City of San Clemente

City Council

Patrick Ahle	Mayor
Jim Dahl	Mayor Pro Tem
Joe Anderson	Council member
Steve Apodaca	Council member
Lois Berg	Council member

City Manager

Mike Parness	City Manager

Department Directors

Paul Gudgeirsson	Director, Finance & Administrative Services
James S. Holloway	Director, Community Development
Michael L. Sorg	Director, Public Works
Bruce E. Wegner	Director, Beaches, Parks & Recreation
Lt. Tom Davis	Police Services Chief
Chief Bill Dean	Fire Services Chief

Project Leaders

Kumi L. Johnson	Budget Officer
Nita McKay	Controller
Larry K. Moore	Management Information Services Manager
Michael L. Sorg	Director, Public Works
Bruce E. Wegner	Director, Beaches, Parks & Recreation
David Lund	Economic Development Manager
Michael McNamara	The McNamara Company

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 Teams

Project Director
Paul Gudgeirsson, Director, Finance & Administrative Services

Financial Trends
Nita McKay, F&AS, Project Lead

Financial Forecast
Kumi Johnson, F&AS, Project Lead

Reserve Analysis
Kumi Johnson, F&AS, Project Lead

Revenue Options
Nita McKay, F&AS, Project Lead

Lighting and Landscape District
Bruce Wegner, BP&R, Project Lead

Street Improvement Program Update
Mike Sorg, Public Works, Project Lead

Organizational Development
Mike Sorg, Public Works, Project Lead

Computer Strategic Plan
Larry Moore, F&AS, Project Lead

Contract Analysis and Monitoring
Michael McNamara, the McNamara Company, Project Lead

Economic Development Trends and Update
David Lund, Economic Development, Project Lead

Issues and Objectives

Financial Trend Analysis

Objective:
Utilizing the International City Manager's Association (ICMA) Financial Trend Monitoring System, update the comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed. Ratings assigned to each trend include: Favorable (F), Unfavorable (U) or Warning (W).

Financial Forecast

Objective
To update the City's five-year financial forecast for the General Fund incorporating adopted City fiscal policies, expenditure patterns, revenue trends, 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 and (b) meet program needs without unnecessarily obligating scarce dollar resources. Recommendations will be made and incorporated into the City's Fiscal Policy.

Revenue Options

Objective
To analyze revenue sources and determine whether it will be feasible to increase fees or identify any potential new revenue sources in order to address the negative impacts of Proposition 218 on the City's General Fund.

Lighting and Landscape District - Ad Hoc Committee Report

Objective
To evaluate and analyze maintenance and development standards of beaches, parks and streetscapes in San Clemente as well as the need for future beach, park and streetscape facility expansion and determine the appropriateness of the Lighting and Landscape District or other funding opportunity as the funding source for the operation and maintenance of existing and future facilities. This objective has been further defined by the following goals:

1. *Current Use of the District - Review and analyze current operation and maintenance standards and service levels funded by the Lighting and Landscape District to determine if modifications and efficiencies are necessary and appropriate.*

2. *Funding of Services - Review and analyze what the District is currently funding and determine if this is acceptable or if alternative funding sources should be utilized to partially or completely fund current operations and maintenance.*

3. *Direction for the Future - Look into the future to determine park and recreation facility expectations and needs. Project the impacts of these expectations and needs and the cost to provide acceptable levels of facilities and services. Formulate how facilities and services are to be funding.*

Street Improvement Program Update

Objective
To provide a comprehensive update of the City's Street Improvement Program and project short and long term funding requirements.

Organization Changes

Objective
To examine the organizational and operational structure of City utilities and Public Works maintenance functions. Perform an analysis of overhead allocations to Enterprise funds.

Computer Strategic Plan

Objective
Perform a city-wide computer needs and assessment and develop a Computer Strategic Plan that addresses staff's and citizens short term needs and long term objectives. Develop a Request for Proposal for the necessary tools to migrate the City's current systems toward the objectives identified in the needs assessment.

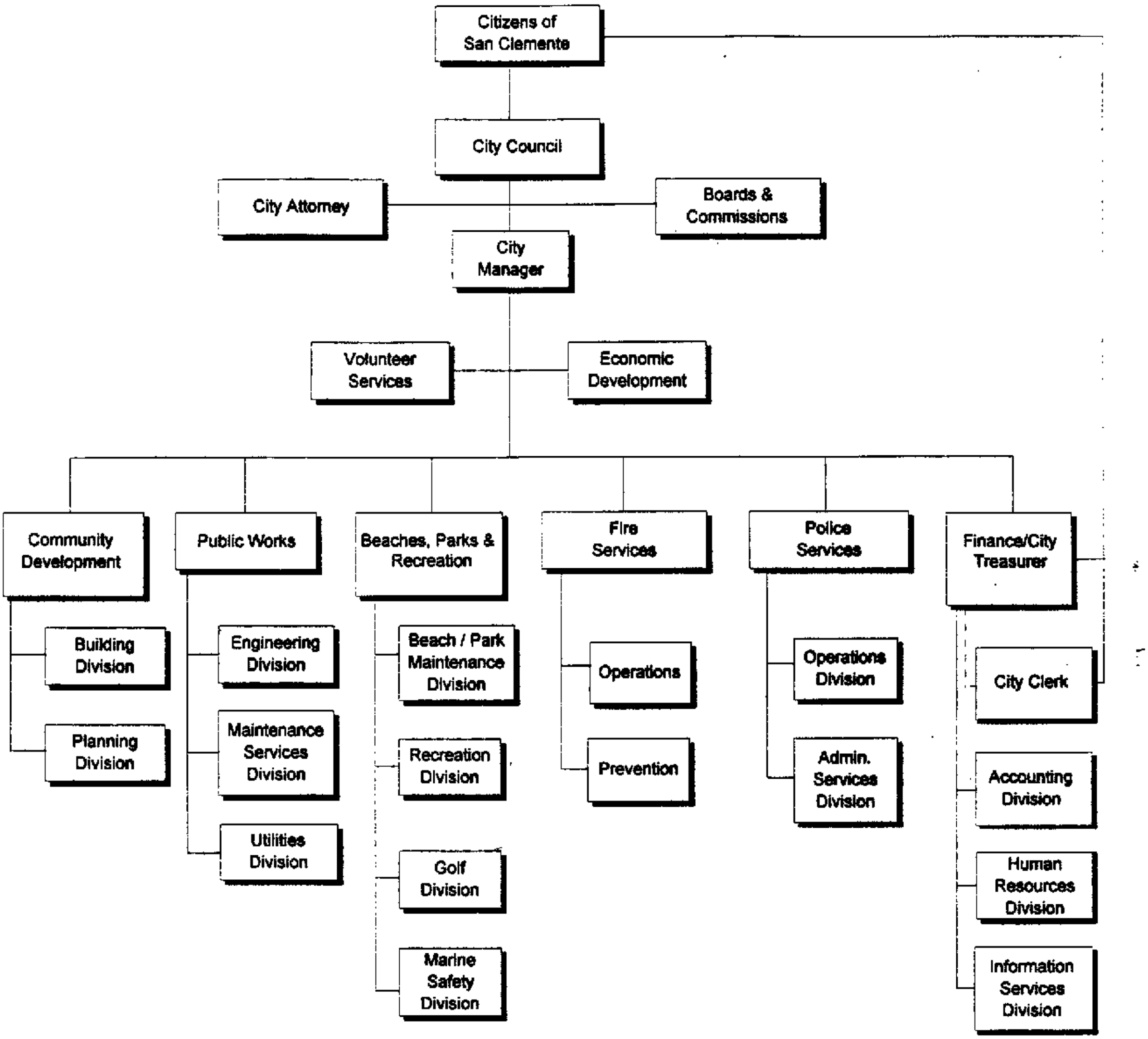
Contract Analysis and Monitoring

Objective
To provide a comprehensive update on contracted City services; to analyze the actual cost savings achieved and to ensure quality service delivery and citizen satisfaction.

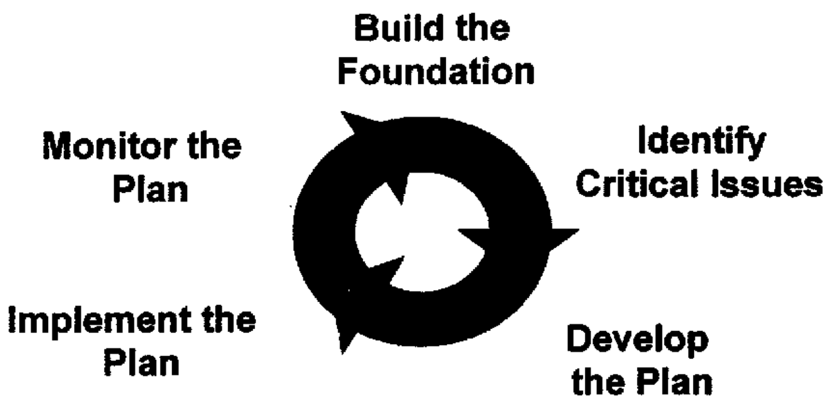
Economic Development Trends and Update

Objective
To examine City economic development indicators/trends for the past two years and provide a five-year projection for job creation and tax base growth.

City Organizational Chart



Long Term Financial Plan



The LTFP is a financial strategic 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 Plan consists of two volumes: The Long Term Financial Plan - Volume I provides the complete financial plan, while the Long Term Financial Plan Volume II - Issue Papers publication provides support documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition. Further explanation of each volume is provided below:

Long Term Financial Plan (Volume I): This volume includes the complete strategic financial plan and consists of the following sections:

The LTFP consists of the complete financial plan

- Introduction
- City Manager's Transmittal Letter
- Executive Summary
- Financial Trends
- Financial Forecast
- Fiscal Policy

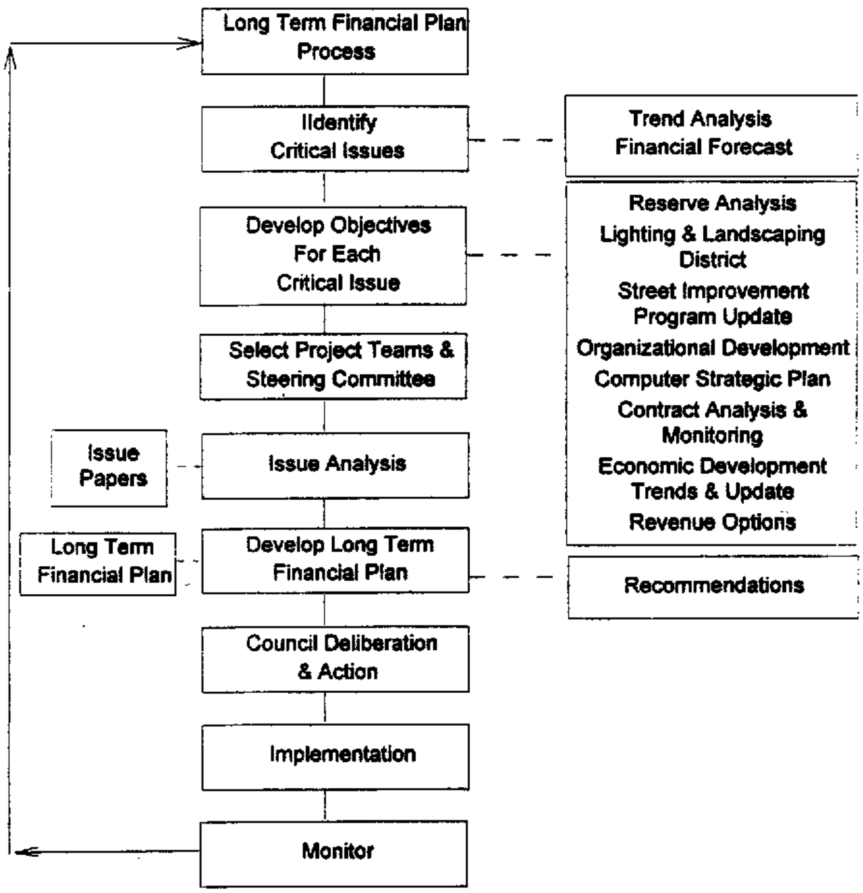
The Issue Papers provide support documents and are used to develop the plan

Long Term Financial Plan - Issue Papers (Volume II): This volume of the Long Term Financial Plan, published under separate cover, includes the complete issue analysis conducted by staff over a period of several months in developing the City's financial strategic plan. It should be used as a companion volume to Volume I.

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 comprehensive Long Term Financial Plan. This project was conducted largely 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. Assistance was also provided by the Kerry Group (Computer Strategic Plan) and Michael McNamara (Contract Analysis and Monitoring). Including the Project Director, there were 11 project leaders each assigned to teams addressing a specific critical issue.



Goals

As indicated, the process of developing the Long Term Financial Plan began by identifying several critical areas which have, or are expected to have, an impact on the financial condition of the City over the next five years. Once the critical issues were identified, specific goals and objectives were developed for each project 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 which 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 two months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan - Issues Papers report.

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 Trend Analysis and Financial Forecast as the foundation of the plan. Appropriate recommendations made in the issue papers were incorporated into this Long Term Financial Plan, which can essentially be described as a long-term financial strategic plan.

This Financial Plan will be presented to the City Council on February 19, 1997. Following is the schedule that will be followed by the Council as they develop an action plan that the City will implement as a part of the 1997-98 budget process:

Schedule

February 19, 1997	LTFP provided to Council and public for review.
February 22, 25, 26, 1997	Staff presentations to Council/Public and Council discussion of issues. Council deliberations and direction.
March 1, 1997	Additional Council deliberations and direction if needed.
March 5, 1997	Council adoption of Long Term Financial Plan.

CITY OF SAN CLEMENTE

1997
LONG TERM FINANCIAL PLAN

1997
Long Term Financial Plan

Volume I

City of San Clemente

Honorable Mayor and Council members:

The 1997 LTFP represents the City's fifth financial strategic plan

Introduction

I am pleased to present the *1997 Long Term Financial Plan* for City Council review and consideration. The 1997 LTFP represents the fifth in a series of financial strategic plans that have been presented on an annual basis since 1993. The development of these annual financial plans have strengthened the City's finances and addressed a number of critical issues over the past several years. A complete review of each past financial plan is included in the Executive Summary section of this document.

This volume (Volume I) of the Long Term Financial Plan includes an executive summary which describes the City's current and projected financial condition. Also included in this section of the report is an issue summary which briefly outlines the comprehensive reports included in Volume II of the LTFP. The remaining sections include abbreviated versions of the City's financial trend and forecast reports, and is followed by the City's current adopted Fiscal Policy.

Proposition 218 results in the transfer of $2.8 million in costs to the General Fund

The loss represents 13% of the General Fund

The development of the Long Term Financial Plan in 1997 has, to say the least, been challenging. On the one hand, all financial indicators lead us to the conclusion that the City is extremely healthy from a financial point of view. This is clearly established and documented in this volume of the LTFP. On the other hand, a mandated transfer of $2.8 million in costs into the City's General Fund, as a result of the passage of Proposition 218, causes an immediate remission. This loss, which represents 13% of the $21 million General Fund, must be dealt with as we prepare the City budget for the next fiscal year beginning in July 1997.

The 1997 Long Term Financial Plan

Proposition 218 is the major issue facing the City in 1997

As extensively documented in Volume II of the Long Term Financial Plan and summarized in this volume, the fiscal challenge of Proposition 218 is the major issue facing the City Council as we prepare the City's FY 1997-98 budget. Many of the ten issues examined in this years LTFP, relate directly or indirectly to the impact of Proposition 218. In response, City staff has developed a number of proposals for Council consideration over the next several weeks.

10 issues were examined as a part of the LTFP process

Financial trends and forecast are currently positive

Issues

The fiscally related issues examined this year include:

- *Financial Trend Analysis* - Financial trends continue to improve through the fiscal year closed in FY 1995-96. 17 of 20 financial indicators remain positive, while the three unfavorable indicators also improved.
- *Financial Forecast* - The City's financial forecast, without the effect of Proposition 218, is extremely positive. Fund balances were projected to be positive over the next five years as the City's financial position continued to show improvement.

Changes in reserve levels are proposed

- *Reserves* - This issue updates the status of the City's reserve program and outlines future funding requirements. Although a considerable amount of funding has been provided to fulfill reserve provisions over the past several years ($4.7 million), reserve requirements have not been fully met. Several changes in reserve transfers are recommended in order to deal with Proposition 218.

Four revenue options are recommended for consideration

- *Revenue Options* - Four proposals for revenue increases are put forward for Council consideration. These include a utility tax in place of Lighting & Landscape assessments, transfer of revenue from the City's Golf Course, increase in parking meter rates, and an increase in building permit and plan check fees.

The Lighting & Landscape Ad-hoc Committee report is included in the LTFP

- *Lighting & Landscape District* - This report was developed by a fifteen member ad-hoc committee appointed by the City Council. Although several recommendations are included in the report, proposals by City staff will also be presented to the City Council as a part of the Vital Few Priority process.

The street update indicates that a total of 25 streets will be completed by July

- *Street Improvement Program* - This issue paper provides a status report on the progress of street improvements. A total of 25 street projects will be completed by the end of this fiscal year. Additionally, 24 street projects are currently in the design stage.

Contracting of maintenance and utility functions is under consideration

- *Organizational Development* - The Public Works Department has prepared a comprehensive report on the potential contracting of the City's maintenance and utility functions. Contracting of the Maintenance Division may save $430,000. It is proposed that the issue of contracting utilities be explored further with two qualifying firms that have submitted proposals.

A new computer strategic plan has been developed

- *Computer Strategic Plan* - A Computer Strategic Plan has been developed and is recommended for implementation over the next several years. It was determined that the City's aging computer system needs to be replaced due to increased maintenance costs and in order to meet the information technology needs of City departments and the public.

Contractual savings have been achieved in major contracts

- *Contract Analysis* - The City has contracted several major City programs over the last few years. This paper objectively analyzes the costs savings realized and comments on performance standards. The report indicates that the City has achieved anticipated savings for most contracted services.

An economic development update is provided

- *Economic Development* - This report provides a comprehensive review of the City's current economic development programs. It provides both an update and projections for this critical program.

Proposition 218

Proposition was passed on November 5, 1996

On November 5, 1996, the California electorate approved Proposition 218, the "Right to Vote on Taxes Act." In general, the intent of Proposition 218 is to ensure that all taxes and most charges on property owners are subject to voter approval. As is often the case with new and far-reaching laws, attorneys and others disagree about a number of Proposition 218's provisions. Although legislation may resolve some of the uncertainty surrounding this constitutional amendment, the City has adopted a conservative approach to the implementation of Proposition 218.

There are 3 main provisions of Prop 218...

The three main provisions of Proposition 218 include:

1. Taxes

1. *Taxes*: All taxes will require voter approval including charter cities.

2. Assessments

2. *Assessments*: An assessment is a charge levied on property to pay for a public improvement or service that benefits property. The City currently has a Lighting & Landscape Assessment District and a Street Improvement Assessment District.

New requirements have been added to the levying of assessments

The measure adds several new requirements to the levying of benefit assessments, including the approval process. Previously, an assessment could be imposed following public notice and a hearing if less than a majority of those affected chose to formally protest the proceedings. Proposition 218 redefines the majority protest process to resemble a vote. Ballots are mailed to property owners along with their notice, and a majority must now approve the measure, shifting the procedural advantage to the opponents of an assessment.

Only special benefits can be financed with assessments...

General benefits of the Lighting & Landscape District must be transferred to the General Fund

The measure also states that only special benefits can be financed with assessments. Based on the definition of "special benefit" the City's Lighting & Landscape District no longer meets the definition of special benefits, thus the "general" benefits provided by the District must be transferred to the General Fund. In order to vote on assessments of this nature, the assessment would have to be parcel based and a special benefit must be clearly established. Although exemptions are provided for streets and sewers, there is no exemption for lighting, landscaping, and park assessments. The total loss of assessment revenue totals $1.9 million; however, the cost of eliminating the district amounts to $2.1 million.

Results in loss of $2.1 million

Since an exemption is provided for streets, the City's Street Improvement District is not subject to Proposition 218 requirements.

3. Fees and charges

3. *Fees and charges*: The new requirements relate to "property-related fees and charges." New charges or increasing current charges for water, sewer and refuse collection will now require public notice, hearing, and termination of the process if a written majority protest occurs. New charges other than for water, sewer, and refuse collection, will require voter approval. The measure also requires that fees and charges reflect the cost of service. Based on these conditions, increases in utility rates will be subject to the new public notice requirements.

In-lieu fees are prohibited resulting in a loss of $484,000

Additionally, the collection of "in-lieu property tax" fees from utility funds for deposit into the City's General Fund is prohibited. This is because these fees are passed onto local residents in the form of higher water and sewer rates. This is an additional loss of $484,000 to the City's General Fund.

In order to impose a tax, the City comply with the following provisions:

General taxes must be approved by a majority of voters

◊ All general taxes must be approved by a majority vote of San Clemente registered voters.
◊ Elections for general taxes must be consolidated with a regularly scheduled election for members of the City Council; however, in an "emergency" this provision may be waived by a unanimous vote of the Council.

Special taxes require a 2/3 vote

◊ Any tax imposed for a specific purposes is a "special tax" and requires a two-thirds support of those voting.

Financial Considerations

As indicated earlier, the City's General Fund must absorb $2.8 million in costs or lost revenues through the implementation of Proposition 218. The following table outlines, in summary form, the major programs affected:

Summary of $2.8 million shortfall

Program	*Financial Impact*
Loss of in-lieu transfer from utility funds	$483,820
Refuse charges currently provided free by disposal company absorbed by General Fund	$124,000
Loss of lifeline rates for utility charges	$30,000
Lighting & Landscape District	$2,149,830
Total	*$2,787,650*

A complete listing of programs in the Lighting & Landscape District is contained in the Financial Summary section of the LTFP.

Program and revenue options total $1.5 million...

...reducing the shortfall to $1.24 million

In order to partially close the gap, a series of measures are recommended for adoption by the City Council. If approved, the total shortfall would be narrowed to $1.24 million. These options, totaling $1.5 million, include avoided costs, program reductions, and increases in revenue:

Program, revenue and avoided cost options

Option	*Financial Impact*
Avoided Costs:	
Reduction of reserve contributions	$550,000
Elimination of transfer to Lighting & Landscape District for youth sports fields in conjunction with CUSD	$100,000
Eliminate Pay-for-Performance Program	$38,000

Program Reductions:	
Position reductions/reclassifications	$58,000
Contracting of maintenance services resulting in reduction of 22 positions	$430,000
Revenues:	
Transfer Golf Course revenues to General Fund	$250,000
Increase parking meter rates from $.75 to $1.00 per hour	$120,000
Total	***$1,546,000***

Several options exist for closing the gap..

Assuming that the above proposal for program reductions and revenue increases are approved by the City Council, the financial planning process will undoubtedly focus on closing the remaining gap of $1.24 million. Obviously, the Council has several options including

Utility tax would save approximately 36%

◊ Adoption of a revenue source to replace the Lighting & Landscape District assessment. The current annual assessment for a resident living on a public street amounts to $93.00. As an example, a 3% utility tax would cost the average resident approximately $59.70, a reduction of 33%.

Service and program reductions could be expanded

◊ Implementation of service and program reductions. A listing of programs has been provided to the City Council using the Vital Few Priority process and forms.

◊ Council could also consider some combination of the above two options.

If an election is called, it will be held on June 3, 1997

Should the Council choose to place a measure on the ballot for a utility tax, a special election will have to be called by March 6, 1997. The election is anticipated to cost approximately $50,000.

The following schedule will be followed for the consideration of the 1997 Long Term Financial Plan:

LTFP Schedule

February 19, 1997	*Presentation of Long Term Financial Plan*
February 22, 1997	*Presentation of LTFP issue papers/Consideration of Vital Few Priorities*
February 25, 1997	*Council consideration of LTFP*
February 26, 1997	*Council consideration of LTFP*
March 1, 1997 (tentative)	*Council consideration of LTFP*
March 5, 1997	*Last Council meeting prior to the March 6 date for calling a special election*

The 1997 Long Term Financial Plan seeks to, once again, propose viable solutions that the Council may consider in addressing the financial needs of the City. Alternative solutions dealing with a wide array of topics are provided for Council deliberation. Along with the Vital Few Priorities that will be discussed with Council on February 22, 1997 the direction that you provide as the result of Long Term Financial Plan discussions will set the stage for the 1997-98 budget preparation process.

I would like to take this opportunity to thank all staff members who assisted in completing the City's fifth Long Term Financial Plan. Although we face a formidable task in dealing with the impact of Proposition 218, I believe that the strategic financial planning process will assist us in coming up with viable and lasting solutions.

Mike Parness
City Manager

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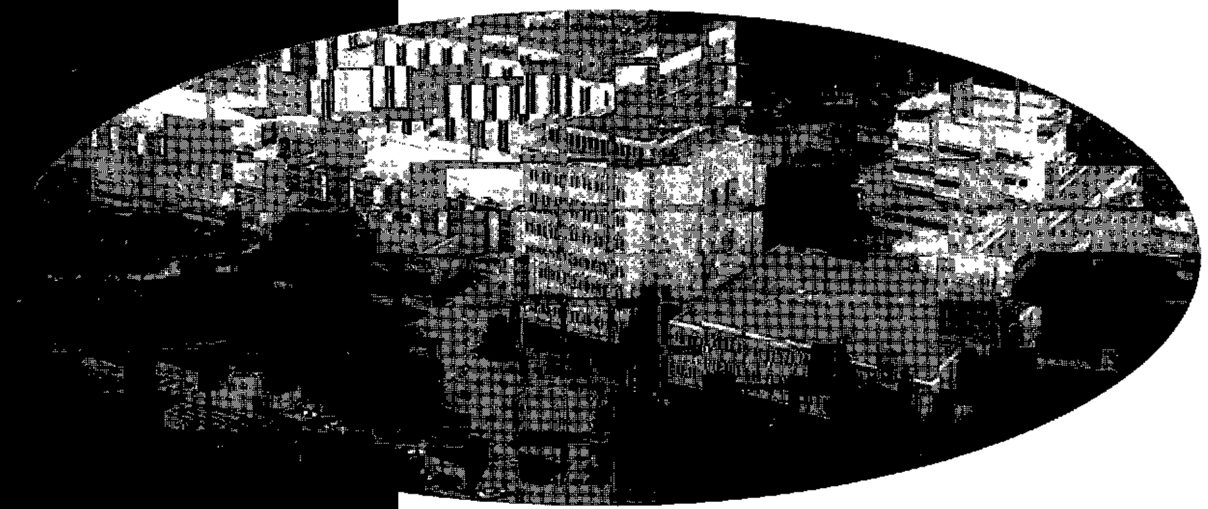
File LTF P98- Forecast



1998-2002

October 1997

Economic Forecast

FOR SOUTHERN CALIFORNIA AND ORANGE COUNTY

INSTITUTE FOR ECONOMIC AND ENVIRONMENTAL STUDIES

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October 21, 1997

Dear Colleagues in Business, Education and Public Service:

The School of Business Administration and Economics at Cal State Fullerton and the Orange County Business Council are pleased to welcome you to this, the thirteenth annual Economic Forecast Conference!

The Institute for Economic and Environment Studies (IEES), under the direction of Dr. Anil Puri, has prepared an analysis and forecast of economic indicators from 1998 through the year 2002. As a valuable tool in strategic planning, Dr. Puri's report includes economic trends in employment, retail sales, and housing markets. Not only does this forecast information relate to the local, national and international picture, but specifically highlights the effect of long term economic trends in the counties of Orange, Los Angeles, Riverside, San Bernardino and Ventura.

With Dr. Puri "at the helm," Cal State Fullerton is proud that the IEES stands as one of the most powerful centers of research in Southern California, while receiving increasingly widespread media coverage. As a member of the National Association of Business Economists, Dr. Puri participates in the Economic Policy Survey, providing his valuable perspective on the most serious economic problems facing the U.S. today.

Cal State Fullerton's School of Business Administration and Economics is again the third largest undergraduate business program in the United States (enrollments for 1997/98 have increased by approximately 14% since 1995)! The School's alumni play increasingly important roles in the business community of Southern California and in developing and implementing the School's participation and visibility in that community.

Each year, the School presents its annual Dean's Breakfast Series, discussing relevant and topical issues. As part of this three-program series, Dr. Puri will provide the IEES Mid-Year Economic Update in April 1998. Today, as the centerpiece of all its activities, the IEES, along with the Orange County Business Council and the School of Business Administration and Economics, again welcomes you to the Annual Economic Forecast Conference.

Ephraim P. Smith

Ephraim P. Smith, Dean
School of Business Administration and Economics

CALIFORNIA STATE UNIVERSITY, FULLERTON P.O. Box 6848 Fullerton, CA 92834-6848
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The Institute for Economic and Environmental Studies at California State University, Fullerton expresses its sincere thanks to American Express for serving as underwriters to the 1998 Economic Forecast Conference held on October 21, 1997 at the Hyatt Regency Irvine. Special thanks is extended to the Conference sponsors (page 40), and gratitude for organizing and supporting this event goes to the Orange County Business Council, to John McCauley and the Conference Planning Committee, and to the Executive Council of the School of Business Administration and Economics at Cal State Fullerton.

As it expands its successful program of research, reports, and economic forecasting, the Institute is building partnerships with the corporate, business, and public sectors of the Southern California Community. The Institute invites key business executives and public officials to become sponsors of the Institute and to support IEES activities.

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School of Business Administration and Economics

ECONOMIC OUTLOOK AND FORECASTS

for Orange County and Southern California, 1998-2002

Anil K. Puri, Ph.D.[1]
Director, Institute for Economic and Environmental Studies and
Chair, Department of Economics, California State University, Fullerton

This has indeed been an exceptional economic recovery, not only in its duration — seventy five months — but also in its nature.

THE NATIONAL OUTLOOK

This has indeed been an exceptional economic recovery, not only in its duration — seventy five months — but also in its nature. Economic recoveries during the post-Second World War period typically have begun with a tremendous burst of energy resulting in growth rates of output substantially above long-term rates, sharply lower unemployment rates and above average corporate profits. But after an average period of forty nine months, the steam runs out of the economic engine for one of many reasons—inventory build-up, supply shocks or monetary imbalance.

The present growth cycle of the economy, which is estimated to have started in April 1991, has added 11.6 million jobs nationally and $112 billion ($1992 dollars) in output. The average rate of growth in real gross domestic product (GDP) over this period was 2.75% per year while employment grew at a rate of 155,000 jobs per month. As a result, the unemployment rate has fallen from a high of 7.3% in December 1991 to 4.8% in July 1997. Most significantly, the inflation rate (measured by the consumer price index) has averaged only 2.8% per year in the last six years, a low rate of inflation not observed since the nineteen-sixties. Corporate profits have also shown hefty gains, another high point in this robust economic picture. At end of summer 1997, the consumer confidence index and housing starts remain at high levels. Business investment has maintained its momentum without showing any signs of excess.

But what is really impressive about this performance is that, as of the writing of this report, there is almost unanimous agreement among knowledgeable observers of the economy that inflation will remain

FIGURE 1
GDP Growth & Index of Leading Economic Indicators 1992=100

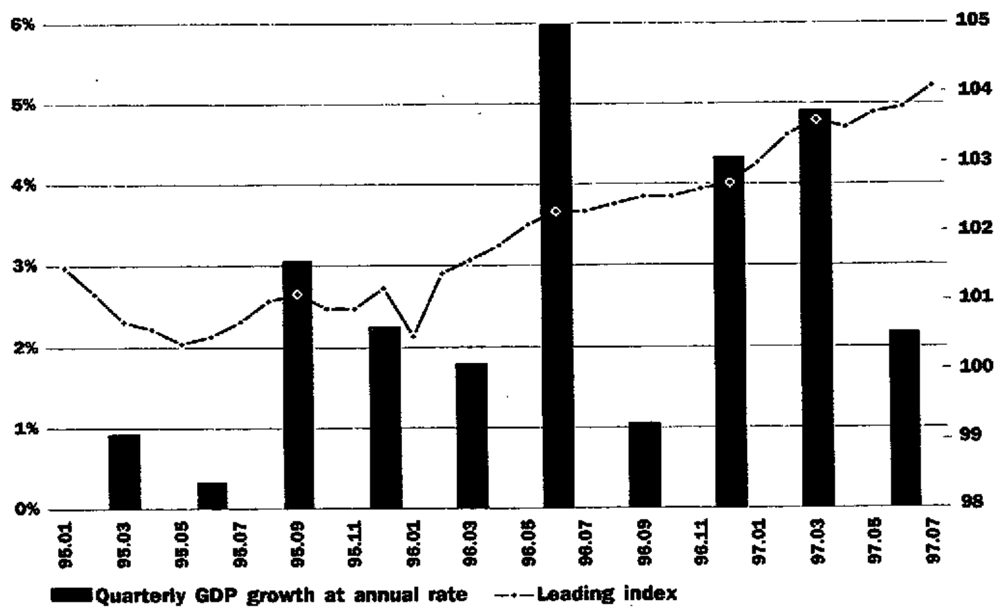
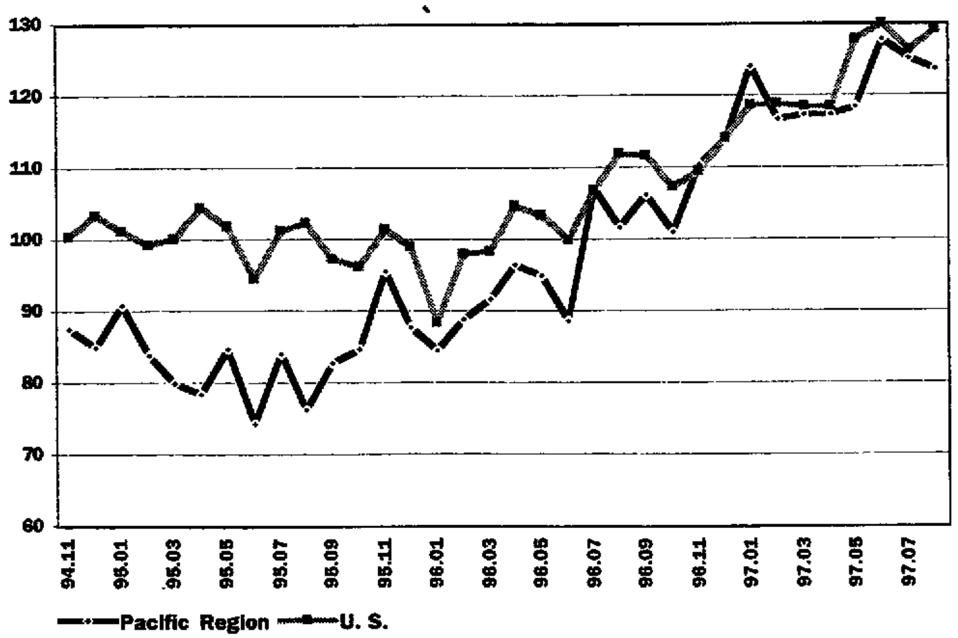


FIGURE 2
Consumer Confidence Index 1985=100



subdued in the near term. Even the members of the Federal Reserve Bank policy-making group have shown little enthusiasm so far for leaning against the growing momentum of this economic expansion. Excessive business inventory growth, the nemesis of many recoveries of the past, has not materialized. The increase in second quarter 1997 inventories seems to be in line with the continuing robust consumer expenditures that have boosted retail sales. Capacity utilization is running at 83.5%, still below the 84% level considered to be an indicator of over-burdened factories. Business investment has steadily added to the overall physical capacity of the nation's factories in addition to improving their productivity. Though there appears to be more than sufficient financial liquidity available, it has not yet led to any signs of excessive heating of the housing or credit markets.

While such a remarkably well-behaved economy over such an historically long period may appear to be a mystery to some, its roots can easily be traced to three significant factors, each of which is unprecedented in its own way.

First is the computer-based information revolution. This has led to a boom in business investment because of the need to upgrade information technoling for Orange County high-tech sectors. This study estimates that the Orange County high-tech exports have grown at double-digit rates in the 1990s and have generated more than 120,000 jobs to this date. In the next three years, these exports are expected to bring an additional cumulated $3.2 billion and to create 20,000 more jobs.

Data Sources :

"California International Trade Register", Database Publishing Company, (1992).

"International Financial Statistics", International Monetary Fund.

"MISER State of Origin Exports", NTDB database, U.S. Department of Commerce.

"Orange County and Regional Economic Outlook", Institute for Economic and Environmental Studies, (October 1996).

"Regional Multipliers", U.S. Department of Commerce, (1992).

"U.S. Foreign Trade Highlights", Office of Trade and Economic Analysis, U.S. Department of Commerce, http://www.ita.doc.gov/tradestats/

[1] Associate Professor of Economics and Research Associate at the Institute for Economic and Environmental Studies, CSUF. I would like to thank its director, Anil Puri, for providing updated economic data, as well as Gustavo Vargas, director of the Interamericas High-Technology Business Partnership Project (INTERAM), CSUF, for supporting this research with a grant. For data behind the figures and other details, please call the Institute for Economic and Environmental Studies at 714-278-2509.

ogy. There is little doubt that it has added to productivity, though the extent of this contribution is the subject of intense debate.

Second, and equally significant, is the much higher level of competition due to the globalization of trade abroad and the deregulation of industries at home. The deregulation of the telecommunication and financial sectors has led to a vast re-organization of these industries resulting in massive cost cutting. Electric and gas utilities are expected to go through the same process in the coming few years. This intense, often brutal competition, has led to a large number of job losses but also has improved productivity. Increased global trade accelerated this process resulting in phenomenal growth of American businesses abroad and lower prices at home. The high exchange value of the U. S. dollar has helped to keep import prices low.

The third constituent of this long-running growth cycle has been an unusual policy consensus on the need for a balanced budget and a cautiously tight monetary policy. Notwithstanding the fact that the growing revenues generated by this booming economy were instrumental in cementing the balanced budget agreement of 1997, the expectations of a lower government share of the national output has been the main reason for the low long-term interest rates. Preemptive monetary tightening in 1995, and readiness to repeat the same if necessary, seems to have provided sufficient assurances to the financial markets. As a result, continuing low interest rates and expected inflation have been sustained for the past seven years.

Adherents of the "New Economy," i.e., those who believe that information technology and globalization have fundamentally so altered the dynamics of the economy that low inflation has become a continuing reality, have yet to prove their case. This is not to deny the revolutionary impacts of information technology and globalization. The world of business has undeniably been altered because of the forces of change unleashed by these two developments. However, this does not lead to the proposition that inflation is dead. Inflation has many origins: supply shocks, monetary excesses, supply imbalances–any of which can lead to a rapid increase in prices.

Possible Risks and Implications

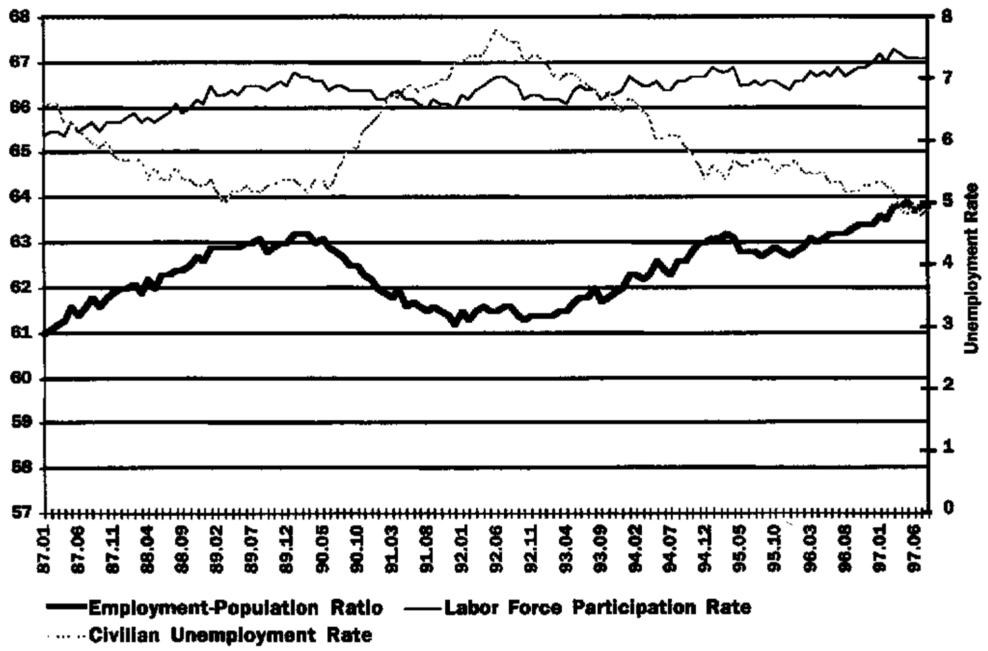
The product and resource markets, including energy, appear to be well-behaved at this time with very low rates of inflation. Inventories and money supply are in reasonably good shape. Where then are the possible signs of a slowdown of the economy? It seems there are two likely culprits, other than an unexpected event (such as war or other emergencies). The first is the growing evidence of wage inflation, combined with low unemployment rates, and the second lies in the economic problems of the Asian Pacific countries.

Based on standard economic theory, the total output of the U. S. economy can only grow, at most, at the combined growth rate of the labor force and productive capacity increases. The recent growth in GDP has been sustained primarily by the rapid increase in employment which has reduced the unemployment rate to below 5%. This tightening of the labor markets has driven labor cost increases up from 1.8% in 1996 to 2.8% in 1997.

According to many analysts, large productivity increases are very hard to come by even under the most generous assumptions one can make with regard to the productivity boost given by the New Economy. The gains from information technology have proven very

FIGURE 3

U.S. Labor Force and Employment Trends



difficult to measure at this time. Since we may be getting close to the limits of the available labor pool and further increases in output from employment growth are no longer possible, the current level of over 3% annual output growth rate may be unsustainable.

To the extent the above hypotheses holds, the national economy has to slow down to its long term growth rate which is estimated to be approximately 2.4 to 2.6% growth of real GDP per year. Unless this tempering of the economic pace occurs in the near term, there is real danger of inflationary pressures seriously disrupting this long-running economic success story.

THE GLOBAL OUTLOOK

The other possible jolt to the national economic system could arise from the financial crisis in Thailand which continues to reverberate throughout Southeast Asia. All the major economies in the region — Indonesia, Malaysia, Philippines, Singapore — have seen their currencies sharply depreciate and interest rates rise. Higher inflation rates and major belt-tightening in public sectors are likely to follow. This could have significant global fallout given that the region has become the fastest growing market of the world economy. A prolonged crisis could shake the sense of invulnerability that many years of sustained double digit growth rates have engendered.

Additionally, the Japanese and South Korean economies continue to struggle at painfully slow rates to solve their domestic economic problems. To the extent that Japan and South Korea depend on increased exports to solve their domestic weakness, U. S. companies will face greater competitive pressures. The current consensus, however, appears to be that the financial crisis of the Pacific Asian countries can be managed without a major impact on the rest of the world. Growth in these countries will be slower, but only by historical standards. Table 1a illustrates the relative growth rates for some of these countries as well as other important trade partners.

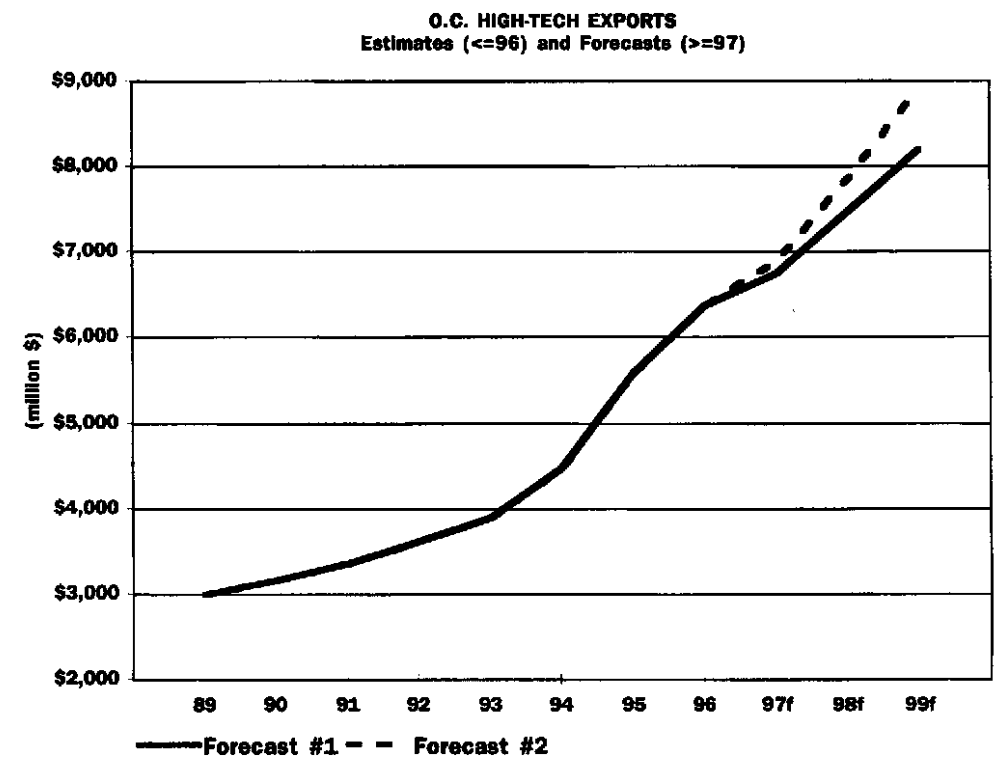
V. FUTURE OPPORTUNITIES FOR HIGH-TECHNOLOGY EXPORTING FIRMS.

Before the end of the century, Orange County exports of high technology products should exceed $ 8 billion (Figure 6). We produced two sets of forecasts depending on different assumptions about the long-run trend of exports. The second model reflects more a continuation of the latest trend than the first model.

FIGURE 6

Orange County High-Tech Exports

ESTIMATES (<=96) AND FORECASTS (>=97)



Orange County high-tech exports are expected to rise at an annual rate between 6.7% and 9.0% over the next three years. This slowdown in the growth rate will be most pronounced in 1997, while growth will resume at a double-digit level thereafter (Figure 5). As a result, more than 20,000 jobs should be created by the turn of the century. Both models also indicate that exports to China will grow the fastest.

VI. CONCLUSIONS.

High technology firms in Orange County have had a lot of success in exporting their products. As a result, the local economy received many benefits from this important source of growth, especially during the California recession of the early 1990s. Over the next three years, despite a slowdown in growth, high technology firms should continue taking advantage of opportunities in emerging markets, due to their need to modernize their economies and the comparative advantage and specialization of Orange County in technologically advanced sectors.

This study quantifies the theoretical benefits and opportunities for high technology firms in Orange County. The California Trade and Commerce Agency has already enumerated five major economic benefits of high-tech sectors : (i) high-tech sectors account for an above-average share of U.S. jobs; (ii) high-tech firms pay above-average salaries; (iii) productivity in other sectors is enhanced by high-tech industries; (iv) high-tech products are in high demand abroad; (v) additional jobs are created by the presence of high-tech firms. Therefore, the future looks promis-

IV. High-Technology Export Destinations : Asia Pacific and Emerging Markets.

Over the last three years, Asian Pacific nations acquired more than half of our high-technology exports (Figure 4). In 1996, Japan purchased almost 20% of Orange County high-tech exports, that is more than the our NAFTA partners, Canada and Mexico, with a 15% share. However, the economic recovery following the severe Peso crisis in 1995 helped make Mexico the fastest growing market for Orange County's high-tech exports (Figure 5). On the other hand, the economic problems in Europe and South America have dampened our export growth in 1996. It is likely that emerging markets in Asia will continue to provide the most important sources of growth for Orange County's high-tech export revenues. Orange County's comparative advantage in the technologically advanced sectors and their need to modernize their economies provide plenty of opportunities for the future.

FIGURE 4
Orange County Exports

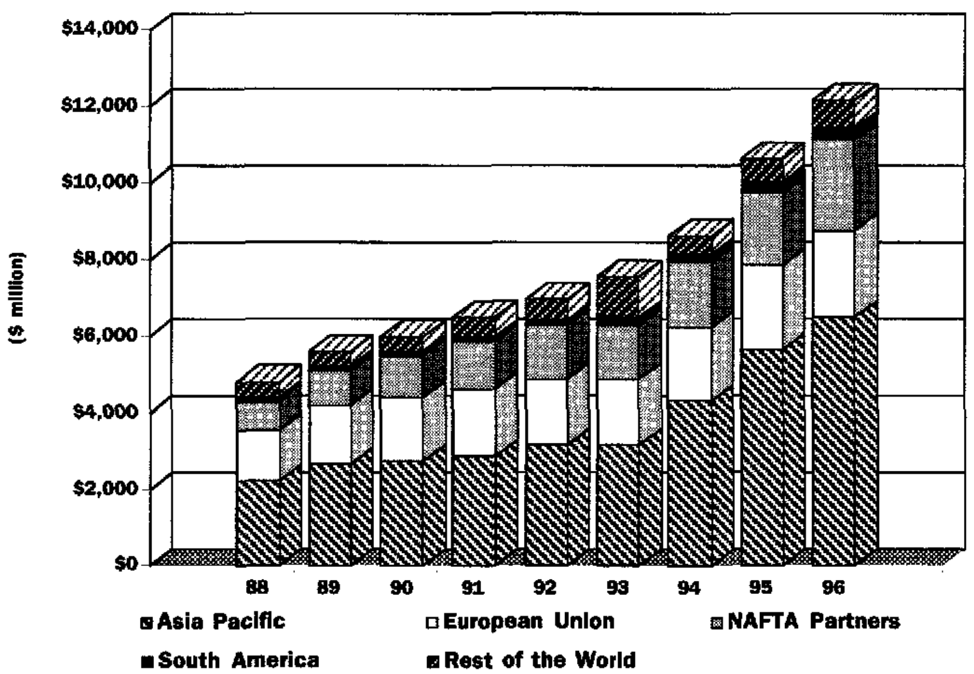


FIGURE 5
Orange County Export Growth, 1995-96

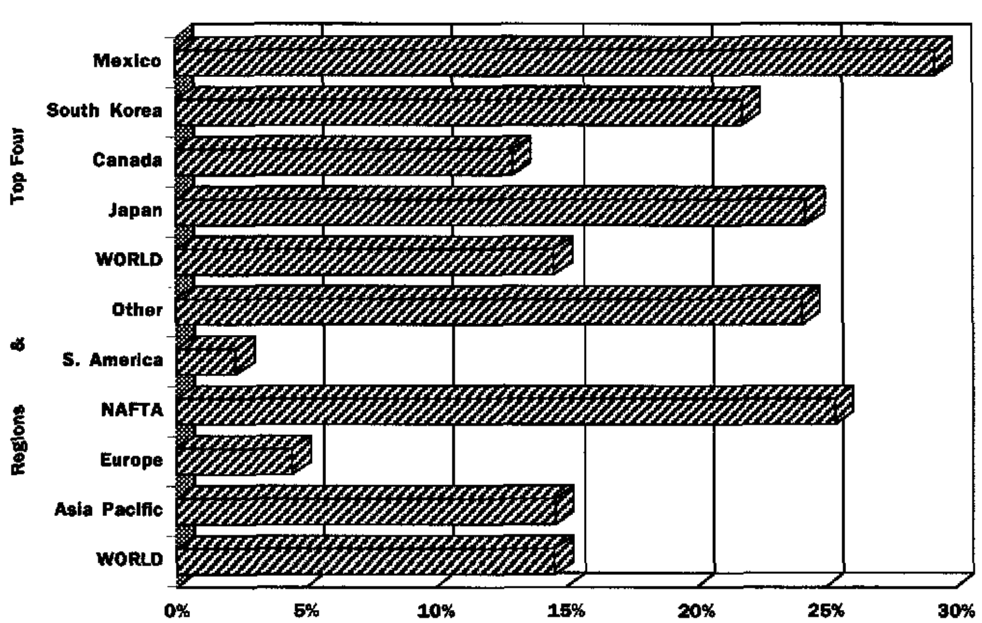


Table 1A
Growth Rates and Trends for Major Partners

	1997	1998
Argentina	6.2	4.5
Canada	3.6	3.4
China	10.3	10.6
Germany	2.4	3.3
Indonesia	7.9	7.7
Japan	2.3	2.9
Mexico	5.0	4.8
Singapore	6.6	7.1
Korea	5.6	6.0
Taiwan	6.3	6.5
Thailand	4.1	6.3
U.K.	3.8	3.4

Source: Merrill Lynch

On the other hand, providing more positive news, Germany and France both finally appear ready to shake-off their economic doldrums. Economic growth in France has picked up from a tepid 1.5% in 1996 and early 1997 to over 2.5% in the second half of 1997. Its budget deficit is expected to decline below 3% of GDP by 1998, as required by the rules for European monetary integration.

Though the German unemployment rate still is above 11%, accelerating growth of the economy, as indicated by a 2.9% rate in the second quarter, is expected to result in a 2.5% overall growth rate of output for 1997. A much depreciated mark, 19% lower against the dollar this year, has led to booming exports of autos, capital goods, pharmaceuticals and chemicals. While this has led to inflation fears due to higher prices of imported goods, a rise in German interest rates is far from certain.

Among the NAFTA countries, both Mexico and Canada are enjoying much healthier economies compared to a year ago. Mexico's economy has been growing at a healthy 5% annual growth rate of GDP in 1997 and is expected to maintain that rate next year. The exchange value of peso has continued to improve to an extent that the Mexican government is concerned about its possible harmful effects on the country's exports. The Canadian economy, too, is expected to grow at over 3% annual rate in 1997 and 1998.

Taking into account the anticipated effect of domestic and international factors we have constructed a likely scenario for the U.S. economy based on our best current assumptions. We anticipate a

Table 1B
National Economic Scenario

	1997	1998	1999	2000	2001	2002
Gross Domestic Product						
Rate of Growth	3.6	2.3	1.8	2.1	2.4	2.4
Implicit Price Deflator % Change	2.0	2.5	2.6	3.0	3.0	3.0
Industrial Production						
Rate of Growth	3.8	2.9	2.7	3.0	3.1	3.1
Household Employment						
Household Employment % Change	2.4	1.8	1.8	1.0	1.3	1.3
Unemployment Rate	4.8	4.9	5.4	5.5	5.5	5.6
Money Supply						
M2, Growth Rate	4.9	3.5	3.9	4.2	4.3	4.4
Interest Rates						
30 Year Govt. Bond	6.7	6.9	6.9	6.8	6.6	6.5
Inflation						
Consumer Price Index % Change	2.4	2.9	3.0	2.9	3.0	2.9
Personal Income						
Rate of Growth (Current $)	5.7	5.4	5.1	5.7	5.5	5.5
Housing Starts						
Millions	1.45	1.44	1.42	1.46	1.44	1.45

tightening of monetary policy later this year which will have a dampening effect on output and employment in late 1998 and early 1999. This scenario is illustrated in Table 1b for major national economic variables whose predicted values are used in the forecasts discussed later in this report.

FIGURE 4
Total Payroll Job Index
JAN. '91= 100

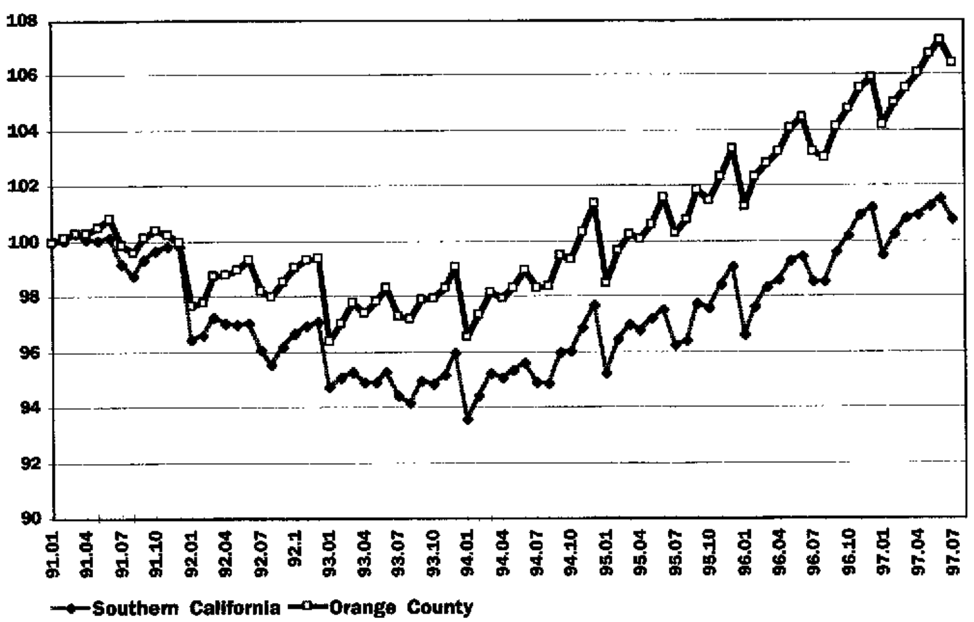
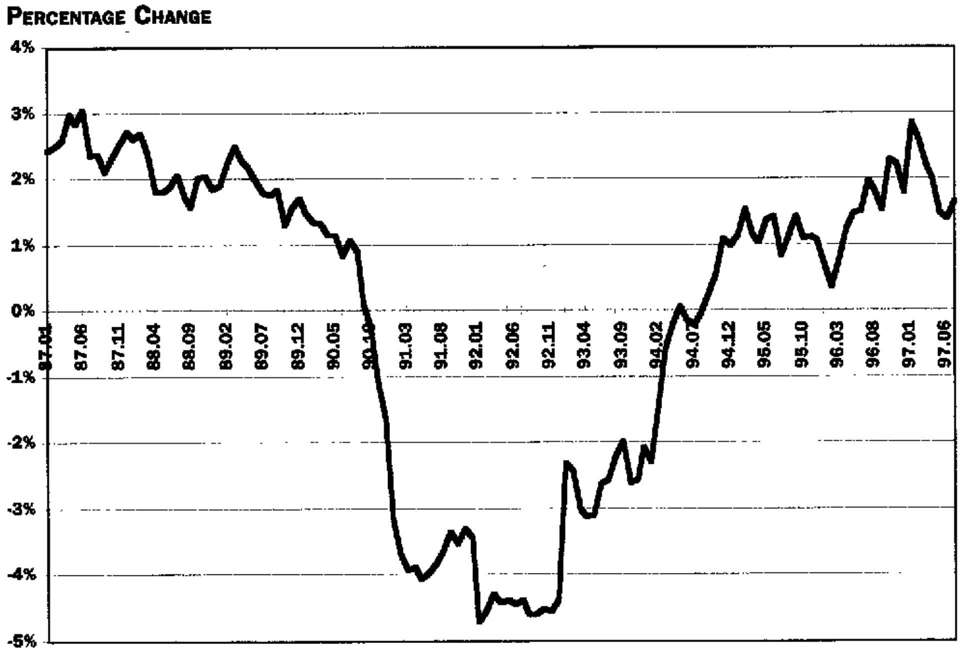


FIGURE 5
Los Angeles Total Payroll Employment
PERCENTAGE CHANGE



THE REGIONAL OUTLOOK

Rapidly improving economic conditions since late 1996 have generated impressive employment gains for the Southern California region (Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties). By July 1997, the region had already added 145,000 payroll jobs compared to 118,000 in all of 1996, a 23% increase. Los Angeles County had 76,000 more jobs by July 1997 compared to 55,000 in all of 1996 while Orange County matched its 1996 gain of 32,000 jobs. Riverside-San Bernardino added 30,000 versus 25,000 jobs and Ventura 6,500 versus 2,500 jobs over the same period.

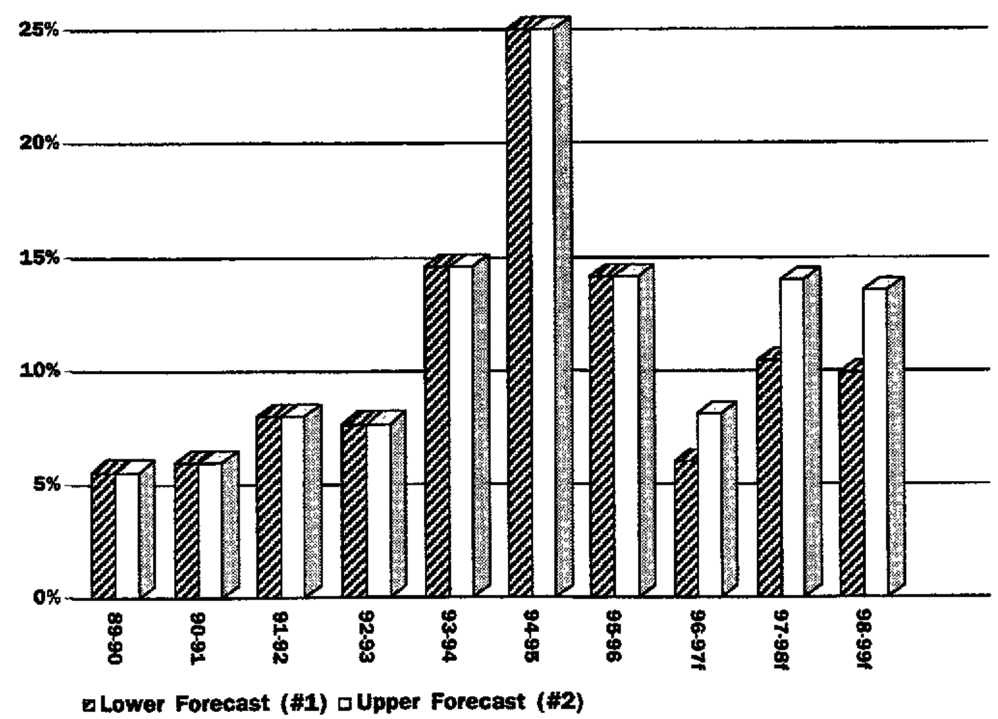
Another measure of employment, household employment, which is measured by a survey of households (compared to the employer based payroll survey) and includes self-employed

II. CONTRIBUTIONS OF HIGH-TECHNOLOGY EXPORTS TO ECONOMIC GROWTH.

Over the last six years (1990-96), the growth of Orange County exports of high-technology products has been on average 12.4% per annum, which is about the same as for other exports, but substantially above the low economic growth rate we experienced during a prolonged recession in the early 1990s. These exports have been particularly beneficial for the economy over last three years, rising at 17.8% per year. It is evident that the economy would not have recovered as well without the strong performance of high-tech exports.

During 1996, exports of computers and other instruments have increased at a fast pace and thus contributed to an overall 14.1% growth rate of high-tech exports (Figure 3).

