



FISCAL STATE OF THE CITY OVERVIEW

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

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

- General Fund - Fund Balance
• Reserves
• Investments
• Pension
• Other Post Employment Benefit (OPEB) Liability
• Debt
• Capital Improvement Program
• Major Projects & Accomplishments
• Fiscal Challenges –Operating/Capital
• Bond Rating

In FY 2018-19, the City has started to address a number of issues, but realizes more work will need to be done. The City made it a priority to address quality of life issues which include the hospital closure, preventing a toll road expansion, impacts to the community created by homelessness, short term lodging unit effects, General Plan initiated modifications for City development, and other public safety improvements. While some of these issues have required fiscal support, the City continues pursuing these quality of life issues while maintaining a strong financial position, and will work collaboratively with outside agencies in addressing these issues.

From a facilities perspective, the 910 Calle Negocio (new City Hall structure) third floor renovations and the initial phase of the 1st floor remodel have been completed. These changes provide better public access and service considerations for citizens to conduct business with the City. The second phase of the 1st floor improvements are currently underway. These changes will improve accessibility and public service area by providing additional meeting rooms and more functional work areas for City employees.

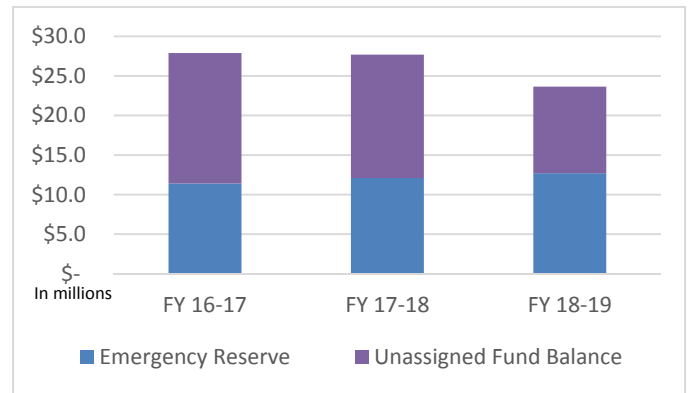
While the last forecast showed the City experiencing operating deficits in coming years, the City is taking strides to ensure a positive

operating position in the future. As part of the 2019 Long Term Financial Plan the City authorized amounts to pay down a portion of the Unfunded Pension Liability, which will help control costs in the future, and add to reserves which provides for the stability of operations and amounts for certain capital needs in the future. Also, the forecast presented with the budget provides the City Council a financial perspective to assist them in making decisions into the next fiscal year.

With the longest expansion in American history, recently added housing and retail operations are anticipated to improve the revenues for the City over the short term. However, the City may experience limited growth opportunities as the expansion lingers. The 2020 Long Term Financial Plan (LTFP) will be an opportunity to analyze the City's finances and operations over the next several years.

In the meantime, FY 2018-19 General Fund revenues were higher than budget by \$2.5 million. General Fund expenditures were lower than budget by \$2.3 million. Further discussion on General Fund Revenue and Expense variances can be found in the 4th Quarter report.

GENERAL FUND – FUND BALANCE



Unassigned fund balance at June 30, 2019 totals \$11 million. This is \$3.6 million higher than the \$7.4 million projected amount from the budget. Of this \$11 million, \$3.4 million is allocated for one-time costs in the FY 2019-20 Budget. As you can see from the above chart, total fund balance remains stable.

RESERVES 

The City maintains reserves to (a) protect essential service programs, (b) maintain self-insurance amounts, and (c) provide resources to replace and repair City-owned facilities and capital equipment. Reserve levels are based on Fiscal Policy through the Long Term Financial Plan (LTFP). Reserve levels at June 30, 2019 are shown below.

