



2014

LONG TERM FINANCIAL PLAN



City of San Clemente, California

Approved February 25, 2014



City of San Clemente

City Council

Tim Brown Mayor
Chris Hamm, Mayor Pro Tem
Bob Baker, Councilmember
Lori Donchak, Councilmember
Jim Evert, Councilmember

City Manager

Pall Gudgeirsson

Executive Team

Joanne Baade	City Clerk
William E. Cameron	Director, Public Works/City Engineer
John Coppock	Police Services Chief
James S. Holloway	Director, Community Development
Sharon Heider	Director, Beaches, Parks & Recreation
Erik Sund	Assistant City Manager
Kirk Wells	Fire Services Division Chief

Project Director

Erik Sund	Assistant City Manager
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Project Team

Tom Bonigut	Assistant City Engineer
William E. Cameron	Director, Public Works/City Engineer
Sandee Chiswick	Senior Accountant
John Coppock	Police Services Chief
Ken Knatz	Principal Civil Engineer
Mike Jorgensen	Building Official
Sam Penrod	Human Resources Manager
Jake Rahn	Financial Services Officer
David Rebensdorf	Assistant City Engineer
Tom Rendina	Business Services Officer
Linda Sutton	Police Services Staff Assistant
Hanne Thordahl	Human Resources Analyst II
Judi Vincent	Finance Manager

Mission Statement



*The City of San Clemente, in partnership with
the community we serve,
will foster a tradition dedicated to:*

- ◆ *Maintaining a safe, healthy atmosphere
in which to live, work and play;*
- ◆ *Guiding development to ensure
responsible growth while preserving and
enhancing our village character,
unique environment and natural amenities;*
- ◆ *Providing for the City's long term
stability through promotion of
economic vitality and diversity....*
- ◆ *Resulting in a balanced community
committed to protection of what is valued today
while meeting tomorrow's needs.*

Project Team

Project Director

*Erik Sund, Assistant City Manager
Veronica Ferencz, Senior Administrative*

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Judi Vincent, Finance Manager

Reserve Analysis

Jake Rahn, Financial Services Officer

Fiscal Policy

*Tom Rendina, Business Services Officer
Judi Vincent, Finance Manager*

Capital Projects Analysis

*Ken Knatz, Principal Civil Engineer
Sharon Heider, Director Beaches, Parks & Recreation
David Rebensdorf, Assistant City Engineer
Tom Rendina, Business Services Officer*

Retirement System Analysis

*Judi Vincent, Finance Manager
Sam Penrod, Human Resources Manager
Erik Sund, Assistant City Manager*

Other Post Employment Benefits (OPEB)

Judi Vincent, Finance Manager

Insurance Coverage Alternatives

*Hanne Thordahl, Human Resources Analyst II
Sam Penrod, Human Resources Manager*

Civic Center Evaluation

*William E. Cameron, Director of
Public Works, City Engineer
John Coppock, Police Services Chief
Mike Jorgenson, Building Official*

Marblehead Coastal Parks & Trails

*Sharon Heider, Director Beaches, Parks,
& Recreation
Tom Bonigut, Assistant City Engineer*

Sand Replenishment

*Bill Humphreys, Marine Safety Chief
Tom Bonigut, Assistant City Engineer*

800 MHz System

*Judi Vincent, Finance Manager
John Coppock, Police Services Chief
Linda Sutton, Police Services Staff
Assistant*

Marine Safety & Beach Maintenance Building Relocation Study

Bill Humphreys, Marine Safety Chief

Centennial General Plan

Jim Pechous, City Planner

County Library Analysis

*Judi Vincent, Finance Manager
Erik Sund, Assistant City Manager*

Issues & Objectives

Financial Trend Analysis

Objective

A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition". The analysis of these indicators is designed to present information on the fiscal health of the City of San Clemente as part of the Long Term Financial Plan. This annual financial trend analysis focuses on the City's General Fund.

Financial Forecast

Objective

To update the comprehensive five-year financial forecast for the General and operating funds incorporating adopted City fiscal policies, expenditure patterns, revenue trends and other known financial impacts.

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

Fiscal Policy

Objective

Review the City's adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

Capital Projects Analysis

Objective

To provide a summary of capital projects with funding challenges and funding obligations for significant projects. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.

Retirement System Analysis

Objective

To provide the City Council an analysis and long-term plan for providing for the City's unfunded pension liability.

Other Post Employment Benefits (OPEB) Analysis

To provide an overview and alternative options for funding the City's Other Post-Employment Benefits (OPEB) obligations.

Insurance Coverage Alternatives

Objective

To present the findings of the Bickmore Review and Analysis of Insurance Alternatives for both General Liability and Workers' Compensation coverage the City maintains.

Civic Center Evaluation

Objective

To provide City Council with background and status updates for the proposed project to consolidate city operations, renovate and repurpose 910 Calle Negocio as a new City Hall. City Council will be requested to consider current and future needs and uses at 910 Calle Negocio and reconfirm that this project is still a Council priority.

Marblehead Coastal Parks, Trails

Objective

To identify future maintenance and operational costs associated with the opening of the new parks, trails, and landscape medians in the Marblehead Coastal development which will be completed beginning in the next fiscal year.

Sand Replenishment

Objective

To develop a long-term strategy in response to our beaches sustained sand loss, to examine current and planned beach sand replenishment efforts and associated funding options.

800 MHz

Objective

To analyze funding options for required public safety radio communications equipment and infrastructure upgrades for the 800 MHz County Coordinated Communications System.

Marine Safety and Beach Maintenance Building Relocation Study

Objective

To identify possible alternative locations to relocate the structure to a less hazardous location on the beach and to develop conceptual designs based on the operational and maintenance requirements for Marine Safety, Beach Maintenance, and Police Services.

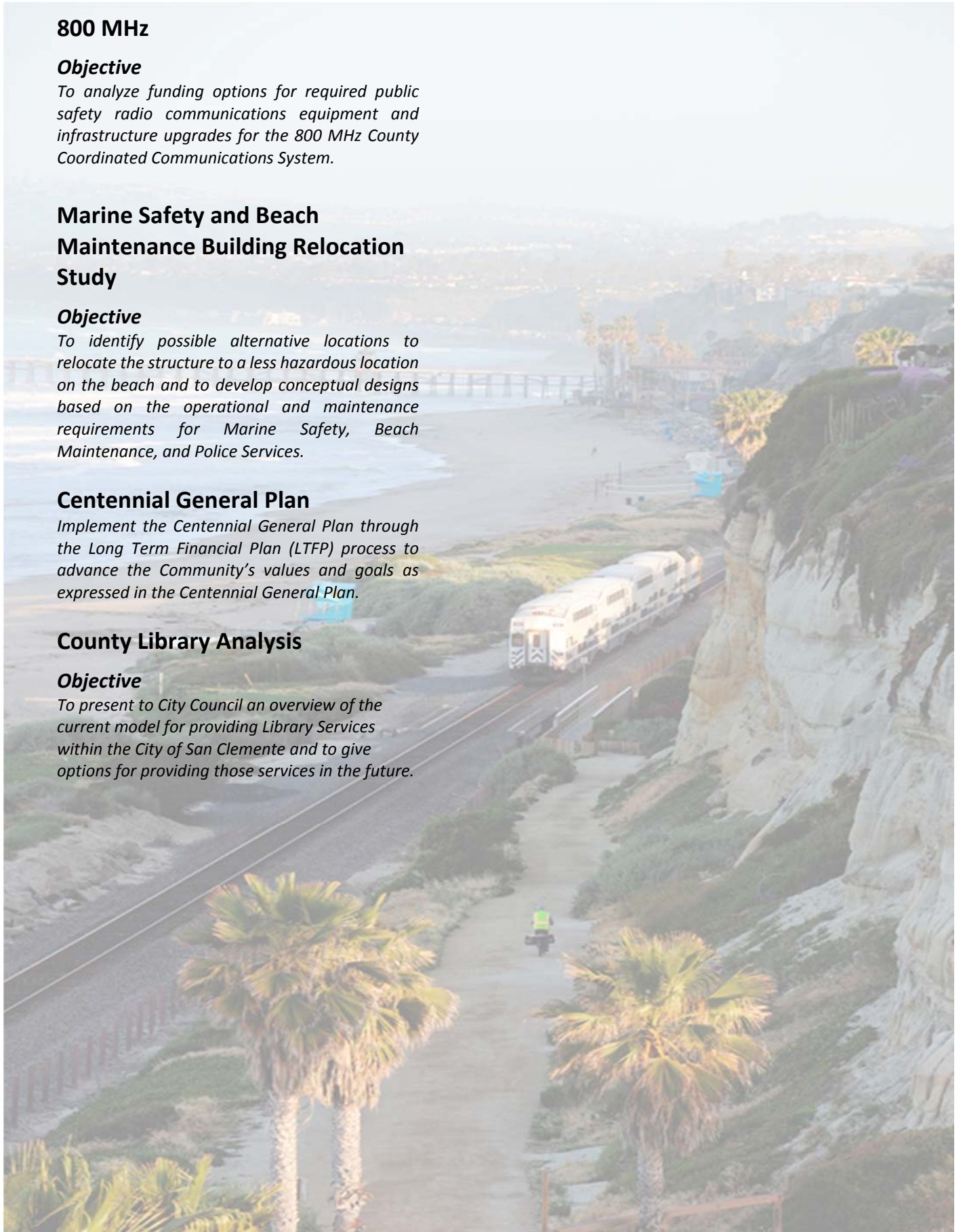
Centennial General Plan

Implement the Centennial General Plan through the Long Term Financial Plan (LTFP) process to advance the Community's values and goals as expressed in the Centennial General Plan.

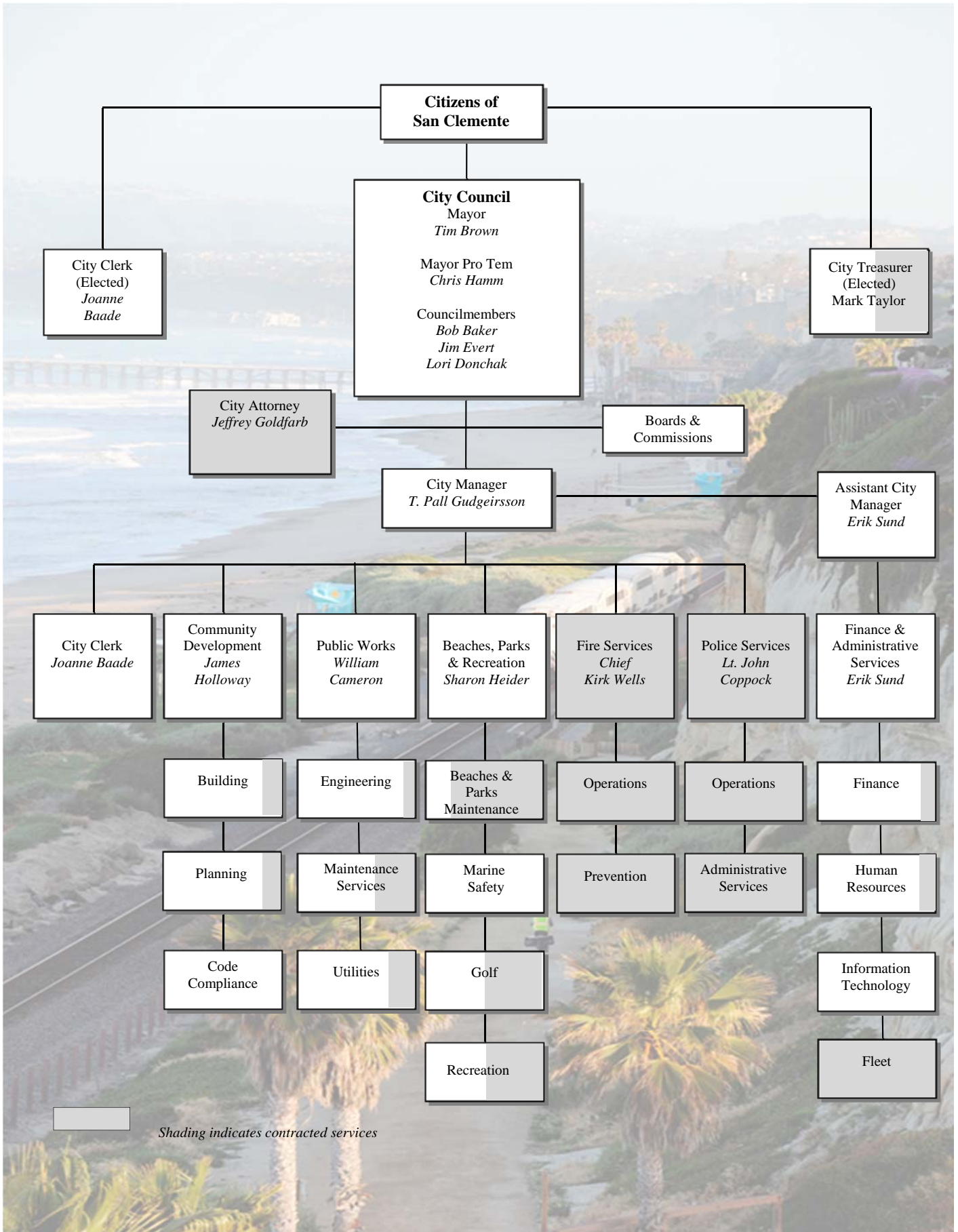
County Library Analysis

Objective

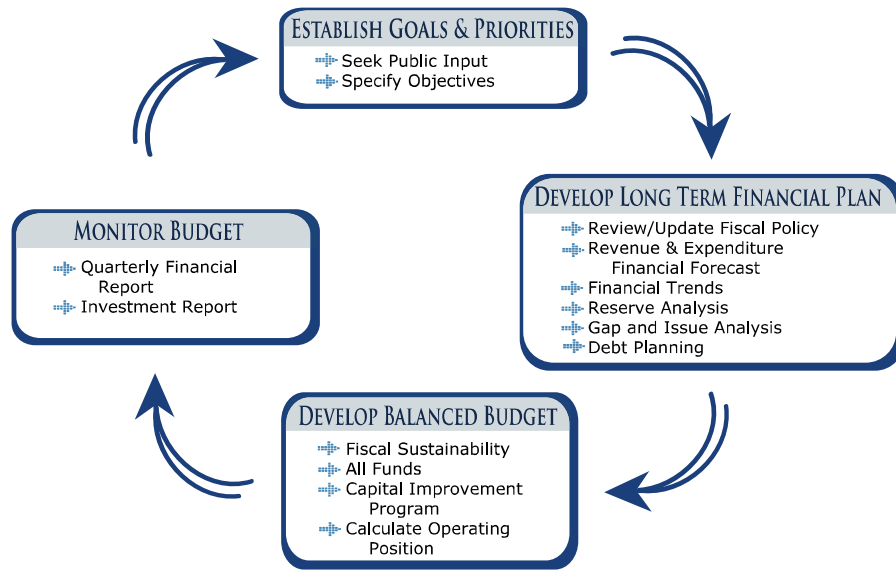
To present to City Council an overview of the current model for providing Library Services within the City of San Clemente and to give options for providing those services in the future.



City Organizational Chart



Long Term Financial Plan



The LTFP is a financial strategic plan

The Issue Papers provide support documents used to develop the plan

The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The LTFP consists of a complete financial plan and an Issue Paper section which provides supporting documents used in developing a strategic plan after a thorough analysis of all issues that impact the City's financial condition.

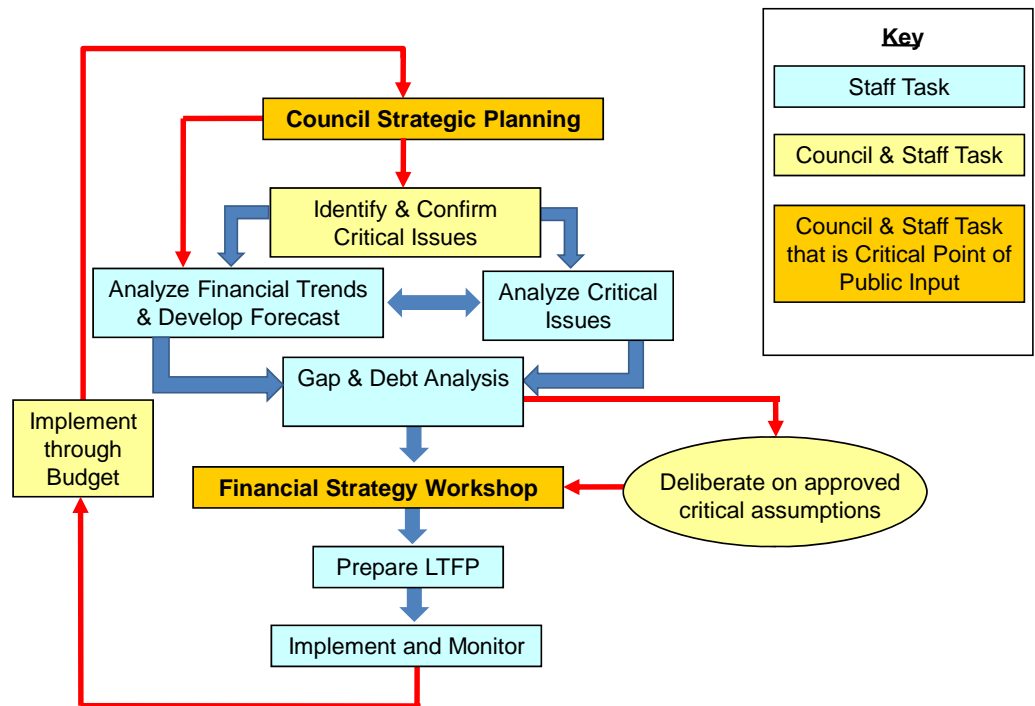
The 2014 Long Term Financial Plan consists of the following sections:

- Introduction
- City Manager Transmittal Letter
- Executive Summary
- Financial Trend Analysis
- Financial Forecast
- Reserve Analysis
- Fiscal Policy
- Capital Projects Analysis
- Retirement Systems Analysis
- Other Post Employment Benefits (OPEB)
- Insurance Coverage Alternatives
- Civic Center Evaluation
- Marblehead Coastal Parks and Trails
- Sand Replenishment
- 800 MHz System
- Marine Safety and Beach Maintenance Building Relocation Study
- Centennial General Plan
- County Library Analysis

Long Term Financial Plan Process

The Long Term Financial Plan process

The flow chart below graphically describes the **process** that went into developing the City's Long Term Financial Plan. This project was conducted by City staff. In fact, 14 City staff members contributed directly to the Plan, while countless other employees also assisted in the gathering of information, research, word processing, scheduling meetings, etc. Including the Project Director, there were 10 project leaders each assigned to teams addressing a specific critical issue.



Long Term Financial Plan

Annually, City Council identifies which projects and programs are of the highest priorities for the coming year. Once priorities have been identified, Council and staff will identify the critical phases which have, or are expected to have, an impact on the financial condition of the City over the next five years. For each of the critical areas, specific goals and objectives are developed for each project which is designed to meet the overall goal of the project:

To provide a clear and concise Long Term Financial Plan, identifying the City's current and projected financial condition, and proposing specific alternatives to address identified problems.

Project teams and team leaders were then selected based on individual talents and expertise in given critical issue areas. A steering committee was formed in order to keep the project on track and on schedule. Each team was then asked to prepare option papers that meet the goals and objectives already defined. The key message expressed to each team was that the report had to be clear and concise while providing very specific and practical recommendations that addressed the issue at hand. After several months of intensive effort and time by all staff involved, the option papers were completed and incorporated into the Long Term Financial Plan.

Once the issue papers were completed, the actual Long Term Financial Plan was developed by using the Financial Trend Analysis and Financial Forecast as the foundation of the plan. Funding gaps for major one-time capital and maintenance projects are identified in the Capital Projects paper. Applying the Trend Analysis and the Financial Forecast, based on the Capitol Projects paper, will help with the decision and prioritization of projects as we move into the budget process.

Schedule

February 25, 2014	Long Term Financial Plan Workshop (Special Council Meeting)
May 15, 2014	Budget Workshop (Special City Council Meeting)
June 3, 2014	Budget Public Hearing
June 17, 2014	Budget Adoption

Long Term Financial Plan Review

Long Term Financial Plan Review

The City has prepared an annual Long Term Financial Plan since 1993. Thus, the 2014 LTFP represents the twenty-second plan prepared by the City Administration for City Council consideration. The plan focuses on financial and organizational issues and is designed to provide staff initiated solutions to problems identified through the financial planning process.

The following is an update of the 2013 Long Term Financial Plan issues:

Financial Trend Analysis	Status
A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition". The analysis of these indicators is designed to present information on the fiscal health of the City of San Clemente as part of the Long Term Financial Plan. This annual financial trend analysis focuses on the City's General Fund.	Done

Financial Forecast	Status
To update the comprehensive five-year financial forecast for the General Fund, incorporating adopted City fiscal policies, expenditure patterns, revenue trends, fund balances and other known financial impacts.	Done

Reserve Analysis	Status
<p>To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program; (b) meet program needs without unnecessarily obligating scarce dollar resources; and, (c) to ensure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.</p>	<p>General Fund Emergency Reserve funding equals 9% of operating expenditures in the FY 2014 budget.</p> <p>Sustainability Fund Balance Reserve at \$10M</p> <p>A transfer of \$130,000 from the General Fund to the Accrued Leave Reserve was included in the budget.</p> <p>Transfer from the Vista Hermosa Sports Park Reserve and amount to subsidize the net cost of operating the park during FY 2015, estimated at \$990,000.</p>

Fiscal Policy	Status
<p>Review the City’s adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.</p>	<p>Done</p>

Capital Projects Analysis	Status
<p>To provide a summary of capital projects with funding challenges and funding obligations for significant projects. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City’s current and future financial resources.</p>	<p>Significant capital projects are projected in the City’s 6-year Capital Improvement Program budget. These encompass 3 categories (City projects – Non-Enterprise, City projects-Enterprise, and Prospective projects). Due to their major impact on the General Fund, and elimination of RDA funding, the implementation of these projects is addressed over a period of time. The City Council expressed an interest in a fast track approach for the remaining beach restrooms as part of its 2013 Strategic Priorities.</p>

Long Term Financial Plan Review

Street Improvement Program Update	Status
To provide an update on the progress of the City's Street Improvement Program progress.	An update on the status and progress of the Street Improvement Program was included in the 2013 LTFP. An update on the latest pavement management assessment and conditions of City streets will be provided to the City Council by early March.

Clean Ocean Fee Renewal	Status
To provide an update on the progress of the Clean Ocean Program, initially passed by voters in 2002 and renewed in 2007. The current program expired in December 2013.	Done. The election was held and voters renewed the program for 6 more years.

General Plan Implementation Review Process	Status
To establish procedures for the annual review of General Plan Strategic Implementation Priorities in order to determine which projects/programs will be implemented in future fiscal years. The process will allow for the integration of the General Plan Strategic Priorities with the LTFP.	City Council approved the Centennial General Plan and related planning documents, the Bicycle and Pedestrian Master Plan and Climate Action Plan, and certified the project's Environmental Impact Report. The new General Plan takes effect on March 6, 2014. Implementation of the Plan's numerous implementation measures will begin thereafter with the preparation of a Strategic Implementation Program (SIP). The Program will set implementation priorities for the Long Term Financial Plan for the first five years following General Plan adoption, followed by annual SIP updates.

Fleet Maintenance Services Evaluation	Status
To evaluate and analyze fleet maintenance services since the current contract will expire in June 2014. Also to provide alternative scenarios for the future delivery of fleet maintenance services to the City.	City staff are reviewing a draft report and anticipate finalizing the study and returning to City Council with recommendations by April of 2014.

American Disabilities Act	Status
To present an overview of the ADA assessments completed by the City’s consultant, Disability Access Consultants, Inc. (DAC); review the steps already taken by the City to comply with ADA requirements; and, outline an approach to address the DAC recommendations to ensure the City’s facilities, programs, services, and activities are ADA compliant.	The recommendation is done, although implementation of the plan will require significant financial resources over the next 20 years. The ADA improvements have now been incorporated into the Capital Improvement Program and will be part of this annual process.

Debt Analysis	Status
To (a) conduct a review of existing debt, (b) review long-range financing guidelines, (c) determine revenue sources for debt service and repayment, and (d) recommend alternatives to fund major capital programs.	Done

Gap Closing Strategies	Status
To analyze the cash flows and funding gaps of the City’s priority capital projects and develop a gap-closing strategy which will meet the future infrastructure needs of the community, while ensuring that future resources can sustain on-going operation and maintenance costs.	Done

Long Term Financial Plan Review

In order to provide some historical perspective, this section briefly reviews each financial plan and includes a definition of problems encountered along with the adopted solutions:

Year	Challenge	Solution
012	<ul style="list-style-type: none"> • To provide an update on the progress of the City’s Street Improvement Program (SIP). • To review and analyze legal costs and determine methods of cost reduction/efficiencies. • To review the existing business license tax structure to determine if any changes should be made in the process or tax structure. • To analyze the cost to provide water and wastewater services with the objective of developing a fair and equitable rate structure for the utility customers. 	<ul style="list-style-type: none"> • Staff is investigating options for continuing the Assessment District of the SIP. • Modified the city attorney contract to reduce the monthly retainer and reduce the hourly fee for non-retainer services. • No changes were made to the tax structure, though at Council direction, staff implemented electronic enhancements consisting of online business license payment processing for business license renewals. • A cost-of-service study was performed on the water and sewer utilities and rate structure reviewed which resulted in sewer and water rate increases of 8% and 7% respectively. Unit allocations were examined and amended for single family and irrigation customer classifications in tiers 1 and 2.

<p>2011</p>	<ul style="list-style-type: none"> • To discuss considerations for the repair of existing sidewalks and the construction of new sidewalks in compliance with the American Disabilities Act. • To identify potential on-going revenue enhancements or new revenues that could help eliminate future deficits in the City’s operating position. • To improve the condition and function of our existing Beach Restroom inventory to prevent further deterioration, potential loss, and provide a better quality of service. 	<ul style="list-style-type: none"> • City Council directed staff to pursue development of a comprehensive sidewalk policy, which was completed and adopted. It cost approximately \$13,000 to develop (staff time). • The City increased its parking rates at San Clemente's beaches from \$1.00 to \$1.50 an hour. • The rehabilitation of the restroom at the base of the pier is funded and estimated completion is winter of 2013.
<p>2010</p>	<ul style="list-style-type: none"> • To provide an update on the progress of the City’s Street Improvement Program. • To provide a summary of significant capital projects with funding challenges. 	<ul style="list-style-type: none"> • City is updating a pavement analysis to try to predict needs, costs and how big an assessment the city would need to charge. • The funding gap was closed for Vista Hermosa Sports Park project with land sale to Target. Funding was obtained for the recycled water expansion project from a \$5.6-million State grant, \$477,000 from the EPA, \$12.4 million to be borrowed from a state low-interest revolving loan fund and city money.

Long Term Financial Plan Review

2009	<ul style="list-style-type: none"> • To provide a summary of significant capital projects on the horizon as part of the continuing development of the City. • Review the City's adopted Fiscal Policy on an annual basis to determine appropriate changes, additions, or deletions. • Determine if the City is in compliance with the American with Disabilities Act. 	<ul style="list-style-type: none"> • Funding was secured for the downtown Fire Station/Senior Center and Upper Chiquita Reservoir projects which are now under construction. • The City established and partially funded a Park Asset Replacement Reserve as part of the 2010 budget. • The minimum funding level for Enterprise depreciation reserves was reduced from five years of projected costs to three years. • An ADA consultant selected to complete an assessment of City programs, services and policies.
2008	<ul style="list-style-type: none"> • It was necessary to budget sufficient funds in order to bring the emergency reserve to the 8.25% level. • Modifications were needed for water and sewer rate structures • Funding gaps were identified in La Pata/Vista Hermosa Park, Civic Center, Downtown Fire Station and Senior Center, Coastal Trail and Golf Clubhouse • It was necessary for the City to determine if it was compliant with the Americans with Disabilities Act. 	<ul style="list-style-type: none"> • Council approved the \$205,000 transfer to the Operating Budget. • Utility rate changes were implemented in the FY 2008-09 Water and Sewer Budgets. • Funding strategies were identified in the FY 2008-09 Budget and included the use of the proceeds from the sale of the City owned nine-acre parcel on La Pata and General Fund transfers. • Internal analysis conducted and \$10,000 budgeted to hire a consultant to do remaining analysis required.
2007	<ul style="list-style-type: none"> • The voter approved Clean Ocean fee was scheduled to sunset in 2008. This fee was established to protect local water quality and meet State and Federal regulations regarding storm water runoff. • An operational gap was identified for the Golf Course Fund. 	<ul style="list-style-type: none"> • The Clean Ocean fee was renewed by property owners in San Clemente for an additional six years by a majority of 75% of the votes cast. • A \$3.00 per round increase was approved.

2006	<ul style="list-style-type: none"> • Identified shortfall in the amount of depreciation funding set aside annually for replacement of water and sewer assets. 	<ul style="list-style-type: none"> • Established annual depreciation transfers based on Water and Sewer Asset System model.
2005	<ul style="list-style-type: none"> • Increase in the overhead rates charged by Engineering, Planning and Beaches, Parks & Recreation. • Increase revenue in the General Fund to recover the cost of providing services. • PER's Frozen Public Safety unfunded liability contribution increased. 	<ul style="list-style-type: none"> • City Council requested further analysis and a presentation at a later date. • Established new rental rates for the Beach Club and Community Center. • Extended the amortization period from 8 years to 15 years and reduced the required contribution by \$326,000 annually.
2004	<ul style="list-style-type: none"> • State of California proposed budget impact of \$522,000 • Potential \$2.0 million refund of property taxes based on a taxpayer lawsuit 	<ul style="list-style-type: none"> • Reduced General Fund revenue to reflect State shift • Reserved \$2.0 million in a designated reserve
2003	<ul style="list-style-type: none"> • New fire station with operating costs of \$1.5 million planned • Projected deficit balance in Golf Course Fund • Identified interest costs associated with long-term loans to the RDA 	<ul style="list-style-type: none"> • Eliminated new fire station. Relocated another fire station to central location and increased staffing • Established two-year loan to Golf Course • Repaid RDA loan from the General Fund and lowered interest costs
2002	<ul style="list-style-type: none"> • Identified financial impact of City's capital facility plan • Sidewalk restoration needs identified • Urban Runoff Plan implementation costs identified 	<ul style="list-style-type: none"> • Restricted the use of special development fees • Funded sidewalk restoration plan • Established urban runoff fee

Long Term Financial Plan Review

2001	<ul style="list-style-type: none"> • Public safety needs identified • Document imaging system needed • Facilities maintenance needs identified 	<ul style="list-style-type: none"> • Conducted a Fire Authority staffing analysis and increased to a four-person engine company for Engine 60 • Established a document management plan • Established a new Facilities Maintenance Reserve for future maintenance needs of all City facilities
2000	<ul style="list-style-type: none"> • New projects identified as priorities 	<ul style="list-style-type: none"> • Funded studies for the restoration of the Casa Romantica Cultural Center, Rail Corridor Safety and Education, Coastal Resources and Downtown Revitalization
1999	<ul style="list-style-type: none"> • Water Fund operating position negative • No formal plan in place for City facilities 	<ul style="list-style-type: none"> • Long-term water rate structure approved • Funded a City Facilities Master Plan
1998	<ul style="list-style-type: none"> • All reserves except Capital Equipment Replacement Reserve fully funded 	<ul style="list-style-type: none"> • Funded Capital Equipment Replacement Reserve • Funded a market study and downtown improvement plan
1997	<ul style="list-style-type: none"> • \$2.8 million shortage created by Proposition 218 	<ul style="list-style-type: none"> • Increased revenues • Transferred \$425,000 from Golf Fund • Employee lay-offs • Program reductions • Transferred police dispatch operation to County • Closure of Steed Park
1996	<ul style="list-style-type: none"> • Emergency reserve level reached 5% 	<ul style="list-style-type: none"> • Expedited Street Improvement Program • Issued \$7 million in street bonds • Saved on bond issuance costs
1995	<ul style="list-style-type: none"> • Forecast deficit in years two through five 	<ul style="list-style-type: none"> • Cutback on funding of emergency reserves • Reduced number of projected positions added • Reduced maintenance costs • Established 18 year/\$55 million Street Improvement Program

1994	<ul style="list-style-type: none"> • Shortfall of \$2.7 million • Operating deficit of \$785,000 • Street capital & maintenance needs of \$1.8 million • Capital equipment needs of \$100,000 • ERAF shift of \$1.2 million annually 	<ul style="list-style-type: none"> • Contracted Fire, fleet maintenance, meter reading, street striping and beach/park maintenance • Continued salary & benefit reductions • No cost of living increases • Established cost allocation plan to recover costs • Established capital equipment replacement reserve
1993	<ul style="list-style-type: none"> • Annual shortfall of \$6 million • Operating deficit of \$1.8 million • Critical capital needs of \$2.4 million 	<ul style="list-style-type: none"> • Contracted Police services • Established storm drain fee • Reorganized & downsized • Salary & benefit reductions • Established economic development program • Established reserves





City of San Clemente

T. Pall Gudgeirsson, City Manager

100 Avenida Presidio, San Clemente, CA 92672

Honorable Mayor and Council Members:

I am pleased to present the 2014 edition of the City's *Long Term Financial Plan (LTFP)* to the City Council and our San Clemente residents. The City's strategic fiscal plan has been presented on an annual basis since 1993 and continues a tradition of examining our present financial picture and making prudent decisions in assuring the City's strong and stable financial future. The City's AAA bond rating reflects that strength.

The City's Long Term Financial Plan (LTFP) is a long-range planning tool that allows City Council to make strategic decisions regarding the City's fiscal sustainability both in the short and the long term. The foundation of the LTFP is built from a *financial forecast*, *financial trend analysis* and the City's underlying *fiscal policies*. The plan includes an *executive summary* which describes the City's current and projected financial condition and a financial overview which outlines specific recommendations to address outstanding fiscal issues. The substance of the plan is contained in the *critical issue papers*, which analyze topics that have or may have a substantial impact on City finances.

Long-term financial planning establishes the standards of financial stewardship to which the City of San Clemente aspires, providing a common language and framework for guiding day-to-day financial management decisions. The LTFP process occurs through collaboration between various City staff and the City Manager, while the City Council provides the direction, decisions and policy. This process produces a shared understanding of fiscal capabilities and financial strategies. This understanding allows City Council and City staff to focus their energies throughout the year on the matters mutually identified as most important to the City of San Clemente's ongoing sustainability.

The 2014 financial plan addresses a significant number of critical issues papers, all of which identify a series of fiscal challenges along with recommended actions designed to deal with them as directly and quickly as possible. A wide variety of topics have been studied by City staff and recommendations are designed to solidify and enhance the City's overall financial condition through direct action. This year we reviewed a series of needed capital improvements as well as additional parks and trails maintenance at the new Marblehead development. Large ticket items include the potential civic center relocation project, sand replenishment, 800 MHz upgrade, and Marine Safety building relocation. We also examined the possibility of taking over the local County library, studied the City's retirement system, and finalized the review of insurance alternatives at City Council direction.

Noteworthy projects that are ongoing and not included in the financial plan are major reviews of our Maintenance, Information Technology, and Geographic Information System programs. These reports will be presented to the City Council in March. The *bottom line* is to shift our resources to best meet the needs of our organization and community.

Operating position (operating revenues less operating expenditures that don't include one-time revenues or capital expenditures) is projected to be negative this year and over the next several years, mostly due to continued moderate economic growth, public safety contractual increases, lower interest earnings, insurance premium increases, and full absorption of maintenance costs at the Vista Hermosa Aquatics & Sports Center. As always, adjustments will be made during the budget process in order to ensure a positive operating position. It should be noted that ongoing revenue from new development, including the Marblehead project, are not included in future projections.

Unassigned fund balances (fund balances available for appropriation) are projected to end FY 2015 at \$3.3 million, excluding the impact of approximately \$3.1 million projected for one-time capital and maintenance projects in FY 2015. Fund balances have been used over the past several years to finance major capital projects, such as the Vista Hermosa Sports Park and the Ole Hanson Beach Club and Pool. The capital analysis serves to provide an overview of major projects projected in future years that will require significant funding commitments. Improvements proposed to be realized in current and future years with funding from the General Fund unassigned fund balance include ADA Improvements (\$600,000), Beach Restroom Master Plan (\$1.9 million), Steed Park Lighting Improvements (\$1 million), Bonito Canyon Park Rehabilitation (\$1 million), USACE Sand Project (\$4.2 million) and Municipal Pier Rehabilitation (\$1.2 million). Due to the loss of the Redevelopment Agency, staff is working with the Government Finance Officers Association (GFOA) to develop a reserve analysis model to appropriately fund preventative repairs for the Pier and related infrastructure. Currently, \$4.1 million is proposed for the General Fund FY 2015 capital and maintenance projects. This includes \$950,000 in on-going funding for Major Street Maintenance, Slurry Seal and Sidewalk Improvements to maintain roadway infrastructure, given the expiration of the Street Improvement Program.

Fund balances include the City's current Emergency Reserve of \$4.5 million and a Sustainability Reserve of \$10 million. Spending of these reserves would, of course, further reduce total fund balances and would be difficult to replenish in light of negative operating positions projected over the next several years. Although the timing of cash flows and specific dollar amounts are uncertain, the City continues to look forward to the upcoming sale of mobile home lots as part of the Bellota settlement proceeds, anticipating about \$5.8 million from the sale, and proceeds from the future sale of 2.5 acres of land the City owns at Vista Hermosa and La Pata, estimated between \$2.6 to \$3.5 million. While the State has approved the \$1.9 million repayment of a General Fund loan to the Redevelopment Agency, the repayment is subject to limitations under State law. With that said, the timing and the amount of the repayment are not known at this time.

To address this fiscal maze, a summary of LTFP recommendations are outlined below. Full explanations are contained in the summary and issue papers.

- Pay \$3 million to the General Liability Fund from Bellota land sales, to fund the retrospective amount currently amortized over 7 years
- Utilize \$1.6 million in proceeds from Bellota land sales to fund General Liability reserve requirements
- Use \$1.2 million of remaining funds from Bellota land sales to establish a Pier Rehab Reserve. Remainder, if any, to Unassigned Fund Balance
- The \$1.9 million repayment from the existing RDA loan was approved by the State, subject to State limitations; final amount and timeframe of payment are unknown at this time
- Use La Pata/Vista Hermosa future land sale proceeds, estimated at \$2.6 to \$3.5 million, to add to Unassigned Fund Balance
- Set aside \$500,000 for Pension Rate Stabilization Fund, proportionally paid from the fund balances across all City funds that have personnel costs

Careful thought, deliberation and consideration by the City Council will be required as important projects are weighed against fiscal reality and our ability to fund many competing capital priorities. If LTFP recommendations are adopted, we will reduce our existing liabilities, increase fund balances for allocation to critical capital projects, and enhance our overall financial position.

In closing, I want to thank and recognize the many staff members that contributed to this financial plan. Fiscal challenges lie ahead but I am sure that the recommendations offered in this plan will result in immediate and future improvements to our fiscal picture. I look forward in working with the City Council, staff and the community as we move forward with this plan of action for the financial future.



T. Pall Gudgeirsson
City Manager



Executive Summary

Executive Summary

The *Executive Summary* portion of the 2014 Long Term Financial Plan (LTFP) includes a financial summary section which provides a profile of the City's financial condition and a summary of this year's LTFP recommendations.

Included within the *Executive Summary* section:

- *Introduction*
- *2014 LTFP Summary*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *General Fund Loan*
- *Financial Trend Analysis*
- *Capital Projects and Gap Closing Strategies*
- *Five Year Financial Forecast*
- *Fund Balances*
- *Conclusion & Projected Financial Condition*
- *Summary of LTFP Recommendations*

The 2014 Long Term Financial Plan Summary

The LTFP produces a financial plan and provides solutions

Introduction

The LTFP provides an objective look at the current financial issues facing the City of San Clemente and outlines a plan to meet the needs of the community without sacrificing the City's financial future.

Utilizing the financial tools already in place, the LTFP looks at the Fiscal Policy, Financial Trends, Financial Forecast, Reserve Analysis, Debt Analysis and Gap Closing Strategies to diagnose the "fiscal health" of the City of San Clemente in order to chart a sound financial course.

The financial trend analysis acts as an early warning system

A comprehensive analysis of the City's *financial trends and reserves* is conducted annually for the Long Term Financial Plan. The financial trends and reserve papers document the progress that has been made in implementing long-term solutions to improve the financial condition of the City. The trend analysis also acts as an early warning system to alert Council and the Administration of trend changes that will have an impact on the financial condition.

The five-year financial forecast shows the potential impact of current decisions on future budgets

The *five-year financial forecast* identifies the City's current and projected financial condition to determine if funding levels are adequate and if projected expenditures can be sustained. The forecast provides a basis for decision making and shows the potential future impact of current decisions.

Five-year forecast projects average growth of 2.2% for revenues and 3.0% for expenditures

2014 Long Term Financial Plan Summary

The *five-year financial forecast* was last updated after adoption of the FY 2014 budget. At that time, the General Fund operating position was projected to be positive in the first year of the forecast and negative beginning in FY 2015.

The updated 2014 LTFP five-year financial forecast reflects a negative operating position in all years of the forecast, beginning in FY 2015. Revenues are projected to increase by an average of 2.2% per year over the five year forecast period. Operating expenditures are expected to grow 3.0%, on average, over the same period. Based on these expected growth rates, operating deficits are projected in all five years of the forecast.

2014 LTFP Forecast (In millions)	2015	2016	2017	2018	2019
Projected surplus/deficit	-\$ 0.8	-\$ 2.3	-\$ 2.4	-\$ 2.6	-\$ 2.8

Sales Tax revenue expected to increase an average of 2.7% per year

Forecasted increases of 2.2%, on average, for operating revenues is largely due to a steady, sustained expansion in economic activity that is expected to accelerate gradually over the forecast horizon, tentatively for early 2014, but more robustly after that. Property tax revenues are expected to increase by 1.85% in the first year and to average increases of 2.0% through the remaining four years. Sales taxes are projected to grow by an average of 2.7% annually over the forecast period.

Police Services Contract projected to increase by 5.89%

Projected annual increases for operating expenditures average 3.0% over the next five-years and are mainly the result of anticipated increases in police and fire services contract costs. In general, forecast expenditures are increased by inflation, known contractual increases, or other assumptions specific to an individual expenditure item. The police services contract was increased by 5.89% for FY 2015 based on the Orange County Sheriff Department's 2013 five-year Strategic Plan. Projected increases for the police services contract average 3.4% over the remaining five years of the forecast. The fire services contract with the Orange County Fire Authority (OCFA) has been increased by 4.5% annually, which is the maximum amount the contract allows.

Fire contract increases by 4.5%, which is the maximum allowed

Beginning in FY 2016 operating costs for Vista Hermosa Sports Park are no longer covered by a subsidy from reserves, negatively impacting operating position. The approximately \$990,000 projected balance of the Vista Hermosa Park reserve is included in the first year of the forecast to bridge the gap between operating revenues and expenditures at the park. The reserve is anticipated to be fully depleted by the end of FY 2015.

Fiscal policies provide guidance for planning a sustainable financial future

Fiscal policies established by City Council provide guidance and long-range direction for planning a sustainable financial future. Policies are reviewed annually to determine if additions or revisions are needed. This year we

are recommending two new policies to the City's Fiscal Policy. One change is a result of discussions related to the Safety Element of the City's General Plan regarding risk management and the other is a recommendation to add a new revenue policy that addresses designating specific use of General Fund revenues.

The 2014 LTFP identifies the financial and implementation challenges of funding capital projects, retirement system analysis, insurance coverage alternatives, Civic Center evaluation, Marblehead Coastal Parks and Trails, Sand Replenishment, 800 MHZ System Upgrade, Marine Safety Building Relocation Study, General Plan Implementation process, County library analysis and OPEB analysis.

Financial challenges include funding of capital and maintenance projects

- The Capital Projects Analysis provides a summary of the significant capital projects with funding challenges. The analysis reviews the funding status of the beach restroom master plan, Steed Park Lighting Improvements, Bonito Canyon Park rehabilitation, ADA Improvements, Ole Hanson Beach Club, the USACE Sand Replenishment project and a future Municipal Pier Rehabilitation project.

An in-depth breakdown and current, past and future practices to address the fiscal pension ramifications

- The Retirement System Analysis paper provides an in-depth breakdown and a long term plan for addressing the City's unfunded pension liability. The City has been very diligent in addressing the unfunded amount in previous years, and continues to maintain an assertive approach to planning for this on-going amount.

A strategy to decide if the City is maintaining appropriate insurance coverage

- The Insurance Coverage Alternatives paper presents findings of a recently conducted independent review and analysis for alternatives to the City's current General Liability and Workers' Compensation coverage and costs. With current and previous occurrences of subsidence in the City of San Clemente, the City has always been cautious with the coverage, cost and exposure insurance plans provide.

Background and potential consolidation costs of City facilities

- The Civic Center Evaluation paper re-examines the feasibility and cost of relocating the City Hall and Sheriff's substation to the 910 Calle Negocio location, as well reviewing other options, and their associated costs.

New parks and trails and their associated costs

- The Marblehead Coastal Parks, Trails and Medians paper identifies future maintenance and operation costs associated with the opening

of the new parks, trails and medians that will be completed in FY 2015.

Long-term strategy and funding options for sand replenishment

- The Sand Replenishment paper develops a long term strategy to offset sand loss on the City's beaches, while examining current and planned beach sand replenishment efforts and their funding implications.

800 MHZ public safety radio upgrades

- The 800 MHZ System paper analyzes funding options for the required public safety radio communications equipment and backbone upgrades within the County's system.

Alternative locations for Marine Safety

- The Marine Safety & Beach Maintenance Building Relocation paper, identifies possible alternative locations for relocation and to develop conceptual designs based on certain requirements. It also summarizes significant repair needs.

The plans to advance the Community's values and goals per the Centennial General Plan

- The Centennial General Plan Implementation paper lays out the steps the City will be carrying out. We will start with the review and approval of the General Plan's Five-Year Strategic Implementation Program (SIP) and the costs as it relates to the budget

Implications of the City providing library services

- The County Library Analysis paper reviews the feasibility of the City providing library services and it examines the current funding formula the Orange County Public Libraries utilizes on the City and its' property taxes.

Funding strategies for Post-employment benefits

- The Other Post-Employment Benefits (OPEB) Analysis paper provides an overview and alternative funding options for the City's OPEB obligations.

The LTFP focuses on the financial condition of the General Fund

Current Financial Condition – Overview

The City's Long Term Financial Plan focuses on the financial condition of the General Fund, the City's key operating fund. The City's General Fund is anticipated to end FY 2014 with a total fund balance of \$19.8 million, which includes \$10 million in Sustainability Fund balance, \$4.6 million in emergency reserves, \$990,000 in Vista Hermosa O&M reserves and \$4.2 million in unassigned fund balance.

For FY 2014, General Fund operating revenues, excluding one-time revenues but including the use of Vista Hermosa Sports Park subsidy reserve, are expected to amount to \$51.5 million, while General Fund operating expenditures, excluding one-time program costs, projects and transfers, are estimated to total \$51.2 million.

All General Fund reserves are funded

Reserve Funding

Several fiscal policy statements adopted by the City Council over the years relate to the funding of various reserve funds. This includes funding of workers' compensation, general liability, capital equipment, accrued leave, facilities' maintenance, park asset, contingency and emergency reserves. All General Fund reserve funds are funded and meet all fiscal policy requirements. In order to maintain reserves at prescribed levels, transfers will be included in the FY 2015 budget. Reserve Analysis recommendations include:

- Maintain the General Fund emergency reserve at the target reserve level of 9% of operating expenditures.
- Authorize charges to funds in the amount of \$2.05 million for the General Liability Self-Insurance Fund, based on anticipated premiums and operating costs. In addition, a plan to comply with the fund's reserve policy by retaining \$1.6 million of the future proceeds from the Bellota land sale is addressed.
- Authorize an increase in worker's compensation rates of approximately 5%, based on current claims activity and the balance in the fund.
- Make routine transfer of \$130,000 from the General fund to the Accrued Leave Reserve in FY 2015.
- Transfer \$100,000 from the General fund to the Capital Equipment Replacement reserve in FY 2015 and maintain capital equipment replacement charges to keep the reserve at an adequate level.
- Transfer \$40,000 from the General fund to Park Asset Replacement Reserve for FY 2014.

General Fund Transfers

Transfers total \$1.1 million

For FY 2014, forecasted transfers total \$1.1 million and include \$756,290 for the Street Improvement Program, \$270,000 in reserve contributions as detailed above, \$14,960 for the Senior Mobility subsidy and \$76,800 for

utility low income subsidies, which will be phased out after a projected \$6,400 transfer in FY 2016.

Annual contributions to the Street Improvement Program are included in the forecast

Street Improvement Program: The bond debt for the Street Improvement Program was retired in late 2011. For FY 2015, the street program will complete the remaining projects using existing funds and contributions from the General Fund and Gas Tax Fund. For forecast purposes, General Fund contributions to the Street Improvement Program of \$756,290 are continued and included in each year of the forecast.

RDA debt to the General Fund is \$1.9 million

General Fund Loan

The General Fund has an outstanding loan made from the General Fund to the Redevelopment Agency (RDA) – Debt Service Fund. The interagency loan to the RDA – Debt Service Fund consolidated and repaid \$3.4 million from two prior Interfund loans to purchase the Casa Romantica and fund other activities in the RDA. The loan, which was made in 2002, is structured with an annual interest rate of 2.9% and a term of 16 years, and has a \$1.9 million balance due.

Due to the dissolution of all RDA's in the State of California, this loan is still currently outstanding. The General Fund loan was authorized for repayment by the State, however payments towards the liability are subject to limitations under State law. The potential repayment amount and timeframe are all uncertain at this point. As payments on the General Fund loan are received, the receipts would provide additional unassigned fund balance in the General Fund.

12 out of 21 indicators are favorable as of June 30, 2013

Financial Trend Analysis

The City's financial condition is also quantitatively measured using a financial trend monitoring system. The annual Financial Trend Analysis report for the year ending June 30, 2013 indicates 12 out of 21 indicators are favorable, which is the same as the prior year. The City is beginning to see the effects of an improving local economy as well as a continuing commitment to planning and cost reduction efforts.

There were three positive trend changes from the last fiscal year.

Positive changes to Revenues per Capita, Property Tax Revenue, and Property Values in FY 2013.

The positive changes were:

- *Revenues per Capita: increased to Favorable/Caution.*
- *Property Tax Revenues: increased to Favorable/Caution.*
- *Property Values: increased to Favorable/Caution*

Rating Discussions

As the City continues to see improvements to the local economy, the City's trends reflect these improvements.

Revenues per Capita has changed from a Warning to a Favorable/Caution rating due to improvements in taxes, permits, business license taxes, and service charges from FY 2012 to FY 2013. This trend still needs to be monitored for the next few years due to the unpredictability of revenues during these uncertain economic times.

Property tax revenue has increased from an Unfavorable to a Favorable/Caution rating due to an increase in revenues from the prior year. This increase is partially due to a one-time Prop 1A reimbursement from the State and an ongoing shift in revenue from the former Redevelopment Agency for FY 2013.

Property Values has increased from Unfavorable to Favorable/Caution rating due to the positive increase between FY 2012 to FY 2013. The City is starting to see a positive increase in property tax values after several years of a declining economy.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and permits and business license taxes, and community development service charges. This trend remains at a Favorable/Caution rating due to decreases in community development charges.

Community Development Service Charges remains at a Favorable/Caution rating; because although development continues to level out; it is showing a slight decrease for the current year.

Operating Position moved from flat in FY 2012 to \$0.2 million in FY 2013

Operating Position has increased slightly from a flat operating position in FY 2012 to \$0.2 million for FY 2013. This operating position is based on operating revenues and expenditures, which exclude one-time amounts. Favorable/Caution rating remains due to this low operating position and the instability of the current economy.

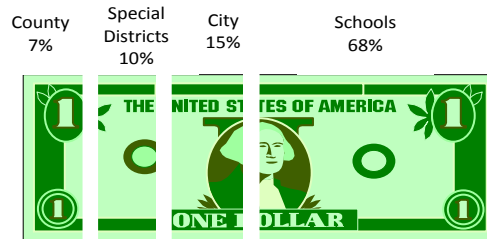
A detailed review of the indicators is contained in the Financial Trend section of this report. A summary of indicators is provided below:

Indicator	14	13	12	11	10	09	08	07	06	05
Revenues Per Capita	F/C	W	W	U	F/C	F/C	F	F/C	F/C	W
Property Tax Revenues	F/C	U	U	W	W	F/C	F	F	F	F
Property Values	F/C	U	U	U	W	F/C	F	F	F	F
Elastic Revenues	F/C	F/C	F/C	W	W	W	W	F/C	F	F
Sales Tax Revenues	F	F	W	U	U	F/C	F	F	F	F
License & Permit Revenues	F/C	F/C	F/C	F/C	U	U	W	F	F/C	F
Comm. Develop. Charges	F/C	F/C	F/C	U	U	U	W	F/C	F	F
Intergovernmental	F	F	F	F	F	F	F	F	F	F

Executive Summary

Revenues										
One-Time Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overage	F/C	F/C	F/C	F/C	F/C	F	F	F	F	F
Population	F	F	W	F	F	F	F	F	F	F
Expenditures Per Capita	F	F	F	F	F	F	F	F/C	F	F
Expenditures By Function	F	F	F	F	F	F	F	F	F	F/C
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	W	W	F/C	F/C	F	F	F	F	F	F/C
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F/C	F/C	F/C	F/C	F/C	F	F	F	F	F
Indicator	14	13	12	11	10	09	08	07	06	05
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F	F	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

The trend report also includes a section on the distribution of the property tax dollar. HdL Coren & Cone, whom the City has engaged to perform property tax audit and analysis, has determined that the City’s average share of the property tax dollar is \$0.154. The distribution of the property tax is shown on the below table:



Capital projects and identified gap closing strategies

Capital Projects and Gap Closing Strategies

The 2014 Capital Projects Analysis paper identifies funding requirements for the construction of major projects.

