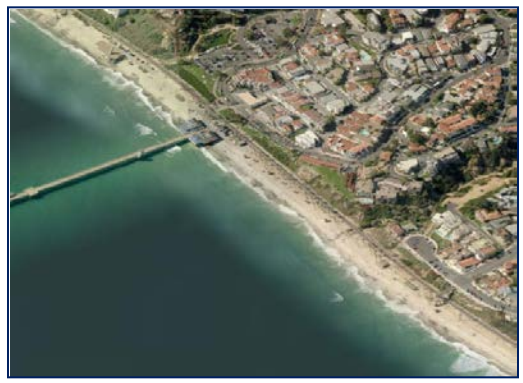
The preliminary design report has been completed and includes varying floor plans and a menu of other improvement options to complete the facility restoration. A preferred floor plan was selected by City staff and presented at a public community meeting. Three options were presented at the meeting and based on input received; the public was in agreement with staff's preferred option. On November 27, 2012, the preferred option was presented to the City Council. A lively public debate ensued over the various considerations for the project and ideas on how to best rehabilitate the building. Based on these deliberations, a workshop was held on January 8, 2013, with presentations from the design team regarding the various optional considerations that could be included in the project for an additional $1.2M. At this meeting, the City Council directed staff to continue to examine opportunities and costs to enhance ocean views and provide the most efficient use of space. Staff will seek final direction at the February 19, 2013 City Council meeting prior to the preparation and permitting of construction documents.

Expenditures:
The project is budgeted from the General Fund for $2.5 million. A supplemental budget appropriation may be required based on the City Council prioritization of additional improvements. Final project costs will not be known until public bids are received from qualified contractors who bid the project.

Potential Cash Flow Issues:
Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

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) have completed a Feasibility Study which identified a sand replenishment project to mitigate beach erosion along the central portion of San Clemente's shoreline. The recommended project is to place 251,000 cubic yards of sand along the shoreline from Linda Lane to South T-Street beaches (a distance of about 3,400 feet), which would widen the beach by 50 feet. This section of beach would be periodically replenished with sand about every 6 years over the course of a 50-year project life.

Current Status and Schedule:
To be eligible for Federal funding assistance, the project must first be authorized in a Federal spending bill (in this case the Water Resources Development Act, or WRDA) and then be included in a subsequent Federal budget for funding. The City Council supported the recommended 50-foot beach nourishment plan, and both the Corps and the Office and Management and Budget (OMB) have transmitted the recommended project to Congress for authorization in the next WRDA bill. The City's Federal lobbyist, Marlowe & Company, has developed proposed language and confirmed that it has been included in the first draft of the WRDA bill prepared by the U.S. Senate. Marlowe is also supporting efforts to change current Federal policy which does not support funding for projects below a Benefit-Cost ratio (BCR) of 2.5 (the City's project has BCR of 1.4). This issue affects projects by others as well. Congress is not expected to earnestly work on this bill until early 2013. In the meantime, the Corps staff plans to start drafting a PED (design phase) cost sharing agreement. This will be needed to help preserve awarded DBW grant funds for the PED 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 $11.3 million for the initial sand placement, with the Corps providing 65% of the cost. The total project cost for ongoing sand placement over the 50-year project life is estimated at $99.1 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	$4.0	$11.3
Ongoing Sand Replenishment	50% Federal 50% City	$43.4	$43.4	$86.8
Total		**$51.45**	**$47.65**	**$99.1**

If the City Council and Corps agree to continue into the design phase, this work could begin during FY 2014. 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 2014, since design will likely continue into FY 2015. There is approximately $61,000 available in the City's project balance that could be applied toward the FY 2014 design cost. Additionally, DBW has awarded a $191,000 grant to the City, which combined with available City funds, would 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 $4 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 was identified by the City Council as a Vital Few Priority in 2007 and is an implementation measure in the Downtown Vision and Strategic Plan. On February 16, 2010, the City Council approved the Wayfinding Master Sign Program which establishes sign design guidelines for a variety of identification, historic landmark, entry, points of interest, directional and regulatory signs throughout the City. The Sign Program is planned to place a special focus on five key areas: City Beaches, Points of Entry, Downtown, North Beach, and Pier Bowl. The 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. At the time the program was conceived, the full implementation was estimated to cost $1.5 to $2 million.

The Downtown and Pier Bowl areas were targeted for the Phase 1 implementation of the program. However, bidding and construction of the project were delayed to ensure the signs met the Manual for Uniform Traffic Control Devices (MUTCD) standards. Staff conducted an analysis of the Phase 1 signage and determined that all but three of the signs could be slightly modified to comply with MUTCD standards. On February 21, 2012, City Council approved Phase 1 Wayfinding Sign Program with the incorporation of the MUTCD changes, and directed staff to evaluate alternatives for the three non-conforming signs included in the Phase 1 package. Since that time, the Engineering Division has investigated the letter height issue for the three non-conforming signs and verified that the MUTCD allows an agency to deviate from the standard when engineering judgment determines that site specific conditions make compliance impractical.

In moving ahead with the implementation of Phase 1, it was determined that the sign design recommended by the Sign Committee were not able to be safely mounted on existing poles due to their heavy weight. As a result, staff worked with the sign contractor used by the Maintenance Division for replacement of City street signs to design a lighter one-sided sign. A prototype was developed and installed at the Palizada / Estrella intersection per the request of the Council. Subsequently, on June 21, 2012, staff returned to the City Council to receive direction regarding continuing the implementation of the Way Finding Sign Program based on the modified sign concept. The City Council unanimously voted to limit the Wayfinding Sign Program to those that: 1) replace other signs; 2) provide direction to parking lots; and 3) provide direction within the Pier Bowl loop. Additionally, the Council directed staff to not move ahead with the monument signs proposed by the Sign Committee. This portion of the program will need to be brought back to the City Council for further direction.

The cost of the program will be significantly reduced if the City Council chooses to implement the program with the lighter one-sided signs. Based on signs similar to the installed prototype, costs for Phase 1 implementation are expected to be reduced from $134,000 to $75,000. By applying this 45% reduction of Phase 1 to the overall program, it is now anticipated that the cost to fully implement the Wayfinding Sign Program is $675,000 to $900,000.

As stipulated by the City Council, most of the signs will be replaced on an as-needed basis, such as when a sign is scheduled for routine replacement. Funding for the program will come from the General Fund. Staff will return to the City Council as part of the annual Capital Improvement Program budget process to request funding to replace signs with the Wayfinding Signs as-needed.

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. Available funding for the program is currently $169,860 which is sufficient to implement Phase I construction. The budget is comprised of $125,000 from the General Fund and $44,860 from the Public Facility Construction Fund. Staff will return to the City Council in 2013 to obtain direction on whether to continue the program based on the installed smaller sign prototype. Based on the direction provided by City Council, future phase implementation budgets will be recommended as existing signs need to be replaced.

Potential Cash Flow Issues:
Funding for the remaining $505,140 to $730,140 necessary to fully implement the program will be requested for approval through the annual Capital Improvement Program budget from the General Fund. Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

Enterprise Projects

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 for chemical residence time prior to conveyance to the distribution system. The conveyance pipeline and chemical addition system were budgeted for construction in FY 2013 which will allow for deferral of the reservoir expansion to FY 2016.

Expenditures:
The conveyance pipeline and chemical improvements were budgeted in FY 2013 for $750,000. The reservoir construction is anticipated in FY 2016 and is estimated at $2.5 million with funding from the Water Depreciation and Water Acreage Fee Funds.

South Orange Coastal 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 with a new 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 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 2 pipelines from the Diemer Filtration Plant providing imported water to the City from the north. There is no water available from the east or south.

