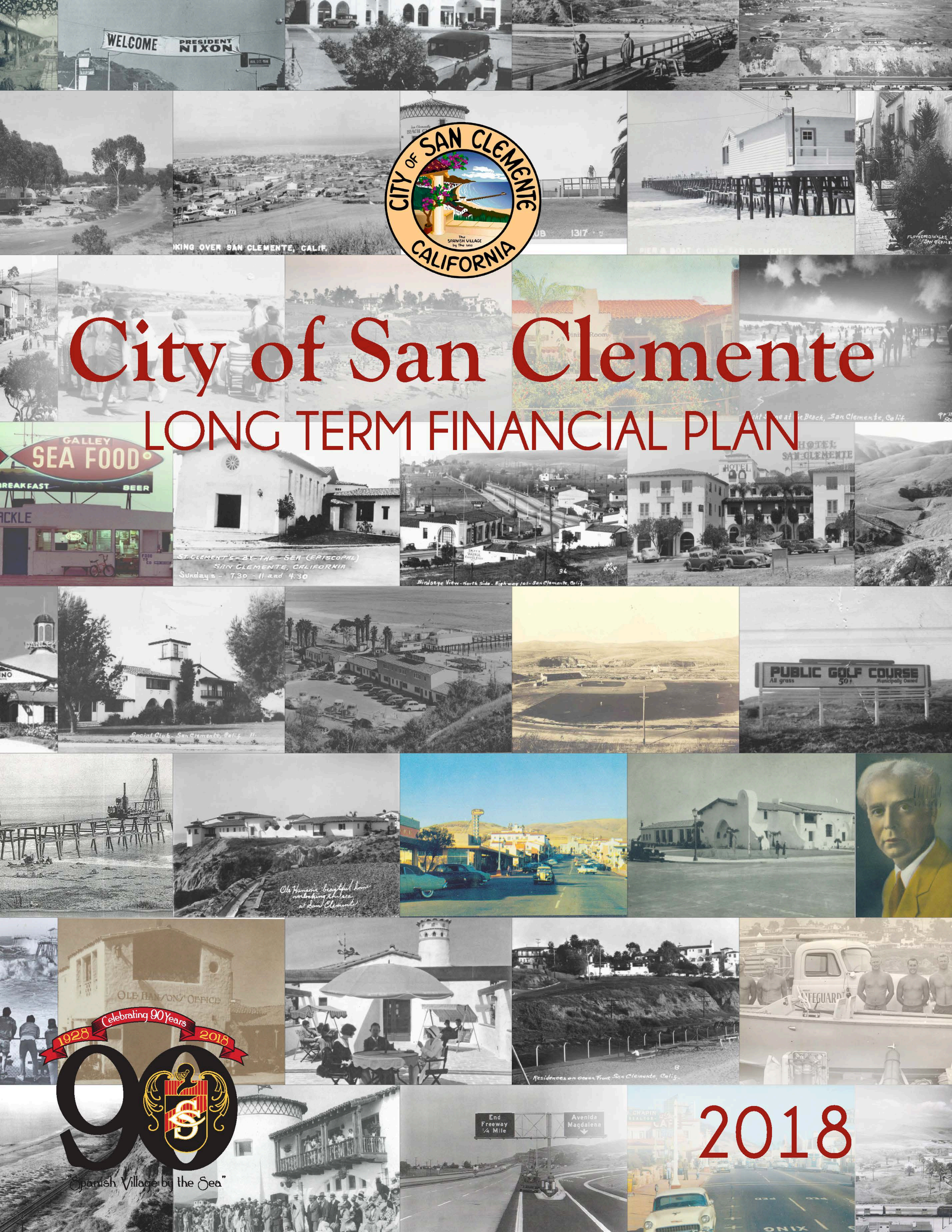
City of San Clemente

LONG TERM FINANCIAL PLAN



2018

City of San Clemente

Table of Contents

City of San Clemente

City Council

Tim Brown, Mayor
Chris Hamm, Mayor Pro Tem
Lori Donchak, Councilmember
Kathy Ward, Councilmember
Steven Swartz, Councilmember

City Manager

James Makshanoff

Executive Team

Erik Sund	Assistant City Manager
Tom Bonigut	City Engineer / Public Works Director
Cecilia Gallardo-Daly	Community Development Director
Dave Rebensdorf	Utilities Director
Mike Peters	Police Services Chief
Rob Capobianco	Fire Services Division Chief
Joanne Baade	City Clerk

Project Director

Erik Sund	Assistant City Manager

Project Team

Brian Brower	Information Technology Manager
Sandee Chiswick	Senior Accountant
Ken Knatz	Principal Civil Engineer / Asset Manager
Jake Rahn	Financial Services Officer
Tom Rendina	Business Services Officer
Judi Vincent	Deputy Administrative Services Director

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

Financial Trend Analysis

Sandee Chiswick, Senior Accountant

Financial Forecast

Judi Vincent, Deputy Administrative Services Director

Reserve Analysis

Jake Rahn, Financial Services Officer

Fiscal Policy

Judi Vincent, Deputy Administrative Services Director

Capital Projects Analysis

Tom Bonigut, Public Works Director
William King, Deputy Community Development Director
Ken Knatz, Principal Civil Engineer / Asset Manager
Dave Rebensdorf, Utilities Director
Tom Rendina, Business Services Officer
Erik Sund, Assistant City Manager

Information Technologies Strategic Plan

Brian Brower, Information Technology 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 Fund, incorporating adopted City fiscal policies, expenditure patterns, revenue trends, fund balances 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 ensure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.

Fiscal Policy

Objective

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

Capital Projects Analysis

Objective

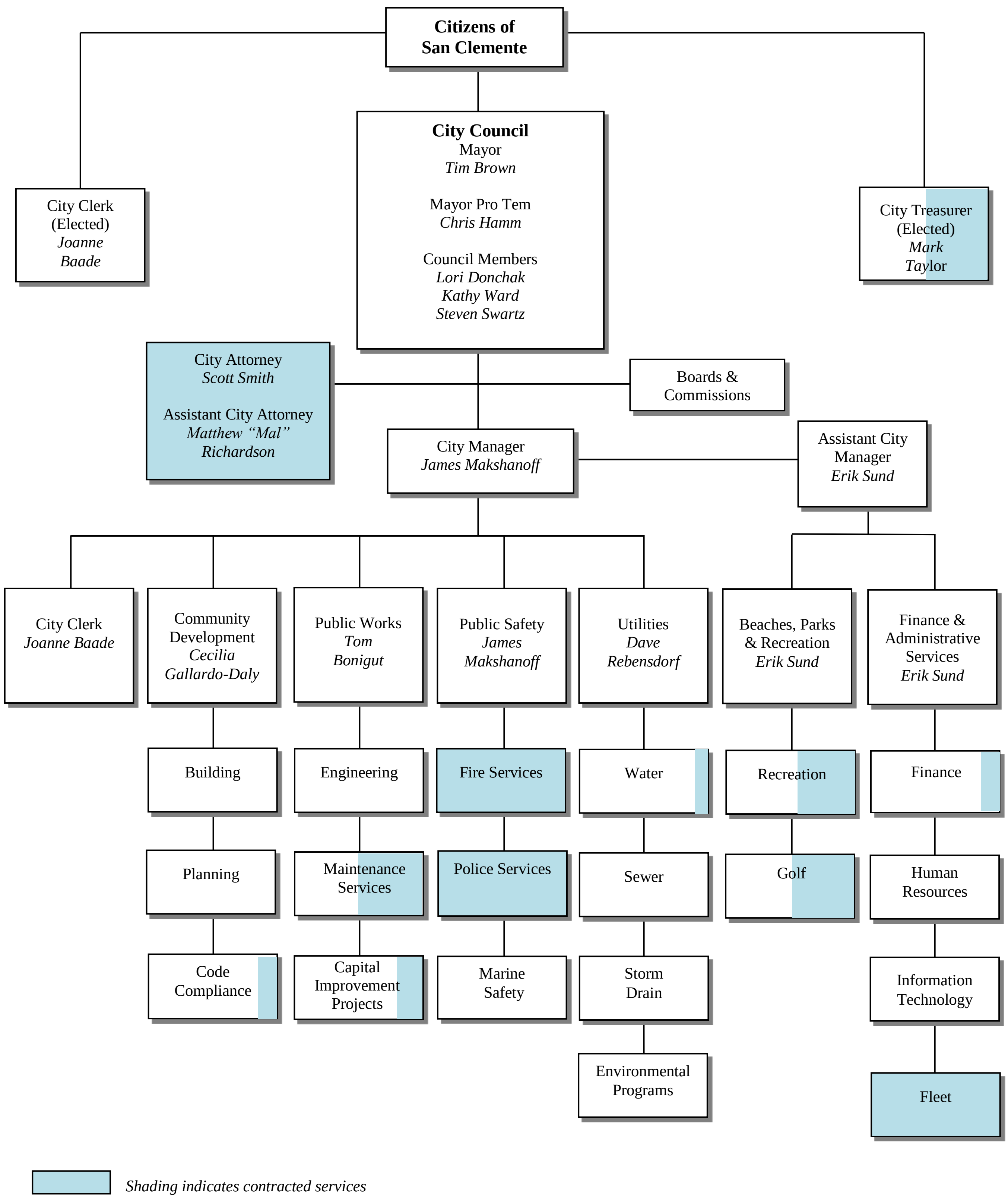
To provide a summary of significant projects and programs within the Public Works Department Capital Improvement Program. This analysis will review funding challenges facing the City in implementing capital projects in both the near and long-term.

Information Technology Strategic Plan

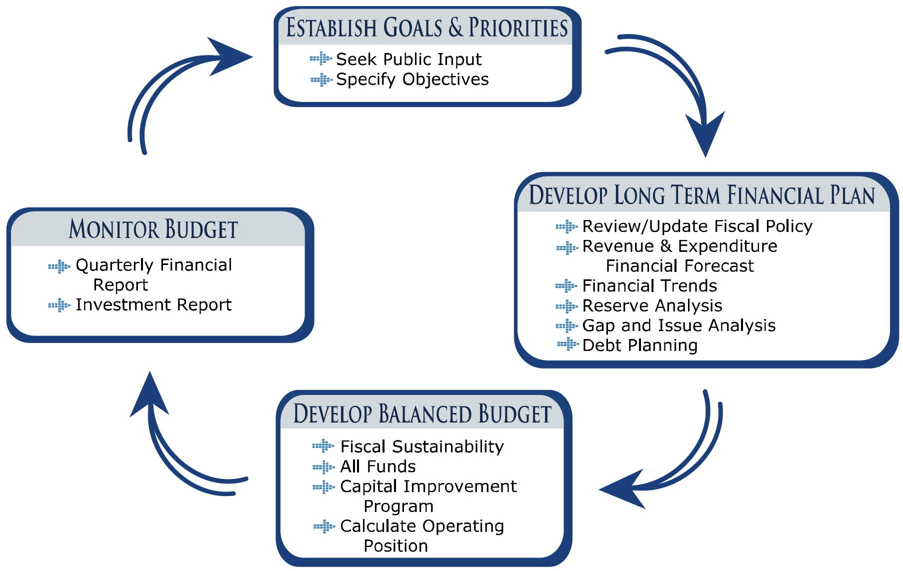
Objective

The Information Technology Strategic Plan (ITSP) has been updated to maintain a comprehensive plan to guide Information Technology decision making, budgeting, and implementations across all City functions and operations over the next five years.

City Organizational Chart



Long Term Financial Plan



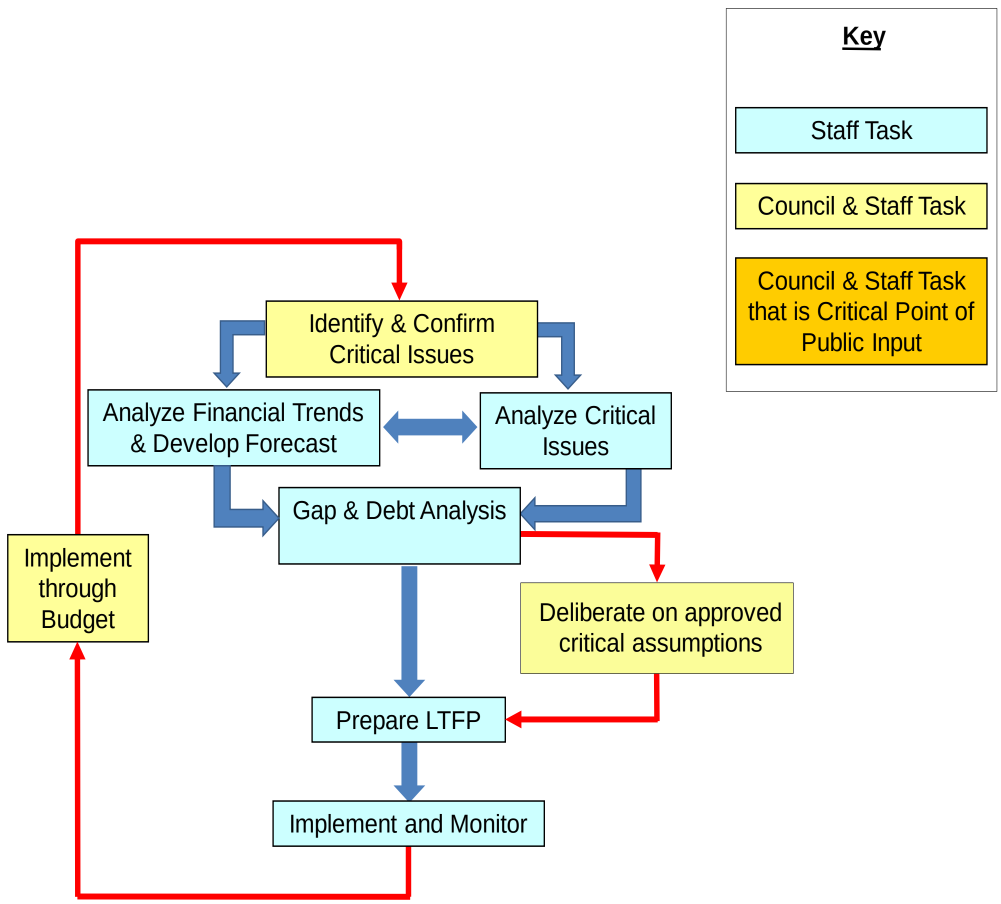
The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The LTFP consists of a complete 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 2018 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
- Information Technology Strategic Plan

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, 12 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 7 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 years. 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 Capital Projects paper, will help with the decision and prioritization of projects as we move into the budget process.

Schedule

March 12, 2018	Long Term Financial Plan Workshop
May 21, 2018	Budget Workshop/Budget Public Hearing
June 7, 2018	Budget Adoption

Long Term Financial Plan Review

The City has prepared an updated table for all 2017 Long Term Financial Plan issues. This table provides an up to date report on the progress that has been made for all 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 and operating funds incorporating adopted City fiscal policies, expenditure patterns, revenue trends and other known financial impacts.	Done.

Reserve Analysis	**Status**
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 scare dollar resources and (c) to insure compliance with City fiscal policies and legal requirements by State, County or Local Ordinances.	All 2018 LTFP reserve transfer and funding recommendations were included in the FY 2019 Budget and are currently being implemented per Council direction at the 2018 LTFP Workshop.

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

Capital Projects Analysis	Status
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.	Based on Council feedback, projects discussed in the 2017 LTFP paper were addressed during the FY 2017-18 CIP budget process where applicable, with updates made as needed, based on funding availability and staff resources. Staff will continue to identify and make recommendations to fund major unfunded projects through the CIP program.

Information Technology Strategic Plan	Status
The Information Technology Strategic Plan (ITSP) has been updated to maintain a comprehensive plan to guide Information Technology decision making, budgeting, and implementations across all City functions and operations over the next five years	Done.

Centennial General Plan	Status
To review the General Plan Strategic Implementation Priorities (SIP's) and, through the SIP evaluation process, make recommendations to the City Council on which projects/programs to implement in the coming fiscal year.	To date, the City Council directed staff to implement 183 of the 315 General Plan Implementation Measures (IM). Of these, staff is actively implementing 170 of the Council-directed IMs. In the next fiscal year, staff proposes: 1) to continue work on high priority IMs, and not initiate new projects, and 2) to direct staff to evaluate the priority level of IMs and propose changes in the next SIP update necessary to reflect resources and workload for IMs in process.

Police Services Study	Status
To have Matrix Consulting present a final report of the Police Services Assessment, which will include strategic choices for the City Council and an implementation plan for Police Services.	The City has conducted 4 Public Safety Task Force meetings and anticipate that 2 more meetings will be conducted, at which point the Task Force recommendations will be submitted to the City Council.

City Clerk Department Strategic Plan	Status
To provide an overview of the City Clerk Department Strategic Plan.	The City Clerk Department Strategic Plan is on schedule. The current fiscal year was focused on a needs assessment that led to the preparation of the RFP for the Agenda and Legislative Management System. The RFP was issued and proposals are currently being received. Staff expects to recommend a vendor to Council by the end of the current fiscal year. FY 2018/19 will focus on implementation and staff training on the new system.

Council Action for the 2017 Long Term Financial Plan (LTFP) March 2, 2017

APPROVED 5-0, to receive and file:

MOTION BY COUNCILMEMBER DONCHAK, SECOND BY COUNCILMEMBER HAMM, CARRIED 5-0, to:

1. Approve the FY 2017 2nd Quarter Report.
2. Approve and authorize the mid-year adjustments listed in “Attachment A” of the Administrative Report, dated March 2, 2017, that is on file with the City Clerk.

MOTION BY COUNCILMEMBER DONCHAK, SECOND BY COUNCILMEMBER SWARTZ, CARRIED 5-0, to modify the City’s current fiscal policy to include the requirement that a formal salary schedule for every approved position title showing the current pay rate for each identified position be approved and adopted by the City Council and that the salary schedule be made publicly available.

Council directed that Staff prepare a report for the Council meeting of March 21, 2017 that addresses the function/composition/structure of the Public Safety Task Force, the selection process for members, timeline, and scope of accountability. The report is to also identify recommendations that Council could act upon at this time as opposed to waiting for the Task Force report to be submitted. Moreover, Council requested that Staff prepare a report in advance of the March 21, 2017 Council meeting that addresses various Matrix Study recommendations as they relate to the existing contract between the City and Orange County Sheriffs Department.

MOTION BY MAYOR PRO TEM BROWN, SECOND BY COUNCILMEMBER HAMM, CARRIED 5-0, to:

1. Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Facilities Maintenance Reserve, the Capital Equipment Reserve, and the Park Asset Reserves after Lucity’s implementation.
2. Transfer an annual amount of $380,000 from the General Fund to the Facilities Maintenance Reserve for FY 2017-18.
3. Transfer an amount between $1.0 to $2.5 million in FY 2017-18 to the Facilities Maintenance Reserve from the General Fund’s unassigned fund balance.
4. Transfer $200,000 from the General Fund to the Park Asset Reserve for FY 2017-18.
5. Remove the Pension Reserve from future Long Term Financial Plans.
6. Retain Bellota land sale proceeds in the General Liability Fund to pay the retrospective liability and to fund legal costs for land use and other claims not covered through CJPIA coverage.

MOTION BY COUNCILMEMBER DONCHAK, SECOND BY COUNCILMEMBER SWARTZ, CARRIED 5-0, to approve the following actions:

1. **USACE Sand Project** – Plan to fund the USACE Sand Replenishment construction phase in FY 2018-19 in the matching funds amount of $600,000 from the General Fund.
2. **Opportunistic Sand Replenishment** – Consider the option of pursuing the Opportunistic Sand Replenishment for $250,000 in FY 2017-18 based on the available funding in the unassigned General Fund balance.
3. **Marine Safety Rehabilitation** – Fund the Marine Safety Rehabilitation construction in FY 2017-18 in the amount of $375,000 from the General Fund and $375,000 from the Public Safety Reserve Fund.
4. **Municipal Pier Rehabilitation** – Fund the Pier Rehabilitation construction in FY 2017-18 in the amount of $600,000 from the General Fund, bringing the total construction cost to $2 million.
5. **T Street Restroom and Concession Rehabilitation** - Approve functional repair of the T Street restrooms and consider adding a requirement to the concession RFP that the new operator rehabilitate the concession (with City contributions/benefits to make the rehabilitation feasible for the concessionaire).
6. **City Hall Feasibility Study** – Proceed with a City Hall Feasibility Study which includes a geotechnical evaluation and reviews two options: 1) Consolidation of City Hall operations or 2) Rehabilitation for existing services, and fund the project in FY 2017-18 in the amount of $150,000 from the General Fund and $150,000 from the Civic Center Reserve Fund, with the understanding that the building in either scenario will be used for public services.
7. **Temporary City Hall Relocation Project** - Proceed with the Temporary City Hall Relocation project as presented in the issue paper and draft a work phasing schedule, and fund the project in FY 2017-18 in the amount of $250,000 from the General Fund and $250,000 from the Civic Center Reserve Fund.
8. **City Infrastructure** –Continue efforts to identify infrastructure assets and the reserve resources needed to maintain and/or replace those assets based on a comprehensive asset management plan that will be developed through the use and optimization of the CMMS.

MOTION BY COUNCILMEMBER SWARTZ, SECOND BY COUNCILMEMBER HAMM, CARRIED 5-0, to accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2017-18 projects and initiatives forward through the budget process.

MOTION BY MAYOR WARD, SECOND BY COUNCILMEMBER HAMM, CARRIED 5-0, to:

1. Identify several IMs as "initiated" that the Council directed since the last update of the SIP and LTFP in FY 2016-17.
2. Direct staff in the Beaches, Parks, and Recreation, City Manager, Community Development, and Public Works departments to continue work on current high priority IMs and not initiate new projects in the next fiscal year.
3. Direct the Community Development Department to evaluate priorities for assigned IMs and propose changes necessary to reflect resources and

workload for IMs in process.

4. Change the priority of Natural Resources Element IM # 21 from "Low" to "Medium".
5. Change the priority of several one-time projects from "High, Medium, or Low" to "Ongoing" because they are occurring programs or activities with no end date.
6. Remove Natural Resources Element IM #3 because it is very similar (almost identical) to IM #19 for the Beaches, Parks, and Recreation Element.
7. Redesignate the following Implementation Measures relating to trails and open space to "High Priority":

Beaches, Parks and Recreation

Implementation Measure 17: "Work with private landowners to help expand the community trails network by making privately-owned trails available for public use."

Natural Resources

Implementation Measure 4: "Amend the Zoning Ordinance to regulate the establishment or encroachment of non-compatible land uses or activities in habitat areas and passive open space, such as commercial uses, off-road motorized vehicle use, off-trail, non-motorized vehicle use, hang gliding, grading or other activities that conflict with biological conservation goals or policies." *Council directed that Staff initiate the subject Zoning Ordinance amendment when Planning staff vacancies are filled and Staff is able to undertake this effort.*

Implementation Measure 5: "Working with community volunteers, conservation clubs, youth groups and non-profit agencies, help plan and support conservation activities such as habitat restoration, interpretive signage and tours, trail building, erosion control and litter removal."

Implementation Measure 6: "Review the Zoning Ordinance, Hillside Development Ordinance and other City standards to ensure regulations and guidelines adequately address ridgeline preservation, access roads, driveway and site design, and architectural and sign design to protect hillsides, coastal canyons and bluffs, and beaches."

Implementation Measure 9: Conduct a Visual Resource Assessment to identify Public View Corridors and specific sections of the Corridors meriting designation and consider expanding the list of the designated View Corridors as a result of the Assessment's findings."

MOTION BY MAYOR PRO TEM BROWN, SECOND BY COUNCILMEMBER DONCHAK, CARRIED 5-0, to accept the City Clerk Department Strategic Plan and direct staff to bring the recommended Fiscal Year 2017-18 projects and initiatives forward through the budget process.

City of San Clemente

James Makshanoff, City Manager

100 Avenida Presidio, San Clemente, CA 92672

Honorable Mayor and Council Members:

I am pleased to present the 2018 edition of the City's *Long Term Financial Plan (LTFP)* to the City Council and our San Clemente residents. The City has been presenting a strategic fiscal plan on an annual basis since 1993. The City's commitment to providing responsible financial oversight has allowed the City to maintain our AAA bond rating. As you will see, the City is in a good financial position as we begin to address the looming deficits forecasted in the future.

The action the City Council has taken over the past years has reinforced the City's strong financial position. This approach has placed the City in a better position as we address forecasted negative operating positions and projected surplus deficits in FY 2020-21 and subsequent fiscal years. Over the next fiscal year we will continue to be conservative in our approach to funding Capital Improvement Projects. It is also important to note that the City is seeing reductions to various revenue sources that will factor into the City's ability to fund certain expenditures in the long-term.

The City's Long Term Financial Plan (LTFP) is a long-range planning tool that provides City Council with a variety of fiscal indicators to make strategic decisions regarding the City's fiscal sustainability, both in the short and 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 includes a financial overview which outlines specific recommendations to address outstanding fiscal issues. The LTFP also contains *critical issue papers,* which analyze topics that have, or may have, a substantial impact on City finances.

As we prepare to enter Fiscal Year 2018-19 and look out over the next five years, we are experiencing the same impacts we have seen in prior years and expect to continue to see in future years: rising public safety costs, an increase in pension rates, a growing list of deferred maintenance needs, and the always present demand of City resources and services.

The 2018 LTFP will present one critical issue paper, the Information Technology Strategic Plan Update. This re-occurring critical issue paper serves as annual update to the City's roadmap for strategic technology projects that are anticipated over the next five years, aligning technology investments with Departmental goals and priorities with the objective of improving City services. The ITSP Update includes a status report for projects that are currently underway, as well as a listing of projects and initiatives that are planned in the coming fiscal year.

General Fund Operating position (operating revenues less operating expenditures, excluding one-time revenues and expenditures) is projected to be positive for the next two fiscal years, and then negative for the remaining three years of the forecast, mainly due to projected increases in police, fire and other contractual costs, as well as projected increases to pension costs, which outpace projected revenue trends in the future. As always, adjustments will be made during the budget process in order to ensure a positive operating position each year.

General Fund Emergency Reserve is currently funded at $12.1million, or 20% of the City's Operating Expenditures. This reserve is a major contributor to the City maintaining its AAA bond rating. The City's fiscal policy governs the City's reserves.

General Fund Unassigned fund balance (fund balance available for appropriation) is projected at $7.2 million at the end FY 2017-18. City staff are diligently reviewing a number of capital and maintenance projects for the next several years that significantly exceed this projected unassigned fund balance. It is staff's intent to provide project recommendations that compliment available funding.

Our Spanish Village by the Sea has seen a number of challenges over the past several years, but City staff stand ready to continue to deal with any and all issues and the City's commitment to prudent financial behavior will remain at the forefront of all actions.

James Makshanoff
City Manager

Executive Summary

The *Executive Summary* portion of the 2018 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.

The 2018 Long Term Financial Plan Summary

Included within the *Executive Summary* section:

- *Introduction*
- *2018 LTFP Summary*
- *Current Financial Condition*
- *Reserve Funding*
- *General Fund Transfers*
- *General Fund Loan*
- *Financial Trend Analysis*
- *Capital Projects*
- *Five Year Financial Forecast*
- *Fund Balances*
- *Conclusion & Projected Financial Condition*
- *Summary of LTFP Recommendations*

Introduction

The LTFP produces a financial plan and provides solutions

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, and Reserve Analysis 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 a Reserve Analysis** is conducted annually for the Long Term Financial Plan. The Financial Trends and Reserve Analysis 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.

2018 Long Term Financial Plan Summary

Five-year forecast projects average growth of 2.8% for operating revenues and 3.8% for operating expenditures

The five-year **Financial Forecast** was last updated after adoption of the FY 2017-18 budget. At that time, the General Fund operating position was projected to be negative in the last three years of the forecast.

The updated 2018 LTFP five-year financial forecast reflects a positive operating position in the first two years of the forecast, and a negative operating positon for the remaining three years, beginning in FY 2020-21. Operating revenues are projected to increase by an average of 2.8% per year over the five year forecast period. Operating expenditures are expected to grow 3.8%, on average, over the same period. Based on these expected growth rates, operating deficits are projected in the last three forecast years.

