General Fund

Five Year Forecast: 2003-2008

March 2003

City of Pismo Beach

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INTRODUCTION

City of Pismo Beach

OVERVIEW

Background. This forecast was prepared in response to the Council's direction as part of the 2002-03 Budget to prepare a comprehensive, long-term Public Facilities Plan. In pro-actively addressing the probable results of this Plan, which is likely to identify needed infrastructure and facility improvements that are beyond the City's ability to fund within current revenues, the Council approved the preparation of this forecast to better assess and define the City's fiscal capacity to undertake new initiatives. In conjunction with the forecast, the Council also approved an analysis of the revenue options available to the City in funding the improvements that would be subsequently identified in the Plan.

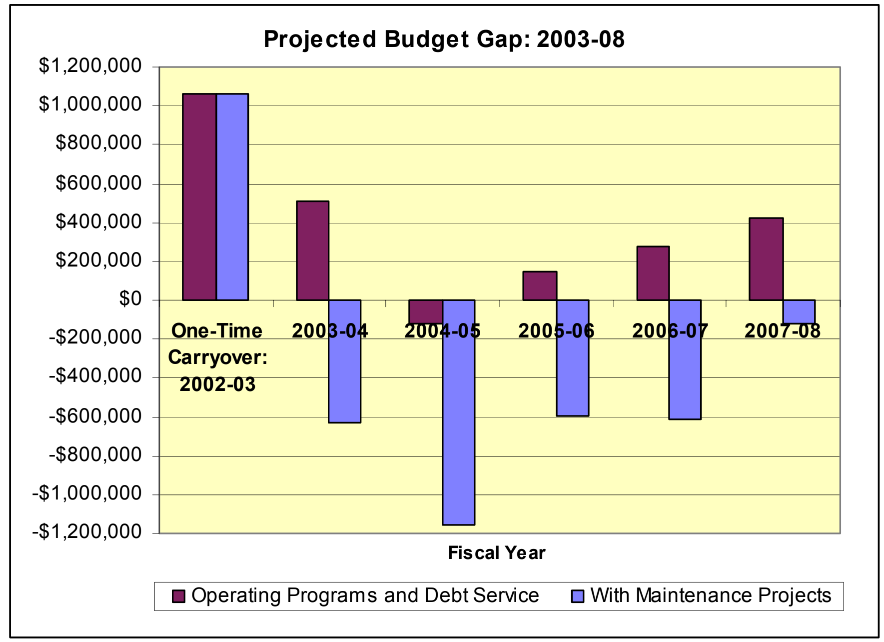
On October 1, 2002, the Council contracted with William C. Statler to prepare the General Fund Fiscal Forecast and Revenue Options Study. This report covers the Fiscal Forecast portion; the results of the Revenue Options Study are provided in a separate report.

Forecast Approach. The forecast identifies the General Fund's ability over the next five years—on an "order of magnitude" basis—to continue *current* services, maintain *existing* assets and fund new initiatives such as enhanced operating programs or the acquisition of *new* facilities, equipment and infrastructure.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating costs for current service levels, existing debt service obligations and maintenance of existing assets (equipment, facilities and infrastructure). If positive, the balance remaining is available to fund "new initiatives;" if negative, it shows the likely "budget gap" if all the City does is continue current service levels and adequately maintain, repair or replace existing assets.

SUMMARY OF FORECAST FINDINGS

As summarized below, the forecast shows that revenues will exceed day-to-day operating costs (at current service levels) and debt service obligations by about $246,000 annually over the next five years, assuming no further State budget takeaways. However, when "maintenance projects" are included (about $869,000 on average over the next five years), a negative budget gap" emerges of about $623,000. This reflects the City's toughest fiscal outlook since the mid-1990's, when the combination of recession and State budget grabs placed the City in a fiscal crisis, resulting in a *negative* General Fund balance of $1.1 million by June 1996.



The Good News. While the City is facing tough fiscal times ahead, it does so from a position of strength:

- ***Carryover from 2002-03.*** As shown above, the City will enter into 2003-08 with a "one-time" carryover of about $1.1 million at the end of 2002-03, *above* the City's minimum reserve policy of 15% of operating expenditures (and excluding the $500,000 public facility reserve discussed below). While the "carryover" and facility reserve are not ongoing sources and can only be used once, they provide an important source of potential funding for capital improvement plan (CIP) projects.

- ***Meets Minimum Fund Balance Policy.*** Additionally, the City will have $1.5 million in reserves pursuant to its adopted policy of maintaining reserves of 15% of operating expenditures

- ***Public Facility Reserve.*** The 2002-03 Budget includes a $500,000 public facility reserve, which is not designated for a specific capital project. This can help significantly in providing the capacity to maintain an adequate CIP over the next five years.

- ***Higher Level of Infrastructure Maintenance.*** The level of "maintenance-only" CIP projects assumed in this forecast is higher than the City has historically funded. This doesn't mean that the projected costs are not necessary to in order to adequately maintain the assets that the City already has—in fact, the goal of doing so was a major factor underlying the Council's decision to prepare a comprehensive Public Facilities Plan and this forecast.

  However, this does mean that the flexibility exists—in the context of past expenditures—to continue deferring infrastructure maintenance in order to maintain service levels for critical day-to-day operations like police and fire, which account for about 50% of City operating costs. In short, while this is not a desirable long-term option from a policy perspective, it is one that the City – as well as many other public agencies – has used in the past.

- ***Better Cost Recovery.*** Lastly, the City recently implemented a higher level of cost recovery for "personal choice public services." The forecast takes a very conservative approach in projecting service fee revenues. Accordingly, actual revenues from service charges may be higher than projected in this forecast by $200,000 to $300,000 annually.

In summary, the City has adequate resources to cover its operating and debts service costs over the next five years. On the other hand, significant challenges face the City in doing so while adequately maintaining its existing facilities and infrastructure—let alone fund "new initiatives." Fortunately, the City has sufficient one-time fiscal resources, policies and systems in place to prepare and implement a rational, reasonable and timely financial plan in addressing its longer-term CIP needs.

FORECAST PURPOSE

***It is important to stress that this forecast is not a budget*.**

It doesn't make expenditure decisions; it doesn't make revenue decisions. Its sole purpose is to provide an "order of magnitude" feel for the City's ability to continue current services and maintain existing assets.

Ultimately, this forecast cannot answer the question: "Can we afford new initiatives?" This is a basic question of priorities, not of financial capacity. However, funding major initiatives within existing revenues will require significant reductions—beyond those that would otherwise be needed—in existing services or asset maintenance levels in order to do so. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources.

Can the City afford new initiatives? This is a basic question of priorities, not of financial capacity.

Nonetheless, by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast helps assess how difficult making these priority decisions will be. Moreover, it underscores the need for significant new revenue sources if the City wants to achieve its CIP goals while at the same time preserving current service levels and adequately maintaining the assets it already has.

GENERAL FISCAL OUTLOOK

In funding both operations and facility maintenance, the City is facing its toughest fiscal situation in several years. However, the City is in much better shape than it was seven years ago. In 1995-96, the City's General Fund expenditures were $500,000 million more than its revenues, and it ended the fiscal year with a *negative* General fund balance of $1.1 million. From 1992 to 1994, along with other communities throughout California, the City was experiencing the largest economic downtown since the Great Depression; and the State was on the brink of taking away from the City what would end-up being over $450,000 *annually* in property tax takeaways and other grabs. By the following year, the City brought its revenues and expenditure into better balance, and restored the General Fund balance to a small surplus of $64,000 at the end of 1997-98. However, this followed extensive reductions in service levels and infrastructure maintenance.

The City's 2003-08 Fiscal Story. Compared with seven years ago, the challenges facing the City based on forecast can be attributed to five key factors:

- Unprecedented increases in retirement costs due to investment losses by the California Public Employee Retirement System (PERS), which the City contracts with for retirement benefits for its regular employees.
- Modest forecast for growth in key revenues compared with recent trends.
- Increasing insurance costs.
- The threat of more State budget cuts as it deals with its own very serious budget issues.

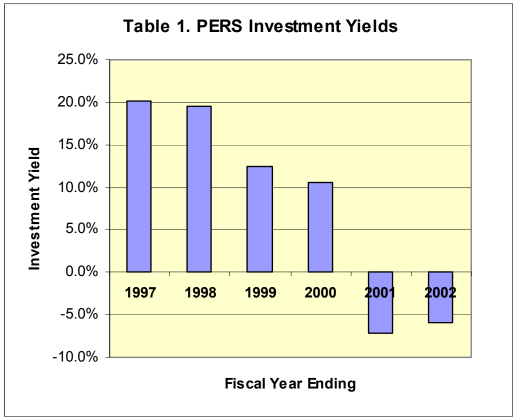
While each of these is described in more detail below under *Basic Forecast Framework*, the following highlights the key factors underlying them.

❶ PERS Cost Increases

The large increase in PERS costs is by far the greatest fiscal challenge facing the City at this time. While the reasons for this are discussed in more detail below, the short story is this: due to PERS portfolio investment losses, the City is looking at retirement cost increases in the General Fund from 2002-03 levels of ***$180,000 in 2003-04***; and ***$400,000 in 2004-05*** based on the most recent information provided to the City by PERS. And as discussed below, while no assumptions for this are reflected in the forecast, it is likely to be worse than this after 2004-05.

PERS Investment Losses. In addition to benefit levels, there are a number of actuarial assumptions that determine employer contribution rates and related costs. Of these, the status of current funding (are current assets greater or less than accrued liabilities?) and estimated investment returns on interest earning are the main ones driving these unprecedented cost increases.

Under their actuarial model, PERS assumes an investment return of 8.25% annually. Until the last two years, their actual yield was much greater than this (Table 1); and over the last ten years, PERS investment yields have averaged 9.4% (*including* the negative returns in the last two years). As such, the underlying assumption of an 8.25% return over the long run seems a reasonable one.



However, in the last two years, PERS has experienced significant portfolio losses (as has every other major institutional investor): in 2001-02; this loss was 7.2%; and most recently, the loss was 5.9% for 2001-02.

This results in a combined, compounded loss of 13.5% over the last two years. However, under the PERS actuarial model, investment yields over this same period should have been 17.2% (8.25% annually compounded). This means that overall, actuarial assets are 33% lower than otherwise assumed under the model.

This has two major impacts on City PERS costs:

Changes in Actuarial Funding Status: Making Up for the Impact on the Past. Because of the superior performance of PERS investments in the past, the City has had a significant surplus of actuarial assets over liabilities in its plan for non-safety employees. This means that the City has not been required to make its "normal" employer contributions for several years for this employee group: the surplus assets were amortized and credited against this cost.

However, with this latest year of investment losses, actuarial assets are significantly reduced in both plans. This means that the City will no longer receive a credit in its employer contribution rates for non-safety employees; and the relatively small prior unfunded liabilities in the safety plans for sworn police and fire employees is now large ones.

In short, the City enjoyed the upside benefits of the PERS superior investment performance for a number of years; and now it is experiencing the downside of PERS losses. Along with "normal" rates, the City must now make-up the actuarial deficit.

Changes in Future Costs. Along with the devaluation of the market value of assets, the City now has to begin making "normal" cost contributions for all employees as well as "surcharge" to make-up – over time – for the increase in unfounded liabilities.

In taking this into consideration (both when actual investment performance is better than actuarial assumptions as well as when it is worse), PERS has two techniques for trying to stabilize costs. The first is allowing a range of actuarial asset values compared with the market value of the portfolio of 90% to 110%. With this approach, if the market value versus the actuarial value falls within this range, PERS does not make any contribution rate adjustments. The second one is smoothing: gains or losses are averaged over three years, thus mitigating in any one year the affects of major swings in investment earnings.

Together, in "normal times," these strategies would go a long way towards stabilizing rates. But PERS investment results over the last five years have been anything but normal, with yields within this timeframe ranging from annual gains of 20% in 1998 to a loss of 6% in 2002. According to Ron Seeling, PERS Chief Actuary, the statistical probability of this level of deviation occurring within a five-year span is one in ten thousand.

PERS Stewardship of Plan Assets. In light of recent investment losses, it should be noted that PERS has done an outstanding job of managing its portfolio. As noted above, even after factoring in the losses over the last two years, PERS investment yield over the last ten years has averaged 9.4%. And while a 13% loss in market value over the two years is certainly not good news, it may be the best news possible: there are many folks who would be delighted if their personal retirement accounts had only lost 13% of their value during this same period.

In short, PERS investment track record can only be evaluated in the context of overall market conditions; and by this measure, it has been an excellent steward of our assets.

Impact on Future Rates. Based on the combined impact of investment losses and benefit increases for sworn safety employees, Table 2 summarizes estimated employer contribution rates and related costs over the next two years. As reflected in this table, significant increases in employer contribution rates and related costs are ahead.

Table 2

PERS Employer Contribution Rates		
	Safety	Non-Safety
2002-03	8.6%	0.0%
2003-04	15.8%	1.5%
2004-05	22.0%	5.1%
PERS Cost Increases		
		Cost Increase From 2002-03
2003-04		$180,000
2004-05		400,000

And it's likely to get worse. As discussed above, PERS uses several techniques to "smooth" rates. Because of this, the rates for 2004-05 do not reflect all of the impact of investment losses through 2001-02. Moreover, these rates assume that PERS will earn 8.25% on its investments during 2002-03. Given year-to-date results, "0%" is more likely.

Can It Get Better? There is always the possibility that PERS investment gains will again exceed the actuarial assumption of 8.25%. In this case, the substantial rate and cost increases presented in this report could be mitigated. And the fact is that PERS rates have fluctuated wildly over the past ten years. However, given the magnitude of the current loss in actuarial assets (33%) that would have to be made-up and the small likelihood, based on current trends, that PERS will earn substantially more than 8.25% in the near future, such a turn-around is unlikely in the next five years. In fact, as noted above, if the rates change significantly over the next five years from those presented in this report, they are more likely to get worse, not better.

