

Objective

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

Background

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

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

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

Data used in developing this financial trend report was primarily drawn from the City's Comprehensive Annual Financial Reports for fiscal years 2002-03 through 2006-07. Consequently, all trends are based on data available as of June 30, 2007, and do not incorporate any changes that have occurred since that time.

Executive Summary

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

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

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

Financial Trend Analysis

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Indicator	08	07	06	05	04	03	02	01	00	99
Revenues Per Capita	F	F/C	F/C	W	W	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	F	F	F	F	F
Elastic Revenues	W	F/C	F	F	F	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F	F	F	F	F	F
License & Permit Revenues	W	F	F/C	F	F	F	F	F	F	F
Comm. Develop. Charges	W	F/C	F	F	F	F	F	F	F	F
Intergovernmental Revenues	F	F	F	F	F	F	F	F	F	F
One-Time Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overage	F	F	F	F	F	F	F	F	F	F
Population	F	F	F	F	F/C	F	F	F	F	F
Expenditures Per Capita	F	F/C	F	F	F	F/C	F	F	F	F
Expenditures By Function	F	F	F	F/C	F/C	N/A	N/A	N/A	N/A	N/A
Employees Per Capita	F	F	F	F	F	F	F	F	U	U
Fringe Benefits	F	F	F	F/C	F	F	F	F	F	F
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F	F	F	F	F	F/C	F	F	F	F
Indicator	08	07	06	05	04	03	02	01	00	99
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F/C	F/C	F/C	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

Overview of the City's Financial Condition

The 2008 Long Term Financial Plan includes the analysis of twenty-one trends. Three indicators received a warning rating. No indicators received an unfavorable rating. In total, these current year results are a decrease from the prior year when four indicators received caution ratings. However, because of the commitment to financial planning, funding of necessary reserves, and cost reduction and streamlining efforts made by many of the City's departments the City has

already taken the initiative to analyze these warning signs and improve the fiscal health of the City for the future.

Rating changes

There were five trend changes from the last fiscal year, with two of the changes in a positive direction and three in a negative direction. The positive changes were in *Revenues per Capita and Expenditures per capita*, which showed improvement from last year. The negative changes were:

- *Elastic Revenues* – Downgrade to Warning
- *License & Permit Revenues* – Downgrade to Warning
- *Community Development Charges* – Downgrade to Warning

Rating discussion

The three indicators at the Warning level reflect the City's transition from a fast growing, high development area to a City that is stabilizing its growth as development slows.

Revenues per Capita has changed from a favorable/caution to a favorable rating for FY 2006-07 as revenue continues to grow, population growth has slowed with development throughout the City. The slowdown in development has started to allow the City tax revenues to realize these population and growth increases.

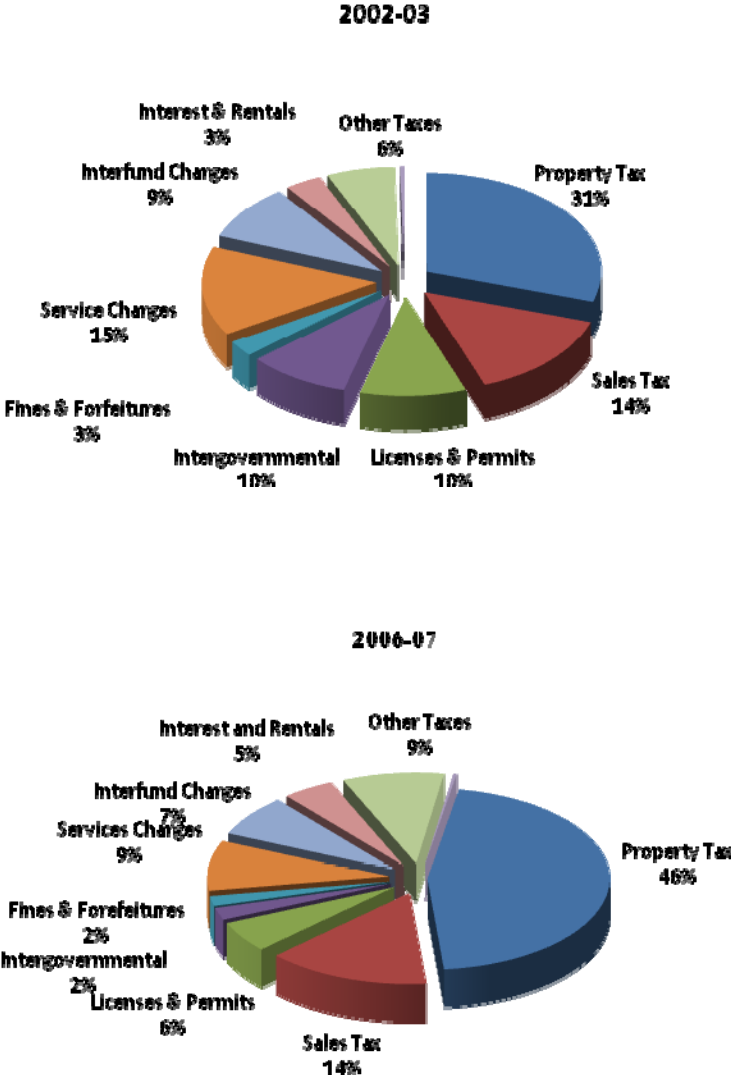
Expenditures Per Capita changed from a favorable/caution rating to a favorable rating due to expenditures keeping up with the growth of the City. However, the City as part of its development needs to continue to monitor the effects of park development and operational costs. A Park Depreciation paper is included in this year's long term financial plan to present alternatives to fund future capital and maintenance costs related to park infrastructure. Expenditures should continue to stabilize in the future; if not, this could signal that the City's service demands have increased on a per capita basis and this trend may be downgraded. *Elastic Revenues* are made up of sales tax, transient occupancy taxes, and licenses and permits. These revenues receive a Warning rating following the third consecutive decrease and the second year below the historical average. Although the total actual amounts for community development service charges and licenses and permits are greater than the original budget amounts, this difference was still less than the prior year, due to the City approaching build-out and the delay of the Marblehead Coastal development.

Licenses and Permits need to be monitored on an on-going basis. Licenses and Permits were anticipated to decrease in construction permits and inspection fees and these revenues will continue to decrease, except for the Marblehead Coastal related activity, in future years. This trend receives a Warning rating due to a continual decline in development and the delay of the Marblehead Coastal project.

