



January 23, 2020

TO THE HONORABLE CITY COUNCIL:

The Measure HH – Essential City Services Oversight Advisory 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 Responsible Spending Pledge sets forth the City’s fiscal policy on the use of Measure HH, which states that the majority of this money should be used to:

- Maintain essential city services such as public safety and senior and youth programs
- Maintain streets, sidewalks, roadways, parks and play equipment, and repair storm water systems
- Pay off, pay down, consolidate or refinance outstanding debt
- Pay down unfunded liabilities; and
- Rebuild and maintain the City’s established reserve levels
- Attract, develop and retain quality staff

The Measure HH Oversight Committee is pleased to have the opportunity to present to you its comments and conclusions concerning Measure HH Revenues and Expenditures for Fiscal Year 2018-19.

On January 23, 2020, the City’s Auditor, Jennifer Farr of Davis Farr LLP (an independent auditing firm), discussed the audit of Measure HH Revenues and Expenditures for fiscal year 2018-19. The 2018-19 auditor’s report reflected approximately \$13.3 million of revenue from Measure HH. \$1.2 million was used, in accordance with the Responsible Spending Pledge and 20-Year Financial Plan, to fund essential city services such as public safety and senior and youth programs. \$680,451 was used to fund capital maintenance projects including residential road rehabilitation and park improvements to Harper Park and Allan Park. An additional payment of \$2 million was made to CalPERS consistent with the City’s 20-Year Financial Plan where the goal is to pay-off all outstanding debt and unfunded liabilities by 2037 when Measure HH sunsets. The balance of Measure HH revenue in the amount of \$9.4 million (71% of Measure HH revenue) was set-aside to fully rebuild and maintain reserves consistent with the City’s 20-Year Financial Plan and the Fund Balance Reserve Policy.

The Measure HH Oversight Committee has reviewed the City’s 20-Year Financial Plan, which guides fiscal policy and encompasses the long-term operating and capital needs of the General Fund. The long-term goal is to achieve fiscal sustainability with a balanced operating budget when Measure HH sunsets in 2037. Additional payments are projected to be made to CalPERS over the next twenty years, which is in addition to the amounts required annually by CalPERS. In addition, the City plans to continue to make additional contributions to the City’s Pension Trust, which is designed to mitigate against CalPERS investment risk. In 2037 the City’s pension liability is expected to be paid off along with all other long-term debt. The 20-Year Financial Plan is updated twice a year – in April during the budget process and in October once the books have been closed for the prior fiscal period. The 20-Year Financial Plan that was updated in October 2019 reflected an annual operating deficit of \$1.4 million in 2037-38 when HH sunsets. In comparison, the projected operating deficit in 2037-38 was \$2.3 million in 2018, which shows that the City has made improvement on closing the projected operating deficit in 2037-38. The long-term goal is to eliminate this deficit over the next two decades, which can be accomplished with active management via new revenue sources from economic development or from cost savings.

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 2018-19 are consistent with the intent of the Measure HH ballot measure and the Responsible Spending Pledge. We are also pleased to see that the City has made progress on closing the projected operating deficit in 2037-38 when Measure HH sunsets.

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,



Michele Jensen, Chair
April 2017 – Present

**CITY OF FOUNTAIN VALLEY
MEASURE HH ADVISORY OVERSIGHT COMMITTEE**

Marjorie Drilling, Vice Chair
April 2017 – Present

John W. Briscoe
April 2017 – Present

Matt Taylor
April 2017 – Present

Evan Jorgensen
January 2019 – Present

Stephen Schwarz, Alternate
February 2018 – Present

Attachments:

1. Measure HH Audit Report for 2018-19
2. Measure HH Report Card for 2018-19

CITY OF FOUNTAIN VALLEY
Schedule of Measure HH Revenues and Expenditures
With Independent Accountant' Report Thereon
For the Year Ended June 30, 2019

INDEPENDENT ACCOUNTANT'S REPORT

**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'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, 2019. 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 is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. 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.