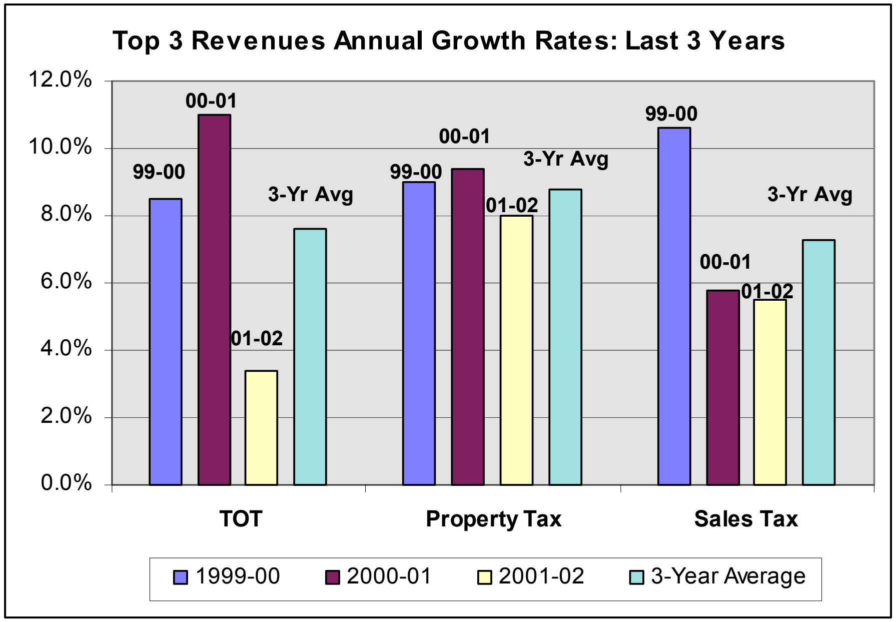
Even More Uncertainty: Small Agency Pooling. Adding to this uncertainty is the fact that within the next few years, smaller employers like Pismo Beach (under 100 employees) will be "pooled" with other agencies with similar retirement plans. PERS is making this change because it believes it will result in more stable rates for smaller agencies: because of their smaller base, unusual one-time events can have a statistically bigger impact than they should.

While this may make rates more stable in the longer term, it makes projecting rates over the next five years even more difficult, since they won't be based solely on the City's experience, but on the pool average. On one hand, if the City's actuarial experience is better than the average of the pooled agencies, then it will see lower costs than it otherwise would; on the other hand, if the City's experience is better, they will be higher.

Future Prospects. Obviously, facing increased PERS costs that are equivalent of 4% of General Fund revenues (about the value, for example, of the "VLF Backfill"), is a daunting prospect, to say the least. However, every city in the State that contracts with PERS (and this is virtually all of them) is facing the exact same challenge. (In fact, so is the State itself.) For this reason, there is some basis for hoping that some kind of statewide mitigation plan will emerge. However, given the fiduciary nature of PERS and the need for an analytical (not political) basis for setting rates, it is unlikely that such a plan would have a major affect on employer contribution rates and related costs.

❷ Modest Revenue Growth

Over the last three years, the City has seen significant increases in its "Top 3" General Fund revenues—transient occupancy tax (TOT), property tax and sales tax. Together, these "Top 3" account for about 75% of total General Fund revenues.

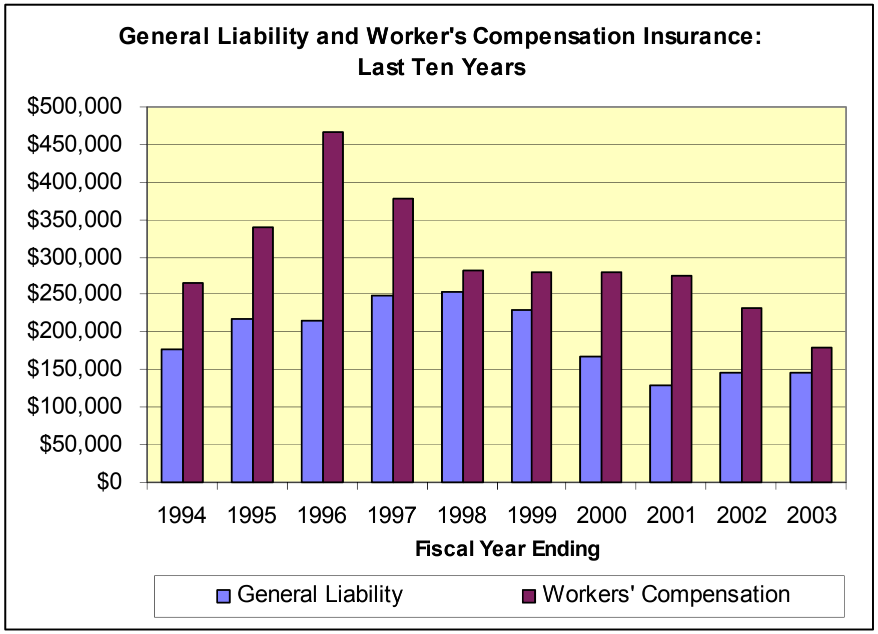


As reflected above, on average these "top 3" grew about 8% annually over the last three years, which is stellar performance in the context of 1% growth in population and 2.5% inflation during the same period. These strong growth rates in key revenues are largely responsible for the City's fiscal health today.

However, based on recent trends as well as the outlook for the next five years for the State and Central Coast region by highly-respected, independent forecasters like UCLA and the UCSB Forecasting Project, much more modest results, while still reflecting positive growth rates, are likely. Detailed assumptions for all key revenues are discussed below under *Key Assumptions*.

❸ Increasing Insurance Costs

As shown below, the City has been very successful in reducing and stabilizing its general liability and workers compensation insurance costs over the last ten years:



Because of this, insurance costs have not been a major budget-balancing issue over the past several years. However, this is likely to change significantly due to a number of factors, including:

- ***Impact of reduced earnings from invested premiums on rates***. Until recently, strong stock market returns resulted in insurance companies lowering premium rates in order to gain greater cash flows for reinvestment purposes, even when "actuarially" the premiums were less than projected losses: the difference was more than offset by the gains in investments. This is no longer the case, and insurance companies are raising rates accordingly. Because of a three-year policy, the City has been insulated from this in its general liability coverage; however, 2002-03 is the last year of this multi-year policy.

- ***Adverse affects of "September 11, 2001" on the insurance market.*** As noted, due to a three-year policy term that is ending in 2002-03, the City has been protected against this for general liability costs.

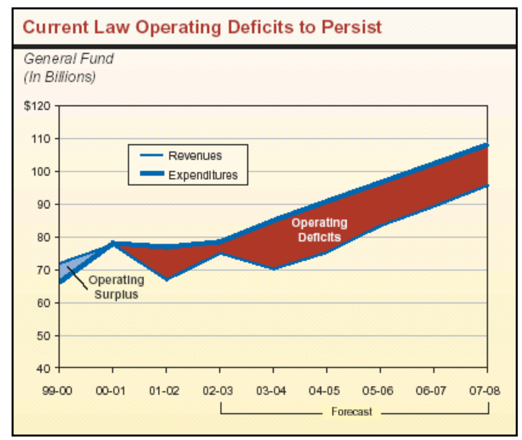
- ***Benefit increases.*** Significant increases in workers' compensation benefits are scheduled for January 2004.

While this combination of insurance company losses (and related premium increases) and benefit increases is likely to have an affect on the City's fiscal health over the next five years, no specific added costs are reflected for this in the forecast: other than recognizing this as a factor, it is simply too soon to asses its long-term impacts.

❹ Threat of More State Budget Grabs

When the State last experienced a major budget crisis in the early 1990's, the end result was budget grabs from cities that now cost the City over *$450,000* annually. And the problems facing the State today are even more severe.

For 2003-04, the State faces a General Fund budget deficit ranging from $26 to $34 billion (which makes prior budget gaps pale in comparison), depending on key underlying assumptions and who is doing the "scoring:" the Legislative Analyst's Office (LAO) or the Governor. However, after making "apples to apples" comparisons between policy assumptions, there in fact is only about a $3 billion difference between the two projections over a two-year period (2002-03 and 2003-04). With a $75 billion annual General Fund, this is only an "order of magnitude" difference of 2%.

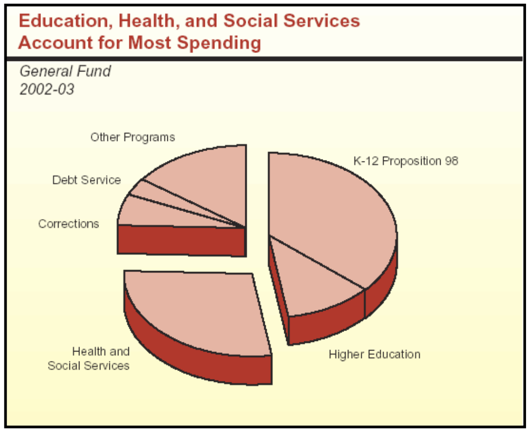


Using the LAO's revised estimate, the State faces a $26 billion budget gap in 2003-04 ($9 billion carryover deficit from 2002-03 and a "new" gap of $17 billion in 2003-04). As shown above, the LAO projects that this gap will continue indefinitely unless there is corrective action on either the expenditure or revenue side.

Balancing the State's budget will be tough. On one hand, the one-time balancers like "tobacco securitization" ($4.5 billion) and general obligation bond restructuring ($1.1 billion) used in 2002-03 are gone.

On the other hand, the requirement for budget approval by two-thirds of the legislature is still with us. Democrats will resist reductions in education and the health-social services "safety net" while Republicans will equally resist tax increases. And even though the Democrats have a wide majority in the State legislature, some Republican support is needed to meet the two-thirds requirement for budget adoption.

As shown below, cutting State costs will be very difficult, since education and health-social services are about 75% of the State General Fund budget. And under "Other Programs" is an important one for the City: the "VLF Backfill."

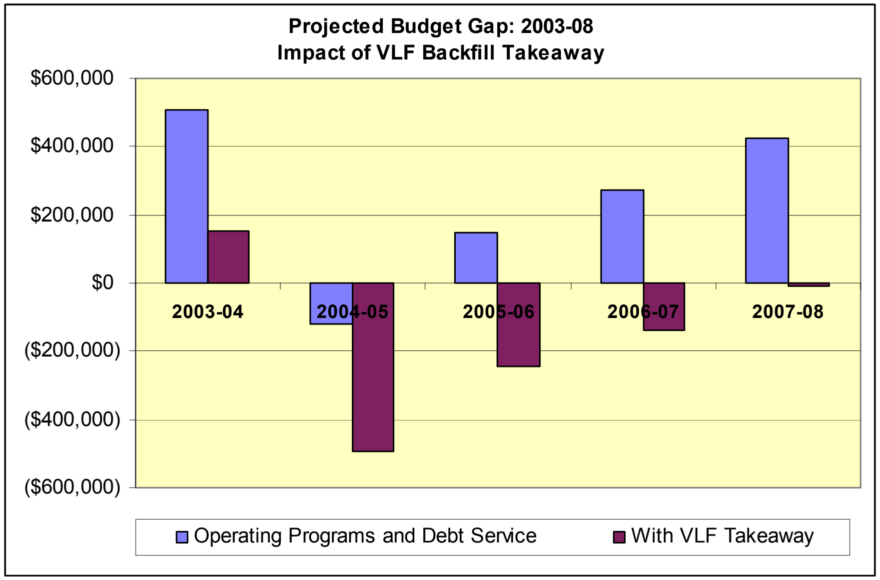


Just a few short years ago, the State had a significant budget surplus, and it flirted briefly with the notion of a State tax cut. Instead, it decided to reduce city and county revenues by reducing vehicle license fees (VLF) by 67.5%. However, the State agreed to "backfill" these lost revenues, thus keeping cities and counties "whole." The cost to the State in meeting this commitment, which it can undo tomorrow, is $4 billion.

For the City, the VLF backfill is worth about $325,000 annually. And while the State could help resolve its budget problems through any number of takeaways from cities (such as further property tax takeaways and transfers to school districts, or "Son of ERAF"), the VLF backfill is a likely candidate. In fact, in his recent Budget proposal, the Governor January 2003 Budget proposes completely eliminating the VLF Backfill to cities, along with other lesser cuts (such as cutting booking fee reimbursements, deferring "SB 90" mandated cost payments and taking away redevelopment agency low and moderate housing funds).

It is important to note that the Governor's proposal is just that: a proposal. As such, given legislative support in the past for the VLF Backfill (although the Governor past position was supportive, too), no cuts in this revenue source are included in the forecast (although this may reflect the triumph of hope over experience). On the other hand, the forecast does assume the permanent loss of booking fee reimbursements ($33,000 annually) and the deferral of SB 90 reimbursements (about $20,000 annually) until 2005-06.

However, given the magnitude of the State's fiscal crisis, and its past track record of stealing from cities when faced with a tough budget situation, it would be naïve to believe that this does not pose a serious and very real threat to the City. The following shows the adverse impact on the City if the State ultimately decides to grab the VLF Backfill. Instead of a positive average budget gap in covering operating costs of about $246,000 annually over the next five years, it becomes is a *negative* gap of about $150,000.



BASIC FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or prepared various "scenarios" based on a combination of possible assumptions for revenues, expenditures and State budget actions.

This forecast takes "one set of most likely assumptions" approach as being the most useful for the policy-making purposed. However, the financial model used in preparing this plan can easily accommodate a broad range of "what if" scenarios. And as discussed above, we have included one "what if" example based on the possibility of State taking away the VLF Backfill.

Summary of Key Forecast Assumptions

A detailed discussion of the assumptions used in the forecast is provided on page 12. However, the following summarizes key forecast factors:

State Budget Actions. No further significant State cuts to cities are reflected in the forecast. As noted above, when faced with budget problems in the past, the State has made cuts to local government that resulted in the City having $450,000 less every year.

The forecast also assumes that the current State framework for city finances will continue. This is especially important, since proposals continue to emerge that would fundamentally affect how sales tax revenues (the City's "Number 3" General Fund revenue source) are allocated, moving in some fashion from a "situs-based" system (where the sale occurs) to a more "per capita" based system. This is especially critical for Pismo Beach. For example, in 2001-02 the City's sales tax revenues were $1.7 million. If determined solely on a "per capita" basis, they would have been about $1.1 million, a loss of about $600,000 annually (34% of total sales revenues).