2018 LTFP Forecast (In mil.)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Projected surplus/deficit	$ 0.4	$ 0.1	$(0.6)	$(1.3)	$(2.1)

Property Tax revenue projected to increase by 4.3% in the coming fiscal year

Forecasted average increases of 2.8% for operating revenues is largely driven by expected gains in property tax revenue over the next several years. Property tax revenues are expected to increase by 4.3% in the first year and by 3.9% for the remaining four years of the forecast. General sales tax is expected to grow by an average of 2.1% annually over the five year forecast period.

Projected annual increases for operating expenditures average 3.8% over the next five-years, excluding capital and other one-time costs, and are mainly the result of anticipated police and fire services contract cost increases (including the addition of a fourth firefighter), personnel salary and related benefit increases, pension cost increases, and ongoing facility maintenance.

Police Services contract projected to increase by 4.7% For FY 2018-19

Fire Services contract projected to increase by 4.5% for FY 2018-19, the maximum allowed

The police services contract increases by 4.7%, based on the Orange County Sheriff Department's first estimate of FY 2018-19 contract costs. Projected increases for the police services contract average 4.0% over the remaining four years of the forecast. The fire services base contract with the Orange County Fire Authority (OCFA) is projected to increase by 4.5%, which is the maximum amount the contract allows. The addition of a 4th firefighter on full rotation for the City of San Clemente was implemented by OCFA beginning in FY 2017-18, with the first two years of costs fully paid by OCFA. It is expected that the City begins to pick up a share of those costs beginning in year three, with full cost pick-up by the City by the eighth year. The City's phased-in share of these costs has been included in the appropriate years of the forecast, based on initial projections provided by OCFA.

***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 through the LTFP each year to determine if additions or revisions are needed. Several fiscal policies adopted in the past relate to the funding of various reserve funds, including funding of workers' compensation, general liability, capital equipment, accrued leave, facilities' maintenance, park asset, contingency and emergency reserves. Based on this year's review, no fiscal policy changes are being recommended.

A **Reserve Analysis** is conducted annually through the LTFP process to recommend appropriate levels of reserves to ensure compliance with fiscal polices.

The 2018 LTFP also identifies financial and implementation challenges of capital projects and provides an updated Information Technology Strategic Plan.

Financial challenges include funding of capital and maintenance projects

- The **Capital Projects Analysis** provides a summary of significant capital projects and programs within the Public Works Department's Capital Improvement Program. The analysis reviews funding challenges facing the City in implementing capital projects both in the near and long-term.

I.T. Strategic Plan provides a roadmap for the next several years

- Originally adopted as part of the 2015 Long Term Financial Plan, the Information Technology Strategic Plan (ITSP) serves as a roadmap for strategic technology projects that are anticipated over the next five years. The plan is updated annually to reflect new technology initiatives and technological advancements, while adapting to changing business needs or financial conditions. The 2018 LTFP **Information Technology Strategic Plan Update** includes an updated listing of strategic projects, generated through a collaborative process that involved both the IT Division and members of the IT Steering Committee. The aim is to satisfy current and future technology-related needs for all Departments/Divisions of the City.

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 2017-18 with a total fund balance of $19.3 million, which includes $12.1 million in emergency reserves, and $7.2 million in unassigned fund balance.

Per the FY 2017-18 Adopted Budget, for the current fiscal year, General Fund operating revenues, excluding one-time items, were expected to total $61.5

million, while General Fund operating expenditures, excluding one-time program costs, projects and transfers, were estimated to total $60.5 million.

Reserve Funding

Most General Fund reserves are funded

All General Fund reserve funds (except for the Facilities Maintenance Reserve) are funded and will meet fiscal policy requirements if transfer recommendations made in the Reserve Analysis paper are incorporated into the FY 2018-19 budget.

Several long-term facility projects will require additional funding

The City's Capital activity in the near future includes several long-term facility projects (e.g. City Hall Rehabilitation). The current Facilities Maintenance Reserve is insufficient to fund these projects, and a recommendation is being made to transfer a lump sum to this reserve to assist in funding these long-term projects.

The Reserve Analysis paper makes recommendations to improve the economic stability of the City by emphasizing long-term maintenance and replacement for the City's infrastructure. Reserve Analysis recommendations include:

- Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Capital Equipment Reserve, the Facilities Maintenance Reserve, and the Park Asset Reserves after Lucity's implementation.
- Transfer an annual amount of $380,000 from the General Fund to the Facilities Maintenance Reserve for FY 2018-19.
- Transfer an amount between $1.0 to $2.5 million in FY 2018-19 to the Facilities Maintenance Reserve from the General Fund's unassigned fund balance.
- Transfer $280,000 from the General Fund to the Park Asset Reserve for FY 2018-19.
- Transfer $120,000 from the General Fund to the Accrued Leave Reserve.

General Fund Transfers

Transfers total $4.1 million

For FY 2018-19, forecasted transfers out of the General Fund total $4.1 million and include $756,290 for the Street Improvement Program, $780,000 in various reserve contributions, up to $2.5 million for the Facilities Maintenance Reserve, and $15,000 for the Senior Mobility subsidy.

General Fund Loan

Balance of RDA loan to the General Fund will be $2.2 million at June 30, 2018

The General Fund has an outstanding loan originally made from the General Fund to the Redevelopment Agency (RDA). The interagency loan to the RDA consolidated and repaid $3.4 million from two prior interfund loans to purchase the Casa Romantica and fund other activities in the RDA.

Due to the dissolution of all RDA's in the State of California, this loan, which was originally made in FY 2002-03, is still currently outstanding. The General Fund loan was authorized for repayment by the State as part of the RDA dissolution; however, payments towards the liability are subject to limitations under State law. Future repayment amounts of approximately $300,000 are expected annually. The estimated amount outstanding at June 30, 2018 will be $2.2 million, including accrued interest. As payments on the loan are received, the receipts could provide additional unassigned fund balance in the General Fund.

18 out of 21 indicators are favorable as of June 30, 2017

Financial Trend Analysis

The City's financial condition is also quantitatively measured using a financial trend monitoring system. The 2018 Long Term Financial Plan includes the analysis of twenty-one trends:

- Three trend indicators received a Favorable/Caution rating
- Eighteen trend indicators received a Favorable rating

In total, these current year results are the same as in the prior year. The City is continuing to see increases in its major revenue sources, as the economy continues to rebound with a slow, but stable growth.

The annual Financial Trend Analysis report for the year ending June 30, 2017 indicates eighteen of the twenty-one indicators are Favorable, an increase of two balanced with a decrease of two indicators from the prior year. These changes show that there is stability over the previous year.

The positive changes to a Favorable rating were:

- *Capital Outlay: increase to Favorable (from Favorable/Caution).*
- *Fringe Benefits: increase to Favorable (from Favorable/Caution).*

The negative changes to Favorable/Caution were:

- *Permits and Business License Revenue*: decrease to Favorable/Caution (from Favorable)
- *Operating Surplus (Deficit)*: decrease to Favorable/Caution (from Favorable)

A detailed review of the indicators is contained in the Financial Trend section of the 2018 LTFP.

Capital projects face funding challenges

Capital Projects Analysis

The Capital Projects Analysis summarizes significant projects within the Capital Improvement Program and reviews funding challenges facing the City in implementing capital projects in both the near and long-term. A detailed review of several projects, including project history, status and funding obligations of each project, can be found in the 2018 LTFP Capital Projects Analysis paper. Projects reviewed in the paper are *USACE* Sand Replenishment, Opportunistic Sand Replenishment, Marine Safety Building Rehabilitation, Municipal Pier Rehabilitation, and the 910 Negocio Remodel/City Hall Relocation.

Updated 2018 LTFP five-year Financial Forecast

Five Year Financial Forecast

The 2018 forecast has been updated with revised revenue and expenditure assumptions. The forecast shows a positive operating position in the first two years followed by three years of a negative operating position, beginning in FY 2020-21. 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. The major forecast assumptions are noted below. A full list of assumptions can be found in the Financial Forecast 2018 LTFP paper.

Revenues:

- Property taxes are projected to increase, in total, by 4.3% for FY 2018-19. Increases averaging 3.9% are included for the next four years, beginning in FY 2019-20. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.
- Sales tax for the City is projected to increase 2.4% in FY 2018-19 due to anticipated growth in consumer spending. The San Clemente Outlet Mall and the Estrella shopping center each phased in retail stores over the last three years, resulting in a sales tax increases over that time. Some additional stores and restaurants are anticipated at these locations in the future, but no additional revenue is included in the forecast due to the uncertainty as to type and timing of the additions. Beginning in FY 2019-20, sales tax increases averaging 2.0% are projected based on CPI increases. Sales tax projections are based on information from HdL Companies, the City's sales tax advisors.
- A substantial decrease of about 75%, or $400,000, in TOT revenue from Vacation Rentals is being forecasted beginning in FY 2018-19, based on the zoning ordinances taking effect in May 2018. TOT revenue for hotels is projected to increase by inflation throughout the forecast period.

Expenditures:

- No new city positions have been projected to be added.
- Police contract - Contract costs are increased by 4.7% for FY 2018-19 based on the 1st estimate from the Orange County Sheriff's Department (OCSD). Contract increases are projected at 4% over the remaining four

years of the forecast. Police positions remain at the FY 2017-18 level for forecasting purposes.

- Fire Services costs - The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, annual contributions to station maintenance and fleet replacement reserves. In the forecast, base contract costs are increased by 4.5% each year based on OCFA's maximum base contract increase allowed; if actual contract costs are less, the changes will be reflected when the budget is presented. The addition of a 4th firefighter was implemented by OCFA in FY 2017-18, with the first two years of costs fully paid by OCFA. It is expected that the City begins to pick up a share of those costs beginning in year three, with full cost pick-up by the City by the eighth year. The City's phased-in share of these costs has been included in the appropriate years of the forecast, based on initial projections provided by OCFA.
- Ambulance Services – In January 2017, City Council directed staff to pursue an RFP for ambulance services. Subsequently the RFP process, the City entered into a five year contract with Care Ambulance Services, through FY 2021-22, for the services of two full-time ambulances. The forecast assumes the City will continue to operate with the two full-time ambulances in the contractual model currently in place.
- Salaries and Wages - Increases based on a 3 year MOU agreement with the City's employee association (SCCEA) adopted 2/7/2017 for FY 2017-18, FY 2018-19, and FY 2019-20. Assumed that step increases would amount o 0.5% for the MOU term, and are somewhat offset by lower wages from employee turnover each year. Future year's increases are projected at the CPI increase (for forecast purposes only).
- Benefits - For FY 2018-19 and FY 2019-20, benefit cost increases are projected due to wage growth and due to the City paying a slightly larger share of employee medical costs, as per the 3 year MOU agreement approved by the City Council In 2017. To offset these increases, the MOU agreement provides that employees fund a larger share of their pension costs each year, reducing the City's costs for this expense.
- Retirement - Increased contributions for all City pension plans for FY 2018-19 are based on the most recent actuarial reports received. For future year projections, estimated increases have been incorporated to address the discount rate reduction CalPERS will be implementing over a three year period (From 7.5% to 7%), the impact of actuarial assumption changes beginning in FY 2019-20, and changes to amortization periods beginning in FY 2021-22. No assumptions are made for any additional contributions to pay down unfunded liabilities or for any additional changes to the amortization schedules currently in place.
- Reserves – One-time Reserve transfers of $3,280,000 are included in FY 2018-19, based on the 2018 LTFP reserve paper recommendations, including a total of $2,880,000 for the Facilities Maintenance Reserve.

One-time Reserve transfers projected at $660,000 have been included in the remaining four years of the forecast.

- CalPERS Safety Plan Unfunded liability – A required payment of $1,255,000 towards the City's unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system is included in the forecast for FY 2018-19 per CalPERs most recent actuarial report for this inactive Safety plan. For future years, CalPERS will be reducing the discount rate and has provided projections for future increases for this liability payment, which have been included here in the forecast
- Ongoing Maintenance - The forecast includes ongoing maintenance funding for major street maintenance, slurry seal, sidewalk repair, and facility maintenance programs ($1,200,000 for FY 2018-19 and 2019-20, and $1,250,000 for the remaining years). This ongoing amount assumes funding of $250,000 in FY 2018-19 and FY 2019-20 and $300,000 in the remaining forecast years to fund ongoing facility maintenance costs.

Factors Not Included in the Forecast

- The forecast is based on the General Fund only.
- No new or enhanced programs or positions have been included.
- The forecast does not include any spending for capital or one-time major maintenance projects.
- Additional sales tax associated with additional stores and restaurants or future phases of the San Clemente retail outlets or the Estrella shopping center have not been included.
- The forecast does not include potential proceeds from any land sales.
- No provision has been included for one-time legal costs for special projects or initiatives.
- No assumptions have been made for revenue and expense changes related to potential future changes to vacation rental or other TOT policies or ordinances.

Forecasted Operating Position

Based on revised expenditure and revenue trends, the financial forecast reflects a positive operating positon in the first two years, and a negative operating position beginning in FY 2020-21. 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:

2018 LTFP Forecast (In millions)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Operating receipts	$63.4	$65.4	$67.2	$69.2	$71.3
Operating disbursements	63.0	65.3	67.8	70.5	73.4
Projected surplus/deficit	$ 0.4	$ 0.1	$(0.6)	$(1.3)	$(2.1)

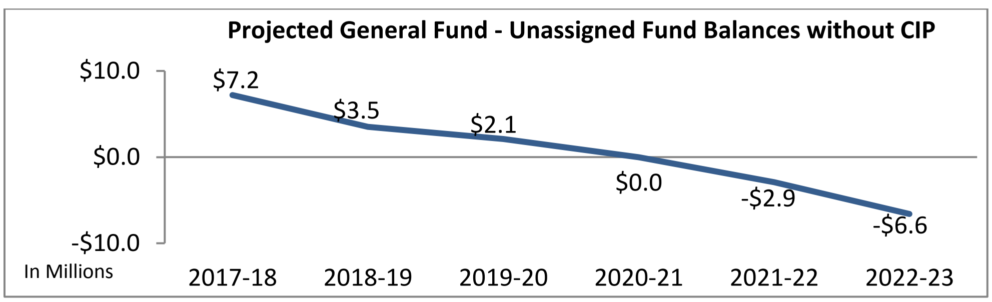
*One-time revenues and expenditures have been excluded. One-time expenditures include transfers to reserves and one-time major maintenance, Information technology, and capital projects.

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.

One-time revenues, expenditures and transfers (excluding one-time capital and major maintenance items) along with a projected negative operating position beginning in FY 2020-21, reduce unassigned fund balance from $7.2 million at the end of FY 2017-18 to a negative $6.6 million by the end of FY 2022-23, The forecast does include an annual total of $1,200,000 to $1,250,000 for ongoing maintenance projects (major street maintenance, slurry seal, sidewalk repair, and facility maintenance program).

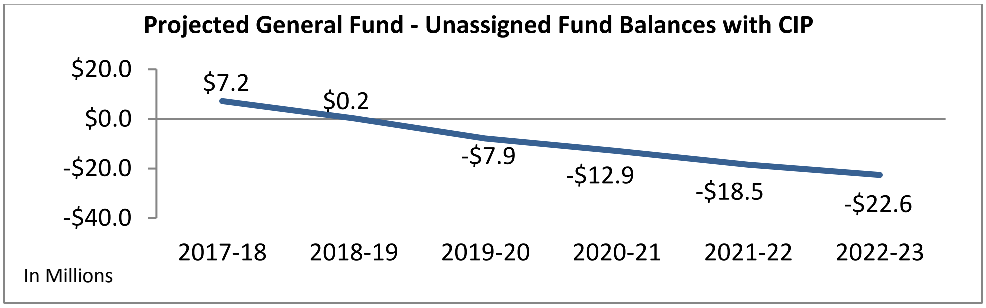
The following chart illustrates projected unassigned fund balances in the General Fund per the 2018 Long Term Financial Plan forecast, not including any capital or Information Technology projects or any one-time major maintenance costs:



If projected capital and one-time major maintenance projects are added to the 2018 forecast, the projected unassigned fund balance would decrease substantially. The following table shows costs for General Fund capital and one-time major maintenance projects proposed for the next five years, (excluding expenses expected to be paid through grant revenue), as presented in the CIP section of the FY 2017-18 budget (excluding the project costs to be funded by grant revenue):

Proposed Projects (In millions)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Capital Projects	$2.9	$6.4	$1.9	$2.7	$0.3
Major Maintenance Projects	0.5	0.3	0.9	0.1	0.1
Totals	**$3.4**	**$6.7**	**$2.8**	**$2.8**	**$ 0.4**

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:



As noted, this projection is based on the CIP program as presented in the City's FY 2017-18 budget. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. A revised CIP program for the next five years will be presented to City Council as part of the FY 2018-19 budget process.

Fund Balance Issues - Several events are anticipated over the next several years which may enable the City to shore up infrastructure and maintenance reserve funds and/or add to 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.

> ***Marblehead Development:*** No revenue has been included in the forecast for potential sales tax associated with additional stores and restaurants or future phases of the retail project, nor has any revenue been included for a potential hotel development, as the type of hotel development and the timing of its construction is yet to be determined. Additional revenue may be realized from these additions in the future and could be used to increase the General Fund's unassigned fund balance if not needed for ongoing operations.
>
> ***Bellota Land Sales:*** The City began to realize proceeds from the Bellota Land sales in FY 2015-16, and all sales were completed by the end of FY 2017-18. Proceeds from selling the Bellota land sales have been used to meet the General Liability Fund's reserve requirements (as per the City's fiscal policy), to pay retrospective payment balances in the General Liability Fund, and to fund legal costs for various land use issues not covered by the City's CJPIA coverage. The 2018 LTFP Reserve Analysis paper recommends that the remaining proceeds stay in the General Liability Fund for future unfunded legal costs, but could be added to the General Fund's Unassigned Fund Balance for future allocation by the City Council, if not needed for legal costs.

La Pata/Vista Hermosa Land: Potential receipt of proceeds from the sale or lease of 2.3 acres of land at the corner of La Pata and Vista Hermosa could occur in the coming fiscal years. The property was appraised in February of 2015, with the market value of the land placed at $3.3 million. Final determination of the disposition of the land has yet to be determined, and City Council may consider other land use options. If the disposition of the land results in revenue to the City, staff will provide City Council with recommendations to possibly use the proceeds as part of the funding strategy to provide sufficient infrastructure maintenance reserves.

Infrastructure Maintenance Reserves: The 2016 LTFP identified the need to clearly identify infrastructure assets and the reserve resources needed to maintain and/or replace those assets, including an overall analysis and funding strategy for the City's Facilities Maintenance Reserve in order to provide resources for maintaining aging infrastructure, including future pier maintenance. Pier rehabilitation is recommended to be performed every five years, having a significant impact on the General Fund's unassigned fund balance. The 2018 LTFP Reserve Analysis paper recommends a total annual transfer of $380,000 into the Facilities Maintenance Reserve for FY 2018-19. In addition, the 2018 LTFP Reserve Analysis paper recommends transferring an additional amount of between $1.0 to $2.5 million to the Facilities Maintenance Reserve in FY 2018-19 (from the General Fund's unassigned fund balance) for future repairs and renovation of City facilities. The higher transfer amount recommended of $2.5 million is included in the forecast.

Future recommendations to make appropriate transfers to the various reserve accounts by using some of the General Fund's Unassigned Fund Balance will be brought forward to the City Council to address funding gaps identified in this process.

Fund Balance Reserves

The City's fund balances include the General Fund Emergency Reserves. The General Fund's Emergency Reserve, currently funded at 20% of operating expenditures. Contributions to the reserve are included in the forecast to maintain the 20% funding level. Council approval is required before expending the Emergency Reserve.

General Fund – Committed Reserves (in millions)

Emergency Reserves	2018-19	2019-20	2020-21	2021-22	2022-23
(20% of Oper. Exp.)	$12.6	$13.1	$13.6	$14.1	$14.7

Conclusion & Projected Financial Condition

The Financial Summary provides 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:

2018 LTFP Forecast (In millions)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Projected surplus/deficit	$ 0.4	$ 0.1	$(0.6)	$(1.3)	$(2.1)

Staff will continue to look at options and to recommend actions to improve the General Fund's operating position on a go forward basis, and will bring those items to City Council as they materialize.

Summary of Long Term Financial Plan Recommendations

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 2018 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.

Financial Trend Analysis

1. None

Financial Forecast

1. None

Reserve Analysis

1. Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Capital Equipment Reserve, the Facilities Maintenance Reserve, and the Park Asset Reserve after Lucity's Implementation.
2. Transfer an annual amount of $380,000 from the General Fund to the Facilities Maintenance Reserve for FY 2018-19.
3. Transfer an amount between $1.0 to $2.5 million in FY 2018-19 to the Facilities Maintenance Reserve from the General Fund's unassigned fund balance.
4. Transfer $280,000 from the General Fund to the Park Asset Reserve for FY 2018-19.
5. Transfer an amount of $120,000 from the General Fund to the Accrued Leave Reserve for FY 2018-19.

Fiscal Policy

1. None

Capital Projects Analysis

1. Include $100,000 from the General Fund in the FY 2018-19 CIP budget for the Corps of Engineers design phase costs in case there are additional unanticipated cost increases.
2. Transfer $100,000 from the North Beach Sand Replenishment project (Account No. 001-636-45700-000-28706) to the Corps of Engineers project (Account No. 001-411-45800-000-19907) in FY 2017-18, and return the remaining amount of $150,000 to the General Fund's unassigned fund balance.
3. Include $125,000 from the Facility Maintenance Reserve Fund and $125,000 from the Public Facilities Construction Fee Fund (Public Safety Construction Reserve) in the FY 2018-19 CIP budget for the Marine Safety Building Rehabilitation Project No. 16530.
4. Include $250,000 from the General Fund in the FY 2018-19 CIP budget for the Pier Rehabilitation ADA improvements Project No. 16811.
5. Include $1,250,000 from the General Fund and $1,250,000 from the Public Facilities Construction Fee Fund (Civic Center Construction Reserve) in the FY 2018-19 CIP budget for the 910 Calle Negocio Remodel Project No. 18804.

Information Technology Strategic Plan Update

1. Accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2018-19 projects and initiatives forward through the budget process.

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 FY 2012-13 through FY 2016-17. Consequently, <u>all trends are based on data available as of June 30, 2017, and do not incorporate any changes that have occurred since that time.</u>

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. The 21 trends have been categorized into 5 basic categories:

1) Revenues
2) Expenditures
3) Operating Position
4) Debt/Unfunded Liability
5) Community Indicators

One of the following ratings has been assigned to each of the twenty-one indicators:

Favorable (F):	This trend is **positive** with respect to the City's goals, policies, and national criteria.
Favorable (Caution) (C):	This 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 five trend reports are presented and identify strengths and weaknesses of the City's financial condition and to illustrate any positive or negative changes.

INDICATORS	FY 17-18	FY 16-17	FY 15-16	FY 14-15	FY 13-14
REVENUE:					
Revenues Per Capita	**F**	F	F	F/C	F/C
Property Tax Revenues	**F**	F	F/C	F/C	F/C
Elastic Revenues	**F**	F	F	F	F/C
Sales Tax Revenues	**F**	F	F	F	F
Permits & Business License Revenues	**F/C**	F	F	F	F/C
Comm. Develop. Charges	**F/C**	F/C	F	F	F/C
Intergovernmental Revenues	**F**	F	F	F	F
One-Time Revenues	**F**	F	F	F	F
Revenue Overage	**F**	F	F	F/C	F/C
EXPENDITURE:					
Expenditures Per Capita	**F**	F	F	F	F
Expenditures By Function	**F**	F	F	F	F
Employees Per Capita	**F**	F	F	F	F
Fringe Benefits	**F**	F/C	F/C	W	W
Capital Outlay	**F**	F/C	F	F	F
OPERATING POSITION:					
Operating Surplus (Deficit)	**F/C**	F	F/C	F/C	F/C
Unrestricted Fund Balance	**F**	F	F	F	F
Liquidity Ratio	**F**	F	F	F	F
DEBT/UNFUNDED LIABILITY:					
Debt Service	**F**	F	F	F	F
Accumulated Comp. Absences	**F**	F	F	F	F
COMMUNITY:					
Population	**F**	F	F	F	F
Property Values	**F**	F	F	F/C	F/C

Overview of the City's Financial Condition

The 2017-18 Long Term Financial Plan includes the analysis of twenty-one trends. Of these 21 trends, 9 are revenue trends, 5 are expenditure trends, 3 relate to operating position, 2 relate to debt service/unfunded liability and 2 relate to the community's needs and resources. This year three indicators received a Favorable/Caution rating, and eighteen received a Favorable rating. In total, these current year results are the same as the previous prior year. However, the City, over the last year, continues to see increases in its major revenue sources, as the economy continues to rebound with a slow, but stable growth.

Rating changes

There were 4 trend changes from the last fiscal year.

The positive changes were:

- *Capital Outlay* – increase to Favorable (from Favorable/Caution)
- *Fringe Benefits* - increase to Favorable (from Favorable/Caution)

The negative changes were:

- *Permits and Business License Revenue* – decrease to Favorable/Caution (from Favorable)
- *Operating Surplus (Deficit)* - decrease to Favorable/Caution (from Favorable)

Rating discussion

Although there were two positive changes, they are balanced out by two negative changes. The City is still seeing growth in revenue and some stability over the previous year.

Capital Outlay changed from a Favorable/Caution to a Favorable rating due to a decrease over the prior year; as the City has completed the Ole Hanson Beach renovation and is allocating fund balance to facilities maintenance for future maintenance needs.

Fringe Benefits changed from a Favorable/Caution to a Favorable rating due to a decrease in the percentage of fringe benefits to salaries and wages over the prior year.

Permits and Business License Revenue changed from a Favorable to a Favorable/Caution rating due to a decrease of 9% or $272,564 over the prior year.

Operating Surplus (Deficit) changed from a Favorable to a Favorable/Caution rating due to a decline in the surplus over the last year.

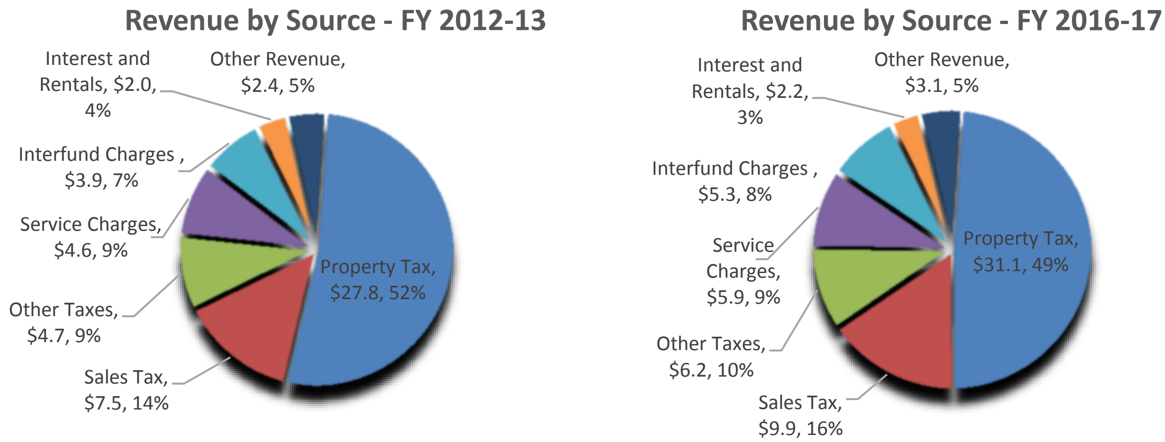
The City continues to see some positive changes over the past year due to development and an improving local economy. The City continues to be selective in filling positions and conservative in budgeting. Although the economy is looking brighter, the City continues to review the budget annually at the department level, focusing on opportunities to improve the financial condition and to prepare the City for future challenges.

Revenue Trend Analysis

Overview of Revenues by Source:

The following is an overview of City revenue by source for FY 2012-13 and FY 2016-17. The following pages provide an analysis of the actual nine revenue trend indicators in detail.

