CITY OF SAN CLEMENTE, CALIFORNIA

Long Term Financial Plan 2024

Prepared By:

Finance and Administrative Services

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City of San Clemente

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Honorable Mayor and Council Members:

In order to be effective, a financial plan must transcend the numerical statistics, forecasts, and observable fiscal trends and provide the reader with a narrative that can be easily understood and applied to critical financial decision-making such as adoption of the Municipal Budget and the Capital Improvement Program. This does not discount the importance of accounting, forecasting and trend analysis, but rather provides context, explanation, and purpose for understanding the current and potential future financial status of the City. In short, the Long Term Financial Plan should answer where are we, how did we get here, and where are we going?

Where Are We?

Since 1993, the Finance Staff has presented a Long Term Financial Plan (LTFP) as a planning tool to allow the City Council to make informed strategic decisions affecting the City's fiscal sustainability. This effort has allowed the City to maintain a AAA bond rating, continue to provide a high level of municipal services, and prepare for many unanticipated expenses.

The short-term financial outlook remains stable, but there are some trends that need to be addressed. The recent inflationary environment has led to increasing costs in personnel, capital projects and general operating expenses. Meanwhile, revenues, while increasing, have lagged behind the increasing costs. Nonetheless, in the coming months, staff will present a balanced two-year budget for consideration by the City Council.

Personnel
The City Council recognizes the importance of recruiting and retaining an effective staff. The adoption of the Classification and Compensation Study identified the goal of paying employees the median wage of our market competition. This is critical because without competitive wages, employee turnover, and the ability to recruit experienced and talented staff is impractical. Even at a median wage, the City must present opportunities and experiences that more are attractive than competitors that have the ability to pay compensation above the median wage. Fortunately, the City of San Clemente is blessed with a talented team of municipal employees.

- Highlights:
  - Adoption of the Classification and Compensation Study
  - Improved recruiting and retention efforts
  - Transition to a "yes" first environment

- Concerns:
  - Public Safety costs (OCSD single largest expense, OCFA second largest single expense) are increasing much faster than municipal revenues.
  - While progress has been made, the CalPERS unfunded accrued liability continues to be a financial challenge.

Capital Improvements
San Clemente has unmatched municipal facilities. Many of these improvements were made possible by allocating previous year revenues over expenditures to fund capital projects, tax increment financing from the former Redevelopment Agency, impact fees from development related activities and outside sources of funding such as grant programs. While revenues from these sources is reduced or in many cases no longer available, ongoing maintenance of these facilities remains. Even if fewer projects are completed in the future, related expenses must be considered in the LTFP.

- Highlights:
  - Completion of new pickleball courts at Steed Park
  - Slope stabilization at Casa Romantica
  - Pavement rehabilitation and sidewalk improvements

- Concerns:
  - Unanticipated expenses resulting in reallocation of capital funding to unplanned projects. Neither the pickleball courts nor the slope stabilization at Casa Romantica were anticipated in the previously adopted Capital Improvements Program.

Summary of Current Conditions
The next two-year budget cycle can be best described as stable, but anticipated expenses are increasing faster than projected revenues. This is not a function of growth in the number of employees or the addition of new programs, but rather increasing employee costs both in public safety and to remain competitive in the municipal employee market, and general operating expenses in an inflationary environment. A course correction with additional revenues or the implementation of a different operational model will need to be considered in future years.

How Did We Get Here?

This section is the <u>most important portion of the current LTFP</u>. A clear understanding of the past is often the best way to prepare for the future. How was the City able to complete so many projects in the past that are the very fabric of the community today? Where was funding for the pier, the beach trail, the recreational amenities, road improvements and improvements to water quality generated? Simply looking forward without an analysis of the City's financial history does not allow residents and the City Council to have a meaningful discussion about strategies going forward. In the past, residents have been willing to consider targeted revenue streams to improve the community. However, over the last several years, the City has lost several significant revenue streams.

Clean Ocean Fund
In early 2002, the City Council approved implementation of an Urban Runoff Management Plan (URMP) to help meet increased runoff/water quality regulations that were issued by the State to south Orange County cities. In late 2002, San Clemente property owners approved an Urban Runoff Management Fee that went into effect in January 2003 to help fund URMP activities. Funds generated by this fee were placed in a newly-created "Clean Ocean" enterprise fund, thus the Urban Runoff Management Fee became more commonly referred to as the "Clean Ocean Fee," and the entire program commonly referred to as the "Clean Ocean Program." Activities conducted using funding from the Clean Ocean Program include:

- Structural Treatment and Storm Drain projects
- Street Cleaning
- Water Quality Code Enforcement
- Commercial, Industrial and Municipal Facility Inspection
- Water Quality Monitoring
- Expanded Public Education

The original fee program had a five-year sunset period and was set to expire at the end of December 2007. However, in late 2007 San Clemente property owners renewed the fee for a six-year period to end in December 2013. In December of 2013, residents voted to extend the fee for another six and a half year expiring in 2021. The fee was not renewed in 2021 in consideration of the impacts of the COVID-19 Pandemic, and at the time of expiration, the fee was generating more than *$2.3 million annually* for the City. Even though the fee has expired, the work tasks listed above must continue. These expenses have largely been *absorbed by the General Fund*.

Street Assessment District

In an effort to improve the quality of roads in the community, the residents approved a Street Assessment District in 1990 that expired in 2011. Road improvements are generally expected to last between 10-20 years and the City is still benefitting from those improvements. However, the *$1.2 million* generated annually from the assessment is no longer available and as road scheduled maintenance, more allocation from the General Fund may be needed.

Redevelopment Agency

Many of the City's most treasured landmarks were funded by the former Redevelopment Agency through tax increment financing. When the state dissolved Redevelopment Agencies, the Redevelopment Area in San Clemente was generating about *$2.5 million annually* in tax increment. These revenues were used to improve and maintain the pier, construct the improvements in the Pier Bowl, construct the beach trail, improve Casa Romantica and many other capital improvements. Because this funding is no longer available, addressing the slope failure at Casa Romantica was funded from allocations from the General Fund originally intended to improve the Mariposa Bridge.

Development Impact Fees

Many of the current facilities enjoyed by residents were constructed during a period of growth in the community. Generally categorized as impact fees, a charge was assessed to each new dwelling that was earmarked for certain improvements such as parks. These funds were then used to construct new facilities to offset the impacts of growth on existing facilities. Although growth has slowed considerably, the facilities are in place and require ongoing maintenance. New facilities funded with impact fees are unlikely because for the most part, the community is built out. While there will be some continued growth and redevelopment, it is unlikely to be at previous levels.

Summary of How Did We Get Here?

Past revenue streams and prudent financial decisions made by the City Council allowed the City to create strong reserve accounts that have allowed the City absorb the loss of millions of dollars annually from the General Fund. However, it is clear that the loss of these revenue streams is beginning to impact the ability of the City to continue the current operational structure. Remaining with the status quo, the residents may need to accept a change in the provision of municipal services, or consider the replacement of some of the lost revenue with new sources of income.

Where Are We Going?

As costs increase and revenues are projected to lag behind, it will be critical to establish community priorities and stay the course. There will be unanticipated events that occur, but they will have more impact on other planned projects than they have in the past.

The General Fund is fully funding Emergency Reserves at $15.0 million, which is 18% of the City's operating expenditures which is consistent with City Council policy. However, the General Fund's unassigned fund balance is anticipated to be reduced over the five-year period based on costs increasing faster than revenues and anticipated one-time costs. Unassigned fund balance is essentially the City's savings account available to fund one-time costs and capital activity which is replenished by maintaining a positive operating position, and further bolstered by revenue overages or budget cost savings each year.

The General Fund operating position (operating revenues less operating expenditures) is forecasted to be positive, yet declining in future years. This again is the result of rising costs outpacing increases in revenues over the forecast period. In addition to the decline explained by revenue growth being less than increases in expenses, over the past several years the City has lost more than $5 million of revenue sources from the dissolution of Redevelopment Agency, the expiration of the Street Assessment District and the sunsetting of the Clean Ocean fee. This has increased pressure on the City's General Fund to absorb costs related to the pier, Casa Romantica, and the beach trail, as well as programs to ensure regulatory compliance.

The most critical consideration about the future are the expenses associated with the emphasis placed on beach nourishment and coastal management. Without question, the economic future of the community relies heavily on the health of our coastline. The City has initiated the first of several sand placement projects on beaches between T Street and Linda Lane associated with a 50 year program managed by the Army Corps of Engineers. While the City was only responsible for 15% of the costs of the first placement, the City will be responsible for 50% of the costs for future placements which will be in the $10-$15 million range every 5-6 years. Additionally, the City is seeking to obtain approval of a Sand Compatibility and Opportunistic Use Program (SCOUP) to place sand on beaches not included in the USACE program. The anticipated cost of these projects will be millions of dollars as well.

Current revenue projections simply cannot accommodate a robust beach nourishment program without eliminating many existing municipal services. If the residents demonstrate a willingness to reestablish past revenue generation or consider new sources of revenue, some of the options could be:

- Implementation of new fees (pickleball, fee schedule update, etc. - Council approval required)
- Reestablishment of the Clean Ocean Fund (voter approval required)
- Reestablishment of the Street Assessment District (voter approval required)
- Increase in the Transient Occupancy Tax (voter approval required)
- Implementation of a Transaction Use Tax or Sales Tax (voter approval required)

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. Input, leadership and guidance from the City Council based on input from their constituents will ensure the City government operates effectively.

Andy Hall
City Manager

City Council

Victor Cabral, Mayor
Mark Enmeier, Mayor Pro Tem
Chris Duncan, Council Member
Steve Knoblock, Council Member
Rick Loeffler, Council Member

City Manager

Andy Hall

Administrative Services Director

Brian Brower

Financial Plan

Financial Trend Analysis
Sandee Chiswick, Accounting Supervisor

Financial Forecast
Jake Rahn, Finance Manager

Reserve Analysis
Jake Rahn, Finance Manager

Fiscal Policy
Jake Rahn, Finance Manager
Matthew Schmelzel, Management Analyst

Mission Statement

The City of San Clemente, in partnership with the community we serve, will foster a tradition dedicated to:

- Maintaining a safe, healthy atmosphere in which to live, work and play;
- Guiding development to ensure responsible growth while preserving and enhancing our village character, unique environment and natural amenities;
- Providing for the City's long-term stability through promotion of economic vitality and diversity….
- Resulting in a balanced community committed to protection of what is valued today while meeting tomorrow's needs.

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.

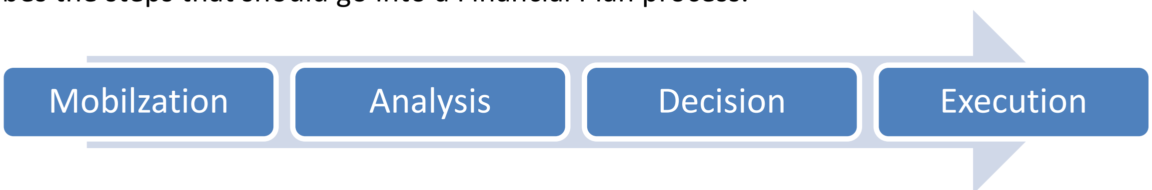
Fiscal Policy

Objective

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

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.

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

Staff will take input from the City Council and the public and incorporate direction into budget actions. 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 done 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 the Long Term Financial Plan and 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, public hearing and budget addresses these pillars.

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 a view of 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 2024 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 offers analysis and solutions for current and future issues

The focus remains on building a solid foundation for the future while maintaining and expanding programs and services. Examples of program and service enhancement over the past year include the following:

- Coastal Administrator position
- Police Services additional deputies
- Security services contract
- Park Ranger expansion
- Trolley System expansion

It is important to seek ongoing funding sources to keep pace with the cost of City services. Looking forward, staff will focus on exploration of revenue enhancement opportunities to maintain a healthy financial position. Additionally, the City has lost approximately $5 million of revenue sources from the dissolution of Redevelopment Agencies and the sunsetting of the Clean Ocean fee within the last 10 years, creating additional pressure on the General Fund. This has resulted in the City's General Fund absorbing cost related to the pier, Casa Romantica and other pier bowl improvements, and the beach trail. The loss of the Clean Ocean fee has required costs to be funded by the General fund for a variety of programs to ensure compliance with various regulations. The City used American Rescue Plan funds in the past to offset some costs, but these funds are anticipated fully utilized at the end of this fiscal year.

Generally, the economy is stable as a soft landing is anticipated. The inflation rate is anticipated to decrease to the 2-3% range in the next few years…

Overall, the economy is stable, but the growth rate has decreased while costs have been impacted by inflation. Costs have increased and the expectations are still being felt in the forecast as new contracts are entered into or contracts complete. The rate of inflation growth has decreased with no outlook for deflation in the future. Property taxes continue to grow, however sales tax growth has slowed as pandemic stimulus has been exhausted, as the Federal Reserve focuses on a return to a target inflation rate of 2%-3%. Generally, the economy is stable as a soft landing is anticipated. The inflation rate is anticipated to decrease to the 2-3% range in the next few years as money supply return to normal levels and pandemic stimulus works its way through the economy. The General Fund's main revenue source of property taxes is still strong based on demand for housing, however sales taxes growth has slowed as the money supply is tightened and costs increased making less disposable income for sales taxes growth than previous years.

The Long Term Financial Plan is to be informational and act as a guide to Council, management and the provide citizens input opportunities 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 worked with a consultant in FY 2022-23 to determine strategic priorities for the City. These strategic priorities, which were approved by City Council, are used as a guide to assist the City Manager and staff in developing budget priorities. 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 all 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 position, debt, and community factors. Multiple trend indicators were impacted by inflation, population changes, and a strong housing market. The total indicators were 14 with a Favorable rating and 8 with a Favorable/Caution.

Revenue Trends had five ratings with Favorable/Caution compared to four in the previous year. Sales taxes decreased which in turn impacted elastic revenues, both changed to Favorable/Caution from Favorable ratings. Elastic revenues are affected more directly by economic factors than other revenue sources. Property tax revenues, increased in actual and constant dollars and the rate was changed to Favorable from Favorable/Caution. Higher inflation effectively lowers revenue, so a review of fees and charges to ensure cost recovery to match service costs and lessen the impacts of inflation is important. Better cost recovery allows improvements to service levels.

Expenditure Trends had no indicator changes. Expenditures per capita are Favorable/Caution as expenditure increases were realized partially due to inflation and activity increases and a 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, and should improve to Favorable in future years.

The Operating Surplus (deficit), Unrestricted Fund Balance, and Pension Unfunded Liability were Favorable. Population in recent years continued decreasing remaining at Favorable/Caution, while property values increased at a pace greater than inflation changing to Favorable from Favorable/Caution.

The *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 all 5 years with a positive, but declining, operating position. This is a result of increasing costs that are exceeding the revenue growth experienced in the General Fund. Revenues average an annual increase of 3.4% over the forecast period while operating expenditures are increasing annually by 3.7%.

Over time, the growth rate of costs exceeding revenues contributes to the declining operating position. Additionally, the unassigned fund balance continues to be utilized for capital projects over the forecast period. This forecast is impacted from inflation impacts and a slowdown of growth in certain revenue categories, including sales tax. A recommendation to seek revenue opportunities is included in the forecast to address costs and the creation of revenue to fund longer term capital items, such as Sand Replenishment and costs absorbed by the General Fund previously funded by the Redevelopment Agency and the Clean Ocean fee.

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 transfers to address long-term funding of various areas.

Contributions are recommended for the Facilities Maintenance Reserve, Park Asset Reserve, and Accrued Leave reserve. These are recommended based on anticipated capital needs and to address pay rate increases and the associated accrued leave liability. Sewer rates were adopted allowing some funds to be moved from Operating Fund to the Depreciation Reserve. Storm Drain rates need modification or an alternative funding source, such as the Clean Ocean fee, to address capital and operating needs due to the original fee implemented in 1994 not being adjusted.

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. No recommendations are made at this time to adjust fiscal policy.

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

LTFP RECOMMENDATIONS

TRENDS

No recommendations

FORECAST

Direct staff to explore revenue sources to replace lost revenues from the dissolution of the Redevelopment Agency and the expiration of the Clean Ocean fee to maintain existing service levels and to fund new programs and capital projects.

RESERVE

- Transfer an amount of $400,000 from the General Fund to the Facilities Maintenance Reserve in FY 2024-25 and FY 2025-26.
- Transfer a one-time amount of $100,000 from the General Fund to the Park Asset Reserve in FY 2024-25.
- Transfer an annual amount of $300,000 from the Sewer Operating Fund in FY 2024-25 and FY 2025-26 to fund sewer asset replacement in the Sewer Depreciation Reserve.
- Prioritize capital projects until the implementation of a Clean Ocean measure or long-term alternative funding is available for storm drains.
- Transfer a one-time amount of $200,000 from the General Fund to the Accrued Leave Reserve in FY 2024-25.