Internet and Catalog Sales. Unless there are significant changes in the current ground rules for the collection of sale taxes on retail sales over the Internet, the "cyber-economy" poses significant threats to the future viability sales tax revenues. While Internet sales are still a relatively small component of total retail sales (about 0.3% in 1998), all projections indicate significant increases in the future, especially as traditional "bricks and mortar" retailers move to e-commerce themselves.

The forecast does not assume any major revenue losses resulting from this shift for two reasons. First, it would be very difficult to meaningfully assess prospective revenue losses. But more importantly, the forecast assumes (perhaps based more on hope than experience) that there will be a rational resolution to collecting such an important revenue source. For the State of California, sales taxes are its second largest General Fund revenue (after personal income taxes), bringing in over $20 billion annually and funding about one-third of State operations. In other states, sales tax revenues play an even larger role. In Texas, for example, there is no income tax, and sales tax is the primary state revenue source. In short, because this is such a major issue in funding state and local governments throughout the nation, we believe that a reasonable resolution will ultimately emerge.

Economic Outlook: Continued but Modest Growth. While they are not projected to grow at the rates experienced in the past four years, the revenue forecast assumes continued moderate growth in the City's major revenue sources, which are directly tied to the performance of the local economy. This is consistent with most "long-term" economic forecasts at the state and national level that show lower rates of growth.

Grants. The forecast does not assume the receipt of any "competitive" grant revenues over the next five years. However, experience shows that the City will undoubtedly be successful in obtaining grants, especially for parks and transportation improvements. However, these types of grants are usually for "new" facilities and infrastructure, not the "maintenance-only" projects included in the forecast in the future. Other "formula grant" programs like community development block grants (CDBG) and police technology grants are also likely, and will help the city in achieving its CIP goals. However, their use is highly restricted by the granting agencies; and in the case of State grants, the City cannot rely upon their continuation.

And again, these are largely for "new"" facilities and infrastructure, not the "maintenance-only" projects included in the forecast. As such, the forecast does not include any funding from these sources.

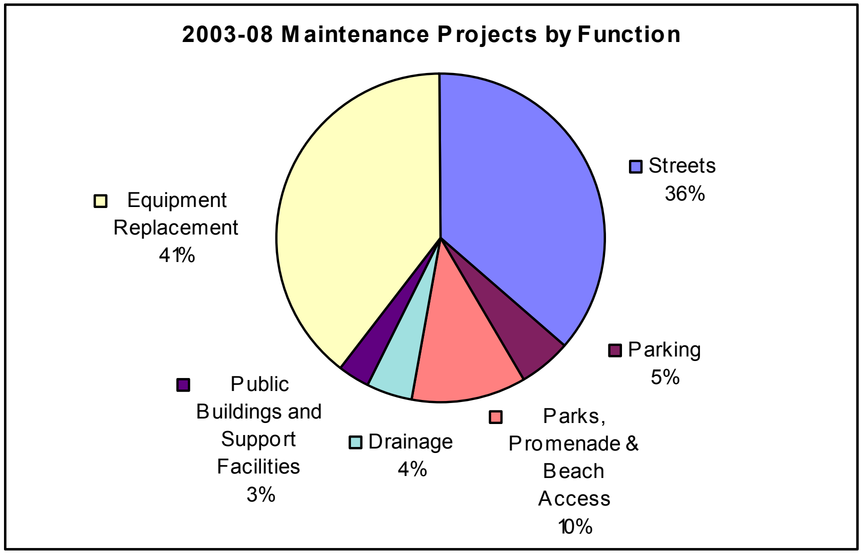
Development Impact Fees. Development impact fees will be collected during the forecast period; and like grant revenues, these will certainly help us in funding infrastructure improvements. However, these revenues are restricted solely to funding improvements related to new development. Because of these restrictions, and the fact that by their very nature they are for "new" facilities and infrastructure, they are not included in this forecast.

Operating Costs. Based on long-term growth trends over the last ten years, operating costs are projected to grow annually by population and inflation (4%) during the forecast period. The base for this is the 2002-03 Budget as of January 2003, adjusted downward by $346,700 for one-time costs. Added to this base is $180,000 in additional PERS costs in 2003-04 and another $220,000 in 2004-05 ($400,000 over these two year years). In 2005-06, pier subsidy costs are projected to *decrease* by $66,000 with the final payment of pier-related debt service costs.

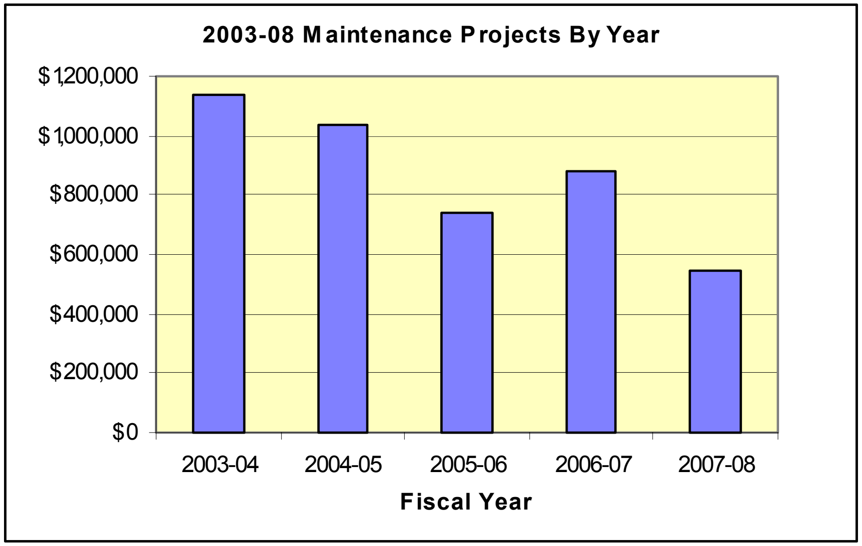
Debt Service Costs. These costs are based on current debt service payments of about $358,000 annually. This represents a very modest level of annual debt service requirements – about 3% of annual revenues. No increases in debt service are projected under the forecast's underlying assumption of "maintenance-only" capital projects: while new debt can prudently be incurred for "new" facility and infrastructure improvements, it should not be used for maintenance of existing assets.

At 3% of revenues, debt service costs are very modest.

"Maintenance-Only" Capital Project Costs. As noted above, the forecast CIP is based on funding "maintenance-only" capital projects that will adequately repair, replace or maintain existing facilities, infrastructure and equipment. Largely based on the "maintenance-only" projects included in the Five-Year Capital Improvement Plan approved by the Council in June 2001 along with the City's equipment replacement policy, this cost averages about $869,000 annually, ranging from a low of $544,000 in 2007-08 to a high of $1,139,000 in 2003-04.



By function, street maintenance and equipment replacement accounts for over 75% of total CIP costs.



Detail for the "maintenance-only" CIP begins on page 18.

What's not in the Forecast "Maintenance-Only" CIP. It is important to stress the "maintenance-only" nature of the forecast CIP, which means it *does not* include new acquisitions and improvements like those in the sidebar from (excerpted from the Five-Year Capital Improvement Plan). It also doesn't include $5.6 million in bluff protection due to the large costs involved and their priority relative to other maintenance projects.

Projects *Not* in the Forecast

- New Fire Station
- New Traffic Signals
- Bluff Protection
- James Way/Price Street Extension
- New Parks

This doesn't mean that accomplishing these CIP goals isn't important; only that doing so will require new resources if the City wants to continue current service levels and maintain existing facilities and infrastructure. And any significant new resources will require voter approval.

What's Most Likely to Change?

By necessity, this plan is based on a number of assumptions. The following summarizes those areas where changes from forecast assumptions are most likely over the next five years:

TOT. It is too early to tell how TOT will perform for the year. However, last year TOT revenues only grew by 3%, compared with 11% and 9% in the prior two years. And since TOT is the City's "Number One" revenue source, accounting for 40% of total General Fund revenues, solid performance is essential for the City's long-term fiscal health. The forecast projects that TOT revenues will grow moderately: by 2.5% in 2002-03; 5% annually for 2003-05; and 6% annually for 2005-08. On the other hand, the forecast does not assume any significant increase in new rooms. If this occurs, then it is likely that TOT revenues will be greater—perhaps significantly so—than shown in this forecast.

Sales Tax. There are a number of very complex components that make-up our sales tax base. Given statewide trends, the forecast assumes a relatively positive "baseline" growth rate of 5%. However, this assumes that there will not be any major recessions or restructuring of this revenue source over the next five years; and that the factory outlet center continues to perform competitively in light of expanded retail outlets both in the South County area as well as San Luis Obispo. Accurately projecting sales tax revenues is further complicated by the difficulty in predicting "pool" revenues, especially those from the Diablo Canyon power plant.

Development Review Fees. While these are projected to stay at levels equal to the average over the last five years, this is subject to changes in the construction market over which the City has no control. Additionally, as noted above, it is possible that these revenues may perform better than the forecast due to recent improvements in cost recovery.

Operating Cost Increases. As discussed above, PERS costs will play a major role in determining the City's long-term fiscal health – and all of the "shoes" have not yet dropped on this. Additionally, while the City has been able to control liability, property and workers' compensation costs over the past several years, the impacts of "9/11" and recent increases in workers' compensation benefits by the State may have a significant impact on insurance costs in the years ahead.

Lastly, as noted above, the forecast assumes that operating costs will not grow by more than population and inflation (4%) during 2003-08. Based on trends for the last ten years – and the need to control operating costs, which account for 85% of total expenditures – this is a reasonable assumption. However, recent increases in operating costs have been much greater than this.

Budget Changes through the Remainder of the Year. As noted above, the operating and CIP cost base for 2003-08 is the current 2002-03 budget, as amended through January 2002 and adjusted for one-time costs. However, this is subject to revision during the balance of the year for any unknown, unexpected new costs.

REVENUE OPTIONS

In light of the Council's recent review and approval of many of the fees set forth in the *Cost of Services Study* prepared by RCS, any significant additions to the City's revenue base will require voter approval under Proposition 218. While a few fee measures remain available for Council approval, if they were easy to do or acceptable from a policy perspective – the Council would probably have already done them.

The next opportunity for placing a general-purpose revenue measure on the ballot is November 2004 (although a "special tax" measure could be presented to the voters at any time). However, as discussed more fully in the companion report to this one – the *Revenue Options Study* – conducting a successful revenue measure is a very difficult and uncertain process. And its success is largely beyond the City's control: it depends on the emergence of a committed, community-based group that will aggressively campaign for its passage. In short, while certainly an option, the City should not be too sanguine about a revenue ballot measure as a budget-balancer for 2003-05.

While covered in more detail in the *Revenue Enhancement Study*, a summary of new revenue options is provided on page 14.

CONCLUSION

The forecast shows that revenues will exceed day-to-day operating costs (at current service levels) and debt service obligations by about $246,000 annually over the next five years, assuming no further State budget takeaways. However, when "maintenance projects" are included (about $869,000 on average over the next five years), a negative budget gap" emerges of about $623,000. This means that unless the economy performs significantly better than projected or new revenues are implemented, the City will not be able to maintain current service levels and adequately maintain its existing facilities and infrastructure—let alone fund "new initiatives.

Fortunately, the City has sufficient one-time fiscal resources, policies and systems in place to prepare and implement a rational reasonable and timely financial plan in addressing its longer-term CIP needs.

DEMOGRAPHIC TRENDS

Population and Housing. Based on trends over the last ten years and projections in the most recent UCSB Forecast, grows by 1% annually throughout the forecast period.

Inflation. Based on trends for the last three years and projections in the most recent UCSB Forecast, grows by 3% annually throughout the forecast period.

EXPENDITURES

Operating Costs. Based on long-term growth trends over the last ten years, operating costs are projected to grow annually by population and inflation (4%) during the forecast period. The base for this is the 2002-03 Budget as of January 2003, adjusted downward by $346,700 for one-time costs. Added to this base is $180,000 in additional PERS costs in 2003-04 and another $220,000 in 2004-05 ($400,000 over these two year years). Beginning 2003-04, added costs of $50,000 annually are also included for maintaining Dinosaur Caves and Chumash Parks. In 2005-06, pier subsidy costs are projected to *decrease* by $66,000 with the final payment of pier-related debt service costs.

CIP Costs. Based on projected costs to adequately maintain or replace existing facilities, equipment and infrastructure (about $869,000 annually). The detail for this begins on page 17.

Debt Service. Based on current debt service payments of $358,000 annually

STATE BUDGET ACTIONS

While no past cuts will be restored, the forecast assumes no significant further State cuts to cities or restructuring of local government finances.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues
- Forecast data for California as developed by the UCLA forecasting project
- Forecast data for San Luis Obispo County as developed by the UCSB forecasting project.
- Economic trends as reported in the national media.
- Economic and fiscal information developed by the State Legislative Analyst’s Office and the State Department of Finance.
- Materials prepared by the League of California Cities and State Controller's Office.

Ultimately, however, the forecast revenue projections reflect the consultant’s best judgment, with concurrence from City staff, about the State budget process, performance of the local economy during the next five years and how this will affect the City's General Fund revenues.

Transient Occupancy Tax. Grows moderately during the forecast period: 2.5% in 2002-03; 5% annually for 2003-05; and 6% annually for 2005-08. No significant increase in rooms is assumed; however, if this occurs, then it is likely that TOT revenues will be greater—perhaps significantly so—than shown in this forecast.

Property Tax. Grows by 7% in 2002-03 and 6.5% annually for the next five years based on long-term trends.

Sales Tax. Grows by 5% throughout the forecast period based on trends for the last five years.

Motor Vehicle In-Lieu. Grows by 6% in 2002-03 and by 5% annually thereafter based on trends for the last ten years.

Franchise Fees. Grows by population and inflation (4%) throughout the forecast period, after adjusting for one-time revenues of $28,000 in 2002-03.

Gas Tax and Transportation Development Act (TDA) Subventions. Grow by 1% throughout the forecast period based on projected population growth.

Development Review Fees. For 2002-03, based on the prior five-year average, growing by inflation (3%) thereafter.

Recreation Fees. Grows by population and inflation (4%) throughout the forecast period.

Other Fees. Grows by population and inflation (4%) throughout the forecast period.

Use of Money and Property. Based on the 2002-03 Budget, growing by inflation (3%) thereafter.

These "Top Ten" sources account for 95% of total projected General Fund revenues.