Irvine, California
December 18, 2019

CITY OF FOUNTAIN VALLEY
Schedule Of Measure HH Revenues And Expenditures
Year Ended June 30, 2019

| | |
|---|---------------|
| Measure HH Revenues | \$ 13,287,116 |
| Measure HH Expenditures: | |
| Reoccurring Expenses Incurred on Essential City Services | 1,918,098 |
| One-Time Expenses (Additional Pension Paydown) | 2,000,000 |
| Financial Stewardship: Reserves Set-Aside in 18-19 | \$ 9,369,018 |

Measure HH provided necessary funding in Fiscal Year 2018/19 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 | 350,183 |
| Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS and Principal and Interest on the Safety Pension Obligation Bonds | 279,146 |
| Total Public Safety | 629,329 |
| Senior & Youth Programs | |
| Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open | 239,125 |
| Employee Retention | |
| Salary and benefit increases | 369,193 |
| Capital Improvements | |
| Includes \$350,000 for residential road rehab and \$330,451 for park improvements. | 680,451 |
| Total Reoccurring Expenses | 1,918,098 |

| One-Time Expenses: | |
|---|------------------|
| Additional Payment to CalPERS towards unfunded pension liabilities | 2,000,000 |

| Reserves Set-Aside in 18-19: | |
|--|------------------|
| Pension Reserves | |
| 2018-19 Contribution to Pension Trust Fund | 4,500,000 |
| Increase in Emergency Reserves from \$13M to \$14.2M | 1,200,000 |
| Capital Reserves - \$360,000 Transfer to Fleet Management Internal Service Fund | |
| Set-aside for Fire Apparatus and \$3,309,018 Increase in Capital Reserves | 3,669,018 |
| Total Reserves Set-Aside in 18-19 | 9,369,018 |

CITY OF FOUNTAIN VALLEY

Notes to the Schedule of Measure HH Revenues and Expenditures

Year Ended June 30, 2019

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 1% 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 2018/19 in the amount of approximately \$13.3 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 2018/19 would have been \$1,918,098. Measure HH expenditures include the utilization of funds to maintain existing services for public safety and senior and youth programs in an amount totaling \$1,918,098. In addition, Measure HH expenditures include a one-time expenditure of \$2,000,000 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 2018/19 were placed in trust with a third party and include the following: (1) the pension reserve amount of \$4,500,000 was placed in a trust with PARS. The remaining reserves set-aside in Fiscal Year 2018/19, including the capital reserves of \$3,669,018 and the emergency reserves of \$1,200,000 represent the unexpended amount that was deposited into the City's Budget Stabilization Reserves.

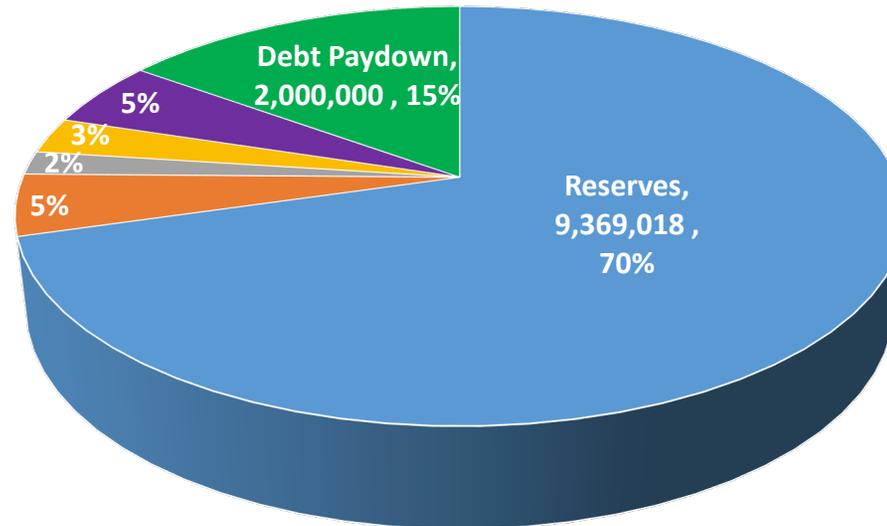
The General Fund reserves set-aside in Fiscal Year 2016/17 of \$1,747,320, and 2017/18 of \$7,027,919 remain unexpended and, when added to the reserves set-aside in Fiscal Year 2018/19 of \$9,369,018 result in a total reserve balance of \$18,521,663 as of June 30, 2019.



