City of San Clemente,
California

2010

LONG TERM FINANCIAL PLAN

City Council

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

City Manager

• George Scarborough	City Manager

Executive Team

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

Project Director

• Pall Gudgeirsson	Assistant City Manager/City Treasurer

Project Team

• Tom Bonigut	Assistant City Engineer
• Bill Cameron	Public Works Director/City Engineer
• Sandee Chiswick	Senior Accountant
• Kumi Elston	Central Services Officer
• Akram Hindiyeh	City Traffic Engineer
• Bill Humphreys	Marine Safety Chief
• Jake Rahn	Accounting Supervisor
• Dave Rebensdorf	Assistant City Engineer
• Tom Rendina	Finance Manager

Mission Statement

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

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

Project Team

Project Director

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

Steering Committee

George Scarborough, City Manager
Pall Gudgeirsson, Assistant City Manager/City Treasurer
Al King, Director Beaches, Parks & Recreation
Bill Humphreys, Marine Safety Chief

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Kumi Elston, Central Services Officer

Reserve Analysis

Jake Rahn, Accounting Supervisor

Fiscal Policy

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

Capital Projects Analysis

David Rebensdorf, Assistant City Engineer
Tom Rendina, Finance Manager

Street Improvement Program

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

Revenue Update

Kumi Elston, Central Services Officer

Debt Analysis

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

Gap Closing Strategies

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

Financial Trend Analysis

Objective

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

Financial Forecast

Objective

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

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

Fiscal Policy

Objective

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

Capital Projects Analysis

Objective

To provide a summary of significant capital projects with funding challenges. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.

Street Improvement Program Renewal

Objective

To provide an update on the progress of the City's Street Improvement Program and to discuss considerations for renewing the assessment program for another term.

Revenue Update

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

Debt Analysis

Objective

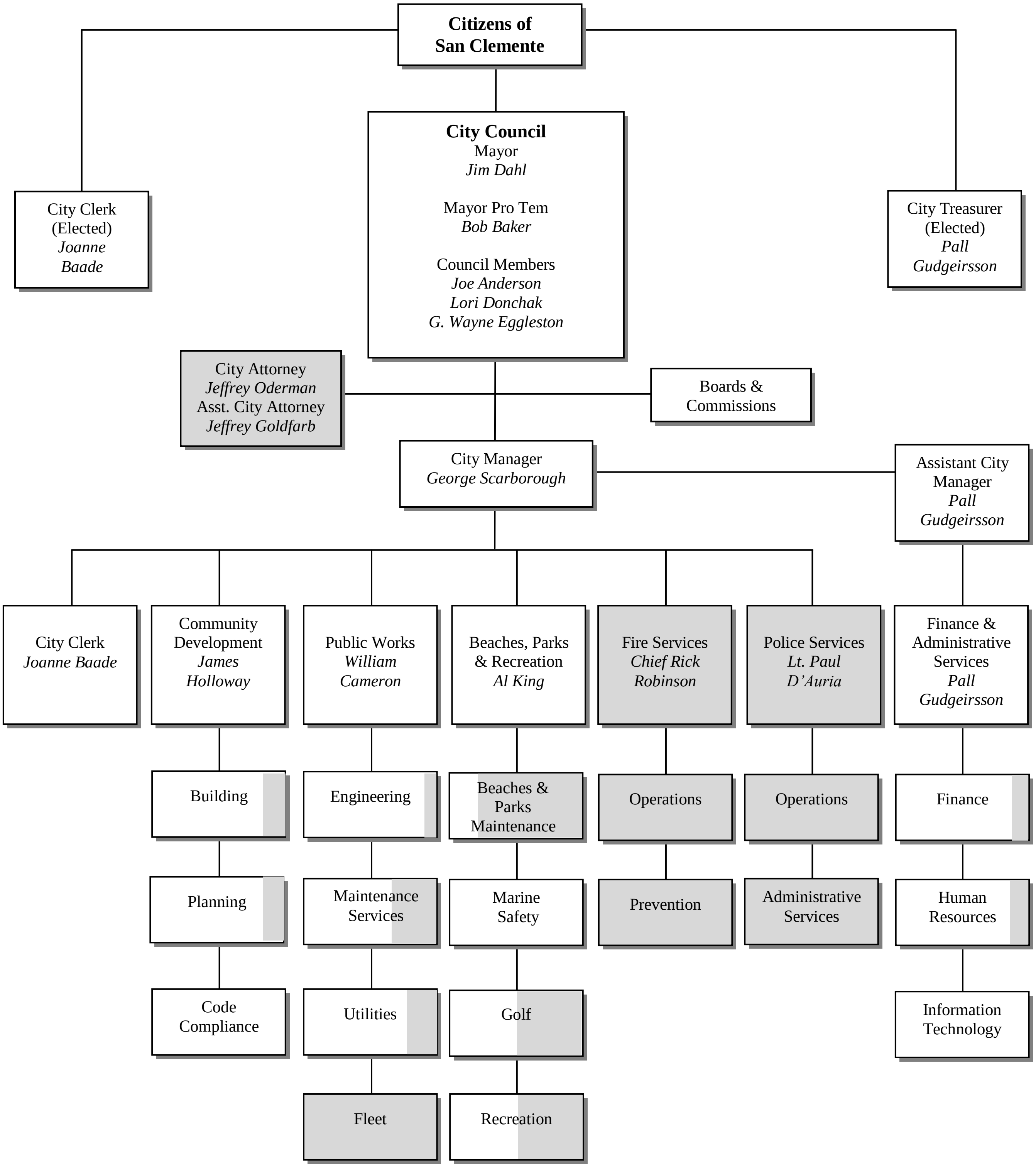
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs.

Gap Closing Strategies

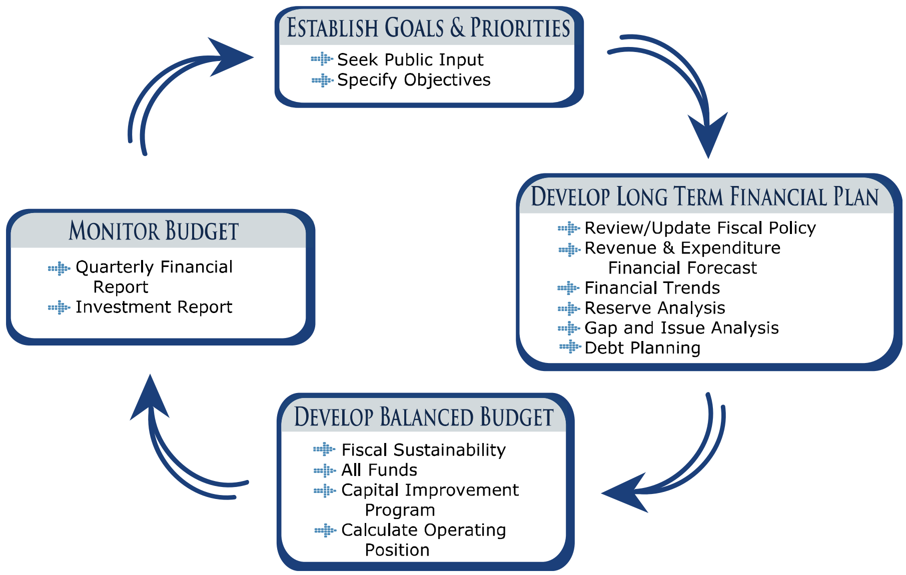
Objective

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

City Organization Chart



Shading indicates contracted services



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.

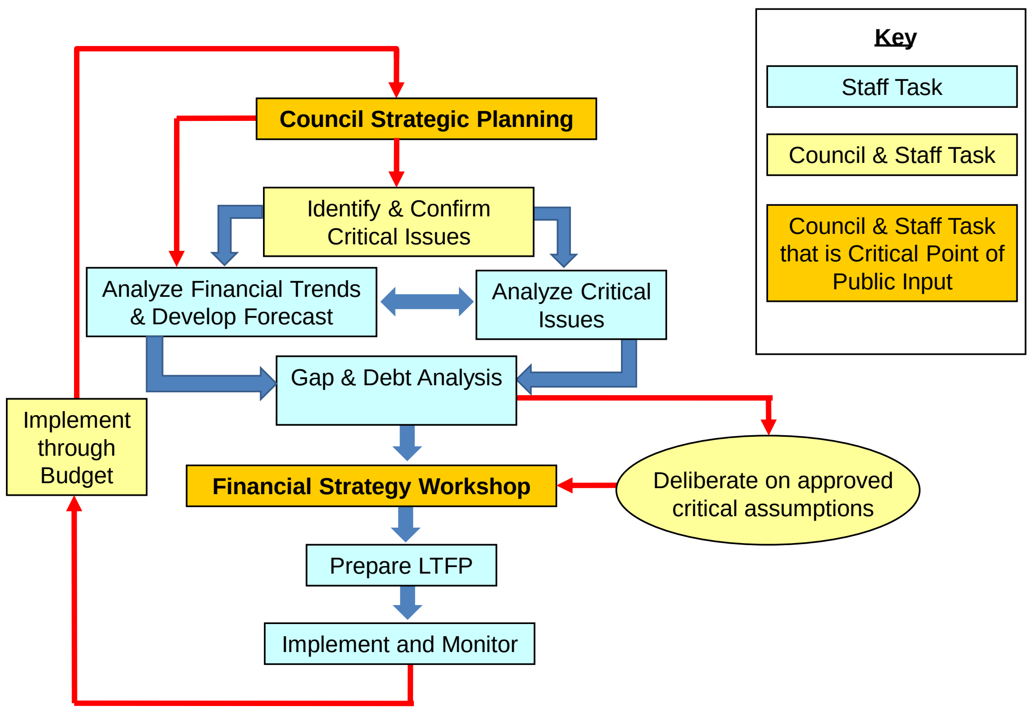
The 2010 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Street Improvement Program Renewal
- Revenue Update
- 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, 12 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 9 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

Annually, City Council identifies which projects and programs are of the highest priorities for the coming year. Since most of the projects prioritized last year are multi-year projects, City Council will be presented with an update on February 23, 2010. Once priorities have been updated, Council and staff identified the critical phases which have, or are expected to have, an impact on the financial condition of the City over the next five years. For each of the critical areas, specific goals and objectives are developed for each project which is designed to meet the overall goal of the project:

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

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

Trends & Forecast are the Foundation of the LTFP

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

Schedule

February 2, 2010	Long Term Financial Plan Workshop (City Council Meeting)
February 23, 2010	Priority Update & Program Prioritization Workshop
May 19, 2010	Budget Workshop (Special City Council Meeting)
June 15, 2010	FY 2011 Budget Adoption

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2010 LTFP represents the eighteenth 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 2009 Long Term Financial Plan issues:

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

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

Reserve Analysis	**Status**
To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program; (b) meet program needs without unnecessarily obligating scarce dollar resources; and, (c) to ensure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.	General Fund Emergency Reserve funding was increased to 8.75% of operating expenditures in the 2010 budget. Transfers of $40,000 to the Accrued Leave Reserve and $276,100 to the Park Asset Replacement Reserve were included in the 2010 budget. Workers' Compensation and General Liability Insurance premiums were reduced and $500,000 was refunded to the applicable funds from the Workers' Compensation Reserve.

Fiscal Policy	**Status**
Review the City's adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.	The General Financial Goals were replaced with the following Core Values of Financial Sustainability. • **Financial Stability** • **Quality of life and local economic vitality** • **Accountability and Financial Planning** • **Environmental and economic sustainability** • **Transparency and engagement** The City established and partially funded a Park Asset Replacement Reserve as part of the 2010 budget. The capital improvement fiscal policy was modified to address projects which are not fully funded. The minimum funding level for Enterprise depreciation reserves was reduced from five years of projected costs to three years of projected costs.

Capital Projects Analysis	**Status**
To provide a summary of significant capital projects on the horizon as part of the continuing development of the city. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.	The projects included: La Pata/Vista Hermosa Park (Phase I), Civic Center, Downtown Fire Station/Senior Center, Upper Chiquita Reservoir and Recycled Water Expansion. While progress was made over the last year on all the projects, funding was secured for the Downtown Fire Station/Senior Center and Upper Chiquita Reservoir which are currently under construction. Status and updates will be provided for La Pata Vista Hermosa Park (Phase I), Civic Center and Recycled Water Expansion as part of the 2010 LTFP.

Debt Analysis	Status
To (a) conduct a review of existing debt; (b) review long-range financing guidelines; (c) determine revenue sources for debt service and repayment; and (d) recommend alternatives to fund major capital programs.	Debt alternatives were presented for all funding gaps identified in the Capital Projects Analysis paper. No Debt recommendations were approved by Council to be implemented in the FY 2010 Budget.

Gap Closing Strategies	Status
To analyze the cash flows and funding gaps of the City's priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain ongoing operation and maintenance costs.	Funding strategies were identified in the FY 2009 Gap Closing Strategies paper and implemented as part of the FY 2010 Budget.

Americans with Disabilities Act	Status
Determine if the City is in compliance with the Americans with Disabilities Act.	An ADA compliance team was formed to develop a strategy to accomplish the remaining two phases for ADA compliance. High priority City facilities were surveyed by a Building Division staff member and an ADA consultant was selected to complete the self assessment of City programs, services and policies.

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
2008	• It was necessary to budget sufficient funds in order to bring the emergency reserve to the 8.25% level. • Modifications were needed for water and sewer rate structures • Funding gaps were identified in La Pata/Vista Hermosa Park, Civic Center, Downtown Fire Station and Senior Center, Coastal Trail and Golf Clubhouse • It was necessary for the City to determine if it was compliant with the Americans with Disabilities Act.	• Council approved the \$205,000 transfer to the Operating Budget. • Utility rate changes were implemented in the FY 2008-09 Water and Sewer Budgets. • Funding strategies were identified in the FY 2008-09 Budget and included the use of the proceeds from the sale of the City owned nine-acre parcel on La Pata and General Fund transfers. • Internal analysis conducted and \$10,000 budgeted to hire a consultant to do remaining analysis required.
2007	• The voter approved Clean Ocean fee was scheduled to sunset in 2008. This fee was established to protect local water quality and meet State and Federal regulations regarding storm water runoff. • An operational gap was identified for the Golf Course Fund.	• The Clean Ocean fee was renewed by property owners in San Clemente for an additional six years by a majority of 75% of the votes cast. • A \$3.00 per round increase was approved.
2006	• Identified shortfall in the amount of depreciation funding set aside annually for replacement of water and sewer assets.	• Established annual depreciation transfers based on Water and Sewer Asset System model.

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

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

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

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

Honorable Mayor and Councilmembers:

I am pleased to present the 2010 edition of the City's Long Term Financial Plan (LTFP) to the City Council and our San Clemente constituents. The City's strategic fiscal plan has been presented on an annual basis since 1993, and has been nationally recognized as a model financial planning tool for local government. In fact, the December 2009 issue of *Government Finance Review* features San Clemente's financial planning process in an article entitled "*Building a Financially Resilient Government through Long Term Financial Planning"*.

The City's Long Term Financial Plan (LTFP) is a long-range planning tool that allows City Council to make strategic decisions on the City's financial sustainability. The foundation of the LTFP is built from the Financial Trend Analysis, Financial Forecast and Fiscal Policies. The Long Term Financial Plan includes an executive summary which describes the City's current and projected financial condition. The summary section provides a financial overview of the financial plan and outlines specific recommendations to address the City's budgetary forecast.

The financial plan begins by reviewing the City's financial position utilizing the ICMA *Financial Trend Analysis* model to examine five-year trend data. Several critical financial indicators have shifted into unfavorable and warning rating categories as our sales, property tax and building revenue continue to fall off due to the ongoing economic climate.

The results of the City *financial forecast* indicate a continuing decline in both the City's projected operating position and General Fund fund balances. Based on the City's weakening financial position, the financial plan this year is focused on identifying those factors contributing to the decline as well as outlining some measures to deal with the issues during the upcoming budget process.

Our *reserve position* continues to be strong with the Sustainability Reserve fully funded at $10 million and the Emergency Reserve will be fully funded at 9% of operating expenditures or $4.4 million. The City also attained a AAA bond rating from Standard & Poor's attesting to our current excellent financial position which we will strive to maintain.

The *Capital Projects Analysis* provides an update of major capital projects scheduled for design and construction within the next few years.

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

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

The upcoming expiration, in 2011, of the *Street Improvement Program* is the only "critical issue" that was examined this year. A review of the program is provided and it is recommended that the City Council take action to renew the program through the electoral process in order to continue the essential funding of this highly successful program.

The 2010 Long Term Financial Plan continues to look ahead to plan for the financial issues and challenges facing the City over the next five years. The immediate concern is producing a balanced and fiscally responsible budget which will require reducing expenditures and increasing revenues as appropriate in both the short and long-term. This year, we will also be providing the City Council with a list of all core and non-core programs to review and prioritize in order to provide direction to the Administration in developing a balanced budget for fiscal year 2011. Once the programs are prioritized, we will provide the fiscal and service level impact of any potential program reductions.

I would like to thank all staff members involved with the City's 2010 Long Term Financial Plan. I look forward to working with you, staff and our community as we determine a solid course of action as we attempt to balance the needs of our citizenry with realistic fiscal projections.

George Scarborough
City Manager

Executive Summary

The *Executive Summary* portion of the 2010 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 2010 Long Term Financial Plan Summary

Included within the *Executive Summary* section:

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

Introduction

The 2010 LTFP is the 18th edition of the City's financial strategic plan

This is the eighteenth year that the City of San Clemente has produced a Long Term Financial Plan. The LTFP provides an objective look at the current financial issues facing the City of San Clemente and crafts a plan to meet the needs of the community without sacrificing the financial future.

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

The LTFP produces a financial pan and provides solutions

The Long Term Financial Plan can be defined as a plan that identifies fiscal issues and opportunities, establishes fiscal policies and goals, examines fiscal trends, produces a financial plan and provides for feasible solutions. The LTFP allows the City to focus its efforts on long-term initiatives, including funding for necessary infrastructure, maintenance and capital needs, without compromising its financial future.

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

Fiscal policies established by City Council provide guidance and long-range direction for planning a sustainable financial future. Fiscal policies are reviewed annually to determine if new policies or revisions are necessary. Included in the 2010 Long Term Financial Plan is a recommendation to revise the Fiscal Policy to establish a $1.2 million target reserve balance for the Park Asset Replacement Reserve.

The Fiscal Policy also requires an annual review of General Fund revenues to determine if any changes should be made to fees or service charges. The Revenue Update paper, included in the 2010 Long Term Financial Plan, reviews fees and charges for bicycle permits, alarm permits, alarm fines, special lifeguard services, Visa letter services, commercial filming permits and administrative citations. Staff is recommending changes to the fine schedule for alarm fines and the discontinuation of the bicycle permit requirement.

The *financial trends* & *reserves* act as an early warning system

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

The *five-year financial forecast* shows the potential impact of current decisions on the future

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

The five-year financial forecast was last updated after adoption of the FY 2010 budget. The forecast showed that General Fund operating revenues were anticipated to decline in FY 2010 by 2.6% due to lower property and sales tax revenues. In response to declining revenues, operating expenditures were reduced. But despite the cost containment measures, the budget forecast showed a positive operating position in only the first year of the forecast and a negative operating position in the remaining four years of the forecast.

The downturn in the economy continues to have an effect on City revenues

The lingering effect of the downturn in the economy continues to have an effect on City revenues. Sales and transient occupancy taxes, development related service charges, motor vehicle and homeowner exemption fees have been reduced for FY 2010 based upon receipts for the first six months of the fiscal year. In addition, the forecast is projecting further reductions in property tax revenues for FY 2011 and FY 2012.

The 2010 forecast shows operating deficits in each year and negative fund balances beginning in 2011

Forecast expenditures are increased by inflation, forecast assumptions or known contractual increases. As an example, the forecast assumes a transfer of $712,200 to the Street Improvement Fund in FY 2011. This transfer is increased annually by 3%. The police contract has been increased by inflation. The fire contract, which is capped at a maximum 4.5% per year, has been increased based upon the projected growth rate OCFA anticipates over the next five years.

As a result of revised forecast projections, City revenues are anticipated to grow by 0.2% a year and expenditures are projected to grow by 2.9%. The 2010 forecast shows projected operating deficits in each year and negative fund balances beginning in 2011. Clearly, the City will have to address the projected deficits in order to improve operating position and fund balances as the City will not adopt an unbalanced budget.

Recommendations for revenue enhancements or cost saving measures are discussed later in this paper. These recommendations, along with potential service level reductions identified by City Council at the Program Review meeting on February 23, 2010, will become the guideline for development of the FY 2011 budget.

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

Other financial challenges identified in the 2010 Long Term Financial Plan include funding of capital projects and renewal of the Street Improvement Program. The Capital Projects Analysis provides a summary of the significant capital projects with funding challenges. The analysis reviews the funding status of the La Pata/Vista Hermosa Park, Civic Center and Recycled Water Expansion and four potential projects that do not have identified project costs and funding.

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

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 2010 fiscal year with a total balance of $12 million, which includes $10.0 million in Sustainability Fund balance and $2 million in undesignated fund balance. The General Fund emergency reserve, at year-end will amount to $4.2 million. Total General Fund revenues amount to $47.9 million. General Fund operating revenues, which excludes $146,000 in one-time revenues, amounts to $47.7 million. Total General Fund expenditures amount to $51.4 million. Operating expenditures, which excludes one-time program costs, projects and transfers, amounts to $46.5 million.

Reserve Funding – General Fund

Several fiscal policy statements adopted by the City Council over the years relate to the funding of various reserve funds. This is largely due to the fact that most reserve accounts were non-existent, depleted or in a deficit position when the first financial plan was developed. In fact, since 1993, a total of $14.1 million has been dedicated to the funding of reserves and deficit fund balances. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, facilities' maintenance, park asset, contingency and emergency reserves. With the exception of the Park Asset Replacement Reserve, all General Fund reserve funds are funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels, transfers will be included in the FY 2011 budget. Reserve Analysis recommendations include:

All General Fund reserves are fully funded

- A contribution of $250,000 to the General Fund emergency reserve to attain the 9% target reserve level. Although the emergency reserve is increasing from 8.75% to 9%, operating position would not be affected by reducing the contribution. Contributions to the emergency reserve are considered one-time, not operating expenditures and only impact the level of undesignated fund balance.

- A reduction of $100,000 in General Liability charges to a total of $1.2 million to maintain the reserve level required by fiscal policy.

- A 6% rate reduction in the Workers' Compensation Fund is recommended to avoid an accumulation of excess reserves.

- A transfer of $80,000 from the General Fund to the Accrued Leave Reserve in FY 2011.

General Fund Transfers

For FY 2011, transfers total $1.3 million and include $712,900 for the Street Improvement Program, $510,000 for debt and operational support of the Negocio building and $52,220 for low income subsidies. One of the provisions of Proposition 218 restricted Enterprise Funds from granting low income subsidies. The only way to offer these subsidies is to fund them through the City's General Fund. If the General Fund transfer is eliminated, water and sewer subsidies could not be given to low income households.

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

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

General Fund Loans

The General Fund has two internal outstanding loans that were made from the General Fund to the Redevelopment Agency (RDA) Debt Service Fund and the Golf Operating Fund. The interagency loan to the RDA – Debt Service Fund consolidated and repaid $3.4 million from two prior Interfund loans to purchase the Casa Romantica, fund capital projects in the RDA and fund operation deficits. The loan, which was made in 2002, is structured with an annual interest rate of 2.9% and a term of 16 years with an outstanding balance of $2.1 million. This debt will be retired in FY 2019.

RDA debt is $2.1 million

The General Fund also provided short-term loans, totaling $984,000 to the Golf Operating Fund between fiscal years 2003 and 2006. The Golf Operating Fund repaid $347,000 of the outstanding balance through June 30, 2009 and will continue to make annual principal reductions of approximately $200,000 until the $637,000 balance is repaid or an external loan is obtained to finance the remaining balance of the clubhouse construction costs.

Golf Operating Fund debt is $637,000

Financial Trend Analysis

The City's financial condition is also quantitatively measured using a financial trend monitoring system. The annual Financial Trend Analysis report for the year ending June 30, 2009 indicates a continuing decline and only 12 out of 21 indicators are favorable as compared to 14 out of 21 last year. Three indicators received a warning rating, three received a favorable/caution rating and three indicators received an unfavorable rating. In total, these current year results are a decrease from the prior year when one indicator received a Warning rating, four received Favorable/Caution ratings and two were Unfavorable. However, because of the commitment to financial planning, funding of necessary reserves and cost reduction and streamlining efforts made by many of the City's departments, the City has already taken the initiative to analyze these Warning and Unfavorable signs to improve the fiscal health of the City for the future.

12 out of 21 indicators are favorable

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

Sales Tax Revenues: This indicator has been downgraded from *favorable/caution* to *unfavorable* due to continued reductions in sales tax receipts.

"Unfavorable" rating has been assigned to sales tax revenues

Property tax revenues, property values: These two indicators have been downgraded from *favorable/caution* to a *warning* due to reduction in revenue growth and a decline in secured values during the last year. This is an indication that property tax growth will slow in the future and we will see deflation reductions of real property values.

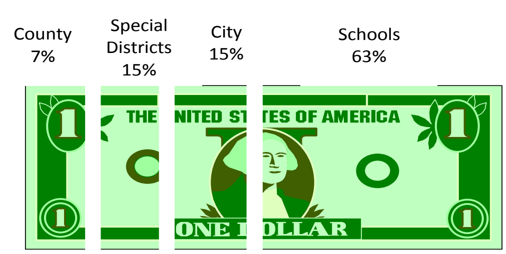
Revenue Overage and Operating Position: These two indicators have been changed from *favorable* to *favorable/caution.* Revenue overage was downgraded because the City's revenues were lower than budget by 2.5% in FY 2009.

The operating position has decreased by 0.63% from the prior year to $0.5 million and this indicator has been changed from *favorable* to *favorable/caution*.

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

Indicator	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*
Revenues Per Capita	**F/C**	**F/C**	F	F/C	F/C	W	W	F	F	F
Property Tax Revenues	**W**	**F/C**	F	F	F	F	F	F	F	F
Property Values	**W**	**F/C**	F	F	F	F	F	F	F	F
Elastic Revenues	**W**	**W**	W	F/C	F	F	F	F	F	F
Sales Tax Revenues	**U**	**F/C**	F	F	F	F	F	F	F	F
Licenses & Permits	**U**	**U**	W	F	F/C	F	F	F	F	F
Comm. Develop. Charges	**U**	**U**	W	F/C	F	F	F	F	F	F
Inter-governmental Revenues	**F**	**F**	F	F	F	F	F	F	F	F
One-Time Revenues	**F**	**F**	F	F	F	F	F	F	F	F
Revenue Overage	**F/C**	**F**	F	F	F	F	F	F	F	F
Population	**F**	**F**	F	F	F	F	F/C	F	F	F
Expenditures Per Capita	**F**	**F**	F	F/C	F	F	F	F/C	F	F
Expenditures by Function	**F**	**F**	F	F	F	F/C	F/C	N/A	N/A	N/A
Employees Per Capita	**F**	**F**	F	F	F	F	F	F	F	F
Fringe Benefits	**F**	**F**	F	F	F	F/C	F	F	F	F
Capital Outlay	**F**	**F**	F	F	F	F	F	F	F	F
Operating Positions	**F/C**	**F**	F	F	F	F	F	F/C	F	F
Debt Service	**F**	**F**	F	F	F	F	F	F	F	F
Compensated Absences	**F**	**F**	F	F	F	F	F	F	F/C	F/C
Fund Balance	**F**	**F**	F	F	F	F	F	F	F	F
Liquidity Ratio	**F**	**F**	F	F	F	F	F	F	F	F

The trend report also includes a section on the distribution of the property tax dollar. HdL Coren & Cone, whom the City has engaged to perform property tax audit and analysis, has determined that the City's average share of the property tax dollar is $0.153. Excluding the RDA, the distribution of the property tax is shown below:



Debt options as a potential gap closing strategy

Debt Analysis and Closing Strategies

A debt analysis was conducted to analyze and recommend appropriate use and amount of long term debt by the City. The analysis presents an overview of the City's current debt, a discussion of the types of debt instruments that are available and the estimated costs of debt issuance as a potential gap closing strategy.

A standard set of assumptions is used to project the amount of debt issuance and the associated costs. For Assessment District or Certificates of Participation debt instruments, the industry standard dictates that the financed amount should exceed the capital project by 20% (e.g. $16 million project would result in a$19.2 million bond issue). For General Obligation bonds, the financed amount typically exceeds the capital project by 8% (e.g. $16 million project would result in a $17.3 million bond issue). The assumed interest rate is 4.73% and the terms equal 20 years.

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

Cost of debt options

Capital Project	Required Funding	Debt Issuance	Annual Debt Service
LPVH Park/Ave Hermosa - COP/AD	$13.725M	$16.47M	$1.27M
LPVH Park/Ave Hermosa - GO	$13.725M	$14.82M	$1.09M
Civic Center - COP	$8.95M	$10.75M	$827,000
Civic Center - GO	$8.95M	$9.67M	$713,000
Recycled Water Expansion	$12.8M	$12.8M	$805,600

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

Capital projects and identified gap closing strategies

Gap Closing Strategies

The 2010 Capital Projects Analysis paper identifies funding requirements for the construction of major projects. Each of the major capital projects included in the 2010 Long Term Financial Plan has dedicated funding for a portion of the construction costs.

The sale of City property is expected to close the funding gap for the La Pata/Vista Hermosa Park, phase 1 and the Civic Center. Due to current market conditions, the gap closing paper is recommending the delay of the Civic Center project until the City Hall site is sold. The State Revolving Fund loan will be utilized to complete the funding requirements for the Recycled Water Expansion project.