FIGURE 3
Orange County High-Tech Export Growth
ESTIMATES (<=96) AND FORECASTS (>=97)



III. THE IMPACT OF HIGH-TECHNOLOGY EXPORTS ON JOBS.

High-technology exports also exert an important and positive influence on the labor market. Regional multipliers (from the Department of Commerce) measure the number of jobs supported by $1 million in exports (in 1989 Dollars). These parameters were actualized to take into account inflationary biases and multiplied by disaggregated California exports. For example, an additional million Dollars in current exports would generate about 20 jobs in high-tech industries. Given that Orange County exported about $6.4 billion of high-tech goods, the number of related jobs reach 120,000, that is more than half the jobs generated by total exports from Orange County.

puters (SIC 357), audio-video equipment (SIC 365), communication equipment (SIC 366), electronic components (SIC 367), aircraft and parts (SIC 372), spacecraft (SIC 376), scientific instruments (SIC 381), controlling instruments (SIC 382), medical instruments (SIC 384), photographic instruments (SIC 386).

An examination of Orange County exports by sector (Figure 1) suggests that machines and instruments are the best sellers abroad. More specifically, exports of high-technology products (Figure 2) consistently represent more than half of total exports over the last decade. In 1996, these high-technology exports reached more than $6 billion and supported more than 120,000 jobs. Computers lead these exports with a third of the revenues and related jobs, followed by controlling instruments with an additional fifth of the sales abroad and related jobs. The third and fourth largest export category are medical instruments and electronic components, accounting together for almost a third of the high-tech exports.

FIGURE 1
Orange County Exports in 1996

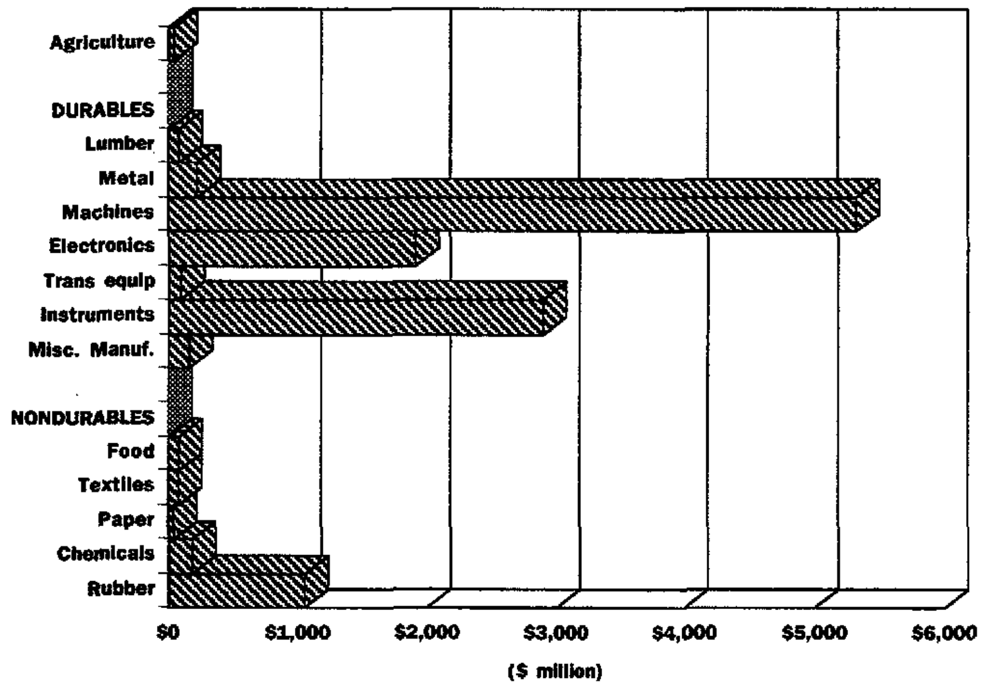
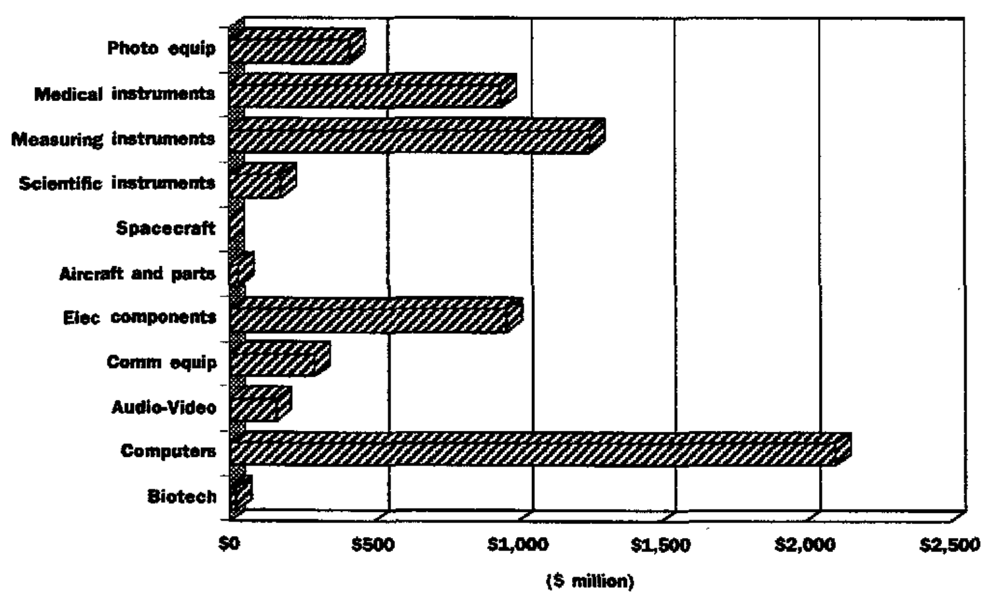


FIGURE 2
Orange County High-Tech Exports in 1996



individuals, showed still better gains. By July 1997, the region's household survey showed a gain of 178,800 jobs over the January-July period. This is an increase of 58% over the same period a year ago. Los Angeles County's household job gains during the same period were 81% larger and Riverside-San Bernardino's were a phenomenal 135% larger! While these figures are subject to large seasonal fluctuations, the picture of a region back on track seems abundantly clear.

The major difference in 1997 compared to 1996 has been the recovery in Los Angeles County's economy. While the recovery from the 1990s recession was slow throughout the region, Los Angeles County's job growth was particularly sluggish. Orange County had recovered all of its payroll jobs by 1996 which had been lost during the recession, while Los Angeles County has just begun to reach once again the 4 million jobs mark of the early 1990s. Since the beginning of 1997, Los Angeles County's total payroll employment, led by a vigorous growth in its manufacturing and services, has grown at a 2.02% average rate compared to 1.15% rate during the same period a year ago. Since Los Angeles County makes up over 63% of all payroll jobs in Southern

FIGURE 6
Orange County Total Payroll Employment
PERCENTAGE CHANGE

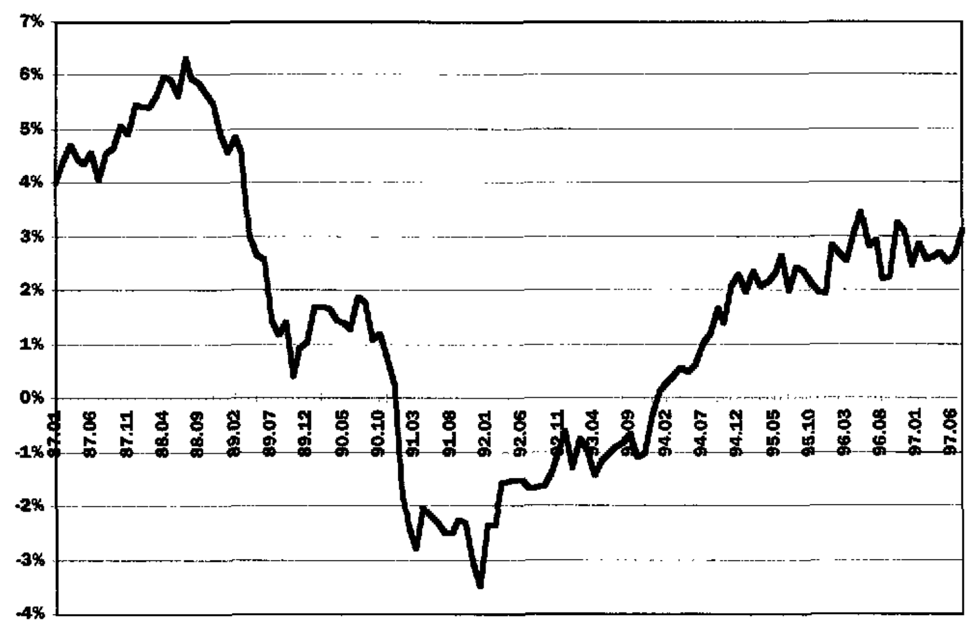
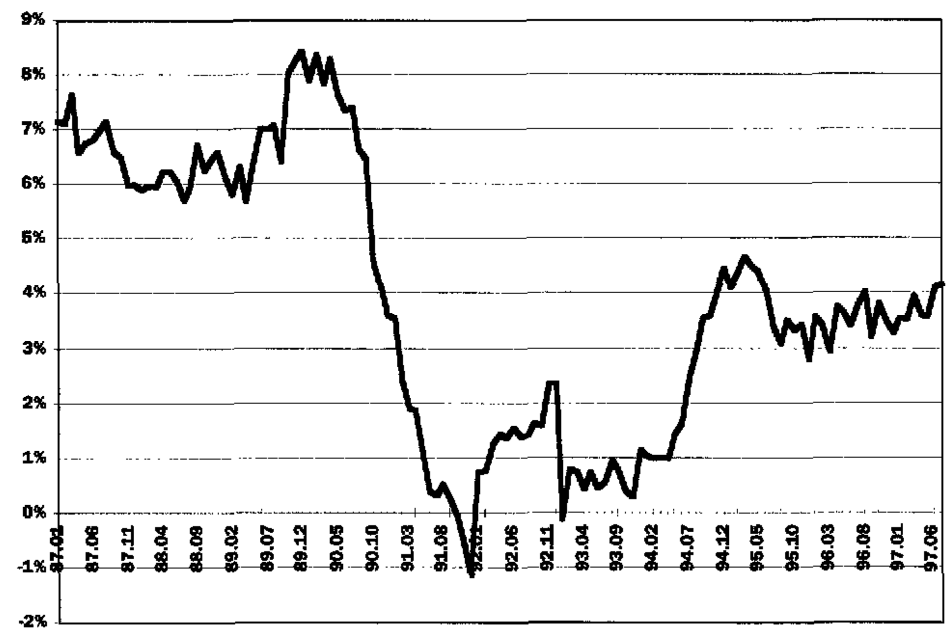


FIGURE 7
Riverside-San Bernardino Total Payroll Employment
PERCENTAGE CHANGE



California, the region's average growth obviously is influenced significantly by Los Angeles and is important for the region.

Retail and taxable sales in the region have shown a dramatic increase. After a decline in the post-1990 recession years, taxable sales increased by 4.4% in 1995 and are estimated to have increased by 6.0% in 1996. Personal income has similarly shown increases of 5.1% in 1995 and an estimated 6.2% in 1996 (see tables 4-8 at end of the report for details).

Consumer confidence is also on the rise. The real estate market fall-off, which has had a major dampening effect on consumer and business confidence during the last eight years, is finally showing signs of stabilizing. Commercial markets, in particular for office and industrial space, have shown great improvement in the past twelve months. Lease rates for Class A buildings have increased throughout the region and spot shortages are starting to lead to new construction projects, some of them on a speculative basis. Apartment building sales activities have received a major boost from REIT (Real Estate Investment Trust) investment, a clear sign that national inves-

FIGURE 8
Ventura County Total Payroll Employment
PERCENTAGE CHANGE

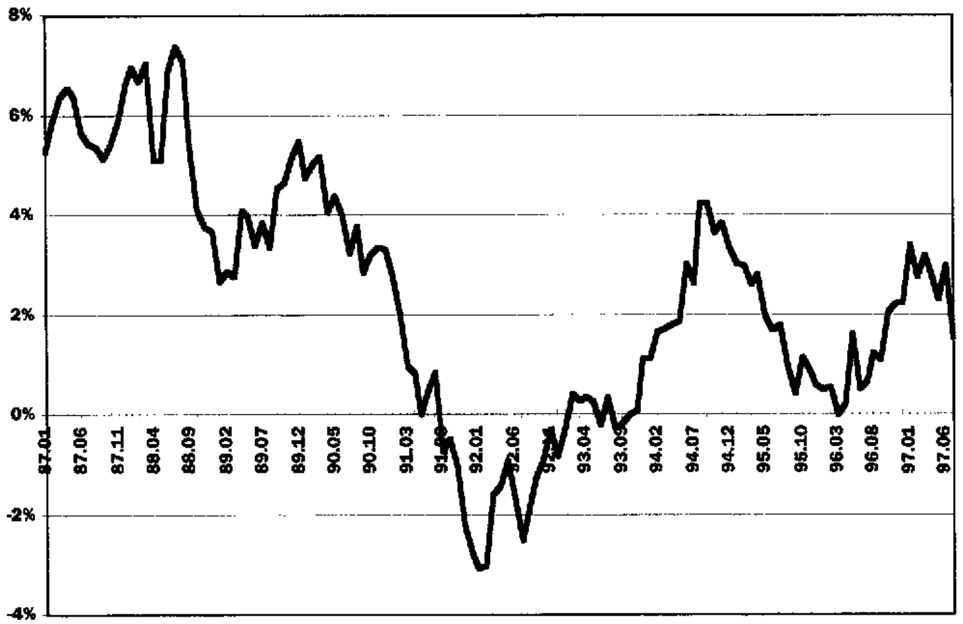
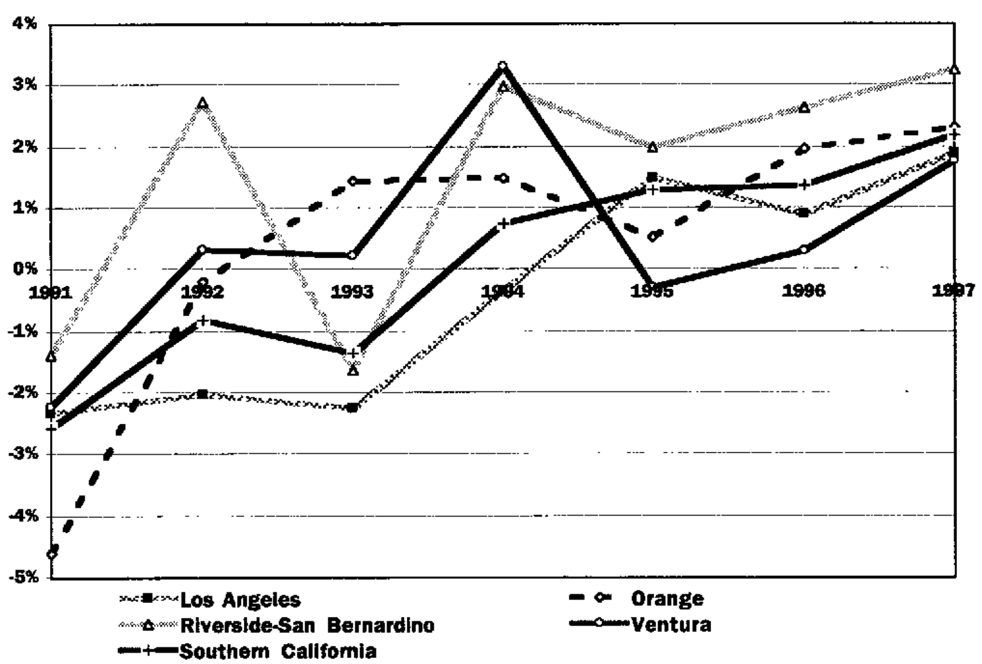


FIGURE 9
Annual Household Employment
PERCENTAGE CHANGE



THE ROLE OF HIGH-TECHNOLOGY IN THE ORANGE COUNTY EXPORTS

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The analysis reveals that computers and electronic instruments were the leading exports in the high-technology sectors, not only in terms of revenues, but also in terms of growth rates over the last year. Asia Pacific nations continue to purchase more than half of Orange County's high-technology exports

EXECUTIVE SUMMARY

California's excellence in high-technology sectors is epitomized by the importance of high-technology products in its exports: the sales of these advanced goods abroad were responsible for more than half of Californian total export revenues and related jobs in the 1990s. The objective of this study is to provide detailed estimates and forecasts of high-technology relative to other merchandise exports from Orange County, to measure the contributions of the high-technology firms to the local economy and their opportunities in the future.

The analysis reveals that computers and electronic instruments were the leading exports in the high-technology sectors, not only in terms of revenues, but also in terms of growth rates over the last year. Asia Pacific nations continue to purchase more than half of Orange County's high-technology exports. After a severe currency and economic crisis in 1995, Mexico has recovered in 1996 and increased its orders by the highest percentage last year. The analysis also predicts that high-technology exports will continue to rise, though at a lower rate in 1997, before picking up speed in the next two years.

I. DEFINITION AND IMPORTANCE OF HIGH-TECHNOLOGY EXPORTS.

Since there is no official definition of what constitutes a high-technology industry, a consensus between the coverage of the government (California Trade and Commerce Agency) and the private industry (American Electronics Association) was developed for this export study, following the Standard Industry Classification (SIC): "high-tech products" will include biotech products (SIC 283), com-

TABLE 8

Construction and Real Estate

Orange County

	1990	1991	1992	1993	1994	1995	1996	1997e	1998f
Permits	12.0	6.6	5.9	6.4	9.8	8.3	10.2	12.7	14.6
Residential Valuation	1,392.2	1,089.1	1,032.2	1,083.7	1,745.3	1,295.3	1,528.8	1,943.3	2,138.2
Non-residential Valuation	1,172.7	797.5	571.1	496.7	560.6	582.7	760.8	985.0	1,268.9
Percentage Change									
Permits	-28.0%	-45.2%	-9.5%	7.8%	52.4%	-15.0%	23.0%	24.6%	14.5%
Residential Valuation	-36.0%	-21.8%	-5.2%	5.0%	61.0%	-25.8%	18.0%	27.1%	10.0%
Non-residential Valuation	-23.4%	-32.0%	-28.4%	-13.0%	12.9%	4.0%	30.6%	29.5%	28.8%
Quality Adjusted Housing Price Index, 1988 = 100	117.6	121.3	117.5	101.9	105.7	101.7	100.3	100.7	103.9
Annual Percentage Change	-2.0%	3.1%	-3.2%	-13.3%	3.8%	-3.8%	-1.4%	0.4%	3.1%

Los Angeles County

	1990	1991	1992	1993	1994	1995	1996	1997e	1998f
Permits	25.0	16.2	11.9	7.3	7.3	8.4	8.6	10.8	15.5
Residential Valuation	4,155.6	3,197.5	2,600.4	1,910.1	2,154.5	2,256.6	2,092.6	2,654.8	3,955.9
Non-residential Valuation	3,831.1	2,739.6	2,135.1	2,176.5	2,292.9	1,993.0	2,098.7	2,629.0	3,489.7
Percentage Change									
Permits	-48.2%	-35.3%	-26.5%	-39.0%	-0.1%	15.9%	2.4%	25.9%	43.4%
Residential Valuation	-35.5%	-23.1%	-18.7%	-26.5%	12.8%	4.7%	-7.3%	26.9%	49.0%
Non-residential Valuation	-14.6%	-28.5%	-22.1%	1.9%	5.3%	-13.1%	5.3%	25.3%	32.7%
Quality Adjusted Housing Price Index, 1988 = 100	118.7	125.3	119.4	98.4	103.1	99.9	94.9	94.8	97.2
Annual Percentage Change	-1.0%	5.6%	-4.7%	-17.6%	4.8%	-3.2%	-4.9%	-0.1%	2.5%

Riverside-San Bernardino Counties

	1990	1991	1992	1993	1994	1995	1996	1997e	1998f
Permits	28.8	16.2	15.4	13.1	13.0	10.9	12.5	16.0	22.6
Residential Valuation	3,210.1	1,775.6	1,847.4	1,607.8	1,722.3	1,512.6	1,770.6	2,405.3	2,806.4
Non-residential Valuation	1,322.6	1,017.0	723.9	549.7	611.5	744.9	715.2	1,139.7	1,343.7
Percentage Change									
Permits	-36.8%	-43.9%	-4.6%	-15.0%	-0.8%	-16.3%	14.8%	27.7%	41.5%
Residential Valuation	-33.2%	-44.7%	4.0%	-13.0%	7.1%	-12.2%	17.1%	35.8%	16.7%
Non-residential Valuation	-8.0%	-23.1%	-28.8%	-24.1%	11.2%	21.8%	-4.0%	59.4%	17.9%
Quality Adjusted Housing Price Index, 1988 = 100	114.6	125.1	121.8	104.5	110.1	105.4	102.8	102.9	105.3
Annual Percentage Change	1.4%	9.2%	-2.7%	-14.2%	5.4%	-4.3%	-2.5%	0.1%	2.3%

Ventura County

	1990	1991	1992	1993	1994	1995	1996	1997e	1998f
Permits	2.6	2.2	3.1	1.4	2.5	2.2	2.3	3.7	3.3
Residential Valuation	371.0	316.7	309.1	281.6	408.2	442.3	476.1	552.8	538.6
Non-residential Valuation	234.3	178.9	154.9	179.1	157.1	187.0	186.5	247.2	284.9
Percentage Change									
Permits	-48.0%	-16.0%	39.1%	-55.0%	79.6%	-12.1%	8.4%	59.2%	-11.3%
Residential Valuation	-43.9%	-14.6%	-2.4%	-8.9%	45.0%	8.4%	7.6%	16.1%	-2.6%
Non-residential Valuation	-4.8%	-23.6%	-13.4%	15.7%	-12.3%	19.1%	-0.3%	32.6%	15.3%
Quality Adjusted Housing Price Index, 1988 = 100	118.1	114.7	110.7	99.0	101.0	99.2	97.7	97.9	100.6
Annual Percentage Change	-4.3%	-2.9%	-3.5%	-10.6%	2.0%	-1.8%	-1.5%	0.1%	2.8%

Southern California

	1990	1991	1992	1993	1994	1995	1996	1997e	1998f
Permits	68.5	41.1	36.3	28.2	32.5	29.8	33.7	43.3	56.0
Residential Valuation	9,128.8	6,379.0	5,789.1	4,883.2	6,030.3	5,506.9	5,868.1	7,556.2	9,439.0
Non-residential Valuation	6,560.7	4,733.0	3,585.0	3,402.1	3,622.0	3,507.6	3,761.1	5,000.9	6,387.2
Percentage Change									
Permits	-40.8%	-39.9%	-11.7%	-22.5%	15.4%	-8.4%	13.1%	28.5%	29.5%
Residential Valuation	-35.2%	-30.1%	-9.2%	-15.6%	23.5%	-8.7%	6.6%	28.8%	24.9%
Non-residential Valuation	-14.8%	-27.9%	-24.3%	-5.1%	6.5%	-3.2%	7.2%	33.0%	27.7%

Sources: Number of housing permits, in thousands, and valuation data, in millions, are from Construction Industry Research Board. Quality Adjusted Housing Price Index is from Experian.

tors again see potential in the Southern California real estate markets. Housing prices have ended their long decline and are beginning to show increases in selected market segments, a further sign of greater consumer confidence and higher economic activity.

The region thus finally has shaken off the lingering effects of the recession and defense downsizing of the 1980s and early 1990s. Conditions are once again favorable for the return to the region's long term growth trend.

FIGURE 10

Year-to-Date Job Gains

HOUSEHOLD EMPLOYMENT

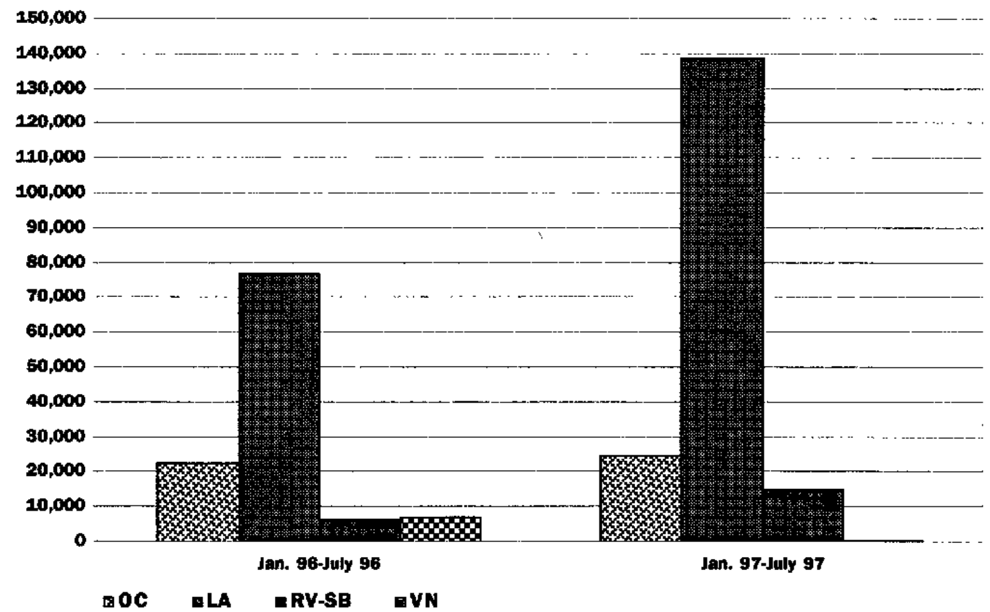
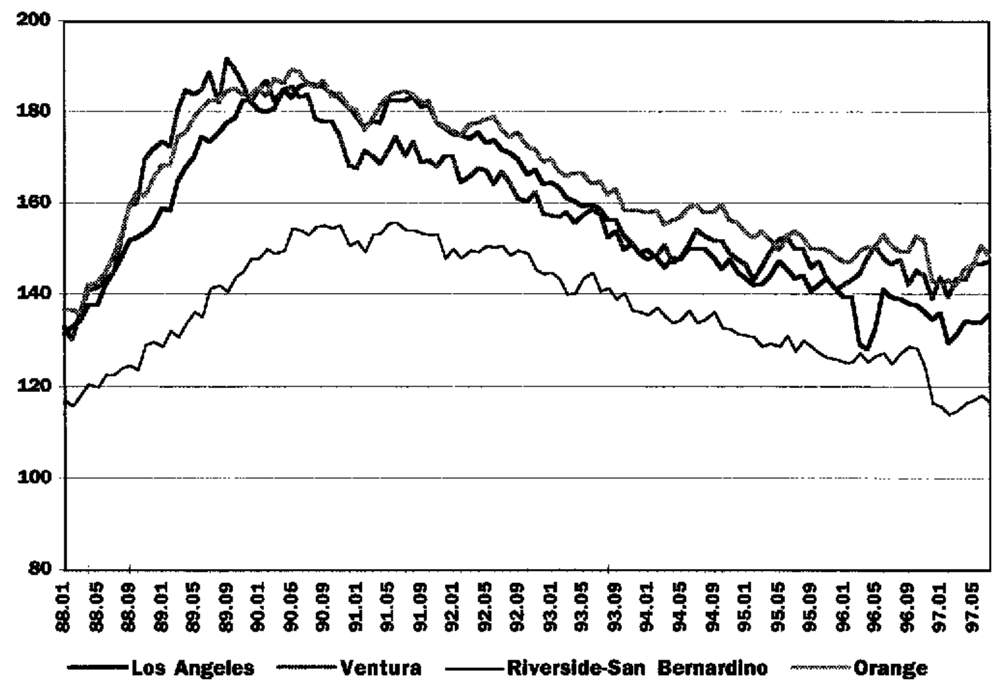


FIGURE 11

Housing Prices Index

1984=100



THE FORECASTS

SOUTHERN CALIFORNIA

The accelerating momentum of the Southern California economy will lead to continued growth in employment, output, and income over the next twelve to eighteen months. A slowdown in the national economy in late 1998 and extending into 1999 will negatively affect the region. However, this will cause only a slowdown of growth rather than an actual recession similar to the early 1990s.

The region has now recovered employment levels of the early nineties. In the process of recovery and restructuring, the region's economy has developed different growth sources.

Population migration trends again have resumed their long-term behavior with more people moving into the region than out of it. The housing price decline, while painful for some, has removed one of the barriers to future growth of population and employment.

The Asia Pacific region is expected to remain the fastest growing region of the world in spite of the recent financial problems mentioned earlier. The Southern California region, given its extensive trade with the region, will thus receive a continuing stimulus, if perhaps at a somewhat reduced level, from exports to the Asian Pacific countries.

Southern California is projected to add an additional 146,000 payroll jobs in 1997 and 128,000 in 1998, for a 2.4% and 2.1% growth rate respectively in the two years. Beyond this short-term growth, employment growth is projected to continue at an average of 2.0% through the year 2002. The unemployment rate is expected to fall from 7.3% in 1996 to 6.4% in 1997 and 6.2% in 1998.

Orange County

Orange County has shown a much better track record in generating new payroll jobs compared to Los Angeles in the last few years. The county gained 33,000 payroll jobs in 1996 and through July 1997 already had added an additional 24,000 jobs . The unemployment rate fell to the mid 1980s low level of 3.7% in July 1997.

The question is: Can Orange County continue to generate jobs at the recent rate given such a low unemployment rate? There is some anecdotal evidence of selective labor shortages, especially in the high-tech jobs such as software developers, engineers, and telecommunication experts. Yet it is not clear that these shortages are widespread. Given that the unemployment rate is determined as much by the creation of new jobs as by the size of labor force, it is useful to look at the other side of the coin as well – i.e., the behavior of the labor force.

Labor force growth depends on the population growth of working age adults and their willingness to work

FIGURE 12
Total Payroll Employment Growth
Southern California and Counties

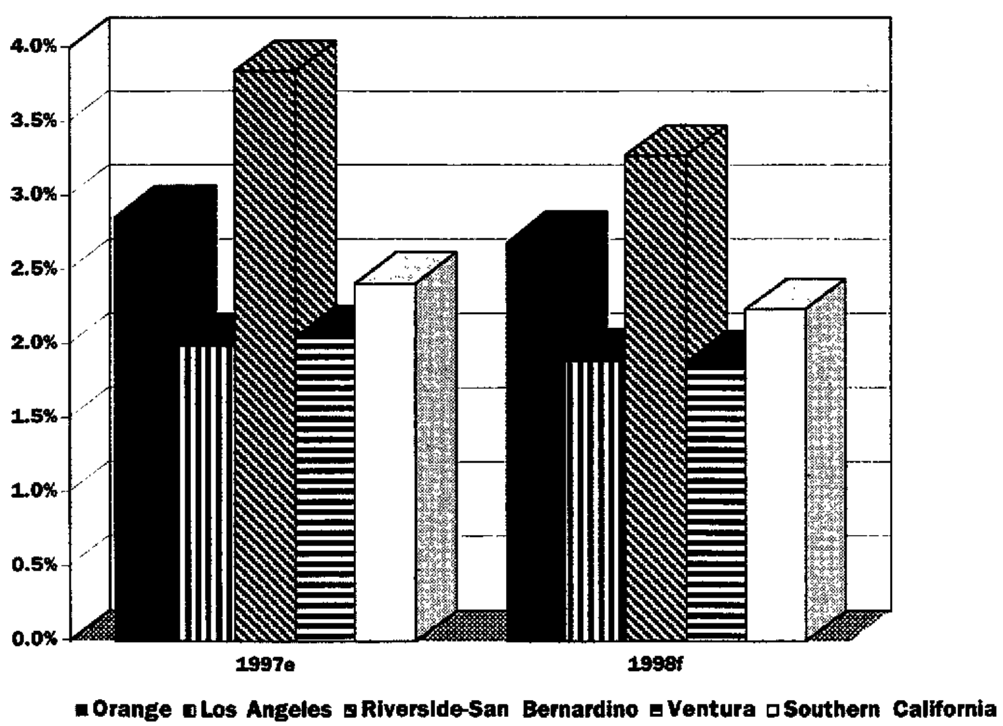


TABLE 7B
Ventura County–Forecasts

Levels in thousands					
Population	1998f	1999f	2000f	2001f	2002f
Total population	730.3	739.1	747.3	755.5	764.5
Annual percentage change	1.1%	1.2%	1.1%	1.1%	1.2%
Household Employment	1998f	1999f	2000f	2001f	2002f
Labor Force	401.7	413.9	422.2	430.6	441.9
Total Employment	364.5	377.1	385.4	394.8	405.1
Total Unemployment	23.5	24.6	28.5	27.4	25.5
Unemployment Rate	6.1%	6.1%	6.9%	6.5%	5.9%
Wage & Salary Employment	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	249.4	253.0	257.5	262.3	266.9
Mining	1.7	1.7	1.6	1.6	1.6
Construction	11.5	11.8	12.0	12.4	12.7
Manufacturing	31.6	31.5	32.0	32.4	32.7
Durable Goods	23.0	22.9	23.4	23.8	24.1
Nondurable Goods	8.6	8.6	8.6	8.6	8.6
Transportation & Public Utilities	9.9	9.8	9.9	10.0	10.1
Total Trade	61.2	62.7	63.9	65.2	66.6
Wholesale Trade	11.9	12.2	12.2	12.3	12.4
Retail Trade	49.3	50.5	51.7	52.9	54.2
Finance, Real Estate & Insurance	12.1	12.1	12.1	12.2	12.2
Services	78.2	80.6	83.1	85.8	88.5
Total Government	43.0	42.9	42.8	42.6	42.6
Percentage change	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	1.9%	1.4%	1.8%	1.8%	1.8%
Mining	-0.8%	-2.1%	-3.4%	-1.9%	-2.1%
Construction	3.4%	2.3%	1.8%	3.2%	2.7%
Manufacturing	1.4%	-0.5%	1.6%	1.4%	1.0%
Durable Goods	1.9%	-0.3%	2.1%	1.7%	1.4%
Nondurable Goods	0.2%	-1.0%	0.1%	0.5%	-0.1%
Transportation & Public Utilities	1.0%	-1.1%	1.4%	0.6%	0.5%
Total Trade	2.2%	2.3%	2.0%	2.0%	2.1%
Wholesale Trade	0.2%	1.7%	0.5%	0.5%	0.7%
Retail Trade	2.7%	2.5%	2.3%	2.4%	2.5%
Finance, Real Estate & Insurance	0.1%	-0.3%	0.3%	0.6%	0.2%
Services	3.1%	3.0%	3.1%	3.3%	3.1%
Total Government	0.1%	-0.3%	-0.1%	-0.4%	-0.2%
Levels in millions					
Personal Income	1998f	1999f	2000f	2001f	2002f
Personal Income	19,783	20,995	22,286	23,584	24,941
Annual percentage change	5.6%	6.1%	6.1%	5.8%	5.8%
Per capita income ($)	27,087	28,406	29,822	31,218	32,623
Taxable Sales	1998f	1999f	2000f	2001f	2002f
Total taxable sales	7,087	7,399	7,780	8,161	8,610
Year to year percentage change	4.6%	4.4%	5.1%	4.9%	5.5%

TABLE 7A
Ventura County–Historical Data

Levels in thousands					
Population	1993	1994	1995	1996	1997e
Total population	697.9	706.2	712.7	714.8	722.5
Annual percentage change	1.1%	1.2%	0.9%	0.3%	1.1%
Household Employment	1993	1994	1995	1996	1997e
Labor Force	377.2	384.9	382.3	381.8	388.0
Total Employment	343.4	354.8	353.8	354.8	364.5
Total Unemployment	33.7	30.1	28.6	27.0	23.5
Unemployment Rate	8.9%	7.8%	7.5%	7.1%	6.1%
Wage & Salary Employment	1993	1994	1995	1996	1997e
Total Payroll Employment	227.0	233.3	237.3	239.9	244.8
Mining	2.2	2.0	2.0	1.8	1.8
Construction	9.1	10.1	11.0	10.6	11.1
Manufacturing	30.4	30.0	29.6	30.3	31.2
Durable Goods	22.0	21.6	21.1	21.8	22.5
Nondurable Goods	8.4	8.4	8.5	8.4	8.6
Transportation & Public Utilities	10.2	10.6	10.3	9.7	9.8
Total Trade	54.5	56.0	58.1	59.0	59.9
Wholesale Trade	11.2	11.6	11.9	12.0	11.9
Retail Trade	43.3	44.4	46.1	47.0	48.0
Finance, Real Estate & Insurance	12.6	12.4	12.0	11.8	12.1
Services	64.8	69.5	71.4	73.1	75.9
Total Government	43.2	42.7	43.0	43.6	43.0
Percentage change	1993	1994	1995	1996	1997e
Total Payroll Employment	0.2%	2.8%	1.7%	1.1%	2.1%
Mining	5.6%	-9.8%	-2.1%	-9.4%	-1.3%
Construction	-7.0%	11.3%	8.6%	-3.8%	5.2%
Manufacturing	-3.2%	-1.2%	-1.4%	2.3%	3.0%
Durable Goods	-2.5%	-1.7%	-2.5%	3.7%	3.2%
Nondurable Goods	-4.8%	0.2%	1.7%	-1.2%	2.5%
Transportation & Public Utilities	-4.1%	3.4%	-2.8%	-5.4%	1.2%
Total Trade	0.5%	2.8%	3.7%	1.6%	1.6%
Wholesale Trade	-1.8%	4.0%	2.8%	0.3%	-0.5%
Retail Trade	1.1%	2.4%	3.9%	2.0%	2.1%
Finance, Real Estate & Insurance	4.1%	-1.7%	-3.1%	-1.3%	2.2%
Services	5.1%	7.3%	2.7%	2.3%	3.9%
Total Government	-3.5%	-1.2%	0.8%	1.4%	-1.5%
Levels in millions					
Personal Income	1993	1994	1995	1996e	1997e
Personal Income	15,482	15,899	16,565	17,677	18,741
Annual percentage change	3.2%	2.7%	4.2%	6.7%	6.0%
Per capita income ($)	22,183	22,514	23,243	24,729	25,938
Taxable Sales	1993	1994	1995	1996e	1997e
Total taxable sales	5,517	5,872	6,087	6,433	6,775
Year to year percentage change	0.2%	6.4%	3.7%	5.7%	5.3%

FIGURE 13
Orange County Projected Employment Growth in Selected Industries

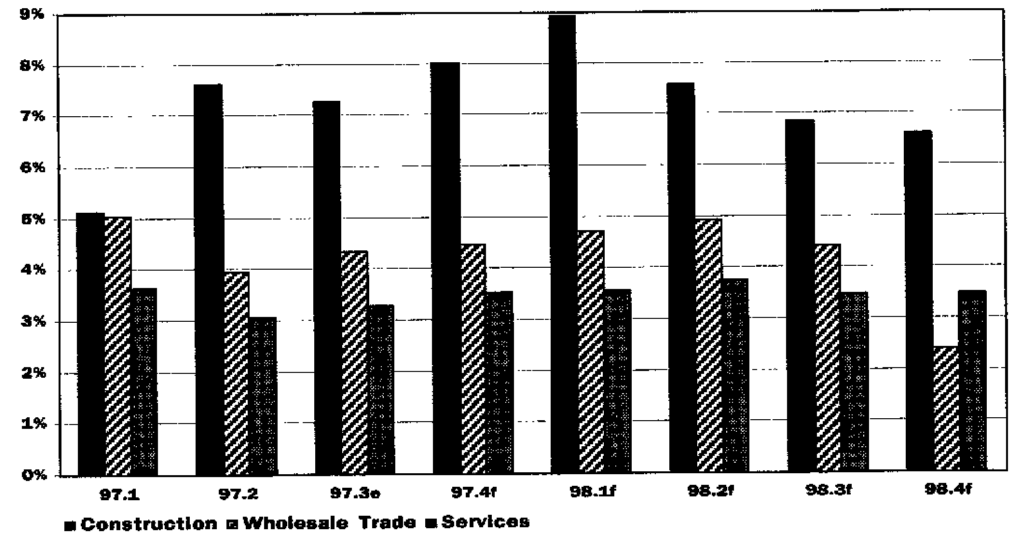
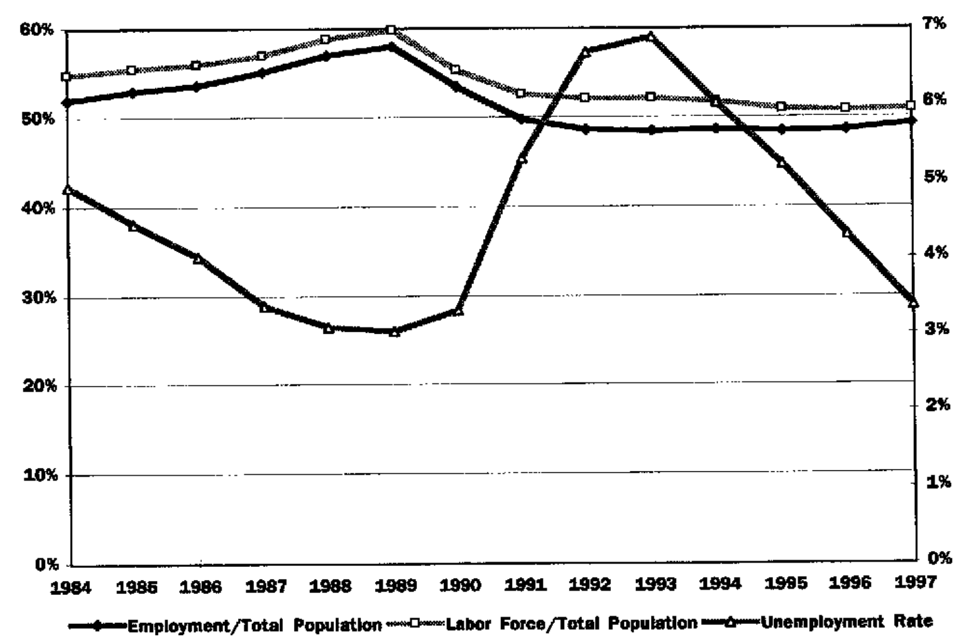


FIGURE 14
Orange County Labor Force and Employment Trends



(participation rate). Nationally, the labor force participation rates have been rising since the last recession. Women's labor force participation rates now are fairly close to those of men. The employment to population ratio has increased to 63.8% from 61.2% in the early 1990s. In Orange County, however, this ratio remains below its pre-recession levels indicating that there is room for further increases in labor force as more adults decide to look for work in light of the improving job market (Figure 14). In spite of the generally low unemployment rate, there is still room for healthy growth. It is also a well-established fact that healthy job markets draw migration from other regions. Orange County's employment engine can draw from neighboring counties as well as from outside the state if growth requires such flows of labor.

It is expected that the average total gain in payroll jobs will reach approximately 34,000 jobs for 1997 and 32,000 jobs for 1998, a growth rate of 2.9% and 2.7%, respectively. Beyond that the County is expected to maintain an average growth of 2.3% to the year 2002, with a slight slowdown in 1999 following the national trend.

Two engines of Orange County growth in the mid-

FIGURE 15

Orange County Monthly Employment Level in Selected Industries

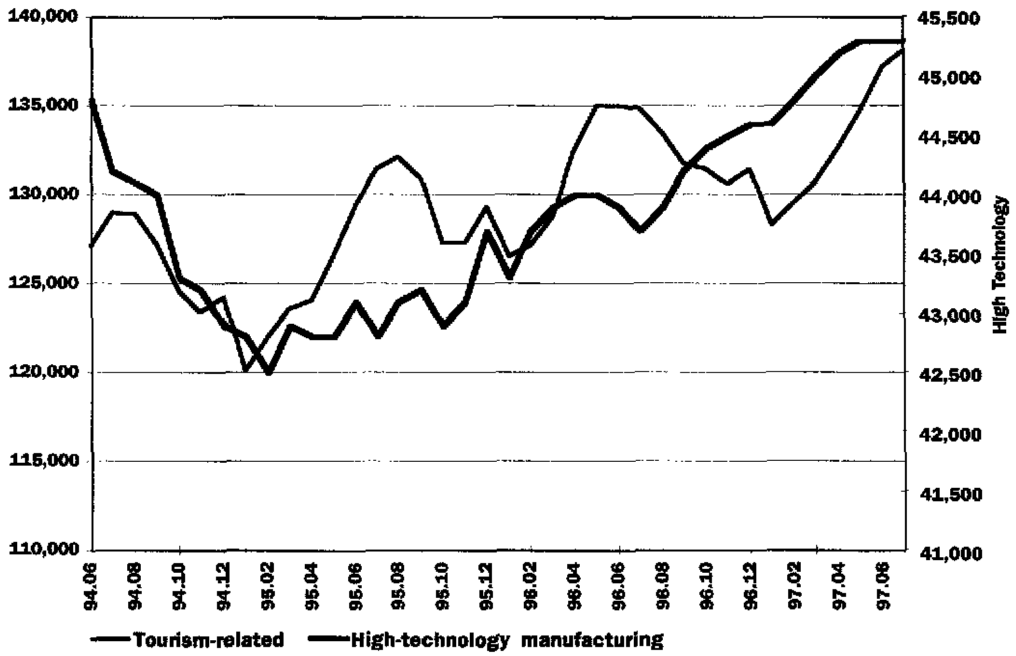
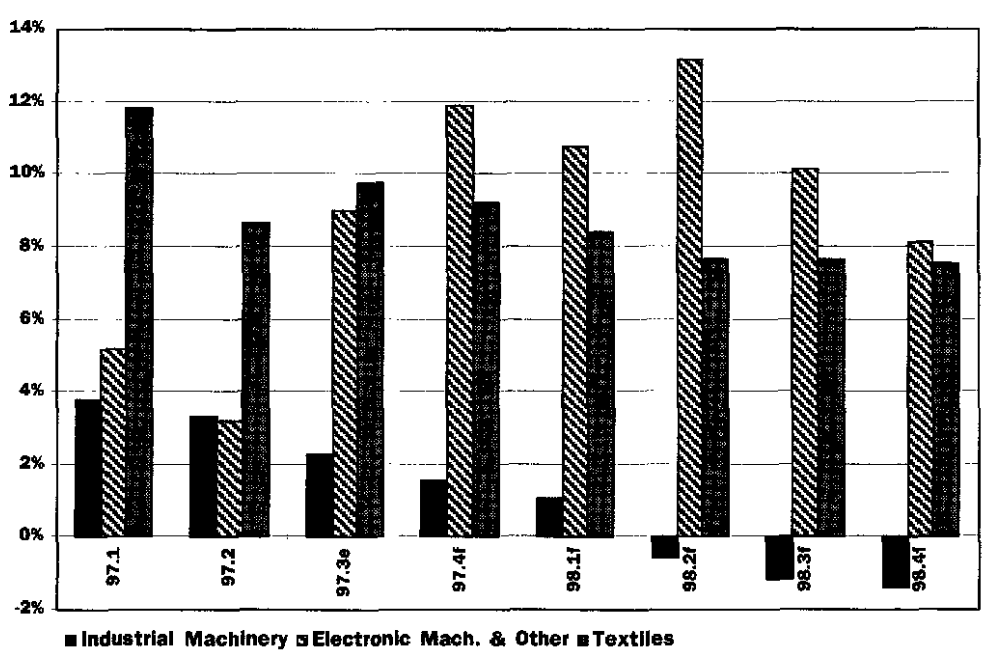


FIGURE 16

Orange County Quarterly Employment Change in Selected Industries



nineties have been the high-tech sector and services. Manufacturing employment in aerospace, biomedical appliances, and telecommunication products has accelerated in the past year, building on the trend since 1995 and will continue to expand at a rapid pace in the foreseeable future (see tables at the end of this report for details). The electronic equipment group has added over 7,000 jobs since 1993, most of these in the telecommunications category. The trend in jobs in the aircraft and parts category has been upward since 1994 and is likely to accelerate given the strong demand from the civilian sector. Defense-related losses in employment have ended and there are expected to be moderate increases in jobs in the near term.

Exports of high technology have provided a major boost to the County's economy and will continue to do so over the forecast period (see the IEES Research Report by Vincent Dropsy at the end of this forecast report).

Among the service industries, business services have been the fastest growing area. These have added 30,000 jobs since 1991, increasing their share in the

TABLE 6B

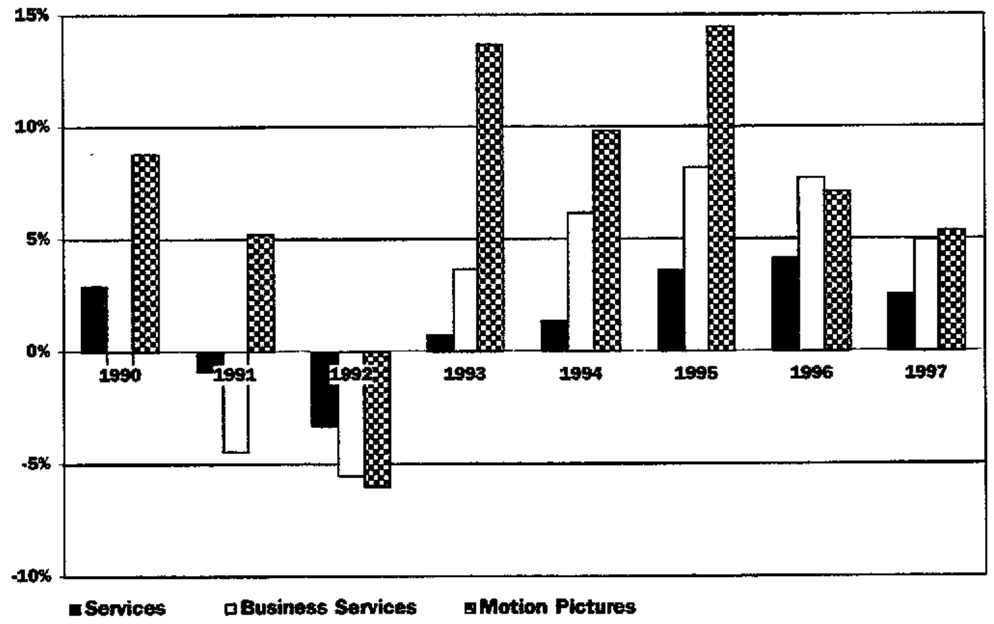
Riverside-San Bernardino Counties–Forecasts

Levels in thousands					
Population					
	1998f	1999f	2000f	2001f	2002f
Total population	3149.8	3253.2	3343.8	3431.6	3525.5
Annual percentage change	2.9%	3.3%	2.8%	2.6%	2.7%
Household Employment					
	1998f	1999f	2000f	2001f	2002f
Labor Force	1,426.8	1,480.2	1,531.5	1,588.8	1,657.0
Total Employment	1,320.3	1,354.6	1,404.8	1,463.8	1,523.8
Total Unemployment	106.5	125.6	126.7	125.1	133.2
Unemployment Rate	7.5%	8.5%	8.3%	7.9%	8.0%
Wage & Salary Employment					
	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	865.9	886.4	915.7	945.4	974.6
Mining	1.4	1.3	1.4	1.4	1.5
Construction	55.4	57.8	62.2	67.0	71.8
Manufacturing	105.1	106.7	110.0	112.9	115.6
Durable Goods	69.9	70.6	73.0	74.9	76.7
Nondurable Goods	35.2	36.1	37.0	38.0	38.9
Transportation & Public Utilities	45.7	47.5	49.3	51.3	53.4
Total Trade	223.8	227.2	232.9	239.0	244.8
Wholesale Trade	41.8	42.4	44.2	46.0	47.6
Retail Trade	182.0	184.8	188.7	193.1	197.2
Finance, Real Estate & Insurance	31.5	31.1	31.6	32.1	32.4
Services	227.8	234.9	243.7	252.4	261.0
Total Government	175.3	180.0	184.6	189.2	194.0
Percentage change					
	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	3.3%	2.4%	3.3%	3.2%	3.1%
Mining	6.9%	-2.9%	5.6%	3.7%	3.3%
Construction	8.9%	4.4%	7.6%	7.7%	7.1%
Manufacturing	2.2%	1.5%	3.1%	2.6%	2.4%
Durable Goods	2.3%	1.0%	3.3%	2.7%	2.3%
Nondurable Goods	2.0%	2.6%	2.7%	2.6%	2.5%
Transportation & Public Utilities	4.2%	3.9%	3.8%	4.1%	4.0%
Total Trade	3.0%	1.5%	2.5%	2.6%	2.4%
Wholesale Trade	4.6%	1.4%	4.3%	4.0%	3.6%
Retail Trade	2.6%	1.5%	2.1%	2.3%	2.2%
Finance, Real Estate & Insurance	2.8%	-1.2%	1.4%	1.6%	1.1%
Services	3.3%	3.1%	3.8%	3.6%	3.4%
Total Government	2.4%	2.7%	2.6%	2.5%	2.5%
levels in millions					
Personal Income					
	1998f	1999f	2000f	2001f	2002f
Personal Income	64,984	68,771	72,810	76,476	80,269
Annual percentage change	5.9%	5.8%	5.9%	5.0%	5.0%
Per capita income ($)	20,633	21,139	21,795	22,286	22,768
Taxable Sales					
	1998f	1999f	2000f	2001f	2002f
Total taxable sales	26,420	27,636	29,183	30,876	32,790
Year to year percentage change	5.9%	4.6%	5.6%	5.8%	6.2%

TABLE 6A
Riverside-San Bernardino Counties–Historical Data

Levels in thousands					
Population					
	1993	1994	1995	1996	1997e
Total population	2,873.3	2,907.6	2,951.9	2,985.9	3,060.0
Annual percentage change	1.8%	1.2%	1.5%	1.2%	2.5%
Household Employment					
	1993	1994	1995	1996	1997e
Labor Force	1,261.1	1,279.8	1,293.3	1,313.2	1,364.7
Total Employment	1,124.6	1,158.3	1,181.3	1,212.5	1,261.0
Total Unemployment	136.5	121.5	112.0	100.7	103.7
Unemployment Rate	10.8%	9.5%	8.7%	7.7%	7.6%
Wage & Salary Employment					
	1993	1994	1995	1996	1997e
Total Payroll Employment	734.0	751.3	779.9	807.4	838.4
Mining	1.2	1.2	1.1	1.2	1.3
Construction	37.5	40.3	43.1	46.4	50.9
Manufacturing	86.1	88.4	94.4	99.2	102.8
Durable Goods	57.4	58.1	62.0	65.7	68.3
Nondurable Goods	28.7	30.4	32.4	33.5	34.5
Transportation & Public Utilities	37.2	39.1	40.8	42.0	43.9
Total Trade	194.6	198.2	205.9	209.9	217.2
Wholesale Trade	31.9	33.7	35.9	37.8	40.0
Retail Trade	162.7	164.5	170.0	172.1	177.3
Finance, Real Estate & Insurance	32.0	31.1	29.4	29.7	30.6
Services	189.6	195.2	202.6	211.7	220.6
Total Government	155.6	157.8	162.6	167.4	171.2
Percentage change					
	1993	1994	1995	1996	1997e
Total Payroll Employment	0.6%	2.4%	3.8%	3.5%	3.8%
Mining	-3.2%	-4.7%	-9.9%	13.3%	5.3%
Construction	-7.0%	7.5%	6.8%	7.6%	9.7%
Manufacturing	-0.8%	2.7%	6.7%	5.1%	3.6%
Durable Goods	-1.8%	1.2%	6.7%	6.1%	3.9%
Nondurable Goods	1.3%	5.7%	6.8%	3.3%	3.0%
Transportation & Public Utilities	2.2%	4.9%	4.4%	2.8%	4.5%
Total Trade	2.9%	1.9%	3.9%	2.0%	3.5%
Wholesale Trade	1.2%	5.8%	6.3%	5.4%	5.7%
Retail Trade	3.2%	1.1%	3.4%	1.2%	3.0%
Finance, Real Estate & Insurance	1.7%	-2.8%	-5.5%	1.0%	3.2%
Services	1.7%	2.9%	3.8%	4.5%	4.2%
Total Government	-1.2%	1.4%	3.1%	2.9%	2.3%
levels in millions					
Personal Income					
	1993	1994	1995	1996e	1997e
Personal Income	49,552	51,565	54,217	58,119	61,343
Annual percentage change	2.6%	4.1%	5.1%	7.2%	5.5%
Per capita income ($)	17,246	17,734	18,367	19,464	20,047
Taxable Sales					
	1993	1994	1995	1996e	1997e
Total taxable sales	20,407	21,039	21,992	23,466	24,942
Year to year percentage change	0.0%	3.1%	4.5%	6.7%	6.3%

FIGURE 17
Los Angeles County Payroll Employment in Selected Industries
PERCENTAGE CHANGE



services category from 25% to 30%. Amusement, health services and private educational services are the fastest growing service categories. Disneyland's expansion program is underway and is likely to generate additional construction jobs over the next few years, accelerating the growth of jobs in the tourism sector. Continuing freeway construction in the County will not only add to the construction industry employment but also is setting the stage for vigorous expansion of the economy in the near term, especially in south Orange County.

Los Angeles County

Los Angeles County, the largest county in the region with more than 60% of its jobs total, has made the difference in the region's overall growth rate in 1997 compared to that in 1996. While the county gained 55,000 payroll jobs in 1996 for a 1.5% annual rate, it is expected to increase that rate to 2.0% in 1997. The unemployment rate in the county is expected to fall from 8.2% in 1996 to 6.8% in 1997 and 6.5% in 1998.

Manufacturing job gains, after a long slide following the decline in defense industries, has indeed been one of the long-awaited developments. But it is the gain in service jobs that has been the most impressive. The motion picture industry now has more jobs than aerospace did at its high point in the mid-eighties. This hectic pace in the industry is expected to continue for some time given the revolutionary changes in technology and the growing worldwide demand for entertainment industry products. Business services is the second fastest growing category in the services employment category.

Like most other counties, Los Angeles too will have to deal in the coming years with meeting the needs of formerly welfare dependent individuals. The caseloads in Los Angeles are, however, substantially larger and will test the ability of local industries and governments to generate a sufficient number of needed jobs. The County unemployment rates are projected to be adversely affected by the policy change in the next few years.

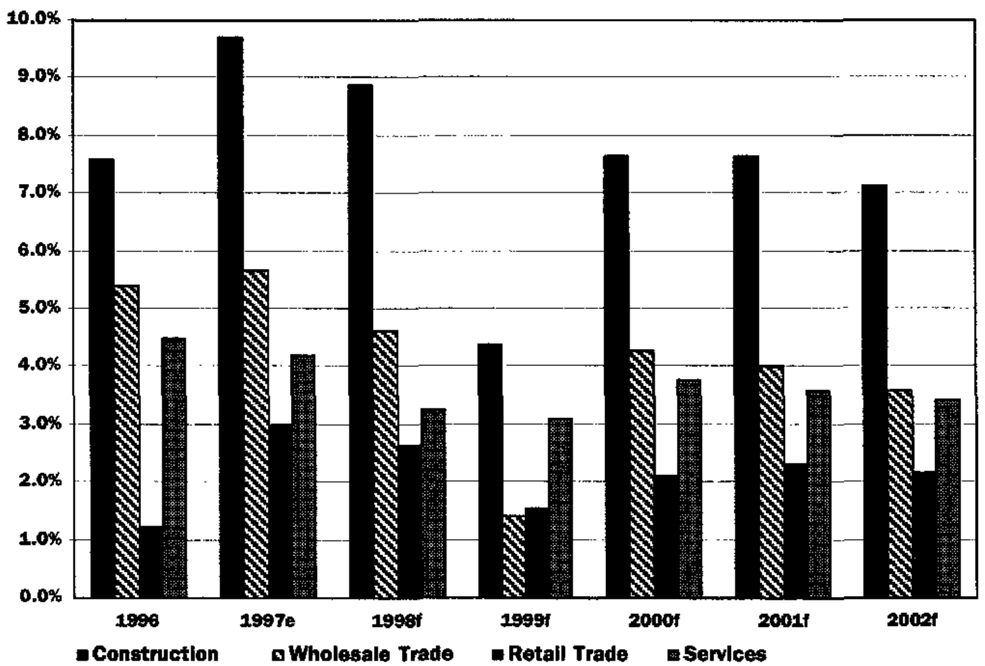
Riverside and San Bernardino Counties

Total payroll jobs in Riverside and San Bernardino Counties are expected to grow by 31,000, or 3.8%, in 1997 and 27,000, or 3.3%, in 1998. Personal income is expected to grow at rates of 5.6% and 4.9% in 1997 and 1998, respectively.

Jobs in the construction industry have continued to increase in Riverside-San Bernardino counties since 1993 and are expected to grow by an additional 7.6% in 1997 and 9.7% in 1998. Within the manufacturing sector, jobs in furniture, fabricated metal and industrial machinery, and rubber products have shown steady gains since 1994 and are expected to continue the trend following the national economic scenario. The wholesale trade and transportation sectors also have shown increasing growth rates. Business services, health services, and amusement and movies are the fastest growing of the services categories in the region.

FIGURE 18

Riverside-San Bernardino Counties Projected Employment Increase in Selected Industries



Housing prices in the Inland Empire have started to show signs of stabilizing and, given the continued jobs and income growth, are expected to show moderate improvements in the next two years.