Comparison of Revenues by Source
FY 2012-13 vs. FY 2016-17
(in millions)



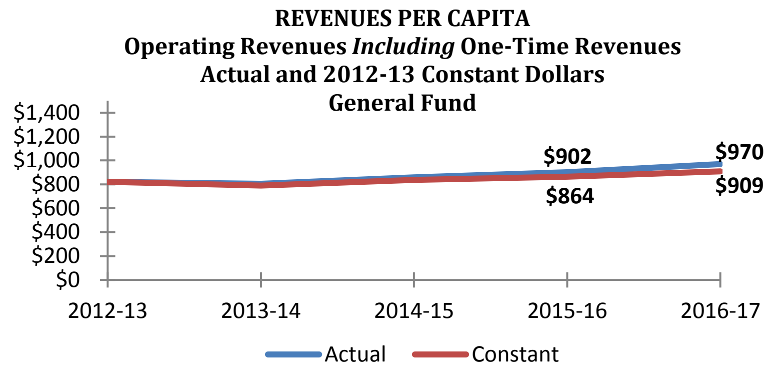
The above pie charts compare the current revenue sources amounts to those five years ago. Analysis of these changes are presented below:

- Property taxes, during the five year period, increased due to assessed valuation growth and the build-out of Talega and the Sea Summit residential development.
- Sales taxes increased during the period as a result of the development of the Target complex during FY 2011-12 and the outlets in FY 2015-16. Also, a one-time receipt of $500,000 from the elimination of the triple flip program was received in FY 2015-16.
- Other taxes increased from $4.7 million to $6.2 million mainly due to an increase in transient occupancy taxes from Short Term Lodging Units (STLU) receipts in FY 2016-17.
- Service Charges increased from $4.6 million in FY 2012-13 to $5.9 million in FY 2016-17 due to increased construction inspection fees, increases in recreation service charges, plan check fees, and fee revenues from an additional full-time ambulance in FY 2015-16.
- Other revenue increases were based on Licenses and Permits revenues which increased from $1.0 million in FY 2012-13 to $1.7 million in FY 2016-17 based on construction related fees primarily for the San Clemente outlets, Sea Summit residential development and the Estrella Shopping Center.
- Interfund charges increased from $3.9 million in FY 2012-13 to $5.3 million in FY 2016-17 due to $0.8 million in transfers from the developer’s improvement fund and a one-time $1.0 million adjustment to the former Redevelopment Agency loan.
- Decreases were noted in Fines and Forfeitures due to vehicle code fines.

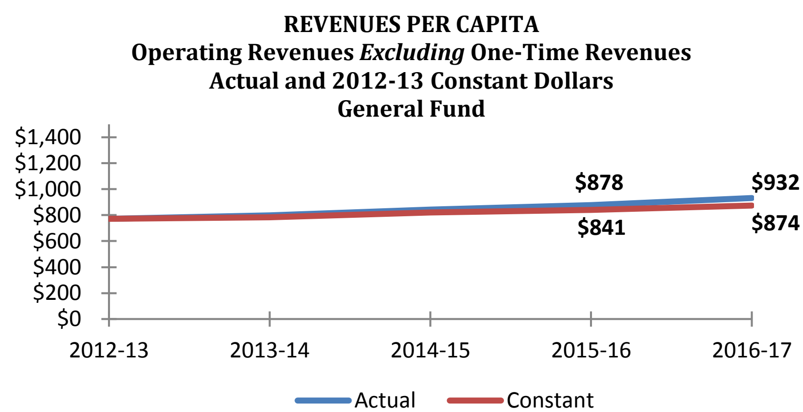
Revenue Trend Analysis

Indicator: *Revenues Per Capita*

Comments:
The first chart (which includes one-time revenues) shows an increase from $902 to $970 in actual dollars and a corresponding increase from $864 to $909 in constant dollars. Total revenues for Fiscal Year 2016-17 increased by $4.3 million from the prior year, mainly due to increases in property tax, sales tax, interfund charges, other taxes, and service charges. The revenue categories with the most significant increases include Property Taxes (6%), Sales Tax (11%), Interfund charges (37%), Other Taxes (6%), and service charges (3%); while decreases are in intergovernmental, licenses and permits, fines and forfeitures, and interest and rentals.



The second chart (which excludes one-time revenues) shows an increase in actual dollars from $878 to $932 and an increase in constant dollars from $841 to $874. 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.



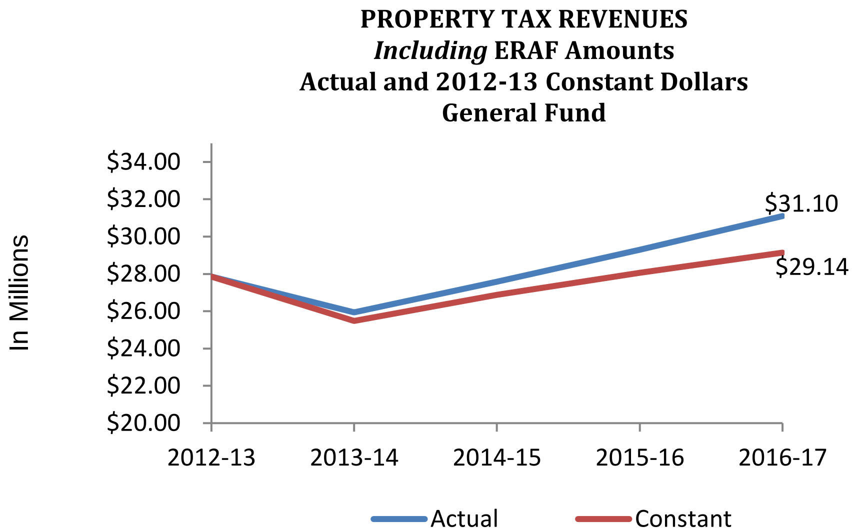
Status: *FAVORABLE*
This trend remains a favorable rating due to the increase in revenue over the last year and the stable increases over the five year period when excluding one-time revenues.

Revenue Trend Analysis

Indicator: *Property Tax Revenues*

Comments:
The chart below shows property tax revenues increasing from $29.3 million to $31.1 or 6% in actual dollars, and from $28.1 million to $29.1 million or 4% in constant dollars.

Property taxes have increased over the past year due mainly to the continued growth in assessed values. The graph below shows a fluctuation between FY 2012-13 and FY 2013-14, due to a one-time Prop 1A reimbursement from the State and an administration fee adjustment in FY 2012-13. When considering the effect of this one-time repayment, property taxes show continued stable growth over the five year trend period.



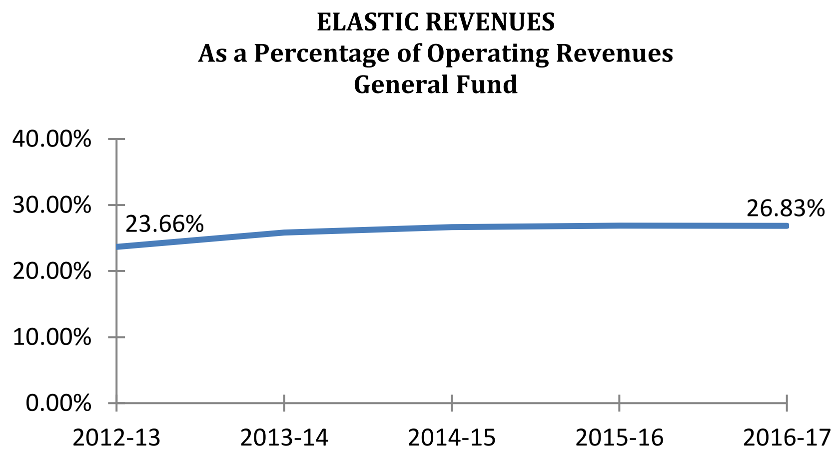
Status: *FAVORABLE*
This indicator remains Favorable due to a stable growth rate over the past three years.

Revenue Trend Analysis

Indicator: *Elastic Revenues (Sales Tax, Transient Occupancy Tax, Permits and Business License Taxes, and Community Development Service Charges)*

Comments:
Elastic revenues are revenues that are highly responsive to changes in the economy and inflation. The City has classified 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 factors.

Elastic revenues, as a percentage of total revenues, decreased from 26.88% in FY 2015-16 to 26.83% in FY 2016-17. The decrease in elastic revenues is due to decreases in Permits and business license tax and Community Development service charges. These indicators are examined further on the following pages.



Status: *FAVORABLE*
This indicator remains favorable since it has been stable over the past 5 years represented above, with a very slight decrease in the past year.

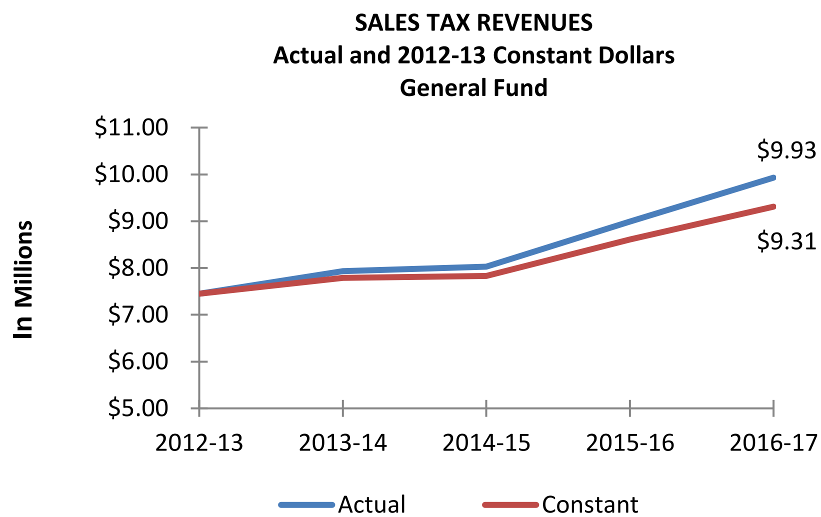
Revenue Trend Analysis

Indicator: *Sales Tax Revenues*

Comments:
As summarized in the chart below, sales tax revenues show an increase of $0.9 million, or 11% in actual dollars over the prior fiscal year. In constant dollars, there was an increase of $0.7 million, or 8% for FY 2016-17.

Sales tax revenues have increased for the fourth time since FY 2012-13 in actual dollars. The economic recovery and increased consumer spending have contributed to this increase, along with the elimination of the triple flip and additional revenue from the San Clemente retail outlets and Estrella shopping development.

The City receives 1% of the current 7.75% (January 1, 2018) Sales Tax charged in San Clemente.



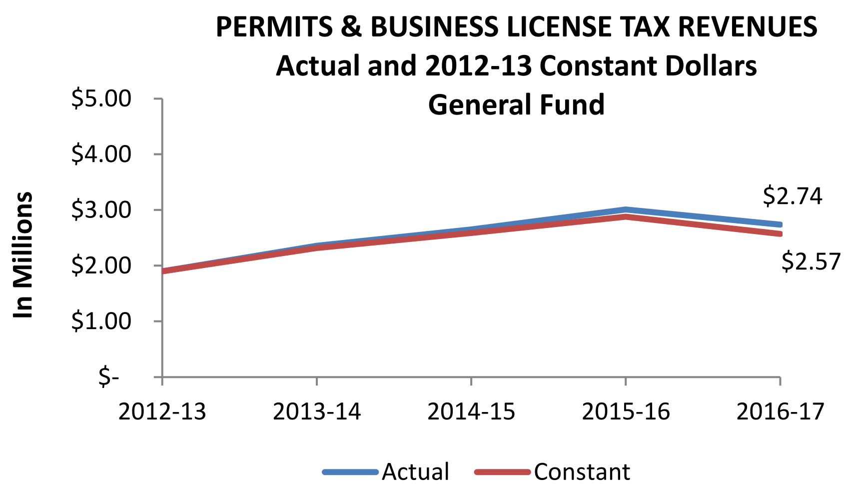
Status: *FAVORABLE*
This indicator remains a Favorable rating because sales taxes have improved for the seventh consecutive year.

Revenue Trend Analysis

Indicator: *Permits & Business License Revenues*

Comments:
Permits and Business License Tax revenues decrease in actual dollars in the amount of $272,564 or 9% from the prior fiscal year. The constant dollar decrease was $317,303 or 11% from FY 2015-16.

Construction permit revenue decreased $263,092, or 15% over the past year, which coincides with the decrease in construction activity in the current year. Business license tax revenue decreased by $6,496 or 1% from FY 2015-16 due to a decrease in business license revenue over the prior year.

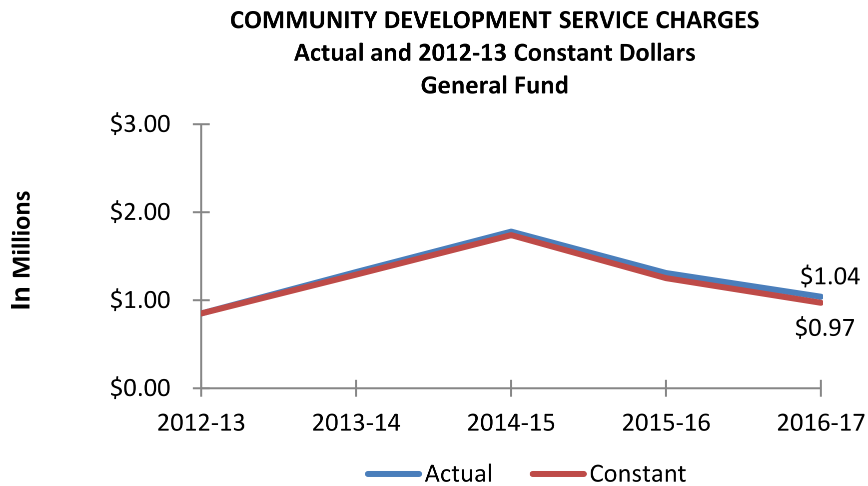


Status: *FAVORABLE*/CAUTION
Permits and Business License Tax revenues has changed from a Favorable to a Favorable/Caution rating, due to the decrease over the prior year. This indicator will be monitored, as new developments should bring in more business license taxes and related permit revenues in the near future.

Revenue Trend Analysis

Indicator: *Community Development Service Charges Revenues*

Comments:
Total community development service charges decreased by 21%, or $270,681 from the prior year. This decrease is due to lower construction inspection fees, ($100,620), as well as lower General Government service charges, ($181,890), including development plan check fees ($112,440) and planning service and application fees ($43,107).

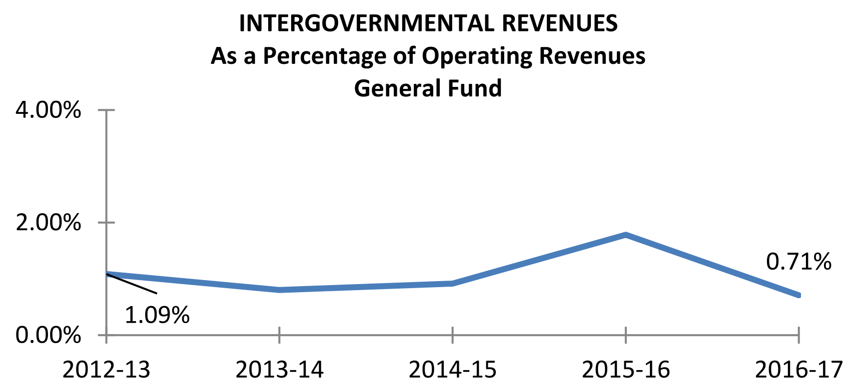


Status: *FAVORABLE/CAUTION*
This trend remains a favorable/caution rating due to the decrease in revenues relating to construction that occurred in the prior year. This decrease was anticipated, however, these revenues will need to be monitored to ensure that the revenues start to stabilize in future years.

Revenue Trend Analysis

Indicator: *Intergovernmental Revenues*

Comments:
General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 0.71% in FY 2016-17. 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.



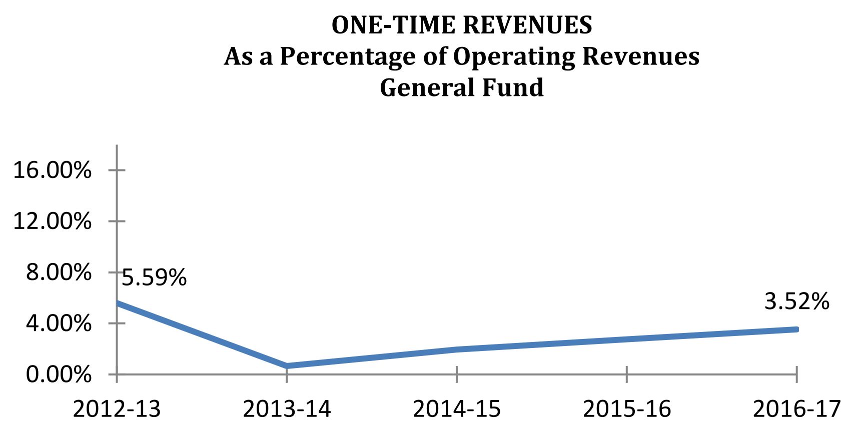
Status: *FAVORABLE*
The City's second largest intergovernmental revenue is Motor Vehicle tax at 30%. Motor vehicle tax declined in 2004 due to legislative action that transferred motor vehicle fees to the state. The City started to receive property tax dollars in-lieu of the motor vehicle fees in FY 2005. Once this change is adjusted for, it shows that motor vehicle fees received as in-lieu property taxes totaled $6.2 million and the intergovernmental percentages were 11.7% in FY 2015-16 and 10.4% in FY 2016-17, which still supports the Favorable rating.

Revenue Trend Analysis

Indicator: *One-Time Revenues*

Comments:
One-time revenues, as a percentage of total General Fund revenues, equaled 3.52% in FY 2016-17, an increase over the prior year.

One-time revenues increased by $0.6 million from the prior fiscal year. FY 2016-17 one-time revenues of $2,243,413 include, $188,331 of grant funds, and $212,769 from miscellaneous reimbursements, a one-time transfers of $791,435 from Developers Improvement fund and $50,000 from Water Operating to support the Ole Hanson Beach Club project, and $1,000,877 one-time adjustment to the former Redevelopment Agency loan. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditure.



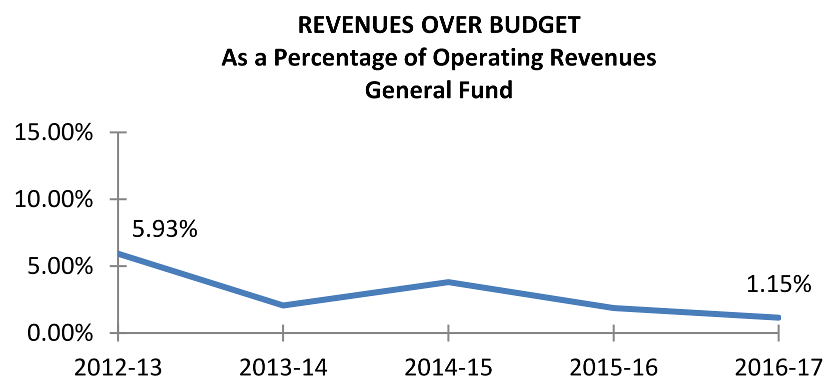
Status: *FAVORABLE*
This indicator continues with a Favorable rating, due to the City policy of not utilizing one-time revenues to fund ongoing operating expenditures. The City is not dependent on one-time revenues which can be seen by them representing a low percentage of revenues throughout the past five years.

Revenue Trend Analysis

Indicator: *Revenues over Budget*

Comments:
Actual revenues were greater than the adjusted budget by $0.7 million for FY 2016-17 and ends with a positive revenue position of 1.15%. The City experienced revenues over budget in taxes by $2.0 million (due mainly to a conservative approach to budgeting), and charges for services in the amount of $598,838 (due to increased parking meter and permit revenues, recreation service charges and planning and building fees). The City also experienced budget shortages in intergovernmental ($2.3 million), and licenses and permits ($42,079).

This trend began the five-year analysis with a positive revenue position of 5.93% and ended FY 2016-17 at a positive 1.15%. 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.



Status: *FAVORABLE*
This trend remains a favorable rating due to the fifth consecutive year of positive percentages and non-excessive budget variances.

Expenditures Trend Analysis

Overview of Expenditures by Function and Category:

The following is an overview of the expenditures by function and category for fiscal years 2012-13 and 2016-17. This paints the picture of how the City has improved over the 5 year trend period. Following this overview are the actual five trend expenditure indicators.

This table below compares the FY 2012-13 General Fund expenditures by function to FY 2016-17. Increases are seen in General Government, Public Safety, Community Development, and Public Works; with a decrease seen in Beaches, Parks, and Recreation.

Comparison of Expenditures by Function
FY 2012-13 vs FY 2016-17

Expenditure Function	FY 2012-13	FY 2016-17	Difference	% Change
General Government	$ 9,292,224	$ 13,761,839	$ 4,469,615	49%
Public Safety	19,452,705	22,841,664	3,388,959	18%
Community Dev.	4,236,079	4,704,740	468,661	11%
Public Works	7,598,523	14,239,637	6,641,115	88%
Beaches, Parks & Rec	10,528,945	6,486,810	(4,042,136)	-39%
Total Expenditures	$ 51,108,476	$ 62,034,690	$ 10,926,214	22%

- General Government increased $4.5 million or 49% over the five year period due to increases in personnel costs of $280,000; legal and other professional services of approximately $0.8 million; increases in capital outlay of $235,000; and an increase in transfers of $2.1 million due to support of the Facilities Maintenance fund in FY 2016-17.
- Community Development increased by $0.5 million or 11% due to an increase in other contractual services of $582,000 from FY 2012-13 to FY 2016-17.
- Public Works increased by $6.6 million or 88% due to a change in categorization of Beaches, Parks, and Recreation maintenance from Beaches, Parks, and Recreation department to the Public Works department in FY 2015-16.
- Public Safety increased by $3.4 million or 18% due to increases in the contract costs for both police and fire services over the 5 year period.
- Beaches, Parks, and Recreation decreased by $4.0 million or 39%, due to Beaches, Parks, and Recreation maintenance re-categorization to Public Works in FY 2015-16.

The following table compares expenditures by category and shows increases in supplies, contractual services, other charges, capital, and interfund payments expenditure categories and a decrease in personnel between FY 2012-13 and FY 2016-17.

Comparison of Expenditures by Category
FY 2013 vs FY 2017

Expenditure Category	FY 2012-13	FY 2016-17	Difference	% Change
Personnel	$ 16,169,093	$ 15,997,310	$ (171,783)	-1%
Supplies	1,018,350	1,104,946	86,596	9%
Contractual Services	24,560,563	30,596,352	6,035,790	25%
Other Charges	1,248,509	1,821,060	572,550	46%
Capital Outlay	1,917,808	3,678,835	1,761,027	92%
Interfund Payments	6,194,153	8,836,187	2,642,034	43%
Total Expenditures	$ 51,108,476	$ 62,034,690	$ 10,926,214	22%

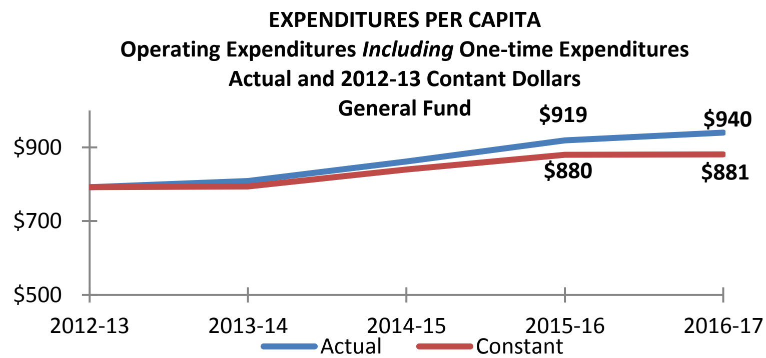
- The personnel (salary and benefits) category decreased by 1% over the five year period; which reflects the retirement of several long-term employees between FY 2012-13 and FY 2016-17.
- Capital increased by 92% or $1.8 million from FY 2012-13 to FY 2016-17, reflecting increases in major capital improvements during the five year period. Capital expenditures in FY 2017 included Ole Hanson Beach Club renovation of $363,260; major street maintenance of $768,270; slurry seal program in the amount of $465,200; and North Beach Opportunistic Sand Replenishment of $586,550.
- Contractual Services increased by 25% or $6.0 million from FY 2012-13 to FY 2016-17 reflecting increases in contractual services for Police ($2.0 million), Fire ($970,930), ambulance services ($509,800), other contractual services ($817,340), and other legal services ($186,530) from FY 2012-13 to FY 2016-17.
- Interfund payments increased by 43% or $2.6 million mainly due to one-time transfers to the Facilities Maintenance and Accrued leave funds of $3.1 million based on the Long-Term Financial Plan for FY 2016-17.
- Other Charges increased by 46% or $0.6 million mainly due to contract class instructor payments ($174,440), due to the addition of Vista Hermosa Sports Park in FY 2013-14 and an increase in the unfunded CalPERS liability ($364,050) in FY 2016-17.

Expenditures Trend Analysis

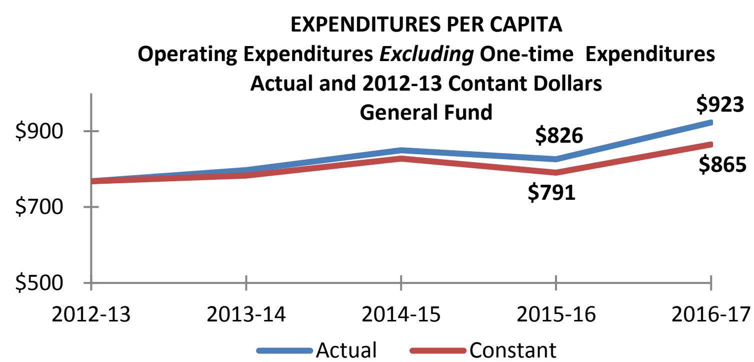
Indicator: *Expenditures Per Capita*

Comments:

The first chart which includes one-time expenditures shows an increase from $919 to $940 in per capita actual dollars and an increase from $880 to $881 in per capita constant dollars. This reflects the increase in actual dollars of $1.2 million and the decrease in constant dollars of $166,543 when compared to FY 2015-16. The increase in actual dollars was mainly in Public Works ($1.8 million), Police ($1.7 million), and City General ($1.0 million). The increase in Public Works is due to reallocating Beaches, Parks, and Recreation Maintenance services from Beaches, Parks, and Recreation to Public Works in the prior year. The increase in Police Services is due to an increase in contractual costs. The increase in City General is due to an increase in transfers to accrued leave and facilities maintenance in the current year, based on the long term financial plan.



The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $826 to $923, and an increase in constant dollars from $791 to $865. One-time expenditures include a one-time transfer to Information Technology fund of $137,328 to fund the data project and one-time funds of $363,239 for the Ole Hanson Beach Club project.



Status: *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.

This trend remains favorable because expenditures per capita have remained fairly stable over the five year period.

Expenditures Trend Analysis

Indicator: *Expenditures by Function*

Comments:
Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) show changes in the allocation of resources from FY 2012-13 to FY 2016-17. The chart below indicates that the largest fluctuations of expenditures are in Public Works, and Beaches, Parks, and Recreation with an increase of 7%, and a decrease of 10% respectively.

When looking at the table, Public Works increased from 14% in FY 2012-13 to 21% in FY 2016-17. In actual dollars Public Works increased by $5.0 million, or 80%. The Beaches, Parks, and Recreation category decreased from 22% to 12% in FY 2016-17 reflecting actual decreases in the recreation program during the period. Both of these changes are due to a restructuring that occurred in FY 2015-16, moving the Beaches, Parks and Recreation maintenance from Beaches, Parks and Recreation to Public Works.

Comparison of Expenditures by Function
(Excluding debt service, interfund transfers, and capital outlay)
FY 2012-13 vs. FY 2016-17

Expenditure Function	FY 2012-13	% of Total 2012-13	FY 2016-17	% of Total 2016-17	Total Change
General Government	$ 6,356,925	14%	$ 8,256,625	16%	2%
Public Safety	19,452,705	42%	22,841,664	43%	1%
Public Works	6,254,110	14%	11,260,393	21%	7%
Community Dev.	4,034,127	9%	4,682,477	9%	0%
Beaches, Parks & Rec	10,236,818	22%	6,123,570	12%	-10%
Total Expenditures	$ 46,334,686	100%	$ 53,164,730	100%	

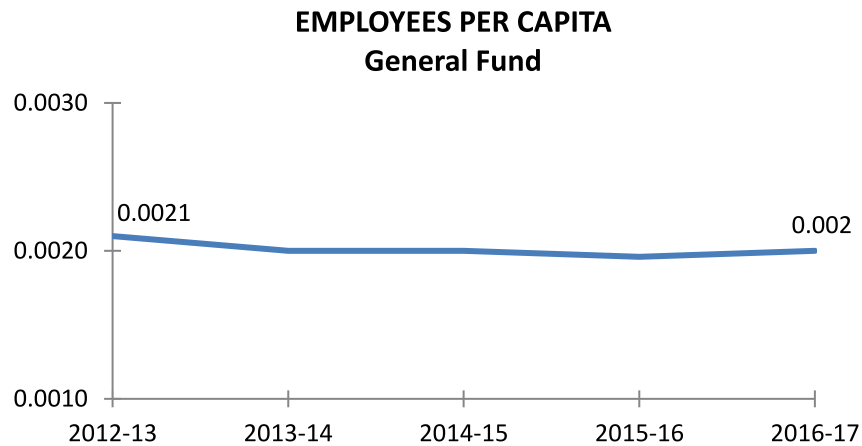
Based on this analysis, significantly more resources are not being requested by any one department causing a growth rate which is not sustainable or document a department under financial pressure from a functional perspective.