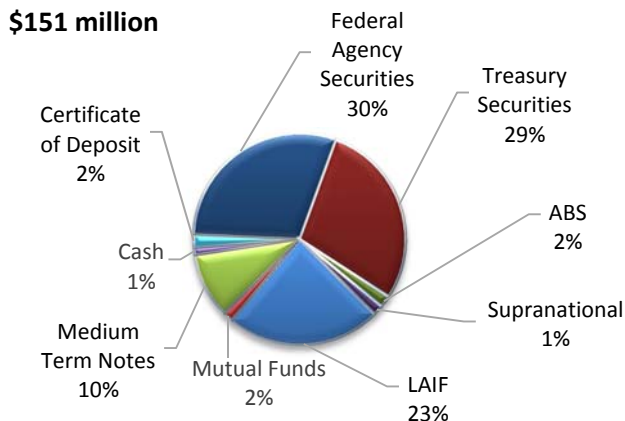
Reserve Balances	June 30, 2019
Emergency Reserves:	
General Fund	\$ 12,733,000
Other Funds, includes debt reserve	3,688,100
Self-Insurance Reserves	6,464,000
Capital Replacement Reserves	18,716,000
Infrastructure Reserves	34,000,000
Total Reserves	\$ 75,601,100

INVESTMENTS 

The City's investment portfolio includes cash from all City funds, including the General Fund, Enterprise Funds, Capital Improvement Funds, and Internal Service Funds. At June 30, 2019, all City investments were in compliance with the City's Investment Policy. At June 30, 2019 the total investment portfolio was \$151 million with an average yield of 2.08%. The City earned \$2.6 million on the portfolio in FY 2019, as compared to \$1.8 million last year, due to an increase in the interest rate environment.

	June 30, 2018	June 30, 2019
Amount Invested	\$144,307,604	\$150,787,010
Yield to Maturity	2.28%	2.08%

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

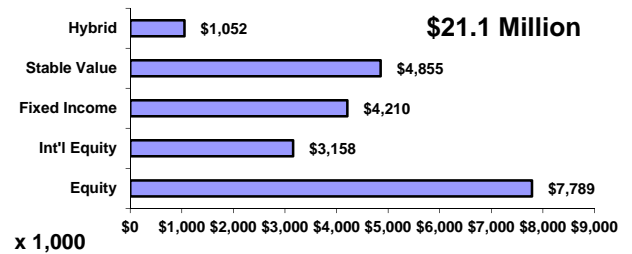


PENSION 

The City's Pension Fund (City of San Clemente Employee Retirement Plan or CSCERP) was \$21.1 million as of June 30, 2019. The related liability is \$35.6 million with the plan funded at 59%.

CSCERP is used to meet pension obligations for the following individuals: 1) CSCERP retirees, 2) Coastal Animal Services Authority (CASA) employees, and 3) Pension eligible employees that were not active employees at the time of the pension transition to CalPERS.

The asset allocation of the pension fund at June 30, 2019 is as follows:



In addition to CSCERP, the City also has the following pension plans with CalPERS:

CalPERS Plan*	Liability (millions)	Assets (millions)	Funded Ratio %
Miscellaneous	\$59.3	\$47.2	80%
Public Safety	\$51.0	\$36.3	71%

* Measurement date of June 30, 2018

OTHER POST-EMPLOYMENT BENEFITS

The City placed \$700,000 into the California Employers' Retiree Benefit Trust (CERBT) in June 2016 to fund future employee medical premiums paid by the City. These CERBT funds are invested in a moderate investment portfolio/strategy.

During the year the City contributed \$121,599 directly to CERBT. The CERBT asset value at June 30, 2019 was \$909,800 and the actuarial valuation liability is \$1.9 million (funded at 48%). The liability is for the minimum medical premium paid by the City as required under the City's benefit arrangement.



Good, Positive Indicator;



Caution, Unsettled Indicator;



Problem, Negative Indicator

DEBT

The City has debt outstanding as of June 30, 2019. These debt instruments were used to meet capital needs and consist of both internal and external financing. The outstanding amounts at June 30, 2019 are as follows:

Internal loans

- General Fund loan to the RDA Successor Agency remains outstanding in the amount of \$1.9 million.
- Golf Course Fund Loan of \$1,750,000 is outstanding with amounts due to the Golf Fund reserves.

