



City of San Clemente

# Fiscal State of the City

## FY 2013

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## FISCAL STATE OF THE CITY OVERVIEW

The "Fiscal State of the City" provides a brief "snapshot" of the City's financial condition at the end of the fiscal year. More comprehensive details of San Clemente's finances are provided in the *Comprehensive Annual Financial Report (CAFR)* which will be issued in December.

At the end of FY2013, the City experienced an increase in General Fund actual revenues, in large part due to increased property taxes, mainly attributed to the State of California repayment of \$2.2 million. As always, the City will continue to apply a conservative approach to maintain a balanced budget. As highlighted in previous fiscal years, the City will remain diligent in monitoring both revenues and costs to achieve a balanced budget and positive operating position.

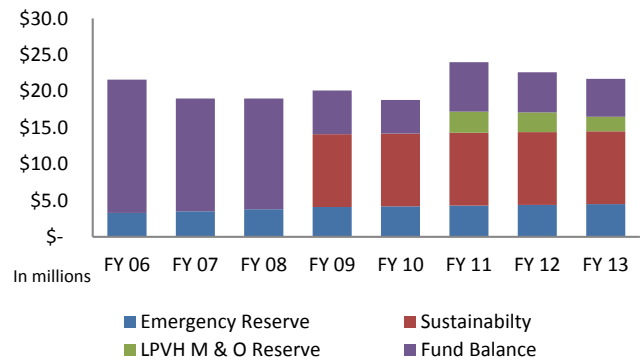
As a slowly improving economy provides revenue stability, the City continues to focus on implementing organizational efficiencies and cost saving measures. City staff strives for new and more cost effective ways to deliver services, while not negatively impacting City residents.

Further analysis and the long term forecast will be completed as a part of the City's *2014 Long Term Financial Plan (LTFP)*.

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

- General Fund - Fund Balance
- Reserves
- Investments
- Where the Money Is
- City Pension Fund
- Inter-fund Loans
- Capital Improvement Program
- Major Projects & Accomplishments
- Fiscal Challenges – Capital/Operating
- Bond Rating
- Forecast

## GENERAL FUND – FUND BALANCE



Unassigned fund balance at the end of FY2013 totals \$5.2 million, including a \$2.2 million repayment of property taxes from the State of California, a \$300,000 refund from the County for property tax administrative fees overcharged in prior years, and various FY2013 budgetary savings. In the FY2014 budget, projected fund balance for FY2014 amounted to \$1.4 million. Adding the \$2.2 million State repayment, the \$300,000 County refund, and the remaining monies associated with FY2013 expenditure savings, projected unassigned fund balance for FY2014 will be increased to \$4.5 million.

## RESERVES

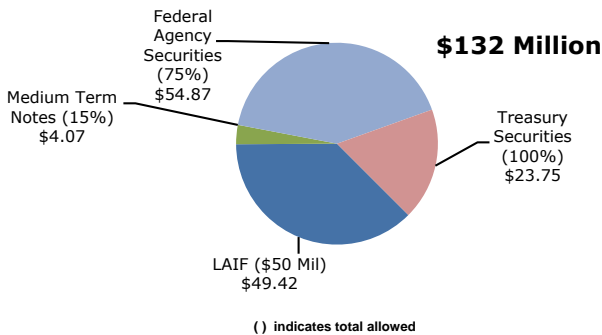
The City maintains reserves to; a) protect essential service programs, b) maintain self-insurance retention reserves, and c) provide resources to replace and repair City-owned facilities and capital equipment. Reserve levels are determined by the City's Fiscal Policy as part of the Long Term Financial Plan (LTFP).

Reserve Balances	June 30, 2013
Emergency Reserves:	
General Fund	\$ 4,538,000
Other Funds	2,185,000
Sustainability Reserve	10,000,000
LPVH Maint. & Operation Reserve	1,978,000
Self-Insurance Reserves	1,094,000
Capital Replacement Reserves	7,233,000
Infrastructure Reserves	31,477,000
<b>Total Reserves</b>	<b>\$ 58,505,000</b>

**INVESTMENTS** 

At June 30, 2013 the total investment portfolio, was \$132 million with an average yield of 0.66%. The City earned \$1.1 million as compared to \$1.7 million last year on the portfolio due to a lower interest rate environment and lower cash balances.