2010 forecast has been updated

Five Year Financial Forecast

The 2010 forecast has been updated with revised revenue assumptions for the base year of the forecast (FY 2010) and the State takeaway of $2.2 million in City property tax revenues. For FY 2010, General Fund revenues are projected to be even lower than originally anticipated during development of the budget. Mid-year adjustments to sales, motor vehicle and transient occupancy taxes, development related permits and state reimbursed homeowners exemption fees are recommended and built into the forecast. Most notably, a budget adjustment to reduce sales taxes by $600,000 in FY 2010 is recommended. Although sales taxes were originally projected to decline by 4%, actual sales tax receipts from the City's core sales tax producers are now projected to decline by 10%. Actual sales tax receipts from gasoline stations have been reduced by 23% when compared to one year ago when gasoline was $1.00 per gallon higher. In addition, the City's triple flip "true-up" adjustment is negative due to several sales tax misallocations by the State over the prior two years. The "true-up" adjustment is reduced from the current year's triple flip payment and will result in a "true-up" payment of $760,000, compared to $1.5 million in the prior year. For more details on the triple flip adjustment, please refer to the Financial Forecast paper – Sales Tax section on pages 81 and 82.

Property taxes, which account for 50% of total General Fund revenues, are forecasted to decline by 5% in FY 2011 and 3.5% in FY 2012.

With the revised revenue projections, the five-year forecast shows a negative operating position and negative fund balances in all five years of the forecast period. The forecast *includes* the known increases such as police and fire, as well as the forecast assumptions to maintain current level of services.

	2011	2012	2013	2014	2015
Operating receipts	$46.9	$46.7	$47.3	$47.7	$48.4
Operating disbursements	48.8	50.3	51.6	52.9	54.5
Projected surplus/deficit	-$1.9	-$3.6	-$4.3	-$5.2	-$6.1

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

- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 90% of inflation beginning in FY 2011.
- New positions – No new city positions have been added.
- New Police positions – No new Police positions have been added.
- Fire Services costs –The first amendment to the Fire Services contract takes effect in 2010. The 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 3.25% in years one and two and by 4.27% in the remaining three years based upon OCFA's assumptions for the five year period.

- Negocio Building – An annual transfer of $510,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building. City staff currently occupies the first floor and a portion of the second floor. The City is attempting to lease the vacant portion of the building, as well as the vacant 1030 Calle Negocio building (old fire station 59). If successful, rental revenue will be available to offset maintenance and debt service costs.
- Senior Center Operating Agreement – The agreement with South County Senior Services for the operation of the new Senior Center includes a $10,000 annual funding of a replacement reserve account for the replacement and repair of jointly used furniture, furnishings and equipment. This annual contribution has been included in the forecast beginning in 2011. The City and Senior Center are also jointly responsible for the maintenance and utilities for the building. This cost has not been included in the forecast but will be developed as part of the FY 2011 budget.
- 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 will reach the target reserve of 9% of operating expenditures in 2011.
- Reserves - The five-year average contribution from the General Fund to the Accrued Leave, Facility Maintenance and Capital Equipment reserves amounts to $214,000. For forecast purposes, $214,000 has been included in each year of the forecast.
- PERS Unfunded liability - The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is $4.9 million and requires annual contributions of $694,000 to eliminate the liability. The remaining term of the liability is ten years.
- State Property Tax Takeaway – The State's budget includes a one-time reduction of $2.2 million from the City's property taxes in FY 2010. This money is scheduled to be returned to the City, with interest, in FY 2013.
- General Plan Update – This two year project was partially funded in the 2010 budget and the remaining balance of the $1.4 million contract is included in FY 2011.
- Capital Improvement Program – Due to declining fund balances, the forecast does not include any funding for capital projects.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2011 amounts to $712,900. The forecast assumes that the transfer will increase by 3% each year and continue throughout the forecast period.

- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 0.25% over budget and expenditures are projected to be 0.5% under budget.

Factors Not Included in the Forecast

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

Forecast Operating Position

Forecasted operating position is negative

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

General Fund Operating Position

2010 Forecast Summary* (in millions)

	2011	2012	2013	2014	2015
Operating receipts	$46.9	$46.7	$47.3	$47.7	$48.4
Operating disbursements	48.8	50.3	51.6	52.9	54.5
Projected surplus/deficit	-$1.9	-$3.6	-$4.3	-$5.2	-$6.1

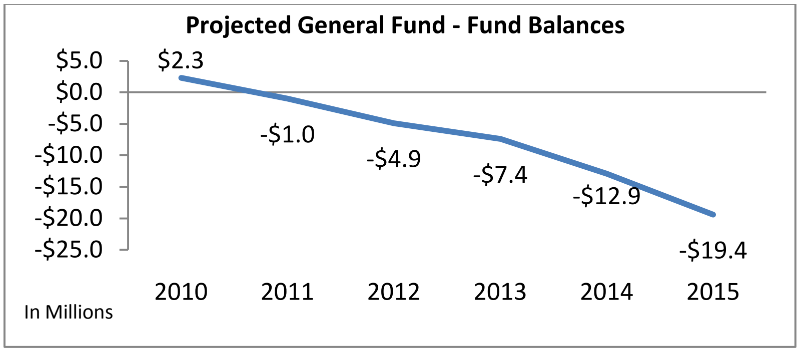
*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

Projected negative operating position is due to significant reductions in sales and transient occupancy taxes, service charges and motor vehicle fees in the base year of the forecast, as well as declines in property tax revenues in the first two years of the forecast period. Forecasted expenditures also show an increase due to the *assumptions* built into the forecast to maintain the current level of services. Operating expenditures must be reduced in order to maintain a positive operating position in all years of the forecast.

Fund Balances

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

The chart below illustrates projected undesignated fund balances in the General Fund for the 2010 Long Term Financial Plan forecast.



One-time expenditures and transfers plus a negative operating position in FY 2011 reduce fund balance from a positive $2.3 million to a negative $1.0 million. Fund balances decline due to the cumulative effect of annual deficits ranging from -$1.9 million in FY 2011 to -$6.1 million by FY 2015. Operating deficits are caused by projected operating expenditures that are higher than operating revenues in each year of the forecast.

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

Designated Fund Balances

The City's *designated* fund balances include the Sustainability Fund Balance Reserve and the Emergency Reserve. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Emergency Reserve is currently funded at 8.75% of operating expenditures. Contributions to the reserve are included in the forecast to achieve and maintain the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

General Fund – Emergency & Sustainability Reserves (in millions)

	2011	2012	2013	2014	2015
Emergency	$4.4	$4.6	$4.7	$4.8	$4.9
Sustainability	10.0	10.0	10.0	10.0	10.0
Total Reserves	**$14.4**	**$14.6**	**$14.7**	**$14.8**	**$14.9**

Conclusion & Projected Financial Condition

The Financial Summary section has provided an overview of the City's current financial condition and presented the City's five year financial forecast if fiscal trends and forecast assumptions were to continue.

The 2010 Financial Forecast projects a negative operating position for all five forecast years:

In millions	2010	2011	2012	2013	2014	2015
Forecast Operating Position	$1.3	-$1.9	-$3.6	-$4.3	-$5.2	-$6.1

The following table shows the results of implementing options such as budget reductions, changes in forecast assumptions, revenue increases and operational reductions on the General Fund operating position.

x 1,000	2010	2011	2012	2013	2014	2015
Operating Revenue	**47,731**	**46,910**	**46,722**	**47,310**	**47,712**	**48,401**
Revenue Increases:						
Increase parking permits by $15[1]	0	45	45	45	45	45
Increase parking meters by $0.50 per hour[2]	0	150	150	150	150	150
Revised Operating Revenue	**47,731**	**47,105**	**46,917**	**47,505**	**47,907**	**48,596**
Operating Expenditures	**46,454**	**48,756**	**50,316**	**51,619**	**52,910**	**54,485**
Forecast Assumptions:						
Freeze Positions[3]	0	-330	-338	-347	-356	-366
Adjust retirement rate[4]	0	-150	-153	-158	-162	-166
Reduce GL charge[5]	0	-78	-80	-82	-85	-87
Operating Reductions:						
Reduce transfer to SIP to $500,000 annually[6]	0	-213	-234	-256	-279	-302
Reduce major street maintenance by one-half[7]	0	-275	-275	-275	-275	-275
Reduce sidewalk maintenance by one-half[8]	0	-75	-75	-75	-75	-75
Reduce slurry seal by one-half[9]	0	-125	-125	-125	-125	-125
Revised Operating Expenditures	**46,454**	**47,510**	**49,036**	**50,301**	**51,553**	**53,089**
Revised Operating Position	**1,277**	**-405**	**-2,119**	**-2,796**	**-3,646**	**-4,493**

[1] Increase resident and non-resident parking permits by $15.
[2] Increase metered parking stalls from $1.00 per hour to $1.50 per hour.
[3] Freeze three vacant positions.
[4] An actuarial study was performed on the City's retirement rate contribution and it was determined that rates could be reduced from the current contribution of 21.3% to 19.9% beginning in FY 2011.
[5] 2010 Long Term Financial Plan Reserve Paper recommends a reduction in the General Liability charge to all City funds. For the General Fund, this reduction amounts to $78,000 in FY 2011.
[6] 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%.
[7] Major street maintenance is funded annually at $550,000. This option will reduce the funding level by one-half.
[8] The sidewalk repair program is funded annually at $150,000. This option will reduce the funding level by one-half.
[9] The slurry seal program is funded annually at $150,000. This option will reduce the funding level by one-half.

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

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

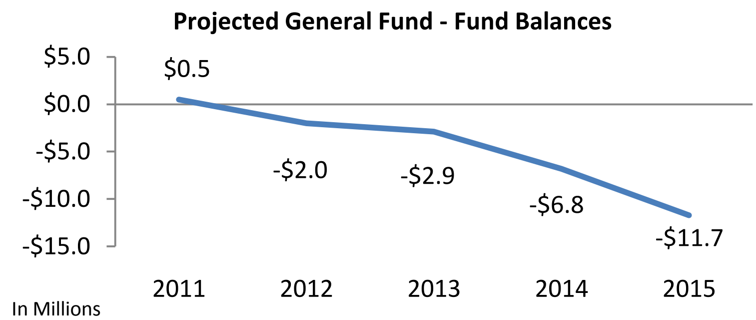
2010 revised forecast operating position

2010 Revised Forecast Summary* (in millions)

	2011	2012	2013	2014	2015
Operating receipts	$47.1	$46.9	$47.5	$47.9	$48.6
Operating disbursements	47.5	49.0	50.3	51.5	53.1
Projected surplus/deficit	-$0.4	-$2.1	-$2.8	-$3.6	-$4.5

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

Fund Balance
The revised forecast results in a positive fund balance in the first year of the forecast.



Conclusion and Recommendation
Revenue enhancements or program reductions will be considered during development of the FY 2011 budget. In addition, a review of all General Fund programs and transfers will be conducted by City Council at a special meeting on February 23, 2010. At that time, City Council will prioritize areas in which service level reductions would be acceptable. Once the program areas are identified, City Administration will present the impacts of these budgetary decisions on operating position and fund balances. If we can balance the budget without program reductions, we will.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2010 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by City Administration.

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

Financial Trend Analysis

1. None

Financial Forecast

1. None

Reserve Analysis

1. Fund the General Fund Emergency Reserve to equal 9% of operating expenditures.
2. Maintain the levels at 8% of Enterprise operating expenses.
3. Maintain the Sustainability Fund Balance Reserve at $10 million.
4. Transfer $80,000 to the Accrued Leave Reserve from the General Fund.
5. Reduce General Liability charges by $100,000.
6. Reduce Workers Compensation rates by 6%.
7. Transfer $268,000 from the Golf Depreciation Reserve to the Golf Improvement Reserve.

Fiscal Policy

1. It is recommended that the City's Fiscal Policy be modified to establish a Park Asset Replacement Reserve target balance of $1.2 million for 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.

Capital Projects Analysis

1. None

Street Improvement Program Update & Renewal

1. Staff recommends that the City Council continue the Street Improvement Program and direct staff to pursue planning for the renewal of the Street Improvement Assessment to provide for continued rehabilitation and maintenance of the City's street network.

Revenue Update

1. Direct staff to prepare an ordinance of the City of San Clemente deleting the requirement to have a bicycle permit to ride on City

streets and property; and
2. Direct staff to continue to charge the current fee or fine amounts for alarm permits, special lifeguard services, visa letters and administrative citations; and
3. Direct staff to prepare a resolution of the City of San Clemente to amend the fine schedule for false alarm response as recommended; and
4. Direct staff to prepare an in-house cost for service study to determine the cost of providing film permits and to determine if the permit fee schedule should be modified.
5. Direct staff to explore the feasibility of implementing the new or enhanced revenue sources identified by the Revenue Committee.

Debt Analysis

1. None

Gap Closing Strategies

1. Delay the Civic Center project until the sale of the City Hall site.
2. Fund the recycled water expansion through a State Revolving Fund loan.

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

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

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

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

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal years FY 2005 through FY 2009. Consequently, all trends are based on data available as of June 30, 2009, and do not incorporate any changes that have occurred since that time.

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

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

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

Indicator	10	09	08	07	06	05	04	03	02	01
Revenues Per Capita	**F/C**	F/C	F	F/C	F/C	W	W	F	F	F
Property Tax Revenues	**W**	F/C	F	F	F	F	F	F	F	F
Property Values	**W**	F/C	F	F	F	F	F	F	F	F
Elastic Revenues	**W**	W	W	F/C	F	F	F	F	F	F
Sales Tax Revenues	**U**	F/C	F	F	F	F	F	F	F	F
License & Permit Revenues	**U**	U	W	F	F/C	F	F	F	F	F
Comm. Develop. Charges	**U**	U	W	F/C	F	F	F	F	F	F
Intergovernmental Revenues	**F**	F	F	F	F	F	F	F	F	F
One-Time Revenues	**F**	F	F	F	F	F	F	F	F	F
Revenue Overage	**F/C**	F	F	F	F	F	F	F	F	F
Population	**F**	F	F	F	F	F	F/C	F	F	F
Expenditures Per Capita	**F**	F	F	F/C	F	F	F	F/C	F	F
Expenditures By Function	**F**	F	F	F	F	F/C	F/C	N/A	N/A	N/A
Employees Per Capita	**F**	F	F	F	F	F	F	F	F	F
Fringe Benefits	**F**	F	F	F	F	F/C	F	F	F	F
Capital Outlay	**F**	F	F	F	F	F	F	F	F	F
Operating Position	**F/C**	F	F	F	F	F	F	F/C	F	F

Indicator	10	09	08	07	06	05	04	03	02	01
Debt Service	**F**	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	**F**	F	F	F	F	F	F	F	F/C	F/C
Fund Balance	**F**	F	F	F	F	F	F	F	F	F
Liquidity Ratio	**F**	F	F	F	F	F	F	F	F	F

Overview of the City's Financial Condition

The 2010 Long Term Financial Plan includes the analysis of twenty-one trends. Three indicators received a Warning rating, three received a Favorable/Caution rating and three indicators received an Unfavorable rating. In total, these current year results are a decrease from the prior year when one indicator received a Warning rating, four received Favorable/Caution ratings and two were Unfavorable. Because of the commitment to financial planning, funding of necessary reserves, and cost reduction and streamlining efforts made by many of the City's departments the City has already taken the initiative to analyze these Warning and Unfavorable signs to improve the fiscal health of the City for the future.

Rating changes

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

The negative changes were:

- *Property Tax Revenues* – Downgrade to Warning
- *Property Values* – Downgrade to Warning
- *Sales Tax Revenue* – Downgrade to Unfavorable
- *Revenue Overage* – Downgrade to Favorable/Caution
- *Operating Position* – Downgrade to Favorable/Caution

Rating discussion

The three indicators at an Unfavorable level, three at warning level and three at the Favorable/Caution level reflect the economic impact on the City as it transitions from a fast growing, high development area and as the City continues to suffer from the effects of the current economic environment. The City will also be impacted by State borrowing or taking away revenues in the current and future years.

Property Tax Revenues has changed from a Favorable/Caution to a Warning rating due to a slowing of the revenue growth rate during the last year when compared to the prior year. This is an indication that property tax growth will slow in the future and there is a chance we will see deflation reductions of real property values that will affect the revenue we receive from the County.

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

Elastic Revenues are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues receive a Warning rating for the third year in a row due to ongoing decreases in revenues that make up these categories. Overall, this trend showed the fifth consecutive decrease and the fourth year below the historical average. Some decreases were anticipated, such as community development and license and permits, due to the City approaching build-out. However, sales taxes have also decreased substantially between FY 2008 and FY 2009 due to a recognized adjustment of previously misallocated taxes and a declining economy. Sales taxes are anticipated to continue to decrease into the future. Therefore the sales tax indicator has changed from a Favorable/Caution to an Unfavorable rating.

Licenses and Permits were anticipated to decrease in construction permits and inspection fees and these revenues will continue to decrease in future years. This trend receives an Unfavorable rating due to a continual decline in development.

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

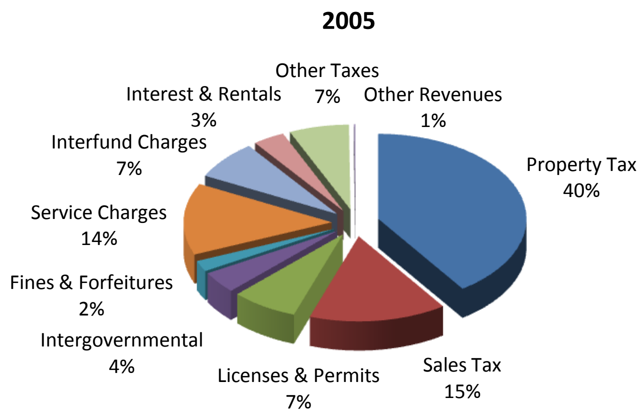
Revenue Overage was changed from a Favorable rating to a Favorable/Caution rating because although it maintains a level above the ICMA basis of a shortage of 5% or more for an unfavorable rating, the City Revenues are at a shortage of 2.5% and should be monitored more closely so that it maintains a level above the ICMA basis.

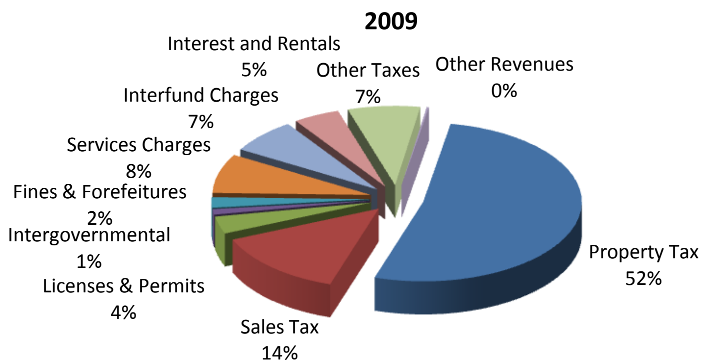
The *Operating Position* has decreased by 0.63% from the prior year to $0.5 million and therefore has changed from Favorable to Favorable/Caution as the City financial forecast indicates a negative operating position over the projected next few years.

The City has taken action in the trends that received an Unfavorable rating. This was initiated in the fiscal year 2007. The City Council reviewed planning, building and engineering activity and made changes to the fee structure to better address the needs of the community. Costs were decreased in the Building and planning departments based on the lower activity levels by freezing unfilled positions that have been vacated. In addition, the City has set up Cost Savings, Revenue Enhancement and Program Review committees in the current year to identify on-going cost savings and potential revenue enhancements or new revenue sources. Recommendations from these committees will be presented to Council.

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2005 vs. FY 2009



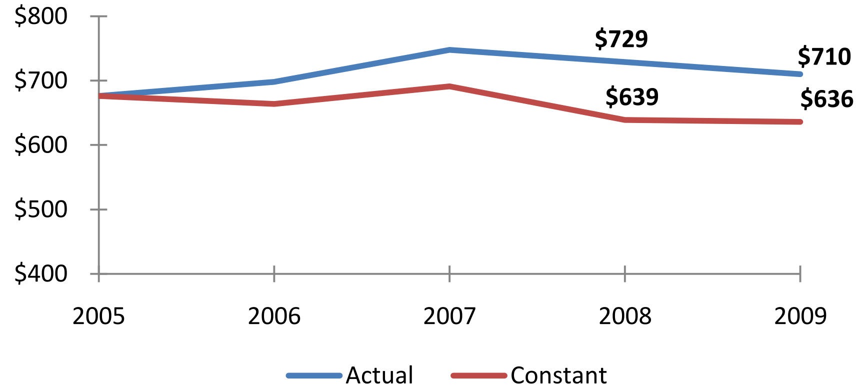


Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property tax, Service Charges, Intergovernmental, and License and Permit categories. Property tax revenues increased from 40% in FY 2005 to 52% in FY 2009 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, thereby decreasing the intergovernmental percentage from 4% in FY 2005 to 1% in FY 2009.[1] Interest and rentals increased from 3% in FY 2005 to 5% in FY 2009 due to an increase in rental and site lease fees. The decrease in licenses and permits from 7% in FY 2005 to 4% in FY 2009 is due to declining construction permit fees as anticipated. Service Charges have also decreased from 14% in FY 2005 to 8% in FY 2009 due to significant reductions in plan check and construction inspection fees.

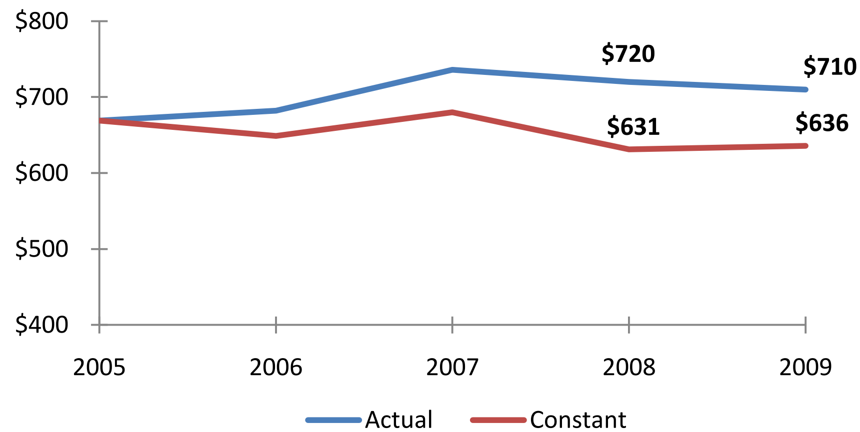
[1] See "Attachment A" page 71.

Revenues Per Capita

REVENUES PER CAPITA
Operating Revenues *Including* One-Time Revenues
Actual and 2005 Constant Dollars
General Fund



REVENUES PER CAPITA
Operating Revenues *Excluding* One-Time Revenues
Actual and 2005 Constant Dollars
General Fund

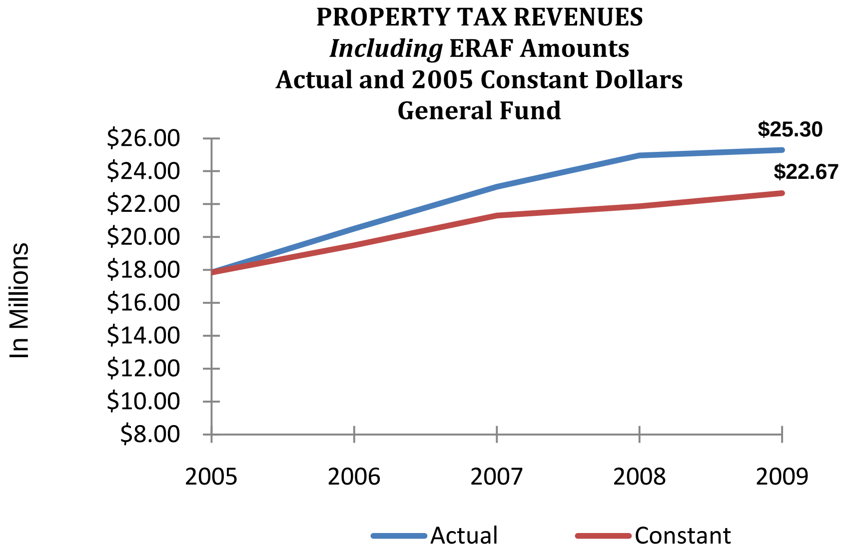


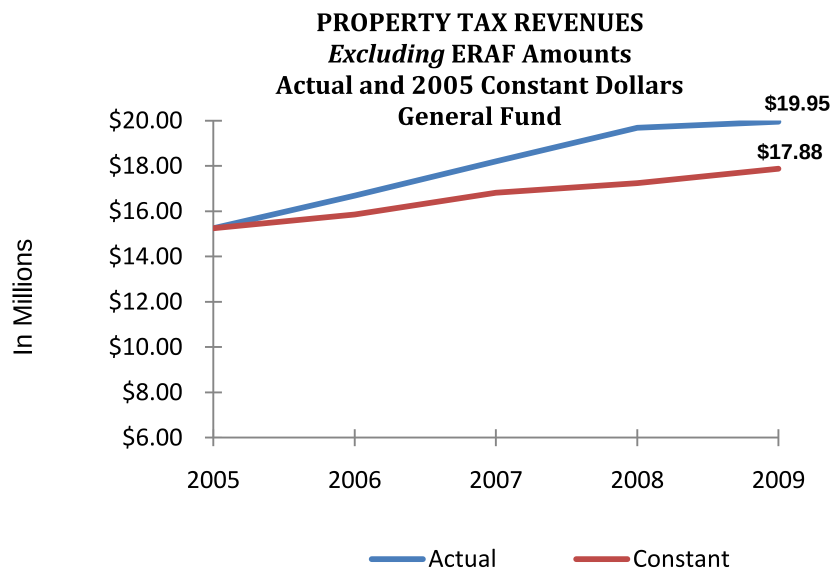
Finding: ***FAVORABLE/CAUTION***. Revenues per capita in both charts reflect a decrease when analyzing actual amounts and constant dollars for FY 2009. This trend is reflected with a Favorable/Caution rating due to the decline in constant dollars from FY 2005. Revenues per capita, in actual dollars, experienced a decline from FY 2008 of 3% (including one-time revenues) and 1% (excluding one-time revenues) related to decreases in licenses and permits and charges for services. In constant dollars the decrease was .4%, when including one-time revenues; however, excluding one-time revenues resulted in an increase of 1% due to a decrease in the consumer price index caused by the deflation rate of 2.24%.

Comments: The first chart which includes one-time revenues shows a downward trend from $729 to $710 in actual dollars and a decrease from $639 to $636 in constant dollars. Total revenues for FY 2009 decreased with the City's Sales Tax category decreasing by $1.0 million or 13% and the licenses and permits category decreasing by $0.4 million or 6%. These decreases are partly due to recognized adjustments of previously misallocated sales taxes, the State economic downturn, and reduced development within the City.

The second chart (which excludes one-time revenues) shows a decrease in actual dollars from $720 to $710 from FY 2008 and an increase in constant dollars from $631 to $636. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures in accordance with the City's Fiscal Policy. General Fund revenues are declining and this trend remains at a favorable/caution rating.

Property Tax Revenues

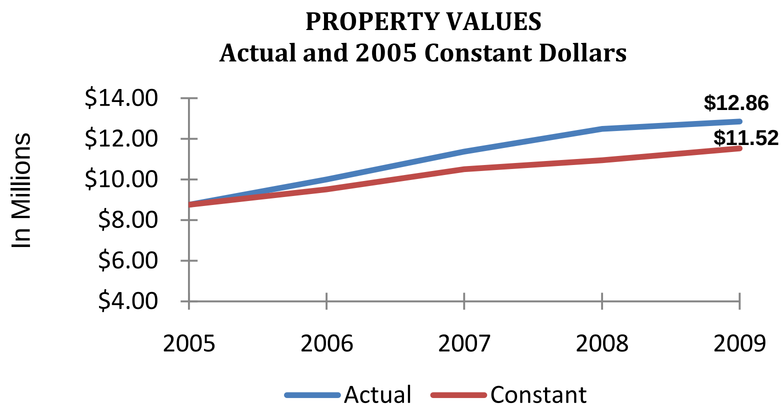




Finding: ***WARNING***. Property tax revenues showed an increase for FY 2009; however, this increase is 7% lower than last year's increase. Due to the declining economy and decreased property values, an even lower growth rate is predicted for future years.

Comments: Property tax revenues increased by $0.3 million or 1% in actual dollars, and increased 4% in constant dollars ending the year $0.9 million above the prior fiscal year. The actual dollar increase is the result of an additional $0.8 million in current and prior year secured property taxes while there was a decrease in Supplemental Roll and Property Transfer taxes of $0.3 million and $0.2 million respectively. This indicator has been changed from a Favorable/Caution to a Warning rating due to the decrease in growth rate over the past year. There has been a steady decrease in property tax growth over the last 5 years.

Property Values



Finding: ***WARNING***. Property values showed a positive growth rate for the thirteenth consecutive year in FY 2009; however this growth rate is lower than the prior year's growth rate. There is a chance we will see an annual negative inflation adjustment to real property for FY 2011, further reducing the assessed valuation.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars was 3%. This indicator has been changed from Favorable/Caution to a Warning rating due to the rapid decline in the growth rate as seen in the chart below. Due to the economy, property tax values have declined significantly and the City will see the effect of this decline in future years. This indicator will continue to be closely monitored due to the significant impact in property tax revenues on the City's General Fund. Below is a chart showing the percentage change in secured values for the past ten tax years, from the HDL Coren & Cone Preliminary Property Tax Reports based on 2009 Property Tax Data.

