



FISCAL STATE OF THE CITY OVERVIEW

The "Fiscal State of the City" provides a brief snapshot of the City's financial condition at the end of the fiscal year. San Clemente's finances will be provided in more detail as part of the City's Comprehensive Annual Financial Report (CAFR).

This report includes the following sections offering a brief discussion of each fiscal area:

- General Fund - Fund Balance
• Reserves
• Investments
• Pension
• Other Post Employment Benefit (OPEB) Liability
• Debt
• Capital Improvement Program
• Major Projects & Accomplishments
• Fiscal Challenges – Capital/Operating
• Bond Rating

For FY 2016, the City's operating position was a positive \$6.1 million, which was higher than the budgeted operating position of \$1.0 million.

In FY 2016, the emphasis of City's operations were focused on previously unforeseen issues. The City addressed multiple community related issues such as sober living facilities, a hospital closure, and short term vacation rentals. These issues resulted in significant time and effort and may not be resolved quickly. In addition, these issues may require changes into how the City functions.

The City completed its General Plan recently and is near build out. The City, as part of this process, is considering the communities needs and the use of existing infrastructure assets. A Beaches, Parks and Recreation Master Plan is being initiated and the City continues to fund the rehabilitation and replacement of existing assets.

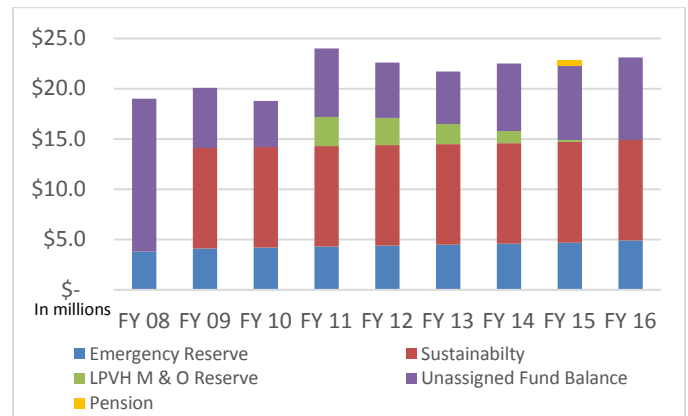
As the economy improves, the City's revenue sources are improving and new funding exists that is being driven by the opening of the Outlets at San Clemente, the redevelopment of the Estrella shopping center, and the Sea Summit residential development. These revenues will be used to

address both the infrastructure and quality of life issues.

General Fund revenues exceeded budget by \$2.6 million. General Fund expenditures were lower than budget by \$2.9 million. Further discussion on these variances are discussed in the 4th Quarter report.

The 2017 Long Term Financial Plan (LTFP) will be an opportunity to analyze the City's finances and operations over the next several years.

GENERAL FUND – FUND BALANCE



Unassigned fund balance at the end of FY 2016 totals \$8.2 million, which is \$3.4 million more than the \$4.8 million projected in the budget.

RESERVES

The City maintains reserves to (a) protect essential service programs, (b) maintain self-insurance retention reserves, and (c) provide resources to replace and repair City-owned facilities and capital equipment. Reserve levels are determined by the City's Fiscal Policy as part of the Long Term Financial Plan (LTFP). Reserve levels at June 30, 2016 are shown below.

Table with 2 columns: Reserve Balances and June 30, 2016. Rows include Emergency Reserves (General Fund, Other Funds), Sustainability Reserve, Self-Insurance Reserves, Capital Replacement Reserves, Infrastructure Reserves, and Total Reserves (\$65,072,500).

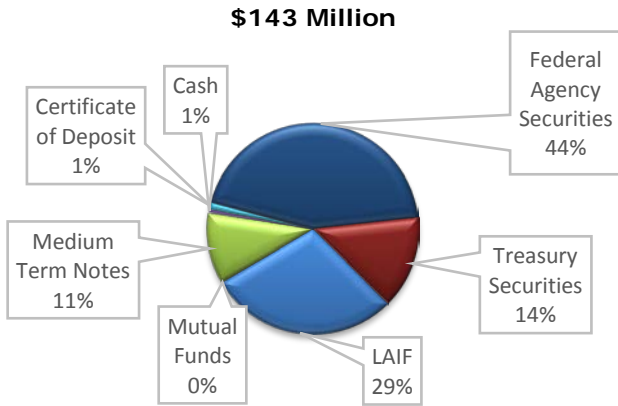
INVESTMENTS 

The City's investment portfolio includes cash from all City funds. This includes the General Fund, Enterprise Funds, Capital Improvement Funds, Internal Service Funds, and Reserves. At June 30, 2016, all City investments were in compliance with the City's Investment Policy.