FISCAL POLICY

No recommendations

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 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 2018-19 through FY 2022-23. Consequently, <u>all trends are based on data available as of June 30, 2023 and do not incorporate any changes that have occurred since that time.</u>

Executive Summary

The financial trends that follow provide City Council and Administration with insight into the overall financial position of the City by analyzing the City's General Fund. This analysis makes it possible to identify specific areas where new policies should be implemented or existing ones revised. The 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 2024	FY 2023	LTFP FY 2022	FY 2021	FY 2020
REVENUE:					
Revenue Per Capita	**F/C**	F/C	F/C	F/C	F
Property Tax Revenues	**F**	F/C	F	F	F
Elastic Revenues	**F/C**	F	F/C	F/C	F
Sales Tax Revenues	**F/C**	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/C	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/C
Capital Outlay	**F**	F	F	F	F
OPERATING POSITION:					
Operating Surplus (Deficit)	**F**	F	F/C	W	F/C
Unrestricted Fund Balance	**F**	F	F/C	F/C	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	F/C	W	U
COMMUNITY:					
Population	**F/C**	F/C	F	F	F
Property Values	**F**	F/C	F	F	F

Overview of the City's Financial Condition

The 2024 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 two indicators change from Favorable to Favorable/Caution and two 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

Revenue Category:

Nine trend indicators address revenues. Four of the trends are Favorable, and five are Favorable/Caution. Changes in revenue indicators reflect the City seeing increases in property taxes while sales tax decreased. Property Tax revenues changed from Favorable/Caution to Favorable, Elastic revenues changed from Favorable to Favorable/Caution, and Sales Tax revenues changed from Favorable to Favorable/Caution.

Property tax revenue indicator moved from Favorable/Caution to Favorable because actual property tax revenues increased, and even when taking inflationary costs into consideration (constant dollars), property tax revenue increased from the prior year. Property taxes are a stable revenue source, but as the largest revenue source for the City, property taxes still need to be monitored to ensure changes keep pace with inflation.

Elastic revenues moved from Favorable to Favorable/Caution. Although there have been multi-year increases over the five-year period, the FY 2022-23 percentage decreased from prior year and remains flat compared to the base year. Elastic revenues should be observed more closely as they are highly responsive to economic changes.

Sales tax revenues change from Favorable to Favorable/Caution. A decrease in actual and constant dollars was seen after an increase was seen the prior year. Sales tax growth outpaced inflation in the prior year, so the concern is not a major, but since Sales tax is one of the primary revenues for the city; this indictor needs to be monitored closely due to its sensitive response to economic changes.

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

Expenditure Indicators:

Five trend indicators address expenditures. Three of the trends are Favorable, and two trends are Favorable/Caution, with no changes from the prior year.

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

Fringe Benefits remain a Favorable/Caution rating because although fringe benefits, as a percentage of salaries, decrease from the prior year, this trend needs to be monitored closely as the City starts to realize the effects of the “3-2-1 Pension Funding Strategy”.

Operating Position Indicators:

Three Trend Indicators address operating position. All three trends are Favorable, with no changes from the prior year.

The *Operating Surplus (Deficit)* remains a Favorable rating. Even though there was a decrease in operating position over the prior year, the City’s still ended in a positive operating position. During the last year, revenues in property taxes, and interest and rentals increased considerably, while expenditure savings were realized in personnel costs.

Debt/Unfunded Liability Indicators:

Three trend indicators address debt/liabilities. All three of the trends are Favorable, with no changes from the prior year.

Pension Unfunded Liability remains a Favorable rating because although there is a slight decline in funded status over the prior year, this funding decrease does not include all “3-2-1 Pension Funding Strategy” payments.

Community Indicators:

Two Trend Indicators address community factors. While Population stays at a Favorable/Caution rating, Property Values changes from Favorable/Caution to a Favorable rating.

Population remains Favorable/Caution due to decreases over the last three years. A decrease in population can affect revenues over time and shift the cost burden to a smaller population base. However, some decreases are the result of the 2020 census, which reset the city population base.

Property Values change from Favorable/Caution to Favorable. During the five-year trend period, with the exception of FY 2022, there have been steady increases in property values. The continual increase in property values means that the City will receive a steady increase in property taxes as well.

Conclusion of Trend Analysis

The City saw the majority of increases in property and interest and rental revenue, which was due in part to a strong housing market and an increase to interest rates in the FY 2023. Factors that affected trends this year were the high Consumer Price Index and a slight decline in population, which impact costs and revenues. The City continues to review the budget at the department level and presents updated financial information to City Council.

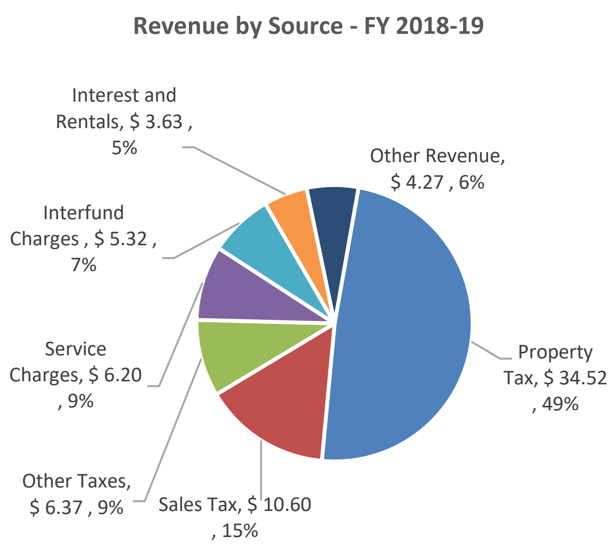
Analysis and discussion of the future outlook is in the Financial Forecast section.

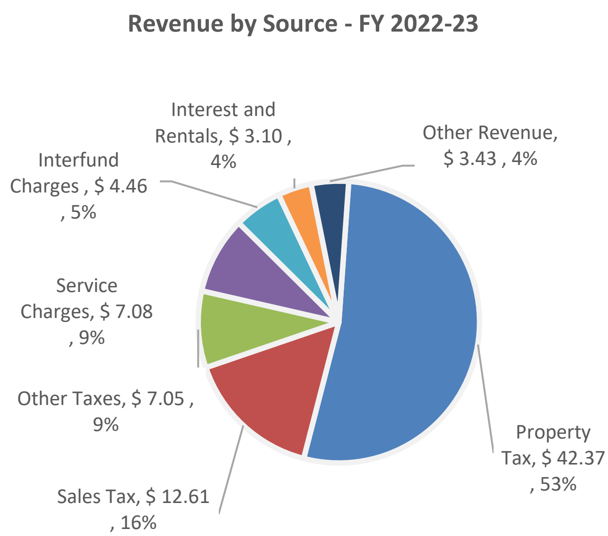
REVENUE TREND ANALYSIS

Overview of Revenues by Source:

The following is an overview of City revenue by source for FY 2018-19 and FY 2022-23. The following pages provide an analysis of the actual nine revenue trend indicators in detail.

Comparison of Revenues by Source
FY 2018-19 vs. FY 2022-23
(in millions)





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

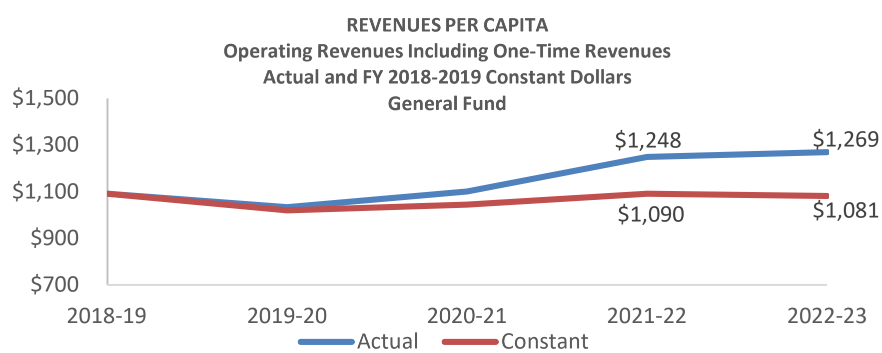
- Property taxes during the five-year period increased due to assessed valuation growth and the build-out of the Sea Summit development.
- Sales taxes increased due in part to the expansion of the Outlets and the *Wayfair* decision in FY 2018-19, and inflation increases over the time period.
- Other taxes increased from $6.4 million to $7.0 million. Although business license tax receipts remained relatively flat and franchise fees decreased by $32,372; transient occupancy tax receipts increased by $712,340 in FY 2022-23 due to increases in travel in FY 2022-23.
- Service Charges increased from $6.2 million in FY 2018-19 to $7.1 million in FY 2022-23 due to increased ambulance service charges, parking meter permits and fees, and recreation services.
- Other revenue decrease of $0.8 million over the five-year period is due mainly to a decrease in other state grants of $1.0 million. The State Routes to Schools grant was in FY 2018-19.
- Interfund charges decreased from FY 2018-19 to FY 2022-23. The general fund overhead allocation plan increased, however transfers decreased by a greater amount over the five-year period due to a reduction in transfers from Public Facilities fund along with the elimination of the Clean Ocean transfer.
- Decrease in Interest and Rentals from $3.6 million in FY 2018-19 to $3.1 million in FY 2022-23 is due mainly to an unrealized loss on investments of $0.1 million in FY 2022-23 as rents and commissions remain fairly flat compared to FY 2018-19.

REVENUE TREND ANALYSIS

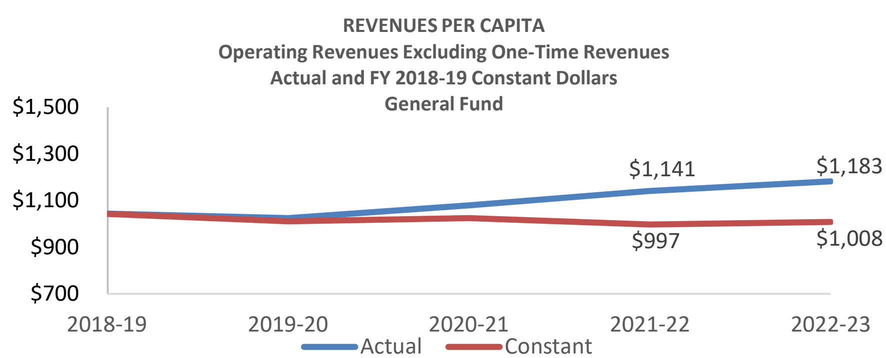
Indicator: *Revenues Per Capita*

Comments:

The first chart (which includes one-time revenues) shows a slight increase from $1,248 to $1,269 in actual dollars and a decrease from $1,090 to $1,081 in constant dollars. Total revenues for Fiscal Year 2022-23 increased by $1.14 million from the prior year. Property taxes, interfund charges, and interest and rentals saw an increase over the prior year, while sales tax, intergovernmental, fines and forfeitures, and other revenue decreased. Revenue categories with the most significant increases include property tax (7%), interfund charges (20%), and interest and rents (113%). Decreases include intergovernmental (-26%), fines and forfeitures (-23%) and other revenue (-88%).



The second chart (which excludes one-time revenues) shows an increase in actual dollars from $1,141 to $1,183 and constant dollars increased from $997 to $1,008. 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*

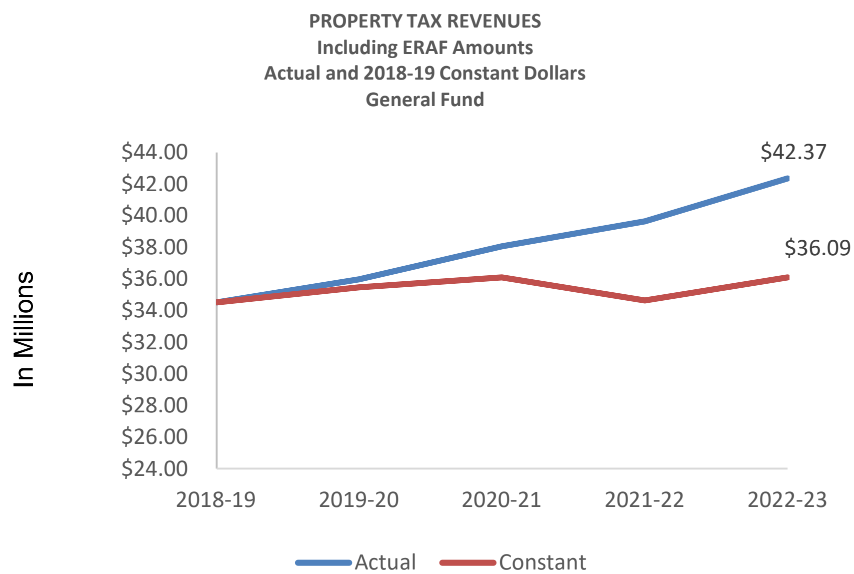
Although increases are seen in actual dollars, a decrease was seen in constant dollars over the prior period. This trend remains a Favorable/Caution rating, as it remains relatively flat over the 5-year period and reflects revenues are not keeping pace with the result of an increasing Consumer Price Index (CPI) or inflation.

REVENUE TREND ANALYSIS

Indicator: *Property Tax Revenues*

Comments:
The chart below shows property tax revenues increasing from $39.64 million to $42.37 million or 7% in actual dollars and an increase from $34.63 million to $36.09 million or 4% in constant dollars.

Property taxes have increased over the past year due mainly to the continued growth in assessed values as a result of development and a strong housing market. Property taxes show continued stable growth in actual dollars over the five-year trend period.



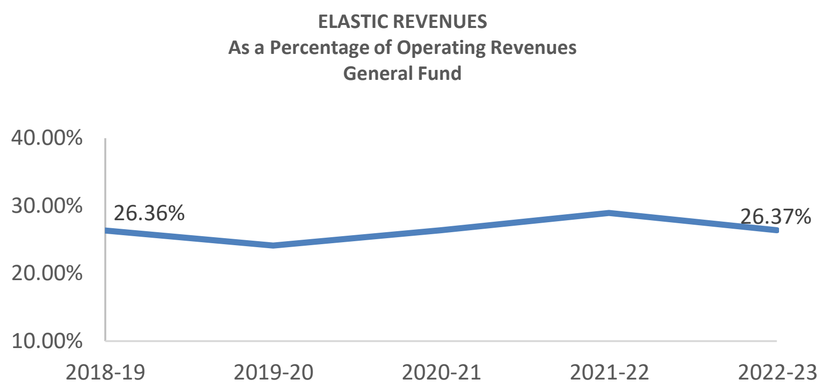
Status: *FAVORABLE*
This indicator changes from Favorable/Caution to Favorable, because actual property tax revenues increased, and even when taking inflationary costs into consideration (constant dollars), property tax revenue increased from the prior year. As property tax is the City's main source of revenue, the City will still need to monitor this indicator to make sure property taxes 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 decreased by 3.46% from the prior year, and net operating revenues increased by 5.97%; causing Elastic revenues, as a percentage of total revenues, to decrease from 28.95% in FY 2021-22 to 26.37% in FY 2022-23. Certain individual revenue indicators, which comprise the elastic revenues category, are examined further on the following pages.



Status: *FAVORABLE/CAUTION*
This indicator changes from Favorable to Favorable/Caution. There have been multi-year increases over the five-year period, the FY 2022-23 percentage decreased from the prior year and remains flat compared to the base year. Elastic Revenues should be watched closely as they are highly responsive to the changes in the economy and inflation, such as in the last year.

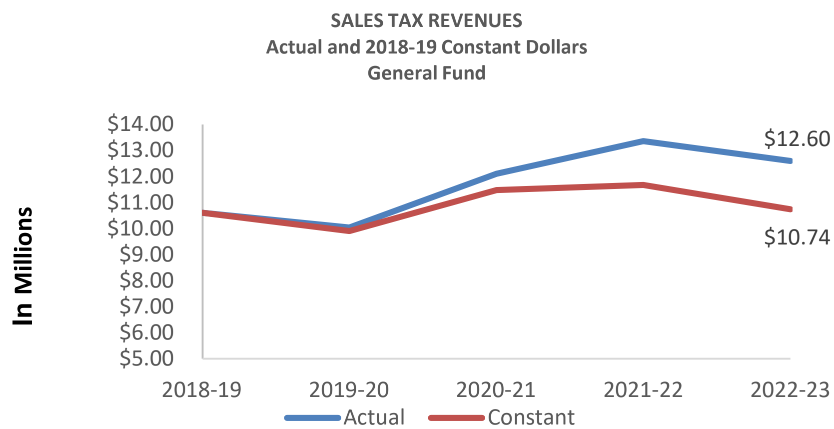
REVENUE TREND ANALYSIS

Indicator: *Sales Tax Revenues*

Comments:
As summarized in the chart below, sales tax revenues show a decrease of $765,130, or 5.72% in actual dollars over the prior fiscal year. In constant dollars, there was a decrease of $941,470 or 8.06% for FY 2022-23.

Sales tax receipts amount to $12.60 million, compared to $13.37 million in the prior year. This sales tax decrease is mostly the result of lower activity levels, decreasing fuel prices, along with the rise in inflation over the prior year.

The State Sales Tax percentage of 7.75% includes the 1% allocation to the City of San Clemente for sales tax.



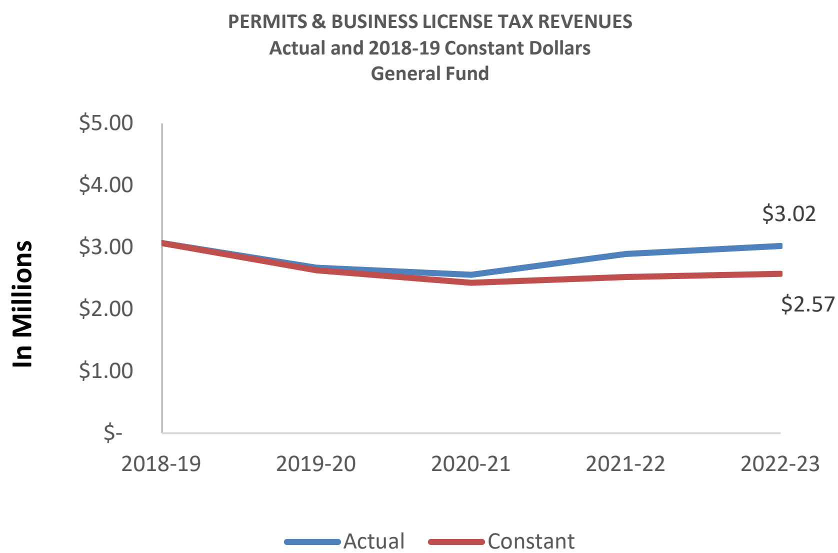
Status: *FAVORABLE/CAUTION*
This indicator changes from Favorable to Favorable/Caution. A decrease in actual dollars and constant dollars was seen after an increase was seen the prior year. Sales tax growth outpaced inflation in the prior year, so the concern is not a major one but since Sales tax is 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 $135,290 or 4.69% from the prior fiscal year. The constant dollar increase was $52,790 or 1.98% from FY 2021-22.

