



San Clemente



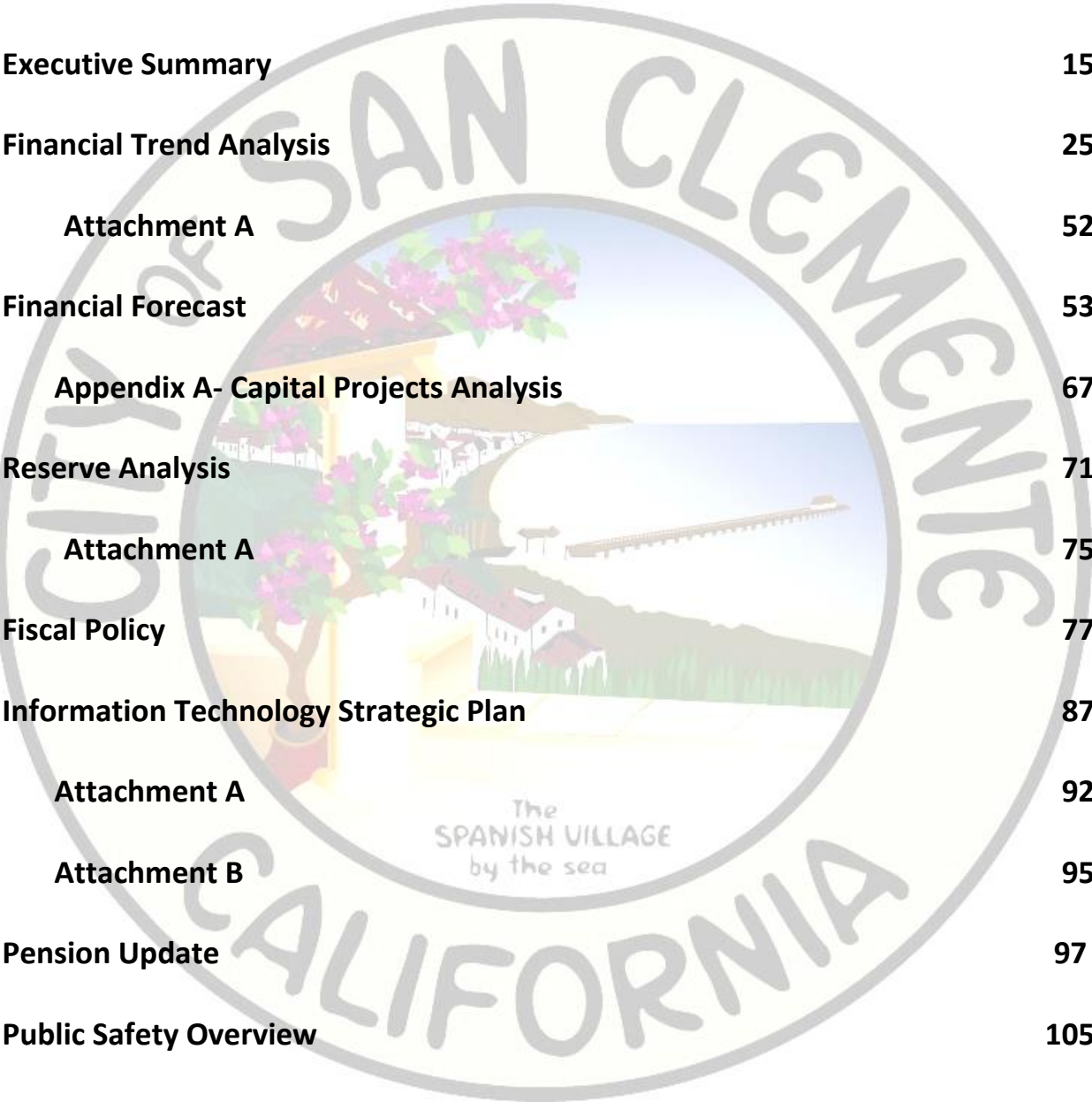
LONG TERM FINANCIAL PLAN

Fiscal Year 2019-20



City of San Clemente

Table of Contents



Introduction	1
City Manager Transmittal Letter	13
Executive Summary	15
Financial Trend Analysis	25
Attachment A	52
Financial Forecast	53
Appendix A- Capital Projects Analysis	67
Reserve Analysis	71
Attachment A	75
Fiscal Policy	77
Information Technology Strategic Plan	87
Attachment A	92
Attachment B	95
Pension Update	97
Public Safety Overview	105
Glossary	119

City of San Clemente

City Council

Steven Swartz, Mayor
Dan Bane, Mayor Pro Tem
Chris Hamm, Councilmember
Kathy Ward, Councilmember
Laura Ferguson, 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

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
Mike Johnston	Management Analyst

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

Erik Sund, Assistant City Manager

Jake Rahn, Financial Services Officer

Reserve Analysis

Jake Rahn, Financial Services Officer

Fiscal Policy

Jake Rahn, Financial Services Officer

Erik Sund, Assistant City Manager

Capital Projects Analysis

Tom Bonigut, Public Works Director

Ken Knatz, Principal Civil Engineer / Asset Manager

Dave Rebensdorf, Utilities Director

Erik Sund, Assistant City Manager

Information Technologies Strategic Plan

Brian Brower, Information Technology Manager

Pension Update

Jake Rahn, Financial Services Officer

Public Safety Overview

Mike Johnston, Management Analyst

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. The forecast also includes a summary of significant projects and programs within the Public Works Department Capital Improvement Program

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.

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.

Pension Update

Objective

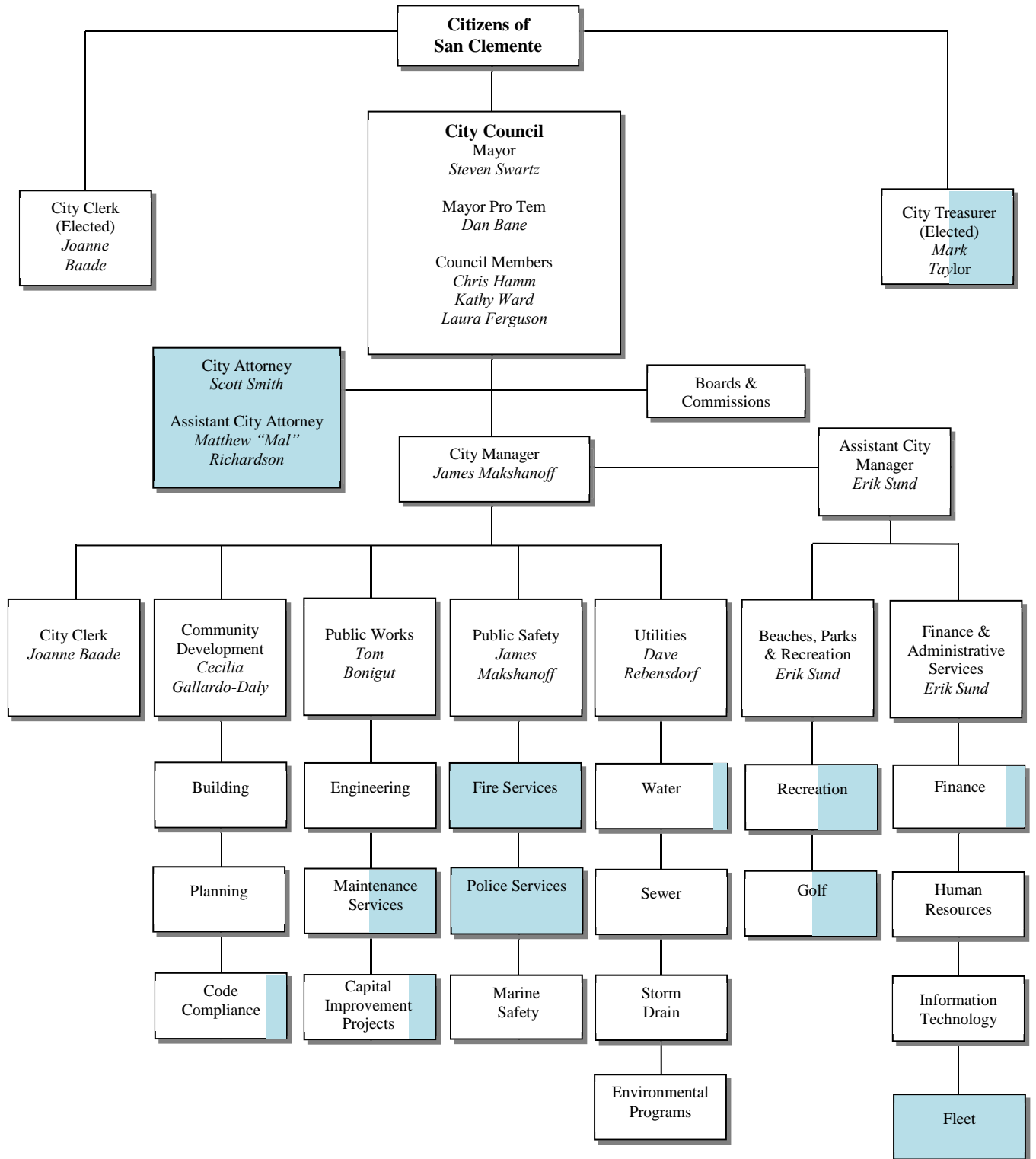
To review the City's current pension plan and provide general analysis to formalize pension policies, provide a visible analysis of the pension funding, and make recommendations for the ongoing sustainability of the pension plan maintaining control of city pension costs into the future.


Public Safety Overview

Objective

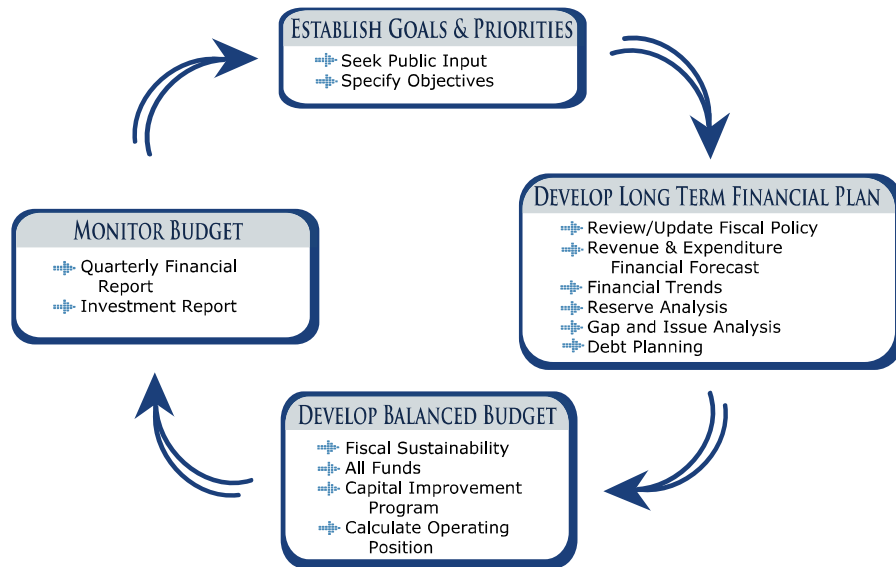
To provide the City Council with an overview of all of the City's Public Safety Services as it relates to operations and funding.

City Organizational Chart



 Shading indicates contracted services

Long Term Financial Plan



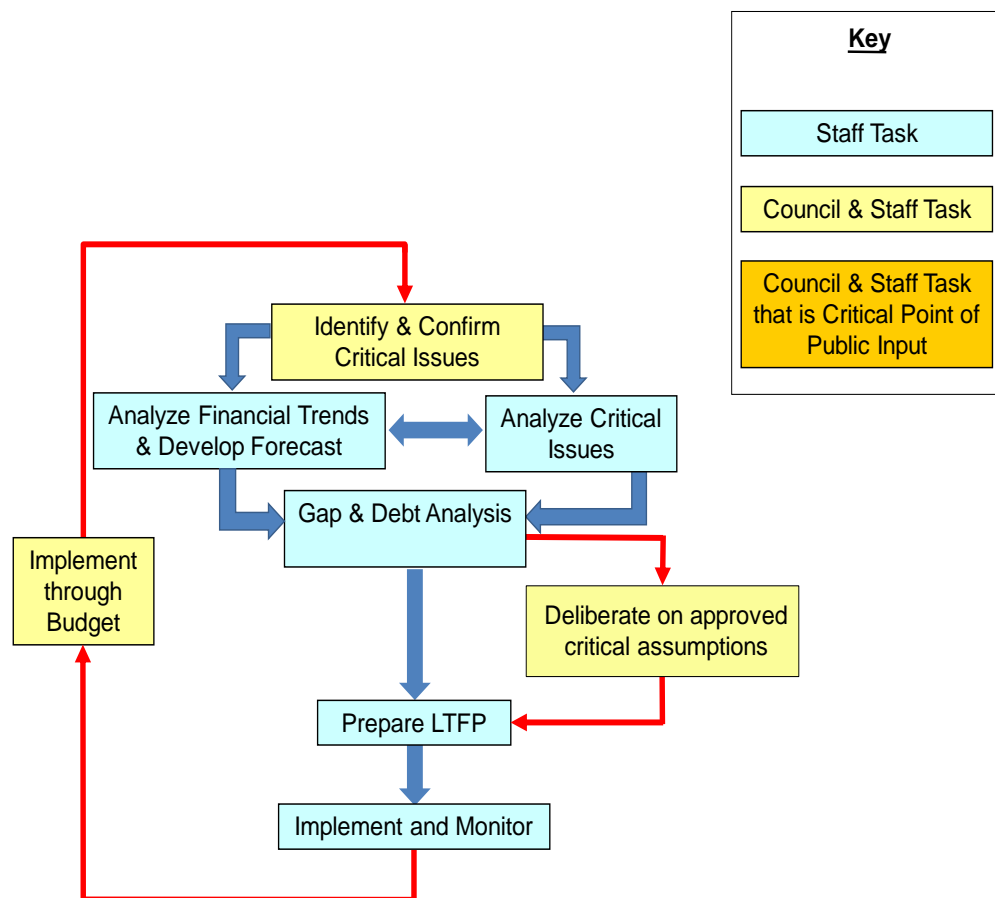
The City of San Clemente, at Council direction, annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool, providing Council and the public with the insight required to address issues impacting the City's financial condition. The LTFP consists of a complete 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 2019 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
- Pension Update
- Public Safety Overview

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, 10 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 5 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 11, 2019	Long Term Financial Plan Workshop
May 22, 2019	Budget Workshop/Budget Public Hearing
June 4, 2019	Budget Adoption

Long Term Financial Plan Review

Long Term Financial Plan Review

The City has prepared an updated table for all 2018 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 scarce 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
<p>To provide a summary of capital projects with funding challenges and funding obligations for significant projects. This analysis will review the funding status of the existing reserves as well as future projected funding sources, and attempt to determine the timing of the projects in connection with the City’s current and future financial resources.</p>	<p>Based on Council feedback, projects discussed in the 2019 LTFP paper were addressed during the FY 2019-20 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.</p>

Information Technology Strategic Plan	Status
<p>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</p>	<p>Since the adoption of the ITSP, 26 of the projects have been completed. While projects are still in process, there are 5 projects proposed for FY 2019-20. A list of the individual projects and the status is located within the Information Technology Strategic Plan Update paper.</p>

Council Action for the 2018 Long Term Financial Plan (LTFP) March 12, 2018

Reserve Analysis

MOTION BY COUNCILMEMBER DONCHAK, CARRIED BY MAYOR PRO TEM 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 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.

Capital Projects Analysis

MOTION BY MAYOR PRO TEM HAMM, SECOND BY COUNCILMEMBER DONCHAK, CARRIED 5-0, to approve the following actions:

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.

Public Works Director/City Engineer Bonigut reported that the Casa Romantica Cultural Center and Gardens is interested in partnering with the City on the Casa's parking lot repair.

Following discussion, MOTION BY COUNCILMEMBER DONCHAK, SECOND BY COUNCILMEMBER SWARTZ, CARRIED 3-2, (MAYOR PRO TEM HAMM AND COUNCILMEMBER WARD VOTING NOE), to direct staff to work with the Casa Romantica Cultural Center and Gardens to secure designs and cost estimates for the proposed Casa parking lot in a timely fashion (to coincide with the budget workshop on May 21, 2018), with the understanding that this item is in the discussion

phase and no decisions are being made this evening. The portion of City funding, if any, is to be determined at a future time.

Information Technology Strategic Plan Update

MOTION BY COUNCILMEMBER DONCHAK, SECOND BY COUNCILMEMBER WARD, CARRIED 5-0, to 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.



City of San Clemente

James Makshanoff, City Manager

910 Calle Negocio, San Clemente, CA 92673

Honorable Mayor and Council Members:

I am pleased to present the 2019 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 actions City Council has taken in past years, based on this annual analysis, reinforced the City's ongoing strong financial position.

The City's Long Term Financial Plan (LTFP) is a long-range planning tool which provides the City Council with information to make strategic decisions affecting the City's fiscal sustainability, both in the short and long term. The foundation of the LTFP is built from a financial core – which includes *Financial Forecast*, *Financial Trend Analysis* and the City's underlying *Fiscal Policies*. The plan includes an *Executive Summary* which describes the City's financial condition and includes a brief financial overview of critical issues. The LTFP contains *financial core papers* and *critical issue papers*. Critical issue papers analyze topics that have, or will have, a substantial impact on City finances. These two sections, the financial core and the critical issue papers, outline specific recommendations to address issues facing the City, as we approach the annual budget process.

This approach allows the City an opportunity to take steps to achieve a better financial position so that these critical issues or conditions can be addressed in a clear and transparent process. In addition to the financial core with a financial frame of reference in context 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, as well as deferred maintenance, prioritized by risk through the City's Computerized Maintenance Management System (CMMS). It is also important to note that the City is experiencing limited growth to various revenue sources which factors into the City's ability to fund certain expenditures in the long-term.

As we prepare to enter Fiscal Year 2019-20, we will be focusing on the City's core responsibilities. As we 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 City's LTFP financial core papers provide information and give a financial perspective and outlook. ***Overall, the City has a strong General Fund position with financial indicators strong, reserves being addressed through additional contributions and strong financial policies.***

The **General Fund** will be fully funding its Emergency Reserve at \$13.3 million, which is 20% of the City's operating expenditures, and has a strong unassigned fund balance of \$6.3 million million budgeted at the end of FY 2018-19. Fund balance is available for appropriation and city staff are diligently reviewing a number of capital and maintenance projects for the next several years that would utilize this projected unassigned fund balance. However, one area in need of contemplation will be the future operating position of the General Fund. The forecast shows an operating deficit in FY 2020-21 and the outgoing years. Positive operating positions provide funds for one-time activities and provide funds for future maintenance and capital projects.

General Fund Operating position (operating revenues less operating expenditures, excluding one-time revenues and expenditures) is projected to be positive for the next fiscal year, and then negative for the remaining 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.

The 2019 LTFP critical issue papers are meant to educate and provide opportunities for savings in the future. The critical issue papers include:

- **Information Technology Strategic Plan Update** This re-occurring critical issue paper serves as annual update to the City's roadmap for strategic technology projects. It was first presented in 2015 and presents a five year work plan to align technology investments with Departmental goals and priorities with the objective of improving City services.
- **Pension Update** This paper discusses the multiple pension plans in which the City participates. It discusses the funding levels, implementing funding policies, and discusses ways to reduce future pension costs by addressing unfunded amounts.
- **Public Safety Overview** This paper provides both current and historical information on all public safety efforts the City is deploying to address community issues and maintain the health and welfare of the residents. This process will offer the opportunity to not only consider the financial impacts, but to also understand public safety operations.

Our Spanish Village by the Sea has seen a number of challenges over the past several years, but City staff stand resilient and as always, we will be prepared to address all issues, with a priority to maintain a prudent financial approach to all aspects of City services.



James Makshanoff
City Manager

Long Term Financial Plan Overview

The 2019 Long Term Financial Plan (LTFP) Overview presents a snapshot of the papers and summarizes recommendations generated based on the LTFP sections. The LTFP sections have more detailed information and the information is summarized within the Executive Summary in the following format:

- *Introduction*
- *Executive Summary*
 - *Financial Core - Financial Trends, Reserve Analysis, Fiscal Policies, and Financial Forecast*
 - *Issues - Information Technology Strategic Plan, Public Safety and Pensions*
- *List of LTFP Recommendations*

INTRODUCTION TO THE LTFP

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 Financial Trends, Reserve Analysis and Financial Forecast, to diagnose the "fiscal health" of the City of San Clemente in order to chart a sound financial course. The LTFP is a Long Term Financial Plan that offers analysis, education, and recommends solutions to current or future issues. The LTFP acts as a guide in developing the annual budget, is an instrument for developing financial policies, and offers proposals for the future of the City.

The LTFP is a financial plan and offers analysis and solutions for current and future issues

This year, the focus continues to be building a solid foundation for the future. Currently, the economy is strong, unemployment is low, development is occurring, and the overall economy has been achieving stable but solid growth. During a strong economy it is prudent to prepare for future challenges. The City should seek to use increased revenues to fund operations, but also to fund reserves, pay down pension debt, ensure solid financial practices and policies are put in place, and to build the overall operating position. The Financial Core and the Issue papers are there to be informational and act as a guide to Council, management and the citizens in these decisions.

