



POPULAR ANNUAL FINANCIAL REPORT



Fiscal Year Ended June 30, 2008
City of San Clemente, California



Message from the City Manager

I am pleased to present the Popular Annual Financial Report (PAFR) for the 2007-08 fiscal year. This report presents a condensed version of the City's Comprehensive Annual Financial Report, which is available upon request from the City Clerk and on the City's web site (<http://san-clemente.org>), in an easy to read and brief format.

Most cities in California are facing significant budgetary issues as a result of the declining national and state economy. San Clemente is certainly not immune to the resulting fiscal pressures, but the City's financial condition is stable and reserves are fully funded. The City is well positioned to deal with the potential impact of revenue losses due to solid fiscal planning and conservative budgeting during the past several years.

San Clemente will strive to maintain our current service levels that are of importance to the citizens, while providing quality recreational facilities and programs, a safe and healthy community, alleviating traffic, and maintaining the City's infrastructure.

George Scarborough

Governing Body

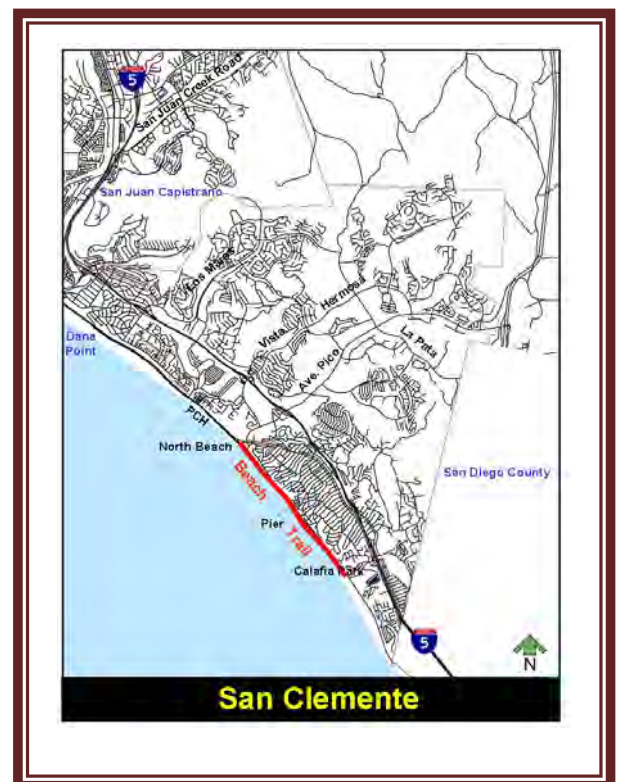
The City is represented by a five-member City Council, elected at-large for four-year overlapping terms. Non-partisan elections are held in November of even-numbered years for Council Members. The City Council acts as the legislative body and sets policy, approves the budget, passes local laws, and provides direction on City policies and issues.



First Row Seated: Councilmember Steve Knoblock, Mayor Joe Anderson, Mayor Pro Tem Lori Donchak; Second Row Standing: Councilmember Jim Dahl and Councilmember Wayne Eggleston

About San Clemente

San Clemente is known as the "Spanish Village by the Sea" for its small Spanish-style village atmosphere, magnificent Mediterranean buildings, and beaches with world-renowned surf. The sun shines year round, making San Clemente a perfect place for outdoor activities. San Clemente's beaches are visited by 2.7 million people each year who come to surf, boogie board, fish off of the historic pier or walk about the pier over the Pacific Ocean to enjoy the pristine views and sunsets.