Construction permit revenue stayed relatively static with an increase of $27,200 or 2.09% over the past year, which coincides with the slight increase in construction activity. Business license tax revenue also increased $101,600 or 8.95% in FY 2022-23 as a result of changeover of businesses within the city along with more monitoring of the license process. Non-business licenses and permits remain relatively flat over the prior year.

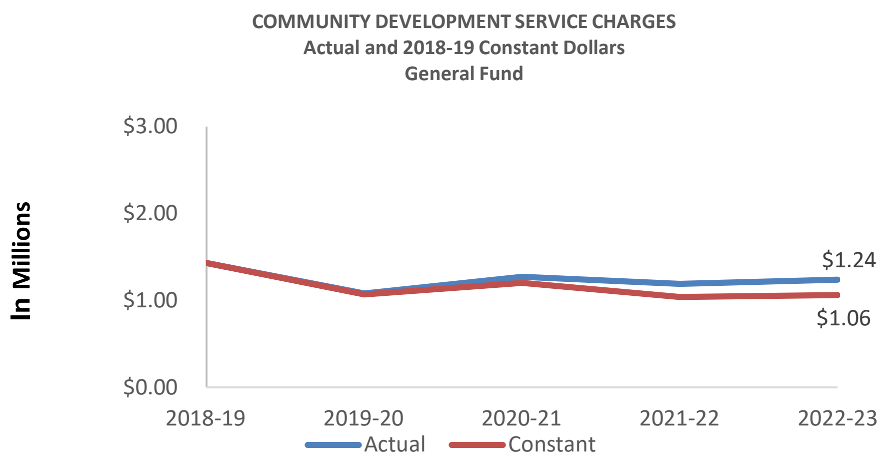


Status: *FAVORABLE/CAUTION*
Permits and Business License Tax maintains a Favorable/Caution rating, due to a slight increase from the prior year revenue. The increases from prior year could still be associated with effects of the pandemic, so these revenues will need to continue to be monitored.

REVENUE TREND ANALYSIS

Indicator: *Community Development Service Charges Revenues*

Comments:
Total community development service charges increased by $53,890 or 4.53% from the prior year. This increase aligns with the total general government service charges increase of $146,800 due to a significant increase in general plan update fees and single-family residence check fees, while construction inspection fees decreased by $102,200.



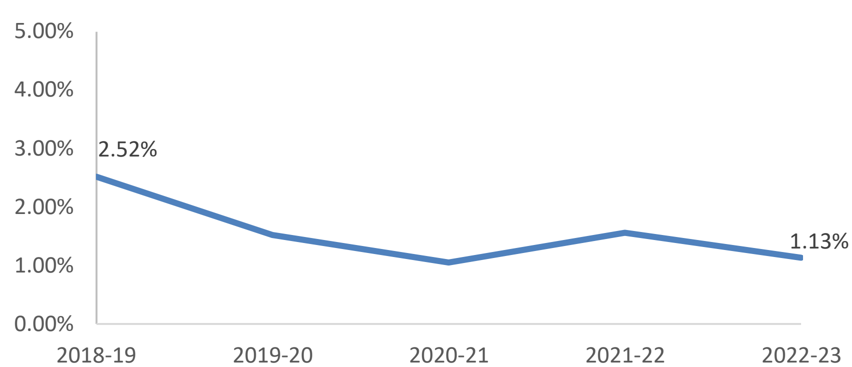
Status: *FAVORABLE/CAUTION*
This trend remains a Favorable/Caution rating due to the slight rebound from the prior year. Over the five-year period, these changes have remained relatively flat. The city continues to monitor these revenue sources, mainly consisting of business and permit fees, as they 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 decreased to 1.13% in FY 2022-23. Intergovernmental revenues decreased from $1.2 million in FY 2021-22 to $906,700 or -26.47% in FY 2022-23. Although County and other governmental grant revenues decreased, State grants increased due to an increase in mandated cost reimbursements in FY 2022-23. 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.

INTERGOVERNMENTAL REVENUES
As a Percentage of Operating Revenues
General Fund



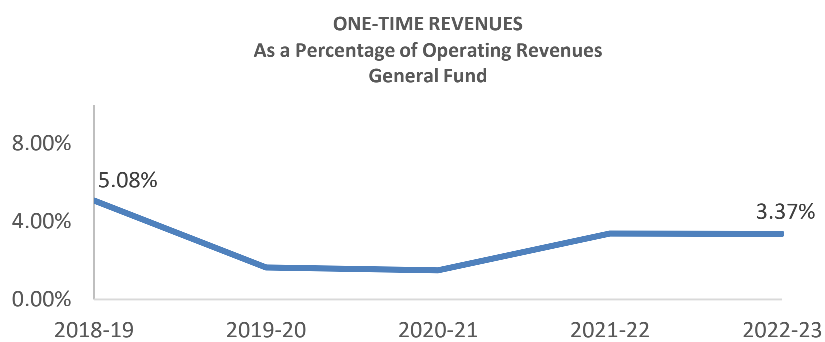
Status: *FAVORABLE*
This trend remains Favorable since the City receives a low percentage of revenues from other governmental agencies and placed COVID relief amounts in a separate fund to limit ongoing impacts or costs being charged to the General Fund. When considering in-lieu property taxes totaling $8.4 million, the intergovernmental percentage would be 11.6%, which still supports the Favorable rating.

REVENUE TREND ANALYSIS

Indicator: *One-Time Revenues*

Comments:
One-time revenues, as a percentage of total General Fund revenues, equaled 3.37% in FY 2022-23, a slight decrease over the prior year.

One-time revenues increased by $77,258, or 3.0% from the prior fiscal year. FY 2022-23 one-time revenues of $2.6 million include, $560,610 of grant funds, $209,760 from miscellaneous reimbursements, transfer of $1.8 million from the Disaster Relief fund, and $3,893 from gain on disposal of fixed assets. In accordance with the City's Fiscal Policy, one-time revenues are not utilized to fund ongoing operating expenditures.



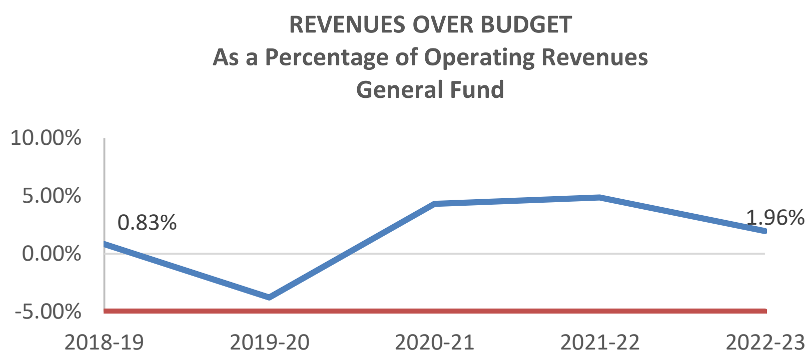
Status: *FAVORABLE*
This indicator remains Favorable, due to the City not utilizing one-time revenues to fund ongoing operating expenditures. The City is not dependent on one-time revenues to fund operating costs.

REVENUE TREND ANALYSIS

Indicator: *Revenues over Budget*

Comments:
Actual revenues were higher than the adjusted budget by $1.5 million for FY 2022-23 and ends with a positive revenue position of 1.96%. The City experienced revenue overages in taxes of $1.4 million, licenses and permits of $0.6 million, charges for services of $0.7 million, and other revenues of $119,944. The City has also experienced shortages in intergovernmental ($0.6 million), Investment and rentals ($236,779), fines and forfeitures of ($37,298), and transfers in ($0.5 million).

This trend began the five-year analysis with an almost neutral revenue position of 0.83% and ended FY 2022-23 at a positive increase of 1.96%. 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 2018-19 and 2022-23. Following this overview are the actual five trend expenditure indicators.

The table below compares the FY 2018-19 General Fund expenditures by function to FY 2022-23. 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 2018-19 vs FY 2022-23

Expenditure Function	FY 2018-19	FY 2022-23	Difference	% Change
General Government	$17,110,849	$13,100,327	-4,010,522	-23%
Public Safety	27,645,463	37,121,783	9,476,320	34%
Community Dev.	5,291,196	6,166,743	875,547	17%
Public Works	15,426,334	18,070,409	2,644,075	17%
Beaches, Parks & Rec	4,856,326	5,559,441	703,115	14%
Total Expenditures	$70,330,168	$80,018,703	$9,688,535	14%

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

- General Government decreased by $4.0 million or -23%. 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 2018-19.
- Public Safety increased by $9.5 million or 34% 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 $0.9 million, or 17% 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 $2.6 million or 17%. 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 $0.7 million or 14% over the five-year period due to increases in utility expenses, contractual services, and contract class instructor costs.

The following table compares expenditures by category and shows increases in personnel, supplies, contractual services, and other charges, and decreases in capital outlay, and interfund payment expenditure categories between FY 2018-19 and FY 2022-23.

Comparison of Expenditures by Category
FY 2018-19 vs FY 2022-23

Expenditure Category	FY 2018-19	FY 2022-23	Difference	% Change
Personnel	$17,396,532	$18,175,764	779,232	4%
Supplies	988,254	1,333,539	345,285	35%
Contractual Services	36,016,692	44,407,635	8,390,942	23%
Other Charges	2,704,948	5,908,190	3,203,243	118%
Capital Outlay	4,220,621	2,481,080	-1,739,541	-41%
Interfund Payments	9,003,121	7,712,495	-1,290,626	-14%
Total Expenditures	$70,330,168	$80,018,703	$9,688,535	14%

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

- Contractual Services increased by 23% or $8.4 million from FY 2018-19 to FY 2022-23 reflecting significant increases in contractual services for Police ($5.3 million) and Fire ($4.1 million) from FY 2018-19 to FY 2022-23.
- Other Charges increased by 118% or $3.2 million due to higher payments on the unfunded police and fire public safety pension liability payment ($3.3 million) in FY 2022-23.
- Personnel (salary and benefits) increased 4% over the five-year period. The 4% increase is mainly a result of retirement costs in FY 2022-23, 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:

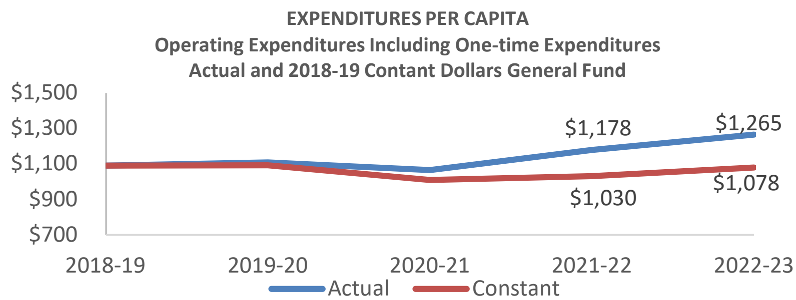
- Capital Outlay decreased $1.74 million or 41% from FY 2018-19 to FY 2022-23, reflecting the decrease in improvements other than buildings during the five-year period. Improvements other than buildings decreased over the five-year period as capital activity was reduced due to the pandemic. FY 2018-19 projects included sidewalk projects, major street maintenance, Vista Bahia Park Restroom rehabilitation, Shorecliffs Safe Route to Schools, 910 Calle Negocio Remodel, and the Pier Structural Construction projects.
- Interfund payments decreased by $1.3 million or 14% due mainly to a one-time transfer of $2.9 million to Facilities Maintenance fund in FY 2018-19 to provide funds for long-term projects that was approved by the FY 2017-18 LTFP.

EXPENDITURES TREND ANALYSIS

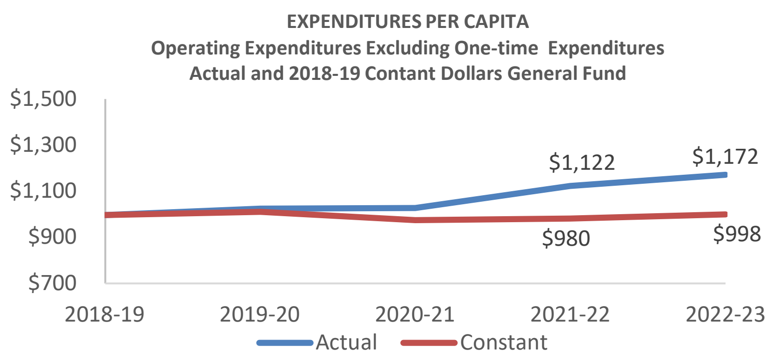
Indicator: *Expenditures Per Capita*

Comments:

The first chart, which includes one-time expenditures, shows an increase from $1,178 to $1,265 in per capita actual dollars and an increase from $1,030 to $1,078 in per capita constant dollars. Actual dollars increased by $5.3 million and constant dollars increased by $2.9 million when compared to FY 2021-22. The increase in actual dollars was mainly in Community Development ($359,350), Public Safety ($1.6 million), Public Works ($1.7 million), and City General ($1.5 million). The increase in Public Safety is due to an increase in Police and Fire contracts and ambulance and marine safety contractual services in FY 2022-23. Public works increases are mostly the result of increases to contracted custodial services and other contractual services, as well as the Casa Romantica Stabilization project and shoreline feasibility study in FY 2022-23.



The second chart (which excludes one-time expenditures) shows an increase in actual dollars from $1,122 to $1,172 and an increase in constant dollars from $980 to $998. One-time expenditures include one-time transfers to Facilities Maintenance ($400,000), Accrued Leave ($100,000), and Clean Ocean fund ($1.0 million). Other one-time funds of $1.3 million include funds for Shoreline Feasibility study, Steed Park Pickleball Courts, and T-Street Overpass rehabilitation along with a one-time pension payment of $3.1 million.



Status: *FAVORABLE/CAUTION*

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

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 General Government costs decreased, while the other 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 (2%).

When looking at the table, General Government decreased from $10.1 million or 17% in FY 2018-19 to $9.6 million or 14% in FY 2022-23. In actual dollars, General Government decreased by $0.5 million. Public Safety increased from $27.6 million or 45% in FY 2018-19 to $33.7 million or 48% of total operating expenditures in FY 2022-23 and Public Works increased from $13.0 million or 21% to $15.7 million or 22%. Beaches, Parks and Recreation and Community Development remained at 8% and 9% of total operating expenditures in both years respectively.

Comparison of Expenditures by Function
(Excluding debt service, interfund transfers, and capital outlay)
FY 2018-19 vs. FY 2022-23

Expenditure Function	FY 2018-19	% of Total 2018-19	FY 2022-23	% of Total 2021-22	Total Change
General Government	10,075,344	17%	9,607,471	14%	-3%
Public Safety	27,562,863	45%	33,749,579	48%	2%
Public Works	13,025,799	21%	15,714,579	22%	1%
Community Dev.	5,291,196	9%	6,166,743	9%	0%
Beaches, Parks & Rec	4,856,326	8%	5,559,441	8%	0%
Total Expenditures	$60,811,528	100%	$70,797,814	100%	-

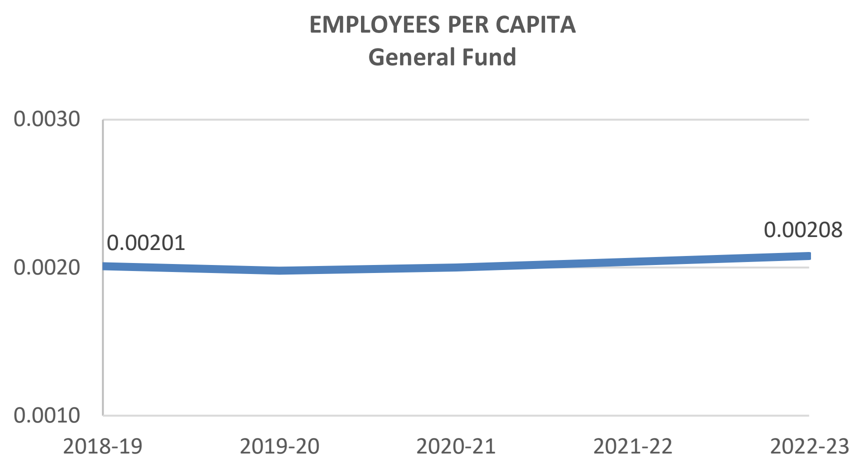
Based on this analysis, no single department is requesting significantly more resources, which would cause it to be unsustainable from a functional perspective.

Status: *FAVORABLE*
This trend remains a Favorable rating when comparing the percentage of total expenditures change from FY 2018-19 to FY 2022-23. Although there has been a small shifting from General Government 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 ensure the City's ability to support current and future service levels.