At June 30, 2016 the total investment portfolio was \$143 million with an average yield of 0.66%. The City earned \$0.7 million on the portfolio in FY 2016, as compared to \$0.9 million last year, due to an increase in the interest rate environment.

	June 30, 2015	June 30, 2016
Amount Invested	\$138,123,435	\$143,242,187
Yield to Maturity	0.55%	0.66%

The investment portfolio diversification by investment type is reflected in the chart below:



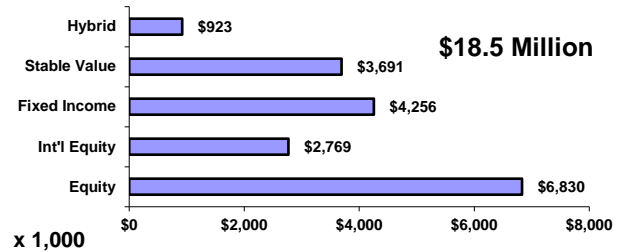
PENSION

The City's Pension Fund (City of San Clemente Employee Retirement Plan or CSCERP) was \$18.5 million as of June 30, 2016. The related liability is \$31.3 million with the plan funded at 59%.

CSCERP is used to meet pension obligations for the following individuals:

- CSCERP retirees,
- Coastal Animal Services Authority (CASA) employees, and
- Pension eligible employees (but not yet retired) who were not active employees at the time of the pension transition to CalPERS (June 9, 2014).

The asset allocation of the pension fund at June 30, 2016 is as follows:



In addition to CSCERP, the City also has the following pension plans with CalPERS:

CalPERS Plan*	Liability (millions)	Assets (millions)	Funded Ratio %
Miscellaneous	\$40.0	\$35.9	90%
Lifeguard	\$5.5	\$4.5	82%
Public Safety	\$42.4	\$32.7	77%

* Measurement date of June 30, 2015

OTHER POST-EMPLOYMENT BENEFITS

On June 29, 2016 the City places \$700,000 into the California Employers' Retiree Benefit Trust (CERBT). These funds are invested with CalPERS in a moderate investment portfolio/strategy.

The value in CERBT at June 30, 2016 was \$703,100. The most recent actuarial valuation reflects a liability of \$1,779,000. This liability represents the minimum health contribution required under the City's benefit arrangement. The total funded ratio of the OPEB liability is 40%. Future annual contributions will be made to improve this funded ratio.

DEBT 

The City has debt outstanding as of June 30, 2016. These debt instruments were used to meet capital needs and consist of both internal and external financing. The outstanding amounts at June 30, 2016 are as follows:

Internal loans

- General Fund loan to the RDA Successor Agency is outstanding in the amount of \$1.6 million.
- Golf Course Fund Loan is outstanding in the amount of \$1.9 million, with \$155,999 owed to the Workers Compensation Fund and \$1,750,000 to Golf Fund reserves.



External loans

- The Negocio Certificates of Participation debt is outstanding in the amount of \$1,215,000. This debt was defeased in July 2016.
- Water Fund loan from the State Revolving Fund (SRF) has an outstanding balance of \$13.9 million.

CAPITAL IMPROVEMENT PROGRAM 

The City had 129 Capital Improvement Program (CIP) projects in progress during the year, of which 75 projects were completed. Major projects completed during the year included the Via Ballena Storm Drain Relocation, Recycled Water Conversions, El Portal Beach Access Rehabilitation, North Beach Traffic Calming and Pedestrian Improvements, several Water and Sewer Infrastructure projects, and multiple street rehabilitation projects. Major capital projects still in process at the end of FY 2016 included the Ole Hanson Beach Club rehabilitation.

The total CIP budget was \$52.5 million for FY 2016, which included \$39.8 million for CIP projects and \$12.7 million for Maintenance projects. A total of \$16.9 million was spent on projects during FY 2016. At year-end, multi-year projects totaling approximately \$37.5 million will be carried forward into FY 2017, with \$18.8 million related to water and sewer projects.

