CITY OF SAN CLEMENTE, CALIFORNIA

Long Term Financial Plan 2023

Prepared By:

Finance and Administrative Services

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City of San Clemente

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Honorable Mayor and Council Members:

I am pleased to present to the City Council the City of San Clemente's 2023 *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 while providing a high level of municipal services to the community. The City's financial outlook is positive initially, but in the third year shows a deficit with the following years remaining essentially flat resulting from an anticipated economic downturn projected by Chapman University and Cal State Fullerton economic forecasts. The City has a strong financial base, emergency reserves, and has taken action to improve funded status and lower long-term costs of our pensions.

The City's LTFP is a long-range planning tool with a goal of providing information as the City Council makes strategic decisions affecting the City's fiscal sustainability in the short and long term. The LTFP describes the City's finances, condition, and prepares the City to address strategic issues. The LTFP is the *Financial Trend Analysis, Financial Forecast, Reserve Analysis*, and *Fiscal Policies.* It outlines recommendations and provides a positive forecasted position at the onset of the annual budget process. Positive General Fund operating positions are forecast for FY 2024 and FY 2025, with subsequent fiscal years showing small deficit operating positions.

As we prepare for Fiscal Year 2024, the focus on the City's strategic priorities remains even more critical based on long-term resource availability. As we look out over the next five years, we anticipate positive operating positions decrease to become negative or neutral in the last three years. The need to manage costs to meet citizen priorities is more important as costs grow and resources are impacted. Outside of the General Fund, the City addressing Sewer and Clean Ocean rates becomes key for Enterprise funds to address service and infrastructure funded through service charges.

Overall, past financial indicators improved from pandemic lows, City's reserves were reviewed with some contributions recommended for next year. While the forecast shows a positive operating position initially, later years reflect an anticipated economic downturn, based on Chapman University and Cal State Fullerton forecasts, which deplete operating position. Other papers identify consideration in connection with the decision making process.

The ***General Fund*** is fully funding Emergency Reserves at $15.6 million, which is 20% of the City's operating expenditures, however the General Fund's unassigned fund balance changes to a deficit fund balance due to future narrow operating positions and one-time capital costs. Unassigned fund balance is essentially a savings account available to fund one-time costs and capital activity that is replenished from revenue overages or budget cost savings. City staff annually reviews capital and maintenance projects to ensure the timing is appropriate and make adjustments as circumstances warrant. Working with a stable annual positive operating position provides funds for one-time activities without reliance on revenue overages or budgeted cost savings.

General Fund Operating position (operating revenues less operating expenditures) is projected to be positive for the next two fiscal years, with the remaining forecast years showing a small deficit or positive operating position. This year’s forecasted operating position narrows in second and third year based on major tax revenues growing in the 3-4% range while the largest costs increase 4-5%. This overall decline from last year’s LTFP forecast is due to slower property tax and sales tax revenue growth and costs increasing due to inflation and service level expectations.

The 2023 LTFP issue papers educate and provide analysis. The goal of presenting this analysis is to inform, address issues, and seek direction. These additional papers include the Information Technology Strategic Plan, Pension Update, and Fleet Lease/Purchase comparison.

Our Spanish Village by the Sea continues to see challenges, but the City’s dedicated staff has been resilient and continues to work toward addressing issues to best meet citizens’ expectations.

Sean Joyce
Interim City Manager

City of San Clemente

City Council

Chris Duncan, Mayor
Steve Knoblock, Mayor Pro Tem
Victor Cabral, Council Member
Mark Enmeier, Council Member
Gene James, Council Member

Interim City Manager

Sean Joyce

Financial Plan

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

Fleet – Lease/Buy
Jake Rahn, Financial Services Officer
Matthew Schmelzel, Management Analyst

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.

EXECUTIVE SUMMARY

LONG TERM FINANCIAL PLAN

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 and capital projects.

Reserve Analysis

Objective

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 financial resources and (c) ensure compliance with City fiscal policies and legal requirements by State, County or local ordinances.

Fiscal Policy

Objective

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.

Fleet – Lease/Purchase

Objective

Provide an overview of San Clemente's vehicle fleet program and explore costs related to purchase and a lease acquisition option. A comparison of the lease and purchase program will be used to evaluate cost.

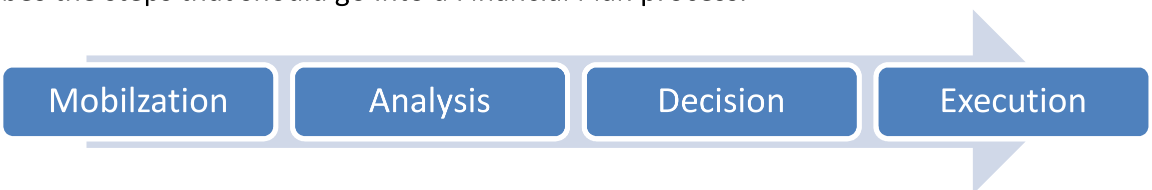
Pension Update

Objective

Review the City's pension plans, summarizes approved and completed actions based on previous Long Term Financial Plan (LTFP) Pension Updates and make recommendations to ensure the sustainability of the City's pension plans and control future pension costs.

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 considers City Council input during meetings to be addressed through the annual LTFP process and seeks Council input from other forums. 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 amounts/funding levels for significant amounts, 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.

  Recommendations are presented based on the papers and information and is provided for City Council consideration related to potential actions. 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 into the budget. This is accomplished through a Decision Package process or by 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 being doing the Long Term Financial Plan annually as a result of forecasted future operating deficits and to address emerging 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 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.*

GFOA 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. The City hopes the Long Term Financial Plan and budget addresses these pillars.

Strategic Issues presented in conjunction with the Long Term Financial Plan have been limited to the IT Strategic Plan, Fleet-Lease/Purchase, and Pension Update.

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*
- *Summary*
- *List of LTFP Recommendations*

INTRODUCTION

The LTFP provides looks at financial issues facing the City of San Clemente and helps outline a plan to meet the needs of the community without sacrificing the City's financial future. The 2023 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 Summary in each paper.

Utilizing the financial tools 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, information, and recommends solutions to current or future issues. The LTFP acts as a guide in developing the annual budget, assists in developing financial policies, and offers recommendations to assist future needs.

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 to weather any economic downturn in the future. During the pandemic, the City had ample reserves but American Rescue Plan funds and other grants allowed Emergency Reserves to not be used. The economy is stable, however expectations are that an economic downturn or recession is likely in the next two years. The General Fund's main revenue source of property taxes are exceeding initial expectations, however recently there has been a slowdown in property sales and higher property valuations. Sales taxes increase, but at a lower level than previous years. The forecast has more detailed assumptions and shows a positive operating position the first two years with deficits in the following two years. Uncertainties which may impact future operating positions are listed in the following table with actions to manage these uncertainties.

The economy is stable, however expectations are that an economic downturn or recession will occur in the next two years.

Uncertainty	Actions to Manage/Mitigate this uncertainty
Inflation	• Seek other revenue sources or adjust service fees to offset increases in cost
Future Police Contract cost	• Maintain the positive operating position to absorb larger cost increases in the future
Class and Compensation Review	• Maintain the positive operating position
Economic Downturn	• Maintain General Fund Emergency Reserves at 20%
Service changes – Trolley, Park Ranger program, Homelessness	• Seek other revenue sources or adjust service fees or levels to offset increases

These uncertainties could create annual impacts to the General Fund and its operating position. The Long Term Financial Plan is to be informational and act as a guide to Council, management and the citizens as decisions are made.

LTFP SUMMARY

The City of San Clemente prepares a comprehensive Long Term Financial Plan (LTFP) annually. The LTFP serves as a tool for City Council to identify financial trends, shortfalls, reserves and outline policies so actions may be taken to proactively address them. The LTFP papers offer recommendations to ensure reserves are funded, fiscal policies are updated, and to provide Council information on the General Fund's the past, current, and future financial considerations for the City's operations to maintain a sustainable operating position.

City Council last year worked with a consultant to determine strategic priorities for the City. These helped develop strategic priorities and tactics. FY 2023 LTFP actions included the following: 1) making additional pension payments to address the pension liability and lower future pension costs, 2) approve contributions to capital reserves and increase the annual facility maintenance project to $300,000 to address capital costs, 3) budget for a Classification and Compensation study, 4) update the City's permit system (TrakIt), and 5) Council provided direction for the renewal of Clean Ocean funding. The 5 strategic priorities follow:

STRATEGIC PRIORITIES	5 Strategic Priorities for the City of San Clemente				
	Ensure financial stability as demonstrated by low debt, high ratings, and new revenue generation	Grow resident confidence and value in City services and operations	Update and maintain infrastructure that reflects best available technology and services	Improve and maintain strong staff recruitment and retention strategy to attract and keep best and most qualified staff	Maintain strong approach to digital transformation to become best in class

The LTFP is an opportunity to review the finances of the City and ensure <u>all</u> priorities are considered, so not just one priority is focused on to the detriment of others. A summary of the individual LTFP sections follow with the recommendations.

The *Financial Trend* section includes the analysis of twenty-two trends. These trends relate to revenue, expenditures, operating positon, debt, and community factors. Multiple trend indicators were impacted by inflation, easing of pandemic restrictions, and a strong housing market along with additional one-time pension payments impacting costs.

Revenue Trends were similar to the previous year, with four as Favorable/Caution. There was an improvement to elastic revenues due to higher sales tax and transient occupancy tax as pandemic guidelines were eased. Property tax revenues, although increasing from a dollar perspective, did not keep pace with inflation so the rating was changed to Favorable/Caution. Higher inflation effectively lower revenues, so a review of fees and charges to ensure cost recovery to match service costs and lessen the impacts of inflation will be important. This cost recovery allows could maintain or bolster service levels and amenities utilized by citizens.

Expenditure Trends indicators had one indicator change. Expenditures per capita was changed to a Favorable/Caution as expenditure increases were realized partially due to inflation and activity increases coming out of the pandemic and a small population decrease places these costs on a smaller population base. Population does not take into consideration tourism impacts. Fringe benefits remained at the Favorable/Caution once one-time pension payments were considered.

The Operating Surplus (deficit), Unrestricted Fund Balance, and Pension Unfunded Liability changed from Favorable/Caution to Favorable as all these categories showed improving trends. Population in recent years started to decrease, while property values increased at a pace lower than inflation causing rating of Favorable/Caution.

The Long Range *Financial Forecast* sets the stage for the upcoming budget process, facilitating the City Council to consider strategic priorities and to allocate 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, doesn't factor in future development, and uses general assumptions that may be different than actual amounts.

The forecast shows the first 2 years with a positive operating position and the later years with either deficit or neutral operating positions. This is a result of an anticipated economic downturn and higher inflation initially as the long-term inflation reverts to the long-term goal of 2-3% over the forecast period. Revenues average an annual increase of 3.1% over the forecast period while operating expenditures are increasing annually by 3.0% a year.

Over time, the growth of revenues and expenditures flatten out over the five-year forecast. Impacts could result as the forecast does not work in service level changes and cost impacts from the police, MOU changes, and continued inflation at higher than anticipated levels. This forecast is slightly worse than the prior year due to inflation impacts and anticipation of an economic downturn. These impacts cause forecasted unassigned fund balance to go into a deficit in FY 2025.

The *Reserve* section includes the assessment of reserve levels for Operational, Capital/Infrastructure, and Emergency Reserves. Most reserves are funded, however recommendations are made for reserve transfers to address long-term capital funding. Sewer and Storm Drain rates need modification and the Clean Ocean fee needs to be renewed to address capital and operating needs.

The *Fiscal Policy* section includes a review of financial policies by major category. This is an opportunity for staff to address changes or propose policy related items. Council in November recommended bringing back policy adjustments to allocate a portion of Transient Occupancy Tax revenues to pension paydown. The policy changes based on Council action are listed in the Fiscal Policy and if approved would create a deficit operating position in the first year of the Forecast.

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

The *Fleet – Lease / Purchase* reviewed the costs for leasing a vehicle purchase compared to the costs associated with leasing a similar vehicle to determine if savings could be achieved through leasing.

The *Pension Update* section reviews the City's pension plans, summarizes actions based on previous LTFP pension updates, and makes recommendations to ensure the long-term sustainability of the City's pension plans and control future pension costs. The Pension Update breaks information between the CalPERS and a legacy pension plan, additional payments made and funding levels. The

"3-2-1 Pension Funding Strategy" payments will be completed in FY 2023 and be reflected in the valuation in two years along with other UAL payments. Recommendations to pursue actions approved by the previous Council and make revisions to the CSCERP plan to improve funding levels.

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

LTFP RECOMMENDATIONS

TRENDS

No recommendations

FORECAST

No recommendations

RESERVE

- Transfer an amount of $400,000 from the General Fund to the Facilities Maintenance Reserve in FY 2023-24.
- Transfer an amount of $300,000 from the General Fund to the Park Asset Reserve in FY 2023-24.
- Transfer a one-time amount of $2.0 million from the Water Operating Reserve in FY 2023-24 to the Water Depreciation Reserve to fund future capital replacement in the Water Depreciation Reserve.

FISCAL POLICY

Council Recommendation

Remove the following revenue policy:

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

Add the following revenue policy:

"Allocate one-third of total Transient Occupancy Tax dollars toward the unfunded pension liability."

IT STRATEGIC PLAN UPDATE

Staff recommends that the City Council accept the Information Technology Strategic Plan Update and direct staff to bring the recommended Fiscal Year 2023-24 projects and initiatives forward through the budget process.

FLEET-LEASE/PURCHASE

No changes are recommended

PENSION UPDATE

<u>CalPERS</u>

- Based on October 2022 Council direction, modify the $1.0 million Section 115 trust funding and utilize the $1 million to make a one-time Public Safety Pension Plan payment.

<u>CSCERP</u>

- Continue with the CASA evaluation related to CalPERS pension administration.
- Update the City of San Clemente Pension Investment Policy (Policy #202-2) and prepare a City Council Agenda Report when Chandler Asset Management cost information is received.

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 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 changes;
- Expenditure levels and whether these expenditures are sufficient to provide the desired level of services and as the City changes;
- Fund balances and debt levels and their impact upon City financial resources.

This report examines these issues and others in determining the 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 2017-18 through FY 2021-22. Consequently, all trends are based on data available as of June 30, 2022 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

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	FY 2023	FY 2022	LTFP FY 2021	FY 2020	FY 2019
REVENUE:					
Revenue Per Capita	**F/C**	F/C	F/C	F	F
Property Tax Revenues	**F/C**	F	F	F	F
Elastic Revenues	**F**	F/C	F/C	F	F
Sales Tax Revenues	**F**	F	F	F	F
Permits & Business License Revenues	**F/C**	F/C	F/C	F/C	F/C
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/C**	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/C	F/C	F
Capital Outlay	**F**	F	F	F	F
OPERATING POSITION:					
Operating Surplus (Deficit)	**F**	F/C	W	F/C	F/C
Unrestricted Fund Balance	**F**	F/C	F/C	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	**F**	F/C	W	U	N/A
COMMUNITY:					
Population	**F/C**	F	F	F	F
Property Values	**F/C**	F	F	F	F

Overview of the City's Financial Condition

The 2023 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. Results are the same as the previous year, as four indicators change from Favorable to Favorable/Caution and four indicators change from Favorable/Caution to Favorable. These changes are due to the large increase in the Consumer Price Index (CPI) or inflation rates and impacts to population over the last five years. This year eight indicators received a Favorable/Caution rating, and fourteen received a Favorable rating. Information by Category is discussed in the following section.

Rating discussion by Trend Indicator Category

<u>Revenue Category:</u>

Nine trend indicators address revenues. Five of the trends are Favorable, and four are Favorable/Caution. Changes in revenue indicators reflect the City seeing large increases in property and sales tax. Property Tax revenues changed from Favorable to Favorable/Caution and Elastic revenues changed from Favorable/Caution to Favorable.

Property tax revenue indicator moved from Favorable to Favorable/Caution because although it increased by a large amount in actual dollars, revenues decreased in constant dollars as the CPI increased significantly from the prior year. Property taxes are a stable revenue source, but as the largest revenue source for the City, property taxes should be monitored to ensure changes keep pace with inflation.

Elastic revenues moved from Favorable/Caution to Favorable as there has been a two-year increase over the five-year period and the FY 2021-22 percentage exceeds the FY 2017-18 base year percentage.

Revenues Per Capita, *Permits/Business License Revenues,* and *Community Development Charges* remain at Favorable/Caution, as these revenues remain essentially flat over the last five years.

<u>Expenditure Indicators:</u>

Five trend indicators address expenditures. Three of the trends are Favorable, and two trends are Favorable/Caution, with Expenditures per capita downgrading from Favorable.

Expenditures Per Capita moved from Favorable to Favorable/Caution reflecting the decline in population while costs increased from both service level and inflationary changes.

Fringe Benefits remain a Favorable/Caution rating as fringe benefits, as a percentage of salaries, increase due to the additional payments made toward the unfunded pension liability. Under the "3-2-1 Pension Funding Strategy", this trend will be monitored in future years as the impacts of the strategy are realized.

<u>Operating Position Indicators:</u>

Three Trend Indicators address operating position. All three trends are Favorable, with two trends changing from Favorable/Caution to a Favorable rating.

The *Operating Surplus (Deficit)* moves from a Favorable/Caution to a Favorable rating as surpluses grew in the last two years even after the impacts felt by the pandemic. During the last year, revenues in sales and property taxes increased considerably, while expenditure savings were realized in personnel, contractual services and capital outlay.

Although the City used a portion of the operating surplus to pay down the unfunded pension liability; *Unrestricted Fund Balance* improved and is getting to levels experienced pre-pandemic. This indicator moves from Favorable/Caution to a Favorable rating.

Debt/Unfunded Liability Indicators:

Three trend indicators address debt/liabilities. All three of the trends are Favorable, with Pension Unfunded Liability moving from a Favorable/Caution to a Favorable rating.

Pension Unfunded Liability changes from a Favorable/Caution to a Favorable rating as the City is starting to see the results of past efforts to pay down the unfunded pension liability and strong 2021 market returns. Additional payments are being made to improve the funded status based on a “3-2-1 Pension Funding Strategy”. An additional contribution of $3.9 million was made to the CalPERS and CSCERP plans in FY 2021-22.

Community Indicators:

Two Trend Indicators address community factors. Both change from Favorable to Favorable/Caution ratings.

Population moves from Favorable to Favorable/Caution due to decreases over the last two years. A decrease in population can effect revenues over time and increase the cost burden over a smaller population base. However, some of the decreases are the result of the 2020 census, which reset the City population base.

Property Values change from Favorable to Favorable Caution as the economy sees a large inflationary period, and during the last year, the values did not exceed inflation.

Conclusion of Trend Analysis

The City saw the majority of increases in property and sales tax revenue, which was due in part to a strong housing market and a large increase to economic growth in the FY 2022. A factor that affected trends, this year in particular, was the high Consumer Price Index, which impact costs and revenues. The City continues to review the budget monthly at the department level and presents quarterly updated financial information to City Council.

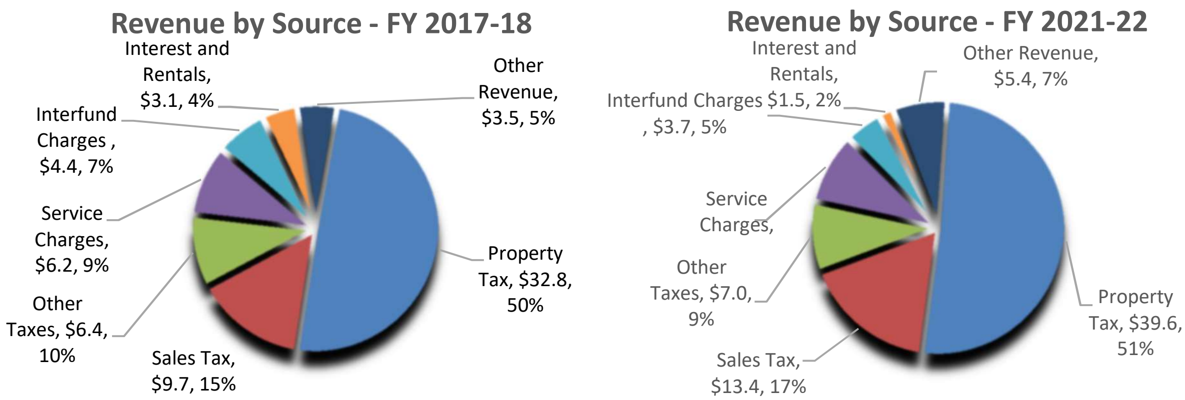
Analysis and discussion of the future outlook is in the upcoming Financial Forecast section.

Revenue Trend Analysis

Overview of Revenues by Source:

The following is an overview of City revenue by source for FY 2017-18 and FY 2021-22. The following pages provide an analysis of the actual nine revenue trend indicators in detail.

Comparison of Revenues by Source
FY 2017-18 vs. FY 2021-22
(in millions)



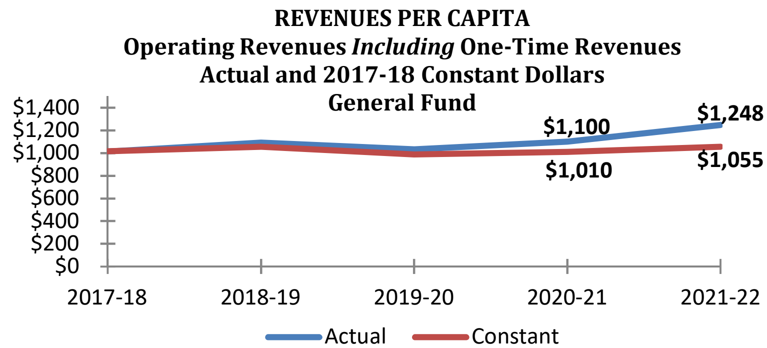
The above pie charts compare the current revenue sources amounts to those five years ago. Analysis of these changes are presented below:

- Property taxes during the five-year period increased due to assessed valuation growth and the build-out of Talega and the Sea Summit developments.
- Sales taxes increased due in part to the addition of the Outlets at San Clemente and the *Wayfair* decision in FY 2017-18, and inflation increases over the time period.
- Other taxes increased from $6.4 million to $7.0 million. Although business license tax receipts and franchise fees increased slightly by $2,779 and $21,867 respectively; transient occupancy tax receipts increased by $686,110 in FY 2021-22 due to the lowering of COVID-19 pandemic travel restrictions during the first half of fiscal year 2020-21.
- Service Charges increased from $6.2 million in FY 2017-18 to $7.1 million in FY 2021-22, due to increased ambulance service charges and parking meter permits and fees.
- Other revenue increase was mainly due to miscellaneous revenue of $1.7 million from Beach Parking In-lieu refund escheatment revenue. Other increases were seen in grant revenue ($0.7 million) due to County Grant revenues of $0.4 million and $0.3 million from Waste Disposal Agreement (WDA) revenues in FY 2021-22; and an increase in vehicle code fines and administrative citations of $0.1 million in FY 2021-22.
- Interfund charges decreased from FY 2017-18 to FY 2021-22. The general fund overhead allocation plan increased, however transfers decreased by a greater amount over the five-year period due to a reduction of the Clean Ocean transfer.
- Decrease in Interest and Rentals from $3.1 million in FY 2017-18 to $1.5 million in FY 2021-22 is due to an unrealized loss on investments of $1.3 million in FY 2021-22 and lower rents and commissions due to restrictions from the COVID-19 pandemic in FY 2020-21.