The Beach Restrooms Master Plan projects will be implemented over multiple years and are suited to a pay-as-you-go funding approach by the General Fund.

Steed Park Lighting Improvements, Bonito Canyon Park Rehabilitation, and Municipal Pier Rehabilitation projects have been delayed in past years and are revisited to review funding scenarios with the General Fund capital improvement program.

The adaptive reuse of the Negocio building is presented in this LTFP, but funding the project(s) will require review of the market conditions to determine potential returns.

The USACE Sand Replenishment design phase was fully funded. The initial sand replenishment portion of the project, estimated at \$4.2 million, is not funded at this time.

Five Year Financial Forecast

The 2014 forecast has been updated with revised revenue and expenditure assumptions. The forecast shows a negative operating position in all five forecast years, beginning in FY 2015. The forecast assumptions reflect maintenance of current level of services.

Beyond the economic and growth/trend assumptions used in the forecast, information specific to San Clemente is also included:

Revenues:

- Property taxes are projected to increase by 1.85%, in total, for FY 2015. Increases averaging 2% are included beginning in FY 2016. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.
- Sales taxes are projected to increase 2.4% in FY 2015. Increases averaging 2.75% per year beginning in FY 2016 are projected based on CPI increases projected in Fullerton's Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily removed from the forecast in FY 2015 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues and related expenditures are included beginning in FY 2016, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first year, FY 2015, after which the reserve is projected to be depleted.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Of a total of seven positions, five positions in the General Fund are frozen and are not funded in the forecast.
- Police contract – Police contract costs are increased for FY 2015 based on the Sheriff Department's 2013 five-year Strategic Plan. The Plan projects increases of 5.89%, 5.17%, 2.09%, 2.13%, and 2.0% over the next five years. Contract increases average \$447,000 per year, or 3.7%, over the five-year period. No new Police positions have been added. Labor contract negotiations are currently underway for Orange County

**Updated 2014
LTFP five-year
Financial Forecast**

Sheriff Department personnel, as the current labor contract expired in 2012. The result of those negotiations is still to be determined and the final terms will impact the City's annual contract cost.

- Fire Services costs –The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, as well as annual contributions to a station maintenance reserve and fleet replacement reserve. For forecast purposes, the contract is increased by 4.5% in each year of the forecast based upon OCFA's assumptions for the five year period. If budget reductions to OCFA's General Fund budget reduce contract charges, the changes will be adjusted in the FY 2015 budget.
- Cost of living - For salary and benefit forecast purposes only, it is presumed that cost of living increases will be at 90% of CPI, amounting to 2.07% for FY 2015, 2.25% for FY 2016 & FY 2017, and 2.7% for the remaining two years.
- Retirement – City share of retirement rates is increased by approximately 1.0% per year.
- Medical – The City's share of medical costs is projected to increase at 1.5% per year.
- Vista Hermosa Sports Park – Operations of the Park will continue to be subsidized by a contribution from the Vista Hermosa reserve through FY 2015. A subsidy of \$988,000 is projected for FY 2015.
- Council Contingency Reserve – The reserve is funded at \$100,000 in each of the forecast years, in accordance with the City's Fiscal Policy.
- General Fund Emergency Reserve - The General Fund emergency reserve is funded at the target reserve level of 9% of operating expenditures.
- Reserves - For forecast purposes, \$180,000 has been included in each year of the forecast for reserve transfers. This is based on average contributions to reserves over the past two years and projected reserve needs.
- PERS Unfunded liability - The City's unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system was paid in FY 2011. However, a payment of \$374,000 is included in the forecast for FY 2015 to pay costs due to actuarial changes and CalPERS investment performance. This amount is subject to annual revisions.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund amounts to \$756,290 per year.
- Capital and Major Maintenance - The forecast includes a total of \$950,000 for ongoing major maintenance projects (major street maintenance, slurry seal and sidewalk repair programs), but does not assume any spending for capital projects or one-time maintenance projects.
- Costs for the operation and maintenance of new parks and trails associated with the Marblehead Coastal project have been included in

the forecast beginning in FY 2015, as those become the City's responsibility to maintain as they are completed.

Factors Not Included in the Forecast

- The forecast is based on the General Fund only.
- No new or enhanced programs have been included.
- Ongoing revenues associated with the Marblehead development project have not been included in the forecast.
- Proceeds of an estimated \$5.8 million from the future sale of Bellota land are not included.
- The forecast does not include any spending for capital or one-time maintenance projects.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Operating Position

Based on revised expenditure and revenue trends, the financial forecast indicates a negative operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements, excluding one-time revenues and expenditures) are shown in the following table.

2014 LTFP Forecast (In millions)	2015	2016	2017	2018	2019
Operating receipts	\$51.7	\$52.1	\$53.2	\$54.5	\$55.9
Operating disbursements	<u>52.5</u>	<u>54.4</u>	<u>55.6</u>	<u>57.1</u>	<u>58.7</u>
Projected surplus/deficit	-\$ 0.8	-\$ 2.3	-\$ 2.4	-\$ 2.6	-\$ 2.8

*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time maintenance or capital projects.

The City's five year forecast is a very conservative view of the City's future financial position and does not include major future projects like the Marblehead commercial development.

General Fund Fund Balances

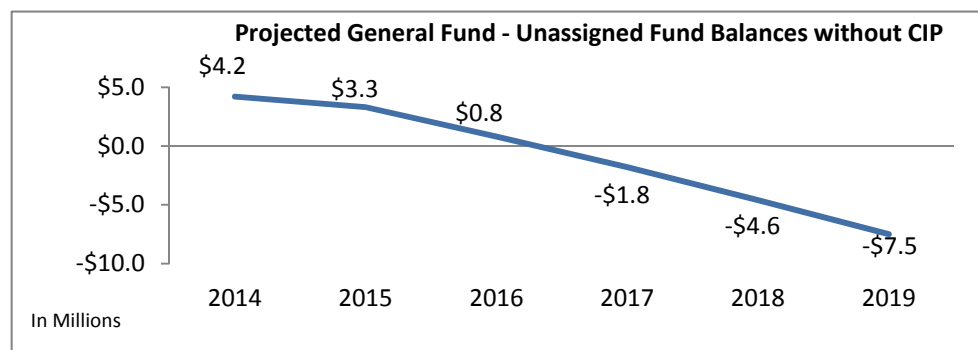
Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council. A positive fund balance represents a financial resource available to finance capital or other one-time expenditures. Fund balance should be used for one-time expenditures only.

For FY 2015, a projected negative operating position along with proposed one-time capital and maintenance expenditures and reserve transfers eliminates almost all of the \$4.2 million unassigned fund balance expected at the end of FY 2014. Modifications will be made during the FY 2015

budget process to produce a positive operating position, which will increase available unassigned fund balance.

Negative operating positions for the remaining years of the forecast, reduce unassigned fund balance to negative \$7.5 million by the end of FY 2019, excluding any one-time capital and maintenance expenses. The forecast does not assume any spending for capital projects or one-time maintenance projects, but does include an annual total of \$950,000 for ongoing major maintenance projects (major maintenance, slurry seal and sidewalk repair programs).

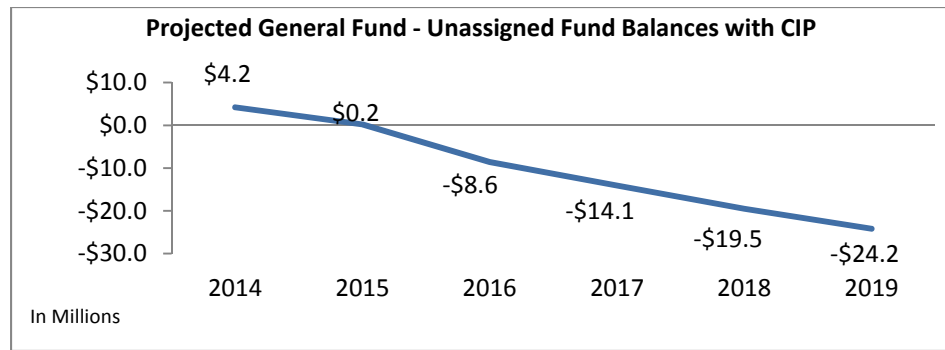
The following chart illustrates projected unassigned fund balances in the General Fund per the 2014 Long Term Financial Plan forecast.



If projected capital and one-time maintenance projects are added the forecast, the projected unassigned fund balance would decrease substantially. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. The table below shows costs for General Fund capital and one-time maintenance projects that are proposed for the next five years. Detail on these amounts can be found in the Capital Projects analysis paper.

2014 Proposed Projects (In millions)	2015	2016	2017	2018	2019
Capital Projects	\$1.5	\$6.0	\$2.6	\$2.0	\$1.6
Maintenance (not ongoing)	<u>1.5</u>	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>	<u>0.1</u>
Totals	\$3.0	\$6.3	\$2.9	\$2.6	\$1.7

The chart below modifies the General Fund unassigned fund balance to show the impact of these proposed capital and one-time maintenance projects on fund balances.



Fund Balance Issues - Several events are anticipated over the next several years which may enable the City to add to its unassigned fund balance, somewhat offsetting the negative balances shown above. The actual amounts and timing for these receipts is not assured; therefore, they are not included in the long-term projections.

Bellota: Proceeds from the Bellota Land sale, estimated to net \$5.8 million, will become available once the applicable lots are sold. A past subsidence claim related to Bellota exceeded \$11 million and was paid from the General Liability fund, with the General Fund contributing \$7 million towards the claim directly. As discussed in the Reserve Analysis LTFP paper, it is recommended that proceeds from selling the Bellota land be used to fund a retrospective payment of \$3.0 million in the General Liability Fund, including repaying the General Fund for funds previously advanced for the first two installments of the retrospective payments. Further, it is recommended that \$1.6 million of the Bellota proceeds be used to meet reserve requirements in the City's General Liability Fund, as per the City's fiscal policy. Remaining proceeds of approximately \$1.2 millions are recommended to fund a new Pier Maintenance and Repair reserve. It should be noted that actual net proceeds may differ from the \$5.8 million estimate, as the lots are anticipated to be marketed in March 2014.

Marblehead: The city will ultimately realize ongoing property, sales and hotel tax revenues, originally estimated at \$2.7 million, once all phases of the Marblehead Development are complete. The first phase of the commercial project is anticipated to be completed by the 2nd calendar quarter of 2015. A portion of these revenues may be required to fund the ongoing operating costs for the Vista Hermosa Sports Park, as the reserve funds set aside for these operations are projected to be depleted at the end of FY 2015. Revenues will also be needed to fund the ongoing operation and maintenance costs associated with the development's parks and trails, as ownership will pass to the City as those projects are completed. Although the ongoing revenues from the Marblehead project are not included in the forecast, the projected operation and maintenance expenditures for the parks and trails have been included, as those will become the City's responsibility as they are completed.

LaPata/Vista Hermosa Land: Receipt of proceeds from the sale of 2.5 acres of land at the corner of La Pata and Vista Hermosa, estimated at between \$2.6 and \$3.5 million, is anticipated in the next few years. When sold, proceeds will be added to the General Fund’s unassigned Fund Balance.

RDA: Two years ago, the City lost RDA funding for the Pier Bowl area, which funded repairs and maintenance for the pier. Pier rehabilitation is recommended to be performed every 5 years and will need to be funded by the General Fund in the CIP budget. These repair and maintenance costs may have a significant impact on the General Fund’s Fund balance in the future. Ongoing funding of a Pier Maintenance and Repairs reserve would be needed to ensure the pier is adequately maintained in future years.

Fund Balance Reserves

The City’s fund balances include the Sustainability Fund Balance, Vista Hermosa Park and Emergency Reserves. The Sustainability Fund Balance Reserve amounts to \$10 million. The Vista Hermosa Park Reserve balance is projected to be \$988,000 at the end of FY 2014. The Emergency Reserve is currently funded at 9% of operating expenditures. Contributions to the reserve are included in the forecast to maintain the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

General Fund – Assigned Reserves (in millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
VH Park	\$1.0	\$0	\$0	\$0	\$0	\$0
Emergency	4.5	4.8	4.9	5.0	5.1	5.3
Sustainability	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Assigned Reserves	\$15.5	\$14.8	\$14.9	\$15.0	\$15.1	\$15.3

Fund Balance Reserve Recommendations - The Bellota land sale is recommended as a source to fund \$1.2 million for a Pier Maintenance and Repairs Reserve in order to adjust for the loss of RDA funding that was previously used for this purpose. The chart below shows the projected balances of the General Fund Assigned Reserves if this recommendation is approved, assuming funds are available to fund the pier reserve in FY 2016.

General Fund – Assigned Reserves (in millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
VH Park	\$1.0	\$0	\$0	\$0	\$0	\$0
Emergency	4.6	4.7	4.9	5.0	5.1	5.3
Pier Maint. & Repair	-0-	-0-	1.2	1.2	1.2	1.2
Sustainability	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Assigned Reserves	\$15.6	\$14.7	\$16.1	\$16.2	\$16.3	\$16.5

Conclusion & Projected Financial Condition

The Financial Summary has provided an overview of the City's current financial condition and presented a five year financial forecast if fiscal trends and forecast assumptions were to continue. Projected operating position is shown below.

In millions	2014	2015	2016	2017	2018	2019
Forecast Operating Position	\$0.3	-\$0.8	-\$2.3	-\$2.4	-\$2.6	-\$2.8

Below are several potential changes to consider if budgetary operating position is still negative when City Council is presented with the FY 2015 budget. Options to bring projected operating deficits to a positive position in the first year of the forecast are the review of existing annual contributions from the General Fund to the Street Improvement Program, and the annual funding of the major street maintenance and slurry seal programs.

In thousands	2014	2015	2016	2017	2018	2019
Operating Revenue	51,539	51,693	52,074	53,234	54,541	55,882
Proposed Adjustments	0	0	0	0	0	0
Revised Operating Revenue	51,539	51,693	52,074	53,234	54,541	55,882
Operating Expenditures	51,234	52,467	54,338	55,645	57,129	58,640
<i>Operating Reductions:</i>						
Reduce General Fund Operating Expenditures by 2%	0	-1,049	-1,087	-1,113	-1,143	-1,173
Revised Operating Expenditures	51,234	51,418	53,251	54,532	55,986	57,467
Revised Operating Position	305	275	-1,177	-1,298	-1,445	-1,585

Recommendations to improve the General Fund operating position will be discussed in more detail during the budget process.

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2014 Long Term Financial Plan. It is recommended that the City Council endorse all recommendations as put forth by City Administration.

A narrative description and rationale for each recommendation is contained in the individual issue papers under separate tabs in this document. Council Actions are included under the Recommendation section of each paper.

Summary of Long Term Financial Plan Recommendations

Financial Trend Analysis

1. None

Financial Forecast

1. None.

Reserve Analysis

1. Maintain the General Fund Emergency Reserve at a level of 9% of operating expenditures.
2. Maintain the Sustainability Fund Balance Reserve at \$10 million.
3. Maintain the Enterprise funds emergency reserve level at 12% of operating expenses.
4. Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2015, estimated at \$990,000.
5. Transfer \$130,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2014 (\$110,000 was the FY 2014 transfer).
6. Authorize the General Liability Self-Insurance Fund to charge funds in the amount of \$2.05 million based on anticipated premiums and operating costs of each fund (see Attachment "A" in the Reserve Paper for the fund charges).
7. Retain \$1.6 million of the proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.
8. Increase the existing workers' compensation rates by approximately 5% to maintain reserves at an adequate level (see Attachment "A" in the Reserve Paper for detail on the increase).
9. Maintain contributions for the replacement of the City fleet vehicles and equipment to keep the reserve at an adequate level.
10. Transfer \$100,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2015 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
11. Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
12. Transfer \$40,000 from the General Fund to the Park Asset Replacement Reserve for FY 2015 and contribute annual amounts for the replacement of park assets.
13. Maintain annual depreciation fund charges and asset model contributions to the Water Operating fund to achieve three years worth of future capital projects.
14. Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.
15. Maintain annual depreciation fund charges and contribution to the Storm Drain Depreciation Reserve to achieve funding for three years worth of future capital projects.

16. Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.
17. Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

Fiscal Policy

1. Revenue Policies: Add a new policy to restrict the commitment of on-going General Fund revenues to any specific recurring expenditure or program.
2. Risk Financing Policies: Add a new policy section in the Fiscal Policy to define the City's Risk Financing strategy

Capital Projects Analysis

1. **Beach Restroom Master Plan** – Fund the restroom improvements on a “pay-as-you-go” basis from the General Fund. Combine the design phase of the Boca del Canon and T-Street restroom to accelerate restroom improvements based on availability of funds.
2. **Steed Park Lighting Improvements** – Fund the lighting improvements from the General Fund. Program the project in the 6-year capital outlay based on the parks project priority ranking established as part of the Parks Master Plan proposed as part of the FY 2015 CIP budget.
3. **Bonito Canyon Park Rehabilitation** – Fund the park rehabilitation from the General Fund. Program the project in the 6-year capital outlay based on the parks project priority ranking established as part of the Parks Master Plan proposed as part of the FY 2015 CIP budget.
4. **Rail Corridor Pedestrian Beach Trail Extension** – Fund the Beach Trail extension from the General Fund with design in FY 2015 and construction in FY 2016.
5. **ADA Improvements** – Fund ADA improvements on an annual basis from the General Fund. Attain ADA compliance of City facilities during major rehabilitation projects.
6. **Ole Hanson Beach Club** – No gap closing required, the project is fully funded.
7. **USACE Sand Project** – Pursue grant funding from the CA Department of Boating and Waterways for initial construction phase of the project. Fund City share of initial construction from the General Fund in FY 2016.
8. **Municipal Pier Rehabilitation** – Fund the pier rehabilitation from the General Fund with design in FY 2016 and construction in FY 2017. Establish a Pier Reserve Fund to ensure funding availability needed for major maintenance on a 5-year basis with proceeds from Bellota sale.

9. **Reservoir No. 1 Expansion** – Fund the reservoir expansion from the Water Depreciation and Water Acreage Fee funds in FY 2016.
10. **Doheny Ocean Desalination** – Pilot plant and study is fully funded. Results of completed study will be used as a basis to determine construction costs and whether City continues participation in the project.
11. **Highland Light Ductile Iron Pipeline Replacements** – Fund the pipe replacements from the Water Depreciation Fund in FY 2016.

Retirement Systems Analysis

1. The City creates a reserve fund and sets aside \$500,000, proportionally paid from the fund balances across all City Funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of “rate stabilization.”
2. The City makes arrangements with CalPERS to pay off the remaining side fund balance of approximately \$224,000 for active employees in the Safety Lifeguard Plan of the City of San Clemente.

Insurance Coverage Analysis

1. Affirm the Bickmore report recommendation to continue as a member with CJPIA for liability protection.
2. Direct staff to rescind the provisional notice of intent to withdraw provided to the CJPIA for the coverage period beginning July 1, 2014.
3. Direct staff to further evaluate CJPIA as an option for Workers’ Compensation coverage.

Civic Center Evaluation

1. Staff provides 3 alternatives for Council discussion.

Marblehead Coastal Parks & Trails

1. Staff recommends adding facilities to existing contracts as they are constructed, and once the entire system is completed, sending the maintenance of all Marblehead Coastal parks and trails to bid as one contract. Staff will continue to monitor all related costs as completion of the parks and trails occur. As appropriate, staff will provide decision packages if additional budget is required.

Sand Replenishment

1. Prioritize the restoration of the beaches in San Clemente and develop a comprehensive long-term strategy to address sand loss. Review existing and future replenishment projects, investigate

partnerships with other agencies for a regionalized approach, and actively locate and pursue funding opportunities.

800 MHz System

1. Include a total of approximately \$437,000 in the Capital Improvement Program budget over the next four fiscal years, based on the proposed payment schedule provided by OCSD, to fund the backbone costs of the 800 MHz upgrade from the Public Safety Construction Fund.
2. Include a total of approximately \$616,000 in FY 2017 Capital Improvement Program Budget to fund the cost of replacing and/or upgrading applicable public safety radio communications equipment from the General Fund's unassigned Fund Balance.

Marine Safety and Beach Maintenance Building Relocation Study

1. Conduct a relocation study of the Marine Safety and Beach Maintenance facility located on the beach, assessing operational and functional needs of a new building, and to identify preferred locations and estimated costs.

General Plan

1. Confirm the first phase of Implementation Measures for the General Plan and integration of the SIP into the annual LTFP/Budget process as outlined. The first phase will consist of:
 1. Five-Year Strategic Implementation Plan
 2. Update of the Zoning Ordinance
 3. Update of Specific Plans
 4. Coastal Commission certification of the Local Coastal Program
 5. Update of the Housing Element

County Library Analysis

1. Staff requests that the City Council provide direction on exploring alternative models for Library services.

Other Post-Employment Benefits (OPEB) Analysis

1. Direct Staff to establish an irrevocable OPEB trust with a third party agency that would offer the most cost effective solution, using \$600,000 currently set aside as seed money, and providing for the City to make required ARC payments into the trust and to pay related retiree benefit costs from the trust on a go forward basis.



Financial Trend Analysis

Objective

A number of financial indicators are analyzed utilizing the International City Management Association's (ICMA) guidelines contained in "Evaluating Financial Condition". The analysis of these indicators is designed to present information on the fiscal health of the City of San Clemente as part of the Long Term Financial Plan. This annual financial trend analysis focuses on the City's General Fund.

Background

The City's financial trends are analyzed annually with many factors utilized in order to understand the financial condition of the City of San Clemente. These factors include:

- The economic condition of the City and the surrounding region;
- Types and amounts of revenues and whether they are sufficient and the right mix to support the population as it continues to grow;
- Expenditure levels and whether these expenditures are sufficient to provide the desired level of services currently and as the City continues to grow;
- Fund balances and debt levels and their impact upon current City financial resources.

This report examines these issues and others in determining the current financial condition of the City of San Clemente. The City's adopted fiscal policies have been considered in connection with this analysis.

Data used in developing this financial trend report was drawn from the City's Comprehensive Annual Financial Reports for fiscal years FY 2009 through FY 2013. Consequently, all trends are based on data available as of June 30, 2013, and do not incorporate any changes that have occurred since that time.

Executive Summary

The financial trends that follow provide City Council and Administration with insight into the overall financial position of the City by analyzing the City's General Fund. This analysis makes it possible to identify specific areas where new policies should be implemented or existing ones revised. One of the following ratings has been assigned to each of the twenty-one indicators:

Financial Trend Analysis

Favorable (F):	This trend is positive with respect to the City's goals, policies, and national criteria.
Favorable (Caution) (C):	This Favorable caution rating indicates that a trend is in compliance with adopted fiscal policies or anticipated results. This indicator may change from a positive rating in the near future.
Warning (W):	This rating indicates that a trend has changed from a positive direction and is going in a direction that may have an adverse effect on the City's financial condition. This rating is also used to indicate that, although a trend may appear to be Favorable, it is not yet in conformance with the City's adopted fiscal policies.
Unfavorable (U):	This trend is negative, and there is an immediate need for the City to take corrective action.

A summary of the indicators analyzed and the rating assigned to each is listed below. The past ten trend reports are presented and identify strengths and weaknesses of the City's financial condition and to illustrate any positive or negative changes.

Indicator	14	13	12	11	10	09	08	07	06	05
Revenues Per Capita	F/C	W	W	U	F/C	F/C	F	F/C	F/C	W
Property Tax Revenues	F/C	U	U	W	W	F/C	F	F	F	F
Property Values	F/C	U	U	U	W	F/C	F	F	F	F
Elastic Revenues	F/C	F/C	F/C	W	W	W	W	F/C	F	F
Sales Tax Revenues	F	F	W	U	U	F/C	F	F	F	F
Permits & Business License Revenues	F/C	F/C	F/C	F/C	U	U	W	F	F/C	F
Comm. Develop. Charges	F/C	F/C	F/C	U	U	U	W	F/C	F	F
Intergovernmental Revenues	F	F	F	F	F	F	F	F	F	F
One-Time Revenues	F	F	F	F	F	F	F	F	F	F
Revenue Overage	F/C	F/C	F/C	F/C	F/C	F	F	F	F	F
Population	F	F	W	F	F	F	F	F	F	F
Expenditures Per Capita	F	F	F	F	F	F	F	F/C	F	F
Expenditures By Function	F	F	F	F	F	F	F	F	F	F/C
Employees Per Capita	F	F	F	F	F	F	F	F	F	F
Fringe Benefits	W	W	F/C	F/C	F	F	F	F	F	F/C
Capital Outlay	F	F	F	F	F	F	F	F	F	F
Operating Position	F/C	F/C	F/C	F/C	F/C	F	F	F	F	F
Debt Service	F	F	F	F	F	F	F	F	F	F
Accumulated Comp. Absences	F	F	F	F	F	F	F	F	F	F
Fund Balance	F	F	F	F	F	F	F	F	F	F
Liquidity Ratio	F	F	F	F	F	F	F	F	F	F

Overview of the City's Financial Condition

The 2014 Long Term Financial Plan includes the analysis of twenty-one trends. One indicator received a Warning rating, and eight received a Favorable/Caution ratings. In total, these current year results reflect a positive change from the prior year when two indicators received a Warning ratings, five received Favorable/Caution ratings and two were Unfavorable. The City, over the last year, is just starting to see the affects of an improving local economy as well as their commitment to financial planning and cost reduction efforts.

Rating changes

There were 3 trend changes from the last fiscal year. All three were changes in a positive direction.

The positive changes were:

- *Revenues per Capita* – increased to Favorable/Caution
- *Property Tax Revenues* – increase to Favorable/Caution
- *Property Values* – increase to Favorable/Caution

Rating discussion

Three changes in a positive direction in the indicators' ratings show that the City is starting to improve along with the improving local economy which is starting to be reflected in the last year of the trends.

Revenues per Capita has changed from a Warning to a Favorable/Caution rating due to improvements in taxes, permits, business license taxes, and service charges from FY 2012 to FY 2013. This trend still needs to be monitored for the next few years due to the unpredictability of revenues during these uncertain economic times.

Property tax revenues has increased from an Unfavorable to a Favorable/Caution rating due to an increase in revenues from the prior year. This increase is partially due to a one-time Prop 1A reimbursement from the State and an ongoing shift in revenue from the former Redevelopment Agency for FY 2013; therefore this indicator needs to be closely monitored due to its significant impact on the General Fund.

Property Values has increased from Unfavorable to Favorable/Caution rating due to the positive increase between FY 2012 and FY 2013. The City is starting to see a positive increase in property tax values after several years of a declining economy. This indicator needs to be closely monitored due to its impact on property tax revenues in the City's General fund.

Elastic Revenues are made up of sales tax, transient occupancy taxes, and permits and business license taxes, and community development service charges. This trend remains at a Favorable/Caution rating due to decreases in community development charges.

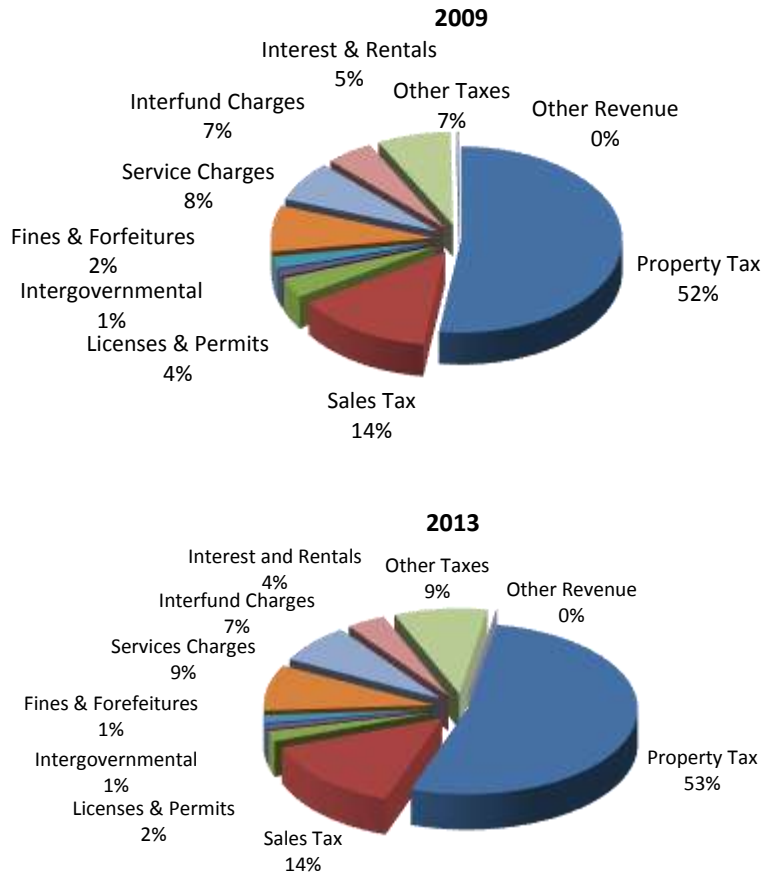
Community Development Service Charges remains at a Favorable/Caution rating; because although development continues to level out; it is showing a slight decrease for the current year.

Operating Position has increased slightly from a flat operating position in FY 2012 to \$0.2 million for FY 2013. This operating position is based on operating revenues and expenditures, which exclude one-time amounts. Favorable/Caution rating remains due to this low operating position and the instability of the current economy.

The City is starting to see some positive changes over the past year, due to its continued efforts, as well as an improving local economy. The City still continues to be selective in filling positions and conservative in budgeting. Although the economy is looking brighter, it is still unstable and the City continues to review the budget annually at the department level, looking for ways to save and increase revenues.

Revenue Trend Analysis

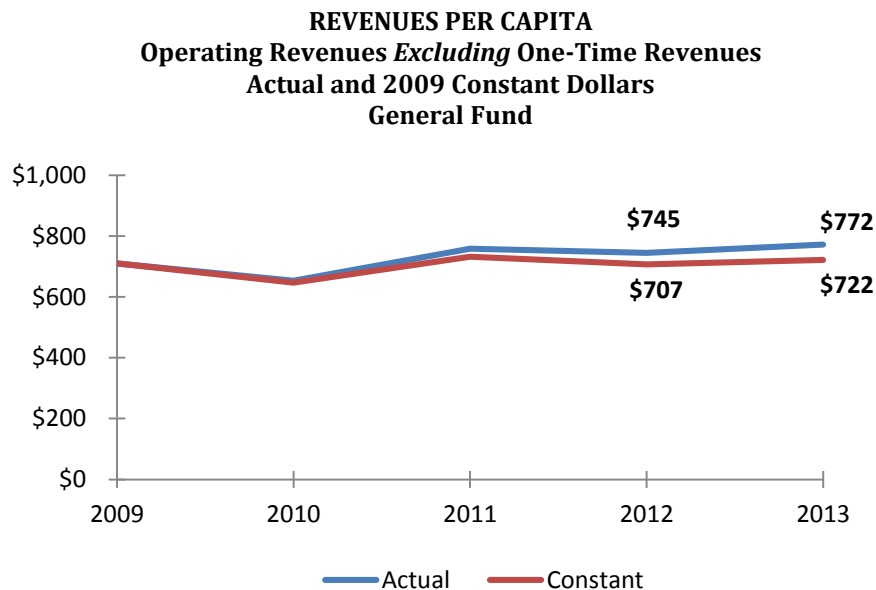
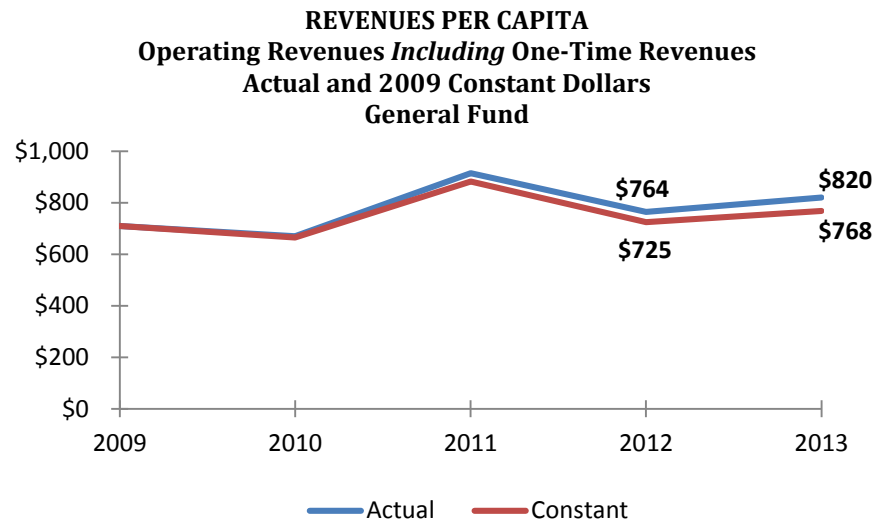
**Comparison of Revenues by Source
FY 2009 vs. FY 2013**



Comments: These charts, which compare current revenue sources to those five years ago, show changes in the revenue percentages by source for General Fund revenues in the Property Tax, Fines and Forfeitures, Licenses and Permits, Service Charges, Interest and Rentals, and Other Taxes categories. Property tax revenues, as a percent of general fund revenues, increased from 52% in FY 2009 to 53% in FY 2013 due to a change in property tax legislation that started in the 2005 fiscal year, repayment of Prop 1A by the State, and a shift in revenue from the Redevelopment Agency fund in FY 2013. The change in legislation increased property taxes by \$4.9 million and decreased the City’s motor vehicle license fees. Licenses and permits decreased from 4% in FY 2009 to 2% in FY 2013 due to reclassifying business license revenues to other taxes. This reclassification led to an increase in other taxes from 7% in FY 2009 to 9% in FY 2013. Service charges increased from 8% in FY 2009 to 9% in FY 2013 as a result of La Pata Vista Hermosa Park charges.

Fines and Forfeitures decreased from 2% in FY 2009 to 1% in FY 2013 due to lower parking and vehicle code fines in FY 2013. Interest and rentals decreased by 1% from FY 2009 to FY 2013, due to a lower interest rate environment.

Revenues Per Capita



Finding: **FAVORABLE/CAUTION.** Revenues per capita in both charts reflect an increase when analyzing actual amounts and constant dollars for FY 2013. This trend has changed from a warning to a favorable/caution rating due to this increase. Revenues per capita, in actual dollars, experienced an increase from FY 2012 of 7% (including one-time revenues) and 4% (excluding one-time revenues) related to increases in property tax, licenses and permits, service charges, sales taxes, and other taxes. In constant dollars the increase was 6%, when including one-time revenues and 2% when excluding one-time revenues.

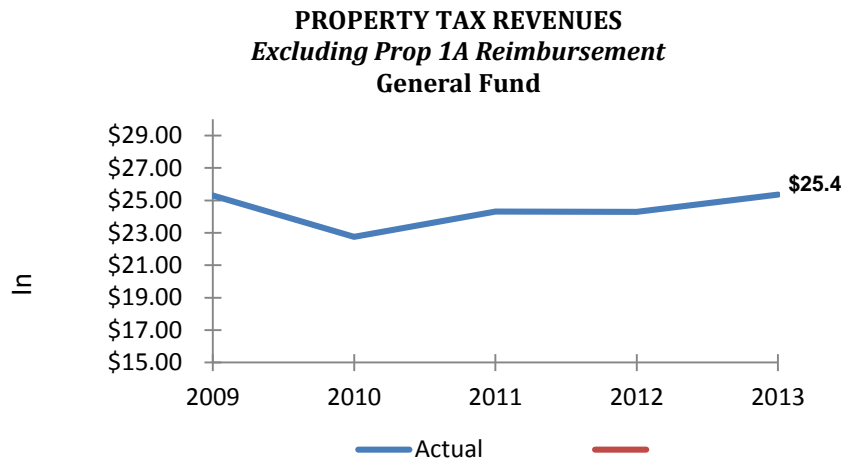
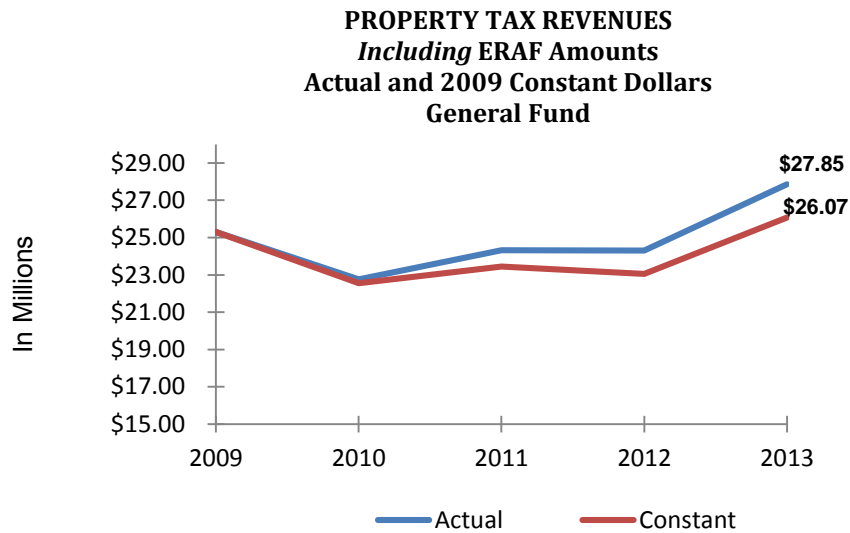
The consumer price index decreased from the prior year and shows a positive inflation rate of 1.35%. The population of the City has increased by approximately 334 from FY 2012 due to estimates made by the State based on calculations made to the 2010 Census number.

Comments: The first chart (which includes one-time revenues) shows an upward trend from \$764 to \$820 in actual dollars and a corresponding increase from \$725 to \$768 in constant dollars. Total revenues for fiscal year 2013 increased by \$3.9 million from the prior year, due mainly to a one-time \$2.2 million Prop 1A Reimbursement from the State. The remaining \$1.6 million is due to property tax previously received by the Redevelopment Agency and reimbursement of property taxes previously collected by the County as administrative fees. The revenue categories with the most significant decreases include Interfund Charges (5%), Intergovernmental (30%), and Fines and Forfeitures (12%).

The second chart (which excludes one-time revenues) shows an increase in actual dollars from \$745 to \$772 and an increase in constant dollars from \$707 to \$722. The approach of excluding one-time revenues is a realistic approach to analyzing revenues since the City only applies one-time revenues against one-time expenditures in accordance with the City's Fiscal Policy.

This trend has changed from a Warning to a Favorable/Caution rating due to these increases.

Property Tax Revenues



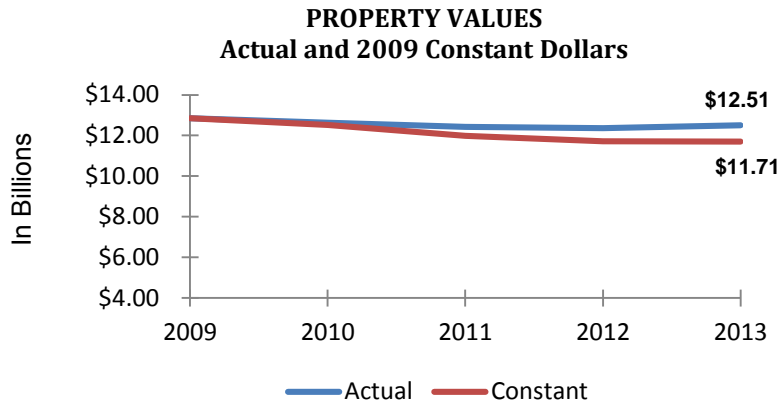
Finding: **FAVORABLE/CAUTION.** Property tax revenues increased by \$3.5 million or 15% from the prior year. This is due to \$2.2 million received for Prop 1A reimbursement from the State and the remainder is property tax previously allocated to the Redevelopment Agency, and recovery of property tax administrative fees.

Comments: The first chart shows property tax revenues increasing by \$3.5 million in actual dollars, and by \$3.0 million or 13% in constant dollars.

The second chart considers the effect of excluding the one-time Prop 1A reimbursement from the State, and the administrative fee collection. When considering this exclusion, property taxes have only increased by \$1.1 million or 4.0%.

This indicator increased from Unfavorable to a Favorable/Caution rating because, although property taxes increased from the prior year, this is due mainly to a one-time reimbursement from the State and a shift in revenue from other funds. The rating will change to Favorable when stable growth is returned.

Property Values



Finding: **FAVORABLE/CAUTION**. Property values exhibited a positive growth rate in FY 2013.

Comments: The growth rate in property values as a percentage rate from the previous year in actual dollars was positive 1.37%. This indicator will change from an Unfavorable to a Favorable/Caution rating due to the first year of increase, as seen in the table below. City is starting to see an increase in property tax values after several years of a declining economy, therefore this indicator will be closely monitored due to the significant impact of property tax revenues on the City’s General Fund. The chart below shows the percentage change in secured values for the past ten tax years based on 2012 Property Tax Data.

City of San Clemente
Assesed Value History
(In Thousands)

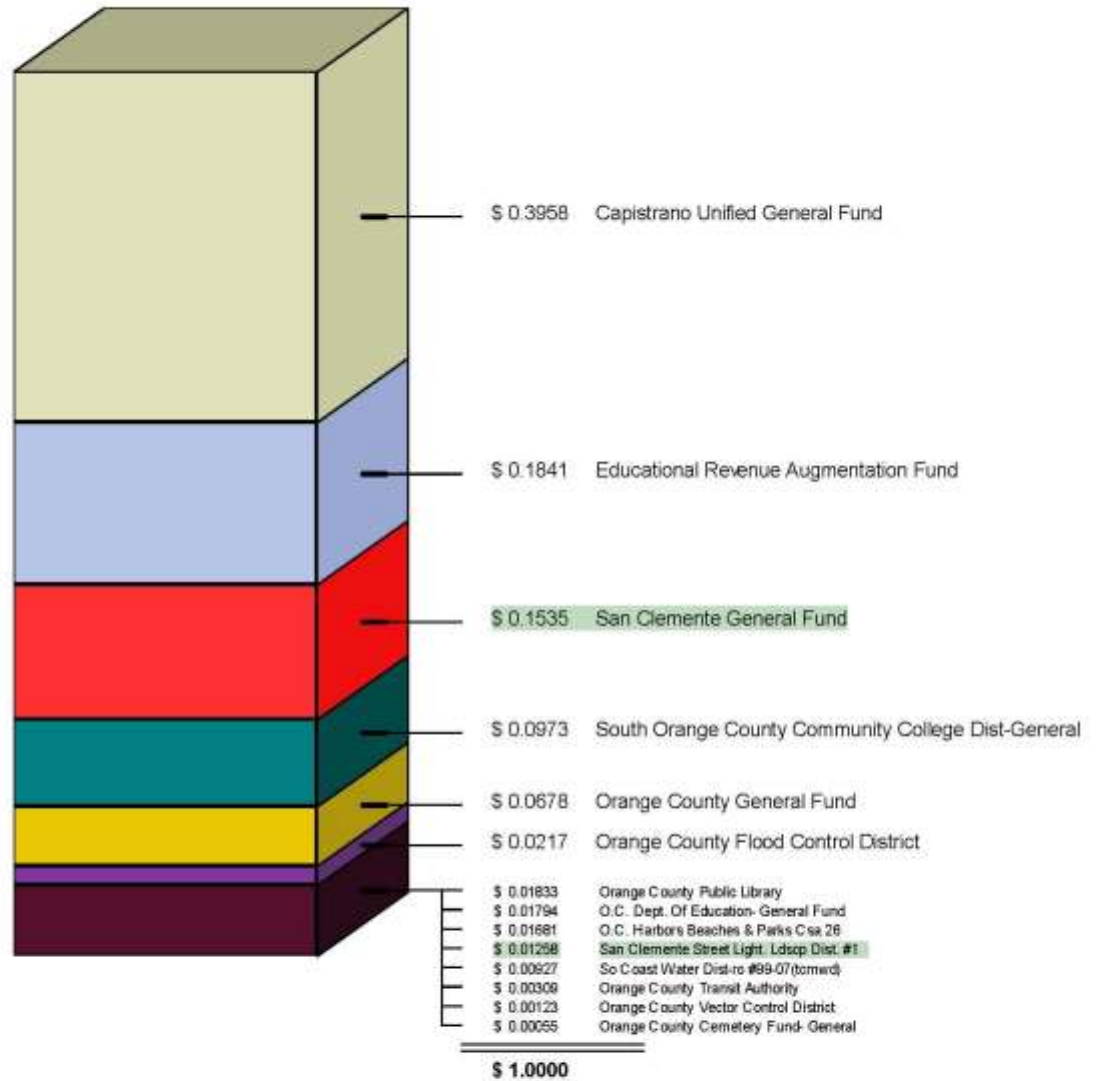
Tax Year	Secured Values	% Change
2004	\$7,353,148	10.23%
2005	\$8,528,143	15.98%
2006	\$9,762,930	14.48%
2007	\$11,106,184	13.76%
2008	\$12,248,078	10.28%
2009	\$12,582,840	2.73%
2010	\$12,379,602	-1.62%
2011	\$12,203,097	-1.43%
2012	\$12,054,219	-1.22%
2013	\$12,218,791	1.37%

Source: HDL Coren & Cone Reports 2013

Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San Clemente receives \$0.154 of each property tax dollar collected within the City. The following graph shows the distribution of the total property tax levy for each property tax dollar paid for the City.



THE CITY OF SAN CLEMENTE PROPERTY TAX DOLLAR BREAKDOWN

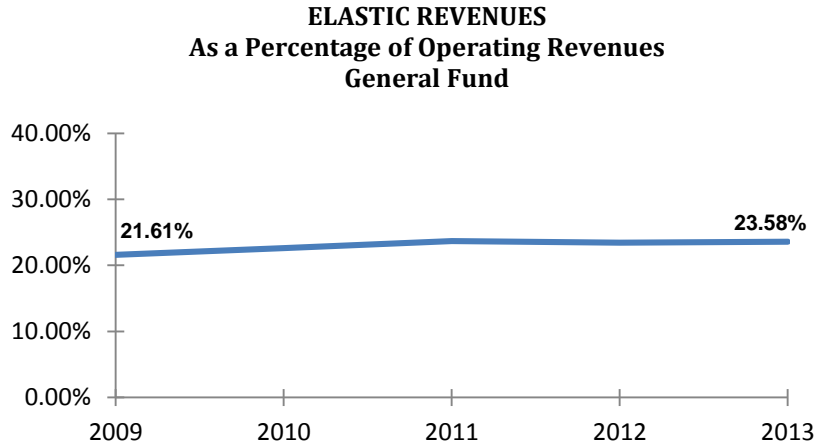


ATI (Annual Tax Increment) Ratios for Tax Rate Area 10000, Excluding Redevelopment Factors & Additional Debt Service
 Data Source: Orange County Assessor 2013/14 Annual Tax Increment Tables
 Prepared On 11/20/2013 By NEC
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone
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The chart above shows the portion each respective government agency receives of the typical Orange County property tax dollar.

Elastic Revenues

(Sales Tax, Transient Occupancy Tax, Permits and Business License Taxes, and Community Development Service Charges)



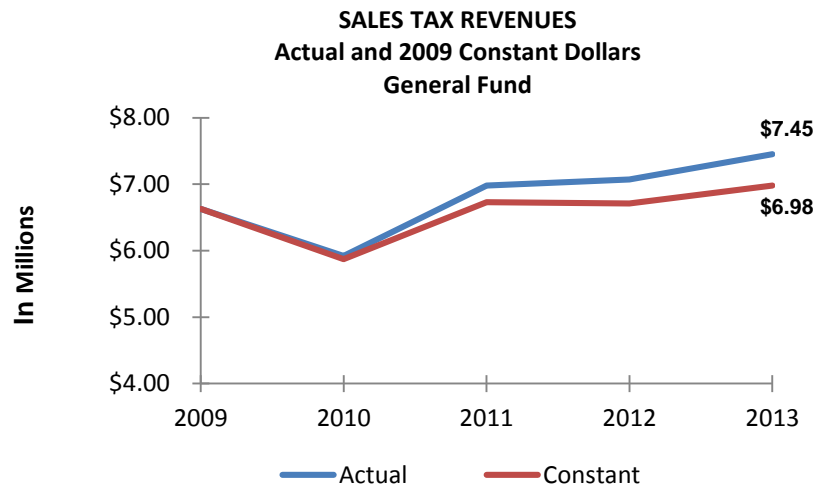
Finding: **FAVORABLE/CAUTION.** Elastic revenues are revenues that are highly responsive to changes in the economy and inflation. The City has defined Sales Tax, Transient Occupancy Tax, Permits and Business License Tax, and Community Development Service Charges as Elastic revenue, because these revenues are the most sensitive to economic change. There were mixed results within the various revenue categories, when comparing the two prior years; that contribute to the Favorable/Caution rating.

Elastic revenues, as a percentage of total revenues, shows an increase from FY 2012 to FY 2013. Elastic revenues increased by \$564,906 or 5% from FY 2012. Although elastic revenues have increased, this trend has remained a Favorable/Caution rating due to a decrease in community development revenues of 4.6% or \$41,111 from the prior year.

Comments: Elastic revenues, as a percentage of total revenues, increased from 23.5% in FY 2012 to 23.6% in FY 2013. The increase in elastic revenues is due to increases in sales taxes, permits and business license taxes. These indicators are examined further on the following pages.



Sales Tax Revenues



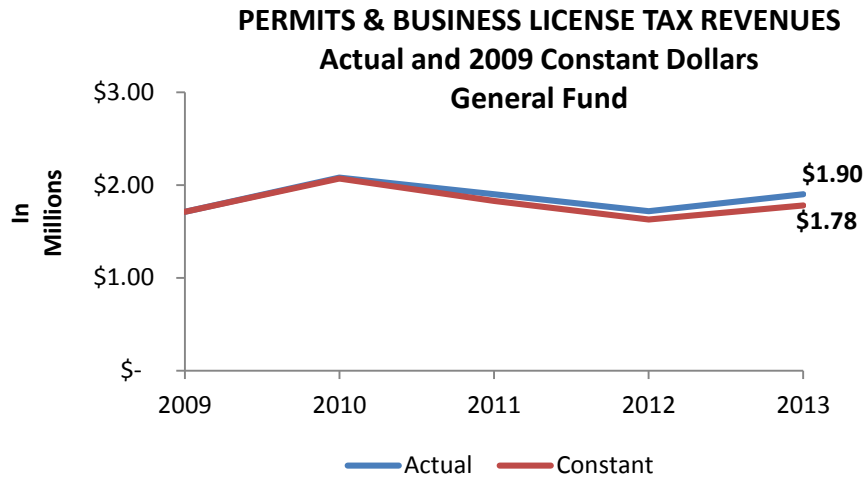
Finding: **FAVORABLE.** As summarized in the chart above, sales tax revenues show an increase of \$378,824, or 5.0% in actual dollars over the prior fiscal year. In constant dollars, there was an increase of \$264,748, or 4.0% for FY 2013.

Comments: As summarized in the chart, sales tax revenues have increased for the third time since FY 2008 in actual dollars. Fiscal year 2013 was the first full year of sales taxes contributed by Target since its opening in October of 2011. Another factor that contributed to this increase was the increase in sales tax percentage by 0.25% from 7.75% to 8.00% during FY 2013. This indicator remains a Favorable rating, because sales have increase for the third consecutive year and should continue to increase due to Target sales and the increased in the sales tax rate. City of San Clemente sales taxes per capita are currently ranked 22nd out of 35 Orange County cities.

The chart below shows how California Sales Tax is distributed.



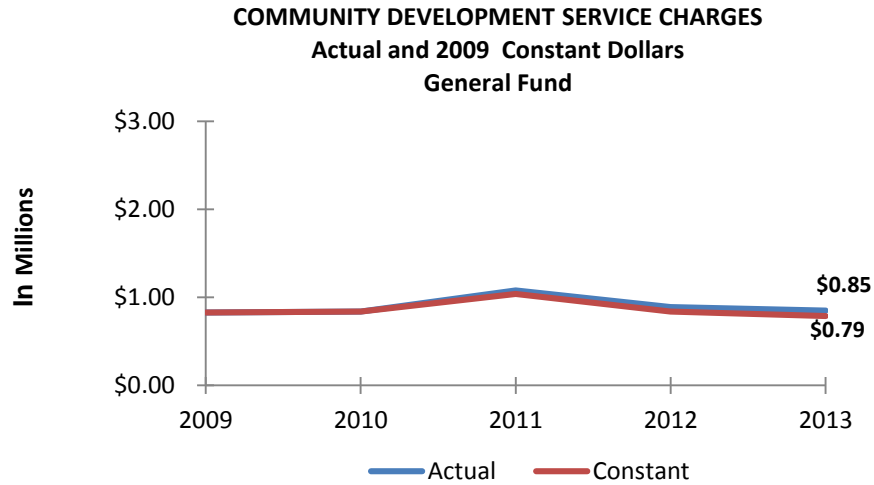
Permits & Business License Revenues



Finding: **FAVORABLE/CAUTION.** Permits and Business License Tax revenues increase in actual dollars in the amount of \$180,865 or 11% from the prior fiscal year. The constant dollar increase was \$147,489 or 9% from FY 2012. Although this indicator has increased, it remains at a Favorable/Caution rating due to this slight increase as development continues to level out.

Comments: Construction permit revenue increased \$137,720, or 19% over the past year, which coincides with the increase in capital projects started in fiscal year 2013. Business license tax revenue increased by \$30,840 or 4% from FY 2012 due to increased monitoring of the business license process in FY 2013. A Favorable/Caution rating remains due to these slight increase and revenues leveling as the City reaches build-out.

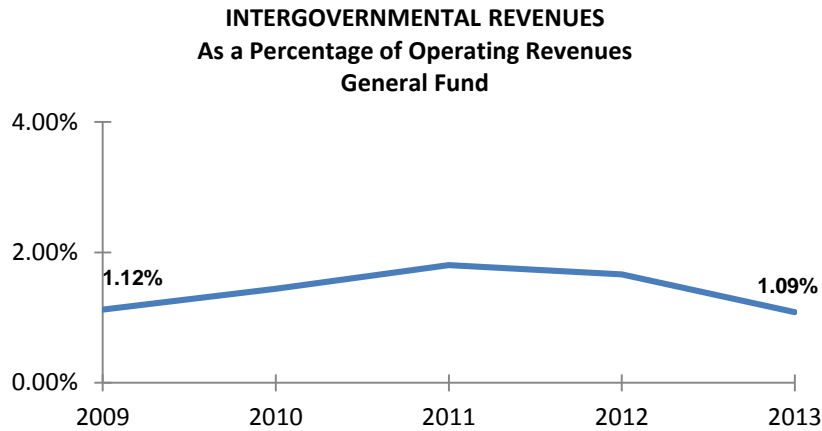
Community Development Service Charges Revenues



Finding: **FAVORABLE/CAUTION.** Total community development service charges decreased by 4.6%, or \$41,111 from the prior year. This trend remains at a Favorable/Caution rating; because although these decreases were anticipated during the FY 2013 budget, development continues to level out; showing only a slight decrease for the current year.

