



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. More comprehensive details of San Clemente's finances are provided in the *Comprehensive Annual Financial Report (CAFR)* which will be issued in December.

For FY 2014, the City reflects an overall decrease of \$200,000 in General Fund Revenues compared to FY 2013; however, FY 2013 included a one-time receipt of \$2.3 million from the State for property tax borrowed in a prior year. After excluding that item, the City actually showed a \$2.1 million, or 4%, overall increase in General Fund revenues in FY 2014, mainly attributed to growth in all three of the City's main revenue sources, including increases of \$600,000 from property tax, \$480,000 from sales tax and \$195,000 from transient occupancy tax. Also, due to construction activity related to the Marblehead Coastal Development project and due to an overall increase in construction inspection and plan check fees, a \$490,000 year over year increase was seen in permits and fees, and a \$410,000 increase was seen in service charges.

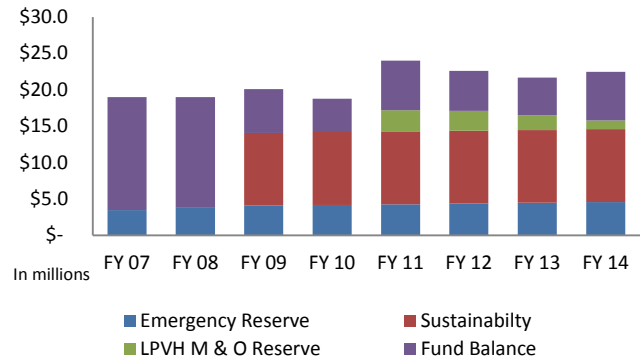
As continued improvement in the economy provides revenue stability, the City continues to focus on implementing organizational efficiencies and cost saving measures. Operational assessments of several divisions were conducted in FY 2014, including Maintenance Services, Fleet Services, Information Technology and Geographic Information Systems, with recommendations proposed for implementation in the coming year.

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

- General Fund - Fund Balance
- Reserves
- Investments
- City Pension Fund
- Inter-fund Loans
- Capital Improvement Program
- Major Projects & Accomplishments
- Fiscal Challenges – Capital/Operating
- Bond Rating

Further analysis and the long term forecast will be completed as a part of the City's *2015 Long Term Financial Plan (LTFP)*.

GENERAL FUND – FUND BALANCE



Unassigned fund balance at the end of FY 2014 totals \$6.7 million, which is \$2.0 million higher than the \$4.7 million projected in the adopted budget. This \$2.0 million is a result of \$1.0 million higher revenues and expenditure savings of \$1.0 million.

Further information on General Fund revenues and expenditures is in the 4th quarter report.

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 Balances	June 30, 2014
Emergency Reserves:	
General Fund	\$ 4,581,000
Other Funds	2,220,000
Sustainability Reserve	10,000,000
LPVH Maint. & Operation Reserve	1,171,000
Self-Insurance Reserves	1,099,000
Capital Replacement Reserves	7,167,000
Infrastructure Reserves	30,696,000
Total Reserves	\$ 56,934,000

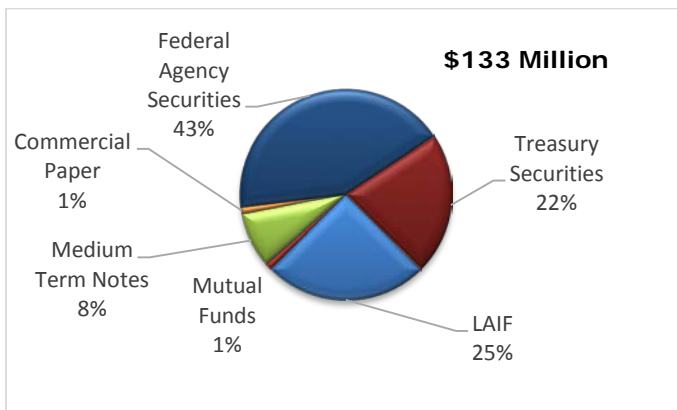
INVESTMENTS 

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, 2014 the total investment portfolio was \$133 million with an average yield of 0.43%. The City earned \$0.8 million on the portfolio, as compared to \$1.1 million last year, due to a lower interest rate environment and lower cash balances.

	June 30, 2013	June 30, 2014
Amount Invested	\$132,098,002	\$133,192,147
Yield to Maturity	0.66%	0.43%

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



CITY PENSION FUND 

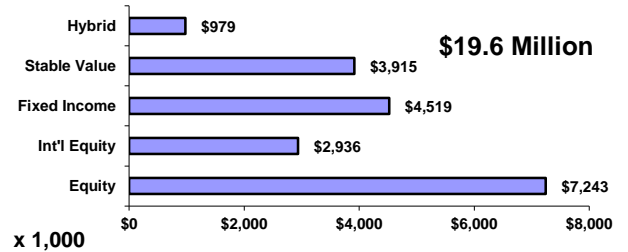
The City's Pension Fund was \$19.6 million as of June 30, 2014, down from \$43.5 million last year.