During a strong economy it is time to prepare for future challenges...fund reserves, pay down debt, ensure solid financial practices and build operating position.

The Financial Core papers are the same as in previous years and provide a foundation for the Council on past trends, current status, and what is expected in the future. These offer annual recommendations to make sure reserves are funded, fiscal policies are updated; and to provide Council with information on the General Fund's the past, current, and future financial factors within the City's operations so that a more sustainable operating position may be achieved in the future.

Prior to the previous recession, the General Fund often had annual positive operating positions of approximately \$1.0 million. This operating position allowed the City's finances to absorb some operating costs during the last economic recession, while only minimally effecting services to the public. The goal of the LTFP is to move toward a stronger operating position, while still maintaining the services that the Council approves and citizens expect.

The Issue papers highlight key financial issues for our City. This year's issue papers being presented are Pensions, Public Safety Overview, and the IT Strategic Implementation Plan. These key areas have not

Long Term Financial Plan Overview

just effected the City of San Clemente, but other governments in California. The Public Safety and Pensions papers being presented are to understand two significant costs to the City's General Fund. These Public Safety and Pension costs represent approximately \$32 million of the General Fund's operating budget of \$63.7 million, or 50%.

The Pension Update paper discusses the City's current pension plans, past steps taken to pay down unfunded liabilities, the current funding level of the various pension plans, and additional actions to consider to improve pension funding. This is being done so that future pension costs do not become a substantial burden on the City and its resources into the future. This paper offers recommendations to pay down the liabilities, sets a target funding percentage, and addresses ways to present information on these liabilities in the future.

The Public Safety paper summarizes all of the costs related to public safety. These costs represent the largest expenditure in the General Fund, and providing information on these costs allows Council to get a better understanding of those operations and offers an opportunity to discuss them prior to the budget process.

The IT Strategic Implementation Plan provides a roadmap for the next several years. It discusses past projects and upcoming projects that are critical technology needs, and discusses ways the City has tried to meet the needs of the different City departments and improve transparency over the upcoming five years from an Information Technology perspective .

EXECUTIVE SUMMARY

The Executive Summary discusses the Financial Core papers and the Issue Papers. The purpose of the Executive Summary is to provide a short overview on each of the papers. The Financial core papers are summarized first (Trends, Reserve, Fiscal Policies, and Forecast), then the Issue Papers are summarized (ITSP, Pension, and Public Safety).

FINANCIAL CORE

Financial Trends quantitatively are measured using a financial trend monitoring system. This monitoring system acts as a warning system to alert Council and management of changes or stagnation, and also as a monitoring system to show when things are improving based on past history. These indicators may have an ongoing impact on the financial condition of the City. Overall, trends are staying the same with all indicators being favorable, and three receiving favorable with caution indicators.

***At June 30, 2018,
all 21 indicators
are favorable
(3 have additional
caution indicators)***

In total, current year results are the same as in the prior year. The City continues to see increases in its major revenue sources, as the economy continues to have slow, steady growth. All of the trends were favorable, however three trends with caution indicators are Permits and Business License revenues, Community Development Charges, and Operating Surplus (Deficit). These trends have led to the addition of funding for a fee study in the FY 2018-19 budget. The City hopes to finalize the fee study in the coming year.

Long Term Financial Plan Overview

A **Reserve Analysis** is conducted annually through the LTFP process to recommend appropriate levels of reserves to ensure compliance with fiscal policies. Reserves are set aside to prepare the City for unforeseen events and to minimize operating impacts. Reserve amounts are reflected in the following categories: Emergency, Capital and Miscellaneous reserves.

Reserves are set aside to prepare the City for unforeseen events and to minimize operating impacts

Reserves for the most part are properly funded; however, the following reserve issues were identified:

- Emergency reserves funding levels will remain the same. Sewer and Golf Course emergency reserves need to be addressed. Sewer is in the midst of a rate study and Golf is also reviewing its rate structure.
- Capital/infrastructure reserves are only partially funded for the Water, Sewer, and Storm Drain Funds. The Utilities Department just completed a water rate study and the incorporated changes should lead to improvements in future fiscal years. Additionally, the Utilities Department is currently undertaking a sewer rate study, as well as looking to review its storm drain charges within the next few years.
- Operational reserves require a one-time transfer of funds to properly fund the Accrued Leave reserve.

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 a formal action is needed, either through additions or revisions to the policies. Several fiscal policies adopted in the past relate to the funding of various reserve funds, revenues, debt, and other financial policies. Fiscal Policies were reviewed and changes to the Fiscal Policy are recommended based on the Pension Update issue paper.

Policies are reviewed to determine if a formal action is needed.

Financial Forecast identifies and presents 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. Information is summarized in the following categories: Overview, Operating Position, and Fund Balance.

Overview

The base forecast is developed using the City's *present level of services*. The City's base forecast shows operating revenues of \$67.0 million, operating disbursements of \$66.7 million and a beginning unassigned fund balance of \$6.3 million. Overall, the City five year base forecast has a declining operating position and fund balances. Information provided in the Annual Economic Forecast published by the Woods Center for Economic Analysis and Forecasting at Cal State Fullerton, highlights the economic indicators and assumptions for the future year and is incorporated into the base forecast, and detailed in the Forecast Paper. *Operating Position* and *Fund Balance* is discussed further in the following sections.

Operating Position

The 2019 LTFP five-year financial forecast reflects a positive operating position in the first year of the forecast, and a negative operating position for the remaining four years. Operating revenues are

Long Term Financial Plan Overview

projected to increase by an average of 2.9% per year over the five-year forecast period. Operating expenditures are expected to grow 4.1%, on average, over the same period. Based on these expected growth rates, operating deficits are projected in the last four years.

2019 LTFP Forecast (In millions)	2019-20	2020-21	2021-22	2022-23	2023-24
Operating receipts*	\$ 67.0	\$ 69.0	\$ 70.7	\$ 72.7	\$ 74.9
Operating disbursements*	<u>66.7</u>	<u>69.4</u>	<u>72.2</u>	<u>75.2</u>	<u>78.3</u>
Projected surplus/deficit	\$ 0.3	\$ (0.4)	\$ (1.5)	\$ (2.5)	\$ (3.4)

*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.

The forecast shows the City experiencing revenue growth, but the revenue growth is moderate at 2.9%. Property tax and sales tax are the main revenues for the City's General Fund. Property tax growth is at 4.6%, with future increases of 3.7% for the next four years based on projections. Sales Tax revenues reflect a similar growth projection, with sales tax forecasted to be flat in the next year with only inflationary increases in the future.

...revenue growth is moderate at 2.9%. Expenditures are forecasted to grow at 4.1%...

Expenditures are forecasted to grow at 4.1% as the City General Fund deals with increasing public safety costs, pension costs, and other contractual increases. The largest dollar increases are in police and fire services with annual increases ranging from 4.0% to 10.7%. These increases reflect the additional costs relating to the additional 4th firefighter and some increases for the police due to expiring MOU's. While the impacts of the fire contract changes are incorporated into the forecast, additional costs related to the BPR Master Plan and the increased trolley subsidies are not fully incorporated at this point.

When future years deficits were shown in actions were taken to improve future operating positions. These actions changes to staffing or compensation (such as, employees paying more of the pension costs), police contract changes, revenue and fee changes, or other actions to improve the operating position. Although the City will be reviewing its fees in the future, additional actions to maximize the City's resources, such as the paying down of existing liabilities, limiting expenditure growth or service levels, may be required.

Also, the City is facing additional challenges related to State passed legislation, which has affected most cities in California. In certain cases, State legislation has actually added to costs such as, adding prevailing wage requirements which increased maintenance and construction costs, not regulating sober living homes which increased public safety costs, and other legislation that has caused quality of life issues at the local level. As a result of these actions, many local municipalities were forced to exhaust staffing resources and/or absorb additional costs in addressing these items. Although the City cannot solve all these issues completely, it can focus on matters under its control, such as pensions, finding the best ways to address the regulatory issues at a local level, and optimizing city service levels to meet enforcement requirements.

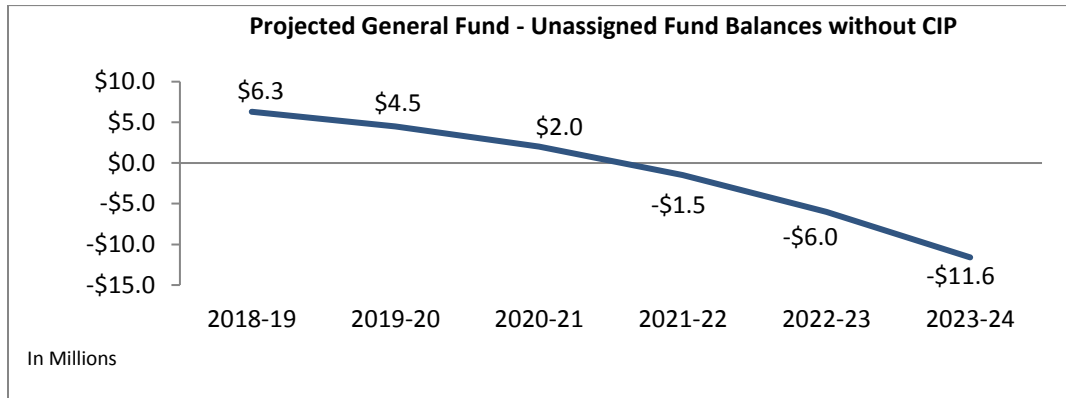
Fund Balance

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

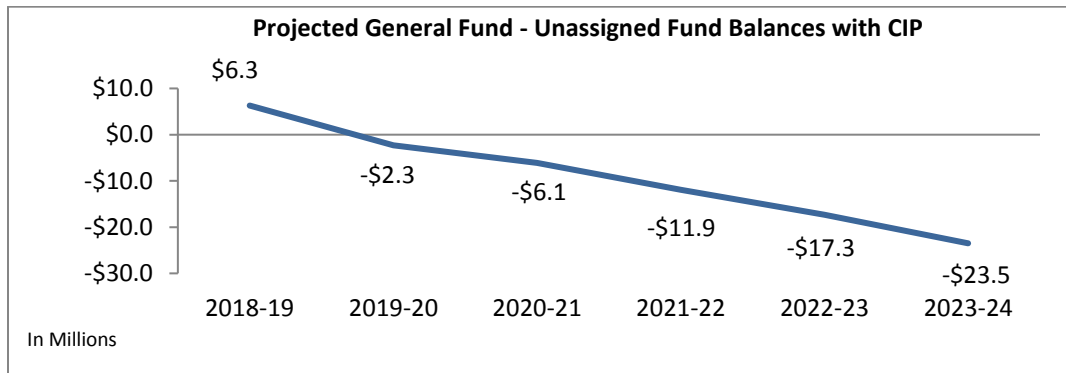
Long Term Financial Plan Overview

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.

Unassigned fund balance is projected to decrease over the five-year forecast. The following chart illustrates projected unassigned fund balances in the General Fund per the 2019 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 maintenance projects based on the references in the forecast papers are added to the forecast, the projected unassigned fund balance would decrease substantially. 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 2018-19 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 2019-20 budget process. It is likely changes will occur based on the needs of the City and available funding sources.

Fund Balance Issues - Several events over the next several years may affect the General Fund. These issues may increase or decrease the unassigned fund balance in the future. Items that may help in the future include continued development at Marblehead and the potential sales proceeds from the land at the corner of La Pata/Vista Hermosa. Other potential decreases may be caused by legal or lawsuit items, and other infrastructure items. If any of these changes occur, staff will bring forth recommendations to City Council for direction.

Long Term Financial Plan Overview

General Fund Reserves

The City's fund balances include the General Fund Emergency Reserves. Currently, this reserve is 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)					
	2019-20	2020-21	2021-22	2022-23	2023-24
Emergency (20% of Oper. Expenditures)	\$13.3	\$13.9	\$14.4	\$15.0	\$15.7

The City has dealt with some of these items already through Council action, but the LTFP is a way to summarize some the larger issues. Moving forward, staff will continue to look at options and to recommend actions to improve the General Fund's operating position.

ISSUES

The **Information Technology Strategic Plan (ITSP)** was originally adopted as part of the 2015 Long Term Financial Plan and provided a roadmap for strategic technology projects. The plan is updated annually to reflect new technology initiatives and technological advancements, while adapting to changing business needs or financial conditions. The 2019 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.

Since the adoption of the ITSP, 26 of the projects have been completed. While projects from past fiscal years are still in progress, there are 5 new projects proposed for FY 2019-20. A list of the individual projects and the status is located within the Information Technology Strategic Plan Update paper.

A **Pension Update** paper has been prepared to discuss City pension obligations. The paper provides analysis of the plans, current funding status, and offers ways to address future pension costs. This paper discusses past actions taken and recommends future actions to be taken. Recommendations include amending Fiscal Policy, taking a more aggressive approach to paying down of unfunded liabilities, and improved reporting to better inform the City Council and residents about the City's pension obligations. In total, plans are funded at 70.5%. Individual funding percentages range from 57.3% to 83.9%, depending on the plan.

Recommendations include adding Fiscal Policy, paying down unfunded liabilities, and improving reporting...

Actions taken now, whether large are small, can improve the funding percentages and will improve future operating positions with minimal impacts. The recommendations from the Pension Update paper include the following:

- Fiscal Policies to formalize the commitment to make retirement plan contributions and to set a minimum target funding level of 90% for each plan.
- Integrating annual informational reporting into the LTFP Trends section and the Annual Budget.
- Directs staff to pursue options to pay down unfunded liabilities through additional one-time contributions from annual budgetary savings.

Long Term Financial Plan Overview

- Authorize a one-time General Fund contribution of \$400,000 to achieve funding the Marine Safety Plan at the 90% target level.

A **Public Safety Overview** paper has been prepared to discuss the largest budget cost within the General Fund. This paper was prepared to provide information to the City Council and the public on public safety services paid for from the General Fund. This paper provides both current and historical information on all public safety efforts the City is deploying to address community issues and maintain the health and welfare of the residents. This process will offer the opportunity to not only consider the financial impacts, but to also understand public safety operations.

The County, based on the first OCSO 1st contract estimate, proposes an increase of 2.67%. Unfortunately, all bargaining units for OCSO expire June 20, 2019 and the County does not expect negotiations to finalize until the fall of 2019. This unknown will result in further cost increases to the OCSO contract. The City is preparing the FY 2019-20 budget to conservatively address these unknown costs. These cost increases are for current levels of service.

Soon, the City will start experiencing increases through the Fire contract. The City will start paying for the 4th firefighter which was added under the OCFA contract. The addition of a 4th firefighter on full rotation for the City of San Clemente was implemented beginning in FY 2017-18, with the first two years of costs fully paid by OCFA. The City expects to pick up a share of those costs beginning in year three, with full cost pick-up by the City by the eighth year. These costs also contribute to the future operating deficit.

In order to address the public safety challenges facing the City of San Clemente, the City has taken a "Public Safety Continuum" approach, whereby Police and Fire services are augmented with the work of several other City Departments and services all contributing to making San Clemente a better, and safer, city. The Public Safety Continuum is a holistic approach that involves Beaches, Parks and Recreation, Code Compliance, Marine Safety, and programs like our Retired Senior Volunteer Program. The City also reaches out and works extensively with our community partners, including neighborhood organizations, non-profit agencies, and other government agencies.

Summary of Long Term Financial Plan Recommendations

This section summarizes the recommendations contained in the 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.

Financial Trend Analysis

1. None

Financial Forecast

1. Continue efforts to identify infrastructure assets and the reserve resources needed to maintain and/or replace those asset based on a comprehensive asset management plan that will be developed through the use and optimization of the CMMS.

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 2019-20.
3. Transfer \$400,000 from the General Fund to the Park Asset Reserve for FY 2019-20.
4. Direct staff to review the Storm Drain charge within the next couple of years to determine a way to meet the cost demands placed on the City's public storm drain system.
5. Transfer an amount of \$225,000 from the General Fund to the Accrued Leave Reserve for FY 2019-20.

Fiscal Policy

1. None

Pension Update

1. In order to strengthen and promote long term financial stability of the City of San Clemente related to pensions, staff recommends that a Pension Fiscal Policies be added to the City's Fiscal Policy. A Pension Policy section can be located in the City's Fiscal Policies. The policies added would state the following:
 - *The required actuarial contributions shall be made to cover the current service cost and unfunded liabilities based on the actuarially determined contribution rate.*
 - *Annually, review the City Pension plans funding levels of and identify areas where funding may be utilized to target a funding ratio of 90% or higher for each of the City's individual pension plans.*
2. Incorporate a pension trend indicator into the Long Term Financial Plan in 2020 (Trends Section).
3. Incorporate a Pension summary page in the City budget.
4. Direct staff to pursue options, as identified in the Pension Analysis issue paper, to pay down unfunded liabilities for the pension plans to meet the target 90% funding level by plan and authorize a one-time General Fund contribution from General Fund unassigned fund

balance to the Marine Safety Plan in an amount up to \$400,000 to reach a 90% funding level in this plan.

Information Technology Strategic Plan Update

1. Accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2019-20 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 2013-14 through FY 2017-18. Consequently, all trends are based on data available as of June 30, 2018 and do not incorporate any changes that have occurred since that time.

Executive Summary

The financial trends that follow provide City Council and Administration with insight into the overall financial position of the City by analyzing the City's General Fund. This analysis makes it possible to identify specific areas where new policies should be implemented or existing ones revised. The 21 trends have been categorized into 5 basic categories:

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

Financial Trend Analysis

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 illustrate any positive or negative changes.

INDICATORS	FY 18-19	FY 17-18	FY 16-17	FY 15-16	FY 14-15
REVENUE:					
Revenues Per Capita	F	F	F	F	F/C
Property Tax Revenues	F	F	F	F/C	F/C
Elastic Revenues	F	F	F	F	F
Sales Tax Revenues	F	F	F	F	F
Permits & Business License Revenues	F/C	F/C	F	F	F
Comm. Develop. Charges	F/C	F/C	F/C	F	F
Intergovernmental Revenues	F	F	F	F	F
One-Time Revenues	F	F	F	F	F
Revenue Overage	F	F	F	F	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	F/C	F/C	W
Capital Outlay	F	F	F/C	F	F
OPERATING POSITION:					
Operating Surplus (Deficit)	F/C	F/C	F	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	F/C

Overview of the City's Financial Condition

The 2019 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. 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 no trend changes from the last fiscal year.

Rating discussion

Although there were no trend changes over the previous fiscal year; the City is still seeing growth in revenue and stability.

Permits and Business License Revenue remain a Favorable/Caution rating due to the first year of increases of \$375,078 or 24% over FY 2016-17.

Community Development Charges remain a Favorable/Caution rating as this is the first year of increases (\$378,964 or 37%) over the previous year; and revenues will need to be monitored to ensure that they start to stabilize in the near future.

Operating Surplus (Deficit) remain a Favorable/Caution rating as the large increase in operating surplus over the previous year is mainly due to several large one-time capital expenditure projects and transfers completed in FY 2017-18.

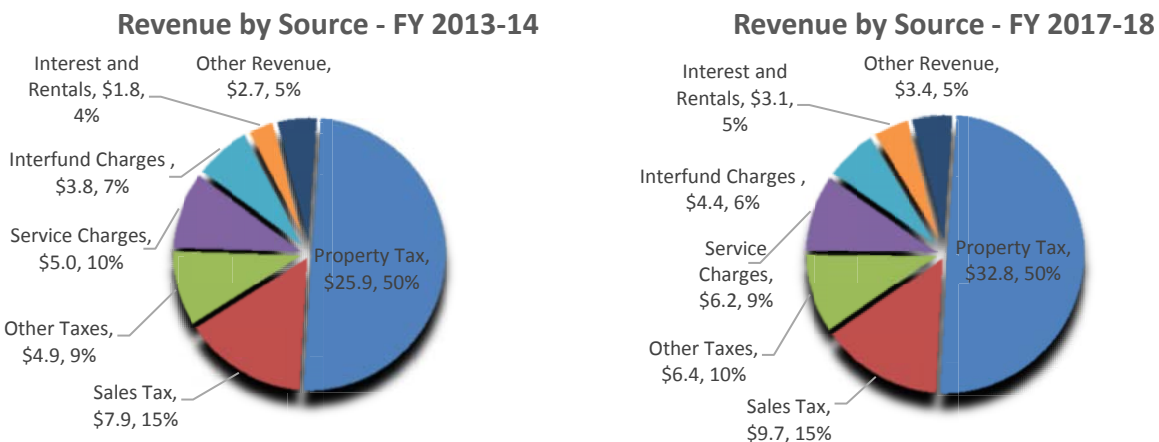
The City continues to see some positive changes over the past year due to development and an improving local economy. The City continues to be selective in filling positions and budgeting conservatively. Although the economy is stable, the City continues to review the budget annually at the department 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 2013-14 and FY 2017-18. The following pages provide an analysis of the actual nine revenue trend indicators in detail.