The following summarizes City revenue options organized by those requiring voter approval and those that the Council could approve.

REQUIRES VOTER APPROVAL

Two-Thirds Voter Approval

Property Tax Increase as Part of General Obligation Bond Issue. Adopted over 20 years ago, Proposition 13 does not allow an increase in general purpose property taxes above the "1% of market value" limit under any circumstances. However, subsequent amendments to this constitutional limit allow increases in property taxes for voter-approved bonded indebtedness. While there are no limits to how much could be raised, the proceeds are restricted to specified capital improvements.

Parcel Taxes. With two-thirds voter approval, flat-rate "parcel taxes" are allowed as long as they are not based on property value. A rate of $100 annually per "Equivalent Dwelling Unit" would generate about $722,000 per year.

Mello Roos Special Taxes: Operating or Capital. Mello Roos Districts are typically formed to provide services or capital improvements to new developments (when there is usually just one "voter"—the developer/land owner), but they can be formed on a citywide basis. Depending how they are structured when approved, Mello Roos special taxes can pay for operations and maintenance as well as capital improvements. Approval by two-thirds of those responsible for paying the special taxes, weighted by each property owner's tax obligation, is required.

Majority (General Purpose) or Two-Thirds (Special Purpose) Approval

The following revenue sources could be adopted by either two-thirds or majority voter approval depending on their purpose. Revenue measures where the proceeds may be used for "general purposes" only require majority voter approval. However, revenue measures where the proceeds are "earmarked" and designated for specific purposes require two-thirds majority voter approval. In both cases, depending on how the revenue measure is structured, the proceeds could be used for operations or capital improvements (including debt service payments on capital projects financed by bonds).

Local Option Sales Tax. This would require special State legislation, as current provisions only allow "local option" sales taxes on a countywide basis. However, several cities, including Truckee, Fort Bragg and most recently, Clovis, have set increased sales taxes in the cities through local elections and special legislation. Based on current sales tax revenues, a ¼ cent "local option" rate would raise about $425,000 annually, and a ½ cent rate would raise about $850,000 million.

Transient Occupancy Tax. Last changed in 1993, the current rate is 10%, which raises about $4.4 million annually. This is the City's revenue source after sales and property taxes. Each "one percent" increase would raise about $440,000 annually.

Property Transfer Tax. Statewide, there is a property transfer tax of $1.10 per $1,000 of value when property is sold (or $275 on a property worth $250,000). For sales in a city, the proceeds are evenly divided between the city and the county, for an effective city rate of $0.55 per $1,000 of value. (For sales in unincorporated areas, the county retains all of the tax).

Charter cities are allowed to set their own rate, but must give up their share of the $1.10 rate if they do so. Many charter cities in California have done this, and these locally assessed rates range from $1.10 to $10.00 per $1,000 of value. The most common rate is $4.40 per $1,000. At this level, the City's own property transfer tax (which currently generates about $75,000 annually) would raise about $600,000 million annually, for a "net" increase of $525,000. However, as a General Law city, Pismo Beach is precluded from doing this.

Business License Tax. Anyone doing business in the City is required to pay a business license tax. The amount is generally based on gross receipts depending on the type of business, with the tax rate *declining* as gross receipts increase. For example, at $100,000 in gross receipts, the tax due is $50; at $200,000, it is $75. This means that the second $100,000 in gross receipts is taxed at half the rate of the first $100,000. This currently generates about $115,000 per year. Each 10% increase in the rate (such as $55 per $100,000 of gross receipts) would raise about $12,000 annually.

Utility Users Tax. Most residents and businesses in California pay utility users taxes at rates ranging from 1% to 11%. At 5% on all utilities, this would generate about $400,000 based on per capita revenues in similar cities in California.

Special Assessments: Operating or Capital. Under Proposition 218, special assessments for either one-time improvements or ongoing maintenance are allowed, but majority approval by those responsible for paying the special assessments, weighted by each property owner's benefit obligation, is required. The recent *Cost of Services Study* prepared by RCS identified $168,000 in ongoing costs for street sweeping and street lighting that could potentially be recovered through a special maintenance assessment district.

REQUIRES COUNCIL APPROVAL

The following revenue sources could be set or increased by the Council. All of them have been previously considered by past Councils.

Mello-Roos Districts for New Development. Many cities require that new development pay not only for the facilities needed to service them, but for day-to-day services as well. This could include park and landscape maintenance, street lighting, street sweeping, libraries and fire protection. While this sets up two classes of city residents—those who receive what may be perceived as general city services based on the general purpose tax revenues they pay, and those who must pay an additional premium for those same services—many cities have moved to this out of fiscal necessity. The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello Roos tax.

Development Impact Fees. The City can set impact fees at any level that will fully offset (but not exceed) the cost of constructing capital improvements needed to service new development. This can cover a broad range of public facilities, including water, sewer, transportation, parks, cultural facilities, community centers, civic center improvements and public safety facilities. The City is currently analyzing development impact fees.

Higher Cost Recovery for "Personal Choice Public Services." Based on a comprehensive *Cost of Services Study* prepared by RCS, the City recently implemented a higher level of cost recovery for "personal choice public services. While the Council approved most of the proposed fee increases proposed by RCS, it did not adopt all of them, or took a phased approach. Areas where higher cost recovery could be achieved under Proposition 218 with Council approval include some planning fees and fire engine company inspection fees**.** The Fire department performs ongoing business inspections at no cost. Many cities charge for this service. Based on past studies, this type of fee could raise about $100,000 annually.

Franchise Fees on City Water and Sewer Service. Similar to franchise fees charged to other utilities such as gas and electric, many cities assess a franchise fee on their water and sewer enterprise to reimburse the General fund for use of its right-of-way as well as "wear and tear" on its street pavement.

Many studies have shown that one of the leading causes for shortened street life—and resulting higher maintenance costs—are the cuts made by utilities for underground lines. A modest 2% fee on gross receipts—the same rate set statewide by the State for gas and electric utilities—would raise about $70,000.

Franchise Fees on Trash Service. The City's current trash franchise rate is 6%. Increasing this to 10%, which is the most common rate in the County, would raise about $50,000. As with other franchise fees, this would reflect appropriate reimbursement for use of the City's right-of-way as wells as the impact of heavy collection equipment on pavement life.

Summary: Council Approved Revenues

As noted above, the Council has taken a detailed look at many of these concepts in the recent past, and chosen not to implement them for a number of policy reasons. The above summary is only intended to layout the revenue options available to the Council without voter approval. It does not analyze their benefits or drawbacks, and several of them would be major undertakings with serious public policy considerations.

General Fund Five Year Forecast: 2003-2008

	2001-02	2002-03	FORECAST				
	Actual	Estimated	2003-04	2004-05	2005-06	2006-07	2007-08
REVENUES & OTHER SOURCES							
Taxes							
Sales Tax - General	1,657,900	1,740,800	1,827,800	1,919,200	2,015,200	2,116,000	2,221,800
Sales Tax - Proposition 172	51,100	53,700	56,400	59,200	62,200	65,300	68,600
Property Tax	1,663,400	1,779,800	1,895,500	2,018,700	2,149,900	2,289,600	2,438,400
Transient Occupancy Tax	4,292,300	4,400,000	4,620,000	4,851,000	5,142,100	5,450,600	5,777,600
Business LicenseTax	111,400	115,900	120,500	125,300	130,300	135,500	140,900
Franchise Fees	369,000	339,900	353,500	367,600	382,300	397,600	413,500
Real Property Transfer Tax	86,500	77,200	80,300	83,500	86,800	90,300	93,900
Subventions & Grants							
Motor Vehicle In Lieu	473,500	501,900	527,000	553,400	581,100	610,200	640,700
Gas Tax and TDA (1)	176,900	167,900	299,600	302,600	305,600	308,700	311,800
Other Subventions & Grants	95,500	153,300	100,000		20,000	20,600	21,200
Service Charges							
Development Review Fees	619,300	617,700	636,800	656,500	676,200	695,800	716,700
Recreation Fees	112,800	126,200	131,200	136,400	141,900	147,600	153,500
Other Service Charges	281,000	251,100	261,100	271,500	282,400	293,700	305,400
Other Revenues							
Fines & Forfeitures	97,900	93,900	96,700	99,600	102,600	105,700	108,900
Use of Money and Property	192,600	160,200	165,000	170,000	175,100	180,400	185,800
Other Revenues	111,000	88,500	92,000	95,700	99,500	103,500	107,600
Total Revenues	10,392,100	10,668,000	11,263,400	11,710,200	12,353,200	13,011,100	13,706,300
EXPENDITURES & OTHER USES							
Operating Programs (2)	8,753,700	10,148,500	10,423,900	11,341,200	11,780,300	12,303,000	12,846,600
Debt Service	570,400	358,200	353,500	353,600	358,200	357,400	355,000
Capital Improvement Plan	790,300	2,479,100	1,139,000	1,034,000	744,000	884,000	544,000
Total Expenditures	10,114,400	12,985,800	11,916,400	12,728,800	12,882,500	13,544,400	13,745,600
Revenues Over (Under) Operating Programs and Debt Servic	**1,068,000**	**161,300**	**486,000**	**15,400**	**214,700**	**350,700**	**504,700**
Revenues Over (Under) All Expenditures	**277,700**	**(2,317,800)**	**(653,000)**	**(1,018,600)**	**(529,300)**	**(533,300)**	**(39,300)**
Available for New Initiatives (Budget Gap): Operating Programs and Debt Servic			**507,800**	**(122,200)**	**148,900**	**272,200**	**423,200**
Available for New Initiatives (Budget Gap): All Expenditures		**1,058,300**	**(631,200)**	**(1,156,200)**	**(595,100)**	**(611,800)**	**(120,800)**
FUND BALANCE, START OF YEAR	4,683,800	4,961,500	1,585,400	1,563,600	1,701,200	1,767,000	1,845,500
FUND BALANCE, END OF YEAR							
Designated @ 15% of Operating Costs (Beginning 2003-04)	1,215,400	1,585,400	1,563,600	1,701,200	1,767,000	1,845,500	1,927,000
Undesignated	3,746,100	1,058,300	-	-	-	-	-
Total Fund Balance, End of Year	4,961,500	2,643,700	1,563,600	1,701,200	1,767,000	1,845,500	1,927,000

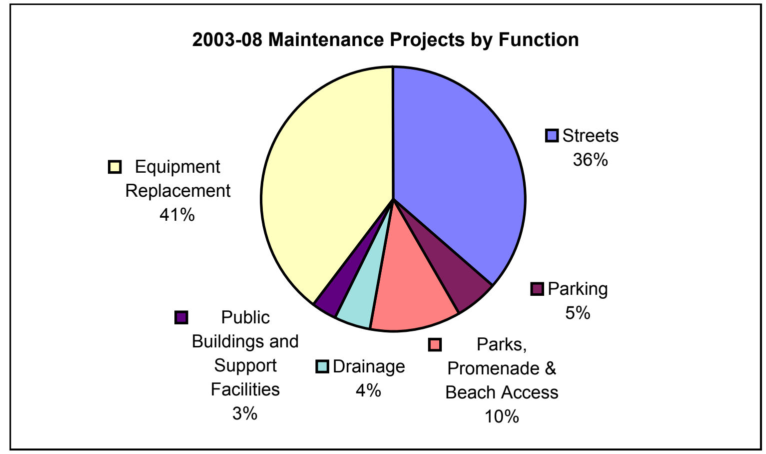
1. Operating program expenditures for all years include General Fund transfers to the Pier Fund.
2. TDA revenues are reflected beginning in 2003-04.

General Fund Five Year Forecast: 2003-2008

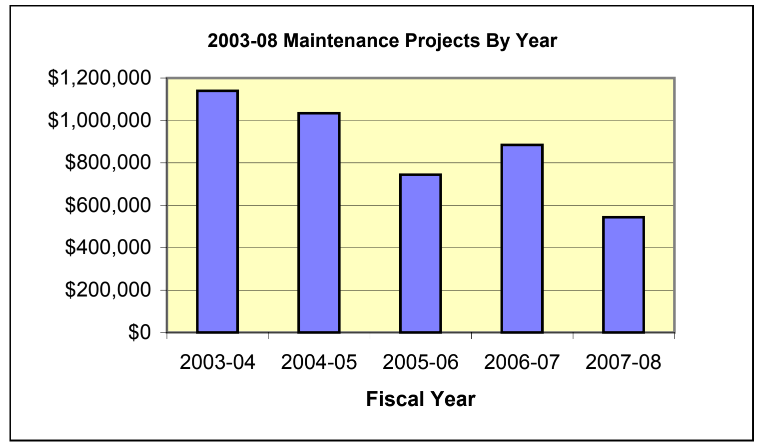
PROJECTION FACTORS	Historical Trends Actual 2001-02	Last 5 Years	Last 10 Years	Estimated 2002-03	FORECAST PROJECTIONS 2003-04	2004-05	2005-06	2006-07	2007-08
Annual Percentage Changes									
DEMOGRAPHICS									
Population	0.6%	1.1%	1.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
UCSB Forecast				*1.3%*	*1.1%*	*1.0%*	*1.1%*	*1.1%*	*1.2%*
Inflation	1.1%	2.2%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
UCSB Forecast				*2.5%*	*3.1%*	*3.1%*	*3.0%*	*2.9%*	*3.0%*
Compound Population & Inflation	1.7%	3.3%	3.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
UCSB Forecast				*3.8%*	*4.2%*	*4.1%*	*4.1%*	*4.0%*	*4.2%*
KEY REVENUES									
Sales Tax	5.5%	4.8%	6.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
UCSB Forecast				*4.0%*	*10.0%*	*9.4%*	*6.0%*	*11.9%*	*12.0%*
Property Tax (Assessed Value)	7.5%	6.4%	4.9%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%
TOT	3.4%	7.8%	5.6%	2.5%	5.0%	5.0%	6.0%	6.0%	6.0%
UCSB Forecast (Countywide)				*1.7%*	*-0.2%*	*4.6%*	*7.0%*	*6.4%*	*6.3%*
Franchise Fees	27.4%	12.5%	8.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Less Adjustment for one-time revenue in 2001-02				(28,000)					
Motor Vehicle In Lieu	11.5%	10.2%	5.6%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Gas Tax and TDA				1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Development Review Fees				Updated	*Average of Last Five Years Plus Annual Inflation*				
Recreation Fees				Updated	*2002-03 Projection Plus Compound Population and Inflation*				
EXPENDITURES									
Operating Programs	***14.3%***	***10.0%***	***4.0%***	Budget					
Base Grows By Population and Inflation					4.0%	4.0%	4.0%	4.0%	4.0%
Less "One-Time" Costs Approved in 2002-03					(346,700)				
Plus Projected PERS increases					180,000	220,000			
Dinosaur Caves/Chumash Park Maintenance					50,000	51,500	53,000	54,600	56,200
Less reduced Pier subsidy at end of debt service							(66,000)		
Debt Service: Exisitng				Budget	353,500	353,600	358,200	357,400	355,000
"Maintenance-Only" Capital Improvement Plan				Budget	1,139,000	1,034,000	744,000	884,000	544,000

General Fund Five-Year Fiscal Forecast: "Maintenance Only" Projects

The following summarizes five-year projections for "maintenance-only" projects. These expenditures will not expand or improve existing assets, but they will ensure that existing facilities, equipment and infrastructure are adequately maintained or replaced so they can be effectively used for their intended purpose. This is used as the "baseline" for the five-year fiscal forecast in showing what might be available for new facilities or infrastructure after funding maintenance projects and day-to-day service delivery, based on projected revenues; or the "budget gap" that may exist if all the City does is adequately maintain, repair or replace current facilities, infrastructure or equipment.