A pilot plant was constructed and operated for approximately 18 months ending May 2012. Pilot testing has been completed. During the operation of the pilot plant various considerations were studied including: 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 being evaluated in conjunction with various technical studies and are anticipated to be finalized in early 2013. There are workshops planned with the project participants once the reports are completed. The goal of the workshops is to determine the next steps for the project, which may include: shelving the project to a later date, moving forward with an environmental impact report estimated to take 2 years to complete or commencing environmental work and starting design of a full scale project.

Expenditures:
To date, the City has budgeted $710,000 for participation in the pilot plant and feasibility analysis of the project from the Water Acreage Fee Fund. The full scale plant total project cost is estimated between $175 million to $200 million depending on whether or not iron and manganese treatment is needed.

Highland Light Ductile Iron Pipeline Replacements

Project Background:
Highland Light Estates is a community within the Marblehead Inland development. The tract was developed in 1989. Although the community is compromised of private streets, water and sewer utilities exist within public easements that were dedicated and accepted by the City when the property was developed. As a result, the City's Utilities Division is responsible for maintenance and operation of the water system within the all communities of the Marblehead Inland development. The water lines constructed in this development are comprised of both ductile iron and asbestos cement pipe.

Due to highly corrosive soils and inadequately placed polyethylene wrapping material, Utilities Division staff has performed numerous repairs on the existing ductile iron waterlines within the Highland Light community over the past 5 years. In addition to unexpected interruptions in water service to community residents, it is costly and ineffective to continue repairing the water system in this manner. Future failures are inevitable due to continued corrosion of the existing potable water system. After a review of Utilities Division work order history in the area, staff concluded the only solution is to replace the existing 6, 8 and 10-inch diameter ductile iron pipes with polyvinyl chloride (PVC) piping. The PVC piping is anticipated to provide a 50 to 75 year life and will not be affected by the highly corrosive soils that underlie the development.

Expenditures:
The project is estimated to cost a total of $2,400,000. To reduce the impact to the Water Fund Depreciation Reserve, the work is proposed to be broken up in two separate projects over multiple years. Phase 1 of the project will be recommended in FY 2014 for $1,200,000 and will focus on the areas where the majority of the corrosion problems have been encountered and repaired. Phase 2 of the project is anticipated in FY 2017 for $1,200,000 to remove and replace all remaining ductile iron waterlines and mitigate the potential for future failures.

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

Recommendations:
Funding recommendations will come from the FY2014 Proposed Budget

Fiscal Impact of Recommendations:
None

Clean Ocean Program Review & Renewal

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

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

In late 2002, San Clemente property owners approved an Urban Runoff Management Fee that went into effect in January 2003 to help fund URMP activities. Funds generated by this fee were placed in a newly-created "Clean Ocean" enterprise fund, thus the Urban Runoff Management Fee became more commonly referred to as the "Clean Ocean Fee," and the entire program commonly referred to as the "Clean Ocean Program." The original fee program had a five-year sunset period and was set to expire at the end of December 2007. However, in late 2007 San Clemente property owners renewed the fee for a six-year period to end in December 2013. Although the Clean Ocean Fee will expire in December 2013, the City needs to continue its Clean Ocean Program to meet ongoing and future regulatory requirements. The City needs to begin its planning now to determine the scope of activities and associated funding impacts for the Clean Ocean Program for the next five to ten years.

Clean Ocean Program Progress
Key activities under the Clean Ocean Program include: structural treatment and storm drain projects; street cleaning; water quality code enforcement; commercial, industrial and municipal facility inspection; water quality monitoring; and expanded public education. The following subsections summarize what has been accomplished over the past six years.

Structural Treatment and Storm Drain System Improvement Projects
The original program included a number of structural projects to treat urban runoff, help prevent discharges of pollutants from City operations and help with storm drain system operation and maintenance. These included:

- <u>Poche Beach Bacteria Reduction</u>. This project is to remove bacteria and other pollutants that discharge from dry-weather flows to Poche Beach at the northern City boundary. Since the County of Orange received a State grant to fund its own similar project (the beach at the outlet is owned by the County), the City partnered with the County on a common project whereby the County constructed an UltraViolet (UV) Light treatment system near the channel mouth to removing bacteria from up to 1 million gallons of urban runoff per day. The system was placed into operation in 2011 and the County operates and maintains it, with about 60% of the annual operational cost provided by the City's Clean Ocean Program. By agreement with the County the City's annual cost share could be up to $191,000 each year, although the City's actual cost share for the past two years have been about $110,00 each year. The system is successfully treating urban runoff from the Prima Deshehca watershed, however beach water quality grades continue to be impacted by the outlet pond and large presence of birds, based on a watershed study the City conducted. To address this and improve beach water quality grades, the City developed an action plan of additional efforts to pursue in the watershed and at the channel outlet.

Aerial view of Poche Beach[1].

- North Beach Bacteria Reduction. In 2007, the City completed a project to divert and treat dry-weather runoff that discharges to North Beach. A diversion system now directs about 1 million gallons per day of urban runoff from the Segunda Deshecha flood control channel to a filter unit at the City's Water Reclamation Plant site, and then directly into the Reclamation Plant land outfall discharge pipe. This project eliminates virtually all urban runoff discharges to North Beach during dry weather periods, resulting in improved water quality at this heavily-used beach.

Aerial view of North Beach[1].

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

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

- Storm Drain System Improvements. The Clean Ocean Program has helped fund a number of storm drain system repair and improvement projects. Completed projects have included storm drains at the City Pier, Cabrillo to Palizada, Calle Las Bolsas, West Marquita and the Riviera Channel among others.

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

Street Sweeping

Under the Clean Ocean Program, the City was able to increase the level of street sweeping service so that more trash, litter, debris, sediment, etc. could be picked up before it was washed into City storm drains and out to the ocean. Public residential streets are swept at least twice per month and commercial areas and major streets are swept at least three times per week. Since the increased program started in Fiscal Year 2003-2004, the City collects over 2,000 cubic yards of debris from public City streets each year.

Water Quality Enforcement, Inspection and Monitoring

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

Public Education

Public education is a key element of the Clean Ocean Program to help encourage behavior that promotes water quality protection and pollution prevention. The program includes education initiatives such as: developing and distributing mailers, brochures and fact sheets to City residents and businesses; staffing a booth and providing information at local events; and providing information via the City's website. Not only have these activities been implemented, a number of additional public education activities have been conducted or are ongoing. Just some of the activities that have been recently conducted include:

- Participation and/or sponsorship of clean up events
- Educational booths at community events (e.g. Cinco de Mayo, SC Ocean Festival, Earth Day, SC Community Garden Festival, and Barefoot Beach Run)
- Participation in the regional Children's Water Education Festival
- Water conservation Smart Timer rebate program to residents in the Prima Deshecha (M01) Watershed which drains to Poche Beach
- Compost giveaways and special waste collection events
- Co-sponsorship of Adopt-a-Beach and Blue Water Business Awards
- Advertisements in local print media (e.g. SC Journal, SC Times, South Coast Magazine)
- Information articles and advertisements in the quarterly San Clemente City Magazine
- Educational flyers in all business license renewal packets
- E-Newsletters
- New re-usable giveaways (bags, bottles, etc.)

In addition, as approved in the current FY13 Clean Ocean budget, staff has retained a consultant to assess the Clean Ocean public education/outreach program. The consultant has specific experience in developing and implementing stormwater/water quality outreach programs, and will provide the City with recommendations to ensure the most effective delivery of public education and outreach.