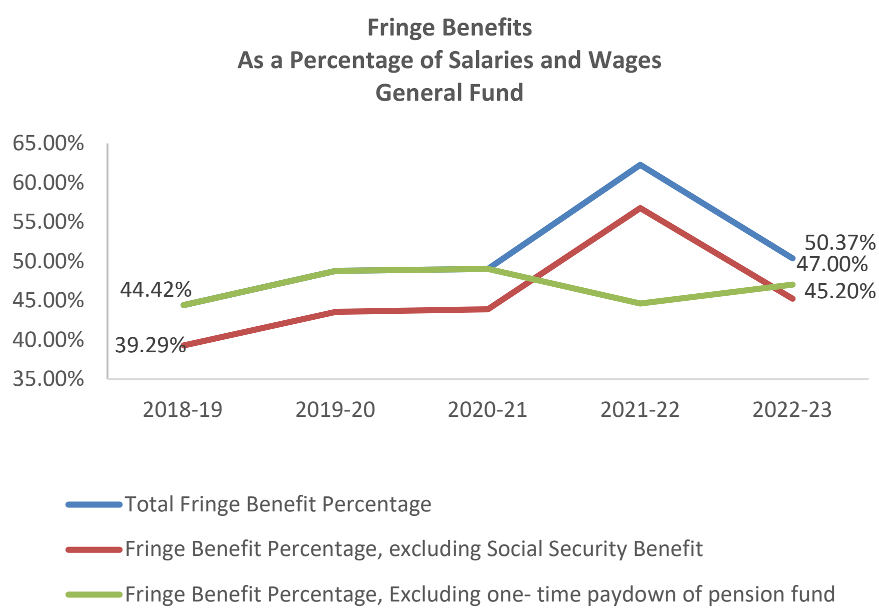
EXPENDITURES TREND ANALYSIS

Indicator: *Fringe Benefits*

Comments:
Fringe benefits (including social security benefits), as a percentage of General Fund salaries and wages, decreased from 62.3% to 50.4%. Fringe benefits (excluding social security benefits) show a corresponding decrease when compared to FY 2021-22. The actual amounts of General Fund benefits decreased from $7.0 million in FY 2021-22 to $6.1 million in FY 2022-23 or a 13.33% decrease from the prior year. General Fund salary and wages increased from $11.3 million in FY 2021-22 to $12.0 million in FY 2022-23 or a 7.20% increase from the prior year.

Decreases to Fringe benefits is due mainly to a rebound of increased pension unfunded liability payments from the prior year, based on the 3-2-1 plan.

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 payments on 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 full impacts of the "3-2-1 Pension Funding Strategy" are realized.

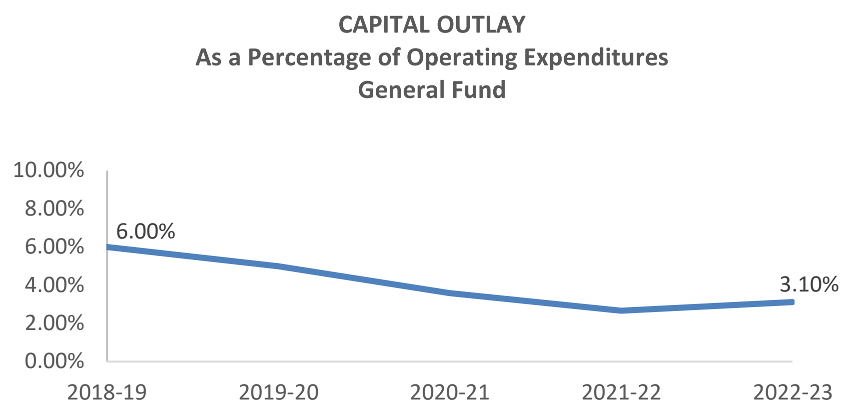
EXPENDITURES TREND ANALYSIS

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 increased by $494,780 or 24.9%, from FY 2021-22. Capital outlay expenditures totaled $2.5 million.

Spending on capital outlay increased mainly due to an increase in projects including Steed Park Pickleball Courts, Shoreline Feasibility Study and T-Street Overpass Rehabilitation in FY 2022-23.



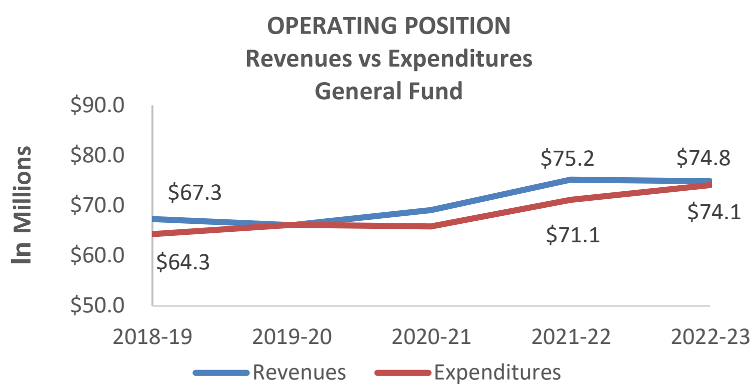
Status: *FAVORABLE*
This indicator remains Favorable, due to the increase over the last fiscal year. This indicates that capital outlay spending is no longer being deferred after four years of decline in capital spending over the five-year trend period.

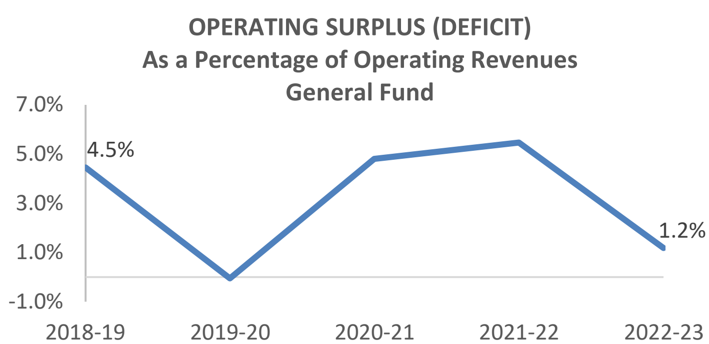
OPERATING POSITION TREND ANALYSIS

Indicator: *Operating Surplus (Deficit)*

Comments:
Fiscal year 2022-23 ended with a positive operating position (surplus). An operating deficit occurs when expenditures exceed revenues. Conversely when revenues exceed expenditures there is an operating surplus.

Revenues used to calculate the operating position do not include one-time transfers and revenues of $2.6 million, which includes $552,090 of grant revenue, $213,650 in miscellaneous one-time revenues, $1.8 million in transfers. Expenditures used to calculate the operating position do not include one-time transfers and expenditures of $5.9 million, which includes $400,000 in transfers from the general fund to the facilities maintenance, $1.0 million in transfers to clean ocean, $708,260 in the shoreline study and $3.1 million in one-time pension payments. The total operating position was positive $0.7 million in FY 2022-23, compared to a positive $4.1 million in FY 2021-22.





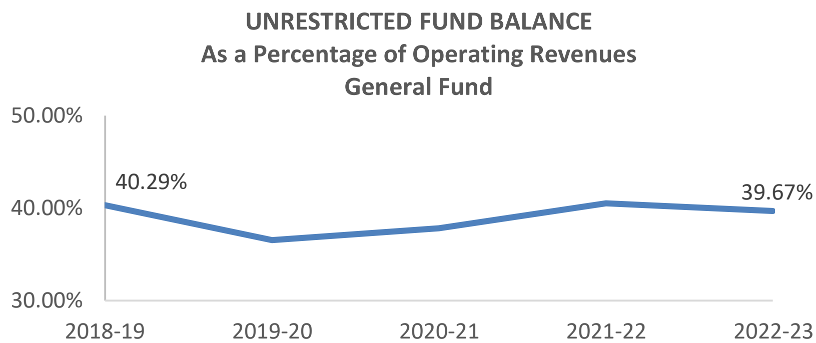
Status: *FAVORABLE*
Although this trend shows a significant decrease in operating position from the prior year's surplus, it is still positive. The City will still take precautionary measures during the FY 2025 and 2026 budget to watch for any revenue overage or increase in spending.

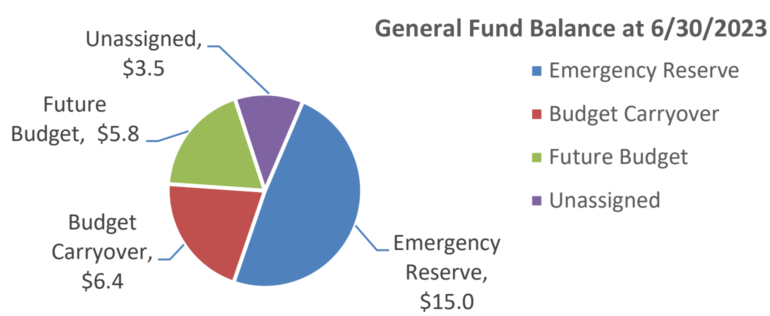
OPERATING POSITION TREND ANALYSIS

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 stayed relatively stable with a slight increase of 1.28% in FY 2022-23 from $30.3 million to $30.7 million. Even though unrestricted fund balance increased in FY 2022-23, it is not at levels prior to the pandemic. The total FY 2022-23 unrestricted fund balances of $30.7 million is comprised of $15.0 million for emergency reserves, committed amounts for encumbrances of $6.4 million, $5.8 million allocated for FY 2024 one-time costs and $3.5 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, 2024 for capital equipment, facilities, park asset, and accrued leave in a separate fund that are not included in the $30.7 million shown above.

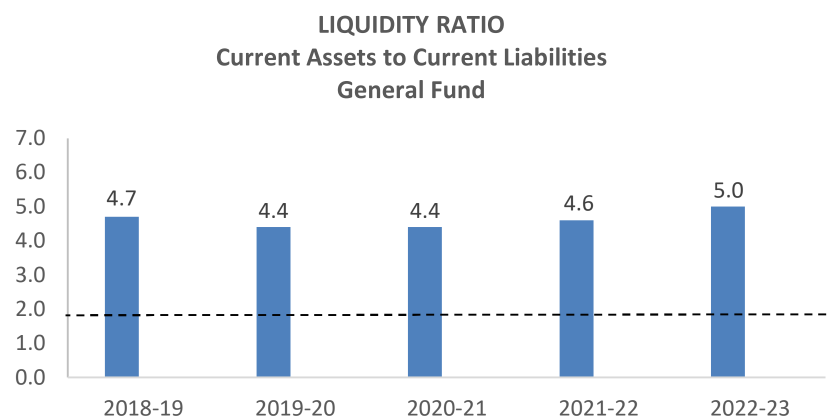
Status: *FAVORABLE*
This trend remains a Favorable rating, as unrestricted fund balance has increased over the last four years and the normal build-up of fund balance is moving towards levels experienced pre-pandemic as a percentage of operating revenues.

OPERATING POSITION TREND ANALYSIS

Indicator: *Liquidity Ratio*

Comments:
In FY 2022-23, the City's liquidity ratio remains positive at 5:1. Credit rating firms consider a ratio of 1:1 Favorable. The City's 5:1 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.

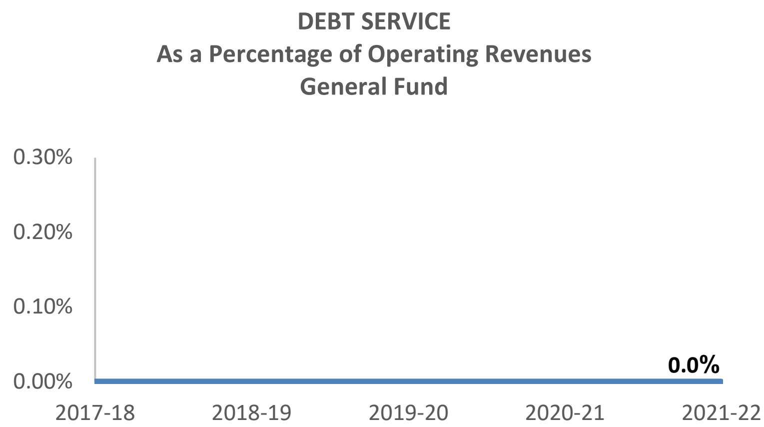


Status: *FAVORABLE*
This trend is favorable due to a ratio of over 1:1 throughout the past five-year period analyzed above.

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.



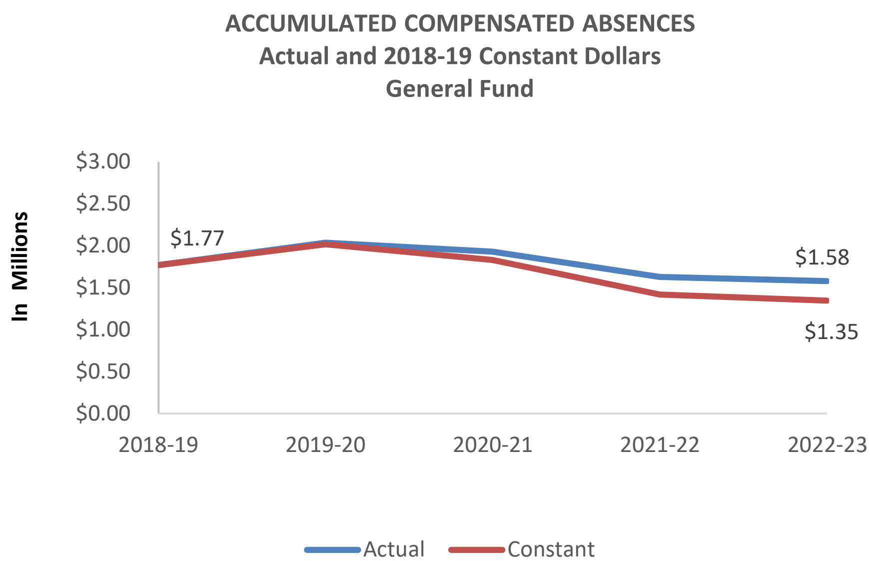
Status: *FAVORABLE*
General Fund debt service receives a Favorable rating, as it has remained immaterial (less than 1%) in comparison to total revenues over the last nineteen years. Credit rating firms generally view debt service as Unfavorable if debt service payments exceed 20% of net operating revenues.

DEBT SERVICE/UNFUNDED LIABILITY TREND ANALYSIS

Indicator: *Accumulated Compensated Absences*

Comments:
At June 30, 2023, the compensated absences liability was $1.58 million consisting of $1.0 million for vacation, $0.4 million for sick leave, and $52,907 for compensatory time for all funds. This is a decrease of $46,139 or 2.83% from the prior year's liability of $1.6 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, 2023, 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.

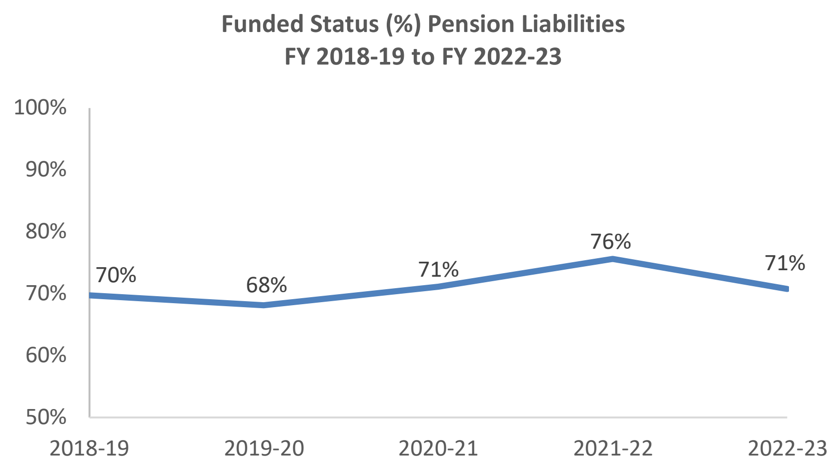
DEBT SERVICE/UNFUNDED LIABILITY TREND ANALYSIS

Indicator: *Pension Unfunded Liability*

Comments:
The City has pension plans which 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. The CSCERP plan includes past city retirees and inactive 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 2022-23 made additional contributions of $3,150,000 toward the CalPERS plans and $52,100 toward the CSCERP plan. The increase in funding status is the result of additional payments toward the unfunded liability.

The chart below shows the Funded Status for five-years ending June 30, 2023 (with information based on prior year's actuarial valuation). The lowest funded plan is CSCERP at 57.15% and the highest funded is safety-lifeguards at 84.10%. The fiscal policy target is 90%.



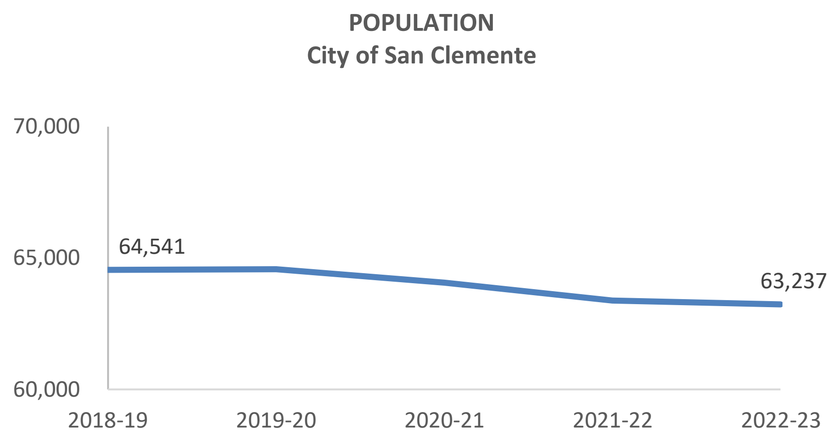
Status: *FAVORABLE*
This indicator remains Favorable because although we start to see a slight decline in funded status over the prior year, this funding decrease does not reflect the full impacts of the "3-2-1 Pension Funding Strategy" payments. Additionally, the 71% funding level is still an improvement over the 5-year timeline, with the 76% reflecting the substantial investment returns by CalPERS. A gradual increase over time is a favorable indicator.