It should be noted that due to the extraordinary high cost, no funding is reflected in the forecast for bluff protection. Preliminary work shows that protecting the bluff at Eldwayen Ocean Park would cost about $1.0 million; and $3.0 million at the Cypress Street bluff. While protecting these bluffs meets the forecast definition of taking care of what the City already has, given other pressing priorities, it is unlikely that these improvements would take precedence over other more pressing priorities within the next five years.



The project costs reflected in this summary are "General Fund" only, and do not include projects funded by other sources, such as development impact fees, grants or enterrpise funds.

MAINTENANCE PROJECT SUMMARY

The following summarizes projected "capital maintenance" needs by function. This chart is followed by more detailed summaries for each function.

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Projected Capital Maintenance Needs By Function						
Streets	435,000	550,000	200,000	200,000	200,000	1,585,000
Parking	80,000	60,000	50,000	40,000	-	230,000
Parks, Promenade and Beach Access	90,000	40,000	50,000	300,000	-	480,000
Drainage	50,000	40,000	100,000	-	-	190,000
Public Buildings and Support Facilities	140,000	-	-	-		140,000
Equipment Replacement	344,000	344,000	344,000	344,000	344,000	1,720,000
Total	**1,139,000**	**1,034,000**	**744,000**	**884,000**	**544,000**	**4,345,000**

General Fund Five-Year Fiscal Forecast: "Maintenance Only" Projects

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Streets						
Pavement Sealing and Overlay	400,000	400,000	200,000	200,000	200,000	1,400,000
Curb, Gutter and Sidewalk Replacement	35,000					35,000
Cypress Street Bridge Repair		150,000				150,000
Total Streets	**$435,000**	**$550,000**	**$200,000**	**$200,000**	**$200,000**	**1,585,000**
Parking						
Palisades Park Parking Lot Overlays	30,000					30,000
North and South Main Street Parking Lot Overlays	50,000					50,000
Spyglass Parking Lot Overlay		35,000				35,000
Shell Beach Vets Hall Parking Lot Overlay		25,000				25,000
Bello Vets Hall Parking Lot Overlay			50,000			50,000
Pomeroy Parking Lot Overlay				25,000		25,000
Chamber of Commerce Parking Lot Overlay				15,000		15,000
Total Parking	**80,000**	**60,000**	**50,000**	**40,000**	**-**	**230,000**
Parks, Promenade and Beach Access						
Wilmar Stairs Replacement/Reconstruction	90,000					90,000
Spiral Stairs at Shorecliff structural and Corrosion Repairs			50,000			50,000
Naomi Outlook Erosion Repair				300,000		300,000
Total Promenade/Beach Access	**90,000**	**-**	**50,000**	**300,000**	**-**	**440,000**
Parks						
Ballfield Renovations		40,000				40,000
Total Parks		**$40,000**				**40,000**
Drainage						
Repair Ocean Outfall at Pier and Shorecliff	50,000					50,000
Repair Ocean Outfall at Wilmar and Florin		40,000				40,000
Repair Ocean Outfall on Montecito			50,000			50,000
Repair Ocean Park Outfall			50,000			50,000
Total Drainage	**50,000**	**40,000**	**100,000**	**-**	**-**	**190,000**
Public Buildings and Support Facilities						
Frady Lane Overlay	50,000					50,000
Vets Hall Roofing	50,000					50,000
City Hall Interior Repainting	40,000					40,000
Total Public Buildings and Support Facilities	**$140,000**					**140,000**
Equipment Replacement						
Motor Vehicle Fund Replacement Contributions	**$344,000**	**$344,000**	**$344,000**	**$344,000**	**$344,000**	**$1,720,000**

Historical Trends: Overview

In preparing the five-year fiscal forecast, the following historical trends were reviewed for a ten year period and are presented in the following charts and graphs:

POPULATION AND COST OF LIVING

- Annual Growth Rates for Last 10 Years
- Compound Annual Growth Rates for Last 10 Years

OVERVIEW OF GENERAL FUND REVENUE SOURCES

Where They Come From and How They're Doing

- Actual Revenues for the Fiscal Year Ended June 30, 2002
- Major Revenue Trends, Last 10 Years : Actual and Adjusted for Increases in Population and Cost of Living

OVERVIEW OF GENERAL FUND EXPENDITURES

Where They Go and How They're Doing

- Actual Operating Expenditures for the Fiscal Year Ended June 30, 2002
- Operating Expenditure Trends, Last 10 Years: Actual and Adjusted for Increases in Population and Cost of Living

MAJOR REVENUE VERSUS OPERATING COSTS: LAST TEN YEARS

Compares the Performance of the City's Top Five Revenues (Which Account for About 80% of Total General Fund Revenues)
With Operating Costs (Which Accout for About 80% of Total General Fund Expemditures)

MAJOR GENERAL FUND REVENUE SOURCES

Last 10 Years: Actual and Adjusted for Increases in Population and Cost of Living

- Transient Occupancy Tax
- Property Tax
- Sales Tax
- Motor Vehicle In Lieu Fees (VLF)
- Franchise Fees

Development Review Fees: Last 5 Years

OPERATING PROGRAM EXPENDITURES

Last 10 Years: Actual and Adjusted for Increases in Population and Cost of Living

- Public Safety
- Community Services
- Street Maintenance
- Public Works
- General Government
- Total Operating Program Expenditures

Historical Trends: Population and Cost of Living

Population

Fiscal Year	Population	Percent Change
1993	7,725	
1994	7,775	0.6%
1995	7,975	2.6%
1996	8,100	1.6%
1997	8,225	1.5%
1998	8,275	0.6%
1999	8,400	1.5%
2000	8,551	1.8%
2001	8,625	0.9%
2002	8,675	0.6%

State of California,
January 1 of Each Year

Annual Growth Rate

Last 2 Years	0.7%
Last 5 Years	1.1%
Last 10 Years	1.3%

Consumer Price Index: U.S.

Fiscal Year Ending	Index Amount	Percent Change
1993	142.6	
1994	146.2	2.5%
1995	150.3	2.8%
1996	154.4	2.7%
1997	159.1	3.0%
1998	161.6	1.6%
1999	164.3	1.7%
2000	168.7	2.7%
2001	175.1	3.8%
2002	177.1	1.1%

U.S. City Average, All Urban Consumers
January 1 of Each Year

Annual Growth Rate

Last 2 Years	2.5%
Last 5 Years	2.2%
Last 10 Years	2.4%

Consumer Price Index: So. California

Fiscal Year Ending	Index Amount	Percent Change
1993	149.2	
1994	152.2	2.0%
1995	154.3	1.4%
1996	155.7	0.9%
1997	159.1	2.2%
1998	161.0	1.2%
1999	164.1	1.9%
2000	167.9	2.3%
2001	174.2	3.8%
2002	178.9	2.7%

Los Angeles-Riverside-Orange
All Urban Consumers, January of Each Year

Annual Growth Rate

Last 2 Years	3.2%
Last 5 Years	2.4%
Last 10 Years	2.0%

Compound Growth

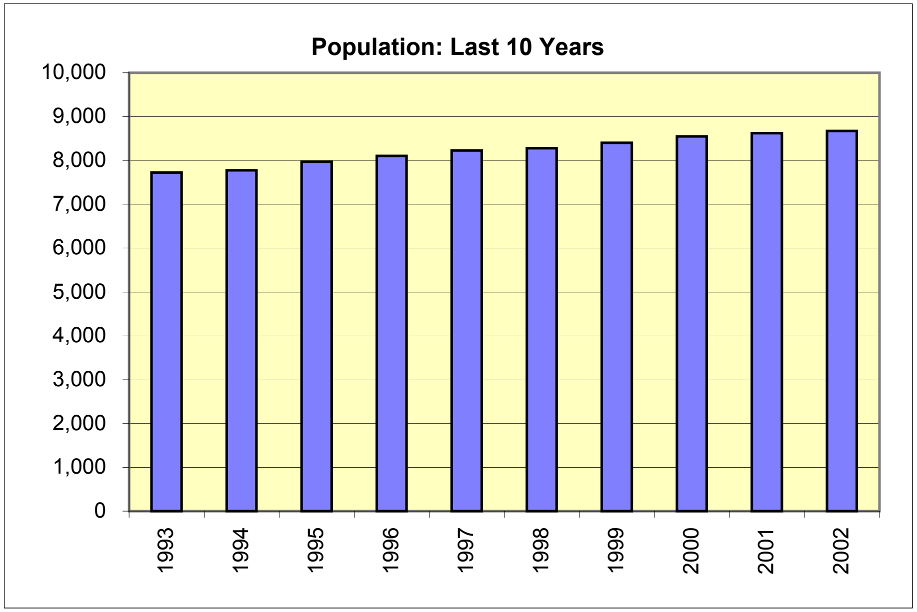
Fiscal Year Ending	Percent Change
1993	
1994	3.2%
1995	5.4%
1996	4.3%
1997	4.6%
1998	2.2%
1999	3.2%
2000	4.5%
2001	4.7%
2002	1.7%

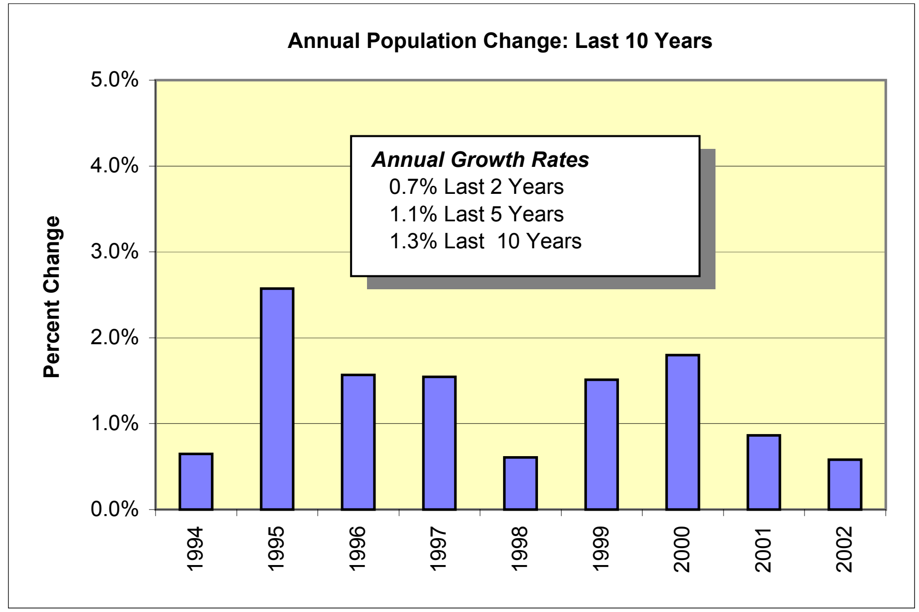
CPI based on U.S. index as recommended
by the U.S. Bureau of Labor Statistics