<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>Beyond</u>
<p><u>Major Accomplishments</u></p> <ul style="list-style-type: none"> ◆ Obtained OCTA funding for Go Local Program to pursue Tri City Trolley Preliminary Study ◆ Completed construction of new Municipal Golf Course Clubhouse ◆ Began construction on Phase II of the Coastal Trail ◆ Began construction on Phase 1A of La Pata Vista Hermosa Park ◆ Obtained Federal and State grant funds for the expansion of the City's Recycled Water System ◆ Completed the San Gorgonio Park renovation ◆ Clean Ocean Fee was renewed by property owners ◆ Hired consultant to coordinate City's Way Finding Sign Program ◆ Completed San Gorgonio Park field and lighting improvements 	<p><u>Major Activities</u></p> <ul style="list-style-type: none"> ◆ Filed Notice of Intent for Quiet Zone Application ◆ Completed Phase II of the Coastal Trail ◆ Construction to commence on new Senior Center and Fire Station ◆ Received funding to pursue Step Two of OCTA's Go Local Program for Tri-City Trolley Planning ◆ Completed Avenida Pico Corridor improvements, including high school parking lot circulation improvements ◆ Construction to commence on Phase IB of La Pata/Vista Hermosa Park ◆ Palizada Sidewalk Improvement Project ◆ Poche Beach Urban-Runoff Filtering Project construction near completion ◆ Completed construction of Segunda Deschecha Canada Urban Runoff Treatment Facility to improve water quality at North Beach 	<ul style="list-style-type: none"> ◆ Construction of the Marblehead Coastal " Plaza San Clemente" retail development ◆ Construction of the Playa del Norte development at North Beach ◆ Relocation of City Hall

Great things about San Clemente

Culture

The Casa Romantica Cultural Center & Gardens serves as the cultural centerpiece of San Clemente and features native landscaping, a library and local research archive, historical displays, lecture series, music, theater and dance performances.



Entertainment

Live entertainment can be enjoyed at the summer concert series at the beach or at the Cabrillo Playhouse, a 66-seat theater founded in 1953.



Transportation

Rail service is available at two stations in San Clemente. Amtrak is accessible at the San Clemente Municipal Pier and Metrolink is accessible at North Beach just off North El Camino Real.

Art

San Clemente is home to a dozen art galleries. Also, an Arts & Crafts Fair is held monthly in the downtown area not far from the San Clemente Art Association's beautiful art gallery featuring the works of local artists.

Shop

Several shopping opportunities exist in San Clemente, including unique boutiques and antique stores located along downtown Avenida Del Mar.



Dine & Stay

San Clemente offers an array of restaurants featuring casual and fine dining cuisine. Visitors who choose to extend their stay in San Clemente have their choice of hotels, bed & breakfasts, beach cottages and resort condominiums.

Recreation

With 4 golf courses, 4.7 miles of sandy beaches, 20 parks, 23 sports fields, a pool club, 6.8 miles of ridgeline trails, and 2.3 miles of coastal trail, one will never run out of recreational fun in San Clemente.

Overview of San Clemente's Economy

Region

According to the latest Economic Forecast report presented by Cal State Fullerton's Institute for Economic Studies, "Orange County and Southern California have not escaped the fate of the national economy....Orange County and Southern California will continue to suffer job losses this year and at least through the first half of 2009."

City

San Clemente's economic outlook remains relatively positive although residential and commercial property sales have slowed dramatically. Property tax revenue is



expected to hold steady or increase slightly.

San Clemente properties in pre-

foreclosure or foreclosure due to the mortgage crisis have been minimal, as compared to other Orange County cities, and are not anticipated to severely impact property tax receipts.

Housing

Like the rest of Orange County and the nation for that matter, San Clemente is experiencing a decline in



home prices.

Houses are also taking longer to sell today and with

Housing (continued)

tighter lending practices, people are finding it harder to qualify for a loan. The City is comprised of two general areas, easily tracked by zip codes. As reported by *The Orange County Register* for the month ending June 30, 2008, the older portion of San Clemente, located west of Interstate 5 had a median home price of \$780,000, down 7% from last year. The newer portion represented by the planned communities of Talega and Forster Ranch, had a median home price of \$896,000, down 3.0% from the prior year.

Commercial Development

The construction of a new 103,000 square foot commercial center in the inland community of Talega, "Talega Village Center," was completed in spring 2008. Since then commercial development has stalled in San Clemente. However despite the economic slowdown and recent delays in the Marblehead

Coastal commercial project, "The Plaza at San Clemente" will move forward. The center will be located off of



the Interstate 5 at Avenida Vista Hermosa. The project will add 319,000 square feet of outlets with complementing retail, a multiplex cinema, dinner houses and casual dining, a boutique hotel with conference facilities and a wide array of neighborhood services. The City of San Clemente anticipates a significant increase in sales tax revenues from these commercial developments.