Future Needs

In addition to protecting local surface water quality, a fundamental goal of the Clean Ocean Program is to ensure that the City remains in compliance with the National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit issued to all south Orange County cities. Barring significant changes to State and Federal law, the City will be subject to NPDES Stormwater Permit requirements on an on-going basis. In fact, the current Permit will be renewed in 2013, and will include additional requirements that the City must comply with. This means that the City needs to continue conducting activities such as street sweeping, public education, water quality code enforcement, facility inspections, and monitoring. In addition to the Permit, the State has adopted an additional regulation known as a Total Maximum Daily Load (TMDL) for south Orange County coastal cities. This TMDL designates limits on the amount of bacteria that can be discharged to the ocean from City storm drains. While the Poche and North Beach projects discussed previously will help with compliance, additional watershed activities and projects will be needed. To outline the City's approach for reducing bacteria pollutant loads to comply with the Bacteria TMDL and to reduce other priority pollutants, staff the City recently prepared a Comprehensive Load Reduction Plan (CLRP), as required by the San Diego Regional Water Quality Control Board. Key activities include: a) increased irrigation reduction efforts via smart controllers; b) landscape conversions; c) special studies required by the CLRP; and d) catch basin retrofits. Other ongoing activities of the Clean Ocean Program will also help support CLRP implementation (e.g. outreach).

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

Funding Sources

The primary source of funds to support the Clean Ocean Program is the Clean Ocean Fee, which generates about $1.8 million annually. Revenue from citations issued for illegally parked vehicles on street cleaning days generates an additional $300,000 annually. Unless renewed, the fee will expire at the end of December 2013. Although at the time of the fee adoption it was recognized that water quality protection would be an ongoing need, a fee expiration date was included to provide an automatic evaluation of the overall program as well as an assessment of future anticipated needs.

Recommendations

Staff recommends that the City Council direct staff to begin planning for a renewal of the Clean Ocean Fee, including obtaining public input on the future of the Clean Ocean Program (e.g. program goals, specific projects and/or activities etc.), developing implementation alternatives, costs and associated Clean Ocean Fee rate impacts, and preparing implementation recommendations for City Council consideration. The Council would then decide which program alternative to pursue, and how it should be funded. If so directed, staff would then begin the formal election process for renewal of the Clean Ocean Fee. The current approved FY2013 budget includes funds to conduct a mail ballot election for renewal of the Clean Ocean Fee.

Fiscal Impact of Recommendations

None, since the current approved FY2013 budget includes funds to conduct a mail ballot election for renewal of the Clean Ocean Fee. If the fee is not renewed, then about $2 million annually from other funding sources needs to be identified to fund the program.

Council Action (5-0)

To direct Staff to begin planning for a renewal of the Clean Ocean Fee.

Note:

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

Fleet Maintenance Services Evaluation

Objective
To review and analyze the current delivery of fleet maintenance services, which are currently performed at the City's corporate yard, and present alternatives to consider for future service delivery.

Executive Summary
Prior to 1994, the City managed fleet maintenance services internally, with dedicated full time supervisory and mechanic positions performing routine maintenance and repair activities for all city-owned vehicles and moving stock, which included generators and trailers. At that time the City's fleet also included Police and Fire vehicles. Police and Fire services were subsequently outsourced and the City's fleet size and vehicle maintenance complexity significantly reduced.

In continuing cost-cutting efforts, fleet maintenance was considered for outsourcing and was put out for bid in November 1993. First Vehicle Services (FVS) submitted a full turn-key solution for fleet maintenance services and was awarded an initial five (5) year contract in 1994. That contract was renewed several times, most recently in 2009. The current five year contract expires on June 30, 2014.

With the existing contract due to expire in June 2014, a review of the current contract structure and alternatives available to the City make sense at this time. Considering alternatives now will provide an adequate timeframe to implement an alternative strategy, if so desired by the City Council.

Background
The City executed a contract in 1994 with FVS to provide vehicle maintenance services for the City's fleet at facilities provided by the City. FVS currently maintains 154 pieces of equipment, which includes passenger vehicles, light and heavy duty trucks, generators and compressors, trailers, backhoes and other heavy construction equipment. The fleet size increased from 146 pieces in of equipment in 2011 when the City assumed responsibility for 8 Police vehicles, none of which are patrol vehicles. Under the terms of the agreement with FVS, an annual "base target" amount is established to provide for the maintenance and repair of the equipment. This includes scheduled preventative maintenance, as-needed repairs and emergency service.

The current base target amount for FY 2013 is $474,900, which includes costs for labor (2 full – time mechanics, one part-time supervising manager, and one part-time administrative assistant), parts, operating expenses and profit. As an incentive to manage costs, FVS and the City share 50/50 in any savings between the "base target" amount and the actual costs to operate the contract fleet services each year. This calculation is done annually, following the close of each fiscal year.

Certain costs are excluded from the base target contract amount, such as repairs of equipment damaged in accidents or by vandalism, and additional equipment installations. These are considered “non-contract” expenses and reimbursed separately. Labor is not charged for these activities, as the labor is provided for under the base contract. Parts and outside services are passed along to the City for non-contract services. With the City’s permission, FVS periodically provides services to outside agencies, for which the City services a credit.

The following table presents the contract base target costs and actual costs paid over the past six years:

	2007	2008	2009	2010	2011	2012
Base Target	$517,868	$536,511	$554,215	$554,215	$554,215	$532,414
Actual costs	$484,003	$511,636	$525,132	$470,427	$459,039	$497,963
Savings	$ 33,865	$ 24,875	$ 29,083	$ 83,788	$89,482	$34,451
50/50 Split	$ 16,932	$ 12,438	$ 14,542	$ 41,894	$47,588	$17,225
Total paid	$505,461	$542,132	$546,781	$514,396	$514,787	*$515,188*

As the table indicates, the base contract amount has been stable over the past five years. The “actual costs” declined significantly between 2009 and 2010 as a result of the loss of one of the three mechanic positions. Initially, the City requested that FVS not fill that vacant mechanic position. The contract base target amount was not adjusted and FVS enjoyed an increase in the 50/50 split for the following two-year period. During a review of the contract this past year, several issues were identified as potential cost-saving modifications. The unfilled mechanic position was identified for permanent elimination upon confirmation that the level of service would not be affected. It was also determined during the review that FVS had reduced the Supervising Manager position from full-time to part time (.8 full time equivalent, or FTE). This is because the manager has assumed oversight of contracts with two other municipal agencies and is no longer dedicated exclusively to the San Clemente contract.

As a result, staff negotiated modifications to the 2013 contract base target, reducing the base target amount from $554,200 to $474,900 as noted previously. This reflects the elimination of 1.0 FTE for a full time mechanic position and the reduction of the Manager position from 1.0 to 0.8 FTE.

Contract Review

The contract review confirmed the overall satisfaction within the City for the services provided by First Vehicle Services. The level of service and the quality of service are considered excellent by all users interviewed. However, the cost of the services was questioned by personnel in a number of City programs, and the subsequent review performed by staff did identify several areas for cost reductions (notably the elimination of one mechanic position and the reduction of the Manager position from 1.0 FTE to 0.8 FTE).

Based on the results of the review and the fact that the contract will expire in June 2014, staff has identified three scenarios for future delivery of fleet maintenance services, including:

1. Negotiating and executing a new agreement with First Vehicle Services for another five

year term;
2. Placing the fleet maintenance services contract out for a public bid; or
3. Performing fleet maintenance services in-house.

Contract considerations
The decision to contract fleet maintenance services was made nearly twenty years ago. At that time, the City operation was considerably more expensive than a contracted solution, and contracting fleet services proved to be cost effective. The elimination of Fire and Police vehicles reduced the number and type of vehicles in the fleet and, over time, the make-up of the City's fleet of vehicles and support equipment has changed as well.

As with any contracted service, a periodic review of current practices and pricing can be beneficial. Unfortunately, there are a limited number of professional contract fleet management companies operating in Southern California. Because of this, there is no assurance that a competitive bid process will result in reducing the cost of contract fleet operations.

Some of the terms and conditions of the existing agreement make administration burdensome. The billing conditions are an example, where each month, multiple invoices are generated to manage the contract. This process could be modified to reduce staff time to oversee contract costs. This of course, could be done without going to bid, but the current contractor has been hesitant to modify the existing agreement voluntarily.

A competitive bid process may provide the City with a methodology to address some of the administrative aspects of the existing contract with FVS.