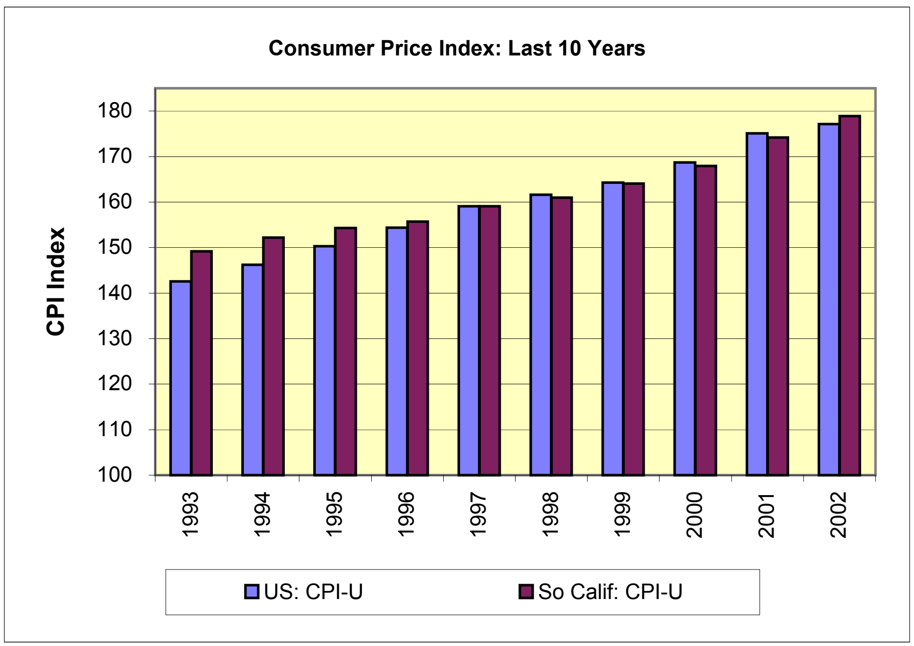
Annual Growth Rate

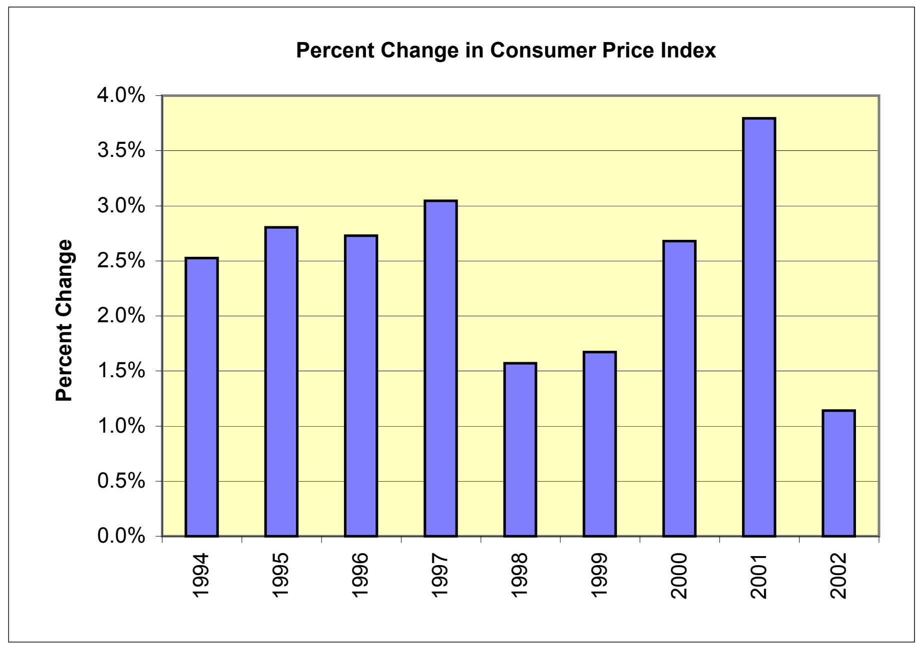
Last 2 Years	3.2%
Last 5 Years	3.3%
Last 10 Years	3.8%

Graphics: Population and Cost of Living









General Fund Revenues: Where They Come From and How They're Doing

General Fund Revenues and Other Source: Actual

Fiscal Year Ended June 30, 2002	Actual	Percent of Total
Major Sources		
Transient Occupancy Tax	4,292,300	41%
Property Tax	1,663,400	16%
Sales Tax	1,657,900	16%
Motor Vehicle In-Lieu	473,500	5%
Franchise Fees	369,000	4%
Total Major Sources	**8,456,100**	**81%**
Other Taxes	249,000	2%
Service Charges		
Development Review Fees	619,300	6%
Recreation Fees	112,800	1%
Other Service Charges	281,000	3%
Use of Money and Property	192,600	2%
Gas Tax Transfer	176,900	2%
Other Subventions & Grants	95,500	1%
Fines & Forfeitures	97,900	1%
Other Sources	111,000	1%
Total Sources	**10,392,100**	**100%**

Top 10 Revenues: 95% of Total

When other taxes, service charges and use of money & property are included, top ten revenues account for 95% of total revenues.

Major Sources: 10 Year Trends

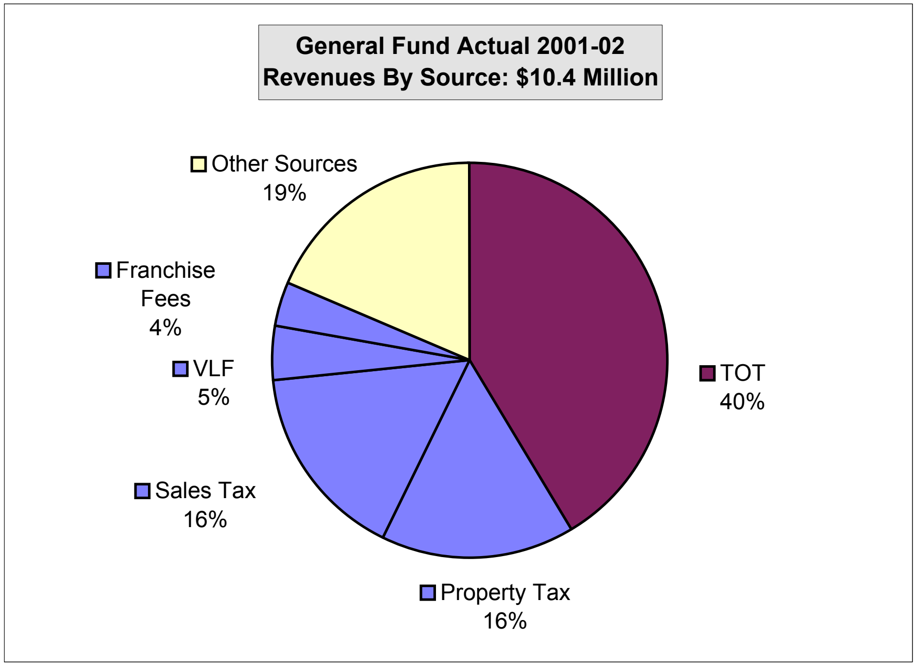
Fiscal Year Ending	Amount	Percent Change
1993	5,647,800	
1994	5,531,000	-2.1%
1995	5,670,100	2.5%
1996	5,997,500	5.8%
1997	6,135,000	2.3%
1998	6,314,700	2.9%
1999	6,857,900	8.6%
2000	7,415,200	8.1%
2001	8,057,200	8.7%
2002	8,456,100	5.0%

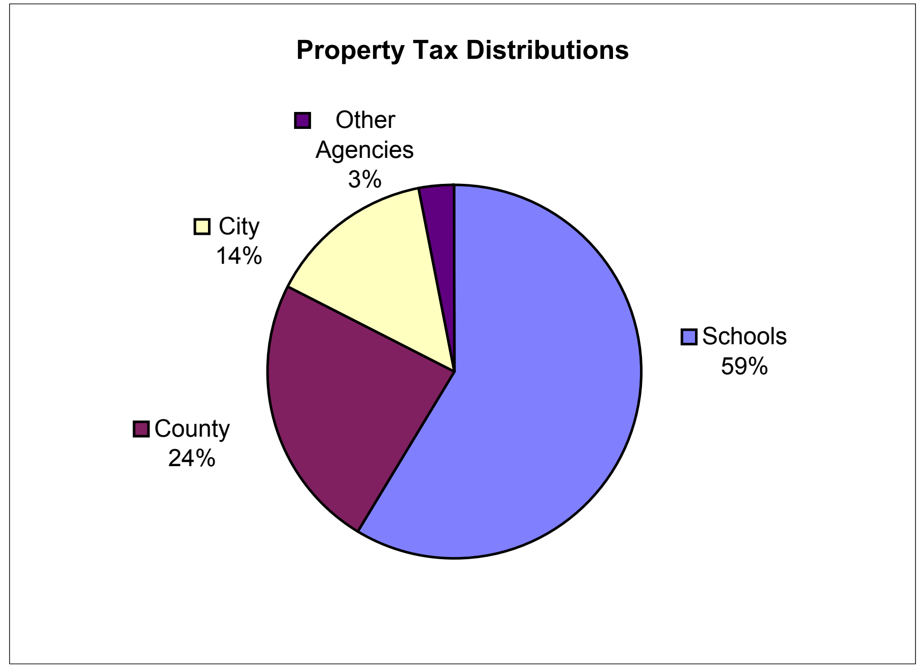
Major Sources: 10 Year Trends
Average Annual Growth Rate

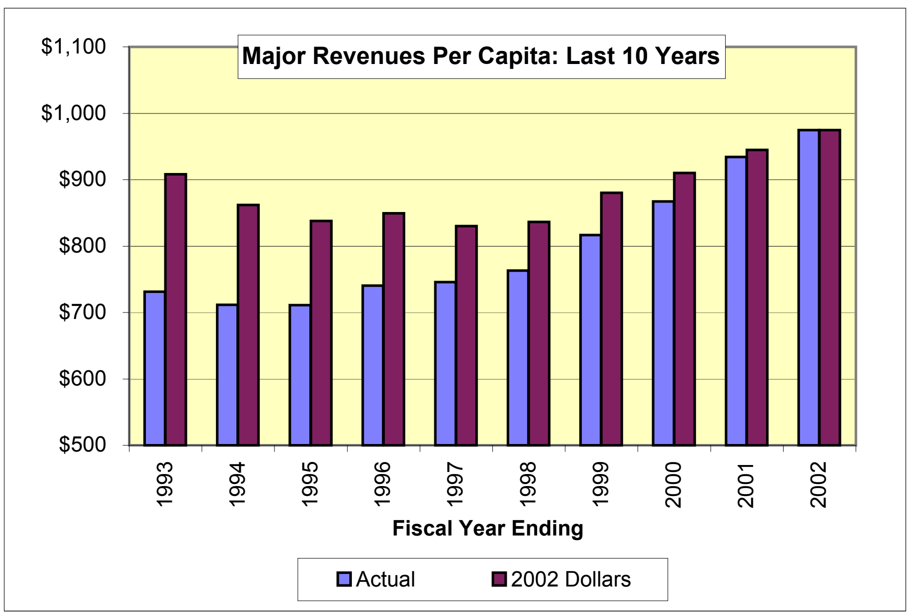
	Actual	Adjusted*
Last Year	5.0%	3.2%
Last 2 Years	6.8%	3.5%
Last 5 Years	6.7%	3.3%
Last 10 Years	4.6%	0.8%

* *Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.*

Graphics: General Fund Revenue







Major General Fund Revenues
Account for 81% of General Fund Revenues
Transient Occupancy Tax
Property Tax
Sales Tax
Motor Vehicle In-Lieu
Franchise Fees

General Fund Expenditures: Where They Go and How They're Doing

General Fund Operating Expenditures - Actual

Fiscal Year Ended June 30, 2002	Actual	Percent of Total
Public Safety	$4,049,700	47%
Community Services	1,390,400	16%
Street Maintenance	443,300	5%
Park Maintenance	501,100	6%
General Government	2,277,400	26%
TOTAL	**8,661,900**	**100%**

General Fund Expenditures and Uses By Type - Actual

Fiscal Year Ended June 30, 2002	Actual	Percent of Total
Operating Programs (See Note)	$8,661,900	86%
Debt Service	570,400	6%
Capital Improvement Plan (CIP)	446,000	4%
Transfers to Motor Vehicle Fund	344,300	3%
Transfers to Pier Fund	91,800	1%
TOTAL	**10,114,400**	**100%**

Excludes encumbrances and carryovers totaling $843,300 in 2001-02.

General Fund Operating Expenditures
10 Year Trends

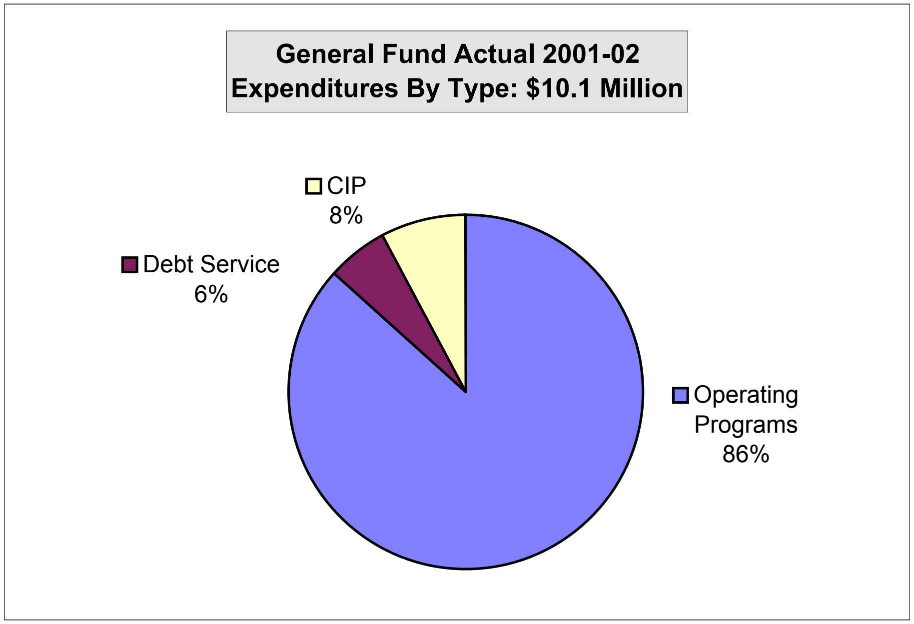
Fiscal Year Ending	Amount	Percent Change
1993	6,315,200	
1994	6,784,100	7.4%
1995	6,462,400	-4.7%
1996	5,516,900	-14.6%
1997	5,393,300	-2.2%
1998	5,543,800	2.8%
1999	6,140,300	10.8%
2000	6,945,800	13.1%
2001	7,577,600	9.1%
2002	8,661,900	14.3%