Comments: This trend remains at a Favorable/Caution due mainly to a decrease in construction inspection fees of \$151,612 or 77% from the prior year.

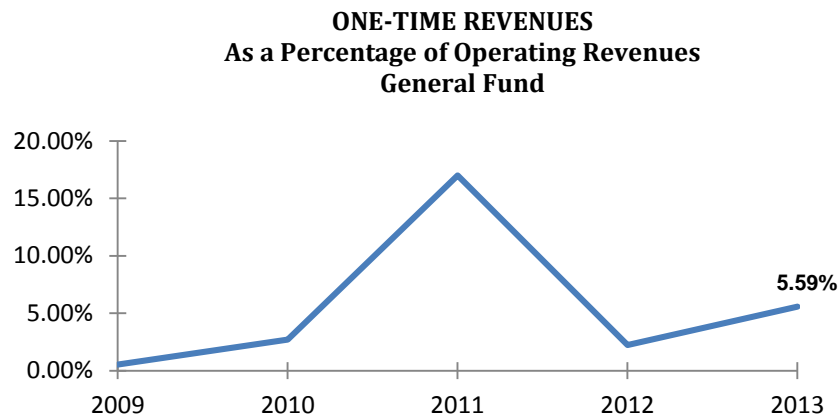
Intergovernmental Revenues



Finding: **FAVORABLE.** General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 1.09% in FY 2013.

Comments: By analyzing intergovernmental revenues as a percentage of operating revenues, the City can determine the extent of its dependence upon resources from other governments. Excessive dependence on this type of revenue can be detrimental to the financial health of the City, as the factors controlling their distribution are beyond the City’s control. The City’s second largest intergovernmental revenue is Motor Vehicle tax at 30%. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City started to receive property tax dollars in-lieu of the motor vehicle fees in FY 2005. Once this change is adjusted for, it shows that motor vehicle fees received as in-lieu property taxes totaled \$5.1 million and the intergovernmental percentages were 12.1% in FY 2012 and 10.9% in FY 2013, which still supports the Favorable rating.

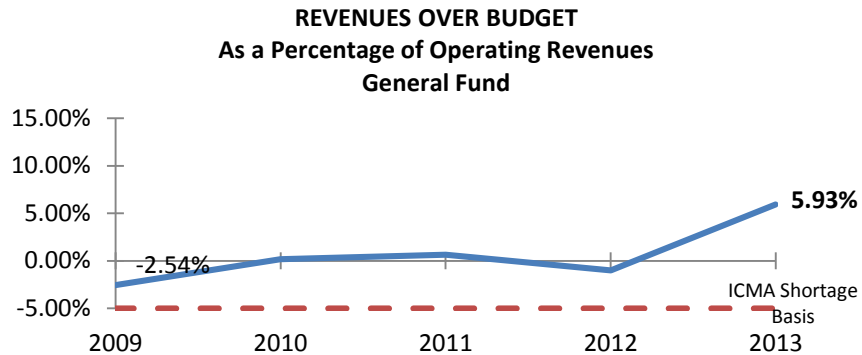
One-Time Revenues



Finding: **FAVORABLE.** One-time revenues, as a percentage of total General Fund revenues, equaled 5.27% in FY 2013, an increase over the prior year.

Comments: One-time revenues increased by \$1.7 million from the prior fiscal year. FY 2013 one-time revenues of \$2.9 million include \$2.2 million of Prop 1A reimbursement from the State, property tax administrative fee reimbursement of \$312,255, \$405,948 of grant funds, and \$55,524 from miscellaneous reimbursements. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditure, except in the case of a one-time policy change in FY 2011 to use these one-time revenues to provide a subsidy for ongoing expenditures for the Vista Hermosa Sports Park. Therefore, this indicator continues with a Favorable rating.

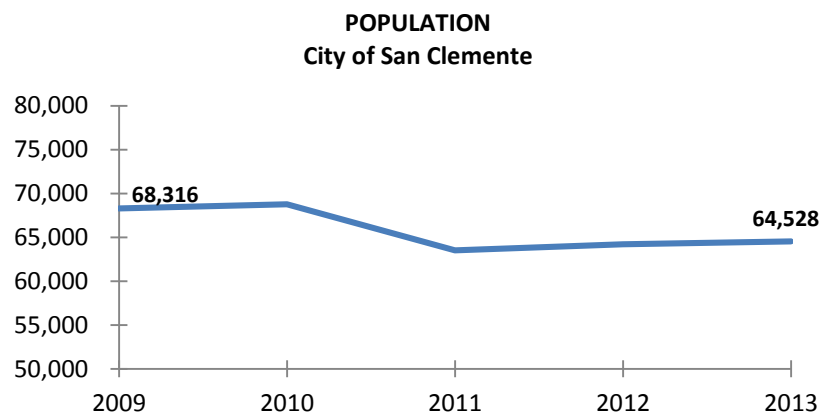
Revenue Overage



Finding: **FAVORABLE/CAUTION**. Actual revenues were greater than the adjusted budget by \$3.1 million for FY 2013 and ends with a positive revenue position of 5.93%. The City experienced revenues over budget in taxes by \$2.9 million due mainly to repayment of property taxes from the State of California in the amount of \$2.2 million and property tax administrative fees repayment of \$312,255; and charges for services in the amount of \$0.4 million, due to increased recoveries on ambulance service charges, recreation service charges and planning and building fees. The City also experienced shortages in fines and forfeits (\$162,366) and Investment and rentals (\$127,926). This trend remains a Favorable/Caution because of the property tax repayment received from the State. As the uncertainty of any State actions are reduced in the future this should return to a Favorable rating.

Comments: This trend began the five-year analysis with a negative revenue position of -2.54% and ended FY 2013 at a positive 5.93%. The City continues to monitor its revenues through the annual budget and long term financial planning processes in order to more accurately forecast its revenues.

Population

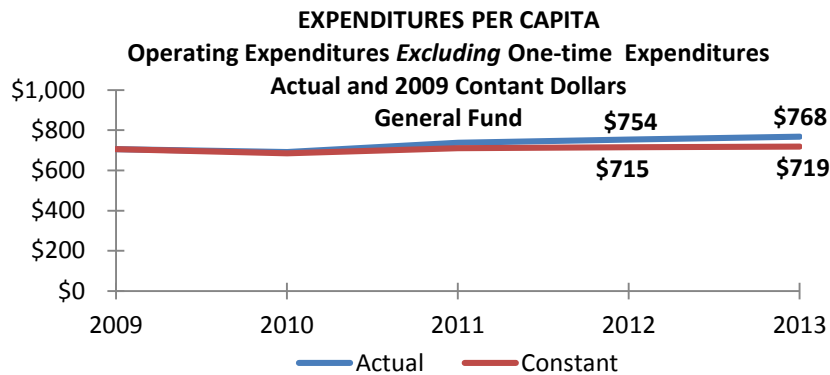
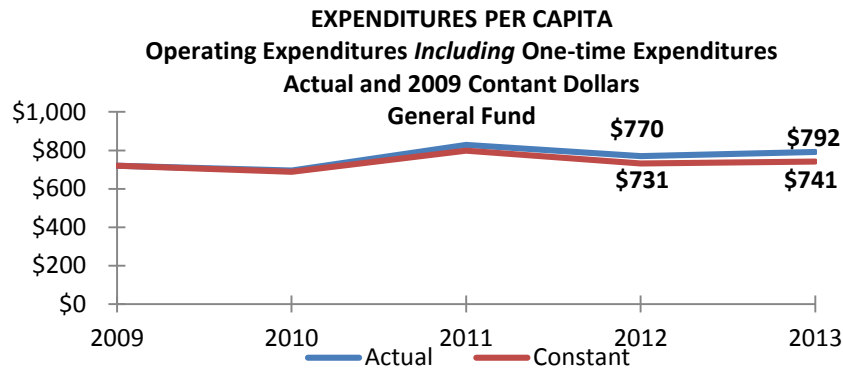


Finding: **FAVORABLE.** The City's population has increased by 0.52% over the prior fiscal year. This increase is due to the California Department of Finance estimates bases on 2010 Census numbers.

Comments: The exact relationship between population change and other economic and demographic factors is uncertain. However, a sudden increase in population can create immediate pressures for new capital expenditures and higher levels of service. Increased population generates increased expenditures over time such as public safety (i.e. additional fire stations, increased police, etc.). Conversely, a rapid decline in population allows for a smaller tax base for spreading City costs that cannot be reduced in the short run.

The Census is completed every ten years. In the years following the 2000 and 2010 Census, the numbers used by the City are based on numbers from the California Department of Finance and estimates of growth from the Planning department. The years between the two Census years showed an over inflated growth rate. At this point the estimates for FY 2012 and FY 2013 do not appear to be as inflated based on the 2010 Census. This indicator remains a Favorable rating due to the more stabilized increase in population based on current estimates, once the census adjustment is factored out.

Expenditures Trend Analysis



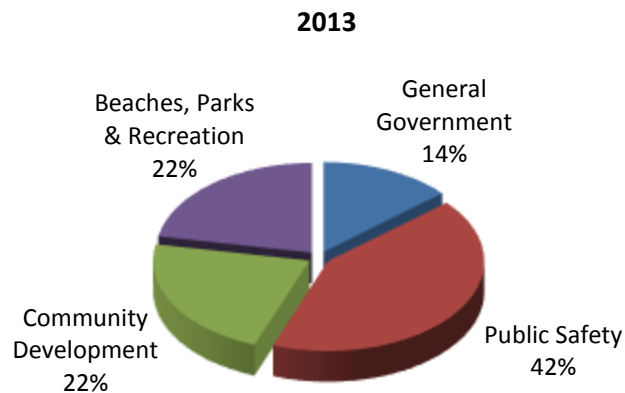
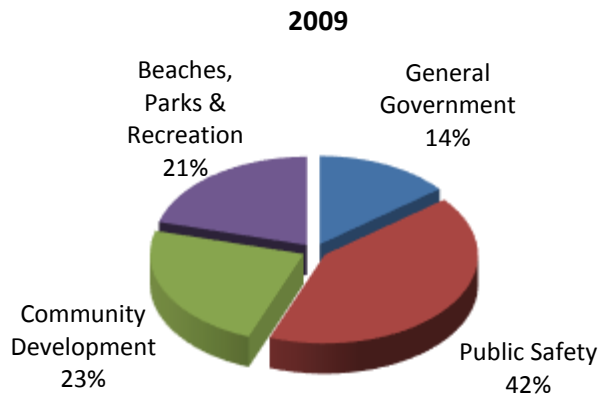
Finding: **FAVORABLE.** Expenditures per capita (including one-time expenditures) reflect an increase when analyzing actual and constant dollars for the past fiscal year when compared to the prior year. Changes in per capita expenditures reflect the changes in expenditures relative to changes in the population.

Comments: The first chart which includes one-time expenditures shows an increase from \$770 to \$792 in per capita actual dollars and an increase from \$731 to \$741 in per capita constant dollars. This reflects the increase in actual dollars of \$1.6 million and the increase in constant dollars of \$0.9 million when compared to FY 2012. The increase in actual dollars was mainly in Beaches, Parks, and Recreation (\$1.0 million) and City General (\$0.4 million). The increase in Beaches, Parks, and Recreation is a result of increases in contractual service contracts, including maintenance and utility costs. The increase in City General is a result of increases in interfund transfers in FY 2013.

The second chart (which excludes one-time expenditures) shows an increase in actual dollars from \$754 to \$768 and an increase in constant dollars from \$715 to \$719. This chart depicts the effects of the increase in one-time expenditures from FY 2012 to FY 2013.

This trend remains favorable because expenditures per capita have remained fairly stable, with a slight increase over the prior year.

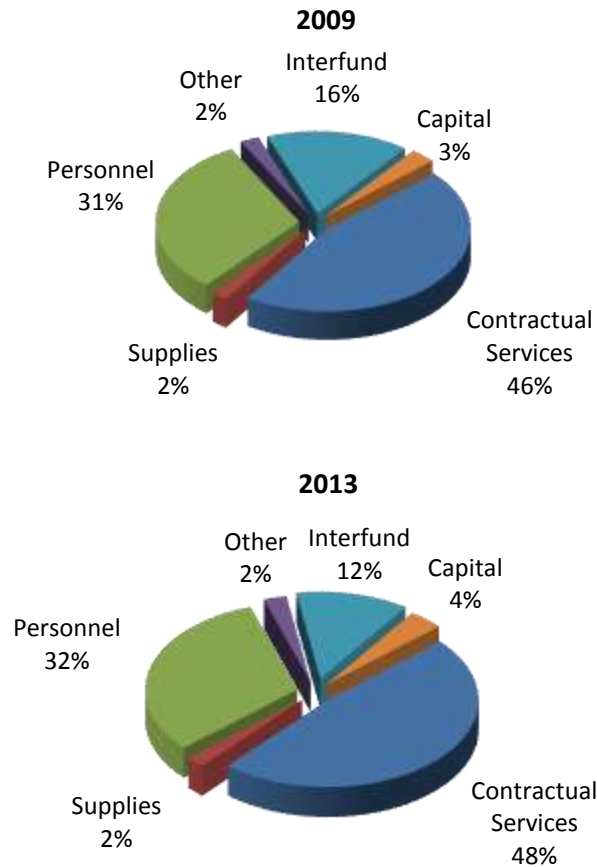
**Comparison of Expenditures by Function
FY 2009 vs. FY 2013**



Finding: **FAVORABLE.** Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) show slight changes in the allocation of resources from FY 2009 to FY 2013. These charts indicate that the largest fluctuations of expenditures are in Community Development and Beaches, Parks, and Recreation with a decrease of 1% and an increase of 1% respectively.

Comments: Although there was a decrease in the community development category as a percentage of total operating expenditures from 23% in FY 2009 to 22% in FY 2013; the actual change in amounts, excluding capital outlay, was an increase of \$119,000 when comparing FY 2009 to FY 2013. The real reason for the change is due to a larger increase in total operating expenditures in FY 2013 when compared to FY 2009, which caused the percentage of each category be lower. The Beaches, Parks, and Recreation category increased from 21% to 22% in FY 2013 due to an increase in contractual service contracts. Overall, the changes were expected as the City’s major development has slowed and expenditures are becoming stable on a functional basis.

**Comparison of Expenditures by Category
FY 2009 vs. FY 2013**

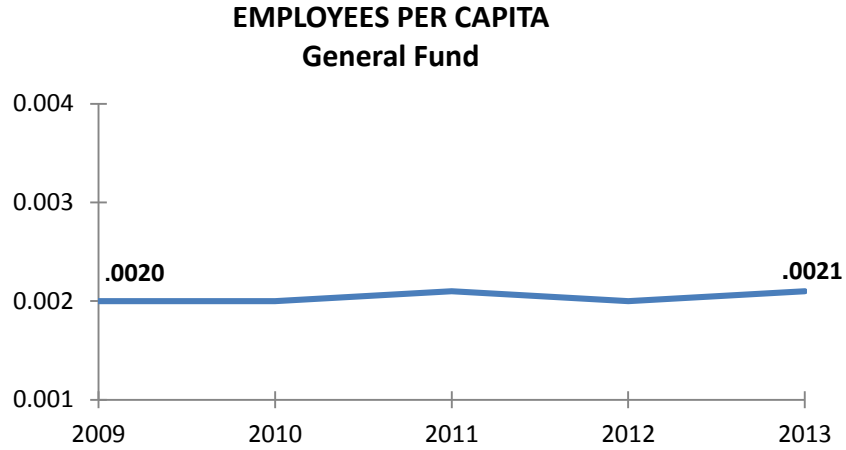


Comments: The charts above indicate that the Personnel, Contractual, Capital and Interfund expenditure categories, as a percentage of the total General Fund expenditures, did change between FY 2009 and FY 2013.

The personnel category has changed from 31% to 32%, which reflects increases in salary and pension levels. Pension costs will change in the future as a result of legislative changes. The Contractual Services category changed from 46% to 48%, which reflects an increase in service contracts with external parties.

Capital has increased by 1% from FY 2009 to FY 2013, due to increases in major capital improvements in FY 2013.

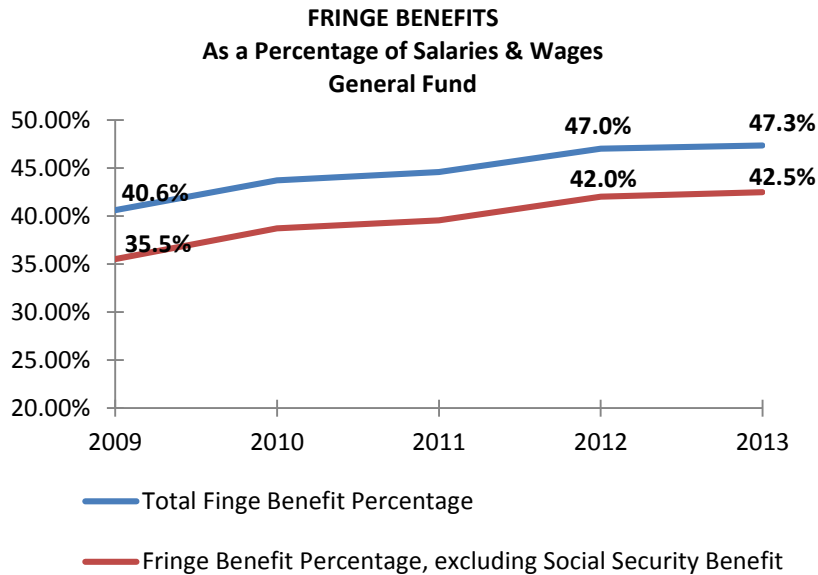
Interfund amounts have decreased by 4% due to a decrease in interfund transfers of 22% from FY 2009 to FY 2013. This decrease is due to a \$1.0 million transfer in FY 2009 from the General Fund to the General Liability Fund for payment of the Bellota Landslide settlement.



Finding: ***FAVORABLE***. Employees per capita have remained relatively stable over the last five years.

Comments: This indicator is awarded a Favorable rating as growth in Full Time Equivalent's (FTE's) keep up with service level demands. This trend will be closely monitored to insure the City's ability to support current and future service levels.

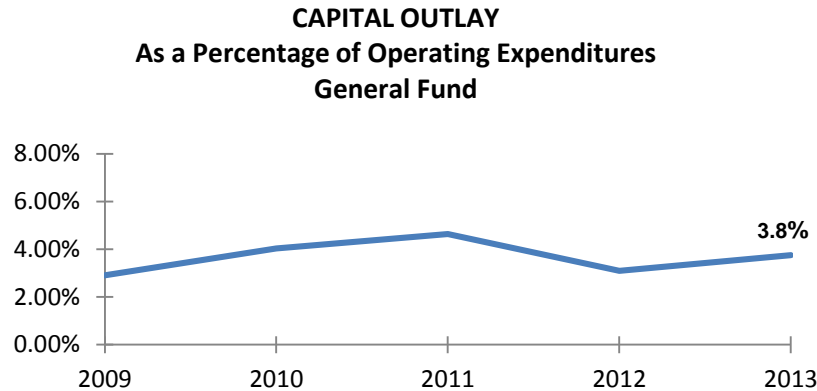
Fringe Benefits



Finding: **Warning.** Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 47.0% to 47.3%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2012.

Comments: The actual amounts of benefits in the general fund have increased from \$5.07 million in FY 2012 to \$5.19 million in FY 2013, a 2% increase from the prior year. While salary and wages in the general fund have increased from \$10.79 million in FY 2012 to \$10.97 million in FY 2013, a 1.7% increase from the prior year. These two factors together have caused the increase in the fringe benefits as a percentage of General fund salaries and wages to increase over the prior year. The benefits increased because of an increase in the pension cost of \$92,000 or 5%; and due to increases to the medical portion of the costs of \$36,000 or 2% from FY 2012. In the future, the City, in agreement with the San Clemente Employee Association (SCEA), has kept medical costs at the same rate and changes to pension are subject to recent legislation. Since FY 2013 only includes half a year of medical cost changes agreed to with the SCEA, this trend will remain a Warning rating due to this percentage increase in comparison to the prior year. This trend will be subject to further review next year.

Capital Outlay

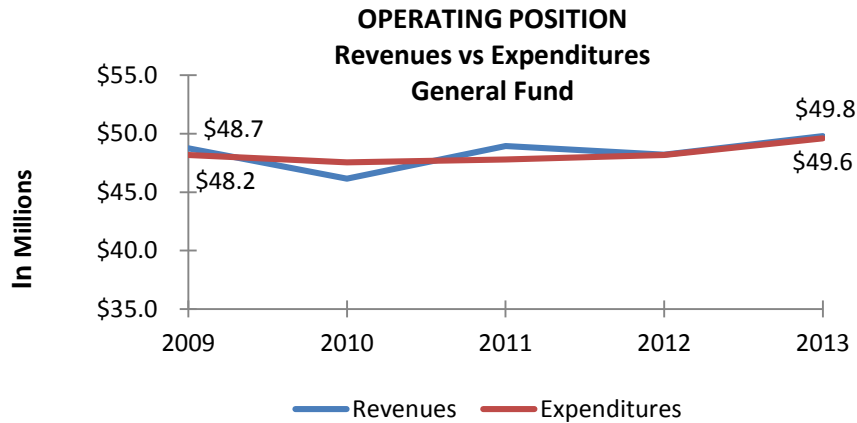
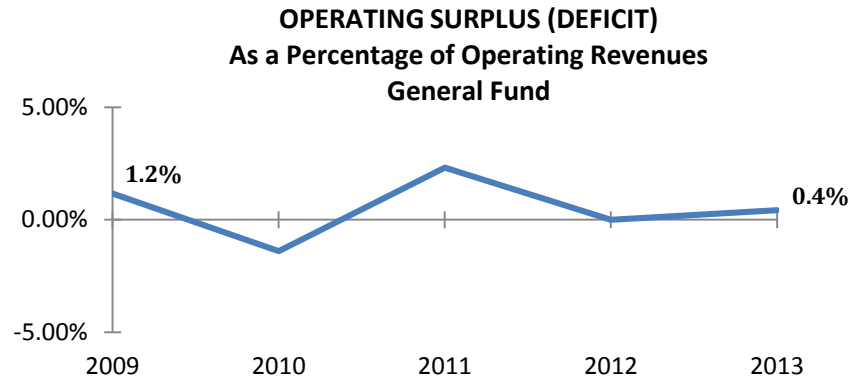


Finding: **FAVORABLE.** Capital outlay expenditures increased by \$0.4 million, or 24.7%, from the 2012 fiscal year. Capital outlay expenditures totaled \$1.9 million.

Comments: Spending on capital outlay has increased due to an increase in improvements including the sidewalk construction program, Linda Lane Trail Lighting enhancements, and the Ole Hanson Beach Club renovation design.

The Capital Equipment Replacement Reserve was established in FY 1995. This reserve fund ensures that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program. This trend continues to be a Favorable rating due to the City's continual commitment to maintaining capital assets, which improves the efficiency of City operations.

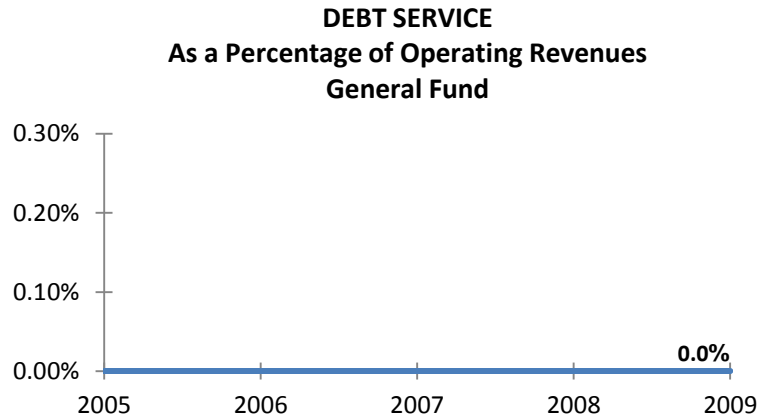
Operating Position



Finding: **FAVORABLE/CAUTION.** An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit. Fiscal year 2013 ended with a positive operating position.

Comments: Revenues used to calculate the operating position do not include one-time transfers and revenues of \$2.9 million; which includes \$2.2 million one-time reimbursement of Prop 1A from the State of California, \$312,255 of Property Tax administrative fee reimbursement, \$405,948 of grant revenue, and \$55,524 in miscellaneous one-time revenues. Also expenditures used to calculate this surplus do not include a one-time transfer from the General fund to the Public Facilities Construction Fund for funding of the Beach Parking reserves of \$629,650, General fund transfer to the General Liability fund of \$403,000, and one-time studies and costs of \$344,533. This calculation of operating expenditures does not exclude \$1.6 million of capital expenditures, since these capital costs are for yearly maintenance and improvements and are not considered one-time costs. The total operating position was \$0.2 million in FY 2013, compared to \$0 in FY 2012. This trend remains Favorable/Caution due to this low operating position and the instability of the current economy.

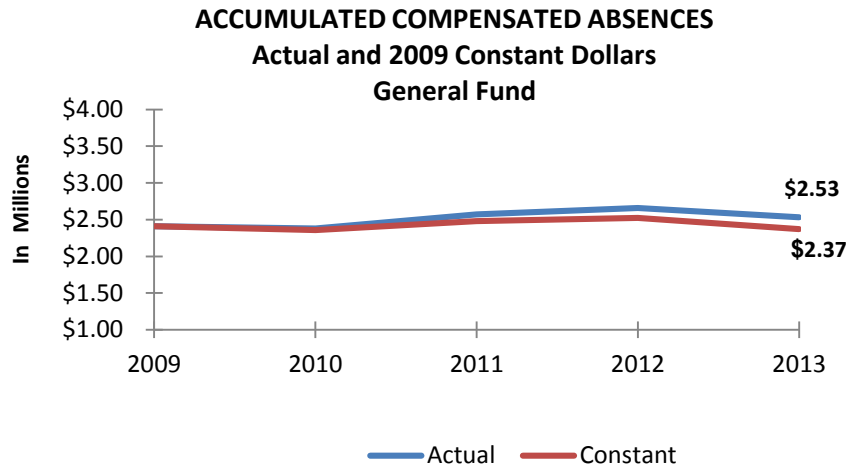
Debt Service



Finding: **FAVORABLE**. General Fund debt service receives a Favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last fourteen years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating revenues. Standard & Poor's, an independent firm that issues ratings, increased the City of San Clemente's credit rating to AAA in 2009 from AA in 2005.

Comments: The City does not include debt service payments in the General fund. Debt service for the Negocio Building bonds, the City's street assessment bonds, and capital equipment leases are accounted for in separate funds, and are not part of this analysis.

Accumulated Compensated Absences

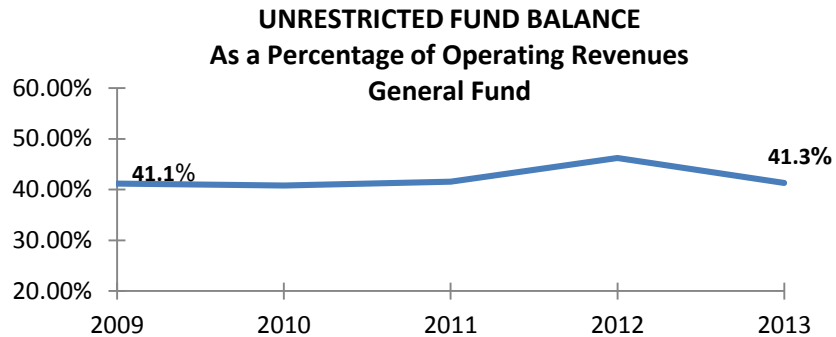


Finding: **FAVORABLE**. This indicator receives a Favorable rating, consistent with the prior year. The City’s average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. The reserve is continually funded to insure an adequate reserve, as outlined in the Long Term Financial Plan’s Reserve section.

Comments: At June 30, 2013, the balance of the liability for compensated absences was \$2.53 million consisting of \$1.23 million for vacation, \$1.24 million for sick leave, and \$67,624 for compensatory time. This is a decrease of \$129,017 or 4.8% from the prior year’s liability of \$2.66 million. The decrease is due to several long term employees with hire dates before January 1, 2000 retiring during FY 2013. These employees were eligible to receive a percentage of their sick leave upon their years of retirement, because of their employment before January 1, 2000.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. In FY 2013, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of \$110,000 for the payment of accrued leave for terminated employees. As of June 30, 2013 the Accrued Leave Reserve balance was \$666,200.

Fund Balance

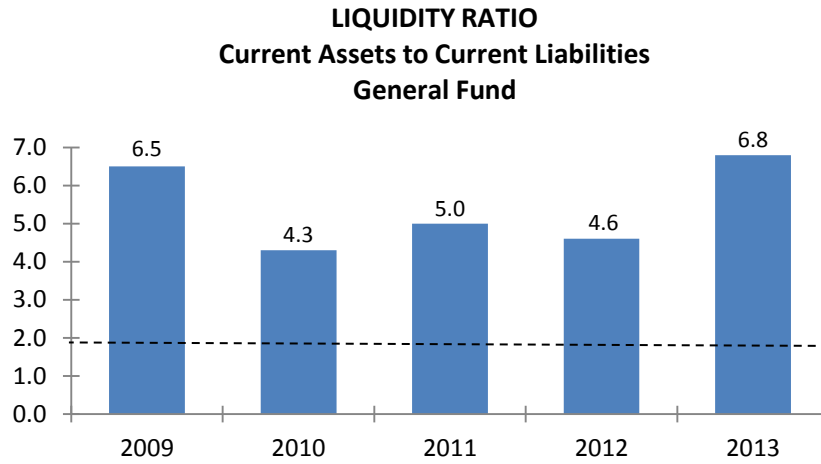


Finding: **FAVORABLE**. Unrestricted fund balance refers to those dollars available for use in the event of a financial emergency, short-term revenue fluctuations or an economic downturn. The City attempts to operate each year at a surplus to ensure the maintenance of adequate reserve levels.

Comments: Unrestricted fund balance excluding long term receivable reserves decreased by 3.7% in FY 2013 from \$22.63 million to \$21.8 million. The stable position of the City's General Fund is displayed by years of large unreserved fund balances as a percentage of operating revenues.

Included within the total FY 2013 unrestricted fund balances of \$21.8 million are committed funds of \$15.3, which includes \$10.0 million of sustainability funding, \$4.5 million of emergency funding, and \$0.7 million committed for other purposes. Also included \$1.1 million for other purposes and unassigned funds of \$3.6 million. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.

Liquidity Ratio



Finding: **FAVORABLE**. In FY 2013, the City’s liquidity ratio remains positive at 6.8:1. Credit rating firms consider a ratio of 1:1 Favorable. The City’s 6.8:1 current asset to current liability ratio is considered excellent.

Comments: Liquidity measures the City’s ability to meet short term obligations. Liquidity is measured by comparing current assets to current liabilities. Current assets include cash, short-term investments, accounts receivable and other assets that can be readily converted to cash. Current liabilities include accounts payable, accrued wages, accrued expenses and all obligations that can be immediately demanded for payment.



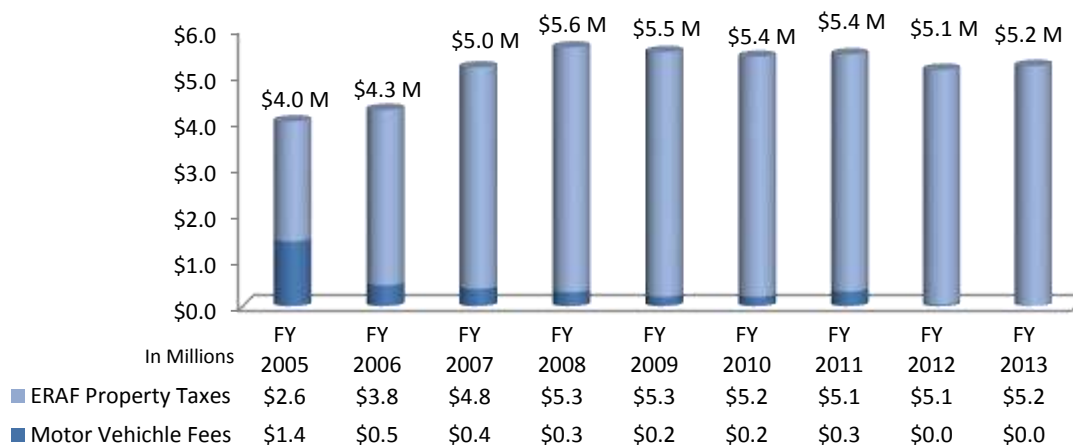
Attachment “A”

Sales Tax - Triple Flip

In March 2004, the voters of California approved Proposition 57, the California Economic Recovery Bond Act. The measure, commonly referred to as the “triple flip”, consists of 1) reducing the City’s local sales and use tax rate by 0.25% and increasing the State’s sales tax rate by 0.25% to fund the fiscal recovery bond payments, 2) repayment to cities and counties, on a dollar-for-dollar basis, of 0.25% the sales and use tax with Educational Revenue Augmentation Fund (ERAF) property tax money; and 3) repayment to schools of 0.25% of lost ERAF monies with State General Fund monies. In practical terms, the City’s sales tax revenue distributions are reduced by 0.25% each month. Twice a year, in January and May, the City receives “triple flip adjustment” distributions to reimburse for the 0.25% reduction. These distributions are an estimate of what is owed, based on prior year sales and use tax receipts, adjusted for a projected growth factor. Any difference between the estimate and what is actually owed to the City is treated as an adjustment in the subsequent year’s “triple flip adjustment” payments.

Property Tax – ERAF Property Tax replaces Vehicle License Fees (VLF)

Prior to the State’s budget crisis, vehicle license fees had been known as a “local” revenue source. The fees were allocated to cities and counties based on population. Beginning in 1998, the State Legislature began a series of reductions in the VLF rate charged to vehicle owners, but continued to allocate funding to cities and counties based on the original rate of 2% of market value of the vehicle. The State ultimately reduced the rate to vehicle owners to 0.65% of market value. The 1.35% revenue loss to cities and counties was offset, or “backfilled,” with a contribution from the State’s General Fund. In FY 2004-05, the offset from the State’s General Fund was eliminated and replaced with additional property tax revenue to the cities and counties. This additional revenue is often known as “ERAF Property Tax Revenue”, as the property taxes used to replace counties and cities VLF funds are diverted from each county’s Educational Revenue Augmentation Fund (ERAF). Annual growth in ERAF property taxes corresponds to the City’s annual growth in overall assessed valuation. In FY 2011-12, the State Legislature enacted SB 89, terminating the allocation to cities and counties of the remaining 0.65% VLF revenues and diverting these monies to fund state law enforcement grants.



Financial Forecast

Objective

To update the comprehensive five-year financial forecast for the General Fund, incorporating adopted City fiscal policies, expenditure patterns, revenue trends, fund balances and other known financial impacts.

Executive Summary

The five-year financial forecast was last updated after adoption of the FY 2014 budget. The prior forecast identified a small surplus in 2014, followed by projected deficits through 2018 as follows:

FY 2014 Budget Forecast (In millions)	2014	2015	2016	2017	2018
Projected surplus/deficit	\$ 0.2	-\$ 0.1	-\$ 0.9	-\$ 1.5	-\$ 1.9

The updated 2014 LTFP five-year financial forecast reflects a negative operating position in all years of the forecast, beginning in FY 2015. This is mainly due to projected increases in police and fire contractual costs, increases in insurance, fleet, and other interdepartmental costs, and the additional operating costs for Vista Hermosa Park, which will no longer be covered by reserve subsidies beginning in FY 2016. Potential ongoing revenues associated with the Marblehead development project have not been included in the forecast.

2014 LTFP Forecast (In millions)	2015	2016	2017	2018	2019
Operating receipts	\$51.7	\$52.1	\$53.2	\$54.5	\$55.9
Operating disbursements	<u>52.5</u>	<u>54.4</u>	<u>55.6</u>	<u>57.1</u>	<u>58.7</u>
Projected surplus/deficit	-\$0.8	-\$ 2.3	-\$ 2.4	-\$ 2.6	-\$ 2.8

The 2014 Long Term Financial Plan forecast shows a decline in operating position from the forecast presented at budget adoption.

Revenues increases are projected at an average of 2.2% over the forecast period. Property taxes continue to recover, with increases in valuation continuing for a second year, after three consecutive years of valuation decreases. A substantial number of assessment valuation appeals from prior periods are still pending, negatively offsetting current growth. The median home price in San Clemente through October 2013 was \$705,000, which is above the median price of \$630,000 seen in 2012. Sales taxes included in the forecast are higher due to continued growth in consumer spending as well as increases in prices of consumable goods.

Expenditures increase an average of 3.0% over the forecast period, excluding the impact of one-time capital and maintenance costs. The projected increases are primarily due to growth in the police and fire services contracts as well as increase in general liability insurance, fleet, and other interdepartmental costs. Based on the latest strategic plan prepared by the County of Orange in 2013, the police services contract will increase by an average of \$447,000, or 3.7%, over the forecast period. In FY 2015, the contract is expected to increase by \$714,000 or 5.89% based on a projected 16% increase in benefit costs, including a 14% increase in pension costs

and a 12% increase in workers' compensation costs. The fire services contract includes an average increase of \$342,000, or 4.5%, per year, the maximum allowed by contract.

Revenue and expenditures for the Vista Hermosa Sports Park and San Clemente Aquatics Center are included in the forecast. A portion of the proceeds from the sale of land to Target have been placed in a designated reserve and are being used to offset maintenance and operating deficits for Vista Hermosa Park for the first few years of operation, which began in early 2012. Use of the reserve for full operational subsidy has been included in the forecast through FY 2015, after which the designated reserve will be depleted. While the Ole Hanson Beach Club is under construction, the majority of revenues have been eliminated and expenditures have been reduced, due to the closure of the building and pool. The cost of full operation and maintenance of the facility returns in FY 2016, along with associated revenues.

Background and Discussion

Annually, the City prepares a five-year financial forecast as a part of the Long Term Financial Plan. The forecast identifies the City's current and projected financial condition to determine whether funding levels are adequate and if projected expenditures can be sustained. The financial forecast, along with the Financial Trend Analysis, provides the foundation of the Long Term Financial Plan process.

The forecast is developed based upon guidelines provided by the Government Finance Officer's Association (GFOA). The financial forecast allows the City to determine how current spending plans will impact future budgets, but the forecast presented during the Long Term Financial Plan is *not* the budget that will be presented to City Council for the 2015 fiscal year. Projects prioritized by the Council, along with Administration's recommendation for changes or enhancements to the current service levels, will determine the funding requests that will be brought forth in the FY 2015 budget.

The base forecast is developed using the *present level of services* provided by the City. Inflation or historical growth rates are used to predict expenditure patterns. Revenues are projected by inflation, current trends, or by specific circumstances that are certain to occur during the forecast period.

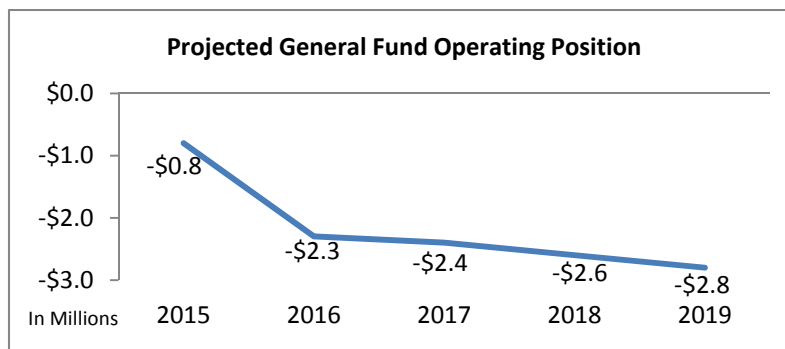
Information regarding economic indicators and the performance of the economy as a whole over the forecast period was taken from Cal State Fullerton's College of Business and Economics 2014 Economic Forecast for Southern California and Orange County, presented in October 2013.

The economic outlook points to a steady, sustained expansion in economic activity that is expected to accelerate gradually over the forecast horizon, tentatively for early 2014, but more robustly after that. The recovery from the economic recession over the last several years has been much slower than past economic recoveries. While not a booming expansion, the current recovery is resilient and has maintained a slow and steady growth rate, despite a number of crises that have been seen in recent years, including political policy uncertainty, the Eurozone crisis, a downgrade of the U.S. credit rating, sequester-related cuts, and the recent government

shutdown. Despite these, over the last several years credit has normalized, corporate profits are near record levels and business balance sheets are healthy. Significantly, the housing recovery has staged a spectacular comeback over the past year, and is expected to continue to expand over the forecast horizon, but at a much slower rate than seen in the last year. In addition, the national unemployment rate, which averaged around 7.5% in 2013, is expected to average 7.0% in 2014. Both domestically and abroad, risks remain that policy missteps may halt momentum, and the unwinding of the Fed’s quantitative easing program is expected to impact recovery, but not enough slip back into another recession.

In order to strategically address future needs and to ensure the City maintains a positive operating position in the long-term, the City’s five year forecast focuses on two critical elements, *operating position* and *fund balances*, to determine the fiscal health of the City.

Operating position – Based on revised expenditure and revenue trends, the financial forecast indicates a negative operating position in all five years of the forecast period. Results of the forecast with respect to operating position (operating receipts less operating disbursements, excluding one-time revenues and expenditures) are shown in the following chart.

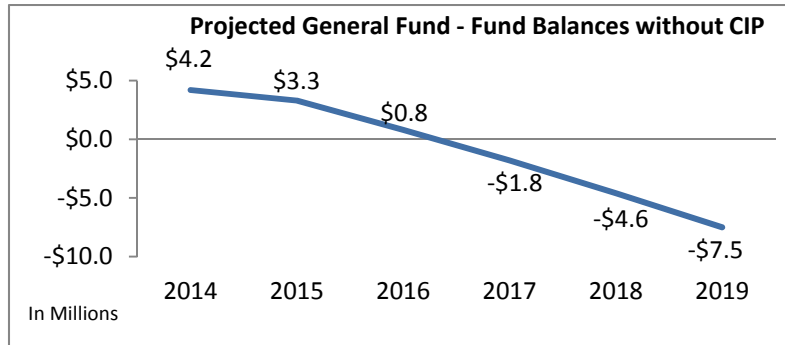


The projected operating position is negative beginning in FY2015, mainly due to projected increases in police and fire contractual costs, increases in insurance premiums, and the addition of operating costs for Vista Hermosa Park that are no longer covered by a subsidy from reserves beginning in FY 2016. It should be noted that these are *projections* only and negative operating position will not actually occur, as adjustments will be made to ensure the city remains in a positive operating position.

Fund balances – Fund balance is the excess of revenues (assets and resources) over the amount of expenditures (liabilities). The *unassigned* fund balance is the portion that is available for appropriation by the City Council, based on current policies. A positive fund balance represents a financial resource available to finance expenditures of a future fiscal year. However, fund balance should be used for one-time expenditures only. The City’s *committed* fund balances include the Sustainability Reserve, the Emergency Reserve, and the Vista Hermosa Park O&M Reserve. The Sustainability Reserve amounts to \$10.0 million. The Emergency Reserve is funded at 9% of operating expenditures. Annual contributions are included in the forecast to maintain the 9% funding level. Council approval is required before expending the Emergency and Sustainability reserves.

Financial Forecast

The chart below illustrates projected unassigned fund balance in the General Fund based on the 2014 Long Term Financial Plan forecast. The projected beginning unassigned fund balance of \$4.2 million does not include the Sustainability, Emergency, or Vista Hermosa Park Reserves. The \$4.2 million balance includes a one-time repayment received from the State of California in June 2013 of \$2.2 million for property tax revenue borrowed in FY 2010.

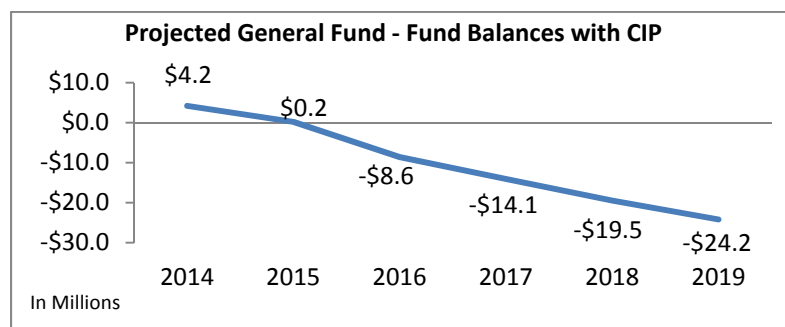


One-time expenditures and transfers, plus a projected negative operating position beginning in FY2015, reduce fund balance from a positive \$4.2 million to a projected negative \$7.5 million in FY 2019. The forecast includes a total of \$950,000 for ongoing major maintenance projects (major street maintenance, slurry seal and sidewalk repair programs), but does not assume any spending for capital projects or one-time maintenance projects.

If projected capital and one-time maintenance projects are added the forecast, the projected unassigned fund balance would decrease substantially. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. The table below shows costs for General Fund capital and one-time maintenance projects that are proposed for the next five years.

2015 Proposed Projects (In millions)	2015	2016	2017	2018	2019
Capital Projects	\$1.6	\$6.0	\$2.6	\$2.0	\$1.6
Maintenance Projects (not ongoing)	<u>1.5</u>	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>	<u>0.1</u>
Totals	\$3.1	\$6.3	\$2.9	\$2.6	\$1.7

The chart below modifies the General Fund unassigned fund balance to indicate the impact of these proposed capital and one-time maintenance projects on fund balances:



The above fund balance projections do not assume the use of either the \$10 million Sustainability Reserve or the current \$4.6 million Emergency Reserve.

Fund Balance Issues - Several events are anticipated over the next several years which may enable the City to add to its unassigned fund balance, somewhat offsetting the negative balances shown above. The actual amounts and timing for these receipts is not assured; therefore, they are not included in the long-term projections.

Bellota: Proceeds from the Bellota Land sale, estimated to net \$5.8 million, will become available once the applicable lots are sold. A past subsidence claim related to Bellota exceeded \$11 million and was paid from the General Liability fund, with the General Fund contributing \$7 million towards the claim directly. As discussed in the Reserve Analysis LTFP paper, it is recommended that proceeds from selling the Bellota land be used to fund a retrospective payment of \$3.0 million in the General Liability Fund, including repaying the General Fund for funds previously advanced for the first two installments of the retrospective payments. Further, it is recommended that \$1.6 million of the Bellota proceeds be used to meet reserve requirements in the City's General Liability Fund, as per the City's fiscal policy. Remaining proceeds of approximately \$1.2 millions are recommended to fund a new Pier Maintenance and Repair reserve. It should be noted that actual net proceeds may differ from the \$5.8 million estimate, as the lots are anticipated to be marketed in March 2014.

Marblehead: The city will ultimately realize ongoing property, sales and hotel tax revenues, originally estimated at \$2.7 million, once all phases of the Marblehead Development are complete. The first phase of the commercial project is anticipated to be completed by the 2nd calendar quarter of 2015. A portion of these revenues may be required to fund the ongoing operating costs for the Vista Hermosa Sports Park, as the reserve funds set aside for these operations are projected to be depleted at the end of FY 2015. Revenues will also be needed to fund the ongoing operation and maintenance costs associated with the development's parks and trails, as ownership will pass to the City as those projects are completed. Although the ongoing revenues from the Marblehead project are not included in the forecast, the projected operation and maintenance expenditures for the parks and trails have been included, as those will become the City's responsibility as they are completed.

LaPata/Vista Hermosa Land: Receipt of proceeds from the sale of 2.5 acres of land at the corner of La Pata and Vista Hermosa, estimated at between \$2.6 and \$3.5 million, is anticipated in the next few years. When sold, proceeds will be added to the General Fund's unassigned Fund Balance.

RDA: Two years ago, the City lost RDA funding for the Pier Bowl area, which funded repairs and maintenance for the pier. Pier rehabilitation is recommended to be performed every 5 years and will need to be funded by the General Fund in the CIP budget. These repair and maintenance costs may have a significant impact on the General Fund's Fund balance in the future. Ongoing funding of a Pier Maintenance and

Repairs reserve would be needed to ensure the pier is adequately maintained in future years.

Committed Fund Balances

Sustainability Reserve – In FY 2009, City Council established a General Fund Sustainability Reserve in the amount of \$10 million.

Emergency Reserve – One of the main financial goals of the City, as defined in the City’s Fiscal Policy, is to ensure that adequate resources will be available to fund emergency reserves. Emergency reserve levels have been maintained at the required level of 9% of operating expenditures.

Vista Hermosa O&M Reserve – In FY 2011, Council established the Vista Hermosa (VH) Park Operations and Maintenance reserve in the amount of \$2.9 million to provide resources for the first years of the park facility’s operations. An amount, determined annually, is used to subsidize park operations until the reserve is depleted. The fund is projected to be depleted at the end of FY 2015.

General Fund – Committed Reserves (in millions)					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
VH Park	\$0	\$0	\$0	\$0	\$0
Emergency	4.7	4.9	5.0	5.1	5.3
Sustainability	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Assigned Reserves	\$14.7	\$14.9	\$15.0	\$15.1	\$15.3

Recommendations regarding fund balance reserves in the General Fund are discussed further in the LTFP Executive Summary.

Forecast Assumptions

Beyond the economic and growth/trend assumptions used in the forecast, information specific to San Clemente is included in the forecast:

Revenues:

- Property taxes are projected to increase by 1.85%, in total, for FY 2015. Increases averaging 2% are included beginning in FY 2016. Property tax projections are based on information provided by HdL Coren and Cone, the City’s property tax advisors.
- Sales taxes are projected to increase 2.4% in FY 2015. Increases averaging 2.75% per year beginning in FY 2016 are projected based on CPI increases projected in Fullerton’s Economic Forecast data for Orange County.
- Beach Club rental, swimming pool and recreation program fees are temporarily removed from the forecast in FY 2015 due to the rehabilitation of the Ole Hanson Beach Club. Beach Club revenues and related expenditures are included beginning in FY 2016, assuming the facility rehabilitation is complete.
- The Vista Hermosa Park subsidy is included in the forecast in the first year, FY 2015, after which the reserve is projected to be depleted.

Expenditures:

- New positions – No new city positions have been projected to be added.
- Frozen positions – Of a total of seven positions, five positions in the General Fund are frozen and are not funded in the forecast.
- Police contract – Police contract costs are increased for FY 2015 based on the Sheriff Department’s 2013 five-year Strategic Plan. The Plan projects increases of 5.89%, 5.17%, 2.09%, 2.13%, and 2.0% over the next five years. Contract increases average \$447,000 per year, or 3.7%, over the five-year period. No new Police positions have been added. Labor contract negotiations are currently underway for Orange County Sheriff Department personnel, as the current labor contract expired in 2012. The result of those negotiations is still to be determined and the final terms will impact the City’s annual contract cost.
- Fire Services costs –The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, as well as annual contributions to a station maintenance reserve and fleet replacement reserve. For forecast purposes, the contract is increased by 4.5% in each year of the forecast based upon OCFA’s assumptions for the five year period. If budget reductions to OCFA’s General Fund budget reduce contract charges, the changes will be adjusted in the FY 2015 budget.
- Cost of living - For salary and benefit forecast purposes only, it is presumed that cost of living increases will be at 90% of CPI, amounting to 2.07% for FY 2015, 2.25% for FY 2016 & FY 2017, and 2.7% for the remaining two years.
- Retirement – City share of retirement rates is increased by approximately 1.0% per year.
- Medical – The City’s share of medical costs is projected to increase at 1.5% per year.
- Vista Hermosa Sports Park – Operations of the Park will continue to be subsidized by a contribution from the Vista Hermosa reserve through FY 2015. A subsidy of approximately \$990,000 is projected for FY 2015.
- Council Contingency Reserve – The reserve is funded at \$100,000 in each of the forecast years, in accordance with the City’s Fiscal Policy.
- General Fund Emergency Reserve - The General Fund emergency reserve is funded at the target reserve level of 9% of operating expenditures.
- Reserves - For forecast purposes, \$180,000 has been included in each year of the forecast for reserve transfers. This is based on average contributions to reserves over the past two years and projected reserve needs.
- PERS Unfunded liability - The City’s unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system was paid in FY 2011. However, a payment of \$374,000 is included in the forecast for FY 2015 to pay costs due to actuarial changes and CalPERS investment performance. This amount is subject to annual revisions.
- Street Improvement Program - The General Fund transfer to the Street Improvement Fund amounts to \$756,290 per year.
- Capital and Major Maintenance - The forecast includes a total of \$950,000 for ongoing major maintenance projects (major street maintenance, slurry seal and sidewalk repair programs), but does not assume any spending for capital projects or one-time maintenance projects.

- Costs for the operation and maintenance of new parks and trails associated with the Marblehead Development project have been included in the forecast beginning in FY 2015, as those become the City's responsibility to maintain as they are completed.

Factors Not Included in the Forecast

- The forecast is based on the General Fund only.
- No new or enhanced programs have been included.
- Ongoing property tax, sales tax and TOT revenues associated with the Marblehead development project have not been included in the forecast.
- Proceeds of an estimated \$5.8 million from the future sale of Bellota land are not included.
- The forecast does not include any spending for capital or one-time maintenance projects.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers.

Forecast Summary

Over the five year forecast period, the city's revenues are anticipated to grow by an annual average increase of 2.2% a year. Property taxes are projected to increase by an average of \$500,000 per year, or 2.0%, and sales taxes by an average of \$218,000 per year, or 2.7%, over the forecast period.