In-house Fleet Maintenance
Bringing fleet maintenance services back in-house is an alternative to consider. There are both performance and economic considerations to this alternative.

Performance
As noted above, there are currently two full-time mechanics, one part-time administrative assistant and one part-time manager. All of the existing personnel have worked for many years under the contract, and one of the mechanics has worked on City vehicles since 1994. It is clear from the review conducted by staff that two mechanic positions can effectively maintain the City's fleet. There have been only two mechanic positions filled for the past four years and no noticeable adverse change in service level was noted during this time period. Bringing maintenance services in-house will require hiring of the existing contract mechanics or replacing them with new personnel. Either approach could have short term impacts on the quality and timeliness of service, but are expected to be minimal if the transition is managed properly.

The current Fleet Manager has overseen the City's operations for many years. He has an excellent understanding of the City's fleet and operating methodology and is well respected by City staff. As noted above, the Manager no longer dedicates his time entirely to the City contract, and it is unlikely that he would consider working directly for the City. An in-house supervisory position would need to be filled. This would provide the opportunity and staff capacity to address additional fleet-related needs. For example, the City's Sustainability Action Plan includes an item to develop a policy and plan for implementing an alternative fuel vehicle fleet. However, due to other priorities existing staff has not been able to dedicate time to this project. In addition to ensuring maintenance and repair of fleet vehicles, an in-house fleet manager could also focus on long-term initiatives such as electric or hybrid vehicle consideration and selection, alternative fuel vehicle programs, natural gas conversion, and similar efforts.

A part-time administrative position supports the Fleet Manager. The position is responsible for tracking fleet maintenance records and other daily documentation, record keeping, and administrative duties for the fleet operations. This position should be relatively easy to fill if brought in-house. The decision as to a part or full time position would need to be determined, as would potential work assignment enhancements or absorption of the duties by existing City personnel.

Economic

The table below provides an initial rough cost estimate of replacing the four positions with full-time City personnel. It assumes the positions would participate in the normal benefits awarded City employees.

Position	Salary Grade	Annual Pay	Benefits	Total Cost
Mechanic	43	$59,200	$26,600	$85,800
Mechanic	43	$59,200	$26,600	$85,800
Supervisor	53	$75,500	$34,000	$109,500
Customer Service Specialist (PT)	35	$24,400	$6,100	$30,500
Total compensation costs				$311,500

Under the existing contract, the mechanic pay ranges between $55,000 and $59,000. The above pay grade is equivalent to an existing mechanic position at the City's Golf Maintenance Fund. The City's benefit package represents approximately 45% of the annual pay, as compared to approximately 25% under the First Vehicle Services contract, so compensation costs under a City model will exceed compensation expenses under the current contract.

Indirect costs are estimated below:

Category	Total Cost
Parts (included in existing contract)	$70,000
Shop Supplies	$20,000
Certifications/training	$20,000
Total costs	$110,000

Parts, which are covered in the existing contract, are purchased through FVS, which presumably has negotiated agreements with parts suppliers. The $70,000 estimate above assumes a 20% cost increase above the past three-year average billed by FVS. The initial total cost estimate for labor and parts combined is about $422,000, which is less than the current FY13 base target amount of $474,900. While the estimates above are preliminary, they suggest that bringing fleet maintenance in-house might be cost effective, and that further detailed study is appropriate.

Conclusion

FVS has been providing fleet maintenance services to the City for almost 20 years, and the current contract will expire in June 2014. While the service provided by FVS has been excellent, recent analysis by staff suggests that there might be an opportunity to improve the cost effectiveness of fleet maintenance services. Before the current FVS contract expires in 2014, further detailed evaluation of several fleet maintenance approaches should be conducted. These include renewing a contract with the City's current vehicle maintenance provider, conducting a public bid process, or returning vehicle fleet maintenance to an in-house operation. While staff could conduct this evaluation, the City Council may wish to conduct this evaluation via a third-party consultant, in which case funding would be required.

Recommendations

Staff recommends that the City Council direct staff to further evaluate potential fleet maintenance approaches as discussed above.

Fiscal Impact of Recommendations

If a consultant is desired to conduct the fleet maintenance evaluation, staff estimates a cost of about $15,000 to $20,000 for this effort.

Council Action (5-0)

To direct Staff to further evaluate potential fleet maintenance approaches.

Street Improvement Program Update

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

<u>Projects/Miles Completed</u>
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

$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.

Current Public Street (Pavement) Inventory and Condition

The City's public street network consists of over 28 million square feet of pavement. The street network is divided into several key functional classifications as shown in the table below, and almost half (46.1%) of the City's street network consists of local residential streets. The current replacement value of the City's entire public street network is estimated at about $214 million.

Classification	Square Feet	% of Network
Arterials (major roadways)	7,198,354	25.6
Collectors (connect residential to arterials)	7,550,687	26.8
Local (neighborhood streets)	13,009,327	46.1
Alley	418,090	1.5
TOTAL	*28,176,458*	*100*

Since 1988 the City has been using a computerized Pavement Management Assessment (PMA) system to inventory the City's public street system and recommend rehabilitation strategies to improve the overall condition of the City's streets. The most recent update of pavement conditions was completed in 2011, which included a survey to assess the existing surface condition of the City's street network. Data collected from that survey was evaluated to determine a Pavement Condition Index (PCI) score for different street segments. The PCI is a standardized rating scale (from 0 to 100) for describing pavement surface conditions, where a new street would have a score of 100 and a failed street with have a score of 10 or less. Based on the 2011 PMA update, the overall PCI of the City's public street system is 81, which is a very good condition. For comparison, the countywide average PCI is 76 (good/very good) and the statewide average PCI is 66 (fair/good)[1]. In 1989, before the City implemented the Street Improvement Program, the overall PCI of the City's street system was 57 (fair).

[1] Source: *California Statewide Local Streets and Roads Needs Assessment*, California League of Cities, 2011.

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[2]. 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[3], 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 table on the following page summarizes all of the current funding sources for the City's street improvement efforts, based on the approved FY2013 budget.

Pavement Preservation Strategies and Results

To help determine recommended funding for future street improvement efforts, various scenarios were evaluated to determine how different funding strategies would impact the condition of city streets in the future. For this evaluation the City's street network was divided into arterial and collector/local street classifications, and then various funding scenarios were modeled over a 20-year period to evaluate the future change in overall PCI for each of these two main street classification groups. For arterial streets, the current funding approach which relies on Gas Tax and Measure M turnback funds is sufficient moving forward to maintain the City's arterial streets in an overall very good condition. For local and collector streets, a street assessment at the same amount as the previous assessment, along with continuation of Gas Tax, General Fund and Major Maintenance contributions, would be sufficient to maintain an

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

overall very good condition. This could also provide funding needed to improve the condition of the alleys, which currently are poor. Without an assessment but with continuation of all other current funding, the condition of the local and collector streets will deteriorate over the next 20 years from the current very good condition to the low end of the “good” condition. This would result in a pavement condition lower than the countywide average but still higher than the statewide average, and still higher than the condition of City streets prior to the Street Improvement Program. However, this would not provide funding to improve the condition of the alleys.

Revenue Source	FY2013 Budget
Street Improvement Program	
General Fund contribution	$756,290
Gas Tax contribution	$641,840
Subtotal	*$1,398,130*
Gas Tax	
2103, 2105 and 2106 accounts	$1,313,000
Measure M	$823,020
Transfer to SIP	($641,840)
Subtotal	*$1,494,180*
Other General Fund	
Major Maintenance	$550,000
Slurry Seal	$496,150*
Subtotal	*$1,046,150*
Total	$3,938,460

*Includes one-time carryover from FY2012. Typical annual slurry seal budget is $250,000.

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.