IMPORTANT PROJECTS & ACCOMPLISHMENTS

Over the past year, the City of San Clemente has focused its efforts on projects that are of benefit to the community or improve public services. Important projects included:

- Renovation of the Ole Hanson Beach Club
- El Portal Beach Access Rehabilitation
- North Beach Traffic Calming and Pedestrian Improvements
- Call Puente Sidewalks
- Several Utility Infrastructure projects
- Ambulance service expansion

FISCAL CHALLENGES - CAPITAL 

Capital Projects in the General Fund are funded by excess monies remaining in the City's Unassigned Fund Balance, which grew to \$8.2 million at the end of FY 2016. The FY 2017 budget includes the use of \$1.7 million of these funds for budgeted capital projects, maintenance projects, and other one-time costs in the coming year.

Funding needs for Capital and Maintenance will continue in future years, as noted in the long-term Capital Improvement Budget and in the City's Long-Term Financial Plan, noting funding gaps for major capital and maintenance projects.

The City's municipal pier requires periodic repairs and maintenance to sustain one of the City's most treasured public assets. To ensure the pier's long term use and viability, a \$200,000 design project was budgeted for FY 2016, with an additional \$1.2 million rehabilitation project budgeted in FY 2017. Future rehabilitation projects will be necessary approximately every five years to maintain the municipal pier.

Over the last few years, the City's Public Works Department contracted with structural engineers to conduct building evaluations and assessments for numerous city owned buildings to plan and conduct rehabilitations prior to major failures or temporary loss of the use of the facilities due to unplanned maintenance. An assessment report was presented in the 2015 Long Term Financial Plan that identified \$3.7 million of facility maintenance and rehabilitation project requirements. The City's Lucity system is being used to help establish a comprehensive asset management plan to ensure funding is set aside to maintain an adequate level of service for all City assets and amenities.

Funding for Facilities Rehabilitation has historically been from the Facilities Maintenance Reserve, funded by the General Fund under a pay-as-you-go approach. The assessment identified the need for an increased level of spending to maintain City facilities properly. During the next five years, projects identified in the assessment will be reviewed and prioritized annually through the CIP process as alternative funding options are explored.



Other City Capital and Maintenance priorities include sand replenishment, sidewalk construction and rehabilitation, and rehabilitation work needed at City Hall and the Negocio Building.

Long-Term strategic plans to address ongoing maintenance and rehabilitation needs and funding options for the municipal pier, city owned buildings and other city facilities, including the use of reserves, will be reviewed during the 2017 Long Term Financial Plan process.

FISCAL CHALLENGES - OPERATING

Looking forward, the financial condition of the City is expected to remain stable for the 2017 fiscal year. The FY 2017 budget was adopted with a projected positive operating position of \$753,000.

The City saw revenue increases in FY 2016 for its top revenue sources, property taxes and sales taxes, which represent 65% of the FY 2017 General Fund revenue budget. Close monitoring of property tax and sales tax revenue to ensure growth in these major revenue sources will continue throughout the next fiscal year.

During FY 2016 the General Fund began to see new sales tax revenue from the Outlets at San Clemente retail development project, whose opening occurred in November 2015, and from the redevelopment of the Estrella shopping center, with stores opening in Spring of 2016. These new revenue sources will be needed to partially close the operating funding gap created as a result of the Vista Hermosa Sports Park Operating Reserve being depleted at the beginning of FY 2016. A full year of operations for the Outlets at San Clemente and the Estrella Shopping Center will occur in FY 2017, with additional stores potentially opening.

Containing operating costs while continuing to maintain service levels will remain a focus in FY 2017. Contractual cost increases are budgeted for FY 2017 and rising contractual and personnel costs are forecasted for FY 2018, including continued increases in public safety costs as well as a new labor contract to be negotiated for City employees. In addition, legal fees continue to rise, with the City facing unknown costs from ongoing litigation efforts. Maintaining a positive operating position will continue to be a priority.

BOND RATING

The City continues to maintain its Standard and Poor's long-term financial "AAA" rating, a significant achievement representing the City's extremely strong capacity to meet financial commitments.

