TEN-YEAR FINANCIAL FORECAST
(For Financial Planning Purposes Only)

Purpose of the Financial Forecast:

- Determine whether adequate revenues will be available to maintain current and projected City service levels.
- Estimate net operating revenues and other resources available to finance the City's Capital Improvement Program.
- Provide information to facilitate long-range planning and management of the City's investment program.

The Financial Forecast for the General Fund and Special Revenue Funds includes facts and assumptions to enable a more accurate forecast of the financial future of the City. This forecast combines the elements of fiscal impact and forecast assumptions to produce a forecast that reflects the impact of new development upon City finances as well as the likely impacts of the economy. The Fiscal Year 2005-06 forecast includes costs and programs at the current service levels; no new projects, programs or enhancements have been included.

The forecast is developed using the present level of services provided by the City. Inflation and growth rates are used to predict expenditure patterns while revenues are projected by trend or by specific circumstances as the case warrants. Revenues and expenditures are also increased for growth from development that will occur within the forecast timeframe. For instance, property taxes and sales taxes for new developments are included in this forecast. In addition, an increased contractual cost for police services has also been included.

Factors Not Included In The Forecast

- No new or enhanced programs are included in the forecast.

- No new projects are included in the forecast.

- Potential state impacts are not included in the forecast with the exception of the known loss for the State Bonds and the reallocation of the Motor Vehicle License Fee and Sales Tax revenue.

- Included in this budget is the Governor's proposal to suspend Proposition 42 revenues (Traffic Congestion Relief Fund) for FY 2005-06, with a proposed 15-year payback starting FY 2006-07 with no interest payments.

- Potential increases from City Contracts at the end of the contract period are unknown at this time but have been adjusted for inflation at this time.

Economic and Demographic Assumptions

Economic and demographic assumptions used in the forecast measure the anticipated changes in economic activity and population growth and affect many of the revenue and expenditure projections. The economic assumptions utilized in this forecast are based primarily on the Economic Forecast developed annually by California State University, Fullerton (October 2004) and Chapman University (December 2004).

Following is a description of key indicators used in developing the financial forecast:

Consumer Price Index (*Inflation)*: Inflation is the measure of the increase in cost of goods and services. Inflation impacts many revenue and most expenditure categories throughout the forecast and is projected to average 3.00% per year.

Population: Population size is the primary basis for the allocation of Motor Vehicle taxes, one of the City's revenue sources and is reflective of the scale of residential and commercial development within the City. In addition, year-to-year population growth is a useful factor in predicting increases in several other revenue categories, such as Franchise Fees and State Subventions (Highway Users Tax -Gas Tax). Population estimates developed by the City's Financial Department and projections provided by the Department of Finance project growth to average 2.03% over the forecast period.

Assessed Valuation: This is the value placed on residential and commercial property by the County Tax Assessor. It is an indicator of the value of property that drives the City's major revenue source, Property Tax. Assessed Valuation is projected to increase by an average of 4.60%.

Taxable Sales: Taxable sales are a measure of the total retail sales in Orange County. This indicator has a direct relationship with the City's retail sales tax revenue, which is 1% of taxable sales in Aliso Viejo. Taxable sales in Orange County for 2005-06 are projected at 6.50% and 3.25% over the forecasted period.