Status: *FAVORABLE*
This trend remains favorable because the major increases and decreases in both categories are due to a re-evaluation of City functions and not due to changes in the actual services themselves.

Expenditures Trend Analysis

Indicator: *Employees per Capita*

Comments:
Employees per capita have remained relatively stable over the last five years. This trend provides a perspective of how the City's workforce is in relation to population changes.



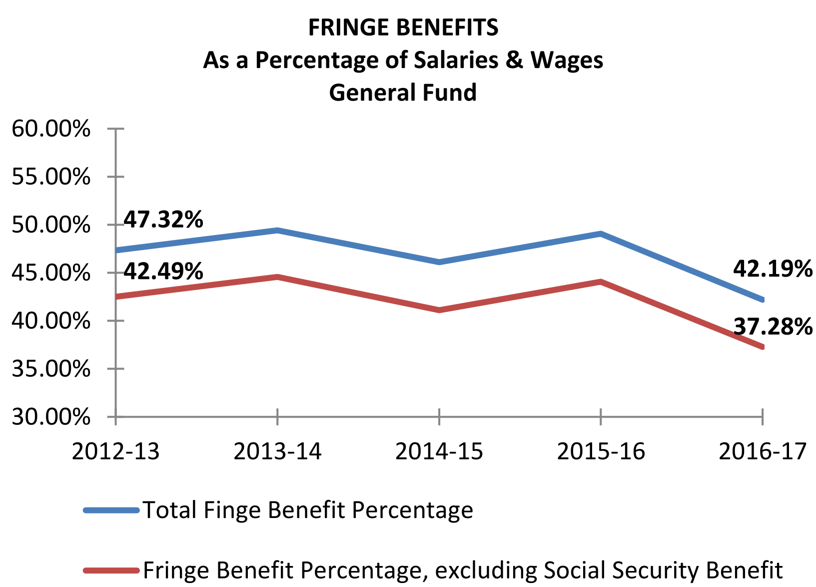
Status: *FAVORABLE*
This indicator is awarded a favorable rating as growth in Full Time Equivalent's (FTE's) keep up with service level demands. This trend will be closely monitored to insure the City's ability to support current and future service levels.

Expenditures Trend Analysis

Indicator: *Fringe Benefits*

Comments:
Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, decreased from 49.1% to 42.2%. Fringe benefits (excluding social security benefits) show a corresponding decrease when compared to FY 2015-16. The actual amounts of General Fund benefits decreased from $5.52 million in FY 2015-16 to $4.75 million in FY 2016-17, a 14% decrease from the prior year. General Fund salary and wages were $11.2 million in FY 2015-16 and $11.3 million in FY 2016-17, which is essentially flat.

Although the health rates have increased for the year, the CalPERS and San Clemente retirement premiums were lower than the prior year by $474,650 and $399,030 respectively. This decrease was due to three different factors; 1) PERS unfunded liability for Marine Safety was paid down utilizing Pension reserves, 2) City employees are now paying a higher percentage of retirement costs based on negociations, and 3) Employees hired under the new California Public Employees' Pension Reform Act (PEPRA) has resulted in cost savings.



Status: *FAVORABLE*
This trend has changed from a favorable/caution to a favorable rating do to the decrease in the percentage of fringe benefits to salaries and wages. As employees pay more toward retirement, under the three year Memorandum of Understanding, and more new PEPRA employees are being hired; this percentage should start to fall and eventually level out in the future.

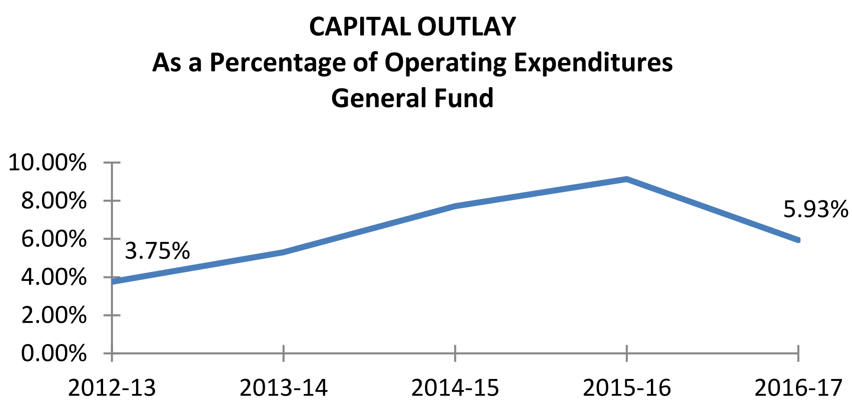
Expenditures Trend Analysis

Indicator: *Capital Outlay*

Comments:
The Capital Equipment Replacement Reserve was established in FY 1994-95. This reserve fund ensures that obsolete and worn equipment is replaced in accordance with the City's preventive maintenance program.

Capital outlay expenditures decreased by $1.9 million, or 34%, from FY 2015-16. Capital outlay expenditures totaled $3.7 million.

Spending on capital outlay has decreased due to a decrease in improvements including major maintenance improvements, the sidewalk construction program, and other improvements. The City has started to address this through the allocation of amounts to the Facilities Maintenance Reserve.



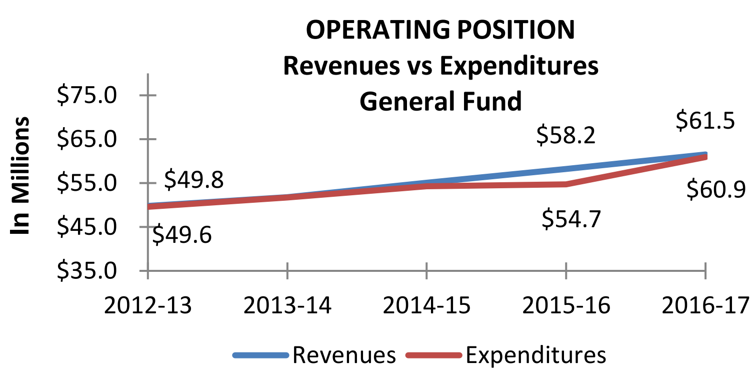
Status: *FAVORABLE*
This trend has changed from a Favorable/Caution to a Favorable rating due to the large decrease from the prior fiscal year due to due mainly to bringing the Ole Hanson Beach Club facility up to acceptable standards and major street maintenance in the prior year.

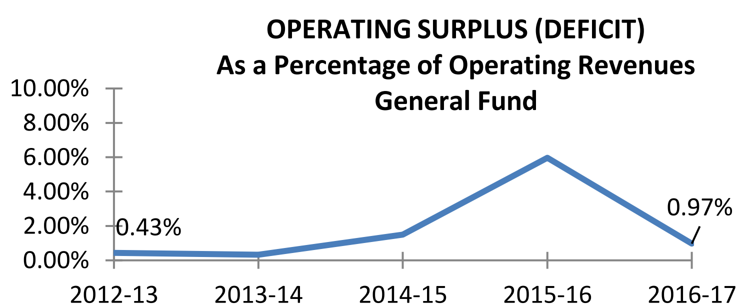
Operating Position Trend Analysis

Indicator: *Operating Surplus (Deficit)*

Comments:
Fiscal year 2016-17 ended with a positive operating position (surplus). An operating surplus is when revenues exceed expenditures, conversely when expenditures exceed revenues there is an operating deficit.

Revenues used to calculate the operating position do not include one-time transfers and revenues of $2.2 million, which includes $260,091 of grant revenue, $195,009 in miscellaneous one-time revenues; a $791,435 one-time transfer from the Developer Improvement fund; a one-time transfer of $50,000 from Water Operating; and a $1,000,877 one-time adjustment to the former Redevelopment Agency loan. Expenditures used to calculate this surplus do not include a one-time capital costs of $363,239 for the Ole Hanson Beach Club Renovation project; a transfer from the General Fund to the General Liability Fund of $450,000; other transfers of $262,654; and one-time studies and costs of $33,722. This calculation of operating expenditures does not exclude $3.0 million of capital costs for yearly maintenance and improvements. The total operating position was $0.6 million in FY 2016-17, compared to $3.5 in FY 2015-16.





Status: *FAVORABLE/CAUTION*
This trend has changed from Favorable to Favorable/Caution due to the decline in the percentage of operating revenues over the last year and the current narrow operating position.

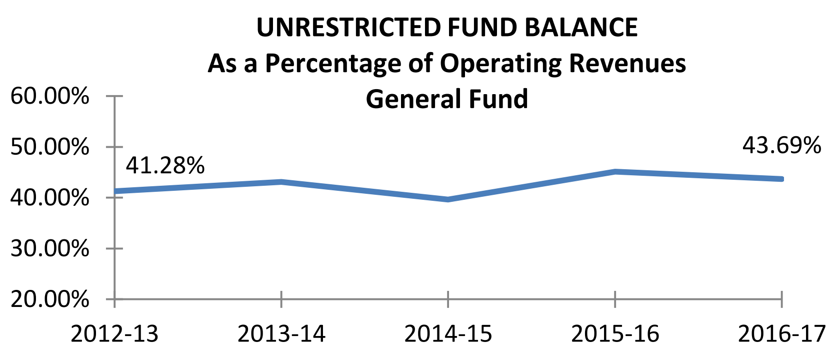
Operating Position Trend Analysis

Indicator: *Unrestricted Fund Balance*

Comments:
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.

Unrestricted fund balance excluding long term receivable reserves increased by 3% in FY 2016-17 from $27.0 million to $27.9 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 2016-17 unrestricted fund balances of $27.9 million are committed funds of $14.0, which includes $11.4 million of emergency funding, and $2.6 million committed for other purposes. Also included is assigned to other purposes $9.4 and unassigned fund balance comprises the remaining balance. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.



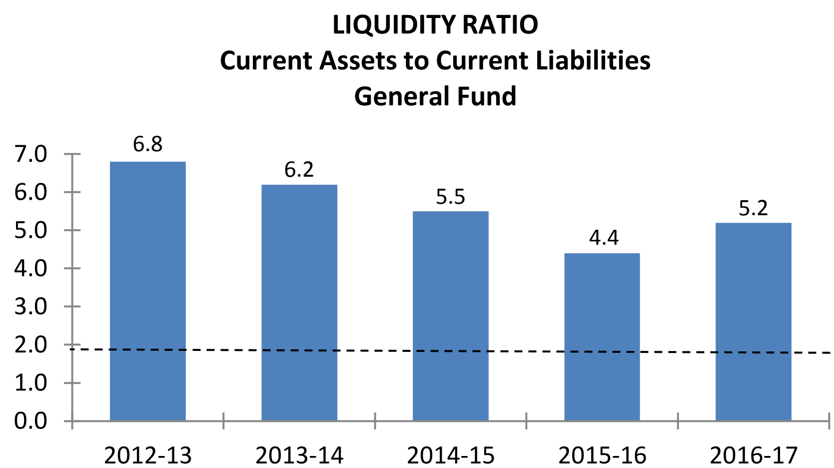
Status: *FAVORABLE*
This trend remains a Favorable rating due to the stability of the unrestricted fund balance over the past five year period analyzed above.

Operating Position Trend Analysis

Indicator: *Liquidity Ratio*

Comments:
In FY 2016-17, the City's liquidity ratio remains positive at 5.2:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 5.2:1 current asset to current liability ratio is considered excellent.

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.

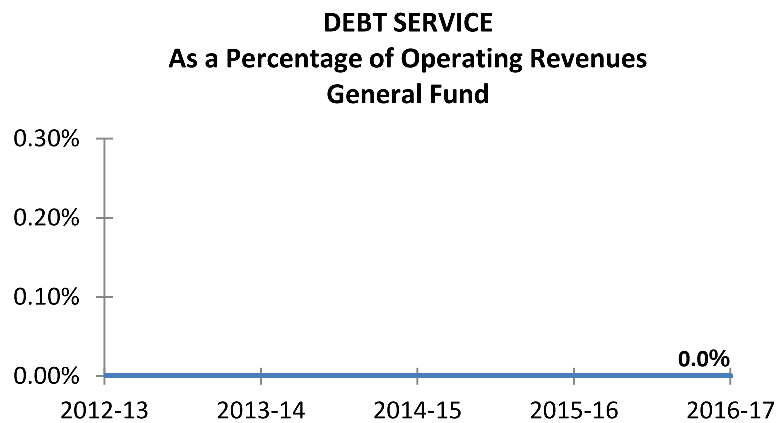


Status: *FAVORABLE*
This trend is favorable due to a ratio of over 1:1 throughout the past five year period analyzed above.

Debt Service/Unfunded Liability Trend Analysis

Indicator: *Debt Service*

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.



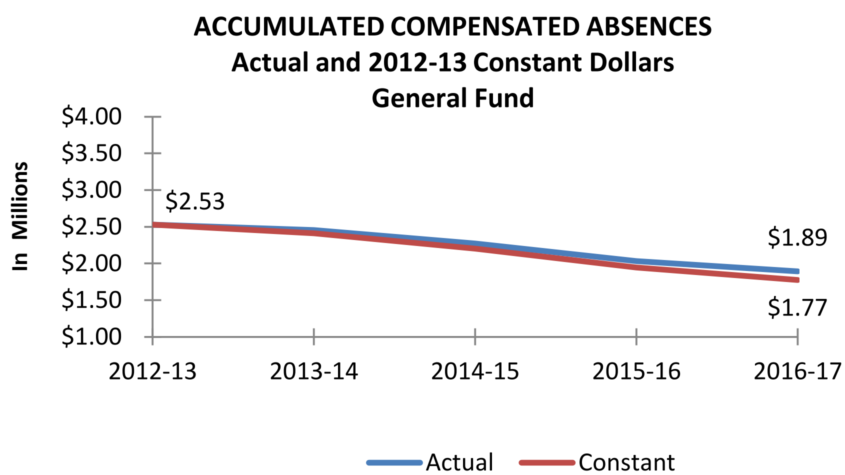
Status: *FAVORABLE*
General Fund debt service receives a Favorable rating as it has remained immaterial (less than 1%) in comparison to total revenues over the last sixteen years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating revenues.

Debt Service/Unfunded Liability Trend Analysis

Indicator: *Accumulated Compensated Absences*

Comments:
At June 30, 2017, the balance of the liability for compensated absences was $1.89 million consisting of $1.1 million for vacation, $0.7 million for sick leave, and $111,570 for compensatory time. This is a decrease of $141,150 or 7% from the prior year's liability of $2.03 million. The decrease is due to long term employees with hire dates before January 1, 2000 retiring during FY 2016-17. 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 2016-17, the General Fund continued its annual contribution to the Accrued Leave Reserve Fund with an amount of $974,000 for the payment of accrued leave for terminated employees. As of June 30, 2017 the Accrued Leave Reserve balance was $1.1 million.



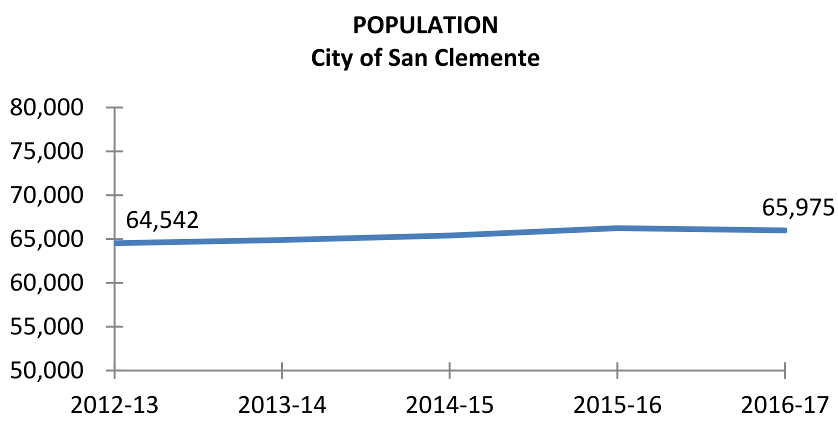
Status: *FAVORABLE*
This indicator receives a Favorable rating, consistent with the prior year. The City's average annual payments for terminated employees accumulated compensated absences amount to one-half of the accrued leave reserve balance. The reserve policy was modified in FY 2016-17 to fund General Fund compensated absences.

Community Trend Analysis

Indicator: *Population*

Comments:
The City's population has decreased by 0.41% over the prior fiscal year. 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 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 fiscal years 2012-13 through 2016-17 show a stabilization in the population rate following the 2010 Census.



Status: *FAVORABLE*
This indicator remains a Favorable rating due to the stabilization of the population over the five year period.

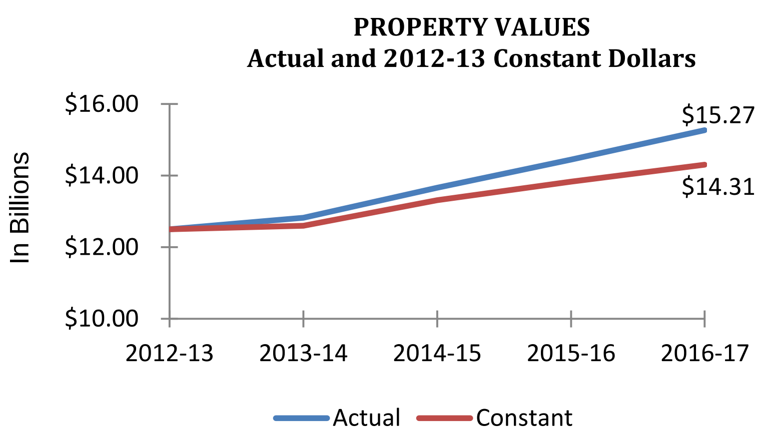
Community Trend Analysis

Indicator: *Property Values*

Comments:
The growth rate in property values as a percentage rate from the previous year in actual dollars was positive 5.7% or $822 million. This is a 3.4% or $473 million change in constant dollars, as seen in the chart below. The City is seeing three years of fairly large increases in property tax values after several years of a declining economy.

Property values exhibited a positive growth rate in FY 2016-17. 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.

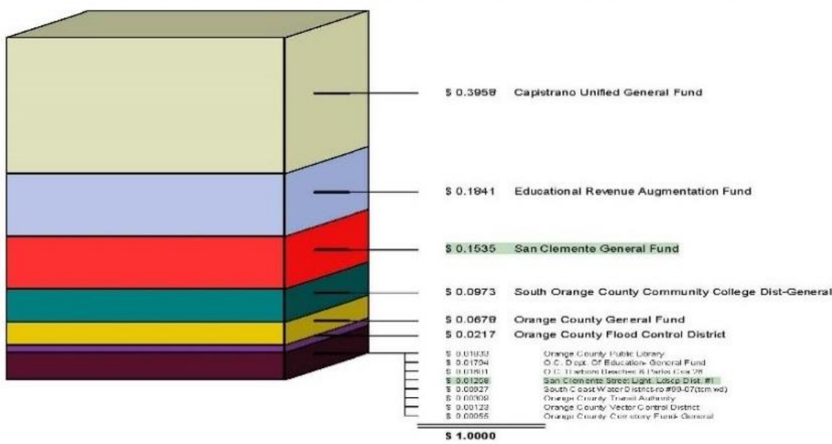
Please see attachment "A" graph that shows the distribution of the total property tax levy for each property tax dollar paid for the City and the ten year assessed value history.



Status: *FAVORABLE*
This indicator remains a favorable rating due to the stable and increasing trend over the last five years.

Attachment "A"

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 2016/17 Annual Tax Increment Tables Prepared On 8/8/2017 By MV

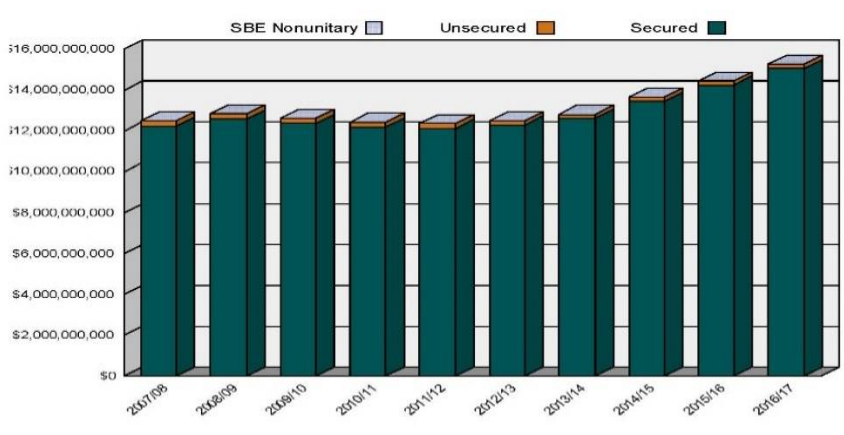
This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone

The chart above shows the portion each respective government agency receives of the typical Orange County property tax dollar.

THE CITY OF SAN CLEMENTE
NET TAXABLE ASSESSED VALUE HISTORY

2007/08 - 2016/17 Taxable Property Values

Lien Year	Secured	Unsecured	SBE Nonunitary	Net Total AV	% Change
2007/08	$12,248,077,941	$237,177,678	$140,000	12,485,395,619	
2008/09	$12,582,839,817	$269,246,362	$240,000	12,852,326,179	2.94%
2009/10	$12,379,601,820	$242,960,738	$5,175,881	12,627,738,439	-1.75%
2010/11	$12,203,096,799	$226,867,241	$240,000	12,430,204,040	-1.56%
2011/12	$12,125,854,115	$229,815,391	$240,000	12,355,909,506	-0.60%
2012/13	$12,299,490,266	$206,380,508	$0	12,505,870,774	1.21%
2013/14	$12,625,733,738	$200,734,451	$0	12,826,468,189	2.56%
2014/15	$13,452,062,054	$211,221,901	$0	13,663,283,955	6.52%
2015/16	$14,249,172,795	$198,928,327	$0	14,448,101,122	5.74%
2016/17	$15,045,446,308	$217,602,523	$0	15,263,048,831	5.64%



Data Source: Orange County Assessor 0/ - 2016/17 Combined Tax Rolls Prepared On 8/8/2017 By MV

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone

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 2017-18 budget. The prior forecast identified a small operating surplus in the first two years of the forecast, followed by operating deficits in the remaining years, as follows:

FY 2017-18 Budget Forecast (millions)	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Projected surplus/deficit	$ 1.0	$ 0.2	$(0.3)	$(1.0)	$(1.6)

The updated 2018 LTFP five-year financial forecast, shown below, also reflects a positive operating positon in the first two years, with a negative operating position beginning in FY 2020-21. This is mainly due to projected revenue increases for the forecast period being insufficient to offset larger projected increases in expenditures, such as police, fire and other contractual costs:

2018 LTFP Forecast (In millions)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Operating receipts	$ 63.4	$ 65.4	$ 67.2	$ 69.2	$ 71.3
Operating disbursements	63.0	65.3	67.8	70.5	73.4
Projected surplus/deficit	$ 0.4	$ 0.1	$ (0.6)	$ (1.3)	$ (2.1)

The 2018 Long Term Financial Plan forecast shows an improved operating position for all years, as compared to the forecast presented at last year's budget adoption.

Revenues increases for operations are projected at an average of 2.8 % over the forecast period. Property taxes continue to rise from increased number of sales, property values that continue to appreciate, new development in the City, and final recaptures of Proposition 8 reassessments that occurred during the recession. The median single family residential home price in San Clemente averaged $880,000 in 2017, as compared to $847,000 in 2016. Sales taxes included in the forecast are projected 2.4% higher than the current year for FY 2018-19 due to anticipated growth in consumer spending. Opening of additional stores and restaurants at the San Clemente Outlet Mall and the Estrella shopping center development is still anticipated, but those are not included in the forecast, as the timing and type of facilities is uncertain at this time.

Expenditures for operations increase an average of 3.8% per year over the forecast period, excluding the impact of one-time costs, including one-time capital and major maintenance. The projected increases are primarily due to growth in the police and fire services contracts, additional costs for a full-time 4th firefighter position, proposed increases in personnel costs and related benefits, pension cost increases, and continuing ongoing facility maintenance costs. Based on the first estimate prepared by the County of Orange, the police services contract will increase by 4.7% in FY 2018-19, mainly due to salary and benefit growth. Over the remainder of the forecast period, average annual increases of 4%, have been assumed for the police services contract. The fire services contract includes an average increase of 4.5% per year, the maximum allowed by contract. The addition of a 4th firefighter on full rotation for the City of San Clemente was implemented by OCFA for a full year beginning in FY 2017-18. The new addition is anticipated to be filled through overtime initially, with the first two years of costs fully paid by OCFA. It is proposed that the City begins to pick up a share of the costs in the third year (FY 2019-20), with full cost pick-up by the City by the eighth year. Based on initial projections by OCFA, the City's phased-in share of these costs have been included in the forecast.

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 2018-19 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 2018-19 budget.

The base forecast is developed using the City's *present level of services*. 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 2018 Economic Forecast for Southern California and Orange County, presented in October 2017.

Per the Cal State Fullerton forecast, in the near term the U.S. economic expansion, currently in its ninth year, is set to continue with the economy firing on more cylinders than at any other point since the start of the recovery. It is expected that the expansion should continue over the next couple of years driven by consumer spending, business investments and the improving global economy which continued to build momentum in 2017, surprising most market analysts. However, pockets of weakness persist as productivity growth has been dismal and wage growth remains elusive even though the labor market is approaching full employment. Inflation remains stubbornly below the Fed's 2% target range.

Overall, the depth and breadth of the continued expansion will depend more acutely on the mix of fiscal and monetary policy that continues to unfold under the new federal administration. Decisions about unwinding of the quantitative easing program, adjustments to interest rates, and the impact of tax law changes all have the potential to impact the continued expansion, both positively and negatively.

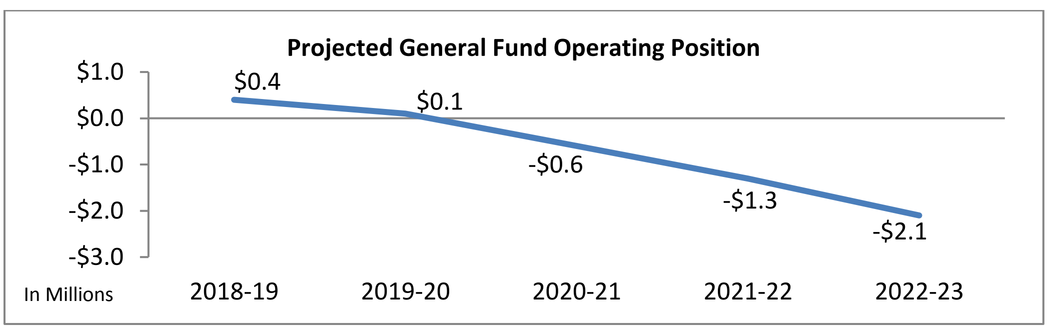
For Southern California and Orange County, job growth appeared to slow down in 2017, but the unemployment rate remains low and is expected to hover around 3.5% for Orange County for the foreseeable future. Housing prices have continued to grow at a rapid pace, but with the Federal Reserve raising interest rates, it would not be surprising to see housing price growth slow in 2018. Construction permits in Orange County have slowed as well and are expected to decrease in the coming year after staggering growth between 2014 and 2016. However, local business leaders continue to be enthusiastic about local economic conditions.