TABLE 5B

Los Angeles–Forecasts

Levels in thousands					
Population					
	1998f	1999f	2000f	2001f	2002f
Total population	9,582.8	9,686.4	9,774.2	9,866.0	9,963.5
Annual percentage change	1.1%	1.1%	0.9%	0.9%	1.0%
Household Employment					
	1998f	1999f	2000f	2001f	2002f
Labor Force	4,523.1	4,688.2	4,760.0	4,864.0	4,971.8
Total Employment	4,228.7	4,300.6	4,390.9	4,483.1	4,581.7
Total Unemployment	294.4	387.6	369.1	380.9	390.1
Unemployment Rate	6.5%	8.3%	7.8%	7.8%	7.8%
Wage & Salary Employment					
	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	3,951.2	4,013.9	4,092.5	4,170.2	4,248.3
Mining	5.9	5.6	5.5	5.4	5.4
Construction	112.1	113.8	116.2	118.2	120.3
Manufacturing	665.4	670.4	678.7	687.1	695.0
Durable Goods	363.0	365.9	370.2	374.8	379.0
Nondurable Goods	302.4	304.5	308.5	312.3	316.0
Transportation & Public Utilities	212.1	215.4	218.7	222.4	226.0
Total Trade	861.8	871.1	885.6	896.9	908.7
Wholesale Trade	266.0	270.3	275.2	279.5	283.9
Retail Trade	595.8	600.8	610.4	617.5	624.7
Finance, Real Estate & Insurance	214.1	214.3	212.4	211.4	210.4
Services	1,340.7	1,379.6	1,429.7	1,479.9	1,530.5
Total Government	539.2	543.7	545.7	548.9	552.1
Percentage change					
	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	1.9%	1.6%	2.0%	1.9%	1.9%
Mining	1.3%	-5.3%	-1.4%	-1.0%	-1.6%
Construction	2.0%	1.5%	2.1%	1.7%	1.8%
Manufacturing	1.4%	0.8%	1.2%	1.2%	1.2%
Durable Goods	1.3%	0.8%	1.2%	1.2%	1.1%
Nondurable Goods	1.5%	0.7%	1.3%	1.2%	1.2%
Transportation & Public Utilities	1.6%	1.6%	1.5%	1.7%	1.6%
Total Trade	1.2%	1.1%	1.7%	1.3%	1.3%
Wholesale Trade	1.4%	1.6%	1.8%	1.6%	1.6%
Retail Trade	1.1%	0.9%	1.6%	1.2%	1.2%
Finance, Real Estate & Insurance	-0.7%	0.1%	-0.9%	-0.5%	-0.5%
Services	3.6%	2.9%	3.6%	3.5%	3.4%
Total Government	0.5%	0.8%	0.4%	0.6%	0.6%
Levels in millions					
Personal Income					
	1998f	1999f	2000f	2001f	2002f
Personal Income	245,785	258,612	273,222	288,570	304,292
Annual percentage change	6.1%	5.5%	5.2%	5.6%	5.6%
Per capita income ($)	25,649	26,699	27,953	29,249	30,541
Taxable Sales					
	1998f	1999f	2000f	2001f	2002f
Total taxable sales	94,126	99,456	105,125	111,222	117,896
Year to year percentage change	5.4%	5.7%	5.7%	5.8%	6.0%

TABLE 5A

Los Angeles–Historical Data

Levels in thousands

Population

	1993	1994	1995	1996	1997e
Total population	9,244.7	9,312.2	9,352.2	9,396.4	9,481.6
Annual percentage change	0.5%	0.7%	0.4%	0.5%	0.9%

Household Employment

	1993	1994	1995	1996	1997e
Labor Force	4,404.1	4,366.2	4,359.7	4,415.4	4,446.9
Total Employment	3,970.7	3,957.0	4,016.2	4,052.6	4,145.8
Total Unemployment	433.4	409.2	343.5	362.9	301.1
Unemployment Rate	9.8%	9.4%	7.9%	8.2%	6.8%

Wage & Salary Employment

	1993	1994	1995	1996	1997e
Total Payroll Employment	3,707.7	3,701.9	3,746.5	3,801.9	3,877.8
Mining	7.5	6.7	5.9	5.7	5.8
Construction	98.1	105.1	109.8	108.6	109.9
Manufacturing	660.2	641.5	638.4	646.1	656.1
Durable Goods	377.7	356.1	349.1	352.5	358.2
Nondurable Goods	282.5	285.4	289.2	293.6	298.0
Transportation & Public Utilities	199.6	201.6	202.6	204.4	208.7
Total Trade	821.8	821.5	835.8	841.8	851.6
Wholesale Trade	250.3	253.1	259.0	258.6	262.3
Retail Trade	571.5	568.4	576.8	583.2	589.3
Finance, Real Estate & Insurance	250.0	237.1	222.1	216.7	215.6
Services	1,139.0	1,154.8	1,196.2	1,245.3	1,293.9
Total Government	531.4	533.7	535.7	533.3	536.3

Percentage change

	1993	1994	1995	1996	1997e
Total Payroll Employment	-2.5%	-0.2%	1.2%	1.5%	2.0%
Mining	-3.5%	-11.0%	-11.5%	-3.2%	1.6%
Construction	-7.4%	7.1%	4.4%	-1.1%	1.2%
Manufacturing	-7.6%	-2.8%	-0.5%	1.2%	1.6%
Durable Goods	-9.9%	-5.7%	-2.0%	1.0%	1.6%
Nondurable Goods	-4.5%	1.0%	1.3%	1.5%	1.5%
Transportation & Public Utilities	-1.5%	1.0%	0.5%	0.9%	2.1%
Total Trade	-3.1%	0.0%	1.7%	0.7%	1.2%
Wholesale Trade	-4.9%	1.1%	2.3%	-0.1%	1.4%
Retail Trade	-2.3%	-0.5%	1.5%	1.1%	1.1%
Finance, Real Estate & Insurance	-1.9%	-5.2%	-6.3%	-2.5%	-0.5%
Services	0.7%	1.4%	3.6%	4.1%	3.9%
Total Government	-1.5%	0.4%	0.4%	-0.4%	0.6%

Levels in millions

Personal Income

	1993	1994	1995	1996e	1997e
Personal Income	196,416	197,289	207,789	219,549	232,928
Annual percentage change	0.4%	0.4%	5.3%	5.7%	6.1%
Per capita income ($)	21,246	21,186	22,218	23,365	24,566

Taxable Sales

	1993	1994	1995	1996e	1997e
Total taxable sales	73,001	76,794	79,740	84,365	89,342
Year to year percentage change	-2.2%	5.2%	3.8%	5.8%	5.9%

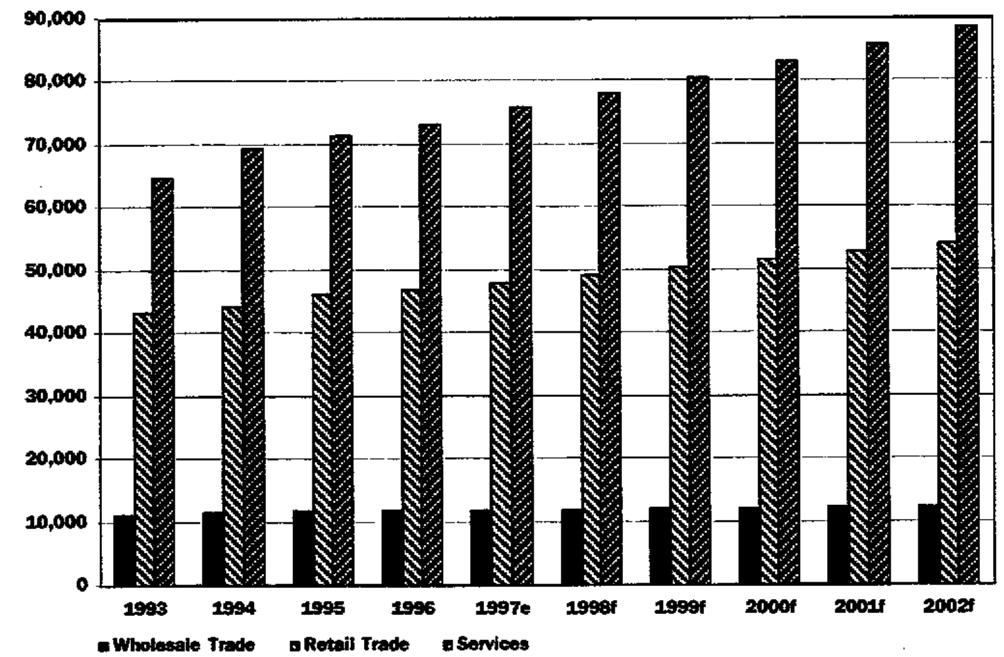
VENTURA COUNTY

Construction, retail, and service sectors have been growing in Ventura County. The County is expected to add payroll jobs at a 2.1% rate in 1997 and a 1.9% rate in 1998. The fastest growth is expected to take place in retail trade and services industries. Business services are also the leading sector in Ventura County.

To sum up, the Southern California economy has made major gains so far in 1997. It is well on its way to achieving its long-term growth rate now that Los Angeles County has started to create jobs at a rate consistent with its historical performance. Building on the solid gains of 1997, all the counties of the region are expected to experience healthy growth rates in 1998 and beyond. This scenario assumes that the national economy will continue to grow with only a slight slowdown in late 1998 and early 1999.

FIGURE 19

Ventura County Projected Employment Levels in Selected Industries



[1] Lily Fung and JiHong McDermott, graduate students in Economics provided research support. Ms. Fung's assistance with data analysis was invaluable. My colleagues, Stewart Long, Robert Kleinhenz, and James Dietz provided insight and advice at various stages of the forecasting project.

TABLE 2A

Orange County Quarterly Wage & Salary Employment–Historical Data

Levels in thousands

	1996:1	1996:2	1996:3	1996:4	1997:1	1997:2
Mining	0.9	0.9	0.9	0.8	0.8	0.8
Construction	49.3	51.2	53.8	53.9	51.8	55.1
Durable Goods	136.7	139.5	140.3	142.3	143.1	144.4
Lumber,Wood, Furniture	10.0	10.4	10.4	10.6	10.5	10.5
Stone,Clay,Glass	2.7	2.8	2.6	2.8	2.8	2.8
Fabr Metal	20.7	21.6	21.9	22.2	22.2	22.6
Industrial Machinery	23.7	24.1	24.3	24.5	24.6	24.9
Computer & Office	8.5	8.5	8.5	8.7	8.6	8.7
Other Machinery	15.2	15.6	15.7	15.8	16.0	16.2
Electronic Mach. & Other	29.5	30.3	30.5	31.0	31.0	31.3
Transportation Equip	17.7	17.7	17.9	18.3	18.8	19.2
Instruments & Related	27.2	27.3	27.4	27.6	27.7	27.8
Search & Navigation	8.1	8.0	8.1	8.1	8.2	8.2
Measuring & Control	8.6	8.4	8.4	8.4	8.4	8.5
Other Instruments	10.5	10.8	11.0	11.1	11.1	11.1
Misc Manufacturing	5.1	5.4	5.3	5.4	5.4	5.4
Nondurable Goods	71.5	72.8	72.1	71.9	72.4	73.5
Food & Kindred Prod.	10.3	10.5	10.5	9.9	9.9	10.3
Textiles	14.9	15.7	15.6	16.1	16.7	17.1
Paper,Printing,Publ	20.5	20.6	20.4	20.2	20.2	20.3
Chemicals & Petrole	10.5	10.8	10.6	10.6	10.3	10.2
Rubber,Plastic,Leath	15.3	15.1	15.0	15.1	15.3	15.5
Trans.&Public Utilities	42.5	42.7	42.5	42.7	43.0	43.9
Transportation	24.8	25.1	24.7	24.8	25.0	25.3
Communications & Utils	17.7	17.6	17.8	18.0	18.0	18.6
Trade	293.5	296.4	296.2	302.9	298.9	302.0
Wholesale Trade	87.4	89.3	90.0	91.0	91.8	92.8
Retail Trade	206.1	207.1	206.2	211.9	207.1	209.2
Finance,Real Estate&Ins	85.3	85.7	85.7	85.6	85.5	86.0
Services	355.1	364.7	367.0	369.7	368.1	375.9
Total Government	131.0	132.5	122.7	133.4	133.9	135.9
Total Non-agrl.Employment	1165.9	1186.4	1181.1	1203.2	1197.5	1217.7

Percentage change

	1996:1	1996:2	1996:3	1996:4	1997:1	1997:2
Mining	0.0%	0.0%	-7.1%	-11.1%	-11.1%	-7.4%
Construction	7.1%	3.8%	3.5%	4.4%	5.1%	7.6%
Durable Goods	2.8%	3.8%	3.8%	5.1%	4.7%	3.5%
Lumber,Wood, Furniture	6.4%	8.0%	5.1%	5.3%	4.7%	1.3%
Stone,Clay,Glass	-2.2%	2.6%	1.2%	9.5%	4.9%	1.1%
Fabr Metal	9.3%	11.5%	9.3%	8.1%	6.9%	4.6%
Industrial Machinery	1.4%	0.4%	2.1%	4.2%	3.8%	3.3%
Computer & Office	2.0%	-0.4%	-0.4%	1.6%	1.2%	2.0%
Other Machinery	1.1%	0.9%	3.5%	5.8%	5.3%	4.1%
Electronic Mach. & Other	10.9%	10.8%	8.6%	6.8%	5.2%	3.2%
Transportation Equip	-5.5%	-3.1%	-1.5%	2.4%	6.2%	8.1%
Instruments & Related	-4.7%	-3.0%	-0.4%	3.0%	1.8%	2.0%
Search & Navigation	-17.3%	-12.7%	-7.6%	0.8%	0.8%	2.1%
Measuring & Control	1.6%	-0.8%	-1.2%	-1.2%	-1.6%	0.8%
Other Instruments	2.3%	3.8%	6.5%	8.1%	5.4%	2.8%
Misc Manufacturing	11.5%	8.7%	4.7%	4.4%	6.0%	0.1%
Nondurable Goods	0.3%	2.2%	2.0%	1.6%	1.3%	1.0%
Food & Kindred Prod.	0.0%	-0.9%	1.0%	-2.9%	-3.9%	-1.6%
Textiles	13.7%	13.5%	11.9%	9.8%	11.8%	8.7%
Paper,Printing,Publ	-3.1%	-1.1%	-1.6%	-3.0%	-1.3%	-1.3%
Chemicals & Petrole	-1.9%	4.8%	3.9%	5.6%	-1.9%	-5.5%
Rubber,Plastic,Leath	-4.4%	-3.2%	-2.6%	0.2%	0.2%	2.6%
Trans.&Public Utilities	2.8%	1.5%	-0.9%	-0.9%	1.0%	3.0%
Transportation	6.9%	5.6%	0.8%	-0.9%	0.7%	1.1%
Communications & Utils	-2.4%	-3.8%	-3.3%	-0.7%	1.5%	5.7%
Trade	2.1%	2.3%	1.4%	1.9%	1.8%	1.9%
Wholesale Trade	5.1%	5.6%	6.0%	6.6%	5.0%	4.0%
Retail Trade	0.9%	0.9%	-0.5%	0.0%	0.5%	1.0%
Finance,Real Estate&Ins	-1.4%	0.3%	1.7%	2.7%	0.2%	0.4%
Services	4.8%	5.3%	3.9%	3.9%	3.7%	3.1%
Total Government	0.8%	1.4%	1.0%	2.2%	2.2%	2.6%
Total Non-agrl.Employment	2.7%	3.1%	2.5%	3.0%	2.7%	2.6%

TABLE 4B

Southern California–Forecasts

Levels in thousands

Population

	1998f	1999f	2000f	2001f	2002f
Total population	16,186.1	16,442.7	16,674.9	16,911.9	17,166.6
Annual percentage change	1.5%	1.6%	1.4%	1.4%	1.5%

Household Employment

	1998f	1999f	2000f	2001f	2002f
Labor Force	7,577.29	7,762.20	8,027.88	8,183.14	8,384.27
Total Employment	7,096.03	7,285.29	7,424.26	7,605.96	7,798.58
Total Unemployment	481.26	476.92	603.62	577.17	585.69
Unemployment Rate	6.4%	6.1%	7.5%	7.1%	7.0%

Wage & Salary Employment

	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	6,308.0	6,416.1	6,551.7	6,691.3	6,828.8
Mining	9.8	9.4	9.3	9.2	9.2
Construction	237.9	245.0	254.1	264.7	275.4
Manufacturing	1,027.2	1,036.6	1,054.7	1,072.4	1,089.0
Durable Goods	605.0	611.1	622.9	634.2	644.7
Nondurable Goods	422.3	425.5	431.8	438.2	444.3
Transportation & Public Utilities	312.7	318.6	324.8	331.8	338.5
Total Trade	1,452.3	1,469.3	1,489.8	1,511.4	1,532.2
Wholesale Trade	414.8	423.7	432.5	441.7	450.8
Retail Trade	1,037.4	1,045.6	1,057.4	1,069.6	1,081.4
Finance, Real Estate & Insurance	344.4	345.4	344.8	345.1	345.3
Services	2,031.0	2,087.6	2,160.8	2,233.1	2,305.1
Total Government	892.7	904.3	913.4	923.6	934.1

Percentage change

	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	2.1%	1.7%	2.1%	2.1%	2.1%
Mining	1.5%	-4.2%	-0.9%	-0.6%	-1.0%
Construction	4.5%	3.0%	3.7%	4.2%	4.0%
Manufacturing	1.8%	0.9%	1.7%	1.7%	1.5%
Durable Goods	1.8%	1.0%	1.9%	1.8%	1.7%
Nondurable Goods	1.8%	0.8%	1.5%	1.5%	1.4%
Transportation & Public Utilities	2.1%	1.9%	2.0%	2.1%	2.0%
Total Trade	1.4%	1.2%	1.4%	1.4%	1.4%
Wholesale Trade	1.8%	2.1%	2.1%	2.1%	2.1%
Retail Trade	1.3%	0.8%	1.1%	1.2%	1.1%
Finance, Real Estate & Insurance	0.0%	0.3%	-0.2%	0.1%	0.1%
Services	3.3%	2.8%	3.5%	3.3%	3.2%
Total Government	1.1%	1.3%	1.0%	1.1%	1.1%

Levels in millions

Personal Income

	1998f	1999f	2000f	2001f	2002f
Personal Income	411,498	433,714	458,555	484,000	510,116
Annual percentage change	5.5%	5.4%	5.7%	5.5%	5.4%
Per capita income ($)	25,423	26,377	27,500	28,619	29,716

Taxable Sales

	1998f	1999f	2000f	2001f	2002f
Total taxable sales	162,591	171,122	180,882	191,263	202,677
Year to year percentage change	5.1%	5.2%	5.7%	5.7%	6.0%

TABLE 4A

Southern California –Historical Data

Levels in thousands

Population

	1993	1994	1995	1996	1997e
Total population	15,370.6	15,508.2	15,631.6	15,746.9	15,949.6
Annual percentage change	0.9%	0.9%	0.8%	0.7%	1.3%

Household Employment

	1993	1994	1995	1996	1997e
Labor Force	7,370.70	7,364.38	7,366.90	7,454.32	7,577.29
Total Employment	6,677.38	6,727.22	6,815.16	6,908.60	7,096.03
Total Unemployment	693.32	637.16	551.74	545.72	481.26
Unemployment Rate	9.4%	8.7%	7.5%	7.3%	6.4%

Wage & Salary Employment

	1993	1994	1995	1996	1997e
Total Payroll Employment	5,784.1	5,813.3	5,915.4	6,033.4	6,179.0
Mining	11.9	10.7	9.8	9.6	9.7
Construction	189.2	202.9	213.7	217.6	227.7
Manufacturing	983.9	965.0	967.8	987.3	1,008.9
Durable Goods	595.8	571.3	566.6	579.8	594.3
Nondurable Goods	388.1	393.7	401.2	407.5	414.6
Transportation & Public Utilities	283.8	290.6	296.0	298.7	306.3
Total Trade	1,348.6	1,358.3	1,391.4	1,408.0	1,431.9
Wholesale Trade	370.0	377.8	391.3	397.9	407.6
Retail Trade	978.5	980.6	1,000.0	1,010.1	1,024.4
Finance, Real Estate & Insurance	388.4	372.4	348.4	343.7	344.4
Services	1,720.3	1,750.0	1,818.8	1,894.2	1,966.9
Total Government	858.0	863.4	869.5	874.2	883.3

Percentage change

	1993	1994	1995	1996	1997e
Total Payroll Employment	-1.7%	0.5%	1.8%	2.0%	2.4%
Mining	-3.3%	-9.6%	-8.3%	-2.8%	0.9%
Construction	-7.1%	7.2%	5.3%	1.9%	4.6%
Manufacturing	-6.5%	-1.9%	0.3%	2.0%	2.2%
Durable Goods	-8.5%	-4.1%	-0.8%	2.3%	2.5%
Nondurable Goods	-3.2%	1.4%	1.9%	1.6%	1.7%
Transportation & Public Utilities	-0.5%	2.4%	1.9%	0.9%	2.6%
Total Trade	-1.7%	0.7%	2.4%	1.2%	1.7%
Wholesale Trade	-4.0%	2.1%	3.6%	1.7%	2.4%
Retail Trade	-0.8%	0.2%	2.0%	1.0%	1.4%
Finance, Real Estate & Insurance	-1.1%	-4.1%	-6.4%	-1.3%	0.2%
Services	1.2%	1.7%	3.9%	4.1%	3.8%
Total Government	-1.3%	0.6%	0.7%	0.5%	1.0%

Levels in millions

Personal Income

	1993	1994	1995	1996e	1997e
Personal Income	324,275	329,644	346,577	367,942	390,127
Annual percentage change	1.1%	1.7%	5.1%	6.2%	6.0%
Per capita income ($)	20,602	20,603	20,604	20,605	20,606

Taxable Sales

	1993	1994	1995	1996e	1997e
Total taxable sales	125,762	131,981	137,765	146,007	154,739
Year to year percentage change	-1.1%	4.9%	4.4%	6.0%	6.0%

TABLE 2B

Orange County Quarterly Wage & Salary Employment–Forecasts

Levels in thousands

	1997:3e	1997:4f	1998:1f	1998:2f	1998:3f	1998:4f
Mining	0.9	0.8	0.8	0.8	0.9	0.8
Construction	57.8	58.2	56.5	59.3	61.7	62.1
Durable Goods	146.0	147.6	147.6	148.5	149.6	150.9
Lumber,Wood, Furniture	10.5	10.6	10.3	10.3	10.4	10.5
Stone,Clay,Glass	2.7	2.8	2.9	2.9	2.8	2.9
Fabr Metal	22.9	23.2	23.5	23.7	23.9	24.1
Industrial Machinery	24.8	24.9	24.9	24.7	24.5	24.6
Computer & Office	8.8	9.0	9.2	9.2	9.3	9.6
Other Machinery	16.1	15.9	15.7	15.5	15.2	15.0
Electronic Mach. & Other	32.6	33.1	32.4	32.7	34.4	34.7
Transportation Equip	19.2	19.7	20.2	20.6	20.6	21.2
Instruments & Related	27.8	27.8	28.1	28.4	27.5	27.6
Search & Navigation	8.0	7.8	8.2	8.4	7.5	7.3
Measuring & Control	8.5	8.5	8.4	8.4	8.3	8.3
Other Instruments	11.3	11.5	11.4	11.6	11.8	11.9
Misc Manufacturing	5.4	5.4	5.4	5.3	5.4	5.4
Nondurable Goods	74.3	74.1	74.6	76.3	76.9	76.3
Food & Kindred Prod.	10.7	10.2	10.2	10.7	11.0	10.4
Textiles	17.2	17.6	18.1	18.4	18.5	18.9
Paper,Printing,Publ	20.6	20.5	20.4	21.0	21.2	20.8
Chemicals & Petrole	10.3	10.2	10.2	10.2	10.3	10.2
Rubber,Plastic,Leath	15.6	15.6	15.6	15.9	15.9	15.9
Trans.&Public Utilities	44.1	44.6	44.4	44.8	45.1	45.6
Transportation	25.5	25.9	25.7	26.1	26.3	26.7
Communications & Utils	18.6	18.7	18.7	18.7	18.8	18.9
Trade	302.5	309.6	303.4	308.8	308.1	311.9
Wholesale Trade	93.9	95.1	96.2	97.4	98.1	97.4
Retail Trade	208.5	214.5	207.2	211.3	210.0	214.5
Finance,Real Estate&Ins	86.3	86.5	86.3	86.5	86.9	87.2
Services	379.1	382.8	381.2	390.1	392.3	396.1
Total Government	125.1	136.8	137.2	137.8	127.1	138.8
Total Non-agrl.Employment	1215.9	1241.0	1232.0	1252.9	1248.4	1269.7

Percentage change

	1997:3e	1997:4f	1998:1f	1998:2f	1998:3f	1998:4f
Mining	-1.8%	0.9%	1.0%	-0.5%	0.1%	-0.3%
Construction	7.3%	8.0%	8.9%	7.6%	6.9%	6.6%
Durable Goods	4.1%	3.8%	3.2%	2.8%	2.5%	2.2%
Lumber,Wood, Furniture	1.3%	0.6%	-1.8%	-1.7%	-1.7%	-1.7%
Stone,Clay,Glass	1.5%	2.6%	3.3%	3.4%	3.8%	3.0%
Fabr Metal	4.7%	4.7%	5.9%	4.8%	4.1%	3.7%
Industrial Machinery	2.3%	1.6%	1.1%	-0.6%	-1.2%	-1.4%
Computer & Office	2.6%	4.0%	6.3%	6.6%	6.5%	6.1%
Other Machinery	2.1%	0.2%	-1.8%	-4.4%	-5.3%	-5.7%
Electronic Mach. & Other	7.1%	6.8%	4.4%	4.3%	5.5%	5.0%
Transportation Equip	7.1%	7.6%	7.4%	7.5%	7.4%	7.5%
Instruments & Related	1.5%	1.0%	1.4%	2.1%	-1.0%	-1.0%
Search & Navigation	-0.4%	-3.2%	0.9%	2.7%	-7.2%	-6.7%
Measuring & Control	1.1%	0.7%	-0.1%	-1.7%	-1.7%	-1.6%
Other Instruments	3.3%	4.3%	2.8%	4.6%	3.8%	3.3%
Misc Manufacturing	1.0%	0.6%	0.3%	-2.8%	1.7%	-0.9%
Nondurable Goods	3.0%	3.0%	2.9%	3.8%	3.6%	3.1%
Food & Kindred Prod.	1.6%	2.2%	3.0%	3.8%	2.9%	2.5%
Textiles	9.8%	9.2%	8.4%	7.7%	7.7%	7.5%
Paper,Printing,Publ	1.1%	1.5%	1.0%	3.3%	3.0%	1.6%
Chemicals & Petrole	-3.2%	-3.6%	-1.1%	-0.1%	0.1%	0.2%
Rubber,Plastic,Leath	3.8%	3.3%	2.2%	2.5%	2.4%	2.3%
Trans.&Public Utilities	3.9%	4.5%	3.3%	2.0%	2.1%	2.2%
Transportation	3.4%	4.6%	2.8%	2.9%	2.9%	3.0%
Communications & Utils	4.5%	4.3%	3.9%	0.8%	1.0%	1.1%
Trade	2.1%	2.2%	1.5%	2.2%	1.9%	0.8%
Wholesale Trade	4.4%	4.5%	4.7%	4.9%	4.4%	2.4%
Retail Trade	1.1%	1.2%	0.1%	1.0%	0.7%	0.0%
Finance,Real Estate&Ins	0.8%	1.0%	0.9%	0.6%	0.7%	0.8%
Services	3.3%	3.5%	3.6%	3.8%	3.5%	3.5%
Total Government	1.9%	2.5%	2.5%	1.3%	1.6%	1.5%
Total Non-agrl.Employment	2.9%	3.1%	2.9%	2.9%	2.7%	2.3%

TABLE 3A

Orange County–Historical Data

Levels in thousands

Population

	1993	1994	1995	1996	1997e
Total population	2,554.7	2,582.2	2,614.8	2,649.8	2,685.6
Annual percentage change	1.4%	1.1%	1.3%	1.3%	1.4%

Household Employment

	1993	1994	1995	1996	1997e
Labor Force	1,328.4	1,333.6	1,331.6	1,343.8	1,377.7
Total Employment	1,238.6	1,257.1	1,263.9	1,288.7	1,324.7
Total Unemployment	89.8	76.4	67.7	55.2	53.0
Unemployment Rate	6.8%	5.7%	5.1%	4.1%	3.8%

Wage & Salary Employment

	1993	1994	1995	1996	1997e
Total Payroll Employment	1,115.4	1,126.8	1,151.7	1,184.2	1,218.0
Mining	0.9	0.9	0.9	0.9	0.8
Construction	44.5	47.3	49.8	52.1	55.7
Manufacturing	207.2	205.0	205.5	211.8	218.8
Durable Goods	138.7	135.5	134.5	139.7	145.3
Nondurable Goods	68.5	69.5	71.0	72.1	73.6
Transportation & Public Utilities	36.7	39.4	42.4	42.6	43.9
Total Trade	277.7	282.7	291.6	297.3	303.2
Wholesale Trade	76.7	79.3	84.5	89.4	93.4
Retail Trade	201.0	203.4	207.1	207.8	209.8
Finance, Real Estate & Insurance	93.8	91.8	84.9	85.6	86.1
Services	326.9	330.6	348.6	364.1	376.5
Total Government	127.8	129.2	128.2	129.9	132.9

Percentage change

	1993	1994	1995	1996	1997e
Total Payroll Employment	-0.9%	1.0%	2.2%	2.8%	2.9%
Mining	-17.9%	-4.5%	3.8%	-4.6%	-5.1%
Construction	-6.7%	6.4%	5.2%	4.6%	7.0%
Manufacturing	-5.3%	-1.0%	0.2%	3.1%	3.3%
Durable Goods	-8.0%	-2.3%	-0.8%	3.9%	4.0%
Nondurable Goods	0.7%	1.5%	2.1%	1.5%	2.1%
Transportation & Public Utilities	3.7%	7.2%	7.5%	0.6%	3.1%
Total Trade	-1.1%	1.8%	3.2%	1.9%	2.0%
Wholesale Trade	-3.2%	3.4%	6.6%	5.8%	4.5%
Retail Trade	-0.2%	1.2%	1.8%	0.3%	1.0%
Finance, Real Estate & Insurance	-0.5%	-2.1%	-7.5%	0.8%	0.6%
Services	1.9%	1.1%	5.4%	4.5%	3.4%
Total Government	0.2%	1.2%	-0.8%	1.4%	2.3%

Levels in millions

Personal Income

	1993	1994	1995	1996e	1997e
Personal Income	58,808	61,902	62,826	64,891	68,006
Annual percentage change	0.3%	5.3%	1.5%	3.3%	4.8%
Per capita income ($)	23,879	24,570	24,592	25,130	26,008

Taxable Sales

	1993	1994	1995	1996e	1997e
Total taxable sales	26,837	28,276	29,947	31,743	33,680
Year to year percentage change	1.2%	5.4%	5.9%	6.0%	6.1%

TABLE 3B

Orange County–Forecasts

Levels in thousands

Population

	1998f	1999f	2000f	2001f	2002f
Total population	2,723.2	2,764.0	2,809.6	2,858.8	2,913.1
Annual percentage change	1.4%	1.5%	1.7%	1.8%	1.9%

Household Employment

	1998f	1999f	2000f	2001f	2002f
Labor Force	1,410.6	1,445.6	1,469.4	1,500.9	1,535.2
Total Employment	1,359.2	1,383.6	1,415.5	1,446.6	1,481.3
Total Unemployment	51.4	61.9	54.0	54.3	53.9
Unemployment Rate	3.6%	4.3%	3.7%	3.6%	3.5%

Wage & Salary Employment

	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	1,250.7	1,273.9	1,307.1	1,340.4	1,373.5
Mining	0.8	0.8	0.8	0.7	0.7
Construction	59.9	62.6	66.4	70.5	74.8
Manufacturing	225.2	228.0	234.1	240.0	245.6
Durable Goods	149.1	151.7	156.3	160.8	164.9
Nondurable Goods	76.0	76.4	77.8	79.3	80.7
Transportation & Public Utilities	45.0	45.9	46.9	48.0	49.1
Total Trade	308.0	309.9	314.9	319.6	323.9
Wholesale Trade	97.3	98.5	102.3	105.8	109.2
Retail Trade	210.8	211.4	212.5	213.7	214.7
Finance, Real Estate & Insurance	86.7	87.9	88.7	89.5	90.3
Services	389.9	401.0	415.3	429.2	443.5
Total Government	135.2	137.7	140.2	142.8	145.4

Percentage change

	1998f	1999f	2000f	2001f	2002f
Total Payroll Employment	2.7%	1.9%	2.6%	2.5%	2.5%
Mining	0.0%	-3.2%	-3.2%	-2.9%	-2.3%
Construction	7.5%	4.6%	5.9%	6.3%	6.1%
Manufacturing	2.9%	1.3%	2.6%	2.5%	2.3%
Durable Goods	2.7%	1.7%	3.1%	2.9%	2.6%
Nondurable Goods	3.3%	0.5%	1.8%	1.9%	1.9%
Transportation & Public Utilities	2.4%	2.2%	2.1%	2.4%	2.3%
Total Trade	2.0%	1.3%	1.6%	1.5%	1.4%
Wholesale Trade	4.1%	1.3%	3.9%	3.4%	3.2%
Retail Trade	0.5%	0.3%	0.5%	0.6%	0.5%
Finance, Real Estate & Insurance	0.8%	1.4%	0.9%	0.9%	1.0%
Services	3.6%	2.8%	3.6%	3.3%	3.3%
Total Government	1.7%	1.8%	1.8%	1.9%	1.8%

Levels in millions

Personal Income

	1998f	1999f	2000f	2001f	2002f
Personal Income	80,942	85,336	90,237	95,370	100,613
Annual percentage change	5.0%	5.4%	5.7%	5.7%	5.5%
Per capita income ($)	29,723	30,874	32,117	33,360	34,538

Taxable Sales

	1998f	1999f	2000f	2001f	2002f
Total taxable sales	35,465	37,167	39,360	41,603	44,016
Year to year percentage change	5.3%	4.8%	5.9%	5.7%	5.8%

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February 6, 1997

HDR

Mr. Michael Parness
City Manager
City of San Clemente
100 Avenida Presidio
San Clemente, CA 92672

Dear Mr. Parness:

Subject: Summary Letter Report on Vendor Forum
Optimization of City Water and Wastewater Systems

As part of the City of San Clemente's evaluation of alternatives to optimize its water distribution and wastewater systems, a private sector vendor forum was held on January 21 and 22, 1997. The purpose of the forum was to facilitate private input as the City considers the following three options:

- Option 1: Savings with continued public operation
- Option 2: Five-year private contract operation (the Contract Operations Model)
- Option 3: Long-term lease/concession with a private operator (Privatized Financing Model)

This letter report should provide the City Council and other San Clemente decisionmakers with sufficient information to make a decision regarding the optimization of the City's water and wastewater systems. This report has been divided into the following sections:

- Section 1: Key Findings from the Two-Day Vendor Forum
- Section 2: Pros and Cons of Different Privatization Models
- Section 3: Summary of Vendor Forum Presentations
- Section 4: Recommended Next Steps

SECTION 1: KEY FINDINGS FROM TWO-DAY VENDOR FORUM

- Seven firms accepted the invitation to participate in the Vendor Forum, indicating serious interest on the part of the private sector in San Clemente's water distribution, storm drain, and wastewater systems. Three of these companies are large national firms.

- The vendors estimated potential savings ranging from 3% to 30%. One firm projected savings to be greater than the current O&M budget, so those numbers have been deemed nonresponsive and are not used in the estimated savings range.

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Architecture
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Planning

- There was no consistency in preferred approaches or up-front capital injection. Several vendors preferred straight 5-year O&M contracts; another suggested a long-term O&M contract with a minimum up-front payment; another suggested a 15-year lease concession agreement with a large up-front payment. The presenters for one vendor recommended that the City continue its current operation because they believe that there would not be sufficient savings to justify a change.

- All vendors but one said they could meet the July 1 schedule, assuming the City could issue a Request for Proposal (RFP) by the end of February. There was general agreement that the RFP needs to be very detailed and thorough, and that legal and financial counsel should be added to the procurement team.

- Proposition 218: Discussion ranged from the expectation of litigation, which makes it difficult to predict its impact, to the statement that an O&M agreement could be structured to provide payments to the City's General Fund without violating the restrictions imposed by Prop. 218.

- All vendors guaranteed employment for City employees with promises of at least equal, if not better pay, great advancement opportunities, cross-training, and training in general.

SECTION 2: PROS AND CONS OF DIFFERENT PRIVATIZATION MODELS

As the City of San Clemente considers the merits of privatizing its water and wastewater systems, it is important that you be able to sift through the sometimes conflicting information advanced by the privatization proponents to determine what makes the most sense for the City. Information on and differences between the currently used types of privatization are discussed in this section.

2.1 Contract Operations Models

The Contract Operations Model

The most common alternative model of wastewater system privatization is the contract operations model, wherein a private firm assumes responsibility for managing and operating a water or wastewater system under a service agreement (usually for a three- to five-year operating term). The private firm's responsibilities typically are limited to operating and maintaining the system in compliance with existing permits. The contract operations model is usually coupled with an ongoing responsibility on the part of the municipal participants to fund and assume debt obligations for all capital projects whose costs are greater than a relatively low specified threshold, such as $2,000, $3,000, or $5,000. The private operator may have the right (typically only with the owner's consent), but not the obligation, to implement capital improvements that reduce operating and maintenance costs. In such situations, the private firm would finance, design, build, and operate the improvement and would keep all of the cost savings for the term of the agreement.

Managed Competition

A variant of the contract operations model is managed competition, whereby the existing public employees are given the opportunity to compete with private companies for a contract to operate the system, including implementing some optimization improvements. Some of the optimization and ongoing maintenance investments are funded by savings realized from cost reductions in the operating budget. As with the operations approach, the financing of major capital programs remains the responsibility of the municipality.

The managed competition model has been implemented successfully by the Charlotte-Mecklenburg Utility Department (CMUD) in North Carolina. CMUD allowed its municipal employees to compete against private firms in three separate procurements: the 15-million-gallon-per-day (MGD) Irwin Creek Wastewater Treatment Plant, the 20-MGD Vest Water Treatment Plant and the McAlpine Creek Sludge Composting and Stabilization Facility. HDR Engineering, Inc., (HDR) as part of its municipal advocacy program, assisted CMUD's public employees in optimizing these systems and in preparing their proposals in response to CMUD's RFP. The public employees won all three procurements with bids that were 20% to 30% below the lowest-cost bids of private firms.

The above models have been applied when the primary municipal goal was to reduce and stabilize operating and maintenance costs. The procurement of this service arrangement is reasonably straightforward because it does not involve changes in ownership of the system, infusion of capital into the system by private firms to fund major capital improvements, or refinancing by a private vendor of existing system debt.

2.2 Privatized Financing Models

Lease Financing

A third alternative model of wastewater system privatization is being implemented in the City of Cranston, Rhode Island (Cranston). Serving as Cranston's consultants are HDR (procurement and technical), Hawkins, Delafield & Wood (legal), and Bear Stearns (financial). Cranston's lease financing entails the infusion of capital (in the form of an up-front contract payment by the privatization contractor) that is used, in part, to defease city debt that is financing the existing wastewater system. In addition, the privatization contractor is responsible for financing major capital improvements and regulatory-required upgrades. Despite this infusion of contractor financing, Cranston retains ownership of its wastewater system.

These contractor financing responsibilities are coupled with system operation responsibility for a 25-year period. A lease-service agreement was developed wherein the municipality retains ownership and the contractor is granted a leasehold interest in the system. The contractor is assured of service fee payments over the 25-year term to amortize the capital investment it makes in the system. These capital investments include the contractor's up-front payment to the city and the cost of new capital improvements in the system (which the contractor is obligated to undertake under terms equivalent to fixed-price contracting). A primary objective of this structure is to shift the system debt obligation from Cranston to the project, and thereby improve Cranston's financial condition. The lease-service agreement, in which the contractor is obligated to provide the operating and maintenance service and the city/ratepayers are obligated to pay the service fee, provides the credit support for the project financing.

The Cranston model is being applied in a situation in which the primary municipal goals are to refinance system debt and fund future capital requirements without incurring a direct municipal obligation on the debt, provide the city with a cash infusion to improve its credit rating (partly through the refunding of existing system debt), and shift economic risk for the capital and financing costs of future system repairs and maintenance to a private party. This approach does not transfer ownership of system assets, but does transfer operating responsibility within the framework of a service agreement for a 25-year term.

Asset Sale

A fourth model of wastewater system privatization is the sale of the system to a privatization contractor that is obligated to provide service to the municipality under a 20- to 25-year service agreement. The proceeds of the sale can be used by the municipality to retire debt, enhance its credit rating, and provide capital for other municipal needs. This model has been implemented in Franklin, Ohio, where, although not essential to this model, the municipality still is responsible for the cost of all major capital repairs and maintenance.

A critical distinction between the *asset sale* (Franklin) model and the *lease financing* (Cranston) model is that, under the asset sale model, the municipality transfers ownership of its wastewater system to a private vendor. There are concerns by some that it may not be in the best interest of the ratepayers to transfer control of an asset that many view as essential to the long-term growth and well-being of a community. At the end of the service agreement, the municipality may be in a relatively disadvantaged position in negotiating for continued service or, if it wishes, to reacquire the system; it can reacquire the system only by paying the then-current fair-market value to the owner.

2.3 Choosing the Appropriate Model

The great majority of existing privatized operations fit the contract operations models. The most important distinction between the these models and the lease finance model is the contractor's assumption of financing responsibility and the commensurate financial guarantees for permit compliance and major repairs and maintenance over the term of the service agreement and for initial system upgrades. Typically, neither the three- to five-year contract operations nor the managed competition variant of this model impose contractor responsibility for major financing or refinancing. These models are appropriate when a community's primary goal is to reduce operating expense by improving efficiency and productivity without large up-front commitments of capital.

One criticism of the managed competition process is that public employees are not in a position to make meaningful financial guarantees of their contract obligations, and therefore the process (which allows public employees to compete against private firms) has an element of unfairness. However, if a community's primary objective is to improve efficiency and productivity in its current operation without needing long-term financial guarantees from a privatization contractor, then it is appropriate to include managed competition in the procurement of a privatization contractor.

Conversely, if a community's primary reasons for privatizing are to address long-term financial objectives for the refinancing or future financing of its system, then Cranston's lease financing model is more appropriate. Several points should be kept in mind about the lease financing model:

- Because obtaining long-term financing or refinancing of system assets from a private party is the primary objective, and because this entails the assumption of long-term financial guarantees of performance by the privatization contractor, this option is not compatible with a managed competition option.

- The transfer of financial liabilities to a private party makes procurement and negotiation of the lease financing contractual structure much more complicated than the contract operations model.

- Not all privatization contractors are able or willing to enter into a lease financing contract. The Cranston project became a competition between two vendors, Wheelabrator and a Poseidon Resources and PSG team. It remains to be seen whether other competitors active in the contract operations industry are also willing to offer a Cranston-type deal.

- The Cranston project involved the development of a new financing model being applied there for the first time. New IRS regulations now allow tax-exempt government purpose bonds to be used to finance capital projects with private operators that can extend to 20 years (rather than to the previous limit of 5 years). With tax-exempt financing, the cost of this type of privatization financing will be less expensive than using taxable debt.

SECTION 3: SUMMARY OF VENDOR FORUM PRESENTATIONS

HDR suggested that the City hold the Vendor Forum to determine the private sector's level of interest and to help the City decide whether or not to issue a Request for Proposal (RFP). HDR supplied the following items for the forum:

- A list of documents that needed to be compiled as background material for the vendors
- A letter inviting vendors to participate in the Vendor Forum
- A list of eight firms to be invited
- A series of questions to be addressed by each vendor
- Packets of detailed information from the City that were mailed to each participating vendor

Firms that accepted the forum invitation are:

- California Water Service Company (CWSC)/Wheelabrator
- ECO Resources
- ES Environmental Services
- Golden State Water Company (GSW) LLC
- JMM Operational Services, Inc. (OSI)
- OMI, Inc./CH2M Hill
- Professional Services Group, Inc. (PSG)

This forum was the official mechanism for vendors to approach the City, and participation was mandatory for any entity wishing future consideration. Vendors were asked to follow the same outline in their presentations, and to include the following topics:

- Introduction and credentials of the company and its affiliates
- A detailed description of the approach preferred by the vendor
- Discussion of how the vendor expects to meet the City's timeline

At the forum, each vendor interview lasted two hours and was tape-recorded. HDR prepared a summary of each presentation, based on the tape recording and the vendor's handouts. These summaries are in Attachment A of this report. HDR also prepared a comparative summary of the vendors' presentations, as shown in Table 1.

SECTION 4: RECOMMENDED NEXT STEPS

Based on the Vendor Forum and HDR's preliminary findings, there appears to be an opportunity for a savings of about 10% in the O&M costs of the City's water and wastewater systems. The vendors' estimates of savings that were given at the forum were not substantiated and were made as a part of a sales pitch, which explains the wide range (3-30%) that they presented. Until a competitive procurement forces vendors to disclose their specific strategies and direct "apples-to-apples" comparisons can be made, it is difficult to fully evaluate the findings from the Vendor Forum.

The City Council faces two different policy tracks regarding this assessment of the optimization of the City's water and wastewater systems:

- *Is the City's goal to simply obtain O&M savings and operate more competitively?*
- *Or is its goal to leverage an infusion of capital for the General Fund?*

The City Council needs to decide which direction to go. Then its Public Works staff will be able to decide whether they need to proceed with development of an RFP or to perform the cost-saving measures in-house.

4.1 Policy Alternative 1: O&M Savings

Cost-Saving Goal of 10%

If the goal is simply to find ways to reduce the cost of the O&M services without compromising quality of service, then HDR believes that the San Clemente staff can use a variety of private sector techniques to save up to 10% of costs without turning over its operation to a private firm. This level of savings can be realized through a combination of:

- Cross-training
- Increased automation and unattended operation
- Linking pay rates to employee performance
- Early retirement incentives
- Shift reconfiguration
- More aggressive preventive maintenance and outsourcing (where savings are substantial)
- Energy savings
- Chemicals savings
- Labor savings

Over the next five months, San Clemente staff could (with HDR's assistance) conduct an in-depth assessment of optimization approaches. We believe that, at the end of this period, we can assist the City in developing a program to achieve a 10% savings. To jump-start this process, over the next six weeks HDR could, with City staff, outline potential strategies in several areas to yield the 10% cost savings.

The Goal, Scope, and Schedule

Before beginning the 5-month assessment of potential savings, the Public Works Department should obtain the City Council's approval of an overall goal of 10% savings (based on your 1997 O&M budget). We need this goal, as well as a commitment from the City Council to accept our savings plan.

We would like to enter into a memorandum of understanding (MOU) with San Clemente managers and front-line workers for a five-year operations and maintenance agreement tied to the performance specified in our plan. The MOU is important because we want the policymakers, the employees in San Clemente, and the general public to understand that a goal is more significant than a target, and should be considered as firm. Further, we are concerned that, after such an in-depth review of current operations and making our future O&M strategy a matter of written record, San Clemente could become the target of a hostile takeover attempt by private vendors. Having a written strategy makes it simple for vendors to underprice San Clemente. In any competitive process, once the bids are open, there are usually attempts by unsuccessful companies to explain how they can do the job for less money.

With the City Council's approval, HDR and City staff could proceed with Step 1, which involves detailed analyses and cost reductions. Part of the strategy would be to hold a series of roundtable meetings with each of the departments to obtain their input regarding ways to obtain the needed cost savings.

4.2 Policy Alternative2: Leveraging Capital

The other policy track that the City Council might want to pursue is leveraging an infusion of capital for the General Fund. The following steps need to be taken to determine whether this alternative is worth further pursuit:

- Step 1: Estimate capital needs.
- Step 2: Evaluate public financing options.
- Step 3: Evaluate impact of new Internal Revenue Service Revenue Procedure 97-13 on qualified tax-exempt bonds issued January 10, 1997.
- Step 4: Determine ability to use up-front payment for General Fund in light of Proposition 218.
- Step 5: Determine whether there could be a capital facilities buy-in payment of some sort under AB 2660 that would comply with Proposition 13.
- Step 6 Evaluate repair and long-term maintenance costs and needs as well as the capital improvement program.

If the answer is "no" to capital needs and the repair/long-term maintenance cost estimates are not excessive, then this alternative of leveraging capital is not of much benefit to the City.

Please call anytime for further discussion of your optimization plans.

Sincerely,

HDR Engineering, Inc.

Ellen R. Bogardus/mb

Ellen R. Bogardus
Program Manager
Municipal Services

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TABLE 1: SAN CLEMENTE VENDOR FORUM - COMPARISON OF FIRMS

Firm	*Size*	*Ownership*	*Reference Plants*	*Annual Revenues*	*Similar Plant Experience*	*Preferred Approach*	*Financial Benefits & Estimated Savings*	*Benefits*	*Disadvantages*	*Policy for Current Employees*	*Procurement Process and Schedule*	*Prop. 218, IRS Ruling, and AB2660*	*General Comments*
California Water Service Co. (CWSC)	634	Headquarters in San Jose, CA. The largest investor-owned water utility in CA. In operation since 1926. Provide service to 1.5M in CA.	Excellent in water; teamed with Wheelabrator (see Appendix A for additional info.) for WW experience.	$180M in 1996.	Very similar facility in Palos Verdes, CA; also Petaluma, CA; Vancouver, WA.	Long-term O&M contract - 15 years; provides most flexibility; most $$ to City; offers full range of services; guarantees cost.	Could not answer because more info. and revenue figures are needed. Expects to provide info. to City. Believes there is significant saving to City IF go to 15-20-yr contract; savings to come from chemicals, water meters, economies of scale, etc.	City retains ownership; sets rates; has final say on capital improvements; can address Prop. 218 issues (included legal opinion in proposal).	City retains some liability; may have to defease bonds; may have to reimburse contractor for unamortized capital improvements.	Will offer jobs to San Clemente employees; some employees could be leased from City; cross-training is important. Salaries at or above current salary.	RFQ to select qualified firms; negotiate from RFQ. Can make the July 1 date, but City has to get moving!	Provided legal brief on Prop. 218; an O&M agreement can be structured to provide payments to the City's General Fund without violating restrictions imposed by...and Prop. 218." (Assumes SC retains rate-setting authority.) Also discussed AB2660 & SB2111.	Also has one of most advanced billing operations; recycled water experience. In 1996, CA Water was awarded a 15-year lease to operate the City of Hawthorne, CA, water system.
ECO Resources		US: Wholly owned subsidiary of SW Water Co. (Suburban Water Systems & NM Utilities also subsidiaries). Headquartered in West Covina.	218 water produc. plants; 193,000 water connections; ?? miles of distrib. pipelines; 56 WW plants (total = 58MGD).	$65M	"The ONLY company operating comparable water & waste-water facilities in So. CA."	Lease/O&M Concept: (1) Leasing of Water Distribution & Storm Drain System; (2) 5-yr O&M Contract on WWTP & Collection System.	For O&M 5-yr. WWTP contract, about $400,000/yr (12.5%), 1/3 each from labor, consumables, & maint. Min. up-front pmt; City doesn't "mortgage the future," nor can contractor hold City hostage, saying "raise rates or..."	City maintains policy & engineering functions; City maintains rate-setting authority. No bonds to defease; increases income to City; annual franchise/concession fee for General Fund; maximizes cash flow & income to City; guaranteed system maintenance.	Requires formal legal opinion for proper structure of agreement to confirm acceptable status under Prop. 218.	Hires City employees; equal pay; no relocation without employee approval; advancement opportunities improved greatly.	Requires full proposal. RFP should include proposed contract/service agreement. Proposals should be ranked by criteria on qualifications, price, and City benefits. Negotiate with top-ranked proposal.	Prop. 218: "Probably won't achieve what people thought it would, so will not be much of a threat." "Need more legal input from our attorneys."	"We will bend over backward to accommodate the needs of your City."
ES Environmental Services	Over 9000; over 100 O&M	US: owned by Parsons; ES staff in Oakland & Atlanta	Discussed only similar-sized facilities.	$900M	Gilbert, AZ; Downingtown, PA; Jefferson Parish, LA; Pelham, AL.	Continue as is; not enough savings to justify a change.	3-8% cost saving potential; minimal opportunity for additional cost savings.	N/A	N/A	N/A	Need more time; can't make July 1, 1997.	No discussion.	When asked why they had gone forward with presentation, they said: "It is good business to provide complete and honest findings."
Golden State Water Co. (GSW)	GSW just formed as JV; SCWC employs 310 people in LA, Orange Co.	US; Joint venture of So. CA Water Co.(SCWC) & US Water, LLC, which is a JV of United Utilities, Bechtel, & Peter Kiewit's)	SCWC operates 41 water systems (2nd largest private water utility in CA); USW operates 29 WW systems.	GSW, none; USW = $17M; SCWC, not provided.	Adequate	Long-term (15-yr) lease concession. Wants one integrated contract for all services. Large up-front pmt or large indiv. installments.	Potential annual savings of approximately $4M (note that this is bigger than entire O&M budget)??? Maximizes annual lease payment to City.	Maximize operating efficiencies; integrate customer service features; do capital improvements.	Limited to initial 15-year term under recent IRS ruling.	Offers 100% employment initially, but not all employees will be able to stay in current location with current position; has many transfer opportunities for staff; may lease a few from City if PERS constraints.	Use vendor forum to screen qualified contractors; retain legal & financial consultants; release RFP in mid-Feb.; need to schedule detailed inspection of systems; interview top two; negotiate with winning bidder. Schedule for 7/1 is "doable."	No discussion.	Projected savings seem unrealistic.
JMM Operational Services	85 prof. staff in So.CA; largest contract operator in So. CA.	French: Lyonnaise des Eaux; sister companies = Montgomery Watson, United Water Resources.	65 facilities in US.	JMM=$39M	Over 1.5M customers in communities like San Clemente.	Contract operations.	20-30% based on similar facilities, size, scope; get immediate savings; lump sum "locks in" fee (private firm provides all services for a fixed price). Savings would be on the $3.2M O&M budget. Thinks can enhance sale of water in SC.	JMM assumes responsibility for plant performance; maximizes use of local businesses (grounds, labs, elec., mechan.).	Minimal ability to include capital improvements; recurring impact on employees at end of contract cycle.	No layoffs for life of contract; overall, compensation & benefits are as good or better; recognition of employee association; emphasize training. Reduction in staff through attrition. Cross-training is cornerstone of labor relationships.	Could comply; short-list firms from this vendor forum; develop a well-written written RFP; negotiate with lead vendor.	Wanted to defer to Prop. 218 experts when asked question on this, but felt that AB2660 might be saving grace; AB2660 stretches out the contract terms and thus allows private firm to put in cost savings, which in long run bring even greater savings.	Would like to take over all aspects of the system, from billing to storm drains to water distribution to wastewater O&M. JMM has no water distribution experience in CA--only in East and Midwest.
OMI	1000 staff (national)	US; formed in 1980; headquarters in Denver, CO.	120+ worldwide; several facilities in No. CA.	$85M; has no debt.	Good; provided 10 project descriptions.	Contract operations (5 yr.); corporatization concept (51% ownership by City).	Can save SC $$: estimated 8-12% savings.	City retains control; can implement by 7/97.	Wastewater qualifications are good; water distribution is not as strong.	Guarantees employment; advancement opportunities, etc.	Could meet it.	Expects Prop. 218 to be litigated, so it is hard to predict impact; but if privatize, get outside wall of 218.	Brought 5 people to interview; has office in Santa Ana, CA.
Professional Service Group (PSG)	1700 employees (national)	French ownership (CGE); AWT; Metcalf & Eddy; Research-Cottrell all part of conglomerate; Headquarters in Houston, TX.	Over 360; 200WW; 170 water; several facilities in No. CA.	Over $265M	Good	Never really stated.	10-30% savings in energy, chemicals, management, staff, and economies of scale, and reduce risks of day-to-day operations.	Not addressed specifically.	Not addressed specifically.	Offers positions to all staff; total wages and benefits are equal or better; advancement; training; incentives.	No problem in meeting schedule; stressed need for thorough RFP; oversight of contract is critical.	Did not discuss.	Presentation was not responsive to the letter of invitation. Did send additional material, including copies of presentation slides and a lengthy list of client profiles. Brought one person to interview.

Attachment

Summaries of Vendor Presentations

California Water Service Company

Tuesday, January 21, 1997 - 8:00 a.m.
California Water Service Company
1720 North First Street
San Jose, CA 95112-4598

I. Introductions

A. Jim Good
VP, Corporate Communications & Marketing

B. Chibby Alloway
Western Regional Manager (Wheelabrator)

C. Mike Rossi
Chief Engineer

D. Don Jensen
Palos Verdes District Manager

E. Phil Schwartz
Planning Consultant in San Juan Capistrano

II. Why Partner

A. City and water system capital needs
B. Tight city budget and uncertain future revenues
C. Proposition 218
D. To develop the most beneficial arrangement
E. Leverages the resources of the private sector for the benefit of the public sector; you can tap into our market to obtain capital resources, and all the while retain control of the system (rates) and everything.

III. Cal Water Has History of Success

A. Operations include:
Municipal systems under O&M
Municipal systems under long-term lease
Recycled water distribution systems
Nobody has more experience in this field in this state.

B. Perks:
State's largest investor-owned water utility
Serves 1.5 million people in the state
20 separate districts serve 56 communities, with corporate HQ in San Jose
Established in 1926

IV. Southern California Presence

A. Approximately 90,000 customers served in four districts:
East Los Angeles, Hermosa-Redondo, Palos Verdes, & Westlake

B. Innovative lease of Hawthorne water system
Long-term lease (15 years)

Paid city $6.5 million up front
$100,000 a year for term of lease
Took over their employees
We get all their revenues and their expenses.
We make all the improvements.
City still owns system and has ultimate say-so over rates and improvements

C. Combination groundwater/surface water supply, through the Metropolitan Water District
D. Operates West Basin/ Central Basin recycled water distribution system; largest in the U.S. (possibly world)

V. Cal Water Financial Resources

A. Cal Water installs $28 million in new infrastructure annually.
B. Made $180 million in revenues this past year
C. Assets are worth over $400 million.
D. Every year we install $20-30 million in capital improvements around the state; most of it is money we get from the market.
E. Cal Water can raise capital in the following ways:

Retained earnings (difference between profit and what we pay to our shareholders in the form of dividends
Issuing additional equity (stock)
Borrowing over the short term ($30 million line of credit)
Qualifying for tax-exempt bonds under CA. private activity volume cap; (IRS has made water systems eligible).

VI. In-House Engineering Staff Capabilities

A. Experienced Engineering staff:

43 engineers on staff (10 are registered)
They know how to keep costs down because they don't need to worry about overdesign.

B. State of the art SCADA system is used to operate tanks and wells.
C. GIS mapping
D. Facilities include:

Operation of over 600 wells (add 6-12 new ones a year)
300 surface tanks
1000 pumps throughout tanks
600 miles of tanks

E. San Clemente is very similar to our facility in Pales Verdes.

VII. Water Quality Capabilities

A. Includes state-certified laboratory
B. Results within 24 hours; no concerns about being bumped in commercial lab

C. Service cost kept at reasonable level
D. Scientists kept on-site:
They can detect things that might negate the need for expensive treatment... means more savings to customer

VIII. Information Systems Capabilities

A. One of the most advanced billing operations of any company in any field
B. Manifest mailing provides the lowest 1st-class rate available.
C. Overnight payment processing (can credit customers overnight)
D. In-house programming (can meet unique utility needs, i.e., messages on bill
E. Internet home page with information for rate customers
F. Process 400,000 items a month:
Mistake ratio = 1 mistake per 1000 items (high accuracy)
G. Effective meter reading:
Hand-held reader prints out locally and in San Jose
Detect all anomalies in reads
F. Customer payment options:
By mail
At commercial office
After hours, by drop off, or at designated community areas
Automatic payment system:
Taken directly out of checking account
9% above industry average in this service, by volume
At-home banking
Internet in 1997
Credit card payments (additional cost to city)
Putting multiple services on bills (lower overhead cost)

IX. Recycled Water Expertise

A. Operate West and Central Basin recycled water distribution systems
B. Designed several extensions to the system
C. Conducted hydraulic analysis of flow and pressures in the Central Basin

X. Operating Agreements: Consult notebook for complete listing and analysis of all types of agreements.

XI. Wheelabrator (EOS) Information

A. How to partner?--EOS would subcontract to Cal Water.
B. Why partner?--Creates a total package from all expertise areas

XII. Introduction to WEOS

A. Brief facts:
$60 million annual revenue

In 24 years, never failed to make a profit
Over $200 million in backlog
500 O&M water/wastewater specialists
24 years of O&M services
140 plants nationally (1 to 90 MGD)
No contract ever terminated early
Has the most EPA performance & safety awards (84 to date)

B. WEOS -Western Region brief facts:

7 municipal wastewater facilities (POTWs)
3 stormwater programs
255 O&M water/ wastewater specialists (75 with certifications)
Extensive knowledge of RWQCB, DHS, and State Board

XIII. Partnership Highlights (Section 2 in notebook has complete profiles and examples.)

A. Petaluma, CA:

Capacity, 6.5 MGD
Industrial waste, stormwater monitoring, pump station maintenance

B. Vancouver, WA

C. Dayton, Ohio: Use of collection system

XIV. Personnel

A. Since 1970, Cal Water has acquired more than 30 water systems; no employee has been let go as a result.

B. San Clemente water, wastewater, and storm drain employees will be offered employment with Cal Water.

C. San Clemente employees can expect to receive salaries at or above their current salary level.

D. Cal Water benefits compare favorably with most cities. (Section 3 offers a detailed comparison of benefits.)

E. Employees may work directly for Cal Water, or continue on the city's payroll and be leased to Cal Water. We will bring in a financial consultant to help employees make the best decision in this transition process.

F. Cross-Training: We fully implement ,and provide training for this efficiency (ongoing).

VX. Preferred Arrangement -Long-Term O&M (15-year contract)

A. Pros:

City retains ownership.
City sets rates.
City has final say on all capital improvements.
City can make up-front payment, annual payments, or both
Can address Proposition 218 (documented in exhibit portion of the notebook)

Can cancel contract
No possessory interest tax; value to city is higher because money is not going to County.

B. Cons:
Retains some liability; majority, however, is Cal Water's.
May have to defuse outstanding bonds.
May have to reimburse contractor for unamortized capital improvements.

C. Preferred, because:
Provides most flexibility
Provides most money to city
Offers full range of services
Guarantees cost

XVI. Partnership Implementation

A. Procurement Process:
RFQ to select qualified firms
Select firm to negotiate with from RFQ; anticipate 30-45 days to make selection, and expect response in 20-30 days (facilities tour is included in this time)

B. Time Requirements:
Contract negotiations, 1 month
Financing:
Short = immediate $30 million line of credit
Long = up to 6 months from award of contract

C. Implementation: 2 months from award of contract

XVII. Conclusion--Why Privatize?

A. We will bring to the city not only Cal Water (which is the largest investor in water utilities in CA), but also the strongest wastewater operation team in the country.
B. Multiple success in operating municipal systems, mutual systems, and public and private systems
C. Can produce large payments that comply with Proposition 218.
D. Would realize efficiencies of single operations and Cal Water's economies of scale.
E. Opportunities for employees to advance

XVIII. Questions

1. Can you give me a ballpark sense of what the savings would be?

With the information you sent us, we could not figure out a general percentage, as we did not have any of your revenue figures. I am afraid to commit to a number right now without all the elements to the equation. I would be happy to hammer one out with all of the proper resources.

2. Do you think this makes sense for the city of San Clemente to do?

Yes. I believe that we can create significant savings for you, especially if we enter into a 15- to 20-year contract, because it will offer an incredible payback. There is a $12.5 million dollar capital that is also premised on growing the community, so there is incentive to get here. So a zero-based rate increase may not be the long-term strategy for the City, either. There is money the City wants to get in. That means you have to increase infrastructure and facilities.

3. We have to convince the City that we need to change; what should we tell them?

The benefit to the City is that, if you want predictability of revenues, this is one of the best ways to get it under the Proposition 218 environment, because it removes those issues from the City and gives them to the contractor. And all the while maintains a high-quality service.

4. Where is the cost savings going to come from?

Chemicals--we have national purchasing agreements.
Uniforms
More buying power
Proficiency and efficiency
Water meters
Pipe
Insurance policies
Economies of scale

5. Do you drug-test employees?

Absolutely. We also take into consideration driving records for those who drive city vehicles.

6. Can you address the staffing situation?

We keep them all on. Basically, we rely on attrition and staff shifting.

7. How do we know you will not let our system go to pot?

We have a reputation to protect. We would like to see our business keep growing and we can't afford to get a bad name for ourselves. Second, check out our current clients; they are proof that we will not let your facility slide.

8. I have a lot of employees who are near retirement or have tenure; , do their benefits transfer?

Typically, yes. However, we would have to talk through this and give you the final answer. You must remember that anything is negotiable; you guys call the shots.