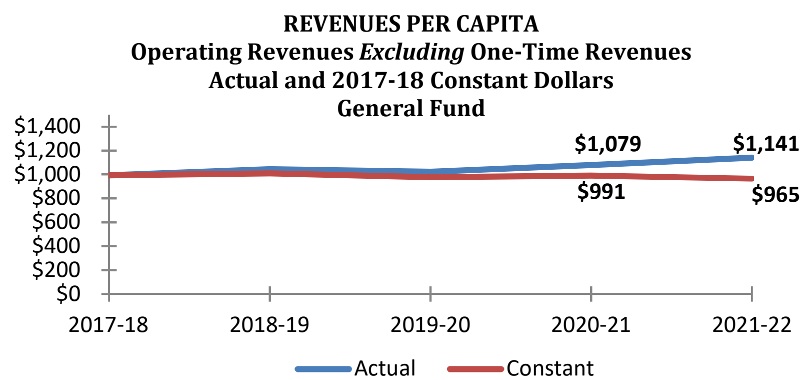
Revenue Trend Analysis

Indicator: *Revenues Per Capita*

Comments:
The first chart (which includes one-time revenues) shows an increase from $1,100 to $1,248 in actual dollars and an increase from $1,010 to $1,055 in constant dollars. Total revenues for Fiscal Year 2021-22 increased by $8.6 million from the prior year. Property, sales and other taxes, license and permits, intergovernmental charges, fines and forfeitures, service charges, and other revenues saw an increase over the prior year, while interfund charges and interest and rentals decreased. Revenue categories with the most significant increases include sales tax (11%), property tax (4%), other taxes (21%), intergovernmental (66%), service charges (25%), and other revenue (985%). Decreases include interest and rentals (-22%) and Interfund charges (-6%).



The second chart (which excludes one-time revenues) shows an increase in actual dollars from $1,079 to $1,141; however, constant dollars decrease from $991 to $965. The approach of excluding one-time revenues is a realistic approach since the City only uses one-time revenues for one-time expenditures in accordance with the City's Fiscal Policy.



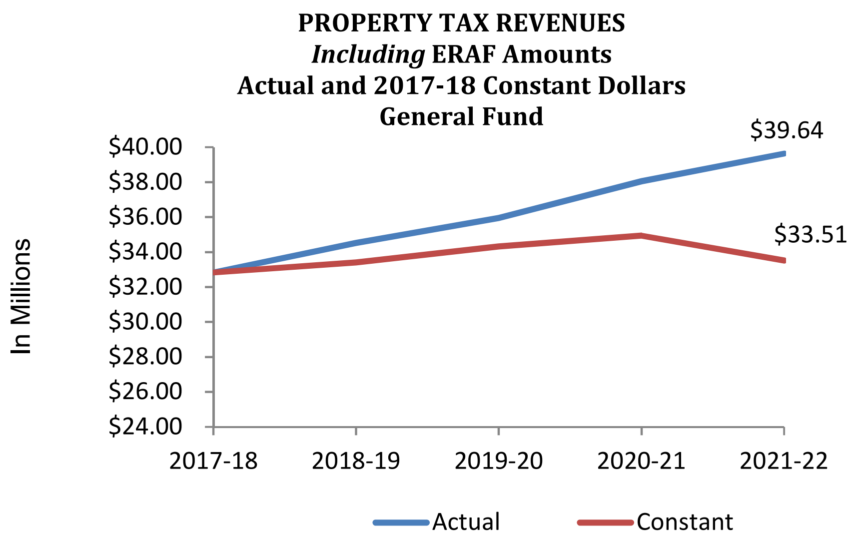
Status: *FAVORABLE/CAUTION*
Although increases are seen in actual revenues over the prior period, this trend remains a Favorable/Caution rating, as constant dollars did not increase by the same amount and decreased when excluding one-time revenues due to a high Consumer Price Index (CPI) based on inflation.

Revenue Trend Analysis

Indicator: *Property Tax Revenues*

Comments:
The chart below shows property tax revenues increasing from $38.1 million to $39.64 or 4% in actual dollars; however, property tax revenues decreased from $34.94 million to $33.51 million or -4% in constant dollars due to a significant increase to the CPI for FY 2021-22 based on a high inflationary period.

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 in actual dollars over the five-year trend period; however, when taking inflation into consideration property tax revenues decreased during the last year.



Status: *FAVORABLE/CAUTION*
This indicator changes from Favorable to Favorable/Caution, because although the actual property tax revenues increased, when taking inflationary costs into consideration (constant dollars) property tax revenue declined over the prior year. As property tax is the City's main source of revenue, the City will need to monitor this indicator more closely to determine if property taxes can keep pace with future inflation.

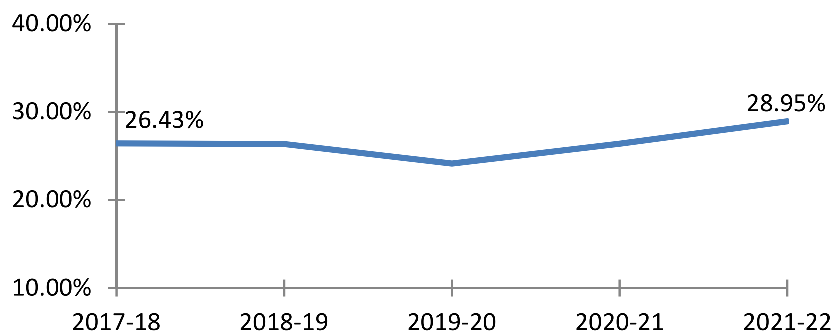
Revenue Trend Analysis

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 increased by 14.8% from the prior year, and net operating revenues increased by 4.6%; causing Elastic revenues, as a percentage of total revenues, to increase from 26.38% in FY 2020-21 to 28.94% in FY 2021-22. Certain individual revenue indicators, which comprise the elastic revenues category, are examined further on the following pages.

ELASTIC REVENUES
As a Percentage of Operating Revenues
General Fund



Status: *FAVORABLE*
This indicator changes from Favorable/Caution to a Favorable rating. There has been a two-year increase over the five-year period, and the FY 2021-22 percentage exceeds the FY 2017-18 base percentage.

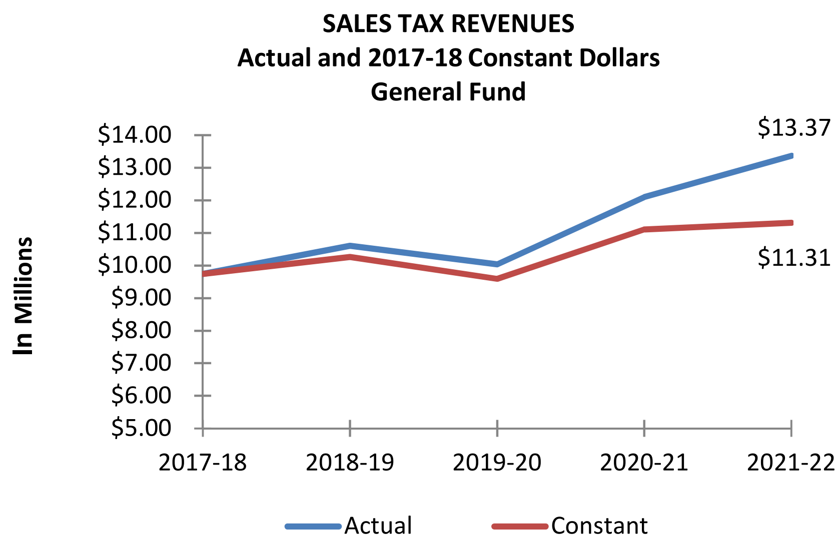
Revenue Trend Analysis

Indicator: *Sales Tax Revenues*

Comments:
As summarized in the chart below, sales tax revenues show an increase of $1.3 million, or 11% in actual dollars over the prior fiscal year. In constant dollars, there was an increase of $196,420, or 1.8% for FY 2021-22.

Sales tax receipts amount to $13.4 million, compared to $12.1 million in the prior year. This increase is partially due to the *Wayfair* decision, and the City accommodates restaurants and other business activity coming out of the pandemic. The sales tax increase is also a result of higher activity levels, fuel prices, and the rise in inflation over the prior year.

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



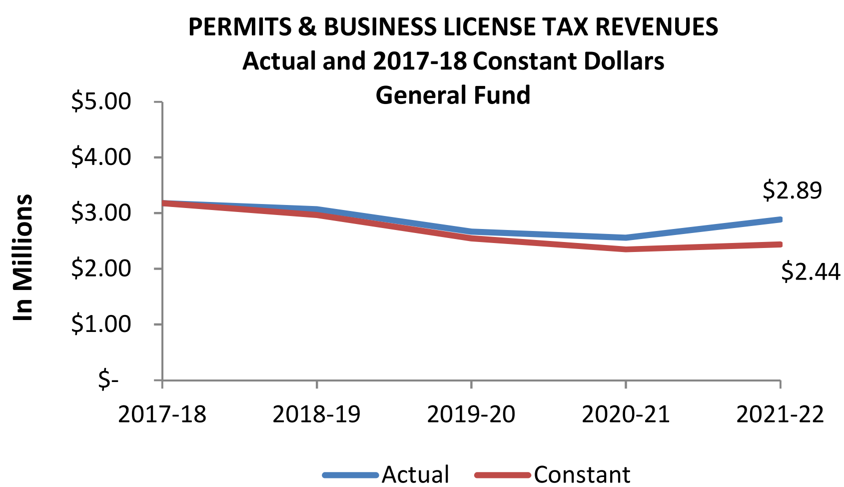
Status: *FAVORABLE*
This indicator remains Favorable. A large increase in actual dollars was seen over the prior year, and a small increase was seen in constant dollars. Since constant dollars takes into account inflation, this indicates that sales tax growth outpaced inflation. Since Sales tax is one of the primary revenues for the City, this indictor needs to be monitored closely due to it being an elastic revenue.

Revenue Trend Analysis

Indicator: *Permits & Business License Revenues*

Comments:
Permits and Business License Tax revenues increase in actual dollars in the amount of $326,035 or 12.7% from the prior fiscal year. The constant dollar increase was $89,721, or 3.8% from FY 2020-21.

Construction permit revenue increased $331,403, or 2.7% over the past year, which coincides with the increase in construction activity. Business license tax revenue remained the same at $1.13 million in FY 2021-22. Nonbusiness licenses and permits decreased by $5,617 or 2.6%, mainly due to decreases in STLU permit fees and street encroachment permits.

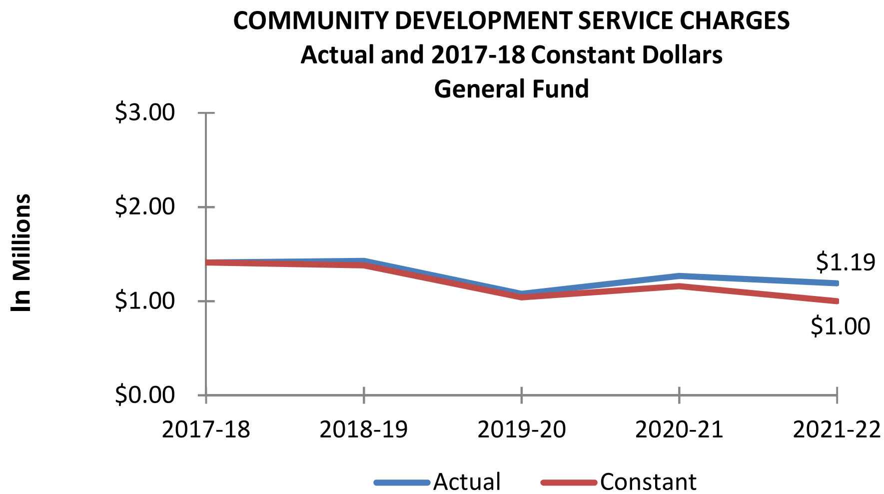


Status: *FAVORABLE/CAUTION*
Permits and Business License Tax maintains a Favorable/Caution rating, due to the first year of increases after three years of decreased revenue. The decreases from prior year could be impacts of the pandemic, so these revenues will need to continue to be monitored.

Revenue Trend Analysis

Indicator: *Community Development Service Charges Revenues*

Comments:
Total community development service charges decreased by 6.3%, or $79,958 from the prior year. Although total general government service charges decreased by $101,706 due to a decrease in plan check fees, while construction inspection fees increased by $20,560.

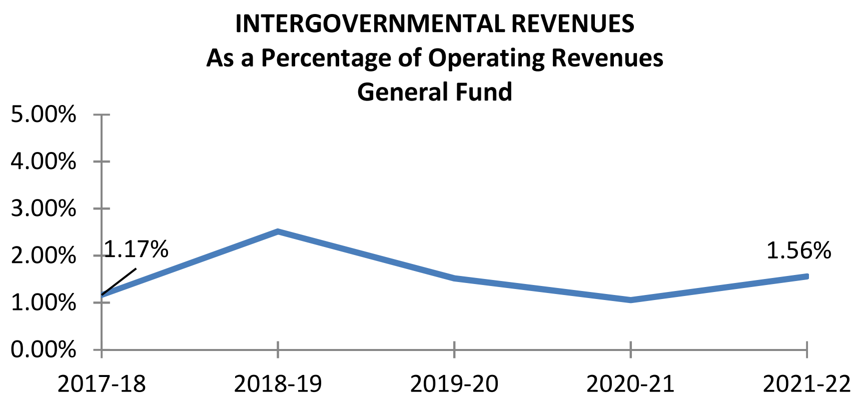


Status: *FAVORABLE/CAUTION*
This trend remains a Favorable/Caution rating due to the decrease over the prior year. Over the five-year period, these changes have remained relatively flat. The City continues to monitor these revenue sources, mainly consisting of business and permit fees, as they are highly responsive to changes in the economy and inflation.

Revenue Trend Analysis

Indicator: *Intergovernmental Revenues*

Comments:
General Fund Intergovernmental revenues, as a percentage of operating revenues increased to 1.56% in FY 2021-22. Intergovernmental revenues increased from $0.7 million in FY 2020-21 to $1.2 million in FY 2021-22. Although State Grant revenues decreased, County Grants and other governmental grants increased due to the following: OCTA Project V Transit Grant in the amount of $362,149, Regional Waste Disposal Agreement (WDA) Cost Sharing revenues in the amount of $291,997, and an increase to the Motor Vehicle Tax of $26,645. 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 may be beyond the City's control.



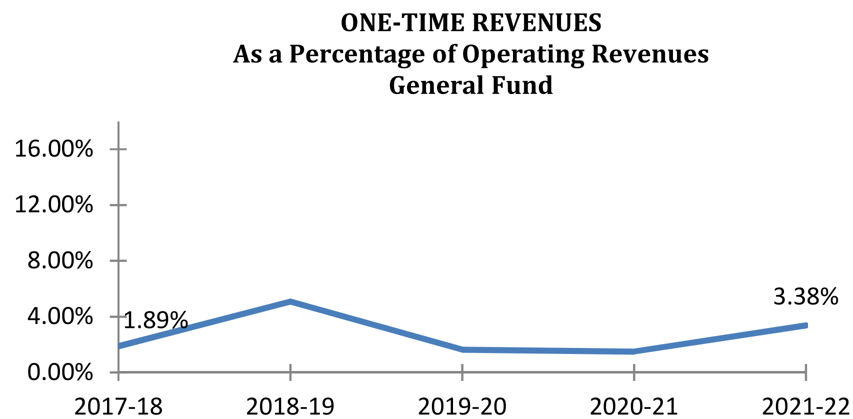
Status: *FAVORABLE*
This trend remains Favorable since the City receives a low percentage of revenues from other governmental agencies. When considering in-lieu property taxes totaling $7.9 million, the intergovernmental percentage would be 11.5% in FY 2021-22, which still supports the Favorable rating. The City has also placed COVID relief amounts in a separate fund to limit ongoing impacts or costs being charged to the General Fund.

Revenue Trend Analysis

Indicator: *One-Time Revenues*

Comments:
One-time revenues, as a percentage of total General Fund revenues, equaled 3.38% in FY 2021-22, an increase over the prior year.

One-time revenues increased by $1.5 million, or 140% from the prior fiscal year. FY 2021-22 one-time revenues of $2,530,840 include, $735,935 of grant funds, $98,802 from miscellaneous reimbursements, $1.7 million from escheatment of Beach Parking In-lieu fee (BPIF) reimbursement, a transfer of $8,574 from Miscellaneous Grants Fund to reimburse capital related costs, and $29,195 for principal from advance. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditures.



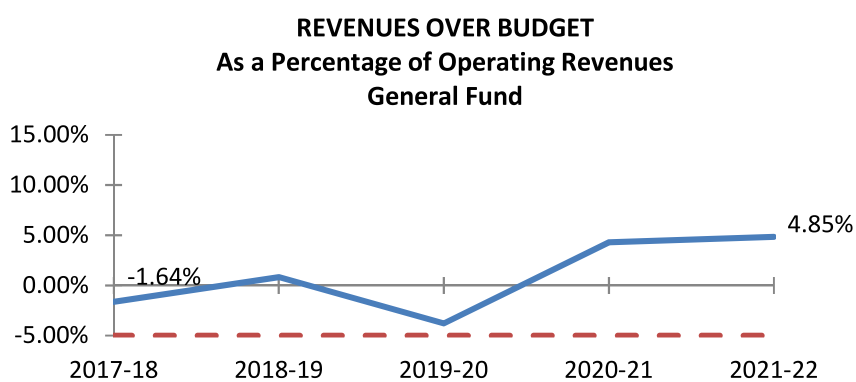
Status: *FAVORABLE*
This indicator continues with a Favorable rating, due to the City not utilizing one-time revenues to fund ongoing operating expenditures. The City is not dependent on one-time revenues to fund operating costs.

Revenue Trend Analysis

Indicator: *Revenues over Budget*

Comments:
Actual revenues were higher than the adjusted budget by $3.6 million for FY 2021-22 and ends with a positive revenue position of 4.85%. The City experienced revenue overages in taxes of $3.4 million, licenses and permits of $389,035, fines and forfeitures of $106,720, charges for services of $1.2 million, and other revenues of $1.7 million. The City has also experienced reductions in intergovernmental ($0.4 million), Investment and rentals ($1.9 million), and transfers in ($0.9 million).

This trend began the five-year analysis with a negative revenue position of 1.64% and ended FY 2021-22 at a positive of 4.85% 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*
The City ended this five-year trend in a positive revenue position, within the 5% expected range; therefore, this trend remains a Favorable rating.

Expenditures Trend Analysis

Overview of Expenditures by Function and Category:

The following is an overview of the expenditures by function and category for fiscal years 2017-18 and 2021-22. Following this overview are the actual five trend expenditure indicators.

The table below compares the FY 2017-18 General Fund expenditures by function to FY 2021-22. Increases are seen in Public Safety, Community Development, Public Works, and Beaches, Parks, and Recreation, with a decrease in General Government.

Comparison of Expenditures by Function
FY 2017-18 vs FY 2021-22

Expenditure Function	FY 2017-18	FY 2021-22	Difference	% Change
General Government	$ 15,216,036	$ 11,603,640	$ (3,612,396)	-24%
Public Safety	25,718,889	35,483,021	9,764,132	38%
Community Dev.	4,996,730	5,807,396	810,666	16%
Public Works	15,756,138	16,407,521	651,383	4%
Beaches, Parks & Rec	4,897,444	5,390,405	492,960	10%
Total Expenditures	$ 66,585,237	$ 74,691,984	$ 8,106,747	12%

The largest dollar increases were in Public Safety and Community Development. The following bullet points discuss these categories in more detail:

- General Government decreased by $3.6 million or -24%. General Government decreased over the five-year period due to a one-time transfer of $2.9 million from the General fund to Facilities Maintenance fund and one-time unfunded liability payment of $1.0 million in FY 2017-18.
- Public Safety increased by $9.8 million or 38% due to increases in the contract costs for both police and fire services over the five-year period. This change also includes the increase of the 4th firefighter/paramedic, higher ambulance service levels, payments to the CalPERS liability and increases in Marine Safety services.
- Community Development increased by $0.8 million, or 16% due to increases in salaries and benefits costs over the five-year period and the addition of Park Rangers to the Code Enforcement department in FY 2020-21.
- Public Works increased by $0.7 million or 4%. Although capital project costs decreased over the five-year period due to the completion of street improvement projects, contractual services increased due to maintenance contracts, cost of utilities, and personnel costs.
- Beaches, Parks, and Recreation increased by $0.5 million or 10% over the five-year period due to an increase in contract class instructor costs.

The following table compares expenditures by category and shows increases in personnel, contractual services, and other charges, and decreases in supplies, capital outlay, and interfund payment expenditure categories between FY 2017-18 and FY 2021-22.

Comparison of Expenditures by Category
FY 2017-18 vs FY 2021-22

Expenditure Category	FY 2017-18	FY 2021-22	Difference	% Change
Personnel	$ 16,568,525	$ 18,299,577	1,731,052	10%
Supplies	1,081,564	1,076,428	(5,136)	0%
Contractual Services	33,767,589	41,734,393	7,966,805	24%
Other Charges	2,279,107	4,600,562	2,321,455	102%
Capital Outlay	4,336,361	1,986,300	(2,350,061)	-54%
Interfund Payments	8,552,091	6,994,722	(1,557,368)	-18%
Total Expenditures	$ 66,585,237	$ 74,691,984	$ 8,106,747	12%

The largest dollar increases were in contractual services and other charges. Information on the changes follow:

- Contractual Services increased by 24% or $8.0 million from FY 2017-18 to FY 2021-22 reflecting increases in contractual services for Police ($3.7 million), Fire ($2.2 million), ambulance services ($348,429), maintenance services ($0.6 million), other professional services ($283,383), and legal services ($148,249) from FY 2017-18 to FY 2021-22.
- Other Charges increased by 102% or $2.3 million due to higher payments on the unfunded police and fire public safety pension liability payment ($2.1 million) in FY 2021-22.
- Personnel (salary and benefits) increased 10% over the five-year period. The 10% increase (or 2% annually) is mainly a result of retirement costs in FY 2021-22, including a one-time paydown of the pension liability. Personnel and benefit costs were mitigated by controlling position growth (FTE's) and position reassessments due to vacancies.