City of San Clemente
Assesed Value History
(In Thousands)

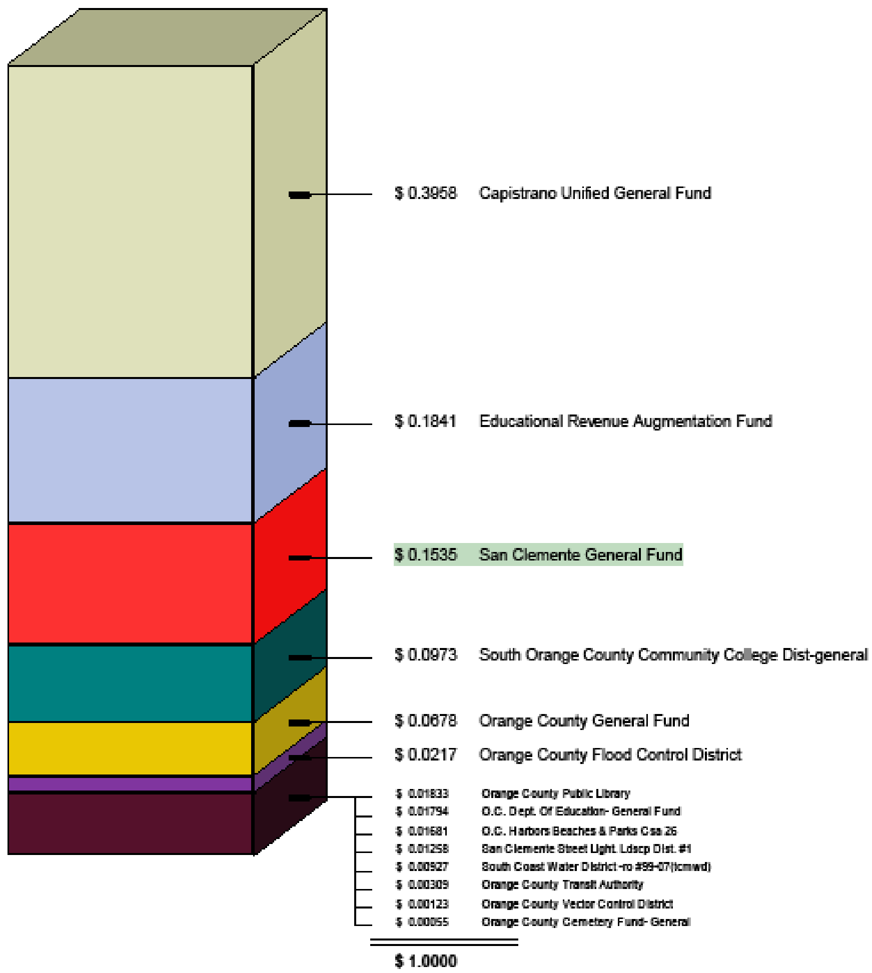
Tax Year	Secured Values	% Change
2000	$4,482,896	10.36%
2001	$5,021,140	12.01%
2002	$5,749,418	14.50%
2003	$6,661,104	15.86%
2004	$7,525,674	12.98%
2005	$8,518,575	13.19%
2006	$9,762,930	14.61%
2007	$11,106,184	13.76%
2008	$12,248,078	10.28%
2009	$12,582,840	2.73%

Source: HDL Reports 2009

Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San

Clemente receives $0.153 of each property tax dollar collected within the City. The following graph shows the distribution of the total property tax levy for each property tax dollar paid for the City.

THE CITY OF SAN CLEMENTE
PROPERTY TAX DOLLAR BREAKDOWN



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

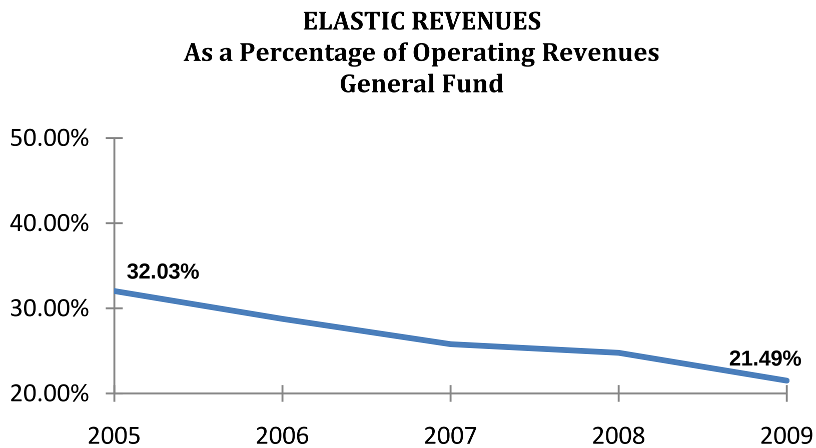
Data Source: Orange County Assessor 2008/09 Annual Tax Increment Tables Prepared On 8/12/2009 By NEC

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

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

Elastic Revenues

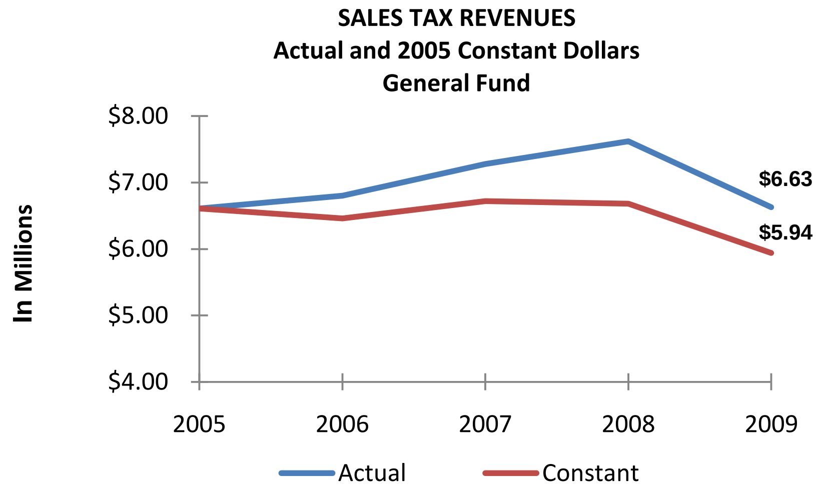
(Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges)



Finding: ***Warning.*** Elastic revenues, as a percentage of total revenues, show a decrease from FY 2008 to FY 2009 which is the fifth consecutive decrease. Actual elastic revenues decreased $1.8 million, while operating revenues decreased by $883,085. A Warning rating is assigned due to a decrease in revenue of $993,859 in Sales Taxes, $381,597 in business licenses and permits, $282,118 from Community Development Service Charges, and $156,260 transient occupancy taxes.

Comments: Elastic revenues, as a percentage of total revenues, decreased from 24.77% in FY 2008 to 21.49% in FY 2009. This is below the historical average of 31.0% from FY 1996 to FY 2000 before significant development occurred in the City. The largest decline in dollars in elastic revenues was in Sales Taxes. The decline in Sales Tax was $993,859, or 13%. There was also a $381,597 or 18% decrease in licenses and permits, a decrease in community development services charges of $282,118, or 25%, and a decrease in transient occupancy taxes of $156,260, or 11%. A Warning rating has been assigned because of the decreases in all categories.

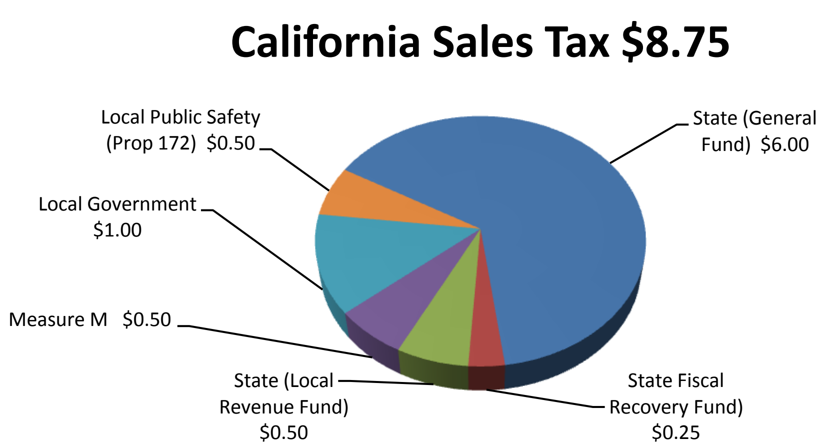
Sales Tax Revenues



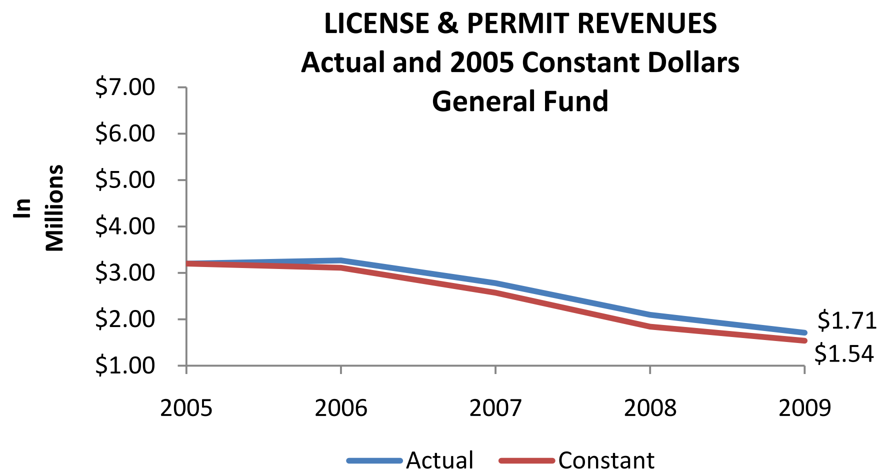
Finding: ***UNFAVORABLE.*** As summarized in the chart above, sales tax revenues showed a decrease of $993,859, or 13% in actual dollars over the prior fiscal year. In constant dollars, the decrease amounted to $737,618, or 11% for FY 2009. The deflation rate during this period was a negative 2.24%.

Comments: As summarized in the chart, sales tax revenues have started to decline from the prior year in actual and constant dollars. This decline is due to recognized adjustments of previously misallocated sales taxes and the State economic downturn. Because of this decline and the unpredictability as to further decline due to economic recession, this indicator has been changed from Favorable/Caution to Unfavorable. The City of San Clemente sales taxes are ranked 23rd out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed. The Sales Tax has been increased from the prior year by $1. This dollar has been allocated to the State General Fund, as seen below. :



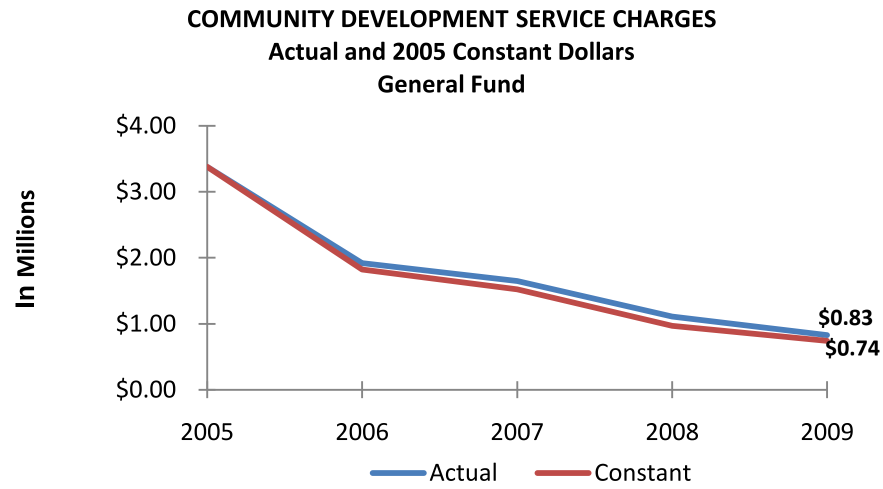
License and Permit Revenues



Finding: ***Unfavorable.*** License and permit revenues decreased in actual dollars in the amount of $381,597 or 18% from the prior fiscal year. The constant dollar decrease was $299,915 or 16% from FY 2008. This indicator received an Unfavorable rating due to the third year of decreases and to reflect the downward trend in both actual and constant dollars.

Comments: Construction permit revenue decreased $186,666, or 26% over the past year, and business license income decreased from the prior year by $191,820 or 19%. An Unfavorable rating has been assigned based on the development activity continuing double digit decreases in FY 2009. Although decreases were anticipated the amounts for permits continue to come in below the City's budget for FY 2009. This is the third year that the City has been below budget predictions for Licenses and permit revenue.

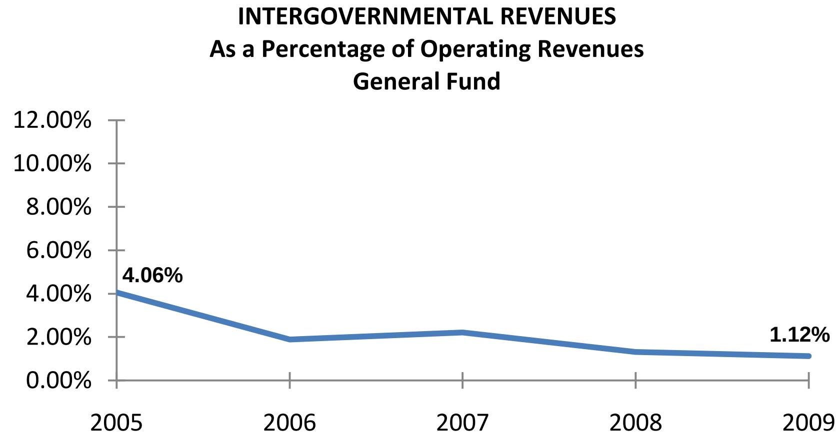
Community Development Service Charges Revenues



Finding: ***UNFAVORABLE.*** Total community development service charges decreased by 25%, or $282,118 from the prior year. This represents the fourth consecutive year of decreases. This trend is assigned an Unfavorable rating as development has decreased, and lower service charges have been collected even after a fee structure review.

Comments: Other community development revenues, such as plan check fees account for most of the $282,118 decrease. The total actual amounts for community development service charges are less than the original budget amounts. This is due in part to economic recession, and the delay of the Marblehead Coastal development.

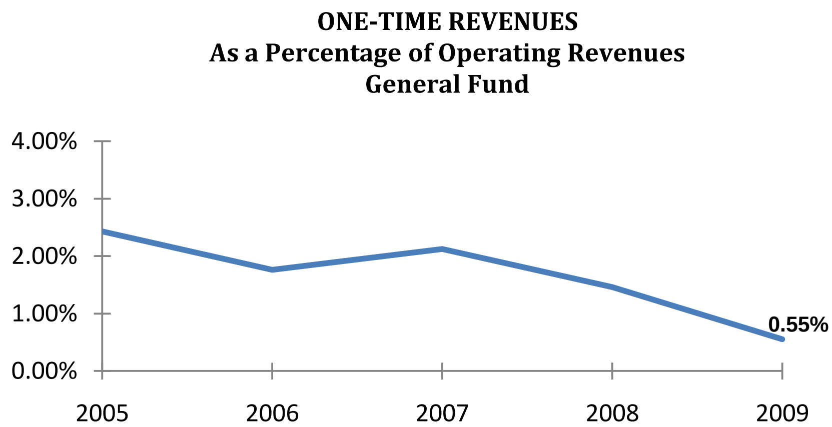
Intergovernmental Revenues



Finding: ***Favorable***. General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 1.12% in FY 2009.

Comments: By analyzing intergovernmental revenues as a percentage of operating revenues, the City can determine the extent of its dependence upon resources from other governments. Excessive dependence on this type of revenue can be detrimental to the financial health of the City as the factors controlling their distribution are beyond the City's control. The City's largest intergovernmental revenue is motor vehicle tax which makes up 43% of this category. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City receives property tax dollars in-lieu of the motor vehicle fees which started in FY 2005. Motor vehicle fees received as in-lieu property taxes totaled $5.3 million in both FY 2008 and FY 2009, which would have made the intergovernmental percentages 12.0% and 12.1%, respectively, which still supports the Favorable rating.

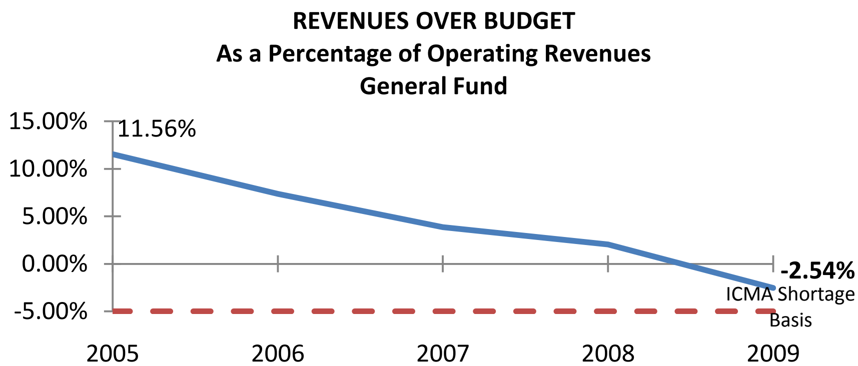
One-Time Revenues



Finding: ***Favorable***. One-time revenues, as a percentage of total General Fund revenues, equaled 0.55% in FY 2009, a slight decrease from the prior year.

Comments: One-time revenues decreased by $456,770 from the prior fiscal year. FY 2009 one-time revenues of $0.3 million include $161,465 of grant funds and $107,066 from miscellaneous reimbursements. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditures. Therefore, this indicator continues with a Favorable rating.

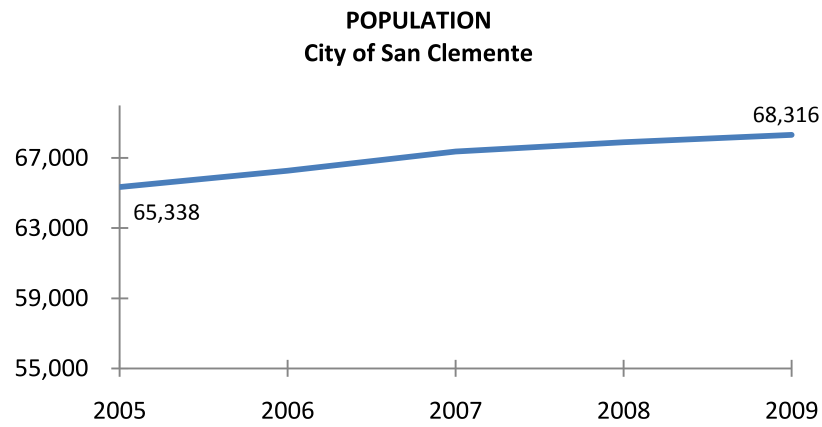
Revenue Overage



Finding: ***FAVORABLE/CAUTION***. Actual revenues were lower than the adjusted budget by $1.2 million for FY 2009 and ends with a negative revenue position of -2.54%. The City experienced a revenue shortfall in the following categories: Taxes ($1.1 million), licenses and permits ($0.5 million), and intergovernmental ($0.2 million). This trend was changed from Favorable to Favorable/Caution because although the City maintains a level above the ICMA basis of a shortage of 5% or more the City did experience a negative budget variance of 2.54%.

Comments: This trend began the five-year analysis with a positive revenue position of 11.56% and ended FY 2009 at -2.54%. 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. The City is taking steps toward increasing revenues, by setting up Revenue Enhancement, and Program Review committees to identify on-going cost savings and potentially new revenue sources. Recommendations from these committees will be presented to Council.

Population

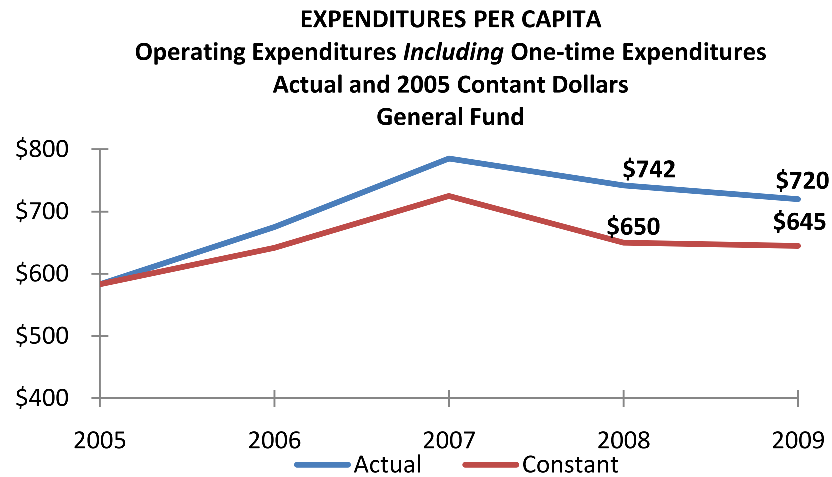


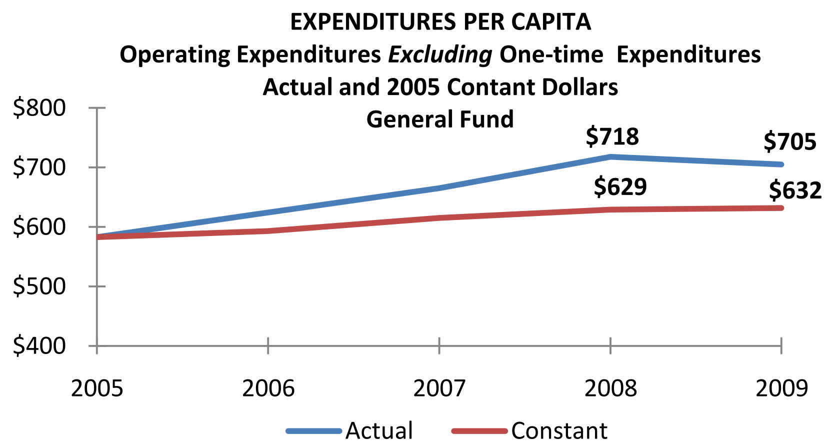
Finding: ***Favorable***. The City's population growth, an average of 1.72% over the last five years, is considered Favorable because this growth has been planned and controlled. Growth from FY 2008 to FY 2009 was 0.62%, which indicates the City's growth pattern continues to slow over the last five years.

Comments: The exact relationship between population change and other economic and demographic factors is uncertain. However, a sudden increase in population can create immediate pressures for new capital expenditures and higher levels of service. Conversely, a rapid decline in population allows for a smaller tax base for spreading City costs that cannot be reduced in the short run. The planned growth is allowing the City the opportunity to ensure that the cost of servicing new residents does not exceed the City's ability to generate new revenues, that the level of business activity grows along with the increase in residential development, and that the growth does not strain the sewer system capacity, traffic circulation, and off-street parking. Additionally, increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.).

Expenditures Trend Analysis

Expenditures Per Capita



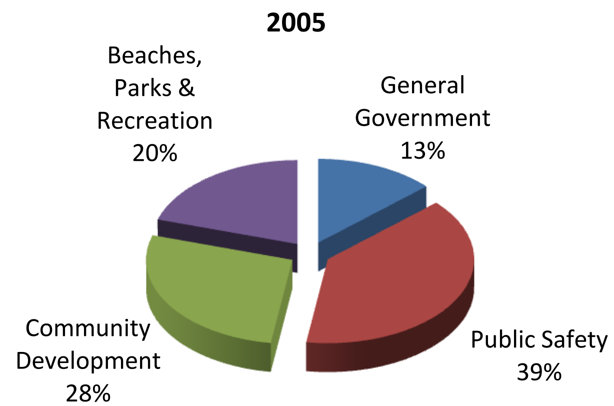


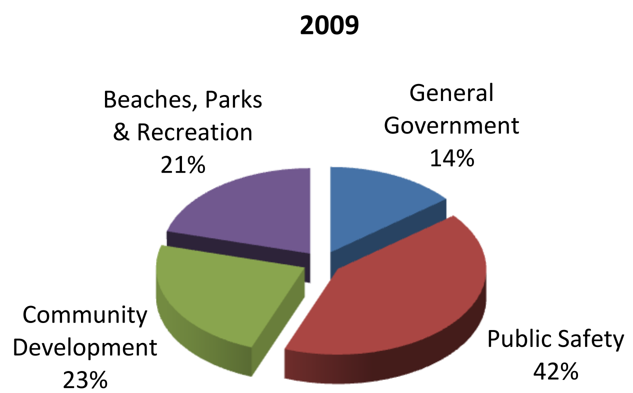
Finding: ***Favorable***. Expenditures per capita in the first chart reflect a decrease when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. However, when excluding one-time expenditures in the second chart, there is an increase in constant dollars from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

Comments: The first chart which includes one-time expenditures shows a decrease from $742 to $720 in per capita actual dollars and a decrease from $650 to $645 in per capita constant dollars. This reflects the decrease in actual dollars of $1.2 million and the decrease in constant dollars of $58,584 when compared to FY 2008. The decrease in actual dollars was in Community Development ($1.3 million) and Beaches, Parks & Recreation ($1.1 million).

The second chart (which excludes one-time expenditures) shows a decrease in actual dollars from $718 to $705 and an increase in constant dollars from $629 to $632. The increase in constant dollars is mainly due to a decrease in the Consumer Price Index from the prior year.

Comparison of Expenditures by Function
FY 2005 vs. FY 2009



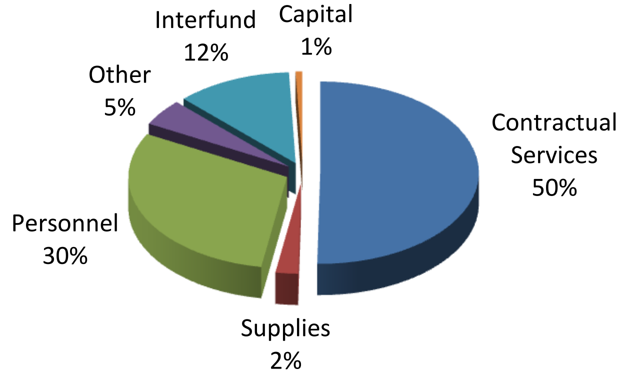


Finding: ***Favorable.*** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) showed an increase in public safety of 3% and a decrease in community development expenditures of 5% from fiscal year 2005 to fiscal year 2009.

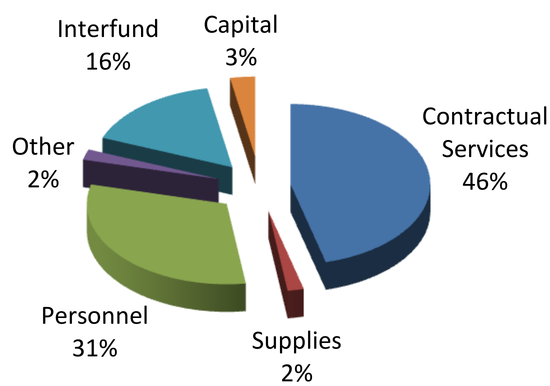
Comments: These charts indicate that most expenditure categories have remained stable, with only minor increases and decreases in percentages. Community Development decrease is due to the slowing of development and the decrease in costs related to building inspection and review. Public Safety increased from 39% in FY 2005 to 42% in FY 2009 due to increases in the contracts with Orange County Fire Authority (OCFA) and Orange County Sheriffs Department (OCSD). These increases are mainly due to cost of living increases and increased staffing.

Comparison of Expenditures by Category
FY 2005 vs. FY 2009

2005



2009



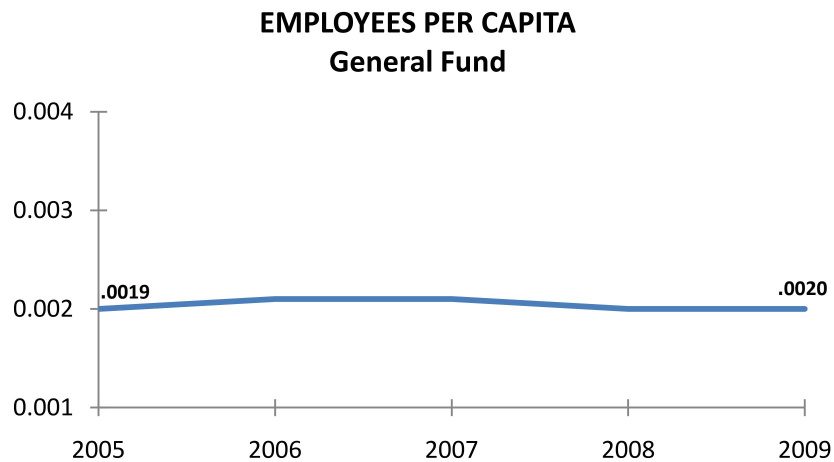
Comments: The charts above indicate that the Contractual Services, Interfund, and Capital expenditure categories, as a percentage of the total General Fund expenditures, changed significantly between FY 2005 and FY 2009.

The contractual category changed from 50% to 46%. Although there was a growth in public safety contractual costs from FY 2005, increases in interfund amounts cause the contractual category to be a lower percentage of expenditures in FY 2009 than in FY 2005.

Interfund amounts have increased due to an increase in interdepartmental charges of 76% from FY 2005 to FY 2009. This increase includes a one-time transfer of $1.0 million to the general liability fund in FY 2009.

The capital category increased from 0.68% to 2.9% of expenditures due to an increase in capital improvement project activity and moving of contractual maintenance projects from the contractual category to capital outlay in FY 2008. FY 2009 projects included $0.7 million for major street maintenance and slurry seal programs and $0.3 million for one-time studies/costs.