9. What would you say are impacts of Proposition 218 on your proposal?

First, I would like you to please read the literature in the notebook on Proposition 218. It addresses a lot of the features and red tape surrounding this issue. As we realize it now, you can pay a company, such as ours, to operate this system and you can make a profit. Furthermore, you can make payments to a General Fund. This is because it is a required cost to provide water. It is important to remember that Proposition 218 does not apply to us, only to you. This creates some room for special compliance.

ECO Resources, Inc.

Wednesday, January 22, 1997 - 10:00 a.m.
ECO Resources, Inc.
2230 West Chapman Ave., Suite 200
Orange, CA 92668

I. Corporate Organization: Wholly- Owned Subsidiary of Southwest Water Company

NASDAQ-SWWC
Headquarters in West Covina
Other subsidiaries: Suburban Water Systems and New Mexico Utilities

II. Operations Experience–Serves Over One Million People

A. Water:
- $4.2 million billing and collection transactions annually
- 2.3 million meters read each year
- 193,000 water connections
- 218 water production facilities (316 mgd)
- 2,841 miles of water distribution pipeline
- 61 miles of levees
- 6 levee improvement districts

B. Wastewater:
- 122,000 wastewater connections
- 56 wastewater treatment plants (58 mgd)
- 1,834 miles of wastewater collection pipeline
- 362 sewer lift stations

C. Facilities:
- 75 contracts in total (west & south)
- Barstow and Huntington Park in southern California

III. Corporate Financial Strength

A. Revenues: $65,243,000
B. Net Income: $1, 860,000
C. Total Assets: $109,962,000

IV. The ECO Advantage

A. Experience:
- Provides water, wastewater ,and storm system operations to more cities in California and the Sunbelt than anyone else.
- Is the *only* company in southern California operating water and wastewater facilities that are comparable to San Clemente's.

B. Noted Excellence: Has won more CWEA awards for excellence than any other company
C. Specialization: Specializes in controlled cost operations for rate stabilization

D. Not dependent on jury-rigged joint venture to provide range of services to the City

V. Current Clients Comparable to San Clemente

A. Chelford City Regional Treatment Plant;
- Groundwater production
- Activated sludge treatment
- Industrial pretreatment
- 12.27 mgd–water; 15.50 mgd–wastewater

B. City of Barstow:
- Activated sludge treatment
- Belt press
- Fluid bed incinerator
- Wastewater reclamation
- Beneficial use of sludge
- 4.2 mgd–wastewater

C. City of Sugar Land:
- Groundwater production
- Water distribution
- Activated sludge treatment
- Wastewater collection
- 13.25 mgd–water; 5.00 mgd–wastewater

D. Eleven comparable cities in all; consult notebook for more information.

VI. ECO's Recommended Option–Lease/O&M Concept

A. Leasing the Water and Storm System

Benefits:
- No bonds to defease
- Increases income to City
- Annual franchise/concession fee to City for General Fund services
- Legal under Prop. 218
- Maximizes cash flow and income to the City
- Guaranteed system maintenance

Drawback: Requires formal legal opinion for proper structure of agreement to conform to Prop. 218.

B. Short-Term Renewable O&M Contracts on WWTP & Collection System

Benefits:
- No need to defease bonds and lose low tax-free interest rate.
- Can be renewed at City's option at existing price.
- Provides additional savings to City to buy General Savings.
- City doesn't lose future rights to tax-free funding.
- No duplication of private/ public overhead.
- Guaranteed system maintenance

Drawbacks: Requires close cooperation between contractor and City to ensure City charges to enterprise fund are still viable under Prop. 218.

C. Minimum Up-Front Payment

Benefits:

City doesn't pay penalty of private company finance rates

City doesn't "mortgage the future"

Contractor can't hold City hostage later, saying "raise rates or buy out our investment."

City retains option to get private money at a later date, depending on need and tax laws.

Maximizes annual income to City.

D. Retention of Policy and Engineering Functions by City

Benefits:

City retains ability to set and maintain standards..

City sets policies (delinquency allowances, etc.).

Capital projects can be suggested by City or contractor but must be approved by City.

Ensure public control of private efficiency.

Maintains control over QA/QC.

E. Retention of Rate-Setting Authority by City

Benefits:

Annual rate increases are limited to CPI and changes that City deems necessary

No shockers to the public down the road.

No rate increases for capital projects without City approval.

Rate stability because of savings of private operations.

PUC is not involved because City retains authority over rates.

No requirement that City adopt PUC-like rate approval mechanism or match surrounding rates.

F. Hiring of City Employees by ECO.

Benefits:

Continuity of staff ensures smooth transition.

Improved training/ job opportunities

No relocation without employee approval

ECO hires/promotes 50+ people annually in southern California & the Sunbelt.

Equal pay

Drawbacks: Employees end PERS involvement, but gain Social Security and ECO retirement.

VII. Implementation Process

A. Procurement Process:
   Requires full proposal.
   Include price and proposed contract.

B. ECO suggests:
   Long-term lease of water and storm systems
   Short-term renewable contract for wastewater collection/ treatment system

C. Prequalification:
   Top eight bidders
   Based on forum presentation.

D. Evaluate: Rank proposals by criteria covering qualifications, price, and City benefits.

E. Negotiations:
   Negotiate contract with eight top-ranked proposers
   If accepted, present #1 proposer to Council.
   If not, negotiate with # 2 for favorable contract.

VIII. Implementation Schedule

Jan. 31	City prequalifies 8 bidders.
Feb. 21	City determines format for scope of work.
Mar. 21	Write RFP with evaluation criteria (confidentially weight values), and initiate any necessary labor proceedings or notices.
Mar. 22	Issue RFP requesting full technical, contractual & price disclosure.
Apr. 1-2	Conduct facilities evaluations.
April 22	Receive RFPs.
May 15	Rate proposals and announce top three proposers.
May 19	Begin contract negotiations with top-ranked proposer.
June 9	Conclude negotiations with #1 or proceed to #2.
June 23	Conclude negotiations with #2 or proceed to #3.
July 2	Submit contract to City Council for approval.
July 3	Begin employee transition with contractor.
July 7	Sign contract and issue Notice to Proceed.

IX. Conclusion

A. We are a service company; "we will bend over backward to accommodate the needs of your city."

B. Dual experience: We have both contract and utility operations expertise.

X. Questions

1. How do you see Prop. 218 fitting into this equation?

I would like to defer that question to my legal experts. All I can say right now is that we have to wait it out. My hunch is that it is not going to achieve what people thought it would, so it won't be as much of a threat.

2. How much can we assume your preferred approach would save us?

We worked out a rough estimate. Under the strict O&M 5-year contract, about $400,000 per year–$2 million over 5 years.

3. Where do you find that savings?

We will obtain this savings from three places. A third will come from labor and personnel; a third will come from consumables; and a third will come from the cost of labor maintenance.

4. What is your maintenance policy for the water side?

We have a three-tiered system that we always meet when it comes to maintenance. First, we use computerized maintenance control. Second, we detail thorough monthly reports. Third, we set up a maintenance reserve of approximately $400,00; if it is not used, it goes back to the City at the end of the year. I think that our 100% renewal on all our contracts really paints the best picture for you. If we were not meeting high standards of maintenance and service quality, we wouldn't be able to use that statistic.

5. What is the trend in rates after a takeover?

Every situation is a little bit unique. However, our goal is to keep rates stable and to pour money back into the system. One example is Barstow, which actually has had an 8% rate reduction. It is important to note that we would not apply CPI to the total contract; anything that is not controllable just gets passed through.

6. What about wastewater treatment?–How much of it do you do?

We have about a 60% emphasis on wastewater treatment. Most of our facilities in California operate on wastewater. We also do access for reuse.

7. How does your customer billing work?

The bottom line is that we will tailor the system to your needs. We would prefer to have billing in West Covina and have a customer service office here open during business hours. If we did this, we would take all the right measures to create the perception that all the work is done here. However, we will do what San Clemente thinks best for the City.

8. How do you address a 35-year-old employee who wants to stay in PERS?

We set up a side fund (a pool of money) to pay out that type of employee and, furthermore, deal with other extraneous employee circumstances.

ES Environmental Services

Wednesday, January 22, 1997 - 3:00 p.m.
ES Environmental Services
2101 Webster Street, Suite 725
Oakland, CA 94612

I. General Information

A. Parsons Corporation is parent company.
   - Founded in 1944; 100% employee-owned
   - Has 7 subgroups (including ES)
   - Over 9,000 employees
   - First company in U.S. to privatize water facilities

B. Parsons capabilities:
   - Full-service engineering company: concept, design, procurement, construction management, maintenance
   - No vested interest

II. Financial Capabilities–Worth

   - $900 million in billing each year
   - Most comes from design.

III. Operations and Maintenance

A. Experience
   - Over 20 years of contract operation experience
   - Over 100 O&M personnel
   - Two main regions: eastern (Atlanta) and western (Oakland)

B. Services:
   - Contract Operations
   - Plant Supervision
   - Facility Startups
   - Operation Training
   - Process Troubleshooting
   - Operation and Maintenance Manuals.
   - Treatment Plant Performance Evaluations
   - O&M Reviews
   - Energy Studies
   - Vulnerability Analysis/RMPP/Audits

C. Staff: Training staff is often a combination of municipal & industrial.

IV. Reference Projects

A. Most are representative of San Clemente:
   - Gilbert, Arizona:
     - 5.5-mgd capacity
     - 24-year contract period

Chandler, Arizona:
7.5-mgd capacity
24-year contract

B. Other Projects
Downington, Pennsylvania
Pelham, Alabama
Jefferson Parish, Louisiana (one of the largest wastewater treatment plants)

V. Basic Approach

A. Objective
Provide consistent and reliable O&M in a safe and cost-effective manner.
Utilize home office project manager and on-site plant manager to develop and oversee O&M plan of operations.

B. Areas of Review:
Process Control
Maintenance Activation
Staffing & Scheduling
Purchasing & Outsourcing
Training (safety education)
Comprehensive Reporting (streamlining)
Budgetary Control

VI. Cost Savings to San Clemente (from greatest to least)

A. Staffing:
Contract out more.
Not a significant reduction in staff

B. Energy: You have currently competitive rates.

C. Chemicals: Not unusually high

D. Sludge Disposal

E. All these savings do not equal a tremendous amount of money!

VII. Alternative Water Resources Management Strategies

A. Program Management:
City owns facilities.
City sets rates and collects revenues.
Contracts

B. Service Agreement
Private party finances, builds, owns, operates.
New facility is subject to a long-term service agreement.

C. Franchised Utilities:
Franchise pays City the net market value of the facilities.

Operating revenues and perceived future revenue potential; you will pay 2.5% more on debt service because of shorter time; about 9%.
Franchise agreement terms define relationship between City and franchise.
Contractor can hire qualified City employees, but terms will change.

VIII. Advantages

A. Program Management
B. Service Agreement:
  Potential cost savings (fast-track)
  City retains control of developing policy.
C. Franchise Utility: cash for equity

IX. Disadvantages–Program Management

Loss of operating control
Potential contractual rigidity
Potential loss of cultural memory

X. Suggestions–Procurement: Timetable; need more time.

XI. Summary

A. Factors:
  Preliminary evaluation of system
  Three separate systems; increases complexity.
  Liability issues
B. Findings:
  3-8% cost savings potential
  Minimum opportunity for additional system savings
  The costs of privatization are increased by:
    Profit requirement
    Increased risk & liability
    Higher debt cost

XII. Recommendation: The City should continue with its current operation, as is.

XIII. Questions/Comments

Because of ES Environmental Service's recommendation, the presentation concluded without any concrete questions. The San Clemente delegation was refreshed to see that, although the firm was not asking for any business, it had still put time and effort into preparing a presentation. When the company presenters were asked why they had gone to this extent, they simply replied "It is good business to provide complete and honest findings." They also complemented San Clemente on a sound water system and stated that they would love to do business with the City in the future if there is a genuine need.

Golden State Water Company, LLC

Wednesday, January 22, 1997 - 1:00 p.m..
Golden State Water Company, LLC
630 E. Foothill Blvd.
San Dimas, CA 91773-9016

I. Background Information

A. Golden State Water Company: Joint venture of Southern California Water Co. & U.S. Water

B. Southern California Water Company:
   Provides water to over 1 million Californians
   Second-largest private water utility in California
   Only investor-owned utility providing water to Orange County
   Over 40,000 customers

C. U.S. Water LLC
   Joint venture of United Utilities, Bechtel, and Peter Kiewit's Sons
   United Utilities (UU) is third-largest water/wastewater company in world

II. Water Operating Experience

A. Water Systems
   SCWC operates 41 water systems.
   Serves over 240,000 connections in 10 counties & 75 cities.
   Orange/L.A. SCWC:
      Employs 310 people
      Serves 180,000 water customers
      Operates over 175 wells and 41 MWD connections with 40 million gallons of storage
   USW operates 18 water systems in 13 communities.
   UU:
      Serves the water/wastewater needs of 28 million people/day
      Has a combination of sources of ground and surface water

B. Wastewater Operating Experience:
   USW operates 29 wastewater systems, serving 29 communities.
   USW operates 4 comparable wastewater systems and treatment plants.
   UU operates 900 wastewater systems and 26,500 miles of sewer in world.

III. Golden State Water–A New Entity: Why was GSW founded?
   To meet the need for local water facilities in California.
   To take advantage of the large opportunity of water utilities in California
   To add value to the field and take this on outside the realm of the utilities

IV. Financial Strength

A. US Water LLC: 1996 wastewater billings = $17 million.

B. US Water's parents:

Bechtel:	$9 billion in annual revenues
Peter Kiewit Sons':	$3.5 billion in annual revenues
United Utilities:	$3.8 billion in annual revenues

V. Operating Experience in Similar-Sized Water Districts

A. San Dimas System:
   15,000 connections
   17 pressure systems close to San Clemente's
B. West Orange System: 26,000 connections
C. City of Easton, PA:
   21,000 water connections
   23,000 wastewater connections
D. Township of North Brunswick, NJ:
   One of the first cities to privatize
   10-mgd treatment plant with distribution system supervision
   $24 million sales (1996)

VI. Preferred Approach

A. Long-term lease concession agreement:
   15-year term; willing to evaluate alternative terms
   One integrated contract for water, wastewater, reclaimed, & storm drains; this will eliminate double overhead & yield administrative savings.
   Maximize ongoing annual lease payment to San Clemente City; large up-front payment or large individual installments
   Include option of integrating up-front payment with ongoing annual lease.
B. Long-term relationship using:
   Reclaimed water facilities
   Assets
   New ideas to create savings

VII. Preferred Approach–Details

A. Operations: One local manager for water/wastewater & storm system
B. Maximize operating efficiencies:
   Enhance reclaimed water capabilities.
   Manage local water supply alternatives.
   Integrate meter readers and billing employees within SCWC system to reduce costs
   Integrate our customer service features:
      24 hour hotline (actual person in San Dimas)
      Add local customer support also.
      Only company with a customer service training university
      Only company with an electric utility customer base.

Aggregate energy purchases with SCWC's electric system in Big Bear; this would reduce cost.

VIII. **Capital Improvements**

A. Manage existing projects and evaluate future needs for San Clemente.
B. Provide private alternatives for execution and financing.

IX. **Advantages of Preferred Approach**

A. Integrated management: provides greatest possible operating savings.
B. Maximizes annual lease payment to the City.
C. Single contract minimizes the City's direct and indirect costs of administering contract.
D. Can better utilize existing employees.
E. City maintains control over rates and ownership of water system.
F. Potential annual savings of about $4 million (assuming no rate/cost inflation):
   Translated to % of actual savings: estimated at 35% to customers.
   Does not include storm drain revenues or costs.
   Does not include depreciation.

X. **Disadvantages of Preferred Approach**

A. Financial: Limited to initial 15-year term under recent IRS revenue ruling; this would allow us to keep debt outstanding ($1 million/year savings)
B. Approvals:
   No CPUC approval required (outside of regulated system).
   No prior IRS approval required (at current time).

XI. **Employee Considerations**

A. Offer 100% employment initially; however, not all employees will be able to stay in current location with current position.
B. Excess employee staffing reduces operating efficiencies.
   We can reduce staff size effectively because of our experience.
   We have the most transfer opportunities in the local area.
   We supply the most opportunities for integration.
C. Operator must have option (after time)to reduce excess staff.
D. Willing to consider variety of employee options, including:
   Lease from City (maintains PERS)
   Would provide City with technical training via SCWC Employee University
   Would consider retraining initial employees for specific term.
E. Drug testing: All employees are tested in the beginning.

XII. **Prospective Timetable**

A. Utilize vendor forum to screen qualified contractors.

B. Retain legal and financial consultant.
C. Release RFP by mid February to qualified contractors:
    Allow for detailed physical inspection of systems.
    Include revenue and billing side inspection.
D. RFPs due to the City by March 15:
    Request interviews with top two selected contractors:
        Give vendor chance to work with employee/staff.
        Make it a collaborative approach.
    Announce selection of winning bidder by April 30
    Contract negotiations and documentation during May & June
    Target contract closing in early June

XIII. Summary

A. Privatizing the water/ wastewater systems will create significant operating and financial efficiencies.
B. Selecting one contractor maximizes operating and financial efficiencies.
C. Golden State Water is qualified to:
    Provide seamless integrated management of water & wastewater.
    Supply technical and financial resources for long-term operations and system improvements; find cheaper sources of water supply.
    Provide creative financial options designed to maximize the long-term value of the City's water & wastewater system.

XIV. Questions

1. Where is most of the cost-savings coming from?

The key to reducing cost in this market is economies of scale. Aside from this, further cost savings will come from customer billing from SCWS, and also from maintenance and operations.

2. What would you estimate the employee reduction number to be?

We cannot supply that number at this time. It would take more thorough access to your information.

Note: The majority of questions in this presentation were asked during the presentation itself, and the answers are integrated with the notes.

JMM Operational Services, Inc.

Wednesday, January 22, 1997 - 8:00 a.m.
JMM
1700 Broadway, Suite 1100
Denver, CO 80290

I. JMM Team Structure

A. JMM Operational Services, Inc.:	Operations and maintenance
B. Montgomery Watson:	Engineering and project management
C. Lyonnaise des Eaux:	Water & wastewater, technology and financing
D. United Water Resources:	Utility management

II. JMM Operational Services, Inc.

A. Leader in providing water and wastewater O&M services
B. Service provider for U.S.'s largest water and wastewater O&M efforts (Jersey City, West Basin in Los Angeles)
C. Leader in providing technical and management assistance
D. Services are long-term, with repeat clients
E. 85 professional staff members in Southern California (Makes JMM the largest contract operator in Southern California)

III. Montgomery Watson

A. Premier environmental engineering company specializing in water and wastewater
B. Has completed 10,000 projects for over 2,900 clients
C. Employees: 3,000
D. Fifty years of providing municipal environmental engineering services
E. Over 100 U.S. EPA projects since 1975

IV. Lyonnaise des Eaux

A. World leader in providing water and wastewater services
B. Employees: 140,000
C. Leader in stormwater management and control
D. World's largest water/wastewater privatization activity in Buenos Aires, Argentina, and Sydney, Australia
E. Major research projects in water and wastewater technology
F. Over 110 years of providing municipal utility services

V. United Water Resources

A. Core business: provide water services to 2,000,000 customers in 13 states
B. Owns and operates over 35 water utilities
C. Employees: 2,151
D. Over 125 years of providing water utility services

JMM Operational Services, Inc.

VI. JMM Has Invested in the Future Market

A. JMM is the only team with major U.S. utility management systems.

B. Already has a dynamic precedent:

- Over 1.5 million customers in communities similar to San Clemente
- 3,400 process engineers (E-mail-linked)
- 65 facilities in the U.S.
- Over 30 full-utility facilities
- Management systems (refined over 50 years)
- Success with community economic development
- Investment in research and development

VII. Financial Resources

A. \$22-billion/year collective revenues

B. Individual revenue:

- JMM: \$39 million
- UWR: \$330 million
- MW: \$336 million
- LdE: \$21,480 million

C. Ownership:

- JMM: 50% MW and 50% UWR-LdE
- UWR: Publicly owned (NYSE)
- MW: Employee-owned
- LdE: Public CAC

VIII. Affiliations (a short list of the many)

A. National:

- Water Environment Federation
- American Water Works Association
- American Water Research Federation

B. On Board of:

- Water Industry Council

C. Local and Regional:

- On all the boards for all our projects

VIII. Project Approach

A. Capabilities and Past Experience include:

- Concession
- Contracting out
- Design-build
- Outsourcing
- Contract O&M
- Operations assistance
- Build-own-operate-transfer

Privatization
Delegating
Public-private partnership

B. Levels of Public-Private-Partnership:
Full privatization
Concession/ franchising
BOOT (build-own-operate-transfer), purchase-renovate-operate-transfer
Approximately a. 25-year process
Leasing/ farming out
Contract operations
Operations assistance

IX. Preferred Approach, Contract Operations

A. Financial Benefits:
Savings potential of 20-30%, based on past facilities of this size and scope
Lump sum "locks in" fee
Savings are immediate
Performance guarantees ensure "equal or better" performance and growth; will meet all regulatory requirements that were formally met

B. Operating in Full Scope:
Makes it easier for both parties
Single management oversight
Single organizational structure
Optimum flexibility of work force allocation
Optimum leverage of JMM resources
Optimum financial benefit to City

C. Under Contract Operations:
The private firm provides all services for a fixed price
The private firm assumes responsibility for plant performance
Staffing, utilities, chemicals, spare parts, supplies, and equipment included

D. Contract operations maximize the utilization of local businesses:
Done on an as-needed basis; a lot of our savings comes from this
Engineering support
Electrical, mechanical, utility work, subcontracting
Materials and supplies
Temporary services
Community college and vocational-tech training

E. Disadvantages of Contract Operations:
Minimal ability to include capital improvements because of 5 year contract (acceleration of payments)
Recurring impact on employees at end of contract cycle

X. JMM's Plan of Operation

A. Ensures ongoing quality and performance

B. Guarantees "equal or better" performance:

Drinking water quality, quantity, and pressure
Wastewater effluent quality and NPDES permit compliance
Odor control and AQMD compliance
Community and worker health and safety
Customer service response and satisfaction
Equipment maintenance and reliability

C. Would include four separate plant operating plans:

Water
Wastewater
Storm
Distribution systems

D. Process Management System:

Continuous cycle that adjusts, observes, and evaluates all processes
Includes annual audits by JMM to ensure that San Clemente is receiving what it should

E. Performance Reviews:

Are included in the audit process
Are a joint JMM/City team activity
Dictate what improvements are needed
Update performance goals
Revise process control plan
Process performance report
Asset renewal replacement
Optimization program

F. Process Control Cycle:

Ongoing process
Adjusts-observes-evaluates all work

G. Treatment Process:

Equivalent to the EPA rules
Extremely detailed process of how each procedure works

XI. JMM's Savings

A. Our approach to consumable cost reduction has yielded substantial savings to our clients all over the country:

Indianapolis: 25% savings in utilities
Fulton County (similar in size to San Clemente): 28% savings in utilities

B. Greatest savings comes when performing at optimum level; we are experts in not over- or under-serving.

C. On average, we could save San Clemente 20-30%.

JMM Operational Services, Inc.

XII. JMM's Comprehensive Maintenance Management

A. Quality service is ensured.

Computerized MNS inventories assets and documents equipment history.
Predictive maintenance diagnostically pinpoints problems.
Preventive maintenance minimizes breakdowns.
Corrective maintenance: repair vs. replacement decisions are based on engineering life-cycle analysis.
Overall equipment maintenance/replacement costs are reduced by 50%.

B. Complete diagrams of maintenance standards are in notebook, Section 3.

XIII. Personnel: the Cutting Edge Difference with JMM

A. JMM's Recommended Employee Protections:

No layoffs for the life of the contract
Overall, compensation and benefits are equal or better:
  To compete against public PERS program
  Bonuses
Smooth transition to private sector
Recognition of employee association
Training and career advancement opportunities

B. JMM has successful partnerships with labor, and believes that employees are its greatest asset.

C. Cycle of training ensures improved quality and performance.

Needs assessment
Curriculum development
Training delivery
Program evaluation

D. Safety Performance:

Skills + incentives + safety = productivity.
80% reduction in lost-time accidents after we implement programs
10% above industry in reduction of lost-time accidents

IVX. Procurement

A. Schedule:

Jan. (4 weeks):	Prequalifications
Feb. (4 weeks):	RFP development; be very specific!
Mar. (6 weeks):	Proposal development
Apr. (4 weeks):	Proposal review and selection; pick one firm!
May (4 weeks):	Negotiation of contract
June:	Start contract

B. Process Recommendations:

Complete prequalifications short-listing.
Establish framework of proposals.

Develop written RFP for short-listed firms with selection criteria (price, experience, team, etc.
Presentations (optional)
Ranking and selection of vendors
Negotiation with lead vendor

VX. Financial Analysis of San Clemente Water, Wastewater, and Drainage

A. Bulk Water:
   Purchase $5.0 million.
   Allows for AB2600 35-year lease, or buyout (has never been done before)

B. Operations and Maintenance:
   $3.2 million
   Keep options open for 20 years to maximize your savings.
   IRS says we can go 20 years on book without defeasance of the debt.
   JMM would invest in the plant.

C. Other City: $0.9 million

D. Total Budget = $9.1 million/year; bond indebtedness through special assessment district

VXI. Questions

1. What is your read on Proposition 218?

I would like to defer to the experts in this situation. However, let us remember that AB2660 might be your saving grace. That might provide a package that would allow you to take care of high-quality service to your community and furnish capital improvements.

2. What is the benefit to the City to do this?

Savings–From what we saw of your numbers, we would estimate a 20-30% savings. However, this is without all the hard figures. We will be happy to give you a more definite number once we have all the information.

3. What would lead you to believe that you could save us 20-30%?

First, comparing your profile against the way we run, operate, and save other facilities of similar dimensions. Second, our past experience leads us to make this hypothesis.

4. Staff reduction: How could you justify employee cuts?

On the labor side, I would estimate that the cuts would not be tremendous. However, it is too early to say exactly.

5. Would 20-30% mean compromising maintenance and programs?

This is a valid concern that all people have. You must remember that there are so few competitors in this market; we cannot take any chances of hurting our reputation. Quality is something that cannot be compromised. It is also important for your comfort level that you make the RFP extremely detailed so that you know maintenance and programs simply can't be compromised.

6. How sure are you about the 20-30%? I would not like to represent that to the council and find out that it is no where near the truth?

With all the information you have given us, we think it is possible. This savings is on your $3.2 million, not on your total, although there are some significant uses and areas in which we could enhance your sale of the water. That is where a lot of the savings is possible.

7. What is the attraction of AB2660 and the IRS ruling?

It does stretch out the contract terms. Also, it allows us some money to put in to cost savings and we could save much more in the long run. Basically, it could pay for itself, which means we could supply the capital outlay.

8. What type of maintenance would you feel comfortable with?

In terms of repair limit, it is typically $2500 to $5000 that we are responsible for. However, it all depends on the terms of the contract; what would you want it to be?

9. What assurance is there that equipment will not be neglected?

First, it goes back to our long-term health–We can't afford not to. Second, we are required, as project managers, to protect the assets. We report to you everything in a maintenance preview and review. It is our goal to make this a seamless relationship. Our monthly reports are designed to make sure you are comfortable with our work activity. Finally, we welcome a third-party team to ensure quality control.

10. How do you protect yourself from rate increases?

From a legal side, you can put a disclaimer in the contract that says this will not be solely tied to rate. The City has responsibility; regardless of where it gets the money, it has to pay the bill. You can know what the rates will be for the next 5 years. Basically, we are open to discussing how you would like this implemented.

11. Do you do drug-testing?

Yes–We do initial testing on all employees, but no random testing for positions when not required by law.

12. Would you be willing to provide an up-front payment to the City?

Of course; we have very deep pockets. However, I would not recommend it because, historically, municipal money is much cheaper.

13. Can you guarantee no layoffs?

This is a recommendation. At first, we hire all staff. Through attrition, eventually the staff will be weeded out.

14. Will employees with city seniority transfer over?

Yes. Typically, we take that date and apply it to our vacation accrual date and as well apply it to our pension plan to invest it. We also lease employees from the city, if it makes more sense.

15. Do you bring in a mobilization team during the transition?

Typically, we bring in a team to train and re-train the employees. Our goal is start teaching cost savings right away.

16. Does the city enter into the selection process of the Superintendent?

Bottom line is you are the client. If you want to be involved you can. We just have to clarify what degree of involvement you wish to have in the contract.

17. What experience do you have in water distribution in California.

None in California. Most are in the east and mid-west.

18. Issue of cross-training.

We believe this is a cornerstone of labor relationships. Not only for savings but also for camaraderie. This also produces team efficiency. We have amazing incentive plans such as our "We Make A Difference" program. It includes on the spot bonuses, team awards, most improved, and many more.

19. Does JMM have a preference on which aspects of the business you take over?

Yes. We would prefer to take over all aspects of the business. From billing, customer service, to the wastewater.

20. Where would the billing take place?

It is up to your discretion. We do have a central location in Texas. However, we could set it up locally so that it has a city interfacing feel. Furthermore, we would also create a local presence for customer service.

OMI, INC.

Tuesday, January 21, 1997 - 8:00 a.m.
OMI, Inc. (CH2M Hill)
5299 DTC Boulevard, Suite 1200
Greenwood Village, CO 80111

I. Introductions

Buddy Ranoi, District Project Manager
Jane Joyce, Regional Manager, PR/Community Specialist
Ed Trainer, Regional Manager (Southwest territory)
Bill Reem, Project Delivery (currently at Rialto)
Wyatt Troxel, Facilities Manager, Public & Private Project Evaluation

II. Company Background and Experience

A. About OMI:
  Formed in 1980
  120+ facilities worldwide
  1,000 OMI specialists and support personnel
  Abilities include infrastructure, privatization, development, finance, design, construction, operation, and ownership

B. Company Creed:
  Provide solid technical expertise.
  Create a culture that allows people to do their job.
  Make a profit.

C. Provides Full Range of Services: sanitation, waste reuse, maintenance, water, wastewater, capital improvements, billing, meter reading, collection, customer service

III. How Does OMI Save You Money?

A. Empower Employees (instill a sense of company ownership)
B. Energy Conservation
C. Chemical Management
D. Shared Technical Specialists (cross training)
E. Bulk Purchasing (company has wide experience with vendors)
F. Experience
G. Increased Automation (efficient machinery)

IV. Quality Process

A. 100%-Satisfied Clients (Refer to notebook for complete list of client references.)

B. Quality Service Surveys:
  Conducted every two years
  Feedback is taken from actual clients.
  Executive management uses surveys for continual progress.

C. Quality Coaches:
13 coaches
They retrain all employees to keep them progressive.
1% of total revenue goes back into this program.

D. OMI Excellence Awards:
"Plant of the Year" EPA awards 15 times in past 6 years (multiple plants)
Three of the awards were national.

V. Financial Qualifications Overview

$85 million in annual revenue
American-owned (by its employees)
Subsidiary of CH2M HILL (a $1 billion company)
Has no debt
50-year relationship with the same bank
Rated most financially efficient and effective contract operator (*Public Works Financing* in 1996)

VI. Similar Projects: A complete list is outlined in Section 4 of the notebook.

VII. Project Options

A. Options include:
Own and operate, design/build and operate, corporatization, concession, contract O & M, technical assistance

B. Diagram Comparison (Consult notebook for detailed chart contrasting.)

VIII. OMI's Preferred Approach

A. Contract Operations of Entire System (5-year contract)

B. Investigate Long-Term Privatization through Public-Private Corporatization

C. Benefits:
Can implement by July 1997
Allows time to test partnership
Immediate cost savings
Cash purchase of system via low-rate public funding
City retains control.
PUC control
Employees keep working for nonprofit organization.
Employees receive "best of both" benefits package.
Ratepayers get best value.

D. Disadvantages
Contract operations (employee apprehension)
Corporatization (takes time to implement)

IX. Benefits to Employees

A. Features:

Guaranteed employment
Promotional opportunities
Training programs
Benefits
Performance incentives

B. OMI Training Program--"We Invest in Associates..."

Certification
Maintenance
Quality
Process control
Standard Operating Procedures
Specialized equipment

X. OMI's Plan of Operation

A. Phase I: Project mobilization
B. Phase II: Technical approach and systems implementation
C. Phase III: Benchmarking and continuous quality improvement

X1. Procurement Process and Schedule Timeline

June 1	Selection of OMI
June-July	Contract negotiations and financing
July 1	Sign contract.
July 1-15	Mobilization and employee transition
July 15	Begin services.
July 15- Aug. 1	Two-week project jumpstart
Aug. 1	Study of long-term alternatives begins.
Jan. 1998-Dec. 1998	Implement study findings.

XII. Questions

1. What is your corporatization process like?

OMI feels that we have created a corporatization situation that makes all parties happy. We have actually trade marked this word as stemming from our company. Our initial interest is to put the city n the driver's seat. Our preferred division is to obtain 49% of the company, while the city keeps 51%. However, we do allow room for flexibility here. It boils down to what makes the city the most comfortable.

OMI, INC.

2. So are you saying that a legal entity is created?

Yes. We set up a Board of Directors that is composed of the company. The interests are split and the directors are made up of both the city and of OMI. Then, we subcontract out for the individual jobs.

3. Is this where your profit comes from?

Yes.

4. Have you discussed this issue with California PERS yet?

No. We did discuss it with Illinois and it met the test there; we are anticipating the same from California.

5. How many water districts have you operated?

- Six separate storm drains districts. However, in the Northeast we operate many combination systems that include storm drains.
- Twelve water district systems

6. Is water waste your major emphasis?

Yes.

7. What is your Partners in Performance?

This is an employee system that was actually created by employees themselves. It comprises both a team plan and an individual plan. The team plan is cash paid out to all or none of the team members, based on them meeting their designed goals. It is an incentive of $650 to each member. The individual bonus is designed to reward staff and increase longevity; it is paid out in cash pieces and also in performance shares that can't be cashed for three years.

8. How cross-functional are your maintenance and operation workers?

They certainly blend. Of course, by law, maintenance workers are not certified to do the jobs of supervisors. However, we estimate that about 40% of their work is non-core. In these cases, we have them working together for the benefit of the project and the team.

9. Are there any real reasons for the city to do this?

Absolutely--we can save you money. The savings will come from money management, chemical contracts, personnel (the brunt of it), and through system software.

10. What do you estimate the savings to be?

It is hard to say with the limited information that we have. However, we would estimate that we could give you an estimated 8-12% savings to your end user.

11. How would you say Proposition 218 plays into your equation?

I do not have any hard statistics to give you yet. The change in rate structure for cities will not be known fully until after it has been tried and litigated. However, if you privatize, you can live outside the walls of 218. As a public company, you are subject to living with all its specifications.

Professional Service Group, Inc.

Tuesday, January 21, 1997 - 10:00 a.m.
Professional Service Group, Inc.
14950 Heathrow, Suite 200
Houston, TX 77032

I. Discussion Questions

1. What is the advantage for San Clemente to go ahead with your proposal?

The biggest advantage to you would be the cost savings. PSG could provide you with a higher level of savings in the categories of energy, chemicals, management, staff, and economies of scale. Some other very important advantages to you would be reduction of risks, and also removing you from the day-to-day dealings with water treatment.

2. What would you say the rate reduction would be?

The standard rate reduction in your case would be between 10 and 30%.

3. What type of employee testing does your company do?

All employees are drug- and alcohol-tested in the beginning, and also periodically.

4. San Clemente is dealing with an aggressive time schedule. Do you think your company would have a problem with it?

Of course not. A term sheet (layman) definitely speeds the process along. Furthermore, the RFQ would accelerate the process to a full proposal within 45 to 60 days.

5. What is PSG's renewal rate?

Last year we were 22 for 26. This year we are 5 for 5.

6. What does PSG consider to be major or minor repair?

This is all very subjective. It depends on the terms of the contract, and what all parties decide on. Basically, we are very flexible.

END DOCUMENT

208-1-4

File
LTPP 97
Computer Strategic Plan
cc: Wito
Kumi
Mike P
Mike S
Jim H
Bruce W

City of San Clemente Technology Migration

Dennis Vlasich

Kerry Consulting Group

Objectives

- Effective, efficient use of technology
- Increase productivity
  - Do more with less
- Improve accountability
  - Know where the money goes

Decisions for Today's Meeting

❒ Infrastructure upgrade	$164K
❒ Includes 50 new workstations	
❒ Buy Network Management Software?	$25K
❒ RFI for CCS upgrade/replacement	$9K
❒ Already budgeted	
❒ Award would be from $230K to $566K+	
❒ RFP for STAT replacement	Incl.
❒ Award would be approx. $50K	
❒ Imaging	$34K+
❒ Replaces CLERK/FILING	
❒ QUEST replacement w/Office 97	$12K
❒ Uses Team Manager	
❒ GIS Basemap	$12K
❒ Internet E-mail	$22K

Needs Assessment - Findings

- **Use of the computer systems are integral to City operations**
- **The ADDS minicomputer is declining in reliability**
- **There is a high level of dependency on custom programs**
  - Virtually all written by Larry Moore
  - Very little documentation (either system level or user level)
- **Access to computer based information is inconsistent and unreliable**
  - Particularly a problem with remote sites

Applications in Use - CCS

- Payroll/Personnel
- Utility Billing
- Finance
  - G/L, Bank Reconciliation
  - A/P, PO
  - A/R, Central Cashiering
- Central Permits
- Business Licenses

Applications in Use - Custom Pick

- **STAT** (Complaint Tracking)
- **QUEST** (Project Tracking)
- **COST** (Query/Reporting tool)
- **CLERK** (Legislative History)
- **FILING** (Subject/File Index)
- **AUDIT** (Budget Prep)
- **STAFF** (Employee Evaluation)
- **CONTRACT** (Contract Tracking)
- **JOBS** (Applicant Tracking)
- **JAMS** (Cost Allocation/Job Cost Accounting)

Applications in Use - 3rd Party

- Imaging (Optica)
  - Very limited use, City Clerk only
- GIS (ArcVIEW, ArcCAD)
  - no basemap or data linkages
- Maintenance Management (TUMMS)
  - Water repairs only, duplicate STAT entries
- Parks & Rec (Program for Success)
  - Barely functioning as a standalone system

Dormant Applications - CCS

- Cost Accounting - CCS
  - Not Cost Allocation
- Fixed Assets - CCS
- Land Use (little used) - CCS
- Risk Management
- Applicant Tracking - CCS
  - Part of Personnel, replaced with JOBS

Application Needs

- Cost Accounting
- Positive Payroll Time Entry
- Position Control
- Budget Modeling
- General
  - Consistent user interface (Windows)
  - Better on-screen editing
  - User-level query/report writer

Strategic Recommendations

- **Implement an industry standard platform infrastructure**
  - Ethernet, TCP/IP, router-based networks
  - ODBC compliant databases
  - Centralized network management
  - Scaleable, redundant WAN links

Strategic Recommendations

- **Reduce single person dependency**
  - Learn to use "off the shelf" software
  - Limit custom programming
  - Design, develop, document, test, implement all custom software
- **Migrate current applications to the new, mainstream technical platform**

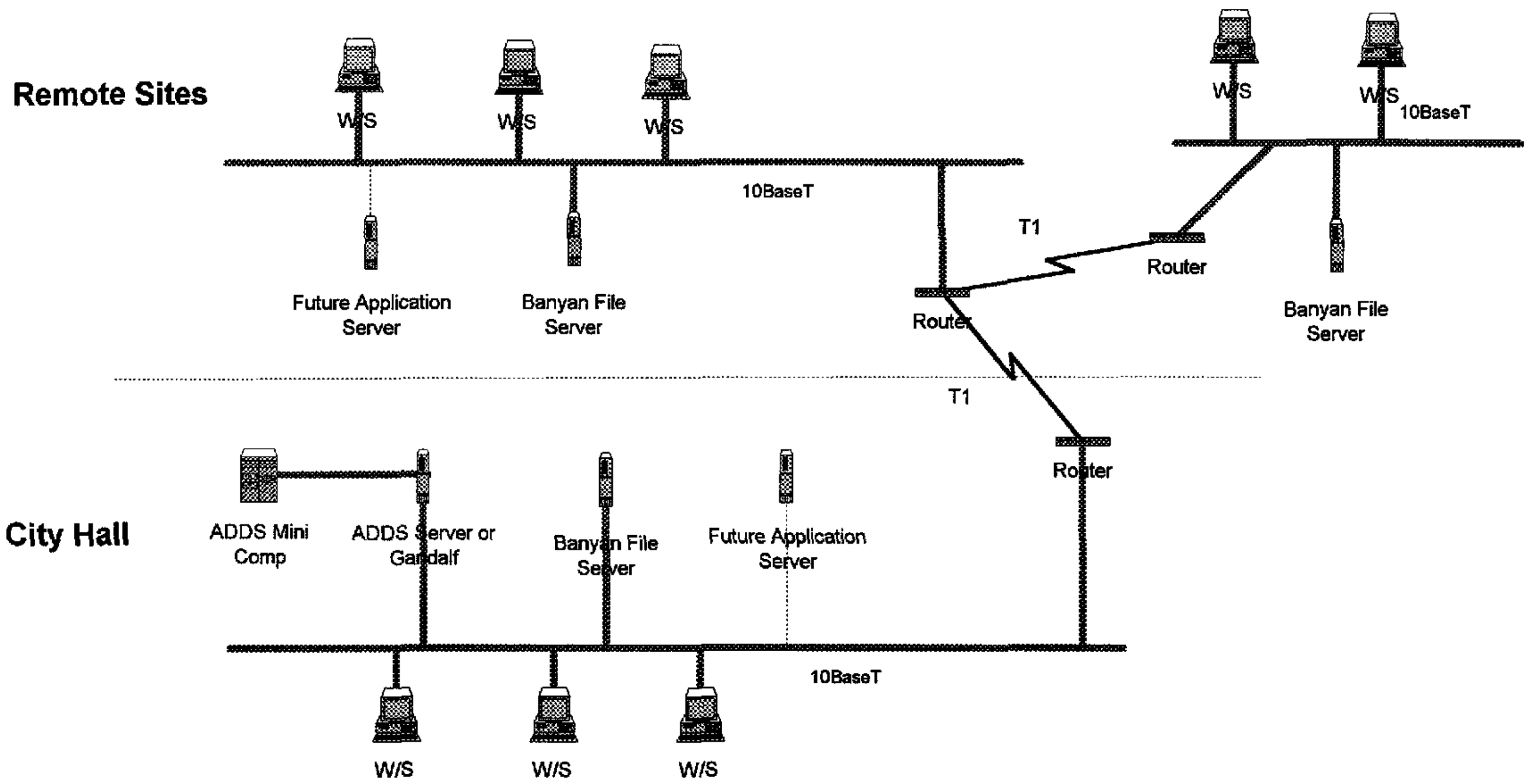
Tactical Plan - Infrastructure

- **Install a new Communications Infrastructure**
  - Ethernet cabling
  - Switched, stacked, managed hubs (10MB or 100MB)
  - Hardware routing
    - Remove dependency on file servers (Banyan) as routers
  - New data communication lines
    - (5) T1 lines to replace (9) 56KB

Tactical Plan - Infrastructure

- **Enterprise Backbone servers**
  - Use existing Banyan file servers
  - Application, database, communication servers depend on products
  - Put the ADDS computer on the backbone network during transition
    - May be able to do it through another Banyan server
    - Optionally, may be able to upgrade the Gandalf box

Infrastructure Diagram



Tactical Plan - Application Replacement

- Use an RFI/Negotiated Procurement to find viable alternatives to CCS
  - Invite qualified vendors for structured on-site demos
  - Compare CCS upgrade to system replacement for cost, functionality, and future stability
  - Use formal RFP if no viable solutions found
- Solicit RFP proposals to replace STAT

Tactical Plan - Application Replacement

- Use MS Office 97's Team Manager to replace QUEST
  - Hire Microsoft consultants to set it up
- Implement Imaging Project to replace CLERK & FILING
  - May require additional Optica modules
  - Will require workflow/paperflow analysis

Tactical Plan - 3rd Party Applications

- Imaging
  - Should eventually replace Legislative History and Subject Index programs
  - Requires workflow analysis, procedural redesign
  - Replacement of CCS/Pick environment will accelerate deployment

Tactical Plan - 3rd Party Applications

- GIS
  - Purchase basemap
  - Gradual linkage to tabular databases
- Internet E-mail
  - Set up POP3 server on backbone (NT)
  - Use Beyond Mail for internal messaging

Tactical Plan - New Modules

- Cost Accounting
  - Engineering requirements are more for Cost Allocation (distribution of overhead costs)--requires robust, integrated (expensive) Finance system
  - Direct project costs can be tracked with existing systems--procedures need to be analyzed and changed
- Decentralized Payroll Time Entry
  - Existing system can accommodate
  - Procedures must be analyzed and changed

Tactical Plan - New Modules

- Position Control/Budget Modeling
  - Primarily needed as a budgeting tool
  - Must be integrated with Personnel, Payroll, and Finance systems
  - Must enhance CCS or spec it into replacement system requirements
- Fixed Assets
  - Already own CCS license
  - Requires procedural analysis and redesign
- Land Use
  - Limited use can be expanded to link to GIS basemap

Cost Estimates - Infrastructure

- LAN $162K
  - Bring all sites to Ethernet, 10BaseT cabling standard
  - Install managed hubs
  - Implement centralized network management
  - Upgrade 50 workstations to Pentium class
- WAN $35K
  - Move to T1, hardware routed ring
  - Move to cable when available
  - Network Operating System

Cost Estimates - Infrastructure

- Connect ADDS to network $8K
  - Use additional Banyan server or upgrade Gandalf
  - A Banyan server could be used elsewhere later if/when the ADDS is replaced
- Training
  - Technical training on new networking technologies required

Cost Estimates - Finance Apps

- RFI for CCS alternatives $9k (budgeted)
- Upgrade CCS $230K
  - Shorter, cheaper transition
  - Upgrade licenses fees
  - Existing ancillary applications (STAT, CLERK, FILING, etc.) can continue to run as-is
  - Question as to the future of Unidata as a mainstream database platform

Cost Estimates - Finance Apps

- Replace CCS $566K
  - Significant data conversion and training requirements
  - Additional cost for first time license fees
  - Additional cost for ancillary system replacement
  - Replacement of CLERK & FILING with Imaging solution would need to be accelerated
  - Opportunity for new "mainstream" platform

Cost Estimates - Ancillary Apps

- STAT $52K
  - Simple RFP for application replacement
  - Requires completion of Infrastructure
- QUEST $12K
  - Probably can use MS Office 97/Team Mgr
  - Use external consultants to set it up
- Imaging $34K
  - Implement/enhance Optica
  - Document Mgmt replaces Clerk/Filing

Cost Estimates - Ancillary Apps

- GIS $12K
  - Buy the basemap
  - Gradual linkage to tabular databases
- Internet $22K
  - Individual departments contract with external ISPs
  - In-house Web page hosted by SCAG
  - Internet E-mail through POP3 server linked to Web site

Technology Migration Timeline

$$ in thousands	1996-97		1997-98				1998-99				1999-2000				ITEM	Sub
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	TOTAL	TOTAL
INFRASTRUCTURE															$ -	$ 205
LAN															$ -	
CABLING		[illegible]													$ -	
EQUIPMENT		[illegible]													$ 31	
WORKSTATION UPGRADES		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]				[illegible]				$ 100	
WAN															$ -	
EQUIPMENT		[illegible]													$ 27	
LINE INSTALLATION		[illegible]													$ 8	
ADDS connection		[illegible]													$ 8	
NW Admin (incl training)		[illegible]													$ 31	
FINANCE															$ -	$ 230
RFI		[illegible]													$ -	
IMPLEMENTATION (UPGRADE)			[illegible]												$ 66	
OPERATION (UPGRADE)				[illegible]											$ 164	
NEW MODULES (CA, FA, LU, ETC.)					[illegible]	[illegible]									$ -	
RFP			[illegible]	[illegible]											$ 16	$ 431
IMPLEMENTATION (NEW)					[illegible]										$ 149	
OPERATION (NEW)							[illegible]								$ 266	
ANCILLARY APPLICATIONS															$ -	$ 133
RFP		[illegible]													$ -	
STAT				[illegible]											$ 52	
QUEST			[illegible]												$ 12	
IMAGING							[illegible]								$ 34	
GIS BASEMAP			[illegible]												$ 12	
INTERNET EMAIL			$22.3												$ 22	
TOTAL	$0.	$113.4	$120.1	$224.1	$8.3	$8.3	$67.6								$566.9	$542.

Technology Migration Timeline

$$ in thousands	1996-97 Q1	1996-97 Q2	1997-98 Q3	1997-98 Q4	1997-98 Q1	1997-98 Q2	1998-99 Q3	1998-99 Q4	1998-99 Q1	1998-99 Q2	1999-2000 Q3	1999-2000 Q4	1999-2000 Q1	1999-2000 Q2	ITEM TOTAL	Sub TOTAL
INFRASTRUCTURE															$ -	$ 205
LAN															$ -	
CABLING		[illegible]													$ -	
EQUIPMENT		[illegible]													$ 31	
WORKSTATION UPGRADES		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]				[illegible]				$ 100	
WAN															$ -	
EQUIPMENT		$27													$ 27	
LINE INSTALLATION		$8													$ 8	
ADDS connection		[illegible]													$ 8	
NW Admin (incl training)		$31													$ 31	
FINANCE															$ -	$ 230
RFI		[illegible]													$ -	
IMPLEMENTATION (UPGRADE)			[illegible]												$ 66	
OPERATION (UPGRADE)				$164											$ 164	
NEW MODULES (CA, FA, LU, ETC.)					[illegible]	[illegible]									$ -	
RFP			[illegible]	[illegible]											$ 16	$ 431
IMPLEMENTATION (NEW)					[illegible]										$ 149	
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QUEST			[illegible]												$ 12	
IMAGING							[illegible]								$ 34	
GIS BASEMAP			[illegible]												$ 12	
INTERNET EMAIL			[illegible]												$ 22	
TOTAL	$0.	$113.4	$120.1	$224.1	$8.3	$8.3	$67.6								$566.9	$542.

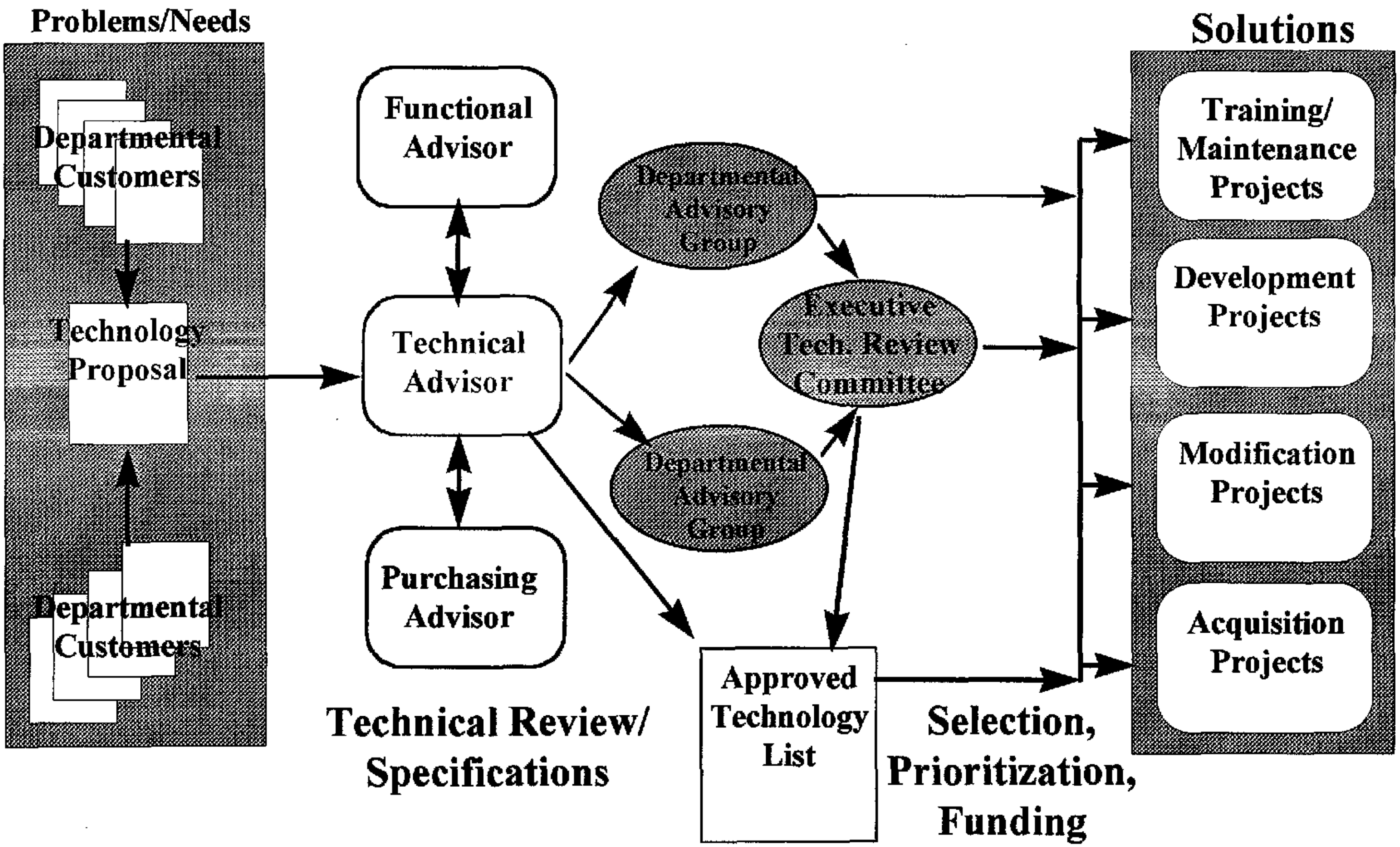
Action Items

- Infrastructure
  - Order WAN lines, equipment
  - Training for technical staff
  - Configure LAN equipment, order, install
  - Upgrade 50 workstations
- Finance Applications
  - RFI to review alternative to CCS and CCS' new product
- Ancillary Applications
  - RFP for STAT replacement
  - Implement Office 97 and Team Mgr
  - Buy basemap
  - Set up Internet E-mail

Organizational Issues

- Culture Change
  - Use packaged products rather than develop software solutions
  - Include procedure and policy changes as part of computer systems implementation
    - Workflow analysis before
    - Procedural documentation after
- Review the Technology Acquisition Process
  - Consider alternatives
  - Prioritize according to pre-set criteria
  - Consider connectivity, compatibility, support

Technology Acquisition



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County of Orange

CC: Kv Mike File: ovip

Copy: Bill Cameron Paul G. Nita McKay This involves $ - Lots D

Public Facilities & Resources Department

John W. Sibley, Director

MAR 07 1997 RECEIVED MAR 12 1997 ADMINISTRATION

PCH REHAB PICO SIGNAL

File: AHFP

RECEIVED MAR 13 1997 City of San Clemente City Managers Office

Mike Sorg
Director of Public Works
City of San Clemente
100 Avenida Presidio
San Clemente, CA 92672

Dear Mr. Sorg:

The County of Orange is interested in resolving the Arterial Highway Financing Program (AHFP) funding and administration problems generated by the bankruptcy. Because actual project costs have come in lower than project allocations, and because the County has already made payments on projects through bankruptcy court, we have determined that there are enough existing AHFP funds to pay 100% of participating AHFP costs on all AHFP projects still outstanding. An evaluation of the program has led to the conclusion that it may be possible to resolve all matters outside of bankruptcy court.

On all "post-petition" AHFP projects (projects not subject to repayment rules governed by bankruptcy court), the County is now able to release funds for payment. For each "pre-petition" project (projects filed as a B-12 claim through bankruptcy court), a stipulation shall be prepared by the County, circulated to all agencies for signature, and submitted to bankruptcy court. This stipulation will release the claims, thereby bringing them out of the bankruptcy court 20-year repayment schedule. The County can then release funds for payment. Under both conditions (pre and post), payments will be made per the rules of AHFP in effect at the time the project was programmed (with the exception that no payments over the allocation will be allowed).

In order for this repayment plan to be successful, the following conditions need to be met:

1. All agencies need to sign the stipulation releasing the claims, thereby allowing the County to release funds for payment. Because AHFP policy does not pay interest on outstanding invoices, the interest previously paid on all projects with B-12 claims as dictated by bankruptcy court will then be recognized as payment made on the participating costs. No additional interest will be paid. The attached spreadsheet outlines the balance due for each project. You should be receiving the stipulation for ratification as a follow-up to this letter.

2. All projects must be awarded by July 1, 1997. No extensions will be granted. Any project or portion thereof not awarded by this date will become ineligible.

LOCATION:
300 N. FLOWER ST.
SANTA ANA, CALIFORNIA

MAILING ADDRESS:
P.O. BOX 4048
SANTA ANA, CA 92702-4048

INFORMATION:
(714) 834-2300
FAX # 834-5188

3. No increases in costs will be allowed based upon the current project estimates provided to OCTA and the County. Current allocations can not be increased.

4. Any funding not utilized for AHFP reimbursement will remain with the County of Orange.

We believe that this proposal will generate a solution to the best interests of all parties, and in the spirit in which the program was created. Any questions should be directed to Ignacio Ochoa, Acting Transportation Programs Manager, at 834-3484, or Jeannette Grieco, Grants Coordinator, at 834-3083.

Very truly yours,

John W. Sibley
Director, PF&RD

JG:pfrd.rpgms.jmg
a:\ahfp\sttlmnt.wps

attachment: as stated

cc: Bill Zaun, Asst. Director, PF&RD
Chris Dargan, County Counsel
Ignacio Ochoa, Acting Manager, Transportation Programs

AHFP FUNDING ANALYSIS
County of Orange, Public Facilities & Resources Department

COUNTY ADMINISTERED AHFP AGENCY	AHFP NO.	PROJECT	A ALLOC.	B ACTUAL PROJECT COST	C PRE-BANKRUPTCY CASH ADVANCE	D "REGULAR" PAYMENTS (+ CO. COSTS)	PETIT. STAT.	B-12 CLAIM	E COUNTY (B-12) PAYMENTS 6/5/96 PRINCIPLE	INTEREST	F TOTAL PD.	TOTAL PROJECT BALANCE B-(C+D+F)	COMMENTS
San Clemente	92-095	Avenida Pico Traffic Signal	$70,000	$64,888.84	$51,975.00	$213.20	Pre.	Unavailable	$9,588.61	$656.86	$10,245.47	$2,455.17	
TOTALS			$70,000	$64,888.84	$51,975.00	$213.20		Unavailable	$9,588.61	$656.86	$10,245.47	$2,455.17	

* Balance does not include Pre-Petition Interest over 20 years.

source = pfrd.contracts.bondj; pfrd tpgms.grieco.123.c:\ahfp$.wk4

AHFP FUNDING ANALYSIS
County of Orange, Public Facilities & Resources Department

OCTA ADMINISTERED AHFP			A	B	C	D			E		F		
AGENCY	OCTA NO.	PROJECT	ALLOC.	ACTUAL PROJECT COST	PRE-BANKRUPTCY CASH ADVANCE	"REGULAR" PAYMENTS (CO / OCTA)	PETIT. STAT.	B-12 CLAIM	COUNTY (B-12) PAYMENTS 6/5/96 PRINCIPLE	INTEREST	TOTAL PD.	TOTAL PROJECT BALANCE B-(C+D+F)	COMMENTS
San Clemente	0211	Pacific Coast Highway rehabilitation	$584,460	$584,460.00	$0.00	$0.00	Post	$0.00	$0.00	$0.00	$0.00	$584,460.00	
TOTALS			**$584,460**	**$584,460.00**	**$0.00**	**$0.00**		**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$584,460.00**	

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* Balance does not include Pre-Petition Interest over 20 years.

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File LTFP

LONG TERM FINANCIAL PLAN

STAFF RECOMMENDATIONS

(1) CONTRACT ANALYSIS AND MONITORING

Staff Recommendation: — Apo – Joe – 5 – 0

1. Direct that City adjust the termination dates of its contracts to coincide with the City's fiscal year.

(2) LIGHTING & LANDSCAPING DISTRICT

Staff Recommendation:

1. Consider Ad Hoc Committee recommendations.

Apo-Joe-5-0

Defer until Red Bud submitted

a. Retain the current "C" level of maintenance (average on a scale of A-E as provided for in the current Parks and Recreation Master Plan) for all beaches, parks and streetscapes as recommended by the Lighting and Landscape District Ad Hoc Committee. See Item 43 on Page 64 of the Vital Few Priorities.

Apo-Joe-5-0

b. Implement, to the extent possible, cost reductions on a City-wide basis, including those currently under consideration by Staff and as recommended by the Lighting and Landscape District Ad Hoc Committee, designed to (1) maintain current service levels and (b) reduce the cost of a potential tax increase. See Vital Few Priorities.

Apo-Joe-5-0

c. Request that Staff and the Parks and Recreation Master Plan Committee consider and incorporate cost avoidance reductions in design standards as recommended by the Lighting and Landscape District Ad Hoc Committee for beaches, parks and streetscapes in the updated Parks and Recreation Master Plan and Master Landscape Plan for Scenic Corridors.

Joe-Dahl-4-1 (Apo-NIE)

d. Direct that revenue generated within Parks and Recreation operations be designated to a Parks and Recreation budget fund.

Joe-APO-5-0

e. Request that Staff analyze current Beaches, Parks and Recreation Department fee structures to ensure that fees are reasonable and obtain an appropriate level of self-sufficiency.

Apo-Joe-5-0

f. Authorize Staff to consider and prepare a policy and procedure that would: a) provide a balance and equity with the provision of neighborhood park amenities throughout the City, b) incorporate the development of the Phase 1 improvements of Forster Ranch Park into the equity equation to balance park services in this residential community, c) provide financial protection for the existing park system maintenance program and prevent future deterioration of amenities due to future desires for park expansion, d) establish guidelines for obtaining voter approval of future community and regional beach and park improvements, including the provision of ongoing maintenance and e) incorporate the policy into the Parks and Recreation Master Plan.

- Provide Staff direction on development of the eight acre Forster Ranch Community Park, Phase 1 currently in the design process.
- Provide Staff direction on development of the seven acre Forster Ranch Neighborhood Park.
- Refer the Community Park issues to the Park and Recreation Master Plan Committee.
- Authorize Staff to meet with the Forster Ranch Greenbelt property owners to determine future maintenance responsibility of the greenbelt.

Apo-Joe-5-0

g. If necessary, after implementing all possible cost reductions and revenue enhancements, authorize Staff to finalize the placement of a proposal for a general or special tax on the June 3, 1997 ballot. The combined cost of the proposed tax and the remaining Lighting and Landscape District assessment to the community shall be less than what is currently paid for said services. Incorporate into this tax proposal an appropriate "sunset clause" that takes into consideration the long term financial health of the City.

Apo-Joe-5-0 to abolish, with a stake thru the heart,

2. ~~Approve setting aside~~ the L&L District, relocating all services funded to the General Fund.