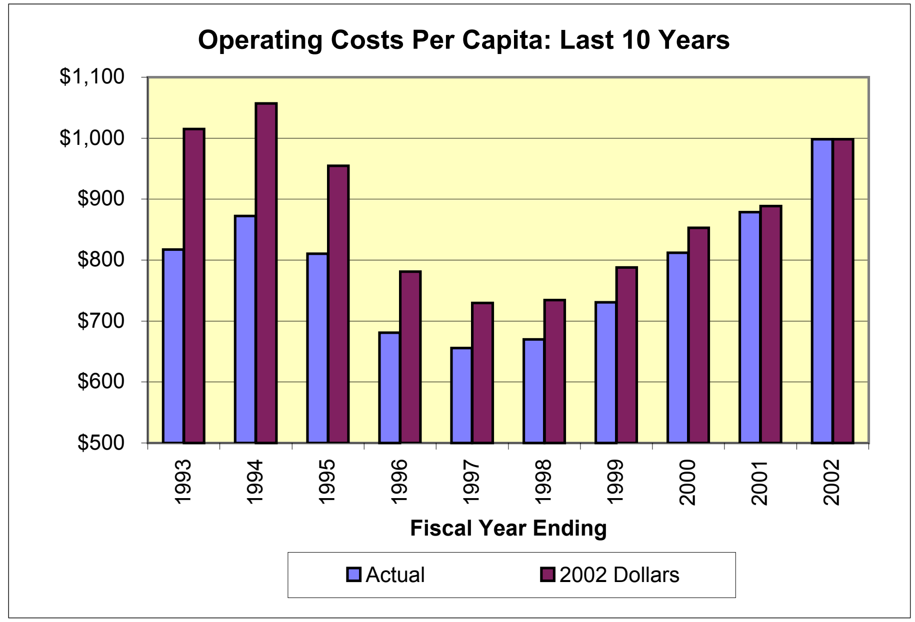
Average Annual Growth Rate

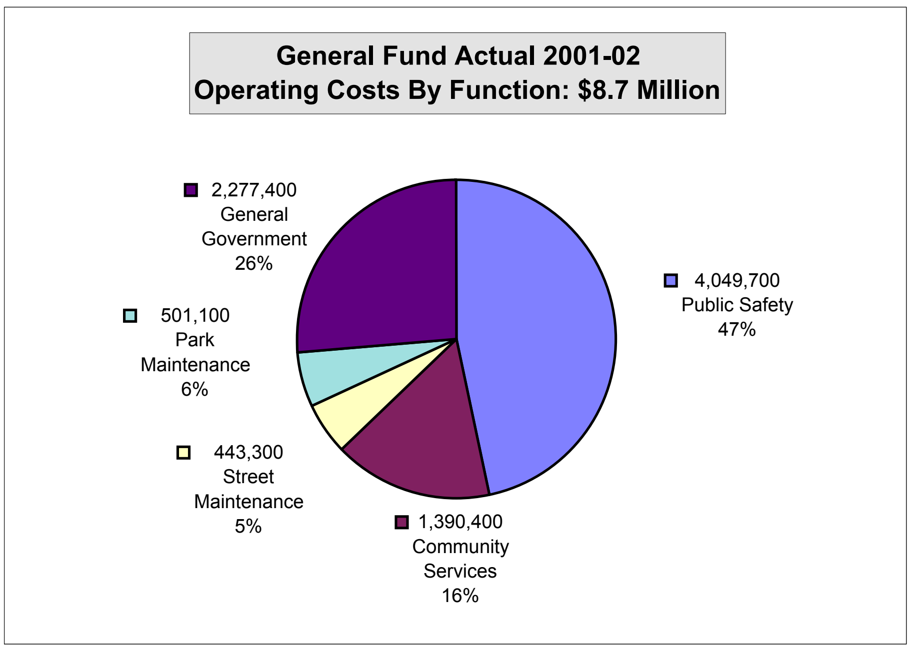
	Actual	Adjusted*
Last Year	14.3%	12.4%
Last 2 Years	11.7%	8.2%
Last 5 Years	10.0%	6.5%
Last 10 Years	4.0%	0.2%

* *Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures*

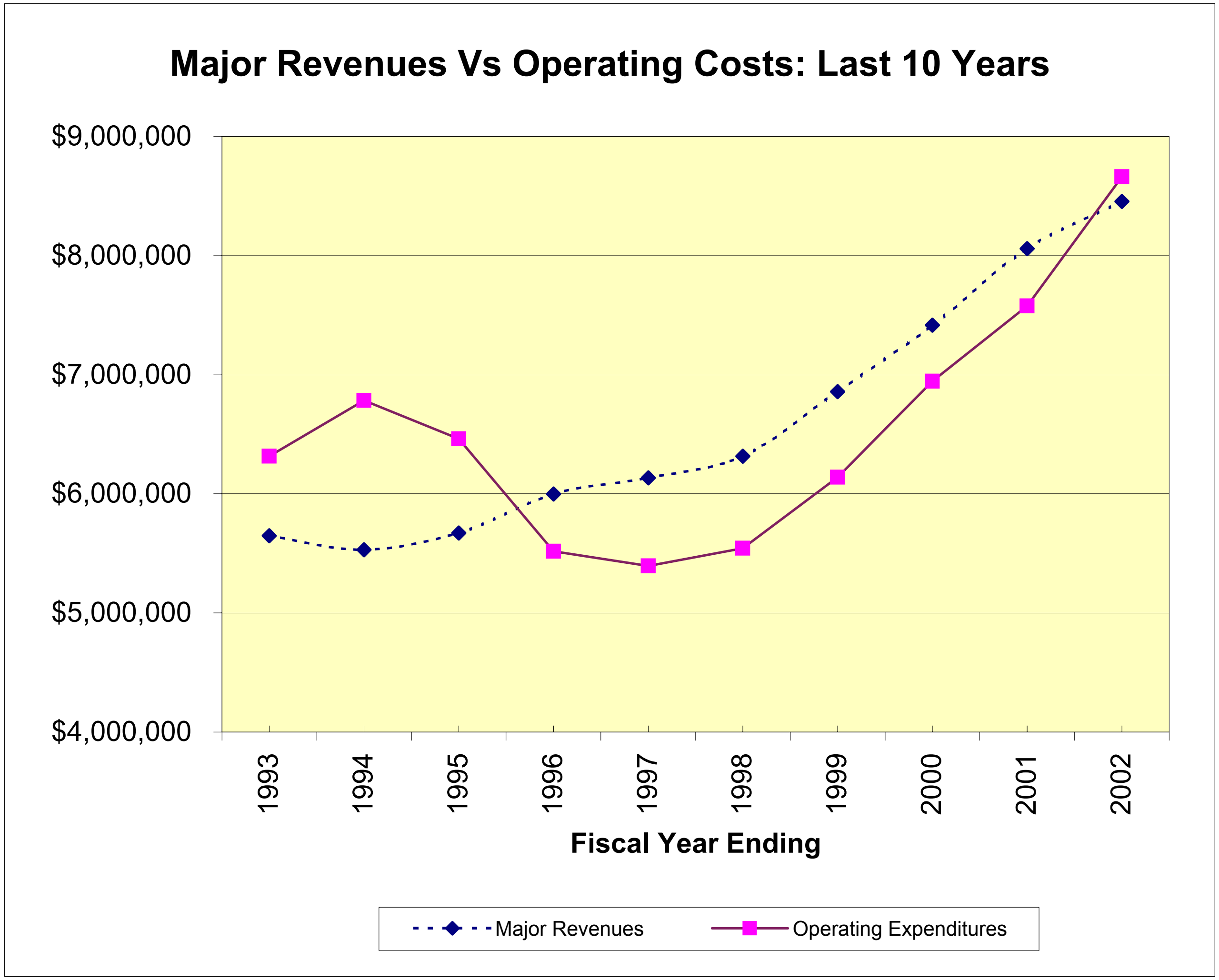
Graphics: General Fund Expenditures







Graphics: Major Revenues Compared with Operating Expenditures: Last 10 Years



Historical Trends: Major Revenue Sources

Transient Occupancy Tax (TOT)

Fiscal Year Ending	Amount	Percent Change
1993	2,656,400	
1994	2,656,500	0.0%
1995	2,594,400	-2.3%
1996	2,917,400	12.4%
1997	2,959,500	1.4%
1998	2,990,300	1.0%
1999	3,445,900	15.2%
2000	3,740,500	8.5%
2001	4,152,300	11.0%
2002	4,292,300	3.4%

Annual Growth Rate

	Actual	Adjusted*
Last Year	3.4%	1.6%
Last 2 Years	7.2%	3.9%
Last 5 Years	7.8%	4.4%
Last 10 Years	5.6%	1.8%

Property Tax

Fiscal Year Ending	Amount	Percent Change
1993	1,318,500	
1994	1,272,800	-3.5%
1995	1,148,300	-9.8%
1996	1,141,900	-0.6%
1997	1,197,200	4.8%
1998	1,248,800	4.3%
1999	1,291,600	3.4%
2000	1,407,900	9.0%
2001	1,539,700	9.4%
2002	1,663,400	8.0%

Annual Growth Rate

	Actual	Adjusted*
Last Year	8.0%	6.2%
Last 2 Years	8.7%	5.3%
Last 5 Years	6.8%	3.4%
Last 10 Years	2.8%	-0.9%

Sales Tax

Fiscal Year Ending	Amount	Percent Change
1993	1,008,000	
1994	939,300	-6.8%
1995	1,276,600	35.9%
1996	1,273,800	-0.2%
1997	1,314,800	3.2%
1998	1,366,700	3.9%
1999	1,342,900	-1.7%
2000	1,484,700	10.6%
2001	1,571,400	5.8%
2002	1,657,900	5.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	5.5%	3.7%
Last 2 Years	5.7%	2.4%
Last 5 Years	4.8%	1.5%
Last 10 Years	6.2%	2.4%

Motor Vehicle In Lieu (VLF)

Fiscal Year Ending	Amount	Percent Change
1993	295,900	
1994	293,400	-0.8%
1995	281,800	-4.0%
1996	295,400	4.8%
1997	294,500	-0.3%
1998	339,900	15.4%
1999	408,500	20.2%
2000	413,100	1.1%
2001	424,800	2.8%
2002	473,500	11.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	11.5%	9.6%
Last 2 Years	7.1%	3.8%
Last 5 Years	10.2%	6.7%
Last 10 Years	5.6%	1.8%

Franchise Fees

Fiscal Year Ending	Amount	Percent Change
1993	183,900	
1994	190,500	3.6%
1995	198,600	4.3%
1996	202,000	1.7%
1997	207,000	2.5%
1998	212,900	2.9%
1999	240,500	13.0%
2000	266,100	10.6%
2001	289,600	8.8%
2002	369,000	27.4%

Annual Growth Rate

	Actual	Adjusted*
Last Year	27.4%	25.3%
Last 2 Years	18.1%	14.5%
Last 5 Years	12.5%	9.0%
Last 10 Years	8.3%	4.4%

Assessed Value (in millions)

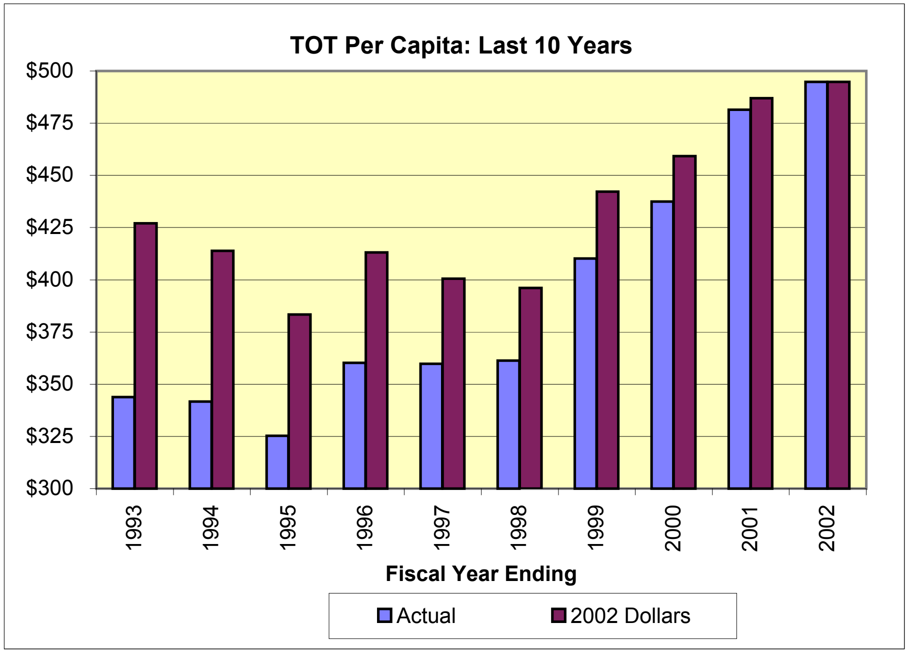
Fiscal Year Ending	Amount	Percent Change
1993	816.8	
1994	843.4	3.3%
1995	863.7	2.4%
1996	898.9	4.1%
1997	919.9	2.3%
1998	949.0	3.2%
1999	995.1	4.9%
2000	1,062.7	6.8%
2001	1,164.1	9.5%
2002	1,251.9	7.5%

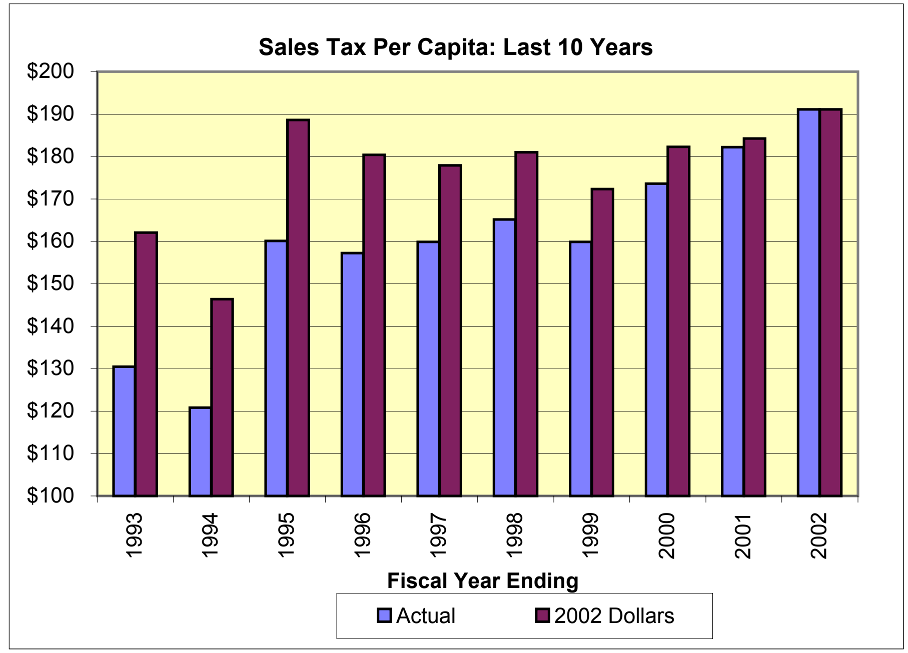
Annual Growth Rate

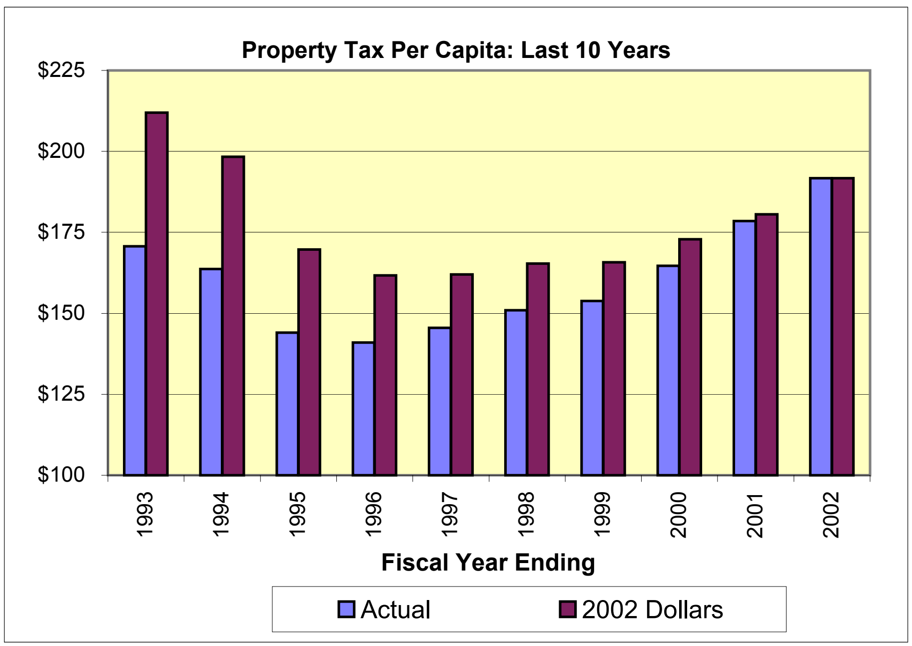
	Actual	Adjusted*
Last Year	7.5%	5.7%
Last 2 Years	8.5%	5.2%
Last 5 Years	6.4%	3.0%
Last 10 Years	4.9%	1.1%