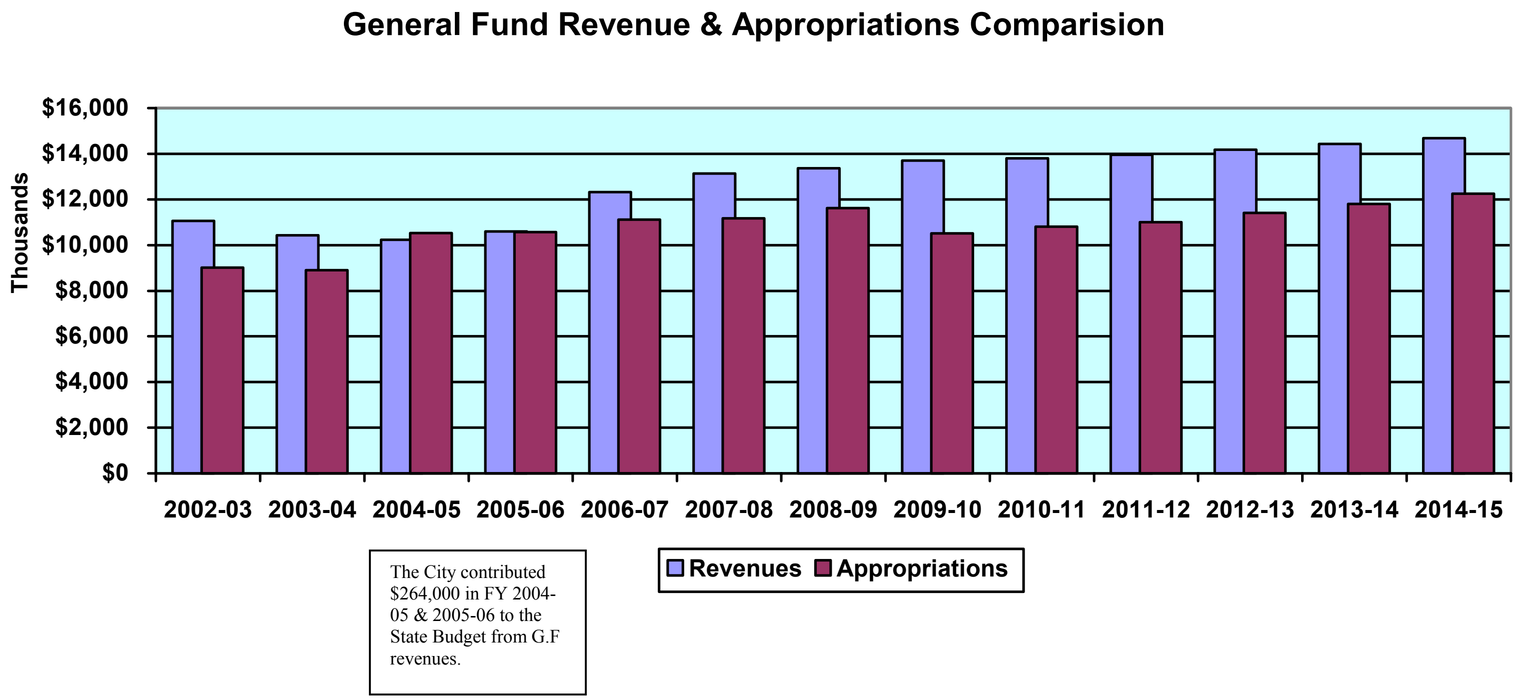
Forecast Summary & Results

Over the forecast period, the City's revenues are anticipated to grow by an annual average increase of 3.76% a year. Property taxes are anticipated to increase by an average of 4.13% over the ten-year period. This is due to new construction in four new major developments, resale activity throughout the City, and Property Tax In Lieu monies. Sales taxes are anticipated to increase by an average of 3.25% over the forecast period, primarily from sales taxes generated from Town Center and the new Aliso Commons development. Expenditures are projected to increase at an average rate of 1.62% for the forecast period. The majority of this growth is due to increases in contractual services, equipment replacement (technology) and for salaries and benefits.

Over the forecast period, the Police Services budget is anticipated to increase by an average of 4.52% from the current budget. The contract currently credits the City for the actual cost of unfilled positions or vacancies. For Fire Services, the City has a portion of its property taxes shifted to OCFA and is considered a "structural fire fund" city.