City of San Clemente Financial Condition

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

Operating Position in a given year is the excess of operating revenues over the amount of operating expenditures, excluding one-time revenue and expenditures. Based on revised expenditure and revenue trends, the financial forecast indicates a negative operating position beginning in the third year 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 FY 2020-21 mainly due to estimated revenue increases being outpaced by projected increases in police, fire, pension and other contractual costs, including the City paying increasing portions for a 4th firefighter position beginning in FY 2019-20. It should be noted that these are *projections* only and a negative operating position will not actually occur, as adjustments will be made prior to budget adoption to ensure the City remains in a positive operating position.

Fund Balances

Fund balance is the excess of assets and resources over the amount liabilities. The City's *committed* fund balance, committed to a specific purpose by City Council action, includes the *Emergency Reserve,* which is funded at 20% of operating expenditures. Annual contributions are included in the forecast to maintain the Emergency Reserve's 20% funding level. The *unassigned* fund balance is the portion that is available for appropriation by the City Council, based on current policies. A positive unassigned fund balance represents a financial resource available to finance one-time expenditures of a future fiscal year.

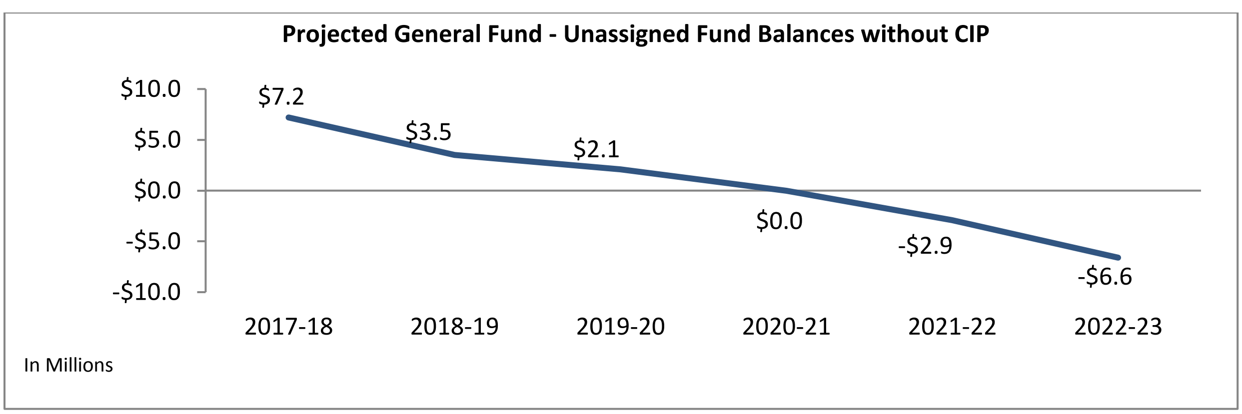
Committed Fund Balance - One of the main financial goals of the City, as defined in the City's Fiscal Policy, is to ensure that adequate resources will be available to fund the General Fund's emergency reserve. The emergency reserve level is maintained at the required level of 20% of operating Expenditures, based on current fiscal policies.

General Fund – Committed Reserves (in millions)

	2018-19	2019-20	2020-21	2021-22	2022-23
Emergency (20% of Oper. Expenditures)	$12.6	$13.1	$13.6	$14.1	$14.7

Unassigned Fund Balance - The General Fund's *unassigned fund balance* is projected to be $7.2 million at the end of FY 2017-18. Note that the 2018 LTFP forecast includes between $1,200,000 to $1,250,000 each year for ongoing maintenance projects (major street maintenance, slurry seal, sidewalk repair programs, and facility maintenance), but does not assume any spending for capital projects (including infrastructure and I.T. projects), or any one-time major maintenance projects. Other one-time revenues, expenditures and transfers, along with projected negative operating positions beginning in FY 2020-21, would reduce the unassigned fund balance to a negative $6.6 million at the end of FY 2022-23.

The chart below illustrates projected unassigned fund balance in the General Fund for the next several years, based on the 2018 LTFP forecast:

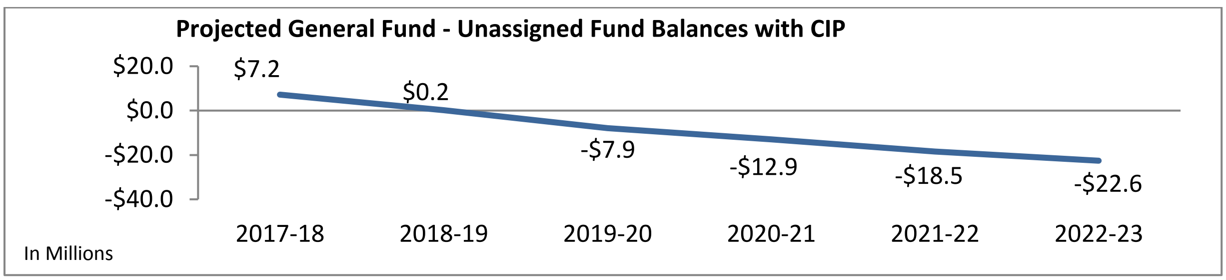


If projected capital and one-time major maintenance projects are added to the 2018 forecast, the City's projected unassigned fund balance would decrease substantially.

The table below shows costs projected for General Fund capital and one-time major maintenance projects over the next five years based on what was presented in the CIP section of the FY 2017-18 budget, excluding the project costs to be funded by grant revenue:

Proposed Projects (In millions)	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Capital Projects	$2.9	$6.4	$1.9	$2.7	$0.3
Major Maintenance (not ongoing)	0.5	0.3	0.9	0.1	0.1
Totals	$3.4	$6.7	$2.8	$2.8	$0.4

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



As noted, this projection is based on the CIP program presented in the FY 2017-18 budget. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. A revised CIP program for the next five years will be presented to the City Council as part of the FY 2018-19 budget process.

Other Fund Balance Impacts - Several events are anticipated over the next several years which may enable the City to shore up infrastructure and maintenance reserve funds and/or add to 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.

Marblehead Development/San Clemente Retail Outlets: No revenue has been include in the forecast for potential sales tax associated with additional stores and restaurants or with future phases of the retail project, nor has any revenue been included for a potential hotel development, as the type of hotel development and the timing of its construction is yet to be determined. Additional revenue may be realized from these additions in the future and could be used to increase the General Fund's unassigned fund balance if not needed for ongoing operations.

Bellota Land Sales: The City began to realize proceeds from the Bellota Land sales in FY 2015-16, and all sales were completed by the end of FY 2017-18. Proceeds from selling the Bellota land sales have been used to meet the General Liability Fund's reserve requirements (as per the City's fiscal policy), to pay retrospective payment balances in the General Liability Fund, and to fund legal costs for various land use issues not covered by the City's CJPIA coverage. The 2018 LTFP Reserve Analysis paper recommends that the remaining proceeds stay in the General Liability Fund for future unfunded legal costs, but could be added to the General Fund's Unassigned Fund Balance for future allocation by the City Council, if not needed for legal costs.

LaPata/Vista Hermosa Land: Potential receipt of proceeds from the sale or lease of 2.3 acres of land at the corner of La Pata and Vista Hermosa could occur in the coming fiscal years. The property was appraised in February of 2015, with the market value of the land placed at $3.3 million. Final determination of the disposition of the land has yet to be determined, and City Council may consider other land use options. If the disposition of the land results in revenue to the City, staff will provide City Council with recommendations to possibly use the proceeds as part of the funding strategy to provide sufficient infrastructure maintenance reserves.

Infrastructure Maintenance Reserves: The 2016 LTFP identified the need to clearly identify infrastructure assets and the reserve resources needed to maintain and/or replace those assets, including an overall analysis and funding strategy for the City's Facilities Maintenance Reserve in order to provide resources for maintaining aging infrastructure, including future pier maintenance. Pier rehabilitation is recommended to be performed every five years, having a significant impact on the General Fund's unassigned fund balance. The 2018 LTFP Reserve Analysis paper recommends a total annual transfer of $380,000 into the Facilities Maintenance Reserve for FY 2018-19. In addition, the 2018 Reserve Analysis Paper recommends transferring an additional amount of between $1.0 to $2.5 million to the Facilities Maintenance Reserve in FY 2018-19 (from the General Fund's unassigned fund balance) for future repairs and renovation of City facilities. The higher transfer amount recommended of $2.5 million is included in the forecast.

Forecast Assumptions

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

Revenues:

- Property taxes are projected to increase, in total, by 4.3% for FY 2018-19. Increases averaging 3.9% are included for the next four years, beginning in FY 2019-20. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.
- Sales tax for the City is projected to increase 2.4% in FY 2018-19 due to anticipated growth in consumer spending. The San Clemente Outlet Mall and the Estrella shopping center each phased in retail stores over the last three years, resulting in a sales tax increases over that time. Some additional stores and restaurants are anticipated at these locations in the future, but no additional revenue is included in the forecast for those at this time due to the uncertainty as to type and timing of the additions. Beginning in FY 2019-20, sales tax increases

averaging 2.0% are projected based on CPI increases. Sales tax projections are based on information from HdL Companies, the City's sales tax advisors.

- A substantial year over year decrease of about 75%, or $400,000, is being forecasted for TOT revenue from Vacation Rentals (Short-term Lodging Units) beginning in FY 2018-19 based on City Council adopted zoning ordinances taking effect in May 2018. TOT revenue for hotels is projected to increase by inflation throughout the forecast period.

Expenditures:

- New positions – No new or reclassified city positions have been included in the forecast.
- Frozen positions – There are no frozen positons in the General Fund currently.
- Police Services– Contract costs are increased by 4.7% for FY 2018-19 based on the 1st estimate from the Orange County Sheriff's Department (OCSD). Contract increases are projected at 4% over the remaining four years of the forecast. Police positions remain at the FY 2017-18 level for forecasting purposes.
- Fire Services –The 20 year fire services contract allows for a cap of 4.5% per year to the base service charge, annual contributions to station maintenance and fleet replacement reserves. In the forecast, base contract costs are increased by 4.5% each year based on OCFA's maximum base contract increase allowed; if actual contract costs are less, the changes will be reflected when the budget is presented. The addition of a 4th firefighter was implemented by OCFA beginning in FY 2017-18, with the first two years of costs fully paid by OCFA. The City is expected to pick up a share of those costs beginning in year three (FY 2019-20), with full cost pick-up by the City by the eighth year. The City's phased-in share of these costs has been included in the appropriate years of the forecast, based on initial projections provided by OCFA.
- Ambulance Services - In January 2017 City Council directed staff to pursue an RFP for ambulance services. Subsequently the RFP process, the City entered into a five year contract with Care Ambulance Services, through FY 2021-22, for the services of two full-time ambulances. The forecast assumes the City will continue to operate with the two full-time ambulances in the contractual model currently in place.
- Salaries and Wages - Increases based on a 3 year MOU agreement with the City's employee association (SCCEA) adopted 2/7/2017 for FY 2017-18, FY 2018-19, and FY 2019-20. Assumed that step increases would amount o 0.5% for the MOU term, and are somewhat offset by lower wages from employee turnover each year. Future year's increases are projected at the CPI increase (for forecast purposes only).
- Benefits – For FY 2018-19 and FY 2019-20, benefit cost increases are projected due to wage growth and due to the City paying a slightly larger share of employee medical costs, as per the 3 year MOU agreement approved by the City Council in early 2017. To offset these increases, the MOU agreement provides that employees fund a larger share of their pension costs each year, reducing the City's costs for this expense.
- Retirement – Increased contributions for all City pension plans for FY 2018-19 are based on the most recent actuarial reports received. For future year projections, estimated increases have been incorporated to address the discount rate reduction CalPERS will be implementing over a three year period (From 7.5% to 7%), the impact of actuarial assumption changes beginning in FY 2019-20, and changes to amortization periods beginning in FY 2021-22. No

assumptions are made for any additional contributions to pay down unfunded liabilities or for any additional changes to the amortization schedules currently in place.

- Reserves –One-time Reserve transfers of $3,280,000 are included in FY 2018-19, based on the 2018 LTFP reserve paper recommendations, including a total of $2,880,000 for the Facilities Maintenance Reserve. One-time Reserve transfers projected at $660,000 have been included in the remaining four years of the forecast.
- CalPERS Safety Plan Unfunded liability – A required payment of $1,255,000 towards the City's unfunded liability (past service cost) for former fire and police personnel in the CalPERS retirement system is included in the forecast for FY 2018-19 per CalPERs most recent actuarial report for this inactive Safety plan. For future years, CalPERS will be reducing the discount rate and has provided projections for future increases for this liability payment, which have been included here in the forecast.
- Street Improvement Program - The General Fund's ongoing transfer to the Street Improvement Fund amounts to $756,290 per year.
- Ongoing Maintenance - The forecast includes ongoing maintenance funding for major street maintenance, slurry seal, sidewalk repair, and facility maintenance programs ($1,200,000 for FY 2018-19 and FY 2019-20, and $1,250,000 for the remaining years). This ongoing amount assumes funding of $250,000 in FY 2018-19 and FY 2019-20 and $300,000 in the remaining forecast years to fund ongoing facility maintenance costs.

Factors Not Included in the Forecast:

- The forecast is based on the General Fund only.
- No new or enhanced programs or positions have been included.
- The forecast does not include spending for capital or one-time major maintenance projects.
- Additional sales tax associated with additional stores and restaurants or future phases of the San Clemente retail outlets or the Estrella shopping center have not been included.
- The forecast does not include potential proceeds from any land sales.
- No provision has been included for one-time legal costs for special projects or initiatives.
- No assumptions have been made for revenue and expense changes related to potential future changes to vacation rental or other TOT policies or ordinances.
- The forecast does not include the potential cost of recommendations from other Long Term Financial Plan papers, except as noted.

Forecast Results
The following table provides a review of beginning unassigned fund balances, operating and one-time receipts and disbursements, and ending unassigned fund balances projected over the five-year forecast period. Calculations for the table below assume $1,200,000 to $1,250,000 for ongoing maintenance projects (major street maintenance, slurry seal, sidewalk repair programs, and facility maintenance), but does not assume any additional spending for capital projects or one-time major maintenance projects.

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
BEGINNING UNASSIGNED FUND BALANCE	**$7,250**	**$3,524**	**$2,146**	**$0**	**$(2,904)**
RECEIPTS					
Property Tax	32,524	33,792	35,110	36,480	37,902
Sales Tax	10,142	10,357	10,566	10,780	10,998
Other Revenue	21,115	21,553	21,806	22,252	22,710
TOTAL RECEIPTS	**63,781**	**65,702**	**67,482**	**69,512**	**71,610**
DISBURSEMENTS					
Salaries & Benefits	18,784	19,470	20,128	20,809	21,515
Police Contract Services	14,939	15,537	16,158	16,805	17,477
Fire Contract Services	8,565	9,165	9,942	10,903	11,983
Other Contractual Services	10,729	10,944	11,162	11,386	11,613
Ongoing Maintenance	1,200	1,200	1,250	1,250	1,250
Other Expenses	12,782	10,314	10,496	10,708	10,911
TOTAL DISBURSEMENTS	**66,999**	**66,630**	**69,136**	**71,861**	**74,749**
OTHER FUND BALANCE CHANGES					
Funding 20% Emergency Reserve	(508)	(450)	(502)	(545)	(577)
ENDING UNASSIGNED FUND BALANCE	**$3,524**	**$2,146**	**$0**	**$(2,904)**	**$(6,620)**
**displayed in thousands*					

The following pages will provide additional background and information on some of the city's major revenue and expenditure line items.

REVENUES

Property Tax

Property Tax is the City's single largest revenue source and represents approximately 50% of total General Fund operating revenues. Total property tax revenues for the City of San Clemente are projected to increase by 4.3% for FY 2018-19. Projected increases averaging 3.9% are included for the following four years, beginning in FY 2019-20. In FY 2018-19, valuation increases are anticipated due to a 2.0% CPI adjustment, increased values from property resales, new development, and the recapture of temporary assessment reductions from prior years. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.

There are four major factors that contribute to year over 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. 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. Finally, assessed valuation grows when new development is completed in the City.

The City saw 3% growth in assessed valuation in 2008-09, 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. As recovery in the housing sector took hold, total assessed valuation in San Clemente reflected an increase in 2012-13 for the first time in four years. Since then, the last five years have shown increases averaging over 5% per year in assessed valuation, resulting in steady increases in property tax revenue over the last several years.

Substantial increases have been seen over the last several years in property tax assessed valuations due to increased sales, increased sales prices, new development, and continued recapture of Proposition 8 reassessments. Assessed valuation is largely impacted by changes in sales prices. Historically, the City's median sales prices for single family residences peaked in 2006, at $940,000, and then decreased for five straight years, to a low of $570,500 in 2011. 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 10.43%, to $630,000, the first increase seen in 6 years. Over the last four years, the housing market has continued to improve, with increases in median sales price seen every year. San Clemente's median sales price for single family residential properties rose 8.6% in 2016, to $847,000, while 2017 reflected an 3.9% increase, to $880,000. Also, over the last few years the City is beginning to realize additional property tax revenue from recent new development, including the San Clemente Retail Outlets and the Sea Summit residential development.

In addition, a large portion of Proposition 8 reassessments initiated during the recession have been addressed by the County Assessor's office, with those properties being brought back to full value. A small portion of these reassessments are still pending, with those assessed values expected to rise, continuing to positively impact property tax revenues into FY 2018-19. Property values are expected to rise at a slower pace than seen in the past several years due to inventory and affordability constraints.

Sales Tax

Overall, sales tax revenue for the City is projected to increase 2.4 % in FY 2018-19. Consumer demand is expected to continue its steady and moderate growth, and continued increases are expected from State and County pools due to sustained growth in online purchases. Beginning in FY 2019-20, sales tax increases averaging about 2.0% are projected based on CPI increases as presented in Fullerton's Economic Forecast data for Orange County.

Ongoing sales tax revenues for the City has seen steady, moderate growth over the last several years, boosted by the opening of Target in the City in late 2011, the opening of the San Clemente Outlet Mall in November of 2015, the revitalization and opening of stores at the Estrella Shopping development in the spring of 2016, and increased consumer demand after several years of economic recession.

For the City of San Clemente, FY 2015-16 marked a new era, with the opening of Phase I of the San Clemente Outlet mall in November 2015. Beginning in FY 2016-17, a full year of revenue for this initial phase was projected in the budget, although at lower levels than had originally been forecast, due to fewer stores operating and a lag in commitments for potential restaurants at the site. Additional stores and restaurants are still anticipated to open as part of Phase I; however, the 2018 forecast does not assume potential revenue from any additional openings in Phase I due to timing uncertainties. No additional sales tax revenue has been assumed in the 2018 forecast for future phases of the San Clemente Outlet mall, again due to the uncertainty as to the timing and nature of any future phases of the project.

In the Spring of 2016, several retail stores began operating at the revitalized Estrella shopping center in North San Clemente, providing an additional boost to the City's Sales tax revenues. An additional store is anticipated to open at the center in the coming months, but no assumptions for additional revenue for this have been included in the 2018 forecast.

Sales tax projections are provided by HdL Companies, the City's sales tax advisors.

EXPENDITURES

Salaries

On February 7, 2017 the City Council adopted a three year MOU agreement with the City's employee association (SCCEA) providing contractual wage and benefit growth for City employees. The three year MOU agreement is in effect for FY 2017-18 through FY 2019-20. The forecast assumes growth in wages and benefits based on the growth provided in the MOU agreement, as well as a small increase for step increases for eligible employees. After FY 2019-20, future year's wage and benefit increases are projected at the projected CPI increase, for forecast purposes only. Actual increases will be determined through future negotiations with the City's employee association.

Benefits

For FY 2018-19, benefit costs are projected to increase by 4.0% due to several factors. The three year MOU agreement discussed above includes wage increases which also result in cost increases for pension and other benefits that are tied to growth in salaries and wages. In addition, a provision for increasing the City's contribution for employee health costs is included in the MOU.

Offsetting those increase are some costs savings for the City as the agreement requires employees to fund a larger share of retirement costs each year. In the past the City had paid all of the "employee share" of pension costs. Over the last several years labor negotiations have resulted in employees paying a larger portion of that cost each year, with a resulting savings to the City. By the last year of the current three year MOU agreement (FY 2019-20) employees will be paying the entire "employee share" of pension costs. Employees hired after January 2013 already pay the full cost of the employee share, per the PEPRA pension rule changes enacted by the State of California effective January 1, 2013.

Unfortunately, these savings are offset by projected increases in retirement rates and cost, in FY 2018-19 and beyond, for all of the City's pension plans. Based on the most recent actuarial reports, costs are increasing for the coming fiscal year for several reasons, including lower than expected investment returns, changes in actuarial assumptions, and the "phased-in" approach CalPERS uses to fund new pension liabilities each year. In addition, CalPERS notified agencies last fiscal year that they would be reducing the discount rate (from 7.5% to 7.0%), using a phased-in approach over a three year period, with related cost increases beginning in FY 2018-19.

As the discount rate change is phased in, the City will continue to see higher related pension costs over the next three years. In addition, CalPERS most recent experience study in 2017 resulted in several new actuarial assumption changes including mortality, retirement rates, salary scale, and inflation, which will impact the City's required employer pension contributions beginning in FY 2019-20, but at different rates depending on the type of plan and the particular attributes of the members. Finally, CalPERS Board voted on February 14, 2018 to reduce the amortization period from 30 years to 20 years for unfunded liabilities related to investment gains and losses. This change will begin to impact the City's budget in FY 2021-22. A provision for al the pension changes has been included in the forecast for future years, but are rough estimates at best, as the multiple changes to multiple plans are difficult to quantify. Actual pension costs for FY 2018-19 will be included in the budget presented to City Council in the next few months.

Staff continues to look for methods to address the growing pension liabilities in the City's various pension plans, and will bring ideas forward to City Council as those methods are identified.

Police Contract Services

Police contract costs are increased in the forecast for FY 2018-19 based on initial estimates from the Orange County Sheriff's Department (OCSD). For FY 2018-19, OCSD projects an increase of about 4.66%, with positions and service level remaining at the FY 2017-18 level. The increase is largely tied to wage and benefit growth.

Increases of 4% annually are projected over the remaining four year period, although this is only an estimate as OCSD has not yet provided an updated long-term forecast model for those years. In addition, actual results and impacts from future labor negotiations can't be projected at this time and could result in increased costs above what the forecast projects. Police positions remain at the FY 2017-18 level for the term of the forecast.

Fire Contract Services

Fire Services costs are projected in the forecast to increase by 4.5% over the prior year, the highest increase allowed by the City's contract with the Orange County Fire Authority (OCFA). The 20 year fire services contract with OCFA allows for a cap of 4.5% per year to the base service charge, as well as annual contributions to station maintenance and fleet replacement reserves. OCFA's actual contract increase for FY 2018-19 will be determined over the next several months, through the budget process, but is expected to be at the 4.5% cap.

The addition of a 4th firefighter on full rotation for the City of San Clemente was implemented by OCFA at the beginning of FY 2017-18. The addition is being filled through overtime initially, with the first two years of costs (FY 2017-18 and 2018-19) fully paid by OCFA. The City begins to pick up a share of these costs in the third year, FY 2019-20, with full cost pick-up by the City by the eighth year, FY 2024-25. The City's phased-in share of these costs has been included in the forecast, based on initial projections by OCFA.

Ambulance Contract Services

The City's five-year contract with Care Ambulance Services provides for a fixed annual cost for ambulance transport services through June 30, 2022 for two full-time ambulances. Projections for the five-year forecast assume continuation of the two full-time ambulance model currently in place.

Forecast Summary

Over the five year forecast period, the City's operating revenues are anticipated to grow by an annual average increase of 2.8% a year. Property taxes are projected to increase by an average of 4.0% over the five year forecast period. Sales taxes are projected to increase over the forecast period by an average of 2.1%.

Operating expenditures are projected to increase at an average rate of 3.8% per year over the forecast period mainly due to anticipated police and fire services contract cost increases, the addition of a fourth firefighter on full rotation, personnel salary and related benefit increases, pension cost increases, and ongoing facility maintenance. No projections have been included for any one-time costs, including proposed capital, information technology, or one-time major maintenance projects.

The five year financial forecast indicates a positive operating position in the first two years, followed by a projected negative operating position in the final three 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.

Conclusion

The 2018 LTFP Financial Forecast shows deficits beginning in FY 2020-21. 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.

Reserve Analysis

Objective

To analyze and recommend appropriate levels of reserves to (a) ensure that reserves are adequate to provide for the needs of each fund's 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.

Background

Sound accounting and budgeting practices require each fund maintain a positive fund balance and an appropriate level of reserve. The City's reserves are dictated by the City's fiscal policy and the annual LTFP review process. The City's Fiscal Policy defines the types and criteria for funding levels for each of the City's reserves based on industry practice, Government Finance Officers Association (GFOA) best practices, and other external consideration.

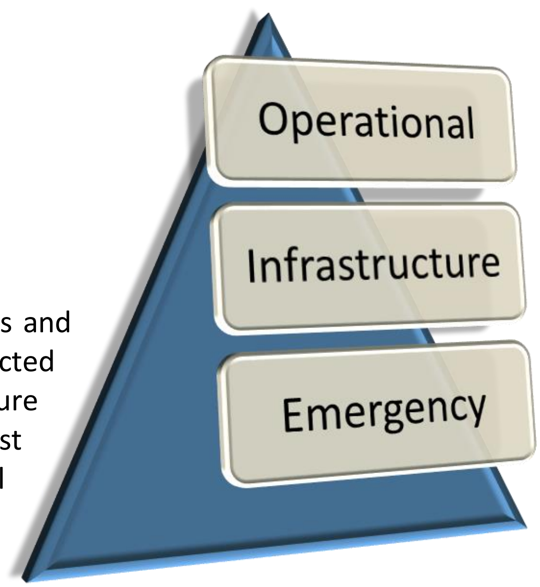
The General Fund, the primary governmental fund of the City, maintains the Emergency Reserve and a Sustainability Reserve to protect essential service programs during periods of economic downturn. An Accrued Leave Reserve exists for the payment of vested leave. The Park Asset, Capital Equipment Replacement, and Facilities Maintenance Capital Asset Reserves comprise amounts for asset maintenance in the Reserve Capital Projects Fund. These reserves are supported by charges and 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 excessive fund balances beyond the reserves required and to pay for 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

This year staff has analyzed the reserves and categorized the reserves into three basic categories. The three basic categories are:

- Operational Reserves
    - ❖ Insurance Reserves
    - ❖ Miscellaneous Reserves
- Capital/Infrastructure Reserves
    - ❖ Depreciation and Replacement Reserves
- Emergency Reserves



The emergency reserves are the foundation of City finances and make sure operations and other capital projects are not affected by unforeseen events. Capital/Infrastructure reserves ensure that facilities are properly maintained to provide the best service delivery and facilities to the citizens. Operational reserves allow for the smoothing of costs so city operations are not effected by a significant cost or loss.

The City, as part of its annual assessment, reviews reserve amounts, future reserve needs, established fiscal policy, best practices (including GFOA), and other financial factors. The reserves presentation includes the following aspects for each reserve:

- Purpose – provides information on the general use and purpose of the reserve
- Funding – discussion on whether the fund receives amounts through charges, contributions, or transfers
- Fiscal Policy – this is the City Council adopted fiscal policy currently in place
- Discussion/Analysis and Assessment – provides a general discussion on funds required amounts available, and a history of the reserve and related funding
- Recommendation – this is staff's recommendation based on an analysis of the reserve, its funding, and future requirements.

As part of this year's assessment, staff's recommendations strengthen City reserves providing a strong financial foundation for the future. Summary of the review/analysis of the reserves is below by area: *Emergency Reserves, Capital/Infrastructure Reserves, and Operational Reserves*.

Emergency Reserves for the General Fund in FY 2017-18 reflect the General Fund Emergency Reserve funding level which is 20% of operating expenditures. No changes are recommended to the funding level in FY 2018-19. Enterprise Emergency Reserves have no recommendations in the current year but are following through on previous Long Term Financial Plan comments. Golf Fund Emergency Reserves are not fully funded, however they should be funded through Golf Course land sale proceeds and a delay on the loan repayments to the Golf Capital Reserve Fund. Water and Sewer Emergency reserves are partially funded in FY 2018-19. The City has implemented a new rate structure in the Water Fund and will be reviewing the rate structure of the Sewer Fund. These new rate structures should improve operating levels into the future.