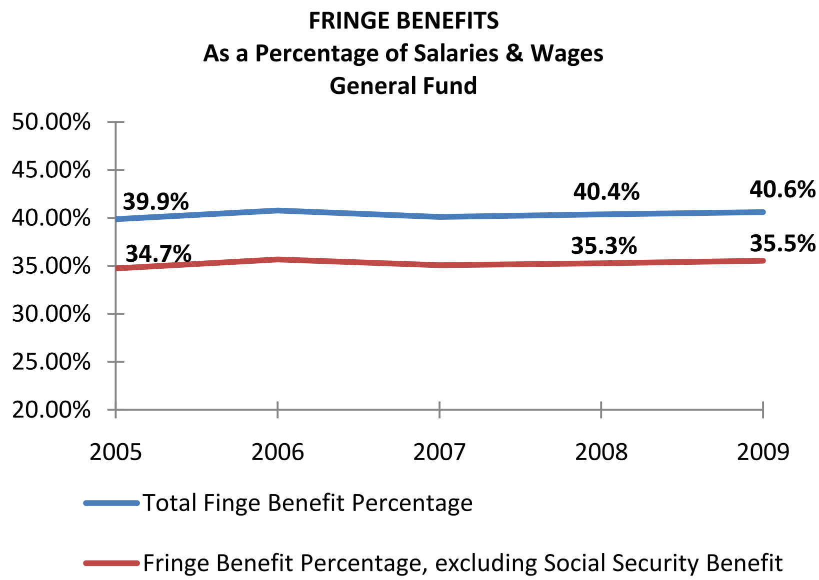
Employees Per Capita



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

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

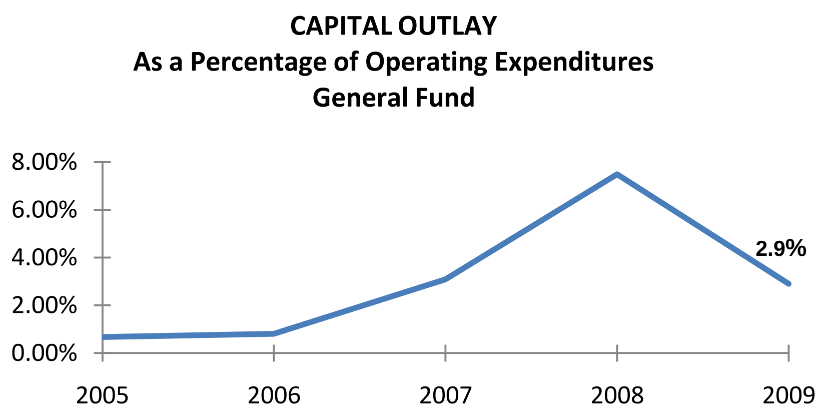
Fringe Benefits



Finding: ***FAVORABLE.*** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased slightly from 40.4% to 40.6%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2008. This indicates a leveling of fringe benefit costs resulting in a Favorable rating.

Comments: The largest component of the benefit percentage is the contribution to the City's defined benefit retirement program. The retirement contribution percentage has increased slightly from the prior year. In addition, the City has taken steps to limit the growth of the City paid portion of the medical benefit, allocating a portion above a determined level of premium increase to the employees.

Capital Outlay

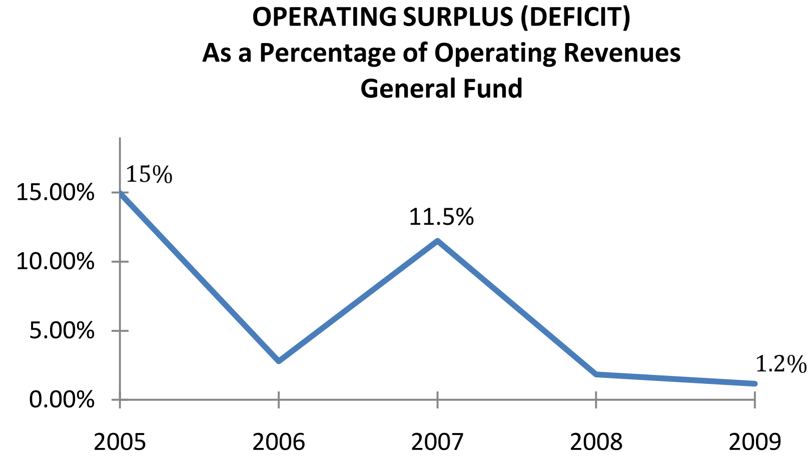


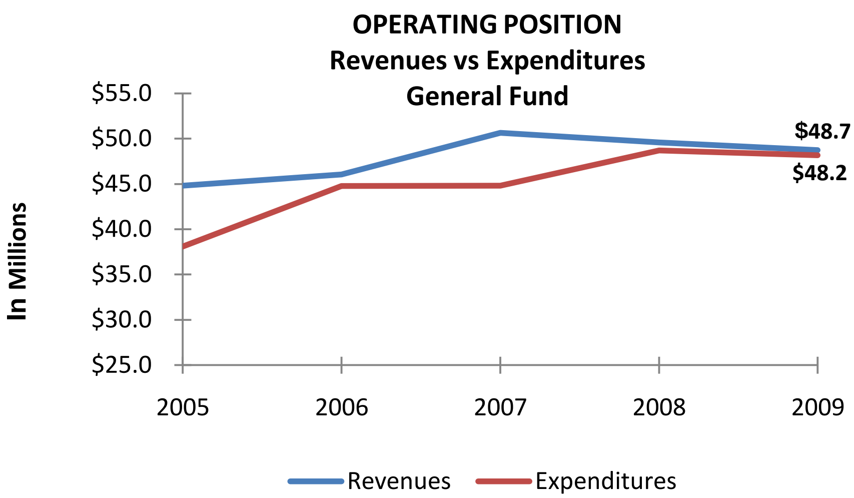
Finding: ***FAVORABLE.*** Capital outlay expenditures decreased by $2.3 million, or 62%, from the 2008 fiscal year. Capital outlay expenditures totaled $1.4 million.

Comments: Spending on capital outlay has decreased due to completion of the San Gorgonio Field Lighting and Fence project in the amount of $1.4 million and street improvement projects totaling $0.9 million in FY 2008.

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

Operating Position

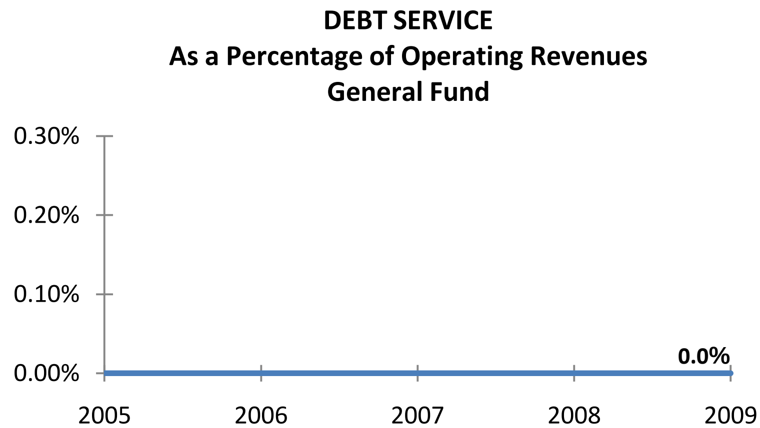




Finding: ***Favorable/Caution.*** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. FY 2009 finished with an operating surplus of 1.2%, a decrease from 1.8%, when calculated as a percentage of General Fund revenues.

Comments: The City ended FY 2009 with an operating surplus. The expenditures used to calculate this surplus does not include a one-time transfer of $1.0 million from the General fund to the General Liability fund. The total operating surplus was $0.6 million in FY 2009, compared to $0.9 million in FY 2008. This trend was changed from Favorable to Favorable/Caution rating due to the decline in the surplus amount and tightening of the City’s operating position.

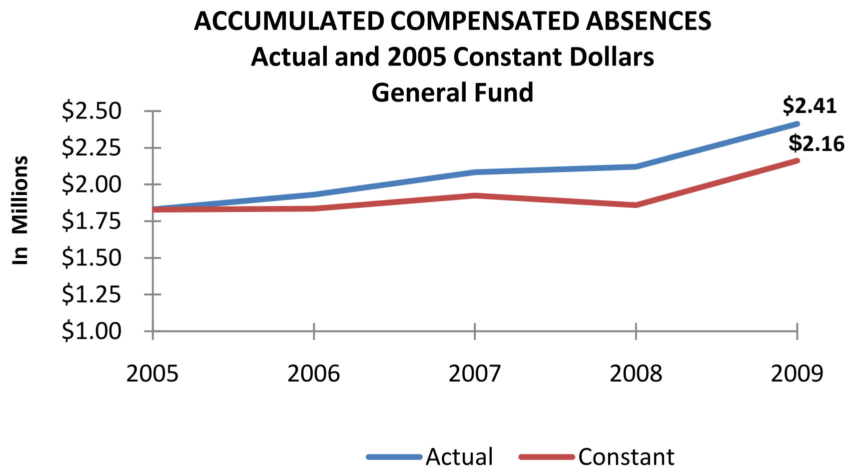
Debt Service



Finding: ***Favorable***. General Fund debt service receives a Favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last twelve years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating revenues. Standard & Poor's, an independent firm that issues ratings, 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

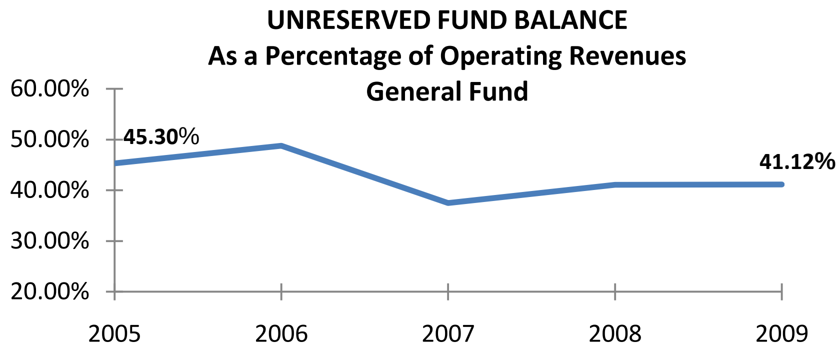


Finding: ***FAVORABLE***. This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. While the accumulated compensated absences have shown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

Comments: At June 30, 2009, the balance of the liability for compensated absences was $2.41 million consisting of $1.1 million for vacation, $1.0 million for sick leave, and $65,000 for compensatory time. This is an increase of $290,274 or 13.7% from the prior year's liability of $2.12 million. The increase is due to a Class and Compensation Study completed in FY 2008. In addition, accrual schedules were modified during the fiscal year, which resulted in the maximum accrual cap increasing for some employees.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2009, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $160,000 for the payment of accrued leave for terminated employees. As of June 30, 2009 the Accrued Leave Reserve balance was $686,180.

Fund Balance



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

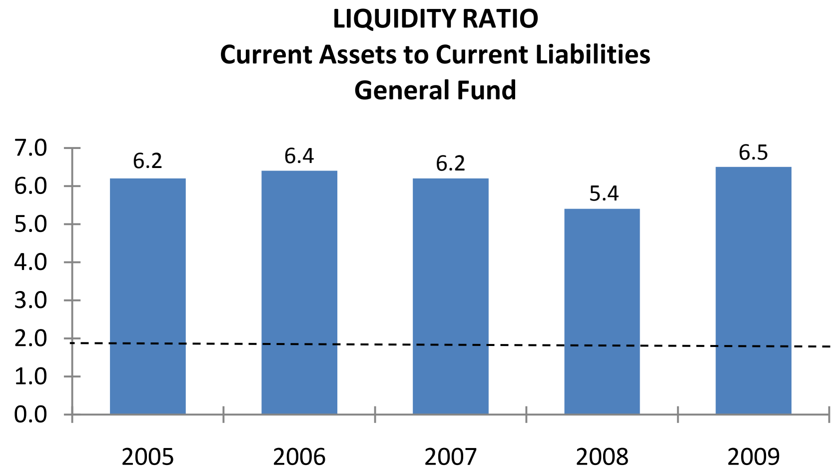
Comments: Unreserved fund balance excluding long term receivable reserves increased 2.0% in FY 2009 as a percentage of total revenues. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

Included within the total FY 2009 unreserved fund balances of $20.1 million are undesignated funds of $6.1 million and designated funds of $4.1 million for contingencies and $10.0 million designated for sustainability. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.

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

	Fiscal Year				
Project	***2005***	***2006***	***2007***	***2008***	***2009***
La Pata/Vista Hermosa Park			$ 7,650,000		
Bellota Settlement		$ 3,400,000		$ 1,650,000	$ 1,000,000
Golf Course Clubhouse			$ 1,029,020	$ 145,530	
Steed Park Renovation			$ 407,405		
Computer Room Improvements	$ 167,270				
La Pata & Del Rio Extention Study			$ 9,648		
Total General Fund Amounts Transferred to Projects	***$ 167,270***	***$ 3,400,000***	***$ 9,096,073***	***$ 1,795,530***	***$ 1,000,000***
General Fund Balance (Undesignated)	**$ 21,146,531**	**$ 18,296,959**	**$ 15,475,231**	**$ 16,533,750**	**$ 6,009,126**

Liquidity Ratio



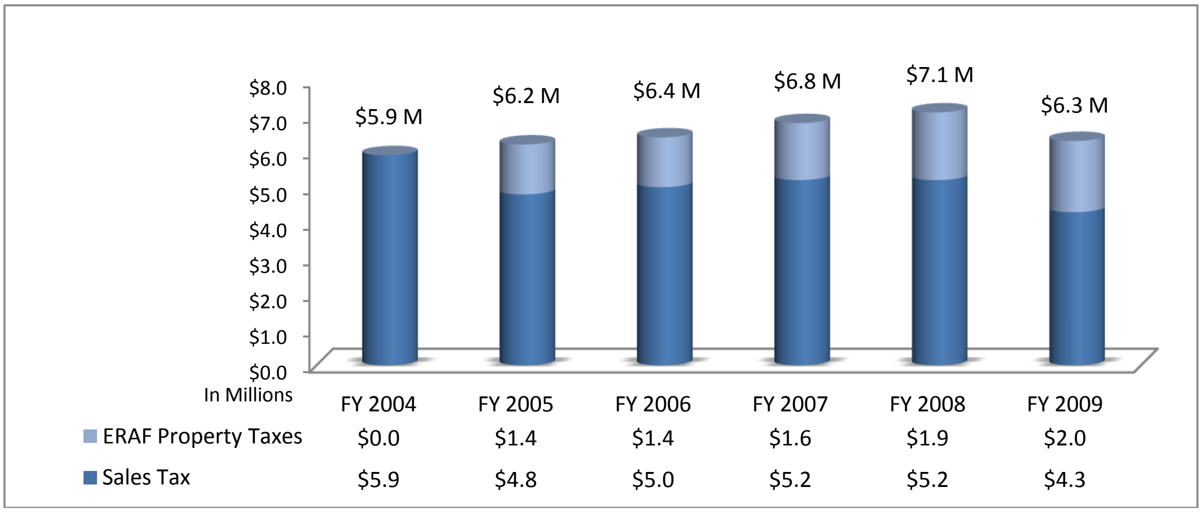
Finding: ***FAVORABLE***. In FY 2009, the City's liquidity ratio remains positive at 6.5:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 6.5:1 current asset to current liability ratio is considered excellent.

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

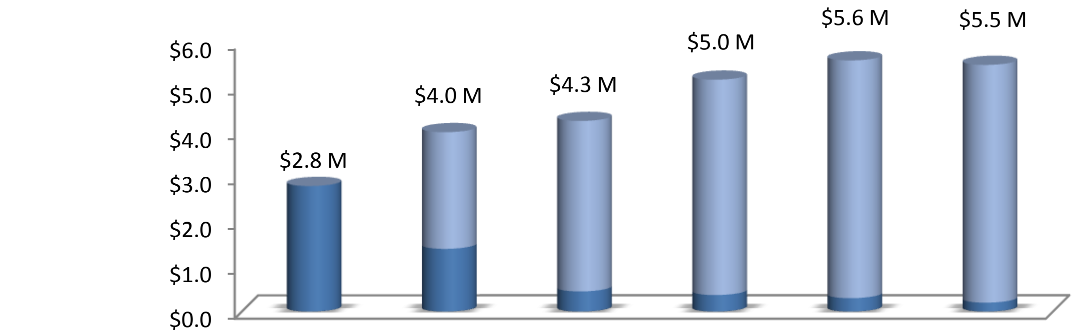
Attachment "A"

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

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



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

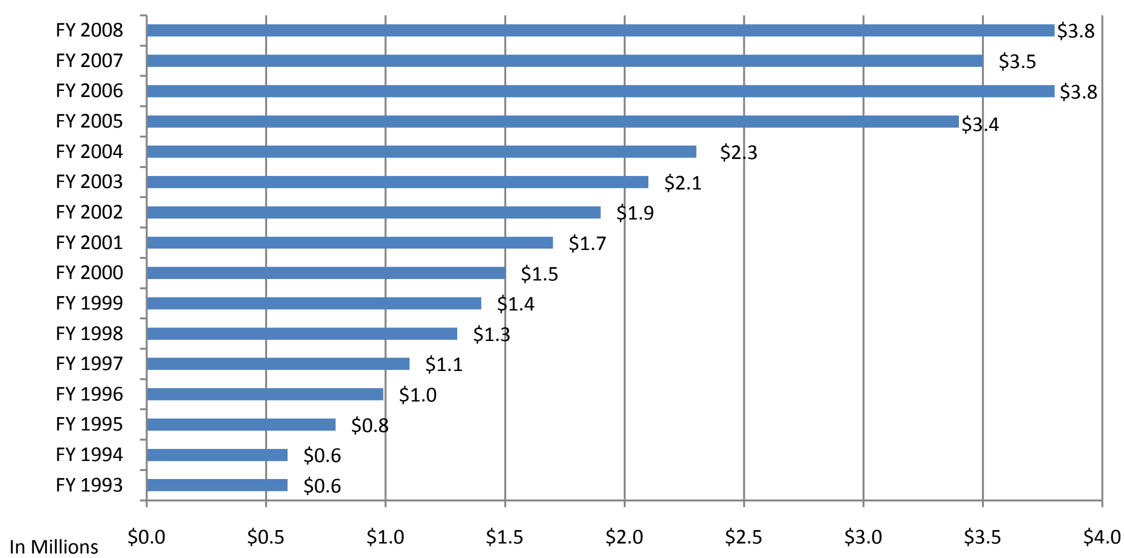


In Millions	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
ERAF Property Taxes	$0.0	$2.6	$3.8	$4.8	$5.3	$5.3
Motor Vehichle Fees	$2.8	$1.4	$0.5	$0.4	$0.3	$0.2

The ERAF Property Tax Shift

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

San Clemente Property Taxes Shifted to the State's ERAF Fund



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 2010 budget. The forecast showed that General Fund operating revenues were anticipated to decline in FY 2010 by 2.6% due to lower property and sales tax revenues. In response to declining revenues, operating expenditures were reduced. Four vacant or limited-term positions were not funded in the FY 2010 budget, overtime was reduced and development related contractual services were eliminated. Despite these cost containment measures, the budget forecast projected a positive operating position only in the first year of the forecast and a negative operating position in the remaining four years of the forecast period.

	2010	2011	2012	2013	2014
Operating receipts	$48.3	$48.3	$48.3	$48.6	$49.4
Operating disbursements	47.2	49.8	51.1	52.2	52.6
Projected surplus/deficit	$1.1	-$1.5	-$2.8	-$3.6	-$3.2

Although economists are saying that the recession is over, the lingering effects of the downturn in the economy will continue to have an effect on City revenues. For FY 2010, General Fund revenues are projected to be even lower than originally anticipated during development of the budget. Mid-year adjustments to sales, motor vehicle and transient occupancy taxes, development related permits and state reimbursed homeowners exemption fees are recommended and built into the 2010 forecast. The State budget takeaway of $2.2 million from the City's property tax revenues has also been built into the forecast.

Property tax revenues, which account for 50% of total General Fund revenues, are forecasted to decline by 5% in FY 2011 and 3.5% in FY 2012. For the first time since the passage of Proposition 13, the inflation factor on property tax base year values is negative. Property valuation will actually decline by 0.237 percent, which is estimated to be about $2.60 per $100,000 in valuation. In addition, 2009 single family home sales were 14% lower than the prior year and the median sales price declined by 17% to $640,000.

With the revised revenue projections, the 2010 five-year forecast shows a negative operating position in all five years as shown below:

	2011	2012	2013	2014	2015
Operating receipts	$46.9	$46.7	$47.3	$47.7	$48.4
Operating disbursements	48.8	50.3	51.6	52.9	54.5
Projected surplus/deficit	-$1.9	-$3.6	-$4.3	-$5.2	-$6.1

Background and Discussion

Annually, the City prepares a five-year financial forecast as a part of the Long Term Financial Plan. The forecast identifies the City's current and projected financial condition to determine whether funding levels are adequate and if projected expenditures can be sustained. The financial forecast, along with the Financial Trend Analysis, provides the foundation of the Long Term Financial Plan process.

The forecast is developed based upon guidelines provided by the Government Finance Officers Association (GFOA). The financial forecast allows the City to determine how current spending plans will impact future budgets, but the forecast presented during the Long Term Financial Plan is *not* the budget that will be presented to City Council for the 2011 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 2011 budget.

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

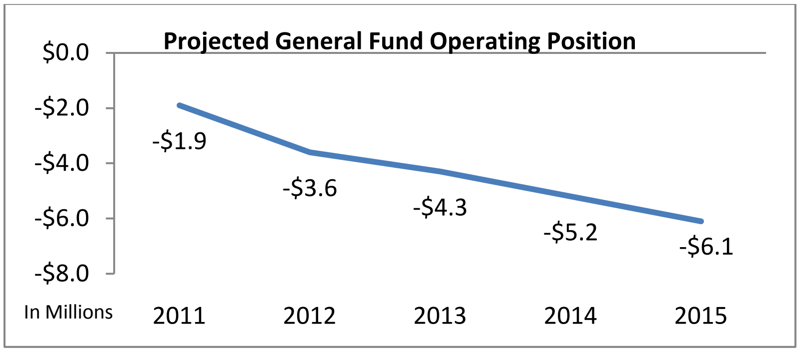
In prior forecasts, revenues and expenditures for the La Pata/Vista Hermosa Park were included in the base forecast. Due to the continued decline in the economy over the past year, the 2010 forecast ***excludes*** the park and shows only the financial challenge facing the City to maintain services in FY 2011 and beyond. Although the City is currently advertising for construction bids to build the park, City Council has not made a final decision on the project elements or construction phasing. If the project proceeds as scheduled, a half year of operation and maintenance costs would be included beginning in FY 2012. The additional operating costs increase the operating deficit to $3.9 million in FY 2012.

No revenue or expenditures for the Marblehead, North Beach or Target development projects have been included in the base forecast.

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Cal State Fullerton's College of Business and Economics, October 2009 Economic Forecast for Southern California and Orange County. As a result of the economic projections, the City's financial forecast allows for a much slower growth than previous forecasts. For example, the prior year's forecast projected no property tax growth in the first two years of the forecast and 1.3% growth per year for the remaining three years. The 2010 forecast assumes a 5% decline in property valuation growth in FY 2011, followed by an additional decline of 3.5% in FY 2012 when a wave of commercial/industrial properties in the County are anticipated to be reassessed through appeals.

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

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



2010 Forecast Summary* (in millions)

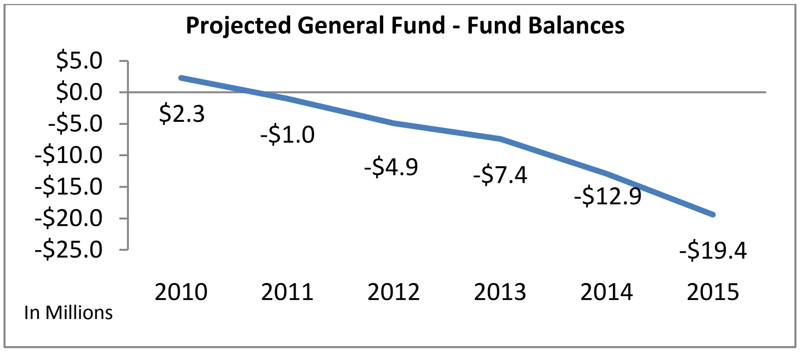
	2011	2012	2013	2014	2015
Operating receipts	$46.9	$46.7	$47.3	$47.7	$48.4
Operating disbursements	48.8	50.3	51.6	52.9	54.5
Projected surplus/deficit	-$1.9	-$3.6	-$4.3	-$5.2	-$6.1

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

Projected negative operating position is due to significant reductions in sales and transient occupancy taxes, service charges and motor vehicle fees in the base year of the forecast, as well as declines in property tax revenues in the first two years of the forecast period. Forecasted expenditures also show an increase due to the *assumptions* built into the forecast to maintain the current level of services. Operating expenditures must be reduced in order to maintain a positive operating position in all years of the forecast. Options for expenditure reductions or revenue enhancements will be presented in the Executive Summary section of the 2010 LTFP.

Fund balances – Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *undesignated* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. However, fund balance should be used for one-time expenditures only. The City's *designated* fund balances include the Sustainability Fund Balance Reserve and the Emergency Reserve. The Sustainability Fund Balance Reserve amounts to $10.0 million. The Emergency Reserve is funded at 8.75% of operating expenditures. Contributions to the reserve are scheduled to increase by 0.25% in FY 2011 and annual contributions are included in the forecast to maintain the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

The chart below illustrates projected undesignated fund balances in the General Fund for the 2010 Long Term Financial Plan forecast.



One-time expenditures and transfers plus a negative position in FY 2011 reduce fund balance from a positive $2.3 million to a negative $1.0 million. Fund balances decline due to the cumulative effect of annual deficits ranging from -$1.9 million in FY 2011 to -$6.1 million by FY 2015. Operating deficits are caused by projected operating expenditures that are higher than operating revenues in each year of the forecast.

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

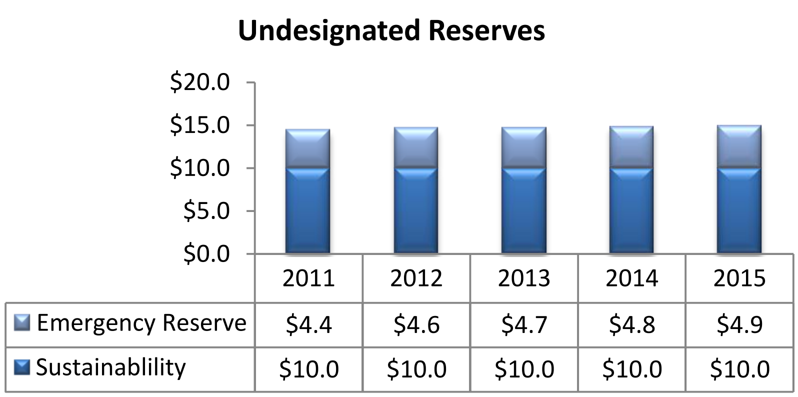
Designated Fund Balances

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

Emergency Reserve – One of the main financial goals of the City, as defined in the City's Fiscal Policy, is to ensure that adequate resources will be available to fund emergency reserves. Designated emergency reserve levels are maintained at the required 9% level beginning in FY 2011.

General Fund – Emergency & Sustainability Reserves (in millions)

	2011	2012	2013	2014	2015
Emergency	$4.4	$4.6	$4.7	$4.8	$4.9
Sustainability	10.0	10.0	10.0	10.0	10.0
Designated Reserves	$14.4	$14.6	$14.7	$14.8	$14.9



Forecast Assumptions

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

- Cost of living - For forecast purposes only, it is presumed that cost of living increases will be 90% of inflation beginning in FY 2011.
- New positions – No new city positions have been added.
- New Police contract positions – No new Police positions have been added.
- Fire Services costs –The first amendment to the Fire Services contract takes effect in 2010. The 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 3.25% in years one and two and by 4.27% in the remaining three years based upon OCFA's assumptions for the five year period.
- Negocio Building – An annual transfer of $510,000 is included in the forecast to support the maintenance and debt service costs of the 910 Calle Negocio building. City staff currently occupies the first floor and a portion of the second floor. The City is attempting to lease the vacant portion of the building, as well as the vacant 1030 Calle Negocio building (old fire station 59). If successful, rental revenue will be available to offset maintenance and debt service costs.
- Senior Center Operating Agreement – The agreement with South County Senior Services for the operation of the new Senior Center includes a $10,000 annual funding of a replacement reserve account for the replacement and repair of jointly used furniture, furnishings and equipment. This annual contribution has been included in the forecast beginning in 2011. The City and Senior Center are also jointly responsible for the maintenance and utilities for the building. This cost has not been included in the forecast but will be developed as part of the FY 2011 budget.
- 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 will reach the target reserve of 9% of operating expenditures in 2011. Contributions to maintain the 9% reserve are shown below:

Council Contingency & Emergency Reserve Contributions

	2011	2012	2013	2014	2015
Council Contingency	$100,000	$100,000	$100,000	$100,000	$100,000
Emergency Reserve	250,000	140,000	110,000	120,000	140,000
Total	$350,000	$240,000	$210,000	$220,000	$240,000

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

- PERS Unfunded liability - The current estimate of the City's unfunded liability for former fire and police personnel in the CalPERS retirement system is $4.9 million and requires annual contributions of $694,000 to eliminate the liability. The remaining term of the liability is ten years.
- State Property Tax Takeaway – The State's budget includes a one-time reduction of $2.2 million from the City's property taxes in FY 2010. This money is scheduled to be returned to the City, with interest, in FY 2013.
- General Plan Update - This two year project was partially funded in the 2010 budget and the remaining balance of the $1.4 million contract is included in FY 2011.
- Capital Improvement Program – Due to declining fund balances, the forecast does not include any funding for capital projects.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund for FY 2011 amounts to $712,900. The forecast assumes that the transfer will increase by 3% each year and continue throughout the forecast period.
- Forecast Projections - Based on future budgetary expectations, revenues have been projected to be 0.25% over budget and expenditures are projected to be 0.5% under budget.

Factors Not Included in the Forecast

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

Forecast Summary

Over the five year forecast period, City revenues are anticipated to grow by an annual average increase of 0.2% a year, compared to historical growth of 4.4%. Property taxes decline by $2.0 million in the first two years of the forecast and remain flat for the remaining three years of the five-year period. Sales taxes grow by $800,000 over the forecast period.

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

Expenditures are projected to increase at an average rate of 2.9%, as compared to 4.4% historical growth, due to projected increases in the police, fire and maintenance contracts.