(3) PUBLIC WORKS DEPARTMENT

A. Street Improvement Program

Staff Recommendation:

1. Approve and authorize allocation of General Fund monies for FY 1997-98 budget per the original funding schedule.

Apo - Joe 5-0

2. Confirm Council's continuing commitment to its fiscal policy requiring General Fund contributions to the program as resources become available.

B. Maintenance Services Division

Staff Recommendation:

1. Direct staff to request proposals for complete operation of the Maintenance Services Division.

Green Budget 3-2 (Dahl/Berg No)

C. **Utilities Division**

Staff Recommendation: Apo-Joe-4-1 (Dahl NOE)

1. Direct staff to determine specific measures to implement HDR's recommended operations/savings.

2. Direct staff to enter discussions with both of the top companies to explore approaches to the Prop. 218 issue.

3. Direct staff to return to Council in approximately 4-6 weeks with recommendation to contract or retain in-house operation.

(4) COMPUTER STRATEGIC PLAN

Staff Recommendation:

Joe-Apo-4-1 (Berg NOE)

1. Adopt the Computer Strategic Plan.

2. Finance the Computer Strategic Plan through a lease arrangement not to exceed the current budgeted amount of $90,000 a year.

(5) **ECONOMIC DEVELOPMENT**

Staff Recommendation:

*

ok no specific Action

1. Direct that the Economic Development Manager continue to work closely with the Chamber of Commerce, Downtown Business Association and other affected businesses and property owners to further strengthen and expand the acquisition of quality infill retail and service uses in the Downtown area and on El Camino Real. Further, with respect to the Pico Plaza Shopping Center and the Kmart Shopping Center, direct that the Economic Development Manager continue to assist the owners of these centers in the marketing and acquisition of replacement anchor tenants.

defer

2. Direct that the Economic Development Manager continue to coordinate and provide staff support to the Central Business District Transition Program (Downtown Business Association) and the Los Molinos Public/Private Partnership Program (Los Molinos Advisory Committee). Further, with respect to the Los Molinos Industrial area, direct that the Economic Development Manager complete the infrastructure assessment and prepare a five-year capital improvement program and financing recommendations.

3. Direct that the Economic Development Manager continue to diligently provide business ombudsman and developer advocacy services and serve as the primary interface with the business community to coordinate the resolution and response to complaints and requests for business related support services.

no specific Action

4. Direct that the Economic Development Manager continue to aggressively market and promote the recruitment and attraction of new business firms into the Rancho San Clemente Business Park. Further, with respect to the lack of available construction financing, direct that the Economic Development Manager work with members of the traditional lending community and other capital market participants to obtain financing for the construction of speculative office, R&D, multi-tenant and light manufacturing facilities.

5. Working with other affected City staff, direct that the Economic Development Manager assist in the preparation of land use strategies that will augment the City's ability to promote and facilitate the establishment of additional business park development resources and subsequent creation of new employment opportunities within the community.

(6) REVENUE OPTIONS

A. Utility User's Tax — Apo - Joe - 5-0

Staff Recommendation:

1. Defer to Vital Few Priority discussion.

B. Golf Course Green Fees

$250,000 – Green Budget

Staff Recommendation: Lowered $125,000 to $100,000 – Red Budget

Defer to Vital Few Priority discussion.

C. Permit and Plan Check Fee Revenues

Staff Recommendation: Apo-Joe – 5-0

Approve and direct staff to increase building permits and building plan check fees by 10%.

D. Parking Meter Revenues

Staff Recommendation: 5-0 to increase from $.75/hr to $1.00/hr

Defer to Vital Few Priority discussion.

Parking Fines + Parking Permits

Staff directed to agendize in 30-45 Days increasing parking citations from $28 to $32 and Parking Permits from $40 – $50 for residents and from $50 – $65 for non-residents

Red Budget Review for FY 1997-98

Green = $1,790,200		$2,788,120	<-Grand Total	
al Red = $997,920			Green	Red
		Starting Shortfall	$2,787,650	$997,450
		Running Total of Reductions	$1,790,200	$997,920
		Additional Reductions Required	$997,450	($470)

Priority	Program Title	Total $	Approved	Approved
✓ 1.00	Reduce General Liability Insurance Charges	$200,000	200,000	
✓ 1.00	Reduce Emergency Reserve to 5%	$250,000	250,000	
✓ 1.00	Reduce Council Contingency to $100,000	$110,000	110,000	
✓ 1.00	Eliminate PFP	$38,000	38,000	
✓ 1.00	Increase Parking Meter Fees from $.75/hr to $1.00/h	$120,000	120,000	
✓ 1.00	Utility Billing & Accounts Receivable position	$47,000	47,000	
✓ 1.00	Reclass Principal Planner to Associate Planner	$11,200	11,200	
✓ 1.00	Delete CUSD Sports Field Transfer	$100,000	100,000	
✓ 1.60	Contract Maintenance	$430,000	430,000	
✓ 1.80	Transfer revenue to General Fund (Increase Golf Fe	$250,000	250,000	
✓ 1.20	Bi-monthly newsletter- use quarterly Parks Magazine	$23,000	23,000	
✓ 1.20	Eliminate Community Service Unit	$34,592		34,592
✓ 1.20	Eliminate Engineering Inspector Position and reduce	$25,900		25,900
✓ 1.20	Beach/Park Maintenance Division	$100,000		100,000
✓ 1.20	Street Tree	60,000		60,000
✓ 1.40	Reduce Human Resources Clerical Staffing	$3,700		3,700
✓ 1.40	Capital Improvement Projects (Parks, Beach, Media	$100,000	100,000	100,000
✓ 1.40	Eliminate Contract Inspector	56,315		
✓ 1.60	Centralized Purchasing	$45,000		45,000
✓ 1.60	Reduce Police Records Counter Hours	$11,000	11,000	[redacted] 11,098
✓ 1.60	Social Services - 50% Reduction	$30,485		30,485
✓ 1.80	4th of July Fireworks Celebration	$30,000		30,000
✓ 1.80	Volunteer Receptionist Deleted	$15,359		
✓ 1.80	Eliminate Afterschool/Intramural Sports Program	$48,000		48,000
✓ 1.80	Eliminate Park Development Program Deleted	$44,620		
✓ 2.00	Lifeguard Staff Reductions	$5,400		5,400
✓ 2.00	Transfer Revenue to General Fund (Increase Golf Fe	$100,000		100,000
✓ 2.00	Close Steed Park	145,330		145,330
✓ 2.20	Community Relations/Volunteer Program Deleted	$42,000		
✓ 2.20	Downtown Improvement Program Deleted	$20,000		
✓ 2.20	Eliminate Computer User Support/Internet Deleted	$56,000		
✓ 2.20	Transfer Dispatch to Sheriff's Communication	$210,000		210,000
✓ 2.20	Eliminate/Reduce Special Events & Youth Advisory	$36,915		36,915
✓ 2.20	Eliminate Youth/Adult Programs	$12,900		12,900
✓ 2.20	P/T Lifeguard Deleted	$7,600		
✓ 2.20	Reduce Neighborhood Pk Maint. Deleted	25,000		
✓ 2.40	Marketing and Promotion Deleted	$18,500		
✓ 2.40	Reduce Peripheral Hardware Maintenance Deleted	$10,500		
✓ 2.40	Eliminate Drug Education Program Deleted	$90,101		
2.40	Contract Utilities			
✓ 2.40	Eliminate Summer Day Camp	$6,600		6,600
✓ 2.60	Chamber Tourism Subsidy Deleted	$10,000		
2.60	Street maintenance **	$496,000		
✓ 2.60	F/T Lifeguard - Option 3 Deleted	$53,400		
✓ 2.80	Eliminate CSP Program Deleted	$2,500		
✓ 3.00	Reduce Employee Work Hours to 36 Hours per Wk	$560,000	Deleted	

2/26/97 11:19 PM

Red Budget Review for FY 1997-98

Priority	Program Title	Total $	Green Approved	Red Approved
3.00	5% Across the Board Pay Cut Deleted	$320,000		
3.00	Crime Prevention Program Deleted	$48,309		
3.00	Reduce Tri-Cities Directed Enforcement Team Deleted	$106,838		
3.00	Code Compliance - F/T Staff Deleted	$34,000		
3.00	F/T Lifeguard - Option 1 Deleted	$26,800		
3.00	F/T Lifeguard - Option 2 Deleted	$33,300		
	Management Position Eliminated	$100,000	100,000	
	~~Capital Improvement Projects (Parks, Beach, Media~~	~~[illegible]~~	~~[illegible]~~	(moved to pg 1)
	5% Reduction in Management Salaries Deleted	$75,000		
	~~Police Services Records Clerk 5-day service~~	~~[illegible]~~		~~[illegible]~~ (moved to pg
	Code Enforcement Addition Added	($18,000)		(18,000)
	Management Study Added	($60,000)		(60,000)
	Forster Ranch Neighborhood Park Added	$70,000		70,000

END DOCUMENT

2/26/97 11:19 PM

Pillsbury
Madison &
Sutro LLP

cc: Paul
Kumi
Rita
3/4/97

ATTORNEYS AT LAW
101 WEST BROADWAY SUITE 1800
SAN DIEGO, CALIFORNIA 92101-4219
TELEPHONE: (619) 234-5000 FAX: (619) 236-1995
Internet: pillsburylaw.com

Writer's direct dial number / email:
(619) 544-3177

File
OC16

March 4, 1997

VIA FACSIMILE TRANSMISSION

TO: ORANGE COUNTY INVESTMENT POOL PARTICIPANTS' DISTRIBUTION LIST

Re: In Re County of Orange
Case No. SA CV 96-0765 GLT
Bankr. Case No. 94-22272 JR

Dear Pool Participants:

We continue to monitor the status of various post-confirmation issues in the County's bankruptcy case.

On March 3, 1997 District Court Judge Taylor took under submission McGraw-Hill Companies, Inc.'s motion to dismiss the County's complaint. Within the next several days the Court will identify certain issues raised by the motion to dismiss on which it desires supplemental briefing. The motion will presumably be set for continued hearing again sometime after the briefs are filed, and we will monitor that hearing and advise you of the outcome.

If you have any questions, please call me.

Very truly yours,

Patrick C. Shea

cc: Official Investment Pool Participants
Committee and Counsel

cc: Mike
Paul
Kumi
Rita
3/3/97

File
OCIP

FEBRUARY 28, 1997

TO: ORANGE COUNTY CITY MANAGERS

FROM: PAUL BRADY, JR. VICE CHAIRMAN
ORANGE COUNTY INVESTMENT POOL COMMITTEE

SUBJECT: UPDATE - ORANGE COUNTY INVESTMENT POOL SUB-COMMITTEE

Just a brief note to update each city on what is happening in my exciting world of monitoring the Orange County Investment Pool (OCIP) activities.

Generally speaking . . . not a whole lot happening that is worth reporting. Our legal counsels, Pat Shea and Paul Glassman, continue to do their thing with the litigation efforts in both Federal Court and Bankruptcy Court.

Of direct interest to most of us is Paul Glassman's work with the County of Orange on taxes, road funds, eminent domain cases, and other County Administered Accounts (CAAs). Most recently, Paul, together with some of our financial and legal gurus, met with County Counsel and other County staff. Paul reports the meeting went very well with County staff being very helpful and cooperative. Although these on-going discussions will take some additional time, Paul believes we are well along the road in getting what is rightfully ours.

I would suggest that each of us, if we have questions about the discussions with the County, talk directly to our Finance folks and/or Paul Glassman.

The OCIP Committee is meeting on March 13, 1997, with Mr. Tom Hayes and legal counsel for a status report on third-party litigation in the Orange County v. Merrill Lynch, et al. case.

Paul

PAUL BRADY, JR.
City Manager

File LTFPS)

	General Fund	Water	Sewer	Storm Drain	L&L	Golf
1%	65,908					
2%	131,816					
3%	197,725					
4%	263,633					
5%	329,541					
9/80 Total	6,923,134					
4/8 (32 hrs) Total	5,473,519					
4/8 (32 hrs) Savings	***1,449,615***					
4/9 (36 hrs) Total	6,123,229					
4/9 (36 hrs) Savings	***799,905***					
4/9.5 (38 hrs) Total	6,472,950					
4/9.5 (38 hrs) Savings	***450,184***					

General Fund/Lighting Landscape/Golf

File (LTFPS)

	1996-97 GF Rev		1996-97 GF Exp
Special Lifeguard	420	Salary & Benefits	21,130
Jr. Lifeguard	52,000	Supplies & Contractual	7,160
Surfing Program	2,900	Transportation	6,510
Special Beach Events	1,830	Postage	110
	57,150	***Marine Safety (Program 642)***	**34,910**

	1996-97 GF Rev		1996-97 GF Exp
		Salary & Benefits	0
		Supplies & Contractual	5,100
Beach Club Rent	39,000	Rec. Program Expenses	9,100
Beach Club Rec Program	13,000	Tables for Facilities Rental	1,050
	52,000	***Beach Club (Program 621)***	**15,250**

	1996-97 GF Rev		1996-97 GF Exp
		Salary & Benefits	54,240
		Supplies	11,540
		Contractual Services	26,320
		Rec Program Expenses	42,680
Swimming Pool Admission	64,000	Pool Lift (capital)	2,300
Swimming Pool Rec. Program	58,000	Interdepartmental	7,200
	122,000	***Swimming Pool (Program 625)***	**144,280**

	1996-97 GF Rev		1996-97 GF Exp
		Salary & Benefits	67,700
		Supplies	4,620
		Contractual Services	16,750
Community Center Rent	39,000	Rec Program Expenses	80,850
Comm. Ctr. Rec Program	115,000	Interdepartmental	1,480
	154,000	***Comm. Center (Program 622)***	**171,400**

	1996-97 GF Rev		1996-97 GF Exp
		Salary & Benefits	327,240
Recreation Program	21,430	Supplies	17,000
Recreation Trips	15,000	Contractual Services	31,010
Recreation Special Events	27,500	Rec Program Expenses	38,940
Day Camp Fees	26,000	Interdepartmental	26,200
	89,930	***Recreation (Program 624)***	**440,390**

	1996-97 GF Rev		**1996-97 GF Exp**
		Salary & Benefits	0
Sr. Ctr Rent	2,600	Supplies & Contractual	10,700
Sr. Ctr. Rec Program	1,900	Rec Program Expenses	1,300
	4,500	***Sr. Center (Program 623)***	**12,000**
	1996-97 GF Rev		**1996-97 GF Exp**
Charges to Other Funds	**34,000**	***Park Development (Program 639)***	**78,620**
		After School (Program 629)	**61,540**
		Beach Services (Program 641)	**540,550**
		BP&R Admin (Program 681)	**205,270**
No Direct Revenue BP&R	**0**		**807,360**
	1996-97 GF Rev		**1996-97 L&L Exp**
Base of Pier Concession	3,600	Salary & Benefits	241,380
T Street Concession	8,900	Supplies	77,150
Calafia Concession	6,000	Contractual (excluding lawn bowl)	606,690
North Beach Concession	5,900	Other Charges	410
Telescope	1,050	Capital	45,000
Bait & Tackle Shop	1,800	Interdepartmental	304,050
	27,250	Transfers to WC & GL	14,400
Sports Field Rent	12,000	CUSD	100,000
	39,250 [1]	***Beach/Park Maint (Program 631)***	**1,389,080**

1 Excluding Pier Rest. $235,000

	1996-97 GF Rev		**1996-97 L&L Exp**
		Supplies	15,000
		Contractual	138,230
		Interdepartmental	3,600
Steed Park	**27,000**	***Steed Park (Program 635)***	**156,830**
	1996-97 GF Rev		**1996-97 L&L Exp**
Lawn Bowling	**250**	Maintenance	**5,000**
Trap Range	**2,500**	None	**0**
	1996-97 L&L Rev		**1996-97 L&L Exp**
Property Tax	**363,900**	***Street Lighting (Program 864)***	**385,550**
None	**0**	***Median & Trees (Program 633)***	**402,680**

	1996-97 Golf Rev
Green Fees	1,700,000
Resident Card	46,000
Cart Registration	20,000
Investment Earnings	70,000
Pro Shop	90,000
Restaurant	50,000
	1,976,000

	1996-97 Golf Exp
Golf Maintenance (Program 661)	1,655,830
Starter (Program 662)	152,660
Depreciation (Program 666)	84,200
Improvement (Program 667)	8,100
	1,900,790

END DOCUMENT

File
UTFPC7

GOLF OPERATING FUND
General Fund Overhead Charges
Fiscal Year 1996/97

	Golf Maintenance	Starter Operations	Totals	
Total Indirect Overhead	130,949	23,206	154,155	Agenda Prep, Financial Reporting, Payroll, Accounts Receivable, Accts Payable, Labor Relations, Employee Training, Budgeting, Cash Management, Purchasing,
Maint. Facilities-(Squar	16,905	42,495	59,400	
Total Maint. Facilitie	16,905	42,495	59,400	
BP&R Admin	47,686	-	47,686	BP&R Director, Admin. Asist.
Total Direct Program	47,686	-	47,686	
Total	195,540	65,701	**261,241**	
Capital Improvement Program			5,500	

Interdepartment Charges:

Insurance Charges	54,960
Postage Charges	400
Duplicating Charges	270
Information Charges	14,310
Communications Charges	9,240
Dispatch Charges	690
Fleet Rental Charges	35,720
Facilities Maintenance	1,500
	117,090
	383,831

File (AFPC)

GOLF OPERATING FUND
General Fund Overhead Charges
Fiscal Year 1996/97

Service Departments	Golf Maintenance	Starter Operations	Totals	Allocation Basis
City Council	3,654	1,257	4,911	Number of agenda items
City Management	11,311	1,146	12,457	Budgeted expenditures
City Clerk	16,026	5,489	21,515	Number of agenda items
Financial Mgmnt	6,997	394	7,391	Budgeted expenditures
Cash Management	185	185	370	Interest earned by fund
Acctg & Reporting	16,543	1,625	18,168	Number of A/P, FTEs,A/R
HR Administration	16,519	3,684	20,203	Number of FTEs
Labor Relations	5,447	1,214	6,661	Number of FTEs
Employee Training	1,959	437	2,396	Number of FTEs
Financial Planning	5,492	557	6,049	Budgeted expenditures
OMB Admin.	8,674	405	9,079	Budgeted expenditures
City General	30,096	6,713	36,809	Number of FTEs
Purchasing	8,046	100	8,146	Supplies & Capital Outlay
Total Indirect Overhead	130,949	23,206	154,155	
Maint. Facilities-(Square Footage)	16,905	42,495	59,400	
Total Maint. Facilities	16,905	42,495	59,400	
BP&R Admin	47,686	-	47,686	BP&R Director, Admin. Asist.
Total Direct Program Charge	47,686	-	47,686	
Total	195,540	65,701	261,241	
Capital Improvement Program			5,500	

Interdepartment Charges:

Insurance Charges	54,960
Postage Charges	400
Duplicating Charges	270
Information Charges	14,310
Communications Charges	9,240
Dispatch Charges	690
Fleet Rental Charges	35,720
Facilities Maintenance	1,500
	117,090
	383,831

File LTFPS7

LIGHTING & LANDSCAPING
General Fund Overhead Charges
Fiscal Year 1996/97

Service Departments	Park Maintenance	Street Median	Lighting	Totals	Allocation Basis
City Council	1,052	442	1,325	2,819	Number of agenda items
City Management	8,242	2,816	1,771	12,829	Budgeted expenditures
City Clerk	4,612	1,914	5,740	12,266	Number of agenda items
Financial Mgmnt	3,593	940	1,077	5,610	Budgeted expenditures
Cash Management	37	37	1,990	2,064	Interest earned by fund
Acctg & Reporting	5,217	385	1,669	7,271	Number of A/P, FTEs,A/R
HR Administration	4,753	-	-	4,753	Number of FTEs
Labor Relations	1,567	-	-	1,567	Number of FTEs
Employee Training	563	-	-	563	Number of FTEs
Financial Planning	4,002	1,367	860	6,229	Budgeted expenditures
OMB Admin.	7,591	5,677	625	13,893	Budgeted expenditures
City General	8,660	-	-	8,660	Number of FTEs
Purchasing	6,135	1,181	1,376	8,692	Supplies & Capital Outlay
Total Indirect Overhead	56,024	14,759	16,433	87,216	
Maint. Facilities-(Square Footage)	32,296	-	49,671	81,967	
Total Maint. Facilities	32,296	-	49,671	81,967	
Maint. Traffic Signals	-	-	72,739	72,739	Direct Support
Maint. Svcs Admin	10,344	5,173	31,135	46,652	Direct Support
BP&R Admin	47,683	-	-	47,683	BP&R Director, Admin Assist.
Total Direct Program Charge	58,027	5,173	103,874	167,074	
Total	146,347	19,932	169,978	336,257	

Interdepartmental Charges:

Duplicating Charges	1,800
Information Systems Charges	13,850
Communications Charges	11,370
Fleet Rental Charges	72,650
Chgs from Fac Maintenance	7,500
Charges from Weed Abatement	68,000
Charges from Maintenance	4,150
	179,320
	515,577

Organizations Options - FY 1997-98

File LTFP97

Management	Current	Option I PW Maint	Option I PW & PM	Option II PW & PM	Option II PW Maint	PW, PM & Util
City Manager	1.0	1.0	1.0	1.0	1.0	1.0
Econ. Dev. Mgr.	1.0			1.0	1.0	1.0
F&AS Director	1.0	1.0	1.0	1.0	1.0	1.0
City Clerk	1.0	1.0	1.0	1.0	1.0	1.0
Controller	1.0	1.0	1.0	1.0	1.0	1.0
Central Services Mgr.	1.0					
Info Serv. Mgr.	1.0	1.0	1.0	1.0	1.0	1.0
Human Resources Mgr.	1.0	1.0	1.0	1.0	1.0	
Comm Dev Director	1.0	1.0	1.0	1.0	1.0	1.0
Building Official	1.0	1.0	1.0	1.0	1.0	1.0
City Planner	1.0	1.0	1.0	1.0	1.0	1.0
Public Works Dir.	1.0	1.0	1.0	1.0	1.0	
City Engineer	1.0	1.0	1.0	1.0	1.0	1.0
Utilities Mgr.	1.0	1.0	1.0			
Maint. Serv. Mgr.	1.0					
B,P&R Director	1.0	1.0	1.0	1.0	1.0	1.0
MS/Rec Mgr.	1.0	1.0	1.0	1.0	1.0	1.0
B&P Maint. Mgr	1.0	1.0			1.0	
Golf Mgr.	1.0	1.0	1.0	1.0	1.0	1.0
Total Management	19.0	16.0	15.0	15.0	16.0	13.0
% of Total Emp.	10.18%	9.81%	9.42%	9.42%	9.81%	10.56%
Supervisors						
Principal Civil Eng.	1.0	1.0	1.0	1.0	1.0	1.0
Utilities Supt.	1.0	1.0	1.0	1.0	1.0	
Utility Oper. Sup.	1.0	1.0	1.0	1.0	1.0	
PW Maint. Sup	1.0					
Elect./Fac. Sup.	1.0					
Recreation Sup.	1.0	1.0	1.0	1.0	1.0	1.0
MS Lieutenant	1.0	1.0	1.0	1.0	1.0	1.0
Golf Maint. Sup.	1.0	1.0	1.0	1.0	1.0	1.0
Total Sup. Emp.	8.0	6.0	6.0	6.0	6.0	4.0
% of Total Emp.	4.29%	3.68%	3.77%	3.77%	3.68%	3.25%
General						
City Mgr Office						
Professional	1.0	1.0	1.0	1.0	1.0	1.0
General	1.0	1.0	1.0	1.0	1.0	1.0
F & A S Dept.						
Professional	4.0	5.0	5.0	5.0	5.0	6.0
General	12.0	12.0	12.0	12.0	12.0	12.0
Comm Development Dept.						
Professional	7.0	7.0	7.0	7.0	7.0	7.0
General	13.5	13.5	13.5	13.5	13.5	13.5
Public Works dept.						
Professional	8.0	8.0	8.0	8.0	8.0	8.0
General	60.5	42.5	42.5	42.5	42.5	10.5
Beaches, Parks & Rec. Dept.						
Professional	1.0	1.0	1.0	1.0	1.0	1.0
General	20.0	20.0	17.0	17.0	20.0	17.0
Total General Emp.	128.0	111.0	108.0	108.0	111.0	77.0
% of Total Emp.	68.57%	68.03%	67.86%	67.86%	68.03%	62.52%
Full-Time Employees	155.00	133.00	129.00	129.00	133.00	94.00
Part-Time Employees	31.66	30.16	30.16	30.16	30.16	29.16
Total F-T-E's	186.66	163.16	159.16	159.16	163.16	123.16

END DOCUMENT

File
-LTFP97
-SCCEA

Memorandum Human Resources Division

Friday, February 21, 1997

To: Mike Parness, City Manager
From Marsha Payne, Human Resources/Risk Manager MP
Subject: Labor Market Survey
Copies: Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer

---

Here is a copy of the analysis explaining the labor market survey for Orange County and the City's labor market survey. Let me take a moment to explain the information.

The first column depicts the median salary for cities in Orange County using selected positions. The second column includes the City's salary for selected positions. Please note that the salaries are calculated at "E" step or the top of the range. The third column is the percentage of difference between the Orange County median and San Clemente's median. The last column shows the San Clemente survey cities using the 18 benchmark cities. It indicates the percentage difference above or below the median. At the bottom of the last 2 columns, is the average difference between Orange County and the City's survey cities.

Please note that the first page excludes part-time salaries. In contrast, the second page includes the part-time positions. The difference in part time salaries is not that significant, however, it has a tremendous impact on the results.

If you have any questions regarding the data, please let me know.

I:\hr\sur.doc

O.C. BENCHMARK COMPARISON WITH SC

POSITION	OC MEDIAN	SC	NEW %AGE	San Clemente Survey
Assistant Planner	$3,946	$3,843	-2.61%	
Associate Engineer	$5,265	$5,043	-4.22%	2.15%
Assistant Engineer	$4,612	$4,568	-0.95%	
Building Inspector II	$3,914	$3,843	-1.81%	1.01%
Office Specialist	$2,347	$2,345	-0.09%	
Code Compliance Officer	$3,765	$3,843	2.07%	6.25%
Recreation Supervisor	$4,105	$3,939	-4.04%	-0.18%
Maintenance Worker II	$2,968	$3,002	1.15%	7.89%
Maintenance Worker I	$2,620	$2,720	3.82%	
Maintenance Leadworker	$3,439	$3,314	-3.63%	
Golf Course Mechanic	$3,374	$3,482	3.20%	5.77%
Management Analyst II/Pers.	$4,479	$4,139	-7.59%	1.12%
Public Works Inspector	$3,957	$3,939	-0.45%	4.40%
Executive Secretary	$3,837	$3,482	-9.25%	
Administrative Secretary	$3,068	$3,002	-2.15%	1.32%
Plant Operator II	$3,396	$3,482	2.53%	-0.68%
Building Official	$6,220	$5,994	-3.63%	-2.76%
City Clerk *	$5,788	$5,848	1.04%	2.87%
City Manager	$9,789	$9,582	-2.11%	-7.56%
City Planner	$6,338	$6,455	1.85%	0.51%
Beaches,Parks & Rec. Dir.	$7,124	$7,125	0.01%	2.02%
Community Develop. Dir.	$7,589	$7,486	-1.36%	1.81%
Information Systems Mgr.	$6,182	$5,566	-9.96%	-3.81%
Maintenance Services Mgr.	$5,566	$5,566	0.00%	3.48%
Human Resources/Risk Mgr.	$7,013	$5,566	-20.63%	-2.70%
Public Works Director	$8,042	$7,865	-2.20%	3.11%
Accounting Specialist		$2,929		1.71%
Associate Planner		$4,242		-0.42%
City Engineer		$6,951		3.13%
Controller		$5,848		3.25%
Eng. Tech *		$3,186		-7.14%
FAS Director **		$7,865		-0.51%
Recreation Coordinator		$3,108		-1.16%
Facilities Maintenance Specialist		$3,032		4.42%
~~Purchasing Agent~~		~~$5,298~~		~~3.31%~~
			-61.05%	32.61%
AVERAGE DIFFERENCE			-2.35%	1.12%

This survey excludes the part-time positions
*Does not include City Clerk's salary of $375/month

Administrative Intern	$9	$10	11.11%	
Lifeguard	$13	$13	0.00%	3.95%
Pool Guard	$8	$9	12.50%	6.15%

2/21/97

O.C. BENCHMARK COMPARISON WITH SC

POSITION	OC MEDIAN	SC	NEW %AGE	San Clemente Survey
Assistant Planner	$3,946	$3,843	-2.61%	
Associate Engineer	$5,265	$5,043	-4.22%	2.15%
Assistant Engineer	$4,612	$4,568	-0.95%	
Building Inspector II	$3,914	$3,843	-1.81%	1.01%
Office Specialist	$2,347	$2,345	-0.09%	
Code Compliance Officer	$3,765	$3,843	2.07%	6.25%
Recreation Supervisor	$4,105	$3,939	-4.04%	-0.18%
Maintenance Worker II	$2,968	$3,002	1.15%	7.89%
Maintenance Worker I	$2,620	$2,720	3.82%	
Maintenance Leadworker	$3,439	$3,314	-3.63%	
Golf Course Mechanic	$3,374	$3,482	3.20%	5.77%
Management Analyst II/Pers.	$4,479	$4,139	-7.59%	1.12%
Public Works Inspector	$3,957	$3,939	-0.45%	4.40%
Executive Secretary	$3,837	$3,482	-9.25%	
Administrative Secretary	$3,068	$3,002	-2.15%	1.32%
Plant Operator II	$3,396	$3,482	2.53%	-0.68%
Building Official	$6,220	$5,994	-3.63%	-2.76%
City Clerk *	$5,788	$5,848	1.04%	2.87%
City Manager	$9,789	$9,582	-2.11%	-7.56%
City Planner	$6,338	$6,455	1.85%	0.51%
Beaches,Parks & Rec. Dir.	$7,124	$7,125	0.01%	2.02%
Community Develop. Dir.	$7,589	$7,486	-1.36%	1.81%
Information Systems Mgr.	$6,182	$5,566	-9.96%	-3.81%
Maintenance Services Mgr.	$5,566	$5,566	0.00%	3.48%
Human Resources/Risk Mgr.	$7,013	$5,566	-20.63%	-2.70%
Public Works Director	$8,042	$7,865	-2.20%	3.11%
Administrative Intern	$9	$10	11.11%	
Lifeguard	$13	$13	0.00%	3.95%
Pool Guard	$8	$9	12.50%	6.15%
Accounting Specialist		$2,929		1.71%
Associate Planner		$4,242		-0.42%
City Engineer		$6,951		3.13%
Controller		$5,848		3.25%
Eng. Tech *		$3,186		-7.14%
FAS Director **		$7,865		-0.51%
Recreation Coordinator		$3,108		-1.16%
Facilities Maintenace Specialist		$3,032		4.42%
Purchasing Agent		$5,298		3.31%
			-37.44%	42.71%
AVERAGE DIFFERENCE			-1.29%	1.38%

*Does not include City Clerk's salary of $375/month

END DOCUMENT

2/21/97

208.1-4

To: Linda Len[illegible]@City Hall
From: Paul Gudgeirsson@City Hall
Originated by: Marsha Payne@City Hall
Cc:
Bcc:
Subject: fwd: Stuff
Attachment:
Date: 2/14/97 6:53 PM

Please print and file 97 LTFP. P

Original text
From: Marsha Payne@City Hall@City of SC, on 2/11/97 5:13 PM:
To: Paul Gudgeirsson@City Hall@City of SC

I spoke with CJ. The rough estimate he gave me for the retirement fund was $236,000 per year for 2016 and $212,000 for 30 years. However, this is a rough estimate. He wants to talk to you about the numbers. He will call you tomorrow. I've got the median salaries for Orange County and we are working on SC's survey. I also have the SIR info from OCCRMA. See ya!

Marsha

END DOCUMENT

208-1-4

To: Linda Lent@City Hall
From: Paul Gudgeirsson@City Hall
Originated by: Michael Sorg@Com Dev
Cc:
Bcc:
Subject: fwd: Maintenance Contract
Attachment:
Date: 2/14/97 6:54 PM

Please print and file 97 LTFP. P

Original text
From: Michael Sorg@Com Dev@City of SC, on 2/14/97 4:57 PM:
To: Mike Parness@City Hall@City of SC, Paul Gudgeirsson@City Hall@City of SC

Mike and Paul:

I spent a lot of time last night and today refining the maintenance figures based upon the adjusted budget and considering the input from Mark. After all that, and with a few assumptions, it all comes out about the same: $433, 000 in savings by contracting. I have to verify some of this with Charley on Monday. (Actually, we should be able to tell him what we want, but I'll discuss it with him anyhow.)

I listed each program and its 1996/97 adjusted budget amount. I then adjusted each program according to charges to other funds, ongoing costs, and one-time costs. If we assume Charley did not calculate the costs of the street striping and HVAC contracts as ongoing costs, the savings drops to $320,736. He had to assume SOME cost, however. He contracts much of these activities himself, so I have to assume he would have calculated a similar amount. If so, the savings returns to the $430,000 figure ($433,029).

Likewise, concerns were expressed about reserving funds for the slurry seal program and traffic signal conflict monitoring, as well as charges to other funds (as in Sam's stand-by pay). In each case, it appears to me that Charlie's estimate would have accounted for the costs, or at least a substantial portion of those costs.

Mark came to the conclusion that it's $33,409 cheaper to stay in-house, but it was hard to follow his notes. It appears to me he counted charges to other funds as a cost savings rather than as a savings to the general fund. Many of the current charges to other funds could also be laid off by a contract operation. Mark also spread Charlie's grouped charges in an attempt to match Charlie's costs to his current programs. It doesn't appear that all spread costs add to 100%. He said he did it in a rush so he could get it to me quickly. I told him I would have to break the costs down on a spreadsheet to be sure there was no double-counting or inappropriate conclusions.

You'll see the breakdown on page 1 of three Excel sheets I'm faxing to you.

Page 2 outlines the new trash disposal costs (already included in Mark's white budget) and a summary of the assumptions I will check out on Tuesday. I noted one item for Nita, but I want to be sure I'm interpreting all charges to other funds correctly. With the Maintenance Division, we get the opposite effect as we get with a Utilities contract. The charges to other funds adds to the general fund savings.

Page 3 is my first cut at what differences we might see in interdepartmental charges, if we contract. This exercise, alone, gives a clue about where the savings can be found.

If you can review the spreadsheet and let me know if you see anything that doesn't look right, I'll appreciate it.

I'll be in on Monday to work on the LTFP presentation. I'll check my e-mail for any comments you might have.

Thanks,

Mike

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208-1-4
File
UFP

Survey of City Attorney Rates and General Fund Budgets for Legal Services
Orange County Cities Between 20,000 and 100,000 Population
Survey Conducted by City of San Clemente - February, 1997

City	Population	Contract or In-House	Monthly Retainer	Additional Hourly Rate	General Fund Budget for Legal
Brea	35,122	Contract	$1,500	$165	$135,000
Buena Park	72,898	Contract	5,000	120	91,500
Cypress	45,993	Contract	None	145	140,000
Dana Point	36,289	Contract	6,300	125	186,400
Fountain Valley	54,971	Contract	4,200	132	150,000
La Habra	54,907	Contract	4,500	136.50	185,500
Laguna Beach	23,944	Contract	4,200	145	495,000
Laguna Hills	25,360	Contract	None	140	150,000
Laguna Niguel	55,724	Contract	None	115	213,000
Lake Forest	54,498	Contract	None	120	389,000
Mission Viejo	86,154	Contract	2,300	135	200,000
Newport Beach	69,301	In-House	N/A	N/A	502,635
Placentia	45,339	Contract	None	116	97,000
San Clemente	46,764	Contract	6,000	150	191,650
San Juan Capistrano	29,121	In-House(1)	N/A	N/A	267,800
Seal Beach	26,053	Contract	13,500	Various	282,000
Stanton	32,229	Contract	None	112	102,500
Tustin	62,497	Contract	None	120-140(2)	180,000
Westminster	81,601	Contract	10,000	132	141,420
Yorba Linda	58,100	Contract	5,000	165	346,000
(20 Cities)		(2 In-House) (18 Contract)			

Notes:

(1) San Juan Capistrano's in-house attorney recently resigned. City is currently studying question of in-house versus contract.
(2) Legal Services $120 per hour, Litigation $140 per hour.

END DOCUMENT

File

Red Budget Review for FY 1997-9

	Green = $1,790,200	$2,788,120	<-Grand Total	
	al Red = $997,920			
		Starting Shortfall	$2,787,650	$997,450
		Running Total of Reductions	**$1,790,200**	**$997,920**
		Additional Reductions Required	**$997,450**	($470)
Priority	**Program Title**	**Total $**	Approved	Approved
1.00	Reduce General Liability Insurance Charges	$200,000	200,000	
1.00	Reduce Emergency Reserve to 5%	$250,000	250,000	
1.00	Reduce Council Contingency to $100,000	$110,000	110,000	
1.00	Eliminate PFP	$38,000	38,000	
1.00	Increase Parking Meter Fees from $.75/hr to $1.00/h	$120,000	120,000	
1.00	Utility Billing & Accounts Receivable position	$47,000	47,000	
1.00	Reclass Principal Planner to Associate Planner	$11,200	11,200	
1.00	Delete CUSD Sports Field Transfer	$100,000	100,000	
1.60	Contract Maintenance	$430,000	430,000	
1.80	Transfer revenue to General Fund (Increase Golf Fe	$250,000	250,000	
1.20	Bi-monthly newsletter- use quarterly Parks Magazine	$23,000	23,000	
1.20	Eliminate Community Service Unit	$34,592		34,592
1.20	Eliminate Engineering Inspector Position and reduce	$25,900		25,900
1.20	Beach/Park Maintenance Division	$100,000		100,000
1.20	Street Tree	60,000		60,000
1.40	Reduce Human Resources Clerical Staffing	$3,700		3,700
1.40	Capital Improvement Projects (Parks, Beach, Media	$100,000		100,000
1.40	Eliminate Contract Inspector	56,315		
1.60	Centralized Purchasing	$45,000		45,000
1.60	Reduce Police Records Counter Hours	$11,000	11,000	
1.60	Social Services - 50% Reduction	$30,485		30,485
1.80	4th of July Fireworks Celebration	$30,000		30,000
1.80	Volunteer Receptionist	$15,359		
1.80	Eliminate Afterschool/Intramural Sports Program	$48,000		48,000
1.80	Eliminate Park Development Program	$44,620		
2.00	Lifeguard Staff Reductions	$5,400		5,400
2.00	Transfer Revenue to General Fund (Increase Golf Fe	$100,000		100,000
2.00	Close Steed Park	145,330		145,330
2.20	Community Relations/Volunteer Program	$42,000		
2.20	Downtown Improvement Program	$20,000		
2.20	Eliminate Computer User Support/Internet	$56,000		
2.20	Transfer Dispatch to Sheriff's Communication	$210,000		210,000
2.20	Eliminate/Reduce Special Events & Youth Advisory	$36,915		36,915
2.20	Eliminate Youth/Adult Programs	$12,900		12,900
2.20	P/T Lifeguard	$7,600		
2.20	Reduce Neighborhood Pk Maint.	25,000		
2.40	Marketing and Promotion	$18,500		
2.40	Reduce Peripheral Hardware Maintenance	$10,500		
2.40	Eliminate Drug Education Program	$90,101		
2.40	Contract Utilities			
2.40	Eliminate Summer Day Camp	$6,600		6,600
2.60	Chamber Tourism Subsidy	$10,000		
2.60	Street maintenance **	$496,000		
2.60	F/T Lifeguard - Option 3	$53,400		
2.80	Eliminate CSP Program	$2,500		
3.00	Reduce Employee Work Hours to 36 Hours per Wk	$560,000		

2/26/97 11:19 PM

Red Budget Review for FY 1997-98

Priority	Program Title	Total $	Approved	Approved
3.00	5% Across the Board Pay Cut	$320,000		
3.00	Crime Prevention Program	$48,309		
3.00	Reduce Tri-Cities Directed Enforcement Team	$106,838		
3.00	Code Compliance - F/T Staff	$34,000		
3.00	F/T Lifeguard - Option 1	$26,800		
3.00	F/T Lifeguard - Option 2	$33,300		
	Management Position Eliminated	$100,000	100,000	
	Capital Improvement Projects (Parks, Beach, Media	$100,000	100,000	
	5% Reduction in Management Salaries	$75,000		
	Police Services Records Clerk 5 day service	$11,098		11,098
	Code Enforcement Addition	($18,000)		(18,000)
	Management Study	($60,000)		(60,000)
	Forster Ranch Neighborhood Park	$70,000		70,000

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2/26/97 11:19 PM

Memorandum
Central Services Division

Wednesday, February 26, 1997

File Gtr-Rev.

To: Mike Parness, City Manager
Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer
From Kumi Johnson, Central Services Manager KJ
Subject: Parking Fines and Parking Permits
Copies:

The table below details the parking permit fees and fines for the coastal communities from Oceanside to Seal Beach.

Local Agency	Resident Permit Fees	Parking Fine
Oceanside	$100/yr	$22
State Beaches	$75/yr	None
San Clemente	*$40/yr*	*$28*
Dana Point Harbor/Beaches	$50/yr	$25
Laguna Beach	$60/Two years	$27
Newport Beach	$100	$32
Huntington Beach	$60	$32
Seal Beach	$10	$34
Average	***$58.13***	***$28.57***

The permits are valid on a calendar year basis, with the exception of the State beach permit. The State beach permit expires one year from the original purchase date.

In FY 1995-96, the City received $36,970 from the sale of parking permits. An average of 770 parking permits are issued with 94% at the resident rate of $40 and 6% at the non-resident rate of $55. The resident/non resident parking permit rates have not been increased since May 1985.

The City received $370,000 in FY 1995-96 in parking violation fines. Fines are set either by the State or by municipal code. The last revision to the City's fee schedule for parking fines and fees was in January 1992. The City currently receives $23 for each collected citation. The balance of $5 is forwarded to the County and State.

END DOCUMENT

File UFP

City Council Priority Rating - FY 1997-98 Budget Reductions

Item	Program Title	Cost	Ahle	Anderso	Apodaca	Berg	Dahl	Average
G-01	Reduce General Liability Insurance Charges	$200,000	1	1	1	1	1	1.00
G-02	Reduce Emergency Reserve to 5%	$250,000	1	1	1	1	1	1.00
G-03	Reduce Council Contingency to $100,000	$110,000	1	1	1	1	1	1.00
G-04	Eliminate PFP	$38,000	1	1	1	1	1	1.00
G-05	Increase Parking Meter Fees from $.75/hr to $1.00/hr	$120,000	1	1	1	1	1	1.00
G-06	Utility Billing & Accounts Receivable position	$47,000	1	1	1	1	1	1.00
G-07	Reclass Principal Planner to Associate Planner	$11,200	1	1	1	1	1	1.00
G-08	Delete CUSD Sports Field Transfer	$100,000	1	1	1	1	1	1.00
G-09	Transfer revenue to General Fund (Increase Golf Fees)	$250,000	1	1	1	3	3	1.80
G-28A	Contract Maintenance	$430,000	1	1	1	2	3	1.60
R-01	Reduce Employee Work Hours to 36 Hours per Wk	$560,000	3	3	3	3	3	3.00
R-02	5% Across the Board Pay Cut	$320,000	3	3	3	3	3	3.00
R-03	Bi-monthly newsletter- use quarterly Parks Magazine	$23,000	1	1	2	1	1	1.20
R-04	Community Relations/Volunteer Program	$42,000	2	3	3	2	1	2.20
R-05	Marketing and Promotion	$18,500	1	3	3	2	3	2.40
R-06	Downtown Improvement Program	$20,000	2	1	3	2	3	2.20
R-07	Chamber Tourism Subsidy	$10,000	2	3	3	2	3	2.60
R-08	4th of July Fireworks Celebration	$30,000	1	1	2	2	3	1.80
R-09	Volunteer Receptionist	$15,359	2	1	1	2	3	1.80
R-10	Reduce Human Resources Clerical Staffing	$3,700	1	1	1	3	1	1.40
R-11	Centralized Purchasing	$45,000	3	2	1	1	1	1.60
R-12	Eliminate Computer User Support/Internet	$56,000	2	3	2	1	3	2.20
R-13	Reduce Peripheral Hardware Maintenance	$10,500	3	3	2	1	3	2.40
R-14	Transfer Dispatch to Sheriff's Communication	$210,000	3	1	1	3	3	2.20
R-15	Crime Prevention Program	$48,309	3	3	3	3	3	3.00
R-16	Reduce Police Records Counter Hours	$22,098	1	2	1	1	3	1.60
R-17	Eliminate Community Service Unit	$82,901	1	1	1	1	2	1.20
R-18	Eliminate Drug Education Program	$90,101	2	3	3	1	3	2.40
R-22	Reduce Tri-Cities Directed Enforcement Team	$106,838	3	3	3	3	3	3.00
R-24	Social Services - 50% Reduction	$30,485	2	1	1	1	3	1.60
R-25b	Code Compliance - F/T Staff	-$52,000	3	3	3	3	3	3.00
R-26	Street maintenance **	$496,000	2	3	3	2	3	2.60
R-27	Eliminate Engineering Inspector Position and reduce public contact, counter	$25,900	1	1	1	1	2	1.20
R-28B	Contract Utilities	$0	3	2	2	2	3	2.40

City Council Priority Rating - FY 1997-98 Budget Reductions

Item	Program Title	Cost	Ahle	Anderso	Apodaca	Berg	Dahl	Average
R-29	Beach/Park Maintenance Division	$193,000	2	1	1	1	1	1.20
R-30	Capital Improvement Projects (Parks, Beach, Median)	$200,000	3	1	1	1	1	1.40
R-31	Eliminate Afterschool/Intramural Sports Program	$48,000	3	1	1	1	3	1.80
R-32	Eliminate CSP Program	$2,500	2	3	3	3	3	2.80
R-33	Eliminate/Reduce Special Events & Youth Advisory Committee	$36,915	2	1	2	3	3	2.20
R-34	Eliminate Park Development Program	$44,620	2	1	2	1	3	1.80
R-35	Eliminate Summer Day Camp	$6,600	2	2	2	3	3	2.40
R-36	Eliminate Youth/Adult Programs	$12,900	2	1	2	3	3	2.20
R-37	Lifeguard Staff Reductions	$5,400	2	1	1	3	3	2.00
R-38	F/T Lifeguard - Option 1	$26,800	3	3	3	3	3	3.00
R-39	F/T Lifeguard - Option 2	$33,300	3	3	3	3	3	3.00
R-40	F/T Lifeguard - Option 3	$53,400	3	3	1	3	3	2.60
R-41	P/T Lifeguard	$7,600	2	2	3	1	3	2.20
R-42	Transfer Revenue to General Fund (Increase Golf Fees)	$125,000	1	2	1	3	3	2.00
R-43	Park Closure, Reduced Park/Beach Maintenance, Elimination of Local Resid	$60,000	1	2	1	1	1	1.20
R-43	Park Closure, Reduced Park/Beach Maintenance, Elimination of Local Resid	$25,000	3	3	1	2	2	2.20
R-43	Park Closure, Reduced Park/Beach Maintenance, Elimination of Local Resid	$145,330	2	1	1	3	3	2.00
R-43	Park Closure, Reduced Park/Beach Maintenance, Elimination of Local Resid	$56,315	1	1	1	1	3	1.40
								0.00

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File UFP

Management
Salary Benefit Worksheet

	New Hr.	New Mo.	1% Change	1% Ben.	1% Total	9/80 (40 hrs)	9/80 Ben.	9/80 Total	4/8 (32 hrs)	4/8 Ben.	4/8 Total	4/9 (36 hrs)	4/9 Ben.	4/9 Total	/9.5 (38 hrs	4/9.5 Ben.	4/9.5 Total
Lund	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,838
Parness	50.51	8,755	1,040	312	1,352	105,056	31,517	136,573	84,045	25,213	109,258	94,551	28,365	122,916	99,803	29,941	129,744
Erway	35.92	6,227	740	222	962	74,720	22,416	97,136	59,776	17,933	77,709	67,248	20,174	87,422	70,984	21,295	92,279
McKay	27.75	4,811	572	171	743	57,728	17,318	75,046	46,182	13,855	60,037	51,955	15,586	67,541	54,841	16,452	71,294
Payne	26.42	4,579	544	163	707	54,952	16,486	71,438	43,962	13,189	57,150	49,457	14,837	64,294	52,204	15,661	67,866
Gudgeirsson	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Johnson	30.56	5,297	629	189	818	63,570	19,071	82,640	50,856	15,257	66,112	57,213	17,164	74,376	60,391	18,117	78,508
Cameron	40.10	6,951	826	248	1,074	83,410	25,023	108,433	66,728	20,018	86,746	75,069	22,521	97,590	79,239	23,772	103,011
Huynh	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,838
Hare	35.47	6,148	730	219	950	73,780	22,134	95,914	59,024	17,707	76,731	66,402	19,921	86,323	70,091	21,027	91,118
Holloway	44.76	7,759	922	277	1,198	93,106	27,932	121,038	74,485	22,345	96,830	83,795	25,139	108,934	88,451	26,535	114,986
Sorg	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Somerville	33.78	5,856	696	209	904	70,272	21,082	91,353	56,217	16,865	73,083	63,245	18,973	82,218	66,758	20,027	86,78[illegible]
Hughes	31.33	5,431	645	194	839	65,169	19,551	84,720	52,135	15,641	67,776	58,652	17,596	76,248	61,911	18,573	80,4[illegible]
Wegner	38.92	6,747	802	240	1,042	80,962	24,289	105,250	64,769	19,431	84,200	72,866	21,860	94,726	76,914	23,074	99,9[illegible]
			11,439	*3,432*	*14,871*	*1,155,345*	*346,604*	*1,501,949*	*924,276*	*277,283*	*1,201,559*	*1,039,811*	*311,943*	*1,351,754*	*1,097,578*	*329,273*	*1,426,852*
Bressan	32.93	5,709	678	203	882	68,502	20,551	89,053	54,802	16,441	71,242	61,652	18,496	80,148	65,077	19,523	84,600
Howard	29.82	5,169	614	184	798	62,030	18,609	80,639	49,624	14,887	64,512	55,827	16,748	72,575	58,929	17,679	76,607
Reed	25.11	4,353	517	155	672	52,237	15,671	67,908	41,790	12,537	54,327	47,014	14,104	61,118	49,625	14,888	64,513
Linden	31.09	5,389	640	192	832	64,672	19,402	84,074	51,738	15,521	67,259	58,205	17,462	75,667	61,439	18,432	79,871
Moore	32.11	5,566	661	198	860	66,793	20,038	86,832	53,435	16,030	69,465	60,114	18,034	78,148	63,454	19,036	82,490
			661	*198*	*860*	*66,793*	*20,038*	*1,910,456*	*53,435*	*16,030*	*1,528,364*	*60,114*	*18,034*	*1,719,410*	*63,454*	*19,036*	*1,814,833*
			14,550	*4,365*	*18,915*						*382,091*			*191,046*			*95,523*
					37,831						**20%**			**10%**			**5%**
					56,746												
					75,662												
					94,577												

Management/Professional/Confidential
Salary Benefit Worksheet

	New Hr.	New Mo.	1% Change	1% Ben.	1% Total	9/80 (40 hrs)	9/80 Ben.	9/80 Total	4/8 (32 hrs)	4/8 Ben.	4/8 Total	4/9 (36 hrs)	4/9 Ben.	4/9 Total	/9.5 (38 hrs	4/9.5 Ben.	4/9.5 Total
Bonner	19.64	3,405	405	121	526	40,857	12,257	53,114	32,685	9,806	42,491	36,771	11,031	47,802	38,814	11,644	50,458
Lund	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,836
Parness	50.51	8,755	1,040	312	1,352	105,056	31,517	136,573	84,045	25,213	109,258	94,551	28,365	122,916	99,803	29,941	129,744
Reis	22.17	3,843	457	137	594	46,117	13,835	59,952	36,893	11,068	47,961	41,505	12,452	53,957	43,811	13,143	56,954
Baade	22.17	3,843	457	137	594	46,117	13,835	59,952	36,893	11,068	47,961	41,505	12,452	53,957	43,811	13,143	56,954
Erway	35.92	6,227	740	222	962	74,720	22,416	97,136	59,776	17,933	77,709	67,248	20,174	87,422	70,984	21,295	92,279
Artalejo	20.14	3,491	415	124	539	41,887	12,566	54,453	33,509	10,053	43,562	37,698	11,309	49,008	39,792	11,938	51,730
McKay	27.75	4,811	572	171	743	57,728	17,318	75,046	46,182	13,855	60,037	51,955	15,586	67,541	54,841	16,452	71,294
Kerwin	24.47	4,242	504	151	655	50,904	15,271	66,175	40,723	12,217	52,940	45,814	13,744	59,558	48,359	14,508	62,867
Payne	26.42	4,579	544	163	707	54,952	16,486	71,438	43,962	13,189	57,150	49,457	14,837	64,294	52,204	15,661	67,866
Gudgeirsson	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Lentz	15.71	2,723	324	97	421	32,676	9,803	42,478	26,141	7,842	33,983	29,408	8,822	38,230	31,042	9,313	40,354
Johnson	30.56	5,297	629	189	818	63,570	19,071	82,640	50,856	15,257	66,112	57,213	17,164	74,376	60,391	18,117	78,508
Cameron	40.10	6,951	826	248	1,074	83,410	25,023	108,433	66,728	20,018	86,746	75,069	22,521	97,590	79,239	23,772	[illegible]
Cirit	35.45	6,144	730	219	949	73,726	22,118	95,844	58,981	17,694	76,675	66,353	19,906	86,260	70,040	21,012	[illegible]
Hindiyeh	34.52	5,984	711	213	924	71,811	21,543	93,354	57,449	17,235	74,683	64,630	19,389	84,019	68,220	20,466	88,687
McClanahan	29.09	5,043	599	180	779	60,515	18,155	78,670	48,412	14,524	62,936	54,464	16,339	70,803	57,489	17,247	74,736
Parker	31.31	5,427	645	193	838	65,121	19,536	84,657	52,097	15,629	67,726	58,609	17,583	76,191	61,865	18,559	80,424
Simon	30.59	5,301	630	189	819	63,618	19,085	82,703	50,894	15,268	66,163	57,256	17,177	74,433	60,437	18,131	78,568
Torkamanha	27.71	4,803	571	171	742	57,631	17,289	74,920	46,104	13,831	59,936	51,868	15,560	67,428	54,749	16,425	71,174
Huynh	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,836
Vacant Planner	27.03	4,685	557	167	724	56,217	16,865	73,083	44,974	13,492	58,466	50,596	15,179	65,774	53,407	16,022	69,428
Hare	35.47	6,148	730	219	950	73,780	22,134	95,914	59,024	17,707	76,731	66,402	19,921	86,323	70,091	21,027	91,118
Holloway	44.76	7,759	922	277	1,198	93,106	27,932	121,038	74,485	22,345	96,830	83,795	25,139	108,934	88,451	26,535	114,986
Fuller	17.75	3,077	366	110	475	36,930	11,079	48,009	29,544	8,863	38,407	33,237	9,971	43,208	35,083	10,525	45,608
McKeough	21.66	3,754	446	134	580	45,050	13,515	58,565	36,040	10,812	46,852	40,545	12,164	52,709	42,798	12,839	55,637
Sorg	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Somerville	33.78	5,856	696	209	904	70,272	21,082	91,353	56,217	16,865	73,083	63,245	18,973	82,218	66,758	20,027	86,785
Hughes	31.33	5,431	645	194	839	65,169	19,551	84,720	52,135	15,641	67,776	58,652	17,596	76,248	61,911	18,573	80,484
DeForrest	19.12	3,314	394	118	512	39,766	11,930	51,696	31,813	9,544	41,356	35,789	10,737	46,526	37,778	11,333	49,111
Wegner	38.92	6,747	802	240	1,042	80,962	24,289	105,250	64,769	19,431	84,200	72,866	21,860	94,725	76,914	23,074	99,988
			19,646	*5,894*	*25,540*	*1,984,287*	*595,286*	*2,579,573*	*1,587,430*	*476,229*	*2,063,658*	*1,785,858*	*535,757*	*2,321,615*	*1,885,073*	*565,522*	*2,450,594*
Bressan	32.93	5,709	678	203	882	68,502	20,551	89,053	54,802	16,441	71,242	61,652	18,496	80,148	65,077	19,523	84,600
Howard	29.82	5,169	614	184	798	62,030	18,609	80,639	49,624	14,887	64,512	55,827	16,748	72,575	58,929	17,679	[illegible]
Reed	25.11	4,353	517	155	672	52,237	15,671	67,908	41,790	12,537	54,327	47,014	14,104	61,118	49,625	14,888	64,513
Linden	31.09	5,389	640	192	832	64,672	19,402	84,074	51,738	15,521	67,259	58,205	17,462	75,667	61,439	18,432	79,871
Mies	27.69	4,800	570	171	741	57,594	17,278	74,873	46,075	13,823	59,898	51,835	15,550	67,385	54,715	16,414	71,129
Moore	32.11	5,566	661	198	860	66,793	20,038	86,832	53,435	16,030	69,465	60,114	18,034	78,148	63,454	19,036	82,490
			1,232	*369*	*1,601*	*124,388*	*37,316*	*161,704*	*99,510*	*29,853*	*129,363*	*111,949*	*33,585*	*145,534*	*118,168*	*35,451*	*153,619*
			23,328	*6,998*	*30,326*			3,082,952			2,450,362			2,756,657			2,909,804
					60,653						**20%**			**10%**			**5%**
					90,979						612,590			306,295			153,148
					121,305												
					151,631												

Management/Professional
Salary Benefit Worksheet

	New Hr.	New Mo.	1% Change	1% Ben.	1% Total	9/80 (40 hrs)	9/80 Ben.	9/80 Total	4/8 (32 hrs)	4/8 Ben.	4/8 Total	4/9 (36 hrs)	4/9 Ben.	4/9 Total	/9.5 (38 hrs	4/9.5 Ben.	4/9.5 Total
Bonner	19.64	3,405	405	121	526	40,857	12,257	53,114	32,685	9,806	42,491	36,771	11,031	47,802	38,814	11,644	50,458
Lund	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,836
Parness	50.51	8,755	1,040	312	1,352	105,056	31,517	136,573	84,045	25,213	109,258	94,551	28,365	122,916	99,803	29,941	129,744
Erway	35.92	6,227	740	222	962	74,720	22,416	97,136	59,776	17,933	77,709	67,248	20,174	87,422	70,984	21,295	92,279
Artalejo	20.14	3,491	415	124	539	41,887	12,566	54,453	33,509	10,053	43,562	37,698	11,309	49,008	39,792	11,938	51,730
McKay	27.75	4,811	572	171	743	57,728	17,318	75,046	46,182	13,855	60,037	51,955	15,586	67,541	54,841	16,452	71,294
Payne	26.42	4,579	544	163	707	54,952	16,486	71,438	43,962	13,189	57,150	49,457	14,837	64,294	52,204	15,661	67,866
Gudgeirsson	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Johnson	30.56	5,297	629	189	818	63,570	19,071	82,640	50,856	15,257	66,112	57,213	17,164	74,376	60,391	18,117	78,508
Cameron	40.10	6,951	826	248	1,074	83,410	25,023	108,433	66,728	20,018	86,746	75,069	22,521	97,590	79,239	23,772	103,011
Cirit	35.45	6,144	730	219	949	73,726	22,118	95,844	58,981	17,694	76,675	66,353	19,906	86,260	70,040	21,012	91,052
Hindiyeh	34.52	5,984	711	213	924	71,811	21,543	93,354	57,449	17,235	74,683	64,630	19,389	84,019	68,220	20,466	88,687
McClanahan	29.09	5,043	599	180	779	60,515	18,155	78,670	48,412	14,524	62,936	54,464	16,339	70,803	57,489	17,247	74,736
Parker	31.31	5,427	645	193	838	65,121	19,536	84,657	52,097	15,629	67,726	58,609	17,583	76,191	61,865	18,559	80,4[illegible]
Simon	30.59	5,301	630	189	819	63,618	19,085	82,703	50,894	15,268	66,163	57,256	17,177	74,433	60,437	18,131	78,5[illegible]
Torkamanha	27.71	4,803	571	171	742	57,631	17,289	74,920	46,104	13,831	59,936	51,868	15,560	67,428	54,749	16,425	71,174
Huynh	34.58	5,994	712	214	926	71,932	21,580	93,512	57,546	17,264	74,810	64,739	19,422	84,161	68,336	20,501	88,839
Vacant Planner	27.03	4,685	557	167	724	56,217	16,865	73,083	44,974	13,492	58,466	50,596	15,179	65,774	53,407	16,022	69,428
Hare	35.47	6,148	730	219	950	73,780	22,134	95,914	59,024	17,707	76,731	66,402	19,921	86,323	70,091	21,027	91,118
Holloway	44.76	7,759	922	277	1,198	93,106	27,932	121,038	74,485	22,345	96,830	83,795	25,139	108,934	88,451	26,535	114,986
McKeough	21.66	3,754	446	134	580	45,050	13,515	58,565	36,040	10,812	46,852	40,545	12,164	52,709	42,798	12,839	55,637
Sorg	45.37	7,865	934	280	1,215	94,378	28,314	122,692	75,503	22,651	98,154	84,941	25,482	110,423	89,660	26,898	116,557
Somerville	33.78	5,856	696	209	904	70,272	21,082	91,353	56,217	16,865	73,083	63,245	18,973	82,218	66,758	20,027	86,786
Hughes	31.33	5,431	645	194	839	65,169	19,551	84,720	52,135	15,641	67,776	58,652	17,596	76,248	61,911	18,573	80,484
Wegner	38.92	6,747	802	240	1,042	80,962	24,289	105,250	64,769	19,431	84,200	72,866	21,860	94,725	76,914	23,074	99,988
			17,146	*5,144*	*22,290*	*1,731,778*	*519,533*	*2,251,312*	*1,385,422*	*415,627*	*1,801,049*	*1,558,600*	*467,580*	*2,026,180*	*1,645,189*	*493,557*	*2,138,746*
Bressan	32.93	5,709	678	203	882	68,502	20,551	89,053	54,802	16,441	71,242	61,652	18,496	80,148	65,077	19,523	84,600
Howard	29.82	5,169	614	184	798	62,030	18,609	80,639	49,624	14,887	64,512	55,827	16,748	72,575	58,929	17,679	76,607
Reed	25.11	4,353	517	155	672	52,237	15,671	67,908	41,790	12,537	54,327	47,014	14,104	61,118	49,625	14,888	64,513
Linden	31.09	5,389	640	192	832	64,672	19,402	84,074	51,738	15,521	67,259	58,205	17,462	75,667	61,439	18,432	79,871
Moore	32.11	5,566	661	198	860	66,793	20,038	86,832	53,435	16,030	69,466	60,114	18,034	78,148	63,454	19,036	82,4[illegible]
			661	*198*	*860*	*66,793*	*20,038*	*2,659,918*	*53,435*	*16,030*	*2,127,854*	*60,114*	*18,034*	*2,393,836*	*63,454*	*19,036*	*2,526,827*
			20,258	*6,077*	*28,335*						**20%**			**10%**			**5%**
					52,670						531,964			265,982			132,991
					79,004												
					105,339												
					131,674												

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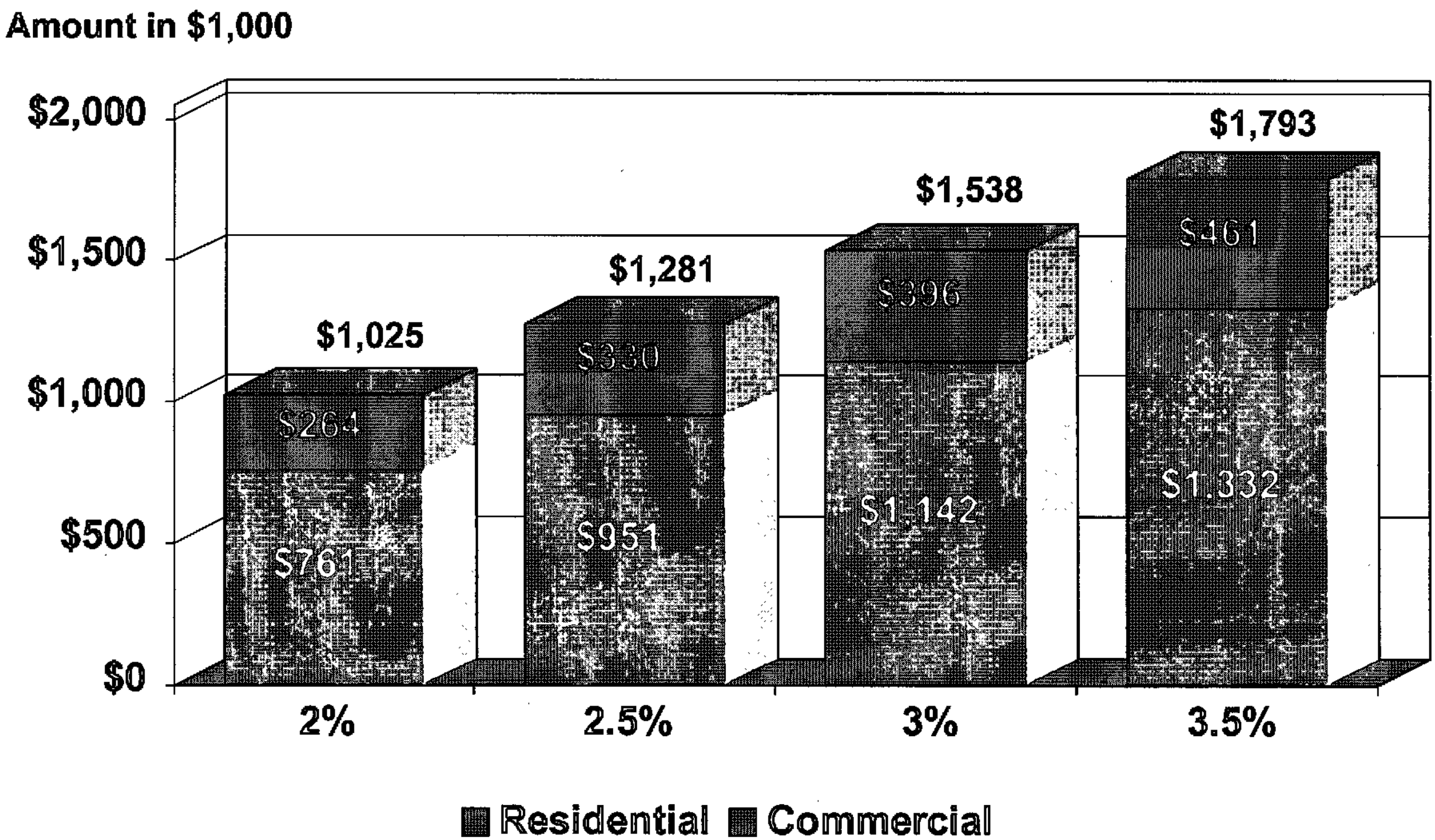
Utility User's Tax

File UTT - Rev.