Capital/Infrastructure Reserves provide funds for replacement of capital assets. The City has multiple reserves properly funded, but several lack proper funding. The shorter term assets, such as equipment and vehicles, are properly funded as can be seen from the Fleet and Capital Equipment Reserves. The City is working to fund the replacement of long-term capital assets, such as City facilities, park assets, water, sewer, and storm drain capital assets. These assets have longer lives and are substantially more in cost. This funding will not be fixed in one year.

Funding future asset replacement costs which the City made a commitment to replace and renovate will be done over time. Capital/Infrastructure reserves must be built in order to mitigate the future funding impacts as the City considers City Hall, the Marine Safety Building, and other buildings. Lucity has started the process to make sure the assets are properly maintained, but reserve funds must be set aside for their replacement. To fund capital reserves, , a current year transfer is recommended and additional funding sources for capital projects will be considered, such as when the City utilized grant funding to complete a playground replacement rather than utilizing reserve funds. Implementing a new rate structure in the Water Fund and the Sewer Fund should improve total funding in the long-term.

Operational Reserves are improving. The State Revolving Loan Reserve is funded in accordance with fiscal policy and the State loan agreement. The Accrued Leave Reserve, due to MOU changes, is recommended to receive an additional one-time contribution of $120,000. Liability reserves have been restored and the CJPIA retrospective has been paid and the City continued to receive amounts under the Bellota settlement agreement in FY 2017-18 as the final land sales occured. These reserves will deal with claims or issues that may arise in the future. These reserves, if funded properly, reduce short term impacts on City operations.

This analysis aims to improve Emergency Reserves, address capital assets, and strengthen the operating position of the City. Further information as to the balances and the funding status is addressed on each individual Reserve analysis sheet.

Reserve Analysis Summary:

Reserves by category, funding source, estimated balances, and status as of June 30, 2018 follows:

Reserves	Fund	Estimated Reserve Balances at June 30, 2018	FY 2018 Status
Emergency Reserves:			
General Fund Emergency Reserve	General Fund	$ 12,102,000	Properly Funded
Water Operating	Water Fund	$ 800,000	*Partially Funded* [3]
Sewer Operating	Sewer Fund	$ 620,000	*Partially Funded* [3]
Golf Course Operating	Golf Course Fund	$ -0-	*Not Funded* [1]
Storm Drain Operating	Storm Drain Fund	$ 202,000	Properly Funded
Solid Waste	Solid Waste Fund	$ 30,000	Properly Funded
Capital/Infrastructure Reserves:			
Fleet Replacement	All Funds	$ 4,650,000	Properly Funded
Capital Equipment Replacement	General Fund	$ 1,320,000	Properly Funded
Facilities Maintenance	General Fund	$ 5,130,000	*Partially Funded* [2]
Park Asset Replacement	General Fund	$ 1,345,000	Properly Funded
Water Fund Depreciation	Water Fund	$ 6,025,000	*Partially Funded* [3]
Sewer Fund Depreciation	Sewer Fund	$ 5,750,000	*Partially Funded* [3]
Storm Drain Fund Depreciation	Storm Drain Fund	$ 1,410,000	*Partially Funded* [3]
Golf Course Fund Depreciation	Golf Course Fund	$ 1,256,000	Properly Funded
Golf Capital Improvement Reserve	Golf Course Fund	$ 840,000	Properly Funded
Operational Reserves:			
Accrued Leave	General Fund	$ 826,000	*Partially Funded* [2]
State Revolving Loan Reserve	Water Fund	$ 900,600	Properly Funded
General Liability Self-Insurance	All Funds	$ 3,500,000	Properly Funded
Workers' Compensation Insurance	All Funds	$ 872,000	*Partially Funded* [3]

[1] This reserve amount is not funded, the Golf operating fund is currently a deficit. Steps are being taken to achieve full funding of this reserve.

[2] These reserves are below the funding required at June 30, 2018, one-time transfers are recommended to fund the reserves at the required level.

[3] These reserves are below the funding required at June 30, 2018. Actions, such as funding increases or transfers, to narrow the funding gap are recommended to improve the funding level to achieve future compliance.

A summary of the recommendations for FY 2018-19 by reserve category follow:

Emergency Reserves – No changes are recommended.

Capital/Infrastructure Reserves

- Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Capital Equipment Reserve, the Facilities Maintenance Reserve, and the Park Asset Reserve after Lucity's implementation.
- Transfer an annual amount of $380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2018-19.
- Transfer an amount between $1.0 to $2.5 million in FY 2018-19 to the Facilities Maintenance Reserve from the General Fund's unassigned fund balance.
- Transfer $280,000 from the General Fund to the Park Asset Reserve for FY 2018-19.

Operational Reserves

- Transfer an amount of $120,000 from the General Fund to the Accrued Leave Reserve for FY 2018-19.

General Fund Emergency Reserve

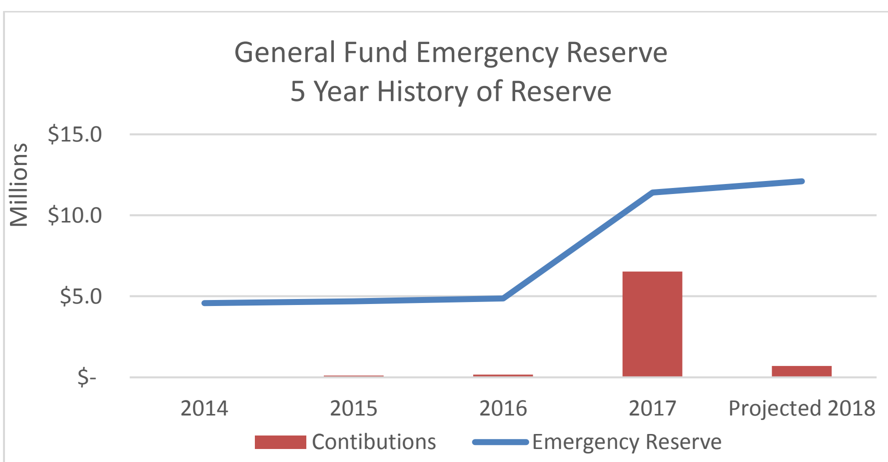
Emergency Reserve Category

Purpose: The City emergency reserves are to fund unanticipated costs from unforeseen disasters (fire, flood, earthquake, landslides or other disasters), to provide stability during a significant economic downturn where operating revenues decrease more than 10% and expenditure reductions cannot be achieved, or to offset a one-time loss of a state subvention.

Funding: The General Fund Emergency Reserve is funded through one-time transfers of unassigned fund balance. When this reserve is used, the Finance division will develop a plan as part of the Long Term Financial Plan to replenish the emergency reserve. This replenishment will be done through budgetary action and allocations of one-time resources.

Fiscal Policy: "Maintain an emergency reserve equal to 20% of operating expenditures of the General Fund. The primary purpose of this reserve is to provide stability during a significant economic downturn, or to offset a significant one-time loss of revenue. The reserve exists in order to provide short-term funds to protect the City's essential service programs and funding requirements or to provide unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget."

Discussion/Analysis and Assessment: The Emergency Reserve provides resources to allow the City to continue operations in the occurrence of any serious conditions. In FY 2016-17, the Emergency Reserve and Sustainability Reserve were combined and the Emergency Reserve funding level was modified from 9% to 20%. The General Fund emergency reserve is a minimum of 20% of operating expenditures. This funding level is based on GFOA best practices which recommends emergency reserves equivalent to *at least* two month's operating expenditures, or 17%. Funding the reserve at 20% provides for cost fluctuations during a particular month and conservatively exceeds the GFOA minimum recommendation (17%). In FY 2018-19, the reserve will increase to $12.6 million based on the forecast.



Recommendation: No changes recommended.

Enterprise Emergency Reserve

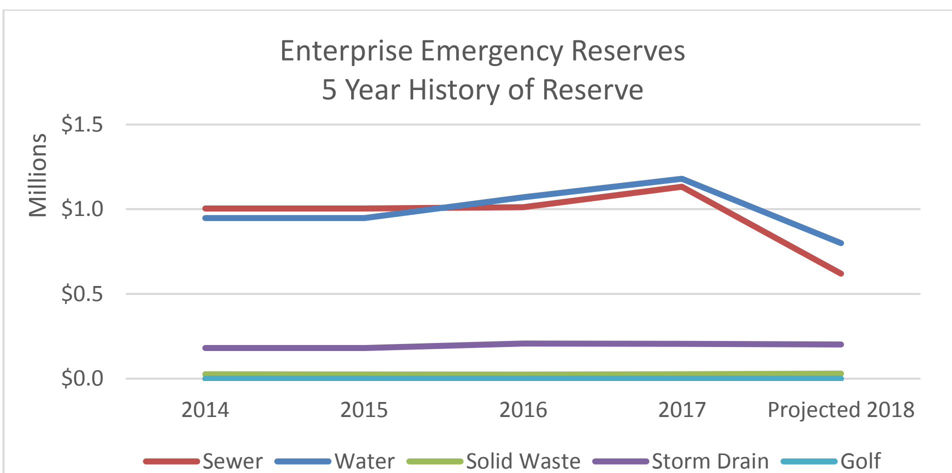
Emergency Reserve Category

Purpose: The City's enterprise fund emergency reserves are to fund unanticipated costs from unforeseen disasters and to provide a financial buffer to prevent a need to dramatically change rates based on these unforeseen disasters.

Funding: The Enterprise Emergency Reserves are funded through one-time transfers of unassigned equity. After use of this reserve the Finance division will develop a plan, through the Long Term Financial Plan, to replenish the emergency reserve through rate changes or through cost savings over a set timeframe.

Fiscal Policy: "The City's Enterprise Funds will maintain at 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."

Discussion/Analysis and Assessment: Enterprise operating fund emergency reserves are funded at 12% of operating costs based on GFOA's best practices. Operating costs exclude capital, transfers, debt, and purchased water costs. The Storm Drain and Solid Waste Funds 12% emergency reserve is fully funded. The Water and Sewer emergency reserves are partially funded. The Water Fund has implemented a new rate structure and the Sewer Fund will be reviewing its rate structure. The Golf emergency reserve is not funded so proceeds from the Golf Fund land sale will be used to improve the operating position, and the principal loan repayment to Golf capital reserves will be delayed until funding of the operating reserve is achieved.



The chart above summarizes reserve requirements for each Enterprise Fund emergency reserve to maintain the 12% of operating costs. Emergency reserve level's are as follows:

	Requirement at June 30, 2017	Requirement at June 30, 2018	Projected funding at June 30, 2018
Water Fund	$ 1,180,000	$ 1,200,000	Partial ($800,000)
Sewer Fund	1,133,000	1,205,000	Partial ($620,000)
Golf Course Fund	-	264,000	Not funded
Storm Drain Fund	205,000	202,000	Full ($202,000)
Solid Waste Fund	27,000	30,000	Full ($30,000)

Recommendation: No changes recommended.

Fleet Replacement Reserve

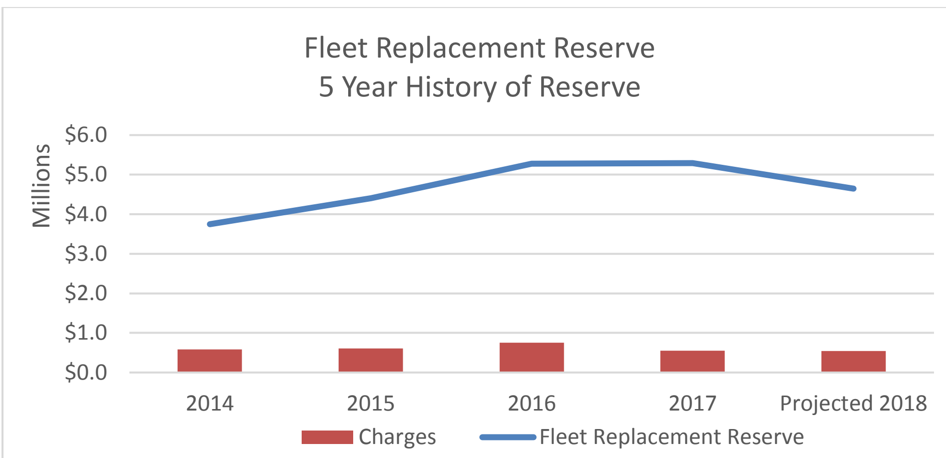
Capital/Infrastructure Reserve Category

Purpose: 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

Funding: The Fleet Replacement Reserve is funded through annual replacement charges to funds which have fleet vehicles and equipment.

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.

Discussion/Analysis and Assessment: The reserve is reviewed annually to verify funding is adequate to cover projected replacement costs for the next five years. Currently, the City's fleet is valued at $7.5 million. The estimated schedule for replacements are $2.8 million during the next five years and $4.7 million for vehicles to be replace after six years. This reserve is fully funded with a projected balance of $4.6 million at June 30, 2018.



Recommendation: No changes recommended.

Capital Equipment Replacement Reserve

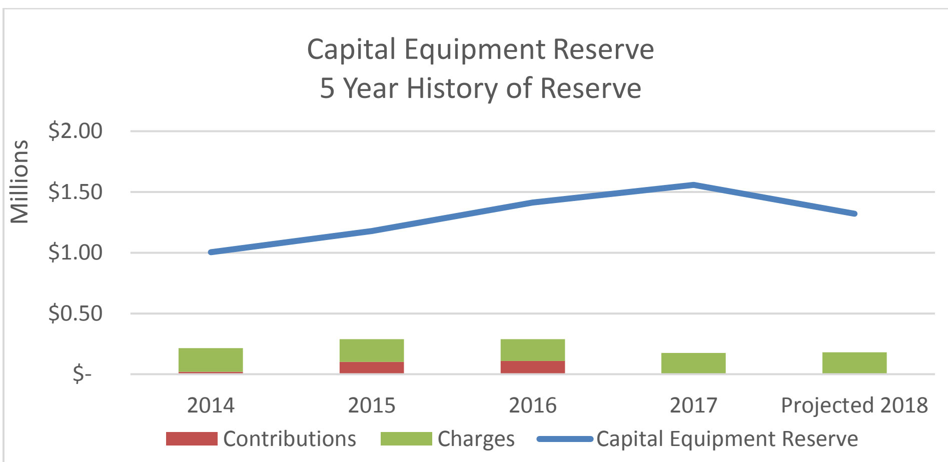
Capital/Infrastructure Reserve Category

Purpose: The City sets aside funds for the replacement of existing General Fund fixed assets as equipment or machinery becomes unserviceable or obsolete.

Funding: The Capital Equipment Replacement Reserve is funded by capital replacement charges to the City General Fund. These replacement costs are charged over the estimated service life of the asset to the General Fund program which benefits. Funds are also transferred on a one-time contribution basis based on the estimated future activity identified.

Fiscal Policy: Maintain a Capital Equipment Replacement Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement costs.

Discussion/Analysis and Assessment: As General Fund capital equipment is replaced, the capital costs are paid from this reserve. 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, 2018 is $1.3 million and the anticipated five-year costs is fully funded.



Recommendation: Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Capital Equipment Reserve after the Lucity implementation.

Facilities Maintenance Reserve

Capital/Infrastructure Reserve Category

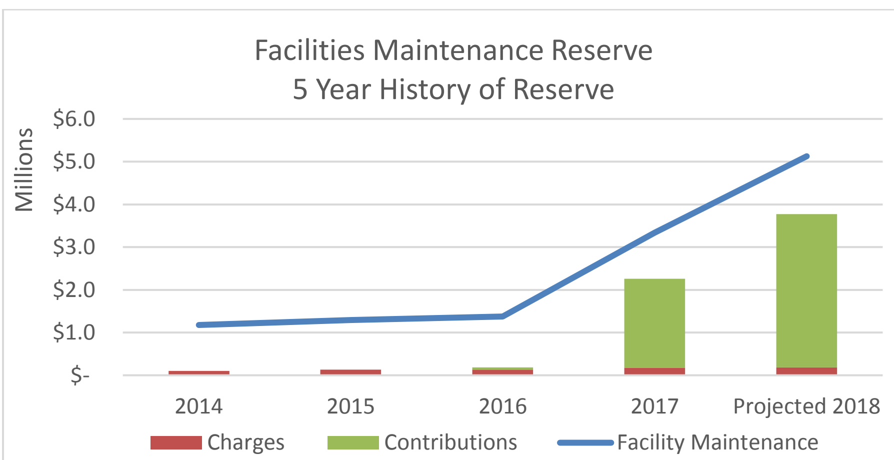
Purpose: The City established this reserve to provide funds for the maintenance of City facilities.

Funding: The Facilities Maintenance Reserve is funded by facility charges to the General Fund based on past facilities replaced, repaired or rehabilitated. These costs are charged over the estimated service life of the asset to the General Fund program which benefits. Funds are also transferred on a one-time basis based on the Capital Improvement Program activity anticipated.

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.

Discussion/Analysis and Assessment: General Fund facilities are replaced though capital expenditures made from this fund. The City's capital activity in the near future includes long term projects - City Hall, Marine Safety building, Maintenance building, and other buildings and facilities. The projected fund balance at June 30, 2018 of $5.1 million is insufficient to fund these projects. Staff is recommending a General Fund transfer of an amount between $1.0 to $2.5 million in FY 2018-19 to provide funds for these long-term projects. This follows last year's transfer of $2.5 million to this Fund for the same purpose. This funding can be provided from the unassigned fund balance of the General Fund or from future sale proceeds from the La Pata/Vista Hermosa land.

The General fund will also contribute a recurring annual amount of $380,000 with $200,000 for pier related projects and $180,000 for basic costs which exclude the larger projects. Staff, after the implementation of Lucity, will analyze capital asset categories and identify assets funded for replacement in this reserve.



Recommendations: 1) Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Facilities Maintenance Reserve after the Lucity implementation. 2) Transfer an annual amount of $380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2018-19. 3) Transfer an amount between $1.0-$2.5 million in FY 2018-19 to the Facilities Maintenance Reserve from the General Fund's unassigned fund balance.

Park Asset Reserve

Capital/Infrastructure Reserve Category

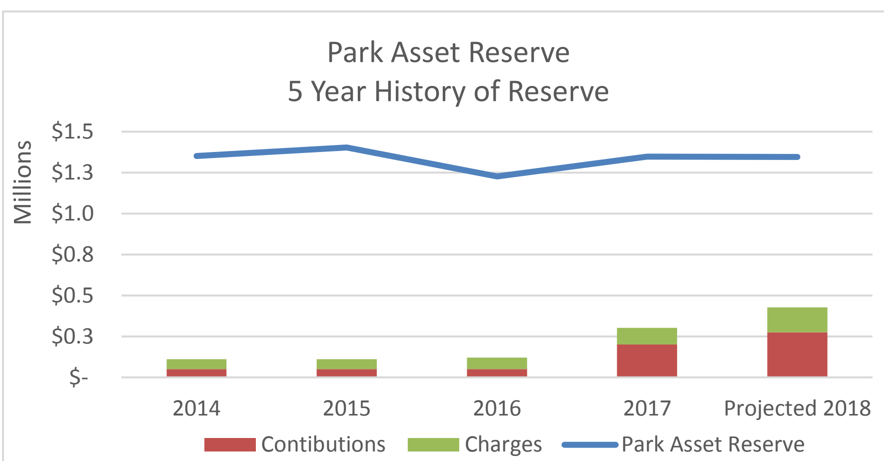
Purpose: The Park Asset Reserve is used for replacement of park capital assets valued over $50,000 within city parks. This reserve is funding playground equipment replacements and setting aside funds for artificial turf replacement at the Vista Hermosa Sports Park.

Funding: In FY 2009-10, the City started funding this reserve through one-time transfers and reached the $1.2 million minimum reserve level in FY 2011-12. The City provides funding through contributions and charges to the General Fund, which are reviewed annually as part of the LTFP.

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 unassigned General Fund balance transfers, when available.

Discussion/Analysis and Assessment: The City currently pays for most park asset replacements on a “pay as you go” basis. Park assets total more than $65 million. Significant annual contributions would be required to set aside funds for all park system assets. The City, realizing the need for maintaining high use park assets, identified artificial turf replacement and playground equipment for funding.

Currently, the projected balance at June 30, 2018 is $1.35 million. However, the City has implemented a playground replacement schedule to utilize the reserve. As replacement projects are completed, replacement charges to the benefiting program replenish the Park Asset Reserve based on an estimated asset life. These charges during FY 2018-19 will be $153,000. Upgraded playground equipment as part of the annual program increased costs into the future, so an additional General Fund transfer of $280,000 will be done in FY 2018-19. Also, after the Lucity implementation, staff will seek to provide further funds and identify if additional assets (such as lights, restrooms, fields, courts, etc.) should and can be funded through the Park Asset Reserve.



Recommendation: Transfer $280,000 from the General Fund to the Park Asset Reserve for FY 2018-19. Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Park Asset Reserve after the implementation of Lucity.

Water Fund Depreciation Reserve

Capital/Infrastructure Reserve Category

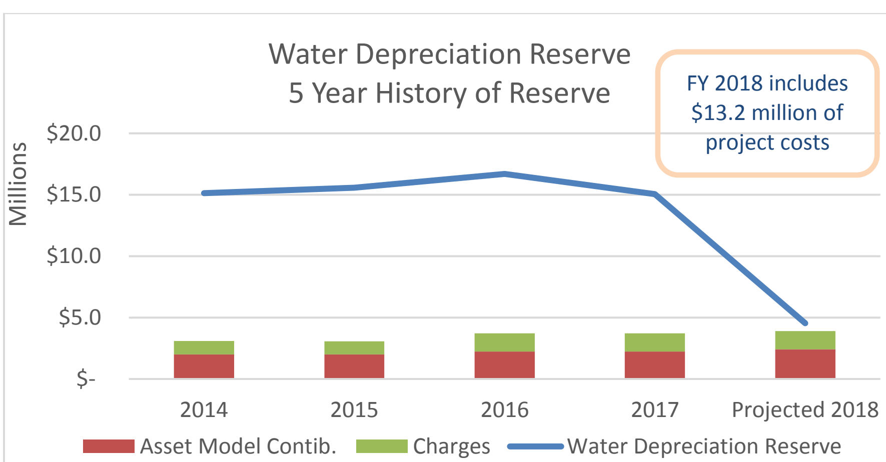
Purpose: The Water Depreciation reserve sets aside replacement funds for water capital assets and equipment that reach the end of their useful life and for major repairs to the water system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained by Joint Regional Water Supply System and Santa Margarita Water District.

Funding: The Water Depreciation Reserve is funded through depreciation charges based on the useful life of the assets and additional transfers from the operating fund based on an Asset Model amount. Additional one-time contributions are considered from available operating equity.

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.

Discussion/Analysis and Assessment: Water infrastructure reserves have been underfunded for a long period of time. Council has taken action to increase contributions based on an Asset Model to narrow this significant funding gap. The projected ending depreciation reserve balance at June 30, 2018 is $6.0 million if all projects are completed. The three-year capital costs total $11.3 million. Therefore, the Depreciation Reserves are underfunded by $5.3 million. The City has not made significant progress toward funding three years of capital project activity based on depreciation contributions, asset model contributions, and the interest earned on funds held. It is anticipated, with the recent changes to the water rates, that this funding level should improve in the future.

The Water Operating Fund contributed depreciation amounts of $1.5 million based on the estimated useful life of the water capital assets. Asset model contributions of $2.4 million address past underfunding, major maintenance costs and joint agency assets. The underfunding of this reserve has fluctuated and the underfunding level has not improved. Funding of the contributions should be maintained and if significant one-time resources are received staff will consider additional contributions to the depreciation reserves.



Recommendation: No changes recommended.

Sewer Depreciation Reserve

Capital/Infrastructure Reserve Category

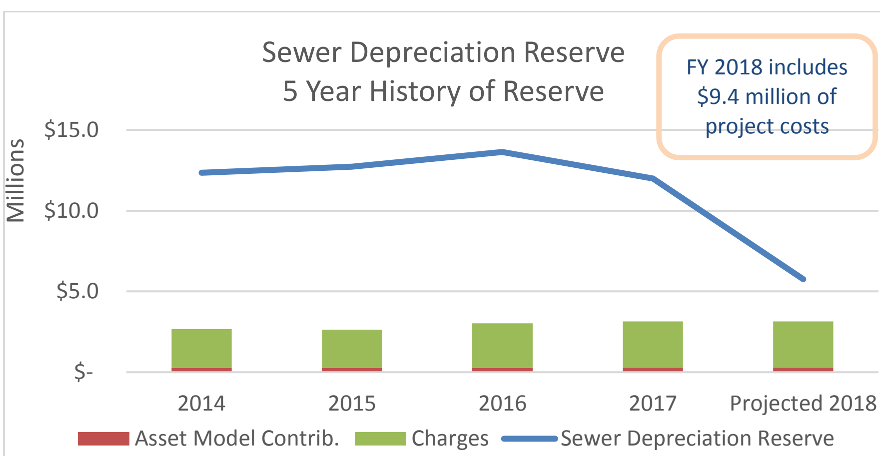
Purpose: The Sewer Depreciation reserve set aside replacement funds for sewer capital assets and equipment that reach the end of their useful life and for major repairs to the sewer system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained by the South Orange County Wastewater Authority.

Funding: The Sewer Depreciation Reserve is funded through depreciation charges based on the useful life of the assets and additional transfers from the operating fund based on an Asset Model amount. Additional one-time contributions are considered from available operating equity.

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.

Discussion/Analysis and Assessment: Sewer infrastructure reserves have been underfunded for a long period of time. Council has taken action to increase contributions based on an Asset Model to narrow this funding gap. The projected ending depreciation reserve balance at June 30, 2018 is $5.8 million if all projects are completed. The three-year capital costs total $11.3 million. Therefore, the Depreciation Reserve is $5.5 million under funded. It is anticipated, with the upcoming review of sewer rates, that this funding level should improve in the future.

The Sewer Operating Fund contributes $2.8 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 reserves underfunding level has improved over time. Funding of the contributions should be maintained and if significant one-time resources are received staff will consider additional contributions to the depreciation reserves.



Recommendation: No changes recommended.

Storm Drain Depreciation Reserve

Capital/Infrastructure Reserve Category

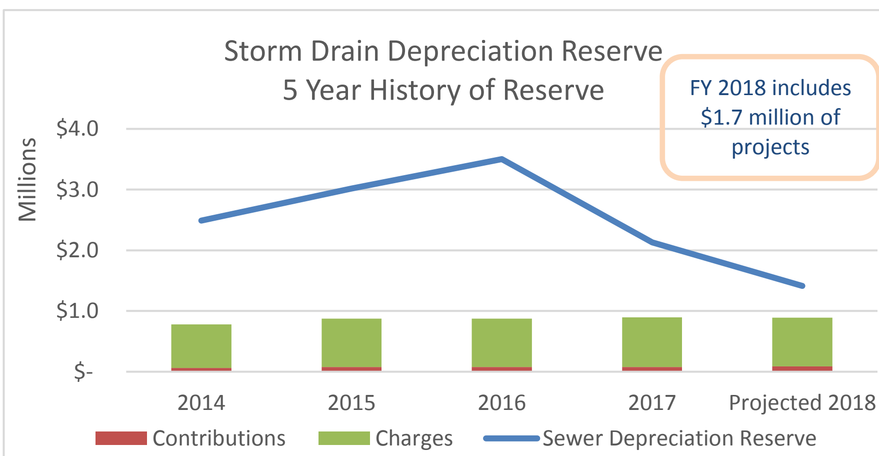
Purpose: The Storm Drain Depreciation reserves set aside replacement funds for storm drain capital assets and equipment that reach the end of their useful life and for major repairs to the storm drain system infrastructure.

Funding: The Storm Drain Depreciation Reserve is funded through depreciation charges based on the useful life of the assets and additional transfers from the operating fund. Additional one-time contributions are considered from available operating equity.

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.

Discussion/Analysis and Assessment: The projected ending balance at June 30, 2018 is $1.4 million and the three-year capital costs total $2.5 million. Therefore, the Depreciation Reserve is underfunded by $1.1 million.

The Storm Drain Depreciation Fund contributes $820,000 based on depreciation funding and an additional reserve contribution of $90,000 for a total contribution of $910,000 in FY 2018-19. 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: No changes recommended.

