

CITY OF SAN JUAN CAPISTRANO
LONG-TERM STRATEGIC PLAN

FALL 2010



Preserving the past to enhance the future



Preserving the past to enhance the future

SAN JUAN CAPISTRANO

MISSION

To protect, sustain,
and enhance the
community's unique
identity as a small
town "oasis" in
Orange County.
Through civic efforts,
San Juan Capistrano
will continue to be one
of the most desirable
places to live and visit
in southern California
due to its historical
character, safety and
security, strong sense
of community, and
economic vitality.

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EXECUTIVE SUMMARY

This is the City of San Juan Capistrano's first Strategic Business Plan. The City Council wanted to develop a Strategic Business Plan to define the City government's objectives for preserving and enhancing the quality of life in the community and to evaluate the City's financial capacity to provide the services needed to achieve these objectives. Given the current tumultuous economic climate, the City Council saw the need to effectively and proactively address the looming threat of a structural budget deficit.

San Juan Capistrano is world renowned for its beautiful Mission and being a key stop for cliff swallows along their annual migration route from Argentina. The rural "oasis" quality of the town is unique in Orange County. San Juan Capistrano, through vigorous citizen support, has maintained over 40% designated open space. It's widely known as the "Equestrian Capital of the West", and has hosted Olympic equestrian trials. The ideal climate, fascinating history, diverse culture, and low crime rate make San Juan Capistrano an extremely desirable place to live, work and raise a family.

Balancing this unique character with economic development is and will continue to be one of the City Council's greatest challenges. It will be important to participate in regional traffic easement solutions as well as to invest in local economic development enhancements regarding traffic and land use. There is a downtown revitalization plan underway (the Historic Town Center Master Plan) that will need to be shepherded to completion, while keeping these key values in mind.

San Juan Capistrano has of course not been immune to the effects of the "Great Recession." Declining housing values, retail sales and consumer confidence have all taken their toll on the city's economic vitality. San Juan Capistrano has been hit particularly hard in regards to auto sales. The City relies heavily on these sales tax revenues which have declined from their zenith in 2006 of over \$3.5M to just under \$2M in 2010.

Another financial challenge is that the City is 90% built out, which means that previous years' revenues from developer fees will no longer be a significant source of revenue for the City and its Capital Improvement Projects. Other funds must be found to address the City's aging infrastructure, which will require substantial investment for improvements. Tough questions have to be asked as difficult economic times continue and these and other financial challenges loom.

Five strategic priorities have been identified to address these challenges and enhance residents' quality of life. While the City's vision sets the course for the future, the five strategic priorities provide a roadmap that encompasses governing policies and strategies, the operational approaches to implementing the strategies, and metrics to ensure the achievement of these strategies. The Service and Operations section differentiates between "on-going" and "new" initiatives being undertaken in pursuit of the following five strategic priorities:

1. Land Use / Building Policies / Open Space
2. Strengthening the Downtown, Los Rios Historic District & the Mission as a Community Icon
3. Infrastructure
4. Financial Sustainability and Public Safety
5. Diversity

In addition to these five strategic priorities, each department has its own set of Service Objectives that are updated each fiscal year. These represent the basic departmental duties and services that are part of administering a city. This Strategic Business Plan was created to identify longer term strategic priorities that need to happen, above and beyond the successful delivery of each department's Service Objectives.

Looking to the future, the City is prepared for the "new reality" of these challenging economic times. Armed with the information uncovered through the process of creating this Strategic Business Plan, the City faces some difficult choices. The forecast in the Financial Strategy section is one step in the process

to formulate plans to address the City's long-term budget issues. The City will continue to refine and monitor its long-term forecasts and use future iterations of this Strategic Business Plan to refine its long-term financial strategies.

Working together with the community and its employees the City will overcome these challenges, leverage its strengths, and strive for excellence in all its endeavors, thus continuing to achieve a high quality of life for all its residents.

Reading the Business Plan

The Strategic Business Plan sets the priorities for the City's staff and determines how resources are allocated in the City budget. The key contents of the Plan are:

- **Mission, Values, and Vision.** Mission, values, and vision statements for the City government concisely articulate what the community values about San Juan Capistrano and the City's role in protecting, sustaining, and enhancing the same. Mission, values, and visions statements are the philosophical underpinnings of the Strategic Business Plan.
- **Analysis of the Community and Economic Environment.** In order to set goals and strategies, the City first analyzed the important features of the community and local economy. This gives us greater insight into the issues that the City government will need to tackle over the coming years and the financial resources that will be available to do so.



ABOVE LEFT:
San Juan Capistrano is widely known as the "Equestrian Capital of the West."

ABOVE RIGHT:
World renowned Mission San Juan Capistrano is a key stop for cliff swallows along their annual migration route from Argentina.

- **Service and Operations Strategy.** The five strategic priorities expressed in the Strategic Business Plan were reached through collaboration between the City Council, staff, and public, and through an understanding that San Juan Capistrano's historical character, sense of community, natural beauty, and economic sustainability are paramount. The strategies and associated tactics describe what the City will do over the coming years to protect, sustain, and enhance the community's unique identity.
- **Financial Strategy.** The financial health of the City has an important influence on its ability to achieve the service and operations strategy. This part of the Plan presents long-term financial trends, forecasts and other prospective information about the City's financial position. The trends and forecasts identify imbalances so that they can be proactively addressed.
- **Report of Past Years' Results.** Although this is the City's first Strategic Business Plan, this is not the first effort the City has made to address issues that are important to the community's future. This section of the Plan summarizes the results of projects and programs the City has already undertaken.

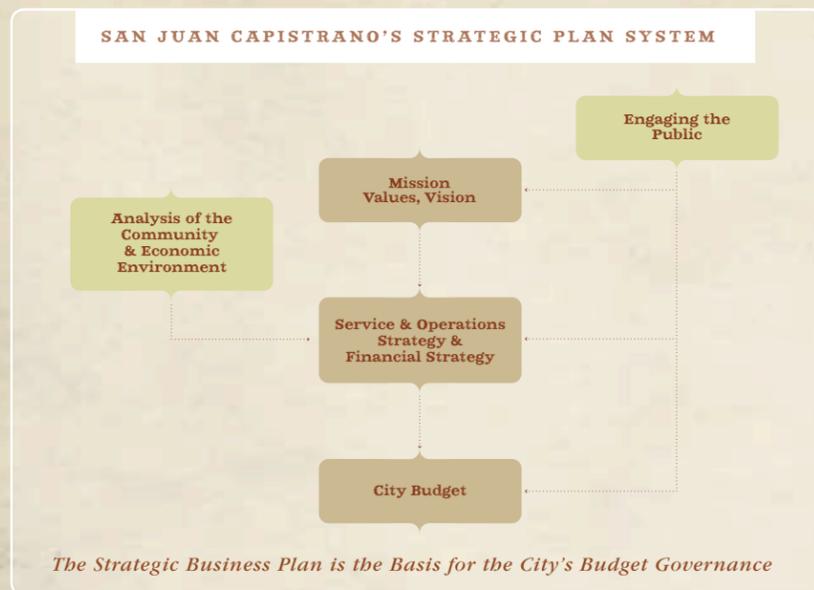
INTRODUCTION



ABOVE: Panoramic view of San Juan Capistrano with a backdrop of Saddleback

Role of the Strategic Business Plan

The Strategic Business Plan is used to set the overall goals for the City, provide direction to City departments, and create the basis for each year's annual budget. The diagram below shows how the pieces of the Strategic Business Plan fit together.



The Strategic Business Plan has different elements that help transform the City's vision and strategy into reality:

- **Descriptions of Strategies.** This Plan document contains the strategies the City will pursue. City Staff maintains detailed action plans on how to achieve the strategies. Strategies and action plans are funded through the budget.

- **Key Performance Indicators.** These are metrics that the City uses as sources of evidence to see if its strategies are having the intended impact.
- **Financial Model.** The City maintains a 20-year forecast to show the long-term impacts of its decisions and to model different possible financial futures or scenarios.

Key Performance Indicators

A key performance indicator (KPI) is a measure of performance that helps to evaluate an organization's progress towards its vision and long-term goals. KPIs will be monitored and reported on a periodic basis to assess the present state and to assist in prescribing a course of action. They also can be used to benchmark performance relative to like cities.

Each of the five strategic priorities discussed in this Plan (beginning on page 15) have corresponding KPIs. These will help the City gauge the success of the implementation of this Plan, and the City's progress in achieving its vision.

One KPI that the City is considering initiating is a resident satisfaction survey that would seek to understand how satisfied its residents are with various City services and living conditions. This type of survey is considered a "best practice" in local governance, and would be conducted once every two years. The results will be used in the City's ongoing efforts to make the community the best it can be and to help plan future programs and services.

Mission

After a process of public consultation, the City Council adopted a mission statement that clarifies the City's purpose and is the philosophy that guides it.

Values

San Juan Capistrano's residents and leaders highly value the community's small town, self-sufficient nature. Through focus groups and other resident input, it is clear that all involved are determined to pursue policies and actions that will preserve and enhance these elements. This determination is reflected in the community's key values:

- Pride in San Juan Capistrano's history and well-preserved historical areas is a value shared by the City government and its citizens. Residents, businesses, and visitors value the confluence of California traditions found in the community, including different cultures and lifestyles, such as agrarian and equestrian. For example, residents are proud that people come from all over the world to visit Mission San Juan Capistrano.
- The community values and is determined to sustain its open space and natural advantages (e.g., creeks, hills, ridgelines, climate, proximity to the beach, the swallows, unique location as a midpoint between Los Angeles and San Diego), as a source of calm and enjoyment, and also as a factor that distinguishes it from other, more fully developed communities in Orange County.
- San Juan Capistrano has a distinct sense of place: It is separate from highly urbanized areas of Orange County. However, at the same time, San Juan Capistrano also appreciates its interconnection with Orange County – and the certain economic advantages that it provides.

- San Juan Capistrano's residents and government officials prize a high level of community engagement, openness, and the fair and equitable treatment of all residents, which is viewed as a working partnership and a strong factor in preserving a small-town atmosphere. Inclusiveness of different opinions, ideas, and cultures are an important part of what makes San Juan Capistrano special. Community engagement is also central to seeing that decision making about the community's future is transparent.
- Finally, San Juan Capistrano provides a total experience that encompasses its natural features, economic advantages, spiritual link with the Mission, educational opportunities provided by local schools, and sense of community. It is this total experience that leads residents, businesses, and visitors to hold San Juan Capistrano in such high regard.

Vision

Definition of a Vision Statement. A vision statement is essentially a description of what the City "should look like once it has successfully implemented its strategies and achieved its full potential."¹ Further, "a challenging yet achievable vision embodies the compromise between what an organization wants and what it can have."² In San Juan Capistrano, this tension is often manifested in perceived tradeoffs between having sufficient financial resources and preserving the values described above. A vision statement can provide guidance to help decision makers navigate such tensions by serving as the "bottom line" of what is truly important – the touchstone against which difficult choices can be tested. For example, it is likely and desirable that a discussion of strategies will inspire further refinement

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INTRODUCTION CONTINUED

of the vision as the City gains additional clarity on what the community's desired future looks like.

The implementation of the five strategic priorities outlined in Service and Operations Strategy chapter will enable a robust future for San Juan Capistrano – one that includes a thoughtfully developed town with well-maintained infrastructure, low traffic and preserved open spaced lands whose stewardship has been clearly defined; a vibrant and charming “destination” downtown with fine dining, unique shops and entertainment; an economically stable community with a low crime rate; and last but not least a well-integrated and engaged community that cherishes its diverse blend of people.

Vision Statement

San Juan Capistrano will preserve and enhance its small-town, self-sufficient community character.

San Juan Capistrano has very special distinguishing features – specifically the centrality of Mission San Juan Capistrano in its community life, its small-town, close-knit, self-sufficient, agrarian and equestrian character, and its natural features such as open spaces, undeveloped ridge lines, and the swallows. Preserving and enhancing these special features is central to what residents expect of their city government. This will require the City to identify and address long-range and complex issues that pose challenges to its special character, develop strategies to build on opportunities and neutralize threats, and enlist the support of the community to implement such strategies.

San Juan Capistrano will continue to have a financially sustainable city government.

The City's ability to achieve its mission within the constraints of the values the community holds dear will depend on city government being in good financial health. In turn, the City's financial health depends on having a revenue base that keeps pace with necessary expenditures, a relentless focus on spending for priorities, and managing resources as efficiently as possible. The City's ability to maintain financial health requires decisions on identifying priorities, sustainable spending and revenue policies by elected officials, capable managers, good business processes, and appropriate technologies.

San Juan Capistrano will have a stable and sustainable local economy.

The community's economic well-being is an important factor in maintaining the city government's good fiscal health. The economic stability of its businesses provides the tax base with which to meet service needs of residents, such as infrastructure, public safety and community programs. A sustainable economy also provides the wherewithal to support non-profit organizations, recreational programs, arts and culture, and the needs of a diverse population. In short, a strong economy enables the City to sustain the key elements that make San Juan Capistrano special. The City will support projects that sustain the local economy but do not sacrifice the key elements of the City's identity. By supporting and investing in areas such as tourism, downtown economic development, and transportation links the City provides residents with good access to employment opportunities both inside and outside of the City. At the same time, the City will take the utmost care to balance its economic growth against its small-town feel, historical character, natural environment, and other elements that contribute to the community's high quality of life.

San Juan Capistrano will continue to be a place where residents and visitors alike can enjoy Southern California's unspoiled natural beauty and experience the advantages of a slower pace in a historical setting.



ABOVE LEFT:
The historic 3.7 Acre
Lemon grove.

ABOVE RIGHT:
An equestrian
rides in the
Swallows Day
Parade.

The City will make decisions regarding residential and business development within the framework set by the values articulated above. These decisions will be consistent with the downtown's small-town feel and historical nature. Criteria for decisions about residential and business development, tourism, and highways and transit will be balanced with what is important to the community: maintaining open space and sustaining the natural environment, including clear ridgelines and the space required to support an equestrian culture.

The strong partnerships between City government and the community, including its community organizations, non-profit and religious organizations, the equestrian community, other governmental units, and the business community, will support San Juan Capistrano's ability to sustain its small-town, self-sufficient community character.

The elements of the City's vision are interrelated in complex ways, and maintaining the networks that comprise the community's civic and community cultures requires conscious attention by city government. Because differences of opinion on specific issues will often exist, the City will use a collaborative and transparent decision-making process where different viewpoints are respected, best efforts are made to reach a mutually agreeable solution, and ultimately it is clear that decisions were made in accordance with the City's mission, values, and vision.

San Juan Capistrano will continue to be a safe and secure community.

Community safety is vital to San Juan Capistrano's small-town atmosphere, sense of community, and economic success. Without a safe and secure community, residents would be less able to form cohesive social groups, and businesses would be less viable. The City must ensure that its public safety and emergency response capabilities continue to be well-planned and adequately funded over the long term. It must also recognize and address trends and risks (e.g., land-use and demographic, etc.) and plan appropriately.

Like an extended family, San Juan Capistrano is inclusive of individuals of different backgrounds, but also comes together to confront challenges and work together in the common interest.

The community will continue and thrive as a diverse and vibrant town, embracing its historical, cultural, socio-economic, and generational attributes and respecting all aspects of our California heritages and traditions. While celebrating cultural connections and shared values, the City will always look to promote the greater good of the overall community over individual group perspectives.

BELOW:
Model T Fords navigate
in front of the Mission.



ANALYSIS OF THE COMMUNITY & ECONOMY

Residents and community leaders place a very high value on San Juan Capistrano as a small, self-contained village. As the City plans for the future, the primary focus is on maintaining and enhancing characteristics that support San Juan Capistrano's small-town, self-sufficient nature. Community involvement in the strategic business planning process brought to light four key characteristics that make San Juan Capistrano a very special place to live and work.

- The historical character of the community
- The sense of community that is evident to residents and visitors alike
- The community's position as an oasis and retreat from highly urbanized surrounding areas
- The sustainable economy that stems from the community's self-contained nature as well as residents' access to the Orange County economic market

Historical Character

The Capistrano Valley's first indigenous residents were Native Americans, the Acjachemen people, called Juaneños by the Spanish, who prized the valley for its fertility, sheltered climate, and access to water. The Acjachemen were hunter-gathers who resided in permanent, well-defined villages and seasonal camps, with the first occupation extending back to about 7,500 B.C. The Acjachemen presence is revealed today through the City's rich archaeological heritage, and the continuing cultural preservation and activities by Acjachemen descendants.

The first European exploration of the Pacific Coasts of Baja and Alta California began in the mid-1500s by Ulloa, Cabrillo and Drake, and Vizcaino. Spanish padres, under the Viceroyalty of New Spain, began establishing missions in present-day Baja California in 1697. Mission San Juan Capistrano was founded in 1776 and named

after the Franciscan Saint Giovanni da Capestrano (1386-1456).

In 1821 Mexico gained its independence from Spain, and Alta California became a state in Mexico. The Mexican-American War ended in 1848 with the Treaty of Hidalgo when the United States paid Mexico \$10 million for California. Two years later California was admitted to the United States.

Rancheros, and, of course, American settlers from the East soon followed. This strong and authentic cultural heritage creates a sense of connection not only to the Old West, but the Old World. Current residents take pride in their connection to the past and in belonging to a culture that can be traced so far back in history.

The city is the site of California's oldest residential neighborhood, Los Rios. It is also the home of the oldest in-use building in California, the Serra Chapel in the Mission. The area was the site of both the first vineyard and first winery in California.

While the Mission is primary to the community's historical character, many of the features of daily life in San Juan Capistrano evoke the town's historical character. The railroad stop was one of the earliest in the area. The downtown's visual image and proximity to the Mission and train depot emphasize its historical importance. The equestrian community is a direct descendant of the town's Old West experience.

Sense of Community

Residents have strongly held positive feelings about San Juan Capistrano, stemming from the community's distinctive historical, environmental, and cultural traits and are disposed to being involved in the community.

Abundant recreational opportunities and community events give residents a chance to socialize and relax together, and add to the sense of community. The annual "Swallows Day Parade",

the largest non-motorized parade in the country, commemorates the annual migration of the cliff swallows that migrate each year from Argentina to San Juan Capistrano. The parade and celebration showcase hometown pride with cowboys, marching bands, Native American singing, mariachi music, and Mexican dancing. The diversity of San Juan Capistrano's population contributes to the beauty of the parade and to the city's sense of community – the presence of different ethnicities and cultures promoting mutual understanding.