MEASURE HH REPORT CARD

For the Fiscal Year Ended June 30, 2019

This Report Card is provided by the Measure HH Oversight Committee based on the Committee's review of the Audit of Measure HH Revenues and Expenditures for the Fiscal Year Ended June 30, 2019, which reflects that the use of **Measure HH Revenues (\$13,287,116)** is consistent with the Responsible Spending Pledge.

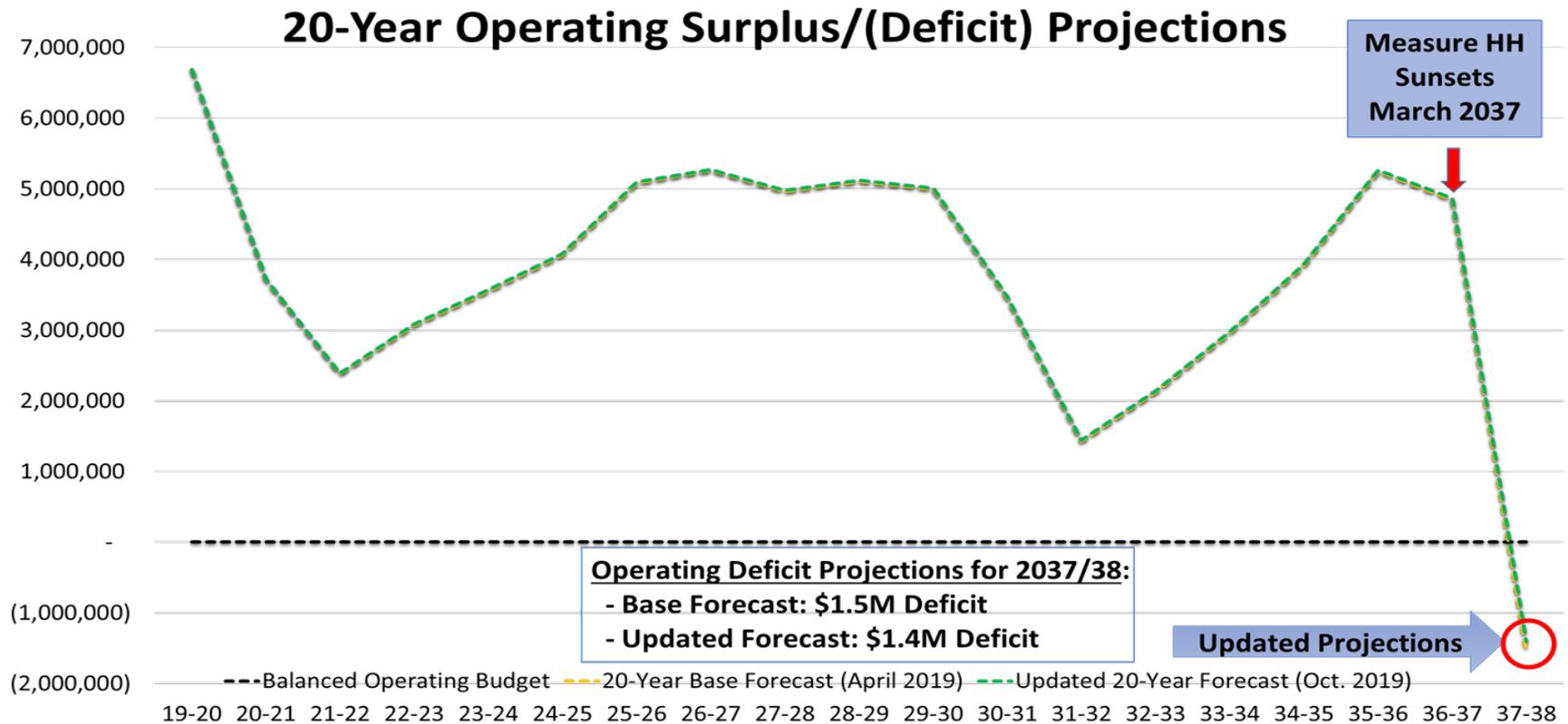


| | | | |
|-----------------|---------------------------|----------------------|------------------------|