Slide 2

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LTFP97

TABLE OF CONTENTS

Prepared by: John Koch
San Clemente Taxpayer

MIKE PARNESS
CITY MANAGER

SUMMARY/OVERVIEW

The taxpayers of San Clemente involved with the input for this report have significant concerns regarding the approach taken by City Staff to offset the loss of revenues to the L & L assessment district resulting from passage of Prop 218.

Since the inception of the district during Fiscal Year 80/81, fees remained relatively constant through the 87/88 Fiscal Year. The majority of property owners voiced no complaints because the fee seemed equitable.

The transfer of Park Maintenance from the General fund in FY 89/90 caused a large increase in L & L fees; but General Fund expenditures, instead of declining, **increased** by 2.1 million dollars.

City Staff and Council then decided to increase the district fee by 23% during the 95/96 fiscal year, and 7% during the 96/97 fiscal year. Our concern during these two years is that the General Fund expenditures **increased** by over two million dollars.

Two significant areas of concern are that the increases in L & L fees should reduce the General Fund outlays, but that budget **increased**, and the presentation of staff during the 95/96 fiscal year included a five year plan to increase the annual fee of $86.00 to $152.00.

We also note that prior terminations or layoffs occur only at 'service provider' level, never have any members of management been affected. In fact, there have been new management positions created and filled from outside, instead of promoting from within.

It also appears there are **too** many layers of management within each department in the city. We believe that the time is ripe to consider re-engineering the department structures to allow for industry standards for management versus worker ratios. It is safe to assume that a supervisorial position should manage more than from two to three staff members.

Productivity and results are <u>more</u> important to the citizens than the fact that someone just works hard. Make work positions must be eliminated and management & Staff positions for low priority activity must be eliminated as well.

Of particular interest was to review the 1997 Vital Few Priorities, referred to as the Green and Red Budget. Under Program Category (Planning, Org. Dev. Fin. etc.) there are 21 line items that includes 79.4 FTE dismissals. Of this quantity, 58 are lost to out-source (Contracts) and 10 are elimination of Police Service positions. **(Please, no cutting of Police Services)** Under the 27 quality of Life Program Category entries, there are recommendations for 20 dismissals, six of which are from Police services. **[Once again, please no Police Services cuts] Of most the importance!, there are <u>NO</u> reduction of key management positions. None, Nada, Zero.**

The City Manager, and his key Staff Members seem to have provided themselves with a very high level of salaries, Pay for Performance bonuses, other perks, ie., autos, credit cards, three day weekends and complete immunity from any potential cuts in management staff. **This scenario came about with no opposition from prior Council Members.**

The voters expressed their opinions during the last election. The percentage of votes for Proposition 218 should be a message to all of us. Stop taxing the property owners and streamline your operations, and make at least 10 cuts in the number of management positions and a minimum of 5 cuts from 'Service Provider' areas.

INCREASE IN GENERAL FUND BUDGET

Over the past ten years, the General Fund budget has increased by approximately 50%, from just over $14 million in the year ended 6/30/88 to just over $21 million in the year ending 6/30/97. However, if adjustments are made to the 1988 General Fund budget for items which are not in the 1997 budget, the increase would be even greater.

Since 1988, expenditures for beaches and parks maintenance were transferred OUT of the General Fund to the light & Landscape District, a reduction of GF expenditures of $1.4 Million: In addition, as a result of contracting for police and fire services beginning in 1994 and 1995, total cost for these services was reduced by $2.8 Million (low side estimate). On a basis comparable to FY 96/97, the FY 87/88 GF budget would have to be reduced to $10.0 Millon.

In the past 10 years, the General Fund budget has more than doubled, while the city's population has increased by less than 25% and inflation year to year has been running at approximately 3% or less.

From the inception of the L & L District in FY 80/81 until FY 88/89 the average annual fees paid by the property owners over an eight year period was $381,000.00 per year.

The FY 89/90 increase of L & L fees to $70.00 year resulted in an annual revenue of $1,420,000. Isn't amazing that the very next fiscal year saw the General Fund budget increase from 15.7 million in FY 88/89 to 17.8 million in FY 89/90??

The increase of $1,039,000 in L & L revenues would allow most citizens to assume that there should be at least that much less need in the General Fund, but the fund expenditures increased by $2,000.000. Considering the relief provided to the General Fund by cost transfer to L & L: **What happened from one fiscal year to the next to cause a $3 Million increase in the expenditures??**

Also of great interest is to note that the FY 93/94 was significant. During that year the General Fund budget was $19,000,000. Late in the year (6/94), approval was given to contract out for Police Services. It was estimated that this would save the city $2,000,000. **How can City Staff explain that a two million savings could possibly result in an increase of General Fund expenditures to $20,400.000??.** Yes a savings of $2,000,000, but an increase in budget of $1,400,000. **Seems like another 3 million disparity.**

Subsequent to the above in the FY 94/95, we contracted out our Fire Services to the County. It was claimed that these savings would be between $900,000 and $1,000,000. Guess what? **In the next fiscal year our General Fund expenditures went up by $1,500,000 to $22,100,000.**

In the same above fiscal year (95/96), there was a 23 % increase in L & L fees ($16.00 per annum).

During the FY year of 96/97 another increase of 7% was implemented to increase the L & L fees to $92.92. Albeit small it still yielded $143,000 of revenue to the City.

During the prior FY 95/96, the staff at Parks & Recreation proposed a five year plan to increase the L & L annual fee to $152.00 per year per parcel over a five year period. **This would have provided for an annual fee revenue of $3,106,000. Can you believe an increase of 815 percent since the inception of the district?? How much is enough for these people?**

It is time to clean up their act! Both elected officials and city employees have to change their mind set and run our city like a business. If you don't have the revenue - don't spend it.

RECOMMENDED STAFF CUTS

WE ARE RECOMMENDING THAT NO STAFF CUTS TO EMPLOYEES EARNING LESS THE $50,000. PER YEAR BE MADE. HISTORY HAS PROVEN THAT PRIOR CUTS MADE WERE ALWAYS THOSE THAT PROVIDED SERVICES TO THE COMMUNITY.

ECONOMIC DEVELOPMENT MANAGER - All economic development functions should be assumed by City Manager and/or Community Development Department Director. (History proves that this worked in the Past)

COMMUNITY RELATIONS OFFICER - Placement and control of volunteers should be returned to Human Resources Manager. (Control of Volunteers is currently not being handled by this position) Community newsletter and related public relations tasks should go back to City Manager's executive secretary.

CITY ADMINISTRATOR - Current Deputy City Clerk is quite able to assume functions in house. Elected City Clerk should not need assistance at Council meetings. Elected City Clerk is estimated to not exceed ten hours per week. **We strongly recommend that the Deputy City Clerk assume the functions of the current City Administrator. Question: Conflict of interest?**

PUBLIC WORKS DIRECTOR - All Public Works and Engineering activities should be under the supervision of the Community Development Director. All other Maintenance and Utilities functions should fall back to the Utilities Manager.

MARINE SAFETY & RECREATION MANAGER - All recreation administrative & supervisory functions should be by the Beach Parks & recreation Director. All Marine Safety functions should be handled by current Marine Safety Lieutenant. Beach and Pier concessions tenants should be assumed by Central Services Manager.

PARKS AND BEACHES MANAGER - All duties of Parks and Beaches Manager should be assumed by Beach, Parks and Recreation Director.

PARK PLANNER - All Park Planner functions should be assumed by the City Planning department. Any new parks design should be done by developers with approval by City Planning.

PRINCIPAL PLANNER - This is a recent position opened by the resignation of Mr. Goldin. Eliminate this position because Mr. Golden managed to carry both functions of City Planner and Principal Planner for eight months.

ASSOCIATE PLANNER - HOUSING Eliminate this budgeted "**social-engineering**" position. We believe that this function should go to private sector individuals. This position also handles the "**Neighborhood Pride**" program that has proven to be a **monumental failure.**

REHABILITATION TECHNICIAN (CONTRACT POSITION) - This contract position supports the above. Cancel work contract immediately.

ENGINEERING DIVISION (Sr/Assoc/Asst) - Completely re-engineer this department. Outside Consultants contracted to support this group insults the intelligence of the average citizen. Either do it inside or outside -- not both! **(See comments under CONSULTING SERVICES to validate this)**

M I S DEPARTMENT - City has managed to perform all M I S functions with an average of two employees prior to two years ago. Current staff of 4.2 FTE's defies all business logic based upon industry standards of budget to revenues and other comparisons of number employees to hardware/software configuration requirements.

CONTRACTED CITY ATTORNEY - For the past several years, the city has consistently incurred legal costs in the neighborhood of $750,000.00 per year. Hourly rates charged to the city for legal services range from $150 to as much as $400 per hour. A full time City attorney could be hired for a total annual cost, including benefits, of no more than $125,000. Even if outside legal services in specialized areas are contracted for as needed, total legal cost should be reduced to well under $500,000. per year.

The 1992 Blue Ribbon Citizens Committee recommended hiring a full-time City Attorney so as to drastically reduce legal costs. Why hasn't it been done?

CODE ENFORCEMENT ACTIVITIES - Immediately remove this function from the jurisdiction of the Building Division. Return the function to Planning Division under the supervision of the new **City Planner.** Mr. Jim Hare is said to have written a book on the subject. **PROPER CODE ENFORCEMENT AND CITATIONS SHOULD RESULT IN SIGNIFICANT REVENUES FROM FINES, ETC.**

CITY MANAGEMENT BONUSES - Immediately rescind all bonuses based upon "pay for performance" We citizens have never seen any goals established to justify bonuses, just the good old boy club that awards people that have spent time in house.

Using salary figures released in 1992, current budget figures of salary versus fringe benefits (34%) of the above positions, and the estimate of just the 1992 Blue Ribbon Committee, we estimate that the annual savings to exceed **$1,420,000 (one million four hundred and twenty thousand) Add to this the savings of the AD HOC subcommittee recently convened and the city should easily manage to meet their budget short falls.**

OTHER AREAS OF SAVINGS

ADDITIONAL COST SAVINGS - City Treasurer should not hold both elected and staff reporting to City Manager. Request immediate termination of either position.

CONSULTING SERVICES - Every year, the city spends substantial sums for outside consulting services, much of it in areas which should be handled by professional staff. Example: At the 2/5/97 Council meeting, staff proposed and Council approved, by a 4-1 vote, letting a number of contracts totalling $257,000 for engineering services required for the street renovation program. When challenged by a citizen as to why these task could not be handled by the city engineering staff, City Engineer Cameron detailed the current assignments of his staff, including 2 engineers whose present assignment consists entirely (Cameron cited no other tasks for them) of concept work on a Beach Trail which at present is in the "maybe" stage. Two other staff members are doing developmental work on future Forster Ranch and Talega projects. even though at this time no developer has submitted a specific plan. Devoting staff effort to potential future projects while contracting out for current engineering needs makes **no** sense.

Let us confirm that there will be no consulting contracts let without a full citizens committee review and honest confirmation of needs. City Manager and staffs recommendation can no longer be believed.

NO CONSIDERATION SHOULD BE GIVEN TO ANY REVENUE ENHANCEMENTS UNTIL ALL OTHER EFFORTS OF COST CUTTING HAS BEEN INVESTIGATED.

CONSIDERATIONS FOR REVENUE ENHANCEMENT

Increase the annual parking fees at any city required paid parking from $40 & $50 to $80 & $100.

Utilize the current licensing fee for Apartment buildings, and add an annual inspection fee starting at a minimum $100.00 for three units and increasing to $25.00 per unit dependent upon complex size.

This will accomplish two should be goals. 1) Increase of Revenue and 2) assure that all rentals are up to Health and Safety Standards as well as Nuisance Ordinance standards.

Considering that the Beaches are City owned, consider an annual fee of $100.00 for the privilege of Surfing (Boards) at the city beaches.

This should be sold on the basis that local citizens taxes pay to support the beaches and its maintenance and out of towner's that surf here contribute nothing to the tax base.

Blight in sections of our community continues. Consider passing an ordinance that does not allow for parking on any street in San Clemente between the hours of 2 am and 6 am. If people feel that they must park anywhere on city streets, charge an annual fee of $100.00. This will force many residents to clean out their garages, clear their parking areas, etc. This should also encourage the decrease of overcrowding in our community.

Over 30% of the cities in the State of California have similar ordinances regarding parking enforcement. The one exception is: Other cities do not allow for annual parking fees. They either ticket or tow away the vehicles. In the case of Brea, they do not even ticket, a towing company tows the vehicles, then notifies the police department of a towed vehicle.

The city of Brea is a great example of a comparison to our city. They are older than our city, they have an equal number of apartments in percentage by comparison, **but they manage to keep their city streets clean for street cleaning services early in the morning.**

OPINIONS REGARDING BALLOT ISSUES

Many citizens in this community are extremely adverse to the possibility of adding to their tax base.

Among those are the retired seniors that are having a difficult time coping with the continuing rise in the cost of living.

Another group would include the members of the Reform and Libertarian party that are convinced that all government employees have been 'slopping at the trough too long", and significant numbers of conservative citizens that believe that: "We have to balance our Home Budget, why don't you have to balance our city budget?"

As long as the City has a significant percentage of management staff that earns more than $120,000 per year including fringe benefits, the City Council has a major problem. The City Manager's compensation including fringes makes at least equal to the Governor of California. **(There is just no comparison to the responsibilities between the two)**

On many occasions, our city Manager has compared his staff salaries with those of selected group of other cities. We in the public do not believe that this a fair comparison. Why not compare City Staff positions with equivalent positions in the commercial and comparative industries?

It is common knowledge that the commercial and industrial world uses an average of 20% for fringe benefits costs. Why does a city need to use a 34% average cost to add to their employee salaries for fringe benefits? (Burden Rate) It would be safe to assume that when considering total costs, the average city employee makes significantly more than the average citizen with comparable responsibilities.

Now comes the real problem: What does the City Management and Council want to put on to the ballot?

1. **A Utility Tax - Why not, it places an equal burden on all residents of San Clemente.**

2 A Special Property Tax - Why? It once again sticks the property owners <u>only</u> with the burden.

3. A General Tax - Why not? It makes it easy to get passed on the ballot.

Next possible problem: Methods of increasing revenue without going to the ballot.

1. User Fees - Why not? Lets let out of town users bear some burden! We have already increased Day Campers, Senior Citizens swimmers, etc.

2. Lets exploit the Golf Course fund! What a great cash cow that has always existed, lets add more fees. (current rumor has it that the City Manager wants to increase administrative fees from $460,000 to $750,000 per year) Does it really cost that much money to administer the functions of the golf course.

3. A city Sales tax increase, or a Bed Tax, can't do! We are already known for not being "Business Friendly".

In conclusion, we that have participated in the preparation of this document believe that if only <u>one</u> thing happens: **Mr. Mike Parness and Staff do their level best to cut all unnecessary costs within the city budget, we may feel obligated to assist in some sort of a ballot issue. This is important to all of us, because we do not want to sacrifice essential city services to the majority of our fellow citizens.**

END DOCUMENT

1996 Long Term Financial Plan

Schedule

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(Note: (1) Overhead Analysis project combined with water/sewer utility study), (2) Regional Issues project deleted).

LONG TERM FINANCIAL PLAN
Issues, Objectives, and Project Teams

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Objective
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Project Team - Nita McKay, Finance & Administrative Services, Project Lead

Financial Forecast

Objective
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(1) To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program and (b) meet program needs without unnecessary obligating scarce dollar resources. Recommendations will be made and incorporated into the City's Fiscal Policy.

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Objective
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Project Team - David Lund, Economic Development, Project Lead

<u>Revenue Options</u>

<u>Objective</u>
<u>To review all General Fund fees and charges to determine the feasibility of increasing certain fees and charges.</u>

<u>Project Team - Paul Gudgeirsson, Finance & Administrative Services, Project Lead, Nita McKay, Finance & Administrative Services, Kumi Johnson, Finance & Administrative Services</u>

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Checkpoint meeting

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Jan 23, 1997 City Manager returns draft Issue papers

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Project Team - David Lund, Economic Development, Project Lead

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Objective
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Project Team - Paul Gudgeirsson, Finance & Administrative Services, Project Lead, Nita McKay, Finance & Administrative Services, Kumi Johnson, Finance & Administrative Services