Comparison of Revenues by Source FY 2013-14 vs. FY 2017-18 (in millions)



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

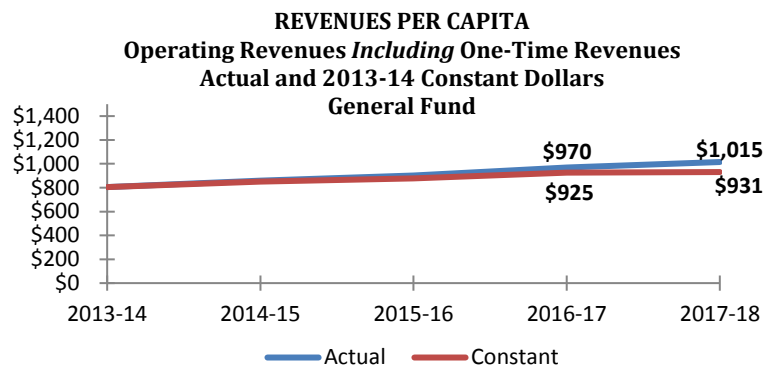
- Property taxes, during the five year period, increased due to assessed valuation growth and the build-out of Talega and the Sea Summit residential development.
- Sales taxes increased during the period as a result of the Outlets at San Clemente in FY 2015-16. Also, a one-time receipt of \$500,000 from the elimination of the triple flip program was received in FY 2015-16.
- Other taxes increased from \$4.9 million to \$6.4 million mainly due to an increase in business license tax receipts.
- Service Charges increased from \$5.0 million in FY 2013-14 to \$6.2 million in FY 2017-18, due to increased construction inspection fees, recreation service charges, plan check fees, and fee revenues from an additional full-time ambulance added in FY 2015-16.
- Other revenue increases were based on Licenses and Permits revenues which increased from \$1.5 million in FY 2013-14 to \$2.1 million in FY 2017-18 based on construction related fees primarily for the Outlets at San Clemente, Sea Summit residential development and the Estrella Shopping Center.
- Interfund charges increased from \$3.8 million in FY 2013-14 to \$4.4 million in FY 2017-18 due to \$0.5 million in transfers from the developer's improvement fund and a one-time \$193,404 transfer to close out the Negocio Debt Service fund in FY 2017-18.
- Decreases were noted in Fines and Forfeitures due to a decline in vehicle code fines.

Revenue Trend Analysis

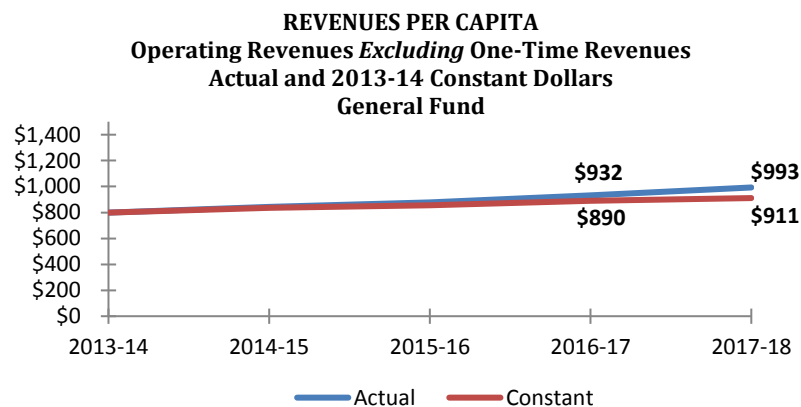
Indicator: Revenues Per Capita

Comments:

The first chart (which includes one-time revenues) shows an increase from \$970 to \$1,015 in actual dollars and a corresponding increase from \$925 to \$931 in constant dollars. Total revenues for Fiscal Year 2017-18 increased by \$2.3 million from the prior year, mainly due to increases in property tax, other taxes, licenses and permits, interest and rentals, intergovernmental, fines and forfeitures, and service charges. The revenue categories with the most significant increases include Property Taxes (6%), Other Taxes (2%), licenses and permits (19%), interest and rentals (40%), and service charges (5%); while decreases are in sales tax, interfund charges, and other revenue.



The second chart (which excludes one-time revenues) shows an increase in actual dollars from \$932 to \$993 and an increase in constant dollars from \$890 to \$911. 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.

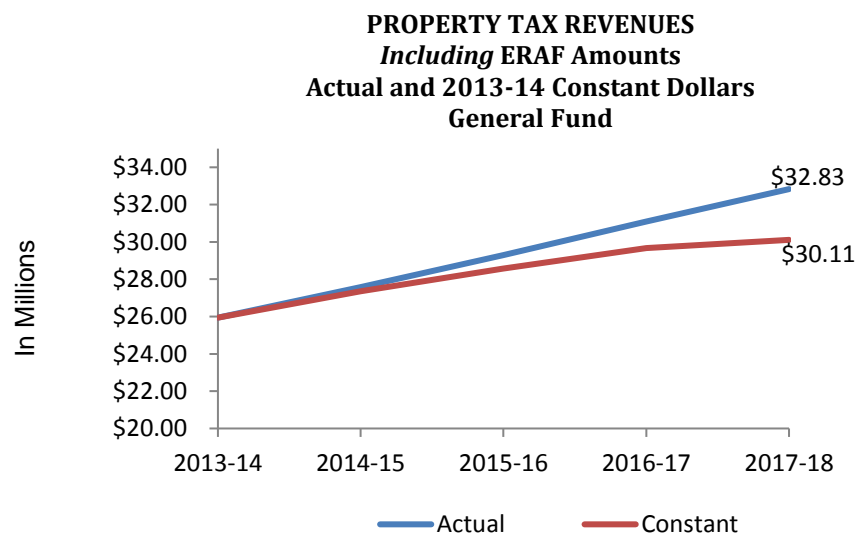
Revenue Trend Analysis

Indicator: Property Tax Revenues

Comments:

The chart below shows property tax revenues increasing from \$31.1 million to \$32.83 or 6% in actual dollars, and from \$29.7 million to \$30.1 million or 1% in constant dollars.

Property taxes have increased over the past year due mainly to the continued growth in assessed values. 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 five years.

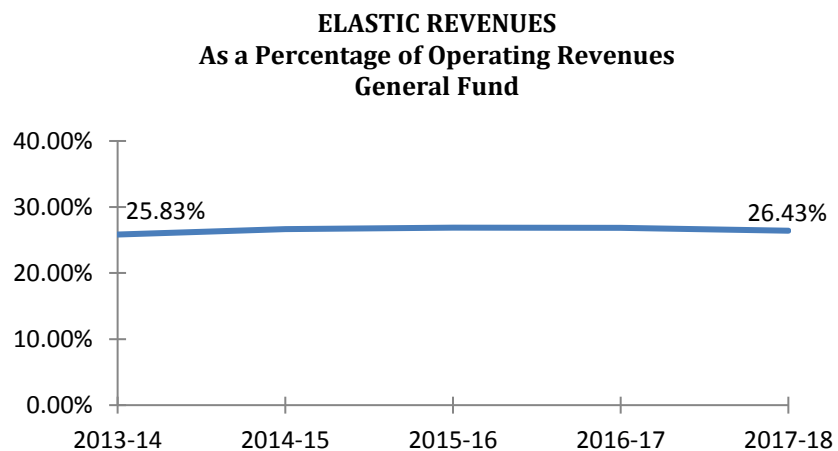
Revenue Trend Analysis

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.

While Elastic revenues increased by 4% from the prior year, the net operating revenues increased by 5%; causing Elastic revenues, as a percentage of total revenues, to decreased from 26.83% in FY 2016-17 to 26.43% in FY 2017-18. 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 over the past year.

Revenue Trend Analysis

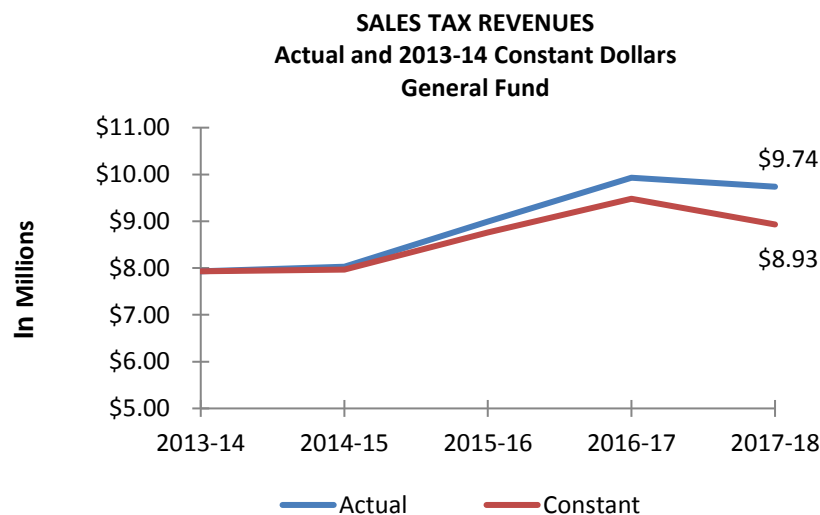
Indicator: Sales Tax Revenues

Comments:

As summarized in the chart below, sales tax revenues show a decrease of \$0.2 million, or 2% in actual dollars over the prior fiscal year. In constant dollars, there was a decrease of \$0.5 million, or 6% for FY 2017-18.

Sales tax revenues have decreased for the first time in the five year trend period in actual dollars. A significant portion of the weakness was due to the State implementing a new tax reporting software. The State experienced issues resulting in missing or partial payments that will be corrected in the coming year. If the sales tax revenues decreased this would be a warning or caution to the future.

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



Status: FAVORABLE

This indicator remains a Favorable rating because although sales taxes have decreased slightly from the prior year, it was due to the State's implementation of new tax reporting software issues and will be corrected in the near future.

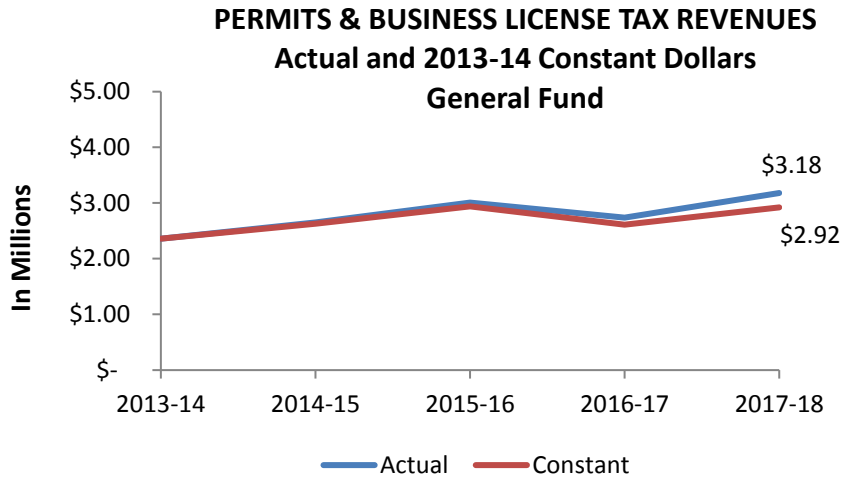
Revenue Trend Analysis

Indicator: Permits & Business License Revenues

Comments:

Permits and Business License Tax revenues increase in actual dollars in the amount of \$444,451 or 16% from the prior fiscal year. The constant dollar increase was \$306,768 or 12% from FY 2016-17.

Construction permit revenue increased \$357,078, or 24% over the past year, which coincides with the increase in construction activity in the current year. Business license tax revenue increased by \$72,863 or 7% from FY 2016-17 due to higher business license revenue than the prior year.



Status: FAVORABLE/CAUTION

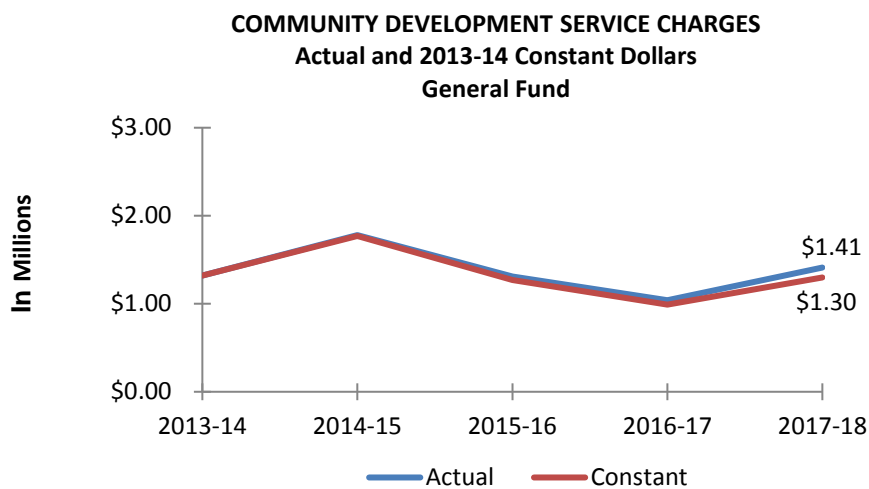
Permits and Business License Tax remains Favorable/Caution rating, due to the first year of increases over the prior year. This indicator will be monitored, as new developments should bring in more business license taxes and related permit revenues in the near future.

Revenue Trend Analysis

Indicator: *Community Development Service Charges Revenues*

Comments:

Total community development service charges increased by 37%, or \$378,964 from the prior year. This increase is due to increases in construction inspection fees, (\$92,020), as well as an increase in General Government service charges, (\$287,520), including building plan check fees (\$162,290) and planning application fees (\$95,590).



Status: *FAVORABLE/CAUTION*

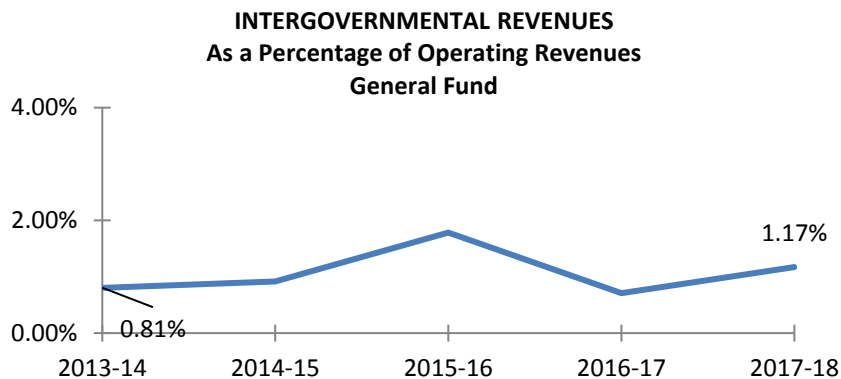
This trend remains a favorable/caution rating due to the first year of increase in revenues from the prior year. Revenues will need to be monitored to ensure that the revenues stabilize in future years.

Revenue Trend Analysis

Indicator: Intergovernmental Revenues

Comments:

General Fund Intergovernmental revenues, as a percentage of operating revenues increased to 1.17% in FY 2017-18. 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 \$6.6 million and the intergovernmental percentages were 10.4% in FY 2016-17 and 11.1% in FY 2017-18, which still supports the Favorable rating.

Revenue Trend Analysis

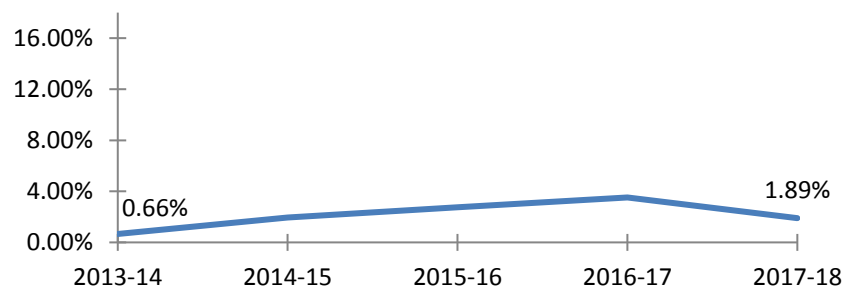
Indicator: One-Time Revenues

Comments:

One-time revenues, as a percentage of total General Fund revenues, equaled 1.89% in FY 2017-18, a decrease over the prior year.

One-time revenues decreased by \$0.9 million from the prior fiscal year. FY 2017-18 one-time revenues of \$1,246,253 include, \$489,821 of grant funds, and \$71,407 from miscellaneous reimbursements, a one-time transfers of \$456,310 from Developers Improvement fund and \$193,404 from Negoicio Debt Service fund to close out the debt service fund. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditure.

ONE-TIME REVENUES
As a Percentage of Operating Revenues
General Fund



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.

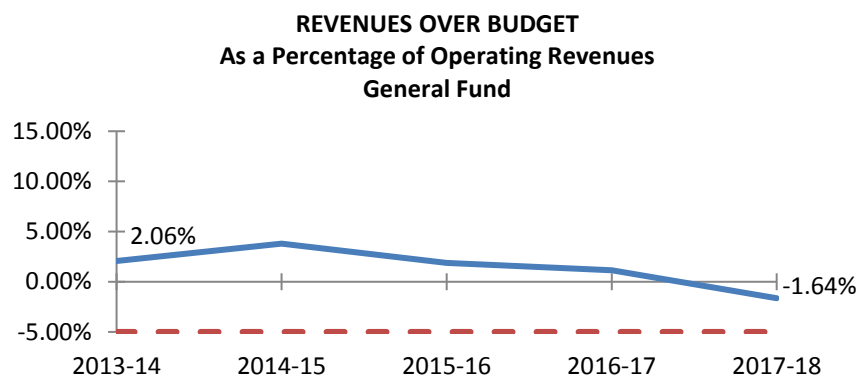
Revenue Trend Analysis

Indicator: Revenues over Budget

Comments:

Actual revenues were less than the adjusted budget by \$1.0 million for FY 2017-18 and ends with a negative revenue position of 1.64%. The City experienced revenues under budget in intergovernmental of \$2.6 million (due to ongoing Federal, State and County grants that were not completed in FY 2017-18). The City has also experienced the largest budget overages in taxes (\$1.1 million), and charges for services (\$960,289).

This trend began the five-year analysis with a positive revenue position of 2.06% and ended FY 2017-18 at a negative 1.64%. The City monitors its revenues through the annual budget and long term financial planning processes in order to accurately forecast its revenues. The City continues to budget and receive revenues within the expected 5% range.



Status: FAVORABLE

This trend remains a Favorable rating as the largest budget shortage was in the Intergovernmental category which includes grant revenues that are multi-year in nature. If the grant revenues were excluded, this trend would show a favorable percentage of 2.12%; which supports a favorable rating.

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 2013-14 and 2017-18. 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 2013-14 General Fund expenditures by function to FY 2017-18. 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 2013-14 vs FY 2017-18**

Expenditure Function	FY 2013-14	FY 2017-18	Difference	% Change
General Government	\$ 8,663,558	\$ 15,216,036	\$ 6,552,478	76%
Public Safety	20,353,164	24,011,804	3,658,640	18%
Community Dev.	4,436,561	4,996,730	560,168	13%
Public Works	7,922,046	15,756,138	7,834,092	103%
Beaches, Parks & Rec	11,091,712	6,604,530	(4,487,183)	-43%
Total Expenditures	\$ 52,467,043	\$ 66,585,237	\$ 14,118,194	27%

- General Government increased by \$6.5 million or 76% over the five year period due to increases in personnel costs of \$430,430; legal (\$1.3 million) and other professional services (\$248,200); increases in capital outlay of \$265,000; an increase in transfers of \$2.2 million which support the Facilities Maintenance reserve in FY 2017-18; an increase in interdepartmental charges of \$1.1 million due mainly to revised cost allocations for insurance (\$991,710) and Information Technology (\$67,270) charges; and an increase in debt service costs of \$773,000, due to an increase in payments of unfunded pension liability in FY 2017-18.
- Community Development increased by \$0.5 million or 13% due to an increase in other contractual services of \$505,000 from FY 2013-14 to FY 2017-18.
- Public Works increased by \$7.8 million or 103% 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 \$3.6 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 \$4.5 million or 43%, due to Beaches, Parks, and Recreation maintenance re-categorization to Public Works in FY 2015-16. If it was not for this re-categorization, the beaches, parks and recreation function would have increased by \$464,275 or 8% from FY 2013-14 to FY 2017-18; due to increases in personnel costs (\$73,330); other professional and contractual services of \$20,000 and \$128,360 respectively; recreation special events of \$67,920; and contract class instructors payments of \$225,800.

Financial Trend Analysis

The following table compares expenditures by category and shows increases in personnel, supplies, contractual services, other charges, capital, and interfund payment expenditure categories between FY 2013-14 and FY 2017-18.