Expenditures are projected to increase at an average rate of 3.0% per year over the forecast period, excluding the impact of one-time capital and maintenance costs, mainly due to projected increases in contractual services. The police and fire services contract projections include forecasted increases identified in the Orange County Sheriff's Department 2013 strategic plan and the Orange County Fire Authority's contract. No amounts have been included for any proposed capital or one-time maintenance projects.

Building permit, plan check fees, engineering fees (considered one-time revenues) as well as property, sales tax, and TOT revenues from the Marblehead project are not included in the forecast. However, the costs for operation and maintenance of new parks and trails associated with the project have been included in the forecast, as those become the City's responsibility to maintain as they are completed. Once property, sales tax, and TOT revenues become a reality, the city's financial forecast will show increases in operating position and fund balances.

The financial forecast indicates a negative operating position in all five years of the forecast period. These are projections only and negative operating position will not actually occur, as adjustments will be made to ensure the city remains in a positive operating position.

Forecast Results

The following cash flow table provides a review of beginning unassigned fund balances, operating and one-time receipts and disbursements and ending unassigned fund balances over the five-year forecast period, excluding any one-time capital or one-time maintenance costs:

General Fund – Cash Inflows and Outflows by Year (In millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Beginning Fund Balance	4,222	3,258	777	(1,800)	(4,569)
Receipts:					
Taxes	37,587	38,341	39,172	40,086	41,023
Licenses & Permits	2,230	2,286	2,343	2,400	2,459
Intergovernmental	410	415	420	426	432
Service Charges	4,513	4,726	4,844	4,990	5,139
Fines & Forfeitures	920	943	966	995	1,025
Interest, Rents, & Other	2,006	2,256	2,313	2,382	2,453
Interfund & Transfers	<u>3,356</u>	<u>3,423</u>	<u>3,493</u>	<u>3,578</u>	<u>3,667</u>
Total Receipts	51,022	52,390	53,551	54,857	56,198
Disbursements:					
Salaries	11,813	12,079	12,351	12,684	13,027
Benefits	5,490	5,544	5,600	5,656	5,712
Supplies	1,151	1,180	1,209	1,246	1,283
Contractual Services	27,293	28,575	29,389	30,272	31,168
Other Charges	1,971	2,111	2,140	2,175	2,212
Capital or One-Time	-	-	-	-	-
Interdepartmental Charges	4,156	4,261	4,367	4,498	4,633
Transfers & Debt	1,492	1,505	1,520	1,543	1,566
1% Budget Under Forecast	<u>-534</u>	<u>-552</u>	<u>-566</u>	<u>-581</u>	<u>-596</u>
Total Disbursements	52,832	54,703	56,010	57,493	59,005
VHSP Reserve	988	0	0	0	0
Emergency Reserve	<u>(142)</u>	<u>(168)</u>	<u>(118)</u>	<u>(133)</u>	<u>(136)</u>
Ending Unassigned Fund Balance	3,258	777	(1,800)	(4,569)	(7,512)

General Fund Revenue and Expenditure Growth

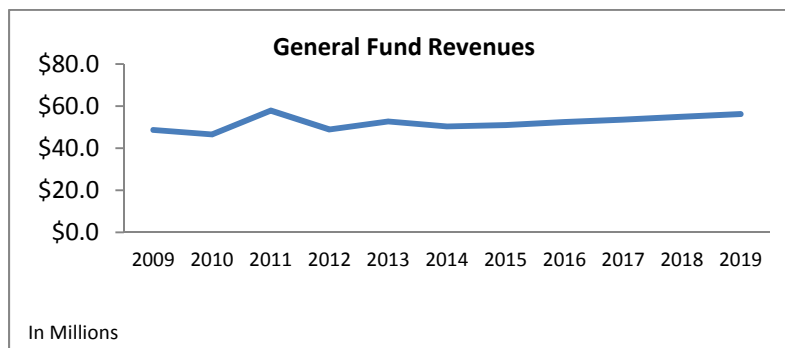
In each revenue and expenditure category an initial summary is provided with the following:

- Historic Growth Rate – The average annual rate of growth for the past five years from FY 2010 to FY 2014.
- 2014 Projected Growth Rate – Average annual rate of growth projected for the current five-year forecast.

General Fund Revenue Growth Rate

Historic Growth Rate	1.5%
2014 Projected Growth Rate	2.2%

Over the forecast period, General Fund revenues are projected to increase at an average annual rate of 2.2% compared to a historical five year growth rate of 1.5%. The forecast shows property taxes increasing by 2.0% and sales taxes increasing by 2.7%, on average, over the five-year period. One-time revenue of \$10.2 million from the sale of land to Target is responsible for the increase in General Fund revenues in FY 2011, and a one-time repayment of \$2.2 million from the State of California for property taxes borrowed in FY 2010 is responsible for the increase seen in FY 2013.



Property Taxes

Property Taxes

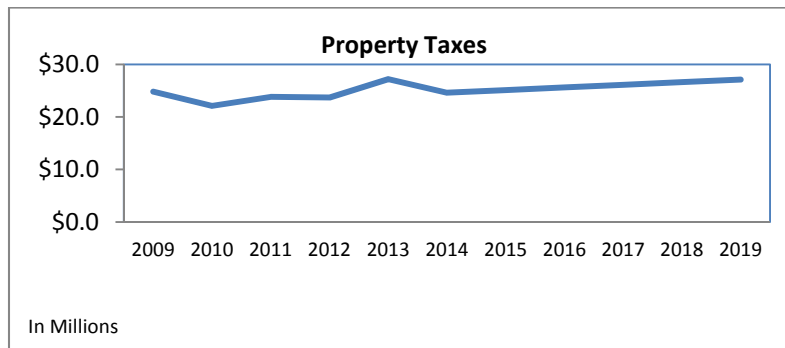
Historic Growth Rate	0.3%
2014 Projected Growth Rate	2.0%

Property Tax is the City’s single largest revenue source and represents 49% of total General Fund operating revenues. The historic growth rate of 0.3% is attributed to overall decreases in property values in the last several years as a result of the economic recession, somewhat offset by growth from new home sales in Talega, as well as the one-time receipt in FY 2013 of \$2.2 million from the State of California for property taxes borrowed in FY 2010.

Historically, the City’s median sales prices for single family residences peaked in 2006, and then decreased for five straight years. The City saw 3% growth in assessed valuation in 2008, but assessed valuation then decreased for three subsequent years due to lower sales prices, foreclosure activity, and negative property reassessments rendered by the County Assessor’s office. The housing market began to rebound during 2012, as home buying increased due to low interest rates and more affordable pricing. In 2012 the median sales price for single family residences in San Clemente increased to \$630,000, the first increase seen in 6 years. As recovery in the housing sector took hold, property valuation in San Clemente reflected an increase in FY 2013 for the first time in four years. Through October 2013, the median sales price for a single family residence in San Clemente increased again, to \$705,000,

There are three major factors that contribute to year to year assessed valuation changes. First, Proposition 13 allows the County Assessor to increase property valuation by the net change in CPI growth, with a cap of 2% growth per year. Second, property valuation is increased or decreased annually by transfer of ownership transactions or new construction in the prior year. Third, when property values decline, Proposition 8 allows properties to be temporarily reassessed at a lower value by the County Assessor through individual appeals, or through mass appeals if warranted by market conditions. Once the property’s value begins to rise again, the County Assessor may “recapture” the value through valuation increases of more than 2% per year, until reaching the Proposition 13 cap of no more than 2% annual growth over time.

Property taxes are projected to grow by 1.85% in FY 2014. Valuation increases are anticipated due to 2% CPI adjustments, changes in valuation due to property resales, and some recapture of temporary assessment reductions. These increases are somewhat offset by the negative impact expected from assessment reduction appeals that are still pending from prior years. Commercial/industrial property appeals are also anticipated to continue to reduce valuations in FY2015.



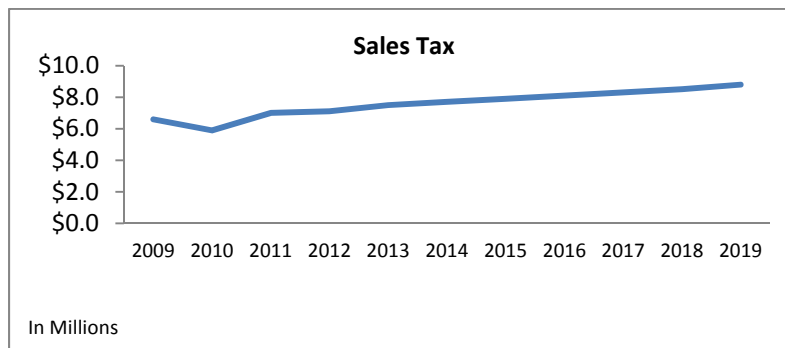
Sales Taxes

Sales Taxes

Historic Growth Rate	3.5%
2014 Projected Growth Rate	2.7%

The City's sales tax averaged growth at a rate of 3.5% over the last five years. Much of the gain is due to increased sales of general consumer goods, largely driven by the opening of Target in late 2011 but also due to increased consumer demand after several years of recession. As the economic recovery continues, the City can expect slight growth in sales tax revenues to continue, but at a slower pace than seen in recent years.

Over the forecast period, sales tax revenues are projected to grow by about 2.7%. Sales tax revenue anticipated from the Marblehead project has not been included in the forecast. Previous sales tax estimates identified potential sales tax revenue totaling \$2.2 million from the Marblehead retail development.



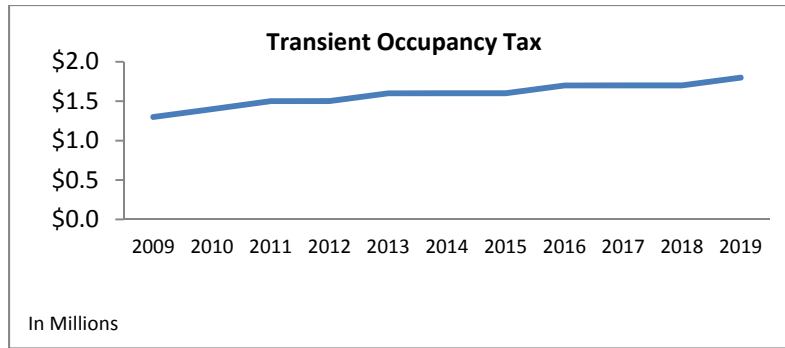
Transient Occupancy Tax

Transient Occupancy Tax

Historic Growth Rate	4.2%
2014 Projected Growth Rate	2.2%

Transient Occupancy Tax is an added charge to room rates at local hotels. San Clemente's rate is 10% per occupancy. It is a revenue source impacted by swings in the economy and, for San Clemente, the weather. Over the forecast period, the average growth is projected at 2.2% with anticipated growth from TOT collected from vacation rental properties.

Transient Occupancy Tax revenue from the proposed Marblehead project has not been included in the forecast.



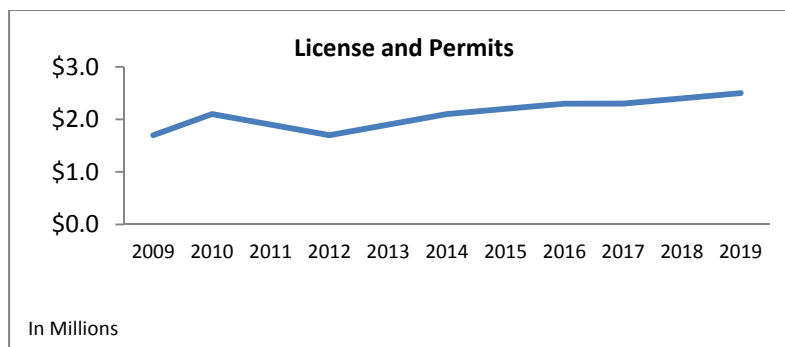
License and Permits

License and Permits

Historic Growth Rate	5.7%
2014 Projected Growth Rate	3.6%

License and permit revenue increased over the historic period by 5.7%. The license and permits category consists of business license, construction permits and miscellaneous permits such as alarm permits. Construction Permits are anticipated to increase by 3.6%, on average, during the forecast period, based on resurgence in construction activity in the current year as well as anticipated increases from residential remodeling.

The forecast includes development revenue from permits for the proposed Marblehead project as one-time revenue.



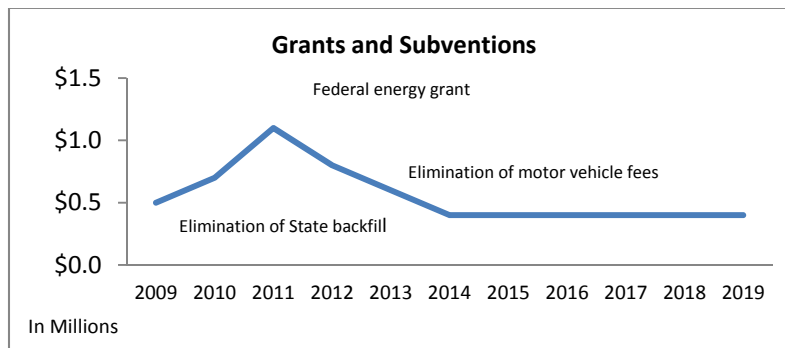
Grants and Subventions

Grants and Subventions

Historic Growth Rate	-0.3%
2014 Projected Growth Rate	1.3%

Grant and subvention revenue was flat overall through the historic period, showing a -0.3% historic growth rate. Grants are mainly one-time grants from State and Federal governments, and the amounts fluctuate each year depending on the particular grants received. Motor vehicle license fees, an allocation received from the State was largely eliminated beginning in July 2011, when the State enacted SB89 and transferred the fees to instead fund law enforcement grants. A small amount of motor vehicle license fee revenue, related to compliance procedures, is still allocated to the city on an annual basis.

The small forecast increase of 1.3%, on average per year, reflects proposed inflationary increases in the motor vehicle license fee revenue and in homeowner's Exemption Subvention revenues.

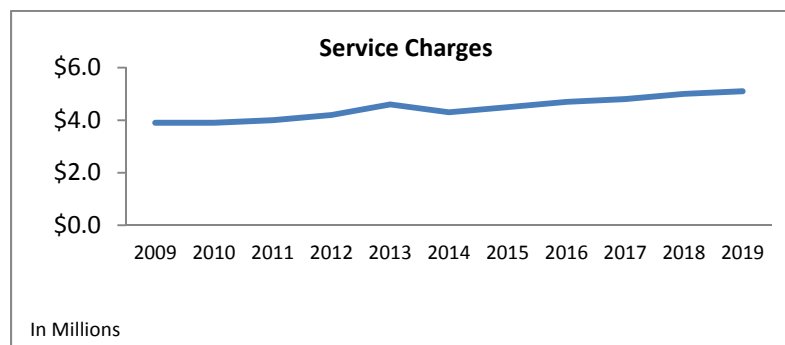


Service Charges

Service Charges

Historic Growth Rate	2.4%
2014 Projected Growth Rate	3.4%

Service charges consist of development, public safety and recreation charges for services provided to the community. Historically, service charges have increased by 2.4%, mainly due to increases in recreation service charges related to the opening of the Vista Hermosa Aquatics Center. Service Charges are projected to increase by 3.4% over the forecast period, primarily due to anticipated increases in public safety and recreation service charges.

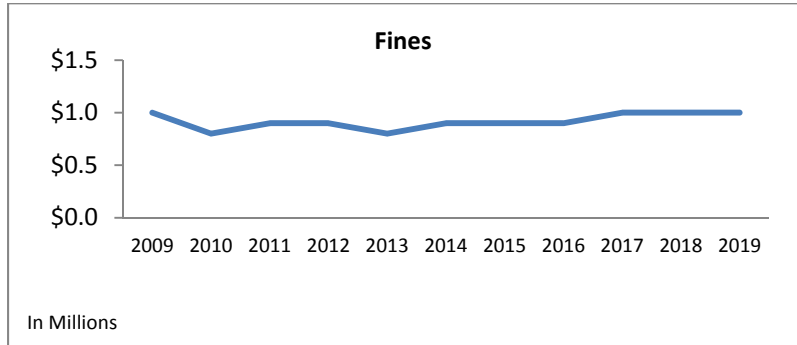


Fines

Fines

Historic Growth Rate	-1.7%
2014 Projected Growth Rate	2.7%

The Fines category consists of all fines levied by the City for parking, vehicle code violations, alarms and court fines. The 2.7% projected growth rate is based on inflationary growth.



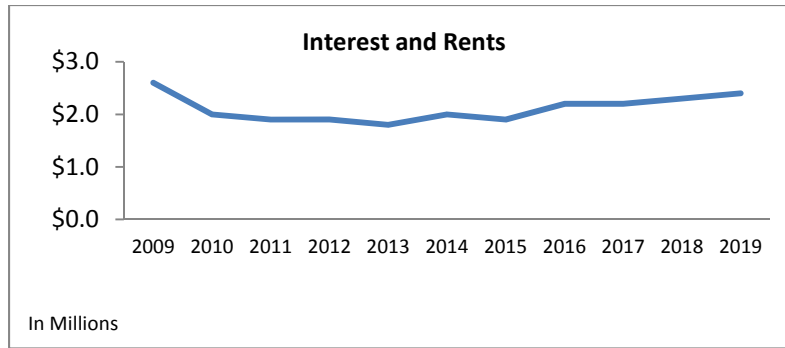
Interest and Rents

Interest and Rents

Historic Growth Rate	-4.7%
2014 Projected Growth Rate	4.1%

This revenue group includes interest earnings on invested funds and revenue from rental agreements and leases. Gains in lease and rental revenue were offset by decreases in interest earnings, mainly due to lower yields over the last few years, resulting in an historic growth rate of -4.7%. The unrealized loss or gain on the market value of the City’s investment portfolio is reflected in the growth rate. Although the City did not actually realize a gain or loss, Government Accounting Standards Board (GASB) guidelines require the City to “book” the gain or loss on an annual basis. The decrease in interest earnings is mainly a function of lower yields over the last few years.

The 2014 projected growth rate for rentals will increase by 2.3% based on Cal State Fullerton’s forecast for cost of living increases. In addition, OHBC rentals have been added back to the forecast beginning in FY 2016.

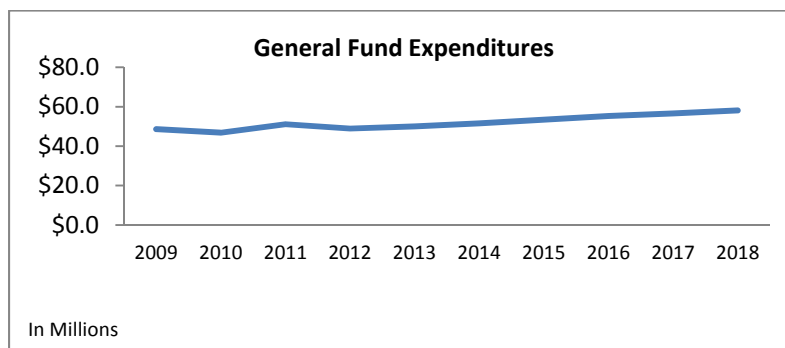


General Fund Expenditures

General Fund Expenditures

Historic Growth Rate	1.1%
2014 Projected Growth Rate	3.0%

General Fund expenditures are anticipated to increase by an average of 3.0% during the forecast period, compared to a 1.1% historical growth rate, mainly due to projected increases in public safety contractual services. One-time capital expenditures and maintenance projects, which can result in major fluctuations in the rate, have been removed. Other Expenditures have been forecasted to increase primarily by inflation.



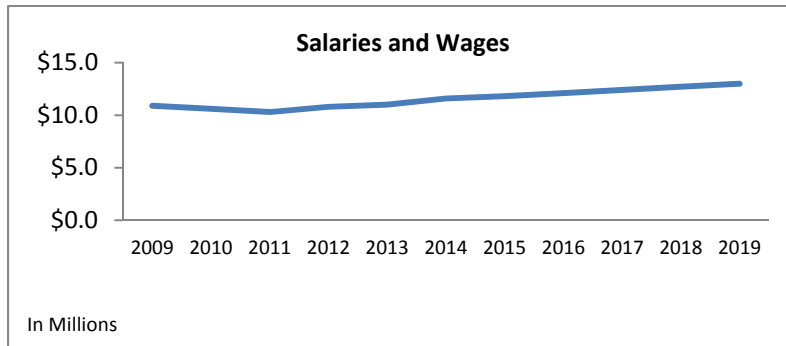
Salaries and Wages

Salaries and Wages

Historic Growth Rate	1.3%
2014 Projected Growth Rate	2.4%

Salaries and Wages are projected to grow an average of 2.4% over the forecast period. For forecast purposes only, cost of living increases are included beginning in FY 2015. The historic growth rate of 1.3% reflects the impact of eliminated and frozen positions, as well as the

addition of new Recreation positions and step and cost of living increases that were granted over the period. Positions that had been frozen in the FY 2014 budget have not been added back to the forecast.

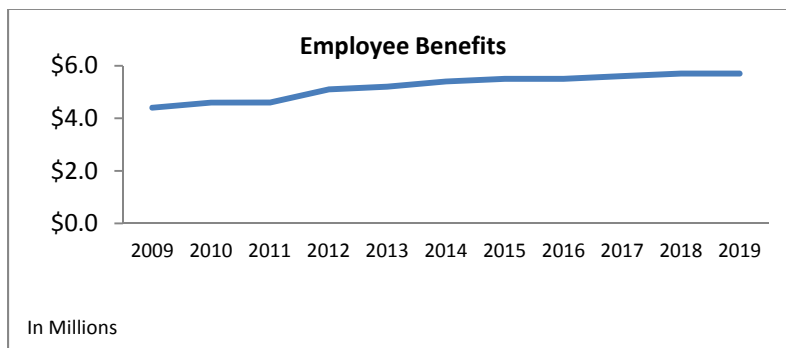


Employee Benefits

Employee Benefits

Historic Growth Rate	4.3%
2014 Projected Growth Rate	1.0%

Employee benefits historically grew 4.3% due to salary driven increases in benefits (such as social security and retirement), increases in retirement rates, and increases in the employer paid portion of medical premiums. The overall projected forecast rate of 1.0% has been based on forecast assumptions for retirement and medical premiums. Retirement rates have been increased by an average of 1% per year. Medical rates assume a 1.5% per year city increase beginning FY 2015. No additional positions have been assumed.



Contractual Services

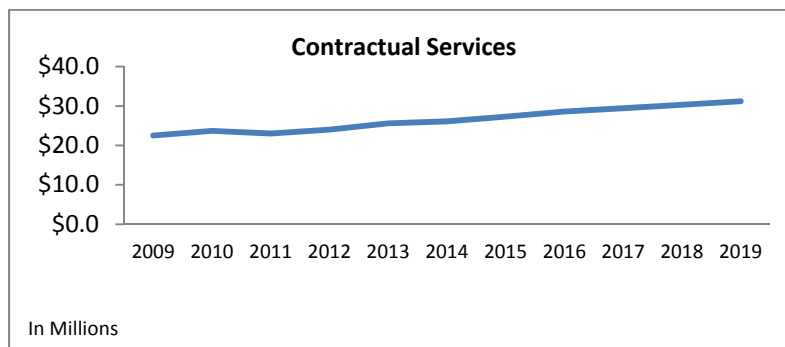
Contractual Services

Historic Growth Rate	3.0%
2014 Projected Growth Rate	3.7%

The contractual services category is anticipated to increase 3.7%, as compared to the 3.0% historical growth rates. The historical growth rate is mainly related to growth in police and fire services contractual costs, including increased medical costs and retirement rates for sworn and non-sworn contract employees. However, the police contract allows for deductions for unfilled positions due to vacancies or workers' compensation injuries. This reduction in the actual contract has averaged 2.4% per year over the past five years and skews the historical growth rate.

The Orange County Sheriff's Department (OCSD) contract with the City has been increased by the costs identified in the County's 2013 Strategic Financial Plan. The current forecast assumes a 5.89% increase in the contract cost for FY 2015 and increases averaging 2.85% over the remaining years.

The Orange County Fire Authority (OCFA) contract projection includes a 4.5% increase which is the maximum amount allowed annually. Additional contributions to the capital maintenance and vehicle replacement reserves are also included in the forecast. Although the contract costs are capped at a maximum of 4.5% per year, the contract costs can only be increased by the actual increase in OCFA's operating expenditures, which have historically been lower than the 4.5% cap.

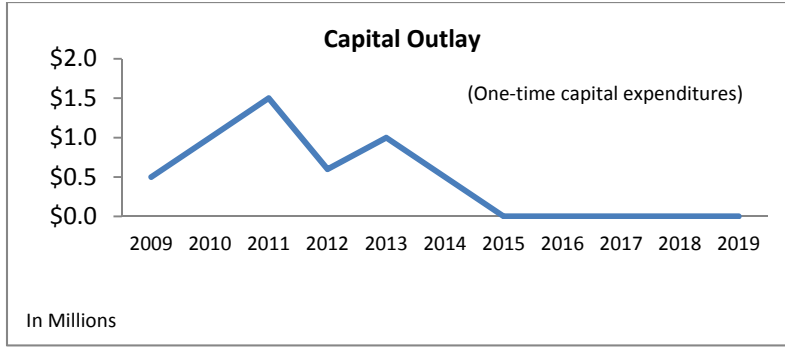


Capital Outlay

Capital Outlay

Historic Growth Rate	22.8%
2014 Projected Growth Rate	0.0%

Capital outlay expenses are shown for historical purposes and are considered one-time expenses. One-time capital and maintenance costs can increase expenditures significantly in any given year, depending on the number and size of the capital projects in process for that year. No one-time capital or maintenance expenditures have been included for the forecast period. The forecast does include \$950,000 for major street maintenance, slurry seal and sidewalk improvement projects, but those expenditures are not shown here, as they are treated as ongoing operating expenses.

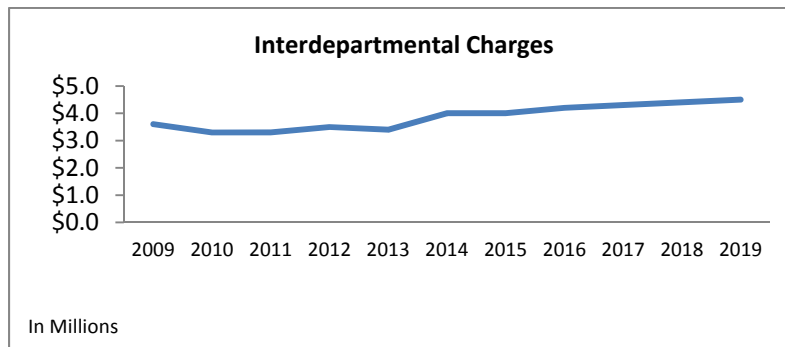


Interdepartmental Charges

Interdepartmental Charges

Historic Growth Rate	2.1%
2014 Projected Growth Rate	2.7%

Interdepartmental charges include general liability, postage, duplicating, imaging, information technology, communications, Negocio rent, capital replacement, facilities replacement and engineering charges to Enterprise Funds. These charges have been adjusted primarily by inflation.



Conclusion

The 2014 LTFP Financial Forecast shows deficits beginning in FY 2015. The Executive Summary section of the LTFP includes options to improve the operating position and fund balances to maintain a positive operating position in all years of the forecast.

Recommendation

None.



Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that they are adequate to provide for the needs of each fund program, (b) meet program needs without unnecessarily obligating scarce dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

Background

The General Fund, the primary governmental fund of the City, maintains an emergency reserve and a sustainability reserve to protect essential service programs during periods of economic downturn and a reserve for the payment of Accrued Leave. The Park Asset, Capital Equipment Replacement, and Facilities Maintenance Capital Asset Reserves comprise the Reserve Capital Projects Fund. These reserves are supported by charges and by transfers from the General Fund. The General Liability Self-Insurance Fund, Workers' Compensation Fund, and Fleet Fund are classified as Internal Service Funds. These funds charge other City departments for services they provide and are designed to fully recover the costs of providing the services. Additionally, these internal service funds should not have excess fund balances beyond what is necessary to maintain reserves and recover operating costs.

The Water, Sewer, Golf, Storm Drain, and Solid Waste Funds maintain an emergency reserve per Fiscal Policy similar to the General Fund to protect essential service programs during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for the maintenance and replacement of assets.

Executive Summary

Sound accounting and budgeting practices require that each fund maintain a positive fund balance and the appropriate level of reserve as dictated by the City's fiscal policy. The City's reserves are reviewed annually as part of the LTFP process. The City's Fiscal Policy defines the types and criteria for funding levels for each of the City's reserves based on guidelines of the Insurance Institute of America, industry practice and GFOA recommendations.

The City's reserves are divided into five basic categories:

- Emergency Reserves
- Miscellaneous General Fund Reserves
- Self-Insurance Reserves
- Capital Replacement Reserves
- Infrastructure Reserves

Reserves are categorized as Restricted and Unrestricted amounts under Governmental Accounting Standards Board Statement 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***. As part of this Statement, restricted and unrestricted categories are defined in the following categories or classifications:

- Restricted - amounts are considered subject to externally enforceable restrictions.
- Committed - amounts are based on a limitations set at the highest level of decision making authority and requires formal action to remove, such as a resolution.
- Assigned - amounts under an informal limitation based on an intended use established by the highest level of decision making authority or the official designated.
- Unassigned – remaining resources available.

Reserve Analysis

The following table summarizes reserve type, the fund balance category, and the estimated balances of reserves as of June 30, 2014.

Reserves	Type of Fund Balance	Funding Source	Estimated Reserve Balances at June 30, 2014	In Compliance With Fiscal Policy
Emergency Reserves:				
General Fund Emergency Reserve	Committed	General Fund	\$ 4,581,000	Yes
Sustainability Reserve	Committed	General Fund	\$ 10,000,000	Yes
Water Operating Fund – Emergency Reserve	Committed	Water Fund	\$ 948,000	Yes
Sewer Operating Fund – Emergency Reserve	Committed	Sewer Fund	\$ 1,005,500	Yes
Golf Course Operating Fund – Emergency Reserve	Committed	Golf Course Fund	\$ 241,000	No ¹
Storm Drain Operating Fund – Emergency Reserve	Committed	Storm Drain Fund	\$ 181,000	Yes
Solid Waste Fund – Emergency Reserve	Committed	Solid Waste Fund	\$ 25,500	Yes
Miscellaneous General Fund Reserve:				
VHSP – Maintenance & Operations	Committed	General Fund	\$ 992,000	Yes
Accrued Leave	Committed	General Fund	\$ 613,000	Yes
Self-Insurance Reserves:				
General Liability Self-Insurance	Assigned	All Funds	\$ 319,000	No ²
Workers' Compensation	Assigned	All Funds	\$ 1,090,000	Yes
Capital Replacement Reserves:				
Fleet Replacement	Assigned	All Funds	\$ 3,500,000	Yes
Capital Equipment Replacement	Assigned	General Fund	\$ 768,000	Yes
Facilities Maintenance Capital Asset	Assigned	General Fund	\$ 760,000	Yes
Park Asset Replacement	Assigned	General Fund	\$ 1,246,000	Yes
Infrastructure Reserves:				
Water Fund Depreciation	Assigned	Water Fund	\$ 6,200,000	No ³
Sewer Fund Depreciation	Assigned	Sewer Fund	\$ 7,400,000	Yes
Storm Drain Fund Depreciation	Assigned	Storm Drain Fund	\$ 1,100,000	No ⁴
Golf Course Fund Depreciation	Assigned	Golf Course Fund	\$ 420,000	Yes
Golf Capital Improvement Reserve	Assigned	Golf Course Fund	\$ 290,000	Yes ⁵
	¹ This reserves is below the minimum reserve level and adjustments will be done to achieve compliance with these reserves by FY 2018. Refer to the Emergency Reserve section. ² This reserve will achieve full funding of the new reserve levels implemented in FY 2013 with the Bellota land sale proceeds. ³ This reserve is under funded by \$5.7 million. Refer to Infrastructure Reserves section. ⁴ This reserve is under funded by \$1.0 million. Refer to Infrastructure Reserves section. ⁵ This reserve is under funded, however once the internal loan to the Golf Operating fund is taken into consideration the reserve is in compliance.			

Reserve Analysis:

The following guidelines have been used to analyze each fund or reserve:

- City Council Fiscal Policy
- Assessment of the current situation and conclusions
- Recommendations
- Fiscal impact of recommendations

Each reserve listed is addressed in more detail in the following section along with a detailed explanation of the recommendations for FY 2015. A summary of the recommendations by reserve section are as follows:

- **Emergency Reserves –**
 - Maintain the General Fund Emergency Reserve at 9% of operating expenditures.
 - Maintain the Sustainability Fund Balance Reserve at \$10 million.
 - Maintain the Enterprise funds emergency reserve level of at 12% of operating expenses.
- **Miscellaneous General Fund Reserves –**
 - Transfer \$130,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2015.
 - Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2015, estimated at \$990,000.
- **Self-Insurance Reserves –**
 - Authorize the General Liability Self-Insurance Fund to charge funds in the amount of \$2.05 million based on anticipated premiums and operating costs of each fund (see Attachment “A” in the Reserve Paper for the fund charges).
 - Retain \$1.6 million of proceeds from the future Bellota land sale to comply with the General Liability Fund’s reserve policy.
- **Worker’s Compensation Reserves –**
 - Authorize the worker’s compensation rates as listed in “Attachment A” to maintain reserves at an adequate level.
- **Capital Replacement Reserves –**
 - Transfer \$100,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2015 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
 - Transfer \$40,000 from the General Fund to the Park Asset Replacement Reserve for FY 2015 and contribute annual amounts for the replacement of park assets.
 - Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
 - Maintain contributions for the replacement of City fleet vehicles and equipment to keep the reserve at an adequate level.
- **Infrastructure Reserves –**
 - Maintain annual depreciation fund charges and asset model contributions charged to the Water Operating fund to achieve three years worth of future capital projects.
 - Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.
 - Maintain annual depreciation fund charges that will be charged to the Storm Drain Depreciation Operating fund to achieve three years worth of future capital projects.

- Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.
- Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

Additionally, the City of San Clemente is working with the Government Finance Officers Association (GFOA) on a risk-based reserve analysis project to recommend funding and reserve levels related to exposure: including pier maintenance, land subsidence and fiscal sustainability. The probability models will be used as a tool in the upcoming FY 2015 budget.

Emergency Reserves

General Fund – Emergency/Sustainability Reserves

Sustainability Fund Balance Reserve:

City Council Fiscal Policy: Maintain \$10 million as a Sustainability fund balance in the General Fund. This fund balance will provide for economic and financial stability. Sustainability fund balance can be used only by formal action (Resolution) of the City Council for a specific purpose such as to provide consistent and adequate level of services, provide for future capital needs, or provide for asset replacement.

Assessment of the current situation/conclusions: The Sustainability fund balance was adopted and funded as part of the FY 2009 budget in the amount of \$10,000,000 from undesignated General fund balance. This balance was a Council set amount to be maintained at this level and amounts can only be spent through the approval of a resolution by the City Council.

Recommendation and Fiscal Impact: Maintain the Sustainability Fund balance Reserve at \$10 million.

General Fund - Emergency Reserve

City Council Fiscal Policy: Maintain an emergency reserve of no less than 9% of General Fund operating expenditures. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn, lasting two years or more, or other unforeseen catastrophic costs. This reserve is to be accessed only upon the occurrence of serious conditions warranting emergency measures, and requires City Council approval prior to expenditure.

Assessment of the current situation/conclusions: The Emergency Reserve and the Sustainability Fund provide resources to allow the City to continue operations in the occurrence of any serious conditions. The emergency reserve and the sustainability reserve in total are approximately 30% of operating expenditures. The GFOA based on best practices recommends emergency reserves equivalent to at least two month's operating expenditures, or 16.67%. Rating agencies generally acknowledge the need for a General Fund reserve of between 5-10%.

Including sustainability reserves in place, maintaining the 9% emergency reserve level for the General Fund is appropriate. The increase in the current year emergency reserve amount is partially due to operating expenditures related to a full year's operation of the Vista Hermosa

Sports Park. The following chart lists the FY 2014 projected emergency reserve balance and the recommended contribution to maintain the 9% reserve level for FY 2015.

	Projected Balance June 30, 2014	FY 2015 Recommended Contribution	Percentage June 30, 2014
General Fund	\$4,581,000	\$95,000	9%

Recommendation and Fiscal Impact: Maintain the General Fund Emergency Reserve at of 9% of operating expenditures.

Other Operating Funds - Emergency Reserves

City Council Fiscal Policy: The City's Enterprise Funds will maintain a minimum reserve level at least equal to 12% of operating expenses. The primary purpose of these reserves is to set aside funds to provide for unanticipated or emergency expenses that could not be reasonably foreseen during the preparation of the budget.

Assessment of the current situation/conclusions: The emergency reserves for the Enterprise operating funds are funded at 12% of the operating costs which is in accordance with Government Finance Officers Association's best practices. This level has been in place since the 2012 LTFP and the level is almost two full months of operating expenses.

The change to the emergency reserves was implemented immediately to the Storm Drain and Solid Waste Funds. However, the funding of the Water, Sewer and Golf emergency reserves have taken more time to fund and are anticipated to achieve full funding by FY 2017 or sooner. The following chart summarizes the projected balances for each Enterprise Fund emergency reserve for FY 2014 and the targeted reserve balance (12%) of operating costs.

	Reserve Balance Funding Availability at June 30, 2014	Target Reserve Balance
Water Fund	\$ 948,000	\$ 948,000
Sewer Fund	1,005,500	1,005,500
Golf Course Fund (a)	-	241,000
Storm Drain Fund	181,000	181,000
Solid Waste Fund	25,500	25,500

(a) During 2014, Emergency Reserve funds available in the Golf Course fund are not available. The Golf Course Fund's operating position will improve due as a result of the concession operations and when the annual debt service lowers on the interfund loans in the future.

Recommendation and Fiscal Impact: Maintain the Enterprise funds emergency reserve level at 12% of operating expenses.

Miscellaneous General Fund Reserves

Vista Hermosa Sports Park (VHSP) Maintenance and Operations Reserve

City Council Fiscal Policy: Approve and authorize the creation of the La Pata Sports Park Operations and Maintenance Reserve.

Assessment of the current situation/conclusions: The Maintenance and Operations Reserve was created in FY 2010, with \$2.9 million of the proceeds recognized from the sale of land to Target. The \$2.9 million represented approximately 3 ½ years of Operations and Maintenance costs for the new sports park. At June 30, 2014 there will be a projected amount of \$992,000 in the reserve. Based on the budget, the amount to be subsidized during FY 2014 will be \$990,000. The amount that will be subsidized in FY 2015 is estimated to be \$990,000, with the remaining reserve of \$2,000 to be used in FY 2016.

Recommendation and Fiscal Impact: Transfer from the VHSP Reserve an amount to subsidize the net cost of operating the VHSP during FY 2014, budgeted at \$990,000.

Accrued Leave Reserve

City Council Fiscal Policy: Maintain an account to accumulate funds for the payment of accrued employee benefits to terminated employees. This reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.

Assessment of the current situation/conclusions: The accrued leave reserve balance is based on average annual General Fund expenditures for vacation and sick leave payoffs. The amount of this reserve fluctuates annually based upon the number of employees, length of service, pay rates and hours accrued (dollar value of accrued leave).

<i>Average Annual Payoffs (3 year average)</i>	<i>\$ 148,000</i>
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The projected ending balance for the Accrued Leave Reserve as of June 30, 2014 is \$613,000. At June 30, 2013, the total General Fund liability for accrued leave was \$1.5 million. Of this amount, \$774,000 represents the liability for employees who will be age 55 or older by June 30, 2014. Based on the projected ending balance and anticipated payouts transfer an amount of \$130,000 to the Accrued Leave Reserve. The amount transferred will be separated from unassigned General Fund balance, with accrued leave amounts paid from this separate reserve.

Recommendation and Fiscal Impact: Transfer \$130,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2015 (\$110,000 was the FY 2014 transfer).

Self-Insurance Reserves

General Liability Self-Insurance Fund

City Council Fiscal Policy: Maintain a reserve in the City's self-insurance fund which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of one times its annual insurance authority premium. In addition, the City will perform an annual analysis to document claims which are not covered by the insurance pool to which the City belongs, and reserve an additional appropriate amount to pay for such uncovered claims.

Assessment of the current situation/conclusions: California Joint Powers Insurance Authority (CJPIA) arranges and administers programs for the pooling of self-insured losses, and the purchase of excess insurance or reinsurance. Several types of occurrences are excluded from the liability coverage through membership within the CJPIA. Excluded losses include; 1) breach of contract, 2) land use entitlement, 3) eminent domain, 4) release of hazardous materials, and 5) punitive damages.

Charges to maintain the General Liability reserve level are based on a methodology recognized by the Insurance Institute of America regarding essentials of risk financing. The methodology is based on two key factors, as follows:

1. A five-year average of historical claims for risk related to each fund which accounts for 25% of the basis for the charge (limited to the claims coverage level).
2. A fund's budgeted expenditures as a percentage of total budgeted expenditures which accounts for 75% of the basis for the charge.

In the FY 2012 LTFP, the City modified the reserve level to be based on a minimum of one times the annual risk financing premium. This change will allow the City to better absorb annual contributions fluctuations based on claim activity. However, the City was affected by changes resulting from the 2010 CJPIA funding model shift from a retrospective funding model to a prospective funding model. The City's annual insurance premium is projected to be \$1.9 million in FY 2015, which would create a reserve requirement of \$1.9 million. However, the projected ending balance of the General Liability fund at June 30, 2014 is \$319,000, which results in an underfunding of the reserve requirement by \$1.6 million.

In addition to the premium underfunding, at June 30, 2012 a retrospective balance was owed to CJPIA for \$3.0 million as a result of adjustments to past claims liability estimates. The city in FY 2014 made a payment of \$423,000 under a seven year CJPIA payment plan. In the 2013 LTFP, if the Bellota land sale was delayed transfer from the General Fund would be requested, this has been included in the mid-year adjustments to provide funding for the payment. Upon the sale of the Bellota property the funds will be repaid to the General Fund. In addition to the past adjustment, a payment of \$400,000 will be required to fund a current claim adjustment due on July 1, 2014. This funding will be incorporated into the FY 2015 budget.

A past subsidence claim (Bellota) was paid from the General Liability fund. The total of the Bellota claim has exceeded \$11 million, with the General Fund contributing \$7 million towards the claim directly. It is anticipated in FY 2015 that the Bellota property will be sold and proceeds from the land sales will be placed into the General Liability Fund. As originally

proposed in the 2012 LTFP, the General Liability fund should use these one-time revenues to fund one-time costs/claims and retain the proceeds to fund the reserve deficiency. In addition, the proceeds should be used to pay the retrospective liability. Funding the reserve and paying the outstanding retrospective liability will protect against significant fluctuations to future operating charges to the General Fund and other funds. Any excess proceeds, once the reserves are funded and the liability paid would be distributed to the General Fund and available for allocation by City Council.

Recommendations and Fiscal Impact:

1. Authorize the General Liability Self-Insurance Fund to charge funds in the amount of \$2.05 million based on anticipated premiums and operating costs of each fund (see Attachment "A" in the Reserve Paper for the fund allocation charges).
2. Retain \$1.6 million of proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.

Workers' Compensation Fund

City Council Fiscal Policy: Maintain a reserve at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool. In addition, the City will perform an annual analysis of past claims not covered by the insurance pool and reserve an appropriate amount to pay for uncovered claims.

Assessment of the current situation/conclusions: The City is self-insured for Workers' Compensation coverage. The CSAC Excess Insurance Authority provides coverage for Workers' Compensation claims in excess of \$300,000, which represents the City's Self-Insurance Retention (SIR) amount.

All City funds will continue to be charged for premiums and administrative costs paid by the Workers' Compensation Fund. The rates charged to these funds are based on each fund's employees' classifications and the type of work performed (e.g. manual labor, non-manual and clerical, etc.) as listed in "Attachment A". These rates allow the City to maintain compliance and funding with the applicable State law and maintain compliance with Governmental Accounting Standards Board Statement No. 10.

The City's fiscal policy requires a reserve equal to \$900,000 (three times the SIR), plus the estimated total for the "tail" claims of \$179,000, for a total reserve requirement of \$1,079,000. The estimated reserve balance is fully funded with \$1,090,000 projected at June 30, 2014. This balance has decreased from over \$1.1 million in the past. Based on current claims activity, staff is recommending an increase of approximately 5% to the rates for the future.

Recommendations and Fiscal Impact: Authorize the worker's compensation rates as listed in "Attachment A" to maintain reserves at an adequate level.

Capital Replacement Reserves

Fleet Replacement Reserve Fund

City Council Fiscal Policy: Maintain a reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.

Assessment of the current situation/conclusions: The reserve is reviewed annually to verify if funding is adequate to cover projected replacement costs for the next five years. Currently, the City's fleet is valued at \$7.4 million. \$3.6 million is scheduled for replacement during the next five years, \$1.6 million is scheduled for replacement during the next six to ten years and \$2.2 million is scheduled for replacement after ten years. This reserve is fully funded with a projected ending balance of \$3.5 million at June 30, 2014.

Recommendation and Fiscal Impact: Maintain contributions for the replacement of City fleet vehicles and equipment to keep the reserve at an adequate level.

Capital Equipment Replacement Reserve

City Council Fiscal Policy: Maintain a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles.

Assessment of the current situation/conclusions: As General Fund fixed assets are replaced, the capital expenditures are made from this fund. The replacement costs for these assets are charged to the benefiting General Fund program and transferred back to the Capital Equipment Replacement Reserve, thus accumulating funds to pay for future replacement of these assets. The projected fund balance at June 30, 2014 is \$768,000, and with a one-time contribution of \$100,000 from the General Fund is fully funded for the projected five-year costs.

Recommendation and Fiscal Impact: Transfer \$100,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2015 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.

Facilities Maintenance Capital Asset Reserve

City Council Fiscal Policy: Maintain an account to cover the costs associated with the maintenance of all General Fund City facilities. The reserve should be maintained at a level at least equal to the projected five-year facilities maintenance costs.

Assessment of the current situation/conclusions: The reserve is reviewed annually to verify if funding is adequate to cover projected replacement and maintenance costs for the next five years. The City's estimated facilities maintenance costs for the next five years amount to \$580,000. The reserve balance is projected to be \$760,000 as of the end of FY 2014.

Recommendation and Fiscal Impact: Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.

Park Asset Replacement Reserves

City Council Fiscal Policy: The City will establish a Park Asset Replacement Reserve with a target balance of \$1.2 million for the replacement of park assets. The reserve balance will be reviewed annually and funded through one-time revenues or undesignated General Fund balance transfers, when available.

Assessment of the current situation/conclusions: The City currently pays for parks on a “pay as you go” basis. However, recognizing the need for the replacement of park assets, an analysis was performed by City staff in FY 2009 that identified approximately \$28.3 million of buildings, fencing, lighting, playground, sports equipment, benches and bleachers related to parks (parking lots, access roads, sidewalks, and natural turf are excluded from this amount).

The annual required contribution of \$1.1 million to set aside funds for the replacement of the \$28.3 million of park system assets in FY 2009 was not done. However, the City Council was interested in funding an amount for park asset replacement reserve. A park replacement target reserve level of \$1.2 million (essentially one-years funding) was adopted in fiscal policy to fund a minimum level. This was funded by one-time transfers to start the reserve, with other contributions in future years considered from one-time resources.

In order to maintain these reserves, restrictions were made on projects funded from the Park Asset Reserve. The Park Asset Reserve shall be used only for replacement of park capital assets valued over \$50,000 for assets located within city parks. As replacement projects are identified, the reserve starts annual replacement charges to the benefiting program to replenish the Park Asset Reserve based on a reasonable asset life.

The reserve balance is projected to be \$1,246,000 as of the end of FY 2014 and requires a \$40,000 transfer from the General Fund to maintain the fiscal policy target balance into FY 2015

Recommendation and Fiscal Impact: Transfer \$40,000 from the General Fund to the Park Asset Replacement Reserve for FY 2015 and contribute annual amounts for the replacement of park assets.

Infrastructure Reserves

City Council Fiscal Policy: The City will establish a Water, Sewer, Storm Drain and Golf Depreciation Reserve for costs associated with the major maintenance and capital improvement costs included in the Enterprise Fund budgets. The minimum reserve level shall be at a level equal to the projected three-year costs.

As part of the 2006 LTFP, a commitment was made to address the long-term funding requirements for the City's Water, Sewer, and Storm Drain infrastructure reserves due to the significant funding gaps identified at that time. The City also realized that achieving fully funded reserves would take multiple fiscal years.

In the 2009 LTFP, the reserve funding targets were modified from five years of projected costs to three years of projected costs. This change was based on the typical two-year cycle of major capital projects, which are appropriated (fully funded) by the Capital Improvement Budget funded from the depreciation reserves, but have construction cycles which cover multiple fiscal years. The combination of the funded capital projects and the targeted three years of projected future costs in the reserves represent funding for five years of capital project costs.

The following discussion addresses the current Fiscal Policy and addresses each of the Enterprise Depreciation Reserves by fund.

Water Depreciation Reserves

Assessment of the current situation/conclusions: The water infrastructure reserves have been under funded for a long period of time. In previous years, Council took steps to make additional contributions based on the asset model to narrow this significant funding gap.

The projected ending depreciation reserve balance at June 30, 2014 is \$6.2 million. The three-year capital costs total \$11.9 million. Therefore, the Depreciation Reserve is under funded by \$5.7 million.

The City is making progress toward funding three years worth of capital activity based on depreciation contributions, asset model contributions, and the interest earned on the reserve amounts. The Water Operating Fund contributed depreciation amounts of \$1.2 million based on the estimated useful life of the water capital assets. The asset model contribution amount of \$2.1 million was identified to address past underfunding, major maintenance costs and set aside funds for assets that are not owned by the City, such as joint agency assets. As a result of the interest rate environment, staff is recommending the asset model contribution amount be \$2.2 million in FY 2015.

Recommendation and Fiscal Impact of Recommendations: Maintain annual depreciation fund charges and asset model contributions charged to the Water Operating fund to achieve three years worth of future capital projects.

Sewer Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2014 is \$7.4 million and the three-year capital costs total \$7.3 million. Therefore, the Sewer Depreciation Reserve is currently fully funded.

The Sewer Operating Fund currently contributes \$2.6 million based on depreciation and \$0.3 million to set aside funds for assets that are not owned by the City. The depreciation funding amount is based on the estimated useful life of the capital assets. The City is funding capital activity based on these contributions.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years worth of future capital projects.

Storm Drain Depreciation Reserve

Assessment of the current situation/conclusions: The projected ending balance at June 30, 2014 is \$1.1 million and the three-year capital costs total \$2.1 million. Therefore, the Depreciation Reserve is currently under funded by \$1.0 million.

The Storm Drain Depreciation Fund will contribute \$800,000 based on depreciation funding and an additional reserve contribution of \$80,000 for a total contribution of \$880,000 in FY 2014. The City continues to make progress toward the funding of three years worth of capital activity based on these contributions and the interest earned on reserve funds. The depreciation funding amount is based on the estimated useful life of the capital assets. The additional contribution is estimated to fund past costs of the reserve.

Recommendation and Fiscal Impact: Maintain annual depreciation fund charges and contribution to the Storm Drain Depreciation Reserve to achieve funding for three years worth of future capital projects.

Golf Course Depreciation Reserve

Assessment of the current situation/conclusions: The Golf Depreciation Reserve is utilized for setting aside amounts for buildings, machinery, and equipment replacements, which can have lives between 5-50 years. The available ending balance projected at June 30, 2014 is \$420,000. This amount does not include the receivable from an internal loan of \$1.25 million to Golf Operating, which is not considered available. Projected capital expenses for the next three years total \$340,000. Annual amounts placed into this reserve are \$190,000 and with the available balance at June 30, 2013 will meet the capital requirements over the next three years.

Recommendation and Fiscal Impact: Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.

Golf Capital Improvement Reserve

City Council Fiscal Policy: The City will maintain a Golf Capital Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected three-year costs.

Assessment of the current situation/conclusions: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements in the Golf Course Fund. The Improvement Reserve is to provide funds for green and tee reconstruction, fencing and other miscellaneous golf improvements based on depreciation of these improvement assets. The Golf Capital Improvement Reserve at June 30, 2014 is projected to have an ending balance of \$290,000. Projected capital expenses for the next three years total \$365,000. Annual amounts placed into this reserve are \$140,000 and with available reserves at June 30, 2014 the capital requirements over the next three years will be met.

Recommendation and Fiscal Impact: Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

Council Action (5-0):

The following Reserve Analysis actions were approved by City Council:

1. Maintain the General Fund Emergency Reserve at a level of 9% of operating expenditures.
2. Maintain the Sustainability Fund Balance Reserve at \$10 million.
3. Maintain the Enterprise funds emergency reserve level at 12% of operating expenses.
4. Transfer from the Vista Hermosa Sports Park (VHSP) Reserve an amount to subsidize the net cost of operating the VHSP during FY 2015, estimated at \$990,000.
5. Transfer \$130,000 from the General Fund unassigned fund balance to the Accrued Leave Reserve for FY 2014 (\$110,000 was the FY 2014 transfer).
6. Authorize the General Liability Self-Insurance Fund to charge funds in the amount of \$2.05 million based on anticipated premiums and operating costs of each fund (see Attachment "A" in the Reserve Paper for the fund charges).
7. Retain \$1.6 million of the proceeds from the future Bellota land sale to comply with the General Liability Fund's reserve policy.
8. Increase the existing workers' compensation rates by approximately 5% to maintain reserves at an adequate level (see Attachment "A" in the Reserve Paper for detail on the increase).
9. Maintain contributions for the replacement of the City fleet vehicles and equipment to keep the reserve at an adequate level.
10. Transfer \$100,000 from the General Fund to the Capital Equipment Replacement Reserve for FY 2015 and maintain current contributions for the replacement of capital equipment to keep the reserve at an adequate level.
11. Maintain current contributions for facilities maintenance costs to keep the reserve at an adequate level.
12. Transfer \$40,000 from the General Fund to the Park Asset Replacement Reserve for FY 2015 and contribute annual amounts for the replacement of park assets.
13. Maintain annual depreciation fund charges and asset model contributions to the Water Operating fund to achieve three years' worth of future capital projects.
14. Maintain annual depreciation fund charges that will be charged to the Sewer Operating fund to maintain three years' worth of future capital projects.