An Oasis

San Juan Capistrano is perceived as an oasis from the hustle and intense urbanization of the rest of Orange County. Key to this is San Juan Capistrano's connection with nature. There is ample open space, protected ridgelines, and an extensive trail system for pedestrians, bicyclists, and horseback riders to access this natural beauty. San Juan Capistrano is a friendly community, and this quality, combined with the rural and historical characteristics, recreates the feel of the American "small town" ideal.

Economic Environment

By many measures, the "Great Recession" has ended, however, it appears that the recovery will be a slow and, perhaps, uneven process. Consider the following examples of positive national economic news:

- In the 1st quarter of 2010, national GDP grew at an annual rate of 3.7%.
- The National Association of Business Economics (NABE) forecasts 3.1% GDP growth for 2010.

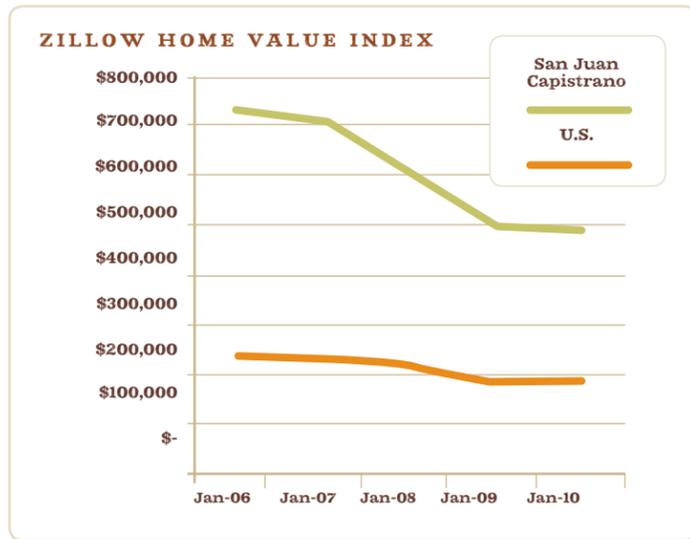
- Both of the Institute for Supply Management's (ISM) manufacturing and non-manufacturing indices have climbed above a score of "50" (below 50 signals contraction of these industries) in recent months.

Consumer spending and retail sales have both shown gains in recent months. However, there are number of important challenges to economic recovery:

- High unemployment has continued. The unemployment rate has remained over 9.5% in recent months. The rate of unemployed plus underemployed has remained at just below 17% as well.³
- Housing prices are flat. A recent reading of the Case-Shiller housing index showed a little growth. According to Standard and Poor's David Blitzer (the chair of the index committee), "the rebound in housing prices seen last fall is fading." Robert Shiller, one of the economists who originated the index and who famously predicted the bursting of the housing bubble, believes that it is very difficult to predict the future of housing prices, but does believe, based on his mathematic models, that "a plausible scenario would be that prices rise for some more months and then drop back, but not a huge drop back, so that they end up about where they are [now] in five years."⁴

ABOVE:
The Ballet Folklórico de
San Juan Capistrano

The analysis of the City's external and internal environment defines the context for the Strategic Business Plan. The characteristics and values of the community, economic growth, and the legislative environment all have significant implications for the strategies the City employs to meet its goals.

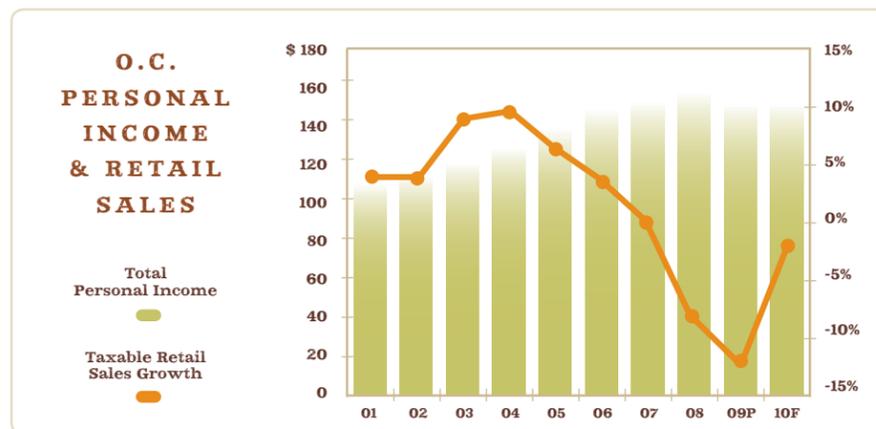


Many are concerned about a commercial real estate crisis. According to a report by PriceWaterhouseCoopers and the Urban Land Institute, “after more than a year spent in suspended animation lagging ... shattered housing markets, the commercial real estate industry [will hit] bottom in 2010, suffering a surge of painful write downs, defaults, and workouts. Retail and office properties [will] take the biggest hits - debt-burdened consumers [will] continue to rein in shopping and companies [will] delay rehiring while looking to shave occupancy costs and improve productivity.” Fortunately for the City, hotels are expected to be one of the categories of real estate that will be least impacted.

Consumer debt is still considerable. Consumers may be forced to go through a period of deleveraging, which would necessarily restrain spending.

Of course, California is a huge part of the national economy. According to the UCLA Anderson Forecast,⁵ more normal growth rates for California should occur by the middle of 2011. Real personal income growth is forecast to be 1.3% in 2010 and 3.7% and 4.5% in 2011 and 2012 respectively. Though the state’s economy will be growing, it won’t generate enough jobs to push the unemployment rate below double-digits until 2012.

Orange County, in particular, has felt some serious impacts from the Great Recession. Financial service and construction, both of which were at the center of the downturn, are key industries in Orange County. Fortunately, the many fundamentals of Orange County’s economy are still in position to support a recovery, such as its strategic location, high tech industries, and favorable demographics. Employment drives consumer spending, which is of substantial interest to San Juan Capistrano, given the importance of sales taxes to the City’s revenue portfolio. The chart below from the Los Angeles County Economic Development Corporation (LAEDC) provides historical perspective and forecasts for personal income and retail sales growth in Orange County.⁶ San Juan Capistrano’s retail community is highly integrated into Orange County, so countywide projections for retail sales are highly relevant.⁷



Taxable retail sales growth is expected to rebound by 7% from 2010 to 2011 after a steep decline over a number of years.

Auto sales are of particular concern to San Juan Capistrano, given the importance of automobile dealerships to sales tax generation for the City. The chart to the right shows the Wall Street Journal’s analysis of automobile sales trends. As the graphic shows, auto sales have improved significantly in 2010, compared to 2009. For instance, March 2010 car sales were 19% better than 2009 and light-duty truck sales were 12% better. Discussion with auto dealers in San Juan Capistrano shows that they expect this trend to continue – one expects 10% to 15% increases in sales per year for the next two years as consumer buying rebounds, based on analysis by his national corporate offices. Auto dealers are also anticipating the entry into the market of the generation succeeding “Generation Y,” which is expected to occur in 2020.

Automobile sales have seen a slight surge in the last month and year-to-date figures have been much better for 2010, compared to 2009.

Finally, it is important to consider small businesses, as they are an integral part of the local economy. In fact, a local bank vice president that was interviewed for this plan described San Juan Capistrano as a “community of entrepreneurs.” Notable about small businesses is that they have not participated in the economic upswing to the same extent as other segments of the economy. Two factors influencing small business performance are access to credit and household spending. The Small Business Administration reports that small business loans have picked up, but small businesses still report that access to capital is a major concern.

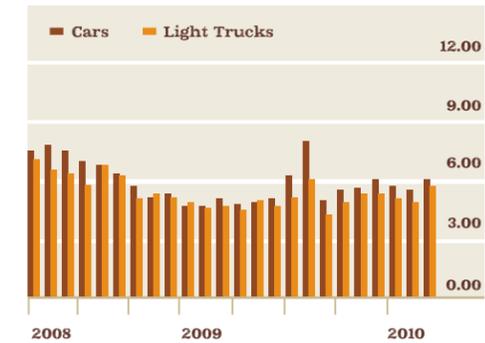
Legislative Environment

The City’s financial condition is heavily influenced by state policy and court decisions. This section examines relevant recent developments in these areas.⁸

U.S. AUTO SALES

Kicking the tires

Sales of cars and light trucks in the U.S. retail market; In millions of units at seasonally adjusted annual rate.



At the pump

Unleaded gasoline, average weekly retail price per gallon.



Automobile sales have seen a slight surge in the last month and year-to-date figures have been much better for 2010, compared to 2009.

Court Decisions

Hotel Bed Taxes (Transient Occupancy Taxes). There are two major legal challenges impacting hotel bed taxes. First, is that the court ruled in *Batt v. City and County of San Francisco* that the hotel bed tax can be applied to parking as well as room rent. This preserves the flexibility of cities to determine what a hotel bed tax applies to. Second, is the collection of bed taxes on hotel rooms sold by internet resellers. Essentially, these resellers purchase rooms from hotels at discounted rates, and resell the rooms at marked-up rates to consumers. Hotels collect the tax based on the “wholesale” price of the room, rather than the price the consumer paid. A class action lawsuit to collect taxes based on the “retail” price of the room was filed by a number of California cities and has yet to be resolved. The internet resellers are also seeking legislation at the state and federal level to solidify their position.

Pay first, litigate later. Traditionally, parties who wished to protest a tax were obliged to pay the tax and then litigate the tax in court. A recent court ruling has reversed this precedent, such that parties would not have to pay a tax they wished to litigate. This would make it much easier to protest a tax.

Redevelopment agencies. In July 2009, the California Legislature approved ABX4 26 which requires redevelopment agencies to remit \$1.7 billion in redevelopment revenues back to the state. Under ABX4-26 each Redevelopment Agency is required to contribute a proportionate share of the revenue to the newly created Supplemental Educational Revenue Augmentation Fund (SERAF) and is re-allocated to K-12 school districts or county offices of education located within a redevelopment project area. ABX4-26 continues to be litigated in the Third District Court of Appeal and a decision is expected in spring of 2011. Meanwhile, in November 2010, Proposition 22 was passed by a 61% margin to specifically prohibit the state from borrowing or taking funds used for transportation, redevelopment or local government projects and services. Proposition 22 prohibits the state, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for these purposes.

State Policies

As the State of California continues to face budget difficulties, it has pursued a number of strategies that seek to improve the State's financial position at the expense of local government. The League of California Cities and other like-minded organizations continue to contest these policies. Below is a recap of the most significant policies for local government revenues, as of this writing.

State Road Funds Payment Delays. The State is authorized, under certain conditions, to borrow highway user tax⁹ money that is intended for localities. The State has exercised this authority, which results in negative cash flow impacts to local governments.

Swap of State Gasoline Taxes. In March 2010, the State made provisions for a swap of state sales taxes on gasoline for a gasoline excise tax. This new law repeals the state sales tax on gasoline and increases the excise tax on gasoline by 17.3 cents and adds an annual index that is intended to ensure the new excise tax keeps pace with the revenues expected from the sales tax on gas. The new law includes expressed legislative intent to fully replace the local streets and road funds cities and counties

would have received under the old state sales tax on gasoline with allocations from the new higher motor vehicle excise tax (HUTA) rate. However, the legal obligations to provide localities with their share of revenues are not as strong as the old system. Therefore, the growth rate and security of future local street/road allocations from the new tax are uncertain. Although the administration pledges to maintain local governments' shares, paying the State's General Fund transportation debt with tax is its first priority.

State Law Enforcement Grants. The possibility exists for the state to discontinue up to \$500 million in law enforcement grants to local governments and repurpose the money to the State's general fund. Although San Juan Capistrano does not provide its own law enforcement, financial pressure applied to Orange County (who provides police services for the City) could eventually trickle down to San Juan Capistrano.

Decline in Sales & Use Tax Compensation Funds. In order to ease its budgetary problems, the State had borrowed sales tax revenues from local governments to pay state bonds. Property taxes (primarily from schools) were then shifted over to compensate municipalities (schools were, in turn, compensated by the state). Unsurprisingly, keeping such a system balanced can be difficult, especially in an environment of economic uncertainty. As such, the local governments can expect revenue received from this so-called "triple flip" to be volatile over the coming years.

Vehicle License Fees. Cities receive general revenue from vehicle license fees (VLF). However, a decline in VLF revenues collected and an increase in administrative charges from the State Department of Motor Vehicles (which are taken out of VLF revenues before they are distributed to localities) has dramatically reduced the VLF revenues allocated to cities over the last several years. The complex nature of how allocations to localities are made and the erratic nature of DMV charges mean that localities can expect continued turbulence in the timing and size of their allocations.

Affordable Housing. California Law identifies housing for all Californians as a priority and states

that local and state governments have a responsibility to facilitate the development of housing for all economic segments of the community. According to state law, local jurisdiction's housing needs assessments must include their share of the projected needs for housing in the region (regional share). Each jurisdiction must identify the sites (capacity) to meet their share of the region's housing needs. The regional share identifies the need for new housing units for each jurisdiction in the County of Orange and the other counties and cities that constitute the SCAG region and distributes the projected housing need to four income groups: very low, low, moderate, and above moderate.

The projected needs by income category for the City of San Juan Capistrano are shown in the table below. San Juan Capistrano's regional share for the eight and one half year period from January 1, 2006 to July 1, 2014 is 1,062 units. Of this, the City needs to identify the potential for the development of 228 very low income households, 188 units for low income households, 210 units for moderate income households, and 436 units for all other households. Each category has its own density requirements.

Affordable Housing Funds

A California redevelopment agency has three primary responsibilities relative to affordable housing including: 1) To deposit and expend a percentage of tax increment revenue for the provision of affordable housing; 2) To cause specified percentages of new or rehabilitated housing units in a project area to be available at affordable housing cost; and 3) To

AFFORDABLE HOUSING FUND EXPENDITURES						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTALS
Administration	\$156,000	\$161,000	\$166,000	\$171,000	\$176,000	\$829,000
Projects	\$3,472,000	\$8,000,000	\$0	\$1,500,000	\$500,000	\$13,472,000
Programs	\$481,000	\$426,000	\$439,000	\$453,000	\$467,000	\$2,266,000
Debt Service	\$940,000	\$941,000	\$941,000	\$939,000	\$937,000	\$4,698,000
Total Exp.	\$5,049,000	\$9,528,000	\$1,546,000	\$3,063,000	\$2,080,000	\$21,266,000

replace affordable housing units removed from the housing stock as a result of redevelopment activities. The projected Affordable Housing Fund expenditures for FY 2010 through FY 2014 period are summarized in the above table.

Stormwater Mandates

As the scope of City drainage responsibilities has increased in recent years from one of solely flood control, to one which must address water quality, environmental effects, repair, and rehabilitation of an aging system, the costs to the City to provide these services will continue to increase significantly. The City currently has no determined funding mechanism for storm drain infrastructure improvements or environmental regulation compliance. The City faces an unfunded mandate under the storm water permit adopted by the San Diego Regional Water Quality Control Board. This permit contains a host of costly requirements, currently funded by the City's General Fund. These requirements include runoff controls for new development, conducting site inventories,

SJC TOTAL QUALIFIED OBJECTIVES > 2008-2014					
	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Totals
New Construction	228	188	210	313*	939
Rehabilitation	60	60	0	0	120
Conservation	34	0	0	0	34
Preservations	0	1,350	0	0	1,350

* The 313 units represent the original 436 units minus the construction of 123 above moderate-income units between January 1, 2006 and July 1, 2008.

ANALYSIS OF THE COMMUNITY & ECONOMY CONTINUED

and inspections of construction, municipal, commercial and industrial sites and/or activities. The requirements also emphasize the need for public education, and specify the audiences that must be reached and the content that must be provided. The cost of funding these requirements has doubled over the past 5 years. The San Diego Regional Water Quality Control Board is in the process of releasing a new permit for the next 5 years with additional requirements. In addition, the State is developing additional regulations known as a Total Maximum Daily Load (TMDL) for South Orange County. The cost of compliance with the TMDL requirements is estimated to be \$1.2 Billion over 10 years and will be shared by South Orange County cities, including San Juan Capistrano. Finally, the City also has identified a number of drainage infrastructure projects that are also without an identified funding source.

Stopping State Raids on Local Government Revenue

Organizations representing local governments started laying the groundwork for a November 2010 ballot measure last year after state lawmakers adopted a series of budget-balancing measures in which the state either shifted or borrowed funds that would ordinarily go to local governments. The ballot measure was Proposition 22, and was passed by California voters to constitutionally prohibit the State from taking funds used for transportation or local government projects and services. Last year's state budget actions included borrowing almost \$2 billion from local property tax revenue, as well as permanently shifting to the state \$2 billion from redevelopment agencies across California.

In many ways, the Proposition 22 measure revisits the state-local battles of 2004, in which local government supporters, through signature gathering, qualified a state ballot measure to protect local revenue. Using that ballot measure as leverage, the local officials negotiated with lawmakers and Governor Arnold Schwarzenegger to develop a compromise measure, Proposition 1A, which was placed on the ballot. While Proposition 1A, which passed overwhelmingly, offered protections to local revenue, it gave the state some flexibility, which it exercised last year when it borrowed from local property taxes. Most local governments were made whole through the proceeds of a three-year bond issue that was sold in November, a mechanism that was made possible through Proposition 1A. Proposition 22 measure would remove most of the flexibility that was built into Proposition 1A, and add protection for transit agencies and redevelopment.

LEFT:
San Juan Capistrano City Hall.