Comparison of Expenditures by Category FY 2014 vs FY 2018

Expenditure Category	FY 2013-14	FY 2017-18	Difference	% Change
Personnel	\$ 16,434,462	\$ 16,568,525	\$ 134,063	1%
Supplies	894,317	1,081,564	187,247	18%
Contractual Services	25,698,312	33,767,589	8,069,276	33%
Other Charges	1,005,380	2,279,107	1,273,727	102%
Capital Outlay	2,776,315	4,336,361	1,560,046	81%
Interfund Payments	5,658,256	8,552,091	2,893,835	47%
Total Expenditures	\$ 52,467,043	\$ 66,585,237	\$ 14,118,194	27%

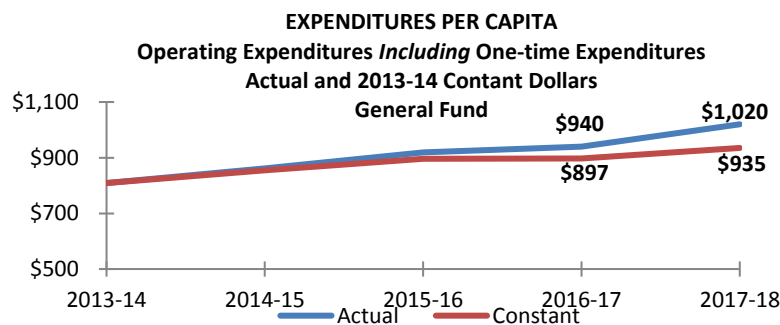
- The personnel (salary and benefits) category increased by 1% over the five year period; which reflects the retirement of several long-term employees between FY 2013-14 and FY 2016-17; the controlling of position growth (FTE's), vacancies, and an increase in COLA salaries over the five year period.
- Capital increased by 81% or \$1.6 million from FY 2013-14 to FY 2017-18, reflecting increases in major capital improvements during the five year period. Capital expenditures in FY 2017-18 included 910 Calle Negocio Remodel/Temporary City Hall Relocation of \$419,000; Concordia and Shorecliffs Safe Routes to School project of \$1,712,900; and Pier Structural Construction of \$1,233,980.
- Contractual Services increased by 33% or \$8.1 million from FY 2013-14 to FY 2017-18 reflecting increases in contractual services for Police (\$2.2 million), Fire (\$1.2 million), ambulance services (\$613,645), other contractual services (\$612,286), and legal services (\$1.2 million) from FY 2013-14 to FY 2017-18.
- Interfund payments increased by 47% or \$2.9 million mainly due to one-time transfers to the Facilities Maintenance reserves of \$2.9 million based on the Long-Term Financial Plan for FY 2017-18.
- Other Charges increased by 102% or \$1.3 million due to the addition of Vista Hermosa Sports Park in FY 2013-14, contract class instructor payments (\$225,800) and an increase in the unfunded CalPERS liability (\$771,950) in FY 2017-18.

Expenditures Trend Analysis

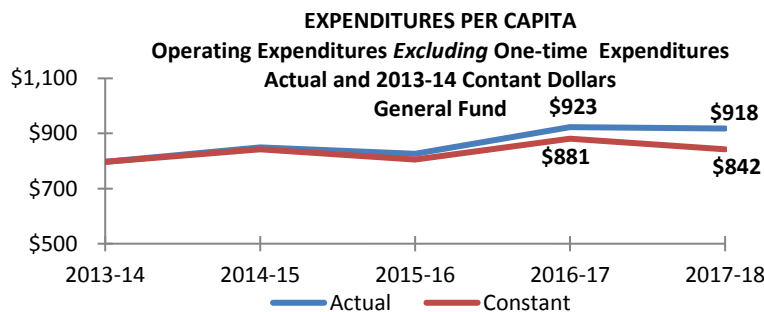
Indicator: Expenditures Per Capita

Comments:

The first chart which includes one-time expenditures shows an increase from \$940 to \$1,020 in per capita actual dollars and an increase from \$897 to \$935 in per capita constant dollars. This reflects the increase in actual dollars of \$4.5 million and the increase in constant dollars of \$1.9 million when compared to FY 2016-17. The increase in actual dollars was mainly in Public Works (\$1.5 million), Police (\$0.9 million), and City General (\$1.2 million). The increase in Public Works is due to contractual services costs (\$0.9 million) and capital costs (\$0.6 million); including the Concordia and Shorecliffs Safe Routes to School and Pier Structural Construction, in the current year. The increase in Police Services is due to an increase in contractual costs. The increase in City General is due to an increases in legal services (\$0.7 million), interdepartmental insurance charges (\$470,600), and unfunded PERS liability payment increase (\$449,200).



The second chart (which excludes one-time expenditures) shows a decrease in actual dollars from \$923 to \$918, and a decrease in constant dollars from \$881 to \$842. One-time expenditures include a one-time transfer to Facilities Maintenance reserve of \$2.9 million and one-time funds of \$0.4 million, \$1.2 million, and \$1.7 million for the 910 Calle Negocio Remodel, Pier Structural Construction, and Safe Routes to School projects respectively.



Status: FAVORABLE

Expenditures per capita (including one-time expenditures) reflect an increase when analyzing actual 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 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 2013-14 to FY 2017-18. The chart below indicates that the largest fluctuations of expenditures are in Public Works, and Beaches, Parks, and Recreation with an increase of 8%, and a decrease of 11% respectively.

When looking at the table, Public Works increased from 14% in FY 2013-14 to 17% in FY 2017-18. In actual dollars Public Works increased by \$5.9 million, or 94%. The Beaches, Parks, and Recreation category decreased from 22% to 11% in FY 2017-18 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 2013-14 vs. FY 2017-18

Expenditure Function	FY 2013-14	% of Total 2013-14	FY 2017-18	% of Total 2017-18	Total Change
General Government	\$ 6,468,620	14%	\$ 9,812,051	17%	3%
Public Safety	20,353,165	43%	24,011,804	42%	-1%
Public Works	6,229,663	13%	12,125,282	21%	8%
Community Dev.	4,344,617	9%	4,996,730	9%	0%
Beaches, Parks & Rec	10,528,227	22%	6,592,518	11%	-11%
Total Expenditures	\$ 47,924,291	100%	\$ 57,538,384	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*

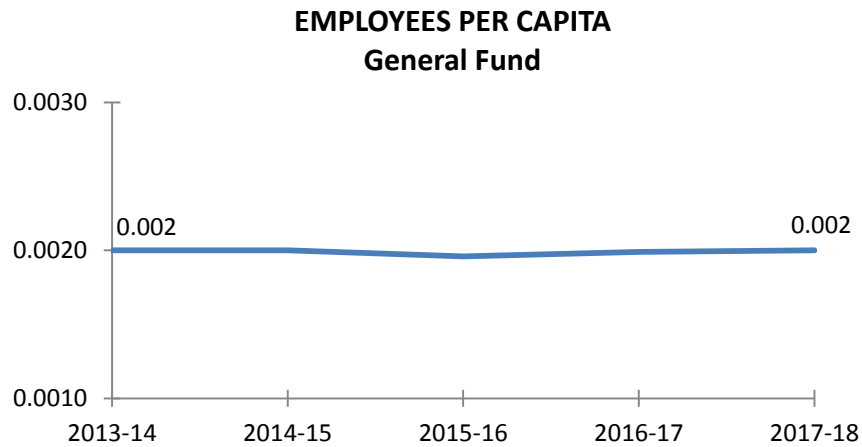
This trend remains favorable because the major increases and decreases in both categories are due to a re-evaluation of City functions and not due to changes in the actual services themselves.

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.

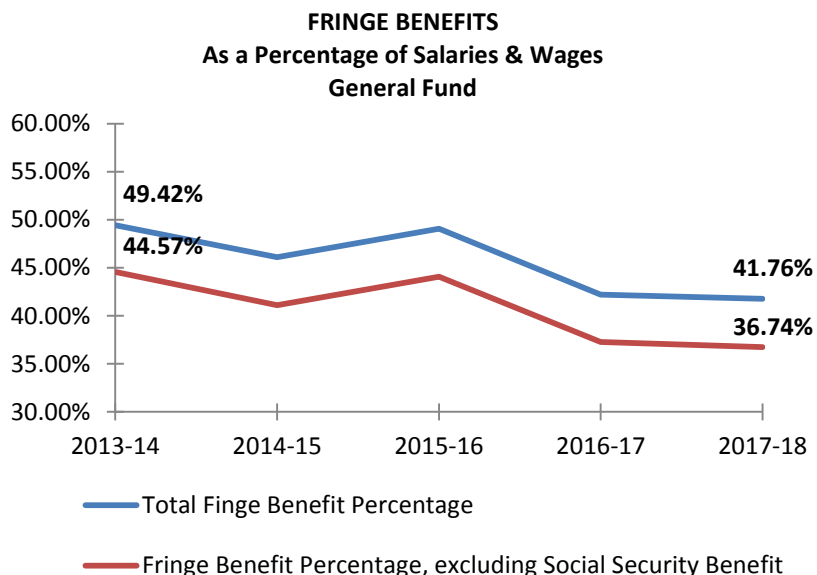
Expenditures Trend Analysis

Indicator: Fringe Benefits

Comments:

Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, decreased from 42.2% to 41.8%. Fringe benefits (excluding social security benefits) show a corresponding decrease when compared to FY 2016-17. The actual amounts of General Fund benefits increased from \$4.75 million in FY 2016-17 to \$4.88 million in FY 2017-18, a 3% increase from the prior year. General Fund salary and wages were \$11.3 million in FY 2016-17 and \$11.7 million in FY 2017-18, which is an increase of 4%.

Although the health rates have increased for the year, the CalPERS and San Clemente retirement premiums were lower than the prior year by \$4,670 and \$65,530 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 negotiations, and 3) Employees hired under the new California Public Employees' Pension Reform Act (PEPRA) has resulted in cost savings.



Status: FAVORABLE

This trend remains 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

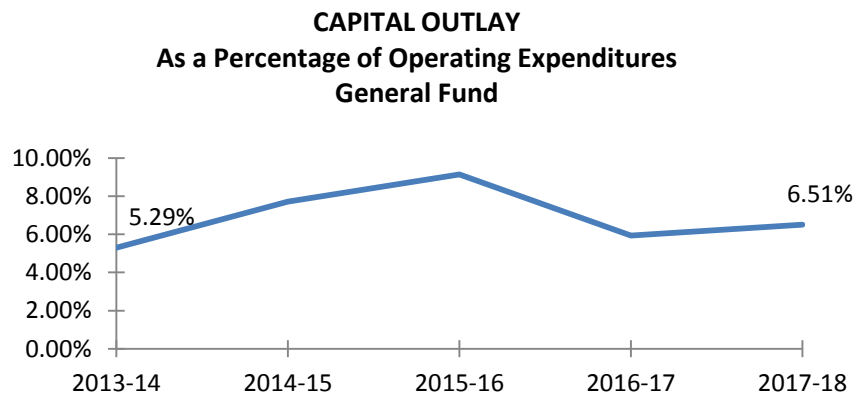
Indicator: *Capital Outlay*

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 increased by \$657,530, or 18%, from FY 2016-17. Capital outlay expenditures totaled \$4.3 million.

Spending on capital outlay has increased due to an increase in improvements including 910 Calle Negocio Remodel, Pier Structural Construction and Concordia and Shorecliffs Safe Routes to School projects.



Status: *FAVORABLE*

This trend remains a Favorable rating due to the small increase from the prior fiscal year as this trend percentage is starting to level out.

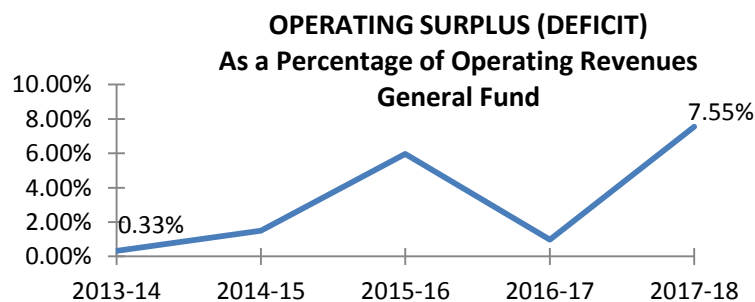
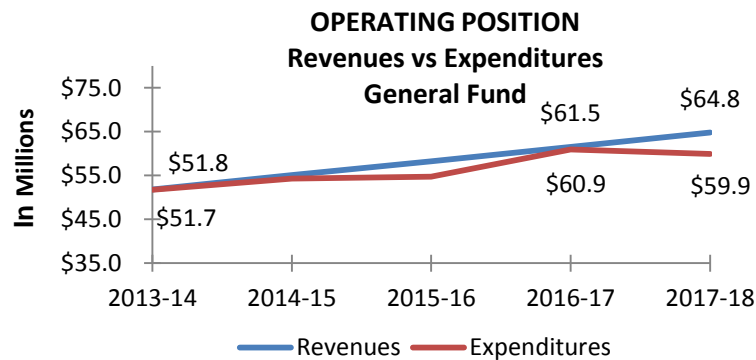
Operating Position Trend Analysis

Indicator: Operating Surplus (Deficit)

Comments:

Fiscal year 2017-18 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 \$1.2 million, which includes \$489,821 of grant revenue, \$71,407 in miscellaneous one-time revenues; and \$685,025 in transfers, including a \$456,310 one-time transfer from the Developer Improvement fund, and a one-time transfer of \$193,404 from Negocio Debt Service fund. Expenditures used to calculate this surplus do not include a one-time capital costs of \$3.4 million including \$419,034 for the 910 Calle Negocio Remodel project, \$1.2 million for Pier Structural Construction costs, and \$1.7 million for Concordia and Shorecliffs Safe Routes to School grant project; a transfer from the General Fund to the Facilities Maintenance and General Liability funds of \$2.9 million and \$300,000 respectively; other transfers of \$37,654; and one-time studies and costs of \$23,660. This calculation of operating expenditures does not exclude \$3.0 million of capital costs for yearly maintenance and improvements. The total operating position was \$4.9 million in FY 2017-18, compared to \$0.6 in FY 2016-17.



Status: FAVORABLE/CAUTION

This trend remains a Favorable/Caution as this increase in surplus has only occurred for one year.

Operating Position Trend Analysis

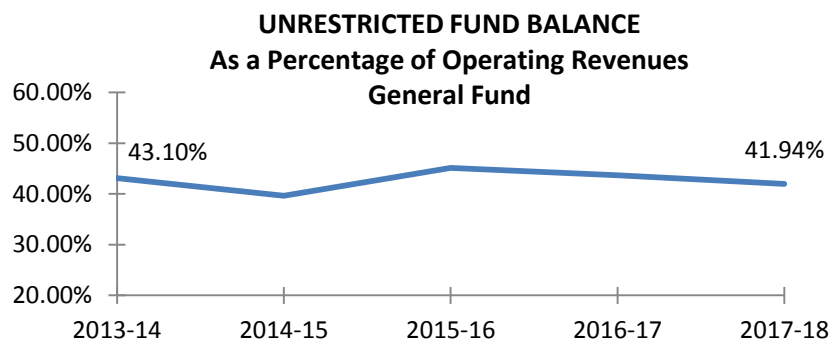
Indicator: *Unrestricted Fund Balance*

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 decreased by 1% in FY 2017-18 from \$27.9 million to \$27.7 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 2017-18 unrestricted fund balances of \$27.7 million are committed funds of \$14.4, which includes \$12.1 million of emergency funding, and \$2.3 million committed for other purposes. Also included is assigned to other purposes \$10.1 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.

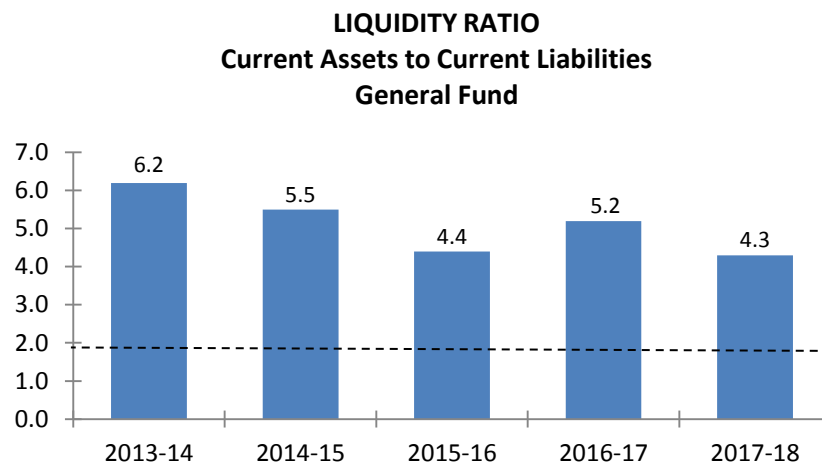
Operating Position Trend Analysis

Indicator: *Liquidity Ratio*

Comments:

In FY 2017-18, the City's liquidity ratio remains positive at 4.3:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 4.3:1 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*

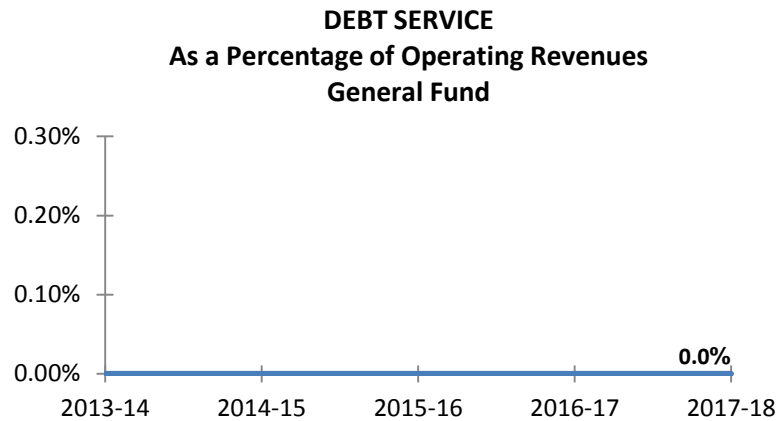
This trend is favorable due to a ratio of over 1:1 throughout the past five year period analyzed above.

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.

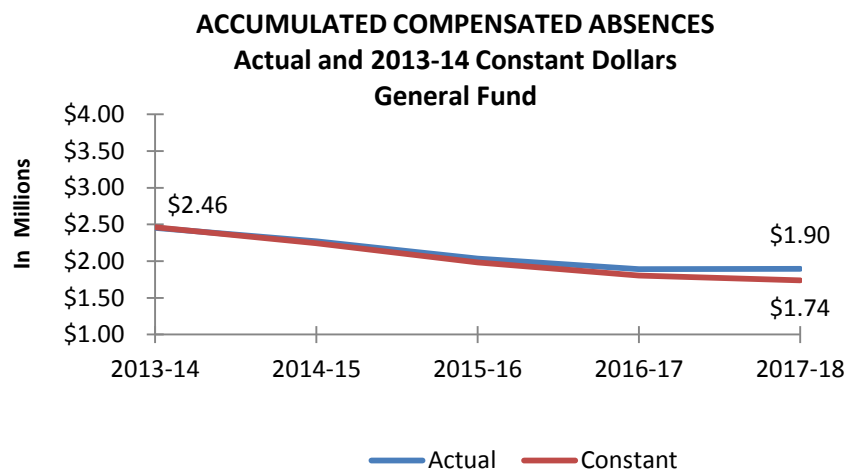
Debt Service/Unfunded Liability Trend Analysis

Indicator: *Accumulated Compensated Absences*

Comments:

At June 30, 2018, the balance of the liability for compensated absences was \$1.90 million consisting of \$1.1 million for vacation, \$0.7 million for sick leave, and \$111,570 for compensatory time. This is an increase of \$3,654 or 0.1% from the prior year's liability of \$1.89 million. This is a slight increase from FY 2016-17.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. As of June 30, 2018 the Accrued Leave Reserve balance was \$1.9 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.

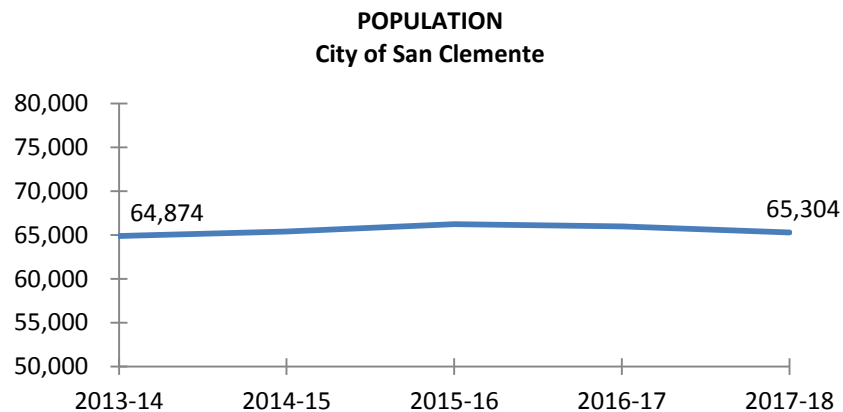
Community Trend Analysis

Indicator: Population

Comments:

The City's population has decreased by 1.02% 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. As the City is almost built out, the fiscal years 2013-14 through 2017-18 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

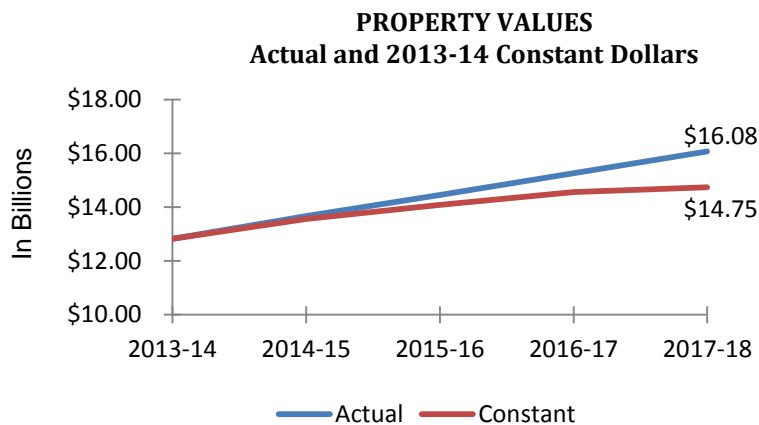
Indicator: Property Values

Comments:

The growth rate in property values as a percentage rate from the previous year in actual dollars was positive 5% or \$809 million. This is a 1.2% or \$179 million change in constant dollars, as seen in the chart below. The City is seeing four 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 2017-18. 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.