Golf Depreciation Reserve

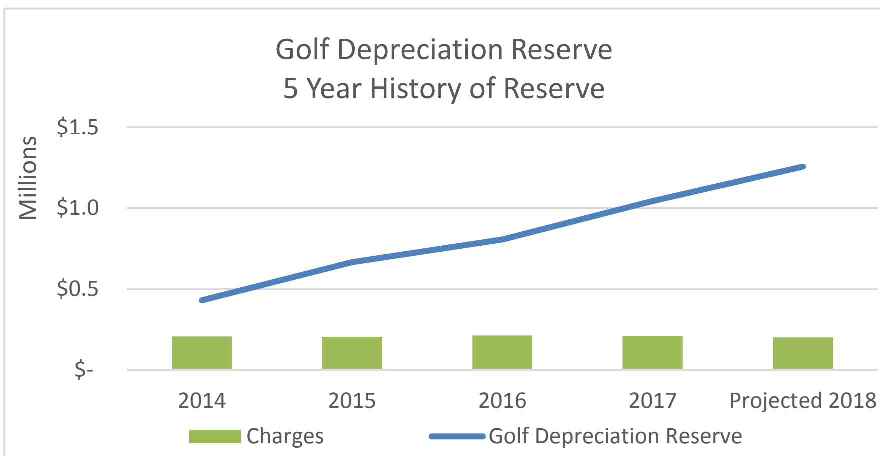
Capital/Infrastructure Reserve Category

Purpose: The Golf Depreciation reserve sets aside replacement funds for equipment, machinery, and buildings that reach the end of their useful lives. The Golf Depreciation Reserve is utilized for buildings, machinery, and equipment replacements, which can have lives between 5-50 years.

Funding: The Golf Depreciation Reserve is funded through depreciation charges based on the useful life of the assets and from contributions made under the lease arrangement with Wedgewood, the restaurant concessionaire.

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.

Discussion/Analysis and Assessment: The available ending balance projected at June 30, 2018 is $1.3 million. This amount does not include the receivable from an internal loan ($1,250,000) to Golf Operating, which is not considered available. Projected capital expenses for the next three years total $272,000. Therefore, the Depreciation Reserve is currently funded. Annual amounts placed into this reserve are based on the depreciation of the assets that will be replaced.



Recommendation: No changes recommended.

Golf Improvement Reserve

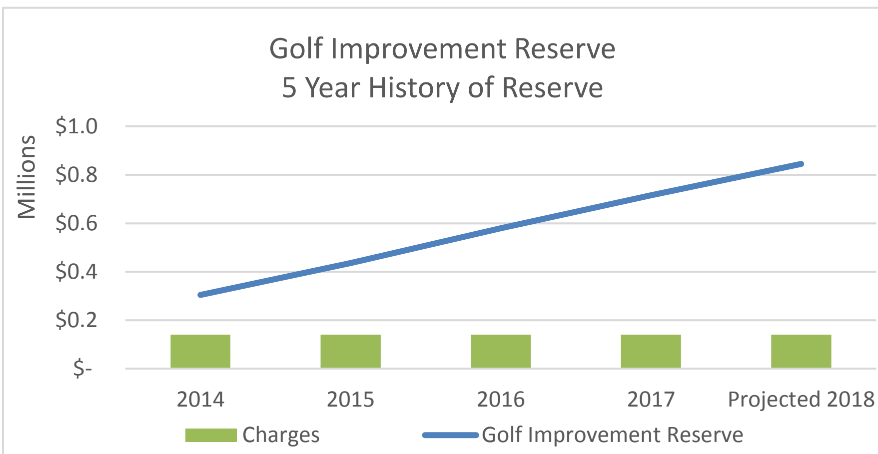
Capital/Infrastructure Reserve Category

Purpose: 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.

Funding: The Golf Improvement Reserve is funded through depreciation charges based on the useful life of the assets.

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.

Discussion/Analysis and Assessment: The Golf Capital Improvement Reserve at June 30, 2018 is projected to have an ending balance of $840,000. This amount does not include the receivable from an internal loan ($500,000) to Golf Operating, which is not considered available. Projected expenses for the next three years total $367,000. Therefore, the Improvement Reserve is currently funded. Annual amounts placed into this reserve are based on the depreciation of the golf improvements.



Recommendation: No changes recommended.

Accrued Leave Reserve

Miscellaneous Reserve Category

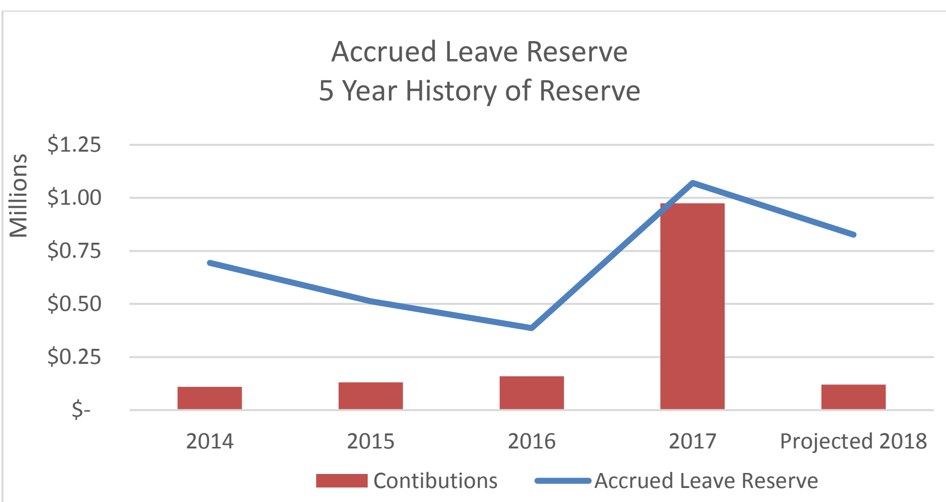
Purpose: The City reserves amounts for the payment of vacation and sick payoffs for General Fund eligible employees. Amounts are set aside in a separate reserve for this purpose. An annual amount is budgeted from this reserve to payoff General Fund employee's vacation and sick leave balances for employees eligible to retire based on the personnel policies of the City. These payments are due upon separating from the City.

Funding: The Accrued Leave Reserve is funded through transfers of unassigned General Fund balance. The reserve contribution is determined annually based on the reserve balance, funding requirements, and leave balances.

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.

Discussion/Analysis and Assessment: When a General Fund employee leaves employment, their accrued leave is paid from this reserve. The reserve requirement (accrued leave dollar value) fluctuates annually based upon the eligible employees, length of service, pay rates and hours accrued. At June 30, 2017, the total General Fund accrued leave liability was $1.1 million, with $1.1 million funded to provide funds for retirement eligible employees. In FY 2016-17, Council authorized the funding of the entire liability rather than just retirement age employees. Due to the MOU implementation as well as the future anticipated increases past FY 2017-18, a transfer of $120,000 to fully fund this liability is recommended. The projected ending balance for the Accrued Leave Reserve as of June 30, 2018 is $826,000 and the projected ending liability is $916,000.

The Accrued Leave Reserve is projected to be fully funded at June 30, 2018. General Fund unassigned fund balance contributions may be required in future years if the effect of salary/pay increases exceed returns on funds held in the Reserve or there are changes in City benefits.



Recommendation: A transfer of $120,000 to maintain full funding is recommended.

State Revolving Loan Reserve

Miscellaneous Reserve Category

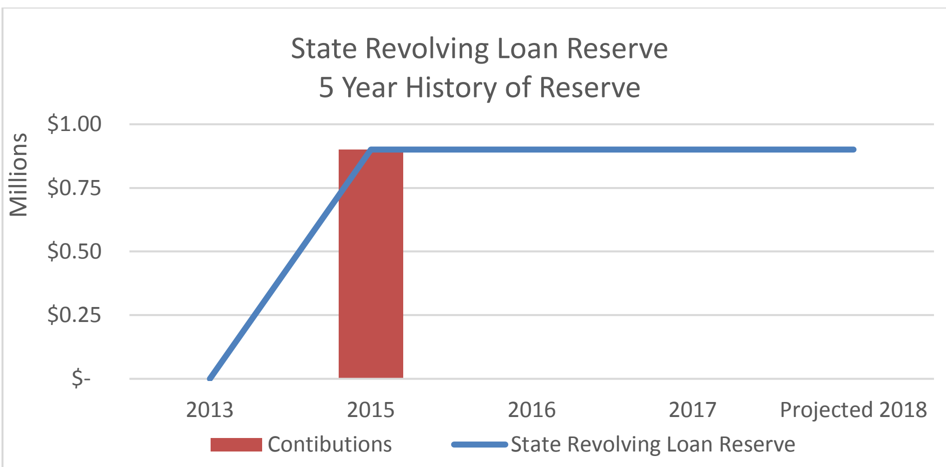
Purpose: The City of San Clemente entered into a loan agreement with the California State Water Resources Control Board under the Clean Water State Revolving Fund (CWSRF) loan program for financing construction of the Recycled Water System Expansion Project. As required under the State Revolving Loan, one year's annual debt service payment is to be maintained in a reserve.

Funding: The reserve was funded through a one-time contribution from the Operating Fund in the amount of $900,600. This is equal to one year's debt service.

Fiscal Policy: The City will establish a restricted reserve in the Water Operating Fund equal to one year's debt service on the State Revolving Loan. The purpose of this reserve will be to provide a debt reserve as required under the State Revolving Loan financing agreement.

Discussion/Analysis and Assessment: The City loan amount outstanding as of June 30, 2018 is projected to be $12.7 million. This loan is being amortized over a period of 20 years and the loan is anticipated to be paid in full in FY 2034-35.

The repayment of this loan is secured by the net revenues of the Water Fund with a revenue coverage level of 110% of the annual debt service. There is no change in the reserve level.



Recommendation: No recommendation.

General Liability Reserve

Miscellaneous Reserve Category

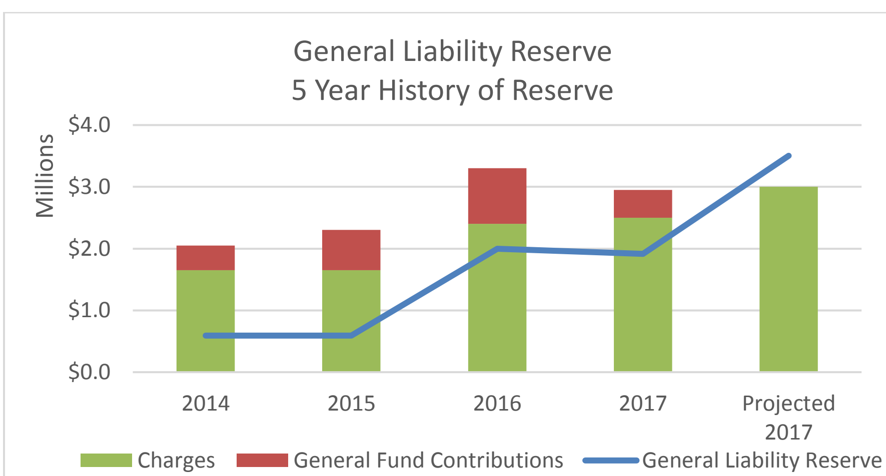
Purpose: The City is a member of California Joint Powers Insurance Authority (CJPIA). CJPIA administers programs for the pooling of self-insured losses, and the purchase of excess insurance or reinsurance. Losses excluded from the CJPIA coverage include 1) breach of contract, 2) land use entitlement, 3) eminent domain, 4) hazardous materials release, and 5) punitive damages. This reserve fund provides stabilization of the other fund charges and for losses not covered.

Funding: The General Liability Reserve is funded through charges to other funds. Charges are based on two key factors: 1) Five-year average of historical claims for risk by 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.

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.

Discussion/Analysis and Assessment: The reserve requirement is at least one times the annual risk financing premium (contribution) to absorb contribution fluctuations based on claims activity. The City's CJPIA premium for FY 2018-19 is $1.73 million, which would be the FY 2018-19 reserve requirement. The projected General Liability balance at June 30, 2018 is $3.5 million.

The City paid the retrospective liability in FY 2016-17 to CJPIA from proceeds of land sales under the Bellota settlement. The last land sale proceeds are estimated to be received by March of 2018. Excess proceeds will be retained in the General Liability Fund to pay legal costs and claims not covered through CJPIA coverage. The City is party to multiple lawsuits regarding land use decisions and the costs related to the administrative application of ordinances, resolutions or regulations. Upon the completion of these significant items, a transfer of funds back to the General Fund may be considered to reimburse funds transferred to pay for the Bellota settlement in previous years.



Recommendations: No changes recommended.

Workers Compensation Reserve

Miscellaneous Reserve Category

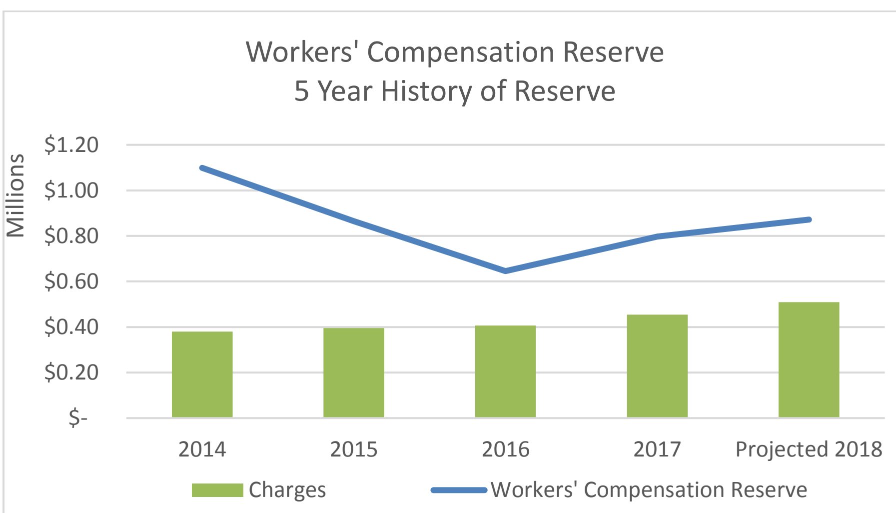
Purpose: The City is self-insured for Workers' Compensation coverage and purchases. The CSAC Excess Insurance Authority provides coverage for Workers' Compensation claims in excess of $300,000, which is the City's Self-Insurance Retention (SIR) amount.

Funding: The Workers Compensation Reserve is funded through internal service charges to all City funds based on payroll costs. These charges are based on employee classifications and the type of work performed (e.g. manual labor, non-manual and clerical, etc.). These internal charges are placed into the Workers' Compensation Fund to pay workers compensation claims and administrative costs.

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.

Discussion/Analysis and Assessment: The City's fiscal policy requires a reserve equal to $900,000 (three times the SIR). Staff modified the reporting of the reserve so claims reduce the asset amount to arrive at the reserve balance. At June 30, 2018, projected assets of $1.6 million are reduced by the claims payable of $0.7 million leaving a projected reserve balance at $872,000. The City is under the reserve level by $28,000, which is partially a delay in recoveries from excess insurance reimbursements.

Based on cash amounts available, current claims and anticipated recoveries, staff is recommending a 4% increase to future rates to fund the reserve costs. This will increase costs to funds by approximately $21,000. Rate increases will continue if costs and claims activity increase.



Recommendation: No changes recommended.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2018-19:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2018-19	Total Charge for General Liability FY 2017-18
General Fund	78.0%	65.9%	69.0%	$ 2,068,350	$ 2,041,760
Water Fund	2.5%	17.2%	13.5%	405,920	419,680
Sewer Fund	17.3%	7.6%	10.0%	300,740	314,320
Solid Waste Fund	0.0%	0.3%	0.2%	5,650	5,330
Storm Drain Fund	2.2%	0.9%	1.2%	36,320	41,850
Golf Course Fund	0.0%	1.9%	1.4%	42,160	41,880
Clean Ocean Fund	0.0%	2.3%	1.8%	53,420	50,980
Central Services Fund	0.0%	0.7%	0.5%	15,920	11,590
Information Services Fund	0.0%	2.2%	1.6%	48,360	47,460
Fleet Maintenance Fund	0.0%	1.0%	0.8%	23,160	25,150
Total	**100.0%**	**100.0%**	**100.0%**	**$3,000,000**	**$3,000,000**

Workers Compensation charges

The following rates are in effect for FY 2017-18:

8810	Clerical	$0.59/$100 of payroll
9410	Non-Manual	$1.70/$100 of payroll
9420	Manual Labor	$5.60/$100 of payroll

The proposed rates for FY 2018-19 are:

8810	Clerical	$0.61/$100 of payroll
9410	Non-Manual	$1.76/$100 of payroll
9420	Manual Labor	$5.80/$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
Risk Financing

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, 2017, presented within the Reserve Analysis Paper in this year's Long Term Financial Plan.

Based on this year's review, no changes are being proposed to the City's Fiscal Policies at this time.

Recommendation
None

Council Action:

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.	√	
10	General fund revenue categories (sales tax revenue by example) may not be committed directly to fund a specific expenditure line item or program.	√	

Fiscal Policy Statement	Status	Comments
Expenditure Policies	√	
11 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.		
12 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		
13 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. New uniform rate structure for Water rates implemented Jan 1, 2018. No changes in Sewer rates.
14 Utility rates will be established for each of the next five years and this rate projection will be updated annually.	√	
Capital Improvement Budget Policies		
15 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.	√	35 new Capital projects totaling $13.4 million were included in the FY 2017-18 CIP Budget
16 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
17	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			
18	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.	√	
19	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			
20	The City will confine long-term borrowing to capital improvements that cannot be funded from current revenues.	√	
21	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.	√	

	Fiscal Policy Statement	Status	Comments
22	The City will establish and maintain a Debt Policy.	√	
23	The City will establish a restricted reserve in the Water Operating Fund equal to one year's debt service on the State Revolving Loan. The purpose of this reserve will be to provide a debt reserve as required under the State Revolving Fund loan financing agreement.	√	State Revolving Loan Reserve = $900,600

Fund Balance and Reserve Policies

24	The City will maintain emergency reserves equal to 20% of operating expenditures of the General Fund. The primary purpose of this reserve is to provide stability during a significant economic downturn, or to offset a significant one-time loss of revenue. The reserve exists in order to provide short-term funding to protect the City's essential service programs and funding requirements or to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	√	Emergency Reserve = $12.1 million, or 20%, of General Fund operating expenditures
25	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 = $800,000; Sewer = $620,000; Storm Drain = $202,000; Solid Waste = $30,000; and Golf = not funded
26	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 = $826,000

	Fiscal Policy Statement	Status	Comments
27	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 = $1,320,000; Facilities Maintenance Reserve = $5,130,000
28	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 = $5.7 million; Golf Depreciation Reserve = $1,256,000; Water Depreciation Reserve = $6.0 million; and Storm Drain Depreciation Reserve = $1.4 million
29	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 = $840,000
30	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 = $1,345,000

	Fiscal Policy Statement	Status	Comments
31	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 = $3,500,000
32	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 = $872,000
33	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 = $4.65 million
Investment Policies			
34	The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
Accounting, Auditing & Financial Reporting Policies			
35	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.	√	

	Fiscal Policy Statement	Status	Comments
36	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.	√	
37	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
38	Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
39	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.	√	
40	Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
41	A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AAA
42	Establish and maintain a formal compensation plan for all employee salary or wage ranges and maintain a formal salary schedule for every approved position title showing the current pay rate for each identified position. The salary schedule will be approved and adopted by the City Council and will be made publicly available	√	
43	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			
44	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.	√	
45	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.	√	Reviewed during the budget process
Risk Financing Policies			
46	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.	√	
47	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.	√	

Legend:

√ Budget Complies with Fiscal Policy Standard
-- Fiscal Policy Standard is not met in Budget

Capital Projects Analysis

Objective
To provide a summary of significant projects and programs within the Public Works Department Capital Improvement Program. This analysis will review funding challenges facing the City in implementing capital projects in both the near and long-term.

Executive Summary
The City is becoming more focused on taking a proactive approach to address deferred maintenance of its assets and infrastructure. Over the past generation, the growth of the City has created thousands of new publicly owned assets which complement and improve the quality of life in San Clemente. During this period, most available funding was dedicated to the development of new capital projects, and minimal funding was provided for rehabilitation and replacement of existing assets. Continuing to defer maintenance is no longer sustainable since many of the City's assets have reached or are beyond their useful life. This theme is reflected in the projects reviewed in this paper. The Marine Safety Rehabilitation and City Hall Relocation exemplify how the progressive deferral of maintenance compounds funding needs to create larger financial obligations. In contrast, the practice of cyclical Pier Rehabilitation that the City has undertaken demonstrates that proactive methodical maintenance saves the City on long-term costs. As the City funds the work to catch up on high priority community assets, maintenance obligations on other smaller "out of sight, out of mind" amenities must be balanced to sustain all assets at an adequate level of service. With the implementation of the Computerized Maintenance Management System (CMMS), the Public Works Department is working to best manage the City's vast infrastructure with its limited resources. The insight gained in the next few years through optimization and use of the CMMS will assist in the baseline data required to develop an infrastructure policy in future years. This policy is envisioned to identify and to obligate funding amounts based on rehabilitation and replacement costs of all City asset classes to maintain City infrastructure at an adequate service level for the community.

Background
There are many current and future capital improvement project obligations that will need to be balanced in conjunction with the City's future financial resources. Maintaining a positive operating positon in the General Fund while balancing the needs of increasing costs for maintenance and replacement of assets is becoming more difficult, and is expected to continue as a long-term trend in future year budgets as more and more assets reach the end of their useful life and funding obligations increase.

Significant Projects
Major projects identified in the six-year capital outlay that will be funded from the General Fund are listed in the table below. A significant project is defined as a project that is estimated to cost a total of $1 million or more. The table provides a summary of these projects and the funding obligations associated with completing them.

General Fund Projects

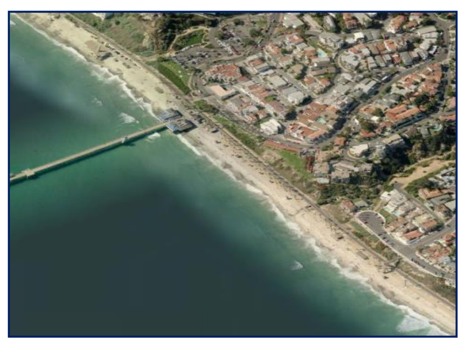
Activity Project Name	Funding Source	Estimated Project Cost	Required Funding
USACE Sand Project	General Fund	$12,300,000[1]	$700,000[2]
Marine Safety Rehabilitation	General Fund	$1,250,000	$250,000[3]
Municipal Pier Rehabilitation	General Fund	$2,250,000	$250,000[4]
910 Negocio Remodel - City Hall Relocation	General Fund	$3,000,000	$2,500,000[5]

[1]Project cost includes $1.1M for design and $11.3M for initial construction. City's cost share with Federal Government at 35% for design and initial construction with addition of CA grants. The City has contributed a total of $252,000 from the General Fund for the design phase of the project.
[2]The City has been approved for a construction grant from the California Department of Boating and Waterways which will fund 85% of the projects initial construction. Initial project construction is estimated at $4M ($600K city share) and projected in FY 2021. Project design phase 2018 increase by $100K.
[3]$1M is currently budgeted for in the Capital Improvement Program. Funding for the remaining required amount is recommended to be shared equally between the General Fund (50%) and the Public Safety Reserve (50%).
[4]$2M is currently budgeted in the Capital Improvement Program. Additional construction funding in the amount of $250,000 is needed for permit deferred ADA improvements.
[5] $500,000 is currently budgeted in the Capital Improvement Program. Funding is recommended to be shared equally between the General Fund (50%) and Civic Center Fund (50%).

A detailed review including project history, status and funding obligations of each project can be found below. Refer to the ***Appendix*** sections as referenced in selected issue papers for further background information.

U.S. Army Corps of Engineers Sand Project

Project Background:



The beach sand replenishment project approved by the Corps of Engineers for San Clemente involves placing 251,000 cubic yards of sand to widen the beach about 50 feet from Linda Lane to south T-Street, a distance of about 3,400 feet. The sand would come from an offshore borrow site near Oceanside and be transported by barge to San Clemente, where it would be pumped via a floating pipe for placement on the beach. It is estimated that the beach would need to be replenished every six years on average over a 50-year project life, although the City wouldn't be committed to the project for this entire timeframe and could opt to not pursue future sand replenishment cycles.

The project was authorized in the 2014 Water Resources Reform and Development Act (WRRDA) which makes it eligible for inclusion in a future Federal budget for construction funding. Before that can occur the design phase must be completed, which includes two years of pre-construction monitoring required by environmental approvals for the project. In August 2016 the City executed a design phase cost sharing agreement with the Corps, and subsequently provided the entire City share of the design phase cost to the Corps. The Corps is now proceeding with design phase work which will last into 2020. If the construction phase is approved in a future Federal budget and the City provides its required construction phase cost sharing contribution (see Expenditures below), sand placement could occur as soon as 2021.

Expenditures:
The August 2016 Design Phase cost sharing agreement contemplated a total design phase cost of $1,135,000, of which the City was required to provide 35% or $397,250. The City provided this amount to the Corps using a $281,000 grant from the California Division of Boating and Waterways (DBW) and $116,250 of City funds. The Corps has recently informed the City of an increase in design phase costs, which would require another $271,950 City contribution to continue the design phase work.

The current estimate for the construction phase (initial sand placement) is estimated at $11.3 million, with the City required to provide 35% of that cost (approximately $4 million). The City applied for and received approval of a $3.4 million grant from DBW (the maximum allowed) for the construction phase. With this grant and based on the current project construction estimate, the City would need to provide $600,000 in local matching funds. Currently the Corps estimates that a project could possibly happen as soon as 2021, therefore City local funds would be needed in FY 2020-21.

Potential Cash Flow Issues:
As noted above, to complete the design phase will require an additional cost-sharing contribution of $271,950 from the City. City staff has been coordinating with DBW staff, and it appears that DBW could transfer some of the approved construction phase grant funds for use in the design phase. With such a transfer, the City would only be required to provide about $100,000 in local funds to address the design phase cost increase. The current project budget does not have sufficient funds available, but the approved FY 2017-18 City budget includes $250,000 for a possible opportunistic sand project at North Beach. However, one of the permits is expiring and won't be renewed in time to conduct an opportunistic project this fiscal year, and there is no source of sand available. Given this, staff recommends that the City Council re-appropriate some of the budgeted North Beach funds for use on the Corps project. This transfer, combined with the small existing project budget, would fund the cost increase and allow the design phase to continue. The remaining North Beach funds then might be re-assigned to other needs since that project would not occur this fiscal year. Although the City Council could consider funds for another opportunistic sand replenishment project at North Beach in the proposed FY 2018-19 budget, staff suggests that the first priority should be ensuring that the Corps project design phase is completed so the project can move to the construction phase. Therefore, unless directed otherwise, it is staff's intention to not propose a North Beach sand replenishment project in the FY 2018-19 budget, but instead to include an appropriation of $100,000 for additional Corps design phase funds in case there are additional unanticipated costs.

Since the above approach would reduce State grant funds available for construction, staff submitted another grant application to DBW for additional construction phase funds to replace the transferred funds. The application requires a formal resolution to be adopted by the City Council, and the proposed resolution will be presented to the City Council at its March 20, 2018 meeting.

Opportunistic Sand Replenishment Project

Project Background:

In late 2016 the County of Orange dredged material from the lower Santa Ana River, and 12,000 cubic yards of beach quality sand from that project was placed on the City's beach at North Beach. Sometime during FY 2019 there may be another potential opportunistic project related to the County's plans to dredge a portion of San Diego Creek. Staff is continuing coordination with County on the status of the County's project, and also pursuing renewal of the Corps of Engineers permit for the opportunistic sand replenishment program.

Potential Cash Flow Issues:

At this time it is unknown if and when sand may be available, and whether or not the City would have to pay for the cost to transport the sand to the North Beach site. The total cost of the 2016 North Beach sand replenishment project was $610,000, or which about $426,000 was for sand transport and placement and $175,000 was for pre- and post-construction monitoring required by regulatory agency permits. Staff does not recommend budgeting funds for another sand replenishment project at North Beach at this time. That said, if the City is able to obtain sand and have it delivered to North Beach at no cost, then it could be worthwhile to fund the cost of required project monitoring activities. In this case staff seeks Council direction on whether to budget placeholder funds for monitoring of a possible project (approximately $175,000) or consider a supplemental appropriation if and when an opportunistic sand replenishment project actually materializes.