Other changes reflect the following:

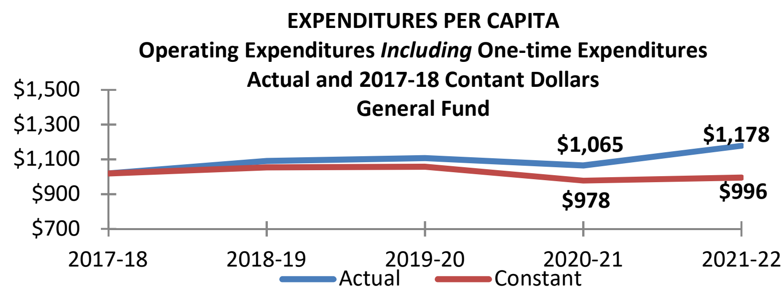
- Capital decreased 54% ($2.4 million) from FY 2017-18 to FY 2021-22, reflecting the decrease in improvements other than buildings during the five-year period. Improvements other than buildings decreased over the five-year period as capital activity was reduced due to the pandemic. In FY 2017-18 projects included sidewalk projects, 800 MHZ Radio project, Concordia Elementary and Shorecliffs Safe Route to Schools, 910 Calle Negocio Remodel, and the Pier Structural Construction projects.
- Interfund payments decreased by 18% or $1.6 million due to a one-time transfer to Facilities Maintenance fund in FY 2017-18 from the sustainability reserve that was approved by the FY 2015-16 LTFP.

Expenditures Trend Analysis

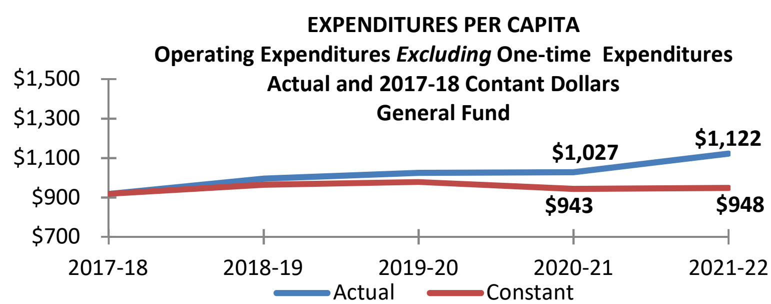
Indicator: *Expenditures Per Capita*

Comments:

The first chart, which includes one-time expenditures, shows an increase from $1,065 to $1,178 in per capita actual dollars and an increase from $978 to $996 in per capita constant dollars. Actual dollars increased by $6.5 million and constant dollars increased by $0.5 million when compared to FY 2020-21. The increase in actual dollars was mainly in Public Safety ($4.5 million), and Beaches, Parks and Recreation ($1.2 million), General Government ($0.4 million), and Public Works ($0.4 million), while Community Development decreased by $66,028. The increase in Public Safety is due to Police and Fire contracts along with an additional one-time pension UAL payment of $1.8 million, and ambulance and marine safety services in FY 2021-22. Beaches, Parks and Recreation increases are mostly based on contract class instructors' payments.



The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $1,027 to $1,122 and an increase in constant dollars from $943 to $948. One-time expenditures include one-time transfers to Facilities Maintenance reserve ($0.4 million), Clean Ocean ($58,390), Park Asset Maintenance ($600,000), and Accrued Leave ($115,000). Other one-time funds of $2.4 million include funds for 910 Calle Negocio Remodel, Pier Structural Construction, Marine Safety Relocation Study, End of Pier Restroom rehabilitation, Trafalgar Canyon Bridge rehabilitation, Park Monument Sign Replacements, Max Berg Park Light Poles and fixtures replacement, Valencio, Cristobal and Esplanade Median, and West Avenida Pico and West Avenida Hermosa Landscape Median projects along with a one-time pension payment of $2.0 million.



Status: *FAVORABLE/CAUTION*

Expenditures per capita (including one-time expenditures) reflect increases when analyzing actual and constant dollars over the prior fiscal year. This trend changes from a Favorable to a Favorable/Caution rating as population has declined while costs have been impacted from both service level and inflationary changes.

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, the percentage of total General fund expenditures have remained fairly stable over the five-year period. The chart below indicates that the largest percent fluctuations are in General Government (-3%), Public Safety (3%).

When looking at the table, General Government decreased from 17% in FY 2017-18 to 14% in FY 2021-22. In actual dollars, General Government decreased by $104,008. Public Safety increased from 45% in FY 2017-18 to 48% of total operating expenditures in FY 2021-22. In actual dollars, Public Safety increased by $6.6 million, or 26%. Community Development and Public Works remained at 9% and 21% of total operating expenditures in both years respectively, with actual increases of $0.8 million, or 16% in Community Development and $0.7 million, or 4% in Public Works over the five-year period. The Beaches, Parks, and Recreation category remained at 8% of total operating expenditures in both years, with actual dollar increase of $504,972, or 10%.

Comparison of Expenditures by Function
(Excluding debt service, interfund transfers, and capital outlay)
FY 2017-18 vs. FY 2021-22

Expenditure Function	FY 2017-18	% of Total 2017-18	FY 2021-22	% of Total 2021-22	Total Change
General Government	$ 9,812,051	17%	$ 9,708,043	14%	-3%
Public Safety	25,718,889	45%	32,364,594	48%	3%
Public Works	12,125,282	21%	14,453,561	21%	0%
Community Dev.	4,996,730	9%	5,807,396	9%	0%
Beaches, Parks & Rec	4,885,433	8%	5,390,405	8%	0%
Total Expenditures	$ 57,538,384	100%	$ 67,723,998	100%	

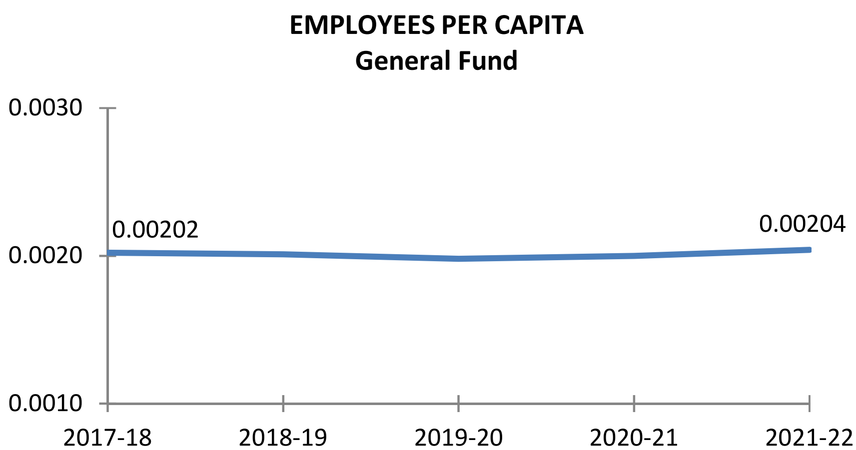
Based on this analysis, no single department is requesting significantly more resources, which would cause it to be unsustainable from a functional perspective.

Status: *FAVORABLE*
This trend remains a Favorable rating because when comparing the percentage of total expenditures change from FY 2017-18 to FY 2021-22. Although there has been a small shifting to Public Safety, there is no single department using significantly more resources 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.



Status: *FAVORABLE*
This indicator is awarded a favorable rating as growth in Full Time Equivalents (FTE's) have remained consistent with population. This trend will be closely monitored to insure the City's ability to support current and future service levels.

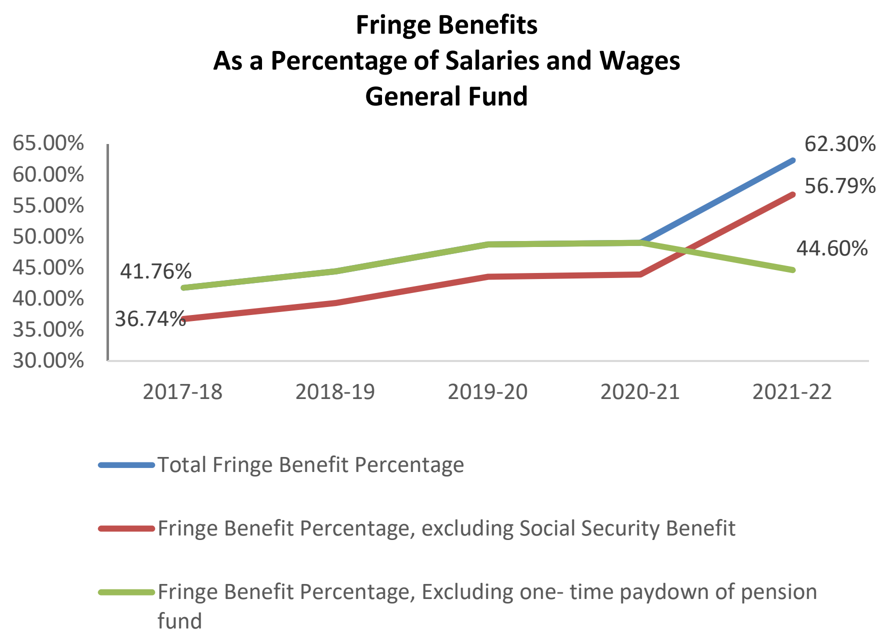
Expenditures Trend Analysis

Indicator: *Fringe Benefits*

Comments:
Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, increased from 49.0% to 62.3%. Fringe benefits (excluding social security benefits) show a corresponding increase when compared to FY 2020-21. The actual amounts of General Fund benefits increased from $5.9 million in FY 2020-21 to $7.0 million in FY 2021-22, a 19.5% increase from the prior year. General Fund salary and wages were $12.0 million in FY 2020-21 and $11.3 million in FY 2021-22, which is a decrease of 6%.

Increases to Fringe benefits is due mainly to an increase in pension unfunded liability payments, based on the 3-2-1 plan as discussed in the Pension review paper.

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



Status: *FAVORABLE/CAUTION*
This trend remains a Favorable/Caution rating as the City continues to make additional payments toward the unfunded pension liability. This trend continues to be monitored for a lowering fringe benefit percentage as the pension liability lowers in future years after the impacts of the "3-2-1 Pension Funding Strategy" are realized.

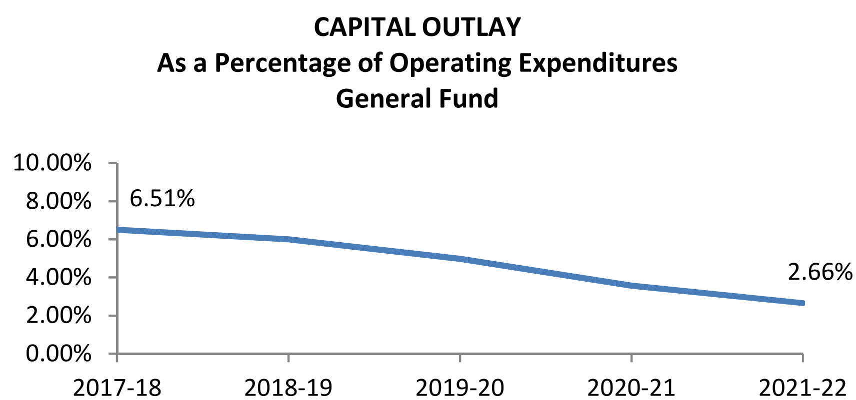
Expenditures Trend Analysis

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 $455,350, or 18.6%, from FY 2020-21. Capital outlay expenditures totaled $2.0 million.

Spending on capital outlay decreased mainly due to the finalization of the City Hall second floor renovation.



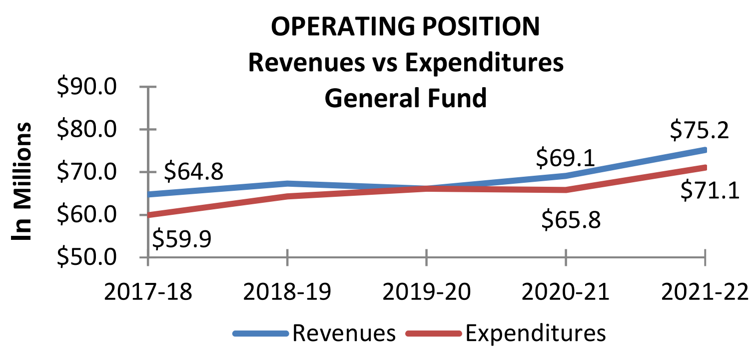
Status: *FAVORABLE*
This trend remains a Favorable rating due to the decreases over the last five fiscal years and the trend percentage flattening.

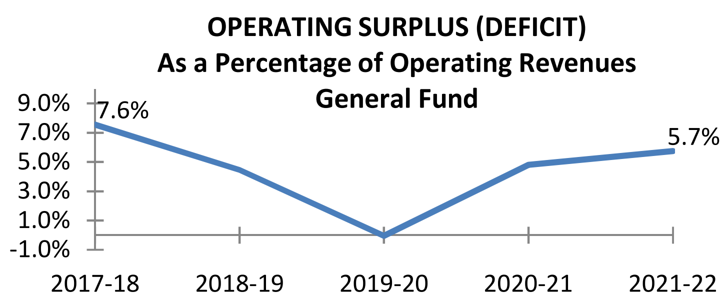
Operating Position Trend Analysis

Indicator: *Operating Surplus (Deficit)*

Comments:
Fiscal year 2021-22 ended with a positive operating position (surplus). An operating surplus occurs when revenues exceed expenditures. Conversely when expenditures exceed revenues there is an operating deficit.

Revenues used to calculate the operating position do not include one-time transfers and revenues of $2.5 million, which includes $735,935 of grant revenue, $98,801 in miscellaneous one-time revenues, $8,574 in transfers, and escheatment of BPIF of $1.7 million. Expenditures used to calculate this surplus do not include one-time funds of $0.5 million in capital costs, one-time transfers from the General Fund to the Facilities Maintenance, Clean Ocean, Accrued Leave, and Park Asset Maintenance, of $380,000, $58,390, $115,000, and $600,000 respectively, and additional one-time pension payments of $2.0 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 positive $4.1 million in FY 2021-22, compared to a positive $3.3 in FY 2020-21.





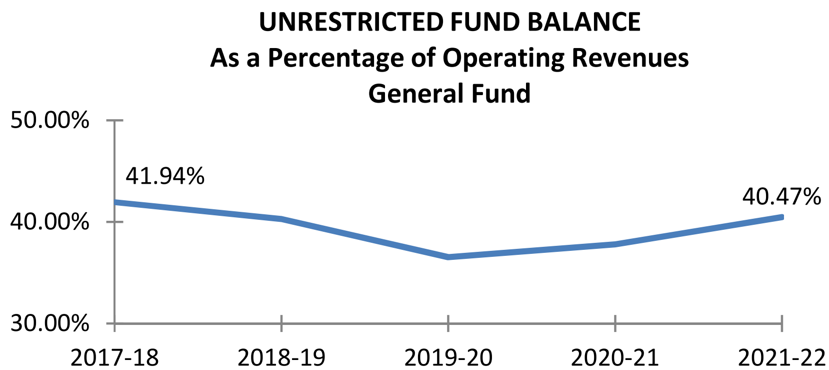
Status: *FAVORABLE*
This trend changes from a Favorable/Caution to a Favorable rating. This trend shows improvement over the last two years after the impacts felt by the pandemic.

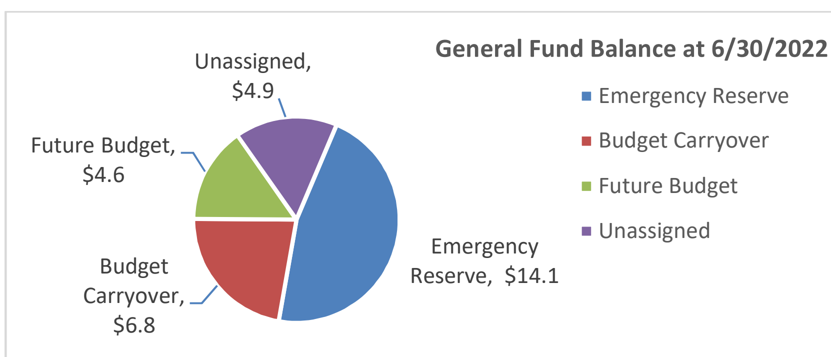
Operating Position Trend Analysis

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 budgets each year at a surplus to ensure the maintenance of adequate reserve levels.

Unrestricted fund balance excluding long-term receivable reserves increased by 14.3% in FY 2021-22 from $26.5 million to $30.4 million. Even though unrestricted fund balance increased in FY 2021-22, it is not at levels prior to the pandemic. The total FY 2021-22 unrestricted fund balances of $30.4 million is comprised of $14.1 million for emergency reserves, committed amounts for encumbrances of $6.8 million, $4.5 million allocated for FY 2023 one-time costs and $4.9 million that is unassigned.





The LTFP Reserve Analysis discusses the 20% Emergency Reserve in more detail. The Reserve Analysis also discusses General Fund amounts estimated to be $9.7 million at June 30, 2023 for capital equipment, facilities, park asset, and accrued leave in a separate fund that are not included in the $30.3 million shown above.

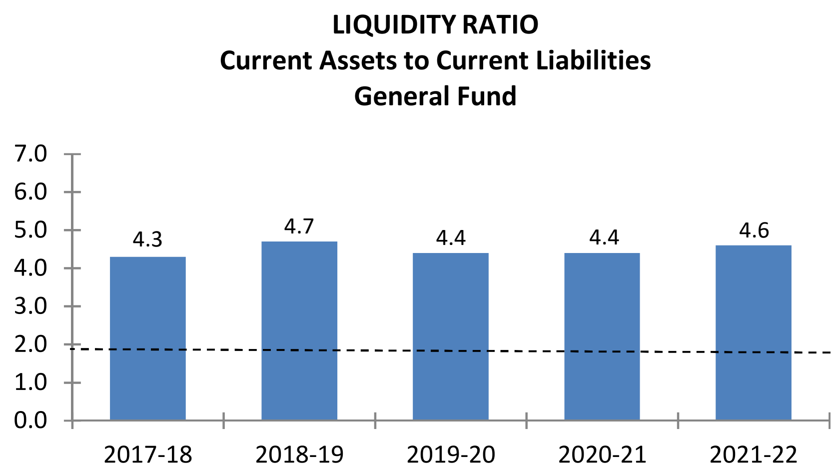
Status: *FAVORABLE*
This trend changes from a Favorable/Caution to a Favorable rating, as unrestricted fund balance has increased over the last two years and the normal build-up of fund balance is moving towards levels experienced pre-pandemic as a percentage of operating revenues.

Operating Position Trend Analysis

Indicator: *Liquidity Ratio*

Comments:
In FY 2021-22, the City's liquidity ratio remains positive at 4.6:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 4.6:1 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.

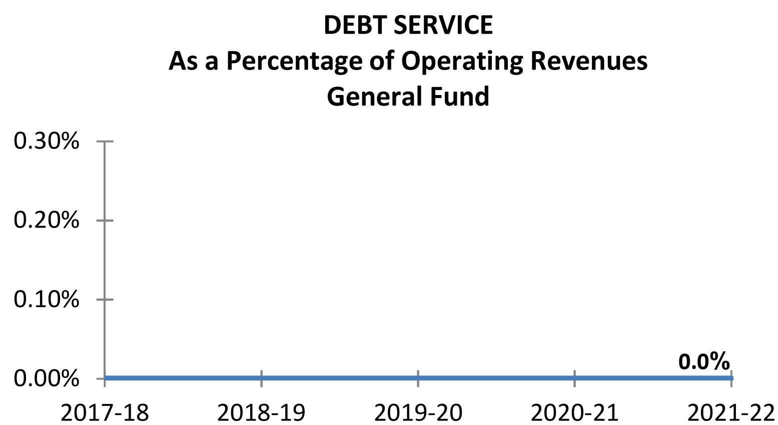


Status: *FAVORABLE*
This trend is favorable due to a ratio of over 1:1 throughout the past five-year period analyzed above.

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.



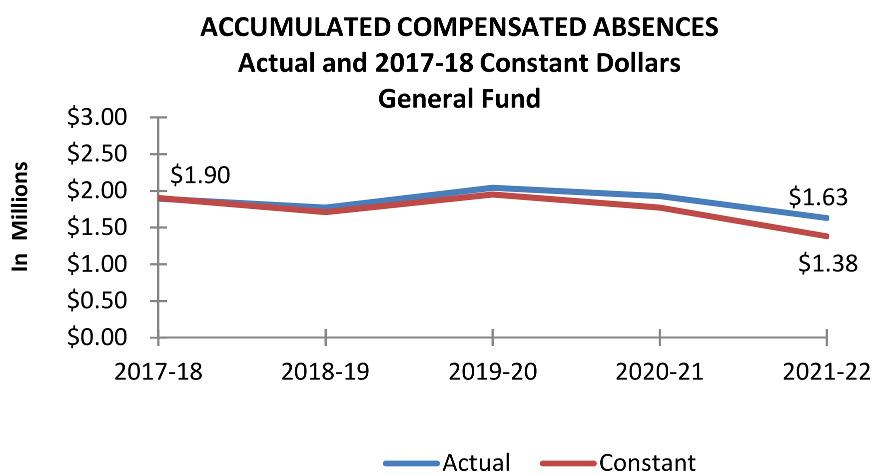
Status: *FAVORABLE*
General Fund debt service receives a Favorable rating, as it has remained immaterial (less than 1%) in comparison to total revenues over the last eighteen years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating revenues.

Debt Service/Unfunded Liability Trend Analysis

Indicator: *Accumulated Compensated Absences*

Comments:
At June 30, 2022, the compensated absences liability was $1.63 million consisting of $1.1 million for vacation, $0.4 million for sick leave, and $48,533 for compensatory time for all funds. This is a decrease of $298,803, or 15.5% from the prior year's liability of $1.93 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, 2022, the Accrued Leave Reserve balance was $0.9 million.