15. Maintain annual depreciation fund charges and contribution to the Storm Drain Depreciation Reserve to achieve funding for three years' worth of future capital projects.
16. Maintain depreciation contributions to the reserve to keep the Golf Course Depreciation reserve at an adequate level.
17. Maintain depreciation contributions to the reserve to keep the Golf Course Capital Improvement reserve at an adequate level.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2014:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2015	Total Charge for General Liability FY 2014
General Fund	80.9%	57.9%	63.6%	\$ 1,218,680	\$ 1,084,360
Water Fund	13.1%	19.4%	17.8%	402,990	293,650
Sewer Fund	2.9%	9.8%	8.1%	214,590	133,600
Solid Waste Fund	0.0%	0.3%	0.2%	3,650	3,040
Storm Drain Fund	3.1%	1.7%	2.0%	79,470	34,170
Golf Course Fund	0.0%	2.3%	1.8%	35,940	29,080
Clean Ocean Fund	0.0%	2.2%	1.7%	34,070	27,580
Central Services Fund	0.0%	0.6%	0.5%	9,290	7,720
Information Services Fund	0.0%	1.7%	1.2%	29,540	20,250
Fleet Maintenance Fund	0.0%	1.3%	1.0%	21,780	16,550
Total	100.0%	100.0%	100.0%	\$2,050,000	\$1,650,000

Workers Compensation charges

The following rates are in effect for FY 2014:

8810	Clerical	\$0.47/\$100 of payroll
9410	Non-Manual	\$1.33/\$100 of payroll
9420	Manual Labor	\$4.41/\$100 of payroll

The proposed rates for FY 2015 are:

8810	Clerical	\$0.49/\$100 of payroll
9410	Non-Manual	\$1.40/\$100 of payroll
9420	Manual Labor	\$4.64/\$100 of payroll



Fiscal Policy

Objective

Review the City's adopted Fiscal Policy on an annual basis in order to determine appropriate changes, additions or deletions.

Background

A review of the City Council adopted Fiscal Policy is conducted on an annual basis in conjunction with the preparation of the Long Term Financial Plan. This review is performed in order to document proposed new policies identified through the preparation of the Long Term Financial Plan. Additionally, as circumstances change, there is sometimes a need to modify existing fiscal policy statements.

The Fiscal Policy statements are presented by major categories, which include;

- Core Values of Financial Sustainability
- Operating Budget
- Revenue
- Expenditure
- Utility Rates and Fees
- Capital Improvements
- Short Term Debt
- Long Term Debt
- Fund Balance and Reserves
- Investment Policies
- Accounting, Auditing, and Financial Reporting
- Long Term Financial

A **Status** for each Policy Statement is presented, with a ✓ for "in compliance", or -- if the policy is "not in compliance" with the current Policy statement.

Comments are provided next to many of the policy statements to provide additional relevant information to the reader. Unless otherwise noted, reserve balances provided in the comment sections are based on projected numbers as of June 30, 2014, presented within the Reserve Paper in this year's Long Term Financial Plan.

Two new policies are recommended for addition to the City's Fiscal Policy; the first to restrict General Fund revenues from use to fund specific expenditure line items, and the second to add a new section to the Fiscal Policy to establish Risk Management and Insurance Strategy guidelines.

A new revenue policy has been introduced to clarify the appropriate use of General Fund revenues. This new policy restricts the commitment of any specific General Fund revenue to an expenditure line item. The commitment of General Fund revenues to fund a specific expenditure line item can be problematic, as the City typically does not have control over the amount or collection of individual General Fund revenues. The reduction or elimination of funding, committed to a specific expenditure, could result in a funding gap which would then necessitate diverting other General Fund revenues or the reduction or elimination of the expenditure covered by the committed General Fund revenue.

The City is near completion of a General Plan Update. During a review of Safety Element of the City's General Plan Update, Council expressed an interest in adding specific guidance or coverage elements of the City's Risk Management and Insurance Strategies to the General Plan. The option to include in the City's General Plan or the Fiscal Policy was discussed. The City Manager recommended that a new section within the City's Fiscal Policy be developed. This would allow greater flexibility in the future, as insurance needs might change and risk issues evolve, to modify and enhance those strategies within the City's Fiscal Policy. Council approved that recommendation, resulting in the newly proposed policy statements presented below.

Following are proposed changes to the current Fiscal Policy:

- 1. Revenue Policies:** Add a new policy to restrict the commitment of on-going General Fund revenues to any specific recurring expenditure or program.

Current Policy Statement	Proposed Policy Statement
<p>Policy # None</p>	<p>New General Fund revenue categories (sales tax revenue by example) may not be committed directly to fund a specific expenditure line item or program.</p>

- 2. Risk Financing Policies:** Add a new policy section in the Fiscal Policy to define the City's Risk Financing strategy.

Current Policy Statement	Proposed Policy Statement
<p>Policy # None</p>	<p>New The City will maintain adequate insurance coverage, pooled coverage, or self-insurance for general liability, property, errors and omissions, subsidence, automobile liability, workers' compensation, and other identified loss exposures.</p> <p>New The City will maintain a risk financing strategy, which shall include an annual review of insurance policy limits, types of coverage, reserve requirements, and self-insurance limits, if applicable.</p>

Recommendation

Modify the City's Fiscal Policy to:

1. Prohibit the commitment of any specific General Fund revenue line item to fund an expenditure line item or to fund specific programs.
2. Establish Risk Financing Policies.

Council Action (5-0):

The following Fiscal Policy additions were approved by City Council:

1. Revenue Policies: Add a new policy to restrict the commitment of on-going General Fund revenues to any specific recurring expenditure or program.
2. Risk Financing Policies: Add a new policy section in the Fiscal Policy to define the City's Risk Financing strategy

Core Values of Financial Sustainability

Financial stability – The City will create financial stability to provide the community with a consistent and adequate level of public services. The City will take a long-term approach to its finances by developing and maintaining long-term plans, carefully weighing the cost and benefits of development opportunities and adhering to sound debt, reserve and investment policies.

Quality of life and local economic vitality – The City will provide effective and efficient services to ensure a safe and healthy atmosphere for its residents, businesses and visitors, while preserving and enhancing its unique cultural and environmental attributes.

Accountability and Financial Planning – The City will institute financial planning that ensures City services are provided at the best value and that the services are in alignment with the needs and wants of the community.

Environmental and economic sustainability – The City’s financial strategy will support continued investment in the renovation and maintenance of physical infrastructure/facilities and in policies and programs that support a clean and healthy natural environment.

Transparency and engagement – The City will be accountable for producing value for the community by producing planning and report mechanisms that make it clear how the City plans to use its resources to achieve the community vision. The City is committed to engaging the public as a partner in formulating plans and delivering services.

Fiscal Policy Statement	Status	Comments
Operating Budget Policies		
1. The City will adopt a balanced budget by June 30 of each year. A balanced budget is defined as one in which total expenditures equal total revenue. An entity has a budget surplus if expenditures are less than revenues. It has a budget deficit if expenditures are greater than revenues.	✓	
2. An annual base operating budget will be developed by verifying or conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.	✓	
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.	✓	

Fiscal Policy Statement	Status	Comments
4. The City will annually review the General Fund operating position to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the City will delay construction of the new facilities.	✓	
Revenue Policies		
5. The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.	✓	
6. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.	✓	
7. All City Council-established General Fund User fees will be reviewed and adjusted annually as part of the budget process by each City department and the analysis with recommended changes will be provided to the City Council. The basis for adjustment will be the cost of providing services, inflationary impacts, or other budgetary factors as appropriate. User fees will be established to recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest.	✓	Annual review is presented in the Fee Schedule section of the Operating Budget
8. One-time operating, capital, and reserve revenues will be used for one-time expenditures. Exceptions must be formally adopted by Council Action and may only offset operating expenditures for a limited time period of less than five fiscal years.	✓	
9. The City will annually identify developer fees and permit charges received from “non-recurring” services performed in the processing of new development and use those funds to meet peak workload requirements.	✓	

Fiscal Policy Statement	Status	Comments
Expenditure Policies		
10. The purchase of new or replacement capital equipment with a value of \$5,000 or more and with a minimum useful life of two years will require budget approval.	✓	
11. The City will annually project its equipment replacement and maintenance needs for the next five years and will update this projection each year. A maintenance and replacement schedule will be developed and followed.	✓	
Utility Rates and Fees Policies		
12. The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets and overhead charges.	✓	Annual review completed. Water rates increased 6.0% and Sewer rates increased 4.0% effective August 1, 2013.
13. Utility rates will be established for each of the next five years and this rate projection will be updated annually.	✓	
Capital Improvement Budget Policies		
14. The City will make all capital improvements in accordance with an adopted capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs. The first year of the six-year plan must be fully funded in the adopted budget. Projects that are not fully funded must be removed or delayed until adequate funding exists for design, construction, operating and maintenance.	✓	30 new Capital projects = \$8.1 million are included in the 2014 CIP Budget
15. Capital improvement projects must project operating and maintenance costs for the five-year forecast period to ensure that future year budgets maintain a positive operating position.	✓	

Fiscal Policy Statement	Status	Comments
16. The Park Acquisition & Development Fund and other special development impact funds may only be used to fund facilities included in the Master Plan for City Facilities.	✓	
Short-Term Debt Policies		
17. The City may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.	✓	
18. The City may issue interfund loans to meet short-term cash flow needs. Short-term is defined as a period of one year or less. Interfund loans will be permitted only if a specific source of repayment is identified within the “borrowing” fund. Excess funds must be available and the use of these funds will not impact the “lending” fund’s current operations. The prevailing interest rate, as established by the City Treasurer, will be paid to the lending fund. Short-term interfund loans require Council approval.	✓	
Long-Term Debt Policies		
19. The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	✓	
20. The City may issue long-term interfund loans to fund capital improvements. Interfund loans will be permitted only if a specific source of repayment is identified within the “borrowing” fund. Excess funds must be available and the use of these funds will not impact the “lending” fund’s long-term operations. Long-term interfund loans will be fully amortized (principal and interest included in payment). The prevailing interest rate and duration of the loan will be established by the City Treasurer. Principal and interest will be paid to the lending fund. Long-term interfund loans require Council approval. Long-term interfund loans will be disclosed in the City’s annual Operating Budget.	✓	The Golf Fund borrowed \$750,000 from the Workers’ Compensation Self-insurance reserve on July 1, 2012. The loan is fully amortized over a five-year period with annual payments due on June 30 beginning in 2013 and ending June 30, 2017.

Fiscal Policy Statement	Status	Comments
21. The City will establish and maintain a Debt Policy	✓	
Fund Balance and Reserve Policies		
22. The City will maintain emergency reserves equal to 9% of operating expenditures of the General Fund. The primary purpose of this reserve is to protect the City's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	✓	Emergency Reserve = \$4.6 million, or 9.00%, of General Fund operating expenditures.
23. The City will maintain emergency reserves equal to 12% of the operating expenses for Enterprise Funds. The primary purpose of these reserves is to protect the Funds during periods of economic downturn, other unanticipated expenses, or emergency expenses that could not be reasonably foreseen during preparation of the budget.	--	Emergency Reserves for: Water = \$948,000; Sewer = \$1,005,500; Storm Drain = \$181,000; Solid Waste = \$25,500; and Golf = \$241,000
24. The City will maintain \$10 million as a Sustainability fund balance in the General Fund. This fund balance will provide for economic and financial stability. Sustainability fund balance can be used only by formal action of City Council for specific purposes such as providing consistent and adequate level of services, provide for future capital needs, or provide for asset replacement.	✓	Sustainability reserve balance = \$10 million
25. The City will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained at a level at least equal to projected costs for employees who are eligible for retirement.	✓	Accrued Leave Reserve = \$613,000

Fiscal Policy Statement	Status	Comments
26. The City will establish a Capital Equipment Replacement Reserve and a Facilities Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.	✓	Capital Equipment Reserve = \$768,000 Facilities Maintenance Reserve = \$760,000
27. The City will establish Water, Sewer, Storm Drain and Golf depreciation reserves for costs associated with the major maintenance and capital improvement costs included in the Enterprise Funds. The minimum reserve level shall be at a level equal to the projected three-year capital and major maintenance costs.	--	Sewer Depreciation Reserve = \$7.4 million; Golf Depreciation Reserve = \$420,000; Water Depreciation Reserve = \$6.2 million; and Storm Drain Depreciation Reserve = \$1.1 million
28. The City will establish a Golf Course Improvement reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected three year costs.	✓	Golf Course Improvement reserve = \$290,000
29. The City will establish a Park Asset Replacement Reserve with a target of \$1.2 million for the replacement of park assets in the future. The reserve balance will be reviewed annually and funded through one-time revenues or undesignated General Fund balance transfers, when available.	✓	Park Asset Replacement Reserve = \$1,246,000

Fiscal Policy Statement	Status	Comments
30. The General Liability self-insurance reserve will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of one times its annual insurance authority premium. In addition, the City will perform an annual analysis to document those claims which are not covered by the insurance pool to which the City belongs, and reserve an additional appropriate amount to pay for such uncovered claims.	--	General Liability Reserve = \$319,000
31. The Workers' compensation self-insurance reserve will be maintained at a level which, together with purchased insurance policies, adequately protects the City. The City will maintain a reserve of three times its self insurance retention for those claims covered by the insurance pool (of which the City is a member). In addition, the City will perform an annual analysis of past claims not covered by the insurance pool, and reserve an appropriate amount to pay for uncovered claims.	✓	Workers Compensation Reserve = \$1.1 million
32. The City will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock (such as trailers, compressors or other equipment on wheels) as they become unserviceable, obsolete or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.	✓	Fleet Replacement Reserve = \$3.5 million

Investment Policies

33. The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	✓	
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Accounting, Auditing & Financial Reporting Policies

34. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	✓	
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Fiscal Policy Statement	Status	Comments
35. An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	✓	
36. A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	✓	A Fixed Asset inventory is maintained as part of GASB34
37. Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	✓	
38. An annual revenue manual will be prepared after the close of the fiscal year. The manual will provide information on the revenue source, legal authorization, timing of receipts and historical collection over the last five year period. Fee schedules or calculations will also be provided.	✓	
39. Full and continuing disclosure will be provided in the general financial statements and bond representations.	✓	
40. A good credit rating in the financial community will be maintained.	✓	Standard & Poor's = AAA
41. Establish and maintain a formal compensation plan for all employee salary or wage ranges.	✓	
42. Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	✓	

Fiscal Policy Statement	Status	Comments
Long Term Financial Policies		
43. Annually prepare a five year forecast that maintains the current level of services, including known changes that will occur during the forecast period. If the forecast does not depict a positive operating position in all five-years of the forecast, the City will strive to balance the operating budget for all years included in the five-year financial forecast.	✓	
44. Annually evaluate trends from a budget-to-actual perspective and from a historical year-to-year perspective to identify areas where resources have been over allocated. This would improve the accuracy of revenue and expenditure forecast by eliminating the impact of recurring historical variances.	✓	

Legend:

✓ *Budget Complies with Fiscal Policy Standard*

-- *Fiscal Policy Standard is not met in Budget*

Capital Projects Analysis

Objective

To provide a summary of capital projects with funding challenges and funding obligations for significant projects. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City's current and future financial resources.

Executive Summary

The City has reviewed capital projects that are significant and that are projected in the City's 6-year Capital Improvement Program budget. The capital projects were broken into 3 categories: 1) City projects – Non-Enterprise, 2) City projects-Enterprise; 3) Prospective projects, with the significant individual projects identified by area. City staff has analyzed the projects as to the available funding, the estimated project costs and the required funding. The information is summarized below.

CITY PROJECTS – Non-Enterprise

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Parks and Medians				
Beach Restroom Master Plan	General Fund	\$538,743 ¹	\$2,863,743	(\$2,325,000)
Steed Park Lighting Improvements	General Fund	\$0	\$1,000,000	(\$1,000,000)
Bonito Canyon Park Rehabilitation	General Fund	\$0	\$1,000,000	(\$1,000,000)
Rail Corridor Pedestrian Beach Trail Extension	General Fund	\$0	1,100,000	(1,100,000)
Facilities and Other Improvements				
ADA Improvements	General Fund	\$0	\$100,000 ²	(\$600,000) ³
Ole Hanson Beach Club	General Fund	\$3,155,000	\$3,155,000	(\$0) ⁴
USACE Sand Project	General Fund	\$252,000	\$12,200,000 ⁵	(\$4,170,000) ⁶
Municipal Pier Rehabilitation	General Fund	\$0	\$1,200,000	(\$1,200,000) ⁷

¹This includes \$438,743 for the Base of Pier Restroom and \$100,000 for Boca Del Canon and T-Street Restroom conceptual design from the General Fund.

²This includes FY 2014 ADA Ramp Project only.

³This includes total 6-year CIP General Fund outlay for ADA Improvements.

⁴Project design is estimated within available budget; final project cost dependent on outcome of public construction low bid.

⁵Project cost includes \$1,000,000 for design and \$11,200,000 for initial construction with the City's cost share with Federal Government at 25% for design and 35% for initial construction.

⁶There is a potential for 85% of the construction funds to be provided to the City by the California Department of Boating and Waterways.

⁷This includes funding for FY 2016 & 2017; budgetary estimate of \$1.7M anticipated for rehabilitation project FY 2020.

CITY PROJECTS – Enterprise

Activity Project Name	Funding Source	Amount Available	Estimated Project Cost	Required Funding
Water, Sewer and Storm Drain				
Reservoir No. 1 Expansion	Water Depreciation and Acreage Fee Funds	\$2,500,000	\$2,500,000	\$0
Doheny Ocean Desalination	Water Acreage Fee Fund	\$710,000	\$710,000 ⁸	\$0
Highland Light Ductile Iron Pipeline Replacements	Water Depreciation Fund	\$200,000	\$2,400,000	\$0

⁸Funding includes the City's share of the pilot project and testing, total project cost is estimated between \$175 million and \$200 million.

Background and Discussion

To provide information on individual projects, addressing the project background (history) and expenditures related to each project, the projects have been grouped in the previously identified categories.

Non-Enterprise Projects – Parks and Medians

Beach Restroom Master Plan



Project Background:

The City has six (6) Beach Restrooms that serve over two million visitors each year and are showing signs of deterioration from heavy use and the age of the facilities. Beaches and Parks staff has reviewed and identified a number of deficiencies in the structural integrity, accessibility, attractiveness, and functionality of these facilities, which have been summarized in the Master Plan for Beach Restrooms. Based on the significant costs identified in the Master

Plan, the 6-year General Fund CIP was developed to fund design and construction of one restroom every two years on a pay-as-you-go basis.

The Base of Pier Restroom project was chosen as the first restroom for rehabilitation due to its high use and was programmed into the General Fund CIP in FY 2012. Design work for the Base of Pier Restroom has been completed and submitted to the City Building Division for plan check. The California Coastal Commission (CCC) coastal development permit has also been secured. To minimize beach user inconvenience, project construction is scheduled outside of peak summer months and is anticipated to commence after Labor Day 2014.

The City Council expressed interest in a “Fast Track” approach towards the remaining Beach Restrooms as part of its 2013 Strategic Priorities. In an effort to expedite the Beach Restroom work, a Request for Proposal was drafted to develop a conceptual design for rehabilitation of the five restrooms (Boca del Canon, “T” Street, Linda Lane, North Beach and End of Pier), and subsequently prepare final construction documents to rehabilitate the Boca del Canon and the “T” Street restrooms. Two proposals were received and ranged in cost from \$309,000 to \$436,000. Due to the high design costs and limited General Fund capital resources, staff has recommended conducting preliminary design reports on only Boca del Canon and “T” Street. The design reports will provide conceptual design options with budgetary estimates in order to evaluate rehabilitation vs. replacements cost benefits. Due to the proximity of these facilities to the ocean/sand interface, a wave impact analysis will be required. This work will be funded from the Boca del Canon design budget approved as part of the FY 2014 CIP budget for \$100,000. Funding for final design of these restrooms will be recommended as part of the FY 2015 CIP budget with construction funding recommended in FY 2016.

Expenditures:

The Base of Pier Restroom is budgeted for \$438,743 from the General Fund. Conceptual design of the Boca Del Canon and T-Street Restrooms is budgeted for \$100,000 from the General Fund. Long-term improvement costs to address the remaining five restroom facilities are estimated at \$2,325,000. Staff will review cost saving opportunities by evaluating the compatibility of a modular restroom facility designs for the remaining restrooms that possibly can be used at multiple locations.

Potential Cash Flow Issues:

Funding for the estimated \$2,325,000 to rehabilitate the remaining five restrooms will be requested for approval through the annual Capital Improvement Program budget from the General Fund.

Steed Park Lighting Improvements

Project Background:

Steed Memorial Park is named after San Clemente Police Officer Richard T. Steed, the only officer in San Clemente history to lose his life in the line of duty. The Park provides the community a softball and/or baseball facility with 4 lighted fields, batting cages, bull pens, a tot lot and a concession stand with nearby seating areas. The park is extremely popular with travel and adult softball leagues. Adjacent to park is a community skate facility that shares a parking lot with Steed Park.



A master plan of Steed Park was prepared to incorporate additional facilities into the park property in 2002. The expanded facility was planned to address the proposed lighting needs and provide two additional softball fields, new concession building, basketball courts, amphitheater seating, picnic shelters, a main entrance courtyard plaza and additional parking. The cost of the implementing the master plan was estimated at approximately \$4M. Due to lack of available funding, none of these improvements ever materialized due to lack of available funding. Instead, the City performed a more limited renovation of the existing facility that was completed in the spring of 2007. The renovation, which totaled \$1.5M, included drainage improvements, field renovations, backstop netting, batting cages, bull pens, hardscape, playground equipment and landscaping. Field lighting improvements were not included in the project due to budgetary constraints. The park master plan is outdated and would need to be updated to evaluate community needs and future park development opportunities. However, with the completion of the Vista Hermosa Sports Park, expansion of Steed Park is not anticipated for many years.

The field lighting was originally installed in the mid-1980s and has met its useful life. Main power switchgear and electrical lines will be upgraded through the project and the proposed lighting will provide better energy efficiency, lightening intensity improvements and will reduce spill light to conform to the General Plan's 'Dark Sky' recommendations.

Expenditures:

The lighting improvements are estimated to cost \$1,000,000 and are currently projected as part of the FY 2016 Capital Improvement Program from the General Fund. The project will be prioritized for funding based on recommendations from a proposed update of the Beaches, Park and Recreation Facilities Master Plan, which is under consideration for funding in the FY 2015 CIP.

Potential Cash Flow Issues:

Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

Bonito Canyon Park Rehabilitation**Project Background:**

Bonito Canyon Bicentennial Park was formally developed in 1976. The park is comprised of a baseball field, tennis courts, recreational green space, a restroom facility and a parking lot. The San Clemente Boys and Girls Club is located on a portion of the park property and shares use of the park facilities through a lease agreement with the City.

Beaches, Parks and Recreation Department staff considers the park to be in poor condition as compared to other parks in San Clemente. Although park facilities are nearing their useful life, the park continues to be well used by both the surrounding community and the Boys and Girls Club. Improvement of the tennis courts was deemed to be a high priority by Beaches, Parks and Recreation while other planned improvements were not deemed to be an immediate need and were deferred to future years.

To address immediate maintenance concerns to repair the tennis courts, \$145,000 was budgeted in FY 2012 to rehabilitate the failing tennis courts. Following a geotechnical analysis, it was determined that the project budget was not sufficient to complete necessary drainage and incidental improvements to protect the proposed court rehabilitation. As a result of the budget shortfall, the courts were re-surfaced and are expected to provide two additional years of life. The City Council also directed staff to open negotiations with the Capistrano Unified School District to see if an agreement between the City and school district could be reached to allow citizens the right to use the San Clemente High School courts during non-school hours. A comprehensive agreement for joint-use of all facilities is currently under negotiations and will be brought forward to City Council in 2014.

The proposed Bonito Canyon Park Rehabilitation project will comprehensively address numerous electrical and lighting needs including: tennis court light replacements, security light replacement, field light replacements and the replacement of the electrical switchgear to support the proposed lighting improvements. In addition, per the Americans with Disability (ADA) Consultants City-wide assessment, the restroom is proposed for rehabilitation to address ADA, and mechanical and plumbing system needs. Further, replacement of deteriorated fencing and extensive landscape improvements are also planned as part of the project to allow for delivery of a completely renovated park facility.

Expenditures:

The complete park rehabilitation project is estimated to cost \$1,000,000 and proposed to be budgeted over a two year cycle in FY's 2018 & 2019. A total budget of \$1,300,000 would be required if the City Council includes the court replacement as part of the park rehabilitation. The project will be prioritized for funding based on recommendations from a proposed update

of the Beaches, Park and Recreation Facilities Master Plan, which is under consideration for funding in the FY 2015 CIP.

Potential Cash Flow Issues:

Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

Rail Corridor Pedestrian Beach Trail Extension

Project Background:

Opened in 2008, the 2.3 mile long San Clemente Rail Corridor Pedestrian Beach Trail (Beach Trail) stretches between North Beach and Calafia State Beach. The Beach Trail has improved coastal access, safety and recreational opportunities along San Clemente's coastline. The Beach Trail is part of the larger California Coastal Trail which goal is to complete the trail over the entire length of California's coast. Based on the Beach Trail's success of improving safety along the railroad corridor and its unquestionable popularity as a recreational amenity, the City Council requested that staff evaluate the cost of extending the Beach Trail farther to the south. The extension would stretch a third of a mile from Calafia Beach to the State Park underpass.

Scope of the project will include extending the decomposed granite multi-use trail and protective fence that ends at the Calafia Beach access to the State Park underpass, where it would be ramped down to the underpass access point. An additional feature of this project would be to improve ADA accessibility to the State Park access point.

Staff contracted with BGB Landscape Architects who were the professional service providers that designed and oversaw the construction of phase I and II of the Beach Trail. They also completed a preliminary design for this trail extension for the California State Parks; however, the project was never pursued. BGB along with staff walked the trail extension to evaluate existing conditions for the basis of identifying permit processing requirements and preparation of a construction cost estimate for the project.

Expenditures:

The Beach Trail extension is estimated to cost \$1,100,000 and proposed to be budgeted over a two year cycle. The CIP budget will propose \$200,000 for design in FY 2015 with \$900,000 proposed for construction in FY 2016 based on the estimate prepared by BGB Landscape Architects.

Potential Cash Flow Issues:

Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance.

Non-Enterprise Projects – Facilities and Other Improvements

American Disability Act Improvements

Project Background:

The City has been making steady progress in its ADA compliance efforts. An ADA Transition Plan is in place that identified and prioritized items to be corrected. The plan is being implemented over the next 20 years. ADA improvements are accomplished through routine maintenance items, inclusion into current projects such as the Ole Hanson Beach Club, and with ADA specific projects. An ADA Improvements Program was included in the CIP budget beginning with Fiscal Year 2014 to plan for and fund ADA specific projects. The program is currently included in the CIP budget for the next six years at \$100,000 per year.

The ADA Transition Team will meet annually to identify a high priority project to be recommended for the upcoming fiscal year CIP budget. Consideration is given to prioritized items identified in the Transition Plan, projects that will address the greatest benefit to public access, and any recent complaints regarding ADA compliance. The ADA specific project recommended for Fiscal Year 2015 is the access ramp to the north entrance of the Community Development Department.



The ADA Transition Team met with Engineering staff to discuss the recommended ramp project. It will entail a complete ramp build including; demolition work, form work, and railing work. The project will also require irrigation, flat concrete work and relocation of planting. The project will meet the immediate need for compliant access to the north entrance of the building and correct problems with settlement of the soil and the sloping and height of the steps. The project is contiguous with the Community Development parking lot project and includes the

concrete work that is necessary at the entrance to complete the installation of an automatic power operated door. Completing this work in conjunction with the parking lot and automatic doors will provide a public access that is fully compliant with ADA provisions.

Expenditures:

The access ramp to the north entrance of the Community Development Department is estimated to cost \$100,000. The 6-year General Fund capital projects fund is currently programmed for \$100,000 per year through Fiscal Year 2019. The project is recommended for approval and completion in Fiscal Year 2015 in conjunction with the construction phase of the Community Development Parking Lot project.

Potential Cash Flow Issues:

Due to the economic climate, General Fund capital project expenditures will be reviewed and prioritized annually through the budget process in consideration with the annual available undesignated General Fund balance. It is vital funding to this program continues to allow projects to be completed in order demonstrate progress with the ADA Transition Plan.

Ole Hanson Beach Club

Project Background:

The Ole Hanson Beach Club was built in 1928, as part of the original San Clemente plan and is listed as a Historic Resource on the National Register of Historic Places. Since its original construction, a number of alterations have been made to the building; however, it has never had a complete restoration, and many of the repairs made over the years are not fitting with the historic nature of the structure. The building's structural,



mechanical, plumbing and electrical systems have exceeded their useful life and need to be rehabilitated to ensure the beach club's long-term viability. In addition to the core building systems, there are numerous improvements that can be incorporated into the rehabilitation project to improve the layout and functionality of the existing space and pool, as well as re-establish the Spanish Colonial Revival architectural features and elements that were part of the original construction.

On November 15, 2011, a historic architect was retained to prepare plans and specifications for a comprehensive restoration of the facility in compliance with the Secretary of the Interior guidelines for historic preservation including upgrades to the pool. Ole Hanson Beach Club staff was moved to support programs at the new Vista Hermosa Sports Park and the facility was closed to perform destructive testing to evaluate the structural design requirements for the rehabilitation and complete the project's preliminary design report. Although the public pools are currently closed, rentals of the facility continue to be available until start of the project construction.

Originally, the project was funded for \$1.5 million. At the May 21, 2013 City Council meeting, staff and ARG presented the final concept plan including a menu of improvement items for the City Council's selection and approval for the final design and construction documents preparation. Based on this selection and approval, the Council allocated an additional \$655,000 to the project budget, increasing the total project budget to \$3,155,000.

The project is currently under final design and permitting. Public bidding is scheduled for March 2014 with construction anticipated to start in July 2014. Project construction completion is anticipated by July 2015.

Expenditures:

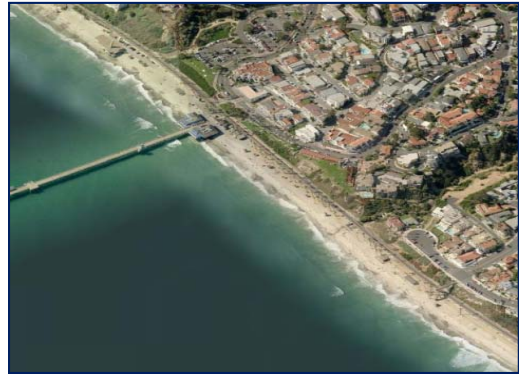
The project is budgeted from the General Fund for \$3,155,000.

Potential Cash Flow Issues:

Final project costs will not be known until public bids are received from qualified contractors who bid the project; however, the budget is in accordance with project estimates including all soft costs and contingencies.

USACE Sand Project**Project Background:**

San Clemente has suffered a severe erosion of beach sand in recent years which has resulted in the loss of recreational beach, damage, destruction to beachfront facilities and increased risk to beach patrons due to the exposure of underlying facilities. The City and the U.S. Army Corps of Engineers (Corps) have completed a Feasibility Study which identified a sand replenishment project to mitigate beach erosion along the central portion of San Clemente's shoreline. The recommended project is to place 251,000 cubic yards of sand along the shoreline from Linda Lane to South T-Street beaches (a distance of about 3,400 feet), which would widen the beach by 50 feet. This section of beach would be periodically replenished with sand about every 6 years over the course of a 50-year project life.

**Current Status and Schedule:**

To be eligible for Federal funding assistance, the project must first be authorized in a Federal spending bill (in this case the Water Resources Development Act, or WRDA) and then be included in a subsequent Federal budget for funding. The City Council supported the recommended 50-foot beach nourishment plan, and both the Corps and the Office and Management and Budget (OMB) have transmitted the recommended project to Congress for authorization in the next WRDA bill. The City's Federal lobbyist, Marlowe & Company, has developed proposed language and confirmed that it has been included in both the draft WRDA bills prepared by the U.S. Senate and U.S. House of Representatives. Congress is now in a process to reconcile the two draft versions into a unified WRDA bill for approval by Congress and the President. This is expected to occur in early 2014. Marlowe is also supporting efforts to change current Federal policy which does not support funding for projects below a Benefit-Cost ratio (BCR) of 2.5 (the City's project has BCR of 1.4).

Expenditures:

The total cost for the Feasibility Study was \$3.2 million of which the City was obligated to provide 50% or \$1.6 million. About \$900,000 of the City's \$1.6 million local cost share obligation was funded from grants received from the California Department of Boating and Waterways (DBW) and the remainder was provided from City General Fund contributions, and credit for in-kind services. Over the course of the Feasibility Study, the City has provided various in-kind services in support of the study (e.g. beach width surveys, City staff project management, etc.)

Capital Projects Analysis

that will be credited toward the City's total cost sharing obligation. The final value that will be credited to the City will be determined during a Corps post-study audit, however it appears at this time that the City has fulfilled its Feasibility Study cost sharing obligation.

The design phase is estimated at \$1 million, with the Corps responsible for 75% of the cost and the City 25%. The cost for the recommended plan is estimated at \$11.3 million for the initial sand placement, with the Corps providing 65% of the cost. The total project cost for ongoing sand placement over the 50-year project life is estimated at \$99.1 million, with a 50-50 cost share. The following table summarizes the estimated design and construction costs and funding obligations:

Phase	Cost Share	Federal Share (millions)	City Share (millions)	Total (millions)
Design	75% Federal 25% City	\$0.75	\$0.25	\$1.0
Initial Construction	65% Federal 35% City	\$7.3	\$4.0	\$11.3
Ongoing Sand Replenishment	50% Federal 50% City	\$43.4	\$43.4	\$86.8
Total		\$51.45	\$47.65	\$99.1

If the Corps receives design phase funding and the City Council and Corps agree to continue into the design phase, this work could begin during FY 2015. The City would then be obligated to provide \$250,000 to the Corps for design work. There is approximately \$61,000 available in the City's project balance that could be applied toward the design phase cost. Additionally, DBW has awarded a \$191,000 grant to the City, which combined with available City funds, would provide the City's total design phase contribution.

Initial construction of the beach nourishment project would also be eligible for DBW grant funds (up to 85% of the City's cost share obligation), subject to State funding availability which is not guaranteed. Unlike the City's funding contributions for the feasibility study phase and potential design phase, which are paid over the duration of each phase, the City's \$4 million payment for the initial construction would be due in full before the start of construction. Without significant DBW grant support, the City will need to identify other funding sources to meet its cost sharing obligation to proceed with the construction phase. This is further discussed in the Sand Replenishment LTFP paper.

Municipal Pier Rehabilitation

Project Background:

The municipal pier is considered one of the City's most treasured public assets by residents and visitors alike. The pier was originally constructed by the San Clemente's founder, Ole Hanson, in the late 1920's. Since that time, the 1,250 foot long structure has been a prominent landmark of southern Orange County and clearly identifies San Clemente from coastal waters.



Due to the harsh marine environment and storms throughout the years, the pier has undergone numerous repairs and some reconstruction. In the mid-1980's, 440 feet of the pier was destroyed and reconstructed due to high surf produced by a severe winter storm. Every few years, pilings were replaced until more recent major repairs and rehabilitation work completed in 2005 and 2011 was performed to address deterioration and maintain the overall integrity and safety of the pier structure. Work performed in 2011 included partial replacement of piles, bracing & decking, electrical upgrades, installation of new lights, new sewer line and related incidental improvements. The project totaled \$2.8M and was funded from the City's Redevelopment Agency, which no longer exists for funding of future planned improvements.

To ensure the pier's long term use and viability, it is recommended that pier improvements be reviewed every few years due to the dynamic nature of the facility. Additionally, the City is required to conduct a biennial inspection of the timber piles as a condition of the California Coastal Commission (CCC) development permit that was secured for the 2011 rehabilitation. In order to meet the CCC condition, a structural repair and maintenance assessment was conducted in FY 2013 by TranSystems Corporation. Findings from the evaluation were prioritized and used to develop recommended capital improvements and budgetary estimates over the next 6-years. There is also numerous small miscellaneous maintenance projects recommended that can be undertaken by Beaches & Parks Maintenance Division through their operating budget. Maintenance projects include items such as replacement of siding on the bait shop, replacement of small diameter corroded sewer lines and repair of electrical systems.

Pier capital improvements are grouped into two separate projects proposed to take place within 5 years of each other. The next pier rehabilitation is recommended for design and permitting in FY 2016 for \$200,000, and construction in FY 2017 for \$1,000,000. Improvements include replacement of timber piles, deteriorated timber decking and bracing as well as railing upgrades. A more comprehensive repair project is anticipated in FY's 2020 and 2021. Similar to previous anticipated improvements in FY's 2016/2017, this project will include systematic replacement of timber piles, decking, bracing and railing to maintain the integrity of the pier. Additionally, it is anticipated that recoating of all the steel pile caps, recoating of the steel beams and replacement of the cathodic protection system will be needed. The full scope and

budget of these improvements will not be known until a future assessment is conducted to determine the extent of deterioration caused by the marine environment. Nonetheless, in consideration of the current budgetary estimates to construct the FY 2016 improvements and 3% escalation factor, a total project cost of \$1,700,000 is recommended as a reasonable projection for improvements anticipated for design in approximately FY 2020.

Expenditures:

The Municipal Pier Rehabilitation is estimated to cost a total of \$1,200,000. Funding for the project will be budgeted over a two year cycle in FY's 2016 & 2017. The structural assessment and design is proposed to be budgeted for \$200,000 in FY 2016. Construction funding in the amount of \$1,000,000 is proposed for FY 2016. Staff is exploring a Public Access Program grant opportunity through the California Wildlife Conservation Board funded through Proposition 84 to reduce the financial impact to the City's General Fund. Matching funds are recommended for this grant opportunity.

Additionally, the City of San Clemente is working with the Government Finance Officers Association (GFOA) on a risk-based reserve analysis project to recommend funding and reserve levels related to pier maintenance.

Potential Cash Flow Issues:

Pier improvements were historically funded been budgeted from the City's Redevelopment Agency, which was dissolved by the state in 2011. Given the dissolution of the Redevelopment Agency, the funding must now come from the General Fund. Staff recommends establishing a Pier Reserve Fund to ensure the long term use and viability of the pier. As noted in the Reserve Analysis paper, the City anticipates using sale proceeds from the Bellota sale to establish the Pier Reserve Fund.

Enterprise Projects

Reservoir No. 1 Expansion

Project Background:

The City's largest potable water service zone is served by Reservoir No. 1, which receives its supply from several turnouts off the Joint Regional Water Supply System Local Transmission Main and the City's wells. The reservoir is located near the Municipal Golf Course and provides water to customers west of Interstate 5, down to the beach. Reservoir No. 1 is the City's oldest reservoir built in 1955 with a 450,000 gallon storage capacity. The reservoir was constructed with concrete walls and floor, and has a combination wood and sheet metal roof structure.

In late June 2010, City Water Operations staff noticed a sag in the roof structure while conducting routine maintenance rounds of the water system. The roof structure was found to be in poor condition with corrosion of nails and missing framing members. The roof was temporarily repaired and design commenced to replace the structure. The reservoir was

identified in the City's 2006 Water Master Plan for increasing capacity from 450,000 to 1,000,000 gallons and subsequently scheduled in the City's CIP for replacement in FY 2015.

Reservoir expansion was once considered vital for the City to maximize its groundwater pumping capacity. In addition to storage, potable water treatment regulations were a factor in considering the increase in reservoir capacity. Through the preliminary design process, a phasing approach has been considered to delay reservoir construction for approximately 5-years. In order to allow for this approach, a larger diameter conveyance pipeline from the well treatment plant would be constructed ahead of the reservoir expansion to meet regulatory benchmarks required for chemical residence time prior to conveyance to the distribution system. The conveyance pipeline and chemical addition system were budgeted for construction in FY 2013 which allows for deferral of the reservoir expansion until FY 2016.

Expenditures:

The conveyance pipeline and chemical improvements were budgeted in FY 2013 for \$750,000. The reservoir construction is anticipated in FY 2016 and is estimated at \$2.5 million with funding from the Water Depreciation and Water Acreage Fee Funds.

Doheny Ocean Desalination

Project Background:

The City is participating with 4 other agencies (City of San Juan Capistrano, City of Laguna Beach, South Coast Water District and Moulton Niguel Water District) to explore construction of an ocean water desalination plant in Dana Point. The construction of ocean water desalination facilities may provide South Orange County with a new water supply source that is independent of drought cycles and will help supplement judicially mandated Delta cutbacks. The projected water supply of up to 15 million gallons per day will significantly improve South Orange County's water supply system reliability. This project is especially important for San Clemente since it is at the south end of the regional pipeline distribution system, with 2 pipelines from the Diemer Filtration Plant providing imported water to the City from the north. There is no water available from the east or south.

A pilot plant was constructed and operated for approximately 18 months ending May 2012. Pilot testing and studies have been completed and include: water quality from a slant well in Doheny Beach, effects on the San Juan Basin Aquifer, corrosion analysis, reverse osmosis filter testing, microbial testing, post treatment testing, iron and manganese treatment, cost analysis and operation and maintenance costs.

Several participants determined additional studies to evaluate regional alternative interconnections, projects and further study of the San Juan Basin is needed before a final decision to construct the project is made. South Coast Water District and the City of Laguna Beach are funding additional studies of the San Juan Basin through a Metropolitan Water District Foundation Grant. The cost of the study is \$500,000, with local funding of \$300,000 and grant funding from Metropolitan Water District in the amount of \$200,000. While the City is not funding this phase of work, the City is participating in the process and will decide whether

or not to participate in the construction of a project upon completion of the study within the next 2 years.

Expenditures:

To date, the City has budgeted \$710,000 for participation in the pilot plant and feasibility analysis of the project from the Water Acreage Fee Fund. The full scale plant total project cost is estimated between \$175 million to \$200 million depending on whether or not iron and manganese treatment is needed. No funding source has been identified to meet the City's share of the project.

Highland Light Ductile Iron Pipeline Replacements

Project Background:

Highland Light Estates is a community within the Marblehead Inland development. The tract was developed in 1989. Although the community is comprised of private streets, water and sewer utilities exist within public easements that were dedicated and accepted by the City when the property was developed. As a result, the City's Utilities Division is responsible for maintenance and operation of the water system within the all communities of the Marblehead Inland development. The water lines constructed in this development are comprised of both ductile iron and asbestos cement pipe.

Due to highly corrosive soils and inadequately placed polyethylene wrapping material, Utilities Division staff has performed numerous repairs on the existing ductile iron waterlines within the Highland Light community over the past 5 years. In addition to unexpected interruptions in water service to community residents, it is costly and ineffective to continue repairing the water system in this manner. Future failures are inevitable due to continued corrosion of the existing potable water system. After a review of Utilities Division work order history in the area, staff concluded the best solution is to replace the existing 6, 8 and 10-inch diameter ductile iron pipes with polyvinyl chloride (PVC) piping. The PVC piping is anticipated to provide a 50 to 75 year life and will not be affected by the highly corrosive soils that underlie the development.

Expenditures:

The project is estimated to cost a total of \$2,400,000. To reduce the impact to the Water Fund Depreciation Reserve, the work is proposed to be broken up in two separate projects over multiple years. Phase 1 design of the project was approved as part of the FY 2014 CIP budget for \$200,000 and will focus on the areas where the majority of the corrosion problems have been encountered and repaired. Phase 1 construction will be proposed for \$1,000,000 as part of the FY 2016 CIP budget. Phase 2 of the project is anticipated for design/construction in FY 2017/FY 2018 for a total of \$1,200,000 to remove and replace all remaining ductile iron waterlines in the development and mitigate the potential for future failures.

Capital Project Analysis Gap Closing Recommendations:

Beach Restroom Master Plan – Fund the restroom improvements on a “pay-as-you-go” basis from the General Fund. Combine the design phase of the Boca del Canon and T-Street restroom to accelerate restroom improvements based on availability of funds.

Steed Park Lighting Improvements – Fund the lighting improvements from the General Fund. Program the project in the 6-year capital outlay based on the parks project priority ranking established as part of the Parks Master Plan proposed as part of the FY 2015 CIP budget.

Bonito Canyon Park Rehabilitation – Fund the park rehabilitation from the General Fund. Program the project in the 6-year capital outlay based on the parks project priority ranking established as part of the Parks Master Plan proposed as part of the FY 2015 CIP budget.

Rail Corridor Pedestrian Beach Trail Extension – Fund the Beach Trail extension from the General Fund with design in FY 2015 and construction in FY 2016.

ADA Improvements – Fund ADA improvements on an annual basis from the General Fund. Attain ADA compliance of City facilities during major rehabilitation projects.

Ole Hanson Beach Club – No gap closing required, the project is fully funded.

USACE Sand Project – Pursue grant funding from the CA Department of Boating and Waterways for initial construction phase of the project. Fund City share of initial construction from the General Fund in FY 2016.

Municipal Pier Rehabilitation – Fund the pier rehabilitation from the General Fund with design in FY 2016 and construction in FY 2017. Establish a Pier Reserve Fund to ensure funding availability needed for major maintenance on a 5-year basis with proceeds from Bellota sale.

Reservoir No. 1 Expansion – Fund the reservoir expansion from the Water Depreciation and Water Acreage Fee funds in FY 2016.

Doheny Ocean Desalination – Pilot plant and study is fully funded. Results of completed study will be used as a basis to determine construction costs and whether City continues participation in the project.

Highland Light Ductile Iron Pipeline Replacements – Fund the pipe replacements from the Water Depreciation Fund in FY 2016.

Fiscal Impact of Recommendations:

None



Retirement Systems Analysis

Objective

To review the current City Council retirement plan and address unfunded liabilities.

Executive Summary

The City's two retirement plans for current and past City Employees are the City of San Clemente Employees' Retirement Plan (CSCERP), and the Safety Lifeguard Plan of the City of San Clemente. All permanent employees are covered by CSCERP, except Marine Safety personnel, who participate in the Safety Lifeguard Plan. The City and employees make regular contributions into the retirement funds in order to accumulate enough assets prior to a participant's retirement to provide sufficient funds to fulfill the defined pension benefits.

For the City's retirement funds, external actuaries are engaged to project the amount of funds required in order to provide the defined pension benefits. To do this, an actuary makes a variety of assumptions based on informed analytics. Actual results can vary from the assumptions made (e.g., actual investment returns sometimes come in lower than what was assumed), often meaning that sufficient assets were not accumulated during that period to match the liabilities incurred during that period. When this occurs, an "Unfunded Liability" is created, usually known as the Unfunded Actuarial Accrued Liability, or UAAL. Other factors can impact the City's UAAL such as changes to benefits, changes to actuarial assumptions, and the period when contributions are made, among others.

It is prudent for staff and Council to ensure that actuarial assumptions are realistically based, so that the computed Annual Required Contribution (ARC) and the related pension rate ideally provides for adequate funding to pay future promised benefits without further increasing the UAAL balance.

On the City's primary retirement plan, CSCERP, the City pays off any UAAL over a period of 20 years. This is a generally accepted actuarial practice that allows a given year's "loss" to be spread over a reasonable time period in which pension benefits would be accrued, rather than having to recognize the entire loss immediately, which could have a significant impact on employer pension rates. Conversely, a given year's "gain" is also amortized over 20 years, which is designed to provide for a more stable employer contribution rate from year to year.

The City's total UAAL as of July 1, 2013, the date of the most recent actuarial report, was \$16.8 million. The City is not alone in having an UAAL, many public agencies have experienced increased balances in recent years. The primary driver of the City's current UAAL balance centers around the economic recession over the last 5 years and the low investment returns on the City's pension investment portfolio. As we experience increasing returns within the market, we anticipate improvements to the UAAL. It is also important to note the City has not added enhancements to its pension plan, thus avoiding further UAAL increases. Additionally, the 2013 Pension Reform Act (PEPRA) will help the City minimize increases as well. The City has taken a proactive approach towards the on-going funding of the UAAL; with the proposed Rate Stabilization Fund, the City is adding another tool that will address fluctuations of the City's pension rate and fiscal impact to the City.

Background and Discussion

The City has two retirement plans for current City employees: The City of San Clemente Employees' Retirement Plan (CSCERP), administered by Great-West Retirement Services, and the Safety Lifeguard Plan of the City of San Clemente, administered through the California Public Employees' Retirement System (CalPERS). All permanent employees are covered by CSCERP, except Marine Safety personnel, who participate in the CalPERS plan.

Safety Lifeguard Plan of the City of San Clemente (CalPERS plan)

The CalPERS Safety Lifeguard Plan of the City of San Clemente is the pension plan that covers the City's Marine Safety personnel. The plan is a cost sharing, multiple employer risk pool which is governed by state statute. Although the City has control over the pension benefits provided, the funding and actuarial assumptions for the risk pool are maintained by CalPERS, not the City.

When the City entered the CalPERS Safety Lifeguard plan, a "side fund" - or separate City liability - was created, for current (active) employees. Side funds were created by CalPERS to account for the difference between the funded status of the pool and the funded status of an individual plan, in addition to any existing unfunded liability, in order to ensure that plans with varying funded status could enter into the same risk pool. The side fund for active employees is being funded through the City's annual contributions to the plan, with \$41,655 projected to be paid toward the side fund balance in FY 2014. At the end of FY 2014, the side fund is projected to have a balance of \$223,763 still due, with six years of amortization remaining.

When the City entered the CalPERS plan, an additional "side fund" liability was created for past (inactive) employees, namely past Fire and Police personnel. In November 2010, the City made a lump sum payment of \$4,754,163 to CalPERS to pay off the side fund for past (inactive) employees, which was previously being amortized over 20 years.

Similar to the payoff made for the inactive employees, it is recommended that the City make arrangements with CalPERS to pay off the remaining side fund balance of approximately \$224,000 for active employees, which would reduce the City's annual required contribution to the plan, thereby reducing ongoing operating costs over the next six years.

The City of San Clemente's Employee Retirement Plan (CSCERP)

The CSCERP plan, which covers the majority of City employees, is a single-employer defined benefit pension plan and is included in the City's financial statements. As of July 1, 2013, the plan had 178 active participants and 98 inactive participants with vested benefits. The plan is currently paying benefits to 105 retired or disabled participants or beneficiaries. The City is ultimately responsible for ensuring the plan has sufficient assets to pay benefits as they become due. A sound funding policy dictates that funds for the payment of pension benefits be set aside in advance of the date on which the benefits become payable. In order to provide for the adequate and justifiable funding of the City's pension plan, an Actuarial Valuation is performed on a regular basis (every one to two years).

An Actuarial Valuation for pension plans is a process for determining the estimated cost of current and future benefits to be paid under a pension plan as well as the amount of contributions necessary to meet this estimated cost. The amount needed for the necessary contributions for any given year is called the Annual Required Contribution (ARC). This amount is converted to a percentage of the City’s total payroll. This percentage is known as the annual pension rate and includes a fixed 7% employee contribution rate (a portion of which is currently paid by the City), and a variable employer contribution rate.

The City and employees make bi-weekly contributions to the CSCERP based on the actuarial determined annual pension rate, as described above. These contributions include a component to pay down a portion of the City’s Unfunded Actuarial Accrued Liability (UAAL) balance. The City’s total pension rate for CSCERP for FY 2013 was 25.1% and for FY2014 was 26.2%., reflected as a percentage of payroll.

CSCERP’s Unfunded Actuarial Accrued Liability (UAAL)

If a retirement plan has accumulated sufficient funds to meet or exceed the estimated cost of current and future benefits to be paid under that plan, the plan is considered fully funded and any excess funds are considered a surplus. If a retirement plan has NOT accumulated sufficient funds to meet the estimated cost of benefits, the plan is considered underfunded. In an underfunded plan, the difference between the estimated costs of current and future benefits (Actuarial Accrued Liability, or “AAL”) and the amount of funds available to pay those benefits (Actuarial Value of Assets, or “AVA”) is referred to as the Unfunded Actuarial Accrued Liability (UAAL).

The following table shows the CSCERP’s UAAL, and its components, for the last five years:

SCHEDULE OF FUNDING PROGRESS - CSCERP

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2013	\$58,124,474	\$41,346,698	(\$16,777,776)	71.10%	\$13,773,828	121.80%
7/1/2012	\$52,775,327	\$36,170,712	(\$16,604,615)	68.50%	\$13,542,229	122.60%
7/1/2011	\$46,678,961	\$32,284,398	(\$14,394,563)	69.20%	\$12,798,598	112.50%
7/1/2009	\$35,704,653	\$25,911,607	(\$9,793,046)	72.60%	\$13,031,637	75.10%

Addressing CSCERP’S UAAL

The City’s total UAAL balance for CSCERP as of July 1, 2013 was \$16.8 million. It is important to note that even if the entire balance was paid off tomorrow, there is no guarantee that the City will not have a new UAAL balance again at the end of the year. That would depend upon whether or not the actuarial assumptions were all met. Following the ongoing actions recommended above could help the City minimize increases to UAAL balances in the future.

Currently, the City is paying off any UAAL balances over a period of 20 years. The entire UAAL balance as of July 1, 2011 was \$14.4 million. Starting in FY 2012, payments have been made to amortize this balance over a 20 year period, with 18 years remaining. Each subsequent year, the

Retirement Systems Analysis

difference between the new total UAAL and the previous amount of UAAL is computed as the Actuarial Gain or Loss for the year. This difference is then amortized over a new 20 year period. The Actuarial Loss for FY 2012 was \$2.3 million and for FY 2013 was \$0.5 million, with 19 and 20 years of payments remaining, respectively.

CSCERP's Annual Required Contribution (ARC)

The City's pension actuary determines the City's Annual Required Contribution (ARC) for the pension fund for any given year. The ARC is comprised of two parts: The **Normal Cost** and a **payment towards the amortization** of the Unfunded Liability (UAAL).

The **Normal Cost** represents the cost of the benefit that will be accrued during the upcoming fiscal year for active employees. The primary objective is to make the contributions each year that are needed to accumulate enough assets prior to a participant's retirement which, with interest, will be sufficient to provide the defined pension benefit.