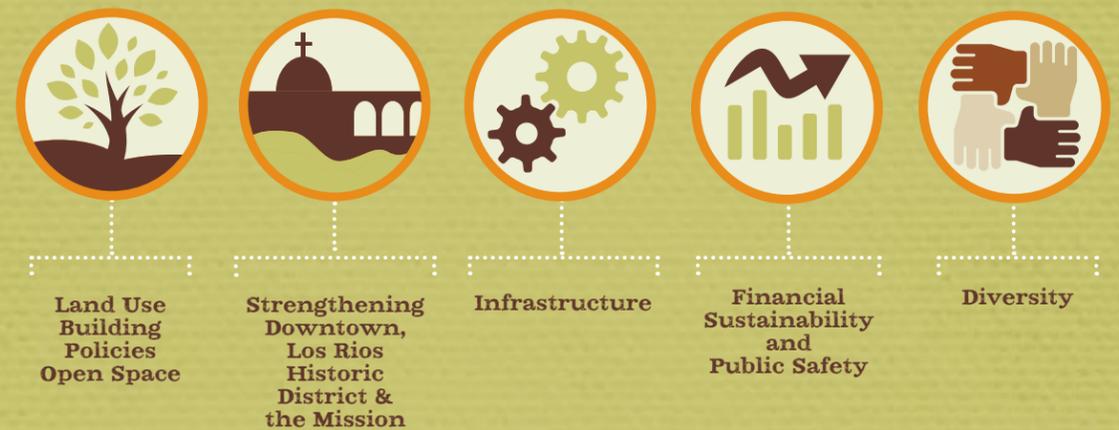
**SERVICE AND OPERATIONS STRATEGY:
STRATEGIC PRIORITIES**

While the City's vision has set the course for the future, the five strategic priorities discussed in this section provide the City a roadmap that encompasses governing policies and strategies, the operational approaches to implementing the strategies, and metrics to ensure the achievement of these strategies. Included in each section are the initiatives the City seeks to accomplish and maintain, accompanied by the specific tactics that identify the City's projects,

methods and movements toward the successful outcome of the initiative.

As mentioned earlier, Key Performance Indicators (KPIs) will be used to summarize progress toward the City's strategic priorities. These outcome measures form a "scorecard" of the City's progress, and will facilitate the ongoing monitoring of the Plan's implementation and sharing of progress with staff, partners and the public.

This section differentiates between "on-going" and "new" initiatives being undertaken in pursuit of the following five strategic priorities:





Land Use, Building Policies, Open Space

Ongoing Initiatives

- Enhance Economic Development within the City with Improved Land Use Policies
- Enhance Open Space Role & Balance Use with Equestrian and Agrarian Character

New Initiatives

- Develop New Regulation Strategies and Development Standards that Enhance Economic Development



Strengthening Downtown, Los Rios Historic District and the Mission

Ongoing Initiatives

- Reinforce the Vision of Downtown, Los Rios and Mission as Interconnected and Historic Components of Community

New Initiatives

- Enhance Mobility and Connectivity in the Downtown
- Create an Interconnected Pedestrian Circulation System that is Accessible, Walkable, Pleasing to the Eye, and Uniquely Identifiable
- Preserve, Maintain and Respect the Balance of the Residential and Commercial Activity of the Los Rios District While Accommodating Mobility, Safety, and Access for the Widest Range of Users
- Designate, Preserve, Protect, Enhance, and Perpetuate the Historic Structures of the Mission and Promote the Mission as a Destination



Infrastructure

Ongoing Initiatives

- Decrease Reliance on Imported Water and Determine Funding Opportunities

- Engage Regional Players Positively and Strategically in Furtherance of Traffic Improvement Goals

- Sustainability

New Initiatives

- Define the Standards to Maintain Infrastructure and Establish a Plan for Rehabilitation, Replacement, and Maintenance across All Major Infrastructure Categories
- Schedule and Fund Improvements and Costs to Maintain Standards
- Define a Livable Level of Traffic, Traffic Goals with Consideration of Trade-Offs
- Explore Open Space Maintenance Options



Financial Sustainability and Public Safety

Ongoing Initiatives

- Achieve Financial Return on Open Space Investment
- Diversify Revenue Portfolio
- Develop Administrative and Policy Structure to Facilitate Financial Sustainability
- Develop Cost Efficiency Measures
- Develop Succession and Employee Retention Plan
- Monitor Public Safety



Diversity

Ongoing Initiatives

- Develop Partnerships with Non-Profits and Multi-Cultural Organizations

New Initiatives

- Using the Buxton Study, Pursue bringing Businesses to San Juan Capistrano that Target a Wide Range of Diversities
- Educate Public on City's Cultural Diversity

Land use is at the center of the town's prized character as well as its economic vitality. With the City 90% built out, staff and residents alike are focused on ensuring the remaining parcels are used to the City's best advantage. This section includes strategies to improve the City's processes around design review and approvals, promote new development strategies and economic diversification, and better understand the costs and benefits of open space. How can the City balance concerns about preserving its special character with the need to maintain and grow economic vitality? What are the right regulation strategies that balance individual property owners' desires with community development goals? What are the trade-offs in regards to open space?

The Development Services Department is the lead department regarding Land Use. They work closely with other City departments and the City Council to provide current and long-range planning, building safety, code enforcement, and historic preservation programs to ensure balanced physical development of the City in accordance with the City's adopted General Plan, zoning regulations, and building codes.

Land use policy and development building codes have a large influence on the City's use of available land. The City has a reputation of being difficult to work with and for having restrictive codes, such as a low floor area ratio (FAR), which limits the building footprint vs. the lot size, and a maximum of three stories on any building. The City also has a dozen review commissions (state law requires one), and as such, large projects could require 12 to 18 months to complete the review process. The City has native plants and water conservation rules, a cultural overlay zone (as per municipal code), and a flood plain overlay zone that all limit development.

Planning Services manages development reviews and establishes and implements land use policies to ensure the preservation of community values and resources while increasing environmental, economic and social sustainability. This department also oversees implementation of the General Plan and provides both Department and city-wide support for compliance with the California Environmental Quality Act (CEQA) and provides a leadership role

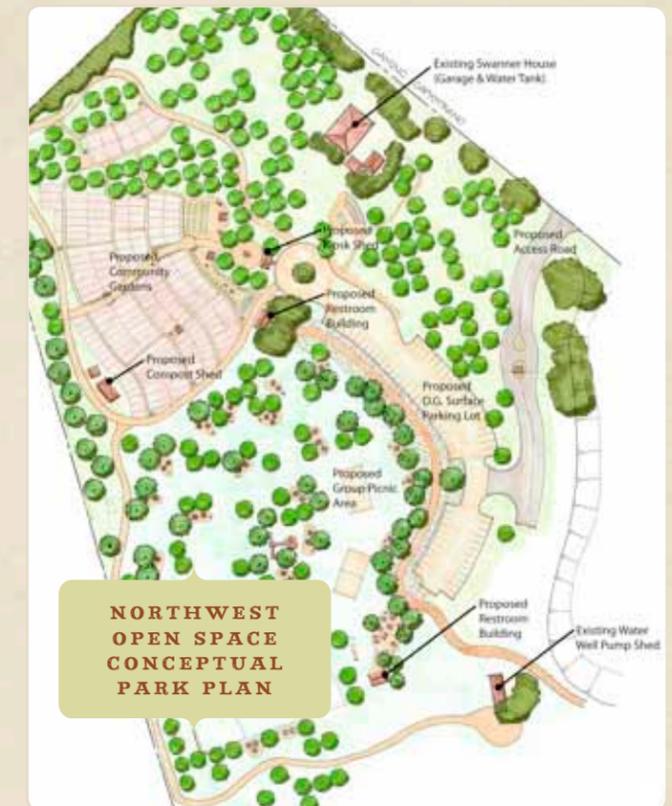
with the development of City open space properties and Historic Preservation.

The Permit, Inspection and Enforcement Services teams work together to process applications, review plans, and inspect construction in order to verify that work complies with building codes to ensure safe and habitable structures.

On-going Initiatives

Enhance Economic Development within the City with Improved Land Use Policies

This strategy leverages the community's unique identity to attract new businesses. New development will be balanced with maintaining San Juan Capistrano's unique and historical character while increasing economic vitality. Staff has recommended updating the General Plan Land Use Element to establish balanced land uses with enhanced commercial development.





ABOVE:
Native plants

Staff will work to amend the City's sign ordinance and architectural design guidelines to promote attraction of visitors while keeping signage within the character of San Juan Capistrano.

Lastly, staff will be chartered with negotiating student impact fees on private schools at such time that schools request approval of discretionally or legislative land use applications from the City.

Enhance Open Space Role & Balance Use with Equestrian and Agrarian Character

San Juan Capistrano has a proud tradition of protecting its natural environment, open space and recreational opportunities. Open space contributes greatly to the town's unique rural character, thus protection has been the cornerstone of the City's environmental agenda for many years. 40% of the land within City limits is designated open space (the City is 14 sq miles). To change any General Plan Land Use Plan designation of open space requires a vote of the people. The City has a responsibility to protect San Juan Capistrano's natural beauty for future generations and for the free use and access to open space by all.

The Northwest Area Strategies Ad Hoc Committee was formed in October 2005 to review and make recommendations on how to acquire and preserve

open space, including funding strategies for future planning and environmental work. Due to an expanded role, which entails representing the community's interest on all open space issues, the committee was renamed the Open Space Committee by the City Council in February 2007.

In order to implement this initiative, staff will work closely with the new Public Lands Trails and Equestrian Commission to complete and implement the City's Open Space Master Plan to include targeted and balanced uses of open space. This will encourage the thoughtful development of recreational land to serve as an event destination. Examples of these types of recreational activities that could also provide a steady revenue source include outdoor concerts, wedding and event sites, equestrian shows, and car shows.

In addition, Staff will investigate the opportunities for active recreation and open space uses that can be supported by user fees, such as community gardens, archery site or cemetery. Additionally, identifying new cellular site locations on City-owned land will be considered. This would include the review and approval of a master Conditional Use Permit (CUP) involving limited administrative design review.

New Initiatives

Develop New Regulation Strategies and Development Standards that Enhance Economic Development

In order to "fast track" projects that are important to the economic vitality of the City, staff will work to create an expedited development review process that meet specific policy guidelines established by the City Council allowing for pre-approval of certain aspects of the project.

Staff will also amend the land use and development standards related to FAR and parking standards for commercial districts with the goal of improving parking while supporting the implementation of the Historic Town Center Master Plan (more on this in the next Strategic Priority Section).

KEY PERFORMANCE INDICATORS			
COUNCIL PRIORITY	KPI	DEPT	REPORTING FREQUENCY
1	Revenues generated from open space	FS	Annually
1	% acreage yet to be developed (non open space)	DS	Quarterly
1	% acreage of open space where no plan has been implemented	DS	Annually
1	Ratio of new businesses opened:closed	DS	Quarterly
1	Process 90% of all administrative entitlement permits within 1 week.	DS	Quarterly
1	Process 90% of all entitlement applications within 4 months.	DS	Annually
1	% increase in Building plan check services within 15 working days-5 working days on re-checks.	DS	Quarterly

(Key: FS = Financial Services, DS = Development Services.)



**STRATEGIC PRIORITY
STRENGTHENING DOWNTOWN, LOS RIOS
HISTORIC DISTRICT & THE MISSION**

Nowhere in the state of California is the history of western small towns so fully revealed as in the few square blocks of San Juan Capistrano's village core. These streets bear witness to events, people, and the evolution of both a town and a state. Many of the properties and sites located in the Downtown Area are included on the City's Inventory of Historic and Cultural Landmarks. They have been given special recognition for their historic and/or architectural significance to the community of San Juan Capistrano, and in many cases have been recognized on a state and national level as well. These buildings are just some of what makes San Juan Capistrano unique.

One of the more outstanding features of beautiful San Juan Capistrano is the train depot. Completed in October 1894 this unique building includes a 40 foot high dome with a mission bell. During the week, commuters arrive and leave with regularity, and the weekends bring visitors to San Juan Capistrano where one can easily walk to all the downtown attractions from the depot, including the Mission. The depot has also been adapted and updated to provide downtown commercial space that accommodates two upscale restaurants.

The City feels there is a great opportunity with the downtown area, given the unique character of the downtown and the presence of many historic buildings and the Mission. The City's challenge is to establish a regulatory framework to encourage pursuit of land uses that have an economic advantage, while simultaneously preventing the degradation of the downtown's unique character.

As with many cities in California the Downtown Area has not been immune to the Great Recession with reduced discretionary spending impacting restaurants and shops. Things are looking up, however, not only from what the experts say in regards to the economy's recovery, but also because there have been recent investments that have brought a renewed vitality to the area. The most notable of these is the re-opening of the downtown movie theatre. In this state-of-the-art facility, patrons can watch first run movies and have their food and beverages delivered to their seats. The theatre with its remodeled façade, complete with old-fashioned marquee, complements the downtown historic identity and



ABOVE:
The recently redeveloped
Regency Theater

provides a welcome new venue to bring people into the Downtown Area.

The City is very interested in bringing more hotels into town and is currently exploring the possibility for multiple hotels including the recently approved Plaza Banderas Hotel, off Ortega Highway, and the Marriott Residence Inn Hotel off Stonehill and Camino Capistrano, and other potential sites.

In order to continue this momentum and further enhance the downtown, while maintaining the City's character, the following strategies have been developed.

On-going Initiatives

Reinforce the Vision of Downtown, Los Rios and Mission as Interconnected and Historic Components of Community

In January 2010, the City's Redevelopment Agency Board of Directors unanimously selected a professional land planning and environmental consulting firm to amend the Historic Town Center Master Plan (HTCMP). The Board felt that Studio One Eleven was distinctive in that it provided an expanded view to encompass 142 acres, including Del Obispo and the proposed reconstruction of the Ortega Highway/I-5 Freeway Interchange and related street realignments, than the original 7.5 acre project area prepared for the 1995 Master Plan. The radius was

STRATEGIC PRIORITY
STRENGTHENING DOWNTOWN, LOS RIOS HISTORIC DISTRICT
& THE MISSION CONTINUED

expanded from the original site, to a distance of 1500 feet, or the distance that a person can walk comfortably within five minutes. Studio One Eleven plans to carry out a multi-disciplinary approach and will serve as the lead member of the planning and design team and will provide overall project management through the 17 month Master Plan amendment process.

The Historic Town Center Master Plan (HTCMP) will be amended to promote the development of contemporary economic uses of historic buildings (consistent with the Secretary of the Interior), such as allowing the adaptive re-use of historic adobes and the Judge Egan House. It also includes plans for a form-based code that allows flexibility to expand outdoor dining and the installation of tasteful and

selective outdoor lighting, allow development of stationary kiosks/street vendors in downtown, implement a streetscape plan for the Historic Downtown, expand the street light banner program and streetlamp hooks for hanging planter baskets, and continue to implement a façade improvement program. The City will look to promote the establishment of live entertainment venues (i.e. music, comedy, etc.) in the Downtown Area.

The Historic Town Center Master Plan will also consider parking improvement elements such as developing an expansion plan for the Franciscan Plaza parking, and pursuing the conversion of this parking structure to a publically maintained facility. The City will also seek to redevelop the vacant public property behind the stage at the Historic Town Center Park into a public parking lot, as a joint-use lot, or other public/institutional use.

New development opportunities include the redevelopment of the former Texaco parking lot and the Pacific Bell properties, and of two El Camino Real parcels. All development plans will be governed by a form-based code to provide developers and architects specific guidance on a desired Downtown image. A future component of this plan could be to create and administer a design award recognition program for architects.

One of the most exciting additions to downtown will be the development of a hotel property on the former Plaza Banderas site. San Juan Capistrano is keen to add additional hotel rooms in an effort to attract more overnight visitors to the City and to garner room taxes—a surcharge on room rates that goes directly to the City. The City has made sure that the design and development of this property incorporates appropriate building massing and retains views of the Mission.

Working closely with the Development Services Department, the HTCMP will identify and develop key available sites in the historic downtown, evaluate and amend Title 9, Land Use Code Standards for FAR in order to attract additional hotels, and evaluate and amend Title 9, Land Use Code Standards, so parking regulations do not hinder investment and revitalization in Downtown. Additionally, changes to development standards will be made to applicable policies and codes in order to promote Bed and Breakfast properties.

A main component of this vision will be to create an ongoing Marketing and Branding Plan that conveys the City's authenticity and historical character. The retention of a marketing/branding consultant to develop this plan and then implement it consistently will help the City market the unique qualities and attributes of San Juan Capistrano to developers, businesses and organizations.

New Initiatives

Enhance Mobility and Connectivity in the Downtown

Leveraging the Downtown's train depot, the City is considering options to promote the use of alternate transportation in the Downtown Area, such as a tri-city shuttle with neighboring cities, pedi-cabs, and horse carriages. In order to provide a pedestrian friendly connection between downtown areas, a feasibility study will be considered for expanding the downtown commercial district by creating a creek walk with an amphitheater. This would convert the existing concrete lined channel to a naturalized channel, with plazas and outdoor dining areas overlooking the naturalized creek walk.

With regard to automobile traffic, the City is considering a reconfiguration of downtown streets within the Historic Town Center Master Plan to improve access and walkability of the downtown core. The City is also considering the abandonment or transfer of the excess Ortega Highway right-of-way at the corner of Del Obispo and Ortega in anticipation of the future realignment of the Ortega Highway/Del Obispo intersection. This potential abandonment or transfer of the excess right-of-way is contingent upon a commitment for the development of a hotel on the adjoining Plaza Banderas site.

Create an Interconnected Pedestrian Circulation System that is Accessible, Walkable, Pleasing to the Eye, and Uniquely Identifiable

In order to encourage visitors and residents alike to spend more time in the Downtown Area and to enhance the accessibility to all the various interesting destinations within the area, the City will install decorative paver sidewalks and crosswalks, and



TOP:
The San Juan Capistrano Train Depot
BOTTOM:
The Tea House restaurant in Los Rios.

BELOW:
The proposed project area for the amended Historic Town Center Master Plan.



related pedestrian amenities such as benches, water fountains and restrooms.

The Historic Town Center Master Plan Traffic Impact Study assesses feasibility, impacts and design of potential parking modifications, such as angled parking, pedestrian only zones, widened sidewalks, and bike and equestrian lanes.

Preserve, Maintain and Respect the Balance of the Residential and Commercial Activities of the Los Rios District While Accommodating Mobility, Safety, and Access for the Widest Range of Users

The Los Rios Specific Plan District represents a unique, historically rich neighborhood which reminds us of times past when life moved more slowly, agriculture was the lifeblood of the local economy, and European, Mexican, and Native American cultures prevailed side by side. The Rios Adobe and Montañez Adobe represent some of the oldest structures in the county, and the Rios Adobe may be the oldest, continually inhabited residence in Orange



ABOVE:
Los Rios Park

County. Los Rios Street serves as the main artery of the Specific Plan District, a street which not only serves as home to many residents, but also supports limited commercial and service establishments. The challenge for the residents and businesses of Los Rios is to allow the District to evolve and adapt to changing conditions and needs while preserving its historical diversity and rural character. The Specific Plan consists of several elements including the Land Use Element, Circulation Element, Design Element, and Housing Element.

