

CITY OF SAN CLEMENTE, CALIFORNIA

Long Term Financial Plan 2021



Prepared By:

Finance and Administrative Services

City of San Clemente

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City of San Clemente

Erik Sund, Interim City Manager

910 Calle Negocio, San Clemente, CA 92673

Honorable Mayor and Council Members:

I am pleased to present to the City Council the City of San Clemente's 2021 *Long Term Financial Plan (LTFP)*. The City has been presenting the LTFP 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 financial outlook has some challenges, as it has had in the past, as costs are increasing at the higher rate than revenues are increasing. However, the City has a strong financial base with reserves and has some opportunities before it to meet the financial needs of its citizens to address the looming deficits forecasted and control costs into the future.

The City's LTFP is a long-range planning tool which provides the City Council information to make strategic decisions affecting the City's fiscal sustainability, both in the short and long term. The LTFP describes the City's financial structure, condition and prepares the City to address strategic issues. The LTFP consists of the *City Financial Reporting Overview, Financial Trend Analysis, Financial Forecast, Reserve Analysis, and Fiscal Policies*. It outlines specific recommendations and provides a forecasted position as the annual budget process is approached.

This approach allows the City to work towards a better financial position so issues or conditions can be addressed in a clear and transparent process. Currently, negative operating positions for FY 2021-22 and subsequent fiscal years are forecasted. This financial information is important by providing context as the City Council works to address strategic issues facing the City.

As we prepare to enter Fiscal Year 2021-22 the focus on the City's core service responsibilities remains a priority. As we look out over the next five years, we are experiencing issues that started in previous years and will likely continue in future years: rising public safety costs, quality of life issues, capital maintenance needs, past pension liabilities, and the always present need for City resources and services.

The City's LTFP financial papers provide information and give a financial perspective and outlook. ***Overall, the City's reserves are being addressed through additional contributions, past financial indicators were impacted by the pandemic, but sound financial policies are in place as the City did not draw on its Emergency Reserves during the pandemic uncertainty. The City continues to struggle with operating position, but the City's is taking small actions to improve future operating positions continually. These small actions require the City Departments to reprioritize objectives with current resources.***

The ***General Fund*** is fully funding its Emergency Reserve at \$14.3 million, which is 20% of the City's operating expenditures, but the General Fund's unassigned fund balance is getting smaller as it is being used for one-time costs and capital projects. Due to the pandemic, the

revenue overages and expenditure savings that build unassigned fund balance were not as significant as in previous years. Fund balance is essentially a savings account that is available for appropriation to fund one-time costs and capital activity. City staff are diligently reviewing a number of capital and maintenance projects to make sure the timing is appropriate and changes that could lower future operating position. Working towards a stable annual positive operating position provides funds for one-time activities and funding for future maintenance and capital projects.

General Fund Operating position (operating revenues less operating expenditures) is projected to be negative for the next fiscal year and 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. These costs are expected to outpace projected revenue in the future. Recommendations are included in this document to lower costs and direction from Council as to how best meet the operations of the City is being sought. As always, adjustments may be required during the budget process in order to ensure a positive operating position each year.

The 2021 LTFP issue papers are meant to educate and provide analysis for the future. The goal in presenting these is to inform City Council and the citizens, seek direction, and work towards addressing future issues. The issue papers include:

- **Information Technology Strategic Plan Update** This re-occurring issue paper serves as an update to the City's roadmap for strategic technology projects. It was first presented in 2015 and presents a work plan to align technology investments with Departmental goals and priorities with the objective of improving City services.
- **Pension Update** This paper provides an update to the 2019 LTFP paper and discusses actions taken and actions to be considered related to pensions.

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



Erik Sund
Interim City Manager

City of San Clemente

City Council

Kathy Ward, Mayor
Gene James, Mayor Pro Tem
Chris Duncan, Council Member
Laura Ferguson, Council Member
Steve Knoblock, Council Member

Interim City Manager

Erik Sund

Financial Plan

City Financial Reporting Overview
Jake Rahn, Financial Services Officer

Financial Trend Analysis
Sandee Chiswick, Senior Accountant

Financial Forecast
Jake Rahn, Financial Services Officer

Reserve Analysis
Jake Rahn, Financial Services Officer

Fiscal Policy
Jake Rahn, Financial Services Officer
Matthew Schmelzel, Management Analyst

Strategic Issues

Information Technologies Strategic Plan
Brian Brower, Information Technologies

Pension Update
Jake Rahn, Financial Services Officer



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.

Long Term Financial Plan

LONG TERM FINANCIAL PLAN

City Financial Reporting Overview

Objective

To summarize the City's current Financial Reporting Structure and provide general information related to City operations, fund accounting and changes to improve the reporting structure of the City funds.

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 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.

STRATEGIC ISSUES

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 plans, summarize actions taken after the 2019 LTFP Pension Update, and make further recommendations to improve the ongoing sustainability of the City's pension plans and limit the growth of city pension costs into the future.

Long Term Financial Plan (LTFP) Process

Governmental Finance Officers Association (GFOA) recommends that all governments regularly engage in long-term financial planning. The City of San Clemente annually provides a Long Term Financial Plan to City Council to assist with the development and financial allocation of resources and activities for the City through the upcoming budget process. The flow chart below graphically describes the steps that should go into a Financial Plan process.



Long Term Financial Plan

A long-term plan should include these steps.

- **Mobilization Phase** - The mobilization phase prepares the organization for long-term planning by creating consensus, aligning the project team, identifying services priority or policies, and identifying the purpose and scope.

Staff addressed City Council during a meeting and discussed items to be addressed through the annual LTFP process and sought input from Council for other areas. A project team was developed based on these areas and the purpose and scope of the LTFP were communicated to the project team.

- **Analysis Phase** - The analysis phase is designed to produce information that supports planning and strategizing. The analysis phase includes the projections and financial analysis commonly associated with long-term financial planning. The analysis phase involves information gathering, trend projection and analysis to be provided to assist Council in making decisions.

Staff prepares the Trends Section to provide past financial information, the Reserves Section to address current amounts/funding levels for significant amounts, existing Fiscal Policies are summarized and recommended changes are addressed, and a Forecast (based on identified assumptions) is presented to provide a perspective of General Fund resources.

- **Decision Phase** - After the analysis phase is complete, the government must decide how to use the information provided. Key to the decision phase is a highly participative process that involves elected officials, staff and the public. Finally, the decision phase should address the process for executing the plan to ensure tangible results are realized.

Staff recommendations are presented based on the papers and information and is provided for City Council consideration related to possible budget actions to improve future operating positions. Strategic issues also facilitate discussions related to where to focus limited resources in budget development.

- **Execution Phase** - After the plan is officially adopted and input is received, strategies must be put into action (e.g. funding required in achieving goals). The execution phase is where the strategies become operational through the budget, planning, and financial performance measures.

Staff will take input from the City Council and incorporate actions and Council's input into the budget. This will be done through the Decision Package process or through adding amounts and activities to program budgets. Council will receive the budget plan in a Budget Workshop in May to discuss any further changes or actions that should be taken.

GFOA recommends that certain elements be incorporated into the long-term financial plan. A long-term financial plan should include these elements:

Time Horizon - A plan should look at least five to ten years into the future. *The City of San Clemente utilizes a five year timeframe.*

Scope - A plan should consider appropriate funds, but especially funds used to address the main issues. *The main operating fund of the City of San Clemente is the General Fund, however other funds will be discussed as they relate to the different Council actions.*

Frequency - Governments should update long-term planning activities as needed in order to provide direction to the budget process, though not every element of the long-range plan must be repeated. *The City of San Clemente has been doing the Long Term Financial Plan annually as a result of forecasted future operating deficits and to address issues.*

Content - A plan should include an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and plan monitoring mechanisms, such as scorecard of key indicators of financial health. *This is currently done through the Trends, Reserves, Fiscal Policy and Forecast with recommendations incorporated into the plan.*

Visibility - The public and elected officials should be able to easily learn about the long-term prospects of the government and strategies for financial balance. *Annually, this is done through a public workshop.*

In addition, GFOA recently started addressing a framework to promote financial sustainability for building a sustainable, resilient community. This leadership framework is less focused on finances and more focused on the process and participation of stakeholders. The framework consists of five pillars, which can be used to address and discuss strategic issues that arise. The five pillars include the following: 1) Establishing a Long-Term Vision, 2) Build Trust and Open Communication, 3) Use Collective Decision making, 4) Create Clear Rules, and 5) Treat Everyone Fairly.

Long Term Financial Plan

Strategic Issues presented in conjunction with the Long Term Financial Plan have been limited to the IT Strategic Plan and the Pension Update, as a result of the pandemic and to mitigate impacts to the current staffing levels of the City. In addition, strategic items have received discussion during the last year by City Council.

The Information Technology Strategic Plan actions from the past have been critical to operations during the pandemic as remote transactions and telecommuting activities were instrumental.

The Pension Update was included due to Council's request, after the preparation of an Agenda Report during a regular meeting, to bring the Pension Update back in connection with the LTFP.

OVERVIEW

The Long Term Financial Plan (LTFP) is discussed and LTFP information is summarized in the following pages. Each LTFP paper has more detail and a more comprehensive analysis. The LTFP Overview is in the following format:

- *Introduction*
- *Executive Summary*
- *List of LTFP Recommendations*
- *Past LTFP Recommendation*

INTRODUCTION

The LTFP provides a 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.

The 2021 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 each paper.

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 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

The focus continues to be building a solid foundation for the future. Currently, the economy is impacted by the pandemic. Although the outlook is improving, the long term outlook remains uncertain. The City has had ample reserves to address the pandemic, but continues to struggle to with creating a significant operating position for the General Fund. It is prudent to continue to prepare for future challenges and improve the operating position of the General fund while funding existing operations. This will lessen service level reductions in the future but can also to fund reserves, enhance level of services when appropriate or as needed and to pay down pension debt. The Long Term Financial Plan is to be informational and act as a guide to Council, management and the citizens in these decisions.

It is prudent to continue to prepare for future challenges and improve the operating position of the General fund while funding existing operations.

EXECUTIVE SUMMARY

The LTFP papers provide a foundation for the Council on past trends, current status, and what is expected in the future. These papers 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.

Long Term Financial Plan

Prior to the 2008 recession, the General Fund 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 impacting services to the public. The goal of the LTFP is to providing information so Council can prioritize services and provide direction to staff related to the operating position, while still maintaining services the citizens expect.

The City of San Clemente annually prepares a comprehensive Long Term Financial Plan (LTFP). The LTFP is intended to serve as a tool for City Council. Its purpose is to identify financial trends, shortfalls, reserves and outline policies so the City can proactively address them.

The *City Financial Reporting Overview* section summarizes the City's current Financial Reporting Structure and provide general information related to City operations, fund accounting and changes to improve the reporting structure of the City funds.

The *Financial Trend* section includes the analysis of twenty-two trends. These trends relate to revenue, expenditures, operating position, debt, and community factors. The most significant impacted were the Revenue Trends and Operating Position.

Revenue Trends were impacted due to the pandemic. These impacts, although anticipated to be temporary, emphasizes that service related charges need to be reviewed in the near future. Service costs related to providing some of these services have been impacted by minimum wage changes and the requirement to pay maintenance contract at prevailing wages. Additionally, the fees/charges should be reviewed to ensure that any permanent effected by as the result of new processes (sanitizing or participant limits) or other actions are recovered. Adjusting these fees in the future recovers the service cost and improve the operating position. This recovery allows non- service related items to fund public safety and amenities utilized by all the entire population.

Pension and fringe benefits are a Warning and Favorable/Caution rating. The Pension Update better identifies some of these costs and seeks Council direction. Other indicators are addressed listed in the Financial Trends paper.

The Long Range *Financial Forecast* sets the stage for the upcoming budget process, facilitating both the City Manager and City Council in establishing priorities and allocating resources appropriately. This Long Range Financial Forecast is not intended as a budget, nor as a proposed plan. The forecast is based on current service levels, does not factor in future development, and uses general assumptions which may be different than actual amounts.

The forecast shows all five future years with a negative operating position that grows from a negative \$1.2 million to a negative \$2.3 million. This is the result of anticipating operating revenues to grow at 3.1% on average and expenditures to increase by 3.4% on average. The forecast is based on current services levels funded by the General Fund and does not include additional costs related to trolley operations which are currently funded by grants and costs that will need to be paid if the Clean Ocean fee is not renewed.

This negative operating position causes a deficit fund balance in FY 2023-24 if one-time costs are excluded, and in FY 2021-22 if one-time costs are included. A recommendation is being made to use one-time revenues to make a one-time payment on a pension liability. Recommendations are summarized in the following section for Council to provide direction.

The *Reserve* section includes the assessment of current reserve levels for Operational, Capital/Infrastructure, and Emergency Reserves. Most reserves are fully funded, however there are recommendations to better identify assets to be covered by the reserves, fund reserve levels to lessen impacts to operations, and consider rate modifications in golf and sewer to better address future reserve levels.

The *Fiscal Policy* section includes a review of existing financial policies by major category. This is an opportunity for staff to address changes or propose policy related items. In the current year, there are no recommended changes.

The *Information Technology Strategic Plan Update* includes information on completed Technology projects, current Technology Projects, and upcoming technology projects.

The *Pension Update* section provides an update on the 2019 Pension LTFP report and summarizes actions taken since the implementation of the actions identified in that update. This includes the addition of Fiscal Policies, additional contributions made, and actions related to the transfer of CASA to CalPERS. The Pension Update lists a summary of each plan and funding strategies related to each plan.

Recommendations are summarized in the following section for Council to provide direction to staff.

LTFP RECOMMENDATIONS

CITY FINANCIAL REPORTING OVERVIEW

- Split the Developers Improvement Fund, which accounts for receipts under developer agreements moving the In-Lieu Housing Fee to a separate Affordable Housing Fund.
- The Local Cable Infrastructure Fund 1% Public Education and Government fee adopted through Ordinance No. 1503 on April 6, 2010, should be repealed. The fees collected to support this fund are governed by the State of California "Digital Infrastructure and Video Competition Act" (DIVCA), set forth as Public Utilities Code Section 5800. The City has intended uses for existing funds, however additional revenues are no longer required.
- The creation of a Transit or Transportation related fund to address costs related to the SC Rides, the Trolley program and Senior Mobility. These are mostly grant funded, but some contributions from the General fund are required for matching purposes.

TRENDS

No recommendations

FORECAST

- Utilize an available one-time revenue, such as a land sale or other one-time revenue, to make a one-time additional discretionary payment on the Public Safety Unfunded Pension Liability and potentially shorten the payment schedule on the pension liability.
- Seek direction from Council for other potential actions to be taken to improve the operating position of the City of San Clemente.

RESERVE

- Transfer an annual amount of \$380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2021-22.
- Transfer a one-time amount of \$115,000 in FY 2021-22 to fund the Accrued Leave Reserve.
- Transfer a one-time amount of \$1,000,000 from the Water Operating Reserve in FY 2021-22 to the Water Depreciation Reserve to fund future capital replacement in the Water Depreciation Reserve.
- Direct staff to keep apprised of legislative developments to modify Storm Drain fees to meet the cost demands placed on the City's public storm drain system.
- 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 implementation of Lucity and sufficient data is available.

FISCAL POLICY

No recommendations

INFORMATION TECHNOLOGY STRATEGIC PLAN

- Accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2021-22 projects and initiatives forward through the budget process.

PENSION UPDATE

- Direct Staff to continue additional payments from one-time resources and budget savings, as available.
- Request Chandler Asset Management to update the exiting City of San Clemente Pension Investment Policy (Policy #202-2) for City Council approval.
- Direct CASA staff to prepare a funding agreement or modify the existing JPA agreement to require additional contributions to the CASA pension plan, if the funded status falls below 75% upon transition to CalPERS.
- Direct City staff to pursue a California Employee Prefunding Pension Trust (CEPPT) with CalPERS and consider funding the additional Pension Prefunding Trust by reducing the City of San Clemente General Fund Emergency Reserve from 20% to 18%.

Long Term Financial Plan Review

Long Term Financial Plan Review

The City has prepared an updated table for past 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.	Reserve transfers and funding recommendations were included in the FY 2021 Budget.

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

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, 32 of the projects have been completed. Many projects are currently in process, and there are 12 projects proposed for FY 2020-21. A list of the individual projects and the status is located within the Information Technology Strategic Plan Update paper.</p>

City Financial Reporting Overview

Objective

To summarize the City's current Financial Reporting Structure and provide general information related to City operations, fund accounting and changes to improve the reporting structure of the City funds.

Executive Summary

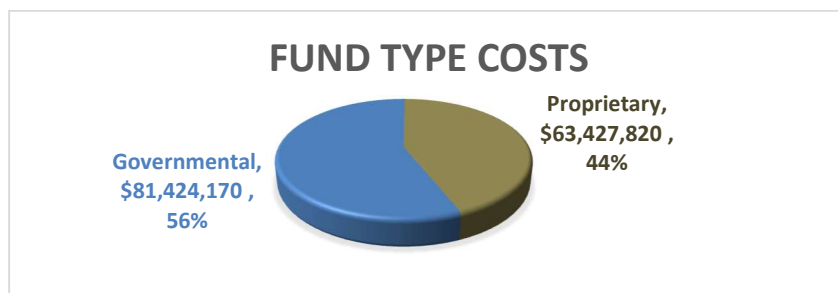
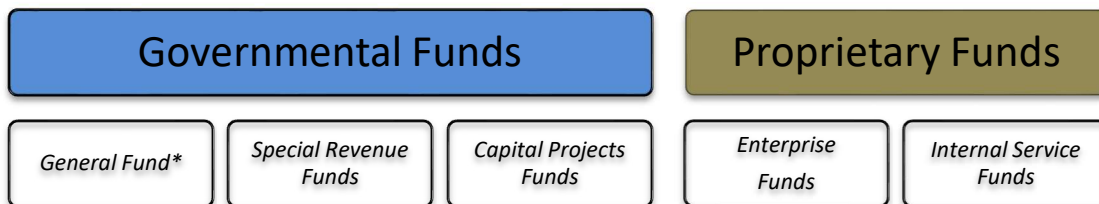
The City of San Clemente operates through a system of funds to manage the diverse streams of revenue that they receive and to monitor the restrictions often attached to that revenue. With the change in City Council, staff and to provide more transparency to the public staff has prepared a summary of the Financial Reporting Structure to better identify and present a synopsis of the City Financial Reporting Structure.

Governmental accounting uses a fund structure to focus on accountability and proper stewardship. Fund accounting identifies revenue sources and provides transparency for the organization. It shows how revenue is being spent and determines if the revenue is being received, how funds are being directed to various programs or a specific purpose and the remaining amount of funds available. This approach to accounting is used by all types of government entities, including federal, state, county, municipal, and special-purpose entities.

A fund is not a separate legal entity. A fund is an accounting entity with a self-balancing set of accounts used to record financial resources and liabilities, as well as operating activities. Funds are segregated to carry on certain activities or attain targeted objectives so a government can more closely monitor resource usage.

The funds utilized by the City are grouped into generic fund types (Governmental, Proprietary, and Fiduciary). Governmental funds are largely supported by general taxes. Proprietary funds are operated to recover the costs of operation through charges for services. Fiduciary funds are funds held on the behalf of other individuals. Fiduciary funds are not discussed further in this report.

Different fund types are utilized for City operations. A chart of the fund types used by the City of San Clemente, based on the FY 2020 budget, is in the following table:

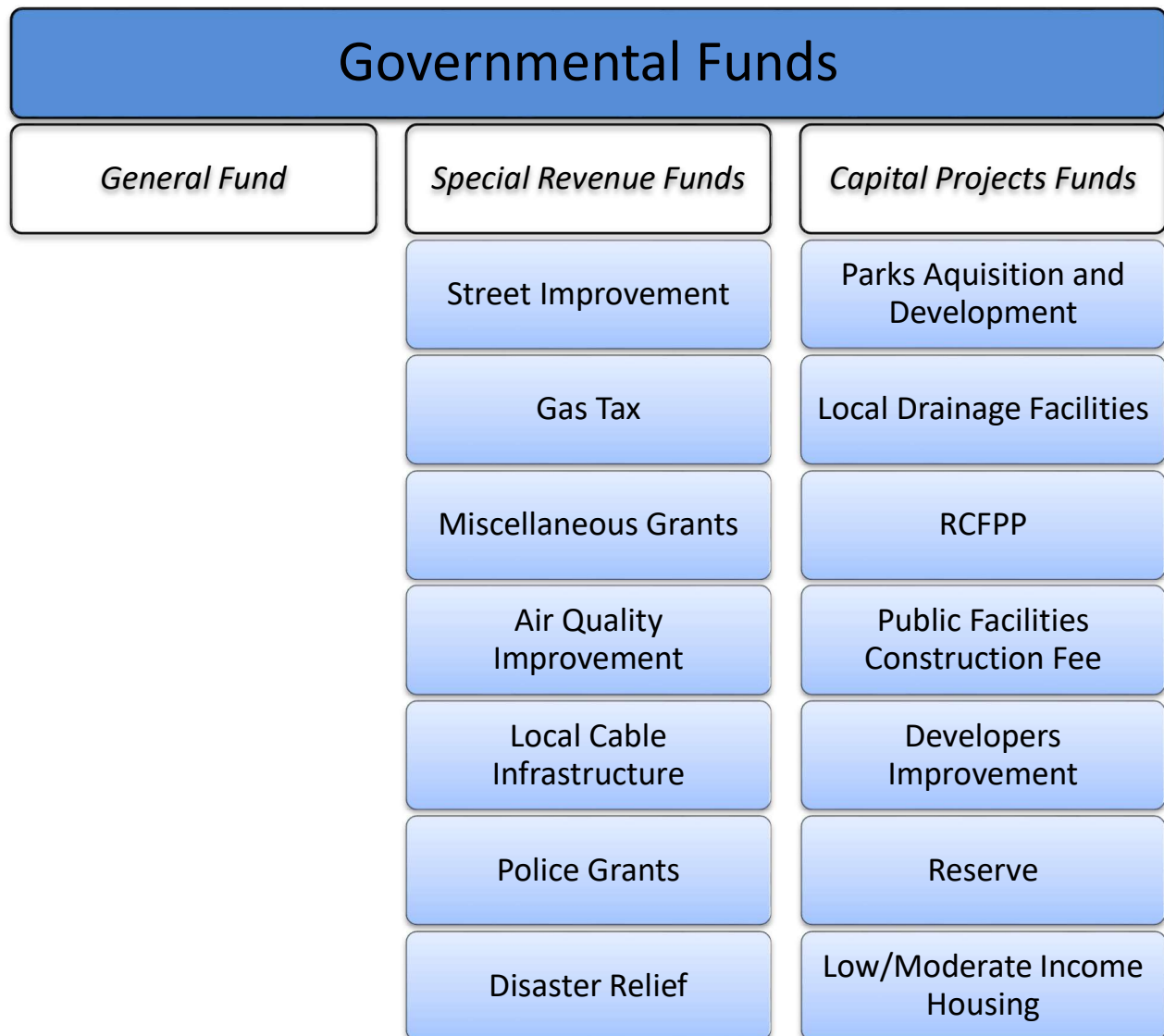


Governmental Funds

Governmental funds are made up of the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds. The General Fund is the primary governmental fund type and the purpose of a general fund is “to account for all financial resources except those required to be accounted for in another fund”. Other governmental funds (Special revenue and Capital Project Funds) are used to account for tax-supported activities or specific revenues that are to be used for specific governmental purposes. The City of San Clemente does not have a Debt Service Fund.

The General Fund, as the main operating fund of the City records departmental activity for General operations. Budgeted costs are generally summarized in the following departments: General Government, Finance & Administrative Services, Public Safety, Community Development, Public Works, and Beaches Parks and Recreation. Information by program category is summarized in the Trends and in budget documents.

A chart of the Governmental Funds follows:



Governmental Funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources traditionally associated with governments which are not required to be accounted for in another fund. The activities in this fund are separated into different departments: General Government, Finance and Administrative Services, Public Safety, Public Works, Community Development and Beaches, Parks, and Recreation. The following summaries the activities related to each department:

A summary of activities performed by each department follows:

- **General Government** – Includes City Council, City Manager, City Clerk, and City General activities. City General is a program where costs are for the General Fund as a whole and includes insurance, fund transfers, legal, animal services (CASA), and capital projects which benefit multiple departments. A portion of these costs are recovered from charges to other funds.
- **Finance & Administrative Services** – Includes Finance, Human Resources, and the Assistant City Manager costs. Activities include Accounting, Cashiering, Purchasing, Human Resources, RSVP, Business license, and investments/treasury. A portion of these costs are recovered from charges to other funds.
- **Public Safety** – Includes Police, Fire, and Marine Safety activities. This includes the public safety contracts for OCSD and OCFA and related costs for those operations.
- **Community Development** – Includes Building, Planning, Code Compliance, and the related Administration responsibilities.
- **Public Works** – Includes Engineering, Facility Maintenance, Beach Maintenance, Parks Maintenance, and Administration. Activities include Development, Traffic, Streets, street related items (slurry seal, street maintenance) and Emergency Planning. A portion of these costs are recovered from charges to other funds.
- **Beaches, Parks and Recreation** – Includes Recreation and Administration. Activities include Aquatics, recreation programs and events, recreation classes, and sports park operations.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes. A Summary of the fund and type of activity for each fund follows:

- **Street Improvement Fund** – This fund is used to account for Measure M2 fairshare revenues and are used for expenditures related to the rehabilitation of City streets.
- **Gas Tax Fund** - Account for revenues and expenditures apportioned under the Street and Highways Code of the State of California. Expenditures may be made for any street-related purpose in the City's system of streets.
- **Miscellaneous Grants Fund** – Accounts for various grants, primarily federal grants received under the Community Development Block Grant program. These grants are to be used for specific requirements (principally for low and moderate income individuals)

which are approved by Council through the annual Action Plan.