The **UAAL amortization payment** is designed to pay off an agency's Unfunded Liability over a scheduled period of time. For the City's pension plan, the scheduled period of time to pay off the computed UAAL is 20 years. As a comparison, CalPERS, the State's largest pension system, recently implemented changes to amortize gains or losses over a fixed 30 year period, while changes in actuarial assumptions or methodology will be amortized over a fixed 20 year period.

The City's annual pension rate for any given year is determined by dividing the ARC by the projected payroll for the coming year. The City's annual pension rates over the last three years, by component, are as follows:

SCHEDULE OF PENSION CONTRIBUTION RATES (CSCERP)

Fiscal Year	Normal Cost Rate	UAAL Amortization Rate	Total Contribution Rate
2014	15.80%	10.40%	26.20%
2013	15.20%	9.90%	25.10%
2012	15.10%	8.40%	23.50%

It is recommended that the City create a reserve fund and set aside \$500,000, proportionally paid from the fund balances across all City Funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of "rate stabilization."

Impacts to CSCERP's UAAL

The computation of the UAAL is based on two components, as noted below. Changes to either of these components, both real and projected, will have an impact on the balance of the UAAL.

1. **ACTUARIAL ACCRUED LIABILITY** (cost of benefits to be paid from the plan) – In order to estimate the cost of future benefits, an actuary must make certain assumptions as to future events, such as salary increases, employee terminations, assumed retirement dates, mortality, inflation rates, etc. The Actuarial Cost of Future Benefits will change when benefits change, when actuarial assumptions change, and/or when actual results differ

from the assumptions made.

Ongoing actions recommended to adequately project the cost of future benefits:

- A. Ensure best assumptions are being used each year.
- B. Ensure benefit payouts are calculated and paid out correctly.

2. **ACTUARIAL VALUE OF ASSETS** (funds available to pay pension benefits)– In order to estimate the future value of assets, an actuary must, once again, make certain assumptions as to future events, such as investment earnings and the amount and timing of contributions and payments. The Actuarial Value of Assets will change when actual results differ from the assumptions made.

Ongoing actions recommended to maintain or increase the actuarial value of assets:

- A. Ensure the City fully funds its actuarial determined contribution each year.
- B. Ensure that the City makes timely contributions to the pension plan by ensuring actuarial reports project rates in advance of the fiscal year to which they apply.
- C. Ensure best assumptions are being used each year.
- D. Monitor investments and performance to ensure the City's Pension Investment Policy includes the best mix of investments to achieve the highest yield within the pension fund's level of tolerated risk.
- E. Ensure that the discount rate estimate is realistic, based on the investment mix in the City's Pension Investment Policy.

It is recommended that the City create a reserve fund and set aside \$500,000, proportionally paid from the fund balances across all City Funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of "rate stabilization."

Future Pension Options

As part of the ongoing review of the City's pension plan, staff has requested and has been analyzing actuarial valuation information from the California Public Employees Retirement System (CalPERS). The City looked at various options, and the recommended option is to have all existing full-time employees service time with the City of San Clemente transferred to the CalPERS system. The City would continue to have a pension obligation to the existing retirees and prior employees, who would all stay with Great-West, the City's current pension provider. While there are some advantages and disadvantages to moving to CalPERS, the initial analysis indicates that this could be a good time to make the transition and go with the option that incorporates all prior years of service. There would be no change to the pension benefit, as the City would remain with the basic 2% @ 55 retirement formula.

Conclusion

The primary objective to funding the City's pension plan is to determine the contributions needed to accumulate enough assets prior to a participant's retirement which, with interest, will be sufficient to provide the promised pension benefits. An unfunded liability (UAAL) occurs when the contributions made to the plan are not sufficient to meet the projected liabilities.

Retirement Systems Analysis

The total UAAL balance at July 1, 2013 for the City's primary retirement plan, CSCERP, was \$16.8 million. The majority of this balance is scheduled to be paid off over a 20 year period, which began on July 1, 2011, with 18 years of amortization remaining. It is recommended that the City create a reserve fund and set aside \$500,000, proportionally paid from the fund balances across all City funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of "rate stabilization."

The City's other retirement plan, the Safety Lifeguard Plan, administered by CalPERS has a remaining side fund balance for active employees, which is being funded through the City's annual contributions to the plan, with \$41,655 projected to be paid toward the side fund balance in FY 2014. At the end of FY 2014, the side fund is projected to have a balance of approximately \$224,000 still due, with six years of amortization remaining. It is recommended that the City make arrangements with CalPERS to pay off the remaining side fund balance of approximately \$224,000 for active employees, which would reduce the City's annual required contribution to the plan, thereby reducing ongoing operating costs over the next six years.

Recommendations

Staff recommends that:

1. The City creates a reserve fund and sets aside \$500,000, proportionally paid from the fund balances across all City funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of "rate stabilization."
2. The City makes arrangements with CalPERS to pay off the remaining side fund balance of approximately \$224,000 for active employees in the Safety Lifeguard Plan of the City of San Clemente.

Fiscal Impact of Recommendations

Creating a \$500,000 reserve fund would mean a reduction to the fund balances of all City funds that have personnel costs.

Paying off the remaining side fund balance in the Safety Lifeguard plan requires a one-time payment from the General Fund's unassigned fund balance, but would reduce the General Fund's ongoing operating costs by approximately \$42,000 per year over the next six years

Council Action (5-0)

The City Council approved the following actions:

1. The City creates a reserve fund and sets aside \$500,000, proportionally paid from the fund balances across all City Funds that have personnel costs, which could be used to address large pension rate increases that could occur in a given year, essentially providing a means of "rate stabilization."
2. The City makes arrangements with CalPERS to pay off the remaining side fund balance of approximately \$224,000 for active employees in the Safety Lifeguard Plan of the City of San Clemente.

Other Post-Employment Benefits (OPEB) Analysis

Objective

To provide an overview and alternative options for funding the City's Other Post-Employment Benefits (OPEB) obligations.

Executive Summary

For full-time employees who meet the qualification criteria, the City has a post-employment, retiree health benefit program that allows employees to participate in medical, dental, and or vision coverage. These benefits are referred to as "other post-employment benefits" (OPEB). Under the program, the City is required to pay a monthly amount (currently \$119, with annual increases of about \$3-\$4) towards medical insurance benefits for each eligible retiree electing such coverage. This requirement is mandated by the City's participation in the Public Employees Medical and Health Coverage Agreement (also known as "PEMHCA"), which also allows the City access to group health insurance coverage through CalPERS. Retirees are responsible for the entire premiums for vision and dental insurance, and the City's self-funded dental coverage is capped for each retiree and dependent. As of May 1, 2012, the date of the most recent actuarial evaluation, the City's unfunded actuarial accrued liability (UAAL) for the OPEB plan was approximately \$1.4 million.

The City currently meets its OPEB obligations on a "pay as you go" basis, paying \$119 towards individual retiree medical bills when invoiced each month. The City also sets aside additional funds each month in the Medical Insurance Internal Service Fund to address funding the OPEB plan liability. As of June 30, 2013, the City had approximately \$600,000 set aside for this purpose.

While "pay as you go" alone does not provide for funds to be set aside to be available for future (increased) health care costs, it is a common and acceptable method that many public agencies use in addressing retiree medical benefit costs. The City has had no problem meeting its obligations under this method, even as health costs have increased. Alternative ways to meet the City's future retiree health insurance commitments to reduce the impact on ongoing operational costs and to provide a better basis for future actuarial valuations is evaluated in this issue paper

One alternative to reduce future operating impacts is to establish an "irrevocable trust", whereby the City would continue to set aside funds to provide for the City's share of health insurance benefits for future retirees by placing these funds in a special trust fund, rather than in one of the City's Internal Service Funds. Establishing an irrevocable trust allows for future retiree health commitments to be paid from the trust assets. Therefore, as assets grow (based on fully funding the Annual Required Contribution (ARC) as well as the accumulation of interest earnings), more funds are available in the trust to meet ongoing (and future) obligations. The \$600,000 currently set aside in the Medical Insurance Internal Service Fund could be used as initial seed money for the trust, or the trust could be funded on a go forward basis only.

Other Post-Employment Benefits (OPEB) Analysis

Background and Discussion

The City allows retirees to elect continuing their health care insurance benefits (medical, dental and vision) through the City after their retirement. The medical benefit coverage is mandated by the City's participation in the Public Employees Medical and Health Coverage Agreement ("PEMHCA"), which is administered through CalPERS, the City's medical insurance administrator. Eligibility for the medical benefit is based on retirement from the City of San Clemente (on or after age 50), regardless of the length of service with the City, while the dental and vision benefits are contingent on length of continuous City service, depending upon which employee group (General, Confidential, Management, Executive) the retiree was in at the time of retirement.

As mandated by the State, under PEMHCA all eligible retirees electing medical coverage receive a monthly benefit amount from the City. This amount was \$115 for calendar year 2013 and \$119 for calendar year 2014. The amount is adjusted annually by the State based on the increase in the medical care component of the Consumer Price Index (CPI). The remainder of the medical coverage premium is paid entirely by the employee.

Currently, the City meets its OPEB obligations on a "pay as you go" basis, which is a common and acceptable method used by municipal agencies. Essentially, the City pays the monthly mandated amount for each eligible retired employee (currently \$119) as invoiced by CalPERS. During the year ended June 30, 2013 the City paid a total of \$33,125 for this benefit.

Annual Required Contribution and Funding

As required by Government Accounting Standards Board Statement Number 45 (GASB 45), the City must have an actuarial valuation of its OPEB plan every three years. As a practice, the City has the valuation done every two years. The latest GASB 45 report was completed in September, 2012, reflecting asset values as of May 1, 2012.

The OPEB actuarial valuation determines the City's Annual Required Contribution (ARC) for the OPEB benefit for any given year. The ARC is the sum of the present value of future benefits being earned by current employees plus amortization of benefits, for qualified retirees, that have not yet been provided for.

Under current accounting rules, the City is not required to pay the actuarial determined ARC payment in full each year, but must record a liability each year for the difference between the ARC payment and the amount the City actually pays out under the "pay as you go" method. For FY 2013, this difference of \$110,000 was properly recorded as a liability, increasing the OPEB obligation liability on the City's books to a total of \$630,409 as of June 30, 2013. This liability is reflected in the Employee Medical Insurance Internal Service Fund.

Although only required to record the liability, the City has gone beyond the requirement and has set aside funds over the last several years to address this obligation. As a result, approximately \$600,000 is available in the Medical Insurance Internal Service Fund to fund this liability.

Unfunded Liability

The OPEB actuarial evaluation also determines whether the City has accumulated sufficient funds to meet the estimated cost of future benefits under the plan. If benefits have been earned but sufficient funds have not been set aside in a formal plan, the City has an unfunded actuarial accrued liability (UAAL). As of May 1, 2012, the date of the most recent actuarial evaluation, the City's total UAAL for the OPEB plan was approximately \$1.4 million. The UAAL for OPEB benefits previously earned is being amortized over thirty years.

The funds set aside by the City in its own Internal Service Fund are meant to address this liability, but cannot be recorded as such in the actuarial evaluation since the funds have not been permanently set aside in a formal, irrevocable trust.

Options

Three options are presented for Council consideration:

Option #1: Continue the pay-as-you-go method with the balance of the annual ARC set aside in an Internal Service Fund each year

This option presents no change from the current approach. The City fully meets its annual OPEB obligations now and will continue to do so. However, as medical costs increase each year, the City will see its annual OPEB cost increase (around \$3-\$5 per retiree, per month).

Funds currently set aside for this purpose are earning minimal interest, so the City would have to pay out and set aside greater amounts of funds each year if medical costs grow more quickly than earnings. In addition, the funds set aside cannot be used to decrease the OPEB UAAL balance in future actuarial projections as the funds are not permanently designated for this liability (as they would be in an irrevocable trust). Therefore, no decrease in future ARC payments will result from having these funds set aside.

- PROS: a. Current method – no implementation cost
- b. Meets legal and accounting requirements
- c. Sets aside some funds each year to address future costs

- CONS: a. Does not ensure funds will ultimately be used for OPEB liabilities
- b. Does not reduce annual ARC payment as funds are not considered permanently dedicated

Other Post-Employment Benefits (OPEB) Analysis

Option #2: Establish an irrevocable trust making the ARC payments to the trust on a go forward basis

By establishing an irrevocable trust, the City could set aside funds each year by sending them to be deposited in the trust. This option reduces the UAAL, guarantees that the funds set aside would be available for benefits defined for retirees, and eventually lowers the annual cost of the OPEB liability.

Funds on deposit with this type of trust are invested and managed by an independent entity and would accrue interest earnings at a more favorable long-term rate than what the City's internal investments currently earn due to a longer time outlook for use of the funds. The entire pot of money, as it grows with annual contributions plus dedicated interest earnings, helps to defer the total cost of the retiree health benefits program. Also, the actuarial and accounting treatment is more favorable using an irrevocable trust, since these are designated assets which can be used to offset any unfunded liability of the retiree health benefits program. In effect, as the trust amount grows, the City would get credit towards its unfunded liability since more assets would be available – and set aside in a trust – to be used exclusively for OPEB expenses.

This approach would require the City to fund the actuarial required contribution (ARC) at 100% each year, less the annual cost of the retiree health benefit payments. Financially, the City is currently funding 100% of the ARC each year by using the pay-as-you-go method for benefit payments and then setting aside the balance of the ARC payment each month in the Medical Insurance Internal Service Fund. Option 2 would not increase the City's annual operating cost, it would just direct the funds to be deposited in the irrevocable trust rather than a City directed Internal Service Fund.

In the past year, staff has researched various options for establishing such a trust as an alternative method of funding its current and future OPEB obligations. Staff has met with representatives from two agencies, CalPERS and PARS, to discuss the particulars of establishing a trust. Each of those entities offers a basic trust mechanism that can be utilized for funding OPEB obligations, and both are used many California Public Agencies. Each entity has its own positive and negative points, with administrative costs being a major consideration.

- PROS:
- a. Initially, same annual operating cost as the current method in place
 - b. Eventual reduction of annual ARC payment
 - b. Meets legal and accounting requirements
 - c. Permanently sets aside some funds each year to address future costs
 - d. Higher rate of return on investments
 - e. Reduction of the UAAL more quickly
- CONS:
- a. Funds set aside are permanently dedicated and cannot be pulled back to use for other purposes, including emergencies

Option #3: Establish an irrevocable trust using the \$600,000 currently set aside as seed money and making the ARC payments to the trust on a go forward basis

This option is similar to Option 2; however, by including an initial deposit of seed money, the program's UAAL balance is reduced immediately and the City's annual operating cost is reduced more quickly.

In addition to the Pros and cons listed for Option 2, this method would provide some additional benefits as noted below:

- PROS:
- a. Using \$600,000 to initially "seed" the trust would provide assets that could be used in the next actuarial valuation of the retiree health plan, reducing the City's reported UAAL
 - b. Having increased assets on hand, earning higher rates of return, would lower the ARC more quickly and ultimately lead to a lower annual cost to the City
- CONS:
- a. Funds set aside are permanently dedicated and cannot be pulled back to use for other purposes, including emergencies

Conclusion

The City provides a retiree benefit that pays a set monthly amount towards medical insurance for eligible retirees and a self-insured dental plan that is capped. Currently, the City pays out the benefit monthly, as costs are incurred, and sets aside additional funds in a City directed Internal Service Fund to address the ongoing unfunded liability for this benefit. The funds set aside are not permanently designated for this purpose and earn interest at the rate of the City's overall investment portfolio.

An alternative to this method is to establish an "irrevocable trust", where the City would segregate these assets from City funds using the trust to offset future retiree health insurance commitments.

Recommendations

Staff recommends City Council:

Direct Staff to establish an irrevocable OPEB trust with a third party agency that would offer the most cost effective solution, using \$600,000 currently set aside as seed money, and providing for the City to make required ARC payments into the trust and to pay related retiree benefit costs from the trust on a go forward basis.

Fiscal Impact of Recommendations

Initially, the fiscal impact of establishing a trust would be minimal. The City's ongoing operating cost in the first year would not be any higher than the current fiscal year and may be lower, based

Other Post-Employment Benefits (OPEB) Analysis

on a new actuarial valuation that will be done. In subsequent years, investment earnings will continue to accumulate in the trust and will reduce the City's future annual payments.

There are various agencies that provide for the administration of an OPEB irrevocable trust, each with several investment models that could be chosen, based on the City's risk tolerance. The long-term expected return rate varies from 5.42% to 8.57%, depending on the agency and investment model chosen. Administrative fees vary from 15 to 60 basis points.

There would be an initial actuarial valuation that would need to be done in an "odd year" in order to enter the trust, at a one-time cost of \$5,000-\$10,000. Subsequently, the City would be on the same two year actuarial valuation cycle that is currently in place.

Council Action (5-0)

The City Council approved the following actions:

Direct Staff to establish an irrevocable OPEB trust with a third party agency that would offer the most cost-effective solution, using \$600,000 currently set aside as seed money, and providing for the City to make required ARC payments into the trust and to pay related retiree benefit costs from the trust on a go-forward basis.

Council requested to be informed about the exit strategy that will be implemented when the irrevocable trust is established.

Insurance Coverage Alternatives

Objective

To present the findings of the Bickmore Review and Analysis of Insurance Alternatives for both General Liability and Workers' Compensation coverage the City maintains.

Executive Summary

The City of San Clemente has been a member of California Joint Powers Insurance Authority (CJPIA) for liability protection since July 1, 2005. The primary factor in the decision to become a member of CJPIA was the availability of coverage for subsidence claims. CJPIA is one of only three liability pools that provide subsidence coverage. CJPIA provides \$30 million per occurrence coverage while the other two pools provide \$1 million per occurrence. The City has a significant amount of exposure to subsidence claims and has incurred an estimated \$10 million in claims related to subsidence for losses over a five year period, ending July 1, 2012.

The annual cost of the City's liability protection with CJPIA has increased over the last several years due to a change in their cost allocation method and the City's unfavorable loss history. The cost when the City joined CJPIA in 2005 was \$740,597 and may be up to \$1.9 million in fiscal year 2015. This issue was discussed in the *General Liability Insurance Analysis* paper as part of the 2013 Long Term Financial Plan. City Council approved the staff recommendation to engage a professional risk management services firm to conduct a study of the self- insurance programs including both general liability and Workers' Compensation. The City contracted with Bickmore to perform the study and they provided the attached *Review and Analysis of Insurance Alternatives* in December 2013. The report recommends that the City continue as a member with CJPIA for liability coverage and that the City further evaluate CJPIA as an alternative for Workers' Compensation coverage.

Background and Discussion

General Liability Coverage

The Bickmore review and analysis considered both liability pool alternatives and commercial insurance options. Six liability pools were reviewed, compared, and presented for the City's consideration, including the City's current liability coverage provider, CJPIA. The coverage scope of the compared pools is roughly equivalent, other than one major difference; subsidence coverage is only provided by the following pools:

Liability Pool	Coverage Limit
California Joint Powers Insurance Authority	\$30 million per occurrence
Public Entity Risk Management Authority	\$1 million per occurrence
Public Agency Risk Sharing Authority of CA	\$1 million per occurrence

This requires significant consideration given the City's history of claims that have exceeded \$1 million per occurrence.

Commercial insurance brokers in Bickmore's professional network indicated that at least six

Insurance Coverage Alternatives

insurers would consider the City's liability application. The City would likely retain the first \$500,000 of each claim and it is extremely unlikely that any subsidence coverage would be available.

The Bickmore report includes a liability value comparison table. The table adjusts for variations in program designs; compares estimated 2013-2014 costs on an equal, when possible. Only the total annual cost of each liability program coverage option identified in the report are illustrated in the table below. The complete table includes program coverage limits and cost of coverage factors such as self-insurance losses, subsidence losses, pool contribution and claims administration fees. (See page 5 of the attached Bickmore report for the complete table.)

	CJPIA	ICRMA	PARSAC	PERMA	CIPA	CSAC-EIA	Hypothetical Commercial Insurance Program
Total Cost	\$2,105,334	\$2,924,038	\$2,484,161	\$1,910,547	\$2,609,285	\$2,478,329	\$2,658,257

The only pool whose total annual cost of liability coverage is less than the City's current provider is PERMA. However, they considered the City's application in 2005 and declined to offer a proposal based on the subsidence issue.

Workers' Compensation Coverage

The City is self-insured for \$300,000 per each work-related injury, and excess insurance that covers up to statutory limits is provided by CSAC-EIA. The City considered CJPIA for Workers' Compensation in 2005 when it joined the liability program, but their cost indication was much higher than the cost of the City's coverage at that time. Staff examined various coverage arrangements at that time and determined that CSAC-EIA offered the lowest premiums while keeping the self-insurance retention (SIR) at \$300,000.

Each of the liability programs that Bickmore reviewed and compared had a companion Workers' Compensation program. Using a similar SIR comparison, the only pool whose cost comparison came close to the City's current cost was CIPA. However, to participate in CIPA the City would have to first join their liability pool. To consider commercial insurance coverage, the City would have to increase its SIR to \$750,000. In addition, commercial carriers seldom can compete with the rates offered by CSAC-EIA.

The CJPIA Workers' Compensation program has coverage from the first dollar. There is no SIR and claims decisions are made by the CJPIA. The quote provided by them as part of this study came in under the estimate of the City's cost for Workers' Compensation coverage. The Bickmore report recommends the City give further consideration to CJPIA for Workers' Compensation coverage. Staff will need to submit a full application in order to receive a formal

response. There will be other factors to consider such as the ongoing cost and maintenance of claims in prior loss years.

Conclusion

Based on the Bickmore review and analysis of insurance options, the lowest cost alternative for liability coverage is CJPIA. The driving factor is subsidence coverage. This is a significant loss exposure to the City of San Clemente and losses have averaged \$1.6 million over the five-year period ending July 1, 2012. Losses are unpredictable, difficult to defend, and can cost millions of dollars. The report recommendations are to continue membership with CJPIA for liability protection and further consider CJPIA as an alternative for Workers' Compensation coverage.

The CJPIA has a notice of withdrawal requirement of one year prior to the coverage period of intended withdrawal. The City provided a provisional notice of withdrawal to the CJPIA on June 23, 2013 for the period beginning July 1, 2014 while insurance coverage alternatives were being explored. The notice is fully rescindable at any time up to May 1, 2014.

In addition to City Council approval of the staff recommendation to engage a professional risk management services firm to conduct a study of the self-insurance programs, City Council provided direction on the \$3 million retrospective balance due to the CJPIA as part of the 2013 Long Term Financial Plan *General Liability Insurance Analysis* paper. Direction to staff at last year's LTFP presentation included the following:

- 1) City Council directed staff to determine the negotiation possibilities with CJPIA for terms with no interest on payments of the retrospective balance.

Update: Staff sent letters on April 25, 2013 to members of the CJPIA Executive Committee requesting they consider no interest payments on the retrospective balance due. The matter was placed on the Executive Committee Meeting of May 22, 2013 and the City's request to waive annual fees on payments was reviewed and denied.

- 2) City Council directed staff to make payment on the \$3 million dollar retrospective deposit due to the CJPIA and revisit the difference when staff knew more about the sale of the Bellota properties.

Update: As recommended in the previous years, the Bellota land sale proceeds will be used to pay of the remaining balance of the retrospective amount due. It is anticipated in FY 2015 that the Bellota property will be sold and proceeds from the land sales will be placed into the General Liability Fund and available for payment of the retrospective balance owed to the CJPIA. This is discussed in more detail in the 2014 LTFP Reserve Analysis Paper.

Recommendations

1. Affirm the Bickmore report recommendation to continue as a member with CJPIA for liability protection.
2. Direct staff to rescind the provisional notice of intent to withdraw provided to the CJPIA for the coverage period beginning July 1, 2014.
3. Direct staff to further evaluate CJPIA as an option for Workers' Compensation coverage.

Fiscal Impact of Recommendations

None

Council Action (5-0)

The City Council approved the following actions:

1. Affirm the Bickmore report recommendation to continue as a member with CJPIA for liability protection.
2. Direct staff to rescind the provisional notice of intent to withdraw provided to the CJPIA for the coverage period beginning July 1, 2014.
3. Direct staff to further evaluate CJPIA as an option for Workers' Compensation coverage.



Bickmore

December 3, 2013

Pall Gudgeirsson, City Manager
City of San Clemente
100 Avenida Presidio
San Clemente, California 92673

Sent via email: gudgeirssonp@san-clemente.org

RE: Review and Analysis of Insurance Alternatives

Dear Mr. Gudgeirsson:

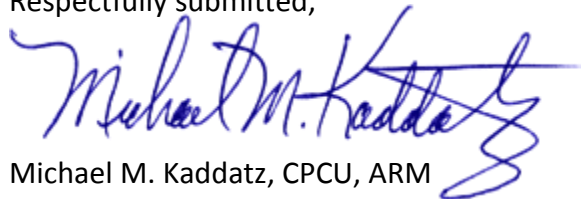
The purpose of this study is to identify and evaluate alternatives to the City of San Clemente's (City) current liability and workers' compensation risk finance programs. Our findings are presented in the following report. To complete the analysis we:

1. Contacted joint powers authorities that write cities in southern California, attained operating information on all of them, and obtained cost indications from those most likely to meet the City's needs;
2. Contacted commercial insurance sources to secure indications of terms on which the City might be offered coverage;
3. Reviewed the City's loss history;
4. Interviewed City staff to understand their needs and priorities with respect to liability and workers' compensation coverage, cost and related services; and
5. Analyzed all information obtained and developed this report.

Paul Cross performed the bulk of the analysis leading to this report. Michael Kaddatz managed the project and prepared this report. A companion report dated June 5, 2013, addressing how the City allocates general liability costs to its business units was previously provided to the City.

Thank you for the opportunity to work with the City of San Clemente on this very important project.

Respectfully submitted,



Michael M. Kaddatz, CPCU, ARM
Director, Risk Consulting Solutions

cc: Johanne Thordahl

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- A. Liability Deposits & Incurred Losses Under CJPIA Program
- B. JPA Comparison Overview and Governance, Member Demographics
- C. JPA Comparison - Financial Strength
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- E. JPA Comparison - Claims Management and Services
- F. JPA Comparison - Funding
- G. JPA Comparison - Membership/Withdrawal
- H. Workers' Compensation Costs Under CSAC-EIA Program
- I. List of Participants by JPA

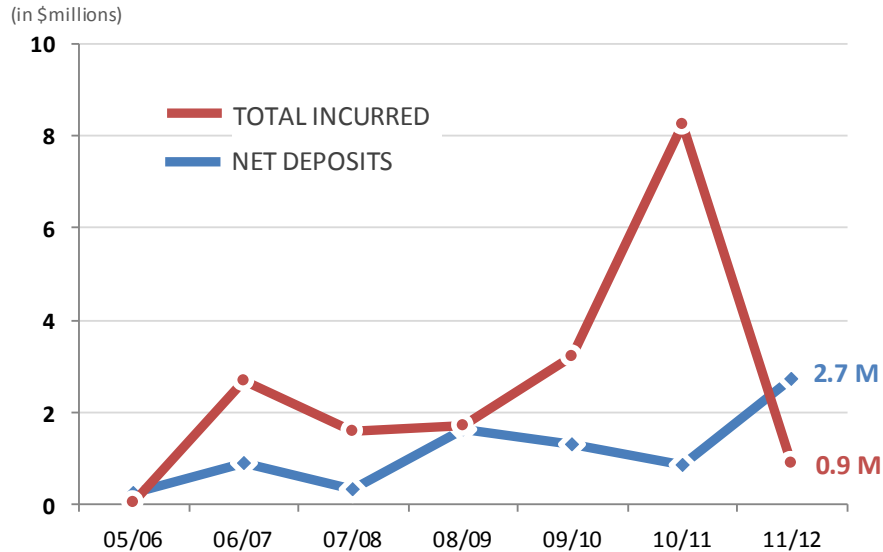
A. Background

In 2005 the City of San Clemente (City) became a participant in the California Joint Powers Insurance Authority (CJPIA) for liability coverage. This ended its participation in the California Insurance Pool Authority (CIPA), a program the City had participated in since 1986. The change to CJPIA was primarily predicated upon the following factors.

- **A lower deductible.** CJPIA offered first-dollar coverage and CIPA had a minimum self-insured retention of \$100,000. The expected benefit to the City would be more stable costs from year to year.
- **Broader array of services.** CJPIA provided claims administration services as part of their package, thus removing the City from the task of managing a contract claims administrator and the management time required to make decisions about claims settlement. CJPIA also included a long list of loss prevention and training services to meet City needs that otherwise would cost the City to procure.
- **Broader coverage.** The primary coverage advantage of CJPIA was for claims arising out of land movement or subsidence. The City had experienced such claims and CIPA excluded them from coverage. CJPIA also offered a higher coverage limit of \$50 million per occurrence versus CIPA's \$42 million limit.
- **Better value.** Taking the above into consideration, the projected costs of participating in CJPIA were less than CIPA.

Looking back at the 2005 decision to participate in CJPIA, the City benefitted substantially. For the seven completed years ending July 1, 2012, the City has paid CJPIA approximately \$8 million in contributions. For those same seven years, CJPIA has assumed responsibility for an estimated \$18 million in City losses, including almost \$10 million in land movement liability losses (see Appendix A). In addition, the City has enjoyed the benefits of the risk management services and training provided by CJPIA. The graph below diagrams the history of contributions and losses incurred under the CJPIA program.

Liability Contributions (Deposits) and Incurred Losses Under CJPIA Program



B. Pool Alternatives

There are 20 or more JPAs in California that provide liability insurance to cities. Of these, about half do not fit the City’s needs or have geographic or other limitations that rule them out for serious consideration.

Of the remaining 10, we ruled out California Joint Powers Risk Management Authority (CJPRMA), as it is a pool that provides excess liability coverage to Northern California pools and cities, has a limited array of member services, and appears unequipped to handle a Southern California city. The City is outside of the target geographic zones for San Diego Pooled Insurance Authority (SANDPIPA) and Municipal Pooling Authority (MPA) in Walnut Creek. Golden State Risk Management Authority (GSRMA) in Willows serves mostly special districts and other very small entities. We judge the City to be too dissimilar to the core members of GSRMA. Authority for California Cities Excess Liability (ACCEL) seemed uninterested in the City’s participation.

The remaining pools we compared for the City’s consideration are:

1. **CJPIA** – The current liability coverage provider;
2. **CIPA** – A pool of about a dozen Orange and Los Angeles County cities and the City’s liability coverage provider prior to July 1, 2005;
3. **ICRMA** – The Independent Cities Risk Management Authority is administered out of Orange and is composed of mostly Los Angeles County cities, a couple of San Bernardino County cities, and an Orange County city;

4. **PARSAC** – Public Agency Risk Sharing Authority of California is headquartered in Sacramento and is a pool of mostly small towns, cities, and other agencies throughout California;
5. **CSAC-EIA** – CSAC Excess Insurance Authority is one of the largest pools in the country. Formed for counties, it has added coverage programs for pools, schools, cities, and special districts. The EIA is headquartered in Sacramento; and
6. **PERMA** – Public Entity Risk Management Authority is headquartered in Palm Desert and composed of about 30 Southern California cities. PERMA considered the City’s application in 2005 and declined to offer a proposal.

Major features of each program are compared in Appendices B through G. Each has its strengths, unique culture, and method of operations. All are financially sound, have well regarded reinsurers, offer workers’ compensation, property, crime, special events, and other peripheral coverages, and have maintained stable programs for 27 years or longer.

The coverage offered by each of the pools is broad, providing occurrence coverage that addresses in a single form:

- General Liability;
- Automobile Liability;
- Law Enforcement Liability; and
- Public Officials Liability.

Each of the pools also provides employment practices liability coverage. Some retain the coverage in the pool and through commercial reinsurers. Others participate in another JPA, the Employment Risk Management Authority (ERMA), to provide their members with coverage and related services. While there are subtle coverage differences among these pools, we judge the coverage scope to be roughly equivalent, with one major exception.

Coverage for liability claims arising out of subsidence or land movement is provided only by:

- PARSAC up to \$1 million;
- PERMA up to \$1 million; and
- CJPIA up to \$30 million.

The other three pools completely exclude such claims from coverage. Because the City has a history of such claims, with several reaching seven figures, this is a significant consideration.

C. Non-Claim Services Comparison

City management has taken advantage of the substantial service offerings of CJPIA. Site inspections, contract review, and on-site and seminar training services from CJPIA have helped the City meet statutory training obligations and otherwise helped to reduce its risk profile and promote best practices among its workforce.

Among the JPAs we compared, we judge the services offered by CJPIA to be the most robust. However, the services offered by ICRMA, PARSAC, PERMA, and CSAC-EIA are structured to meet the needs of their city members and are routinely enhanced to meet changing needs. CIPA services appear to be more modest by comparison.

D. Claim Management Services

CJPIA and PERMA include claims management services in their liability program package. The other JPAs all require the participant to procure and manage its own contract claim administrator. The advantages of CJPIA's and PERMA's approach are:

- The JPA assumes the responsibility for managing the quality of claims administration services and defense counsel, saving management time and costs for the City. Such costs are difficult to estimate, but might be roughly equivalent to 25% of an analyst's time and the cost of a claim audit (\$5,000/year);
- Because of the volume of claims services required by the JPA as a whole, it probably pays a lower unit price for the services, the cost of which is passed on to the City as part of its contribution; and
- The City is insulated from political issues associated with claims settlement decisions which are made by the JPA, not the City.

The other JPAs all require their members to contract with a third party for claims administration services. The advantages of this approach to claims management include:

- The strategy and tactics to settling claims can be adapted to the City's preferences, which may be different than those of the JPA;
- The City may prefer to manage claim handling quality and defense counsel selection; and
- The City's voice in claim decision making is direct and more powerful.

E. Liability Value Comparison

Comparing the costs of the programs must take into account significant variations in the program designs. The following table adjusts for those variations in an attempt to compare estimated 2013-2014 costs on as fair a basis as is possible.

	CJPIA	ICRMA	PARSAC	PERMA	CIPA	CSAC-EIA	Hypothetical Commercial Insurance Program
Core Coverage Limit	\$50,000,000	\$30,000,000	\$35,000,000	\$50,000,000	\$42,000,000	\$30,000,000	\$50,000,000
Core Self-Insured Retention (SIR)	\$0	\$100,000	\$5,000	\$5,000	\$300,000	\$100,000	\$500,000
Employment Practices Limit	\$50,000,000	\$30,000,000	\$35,000,000	\$50,000,000	\$41,000,000	\$30,000,000	\$50,000,000
EPL SIR	\$0	\$100,000	\$25,000	\$25,000	\$300,000	\$100,000	\$500,000
Subsidence Limit	\$30,000,000	\$0	\$1,000,000	\$1,000,000	\$0	\$0	\$0
Subsidence SIR	\$0	Unlimited	\$5,000	\$5,000	Unlimited	Unlimited	Unlimited
Indicated Pool /Insurer Contribution	\$2,105,334	\$897,961	\$1,067,322	\$530,433	\$252,332	\$451,252	\$150,000
EPL Add-on Contribution	\$0	\$0	\$114,482	\$112,758	\$8,956	\$0	\$0
Self-Insured Losses - Core	\$0	\$355,481	\$43,760	\$43,760	\$655,850	\$355,481	\$816,109
Self-Insured Losses - EPL	\$0	\$20,000	\$5,000	\$5,000	\$40,551	\$20,000	40,551
Self-Insured Losses- Subsidence	\$0	\$1,616,596	\$1,218,596	\$1,218,596	\$1,616,596	\$1,616,596	\$1,616,596
Claim Administration Fees	Included	\$35,000	\$35,000	Included	\$35,000	\$35,000	\$35,000
Totals	\$2,105,334	\$2,925,038	\$2,484,161	\$1,910,547	\$2,609,285	\$2,478,329	\$2,658,257

Key notes to the table are as follows.

1. All of the JPAs maintain responsible coverage limits. We did not adjust the cost figures for those programs that had lower than \$50 million in limits. We considered that such an adjustment would not change the results significantly.
2. All of the JPAs we compared to CJPIA have SIR options. We chose each JPA's lowest retention.
3. Estimates of losses within all SIRs were based on simple (non-actuarial) five-year averages of the City's losses for each category of loss from 2007 through 2012.
4. Losses could vary widely from our estimates, especially for programs that offer no coverage for subsidence claims. The five-year average for the City's subsidence claims is \$1.6 million; however, they vary from \$0 in some years to \$5.5 million the worst year during the period.
5. The indicated pool contribution for CJPIA of \$2,105,334 is what the City would pay for 2013-14 participation using its new contribution formula. However, during this period of transition from the old formula to the new, CJPIA has capped the level of increase that any single city can experience from the new formula. In the City's case, the cap has limited the City's contribution to \$1,397,000. We judge the larger number is a fairer basis of comparison, because the caps on contributions will be phased out until they are removed in 2016-17. The larger number is closer to what costs will be when the transition is complete. If City and CJPIA loss experience continues at current levels, the City's contributions are expected to level off at about \$2.4 million per year.

F. Commercial Insurance

In addition to JPA alternatives, the City could move its liability coverage to a commercial insurer. Brokers in our professional network report at least six insurers would consider the City's liability application and limits of coverage easily be built to the same levels offered by the JPAs. There is a market for the same type of liability insurance the City now receives from CJPIA, with the following exceptions:

- The City will likely have to retain at least the first \$500,000 of each loss before the insurance applies;

- The City will have to engage an insurance broker to approach the commercial insurance market on its behalf;
- The City will have to engage a contract claims administrator and manage and direct the administrator on each claim as it moves toward resolution;
- Risk management and training services to replace those now provided by CJPIA would have to be secured from the broker, claim administrator, or other vendors;
- The broker, claim administrator, and other risk-related contract service relationships will have to be managed; and
- It is extremely unlikely that any subsidence coverage will be made available by the commercial insurers, given the incidence of such claims in the City's history. Even where there is no incidence of subsidence claims, commercial insurers routinely refuse to remove exclusions for such losses.

We estimated the 2013-14 cost of a liability program (under current market conditions) that utilizes commercial insurance above a SIR based on our experience and commercial insurance network. The estimated cost of such a commercial insurance market program is included in the preceding table.

G. Liability Conclusion

Based on preliminary indications from five JPAs and our assessment of current commercial insurance market conditions, the City's lowest cost alternative is CJPIA. The driving factor is coverage for subsidence claims. The City has a history of such claims, which have averaged \$1.6 million over the five-year period ending July 1, 2012.

CJPIA provides \$30 million in coverage limits for subsidence claims and has provided coverage for almost \$10 million of such claims over the City's eight-year participation in CJPIA. Subsidence losses are not predictable, are difficult to defend, and have eight-figure potential. While two of the JPAs offer \$1 million in coverage for subsidence claims, the loss potential is much greater. Furthermore, one of those JPAs (PERMA) declined the City's application in 2005 because of the potential for subsidence claims. The commercial insurance market is even less likely to offer the coverage in view of the City's subsidence claims history and the pronounced reluctance of commercial insurers to extend coverage for such claims to any municipality.

These facts argue against leaving CJPIA for another source of liability coverage. In addition, CJPIA provides a robust level of risk-related services to the City. The services are directed at training and risk reduction at the City and are highly valued by City staff.

H. Workers' Compensation Alternatives

The City is self-insured to \$300,000 per accident for workers' compensation. Excess coverage to statutory limits is provided by CSAC-EIA. Appendix H summarizes the costs associated with the City's program. The City's cost for the current CSAC-EIA coverage is \$110,000.

Each of the JPAs we considered for liability has a companion workers' compensation program. Using the JPA-offered retention that is the closest to the City's current SIR, only CIPA's cost indication came close to the City's current cost with CSAC-EIA. However, to participate in CIPA's workers' compensation program, the City would have to first join the liability program. Further, we are troubled by the low coverage limit that could be inadequate in an event where multiple City employees are injured in a single event. The competing programs all offer more protection than CIPA. We would not opt for CIPA, unless a substantial limits increase was in the offering.

From our professional network in the commercial excess workers' compensation market, we learned there are only a couple of viable carriers actively seeking California public sector self-insureds. To consider coverage from a commercial source, the City would have to increase its SIR from \$300,000 per accident to at least \$750,000 to meet underwriting minimums. This exposes the City to substantially more variation in year-to-year loss costs.

Finally, seldom does a commercial carrier come close to the price offered by CSAC-EIA. When aware of competition from CSAC-EIA, underwriters frequently decline to quote because they know they are unable to bend their pricing to CSAC-EIA's price point.

CSAC-EIA has been a stable provider of excess workers' compensation, offers appropriate related services, and appears to be the best choice for the City if it remains self-insured.

CJPIA, however, offers a first-dollar coverage program. The price indication for this program is less than our estimate of the City's expected losses. While it's just an indication, it is low enough that we recommend the City consider it further, by proceeding to submit a full application. In evaluating the formal response from CJPIA, the City will have to consider that if it did move the program coverage to CJPIA:

1. There would still be costs associated with the run-off and management of claims occurring in the self-insured years, and

2. Claims management and final decision-making for claims newly occurring under the new program will rest solely with the CJPIA staff.

The limits, SIRs and costs associated with each of the programs considered are summarized below.

	CJPIA	CSAC	ICRMA	PARSAC	PERMA	CIPA
Limit	Statutory	Statutory	\$100,000,000	Statutory	Statutory	\$28,000,000
Self-Insured Retention (SIR)	\$0	\$300,000	\$350,000	\$250,000	\$250,000	\$300,000
Indicated Pool Contribution	\$411,755	\$110,000	\$250,564	\$215,962	\$162,004	\$77,937
Self-Insured Losses	\$0	\$438,000	\$463,000	\$413,000	\$413,000	\$438,000
Claim Administration Fees	Included	\$40,000	\$40,000	Included	\$40,000	\$40,000
Totals	\$411,755	\$588,000	\$753,564	\$628,962	\$615,004	\$555,937

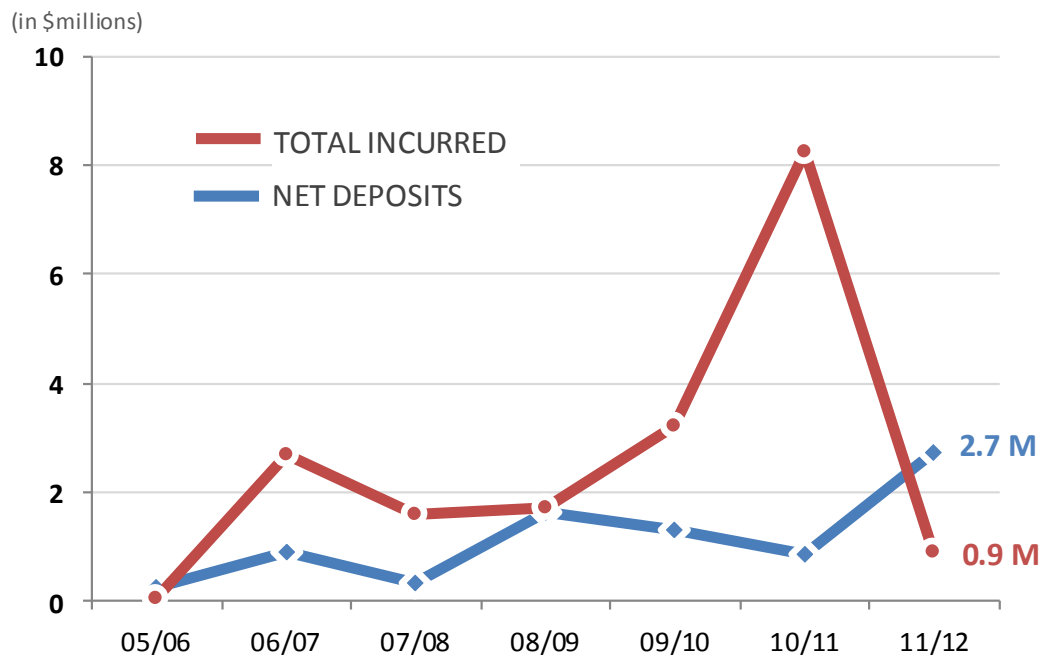
The above findings were developed for review and discussion with City management. We welcome the City's questions and look forward to finalizing the analysis.

Appendix A

Liability Deposits & Incurred Losses Under CJPIA Program

Liability Deposits & Incurred Losses Under CJPIA Program

PERIOD	INITIAL DEPOSIT	DEPOSIT ADJUSTS	NET DEPOSIT	TOTAL PAYROLL	# OF CLAIMS	TOTAL PAID	TOTAL RESERVE	TOTAL INCURRED	EARTH MOVEMENT
A	B	C	D=B+C	E	F	G	H	I=G+H	J
2005 / 06	\$740,597	(\$481,000)	\$259,597	\$12,585,000	38	\$38,028	\$0	\$38,028	\$0
2006 / 07	740,597	163,395	903,992	13,672,700	46	2,685,769	0	2,685,769	1,769,906
2007 / 08	740,597	(418,354)	322,243	14,323,700	54	1,575,956	0	1,575,956	0
2008 / 09	740,597	900,120	1,640,717	15,268,000	98	1,718,589	0	1,718,589	0
2009 / 10	593,691	697,063	1,290,754	15,133,900	37	3,220,617	0	3,220,617	2,627,552
2010 / 11	595,931	266,472	862,403	15,177,500	67	1,224,589	7,017,875	8,242,464	5,455,428
2011 / 12	744,914	1,993,104	2,738,018	15,481,100	37	57,378	857,243	914,621	0
<i>Total</i>	4,896,924	3,120,800	8,017,724	101,641,900	377	10,520,926	7,875,118	18,396,044	9,852,886



Appendix B
JPA Comparison
Overview and Governance,
Member Demographics

JOINT POWERS AUTHORITIES
Overview & Governance, Member Demographics

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
OVERVIEW & GOVERNANCE						
1 Pool Type	Primary / Risk Sharing	Primary / Risk Sharing	Primary / Risk Sharing	Primary / Risk Sharing	Primary / Risk Sharing	Excess / Risk Sharing
2 Founded	1977	1980	1986	1979	1985	1978
3 Governing Board Meetings (# of annual)	1	6	2	3	3	3 or 4
4 Executive Meetings (# of annual)	12	6	4	12	6	3 or 4
5 Committees	5 - Exec, Claims, Managers, Finance, Underwriting	3 - Administrative; Claims; Member Services	5 - Exec, Work Comp, Finance, Loss Control, Underwriting	15 - Various program and advisory	Executive committee	Underwriting Claims (2)
6 Meeting Location (last one or via bylaws)	8081 Moody Street, La Palma, California 90623	Downey City Hall	4800 Riverside Boulevard, Sacramento, CA 95822	75 Iron Point Circle, Folsom, CA, 95630	36-951 Cook Street Palm Desert, CA 92211	Southern California
7 Administration	Self-Administered	Bickmore	Self-Administered	Self-Administered	Self-Administered	Janet Kiser
8 Staff (FTE)	22	8 (not dedicated entirely?)	5	-	5	1
9 Composition of Board (Officials, Staff)	Elected officials	Both	Both	Both	Both	City staff
10 Governing Board Members	123	21	35	64	31	13
11 Composition of EC (Officials, Staff)	Elected officials	Both	Both	Both	Both	City staff
12 Executive Members	9	12 (Administrative Committee)	11	11	7	6 (Pres, VP, Treas., Committee chairs)
MEMBER DEMOGRAPHICS						
1 3 nearest members	Dana Point, Laguna Niguel, Lake Forest	Fullerton, Downey, Redondo Bch	Rancho Santa Margarita, Placentia, Calimesa	-	Canyon Lake, Cathedral City, Eastvale	Irvine, Tustin, Westminster
2 Number of Members	123	21	35	99	31	13
3 City Members (#)	96	21	35	15	22	13
4 City Members (%)	78%	100%	100%	15%	71%	100%
5 Other types of Members	JPAs (18), Special (6)	None (all cities)	None (all cities)	-	Special (6), Transit (3)	None (all cities)
6 Full Service Cities (#)	30	12	20	N/A	8	6
7 Full Service Cities (%)	31%	57%	57%	N/A	36%	46%
8 Population (Total)	2,946,994	1,383,858	920,660	1,510,799	1,154,260	1,041,969
9 Population (Average)	30,698	65,898	26,305	100,720	52,466	80,151
10 Population (Min)	1,058	16,690	182	3,763	2,247	23,105
11 Population (Max)	105,682	135,468	167,701	395,341	194,451	231,117

Appendix C
JPA Comparison
Financial Strength

JOINT POWERS AUTHORITIES
Financial Strength

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
1 Accredited?	Not Accredited	Accredited with Excellence	Accredited with Excellence	Accredited with Excellence	Accredited with Excellence	Not Accredited
2 Liability						
a. Pool SIR	5,000,000	5,000,000	1,000,000	5,000,000	1,000,000	2,000,000
b. Total Assets	160,964,592	43,955,159	16,330,471	123,861,599	19,192,381	20,813,134
c. Surplus (Net Assets)	59,249,282	25,951,986	8,284,332	35,159,759	18,070,853	14,071,989
d. Member Contributions	45,477,938	10,298,334	5,098,026	31,584,281	5,457,804	4,937,610
e. Excess Insurance	6,988,574	2,149,266	1,826,029	3,594,508	750,823	3,026,555
f. Loss Reserves Claims Liabilities	86,307,000	17,916,486	6,578,887	87,833,205	371,035	6,305,758
g. Claim Expense	36,595,835	2,618,608	2,366,496	22,245,169	454,974	1,563,234
h. Other Expenses	3,929,050	1,124,315	912,830	752,635	1,135,205	652,650
Net Contrib. to Surplus = (d-e) / c; TARGET: < 3	0.65	0.31	0.39	0.80	0.26	0.14
Reserves to Surplus = f / c; TARGET: < 3.5	1.46	0.69	0.79	2.50	0.02	0.45
Surplus to SIR = c / a; TARGET: > 5	11.85	5.19	8.28	7.03	18.07	7.04
Expense Ratio = h / d; TARGET: < 20%	9%	11%	18%	2%	21%	13%
2 Workers' Compensation						
a. Pool SIR	2,000,000	5,000,000	500,000	1,000,000	500,000	3,000,000
b. Total Assets	106,776,387	20,062,406	20,922,711	156,665,133	16,693,751	10,763,161
c. Surplus (Net Assets)	24,241,326	9,345,596	11,328,775	2,331,547	2,309,141	1,731,185
d. Member Contributions	24,943,402	2,448,845	3,988,605	62,747,575	2,091,804	1,503,954
e. Excess Insurance	875,189	311,178	504,676	38,635,206	714,116	203,397
f. Loss Reserves Claims Liabilities	74,888,000	10,626,922	8,056,841	254,731,443	1,013,277	10,350,128
g. Claim Expense	27,512,761	4,271,920	2,972,693	22,226,662	83,939	2,647,225
h. Other Expenses	2,624,441	994,221	707,189	2,702,713	520,539	217,825
Net Contrib. to Surplus = (d-e) / c; TARGET: < 3	0.99	0.23	0.31	10.34	0.60	0.75
Reserves to Surplus = f / c; TARGET: < 3.5	3.09	1.14	0.71	109.25	0.44	5.98
Surplus to SIR = c / a; TARGET: > 5	12.12	1.87	22.66	2.33	4.62	0.58
Expense Ratio = h / d; TARGET: < 20%	11%	41%	18%	4%	25%	14%

Appendix D
JPA Comparison
Coverages

JOINT POWERS AUTHORITIES
Coverages

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
LIABILITY						
1 Limit	\$50 M 5 xs 5 (multiple) 5 xs 10 (multiple) 10 xs 20 (Allied World) 10 xs 30 (Ironshore) 10 xs 40 (Starr)	\$30 M 5 xs 5 (Argonaut) 10 xs 10 (Torus) 10 xs 20 (Scor Re)	\$35 M 4 xs 1 (CSAC-EIA) 10 xs 5 (Ironshore) 10 xs 15 (Starr) 10 xs 25 (Lexington)	\$25M 10 xs 5 (Ironshore) 10 xs 15 (Starr)	\$50 M 4 xs 1 (CSAC-EIA GL1) 45 xs 5 (CSAC-EIA GL2)	\$42 M 10 xs 2 (Starr) 15 xs 12 (Endurance) 15 xs 27 (Arch)
2 Pool Retention	\$5 M	\$5 M	\$1 M	\$ 5M	\$1 M	\$2 M
3 Member Retentions	\$0	\$100,000 to \$2.5 M	\$5,000 to \$750,000	\$25,000 to \$1 M	\$0 to \$500,000	\$300,000 to \$500,000
4 Coverages	General Auto Public Officials E&O Broadcast/Publication Injury Employment Practices Liability Employee Benefits Admin Liability Manager's Employment Liability	Bodily Injury Property Damage Personal Injury Employment Practices Errors & Omissions Public Crisis Event Coverage	General Auto Public Officials E&O Law Enforcement Employment Practices Liability (1 M via ERMA, then X5 to 35 M)	General Liability (primary & excess) Auto Liability (primary & excess) Employment Practices Liability Errors & Omissions Medical Malpractice	Bodily Injury Property Damage Personal injury Auto Public Officials E&O Cyber EPL (\$1M via ERMA, then LAWCX)	Bodily injury Personal & advertising injury Property damage Public officials errors & omissions Auto
5 Subsidence / Earth Movement	\$30 M limit	Excluded - "Any CLAIM arising out of or resulting from land movement, subsidence, or earthquake."	PARSAC does not have a subsidence exclusion. However, Our excess provider excludes subsidence for property (not for bodily injury).	Excluded - "To property damage arising out of subsidence"	Not excluded in pooled layer. Excluded in excess. Exclusion #14 - "Claims arising out of or in connection with land use regulation and/or land use planning"	Excluded - "...whether or no arises out of, or is attributable to any operations of the Covered Party, and regardless of cause."
6 Inverse Condemnation Exceptions	Exception - "property damage caused by Earth movement, subsidence of land, flooding not caused by the failure of a Dam or Levee, or sewer backup" & "damages arising out of temporary physical measures taken by the Member for public safety reasons in an effort to prevent or reduce a loss"	Exception - "physical injury to tangible property resulting from the accidental failure of the Covered Party's property or equipment"	Exception - physical damage to tangible property (to \$250,000)	Exception - "physical injury to, or destruction of, tangible property neither expected nor intended"	Exception - "physical property damage"	Exception - "physical injury to, destruction of or loss of use of tangible property which is caused by an occurrence or offense during the coverage period
7 Participation requirements	Mandatory participation	Mandatory participation	Optional participation. Must establish by resolution a "Fund Balance Reserve" (3 times SIR).	Optional	Mandatory participation	EPL - must be in liability
WORKERS' COMPENSATION						
1 Limit	Statutory	\$100 M 95 xs 5 (Safety National)	Statutory 4.5 xs 0.5 (LAWCX) 45 xs 5 (Ace) Statut xs 50 (Ntl Union)	Statutory 45 xs 5 (ACE) Stat xs 50 (Ntl Union)	Statutory 4.5 xs 0.5 (LAWCX) Statutory xs 5 (CSAC-EIA via LAWCX)	\$28 M 25 xs 3 (Safety National)
2 Pool Retention	\$2 M	\$5 M	\$500,000	\$125,000	\$500,000	\$3 M
3 Member Retentions	\$0	\$350,000 to \$1 M	\$0 - \$350,000	\$125,000 - \$5 M	\$250,000	\$300,000 to \$750,000
4 Participation requirements (# participants, % that participate)	Optional (104, 85%)	Optional (16, 75%)	Optional	Optional	Optional	Optional participation but must be in liability
OTHER PROGRAMS						
1 Coverages	Boiler & Machinery (optional standalone) Earthquake & Flood (optional standalone) APD (optional standalone) Pollution Legal Liability Crime Special Events Vendors/Contractors	All Risk Property Earthquake & Flood Boiler & Machinery DIC Crime Auto Physical Damage	Property incl. earthquake and flood (GP), Crime (GP, PEPiP), Auto Physical Damage (GP), Employee Benefits incl. long term disability, dental and vision (GP) Special Events	Property Health, Dental & Other Benefits Many other coverages	Property Employment Practices (via ERMA) Crime Special Events Employee Benefits	Employment Practices Liability Property (group purchase) Boiler & Machinery Faithful Performance Bond