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

Revenue Trend Analysis

Comparison of Revenues by Source
FY 2002-03 vs. FY 2006-07



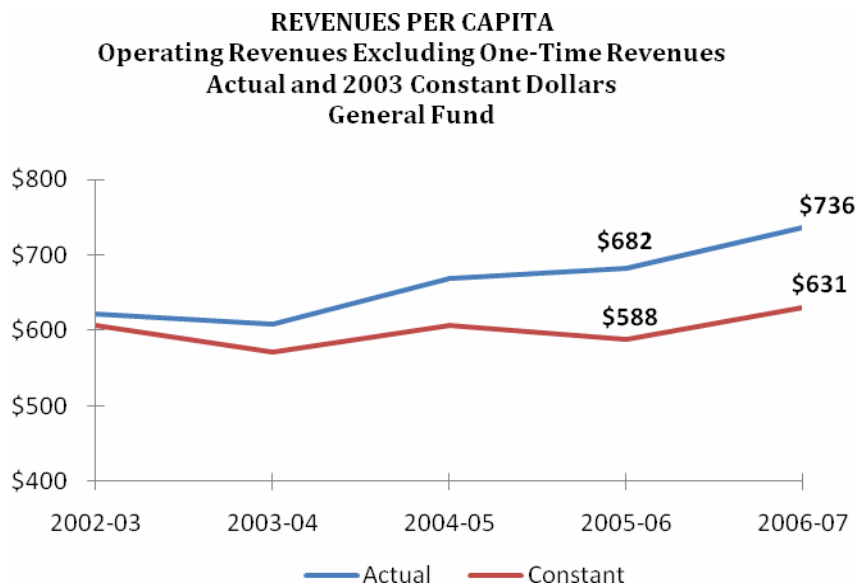
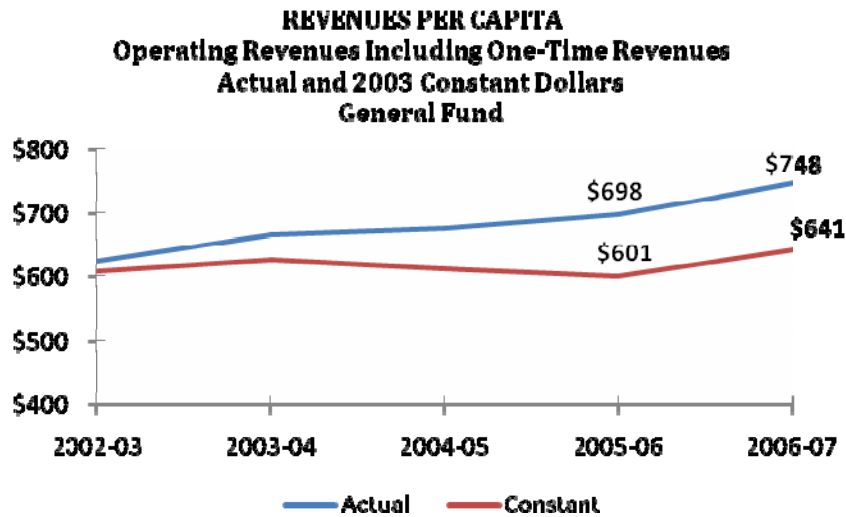
Comments: These charts, which compare current revenue sources to those five years ago, show significant changes in the revenue percentages by source for General Fund revenues in the Property tax, Intergovernmental, Service charges and License and Permit categories. Property tax revenues increased from 31% in FY 2002-03 to 46% in FY 2006-07 due to a change in property tax legislation that started in the 2004-05 fiscal year, and increases in housing prices

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and new development in the City. The change in legislation increased property taxes by \$4.9 million and decreased the City's motor vehicle license fees by the same amount, thereby decreasing the intergovernmental percentage from 9% in 2002-03 to 2% in 2006-07. (See Revenue and Fee Analysis issue paper.) The decrease in licenses and permits from 10% in 2002-03 to 6% in 2006-07 is due to declining construction permit fees as anticipated. Service charges decreased from 15% in 2002-03 to 9% in 2006-07 due to lower planning inspection fees as a result of slowing development in the City.

Revenues Per Capita



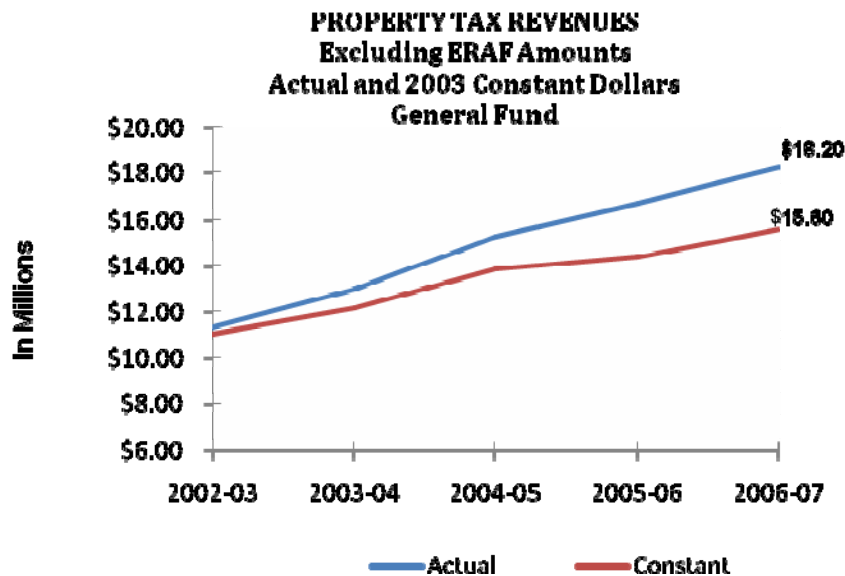
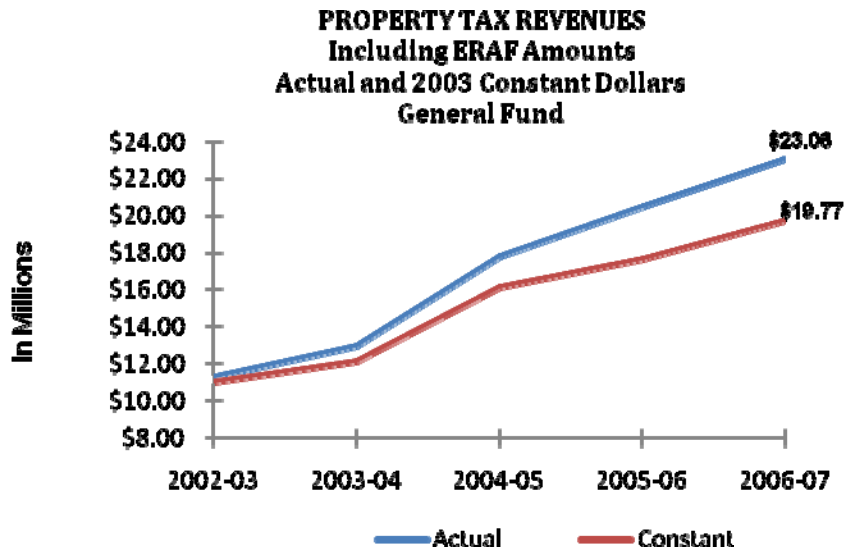
Finding: **FAVORABLE**. Revenues per capita in both charts reflect an increase when analyzing actual amounts and constant dollars for FY 2006-07. This trend has changed to favorable from

a favorable/caution rating in the prior year as revenues continue to grow while the population growth rate has slowed. Revenues per capita, in actual dollars, experienced growth from FY 2005-06 of 7.16% (including one-time revenues) and 7.92% (excluding one-time revenues) related to increases in actual property tax revenues. In constant dollars the increase was 6.67% (including one-time revenues) and 7.31% (excluding one-time revenues) due to the actual dollar growth rate exceeding inflation growth of 2.92%.

Comments: The first chart which includes one-time revenues shows an upward trend from \$698 to \$748 in actual dollars and an increase from \$601 to \$641 in constant dollars. Total revenues for FY 2006-07 increased with the City's major revenue category of property taxes increasing by \$2.5 million. This property tax increase includes the property tax shift of motor vehicle fees that started in FY 2004-05. This increased property tax revenues by \$1.0 million from the FY 2005-06 with total ERAF property taxes of \$4.9 million. The overall increase in revenues far exceeded inflation growth during the last year.

The second chart (which excludes one-time revenues) shows an increase in actual dollars from \$682 to \$736 from FY 2005-06 and an increase in constant dollars from \$588 to \$631. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures, including reserve transfers, in accordance with the City's Fiscal Policy. General Fund revenues remain stable, and the favorable/caution trend has been changed to favorable due to revenues exceeding inflation growth.