- Air Quality Improvement Fund – Account for revenues from the SCAQMD and for expenditures relating to the reduction of vehicle pollution.
- Local Cable Infrastructure Fund – Account for funds received from Local Cable Companies (video service franchises) used for equipment and infrastructure needs for public, educational, and government programming.
- Police Grants Fund – Account for federal and state police grants, donations to Police Services and narcotic forfeiture monies and can be used for police related costs.
- Disaster Relief Fund – Account for federal grants, state grants and other reimbursements related to disaster activities and to account for COVID related costs.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed through proprietary funds).

- Park Acquisition and Development Fund – Accounts for the revenues received from developer fees and the expenditures for the acquisition, construction, improvement or renovation of City-owned parks.
- Local Drainage Facilities Fund – Accounts for drainage fees collected to defray the cost of designing and constructing local drainage facilities and the expenditures for those purposes.
- Regional Circulation Financing and Phasing Program (RCFPP) Fund – Accounts for the established RCFPP traffic impact fee schedule to be assessed on new development on certain benefit zones within the City.
- Public Facilities Construction Fund - Account for developer fees collected to provide for public facilities necessitated by new development and expenditures for the construction of public safety buildings or equipment and public facilities.
- Developers Improvement Fund – Accounts for amounts received under developer agreements, settlement proceeds from developers for future costs of maintaining and/or improving the streets or other infrastructure.
- Reserve Fund – Accounts for expenditures of Capital Equipment Replacement, Facilities Maintenance Reserves, Park Asset Reserves and the Accrued Leave Reserve.
- Low/Moderate Income Housing Fund – Account for the former Redevelopment Agency low and moderate income assets and agreements, including capital assistance loans for low to moderate income development.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs other than capitalized leases and compensated absences which are paid from the governmental funds. The only debt service fund of the City (Negocio Debt Service Fund) was closed in FY 2017-18.

Governmental Fund Recommendations:

Split the Developers Improvement Fund, which accounts for receipts under developer agreements moving the In-Lieu Housing Fee to a separate Affordable Housing Fund.

The Local Cable Infrastructure Fund 1% Public Education and Government fee adopted through Ordinance No. 1503 on April 6, 2010, should be repealed. The fees collected to support this fund are governed by the State of California "Digital Infrastructure and Video Competition Act"

(DIVCA), set forth as Public Utilities Code Section 5800. The City has intended uses for existing funds, however additional revenues are no longer required.

The creation of a Transit or Transportation related fund to address costs related to the SC Rides, the Trolley program and Senior Mobility. These are mostly grant funded, but some contributions from the General fund are required for matching purposes.

Proprietary Funds:

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise. The intent of the City in using this type of fund is to determine that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Proprietary Funds	
<i>Enterprise Funds</i>	<i>Internal Service Funds</i>
Water Fund	Central Services
Sewer Fund	Information Technology
Storm Drain	Fleet
Clean Ocean	Medical Insurance
Solid Waste	Workers' Compensation
Golf Course	General Liability

As part of the fund process it is prudent to review the fund structure and present changes based on circumstances that the City is experiencing. Based on staff's review, we are making the following recommendations.

Proprietary Fund Recommendations:

No changes are recommended.

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 considered 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 2015-16 through FY 2019-20. Consequently, all trends are based on data available as of June 30, 2020 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 22 trends have been categorized into five 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-two indicators:

Favorable (F):	This trend is positive with respect to the City's goals, policies, and national criteria.
Favorable (Caution) (F/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	LTFP				
	2021	2020	2019	2018	2017
REVENUE:					
Revenue Per Capita	F/C	F	F	F	F
Property Tax Revenues	F	F	F	F	F
Elastic Revenues	F/C	F	F	F	F
Sales Tax Revenues	F	F	F	F	F
Permits & Business License Revenues	F/C	F/C	F/C	F/C	F
Comm. Develop. Charges	F/C	F/C	F/C	F/C	F/C
Intergovernmental Revenues	F	F	F	F	F
One-Time Revenues	F	F	F	F	F
Revenue Overage	F	F	F	F	F
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/C	F/C	F	F	F/C
Capital Outlay	F	F	F	F	F/C
OPERATING POSITION:					
Operating Surplus (Deficit)	W	F/C	F/C	F/C	F
Unrestricted Fund Balance	F/C	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
Pension Unfunded Liability	W	U	N/A	N/A	N/A
COMMUNITY:					
Population	F	F	F	F	F
Property Values	F	F	F	F	F

Overview of the City's Financial Condition

The 2021 Long Term Financial Plan includes the analysis of twenty-two trends. Of these 22 trends, 9 are revenue trends, 5 are expenditure trends, 3 relate to operating position, 3 relate to debt service/unfunded liability and 2 relate to the community's needs and resources. Due to the COVID-19 pandemic, State and Federal guidelines have effected business and travel restrictions during 2020, the current year results decreased from the previous year, as three indicators change from Favorable to Favorable/Caution and one indicator moves from a Favorable/Caution to a Warning rating. This year two indicators received a Warning rating, five indicators received a Favorable/Caution rating, and fifteen received a Favorable rating. Information by Category is discussed in the following section.

Rating discussion by Trend Indicator Category

Revenue Category:

- Nine trend indicators address revenues,
- Five of the trends are Favorable,
- Four of the trends are Favorable/Caution,
- Two indicators transitioned from Favorable to Favorable/Caution during the last year.

The revenue indicator changes reflect the City seeing decreased revenues due to the COVID-19 pandemic business and travel restrictions, creating sudden economic instability. This instability affected the *Revenues Per Capita* and *Elastic Revenues* indicators and changed them from Favorable to Favorable/Caution. *Permits/Business License Revenues* and *Community Development Charges* remained at Favorable/Caution as these have continued to be impacted and remained stagnant during the past five years as the City nears build-out.

Due to the pandemic, the City implemented cost saving measures through the budget and is leaving certain positions unfilled to address these revenue impacts. The impacts on revenues are expected to be short-term. The City took additional action by funding the Disaster Relief fund and presented financial information monthly due to the current economic uncertainty.

Expenditure Indicators:

Five trend indicators address expenditures. Four of the trends are Favorable, and one trend remains Favorable/Caution.

Fringe Benefits remain a Favorable/Caution rating due to an increase in pension retirement premiums because of the phase in of the lower discount rate. Although anticipated, the City needs to monitor Fringe Benefits closely to make sure the percentage of fringe benefits to salaries and wages levels out in the near future. However, fringe benefits as a percentage of salaries are below the levels from five years ago and include costs for the one-time pay down of the pension liability.

Operating Position Indicators:

Three Trend Indicators address operating position. One trend is Favorable, one trend is

Financial Trend Analysis

Favorable/Caution, and the other is a Warning. Two of the trends transitioned during the last year, one from Favorable to Favorable/Caution, and the other from Favorable/Caution to Warning.

The *Operating Surplus (Deficit)* changed to Warning rating, due to the pandemic effecting the operating position, which has generally been larger and contributed to the build-up of Unrestricted Fund Balance. During the last year, expenditure reductions and savings offset revenue impacts kept the operating position neutral, however, in the past, the revenue overages and budget savings assisted in building up fund balance. This did not occur at the same level as previous years and a wider budgeted operating position would assist in the future.

Consequently, the *Unrestricted Fund Balance* indicator moved from Favorable to Favorable/Caution as the normal build-up of fund balance by the end of the year operating surplus did not occur at levels experienced in the past due to the pandemic. This may be short lived, but the pandemic continues to create uncertainty causing the Favorable/Caution rating.

Debt/Unfunded Liability Indicators:

Three trend indicators address debt/liabilities. Two of the trends are Favorable, while one of the trends is a Warning.

Pension Unfunded Liability is a trend added based on the 2019 LTFP recommendation. It changes from an Unfavorable to a Warning rating because the funded status remains relatively flat over the last four years. The funded status is delayed due to the timing of actuarial reports and the measurement date, so the additional payments completed in FY 2019-20 are not reflected in the funded status. Additional payments are being made to improve the funded status and move toward the fiscal policy goal of 90% funded status, including a \$599,000 of one-time contributions in FY 2019-20.

Community Indicators:

Two Trend Indicators address community factors. Both remain Favorable, with no large changes in *Population* costs and *Property Values* remain solid, showing a stable community base. These trends are showing stability or equilibrium, with no significant service impacts or changes.

Conclusion of Trend Analysis

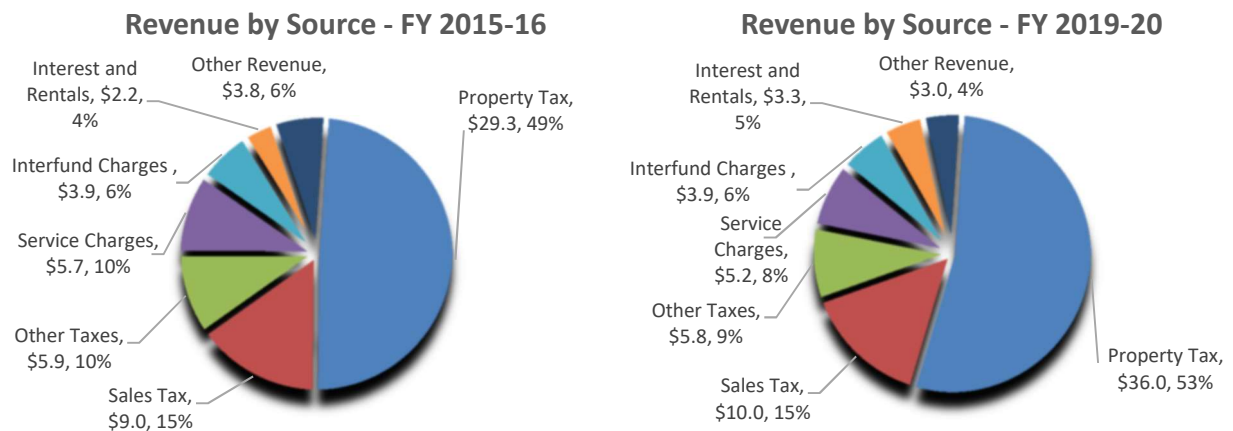
The City saw decreases in total revenues due to the COVID-19 pandemic business and travel restrictions, creating sudden economic instability; however, the City continues to be financially conservative. The City continues to review the budget monthly at the department level and because of the pandemic, presents monthly updated financial information to City Council. Currently, the City has incorporated cost saving measures through the budget, and is leaving certain positions unfilled to address challenges due to the pandemic. At this time the impacts on revenues have been short-term, however, if the pandemic modifies ongoing operations related to fee generating in the long-term, the City may need to explore options to mitigate a further reduction in revenues. Several of these options along with further analysis is discussed in the upcoming Financial Forecast section.

Revenue Trend Analysis

Overview of Revenues by Source:

The following is an overview of City revenue by source for FY 2015-16 and FY 2019-20. The following pages provide an analysis of the actual nine revenue trend indicators in detail.

Comparison of Revenues by Source FY 2015-16 vs. FY 2019-20 (in millions)



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

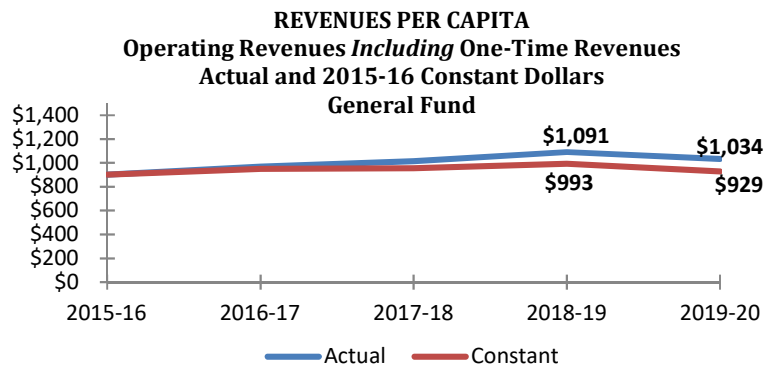
- Property taxes, during the five-year period, increased due to assessed valuation growth and the build-out of Talega and the Sea Summit residential development.
- Sales taxes increased due to the addition of the Outlets at San Clemente in FY 2015-16 and the growing economy during the five-year trend period.
- Other taxes decreased from \$5.9 million to \$5.8 million. Although business license tax receipts increased by \$113,520, both transient occupancy tax and franchise fee receipts decreased by \$192,850 in FY 2019-20 due to the COVID-19 pandemic travel restrictions.
- Service Charges decreased from \$5.7 million in FY 2015-16 to \$5.2 million in FY 2019-20, due to decreased construction inspection fees, recreation service charges, plan check fees, and parking meter permits and fees due to restrictions imposed during the COVID-19 pandemic in FY 2019-20.
- Other revenue decreases were due to decreases in construction permits of \$0.5 million and a decrease in fines and forfeitures from \$0.6 million in FY 2015-16 to \$0.4 million in FY 2019-20 due to decreases in parking violations and vehicle code fines.
- Interfund charges increased slightly from FY 2015-16 to FY 2019-20 due to an increase in the costs allocated based on the general fund overhead allocation plan.
- Increase in Interest and Rentals from \$2.2 million in FY 2015-16 to \$3.3 million in FY 2019-20 due to an increase in investment earnings based on positive investment earnings and unrealized gain on investments in FY 2019-20.

Revenue Trend Analysis

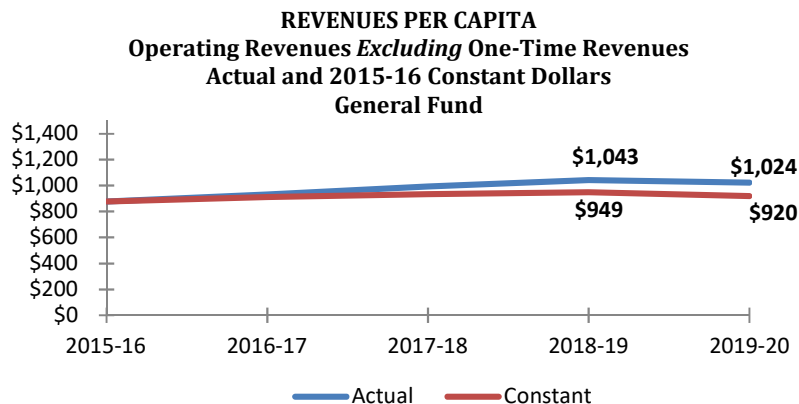
Indicator: Revenues Per Capita

Comments:

The first chart (which includes one-time revenues) shows a decrease from \$1,091 to \$1,034 in actual dollars and a corresponding decrease from \$993 to \$929 in constant dollars. Total revenues for Fiscal Year 2019-20 decreased by \$3.6 million from the prior year. While property taxes and other revenues saw an increase over the prior year, all other categories of revenues decreased. The revenue categories with the most significant decreases include intergovernmental (43%), sales taxes (5%), other taxes (9%), fines and forfeitures (26%), interfund charges (26%), and service charges (16%).



The second chart (which excludes one-time revenues) shows a decrease in actual dollars from \$1,043 to \$1,024 and constant dollars decrease from \$949 to \$920. 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/CAUTION

This trend changes from a Favorable to Favorable/Caution rating due to decreases in revenue over the prior year. The City is uncertain of the long-term impacts and is monitoring revenues on a monthly basis due to the COVID-19 pandemic.

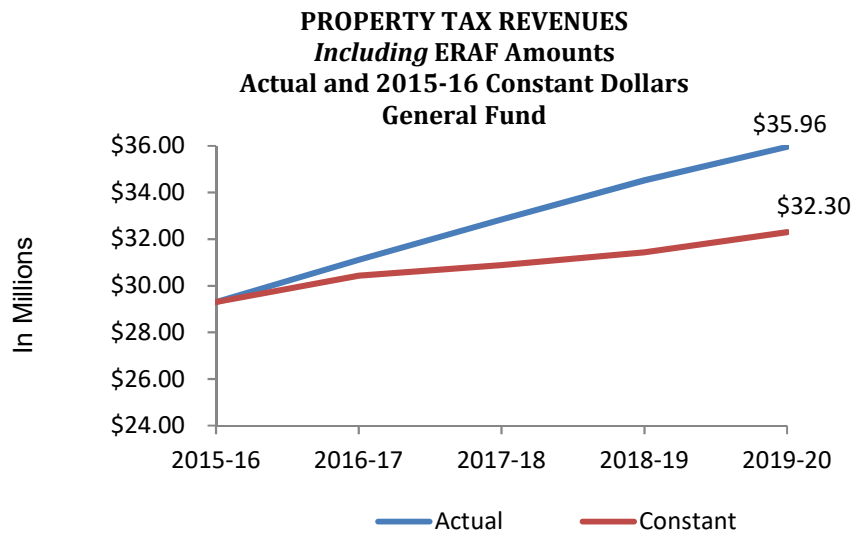
Revenue Trend Analysis

Indicator: Property Tax Revenues

Comments:

The chart below shows property tax revenues increasing from \$34.52 million to \$35.96 or 4% in actual dollars, and from \$31.43 million to \$32.30 million or 3% in constant dollars.

Property taxes have increased over the past year due mainly to the continued growth in assessed values as a result of development and a strong housing market. 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.

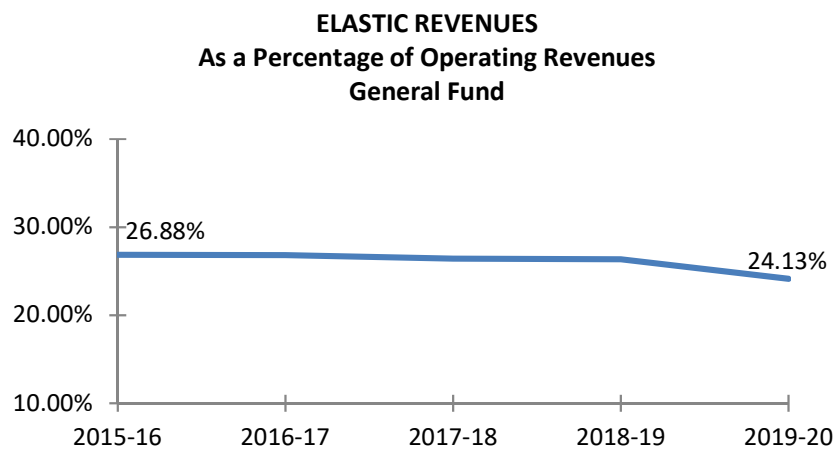
Revenue Trend Analysis

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.

Elastic revenues decreased by 10% from the prior year, and net operating revenues decreased by 2%; causing Elastic revenues, as a percentage of total revenues, to decrease from 26.36% in FY 2018-19 to 24.13% in FY 2019-20. Certain individual revenue indicators, which comprise the elastic revenues category, are examined further on the following pages.



Status: *FAVORABLE/CAUTION*

This indicator changes from a Favorable to Favorable/Caution rating. Although the decrease over the prior year is mainly due to imposed restrictions during the COVID-19 pandemic in the second half of fiscal year 2019-20; these revenues need to be monitored over the next few years as they are highly responsive to changes in the economy and inflation.

Revenue Trend Analysis

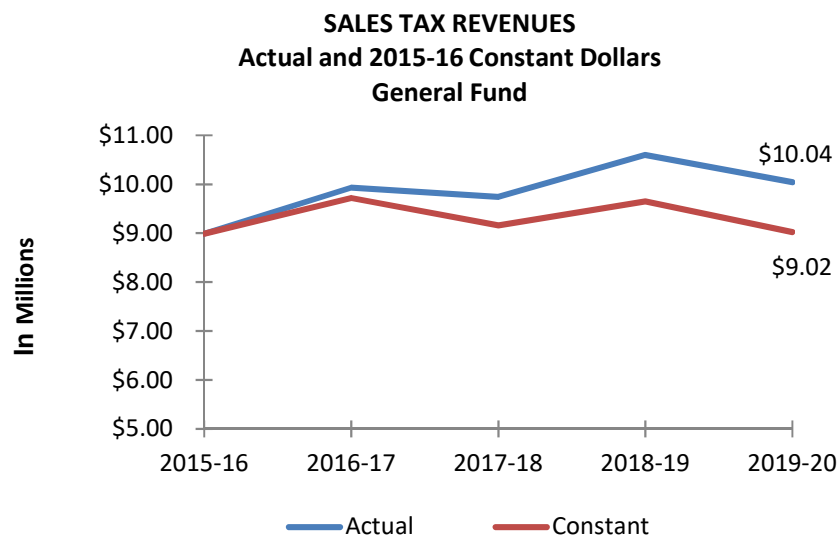
Indicator: Sales Tax Revenues

Comments:

As summarized in the chart below, sales tax revenues show a decrease of \$0.6 million, or 5% in actual dollars over the prior fiscal year. In constant dollars, there was a decrease of \$0.6 million, or 7% for FY 2019-20.

Sales tax receipts amount to \$10.0 million, compared to \$10.6 million in the prior year. The Sales tax decrease is a result of the stay at home order and timing of receipts from the State based on the Governor's Emergency order allowing for a payment extension to small businesses.

The City receives 1% of the State Sales Tax charged in San Clemente.



Status: FAVORABLE

This indicator remains a Favorable rating because although sales tax decreased from the prior year. The decrease is primarily due to impacts resulting from the pandemic and payment delays. The indicator also remains favorable due to its volatility and receipts increasing in three of the last four years on an actual basis.

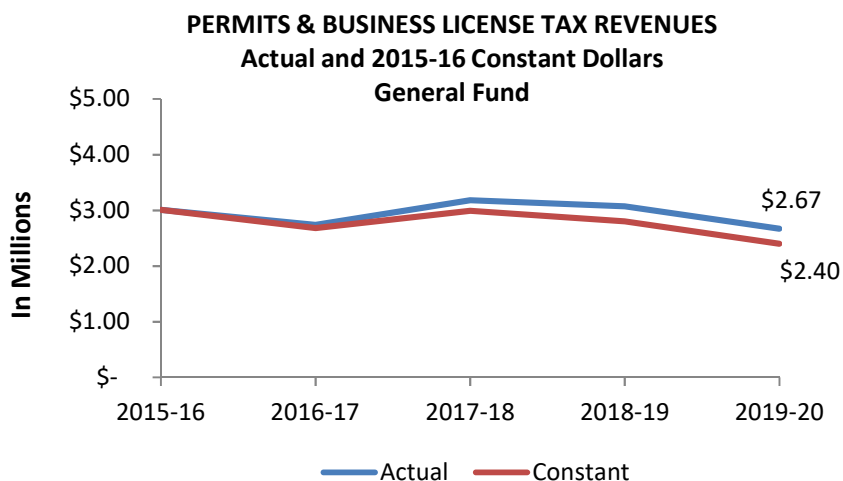
Revenue Trend Analysis

Indicator: Permits & Business License Revenues

Comments:

Permits and Business License Tax revenues decrease in actual dollars in the amount of \$403,795 or 13% from the prior fiscal year. The constant dollar decrease was \$400,361 or 14% from FY 2018-19.

Construction permit revenue decreased \$271,783, or 17% over the past year, which coincides with the decrease in construction activity in the current year. Business license tax revenue decreased by \$55,145 or 4% from FY 2018-19 due to lower gross receipts and activity being reported by business owners in the current year due to the COVID-19 pandemic. Nonbusiness licenses and permits decreases by \$76,866 or 3%, mainly due to a decrease in street encroachment permits.



Status: FAVORABLE/CAUTION

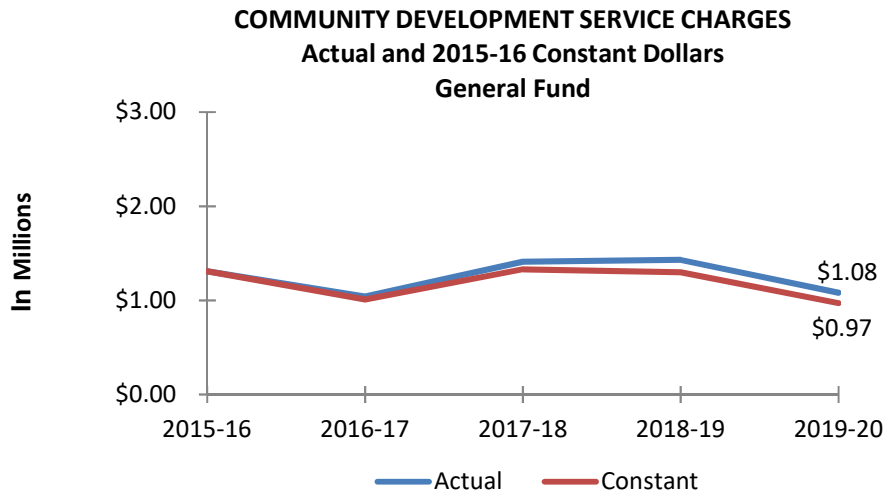
Permits and Business License Tax maintains a Favorable/Caution rating, due to the decreases over the past two fiscal years. This indicator is currently being closely monitored, and will continue to be monitored, as COVID-19 pandemic restrictions were placed on businesses.

Revenue Trend Analysis

Indicator: *Community Development Service Charges Revenues*

Comments:

Total community development service charges decreased by 24%, or \$346,183 from the prior year. There are decreases in both total general government service charges and construction inspection fees in the amounts of (\$221,988) and (\$123,649) respectively.



Status: *FAVORABLE/CAUTION*

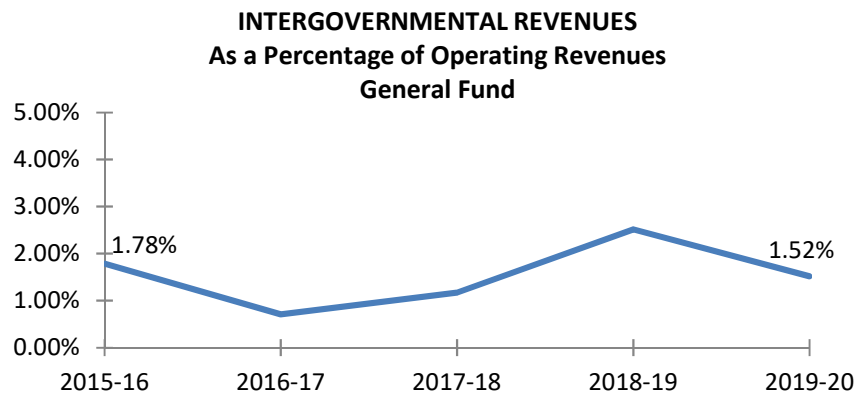
This trend remains a Favorable/Caution rating due to the first year of decreases in revenues from the prior year. The City will closely monitor these revenue sources as pandemic restrictions remain in place.