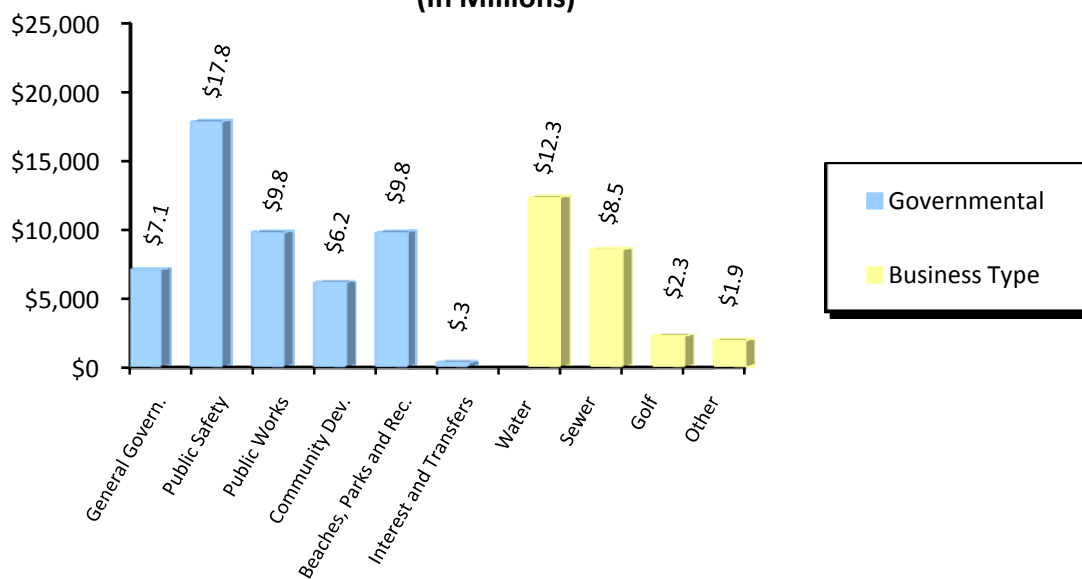
City of San Clemente Financials

The financial information is from the June 30, 2008 Comprehensive Annual Financial Report (prepared in accordance with Generally Accepted Accounting Principles). Additional detail is available in the report.

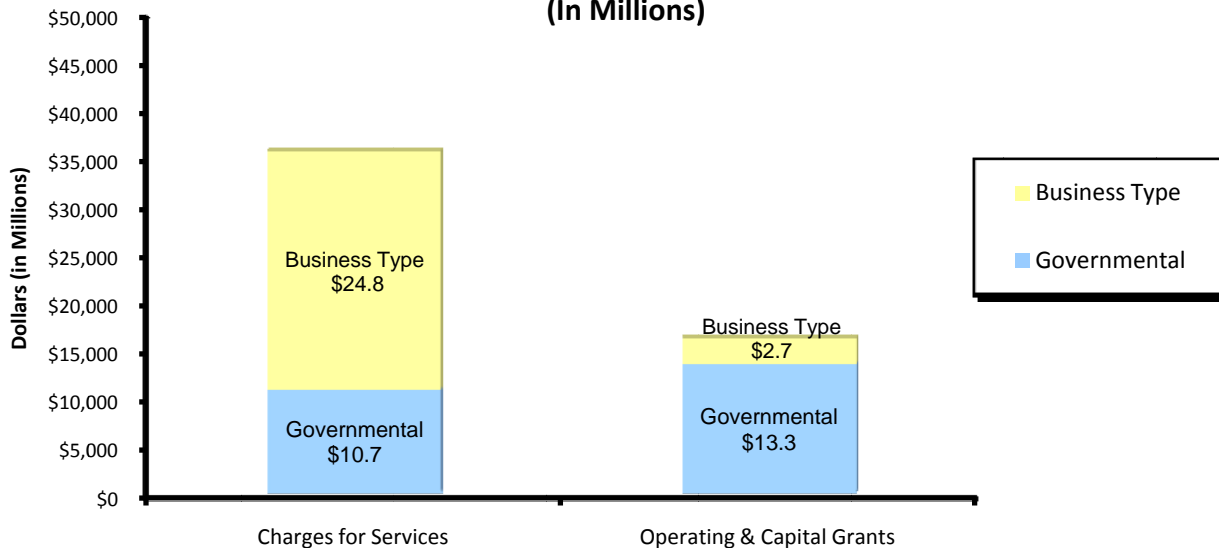
Statement of Activities

The following graphs show the revenues and expenses for Governmental and Business-type activities as it relates to the program category in which the funds were collected or expended. Governmental activities include the General, Debt Service, Capital Project, and Special Revenue Funds. Business-type activities include the Water, Sewer, Golf, Storm Drain, Clean Ocean and Solid Waste Funds.