COMMUNITY TREND ANALYSIS

Indicator: *Population*

Comments:
The City's population has decreased by 0.23% over the prior fiscal year. The exact relationship between population changes 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 2018-19 through 2022-23 show a stabilization in the population rate.



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

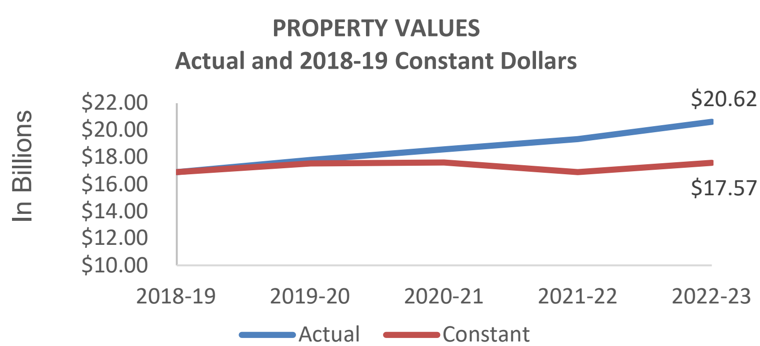
COMMUNITY TREND ANALYSIS

Indicator: *Property Values*

Comments:
The growth rate in property values as a percentage from the previous year in actual dollars was 6%, or $1,289 million. This is an increase of 4%, or $679 million in constant dollars, as inflation grew at a slower pace than property values over the last year.

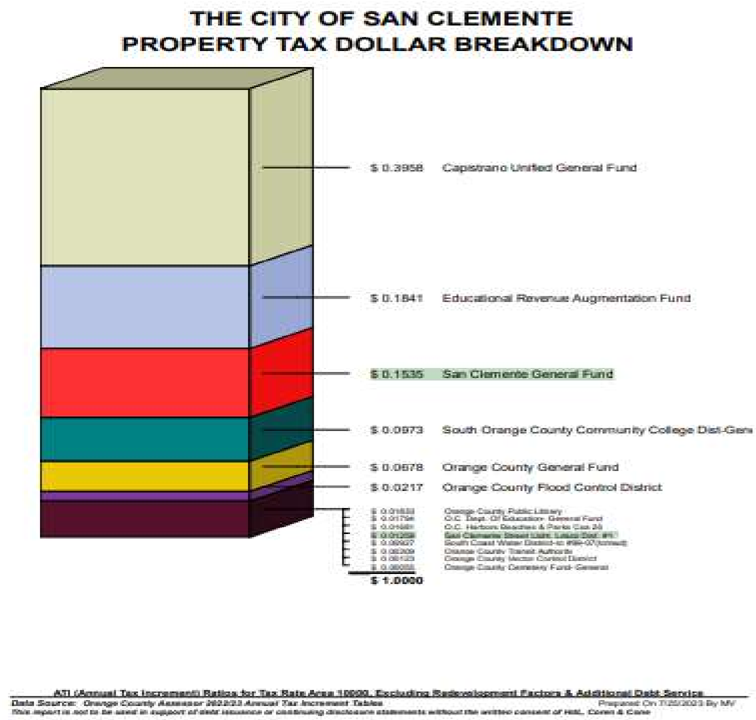
Property values exhibited a positive-growth rate in FY 2022-23. Personal property in California is subject to a basic levy equal to one percent of the assessed value. The property tax share can fluctuate between cities within a county. The City of San Clemente receives $0.154 of each property tax dollar collected within the City.

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



Status: *FAVORABLE*
This indicator changes from a Favorable/Caution to a Favorable rating. During the five-year trend period, with the exception of FY 2022, there have been steady increases in property values. The continual increase in property values means that City will receive a steady increase in property taxes as well.

Attachment "A"

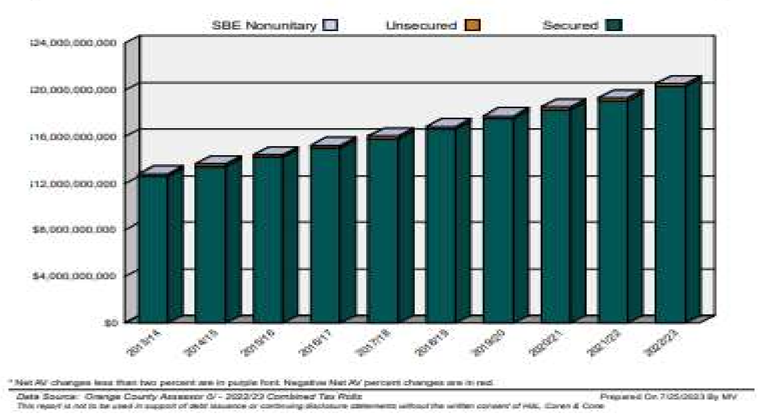


The chart above shows the portion each respective government agency receives of the typical Orange County property tax dollar.

THE CITY OF SAN CLEMENTE
NET TAXABLE ASSESSED VALUE HISTORY

2013/14 - 2022/23 Taxable Property Values

Lien Year	Secured	Unsecured	SBE Nonunitary	Net Total AV	% Change
2013/14	$12,625,733,738	$200,734,451	$0	12,826,468,189	
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%
2022/23	$20,330,398,056	$255,948,960	$0	20,586,347,016	6.51%
				Average % Change	5.12%



The chart above shows the net taxable value of assessed property.

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.

<u>City of San Clemente Financial Condition</u>
The five-year financial forecast was last updated with the FY 2024 budget adoption; it showed small operating surplus in all five years of the forecast. Projected operating surplus/(deficits) as part of that budget forecast were:

2024 Budget Forecast (In millions)	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
Projected surplus/(deficit)	\$ 0.1	(\$ 0.7)	(\$ 1.1)	(\$ 1.1)	(\$ 1.2)

When preparing a balanced FY 2024 budget to City Council, 4 additional deputy positions were included as one-time costs within the budget process.

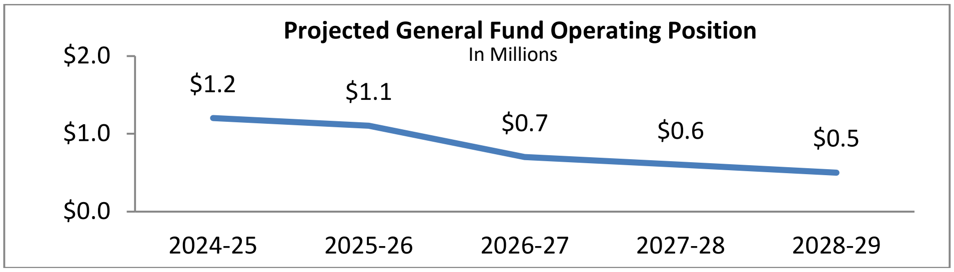
The 2024 LTFP five-year financial forecast reflects strong property taxes growth along with moderate growth in other revenue categories. Revenue growth is below the cost increases, as sales taxes have eased while public safety costs have grown and contract services are impacted by inflation.

The General Fund forecast operating position 2024 Budget forecast reflected higher costs. However revenues, including property taxes, exceeded expectations leading to a better operating position. Assumptions used in the forecast are discussed later in this report.

The forecast reflects a positive operating position in all years of the forecast but trends downward in later years.

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 declining operating position in all five years. These operating positions impact unassigned fund balance and limit resources for one-time uses, including capital projects, reserve transfers, and other one-time activities.

The following table and chart reflect the forecast results, based on the assumptions identified later in the paper:



2024 LTFP Forecast (In millions)	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
Operating receipts	$ 83.4	$ 86.5	$ 89.5	$ 92.5	$ 95.5
Operating disbursements	82.2	85.4	88.8	91.8	95.0
Projected surplus/(deficit)	$ 1.2	$ 1.1	$ 0.7	$ 0.6	$ 0.5

Operating positions are subject to change based on actions taken in the normal course of business and by City Council. These actions can impact revenue activity or modify costs by creating cost differences through making position changes/vacancies and changing service delivery.

Revenues are averaging an annual increase of 3.4% over the forecast period. Property taxes, which represent 55% of all General Fund revenues, are forecast to increase 5.1% from FY 2024 benefiting from a positive real estate environment and development. Sales taxes are projected to increase only 1.5% initially as consumer spending has slowed due to less economic stimulus and lower fuel prices with a 5-year average of 2.4%. General Fund revenues other than property and sales taxes are forecast to increase up to 2%-3% and varies by revenue type.

Operating expenditures are increasing annually by 3.7% a year. The 1st year increase is 3.5%, if one-time costs for the Casa Romantica stabilization project and additional deputies are excluded. The OCSD contract forecast increase is 5%, however this increase is offset by the removal of the one-time addition of 4 deputies so the cost remains flat as the one-time contract deputies are not included in the forecast.

The next largest percentage increases are in other contract services, fire contract, and salary and benefits. Other Contract services of 4% is due to inflation and salary and benefit increase of 4.7%. These are being impacted by inflation and other service costs. Pension costs increase based on the negative CalPERS investment returns but stabilize over the forecast period. *Pension costs are discussed in the trends section of the LTFP and the Assumptions section.* Meanwhile, OCFA fire contract costs are projected to increase 4.3% over the forecast period based on the contract cap of 4.5% and the 4th firefighter/paramedic position phase in through FY 2025.

Fund Balance
Fund balance is the excess of assets over liabilities. The 2024 LTFP Forecast operating position shows positive operating positions; these operating positions help fund the 18% Emergency Reserve as operating costs increase and build General Fund resources (fund balance).

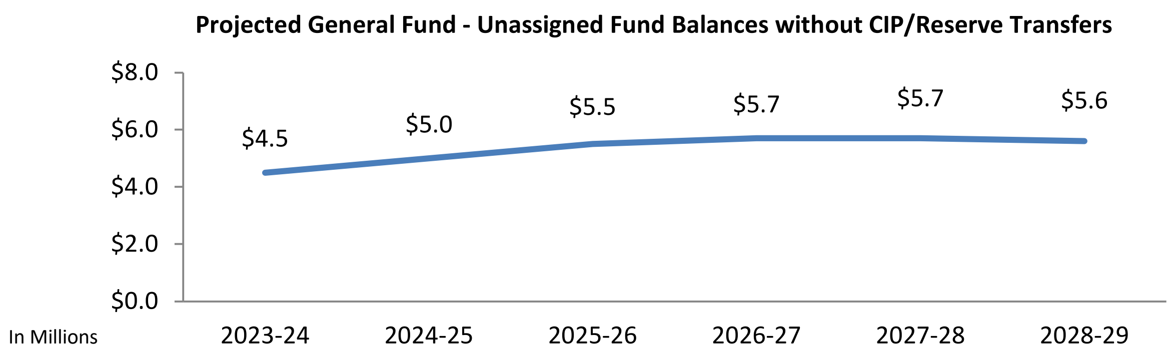
The City's *committed* fund balance, approved by City Council action, includes the *Emergency Reserve* funded at 18% of operating expenditures. Annual contributions to maintain the Emergency Reserves (18% of operating expenditures) are included in the forecast. *Unassigned* fund balance is available for City Council appropriation without any restrictions. A positive unassigned fund balance represents financial resources available to finance one-time costs.

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 18% of operating expenditures, based on fiscal policies. The Emergency Reserve for FY 2025 is $15.0 million and for FY 2026 is $15.5 million. A summary of the Emergency Reserves by year is summarized below:

General Fund – Committed Reserves (in millions)

	2024-25	2025-26	2026-27	2027-28	2028-29
Emergency Reserve *(18% of Oper. Expenditures)*	$15.0	$15.5	$16.1	$16.7	$17.3

Unassigned Fund Balance - The General Fund's *unassigned fund balance* is projected to be $4.5 million at the end FY 2024. Based on the 2024 LTFP forecast, the following chart below illustrates the projected unassigned fund balance in the General Fund for the next several years, excluding CIP and Reserve Transfers.



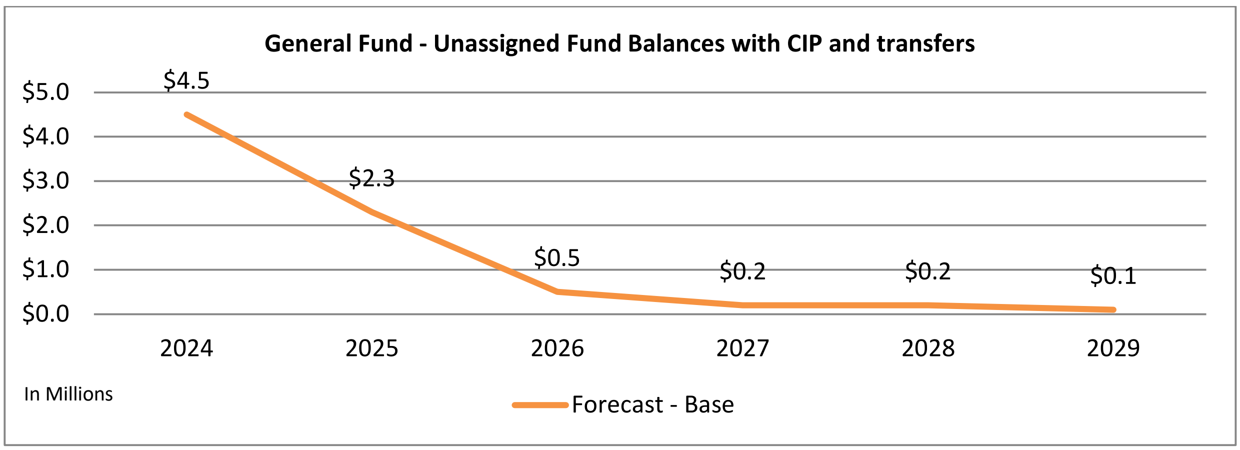
The above unassigned fund balance chart reflects annual Emergency Reserve contributions, $1,250,000 each year for recurring maintenance (major street maintenance, slurry seal, sidewalk repair programs, and facility maintenance), but does not assume any spending for one-time capital projects (including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

General Fund unassigned fund balance decreases as one-time CIP (capital and maintenance projects) amounts and one-time reserve transfers are included in the forecast. The following table shows project costs for General Fund capital improvement projects over the next five years available to be funded based on the limitations of fund balance.

Capital Projects Funding & Reserve Transfers (In millions)	2024-25	2025-26	2026-27	2027-28	2028-29
Capital Improvement Projects (non-ongoing)	$ 2.0	$ 2.0	$ 0.0	$ 0.0	$ 0.0
Transfers (one-time)	0.7	0.4	0.4	0.0	0.0
Totals	$ 2.7	$ 2.4	$ 0.4	$ 0.0	$ 0.0

As capital projects and reserve transfers are factored into the General Fund unassigned fund balance decreases from $4.5 million to $0.1 million without adequate funding of all anticipated Capital Improvement Projects and Reserve Transfers. The table below presents this reduced funding level for future one-time capital and reserve transfers. Without additional revenues received, the budgeted CIP is reduced the first two years and future projects cease. Additionally, one-time reserve transfers would not be funded the last two forecast years.

The chart shows General Fund unassigned fund balance based on the forecast and the above chart:



The FY 2023-24 budget's CIP program is reduced as a result of available fund balance. Capital project funding is reviewed annually with the budget process and is dependent on availability of unassigned fund balance and a prioritization of the capital projects. This forecast uses the FY 2023-24 CIP. The six year CIP plan included Bonito Canyon ballfield lighting, Zero Tower feasibility study, solar canopies, Del Mar Underground district, and Casa Romantica improvements (includes roofing). Not all of these projects have funding availability.

In summary, revenue overages and cost savings are not sufficient to fund ongoing one-time costs in FY 2024-25 as fund balance would become a deficit unassigned fund balance. The gradual reduction in fund balance over the years derives from revenue losses from the Redevelopment Agency dissolution and the expired Clean Ocean assessment. The Redevelopment Agency revenues provided $2.5 million annually for capital projects within the redevelopment area, including the pier, beach trail, and Casa Romantica. The Clean Ocean fee provided $2.4 million annually to protect and improve water quality resulting from urban and storm water discharges. The Clean Ocean fee provided assistance in the funding of regulatory items to ensure continued compliance and projects to promote better water quality. Although the fee was not renewed, continued compliance is still required and partially funded by the General Fund.

Summary:
The LTFP's goal is to inform and assist City Council and management. The forecast and other information is based on approved service levels and existing expectations. The City Council is encouraged to utilize the forecast for guidance during budget review and in their decision making. The City, due to the limited resources available, may need to adjust services or seek additional revenue to fund capital projects or add new programs. The following items will be considered during budget preparation:

- Program resources – The loss of Redevelopment Agency revenues and the Clean Ocean fee have resulted in lower unassigned fund balance and capital reserve balances. Capital activity has no funding source other than those generated from revenue overages and cost savings. Additional revenue for capital activities, including the commitment to Sand Replenishment, or revenue increases to improve the operating position will be important to fund capital and other long-term components funded by unassigned fund balance. Additionally, a long-term solution to address Clean Ocean and Storm Drain assets must be accomplished.
- Police Contract costs – The County of Orange MOU negotiations were completed and include salary increases of 8%, 5%, and 4%, with additional increases for various employee benefits. The one-time addition of four deputies were included in FY 2023-24.
- Service level changes – City service levels have increased to address citizens' quality of life. These activities, when changed, modify or increase future costs and may not be offset by a revenue source. Future service level changes should consider revenue sources to offset the costs of additional impacts.
- Economic factors – Inflation is still at relatively high levels with long-term inflation expectations at the 2%-3% range in a couple of years. This inflation has decreased purchasing power and increased contract costs. As contracts conclude, the cost impacts will be phased into operations.