Revenue Trend Analysis

Indicator: Intergovernmental Revenues

Comments:

General Fund Intergovernmental revenues, as a percentage of operating revenues decreased to 1.52% in FY 2019-20. Intergovernmental revenues decreased from \$1.8 million in FY 2018-19 to \$1.0 million in FY 2019-20. This large decrease is mainly due to the completion and State reimbursement of the Safe Routes to Schools grant of \$1.2 million in FY 2018-19. 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

This trend remains Favorable since the City receives a low percentage of revenues from other governmental agencies. When considering in-lieu property taxes totaling \$7.3 million, the intergovernmental percentage would be 12.4% in FY 2019-20, which still supports the Favorable rating.

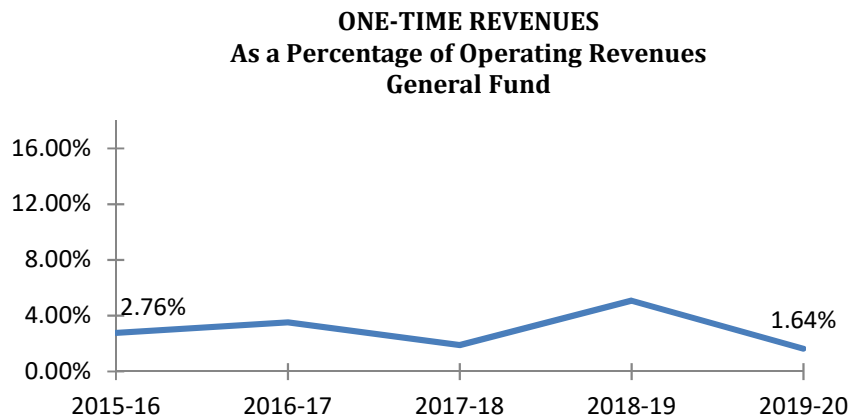
Revenue Trend Analysis

Indicator: One-Time Revenues

Comments:

One-time revenues, as a percentage of total General Fund revenues, equaled 1.64% in FY 2019-20, a decrease over the prior year.

One-time revenues decreased by \$2.5 million from the prior fiscal year. FY 2019-20 one-time revenues of \$1,101,337 include, \$699,455 of grant funds, \$109,131 from miscellaneous reimbursements, and a transfer of \$280,000 from Public Facilities Fund to reimburse capital related costs. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditures.



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.

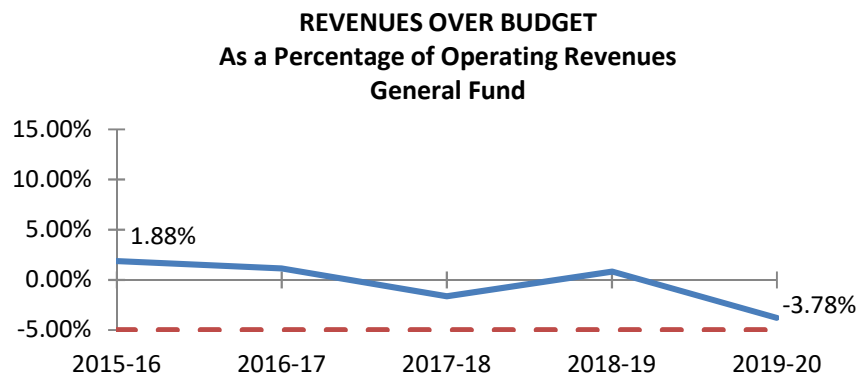
Revenue Trend Analysis

Indicator: Revenues over Budget

Comments:

Actual revenues were less than the adjusted budget by \$2.5 million for FY 2019-20 and ends with a negative revenue position of 3.78%. The City experienced revenues overages in property tax of \$322,197 and investment earnings of \$162,362. The City has also experienced the largest budget shortages in intergovernmental (\$0.9 million), transient occupancy taxes (\$0.5 million), and fines and forfeitures (\$0.3 million).

This trend began the five-year analysis with a positive revenue position of 1.88% and ended FY 2019-20 at a negative 3.78%. In order to accurately forecast revenues, the City monitors revenues through the annual budget and long term financial planning processes. The City continues to budget and receive revenues within the expected 5% range.



Status: FAVORABLE

Although the City ended this five-year trend in a negative revenue position, this trend remains a Favorable rating due to the actual revenues being within a 5% (+/-) range despite the impacts of the pandemic. If future years are between 0 and -5% we will transition to a Favorable/Caution.

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 2015-16 and 2019-20. Following this overview are the actual five trend expenditure indicators.

The table below compares the FY 2015-16 General Fund expenditures by function to FY 2019-20. 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 2015-16 vs FY 2019-20

Expenditure Function	FY 2015-16	FY 2019-20	Difference	% Change
General Government	\$ 12,621,660	\$ 14,084,747	\$ 1,463,087	12%
Public Safety	22,967,215	31,052,781	8,085,566	35%
Community Dev.	4,974,398	5,556,041	581,643	12%
Public Works	12,463,542	16,358,861	3,895,320	31%
Beaches, Parks & Rec	7,850,512	4,483,122	(3,367,390)	-43%
Total Expenditures	\$ 60,877,328	\$ 71,535,552	\$ 10,658,224	18%

The largest dollar increases were in Public Safety and General Government. These two are discussed in the following bullet points:

- Public Safety increased by \$8.1 million or 35% due to increases in the contract costs for both police and fire services over the five-year period. This includes the increase of the 4th firefighter/paramedic and a higher ambulance service level, as well as increases in Marine Safety services.
- General Government increased by \$1.5 million or 12%. General Government increased over the five-year period due to one-time capital cost as part of the Negocio City Hall building renovations.
- Public Works increased by \$3.9 million or 31% which is mostly due to moving the Beaches, Parks, and Recreation maintenance into Public Works. The net increase between the two functions is \$0.7 million or 3%. This is mostly due to changes in capital outlay, maintenance contracts, and other contractual services.

Other department changes were not as significant from a dollar perspective or on a net basis. Community Development increased by \$0.6 million or 12%, due to increases in personnel costs related to merit and COLA increases and one-time costs for General Plan related changes and initiatives over the five-year trend period.

Financial Trend Analysis

The following table compares expenditures by category and shows increases in personnel, contractual services, interfund payments, and other charges, and decreases in supplies, and capital outlay expenditure categories between FY 2015-16 and FY 2019-20.

Comparison of Expenditures by Category FY 2015-16 vs FY 2019-20

Expenditure Category	FY 2015-16	FY 2019-20	Difference	% Change
Personnel	\$ 16,757,365	\$ 18,541,4656	\$ 1,784,100	11%
Supplies	989,389	948,262	(41,127)	-4%
Contractual Services	28,441,187	38,263,504	9,822,318	35%
Other Charges	1,502,971	2,449,864	946,893	63%
Capital Outlay	5,561,236	3,563,202	(1,998,033)	-36%
Interfund Payments	7,625,180	7,769,255	144,075	2%
Total Expenditures	\$ 60,877,328	\$ 71,535,552	\$ 10,658,224	18%

The largest increases were in contractual services and personnel costs. Information on the changes follow:

- Personnel (salary and benefits) increased 11% over the five-year period. The 11% increase (or 2-3% annually) is a result of COLA and benefit changes over the five-year period. These costs were also mitigated by controlling position growth (FTE's) and by reassessment of positions as vacancies occur.
- Contractual Services increased by 35% or \$9.8 million from FY 2015-16 to FY 2019-20 reflecting increases in contractual services for Police (\$4.6 million), Fire (\$1.6 million), ambulance services (\$512,033), maintenance services (\$1.3 million), other contractual services (\$277,885), other professional services (\$457,469), and legal services (\$362,542) from FY 2015-16 to FY 2019-20.

Other changes reflect the following:

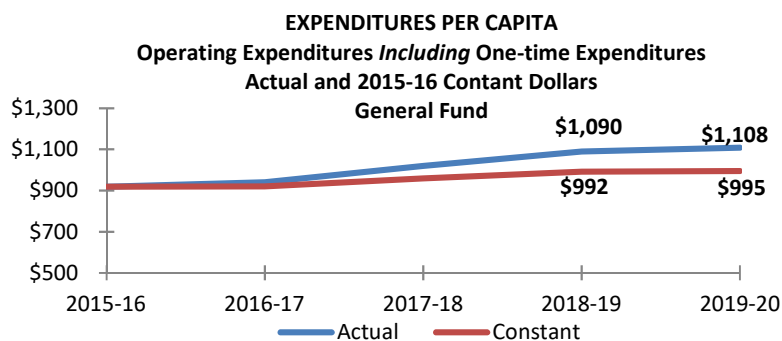
- Other Charges increased by 63% or \$0.9 million due to an increase in the unfunded police and fire public safety CalPERS liability (\$861,307) in FY 2019-20.
- Interfund payments increased by 2% or \$144,075. While transfers between funds decreased, an increase was seen in interdepartmental charges due to updates made to the cost allocation plan for FY 2019-20.
- Capital decreased 36% or (\$2.0 million) from FY 2015-16 to FY 2019-20, reflecting decreases in improvements other than buildings and major maintenance improvements during the five-year period. Improvements other than building decreased over the five-year period by \$1.3 million due to the rehabilitation of Ole Hanson Beach Club in FY 2015-16. Major maintenance improvements decreased \$746,865 due to the completion of several major improvement projects, including El Portal Beach Access Rehabilitation, T-Street Overpass Maintenance and Pier Planks Replacement at the base of the pier in FY 2015-2016.

Expenditures Trend Analysis

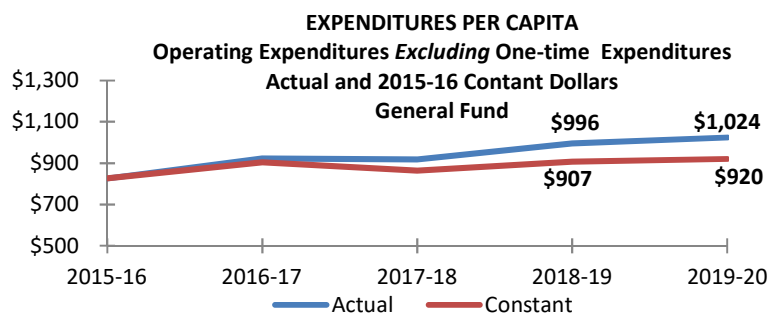
Indicator: Expenditures Per Capita

Comments:

The first chart, which includes one-time expenditures, shows an increase from \$1,090 to \$1,108 in per capita actual dollars and an increase from \$992 to \$995 in per capita constant dollars. This reflects the increase in actual dollars of \$1.2 million and the increase in constant dollars of \$219,993 when compared to FY 2018-19. The increase in actual dollars was mainly in Police (\$1.7 million), Fire (\$1.2 million) and Public Works (\$0.9 million). The increases in Police and Fire Services is due to an increase in contractual costs. The increase in Public Works is due to increases in maintenance of landscaping services (\$308,428), and personnel costs (\$398,443).



The second chart (which excludes one-time expenditures) shows an increase in actual dollars from \$996 to \$1,024, and an increase in constant dollars from \$907 to \$920. One-time expenditures include one-time transfers to Facilities Maintenance reserve (\$0.6 million), Disaster Relief (\$250,000), Accrued Leave (\$225,000), Park Asset Maintenance (\$400,000), Air Quality (\$13,160) and to Affordable Housing fund (\$65,091); and one-time funds of \$3.8 million, which includes funds for 910 Calle Negocio Remodel, Pier Structural Construction, Shoreline Feasibility Study, Bonita and Vista Bahia Park Restroom projects.



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 fairly stable over the five-year period.

Expenditures Trend Analysis

Indicator: Expenditures by Function

Comments:

Expenditures by function, as a percentage of the total General Fund expenditures (excluding debt service, interfund transfers, and capital outlay) shows that while all of the functional expenditures have increased except beaches, parks and recreation, the percentage of total General fund expenditures have remained fairly-stable. The chart below indicates that the largest percent fluctuations are in Public Safety, Community Development, and Beaches, Parks, and Recreation with an increase of 5%, and a decrease of 1% and 5% respectively.

When looking at the table, Public Safety increased from 45% in FY 2015-16 to 46% in FY 2019-20. In actual dollars, Public Safety increased by \$6.8 million, or 30%. Community Development decreased from 10% in FY 2015-16 to 9% in FY 2019-20, with an actual decrease of \$601,748 or 12% over the five-year period. The Beaches, Parks, and Recreation category decreased from 8% to 7% in FY 2019-20 reflecting actual decreases in the recreation program during the period because of shifting of park maintenance to public works.

**Comparison of Expenditures by Function
(Excluding debt service, interfund transfers, and capital outlay)
FY 2015-16 vs. FY 2019-20**

Expenditure Function	FY 2015-16	% of Total 2015-16	FY 2019-20	% of Total 2019-20	Total Change
General Government	\$ 8,198,510	16%	\$ 10,249,383	16%	0%
Public Safety	22,927,654	45%	29,717,780	46%	1%
Public Works	11,060,980	22%	14,308,967	22%	0%
Community Dev.	4,954,293	10%	5,556,041	9%	-1%
Beaches, Parks & Rec	4,189,405	8%	4,483,122	7%	-1%
Total Expenditures	\$ 51,330,842	100%	\$ 64,315,293	100%	

Based on this analysis, no single department is requesting significantly more resources, which would cause it not to be sustainable from a functional perspective.

Status: FAVORABLE

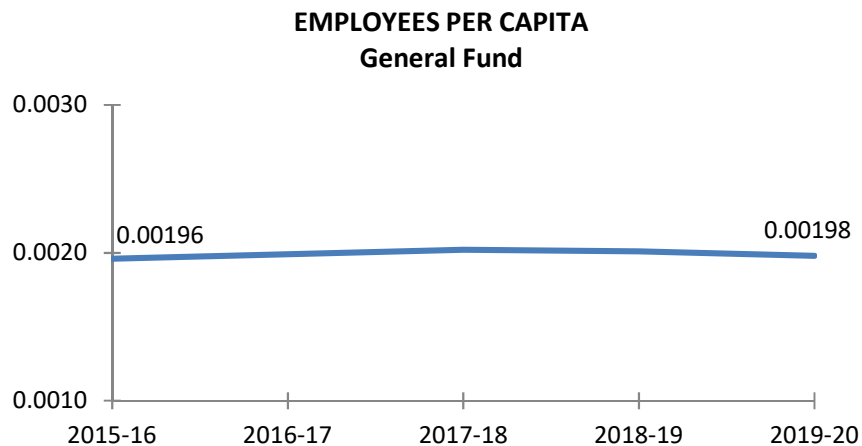
This trend remains a Favorable rating because when comparing the percentage of total expenditures change from FY 2015-16 to FY 2019-20, there is no single department requesting significantly more resources, which would cause it not to be sustainable from a functional perspective.

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. This trend only includes general operations staff, which does not include the City's utilities staff or contracted police, fire, animal control and fleet employees. On a per capita basis general operations staff have remained essentially flat over the five-year period. The following chart does not show police and fire, since these are contracted services.



Status: *FAVORABLE*

This indicator is awarded a favorable rating as growth in Full Time Equivalent (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

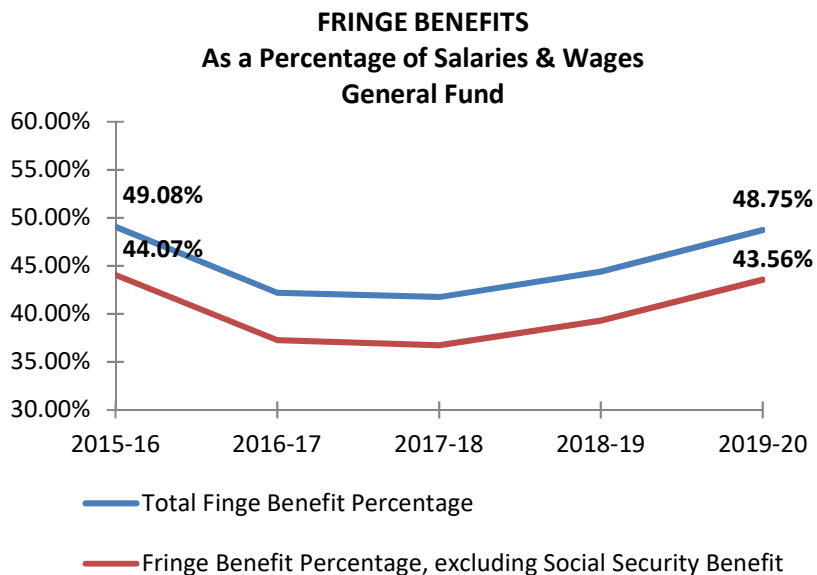
Indicator: *Fringe Benefits*

Comments:

Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 44.4% to 48.8%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2018-19. The actual amounts of General Fund benefits increased from \$5.4 million in FY 2018-19 to \$6.1 million in FY 2019-20, a 13% increase from the prior year. General Fund salary and wages were \$12.0 million in FY 2018-19 and \$12.5 million in FY 2019-20, which is an increase of 3%.

This increase was due to (1) the pension discount rate decrease causing the CalPERS and San Clemente retirement premiums to increase and (2) health rate increases for the year. The City also is utilizing budget savings to make additional payments on the CalPERS liability to improve the funded status which temporarily increases the fringe benefit percentage by about 3%.

Employees are now contributing the full 7% employee contribution rate to the CalPERS plan.



Status: *FAVORABLE/CAUTION*

This trend remains a favorable/caution rating due to the anticipated increase in pension costs as the discount rate decreased from the prior year, however, is still below levels from FY 2015-16. This trend will be closely monitored, as the percentage should start to eventually level out in the future, once the new discount rate has been fully phased-in.

Expenditures Trend Analysis

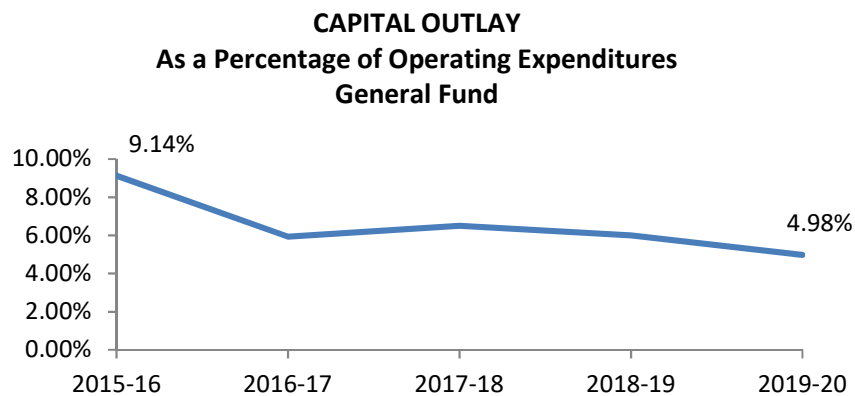
Indicator: *Capital Outlay*

Comments:

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

Capital outlay expenditures decreased by \$657,419, or 16%, from FY 2018-19. Capital outlay expenditures totaled \$3.6 million.

Spending on capital outlay decreased as the Shorecliffs Safe Routes to School, Vista Bahia Park Restroom Rehab, the City Hall Relocation and renovation, Pier Structural Construction projects, and the 2018 major street maintenance program were completed in FY 2018-19 and FY 2019-20.



Status: *FAVORABLE*

This trend remains a Favorable rating due to the slight decreases over the last two fiscal years and the trend percentage flattening.

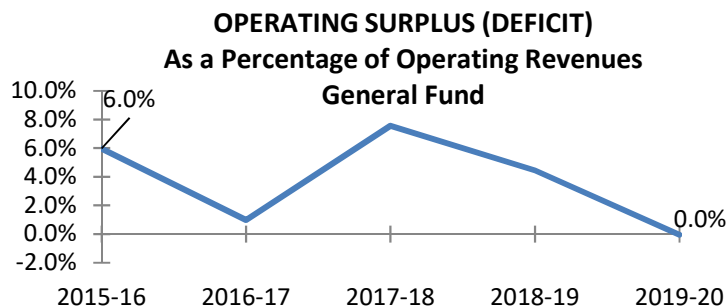
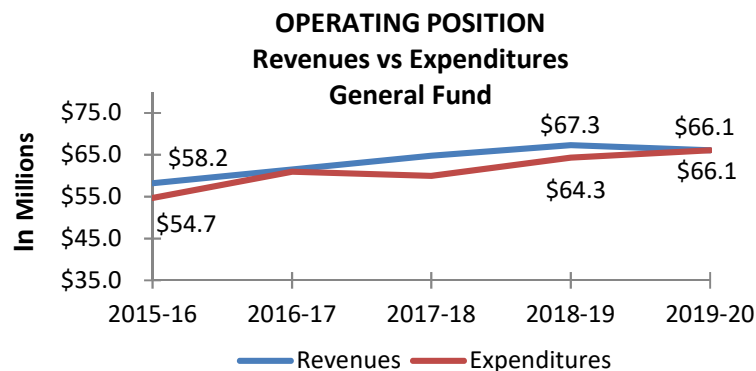
Operating Position Trend Analysis

Indicator: *Operating Surplus (Deficit)*

Comments:

Fiscal year 2019-20 ended with a negative operating position (deficit). 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 \$1.1 million, which includes \$699,454 of grant revenue, \$109,132 in miscellaneous one-time revenues; and \$292,752 in transfers, including a \$280,000 one-time transfer from the Public Facilities Improvement fund. Expenditures used to calculate this surplus do not include one-time capital costs of \$2.8 million including \$1.5 million for the 910 Calle Negocio Remodel project, \$38,054 for Pier Structural Construction costs, \$142,428 for Vista Bahia Park Restroom project, \$0.3 million for Shoreline Feasibility Study, and \$0.6 million for Bonita Restroom project; transfers from the General Fund to the Facilities Maintenance, Park Asset Maintenance, and Accrued Leave, Disaster Relief, and Affordable Housing funds of \$0.6 million, \$0.4 million, \$225,000, \$250,000 and \$65,091 respectively; and other projects of \$0.7 million. This calculation of operating expenditures does not exclude \$3.0 million of capital costs for yearly maintenance and improvements. The total operating position was negative (\$30,052) in FY 2019-20, compared to a positive \$3.0 in FY 2018-19.



Status: *WARNING*

This trend changes from a Favorable/Caution to a Warning rating due to the small deficit in FY 2019-20. This trend is currently being monitored monthly because of reductions seen in revenues surrounding the COVID-19 pandemic.

Operating Position Trend Analysis

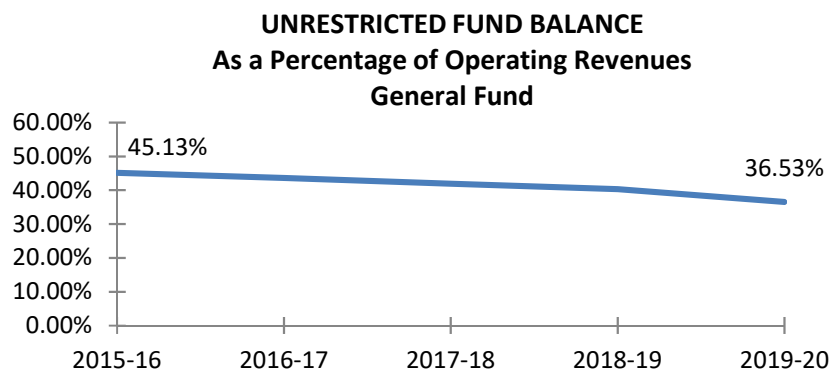
Indicator: Unrestricted Fund Balance

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 14% in FY 2019-20 from \$28.6 million to \$24.5 million. The position of the City's General Fund although decreasing shows a large unreserved fund balances, including Emergency Reserves, as a percentage of operating revenues and was impacted by the pandemic during the last year.

Included within the total FY 2019-20 unrestricted fund balances of \$24.5 million are committed funds of \$15.1, which includes \$13.4 million of emergency funding, and \$1.7 million committed for other purposes. Also included is assigned to other purposes \$5.1 million and unassigned fund balance comprises the remaining balance. The reserves are discussed in detail in the Reserve Analysis section of the LTFP.



Status: FAVORABLE/CAUTION

This trend changes from a Favorable to Favorable/Caution rating as the normal build-up of fund balance by the end of the year operating surplus (deficit) did not contribute an increase to fund balance at the levels experienced in the past due to the pandemic.