These increases to General Fund expenditures can be absorbed if revenues increase as anticipated. ***The forecast currently predicts a positive operating position in all ten years of the forecast.***

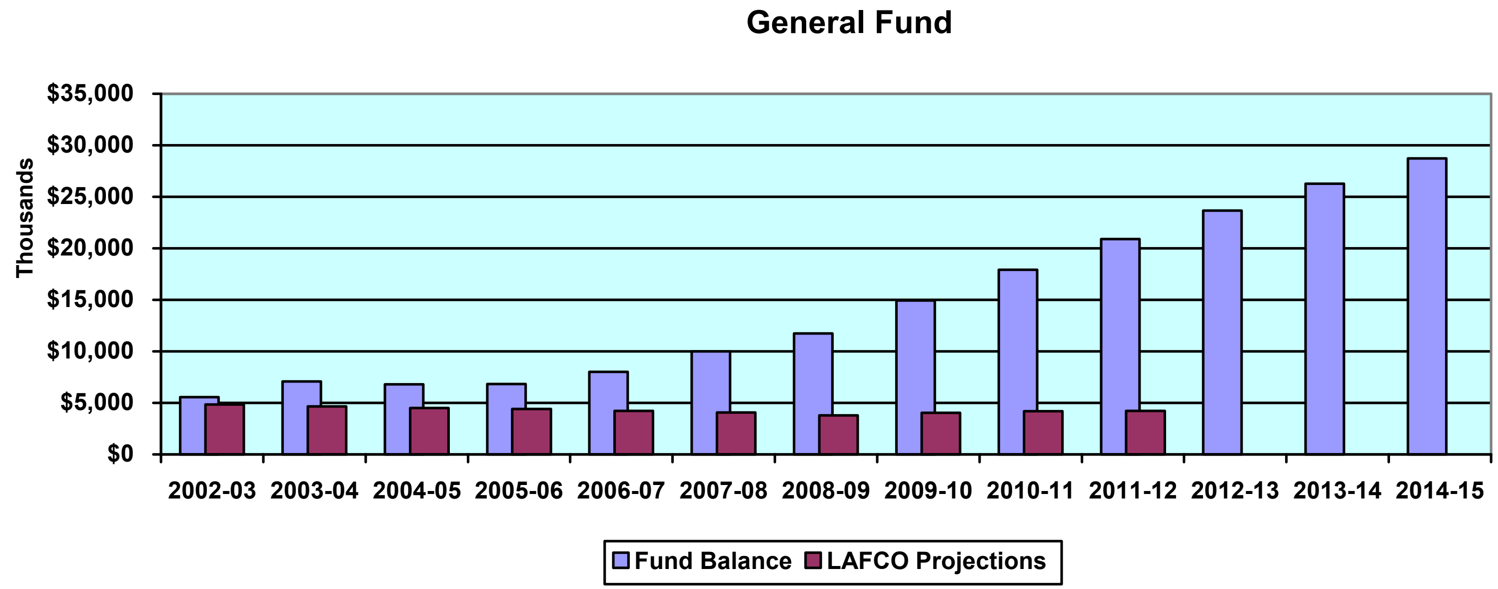
The following chart provides a visual comparison of *historical* and *projected* revenue and appropriations growth.



Fund Balance and Reserves

One of the main goals of the City Council is to maintain a healthy fund balance by ensuring that adequate resources will be available to fund current service levels in year eight when the state subvention funds (i.e. MVLF) are reduced to regular levels. The Projected Ending Fund Balance over the forecast period will be positive and is anticipated to increase by an average of 15.76%.

For purposes of comparison, LAFCO's Incorporation Study Ending Fund Balance projection has been incorporated into the following chart.



General Fund Revenues

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 3.76%.

- Property Tax revenue is projected to increase an average of 4.13% per year over the forecast period.

- Building Permit revenue is projected to increase from an average of 1.23% to an average of 7.45% for the four fiscal years in which the majority of development build-out will occur (FY 06-07 through FY 09-10) to reflect the anticipated level of increased development activity. These revenues will then decrease and stabilize by FY 2010-11.

- Similar to Building Permit revenue, Planning Fee revenue is projected to increase an average of 7.15% over the major development build-out period but will then decrease and stabilize by FY 2010-11.