Forecast Results

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

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

	2011	2012	2013	2014	2015
Beginning Fund Balance	2,253	-973	-4,932	-7,401	-12,943
Receipts					
Taxes	33,591	33,076	35,566	33,715	34,048
Licenses & Permits	1,750	1,780	1,655	1,683	1,713
Intergovernmental	468	466	470	475	480
Service Charges	3,935	4,025	4,232	4,351	4,476
Fines & Forfeitures	1,132	1,156	1,183	1,210	1,239
Interest & Rents	1,988	2,033	2,087	2,143	2,200
Interfund Transfers	4,046	4,186	4,292	4,134	4,245
Total Receipts	46,910	46,722	49,485	47,711	48,401
Disbursements					
Salaries	10,914	11,158	11,268	11,478	11,786
Benefits	5,096	5,307	5,450	5,581	5,732
Supplies	1,026	1,052	1,083	1,116	1,149
Contractual Services	24,351	25,161	26,015	26,762	27,669
Other Charges	1,187	1,312	1,351	1,392	1,433
Capital or One-Time	1,845	945	945	945	945
Interdepartmental Charges	3,285	3,400	3,503	3,608	3,716
Transfers & Debt	2,182	2,206	2,229	2,251	2,279
Total Disbursements	49,886	50,541	51,844	53,133	54,709
Emergency Reserve	250	140	110	120	140
Ending Fund Balance	-973	-4,932	-7,401	-12,943	-19,391

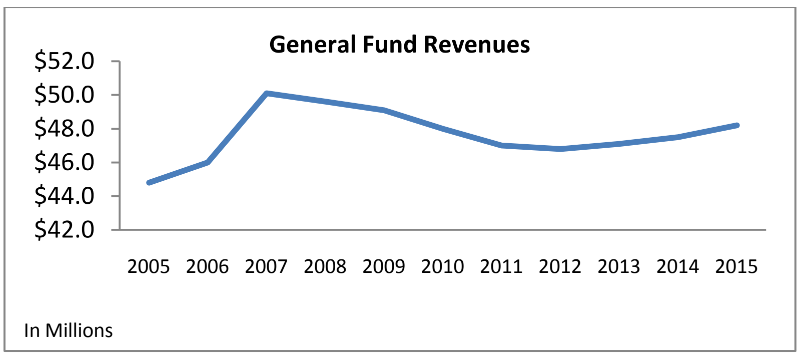
General Fund Revenue and Expenditure Growth
In each revenue and expenditure category an initial summary is provided with the following:

- Historic Growth Rate – The average annual rate of growth for the past five years from FY 2005 to FY 2009.
- 2010 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate

Historic Growth Rate	4.4%
2010 Projected Growth Rate	0.2%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 0.2% compared to a historical five year growth rate of 4.4%. The historic growth rate includes property tax increases averaging 16% per year. The forecast shows property taxes declining by 1.8%.



Property Taxes

Property Taxes

Historic Growth Rate	16.4%
2010 Projected Growth Rate	-1.8%

Property tax is the City's single largest revenue source and represents 50% of total General Fund operating revenue. The historic growth rate of 16.4% is attributed to new residential and commercial development in Forster Highlands, the Reserve and Talega, increases in property valuation and Educational Relief Augmentation Fund (ERAF) property taxes received from the State beginning in FY 2005.

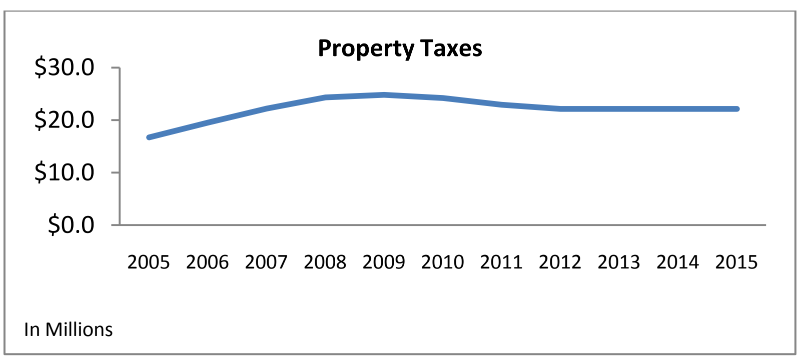
There are three major factors that contribute to year to year valuation changes. First, Proposition 13 allows the County Assessor to increase or decrease valuation by the net change in CPI growth, with a cap of 2% growth per year. Second, property valuation is increased or decreased annually by transfer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

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

For the current fiscal year, property valuation in San Clemente declined by 1.7%, which was slightly more than the decrease experienced countywide at -1.3%. Although the Assessor's Office granted a 2% increase in valuation to some properties, the increase was more than offset by reductions caused by properties with declining values. Going into FY 2011, property valuation is anticipated to decline by 5% due to a negative CPI adjustment, reduced home sales activity and reduced prices. The Assessor's Office has announced that the CPI adjustment will be a negative 0.237%, which will reduce most property taxes by $2.60 per $100,000 in valuation. The number of single family homes sold in 2009 dropped by 17% and the median price has also dropped by 14% to $640,000, which will contribute to the loss in assessed valuation beginning in FY 2011. For these reasons, property tax growth over the forecast period is expected to decline by 1.8%.

Commercial/industrial property appeals are anticipated to reduce valuations beginning in FY 2012. It is anticipated that vacant land in the county will be reassessed with 50% or more reductions. Since commercial/industrial property tax appeal reductions are "pooled", each of the cities and the county share in the total loss in valuation.

Property tax growth projections have been revised upon the advice of the City's property tax consultant, HdL, Coren and Cone, who has stated that negative growth from further property tax appeals, combined with lower sales prices on residential properties over the next two years will surpass the normal 2% valuation growth. For the remaining three years of the forecast, property taxes are anticipated to remain flat with little or no growth.



Sales Taxes

Sales Taxes	
Historic Growth Rate	1.6%
2010 Projected Growth Rate	2.7%

The City's sales tax average growth rate of 1.6% over the last five years is misleading, in that, sales tax actually grew by 5.25% in the first four years. However, sales taxes declined by 13% in FY 2009 due to negative adjustments of previously misallocated taxes. As an example, a solar energy company with an installation office in the San Clemente business park was allocated over $500,000 in sales tax revenues over a two year period. The State Board of Equalization (BOE) found that the allocation of sales taxes should have been reported from a sales office in Riverside County. The BOE reversed the allocation to San Clemente in FY 2009 which reduced sales tax receipts in the final year of the historic growth period.

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

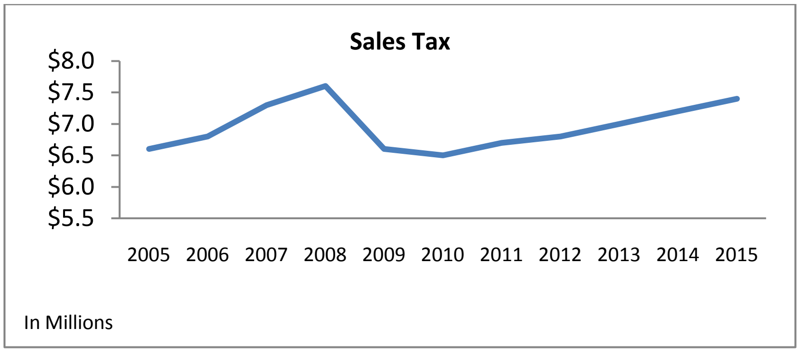
The State is required to send notification of the "true-up" adjustment prior to September 1 of each year and after San Clemente's budget has been approved. Because of the misallocations of sales taxes over a two year period, San Clemente's "true-up" adjustment was -$514,000. This reduced the City's "true-up"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

In total, sales tax projections in the base year of the forecast (FY 2010) will be reduced by $600,000 due to the lower "true-up" adjustment and overall declines in the City's sales tax base. Although sales taxes were originally projected to decline by 4% during budget development, actual sales tax receipts from the City's core sales tax producers are now projected to decline by 10%. With consumers cutting back on non essential spending, the City's restaurants and retail establishments have suffered more than expected. Also, with gasoline prices $1.00 per gallon lower than a year ago, sales taxes revenues from this category have been reduced by 23%.

Fortunately the City is not heavily dependent on automobile sales or large retail facilities that create large revenue swings when the economy declines. However, the City's Public Safety sales taxes are also declining because the basis of allocation is countrywide sales tax production.

Over the forecast period, sales taxes are projected to grow by 2.7% as consumer confidence grows and the economy recovers.

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

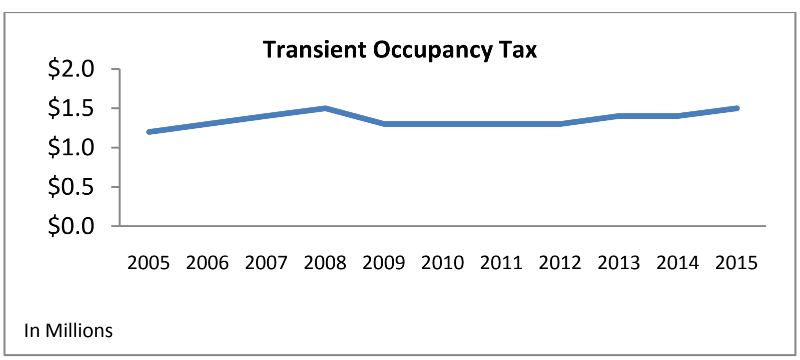


Transient Occupancy Tax

Transient Occupancy Tax	
Historic Growth Rate	4.8%
2010 Projected Growth Rate	2.9%

Transient Occupancy Tax is an added charge to room rates at local hotels. San Clemente's rate is 10% per occupancy. It is a revenue source affected by swings in the economy and, for San Clemente, the weather. TOT activity over the first five months of the fiscal year is 7.5% below actual collections in FY 2009 and a mid-year adjustment of $165,000 is recommended for FY 2010 TOT revenues. Over the forecast period, the average growth is projected at 2.9% as the economy recovers. In addition, a formal reporting and collection program for vacation rental properties will also be launched in 2010 which will also contribute to an increase in TOT revenues.

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



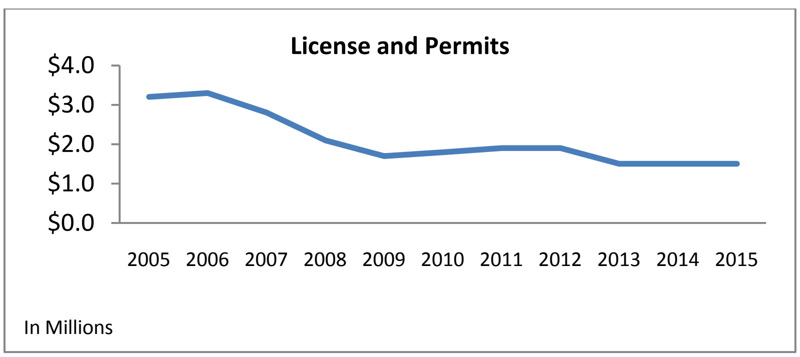
License and Permits

License and Permits	
Historic Growth Rate	-16.4%
2010 Projected Growth Rate	0%

License and permit revenue declined over the historic period by 16.4%. Revenue peaked in FY 2004 at $4.4 million from development of Talega and Reserve projects.

The license and permits category consists of business license, construction permits and miscellaneous permits such as alarm permits. Construction Permits are anticipated to decline by 3.1% during the forecast period. This decline begins in the base year of the forecast (FY 2010) with a recommended budget reduction of $100,000 in development permit revenue. Construction permit activity is projected to remain flat over the first three years of the forecast period, with a slight decline in FY 2013. Offsetting the decline in construction permits, business licenses and miscellaneous permits are anticipated to increase by 2.9%. In total, the 2010 projected growth rate for license and permits averages 0%.

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



Grants and Subventions

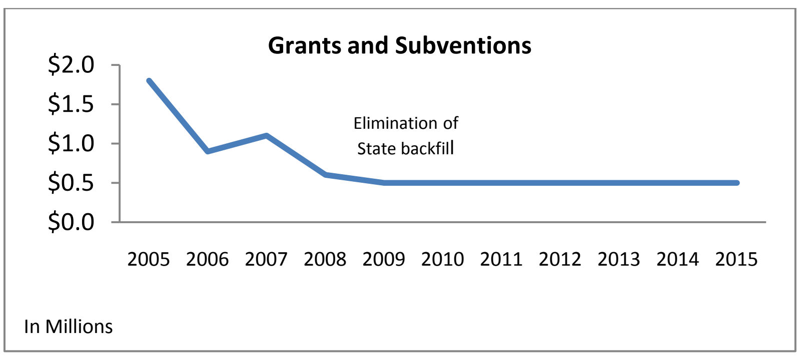
Grants and Subventions	
Historic Growth Rate	-24.6%
2010 Projected Growth Rate	-1.8%

Grant and subvention revenues have declined by 24.6% over the historic period due to the reduction in motor vehicle fees beginning in FY 2005. Motor vehicle fees, which made up the majority of the revenue in this category, were reduced when the State reduced the rate from 2.0% to 0.67% of valuation. The State now provides a "dollar for dollar" amount of the State's ERAF share of property taxes instead of motor vehicle fees. (See Trend issue paper for more detail on the ERAF property taxes that are received in-lieu of motor vehicle fees.)

The forecast growth rate of -1.8% is a result of lower motor vehicle fees and a reduction in homeowners subvention fees from the State.

Since FY 2005, the State budget has included increases to the administrative charges for the collection and distribution of motor vehicle fees. The administrative charges are allocated based on the amount of revenue that would have been received from motor vehicle fees charged at the full two percent of market value for a vehicle. The charges are set in the annual budget and apportioned monthly without regard for actual motor vehicle fees collected. As a result, administrative fees have grown from 50% of revenue collected to 73% in FY 2009. And with motor vehicle fee collections declining, the total amount of revenue to the cities has also dropped. For FY 2010, a $100,000 reduction in motor vehicle fees is recommended based on actual amounts received in FY 2009.

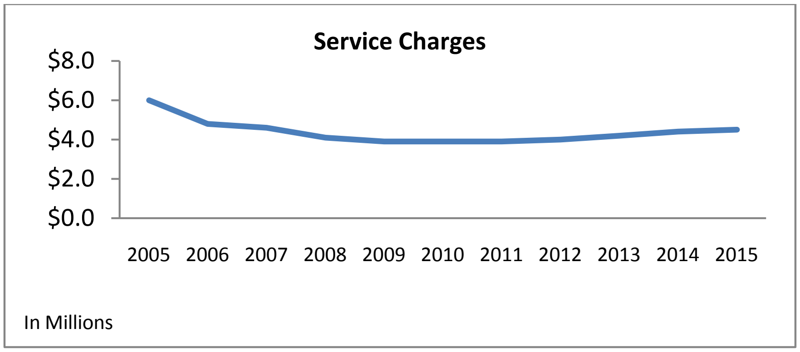
Another outcome of the downturn in the housing market is an unexpected reduction in the amount of homeowner subvention money from the State. The State exempts the first $7,000 in property taxes to property owners that occupy the homes. Cities are reimbursed for this loss in property tax income from the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



Service Charges

Service Charges	
Historic Growth Rate	-6.5%
2010 Projected Growth Rate	3.1%

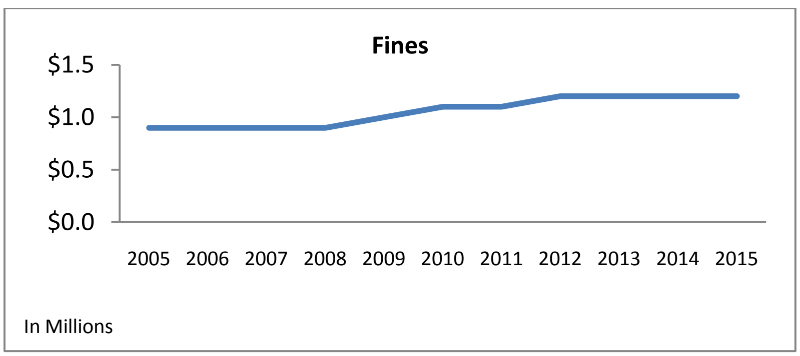
Service Charges are projected to increase by 3.1% over the forecast period. This category includes a variety of fees charged for specific services provided by the City including development fees, recreation program fees and public safety fees. Historically, service charges have declined 6.5% due to a decline in construction activity, which peaked in FY 2005. The cost for service study performed in 2008 for planning, building and engineering charges includes an annual cost of living increase in services charges to keep up with the cost of providing services.



Fines

Fines	
Historic Growth Rate	3.7%
2010 Projected Growth Rate	2.3%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms and court fines. The 2.3% projected growth rate is based on a recent increase in the parking fine structure. Parking citation fines were increased by $5.00 per citation, but the additional revenue generated will be used for statewide courthouse construction and renovation projects. Future years of the forecast are increased by projected cost of living increases.

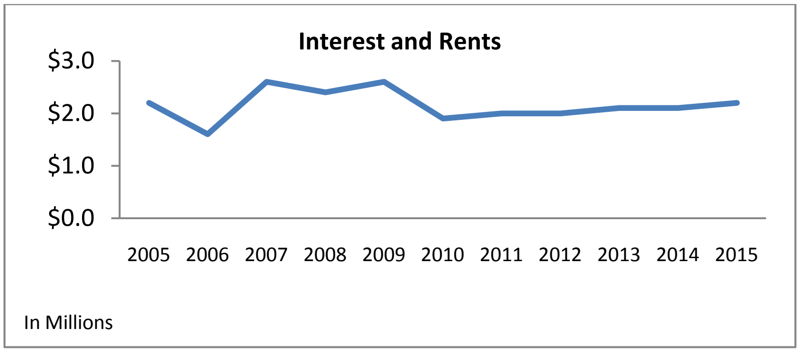


Interest and Rents

Interest and Rents	
Historic Growth Rate	60.4%
2010 Projected Growth Rate	2.6%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. The unrealized loss or gain on the market value of the City's investment portfolio resulted in a historical growth rate of 60.4%. Although the City did not actually realize a loss or gain, Government Accounting Standards Board (GASB) guidelines require the City to "book" the gain or loss on an annual basis.

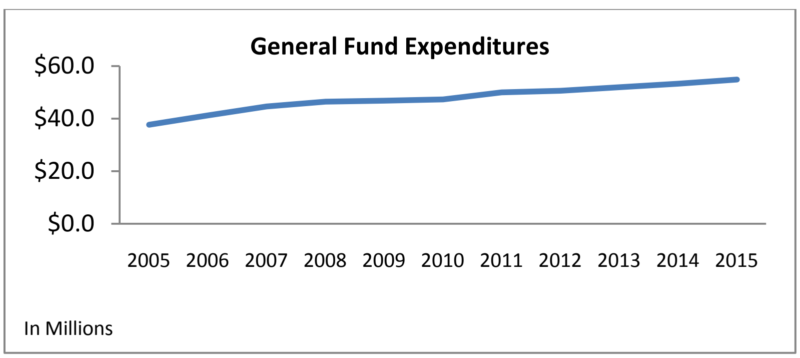
The 2010 projected growth rate will increase by 2.6% due to predicted inflation increases.



General Fund Expenditures

General Fund Expenditures	
Historic Growth Rate	4.4%
2010 Projected Growth Rate	2.9%

General Fund expenditures are anticipated to increase by 2.9% during the forecast period, compared to a 4.4% historical growth rate. One-time transfers and projects, which can result in major fluctuations in the rate, have been removed. Expenditures have been forecasted to increase primarily by inflation.



Salaries and Wages

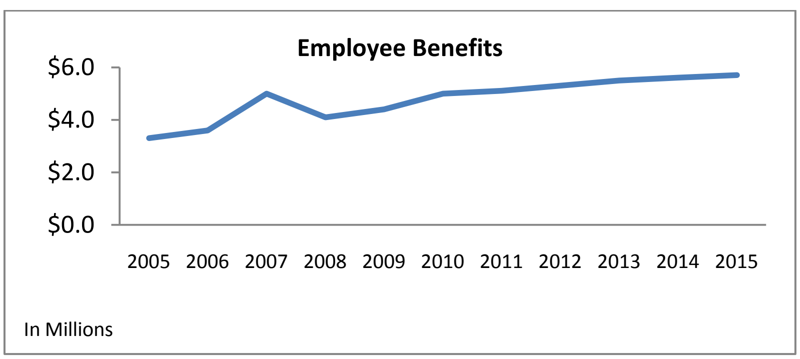
Salaries and Wages	
Historic Growth Rate	8.1%
2010 Projected Growth Rate	1.9%

Salaries and Wages are projected to grow 1.9% over the forecast period. Cost of living increases are included beginning in 2011. The historic growth rate of 8.1% reflects the addition of new positions and cost of living increases that have been granted over the period. Positions that have been frozen in the FY 2010 base year have not been added back to the forecast.

Employee Benefits

Employee Benefits	
Historic Growth Rate	8.1%
2010 Projected Growth Rate	3.0%

Employee benefits grew 8.1% due to added positions, salary driven increases in benefits (such as social security and retirement) and increases in the employee medical cap granted in FY 2007. The projected forecast rate of 3.0% has been increased by inflation.



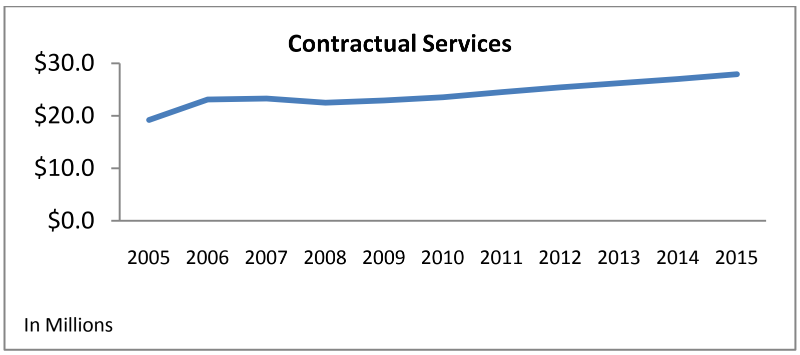
Contractual Services

Contractual Services	
Historic Growth Rate	2.8%
2010 Projected Growth Rate	3.3%

The contractual services category is anticipated to increase 3.5%, 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.

The Orange County Sheriff's Department contract with the City has been increased by inflation throughout the forecast. Adjustments to the current year's contract as a result of budget cuts on the OCSD management level are unknown at this time, but are expected to lower the overhead rate to the contract in FY 2011. The sworn deputies union has been without a contract since October 2009 and they are currently under negotiation with the Board of Supervisors. Any wage or benefit agreements with the union can be retroactively passed through to the City.

The Orange County Fire Authority (OCFA) contract projection includes a 3.25% increase in FY 2011 and FY 2012, followed by a 4.27% increase in the remaining three years of the forecast. The contract growth estimates were provided by OCFA. Annual contributions to the capital maintenance and vehicle replacement reserves averaging $182,000 per year are also included in the forecast. The contract costs are capped at a maximum of 4.5% per year, but contract costs can only be increased by the actual increase in OCFA's operating expenditures.

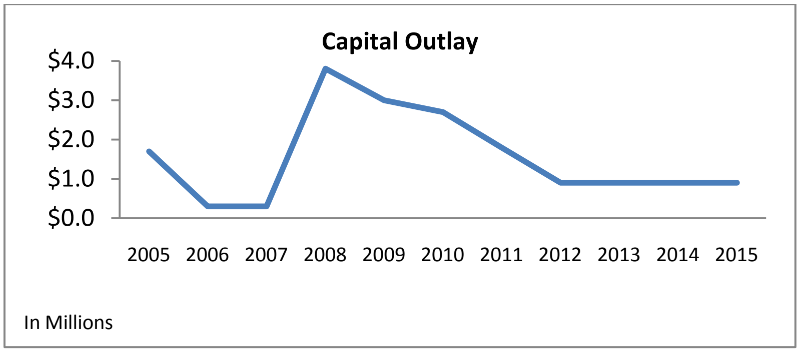


Capital Outlay

Capital Outlay	
Historic Growth Rate	-247.5%
2010 Projected Growth Rate	-16.3%

Capital outlay, which includes the projects currently scheduled in the City's five-year Capital Improvement Plan, is projected to decline by 16.3%. The forecast includes $950,000 for major **street maintenance, slurry seal and sidewalk improvement projects. Additional funding for** capital projects has been removed from the forecast due to negative fund balances throughout the forecast period.

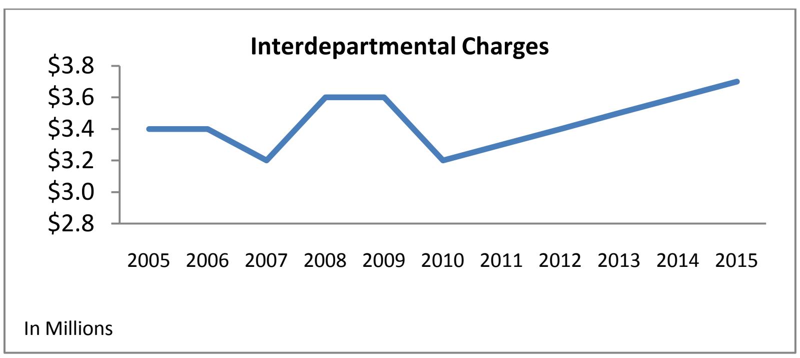
The historic growth rate of -247.5% includes two years in which actual capital outlay expenditures averaged $300,000.



Interdepartmental Charges

Interdepartmental Charges	
Historic Growth Rate	4.9%
2010 Projected Growth Rate	3.1%

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 2010 LTFP Financial Forecast shows deficits and negative fund balances beginning in 2011. Contained with the Executive Summary section of the LTFP, options to improve operating position and fund balances will be addressed to maintain a positive operating position in all years of the forecast.

Objective
To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

Background
The General Fund, the primary governmental fund of the City, maintains an emergency reserve to protect essential service programs during periods of economic downturn and a reserve for an Employee Computer Purchase Program. The Accrued Leave Reserve, Capital Equipment Replacement Reserve and Facilities Maintenance Capital Asset Reserve comprise the Reserve Fund. These reserves are supported by charges to other City departments and by transfers from the General Fund. The General Liability Self-Insurance Fund, Workers' Compensation Fund, and Fleet Funds are classified as Internal Service Funds. These funds charge other City departments for services they provide and are designed to fully recover the costs of providing the services. Additionally, these internal service funds should not carry excess fund balances beyond what is necessary to maintain adequate reserves and recover operating costs.

The Water, Sewer, Storm Drain, Solid Waste and Golf Funds maintain an emergency reserve per Fiscal Policy similar to the General Fund to protect essential service programs during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for the maintenance and replacement of assets.

Executive Summary
Sound accounting and budgeting practices require that each fund maintain a positive fund balance and the appropriate level of reserve as dictated by the City's fiscal policy. The City's reserves are reviewed annually as part of the LTFP process. The City's Fiscal Policy defines the types and criteria for funding levels for each of the City's reserves based on guidelines of the Insurance Institute of America, industry practice and GFOA recommendations.

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

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

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

Reserve Analysis

The following table summarizes reserve type, the restricted status, and the estimated balances of reserves as of June 30, 2010.

Reserves	Restricted (Y-Yes/ N-No)	Funding Source	Estimated Reserve Balances at June 30, 2010	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Y	General Fund	$ 4,168,640	Yes
Water Operating Fund – Emergency Reserve	Y	Water Fund	$ 627,000	Yes
Sewer Operating Fund – Emergency Reserve	Y	Sewer Fund	$ 619,000	Yes
Storm Drain Operating Fund – Emergency Reserve	Y	Storm Drain Fund	$ 86,000	Yes
Solid Waste Fund – Emergency Reserve	Y	Solid Waste Fund	$ 14,000	Yes
Golf Course Operating Fund – Emergency Reserve	N	Golf Course Fund	$ 195,000	Yes
Miscellaneous General Fund Reserves:				
Sustainability Reserve	N	General Fund	$ 10,000,000	Yes
Employee Computer Purchase Program	N	General Fund	$ -0-	Yes[1]
Accrued Leave	N	General Fund	$ 600,000	Yes
Self-Insurance Reserves:				
General Liability Self-Insurance	Y	All Funds	$ 500,000	Yes
Workers' Compensation	N	All Funds	$ 1,460,000	Yes
Capital Replacement Reserves:				
Fleet Replacement	N	All Funds	$ 3,440,000	Yes
Capital Equipment Replacement	N	All Funds	$ 965,000	Yes
Facilities Maintenance Capital Asset	N	General Fund	$ 898,000	Yes
Park Asset Replacement	N	All Funds	$ 280,000	N/A[2]
Infrastructure Reserves:				
Water Fund Depreciation	Y	Water Fund	$ 7,580,000	No[3]
Sewer Fund Depreciation	Y	Sewer Fund	$ 5,487,000	No[4]
Storm Drain Fund Depreciation	Y	Storm Drain Fund	$ 1,980,000	No[5]
Golf Course Fund Depreciation	N	Golf Course Fund	$ 1,526,000	Yes
Golf Capital Improvement Reserve	N	Golf Course Fund	$ 9,900	Yes
Total			**$ 40,435,540**	

[1] This reserve has been discontinued as part of the reserve analysis.
[2] This reserve is under funded by $920,000. Refer to Capital Replacement Reserve section.
[3] This reserve is under funded by $2.3 million. Refer to Infrastructure Reserves section.
[4] This reserve is under funded by $0.1 million. Refer to Infrastructure Reserves section.
[5] This reserve is under funded by $1.5 million. Refer to Infrastructure Reserves section.

Reserve Analysis:

The following guidelines have been used to analyze each fund or reserve:

- City Council Fiscal Policy
- Assessment of the current situation and conclusions
- Recommendations
- Fiscal impact of recommendations

Each reserve listed is addressed in more detail in the following section along with a detailed explanation of the recommendations for FY 2011. A summary of the recommendations by reserve section are as follows:

- ***Emergency Reserves*** –
  - Fund the General Fund Emergency Reserve to equal 9% of operating expenditures.
  - Maintain the levels at 8% of Enterprise operating expenses.
- ***Miscellaneous General Fund Reserves*** –
  - Maintain the Sustainability Fund Balance Reserve at $10 million.
  - Transfer $80,000 to the Accrued Leave Reserve from the General Fund.
- ***Self-Insurance Reserves*** –
  - Reduce General Liability charges by $100,000
  - Reduce Workers Compensation rates by 6% (Charges listed in Attachment A)
- ***Capital Replacement Reserves*** –
  - Maintain charges to fund reserves at the current levels.
- ***Infrastructure Reserves*** –
  - Maintain charges to fund reserves at the current levels.
  - Transfer $268,000 from the Golf Depreciation Reserve to the Golf Improvement Reserve.