External loans

- Water Fund loan from the State Revolving Fund (SRF) has an outstanding balance of \$12.0 million.

The Negocio Certificates of Participation were defeased in July 2016.

CAPITAL IMPROVEMENT PROGRAM

The City had 109 Capital Improvement Program (CIP) projects in progress during the year. Major projects completed during the year included the golf cart path improvements, maintenance yard covers, Fire Station Diesel tank, Vaquero lift station, reservoir improvements, and various street projects including Avenida Presidio. Major capital projects still in process at the end of FY 2018-19 include Camino De Los Mares street rehabilitation, pump station rehabilitations (Calle Real, Reata, Reeve, and Blanco pump stations), and the Negocio renovation.

The total CIP budget was \$18.0 million for FY 2018-19, which included \$13.1 million for CIP projects and \$4.9 million for Maintenance projects. A total of \$16.8 million was spent on projects during FY 2018-19. At year-end, multi-year projects totaling approximately \$36.8 million will be carried forward into FY 2019-20, with \$16.7 million related to water and sewer projects.

IMPORTANT PROJECTS & ACCOMPLISHMENTS

The City of San Clemente continues to focus on addressing quality of life issues (such as sober living, toll road expansion, hospital services, short term lodging units, and ambulance services), but also is working in other areas. These other areas continue the focus on community quality of life issues.

Important items that benefit the community or improve public services included:

- Initiated a pickleball pilot program
- Replaced Rancho San Clemente playground equipment
- Obtained certification of the updated Coastal Land Use Plan (LUP)
- Instituted a park ranger program
- Added two deputies under the OCSD contract
- Staffed a fourth firefighter/paramedic on Engine 50

FISCAL CHALLENGES

Operating

Looking forward, the financial condition of the City is expected to remain stable for FY 2019-20. The FY 2019-20 budget was adopted with a projected positive operating position of only \$401,740, however this was before an increase to the police contract service level increasing General Fund spending by \$267,000.

As noted in the 2019 Long Term Financial Plan, operating deficits are forecasted in future fiscal years and may impact the City's ability to fund future capital projects. Due to the City's long term forecasting, the City continues to address these operating deficits and is continually taking small steps by reviewing and proposing actions to maintain a balanced budget.

Property tax revenues continue to exceed expectations and sales tax revenue remains constant. These are significant revenues for the City and will continue to be monitored closely. In the City's continued monitoring, the City will look for opportunities to be strategic in containing operational costs and in funding capital projects.



Containing operating costs continues to be a priority, vacancies during the year are reviewed before filled, early payment of unfunded pension liabilities are recommended and done, and contracts and other needs continue to be assessed on an ongoing basis for efficiencies and cost savings without sacrificing service levels.

Capital

Capital Projects in the General Fund are funded by excess monies remaining in the City's Unassigned Fund Balance, which was \$11 million at the end of FY 2018-19. The FY 2019-20 budget includes the use of \$7 million of these funds for budgeted capital projects, maintenance projects, reserve transfers, and other one-time costs in the upcoming year.

Capital and Maintenance funding needs continue in future years, as noted in the long-term Capital Improvement Budget and in the City's Long-Term Financial Plan. Some significant projects in future years include Avenida Del Mar Electrical Services and Street Tree rehabilitation, Steed Park Lighting Replacement, the Aquatics Center replaster, sand replenishment, and various other capital projects.

After years of deferred maintenance, funding for routine maintenance is making strides through the annual budget allocation of \$250,000. This allocation and other smaller minor maintenance projects continue to improve facilities in the City. The focus on maintaining existing infrastructure and facilities before adding additional infrastructure will be key to controlling operating costs and operating positions in the future.

BOND RATING

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