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END DOCUMENT

file

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             To: Linda Le[illegible]@City Hall
           From: Paul Gudgeirsson@City Hall
  Originated by: Kumi Johnson@City Hall
             Cc:
            Bcc:
        Subject: fwd: 800 mhz
     Attachment:
           Date: 12/30/96 8:13 AM
```

Please print and file 1 cy in 800Mhz and 1 cy in LTFP. P

Original text
From: Kumi Johnson@City Hall@City of SC, on 12/29/96 1:54 PM:
To: Paul Gudgeirsson@City Hall@City of SC

On October 1, 1996, I had you sign a statement of intent that locked us into the Motorola agreement. It says that the console (dispatch) equipment is committed and ordered as designed. I will call on Thursday and see if we are really committed or not.

But assuming we can get out of it, the dispatch equipment is $115,000. I don't have the labor/installation breakdown in this file. We funded Public Safety's portion from the PSCF with an initial contribution of $664,000. The balance of what they needed was taken from the COPS grant.

Do you want me to start working on the cost of dispatch services and what would go away and what would remain?

END DOCUMENT

Memorandum
Finance & Administrative Services Department

Tuesday, October 01, 1996

To:	1997 LTFP Project Leads
From	Paul Gudgeirsson, Director, Finance & Administrative Services/City Treasurer Paul
Subject:	1997 Long Term Financial Plan
Copies:	Mike Parness

Attached is a copy of an amended preparation schedule for the Long Term Financial Plan. Please note that the checkpoint meeting on November 29, 1996 has been changed to November 22, 1996.

1996 Long Term Financial Plan

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Objective

To examine the organizational and operational structure of City utilities.

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Regional Issues

Objective

To review and provide recommendations relating to regional issues that may have a financial input on City finances.

Project Team: Paul Gudgeirsson, Finance & Administrative Services

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Objective
To conduct a comprehensive review of the City's Cost Allocation Plan, cost recovery methodology, and systems, and perform an analysis of overhead allocations to Enterprise Funds.

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CITY OF SAN CLEMENTE
FINANCE AND ADMINISTRATIVE SERVICES
September 24, 1996

TO: 1997 LTFP Project Leads

FROM: Paul Gudgeirsson, Director, Finance and Administrative Services Paul

SUBJECT: 1997 Long Term Financial Plan

COPIES: Mike Parness, Bruce Wegner, Kumi Johnson, Nita McKay, Jim Holloway, Myrna Erway, Tom Davis, David Lund, Bill Cameron

Please find attached the final schedule for preparation of the City's **1997 Long Term Financial Plan**. Also included is a complete listing of the projects which will be included in this years plan, as well as stated objectives and assigned project leads and teams.

Please review the objectives and personnel assigned to each project team. The objectives are critical since this is what must be included in the first part of each issue paper prepared for the Plan. Also, let me know who will be assigned to the project team if not already indicated.

Thank you in advance for your support of this project. I look forward to working with each of you as we develop the Plan for Council consideration.

1996 Long Term Financial Plan

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Financial Forecast

The five year financial forecast for the General Fund has been updated to reflect the current economic projections and the adjusted FY 1996-97 budget on the City's future financial condition. The most recent forecast was provided to the Council in the FY 1996-97 adopted budget.

Development of the Financial Forecast

The forecast provides a frame of reference for evaluating the City's financial condition as a basis for decision making

The objective of the financial forecast is to provide a frame of reference for evaluating the City's financial condition as a basis for decision making. The forecast is updated annually as a part of the Long Term Financial Plan process, again after the administration's proposed budget is prepared, and a third time after the budget is adopted by the City Council.

The forecast is developed using a baseline environment, that is, revenues and expenditures are projected based primarily on growth patterns or inflation factors and the present level of services provided by the City.

Inflation and historical growth rates are used to predict expenditure patterns while revenues are projected by trend or by specific circumstances as the case warrants.

Chapman University's Economic & Business Review is the basis for economic indicators

Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Chapman University's School of Business December 1996 Economic and Business Review. In general, that report predicts a slowdown of growth during the first two quarters of 1997 before picking up during the last half of the year along with a slight reduction in short term and long term interest rates.

The 1997 Financial Forecast updates the assumptions and data upon which the last three Financial Forecasts were based and will provide a comparison of this year's Forecast to historic data.

Forecast Summary & Results

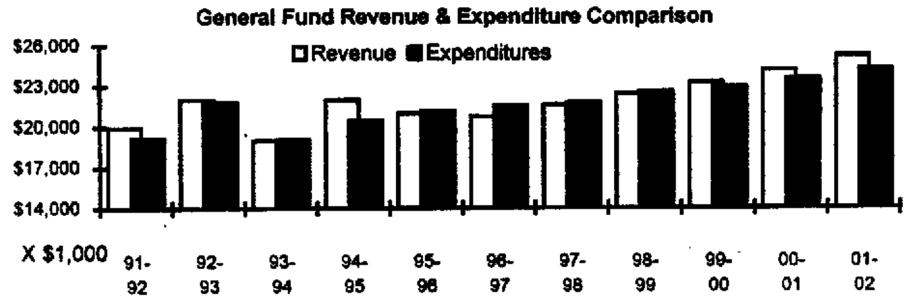
Revenue growth rates will average 3.9% Expenditure growth rates will average 2.5%

Over the five year forecast period, the City's revenue and expenditures are projected to maintain fairly constant growth patterns. Revenues are anticipated to grow by an annual average increase of 3.9% a year, compared to the 1996 forecast average growth rate of 3.6%. Expenditures are projected to increase at an average rate of 2.5% compared to the 1996 forecast average of 2.9%.

The continued funding of reserves will be maintained until the reserves are fully funded. In fact, during the five year forecast $3.1 million is allocated to various reserves in accordance with the City's fiscal policy. Additionally, $1.8 million will be transferred to the Street Improvement Program and $500,000 will be transferred to the Lighting and Landscape Fund. This will result in $5.4 million being allocated during the five year period, which averages almost $1.1 million per year or 5.1% of the total adjusted budget for FY 1996-97.

The following chart provides a visual comparison of historical and projected revenue and expenditure growth:

Historical and projected revenues and expenditures



Operating Position

Based on current expenditure and revenue trends, the financial forecast predicts a positive operating position in three of the five years of the forecast period. Results of the forecast with respect to operating position (revenues less expenditures) are shown in the following two graphs that compare the FY 1996-97 adopted budget forecast to the 1997 LTFP forecast which includes the FY 1996-97 adjusted budget in the base year.

FY 1996-97 adopted budget forecast - Operating position

1996 Forecast Summary (Adopted Budget)

Amounts in $1,000

	1996-97	1997-98	1998-99	1999-00	2000-01
Revenues	$20,574	$21,886	$23,062	$23,931	$24,838
Expenditures	21,127	21,788	22,808	23,351	24,123
Operating Result	-$553	$98	$254	$580	$715

1997 Forecast Summary (LTFP)

1997 LTFP forecast - Operating position

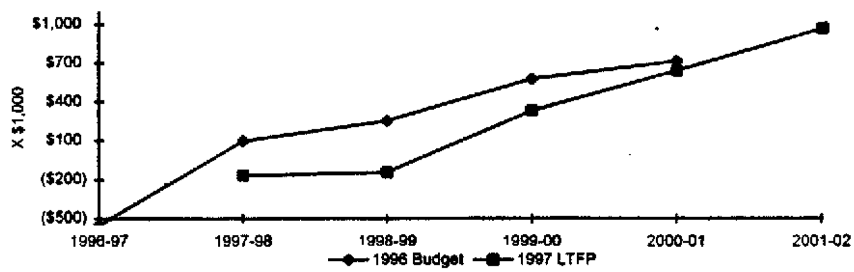
Amounts in $1,000

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenues	$21,557	$22,377	$23,247	$24,137	$25,164
Expenditures	21,725	22,520	22,914	23,496	24,200
Operating Result	-$168	-$143	$333	$641	$964

Operational Position
FY96-97 Adopted Budget vs. 1997 LTFP Forecast:

The following chart provides a graphical comparison of operational position for the FY 1996-97 adopted budget forecast and the 1997 LTFP forecast.

Forecast Comparison



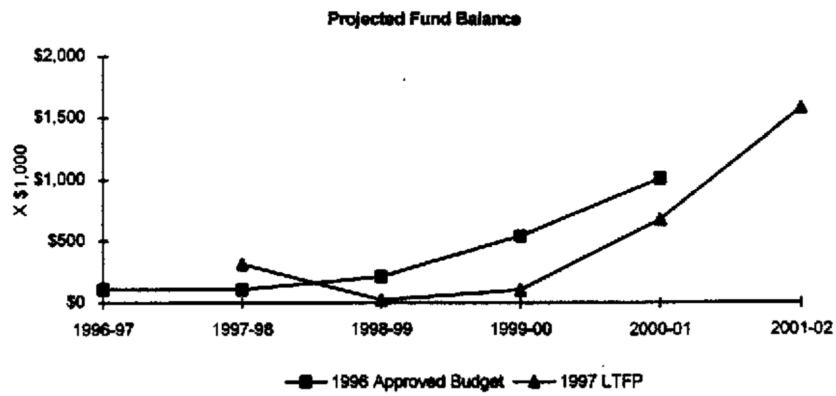
Operating deficit in first two years is due to use of fund balance for reserves, streets and Lighting & Landscape

An operating surplus is projected in three of the five years, however, due to the scheduled transfer of $1.2 million in FY 1997-98 to reserves ($754,600), Lighting and Landscape ($100,000) and the Street Improvement program ($300,000) the City's operating position is negative in years one and two. This is an intentional draw-down on the General Fund fund balance in order to provide contributions for the reserves, Lighting and Landscape and the Street Improvement program. Without these transfers all five years would have positive operating positions. It should be noted that these ongoing transfers are reflected in each year of the forecast.

Fund Balance

The City's projected fund balance position is positive over the forecast period

The chart below illustrates projected fund balances from the FY 1996-97 adopted budget forecast to the 1997 Long Term Financial Plan forecast.



The improvement in the fund balance projection for FY 1997-98 was a result of the following factors:

- An adjustment to comply with GFOA accounting principles which posted July and August sales tax to the prior year increased the beginning fund balance in FY 1995-96 by $394,300.

- Release of the reservation of fund balance for the OCIP receivable increased fund balance by $122,600.

- Projected revenue for FY 1996-97 was $216,000 higher than projected in the approved budget forecast.

Although fund balances drop in years two and three (FY 1998-99 and FY 1999-00) due to the scheduled increase of an additional $200,000 (total transfer $500,000) to the Street Improvement Program, a sharp increase occurs in year four (FY 1999-00) and continues in year five as reserves become fully funded and as the City's operational financial position improves.

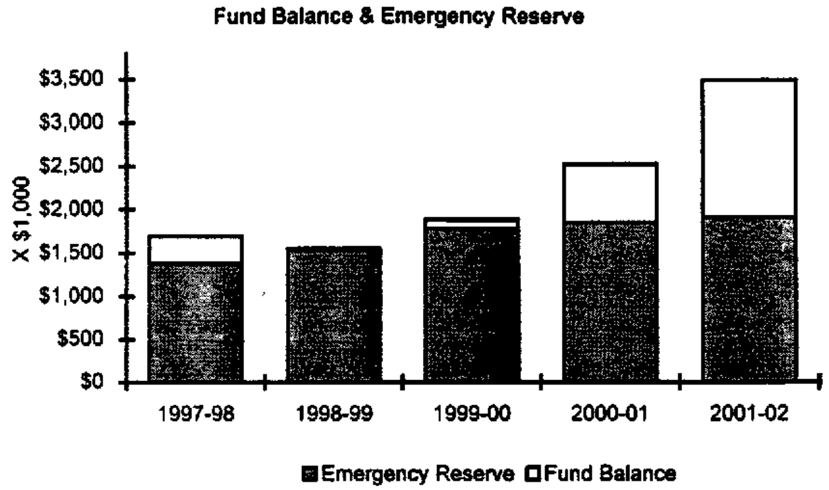
Fund Balance and Reserves

One of the main goals of the City Council is to ensure that adequate funding will be available to fund emergency reserves. The following table and graph indicates the projected growth in the General Fund Emergency Reserve and the ending fund balance over the five year forecast period.

Fund Balance & Emergency Reserve

Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Fund Balance	$315	$22	$104	$675	$1,579
Emergency Reserves	$1,380	$1,530	$1,780	$1,850	$1,910
Total	$1,695	$1,552	$1,884	$2,525	$3,489

Fund Balance and Emergency Reserve



Total fund balances are projected at $1.7 million in FY 1997-98

As depicted above, the City will maintain total fund balances between $1.5 million to $1.9 million over three years of the forecast period. Beginning in FY 2000-01, fund balances increase rapidly due to the full funding of reserves and increased revenues. At the end of FY 1997-98 total fund balances amount to $1.7 million and are projected to grow to $3.5 million in FY 2001-02.

The following cash flow table provides a review of Beginning Fund Balances, Revenues, Expenditures, and Ending Fund Balances over the five year forecast period.

Long Term Financial Plan

Cash flow by year

Cash Flow By Year

Amount in 1000's

	1997-98	1998-99	1999-00	2000-01	2001-02
Beginning Fund Balance	583	315	22	104	675
Revenues					
Taxes	11,199	11,678	12,160	12,677	13,269
Licenses & Permits	1,281	1,257	1,313	1,360	1,418
Intergovernmental	1,998	2,037	2,084	2,129	2,181
Service Charges	2,282	2,428	2,553	2,654	2,777
Fines & Forfeits	526	539	552	565	579
Interest & Rents	1,069	1,111	1,133	1,178	1,224
Interfund Transfers	3,201	3,327	3,452	3,574	3,717
Total G F Revenues	21,557	22,377	23,247	24,137	25,164
Expenditures					
City Council	22	22	22	22	22
City Manager	532	547	560	574	590
City General	2,245	2,453	2,289	2,323	2,365
Finance & Admin. Services	216	222	227	233	239
City Clerk	430	442	453	464	477
Accounting	610	626	642	656	675
Human Resources	295	303	310	318	327
Human Resources	295	303	310	318	327
Central Services	195	200	205	210	216
CASA	220	227	233	239	246
Police Services	6,462	6,647	6,823	6,991	7,198
Fire Services	3,501	3,602	3,688	3,781	3,894
Comm Dev.- Admin.	224	230	236	242	248
Building	849	872	893	914	939
Planning	655	673	690	705	725
Public Works Admin.	296	304	312	319	328
Engineering	1,006	1,028	1,052	1,075	1,102
Maintenance Services	2,173	2,233	2,290	2,344	2,410
B, P & R Admin.	251	258	264	270	277
Recreation	845	868	890	911	937
Weed Abatement	117	121	124	127	131
New Employees	0	49	101	157	215
Total GF Expenditures	21,725	22,520	22,914	23,496	24,200
Emergency Reserve	100	150	250	70	60
Ending Fund Balance	315	22	104	675	1,579

Revenues

Expenditures by Category

The following table provides a summary of the projected expenditures by *category* over the forecast period.

Expenditures by Category	**1997-98**	**1998-99**	**1999-00**	**2000-01**	**2001-02**
Salaries & wages	6,220	5,580	5,755	5,924	6,122
Employee benefits	2,102	1,886	1,934	1,991	2,059
Supplies	617	552	567	581	598
Contractual Services	11,951	10,680	10,971	11,244	11,581
Charges	708	2,657	2,730	2,798	2,881
Capital outlay	126	1,165	959	959	959
Total	21,725	22,520	22,914	23,496	24,200

Financial Forecast - Assumptions

Economic and demographic assumptions affect projections

Economic and Demographic Assumptions

Economic and demographic assumptions used in the forecast measure the anticipated changes in economic activity and population growth, and affect many of the revenue and expenditure projections. The economic assumptions utilized in this forecast are based primarily on the annual Economic and Business Review developed by Chapman University and published in December 1996. Additionally, data is provided by the various City of San Clemente departments.

The economy should continue it's gradual recovery

It is expected that the economy will continue to recover from the economic downturn that was experienced during the early 1990's. The Forecast anticipates that the local economic environment will continue to improve throughout the entire forecast period to FY 2001-02. Orange County's employment increased for the third straight year with an average annual increase of 2.4%. The three years of growth has made up for the loss in jobs created by the local recession in 1990-93, with a net gain of 4,000 jobs. As a result of the growth in payroll employment, the forecast predicts increases in median family income, taxable sales, housing appreciation and building permit valuation.

Summary of forecast parameters

A summary of the parameters utilized in the 1997 Financial Forecast to project the various revenue and expenditures categories are delineated below:

1997 FINANCIAL FORECAST
Forecast Parameters

Par #	Description	1997-98	1998-99	1999-00	2000-01	2001-02	Average
1	Inflation	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
2	Population	1.2%	1.1%	1.0%	1.0%	1.0%	1.1%
3	Assessed Valuation	2.2%	3.3%	3.3%	3.4%	3.7%	3.2%
4	Personal Income	5.8%	6.3%	5.9%	6.1%	6.1%	6.0%
5	Taxable Sales	6.6%	6.2%	5.8%	6.1%	6.6%	6.3%
6	Property Taxes	2.2%	3.3%	3.3%	3.4%	3.7%	3.2%
7	Trans. Occup. Tax	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
8	In-Lieu/Franchise Taxes	3.4%	4.0%	3.7%	3.5%	4.0%	3.7%
9	Prop. Transfer Tax	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
10	Construction Permits	11.2%	6.4%	5.9%	4.4%	5.1%	6.6%
11	State Subventions	2.3%	2.5%	2.4%	2.3%	2.5%	2.4%
12	Service Charges	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
13	Interest Earnings	-3.8%	7.8%	-14.5%	8.5%	3.9%	0.4%
14	Pier & Beach Concessions	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
15	Interfund Charges	3.4%	4.0%	3.7%	3.5%	4.0%	3.7%
16	Salaries & Wages	1.0%	2.6%	2.4%	2.3%	2.7%	2.2%
17	Employee Benefits	1.0%	2.6%	2.4%	2.3%	2.7%	2.2%
18	Supplies	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
19	Services/Other Charges	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%
20	Capital Outlay	2.2%	2.9%	2.7%	2.5%	3.0%	2.7%

Following is a description of several key indicators used in developing the financial forecast:

Inflation will average 2.66% over the forecast period

- *Consumer Price Index (Inflation)*: Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the five year forecast and is projected to average 2.66% per year.

Population growth is projected to average 1.06%

- *Population*: Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's larger revenue sources (8.2% of total General Fund revenue) and is also reflective of the scale of residential and commercial development within the City. In addition, year-to-year population growth is a useful factor in predicting increase in several other revenue categories, such as Franchise Fees, In-Lieu Taxes and Business Licenses. Population estimates developed by the City's Planning Division project growth to average 1.06% over the forecast period.

Assessed Valuation is projected to grow by an average of 3.2%

- *Assessed Valuation*: This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property which drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 3.2% per year.

Personal Income is projected to increase an average of 6.0%

- *Personal Income*: As a measure of consumer purchasing power, this indicator reflects on elastic revenues such as Sales Tax, concession revenues and Transient Occupancy Taxes. Personal income is projected to increase by an average of 6.0% per year.

Taxable Sales in Orange County are projected at 6.3%

- *Taxable Sales*: Taxable sales is a measure of the total retail sales in Orange County. This indicator has a direct relationship with the City's retail sales tax revenue which is 1% of taxable sales in San Clemente. Taxable sales in Orange County for 1997-98 are projected at 6.3%.

Financial Forecast Assumptions

Beyond the economic and growth/trend factors described above, information specific to San Clemente was included in the forecast:

Forecast assumptions includes contributions to reserves, and staffing projections

- Salary and benefit costs for City employees reflect a 1% increase effective January 1, 1997 and an additional 1% effective July 1, 1997. For forecast proposes only, it is presumed that cost of living increases will be granted at 90% of inflation beginning in FY 1998-99.

- One new full-time position is presumed to be added each year in order to maintain existing service levels beginning in FY 1998-99.

- Actual expenditures are projected at 1.5% less than budgeted for FY 1996-97 and 2% less than budgeted for the remaining years. This is conservatively based on the projected actual expenditures versus budgeted expenditures.

- Actual revenue for FY 1996-97 is projected to meet budget and exceed budget by 0.5% in the remaining years based on current revenue projections and conservative estimating techniques.

- Capital Outlay will remain at $216,000 in FY 1996-97 of the forecast which includes continuing funding for the rehabilitation of City Hall and one-time expenditures for Police Services. Subsequent years include $108,000 for one time capital expenditures supporting the States' COPS program. In all five years of the forecast, $100,000 is included as a transfer to the Capital Equipment Replacement Reserve (see table below).

- The forecast includes, as operating transfers out of the General Fund, annual expenditures to fund reserves projected at $617,300 for FY 1997-98:

	1997-98	1998-99	1999-00	2000-01	2001-02
Worker's Comp.	$43,900	$43,900	$0	$0	$0
General Liability	123,400	123,400	0	0	0
Cap. Equip. Reserve	100,000	100,000	100,000	100,000	100,000
Accrued Leave	40,000	15,000	15,000	15,000	15,000
Council Cont.	210,000	218,000	226,000	233,000	240,000
Emergency Reserve	100,000	150,000	250,000	70,000	60,000
Total	$617,300	$650,300	$591,000	$418,000	$415,000

- In addition to the allocations for reserves, funding has been included in the forecast for the Street Improvement Program and Lighting and Landscape Fund for the joint use of the Capistrano Unified School District sports fields as well as debt service contributions:

Other transfers and debt payments

	1997-98	1998-99	1999-00	2000-01	2001-02
Street Imp.	$210,000	$410,000	$410,000	$410,000	$410,000
800 Mhz	37,300	36,200	0	0	0
Unfunded Public Safety Liability	200,000	200,000	200,000	200,000	200,000
Energy Program	37,800	37,800	37,800	37,800	37,800
Animal Shelter Land	32,000	32,000	32,000	32,000	32,000
Sports Field Agreement	100,000	100,000	100,000	100,000	100,000
Total	$617,100	$816,000	$779,800	$779,800	$779,800

General Fund Reserves will be fully funded by FY 1999-00

- Council Contingency Reserve is funded at 1% of General Fund operating expenditures. The Emergency Reserve will be fully funded (8% of operating expenditures) by year three of the forecast in accordance with the 1997 LTFP.

Factors Not Included In The Forecast

Forecast pertains to the General Fund only

No new or enhanced programs are included

- This forecast is based on the General Fund only. The impact of operations of the Enterprise Funds or other funds on the overall City financial structure is not included in the base forecast.

Implementation of Proposition 218 is not included

No proposed or potential development projects are included in the forecast

- No new or enhanced programs are included in the forecast.
- The impact of decisions made to implement Proposition 218 are not included in the forecast.
- Major new proposed or potential development projects such as Plaza Pacifica, Marblehead Coastal or Talega Valley are not incorporated into the financial forecast.

General Fund Revenues

Revenues are projected to increase an average of 3.9%

Property Tax revenue is projected to increase an average of 3.3%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.9%, compared to an historical five year growth rate of 4.3%.

- Property Tax revenue is projected to increase an average of 3.3% per year compared to a -2.6% average historical decrease over the past five years.
- Construction permits are projected to decrease from a historical average of 14.7% to 4.6% per year for the forecast period.
- Service Charges are projected to increase an average of 6.4% per year compared to a 3.2% average historical growth rate over the past five years.
- Fines are projected to increase an average of 2.5% per year compared to a -1.2% average historical growth rate over the past five years.

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

- **Historic Growth Rate**: Provides the average annual rate of growth for the past five years from FY 1991-92 to FY 1995-96.
- **1996 Forecast Growth Rate**: Average annual rate of growth projected for the five years as indicated in the 1996 updated adopted budget forecast.
- **1997 Projected Growth Rate**: Average annual rate of growth projected for the current five year forecast.

General Fund Growth Rate

Historic Growth Rate	4.3%
1996 Projected Growth Rate	3.6%
1997 Projected Growth Rate	3.9%

A steady recovery is predicted throughout the entire forecast

The 1997 forecast provides for a higher overall improvement in the economic recovery than was projected in the 1996 forecast.

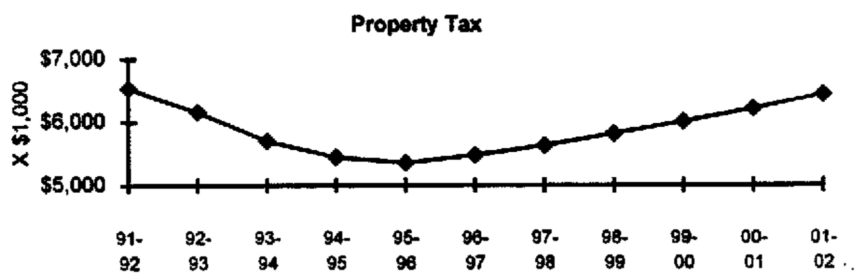
Property Tax

Historic Growth Rate	-2.6%
1996 Projected Growth Rate	3.4%
1997 Projected Growth Rate	3.3%

Property Tax growth has been impacted by State diversion of funds and decreased property values

Property Tax has been the most relied upon local government revenue for decades. It continues to be the City's single largest revenue source and represents 27% of the total General Fund budgeted revenue. Over the past four years the City has realized an annual $1.2 million reduction in Property Tax receipts, as a result of the net shift in revenues from the City to the State and decline in property valuation.

Property Tax revenues are anticipated to gradually increase throughout the forecast period, however, it will take until FY 2001-02 for property tax revenues to reach the same level achieved in FY 1991-92.



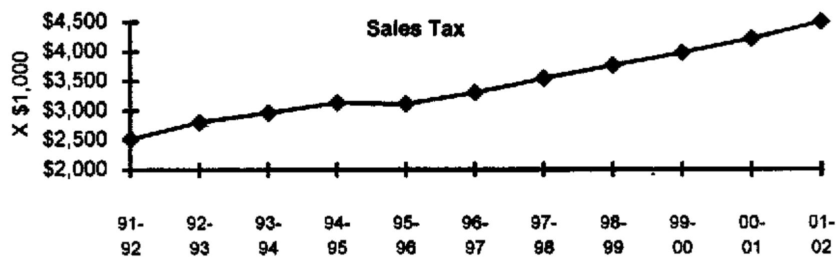
Sales Tax

Historic Growth Rate	3.6%
1996 Projected Growth Rate	5.2%
1997 Projected Growth Rate	6.4%

Sales tax is one of the City's most economically sensitive revenue sources, and although it was greatly impacted in FY 1991-92 by the economic recession, sales taxes have increased over the past few years. The implementation of Proposition 172 in FY 1993-94 also contributed to the growth of the Sales Tax revenue category by generating an additional $200,000 in revenue in FY 1995-96. The forecast assumes that the City will continue to receive Proposition 172 monies throughout the forecast period.

Sales tax revenue is anticipated to grow an average of 6.4% in the forecast

The average annual projected sales tax growth rate of 6.4% is higher than the 1996 rate due to the positive changes in the local economy and the projected growth in new jobs. Annual growth rates in the forecast are based on taxable sales projections for Orange County presented in the Chapman University Economic and Business Review of December, 1996.



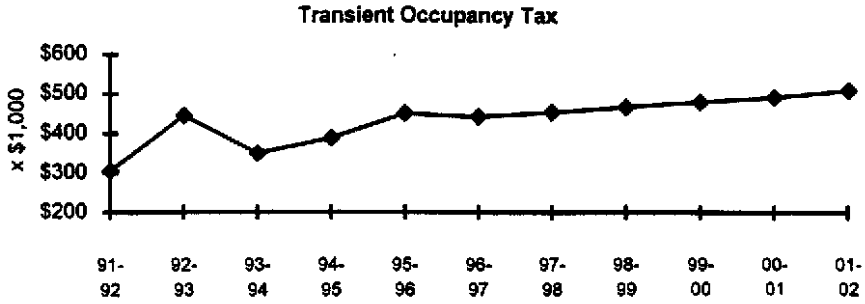
Transient Occupancy Tax

Historic Growth Rate	13.1%
1996 Projected Growth Rate	3.1%
1997 Projected Growth Rate	2.8%

Transient Occupancy Tax is an added charge against room rates at local hotels. It is another elastic revenue source affected by swings in the economy.

TOT is projected to increase an average of 2.8% growth

The average growth rate of this revenue source for the five year forecast period is projected at 2.8% per year, and is based on the consumer price index projections for Orange County presented in the Chapman University Economic and Business Review of December, 1996.



Licenses and Permits

Historic Growth Rate	13.1%
1996 Projected Growth Rate	7.0%
1997 Projected Growth Rate	3.6%

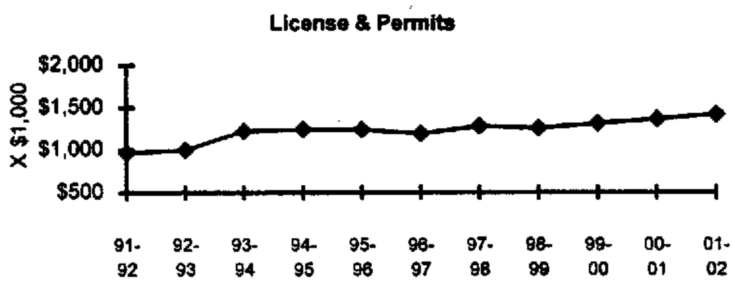
Licenses and Permits revenue include Business Licenses, Construction Permits and miscellaneous licenses and permits, such as alarm permits.

Licenses and Permit revenue is projected to grow an average of 3.6% annually

In the 1997 forecast, revenues in this category are expected to remain lower than the 1996 forecast due to the transfer of animal license revenue to the Coastal Animal Services Authority (CASA) on January 1, 1996 and lower than anticipated construction permit revenue in fiscal 1995-96.

Construction Permits are anticipated to grow by 3.6%

Construction Permits, which includes building, electrical, mechanical, plumbing and grading permits are projected to increase 4.6% during the forecast period based on a combination of the Chapman University annual economic forecast and City of San Clemente Community Development Department. Major new proposed or potential development projects such as Plaza Pacifica, Marblehead Coastal or Talega Valley are not incorporated into the financial forecast.



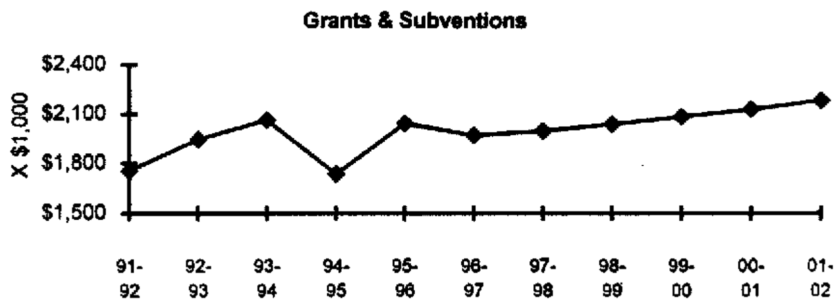
Grants and Subventions

Historic Growth Rate	3.0%
1996 Projected Growth Rate	2.3%
1997 Projected Growth Rate	2.0%

Grants & Subventions, predominantly Motor Vehicle In Lieu Tax, is projected to grow at a 2.0% rate

The predominant source of revenue in this category is Motor Vehicle Tax. Grants and Subventions revenues are projected to grow at a rate of 2.0% over the forecast period, compared to an historical growth rate of 3.0%.

Motor Vehicle Tax revenues are projected to increase by 2.5% and are based on 50% of expected inflation plus 100% of anticipated population growth.

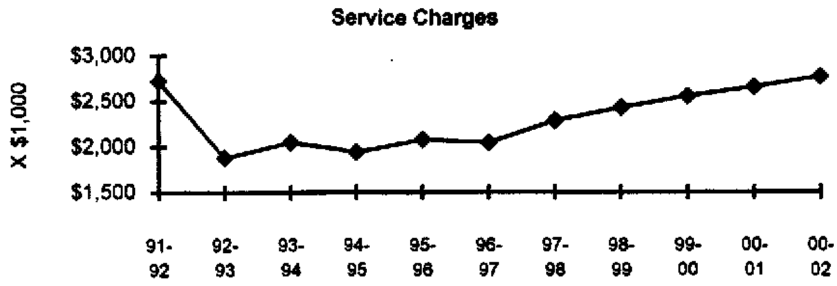


Service Charges

Historic Growth Rate	3.2%
1996 Projected Growth Rate	4.6%
1997 Projected Growth Rate	6.4%

Service Charges show a historic growth rate of 3.2%.. Projected growth rate = 6.4%

This category includes a variety of fees charged for specific services provided by the City. They include, for example, development fees, recreation program fees and ambulance service fees. Total service charges are projected to grow at an annual rate of 6.4% over the forecast period, compared to the recent historical average growth of 3.2% per year over the past five years. The forecast projections rely on a number of relevant indices, including inflation, building permits issued, population and personal income growth.

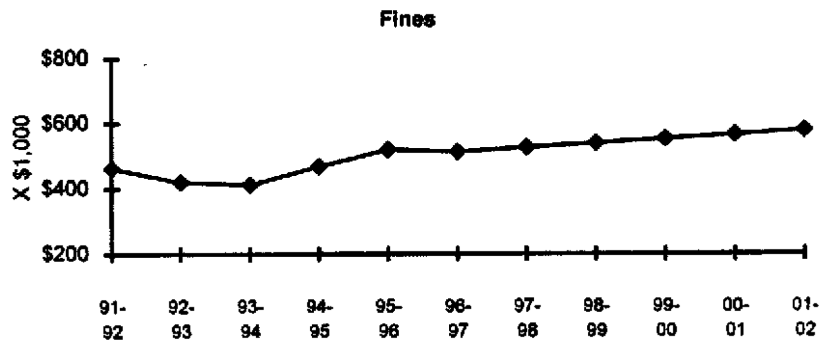


Fines

Historic Growth Rate	-1.2%
1996 Projected Growth Rate	4.7%
1996 Projected Growth Rate	2.5%

Revenue for Fines is forecast at 2.5%

The Fines category consists of all fines levied by the City for vehicle code violations, alarms, and other fines. One time court fines revenue from the County bankruptcy accounts for the slight increase in FY 1995-96. Parking violations is the largest single item in this category and makes up 76% of this revenue category. The average growth rate for the five year forecast period is 2.5% per year, and is based on 100% of expected inflation plus 100% of anticipated population growth.



Interest And Rents

Historic Growth Rate	9.1%
1996 Projected Growth Rate	-3.0%
1997 Projected Growth Rate	3.5%

Communications site lease revenue continues to increase

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. One time revenue in FY 1995-96 from a 1983 storm related claim accounts for the spike in the revenue trend.

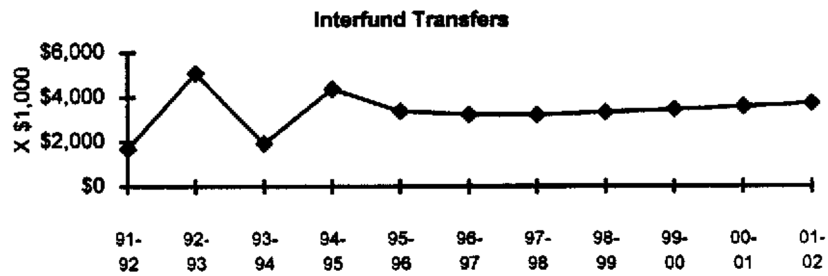
Radio and telephone communications needs are projected to generate increased demand for the City's communication sites, thus increasing lease revenue.

Interfund Transfers

Historic growth of 58.3% is due to one time revenues related to contracting of City services

Historic Growth Rate	58.3%
1996 Projected Growth Rate	2.4%
1997 Projected Growth Rate	2.9%

This revenue category is comprised predominantly of overhead charges assessed by the General Fund to other operating funds of the City that are self-supporting. Other revenues that make up this category include transfers from other funds, such as Disaster Relief and Gas Tax. The Gas Tax transfers are projected to average almost $400,000 per year during the forecast period. The Interfund Transfers category is projected to average 2.9% over the five year forecast period and are based on 100% of inflation.



General Fund Expenditures

Historic Growth Rate	1.5%
1996 Projected Growth Rate	3.9%
1997 Projected Growth Rate	2.5%

The average expenditure rate is projected at 2.5%

Projected expenditures presume that service levels in effect in FY 1996-97 will remain constant. No new programs are assumed.

Projected expenditures presume that service levels adopted in fiscal 1996-97 will remain constant

The 1997 projection from the base year is based on inflation and personnel costs include a 1% increase effective January 1997 and a 1% increase effective July 1997. Also included is the projected addition of one employee per year over the forecast period beginning in FY 1998-99.

Salaries and Wages

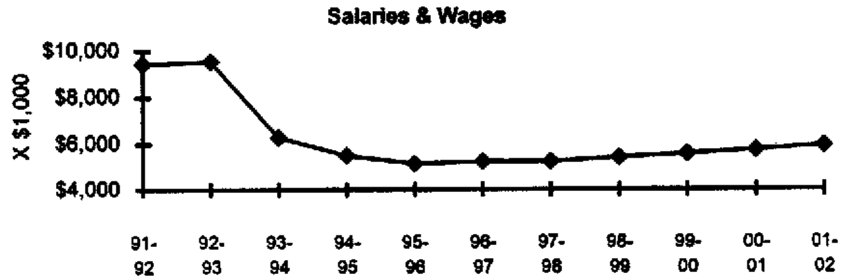
Historic Growth Rate	-9.6%
1996 Projected Growth Rate	6.0%
1997 Projected Growth Rate	4.4%

The historic growth rate for Salaries and Wages is -9.6%

The forecast projections assume the addition of one full-time position each year beginning in FY 1998-99, annual cost of living raises in the third through fifth years of the forecast equal to 90% of the inflation rate, and assumes that merit increases and position reclassifications will equal 1.5% of the prior year salary base.

Total personnel costs are projected to average 4.4%

The average annual growth rate for Salaries and Wages is 4.4% for the five year projection.

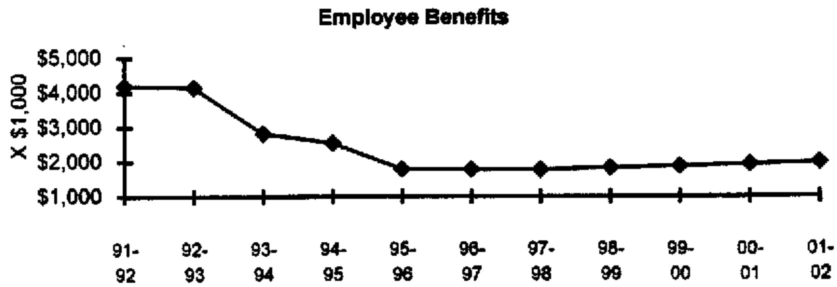


Employee Benefits

Historic Growth Rate	-10.5%
1996 Projected Growth Rate	5.2%
1997 Projected Growth Rate	4.1%

Employee Benefits are projected to increase by 4.1%

The employee benefits category reflects an average projected growth rate of 4.1% for the forecast period. The historical average is -10.5% for this category is a result of contracting of services formerly performed by City staff and negotiated changes to benefit levels.



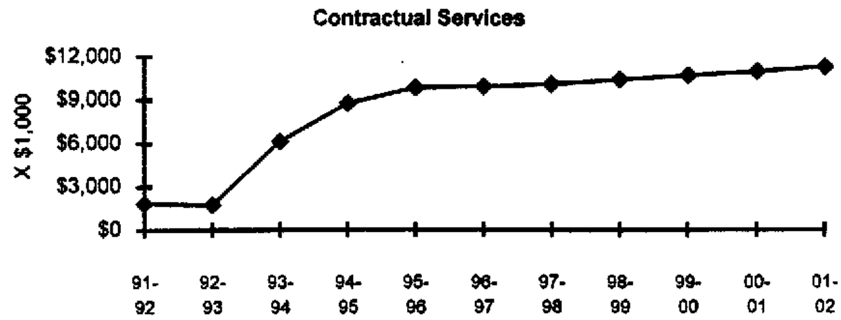
Contractual Services

Historic Growth Rate	51.7%
1996 Projected Growth Rate	2.8%
1997 Projected Growth Rate	4.2%

Contractual Services represent 46% of General Fund expenditures

Due to the major change in services now being contracted, the contractual services category now represents 46% of General Fund expenditures, compared to less then 10% in FY 1991-92.

Overall, this category is expected to experience an average annual increase of 4.2% over the forecast period, well below the historical average of 51.7%. The historical average reflects both Police, Fire and other services changing from internal operations to contractual services. The growth rate in contractual services category is based on projected inflation for the forecast period.

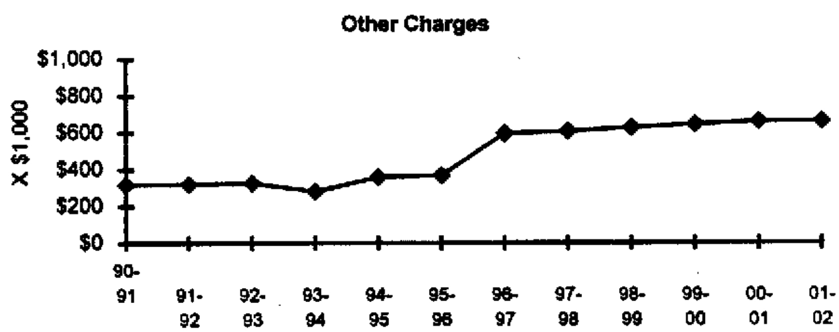


Other Charges

Historic Growth Rate	4.5%
1996 Projected Growth Rate	15.8%
1997 Projected Growth Rate	4.2%

Other Charges will increase by 4.2% over the forecast period

The Other Charges category provides for a wide variety of expenditures such as recreation program expenditures, dues and subscriptions and other items that do not fit within other expenditure categories. Also this expenditure category includes funding for the Council Contingency reserve. The projected growth rate when averaged is misleading, in that funds are transferred out of the Council Contingency reserve to the operating division's budget for approved expenditures and the account is annually replenished at 1% of operating expenditures.



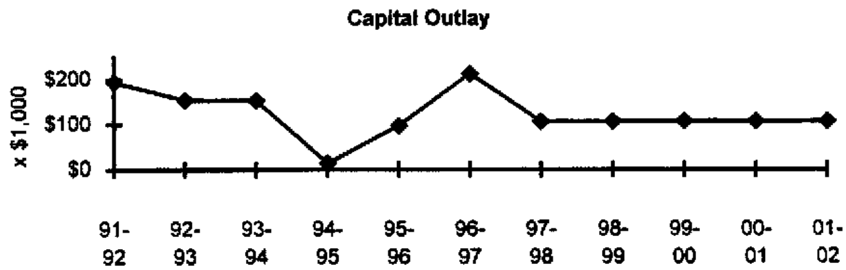
Capital Outlay

Historic Growth Rate	390.7%
1996 Projected Growth Rate	-13.3%
1997 Projected Growth Rate	-10.0%

The projected growth rate for Capital Outlay is -10.0%

For purposes of this forecast, Capital Outlay includes funding of $216,000 for new and replacement equipment purchases and City Hall renovation included in the FY 1996-97 budget and an allocation of $106,000 for the Police Services COPS program in each year of the forecast.

The one time allocation of $3 million for the purchase of the Negocio property is not indicated on the chart in FY 1992-93 as it does not allow for a valid comparison of capital expenditures.

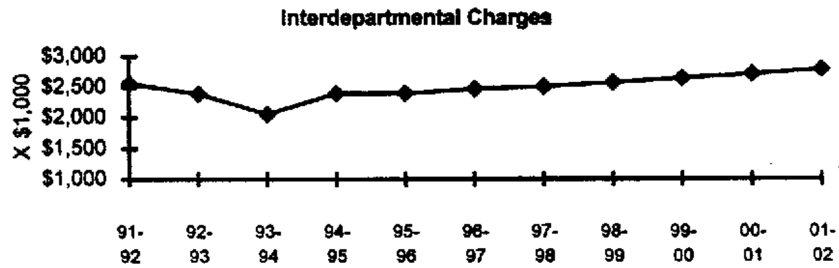


Interdepartmental Charges

Historic Growth Rate	0.7%
1996 Projected Growth Rate	4.1%
1997 Projected Growth Rate	4.1%

Interdepartmental Charges are projected to increase by 4.1%

Interdepartmental Charges are for services provided by other funds such as fleet, communications and information systems. This category is projected to average a 4.1% increase over the five year forecast, compared to an historical average of 0.7% over the past five years and is based upon inflation.

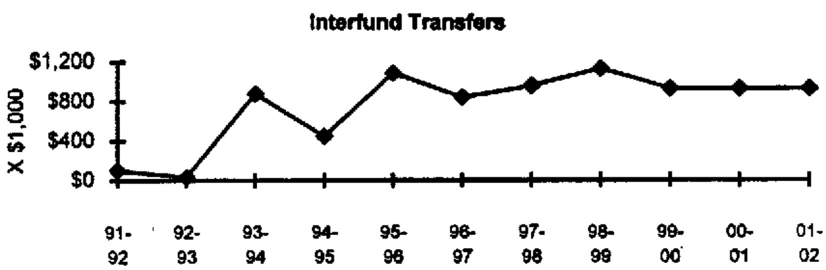


Interfund Transfers

Historic Growth Rate	515.9%
1996 Projected Growth Rate	-7.3%
1997 Projected Growth Rate	2.2%

Interfund Transfers will increase by 2.2% over the forecast period

The Interfund Transfers category provides for the transfer of General Fund monies to other funds such as the Street Improvement Fund, Worker's Compensation Fund, General Liability Fund, and Capital Equipment Replacement Reserve. The Interfund Transfer expenditure category is projected to experience an average annual increase of 2.2% due to the increase in transfers to the Street Improvement Fund beginning in FY 1998-99. See the Financial Forecast Assumptions sections near the beginning of the forecast for the full listing of yearly transfers.



Financial Summary

The Executive Summary portion of the 1997 Long Term Financial Plan consists of a Financial Summary and Issue Summary section. The *Financial Summary* will provide a profile of the City's past, present and projected financial state of affairs. The *Issue Summary* is comprised of a synopsis of each issue that was analyzed as a part of this year's Long Term Financial Plan process.

Included within the *Financial Summary* section:

- *Financial Review*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *Financial Trend Analysis*
- *Five Year Financial Forecast*
- *Projected Financial Condition - Impact of Proposition 218*
- *Recommendations*

Financial Review

The 1997 LTFP addresses yet another financial crisis

The 1997 Long Term Financial Plan once again becomes a tool for addressing yet another financial crisis. The initial financial plan developed in 1993 was produced in response to the City's rapidly deteriorating financial position. In that year the crisis was precipitated by an economic recession and was followed by property tax diversions to the State of California which resulted in an annual loss of $1.2 million in revenue.

The passage of Proposition 218 alters positive financial projections

The City faces a $2.8 million shortfall

Last years financial plan signaled an end to the City's financial turmoil. Indeed, as indicated in the City's financial forecast, positive fund balances were projected throughout the forecast period. The passage of Proposition 218 late last year has necessitated a need to alter projections dramatically. The impact of implementing the requirements of Prop 218 will result in a shift of $2.8 million into the City's $21 million General Fund operating budget. This comes at a crucial time in the City's history where the General Fund is now obligated to transfer substantial sums of money to the Street Improvement Program. As a matter of fact, a total of $1 million has been transferred to the program with $300,000 scheduled to be transferred in the coming fiscal year.

The shortfall equates to 13% of the General Fund

The City has struggled each of the past few years in attempting to provide a balanced budget while providing for critical programs such as street, reserve and fund balance deficits. The added burden of covering a shortfall amounting to 13% of the General Fund will no doubt focus a great deal of attention on the development of the 1997 Long Term Financial Plan.

To put this latest fiscal challenge in perspective, it should be noted that the City was facing a projected operating deficit of $1.8 million, not including reserve deficiencies, capital and infrastructure needs, and potential (at that time) property tax diversions, which would have totaled over $6 million in 1993. This deficit was eliminated by methodically implementing a series of measures which reduced costs and increased revenues. These items are reviewed below.

The 1993 Plan

The projected annual shortfall in 1993 was $6 million

As is evident in the trend and forecast reports, significant progress has been made in the management of the City's finances since the preparation and adoption of the City's first Long Term Financial Plan in 1993. The 1993 Plan outlined a number of weaknesses in the City's financial system that, when combined with a severe economic recession, were quickly leading the City down the road to financial disaster. The 1993 Plan pointed out that the City was facing a total annual shortfall in FY 1993-94 of over $6 million. Included in this figure was a projected operating deficit of $1.8 million, critical capital needs (storm drain and street improvements) amounting to $2.4 million, annual reserve needs of $850,000 and a projected State property tax diversion of $1.5 million.

The shortfall was addressed by contracting, reorganizing, downsizing, and reductions in pay & benefits

The 1993 shortfall was addressed through contracting City services (Police Department), establishing a storm drain utility, reorganization, downsizing and streamlining of major departments, and salary and benefit reductions. Savings from these actions were used to cover the projected operating deficit and property tax diversion and to replenish the City's reserve levels. Although storm drain needs were resolved, street capital and maintenance needs were unmet. Lastly, the Council reestablished the City's economic development program in order to concentrate on business retention and commercial attraction.

The 1994 Plan

The projected shortfall in 1994 amounted to $2.7 million

The 1994 Long Term Financial Plan identified a reduced shortfall of $2.7 million as a result of projected operating deficits of $785,000, unmet street capital and maintenance needs estimated at $1.8 million annually, and capital equipment needs of $100,000. At the time, further revenue diversions by the State were unknown; however, a shift of $600,000 unfortunately materialized bringing the total permanent property tax diversion to $1.2 million per year.

The shortfall was eliminated by further contracting, pay & benefit reductions

The projected shortfall in 1994 was once again aggressively tackled by the City Council. Actions to close the financial gap included the continued contracting of City services, including the City's Fire Department, fleet maintenance services, meter reading, street programs, and beach/park maintenance. City employees agreed to a new medical benefit package which saved 30% in premiums, no cost of living increases were granted for the third consecutive year, unpaid furloughs were continued, and a new cost allocation plan was implemented to recover actual General Fund costs. Again, the Council also recognized the value of funding critical reserves, and addressed the City's long term financial health by establishing a wellness program and funding a capital equipment replacement reserve fund to meet future capital equipment needs.

The 1995 Plan

A positive fund balance of $556,000 was projected in 1995

The 1995 Long Term Financial Plan projected a positive fund balance of $556,000 which presumed partial funding of a street program. However, in year two of the forecast a deficit of $71,000 was projected and climbed to a deficit of $533,000 by FY 1999-00. Given this financial scenario, it would not be possible to provide General Fund support for a street program without additional resources. Consequently, the City stretched out funding of emergency reserves, reduced projected position additions from two per year to one per year, and projected reduced maintenance costs. These changes, though not completely acceptable, resulted in projected positive fund balances throughout the forecast period.

Funding was provided for the Street Program by reducing reserve contributions

A $55 million Street Program was adopted

Through the Long Term Financial Plan process, the City Council did adopt a $55 million Street Improvement Program. Funding was provided by the General Fund, the establishment of a Street Assessment District, and contributions from CDBG funds, Water and Sewer Fund, Storm Drain Fund, gas tax revenue and reduced maintenance costs.

Additionally the plan called for adoption of a revised classification and compensation system, dedicated funds to unfunded public safety retirement liabilities, and continued to address low emergency reserves and self-insurance reserve programs.

The 1996 Plan

The first positive sign of financial recovery was evident in 1996

The 1996 LTFP noted a significant turnaround in the City's financial condition. In fact, positive fund balances were projected for each year of the City's financial forecast period. Additionally, the City's General Fund emergency reserve level reached 5% and contributions to the City's self insurance programs were continued. Of the 20 financial indicators that the city utilizes to measure it's financial condition, 17 were positive as compared to only six in 1993.

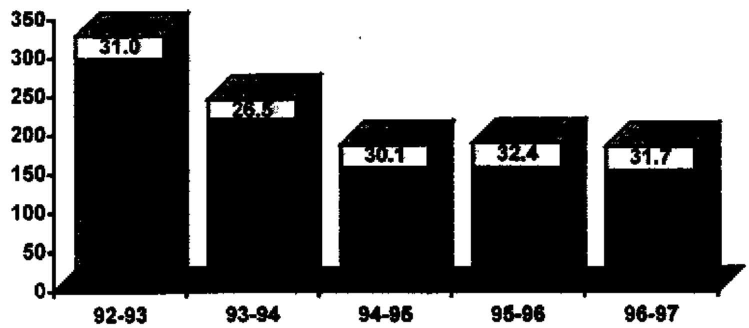
Street bonds totaling $7 million were issued

In an effort to expedite the City's street improvement program, the City Council directed that $7 million in bonds be issued one year earlier than initially called for. This action resulted in significant savings in bond issuance costs and allowed for the completion of ten street projects two years earlier than scheduled.

The impact on staffing changes as a result of the implementation of the City's series of financial plans (excluding 1997 LTFP) are outlined below:

Staffing reductions from 1992-93 to 1996-97

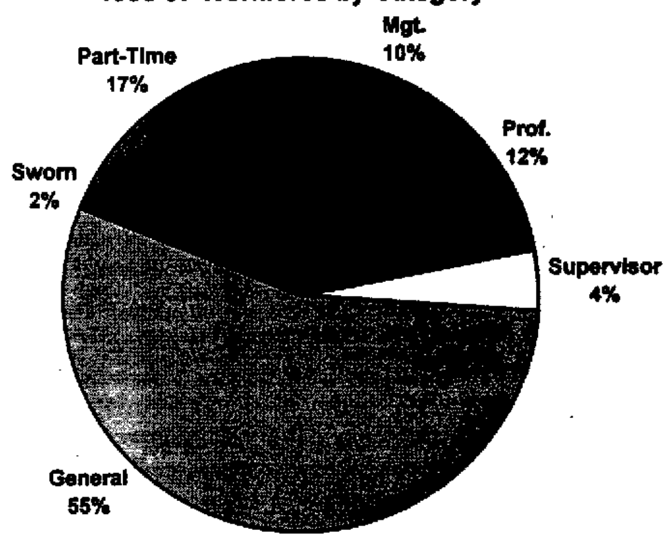
Historical FTE Comparison



Prior to the changes that may occur with the adoption of the 1997 LTFP, the following chart summarizes the City's workforce by category:

Workforce by category

1996-97 Workforce by Category



Current fund balances are budgeted at $415,000 by year-end

Unreserved fund balances will become negative in FY 1996-97 due to loss of in-lieu income

Current Financial Condition

The City's financial condition at December 31, 1996 was presented in the fiscal 1996-97 Second Quarter Financial Report. At first glance, the City's financial condition at the mid-year point of FY 1996-97 appears to have stabilized with General Fund balances projected to total $415,000 by year-end; however, the factoring in of Proposition 218 impacts significantly transforms the City's financial terrain. As described in detail in the Quarterly Report, revenue and expenditure projections in the General Fund are currently well within budget but the Prop 218 required shift of in-lieu payments results in a projected *negative fund balance*. This does not include the General Fund Emergency Reserve which will amount to approximately $1.3 million (reserved) or 6% of General Fund operating expenditures by fiscal year end. As discussed later in this report, the City's objective, per

City Council adopted fiscal policy, is to set aside 8% of operating expenditures as an emergency reserve.

Utility funds will gain with the elimination of in-lieu payments to the General Fund

The General Fund's loss is, however, the utility funds' gain since the in-lieu transfers will partially alleviate the projected negative fund balance of $450,000 in the City's Water Fund. City staff is currently exploring alternatives which will further reduce the projected deficit.

Total impact of Proposition 218 amounts to 13% of the General Fund budget ($21 million)

The impact on the General Fund in the current fiscal year, i.e. the loss of in-lieu payments from the City's utility funds, is considerable. Proposition 218 clearly indicated that this loss was effective on November 6, 1996. A total loss of $484,000 in in-lieu payments represents a reduction of over 2% of total General Fund revenue. This is an annual loss of income for the General Fund but pales in comparison to the transfer of costs, including beach and park maintenance, from the Lighting & Landscape Fund to the General Fund. Thus, the total impact on the General Fund amounts to $2.8 million which equates to 13% of the operating budget ($21 million). Of this amount, $9.8 million is expended for public safety functions.

Reserve Funding

Reserve contributions totaled $4.7 million the past four years

The funding of depleted and non-existent reserves, including self-insurance reserves, has been a Council priority since the adoption of the initial 1993 Long Term Financial Plan. To date, a total of *$4.7 million* has been dedicated to the funding of reserves and deficit fund balances by all City funds. This includes funding of workers compensation, general liability, capital equipment, accrued leave, Council contingency, and emergency reserves. Based on current funding schedules, a total of $868,250 is scheduled to be allocated to reserves in FY 1997-98 of which $648,700 is from the General Fund.

Emergency and contingency reserve reductions are proposed

The Financial Forecast assumes the continued reserve funding program begun in 1993 for both the General Liability Fund and the Workers Compensation Fund which is scheduled for completion in FY 1998-99. As outlined in the recommendations section of the Executive Summary, the General Fund Emergency Reserve at the end of this fiscal year will be 6%, 2% less than called for in the City's Fiscal Policy. In light of the devastating impact on the General Fund due to Proposition 218, it is recommended that the emergency reserve level be reduced to 5%, effective in FY 1996-97. It is further recommended that the Council Contingency Reserve, currently at 1% or approximately $200,000, be reduced to $100,000 per year. These changes will require that the City Council adopted Fiscal Policy be modified. (See Fiscal Policy section of this report). Annual contributions to the Capital Equipment Reserve Fund are proposed to continue at $100,000 until this reserve is fully funded.

Funding for street, 800Mhz, PERS, energy lease, and animal shelter land will be continued

General Fund Transfers

In addition to reserve transfers, the General Fund will provide funding totaling over $600,000 (in FY 1997-98) for several other programs over the next several years. These include:

- *Street Improvement Program*: General Fund contributions to the Street Improvement Program have totaled $1 million during the past two fiscal years. Funding for this program will continue in FY 1997-98 with a contribution of $300,000. Annual contributions of $500,000 will begin in FY 1998-99 and will continue through the remainder of the program.
- *800Mhz*: The General Fund is responsible for contributions of $37,300 to the Public Safety Construction Fund for it's share of the 800Mhz communications system. This contribution will continue until FY 1998-99.
- *Public Employees Retirement System (PERS) Unfunded Liability*: The General Fund will continue annual debt service payments to address the City's unfunded PERS liability. The initial estimate of $130,000 provided by PERS was recently changed to over $200,000 due to an error in assumptions by PERS. However, City staff is currently negotiating with PERS to reduce this annual liability.
- *Energy Services Program*: Annual lease payments of $38,000 will be made to pay for the City's energy program which was implemented in FY 1995-96.
- *Animal Shelter Land Acquisition*: A total of $32,000 is allocated annually to repay the Public Safety Construction Fund for the land purchased for the Animal Shelter.

Financial Trend Analysis

17 of 20 financial trends continue to be positive

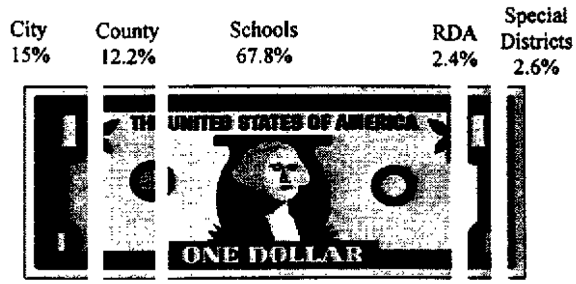
The City's financial condition is also measured using a financial trend monitoring system. Last year, seventeen of twenty financial trends were found to be positive which was a vast improvement over prior years.

Declines in property tax revenues and values may have bottomed out

The City receives only 15% of the property tax dollar

The annual Financial Trend Analysis report for the year ending June 30, 1996 did not note further improvement in identifiable financial trends; however, a positive shift was noted in the same three trends that were unfavorable last year. Two of these negative trends relate to the value of property: Property Tax Revenues and Property Values. Property tax revenue decreased only $14,000 and property values declined by 2% as compared to 4% last year. Thus, these two indicators appear to have bottomed out. The City's share of the property tax dollar was recently updated and provided by Orange County. As indicated below, the City only receives 15% of the property tax dollar and the remainder is distributed as shown:

Distribution of the property tax dollar



Additionally, the indicator titled Community Development Service Charges reflected gradual upward movement; however, until a clear trend emerges, an unfavorable rating will be maintained.

A separate section of this report is devoted to Financial Trends Analysis and a summary is included in the Issue Summary section which follows.

Five Year Financial Forecast

Revenue growth is forecast at an average of 3.9% and expenditures at 2.5%

The City's updated financial forecast for the General Fund projects revenue growth over the five year forecast period of 3.9 %. This compares to an historical growth rate of 4.3%. Expenditures are projected to grow at an annual average rate of 2.5% over the same time frame, as compared to historical average growth rates of 1.5%. It should be pointed out that historical growth rates are somewhat misleading because of several factors. "One-time" revenues transferred from other funds into the General Fund due to the contracting of municipal services tend to skew revenues upward. However, the same is true of expenditures - "one-time" expenditures were made for accrued leave and severance payments for contracted City employees.

The average projected growth rates for revenues exceed expenditures by 1.4% which, if achieved, would result in operating surpluses beginning in the third year of the forecast.

The City's forecast examines operating position & fund balances

In developing the Five Year Financial Forecast, two primary areas are examined to determine the City's projected future financial position - operating position and fund balances.

Operating position refers to the City's ability to match revenues to expenditure levels, i.e. if revenues exceed expenditures, the City will have an operating surplus. If the opposite is true, an operating deficit will occur. Operating position does not take carry-over fund balances into account. Additionally, transfers into reserve accounts and into the Street Program are included in the expenditure category.

Fund balances include the accumulation of available resources from year to year to determine the City's financial position, e.g. if an operating surplus is carried over from year to year, fund balances will increase; however, if an operating deficit occurs, fund balances will decline.

Operating deficits are projected for first two years of forecast

Operating Position

As indicated below, the City's projected operating deficit in fiscal years 1997-98 and 1998-99 are minor and are due to reserves and transfers. Operating surpluses begin to occur in FY 1999-00 and increase to $964,000 in FY 2001-02. Projected fund balances are sufficient to cover the operating deficits. Thus, carryover fund balances will continue to be used for reserve and street transfers and not operating expenditures.

An operating surplus is projected in FY 1999-00

Projected Deficit/Surplus

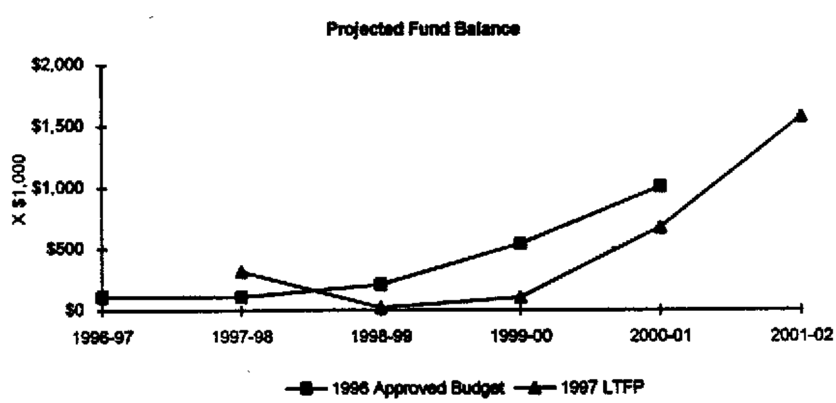
Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Revenues	$21,557	$22,377	$23,247	$24,137	$25,164
Reserves	617	650	591	418	415
Street Transfer*	210	410	410	410	410
Expenditures	20,898	21,460	21,913	22,668	23,375
Deficit/Surplus	-$168	-$143	$333	$641	$964

*Actual transfers amount to $300,000 and $500,000; however, a scheduled reduction of $90,000 in street maintenance was included in the Street Improvement Program beginning in FY 1997-98.

Unreserved fund balances are positive in future years

Fund Balances

As displayed below, unreserved fund balances are relatively low in the first few years of the forecast with significant upward movement in FY 2000-01.



Projected fund balances and emergency reserves are shown in the table below. Total fund balances, including emergency reserves, continue to increase over the period of the forecast.

Fund balance projections continue to improve

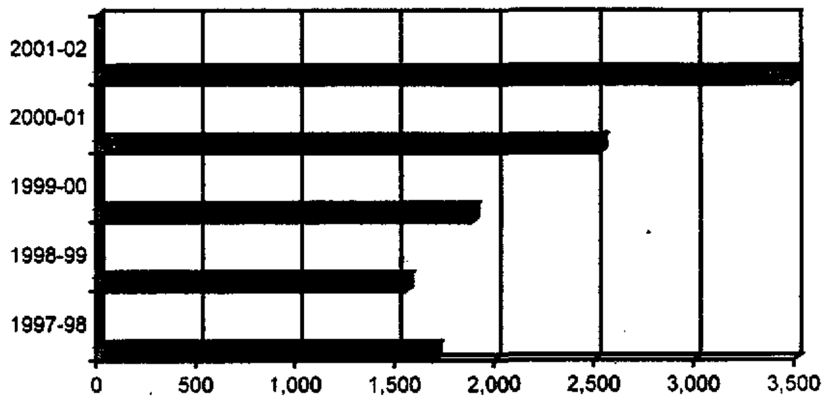
Fund Balance & Emergency Reserve

Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Fund Balance	$315	$22	$104	$675	$1,579
Emergency Reserves	$1,380	$1,530	$1,780	$1,850	$1,910
Total	$1,695	$1,552	$1,884	$2,525	$3,479

The graph below depicts the growth of fund balances and emergency reserves over the five year forecast period.

Fund balance & emergency reserve growth

Fund Balance & Emergency Reserve
(Amount in $1,000)



A $2.8 million General Fund shortfall must be addressed

Projected Financial Condition - Impact of Proposition 218

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 current fiscal trends were to continue. However, the impact of Proposition 218 dramatically changes the financial horizon. Rather than facing positive fund balances over the next few years, the City is facing a precipitous decline in fund balances without major financial adjustments. As discussed below, the City must undertake a financial realignment where all expenditures and revenue sources must be examined in light of a $2.8 million shortfall in the General Fund.

The following table summarizes the impact on the General Fund with the implementation of Proposition 218:

Program Impact	Financial Impact
General:	
Water in-lieu - Effective November 6, 1996	($327,660)
Sewer in-lieu - Effective November 6, 1996	($156,160)
Refuse charges for General Fund	($124,000)
Lifeline rates	($30,000)

Lighting & Landscape District:	
Park & beach maintenance	($1,069,080)
Street medians & trees	($314,680)
Street lighting	($179,260)
Capital improvements	($200,000)
Forster Ranch school and park maintenance	($45,000)
Forster Ranch neighborhood park maintenance	($70,000)
Weed abatement for City properties	($31,000)
Steed Park	($171,730)
Direct and indirect overhead charges	($336,260)
Interdepartmental charges	($104,820)
Revenue:	
Property taxes for lighting transferred from Lighting & Landscape District to General Fund	$372,000
Total	**($2,787,650)**

Projected General Fund shortfall = $2,787,650

Savings & revenue measures can be implemented to reduce the shortfall

Given the magnitude of this shortfall, the Administration has explored a variety of cost saving and revenue enhancing options in the General Fund. The alternatives listed below are recommended for immediate consideration in order to reduce the $2.8 million deficiency to a more manageable number. These program reductions and revenue increases are fully explained in either Volume II of the Long Term Financial Plan or the Vital Few Priority papers distributed to the City Council and made available to the public.

Options	**Financial Impact**
Avoided Costs:	
Reallocate general liability insurance contributions and reduce self-insurance retention.	$200,000
Reduce emergency reserve level to 5%*	$250,000
Reduce Council contingency reserve to $100,000	$100,000
Delete transfer to Capistrano Unified School District	$100,000
Eliminate Pay-for-Performance program	$38,000
Program Reductions:	
Reclassify Principal Planner (Management) to Associate Planner (Professional)	$11,000
Contract Maintenance Services	$430,000
Eliminate position in Finance Department	$47,000
Revenues:	
Transfer Golf Course revenues to General Fund	$250,000
Increase parking meter fees from $.75/hour to $1.00/hour	$120,000
Total	**$1,546,000**

Total savings amount to $1.5 million

*$250,000 in FY 1996-97. $100,000 was scheduled for transfer in FY 1997-98.

The net loss to the General Fund amounts to $1.24 million.

Revised General Fund shortfall equals $1.24 million

Shortfall amount	$2,787,650
Expenditure/Revenue adjustments	$1,546,000
Revised shortfall	**$1,241,650**

The next few tables outline the impact of Proposition 218 on the City's base financial forecast and alternative methods for addressing the shortfall described above. It should be noted that these fund balance comparisons are estimates based on current conditions and are strictly provided for comparison purpose.

Impact of Proposition 218 - This summary details the total impact of Proposition 218 on the City's General Fund. This table assumes that $2.8 million is passed on to the General Fund without any adjustments. As shown, the impact on the City's General fund is devastating and points to a need for some type of correctional measure.

Prop 218 impact on forecast fund balance

Fund Balance

Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Fund Balance -Base Financial Forecast	$315	$22	$104	$675	$1,569
Proposition 218	-2,972	-6,111	-8,960	-11,401	-13,606

Revenue/Expenditures options adopted - The following table assumes that the options listed above, including both expenditure reductions and revenue increases are adopted. The impact on fund balances improves considerably over the prior scenario.

Prop 218 impact on fund balance with $1.24 savings applied

Fund Balance

Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Fund Balance -Base Financial Forecast	$315	$22	$104	$675	$1,569
Proposition 218 with adjustments	-1,550	-3,124	-4,276	-5,152	-5,764

A 3% utility tax passed - The final table incorporates a 3% utility tax in order to determine the impact on fund balances. As indicated, this tax more than covers the remaining shortfall of $1.2 million. It should be noted that the 3% utility tax would replace the current Lighting & Landscape District assessment which averages $93.00 per year. The 3% utility tax would average $59.70 for each San Clemente resident.

Prop 218 impact on fund balance with savings & 3% utility tax applied

Fund Balance

Amounts in $1,000	1997-98	1998-99	1999-00	2000-01	2001-02
Fund Balance -Base Financial Forecast	$315	$22	$104	$675	$1,569
3% Utility Tax imposed	-5	27	540	1,389	2,571

Recommendations:
1a) Consider Utility Tax
1b) Consider Program and service reductions
2) Adopt recommendations in issue papers

Recommendations

1. It is recommended that Council adopt the proposed options put forth above. This will reduce the projected shortfall from $2.8 million to $1.24 million. It is further recommended that Council consider:
   a) Adoption of a utility tax of approximately 3% in order to maintain programs and services currently provided by the City. This will require a vote by San Clemente citizens at the June 3, 1997 election.
   b) Implementation of service and program reductions identified in the Vital Few Priority papers to make up the shortfall to be implemented in the event that the tax proposal fails to gain required support from the voters.
   c) Combination of a and b.
2. Additionally, the Issue Summary Section which follows contains a series of recommendations pertaining to the issues that staff analyzed in developing the Long Term Financial Plan. It is recommended that Council endorse staff recommendations outlined in the Issue Summary section.

Decisions will serve as foundation of FY 1997-98 budget

Once direction is provided by the City Council, those decisions will serve as the foundation of the budgetary action plan developed by staff and submitted for Council consideration in June 1997.

Financial Trends

Indicators measure the fiscal health of the City of San Clemente

Introduction

The trend analysis which follows analyzes a number of financial indicators that are designed to measure the fiscal health of the City of San Clemente. The trend analysis system is based on the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition", a handbook published by ICMA.

Analyzing financial trends and deriving applicable conclusions and recommendations is a very complex process. It involves sorting through a number of factors to determine the fiscal condition of the City. Some of the factors which are analyzed include:

- The state of the economy;
- Revenue yields and whether they are sufficient to support a growing community;
- Expenditure levels and whether they are providing for the public well being and safety of the residents of the community;
- Fund balances and reserve levels and whether they are sufficient to protect the City against an economic decline;
- Debt levels and their impacts upon current City financial resources.

Financial indicators are analyzed in accordance with the City's fiscal policy

This report examines these issues and others in determining the current financial well being of the City of San Clemente. The City's fiscal policies, as well as other national standards, have been considered as the financial indicators have been analyzed.

Trend data is as of 1995-96 fiscal year end

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Report for fiscal year 1991-92 through fiscal year 1995-96. Consequently, all trends are based on data available as of June 30, 1996 and do not incorporate any changes that have occurred since that time. For example, a transfer of $300,000 is being made from the General Fund to the Street Improvement Fund during FY 1996-97. Thus, changes that may affect certain financial indicators relating to the transfer, including General Fund fund balance, have not been included in this report.

Summary of Trend Analysis

A thorough analysis of the financial trends associated with the City's General Fund provides City Administration and Council with insight into the overall financial position of the City and assists them in identifying specific areas where policies are in need of revision or implementation. The following ratings list the options available to be assigned to each indicator:

F = Favorable

U = Unfavorable

W = Warning

Favorable:	This trend is **positive** with respect to the City's goals, policies, and national criteria.
Unfavorable:	This trend is **negative**, and there is an immediate need for the City to take corrective action if possible.
Warning:	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.

Provided below is a brief summary of indicators that are detailed in this report. Comparative data is provided to illustrate any positive or negative changes noted in the trends over the past five years.

17 of 20 financial indicators are positive...

while only 3 are unfavorable...

Indicator	*1997 Rating*	*1996 Rating*	*1995 Rating*	*1994 Rating*	*1993 Rating*
Revenues Per Capita	**F**	F	U	U	U
Property Tax Revenue	**U**	U	U	W	F
Sales Tax Revenues	**F**	F	F	U	U
Licenses & Permits	**F**	F	F	U	U
Comm. Develop. Charges	**U**	U	U	U	U
Elastic Revenues	**F**	F	F	U	U
One-Time Revenues	**F**	F	F	W	W
Intergovernmental Revenues	**F**	F	F	F	F
Revenue Overages /Shortages	**F**	F	U	U	U
Expenditures Per Capita	**F**	F	F	W	W
Employees Per Capita	**F**	F	F	W	W
Fringe Benefits	**F**	F	W	W	U
Capital Outlay	**F**	F	U	U	U
Operating Surplus	**F**	F	W	W	U
Fund Balance	**F**	F	F	W	W
Liquidity Ratio	**F**	F	F	F	F
Debt Service	**F**	F	F	F	F
Compensated Absences	**F**	F	F	F	F
Property Values	**U**	U	U	W	W
Population	**F**	F	F	F	F

Improvements in the economy and prudent fiscal policies have resulted in a financial turnaround

Although it is evident that improvements in the state and local economy have contributed to the overall improvement of several indicators, the emphasis placed by Council on implementing a series of new fiscal policies in 1992 has effectively transformed several negative indicators into positive ones. Additionally, the adoption and, more importantly, the implementation of four consecutive long term financial strategic plans has laid the foundation for the well planned financial recovery which is now in full force.

A stabilization of positive trends in 1997 is evident

Twenty trends have been analyzed in the 1997 Long Term Financial Plan. Of these, 17 are considered *favorable* and only 3 are *unfavorable*. This is an impressive improvement from the ratings assigned in the 1993 Long Term Financial Plan where only 6 indicators were *favorable* and 14 were either *unfavorable* or a *warning* rating was assigned.

All indicators continued on a favorable course during this fiscal year with the exception of license and permit revenues.

One indicator receives a note of caution...

- *License & Permit Revenues* - This category of revenues has declined slightly (.20%) from the prior fiscal year. This warrants a note of caution be added to the favorable rating, as this revenue source will be closely monitored.

While three additional indicators continue to cause concern

Additionally, continuing property value reductions and the impact of previous revenue diversions to the State continue to affect the property tax and property value categories. As a result, these categories continue to be assigned unfavorable ratings. An unfavorable rating was also assigned to community development service charges. Although this trend is beginning to turn around and show signs of improvement, until this holds true for two consecutive years, this indicator will continue with an unfavorable rating.

Reserves for emergencies and replacement of capital equipment have increased

Another observation that was noted during this analytical review is that the City's continued effort to fund reserves has greatly contributed to the City's positive financial health. The concerns in this area in prior years have been addressed by the City Council by mandating transfers to the emergency reserve, the Accrued Leave Fund, and the Capital Equipment Replacement Reserve Fund.

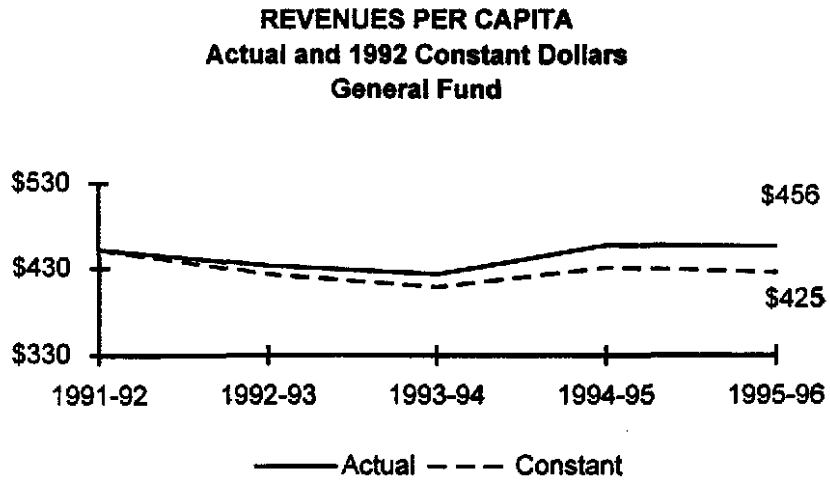
It is clear that substantial progress has been made to improve the City's finances

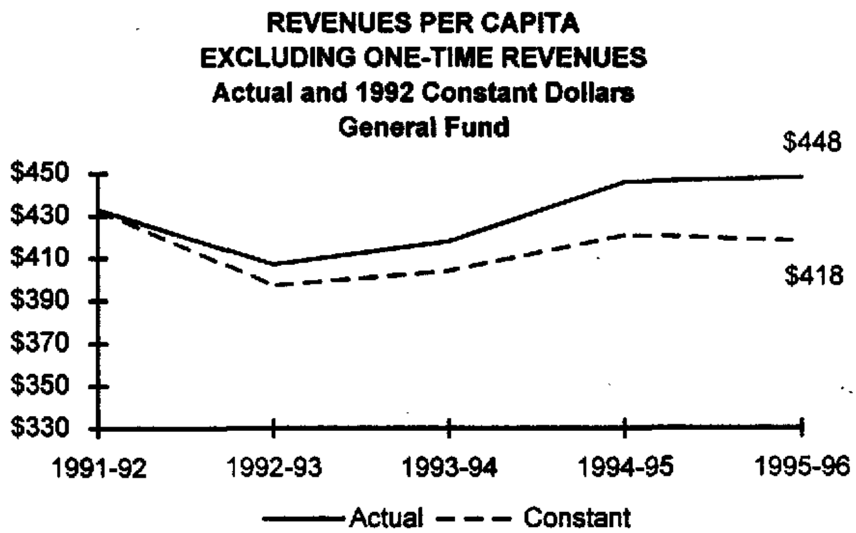
As described above, the City has made considerable progress in improving it's financial condition since the adoption of the City's initial Long Term Financial Plan in 1993. Many of the actions taken were difficult and controversial but were necessitated by a lingering economic recession, limited growth, unprecedented diversions of City property tax funds to the State, an aging and neglected infrastructure system that had to be addressed, and non-existent reserves that had to be funded. It is clear that substantial progress has been made and the City's financial health is beginning to stabilize. With the passage of Proposition 218, the City's improved revenue base will obviously be impacted. The General Fund must absorb revenue shortfalls in the areas of park and beach maintenance and street median and tree maintenance, all currently funded through special assessments ($1.9 million). In-lieu taxes, currently charged to the City's utility funds, will create an additional revenue shortfall, as the General Fund will lose $500,000 annually from this source. This impact from Proposition 218 will certainly affect the City's fiscal situation. However, from a trend perspective, the full impact will not be quantified until FY 1998-99.

The following sections provide a brief overview of most of the indicators listed in the above table. Please refer to Volume II of the 1997 Long Term Financial Plan for a complete description of all financial indicators.

Revenues

Revenues Per Capita





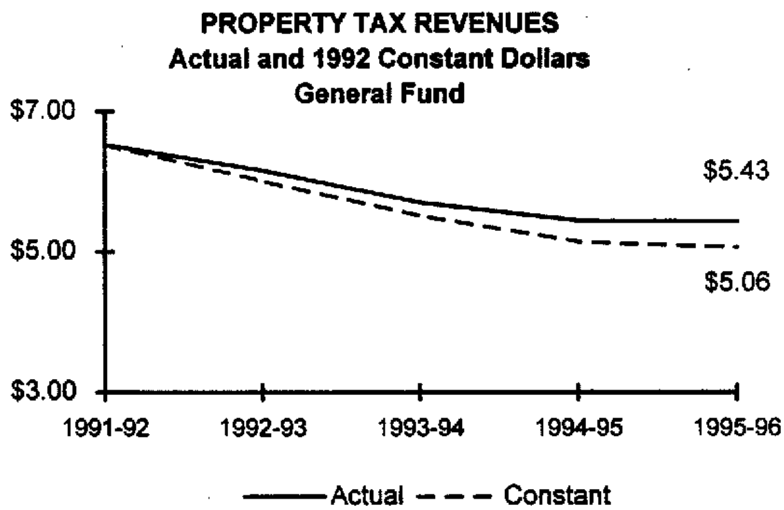
Finding: ***FAVORABLE.*** Revenues per capita (excluding one-time revenues) shows a slight increase in actual dollars for FY 1995-96 and is at the highest level in five years.

Revenues per capita are at the highest level in five years

Comments: The first chart above on revenues per capita reflects a level trend when compared with the prior year. This level trend is the result of increases in many of the revenue sources of the City. These increased revenues include sales taxes, transient occupancy taxes, business licenses, intergovernmental revenues, and in-lieu taxes.

The second chart (which excludes one-time revenues), shows that in constant dollars, revenues per capita have decreased slightly from the prior year. This decrease is due to a stabilization of population as compared to previous years. The previous two years showed population increases of 2 percent, whereas this past year showed an increase of 1.4 percent. When observing actual dollars, this trend shows an increase for the third year in a row. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies these revenues against one-time expenditures in accordance with the City's Fiscal Policy. In summary, this trend indicates that, in both actual and constant dollars, revenues per capita is maintaining a level trend and the City's reliance on one-time revenues continues to diminish.

Property Tax Revenues



Property tax revenues dropped slightly by .26% as property valuations continue to decline

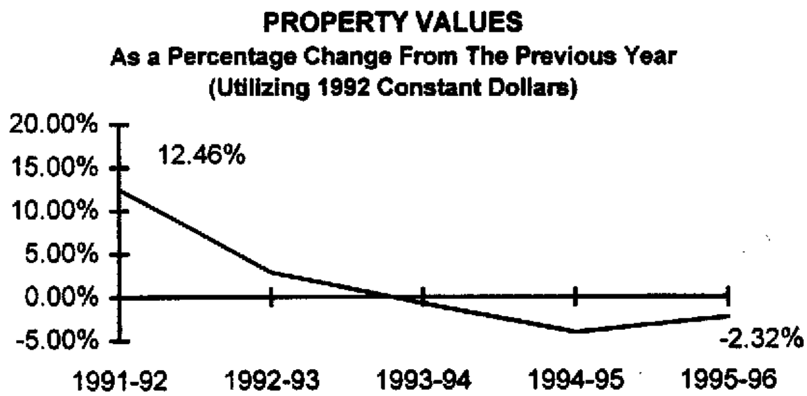
Finding: ***UNFAVORABLE.*** Property tax revenues evaluated over time reflect a steady increase up until FY 1991-92, when they dropped significantly as a result of a permanent 9% State mandated property tax shift and a decline in property valuation.

Property tax revenues decreased $14,000 in FY 1995-96

Comments: In FY 1995-96, property tax revenues further declined by $14,000 or .26% in actual dollars, and $75,000 or 1.5% in constant dollars. This drop continues a four year decrease in both constant and actual dollars.

The decrease in property tax revenue is a reflection of the State mandated property tax shift which costs the City $1.2 million annually as well as the ongoing decrease in the valuation of property. In fact, property values dropped 2% in FY 1995-96 as compared to a 4% drop the prior year. This decrease in revenue and decline in property valuation result in an unfavorable rating.

Property Values



A negative growth rate was once again observed for property values

Finding: *UNFAVORABLE.* The negative growth rate of property values continued the downward trend first observed in 1991-92.

Comments: The growth rate in property values as a percentage rate from the previous year has declined over the past four years from a healthy increase of 12% in FY 1991-92 to an actual decrease of -2% in FY 1995-96. However, as indicated above, the negative growth rate has improved over the past year from a negative 4% to a negative 2%. This decline in the growth rate is a reflection of the continuing decline in housing values. Consequently, property tax revenues were reduced $14,000 in FY 1995-96. The reduced growth rate has effectively reduced property taxes in constant dollar terms to the lowest level in five years.

Elastic Revenues

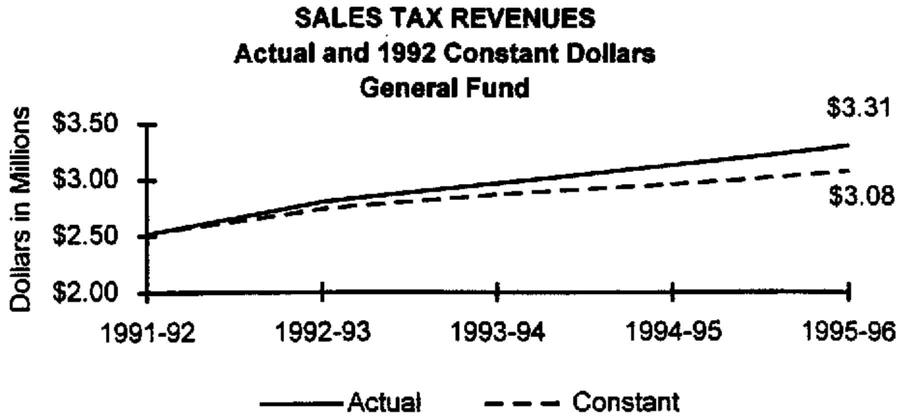
ELASTIC EVENUES
As a Percentage of Operating Revenues
General Fund

Elastic revenue sources increased

Finding: ***FAVORABLE***. After a decline in FY 1994-95, elastic revenues (including sales taxes, licenses and permits, community development service charges, transient occupancy taxes and in-lieu taxes), as a percentage of operating revenues increased .97% from FY 1994-95. Actual elastic operating revenues increased \$272,000, however, net operating revenues grew by only \$237,000. This results in a higher overall percentage of elastic revenues as a percentage of net operating income.

The City's largest elastic revenue source, sales tax revenue, was up 5.6 percent, or \$176,000, from the prior year. Also, transient occupancy taxes increased \$61,000, in-lieu tax was higher than the prior year by \$16,000 and community development service charges increased \$22,000. Conversely, other elastic revenues such as licenses and permits decreased \$2,500. Total actual elastic operating revenues as a percentage of operating revenues have increased, and therefore, a favorable rating has been assigned.

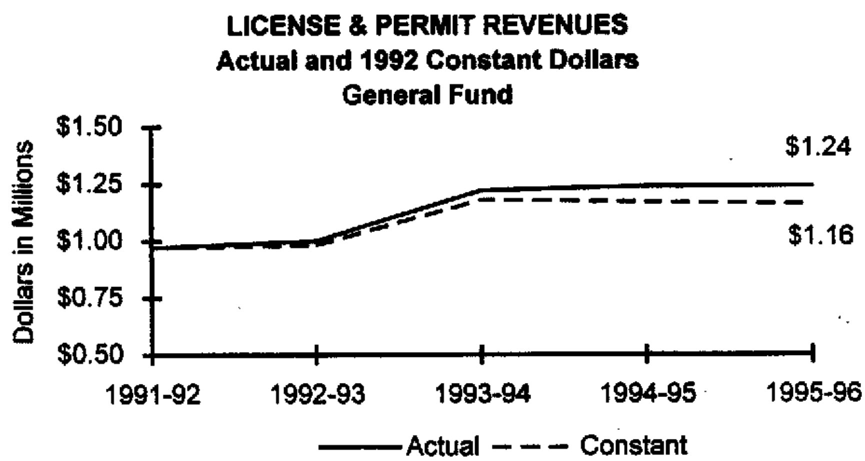
Details concerning each major elastic revenue source follow:



1995-96 sales tax revenue increased 5.6% or $176,000

Finding: *FAVORABLE*. In FY 1995-96, sales tax revenue increased $176,000, or 5.6 percent in actual dollars over FY 1994-95, and $129,000, or 4.4 percent in constant dollars.

Comments: This level is at a five year high in actual and constant dollars. As shown, sales taxes have gradually increased over the past four years. In fact, sales tax revenue has increased 31% in actual dollars and 22% in constant dollars in the past four years. This upward trend for the past several years results in a favorable rating.



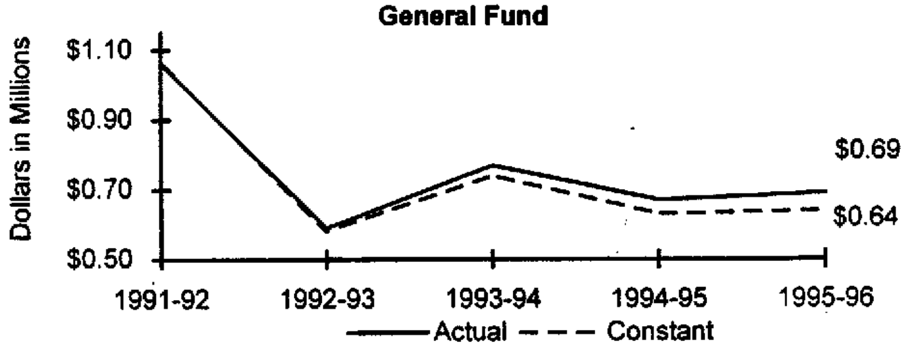
License and permit revenue declined in FY 1995-96

Finding: *FAVORABLE/CAUTION*. The City experienced increases in licenses and permits for four consecutive years, however, in the past two fiscal years, this revenue category appears to have leveled off. In fact, in FY 1995-96, the City experienced a slight decrease of $2,500.

Construction permits decreased $41,000 while business licenses increased $56,000

Comments: In FY 1995-96, business license revenue increased $56,000 over the prior year as compared to an increase of $37,000 in FY 1994-95. Construction permit revenues, consisting of building, electrical, mechanical, plumbing, and grading permits, decreased $41,000, or 6.7% in actual dollars from the prior year. This is in contrast to a decrease of $5,000 in the prior fiscal year. Thus, in FY 1995-96, this category appears to have remained relatively level, with only a slight decrease. This trend maintains a favorable rating with an added note of caution for the above stated reasons.

COMMUNITY DEVELOPMENT SERVICE CHARGES
Actual and 1992 Constant Dollars
General Fund



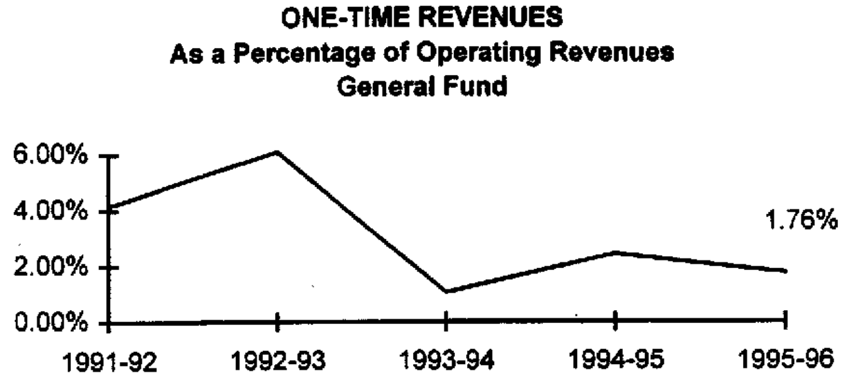
Finding: ***UNFAVORABLE.*** Community Development Service Charges in actual dollars and constant dollars increased in FY 1995-96, but only slightly. This revenue source is still significantly below the level reached four years ago.

Community Development Service Charges recorded a slight increase of $22,000

Comments: In FY 1995-96, total community development service charges increased 3.2 percent, or $22,000 from the prior year. Specific revenue source increases include public works inspection fees of $29,000, construction inspection fees of $56,000, conditional use permits of $24,000, and specific plan amendment fees of $9,000. On the other side of the equation, the City experienced a decline in building plan check fees of $75,000, general plan amendments of $11,000, and tentative tract filing of $11,000. Although this trend is beginning to turn around and show signs of improvement, until this holds true for at least two consecutive years, this indicator maintains an unfavorable rating.