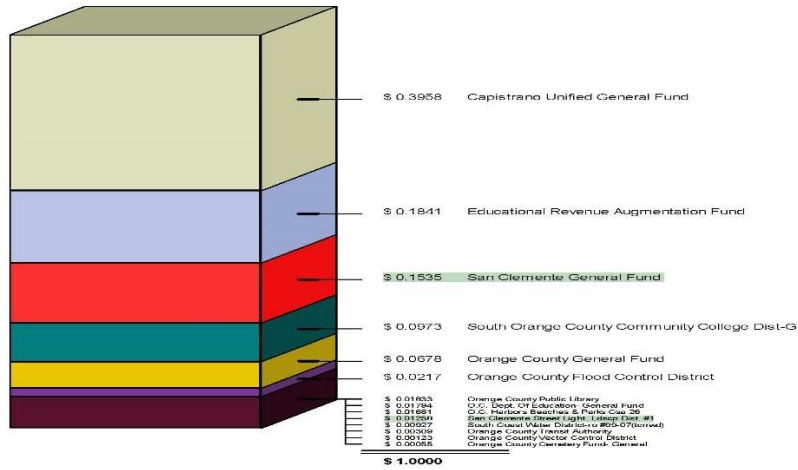


Status: FAVORABLE

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

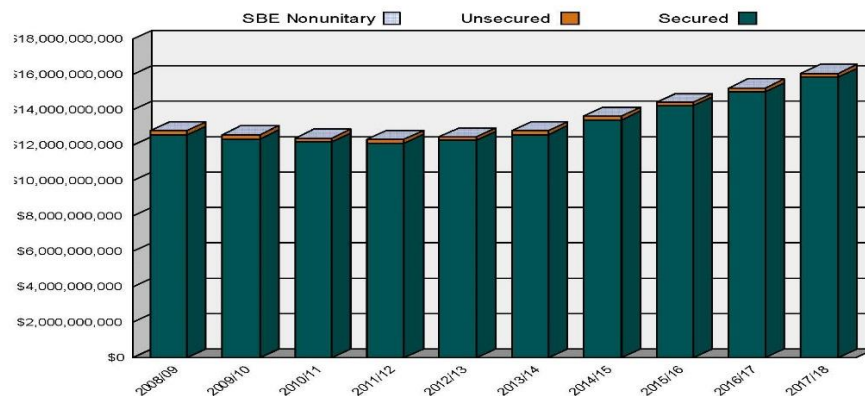


ATI Annual Tax Incremental Ratios for Tax Rate Area 10000, Excluding Redevelopment Factors & Additional Debt Service
 Data Source: Orange County Assessor 2017/18 Annual Tax Incremental Tables. Prepared On 7/31/2018 By KB
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HDL, Cohen & 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 2008/09 - 2017/18 Taxable Property Values

Lien Year	Secured	Unsecured	SBE Nonunitary	Net Total AV	% Change
2008/09	\$12,582,839,817	\$269,246,362	\$240,000	12,852,326,179	
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%
2017/18	\$15,861,270,659	\$220,164,036	\$0	16,081,434,695	5.36%



Data Source: Orange County Assessor Q - 2017/18 Combined Tax Rolls. Prepared On 7/31/2018 By KB
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HDL, Cohen & 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 and to provide an overview of important capital projects.

Executive Summary

The five-year financial forecast was last updated after adoption of the FY 2018-19 budget. The prior forecast identified a small operating surplus in the first year of the forecast, followed by operating deficits in the remaining years, as follows:

FY 2018-19 Budget Forecast (millions)	2018-19	2019-20	2020-21	2021-22	2022-23
Projected surplus/deficit	\$ 0.2	\$(0.1)	\$(0.8)	\$(1.5)	\$(2.3)

The updated 2019 LTFP five-year financial forecast, shown below, also reflects a positive operating position in the first year, 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:

2019 LTFP Forecast (In millions)	2019-20	2020-21	2021-22	2022-23	2023-24
Operating receipts	\$ 67.0	\$ 69.0	\$ 70.7	\$ 72.7	\$ 74.9
Operating disbursements	<u>66.7</u>	<u>69.4</u>	<u>72.2</u>	<u>75.2</u>	<u>78.3</u>
Projected surplus/deficit	\$ 0.3	\$(0.4)	\$(1.5)	\$(2.5)	\$(3.4)

The 2019 Long Term Financial Plan forecast shows an improved operating position for the first two years, as compared to the forecast presented at last year's budget adoption.

Revenues increases for operations are projected at an average of 2.9%, or \$1.97 million, annually over the forecast period. Property taxes continue to rise from property values that continue to appreciate, new development in the City, and final recaptures of Proposition 8 reassessments that occurred during the recession. For FY 2019-20, growth of 4.6% is anticipated in property tax revenue. Sales tax included in the forecast is projected to remain relatively flat in FY 2019-20, as compared to the current year, partially due to a slow down in general consumer spending, but also due to one-time excess receipts in the current year from delayed reporting from the prior fiscal year. Opening of additional stores and restaurants at the San Clemente Outlet Mall and the Estrella shopping center development, as well as other new businesses in the City, are 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 4.1%, or \$2.84 million, 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 3.7% in FY 2019-20, mainly due to wage and salary growth from prior MOU commitments. The 3.7% forecasted increase includes an estimate for additional anticipated wage increases, as all MOU's for all bargaining units expire June 30, 2019. 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 was filled through overtime initially, with the first two years of costs fully paid by OCFA. The City will now begin 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 2019-20 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 2019-20 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 2019 Economic Forecast for Southern California and Orange County, presented in October 2018.

Per the Cal State Fullerton forecast, in the near-term the U.S. economic expansion, currently in its tenth year, has more room to grow, provided there are no policy mistakes and the long-awaited pick-up in productivity ultimately materializes. It is expected that the expansion should continue over the next 3-5 years. Consumer spending is strong; business investments should expand at a healthy pace, and inventories should give an additional boost to growth. Growth is expected to be further stimulated by Federal Government's \$1.5 trillion tax cut coupled with \$1.3 trillion in fiscal spending. The unemployment rate is projected to drift lower as the labor market

tightens, averaging 3.9% in 2018, 3.6% in 2019 and reaching 3.4% in early 2020. However, because the economy is performing so well, many economists are starting to worry about overheating – citing resource constraints, rising inflation, and rate hikes by the Federal Reserve as the main factors.

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 current federal administration. Decisions about unwinding of the quantitative easing program, adjustments to interest rates, and the impact of the new tax laws all have the potential to impact the continued expansion, both positively and negatively.

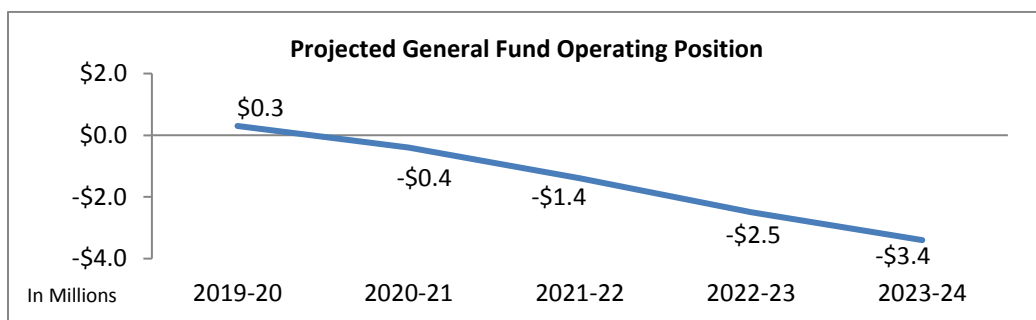
For Southern California and Orange County, job growth appeared to slow down in 2018, but the unemployment rate remains low and even dropped to 2.6% in Orange County during April and May of 2018. Unemployment is expected to stay low for the foreseeable future. Housing prices have continued to grow, but at a more moderate pace. In Orange County, median single-family house prices hit \$800,000 in May of 2018, and all-time high. Since that time, housing prices have begun to level-off. Land prices and construction material costs have jumped significantly in the last three years. Local land use regulations typically do not allow higher density developments, thus making single family homes unaffordable. Construction in Orange County has slowed, but is expected to continue at a healthier pace in other parts of Southern California.

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 second 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.

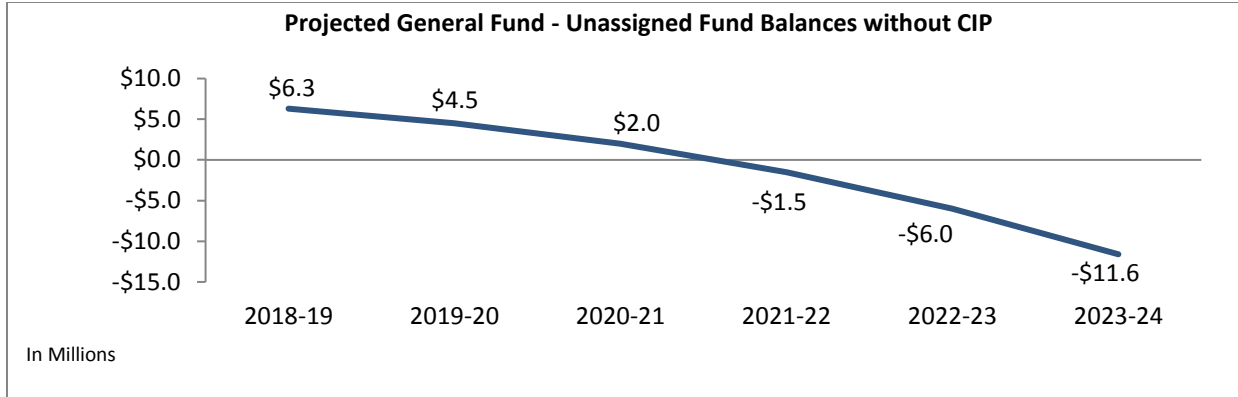
Committed Fund Balance - One of the main financial goals of the City, as defined in the City’s Fiscal Policy, is to ensure that adequate resources will be available to fund the General Fund’s emergency reserve. The emergency reserve level is maintained at the required level of 20% of operating Expenditures,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

General Fund – Committed Reserves (in millions)

	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>
Emergency (20% of Oper. Expenditures)	\$13.3	\$13.9	\$14.4	\$15.0	\$15.7

Unassigned Fund Balance - The General Fund’s *unassigned fund balance* is projected to be \$6.3 million at the end 2018-19. Note that the 2019 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 \$11.6 million at the end of FY 2023-24.

The chart below illustrates projected unassigned fund balance in the General Fund for the next several years, based on the 2019 LTFP forecast:

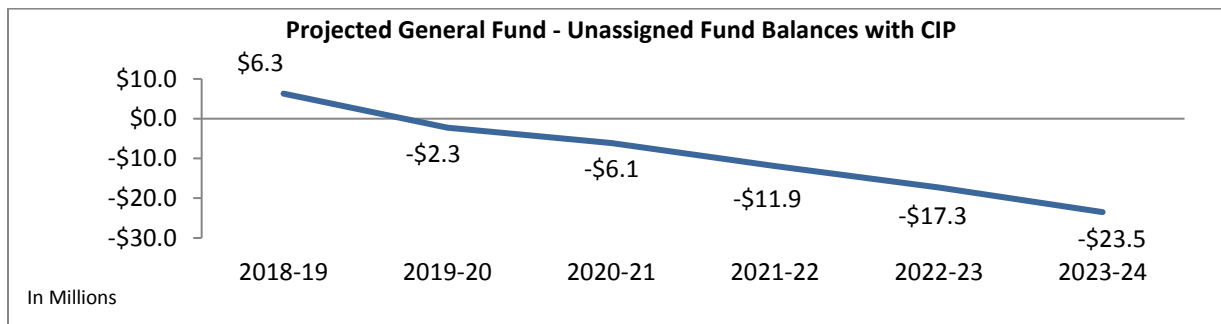


If projected capital and one-time major maintenance projects are added to the 2019 forecast, the City’s projected unassigned fund balance would decrease substantially.

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 2018-19 budget, excluding the project costs to be funded by grant revenue:

Proposed Projects (In millions)	2019-20	2020-21	2021-22	2022-23	2023-24
Capital Projects	\$6.7	\$1.0	\$2.2	\$0.5	\$0.0
Major Maintenance (not ongoing)	<u>0.1</u>	<u>0.3</u>	<u>0.1</u>	<u>0.3</u>	<u>0.7</u>
Totals	\$6.8	\$1.3	\$2.3	\$0.8	\$0.7

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 2018-19 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 2019-20 budget process (See Appendix A - Capital Projects Analysis).

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 is included in the forecast for further development of this site. No sales tax associated with additional stores and restaurants or with future phases of the retail project and no revenue is included for a potential hotel development. 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.

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. Recently, staff was directed by the City Council to find a potential suitor to either buy or lease the property. The final determination of the disposition of the land has yet to be determined, but staff plans to present recommendations to the City Council in the coming fiscal year. If the disposition of the land results in revenue to the City, staff will provide City Council with recommendations to possibly use the proceeds to fund infrastructure maintenance reserves.

Legal and Lawsuit: The City is a participant in multiple lawsuits. These lawsuits result in additional legal costs and in one case, if unsuccessful, it may result in significant damages related to land use. The damages owed would not be covered through the California Joint Powers Insurance Authority (CJPIA). While it is not able to predict the outcome of this case, an unfavorable judgement may have a significant impact on the General Fund Unassigned Fund Balance.

Infrastructure: The 2016 LTFP identified the need to clearly identify infrastructure assets and the reserve resources 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. The 2019 LTFP Reserve Analysis paper continues to recommend transfers to support this funding. In addition, the City has recently completed the BPR Master Plan, which requests additional capital or maintenance costs which need available funding sources and fund balance.

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 4.6% for FY 2019-20. Increases averaging 3.7% are included for the next four years, beginning in FY 2020-21. 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 remain relatively flat in FY 2019-20, as compared to the current year, partially due to one-time excess receipts in the current year from delayed reporting from the prior fiscal year, but also due to a slow down in general 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. In the future, additional stores and restaurants are anticipated at these locations, as well as other locations in the City, 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 2020-21, 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.
- TOT revenue for hotels and vacation rentals 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 positions in the General Fund currently.
- Police Services– Contract costs are increased by 3.3% for FY 2019-20 based on the 1st estimate of a 2.67% increase from the Orange County Sheriff’s Department (OCSD). This increase did not reflect a potential mid-year contract adjustment which is expected due to ongoing labor negotiations. An additional \$100,000 has been included for that purpose. Contract increases are projected at 4% over the remaining four years of the forecast. Police positions remain at the FY 2018-19 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 in the third year, which is the coming budget year (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 for FY 2019-20 based on the last year of a 3 year MOU agreement with the City’s employee association (SCCEA) adopted 2/7/2017. Future year’s increases are projected at the CPI increase level (for forecast purposes only). Also assumed that step increases, which are somewhat offset by lower wages from employee turnover each year, will add an additional 0.4% annually.

- Benefits –FY 2019-20, 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. Other benefit increases are due to retirement costs, noted below.
- Retirement – Increased contributions for all City pension plans for FY 2019-20 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 \$1,005,000 are included in FY 2019-20, based on the 2019 LTFP reserve paper recommendations, including a total of \$380,000 for the Facilities Maintenance Reserve. One-time Reserve transfers projected at \$780,000 have been included in the remaining four years of the forecast.
- CalPERS Safety Plan Unfunded liability – A required payment of \$1,260,000 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 2019-20 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 2019-20, and \$1,250,000 for the remaining years). This ongoing amount assumes funding of \$250,000 in 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, the Estrella shopping center, and various other potential locations in the City 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 new 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.

	<u>FY</u> <u>2019-20</u>	<u>FY</u> <u>2020-21</u>	<u>FY</u> <u>2021-22</u>	<u>FY</u> <u>2022-23</u>	<u>FY 2023-</u> <u>24</u>
BEGINNING UNASSIGNED FUND BALANCE	\$6,326	\$4,495	\$2,042	(1,468)	\$(6,027)
<u>RECEIPTS</u>					
Property Tax	34,876	36,251	37,411	38,772	40,366
Sales Tax	10,128	10,330	10,537	10,748	10,962
Other Revenue	21,983	22,378	22,783	23,196	23,618
TOTAL RECEIPTS	66,987	68,959	70,731	72,716	74,946
<u>DISBURSEMENTS</u>					
Salaries & Benefits	19,552	20,144	20,755	21,387	22,041
Police Contract Services	15,947	16,585	17,249	17,939	18,656
Fire Contract Services	9,182	9,989	11,006	12,158	13,453
Other Contractual Services	11,810	12,105	12,407	12,718	13,035
Ongoing Maintenance	1,200	1,250	1,250	1,250	1,250
Other Expenses	10,518	10,806	11,013	11,223	11,440
TOTAL DISBURSEMENTS	68,209	70,879	73,680	76,675	79,875
<u>OTHER FUND BALANCE CHANGES</u>					
Funding 20% Emergency Reserve	(608)	(534)	(561)	(599)	(640)
ENDING UNASSIGNED FUND BALANCE	\$4,495	\$2,042	\$(1,468)	\$(6,027)	\$(11,596)
<i>*displayed in thousands</i>					

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. Property tax projections are based on information provided by HdL Coren and Cone, the City's property tax advisors.

According to HdL, the last assessment year saw median sales prices continue to inch upward, but in many counties at a slower pace than we have seen in the past couple of years. Potential increases in value due to the restoration of previously reviewed and reduced values per Proposition 8 will result in a more limited impact in forecasted budgeted growth. Also, the number of single family residential sales is down statewide, with the unavailability of inventory driving some of those numbers.

Total property tax revenues for the City of San Clemente are projected to increase by 4.6% for FY 2019-20. Projected increases averaging 3.7% are included for the following four years, beginning in FY 2020-21. In FY 2019-20, valuation increases are anticipated mainly due to a 2.0% CPI adjustment, increased values from ownership transfers, some new development, and some recapture of temporary assessment reductions from prior years.

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. Also, over the last few years the City has begun to realize additional property tax revenue from recent new development, including the San Clemente Retail Outlets and the Sea Summit residential development. Due to these things, the last five years have shown increases averaging over 5% per year in assessed valuation, with the last year over year increase coming in at 6.3%. The result of these increases has been seen in steady increases in property tax revenue

over the last several years. In the future, property values are expected to rise at a slower pace than seen in the past several years due to inventory and affordability constraints.

It is important to note that 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 2019-20, but in much smaller amounts.

Sales Tax

Sales tax included in the forecast is projected to remain relatively flat in FY 2019-20, as compared to the current year, partially due to a slow down in general consumer spending, but also due to one-time excess receipts in the current year from delayed reporting from the prior fiscal year. Opening of additional stores and restaurants at the San Clemente Outlet Mall and the Estrella shopping center development, as well as other new businesses in the City, are anticipated, but those are not included in the forecast, as the timing and type of facilities is uncertain at this time. Beginning in FY 2020-21, 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 2019 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, the revitalized Estrella shopping center in North San Clemente opened with new retail stores providing an additional boost to the City's Sales tax revenues.

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 2019-20, benefit costs are projected to increase by 4.5% 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. In this 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 2019-20 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 has been reducing the discount rate (from 7.5% to 7.0%), using a phased-in approach over a three year period, with related cost increases that begin 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 two 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 all 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 2019-20 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 2019-20 based on initial estimates from the Orange County Sheriff's Department (OCSD). For FY 2019-20, OCSD projects an increase of about 2.67%, with positions and service level remaining at the FY 2018-19 level. The OCSD first estimate did not include any wage increases, other than those already negotiated through the current year, as labor contracts with all bargaining units will expire by the end of the current fiscal year. Negotiations are ongoing and results will be incorporated in future estimates or will be billed to the City mid-year, once contracts are approved. An additional expense of \$150,000 has been included in the forecast in FY 2019-20 to address these potential wage increases.

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 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 2018-19 level for the term of the forecast. Any personnel additions will also result in increased costs above what the forecast projects.

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 2.9%, or \$1.97 million, a year. Property taxes are projected to increase

by an average of 3.9% over the five year forecast period. Sales taxes are projected to be flat in Year 1, and then to increase over the forecast period by an average of 2.0%.

Operating expenditures are projected to increase at an average rate of 4.1%, or \$2.84 million, 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 year, followed by a projected negative operating position in the final four 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 2019 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.