**City of San Clemente Expenses
Governmental and Business-Type Activities
For the Year Ending June 30, 2008
(In Millions)**



**City of San Clemente Revenues
Governmental and Business-Type Activities
For the Year Ending June 30, 2008
(In Millions)**



Statement of Net Assets

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of June 30, 2008.

City of San Clemente Statement of Net Assets As of June 30, 2008 (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$119,936	\$117,458	\$59,294	\$55,875	\$179,230	\$173,333
Capital assets	153,532	142,318	143,688	138,420	297,220	280,738
Total assets	<u>273,468</u>	<u>259,776</u>	<u>202,982</u>	<u>194,295</u>	<u>476,450</u>	<u>454,071</u>
Liabilities						
Current and other liabilities	9,988	8,525	2,557	3,665	12,545	12,190
Long term liabilities	5,879	5,777	550	538	6,429	6,315
Total liabilities	<u>15,867</u>	<u>14,302</u>	<u>3,107</u>	<u>4,203</u>	<u>18,974</u>	<u>18,505</u>
Net Assets						
Invested in capital assets, net of related debt	150,591	139,241	141,188	138,420	291,779	277,661
Restricted	72,577	73,258	45,176	43,020	117,753	116,278
Unrestricted	34,433	32,975	9,511	8,652	43,944	41,627
Total net assets	<u>\$257,601</u>	<u>\$245,474</u>	<u>\$195,875</u>	<u>\$190,092</u>	<u>\$453,476</u>	<u>\$435,566</u>

Current and Other Assets - Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets – The City's land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Liabilities – Represent payments due to vendors and employees, lease payments due, claims payable and other long term debt of the City. Amounts owed are classified as current (due in less than one year) and long term (due in more than one year).

Invested in Capital Assets, Net of Related Debt – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt due to the acquisition, construction, or improvement of capital assets.

Restricted Net Assets – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, capital projects, and specific projects and programs.

Unrestricted Net Assets – These are resources that are accessible to the City to provide services to the residents of the City of San Clemente if there were no additional revenues or resources available.

Investments

The market value of the City’s cash and investments as of June 30, 2008 is as follows:

The City’s investment practices and policies are based upon state law and prudent money management. The primary objectives of the investment policy and the City’s investments, in order, are:

- Safety
- Liquidity
- Return on investment

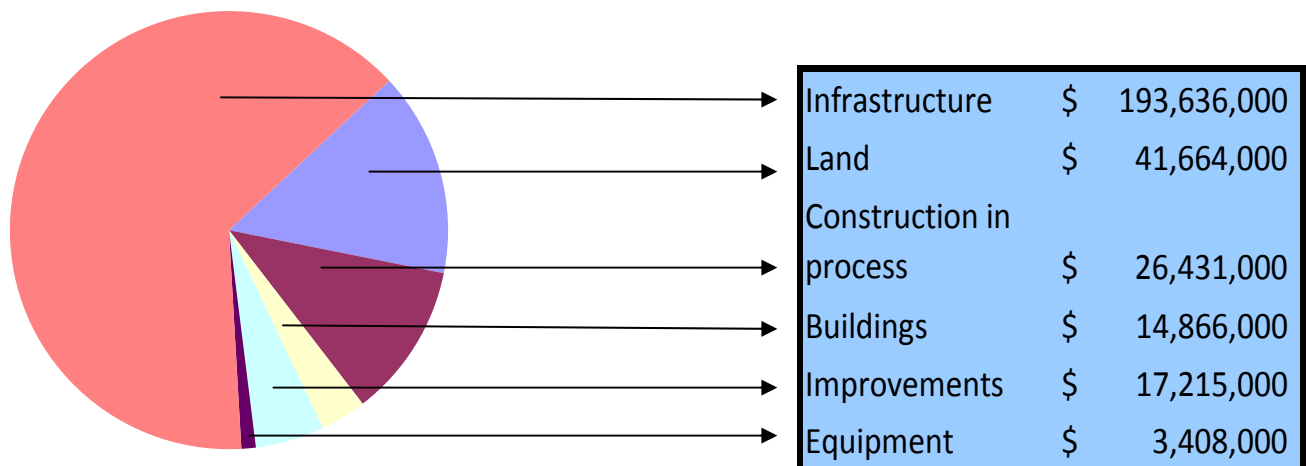
The City’s investment types and maturity schedules are listed in the chart. The rate of return for the year ended June 30, 2008 was 3.40%