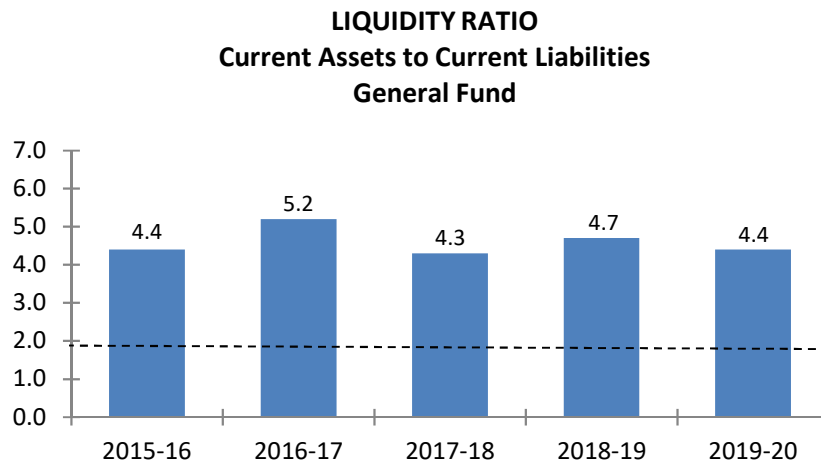
Operating Position Trend Analysis

Indicator: Liquidity Ratio

Comments:

In FY 2019-20, the City's liquidity ratio remains positive at 4.4:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 4.4:1 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

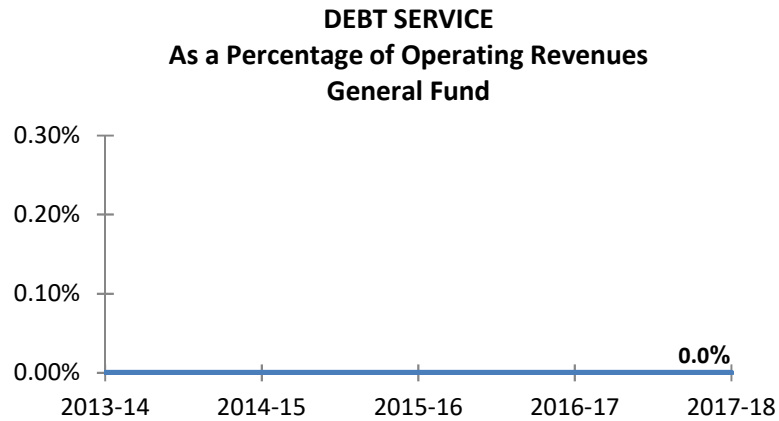
This trend is favorable due to a ratio of over 1:1 throughout the past five-year period analyzed above.

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 City's 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.

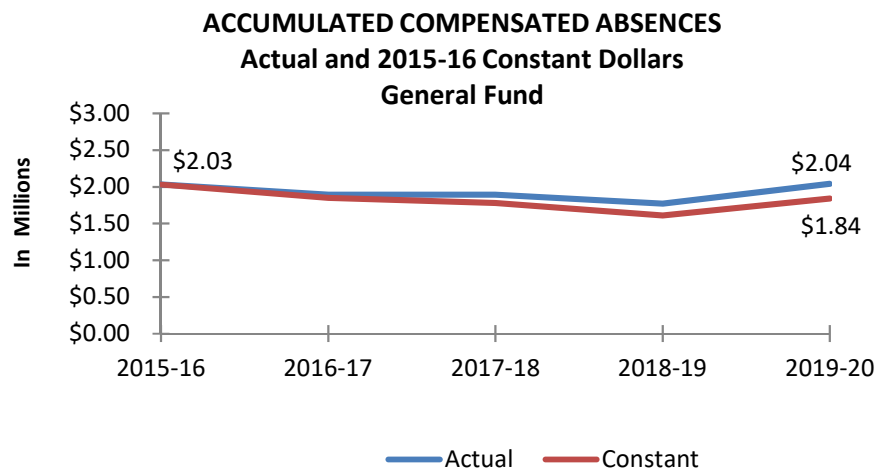
Debt Service/Unfunded Liability Trend Analysis

Indicator: *Accumulated Compensated Absences*

Comments:

At June 30, 2020, the balance of the liability for compensated absences was \$2.04 million consisting of \$1.3 million for vacation, \$0.6 million for sick leave, and \$68,453 for compensatory time. This is an increase of \$275,743 or 16% from the prior year's liability of \$1.77 million.

The Accrued Leave Reserve was established to pay accrued employee benefits for General Fund employees who terminate during the year. As of June 30, 2020, the Accrued Leave Reserve balance was \$1.1 million.



Status: *FAVORABLE*

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

Debt Service/Unfunded Liability Trend Analysis

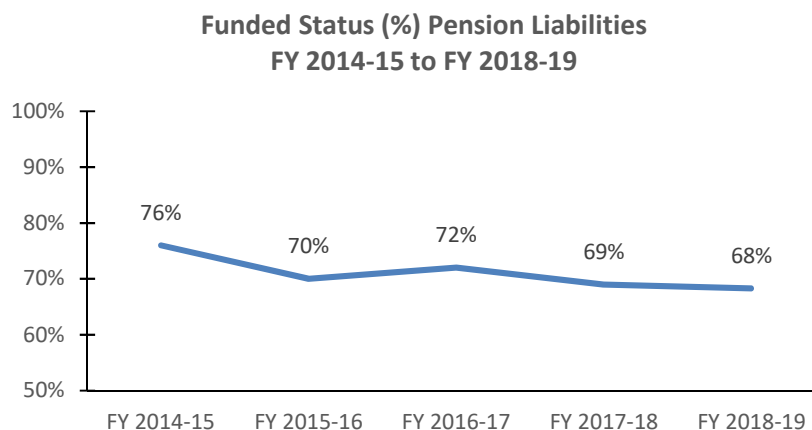
Indicator: *Pension Unfunded Liability*

Comments:

The City has four pension plans that cover different employee groups and are funded at various levels. California Public Employees' Retirement System (CalPERS) plan includes safety-lifeguards, safety-inactive and miscellaneous employees since the transition to CalPERS. The CSCERP plan includes past city retirees and inactives, as well as, Coastal Animal Service Authority employees.

Based on the FY 2019 Long Term Financial Plan Pension Update, a pension trend indicator was added to the trends to provide ongoing reporting and analyze funding levels compared to the target level of 90%. This trend shows past funding levels and the changes over the last five years. The City has in FY 2019-20 started making additional contributions, including \$400,000 authorized by Council. The five-year decrease in funding status is the result of CalPERS lowering the discount rate from 7.5% to 7.0% and the CSCERP plan lowering the discount rate from 6.75% to 6.25%. The funding status has started to stabilize and the funding percentages should increase as additional contributions and the full phase-in of the lower discount rate are realized.

The chart below shows the Funded Status for five-years ending June 30, 2020 (with information based on the prior year actuarial valuation). The lowest funded plan is CSCERP at 54% and the highest funded is safety-lifeguards at 81%. The fiscal policy objective for each plan is 90%. A 2021 Pension Update is included in this year's LTFP and provides more detail on each plan's liabilities and strategies to paying down the liability.



Status: *WARNING*

This indicator changed from an Unfavorable to a Warning rating due to the funded status remaining flat over the last four years. Based on previous LTFP guidance, the City continues to make additional UAL payments in FY 2020-21 from budget savings to improve the long-term funding (see the Pension Update paper).

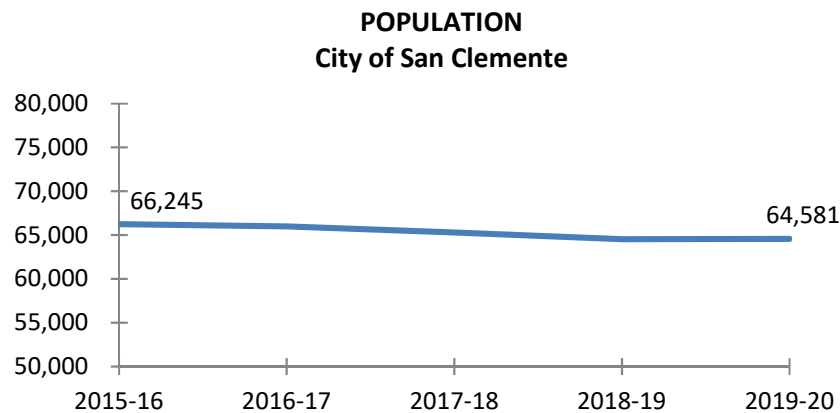
Community Trend Analysis

Indicator: Population

Comments:

The City's population has increased by 0.06% 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.

A Census is completed every ten years. Although a Census was completed during calendar year 2020, the US Census Bureau has not yet released the data to the public. The numbers used by the City between Census updates are based on numbers from the California Department of Finance and estimates of growth from the Planning department. As the City nearing build-out, the fiscal years 2015-16 through 2019-20 show a stabilization in the population rate.



Status: FAVORABLE

This indicator remains a Favorable rating due to a stable population over the five-year period.

Community Trend Analysis

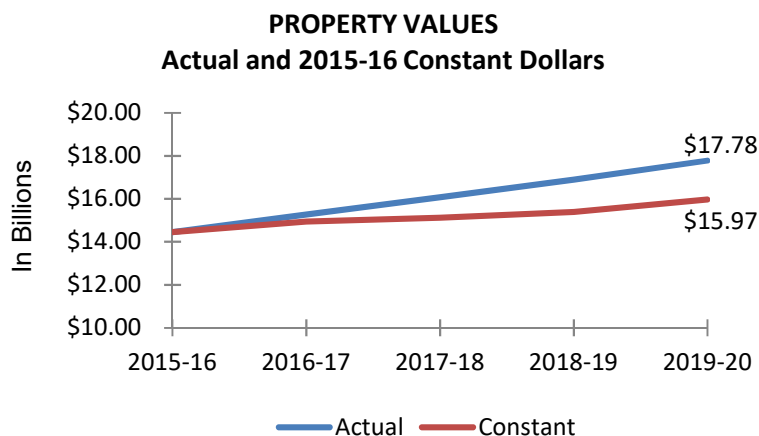
Indicator: Property Values

Comments:

The growth rate in property values as a percentage rate from the previous year in actual dollars was positive 5% or \$880 million. This is a 3.8% or \$583 million change in constant dollars, as seen in the chart below. The City is seeing five 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 2019-20. Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San Clemente receives \$0.154 of each property tax dollar collected within the City.

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

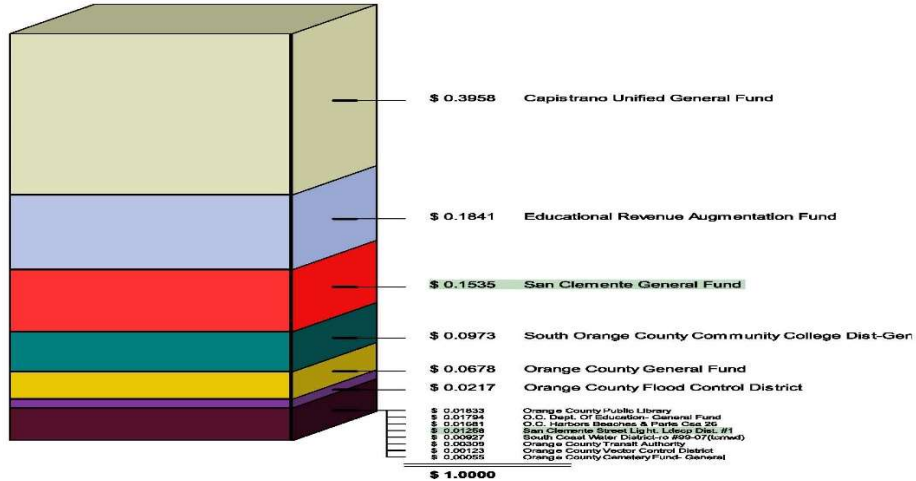


Status: FAVORABLE

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

Attachment "A"

THE CITY OF SAN CLEMENTE PROPERTY TAX DOLLAR BREAKDOWN

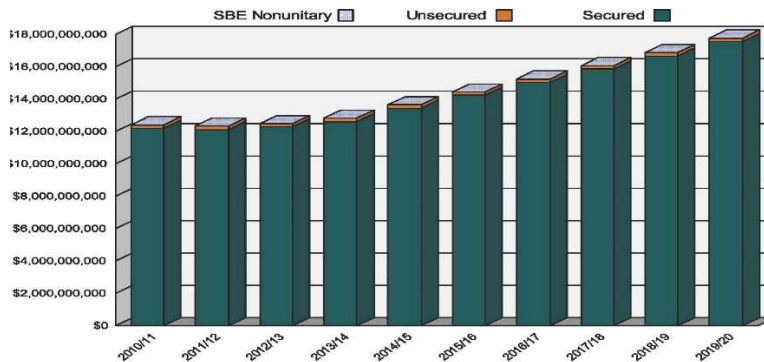


ATI (Annual Tax Increment) Ratios for Tax Rate Area 10900, Excluding Redevelopment Factors & Additional Debt Service
 Date Source: Orange County Assessor 2019/20 Annual Tax Increment Tables Prepared On 9/4/2020 By MV
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HGL, Coren & Cone

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

THE CITY OF SAN CLEMENTE NET TAXABLE ASSESSED VALUE HISTORY 2010/11 - 2019/20 Taxable Property Values

Lien Year	Secured	Unsecured	SBE Nonunitary	Net Total AV	% Change
2010/11	\$12,203,096,799	\$226,867,241	\$240,000	12,430,204,040	
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	\$15,045,448,308	\$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%
2018/19	\$16,674,458,254	\$224,092,728	\$0	16,898,550,982	5.08%
2019/20	\$17,557,945,770	\$241,279,150	\$0	17,799,224,920	5.33%
Average % Change					4.69%



* Net AV changes less than two percent are in purple font. Negative Net AV percent changes are in red.
 Data Source: Orange County Assessor 2019/20 Combined Tax Rolls Prepared On 9/4/2020 By MV
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HGL, Coren & Cone

Financial Forecast

Objective

To update the comprehensive five-year financial forecast for the General Fund, incorporating adopted City fiscal policies, expenditure patterns, revenue trends, fund balances and other known financial impacts and to provide an overview of important capital projects.

Executive Summary

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.

City of San Clemente Financial Condition

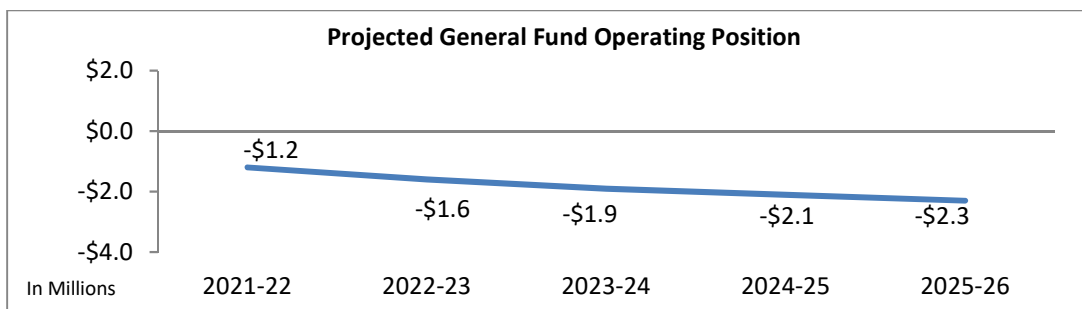
The five-year financial forecast was last updated with the adoption of the FY 2020-21 budget and it showed a small operating surplus in the first year of the forecast, followed by operating deficits in the remaining years. Here is the projected surplus/(deficits) as part of that budget forecast.

2021 Budget Forecast (In millions)	2020-21	2021-22	2022-23	2023-24	2024-25
Projected surplus/(deficit)	\$ 0.1	\$ (1.0)	\$ (2.8)	\$ (3.5)	\$ (5.2)

As part of the process to present a balanced budget to City Council during the uncertain revenue and costs impacts related to the pandemic and lowering of certain revenues, nine positions (or 5% of positions) were frozen and not budgeted to ensure no additional cuts were realized in the budget. These positions remain unfilled and additional positions during the Fiscal Year that were vacated since the budget adoption continue to be unfilled. However, staff continues to evaluate each vacancy to ensure that critical operations are maintained while complimenting State and County guidelines.

The 2021 LTFP five-year financial forecast takes into consideration these changes and starts to add back these positions to address the increased level of activity as the City starts to increase service levels as pandemic restrictions are eased. Information on the Assumptions used in the report are discussed later in this report and are based on recent economic forecasts, although there is no clear consensus in economic forecast or data. The General Fund forecasted operating position and the effect on fund balance is discussed in the following paragraphs and charts.

The forecast reflects a negative operating position in all years of the forecast. With a negative operating position of \$1.2 million and increasing to a negative operation position of \$2.3 million. The following table and chart reflect the results of the forecast.



Financial Forecast

2021 LTFP Forecast (In millions)	2021-22	2022-23	2023-24	2024-25	2025-26
Operating receipts	\$ 70.4	\$ 72.6	\$ 74.7	\$ 77.0	\$ 79.4
Operating disbursements	71.6	74.2	76.6	79.1	81.7
Projected surplus/deficit	\$ (1.2)	\$ (1.6)	\$ (1.9)	\$ (2.1)	\$ (2.3)

Deficit operating positions are subject to change based on actions taken in the normal course of business and actions by City Council. These differences can occur in a variety of items. Higher receipts or lower disbursements can occur from the projection differences, position changes, additional payments on pension liabilities, and various other actions.

Operating position

Operating Position is the excess of operating revenues over the amount of operating expenditures. Operating revenues and expenditures exclude one-time revenue and expenditures. Based on the revenue and expenditure trends, the financial forecast indicates a negative operating position beginning in next fiscal year. This increasing operational deficit is due to forecasted expenditures exceeding forecasted revenues. Revenues are averaging an annual increase of 3.1% over the forecast period while operating expenditures are increasing annually by 3.4% a year.

Operating revenue is forecasted to increase 3.3% in the first year. Property taxes, which represent 54% of all General Fund revenues, is forecast to increase 3.4% benefiting from development within the City and a positive real estate environment. General Fund revenues other than property taxes are forecasted to increase 0% and 7.3% depending on the revenue type.

Operating expenditures are forecasted to increase 3.6% in the first year. The largest percentage increases in operating costs are from the Police and Fire contracts. The OCSD police service costs are anticipated to go up 6.2% from FY 2021 current budget. This increase is mostly due to multiyear MOU's approved which has COLA increases ranging from 2.5% to 3.5% and other benefit changes increasing the salary and employee contract component by 5.7%. Additionally, the transportation costs, service and supplies contract components also increased. OCFA fire contract costs are projected to go up 5.0%, as a result of the contract 4.5% cap and the City continuing to pay more related to the 4th firefighter/paramedic position.

The next largest percentage increase is in employee salary and benefits. These expenditures are forecasted to increase 4.7% based on an anticipated salary increase based on inflation, merit increases, and adding back unfilled positions to better address City operations as the pandemic restrictions are eased. Additionally, the phase-in of pension costs from the lowering of the discount rate are factored in, however these increases are partially offset by a lowering of the employer payroll percentage. Pension costs are discussed in the 2021 Pension Update with recommendations to achieve long term savings and improve the funded status.

This is only a forecast (projection) and a negative operating position will not actually be proposed to the City Council. Adjustments to any proposed deficit budget will be completed to ensure the City remains in a positive operating position.

Fund Balance

Fund balance is the excess of assets over the amount of liabilities. The 2021 LTFP Forecast operating position shows deficit operating positions and these operating deficits have an impact on available General Fund resources (fund balance).

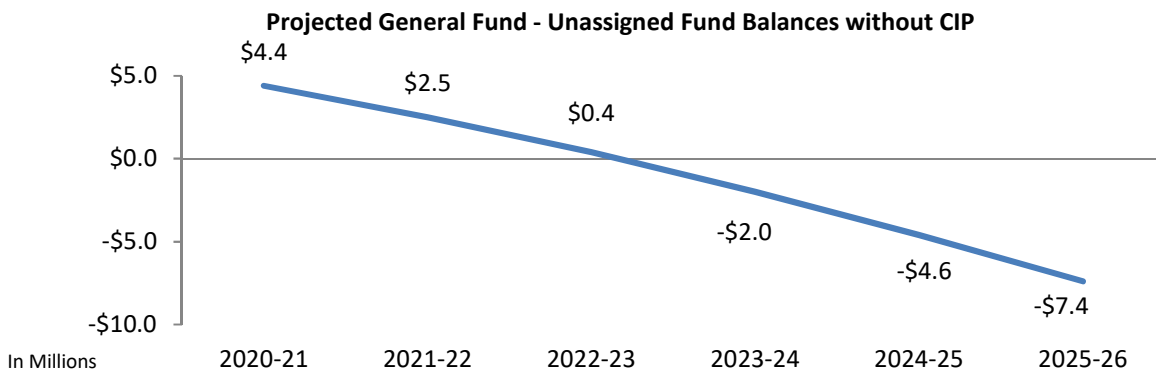
The City’s *committed* portion of fund balance, approved by City Council action, includes the *Emergency Reserve* funded at 20% of operating expenditures. Annual contributions to maintain the Emergency Reserve’s (20% of operating expenditures) are included in the forecast. *Unassigned* fund balance is available for appropriation by the City Council, without any restrictions. A positive unassigned fund balance represents a financial resource available to finance one-time expenditures in future fiscal years.

Committed Fund Balance - One financial goal 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. The Emergency Reserve based on the 2010-21 Budget is \$13.6 million. A summary of the Emergency Reserves by year is summarized below:

General Fund – Committed Reserves (in millions)

	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>
Emergency Reserve (20% of Oper. Expenditures)	\$14.3	\$14.8	\$15.3	\$15.8	\$16.3

Unassigned Fund Balance - The General Fund’s *unassigned fund balance* is projected to be \$4.4 million at the end FY 2020-21. Based on the 2021 LTFP forecast the following chart below illustrates the projected unassigned fund balance in the General Fund for the next several years.



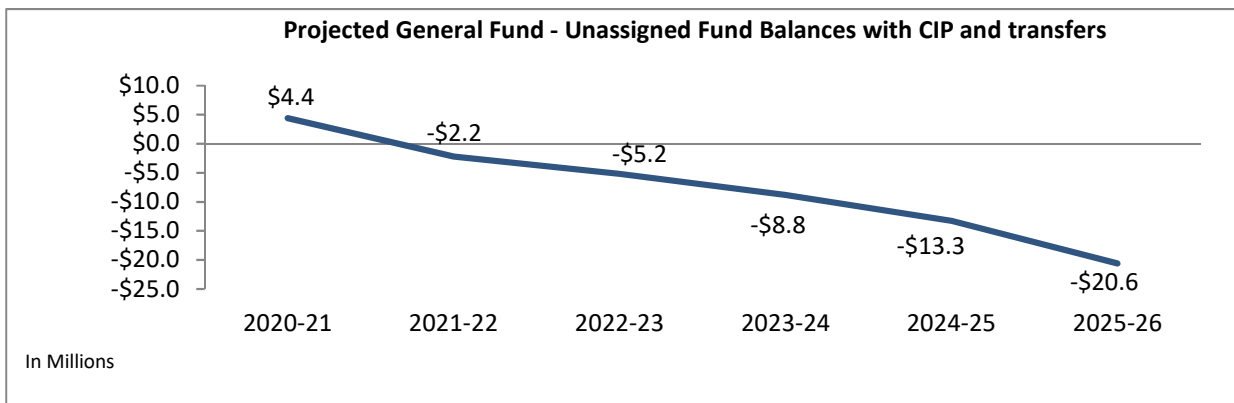
The above unassigned fund balance chart reflects the annual Emergency Reserve contributions, and \$1,200,000 each year for ongoing maintenance projects (major street maintenance, slurry seal, sidewalk repair programs, and facility maintenance), but does not assume any spending for capital projects (including infrastructure and I.T. projects), or any one-time major maintenance projects and one-time transfers to reserves, which are based on the current year levels addressed in the Reserve paper.

Financial Forecast

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 2020-21 budget, excluding the project costs to be funded by grant revenue:

Proposed Capital Projects (In millions)	2021-22	2022-23	2023-24	2024-25	2025-26
Capital Improvement Projects (non-ongoing)	\$ 4.3	\$ 0.4	\$ 0.6	\$ 1.5	\$ 3.9
Transfers (one-time)	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Totals	\$ 4.8	\$ 0.9	\$ 1.1	\$ 2.0	\$ 4.4

If one-time CIP (capital and maintenance projects) amounts and an annual transfer based on the current year reserve recommendations are added to the 2021 forecast, the City's unassigned fund balance would decrease substantially. The chart below modifies the General Fund unassigned fund balance to indicate the impact of these forecasted capital and one-time major maintenance projects on fund balances:



As previously noted, this projection is based on the CIP program presented in the FY 2020-21 budget. Funding of capital projects is determined annually during the budget process and is dependent upon available funds. In addition, this unassigned fund balance does not include any amount added back to unassigned fund balance from budget savings or revenue overages.

This forecast uses the FY 2020-21 CIP, however a revised CIP program for the next five years will be presented to the City Council as part of the FY 2021-22 budget process. These projects are typically funded by budget savings and revenue overages from the previous year.

In summary, the ongoing net operating position continues to effect fund balance and limits resources available for one-time capital projects in future years. The anticipated growth of expenditures is exceeding the anticipated growth of revenues increasing a negative net operating position. A variety of actions, which include opportunities to increase revenues to fund necessary program costs, actions to utilize one-time revenues or resources to limit the growth of future operating costs, and service levels which may need to be adjusted to correct this imbalance.

Summary:

The operating position shows deficits in all years and steps should be discussed and taken to improve the operating position and alleviate the impact of future costs on the General Fund. In addition, improving operating position would increase fund balance and compounded with annual expenditure budget savings and revenue overages, will contribute to a stronger fund balance.

The City Council should seek opportunities to improve operating position. This can be done either by increasing revenues either by achieving a higher level of cost recovery for fee supported activities or through tax measures to meet the community's needs. Another option is to be strategic in the deployment of service levels or resources.

In the following sections, we will briefly discuss revenues, service costs, and the potential use of one-time revenues to address costs and improve future operating positions.

Revenue:

The City should review opportunities to increase revenues through a variety of ways. An increase to revenues would improve future operating positions. Some of these actions have been reviewed in past Long Term Financial Plans and some could be studied with additional actions required.