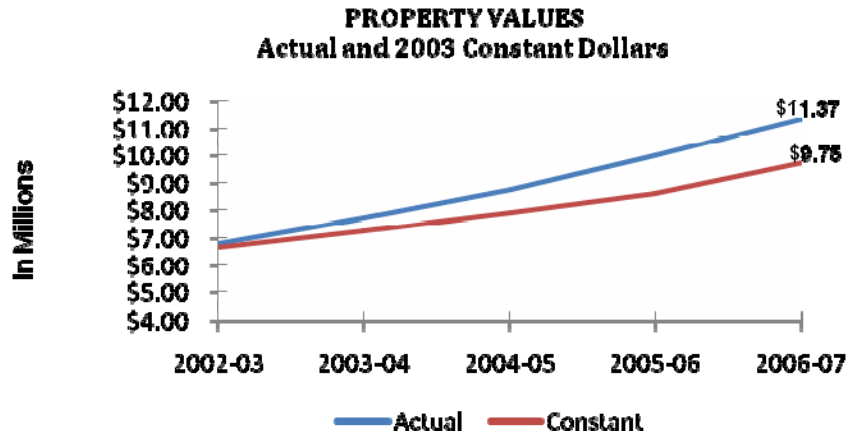
Property Tax Revenues



Finding: **FAVORABLE.** Property tax revenues showed a significant increase for FY 2006-07, continuing a very positive trend, as indicated in the graph above.

Comments: Property tax revenues increased by \$2.6 million or 12.4% in actual dollars, and increase 11.8% in constant dollars ending the year \$2.1 million above the prior fiscal year. The actual dollar increase is the result of an additional \$1.0 million in property taxes received in lieu of motor vehicle fees and \$1.6 million related to new home sales and increased property valuations. This indicator receives a favorable rating for the eleventh consecutive year.

Property Values

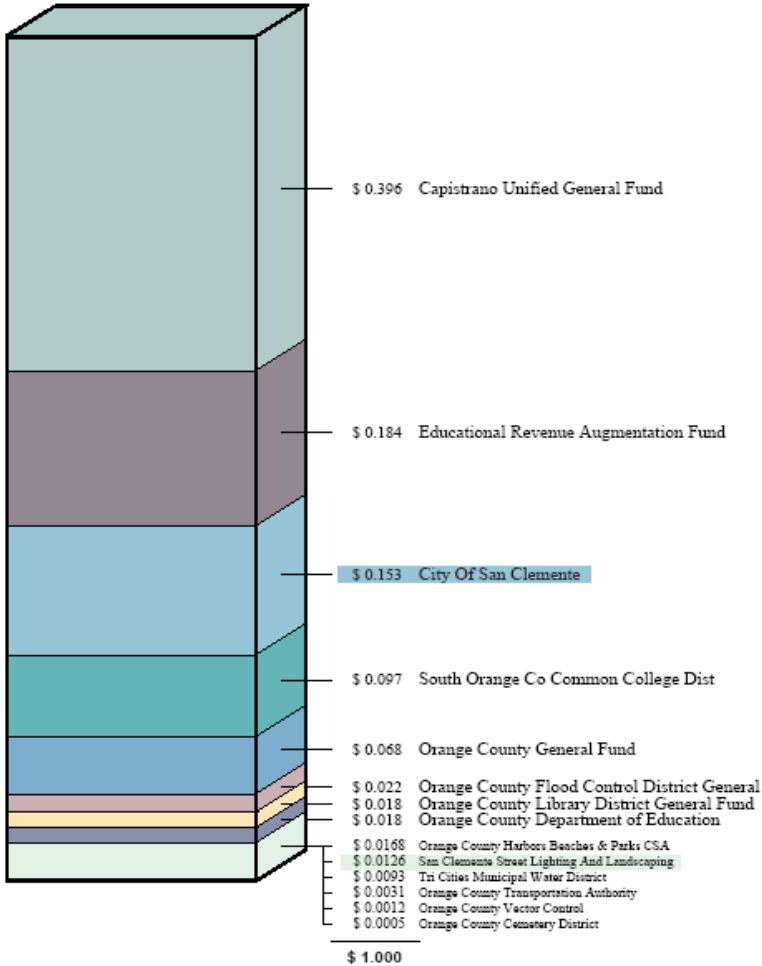


Finding: **FAVORABLE**. Property values showed a positive growth rate for the eleventh consecutive year in FY 2006-07.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars shows an increase of 13.7%. As a result of the positive changes, this indicator remains favorable. This indicator will continue to be closely monitored due to the significant impact in property tax revenues on the City's General Fund.

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

THE CITY OF SAN CLEMENTE PROPERTY TAX DOLLAR BREAKDOWN

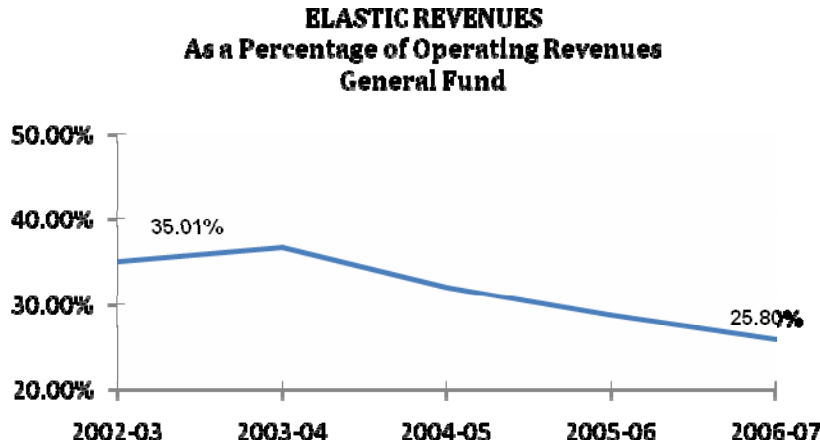


ATI (Annual Tax Increment) Ratios For Tax Rate Area 10000, Excluding Redevelopment Factors & Additional Debt Service
Source: HdL Coren & Cone, Orange County Assessor 2006/07 Annual Tax Increment Tables NC707321807 Page 1
This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone.

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

Elastic Revenues

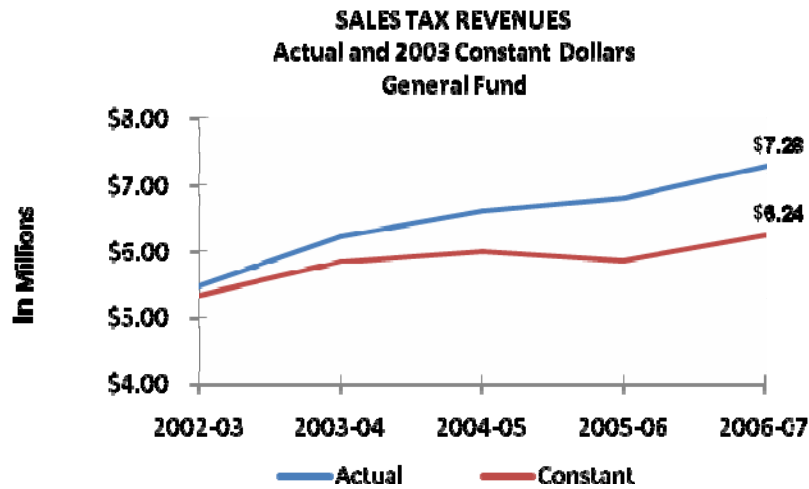
(Sales Tax, Transient Occupancy Tax, License and Permits, and Community Development Service Charges)



Finding: **WARNING.** Elastic revenues, as a percentage of total revenues, show a decrease from FY 2005-06 to FY 2006-07 which is the third consecutive decrease. Actual elastic revenues decreased \$179,665, while operating revenues increased by \$4.6 million. A warning rating is assigned due to a decrease in revenue of \$268,645 in community development service charges and \$488,109 from licenses and permits; however, sales taxes increased by 7.1% or \$479,588.