• Fines are projected to increase an average of 3% for the forecast period.

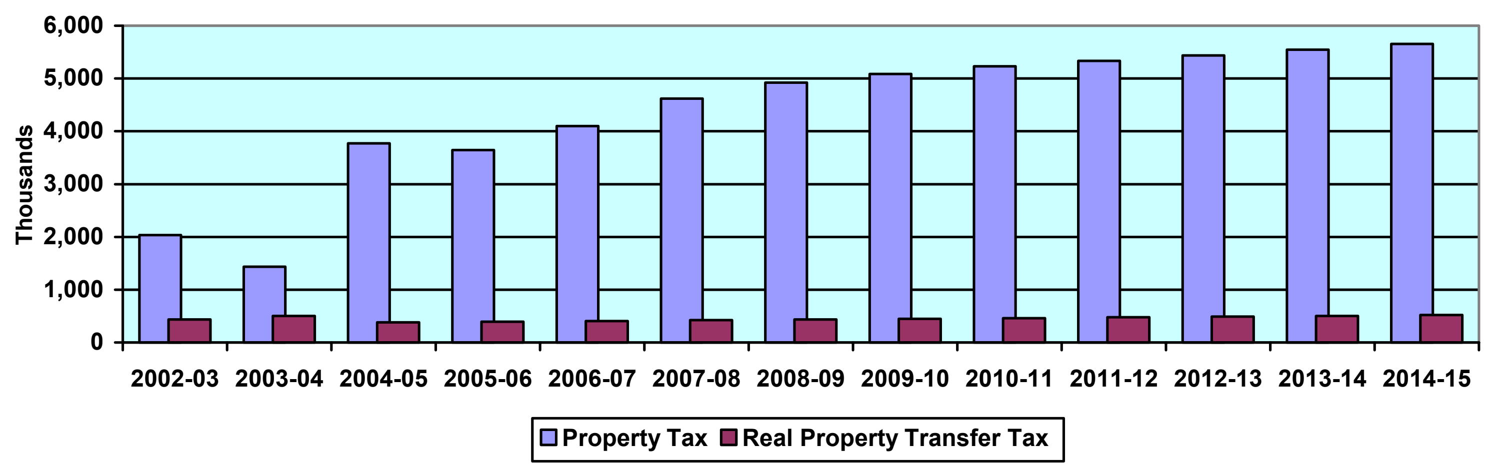
General Fund Growth Rate

During the past three years, the General Fund revenue growth rate was an average of 4.09%, primarily due to steady increases in property values, taxable sales, and traffic-related fines. The forecast rate of 6.14% anticipates that development activity will continue through the next five years of the forecast period with new residential and retail properties coming on-line. Property Taxes, Sales Taxes and development-related fees and charge are anticipated to increase due to these developments, while permit fees and service charges will increase during the build-out period, but then continue at a steady rate thereafter.