Appendix A - Capital Projects Analysis

The Capital Improvement Program (CIP) has a significant impact on the General Fund unassigned fund balance. In order to maintain a positive General Fund operating position, it is necessary to annually balance timing and/or scopes of the projects projected in the 6-year CIP outlay through the annual budget process. Budget updates are conducted through a CIP Committee made up of stakeholders from all departments to produce the upcoming CIP fiscal year budget in consideration of priority needs and available General Fund unassigned fund balance.

As the City continues to age and grow, balancing infrastructure needs with other City obligations that also provide quality of life improvements is becoming more challenging. As a result, the City has been implementing a Computerized Maintenance Management System (CMMS) to better prioritize and identify long-term funding needs for all City infrastructure. Once fully optimized this technology will help improve proactive preventive maintenance activities to extend asset life. The system will also be utilized for data driven decision making involving risk of failure and consequence of failure criteria to plan for replacement of the City's most critical and costly assets. These tools will assist decision makers in better prioritization of funding and also prevent "out of sight, out of mind" assets from being overlooked when developing budgets in the future. Ultimately, the data input and processed by the CMMS will be used to develop an infrastructure policy to obligate limited General Fund resources for all of the various City assets classes.

The following table provides a listing and funding obligations of significant projects (~\$1M) based on the CIP Committee's update of the proposed FY 2019-20 CIP budget 6-year outlay. Both the Avenida Del Mar Electrical Services and Tree Rehabilitation* and Steed Park Lighting Replacement* projects are proposed to be recommended for City Council approval though the annual for FY 2019 – 20 budget adoption process.

Project Name	FY(s) Proposed	Amount Budgeted	Estimated Project Cost	Required Funding
Avenida Del Mar Electrical Services and Street Tree Rehabilitation*	FY 2019 – 20 & FY 2020 - 21	\$100,000 ¹	\$2,100,000	(\$2,000,000)
Steed Park Lighting Replacement*	FY 2019 – 20 & FY 2020 - 21	\$0	\$1,500,000	(\$1,500,00) ²
Aquatics Center Main Pool Plaster Replacement	FY 2020 - 21	\$0	\$1,000,000	(\$1,000,000) ³
Corp of Engineers Sand Replenishment	FY 2021 – 22	\$352,000	\$12,300,000 ⁴	(\$600,000) ⁵
Corto Lane Beach Access Rehabilitation	FY 2020 – 21 & FY 2021 - 22	\$0	\$1,850,000	(\$1,850,000) ⁵
Beach Trail Steel Bridges Maintenance	FY 2021 – 22 & FY 2022 - 23	\$575,000	\$3,325,000	(\$2,750,000) ⁶
Pier Rehabilitation	FY 2024 – 25 & FY 2025 – 26	\$0	\$3,500,000	(\$3,500,000)

¹Projects scoping budgeted as part of FY 2018-19 CIP Budget.

²Project included in CIP outlay since FY 2009.

³Budget based on Activity Pool Plaster Replacement public bid Fall 2018.

⁴Project cost includes \$1,000,000 for design and \$11,200,000 for initial construction with the City's cost share with Federal Government at 25% for design and 35% for initial construction. Design funding City commitment has been met.

⁵There is a high potential for 85% of the construction funds to be provided to the City by the California Department of Boating and Waterways.

⁶Proposed funding projection based on replacement with fiberglass bridge.

Avenida Del Mar Electrical Services and Tree Rehabilitation

Project Background:

The electrical infrastructure and streetscape along Avenida Del Mar was last improved in 1985. Over the last few decades the tree wells that share both the tree roots system and electrical conduit for street tree lighting have become engulfed by roots damaging the conduit, wiring and electrical boxes within the tree wells.



The limits of the project extend along both sides of Avenida Del Mar from El Camino Real to Calle Seville. The proposed scope includes new electrical conduit and wiring with new power boxes at various locations for special event lighting. The existing street trees will be removed due to root infestation and are proposed to be replaced with “Washington Florifera” Desert Fan Palm in the same location. In addition, the capacity of electrical services will be upgraded to facilitate vendors and lighting included in all City special and holiday events.

Expenditures:

The electrical and tree improvements are estimated to cost a total of \$2,100,000. \$100,000 is proposed to be included as part of the FY 2019-20 Capital Improvement Program budget from the General Fund for design costs. A total of \$1,900,000 is projected in FY 2020 -21 for the construction phase of the project.

Potential Cash Flow Issues:

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

Steed Park Lighting Improvements

Project Background:

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



The City performed a limited renovation of the park facility that was completed in spring 2007. The renovation, which totaled \$1.5M, included drainage improvements, field renovations, backstop netting, batting cages, bull pens, hardscape, playground equipment and landscaping. Field lighting improvements were not included in the project due to budgetary constraints. The field lighting was originally installed in the mid-1980s and has met its useful life. Main power switchgear and electrical lines will be upgraded through the project and the proposed lighting will provide energy efficient LED lighting that improves lightening intensity and reduces spill light to conform to the General Plan's 'Dark Sky' recommendations.

Expenditures:

The lighting improvements are estimated to cost a total of \$1,500,000. The project is proposed to be included as part of the FY 2019-20 Capital Improvement Program budget from the General Fund.

Potential Cash Flow Issues:

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

Capital Recommendations

1. Continue efforts to identify infrastructure assets and the reserve resources needed to maintain and/or replace those asset based on a comprehensive asset management plan that will be developed through the use and optimization of the CMMS.



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.

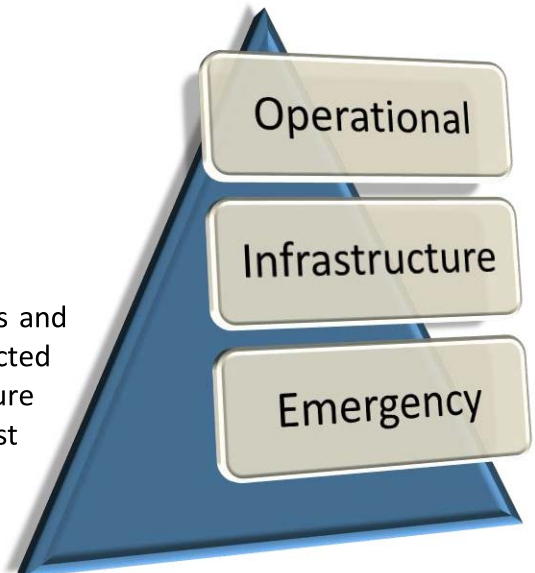
The Water, Sewer, Golf, Storm Drain, and Solid Waste Funds maintain an emergency reserve per Fiscal Policy similar to the General Fund to protect essential service programs during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for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



Reserve Analysis

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 2018-19 reflect the General Fund Emergency Reserve funding level which is 20% of operating expenditures. No changes are recommended to the funding level in FY 2019-20. Enterprise Emergency Reserves have no recommendations to the reserve level, however a recommendation is being made to direct staff to review rates in the Sewer and Golf Fund. A cost of service study is currently being initiated on the Sewer Fund, which should have rates implemented during FY 2019-20. The Golf Fund Emergency Reserves are not fully funded despite land sale proceeds and a delay of the Golf Capital Reserve Funds loan repayments. Therefore, staff recommends that golf course fees be reviewed to fund the Emergency Reserve and to initiate repayment Golf Capital Reserve loans. The last time new rates in the Golf Fund were analyzed and implemented was in 2014.

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, Facilities Maintenance and Capital Equipment Reserves. The City is working to fund the replacement of long-term capital assets, such as 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 and the City is taking steps to fund these over a longer period of time.

Funding future asset replacement costs is done over time. Capital/Infrastructure reserves have been built to mitigate the impact of future funding requirements as the City considers City Hall, the Marine Safety Building, and other buildings. Recently, the City’s Computerized Maintenance Management System (CMMS) 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, some current year transfers are recommended. Also, as the projects are completed additional funding options will be considered, such as grant funding, or cooperative agreements rather than utilizing reserve funds. A new rate structure in the Water Fund and a Sewer cost of service study should improve long-term funding.

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 \$225,000. Liability reserves have been restored, the CJPIA retrospective has been paid and the City has received and paid all amounts as required under the Bellota settlement agreement. 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, 2019 follows:

Reserves	Fund	Estimated Reserve Balances at June 30, 2019	FY 2019 Status
Emergency Reserves:			
General Fund Emergency Reserve	General Fund	\$ 13,244,000	Properly Funded
Water Operating	Water Fund	\$ 1,257,000	Properly Funded
Sewer Operating	Sewer Fund	\$ -0-	<i>Not Funded</i> ¹
Golf Course Operating	Golf Course Fund	\$ -0-	<i>Not Funded</i> ¹
Storm Drain Operating	Storm Drain Fund	\$ 203,000	Properly Funded
Solid Waste	Solid Waste Fund	\$ 33,000	Properly Funded
Capital/Infrastructure Reserves:			
Fleet Replacement	All Funds	\$ 5,237,000	Properly Funded
Capital Equipment Replacement	General Fund	\$ 1,592,000	Properly Funded
Facilities Maintenance	General Fund	\$ 7,870,000	Properly Funded
Park Asset Replacement	General Fund	\$ 1,550,000	Properly Funded
Water Fund Depreciation	Water Fund	\$ 8,064,000	<i>Partially Funded</i> ³
Sewer Fund Depreciation	Sewer Fund	\$ 5,546,000	<i>Partially Funded</i> ³
Storm Drain Fund Depreciation	Storm Drain Fund	\$ 672,000	<i>Partially Funded</i> ³
Golf Course Fund Depreciation	Golf Course Fund	\$ 1,500,000	Properly Funded
Golf Capital Improvement Reserve	Golf Course Fund	\$ 658,000	Properly Funded
Operational Reserves:			
Accrued Leave	General Fund	\$ 775,000	<i>Partially Funded</i> ²
State Revolving Loan Reserve	Water Fund	\$ 900,600	Properly Funded
General Liability Self-Insurance	All Funds	\$ 3,700,000	Properly Funded
Workers' Compensation Insurance	All Funds	\$ 964,000	Properly Funded
¹ These reserves are not properly funded. Rate reviews are being recommended to ensure emergency reserves will be obtained in the future.			
² These reserves are below the funding required at June 30, 2019, one-time transfers are recommended to fund the reserves at the required level.			

³ These reserves are below the funding required at June 30, 2019. 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 2019-20 by reserve category follow:

Emergency Reserves – No changes are recommended in the funding levels.

- Sewer and Golf Course Funds, which are not in compliance, are currently having their rates reviewed.

Capital/Infrastructure Reserves

- o 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.
- o Transfer an annual amount of \$380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2019-20.
- o Transfer \$400,000 from the General Fund to the Park Asset Reserve for FY 2019-20.
- o Direct staff to review the Storm Drain charge within the next couple of years to determine a way to meet the cost demands placed on the City's public storm drain system.

Operational Reserves

- o Transfer an amount of \$225,000 from the General Fund to the Accrued Leave Reserve for FY 2019-20.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2019-20:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2019-20	Total Charge for General Liability FY 2018-19
General Fund	81.8%	65.4%	69.5%	\$ 2,293,240	\$ 2,068,350
Water Fund	2.3%	17.8%	13.9%	459,370	405,920
Sewer Fund	13.1%	8.0%	9.3%	307,110	300,740
Solid Waste Fund	0.0%	0.3%	0.2%	6,140	5,650
Storm Drain Fund	2.8%	0.9%	1.3%	43,780	36,320
Golf Course Fund	0.0%	1.9%	1.5%	47,510	42,160
Clean Ocean Fund	0.0%	2.0%	1.6%	50,800	53,420
Central Services Fund	0.0%	0.6%	0.4%	14,230	15,920
Information Services Fund	0.0%	2.0%	1.5%	50,060	48,360
Fleet Maintenance Fund	0.0%	1.1%	0.9%	27,760	23,160
Total	100.0%	100.0%	100.0%	\$3,300,000	\$3,000,000

Workers Compensation charges

The following rates are in effect for FY 2018-19:

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 2019-20 are:

8810	Clerical	\$0.59/\$100 of payroll
9410	Non-Manual	\$1.70/\$100 of payroll
9420	Manual Labor	\$5.60/\$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 section are based on projected numbers as of June 30, 2019, 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.

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. A Cost of Service study is in process for 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.	✓	
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 = \$13.2 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 = \$1,180,000; Sewer = not funded; Storm Drain = \$203,000; Solid Waste = \$33,000; 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 = \$775,000

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 = \$1,592,000; Facilities Maintenance Reserve = \$7,870,000
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.	--	Water Depreciation Reserve = \$8.1 million; Sewer Depreciation Reserve = \$5.5 million; Golf Depreciation Reserve = \$1,500,000; and Storm Drain Depreciation Reserve = \$672,000
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 = \$658,000
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 = \$1,550,000
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 = \$3,700,000

	Fiscal Policy Statement	Status	Comments
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 = \$964,000
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 = \$5.2 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.	✓	
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.	✓	

	Fiscal Policy Statement	Status	Comments
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.	✓	

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.	✓	
----	---	---	--

	Fiscal Policy Statement	Status	Comments
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*

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 2019 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 period. In addition to a 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 2019 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 Budget Summary of current and future strategic technology projects.

Information Technology Strategic Plan Update

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 March, 2019:

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
Payment Processing System and Utility Billing IVR	FAS	Completed FY 2018-19
Upgrade of Data Storage Infrastructure (SAN)	IT	Completed FY 2018-19
Network Infrastructure / Equipment Upgrade	IT	Completed FY 2018-19
City Hall Relocation to 910 Calle Negocio	IT	Completed FY 2018-19
Building Inspector Field Tablets	IT	Completed FY 2018-19
Technology Training Initiative – Equipment for Negocio Conference Rm A	IT	Completed FY 2018-19

Information Technology Strategic Plan Update

There are many Information Technology projects that are currently budgeted and in varying stages of completion. The table below identifies projects that are budgeted and scheduled, along with the status of each project as of March, 2019. The majority of these projects were identified in the 2015 ITSP and the subsequent ITSP Updates, while some of the smaller items were approved directly through the annual budget process:

Current Strategic Technology Projects	Dept/Div	Status
Telephone System Replacement	IT	Underway. Go live March 2019.
Integration of GIS with TrakIT	IT/CD/PW	Underway. Go live March 2019.
Agenda / Legislative Management System	City Clerk	Underway. System implementation scheduled for Spring/Summer 2019.
Secondary Internet Service Provider	IT	Underway. Planned for completion Spring 2019.
Negocio Building Renovation Technology Elements	IT	Underway.
Video System and Camera Enhancements	IT	Underway.
Security Audit	IT	RFP planned in Spring 2019
GIS - Aerial Imagery Update	IT	RFP planned in Spring 2019
Cable TV Equipment Replacement	IT/City Clerk	RFP planned in Spring 2019.
Water Quality & Code Compliance Mobile Offices	Utilities/CD	Phase 1 - Deploy tablets for CMMS and Trakit field use in Spring 2019.
Web Application Enhancements - Ongoing	IT	ADA Compliance Software planned for Spring 2019
Remote Disaster Recovery Services	IT	Planned in Summer 2019
Security Information and Event Management Services	IT	Planned in Summer 2019
Upgrade from TRAKIT.net to TRAKIT 9	CD/PW	Comprehensive upgrade of the City's Permitting and Licensing System.
Citywide Customer Relationship Management (CRM); Integration with Trakit and CMMS	PW/Utilities	Purchase of additional software on hold. Deployment of Lucity Public Portal planned for FY 2019-20; Re-evaluate need for additional system.
Contract and Insurance/Securities Certificate Management	City Clerk	Purchase of additional software on hold; dependent upon capabilities of Legislative Management System.
Online Business License Renewal Expansion	FAS	Carry Forward from Prior Year. On-hold, dependent upon Trakit upgrade.
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 software upgrade.

FY 2019-20 Strategic Projects

A number of Information Technology-related projects listed in the previous table are anticipated to extend into the next fiscal year. In addition, several new projects and initiatives are proposed for FY 2019-20. The table below summarizes the projects being recommended and requested for the coming year. This list includes strategic projects and initiatives that were originally included in the 2015 ITSP, as well as adjustments to the listing which can be attributed to new technology initiatives and realignment of departmental priorities. Funding for these items will be requested through the annual budget process. Details regarding each project and initiative listed below are provided in **Attachment A**.

Strategic Projects for FY 2019-20	Dept/Div	Summary
Electronic Document Management System Assessment	City wide	Conduct analysis and assessment of the City's Electronic Document Management System.
Video System and Camera Improvements	IT	New Cameras, Replacements, and Maintenance
Web Application Enhancements - Ongoing	IT	Ongoing investment in public-facing technology
Employee Computer/Technology Training - Ongoing	IT	Ongoing Staff Training Initiative
GIS Initiative – Data Development - Ongoing	IT	Ongoing Improvement of the City's GIS Data

Focus Areas for FY 2019-20

This strategic plan update includes a broad spectrum of projects. The most significant areas that will be the focus of IT Division resources in the upcoming year are summarized below:

- Software Systems
 - Agenda and Legislative Management System Implementation
 - Customer Relationship Management - Lucity Public Portal Implementation
 - Upgrade Permitting and Licensing System from TRAKIT.NET to TRAKIT 9
 - Electronic Document Management System (EDMS) Assessment
- Infrastructure
 - Video System Enhancements
 - Cable TV Audio/Visual and Production Equipment Replacement
 - Negocio Building Renovation Technology Elements
- Security and Business Continuity
 - Security Audit
 - Remote Disaster Recovery Services
 - Managed Security Information and Event Management Services

Recommendation

Staff recommends that the City Council accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2019-20 projects and initiatives forward through the budget process.

FY 2019-20 New Projects and Ongoing Initiatives – Detail

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	\$25,000 in FY 2019-20 for Professional Services
Funding	General Fund
Estimate Timeframe	Preliminary assessment in FY 2019-20.
Staffing Impact	Significant
Priority	High
Service Level Impact	Increase
Department/Division	All

Video System and Camera Enhancements	
Description	Installation of new cameras, in addition to preventative maintenance and replacement of existing cameras.
Benefit / Justification	This proposal includes installation of new cameras at advantageous locations as well as preventative maintenance and replacement of existing cameras. The City currently utilizes approximately 50 cameras for observation and monitoring of various City facilities. Many of these cameras have deteriorated due to exposure to harsh weather in a marine environment, reducing their reliability and/or picture quality. The new cameras will improve the coverage area and effectiveness of the system, while the preventative maintenance will increase the anticipated lifespan of the remaining equipment. Funds may also be used to improve access to existing cameras for ease of maintenance.
Estimated Cost	\$30,000
Funding	Information Technology Fund
Estimate Timeframe	Complete in FY 2019-20
Staffing Impact	Moderate
Priority	Medium
Service Level Impact	Increase
Department/Division	Information Technology

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 can 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	Minimal
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. Enhancements may also improve inter-agency data sharing and coordination.
Estimated Cost	\$15,000
Funding	Shared
Estimate Timeframe	Ongoing
Staffing Impact	Minimal
Priority	Moderate
Service Level Impact	Increase
Department/Division	IT

Information Technology Strategic Plan - 5 Year Budget Summary

Title	Fund	Current Year						Ongoing	
		6 Yr. Total	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23		FY 23-24
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	19,500			15,000	1,500	1,500	1,500	1,500
Financial Portal - Web Interface to Financials	GF	31,500				10,500	10,500	10,500	10,500
		7,191,000	0	0	40,000	67,000	67,000	7,017,000	67,000
Information Technology									
Citywide CRM / Notification (Integration with Trakit and CMMS)	Shared	40,000			10,000	10,000	10,000	10,000	
Security Audit	Shared	75,000	25,000		25,000		25,000		25,000
Web Application Enhancements	Shared	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Video System / Camera Enhancements	Shared	55,000	25,000	30,000					
		230,000	60,000	40,000	45,000	20,000	45,000	20,000	35,000
City Manager/City Clerk/Council									
Electronic Agenda Packet Distribution for Councilmembers - (CCSP)	GF	10,000			2,500	2,500	2,500	2,500	2,500
Electronic Document Management System (Study in FY 2019-20) - (CCSP)	GF	25,000		25,000					
Electronic Document Search Enhancement with Public Interface (CCSP)	GF	50,000			50,000				
Electronic Filing of FPPC Campaign Statements - (CCSP)	GF	15,000				5,000	5,000	5,000	5,000
		100,000	0	25,000	52,500	7,500	7,500	7,500	7,500
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	20,000					10,000	10,000	10,000
		85,500	5,000	5,000	45,000	3,500	13,500	13,500	13,500
Marine Safety									
Lifeguard Tower Communications System Upgrade	GF	45,000					45,000		
Marine Safety - Electronic Patient Care Reporting	GF	30,000				10,000	10,000	10,000	10,000
		75,000	0	0	0	10,000	55,000	10,000	10,000
Citywide Initiative - Mobility									
Building Inspector iPads / Mobile Office	GF	36,000	6,000	2,000	22,000	2,000	2,000	2,000	2,000
Code Enforcement Officer Field Tablets / Mobile Office	GF	14,000	4,000	2,000	2,000	2,000	2,000	2,000	2,000
Tablets for Park Monitors & Facilities Staff	GF	8,000	3,000	1,000	1,000	1,000	1,000	1,000	1,000
Water Quality Code Enforcement Mobile Office	Ent	8,000	3,000	1,000	1,000	1,000	1,000	1,000	1,000
Animal Services Web-based Access to Chameleon	GF	26,000			8,000	6,000	6,000	6,000	6,000
WiFi tablets for Marine Safety Health Care Reporting	GF	4,000				2,000	1,000	1,000	1,000
		96,000	16,000	6,000	34,000	14,000	13,000	13,000	13,000
Citywide Initiative - GIS									
Budget for GIS data development and maintenance	GF	90,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
		90,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
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		\$7,927,500	\$106,000	\$101,000	\$241,500	\$147,000	\$226,000	\$7,106,000	\$171,000



Pension Update

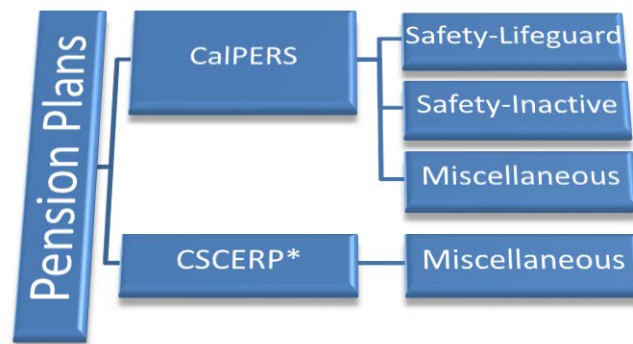
Objective

To review the City's current pension plan and provide general analysis to formalize pension policies, provide a visible analysis of the pension funding, and make recommendations for the ongoing sustainability of the pension plan maintaining control of city pension costs into the future.