Comments: Elastic revenues, as a percentage of total revenues, decreased from 28.8% in FY 2005-06 to 25.8% in FY 2006-07 and is below the historical average of 31.0% from FY 1995-96 to FY 1999-2000. This was the result of a \$268,645, or 14%, drop in community development service charges and a drop in licenses and permits of \$488,109, or 14.9%. A warning rating has been assigned because of the decreases in community development service charges and licenses and permits from the previous year. Details concerning each major elastic revenue source can be found in the following pages.

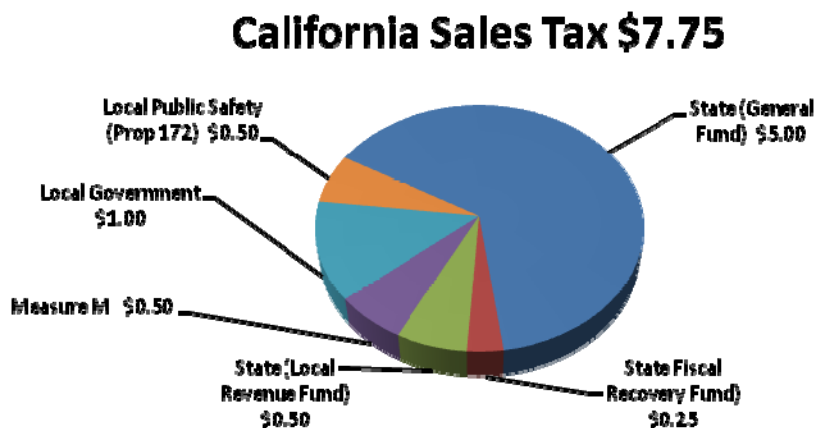
Sales Tax Revenues



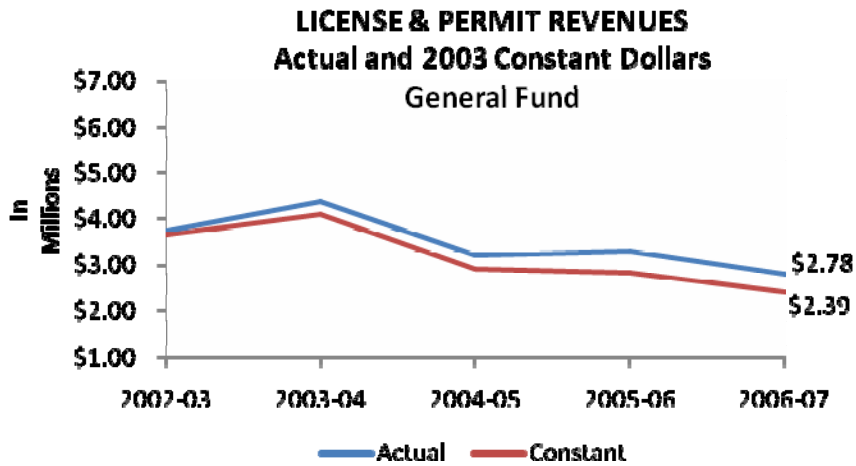
Finding: **FAVORABLE**. As summarized in the chart above, sales tax revenues showed an increase of \$479,588, or 7.1% in actual dollars over the prior fiscal year. In constant dollars, the increase amounted to \$382,081, or 6.5%, which is higher than the inflation rate.

Comments: As summarized in the chart, sales tax revenues have gradually increased over the past five years in actual and constant dollars. In fact, actual dollars increased 32.9% and constant dollars increased 16.7% from sales tax revenues recorded in FY 2002-03. These increases boost sales tax revenue to an eighteen-year high in actual dollars and the result is a continued favorable rating. The City of San Clemente sales taxes are ranked 22nd out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed:



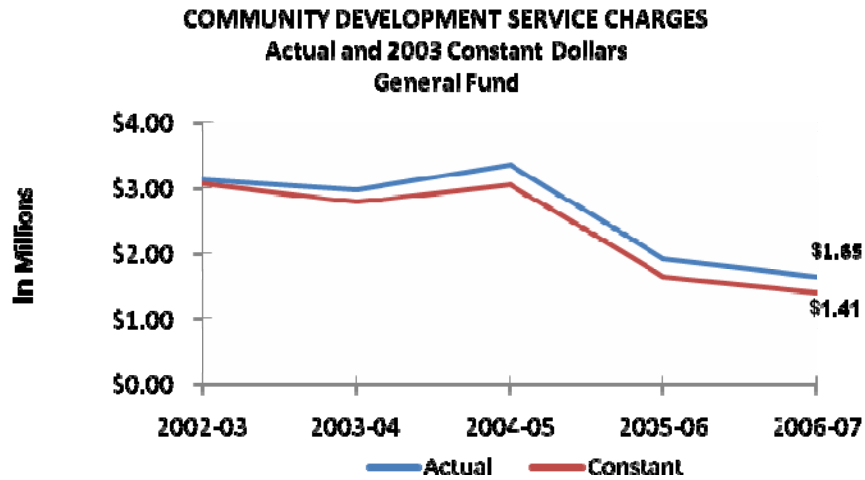
License and Permit Revenues



Finding: **WARNING.** License and permit revenues decreased in actual dollars in the amount of \$488,109 or 14.9% from the prior fiscal year. The constant dollar decrease registered at \$432,528 or 15.4% from FY 2005-06. This indicator received a warning rating to reflect the change to a downward trend in actual dollars.

Comments: While construction permit revenue decreased \$558,626, or 27.3% over the past year, business license income increased from the prior year by \$66,741 or 6.3%. A warning rating has been assigned based on the development activity decrease causing a downward shift in elastic revenues. It should be noted that the City projects developmental revenues, such as license and permit fees conservatively due to the timing of projects entering the building permit stage which cannot always be predicted accurately. Although these decreases were anticipated during the mid-year adjustments the amounts for permits were below the City's original anticipated budget for FY 2006-07.

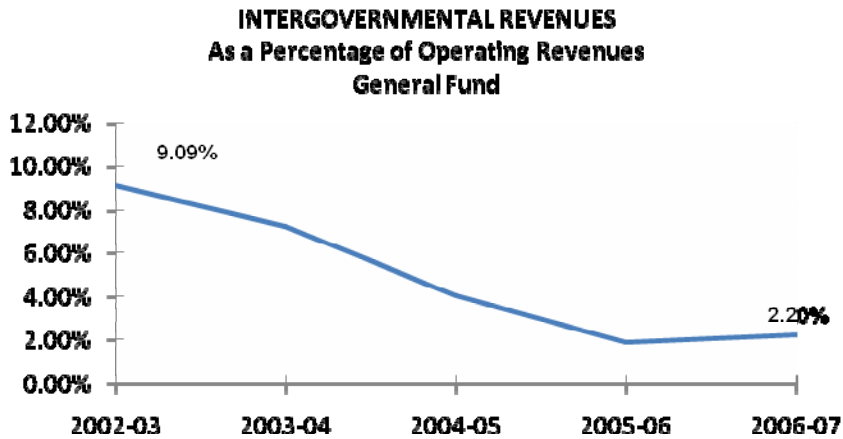
Community Development Service Charges Revenues



Finding: **WARNING.** Total community development service charges decreased by 14%, or \$268,645 from the prior year. This represents the second consecutive year of decreases. This trend is assigned a warning rating due to the decline in development as the City nears build-out; the leveling of the service charges; and the possible effects of the revenue fee structure review.