Property Tax

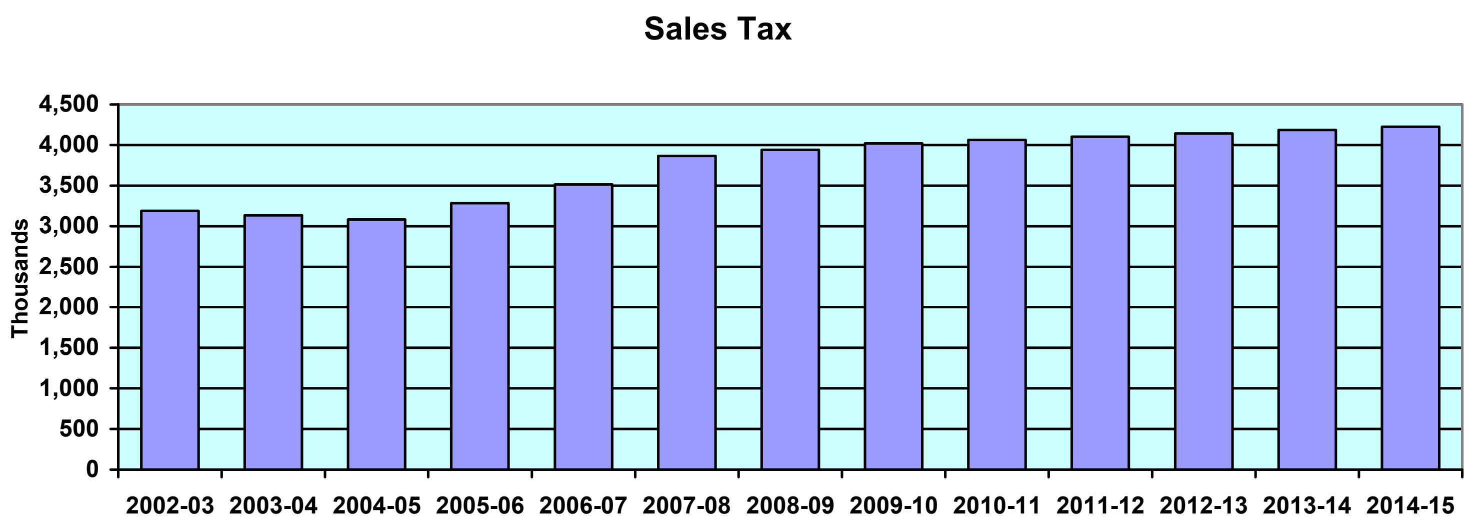
Property Tax has been the most reliant local government revenue for decades. As a result of rising home valuation and lower mortgage rates during the last few years, property taxes have increased dramatically to average 34% over the last three years. Due to the effects of the so-called "Triple-Flip" of local revenues, Property Tax is now the largest revenue source for the City and represents 38.17% of total General Fund budgeted revenue for FY 2005-06. Property taxes for the forecast period have been increased using projections for new housing units built over the forecast period. Additionally, HDL Companies conducted a property tax analysis and provided data for the assumptions.