Executive Summary

Retirement funds and pensions have been a key focus in recent years by governmental agencies. Pension reporting, disclosure, availability of information, and funding options have changed dramatically over the last 10 years. This is a result of making sure the service costs are recognized in the period earned, changes to financial reporting standards, the aging of the baby boomer generation, changes in life spans and other factors.

These recent changes to the pension environment offer the City an opportunity and a new perspective in reviewing its pension plans, funding, fiscal policies and other considerations to ensure the City of San Clemente's pension funds remain viable for the long term. The City has four pension plans that cover different employee groups and are funded at various levels. A summary of City's pension plans is listed below:



* City of San Clemente Employees' Retirement Plan

Staff reviewed the pension plans and the funding levels and will make recommendations to fund these plans through one-time contributions, additional contributions, and for changing amortization factors. Any review of pension should start with a set of principles or goals to guide a recommended course of action.

During the review of the pension plans, staff noted a lack of formal fiscal policies related to pension funding. Fiscal policies should be developed to guide the decision process. This process can be facilitated through an annual review in the Long Term Financial Plan to achieve Fiscal Policy desired funding and contribution levels. Staff is recommending the City establish policies as identified below:

- *Contributions* – Formalize the City's commitment to fund 100% of the actuarially determined contribution.
- *Funding Target* – A goal for funding the liability should be set at a minimum target of 90%. This prevents potential overfunding of pension liabilities in favorable market conditions

and allow the City flexibility to achieve funding solutions among the various City pension plans based on available resources and concerns over time.

Staff noted that there should be a communication tool to provide Council and citizens information on the status or progress of pension funding levels. This communication can be incorporated within the Long Term Financial Plan (LTFP) Trends section and a one page summary in the annual budget document. The City, as part of its trends analysis, can present information on the funding levels of the various pension plans annually as compared to the City established target funding level. In the annual analysis, potential changes or recommendations to achieve the targeted funding level can be documented. The trends section can provide the following:

- Assessment – Provide a summary of the funding levels, contributions, and make recommendations for changing the amortization, early payment, utilization of surplus funds to improve funding levels.
- Recommendation – this is staff's recommendation based on an analysis of the pension funds, its funding, and future requirements.

Once the trends analysis is completed, like most other sections of the Long Term Financial Plan, the information would be incorporated into the budget. The pension budget summary page would be presented in the staffing section and cover pension information including pension benefits, pension rates, amortization, and funding levels for the various funds.

As the funding of each plan nears the targeted level the City can use this process to consider other approaches to achieve stable long term funding of pension or retirement funds for the employees. Other considerations for the future include:

- Funding a Section 115, an irrevocable trust to prefund pension costs
- Changes to the CSCERP plan (such as transition to a new administrator or other costs savings modifications)

Background

The Governmental Accounting Standards Board Statement No 68. *Accounting and Financial Reporting for Pensions*, became effective June 15, 2014. This statement changed the accounting and financial reporting for state and local government pensions and caused the recognition of pension assets/liabilities on the financial statement balance sheet. It also incorporated other related changes, including modifying footnote information.

Coincidentally, the City of San Clemente was studying a change of pension plan administrator's. The 2014 Long Term Financial Plan presented a retirement system analysis on changing the retirement plan administrator for California Public Employees' Retirement System (CalPERS) for active employees. The CalPERS change was done to improve services to the employees, help attract employees, align with a California pension provider, facilitate future savings through lower administration costs, achieve a higher return on investments, and provide a better discount rate on the unfunded liability. This change was approved by both the City Council and City employees. Employees not active at the time of transition remained in the CSCERP along with active CASA employees, who are subject to a separate review process by CalPERS. After transition to CalPERS, CalPERS became the administrator for 3 of the 4 City pension plans.

CalPERS is a separate and distinct legal entity from the City and serves as an independent fiduciary in managing most of the pension funds of the City. CalPERS initiated changes over the last five years and more changes are anticipated in the future. These changes are meant to bolster the CalPERS funding levels and improve the pension funds long term sustainability. The changes include: modifying the expected investment returns based on anticipated market returns, shortened amortization periods, and updated mortality tables based on available CalPERS member data. These changes, although justified, increase the short term financial burden on cities, but should decrease long term impacts. The following steps have also had the effect of increasing the burden (rates charged) to cities:

- Lowering the discount rate in 2012 from 7.75% to 7.5% and is currently phasing in another reduction of the discount rate from 7.5% to 7%
- Modified actuarial information to recognize increased life expectancy in 2014
- Adopting a new strategic asset allocation in 2018
- Shortening amortization period in 2018

CalPERS, while making these changes, is working at improving efficiency and reducing operational costs and strengthen the sustainability of the CalPERS fund for the long term. In addition, a 2013 California law was passed adopting the largest pension change in recent memory – Public Employees Pension Reform Act (PEPRA). This law change resulted in lower pension benefits, removing benefit items, and increasing employee pension contributions.

The one plan outside of CalPERS is the CSCERP pension trust fund. This plan is shown in City of San Clemente financial statements and was the sole pension for the miscellaneous employees before transition to CalPERS. The pension trust was administered by Empower (formerly Great West) for over 20 years. In 2017, Empower discontinued its pension administration services, but still maintains the asset management function of the pension assets. The City in 2017 contracted with Milliman for pension administration services, which includes participant communication, benefit calculations, databased maintenance and retiree payment services.

The City of San Clemente is taking this opportunity to review its pension plans, outline actions taken, and identify actions to improve its pension and the funding levels into the future.

Pension Analysis Summary:

The City has the following pension plans:

Plan	Administrator/Trustee	Participants	Benefit
Marine Safety	CalPERS	Lifeguards (Full Time)	3%@55 (Classic) 2.7%@57 (PEPRA)
Safety (inactive)	CalPERS	Former police and fire employees	2%@50 (Classic) 2.7 @57 (PEPRA)
Miscellaneous	CalPERS	General employees (non-safety)	2%@55 (Classic) 2%@62 (PEPRA)
City of San Clemente Employee Retirement Plan (CSCERP)	Milliman & Empower	Former city employees and Coastal Animal Services employees	2%@55 (Classic) 2%@62 (PEPRA)

The City always considers pension funding important, however changes by CalPERS has offered the City of San Clemente an opportunity to review its pension plans and formalize its process as related to pension plans. Previously, staff did internal assessments over the years which led to early pay down of these liabilities, payoff of side-funds, and other changes related to the pension administration with Council approval.

The City of San Clemente has been striving to pay down the actuarially accrued liability over the years. The City has worked toward funding its pension plans, with some of these steps occurring before the recent focus on pensions and the funding levels of pension plans. Steps taken in previous year's follow:

- One-time pay down of the CalPERS – Safety Inactive in the amount of \$4.6 million (FY 2009-10) from one-time revenues
- One-time payment of \$225,716 in FY 2013-14 to the CalPERS Safety Lifeguard Plan
- One-time utilization of pension reserve funds (\$500,000) for a payment to CalPERS Safety Lifeguard Plan (FY 2015-16)
- Utilizing the early payment discount to fund a supplemental pay down on the unfunded liability – this has been done annually since FY 2016-17

Additional payments improved the City's operating position by achieving cost savings in future years. However, there is no documented process or goal. The steps taken were done without consideration of any formal target or pension funding level. The City can improve this process by memorializing objectives in its fiscal policies. These policies can address funding levels, contributions, analysis, recommendations and updates. Staff recommends the following changes to the fiscal policies:

- State that required actuarial contributions shall be made and that actuarial contributions are to cover current service costs and the unfunded liabilities. These costs are based on the actuarially determined contribution rate.
- A funding target (goal) of 90% funding should be added to the fiscal policies for pensions, which would be the minimum target level.

Pension funds can fluctuate based on actual vs expected results, such as, higher investment returns than anticipated, a change in mortality results, lower inflation than expected, or a multitude of other reasons. This 90% level will help prevent overfunding which could lock up assets within a specific pension plan and is considered a healthy funding level. Once the goal is achieved, staff will continue to make contributions and take steps to maintain that target.

Staff also can add a Pension Funding section to the Trends portion of the Long Term Financial Plan. This will provide ongoing reporting and analyze funding levels as compared to the target level. A pension liability trend indicator can be added to show a status (improving or declining) on the past history of this liability on an annual basis. This indicator can also be used to analyze the historic funding levels and to offer considerations.

To initiate this annual assessment process, staff completed a review by plan and examined ways to provide long term funding options. The summary below lists the pension plan, funds

responsible for the payment of the liability, the market value of the assets, the liability, the unfunded amounts, and the funding percentage by pension plan based on the most recent valuation date. The CalPERS plans report the valuation information as of June 30, 2017 and the CSCERP plan reports the valuation information is as of July 1, 2017.

Plan	Respective Fund(s)	Market value of assets	Liability	Unfunded amount	Funding Percent	Estimated FY 2019-20 Cost
Marine Safety <i>6/30/2017 valuation</i>	General Fund	\$ 5,124,709	\$ 6,108,534	\$ 983,825	83.9%	\$ 177,000
Safety (inactive) <i>6/30/2017 valuation</i>	General Fund	\$ 29,058,555	\$ 42,338,119	\$ 13,279,564	68.6%	\$1.25 million
Miscellaneous <i>6/30/2017 valuation</i>	All City Funds	\$ 42,804,844	\$ 54,150,480	\$ 11,345,636	79.0%	\$1.9 million
CSCERP <i>7/1/2017 valuation</i>	All Funds	\$ 20,213,000	\$ 35,273,000	\$ 15,060,000	57.3%	\$1.4 million
Totals		\$ 97,201,108	\$ 137,870,133	\$ 40,669,025	70.5%	

The following analysis by plan summarizes the condition of each plan and lists steps that can be implemented to improve the funding percentages of the various plans.

Marine Safety – This is the smallest plan in terms of market value and liability; and this would be the easiest to reach the funding target as it is already funded at 83.9%. Staff recommends that a one-time General Fund payment in the amount of \$400,000 be made to reach the target of 90%. Once reached, annual steps would be considered by staff to maintain the funding level of 90%.

Safety – This plan is considered an inactive plan because there are no active employees making contributions to the plan. This plan serves former public safety employees prior to the City contracting police and fire at the county level (OCSD and OCFA). Since there are no active participants the unfunded liability was amortized over a set period of time (20 years). Annual payments are flat, but annual changes occur based on actuarial assumption variances and actual/expected differences. The FY 2019-20 payment due is \$1,252,560. The amount is paid from the General Fund since these were General fund activities. Based on actuarial assumptions and the current payment schedule, this plan will be fully funded by FY 2035-36 (16 years).

Currently, the Safety payment is made before July 31st to achieve a payment discount; then based on the budget available, staff requests to make another one-time payment to CalPERS which lowers the anticipated costs in future years. For example, the monthly payments total \$1.25 million for the year; since the entire payment is made by July 31st a discount is received and the payment made is \$1.20 million. Staff utilizes the \$50,000 in savings to request an additional one-time payment to lower the liability that reduces the unfunded liability. Staff will continue this annual additional payment in the future. The police contract with OCSD may experience vacancies during the year, although staff has not utilized these saving to pay down the unfunded safety liability, this may be done in the future to achieve future cost savings on this pension plan.

Miscellaneous – The Miscellaneous plan handles most of the active employees of the City. It includes the active employees at the date of conversion to CalPERS and any new hires since that date. The plan was funded at 90% previously, but with CalPERS actuarial changes, variances, and returns the funding percentage has dropped to 79%. This plan has the largest payroll. A

percentage of the payroll and a fixed amount to pay the unfunded liability determines the City's contribution. Options to pay down the unfunded liability could include one time contributions, but given that this one-time payment would effect all City funds (excluding CASA) this could have an impact on Water, Sewer and Golf Funds which have been recently running operating deficits. Given that this pension fund is funded at a higher level than CSCERP a better course of action to improve its long term funding would be to consider modifying the amortization period or methodology to improve the funding percentage over a shorter timeframe or make contributions based on opportunities from salary savings.

CSCERP - This plan has the lowest funding percentage. CSCERP participants are CASA employees and former employees who were no longer active with the City of San Clemente at the transition to CalPERS. This plan, like CalPERS, uses actuarial assumptions that mirror CalPERS and it has absorbed similar lifespan changes that have impacted funding levels. This fund's most recent valuation implemented actuarial assumption changes reducing the discount rate to 6.25%, which is the lowest rate of return of all the pension funds. The funding level is now at 57.3%.

This plans unfunded liability is being amortized over a fixed period of time due to the low number of active participants. The amortization period of the unfunded liability is currently 17 years, so in theory contributions should decrease significantly after that time. The plan contributions are made by all funds of the City, including CASA funds.

Overall, since this fund has about 6-7 active employees, overfunding this plan locks up assets with no easy way to remove or transfer assets to another plan. This plan could be bolstered through a one-time contribution early in the amortization period to save costs over the long term. This contribution would be split among City funds. However, this one-time contribution could put undue hardship on funds without sufficient financial resources. CASA has built up fund balance and also just received a one-time donation which could be utilized to pay down a portion of its unfunded liability with minimal impacts. Staff will consider this option in the near term future and may propose this step in the FY 2019-20 budget depending on available funds.

All Plans - If significant one-time revenues are available from sale of land or other one time revenues, staff may recommend a one-time payment to reduce the unfunded liability with Council approval. These steps would improve the operating position of City's General Fund. These one-time contributions would first be utilized for pension funds which have not achieved the 90% funding level. This would protect from one plan being overfunded while other plans are below the City's target funding threshold.

Future Pension Considerations:

Once the City starts achieving the target funding level of 90% or the City determines it wants to lessen future impacts of pension rate fluctuations a Section 115 Trust would be created. This action of creating and funding a Section 115 Trust and the other options discussed in this section would require City Council approval.

A section 115 Trust is an IRS approved irrevocable trust created to allow prefunding of pension costs and reduces the financial statement pension liability without being placed in one specific pension plan. Funds held in the trust offer flexibility and improved performance. This is a growing

field and both CalPERS and PARS (private company) have started to offer these plans. Funds placed in the trust are no longer limited to low risk, short term investments based on strict California law, but rather allows an investment portfolio similar to existing pension funds which include a variety of investments (bonds, mutual funds, and stocks). These IRS Section 115 Trust assets could be utilized to offer better long term returns than the City's investment portfolio but be invested more conservatively than CalPERS assets. Assets in CalPERS are invested in a variety of investments which can be vulnerable during economic downturns. The Section 115 trust assets would be overseen directly by the City and could be used to smooth future pension rates or annual contributions. The assets could fund any of the City's multiple pension plans, bolster funding for pension funds that experience poor actuarial effects, or be utilized to offset the pension liability independently.

Other options include:

- CASA should resubmit a request to CalPERS to transition those employees to a risk pool plan based on the passage of Assembly Bill 1912 which was done in September 2018. This bills states that if an entity formed under a Joint Powers Agreement (JPA) terminates its retirement contract with CalPERS or any other retirement plan, the parent agencies become responsible for any retirement liabilities or obligations associated.
- Convene the Pension committee and perform a current review of existing CSCERP pension plan provisions and consider changes streamline/modify the pension plan. This could include transitioning inactive employees to CalPERS, distributions to non-vested employees, changing the CSCERP investment allocation, lower the interest rate credited on employee contributions, or review other changes to the plan.
- Seek a new plan administrator and/or asset manager for the CSCERP to achieve cost savings in the future.

Recommendations:

In order to strengthen and promote long term financial stability of the City of San Clemente related to pensions, staff recommends that a Pension Fiscal Policies be added to the City's Fiscal Policy. A Pension Policy section can be located in the City's Fiscal Policies. The policies added would state the following:

"The required actuarial contributions shall be made to cover the current service cost and unfunded liabilities based on the actuarially determined contribution rate."

"Annually, review the City Pension plans funding levels of and identify areas where funding may be utilized to target a funding ratio of 90% or higher for each of the City's individual pension plans."

Incorporate a pension trend indicator into the Long Term Financial Plan in 2020 (Trends Section).*

Incorporate a Pension summary page in the City budget.**

Direct staff to pursue options, as identified in the Pension Analysis issue paper, to pay down unfunded liabilities for the pension plans to meet the target 90% funding level by plan and

authorize a one-time General Fund contribution from General Fund unassigned fund balance to the Marine Safety Plan in an amount up to \$400,000 to reach a 90% funding level in this plan.

- * *The indicator will provide a snapshot of the funding level for the City's pension plans. This indicator can be used to annually document pension funding, the status of funding, and comments that identify steps taken or changes that effect Pension Funding. This section can also identify options available to improve funding levels and identify impacts on pension funding. This will brief City Council and the public about the effect of pension changes on benefit costs and where the City is at from a funding perspective.)*

- ** *This would be presented in the staffing section and cover pension information including pension benefits, pension rates, and funding levels for the various plans.)*

Public Safety Overview

Objective

To provide the City Council with an overview of all of the City's Public Safety Services as it relates to operations and funding.

Executive Summary

A variety of ongoing services are employed to address Public Safety issues in the City of San Clemente. The table below shows the major components of the City's Public Safety efforts and the budget for each for FY 2018-19:

<u>ONGOING SERVICES</u>	<u>BUDGET</u> <u>FY 2018-19</u>
Police Services	\$16,028,160
Fire and Ambulance Services	\$9,961,470
Marine Safety	\$1,878,630
Code Compliance	\$1,019,890
RSVP Program	\$14,800
CASA Animal Shelter	\$799,440
TOTAL	<u><u>\$29,702,390</u></u>

The City's total General Fund Operating Budget (representing ongoing costs and excluding one-time items) totaled \$63,700,000 for FY 2018-19. The ongoing Public Safety efforts noted above represent 46.6% of that total for FY 2018-19.

Background and Discussion

The City of San Clemente, like most California cities, has been dealing with issues related to public safety. A number of considerations include, but are not limited to; 1) Legislation at the State and even Federal-level has affected the City and amplified public safety issues, 2) rising County pension and benefit costs have led to exponential growth in the cost of providing police and fire services to the City, and 3) economic decisions by local healthcare providers leading to the closure of a local emergency room. These impacts have the potential to affect the City of San Clemente's quality of life and were considered in the City's approach to public safety. The City is committed to being proactive and responsive to all considerations through careful allocation of police, fire, ambulance services and other department funding.

In order to address the public safety challenges facing the City of San Clemente, the City has taken a "Public Safety Continuum" approach, whereby Police and Fire services are augmented with the work of several other City Departments and services all contributing to making San Clemente a better, and safer, city. The Public Safety Continuum is a holistic approach that involves Beaches, Parks and Recreation, Code Compliance, Marine Safety, and programs like our Retired Senior Volunteer Program. The City also reaches out and works extensively with our community

Public Safety Overview

partners, including neighborhood organizations, non-profit agencies, and other government agencies.

On the following pages, you will find more detail on each of the components of the current Public Safety efforts employed by the City of San Clemente.

Public Safety Summary:

POLICE SERVICES DIVISION

TOTAL FY 2018-19 ADOPTED BUDGET = **\$16,028,160**

The City of San Clemente contracts with the Orange County Sheriff's Department (OCSD) for Police Services. The Sheriff's Department is responsible for the protection of citizens, enforcement of laws, and crime prevention. The OCSD provides law enforcement services that include patrol, investigations, traffic enforcement, community support, drug education, parking control, and crime prevention.

The mission of the Sheriff's Department is to provide responsive, professional law enforcement services to all people in the City. Deputies are committed to promptly responding to calls for service, to protect lives and safeguard property, to initiate and maintain crime prevention programs, and to apprehend criminal offenders. All staff are expected to perform their duties in a friendly, helpful and effective manner. The Sheriff's Department primary goal is to provide a safe environment for its community members to enjoy San Clemente's many amenities.