Emergency Reserves

General Fund - Emergency Reserve

City Council Fiscal Policy: Maintain an emergency reserve of no less than 9% of General Fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn, lasting two years or more, or other unforeseen catastrophic costs. This reserve is to be accessed only upon the occurrence of serious conditions warranting emergency measures, and requires City Council approval prior to expenditure.

Assessment of the current situation/conclusions: The Government Finance Officer's Association (GFOA) recommends a level equivalent to one month's operating expenditures, or 8.33%. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10%.

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

The following chart summarizes the projected balance for the emergency reserve, the recommended contribution includes $120,000 to increase the reserve level by 0.25% and $130,000 to reflect expenditure level changes in FY 2011 for a total contribution of $250,000.

	Projected Balance June 30, 2010	FY 2011 Recommended Contribution	Percentage June 30, 2011
General Fund	$4,168,640	$ 250,000	9%

Recommendation and Fiscal Impact: None

Other Operating Funds - Emergency Reserves

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 8% of operating expenses. The primary purpose of these reserves is to set aside funds to provide for unanticipated or emergency expenses that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The following chart summarizes the projected balances for each Enterprise Fund emergency reserve, the recommended contribution (if required) for FY 2011, and the projected percentage reached at the end of FY 2011.

	Projected Balance June 30, 2010	FY 2011 Recommended Contribution	Percentage June 30, 2011
Water Fund	$ 627,000	$ -0-	8.00%
Sewer Fund	619,000	$ 10,000	8.00%
Storm Drain Fund	86,000	$ 13,000	8.00%
Solid Waste Fund	14,000	$ 1,000	8.00%
Golf Course Fund	195,000	$ -0-	8.00%

Recommendation and Fiscal Impact: Budget sufficient funds for FY 2011 in order to maintain the emergency reserve at 8% of operating expense levels.

Miscellaneous General Fund Reserves

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

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

Recommendation and Fiscal Impact: None.

Employee Computer Purchase Program Reserve
City Council Fiscal Policy: Maintain a reserve for the purpose of providing no-interest loans to employees for the purpose of acquiring or enhancing the employee's personal computer system. The reserve will be reviewed annually to determine if the reserve balance is adequate to cover estimate loan balances.

Assessment of the current situation/conclusions: This reserve will be eliminated. Currently, most employees use computers in their daily work routine and based on the current knowledge it is felt that this program is no longer required.

Recommendation and Fiscal Impact: Reduce the reserve amount level to zero and transfer reserve funds that are available to undesignated fund balance.

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)	*$ 67,000*

The projected ending balance for the Accrued Leave Reserve as of June 30, 2010 is $600,000. At June 30, 2009, the total General Fund liability for accrued leave was $1,385,000. Of this amount, $834,000 represents the liability for employees who will be age 55 or older by June 30,

2011. Based on the projected ending balance and anticipated payouts transfer an amount of $80,000.

Recommendation and Fiscal Impact: Transfer $80,000 from the General Fund to the Accrued Leave Reserve for FY 2011 ($40,000 was the FY 2010 transfer).

Self-Insurance Reserves

General Liability Self-Insurance Fund

City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self-insurance retention (SIR). Additionally, this fund will be evaluated on an annual basis to document those claims which are not covered by the insurance pool to which the City belongs, and reserve an additional appropriate amount to pay for such uncovered claims.

Assessment of the current situation/conclusions: The City's SIR is currently $30,000, which requires a reserve in this fund of $90,000 (three times the SIR). The projected year-end fund balance in the General Liability Self-Insurance Fund for FY 2010 is $500,000. This balance includes $90,000 SIR reserve and $25,000 for claims prior to the conversion to CJPIA.

Several types of occurrences are excluded from the liability coverage through membership within the California joint Powers insurance Authority (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 other funds to maintain the reserve level are based on two factors. The first factor (25%) is a five-year average of historical claims to account for risk related to each fund. The second factor (75%) is based on prior year budgeted expenditures as a percentage of total budgeted expenditures. This methodology for allocation of charges is based on standards recognized by the Insurance Institute of America regarding essentials of risk financing.

Recommendation and Fiscal Impact: Reduce the annual City-wide General Liability charge by $100,000 to $1.2 million for FY 2011. The General Liability Self-Insurance Fund basic SIR reserve requirement of $90,000 is fully funded.

Workers' Compensation Fund

City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self-insurance retention (SIR). Additionally, this fund will be evaluated on an annual basis to document those claims which are not covered, and reserve an additional appropriate amount to pay for such uncovered claims.

Assessment of the current situation/conclusions: The City is self-insured for Workers' Compensation coverage. The California Public Entity Insurance Authority (CPEIA) provides coverage for Workers' Compensation claims in excess of $300,000, which represents the City's Self-Insurance Retention (SIR) amount.

The City's fiscal policy requires a reserve equal to $900,000, plus the estimated total for the "tail" claims of $205,000, for a total reserve requirement of $1,105,000. The estimated reserve balance at June 30, 2010 totals $1,460,000 and is fully funded. The reserve has accumulated excess reserves due to lower than budgeted claims. To avoid the continued accumulation of excess reserves in FY 2011, the following step is recommended:

- Implement a 6% reduction in workers compensation rates to obtain a more neutral operating position (total reduction of $20,000 a year)

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

Recommendations and Fiscal Impact: Reduce the existing worker's compensation rates by 6% as outlined in Attachment A. Rates charged to all funds will be sufficient to pay for all premium expenses and administrative expenses incurred by the Workers' Compensation Fund and maintain the appropriate reserve level.

Capital Replacement Reserves

Fleet Replacement Reserve Fund

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

Assessment of the current situation/conclusions: The reserve is reviewed annually to verify if funding is adequate to cover projected replacement costs for the next five years. The City's fleet is valued at $8.6 million. $3.1 million is scheduled for replacement during the next five years,$2.3 million is scheduled for replacement during the next six to ten years and $3.2 million is scheduled for replacement after ten years. This reserve is fully funded with a projected ending balance of $3.4 million at June 30, 2010.

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

Capital Equipment Replacement Reserve

City Council Fiscal Policy: Maintain a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.

Assessment of the current situation/conclusions: The projected fund balance at June 30, 2010 is $965,000, and is fully funded for the projected five-year costs. As General Fund fixed assets are replaced, the capital expenditures are made from this fund. The replacement costs for these assets are charged to the benefiting General Fund program and transferred back to the Capital Equipment Replacement Reserve, thus accumulating funds to pay for future replacement of these assets.

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

Facilities Maintenance Capital Asset Reserve

City Council Fiscal Policy: Maintain an account to cover the costs associated with the maintenance of all General Fund City facilities. The reserve should be maintained at a level at least equal to the projected five-year facilities maintenance costs.

Assessment of the current situation/conclusions: The reserve is reviewed annually to verify if funding is adequate to cover projected replacement and maintenance costs for the next five years. The City's estimated facilities maintenance costs for the next five years amount to $467,000. The reserve balance is projected to be $898,000 as of the end of FY 2010.

Recommendation and Fiscal Impact: Maintain contributions to the facilities maintenance capital asset reserve 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 for the accumulation of funds for replacement of park assets in the future.

Assessment of the current situation/conclusions: As part of the 2008 LTFP, an issue paper was prepared to present alternatives to funding all or a portion of Park assets. The City currently pays for parks on a "pay as you go" basis.. An analysis of park assets was performed by City staff during FY 2009. This assessment took into consideration the following assets – buildings, fencing, lighting, playground and sports equipment, benches and bleachers, sports surfaces and other miscellaneous.

Approximately $45 million in assets have been identified as a part of the park asset review. Buildings, fencing, lights, playground equipment, and benches and bleachers estimated value amounts total $28.3 million This estimated value does not include parking lots, access roads, sidewalks, and turf.

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

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

The required annual contribution of $1.1 million based on the above table is not economically feasible at this time.

In order to set an initial funding requirement staff examined the prior year capital budget related to park projects and determined there was approximately $1.2 million of project costs over a five year period. Due to current economic climate staff recommends achieving an initial funding balance of $1.2 million over time as funds become available through one time revenues. Once the initial $1.2 million is funded, replacement capital projects could be performed from this reserve and annual replacement charges would occur.

The City in FY 2010 placed $276,000 into a park asset reserve from a one-time refund from the Workers Compensation Fund. This amount will continue to accrue interest and is projected to end FY 2010 with $280,000 in the park asset reserve. Based on this initial funding requirement, the reserve is currently under funded by $920,000.

Recommendation and Fiscal Impact: Modify the Fiscal Policy to the following; "The City will establish a Park Asset Replacement Reserve with a target balance of $1.2 million for 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." Staff will recommend contributions to the Park Asset Reserve based on future LTFP Reserve Paper assessments.

Infrastructure Reserves

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

Recommendations from the 2006 LTFP were approved to address the long-term funding requirements for the City's Water, Sewer, and Storm Drain infrastructure. At that time, a commitment was made to build these reserves due to the significant funding gaps identified. Achieving fully funded reserves will take multiple fiscal years and may impact Water and Sewer rates.

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

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

Water Depreciation Reserves

Assessment of the current situation/conclusions: The water infrastructure reserves have been under funded for a long period of time. In previous years, Council took steps to make additional contributions based on the asset model to narrow this significant funding gap. The funding gap has been narrowed to 75% of the targeted amount .

The projected ending depreciation reserve balance at June 30, 2010 is $7.6 million. The three-year capital costs total $9.9 million. Therefore, the Depreciation Reserve is under funded by $2.3 million.

The Water Operating Fund contributes $1.0 million based on depreciation and $2.0 million through an additional contribution required based on the asset model implemented in FY 2006. The City is making progress toward funding three years worth of capital activity in conjunction with the interest earned on the reserve amounts held. The depreciation funding amounts are based on the estimated useful life of the capital assets. The asset model contribution amount was identified to address past underfunding, major maintenance costs and set aside funds for assets that are not owned by the City, such as joint agency assets.

Recommendation and Fiscal Impact of Recommendations: Maintain annual depreciation fund charges that will be charged to the Water Operating fund to achieve three years worth of future capital projects. The FY 2011 budget will contain normal reserve contributions of $3.0 million.

Sewer Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2010 is $5.5 million. The projected replacement costs for the next three-year period total $5.6 million. Therefore, the Depreciation Reserve is currently under funded by $0.1 million.

The Sewer Operating Fund currently contributes $2.4 million based on depreciation and $0.3 million to set aside funds for assets that are not owned by the City. The depreciation funding amount is based on the estimated useful life of the capital assets. The City continues to make progress toward the funding capital activity based on these contributions.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to achieve three years worth of future capital projects. The FY 2011 budget will contain normal reserve contributions of $2.7 million.

Storm Drain Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2010 is $2.0 million. The projected replacement costs for the next three-year period totals $3.5 million. Therefore, the Depreciation Reserve is currently under funded by $1.5 million.

The Storm Drain Depreciation Fund currently contributes a depreciation funding amount of $750,000 and an additional reserve contribution of $60,000 for a total contribution of $810,000 in FY 2011. The City is continuing to make progress toward the funding of three years worth of capital activity based on these contributions, the interest earned on the reserve, and contributions received from other funds. The depreciation funding amount is based on the estimated useful life of the capital assets. The additional contribution is to fund past underfunding of the reserve.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Storm Drain Depreciation Operating fund to achieve three years worth of future capital projects. The FY 2011 budget will contain normal reserve contributions of $810,000.

Golf Course Depreciation Reserve
Assessment of the current situation/conclusions: The projected ending balance at June 30, 2010 is $1.5 million. Projected capital expenses for the next three years total $350,000. Improvements at the Golf Course can have lives of fifteen years or longer, such as the $1.7 million Golf Course Improvements Project completed in FY 2003. Staff recognized the need to separate these types of longer term improvements and concluded that the depreciation on these assets would be better accounted for in the Golf Improvement Reserve. The depreciation reserve would then be utilized for setting aside amounts for buildings, and machinery and equipment replacements.

Recommendation and Fiscal Impact: Recommend that a one-time transfer of $268,000 from the Golf Deprecation Reserve to the Golf Improvement Reserve be done and transfer longer term capital assets into the Golf Capital Improvement Reserve.

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

Assessment of the current situation/conclusions: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements budgeted in the Golf Course Fund. However, this Improvement Fund has no long-term funding mechanism and all depreciation reserves were placed in the Golf Depreciation Reserve. Based on a review of the Golf Depreciation Reserves during the year ended June 30, 2009, it was determined that amounts related to golf course improvements should be placed into the Improvement Reserve. In addition, annual depreciation reserves of $132,000 related to green and tee reconstruction, fencing and other miscellaneous golf improvements should be placed annually into the Golf Improvement Reserve. The Golf Capital Improvement Reserve is projected to have an ending balance of $9,900 as of June 30, 2010.

Recommendation and Fiscal Impact: Recommend a one-time transfer of $268,000 from the Golf Depreciation Reserve to the Golf Improvement Reserve and record annual depreciation reserves related to past Golf Improvements to the Golf Improvement Reserve.

ATTACHMENT A – Insurance Charges

General Liability charges
The following table shows the calculations for charges to other funds for FY 2011:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2011	Total Charge for General Liability FY 2010
General Fund	74.1%	60.2%	63.6%	$ 763,320	$ 841,920
Water Fund	6.9%	18.7%	15.7%	188,740	196,590
Sewer Fund	4.6%	8.7%	7.7%	92,600	94,210
Solid Waste Fund	0.0%	0.2%	0.1%	1,680	1,900
Storm Drain Fund	14.3%	1.4%	4.6%	55,490	74,850
Golf Course Fund	0.1%	2.4%	1.8%	21,640	26,150
Clean Ocean Fund	0.0%	2.2%	1.7%	19,990	23,850
Information Services Fund	0.0%	1.4%	1.1%	12,690	14,410
Central Services Fund	0.0%	0.5%	0.4%	4,810	6,090
Fleet Maintenance Fund	0.0%	1.2%	0.9%	11,250	12,980
Redevelopment Agency	0.0%	3.1%	2.3%	27,790	7,050
Total	**100.0%**	**100.0%**	**100.0%**	**$1,200,000**	**$1,300,000**

Workers Compensation charges
The following rates are in effect for FY 2010:

8810	Clerical	$0.50/$100 of payroll
9410	Non-Manual	$1.41/$100 of payroll
9420	Manual Labor	$4.69/$100 of payroll

The proposed rates for FY 2011 are:

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

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

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

Following are proposed changes to the current fiscal Policy:

1. **Fund Balance and Reserve Policies:** Additional language to establish a target fund balance for the Park Asset Replacement Reserve.

Current Policy Statement	Proposed Policy Statement
The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets in the future.	The City will establish a Park Asset Replacement Reserve with a target balance of $1.2 million for 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.

Recommendation
It is recommended that the City's Fiscal Policy be modified to establish a Park Asset Replacement Reserve target balance of $1.2 million for 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.

Council Action

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
1. **Operating Budget Policies**		
The City will adopt a balanced budget by June 30 of each year. A balanced budget is defined as one in which total expenditures equal total revenue. An entity has a budget surplus if expenditures are less than revenues. It has a budget deficit if expenditures are greater than revenues.	√	

Fiscal Policy Statement	Status	Comments
2. An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	√	
4. The City will annually review the General Fund operating position to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.	√	
Revenue Policies		
5. The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	√	
6. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	
7. All City Council-established General Fund User fees will be reviewed and adjusted annually as part of the budget process by each City department and the analysis with recommended changes will be provided to the City Council. The basis for adjustment will be the cost of providing services, inflationary impacts, or other budgetary factors as appropriate. User fees will be established to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	Annual review is presented in the Revenue Update section of the LTFP

Fiscal Policy Statement	Status	Comments
8. One-time operating, capital and reserve revenues will be used for one-time expenditures only. One-time resources, such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new on-going operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other nonrecurring expenditures.	√	
9. The City will annually identify developer fees and permit charges received from "non-recurring" services performed in the processing of new development and use those funds to meet peak workload requirements.	√	
Expenditure Policies		
10. The purchase of new or replacement capital equipment with a value of $5,000 or more and with a minimum useful life of two years will require budget approval.	√	
11. The City will annually project its equipment replacement and maintenance needs for the next five years and will update this projection each year. A maintenance and replacement schedule will be developed and followed.	√	
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 15.7%. Sewer rates increased 3.9%.
13. Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	

Fiscal Policy Statement	Status	Comments
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.	√	44 new Capital projects = $35.3 million.
15. Capital improvement projects must project operating and maintenance costs for the five-year forecast period to ensure that future year budgets maintain a positive operating position.	√	
16. The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the Master Plan for City Facilities.	√	
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 rather than outside debt instruments to meet short-term cash flow needs. Short-term is defined as a period of one year or less. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	

Fiscal Policy Statement	Status	Comments
Long-Term Debt Policies		
19. The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
20. Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.	√	
21. The City will establish and maintain a Debt Policy	√	
Fund Balance and Reserve Policies		
22. The City will maintain emergency reserves at the following levels; 9% of operating expenditures of the General Fund and 8% of operating expenses for Enterprise Funds. The primary purpose of these reserves is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	--	Emergency Reserve = $4.2, or 8.75% of General Fund operating expenditures, and 8% of operating expenses for the following Enterprise funds: Water $627,000, Sewer $619,000, Storm Drain $86,000, Solid Waste $14,000, Golf $195,000.
23. The City will maintain $10 million as a Sustainability fund balance in the General Fund. This fund balance will provide for economic and financial stability. Sustainability fund balance can be used only by formal action of City Council for specific purposes such as providing consistent and adequate level of services, provide for future capital needs, or provide for asset replacement.	√	Sustainability fund balance = $10 million

Fiscal Policy Statement	Status	Comments
24. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.	√	Accrued Leave Reserve = $600,000
25. The City will establish a Capital Equipment Replacement Reserve and a Facilities Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.	√	Capital Equipment Reserve = $965,000 Facilities Maintenance Reserve = $898,000
26. The City will establish Water, Sewer, Storm Drain and Golf depreciation reserves for costs associated with the major maintenance and capital improvement costs included in the Enterprise Funds. The minimum reserve level shall be at a level equal to the projected three-year capital and major maintenance costs.	--	Water Depreciation Reserve = $7.6 million Sewer Depreciation Reserve = $5.5 million Storm Drain Depreciation Reserve = $1.9 million Golf Depreciation Reserve = $1.5 million
27. 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 = $9,900

Fiscal Policy Statement	Status	Comments
28. The City will establish a Park Asset Replacement Reserve for the accumulation of funds for replacement of park assets in the future.	--	Recommendation for target funding level is included in 2010 Reserve Paper
29. Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	√	General Liability Reserve = $500,000 Workers Compensation Reserve = $1,460,000
30. The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	√	Fleet Replacement Reserve = $3.4 million
Investment Policies		
31. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
Accounting, Auditing & Financial Reporting Policies		
32. 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
33. 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.	√	
34. 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
35. Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
36. 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.	√	
37. Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
38. A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AAA
39. Establish and maintain a formal compensation plan for all employee salary or wage ranges.	√	
40. Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	√	

Fiscal Policy Statement	Status	Comments
Long Term Financial Policies		
41. 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.	√	
42. Annually evaluate trends from a budget-to-actual perspective and from a historical year-to-year perspective to identify areas where resources have been over allocated. This would improve the accuracy of revenue and expenditure forecast by eliminating the impact of recurring historical variances.	√	

Legend:

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

Objective
To provide a summary of significant capital projects with funding challenges . This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.

Executive Summary
The City has reviewed capital projects that are significant and are projected to start construction within the next 6 years. The capital projects were broken into 3 categories (City projects – Non-Enterprise, City projects-Enterprise, and Prospective projects), with the significant individual projects identified by area. City staff has analyzed the projects as to the available funding, the estimated project costs and the required funding. The information is summarized below:

***CITY PROJECTS* – Non-Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Parks				
La Pata Vista Hermosa Park (LPVH) – Phase 1B	Parks Acquisition and Development Fund	$16,575,000[1]	$30,300,000	($13,725,000)
[1]Excludes transfer from the General Fund following the completion of entitlements on the 9 acre site.				
Building				
Civic Center	Public Facilities Fund-Civic Center Reserve	$3,950,000[2]	$12,900,000	($8,950,000)
[2] This includes $1.4 million from the Public Safety Reserve, $2.55 million from the Public Facilities Construction Fund. Excludes any transfer from the sale or lease of City property.				

***CITY PROJECTS* - Enterprise**

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Water and Sewer				
Recycled Water Expansion	Grant/Water and Sewer Fund	$9,200,000[3]	$22,000,000	($12,800,000)
[3]Excludes any proceeds from State Water Resources Control Board (State Revolving Fund Loan).				

Prospective Projects
The City of San Clemente has other prospective projects that may fall within the timeframe; however, funding resources and the estimated project costs are unknown at this time due to limited knowledge as to the scope of the projects. These projects are listed below on a prospective basis:

- USACE Sand Project
- Quiet Zone Improvements
- La Pata Vista Hermosa – Phase II
- Dana Point Desalination Pilot Project

Background and Discussion
To provide information on individual projects, addressing the project background (history), and expenditures related to each project (projects have been grouped in the previously identified categories).

Non-Enterprise Projects

Parks

La Pata /Vista Hermosa Park – Phase IB
Project Background:
The City's project team made adjustments to the way in which the project is to be bid and constructed. All of the park amenities that were previously proposed for Phase I of La Pata/Vista Hermosa Park are still included in the project plans and specifications, but to take advantage of potential cost savings the construction was split into two stages. Phase 1A construction was completed in January 2009 and included all of the general site improvements, such as demolition and clearing, earthwork and grading, installation of utilities, curbs, gutters, parking lots, and internal roadways.

Phase 1B plans and specifications are out for bid with the projected bid opening in March 2010. The Phase 1B project includes park amenities such as the Soccer Hub, Youth Baseball Hub, Aquatics Complex, Football Field, Perimeter Landscaping and signalization on La Pata at the park entrance. In addition, the universally accessible Courtney's Sand Castle Playground was included in the drawings as a bid alternate; however, the construction costs estimated at $1 million are not included in the budget estimates. The estimated construction of Phase 1b will take between 15 and 18 months.

Expenditures

Design
As of January 2010, $2.5 million has been spent on design services for Phase 1A and B. This figure also includes the amendment to RBF's contract to incorporate "green" changes into the plans.

Construction
Phase 1A construction was completed in January 2009 by Sequel Contractors, Inc. of Santa Fe Springs. The total costs for Phase 1A including design, inspection and construction was approximately $7.3 million.

Phase 1B plans and specifications are complete and are out to bid. Recent estimates by the consultant and staff indicates Phase 1B construction costs at approximately $30.3 million, for a total project cost of $37.6 million. This figure includes construction of the Base Bid amenities (soccer, baseball, aquatics, and landscaping), and the Alternates (synthetic turf and football), and the Signalization of Avenida Vista Hermosa. It also accounts for construction contingencies, construction and project management, and geotechnical services during construction.

Operation and Maintenance
La Pata/Vista Hermosa Park incorporates a substantial number of active recreation amenities, and the contractual cost to maintain the park acreage will undoubtedly be significantly higher than the maintenance costs for passive acreage in the City's park system. The original Operation and Maintenance cost projected for the Park and Aquatic Complex was approximately $1.8 million, with an offset of $600,000 in projected revenue, for a combined total net annual cost of $1.2 million. However, given the City's Financial Forecast and Long Term Financial Plan projecting significant reductions to the City's General Fund Revenue in the immediate future, it is highly unlikely the General Fund can absorb the $1.2 million expense. To reduce the cost, Staff met with other agencies to better understand their maintenance costs for aquatics centers and evaluated planting sections. Staff analyzed alternatives for operations and maintenance and provided recommendations to City Council at the August 18, 2009 City Council Meeting. The alternative the City Council selected provided a significant cost reduction for a net operating cost of $628,243. The breakdown of the cost is shown below:

- The O&M for the aquatics complex is $758,155 with anticipated revenues of $384,100 from programs and rentals. The net cost to the City is estimated at $374,055 annually. The Small Pool and Water Play Area will be fully staffed and operational year round. The 50 meter Pool will be available for rental use only on a year round basis.

- The O&M for the park and fields is $254,188 and includes cost savings by planting 15.5 acres of the 42.98 acres with low maintenance meadow type plant mix and installing 3 low maintenance synthetic turf fields.

Potential Cash Flow Issues:
Based on the designed plans and specifications, the updated cost estimate for Phase 1B of the park is $30.3 million. The project currently has a fund balance of $16.6 million with a funding gap of $13.7 million. The additional funding needed for the project is anticipated from a transfer from the General Fund predicated upon estimated proceeds from the sale of a City-owned 9-acre parcel adjacent to the park site.

Staff remains confident that the proceeds from the sale of the 9-acre parcel will be sufficient to fund construction of the park. Funding from the property sale is now dependent upon the completion of entitlements. If the entitlement work is not completed in a timely fashion, the City may choose one of the following options:

1. Seek alternative funding mechanisms, such as the use of City reserves.
2. Phase 1B construction could be further phased.
3. The project could be delayed until such time as funding is available.
4. Issue debt (as discussed in the Debt Paper).

<u>Buildings</u>

Civic Center

Project Background:

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

Expenditures:

The total estimated cost for this project is $12.9 million; this includes the cost for preparation of the plans, specifications, LEED and bidding which is $827,000.

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

Construction documents are anticipated to be finalized by February 2010. At that time, the project will be put on hold pending the sale of the City Hall site and completion of construction of the new Downtown Fire Station No. 60 and Senior Center on Avenida Victoria anticipated by November 2010. While occupancy of the new Downtown Fire Station 60 will permit the sale of the existing City Hall site, the current real estate market is not favorable enough to warrant the sale of the property at this time. Once the real estate market begins to turn around, the sale of the City Hall site should be re-evaluated.

Enterprise Projects

Recycled Water Expansion

Project Background:
The City has a long history of providing recycled water to the Municipal Golf Course since the 1950's. Upon expansion of the City's Water Reclamation Plant in 1991, water quality was improved to meet Title 22 standards for tertiary treated recycled water. The capacity is 2.2 million gallons per day and service was expanded to Bella Collina Towne and Golf Club, formally (Pacific Golf Course), and the Water Reclamation Plant. Due to grant funding opportunities, the Recycled Water Master Plan was updated by AKM Consulting, and a negative declaration for the proposed project was approved by City Council in October of 2007.

The Master Plan recommended expanding the treatment capacity from 2.2 to 4.4 million gallons per day and recycled water demand from 1,030 to 2,000 acre feet per year. The project includes nearly 9 miles of pipelines, conversion of a domestic water reservoir to recycled water storage, expansion of the Water Reclamation Plant, a pressure reducing station and an interconnection with Santa Margarita Water District.

The project provides benefits to the City's water system by reducing dependency on imported water by approximately 10%. In addition, nearly 1 million gallons of average day demand from the potable water system that is used for irrigation will be replaced with recycled water from the expansion. The lower demand for potable water, replaced by the recycled water expansion, will reduce potable water emergency storage capacity needs and avoids approximately $1 million in future potable water emergency storage reservoir costs. Customers using recycled water benefit during drought periods by having uninterrupted recycled water use. Other benefits include offsetting potential new demand charges imposed by Metropolitan Water District and lowering the City's overall imported water demand which will help the City meet State mandated water reductions by 2020 as described in Senate Bill 7.

The original schedule for the Recycled Water Expansion was dictated by Proposition 50 Grant ($5.7 million) deadline to complete construction by summer/fall of 2011; but due to the State's fiscal crisis, Proposition 50 Grant funding was delayed. Like other agencies, San Clemente will apply for an extension to the Proposition 50 Grant deadline. The revised schedule estimates project design to be completed by spring 2010 and construction in fiscal years 2011 and 2012.

Expenditures:
Current designed plans include additional project expansion for pipeline alignments to service existing meter locations and sand filters at the treatment plant. Based on these additions, the estimated total project cost has increased from $20.1 to $22.0 million.

Potential Cash Flow Issues:
The City is participating in the Proposition 50 State Grant Funding as part of a Regional Grant with South Orange County. The Regional Grant provides the City with $5.7 million in funding; although the State is in a fiscal crisis, the City is continuing to receive reimbursements from the State for the design of the project. Congressman Ken Calvert has been working for a number of years to obtain Federal Funding for the City's Recycled Water Expansion. In December of 2007, the United States Congress reached an agreement with the President to provide $500,000 for the project. The remaining cost will be funded through $3 million from the Sewer Fund Connection Fee Fund and $12.8 million from a low interest State Revolving Fund Loan with an approximate interest rate at 2.3%.

Additional Funding is anticipated from a Local Resource Project rebate from the Metropolitan Water District for up $250 per acre foot of recycled water sold to new customers. The City is eligible for this program and will apply for the funding in the summer of 2010.

Prospective Projects

USACE Sand Project

Project Background:
San Clemente has suffered a severe erosion of beach sand in recent years which has resulted in the loss of recreational beach, damage, destruction to beachfront facilities, and increased risk to beach patrons due to the exposure of underlying facilities. The City and the U.S. Army Corps of Engineers (Corps) are currently engaged in a Feasibility Study to identify and quantify the need to protect the shoreline in San Clemente against sand erosion, and to develop a sand replenishment and erosion mitigation program. Depending on the results of the final report and ultimate schedule to replenish the sand, the City will need to reevaluate the condition of the Marine Safety Headquarters and decide if it is feasible to make repairs or relocate the facility.

Current Status and Schedule:
The study has been underway since 2001, and is expected to be completed by the end of 2010. The Corps has prepared a Preliminary Draft Feasibility Study Report along with a Preliminary Draft Environmental Impact Statement. The Corps is reviewing its internal technical and policy documents in anticipation of the public review period anticipated for mid-2010. Key upcoming milestones include:

- February 2010: Meeting with Corps HQ to review proposed recommended plan.
- June 2010: Release of the draft report for public review and comment.
- June/July 2010: Public meeting on the draft report.
- July/August 2010: City letter of intent to support proposed plan and local requirements.
- August 2010: Final report to Corps Headquarters for review.