Status: *FAVORABLE*
This indicator receives a Favorable rating, consistent with the prior year and a general decrease with Reserves set aside for the liability.

Debt Service/Unfunded Liability Trend Analysis

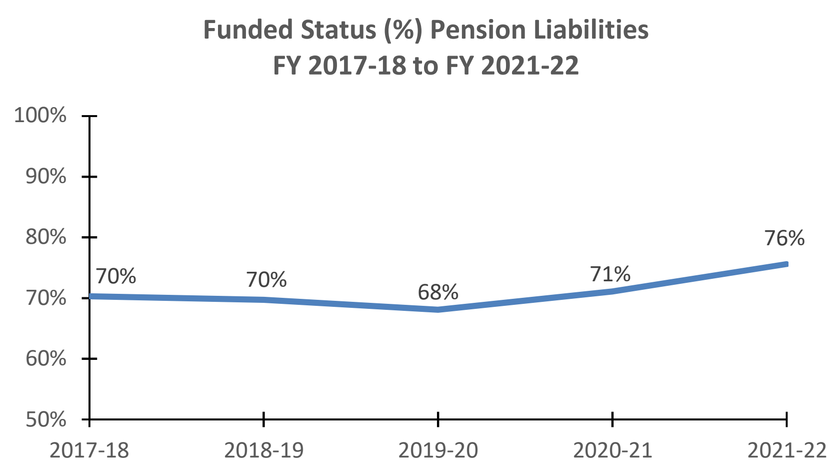
Indicator: *Pension Unfunded Liability*

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 and Coastal Animal Service Authority (CASA) employees.

This trend shows past funding levels and the changes over the last five years. The City started making additional contributions in FY 2019-20, and in FY 2021-22 made additional contributions of $3,908,763 toward the CalPERS plans and $60,000 toward the CSCERP plan. The increase in funding status is the result of continued additional payments toward the unfunded liability.

The chart below shows the Funded Status for five-years ending June 30, 2022 (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 98%. The fiscal policy target is 90%. A detailed Pension Update is included in this year's LTFP.



Status: *FAVORABLE*

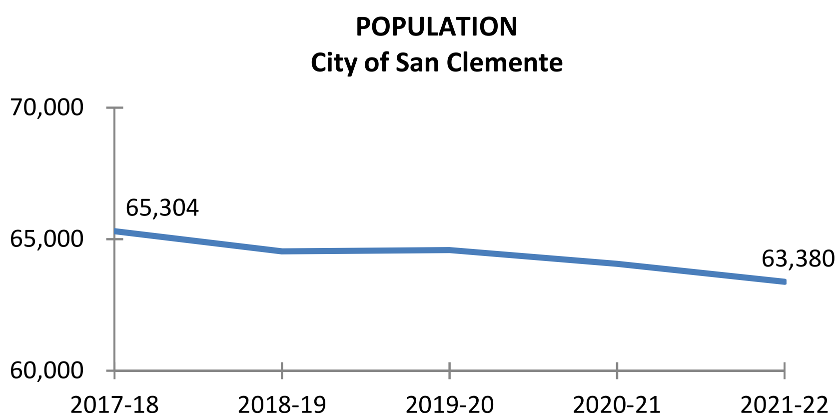
This indicator changes from a Favorable/Caution rating to Favorable as we start to see fund status improvement over the past two years. This funding increase does not include any "3-2-1 Pension Funding Strategy" payments. The Pension Update paper contains more information.

Community Trend Analysis

Indicator: *Population*

Comments:
The City's population has decreased by 1.07% 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 immediately reduced.

A Census is completed every ten years. A census was completed during calendar year 2020. The data 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 nears build-out, the fiscal years 2017-18 through 2021-22 show a stabilization in the population rate.



Status: *FAVORABLE/CAUTION*
This indicator changes from a Favorable to a Favorable/Caution rating due to a decrease over the last two years. A decrease in population can effect revenues over time and increase cost burden over a smaller population base.

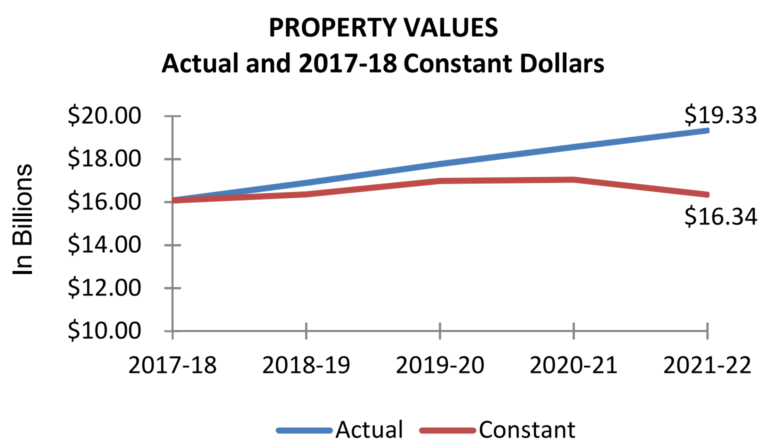
Community Trend Analysis

Indicator: *Property Values*

Comments:
The growth rate in property values as a percentage from the previous year in actual dollars was 4%, or $771 million. This is a decrease of 4%, or $696 million in constant dollars, as inflation grew at a greater pace than property values over the last year.

Property values exhibited a positive-growth rate in FY 2021-22. 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.

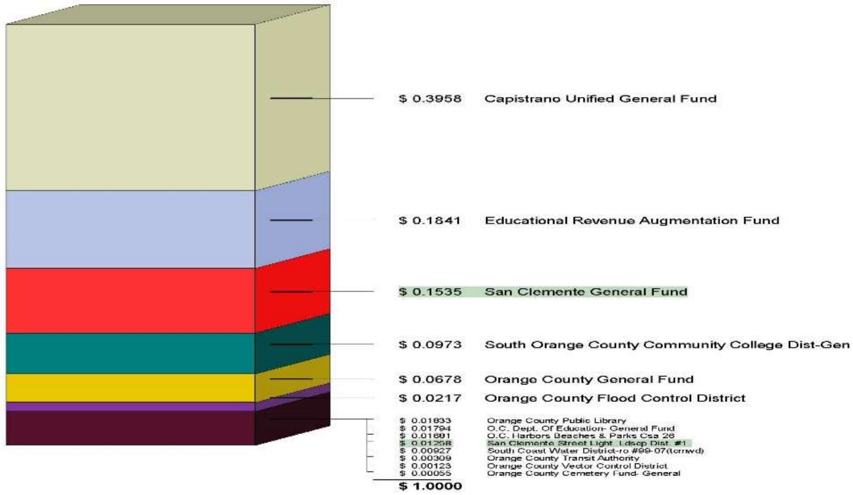
Please see attachment "A" graph that shows the distribution of the total property tax levy for each property tax dollar paid for the City and the ten year assessed value history.



Status: *FAVORABLE/CAUTION*
This indicator changes from a Favorable to Favorable/Caution rating. Although there is a stable increase in actual dollars over the last five years, when considering the effects of inflation on property values, there is decline in value from the prior year.

Attachment "A"

THE CITY OF SAN CLEMENTE
PROPERTY TAX DOLLAR BREAKDOWN



ATI (Annual Tax Increment) Ratios for Tax Rate Area 10000, Excluding Redevelopment Factors & Additional Debt Service

Data Source: Orange County Assessor 2021/22 Annual Tax Increment Tables Prepared On 9/20/2022 By MV

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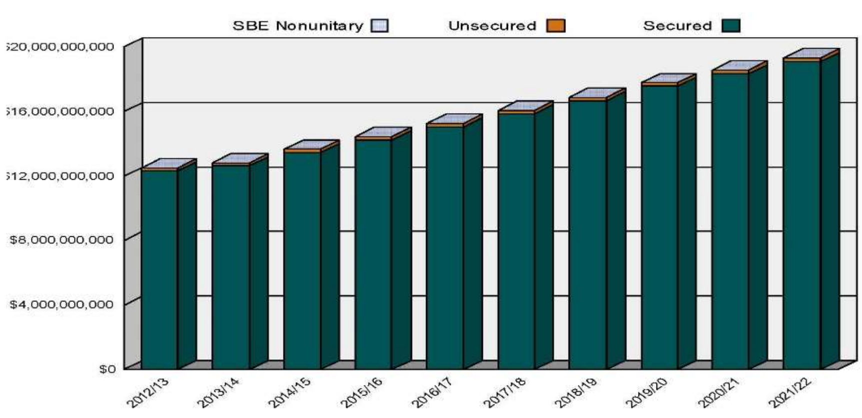
The chart above shows the portion each respective government agency receives of the typical Orange County property tax dollar.

THE CITY OF SAN CLEMENTE
NET TAXABLE ASSESSED VALUE HISTORY

2012/13 - 2021/22 Taxable Property Values

Lien Year	Secured	Unsecured	SBE Nonunitary	Net Total AV	% Change
2012/13	$12,299,490,266	$206,380,508	$0	12,505,870,774	
2013/14	$12,625,733,738	$200,734,451	$0	12,826,468,189	2.56%
2014/15	$13,452,062,054	$211,221,901	$0	13,663,283,955	6.52%
2015/16	$14,249,172,795	$198,928,327	$0	14,448,101,122	5.74%
2016/17	$15,045,446,308	$217,602,523	$0	15,263,048,831	5.64%
2017/18	$15,861,270,659	$220,164,036	$0	16,081,434,695	5.36%
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%
2020/21	$18,324,849,145	$243,240,338	$0	18,568,089,483	4.32%
2021/22	$19,088,174,193	$240,153,641	$0	19,328,327,834	4.09%
				Average % Change	5.42%



* Net AV changes less than two percent are in purple font. Negative Net AV percent changes are in red.

Data Source: Orange County Assessor 0/ - 2021/22 Combined Tax Rolls Prepared On 9/20/2022 By MV

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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 capital projects.

Executive Summary
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 2022-23 budget; it showed small operating surplus in all five years of the forecast. Projected operating surplus/(deficits) as part of that budget forecast were:

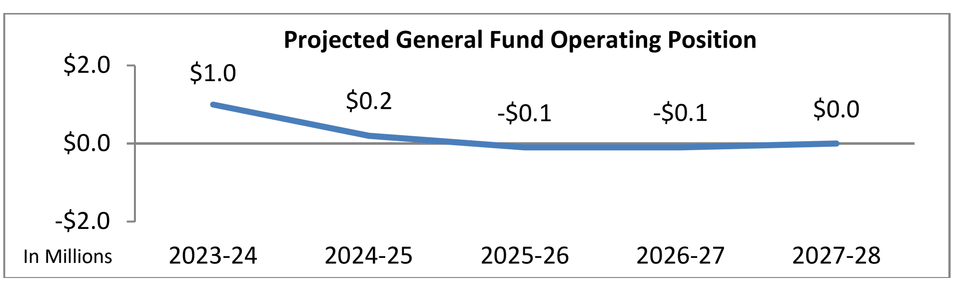
2023 Budget Forecast (In millions)	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Projected surplus/(deficit)	$ 0.4	$ 0.7	$ 0.8	$ 0.9	$ 0.9

When preparing a balanced FY 2023 budget to City Council, positions were added back to increase service levels. With pandemic restrictions removed, higher revenues were received and cost impacts recognized. Some of these cost increases were offset utilizing American Rescue Plan funds to fund service levels by a one-time transfer to the General Fund.

The 2023 LTFP five-year financial forecast takes into consideration these changes and continues to fund these positions to address higher service levels. The forecast reflects strong property taxes that provide growth along with moderate growth in other revenue categories. Revenue growth is comparable to cost increases forecast for public safety and contract services. These are most impacted by inflation and have the largest increases.

The General Fund forecast operating position is improved from the FY 2023 Budget forecast initially, but narrows in future years due to lower forecasted revenues. Assumptions used in the forecast are discussed later in this report.

The forecast reflects a positive operating position in the first two years of the forecast while the operating position remains flat in the final three years. The following table and chart reflect the forecast results, based on the assumptions identified later in the paper.



2023 LTFP Forecast (In millions)	2023-24	2024-25	2025-26	2026-27	2027-28
Operating receipts	$ 78.8	$ 81.1	$ 83.6	$ 86.5	$ 89.5
Operating disbursements	77.8	80.9	83.7	86.6	89.5
Projected surplus/deficit	$ 1.0	$ 0.2	($ 0.1)	($ 0.1)	$ 0.0

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 ways. For instance, higher receipts or lower disbursements can occur from the projection differences, position changes, pension liability paydowns, and various other actions.

Operating position

Operating Position is the excess of operating revenues over operating expenditures. Operating revenues and expenditures exclude one-time revenue and expenditures. Based on revenue and expenditure trends, the financial forecast indicates a positive operating position the next two fiscal years. These positive operating positions increase unassigned fund balance and are used to fund one-time costs, including capital projects, reserve transfers, and other one-time activities. Revenues are averaging an annual increase of 3.1% over the forecast period while operating expenditures are increasing annually by 3.0% a year.

Operating revenue is forecasted to increase 2.5% in the first year. Property taxes, which represent 54% of all General Fund revenues, is forecast to increase 4.7% benefiting from a positive real estate environment and development. Sales tax is projected to increase 2.2% due to activity in consumer goods, dining, and service stations. General Fund revenues other than property and sales taxes are forecast to increase up to 4.9% depending on the revenue type.

Operating expenditures are forecast to increase 3.5% in the first year, excluding the one-time FY 2023 pension payment. The largest percentage increase in operating costs are from the Police contract. The OCSD police service costs are anticipated to increase 5% from FY 2023 budget. FY 2023 is the final year of the multiyear MOUs with deputies reflecting COLA increases ranging from 2.5% to 3.5%. There is no MOU in place after June 30, 2023. The 5% increase factors in cost increases based on negotiations and other costs passed on from information technology and other body camera related items. Meanwhile, OCFA fire contract costs are projected to increase 2.8% based on prior year estimates, however these costs could be higher but are limited to a contract cap of 4.5%. The phase-in of the 4th firefighter/paramedic position phase is complete in FY 2025.

The next largest percentage increases are in other contract services and salary and benefits. Contract costs are forecasted to increase 4.9% initially based on higher energy costs and impacts from contractors addressing inflation pressures. Salary and benefits increase the first year by 3.6% based on the MOU, merit increases, and position changes to address City operations and meet citizen needs. Pension costs stabilize due to the paydown of the City Unfunded Accrued Liability (UAL), but discount rate changes and assumption changes will impact future amounts increasing employee and employer initially, however these costs will level out over time. Pension costs are discussed in the 2023 Pension Update and in the trends section of the LTFP.

Fund Balance

Fund balance is the excess of assets over liabilities. The 2023 LTFP Forecast operating position shows future deficit operating positions; 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 Reserves (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.

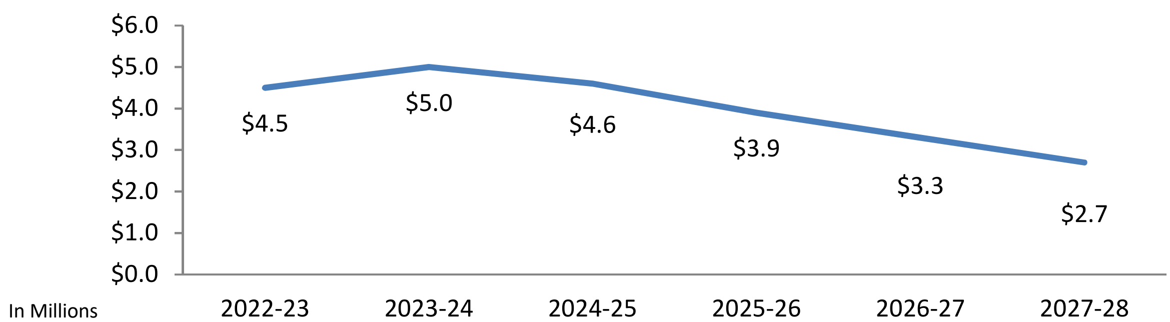
Committed Fund Balance **-** One financial goal of the City, as defined in the City's Fiscal Policy, is to ensure that adequate resources will be available to fund the General Fund's emergency reserve. The emergency reserve level is at the required level of 20% of operating expenditures, based on fiscal policies. The Emergency Reserve based on the 2022-23 Budget is $15.0 million. A summary of the Emergency Reserves by year is summarized below:

General Fund – Committed Reserves (in millions)

	2023-24	2024-25	2025-26	2026-27	2027-28
Emergency Reserve *(20% of Oper. Expenditures)*	$15.6	$16.2	$16.7	$17.3	$17.9

Unassigned Fund Balance - The General Fund's *unassigned fund balance* is projected to be $4.5 million at the end FY 2022-23. Based on the 2023 LTFP forecast the following chart below illustrates the projected unassigned fund balance in the General Fund for the next several years.

Projected General Fund - Unassigned Fund Balances without CIP



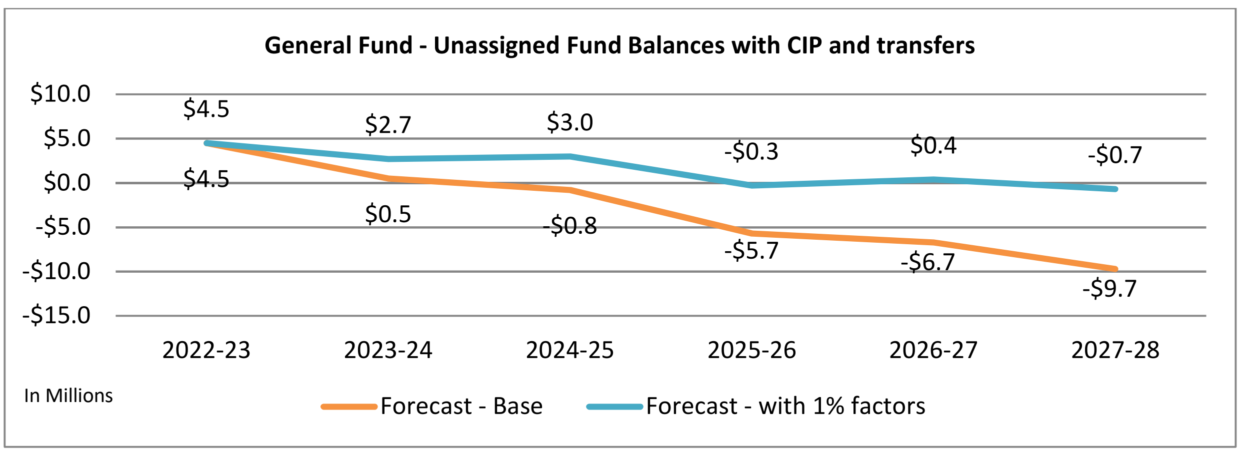
The above unassigned fund balance chart reflects annual Emergency Reserve contributions, $1,250,000 each year for recurring maintenance (major street maintenance, slurry seal, sidewalk repair programs, and facility maintenance), but does not assume any spending for one-time capital projects (including infrastructure and I.T. projects) and one-time transfers to reserves identified in the Reserve paper.

The following table shows project costs for General Fund capital improvement projects over the next five years based on the CIP section of the FY 2022-23 budget, excluding project costs funded by other sources:

Proposed Capital Projects (In millions)	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
Capital Improvement Projects (non-ongoing)	$ 3.9	$ 0.7	$ 4.0	$ 0.2	$ 2.2
Transfers (one-time)	0.7	0.4	0.4	0.4	0.4
Totals	$ 4.6	$ 1.1	$ 4.4	$ 0.6	$ 2.6

General Fund unassigned fund balance decreases over time as one-time CIP (capital and maintenance projects) amounts and one-time transfers are included in the 2023 base forecast. Due to these one-time items, the City's unassigned fund balance would decrease substantially from $4.5 million to ($9.7) million. The City typically experiences both a revenue overage and an expenditure underage to finance these one-time items, utilizing a 1% factor for operating amounts unassigned fund balance is forecast to decrease over time from $4.5 million to ($0.7) million.

The chart shows General Fund unassigned fund balance based on the Forecast with and without the 1% assumption:



This projection is based on the CIP program presented in the FY 2022-23 budget. Large projects include Corto Lane Beach Access, Steed Park Pickle Ball, and T-Street Overpass. Capital project funding is determined annually during the budget process and is dependent upon available funds. This forecast uses the FY 2022-23 CIP, however a revised CIP program for the next five years will be presented to the City Council as part of the FY 2023-24 budget.

In summary, the revenue overages and cost savings are sufficient to fund ongoing one-time costs through FY 2025, however FY 2026 and FY 2028 would have negative unassigned fund balance available. An economic downturn or emergency situation effecting revenues and/or expenditures savings would cause the City to rely on reserves or seek other alternatives to fund one-time items.

Summary:
The operating position shows surpluses in all years, however there are various uncertainties that could affect the operating position either individually or in aggregate. The goal of this LTFP is to inform and assist City Council and management. The forecast and other information is based on existing service levels and existing expectations. The operation position forecast in future years nears levels prior to the pandemic and the last property market recession that started around 2008.

The City Council is encouraged to utilize the forecast as part of its decision making. Uncertainties facing the City in the upcoming years relate to both external and internal items and some actions may be outstanding and some items may have had actions implemented. A summary of outstanding items include the following:

- Class and Compensation Review – The approved MOU with the employees association stipulates a Class and Compensation assessment in FY 2023. This assessment is underway and will review salary and classifications. Once completed the results will be presented to the City Council.
- Police Contract costs – The County of Orange is operating under terms of a MOU that expires June 2023. The new MOUs could lead to higher costs for OCSD that will be passed on to San Clemente.
- Service changes or impacts – Service needs of the City have increased recently and certain programs or activities changed to address citizens' quality of life. This includes crossing guards, trolley operations, park rangers, homelessness, and pool operations. These activities, when changed modify or increase future costs. Items not currently in the budget are not included in the forecast.
- Economic factors – Inflation is at high levels with expectations inflation will decrease back to the 2-3% range. If inflation remains high over the five-year forecast this would decrease purchasing power impacting operating position and fund balance. This could necessitate decreases to one-time capital activities or reserve transfers.
- Loss of funding – The Clean Ocean fee, which provides funding to operate and maintain Clean Ocean assets constructed within the Storm Drain system has expired, if not reinstated, the loss of this funding impacts both General Fund and Storm Drain resources.

Actions to address these concerns take multiple forms. Options include increasing revenues - including a higher level of cost recovery for fee supported activities or through revenue measures or actions. Another option is to address service costs or utilize one-time revenues. Strategic deployment of resources to reduce costs or control on-going outlays may be considered. These would be done with the goal of improving future operating positions or to improve service delivery.