Comments: Other community development revenues, such as plan check fees and zoning application fees account for most of the \$268,645 decrease. Although the total actual amounts for community development service charges are greater than the original budget amounts, this difference was still less than the prior year, due to the City approaching build-out and the delay of the Marblehead Coastal development.

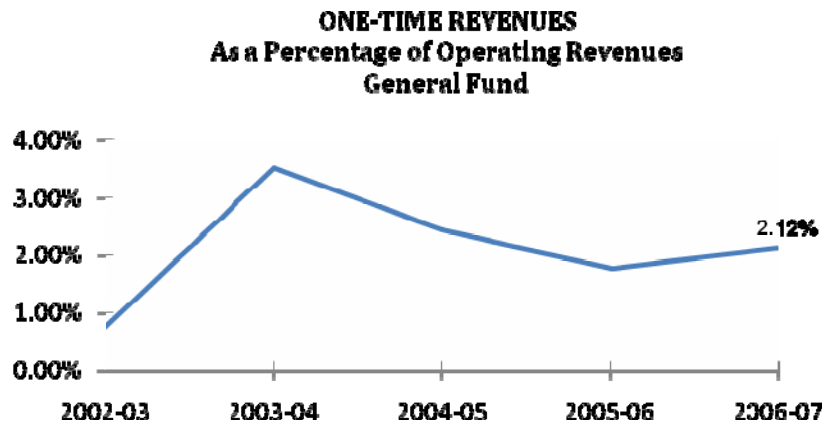
Intergovernmental Revenues



Finding: **FAVORABLE**. General Fund Intergovernmental revenues, as a percentage of operating revenues flattened out to 2.2% in FY 2006-07.

Comments: By analyzing intergovernmental revenues as a percentage of operating revenues, the City can determine the extent of its dependence upon resources from other governments. Excessive dependence on this type of revenue can be detrimental to the financial health of the City as the factors controlling their distribution are beyond the City's control. The City's largest intergovernmental revenue is motor vehicle tax which makes up 33% of the total intergovernmental category. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City receives property tax dollars in-lieu of the motor vehicle fees which started in FY 2004-05. Motor vehicle fees received as in-lieu property taxes totaled \$3.8 million in FY 2005-06 and \$4.9 million in FY 2006-07, which would have made the intergovernmental percentages 10.2% and 11.8%, respectively, which would still have supporting the favorable rating.

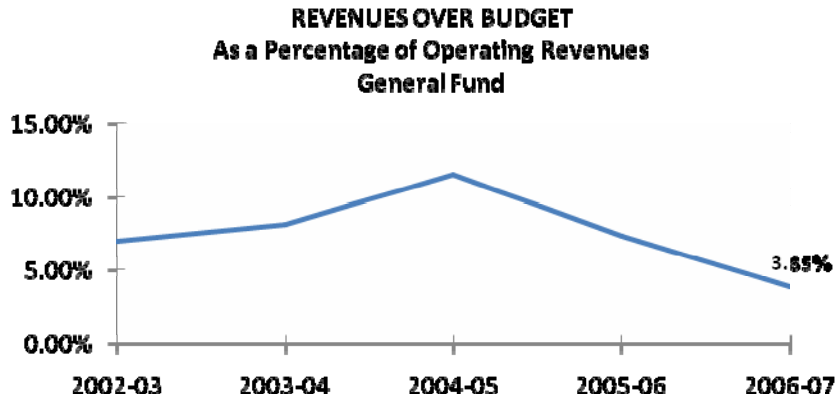
One-Time Revenues



Finding: **FAVORABLE**. One-time revenues, as a percentage of total General Fund revenues, equaled 2.12% in FY 2006-07, a slight increase from the prior year.

Comments: One-time revenues increased by \$264,941 from the prior fiscal year. FY 2006-07 one-time revenues of \$1.1 million include \$920,246 of grant funds. In accordance with the City's Fiscal Policy, one-time revenues are not utilized for operating expenditures. Therefore, this indicator maintains a favorable rating.

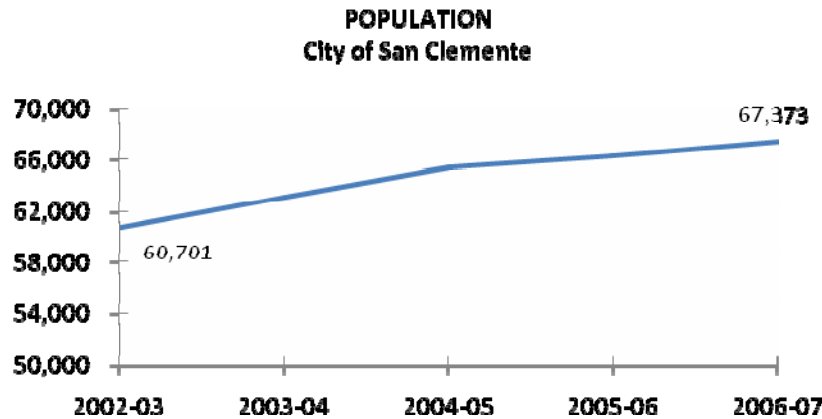
Revenue Overage



Finding: **FAVORABLE**. Actual revenues exceeded budget by \$1.9 million for fiscal year 2006-07 and ends with a positive revenue position over budget by 3.85%. The City experienced revenues in excess of budget in tax revenue in the following categories: property taxes (\$1.5 million), sales taxes (\$0.3 million), and transient occupancy taxes (\$0.2 million). This trend continues to receive a favorable rating since it maintains a level above the ICMA basis of a shortage of 5% or more for an unfavorable rating.

Comments: This trend began the five-year analysis with a positive revenue position of 7.03% and ended FY 2006-07 at 3.85%. The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues. It should be noted that the City projects development revenues, such as license and permit fees, conservatively, as the timing of projects entering the building permit stage cannot always be predicted.

Population

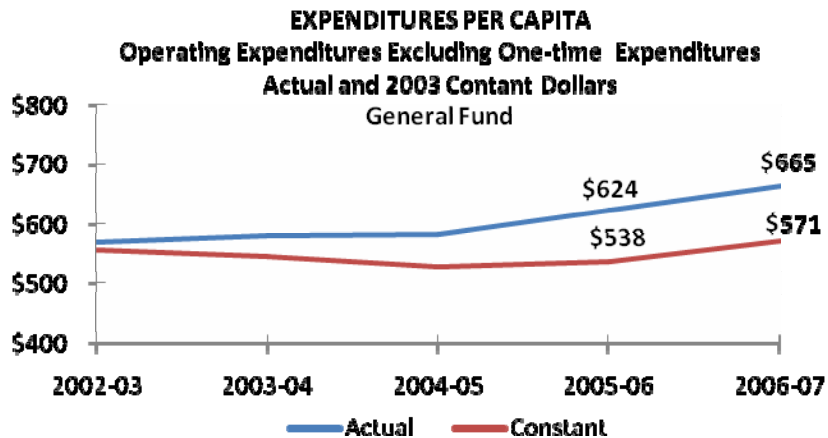
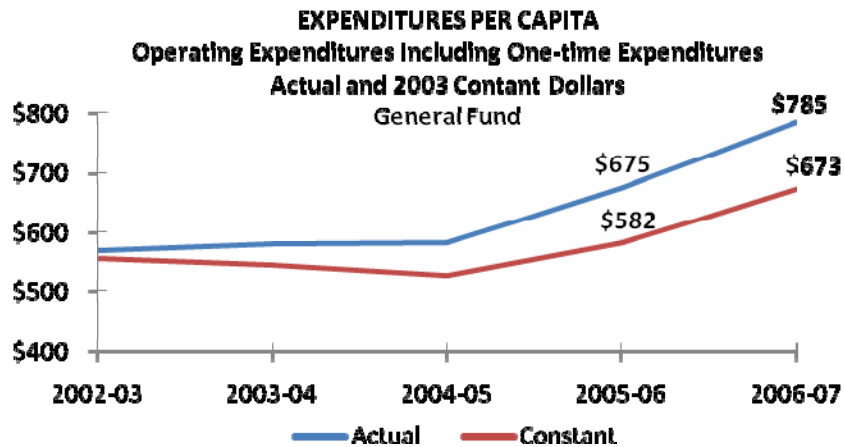


Finding: **FAVORABLE**. The City's population growth, an average of 4.54% over the last five years, is considered favorable because this growth has been planned and controlled. Growth from 2005-06 to 2006-07 was 1.65%, which indicates the City's growth pattern continues to slow.