Street Assessment District Formation

Staff has begun research regarding formation of a new street assessment district. Based on a recent analysis conducted by an assessment engineering consultant, the City will not be able to establish a new street assessment district as was done for the street assessment district that recently expired. This conclusion was unexpected, and is due to more stringent requirements imposed by Proposition 218, which was enacted after the formation of the City’s street assessment district. This will require considerable work to determine if a feasible methodology can be established for a citywide street assessment district that complies with the requirements of Proposition 218 and, if so, what form it will have to take.

Next Steps

The challenge posed by Proposition 218 requirements and recommendation to retain an Assessment District engineering consultant was discussed with the City Council in late December 2012. The City Council decided to not hire an assessment engineer at this time, and instead decided to re-visit the issue during the FY14 budget process. The City Council directed staff to report any information which may shed light regarding a path toward successful implementation of a street assessment district.

Recommendations

None at this time. Staff will monitor and research what other agencies may be pursuing a street assessment district and report findings and recommendations to the City Council during the FY14 budget process.

Fiscal Impact of Recommendations

None. The approved FY2013 budget includes funding for street assessment district engineering services.

Council Action

None

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.
68. Ave. Santa Margarita from S. El Camino Real to Ave. Dolores.
69. Ave. Carmelo from S. El Camino Real to Ave. Santa Margarita.

General Plan Implementation Review Process

Objective
To establish procedures for the annual review of General Plan Strategic Implementation Priorities and General Plan implementation measures, and to determine which projects/programs will be implemented in the coming fiscal year.

Executive Summary
The integration of the Long Term Financial Plan (LTFP) with the General Plan's Strategic Implementation Priorities allows the City to evaluate and adjust the priorities of projects and their costs through the LTFP budget process. The General Plan Strategic Implementation Priorities are projects/programs that are identified as priorities to be implemented in the first five years of the General Plan.

Staff intends to "institutionalize" the process for annually evaluating the progress of the General Plan implementation measures and selecting implementation measures the City will focus resources on during the upcoming fiscal year. The steps for the annual review include: staff and Planning Commission's evaluating of implementation measures, estimating costs and revenues, preparing an LTFP issue paper and City Council final action.

Background and Discussion
In 2012, the City Council approved a new approach to ensure the effective implementation of the General Plan and the LTFP. The implementation program evaluates projects and programs from the General Plan and integrates them in to the LTFP process.

The Implementation Program includes measures that achieve the goals of the General Plan. In some cases, these measures may not be the only way to achieve these goals. Other projects/programs maybe determined to be more desirable and achieve the same goals.
For this reason, the Implementation Program is designed to be a flexible document, which can be reassessed and amended as needed.

While the Centennial General Plan has not yet been adopted, staff now seeks confirmation of the process for evaluating priorities and selecting implementation measures to focus on in the next fiscal year. The following outlines the potential steps for selecting and prioritizing implementation measures:

1. **Annual Manager Meeting**- At the early stages of the annual LTFP process the Planning Division will establish an annual meeting for executive managers to review the Implementation Measures associated with each department. The meeting will review current General Plan Implementation measures, what has been completed and the progress of those measures in process. The criteria to evaluate which measures will be included for the next Fiscal Year as the follow:
    1. Ease of implementation
    2. Estimated cost and benefit
    3. Community demand Ability to combine projects and reduce costs

4. Legal necessity
5. Staff resources
6. City Council priority

The implementation measures selected will be forwarded for consideration as part of the LTFP process.

2. **Status Report**- The responsible department will report on all implementation measures in progress, completed, and develop recommendations to prepare or not prepare scheduled projects/programs. The number of implementation measures recommended will be determined by the department's ability to complete the project/program and the available resources anticipated in the next fiscal year.

3. **CIP Evaluation**- Recommended implementation measures will be evaluated with the Capital Improvement Projects (CIP) to see if there are opportunities to reduce costs by combining projects. Depending on the type of project/program, it may be included in the proposed CIP and a decision packet will be developed.

4. **LTFP Issue Papers** – Department managers will prepare reports annually listing the recommended programs/projects for implementation and their funding source. A report will also evaluate the City's progress in achieving the goals of the General Plan and identify implementation measures that have been completed, in progress or reprioritized. If projects/programs are recommended for removal, alternatives should be identified to accomplish the relevant General Plan goals and/or policies.

5. **Financial Model** – Projects and programs identified in the LTFP issue paper will be included in the MuniCast financial model. The model has the capabilities of forecasting 20 to 30 years out. MuniCast will help us understand the impacts of decisions made today as well as predict future costs and revenues. This tool has the ability to look at capital and operational costs and evaluate projects on an as-needed basis. The forecast assumptions should be updated as more accurate information becomes available.

6. **Planning Commission Review**- The Planning Commission will evaluate the LTFP paper and results of the MuniCast Model to make recommendations and/or modifications on implementation measures and their priority for the next fiscal year. As part of the Planning Commission review, the public will be notified and have the ability to review and comment on the Implementation Measures and their prioritization.

7. **City Council Review and Action**- As part of the LTFP process, the City Council will complete the annual review of the General Plan Implementation Measure Strategic Priorities and evaluate the recommended implementation measures. Estimated costs and revenues from the projects/programs will assist the Council in prioritizing projects and, if necessary, amending the Strategic Implementation Program to reflect current priorities.

Conclusion

Establishing the process for the annual review of the General Plan Implementation Strategic Priorities and selection of Implementation Measures in the LTFP process would have following benefits:

1. Fulfills potential for the General Plan to provide day-to-day policy direction
2. Guides decision making beyond land use
3. Allows for inevitable shifts in the economic and regulatory environment
4. Ties consideration of the General Plan goals, policies and implementation measures to the LTFP/Budget process
5. Keeps the General Plan current with the City's vision.

Recommendations

Confirm the process of identifying Implementation Measures for the General Plan and LTFP/Budget process, as outlined.

Fiscal Impact of Recommendations

No fiscal impacts for the 2012 Budget. Funding would be necessary if the City Council directs staff to provide a more detailed costs and revenue projection for selected implementation measures with the financial model

Council Action

None

Americans With Disabilities Act

Objective
To provide an annual update on the progress made in meeting the requirements of the Americans with Disability Act (ADA), including the implementation of the prioritized recommendations based on the City's self-assessment of City facilities, programs, services, and activities.

Executive Summary
The American with Disability Act (ADA) requires all state and local governments to make all public facilities, 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. All agencies must have a designated person to oversee the implementation, a process for handling grievances, and a prioritized transition plan. The City meets all of these requirements. A self-assessment of City facilities, programs and activities has also been completed. Sidewalks, street crossing and other elements in the public right-of way (ROW) provide unique challenges to accessibility and are being handled separately by the City's Engineering Division.

City staff has completed the administrative requirements for compliance with ADA. A comprehensive self assessment of City facilities, programs, services, and activities to identify areas of non-compliance was completed last year. The ADA Transition Team has developed a suggested prioritization of the findings of the self-assessment, and the City has begun the implementation phase of the Transition Plan. Most of the non-compliant items at City facilities will be addressed over approximately the next 20 years, through maintenance projects, other City CIP-related projects, and specific ADA projects.

Background and Discussion
The ADA Transition Team (Team) met over the last year to develop a strategy to prioritize the Transition Plan. A prioritized set of criteria was developed and each of the Team members contributed to assigning a priority to each of the 6,000 plus non-compliant items. The priorities have been entered into DAC Track, a web-based accessibility management system. The system allows staff to generate a variety of reports for individual locations, multiple locations, by category, or by priority. The system is being used to monitor progress, and the reports will be used to assist staff in identifying ADA projects and ADA improvements to be completed as part of other City projects.

An ADA Transition Plan line item was included in the budget for Fiscal Year 2013 and $60,000 was allocated to address signage at City facilities. Over 102 non-compliant findings for accessible signage (primarily a lack of a $250 fine notice) have been corrected to date. Maintenance Services staff and Beaches and Parks Maintenance staff are currently working on updating other signage identified as non-compliant, and staff anticipates expending all budgeted funds to address the priority corrections.

