



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 2016-17, the City's operating position was a positive \$6.6 million, which was higher than the budgeted operating position of \$2.3 million.

In FY 2016-17, the City began the process of addressing staff growth and the need for a new City Hall structure using a cost effective approach through the Capital Improvement Project process. Staff began the process of transitioning and consolidating services to the 910 Calle Negocio property, which will become the new City Hall location in early 2018.

The City has made it a priority to address sober living facilities, the hospital closure, toll road expansion, and short term lodging units. While these issues have required fiscal support, the City will continue pursuing these quality of life issues while maintaining a strong financial position.

As operational assessment studies made recommendations to improve City services, organizational changes were reviewed, developed and implemented to improve the delivery of these services and better compliment the current needs of San Clemente. These improvements included things such as Code Enforcement and Planning

staffing enhancements as well as the creation of a new department, the Utilities Department.

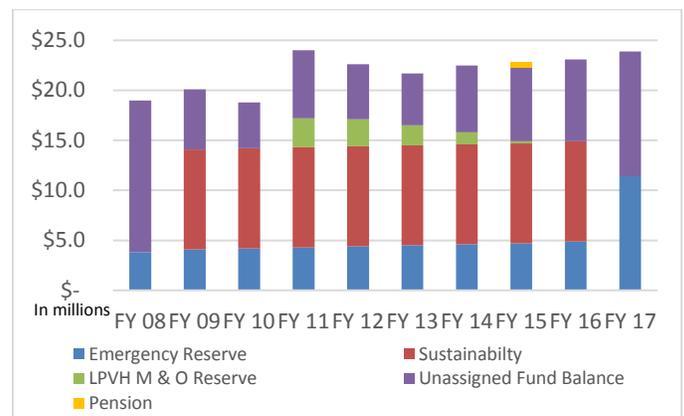
As the City has seen increases in sales and property taxes over the last few fiscal years, much of that growth has been related to new development. Minimal future growth is forecasted for these revenue sources as no major new development is projected in the future.

With looming operating deficits in the coming years, the City is taking strides to ensure that it will maintain a positive operating position and fiscal stability now and in the future.

In FY 2016-17, General Fund revenues exceeded budget by \$3.7 million. General Fund expenditures were lower than budget by \$4.1 million. Further discussion on General Fund Revenue and Expenses can be found in the 4th Quarter report.

The 2018 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 2017 totals \$12.5 million, which is \$4.6 million more than the \$7.9 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, 2017 are shown below.

Reserve Balances		June 30, 2017
Emergency Reserves:		
General Fund		\$11,401,000
Other Funds, includes debt reserve		3,333,900
Self-Insurance Reserves		3,908,300
Capital Replacement Reserves		11,532,000
Infrastructure Reserves		31,432,000
Total Reserves		\$ 61,607,200

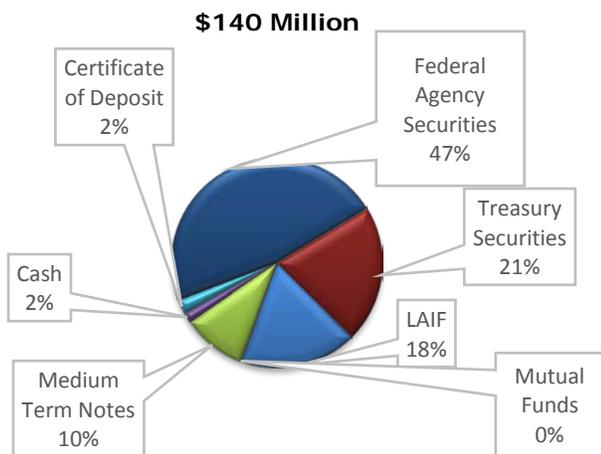
INVESTMENTS ☀️

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, 2017, all City investments were in compliance with the City's Investment Policy.

At June 30, 2017 the total investment portfolio was \$140 million with an average yield of 1.33%. The City earned \$1.4 million on the portfolio in FY 2017, as compared to \$1.1 million last year, due to an increase in the interest rate environment.

	June 30, 2016	June 30, 2017
Amount Invested	\$143,242,187	\$139,637,803
Yield to Maturity	0.66%	1.33%

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



PENSION

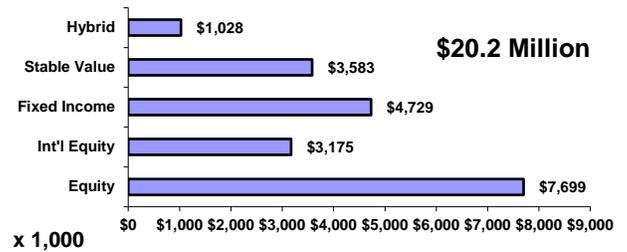
The City's Pension Fund (City of San Clemente Employee Retirement Plan or CSCERP) was \$20.2

million as of June 30, 2017. The related liability is \$31.9 million with the plan funded at 63%.

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) that were not active employees at the time of the pension transition to CalPERS.