	Investment Maturities by Month (In Thousands)				Total
	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	
Investments:					
US Treasuries	\$35,583	\$18,161	\$8,002	\$9,420	\$35,583
Federal Agency Local Agency Investment Funds	94,594	28,427	13,214	52,953	94,594
<i>Held by bond trustee:</i>					
Money Market Funds	1,451	1,451			1,451
Investment Contracts	1,179	1,179			1,179
Local Agency Investment Funds	359	359			359
Total	\$163,077	\$79,488	\$21,216	\$62,373	\$163,077

Capital Assets

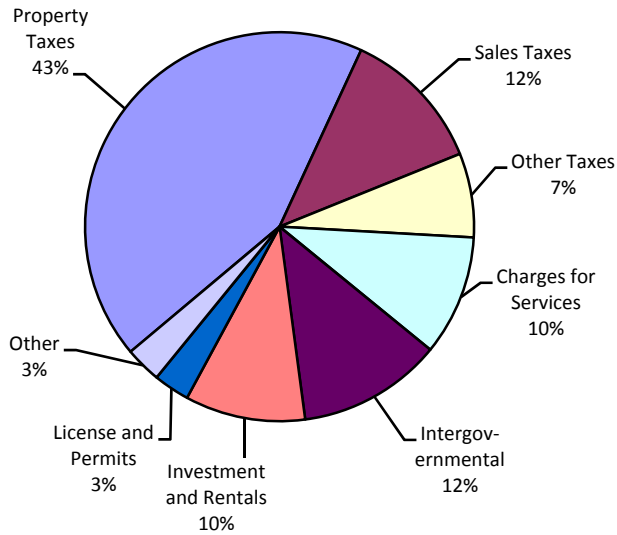
As of June 30, 2008, the City’s total capital assets (net of depreciation) are \$297,220,000. This total amount is broken down into the following categories:

**City of San Clemente Capital Assets
(Net of Depreciation) as of June 30, 2008**



Governmental Funds

Governmental Revenues



Revenue By Category	Amount (in millions)
Property Taxes	\$ 27.5
Sales Taxes	7.6
Other Taxes	4.3
Charges for Services	6.7
Intergovernmental	7.6
Investment and Rentals	6.5
Licenses and Permits	2.1
Other	1.8
Total Revenues	\$ 64.1

Revenues:

The largest source of operating revenue for the City is **property taxes**. Property taxes are levies collected from property within the City based on assessed value and a tax rate.

Sales taxes, the second largest source of revenue for the City, are imposed on retail transactions and are collected and administered by the State. San Clemente general fund receives 0.75% of the total taxable sales generated within the City. (.75 of each \$100 spent)

The **“other taxes”** category is comprised of the following:

- *Transient occupancy taxes* are imposed on lodging facilities such as hotels and motels. The City’s current tax rate is set at 10%.
- *Franchise fees* are negotiated fee revenue from local utilities.

Charges for services are revenues collected for services rendered to the public.

Licenses and permits represent revenues generated from a variety of activities, such as business licenses, parking permits, and building-related permits.

Revenue from **investment and rental** include sources such as interest on City investments, leases and concessions.

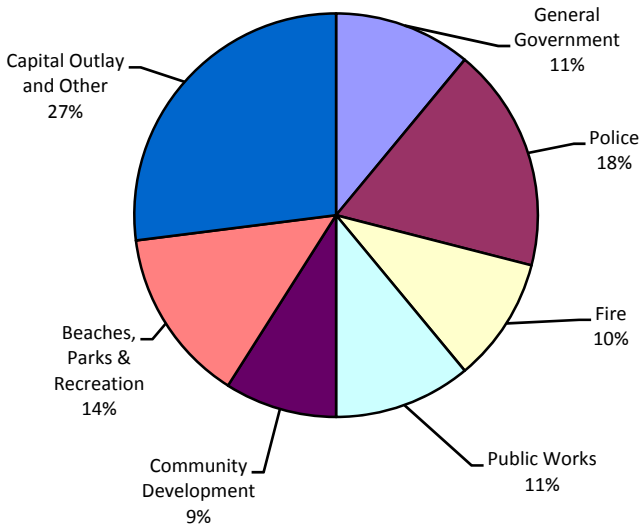
The **“other revenues”** category includes the following:

- *Fines and forfeits* that are generated from a variety of sources, such as court and traffic fines and parking violations.
- Revenues from *developers* related to impacts that developer activity may have on the City.
- Other revenues that do not fall into designated categories, such as refunds and donations.