The above items impact the General Fund operating position. Options to address these impacts include: 1) Revenue increases - including a higher level of cost recovery for fee supported activities or through revenue measures or actions or 2) Adjust service level costs or utilize one-time revenues to reduce impacts on the operating position and provide funding resources for additional costs.

RECOMMENDATION
Direct staff to explore revenue sources to replace lost revenues from the dissolution of the Redevelopment Agency and the expiration of the Clean Ocean fee to maintain existing service levels and to fund new programs and capital projects.

Forecast Background and Discussion

Annually, the City prepares a five-year financial forecast with the Long Term Financial Plan (LTFP). 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 provide the foundation of the LTFP process and provide information on past history and anticipated results.

The forecast is developed based upon guidelines provided by the Government Finance Officers Association (GFOA). The financial forecast allows the City to determine how spending plans will impact future budgets. This forecast is *not* the budget. This forecast provides Council preliminary information to assist in their prioritization when the Budget is presented to City Council.

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 2023). 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 continue to decline from the higher levels experienced since the pandemic as the Fed moves to curb the growth of inflation by limiting the monetary supply, letting past stimulus work through the system, and allow for supply chain improvements. However, inflation tends to decrease slowly and the decrease is projected to occur over multiple years. A higher rate of inflation of 3-4% is anticipated to ease back to the Federal Reserve target of 2%-3% by the end of the forecast.

In California, population has been decreasing, however this is partially due to limited affordable housing and other impacts. This is anticipated to contribute to lower personal income tax revenues at the state level. Orange County population has decreased similar to the state. Payroll and employment have started to increase but only by about a half percent per year over the last five years within Orange County. There appears to be a labor demand and supply mismatch with a need for high-value-added employees and job creation. Mortgage rates appear to be constraining housing permit activity in the short-term, but is anticipated to improve over time. Consumer spending is anticipated to slow as the pandemic stimulus finishes working through the economy, transitioning to small but stable growth.

Gross Domestic Product (GDP) is anticipated to flatten in 2024 and increase in future years, but growth will be at a lower rate than previously experienced. Overall, the economy is anticipated to continue to grow with the CPI decreasing over the forecast timeframe towards the Federal Reserve's long-term goal of 2%-3%, which is the normal range.

FORECAST INFORMATION

The forecast is based on the General Fund only. The forecast does not include service level changes or impacts on the General Fund to pay for costs funded in other funds. Examples of cost factors which could affect 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 funded through the other Funds program funded by external grants and other resources, are not included. Only General Fund contributions to these funds are included.
- New or enhanced programs have been excluded, including any new positions or restructuring of positions. This would include one-time position funding.
- 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 3.4%, or $3.0 million, a year, while operating expenditures are projected to increase at an average rate of 3.7%, or $3.2 million. This annual disparity creates a deteriorating operating position. These are projections only.

The financial forecast indicates an initial operating position of just over $1.1 million in FY 2025 and decreases during the forecast based on anticipated revenues and expenditures to $453,000. Forecasted revenue growth in property taxes (4.3%) and sales taxes (2.4%) are not keeping pace with the anticipated increases to expenditures. This is being driven by inflation, which is slowly decreasing, being higher than historical rates impacting contract and salary costs. Additionally, the 2022 negative CalPERS investment returns increased the current year UAL payments.

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 basic presentation does not include any spending for one-time capital projects or one-time major maintenance projects. The receipts and disbursements are presented by major category. The five-year forecast follows:

GENERAL FUND – OPERATING FORECAST

(in thousands)

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
BEGINNING UNASSIGNED FUND BALANCE	**$ 4,500**	**$ 5,039**	**$ 5,553**	**$ 5,682**	**$ 5,731**
RECEIPTS					
Property Tax	45,686	47,725	49,620	51,595	53,648
Sales Tax	13,345	13,681	14,092	14,444	14,805
Other Taxes	7,351	7,589	7,782	7,944	8,109
Service Charges	7,058	7,287	7,497	7,702	7,895
Other Revenue	9,981	10,265	10,526	10,766	11,011
TOTAL OPERATING RECEIPTS	**83,421**	**86,547**	**89,517**	**92,451**	**95,468**
COSTS					
Salaries & Benefits	22,656	23,653	24,619	25,441	26,387
Police Contract Services	20,505	21,530	22,607	23,624	24,687
Fire Contract Services	11,785	12,143	12,690	13,261	13,857
Other Contractual Services	15,859	16,413	16,906	17,328	17,675
Other Charges/Supplies	4,473	4,579	4,675	4,759	4,827
Ongoing Maintenance	1,250	1,250	1,250	1,250	1,250
Other Expenditures	5,710	5,881	6,035	6,181	6,332
TOTAL OPERATING COSTS	**82,238**	**85,449**	**88,782**	**91,844**	**95,015**
OPERATING POSITION	1,183	1,098	735	606	453
OTHER FUND BALANCE CHANGES					
Funding 18% Emergency Reserve	(644)	(584)	(606)	(557)	(578)
ENDING UNASSIGNED FUND BALANCE	**$ 5,039**	**$ 5,553**	**$ 5,682**	**$ 5,731**	**$ 5,606**

**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 from $83.4 million to $95.5 million over the forecast period, excluding one-time amounts. Information on the revenue assumptions is 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 $82.2 million to $95.0 million, excluding one-time amounts. Information on the expenditure assumptions is 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 2025	FY 2026	FY 2027	FY 2028	FY 2029
Property Tax	5.13%	4.46%	3.97%	3.98%	3.98%
Sales Tax	1.52%	2.52%	3.00%	2.50%	2.50%
Other Taxes	3.27%	3.25%	2.54%	2.74%	2.50%
Service Charges	3.75%	3.24%	2.87%	2.74%	2.50%
Other Revenues	11.8%[1]	2.76%	2.46%	2.18%	2.18%

1 FY 2024 included one-time transfers to fund the Casa Romantica slope funding.

Property Tax

Property taxes are the City's single largest revenue source representing 55% of General Fund operating revenues. Property tax projections are based on information provided by HdL, the City's property tax advisors. Property taxes include secured, 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 4.3% over the five-year forecast period with increases of 5.1% in FY 2025 with smaller increases in future years eventually to 4% later in the five-year timeframe.

Four 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 2025's CPI growth factor is anticipated to be the 2% maximum. Second, property valuations increase or decrease annually based on transfer of ownership and the related property values. The number of single-family home transactions decreased by 16%, with the average price increasing about $200,000 to $1.9 million at the calendar yearend. Home values are anticipated to remain stable as interest rates on mortgages have stabilized and demand is constant. 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. As property values rise, the County Assessor "recaptures" the valuation increases, until reaching the Proposition 13 cap. Finally, assessed valuation grows when new development is completed and new development is added to the property tax base.

According to HdL, property tax growth will average between 4.0% - 5.1% 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 2.4% over the five-year forecast. The Chapman analysis forecasts small decreases to taxable sales and HdL forecasting just above 2% next year. The FY 2024-25 increase of 1.5% in the forecast incorporates higher receipts, which is a mix of both forecasts. Sales taxes are projected to increase over the forecast period by an average of 2.4% over the forecast period as the CPI lowers and growth stabilizes.

Ongoing City sales tax revenues are forecast to increase 1.5% the first year, then increase the next two years, and then stabilize to 2.5% annually. The 2.5% rate is based on the various forecasts and the FY 2024-25 sales tax estimates are within the most recent HdL analysis. This revenue includes gas price impacts, trends, various economic drivers, and the City's recent developments. Online sales activity is allocated through the County pool. This budget amount will be revised based on further projections provided by the City's sales tax advisors, HdL.

Other Taxes
Other taxes forecasted include Transient Occupancy Tax (TOT), Franchises, and Business License revenues. These taxes are expected to grow within the 2.0% to 4.5% range based on business activity, franchise fees, energy prices, and development within the City. Franchise revenues are taxes paid primarily through utility providers based on revenues and are anticipated to increase based on energy prices. The CR&R agreement and fee composition will be adjusted in the future, however they have little anticipated impacts to General Fund revenues. Transient occupancy tax revenues are forecast to increase based on last year's activity due to growth from pandemic lows and changes to consumer spending. The longer-term outlook is for slower TOT amounts as activity stabilizes over the five-year timeframe. No amounts are included to address future development, but hotels/rooms development would increase these revenues. Business license revenues are forecast to increase 2.5%-3.0% based on recent activity 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 class participants, services provided, and other factors impact these revenues. These revenues are forecast to increase 2.5%-3.75% annually, with a 3.0% 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%-3.0% over the five-years and are to recover General Fund overhead related costs for services provided to other funds. The General Fund cost recovery for services provided to other funds is forecasted at $3.0 million. Transfers are anticipated to decrease initially due to lower gas tax transfers in and then have minor growth over the five years. The base year excludes one-time transfers of $8.8 million to address the use of American Rescue Plan funds and funding for the Casa Romantica slope stabilization. FY 2025 and future years include a 1% factor to address revenue overages for revenue items not anticipated during the budgeting process.

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 2025	FY 2026	FY 2027	FY 2028	FY 2029
Salaries & Benefits	4.67%	4.40%	4.08%	3.34%	3.72%
Police Contract Services	5.0%[1]	5.00%	5.00%	4.50%	4.50%
Fire Contract Services	4.95%	3.04%	4.50%	4.50%	4.50%
Other Contract Services	4.0%[2]	3.50%	3.00%	2.50%	2.00%
Other Charges/Supplies	22.1%[3]	2.35%	2.11%	1.78%	1.43%
Ongoing Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%
Other Expenditures	-12.0%	2.11%	1.99%	1.78%	1.77%

1 FY 2024 included one-time cost of the four additional deputies
2 FY 2024 included $8.8 million project for Casa Romantica Land Stabilization.
3 FY 2024 included allocation of 1/3rd of Transient Occupancy Tax for UAL pension allocation.

Salaries & Benefits

The forecast assumes growth in salaries and benefits. In total, salaries and benefits are forecasted to increase from the prior year with annual increases between 3.3% and 4.7% over five years. A Class and Compensation study was completed to address staffing classifications and other agency compensation comparisons. Council approved these adjustments to help recruit and retain employees prior to the existing MOU completion which ends on June 30, 2024. Future salary cost estimates are unavailable. Generally, CPI and Personal Income growth are used as indicators for wage growth, merit increases, medical cost changes, retirement and other benefit amounts. In total, salary and benefits are projected to increase 4% over the five-year period. No vacancy factor is assumed for staffing costs.

Separately, benefits increase 0%-8% during the forecast period varying by year and benefit type. Medical and retirement costs are the primary cost drivers in benefits. Medical increases forecast to keep pace with anticipated inflation and retirement costs were higher initially due to CalPERS 2022 investment returns but flattened as the UAL is reduced and retirement costs are mitigated as a result of the Public Employees' Pension Reform Act (PEPRA). 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 with the County Sheriff's contract as a less expensive option compared to creating and operating a full-service city police force. Like most California agencies, public safety costs have increased substantially for multiple reasons.

The County of Orange Sheriff's contract costs are driven mostly by personnel costs. The previous year's County union MOU concluded on June 30, 2023. Recently, a new MOU through June 30, 2026 approved by the Board of Supervisors totaled 17% - with increases of 8% in FY 2024, 5% in FY 2025, and 4% in FY 2026. The City's FY 2023-24 budget included one-time costs for 4 deputies and a budget increase of approximately 7% to addresses the 1st year negotiation cost. The actual approved MOU increase was 8% implemented in January 2024. Other cost increases include services and supplies, transportation, department overhead, and training will be realized.

In total, the forecasted growth rate starts at 5% and decreases to 4.5% for the later forecast years. The police contract category shows the OCSD contract amount. Police positions remain at the previous level for the term of the forecast (less last year's one-time 4 deputies). Any staffing increases would result in higher costs above the forecasted amounts. Body cameras are included, however future implementation costs may occur and are not incorporated.

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. The average increase is 4.5% for all police costs in the forecast. Total FY 2025 police related costs are forecasted at $24.3 million, including the driver license reader annual fees.

Fire Contract Services

Fire Services costs are projected in the forecast to increase by 5.0% over the prior year, with subsequent years between 3%-4.5%. OCFA's fire contract costs are projected to increase as the City increases amounts for the 4th firefighter position. Annual contract percentages of 3.3% - 4.5% (the contract cap) are anticipated during the forecast period.

This contract includes a maximum cap of 4.5% each year, the highest increase allowed under the contract with the Orange County Fire Authority (OCFA), excluding additional paramedic/firefighter costs. 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 2025 will be determined over the next several months through the budget process, but is expected to be in the 4-5% range. The annual average increase for the fire contract services is 4.3% in the forecast period.

The 4th firefighter/paramedic full rotation addition started in FY 2017-18. The last portion of the phased cost paid by the City is in FY 2025. The City's phased-in share of these costs are included in the forecast, based on OCFA projections. These may vary 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 costs forecasted for FY 2025 total $14.8 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 1st year increase is 4.0%, excluding the $8.8 million for the Casa Romantica land stabilization project. If included there is a 34% decrease. The forecasted annual increase recognizes expected CPI levels based on forecast and contract considerations.

One of the individual contracts is for the ambulance transport services provider which is in place until June 30, 2027 for two full-time ambulances with annual increases of 2.5% to 4.7%.

Other Charges/Supplies

Other charges/supplies include the CalPERS public safety payment, contract class instructors, street signs, materials, chemicals, special events, postage, tools, dues and subscriptions, and other general operating supplies. Supplies and other charges (excluding the public safety pension) increase 3.75% initially and the annual increase lowers to 1.4% over the forecast period. Some costs may increase more and some less, but generally the amounts should increase around anticipated inflation levels.

The 1st year percentage increase is driven by higher public safety UAL pension payments based on the 2022 CalPERS negative investment return. Future UAL payments are forecast as flat.

On-going Maintenance

The City budgets annually for routine capital maintenance for streets, sidewalks, and facility maintenance costs. The base maintenance project amounts do not include separate one-time projects which are non-routine in nature that are called out distinctly in the Capital Improvement Program budget process. These budgets do not increase annually and include smaller maintenance projects that fit within the scope of the budget.

This base 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 2025	FY 2026	FY 2027	FY 2028	FY 2029
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 category is comprised mostly of transfers and interdepartmental charges. Transfers include the following: 1) $500,000 to provide annual funding for the Street improvement Program, 2) an increase to transit (Trolley and SC Rides) funding to $330,000 from $265,000 to fund costs for the Green Line operations, and 3) a $15,000 transfer to assist with Senior Mobility.

Interdepartmental charges consist of charges to recover amounts for specific activities. These include insurance, postage, duplicating, EDMS, IT, communication, fleet, and capital costs. Costs are anticipated to increase annually from 2.5%-3.0%. Also, a 1% cost savings factor is included anticipating salary vacancies and other contract savings from budgeted amounts.

Capital Projects

Future capital projects are based on the FY 2024 Capital Improvement Project schedule. Circumstances and needs may have changed since the last year's budget was approved. The FY 2024 Capital Improvement Project schedule included the following project costs, however projects will be limited to the available fund balance within the General Fund.

Description	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Non-recurring projects	$ 9,165,000	$ 3,250,000	$ 4,630,000	$ 280,000	$ 4,331,250
Reduction – due to fund balance availability	(7,165,000)	(1,250,000)	(4,630,000)	(280,000)	(4,331,250)
Total	$ 2,000,000	$ 2,000,000	$ - 0 -	$ - 0 -	$ - 0 -

Due to the limitations of fund balance $2.0 million would be able to be spent each year in the two-year budget cycle on capital projects. A revised prioritization of projects is completed during the budget development process based on available fund balance. Existing projects currently approved by City Council and budgeted may be removed during the budget process, such as the Avenida Victoria sidewalk widening project, and park monument signage. The removal of these non-critical projects would provide funds to complete higher priority one-time projects with more substantial costs in these years. One example of a high priority item is the Pedestrian Audible Warning System.

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.

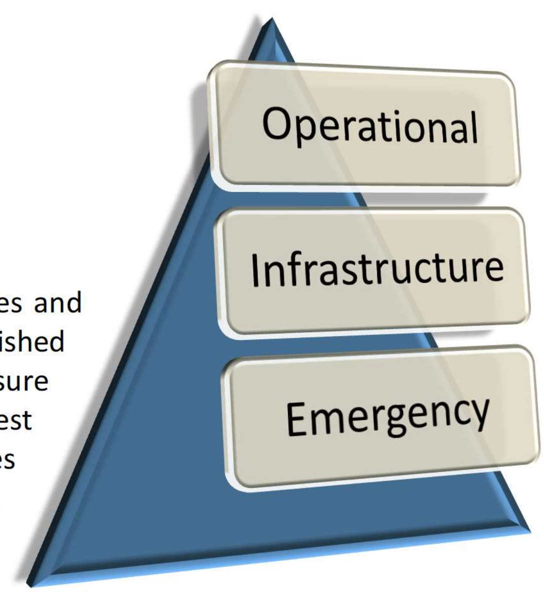
The Water, Sewer, Golf, Storm Drain, and Solid Waste Funds maintain an emergency reserve per Fiscal Policy similar to the General Fund to protect essential services during periods of economic downturn. In addition, the Water, Sewer, Storm Drain and Golf funds maintain Depreciation Reserves for the maintenance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

- Purpose – provides information on the general use and purpose of the reserve
- Funding – discussion on whether funding is received 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 – 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 2023-24 General Fund reflect the General Fund Emergency Reserve funding level at 18% of operating expenditures with no changes recommended to the funding percentage in FY 2024-25. No changes to the Enterprise Emergency Reserves are recommended. However, a prior year recommendation to review rates in the Sewer Fund was completed and new rates were adopted, which will improve the outlook of that fund over time and allow for Emergency and Depreciation Reserves to recover. Additionally, the Storm Drain funding from the Clean Ocean fee for Clean Ocean funded assets is suspended, impacting Storm Drain Emergency reserves. Funding transfers will be reconsidered with any Clean Ocean assessment. The Golf Course adjusted rates and the Emergency Reserve is now funded and internal loan borrowing from Golf Depreciation and Improvement Reserves have been implemented to repay temporarily borrowing to fund Golf operations.