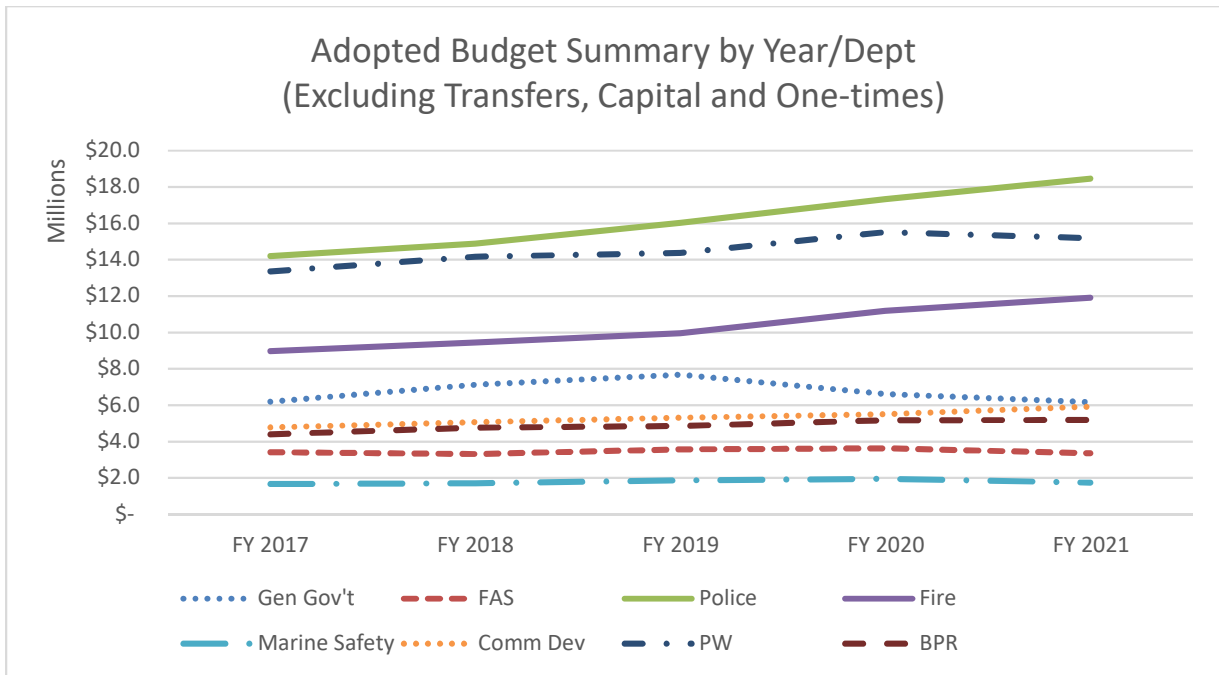
- The 2016 LTFP explored an increase to the Transient Occupancy Tax. This tax is charged through hotel or short term stays within the City and is collected by the operator from the visitor/transient and remitted to the City by the operator of the establishment. This could be reconsidered at some point.
- Seeking funding through taxes, such as an add-on sales tax, or parcel tax. For example, the Clean Ocean fee pays some costs funded from General Fund resources.
- Use one-time revenues and utilize those resources to lower long term operating costs.
- Review and evaluate current service charges to improve the cost recovery. However, some service charges have lower recovery to facilitate compliance or to assist individuals in need.

Service Cost:

The City in recent years improved or allocated funds to address service levels in a variety of areas including police, fire, ambulance, code enforcement, and facility maintenance. In addition, the City has sought opportunities to lower future costs by making strategic decisions to address deferred maintenance, utilizing capital outlay to save on maintenance costs, and paying down unfunded liabilities. Some of these actions which should be considered in the future are:

- Steed Park lighting is old and near replacement. When these lights are replaced they will be with more efficient fixtures, saving on electricity costs.
- Additional discretionary pension payments would lower the liability and save future costs.
- Set aside reserves to address any unforeseen costs to lessen the one-time impacts to fund balance.

City Council could also review amounts spent in programs and recommend activities where service levels could be adjusted, if needed. A summary of the budget (excluding one-time capital, transfers and costs) over the last five years by major department follows:



The largest department spending from a dollar perspective are Police, Public Works, and Fire. In addition, some newer programs have been launched in recent years to address community concerns. Service levels or costs recently added are discussed below:

- Public works is addressing deferred maintenance with \$1.2 million for maintenance projects annually. The most recent annual amounts include \$250,000 for facilities maintenance and \$150,000 for sidewalk repair/improvements for recurring projects.
- Sand pushing costs (adding \$14,000) were approved in FY 2019-20.
- The park ranger program was initiated as a program in FY 2019-20.

As new programs are initiated, it is important to seek revenue sources to lessen the impact on the operating position. For example, the Park Rangers pilot program assists with enforcement of city related laws. Some costs are recovered through a citation process, however some costs are funded by the general revenues. Other programs should seek additional funding sources as programs are started.

Use of one-time revenues

One item follows, where there is an opportunity to save on annual operating costs utilizing one-time revenues from either a land sale or other revenue source.

- **Unfunded Liability Pension:**

Pension liabilities were previously reviewed and actions to lower future operating costs were discussed. Employees now pay the full employee share of the pension costs and the City has made additional discretionary payments to reduce the Unfunded Accrued Liability (UAL) costs as one-time payments to the Public Safety Plan and the Lifeguard Marine Safety Plan, which are funded only by the General Fund. Other pension plan costs are allocated to various funds

based on their proportionate employee costs. Additional information on actions and strategies have been incorporated into the Pension Update section of this LTFP.

Based on Council direction and City Fiscal Policy, one-time revenues may be used to pay the UAL and lower future operating costs or shorten the amortization of the pension paydown. A one-time additional discretionary payment could be made on the Safety Plan to shorten the payment schedule while maintaining the same payment amount of \$1.4 million. This would pay off the UAL years earlier, improve funding status, and eventually create operating position. A summary of the payment schedule life and the payment requirement to shorten the life of the debt follows:

Payment Schedule Remaining Life	Additional Discretionary Payment (one-time)
16 years (existing)	\$ -
15 years	487,500
14 years	1,009,000
13 years	1,567,000
12 years	2,165,000
11 years	2,803,500
10 years	3,487,000

Staff Recommendations:

- 1) Utilize an available one-time revenue, such as a land sale or other one-time revenue, to make a one-time additional discretionary payment on the Public Safety Unfunded Pension Liability and potentially shorten the payment schedule on the pension liability.
- 2) Seek direction from Council for other potential actions to be taken to improve the operating position of the City of San Clemente.

Forecast Background and Discussion

Annually, the City prepares a five-year financial forecast with the Long Term Financial Plan. The forecast identifies the City's current and projected financial condition to determine the forecasted operating position based on existing level of services. This forecast provides information to City Council related to available resources, fund balance and anticipated results in future years. The financial forecast, along with the Financial Trend Analysis, provides the foundation of the Long Term Financial Plan process and provides information on past history and anticipated results.

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. This forecast is *not* the budget. The Budget is presented to City Council at a later time. This forecast is used to provide preliminary information to Council to assist in the prioritization process.

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 the Chapman University Economic and Business Review (December 2020). In addition, forecast information from HdL, Beacon Economics and other sources are utilized to assist staff with the assumption determinations.

Per the Chapman forecast, the pandemic impacted operations and contributed to a precipitous decline in real GDP. Unlike the Great Recession, which took years to recover from, the pandemic operations are coming back to "V" shaped recovery. We are not totally past the pandemic impacts but have recovered significantly from the lows. Payroll employment is increasing, retail sales are strong, and pent-up demand for housing remains in place.

Overall the economy is anticipated to continue to grow with more stimulus being added. However, uncertainties for the future include inflation and the ever increasing federal debt. Inflation is currently low and has not risen dramatically as part of the recovery. The CPI used in the forecast being approximately 2%, and population increasing at roughly 0.5% annually over the past few years.

FORECAST INFORMATION

The forecast is based on the General Fund only. The forecast does not include service level changes and impacts on the General Fund to pay for costs currently funded in other funds. Examples of cost factors which could effect future results:

- Revenues from future development, land sales or other enhancement actions (Property tax, sales tax, and transient occupancy tax, and land proceeds) are not included in this forecast.
- No new or enhanced programs or positions have been included in these forecast amounts. Costs funded through other funds, such as Clean Ocean costs, costs related to the Trolley program funded by external grants and AQMD resources, and costs related to homeless activities funded through the Low and Moderate Income Housing Fund are not included.
- New or enhanced programs have been excluded, including any new positions or restructuring of positions.
- No provision has been included for one-time legal costs for new special projects or initiatives.

In addition, there are other items or actions which may improve or diminish the General Fund operating position. The financial forecast is based on current known service levels. Some potential impacts, not included in the forecast, are discussed in other sections of the LTFP.

The Assumptions section of this report is broken into two sections: *Revenues and Expenditures*. These sections, which are included in the last section of this Forecast paper, provide background on the assumptions used in the General Fund forecast. Information is summarized and presented by the City's major revenue and expenditure line items.

Forecast Results

Based on the economic data and the considerations discussed in the Assumptions section of the paper the following forecast outlines the current anticipated receipts and disbursements over the next five years for the General Fund. Over the five year forecast period, the City's operating revenues are anticipated to grow by an annual average increase of 3.1%, or \$2.2 million, a year, while operating expenditures are projected to increase at an average rate of 3.4%, or \$2.5 million. This annual disparity along with the current negative forecasted operating position creates a cumulative unfavorable impact on the General Fund's operating position.

The financial forecast indicates a negative operating position of just over \$1.2 million beginning in FY 2021-22, based on forecasted revenues and expenditures. This is due to revenue growth for the forecast period being insufficient to offset larger cost increases in expenditures. These are projections only and negative operating position will not actually occur, as adjustments will be made through the budget process to ensure the city remains in a positive operating position. The following table forecasts existing development and current approved service levels. The presentation does not include any spending for one-time capital projects or one-time major maintenance projects or anticipated budgetary savings or revenue overages. The receipts and disbursements are presented by major category. The five year forecast follows:

GENERAL FUND – FORECAST					
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
BEGINNING UNASSIGNED FUND BALANCE	\$ 4,469	\$ 2,549	\$ 416	\$ (2,000)	\$(4,576)
<u>RECEIPTS</u>					
Property Tax	38,373	39,587	41,033	42,573	44,213
Sales Tax	10,674	11,145	11,424	11,709	12,002
Other Taxes	6,061	6,182	6,281	6,380	6,469
Service Charges	5,725	5,854	6,001	6,151	6,304
Other Revenue	9,631	9,789	9,956	10,156	10,360
TOTAL OPERATING RECEIPTS	70,464	72,557	74,695	76,969	79,348
<u>COSTS</u>					
Salaries & Benefits	20,059	20,739	21,333	21,945	22,547
Police Contract Services	18,048	19,040	19,992	20,892	21,832
Fire Contract Services	10,250	10,710	11,193	11,696	12,332
Other Contractual Services	12,389	12,636	12,889	13,147	13,409
Other Charges/Supplies	3,899	3,950	4,001	4,054	4,108
Ongoing Maintenance	1,200	1,200	1,200	1,200	1,200
Other Expenditures	5,801	5,907	6,015	6,124	6,237
TOTAL OPERATING COSTS	71,646	74,182	76,623	79,058	81,665
<u>OTHER FUND BALANCE CHANGES</u>					
Funding 20% Emergency Reserve	(738)	(508)	(488)	(487)	(522)
ENDING UNASSIGNED FUND BALANCE	\$ 2,549	\$ 416	\$ (2,000)	\$(4,576)	\$(7,415)
<i>*displayed in thousands</i>					

Operating revenues are categorized by Property Tax, Sales Tax, Other Taxes, Service Charges and Other Revenue. Operating revenues are forecasted to increase 3.3% in the first year. In total, operating revenues are forecasted increasing to \$79.3 million over the five year forecast period. Additional information on the revenues assumptions are discussed in the Assumptions section of this paper.

Operating costs are categorized by salaries and benefits, police contract, fire contract, other contractual, other charges/supplies, ongoing maintenance and other expenditures. Operating costs (expenditures) are forecasted to increase 3.6% in the first year with total operating expenditures increasing to \$81.7 million over the forecast period. The largest percentage increases are the police contract, the fire contract, and salaries and benefits. Additional information on the expenditure (cost) assumptions are discussed in the Assumptions section of this paper.

FORECAST ASSUMPTIONS - REVENUES

The following table summarizes the changes from year to year based on current assumption information. Each revenue is comprised of multiple revenue line items. Further information on each assumption is discussed in the following paragraphs by major revenue category:

Revenue	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Property Tax	3.38%	3.16%	3.65%	3.75%	3.85%
Sales Tax	7.30%	4.41%	2.50%	2.50%	2.50%
Other Taxes	2.62%	2.01%	1.59%	1.59%	1.39%
Service Charges	2.25%	2.25%	2.50%	2.50%	2.50%
Other Revenues	-0.34%	1.64%	1.71%	2.01%	2.01%

Property Tax

Property Tax is the City’s single largest revenue source and represents 54% 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. Property taxes are comprised of property taxes, (secured and unsecured), supplemental assessments, the vehicle license fee swap, property transfer taxes and penalties and interest. Property tax revenues are projected to increase by an average of 3.6% over the five year forecast period with a minor decrease in FY 2022-23 and larger increases of 3.6%-3.8% over the five year timeframe.

Four major factors 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 – FY 2021-22’s CPI growth factor is 1.036%. 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 “recaptures” 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.

According to HdL, property tax growth will average between 3-4% annually over the five-year time based on the CPI, ownership transfers, Prop 8 recapture and median home prices. Property transfer taxes and penalties and interest are anticipated to grow at a lower rate than the secured and unsecured property taxes.

Sales Tax

Sales tax included in the forecast is projected to grow based the total taxable sales growth, which is forecast at 7.3%. There is currently no consensus, with Chapman analysis forecasting 12.5%, Bank of the West using 4.0% and HdL forecasting 7.5%. Sales taxes are projected to increase over the forecast period by an average of 3.8%, starting with a large increase and a gradual decline over the forecast period. A general slowing of activity over forecast period is anticipated after larger initial increases as the economy transitions out of the pandemic.

Ongoing sales tax revenues for the City are forecasted to increase 7.3% the first year, slow to 4.4% and then lower to 2.5% annually over the remaining timeframe. The 7.3% rate is based the variety of forecast and closely resembles the HdL forecast. This revenue source is being positively impacted by the *Wayfair* decision, which provides that online retailers will now be required to collect sales tax from customers in individual states. However, these additional revenues will be allocated through the County pool and the State of California is currently formulating procedures and compliance information. This amount will be revised in the proposed budget based on projections provided by the City's sales tax advisors, HdL.

Other Taxes

Other taxes in the forecast include Transient Occupancy Tax (TOT), Franchises, and Business License revenues. These taxes are expected to grow in the 2.6% to 1.4% range based on growth within the City, impacts out of the pandemic, consumer price index costs, and existing development. Franchise revenues are taxes paid through primarily utility providers based on revenues and will likely increase with the recent development, but will also fluctuate with commodity prices, for example energy or natural gas. Transient occupancy tax revenues are anticipated to go up initially out of the pandemic, but increase at a slower rate more in line with the CPI over the five year timeframe. No amount is included based on future anticipated development, but additional hotels/rooms would create a larger increase. Business license revenues are forecasted to increase in the 2% range based on population growth and other inflationary increases.

Service Charges

Charges for service include, public safety service charges, parking, public works, recreation and community development service charges. These are estimated to increase generally with CPI as costs go up, but factors such as population changes, number of transports, number of participants, services provided, and other factors can impact these revenue sources. These revenues in total are forecasted to increase around 2.5% annually.

Other Revenues

Interest, fines, Interfund charges and transfers comprise the other revenue category. Interest revenue is anticipated to remain flat, with a slight increase over the timeframe as the low interest rate environment should improve in the future. Fines are anticipated to generally remain flat. Interfund costs are anticipated to increase between 1.5%- 2.5% over the five-year timeframe since these are costs charged to other funds to recover General Fund overhead related items. The amount related to the recovery of costs is forecast at \$2.9 million. Transfers are anticipated to have minor growth over the five years.

FORECAST ASSUMPTIONS – EXPENDITURES

The following table summarizes the changes from year to year based on current assumption information. Each expenditure is comprised of multiple line revenue line items. Further information on each assumption is discussed in the following paragraphs by major disbursement category:

Disbursement	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Salaries & Benefits	4.69%	3.39%	2.86%	2.87%	2.74%
Police Contract Services	6.22%	5.50%	5.00%	4.50%	4.50%
Fire Contract Services	5.03%	4.50%	4.50%	4.50%	5.44%
Other Contract Services	0.93%	2.00%	2.00%	2.00%	2.00%
Other Charges/Supplies	2.33%	1.29%	1.30%	1.31%	1.32%
Ongoing Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%
Other Expenses	1.90%	2.00%	2.00%	2.00%	2.00%

Salaries & Benefits

The forecast assumes anticipates growth in wages and benefits, In total, salaries and benefits are forecasted to increase 4.7% from the prior year and will range between 3.39% and 2.74% over the five years adjusting for a CPI cost of living percentage, merit increases, medical cost changes, retirement and other benefit amounts. In total, salaries and benefits are forecasted to increase 4.7% initially due the addition of employees as pandemic restriction are eased. This rate will decrease to 2.74% in the last year of the forecast. Current staff levels are forecasted adding back frozen positions, as a result of the pandemic, to accommodate more complete City operations as pandemic restrictions are eased. However staff will continue to look for opportunities to lower costs by streamlining or identifying duties which can be transferred or absorbed by other areas.

The City has focused on personnel-related costs to achieve savings to lower structural deficits. This included employees paying the full “employee share” of pension costs, currently the employees pay the full employee contribution (7% for Miscellaneous employees and 9% for Lifeguard employees). New employees hired after January 2013, pay the full cost of the employee share based on PEPRAs pension rule changes enacted by the State of California effective January 1, 2013, which are 6.75% for Miscellaneous employees and 13.75% for the PEPRAs Lifeguard employees.

The slower growth of 2.74% recognizes that as PEPRAs employees are added, the employer contribution will continue to decrease. For example, the FY 2021 9.65% employer contribution will decrease to 9.1% (FY 2022) and projected to be 8.9% for FY 2023 which lowers the City’s annual payroll pension cost. The City is also paying down the UAL by making additional contributions – this is addressed in the LTFP Pension Update. Unfortunately, those UAL payments coincided with CalPERS reducing the discount rate (from 7.5% to 7.0%) resulting in higher a higher UAL cost delaying the positive impact. The phase-in of this approach will be completed within this five-year forecast. Other benefit expenditures are anticipated to increase from 0% to 3.3%.

Police Contract

Orange County Sheriff’s Department (OCSD) is a high-performing police organization, and the County sheriff’s contract is a less expensive option compared to creating and operating a full-

Financial Forecast

service, city police organization. Like most agencies in California, pension costs have contributed to a substantial rise in expenditures for police activities.

The County of Orange sheriff's contract costs are anticipated to increase 6.2% from the previous year's adopted budget as a result of the implementation of the previous year multiyear MOU approved by the County unions which implements 2.5% to 3.5% annual Cost of Living Adjustments. This 6.22% incorporates those COLA's and other benefit changes include retirement, medical and benefit costs. Other cost increases including services and supplies, transportation, department overhead, and training. This category only shows the OCSD contract amount.

The forecasted growth rate is 5.5% for the second year to realize the continued union contract COLA's and other costs. Future years anticipated growth is estimated at 4.5% to 5.0% annually to maintain the existing levels of service. The annual average increase for the police contract services is 5.14% over the forecast period.

Police positions remain at the FY 2020-21 level for the term of the forecast. Any personnel additions will also result in increased costs above what the forecast assumes. Changes related to body cameras, or other future changes are not incorporated.

Costs paid by the City outside of the contract are not included in this contract amount but are in the other forecast categories. These costs paid by the City include fleet charges, crossing guards, legal services for prosecution, and past police pension costs. The Police Contract Services category only shows the OCSD contract amount. Total police related costs are forecasted at \$20.6 million.

Fire Contract Services

Fire Services costs are projected in the forecast to increase by 5.0% over the prior year, with most subsequent years at 4.5%. OCFA's fire contract costs are projected to go up 5.0%, as a result of the contract 4.5% cap and the City paying portions of a 4th firefighter position.

This contract includes a maximum cap of 4.5% each year, the highest increase allowed by the City's contract with the Orange County Fire Authority (OCFA), excluding the additional paramedic/firefighter cost. 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 2021-22 will be determined over the next several months, through the budget process, but is expected to be at the 4.5% cap. The annual average increase for the fire contract services is 4.8% over the forecast period.

The additional percentage increase is related to the addition of a 4th firefighter/paramedic on full rotation for the City of San Clemente as implemented by OCFA starting in FY 2017-18. The addition was 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 are included in the forecast, based on the initial projections by OCFA. These may vary over the five-year timeframe based on actual costs.

Costs paid by the City outside of the contract are not included in this contract amount but are in the other forecast categories. Additional costs, such as the ambulance contract, are in other

forecast categories. The Fire Contract Services category only shows the OCFA contract amount. Total Fire and ambulance related costs are forecasted at \$12.9 million.

Other Contract Services

Contract services is substantial, as this category consists of a wide variety of contracts and services. This category includes maintenance costs, legal services, professional services, animal control, ambulance, utilities, printing, binding, and other various contract services. These are combined and anticipated to increase by current inflation levels of around 2%, with the first year realizing a lower percentage due to some one-time costs being included in the base-year. Some costs may increase by more and some by less, but generally the amounts are forecasted to increase around inflation levels. These amounts in past years, have been impacted by prevailing wages and other criteria.

One of the larger individual contracts is for the ambulance transport services provided by Care Ambulance Services under a contract 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. The forecast assumes the City will continue to operate with the two full-time ambulances in the contractual model currently in place.

Other Charges/Supplies

Other charges/supplies includes the CalPERS public safety payment, contract class instructors, street signs, materials, chemicals, special events, postage, tools, dues and subscriptions, and other general operating supplies. This has a higher increase the first year due cost phase-in of the annual public safety CalPERS payment from \$1,333,000 to \$1,375,000 and then flat in the future. The other costs included are anticipated to increase by current inflation levels of around 2%. Some costs may increase more and some less, but generally the amounts should increase around inflation levels.

On-going Maintenance

The City’s annually budgets for routine capital maintenance on an annual basis are CIP projects for streets, sidewalks and other facility maintenance improvements. These amounts do not include separately identified one-time projects which are more non-routine in nature are called out as part of the Capital Improvement Program through the budget process. These budgets do not increase annually and smaller routine maintenance projects are identified which fit within the dollar scope of the budget.

This allocation includes funds for street work, slurry seal, sidewalk maintenance and facility maintenance. There is no change to these amounts over the forecast period. A summary of the annual budget allocation by Fiscal Year included in the forecast follows:

Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Street maintenance	\$ 550,000	\$ 550,000	\$ 550,000	\$ 550,000	\$ 550,000
Slurry seal	250,000	250,000	250,000	250,000	250,000
Facilities maintenance	250,000	250,000	250,000	250,000	250,000
Sidewalk maintenance	150,000	150,000	150,000	150,000	150,000
Total	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000

Other Expenses

The City's other expenses category is made up of transfers and interdepartmental charges. Transfers include the annual transfer of \$500,000 to provide annual funding for the Street improvement Program from the General Fund. In addition, a \$15,000 transfer to assist with Senior Mobility is forecasted. Interdepartmental charges consist of charges to recover costs for specific activities. These include insurance charges, postage, duplicating, EDMS, information technology, communications, fleet, facilities and capital replacement. These costs are anticipated to increase from 0% to 2.0%.

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.

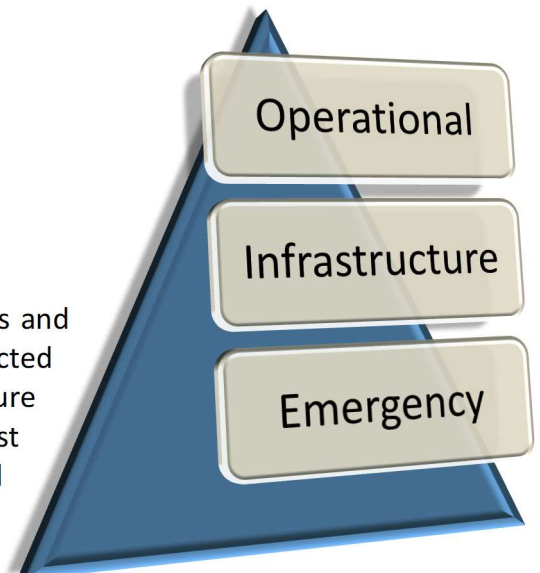
The Water, Sewer, Golf, Storm Drain, and Solid Waste Funds maintain an emergency reserve per Fiscal Policy similar to the General Fund to protect essential service programs during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for 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 2020-21 reflect the General Fund Emergency Reserve funding level which is 20% of operating expenditures. No changes are recommended to the funding level in FY 2021-22. Enterprise Emergency Reserves have no recommendations to the reserve level, however a recommendation was made in the prior year and is repeated to review rates in the Sewer Fund. A sewer cost of service study is nearing completion on the Sewer Fund, which should have rates presented soon. The Sewer rates were last adjusted in 2016. The Golf Course fund recently adjusted rates to address its operating Emergency Reserve which were not fully funded. Once the Emergency Reserve is funded, the Golf Capital Reserve loans will be addressed.

Capital/Infrastructure Reserves provide funds for replacement of capital assets, including infrastructure. The City has multiple reserves properly funded, but several lack proper funding. The shorter term assets, such as equipment and vehicles, are properly funded as can be seen from the Fleet and Capital Equipment Reserves. The City is working to fund the replacement of long-term capital assets, such as water, sewer, and storm drain capital assets. These assets have longer lives and are substantially more in cost. Capital/Infrastructure reserves mitigate the direct impact of funding requirements in any one year, setting aside funds over a longer period of time. Lucity, the City’s Computerized Maintenance Management System, started the process to identify assets and determine upcoming needs to set aside for replacement.