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

Expenditures Trend Analysis

Expenditures Per Capita



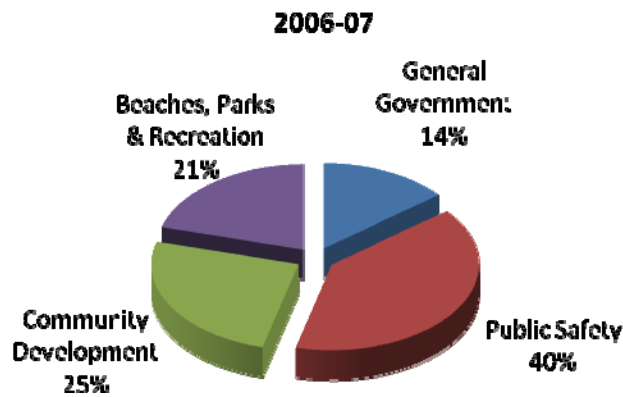
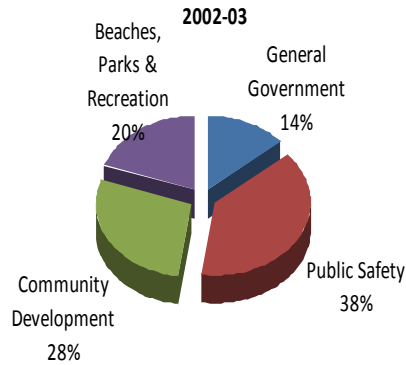
Finding: **FAVORABLE**. Expenditures per capita in both charts reflect an increase when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. This trend has changed from a favorable/caution rating to a favorable rating due to expenditures keeping up with growth of the City.

Comments: The first chart which includes one-time expenditures shows an increase from \$675 to \$785 in per capita actual dollars and an increase from \$582 to \$673 in per capita constant dollars. This reflects the increase in actual dollars of \$8.1 million and the increase in constant dollars of \$6.8 million when compared FY 2005-06. The increase in actual dollars was in City general (\$6.3 million), beaches, parks and recreation (\$0.8 million), police (\$0.5 million), fire (\$0.3 million), and general government (\$0.2 million). The increase in the City general is due to

a one-time \$8.1 million contribution to the Parks Acquisition and Development Fund, of which \$7.7 million will go toward the further development of La Pata/ Vista Hermosa Sports Park and \$400,000 is a contribution to Steed Memorial Park. The other portion of the increase is primarily due to an increase in beaches, parks and recreation services in FY 2006-07 by \$.8 million mainly to fund increased contractual activities which are not offset by revenues. The increase of \$836,225 or 5.5% in police and fire expenditures is due to negotiated increases as part of the police and fire contracts with the County of Orange.

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from \$538 to \$571 and an increase in constant dollars from \$624 to \$665. The approach of excluding one-time expenditures is a realistic approach since the City applies one-time expenditures to one-time revenues in accordance with the City's Fiscal Policy.

Comparison of Expenditures by Function 2002-03 vs. 2006-07

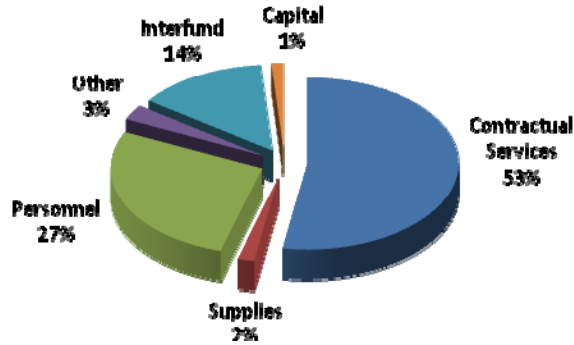


Finding: **FAVORABLE.** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay), did not change significantly.

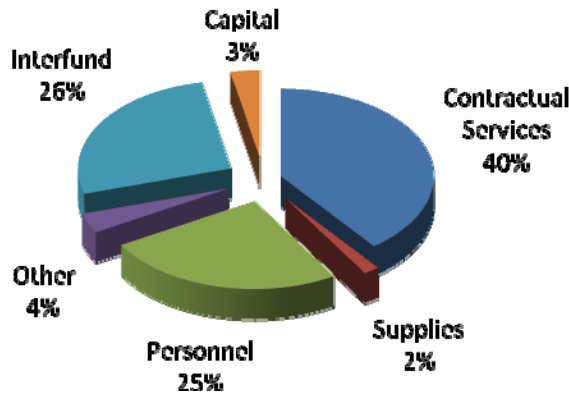
Comments: These charts indicate that most expenditure categories have remained stable, with only minor increases and decreases in percentages. Beaches, Parks and Recreation while experiencing expenditure growth has also experienced growth in class revenues. Community Development decrease is due to the slowing of development as the City nears build out.

Comparison of Expenditures by Category 2002-03 vs. 2006-07

2002-03



2006-07



Comments: The charts above indicate that the Contractual Services, Personnel, and Interfund expenditure categories, as a percentage of the total General Fund expenditures, changed between FY 2002-03 and FY 2006-07.

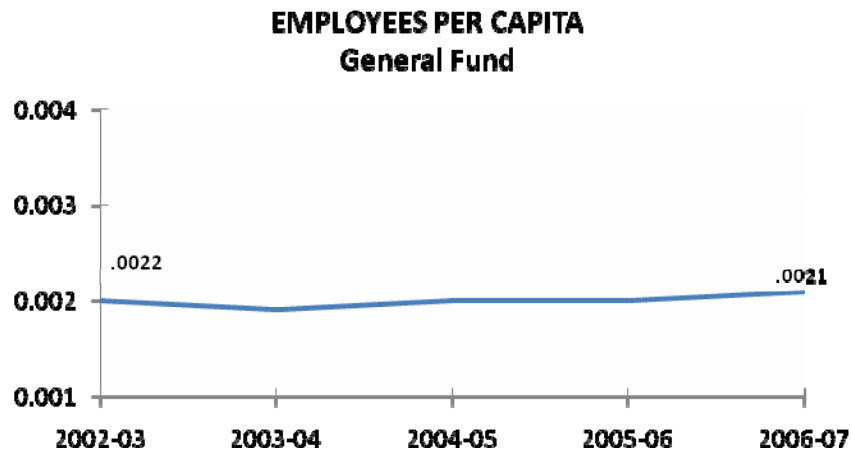
The contractual category changed from 53% to 40%. Although there was a growth in public safety contractual costs from FY 2002-03, increases in interfund payments cause the contractual category to be a lower percentage of expenditures in FY 2006-07 than in FY 2002-03.