Capital/Infrastructure Reserves provide for the replacement of capital assets, including infrastructure. Multiple capital reserves are 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 replacement of long-term capital assets, such as water, sewer, and storm drain capital assets needs to be addressed as these capital assets are substantially greater in cost. Capital/Infrastructure reserves mitigate direct funding impacts in any one year, building funds over a longer period of time. Capital reserve funding will not be accomplished in one year, but will take deliberate actions in future years.

Water capital asset funding is improving, with asset model contributions to address capital needs. Sewer and Storm Drain capital reserves are being depleted. A Sewer cost of service study was completed but will take time to improve funding levels and fully recover costs. An annual transfer is recommended to replenish capital reserves after funds were utilized to provide working capital with a goal of building depreciation reserves to fund 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 with a one-time transfer as interest earnings boost reserve levels. The State Revolving Loan Reserve is funded in accordance the State loan agreement and fiscal policy. Liability reserves are stable and may assist with uncovered claims or other issues 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, 2024 reserve requirements:

Reserves	Fund	Estimated Reserve Balances at June 30, 2024	FY 2024 Status
Emergency Reserves:			
General Fund Emergency Reserve	General Fund	$ 14,952,000	Properly Funded
Water Operating	Water Fund	$ 1,528,000	Properly Funded
Sewer Operating	Sewer Fund	$ 195,000	*Not Funded* [1]
Golf Course Operating	Golf Course Fund	$ 359,000	Properly Funded
Storm Drain Operating	Storm Drain Fund	$ 116,000	*Not Funded* [1]
Solid Waste	Solid Waste Fund	$ 35,000	Properly Funded
Capital/Infrastructure Reserves:			
Fleet Replacement	All Funds	$ 3,748,000	Properly Funded
Capital Equipment Replacement	General Fund	$ 1,800,000	Properly Funded
Facilities Maintenance	General Fund	$ 2,125,000	Properly Funded [2]
Park Asset Replacement	General Fund	$ 1,440,000	Properly Funded [2]
Water Fund Depreciation	Water Fund	$ 12,600,000	*Partially Funded* [3]
Sewer Fund Depreciation	Sewer Fund	$ 2,040,000	*Partially Funded* [3]
Storm Drain Fund Depreciation	Storm Drain Fund	$ 881,000	*Partially Funded* [3]
Golf Course Fund Depreciation	Golf Course Fund	$ 3,484,000	Properly Funded
Golf Capital Improvement Reserve	Golf Course Fund	$ 1,191,000	Properly Funded
Operational Reserves:			
Accrued Leave	General Fund	$ 625,000	Properly Funded [2]
State Revolving Loan Reserve	Water Fund	$ 900,600	Properly Funded
General Liability Self-Insurance	All Funds	$ 4,728,000	Properly Funded
Workers' Compensation Insurance	All Funds	$ 1,472,000	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, 2024, 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, 2024. Actions, such as asset model funding or transfers, narrow the funding gap 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 long-term capital funding needs as appropriate.

A summary of the recommendations for the next two years 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 2024-25 and FY 2025-26.
- Transfer a one-time amount of $100,000 from the General Fund to the Park Asset Reserve in FY 2024-25.
- Transfer an annual amount of $300,000 from the Sewer Operating Fund in FY 2024-25 and FY 2025-26 to fund sewer asset replacement in the Sewer Depreciation Reserve.
- Prioritize capital projects until the implementation of a Clean Ocean measure or long-term alternative funding is available for storm drains.

Operational Reserves

- Transfer a one-time amount of $200,000 from the General Fund to the Accrued Leave Reserve in FY 2024-25.

General Fund Emergency Reserve

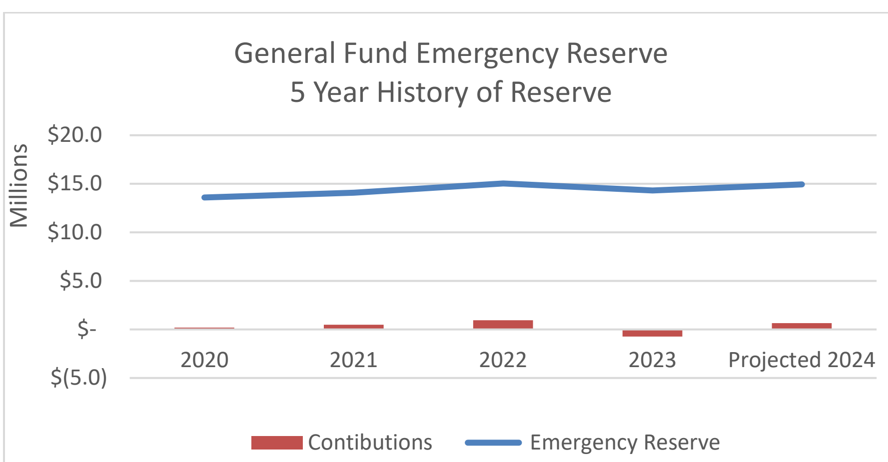
Emergency Reserve Category

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 18% 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 18% of operating expenditures, reducing from 20% based on Council action in 2023. 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 18% provides for cash flow fluctuations during a particular month and slightly exceeds the GFOA minimum recommendation (17%). In FY 2025, the reserve will increase to $15.0 million based on the forecast.



Recommendation: No changes recommended.

Enterprise Emergency Reserve

Emergency Reserve Category

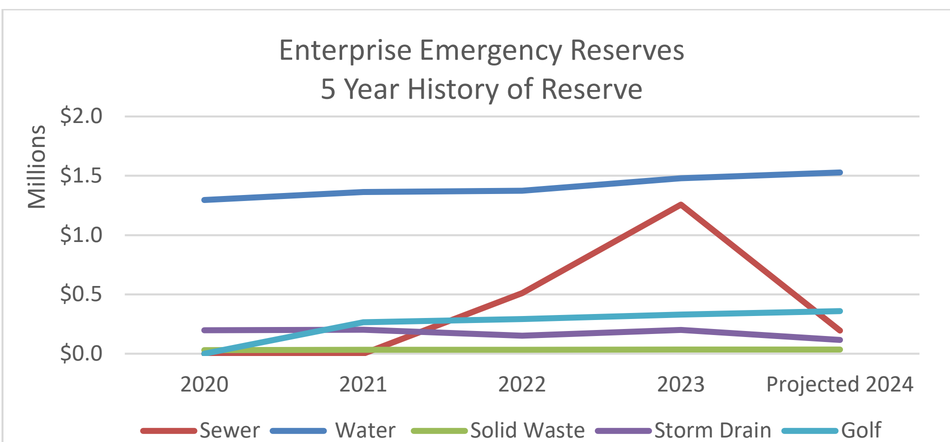
Purpose: The City's enterprise fund emergency reserves are to fund unanticipated costs from unforeseen disasters and to provide a financial buffer to prevent a need to dramatically increase rates based on these unforeseen disasters.

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 internal fund loan repayments to Golf capital reserves have been initiated.

Storm Drain Emergency Reserves are not funded and reserves are being depleted. Clean Ocean transfers that supported contributed storm drain assets were reduced based on the fee expiration. Sewer Emergency Reserves are not funded and Depreciation reserve funds were used to maintain a positive working capital balance. A Sewer rate study was completed and approved to limit the need for depreciation transfers to operating.



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, 2023	Requirement at July 1, 2024	Requirement at July 1, 2025	Funded - Yes/No (Amount funded)
Water Fund	$ 1,478,000	$ 1,528,000	$ 1,589,000	Yes
Sewer Fund	1,440,000	1,463,000	1,521,000	No ($195,000)
Golf Course Fund	330,000	359,000	374,000	Yes
Storm Drain Fund	200,000	200,000	205,000	No ($116,000)
Solid Waste Fund	35,000	35,000	35,000	Yes

Recommendation: No changes recommended.

Fleet Replacement Reserve

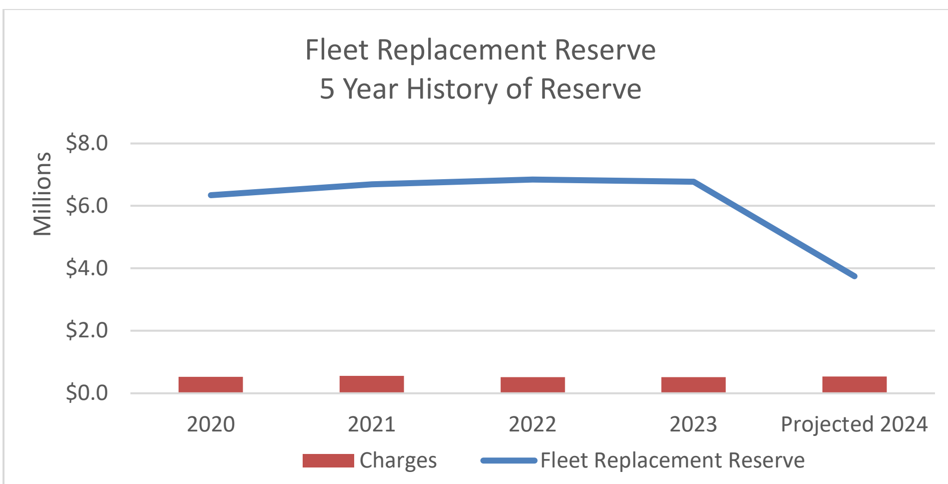
Capital/Infrastructure Reserve Category

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 $8.2 million. The replacements include $6.4 million during the next five years, including a budgeted vactor unit, and $1.8 million for replacement after six years. This reserve is fully funded with a projected balance of $3.8 million at June 30, 2024.



Recommendation: No changes recommended.

Capital Equipment Replacement Reserve

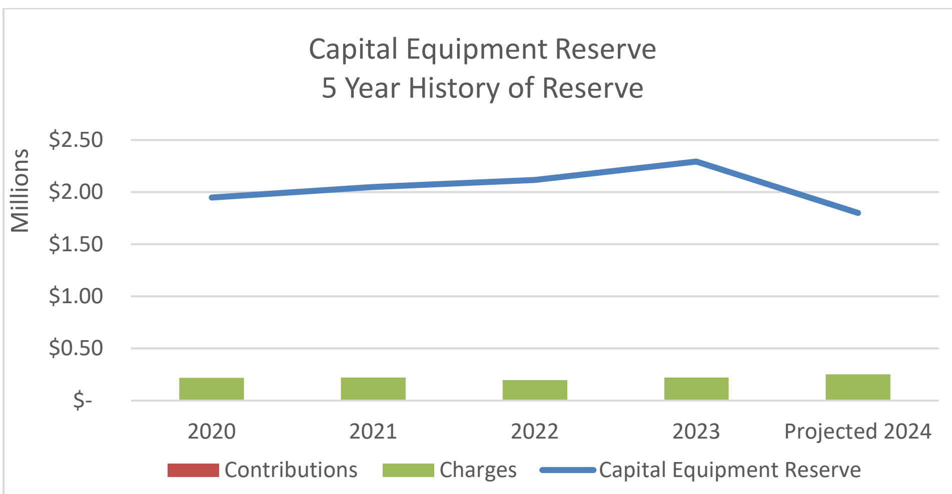
Capital/Infrastructure Reserve Category

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, 2024 is $1.8 million and the anticipated five-year costs are fully funded.



Recommendation: No changes recommended.

Facilities Maintenance Reserve

Capital/Infrastructure Reserve Category

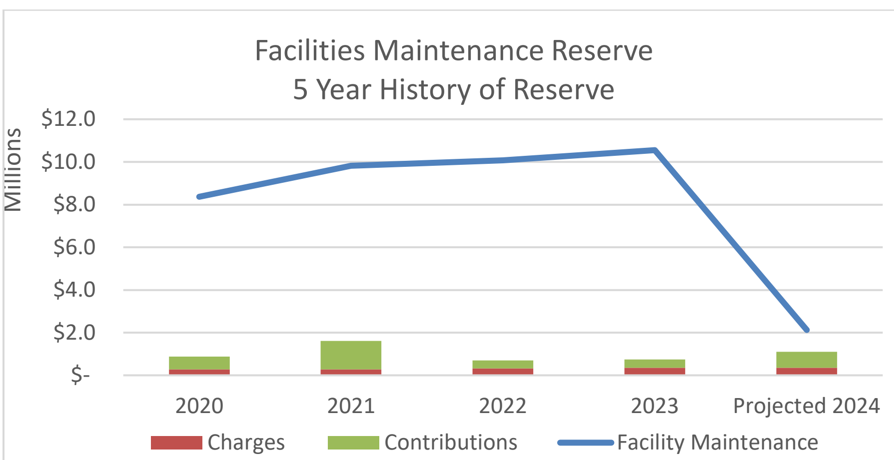
Purpose: The City established this reserve to provide funds for the maintenance of City facilities.

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

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

Discussion/Analysis and Assessment: General Fund facilities are replaced through capital expenditures made from this fund. The projected fund balance at June 30, 2024 of $2.1 million is sufficient to fund replacement projects within the 5 year timeframe. The decrease reflected in the graph below is related to the non-routine Casa Romantica land stabilization project for approximately $9 million.

Longer term non-routine capital projects, such as, the Marine Safety building, Maintenance building, the pier, and other substantial buildings and facilities will require additional funding. The General fund, as a result of the draw to fund the land stabilization project, needs to replenish the reserve and should contribute a recurring amount of $600,000 for larger cost projects. Staff will analyze capital asset categories, within Lucity, and better identify replacement costs for specific assets in the future.



Recommendations: Transfer an annual amount of $400,000 from the General Fund to the Facilities Maintenance Reserve in FY 2024-25 and in FY 2025-26.

Park Asset Reserve

Capital/Infrastructure Reserve Category

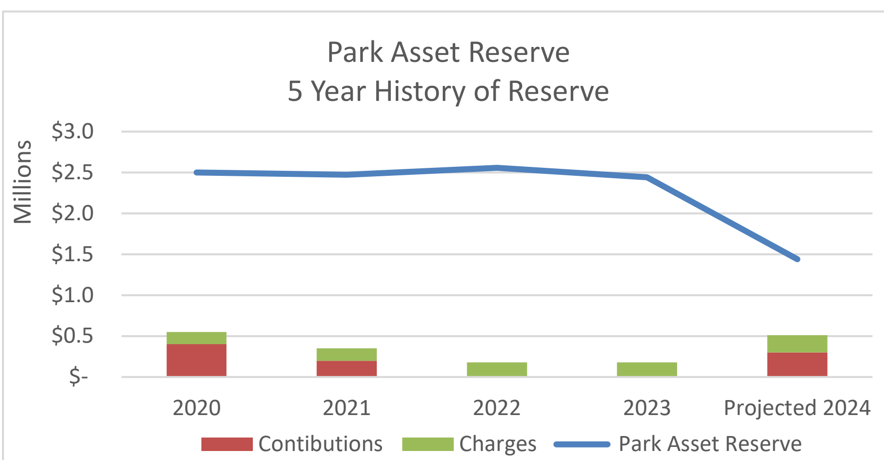
Purpose: The Park Asset Reserve is used for replacement of park capital assets valued over $50,000 within city parks. This reserve is funding playground equipment replacements and setting aside funds for artificial turf replacement at the Vista Hermosa Sports Park.

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 over $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 (playground equipment) and identified artificial turf replacement for funding.

The projected balance at June 30, 2024 is $1.4 million. The City is utilizing the reserve to fund playground equipment based on a replacement schedule to fund upgraded playground equipment from the existing equipment and for an artificial turf project in 2024. As replacement projects are completed, replacement charges to the benefiting program replenish the Park Asset Reserve based on an estimated asset life. FY 2024-25 charges are anticipated at $220,000 and a one-time $100,000 transfer is recommended for artificial turf replacement 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 $100,000 from the General Fund to the Park Asset Reserve in FY 2024-25. No transfer is recommended in FY 2025-26.