To fund capital reserves, funding cannot be accomplished in one year, especially with past underfunding. Water capital asset funding is improving, but transfers are recommending to address capital needs. A Sewer cost of service study is in process to allocate costs and recover those costs should improve long-term funding for capital asset replacements due to the aging of the Sewer facility and other infrastructure. The Storm Drain fund continues to have significant capital assets, which will need replacement in the future. The funding was adopted in 1993 in almost 30 years and has not kept pace with inflation. To ensure ongoing funding, staff reviews alternative funding options, such as grant funding, or cooperative agreements rather than utilizing only reserve funds.

Operational Reserves are improving. These reserves, which include Accrued Leave, Debt and Liability Reserves help reduce short term cost impacts on City operations. The Accrued Leave Reserve is fully funded. The State Revolving Loan Reserve is funded in accordance with fiscal policy and the State loan agreement. Liability reserves have been restored. The liability reserves at current levels can assist with uncovered claims or issues that arise in the future.

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, June 30 estimated balances are in the following table. These balances will be used to fund the July 1, 2021 reserve requirements:

Reserves	Fund	Estimated Reserve Balances at June 30, 2021	FY 2021 Status
Emergency Reserves:			
General Fund Emergency Reserve	General Fund	\$ 14,313,000	Properly Funded
Water Operating	Water Fund	\$ 1,364,000	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	\$ 202,000	Properly Funded
Solid Waste	Solid Waste Fund	\$ 33,000	Properly Funded
Capital/Infrastructure Reserves:			
Fleet Replacement	All Funds	\$ 5,763,000	Properly Funded
Capital Equipment Replacement	General Fund	\$ 1,992,000	Properly Funded
Facilities Maintenance	General Fund	\$ 6,658,000	Properly Funded ²
Park Asset Replacement	General Fund	\$ 2,062,000	Properly Funded
Water Fund Depreciation	Water Fund	\$ 10,070,000	<i>Partially Funded</i> ³
Sewer Fund Depreciation	Sewer Fund	\$ 7,259,000	<i>Partially Funded</i> ³
Storm Drain Fund Depreciation	Storm Drain Fund	\$ 1,590,000	<i>Partially Funded</i> ³
Golf Course Fund Depreciation	Golf Course Fund	\$ 1,927,000	Properly Funded
Golf Capital Improvement Reserve	Golf Course Fund	\$ 1,109,000	Properly Funded
Operational Reserves:			
Accrued Leave	General Fund	\$ 855,000	Properly Funded ²
State Revolving Loan Reserve	Water Fund	\$ 900,600	Properly Funded
General Liability Self-Insurance	All Funds	\$ 6,080,000	Properly Funded
Workers' Compensation Insurance	All Funds	\$ 1,579,000	Properly Funded
¹ These reserves are not properly funded. Rate reviews are recommended to obtain emergency reserve levels.			
² These reserves meet the funding required at June 30, 2021, however based on anticipated future activity one-time transfers are recommended to fund future reserve levels.			
³ These reserves are below the funding required at June 30, 2021. 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 by reserve category follow:

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

Capital/Infrastructure Reserves

- Transfer an annual amount of \$380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2021-22.
- Transfer a one-time amount of \$115,000 in FY 2021-22 to fund the Accrued Leave Reserve.
- Transfer a one-time amount of \$1,000,000 from the Water Operating Reserve in FY 2021-22 to the Water Depreciation Reserve to fund future capital replacement in the Water Depreciation Reserve.
- Direct staff to keep appraised of legislative developments to modify Storm Drain fees to meet the cost demands placed on the City's public storm drain system.
- 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 implementation of Lucity and sufficient data is available.

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

General Fund Emergency Reserve

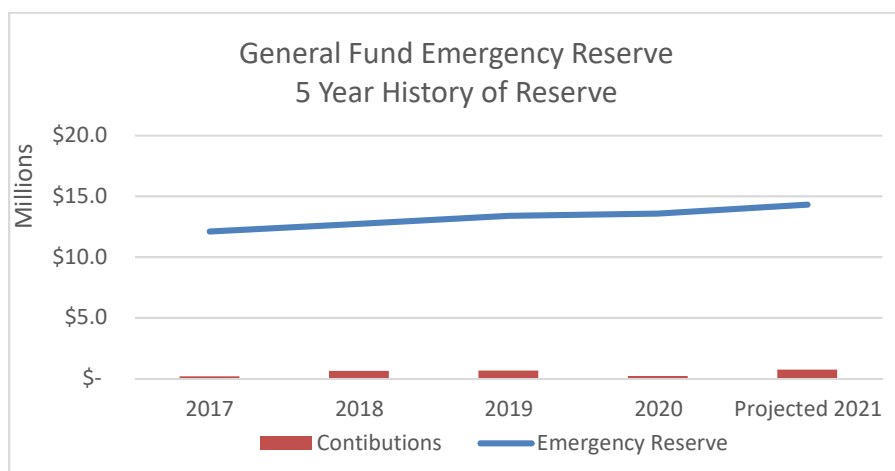
Emergency Reserve Category

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

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

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

Discussion/Analysis and Assessment: The Emergency Reserve provides resources to allow the City to continue operations in the occurrence of any serious conditions. In FY 2016-17, the Emergency Reserve and Sustainability Reserve were combined and the Emergency Reserve funding level was modified from 9% to 20%. The General Fund emergency reserve is a minimum of 20% of operating expenditures. This funding level is based on GFOA best practices which recommends emergency reserves equivalent to *at least* two month's operating expenditures, or 17%. Funding the reserve at 20% provides for cash flow fluctuations during a particular month and conservatively exceeds the GFOA minimum recommendation (17%). This additional 3% above the GFOA minimum recommendation could provide for economic stabilization in times of an economic downturn. In FY 2021-22, the reserve will increase to \$14.3 million based on the forecast.



Recommendation: No changes recommended.

Enterprise Emergency Reserve

Emergency Reserve Category

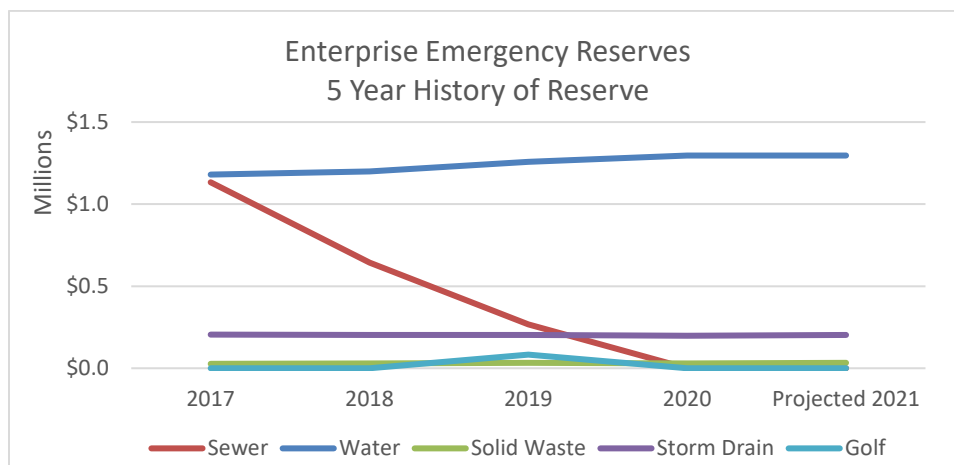
Purpose: The City’s enterprise fund emergency reserves are to fund unanticipated costs from unforeseen disasters and to provide a financial buffer to prevent a need to dramatically change rates based on these unforeseen disasters.

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

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

Discussion/Analysis and Assessment: Enterprise operating fund emergency reserves are funded at 12% of operating costs based on GFOA’s best practices. Operating costs exclude capital, transfers, debt, and purchased water costs. Water, Storm Drain and Solid Waste Funds 12% emergency reserves are fully funded.

The Sewer emergency reserves are not funded and the City is currently reviewing its rate structure. A transfer from Depreciation fund will be required to maintain a positive working capital balance. The Golf emergency reserve is not funded but has recently adjusted rates to improve the long term funding. Once adequate emergency funds are held in the operating reserve, the principal loan repayment to Golf capital reserves will be started.



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

	Requirement at June 30, 2020	Requirement at July 1, 2021	Funding available at June 30, 2021
Water Fund	\$ 1,296,000	\$ 1,364,000	\$1,296,000
Sewer Fund	1,325,000	1,338,000	Not funded (-\$131,000)
Golf Course Fund	278,000	290,000	Not funded (-\$280,000)
Storm Drain Fund	198,000	202,000	\$202,000
Solid Waste Fund	30,000	33,000	\$33,000

Recommendation: No changes recommended.

Fleet Replacement Reserve

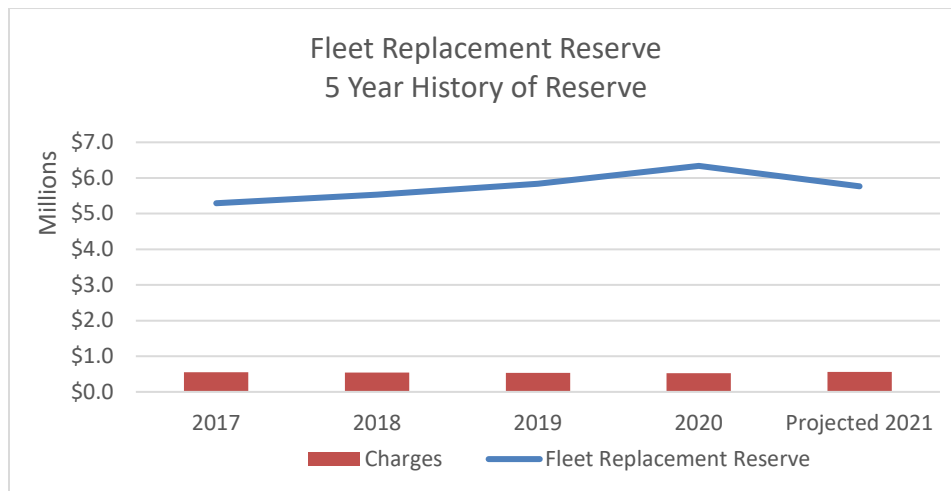
Capital/Infrastructure Reserve Category

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

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

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

Discussion/Analysis and Assessment: The reserve is reviewed annually to verify funding is adequate to cover projected replacement costs for the next five years. Currently, the City's fleet replacement is valued at \$7.7 million. The estimated schedule for replacements are \$5.1 million during the next five years and \$2.6 million for vehicles to be replaced after six years. This reserve is fully funded with a projected balance of \$5.8 million at June 30, 2021.



Recommendation: No changes recommended.

Capital Equipment Replacement Reserve

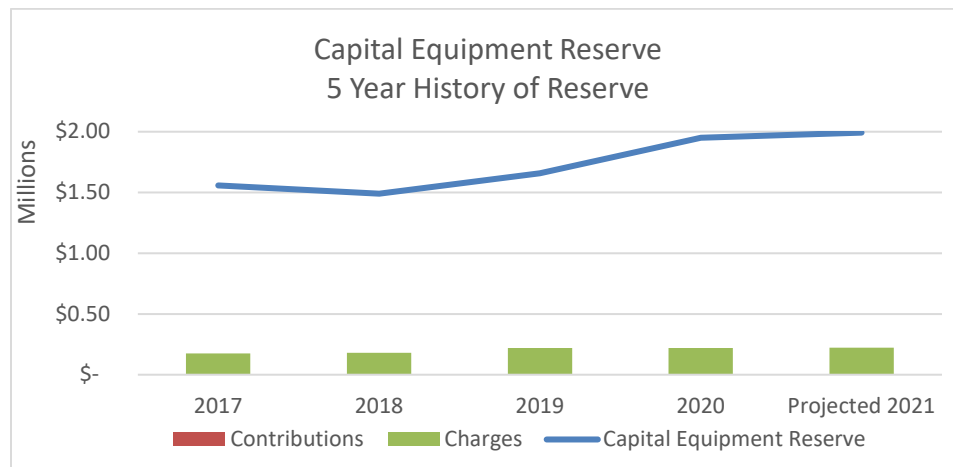
Capital/Infrastructure Reserve Category

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

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

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

Discussion/Analysis and Assessment: As General Fund capital equipment is replaced, the capital costs are paid from this reserve. The replacement costs for these assets are charged to the benefiting General Fund program and transferred back to the Capital Equipment Replacement Reserve, thus accumulating funds to pay for future replacement of these assets. The projected fund balance at June 30, 2021 is \$2.0 million and the anticipated five-year costs are fully funded.



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

Facilities Maintenance Reserve

Capital/Infrastructure Reserve Category

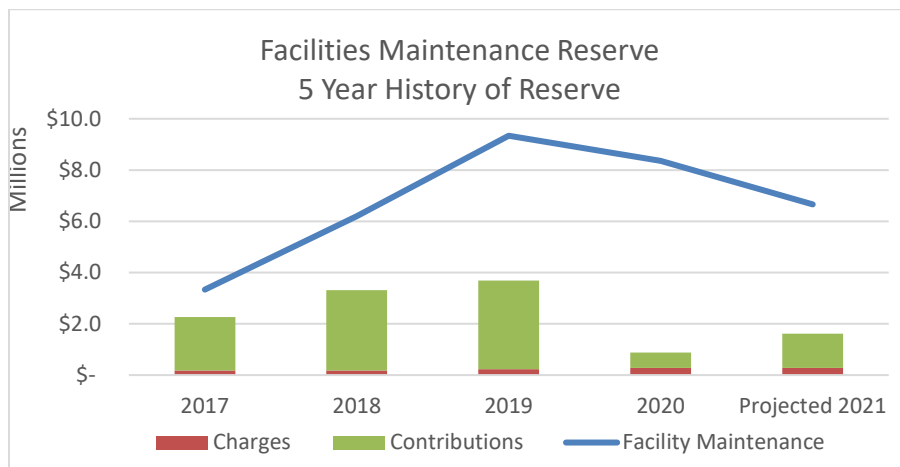
Purpose: The City established this reserve to provide funds for the maintenance of City facilities.

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

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

Discussion/Analysis and Assessment: General Fund facilities are replaced through capital expenditures made from this fund. The City's capital activity includes long term projects, such as, the Marine Safety building, Maintenance building, and other buildings and facilities. The projected fund balance at June 30, 2021 of \$6.7 million is insufficient to fund the replacement of all these buildings and facilities.

The General fund currently contributes a recurring annual amount of \$380,000 with \$200,000 for pier related rehabilitation and \$180,000 for basic costs which exclude the larger projects. No additional transfer is currently recommended for these longer term projects from the General Fund unassigned fund balance. Staff, after the implementation of Lucity, will analyze capital asset categories and identify assets funded for replacement in this reserve.



Recommendations: 1) Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Facilities Maintenance Reserve after the Lucity implementation and sufficient data is available, and 2) Transfer an annual amount of \$380,000 from the General Fund to the Facilities Maintenance Reserve in FY 2020-21.

Park Asset Reserve

Capital/Infrastructure Reserve Category

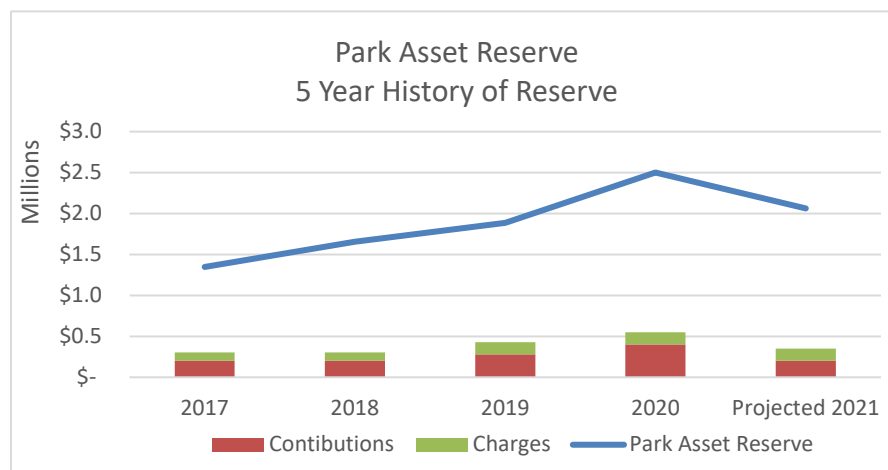
Purpose: The Park Asset Reserve is used for replacement of park capital assets valued over \$50,000 within city parks. This reserve is funding playground equipment replacements and setting aside funds for artificial turf replacement at the Vista Hermosa Sports Park.

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

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

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

Currently, the projected balance at June 30, 2021 is \$2.1 million. However, the City has implemented a playground replacement schedule which is utilizing the reserve, which includes upgraded playground equipment from the existing equipment. As replacement projects are completed, replacement charges to the benefiting program replenish the Park Asset Reserve based on an estimated asset life. These charges during FY 2021-22 are anticipated to be \$160,000. After the Lucity implementation, staff will consider identifying and adding additional assets (such as lights, restrooms, fields, courts, etc.) to be funded through the Park Asset Reserve.



Recommendation: Direct staff to analyze capital asset categories and identify assets funded for replacement in the purpose section of the Park Asset Reserve after the implementation of Lucity and sufficient data is available.

Water Fund Depreciation Reserve

Capital/Infrastructure Reserve Category

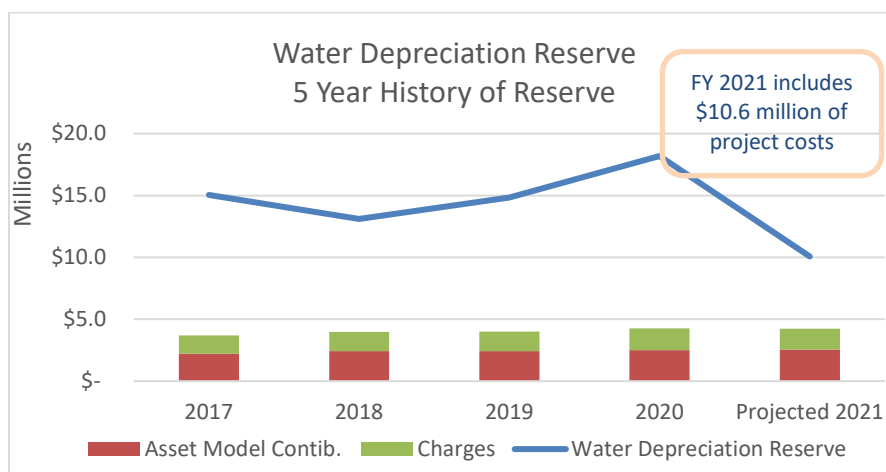
Purpose: The Water Depreciation reserve sets aside replacement funds for water capital assets and equipment that reach the end of their useful life and for major repairs to the water system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained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

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

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

Discussion/Analysis and Assessment: Water infrastructure reserves have been underfunded for a long period of time. Council has taken action to increase contributions based on an Asset Model to narrow this significant funding gap. The projected ending depreciation reserve balance at June 30, 2021 is \$10.1 million if all projects are completed. The three-year capital costs total \$14.9 million. Therefore, the Depreciation Reserves are underfunded by \$4.8 million, as compared to last years \$5.2 million underfunding. The City is progressing toward funding three years of capital project activity based on the fiscal policy.

The Water Operating Fund contributed depreciation amounts of \$1.8 million based on the estimated useful life of the water capital assets. Asset model contributions of \$2.5 million address past underfunding, major maintenance costs, and joint agency assets. The underfunding of this reserve has fluctuated but recently is remaining stable. Contributions funding the reserve are increasing and slowly improving the underfunding levels, however a one time transfer from the Water Operating Fund is recommended to improve funding levels. Staff will consider future additional reserve contributions based on funding levels.



Recommendation: Transfer a one-time amount of \$1,000,000 from the Water Operating Reserve in FY 2021-22 to the Water Depreciation Reserve to fund water asset replacement.

Sewer Depreciation Reserve

Capital/Infrastructure Reserve Category

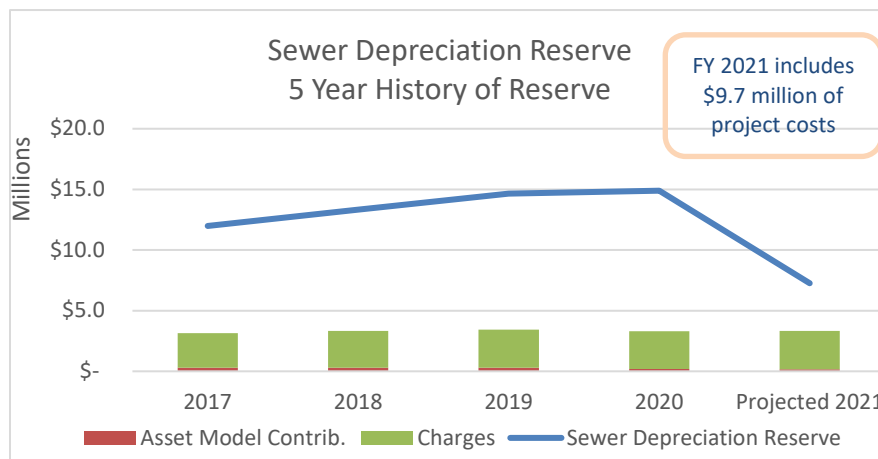
Purpose: The Sewer Depreciation reserve set aside replacement funds for sewer capital assets and equipment that reach the end of their useful life and for major repairs to the sewer system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained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

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

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

Discussion/Analysis and Assessment: Sewer infrastructure reserves have been underfunded for a long period of time. Council has taken action to increase contributions based on an Asset Model to narrow this funding gap. The projected ending depreciation reserve balance at June 30, 2021 is \$7.3 million if all projects are completed. The three-year capital costs total \$11.3 million. Therefore, the Depreciation Reserve is \$4.0 million under funded. The City is in the process of reviewing the sewer rates and with the anticipated rate changes this funding level should be improved in the future.

The Sewer Operating Fund contributes \$3.2 million based on depreciation and \$0.2 million to set aside additional reserve funds. The depreciation funding amount is based on the estimated useful life of the capital assets. The reserves underfunding level remains, with the Sewer Treatment Plant continuing to age and new environmental regulations added, which will continue to add to the underfunding levels. Funding of the contributions should be maintained and if significant one-time resources are received staff will consider additional contributions to the depreciation reserves.



Recommendation: No changes recommended.

Storm Drain Depreciation Reserve

Capital/Infrastructure Reserve Category

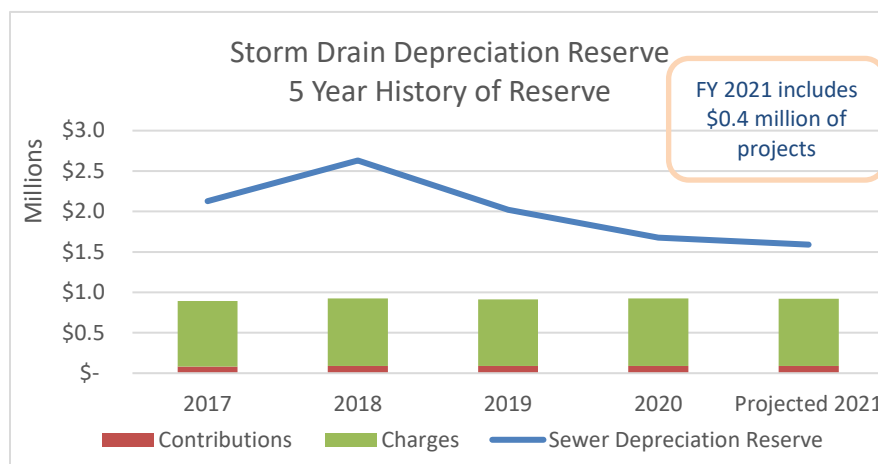
Purpose: The Storm Drain Depreciation reserves set aside replacement funds for storm drain capital assets and equipment that reach the end of their useful life and for major repairs to the storm drain system infrastructure.

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

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

Discussion/Analysis and Assessment: The projected ending balance at June 30, 2021 is \$1.6 million and the three-year capital costs total \$3.9 million. Therefore, the Depreciation Reserve is underfunded by \$2.3 million. The Storm Drain charge was adopted in 1993 (Ord. 1120) and has not kept pace with inflationary increases. Currently, there is a Storm Drain Master Plan which identifies and determine the needs of the Storm Drain system. The Storm Drain Master Plan, will show a need to improve funding for storm drains. Funding options may include increases to the Storm Drain fee, assistance through any Clean Ocean renewal, grants, or actions based on recent or future legislative actions or interpretation. Recent legislation passed may allow increases to Storm Drain fees through a process similar to water and sewer rates if certain criteria and conditions are met, however the process is not validated through court opinions.

The Storm Drain Depreciation Fund contributes \$830,000 based on depreciation funding and an additional reserve contribution of \$90,000 for a total contribution of \$910,000 in FY 2021-22. The depreciation funding amount is based on the estimated useful life of the capital assets. The additional contribution is estimated to fund past costs of the reserve.



Recommendation: Direct staff to keep apprised of legislative developments to modify Storm Drain fees to meet the cost demands placed on the City's public storm drain system.

Golf Depreciation Reserve

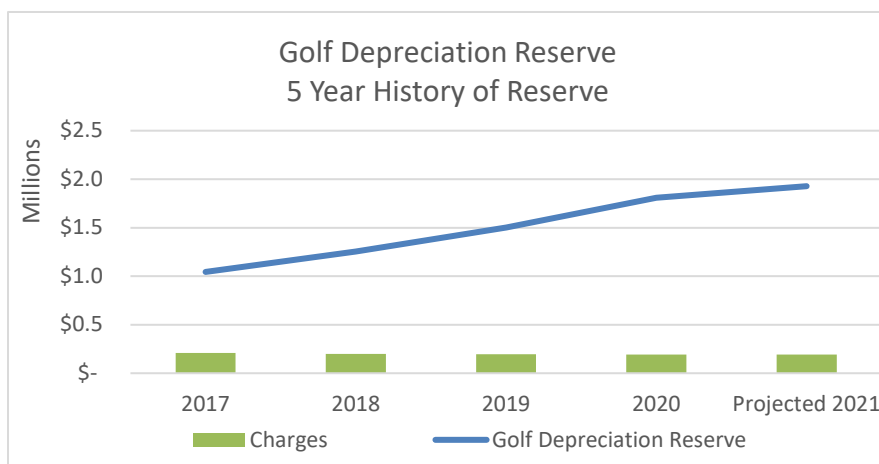
Capital/Infrastructure Reserve Category

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

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

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

Discussion/Analysis and Assessment: The available ending balance projected at June 30, 2021 is \$1.9 million. This amount does not include the receivable from an internal loan (\$1,250,000) to Golf Operating, which is not considered available. Projected capital expenses for the next three years total \$206,000. Therefore, the Depreciation Reserve is currently funded. Annual amounts placed into this reserve are based on the depreciation of the assets that will be replaced.



