



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

In FY 2017-18, 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. Phase I of the project saw consolidation of services as City Hall staff transitioned to the 910 Calle Negocio property, the new City Hall location, in April of 2018. Phase II of the project, a renovation of the first floor, including improvements for public access, is anticipated to be completed early Summer of 2019.

The City has made it a priority to address the possibility of a toll road expansion, the impacts to the community related to homelessness, the hospital closure, budget stability, and employee morale. While some of these issues have required fiscal support, the City will continue pursuing these quality of life issues while maintaining a strong financial position, and will continue to work collaboratively with employees in seeking improvements to the workplace.

The City has begun to reap the benefits of a number of reorganizational changes to allow more effective delivery of City services. These improvements range from staffing enhancements in Code Enforcement, the reclassification of Park Rangers, separating Long Range Planning and Current Planning, and the creation of a new

Utilities department. Additionally, with the consolidation of City Departments from the relocation of staff to the Calle Negocio building, we have seen an improvement with communication and day to day interactions.

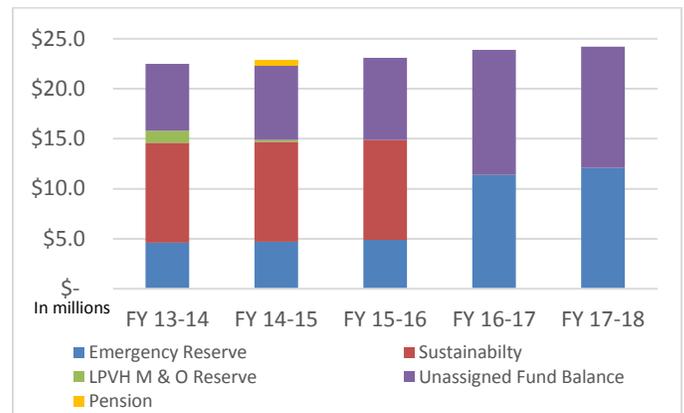
The City is predicting limited new development/growth opportunities for the foreseeable future. The growth in revenue related to property taxes is not forecasted to grow as robustly in the next few years. With that said, the City will have to rely on CPI increases and ownership transfers of lower valued properties for revenue growth.

While the last forecast showed the City experiencing operating deficits in the coming years, the City is taking great strides to ensure that it will maintain a positive operating position and fiscal stability now and in the future.

In FY 2017-18, General Fund revenues were higher than budget by \$1.6 million. General Fund expenditures were lower than budget by \$3.4 million. Further discussion on General Fund Revenue and Expenses can be found in the 4th Quarter report.

The 2019 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 June 30, 2018 totals \$12.1 million. This is \$2.4 million higher than the \$9.7 million projected amount. Of this \$12.1

million, \$6.7 million is allocated for one-time costs in the FY 2018-19 Budget.

RESERVES 

The City maintains reserves to (a) protect essential service programs, (b) maintain self-insurance amounts, and (c) provide resources to replace and repair City-owned facilities and capital equipment. Reserve levels are based on Fiscal Policy through the Long Term Financial Plan (LTFP). Reserve levels at June 30, 2018 are shown below.

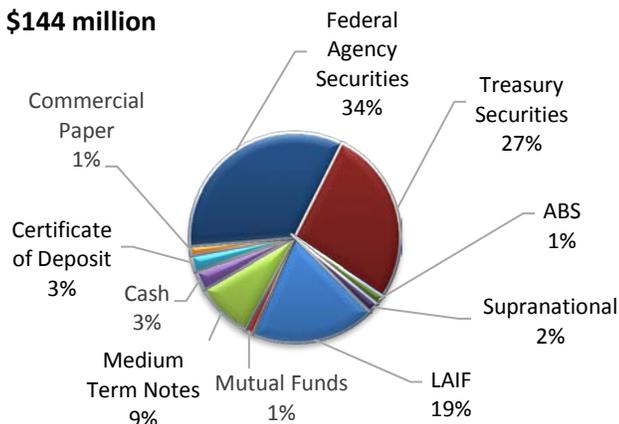
Reserve Balances	June 30, 2018
Emergency Reserves:	
General Fund	\$12,102,000
Other Funds, includes debt reserve	3,878,100
Self-Insurance Reserves	4,947,000
Capital Replacement Reserves	14,900,000
Infrastructure Reserves	31,180,000
Total Reserves	\$ 67,007,100

INVESTMENTS 

The City's investment portfolio includes cash from all City funds, including the General Fund, Enterprise Funds, Capital Improvement Funds, and Internal Service Funds. At June 30, 2018, all City investments were in compliance with the City's Investment Policy. At June 30, 2018 the total investment portfolio was \$144 million with an average yield of 2.28%. The City earned \$1.8 million on the portfolio in FY 2018, as compared to \$1.4 million last year, due to an increase in the interest rate environment.