Revenue:
City staff seeks input from City Council to review or increase revenues. The City could revisit increases to the Transient Occupancy Tax rate or explore possible opportunities in sales tax, parcel taxes or other taxes. In accordance with the City's Fiscal Policy staff will be reviewing service charges in the near future.

Service Cost:
The City allocated funds to address service levels in a variety of areas including police, fire, ambulance, code enforcement, and facility maintenance. Also, certain projects have been funded

to reduce operating costs. These include Steed Park lighting and changing traffic signals to LED lights to lower energy costs. Properly maintaining assets can also provide savings on replacement life cycles. Opportunities to save operating costs through capital project activities can be considered with the Capital Improvement Program.

City Council could review amounts spent on existing programs and recommend activities where service levels exceed expectations so changes can be made to existing programs.

Use of one-time revenues:
If one-time revenues are received these amounts could increase the General Fund Emergency Reserve level to offset the greater dependency on property tax revenues and sales tax revenues within the General Fund, or to fund Capital Reserves to offset the cost of capital. Staff will seek direction from City Council in these instances.

Past LTFP Actions:
As part of past LTFPs, the City initiated some actions to address pension and capital maintenance. The following actions were included in the FY 2023 Budget:

- Pension costs –The City completed the last paydowns under the 3-2-1 Strategy to paydown unfunded liabilities lowering future pension costs.
- Unanticipated capital costs – The City committed to capital maintenance by increasing the annual allocation for routine facility maintenance from $250,000 to $300,000 to minimize the need for one-time large capital outlays.

COUNCIL RECOMMENDATION
On November 1, 2022 City Council took an action to address modifying Fiscal Policy by earmarking 1/3 of Transient Occupancy Tax for pension UAL. Based on the FY 2024 Forecast, this would amount to $1.1 million. If an additional paydown of $1.1 million is allocated, as yet, unspecified services would be reduced by a corresponding amount and a deficit would be created in all forecasted years and the unassigned fund balance in the first year would change from a positive $0.5 million to a deficit $0.6 million, once capital activity is incorporated. The City could delay capital projects and instead allocate those funds towards the pension UAL payment. Required policy changes are listed in the Fiscal Policy section of the LTFP.

The City of San Clemente has a forecasted UAL payment of $3.7 million under the Pension UAL amortization schedule, with $2.8 million forecast within the General Fund.

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 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 and 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 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 its 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, trends, or by specific circumstances that are deemed reasonably likely 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 2022). Forecast information from HdL, Chapman, Cal State Fullerton and other sources are utilized to assist staff with the assumption determinations.

During the Chapman and Cal State Fullerton forecast period, inflation is expected to moderate from the higher levels as the Fed moves to curb the growth of inflation, government fiscal stimulus works through the system, and supply chain issues improve. However, inflation tends to decrease slowly and the decrease is projected to occur over multiple years. A higher rate of inflation of 5% is anticipated to ease over the years back to more of a Federal Reserve target of 2%-3% by the end of the forecast period.

Payroll and employment experienced zero growth over the last five years within Orange County. There continues to be a mismatch of labor demand and labor supply with a need for high-value-added employees and unemployment rates remaining low. Unemployment rates are anticipated to increase over the forecast. For employees housing affordability continues to be an issue but median home prices flattened as mortgage rates have risen. This has lead to weakness in home sales activity and is expected to cause lower home prices with residential investment and building permit decreases. Consumer spending is anticipated to slow leading to an economic downturn towards the end of 2023. Population is expected to remain flat over the forecast period.

The Gross Domestic Product (GDP) is anticipated to increase in 2023 and beyond, but at a lower rate than previously experienced. Overall, the economy is anticipated to continue to grow with the CPI decreasing over the forecast period. The longer term goal of the Federal Reserve is to achieve the normalized range of 2-3%.

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 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 other 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.

Other items or actions may improve or diminish the General Fund operating position. The financial forecast is based on known service levels.

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 considerations discussed in the Assumptions section of the paper the following forecast outlines the 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 $2.5 million, a year, while operating expenditures are projected to increase at an average rate of 3.0%, or $2.5 million. This annual disparity creates a small annual increase in the General Fund's operating position.

The financial forecast indicates an initial positive operating position of just over $1.0 million in FY 2023-24, based on forecasted revenues and expenditures. This is due to decreases in the Unfunded Accrual Liability (UAL) payments, forecasted revenue growth in property taxes and sales taxes increasing beyond the growth rates in expenditures. As the revenue growth in property tax slows costs driven by police services and inflation exceed revenues. These are projections only.

Revenue changes from anticipated development and service level changes are not incorporated into this forecast. The following table forecasts only existing development and 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

(in thousands)

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
BEGINNING UNASSIGNED FUND BALANCE	**$ 4,460**	**$ 4,987**	**$ 4,613**	**$ 3,927**	**$ 3,275**
RECEIPTS					
Property Tax	42,931	44,213	45,621	47,657	49,783
Sales Tax	13,299	13,583	14,091	14,443	14,804
Other Taxes	6,935	7,157	7,338	7,490	7,604
Service Charges	6,575	6,772	6,959	7,133	7,311
Other Revenue	9,092	9,342	9,569	9,775	9,986
TOTAL OPERATING RECEIPTS	**78,832**	**81,067**	**83,578**	**86,497**	**89,488**
COSTS					
Salaries & Benefits	21,062	21,981	22,869	23,620	24,388
Police Contract Services	19,497	20,472	21,496	22,463	23,474
Fire Contract Services	10,970	11,267	11,486	12,003	12,543
Other Contractual Services	14,990	15,552	16,018	16,419	16,747
Other Charges/Supplies	3,816	3,922	4,009	4,085	4,147
Ongoing Maintenance	1,250	1,250	1,250	1,250	1,250
Other Expenditures	6,196	6,387	6,564	6,733	6,905
TOTAL OPERATING COSTS	**77,783**	**80,831**	**83,692**	**86,573**	**89,454**
OTHER FUND BALANCE CHANGES					
Funding 20% Emergency Reserve	(522)	(610)	(572)	(576)	(576)
ENDING UNASSIGNED FUND BALANCE	**$ 4,987**	**$ 4,613**	**$ 3,927**	**$ 3,275**	**$ 2,733**

**displayed in thousands*

Operating revenues are categorized by Property Tax, Sales Tax, Other Taxes, Service Charges and Other Revenue. Operating revenues are forecasted to increase 2.7% in the first year. In total, operating revenues are forecast to increase to $89.5 million over the five-year forecast period. 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 forecast to increase 3.5% in the first year, excluding one-time pension paydown amounts, with total operating expenditures increasing to $89.4 million over the forecast period. The largest percentage increase is the police contract. However, the fire contact, contract services, and salaries and benefits are also showing increases but at a slightly lower level over the five years. Information on the expenditure 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 assumptions. 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 2024	FY 2025	FY 2026	FY 2027	FY 2028
Property Tax	4.73%	2.99%	3.18%	4.46%	4.46%
Sales Tax	2.22%	2.14%	3.74%	2.50%	2.50%
Other Taxes	4.87%	3.19%	2.54%	2.07%	1.51%
Service Charges	3.90%	3.00%	2.75%	2.50%	2.50%
Other Revenues	-8.46%	2.74%	2.43%	2.15%	2.16%

Property Tax

Property Tax is the City’s single largest revenue source representing approximately 55% of 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 4.0% over the five-year forecast period with a large increase in FY 2023-24 with a smaller increase the following two years and then increases above 4% later in 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 2023-24’s CPI growth factor is the maximum 2%. Second, property valuation is increased or decreased annually by transfer of ownership transactions and property values. When compared to 2021 the number of single family home transactions decreased by 40%, with the average price remaining flat at $1.7 million at the end of the calendar year. A flattening of values is anticipated due to higher interest rates on mortgages temporarily slowing the housing market. 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 property values rise again, the County Assessor “recaptures” the value through valuation increases of more than 2% per year, until reaching the Proposition 13 cap. Finally, assessed valuation grows when new development is completed.

According to HdL, property tax growth will average between 3.5% - 5.5% annually over the five-year forecast based on growth factors, 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 on the total taxable sales growth averaging 2.6% over the five-year forecast. The Chapman analysis forecasts 1.5% and HdL forecasting just under 1% next year. The FY 2024 increase of 2.2% in the forecast incorporates the higher than expected receipts. Sales taxes are projected to increase over the forecast period by an average of 2.6% over the forecast period as the CPI lowers and growth stabilizes.

Ongoing sales tax revenues for the City are forecast to increase 2.2% the first year, slightly increase and then lower to 2.5% annually over the remaining timeframe. The 2.2% rate is based on the various forecasts and the FY 2024 sales tax total is in line with the most recent HdL analysis. This revenue includes impacts of the *Wayfair* decision, gas price changes, and the City's recent developments. Online sales activity is allocated through the County pool. This amount will be revised in the proposed budget based on further 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 1.5% to 4.9% range based on growth within the City, lower pandemic impacts, franchise fees, energy prices, and existing development. Franchise revenues are taxes paid primarily through utility providers based on revenues and will likely increase, but fluctuate with commodity prices, for example energy or natural gas. Recently, energy prices, including gas, increased which increases these revenues. However, the future years are uncertain. Transient occupancy tax revenues is forecast to increase based on last years activity as pandemic restrictions were lowered. The longer-term expectation is for slower increases as the activity stabilizes and returns to stable increases over the five-year timeframe. No amount is included based on future anticipated development, but hotels/rooms development would increase these revenues. Business license revenues are forecast to increase 2.5%-3% based on activity, GDP, and other impacts.

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/GDP as costs rise, but factors such as population changes, number of transports, number of participants, services provided, and other factors can impact these revenue sources. These revenues are forecast to increase 2.5%-3.9% annually, with a 2.9% average over the five years.

Other Revenues

Interest, fines, Interfund charges and transfers comprise the other revenue category. Interest revenue increases slightly over the timeframe as the low interest rate environment improves. Fines are anticipated to remain flat. Interfund costs are anticipated to increase between 2.5%-3% over the five-years. These are costs charged to other funds to recover General Fund overhead related items. The amount related to General Fund cost recovery for support of other funds is forecast at $3.0 million. Transfers are anticipated to have minor growth over the five years after a decrease from the base year due to the one-time transfer in of American Rescue Plan funds of $800,000.

FORECAST ASSUMPTIONS – EXPENDITURES

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

Disbursement	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Salaries & Benefits	3.58%	4.35%	4.04%	3.28%	3.25%
Police Contract Services	5.00%	5.00%	5.00%	4.50%	4.50%
Fire Contract Services	2.80%	2.71%	1.94%	4.50%	4.50%
Other Contract Services	4.90%	3.75%	3.00%	2.50%	2.00%
Other Charges/Supplies	-36.51%	2.78%	2.24%	1.88%	1.51%
Ongoing Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%
Other Expenditures	2.47%	2.15%	2.01%	1.80%	1.79%

Salaries & Benefits

The forecast assumes anticipated growth in salaries and benefits. In total, salaries and benefits are forecasted to increase 3.6% from the prior year and are projected to increase between 3.3% and 4.3% over the five years, considering the existing MOU, then adjusting for wage growth, merit increases, medical cost changes, retirement and other benefit amounts. In total, salaries and benefits include some increases initially based on wage growth. Salary and benefits are projected to increase 3.7% over the five-year period. No vacancy factor is assumed for staffing costs.

The City has focused on personnel-related costs to achieve savings to lower past structural deficits. A Memorandum of Understanding (MOU) is in place through June 30, 2024. This MOU provided non-pensionable payments to employees, annual pay increases up to 1%, and the commitment to complete a Class and Compensation study currently underway to review pay and responsibilities for employees.

Depending on the benefit, benefits increase 0% - 5%, with the largest increases occurring in medical and retirement costs. The medical increase offsets the increased costs of medical coverage based on the MOU and anticipated annual adjustments. The retirement percentage is increasing based on a lowering of the discount rate which impacts both employee and employer contributions. However, due to payments on the Unfunded Accrued Liability (UAL), the annual UAL payment is forecast to decrease initially and then increase at 2% annually due to UAL paydowns. Other benefit expenditures include Social Security, Workers Compensation, disability and various other benefits.

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-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 5% from the previous year’s adopted budget as the previous year multiyear MOU approved by the County unions concludes June 30, 2023 which implemented 2.5% to 3.5% annual Cost of Living Adjustments.

The forecasted growth rate is 5% based on historical context and anticipated cost impacts. Future years' anticipated growth is estimated at 4.5% to 5.0% annually to maintain the existing levels of service. With the lack of a MOU, a 5% increase was used based on past historical increases and incorporating other benefit impacts that include retirement, medical and benefit costs. Other cost increases including services and supplies, transportation, department overhead, and training will be realized. This category only shows the OCSD contract amount. The annual average increase for the police contract services is 4.8% over the forecast period.

Police positions remain at the existing level for the term of the forecast. Any personnel increases will result in costs above what the forecast assumes. Body cameras are included, however future costs based on implementation may occur and are not incorporated.

Direct City paid costs outside of the contract are not included in the contract amount, but are forecast in other categories. These costs 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 FY 2024 police related costs are forecasted at $21.1 million, including the Flock agreement annual fees.

Fire Contract Services

Fire Services costs are projected in the forecast to increase by 2.8% over the prior year, with subsequent years between 1.9%-4.5%. OCFA's fire contract costs are projected to go up as a result of the City paying for a 4th firefighter position, which is phased in through 2024 and lower annual contract percentages of 2% - 3% than the contract cap (4.5%) are anticipated through FY 2026.

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 2024 will be determined over the next several months through the budget process, but is expected to be in the 2-3% range. The annual average increase for the fire contract services is 3.3% over the forecast period.

The 4th firefighter/paramedic on full rotation for the City of San Clemente started in FY 2017-18. The last portion of the full cost is paid by the City in FY 2025, with OCFA's last contribution occurring in FY 2024. The City's phased-in share of these costs are included in the forecast, based on projections by OCFA. These may vary over the five-year timeframe based on actual costs.

The Fire Contract Services category only shows the OCFA contract amount. Costs paid by the City outside of the contract are not included in this contract amount. These other costs, which include the ambulance contract, are forecast in other categories. Fire and ambulance related costs are forecasted at $13.5 million.

Other Contract Services

Contract services are 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 inflation levels and other changes. The first year of 4.9% is a higher percentage recognizing CPI levels based on the forecast and contract considerations.

One of the larger individual contracts is for the ambulance transport services provider that is under contract through June 30, 2027 for two full-time ambulances. Projections for the five-year forecast the two full-time ambulance model in place, with increases of between 2.5% to 4.7% annually.

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 decrease the first year due to the one time payment of $2 million for the public safety UAL pension payment. The decrease excluding that one time item is 4.8% as the annual public safety CalPERS payment becomes lower. The percentage then adjusts to annual increases between 2-3% . Some costs may increase more and some less, but generally the amounts should increase around anticipated inflation levels.

On-going Maintenance

The City annually budgets for routine capital maintenance 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 and 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 that fit within the 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 2023	FY 2024	FY 2025	FY 2026	FY 2027
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	300,000	300,000	300,000	300,000	300,000
Sidewalk maintenance	150,000	150,000	150,000	150,000	150,000
Total	$1,250,000	$1,250,000	$1,250,000	$1,250,000	$1,250,000

Other Expenditures

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, $265,000 to provide annual transit funding (Trolley and SC Rides), and a $15,000 transfer to assist with Senior Mobility. 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 2%-3%.

Reserve Analysis

Objective
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 financial resources and (c) ensure compliance with City fiscal policies and legal requirements by State, County or local ordinances.

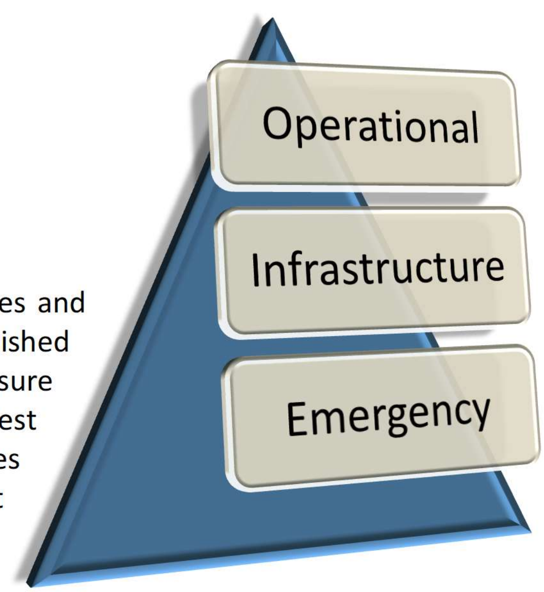
Background
Sound accounting and budgeting practices require each fund maintain a positive fund balance with appropriate reserve levels. City reserves are dictated by the City's fiscal policy and the annual Long Term Financial Plan (LTFP) review. The City's Fiscal Policy defines the types and criteria 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 services 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. 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 services 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 ensure operations and other capital projects are not diminished by unforeseen events. Capital/Infrastructure reserves ensure that facilities are properly maintained to provide the best service delivery and facilities to citizens. Operational reserves allow for the smoothing of costs so city operations are not effected by a significant cost or loss.

The City, as part of its annual assessment, reviews reserve amounts, future reserve needs, establishes 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 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 FY 2022-23 General Fund reflect the General Fund Emergency Reserve funding level at 20% of operating expenditures with no changes recommended to the funding percentage in FY 2023-24. Enterprise Emergency Reserves have no recommendations to the reserve level. However, a prior year recommendation to review rates in the Sewer Fund, which were last adjusted in 2016, will be completed this year. Additionally, the Storm Drain funding from the Clean Ocean fee for Clean Ocean funded assets is suspended impacting Storm Drain Emergency reserves. These funding transfers will be reconsidered with the Clean Ocean assessment. The Golf Course adjusted rates last year and the Emergency Reserve is now funded facilitating repayments on the internal borrowing from Golf Depreciation and Improvement Reserves that was used to temporarily fund Golf operations and Golf Clubhouse construction.

Capital/Infrastructure Reserves provide funds for replacement of capital assets, including infrastructure. Multiple capital reserves properly funded, however several have deficient funding. Short-term capital assets, such as equipment and vehicles, are properly funded, as 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 long-term capital assets are substantially greater 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. Capital reserve full funding will not be accomplished in one year, but will take deliberate actions over time.

Water capital asset funding is improving, with transfers recommended to address capital needs. Sewer and Storm Drain capital reserves are being depleted. A Sewer cost of service study 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 has significant capital assets, which will need replacement in the future. The original fee adopted in 1993 has not kept pace with inflation and staff continues to review alternative funding options, such as grant funding, cooperative agreements, and Clean Ocean assistance.

Operational Reserves are improving. These reserves include Accrued Leave, Debt and Liability Reserves which help reduce short term cost impacts on City operations. The Accrued Leave Reserve is fully funded, however lower interest earnings impact reserve levels. The State Revolving Loan Reserve is funded in accordance with fiscal policy and the State loan agreement. Liability reserves are stable and 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 financial resilience 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, and June 30 estimated balances are in the following table. These balances will be used to fund the July 1, 2023 reserve requirements:

Reserves	Fund	Estimated Reserve Balances at June 30, 2023	FY 2023 Status
Emergency Reserves:			
General Fund Emergency Reserve	General Fund	$ 15,557,000	Properly Funded
Water Operating	Water Fund	$ 1,478,000	Properly Funded
Sewer Operating	Sewer Fund	$ 570,000	*Not Funded* [1]
Golf Course Operating	Golf Course Fund	$ 330,000	Properly Funded
Storm Drain Operating	Storm Drain Fund	$ 57,000	*Not Funded* [1]
Solid Waste	Solid Waste Fund	$ 35,000	Properly Funded
Capital/Infrastructure Reserves:			
Fleet Replacement	All Funds	$ 5,018,000	Properly Funded
Capital Equipment Replacement	General Fund	$ 1,654,000	Properly Funded
Facilities Maintenance	General Fund	$ 5,122,000	Properly Funded [2]
Park Asset Replacement	General Fund	$ 2,229,000	Properly Funded [2]
Water Fund Depreciation	Water Fund	$ 12,803,000	*Partially Funded* [3]
Sewer Fund Depreciation	Sewer Fund	$ 3,141,000	*Partially Funded* [3]
Storm Drain Fund Depreciation	Storm Drain Fund	$ 1,497,000	*Partially Funded* [3]
Golf Course Fund Depreciation	Golf Course Fund	$ 2,167,000	Properly Funded
Golf Capital Improvement Reserve	Golf Course Fund	$ 1,262,000	Properly Funded
Operational Reserves:			
Accrued Leave	General Fund	$ 728,000	Properly Funded
State Revolving Loan Reserve	Water Fund	$ 900,600	Properly Funded
General Liability Self-Insurance	All Funds	$ 5,484,000	Properly Funded
Workers' Compensation Insurance	All Funds	$ 1,263,000	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, 2023, 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, 2023. Actions, such as funding increases or transfers, to narrow the funding gap are recommended to improve the funding level to achieve future compliance.

Staff will monitor legislative developments to modify Storm Drain fees to meet cost demands placed on the City's public storm drain system and finalize the Sewer Cost of Service Study to revise Sewer rates. Staff will bring further action to Council to address the Emergency Reserves and longer term capital funding needs as appropriate.

A summary of the recommendations based on the analysis by reserve category follows:

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

Capital/Infrastructure Reserves

- Transfer an amount of $400,000 from the General Fund to the Facilities Maintenance Reserve in FY 2023-24.
- Transfer an amount of $300,000 from the General Fund to the Park Asset Reserve in FY 2023-24.
- Transfer a one-time amount of $2.0 million from the Water Operating Reserve in FY 2023-24 to the Water Depreciation Reserve to fund future capital replacement in the Water Depreciation Reserve.

Operational Reserves – No recommendations.