Interfund amounts have increased due to one-time reserve transfers increasing from \$7.0 million in FY 2002-03 to \$8.1 million in FY 2006-07. The City transferred \$8.1 million contribution to the Parks Acquisition and Development Fund, of which \$7.7 million will go toward the further development of La Pata/ Vista Hermosa Sports Park. If these interfund

transfers had not been included in FY 2006-07, contractual services would have increased in percentage from FY 2002-03 to 55% while interfund amounts would have decreased to 11%.

The personnel category decreased from 27% to 25% of expenditures. Personnel costs as a percentage of total expenditures have decreased from five years ago. These costs are analyzed in more detail in the Employees per Capita trend and the Fringe Benefit trend. These trends show that employee growth remained stable with population growth and fringe benefits costs over the last two years have stabilized due to retirement contribution percentages leveling over the last two years.

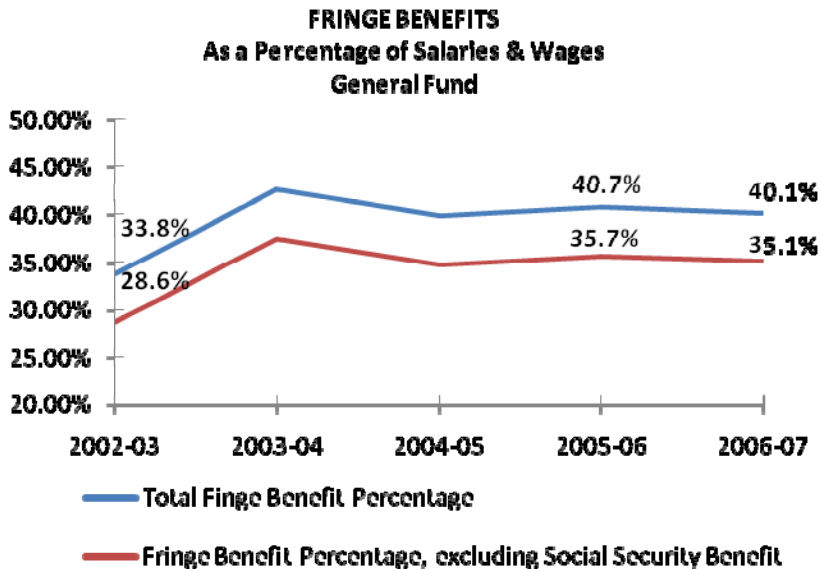
Employees Per Capita



Finding: **FAVORABLE**. Employees per capita have remained relatively stable over the last five years; however, it has increased slightly from FY 2005-06 due to a slight increase in the number of employees and a population increase.

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

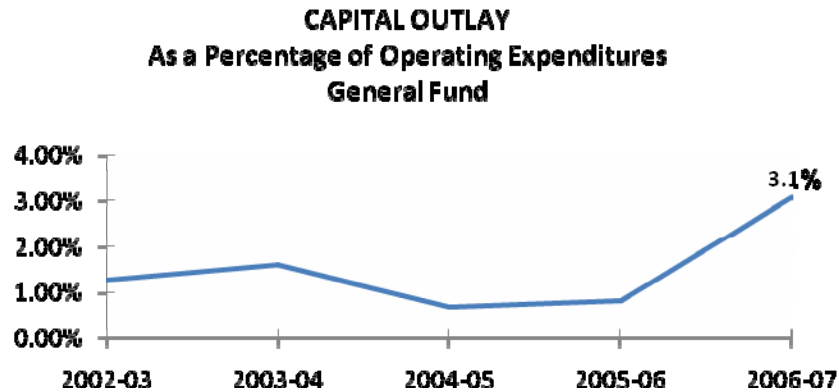
Fringe Benefits



Finding: **FAVORABLE.** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, decreased slightly from 40.7% to 40.1%. Fringe benefits (excluding social security benefits) show a corresponding decrease when compared to FY 2005-06. This indicates a leveling of fringe benefit costs resulting in a favorable rating.

Comments: The largest component of the benefit percentage is the contribution to the City's defined benefit retirement program. The retirement contribution amount has increased, but the percent of pay has remained flat due to a stable interest rate environment. Another benefit change resulted from the 2003-04 negotiations with the City employees which increased medical benefit costs for the City in FY 2004-05. However, in FY 2005-06 the amount was capped. In addition, workers compensation rates have decreased from the prior year, although these changes resulted in only a small portion of the benefit percentage change.

Capital Outlay



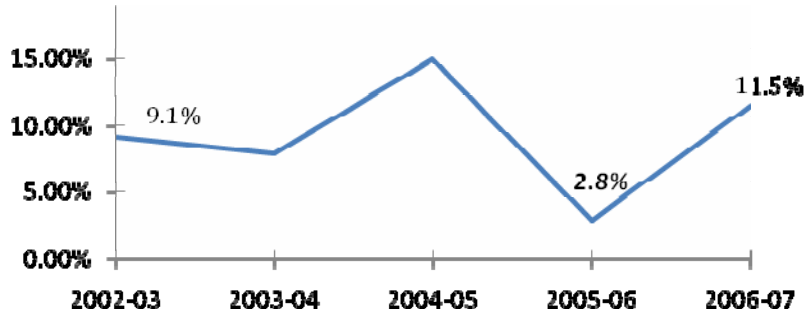
Finding: **FAVORABLE**. Capital outlay expenditures increased by \$1.3 million, or 34.5%, from the 2005-06 fiscal year. Capital outlay expenditures totaled \$1.6 million.

Comments: Spending on capital outlay has increased due to several maintenance contractual services accounts and projects in the General fund being moved from the contractual services account category to the capital outlay category during the FY 07/08 budget process to better reflect capital with regards to maintenance and capital studies in the General fund.

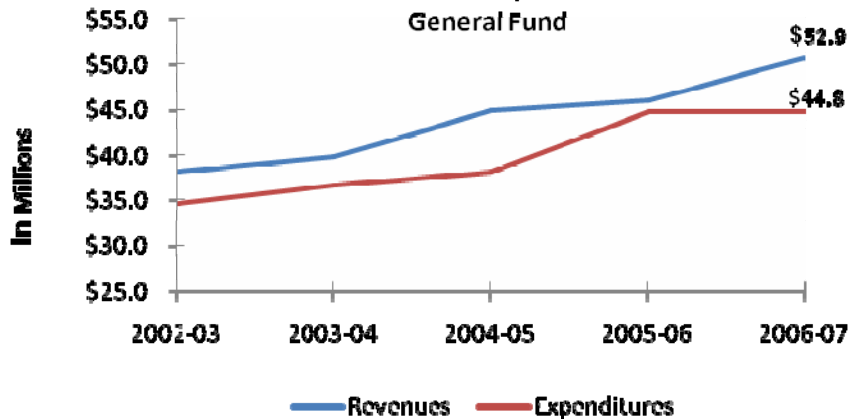
The Capital Equipment Replacement Reserve was established in FY 1994-95. This reserve fund will ensure that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend receives a favorable rating for the twelfth consecutive year because of the continued commitment to upgrading capital assets, which improves the efficiency of City operations.