Recommendation: No changes recommended.

Golf Improvement Reserve

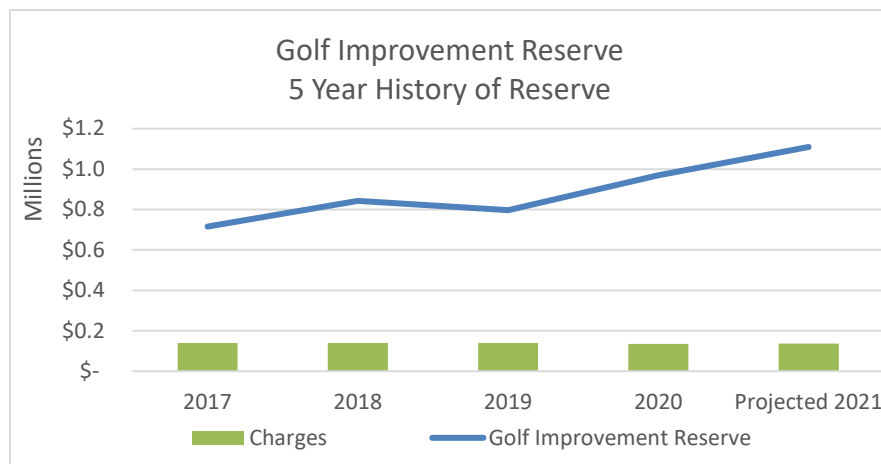
Capital/Infrastructure Reserve Category

Purpose: The Golf Capital Improvement Reserve was established to set aside funds for capital improvements in the Golf Course Fund. The Improvement Reserve is to provide funds for green and tee reconstruction, fencing and other miscellaneous golf improvements based on depreciation of these improvement assets.

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

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

Discussion/Analysis and Assessment: The Golf Capital Improvement Reserve at June 30, 2021 is projected to have an ending balance of \$1,109,000. This amount does not include the receivable from an internal loan (\$500,000) to Golf Operating, which is not considered available. Projected expenses for the next three years total \$74,000. Therefore, the Improvement Reserve is currently funded. Annual amounts placed into this reserve are based on the golf improvement depreciation amounts.



Recommendation: No changes recommended.

Accrued Leave Reserve

Miscellaneous Reserve Category

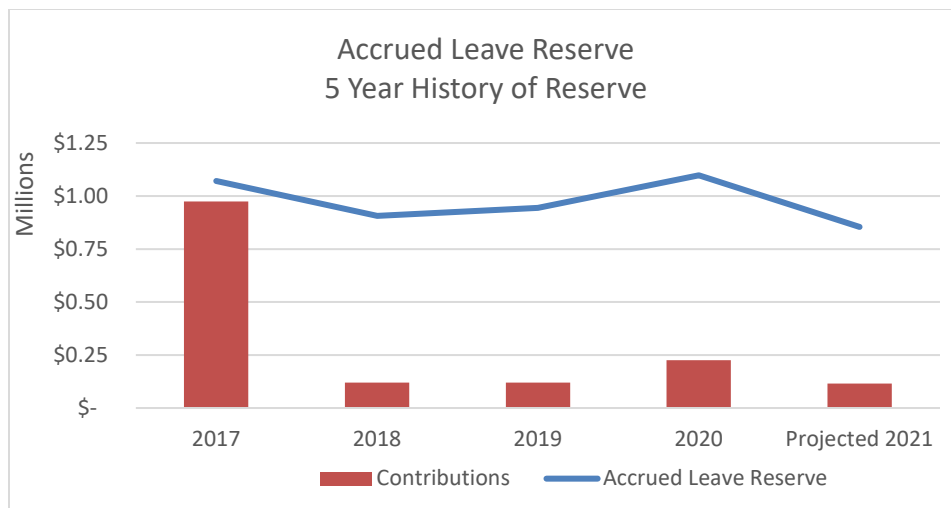
Purpose: The City reserves amounts for the payment of vacation and sick leave payoffs for General Fund eligible employees. Amounts are set aside in a separate reserve for this purpose. An annual amount is budgeted from this reserve to payoff General Fund employee's vacation and sick leave balances for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

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

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

Discussion/Analysis and Assessment: When a General Fund employee leaves employment, their accrued leave is paid from this reserve. The reserve requirement (accrued leave dollar value) fluctuates annually based upon the eligible employees, length of service, pay rates and hours accrued. At June 30, 2020, the total General Fund accrued leave liability was \$1.05 million, with \$436,000 available to provide funds for retirement eligible employees. MOU salary increases and employee changes effect the status of this reserve. The projected ending balance for the Accrued Leave Reserve as of June 30, 2021 is \$855,000 and the projected ending liability is \$864,000.

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



Recommendation: Transfer a one-time amount of \$115,000 in FY 2021-22 to fund the Accrued Leave Reserve.

State Revolving Loan Reserve

Miscellaneous Reserve Category

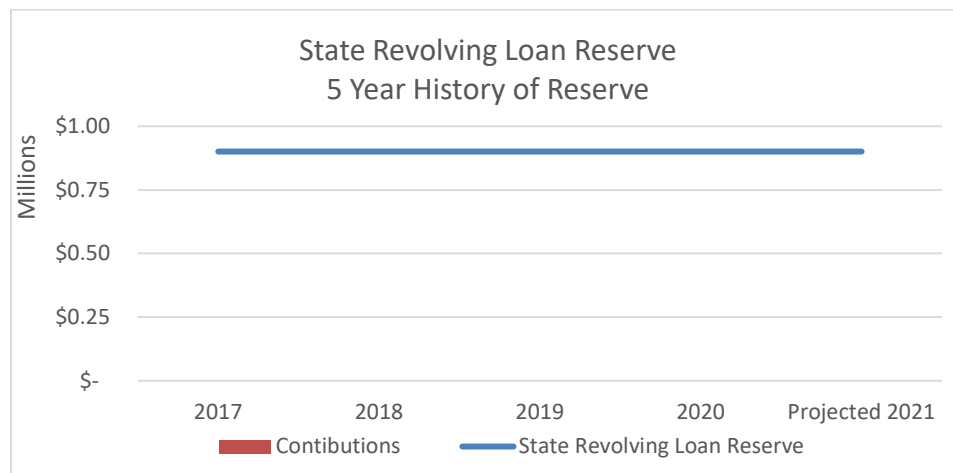
Purpose: The City of San Clemente entered into a loan agreement with the California State Water Resources Control Board under the Clean Water State Revolving Fund (CWSRF) loan program for financing construction of the Recycled Water System Expansion Project. As required under the State Revolving Loan,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

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

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

Discussion/Analysis and Assessment: The City loan amount outstanding as of June 30, 2021 is projected to be \$10.8 million. This loan is being amortized over a period of 20 years and the loan is anticipated to be paid in full in FY 2034-35. The reserve was first funded in FY 2015.

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



Recommendation: No changes recommended.

General Liability Reserve

Miscellaneous Reserve Category

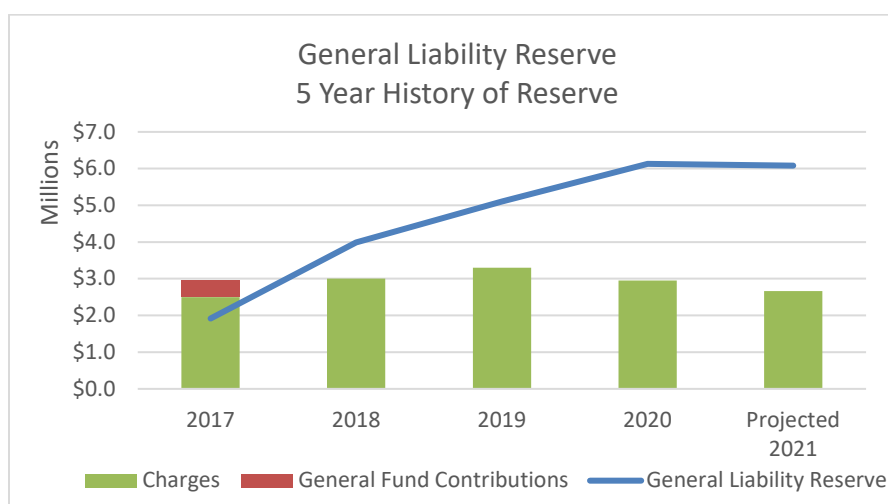
Purpose: The City is a member of California Joint Powers Insurance Authority (CJPIA). CJPIA administers programs for the pooling of self-insured losses, and the purchase of excess insurance or reinsurance. Losses excluded from the CJPIA coverage include 1) breach of contract, 2) land use entitlement,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

Funding: The General Liability Reserve is funded through charges to other funds. Charges are based on two key factors: 1) Five-year average of historical claims for risk by fund which accounts for 25% of the basis for the charge (limited to the claims coverage level). 2) A fund's budgeted expenditures as a percentage of total budgeted expenditures which accounts for 75% of the basis for the charge.

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

Discussion/Analysis and Assessment: The reserve requirement is at least one times the annual risk financing premium (contribution) to absorb contribution fluctuations based on claims activity. The City's CJPIA premium for FY 2020-21 is estimated at \$2.2 million, which would be the FY 2020-21 reserve requirement. The projected General Liability balance at June 30, 2021 is \$6.1 million.

The City has \$3.8 million retained that exceeds the reserve requirement in the General Liability Fund to fund significant one-time costs and fund claims not covered through CJPIA coverage. The City is party to multiple lawsuits regarding land use decisions and other claims which may be outside of CJPIA coverage.



Recommendations: No changes recommended.

Workers Compensation Reserve

Miscellaneous Reserve Category

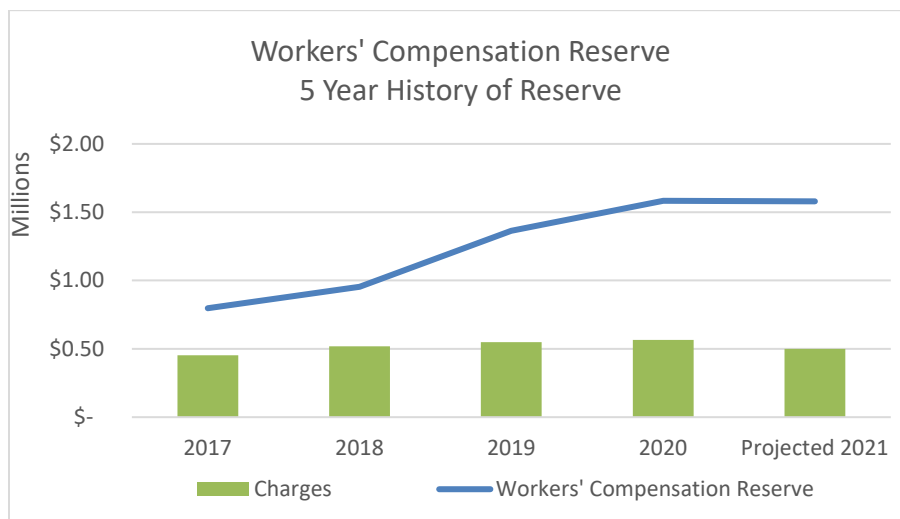
Purpose: The City is self-insured for Workers' Compensation coverage and purchases. The CSAC Excess Insurance Authority provides coverage for Workers' Compensation claims in excess of \$300,000, which is the City's Self-Insurance Retention (SIR) amount.

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

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

Discussion/Analysis and Assessment: The City's fiscal policy requires a reserve equal to \$900,000 (three times the SIR). Staff modified the reporting of the reserve so claims reduce the asset amount to arrive at the reserve balance. At June 30, 2021, projected assets of \$2.1 million are reduced by the claims payable of \$0.5 million leaving a projected reserve balance at \$1.6 million. The City exceeds the reserve level of \$900,000 set through fiscal policy.

Based on cash amounts available, current claims and anticipated recoveries, staff is recommending no changes to the reserve policy of three times the SIR amount (\$900,000 level). The rates have been adjusted downward and are anticipated to provide adequate funds to maintain the reserve level and fund claims activity. Rate increases would occur in future years if claims activity or the premium increases substantially lowering the reserve funds available.



Recommendation: No changes recommended.

Workers Compensation Reserve

Miscellaneous Reserve Category

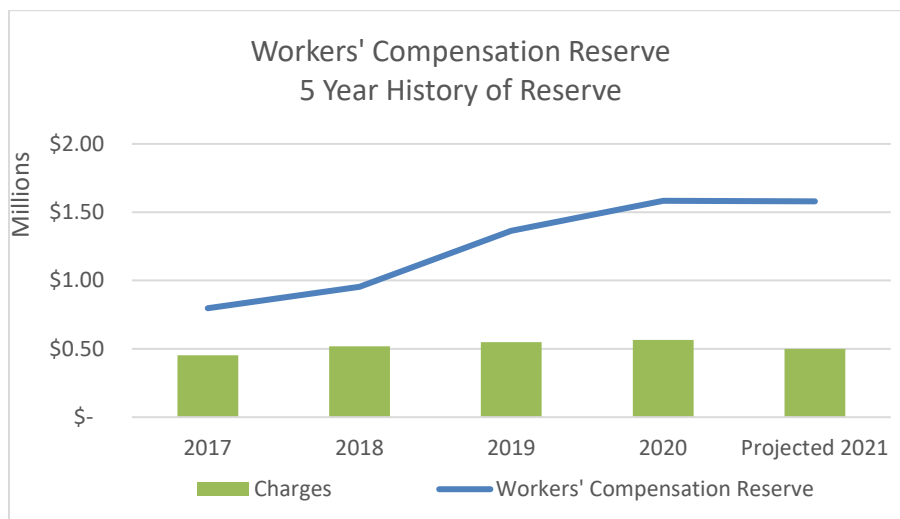
Purpose: The City is self-insured for Workers' Compensation coverage and purchases. The CSAC Excess Insurance Authority provides coverage for Workers' Compensation claims in excess of \$300,000, which is the City's Self-Insurance Retention (SIR) amount.

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

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

Discussion/Analysis and Assessment: The City's fiscal policy requires a reserve equal to \$900,000 (three times the SIR). Staff modified the reporting of the reserve so claims reduce the asset amount to arrive at the reserve balance. At June 30, 2021, projected assets of \$2.1 million are reduced by the claims payable of \$0.5 million leaving a projected reserve balance at \$1.6 million. The City exceeds the reserve level of \$900,000 set through fiscal policy.

Based on cash amounts available, current claims and anticipated recoveries, staff is recommending no changes to the reserve policy of three times the SIR amount (\$900,000 level). The rates have been adjusted downward and are anticipated to provide adequate funds to maintain the reserve level and fund claims activity. Rate increases would occur in future years if claims activity or the premium increases substantially lowering the reserve funds available.



Recommendation: No changes recommended.

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
- Pension

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, 2020, 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.

Recommendations

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. Revised water rates were implemented January 1, 2021. A Cost of Service study is in progress 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.	✓	20 Capital projects totaling \$17.0 million are in the 2021 CIP Budget
16 Capital improvement projects must project operating and maintenance costs for the five-year forecast period to ensure that future year budgets maintain a positive operating position.	✓	

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

	Fiscal Policy Statement	Status	Comments
22	The City will establish and maintain a Debt Policy.	✓	
23	The City will establish a restricted reserve in the Water Operating Fund equal to one year's debt service on the State Revolving Loan. The purpose of this reserve will be to provide a debt reserve as required under the State Revolving Fund loan financing agreement.	✓	State Revolving Loan Reserve = \$900,600
Fund Balance and Reserve Policies			
24	The City will maintain emergency reserves equal to 20% of operating expenditures of the General Fund. The primary purpose of this reserve is to provide stability during a significant economic downturn, or to offset a significant one-time loss of revenue. The reserve exists in order to provide short-term funding to protect the City's essential service programs and funding requirements or to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.	✓	Emergency Reserve = \$14.3 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 = \$1,364,000; Sewer = not funded; Storm Drain = \$202,000; 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 = \$855,000

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 = \$2.0 million Facilities Maintenance Reserve = \$6.7 million
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 = \$10.1 million; Sewer Depreciation Reserve = \$7.3 million; Golf Depreciation Reserve = \$1.9 million; and Storm Drain Depreciation Reserve = \$1.6 million
29 The City will establish a Golf Course Improvement reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected three year costs.	✓	Golf Course Improvement Reserve = \$1,109,000
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 = \$2.1 million
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 = \$6.1 million

	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 = \$1.6 million
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 = \$5.8 million

Investment Policies

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

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.	✓	
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	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.	✓	

Pension Policies

48	The required actuarial contributions shall be made to cover the current service cost and unfunded liabilities based on the actuarially determined contribution rate.	✓	
49	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.	✓	

Legend:

- ✓ *Budget Complies with Fiscal Policy Standard*
- *Fiscal Policy Standard is not met in Budget*

Note: Reserve balances are the estimated amounts as of June 30, 2021.

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 annual Information Technology Strategic Plan Update includes an updated listing of strategic projects, generated through a collaborative process that involved both the IT Division and IT Steering Committee, which includes Department representatives and subject-matter experts. 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. 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 2021 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.

Current Information Technology Environment

Technology plays an essential role in the delivery of City services, as nearly every City employee utilizes information technology systems to perform their duties. This plan represents an ongoing process to utilize technology to improve City operations and overall service delivery, streamline operations to achieve cost efficiencies and increase productivity, and govern in an open and transparent manner.

The City's current technology environment consists of a broad array of computing hardware, network equipment and infrastructure, software/applications and data repositories. The Information Technology Division is responsible for all of the organization's network and communications infrastructure, technology hardware (networking, servers, PCs, laptops, telephones, and audio/video), software deployment and maintenance, user training and support, cybersecurity, technology planning activities and project management. The City maintains a secure and reliable "state-of-the-art" enterprise data center, as well as a secondary data center at an alternate location. In addition to end user support and the ongoing maintenance of existing equipment, systems, and infrastructure, IT staff are responsible for managing technology projects and acting as technical consultants to City Departments. The IT Division consists of six full time positions that support and manage all aspects of City technology systems, including the following:

- 250+ Workstations / 300+ Computer Users
- Distributed network services throughout 9 City facility locations, including both wired and wireless connectivity.
- SCADA (Supervisory Control and Data Acquisition) Network for Water and Wastewater Utilities
- Traffic Signal Synchronization and Control Network
- 24 Physical Servers and Storage Appliances, 52 Virtual Servers
- Network Switches, Routers and Firewalls
- Cabling and Infrastructure
- Telephony and Communications
- Telephones, Tablets and Smartphones
- Printers, Copiers and Scanners
- Council Chambers and Meeting Room Audio/Video Equipment
- Observation Cameras and Video Management System
- Weather Stations
- City Website and related online services
- Implementation, maintenance, administration, and support of 40+ software applications
- Security Information and Event Management
- Geographic Information Systems (GIS)
- User Training, Helpdesk, and Support – 3,154 service tickets completed in 2020.

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, 2021:

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
Telephone System Replacement	IT	Completed FY 2019-20
Video System and Camera Enhancements	IT	Completed FY 2019-20
Mobile Animal Services / Code Compliance / Water Quality Officers	Utilities/CD	Completed FY 2019-20
Windows 10 Upgrade	IT	Completed FY 2019-20
Firewall Replacement/Upgrade	IT	Completed FY 2019-20
Negocio Building Renovation Technology Elements – Phase I	IT	Completed FY 2019-20
Integration of GIS with TrakIT Permitting	IT/CD/PW	Completed FY 2020-21
Website ADA compliance software procurement and implementation	IT	Completed FY 2020-21
Negocio Building Renovation Technology Elements – Phase II & III	IT	Completed FY 2020-21

Information Technology Strategic Plan Update

Security Information and Event Management Service Implementation	IT	Completed FY 2020-21
Cyber Security Vulnerability Assessment / Penetration Test	IT	Completed FY 2020-21
Trakit Online Payment Gateway Migration	IT	Completed FY 2020-21
Park Ranger Technology Improvements	IT	Completed FY 2020-21
Special Event Permit Software (Permit processing software for special event permits (SEP) and commercial film permits)	Recreation	Completed FY 2020-21
File Transfer Service (send and receive large data files between City staff, contractors and the public)	IT	Completed FY 2020-21
Online Business License Renewal Expansion (Contractor License Types)	IT / FAS	Completed FY 2020-21
GIS – (5) Upgraded workstations for Public Works/Engineering staff.	IT	Completed FY 2020-21

There are many Information Technology projects currently budgeted and in varying stages of planning and completion. The table below identifies projects that are budgeted and scheduled, along with the status of each project as of March, 2021. The majority of these projects were identified in the 2015 ITSP and the subsequent ITSP Updates, while some of the smaller items have been approved directly through the annual budget process:

Current Strategic Technology Projects	Dept/Div	Status
Cable TV Equipment Replacement	IT/City Clerk	RFP issued February 2021. System implementation scheduled for Spring 2021.
Secondary Internet Service Provider	IT	Underway. Planned for completion Spring 2021.
Recreation Facility Digital Displays	IT / Recreation	Underway. Planned for completion Spring 2021
GIS - Aerial Imagery Update / Remote Sensing	IT	Imagery and building footprints in-process; to be delivered Spring 2021.
IT Division On-call Staffing (One IT Analyst position throughout the year)	IT	Implementation scheduled for Spring 2021.
Negocio Building Renovation Technology Elements – OCSD on Second Floor	IT	Scheduled for completion Summer 2021.
Upgrade from TRAKiT.net to TRAKiT WEB (Comprehensive update of the City's Permitting and Licensing System)	IT/CD/PW	Application for SB2 grant funding has been approved to offset project cost. Project completion anticipated in December 2021.
Electronic Plan Review	IT/CD/PW	Phase 1 complete. Full integration with permitting system dependent upon TRAKIT upgrade.
Agenda / Legislative Management System	IT/City Clerk	On hold. System implementation will extend into FY 2021-22.
Citywide Customer Relationship Management (CRM) System	IT/City Manager	RFP planned for Summer 2021.
Microsoft Exchange Online Advanced Threat Protection	IT	On hold, pending renewal of Microsoft Enterprise License Agreement in Fall 2021.
Remote Disaster Recovery Services	IT	Solution research underway. Implementation planned in Fall 2021.
Contract and Insurance/Securities Certificate Management	City Clerk	On hold; dependent upon capabilities of Legislative Management System.
Electronic Document Management System Assessment and Analysis	IT/Clerk	Carry forward to FY 2021-22.
Electronic Agenda Displays	City Clerk	Digital posting and display of meeting agendas for the City's legislative bodies.

FY 2021-22 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 ongoing initiatives are proposed for FY 2021-22. The table below summarizes the items being recommended and requested for the coming year. 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 Initiatives for FY 2021-22	Dept/Div	Summary
Video System and Camera Improvements - Ongoing	IT	New cameras, replacements, and preventative maintenance.
GIS Initiative - Ongoing	IT	Cycle II of Orange County Data Consortium; Contours and LIDAR
Employee Computer/Technology Training - Ongoing	IT	Ongoing Staff Training Initiative. Office Training for Staff via CJPIA
Web Application Enhancements - Ongoing	IT	Citywide Customer Relationship Management (CRM) System

Focus Areas for FY 2021-22

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
 - Upgrade Permitting and Licensing System from TRAKiT.NET to TRAKiT WEB
 - Agenda and Legislative Management System Implementation
 - Customer Relationship Management (CRM) System Implementation
 - Electronic Document Management System (EDMS) Assessment
- Infrastructure
 - Council Chambers Audio/Visual and Production Equipment Replacement
 - Electronic Agenda and Facility Displays
 - Video Camera System Enhancements
- Security and Business Continuity
 - Remote Disaster Recovery Services
 - Email System Advanced Threat Protection
 - Updated Business Continuity and Incident Response Plans
 - IT Division On-call Staffing

Recommendation

Staff recommends that the City Council accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2021-22 projects and initiatives forward through the budget process.