General Fund Emergency Reserve

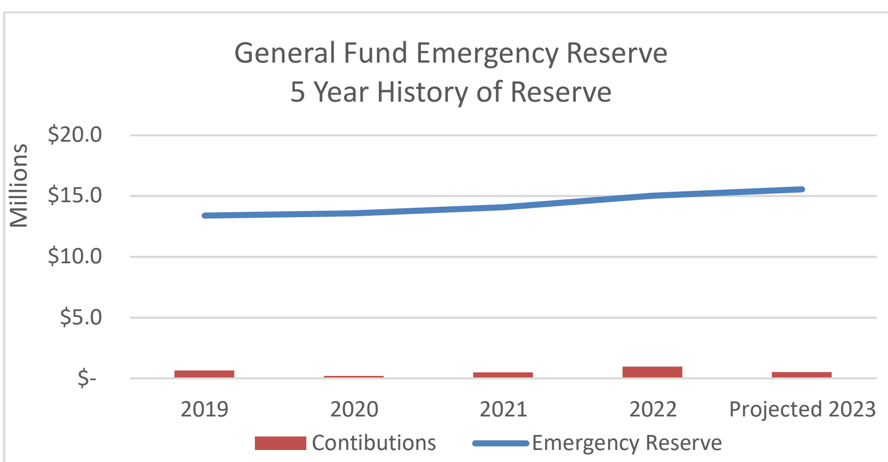
Emergency Reserve Category

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 can provide economic stabilization in times of an economic downturn. In FY 2023-24, the reserve will increase to $15.6 million based on the forecast.



Recommendation: No changes recommended.

Enterprise Emergency Reserve

Emergency Reserve Category

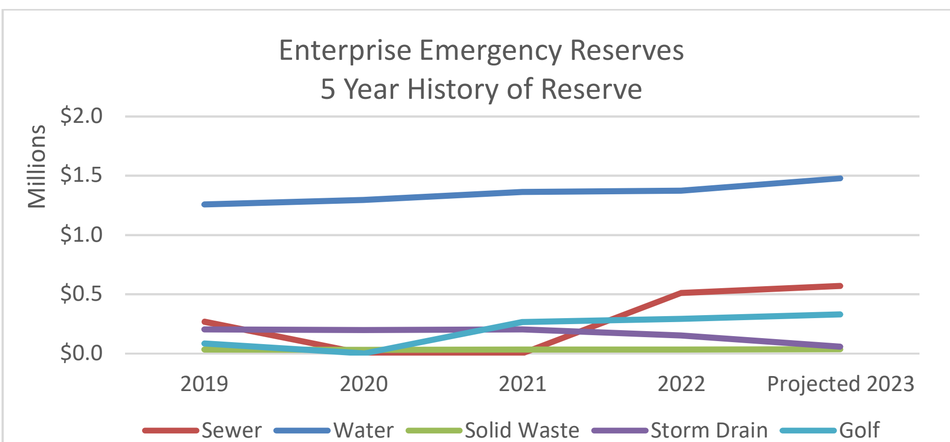
Purpose: The City's enterprise fund emergency reserves are to fund unanticipated costs from unforeseen disasters and to provide a financial buffer to prevent a need to dramatically increase rates based on these unforeseen disasters.

Funding: The Enterprise Emergency Reserves are funded by one-time transfers of unassigned equity. If Emergency Reserves are utilized in an emergency, staff will develop a plan and present the plan in the next Long Term Financial Plan to replenish emergency reserves through rate changes or cost savings over a set timeframe.

Fiscal Policy: The City's Enterprise Funds will maintain 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 emergency expenses that are unanticipated 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. Water, Golf, and Solid Waste Funds 12% emergency reserves are fully funded. The Golf Emergency Reserve is fully funded and based on previous LTFP's inftrafund loan repayments to Golf capital reserves have been initiated.

Sewer Emergency Reserves are not funded and Depreciation reserves provided funds to maintain a positive working capital balance the last two years. A Sewer rate study is in process and will be presented to Council this year. Storm Drain Emergency Reserves are not funded and reserves are being depleted. Clean Ocean transfers to support assets contributed to the storm drain system have been reduced due the expiration of the fee, with a future fee election planned.



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, 2022	**Requirement at July 1, 2023**	**Funding available at June 30, 2023**
Water Fund	$ 1,375,000	$ 1,478,000	$1,478,000
Sewer Fund	1,350,000	1,440,000	$570,000 (Not funded)
Golf Course Fund	292,000	330,000	$330,000
Storm Drain Fund	198,000	200,000	$57,000 (Not funded)
Solid Waste Fund	33,000	35,000	$35,000

Recommendation: No changes recommended.

Fleet Replacement Reserve

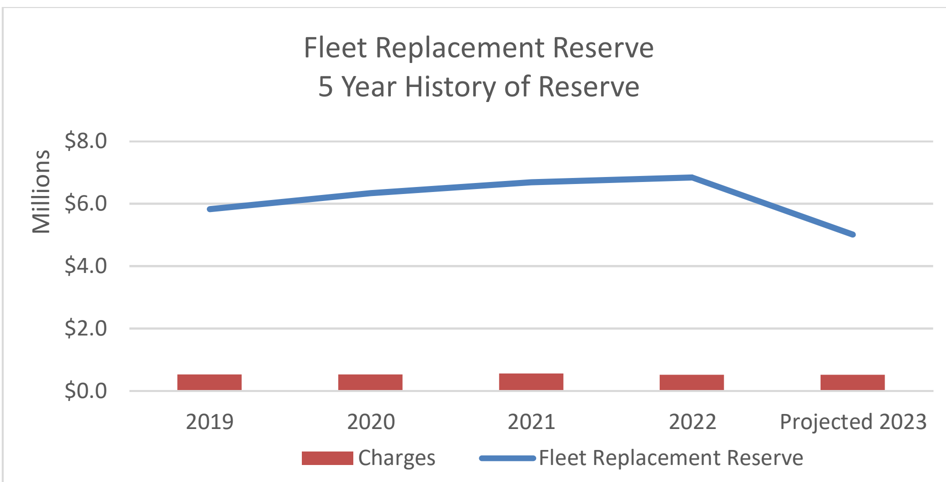
Capital/Infrastructure Reserve Category

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 that 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. The City's fleet replacement value is $7.9 million. The schedule for replacements include $4.5 million during the next five years and $3.4 million for replacement after six years. This reserve is fully funded with a projected balance of $5.0 million at June 30, 2023.



Recommendation: No changes recommended.

Capital Equipment Replacement Reserve

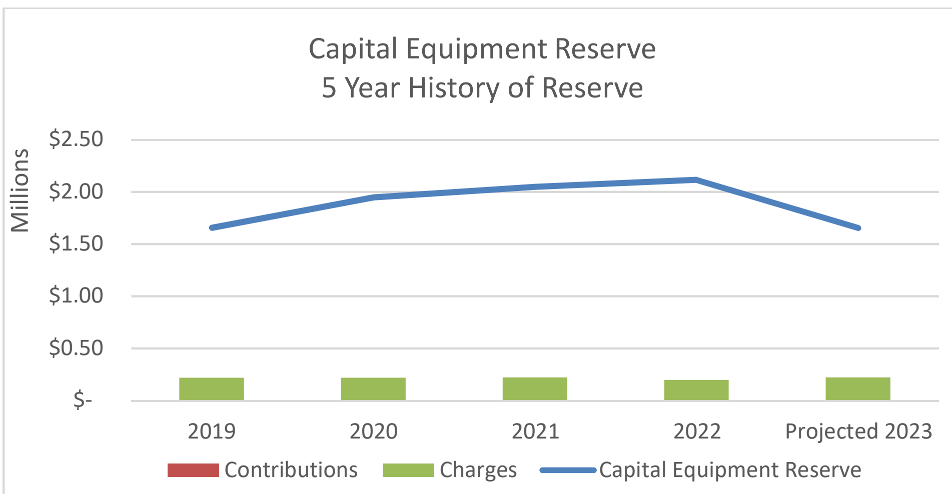
Capital/Infrastructure Reserve Category

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, 2023 is $1.7 million and the anticipated five-year costs are fully funded.



Recommendation: No changes recommended.

Park Asset Reserve

Capital/Infrastructure Reserve Category

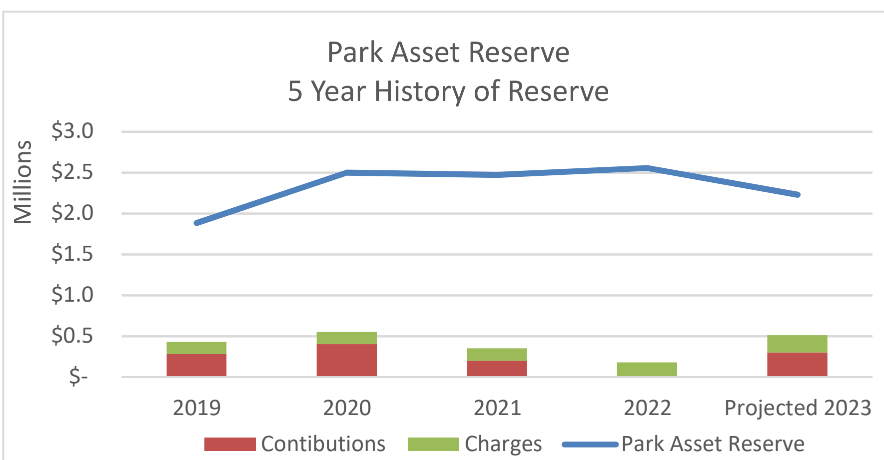
Purpose: The Park Asset Reserve is used for replacement of park capital assets valued over $50,000 within city parks. This reserve is funding playground equipment replacements and setting aside funds for artificial turf replacement at the Vista Hermosa Sports Park.

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 funds the reserve through General Fund charges and additional contributions based on annual reviews 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 pays for most park asset replacements on a "pay as you go" basis. Park assets total more than $70 million. Significant annual contributions would be required to set aside funds for all park system assets. The City has focused this reserve on maintaining high use park assets and identified artificial turf replacement and playground equipment for funding.

The projected balance at June 30, 2023 is $2.2 million. The City is utilizing the reserve to fund playground equipment based on replacement schedule that 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. FY 2023-24 charges are anticipated at $210,000 and a one-time $300,000 transfer is recommended funding for artificial turf replacement that is in the 5 year horizon to supplement the current reserve. Staff is reviewing Lucity's data and will identify additional assets (such as lights, restrooms, fields, courts, etc.) for inclusion if reserve levels exceed required funding levels in the Park Asset Reserve over time.



Recommendation: Transfer a one-time amount of $300,000 from the General Fund to the Park Asset Reserve in FY 2023-24.

Water Fund Depreciation Reserve

Capital/Infrastructure Reserve Category

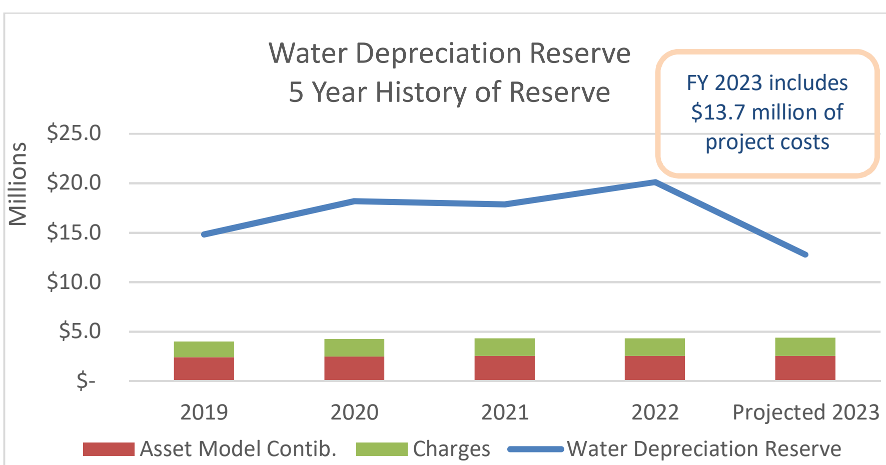
Purpose: The Water Depreciation reserve sets aside replacement funds for water capital assets and equipment that reach the end of their useful life and for major repairs to the water system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained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

Funding: The Water Depreciation Reserve is funded by 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's past actions increased contributions based on an Asset Model to close the funding gap. The projected ending reserve balance at June 30, 2023 is $12.8 million if all projects are completed. The three-year capital costs total $15.8 million. Therefore, the Depreciation Reserves are underfunded by $3.0 million, as compared to last years $6.0 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 $1.9 million based on the useful life of 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 proposed to improve funding levels. Staff will consider future additional reserve contributions based on funding levels.



Recommendation: Transfer a one-time amount of $2.0 million from the Water Operating Reserve in FY 2023-24 to the Water Depreciation Reserve to fund water asset replacement.

Sewer Depreciation Reserve

Capital/Infrastructure Reserve Category

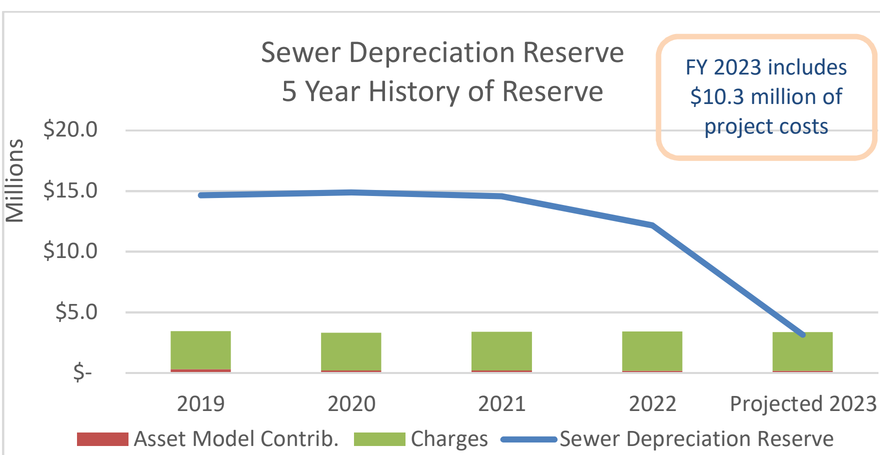
Purpose: The Sewer Depreciation reserve set aside replacement funds for sewer capital assets and equipment that reach the end of their useful life and for major repairs to the sewer system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained 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, 2023 is $3.1 million if all projects are completed. The three-year capital costs total $11.7 million. Therefore, the Depreciation Reserve is $8.6 million underfunded. 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.

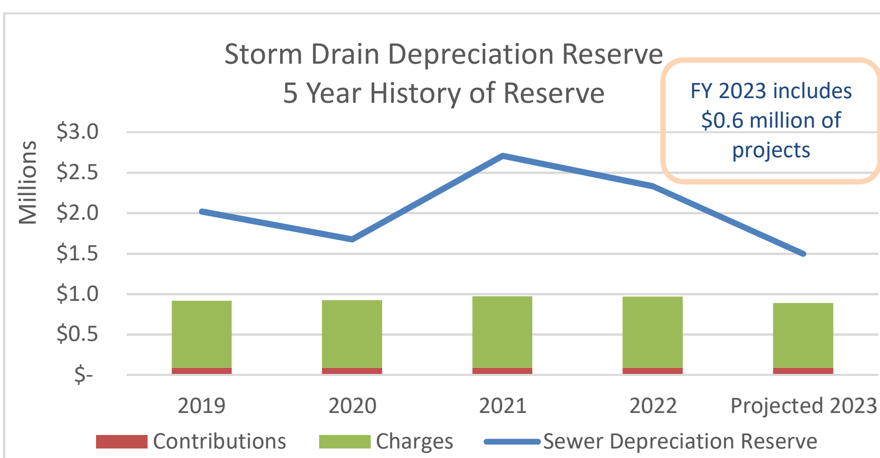
Funding: The Storm Drain Depreciation Reserve is funded through depreciation charges based on the useful life of the assets and additional transfers from the operating fund. Additional one-time contributions are considered from available operating equity.

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, 2023 is $1.5 million and the three-year capital costs total $6.4 million. Therefore, the Depreciation Reserve is underfunded by $4.9 million. The Storm Drain charge was adopted in 1993 (Ord. 1120) and has not kept pace with inflationary increases. The Storm Drain Master Plan identifies and determines the needs of the Storm Drain system. Funding options 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 $800,000 based on depreciation funding and an additional reserve contribution of $90,000 for a total contribution of $890,000 in FY 2023-24. 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.

Staff is monitoring legislative developments to modify Storm Drain fees to meet the cost demands placed on the City's public storm drain system.



Recommendation: No changes recommended.

Golf Depreciation Reserve

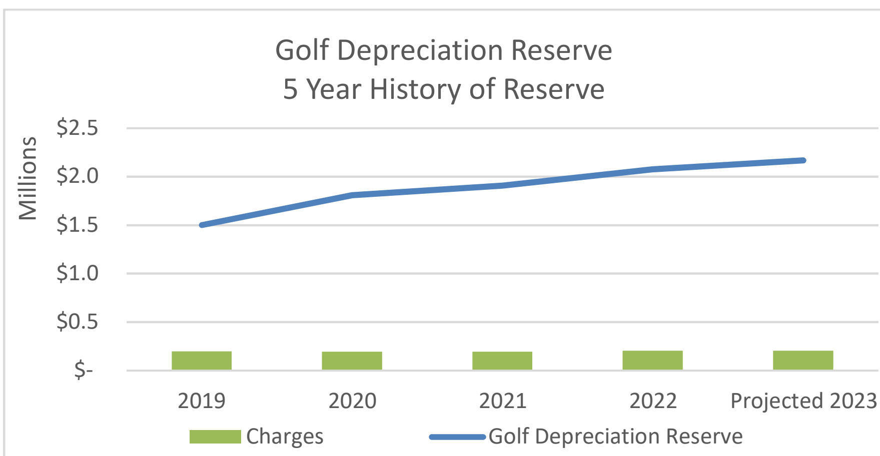
Capital/Infrastructure Reserve Category

Purpose: The Golf Depreciation reserve sets aside replacement funds for equipment, machinery, and buildings that reach the end of their useful lives. The Golf Depreciation Reserve assets (buildings, machinery, and equipment replacements) can have useful 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, 2023 is $2.2 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 $217,500. Therefore, the Depreciation Reserve is funded. Annual amounts placed into this reserve are based on the depreciation of the assets in service.



Recommendation: No changes recommended.

Golf Improvement Reserve

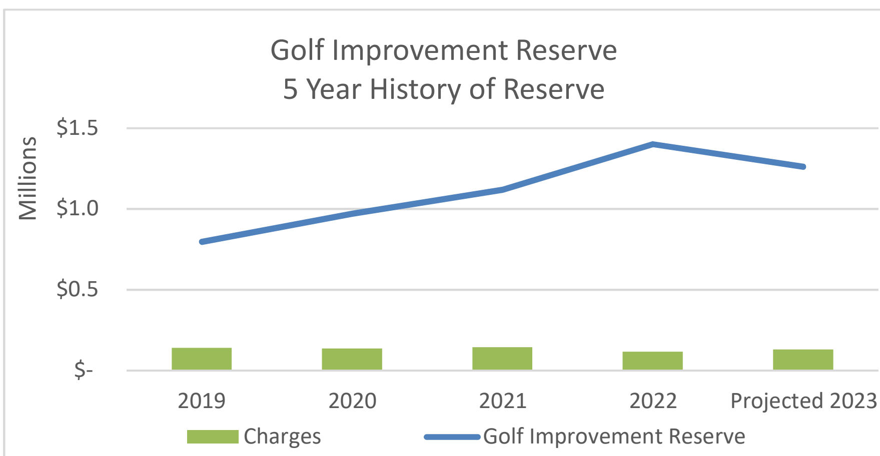
Capital/Infrastructure Reserve Category

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, 2023 is projected to have an ending balance of $1.3 million. This amount does not include the receivable from an internal loan ($300,000) to Golf Operating, which is not considered available. Projected expenses for the next three years total $387,000. Therefore, the Improvement Reserve is 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

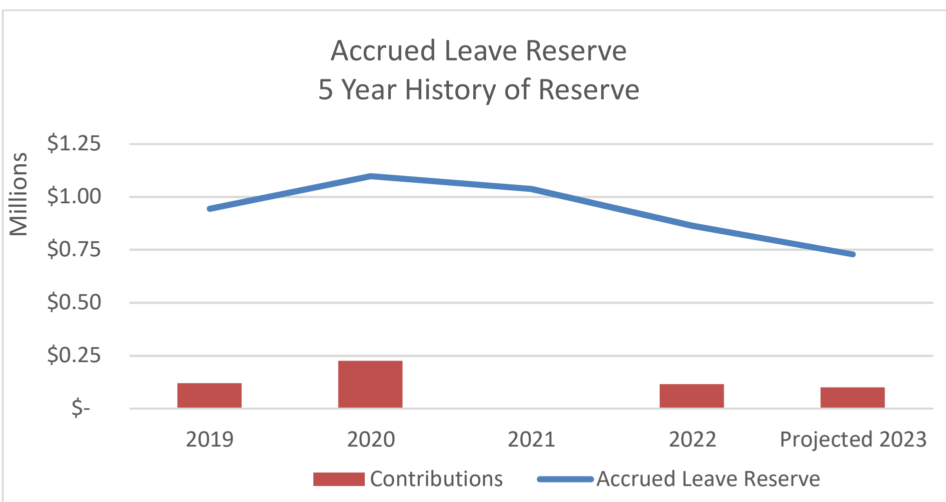
Purpose: The City reserves amounts for the payment of vacation and sick leave payoffs for General Fund eligible employees. Amounts are set aside in a separate reserve for this purpose. An annual amount is budgeted from this reserve to payoff General Fund employee's vacation and sick leave balances for 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, 2022, the total General Fund accrued leave liability was $1.1 million, with $391,000 available 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, 2023 is $728,000 and the projected ending liability is $658,000.

The Accrued Leave Reserve is funded with no additional contribution required to address future salary/pay increases as investment earnings offsetting future increases.



Recommendation: No changes recommended.

State Revolving Loan Reserve

Miscellaneous Reserve Category

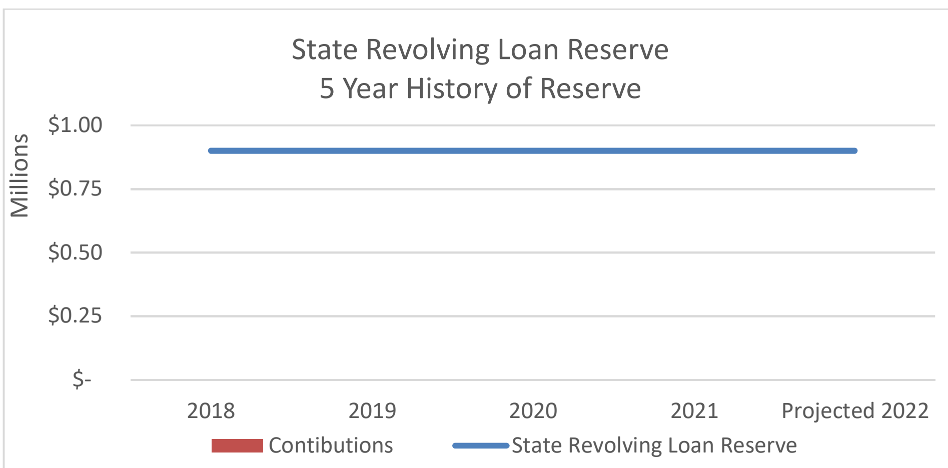
Purpose: The City of San Clemente entered into a loan agreement with the California State Water Resources Control Board under the Clean Water State Revolving Fund (CWSRF) loan program for financing construction of the Recycled Water System Expansion Project. As required under the State Revolving Loan,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

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

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

Discussion/Analysis and Assessment: The City loan amount outstanding as of June 30, 2022 is projected to be $10.1 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 2022-23 is estimated at $2.2 million, which would be the reserve requirement. The projected General Liability balance at June 30, 2023 is $5.5 million.