The following chart indicates the portfolio diversification based on investment type:



	June 30, 2012	June 30, 2013
Amount Invested	\$134,675,934	\$132,098,002
Yield to Maturity	1.10%	0.66%

**WHERE THE MONEY IS** 

The City's investment portfolio, including cash, totals \$135 million. The portfolio represents the accumulated cash balances from all City funds, including the General Fund, Enterprise Funds, Capital Improvement Funds, Internal Service Funds, and Reserves. A significant portion of these cash balances are legally restricted and can be used for specific purposes only.

The following chart provides a summary by major category of the cash balances.

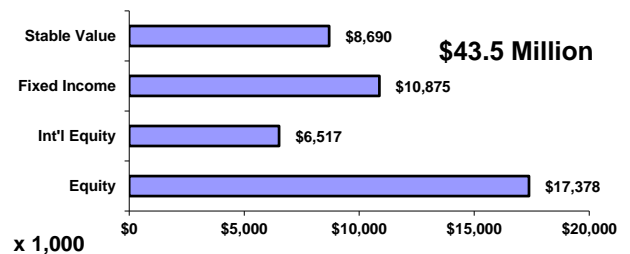
Cash Balances		June 30, 2013
General Fund (1)		29,722,000
Enterprise Operating Funds	R	3,772,000
Enterprise Infrastructure Reserves	R	42,483,000
Developer Impact Fee Reserves	R	32,578,000
Restricted Funds	R	19,532,000
Internal Service/Insurance Funds		7,340,000
<b>Total cash balances</b>		<b>135,427,000</b>

(R) "Restricted" funds  
 (1) Includes \$4,538,000 in an emergency reserve and \$10 million in a sustainability reserve.

While the preceding chart presents the cash balances within the major funds, it does not represent cash available to spend. Some cash balances are restricted as to use, including development impact fees, sewer connection reserves, and gas tax funds. Additionally, cash balances can be encumbered for a variety of purposes, including current year operating expenditures, capital improvements, contract services, and self-insurance reserves.

**CITY PENSION FUND** 

The City's Pension Fund amounts to \$43.5 million as of June 30, 2013 up from \$36.4 million last year. The asset allocation of the pension fund is as follows:



Pension Fund assets have increased due to market gains and contributions. The City's annual contribution is subject to changes in future retirement contributions as a result of actuarial factors and assumed investment returns.

The State of California adopted legislation effective January 1, 2013 addressing public pensions. This law effects a multitude of factors including: employee contributions, benefit levels and ages, service credit purchases, and compensation caps.

**INTER-FUND LOANS** 

The City has several inter-fund loans or advances outstanding as of June 30, 2013. These loans and advances were made to meet short-term capital needs or temporary financing until longer term alternatives could be obtained. The fund and outstanding amounts follow:

- General Fund loan to the Successor Agency (formerly the RDA) of \$2 million – to refinance two previous loans
- Golf Course Fund Loan of \$2.5 million to finance the clubhouse project. The



outstanding amount totals \$2.4 million, with \$605,881 due to the Workers Compensation Fund and \$1,750,000 to reserves within the Golf Fund.

## **CAPITAL IMPROVEMENT PROGRAM**

The City had 116 Capital Improvement Program (CIP) projects in progress during the year, of which 52 projects were completed. Major projects completed during the year included the Max Berg Park Improvements and the San Gabriel Force Main Rehabilitation. Major capital projects in process include the Recycled Water Expansion project, which will double the daily production of recycled water, the Ole Hanson Beach Club rehabilitation, and the Reeves Pump Station rehabilitation project.

The total CIP budget was \$69.7 million with \$14.9 million spent during FY 2013. At year-end, multi-year projects totaling approximately \$56.9 million will be carried into FY 2014, with \$18.2 related to the Recycled Water Expansion project.

## **MAJOR PROJECTS & ACCOMPLISHMENTS**

Over the past year, the City of San Clemente has focused its efforts on projects that are of benefit to the community or improve public services. Major projects included:

- City-wide General Plan Update in process
- Completed trail lighting from Linda Lane to the Pier
- Completed the first year of operations at Vista Hermosa Sports Park and San Clemente Aquatics Center
- Started construction on the Recycled Water Expansion project.