Property Taxes



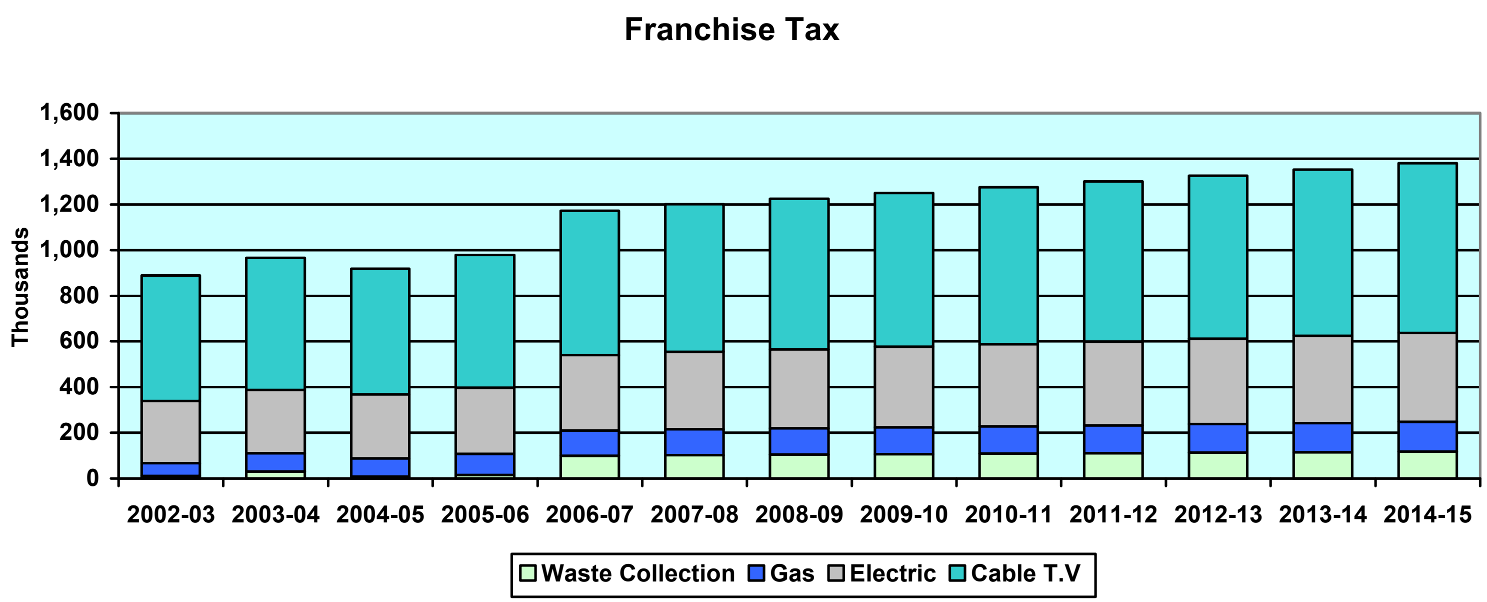
Sales Tax

Sales tax is one of the City's most economically sensitive revenue sources and is anticipated to grow an average of 3.25% in the forecast period due to projected growth from the new retail projects planned. Sales Tax continues to be the City's second largest revenue source and represents 30.96% of total General Fund budgeted revenue for FY 2005-06. Increases are based upon the assumption that Sales Taxes will be generated from new retail establishments beginning in FY 2006-07.



Franchise Fees

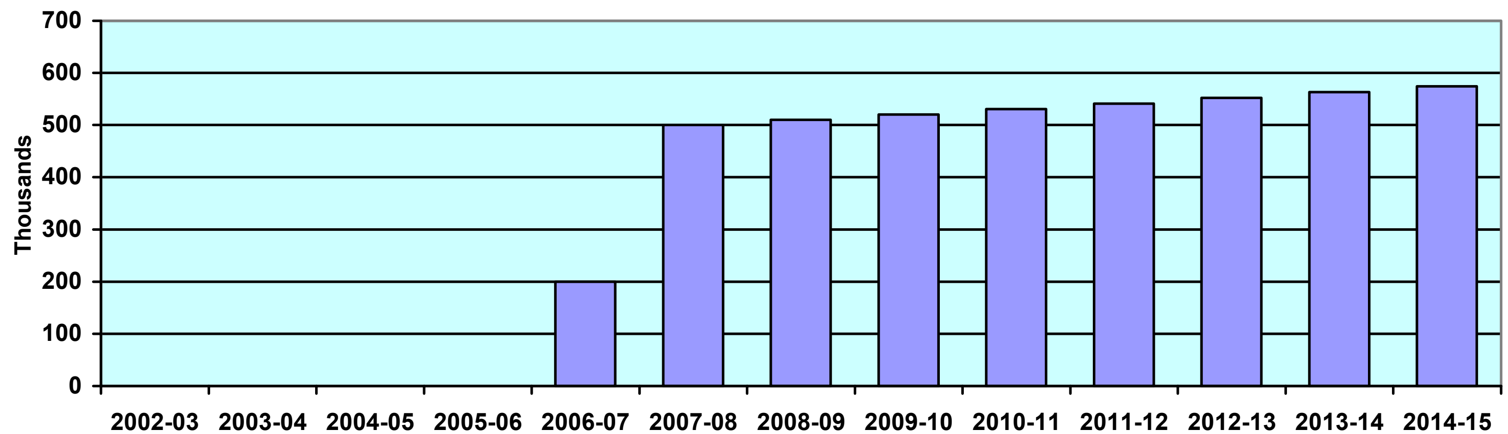
Franchise Fee revenue is derived from fees paid to a municipality from a franchisee for the use of city streets and rights-of-way. No person, unless exempted, may construct, install, or operate facilities in the public rights-of-way, or provide service-using facilities installed in the public rights-of-way, without a franchise that authorizes each and every service provided. In consideration of the cost incurred to construct, install, operate, or provide services using facilities in the public rights-of-way, franchisees pay the City a fee expressed as a percentage of gross revenues. The franchise agreement (a contractual obligation) specifies the fee to be paid. Franchise Fees represents 9.22% of total General Fund budgeted revenue for FY 2005-06. The forecast assumes new Franchise Fee Revenue beginning in FY 2006-07 due to the negotiation of a new Solid Waste Collection franchise.