Water Fund Depreciation Reserve

Capital/Infrastructure Reserve Category

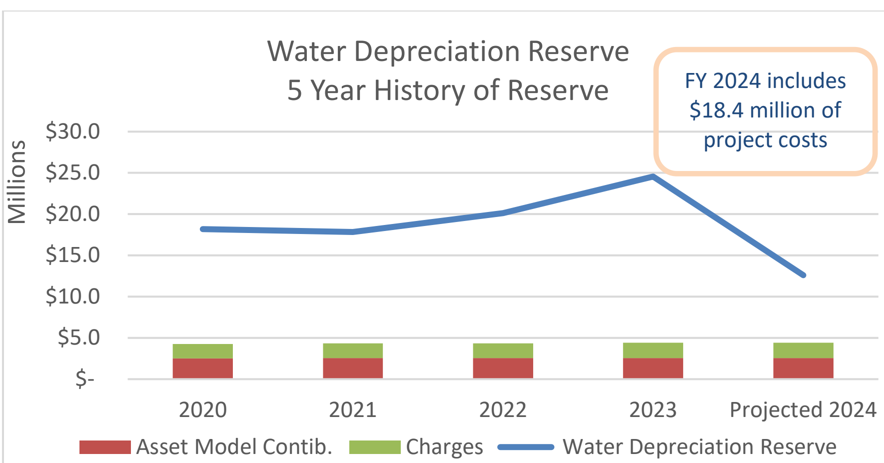
Purpose: The Water Depreciation reserve sets aside replacement funds for water capital assets and equipment that reach the end of their useful life and for major repairs to the water system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained 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, 2024 is $12.6 million if all projects are completed. The three-year capital costs total $17.5 million. Therefore, the Depreciation Reserves are underfunded by $4.9 million, as compared to last years $3.0 million underfunding. The City has improved its progress in funding three years of capital project activity over the past 5-year history through additional transfers 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 was stable. Contributions funding the reserve are increasing and additional transfers from operating funds have improved the funding levels, however no one-time transfers from the Water Operating Fund are proposed until a new water rate study is complete. Staff will consider future reserve contributions based on funding availability.



Recommendation: No changes recommended.

Sewer Depreciation Reserve

Capital/Infrastructure Reserve Category

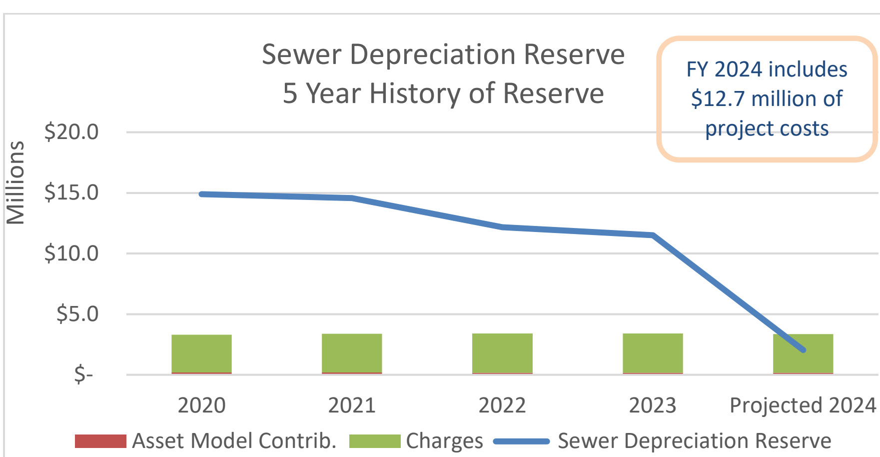
Purpose: The Sewer Depreciation reserve set aside replacement funds for sewer capital assets and equipment that reach the end of their useful life and for major repairs to the sewer system infrastructure. This reserve includes Other Agency infrastructure assets that are owned, operated and maintained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

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

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

Discussion/Analysis and Assessment: Sewer infrastructure reserves have been underfunded for a long period of time. Council has taken action to increase contributions based on an Asset Model to narrow this funding gap. The projected ending depreciation reserve balance at June 30, 2024 is $2.0 million if all projects are completed. The three-year capital costs total $12.4 million. Therefore, the Depreciation Reserve is $10.4 million underfunded. The City recently implemented new sewer rates and with the anticipated rate changes amounts contributed from the Sewer Operating Fund annually will improve the future funding levels.

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 exists and with the Sewer Treatment Plant aging and environmental regulations added underfunding will persist. Funding of the contributions should be maintained, and the replenishment from operating fund should occur with additional contributions considered if significant one-time resources or grants are received to fund depreciation reserves.



Recommendation: Transfer an annual amount of $300,000 from the Sewer Operating in FY 2024-25 and FY 2025-26 to fund sewer asset replacement in the Sewer Depreciation Reserve.

Storm Drain Depreciation Reserve

Capital/Infrastructure Reserve Category

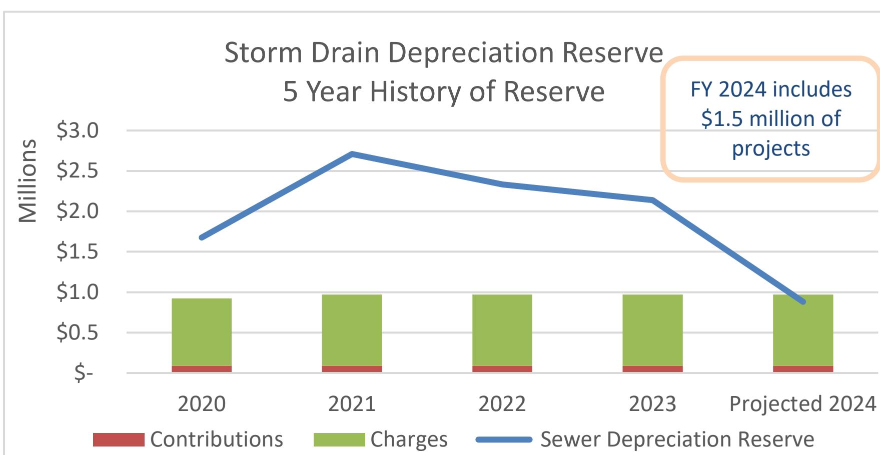
Purpose: The Storm Drain Depreciation reserves set aside replacement funds for storm drain capital assets and equipment that reach the end of their useful life and for major repairs to the storm drain system infrastructure.

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, 2024 is $0.8 million and the three-year capital costs total $5.2 million. Therefore, the Depreciation Reserve is underfunded by $4.4 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. Staff will monitor legislative developments to modify Storm Drain fees to meet demands placed on the City's public storm drain system.

The Storm Drain Depreciation Fund contributes $890,000 based on depreciation funding and an additional reserve contribution of $90,000 for a total contribution of $980,000 in FY 2024-25. The depreciation funding amount is based on the estimated useful life of the capital assets. The additional contribution is estimated to fund past costs of the reserve.



Recommendation: Prioritize capital projects until the implementation of a Clean Ocean measure or long term alternative funding is available for storm drains.

Golf Depreciation Reserve

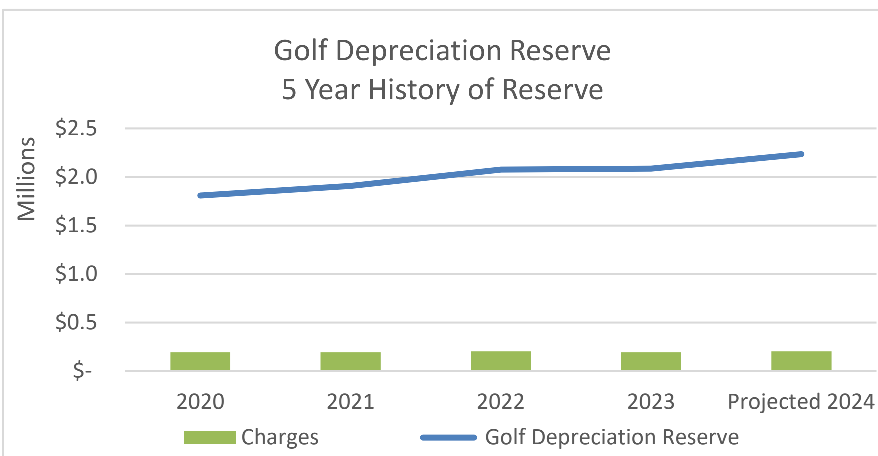
Capital/Infrastructure Reserve Category

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, 2024 is $3.5 million however the loan receivable amount of $1,250,000 reduces the amount available to $2.2 million. Projected capital expenses for the next three years total $275,000. 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

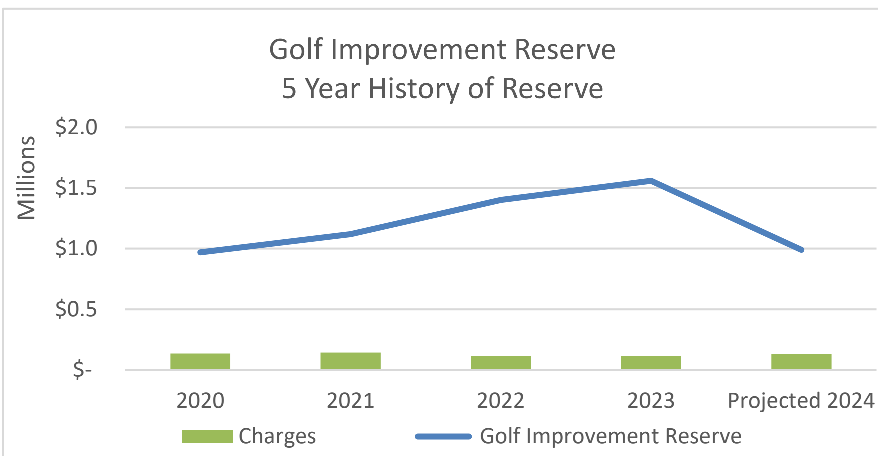
Capital/Infrastructure Reserve Category

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, 2024 is projected to have an ending balance of $1.2 million, however the loan receivable amount of $200,000 reduces the amount available to $1.0 million. Projected expenses for the next three years total $380,000. 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

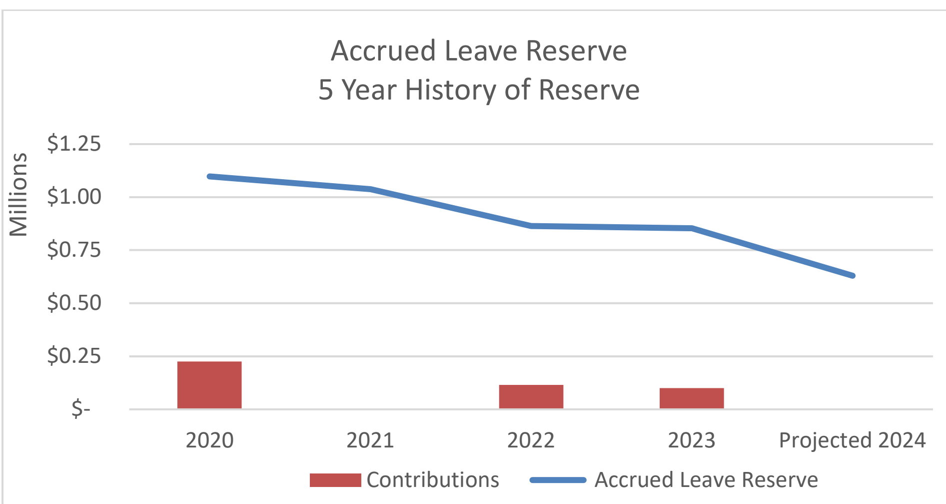
Purpose: The City reserves amounts for the payment of vacation and sick leave payoffs for General Fund eligible employees. Amounts are set aside in a separate reserve for this purpose. An annual amount is budgeted from this reserve to payoff General Fund employee's vacation and sick leave balances for 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, 2023, the total General Fund accrued leave liability was $0.9 million, with $430,000 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, 2024 is $624,000 and the projected ending liability is $737,000.

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



Recommendation: Transfer a one-time amount of $200,000 from the General Fund to the Accrued Leave Reserve in FY 2024-25. No transfer is recommended in FY 2025-26.

State Revolving Loan Reserve

Miscellaneous Reserve Category

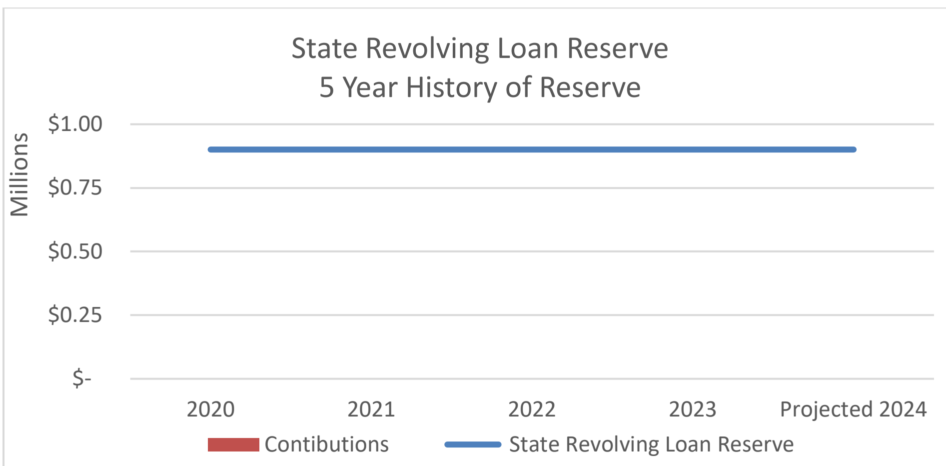
Purpose: The City of San Clemente entered into a loan agreement with the California State Water Resources Control Board under the Clean Water State Revolving Fund (CWSRF) loan program for financing construction of the Recycled Water System Expansion Project. As required under the State Revolving Loan, 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, 2024 is projected to be $8.7 million. This loan is being amortized over a period of 20 years and the loan is anticipated to be paid in full in FY 2034-35. The 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 2023-24 is estimated at $2.3 million, which would be the reserve requirement. The projected General Liability balance at June 30, 2024 is $4.7 million.

The City has $2.4 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 2024-25 and FY 2025-26:

	Past Claims % (25%)	Budgeted Expenditures % (75%)	General Liability Charges % (weighted average)	Total Charge for General Liability (new rate)	Total Charge for General Liability FY 2023-24
General Fund	62.1%	66.6%	65.5%	$ 1,768,500	$ 1,870,050
Water Fund	25.4%	17.3%	19.3%	520,980	463,920
Sewer Fund	10.3%	7.2%	8.0%	216,270	188,580
Solid Waste Fund	0.5%	0.2%	0.3%	7,200	9,060
Storm Drain Fund	1.7%	0.7%	0.9%	24,720	17,400
Golf Course Fund	0.0%	2.4%	1.8%	49,650	48,810
Clean Ocean Fund	0.0%	1.8%	1.3%	35,610	30,540
Central Services Fund	0.0%	0.4%	0.3%	8,250	9,360
Information Services Fund	0.0%	2.2%	1.7%	45,030	38,280
Fleet Maintenance Fund	0.0%	1.2%	0.9%	23,790	24,000
Total	**100.0%**	**100.0%**	**100.0%**	**$2,700,000**	**$2,700,000**

Workers Compensation Reserve

Miscellaneous Reserve Category

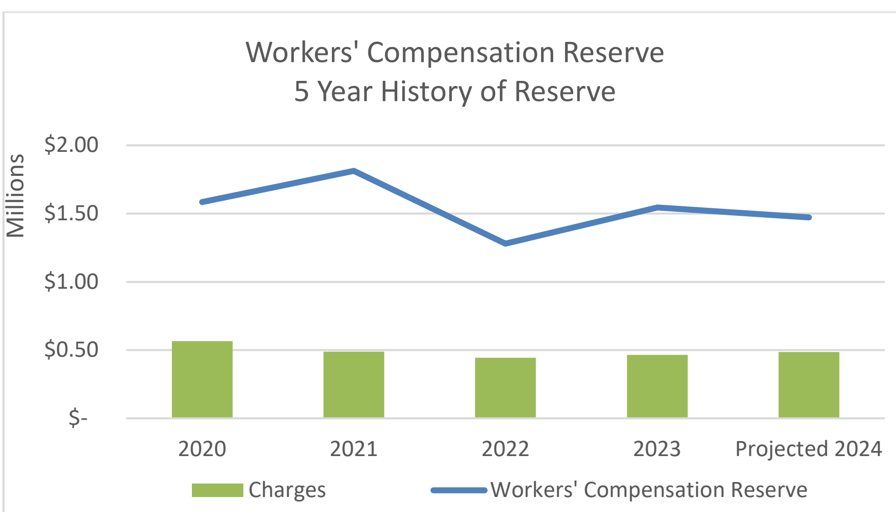
Purpose: The City is self-insured for Workers' Compensation coverage and purchases. The Public Risk Innovation, Solutions, and Management (PRISM) Insurance Authority provides coverage for Workers' Compensation claims in excess of $300,000, which is the City's Self-Insurance Retention (SIR) amount.

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, 2024, projected assets of $2.0 million reduced by claims payable of $0.5 million leaving a projected reserve balance at $1.5 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 occasional modifications to existing fiscal policies to address changing circumstances.

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, 2024, presented within the Reserve Analysis Paper in this year's Long Term Financial Plan.

Fiscal Policy recommendations are presented below:

Staff Recommendation
No recommendations

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.	√	
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.

	Fiscal Policy Statement	Status	Comments
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	Allocate one-third of total Transient Occupancy Tax dollars toward the unfunded pension liability.	√	
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 was completed 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. √

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.	√	
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 18% 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 = $15.0 million, or 18%, of General Fund operating expenditures based on forecast
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 = $1,528,000; Sewer = not funded; Storm Drain = not funded; Solid Waste = $35,000; and Golf = $359,000

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 = $625,000
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 = $1.8 million Facilities Maintenance Reserve = $2.1 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 = $12.6 million; Sewer Depreciation Reserve = $2.0 million; Golf Depreciation Reserve = $3.5 million; and Storm Drain Depreciation Reserve = $0.9 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 = $1.2 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 = $1.4 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 = $4.7 million
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 = $1.5 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 = $3.7 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.	√	
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.	✓	
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.		The City is allocating additional funds to achieve the target funded status over time.

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, 2024.