The City has $3.0 million retained that exceeds the reserve requirement in the General Liability Fund to pay significant one-time costs and fund claims not covered through CJPIA coverage. The City is party to multiple lawsuits regarding non-covered items and other claims which may be outside of CJPIA coverage.

Recommendations: No changes recommended.

ATTACHMENT A – Insurance Charges

General Liability charges

The following table shows the calculations for charges to other funds for FY 2023-24:

	% of Past Claims (25%)	% of Budgeted Expenditures (75%)	Total % of General Liability Charges (weighted average)	Total Charge for General Liability FY 2023-24	Total Charge for General Liability FY 2022-23
General Fund	76.9%	66.7%	69.3%	$ 1,870,050	$ 1,894,860
Water Fund	16.2%	17.5%	17.2%	463,920	462,960
Sewer Fund	5.4%	7.5%	7.0%	188,580	155,280
Solid Waste Fund	0.7%	0.2%	0.3%	9,060	6,720
Storm Drain Fund	0.4%	0.7%	0.6%	17,400	18,090
Golf Course Fund	0.0%	2.4%	1.8%	48,810	41,790
Clean Ocean Fund	0.4%	1.4%	1.1%	30,540	35,520
Central Services Fund	0.0%	0.5%	0.4%	9,360	10,320
Information Services Fund	0.0%	1.9%	1.4%	38,280	40,380
Fleet Maintenance Fund	0.0%	1.2%	0.9%	24,000	22,080
Total	**100.0%**	**100.0%**	**100.0%**	**$2,700,000**	**$2,688,000**

Workers Compensation Reserve

Miscellaneous Reserve Category

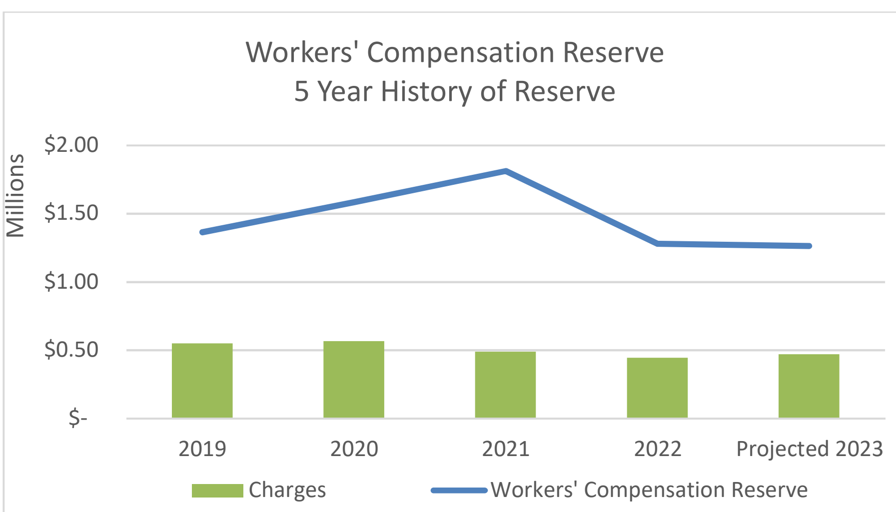
Purpose: The City is self-insured for Workers' Compensation coverage and purchases. The Public Risk Innovation, Solutions, and Management (PRISM) Insurance Authority provides coverage for Workers' Compensation claims in excess of $300,000, which is the City's Self-Insurance Retention (SIR) amount.

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, 2023, projected assets of $1.9 million reduced by claims payable of $0.6 million leaving a projected reserve balance at $1.3 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 to determine appropriate changes, additions or deletions.

Background

A review of the City Council Fiscal Policy is conducted on an annual basis in conjunction with the preparation of the Long Term Financial Plan. This review is performed to document proposed policies identified through the preparation of the Long Term Financial Plan. Additionally, there are occasions to modify existing fiscal policies to address changing circumstances change.

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 Policy statement.

Comments are provided next to many of the policy statements to provide additional relevant information. Unless otherwise noted, reserve balances provided in the comment section are based on projected numbers as of June 30, 2023, presented within the Reserve Analysis Paper in this year's Long Term Financial Plan.

On November 1, 2022 City Council took an action to address modifying Fiscal Policy to earmark certain revenues for pension paydown. The Fiscal Policy modifications required based on this Council recommendation are presented below:

Council Recommendation

Remove the following revenue policy:

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

Add the following revenue policy:

"Allocate one-third of total Transient Occupancy Tax dollars toward the unfunded pension liability."

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.	√	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.	√	
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.	√	
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.	√	

Fiscal Policy Statement	Status	Comments
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 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 = $15.6 million, or 20%, of General Fund operating expenditures forecasted at $77.8 million
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 = $1,478,000; Sewer = not funded; Storm Drain = not funded; Solid Waste = $35,000; and Golf = $330,000
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 = $728,000

	Fiscal Policy Statement	Status	Comments
27	The City will establish a Capital Equipment Replacement Reserve and a Facilities Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment other than vehicles and for costs associated with the maintenance of all City facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.	√	Capital Equipment Reserve = $1.7 million Facilities Maintenance Reserve = $5.1 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 = $12.8 million; Sewer Depreciation Reserve = $3.4 million; Golf Depreciation Reserve = $2.2 million; and Storm Drain Depreciation Reserve = $1.5 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 = $1.3 million
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 = $2.2 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 = $5.5 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 = $1.3 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 = $5.0 million
	Investment Policies		
34	The City Treasurer will annually submit an investment policy to the City Council for review and adoption.	√	
	Accounting, Auditing & Financial Reporting Policies		
35	The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board.	√	
36	An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion.	√	
37	A fixed asset system will be maintained to identify all City assets, their condition, historical cost, replacement value, and useful life.	√	A Fixed Asset inventory is maintained as part of GASB34

	Fiscal Policy Statement	Status	Comments
38	Quarterly financial, capital improvement program and investment reports will be submitted to the City Council and will be made available to the public.	√	
39	An annual revenue manual will be prepared after the close of the fiscal year. The manual will provide information on the revenue source, legal authorization, timing of receipts and historical collection over the last five year period. Fee schedules or calculations will also be provided.	√	
40	Full and continuing disclosure will be provided in the general financial statements and bond representations.	√	
41	A good credit rating in the financial community will be maintained.	√	Standard & Poor's = AAA
42	Establish and maintain a formal compensation plan for all employee salary or wage ranges and maintain a formal salary schedule for every approved position title showing the current pay rate for each identified position. The salary schedule will be approved and adopted by the City Council and will be made publicly available	√	
43	Establish a position control system to ensure that staffing levels are maintained at the levels approved by City Council.	√	

Long Term Financial Policies

44	Annually prepare a five year forecast that maintains the current level of services, including known changes that will occur during the forecast period. If the forecast does not depict a positive operating position in all five-years of the forecast, the City will strive to balance the operating budget for all years included in the five-year financial forecast.	√	

	Fiscal Policy Statement	Status	Comments
45	Annually evaluate trends from a budget-to-actual perspective and from a historical year-to-year perspective to identify areas where resources have been over allocated. This would improve the accuracy of revenue and expenditure forecast by eliminating the impact of recurring historical variances.	√	Reviewed during the budget process

Risk Financing Policies

46	The City will maintain adequate insurance coverage, pooled coverage, or self-insurance for general liability, property, errors and omissions, subsidence, automobile liability, workers' compensation, and other identified loss exposures.	√	
47	The City will maintain a risk financing strategy, which shall include an annual review of insurance policy limits, types of coverage, reserve requirements, and self-insurance limits, if applicable.	√	

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, 2023.

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 upcoming five year period, 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 organizational goals and deliver services to 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 for the future. 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 this 2023 Update can be categorized into 3 areas:

- General Scheduling and Cost Estimate 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 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
- 25 Physical Servers and Storage Appliances, 52 Virtual Servers
- Network Switches, Routers and Firewalls
- Cabling and Network Infrastructure
- Telephony and Communications
- Telephones, Tablets and Smartphones
- Printers, Copiers and Scanners
- Council Chambers and Meeting Room Audio/Visual Equipment
- Observation Cameras and Video Management System
- Weather Station
- 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 – 2,533 service tickets completed in 2022.

Strategic Technology Project Status Update

Since the ITSP was first adopted in 2015, a number of projects have been successfully planned, budgeted, and completed. The following table outlines these projects as of February, 2023:

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 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	AS/Util/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
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 (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 Appointment Scheduling for Community Development Counter	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
GIS - Aerial Imagery Update / Remote Sensing – OCDAP Cycle 1	IT	Completed FY 2020-21
Recreation Facility Digital Displays	IT / Recreation	Completed FY 2021-22
Negocio Building Renovation Technology Elements – OCSD Substation on Second Floor	IT	Completed FY 2021-22
Additional cameras at 910 Calle Negocio	IT	Completed FY 2021-22
Microsoft Exchange Online Advanced Threat Protection	IT	Completed FY 2021-22
SCADA Data Storage Upgrade	IT	Completed FY 2021-22
Agenda / Legislative Management System – Phase I – Internal Agenda, Report, and Minute Production.	IT/City Clerk	Completed FY 2022-23
Information Technology Policy and Procedure Updates	IT	Completed FY 2022-23
Multi-factor Authentication for O365	IT	Completed FY 2022-23

There are many Information Technology projects budgeted and in varying stages of planning and completion in the current fiscal year. The table below identifies projects that are budgeted and scheduled, along with the status of each project as of February, 2023. The majority of these projects were identified in the 2015 ITSP and the subsequent ITSP Updates, while some of the items have been approved directly through the annual budget process:

Current Strategic Technology Projects	Dept/Div	Status
Council Chambers Technology Elements / Cable TV Equipment Replacement	IT/Public Works	Preliminary system implemented in September 2022. Additional features scheduled for deployment in Summer 2023.
Upgrade from TRAKiT.net to *Community Development* (Comprehensive update of the City's Permitting and Licensing System)	IT/CD/PW	SB2 grant funding to offset project cost. Software migration completed in December 2022. Online building permit applications being deployed in Winter 2023.
Agenda / Legislative Management System – Phase II	IT/City Clerk	Online Agenda Distribution / Broadcast Portal anticipated to launch in Spring 2023.
Backup System Upgrade	IT	Procurement underway. Implementation planned in Spring 2023.

Electronic Document Management System Assessment / Replacement	IT/Clerk	Replacement options currently being evaluated.
GIS - Aerial Imagery Update / Remote Sensing – OCDAP Cycle 2	IT	Delivery anticipated in Spring 2023.
Electronic Plan Review	IT/CD/PW	Phase 1 complete. Additional staff training scheduled in Spring/Summer 2023.
IT Division On-call Staffing (One IT Analyst position throughout the year)	IT	Implementation scheduled for Summer 2023.
Contract and Insurance/Securities Certificate Management	IT/Clerk	On hold; dependent upon capabilities of Electronic Document Management System upgrade.
SCADA Server Platform Upgrade	IT/Utilities	Project completion scheduled for March 2023.

FY 2023-24 Strategic Projects

A number of Information Technology-related projects listed in the previous table are anticipated to extend into the next fiscal year. In addition, several new and ongoing initiatives are proposed for FY 2023-24. The table below summarizes the items being recommended for the coming year. Funding for these items will be requested through the annual budget process. Additional details regarding each project and initiative listed below are provided in **Attachment A**.

Strategic Initiatives for FY 2023-24	Dept/Div	Summary
Eden Financial Software Replacement (Study/ RFP/Implementation)	IT/Finance	Develop and execute a strategy for the replacement of the City's ERP system.
Data Storage Upgrade	IT	Replace critical data storage equipment.
Traffic Signal Synchronization Server Upgrade (Public Works Dept)	IT/Public Works	Replace server and upgrade software.
Cashiering System	IT/Finance	Replace cashiering software for revenue intake and processing.
Transient Occupancy Tax Management System	IT/Finance	Identify and procure a system to manage TOT sources and revenue collection.
SolarApp+	IT	State mandated software to fully automate issuance of residential solar permits.
Security Audit	IT	Independent Cyber-security Audit.
Video System and Camera Improvements - Ongoing	IT	New cameras, replacements, and preventative maintenance.
GIS Initiative - Ongoing	IT	Fully integrate data from Cycle II of Orange County Data Acquisition Partnership.
Employee Computer/ Technology Training - Ongoing	IT	Ongoing Staff Training Initiative - Bluebeam Electronic Plan Review.
Web Application Enhancements - Ongoing	IT/ City Manager	Citywide Customer Relationship Management (CRM) System.

Information Technology Strategic Plan Update

Focus Areas for FY 2023-24

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
  - Electronic Document Management System (EDMS) Replacement
  - Eden Financial Software Replacement (Study/ RFP/ Implementation)
  - Cashiering System
  - Transient Occupancy Tax Management System
- Infrastructure
  - Replacement of Data Storage Equipment
  - Traffic Synchronization Server Replacement
  - Video Camera System Improvements
- Security and Business Continuity
  - Backup System Upgrade
  - Cyber-security Audit
  - 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 2023-24 projects and initiatives forward through the budget process.

FY 2023-24 New Projects and Ongoing Initiatives – Detail

EDEN System Replacement	
Description	Replacement of the City's existing Enterprise Resource Planning (ERP) System
Benefit / Justification	The City utilizes the Tyler *Eden* ERP System to manage processes within Accounting, Utility Billing, Budgeting, and Human Resources. The Eden system has been in service for over 20 years. The vendor has recently communicated an end-of-support date of March 1, 2027. Replacement of this system will be a highly complex project, spanning multiple years, and requiring a great deal of staff effort. Preliminarily, an analysis must be conducted to map a path forward that meets the City's needs.
Estimated Cost	$50,000 will be requested in FY 2023-24 for professional services to perform a needs analysis. An additional $50,000 is planned in FY 2024-25 to assist with the procurement process.
Funding	Shared between General Fund and Utilities Enterprise Funds
Estimate Timeframe	Multi-year project to be completed in FY 2026-27.
Staffing Impact	Significant
Priority	High
Service Level Impact	Maintain
Department/Division	All

City-wide Cashiering	
Description	Implement a new city-wide cashiering system to replace the existing platform.
Benefit / Justification	Maintenance and support for the current system will be discontinued by the vendor in the near future.
Estimated Cost	$25,000
Funding	Shared between General Fund and Utilities Enterprise Funds
Estimate Timeframe	FY 2023-24
Staffing Impact	Significant impact on Finance staff during implementation.
Priority	High
Service Level Impact	Increase
Department/Division	Finance and Administrative Services / Business Services

Transient Occupancy Tax (TOT) Management System	
Description	Implement a software system to manage Transient Occupancy Tax (TOT)
Benefit / Justification	A TOT management system would improve the administration of TOT from traditional hotels and short-term rentals.
Estimated Cost	$25,000
Funding	General Fund
Estimate Timeframe	FY 2023-24
Staffing Impact	Moderate impact on Finance staff during implementation.
Priority	Medium
Service Level Impact	Increase
Department/Division	Finance and Administrative Services / Business Services

Security Audit	
Description	Funding for an independent outside firm to conduct a security audit on City IT systems.
Benefit / Justification	To ensure that appropriate and effective cybersecurity measures are in place.
Estimated Cost	$25,000
Funding	Shared
Estimate Timeframe	FY 2023-24
Staffing Impact	Moderate impact to IT staff
Priority	High
Service Level Impact	Maintain
Department/Division	Finance and Administrative Services / IT

Data Storage Upgrade	
Description	Replacement of the primary data storage system for City servers.
Benefit / Justification	The current equipment is five years old and the vendor has announced an end-of-support date of December 31, 2023. This system is critical to the reliable operation of City servers and applications.
Estimated Cost	$100,000
Funding	Shared
Estimate Timeframe	FY 2023-34
Staffing Impact	Moderate impact to IT staff
Priority	High
Service Level Impact	Maintain
Department/Division	IT

Traffic Signal Synchronization and Control Server Upgrade	
Description	Replacement of the Traffic Signal Synchronization server and software
Benefit / Justification	This system has been in production for nearly eight years and must be replaced to ensure secure and reliable operation of the traffic signal synchronization and control program.
Estimated Cost	$25,000
Funding	Gas Tax Fund
Estimate Timeframe	FY 2023-24
Staffing Impact	Minimal
Priority	High
Service Level Impact	Maintain
Department/Division	IT / Public Works

SolarApp+	
Description	Implement SolarApp+ to fully automate the application, processing, approval, and issuance of permits for residential solar system installations.
Benefit / Justification	California Senate Bill 379 mandates the implementation of an online, automated permitting platform that verifies code compliance and issues permits in real time for residential solar system installations by September 30, 2023. Grant funding is available through the California Automated Permit Processing (CalAPP) Program to assist cities with implementation of such systems.
Estimated Cost	$0. Project cost to be offset by grant funding
Funding	General Fund
Estimate Timeframe	FY 2023-34
Staffing Impact	Minimal
Priority	High
Service Level Impact	Increase
Department/Division	IT / Building

Video System and Camera Enhancements (Ongoing)	
Description	Installation of new cameras, in addition to preventative maintenance and replacement of existing cameras.
Benefit / Justification	This ongoing initiative 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. Some of these cameras have deteriorated due to exposure to harsh weather in a marine environment, reducing their reliability and/or picture quality. New cameras will improve the coverage area and effectiveness of the system, while preventative maintenance will increase the anticipated lifespan of the remaining equipment.
Estimated Cost	$10,000
Funding	Shared (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 (Ongoing)	
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/or 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	Increase
Department/Division	FAS / Information Technology

GIS Initiative - GIS Data Development, Maintenance and Support (Ongoing)	
Description	The GIS initiative has involved implementation of a Citywide ESRI Enterprise GIS platform, integration of GIS (ArcGIS) with critical City business systems such as TRAKiT (Permitting) and Lucity (CMMS), improved PC hardware and licensing for GIS work, and development of improved data and applications. Proposed for upcoming year: • Integrate imagery from OC GIS Data Acquisition Partnership into City systems • Upgrade GIS Workstations in Planning / Public Works
Benefit / Justification	With the ESRI platform in place and major business system integrations complete, in the coming years it will be important to maintain and improve existing data sets, as well as develop new GIS data resources. This will enable the best and most efficient access and use of City Building, Code Enforcement, Land Use, Utility and Maintenance data. Enhancements may also improve inter-agency data sharing and coordination.
Estimated Cost	$5,000
Funding	Shared
Estimate Timeframe	Ongoing
Staffing Impact	Minimal
Priority	Moderate
Service Level Impact	Increase
Department/Division	FAS / Information Technology

Web Application Enhancements (Ongoing)	
Description	Funding for commercial, off-the-shelf, web-based applications.
Benefit / Justification	Ongoing funding for web-based applications that improve internal efficiency and enhance service to the public. To include improvements and new features on the existing website, and new applications that provide a particular service. Past examples include Online Public Records Request portal, Online Vendor & Bid Management system, and File Transfer service.
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	FAS / Information Technology

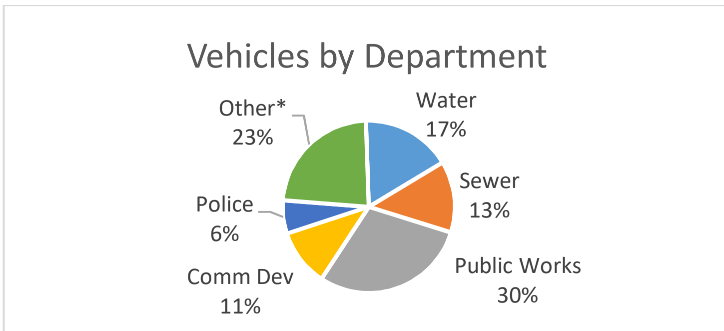
Information Technology Strategic Plan - 5 Year Budget Summary

Title	Fund	6 Yr. Total	Current Year FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	Ongoing
Finance and Administrative Services									
City-wide Cashiering	Shared	$45,000		25,000	5,000	5,000	5,000	5,000	5,000
Eden Financial Software Replacement (Study/RFP/Implementation)	Shared	$1,300,000		50,000	50,000	1,000,000	100,000	100,000	100,000
Online Business License Application / Renewal Upgrade	GF	$30,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Transient Occupancy Tax Management System	GF	$45,000		25,000	5,000	5,000	5,000	5,000	5,000
Financial Portal - Web Interface to Financials	GF	$21,000					10,500	10,500	10,500
		1,441,000	5,000	105,000	65,000	1,015,000	125,500	125,500	125,500
Information Technology									
Citywide CRM / Notification (Integration with Trakit and CMMS)	Shared	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
IT Division On-call Staffing	Shared	101,100	16,850	16,850	16,850	16,850	16,850	16,850	16,850
Exchange Online Advanced Threat Protection	Shared	60,000	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
Web Application Enhancements	Shared	60,000	10,000	10,000	10,000	10,000	10,000	10,000	60,000
Video System / Camera Enhancements	Shared	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Backup and Recovery System Upgrade	Shared	75,000	50,000	5,000	5,000	5,000	5,000	5,000	5,000
Data Storage Upgrade	Shared	100,000		100,000					
SCADA Server/Storage Platform Upgrade (Utilities Dept)	Ent	100,000	75,000	5,000	5,000	5,000	5,000	5,000	5,000
Traffic Signal Synchronization Server Upgrade (Public Works Dept)	Gas Tax	35,000		25,000	2,500	2,500	2,500	2,500	2,500
		726,100	181,850	216,850	69,350	94,350	69,350	94,350	144,350
City Manager/City Clerk/Council									
Electronic Agenda Packet Distribution for Councilmembers - (CCSP)	GF	17,500	5,000	2,500	2,500	2,500	2,500	2,500	2,500
Electronic Document Management System Replacement - (CCSP)	GF	145,000	45,000	20,000	20,000	20,000	20,000	20,000	20,000
Electronic Filing of FPPC Campaign Statements - (CCSP)	GF	20,000			5,000	5,000	5,000	5,000	5,000
		182,500	50,000	22,500	27,500	27,500	27,500	27,500	27,500
Community Development									
Electronic Agenda Packet Distribution for Planning Commission	GF	17,500			7,000	3,500	3,500	3,500	3,500
Electronic Plan Review	GF	30,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Trakit Upgrade / "On-Line" Building Permit Applications	GF	650,500	275,500	75,000	75,000	75,000	75,000	75,000	75,000
SolarApp+ (Cost offset by grant funding)	Grant	0	0	0	0	0	0	0	0
Lobby Kiosk for Applications	GF	7,500		2,500		2,500		2,500	
		705,500	280,500	82,500	87,000	86,000	83,500	86,000	83,500
Beaches, Parks and Recreation									
Recreation Facility Digital Displays	GF	12,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Special Events Permit Software	GF	30,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
		42,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Marine Safety	GF								
Lifeguard Tower Communications System Upgrade	GF	180,000			45,000	45,000	45,000	45,000	45,000
Marine Safety - Electronic Patient Care Reporting	GF	40,000			10,000	10,000	10,000	10,000	10,000
		220,000	0	0	55,000	55,000	55,000	55,000	55,000
Citywide Initiative - Mobility									
Building Inspector iPads / Mobile Office	GF	10,500	3,000	1,500	1,500	1,500	1,500	1,500	1,500
Code Enforcement Officer Field Tablets / Mobile Office	GF	17,500	5,000	2,500	2,500	2,500	2,500	2,500	2,500
Park Ranger Field Tablets	GF	7,000	2,000	1,000	1,000	1,000	1,000	1,000	1,000
Animal Services Remote Field Access to Chameleon	GF	6,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
WiFi tablets for Marine Safety Health Care Reporting	GF	5,000			2,000	1,000	1,000	1,000	1,000
		46,000	11,000	6,000	8,000	7,000	7,000	7,000	7,000
Citywide Initiative - GIS									
Budget for GIS equipment, data development and maintenance	GF	15,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500
		15,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Citywide Initiative - Training									
Budget for computer training new and current employees	GF	60,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total		$3,438,100	$547,850	$452,350	$331,350	$1,304,350	$387,350	$414,850	$462,350

Fleet – Lease/Purchase

Objective
Provide an overview of San Clemente's vehicle fleet program and explore costs related to purchase and a lease acquisition option. A comparison of the lease and purchase program will be used to evaluate cost.