Transient Occupancy Tax

Transient Occupancy Tax (TOT) is an added charge to room rates at local hotels. It is an elastic revenue source affected by swings in the economy. The current TOT rate is 10%. The forecast assumes the opening of a Marriot Renaissance Hotel beginning in FY 2005-06, with revenues stabilizing in FY 2007-08 and increasing by 2% per year.

Transit Occupancy Tax



License and Permit

License and Permit revenues include Construction Permits and miscellaneous licenses and permits, which are projected to increase an average of 2.44% over the forecast.

Construction Permits, which includes building, electrical, mechanical, plumbing, and grading permits, are projected to continue during the first four years of the forecast as major developments progress toward build-out. However, fees have been reduced in FY 2010-11, reflecting a diminished level of construction activity.

Service Charges

This category includes a variety of fees charged for specific services provided by the City. They include, engineering fees, planning fees and building regulation fees. The projected growth in service charges over the first four years of the forecast is 4.22% due to increased construction activities. On-going revenues, such as code enforcement, have been increased based on projected population changes.

Fines

The Fines category consists of all fines levied by the City for parking, vehicle code violations, and other code violations. The 2005 projected growth rate of 5.43% is based on population growth in the City.

Interest and Rents

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Currently, the City does not have any leases but Cellular Phone Site Antennas have been included in the projections and increased by inflation starting in FY 2005-06.

General Fund Expenditures

Projected expenditures presume that service levels in effect in FY 2004-05 will remain constant. No new programs are assumed. The 2005-projected growth rate assumes costs will increase due to inflation, added personnel costs at current staffing levels, known operation and maintenance costs and contractual costs for police.

Wages and Benefits

The average annual growth rate for Wages and Benefits is 3.69% for the ten-year projection. This growth rate is the result of anticipated increases in health premiums and CalPERS retirement costs.

Professional Services

Overall, this category has been adjusted to reflect an average annual increase of 3% over the forecast period due to inflation. Included in this category are City Attorney services, technology contracts, website and software maintenance, and financial services related contracts.

Operating Expenditures

Computer replacements, technology enhancement, equipment maintenance, utilities, building and ground maintenance have been adjusted for inflation and included in this forecast.

Contractual Services

Contractual services for the major street maintenance program has been included at $600,000 in the current fiscal year and increased by inflation in the remaining years of the forecast. Contractual services for all other major contracts such as Law Enforcement, Public Works (building and engineering inspection, code enforcement, NPDES, Solid Waste), Traffic Engineering, Planning Contracts (Master Trails Plan and Zoning Code), Crossing Guards, and Animal Care services have been increased by inflation.

Other Services

This category includes Communication, Printing, Membership & Dues, Meeting & Conferences, Postage, Insurance, Revenue Neutrality, El Toro Reuse Planning Authority (ETRPA), SUVSD recreation activities among others. Generally, this category has been adjusted for inflation, with notable exceptions being Revenue Neutrality (fixed cost) and ETRPA (anticipated to disband no later than FY 2006-07).

Supplies

This category has been adjusted by the inflation rate. Included are supplies, publications and reference materials, and minor equipment purchases.

This 10-Year Financial Forecast has been developed by the Financial Services Manager and the City Manager to assist the City Council with long-range financial planning on a macro level, and should not be relied upon for annual budgeting purposes. The Forecast is subject to changes in the local economy, and future actions of the City Council.

Questions regarding this Forecast may be directed to either the Financial Services Manager or the City Manager.