| ■ Public Safety | ■ Senior & Youth Programs | ■ Employee Retention | ■ Capital Improvements |
| \$629,329 | \$239,125 | \$369,193 | \$680,451 |

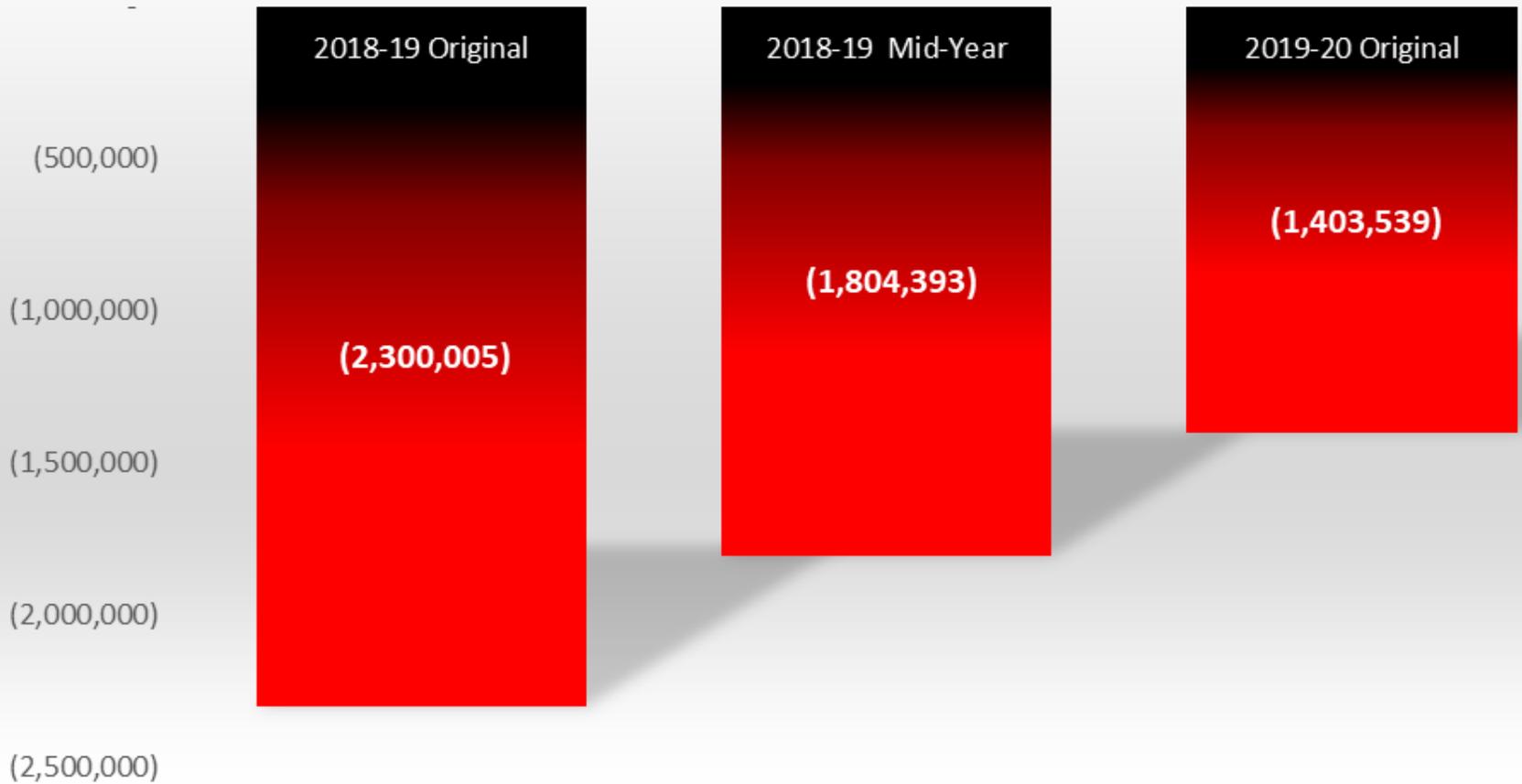
In accordance with the Responsible Spending Pledge, Measure HH was used to fund essential city services (including Police, Fire, Senior & Youth Programs), capital improvements and to build and maintain reserves. In addition, \$2 million was used to make additional payments to CalPERS to paydown pension debt consistent with the City's 20-Year Financial Plan where the goal is to payoff all debt by 2037 when Measure HH sunsets.