The City intends to develop a plan and implement Phase 4 of the Los Rios Specific Plan Circulation Element, to expand the Verdugo pedestrian plaza. This will require coordination with OCTA to study the feasibility of a platform on the west side of the railroad tracks, south of Verdugo Street, and to study the potential changes to vehicular access between River Street and the Tea House/Ramos Street to create a pedestrian-friendly street environment. Staff will comprehensively assess the advantages and disadvantages of such improvements and conduct public meetings on their preliminary design prior to implementation.



ABOVE: The iconic Mission Basilica dome, visible amongst rolling hills.

Also to be considered is the replacement of the existing gate at the east end of River Street adjoining Los Rios Street with an historically-appropriate and aesthetically designed gate, and to study prior reports to determine whether River Street should be made public again.

Designate, Preserve, Protect, Enhance, and Perpetuate the Historic Structures of the Mission and Promote the Mission as a Destination

In close cooperation with the Mission the City would facilitate the relocation of the Mission gate to the corner of El Camino Real and Ortega. In addition, the City would facilitate the re-design of visitor and pedestrian access to the Mission through the relocation of the gift shop so as to preserve the historic structure in which the gift shop is presently located and make the relocated gift shop publically accessible. (Note: the gift shop is presently accessible only to persons who purchase a pass to tour the Mission.)



**STRATEGIC PRIORITY
INFRASTRUCTURE**

This Strategic Priority includes the services provided by the Public Works, Development Services and Utilities Departments, and also encompasses traffic improvements, open space maintenance and sustainability. As an older community and one of the few cities with its own water and wastewater utilities, infrastructure takes on a particular importance in San Juan Capistrano. Infrastructure and maintenance is not very visible or glamorous. Maintenance is never a problem until it is, which makes it a very important component to resident satisfaction. How can the City best maintain its stock of infrastructure in addition to procuring needed new assets? How can the City decrease reliance on imported water? Is there a need for a new City Hall? What is a “livable” level of traffic? How do proposed traffic projects solve the City’s root causes of traffic problems? How does the City fund the cost to maintain open space? These and other questions will be addressed in this section.

The role of the City’s Public Works Department is to provide leadership and expertise in the systematic evaluation, maintenance, and management of infrastructure assets. The Utilities Department seeks to protect health, safety, and welfare by providing a high quality of water and recycled water, the efficient disposal of wastewater and maintenance of storm drains, in an environmentally responsible and cost effective manner. San Juan Capistrano is one of the few cities in south Orange County that operates its own Water Department and is a joint owner with other neighboring cities of the South Orange County Wastewater Authority (SOCWA) for its Municipal Sewer services. This allows the City direct oversight to the quality and efficiency of the delivery of these services, and to be able to provide them at a lower overall cost. Traffic management is overseen by the Public Works Department. Regarding the management and maintenance of open space, this is a cross-departmental activity spearheaded by Public Works. And finally, sustainability is championed by the Public Works Department, but incorporated into all facets of the City’s operations.

Over the past 25 years, the population has grown 65%, there are 140% more parks, considerably more open space, and 102% more trails. And

yet in contrast with all this growth, staffing levels have diminished. For example the Public Works Maintenance staffing levels (excluding water and sewer operations) are one half of what they were in 1985. Over this time period several facilities have been added under the City’s management, such as the Community Center, library, Congdon House, and Swanner House. The City’s aging facilities, such as the 40 year old “temporary” City Hall, require increasingly more maintenance. Even the newest facility, the Community Center, is now 12 years old – a time when major maintenance is required on components such as plumbing, HVAC, and appliances.

The City’s limited financial and staffing resources are compounded by an increasing number of mandates from county, state and federal regulations, such as Air Quality Management District (AQMD), and the National Pollutant Discharge Elimination System (NPDES).

One of the most oft heard resident complaints is traffic. Staff is involved in many areas to reduce traffic to achieve a “livable level” of traffic and attenuate this issue. There are a number of capital improvement projects that pertain to road widening, and two CalTrans projects: the I-5 / Ortega Hwy interchange project in 2012, and a project to widen Ortega Highway (going from two to four lanes) that will help ease traffic woes.

In regards to sustainability, more and more public scrutiny is prevalent to ensure that city governments are themselves running a sustainable operation, defining sustainable processes for businesses and residents, and encouraging sustainable practices among their many partners and vendors. This all takes staff time, training and expertise to stay on top of emerging trends, and resources to communicate to constituents. An important element of sustainability is water conservation. San Juan Capistrano, like much of Southern California, is challenged by limited water availability over the long-term. The City is undertaking a number of projects to help conserve water including customer conservation programs, recycled water, and decreasing water loss through improved maintenance of infrastructure. The City also continues to explore ways to decrease its dependency on imported water, and develop

KEY PERFORMANCE INDICATORS			
COUNCIL PRIORITY	KPI	DEPT	REPORTING FREQUENCY
2	% increase in hotel bed tax revenue or Transient Occupancy Tax (TOT)	FS	Quarterly
2	% increase in total retail square footage downtown	DS	Quarterly
2	% increase in per/square foot retail sales tax revenues downtown	CM	Quarterly

(Key: FS = Financial Services, DS = Development Services, CM = City Manager)

STRATEGIC PRIORITY
INFRASTRUCTURE CONTINUED

its own sources of water in order to insulate itself against the water politics that can develop with imported sources.

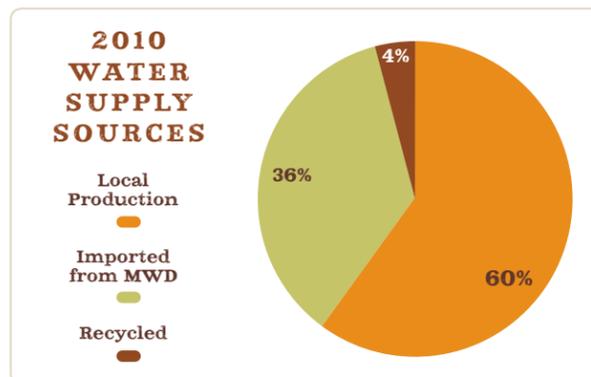
The City's organizations work in concert to meet these challenges and strive for excellence and the betterment of San Juan Capistrano's infrastructure. Working together to achieve this outcome, the following strategies and tactics have been identified.

On-going Initiatives

Decrease Reliance on Imported Water and Determine Funding Opportunities

The Utilities Department is responsible for strategically planning for the future, including infrastructure for all utilities, and forward-thinking water supply options to increase diversity and reliability. The Water Conservation Program promotes long-term water use efficiency and manages drought response and shortage conditions. The program uses accepted conservation practices in the development and implementation of programs for demand management and water use efficiency in accordance with State regulations and the California Urban Water Conservation Council Best Management Practices. The City's conservation program is a leader in California, and includes budget-based rate structures as a tool to manage prudent water use. The City's specific water conservation goal is an 8% reduction in 2010-2011 as compared to the base years set by the Metropolitan Water District (MWD).

Currently the City imports 36% of its water from the MWD. The Imported Water Supply Program provides for the purchase of treated water from MWD



via the Municipal Water District of Orange County, South Coast Water District, and the Santa Margarita Water District. Alternatives to MWD imported water are the City's Ground Water Recovery Plant (GWRP). The GWRP program takes groundwater that is high in iron, manganese, and total dissolved solids and treats the water to make it suitable for potable water uses. The GWRP facilities consist of six wells along the San Juan Creek as well as a treatment facility located in the City Hall Complex. The reverse osmosis treatment facility sequesters and removes the iron and manganese in addition to high concentrations of total dissolved solids. The GWRP adds chlorine and ammonia to the finished water and delivers potable water to the City's distribution system.

The Recycled Water Supply Operations Program provides for the purchase of recycled water from Moulton Niguel Water District. The goal of the Recycled Water Program is to provide a safe, non-potable water source that meets local, county, state, and federal requirements 100% of the time.

Ultimately the City's goal is to have less than 10% of its overall water consumption be dependent on imported water. In order to further reduce the City's reliance on imported water, a variety of measures will be implemented:

- Increase the GWRP plant production from 5.2 MGD up to 7.2 MGD
- Continue the City's Water Conservation Program through customer training, public awareness, rebate programs, advertising, enforcement of landscape ordinance, and tiered rate structure that will encourage conservation practices.
- Convert current customer base that is in close proximity to available recycled water supplied through a connection with the Moulton Niguel Water District.
- Pursue Basin Recharge Project. Staff has several ideas of how to attain this most desirable natural resource management and is discussing options with neighboring agencies, and researching how this can become a viable option. The City will work with the San Juan Basin Authority in furtherance of this project.

- Continue to pursue City participation in the development of an Ocean Desalination Plant in which the City is a 20% partner.

Engage Regional Players Positively and Strategically in Furtherance of Traffic Improvement Goals

The Circulation Element of the General Plan guides the continued development and improvement of the circulation system to support existing and planned development, and establishes acceptable roadway service levels. The use of other modes of transportation such as public transit, walking, and bicycling is promoted to reduce the demand for transportation system improvements and to improve air quality.

The County of Orange Master Plan of Arterial Highways (MPAH) forms part of the Orange County General Plan and designates the arterial system in the circulation element of the General Plan. Defined according to specified arterial functional classifications, the MPAH serves to define the intended future roadway system for the County. Cities within the County are expected to achieve consistency with the MPAH in individual General Plan Circulation Elements. To implement any changes to the MPAH, approval of the Orange County Transportation Authority (OCTA) is required. Council and staff will work cooperatively with OCTA, Transportation Corridor Agency (TCA), CalTrans, and other agencies to implement or modify regional transportation plans in order to achieve regional goals while ensuring that the community's goals are protected. As part of this plan, the City will use its best efforts to have direct representation on the OCTA board.

The City's Traffic Congestion Relief Plan (TCRP) and the Strategic Transportation Plan (STP) will also be updated. In 2002 the STP provided an evaluation of planned projects in relation to specific objectives to firstly divert through-traffic from the community, and secondly to manage remaining congestion within the community. A review of existing trans-

portation issues, identification of all potential future transportation improvements, consideration of adopted General Plan policies and technical analysis through the application of the City's traffic model were accomplished to develop the recommendations of the STP and should be updated to reflect current and future activities.

Sustainability

The Environmental Division of the City focuses on preservation of San Juan Capistrano's environment through innovative energy and waste reduction, and pollution prevention programs. Effective public education and outreach to residents and businesses help make these programs successful. Staff has identified several tactics to continue this momentum and strive for excellence in sustainability.

The City will continue to refine and develop recycling programs to divert waste from residential, commercial, equestrian facilities, food facilities, construction waste, household hazardous waste, used oil, plastic bags, and large event waste away from the landfill in order to comply with AB 939 and future federal/state mandates. Staff will also propose the consideration of a mandate to ban Styrofoam containers and plastic bags.

Protection of creeks and the watershed is imperative, and the City will also ensure continued compliance with State and Federal stormwater mandates in order to preserve this vital resource.

Staff will also work toward developing an energy

RIGHT: The City's Groundwater Recovery Plant.



master plan for the City which includes identifying alternative energy opportunities such as solar, wind, etc., and an auditing program for commercial and residential facilities in order to reduce energy consumption within the City.

New Initiatives

Define the Standards to Maintain Infrastructure and Establish a Plan for Rehabilitation, Replacement, and Maintenance across All Major Infrastructure Categories

The American Society of Civil Engineers (ASCE) and the American Public Works Association have been studying our nation’s infrastructure, and for years have been sounding the alarm bell that it is failing. Their information has been presented to the public in the form of a “report card” as an easy aid to understand its dire state.

The report card for 2009 shows the national infrastructure with letter grade D and a required five-year investment of \$2.2 trillion to keep it from failing. It is also interesting to note that our neighbor to the north, Canada, has issued a similar report and it shows that 79% of the service life of their infrastructure is spent.

Following this same methodology, City staff modeled its efforts after the ASCE Infrastructure Report Card. Infrastructure was broken down by area and staff established an acceptable level of service, by category. For instance, staff evaluated and graded the area of Street Maintenance at a C Minus, and identified the acceptable level at a B. Consistent adequate funding for a proactive approach was noted as the barrier to achieving the acceptable level.

With this information in hand, the next step is to more specifically define San Juan Capistrano acceptable standards by category for Public Works and Utility Departments. Per initial staff evaluation, infrastructure areas that are currently less than acceptable are: Street Maintenance, Pavement Markings, Street Cleaning, Street Lights, Signage, Facilities, Parks, Sports Fields, Parkways & Medians, Fleet, Storm Drain, Wastewater Plant, Sewer Lines, Pump Stations, Domestic and Recycled Water Lines, Ground Water Recovery Plant, Reservoirs, Booster Stations, Pressure Regulating Stations,

Cross Connection Control Program, SCADA System, and overall regulatory compliance. Traffic Signals and Trails were the only areas that were deemed acceptable.

In parallel to the above activities an inventory will occur to catalog all city infrastructure including age, life, condition, cost of annual maintenance, and replacement costs.

Schedule and Fund Improvements and Costs to Maintain Standards

Eliminating unscheduled or emergency work and increasing return on capital investment are top priorities. The goal is to always be proactive when it comes to maintaining and improving the City’s infrastructure. Unfortunately, due to heavy budget cuts in the last two years (over 30% in PW maintenance alone) and reduced staffing levels, the City has become almost totally reactive. The solution is a consistent, dedicated funding source which should be identified, implemented, and replenished to allow for a proactive approach. A maintenance reserve fund would cover on-going maintenance as well as future planning of maintenance improvements (not necessarily CIP’s). The City must also ensure that its water rates cover not only the operating costs of its utility services, but also address depreciation and maintenance of the City’s utility infrastructure.

The next step in this strategy is to implement an infrastructure rehabilitation program that would repair or renovate existing buildings and facilities, streets and sidewalks, parks and open space, and transportation systems.

In conjunction with this effort Staff will develop financial policies that consider additional reserve funds (infrastructure reserve, etc.), cost recovery policy, sales tax revenue diversification policy, fund for Historic Preservation improvements, etc..

Define a Livable Level of Traffic, Traffic Goals with Consideration of Trade-Offs

The Public Work’s Traffic Division provides traffic data collection to support the operation and maintenance of the traffic signal system, the annual traffic counting program, and stop sign studies. This division evaluates future traffic signal needs, provides

necessary traffic and engineering surveys, conducts neighborhood traffic studies and accident analyses, and approves traffic handling, signing, and striping plans. It also provides oversight for the City’s central traffic signal system (including signal revisions to reduce congestion), and reviews traffic impact analyses and environmental documents prepared for developers, adjacent transportation agencies, and others. Accident rate information that is provided by the Sheriff’s Department is also evaluated on a regular basis.

One of the issues that San Juan Capistrano has struggled with is how to balance the need for improved traffic circulation and connector roads while maintaining the small town feel that is so valued by residents. The trade-offs must be thoughtfully considered: a lack of connector roads can impede economic development revenues, yet if too many roads are widened, the City would lose the important rural feel of the town.

The General Plan Circulation Element, which outlines acceptable Levels of Service (LoS) for arterial roadways and local streets, will be updated, balancing OCTA standards while keeping community character intact. Staff will also pursue future roadway modifications or extensions, such as the Alipaz Street Extension North. This would provide a bypass route to the Ortega Highway Interchange and also Camino Capistrano through the downtown area.

Explore Open Space Maintenance Options
(see more on open space under Land Use Section)

As mentioned in the Land Use Section, San Juan Capistrano has a proud tradition of protecting its community’s sense of place, natural environment, open space and recreational opportunities. Open space protection has been the cornerstone of the City’s environmental agenda for many years. The City has had the community’s support on several occasions to pass bond measures that enabled the acquisition of open space. Unfortunately none of these monies may be used for maintenance purposes. Therefore the City must now find ways to create revenue streams that support the maintenance of this land, while considering the balance of upholding the wildness and recreational value of open space.

Identifying and aggressively pursuing funding sources for future improvements, such as alternative grants for on-going maintenance of open space improvements is a top priority. For the Northwest Open Space (Phases I and II) and the recently annexed Rancho Mission Viejo rodeo property, staff will need to identify future maintenance costs and funding sources.

Staff must also consider the liability issues associated with open space management and improvements, such as but not limited to, geotechnical instability, environmental impact, and archeological impact. It’s imperative that the Public Works team be involved early in the process to determine the best choices for future cost savings and efficiency.

Given the Stage 3 drought that the region is currently experiencing, the City seeks to pursue potential integration of open space amenities with water conservation and groundwater reliability. This area offers the possibility for a recreational lake that can be utilized as a groundwater recharge project.

KEY PERFORMANCE INDICATORS			
COUNCIL PRIORITY	KPI	DEPT	REPORTING FREQUENCY
3	% increase in resident satisfaction re: traffic	CS	Annually as part of resident survey
3	% increase in resident satisfaction re: infrastructure	CS	Annually as part of resident survey
3	Average Daily Traffic (ADT) on Del Obispo and Ortega (specific commercial sections only)	PW	Quarterly
3	% waste diverted from landfill to recycling	PW	Annually
3	% energy use reduction by City	PW	Annually
3	% energy from renewable sources (solar, wind) by City	PW	Annually
3	Stormwater compliance with State mandates	PW	Annually
3	% of water from local sources (not imported)	UD	Annually
3	achievement of water quality goals (vs. national/state standards)	UD	Annually
3	% Tier 3+4 vs. total water usage	UD	Annually
3	overall water use reduction	UD	Annually
3	Percent of field personnel spent on emergency fixes as opposed to preventative maintenance	UD and PW	Annually

(Key: CS = Community Services, PW = Public Works, UD = Utility Department)



STRATEGIC PRIORITY
FINANCIAL SUSTAINABILITY
& PUBLIC SAFETY

Due to upcoming regulations from the Federal government and the need for San Juan and Trabuco Creeks to support steelhead habitation, this facility would allow San Juan Capistrano to meet these new requirements also.

Long term financial sustainability is perhaps the most critical component to the success of a Long-Term Strategic Business Plan. The financial sustainability process identified service levels that are consistent with the City's strategic priorities and those resources required to provide the services. This section of the Plan provides a basis for future budgets and will guide workforce planning and other efforts to improve the effectiveness and efficiency of City services. How can the City strengthen its revenue base through land use and economic development policies? How can services be provided more efficiently using technology? How can the City "hardwire" the Strategic Business Plan to the budgetary process? Through this process, answers to these questions have been found and resources that will enhance the overall revenue base have been identified, as well as cost reductions that will still provide the necessary service levels consistent with the City's strategic priorities.