Background
The City's 160 units addressed through the fleet replacement reserve includes trucks, cars, trolleys, motorcycles, trailers, lifts, and other related equipment. Vehicle inventory (primarily trucks, cars) consist of 112 units with the largest portion being almost 70 trucks. Vehicles purchased are assigned useful lives generally between 7 and 15 years based on industry standards and historical information. A summary of vehicles by Department follows:



**Other includes Golf, Marine Safety, CASA, and other programs*

At the October 18, 2022 meeting, City Council requested that a lease model be reviewed to determine if vehicle leasing would be less costly versus the City's practice of buying vehicles. The purchase methodology utilized by the City to acquire vehicles charges a replacement amount based on the purchase price of the vehicle, expected useful life, and an inflation factor. Fleet assesses mileage, age, and overall mechanical condition of vehicle inventory to determine replacement. If a replacement determination is made, the new vehicle acquisition is budgeted with reserves accumulated in the Fleet Replacement Reserve Fund. At June 30, 2023 the Replacement Reserve has a projected reserve balance of $5.0 million. The reserve is reviewed annually to ensure adequate funding is available for 5 years of vehicle replacement costs.

Executive Summary
The City's fleet is maintained through a purchase method. The purpose of this report is to present a purchase versus lease comparison for the vehicle fleet program. City Council requested a review of the fleet vehicle program to determine if a lease method would achieve cost savings. Fleet replacement through a purchase or lease model have differences identified later in this paper.

Based on an example Ford F-150 vehicle, since trucks are a large portion of the vehicle inventory, the purchase method was compared to lease costs over a vehicle lease period. Based on the criteria, the purchase method is less expensive than the lease model. This is partially driven by the interest component. The City is earning interest on held reserve funds keeping costs down, providing flexibility in the ability to stabilize costs to funds, and if the vehicle is properly maintained the vehicle may be in service for a longer period of time. The lease option incurs interest costs, but has the ability to have new assets in service, while also requiring a specific date for turnover of the vehicle.

Under a purchase model, the initial funding of a reserve is the hardest component to fund, however the City of San Clemente already has the funding available. Based on a comparison in this report for a Ford F-150 and other considerations the purchase methodology appears to be the most effective way of funding fleet replacement for the City.

Discussion

The following table provides differences between the lease and purchase methods.

Differences Between Purchasing and Leasing

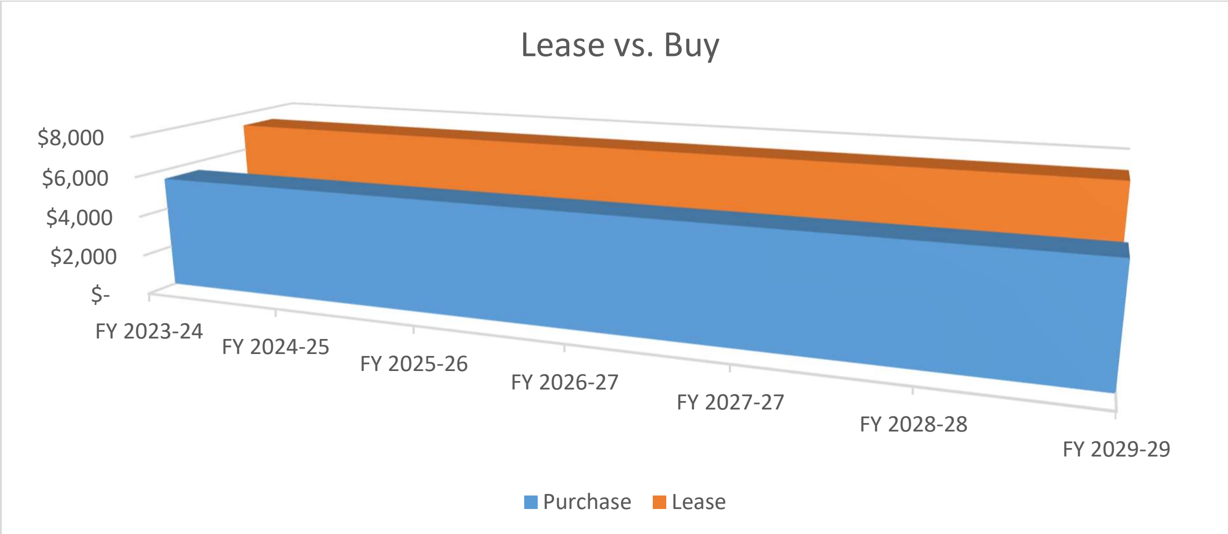
Lease	Purchase
No Significant Capital Outlay	Requires Significant Capital Outlay
Pay Interest cost	No Financing Charges
Continual Debt Obligation	Accrued Interest on Reserves
Flexibility to Scale Fleet	Possible Under-Utilization of Fleet
Cost-Effective to Upgrade to Newer Models	Equity and Ownership in Fleet
Lessor Takes Care of Vehicle Disposal	Staff Determines Service Life and Arranges Vehicle Disposal
Vehicle Selection and Fleet Standardization at lease inception	Ability to Fully Customize Vehicles to Meet Service Requirements

Based on the factors below, staff prepared a cost comparison for a lease versus purchase scenario for a F-150. The method compared replacement reserve contributions to vehicle leasing costs. The "Fleet Life Replacement Guidelines" reference document was used to determine the useful life of a vehicle, staff selected a 2022 Ford F-150 XL with a predetermined service life of 7 years for comparison.

F-150 Purchase	
MSRP	$ 36,056
Useful Life	7
Sales Tax Rate	7.75%
Total Asset Cost	$ 38,850
Tax	$ 2,794
Annual Asset Cost	$ 5,550
Monthly Asset Cost	$ 463

F-150 Lease	
MSRP	$ 36,056
Residual Percentage	50%
Money Factor	0.125%
Residual Value	$ 18,028
Monthly Tax	$ 44
Annual Asset Cost	$ 7,349
Monthly Asset Cost	$ 612

Assumptions: Average vehicle residual value after 3 years is 50% of original MSRP, A money factor rate is .00125% or 3% APR, and a lease payment based on a standard 3 year lease term



As illustrated in the above graph, purchasing a vehicle outright saves on lease value loss and financing charges. The monthly difference is about $150/month. The variance for a single vehicle is not significant, but when applied to the entire fleet cost would be higher for leasing versus buying. Although discounted pricing may be achieved through competitive bidding on the lease, leases are burdened with a financing component. A comprehensive comparison of vendor pricing would need be done if City Council would like to further consider pursuing this option. This would include items like utilizing a third party lease provider or trying to proceed with a direct lease with an auto manufacturer to help minimize costs.

Other City fleet replacement considerations, based on discussions with other cities, include other cost components. Under a lease, some costs are built into the monthly lease payment while other costs may be recognized at the lease conclusion. The cost built into the lease would include financing costs, such as interest costs upon borrowing under the lease. However, variable costs at the conclusion may be realized based on the lease conditions including damage, usage, mileage, or other costs determined through the vehicle lease.

Under a purchase, there is an initial large capital outlay required within a separate Fleet reserve. The City has a fleet reserve established that is earning interest and receiving sales proceeds. Over the last several years there has been inventory shortages, rising costs, and increased demand for new vehicles. The Fleet Reserve balance allowed the City to stabilize costs charged to funds minimizing short-term impacts.

Based on the previous chart, the lease costs would be slightly higher than the current purchase method. If the City were to transition from a reserve vehicle acquisition program to a lease acquisition program one-time amounts would be available from fleet replacement reserve funds. A significant portion of reserve funds could be transferred for one-time strategic objectives, but the ability to absorb short-term fluctuations could be impacted.

A change would result in process changes and require the implementation of new policies and criteria. These would include revisions to the following:

- City Policies and Procedures regarding purchasing and implementing vehicle lease policies (lease terms, periods, competitive bidding, etc.)
- Staffing impacts
- Lease accounting and financial reporting following Government Accounting Standard Board (GASB)

If City Council wants to pursue vehicle leasing the following options should be considered:

1. Authorize a pilot lease acquisition program on select vehicles to evaluate budgetary impacts compared to current operations.
2. Authorize the implementation of lease program for the City's entire vehicle fleet and direct staff to amend purchasing policy and develop other policies to assist with implementation of a lease program.

In future years, as vehicle pricing stabilizes staff could review the replacement reserves to determine if any excess funds should be refunded back to contributing funds. Due to fleet inventory volatility, this review would be best in a year or two when vehicle prices stabilize, inventories increase, and future vehicle replacement costs are identifiable.

Recommendation

No changes are recommended.

Pension Update

Objective

Review the City's pension plans, summarizes approved and completed actions based on previous Long Term Financial Plan (LTFP) Pension Updates and make recommendations to ensure the sustainability of the City's pension plans and control future pension costs.

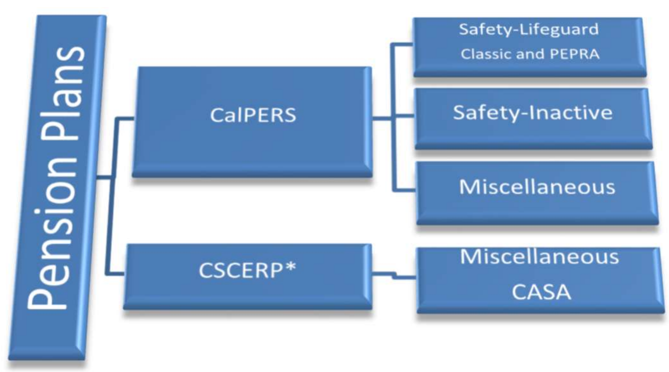
Executive Summary

Pension reporting, disclosure, availability of information, and funding options have changed dramatically over the last 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 to ensure adequate funding levels (financially sustainable).

In recent years, the funded status of pensions has been a key focus of governmental agencies, thus staff has provided pension updates to City Council with the LTFP and presented other actions to improve transparency and make additional payments to improve the long-term sustainability of our pension plans without significantly impacting service levels. Based on Council direction, the City implemented the following actions:

- Formalized a Fiscal Policy and added summary information to LTFP and Budget
- Made contributions to CalPERS and shortened payment amortization schedules
- Submitted a formal application to transfer active Coastal Animal Services Authority (CASA) participants to CalPERS

Information on the pension plans identifying the different employee groups and administrator are below:



* City of San Clemente Employees' Retirement Pension 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)

Pension Update

Background

The City improved our pension funding by contributing additional pension payments since FY 2010. The City continues to work towards the Fiscal Policy funding target of 90% that was implemented as part of the 2019 LTFP. However, the value of assets and the pension liability are dynamic and change as investment returns fluctuate, actuarial assumptions change, and actual results differ from expectations.

Fiscal Policy and Summary information added to the LTFP and Budget

In 2019, fiscal policies were approved by Council through the LTFP and the Budget. Fiscal Policy addresses contribution levels and sets a target funding level. In addition to the Fiscal Policies, information was added to the Annual Budget and LTFP "Trends" section to provide the status of pension funding levels. The City's Fiscal Policy includes the following statements concerning contributions and funding targets:

- *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 funding may be utilized to achieve a target funding ratio of 90% or higher for each of the City's individual pension plans.

Pension contributions

The City of San Clemente funds the actuarial-required contributions based on the annual CalPERS actuarial statements, which are available on the CalPERS website. As opportunities present themselves, additional payments are made to attempt to reduce the unfunded liability.

As per the above policy, the City made additional discretionary payments in the past and will continue to make additional payments from budget savings while minimizing service level impacts. During the last four years, over $6.0 million of additional payments were made to reduce the pension liability and improve the funded status. The following table summarizes the payments by year:

Pension Plans	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Miscellaneous	$ 40,000	$ 29,157	$ 185,000	$ 2,080,000
Safety - Police and Fire	127,000	135,000	525,000	1,800,000
Safety - Lifeguard	4,206	435,293	79,179	28,763
CSCERP	-	-	550,000	60,000
Total Additional Payments	$ 171,206	$ 599,450	$1,339,179	$ 3,968,763*

*FY 2021-22 includes $3 million of payments under the "3-2-1 Pension Funding Strategy".

These additional payments are based on past LTFP papers, Budget, and Council Agenda Reports. The amounts in FY 2021-22 include payments under the CalPERS 3-2-1 Pension Funding Strategy approved by City Council in October 2021.

Funding Levels
This Pension Update provides information on the CalPERS plans and the CSCERP plan separately due to the difference in measurement periods and the strategies to address funding levels. Information on the plans and funding follow:

CalPERS Pension Plan Status

This table lists the CalPERS Pension Plans, the City funds responsible for the pension payment, market value of the assets, total liability (funded and unfunded), unfunded amounts, the funded percentage by pension plan, and the Unfunded Accrued Liability (UAL) payment for FY 2023-24. CalPERS plans valuation data is as of June 30, 2021, and amounts are based on July 2022 valuation.

Pension Plan	Respective Fund(s)	Market value of assets	Liability	(Over) Unfunded amount	Funding Percent	FY 2023-24 UAL Estimated Cost
Lifeguard Safety *6/30/2021 valuation*	General Fund	$ 7,386,771	$ 7,564,187	$ 177,416	98%	$ 24,000
Lifeguard Safety PEPRA *6/30/2021 valuation*	General Fund	$ 28,342	$ 25,370	($ 2,972)	112%	$ -0-
Safety (inactive) *6/30/2021 valuation*	General Fund	$ 32,066,615	$ 42,937,979	$ 10,871,364	75%	$1.1 million
Miscellaneous *6/30/2021 valuation*	All City Funds	$ 68,013,066	$ 79,370,868	$ 11,357,802	86%	$1.2 million
Totals		$ 107,494,794	$ 129,898,404	$ 22,403,610	83%*	$2.3 million

* No payments under the "3-2-1 Pension Funding Strategy" are included at 6/30/2021. These will be reflected in future Actuarial valuations completed in 2023 and 2024.

CalPERS funding status for all plans is 83%. In October 2021, City Council authorized staff to pursue $6 million in payments as part of the "3-2-1 Pension Funding Strategy" to achieve 90% funding in the CalPERS plans. These payments occurred after the 6/30/2021 CalPERS valuation (July 2022 report). The pension payments of $6 million under the strategy ($3 million in FY 2022 and $3 million in FY 2023) are from revenues exceeding expectations, budget savings and one-time revenues. The status of the Pension Funding Strategy is summarized below:

Action	Status
$3 million Safety Plan payment	FY 2022 $1 million and in FY 2023 $2 million payment completed
$2 million Miscellaneous Plan payment	FY 2022 $2 million payment completed
$1 million set aside in a Section 115 Plan	In October 2022, Council authorized to use these funds to make an additional paydown in one of the Pension Plans and to formalize this recommendation with the LTFP. This additional funding will be made to the Safety Plan.

FY 2021 strong returns and the "3-2-1 Pension Funding Strategy" funding would meet the 90% target level in 2024 actuarial report based on actuarial assumptions. The "3-2" portion of the

Pension Funding Strategy is completed. These payments, along with the annual UAL amortization payments, will work toward achieving the 90% funding target as future valuations are completed. In October 2022, Council directed for $1 million to be paid directly on a UAL paydown. This amount is recommended to be directed to the Public Safety Pension.

Lifeguard Safety Pension Plans
Plan Summary – This is the smallest plan in terms of market value and liability, with Classic employees, is funded at 98%, up from last year's 86%. The new Public Employee Pension Reform Act (PEPRA) employee plan is reported separately this year and overfunded at 112%. Full-time marine safety employees' pension benefits are funded by this plan and City contributions are funded based on the annual CalPERS actuarial reports. These payments are made from the General Fund.

Public Safety Pension Plan
Plan Summary – This plan is an inactive plan with no employees making contributions to the plan. This plan is funded at 75%, up from last years 66%. This plan covers former public safety employees prior to the City contracting out police and fire services to county agencies (OCSD and OCFA). This plan has a closed amortization period, with the last payment anticipated in 2032. These payments are made from the General Fund.

Additional payments in FY 2022 and FY 2023 targeted the 90% Fiscal Policy target funding level using current funding levels and actuarial assumptions. Additional vacancy savings (if available) and an early payment discount provide budget savings to make additional payments. The $1 million authorized for funding a Section 115 trust was redirected, based on Council direction in October 2022, to be used for a direct UAL pension paydown. This plan will receive the $1 million since it is the lowest funded plan at the June 30, 2021 valuation date and the payment is only from the General Fund.

Miscellaneous Employee Pension Plan
Plan Summary – This is the City's largest active plan and covers all City employees except for Lifeguards and excluded positions. This plan is funded at 86%, up from last years 76%. This plan includes active employees at the date of conversion to CalPERS and any new hires since that time. These payments are paid by any fund with salaries (examples are General, Water, Sewer and Golf Funds).

Additional payments made in FY 2022 targeted the 90% Fiscal Policy target funding level using current funding levels and actuarial assumptions. Staff continues to utilize salary savings and early payment discounts to make additional payments. Staff will also work to shorten the amortization bases to lower future costs.

City of San Clemente Employee Retirement Pension (CSCERP) Plan Status

The CSCERP pension plan is administered by the City utilizing outside contract providers; the plan is reflected in City financial statements. CSCERP participants are CASA employees and former employees that were no longer active with the City prior to CalPERS transition. The plan trustee, Empower, maintains the custody or safekeeping function of the pension assets. The City then contracts with Milliman and Millenium for pension administration services, which includes participant communications, benefit calculations, database maintenance and retiree payment services.

The following table lists the City funds responsible for the pension payment, market value of the assets, total liability (funded and unfunded), unfunded amounts, the funded percentage, and the Unfunded Accrued Liability (UAL) payment for FY 2023-24.

Plan	Respective Fund(s)	Market value of assets	Liability	Unfunded amount	Funding Percent	FY 2023-24 UAL Estimated Cost
CSCERP *7/1/2022 GASB 67/68 Report*	All Funds	$ 22,994,000	$ 42,649,000	$ 19,655,000	54%	$1.7 million

Based on the June 30, 2022 GASB 67/68 Report, the funding level decreased to 54% from 63% based on FY 2022 negative investment returns. The City portion is funded at 53% and CASA is funded at 73%. Contributions are made by City funds and CASA funds. This plan has the lowest funding percentage partially due to the lower investment return and discount rate (5.5%) used in its actuarial valuations. This percentage was reduced from 5.75% during the last year. The amortization period is shorter than CalPERS and the liability is being paid through higher annual contributions to the pension plan. This plan's lower initial funding level should improve as a result of higher annual UAL contribution levels.

The following step is also under review to improve the longer term funding of CSCERP plan:

Since 2015, CASA (and the City) has been exploring shifting pension administration to CalPERS. CalPERS offers lower administrative costs and higher potential returns, which could lower future costs to CASA. An actuarial valuation is needed to identify these considerations. Once the actuarial valuation is received a determination to proceed will need to be made by the CASA Board of Directors. If the Board decides to move forward, actions to change would include final CalPERS acceptance, approval of CASA Board, and an affirmative vote of CASA employees.

If CASA employees are transferred to CalPERS, this CSCERP plan would be a "sunsetting" plan with no new participants being added as participants. Current pension benefit payments total $2.3 million annually to existing retirees. Annual UAL contributions to the plan total $1.7 million annually. Based on the amortization payment, the funded status should increase by approximately 2.5% annually if other actuarial assumptions are met.

A Pension Investment Policy review was directed by City Council in the 2022 LTFP. Staff will seek cost information from Chandler Asset Management (an external investment advisor) to update the Pension Plan's investment policy, objectives, and investment vehicles in the near future. Investments can be modified to achieve a higher expected return, improving plan funding levels.

Staff Recommendations:

<u>CalPERS</u>

- Based on October 2022 Council direction, modify the $1.0 million Section 115 trust funding and utilize the $1 million to make a one-time Public Safety Pension Plan payment.

Pension Update

<u>CSCERP</u>

- Continue with the CASA evaluation related to CalPERS pension administration.
- Update the City of San Clemente Pension Investment Policy (Policy #202-2) and prepare a City Council Agenda Report when Chandler Asset Management cost information is received.