The asset allocation of the pension fund at June 30, 2017 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	\$46.5	\$37.8	81%
Public Safety	\$48.6	\$35.7	73%

* Measurement date of June 30, 2016

OTHER POST-EMPLOYMENT BENEFITS

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

During the year the city contributed \$55,306 directly to CERBT and the asset value at June 30, 2017 was \$808,688. The most recent actuarial valuation reflects a liability of \$1,779,000, which represents the minimum health contribution required under the City's benefit arrangement.

DEBT ☀️

The City has debt outstanding as of June 30, 2017. These debt instruments were used to meet capital needs and consist of both internal and external financing. The outstanding amounts at June 30, 2017 are as follows:



Good. Positive Indicator;



Caution. Unsettled Indicator;



Problem. Negative Indicator

Internal loans

- General Fund loan to the RDA Successor Agency remains outstanding in the amount of \$2.5 million.
- Golf Course Fund Loan of \$1,750,000 is outstanding with amounts due to the Golf Fund reserves.

External loans

- Water Fund loan from the State Revolving Fund (SRF) has an outstanding balance of \$13.3 million.

The Negocio Certificates of Participation were defeased in July 2016 with amounts placed in escrow to pay the remaining outstanding debt. This debt is legally considered to be paid in full.

CAPITAL IMPROVEMENT PROGRAM 

The City had 134 Capital Improvement Program (CIP) projects in progress during the year, of which 69 projects were completed or on-time. Major projects completed during the year included the Ole Hanson Beach Club Renovation, Los Mares/Ave. Vaquero Reconstruction, Calle Toledo Storm Drain Improvements, Calle De Los Molinos Street Improvements, and the Digester #1 Structural & Mechanical Rehabilitation project. Major capital projects still in process at the end of FY 2016-17 included the WRP Odor Control Systems Replacement and Reata Pump Station Rehabilitation.

The total CIP budget was \$26.4 million for FY 2016-17, which included \$20.1 million for CIP projects and \$6.3 million for Maintenance projects. A total of \$20.3 million was spent on projects during FY 2016-17. At year-end, multi-year projects totaling approximately \$40.8 million will be carried forward into FY 2017-18, with \$19.4 million related to water and sewer projects.

IMPORTANT PROJECTS & ACCOMPLISHMENTS

The City of San Clemente has focused on City-wide efforts to plan long-term for the City, through implementing changes recommended by the General Plan, enforcement of quality of life issues (such as sober living, toll road expansion, hospital services, short term lodging units, and ambulance services), and working to improve the

maintenance and rehabilitation of City capital assets.

Important projects that are of benefit to the community or improve public services included:

- Renovation of the Ole Hanson Beach Club
- El Portal Beach Access rehabilitation
- Sewer Treatment Plant rehabilitation

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 \$12.5 million at the end of FY 2016-17. The FY 2017-18 budget includes the use of \$4.5 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, which notes funding gaps for major capital and maintenance projects.

The City initiated the process to update to the Parks and Recreation Master Plan, which will provide strategic direction to improve existing park amenities and related infrastructure. This process included a community survey and a number of public workshops to engage the residents' needs to help better prioritize improvements for future fiscal years.

As noted in the 2017 Long Term Financial Plan, operating deficits are forecasted in future fiscal years and this will impact the City's ability to fund future capital projects. Due to the City's long term forecasting, the City is addressing these operating deficits and is taking the necessary steps to provide a balanced budget and maintain a strong financial position. In doing so, the City will need to be very strategic in funding capital projects, as the City deals with other needs, such as quality of life issues.

The City has been diligent in funding the Facilities Maintenance Reserve through the General Fund and has begun to reap the benefits of this investment. The Public Works Department constructed a new roof at San Gorgonio Park restrooms, rebuilt the pavilion at Max Berg Park, installed LED tennis court lights at Forster Ranch,



painted and landscaped North Beach Train Station, and painted Del Mar street light poles, to name a few projects.

Long-Term strategic plans to address ongoing maintenance and rehabilitation needs and funding options for the Parks and Recreation Master Plan and other capital projects will be reviewed during the 2018 Long Term Financial Plan process.

FISCAL CHALLENGES - OPERATING

Looking forward, the financial condition of the City is expected to remain stable for the 2017-18 fiscal year. The FY 2017-18 budget was adopted with a projected positive operating position of approximately \$1 million.

Once again, the City saw revenue increases in FY 2016-17 for its top revenue sources, property taxes and sales taxes, which represent about 65% of the FY 2017-18 General Fund revenue budget. Close monitoring of property tax and sales tax revenue will continue throughout the next fiscal year for these major revenue sources. Some of the growth in recent years has been attributed to new development, but future growth in the City is reaching build-out and reliance on new revenues from these sources will be limited.

Containing operating costs while continuing to maintain service levels will remain a focus in FY 2017-18 and beyond. Pension cost increases due to actuarial and investment assumption changes will begin to impact the City in FY 2018-19. Pension liabilities will continue to be monitored with increases included in the long-term forecast in order for the City to strategically address the impact of those increases.

Contractual cost increases are budgeted for FY 2017-18 and rising contractual and personnel costs are forecasted for all future years, due to continued increases in public safety costs as well as ongoing contractual increase previously negotiated with City employees. In addition, legal fees continue to rise, with the City addressing quality of life issues. Maintaining a positive operating position will continue to be a priority as the City responds to these increasing costs.

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.