In accordance with fiscal policies, one-time revenues are used to fund one-time expenditures

One-Time Revenues

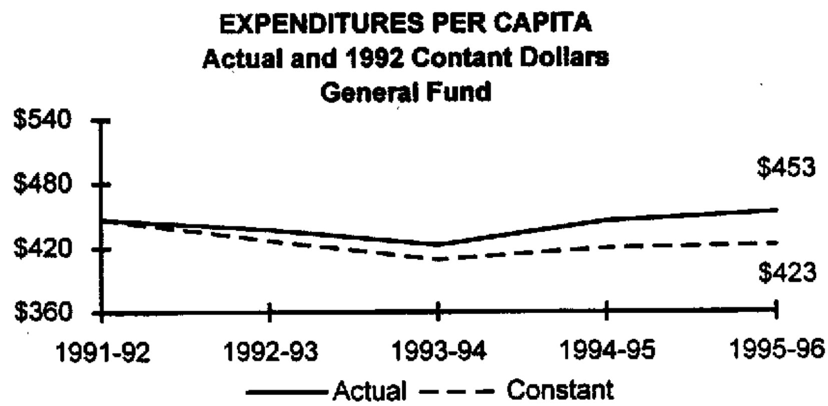


Finding: ***FAVORABLE.*** One-time revenues, as a percentage of total General Fund operating revenues, equaled 1.76% in FY 1995-96, a decrease from the prior year.

Comments: In FY 1995-96, one-time revenues decreased $143,000 from the previous year. One-time revenues included grant revenue from the Federal Emergency Management Agency (FEMA) to reimburse the City for the 1982 storm, narcotics forfeiture revenue, energy incentive payments, and landfill diversion revenues. A favorable rating has been assigned, since one-time revenues are generally a result of contracting of services and are applied against one-time expenditures, such as reserve transfers. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures.

Expenditures

Expenditures Per Capita



Finding: ***FAVORABLE.*** Expenditures per capita, in constant and actual dollars, increased moderately in FY 1995-96.

Expenditures per capita increased due to reserve and street transfers

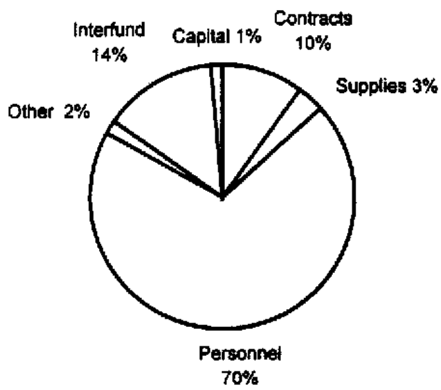
Comments: In FY 1995-96, expenditures per capita increased in both constant and actual dollars in comparison to the prior year. This represents a total increase of .71% in constant dollars and 1.8% in actual dollars since FY 1994-95. FY 1995-96 constant dollars are still lower than FY 1991-92, but actual dollar expenditures per capita have increased slightly. Actual FY 1995-96 expenditures were under budget by $934,000 or 4.2 percent.

The continued increase in expenditures can be attributed to transfers from the General Fund to other funds. For instance, FY 1995-96 transfers included transfers to the Capital Equipment Replacement Reserve Fund ($100,000), Worker's Compensation Fund ($73,000), General Liability Fund ($120,000), and Street Improvement Fund ($700,000). The policy regarding these transfers is a prudent approach to ensure that the other funds have adequate reserves to meet emergency needs and fund reserve deficits.

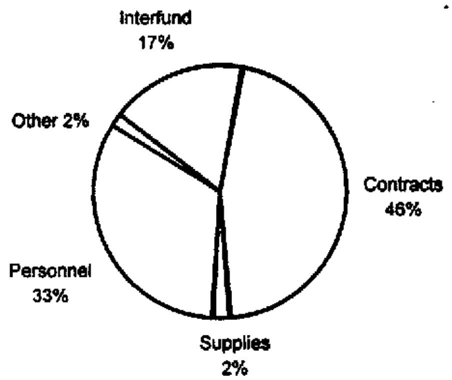
A favorable rating has been assigned due to the fact that, although expenditures per capita in constant dollars are still below levels of FY 1991-92, service levels have been maintained or enhanced during the same period. Additionally, growth in expenditures is largely attributable to transfers to reserve funds and, where expenditure rates have declined, this is the result of contracting out services in order to improve service levels and reduce costs.

Expenditures by Category

1991-92



1995-96

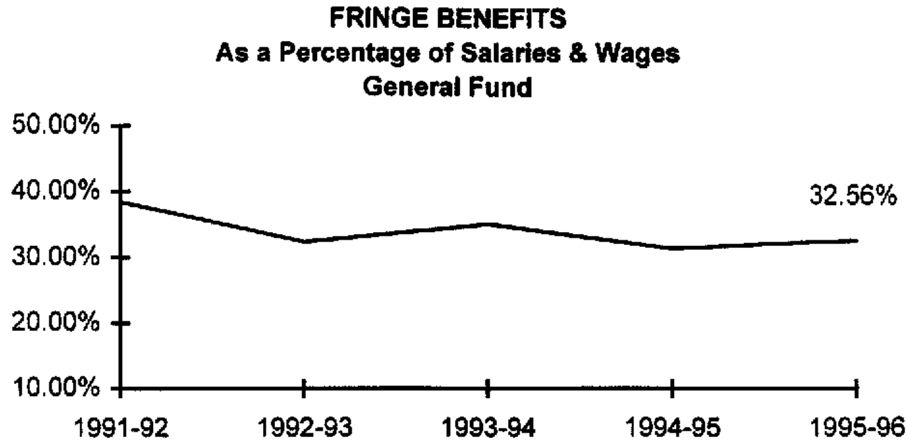


Personnel costs declined from 70% in 1991-92 to 33% in 1995-96

Comments: These charts indicate that personnel costs, as a percentage of the General Fund budget, decreased from 70% in FY 1991-92 to 33% in FY 1995-96. On the other hand, contractual services increased from 10% in FY 1991-92 to 46% in FY 1995-96.

During the time period illustrated, personnel related costs have been replaced with contractual services by means of contracting several major City services, including police, fire, fleet maintenance, certain street maintenance programs, and beach and park maintenance.

Fringe Benefits



Benefit costs remain stable from the prior year

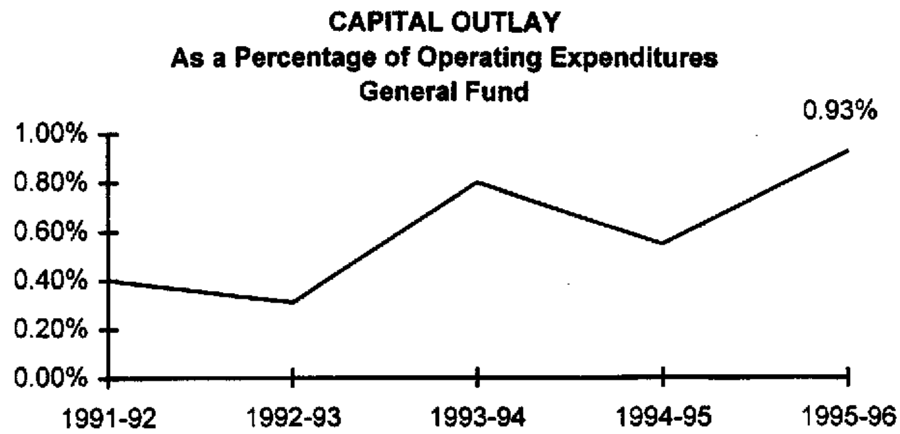
Finding: ***FAVORABLE.*** Fringe benefits, as a percentage of General Fund salaries and wages, have decreased from 38.4% to 32.6% over the past 5 years.

Comments: This continued favorable rating resulted, in part, from the cooperation of all employee groups whereby the City changed medical providers and implemented a cost effective managed care plan. Consequently, insurance premiums have been reduced 30% which is clearly reflected in the reduction of fringe benefit costs over the five-year period. However, in FY 1995-96, insurance costs increased by approximately 11% from the prior year, which explains the slight increase in fringe benefits as a percentage of salaries and wages. Also, with the contracting of Police and Fire Services, workers compensation and related charges have been reduced. Workers compensation costs have been further reduced in FY 1995-96 because the City has changed from being self-insured to contracting with an independent insurance carrier at a reduced cost.

Worker's Compensation costs have been reduced further

A favorable trend has been assigned for FY 1995-96, since this trend has stabilized at an acceptable level.

Capital Outlay

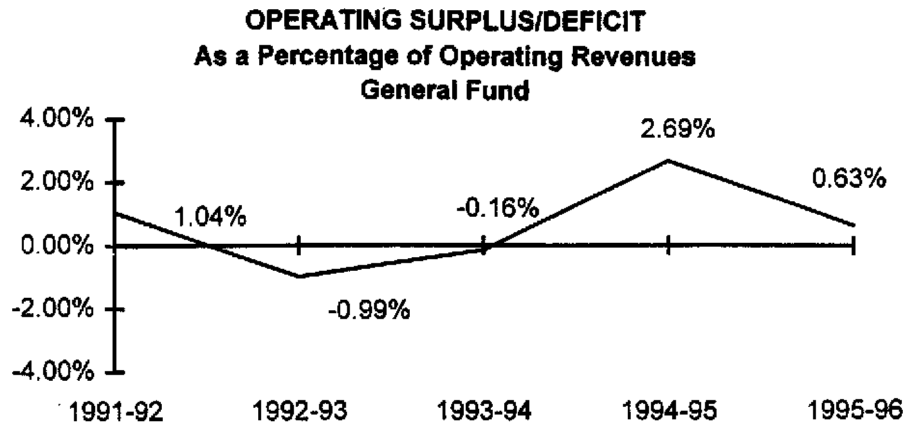


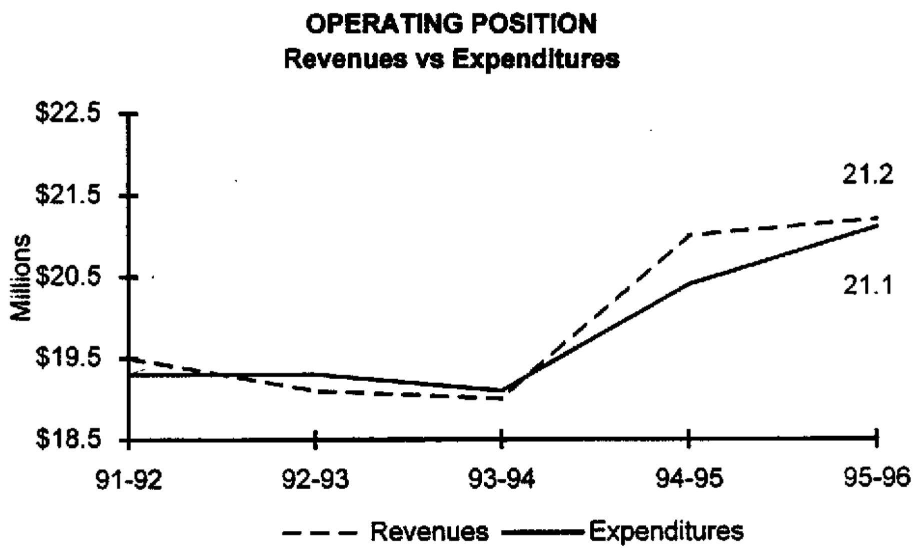
Finding: ***FAVORABLE.*** In FY 1995-96 capital outlay expenditures increased to $196,000, or .93% of operating expenditures. This is considered positive mainly due to the City's commitment to contribute $100,000 per year from the General Fund to fund a capital equipment replacement program.

Expenditures for capital outlay show continued improvement from prior years

Comments: Capital outlay expenditures, as a percentage of operating expenditures, recorded an increase in FY 1993-94, but again took a dive in FY 1994-95. A mechanism to ensure that adequate funding would be provided was established in FY 1994-95 in the form of a new Capital Equipment Replacement Reserve Fund. Each of the past two fiscal years, the General Fund has contributed to this fund with a $100,000 transfer. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program.

Operating Position



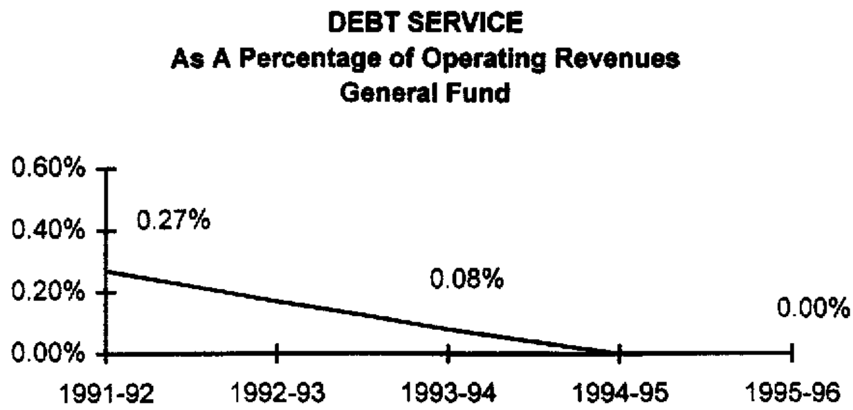


Finding: ***FAVORABLE.*** A positive operating surplus of .63% was achieved in FY 1995-96.

An operating surplus was achieved in FY 1995-96

Comments: The City has experienced operating deficits in the past five years as it has made efforts to recover from the economic recession. Through cost saving measures, implemented by the City Council and Administration, operating deficits have been kept to less than 1% of operational revenues over the five year period. In FY 1994-95 operating surpluses rose to 2.69%, a significant improvement over the past four years. In FY 1995-96, the City maintained an operating surplus at .63% of operating revenues, showing success at producing revenues that are sufficient to support current operating expenditures.

Debt Service



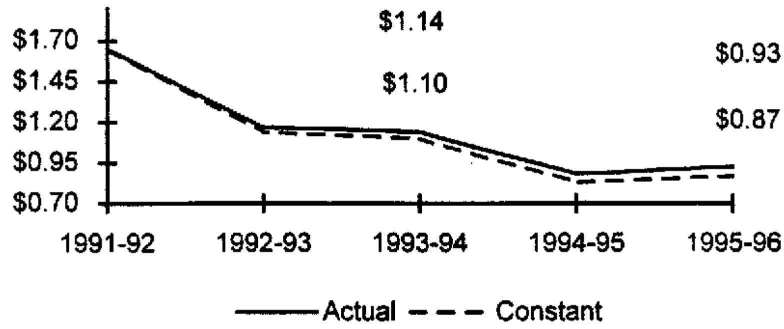
Finding: ***FAVORABLE.*** General Fund debt service receives a favorable trend as it has remained relatively immaterial (less than 1%) in comparison to operating revenues over the last five years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues.

General Fund maintained no debt service in FY 1995-96

Comments: During FY 1993-94, the City made the final payment on the lease/purchase agreement for a patchmaster utilized by street maintenance and repair. This is the reason that the General Fund has no debt service payments in FY 1995-96. However, it should also be noted that the debt service for the Negocio Building bonds is in a separate fund, and is not part of this analysis. Additionally, the City's street assessment bonds, which were issued in September 1996 subsequent to fiscal year ended June 30, 1996, do not appear in this analysis because they are accounted for in a separate Capital Projects Fund.

Accumulated Compensated Absences

ACCUMULATED COMPENSATED ABSENCES
Actual and 1992 Constant Dollars



Contingent liabilities for accrued leave remain favorable

Finding: ***FAVORABLE.*** This indicator receives a favorable rating because the City's liability for compensated absences has increased only slightly in FY 1995-96 after having dropped for the last four consecutive years in actual and constant dollars.

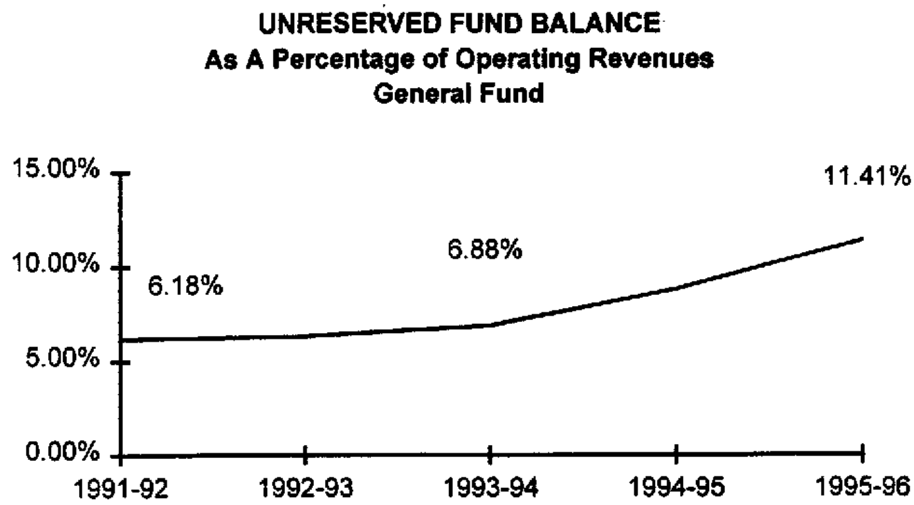
Comments: The considerable drop in FY 1994-95 is attributed to the contracting of fire services with the Orange County Fire Authority. The continuing drop in accumulated compensated absences is attributable to the reduction of staff in other departments through the contracting of various City services and subsequent payment for accrued leave.

The balance of the liability for compensated absences is $929,000

At June 30, 1996, the balance of the liability for compensated absences was $929,000 consisting of $531,000 for vacation, $357,000 for sick leave, and $41,000 for compensatory time. This is an increase of only $53,000, or 6.1% from the prior year's liability of $876,000.

In FY 1994-95, an Accrued Leave Reserve Fund was established through a $75,000 appropriation from the General Fund. This represents a contribution towards the establishment of sufficient reserves to cover future liabilities for compensated absences. The General Fund has budgeted an additional $25,000 in FY 1996-97 to continue funding this reserve.

Reserves



Finding: ***FAVORABLE.*** Unreserved fund balances refer 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.

Unreserved fund balances increased to 11.41% in 1995-96

Comments: Unreserved fund balance as a percentage of operating revenues rose 2.59% in FY 1995-96 as a result of an increase in fund balance of $570,000. The increase in fund balance is partially due to an operating surplus of $134,000. Steady increases in this trend continue to confirm the stable position of the City's General Fund.

General Fund Emergency Reserve = $1,029,640

The subsequent increases since FY 1991-92 are largely due to Council adoption of fiscal policies requiring that emergency reserves be increased to 8% of General Fund operating expenditures. Included within the total FY 1995-96 unreserved fund balance of $2.4 million are General Fund Emergency Reserves totaling $1,029,640.

Objective
To review the City's 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. ***Reserve Policies***: This change is to reflect proposed modifications to the *General Fund emergency reserve* and *Council contingency reserve* policies:

Current Policy Statement	*Proposed Policy Statement*
The City will maintain General Fund Contingency reserves at a level at least equal to 8% 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 (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	The City will maintain General Fund Contingency reserves at a level at least equal to **<u>5%</u>** 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 (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.

Current Policy Statement	*Proposed Policy Statement*
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1.5% of general fund operating expenditures.	A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than **<u>$100,000.</u>**

Recommendation
1. It is recommended that the City's Fiscal Policy be modified to include the changes outlined above.

Fiscal Policy Statement	Status	Comments
General Financial Goals		
To maintain a financially viable City that can maintain an adequate level of municipal services.	√	
To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.	√	
To maintain and enhance the sound fiscal condition of the City.	√	
Operating Budget Policies		
The City will adopt a balanced budget by June 30 of each year.	√	
The City Manager will prepare a budget calendar no later than January of each year.	√	
An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	√	
During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.	√	
Current revenues will be sufficient to support current operating expenditures.	√	
Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the City's capital plant, and equipment.	√	Street Improvement Program established with a $700,000 allocation from the General Fund. $300,000 contribution scheduled in FY 1997-98
The City will project its equipment replacement and maintenance needs for the next five years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.	√	
The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.	√	
The City will forecast its General Fund expenditures and revenues for each of the next five years and will update this forecast at least annually.	√	
Revenue Policies		
The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.	√	
Because revenues, especially those of the General Fund, are sensitive to both local and regional economic conditions, revenue estimates adopted by the City Council must be conservative.	√	
The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	√	

Fiscal Policy Statement	Status	Comments
User fees will be adjusted annually to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	√	
One-time revenues will be used for one-time expenditures only. (Including capital and reserves)	√	
Expenditure Policies		
The City will maintain a level of expenditures which will provide for the public well-being and safety of the residents of the community.	√	
Utility Rates and Fees		
The City will set fees and user charges for each enterprise 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.	√	
Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
The City will make all capital improvements in accordance with an adopted and funded capital improvement program.	√	
The City will develop an annual five-year plan for capital improvements, including CIP design, development, implementation, and operating and maintenance costs.	√	
The City will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to Council for approval.	√	
The City will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and City priorities, and whose operating and maintenance costs have been included in the budget.	√	
The City will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.	√	
Cost tracking for components of the capital improvement program will be implemented and updated quarterly to ensure project completion within budget and established timelines.	√	
The Council will review the Street Improvement Program each year at budget time and will transfer as much as possible from the General Fund and Gas Tax Fund to the Street Improvement Fund. The intention is to eventually eliminate the need for an assessment district. A public review process will be required, in order for the City Council to extend the Street Overlay and Replacement Assessment District beyond the bond maturity date (year 18).	√	

Fiscal Policy Statement	Status	Comments
Short-Term Debt Policies		
The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	√	
The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund.	√	
Long-Term Debt Policies		
The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
Where possible, the City will use special assessment, revenue, or other self supporting bonds instead of general obligation bonds.	√	
Proceeds from long-term debt will not be used for current on-going operations.	√	
Reserve Policies		
The City will maintain General Fund Contingency reserves at a level at least equal to 8% 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 (defined as a recession lasting two or more years), or other unforeseen catastrophic costs not covered by the Contingency Reserve.	--	General Fund Emergency Reserve = $1.3 million or 6% of General Fund Operating Expenditures at end of FY 1996-97
A Council Contingency Reserve will be established to provide for non-recurring unanticipated expenditures or to set aside funds to cover known contingencies with unknown costs. The level of this reserve will be established as needed but will not be less than 1.5% of general fund operating expenditures.	√	Council Contingency Reserve = 1% of General Fund Operating Expenditures
Council approval is required before expending General Fund or Contingency Reserves.	√	
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 established based on an annual projection of employee retirements.	√	Accrued Leave Reserve at $40,000
Self-insurance reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City will maintain a reserve of three times its self insurance retention.	--	General Liability Reserve Deficit = $511,550
The City's enterprise funds will maintain a minimum reserve level at least equal to 8% of operating expenditures. The primary purpose of this reserve is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonable foreseen during the preparation of the budget.	√	

Fiscal Policy Statement	Status	Comments
Investment Policies		
The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
The City Treasurer will invest the City's moneys in accordance with applicable law and adopted investment policies and direct the investment of bond or note moneys on deposit with a trustee or fiscal agent in accordance with the applicable indenture or issuance document.	√	
Accounting, Auditing & Financial Reporting		
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.	√	
A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	
Quarterly financial reports will be submitted to the City Council and will be made available to the public.	√	
Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
Maintain a good credit rating in the financial community.	√	Moody's Rating = A-1. Standard & Poor's = A
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.	√	
Maintain a liquidity ratio of at least 1:1	√	

Legend:

√ Budget Complies with Fiscal Policy Standard

-- Fiscal Policy Standard is not met in adopted Budget

Long Term Financial Plan

This Long Term Financial Plan document was produced by the City of San Clemente, Finance & Administrative Services

Additional copies may be purchased at City Hall
100 Avenida Presidio
San Clemente, CA 92672

Introduction

The Issue Summary section which follows provides an overview of the issues that were analyzed during the preparation of the *1997 Long Term Financial Plan.* Volume II of the Long Term Financial Plan contains the complete issue papers relating to each of the topics. The issues reviewed include:

Financial issues reviewed

- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Revenue Options
- Lighting & Landscape District
- Street Improvement Program
- Organizational Development
  - ⇒ Maintenance Contracting
  - ⇒ Utilities Contracting
- Computer Strategic Plan
- Contract Analysis and Monitoring
- Economic Development

Financial Trend Analysis

Objective:
Utilizing the International City Management's Association (ICMA) Financial Trend Monitoring System, update the comprehensive Financial Trend Report, including specific recommendations to address those trends considered unfavorable or where a warning trend has been observed. Ratings assigned to each trend include: Favorable (F), Unfavorable (U) or Warning (W).

17 of 20 indicators are favorable as compared to 12 last year

As indicated in the table below, a total number of 20 trends were analyzed in the 1997 Long Term Financial Plan. Of these, 17 indicators are still considered *favorable* as opposed to three that remain *unfavorable*. These ratings are identical to the ratings assigned last year.

Property tax and community development charges are still unfavorable

Negative ratings were once again assigned to property tax revenues, community development service charges and property value. Although there was no further improvement in ratings in FY 1995-96, it should be pointed out that the current ratings are a vast improvement over the ratings assigned in the first year Long Term Financial Plan where only 6 indicators were *favorable* and 14 were either assigned an *unfavorable* or *warning* rating. Progress has certainly been made in those areas that the City is able to measure in a quantifiable manner and consistent basis.

A detailed review of the indicators are contained in the Financial Trend section of this report and Volume II of the Long Term Financial Plan.

1993 to 1997 Trend Comparisons

Indicator	1997	1996	1995	1994	1993
Revenues Per Capita	F	F	U	U	U
Property Tax Revenue	U	U	U	W	F
Sales Tax Revenues	F	F	F	U	U
Licenses & Permits	F	F	F	U	U
Comm. Develop. Charges	U	U	U	U	U
Elastic Revenues	F	F	F	U	U
One-Time Revenues	F	F	F	W	W
Intergovernmental Revenues	F	F	F	F	F
Revenue Overages /Shortages	F	F	U	U	U
Expenditures Per Capita	F	F	F	W	W
Employees Per Capita	F	F	F	W	W
Fringe Benefits	F	F	W	W	U
Capital Outlay	F	F	U	U	U
Operating Surplus	F	F	W	W	U
Fund Balance	F	F	F	W	W
Liquidity Ratio	F	F	F	F	F
Debt Service	F	F	F	F	F
Compensated Absences	F	F	F	F	F
Property Values	U	U	U	W	W
Population	F	F	F	F	F

The improved economy, adherence to fiscal policies, and restructuring City services have combined to improve City finances

Overall, the trend analysis confirms that the City's financial condition has stabilized over the past few years. The improvement in the local economy, adherence to a set of comprehensive fiscal policies, tangible cost reduction measures, and the contracting and privatization of several City services, have all combined to produce a much improved financial picture. If fiscally prudent measures are taken in response to Proposition 218 and the City's economic health continues to improve, the positive shift in trends is anticipated to continue. The key to staying on course is to continue to meet the objectives contained in the City's comprehensive Fiscal Policy.

Recommendations

Due to the nature of certain financial indicators, including community development service charges, property taxes and property values, no recommendations will be made at this time. The City will, however, continue to closely monitor financial trends in order to provide an "early warning" detector of financial problems.

Financial Forecast

The Five Year Financial Forecast is based on current revenue and expenditure patterns

Objective

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

Recommendations in the 1997 plan are not included in the forecast

The City's updated financial forecast includes certain key assumptions, outside of economic and growth/trend factors, that are based on current fiscal policies or were the result of the Council adopted 1996 Long Term Financial Plan. The forecast does not factor in any of the recommendations contained in the 1997 Long Term Financial Plan. The forecast basically incorporates *current* General Fund expenditure and revenue patterns and attempts to predict the City's future operating position.

Major Forecast Assumptions

The following major assumptions were used in developing the City's five year financial forecast:

- Economic and demographic data (average over five year forecast period):
  - ⇒ Inflation Average: 2.7%
  - ⇒ Population Growth Average: 1.1%
  - ⇒ Personal Income Growth Average: 6%
  - ⇒ Revenue Growth: 3.9% (5 year historical growth = 4.3%)
  - ⇒ Expenditure Growth: 2.5% (5 year historical growth = 1.5%)
- Cost of living adjustments at 90% of the projected consumer price index for Southern California for FY 1998-99 and after.
- 1% cost of living adjustments effective on January 1, 1997 and July 1, 1997
- Addition of one new position per year beginning in FY 1998-99
- Capital outlay expenditures total $108,000 in FY 1997-98 for the COPS program
- Debt service transfers total $269,800 in FY 1996-97
- Reserve transfers totaling $717,300 in FY 1996-97
- Transfer of $300,000 to the Street Improvement Program in FY 1997-98 and $500,000 beginning in FY 1998-99
- Actual expenditures projected at 1.5% less than current budgeted expenditures and 2% less than budgeted for the remaining years of the forecast
- Revenues projected to meet budget in the current year and exceed budget by 0.5% in remaining years

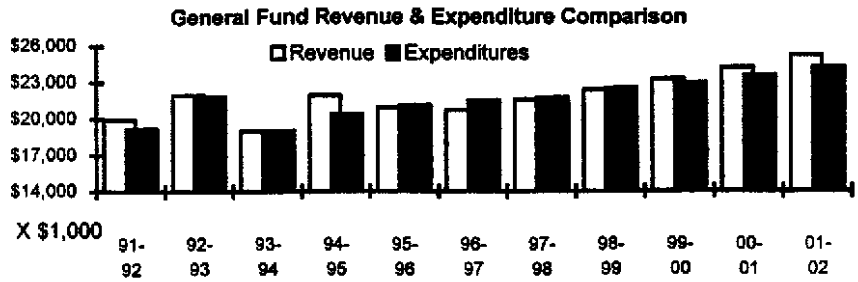
Factors not included in the Forecast

Factors *not included* in the forecast:

- Forecast is based on the General Fund only
- Impact of Proposition 218
- Added or eliminated programs
- Further revenue diversions by the State
- Proposed new developments including Plaza Pacifica, Marblehead Coastal or Talega Valley

The following chart provides a historical perspective of actual revenues and expenditures for the past 5 years and forecasted comparisons of revenues and expenditures for the next five years. With the exception of years one and two of the forecast, operating surpluses are predicted for the remainder of the forecast period as the City's revenue stream increases. Operating deficits in the first two years is due to the continued use of fund balances for reserve, street, and Lighting & Landscape programs.

Historical & Projected Revenues & Expenditures



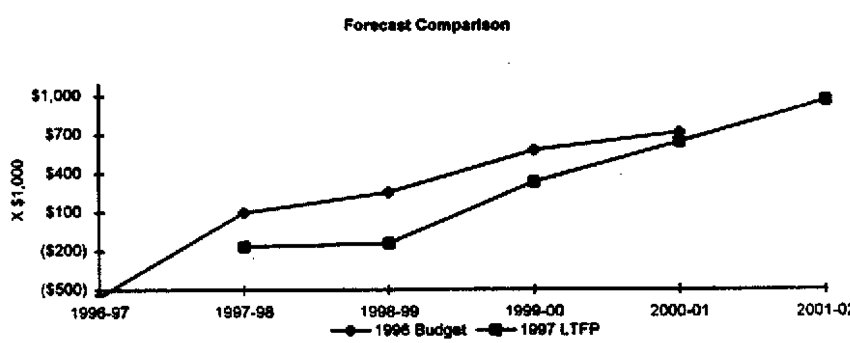
The table below depicts the City's operating position (revenues less expenditures not including carryover fund balances) for the next five years.

1997 Forecast Summary (LTFP)
(in thousands)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenues	$21,557	$22,377	$23,247	$24,137	$25,164
Expenditures	21,725	22,520	22,914	23,496	24,200
Operating Result	-$168	-$143	$333	$641	$964

The following graph compares the current forecast to the forecast presented as a part of the FY 1996-97 budget. As indicated, the City's operational position is slightly less than projected last year but is expected due to the increased transfers to reserves, the street program and the Lighting & Landscape District. This is an intentional draw-down on the General Fund fund balance in order to provide contributions to these funds.

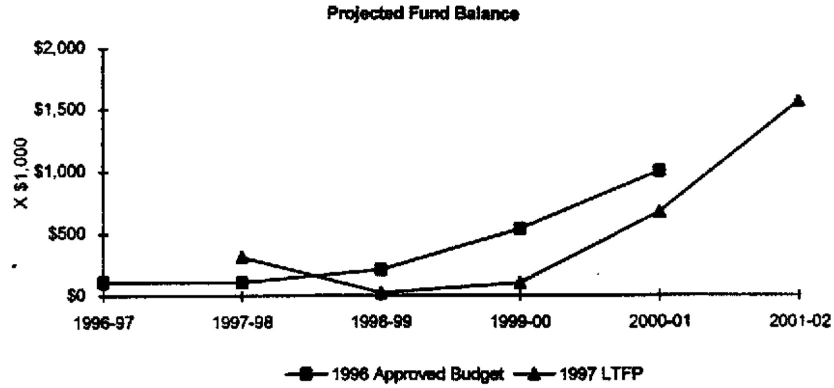
Forecast comparison



Positive fund balances are projected

The Projected Fund Balance chart and table below illustrates the impact of the City's current finances on future fund balances. As can be seen, fund balances are projected to be positive in all five years of the forecast; however, balances are edging close to zero in fiscal years 1998-99 and 1999-00. This decline is largely due to increased General Fund transfers to the Street Improvement Program from $300,000 to $500,000. However, fund balances take a turn for the better beginning in fiscal 2000-01 as reserves become fully funded and revenue growth outpaces anticipated expenditure growth by a wide margin.

Projected Fund Balances

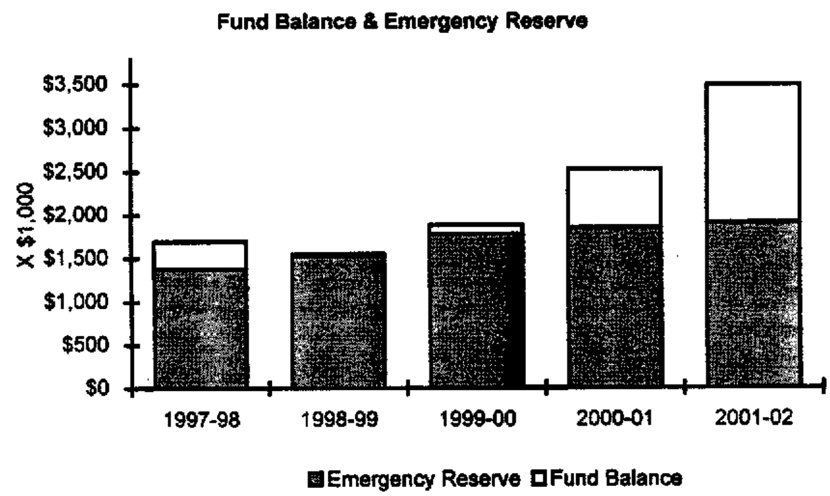


Projected Fund Balances
(in thousands)

	96-97	97-98	98-99	99-00	00-01	01-02
Fund Balance	$1,629	$583	$315	$22	$104	$675
Revenues	20,715	21,557	22,377	23,247	24,137	25,164
Expenditures	21,511	21,725	22,520	22,914	23,496	24,200
Emer. Reserve	250	100	150	250	70	60
Fund Balance	*$583*	*$315*	*$22*	*$104*	*$675*	*$1,579*

The Fund Balance and Emergency Reserve graph indicates the growth of unreserved fund balances including emergency reserves over the forecast period.

Fund balances & Emergency Reserves

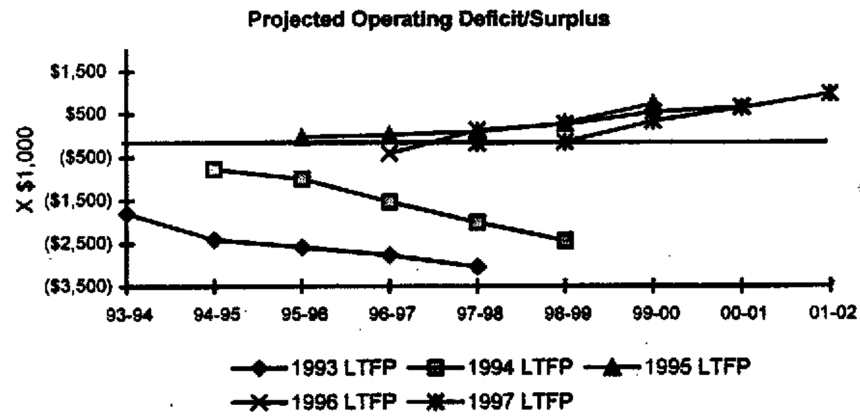


Fund balances will increase over the period of the forecast

As shown, the City will maintain total fund balances in excess of $1.5 million when reserves are added in. As depicted in the chart, projected fund balances include both unreserved and reserved fund balances. Emergency reserve fund balances are projected to climb steadily as the City approaches the current targeted level of an 8% emergency reserve. The unreserved fund balances during the first two years are relatively low due to the continued program of funding of reserve funds. Once these transfers are completed, fund balances are projected to increase at a more rapid pace. Additionally, the increasing operating surpluses discussed above, will contribute to the expansion of fund balances over the forecast period.

The final chart in this section provides an overview of projected operating deficits/surpluses since the initial LTFP was developed in 1993. The self-explanatory chart provides a graphic view of the improvement in City finances.

Historical operating deficits/surplus'



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 and (b) meet program needs without unnecessarily obligating scarce dollar resources.

Aggressive reserve funding schedules were adopted in 1993

The City's initial Long Term Financial Plan identified seriously underfunded and, in certain cases, non-existent reserve levels. An aggressive funding schedule was adopted in 1993 and has been updated on an annual basis to account for changes in circumstances including:

- Contracting of City services
- Changes in self-insurance levels
- Funding of Street Improvement Program
- Completion of fixed asset inventory system

Through the annual LTFP and budget process, the City Council has set aside scarce resources in order to preserve and enhance the City's fiscal stability. Thus, the City has been able to contribute a total of $4.7 million toward the

$4.7 million has been contributed to reserves over the past four years

General Fund Emergency Reserve is at 6.29%

funding of reserves over the past four years. As documented in Volume II of the Long Term Financial Plan, significant progress has been made towards meeting reserve targets and funding reserve deficits in the City's self-insurance funds. If current fiscal policies are maintained, General Fund emergency reserves would reach the mandated 8% level in fiscal year 1999-00. The current reserve level for the fiscal year ending June 30, 1997 amounts to $1.3 million or 6.29%.

The following table outlines the total contributions that have been made since the development of the 1993 Long Term Financial Plan:

Total reserve contributions

Reserve	Reserve Contribution
General Fund Emergency Reserve	$1,279,640
Council Contingency Reserve	$949,000
General Liability	$1,166,400
Workers Compensation	$841,610
Accrued Leave Reserve	$175,000
Capital Equipment Replacement Reserve	$300,000

A brief overview of the current reserve status is provided below:

Reduction of emergency reserves to 5% is recommended

- *General Fund Emergency Reserve* - The current (June 30, 1997) emergency reserve level is at 6.29% for a total of $1.3 million. In order to address the City's current operating deficit, it is recommended that this reserve be reduced to 5% or approximately $1 million effective in FY 1996-97. Although the 5% level is low, the municipal rating agencies consider a level of 5-10% to be adequate.

Reduction of contingency reserves to $100,000 is recommended

- *Council Contingency Reserve* - The current annual set aside for contingencies amounts to 1% of the operating budget or $200,000 this fiscal year. Another deficit closing measure includes a recommendation to lower the reserve to $100,000. Over the past five years, Council has authorized spending an average of $128,000.

Reduction of self insured retention to $100,000 is recommended

- *General Liability Reserve* - Current policy dictates that three times the City's self insurance retention (SIR) be funded and established as a reserve. That amounts to $750,000 based on a $250,000 SIR. By reducing the SIR to $100,000, the City will be able to transfer significantly less dollars toward the reserve since only $300,000 will be required to fully fund the reserve requirement. However, this will result in an increased insurance premium of approximately $35,000, bringing the premium to $225,000. Based on the City's recent claim history without Police and Fire, the $300,000 level is considered adequate.

Workers compensation deficit has increased to $ 511,550

- *Workers Compensation* - The City is now fully insured for workers compensation claims; however, "tail" claims still remain from when the City was self insured. Most of these outstanding claims are related to Police and Fire (i.e. General Fund) and an aggressive effort to close the claims is underway. The projected fund balance deficit at June 30, 1997 is $511,550. A funding schedule to eliminate this deficit has been in place for several years and, based on recommended funding levels, will be eliminated in two years.

- *Accrued Leave Reserve* -Projected ending fund balances for the end of this fiscal year amount to $1,750. In order to meet required funding levels, a total of $40,000 will be transferred from the General Fund to this reserve fund. Average annual accrued leave pay outs are at $40,000.
- *Capital Equipment Replacement Reserve* - In order to fully fund the City's capital equipment fund, a total of $1.3 million would have to be transferred; however, it is recommended that the City continue to contribute $100,000 annually to this fund. Total capital reserves amount to approximately $300,000 and capital equipment is now budgeted on an annual basis from this fund.

$100,000 contribution to capital equipment is recommended

Following is a review of the current reserve position including the required reserve level as established by the City's Fiscal Policy, actual reserve levels in FY 1996-97, and proposed allocations for FY 1997-98.

Current reserve status

Reserve	Required Reserve Level	Actual Reserve Level	FY 1997-98 Proposed Allocation
Emergency Reserve	$1,600,000	$1,279,640	0
Council Contingency	$204,000	$200,000	$100,000
General Liability	$750,000	372,860	$162,480
Workers Compensation*	0	(511,550)	$255,770
Accrued Leave	$40,000	$1,750	$40,000
Capital Equipment**	$1,600,000	$300,000	$100,000

*Workers Compensation Fund is in a deficit position of $511,550. There is no reserve requirement since the City is now fully insured; however, the deficit fund balance will be eliminated over two years.
**Total replacement cost for General Fund machinery and equipment is $1.6 million. This reserve will be built up through General Fund contributions and an established depreciation schedule.

Recommendation

1. Incorporate the proposed reserve allocations listed above into the FY 1997-98 budget. Recommendations regarding changes in reserve policies are included in the Fiscal Policy section.

Revenue Options

To analyze revenue sources and determine whether it will be feasible to increase fees or identify any potential new revenue sources in order to address the negative impacts of Proposition 218 on the City's General Fund.

The 1997 Long Term Financial Plan process included an examination of all General Fund revenue sources. This review was conducted in order to identify potential revenue sources to replace the loss of assessment and in-lieu revenue in light of Proposition 218 passed by the voters of California in

November 1996. Based on this review, four major revenue categories were analyzed in detail including:

Several revenue sources were analyzed including...

- Utility Tax
- Golf Course Green Fees
- Parking Meter Fees
- Permits and Plan Check Fees

Utility Tax:

Utility taxes

The utility tax is defined as a general tax imposed on the use of utility services. A total of 126 California cities, or 26.5 percent, currently collect some form of utility user's tax. Of these, eleven Orange County cities have imposed this tax by means of taxing a combination of electricity, gas, telephone, water, sewer, and cable television. All utility user's taxes are calculated as a percentage of the total bill on a monthly basis. The rates charged by other Orange County cities range from 1.5% to 11%, with the majority falling within the 4% to 6% range. The following table summarizes the cities surveyed and the percentages of utility user's tax charged.

Buena Park	3%
Huntington Beach	5%
Irvine (commercial only)	1.5%
La Habra	6%
La Palma	5%
Los Alamitos	6%
Placentia	4%
Santa Ana	6%
Seal Beach	11%
Stanton	5%
Westminster	5%

The following table shows potential gross receipts for a utility user's tax for the City of San Clemente at various percentage rates:

A 3% utility tax would generate $1.5 million

Utility	**1%**	**2%**	**3%**	**4%**	**5%**	**10%**
Gas	68,760	137,520	206,280	275,040	343,800	687,600
Electric	204,000	408,000	612,000	816,000	1,020,000	2,040,000
Telephone	65,000	130,000	195,000	260,000	325,000	650,000
Cable TV	68,420	136,840	205,260	273,680	342,100	684,200
Water	71,920	143,840	215,760	287,680	359,600	719,200
Sewer	34,280	68,560	102,840	137,120	171,400	342,800
Total	**512,380**	**1,024,760**	**1,537,140**	**2,049,520**	**2,561,900**	**5,123,800**

The following table indicates the approximate cost for an average San Clemente resident:

Annual Cost/ Household	**1%**	**2%**	**3%**	**4%**	**5%**	**10%**
	$19.90	$39.80	$59.70	$79.60	$99.50	$199.00

Compared to current L & L assessments, a 3% utility tax would decrease fees by 36%

As outlined below, the current special assessment levied through the City's *Lighting and Landscape District*, the average single family household on a public street pays $93.00 per year. If the citizens of San Clemente were to approve a 3% utility user's tax, the average annual payment per household would be $59.70 per year. This is an average annual savings of approximately $33.30, or 36% per household per year. The table below outlines annual assessments for both residential and commercial property:

L & L fee = $93.00
3% utility tax = $59.70

Property Type	**Annual Assessment**
Single family residential on public streets	$93.00
Single family residential on private streets	$81.00
Condo parcels	$82.00
Commercial, industrial, recreational, rental parcels	$557.50/acre
Time share parcels	$1.64/time share

Golf Course Green Fees:

Golf course green fees are less than comparable courses

Current green fees for 18 holes are $9.00 and $14.00 for San Clemente residents for weekday and weekend play. For nonresidents, the green fees are $20.00 and $27.00 for weekday and weekend play. An analysis and comparison of fees to other public golf courses indicates that an increase in green fees would keep rates well within market rates at other similar golf courses. An increase of $2.00 per play across the board for both residents and non-residents would generate an additional $240,000 annually.

The City's Golf Course is currently operated as an "enterprise" fund, separate from the City's General Fund. All other recreation programs are funded from the City's General Fund. The only direct Golf Course Fund contribution to the General Fund is an "in-lieu" (in-lieu of paying property taxes) fee amounting to $76,000.

A transfer of $250,000 from the Golf Course to the General Fund is recommended

In order to address the City's Proposition 218 shortfall, a transfer of an additional $250,000 from the Golf Fund to the General Fund is recommended.

Parking Meter Revenues:

As a part of the 1997 LTFP process, a survey was conducted of parking meter rates charged by other cities. The following table summarizes this comparison.

Comparative parking meter rates

CITY	**RATE**
San Clemente	$0.75 per hour
Dana Point/Orange County	$0.75 per hour
Laguna Beach	$1.00 per hour
San Juan Capistrano	$0.25 per hour and $2.00 per day for Metrolink
Newport Beach	$1.00 per hour
Del Mar	$1.00 per hour
Huntington Beach	$1.50 per hour
Manhattan Beach	$1.00 per hour

San Clemente currently charges $.75/hour

As indicated, the City of San Clemente currently charges $0.75 per hour, a rate which has been in effect for the past five years. The City's parking meter system consists of 385 parking spaces metered by multi-space parking meter machines and 581 parking spaces metered by mechanical single space parking meters.

$120,000 would be generated by increasing rates to $1.00/hour

By increasing the parking meter fee from $.75 to $1.00 an additional $120,000 would be generated. A total of $335,000 in parking meter revenue is budgeted in fiscal year 1996-97.

Building Permits & Plan Check Fees:
The City's Building Division examined all fees related to enforcing state mandated laws and uniform codes, reviewing construction plans, and permit issuance. Current permit fees assessed by the City of San Clemente are:

- 8% below the average fee charged by 31 jurisdictions in Orange County;
- 15% below 17 jurisdictions (55% of total) collecting permit fees in Orange County;
- 66% below the highest permit fee collected by the City of Dana Point; and
- 14.4% below the average fees collected by 9 surrounding beach communities in the County.

Increasing building permit and plan check fees by 10% would generate $78,000 annually

It would be possible to increase permits and plan check fees by 10%, which would bring San Clemente's fees to the same level as other beach cities in Orange County. This increase would generate additional revenues of $78,000 annually from both revenue sources.

Recommendations

1. Consider the adoption of a utility user's tax to cover an anticipated General Fund shortfall.
2. Direct staff to prepare a resolution calling for an election to be held on June 3, 1997.
3. Approve and direct staff to increase Golf Course revenue by an amount sufficient to generate $250,000.
4. Approve and direct staff to increase the hourly rate on all metered parking from $0.75 per hour to $1.00 per hour.
5. Increase building permits and building plan check fees by 10%.

Lighting and Landscape Fund

Objective

To conduct a comprehensive review of the Lighting and Landscape District and determine the most appropriate options to fund beach, park and streetscape maintenance in San Clemente.

The Lighting & Landscape District was formed in 1981

The San Clemente *Lighting and Landscape Assessment District* was formed in 1981 pursuant to the Landscape and Lighting Act of 1972. The intent of the District is to fund certain costs through the collection of an annual assessment placed upon property owners within city limits. The original purpose of the District was to provide for the operation and maintenance of the city's street lights and landscaped medians.

The District was expanded from 1983 to 1995

In 1983, the District was expanded to fund the maintenance of city-owned trees and specified parkway areas. In 1989, the District was expanded to fund the maintenance of city parks and public buildings. In 1994, the District incorporated the maintenance of city beaches and, in 1995, the District was expanded to include the Forster Ranch Greenbelt in which only the residents of Forster Ranch are assessed for maintenance costs.

In 1996, City Council established a Lighting & Landscape District ad-hoc committee consisting of 15 members of the community to review and provide recommendations relating to the District.

The following functions are currently funded through the Lighting & Landscape District:

Five functions are currently funded in the District

1. *Beach and Park Assessment*
2. *Tree Assessment*
3. *Median and Parkway Assessment*
4. *Street Light Assessment*
5. *Forster Ranch Greenbelt Assessment*

In order to fund the Lighting and Landscape Assessment District, the District generates revenue through annual assessments placed upon property owners within the City. The assessments are levied on the basis of benefit and are considered a user fee. Assessments are set and approved annually by the City Council, after a public hearing, on all privately held properties within the City.

The City's park system has grown dramatically since 1990 as improvements have been added to the system

Since 1990, the City's park and streetscape system has grown dramatically. A number of improvements were added to the system on an annual basis (see Volume II of the LTFP for a complete listing). As the District has grown, rates have increased from $70.00 in FY 1988-89 to $93.00 today.

The Lighting and Landscape District has provided a funding source for beach, park and streetscape maintenance services during a time of dramatic loss of property tax revenue to the State of California. Since 1992, the City of San Clemente has lost a total of $1.2 million in annual city property tax revenue. The Lighting & Landscape District has helped absorb the increased pressure on the General Fund by allowing District costs to be passed through to property owners.

The passage of Proposition 218 has significantly altered the method by which assessments can be passed on to property voters. Basically, most of

Proposition 218 results in the loss of $1.9 million in assessment revenue

the services provided can no longer be recovered through the Lighting & Landscape District. Thus, the assessment income currently generated by the City's Assessment District will not be available after July 1, 1997. This results in a loss of approximately $1.9 million in assessment revenue.

Recommendations

After a comprehensive review of the Lighting & Landscape District, the following recommendations were made by the Ad-hoc Committee:

Ad-hoc Committee recommendations

1. *Reduce the scope of services provided in the Lighting and Landscape District to include only services within the public rights-of-way (street lights, street trees, median islands and parkways).
2. Retain the current "C" level of maintenance (average on a scale of A-E as provided for in the current Parks and Recreation Master Plan) for all beaches, parks and streetscapes. However, if the City determines that a local tax will be necessary to defray some portion of beach and park maintenance costs, and the community does not support said levy, then quality reductions will be necessary. In this situation, it is recommended that reductions (from "C" level or average to "D" or below average) be implemented first in lower use neighborhood parks and last in high use community parks.
3. Implement, to the extent possible, cost reductions on a city-wide basis, including those currently under consideration by staff and as recommended by the Lighting and Landscape District Ad Hoc Committee, designed to (a) maintain current service levels and (b) reduce the cost of a potential tax increase.
4. Request that staff and the Parks and Recreation Master Plan Committee consider and incorporate cost avoidance reductions in design standards as recommended by the Lighting and Landscape District Ad Hoc Committee for beaches, parks and streetscapes in the updated Parks and Recreation Master Plan and Master Landscape Plan for Scenic Corridors.
5. *Request that staff consider and incorporate revenue enhancements as recommended by the Lighting and Landscape District Ad Hoc Committee and that are currently under consideration by staff to augment existing revenue sources.
6. Request that staff analyze current Beaches, Parks and Recreation Department fee structures to ensure that fees are reasonable and obtain an appropriate level of self-sufficiency.
7. *Authorize staff to consider and prepare a policy and procedure that would: (a) provide a balance and equity with the provision of neighborhood park amenities throughout the city, (b) incorporate the development of the phase one improvements of Forster Ranch Park into the equity equation to balance park services in this residential community, (c) provide financial protection for the existing park system maintenance program and prevent future deterioration of amenities due to future desires for park expansion, (d) establish guidelines for

obtaining voter approval of future community and regional beach and park improvements, including the provision of ongoing maintenance and (e) incorporate the policy into the Parks and Recreation Master Plan.

8. *If necessary, after implementing all possible cost reductions and revenue enhancements, request that the City Council consider the placement of a proposal for a general or special tax on the June 3, 1997 ballot. The combined cost of the proposed tax and the remaining Lighting and Landscape District assessment to the community shall be less than what is currently paid for said services. Incorporate into this tax proposal an appropriate "sunset clause" that takes into consideration the long term financial health of the City.

**Several of the Committee recommendations were made prior to the full analysis of Proposition 218. Certain recommendations made need to be revisited in light of changed conditions.*

Street Improvement Program Update

Objective

To provide an update of the City's Street Improvement Program and project short and long-term funding requirements.

A $55 million Street Improvement Program was created in 1995

A $55 million Street Improvement Program was adopted by the City Council in July, 1995. The program was established in order to restore about 60 miles or one-half of the City's street system over a period of 18 years. The program is funded by a combination of revenue from (1) *Street Assessment District 95-1*, which assesses all developed properties, (2) the *General Fund* and, (3) the *Gas Tax Fund*. In addition, the Water, Sewer, and Storm Drain Funds contribute funds for various underground facilities necessitated by the street repair work.

Sale of bonds allowed for completion of ten projects two years earlier than scheduled

In an effort to accelerate the program, bonds were issued in year two of the program rather than in year three as previously planned. The bond sale was consummated in September of 1996 and, due to favorable market conditions, resulted in an improved cash flow for the Street Improvement Fund. The sale of bonds allowed for the completion of ten street projects two years earlier than originally scheduled.

25 street projects will be completed by the end of the fiscal year

Since the approval of the program in July 1995, fifteen (15) street projects have been completed, and ten (10) street projects are either under construction or are to be constructed during this fiscal year 1996-97. Completed projects total 5.74 miles while those currently under construction or scheduled for construction in fiscal year 1996-97 total 3.38 miles. Additionally, there are 24 street projects currently in the design stage and design will be completed prior to the end of FY 1996-97. (A complete listing of streets completed or under construction is available in Volume II of the Long Term Financial Plan).

A very successful major maintenance program has been established

In conjunction with the Street Improvement Program, a "major maintenance program" has also been initiated. This successful program calls for thin overlay work on streets that are not scheduled for full rehabilitation for several years. The FY 1996-97 budget allocates a total of $193,000 to the program and, since July, 1996, twelve streets have been partially rehabilitated under this program. Advantages of the major maintenance program include:

- Reduced maintenance costs by reducing the number of times the crews have to return to the same street before it is rehabilitated
- An increased area can be covered under the major maintenance program
- Work has a better appearance and ride quality
- The street may be saved requiring an overlay versus total reconstruction
- Improve image of the neighborhood at reasonable cost

Although the funding of the Street Improvement Program is generally positive, there are some concerns worth noting. On the positive side, the majority of the street projects which have been awarded this year are coming in about 5%-10% under initial project estimates. Additionally, the sale of bonds at interest rates lower than projected resulted in lower costs. This is offset by lower than anticipated assessment revenue ($1.38 million vs. $1.5 projection) due to various adjustments. Further, Measure M funds, projected at $250,000 per year, will subside in 2010, or three years before the scheduled completion of the program. This will result in a loss of revenues if Measure M is not extended. In summary, the current Street Improvement Program is financially sound and will be monitored closely as the City enters the third year of this eighteen year program.

Recommendations

1. Approve and authorize the continued allocation of General Fund monies per the original funding schedule.
2. Confirm the City Council's continuing commitment to the Fiscal Policy requiring General Fund contributions to the program as resources become available.

Organizational Development

Objective

(1) To maintain the vital services of the maintenance services division while attempting to identify service delivery alternatives that may improve efficiency and cost effectiveness. (2) To conduct a review of alternatives available for the delivery of water, wastewater and storm drain services in the City of San Clemente.

Maintenance and utility functions are under consideration for contracting to the private sector

The City, on an annual basis, conducts a review of all operations to determine if any operations could be conducted more efficiently by contracting with the private sector. Due to the imposition of Proposition 218, the City was obligated to explore all cost saving alternatives including the potential contracting of critical services in the areas of maintenance and utility operations.

Maintenance:
The San Clemente Public Works Department is a full service department consisting of eighty-one employees dispersed throughout three major divisions. The major functions of the Maintenance Services Division include street sweeping and maintaining the city's streets, traffic signs, traffic painting and markings, street lights, traffic signals, city parking lots and parking meters, communications, and maintenance of the City's many facilities. The Maintenance Services Division's staff of 22 employees is divided into two major sections -field maintenance and facility maintenance.

$2.3 million is expended for maintenance programs

Although the maintenance services division accounts for 12% of the Public Works department's total budget, it accounts for 66% ($2.3 million) of the department's share ($3.4 million) of the General Fund.

The division's General Fund budget is allocated as follows:

Traffic Signals	$129,920	6%
Traffic Maintenance	$198,913	9%
Administration	$226,533	10%
Street Cleaning	$119,570	5%
Facilities Maintenance	$518,256	23%
Parking Maintenance	$68,960	3%
Street Maintenance	$1,008,944	44%
Total - General Fund	***$2,271,096***	

Potential savings of $430,000 may be possible if maintenance services are contracted

The Public Works Department has sought informal bid estimates to determine whether it would be cost effective to contract out all maintenance functions to the private sector. Estimates provided from private sector firms indicate that a total savings of $430,000 could be realized by contracting all maintenance functions.

Utilities:

The private sector has expressed an interest in operating or leasing the City's utility systems

Over the past year the City has been approached by several private water and wastewater firms with offers to operate or lease the City's utility systems. The offers to the City, as well as other cities in Orange County, generally included offers of operating savings and/or large up front payments and ongoing annual payments.

In dealing with the effects of Proposition 218, the City hired a professional engineering firm (HDR) to assist in evaluating the possibilities of contracting the operation of water, wastewater and storm drain utilities.

Three options exist...

After a comprehensive review of all contracting options, it was determined that two options exist for the contracting of utility functions as well as maintaining the operation "in-house":

1. Operation & maintenance contract

- *Operation and Maintenance Contract* - Maintain full control of the facilities and contract the operation and maintenance of the systems to a private contractor. The contractor is paid an annual fee for their services, and may or may not provide materials and supplies depending on the contract. The benefits of this option are the possibility of lower operating costs on an annual basis due to the economies of scale available to a large contractor and the consolidation of engineering, lab and other support functions. Contract periods usually run from one to five years. Savings, if any, vary depending on the efficiency of the current method of operation and the competitiveness of the marketplace at the time of bidding.

2. Asset lease

- *Asset Lease* - Under this option, which may involve a lease of five-fifty years, the contractor takes control of the assets in much the same manner as one leases a building for a business. They become responsible for all operations and maintenance in accordance with the lease agreement, provide for all supplies, equipment and energy, and may or may not be responsible for capital replacements and improvements. Benefits of this option are generally an up front cash payment and annual franchise or lease payments. The size of the up front payment is usually dependent on the term of the lease and the condition and financial stability of the facility being leased. Order of magnitude of the up front payments may range from $2,000,000 for a short term lease of a "troubled" system to over $30,000,000 for a fifty year lease on a well funded, well maintained system. Under this option the City usually maintains some control through the lease agreement of the rate structure and capital improvement planning and construction.

3. In-house operation

- *In-house* - The final option available to the City is to not contract the services. It is becoming more common for the employees of the facility to enter into the competition with the contractors and bid for their jobs, or more simply, make a commitment to reduce costs to a level offered by the contractors. Often, especially in well run facilities, the employees can streamline their jobs and operate as efficiently or more so than the contractors.

An independent review of utility operations has been conducted

As stated above, the City Council hired the firm of HDR Engineering, Inc. to provide an independent third party review and analysis of options available. A vendor forum was conducted in order to interview firms interested in contracting with the City to provide utility services. Eight firms were interviewed.

Concurrent with this process, HDR conducted an inspection of the City's utility systems. The purpose of the inspection was for HDR staff to familiarize themselves with the City's systems to enable them to assess the offers made by the vendors. Additionally it allowed them to investigate areas which could be optimized by the City to enable them to operate at the same level of efficiency as a private contractor.

Two firms have been selected for further consideration

After a thorough analysis of all the vendors, two firms were selected for further review should the City decide to pursue the contracting option:

1. California Water Service Company and Wheelabrator (CWSC/WEOS)
2. ECO Resources, Inc. (ECO) a wholly-owned subsidiary of Southwest Water Company

Both firms were flexible in their approach, however, CWSC/WEOS had a preference toward a long term lease arrangement, while ECO had a preference toward a straight operation and maintenance contract. Both firms had positive approaches to the continued employment of the City's employees and offered comparable salary and benefit packages.

The figures suggested by CWSC/WEOS ranged from a one-time payment of $10 million for a 10 year lease to $17 million for a 40 year lease, or an up-front payment of $1 million and total annual payments of $16.9 million for a 10 year lease to an up-front payment of $5 million and total annual payments of $113 million for a 40 year lease. In addition CWSC/WEOS suggested they could make capital improvements in the range of $3.4 million to $37.7 million depending on the length of the lease.

Savings of $400,000 could be realized through an O & M contract

ECO presented their estimate of savings on a straight O&M contract as $400,000 per year or $2 million over the term of a 5 year lease. $400,000 represents approximately 10% of the actual operating costs outlined in the 1996-97 budget. ECO was also willing to make an equivalent up-front payment in-lieu of the annual installments.

10-15% could be saved by maintaining the system in-house

HDR, after a thorough review of the Utility Division budget, staffing levels, operating procedures and an inspection of the utility systems, has concluded that significant savings can be achieved by City staff without compromising quality of service. This would be accomplished by using a variety of private sector techniques to save 10% to 15% of operating costs. Potential savings include:

WATER SECTION

Reduction of 2.9 full time equivalent employees (FTE)	$145,000
Elimination of 1.0 FTE vacant position	$ 45,300
5% reduction of energy costs	$ 14,700
2% reduction of chemical costs	$ 3,250
TOTAL WATER REDUCTIONS	$ 208,250

SEWER SECTION

Reduction of 1.75 FTE	$ 81,100
Elimination of 2.0 FTE vacant positions	$ 95,000
10% reduction of energy costs	$ 37,500
5% reduction of chemical costs	$ 4,900
2% reduction of supplies	$ 1,000
Reduction of bio-solids disposal costs (SERRA contract)	$ 36,000
TOTAL SEWER REDUCTIONS	$255,500

STORM DRAIN SECTION

Reduction of .5 FTE		$ 22,650
2% reduction of supplies		$ 250
TOTAL STORM DRAIN REDUCTIONS		$ 22,900
TOTAL REDUCTIONS	$ 486,650	
TOTAL 1996-97 O & M BUDGET	$4,053,000	
Percent reduction (all sections)	12.0%	

Transfer of funds from the utility system to the General Fund may be possible

Certain cost saving measures have been identified by HDR and utility staff. Come of these savings can be implemented immediately and other cost reductions can be phased in. The opportunity of transferring funds from the utility system to the General Fund needs to be further explored before a final decision is made regarding the contracting of the Water, Wastewater, and Storm Drain Utility.

Recommendations

1. Staff recommends that council authorize distribution of a request for proposals from the private sector for the complete operation of the maintenance services division. Potential savings of $430,000.
2. Identify and immediately implement 10-15% of cost saving measures in the Utility system.
3. Continue the vendor process by negotiating with the top qualifying firms to identify further savings opportunities and identify possible financial benefits to the General Fund.

Computer Strategic Plan

Objective

Perform a city-wide computer needs assessment and develop a Computer Strategic Plan that addresses staff's and the public's short-term needs and long term objectives. Develop a Request for Information (RFI) for the necessary tools to migrate the City's current systems toward the objectives identified in the needs assessment.

A computer strategic plan has been developed

The FY 1996-97 budget allocated $25,000 in order to develop a comprehensive computer strategic plan. A decision was made to seek outside assistance due to the technical nature of the project as well as to provide an outside perspective of current computer technology and processes. In addition, a Steering Committee, consisting of City staff members was selected to oversee the project as well as to make recommendations as to the future direction of the City's computer system.

Key issues...

As a result of the study several critical issues were identified as a part of the needs assessment survey conducted by Kerry Consulting Group and City

Management Information Systems (MIS) staff. The primary areas of concern related to:

Replacement of computer systems is necessary

- *Replacement of computer systems is necessary due to age and potential data loss due to the "year 2000" problem* - The current computer system was scheduled for replacement this year; however, due to budgetary constraints, the system was not replaced. Rather, the funds ($90,000) dedicated to computer lease payments were diverted to the replacement of infrastructure needs including the City's cabling system. It is becoming evident that the current system is becoming extremely costly to maintain as parts are difficult to obtain and maintenance costs increase accordingly.

Productivity will increase with new computer systems

- *Productivity will increase significantly through the upgrade of current software, especially in the area of financial systems* - The City's financial systems are outdated and in need of replacement. A number of tasks that are currently performed manually by both financial and MIS staff would be accomplished more efficiently and effectively with modern financial software.

Data communications must be brought up to industry standards

- *The City's data communications system must be brought up to industry standards* - The current ARCNet conversion to Ethernet cabling system should be completed so that all systems can communicate more efficiently. Additionally, existing data communication hardware must be upgraded through the replacement of routers, hubs and routing servers.

The Internet and GIS systems will impact the way the City does business in the future

- *The advent of Internet technology and geographic information systems(GIS) will impact the way the City conducts business* - The City has established a web site which requires daily maintenance and future plans call for direct access to City Hall via the Internet system in order to facilitate communications between the public and City staff. In order to proceed into the next implementation phase with the City's geographic information system, a "base map" must be purchased so that GIS staff can develop a comprehensive mapping scheme which will be used throughout the City.

Recommendation

1. Adopt the recommended Computer Strategic Plan in concept.
2. Direct staff to incorporate the following items into the FY 1997-98 budget:
   - ⇒ $164,000 for system infrastructure including ethernet hubs, routers, data lines and upgraded PC's.
   - ⇒ $250,000 for software and hardware which includes replacement of all software and the City's mini-computer system.
   - ⇒ $60,000 for replacement of custom software including complaint tracking and project management systems.
   - ⇒ $12,000 for the purchase of a GIS base map.

3. Finance cost of implementation through a lease arrangement not to exceed the current budgeted amount of $90,000 a year.

Contract Analysis

Objective

To provide a comprehensive update on contracted City services; to analyze the actual cost savings achieved and to ensure quality service delivery and citizen satisfaction.

Current contracts were objectively analyzed to determine actual cost savings and performance

Since the development of the City's first Long Term Financial Plan in 1993, several City functions have been contracted out to both the private and public sector. This year, all major contracts were objectively analyzed in order to determine (1) whether anticipated savings were realized and (2) whether the services received are in line with expectations and performance measures are adequate.

The following contracts were included in the study:

Contract Type	Start Date	Duration as of 6/97	Anticipated Savings (6/97)	Actual Savings
Police	*July 2, 1993*	*48 Months*	*$8,471,000*	*$8,864,116*
Fire	*Sept 2, 1994*	*33 Months*	*$1,318,000*	*$1,274,549*
Beach/Parks	*May 1, 1994*	*37 Months*	*$864,237*	*$1,196,465*
Street Striping	*May 1,1994*	*37 Months*	*$62,511*	*$221,817*
Fleet Maintenance	*May 1, 1994*	*37 Months*	*$245,777*	*$622,080*
Meter Reading	*July 1,1994*	*36 Months*	*$231,200*	*$231,000**
Total Savings			**$11,192,525**	**12,410,027**

Total anticipated savings were exceeded by over $400,000

As indicated in the table above, anticipated savings were generally achieved and, in several cases, exceeded. In fact, total savings exceeded projections by over $1.2 million. A brief overview of each of the contracts follows:

Police Services

- *Police Services* - Total annual savings amount to approximately $2.2 million. This savings presumes that the City will not lose Proposition 172 funds of $203,000. As detailed in Volume II, all Police performance objectives have been consistently achieved.

Fire Services

- *Fire Services* - Total savings over the period amounted to $1.3 million. The Fire Department has met all objectives defined in the contract.

Beaches & Parks maintenance

- *Beaches & Parks Maintenance* - The projected total savings of $864,000 was exceeded by over $300,000. According to an April 1996 survey, 99% of residents who reported usage of San Clemente parks and recreation facilities responded that they were either very satisfied or somewhat satisfied. These is a consensus with staff, the public and the contractor, that the parks and beaches are being well maintained.

Street Striping

- *Street Striping* - Estimated savings of $62,000 have been exceeded because the City has not had to replace equipment. Thus, actual savings amount to over $220,000. However, significant problems have been encountered with the contractor and staff has had to devote considerable effort towards managing this contract. The current contract is being closely monitored and a change in contractors will be forthcoming if performance standards are not met.

Fleet maintenance

- *Fleet Maintenance* - Projected three year savings of $246,000 have been far exceeded and, in fact, total $622,000. This is an incentive contract and annual costs have consistently been under budget. All performance measures in this program have been exceeded by the contractor, Managed Logistics Systems (MLS), a subsidiary of Ryder.

Meter reading

- *Meter Reading* - This is a contract with SDG&E for reading the City's water meters. Savings of $77,000 per year were achieved through avoided costs the City would have incurred to implement monthly utility billing.

Recommendations

1. The City should maintain some capacity to respond to unforeseen tasks since it is impossible to specify all conceivable tasks in contract specifications.
2. The City needs to maintain staff with the capability to prepare specifications and monitor contracts if it intends to continue or expand contracting.
3. The City should adjust the termination dates of its contracts to coincide with the City's fiscal year.
4. The City should consider instituting incentive contracts similar to the fleet maintenance contract where appropriate.

Economic Development

Objective

To update the progress made in the implementation of the 1994-95 Economic Development Plan and to provide projections concerning sales tax growth and business development trends.

Economic development program efforts focused on:
1. ***Business retention***
2. ***Business marketing and promotion***
3. ***Reinvestment and revitalization***

The 1994-95 Economic Development Plan called for the City to focus its program efforts on three specific areas: 1) Business Retention; 2) Business Marketing and Promotion; and 3) Reinvestment and Revitalization. These three program areas have represented the underlying foundation and overall mission for the City's economic development initiatives over the past several years. With these program elements in place, the City has attempted to address specific issues as follows:

Sales tax leakage is a startling 52%

Issue: Sales Tax Leakage
According to a report prepared by Ultra Research entitled *1995 Retail Sales Analysis for Orange County Cities*, the City's taxable retail sales leakage for 1995 is a startling 52%. This leakage factor translates to a loss of $ 273.7 million in taxable sales and a reciprocal loss of sales tax revenue to the City of $2.73 million. Out of 31 cities in Orange County, the City of San Clemente ranks 24th in total taxable sales and 27th in per capita taxable sales for calendar year 1995.

During the past two years, the City has worked closely with the Ramser Cos. to process entitlements for development of the Plaza Pacifica Shopping Center which will contain 525,000 square feet of retail/service space. Phase I is expected to start construction in July 1997 and will be anchored by a WalMart Store, 15-screen theater complex, adjacent food court, in-line retail space and three restaurants. It is estimated that Plaza Pacifica will be generating $787,500 in additional sales tax revenue for the City by the calendar year 2000. In addition to the Plaza Pacifica project, City staff are working with the Lusk Company to evaluate environmental and economic impacts for a proposed 750,000 sq. ft. regional shopping center to be located on property know as Marblehead Coastal. If approved, this retail center could produce an estimated $1,125,000 in additional sales tax by the calendar year 2002.

Three programs have been implemented to attract and retain businesses

Issue: Development Program Incentives
During the past two years, the City has implemented three specific programs designed to assist in the attraction and retention of businesses in the community. These programs are: 1) Streamlined Permitting System; 2) Sales Tax Fee Credits Program and 3) the creation of an Industrial Development Authority.

New business has been attracted to the community

Issue: Increased Business Attraction
The City has enjoyed considerable success in its efforts to attract new business to the community. The Rancho San Clemente Business Park had a vacancy factor in 1993 of approximately 25% as compared to 3.1% in September 1996. The Business Park is over 70% built out and is resident to over 6,100 employees. At full build out, the Business park will have close to 9,000 employees which represents almost one third of the total current employment in the City.

Public/private partnerships have been forged

Issue: Retain and Strengthen Local Businesses
The City has forged new public/private partnerships with the Downtown Business Association (DBA) and the Los Molinos Business Advisory Committee. The Downtown area has benefited from the installation of new monument signs, decorative hanging flower baskets, uplighting devices installed in tree wells, and joint funding participation in the DBA's Summer Shuttle Program. The Los Molinos Industrial area is the subject of a

proposed Pico Corridor Specific Plan which is currently under consideration. The City has initiated new street improvements, increased street tree maintenance, traffic parking and safety improvements; and increased parking enforcement. In response, business operators and property owners have improved their property maintenance standards and expressed a willingness to reinvest in their facilities.

Issue: Expand Visitor Events
The City's Ocean Festival and Chamber of Commerce's Fiesta continue to be the major events which bring thousands of visitors into the community each year The DBA has inaugurated a Classic Car Show which will be an annual event held during the summer in the Downtown area. Also during the past year, the Riverside Transportation Commission, working closely with community business leaders, launched the Summer Beach Train Program.

Issue: Market Forces and Retailing Obsolescence
Changing economic realities and competitive regional forces are having a negative impact on the City's established retailing areas. The City must develop strategies to facilitate the adaptive reuse of vacant and underutilized store fronts and also ensure that new infill businesses enhance and strengthen the quality and character of existing retail areas.

Issue: Limited Business Park Development Resources
The ability to strike an appropriate balance between new housing development and employment generating uses will be severely limited without the planning and implementation of additional business park development opportunities. The Talega Valley project represents an ideal area for expansion of business park uses.

Issue: Reinvestment and Revitalization
The Central Business District improvement program and the Los Molinos Public/Private Partnership program have enjoyed considerable success. It is imperative that the City continue to work closely with the leadership of the DBA and Los Molinos Business Advisory Committee to develop strategies and plans for the continued enhancement and economic strengthening of these areas.

Recommendation

Direct the City's Economic Development Manager to:

1. Work closely with the Chamber of Commerce, Downtown Business Association and other affected businesses and property owners to further strengthen and expand the acquisition of quality infill retail and service uses in the Downtown area and on El Camino Real.
2. Continue to assist the owners of the Pico Plaza Shopping Center and the KMart Shopping Center in the marketing and acquisition of replacement anchor tenants.

3. Coordinate and provide staff support to the Central Business District Transition Program and the Los Molinos Public/Private Partnership Program.
4. Complete the infrastructure assessment and prepare a five-year capital improvement program and financing recommendations for the Los Molinos Industrial area.
5. Continue to diligently provide business ombudsman and developer advocacy services and serve as the primary interface with the business community to coordinate the resolution and response to complaints and requests for business related support services.
6. Continue to aggressively market and promote the recruitment and attraction of new business firms into the Rancho San Clemente Business Park and work with members of the traditional lending community and other capital market participants to obtain financing for the construction of speculative office, R&D, multi-tenant and light manufacturing facilities.
7. Assist in the preparation of land use strategies that will augment the City's ability to promote and facilitate the establishment of additional business park development resources and subsequent creation of new employment opportunities within the community.

CITY OF SAN CLEMENTE

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Volume I

City of San Clemente