



## FISCAL STATE OF THE CITY OVERVIEW

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

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

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

For FY 2015, the City's operating position was a positive \$4.8 million, which was higher than the projected amount of \$1.5 million. General Fund Revenues exceeded projections by \$2.8 million, and Expenditures were lower by \$0.5 million. The revenue growth was mainly attributable to tax revenue sources, including increases of \$1.2 million from property tax and \$425,000 from transient occupancy tax. Service charges were \$0.5 million higher than projected due to construction activity, recreation fees, parking meters, and ambulance service fees. Facility rentals and site leases also exceeded projections, by \$0.4 million. Additional information on General Fund revenues and expenditures can be found in the FY 2015 4<sup>th</sup> quarter report.

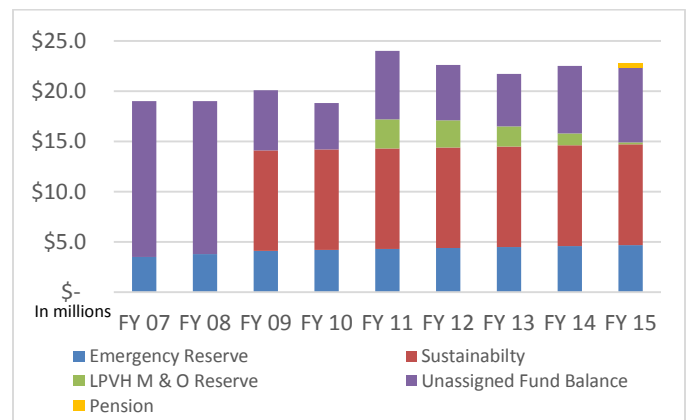
During both FY 2015 and FY 2016 the emphasis has been on organizational review and an efficient organizational structure. As continued improvement in the economy provides revenue stability, the City can now shift its focus to other priorities, including infrastructure maintenance and Information Technology strategic priorities.

The City is nearing buildout and has completed its General Plan, which impacts the appearance and development of the City into the future. The General Plan also offers an opportunity to look back to determine that infrastructure needs of the City are being met. In future years, the City will

be considering improvements, but should consider the needs and use of existing infrastructure assets, including ongoing maintenance costs, as they are rehabilitated or replaced.

The 2016 Long Term Financial Plan (LTFP) will offer an opportunity to analyze the City's ongoing needs while still maintaining the City's character.

## GENERAL FUND – FUND BALANCE



Unassigned fund balance at the end of FY 2015 totals \$7.4 million, which is \$3.3 million higher than the \$4.1 million projected in the adopted budget.

## RESERVES

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

Reserve Balances		June 30, 2015
Emergency Reserves:		
General Fund	\$	4,693,000
Other Funds, includes debt reserve		3,061,000
Sustainability Reserve		10,000,000
Pension Reserve		500,000
LPVH Maint. & Operation Reserve		220,300
Self-Insurance Reserves		1,100,000
Capital Replacement Reserves		8,277,000
Infrastructure Reserves		32,386,000
<b>Total Reserves</b>		<b>\$ 60,237,300</b>

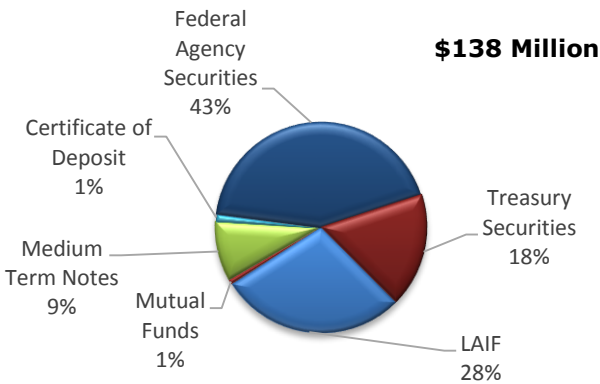
**INVESTMENTS** 

The City’s investment portfolio includes cash from all City funds. This includes the General Fund, Enterprise Funds, Capital Improvement Funds, Internal Service Funds, and Reserves.

At June 30, 2015 the total investment portfolio was \$138 million with an average yield of 0.55%. The City earned \$0.7 million on the portfolio in FY 2015, as compared to \$0.8 million last year, due to a lower interest rate environment.

	June 30, 2014	June 30, 2015
Amount Invested	\$133,192,147	\$138,123,435
Yield to Maturity	0.43%	0.55%

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



**CITY PENSION FUND** 

The City’s Pension Fund (City of San Clemente Employee Retirement Plan or CSCERP) was \$19.4 million as of June 30, 2015, down from \$19.6 million last year.

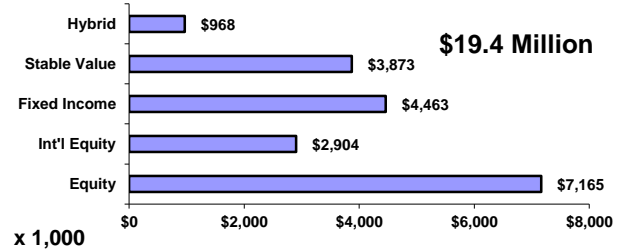
In June of 2014, the City transferred plan assets totaling \$32.6 million from CSCERP to CalPERS as a result of pension transition for all active, miscellaneous employees to the CalPERS plan.