FY 2021-22 New Projects and Ongoing Initiatives – Detail

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	\$10,000
Funding	Information Technology Fund
Estimate Timeframe	Began in FY 2018-19 > Ongoing
Staffing Impact	Moderate
Priority	Medium
Service Level Impact	Increase
Department/Division	FAS / 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	<p>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.</p> <p>Proposed for upcoming year:</p> <ul style="list-style-type: none"> • Two new GIS workstations for Planning Staff. • Integrate Cycle 1 imagery from OC GIS Data Consortium, which includes aerial imagery flown in late spring/early summer 2020 with 3" aerial/ortho imagery and building footprints. Also prepare for Cycle 2 imagery, which will oblique/45-degree angle aerial imagery, contours, and LiDAR.
Benefit / Justification	<p>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.</p>
Estimated Cost	\$5,000
Funding	Shared
Estimate Timeframe	Ongoing
Staffing Impact	Minimal
Priority	Moderate
Service Level Impact	Increase
Department/Division	FAS / IT

Web Application Enhancements	
Description	Funding for commercial, off-the-shelf, web-based applications.
Benefit / Justification	<p>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, Online Vendor / Bid Management system, file transfer service.</p> <p>In the upcoming year, this area will focus on Implementation of a Citywide Customer Relationship Management (CRM) system, to include a web interface as well as a mobile app for Citizens to easily report issues and make service requests, for the purpose of improving delivery of information and services to the public.</p> <p>This system will serve as a single point of contact for the public to report a problem or make a service request. The system will ideally be integrated with the various business systems that are in use by City Departments and Divisions, such as the Lucity CMMS used by Utilities and Maintenance Services and the Trakit system that is used by Code Enforcement, so that information will be automatically routed to the appropriate work groups. Information will be maintained in a central database for incident tracking and reporting.</p>
Estimated Cost	\$10,000 per year
Funding	Shared
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

Information Technology Strategic Plan - 5 Year Budget Summary

Title	Fund	Current Year							Ongoing	
		6 Yr. Total	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26		
Finance and Administrative Services										
Automated Water Meter Reading capabilities	Ent	\$6,000,000							\$6,000,000	
City-wide Cashiering	Shared	40,000			25,000	5,000	5,000	5,000	5,000	5,000
Eden Financial Software Replacement (Study/RFP/Implementation)	Shared	1,100,000				50,000	50,000	50,000	1,000,000	50,000
Online Business License Application / Renewal	GF	35,000	15,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Financial Portal - Web Interface to Financials	GF	31,500				10,500	10,500	10,500	10,500	10,500
		191,000	15,000	5,000	30,000	70,500	70,500	70,500	7,020,500	70,500
Information Technology										
Citywide CRM / Notification (Integration with Trakit and CMMS)	Shared	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
IT Division On-call Staffing	Shared	84,250	16,850	16,850	16,850	16,850	16,850	16,850	16,850	16,850
Exchange Online Advanced Threat Protection	Shared	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Security Audit	Shared	75,000	25,000		25,000		25,000		25,000	25,000
Web Application Enhancements	Shared	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Video System / Camera Enhancements	Shared	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
SCADA Server/Storage Platform Upgrade	Ent				100,000					
		459,250	81,850	56,850	181,850	56,850	81,850	56,850	81,850	81,850
City Manager/City Clerk/Council										
Electronic Agenda Displays	GF	36,000	28,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Electronic Agenda Packet Distribution for Councilmembers - (CCSP)	GF	15,000	5,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Electronic Document Management System (Study in FY 2020-21) - (CCSP)	GF	25,000	25,000							
Electronic Document Search Enhancement with Public Interface (CCSP)	GF	25,000	25,000							
Electronic Filing of FPCC Campaign Statements - (CCSP)	GF	15,000			5,000	5,000	5,000	5,000	5,000	5,000
		116,000	83,000	4,500	9,500	9,500	9,500	9,500	9,500	9,500
Community Development										
Electronic Agenda Packet Distribution for Planning Commission and ZA	GF	20,000			10,000	5,000	5,000	5,000	5,000	5,000
Park Ranger Technology Improvement	GF	7,000	5,000	500	500	500	500	500	500	500
Electronic Plan Review	GF	32,500	12,500	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Trakit Upgrade \ "On-Line" Building Permit Applications	GF	333,000	73,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Public outreach technologies	GF	30,000			10,000	10,000	10,000	10,000	10,000	10,000
		422,500	90,500	70,500	90,500	85,500	85,500	85,500	85,500	85,500
Beaches, Parks and Recreation										
Recreation Facility Digital Displays	GF	13,000	5,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Special Events Permit Software	GF	25,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
		38,000	10,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Marine Safety										
Lifeguard Tower Communications System Upgrade	GF	135,000			45,000	45,000	45,000	45,000	45,000	45,000
Marine Safety - Electronic Patient Care Reporting	GF	20,000				10,000	10,000	10,000	10,000	10,000
		155,000	0	0	45,000	55,000	55,000	55,000	55,000	55,000
Citywide Initiative - Mobility										
Building Inspector iPads / Mobile Office	GF	10,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Code Enforcement Officer Field Tablets / Mobile Office	GF	10,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Tablets for Park Monitors & Facilities Staff	GF	5,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Water Quality Code Enforcement Mobile Office	Ent	5,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Animal Services Web-based Access to Chameleon	GF	20,000	1,000	1,000	6,000	6,000	6,000	6,000	6,000	6,000
WiFi tablets for Marine Safety Health Care Reporting	GF	3,000				2,000	1,000	1,000	1,000	1,000
		53,000	7,000	7,000	12,000	14,000	13,000	13,000	13,000	13,000
Citywide Initiative - GIS										
Budget for GIS equipment, data development and maintenance	GF	35,000	15,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
		35,000	15,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Citywide Initiative - Training										
Budget for computer training new and current employees.	GF	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total		\$8,782,100	\$312,350	\$165,850	\$390,850	\$313,350	\$337,350	\$7,262,350	\$337,350	

Pension Update

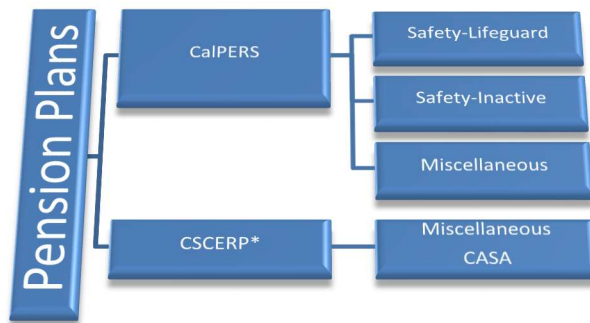
Objective

To review the City’s current pension plans, summarize actions taken after the 2019 LTFP Pension Update, and make further recommendations to improve the ongoing sustainability of the City’s pension plans and limit the growth of city pension costs into the future.

Executive Summary

Pension reporting, disclosure, availability of information, and funding options have changed dramatically over the last 10-15 years to ensure service costs are recognized in the period earned (generational equity) and assets and liabilities are properly reflected in the financial statements with a focus to ensure adequate funding levels (financially sustainable).

The funded status of pensions has been a key focus in recent years of governmental agencies and in 2019 a Pension Update was provided to City Council with the LTFP to improve transparency and implement actions to improve the long term sustainability of the pension plans. The City has currently pension plans that cover different employee groups and are funded at various levels. A summary of City’s pension plans is below:



* City of San Clemente Employees’ Retirement Plan

Plan	Administrator/Trustee	Participants	Benefit
Lifeguard 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 has taken multiple actions based on the 2019 Pension Update, as part of the Long Term Financial Plan. As part of this update, staff reviewed the various pension plans and made recommendations to implement new fiscal policies, increase transparency related to pensions, and take other actions to improve the funding of these plans through one-time contributions, additional contributions, and changing amortization periods. In addition, staff would seek future actions to improve the pension outlook and/or funding levels.

Pension Update

This year staff is providing information on actions taken from the 2019 Pension Update in the Background section of this report. These actions include the following:

- Formalized a Fiscal Policy and added summary information to LTFP and Budget
- Make additional contributions to CalPERS and modify amortization bases
- Submitted a formal application to transfer active CASA participants to CalPERS

Additionally, a current funded status is also provided based on the most recent actuarial valuations.

The current year Pension Plan analysis provides a plan summary and funding strategy information for each pension plan. The plan summary covers funded status and applicable employee's pensions that are funded through the plan. The funding strategy discusses opportunities or options to improve funding, including items that are currently being utilized. These strategies include additional payments, changing of the amortization period, combining of amortization bases, and use of budget savings to further reduce the liability. Also, information on other actions which can be taken are identified, including modifications to the CSCERP investment policy and funding a Section 115 trust to lessen the impact of future pension cost increases.

Background

Fiscal Policy and Summary information added to the LTFP and Budget

During the 2019 LTFP Pension Update, staff identified a lack of formal fiscal policies related to pension funding. Simple fiscal policies were identified and approved by Council through the LTFP and the Budget process. These policies can be modified through Council action. Currently, the Fiscal Policy addresses contribution levels and sets a target funding level. These following policies were adopted and are included in the City Fiscal Policy. Staff is not currently recommending any changes to the established policies, which follow:

- *Contributions –*
The required actuarial contributions shall be made to cover the current service cost and unfunded liabilities based on the actuarially determined contribution rate.
- *Funding Target –*
Annually, review the City Pension plans funding levels 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.

In addition to the Fiscal Policies, a communication tool for Council and citizens was needed to provide the status on pension funding levels. This communication was incorporated in the LTFP Trends section and a one page summary was added to the Annual Budget (see FY 2019-20 Budget Staffing Section page 318).

The LTFP Trend Analysis now includes the Unfunded Pension Liability trend. Unfortunately, as a result of the pandemic, the 2020 LTFP was not presented to City Council. This trend shows the funding ratio of combined plans for the last five years based on the actuarial reports. The Budget's Pension page, located in the Staffing Section, summarizes the pension plans, participants, pension benefit, pension contribution levels, and the funding level.

Pension contributions

Generally, the funded status should be less volatile as a result of CalPERS making actuarial changes. Also funding levels should improve as these changes are fully phased into the pension contribution amounts. CalPERS changes included:

- Lowering the anticipated investment rate of return (discount rate) from 7.75% to 7%
- Modified actuarial information to recognize an updated life expectancy
- Adopting a new strategic asset allocation, and
- Shortening the amortization period

The City of San Clemente makes the actuarial required contributions based on the annual CalPERS actuarial statements, which are available on the CalPERS website. In addition, additional payments are being made as opportunities present themselves.

The City continues to receive an early payment discount on the Unfunded Accrued Liability (UAL), providing budget savings that are then applied to further reduce the pension liability. The City Council also approved \$400,000 of one-time payments for the Lifeguard Safety plan to pay down the liabilities created by the actuarial assumption changes. This can be seen in Exhibit I – Lifeguard Plan Summary or Payment amortization. Additionally, salaries and benefits savings may be utilized to make additional payments to further reduce pension liabilities.

The City has made additional payments in the past, including \$4.6 million in FY 2009-10, \$225,716 in FY 2013-14, and \$500,000 in FY 2015-16. Over the last two years, the City has paid the following additional pension payments to reduce the future liability and improve the funded status of its CalPERS plans.

CalPERS Plan	FY 2018-19	FY 2019-20
Miscellaneous	\$ 40,000	\$ 29,157
Safety – Police and Fire	127,000	135,000
Safety - Lifeguard	4,206	435,293
Total Payments	\$ 171,206	\$ 599,450

The CSCERP plan has a lower discount rate and a shorter amortization period for the unfunded liability. No additional payments have currently been made from the City to this plan. However, the CASA is going through a review process by CalPERS to transfer the liability for active CASA employees. In order to facilitate this transfer the CASA board has approved a one-time payment of \$550,000 from available CASA fund balance to improve funding levels of the CASA portion of the CSCERP liability.

Pension Update

Funded Status:

The following summary lists the pension plans, City funds responsible for the pension payment, market value of the assets, total liability (funded and unfunded), unfunded amounts, and the funded percentage by pension plan. CalPERS plans valuation information is as of June 30, 2019 and the CSCERP plan valuation information is as of July 1, 2019.

Plan	Respective Fund(s)	Market value of assets	Liability	Unfunded amount	Funding Percent	Estimated FY 2021-22 Cost
Lifeguard Safety <i>6/30/2019 valuation</i>	General Fund	\$ 5,385,983	\$ 6,662,858	\$ 1,276,875	80.8%	\$ 200,000
Safety (inactive) <i>6/30/2019 valuation</i>	General Fund	\$ 28,739,890	\$ 43,142,603	\$ 14,402,713	66.6%	\$1.4 million
Miscellaneous <i>6/30/2019 valuation</i>	All City Funds	\$ 51,138,698	\$ 66,597,664	\$ 15,458,966	76.8%	\$2.5 million
CSCERP <i>7/1/2019 valuation</i>	All Funds	\$ 21,064,000	\$ 39,189,000	\$ 18,125,000	53.7%	\$1.7 million
Totals		\$ 106,328,571	\$ 155,592,125	\$ 49,263,554	68.3%	

The overall funded level of 68% is down slightly from the previous level of 69% due to a new CSCERP valuation and the continued phase in of CalPERS actuarial changes, which have three years remaining. As anticipated, plan assets increased, but the pension liability grew at a higher rate due to the phase in of assumption changes by CalPERS designed to stabilize the CalPERS Fund and reduce volatility. Due to lower FY 2020 investment returns than assumed the funded status should go lower, however currently FY 2021 is on pace to offset the poor investment performance in FY 2020.

The one pension 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 miscellaneous employees before transition to CalPERS for active City employees. 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 then contracted with Milliman for pension administration services, which includes participant communication, benefit calculations, databased maintenance and retiree payment services.

The City's minimum funded status target is a 90% level. This was incorporated as part of the 2019 Pension Update of fiscal policies. The City is continuing to work towards this target and is close to this meeting this fiscal policy requirement on the Lifeguard Plan, which should be achieved within the next two years.

The 90% level was set to prevent overfunding of any one plan. Overfunding of a specific plan would lock up assets within that specific pension plan, since pension assets are not shifted between plans. For example, if pension plans were funded at 100%, 85%, and 70%, a positive year of investment returns or actuarial assumption changes could cause the 100% plan to be overfunded. Assets would be tied up in that one plan, while two plans remain below the minimum target.

Pension Plan Analysis:

The following analysis by plan summarizes the condition of each plan and recommended steps to improve the funding percentages of the various plans.

Lifeguard Safety Pension Plan

Plan Summary– This is the smallest plan in terms of market value and liability; and this would be the easiest to reach the funded target as it is funded at 80.8%. This plan, once the FY 2020 additional payments are included in the actuarial valuation, should be near the City’s 90% target. The pension benefits of full time marine safety employees are funded through this plan and City contributions are funded annually by the General Fund based on the annual actuarial reports prepared by CalPERS.

Funding Strategy - Staff will seek opportunities to avoid any negative amortization of the pension liability from the phase in of annual actuarial bases. In addition, staff will review other opportunities to shorten the amortization period for the liability during the course of the year.

Public Safety Pension Plan

Plan Summary – This plan is an inactive plan with no employees making contributions to the plan. This plan covers former public safety employees who served the City prior to the City contracting out police and fire services to county agencies (OCSD and OCFA). Annual payments are flat, but the annual amount changes based on actuarial assumption variances, investment earnings, and other actual/expected differences. The unfunded liability is currently amortized over a set time, with the final payment occurring in FY 2035-36. Annual amounts are paid from the General Fund, since these are General fund only activities.

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 12 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 make 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 OCSD contract has a payment discount included within the contract and OCSD may experience vacancies during the year resulting in budget savings to the City. Pursuant to the 2019 LTFP direction, budget savings are used to pay down the unfunded safety liability achieving future cost savings.

Funding Strategy:

- 1) Staff will continue to use payment discounts to further reduce the pension liability.
- 2) As budget savings are achieved under the public safety contracts, a portion of those savings may be used to fund the pension plan, lowering future General Fund costs.
- 3) If one-time revenues are recognized in the General Fund, a one-time payment on this pension liability may be recommended to Council for approval.

Pension Update

Miscellaneous Employee Pension Plan

Plan Summary – The Miscellaneous plan covers 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 investment returns the funding percentage has dropped to 79%. This plan has the largest payroll. Pension payments are funded by all City funds.

Annual contributions are based on a percentage of the payroll for the current actuarial liability and a fixed amount to pay the unfunded liability from prior years that is caused by actuarial variances or changes. The unfunded liability could be paid by one time payments, but any significant payment would affect all City funds (excluding CASA) and have an impact on Water, Sewer and Golf Funds resources. These funds may not all have resources at the same time. A better way to address the Miscellaneous plan's pension liability is to adjust amortization periods to fund the liability over a shorter timeframe.

Funding Strategy - As favorable actuarial bases are added, staff will review ways to improve the long term funding by combining positive actuarial bases against negative actuarial bases and allocating any additional payments to bases which have longer amortization periods or whose payments are being "ramped up". This will help the City achieve the funding target of 90% in a shorter period.

City of San Clemente Employee Retirement Plan –

Plan Summary - This plan has the lowest funding percentage. CSCERP participants are CASA employees and former employees that were no longer active with the City at the transition to CalPERS. This plan uses actuarial assumptions that generally mirror CalPERS and it has absorbed similar lifespan changes that have impacted funding levels. However, unlike CalPERS these changes were not phased-in over time. This plan's valuation has some actuarial assumption differences, including a lower discount rate (6.25%) and an amortization period (20 years level dollar) to pay any unfunded liability. These cause a lower funded level, but the higher level of contributions will improve the funded status faster than the CalPERS plans. The CSCERP's existing unfunded liability has an average amortization period of 16 years remaining, with new liabilities being amortized over 20 years.

The current funding level is now at 53.7%, but this plan includes the lower investment returns from FY 2020. As of December 2020, the plan assets total over \$24 million. Plan contributions are made by all funds of the City, including CASA funds.

The financial markets have been volatile and there has been an extended period of low interest rates. These factors and the fact the CSCERP Pension Investment Policy (#202-2) was last updated in December 2013 led staff to determine that the investment policy and objectives should be reviewed and updated. Currently, the City utilizes Chandler Asset Management to assist with the investment of City investment pool funds based on a percentage of overseen assets. Chandler's expertise in working with these types of plans, including the City of Irvine, is beneficial.

The City's portion of the CSCERP pension is considered inactive (retirees or former employees eligible to receive benefits upon retirement), however CASA has some active employees along with retirees. Since 2015, CASA (and the City) has been seeking to transition these active employees to CalPERS. This would leave only inactive participants and retirees in this plan, which would lower ongoing administrative and other costs, on a very long term basis, as the administration responsibilities are minimized when payments to retirees are completed. In order for CASA to transition there are two components to eligibility 1) legal eligibility as a "public agency" under Government Code Sections 20056 or 20057 and as an "agency or instrumentality" under the IRS' proposed regulations issued in 2011; and (2) financial eligibility. CASA, as part of the most recent application, was able to move past the first eligibility requirement. However, nothing written will be issued until both components are completed.

One concern of the financial analyst, was CASA's funded status in the plan. In December 2020, the CASA board approved a one-time contribution to the pension plan from its available fund balance to achieve a higher funded status for its portion of its pension liability. This was done to improve CASA's funded status in the plan. This additional contribution improves the funded status to between 80-90% for CASA's portion of the pension liability.

Additionally, in conjunction with input from the financial analyst, CASA's board is requesting a funding agreement be put in place to maintain a minimum pension funding level of 75%. This agreement would be entered into with the City of San Clemente and Dana Point for the CASA funded portion of the pension plan. This separate agreement or modification to the existing CASA funding agreement would require additional contributions to CASA for payment to the pension plan if the funding level falls below 75%.

Currently, CASA's financial eligibility is still under review and is in process. The funding agreement could improve the likelihood of acceptance, but ultimately will not guarantee acceptance by CalPERS. This funding agreement would need to be brought back to both member City Council's by CASA's staff. Even with this agreement, the CalPERS financial analyst may want to see the JPA as a more viable entity without as much subsidy from the cities for its ongoing operations.

Funding Strategy:

- 1) CSCERPs investment policy should be reviewed and modified with assistance from the City's external Investment Advisor, Chandler Asset Management. Chandler can prepare changes to the existing Pension Investment Policy, with those changes brought back to City Council for approval.
- 2) Maintain current contributions to increase funding status over a shorter life than CalPERS's plan.
- 3) Request CASA staff to bring back a pension funding agreement or an amendment to the existing JPA funded agreement based on further communication with the CalPERS financial analyst.

Pension Update

Other Pension Funding Options:

City fund balance is currently limited, but if significant one-time revenues are available from sale of land or other one time unforeseen revenues, Council could approve a one-time payment to reduce the unfunded liability, which would save annual operating costs and improve the operating position of the City's General Fund. These payments could also be used to shorten the amortization period of the Safety Plan or the Lifeguard Safety Plan with little effect on the annual operations to achieve the 90% funded status target in a faster timeframe.

Additionally, another option is for the City to start setting aside funds in a pension prefunding trust. 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 funds being placed in one specific pension plan. As the City starts achieving the target 90% funding or if the City Council wants to fund a trust from one-time revenues or use a portion of the Emergency Reserves to lessen future impacts of pension rate changes or economic downturns, a Section 115 Trust could be created. The funding could be provided by the sale of land or reducing the Emergency Reserve percentage from 20% to 18%. This trust could be utilized as a stabilization fund during economic downturns or if there is a change in assumptions by CalPERS which increases the pension liability used to offset the effect of that change.

Section 115 funds offer flexibility and opportunities for higher returns than the limited City investment pool assets. Funds placed in the trust are no longer limited to low risk, shorter term investments, but rather allows an investment portfolio similar to existing pension funds which include a variety of investments (bonds, mutual funds, and stocks), which have higher risk but over the long term average higher returns. Section 115 Trust assets could be utilized to offer better long term returns than the City's investment pool portfolio but be invested more conservatively than CalPERS assets. The assets could fund any of the City's multiple pension plans, assist in making required actuarial contributions in tight budget years, or bolster funded status for pension funds which experience poor actuarial effects.

Section 115 Trusts are offered by both CalPERS and PARS (private company) and probably a few others, but given that the City is already with CalPERS for the OPEB trust and for retirement services and did analysis comparing other options in the past, CalPERS would be the preferred option based on service options and offerings. The CalPERS Section 115 plan is the California Employee Pension Prefunding Trust (CEPPT).

Recommendations:

- 1) Direct Staff to continue additional payments from one-time resources and budget savings, as available.
- 2) Request Chandler Asset Management to update the exiting City of San Clemente Pension Investment Policy (Policy #202-2) for City Council approval.
- 3) Direct CASA staff to prepare a funding agreement or modify the existing JPA agreement to require additional contributions to the CASA pension plan, if the funded status falls below 75% upon transition to CalPERS.
- 4) Direct City staff to pursue a California Employee Prefunding Pension Trust (CEPPT) with CalPERS and consider funding the additional Pension Prefunding Trust by reducing the City of San Clemente General Fund Emergency Reserve from 20% to 18%.

EXHIBIT I -
CITY OF SAN CLEMENTE
LIFEGUARD PLAN – SCHEDULE OF AMORTIZATION BASES

Notes:

The entire actuarial valuation is available on the CalPERS website.

The schedule on the next page reflects the various “base” components of the Lifeguard Plan Unfunded Accrued Liability (UAL). It also reflects the payment of the \$400,000 authorized in FY 2019-20.

Each “base” is amortized over the life based on CalPERS amortization policies. These different bases can be paid off, combined, or modified upon request, however the life can not generally be extended.

City of San Clemente

Lifeguard Plan - Schedule of Amortization Bases for UAL

Reason for Base	Date Established	Ramp Up/Down 2021-22	Escalation Rate	Amortization Period	Balance 6/30/19	Expected Payment 2019-20	Balance 6/30/20	Expected Payment 2020-21	Balance 6/30/21	Scheduled Payment for 2021-22
NON-INVESTMENT (GAIN)/LOSS	06/30/13	100% →	2.75%	1	\$(42,674)	\$(44,142)	\$0	\$0	\$0	\$0
INVESTMENT (GAIN)/LOSS	06/30/14	100% →	2.75%	25	\$(521,370)	\$(27,675)	\$(529,239)	\$(547,450)	\$0	\$0
NON-INVESTMENT (GAIN)/LOSS	06/30/15	100% →	2.75%	26	\$(1,155)	\$(46)	\$(1,188)	\$(62)	\$(1,207)	\$(80)
INVESTMENT (GAIN)/LOSS	06/30/15	100% →	2.75%	26	\$329,950	\$13,168	\$339,425	\$17,753	\$344,821	\$22,802
NON-INVESTMENT (GAIN)/LOSS	06/30/16	80% ↗	2.75%	27	\$(62,596)	\$(1,691)	\$(65,229)	\$(2,563)	\$(67,144)	\$(3,512)
INVESTMENT (GAIN)/LOSS	06/30/16	80% ↗	2.75%	27	\$396,400	\$10,709	\$413,071	\$427,284	\$0	\$0
ASSUMPTION CHANGE	06/30/16	80% ↗	2.75%	1	\$120,670	\$124,822 A	\$0	\$0	\$0	\$0
FRESH START	06/30/16	No Ramp	2.75%	15	\$850,350	\$70,974	\$836,458	\$173,426	\$715,617	\$64,544
INVESTMENT (GAIN)/LOSS	06/30/17	60% ↗	2.75%	28	\$(198,784)	\$(2,762)	\$(209,842)	\$(5,578)	\$(218,761)	\$(8,597)
ASSUMPTION CHANGE	06/30/17	60% ↗	2.75%	1	\$144,620	\$149,596 A	\$0	\$0	\$0	\$0
NON-INVESTMENT (GAIN)/LOSS	06/30/18	40% ↗	2.75%	1	\$24,211	\$25,043	\$0	\$0	\$0	\$0
INVESTMENT (GAIN)/LOSS	06/30/18	40% ↗	2.75%	1	\$(57,442)	\$(59,419)	\$0	\$0	\$0	\$0
ASSUMPTION CHANGE	06/30/18	40% ↗	2.75%	1	\$195,506	\$202,233 A	\$0	\$0	\$0	\$0
METHOD CHANGE	06/30/18	40% ↗	2.75%	1	\$44,600	\$46,135	\$0	\$0	\$0	\$0
NON-INVESTMENT (GAIN)/LOSS	06/30/19	No Ramp	0.00%	20	\$28,103	\$0	\$30,070	\$31,105	\$0	\$0
INVESTMENT (GAIN)/LOSS	06/30/19	20% ↗	0.00%	20	\$26,486	\$0	\$28,340	\$29,315	\$0	\$0
TOTAL					\$1,276,875	\$506,945	\$841,866	\$123,230	\$773,326	\$75,157

This schedule assumes an additional discretionary payment is made in the amount and by the date stated on page 1 of this letter.

A - The \$400,000 one-time payment was utilized to pay the Assumption changes for 06/30/2016, 06/30/2017, and 06/30/2018 in Fiscal Year 2019-20.