Appendix E
JPA Comparison
Claims Management and Services

JOINT POWERS AUTHORITIES
Claims Management and JPA Services

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
CLAIMS MANAGEMENT						
1 Can select liability TPA?	No (Carl Warren & Co.)	Yes	Yes, above \$25k SIR	Yes	No (EC unlikely to approve)	Yes (subject to EC approval)
2 Can self-administer liability?	No (Carl Warren & Co.)	Yes	Yes, above \$25k SIR	Yes	No (EC unlikely to approve)	Yes (subject to EC approval)
3 Can select work comp TPA?	No (York Insurance Services)	Yes	Yes	Yes	Approved list (Admin, Corvelle, York)	Yes (subject to EC approval)
4 Can self-administer work comp?	No (York Insurance Services)	Yes	Yes	Yes	Approved list (Admin, Corvelle, York)	Yes (subject to EC approval)
5 Member can select defense counsel?	No	Yes. Can use someone not on panel, ICRMA over SIR only pays certain hourly, member	Yes for SIRs above \$250k, from approved list. All members may	-	They use a panel. Members with existing relationships can add to	Yes (no panel)
6 Claims Committee (# Members)	Yes	Yes (8)	No claims committee	-	No claims committee	Yes (7 or 8 on each)
7 Claims Disagreements settled by:	Letter to Chief Executive Officer, appeal to Appeals Committee, mandatory arbitration before randomly selected committee of members (detailed in Memoranda of Coverage)	Appeal process described in liability MOC (coverage). Claims Comm, then Board, then mandatory arbitration.	Appeals process goes through the Board.	-	PERMA claims manager makes decision. Appeal goes to the Executive Committee, followed by binding arbitration.	Only 2 in 30 years. Goes to committee, then Board and then arbitration.
JPA SERVICES						
1 Grant, Incentive Program(s)	-	RM Fund allows members to annually set aside dollars to support their safety and risk management programs.	Annual grants for risk management and safety in the workplace and community. Can be used at the member's discretion for equipment, training, or consultants. \$8,200 per year can accumulate.	Financial subsidy programs for actuarial analyses, loss prevention, and risk management	Reimbursed for 75% of the actual expenses which they incur for the training of their employees and staff on risk management matters, to a maximum of \$3,000 per program year.	\$2,000 subsidy for RM Conferences and \$3,500 for safety services included in premium.
2 Training Sources	Instructor based; On-site; online	Instructor based; On-site; online	PARSAC-sponsored Workshops on-site training, online streaming and video library (via CSAC, LAW CX)	Regional RM/Loss Control On-site visits online 84 webinars Best practices library EIA document library Legislative position library	Instructor based; On-site; online	online (via Keenan); On-site instruction
3 Loss Prevention	Annual risk management education forum; six specialized multi-day academies (elected officials, public works, park & recreation, human resources, managers, and supervisors), OSHA required training, safety, driver training, insurance requirements for contracts, EPL, CPR/First Aid, other specialized programs	OSHA Compliance, such as LOTO, Confined Space Entry, Fire Prevention, Respiratory Protection; Playground Liability; Police Liability; Defensive Driver; Ergonomics; Mandated Reporting; Contractual Risk Transfer; Personalized one-to-one risk management education. Members are provided monthly loss control services upon request; services include training, safety committee consultation, ergonomic evaluations, park & recreation service evaluations; playground inspections completed by a CPSI	Litigation Management Claim Resolution Representation at Mediation Preserving Governmental Immunities Regulatory Compliance Contractual Risk Transfer	On-site and telephonic Consultation Policy/Program Evaluation and Development TargetSolutions Platform Regional, On-site training Video and print library Online, self-paced instruction Drug and Alcohol Monitoring Consortium Property Program Risk Management Services	Bickmore for loss control. Regional training at least three times a year following board meetings. "Regional Workshops". Staff does contract reviews and assists in risk management decisions.	OSHA required classes offered at six locations once a year. Safety inspections conducted by 2 consultants. Claims audits conducted every other year. Discounted actuarial studies available. Risk Management consulting (Janet) reviews insurance contracts, evidence of insurance. Litigation management - 4 claims reviews with adjusters and attorneys per year.
4 More / Other	Yes; risk management evaluations every 2-4 years; annual property inspections for properties valued over certain dollar amount (in conjunction with the Property Program)	TPA Oversight Return to Work Nurse Triage Streaming Video On-Demand	Leadership Program ("Hero Paradigm")	Technology (CERT mgmt) Loss Data Collection ISO Claims Search Program Insurance Education Association Online driver monitoring Medical Provider Network (MPN) Company Nurse On Call RTW (OUR System) OASYS-Net (Alliant, online application)	Actuarial WeTIP Special Events/SPARTA Video Rentals On-Site Training (23 sessions in 2012) Workshops Webinars Risk Control (Bickmore) Claim Audits (Biannual) Subrogation Small Claims Court Appearances Lexipol Policy Manuals (subscription)	LEXIPOL (pay a portion of subscription)

Appendix F
JPA Comparison
Funding

JOINT POWERS AUTHORITIES
Funding

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
1 Contributions	Prospective based on payroll, credibility and losses looking back over 7 years. Premium increases/decreases capped at increasing percentages until 2016/17 when cap is eliminated.	Members pay an annual contribution based on their selected SIR, experience modification factor, actuarially determined losses, cost of reinsurance or excess insurance and administrative expenses.	Prospective based on payroll and losses via experience modifier. Fund liability at 85% confidence level and WC at 75%. Composite rate in WC based on safety/non-safety. Finance committee regularly reviews retrospective rating.	Cost allocation plan and rating formula. Premium includes expected losses & a margin for contingencies, reinsurance and administrative costs. There is a limit to individual surcharges (3x contribution)	Funding rates for both programs based on experience modification, look back 5 years, losses capped.	Allocation of premium considers SIR, Exposure (75% in Liab, 50% in WC), Loss Experience (25% in Liab, 50% in WC) over prior 10 years, discounted funding at 70% CL.
2 Assessments & Dividends	In transition from a retrospective rating program to a fixed-cost prospective rating program. Dividends possible subject to JPA achieving financial targets.	Assessments & dividends possible. Calculations performed on a coverage year profitability basis.	Assessments via retrospective rating adjustments. Dividends - after 5 years 50% surplus eligible for equity distribution, 6 years 60%, etc.	10-year rolling retrospective rating plan	Yes. When equity targets met. Must be at 90% confidence. Don't touch most recent three years. Older years eligible to have larger portion of equity returned than more recent years. Annually reviewed by board.	8 out of last 9 years dividends returned in liability program. Paid out 8 years after end of policy year.

Appendix G
JPA Comparison
Membership/Withdrawal

JOINT POWERS AUTHORITIES
Membership / Withdrawal

	CJPIA	ICRMA	PARSAC	CSAC-EIA	PERMA	CIPA
1 Application Fee	\$1,000 (credited to 1st invoice)	\$1,000 (credited to 1st invoice)	\$1,000 (<\$2.5 M Budget) \$2,000 (<\$2.5 - \$7.5 M) \$3,000 (>\$7.5 M) (credited to 1st invoice)	\$350 one time development fee part of initial premium?	\$1,500 (usually waived)	\$0
2 Members must be ...	Public agencies	Public agencies	California public entities	Public entity or nonprofit	Public Agencies	Local public entities
3 City Risk Manager Required?	No	No	No	No, but loss prevention must be approved by EIA before binding	No	No
4 Minimum Commitment	1 year	3 years	3 years	Nothing in bylaws or agreement	3 years	2 years
5 Misc. requirements		Board approval	Board approval	Marjority vote of Board or Exec Loss prevention approval Actuarial study in first year Claims audit conducted in first year		2/3 Board approval
6 Notice of Withdrawal Required	1 year written notice	In accordance with the provisions of the Bylaws governing that program. Liab - 5-months.	6 months prior to end of FY in which member intends to withdraw (Exec committee can make exceptions)	60 days notice	6 months prior to end of FY in which member intends to withdraw, provided has been a member for 3 years	Written notice on or before the next succeeding March 1, of the intent to withdraw as of 12:01 a.m. on the next July 1.
7 Withdrawal Penalties	None	None. Untimely withdrawal - responsible for the full cost of the subsequent year's premium	None. Untimely: Pro-rata share of Admin Costs for next 3 program yrs; Untimely withdrawal forfeits equity.	None	None. Early-withdrawal charge (\$ determined by Exec Committee, not to exceed member premium) if notice less than 6 months.	None
8 Withdrawal Responsibilities (Effect of Cancellation?)	Must still contribute its scontribute its share of deposits or funds to the program until all claims, or other unpaid liabilities resolved	Responsible for share of the expenses until all unpaid liabilities, covering the period of the member's participation in the program have been resolved	Retrospective Premium Adjustment credit shall remain with PARSAC until all Policy Year(s) in which they participated have been closed and reconciled.	Must pay premium charges due for for losses and costs which were incurred during participation in any program and surcharges.	Must pay any premium charges due for losses and costsduring the period in which the member organization was a participant in program.	Remain responsible to contribute its share of premiums, contributions or assessments, CIPA can, but not obligated, offer tail coverage.
9 Entitled to Equity Interest?	No - not entitled to any deposits or consideration	Yes -entitled to dividends based on the same methodology of the current members	Yes, members entitled to equity on closed years provided the exited in a timely fashion.	No - not be entitled to the return of any premium or other payment to the Authority.	Yes - Return unearned premium for the policy year (pro rata basis from the effective date of cancellation). Board may return fees, charges and pro rata share of assets as it may determine are due and owing to such member organization (includes surcharges). IBNR responsibility governed by program bylaws.	No withdrawing party shall be entitled to payment or return of any earned premium, contribution, consideration, or property paid or donated by the party to the Authority.

Appendix H

Workers' Compensation Costs Under CSAC-EIA Program

Workers' Compensation Cost Under CSAC-EIA Program

PERIOD	SELF-INS RETENTION	TOTAL PREMIUM	TOTAL PAYROLL	# OF CLAIMS	TOTAL PAID	TOTAL RESERVE	TOTAL INCURRED
A	B	C	D	E	F	G	H=F+G
2005 / 06	\$300,000	\$88,712	\$12,585,000	25	\$178,247	\$10,784	\$189,031
2006 / 07	300,000	83,031	13,672,700	23	42,033	0	42,033
2007 / 08	300,000	87,663	14,323,700	15	43,484	0	43,484
2008 / 09	300,000	71,750	15,268,000	28	224,422	54,840	279,261
2009 / 10	300,000	73,635	15,133,900	21	141,496	50,767	192,263
2010 / 11	300,000	77,052	15,177,500	28	258,939	73,326	332,265
2011 / 12	300,000	88,202	15,481,100	17	130,985	119,821	250,806
<i>Total</i>	2,100,000	570,045	101,641,900	157	1,019,605	309,537	1,329,143

Appendix I

List of Participants by JPA

JOINT POWERS AUTHORITIES

List of Members by JPA

JPA	MEMBER
1	CIPA Arcadia
2	CIPA Brea
3	CIPA Buena Park
4	CIPA Cypress
5	CIPA Irvine
6	CIPA La Habra
7	CIPA Laguna Beach
8	CIPA Montclair
9	CIPA Orange
10	CIPA Tustin
11	CIPA Westminster
12	CIPA Whittier
13	CIPA Yorba Linda

JOINT POWERS AUTHORITIES

List of Members by JPA

JPA	MEMBER	JPA	MEMBER
1	CJPIA Agoura Hills	62	CJPIA Lakewood
2	CJPIA AHCCCA	63	CJPIA Las Virgenes COG
3	CJPIA Aliso Viejo	64	CJPIA Lawndale
4	CJPIA Apple Valley	65	CJPIA Local Government Services
5	CJPIA Area B Disaster Management	66	CJPIA Loma Linda
6	CJPIA Area E Disaster Management	67	CJPIA Lomita
7	CJPIA Arroyo Grande	68	CJPIA Los Alamitos
8	CJPIA Artesia	69	CJPIA Malibu
9	CJPIA Atascadero	70	CJPIA Mammoth Lakes
10	CJPIA Bell Gardens	71	CJPIA Marin County MCTF
11	CJPIA Bellflower	72	CJPIA Maywood
12	CJPIA Belvedere	73	CJPIA Midpeninsula ROSD
13	CJPIA Big Bear City Community Services District	74	CJPIA Mission Viejo
14	CJPIA Big Bear Lake	75	CJPIA Monterey Peninsula RPD
15	CJPIA Bishop	76	CJPIA Moorpark
16	CJPIA Black Gold Cooperative Library System	77	CJPIA Morro Bay
17	CJPIA Bradbury	78	CJPIA Mountain Area RTA
18	CJPIA Brawley	79	CJPIA Needles
19	CJPIA Buellton	80	CJPIA Norwalk
20	CJPIA Calabasas	81	CJPIA Ojai
21	CJPIA Calexico	82	CJPIA Palm Desert
22	CJPIA California JPIA	83	CJPIA Palos Verdes Estates
23	CJPIA Camarillo	84	CJPIA Palos Verdes PTA
24	CJPIA Carpinteria	85	CJPIA Paramount
25	CJPIA CASA	86	CJPIA Paso Robles
26	CJPIA Cerritos	87	CJPIA Pico Rivera
27	CJPIA Chino Hills	88	CJPIA Pismo Beach
28	CJPIA Claremont	89	CJPIA Pomona Valley Transportation Autho
29	CJPIA Commerce	90	CJPIA Port Hueneme
30	CJPIA Cudahy	91	CJPIA Poway
31	CJPIA CVAG	92	CJPIA Rancho Palos Verdes
32	CJPIA CVCC	93	CJPIA Regional Government Services
33	CJPIA Dana Point	94	CJPIA Rolling Hills
34	CJPIA Desert Rec	95	CJPIA Rolling Hills Estates
35	CJPIA Diamond Bar	96	CJPIA Rosemead
36	CJPIA Duarte	97	CJPIA San Clemente
37	CJPIA El Centro	98	CJPIA San Dimas
38	CJPIA ESTA	99	CJPIA San Gabriel
39	CJPIA Fillmore	100	CJPIA San Juan Capistrano
40	CJPIA Fountain Valley	101	CJPIA San Luis Obispo
41	CJPIA Gateway Cities COG	102	CJPIA San Marcos
42	CJPIA Goleta	103	CJPIA San Marino
43	CJPIA Grand Terrace	104	CJPIA Santa Fe Springs
44	CJPIA Grover Beach	105	CJPIA Santa Paula
45	CJPIA Guadalupe	106	CJPIA SCAG
46	CJPIA Hawaiian Gardens	107	CJPIA SEAACA
47	CJPIA Hidden Hills	108	CJPIA Seal Beach
48	CJPIA Imperial	109	CJPIA Seaside
49	CJPIA Indian Wells	110	CJPIA Seaside County Sanitation
50	CJPIA Indio	111	CJPIA Sierra Madre
51	CJPIA Irwindale	112	CJPIA Signal Hill
52	CJPIA La Canada Flintridge	113	CJPIA Solvang
53	CJPIA La Habra Heights	114	CJPIA South El Monte
54	CJPIA La Mirada	115	CJPIA South Pasadena
55	CJPIA La Palma	116	CJPIA Temple City
56	CJPIA La Puente	117	CJPIA Ventura Port District
57	CJPIA La Quinta	118	CJPIA Villa Park
58	CJPIA La Verne	119	CJPIA Walnut
59	CJPIA Laguna Niguel	120	CJPIA West Hollywood
60	CJPIA Laguna Woods	121	CJPIA West-Comm
61	CJPIA Lake Elsinore	122	CJPIA Westlake Village

JOINT POWERS AUTHORITIES

List of Members by JPA

JPA	MEMBER	JPA	MEMBER
1	CSAC-EIA Alpine , County of	51	CSAC-EIA Modoc , County of
2	CSAC-EIA Amador , County of	52	CSAC-EIA Mono , County of
3	CSAC-EIA Anaheim Union High School District	53	CSAC-EIA Napa
4	CSAC-EIA Belmont	54	CSAC-EIA Napa , County of
5	CSAC-EIA Butte , County of	55	CSAC-EIA Nevada , County of
6	CSAC-EIA Calaveras , County of	56	CSAC-EIA Oakland
7	CSAC-EIA California Mental Health Services Authority	57	CSAC-EIA Pasadena USD
8	CSAC-EIA Campbell Union High School District	58	CSAC-EIA Placer , County of
9	CSAC-EIA Capitol Area Development Authority (CADA)	59	CSAC-EIA Plumas , County of
10	CSAC-EIA CAPRI	60	CSAC-EIA Pomona
11	CSAC-EIA Carmel by the Sea	61	CSAC-EIA Public Agency Risk Sharing Authority of California (PARSAC)
12	CSAC-EIA Central Sierra Child Support Agency	62	CSAC-EIA Public Entity Risk Management Authority (PERMA)
13	CSAC-EIA Colusa , County of	63	CSAC-EIA Rancho Cordova
14	CSAC-EIA Concord	64	CSAC-EIA Ridgecrest
15	CSAC-EIA Contra Costa County IHSS Public Authority	65	CSAC-EIA Riverside County IHSS Public Authority
16	CSAC-EIA Council of San Benito County Governments	66	CSAC-EIA Sacramento Area Flood Control Agency (SAFCA)
17	CSAC-EIA Covina	67	CSAC-EIA Sacramento County Contracts
18	CSAC-EIA CSAC Excess Insurance Authority	68	CSAC-EIA San Benito , County of
19	CSAC-EIA Del Norte , County of	69	CSAC-EIA San Benito County IHSS Public Authority
20	CSAC-EIA Del Norte IHSS Public Authority	70	CSAC-EIA San Bernardino IHSS Public Authority
21	CSAC-EIA East Bay Regional Park District	71	CSAC-EIA San Diego County IHSS Public Authority
22	CSAC-EIA East San Gabriel Valley ROP	72	CSAC-EIA San Diego Unified School District
23	CSAC-EIA El Cajon	73	CSAC-EIA San Jose Unified School District
24	CSAC-EIA Elk Grove	74	CSAC-EIA San Luis Obispo , County of
25	CSAC-EIA Fresno , County of	75	CSAC-EIA San Mateo County Schools Insurance Group
26	CSAC-EIA GSRMA	76	CSAC-EIA Santa Barbara , County of
27	CSAC-EIA GSRMA JPA Administration	77	CSAC-EIA Schools Excess Liability Fund (SELF)
28	CSAC-EIA Hanford	78	CSAC-EIA Shasta , County of
29	CSAC-EIA Hemet	79	CSAC-EIA Shasta IHSS Public Authority
30	CSAC-EIA High Desert JPA	80	CSAC-EIA Sierra , County of
31	CSAC-EIA Housing Authority of the County of Riverside	81	CSAC-EIA Siskiyou , County of
32	CSAC-EIA Humboldt , County of	82	CSAC-EIA Solano , County of
33	CSAC-EIA Imperial , County of	83	CSAC-EIA Solano Transportation Authority
34	CSAC-EIA Imperial County IHSS Public Authority	84	CSAC-EIA Sonoma , County of
35	CSAC-EIA Inyo , County of	85	CSAC-EIA South Bay Area Schools Insurance Authority
36	CSAC-EIA Irvine Ranch Water District	86	CSAC-EIA Stanislaus , County of
37	CSAC-EIA Kern Health Systems	87	CSAC-EIA Sutter , County of
38	CSAC-EIA Kern IHSS Public Authority	88	CSAC-EIA Sutter Butte Flood Control Agency JPA
39	CSAC-EIA Kings , County of	89	CSAC-EIA Sutter IHSS Public Authority
40	CSAC-EIA Lake , County of	90	CSAC-EIA Tehama , County of
41	CSAC-EIA Lancaster	91	CSAC-EIA The Sports & Open Space Authority of the Santa Clara
42	CSAC-EIA Lassen , County of	92	CSAC-EIA Torrance Unified School District
43	CSAC-EIA Lompoc	93	CSAC-EIA Trindel Insurance Fund
44	CSAC-EIA Madera , County of	94	CSAC-EIA Trinity , County of
45	CSAC-EIA Madera IHSS Public Authority	95	CSAC-EIA Tulare , County of
46	CSAC-EIA Marin County Transit Dist.	96	CSAC-EIA Tuolumne , County of
47	CSAC-EIA Mariposa , County of	97	CSAC-EIA Van Horn Regional Treatment Facility
48	CSAC-EIA Mendocino , County of	98	CSAC-EIA West San Gabriel Liab. & Prop. JPA
49	CSAC-EIA Merced , County of	99	CSAC-EIA Yuba , County of
50	CSAC-EIA Military Department of the State of California		

JOINT POWERS AUTHORITIES

List of Members by JPA

JPA	MEMBER
1	ICRMA Alhambra
2	ICRMA Azusa
3	ICRMA Baldwin Park
4	ICRMA Colton
5	ICRMA Culver City
6	ICRMA Downey
7	ICRMA El Monte
8	ICRMA El Segundo
9	ICRMA Fullerton
10	ICRMA Glendora
11	ICRMA Hawthorne
12	ICRMA Hermosa Beach
13	ICRMA Huntington Park
14	ICRMA Inglewood
15	ICRMA Lynwood
16	ICRMA Manhattan Beach
17	ICRMA Monrovia
18	ICRMA Monterey Park
19	ICRMA Redondo Beach
20	ICRMA San Fernando
21	ICRMA South Gate
1	PERMA Adelanto
2	PERMA Banning
3	PERMA Barstow
4	PERMA Blythe
5	PERMA Canyon Lake
6	PERMA Cathedral City
7	PERMA Coachella
8	PERMA Desert Hot Springs
9	PERMA Eastvale
10	PERMA Hesperia
11	PERMA Holtville
12	PERMA Imperial County Transportation Commission (ICTC)
13	PERMA Imperial Valley Emergency Communication Authority (IVECA)
14	PERMA Jurupa Valley
15	PERMA La Mesa
16	PERMA March Joint Powers Authority
17	PERMA Mojave Desert & Mountain Integrated Waste Management Authority (MD&MIWMA)
18	PERMA Moreno Valley
19	PERMA Mount San Jacinto Winter Park Authority (PalM Springs Aerial Tramway)
20	PERMA Murrieta
21	PERMA Norco
22	PERMA Palo Verde Valley Transit Authority (PVVTA)
23	PERMA Perris
24	PERMA Rancho Mirage
25	PERMA San Jacinto
26	PERMA Stanton
27	PERMA SunLine Transit Agency
28	PERMA Victor Valley Economic Development Authority (VVEDA)
29	PERMA Victor Valley Transit Authority (VVTA)
30	PERMA Victorville
31	PERMA Westmorland

JOINT POWERS AUTHORITIES

List of Members by JPA

JPA	MEMBER
1	PARSAC Alturas
2	PARSAC Amador City
3	PARSAC Avalon
4	PARSAC Blue Lake
5	PARSAC California City
6	PARSAC Calimesa
7	PARSAC Calistoga
8	PARSAC Citrus Heights
9	PARSAC Clearlake
10	PARSAC Coalinga
11	PARSAC Ferndale
12	PARSAC Grass Valley
13	PARSAC Highland
14	PARSAC Menifee
15	PARSAC Nevada City
16	PARSAC Pacific Grove
17	PARSAC Placentia
18	PARSAC Placerville
19	PARSAC Plymouth
20	PARSAC Point Arena
21	PARSAC Rancho Cucamonga
22	PARSAC Rancho Santa Margarita
23	PARSAC Rialto
24	PARSAC San Juan Bautista
25	PARSAC South Lake Tahoe
26	PARSAC Tehama
27	PARSAC Trinidad
28	PARSAC Truckee
29	PARSAC Twentynine Palms
30	PARSAC Watsonville
31	PARSAC Wheatland
32	PARSAC Wildomar
33	PARSAC Yountville
34	PARSAC Yucaipa
35	PARSAC Yucca Valley

Civic Center Evaluation

Objective

To provide City Council with background and status update of the proposed project to consolidate city operations, renovate and repurpose 910 Calle Negocio as a new City Hall. City Council will be requested to consider current and future needs and uses at 910 Calle Negocio and reconfirm that this project is still a Council priority.

Executive Summary

As part of the City Council's Vital Few Priorities process for the Fiscal Year 2005-2006, the City Council identified Civic Center Feasibility Analysis as one of its top Vital Few Priorities.

Based on a feasibility study, space needs analysis and cost estimates prepared at the time, the City Council made the decision to proceed with a design to renovate and repurpose 910 Calle Negocio into a Civic Center. Although construction drawings were authorized and prepared, Council decided in 2010 to delay any construction associated with the Negocio Civic Center project and lease out vacant space in 910 Calle Negocio.

There are a number of factors that may have changed since the project was originally conceived that could affect the viability of the project. A key element of this project included the sale of the existing City Hall site since this site would no longer be needed and proceeds from the sale were required to complete the Civic Center construction at the Negocio building. The marketable sale value of the City Hall site may not bring the \$16.5 million originally anticipated. Additionally, the space needs analysis done in 2005 evaluated staffing and space needs through 2015.

Some long-term maintenance of existing City Hall site and 910 Calle Negocio has been deferred in anticipation of the future sale of the City Hall site and remodel of the Negocio building. If the remodel and reuse of the Negocio building is further delayed some repairs and maintenance must occur at these facilities to accommodate continued occupancy.

Staff is requesting that the City Council consider whether it is still their desire to move forward with this project in order to establish a timeframe to restart the design and construction process or reevaluate staffing and space needs.

Background and Discussion

Civic Center Feasibility & Space Needs Study

In 2005/2006 a Civic Center Feasibility and Space Needs study was undertaken. The study evaluated the following elements:

1. Assess current allocation of space for City government operations;
2. Assess future trends and projection for City staffing to determine staffing needs for each department extended out for a period of ten (10) years through 2015;
3. Space standards utilized for study – Provide a detailed analysis of office space allocation standards as they apply to work activities, functions and ease of use;

Civic Center Evaluation

4. Prepare an analysis of the estimated total costs to construct the space required for a new Civic Center facility;
5. Estimated costs for relocation and consolidation of City offices to 910 Calle Negocio

The space needs study prepared by the architectural firm of Gensler (Newport Beach) concluded that the total square footage used by the City Hall and Orange County Sheriff's Department (100 Avenida Presidio), Community Development/Public Works (910 Calle Negocio), and Community Center administrative personnel, including public spaces, is 31,300 square feet.

It was Gensler's opinion that the current operation of these three separate facilities impedes communications, collaboration and the creation of a shared work culture for all City employees. Additionally, within these facilities, both individual and support workspaces are inconsistent and ineffective and the work space allocations do not fully support the work needs of City departments.

Civic Center Alternatives Evaluated

A total of six Civic Center alternatives were evaluated:

1. Build-to-suit Downtown Civic Center

65,000 total sf (52,000 usable sf) Civic Center / 11,400 sf below grade parking / 126,800 sf above grade parking facility

[2006 Cost Analysis]

Estimated Construction Cost =	\$47,328,852
Land Acquisition Costs =	\$14,900,000
<u>Construction Financing =</u>	<u>\$ 752,000</u>
	\$62,980,000

2. Build-to-suit Civic Center at Existing City Hall Site

65,000 total sf (52,000 usable sf) Civic Center / 82,100 sf below grade parking / 16,100 sf above grade parking facility

[2006 Cost Analysis]

Estimated Construction Cost =	\$53,049,680
Relocation & Interim Operating Costs =	\$ 860,000
<u>Construction Financing =</u>	<u>\$ 422,910</u>
	\$54,332,590

3. Consolidated Adaptive Reuse of 910 Negocio Facility

44,000 usable sf Civic Center

Note: The overall amount of usable square footage for Negocio is approximately 8,000 square feet less than the square footage for the Build-to-Suit options. No inference can be made that the usable square footage for Negocio should be the standard or guide for

Build-to-Suit space allocation. The adaptive reuse of the Negocio facility simply means that a projected 177 employees are being placed in a smaller pre-existing building area.

[2006 Cost Analysis]

Estimated Construction Cost = \$ 9,607,701

4. Civic Center on 2.27 acres at Southwest corner of Avenida La Pata and Avenida Vista Hermosa (adjacent to Fire Station #59 on La Pata)

65,004 total sf (52,000 usable sf) Civic Center / 54,250 sf below grade parking / 24,400 sf surface parking

[2006 Cost Analysis]

Estimated Construction Cost = \$40,818,028

Construction Financing = \$ 752,000

\$41,570,028

5. Civic Center on 2.7 acres of 9-acre site at Northwest corner of Avenida Vista Hermosa and Avenida La Pata (current location of Target store)

70,604 total sf (56,000 usable sf) Civic Center / 58,240 sf above grade 3-level parking structure / 20,500 sf surface parking

[2006 Cost Analysis]

Estimated Construction Cost = \$40,529,530

6. Civic Center on 3.1 acres of 9-acre site at Northwest corner of Avenida Vista Hermosa and Avenida La Pata (current location of Target store)

65,004 total sf (52,000 usable sf) Civic Center / 71,500 sf surface parking

[2006 Cost Analysis]

Estimated Construction Cost = \$31,856,808

Summary of Civic Center Alternatives	
Civic Center Alternatives	2006 Estimated Construction Cost
New Downtown Civic Center	\$62,980,000
New Civic Center – City Hall Site	\$54,332,590
New Civic Center – La Pata Site (Version I)	\$41,570,028
New Civic Center – Vista Hermosa (Version II) *	\$40,529,530
New Civic Center – Vista Hermosa (Version III) *	\$31,856,800
910 Calle Negocio – Remodel Adaptive Reuse	\$9,607,701

* Version II and III alternatives were located on the property at the north side of Avenida Vista Hermosa. These two alternatives are no longer an option as this property was sold and is now the location of the Target retail store.

Civic Center Evaluation

After reviewing all the costs and financing alternatives and, considering other important community project priorities, the City Council determined there was insufficient funding (current and future) to give any serious consideration to the Build-to-Suit Civic Center options. Staff and Gensler were directed to move forward with preparation of a “test fit space plan” for approximately 55,000 square feet (910 Calle Negocio) and 8,000 square feet (1030 Calle Negocio).

Increased Construction Cost Estimates

The original project cost estimate (2006) totaled \$9,607,701. During the design and plan preparation phase of the proposed remodel and reuse of 910 Calle Negocio a number of decisions were made that increased the scope and cost of the project.

Additional Council approved improvements were added to the scope of work to include:

- Required Building Maintenance (HVAC, Fire System, Building Automation, Roof, Parking, ADA)
- Requested Facility Upgrades (Security, Server Room Protection, Water Damage, Elevators)
- Leadership in Energy & Environmental Design (LEED) building features

In 2008 the project cost estimate for the 910 Calle Negocio Civic Center project was updated from \$9,607,701 to \$12,884,271. Using construction cost index values published by Engineering News Record, the current 2013 updated project cost estimate has been increased to \$14,500,980.

If the Council should decide to move forward with the remodel and adaptive reuse of the Negocio building additional temporary relocation costs should be anticipated depending on how the construction phasing is implemented. It is also important to understand that annual revenues from leasing office space in the facility will end.

Project Expenditures To-Date

Project expenditures to date total \$931,943 and include costs associated with feasibility studies, space needs analysis, real estate appraisals, and architectural and engineering design fees. Estimated costs remaining total \$13,569,037

Project Funding Sources

Funding for the project will come from the Civic Center Construction Fund, Public Safety Construction Fund (restricted for use on the public safety portion of the building), and a portion of the proceeds received from the sale of the existing City Hall site.

In 2006 the sale of City Hall was expected to result in a surplus of approximately \$11.5 million (based on an expected \$16.5 million sale price). It is important to recognize that as the project cost has increased a greater portion of funding from the sale of the existing City Hall site is required. It is also expected that the actual surplus will be less than \$11.5 million due to lower

real estate values and increased project costs.

Funding Sources	2006	2013
Civic Center Construction Fund (available)	\$2,300,000	\$2,101,897
Public Safety Construction Fund (23% of gross area)	\$2,200,000	\$3,120,879
Sale of City Hall Site (portion of proceeds needed)	\$5,107,701	\$8,346,261
Remaining Project Costs (<i>estimates</i>)	\$ 9,607,701	\$ 13,569,037

Current Revenue from Leases at 910 Calle Negocio

The City currently receives approximately \$366,465 annually from leasing office space to Ammcor (\$9,503.60 per month) and Corrective Solutions (\$21,035.00 per month).

The Ammcor lease ends July 2017 and the lessee has one (1), three (3) year option to renew their lease. Lessee’s option to renew is at the sole discretion of the City.

The Corrective Solutions lease ends June 2015 and the lessee has five (5), one (1) year options to renew their lease. The City has the right to deny any option to extend if we desire to redevelop and reoccupy the space.

Prior to June 2015 a decision will need to be made whether to continue leasing out office space in the Negocio office building. This decision will impact whether to move forward with design and construction as well as impacting the timing of marketing the City Hall property for sale.

Obviously if the 910 Calle Negocio office building is renovated and repurposed as our Civic Center there will be a loss of revenue since we will no longer be able to lease office space to tenants.

Conclusion

If the City Council decides to move forward with the Civic Center project, decisions related to marketing the existing City Hall site for sale, and efforts related to design, plan preparation, construction bidding, and the start of construction must be initiated and be coordinated with existing lease ending dates.

If the City Council does not choose to move forward with the remodeled Civic Center at 910 Calle Negocio then the City needs to plan and budget for required short-term and long-term repairs and improvements at the existing City Hall site.

Recommendations

Alternative #1 – Move forward with remodel of 910 Calle Negocio to create a consolidated Civic Center.

Remaining Estimated Cost to complete \$13.5 million

Funding Sources:

Civic Center Construction Fund - \$2.1 million

Public Safety Construction Fund - \$3.0 million (based on 23% of gross project floor area)

Civic Center Evaluation

Sale of Existing City Hall Site - \$8.4 million (portion of proceeds from sale needed)

If the City Council decides to move forward with the Civic Center project, decisions related to marketing the existing City Hall site for sale, and efforts related to design, plan preparation, construction bidding, and the start of construction must be initiated and be coordinated with existing lease ending dates.

Alternative #1 - Actions/Decisions needed:

1. Authorize an updated real estate appraisal of the existing City Hall site
2. Market the existing City Hall site
3. Allow existing tenant leases with Ammcor and Corrective Solutions to terminate w/o further extensions
4. Authorize funds for A&E design services (estimated \$250,000) to update old design to current building codes

Alternative #2 – Continue to maintain separate office facilities at both 100 Avenida Presidio and 910 Calle Negocio.

Estimated Cost to complete needed upgrades and repairs \$9.8 million

Funding Sources:

Civic Center Construction Fund - \$2.1 million

Public Safety Construction Fund - \$2.5 million (based on 38% of gross City Hall floor area)

General Fund – \$5.2 million needed funding

If the City Council does not choose to move forward with the remodeled Civic Center at 910 Calle Negocio then the City needs to plan and budget for required short-term and long-term repairs and improvements at the existing City Hall site.

100 Avenida Presidio – repairs and improvements needed

Estimated Cost to complete \$6.7 million

1. Repairs identified in recent facility condition assessment report:
A building evaluation and assessment was recently undertaken by Lawson-Burke Structural Engineers, 30th Street Architects, and Linwood Engineers. The report identifies numerous deficiencies related to structural, architectural, mechanical, electrical and plumbing elements in both the existing City Hall and Police Services. Estimated Cost \$1.3 million
The costs associated with geotechnical stabilization and structural strengthening of the building have not been included in this estimate. (If significant geotechnical problems are found the costs to improve, strengthen and stabilize the structure could double the estimate to \$2.5 million.)
2. Disabled access improvements (identified in 2010 DAC report) \$2.3 million:
(City Hall \$750,000 / Police Services \$1,200,000 / Fire Station \$375,000)
3. Estimated Soft Costs (A&E Design, Construction Management, Contingency) \$1.9 million

910 Calle Negocio – repairs and improvements needed

Estimated Costs to complete \$3.1 million

1. Disabled access improvements (identified in 2010 DAC report): Estimated \$725,000
2. Required Building Maintenance (HVAC, Fire System, Roof, etc.): Estimated \$1.14 million
3. Facility Upgrades (Security, Server Room Protection, Water Damage, etc.) Estimated \$305,000
4. Estimated Soft Costs (A&E Design, Construction Management, Contingency) \$880,000

Alternative #2 - Actions/Decisions needed:

1. Authorize continued leasing of vacant office space in Negocio building. Pursue extension of existing tenant leases with Ammcor and Corrective Solutions and/or new tenants
2. Authorize funds for A&E design services to develop preliminary designs for renovations to both 100 Avenida Presidio and 910 Calle Negocio

Alternative #3 – Consider other options.

Consider a third alternative that would reevaluate functional space needs and explore space planning options that exclude Police Services from the 910 Calle Negocio renovations.

Concerns have been raised about possible negative impacts to police services if located in the Negocio building and whether police services are better served with a downtown location. Additionally, concerns have been raised related to the parking impact caused by Police Services at the Negocio building (police vehicles and personal vehicles).

Alternative #3 - Actions/Decisions needed:

1. Consider other civic center alternatives.
2. Authorize continued leasing of vacant office space in Negocio building. Pursue extension of existing tenant leases with Ammcor and Corrective Solutions and/or new tenants.
3. Authorize funds for A&E design services to develop other configuration alternatives that would consider excluding Police Services from the Negocio building.
4. Authorize review of alternative locations for Police Services.

PROS & CONS - Alternative #1

Moving forward with remodel of 910 Calle Negocio to create a consolidated Civic Center

Pros

- Consolidation of city operations (may improve efficiency).
- Single place of business for citizens to conduct most services.

Civic Center Evaluation

- Improve and enhance interdepartmental communications by being in a single facility. Separate facilities impede communication, collaboration and the creation of a shared work culture.
- Create uniform and consistent work space configurations for staff. Within the existing separate facilities both individual workspaces and support spaces are inconsistent and ineffective.
- Flexibility of future space use and configuration by utilizing modular wall partitions.
- Eliminates the need to upgrade and repair 100 Presidio facility
- Project can be funded without negatively impacting the general fund by the sale of the old City Hall (but current real estate values will result in significantly less being added into the general fund than expected back in 2006).

Cons

- Smaller workspaces for many staff than they currently utilize
- Loss of lease income from Negocio building (approximately \$366,500 annually)
- City loses a property with ocean views
- Police Services will be located further away from downtown area
- Police Services would prefer location close to downtown
- Parking could be stressed at Negocio building with the inclusion of Police Services (due to number of police vehicles and personal vehicles). Parking can be expected to overflow to street parking.

Council Action (5-0)

The City Council approved the following actions:

1. Direct that a desk-top appraisal be conducted to determine the value of the current City Hall site, with consideration being given to known geologic issues.
2. Direct that a report be prepared, with City Staff input, relative to the prudence or lack of prudence associated with relocating City Hall to a centralized facility.
3. Direct Staff to evaluate operational and functional needs of Police Services and identify possible locations (including existing location) to service future needs.

Marblehead Coastal Parks & Trails

Objective

To identify future maintenance and operations costs associated with the opening of the new parks, trails, and landscape medians in the Marblehead Coastal development which will be completed beginning in the next fiscal year.

Executive Summary

The Marblehead Coastal development includes the construction of four public parks and four miles of hiking trails, as well as medians and associated landscaping that will require ongoing maintenance and utility services by the City. Due to the uncertain schedule for construction of the project in past years, operation and maintenance costs were not budgeted. Construction is now underway and the trails will be completed in the next year, with the four parks following closely behind. The City will need to begin to operate and maintain certain aspects of these new facilities starting in the next fiscal year.

Background and Discussion

The Marblehead Coastal development is now under construction and the first improvements that the City will begin maintenance on will be the Pico median and streetscape in 2014. Closely following, will be the Vista Hermosa streetscape in early 2015. Next will be the four miles of trails in 2015, and Sunset and Pico parks coming on-line at the end of 2015. The final parks, Canyon View Park and Jim Johnson Memorial Sports Park, are not scheduled, but can be expected perhaps as early as 2016. Once construction is completed, the City will be required to provide maintenance and repair of these facilities as well as water and other related utilities.

The majority of maintenance will be outsourced to a Landscape Maintenance firm(s), with oversight by City Maintenance Contract Inspectors, and repair and replacement work done in-house by City Maintenance workers. Staff would like to bid all of the Marblehead parks and trails as one contract ultimately, but due to the staggered opening schedule, facilities may need to be added to existing contracts or bid as small projects until the entire system is completed. Estimated costs for the outsourced maintenance contracts in each fiscal year are noted below:

Facility	Funds Needed (outsourced work & utilities)
Fiscal Year 2014	
Ave Pico Streetscape	\$5,230
Total	\$5,230
Fiscal Year 2015	
Ave Pico Streetscape	\$18,800
Ave Vista Hermosa Streetscape	\$12,000

Marblehead Coastal Parks & Trails

Multi-use Trails	\$17,500
Pico Park and Sunset Park	\$22,300
Total	\$70,600

Fiscal Year 2016

All Parks	\$260,300
All Streetscape	\$45,800
All Trails	\$25,000
Total	\$331,100

City Maintenance Contract Inspectors provide the management and oversight of the contracts, and City Maintenance workers provide operations, repairs, and replacements. This new increase of facilities and required maintenance will further stretch the capacity for inspection, contract management, and associated work. Without increasing staffing, overall landscape standards may be affected negatively. However, staff will work proactively to ensure to service levels are maintained. If staffing is increased by one Contract Inspector and one Maintenance Worker, the Department of Beaches Parks and Recreation feel this potential increase in staff could address future service issues. Costs for a Maintenance Contract Inspector are estimated at \$86,050 annually, with \$18,000 needed in the first year for vehicle and office set-up. A Maintenance Worker is estimated at \$62,670 annually, with \$20,000 of vehicle, set-up, and tools. Currently the City is in the process of finalizing a Maintenance Study that will address future staffing needs.

Conclusion

Maintenance and Operation costs needed:

Fiscal year 2014 \$5,320

Fiscal year 2015 \$70,600 to \$257,320 (if additional staffing is implemented)

Fiscal year 2016 \$331,100 to \$517,820 (if additional staffing is implemented)

Recommendations

Staff recommends adding facilities to existing contracts as they are constructed, and once the entire system is completed, sending the maintenance of all Marblehead Coastal parks and trails to bid as one contract. Staff will continue to monitor all related costs as completion of the parks and trails occur. As appropriate, staff will provide decision packages if additional budget is required.

Fiscal Impact of Recommendations

Capital Impact

Operations & Maintenance Impact

Forecast Impact

Council Action (5-0)

The City Council directed staff that facilities be added to existing contracts as they are constructed, and once the entire system is completed, that the maintenance of all Marblehead Coastal parks and trails be bid as one contract. Staff is to continue to monitor all related costs as completion of the parks and trails occur. As appropriate, Staff is to provide decision packages if additional budget is required.



Sand Replenishment

Objective

To develop a long-term strategy in response to sustained sand loss on the beaches, and to examine current and planned beach sand replenishment efforts and associated funding options.

Executive Summary

The beaches are one of San Clemente's most valuable resources, providing opportunities for recreation and relaxation for residents and visitors alike. Economically, the beaches provide revenues for the City through tourism and potentially increased property values for residents¹. The beaches are also an integral component to San Clemente's coastal town identity, as well as a feature that attract residents, businesses and visitors to the City. Unfortunately, the City's beaches are in danger of eroding away due to a decreased sand supply and natural processes involving storms, waves, and currents. This paper reviews the City's current sand replenishment and retention efforts and potential funding options to support a long term strategy for maintaining and increasing local beach sand levels.

Background on Beach Erosion

Until the 1990s, San Clemente beaches were relatively stable because of a balanced sediment supply delivered from the San Juan Creek to the Oceanside littoral cell². Historically, winter storms would erode the beach but summer swells would restore it. However, the summer swells and sand supply haven't been able to make up the winter season losses, so the beaches have experienced chronic, mild, long-term erosion. The retreating shoreline is due to decreased sand discharges from local rivers and creeks resulting from hardening of these creeks and urban development. Continued future shoreline erosion is expected to result in further narrowing of local beaches, which will subject coastal public facilities (such as the Beach Trail, the Marine Safety building, and beach restrooms) to storm wave-induced damages, reduce recreational beach space, and increase the risk to beach patrons due to the exposure of underlying hard structures. In addition, the loss of recreational beach sand has the potential to negatively impact the economic vitality of the City and quality of life for residents who value the beaches, and also reduce the ecological function of the sand/littoral zone.

San Clemente is not alone in this desire to retain and restore recreational beaches in California, nor is sand replenishment a new concept. Many of California's most popular beaches are basically man-made. The first known project occurred in 1919 at Newport Beach, and beach fill projects continue to be a popular method of shoreline maintenance. From 1930 to the present, over 100 million cubic meters of beach fill have been placed along California's beaches, with

¹ Source: Economic Analysis of Beach Spending and the Recreational Benefits of Beaches in the City of San Clemente, Dr. Philip King, San Francisco State University, 2002; and, Valuing Beach Quality with Hedonic Property Models, Craig Landry, East Carolina University, 2011.

² A littoral cell is a distinct, self-contained geographical section of coastline which contains a complete cycle of sedimentation, including sand sources that provide sand to the shoreline, sinks where sand is lost from the shoreline and transport paths on the shoreline along which the sand moves.

Sand Replenishment

nearly all of California's beach fill projects occurring in Southern California. As an example most of Santa Monica Bay's beaches, often associated with the Beach Boys era and more recently Baywatch, were narrow prior to human addition of substantial quantities of sand, starting in the 1930's. Between 1935 and 1990, over 31 million cubic yards of sand have been added between Santa Monica and Redondo Beach, increasing the beach width between 150 and 500 feet. These beaches have been remarkably stable, with Venice Beach being named one of the top 10 beaches in the world in 2012³.

Current and Planned Efforts

To address this loss of sand, the City has undertaken several efforts to maintain and restore the beaches. These efforts include a sand pushing program, an Opportunistic Sand Replenishment policy and project, and a U.S. Army Corps of Engineers Feasibility Study and recommended sand replenishment project.

Sand Pushing

To try and retain as much sand as possible, the City pushes sand from the exposed area during a low tide up onto the back beach. This typically occurs twice per year, in late fall and late spring. The late fall sand pushing is primarily to protect buildings and other beach facilities and amenities from high tides and surf, while the late spring pushing is more directed at grooming the beach, removing drop offs, etc. This has helped delay, but not prevent, the inevitable loss of beach sand.

Opportunistic Sand Replenishment Policy and Project

To help implement opportunities for beach sand replenishment, the City Council adopted a Beach Sand Nourishment Policy (City Policy No. 702-3) in 2004. This policy provided technical criteria for a local beach sand replenishment program to capitalize on opportunities to obtain beach-quality sand from construction projects and other sources when it becomes available, and to streamline the permit process for implementing beach-fill projects. One such project occurred in June 2005, when about 5,000 cubic yards of sand were transported from a project in the Lower Santa Ana River and placed onto North Beach. The sand was placed as a narrow band along the landward portion of the beach above the visible area of active wave run-up, and then post-construction monitoring was conducted to determine if the fill had any adverse impacts on marine resources. No adverse marine impacts were observed, although there were issues with sand quality which was coarser and of poorer quality than pre-constriction sampling indicated. While this may have helped the sand stay on the beach longer, it did generate complaints from beach users until additional grooming was performed to remove some of the coarser material. The City renewed the initial regulatory agency permits for the opportunistic program and currently has authorization to place up to 200,000 cubic yards of sand per year total at North Beach and Linda Lane beach.

³ Source: Beach Nourishment Provides a Legacy for Future Generations, James R Houston, Shore & Beach, Vol. 81, No. 3, Summer 2013.

Corps of Engineers Study and Project

To help identify a solution for the City's diminishing beaches, the City requested assistance from the U.S. Army Corps of Engineers who conducted a Reconnaissance Study in 2000 and found that there was a Federal interest in a potential project. That led to a more detailed Feasibility Study which began in 2001 and concluded in 2012 with the transmittal of a recommended project to Congress. The recommended project, estimated costs, current status and next steps were discussed in further detail in the Capital Projects LTFP paper. The challenge for the City will be to provide its required local cost sharing contribution if the City wishes to implement the recommended project. Potential funding strategies are discussed below.

Potential Funding Strategies

If the City is to pursue sand replenishment on its beaches, whether via the Corps of Engineers project or a smaller-scale local opportunistic program, a funding source will be required. There are several potential "internal" funding sources such as the City's Transient Occupancy Tax (TOT), a new special tax or a general sales tax, increasing parking meter fees or allocating General Funds. Potential "external" sources include grant or other outside agency funding assistance. These are discussed below.

Transient Occupancy Tax (TOT)

The City's TOT is a general tax imposed on occupants of rooms in San Clemente hotels, motels, inns, vacation rental properties, etc. for occupancies of 29 days or less⁴. The tax generates revenue which is used to help fund City services provided to tourists and visitors to the City. The City first established a TOT in 1964 at a rate of 4%, and the current TOT rate is 10%. In Fiscal Year 2013, the City's TOT generated about \$1.6 million⁵.

The City's Coastal Advisory Committee (CAC) has discussed the possibility of directing a portion of the funds from the City's existing TOT to help fund the sand replenishment project, or consideration of an increase to the existing TOT, with the increased portion used for sand replenishment. The latter is the approach used by the Cities of Encinitas and Solana Beach to fund their sand replenishment and related efforts. Based on the City of Encinitas' experience several years ago, to increase the TOT with the intent to use the increased portion specifically for beach sand replenishment would require a supermajority (2/3) approval of registered voters since this would be considered a special-purpose tax, in accordance with Proposition 218. Alternatively, the City Council could leave the current TOT rate as-is but direct a portion of the proceeds toward sand replenishment. However, this would divert existing funds that may have already been programmed or intended for other purposes, therefore this approach is not recommended.

In its discussion the CAC was not locked into just the TOT, although this was discussed because of other cities' experience doing so. The CAC did not recommend any specific funding strategy, only that planning identify funding sources for beach sand replenishment should begin in the

⁴ Refer to San Clemente Municipal Code Chapter 3.24 for additional TOT details.

⁵ Source: City of San Clemente FY 2013

Sand Replenishment

near future.

New Special Tax or General Sales Tax

The City could pursue a new special tax to generate funds that would specifically be used for sand replenishment. As noted above, such special taxes require a 2/3 supermajority approval of registered voters. If such a measure were placed on a general election ballot (the next such election is November 2014), the estimated cost would be about \$10-\$15k to accommodate this additional measure. To conduct an “off-cycle” stand-alone election would increase the cost significantly to around \$175-\$200k. This cost could be somewhat reduced if such an off-cycle election were combined with any other special elections that might be pursued by other agencies at the same time.

The City’s current sales tax rate is 8.0%, and the City could consider a local sales tax increase. If not earmarked for any specific purpose, this would require only a simple majority approval. Funds would then go into the City’s General Fund and apportioned as the City Council directs through its budgetary process. However, this presents a challenge in how to explain the need to local voters. Also, if revenue from a proposed local sales tax measure will be earmarked for a specific purpose, then it becomes a special tax with a higher voter approval requirement. It is worth noting that the current sales tax rates for all other south Orange County cities are 8.0%. Finally, the Clean Ocean Fee property owner election recently concluded and was narrowly approved (53% in favor and 47% against). It might be challenging to pursue a new tax (whether an increase to the existing TOT or sales tax, or a new special tax) soon after the Clean Ocean election.

Increased Parking Meter Fees

The City operates a number of parking meters and pay stations, all near coastal access areas. In FY2013, the City collected about \$818,000 in parking meter revenue⁶. The City could pursue an increase to the current \$1.50/hour parking meter rate to help fund beach sand replenishment. The increased rate could be applied to all parking meters or just those near beach areas where sand replenishment would occur.

General Fund Allocation

The City Council could allocate General Funds for beach sand replenishment through the budget process. However, as discussed in detail in the Capital Projects paper, the City will need to provide a significant local share contribution if the Federal Corps of Engineers project is implemented, which would divert funding from many other competing needs. Another option would be to allocate a small amount of General Funds that would be used for the City’s local opportunistic program. This program has in place all necessary permits for smaller-scale sand replenishment in the event a sand supply becomes available. The small General Fund allocation would be set aside to be able to conduct required sand quality testing and transport and place the sand. Since the opportunistic sources typically available for only a short timeframe, the set aside funds would allow quicker action and better potential to actually implement an

⁶ City of San Clemente Adopted FY2013.

opportunistic sand replenishment project.