In consideration of the progress made over the past year, it is recommended that Maintenance Services staff and Beaches and Parks Maintenance staff continue to correct maintenance items such as:

- Wrapping of the supply lines under sinks.
- Adjusting door pressures.
- Replacing door hardware with accessible hardware.
- Affixing detectable striping on stairways and ensuring striping is wide enough to meet compliance requirements.
- Clearing floor space by moving items such as furniture.
- Relocating paper towel dispensers to correct height for operating mechanisms.
- Relocating items that are considered protruding objects such as shelves and fire extinguishers.

Other projects include ADA upgrades when alterations or renovations are done at City facilities. Staff involved with the planning of these projects use the prioritized list to address what ADA improvements can be included in the project. Examples of recently-completed projects and current projects that include ADA corrections of non compliant items include:

- CASA Cat Room Expansion
- Beach Restroom Master Plan
- Ole Hanson Beach Club Rehabilitation
- Corporation Yard Building ‘A’ Seismic Upgrade

In addition to the maintenance items noted above and existing or planned City projects, staff will need to identify ADA specific projects that will correct items identified in the Transition Plan. An example of this type of project is the accessibility required to enter the Community Development building, which will require the construction of a ramp that meets ADA requirements and will require significant renovation to the entry way as well as design work before being done. These type of ADA specific projects are typically much more expensive than the maintenance-related items noted earlier.

ADA specific projects can be included in the Capital Improvement Program (CIP) budget process. While not part of the immediate request to address ADA-related issues, staff recommends a very careful review of these types of projects and a focused effort to begin addressing the “large ticket items” systematically and not waiting until years down the road to do so.

Regarding ADA compliance in the public right-of-way, the City has been implementing a program to address sidewalk trip hazards as well as upgrade existing or install new curb ramps during street rehabilitation projects. In October 2012, the City Council approved a new sidewalk policy that comprehensively addresses repair of existing sidewalks and construction of new sidewalks as well as compliance with ADA requirements. The new policy expanded the scope of the existing trip hazard repair program and updated new sidewalk construction requirements to comply with ADA. The policy also included a new sidewalk construction program by the City to help address the backlog of new sidewalk construction needs. Finally, the policy established a program to address obstructions in existing sidewalks. Since sidewalks are considered a program under the ADA, the Transition Plan must include a strategy for achieving ADA-compliant sidewalks. The comprehensive sidewalk policy provides the basis for this strategy by articulating the City's approach toward repair of existing and construction of new sidewalks, including the approach for ADA compliance for existing and new sidewalks.

ADA Team members reviewed the prioritized Transition Plan and identified an ADA specific project for Fiscal Year 2014 – *Automatic Power Operated Doors and Storefronts at primary City facilities*. Doors are one of the most important aspects of accessibility to services in City facilities. ADA requires the force to open a door to be no more than 5 lbs. Without getting overly technical, force can be adjusted on newer doors but older doors use a hydraulic oil trough, and as they age, they can't be adjusted to the correct force. Staff has identified five doors at City facilities where automatic power operated doors would correct the non-compliant issue and provide easy access to the highest used facilities for public services. Below is a list of the location of the doors proposed for replacement with automatic doors and the current force to open each one.

City Facility - Door location	Door Opening Force
City Hall - Main Lobby	12.5 lbs.
City Hall - Council Chambers 11 lbs.	11 lbs.
Community Development - Front entrance	10 lbs.
Community Development - Back entrance	12 lbs.
Community Center - Lobby Entrance	12 lbs.

Maintenance Services has researched the cost for automatic doors in the past and estimates the cost for automatic doors at each location to range from $18,000 to $25,000. The cost varies based on each location's requirement for framing, threshold, "storefront" glass, and special design features (such as the arched glass at the entrance to the Council Chambers.) The project would best be managed through a CIP project to ensure ADA compliant design, engineering, and project management. The full cost (hardware, design, contract administration, permits, etc.) to install five automatic doors is estimated to cost approximately $150,000.

Conclusion

The City is making steady progress in its ADA compliance efforts. The Transition Plan has been prioritized and corrective actions are under way. While the overall ADA compliance efforts may seem daunting if looked at as a whole, issues will be completed through a systematic approach of addressing designated needs on an annual basis. Millions of dollars will be invested over the next 20+ years to bring the City into full compliance with the ADA. The City has taken steps to address proper signage within the parking lots of City facilities, and the recommendation for this next fiscal year is to now move to making the entry into the three highest used public facilities more easily accessible through the installation of automatic doors. The recommendation is to include $150,000 in the FY 2014 CIP budget from the General Fund to address the maintenance and capital projects described in the preceding discussion. In consideration of the need to continue progress in completing ADA projects, $100,000 per year will be programmed into the 6-year General Fund capital projects fund. The ADA Transition Team will annually review the more costly specific projects and provide recommendations as part of the LTFP to allow for a systematic implementation that minimizes risk and balances other General Fund capital project needs over future years with available funding.

Recommendation

Allocate $150,000 from the General Fund for the ADA Improvements as part of the CIP for Fiscal Year 2014.

Council Action

The funding recommendation will come from the FY2014 Proposed Budget.

General Liability Insurance Analysis

Objective
To provide an overview of the City's liability coverage as a member of California Joint Powers Insurance Authority (CJPIA), discuss the funding allocation models used by CJPIA over time, and explain the "retrospective" balance owed, including options for payment.

Executive Summary
The City of San Clemente is a member of the California Joint Powers Insurance Authority (CJPIA) for pooled coverage for the City's liability program. Members of the pool share in the costs associated with liability exposures and incurred losses. Those costs are allocated to members of the pool using a specialized funding allocation model. CJPIA changed its funding model in July 2010, and a report that discussed the change, a three year "transition period" to the new funding model, and "retrospective" computations was presented to the City Council on August 17, 2010. (The report was titled *Payment of Aggregate Retrospective Deposits Owed to the California Joint Powers Insurance Authority.*) At the time, the City had an aggregate retrospective balance of $536,214, and the City was told that retrospective computations would continue through the transition period while payment for those amounts was deferred. Those deferred payments are now due.

The *2011 Long Term Financial Plan – Reserve Analysis* paper also discussed the retrospective amount and recommended an increase in the insurance charges to other funds based on *anticipated* retrospective liability assessments for past claims that would continue for several years. The following year, The *2012 Long Term Financial Plan – Reserve Analysis* paper discussed the additional retrospective liability of $697, 063 calculated in October 2010 and which was first presented to the City in March 2011. An additional retrospective of $266, 472, calculated in October 2011, had not been finalized and made available to the City prior to the 2012 paper being finalized in March 2012. These amounts have been accrued as liabilities by the Finance Division, and the paper recommended the proceeds from the Bellota land sales be used to fund payment of these and any future retrospective amounts.

The City made a payment to the CJPIA of the aggregate retrospective balance of $536,214 in March 2011 which left the City with a "carry forward" retrospective balance of $963,535. This amount consists of the $687,063 calculated in October 2010 and the $266,472 calculated in October 2011. The October 2012 retrospective calculation was finalized just last month, February 2013, and resulted in an *additional* $1,993,399 owed. This is a significant, unexpected amount and is primarily a "catch up" from the 2010/2011 coverage year due to unfavorable loss history primarily associated with subsidence claims. The last three retrospective calculations total $2,956,934, and payments on the balance are scheduled to resume on July 1, 2013, with a minimum payment due of $473,110.

Historically, the pool's losses were funded under a "retrospective funding model" where a primary deposit was collected from each member at the beginning of the coverage year. At the end of each year, retrospective adjustments were calculated based on continued claim development for all prior years with open claims which resulted in a credit or additional amount owed. This model worked until 2005 when several factors including a tighter insurance market, stock market losses, and several large losses by member agencies in the pool resulted in retrospective adjustments owed to the CJPIA totaled $32,000,000 in 2005 and $20,000,000 in 2006. Due to the high amounts, retrospective balances owed by members were spread over eight years.