Operating Position

**OPERATING SURPLUS (DEFICIT)
As a Percentage of Operating Revenues
General Fund**



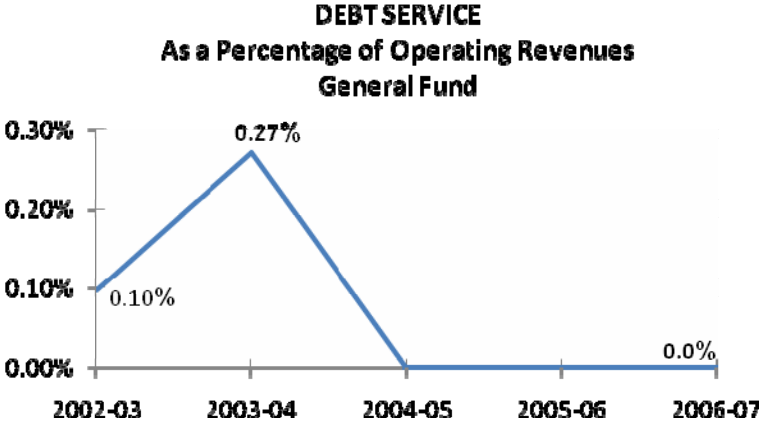
**OPERATING POSITION
Revenues vs Expenditures
General Fund**



Finding: **FAVORABLE.** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. FY 2006-07 finished with an operating surplus of 11.5%, an increase from 2.8%, when calculated as a percentage of General Fund revenues.

Comments: The City ended FY 2006-07 with an operating surplus. The expenditures used to calculate this surplus does not include a one-time capital contribution of \$8.1 million to the Parks Acquisition and Development Fund, of which \$7.7 million will go toward the further development of La Pata/Vista Hermosa Sports Park. This trend receives a favorable rating due to the positive operating position and continued increase in revenues.

Debt Service

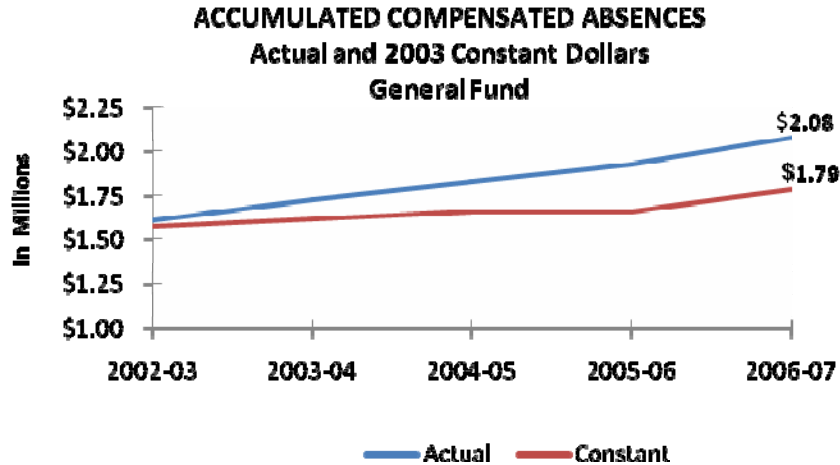


Finding: **FAVORABLE**. General Fund debt service receives a favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last eleven years. Credit rating firms generally view debt service as unfavorable if debt service payments exceed 20% of net operating revenues. Standard & Poor’s, an independent firm that issues ratings, reaffirmed the City of San Clemente’s credit rating of AA in 2005.

Comments: The City’s debt service cost was due to the payoff of the outstanding balance of its capitalized lease with City National Bank for the purchase of energy efficiency equipment for several City buildings in 2003-04. The lease was not due until 2006 but was paid off early as a money saving measure.

Additionally, it should be noted that the debt service for the Negocio Building bonds, the City’s street assessment bonds, and capital equipment leases are accounted for in a separate funds, and are not part of this analysis.

Accumulated Compensated Absences

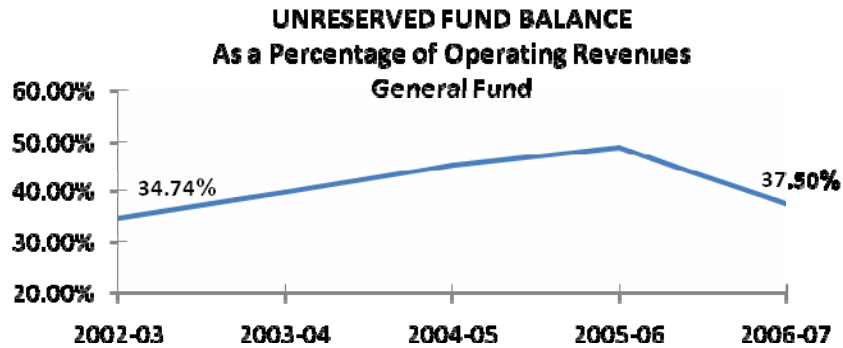


Finding: **FAVORABLE**. This indicator receives a favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. While the accumulated compensated absences have shown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

Comments: At June 30, 2007, the balance of the liability for compensated absences was \$2.08 million consisting of \$1.1 million for vacation, \$0.9 million for sick leave, and \$74,000 for compensatory time. This is an increase of \$153,558, or 7.9% from the prior year's liability of \$1.9 million. The increase is due to an increase number of City employees in the General Fund and an increase of 3.75% for cost of living in FY 2006-07.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2006-07, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of \$230,000 for the payment of accrued leave for terminated employees. As of June 30, 2007 the Accrued Leave Reserve balance was \$486,261.

Fund Balance



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

Comments: Unreserved fund balance excluding long term receivable reserves declined 12.3% in FY 2006-07 as a percentage of total revenues. Although there was a decrease in FY 2006-07, the stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

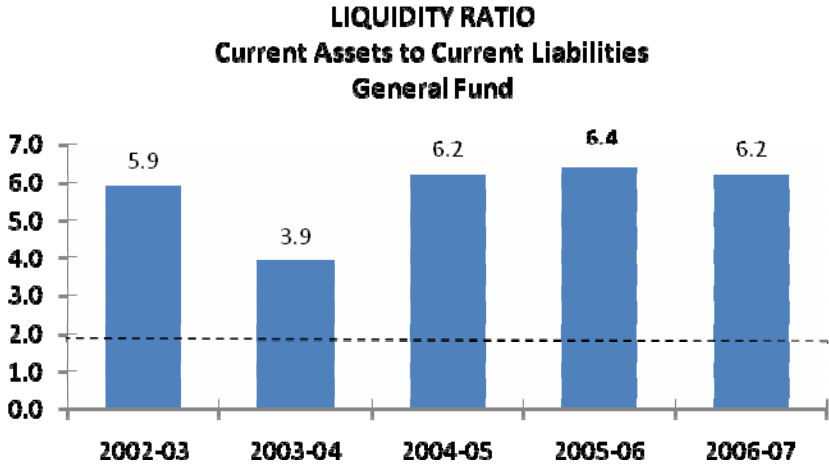
City Council adopted a fiscal policy requiring that emergency reserves be set at 8% of General Fund operating expenditures. Included within the total FY 2006-07 unreserved fund balances of \$19.0 million are undesignated funds of \$15.5 million and designated funds of \$3.5 million for the General Fund Emergency Reserve. The annual contribution to the emergency reserve is discussed in detail in the Reserve Analysis section of the LTFP. In addition, the unreserved fund balance has been used to support one-time projects/costs and reserve transfers.

The following table summarizes the General Fund year-end undesignated fund balance and the amount transferred for the La Pata/Vista Hermosa Sports Park Project during the past five fiscal years:

Fiscal Year	General Fund Balance (undesignated)	Amount transferred to project
2002-03	\$14,408,404	
2003-04	\$16,862,480	\$61,562
2004-05	\$21,146,531	
2005-06	\$18,296,959	
2006-07*	\$15,475,231	\$7,650,000

*The FY 2006-07 actual ending fund balance exceeded the projected ending fund balance amount of \$12,718,242 by \$2,756,989.

Liquidity Ratio



Finding: **FAVORABLE**. In FY 2006-07, the City’s liquidity ratio remains positive at 6.2:1. Credit rating firms consider a ratio of 1:1 favorable. The City’s 6.2:1 current asset to current liability ratio is considered excellent.

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