The City's Coastal Advisory Committee will help with review and comment on the Draft Feasibility Report, and will also facilitate a formal public meeting anticipated for June/July 2010 to engage the community in discussion and comment on the study findings and recommended project. Before the Corps final review, planned to start in late August 2010, staff will seek an official position on the study and future steps by the City Council. If the City Council supports continuing with a project, the final report would be completed and sent to Corps Headquarters for final review and approval by the Chief of Engineers, and subsequent authorization of the project for construction in a Water Resources Development Act, scheduled to be enacted in 2010. City staff would then also coordinate with the Corps on a Project Management Plan and cost sharing agreement, which would be executed with the Corps to proceed to the design phase and ultimately construction of a sand replenishment project.

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, and the rest from the City's General Fund. The City will fulfill its cost sharing obligation with a final payment in the current Fiscal Year 2010, which is included in the current approved budget.

The design phase is estimated at $1.5 million, with the Corps responsible for 75% of the cost and the City 25%. The cost for the preliminary recommended project is estimated at $8.0 million for the initial sand placement, with the Corps providing 65% of the cost. The cost for ongoing sand placement over the 50-year project life is estimated at $23.1 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	$1.125	$0.375	$1.5
Initial Construction	65% Federal 35% City	$5.2	$2.8	$8.0
Ongoing Sand Replenishment	50% Federal 50% City	$11.55	$11.55	$23.1
Total		**$17.9**	**$14.7**	**$32.6**

Over the course of the Feasibility Study, the City has provided various in-kind services in support of the study (e.g. beach width surveys, City staff project management, etc.) that will be credited toward the City's total cost sharing obligation. The final value that will be credited to the City will be determined during a Corps audit toward the end of the Feasibility Study. However, the current FY2010 project budget is sufficient to cover the City's remaining Feasibility Study cost sharing obligations, with the potential for some remaining funds that could be applied toward a possible subsequent Design Phase. Additional detail on Feasibility Study phase and potential future design phase financial obligations will be provided for City Council consideration during the upcoming FY2011 budget process.

Quiet Zone Improvements

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

The Orange County Transportation Authority (OCTA) established a Quiet Zone working group to assist in finding solutions to the train horn noise problem with other Orange County Cities along the railroad corridor. The Council has approved two agreements with OCTA, which have lead to the design and bidding for construction of improvements that will be needed at North Beach and the Pier.

Throughout 2009, considerable progress has been made by exploring multiple strategies and options. It now appears that wayside horns in combination with safety improvements may be the solution for all concerned parties.

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

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

Future funding sources may come from Redevelopment Agency funds, grants from other agencies, including the County or available City funds. Currently, funding for the North Beach and Pier vehicle crossing improvements is shared by the OCTA and the City on an 88% to 12% match basis. OCTA's executive staff has shown willingness to support a continued 88% funding level for the $3,900,000 improvements.

La Pata/Vista Hermosa Park, Phase II

Project Background:
In addition to the improvements listed above in the LPVH Phase I Project Background section, the approved La Pata/Vista Hermosa Master Plan ultimately envisioned a number of other significant park elements to be constructed in a second development phase. Phase II, which includes a 20,000 square foot Community Center, a 14,000 square foot Gymnasium, 3 Basketball Courts, a Group Picnic Area, and additional parking and interior roadways, was initially estimated at $25.0 million. Given the tremendous cost escalations impacting Phase I construction, it is reasonable to assume that a revision of the cost estimate for Phase II would reveal similar conditions. Until more accurate cost estimates and funding expectations can be developed, LPVH Phase II will not be included in the LTFP cash flow and gap closure analysis, nor will the project be included in the five-year Capital Improvements Program. In addition, there is no funding source currently identified for Phase II.

Dana Point Desalination

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

Orange County's water supply system reliability. This project is especially important for our community because San Clemente is at the south end of the regional pipeline distribution system, with only 2 pipelines providing the City water from the north. There is no water available from the east or south.

The pilot plant portion of the project is under construction and will be completed in spring of 2010. Upon construction completion, water will be pumped for 18 months thru the pilot plant to study the quality of water pulled from an existing slant well in Doheny Beach, effects on the San Juan Basin Aquifer, corrosion analysis, reverse osmosis filter testing, microbial testing and post treatment testing. Based on the results from the pilot plant testing, a full plant design and construction may be recommended depending on projected construction and O&M costs. The City portion for participation in the pilot plant and analysis of the project is $660,000.

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

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

Fiscal Impact of Recommendations
None

Objective

To provide an update on the progress of the City's Street Improvement Program and to discuss considerations for renewing the assessment program for another term.

Background

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. This program 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 is funded by several revenue sources, including: 1) Street Assessment District 95-1, which assesses all developed properties; 2) the General Fund; and 3) the Gas Tax Fund (in which State gas tax allocations are deposited). In addition, the Water, Sewer, and Storm Drain Funds pay for work done to various underground facilities in conjunction with the street work.

Bonds were sold in the second year versus the originally planned third year of the program. Also, cost savings and grants obtained from the State have allowed several projects to be constructed a few years earlier than originally scheduled. Thus, the original Street Improvement Program will soon be completed, and the accompanying Street Assessment District 95-1 will soon end, unless they are renewed to continue maintaining and rehabilitating the City's street system.

Street Improvement Program Progress

Projects/Miles Completed

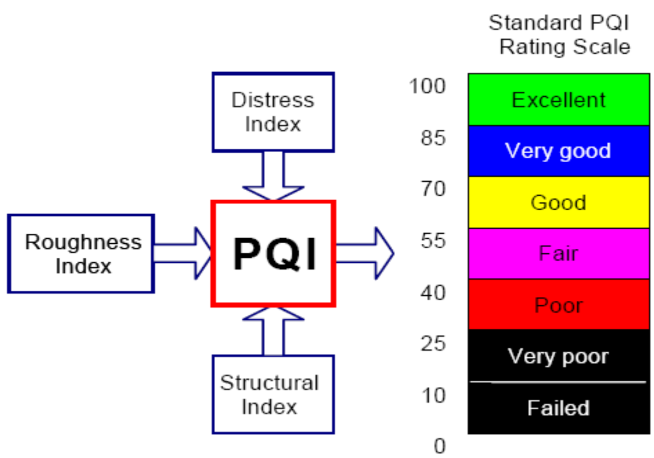
Since the approval of the program in July 1995, two hundred one (201) street projects have been completed. An additional seven (7) projects are scheduled for construction in FY 2009-10 & FY 2010-11. This will complete about 63 miles of streets improvements funded by this program. To further address street rehabilitation needs, the City Council re-established the City's Major Street Maintenance Program in FY 1999-00. In FY 2002-03, the City Council further expanded the Major Street Maintenance Program to a $500,000 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.

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 of an additional sixty-three (63) streets representing about 12 miles of streets. 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 88 miles of streets in total.

Street/Pavement Quality

Implementation of the Street Improvement Program has significantly improved the pavement quality of the City's street system. To assess the condition of the City's streets, Engineering Division staff uses the Pavement Quality Index (PQI), which is the accepted approach for measuring overall pavement distress and serviceability provided by a pavement to the end user. The PQI is a scale from zero (0) to one hundred (100), with zero representing the poorest possible pavement and 100 representing the best possible pavement. As shown below, typical values for a newly constructed street range from 95 to 100. The PQI level at which a pavement becomes in need of rehabilitation is typically in the 40 to 70 range, depending on the functional classification of the street.

Standard Pavement Condition Rating Scale



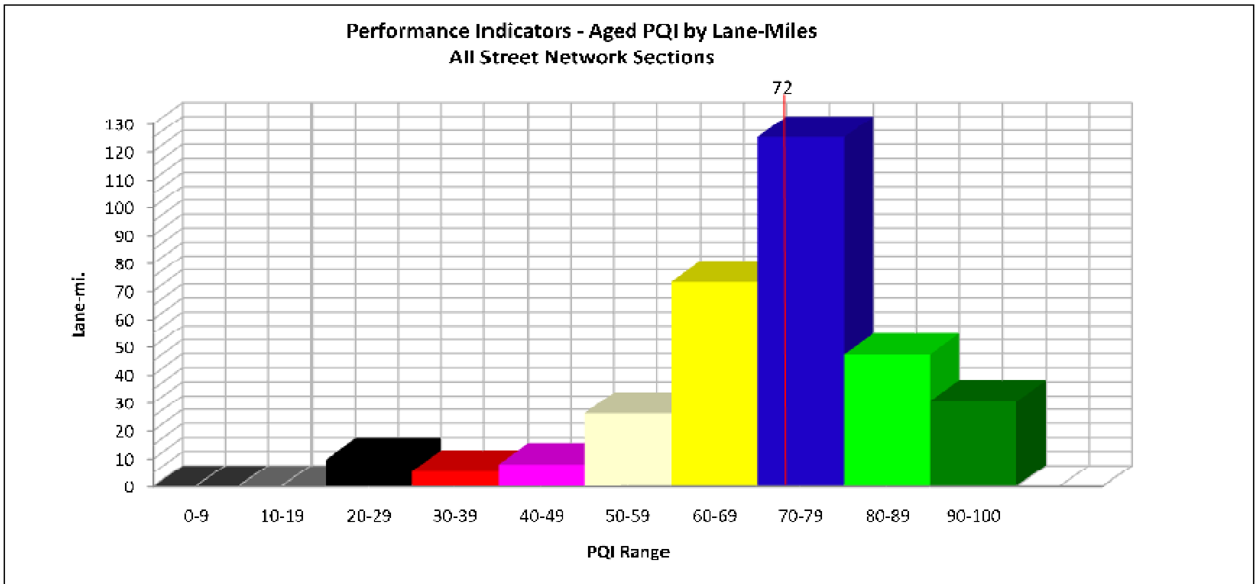
The City of San Clemente street network currently consists of 326 lane miles equivalent to 147 centerline miles (divided roadways are double counted for mileage). To assess pavement conditions, the City periodically seeks consultant assistance to perform field surveys and deflection tests to determine the system PQI. As shown in the table below, the condition of the

City's street system has improved significantly, from 57 (overall fair condition) in 1989 to 72 (overall very good condition) in 2009. It should be noted that the Pavement Management System projected 95% of the City's streets would have required reconstruction within 10 years (1999) if the City did not aggressively fund a street rehabilitation program.

Year PQI Measured	Lane-Miles	PQI
1989	237.50	57
2001	250.00	73
2005	316.79	85
2009	325.78	72

The increase in the 2005 PQI value is mainly attributed to the acceptance of newly-built streets within the Talega and Forester Ranch communities. The current street network PQI would be lower if these new streets had not been added to the City's street system.

The figure below provides another representation of the current overall PQI for the City's street system. Pavement deteriorates over time, thus more lane-miles of the street system would start falling into lower PQI ranges without an active street maintenance and rehabilitation program (i.e. the bars in the lower PQI ranges would grow larger over time).



PQI Range:	0-9	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80-89	90-100	
Lane-mi:	0	0	10	5	8	26	73	125	47	31	325.78

Funding Status

When it was established, the Street Improvement Program proposed resurfacing or reconstructing about 60 miles of streets at a cost of about $43 million[1]. To help fund the program, the City Council adopted Street Assessment District 95-1 in 1995, which included the following two assessments:

- Bonded District formed under the Municipal Improvement Act of 1913 with bonds sold under the 1915 Act. This portion of the assessment will be retired in September 2011 (16 years after the bonds sales).
- Maintenance District formed under the Benefit Assessment Act of 1982 for the maintenance and rehabilitation of streets. This portion of the assessment will expire at the end of FY 2010-11.

The combined assessment is equivalent to $90 per single family house fronting a public street, per year. Annually, the combined assessment generates approximately $1.2 million. About half of the total assessment is for repayment of the bond debt, which will be retired in late 2011 as noted above. Similarly, the maintenance portion of the assessment will expire at the end of FY 2010-11 because the Assessment District was specifically defined to end upon the bond maturity date.

In addition to the Street Assessment District, the City Council committed ongoing revenue contributions from the General Fund and Gas Tax Fund[2], each of which included an annual 3% inflation adjustment. Considering all revenue sources (Street Improvement Program, Major Maintenance, Slurry Seal, Arterial Streets, and other revenues and grants[3]), the recent funding (FY 2008, 2009 and 2010) for street rehabilitation and maintenance has averaged about $5.8 million annually as shown in the following table below.

[1] An annual inflation factor of 3% was used when projecting expenditures over the 18-year program.
[2] Major sources of revenue into the Gas Tax Fund are apportionments from the 2106 State gas tax, 2105 State gas tax (Proposition 111), and Orange County Measure M.
[3] For example, Propositions 42 and 1B, Federal Economic Stimulus grant, AHRP grant.

Revenue Source	Amount
Street Improvement Program	
Assessment District 95-1 (Maint. District)[4]	$659,600
General Fund	$672,200
Gas Tax	$570,500
Subtotal	*$1,902,300*
Major Maintenance	$550,000
Slurry Seal	$250,000
Arterial Street Projects (Gas Tax)[5]	$736,700
Subtotal	*$3,439,000*
Grants/Other Revenues	$2,361,000
Total	**$5,800,000**

Originally the Street Improvement Program intended that the bonds would be issued in 1997 and would mature in 2013 for a total of an 18-year program. However, the bonds were actually sold in 1996 and were set to mature in 2011, resulting in a 16-year program. Therefore, the Street Assessment District 95-1 will expire in late 2011, along with associated commitment of General Fund and Gas Tax fund revenues (unless the City Council approves continuing the General Fund and Gas Tax contributions). Additional funding considerations include the following:

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

Considering the above, the projected total revenue for street rehabilitation and maintenance will decline about 44% from about $6.1 million in the current FY 2009-2010 to $3.4 million in the upcoming FY 2010-11. As shown in the table on the following page, the projected revenue would drop another 17% from FY 2010-11 to FY 2011-12. The City will have to identify a

[4] The Bonded District portion of Assessment District 95-1 is not shown since it is directed toward bond debt repayment and not available for ongoing street maintenance.
[5] Gas Tax funds have been used for arterial street rehabilitation since arterial streets are not included in the Street Improvement Program.

continuing source of revenue in the future if it is to continue to maintain the street system quality that it has worked to achieve.

Description	FY 2010 Budgeted	FY 2011 Proposed	FY 2012 Proposed	FY 2013 Proposed	FY 2014 Proposed
Gas Tax Revenues					
2106 Apportionment	270,000	300,000	309,000	318,000	328,000
2105 Apportionment (Prop. 111)	400,000	500,000	515,000	530,000	546,000
Measure M Apportionment	640,820	690,000	740,000	780,000	820,000
Transfer to Street Improvement*	(587,410)	(605,000)	(623,200)	(641,800)	(661,100)
Transfer to Other Non-Rehabilitation Projects[6]	(250,000)	(257,500)	(265,200)	(273,200)	(281,400)
Subtotal[7]	***473,410***	***627,500***	***675,600***	***713,000***	***751,500***
Street Improvement Revenues					
Street Assessment District 95-1 (Maint. Dist.)	661,000	661,000	0	0	0
Street Assessment District 95-1 (Bonded Dist.)	670,000	670,000	0	0	0
Bond Debt Payment	(670,000)	(670,000)	0	0	0
Transfer from General Fund*	692,120	712,900	734,290	756,320	779,010
Transfer from Gas Tax Fund*	587,410	605,000	623,200	641,800	661,100
Subtotal	***1,940,530***	***1,978,900***	***1,357,490***	***1,398,120***	***1,440,110***
Major Maintenance Revenues					
Transfer from General Fund (Major Maint.)*	550,000	550,000	550,000	550,000	550,000
Transfer from General Fund (Slurry Seal)*	250,000	250,000	250,000	250,000	250,000
Subtotal	***800,000***	***800,000***	***800,000***	***800,000***	***800,000***
Other Revenues and Grants[8]					
City Aid Program (Prop. 42 & Prop. 1B)	225,000	0	0	0	0
Safe Route to Schools Grant	262,080	0	0	0	0
Traffic Congestion Relief (AB2928 – Prop. 42)	600,000	0	0	0	0
Transportation Bond Program (Prop. 1B)	1,000,000	0	0	0	0
Federal Stimulus	500,000	0	0	0	0
Subtotal	***2,587,080***	***0***	***0***	***0***	***0***
TOTAL	**5,801,020**	**3,406,400**	**2,833,100**	**2,911,100**	**2,991,600**

* Assumes City Council approval in each fiscal year budget.

Future Needs

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

[6] These projects include traffic signals and other miscellaneous (e.g. PCH bridge replacement).
[7] This amount is applied to arterial street rehabilitation projects.
[8] Future projection is zero since grants are not guaranteed and Prop. 42 and Prop. 1B will likely be suspended.

New Street	Year 0
Slurry Seal	Year 7
Slurry Seal	Year 14
Overlay	Year 25
Slurry Seal	Year 32
Slurry Seal	Year 39
Reconstruction/Overlay	Year 45

Using the Pavement Management System program, staff generated the street network's rehabilitation needs over the next ten years. About 60% of the street network will be in need of some type of rehabilitation during the next five years. This is consistent with the expected results since the Street Improvement Program provided rehabilitation for about 50% of the street network. Also, the streets that were rehabilitated at the beginning of the SIP program are approaching the timeframe at which additional rehabilitation will be needed. This means that in order to maintain the current acceptable standard of pavement quality, the City at least must maintain the current funding of the street rehabilitation and maintenance programs.

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

A comprehensive pavement management program will require revenue sources of about $7.5 million per year for street rehabilitation if the City assumes that streets will require major rehabilitation on a 20-year cycle, or about $6 million per year for a 25-year cycle. Reduced funding would require an increased rehabilitation cycle, which will result in a decrease in the overall street network PQI. The above estimates are in current dollars and funding will need to be reviewed and adjusted to reflect changes in costs and revenue sources. To determine funding need, staff will conduct a pavement management system priority programming analysis to generate alternative rehabilitation programs for various budget scenarios over the next 10 years. This will provide a comparison of the funding recommendations and its results to the street network pavement quality index (PQI).

The City's street maintenance and rehabilitation program depends on a number of funding sources, most of which are not guaranteed. The availability and amount of grant funds is uncertain, and State Proposition 42 and 1B funds are not stable, as these are periodically suspended. The City has provided General Fund contributions to support street maintenance and rehabilitation, although these must be considered in each fiscal year budget. The existing Street Assessment District has provided a reliable source of funds to help support the City's street maintenance and rehabilitation activities – it is an important funding component that should be renewed. If directed by the City Council to pursue a renewed Street Assessment District, staff would determine proposed assessment amounts and options for City Council consideration.

Proposition 218 Approval Process

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

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

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

Conclusion

The Street Improvement Program has achieved its goal by significantly improving the condition of the City's streets. The program has been a highly visible success, because citizens can see and feel the improvement in the quality of their streets. However, if the Street Assessment District is not extended and/or replaced by other sources of funds, street pavement conditions will eventually revert to the conditions at the beginning of the program. Also, it is much less expensive to overlay a street before it fails and requires reconstruction at two to four times the cost. Therefore it would be prudent to maintain the funding of the Street Improvement Program by renewing the Street Assessment District.

Recommendation

Staff recommends that the City Council continue the Street Improvement Program and direct staff to pursue planning for the renewal of the Street Improvement Assessment to provide for continued rehabilitation and maintenance of the City's street network.

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Objective

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

Executive Summary

The City's Fiscal Policy states that user fees will be reviewed on an annual basis. Any recommendations for adjustments to user fees are presented to City Council for review and implementation in the next fiscal year's budget. The basis for adjustment is the actual cost to provide services, inflationary impacts or other budgetary factors as appropriate. User fees are established to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.

The following revenue sources were analyzed for potential adjustment in the 2011 fiscal year:

- Bicycle permits
- Alarm permits
- Alarm fines
- Special lifeguard service fees
- Visa letter service
- Commercial filming charges
- Administrative citations

Background and Discussion

The City prepares a comprehensive Revenue Handbook on an annual basis. The Revenue Handbook includes background information on each revenue source, including a description, legal authorization, fee schedule and revenue receipts over the past five years. The Revenue Handbook also contains a revenue adjustment table (Attachment "A") which describes how rates are set and what criteria are used to adjust or review each revenue source. The revenue sources that require review of the fee schedule every five years have been included in this analysis.

A separate analysis of utility service charges was conducted by Revenue Cost Specialists (RCS), LLC and recommendations will be presented to City Council at a later date. Attachment "B" is a list of utility revenue sources that were reviewed by Revenue Cost Specialists.

In addition, a committee of City staff members from all departments identified a number of potential revenue enhancements that could be implemented over the next fiscal year. Attachment "C" lists some of the potential new or expanded revenue sources.

Bicycle permits – The City's Municipal Code, Sections 10.60.020 and 10.60.030, requires permits for all owners of bicycles who ride upon any public street, sidewalk, alley, bicycle lane or any other public property. The one-time fee for a bicycle permit is $2.00 and does not cover the cost of registration and issuance of a permanent bicycle plate. This ordinance is not enforced due to higher priorities for police services. Historically, less than 5 permits are issued a year. Staff is recommending the elimination of this permit.

Alarm permits – The City's Municipal Code, Section 8.56.270 requires permits for all owners of burglary and fire alarm systems. The permit ensures that proper alarm notification information is on file with the Police Services division. A permit fee of $40 per year is charged for alarm systems monitored by private companies. A permit fee of $240 per year is charged for alarm systems monitored directly by the Orange County Sheriff's Department (OCSD). The permit fee for alarm systems monitored by OCSD is higher because the alarm owners do not pay a monthly monitoring fee to a private alarm company. The alarm systems are connected directly to an alarm board in the OCSD Dispatch Center. This unique situation is a holdover from the San Clemente Police Department when the City's Police Dispatchers monitored the alarm board. When the dispatch center was transferred to OCSD, the alarm board was moved and OCSD continued to monitor the board. The cost to monitor the alarm board is included in the Sheriff's contract and recovered through the alarm permit fee from the users of the service. Over the past five years, revenue from alarm permits has averaged $101,000 per year.

The cities of Anaheim, Costa Mesa and Irvine do not charge for an alarm permit. The table below shows the costs charged by other cities:

	San Clemente	Huntington Beach	Newport Beach	Santa Ana
Alarm Permit Fee	$40 Private Monitoring $240 OCSD Monitoring	$36	$35 Residential $53 Commercial	$30

The private monitoring charge of $40 covers the cost of administration of the alarm program by San Clemente Police Services. The OCSD monitoring charge of $240 covers administration of the alarm program and the contractual cost of maintaining the alarm board. The fees charged by the City of San Clemente are in line with other agencies and no increase to the fee is recommended at this time.

Alarm fines – Alarm fines are charged when the Sheriff's Department responds to security alarm calls that turn out to be false alarms. The City allows three false alarm calls per year. The fines for any false alarm calls in excess of three are billed monthly at a rate of $100 per call. The false alarm call volume is monitored by non-sworn staff from San Clemente Police Services. Utilizing the information gathered by Police Services, false alarms are invoiced and collected by the City's Finance Division. Over the past five years, alarm fines average $17,000 per year.

In FY 2009, the County conducted a cost of service study to determine the actual cost of a false alarm response. The $85 cost was calculated by averaging the hourly rate of a Deputy Sheriff II, a radio dispatcher and an accounting specialist, along with appropriate supplies, services and overhead. The County's fine schedule allows for two false alarm calls per year. The County adopted this fine schedule in 2009. A comparison of other cities false alarm charges is shown below:

	Sheriff's Fees		Anaheim Fees		Costa Mesa Fees		Huntington Beach Fees		Irvine Fees		Newport Beach Fees	
Number of Calls	*Commercial*	*Residential*	*Commercial*	*Residential*	*Commercial*	*Residential*	*Commercial*	*Residential*	*Commercial*	*Residential*	*Commercial*	*Residential*
False Alarm No. 1			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
False Alarm No. 2			$0	$0	$355	$355	$0	$0	$0	$0	$0	$0
False Alarm No. 3	$85	$85	$250	$250	$355	$355	$100	$100	$0	$0	$50	$50
False Alarm No. 4	$85	$85	$250	$250	$355	$355	$150	$150	$100	$50	$100	$100
False Alarm No. 5	$85	$85	$250	$250	$355	$355	$200	$200	$150	$75	$125	$125
False Alarm No. 6	$85	$85	$250	$250	$355	$355	$300	$300	$200	$100	$150	$150
									Put on NO RESPONSE list			
False Alarm No. 7	$85	$85	$250	$250	$355	$355	$400	$400	$300	$200	$175	$175
			$250	$250			Put on NO RESPONSE list					
False Alarm No. 8	$85	$85	$250	$250	$355	$355	$500	$500	$300	$200	$200	$200
False Alarm No. 9	$85	$85	$250	$250	$355	$355	$500	$500	$300	$200	$225	$225
Effective:	Proposed FY 2008-09		9/15/2008		01/16/07		07/01/98		Oct-99		Oct-05	

It is recommended to adopt the County's fine schedule which provides for full recovery of false alarm response. The charge for false alarm response would be the same throughout Orange County for cities that contract with the Sheriff's Department. It is also recommended to make the fine schedule consistent with the County and charge false alarms in excess of two per year at $85 per call.

Special Lifeguard Service Fees - This fee is charged for the exclusive use of more than 250 feet of the beach for commercial and non-commercial special events. These events are not commonly held and revenue averages $2,200 per year. The applicant is only charged for lifeguard hours in excess of normal lifeguard operating hours. The fee is $400 for the first day; $250 for the second day and $150 each day thereafter for events with lifeguard assistance. The fully loaded cost of a Marine Safety Officer, plus overhead is sufficient to cover the hours in excess of normal lifeguard operating hours. No increases to this fee are recommended at this time.

Visa Letter Service – A visa letter or "good conduct" letter is issued by San Clemente Police Services to a person prior to extended travel in Mexico or another foreign country. The letter verifies that the bearer does not have a criminal record. The charge for the letter is $25. Revenue from this source averages $520 over the past five years. As shown below, the cost to provide the visa letter is in-line with other agencies and a fee increase is not recommended at this time.

	San Clemente	Huntington Beach	Newport Beach	Laguna Beach
Visa Letter Service	$25	$28	$22.70	$15

Commercial Filming Charges – A permit fee is charged for still or motion photography for commercials, motion pictures, television shows, programs or advertisements within City limits. The permit ensures that the filming activity does not restrict normal use of public property. A $10 processing fee is charged, along with an annual fee ranging from $50 to $95 for still photography and $50 per day for motion photography. If filming involves three or more photography crew members, the filming permit application fee is $50, plus a daily location fee of $100 for still photography or $200 for motion photography. A permit is not necessary for filming of spontaneous, unplanned news broadcasts or filming for private use. Over the past five years, $1,950 in permit revenue has been generated. As shown below, fees charged by other coastal agencies range from a low of $50 to a high of $554 per day.

	San Clemente	Huntington Beach	Newport Beach	San Juan Capistrano	Dana Point
Film Permit Application Fee	$10	$100	$270	N/A	$50
Still photography	$50 - $90	$300 per day	$370	$28	N/A
Motion photography	$50 per day	$500 per day	$470	$56	N/A
Group photography Application Fee	$50	$100	$270	N/A	N/A
Still photography	$100	$300 per day	$370	$112 per day	N/A
Motion photography	$200	$500 per day	$470	$554 per day (interior) $333 per day (exterior)	N/A

The permit fees charged by the City of San Clemente are the lowest in the surveyed cities. Staff recommendation is to conduct an in-house cost for service study to determine the actual cost of providing film permits. Recommendations for potential fee changes will be brought back to City Council at a later date.

Administrative Citations – Upon discovering that a person has committed a municipal code violation, an enforcement officer (usually Code Enforcement or Water Quality) notifies the person of the violation. If the person does not correct the violation within the prescribed timeframe, the enforcement officer may issue an administrative citation. The fine is $100 for the first violation, $200 for a second violation of the same code section and $500 for each additional violation within one year. The fee schedule is set by California Government Code Section 25132 and the City can not adopt a different fee schedule.

Recommendations
Staff recommends that City Council:

1. Direct staff to prepare an ordinance of the City of San Clemente deleting the requirement to have a bicycle permit to ride on City streets and property; and
2. Direct staff to continue to charge the current fee or fine amounts for alarm permits, special lifeguard services, visa letters and administrative citations; and
3. Direct staff to prepare a resolution of the City of San Clemente to amend the fine schedule for false alarm response as recommended; and
4. Direct staff to prepare an in-house cost for service study to determine the cost of providing film permits and to determine if the permit fee schedule should be modified.
5. Direct staff to explore the feasibility of implementing the new or enhanced revenue sources identified by the Revenue Committee.

Fiscal Impact of Recommendations

Capital Impact - None

Operations & Maintenance Impact - None

Forecast Impact – Slight increase in revenue from false alarm response fines.

