



January 24, 2019

TO THE HONORABLE CITY COUNCIL:

The Measure HH – Essential City Services Oversight Advisory Committee is pleased to have the opportunity to present to you its comments and conclusions concerning the usage of Measure HH revenues for the fiscal year ended June 30, 2018.

The Committee was established by the City Council on April 4, 2017 after passage of Measure HH on the November 8, 2016 ballot. One of the provisions of Measure HH was the creation of an Oversight Committee to review and make recommendations to the City Council to ensure that revenues from it are utilized in accordance with the City's Responsible Spending Pledge.

The Committee met four times in 2018 to review the usage of estimated Measure HH Revenues and Expenditures for 2017-18. The Committee also reviewed the 20-Year Financial Plan, which sets forth fiscal policy with a long-term goal for fiscal sustainability. On January 24, 2019, the City's Auditor, Robert Callanan of White Nelson Diehl Evans LLP (an independent auditing firm), discussed their audit of Measure HH Revenues and Expenditures for the fiscal year ended June 30, 2018.

The auditor's report reflected twelve-months of revenue in Fiscal Year 2017/18 in the amount of approximately \$11.8 million. Measure HH expenditures included the utilization of funds to maintain existing services for public safety and senior and youth programs in an amount totaling \$2,207,564. In addition, Measure HH expenditures included one-time expenditures of \$441,560 for capital improvements and \$2.2 million that was used to make additional payments to CalPERS towards unfunded pension liabilities. The balance of Measure HH Funds, at approximately \$6.9 million, was set aside for reserves.

CONCLUSIONS: The Measure HH Oversight Committee's conclusion to the City Council is that (based on information presented to the Committee by City Staff) the audited revenue and expenses for 2017-18 are consistent with the intent of the Measure HH ballot measure and the Responsible Spending Pledge. We also encourage the City Council to consider opportunities to communicate programs and projects preserved by Measure HH.

We are thankful for the opportunity to serve and we look forward to continuing to serve the City Council and the residents of this great city.

Respectfully submitted,

Matt Taylor, Chair

April 2017 – Present

CITY OF FOUNTAIN VALLEY

MEASURE HH ADVISORY OVERSIGHT COMMITTEE

Michele Jensen, Vice Chair

April 2017 – Present

Jeffrey Stone

April 2017 – December 2018

John W. Briscoe

April 2017 – Present

Evan Jorgensen

January 2019 – Present

Marjorie Drilling

April 2017 – Present

Stephen Schwarz, Alternate

February 2018 – Present

Attachments:

1. Measure HH Audit Report for 2017-18
2. Measure HH Report Card for 2017-18

CITY OF FOUNTAIN VALLEY, CALIFORNIA

**SCHEDULE OF MEASURE HH
REVENUES AND EXPENDITURES**

**WITH INDEPENDENT ACCOUNTANTS' REPORT ON
EXAMINATION REPORT ON MANAGEMENT'S ASSERTIONS
ABOUT THE CITY'S COMPLIANCE WITH MEASURE HH**

FOR THE YEAR ENDED JUNE 30, 2018

INDEPENDENT ACCOUNTANTS' REPORT
ON EXAMINATION REPORT ON MANAGEMENT'S ASSERTIONS
ABOUT THE CITY'S COMPLIANCE WITH MEASURE HH

To the Honorable Mayor
and Members of City Council
of the City of Fountain Valley
Fountain Valley, California

We have examined management of the City of Fountain Valley, California's, (City) assertion that the City complied with Measure HH included in the accompanying Schedule of Measure HH Revenues and Expenditures (Schedule) during the fiscal year ended June 30, 2018. The City's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, management's assertion that the City complied with Measure HH reporting requirements included in the accompanying Schedule is fairly stated, in all material respects.

This report is intended solely for the information and use of the City Council and management of the City of Fountain Valley, California and is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
January 8, 2019

CITY OF FOUNTAIN VALLEY
 SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES

Fiscal Year Ended June 30, 2018

Measure HH Revenues	\$ 11,764,066
Measure HH Expenditures:	
Reoccurring Expenses Incurred on Essential City Services	2,207,564
One-Time Expenses (Capital Projects & Pension Paydown)	2,641,560
Financial Stewardship: Reserves Set-Aside in 17-18	\$ 6,914,942
Financial Stewardship: Reserves Set-Aside in 16-17	1,747,320
Financial Stewardship: Reserves as of June 30, 2018	\$ 8,662,262

Measure HH provided necessary funding in Fiscal Year 2017/18 that was used for the following in accordance with the **Responsible Spending Pledge**:

Reoccurring Expenses Incurred on Essential City Services:

Public Safety

Maintain 911 Emergency Response Times & Keep Fire Station No. 2 open. \$ 885,789

Without Measure HH, staff would have faced the challenge of closing Fire Station No.2, which would have been a gradual process spanning multiple years. The total cost attributable to 14-full-time equivalents (FTEs) within various classifications assigned to Fire Station No. 2 is \$1,757,772. Measure HH provided funding to keep Fire Station No. 2 open and maintain 911 emergency response times.

Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS 911,331

Police and Fire Training Programs 43,054

Total Public Safety 1,840,174

Senior & Youth Programs

Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open. 367,390

Total Reoccurring Expenses \$ 2,207,564

One-Time Expenses:

Capital Improvements

Includes \$350,000 for residential road rehab and \$91,560 for park improvements. \$ 441,560

Additional Payment to CalPERS towards unfunded pension liabilities 2,200,000

Total One-Time Expenses \$ 2,641,560

Reserves Set-Aside in 17-18:

OPEB Reserves - Transfer to Other Post-Employment Benefits (OPEB) Trust Fund. \$ 1,700,000

Pension Reserves - Initial contribution to Pension Trust Fund. 2,800,000

Capital Reserves - Includes \$98,841 increase in General Fund Capital Reserves and \$360,000 transfer to Fleet Management Internal Service Fund for Fire Apparatus 458,841

Emergency Reserves 1,956,101

Total Reserves Set-Aside in 17-18 \$ 6,914,942

CITY OF FOUNTAIN VALLEY

NOTES TO SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES

For the year ended June 30, 2018

1. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS:

The Measure HH Revenues and Expenditures Schedule (Schedule) is presented using the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized when they become both *measurable* and *available*. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

2. REVENUES AND EXPENDITURES:

Measure HH revenues consist of the one-cent transactions and use (i.e. “sales”) tax approved by the voters of Fountain Valley on November 8, 2016. Measure HH became effective April 1, 2017, which provided twelve months of revenue in Fiscal Year 2017/18 in the amount of approximately \$11.8 million.

Measure HH is a general-purpose tax, which means the revenues received from the tax go into the City’s General Fund to maintain or enhance any lawful City program, improvement or service such as police and fire services, senior and youth programs, etc. Without Measure HH, the General Fund’s operating deficit for Fiscal Year 2017/18 would have been \$2,207,564. Measure HH expenditures include the utilization of funds to maintain existing services for public safety and senior and youth programs in an amount totaling \$2,207,564. In addition, Measure HH expenditures include one-time expenditures of \$441,560 for capital improvements and \$2,200,000 for funding of the pension liabilities.

The remaining balance of Measure HH funds represent amounts set-aside in reserves. Two reserves set-aside in Fiscal Year 2017/18 were placed in trust with a third party and include the following: (1) the OPEB reserve amount of \$1,700,000 was placed in a trust with CalPERS and (2) the pension reserve amount of \$2,800,000 was placed in a trust with PARS. The remaining reserves set-aside in Fiscal Year 2017/18, including the capital reserves of \$458,841 and the emergency reserves of \$1,956,101 represent the unexpended amount that was deposited into the City’s Budget Stabilization Reserves.

The General Fund reserves set-aside in Fiscal Year 2016/17 of \$1,747,320 remain unexpended and, when added to the reserves set-aside in Fiscal Year 2017/18 result in a total reserve balance of \$8,662,262 as of June 30, 2018.

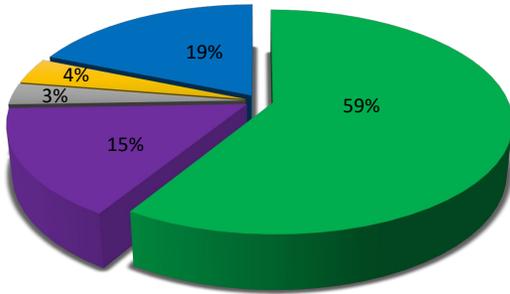


MEASURE HH REPORT CARD

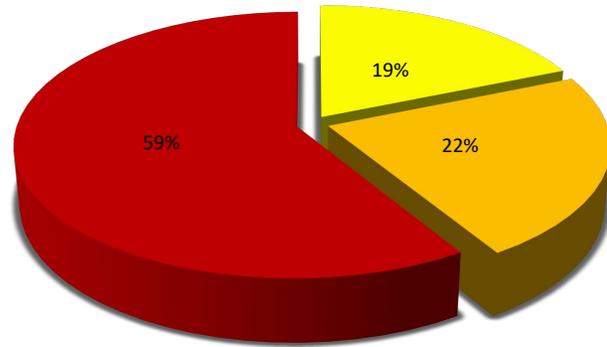
For the Fiscal Year Ended June 30, 2018

This Report Card is provided by the Measure HH Oversight Committee based on the audit of Measure HH Revenues and Expenditures for the Fiscal Year ended June 30, 2018, which reflects that the use of Measure HH Revenues is consistent with the Responsible Spending Pledge.