The City maintains the following police staffing:

Staffing = 51 full-time

- 1** Police Services Chief (Lieutenant)
- 5** Sergeants
- 26** Patrol Deputies
- 2** Traffic Deputies
- 1** School Resource Deputy (SRO)
- 4** Community Service Officers
- 2** Homeless Liaison Deputies
- 3** TRIP Team Deputies
- 1** DET Deputy
- 4** General Investigators
- 2** Office Specialist
- .5** Crime Prevention Specialist

Patrol deployments generally result in about five (5) deputies in the field on most shifts, in addition to deputies field for special enforcement functions (traffic, TRIP, Directed Enforcement, etc.).

One challenge facing the City's Police Services Department is vacancies. The following is a table highlighting the City's Polices Services vacancies for FY2017-18 and FY2018-19 year to date:

Police Services Vacancy Credits for FY17-18 and FY18-19 YTD		
FY2017-18	Hours	Vacancy Credit
Jul-17	320.0	\$ 18,544
Aug-17	380.0	\$ 22,986
Sep-17	400.0	\$ 29,028
Oct-17	480.0	\$ 39,512
Nov-17	480.0	\$ 33,473
Dec-17	798.5	\$ 46,963
Jan-18	364.0	\$ 23,869
Feb-18	480.0	\$ 32,458
Mar-18	620.0	\$ 46,448
Apr-18	1,280.0	\$ 125,104
May-18	1,170.0	\$ 125,953
Jun-18	480.0	\$ 41,498
FY2018-19		
Jul-18	1,152.0	\$ 114,988
Aug-18	928.0	\$ 104,486
Sep-18	720.0	\$ 89,194
Oct-18	354.0	\$ 43,854
Nov-18	844.0	\$ 98,683
	11,250.5	\$ 1,037,041
*As of November 30, 2018 there were 3 positions vacant		

It is important to note that the numbers include not just hours that positions are vacant, but also officers who are out on family/medical, administrative, military leave, or Workers' Compensation, as well as officers who might be on loan for a special assignment. Regardless of the reason, the City is facing a real challenge when it comes to vacant positions in our contract.

Hiring officers in today's climate is both challenging and extremely competitive. Police and sheriff's departments across the state and beyond have seen their ranks shrink because of retirements, promotions and attrition. The hiring process for new officers is rigorous and selective, resulting in a small and highly sought-after pool of qualified candidates. Compounding the issue for OCSD is their requirement that newly sworn officers work 4-5 years in the County jail prior to taking a patrol position with any of their contract cities. In the FY2018-19 budget, the City added two deputies, but only one position has been filled so far. In the meantime, OCSD utilizes overtime to fill vacant positions and ensure San Clemente is still receiving adequate service. But overtime should be used to help in the short-term and is not a viable long-term solution if the City is going to continue to provide the level of service that the residents expect and deserve.

In the past, the City has analyzed the cost to add deputies and resources to the Police Services contract. If the City is looking to explore the cost of adding additional deputies for the FY2019-20 fiscal year, the fully-loaded cost is \$266,792 – it should be noted that this cost is based off the 1st

estimate received by OCSD, and that the cost of a deputy is expected to rise with a new MOU agreement in fall of 2019. In addition to the fully loaded cost, there are other increases in overhead and equipment that would be added to the contract depending on the additional services desired.

Aside from the OCSD contract, there are additional costs budgeted in the Police Services Division include maintenance of City owned vehicles, maintenance of city owned radio equipment, additional funding for special City events, school crossing guards, access to the State's fingerprint database, citation processing, parking administration fees, maintenance and supplies for the City's local Police Station, service awards, other miscellaneous operating supplies and City overhead.

The City's total General Fund Operating Budget (representing ongoing costs and excluding one-time items) totaled \$63,700,000 for FY 2018-19. The ongoing Police Services efforts noted above represent 25% of that total for FY 2018-19.

For more information about Police Services please visit the City's website at <http://www.san-clemente.org/department-services/safety-services/police-services> .

FIRE SERVICES DIVISION

TOTAL FY 2018-19 ADOPTED BUDGET = **\$9,961,470**

Fire

The Orange County Fire Authority (OCFA) was formed in 1995 to provide regional fire protection and related services to the County of Orange and 23 member cities, including the City of San Clemente. The City of San Clemente currently has a 20 year membership contract with the OCFA to provide fire and emergency related services, which commenced on July 1, 2010 and will end on June 30, 2030. The 20 year membership contract shall renew automatically at July 1, 2030, under the same terms and conditions, unless the City notifies the OCFA “*prior to July 1 of the second to last year of every ten year interval*”, or July 1, 2028 in this instance.

The contract with the OCFA includes a Base Service Charge as well as annual contribution payments for fire station maintenance and fleet replacement reserves. The OCFA contract budget for FY 2018-19 is as follows:

FY 2018-19 Base Service Charge	\$8,570,835
Facilities Maintenance Charges	8,807
Vehicle Replacement Charges	<u>128,308</u>
Total OCFA FY 2019-20 Contract	\$8,707,950

The Base Service Charge is increased annually, but the implemented increase is capped at 4.5% per year, per the contract. If the actual computed increase is more than the 4.5% cap, the excess amounts owed to the OCFA will be banked and charged to the City in a subsequent year(s), until the shortage is paid in its entirety. Contributions for station maintenance and fleet replacement charges are billed based on actual and projected costs.

The addition of a fourth firefighter on full rotation for the City of San Clemente (requiring the addition of three additional firefighter positions due to 24 hour staffing) was implemented by OCFA at the beginning of FY 2017-18, with an eight-year, shared cost, phase-in plan. The addition is being filled through overtime initially, with the first two years of costs 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.

The chart below (provided by OCFA in May 2017), shows projected costs for the eight year period, based on an assumption of 2% increases after August 2020:

Year	Fiscal Year	OCFA Cost Share		San Clemente Cost Share	
1+	March 2017-June 2018	Three OT Positions	\$610,385	None	
2	2018/19	Three OT Positions	\$477,209	None	
3	2019/20	Two OT Positions	\$323,123	One OT Position	\$161,562
4	2020/21	One OT Position	\$164,593	Two OT Positions	\$329,186
5	2021/22	None		Three OT Positions	\$503,655
6	2022/23	None		Two OT, one regular position	\$592,394
7	2023/24	None		One OT, two regular positions	\$683,567
8	2024/25	None		Three regular positions	\$778,980

**Costs are based on current salary/benefits per MOU terms that run through August 2020; costs beyond 2020 are estimated using a 2% salary/benefit inflator.*

The City has 3 fire stations at the following locations:

Fire Station 50: 670 Camino De Los Mares, just past the hospital

Fire Station 59: 59 Avenida La Pata in Talega

Fire Station 60: 121 Ave Victoria

Ambulance (Ground Emergency Medical Transport)

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 City’s five-year contract with Care Ambulance Services provides for a fixed annual cost for ambulance transport services through June 30, 2022 for the two full-time ambulances.

Annual costs for the five years of the contract are as follows:

<u>Contract Year</u>	<u>Fiscal Year</u>	<u>Amount</u>
Year 1	FY 2017-18	\$1,138,548
Year 2	FY 2018-19	\$1,210,124
Year 3	FY 2019-20	\$1,281,379
Year 4	FY 2020-21	\$1,317,006
Year 5	FY 2021-22	\$1,352,633

There is also a revenue component to the City’s Ambulance Services program. In FY 2018-19, the adopted budget projected total net income of \$1,250,000 from ambulance fees as well as \$25,000 income from the City’s ambulance subscription program.

The City also participates in the Ground Emergency Medical Transport (GEMT) grant reimbursement program, administered by the California Department of Health Care Services, which provides eligible providers with supplemental reimbursements for certain Medi-Cal emergency transports. The timing and receipt of these reimbursements is uncertain. The City received a total of \$36,867 in FY 2017-18 and it is estimated that receipts for FY 2018-19 will be approximately \$10,000.

Other than the OCFA contract and the CARE ambulance contract, additional Fire related costs budgeted in the Fire Services Division include miscellaneous supplies and City Overhead.

Public Safety Overview

The City's total General Fund Operating Budget (representing ongoing costs and excluding one-time items) totaled \$63,700,000 for FY 2018-19. The ongoing Fire Services efforts noted above represent 15.6% of that total for FY 2018-19.

For more information about Fire Services please visit the City's website at <http://www.san-clemente.org/departments-services/safety-services/fire-services> .

MARINE SAFETY DIVISION

TOTAL FY 2018-19 ADOPTED BUDGET = **\$1,878,630**

The Marine Safety Division is responsible for providing beach safety services for the 4 miles of coastline at San Clemente owned or operated beaches. By performing a variety of valuable public safety services, San Clemente lifeguards attempt to ensure that all beach patrons have a safe and enjoyable time at City beaches. Traditional services include swift water, cliff, open and under-water rescues, first-aid, mitigation of safety hazards on the beach and providing safety information to the public. The City's Junior Lifeguard Program is also coordinated by the Marine Safety division and instruction and operation for this program is provided by City ocean lifeguards.

The Division consists of two programs:

- (1) Operations and Rescue
- (2) Prevention and Education.

The Marine Safety Division is comprised of:

Staffing = 5 full-time; 2.25 Benefitted Part-time (BPT); variety of hourly

- 1** Marine Safety Chief
- 1** Marine Safety Lieutenant
- 1** Marine Safety Officers
- 1.5** Ocean Lifeguard Supervisors (BPT)
- 0.75** Office Specialist II (BPT)

For more information about Marine Safety please visit the City's website at <http://www.san-clemente.org/department-services/safety-services/lifeguard-services> .

CODE COMPLIANCE DIVISION

TOTAL FY 2018-19 ADOPTED BUDGET = **\$1,019,890**

The City's Code Compliance Division is part of the Community Development Department. The Division addresses violations of the City's land use, environmental, construction, and other regulatory requirements in the San Clemente Municipal Code (SCMC).

The mission of Code Compliance in the City of San Clemente is to maintain a safe, healthy environment for our residents and visitors to live, work and play through assuring compliance with the City's land use, environmental and construction codes. In achieving this mission, the Code Compliance Division contributes to the long term stability of the City by protecting its economic vitality and diversity resulting in a vibrant, balanced community capable of addressing today's needs and planning for tomorrow's challenges. The Division will assure compliance by encouraging voluntary compliance and sanctioning code violators who do not comply willingly.

The code enforcement process is typically initiated after a member of the public submits a complaint. If the complaint describes a violation of the SCMC, a case is created, and a Code Compliance Officer is assigned to investigate the alleged violation. Based on a number of factors, such as seriousness of the violation, type of violation, etc., the Code Compliance Division may issue a Notice of Correction. If corrective action is not completed at the expiration of the Correction Notice, the City may issue an Administrative Citation or use other abatement procedures specified in the SCMC.

Common Violations Investigated by Code Compliance	
Unlicensed businesses (Res. And Comm.)	Short-term lodging complaints
Illegal use of residential property	RV parking on private property
Commercial signage and banners	Hoarding nuisances
Boardinghouses	Illegal dumping of debris
Unpermitted camping	Weeds on private property
Substandard housing	Short-term lodging complaints
Unpermitted residential units	Fence height issues
Inoperable vehicles	Commercial and residential lighting

Code Compliance Division is comprised of:

Staffing = 6 full-time

- 1** Code Compliance Manager
- 1** Sr. Code Compliance Officer
- 1** Code Compliance Officer
- 2** Code Compliance Technicians
- 1** Office Specialist II

The City has utilized alternatives to enhance enforcement through Code Compliance. These

actions, in conjunction with the adding of deputies were done to improve and deal with the quality of life issues being experienced by the City. Code Compliance is now directed by a Manager level position. This Manager has a Planning background to better deal with the issue of sober living facilities, Short term lodging units, and other code compliance issues that develop from the City's transient population.

For more information about Code Compliance please visit the City's website at <http://www.san-clemente.org/department-services/code-services> .

RSVP PROGRAM

TOTAL FY 2018-19 ADOPTED BUDGET = **\$14,800**

The Retired Senior Volunteer Program (RSVP) was established in 1985 and is the second longest tenured program of its kind in the nation. Members are volunteers of the City of San Clemente and are assigned to support San Clemente Police Services and provide services to the citizens of San Clemente. In 2018, 24 men and women provided nearly 36,000 hours of support work as volunteers, issued 3,586 citations, resulting in an estimated salary savings and benefit to the City of roughly \$1,000,000.

The RSVP Volunteer Program enhances the ability of the Orange County Sheriff's Department to focus its paid personnel resources on proactive law enforcement activities by providing parking enforcement, traffic and crowd control for City Special Events, clerical office support, placement of speed radar trailers, assistance if called to an emergency, and other activities as needed by San Clemente Police Services. In addition, the RSVP Volunteer Program provides services to the citizens of San Clemente including Vacation Home Checks, visits to the homebound as part of the You Are Not Alone Program (YANA), and staffing the PACT House (Police and Community Together) at the Pier.

For more information about the RSVP program please visit the City's website at <http://www.san-clemente.org/departments-services/public-safety-services/police-services-ocsd/rsvp-volunteer-program> .

CASA ANIMAL SHELTER

TOTAL FY 2018-19 ADOPTED BUDGET = **\$799,440 (City of San Clemente share)**

Coastal Animal Services Authority (CASA) is the Joint Powers Agency (JPA) which provides animal control and shelter for the cities of San Clemente and Dana Point. Over the years, the shelter has maintained a progressive and innovative approach to animal welfare. CASA, with help from its partners, is able to ensure that every animal in its care receives a bed, veterinary care, food, and daily socialization and exercise – all until a permanent home can be found.

In order to more effectively deliver animal services, CASA has partnered with the non-profit volunteer organization Pet Project Foundation (PPF). For more than 30 years PPF and the San Clemente/Dana Point Animal Shelter have been united in a partnership to provide care to lost and abandoned animals. In 2017, PPF donated over 25,000 hours of volunteer time, raised \$400,000 for animal care, and helped get adopted over 700 animals.

Recommendations

Staff recommends that the City Council accept the overview report of the City's Public Safety Services.

For more information about Animal Services (CASA) please visit the City's website at <http://www.san-clemente.org/departments-services/animal-services-casa> .



Glossary

ADA (Americans with Disabilities Act of 1990):

Federal legislation requires State and local governments to make all public services, programs, and activities accessible to persons with disabilities.

Appropriation:

An authorization made by the City Council which permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are typically granted for a one-year period.

Assessed Valuation:

The estimated value of real and personal property established by the Orange County Assessor as the basis for levying property taxes.

Assessment District (AD):

A defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Assessments:

The levy of a tax against real property.

Balanced Budget:

A balanced budget is one in which total expenditures equal total revenue. An entity has a budget surplus if expenditures are less than revenues. It has a budget deficit if expenditures are greater than revenues.

Bond (Debt Instrument):

A written promise to pay a specified sum of money at a specified future date, at a specified interest rate. Bonds are typically used to finance capital facilities.

Bond Rating:

The City has an "issuer bond rating" of AAA awarded by the rating firm of Standard & Poor's. An obligation rated "AAA" is the highest rating assigned by Standard & Poor's. This means that the City's capacity to meet its financial commitment on the debt obligation is extremely strong. An obligation rated "AA" differs from the highest-rated ("AAA") obligations only in small degree.

Budget:

A financial plan, including proposed expenditures and estimated revenues, for a period in the future.

CalPERS:

Public Employees Retirement System provided for Public Safety personnel by the State of California.

Capital Assets:

Assets of significant value and having a useful life of several years. Capital assets are also called fixed assets.

Capital Improvements:

Buildings, structures, or attachments to land such as sidewalks, trees, drives, tunnels, drains and sewers.

Capital Improvement Program (CIP):

A plan over a period of six years setting forth each capital project, the amount to be expended in each year and the method of financing capital expenditures.

Capital Projects Fund:

In governmental accounting, a fund that accounts for financial resources to be used for the acquisition or construction of capital facilities. The total cost of a capital project is accumulated in a single expenditures account which accumulates until the project is completed, at which time the fund ceases to exist.

Capital Outlay:

Expenditures which result in the acquisition of or additions to fixed assets. Examples include land, buildings, machinery and equipment, and construction projects.

Capital Projects:

Projects typically included in the Capital Improvement Program (CIP) which result in the acquisition or addition of fixed assets.

CDBG (Community Development Block Grant):

Federal grant funds distributed from the U.S. Department of Housing and Urban Development that are passed through to the City from the Orange County Environmental Management Agency. The City primarily uses these funds for housing rehabilitation, public improvements, and local social programs.

Certificates of Participation (COP):

A method of financing capital facilities through a debt instrument, where a long term lease is entered into with the investors for constructed facilities. Lease payments are then used to service the debt instrument.

California Joint Powers Insurance Authority (CJPIA):

This is a public-entity risk pool comprised of a cooperative group of governmental agencies joined together to finance the exposure of liability and workers' compensation risks. The City is self-insured for both liability and workers' compensation insurance. CJPIA provides coverage for liability claims in excess of \$50,000.

COLA:

Cost of Living Allowance.

Community Facility District (CFD):

A method of financing capital facilities through a debt instrument through a defined area consisting of real property or businesses to pay for special assessments levied by a taxing authority.

Comprehensive Annual Financial Report (CAFR):

The official financial report of the City. It includes an audit opinion as well as basic financial statements and supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

Contingency:

A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted.

Contract Services:

Services provided to the City from the private sector or other public agencies.

Cost of Service:

An analysis of the cost structure of a particular service or function. The costs of operations, maintenance and capital replacements are considered.

Debt Service:

Payment of interest and repayment of principal to holders of the City's debt instruments.

Defease:

To pay off an outstanding liability. To replace a higher interest rate with a lower rate.

Deficit:

The excess of liabilities over assets.

Depreciation:

Is the reduction in value of assets over a defined period of life of that asset. In accounting, depreciation represents a charge to expense the value of an asset over its useful life.

Elastic Revenues:

Revenues which can vary depending upon changing economic conditions. Revenue categories include; sales taxes, transient occupancy taxes, license and permits, and community development charges.

Emergency Reserve:

Restricted money set aside to appropriate under serious conditions which warrant emergency measures. Money can only be appropriated by Council action.

Enterprise Fund:

In governmental accounting, a fund that provides goods or services to the public for a fee that makes the entity self-supporting. It basically follows GAAP as does a commercial enterprise.

ERAF:

Educational Revenue Augmentation Fund

ERAF Property Tax Shift:

Funding for California public school spending generated by shifting a portion of property taxes from cities, counties and special districts.

Expenditures:

Where accounts are kept on the accrual or modified accrual basis of accounting, expenditures are recognized when goods are received or services rendered.

Facilities Maintenance Reserve:

The Facilities Maintenance Reserve provides a funding source for maintenance of City facilities. Facilities maintenance expenditures include costs such as flooring replacement, roof replacement, interior and exterior painting, HVAC replacement and parking lot seal coat/stripping for all City facilities, plus the compressor, speed drive and boiler for the City pool.

Fiscal Policy:

A written set of policies adopted by City Council which establishes formal guidelines for financial activities of the City.

Fiscal Year:

A 12-month period to which the annual operating budget applies and at the end of which the City determines its financial position and results of its operations. San Clemente's fiscal year runs from July 1 - June 30.

Five-Year Financial Forecast:

Estimates of future revenues and expenditures to help predict the future financial condition of the community. The Five Year Financial Forecast is included in the City's annual Long Term Financial Plan.

Fixed Assets:

Assets which are intended to be held or used for a long term, such as land, buildings, improvements other than buildings, machinery and equipment.

Fleet Maintenance Fund:

The Fleet Maintenance Fund is used to account for the operation, maintenance and replacement of City owned vehicles and equipment.

Fleet Replacement Reserve:

The Fleet Replacement Reserve accounts for funds set aside for replacement of Fleet vehicles and equipment.

Full Time Equivalent (FTE):

The amount of time a position has been budgeted for in terms of the amount of time a regular, full-time employee normally works in a year. For example, a full-time employee (1 FTE) is paid for 2,080 hours per year, while a .5 FTE would work 1,040 hours per year.

Fund Balance:

The excess of fund assets and resources over fund liabilities is defined as Fund Equity. A portion of Fund Equity may be reserved or designated; the remainder is available for appropriation, and is referred to as the Fund Balance.

Fund Equity:

The excess of fund assets and resources over fund liabilities. A portion of the equity of a governmental fund may be reserved or designated; the remainder is referred to as fund balance.

General Fund:

In governmental accounting, the fund used to account for all assets and liabilities of a nonprofit entity, except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund of the City of San Clemente.

General Liability Self-Insurance Fund:

The General Liability Self-Insurance Fund is used to provide the City with liability and property insurance. Coverage is provided through the City's participation in a joint powers agreement through the CJPIA.

General Obligation Bonds:

Bonds for which the full faith and credit of the City is pledged for payment.

Golf Course Capital Improvement Reserve:

The Golf Course Capital Improvement Reserve provides for capital improvements to the existing golf course.

Government Accounting Standards Board (GASB):

An organization created to provide comparability and consistency between different government agencies. GASB issues statements regarding various accounting issues and provides guidelines on how accounting transactions should be recorded.

Government Finance Officers Association (GFOA):

A national organization of governmental finance officers.

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.