Long term financial sustainability can only be achieved when revenue and expenses are aligned. On the revenue side, the City is focusing on realigning the manner in which tax and fee structures are based in order to keep pace with economic and inflationary factors. On the expense side, it will mean providing valued public service as efficiently as possible.

On-going Initiatives

Achieve Financial Return on Open Space Investment

In 1990, voters passed a bond measure to purchase open space, with 71 percent of San Juan Capistrano citizens declaring it important to preserve and protect the City's open space and natural areas.

The community's support allowed the City to acquire the Kinoshita Farm (56.4 acres) in the southwest portion of town and 68 acres in the northwest portion of town. The southern site is where the City built the sports park complex and operates the adjoining farming operations. In March of 2008 the City acquired 109 acres of open space and natural areas in the northwest area of town. In November 2008, voters again overwhelmingly passed local ballot Measures X and Y. Measure X ensures that any changes to land designated open space in the City's General Plan require approval by voters. Measure Y enabled the City to sell up to \$30 million in bonds to obtain additional land for open space preservation and improvements.

In August 2009, the City Council announced that they had voted unanimously to enter into a purchase agreement with Rancho Mission Viejo (RMV) to acquire approximately 132 acres of the RMV property east of the City. The property, appraised at \$31 million, was acquired for \$27.5 million with Measure Y bond funds. The property will be forever restricted of equestrian uses, sports fields, habitat and agricultural uses that are in use today, including the continuation of the Annual Rancho Mission Viejo Rodeo. This latest acquisition brings the City's total open space acreage of 3,975 acres of open space and Habitat Conservation Areas.

Given these large expenditures to protect the community's open space and natural areas, this first strategy seeks to achieve a financial return on the City's open space investment. As mentioned in the Land Use section (see page 18), the City is investigating ways to financially sustain and maintain its open space over the long-term through the imposition of market based leases where the City owns land rights (e.g. cell site towers). This strategy echoes the need to retain the natural beauty of public lands while leveraging such assets in a manner that provides for the financial means to sustain them. Open space is vital to the community; the leveraging of these assets is also vital for financial sustainability.

Diversify Revenue Portfolio

The second strategy seeks to diversify the City's revenue sources in order to maintain fiscal sustainability through economic cycles and to expand from the City's traditional revenue base, which has largely been reliant on auto sales tax. In order to maintain fiscal sustainability through these tough economic cycles it is critical that the City diversify its revenue base. Tactics being pursued are:

- Complete Lower Rosan Ranch development
- Re-tenant vacant auto dealerships
- Reassess revenue generating businesses that were previously excluded due to ordinance/zoning etc.
- Attract non-auto-type retail business (Cost Plus, Target, Trader Joe's)
- Actively pursue hotels and Bed and Breakfasts
- Expand economic development and enhance efforts beyond the Downtown Area
- Pursue options for recreational vehicle parking storage on City land

Develop Administrative and Policy Structure to Facilitate Financial Sustainability

The third strategy will set the administrative and policy framework from which to establish a financially sustainable city government. This strategy will also provide the City Council with better means to set goals and establish priorities, encourage long-term thinking and provide effective means to make informed decisions on program priorities. A defined administrative and policy structure is a key factor to successful fiscal sustainability. Listed below are tactics which are currently being pursued:

- Actively maintain Fiscal Forecast Model and use to develop Council priorities and budget tool on an annual basis

BELOW: Law enforcement officials from the Police Services Department.



- Develop a mission/performance based budget with mission statements, key plans, benchmarking, and impact measures
- Develop financial policies - designate additional reserve funds (infrastructure reserve, etc.), cost recovery policy, sales tax revenue diversification policy
- Issue Quarterly Financial Reports to City Council
- Maintain enterprise rates to cover enterprise costs

Develop Cost Efficiency Measures

The fourth strategy will increase the City's ability to maintain financial health by identifying priorities, sustainable spending policies, and appropriate technologies to facilitate and support the City's business objectives.

- Reorganize workforce and workplace to fulfill City's mission in a coordinated and efficient manner, privatizing workforce where feasible
- Develop an Information Technology Master Plan to ensure that the City's IT environment supports all information and system needs in a way that is financially sound and fulfills business objectives in a coordinated manner
- Revamp Volunteer Program to create meaningful volunteer engagement where appropriate, and increase volunteerism city-wide

Develop Succession and Employee Retention Plan

The City recognizes the importance of developing and maintaining a highly skilled and effective workforce over the long-term. The tactics below address the question: “How can the City better address staffing issues such as succession planning, training, turnover, and incentive structures?”

- Formalize a best-in-class recruitment and retention program to include apprenticeships, internships and college partnerships
- Develop a formal, city-wide orientation program for new employees and a formal re-orientation program for existing staff
- Develop a formal pay-for-performance incentive program to reward exemplary performers through the use of a new performance evaluation process and format
- Formalize a city-wide suggestion program that rewards creative recommendations that upon implementation, improves safety, enhances efficiency, and maintains service delivery while lowering costs
- Develop a multi-skilled workforce program to normalize cross-training and job rotation, ensuring succession opportunities, and stabilizing the workforce for the long-term
- Update City classification and compensation plans to reflect program changes

- Establish performance metrics for traditional human resource issues such as workers’ compensation rates, injury, illness, prevention levels, and overtime levels
- Establish and maintain a city-wide skills inventory to minimize the use of professional service vendors or independent contractors

Monitor Public Safety

As with any well-run municipality, public safety is a top priority to San Juan Capistrano. The City is fortunate to have tremendous resources, programs and departments that consistently provide excellent service to the residents and businesses of San Juan Capistrano. The City’s Police Services Department focuses on community-based policing and problem solving to meet the community’s needs and concerns as well as beneficial information regarding emergency preparedness.

Understanding what the key metrics are for service effectiveness is important as is making sure that public safety capabilities remain up to expectations and at reasonable costs. The City has been contracting its primary law enforcement services from the Orange County Sheriff’s Department since 1961. Although San Juan Capistrano has maintained its historic town atmosphere, the City has grown into a thriving community of shops, businesses and a culturally diverse population of over 36,000.

The mission of the Police Services Department is to provide responsive, professional law enforcement services to all people in the city. Deputies are committed to promptly responding to calls for service, to protect lives and safeguard property, to initiate and maintain crime prevention programs, and to apprehend criminal offenders. The tactics the Police Services Department will continue to employ to ensure that San Juan Capistrano remains a safe and secure community are the following:

- Evaluate level of calls for service
- Evaluate level of crime/apprehension
- Evaluate specific issues: gang, special events, community programs
- Evaluate traffic enforcement, workload

- Evaluate school workload, level of activity
- Analyze response times to calls for service
- Analyze crime trends

Beyond the daily task of ensuring public safety, the City of San Juan Capistrano also maintains a comprehensive Emergency Management Program that includes all elements necessary to respond to major emergencies. These elements include an Emergency Operations Plan, Emergency Operations Center, trained City Staff who may be called upon to serve in the time of a disaster, Police and Fire Services, public education and trained volunteers. Volunteers are a vital part of the City’s Emergency Preparedness program. They include a Community Emergency Response Team (CERT), Radio Amateur Civil Emergency Services (RACES), and Associated Senior Action Program (ASAP).

Even with staffing below the level of surrounding cities, San Juan Capistrano Police Services has maintained a response time level superior to surrounding contract cities for 2008 (times based on monthly averages).

Every city in Orange County has some level of gang activity. In order to proactively address gang issues in San Juan Capistrano, in January of 2008 the City sought and was granted a permanent gang injunction. As a result gang activity and gang related crime have decreased in the target area with over 100 injunction arrests made.

Realizing the City cannot arrest its way out of a gang problem, a proactive strategy was implemented and a collaboration of community-wide partners was created to combat the recruitment of youth to gangs. The collaboration, called GRIP (Gang Reduction and Intervention Partnership), strives to solve the problem early in preventing youths as young as 9 or 10 from joining gangs. The City of San Juan Capistrano, the Sheriff’s Department, the District Attorney’s Office, and Capistrano Unified School District, the Boys and Girls Club and members of the CUSD PTA partnered to take proactive action in addressing community awareness, initiating law enforcement programs, and promoting education. Students are being taught the consequences of their choices involving gangs and drugs, and parents are taught the warning signs of gang involvement. Teachers are educated on identifying gang activity and students at

City	Dana Point	Laguna Hills	San Juan Capistrano
Population	32,523	32,710	36,870
Sworn Staff	34	27	28
Population per Deputy	957	1,212	1,317

Population Data Source: U.S. Census Bureau, 2006-2008 American Community Survey 3-Year Estimates

City	Population	2009 Part One Crimes	Crimes/1,000 Residents
San Juan Capistrano	33,432	601	.017
Laguna Hills	32,710	643	.019
Dana Point	32,523	719	.022

Population Data Source: U.S. Census Bureau, 2006-2008 American Community Survey 3-Year Estimates

City	Priority-1 Response Time in Minutes/Seconds Red Light / Siren	Priority-2 Response time in Minutes/Seconds Urgent-No Lights/Siren
San Juan Capistrano	3 minutes 14 seconds	6 minutes 40 seconds
Dana Point	3 minutes 15 seconds	7 minutes 8 seconds
San Clemente	4 minutes 11 seconds	7 minutes 10 seconds
Laguna Niguel	4 minutes 21 seconds	8 minutes 14 seconds

risk of joining gangs. The primary focus is targeting elementary and middle schools in an effort to prevent the proliferation of gangs. Curfew sweeps, truancy sweeps, law enforcement presentations, and interventions have been conducted.

The strategy is working. Student attendance and parental involvement has increased. Targeted schools showed an average of an 80.5% decrease in their truancy rates.





**STRATEGIC PRIORITY
DIVERSITY**

KEY PERFORMANCE INDICATORS			
COUNCIL PRIORITY	KPI	DEPT	REPORTING FREQUENCY
4	Median home price	FS	Quarterly
4	% increase/decrease in property tax revenues	FS	Quarterly
4	% increase in sales tax from non-auto retail	FS	Quarterly
4	Revenue diversification as measured by concentration of revenue pie chart	FS	Quarterly
4	% revenue from grants	FS	Quarterly
4	Achievement of reserve fund goals	FS	Quarterly
4	Recurring revenues aligned with recurring expenditures	FS	Annually
4	# employees per capita (excluding water and sewer operations)	FS	Annually
4	Consultant \$ per capita (% outsourced vs. insourced work)	FS	Annually
4	Employee \$ per capita	FS	Annually
4	Expense/revenue per capita	FS	Annually
4	Debt service as % of general fund expenditures	FS	Quarterly
4	% decrease in crime	CM	Quarterly
4	Residents perception of safety	CM	Annually as part of resident survey
4	# calls for service per capita	CM	Quarterly
4	# calls for service per deputy	CM	Quarterly
4	# deputies per population	CM	Quarterly
4	Response time	CM	Quarterly
4	Traffic enforcement index	CM	Quarterly
4	% fatal and injury accident rates	CM	Quarterly

(Key: FS = Financial Services, CM = City Manager)

Early this year, the Orange County Grand Jury recognized and praised the GRIP Program for its effectiveness and recommended that law enforcement agencies expand GRIP and aim to replicate its success throughout the county. All partners are committed to building on these successes moving forward, with the short-term goal of gaining additional grant funding to assist with the program expansion. The City will continue to work towards maximizing various efforts towards gang prevention.



RIGHT:
An OC Sheriff's Deputy meets with local youth.

As set forth in the City's Vision Statement, San Juan Capistrano thrives as a composition of diverse elements. The many cultures, ethnicities, and generations add to the vibrancy of the community. The City respects and celebrates our cultural connections, historical heritage and shared values.

Native American residents, the Acjamchmen tribe, occupied the land prior to the Mission's establishment. Explorers and Mission settlements brought Spanish and Mexican influences to the area. Ranching, which surrounded the Mission up until modern times, brought the "western" feel to San Juan Capistrano still seen today with the City's emphasis on equestrian amenities. The population today is reflective of all these components. The table below highlights the various elements of San Juan Capistrano's diverse community.

The City strives to create opportunities for social interaction and citizen caring, as interaction is essential to healthy diversity. The City also wants to create a community where openness and a sense of welcomeness to all residents is part of its core values. Unhealthy diversity results in self-segregation whereas healthy diversity leads to civic involvement. Civic involvement is encouraged and tracked, such as volunteer hours and voter turnout which reflect residents' commitment to their community.

This plan outlines measures the City is taking, and plans to take, to address and balance the needs of a diverse community, to assimilate all segments of the community into the San Juan Capistrano "family", and ensure that diversity remains a strength for the community. In most cases, the City is the catalyst for these efforts, working closely with local partners who deliver programs and services to the community.

On-going Initiatives

Develop Partnerships with Non-profits and Multi-cultural Organizations

The City currently works with many Non-Governmental Organizations (NGOs) such as non-profits, schools, and multi-cultural groups that

U.S. CENSUS BUREAU, 2006-2008 AMERICAN COMMUNITY SURVEY 3-YEAR ESTIMATES, SAN JUAN CAPISTRANO POPULATION		
Population	%	#
Age		
Total	—	33,432
Under Age of 5	7.2%	1,680
18 years and over	74.9%	25,052
Over Age of 65	15.3%	5,113
Female	51.8%	17,313
Male	48.2%	16,119
Ethnicities		
Total Population	—	33,432
White	58.1%	19,424
Hispanic	35.1%	11,735
Asian	2.8%	936
American Indian Native, Alaskan	0.3%	100
Other	3.7%	1,237

U.S. CENSUS BUREAU, 2006-2008 AMERICAN COMMUNITY SURVEY 3-YEAR ESTIMATES, SAN JUAN CAPISTRANO HOUSEHOLD ECONOMIC CHARACTERISTICS		
Economies	%	#
Total Households	100%	11,329
< \$15,000	9.2%	1,042
\$15,000-\$49,999	27.2%	3,084
\$50,000-\$99,000	24.5%	2,784
\$100,000-\$149,999	17.0%	1,921
\$150,000-\$199,999	5.2%	589
Over \$200,000	16.9%	1,909

provide services including educational opportunities for adults and children to enhance school and work skills, and increase a sense of self-worth. These partnerships provide services to all age ranges, ethnicities, and economic levels. City staff seeks to better define the resources it will devote to working with NGOs and what it expects in return. As a result, it is working to strengthen existing partnerships where appropriate and seek out new partnerships as the community's needs evolve. The success of

STRATEGIC PRIORITY
DIVERSITY CONTINUED

these partnerships will be tracked by the value they provide to the community: How many clients are served and at what cost? This will show the financial benefit to the City of having partner NGOs that enhance the community, mitigating the need for the City to provide such services.

New Initiatives

Using the Buxton Study, Pursue Bringing Businesses to San Juan Capistrano that Target a Wide Range of Diversities

By marketing to targeted markets specific to the diverse community the City will ensure that local businesses meet the needs of the community. The Buxton Retail Study, completed in 2009, matches retail and restaurant concepts to the buying habits of consumers living in the San Juan Capistrano trade area. After determining the drive-time trade area and analyzing the household profiles within the community, Buxton then paired that information with retailer and restaurant profiles that offer the best fit and greatest potential for success. Staff will use this information to identify businesses as suitable matches to appeal to a wide range of ages and community segments.



ABOVE: Dancers from the Ballet Folklórico de San Juan Capistrano

Educate Public on City's Cultural Diversity

As the population changes, the City feels it's important to educate residents about the importance of diversity and encouraging an inclusive community atmosphere. An important vehicle that is used to reach out and educate the general public on all things relating to the City's operation is the Leadership Academy. This innovative program is an opportunity for residents and business owners to become better informed about the City's municipal operations and services. By creating a new Cultural Diversity module as part of the Leadership Academy curriculum the City can achieve broader understanding of the diversity issues the City faces.

The City will strive to maintain focus on diversity issues and work with the community to recommend solutions. The City will engage community volunteers to oversee the various activities and provide updates to City Council on the success of these community programs.



FINANCIAL STRATEGY
ECONOMIC SUSTAINABILITY

San Juan Capistrano has the potential to be an economically sustainable community and to enhance the economic well-being of its residents. A location in the thriving Orange County area is a good economic foundation, but many other factors could enhance the community's vitality. San Juan Capistrano has access to major roadways, most notably I-5 and Ortega Highway. The train station provides local employers with better access to the labor market and residents with better access to employment opportunities outside the immediate area. The community's diversity and mix of income levels provides a range of tastes for the business community to serve. Diversity also results in a variety of housing options for prospective residents and provides the community with an array of talents to draw on. The downtown area enhances the community's economic sustainability, though the City believes the downtown has much unrealized potential. Finally, a low crime rate and the other key community characteristics discussed earlier also support economic sustainability as they attract both businesses and potential residents to the community.

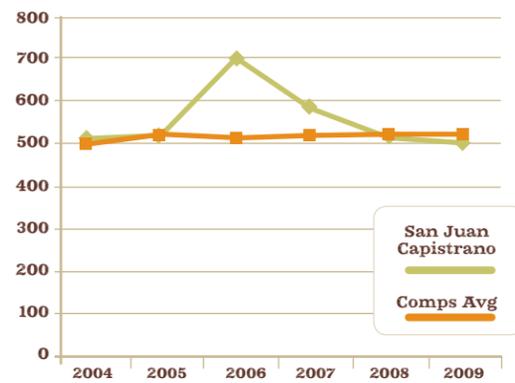
KEY PERFORMANCE INDICATORS			
COUNCIL PRIORITY	KPI	DEPT	REPORTING FREQUENCY
5	% increase in resident satisfaction as measured by the following metric: Leadership and elected officials	CS	Annually as part of resident survey
5	% increase in resident satisfaction as measured by the following metric: Community offerings - opportunities for social interaction and citizen caring	CS	Annually as part of resident survey
5	% increase in resident satisfaction as measured by the following metric: Openness/welcoming (how welcoming the community is to different people)	CS	Annually as part of resident survey
5	Civic involvement: # volunteer hours % increase/decrease (one component of resident satisfaction)	CS	Annually
5	Civic involvement: voter turnout % increase/decrease (one component of resident satisfaction)	CC	Annually
5	Value provided to City by community partner organizations	CS	Quarterly
(Key: CS = Community Services, CC= City Clerk)			

FINANCIAL STRATEGY
CITY'S FINANCIAL CONDITION

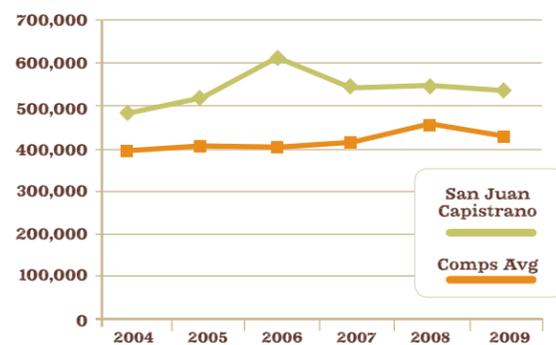
This section presents an analysis of the financial position of the City. The General Fund is the focus of this section since it is the set of accounts that comprise the largest part of the City's general government activities (e.g., police, development services).