The large retrospective amounts owed placed the CJPIA in the role of creditor to member agencies. As a result, an AdHoc Committee was established in 2008 to improve the funding model and to prevent the situation from continuing. The committee recommended that the Authority transition from a “retrospective funding model” to a “prospective funding model”, and this change was implemented on July 1, 2010 after approval by the CJPIA Executive Committee. A three-year transition period to the prospective funding model was established and payments of the retrospective amounts owed were deferred. The transition period is now over and payments on outstanding retrospective balances are scheduled to resume beginning July 1, 2013. The City has a retrospective balance of $2,956,934 (see table on page 4 for a break down of the amount) and can pay the amount up front or elect payment terms of up to seven years on this balance.

Background and Discussion
CJPIA was formed in 1977 by thirty-three cities to provide liability protection when the insurance industry abandoned local government agencies. CJPIA is composed of and governed by 121 member agencies, including 98 cities, 16 Joint Powers Authorities, and 7 special districts.

The City of San Clemente became a member on July 1, 2005 for pooled coverage for the City’s liability program. The decision to become a member of the CJPIA was the result of a 2004 risk management study that reviewed the City’s risk financing options, including other liability pools and commercial insurance. The primary factor contributing to the City’s selection of the CJPIA for liability coverage was that they were one of only two pools that offered subsidence coverage; a significant exposure for the City. Members of the pool share in the costs associated with liability exposures and incurred losses. The pool’s liability protection program losses have a self-insured retention ($5 million), and excess insurance is purchased for losses that exceed that amount.

Each year actuaries determine the amount that represents the total funding requirement necessary for the pool to pay losses. Each member pays a share based on a funding model that considers both experience and exposure of the individual member. The City of San Clemente paid $931,143 to the CJPIA for liability protection for Fiscal Year 2013 and will pay approximately $1,400,000 for Fiscal Year 2014.

The amounts paid to CJPIA at the beginning of each coverage year for liability protection, along with the funding model used, are detailed in the table below. The amounts have steadily increased due to the City’s unfavorable loss history associated primarily with land subsidence claims and lawsuits as well as the change in CJPIA funding models.

Coverage Year	Funding Model	Amount
2005/2006	Retrospective	$740,597
2006/2007	Retrospective	$740,597
2007/2008	Retrospective	$740,597
2008/2009	Retrospective	$740,597
2009/2010	Retrospective	$593,691
2010/2011	Transition Year	$595,931
2011/2012	Transition Year	$744,914
2012/2013	Transition Year	$931,143
2013/2014	Prospective	$1,396,715
2014/2015	Prospective	*$1,980,000
2015/2016	Prospective	*$1,980,000

*Payments for 2014/2015 and 2015/2016 are estimates.

Retrospective Funding Model

The retrospective funding model was used up until July 1, 2010. With this funding model, members paid a primary deposit at the beginning of each coverage period based on an actuarial funding estimate. At the end of the coverage period, the CJPIA retroactively reviewed the loss history and issued a partial refund or requested an additional deposit based on actual claims activity. These retrospective adjustments are performed each year for all prior loss years until all claims are closed. Historically, this has taken about 6-8 years.

Factors including several large losses, hard insurance markets requiring a higher self-insured retention for the pool, and unfavorable loss development led to increased actuarial estimates to fund the loss years. Under the retrospective funding model, the primary deposit was insufficient and the retrospective receivables continued to grow. As a result, CJPIA became a creditor to the members.

The review Ad Hoc committee referenced above recommended a three year transition from the *retrospective* funding model to a *prospective* funding model, beginning with the 2010/2011 coverage year.

Prospective Funding Model and Transition Period

The intent of the prospective funding model is to sufficiently fund a coverage period up-front. Members pay an annual contribution at the beginning of the coverage period based on their allocated share of cost. A cost allocation method using both experience and exposure is used to calculate the share.

Credibility weighting is included in the new formula. This is a standard industry practice that follows the theory that a large member would have a more consistent loss experience and therefore would be more credible in predicting future losses. The City of San Clemente is one of the larger members in the pool and its share of cost is based on an 80% weight applied to the

City’s losses.

Members experienced moderate increases, on average, in the annual contribution during the transition years. Also during the transition period, payments of the retrospective amounts owed were temporarily suspended. Beginning with fiscal 2014 and going forward, CJPIA will no longer perform routine annual retrospective adjustments on claims incurred during fiscal 2014 and forward.

Under the new Prospective Funding Model, the City will pay an annual contribution at the beginning of each coverage year. A five year “look back” at the City’s losses will be used when calculating the City’s annual contribution. Over the next few years, the annual contribution estimate is expected to increase, and by the 2015-2016 coverage year, it is estimated to be $1,980,000, primarily due to our *current* subsidence claims being included in the loss history.

<u>Retrospective Calculations and the City’s position</u>

The City’s outstanding retrospective liability obligation is a result of both the losses incurred by the City and the sharing of losses incurred by the pool. Sharing of covered losses by members provides for coverage of catastrophic losses that may otherwise bankrupt an agency. As a result of the City’s adverse loss history including lawsuits and significant claims, the City had a retrospective balance of $963,535 as of October 2011.

The latest retrospective calculation was completed by the CJPIA in October 2012 and was reviewed by their Finance Managers Committee on February 14, 2013 and approved by their Executive Committee on February 27, 2013. The additional amount the City owes as a result of the current year’s calculation is $1,993,399. City staff became aware of this amount in January 2013 when a preliminary retrospective amount was requested from CJPIA for Fiscal Year 2014 budgeting purposes. This significant amount is primarily the result of several subsidence claims.

As referenced above, the total retrospective balance owed by the City is now $2,956,934, and the chart below shows that amount and the total amount owed by all members of the pool.

Retrospective Balance - October 2011	$963,535
Retrospective Calculation - October 2012	+$1,993,399
Total Retrospective Balance (San Clemente’s Share)	**$2,956,934**
Total Pool Retrospective Balance	***$59,484,820***

<u>Retrospective Balance payment terms</u>

The 3-year transition period to the new funding formula ends June 30, 2013 and payments on retrospective balances are scheduled to resume on July 1, 2013. CJPIA is requesting all members to select a payment plan by April 15, 2013, and members may select anywhere from a lump-sum to seven-year payment option. At a minimum, the City will need to make a payment of $473,589 on July 1, 2013.

Discussion: Prior to the City's membership with CJPIA, the City did not have coverage for subsidence losses and incurred a significant subsidence claim (Bellota), which was paid from the General Liability Fund. As part of the settlement agreement, the Bellota property is expected to be sold, and the City will receive proceeds from the land sales. These proceeds will be placed into the General Liability Fund, as originally proposed in the *2012 LTFP Reserve Analysis* paper to fund both a reserve deficiency and the $2,956,934 retrospective balance. When and how much will be received from the land sale is not know at this time. Any excess proceeds, once the reserves are funded and the retrospective balance is paid, can be distributed to the General Fund.

Conclusion

Beginning in FY 2014, the City will pay an annual contribution to the CJPIA that will cover losses for each coverage year with no routine annual retrospective adjustments thereafter. Payment of the current retrospective balance owed, which is a result of loss development primarily related to subsidence claims, and inadequate funds previously collected by the CJPIA, is scheduled to begin July 1, 2013.

Alternatives for liability protection in future years include:

- Continued membership with California Joint Powers Insurance Authority;
- Membership in a different liability pool; or
- Some other risk financing method such as commercial insurance.

The last evaluation of the City's Risk Management Program was completed in 2004 using an outside specialist. The study included both general liability coverage and workers compensation coverage. The study resulted in the City's move from the California Insurance Pool Authority to CJPIA for liability protection. Out of the seven liability pools compared in the study, CJPIA was one of only two liability pools that offered subsidence coverage at the time. Subsidence is a major loss exposure for the City of San Clemente and was a major factor in the decision to move to CJPIA. No change was recommended to the self-insurance level for Workers' Compensation coverage at the time.