Grant Funding or Outside Agency Assistance

The City has received significant grant funding assistance from the State Department of Boating and Waterways (DBW) for the Federal Corps of Engineers feasibility study which led to the current recommended sand replenishment project. However, the potential of receiving future grant funding from DBW is uncertain and therefore can't be relied upon at this time. Staff is unaware of any other grant funding opportunities that could be pursued for sand replenishment, but is constantly seeking grant funding options. Another potential avenue is to seek funding from the Orange County Transportation Authority (OCTA) to assist with the Federal sand replenishment project. The Federal project would widen the beach in the area where there is no stone riprap protection for the railroad, and the benefits to justify the project are largely derived from protection of the railroad. Since OCTA is the owner of the railroad corridor and would benefit from a wider beach where the railroad has no riprap protection, the City should consider approaching OCTA to assist with funding for the Federal Corps of Engineers project.

Other Potential Approaches

Not long ago the San Diego Association of Governments (SANDAG) coordinated a large beach sand replenishment project along the San Diego Coast. Since San Clemente is within the same littoral cell as the SANDAG coastal cities, San Clemente may wish to explore the potential to partner with SANDAG when it next renourishes its beaches. However, since those beaches were just renourished it will likely be several years or more before that occurs again, and there may be significant jurisdictional and financial coordination issues. Still, the potential should be explored. Another potential approach is a similar form of partnering on a future project with other cities under the auspices of the recently-completed Orange County Coastal Regional Sediment Management Plan. This plan developed by the Corps of Engineers in collaboration with State and local representatives, could provide a framework for implementation of beach sand replenishment projects so the City should continue to monitor progress under the plan.

Conclusion

Although San Clemente has taken steps designed to partially restore beaches through work on projects such as the U.S. Army Corps of Engineers Feasibility study, and the City has policies in place allowing for opportunistic sand replenishment programs, a comprehensive sand replenishment program has not been fully addressed. The purpose of this program is bring all individual components together under one program, exploring potential projects, new technologies, and funding opportunities. The beaches are one of San Clemente's most precious features and are a major attraction for residents and visitors alike. The maintenance, protection, and restoration of the beaches is vital to San Clemente maintaining this precious resource, while preserving and considering impacts to beach ecology, surfing breaks, and inshore marine habitat.

Recommendations

Prioritize the restoration of the beaches in San Clemente and develop a comprehensive long-

Sand Replenishment

term strategy to address sand loss. Review existing and future replenishment projects, investigate partnerships with other agencies for a regionalized approach, and actively locate and pursue funding opportunities.

Fiscal Impact of Recommendations

Capital Impact: Unknown

Council Action (5-0)

The City Council directed staff to prioritize the restoration of the beaches in San Clemente and develop a comprehensive long-term strategy to address sand loss. Further, to review existing and future replenishment projects, investigate partnerships with other agencies for a regionalized approach, and actively locate and pursue funding opportunities.

800 MHz System

Objective

To analyze funding options for required public safety radio communications equipment and infrastructure upgrades for the 800 MHz County Coordinated Communications System.

Background

In 1996, the City of San Clemente, along with other agencies, executed the 800 MHz Joint Powers Agreement for the implementation and operation of the 800 MHz Countywide Coordinated Communications System (CCCS). This is Orange County's state-of-the-art analog/digital trunked public safety radio communications system.

The County of Orange, through the Orange County Sheriff's Department (OCS), operates the \$100 million, countywide 700 MHz/800 MHz public safety communications system by way of the joint powers agreement on behalf of 34 cities and over 130 federal, state and local partner agencies ranging from the FBI to surrounding counties, school districts and others.

The system began operation in the late 1990s and is one of the few truly interoperable voice systems in the United States, allowing for interoperability among the various disciplines. The system provides radio communication services to city and county law enforcement, fire services, public works and lifeguard/marine safety departments throughout Orange County. The system allows agencies in Orange County to share a common radio system that provides each agency with their own unique dispatch and tactical channels but also allows seamless communications interoperability when the situation requires as such.

The system consists of "backbone" equipment, which is a shared expense, and agency owned equipment, namely subscriber radios, which is at the expense of the individual agency.

Backbone System Life Extension

Over the years OCS has continued to maintain and update system equipment. As the CCCS continues to age, various components will need to be replaced as equipment lifespan is reached and is no longer supported by the manufacturer. Some individual agency owned equipment as well as components of the CCCS backbone have now reached the end of life stage, or will be reaching that stage within the next five years. OCS plans to systematically replace backbone equipment that is no longer supported by the vendor with new equipment that will not only perform in the current system configuration, but will also continue to operate in a future P25 compliant system configuration, which is the new FEMA and Department of Homeland Security recommended technology for public safety communications interoperability.

It is the professional opinion of the OCS that extending the life of the existing radio system by systematically replacing obsolete equipment in strategic phases culminating in an upgrade to P25 compliance, is the most logical and fiscally responsible approach.

800 MHz System

The 800 MHz Governance Committee has approved a plan for upgrades to the system, with a goal of total project completion by 2018. The current plan is to complete the P25 upgrade in 2018 to correspond with the suggested bulk buy of subscriber equipment, as discussed below.

As of January 2014, the City's share of the CCCS backbone upgrade costs are estimated at \$437,460 with payments to be scheduled over a period of four years, beginning in FY 2015.

Subscriber Radios

Subscriber radios are the mobile, portable, and console radios used by various disciplines to communicate with each other and with dispatch. The majority of the City's subscriber radios are used by the Police Services division (95 units), but the Marine Safety (11 units) and Emergency Planning divisions (4 units) are also users of the system.

The City currently has multiple models of radios in service, many of which are at or near the end of their intended life. Many cannot be upgraded and will not be compatible with a P25 radio system. These radios will need to be replaced prior to 2018 when the CCCS radio system is upgraded to a P25 radio system.

The ideal solution for radio replacement is to replace all end-of-life, non-upgradable subscriber radios in a bulk purchase just prior to the CCCS system upgrade to P25 in 2018. This would allow the City to benefit from a potential bulk purchase discount and would ensure that all subscriber radios will be the latest model available and will include all the necessary features. A significant bulk purchase should enable the negotiation of discount pricing that would benefit all agencies. This will also ensure that all agencies are operating with the latest model radios that will provide many years of service, providing maximum return on the investment.

As an alternative to a bulk purchase of all replacement radios just prior to the 2018 upgrade, the City could choose to begin replacing a number of subscriber radios each year to spread the purchase over time. This would phase out the end-of-life radios between now and 2018. The drawbacks of this approach would include not benefitting from a large bulk purchase discount and the reality that radios purchased today would need to be upgraded later to become operational on a P25 system. This upgrade would be an additional cost for each radio, with estimates ranging from \$350 to \$1,150, depending on the age and type of radio to be upgraded.

The cost for replacing or upgrading all of the City's radios is currently estimated at \$616,350. OCSD recommends that each City begin setting aside funding each year toward the ultimate bulk purchase of subscriber radios in 2018.

Funding Options

The total cost for replacements and upgrades to the City's radio equipment and for the City's share of the CCCS backbone upgrade and replacement is approximately \$1.1 million.

Funds are available in the Public Safety Construction Reserve to pay the City's estimated \$1.1 million contribution. The reserve balance, as of June 30, 2013, was \$4.3 million. Ordinance No.

1174 allows the use of the Public Safety Construction Reserve for funding capital expenses necessary to public safety services.

Alternatively, the City could fund the \$1.1 million overall cost through the General Fund. The backbone replacement costs (\$437,460 total) could be spread over the four year payment schedule in the City's CIP program, with approximately \$15,000 budgeted in FY 2015, \$25,000 in FY 2016, \$65,000 in FY 2017, and \$332,000 in FY 2018, based on the funding schedule provided by OCSD in January 2014. The radio equipment replacements could also be incorporated in the CIP program, with a full \$616,350 being scheduled for appropriation in FY 2018.

Conclusion

Despite having one of the most advanced public safety communications system in the country, the expected end of life of the current *800 MHz Countywide Coordinated Communications System* is fast approaching. Effective and reliable radio communication is a critical factor in the ability of public safety first responders to take action in emergency situations. In the highly mobile, unpredictable, and dangerous environment in which our public safety officers operate, effective and reliable radio communications provide a lifeline that often means the difference between success and tragedy. It is for this reason the city of San Clemente must be vigilant to continue to work in a proactive cooperative manner with other Orange County officials and municipalities to provide a modern, effective, and reliable communication system for its public safety officers. It is imperative that the City schedule funding to address the upgrades and replacements necessary for the continued operation of the Countywide Coordinated Communications System. This will ensure that public safety first responders will have the uncompromised ability to respond to emergencies in a timely and coordinated manner here in San Clemente to safeguard the community for many years to come.

Recommendations

1. Include a total of approximately \$437,000 in the Capital Improvement Program budget over the next four fiscal years, based on the proposed payment schedule provided by OCSD, to fund the backbone costs of the 800 MHZ upgrade from the Public Safety Construction Fund.
2. Include a total of approximately \$616,000 in FY 2017 Capital Improvement Program Budget to fund the cost of replacing and/or upgrading applicable public safety radio communications equipment from the General Fund's unassigned Fund Balance.

Fiscal Impact of Recommendations

Fiscal Impact will vary, depending on Council's direction as to how to fund the estimated costs for the equipment replacements and the CCCS backbone upgrade.

Council Action (5-0)

The City Council approved the following actions:

1. Include a total of approximately \$437,000 in the Capital Improvement Program budget over the next four fiscal years, based on the proposed payment schedule provided by OCSD, to fund the backbone costs of the 800 MHz upgrade from the Public Safety Construction Fund.
2. Include a total of approximately \$616,000 in FY 2017 Capital Improvement Program Budget to fund the cost of replacing and/or upgrading applicable public safety radio communications equipment from the General Fund's unassigned Fund Balance.
3. Direct Chief of Police Services to review whether or not each individual Deputy should be assigned a radio and to further ascertain whether they are being purchased at the appropriate price.

Marine Safety & Beach Maintenance Building Relocation Study

Objective

To identify possible alternative locations to relocate the structure to a less hazardous location on the beach and to develop conceptual designs based on the operational and maintenance requirements for Marine Safety, Beach Maintenance, and Police Services.

Executive Summary

The Marine Safety Headquarters and Beach Maintenance Building was built in 1968 and over the years has suffered damage from storm surge and sand erosion. The building is in need of significant repair and a new steel protective wall. Given the current and projected erosion on our beaches, a feasibility study of relocating the building should be performed before making expensive repairs and replacing the protective wall.

Background and Discussion

The Marine Safety Headquarters and Beach Maintenance building was built in 1968. The building was built with the seaward portion of the building on caissons, watertight retaining structures. The rear of the building is slab-on-grade. The building was designed to serve as a dispatch and operational center for lifeguard operations, a first aid station for the public, a training center for employees and Junior Lifeguards, and as a storage center for emergency equipment needed for lifeguard and beach maintenance operations. The facility was built on the beach in a central location to provide beach and ocean operations and rapid response capabilities for both lifeguards and beach maintenance personnel. Although originally designed with Marine Safety and Beach Maintenance in mind, the building is now used as an unofficial sub-station for the Orange County Sheriffs (storage for Beach Patrol vehicles and office space and facilities for officers).

Since its original construction, the building has suffered considerable damage from storm surge and undermining because of sand erosion. A steel protective wall was put in place in 1983 to protect the building. This wall has been repaired a few times, with the most recent repair done in 2003. In 2001 a structural assessment of the building was performed with recommendations for a new protective wall as well as structural repairs to the caissons, the underside of the building, and to the interior of the building¹. Some of the interior work and caisson repair was performed, but the wall was not replaced because of the high cost (over \$500,000 in 2004 when it went to Council) and potential of a major sand replenishment project which would provide “soft” protection in the form of sand.

Initial discussions in regard to the potential need to relocate the building, as opposed to spending additional funds on repairs, began as early as 2002. The issue was discussed in multiple meetings at the Coastal Advisory Committee and at the City Council. After extensive review of the functions of the building, the operational needs of Marine Safety and Beach Maintenance, and services

¹Structural Condition Rating, Cost Estimate, and Repair Implementation report by TM Engineers, Inc., May 2001

Marine Safety & Beach Maintenance Building Relocations Study

provided to the public, both the Coastal Advisory Committee and the City Council directed that the building be relocated to a less hazardous location on the beach west of the railroad tracks.

During the Vital Few Priorities session in February 2005, the City Council directed staff that the issue of a new and relocated Marine Safety Headquarters/Beach Maintenance facility be considered. The City commissioned a wave run-up study which focused on a Coastal Engineering Analysis of the existing Marine Safety Building Seawall and Future Erosion Estimates and predicted changes to the shoreline at the site from 2005-2055². This study concluded that the Average Erosion Rate is 1.1 ft./yr. or 11 ft. every 10 years, which will undermine nearly half the beach underneath the existing Marine Safety Headquarters structure. Future sea level rise will be an important consideration in this process for practical and regulatory reasons. The Coastal Commission now requires sea level rise impact studies be conducted for any new project on the beach.

In 2007, the City Council approved funds for a relocation study. However, because of the uncertainty of the U.S. Army Corps of Engineer's potential sand replenishment project, the relocation study was placed on hold. The premise was that if San Clemente obtained a large quantity of sand, relocation of the building would not be necessary.

Now over 10 years after initial recommendations to consider relocation as an alternative to repairs, the building has continued to deteriorate with needed repairs becoming more frequent. Without a full structural assessment, it is unclear how much more repair is needed if the building is going to stay in its current location. At a minimum, over \$500,000 is needed to replace the protective wall which was not completed as recommended. However, given the current erosion rates of the beaches, the need for a new protective wall, and obvious structural repairs needed, the cost to protect the building and maintain it for any length of time will certainly be significantly higher. Considering the uncertainty of beach erosion, the potential for major storm damage, unknown costs to replace the wall and repair the building, and the lengthy anticipated timeline for relocating, performing a study of potential alternative locations and estimated costs is appropriate. Although estimates for a new building in San Clemente have not been completed, Laguna Beach is currently building a new lifeguard headquarters and public restroom building at a cost of \$5.5 million.

The relocation study is designed to review stakeholder input, perform site analysis of the existing location and potential alternative locations, and develop and review of preliminary design concepts. The project will require an evaluation of Marine Safety, Beach Maintenance, and Police Services operational needs, with a goal of maintaining the same levels of service to the public.

Conclusion

The Marine Safety and Beach Maintenance building is 45 years old and has survived multiple

² Wave Run Up Study and Seawall Analysis conducted by Coastal Frontiers Engineering, 2004

major storm events in a generally harsh environment. Construction of the building was not ideal, since only ½ of it was built on caissons with the remainder subject to damage from undermining. The building is in need of multiple repairs, including replacement of the protective wall in front. The cost for the wall replacement alone, which is overdue, is estimated at over \$500,000. Repairs needed are informally estimated to cost over \$100,000 but could cost considerably more. Relocating the building will take years to locate a suitable location, obtain necessary permits, design, and construct. Emergency plans are in place for portable trailers in the event of building failure prior to repairs or relocation; however, this will result in some loss of service to the public in the interim. Therefore, evaluating the feasibility of relocating the building while it is still functional is prudent. The study may determine that relocation is cost prohibitive or undesirable for a variety of reasons, and therefore, the study will also assist in determining if funds should be allocated for specific repairs of the existing structure and replacement of the protective wall.

Recommendations

Conduct a relocation study of the Marine Safety and Beach Maintenance facility located on the beach, assessing operational and functional needs of a new building, and to identify preferred locations and estimated costs.

Fiscal Impact of Recommendations

Capital Impact: The current budget is \$48,860. Cost for project is \$80,000. An additional appropriation request of \$31,140 will be proposed in the FY 2015 Budget.

Council Action

The City Council directed that Staff from Marine Safety and Engineering assess possible locations for the Marine Safety and Beach Maintenance building and inform Council of the sites (e.g., one or two) that have the greatest potential. After Council receives Staff's report, it may authorize funds to retain an expert to further assess the identified sites in terms of geologic conditions, building costs, etc.



Centennial General Plan

Objective

Implement the Centennial General Plan through the Long Term Financial Plan (LTFP) process to advance the Community's values and goals as expressed in the Centennial General Plan.

Executive Summary

The Centennial General Plan includes goals and policies to continuously make progress toward its quality of life vision. Following on the coattails of the adoption of the Centennial General Plan will be the General Plan's Five-Year Strategic Implementation Program (SIP). The integration of the LTFP with the SIP assures the Centennial General Plan is continually implemented. In 2014 the City will begin the first phase of implementation of the General Plan beginning with the review and approval of the Five-Year SIP, updating the Zoning Ordinance and Specific Plans, Local Coastal Program and Housing Element. Annually through the LTFP/Budget process each General Plan implementation item will be reviewed and prioritized and the Five-Year SIP will be updated and the highest priority items implemented.

Background and Discussion

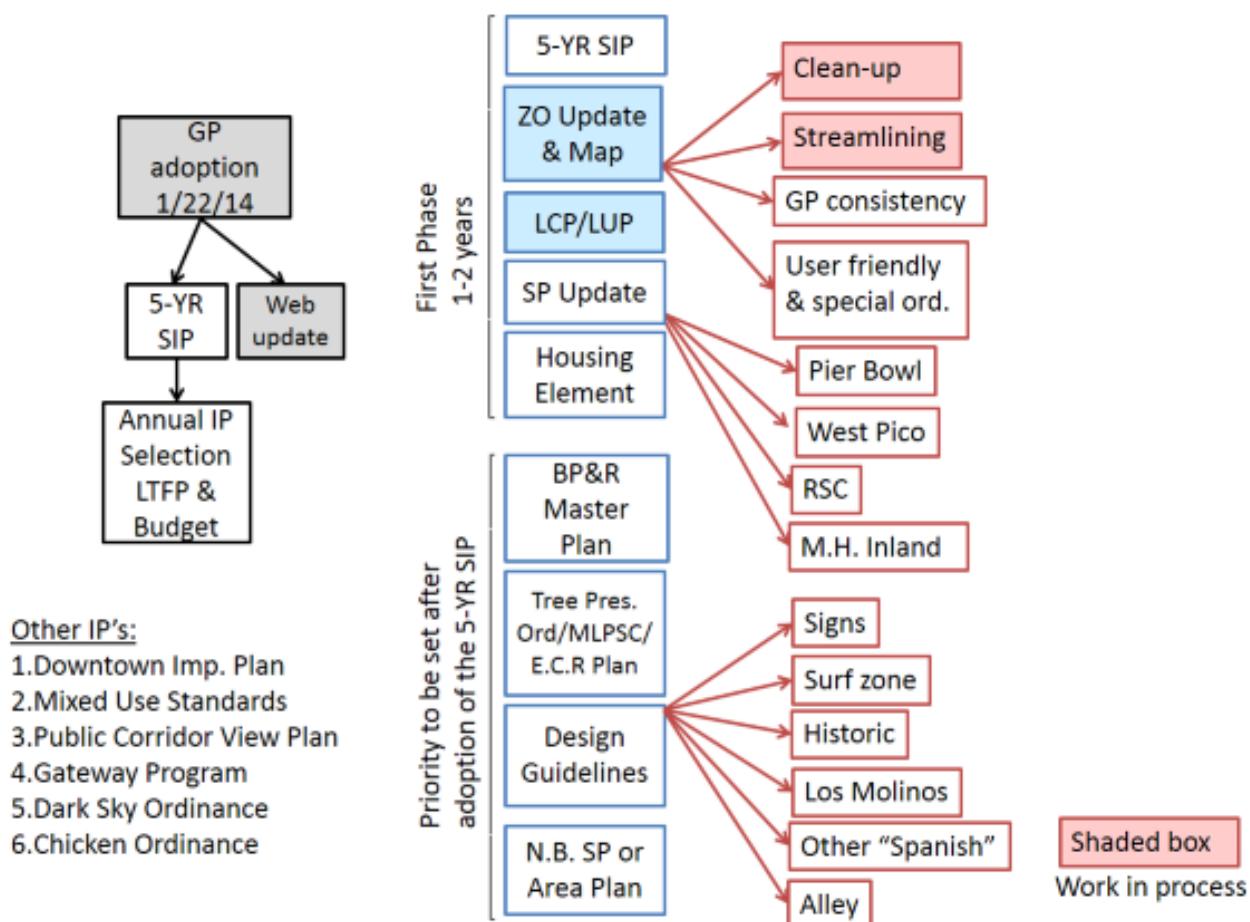
During the review of the Centennial General Plan the City Council approved a new approach to ensure the effective implementation of the General Plan and the LTFP. The implementation program evaluates projects and programs from the General Plan and integrates them into the LTFP/budget process.

The Five-Year SIP will be reviewed and approved by the City Council early in 2014. Once approved, the SIP will set the framework to help review and set priorities for the General Plan Implementation items through our annual LTFP/Budget Process. Similar to the City's Five-Year CIP, City staff working with both the Planning Commission and City Council, will provide an update on the progress of General Plan implementation items and update priorities of each item over a five-year time frame. All implementation items not prioritized into the first five years will be put into an implementation item "Date-To-Be-Determined" later category to be considered in subsequent years.

The SIP approach assures that San Clemente's General Plan remains a living document, one that is able to evolve over time and respond to changing conditions. It provides an institutional framework to annually revisit the General Plan, gauge its continuing relevance, and recommit activities and investments to the community's long-term vision that promotes goals and policies.

With the adoption of the General Plan, begins the first steps in its implementation. Beginning with the review and approval of the Five-Year SIP. In addition to the SIP, during last year's budget process, the City Council directed staff to begin the implementation of updating the Zoning Ordinance and Specific Plans, adopting a Local Coastal Program and updating the Housing Element. The graphic below depicts key implementation projects over the next four to five years.

General Plan Implementation



Conclusion

The Centennial General Plan goals and policies will be reviewed and implemented through the annual LTFP/Budget process. In 2014, the City will begin the first phases of implementation of the General Plan beginning with the review and approval of the Five-Year SIP, updating the Zoning Ordinance and Specific Plans, Local Coastal Program and Housing Element.

Recommendations

Confirm the first phase of Implementation Measures for the General Plan and integration of the SIP into the annual LTFP/Budget process as outlined. The first phase will consist of:

1. Five-Year Strategic Implementation Plan
2. Update of the Zoning Ordinance
3. Update of Specific Plans
4. Coastal Commission certification of the Local Coastal Program
5. Update of the Housing Element

Fiscal Impact of Recommendations

No fiscal impacts on the 2014 Budget. Funding for the Five-Year SIP, updating the Zoning Ordinance, updating the Specific Plans and certification of the Local Coastal Program (LCP) was allocated in previous year budgets. A decision package will be prepared requesting \$35,000 for consultant work to assist in updating the Housing Element.

Council Action (5-0)

The City Council approved the following actions:

Confirm the first phase of Implementation Measures for the General Plan and integration of the SIP into the annual LTFP/Budget process as outlined. The first phase will consist of:

1. Five-Year Strategic Implementation Plan
2. Update of the Zoning Ordinance
3. Update of Specific Plans
4. Coastal Commission certification of the Local Coastal Program
5. Update of the Housing Element



County Library Analysis

Objective

To provide Council with an overview of the current model for providing Library Services within the City of San Clemente and to provide options for providing those services in the future.

Background and Discussion

Library Services

Library services for San Clemente residents are provided by Orange County Public Libraries (OCPL), currently operating within a portion of a City-owned building on Avenida Del Mar in the downtown area of San Clemente. The building is owned by the City and OCPL is responsible for the interior furnishings and operations of the Library portion of the building. With the completion of construction of the new Senior Center, the building space formerly used for Senior Services was made available for expansion of the Library. In December 2010, the concept plan for the Library expansion was approved by the City Council. The bid for construction closed February 5, 2014 and construction is tentatively scheduled to begin in April of 2014.

OCPL is a dependent special district governed by the Orange County Board of Supervisors, with libraries distributed throughout the County. The unincorporated area and twenty-four cities, including the City of San Clemente, are served by OCPL. There are a total of thirty-four OCPL libraries and support facilities in Orange County, serving approximately 1.6 million residents. The County's ten remaining cities operate thirty libraries for about 1.6 million residents within their incorporated boundaries. These libraries are funded and managed separately by the respective cities and are not part of the OCPL system.

OCPL is the third largest local library system in California; only the LA County and LA City systems are larger. A professional-technical library staff operates the libraries under the direction of a unified management team. Library Advisory Board members represent the jurisdictions that are a part of the system, and various "friends" organizations and volunteers support specific libraries within individual communities.

Property tax is the primary funding source for OCPL, with approximately 86% of all OCPL revenue derived from this source. Property tax revenue for OCPL for Fiscal Year (FY) 2014 is projected at \$37.8 million. Comparatively, total property taxes for OCPL for FY 2013 were \$36.5 million and for FY 2012 were \$36 million.

Out of the 25 cities that participate in property tax funding for the OCPL, San Clemente is the fourth (4th) highest contributor. To provide some perspective of the property tax payments that OCPL has deducted from San Clemente, below you will find a summary of payments for FY 2001/2002 to 2013/2014:

County Library Analysis

<i>FY 01-02</i>	<i>FY 02-03</i>	<i>FY 03-04</i>	<i>FY 04-05</i>	<i>FY 05-06</i>	<i>FY 06-07</i>	<i>FY 07-08</i>
\$914,496	\$1,052,191	\$1,230,884	\$1,397,462	\$1,814,918	\$2,065,070	\$2,270,260
<i>FY 08-09</i>	<i>FY 09-10</i>	<i>FY 10-11</i>	<i>FY 11-12</i>	<i>FY 12-13</i>	<i>FY 13-14</i>	
\$2,336,154	\$2,294,582	\$2,258,113	\$2,243,860	\$2,268,955	\$2,329,186	

Prior to 1975, the OCPL system included thirteen libraries. Since then, twenty-one libraries have been added to the system as new and existing cities joined the system and as service expanded in the unincorporated area. The following table includes a list of current OCPL branch libraries.

OCPL Libraries: Locations, Sizes, and Hours

City	Location	Size- Sq.Ft.	Days Open/Wk.	Annual Hours	Year Built
Aliso Viejo	Aliso Viejo	20,400	7	3,276	1999
Brea	Brea	10,880	5	2,028	1981
CM/Tech	Costa Mesa	2,375	5	1,976	1980
CM/Costa Mesa	Costa Mesa	7,500	7	3,276	1987
CM/Costa Mesa	Costa Mesa	6,458	7	3,276	1965
Cypress	Cypress	15,000	6	2,756	1976
Dana Point	Dana Point	12,114	7	3,120	1976
El Taro	Lake Forest	13,940	7	3,276	1981
Foothill Ranch	Foothill Ranch	12,914	5	2,444	2003
Fountain Valley	Fountain Valley	15,578	6	2,860	1964
GG/Chapman	Garden Grove	5,279	5	2,028	1964
GG/Regional	Garden Grove	21,484	7	3,276	1968
GG/West	Garden Grove	5,279	5	2,028	1964
Irvine/Heritage Park	Irvine	20,693	7	3,276	1988
Irvine/University Park	Irvine	11,433	7	3,276	1975
Irvine/Wheeler	Irvine	11,250	7	3,276	2008
La Habra	La Habra	13,994	7	3,068	1967
La Palma	La Palma	6,330	5	2,028	1969
Ladera Ranch	Ladera Ranch	14,181	5	2,444	2003
Laguna Beach	Laguna Beach	10,290	6	2,704	1972
Laguna Hills Technology	Laguna Hills	1,895	6	3,016	2002
Laguna Niguel	Laguna Niguel	10,500	7	3,276	1987
Laguna Woods	Laguna Woods	N/A	5	1,690	1980
Los Alamitos/ Rossmoor	Seal Beach	10,488	5	2,080	1962
Rancho Santa Margarita	Rancho Santa Margarita	16,300	6	3,016	1991
San Clemente	San Clemente	15,005	7	3,276	1982
San Juan Capistrano	San Juan Capistrano	12,000	6	2,600	1983
Seal Beach	Seal Beach	13,469	5	2,028	1978

City	Location	Size- Sq.Ft.	Days Open/Wk.	Annual Hours	Year Built
Silverado	Silverado	1,119	5	1,716	1964
Stanton	Stanton	5,890	5	2,028	1974
Tustin	Tustin	31,455	7	3,276	2009
Villa Park	Villa Park	2,016	5	2,028	1972
Westminster	Westminster	18,437	7	3,276	1977

Funding

Property taxes are the primary funding source for OCPL (Attachment A). San Clemente property tax payers contribute \$0.001833 per property tax dollar to OCPL. This contribution is sent directly from the County to OCPL. This revenue is restricted to use for library services.

Property Tax derived from the City of San Clemente for OCPL for FY 2014 is projected at \$2.33 million. Comparatively, total property tax derived from the City of San Clemente for OCPL for FY 2013 was \$2.27 million, and for FY 2012 was \$2.24 million. Since FY 2002, the FY 2014 projected payment reflects an average of 8% annual growth. Please refer to Attachment A, this reflects a 13 year contribution model for all participating agencies.

As of June 30, 2013, OCPL reported an ending fund balance available of \$13.5 million, an increase of about \$7 million, or 52% higher in comparison with the prior year. This was due to savings and increased revenue that was contributed to a number of factors: salaries and benefits decreased by \$1.7 million, reduction in extra help, supplies and services came in 26.9% less than budget, County wide cost allocation was \$522k less than budgeted and most significant was the additional \$6 million in unexpected revenue from the dissolution of the redevelopment agency.

In October of 2013 the Library Advisory Board, presented cities with Financial Planning Assumptions (FPA) for the next five years, Attachment B. It is important to note, the FPA reflects an increase in revenues of 0.5% over the next five years, while the adjusted reserve balance remained static, at \$5.74 million. This is due to the set aside taken out to address the City of Irvine's recalculation.

Branch Allocation Formula

Funding is "allocated" to various libraries within OCPL based on a "Branch Allocation Formula". The formula allocates the total funding for branch operations to individual city libraries based on a formula that takes three factors into account, on a weighted basis. The three factors - property tax revenue (ability to pay), circulation (library use), and population, - are weighted 40%, 30%, and 30%, respectively. As of May, 2012 the "Branch Allocation Formula" for San Clemente is as follows:

County Library Analysis

Property Tax	X 40%		Circulation	x 30%		Population	x 30%	
6.24%	2.50%		3.58%	1.07%		4.18%	1.25%	
			Total Factor	4.82%				

The funding amounts determined through the Branch Allocation Formula are compared to the actual costs to operate the applicable facility in order to determine if there is an excess or deficit. If the funding allocation is more than the cost to operate the facility (meaning there is an excess) the applicable City is considered a “donor” city. San Clemente’s allocations exceed the cost of operating its library, so San Clemente is considered a “donor” city. Based on OCPL’s FY 2012-13 Allocation Plan with “Robust” Circulation, San Clemente exceeded our allocation by \$372,583.

For purposes of the Branch Allocation Formula methodology, the amount allocated only includes branch operating costs and does not include system wide costs or reserves. System wide costs are “centralized expenses” that support branch library operations but are not applied directly to a specific branch library operating cost. These costs include administrative departments such as HR, IT, Accounting and Purchasing. Additionally, these costs include system wide information system maintenance and upgrades, system wide book/collection purchases, and system wide insurance and other overhead costs, among others. Since these costs are not included in the Branch Allocation Formula, it makes it difficult for member cities to know the total actual cost of the services received, and the related excess or deficit for the applicable City.

Future Alternatives

Considering that the City of San Clemente is funding more than the services it is receiving, alternatives to the County operating model could be explored.

1. The City could request that OCPL allocate funding (outside the Branch Allocation Formula) on either a one-time or continuing basis, provided the appropriation is for libraries and related services. This allocation could be used by OCPL to provide additional hours or services at the San Clemente library.
2. The City could request that OCPL refund San Clemente’s “excess funding” directly to the City to be used for some type of alternative library service within the City.
3. The City could withdraw from the OCPL system, redirecting Library property tax revenue directly to the City, and operate and maintain the Library with City staff. The City would be required to use any redirected revenue to provide library services.

Conclusion

City Library Services are provided by Orange County Public Libraries (OCPL). Since the City property tax payers are paying more into the system than the services that are being received, City Council may want to explore alternatives to the current service model.

Recommendations

Staff requests that the City Council provide direction on exploring alternative models for Library services.

Fiscal Impact of Recommendations

The fiscal impact would be determined by which alternative models the City Council would like to explore.

Council Action (5-0)

The City Council approved the following actions:

Staff to provide direction on the process to withdraw from the County Library system. Staff is to remain cognizant of the fact that January 1 is the deadline to provide the Board of Supervisors with an intent to withdraw from the County system.

Attachment A

OC PUBLIC LIBRARIES
Property Taxes - Irvine Included
FY 2001-02 to 2013-14

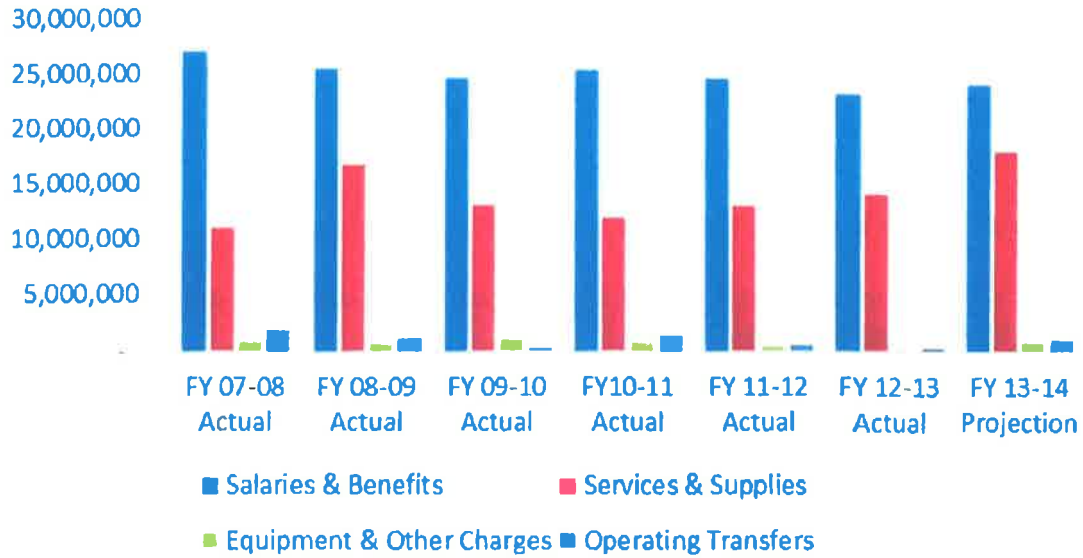
CITY	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
ALISO VIEJO	-	364,809	796,065	894,098	1,057,800	1,191,323	1,283,128	1,333,898	1,292,736	1,276,445	1,284,432	1,298,367	1,346,788
BREA	343,314	1,579,780	384,099	425,340	513,037	555,239	592,471	609,588	594,208	600,033	601,415	630,718	656,018
COSTA MESA	1,473,670	405,762	1,672,513	1,765,122	2,040,807	2,239,721	2,428,248	2,520,794	2,531,498	2,477,448	2,474,503	2,503,197	2,613,569
CYPRESS	387,152	851,293	430,507	461,794	525,052	562,451	594,143	614,540	605,470	604,623	608,716	618,333	638,195
DANA POINT	765,317	505,547	919,217	991,011	1,170,523	1,287,796	1,431,214	1,490,941	1,470,862	1,457,439	1,465,430	1,482,205	1,531,615
FOUNTAIN VALLEY	881,540	944,268	535,078	602,088	716,123	775,592	857,285	863,921	876,121	902,472	912,778	930,265	954,484
GARDEN GROVE	3,749,214	4,174,366	4,567,656	4,925,609	6,216,203	7,088,949	8,038,812	8,572,539	8,610,835	8,485,197	8,594,346	8,848,844	9,320,977
IRVINE	406,119	438,135	457,878	492,683	572,385	634,350	684,094	708,030	679,386	678,273	690,893	697,505	716,036
LA HABRA	123,413	132,391	136,296	143,614	163,604	175,253	190,643	194,815	193,768	196,984	199,293	201,749	206,561
LAGUNA BEACH	803,966	893,889	973,438	1,074,023	1,350,752	1,482,773	1,635,105	1,953,638	2,032,567	2,076,080	2,104,328	2,147,867	2,242,319
LAGUNA HILLS	536,233	580,716	609,428	644,153	751,827	814,139	881,530	873,175	857,620	835,949	835,492	842,077	863,239
LAGUNA NIGUEL	1,092,363	1,186,019	1,262,089	1,359,667	1,605,800	1,759,964	1,872,820	1,897,530	1,844,561	1,846,194	1,862,815	1,881,479	1,926,660
LAGUNA WOODS	242,967	264,303	279,062	297,295	340,074	366,958	391,887	397,619	393,818	383,637	379,059	379,853	387,874
LAKE FOREST	783,184	1,091,775	1,177,093	1,271,989	1,453,813	1,589,398	1,701,470	1,744,258	1,712,462	1,681,313	1,673,794	1,697,691	1,745,172
LOS ALAMITOS/ROSSMOOR (1)	412,591	419,869	419,869	419,869	419,869	419,869	419,869	419,869	419,869	419,869	419,869	419,869	419,869
RANCHO SANTA MARGARITA	703,461	796,487	859,302	920,432	1,091,797	1,198,903	1,272,846	1,262,485	1,207,012	1,204,519	1,207,740	1,217,472	1,231,941
SAN CLEMENTE	914,496	1,052,191	1,230,884	1,397,462	1,814,918	2,065,070	2,270,260	2,336,154	2,294,582	2,258,113	2,243,860	2,268,955	2,328,186
SAN JUAN CAPISTRANO	506,128	543,179	576,312	615,250	724,719	796,410	874,313	895,243	872,759	867,606	864,781	872,011	903,376
SEAL BEACH	315,730	345,523	386,130	427,545	494,325	540,077	593,502	652,777	650,393	661,680	687,725	693,639	706,960
STANTON	154,790	146,514	146,594	146,948	147,419	147,758	147,749	147,671	147,160	147,128	146,734	146,579	147,824
TUSTIN	796,220	841,184	876,760	938,420	1,068,645	1,183,519	1,280,226	1,316,062	1,287,599	1,273,209	1,281,550	1,299,723	1,335,363
VILLA PARK	122,958	132,608	141,304	149,869	173,684	186,528	198,222	204,884	205,503	204,513	207,447	211,218	221,592
WESTMINSTER	513,148	485,217	485,414	485,345	485,465	485,493	485,194	485,151	484,770	484,691	485,069	484,381	484,361
UNINCORPORATED (2)	2,656,776	2,388,269	2,141,761	2,358,681	3,064,754	3,214,330	3,514,725	3,335,428	3,197,217	3,186,550	3,190,887	3,149,722	3,252,387
TOTAL	\$19,190,297	\$20,593,625	\$22,221,727	\$24,013,994	\$29,000,290	\$32,133,324	\$35,145,458	\$36,393,739	\$35,969,259	\$35,719,003	\$35,961,612	\$36,483,181	\$37,811,055

Source: Auditor-Controller: Report AT68AD73, Program AC68U04

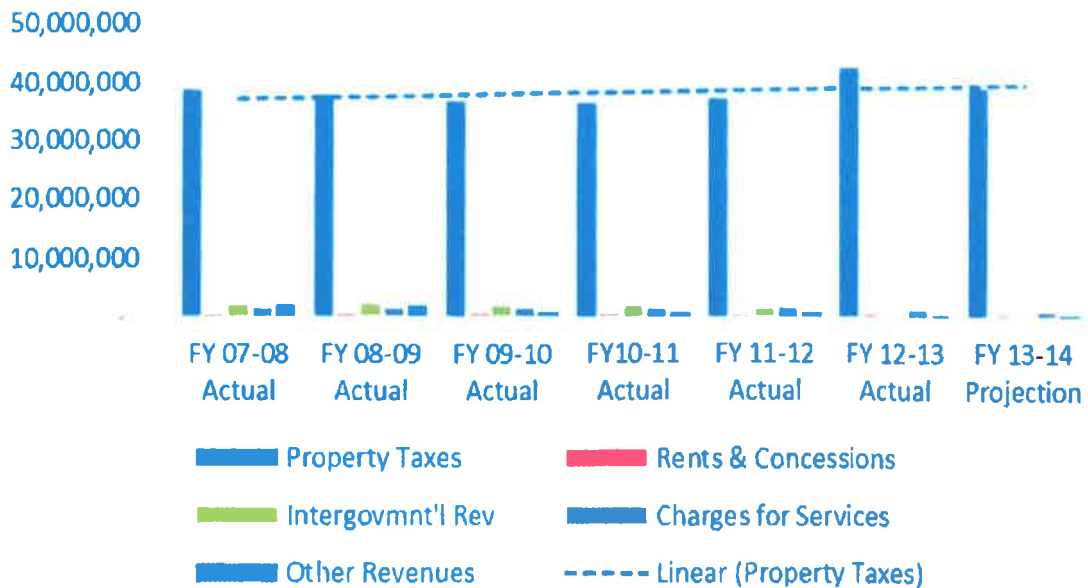
Attachment B

October 10th, 2013
 OC PUBLIC LIBRARIES
 LIBRARY ADVISORY BOARD MEETING UPDATE

Expenditure Trend



Revenue Trend





Glossary

ADA (Americans with Disabilities Act of 1990):

Federal legislation requires State and local governments to make all public services, programs, and activities accessible to persons with disabilities.

Appropriation:

An authorization made by the City Council which permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are typically granted for a one-year period.

Assessed Valuation:

The estimated value of real and personal property established by the Orange County Assessor as the basis for levying property taxes.

Assessment District (AD):

A defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Assessments:

The levy of a tax against real property.

Balanced Budget:

A balanced budget is one in which total expenditures equal total revenue. An entity has a budget surplus if expenditures are less than revenues. It has a budget deficit if expenditures are greater than revenues.

Bond (Debt Instrument):

A written promise to pay a specified sum of money at a specified future date, at a specified interest rate. Bonds are typically used to finance capital facilities.

Bond Rating:

The City has an “issuer bond rating” of AAA awarded by the rating firm of Standard & Poor’s. An obligation rated “AAA” is the highest rating assigned by Standard & Poor’s. This means that the City’s capacity to meet its financial commitment on the debt obligation is extremely strong. An obligation rated “AA” differs from the highest-rated (“AAA”) obligations only in small degree.

Budget:

A financial plan, including proposed expenditures and estimated revenues, for a period in the future.

CalPERS:

Public Employees Retirement System provided for Public Safety personnel by the State of California.

Capital Assets:

Assets of significant value and having a useful life of several years. Capital assets are also called fixed assets.

Capital Improvements:

Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains and sewers.

Capital Improvement Program (CIP):

A plan over a period of six years setting forth each capital project, the amount to be expended in each year and the method of financing capital expenditures.

Capital Projects Fund:

In governmental accounting, a fund that accounts for financial resources to be used for the acquisition or construction of capital facilities. The total cost of a capital project is accumulated in a single expenditures account which accumulates until the project is completed, at which time the fund ceases to exist.

Capital Outlay:

Expenditures which result in the acquisition of or additions to fixed assets. Examples include land, buildings, machinery and equipment, and construction projects.

Capital Projects:

Projects typically included in the Capital Improvement Program (CIP) which result in the acquisition or addition of fixed assets.

CDBG (Community Development Block Grant):

Federal grant funds distributed from the U.S. Department of Housing and Urban Development that are passed through to the City from the Orange County Environmental Management Agency. The City primarily uses these funds for housing rehabilitation, public improvements, and local social programs.

Certificates of Participation (COP):

A method of financing capital facilities through a debt instrument, where a long term lease is entered into with the investors for constructed facilities. Lease payments are then used to service the debt instrument.

California Joint Powers Insurance Authority (CJPIA):

This is a public-entity risk pool comprised of a cooperative group of governmental agencies joined together to finance the exposure of liability and workers’ compensation risks. The City is self-insured for both liability and workers’ compensation insurance. CJPIA provides coverage for liability claims in excess of \$50,000.

COLA:

Cost of Living Allowance.

Community Facility District (CFD):

A method of financing capital facilities through a debt instrument through a defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Comprehensive Annual Financial Report (CAFR):

The official financial report of the City. It includes an audit opinion as well as basic financial statements and supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

Contingency:

A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted.

Contract Services:

Services provided to the City from the private sector or other public agencies.

Cost of Service:

An analysis of the cost structure of a particular service or function. The costs of operations, maintenance and capital replacements are considered.

Debt Service:

Payment of interest and repayment of principal to holders of the City's debt instruments.

Defease:

To pay off an outstanding liability. To replace a higher interest rate with a lower rate.

Deficit:

The excess of liabilities over assets.

Depreciation:

Is the reduction in value of assets over a defined period of life of that asset. In accounting, depreciation represents a charge to expense the value of an asset over its useful life.

Elastic Revenues:

Revenues which can vary depending upon changing economic conditions. Revenue categories include; sales taxes, transient occupancy taxes, license and permits, and community development charges.

Emergency Reserve:

Restricted money set aside to appropriate under serious conditions which warrant emergency measures. Money can only be appropriated by Council action.

Enterprise Fund:

In governmental accounting, a fund that provides goods or services to the public for a fee that makes the entity self-supporting. It basically follows GAAP as does a commercial enterprise.

ERAF:

Educational Revenue Augmentation Fund

ERAF Property Tax Shift:

Funding for California public school spending generated by shifting a portion of property taxes from cities, counties and special districts.

Expenditures:

Where accounts are kept on the accrual or modified accrual basis of accounting, expenditures are recognized when goods are received or services rendered.

Facilities Maintenance Reserve:

The Facilities Maintenance Reserve provides a funding source for maintenance of City facilities. Facilities maintenance expenditures include costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/stripping for all City facilities, plus the compressor, speed drive and boiler for the City pool.

Fiscal Policy:

A written set of policies adopted by City Council which establishes formal guidelines for financial activities of the City.

Fiscal Year:

A 12-month period to which the annual operating budget applies and at the end of which the City determines its financial position and results of its operations. San Clemente's fiscal year runs from July 1 - June 30.

Five-Year Financial Forecast:

Estimates of future revenues and expenditures to help predict the future financial condition of the community. The Five Year Financial Forecast is included in the City's annual Long Term Financial Plan.

Fixed Assets:

Assets which are intended to be held or used for a long term, such as land, buildings, improvements other than buildings, machinery and equipment.

Fleet Maintenance Fund:

The Fleet Maintenance Fund is used to account for the operation, maintenance and replacement of City owned vehicles and equipment.

Fleet Replacement Reserve:

The Fleet Replacement Reserve accounts for funds set aside for replacement of Fleet vehicles and equipment.

Full Time Equivalent (FTE):

The amount of time a position has been budgeted for in terms of the amount of time a regular, full-time employee normally works in a year. For example, a full-time employee (1 FTE) is paid for 2,080 hours per year, while a .5 FTE would work 1,040 hours per year.

Fund Balance:

The excess of fund assets and resources over fund liabilities is defined as Fund Equity. A portion of Fund Equity may be reserved or designated; the remainder is available for appropriation, and is referred to as the Fund Balance.

Fund Equity:

The excess of fund assets and resources over fund liabilities. A portion of the equity of a governmental fund may be reserved or designated; the remainder is referred to as fund balance.

General Fund:

In governmental accounting, the fund used to account for all assets and liabilities of a nonprofit entity, except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund of the City of San Clemente.

General Liability Self-Insurance Fund:

The General Liability Self-Insurance Fund is used to provide the City with liability and property insurance. Coverage is provided through the City's participation in a joint powers agreement through the CJPIA.

General Obligation Bonds:

Bonds for which the full faith and credit of the City is pledged for payment.

Golf Course Capital Improvement Reserve:

The Golf Course Capital Improvement Reserve provides for capital improvements to the existing golf course.

Government Accounting Standards Board (GASB):

An organization created to provide comparability and consistency between different government agencies. GASB issues statements regarding various accounting issues and provides guidelines on how accounting transactions should be recorded.

Government Finance Officers Association (GFOA):

A national organization of governmental finance officers.

Improvements:

Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains and sewers.

Infrastructure:

The term refers to the technical structures necessary to provide basic services, such as roads, water supplies, sewage treatment facilities, and so forth.

Inter-Agency Loans:

Loans made between related Agencies.

Interdepartmental/Interfund Transfers:

Flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.

Interfund Loans:

Loans made between City Funds.

Internal Service Fund:

Funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City.

Liquidity Ratio:

A calculation of the relationship between available assets (cash or near cash) and current liabilities (accounts payable, wages payable, etc.).

Long-Term External Debt:

Debt borrowed from a source outside the City with a maturity of more than one year after the date of issuance.

Long-Term Financial Plan (LTFP):

A plan which identifies fiscal issues and opportunities, establishes fiscal policies and goals, examines fiscal trends, produces a financial forecast, and provides for feasible solutions.

Maintenance:

Expenditures made to keep an asset in proper condition or to keep an asset in working order to operate within its original capacity.

Negocio Debt Service Fund:

The Negocio Debt Service Fund is used to account for the accumulation of funds for the payment of interest and principal on Certificates of Participation (COP). Proceeds from the COP were used for the purchase of the building located at 910 Negocio, San Clemente. Debt service is financed by revenues generated from the lease of the building.

One-time Expenditures:

Non-recurring expenditures, such as capital asset purchases, one-time studies, etc.

Operating and Maintenance Costs (O&M):

Refers to costs directly associated with the operation and maintenance of a program or activity.

Operating Budget:

The operating budget is the primary means by which most of the financing of acquisition, spending and service delivery activities of a government are controlled. The use of annual operating budgets is required by law.

Operating Position:

Refers to the difference between on-going revenues and expenditures. When revenues exceed expenditures, a “positive operating position” exists.

Operating Transfer:

Routine or recurring transfer of assets between funds.

Orange County Fire Authority (OCFA):

A joint powers agency (JPA) which provides fire protection services within Orange County.

Orange County Transportation Authority (OCTA):

A joint powers agency (JPA) which provides transportation services within Orange County.

Parks Acquisition and Development Fund:

The Parks Acquisition and Development Fund is used to account for the revenues received from developer fees and the expenditures for the acquisition, construction, improvement or renovation of City owned parks.

Personnel:

Salaries paid to City employees. Included are items such as regular full time, regular part time, premium overtime and special duty pay.

Personnel Benefits:

Those benefits paid by the City as conditions of employment. Examples include insurance and retirement benefits.

Projected Surplus/Deficit:

The projected surplus/deficit is the net of forecasted receipts and forecasted disbursements. A surplus is the result of receipts exceeding disbursements, and a deficit is the result of disbursements exceeding receipts.

Public Facilities Construction Fund:

The Public Facilities Construction Fund is used to account for developer fees collected at the time a building permit is issued to provide for future public facilities necessitated by new development and expenditures for construction of beach parking facilities, public safety buildings or equipment and public facilities.

Rates:

Refers to established fees for water, sewer, storm drain and clean ocean programs. Rates include fixed charges, such as water base fees, and variable charges, such as the sewer commodity fees.

RDA:

Redevelopment Agency.

Redevelopment Agency Capital Projects Fund:

The Redevelopment Agency Capital Projects Fund is used to account for the proceeds of notes, advances and other forms of indebtedness, and the expenditure of these funds for improvement, reconstruction and redevelopment projects within the specified boundaries of the San Clemente Redevelopment Agency.

Redevelopment Agency Debt Service Fund:

The Redevelopment Agency Debt Service Fund is used to account for the accumulation of funds for the payment of interest and principal on advances from the City of San Clemente and other long-term debt. Debt service is financed through property tax revenues.

Replacement Reserve:

An account used to accumulate funds for the replacement of specified capital assets or major maintenance of capital assets.

Reserve:

An account used to indicate that a portion of fund equity is legally restricted for a specific purpose.

Reserve Fund:

The Reserve Fund is used to account for funds set aside for capital equipment replacement, facilities maintenance and accrued employee benefits for retired, terminated or former employees funded from the General Fund.

Revenue Bonds:

Bonds issued pledging future revenues, usually water or sewer charges to cover debt payments.

Self-Insurance Reserves:

Money set aside to pay insurance claims below the deductible limit of workers' compensation and general liability insurance policies.

Special Assessment Bonds:

Bonds payable from the proceeds of special assessments.

Street Improvement Fund:

The Street Improvement Fund is used to account for revenues and expenditures related to the rehabilitation of City streets.

Subsidence Claims:

Claims pending against the City's General Liability Self-insurance Fund for land movement.

Subventions:

Revenues collected by the State which are allocated to the City on a formula basis. For example, motor vehicle and gasoline taxes.

Supplemental Appropriation:

An appropriation approved by the Council after the initial budget is adopted.

Sustainability:

Is the capacity to maintain a certain process or state.

Sustainability fund balance:

\$10 million designation of the General Fund fund balance to provide for economic and financial stability. This fund balance can be used only by formal action of the City Council.

Taxes:

Compulsory charges levied by the City, County & State for the purpose of financing services performed for the common benefit.

Transient Occupancy Tax (TOT):

Commonly referred to as a “bed tax”, transient occupancy taxes are applied to all short-term rentals (less than 29 days of occupancy) within the City limits. The tax rate is 10% of the gross room rate.

Triple Flip:

The “triple flip” swaps one-quarter of the City’s local sales taxes to secure \$15 billion in deficit financing bonds approved through the passage of Proposition 57 (flip #1). The State intends to replace this revenue with Educational Revenue Augmentation Fund (ERAF) property tax money that was taken from cities and counties in the early ‘90’s (flip #2). Using ERAF money to backfill the sales tax taken from cities will increase the States obligation to fund schools from *other* general fund resources (flip #3). Another impact of the triple flip upon the City will be cash flow. Sales tax, which is received monthly, will be reduced by 25% and will be “backfilled” with property tax, which will be received bi-annually in January and May.

Undesignated Fund Balance:

Refers to fund balances available for spending, ie; funds not designated for any other purposes.

Vital Few Priorities:

The key issues facing the City which are prioritized annually by the City Council. These priorities are then utilized to develop workplans within the adopted budget prepared by City staff.

Workers’ Compensation Fund:

The Workers’ Compensation Fund accounts for the cost to provide Workers’ Compensation insurance coverage to all City employees in compliance with State of California requirements.