20-Year Financial Plan

The City’s fiscal policy is guided by the 20-Year Financial Plan, which encompasses the long-term operating and capital needs of the General Fund. The 20-Year Financial Plan is updated twice a year – in April during the budget process and in October once the books have been closed for the prior fiscal period. The 20-Year forecast that was updated in April 2019 reflected an annual operating deficit of \$1.5 million in 2037-38 when HH sunsets. The long-term goal is to eliminate this deficit over the next two decades, which can be accomplished with active management via new revenue sources from economic development or from cost savings. The 20-Year Financial Plan that was updated in October 2019 reflects a projected annual operating deficit of \$1.4 million in 2037-38, which shows that progress has been made on closing the deficit.



2037-38 City of Fountain Valley - Post HH Operating Surplus / (Deficit)



CITY OF FOUNTAIN VALLEY
MEASURE HH REVENUES AND EXPENDITURES
Last Three Fiscal Years

| Fiscal Year | Essential City Services | Capital Improvements | Additional Pension Payments to CalPERS | Pension & OPEB Trust Reserves | Emergency Reserves | Capital Reserves¹ | Total |
|---|------------------------------------|---------------------------------|---|--|-------------------------------|---|------------------------|
| 2016-17 | 778,588 | - | - | - | 1,747,320 | - | 2,525,908 ² |
| 2017-18 | 2,207,564 | 441,560 | 2,200,000 | 4,500,000 | 1,956,101 | 458,841 | 11,764,066 |
| 2018-19 | 1,237,647 | 680,451 | 2,000,000 | 4,500,000 | 1,200,000 | 3,669,018 | 13,287,116 |
| Cummulative Measure HH Reserves Set-Aside Over Last Three Fiscal Years³ | | | | 9,490,383 | 4,903,421 | 4,127,859 | |
| Measure HH and Non-HH Reserve Balances at June 30, 2019³ | | | | 18,990,845 | 14,200,000 | 15,572,204 | |
| Short-Term/Long-Term Targeted Reserve | | | | \$20-\$60 Million | \$14.2 Million | \$10-\$17 Million | |
| % Funded by Measure HH | | | | 50% | 35% | 27% | |

¹ Capital Reserves includes General Fund Capital Reserves and Fire Apparatus Reserves

² Measure HH became effective April 1, 2017, which provided three months of revenue in Fiscal Year 2016/17.

³ Including Related Investment Earnings on Reserves Balances