The data presented in this section comes from the City's annual financial statements, so the data has been validated by independent auditors. Comparable data has also been included for a set of nearby cities.¹⁰

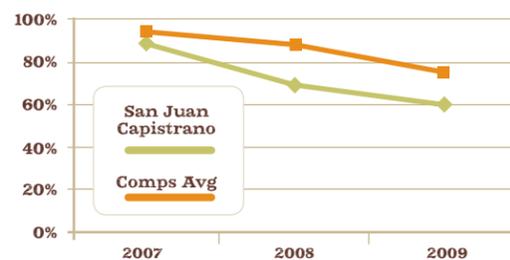
REAL GENERAL FUND REVENUES PER CAPITA



REAL GENERAL FUND EXPENDITURES PER CAPITA



GENERAL FUND BALANCES AS A PERCENT OF GENERAL FUND EXPENDITURES



General Fund

Real General Fund Revenues per Capita.

This measure describes revenues relative to population. The City's General Fund revenue per capita has been volatile, as the graph shows.¹¹ Most notably, real revenues per capita are now lower than they were in 2004, due largely to reduced sales tax receipts. The City is very dependent on car dealerships - they comprise almost half of the City's sales tax revenue or almost 10 percent of all general revenues. Looking at the historical averages of the data presented, the comparables' revenues per capita are very similar to the City's (\$555 for the City versus \$553 for the comparables). However, the comparables are enjoying a steady upward trend whereas the City is experiencing volatility, if not a downward trend.

Real General Fund Expenditures per Capita.

The City's expenditures per capita have been increasing, going from \$484 in 2004 to \$551 in 2008, with a spike in 2006 due to expenditures made in connection with winter storms in 2005, but then dropped in 2009 as the City adjusted to its declining revenues. Some examples of these cuts are: reductions to building and facility maintenance, parks and medians maintenance, staff furloughs for two consecutive years, and an attrition of staff through an ongoing hiring freeze.

Expenditure per capita might be expected to continue to decline as the City adjusts its cost structure to the economic "new normal." As is described in the next section, the City has a healthy reserve, so the City can use this reserve to make an orderly transition to its new cost structure.

General Fund Balances. General fund balances are a measure of the resources the City has in reserve to meet short-term financing needs.

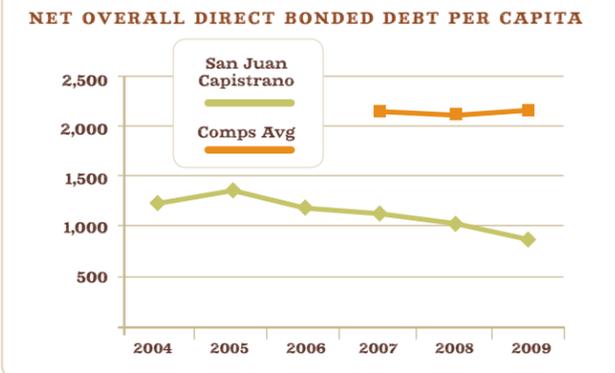
When considering balances it is advisable to look at "unreserved" balances, because this measure removes certain assets that aren't really available for near-term financing (e.g., inventories).¹² As of June 30, 2009 (the last time the City's annual independent audit was completed) the City had \$13.9 million in unreserved General fund balances.

It is useful to compare general fund balances to a benchmark like general fund expenditures. This is a good measure of financial position because it describes the City's ability to respond to short-term emergencies or fluctuations in the economy. San Juan Capistrano's general fund balance was over 80 percent of expenditures in 2007 with a drop in 2009 to 60% due to the economic slowdown. Still, San Juan Capistrano has a healthy fund balance given that standard "best practice" generally recommends 6 to 16 percent as a minimum.¹³ Comparable cities to San Juan Capistrano have been raising their fund balances over the past few years so that, on average, have been getting closer to San Juan Capistrano and even exceeded San Juan Capistrano in 2009.

Overall, both San Juan Capistrano and its comparables have very strong fund balances compared to what can be found nationally or in California. For example, a survey of 47 cities in California of similar size to San Juan Capistrano showed that the average level of unreserved fund balance was 37 percent of revenues in 2006, compared to 63 percent for San Juan Capistrano in that same year.¹⁴

Fund balances have served San Juan Capistrano well during the economic downturn. San Juan Capistrano has used its balances to facilitate an orderly transition to a new structure and business model that is compatible with the economic "new normal." For example, the City is undertaking a comprehensive re-examination of its organizational structure in order to streamline its approach to service delivery, and is developing this Strategic Business Plan, in part, to take a longer-term, more strategic approach of financial management.

The Strategic Business Plan will help define a policy and strategy for making wise use of the fund balances in the years to come. The City is developing long-term forecasting capabilities that will help



it better manage its balances through economic cycles. It is also developing an administrative and policy structure to strengthen reserves and diversify revenue. Some of these strategies include the designation of additional reserve funds (e.g., a reserve for maintaining the quality of infrastructure) and cost recovery policies. In addition, the City has planned to pursue revenue diversification strategies to provide for healthy reserves over the long run, such as attracting non-auto retail.

Net Overall Direct Bonded Debt per Capita.

Debt is used to keep the City's infrastructure up-to-date and to spread the cost of that infrastructure over the successive generations of citizens who will enjoy it. Debt for municipalities is commonly analyzed using ratios. One of the most important ratios is "net overall direct bonded debt per capita." This ratio calculates the net bonded debt for every local government jurisdiction that taxpayers in the community live within (e.g., the municipal government, Orange County, schools, etc.).¹⁵ The total debt burden placed on the populace by all local governments is less in San Juan Capistrano than in the other comparable communities (information for the other communities was only available for the most recent three years). While all communities are subject to the same debt obligations from Orange County, obligations from schools and other special districts vary. For example, almost 30 percent of Laguna Niguel's overlapping debt comes from Moulton-Niguel Water District, whereas San Juan Capistrano operates its own water utility, which does

not place direct, bonded debt on citizens. The City's total general bonded debt outstanding decreased slightly in 2009 from 2008 – going from 0.50% of total assessed value of property within the City to 0.45%. The total amount spent on debt service in the City's general government also declined (13%) from 2008.

With respect to the City government itself, the City's general obligation bond debt has dropped significantly in recent years. In fact, as of June 30, 2009, the general obligation bond debt was almost half of what it was in June of 2004. It should be noted, however, that the City government's total bonded debt on a per capita basis is higher than in 2004 because of obligations of the City's redevelopment agency (\$240 per capita bonded debt in 2009 versus \$176 in 2004). However, the redevelopment agency's debt is repaid through a separate revenue stream that wouldn't otherwise be available, so the City's real burden from debt is actually less than it used to be. Considering general obligation bonds and notes payable, but excluding tax allocation bonds (the redevelopment agency's debt), the City had about \$21 million in outstanding debt in 2009 and \$23 million in 2004.

All of this means that the City has an important opportunity to use debt in a financially responsible manner to improve its infrastructure, thereby supporting the continued economic vitality of the

community. As part of its strategy for financial sustainability, the City is developing a policy structure that should provide improved guidance on the most prudent uses of debt.

Capital Improvement Strategy

The City produces a Capital Improvement Plan (CIP) that describes the City's plan to build/acquire capital assets over the next seven years (the capital improvement plan is available on the City's website). The CIP is intended to be a realistic plan for future acquisition and construction based on available funding as well as staff capacity to implement projects. The CIP includes projects with an identified source of funding as well as projects that are important to the City's future but for which no source of funding has yet been identified. The City staff regularly monitors this list of capital projects and updates funding information.

Nine different types of projects can be found within the CIP:

1. Transportation
2. Parks and Open Space
3. Buildings and Facilities
4. Historic Preservation
5. Drainage
6. Recycled Water
7. Sewer
8. Water
9. Community Redevelopment

Like most cities, San Juan Capistrano has never had enough funding for all of the capital projects in the CIP. This funding gap has been exacerbated by the recent economic downturn. Further, general tax dollars have not traditionally been a major source of funding for capital projects in San Juan Capistrano. Rather, funding has come from sources such as the City's share of the County transportation tax (which is earmarked for road improvements), development impact fees paid by developers, and grants. Because of the economic downturn and because development impact fees will start to dry up as the City runs out of developable land, the City will have to reexamine its approach to funding capital projects. Debt is a traditional tool for funding capital projects for local government, but it is important that a local government has means to payback its debt and that borrowing take place in the context of a larger finan-

cial strategy and policy framework. City staff will be developing a new set of financial policies that will help the City determine when debt financing might be an appropriate funding tool for a capital project. The City is also developing long-range forecasting tools so the City can better model the long-range impacts of debt on its financial position.

Another common challenge for local governments is a lack of staff capacity to implement projects. Engineers and other technical professionals are often in short supply. To address this problem, the City will develop and manage a comprehensive project catalogue. This catalogue describes all the projects that create demands on staff time so that the City can better judge where and when it has the capacity for new projects to better balance workloads among staff.

Finally, San Juan Capistrano is developing a system to grade the condition of its infrastructure so it can better prioritize where it will focus its efforts on maintenance (See page 15 on Infrastructure).

Post-Employment Benefits

The City provides continuation of medical coverage to its retiring employees through the CalPERS medical program. The City contributes the minimum amount required by CalPERS directly to the cost of the retiree medical coverage. Currently, this is approximately \$20,000 per year.

A key result of the City's Other Post-Retirement Benefits (OPEB) valuation is the calculation of the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

At this time, the City has elected a "pay-as-you-go" funding policy. On this basis, no assets are set aside in an irrevocable trust to offset the "actuarial accrued liability" (AAL) determined to be \$1,234,237 at June 30, 2009. This AAL is based on a projection of 75 years, and will be funded over a period of several years, consistent with the net OPEB cost or ARC for the current year. For FY08/09, the City's ARC was \$106,469 of which \$20,008 was paid out by the City for a net OPEB obligation of \$86,461.

The City is currently looking into "prefunding" the plan which supports the use of a higher interest rate and generally produces a substantially lower liability

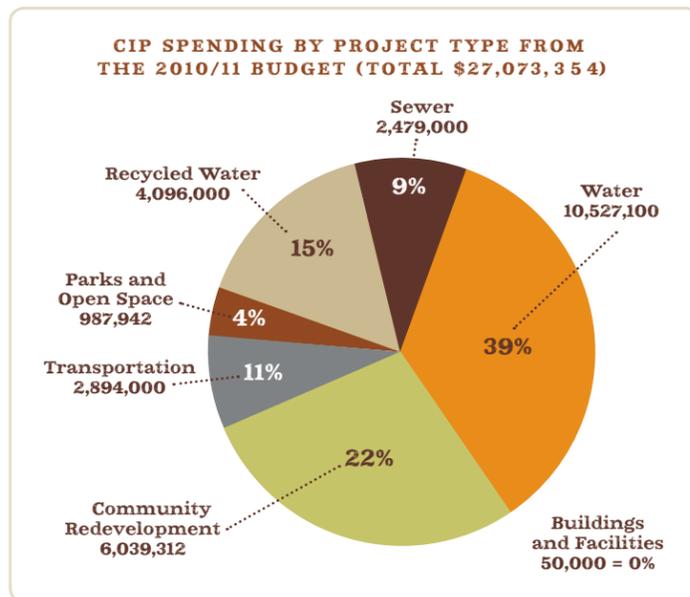
than a pay-as-you-go funding policy which requires a lower interest rate. Neither rate is a guarantee of future investment performance, but an assumption about the long term rate of return on the assets.

City Utility Enterprise Funds

This section reviews the financial position of the City's water and sewer operations.¹⁶ The most fundamental measure to consider is cost recovery. In 2009, the water fund had an operating loss of \$2.7 million, which includes depreciation and amortization expenses of \$2.5 million. This follows a trend of inconsistent financial performance. Complicating this fact is that system development charges (fees assessed to new developments) are expected to decline significantly in the coming years as the City reaches build-out. Moreover, a prior rate study reveals that the City has not adequately funded depreciation in past years.¹⁷ All of these factors may compromise the water fund's financial position in future years.

The sewer fund has experienced an operating loss in two of the last six years. When considering non-operating revenues, expenditures and transfers out to other funds, the sewer fund has experienced a decline in its net assets in three of the last six years, but reversed this pattern in 2009. The fund experienced declines in its net assets of \$300,000, and \$40,000 in 2004 and 2007, respectively. These declines are small relative to the fund's net assets of over \$31 million. However, again considering the age of the City's infrastructure and the impending need for costly replacements, the cost and revenue structure of the City's sewer utility should and will be more closely monitored in future years.

The water fund is the only utility with significant outstanding debt. The utilities "coverage rate" (principal and interest compared to revenues) has consistently been approximately 600% to 700% over the past five years. Neither water revenue, nor total principal and interest payments have varied much. Unfortunately, no widely accepted benchmark for utility debt exists, like those benchmarks that have been presented elsewhere in this document. Ultimately, the true measure of a utility's financial performance is cost recovery. As mentioned above, cost recovery has been uneven, so the City will have to conduct a careful analysis of its rate structure in light of its capital investment needs.



**FINANCIAL STRATEGY
20 YEAR FISCAL FORECAST**

This section of the Strategic Business Plan describes the latest economic outlook, the projected baseline revenues and expenditures from the FY 2010-11 budget, and the City's overall financial strategy to address the baseline financial conditions that are projected over the next twenty years. This section presents the City's General Fund financial position.

Economic Outlook

Although millions remain unemployed and many businesses continue to struggle, it appears that the "Great Recession" that began in December 2007 is technically over. Some indicators that suggests a recovery has begun are renewed gross domestic product growth and an uptick in factory orders, industrial production, consumer spending (retail sales), and exports. The Conference Board's index of consumer confidence is rising and it now stands at its highest reading since March 2008, but despite positive signs of growth, it remains at a level consistent with an economy still in recession. Lynn Franco, director of The Conference Board Consumer Research Center, explained, "Consumer confidence posted its third consecutive monthly gain and, although still weak by historical levels, appears to be gaining some traction."

Yet as signs of economic recovery abound, California's economy won't pick up significantly until at least mid 2011, and slow job growth will continue into next year, according to the latest prediction from the UCLA Anderson Forecast. With unemployment high and credit tight, growth will not likely be as energetic as in the early phases of previous recoveries. The Federal Reserve has warned that it could take five or six years for the job market to return to normal. The City, like most other government entities, is no longer simply managing through a downturn in the business cycle, but instead dealing with a deeper economic correction. Economists point to a new "normal" among businesses now accustomed to doing more with fewer workers. Fewer jobs will limit consumer spending, which accounts for 70 percent of all activity, and slow the recovery.

Furthermore, even when the local recovery takes hold, the traditional revenue sources will not likely sustain the current array of city services and extensive funding that is needed to maintain the City's aging infrastructure. Either the City will need to reduce its service levels, find new sources of revenue, or implement a combination of the two. Due to the likelihood of continued economic and revenue uncertainty, the City Council directed the development of a Long-term Vision and Strategic Business Plan to identify the means to achieve a solid financial position for the future. A key element of a successful business plan is to model the fiscal impact of the City's financial strategies, as well as the impact of maintaining the status quo.

Baseline Forecast

Revenue Assumptions

The financial forecast model assumes that 3 recessionary periods will occur over a twenty year time frame each beginning in the years 2014, 2021, and 2028. The intervening period between the recessionary milestone years will include years of either increasing or decreasing economic prosperity. Please note that the baseline forecast scenario is a projection of largely status quo conditions into the future. Hence, the baseline revenue assumptions will not reflect an assumed impact from many of the strategies the City is pursuing to enhance its financial condition. As the twenty-year baseline scenario graph indicates on the following page, the General Fund is anticipated to experience a structural deficit (expenses exceed revenues) beginning in the year 2012 and for the remainder of the twenty year period.

In summary, the main drivers for this structural deficit include:

1. Continued lack of revenue diversification
2. Steadily increasing maintenance and operating costs; and
3. Steady increases to the cost of police services over time.

A description of the forecast trends and assumptions for each of the major revenue and expenditure categories provides further explanation below.

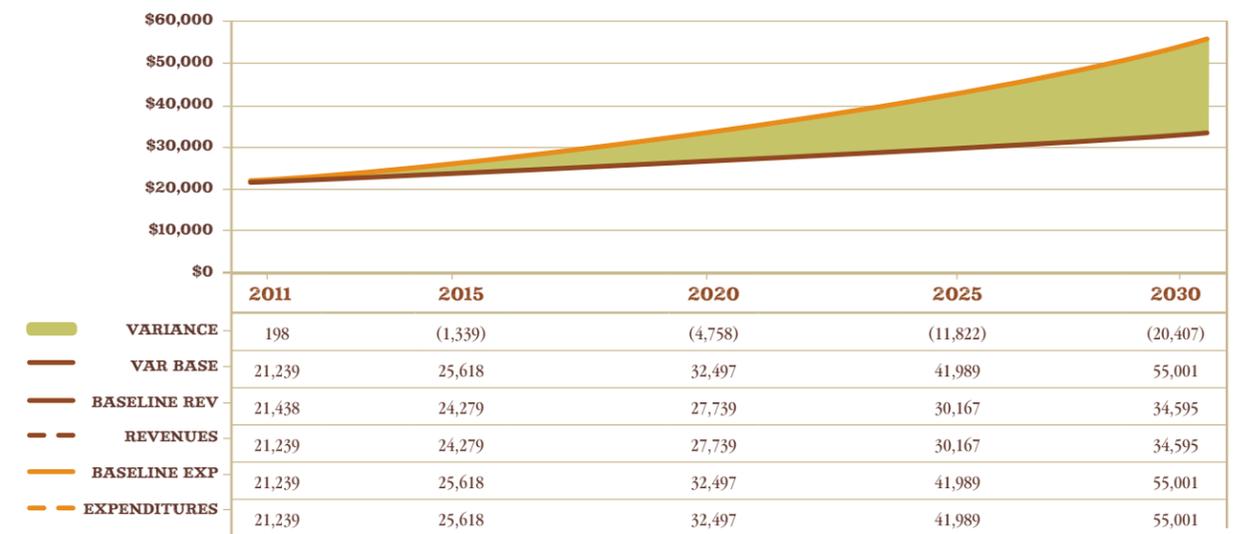
Property Taxes. Property taxes are forecasted to grow at a rate of 2% per year according to the statutory 2% level of the prior year levy. Although the new levy is typically higher than projected, the model conservatively maintains growth at the statutory level throughout the twenty year forecast period. The relatively high value of homes in the community is anticipated to adequately sustain the projected increase for this revenue category over the long term.