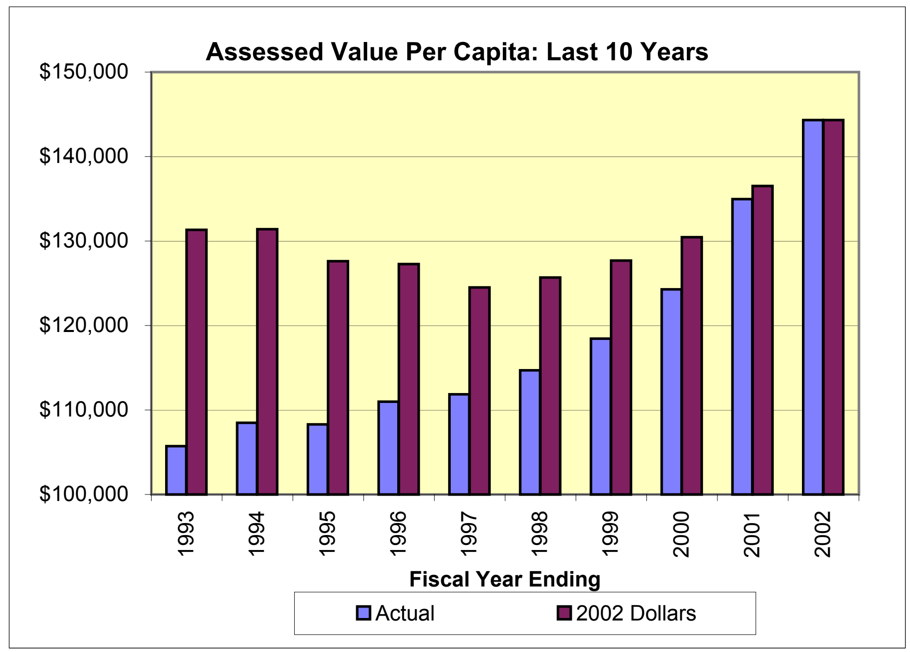
* *Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.*

Graphics: Top Five General Fund Revenues: Last 10 Years

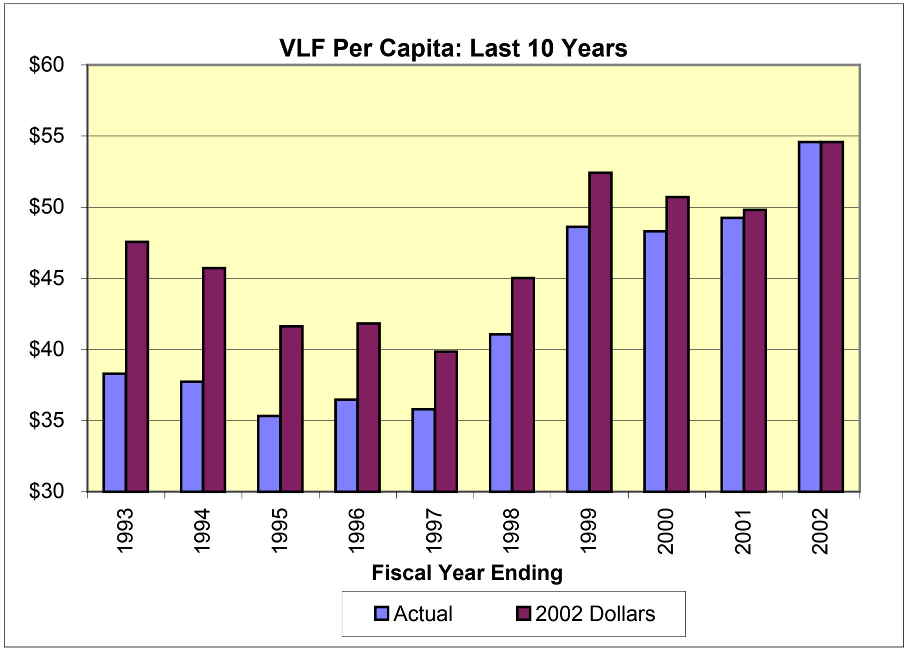


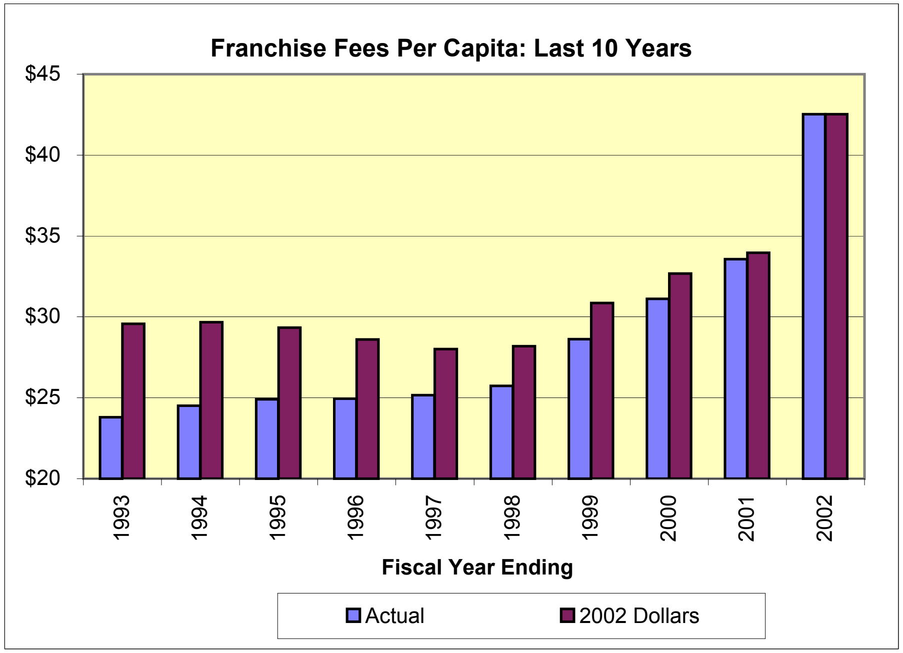






Graphics: Top Five General Fund Revenues: Last 10 Years





Development Review Fees: Last Five Years

Planning Fees

Fiscal Year Ending	Revenue
1998	151,500
1999	250,300
2000	228,300
2001	151,300
2002	191,500
Five Year Average	**194,600**

Building

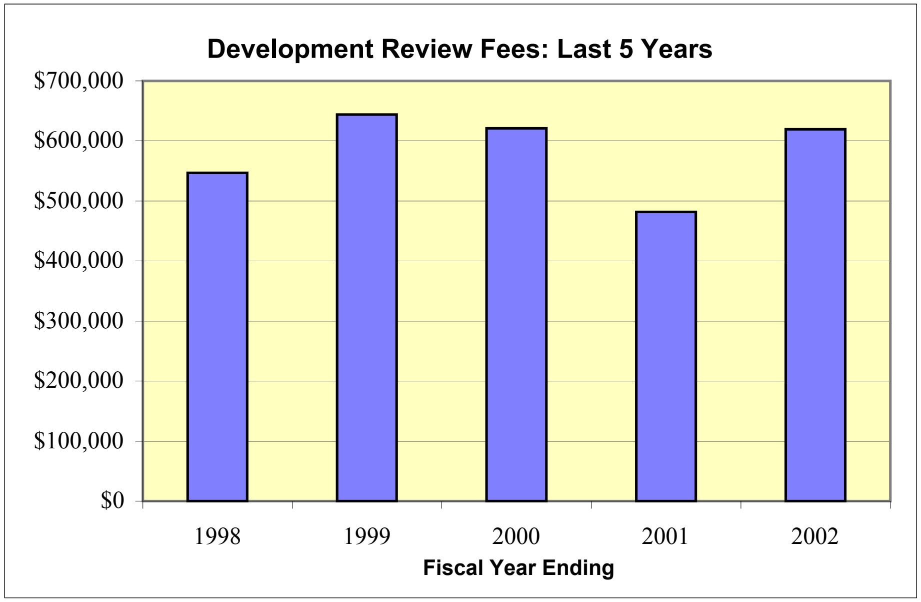
Fiscal Year Ending	Revenue
1998	329,600
1999	301,200
2000	295,600
2001	310,100
2002	415,900
Five Year Average	**330,500**

Engineering

Fiscal Year Ending	Revenue
1998	65,900
1999	92,600
2000	97,400
2001	20,600
2002	11,900
Five Year Average	**57,700**

Total

Fiscal Year Ending	Revenue
1998	547,000
1999	644,100
2000	621,300
2001	482,000
2002	619,300
Five Year Average	**582,700**



Historical Trends: Operating Program Expenditures

Public Safety

Fiscal Year Ending	Amount	Percent Change
1993	3,295,900	
1994	3,426,600	4.0%
1995	3,201,500	-6.6%
1996	2,912,300	-9.0%
1997	2,640,600	-9.3%
1998	2,727,100	3.3%
1999	3,052,900	11.9%
2000	3,216,200	5.3%
2001	3,510,700	9.2%
2002	4,049,700	15.4%

Community Services

Fiscal Year Ending	Amount	Percent Change
1993	541,200	
1994	558,900	3.3%
1995	583,800	4.5%
1996	366,100	-37.3%
1997	375,100	2.5%
1998	344,000	-8.3%
1999	1,080,000	214.0%
2000	1,157,700	7.2%
2001	1,149,700	-0.7%
2002	1,390,400	20.9%

Street Maintenance

Fiscal Year Ending	Amount	Percent Change
1993	364,000	
1994	625,900	72.0%
1995	429,400	-31.4%
1996	311,700	-27.4%
1997	369,800	18.6%
1998	335,600	-9.2%
1999	165,300	-50.7%
2000	153,900	-6.9%
2001	443,100	187.9%
2002	443,300	0.0%

In Gas Tax Fund from FYE 1993 to 2000

Public Works

Fiscal Year Ending	Amount	Percent Change
1993	471,600	
1994	463,700	-1.7%
1995	451,400	-2.7%
1996	150,700	-66.6%
1997	181,600	20.5%
1998	233,900	28.8%
1999	492,500	110.6%
2000	558,500	13.4%
2001	482,900	-13.5%
2002	501,100	3.8%

Annual Growth Rate (Public Safety)

	Actual	Adjusted*
Last Year	15.4%	13.4%
Last 2 Years	12.3%	8.8%
Last 5 Years	9.0%	5.6%
Last 10 Years	2.7%	-1.1%

Annual Growth Rate (Community Services)

	Actual	Adjusted*
Last Year	20.9%	18.9%
Last 2 Years	10.1%	6.7%
Last 5 Years	46.6%	42.0%
Last 10 Years	22.9%	18.4%

Annual Growth Rate (Street Maintenance)

	Actual	Adjusted*
Last Year	0.0%	-1.7%
Last 2 Years	94.0%	87.9%
Last 5 Years	24.2%	20.3%
Last 10 Years	17.0%	12.7%

Annual Growth Rate (Public Works)

	Actual	Adjusted*
Last Year	3.8%	2.0%
Last 2 Years	-4.9%	-7.8%
Last 5 Years	28.6%	24.5%
Last 10 Years	10.3%	6.3%

* *Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures*

Historical Trends: Operating Program Expenditures

General Government

Fiscal Year Ending	Amount	Percent Change
1993	1,642,500	
1994	1,709,000	4.0%
1995	1,796,300	5.1%
1996	1,776,100	-1.1%
1997	1,826,200	5.7%
1998	1,903,200	4.2%
1999	1,349,600	-29.1%
2000	1,859,500	37.8%
2001	1,991,200	7.1%
2002	2,277,400	14.4%

Total

Fiscal Year Ending	Amount	Percent Change
1993	6,315,200	
1994	6,784,100	7.4%
1995	6,462,400	-4.7%
1996	5,516,900	-14.6%
1997	5,393,300	-2.2%
1998	5,543,800	2.8%
1999	6,140,300	10.8%
2000	6,945,800	13.1%
2001	7,577,600	9.1%
2002	8,661,900	14.3%

Annual Growth Rate (General Government)

	Actual	Adjusted*
Last Year	14.4%	12.4%
Last 2 Years	10.7%	7.3%
Last 5 Years	6.9%	3.5%
Last 10 Years	5.3%	1.5%

Annual Growth Rate (Total)

	Actual	Adjusted*
Last Year	14.3%	12.4%
Last 2 Years	11.7%	8.2%
Last 5 Years	10.0%	6.5%
Last 10 Years	4.0%	0.2%

** Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures.*