Marine Safety Building Rehabilitation

Project Background:

The City's Marine Safety Building is a one story building located on the beach just north of the San Clemente Pier that houses lifeguard services. The building was originally constructed in 1968 and is subject to severe marine exposure and direct wave splash during elevated surf. The rectangular building is approximately 5,500 square feet with a 30 feet tall clock tower above the building roof line. The structure was built with wood, has composite asphalt shingles, wood and stone veneer siding with a slab on grade and conventional spread footings and grade beams. There is an existing sheet pile wall between the building and the surf intended to protect the building from waves. However, in large surf conditions the sheet pile is overtopped by waves and some wave energy is dissipated directly by the suspended portion of the structure.

Due to the harsh marine environment and impact from waves throughout the years, the structure and sheet pile are in need of rehabilitation to extend the life of the structure for approximately another 10 years before additional rehabilitation or replacement may be needed. A rehabilitation of the building was constructed in 1986 that included the concrete pile caps and structural slabs on the south side. Another rehabilitation was designed in 2003 to repair the sheet pile and to make slope protection improvements under the building; however, construction was deferred due to the potential for sand replenishment. Unfortunately, the sand replenishment project has yet to be realized and the building systems have continued to experience further deterioration over the years. Based on the condition of the facility, the deferral of improvements is no longer viable to sustain ongoing lifeguard operations into future years. As a result, it is recommended to construct the structural improvements to protect the building from wave action and address deferred maintenance of critical building systems.

TranSystems was hired to evaluate the building condition and prepared a condition assessment report that was completed November 2016. The report recommended rehabilitation of the roof framing, wood deck, timber guardrails, catwalk, concrete repairs to the foundation and beams, slope protection, sheetpile replacement and building siding improvements. TranSystems is currently preparing construction bid documents and securing the required environmental permits prior to construction. The valuation of the work triggers the need to include accessibility improvements in compliance with the American Disability Act (ADA) and required by the CA Building Code. Project construction is anticipated in Fall 2018.

Expenditures:
Based on the engineering design plans, the Marine Safety Building Rehabilitation is estimated to cost a total of $1,250,000 including all hard and soft project costs. In FY 2015-16, $100,000 was budgeted from the Facility Maintenance Reserve for assessment of the structure and design of the rehabilitation. In FY 2017-18 construction funding in the amount of $900,000 was budgeted based on a preliminary cost estimate. Additional construction funding in the amount of $250,000 is needed to construct the improvements. It is recommended that construction funding be shared equally between the Public Facilities Construction Fee Fund (Public Safety Construction Reserve) and the Facility Maintenance Reserve Fund. Funding for the project will be proposed as part of the FY 2018-19 Capital Improvement Program budget.

Potential Cash Flow Issues:
Marine Safety Building is in need of immediate rehabilitation to extend its useful life for approximately another 10 years. In future years, another assessment should be conducted to determine the extent of additional rehabilitation or replacement needs.

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.

Over the past twenty years, major pier improvements have been undertaken on a cyclical basis to rehabilitate structural and mechanical elements to maintain the integrity and safety of the structure. Additionally, other smaller maintenance projects to replace and repair pier planks and other amenities have been performed between the major rehabilitation projects to address deterioration caused by continued exposure to the harsh marine environment.

Construction is currently underway on a major $2 million pier rehabilitation. Major improvements include replacement of timber piles, deteriorated timber decking and bracing, guard railing replacement, mechanical piping, cathodic protection and amenity improvements. The work started in Fall 2017 and is anticipated to be completed by late Spring 2018. The design of the rehabilitation was processed and permitted through Building Division. During the Building plan check process, the need for accessibility improvements for compliance with the American Disabilities Act (ADA) were identified. The $2 million budget allocation for the pier rehabilitation work was not sufficient to fund the required ADA improvements. To maintain the project schedule and facilitate commencement of construction in Fall 2018, the Building Division issued a conditional permit approval. The conditional permit allowed for the major rehabilitation to proceed, but closeout of the permit was made contingent on the construction of the ADA improvements. The ADA improvements are estimated at $250,000 and would be constructed in fall after the peak summer season. Therefore this cost is planned to be included in the FY 2018-19 budget.

A future comprehensive repair project is projected in FY 2023-24 and 2024-25. Similar to the rehabilitation project currently being pursued, future work 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.

Expenditures:
The Municipal Pier Rehabilitation is estimated to total $2.25 million, which includes the current budgeted amount of $2 million in the General Fund and the additional $250,000 needed for the ADA improvements which is planned to be included in the FY 2018-19 CIP budget.

Potential Cash Flow Issues:
Pier improvements were once funded 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.

910 Negocio Remodel - City Hall Relocation

Project Background:

Per City Council direction, this project is to permanently relocate City administration staff from the current City Hall facility at 100 Avenida Presidio to the City's existing Community Development building at 910 Calle Negocio (Negocio). Costs for this move are being minimized by using the existing 3rd floor Negocio office layout and making only minor modifications to accommodate this move. The improvements are underway and furniture has been ordered, and it is anticipated that staff will move in April 2018. As directed by the City Council, the City will retain the City Hall site which will continue to be used for Commission and Council meetings, and, for the time being, Police Services will continue to operate from their existing lower level location. The vacated space might be converted into additional meeting rooms which could be used by staff and the public, but the City Council has not yet formally considered options for use of the vacated space. The third floor improvements at the Negocio building, office furniture and relocation costs are funded with the $500,000 included in the current FY 2017-18 budget (50% from the General Fund and 50% from the Civic Center Reserve Fund). This amount also includes the cost for consultant services to design the modifications to the 3rd floor of Negocio, as well as the planned 1st floor remodel.

Now that the third floor planning and design are completed, the project team is focused on the development of the first floor improvements. Preparation of construction documents for the first floor improvements are in process and based on a space plan approved February 2018. The improvements include the addition of Utility Billing and Business License services to the public counter, reconfiguration of the public counter to the front of the building (facing Calle Negocio) and upgrades to building amenities and office spaces inclusive of associated electrical, mechanical and ADA improvements. This project will also upgrade the 2nd floor restrooms to comply with ADA and add two small shower/changing rooms. These improvements are estimated to cost about $2.5 million and are proposed to be included as part of the FY 2018-19 CIP budget (50% from the General Fund and 50% from the Public Facilities Construction Fee Fund (Civic Center Construction Reserve). Construction of these improvements is anticipated to commence in late Summer 2018 and to be implemented in a phased approach to maintain internal and external public services. The construction of the project is estimated to take up to 12 months.

Expenditures:
In FY 2017-18 $500,000 (50% from the General Fund and 50% from the Public Facilities Construction Fee Fund Civic Center Reserve Fund) was budgeted to design improvements to consolidate all services to Negocio. A funding appropriation totaling $2,500,000 will be recommended as part of the FY 2018-19 Capital Improvement Program budget to fund construction of the remaining Negocio building improvements.

Potential Cash Flow Issues:
A funding appropriation of $2,500,000 will be requested in the FY 2018-19 Capital Improvement Program budget to complete the project. A transfer of $1,250,000 from the Civic Center Reserve is proposed to offset impact to the General Fund.

Capital Recommendations

1. Include $100,000 from the General Fund in the FY 2018-19 CIP budget for the Corps of Engineers design phase costs in case there are additional unanticipated cost increases.
2. Transfer $100,000 from the North Beach Sand Replenishment project (Account No. 001-636-45700-000-28706) to the Corps of Engineers project (Account No. 001-411-45800-000-19907) in FY 2017-18, and return the remaining amount of $150,000 to the General Fund’s unassigned fund balance.
3. Include $125,000 from the Facility Maintenance Reserve Fund and $125,000 from the Public Facilities Construction Fee Fund (Public Safety Construction Reserve) in the FY 2018-19 CIP budget for the Marine Safety Building Rehabilitation Project No. 16530.
4. Include $250,000 from the General Fund in the FY 2018-19 CIP budget for the Pier Rehabilitation ADA improvements Project No. 16811.
5. Include $1,250,000 from the General Fund and $1,250,000 from the Public Facilities Construction Fee Fund (Civic Center Construction Reserve) in the FY 2018-19 CIP budget for the 910 Calle Negocio Remodel Project No. 18804.

Information Technology Strategic Plan Update

Objective

The Information Technology Strategic Plan (ITSP) has been updated to maintain a comprehensive plan to guide Information Technology decision making, budgeting, and implementations across all City functions and operations over the next five years.

Background

Originally adopted as part of the 2015 Long Term Financial Plan, the ITSP has been developed to serve as a roadmap for strategic technology projects that are anticipated over the next five years, similar to the City's Capital Improvement Program (CIP). The plan is updated annually to reflect new technology initiatives and technological advancements, while adapting to changing business needs and financial conditions. As recommended in the Information Technology Assessment prepared by Nexlevel Information Technology, Inc. and presented to City Council on May 6, 2014, the ITSP and the Long Term Financial Plan are developed in concert, such that the ITSP is aligned with the City's business priorities. Details of the plan are developed by the Information Technology Division with input from each of the City's departments through the IT Steering Committee. The ITSP outlines how the IT Division will align with City Departments to help achieve City goals and deliver services for the community.

Executive Summary

The 2018 Information Technology Strategic Plan Update includes an updated listing of strategic projects, generated through a collaborative process that involved both the IT Division and Department representatives. The ITSP aims to satisfy current and future technology-related needs for all Departments/Divisions of the City, with the ultimate goal of improving delivery of City services.

The plan charts a course for future City technology investments that are appropriately aligned with Departmental goals and priorities. The plan includes a series of achievable projects and initiatives recommended for implementation over the next one to five year time span and beyond. Similar to the City's annual Capital Improvement Program, estimated expenditures for strategic technology projects have been scheduled over the 5 year period.

The ITSP Update includes a status report for IT projects that are scheduled and underway in the current fiscal year, as well as cost and scheduling refinements for projects that are planned over the 5-year time horizon. In addition to a comprehensive listing of projects and initiatives that are planned in the coming fiscal year, '**Attachment A**' provides greater detail about these items.

Adjustments to the ITSP for the 2018 ITSP Update can be categorized in 3 areas:

- General Scheduling/Cost Adjustments
- New Technology Initiatives
- Refinement of Departmental Priorities and Workloads

The ITSP Update concludes with a comprehensive 5 Year Summary of strategic technology projects, which incorporates the revisions outlined within this document.

Strategic Technology Project Status / Update

Since the ITSP was first adopted in 2015, a number of projects have been successfully planned, budgeted, and completed. The following table outlines these projects as of February, 2018:

Completed Strategic Technology Projects	Dept/Div	Status
EOC Laptop Replacements	IT	Completed FY 2015-16
Secondary Malware Prevention System	IT	Completed FY 2015-16
Unalterable Electronic Data Storage Appliance	IT	Completed FY 2015-16
Enhanced GIS Workstations	CD	Completed FY 2015-16
Replace Tele-Works IVR for Building Inspection Requests	CD	Completed FY 2015-16
Mobile Device Management Solution	IT	Completed FY 2016-17
Network Monitoring Software	IT	Completed FY 2016-17
Server Replacements / VMWare Upgrade	IT	Completed FY 2016-17
Technology Training Initiative – Cyber Security Training	IT	Completed FY 2016-17
Electronic Submittal/Tracking/Delivery of PRA requests.	Clerk	Completed FY 2016-17
Vendor and Bid Management Software	Clerk	Completed FY 2016-17
Expansion of ESRI Enterprise License Agreement	CD	Completed FY 2016-17
Replace/Upgrade Customer Queuing System	CD	Completed FY 2016-17
Upgrade from TRAKiT.net to TRAKiT 9 (Assessment only in FY 2016-17)	CD	Completed FY 2016-17
OHBC Staffing/Re-opening IT Needs	Recreation	Completed FY 2016-17
Recreation Management Software Upgrade/Replacement	Recreation	Completed FY 2017-18
DataCenter Improvements (CIP) FY 2016-17	IT	Completed FY 2017-18
Citywide Structured Cabling Upgrade	IT	Completed FY 2017-18
GIS Web Enhancement Development – ArcGIS Online	IT	Completed FY 2017-18
Budget for GIS Data Development and Engineer Services	IT	Completed FY 2017-18

In the current Fiscal Year there are many Information Technology projects that are in varying stages of completion. The table below identifies projects that are scheduled / underway in the current year, along with the status of each project as of February, 2018. The majority of these projects were identified in the 2015 ITSP and the 2016 & 2017 ITSP Updates, while some of the smaller items were approved directly through the budget process:

Current Strategic Technology Projects	Dept/Div	Status
Payment Processing System and Utility Billing IVR	FAS	System testing underway. Implementation to be completed in Spring 2018
Online Business License Renewal	FAS	Expansion of Online Business License Renewals to be completed Spring 2018
Upgrade of Data Storage Infrastructure (SAN)	IT	Equipment procurement complete. Installation to be completed Winter 2018
Network Equipment Replacement	IT	Equipment procurement complete. Installation to be completed Winter 2018

Current Strategic Technology Projects - *Continued*	**Dept/Div**	**Status**
Telephone System Replacement	IT	RFP issued November 2017. Vendor selection underway. Implementation planned for Spring 2018
Citywide Customer Relationship Management (CRM); Integration with Trakit and CMMS	IT	RFP planned in Spring 2018
Disaster Recovery as a Service (DRaaS)	IT	RFP planned in Spring 2018
Security Audit	IT	RFP planned in Spring 2018
Security Information and Event Management (SIEM) Services	IT	RFP planned in Spring 2018
Secondary Internet Service Provider	IT	Planned for completion Spring 2018
Agenda / Legislative Management System	City Clerk	RFP issued February 2018. System implementation scheduled for Spring/Summer 2018.
Paperless Agendas / Tablets for City Council	City Clerk	On hold; dependent upon Legislative Management System.
Electronic Document Search Enhancement /Public Interface	City Clerk	On hold; dependent upon capabilities of Legislative Management System.
Contract and Insurance/Securities Certificate Management	City Clerk	On hold; dependent upon capabilities of Legislative Management System.
Cable TV Equipment Replacement	City Clerk	RFP planned by the end of FY 2017-18. Implementation to follow in FY 2018-19.
Integration of GIS with TrakIT	CD	Underway. To be completed by the end of FY 2017-18
Water Quality Code Enforcement Mobile Offices	Utilities	Tablets for CMMS field use in Winter 2018

FY 2018-19 Strategic Projects

A number of Information Technology-related projects and initiatives are planned for FY 2018-19. The table below summarizes the projects being recommended and requested for the coming year. This list includes the strategic projects and initiatives that were originally included in the 2015 ITSP, as well as adjustments to the listing which can be attributed to general scheduling/cost refinements, new technology initiatives, and refinement of departmental priorities. Funding for these items will be requested through the budget process in the coming months. Details regarding each project and initiative listed below are provided in **Attachment A**.

Projects Scheduled for FY 2018-19	**Dept/Div**	**Summary**
City-wide Cashiering Study (Study in FY 2018-19)	IT/Business Services	Project on hold, necessity to be evaluated upon replacement of Online Payment Processing System
Web Application Enhancements	IT	Ongoing investment in public-facing technology
Employee Computer/Technology Training - Ongoing	IT	Training Room on 2nd Floor at new Civic Center
GIS Initiative – Data Development	IT	Update of the City's GIS Data and Aerial Imagery
Upgrade from TRAKiT.net to TRAKiT 9	CD/PW	Comprehensive upgrade of the City's Permitting and Licensing System
Electronic Plan Review	CD/PW	Phase 1 underway. Full implementation dependent upon TRAKIT 9 upgrade
Mobile Building Inspector / Code Compliance / Water Quality Officers	CD/Utilities	Phase 1 underway. Full implementation dependent upon TRAKIT 9 upgrade
Electronic Document Management System (Study in FY 2018-19)	City Clerk	Conduct analysis and assessment of the City's Electronic Document Management System

Scheduling and Cost Adjustments

This strategic plan update includes a number of adjustments that have been made to the scheduling and projected cost of projects. These changes can be attributed to many factors including the rapid and continuous evolution of the technology industry and realignment of operational practices and priorities. The most significant modifications to the 5-year plan are summarized below:

- **Finance Division**
  - ✓ The Study of Eden Financial Software Replacement has been deferred to FY 2020-21, as there has been no indication from the vendor that support for the current product will be discontinued.
- **Community Development Department**
  - ✓ Upgrade from TRAKiT.NET to TRAKiT 9 – Originally planned for FY 2017-18, this upgrade of the City's permitting and licensing system has been delayed to FY 2018-19 due to some uncertainty surrounding the maturity of the new product version. This delay affects a number of dependent projects which have been rescheduled to FY 2019-20, including the use of tablet computers for greater mobility of field staff, online business license application submittal, online building permit application processing, and electronic plan submittal and review.
- **City-wide**
  - ✓ **Electronic Document Management System (EDMS)** - Evaluating the potential upgrade, replacement, or enhancement of the current EDMS system was previously scheduled in the latter portion of 5-Year Strategic Plan and has been moved forward in the schedule. Specifically, the recommendation has been added to allocate $50,000 in FY 2018-19 to assess the current system, conduct an analysis of the system's capability to meet present and future needs, and develop a strategic roadmap.

Recommendation

Staff recommends that the City Council accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2018-19 projects and initiatives forward through the budget process.

FY 2018-19 Projects and Initiatives – Detail

City-wide Cashiering (Study in FY 2018-19 / Implementation in FY 2019-20)	
Description	Study the need for a new city-wide cashiering system to replace or upgrade current system, and issue an RFP or bid for a new system if deemed necessary.
Benefit / Justification	Maintenance and support for the current system may be discontinued by the vendor at some point in the near future. System upgrade/replacement is dependent upon the implementation of the new payment processing system that is underway in the current fiscal year.
Estimated Cost	Study to be conducted by internal staff. Implementation cost in future year estimated at $25,000.
Funding	Shared between General Fund and Utilities Enterprise Funds
Estimate Timeframe	FY 2018-19
Staffing Impact	Significant impact during implementation
Priority	Moderate
Service Level Impact	Maintain current level
Department/Division	Finance and Administrative Services / Business Services

Web Application Enhancements	
Description	Funding for commercial, off-the-shelf, web-based applications that improve internal efficiency and/or enhance service to the public.
Benefit / Justification	Ongoing funding for web-based applications that improve internal efficiency and enhance service to the public. To include improvements and new features on the existing website, and new applications that provide a particular service. Past examples include Online Public Records Request portal and Online Vendor / Bid Management system.
Estimated Cost	Improve delivery of information and services to the public.
Funding	$10,000 per year
Estimate Timeframe	Began in FY 2015-16 > Ongoing
Staffing Impact	Moderate
Priority	Moderate
Service Level Impact	Increase
Department/Division	Finance and Administrative Services / Information Technology

Technology Training Initiative	
Description	Citywide training initiative to equip City staff to better utilize the many software applications that are available to them. This initiative includes the offering of specialized instructor-led courses and online video training, which will be geared for both new and current employees. Funding may be allocated for the hiring of instructors, development of training videos, training software, and the assembly of a number of computers in a dedicated “training center”.
Benefit / Justification	Increased productivity and efficiency
Estimated Cost	$10,000 per year
Funding	Shared
Estimate Timeframe	Began in FY 2015-16 > Ongoing
Staffing Impact	Minor
Priority	Moderate
Service Level Impact	Improve
Department/Division	Finance and Administrative Services / IT

GIS Initiative - GIS Data Development, Maintenance and Support	
Description	The GIS initiative has involved implementation of a Citywide ESRI Enterprise GIS platform, integration of GIS (ArcGIS) with critical City business systems such as TRAKiT (Permitting) and Lucity (CMMS), improved PC hardware and licensing for GIS work, and development of improved data and applications.
Benefit / Justification	With the ESRI platform in place and major business system integrations complete, in the coming years it will be important to maintain and improve existing data sets, as well as develop new GIS data resources. This will enable the best and most efficient access and use of City Building, Code Enforcement, Land Use, Utility and Maintenance data.
Estimated Cost	$20,000
Funding	Shared
Estimate Timeframe	Ongoing
Staffing Impact	None
Priority	Moderate
Service Level Impact	Increase
Department/Division	IT

Upgrade from TRAKiT.net to TRAKiT 9	
Description	Upgrade the current permitting and licensing system to the latest version of the current vendor's software
Benefit / Justification	The City currently uses TRAKiT.NET by Superion for processing and tracking development projects as well as issuing permits and tracking plan reviews, inspections, and code enforcement cases. The system is also used for management of business licenses. The City has successfully used this software since 2004/2005 to satisfy our Building, Planning, Engineering, Business License, and Code Compliance needs. However, these are several feature enhancements that have been identified by staff that can improve service levels and/or productivity. These include online business license application submittal, online building permit applications, electronic plan review, and Building Inspector Mobile Office setups. Further, the latest version of TRAKiT includes an option of a hosted solution which reduces the effort of maintaining the related back-end hardware and software.
Estimated Cost	$175,000
Funding	General Fund
Estimate Timeframe	Complete Implementation in FY 2018-19
Staffing Impact	Significant for Implementation Phase
Priority	High
Service Level Impact	Increase
Department/Division	Community Development / Public Works

Mobile Access to TRAKiT (Code Compliance, Water Quality Code Compliance, and Building)	
Description	Mobile access to the TRAKiT system using laptops or tablet computers. The later phase of this project is contingent upon the completion of an upgrade of the City's Permitting and Licensing Software (from TRAKiT.NET to TRAKiT 9).
Benefit / Justification	Providing field staff with "anytime, anywhere" access to the key business applications that they use to perform their job functions will improve the efficiency and effectiveness of these functional areas.
Estimated Cost	$11,000 in FY 2018-19. $28,000 in FY 2019-20.
Funding	General Fund
Estimate Timeframe	Interim Solution in FY 2018-19 / Full Implementation in FY 2019-20
Staffing Impact	Moderate during implementation.
Priority	High
Service Level Impact	Increase
Department/Division	Community Development / Utilities

Electronic Plan Review	
Description	Electronic Submittal and Review of Plan Documents for Permitting. This project is contingent upon the completion of an upgrade of the City's Permitting and Licensing Software (from TRAKiT.NET to TRAKiT 9).
Benefit / Justification	The City currently reviews plans by requiring multiple sets of documents be submitted in person that are then routed to various departments for review and approval. After approval these documents are eventually scanned and stored electronically. This proposal will be the first step towards converting this process to one where the documents are submitted, reviewed and approved electronically, resulting is a significant reduction in the time and expense associated with plan submission for the applicant. The first phase began in FY 2017-18 consisting of an initial trial group to verify hardware and create processes prior to the implementation of TRAKiT 9, which will allow for full electronic submission and review.
Estimated Cost	$5,000 in FY 2017-18 and FY 2018-19 for Phase I. $25,000 in FY 2019-20 for Phase II.
Funding	General Fund
Estimate Timeframe	Preliminary Implementation in FY 2017-18 and FY 2018-19
Staffing Impact	Moderate during implementation
Priority	High
Service Level Impact	Increase
Department/Division	Community Development

Electronic Document Management System Assessment	
Description	Conduct a comprehensive analysis and assessment of the City's existing Electronic Document Management System
Benefit / Justification	The City currently utilizes an Electronic Document Management System for the storage, retrieval and retention of electronic files. This system was originally developed nearly 15 years ago. This project involves an assessment of the current EDMS system, an analysis of system's capability to meet present and future needs, and development of a strategic roadmap.
Estimated Cost	$50,000 in FY 2018-19 for Professional Services
Funding	General Fund
Estimate Timeframe	Preliminary assessment in FY 2018-19.
Staffing Impact	Significant
Priority	High
Service Level Impact	Increase
Department/Division	All

Information Technology Strategic Plan - 5 Year Summary

Title	Fund	6 Yr. Total	Current Year FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Ongoing
Finance and Administrative Services									
Automated Water Meter Reading capabilities	Ent	$6,000,000						$6,000,000	
City-wide Cashiering (Study in FY 2018-19)	Shared	40,000			25,000	5,000	5,000	5,000	5,000
Eden Financial Software Replacement (Study/RFP/Implementation)	Shared	1,100,000				50,000	50,000	1,000,000	50,000
Online Business License Application / Renewal	GF	29,500	10,000		15,000	1,500	1,500	1,500	1,500
Payment Processing and Utility Billing IVR System	Shared	130,000	55,000	15,000	15,000	15,000	15,000	15,000	15,000
Transparency Portal - Public Interface to Financials	GF	42,000			10,500	10,500	10,500	10,500	10,500
		7,341,500	65,000	15,000	65,500	82,000	82,000	7,032,000	82,000
Information Technology									
Citywide CRM / Notification (Integration with Trakit and CMMS)	Shared	80,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000
Data Storage Upgrade	Shared	150,000	150,000						
Disaster Recovery as a Service (DRaaS)	Shared	120,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Network Infrastructure Updates – Switch Replacement/Cabling	Shared	250,000	250,000						
Secondary Internet Service Provider	Shared	40,000	15,000	5,000	5,000	5,000	5,000	5,000	5,000
Security Audit	Ent	100,000	25,000	25,000		25,000		25,000	
Security Information and Event Management (SIEM) Services	Shared	300,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
VOIP Telephone System Replacement (Study/RFP in FY 2016-17)	Shared	200,000	200,000						
Web Application Enhancements	Shared	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
		1,300,000	750,000	120,000	95,000	120,000	95,000	120,000	95,000
City Manager/City Clerk/Council									
Cable TV Equipment Replacement	GF	225,000	225,000						
Contract and Insurance/Securities Certificate Management - (CCSP)	GF	63,000	13,000	10,000	10,000	10,000	10,000	10,000	10,000
Electronic Agenda Management - City Clerk Strategic Plan (CCSP)	GF	216,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
Electronic Agenda Packet Distribution for Councilmembers - (CCSP)	GF	35,000	10,000	5,000	5,000	5,000	5,000	5,000	5,000
Electronic Document Management System (Study in FY 2018-19) - (CCSP)	GF	50,000		50,000					
Electronic Document Search Enhancement with Public Interface (CCSP)	GF	50,000			50,000				
Electronic Filing of FPPC Campaign Statements - (CCSP)	GF	20,000			5,000	5,000	5,000	5,000	5,000
		659,000	284,000	101,000	106,000	56,000	56,000	56,000	56,000
Community Development									
Electronic Plan Review	GF	42,500	5,000	5,000	25,000	2,500	2,500	2,500	2,500
"On-Line" Building Permit Applications	GF	23,000			20,000	1,000	1,000	1,000	1,000
Public outreach technologies	GF	40,000			10,000	10,000	10,000	10,000	10,000
Upgrade from TRAKiT.net to TRAKiT 9 (Assessment in FY 2016-17)	GF	175,000		175,000					
		280,500	5,000	180,000	55,000	13,500	13,500	13,500	13,500
Beaches, Parks & Recreation									
CLASS Software Replacement (Study & RFP in FY 2015-16)	GF	200,000	50,000	30,000	30,000	30,000	30,000	30,000	30,000
Electronic Patient Care Reporting	GF	40,000			10,000	10,000	10,000	10,000	10,000
		240,000	50,000	30,000	40,000	40,000	40,000	40,000	40,000
Citywide Initiative - Mobility									
Building Inspector iPads / Mobile Office	GF	34,000		6,000	22,000	2,000	2,000	2,000	2,000
Code Enforcement Officer Field Desktop Replacement	GF	14,000	4,000	2,000	2,000	2,000	2,000	2,000	2,000
Tablets for Park Monitors & Facilities Staff	GF	7,000		3,000	1,000	1,000	1,000	1,000	1,000
Water Quality Code Enforcement Mobile Office	Ent	7,000		3,000	1,000	1,000	1,000	1,000	1,000
WiFi tablets for Marine Safety Health Care Reporting	GF	5,000			2,000	1,000	1,000	1,000	1,000
		67,000	4,000	14,000	28,000	7,000	7,000	7,000	7,000
Citywide Initiative - GIS									
Budget for GIS data development and maintenance	GF	120,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Integration of GIS (ArcGIS) with TRAKiT	GF	20,000	20,000						
		140,000	40,000	20,000	20,000	20,000	20,000	20,000	20,000
Citywide Initiative - Training									
Budget for computer training new and current employees.	GF	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total		$10,088,000	$1,208,000	$490,000	$419,500	$348,500	$323,500	$7,298,500	$323,500

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/striping 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 Equivalents (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.

International City Management Association (ICMA):
Provides guidelines on the analysis of indicators presented in the trends.

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 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.

Unassigned Fund Balance:
Refers to fund balances available for spending, ie; funds not assigned for any other purposes.

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.