Governmental Fund data is reported on the modified accrual basis of accounting, which is more similar to a “checking account”.

Governmental Funds

Governmental Expenditures



Expenditures By Category	Amount (in millions)
General Government	\$ 7.2
Police	11.5
Fire	6.2
Public Works	7.0
Community Development	5.8
Beaches, Parks & Recreation	8.6
Capital Outlay and Other	17.1
Total Expenditures	\$ 63.4

Expenditures:

General Government expenditures are those incurred for the administrative offices, including the Mayor and City Council, City Manager, City Administration, City Treasurer, City Attorney, Finance, City Clerk, Human Resources and other non-departmental costs.

Police Services reflect the contracted costs associated with providing law enforcement services to the public. The City of San Clemente contracts with the Orange County Sheriff's Department for police services.

Fire Services reflect the contracted costs associated with providing fire services to the public. The City of San Clemente contracts with the Orange County Fire Authority for fire services.

Public Works expenditures are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City. These include streets, sidewalks and other infrastructure assets.

Community Development expenditures are those relating to land development, housing, construction and code enforcement.

Beaches, Parks and Recreation expenditures are those incurred by the City to enrich the quality of life in San Clemente through Beaches, Parks, and Recreation activities and to support the educational and informational needs of its residents and patrons.

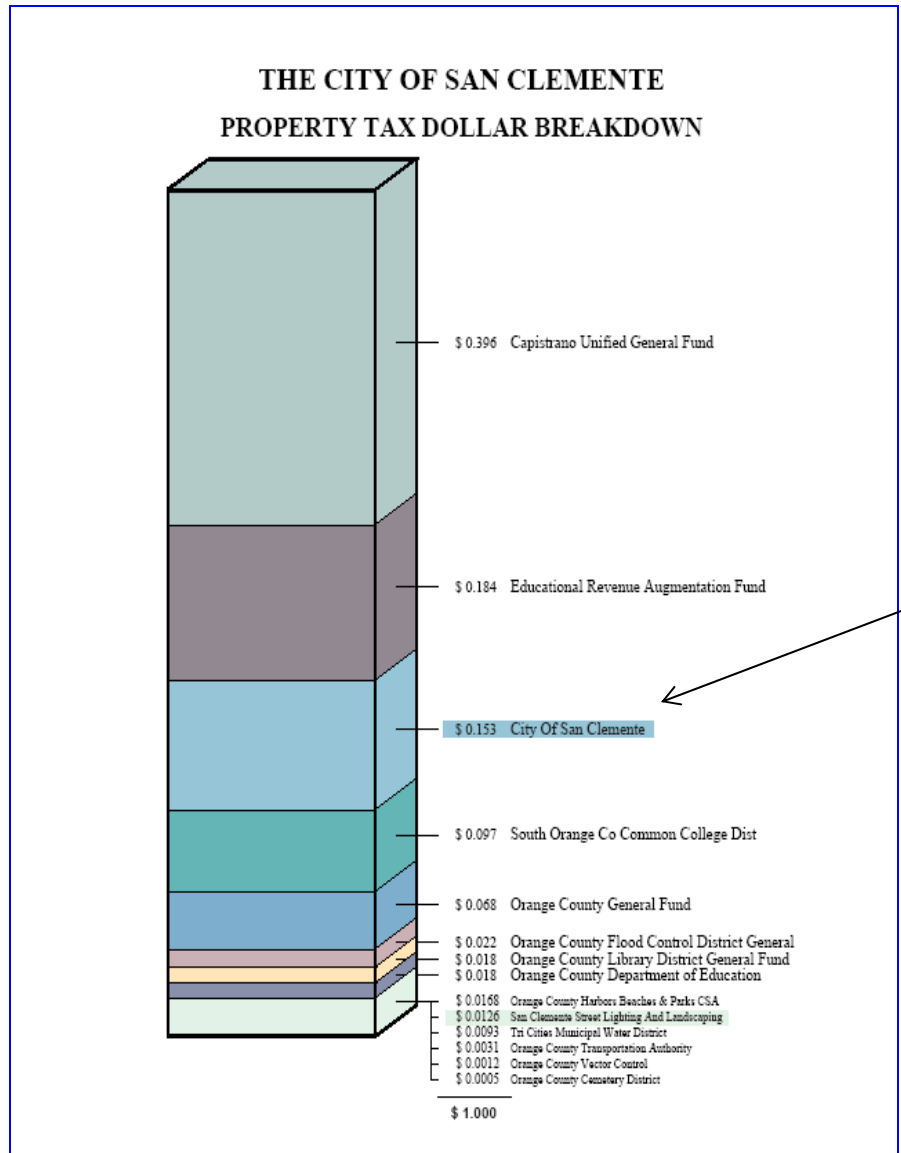
Capital Outlay expenditures are those related to the purchase or construction of plant, property, infrastructure and other equipment.