Sales Tax. Sales tax is expected to grow at a rate of 3 to 6% through 2015 and continue with an average growth rate of 3% over the remaining years. The initial growth rate during the first four years is higher due to anticipated improvements in economic conditions. However, the baseline scenario also assumes a continued lack of sales tax diversification resulting in an over reliance on revenue that comes from car sales. The table above compares the percent of sales tax attributable to various categories

SALES TAX CATEGORY COMPARISON Q1 2010			
Category	San Juan Capistrano	South Coast	California Statewide
General Retail % of Total/% Change	30.9/-7.3	31.0/-6.9	31.1/-6.1
Food Products % of Total/% Change	13.4/-7.8	20.1/-5.2	19.6/-4.9
Construction % of Total/% Change	10.5/-14.4	8.1/-16.8	8.8/-18.5
Transportation % of Total/% Change	36.8/-14.8	22.2/-13.4	21.9/-13.0
Business to Business % of Total/% Change	7.8/-16.2	17.4/-18.1	17.4/-17.8
Miscellaneous % of Total/% Change	0.5/-25.4	1.2/-15.8	1.3/-11.6
TOTAL	100.0/-11.8	100.0/-11.1	100.0/-10.9

in the City of San Juan Capistrano with that of the south coast region (Los Angeles, Orange, San Diego, Santa Barbara, and Ventura counties) and all cities in California. There are six main categories of sales tax including Transportation, Miscellaneous, General Retail, Food Products, Construction, and Business to Business. Transportation (including car sales, service, and auto parts) make up approximately 37%

**20 YEAR FISCAL FORECAST – GENERAL FUND BASELINE SCENARIO
(EXPRESSED IN \$ THOUSANDS) REVENUES AND EXPENDITURES**



See <http://www.sanjuancapistrano.org/StrategicPlan> for a detailed version of this graph.



ABOVE:
Elevations for the
Marriott Residence Inn.

of the City's sales tax revenue and is down 14.8% from the prior year. In the South Coast region and statewide, however, the Transportation category accounts for about 22% of total sales tax revenue and was down about 13% from the prior year. Business to Business (which includes businesses like Endeveco that supply equipment to other business) makes up 7.8% of the City's sales tax and is down 16.2%. In the South Coast region and statewide, however, Business to Business accounts for 17.4% of the total and is down 18.1% and 17.8%, respectively. Overall the city lacks the diversification of sales tax revenues seen among many other cities statewide. This can tend to cause greater fluctuations in revenues during economic cycles. However, the severity of the

economic downturn over the past few years seems to have negatively affected both diversified and non-diversified cities alike.

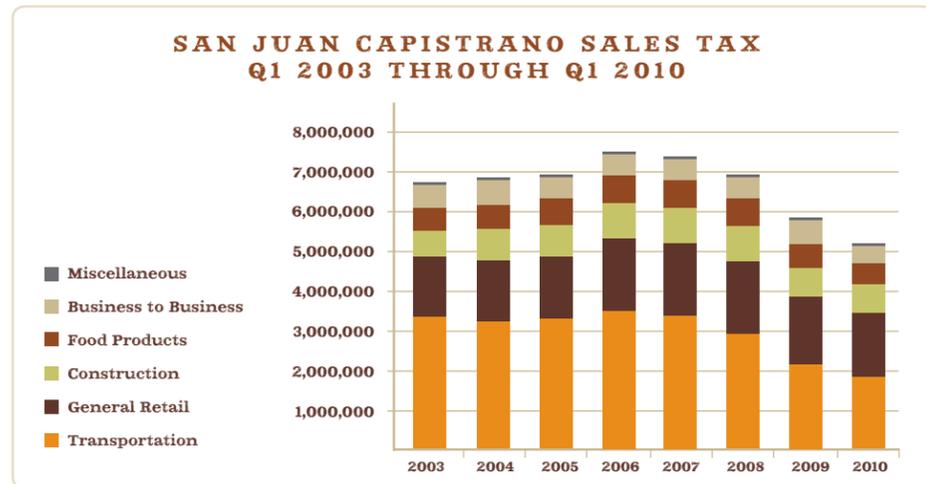
The bar graph below further demonstrates how declining auto sales have impacted sales tax overall between the years 2003 and 2010.

Other Taxes. This category includes real property transfer and business license revenue and is anticipated to increase at the rate of 3% annually, consistent with past 10 year average.

Transient Occupancy Taxes. This tax is collected from the operators of hotels and motels located within the City limits of San Juan Capistrano. Ten percent of the total rent collected by the City's only hotel is remitted to the City on a quarterly basis. This category is anticipated to increase at an average rate of 2% annually.

Franchise Fees. These fees are levied on most utility companies for the right to operate within the City and are realized later in the year. This category is projected to grow on average at a rate of 2% annually over the twenty year forecast period.

Motor Vehicle License Fees. This revenue source includes fees charged by the Department of Motor Vehicles and remitted to the City. This category is projected to grow on average at a rate of 2% annually over the twenty year forecast period.



Intergovernmental – Other. This category accounts for grants received from federal, state, and county sources. No growth rate is estimated for this revenue category over the forecast period due to its unpredictable nature as it is tied to one-time grants that vary from year to year.

Licenses, Fees and Permits. This category consists of charges to process building permits and engineering and planning division reviews of building development related projects. This category also accounts for revenue from participants of City sponsored recreation and leisure classes. The growth rate for this revenue category is largely tied to the development projection that the City's Development Services Department has prepared over the next 7 year period. Some of the larger development projects expected to occur over the next 7 years include Ventanas, Koll San Juan, San Juan Meadows Equestrian Facility, Lower Rosan, and the Orchards. Beyond this period, a static and, compared to prior years, modest growth rate of 3% annually is projected. As the City reaches build-out, revenue from this category will largely be dependent on in-fill and home improvement permits. (See related information in the Infrastructure section.)

Fines and Forfeitures. These revenues are remitted to the City from the County and State for legal violations and abandoned vehicle abatement. This category is projected to grow on average at a rate of 2% annually over the twenty year forecast period.

Current Services. This category largely accounts for revenue from administrative overhead charges to other funds. This revenue category is expected to change at the same rate as changes to salary and benefits over the 20 year forecast period.

Use of Money and Property. This category accounts for funds generated from the investment of City funds and rental or use of City properties. This revenue category can fluctuate greatly based on interest rates and consumer demand for rental facilities and generally changes commensurately with the economic cycles projected over the 20 year period.

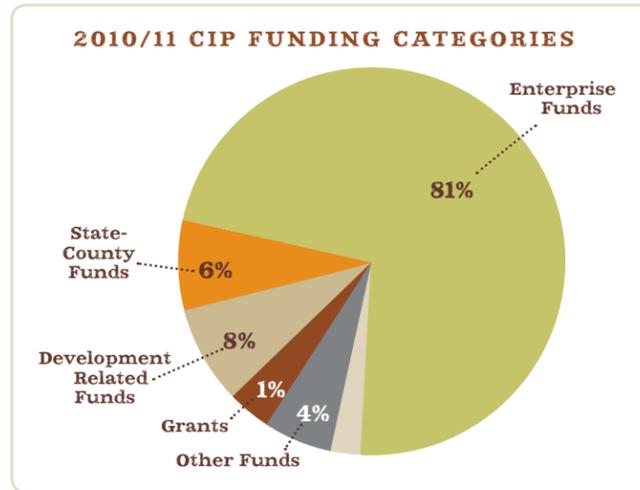
Other Revenue. These revenues are remitted to the City from the County and State for legal violations and abandoned vehicle abatement. This

revenue category is projected to grow at the rate of 1% annually.

Transfers In. These revenues are transferred from other funds to offset administrative and maintenance costs. Approximately 22% of these revenue sources comes from the Trash Importation Fee Fund. The Trash Importation Fee Fund accounts for proceeds collected from the County of Orange under the City's Memorandum of Understanding (MOU) for the importation of trash to the Prima Desheca Landfill and used to fund mitigation measures and projects along Ortega Highway. The landfill is anticipated to close in 2015 and a 22% decrease is thus programmed into the forecast. Beyond this year, no revenue growth is anticipated due to the fixed nature of the remaining revenue sources.

Expenditure Assumptions

Salaries and Benefits. The economic downturn has necessitated annual employee furloughs, a hiring freeze for nearly all classifications, and no cost of living adjustments to the employee payroll over the past three years. This is expected to continue as long as the city remains in a period of either stagnant or declining economic prosperity. Salaries are expected to increase modestly (0.5%) in the near term to reflect pay grade step increases for staff as they gain seniority and greater proficiency within their classifications. Beginning in the year 2012, salaries will increase 1% and by the year 2014 to 3%. In future years, the rate of increase for salaries and wages will range between 1 to 3% annually. It is anticipated that when health care reform is fully implemented within the next 5 years, insurance premiums will increase at higher rates than in recent years. Although there is no certainty at this time as to the level of increase for health insurance premiums, a cumulative increase of 117% through the year 2021 (year 10) is projected in the model. This rate is higher than the 106% increase in health insurance costs the City has experienced between the ten-year period 1999-2000 to 2008-2009. After the year 2021, health insurance rates are expected to increase between 8 to 10% annually. Other employee benefits such as dental, vision, life insurance,

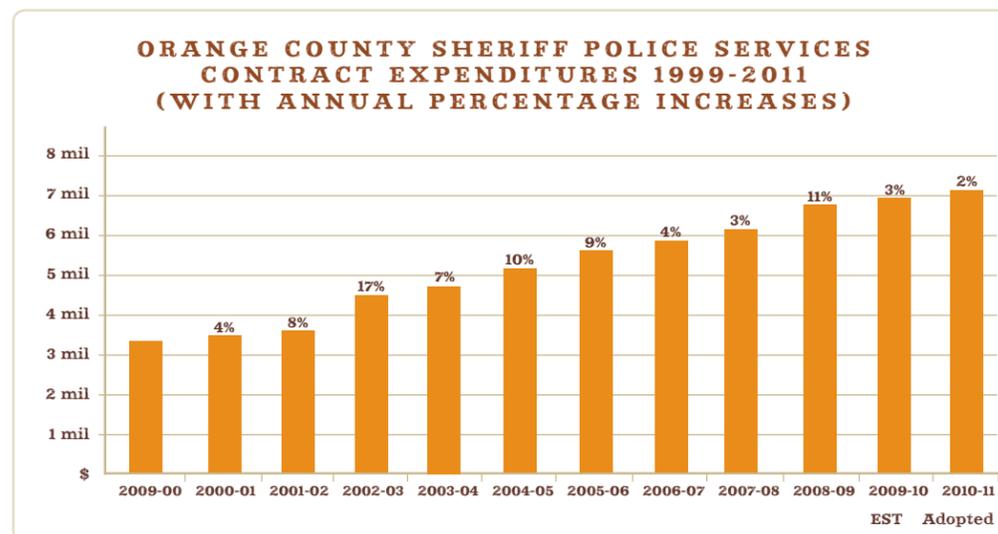


etc. are anticipated to increase at a flat rate of 6% annually, consistent with the rate of growth over the past 10 years. Retirement contributions, which include both the employee and employer share are anticipated to grow between 5 and 10% annually and will vary depending on the health of the economy. Higher retirement contributions are required when stock market returns decline during recessionary periods.

Non-Salary Expense. The police services contract represents a third of the General Fund budget and has increased 78%, or an average of 7% annually, since FY 1999/00 to \$7.1 million in FY 2010/11 (see bar chart below). A sustained annual growth rate of 7% is programmed in the baseline forecast scenario for the police services contract.

Other non-salary expense categories include professional and contract services/agency contracts, supplies and materials, maintenance and repair, and other general expenditures associated with operating the City. These categories are programmed to increase between 1 and 3 percent annually.

Infrastructure. The traditional sources of funding for the City's Capital Improvement Program (CIP) have included Federal, State, County, enterprise, and developer funding. Very little CIP funding has derived from the City's General Fund. Fees from developers are deposited in various funds to provide for an array of capital improvements such as the development of City parks, recreational facilities and historic buildings (Parks and Recreation Fund); the restoration and preservation for the City's agricultural heritage (Agricultural Preservation Fund); and roadway improvements fees (Systems Development Fund). These funds are earmarked for specific purposes and cannot be used to offset operating costs. The loss of development revenue due to the impending build-out of the community within the next 10

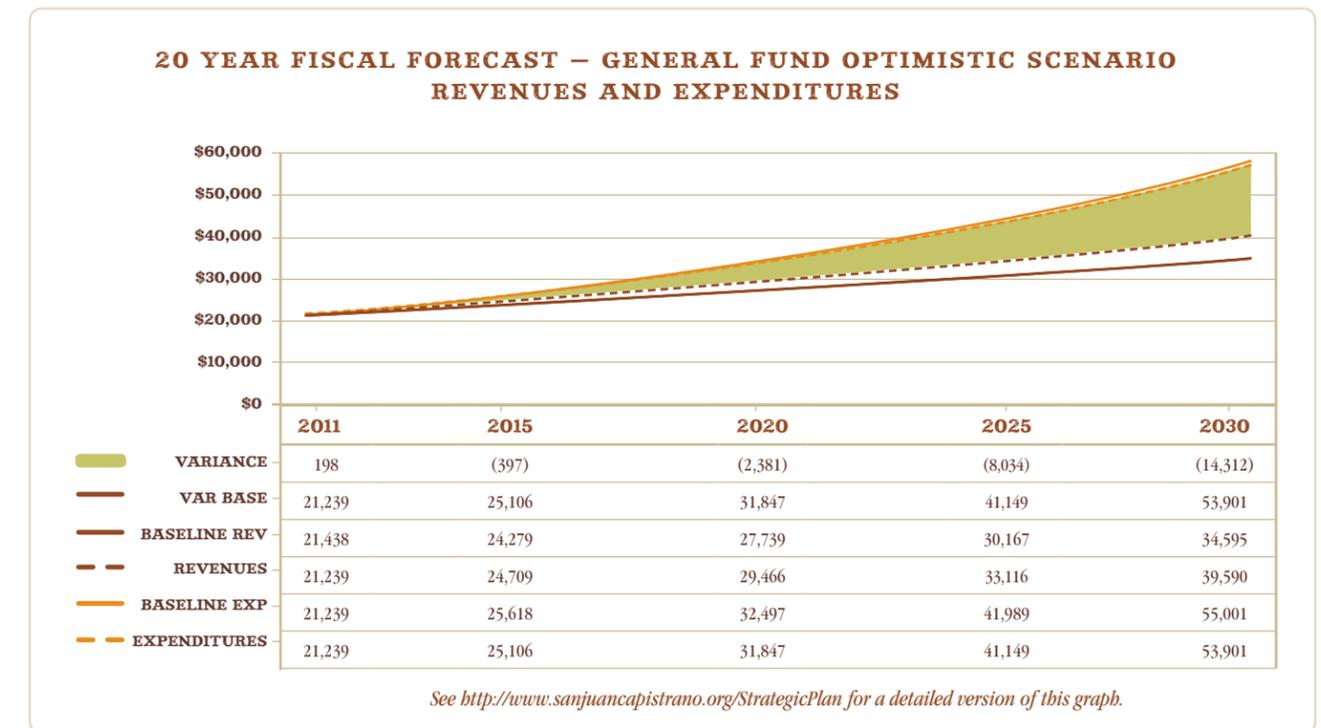


to 15 years will diminish the City's ability to fund capital projects that are of high value to the community. This loss will occur at a time when the City will require significant funding to replace or rehabilitate aging infrastructure. Most of the existing parks, City buildings, and streets are over 30 to 40 years old, which coincides with their expected useful life. The pie chart on the previous page depicts the amount of revenue contributed towards the 2010/11 CIP from the various fund types. Development related funds account for 8%, or \$1.6 million of the 2010/11 CIP.

The baseline forecast scenario does not assume that the General Fund will absorb the loss of development revenue to fund future capital projects. It has been suggested that the City pursue debt financing to spread the financial impact over a longer period of time. Another suggestion is for the City to establish an infrastructure reserve to fund capital projects from future General Fund surpluses. Both suggestions rely on the City's ability to have the financial wherewithal to repay debts or generate surpluses.

Optimistic Scenario

For the optimistic scenario, staff assumed the local economy would improve more quickly and robustly than the baseline scenario with lower unemployment and increasing consumer income. As the result, the General Fund's largest revenue drivers would increase at a higher rate. Sales tax revenues would pick up more strongly in 2011 and out years with annual increases of 4-6% as opposed to 3-5% in the baseline scenario. Property taxes and transient occupancy tax revenues would also be higher. The optimistic scenario assumes that the City will over time realize greater cost efficiencies (lower cost) as the result of the staff reorganization efforts that are currently underway, streamlining of redundant work flows, and outsourcing where feasible. However, the impact of the optimistic assumptions is not enough to eliminate the structural deficit that persists throughout nearly all of the forecast period. One of the major expenditure drivers is employee benefit costs that are projected to escalate at the rate of 6 to 10% annually over the twenty year forecast period. This sustained rate of projected benefit



growth has the potential to result in the cost of benefits to exceed the cost of employee salaries in future years. For this reason, the City will be working on benefit cost containment strategies beginning in the 2010-11 fiscal year.

The next section will model the impact of key elements in the City's financial strategy to address the baseline financial conditions.

Strategic Business Plan Impact—Financial Strategy Scenario

This next section describes and models the financial impact of key strategies and tactics identified from the Strategic Priorities identified in the Service and Operations Strategy Section. These strategies have the potential for creating economic opportunity and diversifying the City's revenue sources while balancing the community's unique identity. The Financial Strategy Scenario also uses the revenue assumptions of the "Optimistic Scenario" as it is anticipated that revenue from overall sales, property and transient occupancy taxes will be enhanced if the strategies described below are successful.