Measure HH Funding by Function

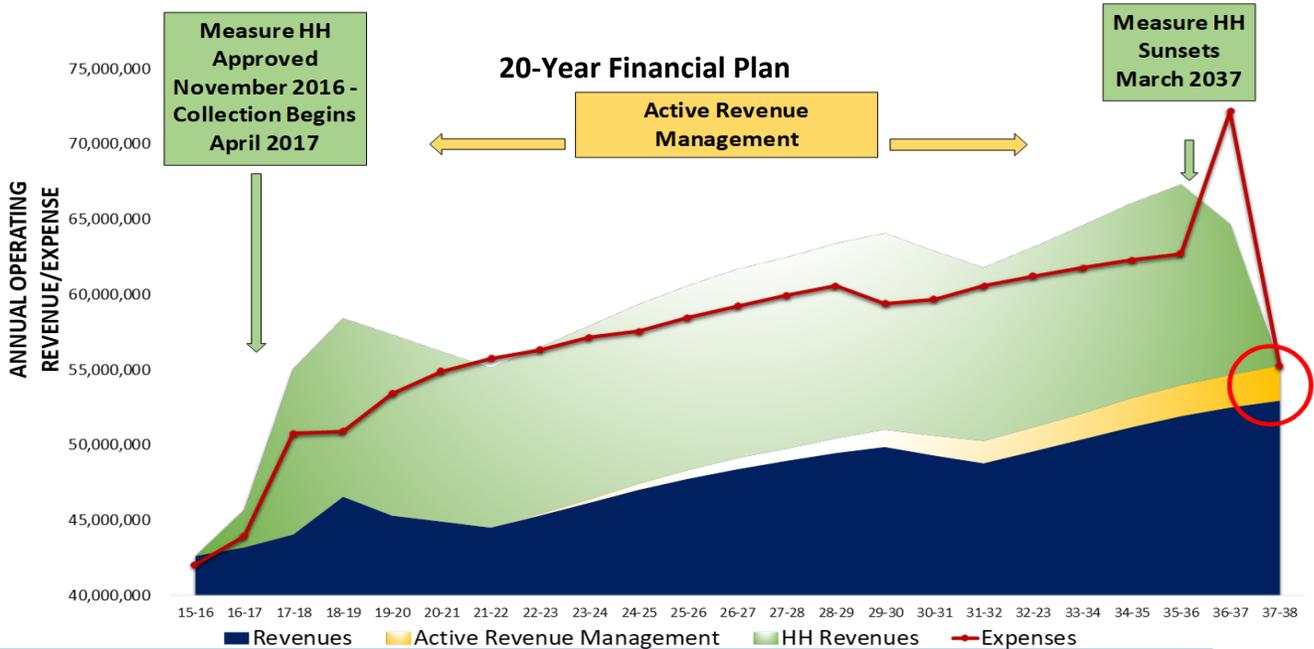


Measure HH Funding Operating vs. Non-Operating



- Reserves
- Public Safety
- Reoccurring Expenses
- One-Time Expenses
- Reserves
- Senior & Youth Programs
- Capital Improvements
- Debt Paydown

In accordance with the Responsible Spending Pledge, Measure HH was used to fund essential city services (including Police, Fire, Senior & Youth Programs), capital improvements and to build and maintain reserves. In addition, \$2.2 million was used to make additional payments to CalPERS to paydown pension debt, which will save the City \$3.9 million in interest expense.



The City's fiscal policy is guided by a 20-Year Financial Plan. The long-term goal is to achieve fiscal sustainability with a balanced operating budget when Measure HH sunsets in 2037. The twenty year forecast shows that in 2037/38 the annual operating deficit is forecasted to be \$2.3 million when Measure HH sunsets, which can be eliminated with active management via new revenue sources from economic development. The City is also exploring opportunities for cost savings. For example, in 2018 the City Council approved a change in the City's liability insurance program that will yeild \$612,000 of annual savings.