	June 30, 2017	June 30, 2018
Amount Invested	\$139,637,803	\$144,307,604
Yield to Maturity	1.33%	2.28%

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 \$20.6 million as of June 30, 2018. The related liability is \$35.5 million with the plan funded at 58%.

CSCERP is used to meet pension obligations for the following individuals: 1) CSCERP retirees, 2) Coastal Animal Services Authority (CASA) employees, and 3) Pension eligible employees that were not active employees at the time of the pension transition to CalPERS.

The asset allocation of the pension fund at June 30, 2018 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	\$55.0	\$42.9	78%
Public Safety	\$51.6	\$37.0	72%

* Measurement date of June 30, 2017

OTHER POST-EMPLOYMENT BENEFITS

The City placed \$700,000 into the California Employers' Retiree Benefit Trust (CERBT) in June 2016 to fund future employee medical premiums paid by the City. These CERBT funds are invested in a moderate investment portfolio/strategy.

During the year the city contributed \$52,500 directly to CERBT and the asset value at June 30, 2018 was \$910,822. The most recent actuarial valuation reflects a liability of \$1.8 million which represents the minimum medical premium to be paid by the City as required under the City's benefit arrangement.



Good. Positive Indicator;



Caution. Unsettled Indicator;



Problem. Negative Indicator

DEBT

The City has debt outstanding as of June 30, 2018. These debt instruments were used to meet capital needs and consist of both internal and external financing. The outstanding amounts at June 30, 2018 are as follows:

Internal loans

- General Fund loan to the RDA Successor Agency remains outstanding in the amount of \$2.2 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 \$12.7 million.

The Negocio Certificates of Participation were defeased in July 2016.

CAPITAL IMPROVEMENT PROGRAM

The City had 116 Capital Improvement Program (CIP) projects in progress during the year, of which 53 projects were completed or on-time. Major projects completed during the year included the LED street light conversions, Community Development parking lot rehabilitation, the City Hall relocation, Concordia Safe Routes to School project, Pier rehabilitation, and Tesoro Pressure Reduction Station rehabilitation. Major capital projects still in process at the end of FY 2017-18 include Reservoir improvements, Shorecliff Safe Routes to School project, and various Water Reclamation Plant projects.

The total CIP budget was \$18.5 million for FY 2017-18, which included \$13.4 million for CIP projects and \$5.1 million for Maintenance projects. A total of \$20.9 million was spent on projects during FY 2017-18. At year-end, multi-year projects totaling approximately \$37.1 million will be carried forward into FY 2018-19, with \$16.7 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 \$12.1 million at the end of FY 2017-18. The FY 2018-19 budget includes the use of \$6.7 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, which notes funding gaps for major capital and maintenance projects. The funding for Maintenance is making strides in maintaining City facilities after years of deferred maintenance.

The City recently adopted an update to the Parks and Recreation Master Plan, which provides strategic direction for the next 15 years. The budget for Fiscal Year 2019-20 will begin to reflect this strategic direction through the City's Capital Improvement budget.

As noted in the 2018 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 taking the necessary steps to provide a balanced budget and to 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 priorities, such as quality of life issues.

The City has been consistently funding the Facilities Maintenance Reserve through the General Fund and is three years into this new practice. With this funding, the Public Works Department replaced fencing and windscreens at the Steed Park ballfields, replaced a North Beach Trail fence, painted the North Beach Train Station, painted all beach restrooms, and installed three new swing sets on the beach, to name a few of their accomplishments.

FISCAL CHALLENGES - OPERATING

Looking forward, the financial condition of the City is expected to remain stable for the 2018-19 fiscal year. The FY 2018-19 budget was adopted with a projected positive operating position of only \$204,260.

The City again saw revenue increases in FY 2017-18 for its top revenue source, property taxes, which represents almost 50% of the General Fund revenue budget for the year. Some of the property tax growth in recent years has been attributed to new development, but significant future growth is not expected, as the City is reaching build-out. New revenues from these sources will be limited.

Sales tax revenue did show a decrease in FY 2017-18, but this was related to the timing of receipts due to implementation issues with the State's new tax reporting software system. Sales tax revenue is expected to see some growth in the coming years from the County Pools due to online sales growth. Sales revenue from Brick and Mortar stores is expected to be stagnant, or decrease, in coming years. Close monitoring of property tax and sales tax revenue will continue throughout the next fiscal year for these major revenue sources.

Containing operating costs while continuing to maintain service levels will remain a focus in FY 2018-19 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 2018-19 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.