The remaining City Pension Fund assets will be used to meet obligations for the following individuals:

- Existing retirees under CSCERP,
- Coastal Animal Services Authority employees, and
- employees eligible for a pension (but not yet retired), who were no longer active employees with the City of San Clemente at

the time of the pension transition to CalPERS (June 9, 2014).

The asset allocation of the pension fund at June 30, 2015 is as follows:



**DEBT** 

The City has debt outstanding as of June 30, 2015. These debt instruments were used to meet capital needs and consist of both internal and external financing. The outstanding amounts at June 30, 2015 are as follows:

*Internal loans*

- General Fund loan to the RDA Successor Agency is outstanding in the amount of \$1.9 million.
- Golf Course Fund Loan is outstanding in the amount of \$2.1 million, with \$308,939 owed to the Workers Compensation Fund and \$1,750,000 to Golf Fund reserves.

*External loans*

- The Negocio Certificates of Participation debt is outstanding in the amount of \$1,340,000.
- Water Fund loan from the State Revolving Fund (SRF) has an outstanding balance of \$14.5 million.

**CAPITAL IMPROVEMENT PROGRAM** 

The City had 103 Capital Improvement Program (CIP) projects in progress during the year, of which 57 projects were completed. Major projects completed during the year include the Base of Pier Restrooms, San Clemente Library Expansion, Courtney’s Sandcastle Playground, Water Reclamation Plant Expansion, and multiple street rehabilitation projects. Major capital projects in process include the Ole Hanson Beach Club rehabilitation, and implementation of the CMMS.



Good. Positive Indicator;



Caution. Unsettled Indicator;



Problem. Negative Indicator

The total CIP budget was \$56.3 million with \$17.7 million spent during FY 2015. At year-end, multi-year projects totaling approximately \$30.8 million will be carried into FY 2016, with \$15.4 million related to water and sewer projects.

## **MAJOR PROJECTS & ACCOMPLISHMENTS**

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

- City General Plan
- San Clemente Library Expansion
- Plan review and permits issued for the Marblehead Shopping Outlet project
- Ambulance service expansion

## **FISCAL CHALLENGES - CAPITAL**

During Fiscal Year 2015 funding gaps were identified for three major capital projects:

- USACE Sand Replenishment Project
- Municipal Pier Rehabilitation
- City Facilities Rehabilitation

The U.S. Army Corps of Engineers previously completed a Feasibility Study which identified a sand replenishment project to mitigate beach erosion. The project consists of a \$1.0 million Design Phase and an initial \$11.2 million construction phase. The project is dependent upon Federal funding assistance which must be included in a future Federal budget. The project will not proceed until funding has been committed by the Federal government or some yet to be determined alternative funding source.

The City's municipal pier requires periodic repairs and maintenance to sustain one of the City's most treasured public assets. To ensure the pier's long term use and viability, a \$200,000 design project was budgeted for FY 2016. A \$1.0 million rehabilitation project will be proposed during the FY 2017 budget, based on the design project completed during FY 2016. Future rehabilitation projects will be necessary approximately every five years to maintain the municipal pier.

The City's Public Works Department contracted with structural engineers to conduct building

evaluations and assessments for numerous city owned buildings to plan and conduct rehabilitations prior to major failures or temporary loss of the use of the facilities due to unplanned maintenance. An assessment report was presented in the 2015 Long Term Financial Plan that identified \$3.7 million of facility maintenance and rehabilitation project requirements.

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

The long-term strategic plan to address ongoing maintenance and rehabilitation needs and funding options for the municipal pier, city owned buildings and other city facilities, including the use of reserves, will be reviewed during the 2016 Long Term Financial Plan process.

## **FISCAL CHALLENGES - OPERATING**

Looking forward, the financial condition of the City remains stable for the 2016 fiscal year. The FY 2016 budget was adopted with a projected positive operating position of \$220,000, which represents less than 1% of the General Fund expenditure budget.

The City saw revenue increases in FY 2015 by its top revenue sources, property taxes and sales taxes, which represent 66% of the FY 2016 General Fund revenue budget. It will continue to be a priority to closely monitor revenue sources to ensure FY 2016 continues to show growth in these major revenue sources.

As FY 2015 closed, the City still closely managed the operating costs associated with Vista Hermosa Sports Park. In FY 2012, the City had set aside \$2.9 million to cover the operating costs for approximately three and one-half years, or through June 30, 2015, after which General Fund revenue would be needed to fully fund the operations. Revenue and expenses have tracked close to anticipated, with the reserve subsidy



expected to be depleted during the first quarter of FY 2016.

The FY 2016 General Fund budget includes new sales tax revenue from the Outlets at San Clemente retail development project, whose opening was initially anticipated in the first quarter of the fiscal year, but was actually delayed until November. This new revenue source will be needed to partially close the operating funding gap created as a result of the depletion of the Vista Hermosa Sports Park Operating Reserve.

## **BOND RATING**

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