Attachment "A"

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
Taxes							
Current Year Secured Taxes							X
Current Year Unsecured Taxes							X
Supp. Roll Property Taxes							X
Supp. Roll - Prior Year							X
ERAF Property Taxes							X
Prior Year Secured & Unsecured							X
Property Tax Admin. Charge							X
Transient Occupancy Tax					X		
General Sales Tax							X
P.S. Sales Tax Augmentation							X
In-Lieu Sales Tax							X
Lighting Assmts - Prior Year					X		
Street Improvement Assmts					X		
Street Assmts. - Prior Year					X		
San Diego Gas & Electric			X				
Southern California Gas			X				
Cox Cable TV			X				
San Clemente Commercial			X				
Other Franchise Fees			X				
Property Transfer Tax							X
Penalty & Interest - Delqnt. Prop. Tax							X
Penalty & Interest - Delqnt. Prop. Assmt.							X
Permits & Fees							
Business Licenses		X			X		
Home Occupation Permits		X					
Business Licenses - Dev. Related		X					
Building Permits	X	X		X			
Electrical Permits	X	X		X			
Mechanical Permits	X	X		X			
Plumbing Permits	X	X		X			
Grading Permits	X	X		X			
Sewer Permits	X	X		X			
Talega JPA Revenues - Construction	X	X		X			
Talega JPA Revenues - Bridge Maint.			X				
Bicycle Permits		X				X	
Mobilehome Inspection Fees							X
Street Encroachment Permits	X	X		X			
Trash Bin Permits		X					
Alarm Permits		X					

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
Park Fees	X						
In-Lieu Affordable Housing Fees	X						
Beach Parking Impact Fees	X						
Public Safety Construction Fees	X						
Civic Center Const Fund Fees	X						
Storm Drain Fees - Other Areas	X						
Storm Drain Fees - Segunda Des.	X						
Sewer Connection Fees	X						
RCFPP Impact Fees	X						
Chgs. Modification Connection Fees	X						
Water Acreage Fees	X						
Miscellaneous Permits		X					
Intergovernmental							
EPA Grant							X
TEA Grant							X
AHRP Grant							X
Housing Rehab - CDBG							X
Single Family Home Rehab							X
Sidewalk Program - CDBG							X
Public Fac/Infrastructure Grant							X
Commercial Rehab Grant							X
Public Services Grant							X
CDBG Administration Grant							X
Other Federal Grant							X
Mandated Cost Reimbursement							X
Traffic Congestion Relief							X
SONGS Grant							X
State Sand Replenishment Grant							X
Coastal Conservancy Grant							X
OTS Grant							X
Ca. Clean Water Protection Act							X
Motor Vehicle Tax							X
Clean Water/Air, Safe Pks & Coastal							X
Urban Open Space & Rec Grant							X
Prop 50							X
Other State Grants							X
Vehicle Pollution Reduction Fees							X
Off Highway License Fee							X
2106 Gas Tax Allocation							X
2105 Gas Tax Allocation							X
Transportation Bond Program							X
2107 Gas Tax Allocation							X

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
2107.5 Gas Tax Allocation							X
Homeowners Exemption Subvention							X
Special District Augmentation							X
State COPS Grant							X
Measure M - Grant							X
OCTA Senior Transportation							X
"Go Local" Transit Program							X
City Aid Program (Prop 42)							X
Measure M Turnback App.							X
Other Governmental Revenues							X
MWD Reclaimed Water Credit			X				
Services Charges							
Const & Demo Admin Fees	X	X		X			
Building Plan Check Fees	X	X		X			
Planning Plan Check Fees	X	X		X			
Transportation Permits	X	X		X			
Improvement Plan Check Fees	X	X		X			
Landscape Plan Check Fees	X	X		X			
SFR Plan Check Fees	X	X		X			
Reproduction of Documents	X	X		X			
Imaging of Documents	X	X		X			
Bad Check Service Charges	X	X		X			
Talega JPA Revenues - Gen'l. Gov't.	X	X		X			
Community Enhancement Revenues	X	X		X			
Other Planning Service Fees	X	X		X			
Planning - CC Applications	X	X		X			
Planning - PC Applications	X	X		X		X	
Planning - ZA Applications	X	X		X		X	
Planning - Admin Applications	X	X		X		X	
Traffic Model Fees	X	X		X			
Traffic Review Fees	X	X		X			
General Plan Update Fees	X	X		X			
Fiscal Impact Model Fees	X	X		X			
B,P, & R - Other Planning Services	X	X		X			
Late Payment Charges		X					
Retiree Premiums				X			
Delta Dental Cobra Premiums				X			
Weed Assessments - Current Year				X			
Weed Assessments - Prior Year				X			
Vehicle Abatement Reimbursement							X
San Diego County Contract			X				
Ambulance Service Charges	X	X		X		X	

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
Ambulance Subscription Fees		X				X	
Special Lifeguard Services		X				X	
Junior Lifeguard Services		X				X	
Surfing Program Fees		X				X	
Special Beach Events Fees		X				X	
Fingerprint Services		X				X	
Visa Letter Service		X				X	
Police Duplication Fees		X					
Other Police Dept. Service Charges		X					
Commercial Filming Charges		X					
Parking Meters		X					
Parking Permits		X					
Const & Demo Recycle Fee - Pd Landfill			X				
Commercial Recycling Charges			X				
Sewer Commodity Fees				X			
Sewer Base Fees				X			
Effluent Water Sales				X			
Public Works Inspection Fees	X	X		X			
Construction Inspection Fees	X	X		X			
Engr. & Geotech. Reimbursements	X	X		X			
Swimming Pool Administration Fee		X				X	
Swimming Pool Recreation Program Fees		X				X	
Beach Club Recreation Program Fees		X				X	
Comm. Center Recreation Program Fees		X				X	
Senior Center Recreation Program Fees		X				X	
Recreation Program Fees		X				X	
Recreation Sports Fees		X				X	
Recreation Trips		X				X	
Recreation Special Events		X				X	
Gift Certificate Classes		X				X	
After School Programming		X					
Greens Fees		X		X		X	
Registration Card/Ticket Sales		X		X			
Tournament Reservation Fees		X		X			
Golf Cart Registration		X				X	
Adult Softball		X				X	
Youth Softball		X				X	
Metered Water Sales				X			

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
Fixed Water Service Charges				X			
Hydrant Meter Water Sales				X			
Water Application Fee		X		X			
Backflow Testing Admin Fees		X		X			
Hydrant Meter Rentals		X		X			
Turn On/Reconnection Fees		X		X			
Water Posting Fees		X		X			
Meter Installation Fees		X		X			
Exemption Application Fees		X		X			
Storm Drain Service Charges				X	X		
Urban Runoff Mgmt. Fees		X			X		
Fines							
Parking Violations		X					
Vehicle Code Fines							X
Court Fines							X
Alarm Fines		X					
Trash Can Violations		X					
Administrative Citations		X					
Other Fines		X					
Rents							
AAA Auto Club	X		X				
Calvary Chapel Kwve	X		X				
Communication Site Leases	X		X				
Beach Club Rent		X				X	
Community Center Rent		X				X	
Swimming Pool Rent		X				X	
Senior Center Rent		X				X	
Sports Field Rent		X				X	
Rental of City Property		X				X	
Park Rentals		X				X	
Steed Park Concession		X	X				
Trap Range		X	X			X	
Lawn Bowling		X	X			X	
Pier Restaurant			X				
HCF La Pata Lease			X				
"T" Street Concession			X				
North Beach Concession			X				
Telescope			X				
Pier Concession Bait & Tackle			X				
Golf Pro Shop			X				
Golf Restaurant			X				
Chamber Building Lease			X				

Revenue Update

Revenue Description	City Will Adjust Annually by CPI	City Will Review Fee or Charge Every 5 Years	Fee or Charge Set by Contract	Fee or Charge Fully Recovers the Cost of Svc	Changes to Fee or Charge Subject to Prop 218	Fee or Charge Subsidized For Public Benefit	City Allocation Determined by Federal/ State or County
Medix Ambulance Service			X				
Other Revenues & Financing Sources							
General Fund O/H Charges				X			
Employer Premiums			X				
Employer Premium			X				
Employee Premium			X				
Insurance Reimbursements			X				
Contributions from Developers			X				
Work Orders				X			

Attachment "B"
Utility Revenue Sources Reviewed by Revenue, Cost Specialists, LLC

Water service installation
Water service upgrade
Water service relocation
Water meter installation
Water curb stop repair
Hydrant meter rental
Fire flow test witness
Water meter test
Backflow device administration
New water account set-up
Water delinquent posting
Delinquent water turn off/on
Delinquent water meter removal
Water meter/lock tampering
Water exemption application process
Restaurant grease inspection
Restaurant grease clean-out
Private sewage spill clean-up
Insufficient funds check
Utility equipment repair

Attachment "C"

A significant number of revenue enhancement ideas were contributed to the Revenue Enhancement Committee. Below is a sample of some of the ideas which could be implemented during the next fiscal year. All of the ideas were reviewed by the committee members and represent legitimate revenue opportunities. The list below presents nearly $500,000 in revenue enhancement ideas.

Revenue idea	Potential Annual Revenue	Comments
Beach area rentals	$150,000	Rental of shade areas and fire rings, designating a Large Group Area (north of the Marine Safety building)
Wedding ceremony permits	$30,000	Allow wedding ceremonies by permit on a specific beach site
Increase select recreation class fees	$25,000	Increase non-resident fees in classes and Jr. lifeguard program fees, by example
Parking meter fee increase	$150,000	Increase hourly meter rates from $1 to $1.50
Extend parking meter operating hours	$35,000	Expand the hours of operation for parking meters – 700:am-9:00pm
Add meters to new locations	$35,000	Additional meters on Ave. Calafia and South El Camino Real are two examples
New permit fees in planning and building	$10,000	Add new fees for plan check extensions and building permit revisions.

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 so as not to exceed acceptable levels of indebtedness and risk; directs staff on objectives to be achieved; facilitates the debt issuance process; and promotes objectivity in decision making.

Typically, debt instruments are *long-term* in nature. Government debt instruments are costly to place, with legal expenses, underwriting costs, and administrative expenses all necessary to properly document and raise capital. Long-term debt can fund major capital projects while spreading repayment out over long periods of time. Because of the costs of issuance, which are added onto the net amount of money actually required, the use of long-term debt is not cost effective or practical in every circumstance. Long-term borrowing is confined to capital improvements that cannot be funded from current revenues. It further restricts the use of proceeds from paying for current on-going operational costs.

The use of *short-term debt* is sometimes more practical than long-term borrowing. Bridging a temporary cash flow requirement or advancing available funds while market conditions for long-term borrowing are unfavorable are two examples of the rationale for incurring short-term debt.

Interfund loans are the primary form of short-term debt incurred by the City. Fiscal Policy limits the use of interfund loans to cover temporary or emergency cash flow shortages and requires an analysis of the affected fund's operating position to limit the impact of short-term loans.

The City has three general categories of existing debt;

1) Long-Term bonded debt, comprised of the following:
    a. Assessment Districts
    b. Community Facilities District
    c. Certificates of Participation
    d. Enterprise Loans
    e. Capital Leases

2) Long-Term Inter-Agency loan
    a. RDA obligation to the General Fund

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

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

The reader is encouraged to refer to Exhibit I "*Financing/Funding Method Descriptions,*" following this paper, for an overview of financing and funding types and common terminology referred to throughout this paper. The Government Finance Officers Association (GFOA) represents another excellent resource for information regarding governmental debt and is presented in a concise and readable format. This information can also be found in The *Elected Officials Guide to Debt Issuance* and additional information can be found on the GFOA website: gfoa.org/.

Existing Debt
The following information provides a brief overview of each of the City's current debt obligations.

Long Term External Debt
The City currently has three Assessment Districts, one Community Facilities District, and one Certificate of Participation financing outstanding. The Assessment and Community Facility District bonds are *not direct obligations of the City*. Each district is tracked in an Agency Fund, since most of the activities recorded within these funds are outside the control of the City.

Street Overlay and Replacement District 95-1, issued in September, 1996 in the original amount of $6.9 million to finance the rehabilitation of streets within the City of San Clemente. The month and year of the final maturity of the bonds for this district is September, 2011. It should be noted that the Street Improvement Program sunsets in 2011. A separate paper is included in this year's Long Term Financial Plan which addresses renewal of the Street program

Reassessment District 98-1, issued in June, 2007 in the amount of $14.2 million to defease a portion of AD 98-1 Series A and B Bonds, originally issued in 1999 to construct the City's wastewater treatment plant. The month and year of the final maturity of the bonds for this district is September, 2028.

Underground Utility Assessment District 99-1, issued in September, 1999 in the amount of $1.2 million to finance the construction and acquisition of underground electrical and communication facilities within the district. The month and year of the final maturity of the bonds for this district is September, 2019.

Community Facilities District 99-1, issued in December, 1999 in the original amount of $5.8 million to finance construction of various public improvements within the district, commonly referred to as Plaza Pacifica. The month and year of the final maturity of the bonds for this district is September, 2030.

Certificates of Participation, Series A & B, (COP) issued in June 1993 in the original amount of $3.8 million to finance the purchase of a commercial building for use by the City's Public Works and Community Development departments. Of this amount, $1.2 million was tax-exempt and $2.6 million was taxable debt. Charges to departments are used to repay installments of principal and interest on the COP's. The month and year of the final maturity of the COP's is September, 2023.

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

Long Term Inter-Agency Debt
Redevelopment Agency debt, issued originally in July 1998, to refinance the purchase of the Casa Romantica historical site. Additionally, financing was included for the expansion of the Fisherman's Restaurant and side deck and to fund operating deficits at that time in the RDA. This initial borrowing was in the form of two inter-agency loans from the Sewer Depreciation Reserve and the General Liability Self-Insurance Fund. In July, 2002 both of the existing inter-agency loans were consolidated and repaid with a new inter-agency loan from the General Fund. The new loan amounted to $3,420,690. The loan is structured with payments due on June 30 each year and a term of 16 years. Debt service principal and interest is budgeted in the RDA Debt Service Fund and is paid from RDA property tax increment which is projected to be available in future years to meet the repayment schedule.

Enterprise Loan Financing
A *Golf Course Clubhouse financing*, which was intended to be issued in 2007, in the approximate amount of $3.5 million to finance construction of a new golf course clubhouse and reimburse General Fund advances of $984,000, was not completed. Unfavorable market conditions developed during FY 2007 and prevented the placement of the Golf Course Financing within the constraints approved by Council. Market conditions have not improved substantially since that time, further delaying the issuance of long-term debt. A short-term loan was made from the In-Lieu Parking Reserve to fund the completion of the Golf Course Clubhouse project. Because of the unfavorable market conditions, this loan was renewed in 2008 and2009 and is currently due on June 30, 2010.

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 $637,000 and will be

repaid through budgeted debt service payments from the Golf Operating Fund or through the placement of a Golf Course Clubhouse Financing discussed above.

Advance from the Public Facilities Construction Fee Fund (In-Lieu Parking Reserve) to the Golf Capital Improvement Reserve was made in June 2007 in the amount of $2,500,000 to fund completion of the Golf Course Clubhouse project. The advance will be repaid, along with the advances from the General Fund, based on the successful placement of the Golf Course Clubhouse Financing discussed above. (See Enterprise Loan Financing above).

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

Debt	Type	Origination Date	Current Balance	Annual Payment
Long Term Debt				
Street Overlay AD 95-1	Assessment District	Sept., 1996	$1,215,000	$653,200
Sewer Improvements AD 98-1	Reassessment District	June, 2007	$13,755,000	$1,154,300
Underground Utilities AD 99-1	Assessment District	Sept., 1999	$735,000	$100,500
Plaza Pacifica Improvements CFD 99-1	Community Facilities District	Dec., 1999	$5,455,000	$438,100
Negocio Series A	Certificates of Participation	June, 1993	$825,000	$89,300
Negocio Series B	Certificates of Participation	June, 1993	$1,895,000	$237,500
City Copiers	Capital lease	August, 2006	$166,000	$36,500
Long-Term Inter-Agency Loan				
RDA	Inter-agency loan	July, 2002	$2,315,900	$269,800
Short-Term Interfund Loans				
Golf Operating	Interfund loan	June, 2003	$637,000	$178,000
Golf Operating	Interfund loan	June, 2007	$2,500,000	$100,000

Debt Options for Capital Project Funding

Options and Strategies

The information presented in the previous section of this paper is intended to provide the reader with a basic understanding of the existing long and short-term debt outstanding today. All potential debt sources should be analyzed and considered as part of any long term planning process. Appropriate use of debt can allow the City to develop and maintain infrastructure otherwise not affordable. However, misuse of debt can limit financial flexibility or strain on-going operating budgets.

The analysis of debt is driven in large part by the Capital Projects Analysis section of the Long Term Financial Plan. Major capital projects are identified in that section and existing resources identified. The funding required, or deficiencies, are also identified.

This paper will examine each of the major projects and identify eligible funding alternatives for City Council consideration. Exhibit II, which follows this discussion, presents each capital project and eligible financing and funding methods available.

Eligible Funding Methods – (Reference Exhibit II)

The Eligible Funding Methods exhibit has been prepared with the assistance of the City's financial advisor to present, in a simple format, funding alternatives for each of the major capital projects identified earlier in the LTFP. Six Financing/Funding methods are presented;

A. Assessments – a number of specific assessment options exist in this category. Each involves the levy of assessments as their source of revenue, generally on real property, to pay for specific benefits.
B. Taxes – this category includes General Obligation bonds, Community Facilities Districts, Certificates of Participation, and Special taxes. Each method imposes a tax on either people or property to raise revenue to support activities of the taxing authority.
C. Fees/Charges – Sewer Connection, Facility User Fee, and Park Fees are examples of fees/charges imposed as sources of revenue. The fee/charge is a monetary exaction paid by the user of the public improvement or service funded.
D. Existing Revenue and Fund Balances – this method considers existing General Fund, Restricted Fund and the Redevelopment Agency Fund revenues to pay for capital improvements.
E. Federal, State and Other Governmental Agency Funding Programs – this method considers availability of grants and loans which may be available from various governmental agencies.
F. Proceeds from sale of assets – this method of funding considers the sale of specific City land parcels.

Each major capital project has been examined to determine which Financing/Funding Methods are available or eligible to fund the project. Exhibit II presents each project and indicates which of the Financing/Funding methods is eligible, referenced by an "X" beside the Financing/Funding Method listed below each capital project. Many of the projects have more than one eligible funding source identified.

Exhibit II only identifies possible funding and financing methods 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 4.73% 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 *La Pata/Vista Hermosa*, Phase I project, with a funding requirement of $13.7 million, is anticipated to be funded from the proceeds of the sale of the 9 acre parcel discussed in the Capital Projects Analysis paper. If debt financing were considered, the project is eligible for funding by General Obligation debt or Certificates of Participation, requiring a total of $16.5 million (20% in excess of the combined capital projects) to derive the net proceeds of $13.7 million. Estimated annual debt payments amount to $1.3 million. Assuming General Obligation debt, a total of $14.8 million (8% in excess of the combined capital projects) would fund the combined capital projects. Estimated debt service payments amount to $1.1 million.

The *Civic Center* project, with an $8.9 million funding requirement, has been delayed for three to five years. Unfavorable real estate market conditions to sell the City Hall site and the potential to lease a portion of the existing Negocio building have delayed the start of this project. At the time the project is initiated, it could be financed with Certificates of Participation or General Obligation Bonds. Assuming Certificates of Participation, a total of $10.7 million (20% excess of the project cost) would fund this project. Estimated annual payments amount to $827,000. Assuming General Obligation debt, a total of $9.7 million (8% in excess of the capital project) would fund the project. Estimated annual debt service payments amount to $713,000.

The *Recycled Water Expansion* project will begin construction in FY 2011. The $12.8 million funding requirement will be financed through the State Revolving Fund (SRF) loan, with debt serviced by the Water Operating Fund. The SRF loan totals $12.8 million with estimated annual payments of $805,600.

Capital Project Summary Table

Capital Project	Required Funding	Debt Issue	Annual debt Service
LPVH Park - Certificate of Participation	$13,725,000	$16,468,000	$1,267,000
LPVH Park - General Obligation Bonds	$13,725,000	$14,823,000	$1,094,300
Civic Center - Certificate of Participation	$8,950,000	$10,745,000	$827,000
Civic Center - General Obligation Bonds	$8,950,000	$9,673,000	$713,000
Recycled Water Expansion Project SRF	$12,800,000	$12,800,000	$805,600

Debt Options

Based on the above analysis and assuming that the 9 acre parcel entitlements are not completed and the City Hall site is not sold, should Council consider utilizing bonded debt, the following options are available:

1. This option assumes entitlements to the 9 acre parcel are not completed to provide the required funding. Finance the projected funding requirement of $13.7 million *La Pata/Vista Hermosa* Phase I project with an estimated $16.5 million Certificate of Participation debt issuance. Annual payments would total an estimated $1.3 million from the General Fund. Should the project be financed through a General Obligation bond, debt service payments of $1.1 million would be assessed upon property owners and would not be a General Fund obligation.

2. This option assumes that the City Hall site is not sold to provide required funding. Finance the $8.9 million *Civic Cente*r project with a $10.7 million Certificate of Participation debt issuance. Annual payments from the General Fund are estimated at $827,000. Should the project be financed through a General Obligation bond, debt service payments of $713,000 would be assessed upon property owners and would not be a General Fund obligation.

3. Finance the *Recycled Water Expansion* project with a $12.8 million State Revolving Fund loan. Annual payments from the Sewer Operating Fund are estimated at $805,600. This represents a 6% increase in operating expenses for the Water Fund and would require a corresponding rate increase to fund this debt service.

Impact to the General Fund

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

2010 Forecast Summary (LTFP)*

Amounts in $1,000

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating receipts	$46,911	$46,733	$47,251	$47,704	$48,378
Operating disbursements	48,821	50,328	51,555	52,896	54,476
Projected surplus/deficit	($1,910)	($3,595)	($4,304)	($5,192)	($6,098)
1.LaPata/VH Park COP	(633)[1]	(1,267)	(1,267)	(1,267)	(1,267)
2.Civic Center COP		(827)	(827)	(827)	(827)
Revised surplus/deficit	($2,443)	($5,689)	($6,398)	($7,286)	($8,192)

[1] Assumes ½ year of debt service

Financing/Funding Method Descriptions

The purpose of this exhibit is to provide a descriptive summary of each financing/funding method identified in the Eligible Funding Methods Matrix (Exhibit I).

Each financing/funding method includes two components:

- A **source of revenue** which may be either a new source of revenue or an existing source of revenue. For example, a new source of revenue may be a new tax, fee or charge, or may be a federal or state grant. An existing source of revenue may mean reprioritizing and redirecting existing revenues to finance all or a portion of the cost of the construction and/or maintenance of improvements or facilities.

- A **financing method or methods** which may be implemented to use a source of revenue to finance the construction and/or maintenance improvements or facilities. For example, one financing method which may be available is "pay-as-you-go," i.e., as revenues are received by the City the revenues are aggregated until such time as sufficient revenue has been collected to pay for the construction of projects. Another example of a financing method for capital improvements would be debt financing, i.e., incurring a short or long-term debt to finance the construction of projects now, and repaying that debt using an eligible source of revenue.

The Financing/Funding Methods are identified as follows:

A. Assessments – These financing/ funding methods involve the levy of assessments as their source of revenue. An assessment may be described as a charge which is generally levied upon real property or businesses to pay for special benefits received by such property or business from an improvement or service which is financed from the proceeds of such assessments.

B. Taxes – The levy of a tax is a financing/funding method available as a source of revenue. The tax may be described as a monetary imposition by a legislative body such as the City Council on either people or property for the purpose of raising revenue to support the activities of the City Council. Unlike an assessment, the person or property taxed does not have to benefit from the activity being paid for from the proceeds of the taxes.

C. Fees/Charges – These financing/funding methods involve the imposition of fees or charges as their source of revenue. A fee or a charge is a monetary exaction paid by the user of or one entitled or eligible to use a public improvement or service to reflect the cost to the public agency of providing the improvement or the service to the public. If the amount of the fee or charge exceeds the cost to the public agency of providing the improvement or service, then it is subject to be classified as a tax.

D. Existing Revenue and Fund Balances – The City may utilize currently existing sources of revenue to the City to pay for or finance capital improvements and/or the maintenance of such capital improvements. The City may also utilize fund balances that are currently available in City funds. These financing/funding methods could involve the reprioritizing and redirecting of all or a portion of existing revenue sources or available fund balances.

E. Federal, State and Other Governmental Agency Funding Programs – Federal and state grants and loans may be available for projects depending on specific eligibility requirements of each grant or loan program. In addition, there are other governmental agency funding programs available to cities, such as those made available by the Orange County Transportation Authority for various types of street and highway projects.

F. Certificates of Participation – The City finances the construction of capital facilities by undertaking a long term lease with investors. The local government takes debt proceeds from the investors and in turn makes an obligation to make ongoing installment payments to the investors up to the full price of the facility. At the end of the payments, the facility becomes the property of the City.

Exhibit II- Eligible Funding Method

CAPITAL PROJECTS

Financing / Funding Methods	**Parks** LaPata Vista Hermosa Park (LPVH) - Phase I $37.6 M construction costs $13.725 M gap	**Building** Civic Center $12.9 M construction costs $8.95 M gap	**Water and Sewer** (Enterprise) Recycled Water Expansion $22.0 M construction costs $12.8 M gap
A. Assessments			
B. Taxes	X	X	X
C. Fees / Charges			X
D. Existing Revenue and Fund Balances		X	X
E. Federal, State and Other Gov't Agency Funding Programs			X
F. Proceeds from sale of assets	X	X	

Gap Closing Strategies

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

Executive Summary
The 2010 Capital Projects Analysis paper identifies funding requirements for the construction of major capital projects, plus cash flow timing issues, which will be challenging over the next three years. Gap-closing strategies for the following projects include:

- Construction of Non-Enterprise Fund Projects:
    - La Pata/Vista Hermosa Park – Phase 1
    - Civic Center
- Construction of Enterprise Fund Projects:
    - Recycled Water Expansion

Background and Discussion
Each of the projects under discussion has dedicated funding for a portion of the construction costs. The total funding requirement, the amount between the project costs and available funding, is $22.7 million for General Fund and Capital Projects Fund projects and $12.8 million for Enterprise Fund project.

La Pata/Vista Hermosa Park, Phase I
The 2010 Capital Projects Analysis indicates the total cost of Phase 1 at $37.6 million, with an identified funding gap of $13.7 million. Council appropriated a transfer of $13.7 million from the proceeds of the sale of *nine acres of land* to fund the construction gap identified during the 2009 LTFP. However, that transfer has not been completed at this time, as the sale of the land is dependent upon the completion of entitlement work, expected to be completed in May, 2010.

Assuming that the entitlement process for the sale of the nine acres is completed in May, the close of escrow would occur approximately 60 days later, providing the funds to complete the $13.7 million General Fund transfer to close the funding gap of the project.

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

As indicated in the Capital Projects Analysis paper, Phase 1B bid opening is anticipated in March 2010. Assuming an award of the successful bid in May 2010, construction should begin within 60 days, or July 2010. Existing cash on hand (excludes the proceeds from the sale of the 9 acres) will cover approximately ten months of construction activity. Based on this assumption, existing funding will be exhausted by April, 2011. The receipt of the proceeds from the 9 acre parcel would need to be in hand by April, 2011. Given the progress to date in the entitlement process, proceeds from the sale of the 9 acre parcel should be available well in advance of April 2011.

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

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

Civic Center

The total estimated cost for the adaptive reuse of the 910 Calle Negocio and ancillary use of the 1030 Calle Negocio buildings is $12.9 million. A total of $3.95 million is currently funded through existing reserves, of which $1.4 million is in the Public Safety Reserve and $2.55 million is in the Public Facilities Construction Reserve. The remaining balance of $8.95 million is anticipated to be obtained from the sale of the existing City Hall site at 100 Avenida Presidio.

The unfavorable real estate market has led to a re-evaluation of the sale of the City Hall site in the near-term future. The City was approached by a commercial broker interested in listing the second and third floors of the Negocio building for lease. Staff presented this information to Council and an agreement was subsequently executed to list the available space for lease at the Negocio facility. Lease terms up to sixty months will be solicited. This strategy, if successful, will provide additional revenues to service the existing debt on the Negocio building and ease the demands on the General Fund by as much as $510,000 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, Sewer Connection Fee 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	(8,950,000)
Sale of City Hall Site	8,950,000

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

Cash Demands/Cash Flow
The cash demands for construction of La Pata/Vista Hermosa Park will deplete existing cash sources by April 2011. Current project timelines and cash flow schedules estimate that the second quarter of 2011 will be the time when a temporary funding source will be required to support the cash demands of the project.

The following resources have been identified as potential temporary funding sources to bridge the cash flow demands:

- General Fund undesignated fund balances – Fiscal policy allows for one-time monies to be used to fund one-time expenditures. The General Fund has already committed a total of $7.7 million to La Pata/Vista Hermosa Park over the last three fiscal years as shown on the table below:

General Fund Transfers	Amount
La Pata/Vista Hermosa Park	$7.65 million
Total	**$7.65 million**

- In-Lieu Parking Reserve – $6.8 million available reserve balance exists which could be utilized for short-term borrowing.
- Sewer Connection Fee Reserve – $7.6 million available fund balance exists.
- Fleet Replacement Reserve – $3.4 million fund balance exists. Vehicle replacements for the 2011 and 2012 budget years should be set aside to calculate an amount potentially available for borrowing.

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

Recycled Water Expansion
The estimated cost of design and construction of the recycled water expansion is currently $22.0 million. A State Revolving Fund (SRF) loan of $12.8 million has been identified to fund a portion of this project. The uncertainties of State's budget crises continue. Proposition 50 funding, which represents a significant funding source for this project, is being received by the City for eligible design expenses thus far. The Capital Project Analysis presents the funding options listed below to design and construct the project.

Gap Closing Strategies

Gap Closing Strategy	
Recycled Water Expansion	(22,000,000)
Federal funding obtained through Congressman Calvert	500,000
State grant funding through Proposition 50	5,700,000
Sewer Connection Fee Fund	3,000,000
State revolving fund loan (2.2% interest)	12,800,000

The application for the SRF loan has been processed and submitted to the State to place the City into the queue for funding priority. Thus far, SRF personnel have indicated that the loan program has not been impacted by the fiscal problems of the State. Staff anticipates completing the necessary documentation to present to Council for authorization to obtain the SRF loan by April 2010, and final approval by the State expected by late summer or early fall of 2010.

Conclusion

Potential funding sources have been identified for the all of the Capital projects. Although short-term funding solutions have been presented for the construction of La Pata/Vista Hermosa Park, the long-term solution depends upon sale of the nine areas adjacent to the La Pata/Vista Hermosa site. The sale of property will ultimately resolve the funding gap for the project. However, the timing of the land sale may cause temporary cash problems during construction. Beginning in July 2010, the cash demands of the project will start depleting existing funding sources. If the cash requirement of the project is depleted prior to any sale of land, there is the possibility that $13.7 million will be needed to continue uninterrupted construction of this project.

The adaptive reuse of the Negocio building should be delayed until more favorable market conditions exist to see the City Hall site.

The Recycled Water Expansion project is dependent upon Prop 50 funding and the State's Revolving fund loan. 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 Loan.

Recommendation

1. Delay the Civic Center project until the sale of the City Hall site.
2. Fund the Recycled Water Expansion through a State Revolving Fund loan.

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.

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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