1. Land Use, Economic Development, Open Space and Building Standards. The purpose of the financial strategies in this priority is to enhance the community's unique identity and attract businesses. New development will be balanced with the Downtown to create economic opportunity and enhance a strong sense of community. These strategies also seek to help sustain and enhance the City's sense of charm and small town identity while attracting a variety of businesses and service providers and to use development standards as a tool to balance and maintain community goals.

The additional revenue projected from these strategies is based on the potential for enhanced sales taxes from the development of new business sites using assumptions concerning sales tax per square foot of development, hotel occupancy rates, and projected market rates.

2. Strengthening the Downtown, Los Rios Historic District and Mission. The purpose of the financial strategies in this priority is to create a more clearly defined vision for the Downtown, and identify a number of actions to accomplish that vision while strengthening economic vitality.

The additional revenue projected from these strategies is based on the potential for enhanced sales and transient occupancy taxes from the development of two new hotels, commercial and other business sites using assumptions concerning sales tax per square foot of development, hotel occupancy rates, and projected market rates.

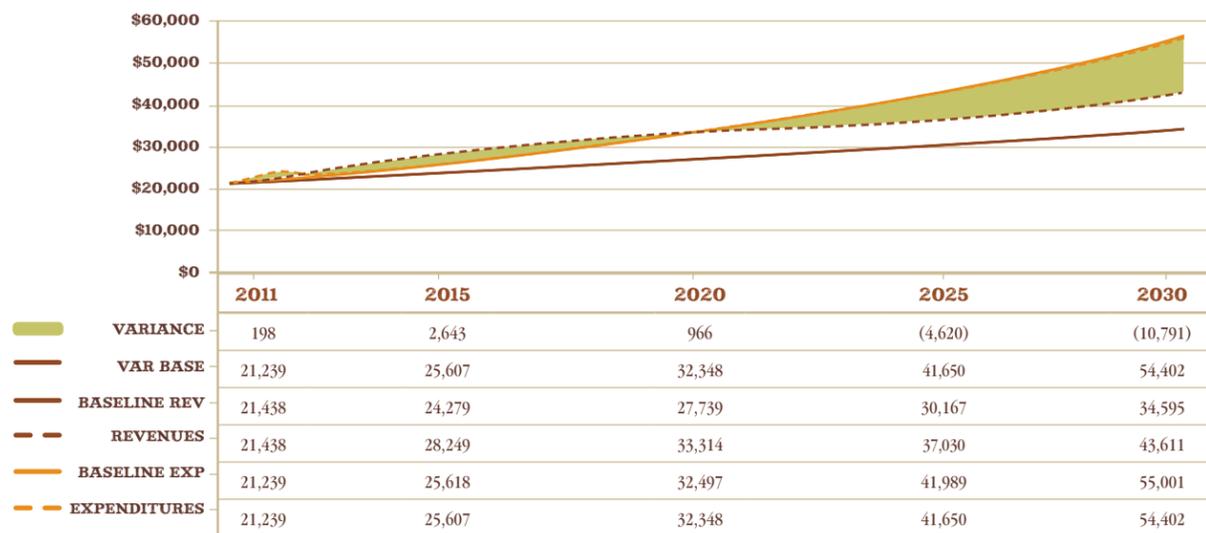
3. Financial Sustainability. The financial strategies in this priority seek to diversify the City's revenue sources in order to maintain fiscal sustainability through economic cycles and to expand from the City's traditional revenue base (largely auto sales tax). These strategies will also financially sustain over the long-term the preservation and maintenance of the City's open space, and maintain the natural beauty of public lands while leveraging such assets in a manner that provides for the financial means to sustain them.

The additional revenue projected from these strategies is based on user fees and on the potential for enhanced sales taxes from the recruitment of new retail, commercial and other business establishments using assumptions concerning sales tax per square foot of development and projected market rates. This scenario also assumes that the City is successful in tenanting vacant auto dealerships.

As can be seen from the graph on the prior page, the Financial Strategy Scenario results in a surplus

position for the General Fund in all but one year through 2021. After this year, the General Fund will turn to a deficit position through the year 2030, when an \$11 million deficit is projected. The City cannot continue to maintain the same portfolio of services at projected levels given its revenue condition projected from 2021 onwards. The presentation of this forecast is the first step of a process of ongoing discussions to formulate plans for balancing the City's long term budget issues. It will be necessary to continually revisit and revise as necessary the Strategic Business Plan each year to achieve sustainable budgets for the future. Revenue sources that should be considered in the future include adjusting cost recovery levels to 100% and reviewing subsidized facility rents. The City should continue to refine and monitor its long-term forecasts and use future iterations of the Strategic Business Plan to refine its long-term financial strategies and consider additional strategies to achieve financial sustainability. The opportunity to issue debt for financing infrastructure needs will also need to be explored, as well as considering different land use strategies.

**20 YEAR FISCAL FORECAST – GENERAL FUND FINANCIAL STRATEGY SCENARIO
REVENUES AND EXPENDITURES**



See <http://www.sanjuancapistrano.org/StrategicPlan> for a detailed version of this graph.

RIGHT:
Capistrano Volkswagen
Auto Dealership.



FINANCIAL STRATEGY
RECENT YEARS RESULTS

Even though this is the City's first long-term Strategic Business Plan, it is of course not the first time the City has planned for the future. In the past, the City Council adopted "Council Priorities" each year. Below is a brief summary of the results from recent fiscal years' Council Priorities.

Circulation

Full EIR for Ortega widening. The City Council was instrumental in securing a full Environmental Impact Report (EIR) from CalTrans for the Ortega Highway Widening project.

Land Use/Development

Update of Equestrian Ordinance. In May 2009, the City completed an update of the Municipal Code sections related to Equestrian Commercial Standards. This update was begun in an effort to revise the guidelines to ensure that they were fair to stable owners, agreeable and readily understood. Ordinance No. 958 provides for a clear understanding of the standards and regulations as they relate to equestrian stables, as well as the addition of a non-conforming section that describes the process for securing a non-conforming status, as well as other necessary modifications.

BELOW:
Equestrian crossing to ensure rider safety.



Update of Sign Ordinance. In July 2009, the City completed a review and update of the Comprehensive Sign Ordinance providing an update to the Municipal Code sections regulating signs. Ordinance No. 960 is designed to provide fair and reasonable standards, and provide a sign code applicable to the character of San Juan Capistrano.

Drive-Through Ordinance. In May 2010, the City Council adopted Ordinance No. 971 establishing land use standards for businesses with drive-up/through convenience windows.

Economic Development-Redevelopment

Re-opening of Downtown Movie Theatre. The newly refurbished movie theatre re-opened in the historic downtown area in May 2010. The theatre features four screens, including a VIP screening room, café and gelato shop.

Downtown Development. The City has undertaken and substantially completed the development of the public review draft Historic Town Center Master Plan including community and stakeholder meetings and input. The review draft includes recommended goals and policies, design standards and improvements, and form-based codes for the downtown area.

Pursue a Destination Hotel and Hospitality Overlay. In March 2010, the City Council initiated a General Plan and Land Use code amendment to encourage the development of hotels in the community. As of this writing, the City Council has approved the amendments and the projects will soon be underway.

Affordable Housing

Seasons Phase II. Expansion to the existing age-qualified, multi-family rental housing complex to provide 38 additional affordable housing units was completed in September 2009.

Habitat for Humanity. A 27-unit development of duplex/single family residential owner-occupied homes was completed August 2010.

Little Hollywood Housing Expansion. A 10-unit development of single family residential rental housing owned and operated by the Community Redevelopment Agency was completed December 2009.

Housing Element Update. The required update to the City's Housing Element has been completed, and the City received its letter of compliance from the State Department of Housing and Community Development (HCD).

Citywide Open Space Program

Preservation/Acquisition of Open Space. The City's Open Space Initiative has resulted in the acquisition of approximately 230 acres of additional open space since 2007 bringing the City's total open space percentage to 44%. Additionally, the City has 116 acres under option for acquisition in the Northwest Open Space area (commonly known as Rancho Capistrano).

Enhancement/Improvement of Open Space. The City is in the design phase of the Northwest Open Space Phase I Park area near the Swanner Ranch house.

Phase 1 of the Los Rios Park was completed and opened in August 2008. This passive park includes native plant material, the historic Montañez Adobe, a pedestrian plaza, play and picnic areas, and a parking lot. The parking lot also provides parking capacity for the Los Rios Historic District and Historic Downtown area.



A trail sign program has been developed throughout the City's 42.7 miles of trails. These trail markers and directional signs are designed to inform trail users of the length and direction of the trails as well as provide law enforcement.

ABOVE:
Open space offers sweeping panoramic views and is home to historical orange groves.



ABOVE:
The San Juan
Capistrano Regional
Library designed by
Michael Graves.

Participation in Community Projects

Boys & Girls Teen Club Expansion. The City allowed for the expansion of existing Boys & Girls Club site on City-owned property to include a Teen Center and provided funding for its future operation.

Orange County Regional Library Expansion Design. The City completed a needs study, design and construction drawings for the expansion of the west wing of the library, as well as some interior alterations.

E-government Initiative

The City has completed the following e-government related projects since 2007:

- Upgrade of the City's website and connections to social media
- Implementation of electronic permitting software, including eTrack-it for online information access for permit and business license information
- Implementation of New Financial/Accounting and Recreation software
- Launched eWater for online access to water/wastewater billing information and payment
- Virtualization and standardization of all servers

Water and Wastewater Management

Rates. In February 2010, the City adopted an updated water/wastewater rates structure in support of the City's water conservation goals, based on a four tiered water rate structure including a base or "super-saver" tier. Additionally, the rates were structured to support the City's long-term water supply strategy, operational and capital improvement needs, and financial and reserve goals.

Recycled Water System. In November 2009, the City Council adopted a long-term water supply strategy to include recycled water as a source of supply. The recommended strategy expands the City's recycled water imports from MNWD/SMWD, constructs distribution and conversion facilities to support this action, as well as implements non-domestic recycled water wells.

Colored Water Eradication. In the fall of 2008, the City took over operations of the Ground Water Recovery Plant (GWRP) and successfully resolved the issue of "colored water" being produced by the GWRP.

Cooks Reservoir Replacement. Completed in the summer of 2009, this reservoir replaced the outdated reservoir and now provides greater efficiency in the City's water system.

Upper Chiquita Reservoir. In June of 2009 the construction of the Upper Chiquita Reservoir began. This project is jointly undertaken by the Santa Margarita Water District, the City of San Juan Capistrano, Moulton Nigel Water District, South Coast Water District, and the City of San Clemente to meet peak water demand and provide sufficient flow in the event of an emergency. The total project cost is \$49.5 million with the City of San Juan Capistrano's cost portion at being \$4.6 million. The total capacity for this reservoir is 750 acre feet of water (244 MG) of which the City has access to 76 acre feet (24.7 MG) that it can utilize when needed. The targeted date of completion is April of 2011.

Grant Writing. The City has been awarded or is in the process of securing the grants listed below and will continue to seek grant funding in furtherance of the City Council's financial sustainability strategic priority.

CITY OF SAN JUAN CAPISTRANO GRANT STATUS 2009/2010

DEPT	Grant Title/Type	Brief Description/Notes	Amount	Current Status
Public Works	Del Obispo Widening	from OCTA	\$1,000,000	Awarded to City
Public Works	GMA 9	Camino Cap/Del Obispo from OCTA	\$25,650	Awarded to City
Public Works	GMA 9	J-Serra/Rancho Viejo Rd from OCTA	\$34,752.50	Awarded to City
Public Works	AQMD Grant	For purchasing remote vehicle diagnostics	\$10,125	Awarded to City, however, directed by Council to turn it back.
Public Works	Federal appropriation	San Juan Creek Road Widening, Valle Road to Camino Capistrano	\$4,200,000	Submitted to Office of Congressman Ken Calvert
Housing	Home NOFA			Pending; to be awarded Dec. 2010 or Jan. 2011
Utilities	Federal appropriation	GWRP expansion & Regional Domestic Distribution Facility	\$3,000,000	Submitted to Office of Congressman Ken Calvert
Utilities	Federal appropriation	SJC Recycled Water System	\$6,000,000	Submitted to Office of Congressman Ken Calvert
CRA	Federal appropriation	SJC Library Expansion	\$2,800,000	Submitted to Office of Congressman Ken Calvert
Development Services	2007 Measure M (M2) Mitigation Program-Acquisition (OCTA)	Fund the acquisition of certain open space parcels along the Trabuco Creek Corridor	TBD	Awaiting decision from OCTA
Development Services	2007 Measure M (M2) Mitigation Program-Restoration (OCTA)	Fund the restoration of certain open space parcels along the Trabuco Creek Corridor	\$1,500,000	EOC has recommended funding of \$1.5 million. Awaiting final OCTA Board decision.
Development Services	2009 Habitat Conservation Fund Program (CA Parks)	Fund restoration of about 7 acres of Oso Creek riparian habitat.	\$200,000	Attend grant contract & auditing workshop
Development Services	2010 Statewide Park Grant (Prop 84) (CA Parks)	Northwest Open Space Phase 1 improvements.	\$3,980,000	Pending
Development Services	2010 Statewide Park Grant (Prop 84) (CA Parks)	SJC Sports Park "skate park" and community gardens.	\$4,431,368	Pending
Development Services	2010 Statewide Park Grant (Prop 84) (CA Parks)	Stonfield athletic field rehabilitation and accessory improvements.	\$250,000	Pending
Development Services	2010 CalTrans Cooperative Agreement	Fund restoration of 1.25 acres of riparian habitat along Trabuco Creek below the Oso Creek confluence.	\$150,000	Proceed with developing implementation process and schedule.
Development Services	2010 Statewide Nature Education Facilities (NEF) Grant (Prop 84) (CA Parks)	Blas Aguilar Adobe rehabilitation.	\$498,434	Pending
Development Services	2010 Statewide Nature Education Facilities (NEF) Grant (Prop 84) (CA Parks)	Los Rios Community Park, Phase 2 improvements.	\$1,548,120	Pending
Development Services	2010 Statewide Nature Education Facilities (NEF) Grant (Prop 84) (CA Parks)	Northwest Open Space, Phase 1, community garden and Swanner property improvements.	\$4,763,402	Pending
Development Services	2010 Statewide Nature Education Facilities (NEF) Grant (Prop 84) (CA Parks)	SJC Community Park- community garden improvements	\$998,857	Pending
Development Services	2010 Habitat Conservation Fund Program (CA Parks)	NWOS, Phase 1, Middle Trabuco Creek Trail Restoration.	\$199,850	Awaiting decision from Office of Grants & Local Services.
Development Services	2010 Habitat Conservation Fund Program (CA Parks)	NWOS, Phase 1 Interpretive Walk Signage and Exhibits.	\$199,446	Awaiting decision from Office of Grants & Local Services.
Development Services	2010 Habitat Conservation Fund Program (CA Parks)	Eastern Open space Trail Improvements (bike & multi-use).	\$249,595	Awaiting decision from Office of Grants & Local Services.
Development Services	California Coastal Conservancy (CA Parks)		TBD	Pending
Development Services	2010 Measure M (M2) ECAP Mitigation Program (OCTA)		TBD	Pending
Development Services	Prop 50 River Parkways Grant (CA Parks)		TBD	Pending
Development Services	Open Rivers Initiative: Habitat Conservation Grant (NOAA)		TBD	Pending
TOTAL			\$36,039,600	

Appendix 1: Acknowledgments and Dedication

The City wishes to express its appreciation for the contributions of the following individuals, staff and members of the public who participated in the preparation of this document.

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Dedication

The City would like to dedicate this report to its adopted 1st Battalion, 11th Marine Regiment (1/11) and its fallen heroes, Sergeant Jose Luis Saenz III, Sergeant Ronald A. Rodriguez, Corporal Jorge Villarreal Jr., and Lance Corporal Francisco Jackson.

Appendix 2: Links to Support Documents

For further supporting documents, such as General Fund Summary, Water Fund Summary, and Major Capital Projects Summary, please go to <http://www.sanjuancapistrano.org/StrategicPlan>.

Appendix 3: References

- ¹ Bryson, John M. Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement, 3rd Edition. San Francisco: Jossey-Bass, 2004, p 49.
- ² Ibid, referencing Senge, P.M., "The Leader's New Work: Building Learning Organizations." Sloan Management Review, Fall 1990, pp. 7-23.
- ³ The Bureau of Labor Statistics refers to the official measure of unemployment as "U3." "U6" is a BLS alternative measure that encompasses total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.
- ⁴ From an interview with the Motley Fool. Shiller bases his prediction on a new mathematical model he has developed to produce a five-year prediction on housing prices. This model's predications are available at www.macromarkets.com/index.shtml.
- ⁵ Information taken from UCLA Anderson Forecast's "March 2010 Economic Outlook"
- ⁶ Taken from LAEDC Kyser Center for Economic Research, "Economic Forecast, February 2010".
- ⁷ According to interviews with local business people thought to have a good perspective on the San Juan Capistrano business community as a whole.
- ⁸ Information from interview and documentation of Michael Coleman of CaliforniaCityFinance.com.

⁹ Also known as motor vehicle fuel tax, gasoline excise tax.

¹⁰ The cities are: Dana Point, Tustin, Rancho Santa Margarita, Laguna Hills, Laguna Niguel, San Clemente, Mission Viejo, and Aliso Viejo. Audited comparable data was last available for 2009 at the time this study was conducted.

¹¹ Some volatility was due to the receipt of reimbursements from FEMA for winter storm damage that occurred in 2005.

¹² The cities are: Dana Point, Tustin, Rancho Santa Margarita, Laguna Hills, Laguna Niguel, San Clemente, Mission Viejo, and Aliso Viejo. Audited comparable data was last available for 2009 at the time this study was conducted.

¹³ Some volatility was due to the receipt of reimbursements from FEMA for winter storm damage that occurred in 2005.

¹⁴ Survey conducted by the Government Finance Officers Association using data from its "Financial Indicator Database." 2006 was most recent year of available data.

¹⁵ Note: that this does not include debt that is not "bonded," such as certificates of participation.

¹⁶ Note: only two of the comparables used for the general government analysis operate utilities, so Martinez was added to the group.

¹⁷ See "City of San Juan Capistrano Water Master Plan Financing Program Update & Rate Study," Fiscal Year 2007-08, prepared by the City of San Juan Capistrano.