Property Taxes

The largest source of revenue for the City of San Clemente is property taxes. Personal property in California is subject to a basic levy equal to one percent of the assessed value. The City receives **\$0.153** of each property tax dollar. The chart on this page shows the distribution of the total levy for each property tax dollar paid for by the City of San Clemente.

The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of two percent per year based on inflation. When a change of ownership or new construction occurs, the property is reassessed to its current value.

The basic levy is allocated to county governments, school districts, cities, and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.



Capital Projects Planned for San Clemente

La Pata Vista Hermosa Sports Park & Aquatics Center

With an intense need and high demand for recreational facilities in San Clemente, construction is underway for a new 45-acre sports park. This park will help alleviate the field shortage problem by adding 9 more fields. Included are 5 soccer fields, 3 baseball fields, 1 football field and 2 pools (one 50-meter pool and one 25-yard pool). The project is estimated to cost \$38.7 million.



The groundbreaking for La Pata/Vista Hermosa Sports Park & Aquatics Center was held in January 2008 and kicked off the construction of the Phase 1A for utilities and signaling for the La Pata/Vista Hermosa Sports Park & Aquatics Center. Phase IA is expected to be completed by December 2008.

It is anticipated that the City will seek qualified contractors for Phase IB of the project in March 2009 which includes the pools and athletic fields. Phase IB construction will take place through 2009 and into 2010 before the park is completed.

Senior Center and Fire Station

San Clemente's senior population has outgrown its facility currently located in the San Clemente Library building. The main reasons for new space and more services can be seen in the City's rapid growth to a town of nearly 70,000 people in which seniors comprise approximately 13% of the total population. And, with improved health services in the United States, helping people to live longer, the 65+ population is proving to be more actively involved in social and recreational activities than ever before.

The senior center will be a joint-use facility that will include a new fire station. Construction on the building will commence in May 2009. A total of 8,000 square feet will be designated for the senior center needs and 7,500 square feet for the fire station needs. The building will be located downtown west of El Camino Real between Avenida Rosa and Avenida Victoria and nearly doubles the space of the existing senior center, which will allow for expanded opportunities for use. And, this location is ideal for the new fire station as it allows the City to realize a long sought after goal of establishing a fire station on the west side of the freeway. The interior space of the new fire station will accommodate a four-man fire engine company and two medics. The total cost for this project is \$5.7 million.



The new senior center will offer a wide choice of social and hobby activities, daily lunches, health and stay-well programs, a center for using and learning about computers, Meals on Wheels and facilities in which to hold meetings, club get-togethers, and seminars. The facility will also be available to San Clemente organizations at large for their community meetings, classes and gatherings when the center is not in use by the seniors.

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San Clemente Leading Indicators

Date of Incorporation: February 28, 1928

Population (1/08): 67,892

% Homeowner Occupied: 62%

Persons/Household: 2.6

Median Home Value (2007): \$782,000

Unemployment San Clemente: 3.9%

of Parks: 20

of Recreation Buildings: 3

Land Area: 18.45 square miles

Housing Units: 27,131

Median Age: 38

Median Family Income: \$84,100

% High School Grad or Higher: 90%

Miles of Beach: 4.7

of Golf Courses: 4

of Swimming Pools: 2

*City of San Clemente
100 San Clemente, CA 92672
(949) 361-8200*