A current study of the City's Risk Management Program would provide an evaluation of the City's risk financing options for liability and Workers' Compensation to ensure the City is in an optimal position or whether a change should be made.

Recommendations

1) Transfer $3.0 million from the General Fund Sustainability Reserve to the General Liability Insurance Fund to pay the retrospective balance due on July 1, 2013. Reimburse $3.0 million to the General Fund Sustainability Reserve when the proceeds from the Bellota land sales are realized.

2) Direct staff to engage a professional risk management services firm to conduct a study of the self insurance programs including both General Liability and Workers' Compensation.

Fiscal Impact of Recommendations

The General Fund Sustainability Reserve will be decreased by $3.0 million until the sale of the Bellota land is realized. The Bellota land sale proceeds will be reduced by the $3.0 million repayment to the General Fund Sustainability Reserve.

Council Action (5-0)

1) Direct Staff to determine negotiation possibilities with CJPIA (e.g., potential modification of the settlement number for the retrospective model, possible interest-neutral payment plan and determination of whether the CJPIA is going to be the City's long-term partner);

2) Make the minimum insurance payment to the California Joint Powers Insurance Authority (i.e., approximately $472,000) and then revisit the difference next year when the City knows more about the potential sale of the Bellota property;

3) Direct staff to engage a professional risk management services firm to cover the issues discussed this evening, including self-insurance programs and litigation strategies.

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. Successor Agency (former RDA) obligation to the General Fund

3) Short-Term interfund loans
    a. Golf Enterprise Operating Fund obligation to the Worker's Compensation Fund
    b. Golf Enterprise Operating Fund obligation to the Golf Depreciation 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. In June 2012 the *Series A* COP was paid in full. The outstanding balance of Series B is $1.6 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

Successor (former Redevelopment) Agency debt, was 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 was structured with payments due on June 30 each year and a term of 16 years. The outstanding balance is $1.7 million. Redevelopment Agency's were dissolved by State action on February 1, 2012, and a *Successor Agency* was created. The inter-agency liability is recorded as a Successor Agency Debt. It is unclear if the State will authorize the repayment of the debt to the City, however, the City's position for repayment has been reinforced through a recent court decision.

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 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. Between 2008 and 2012, the Golf Operating Fund repaid the General Fund advances and paid interest only on the In-Lieu loan. Fiscal Policy was modified in 2011 to establish criteria for long-term interfund loans for capital projects, such as the Golf Course Clubhouse. On June 30, 2012, the outstanding $2.5 million was repaid to the In-Lieu fund, with the creation of two new interfund loans as follows;

1. A $750,000 five-year, fully amortized loan from the Workers' Compensation Fund, and
2. A $1,750,000 five-year, interest-only loan from the Golf Deprecation Reserve.

The Golf Operating Fund will make annual principal and interest payments to the Workers' Compensation fund in the amount of $159,000 and interest-only payments of $35,000 to the Golf Depreciation Reserve, for a combined annual debt service cost of $194,000. A fully-amortized repayment of the Golf Deprecation Fund loan will be proposed following the repayment of the Workers' Compensation Fund loan.

Short Term Interfund Debt

Advances from the General Fund to the Golf Course Operating Fund totaling $984,000 were made between fiscal years 2003 and 2006 to fund operating deficits. The Golf Operating fund began making principal payments in FY 2008. The outstanding balance is $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. That advance was converted to a fully-amortized long-term loan, and an interest-only loan, as discussed above. (See Enterprise Loan Financing section).

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	$12,180,000	$1,248,800
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$295,000	$53,400
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Aug., 2011	$4,850,000	$389,600
Negocio Series A	Certificates of Participation	June, 1993	-0-	-0-
Negocio Series B	Certificates of Participation	June, 1993	$1,560,000	$235,700
City Copiers	Capital lease	September, 2011	$165,700	$39,900
Long-Term Inter-Agency Loan				
Successor agency (former RDA)	Inter-agency loan	July, 2002	$1,655,000	-0-
Long-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2012	$750,000	$159,000
Golf Operating	Interfund loan	June, 2012	$1,750,000	$35,000

Recommendations on Existing Debt

None

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 $331,000. General Obligation bonds are subject to voter approval under Prop 218.

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	$331,000

Recommendations on Debt Options for Capital Project Funding

None

Council Action

None

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 $3.7 M construction costs $1.2 M gap		X		X		X
USACE Sand Project $12.2 M construction costs $4.2 M gap		X			X	
Wayfinding Master sign Program $0.9 M construction costs $0.7 M gap		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 2013 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:
    - Reservoir No. 1 Expansion
    - South Orange County Ocean Desalination (SOCOD)
    - Highland Light Ductile Iron Pipeline Replacements
    -

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 $18.0 million for General Fund and Capital Projects Fund projects. No funding gap exists for the Enterprise Fund projects.

Beach Restroom Master Plan

The 2013 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 $140,400 in fiscal year 2012 and $159,600 in 2013, from the General Fund. The remaining five restrooms will be funded by the General Fund over the next six fiscal years.

Gap Closing Strategies	
Beach Restroom Master Plan	(2,354,000)
General Fund – appropriated in 2012 & 2013	300,000
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 2016.

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 2018 and the construction phase in 2019.

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, which included $0.8 million spent for architectural services. A total of $6.1 million is currently available through existing reserves, of which $4.0 million is in the Public Safety Reserve and $2.1 million is in the Civic Center Construction Reserve. The remaining balance of $6.8 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, and a portion of the second floor was successfully leased in 2012 for a five-year period, with a renewal option for an additional 3 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	(6,800,000)
Sale of City Hall Site	6,800,000

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) appropriated $1.5 million for renovations of the Beach Club. An additional $1.0 million was approved in the 2013 CIP, for a total funding of $2.5 million for this project. Based on the proposed scope of work and consultant feedback, the project team is now recommending an additional $1.2 million for the project in the 2014 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	(1,200,000)
General Fund	1,200,000

USACE Sand Project

The 2013 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% is funded in the 2013 CIP. Thus, no new City funds are necessary to complete the design phase.

The initial sand replenishment portion for the City amounts to $4.2 million. Based on the proposed project timeline in the Capital Projects Analysis, the replenishment project will not begin until fiscal year 2015 at the earliest. This phase is eligible for DBW grant funds of up to 85% of the City's share, or $3.5 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 $4.2 million portion. If funded internally, the replenishment project would be a General Fund obligation.

Gap Closing Strategies	
USACE Sand Project – Construction Phase	(4,170,000)
Department of Boats & Waterways (DWB) grant	3,545,000
General Fund	625,000

Wayfinding Master Sign Program

The 2013 Capital Projects Analysis indicates a $0.9 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 $125,000 was budgeted from the General Fund in 2012 for Phase II, but will be utilized to complete the Phase I implementation, which is not expected until spring of 2013. This leaves a funding gap of $730,000. Phase II will be resubmitted as part of the 2014 CIP and is 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	(730,000)
General Fund	730,000

Municipal Pier Rehabilitation

The 2013 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, the rehabilitation project will be funded by the General Fund in the Capital Improvement Program (CIP) budget, which may have a significant impact to the General Fund fund balance in the future. It is recommended that a $2.0 million reserve for Pier Maintenance and Repair be established in the General Fund to provide funding for Pier Rehabilitation projects, which have averaged about $2.0 million in past years. A recommended source for initial funding of the reserve is proceeds from the future sale of Bellota land.

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

Enterprise Fund Construction Gaps

There are no projects identified in the Capital Projects Analysis paper with a funding gap.

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. The Ole Hanson Beach Club renovation project will require a commitment of General Fund money in the 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
None

Council Action
None

CITY OF SAN CLEMENTE

The SPANISH VILLAGE by the sea

CALIFORNIA

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.