## **FISCAL CHALLENGES - CAPITAL**

During Fiscal Year 2013 funding gaps were closed on the following two major capital projects:

- Ole Hanson Beach Club Rehabilitation
- Recycled Water Expansion

The rehabilitation budget for the Ole Hanson Beach Club was increased in 2013. The building, which was constructed in 1928, is listed as a Historic Resource. During the design phase of the

project, it became evident that additional funding would be required to make the necessary repairs and restoration fitting with the historic nature of the structure. An additional \$1.7 million was allocated from the General Fund, increasing the total project budget to \$3.2 million.

The design phase of the Recycled Water Expansion project was completed during 2012. Construction mobilization began in the spring of 2013. This project is funded through low interest loans, grants, and connection funds. A \$14.3 million State Revolving Fund loan was approved by the State during 2012 and completed the funding requirements to construct the project, which is expected to be completed late in the 2014 calendar year.

The long term strategic plan to address capital funding gaps will be reviewed and updated during the 2014 Long Term Financial Plan process.

## **FISCAL CHALLENGES - OPERATING**

Looking forward, the financial condition of the City remains stable for the 2014 fiscal year. The 2014 budget was adopted with a projected positive operating position of \$168,000, which represents less than 1% of the General Fund expenditure budget.

The City will continue to have a watchful eye on the State of California's budgetary issues. The adoption of the State's budget on June 27th, 2013, was the first small step on a roadmap to restore California to the Golden State, but is still a small step towards the goal that many local cities yearn for.

The City saw a small jump, an increase of 1.2% over FY2013, by its top revenue sources, property taxes and sales taxes, which represent 65% of the FY2014 General Fund revenue budget. It will be critical in FY2014 to maintain and support local businesses and closely monitor revenue sources to ensure FY2014 provides increased economic activity and continued growth in sales and property taxes.

The City continues to deal with the effects of the State elimination of Redevelopment Agencies (RDA's). San Clemente was not impacted as much as some other cities, but continues to work



towards the full dissolution of the former San Clemente RDA operations. Recently, the \$2 million loan owed to the General Fund was authorized by the State for repayment with payments to start in January 2014. In addition, a Long Range Property Management Plan was filed with the State to seek a final decision regarding the former RDA real property held (Casa Romantica and pier bowl grass area). Once these issues are resolved, the operating agreement related to the Casa Romantica will be the only outstanding enforceable obligation.

As FY2013 closed, the City has closely managed the operating costs associated with Vista Hermosa Sports Park. In FY2012, the City had set aside \$2.9 million to cover the operating costs for three and one-half years, after which General Fund revenue will need to fully fund the operations. A plan to close the anticipated \$990,000 gap will be presented in the FY2016 budget, in case anticipated development is delayed.

The Water and Sewer Funds completed two studies: a cost of service study, and a staffing study. These studies provided strategic direction for the next ten years. Purchased water costs will continue to impact the city's rate structures in the future. Expansion of the Recycled Water Plant will help reduce the City's dependence on outside water sources by 10%, hopefully reducing some upward price pressures.

## BOND RATING

The City maintained its Standard and Poor's long-term financial "AAA" rating, which is a significant achievement and represents the City's extremely strong capacity to meet financial commitments.

## FORECAST

The California State Fullerton economic midyear forecast for the Southern California region projects "moderately upbeat and perhaps the most optimistic we have offered since the end of the Great Recession." Orange County's economy is experiencing a much needed boost from a hearty real estate and construction activities. The Southern California economy shows widespread but modest improvement across industries and counties. Those leading sectors include high-tech, business and professional

services and are continuing their slow improvement. Additionally, we expect to see continued expansion in the leisure and hospitality sector.

Since the start of 2013, we have continued to see a trend of moderate job growth throughout California. The state unemployment rate has fallen to 9.6 percent and household employment is showing positive growth. In addition, since the middle of 2012, Orange County housing prices have stabilized and begun to show an upward trend. This trend is continuing and it is expected that median prices will show an average annual increase of 7 to 10 percent for 2013 and continue a moderate rise through 2014, possibly reaching the lower teens.

These trends, if they continue, will be a positive affect to the City and its General Fund revenues.

We continue to monitor and await the start up of the local development of Marblehead Coastal. As we close 2013, light construction has begun: trail construction, basin maintenance, utility related projects, and winter season preparation. It is hopeful that the start date for the construction of retail and residential development will begin in the first quarter of 2015.