This reason for this decrease occurred in June as a result of the City transferring \$32.6 million of assets from its own pension fund to the California Public Employee Retirement System (CalPERS). As of June 9, 2104, CalPERS will now manage the pension for active City employees. Prior to the transfer, the Pension Fund's investments actually increased during the year from additional contributions and gains in the portfolio.

The funds remaining in the City Pension Fund will be used to meet the obligations for current retirees as well as for those past employees who were

eligible for a pension at the time of transition from the City.

The asset allocation of the pension fund at June 30, 2104 is as follows:



The City has implemented the State of California adopted legislation, effective January 1, 2013, addressing various public pension provisions.

INTER-FUND LOANS 

The City has several inter-fund loans or advances outstanding as of June 30, 2014. These loans and advances were made to meet short-term capital needs or temporary financing until longer term alternatives could be obtained. The fund and outstanding amounts follow:

- General Fund loan to the Successor Agency (formerly the RDA) of \$2 million – to refinance two previous loans
- Golf Course Fund Loan of \$2.5 million to finance the clubhouse project. The outstanding amount totals \$2.2 million, with \$458,880 due to the Workers Compensation Fund and \$1,750,000 to Golf Fund reserves

CAPITAL IMPROVEMENT PROGRAM 

The City had 145 Capital Improvement Program (CIP) projects in progress during the year, of which 43 projects were completed. Major projects completed during the year included the Max Berg Park Improvements and the San Gabriel Force Main Rehabilitation. Major capital projects in process include the Recycled Water Expansion project, which will double the daily production of recycled water, the Ole Hanson Beach Club rehabilitation, and the Reeves Pump Station rehabilitation project.



The total CIP budget was \$70.4 million with \$7.6 million spent during FY 2014. At year-end, multi-year projects totaling approximately \$41.9 million will be carried into FY 2015, with \$13.7 related to the various street and signal synchronization projects.

MAJOR 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. Major projects included:

- City-wide General Plan update
- Completed the Camino De Los Mares Rehabilitation project
- Completed the Prima Deshecha Canada Channel (M01) Rehabilitation project

FISCAL CHALLENGES - CAPITAL

During Fiscal Year 2014 funding gaps were identified for two major capital projects:

- Ole Hanson Beach Club Rehabilitation
- USACE Sand Replenishment Project

The rehabilitation budget for the Ole Hanson Beach Club is currently funded at \$3.2 million. The building, which was constructed in 1928, is listed as a Historic Resource. Final costs to rehabilitate the Beach Club may exceed the current available budget, requiring additional funding to complete this project.

The U.S. Army Corps of Engineers completed a Feasibility Study which identified a sand replenishment project to mitigate beach erosion. The \$1.0 million Design Phase will require a \$61,000 commitment from the City, which is available in the City's project balance. Initial construction will require a \$4.0 million contribution from the City. Funding for construction has not been identified at this time.

The long term strategic plan to address capital funding gaps will be reviewed and updated during the 2015 Long Term Financial Plan process.

FISCAL CHALLENGES - OPERATING

Looking forward, the financial condition of the City remains stable for the 2015 fiscal year. The FY 2015 budget was adopted with a projected positive operating position of \$201,000, which represents less than 1% of the General Fund expenditure budget.

The City saw revenue increases in FY 2014 by its top revenue sources, property taxes and sales taxes, which represent 65% of the FY 2015 General Fund revenue budget. It will continue to be a priority to closely monitor revenue sources to ensure FY 2015 continues to show growth in these major revenue sources.

As FY 2014 closed, the City has closely managed the operating costs associated with Vista Hermosa Sports Park. In FY 2012, the City had set aside \$2.9 million to cover the operating costs for three and one-half years, or through June 30, 2015, after which General Fund revenue will be needed to fully fund the operations. Overall, revenue and expenses have tracked as anticipated, and the reserve subsidy is still projected to be depleted at the end of FY 2015.

Although increased sales tax revenue from the Marblehead Coastal Development Project is anticipated in the first quarter of FY 2016, this revenue will be used to close the operating funding gap created as a result of the depletion of the Vista Hermosa Sports Park Operating Reserve.

BOND RATING

The City maintained its Standard and Poor's long-term financial "AAA" rating, which is a significant achievement and represents the City's extremely strong capacity to meet financial commitments.

