



March 1, 2022

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 2020-21.

On February 2, 2022, 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 2020-21. The 2020-21 auditor's report reflected approximately \$14.1 million of revenue from Measure HH. In accordance with the Responsible Spending Pledge and 20-Year Financial Plan \$1.8 million was used to fund essential city services such as public safety, employee retention and senior and youth programs, and \$567,892 was used to fund capital maintenance projects including residential road rehabilitation and park improvements. 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. Additionally, \$5.1 million was set-aside to be used to support capital projects in FY 2021-22 including the Police Locker Room, Fire Station No. 1 Remodel and improvements at the Sports Park. The balance of Measure HH revenue in the amount of \$4.2 million was transferred to Capital Reserves. The Measure HH Oversight Committee also 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 Measure HH Oversight Committee would like to address two points. First, we believe that the data presented by City staff demonstrates that Measure HH continues to have a positive impact for our city. For FY 20-21 the over \$14 million raised by Measure HH:

1. Helped the City avoid a \$1.8 million operating deficit.
2. Helped the City pay an additional \$2 million payment toward our CalPERS unfunded pension liabilities.
3. Help the City fund important improvements to our essential city services include renovations to both the Police Station and Fire Station 1.
4. Helped the City fund the future purchase of a fire apparatus (\$365,000)
5. Helped the City fund important ADA upgrades to our Sports Park Outbuildings

6. Helped the City fund important road network rehabilitation at the Sports Park

The long-term goal is to achieve fiscal sustainability with a balanced operating budget when Measure HH sunsets in 2037. The recent update to the City's 20-Year Financial Plan reflected an annual operating surplus of approximately \$665,744 in 2037-38 when HH sunsets, illustrating the City's efforts to achieve a balanced budget by 2037 are working.

Second, although we believe that Measure HH has been successful, we believe that the FY 20-21 transfer of \$4.2 million to Capital Reserves is inconsistent with the FV Spending Pledge and our Fund Balance Reserve Policy. The City of Fountain Valley Spending Pledge states:

"We also believe, that whenever additional revenue gains are realized, City leadership should seek opportunities to:

- Pay off, pay down, consolidate or refinance the City's outstanding debt;
- Pay down unfunded liabilities; and
- Rebuild and maintain the City's established reserves levels. (Such reserve policies have been adopted to protect the residents of Fountain Valley in the event of a natural disaster or severe economic downturn and for working cash flow and to fund "pay-go" capital projects.)"

For FY 20-21 the audited report indicates that approximately \$4.2 million was transferred into Capital Reserves. This transfer is unwarranted. The City target for our Capital Reserves is \$10-15 million. With this transfer Capital Reserves will be almost \$23 million. Measure HH funds, over the last four years, have helped rebuild Capital Reserves to established target levels, and then some. We believe, consistent with the spending pledge, that the additional \$4.2 million in Measure HH funds from FY 20-21 should be applied to outstanding city debt or to pay down unfunded liabilities.

CONCLUSIONS: Based on the information provided by city staff, the Measure HH Oversight Committee believes that the audited revenue and expenses for 2020-21 are consistent with the intent of the Measure HH ballot measure and the Responsible Spending Pledge, with the exception of the \$4.2 million unrestricted transfer to Capital Reserves. This money should be applied to outstanding city debt or to pay down unfunded liabilities. An analysis of the 20-year spending plan demonstrates that Measure HH will continue to produce additional reserves. We encourage Council to direct staff to process these excess reserves consistent with the City's spending pledge.

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,

Stephen Schwarz, Chair
February 2018 – Present

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

Evan Jorgensen, Vice Chair
January 2019 – Present

Marjorie Drilling, Vice Chair
April 2017 – Present

Matt Taylor
April 2017 – Present

Michele Jensen, Alternate
April 2017 – Present

Randy Takayama
February 2021-Present

Attachments:

1. Measure HH Audit Report for 2020-21
2. Measure HH Report Card for 2020-21

CITY OF FOUNTAIN VALLEY
Schedule of Measure HH Revenues and Expenditures
With Independent Accountant's Report Thereon
For the Year Ended June 30, 2021

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, 2021. 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 27, 2021

CITY OF FOUNTAIN VALLEY
SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES
Fiscal Year Ended June 30, 2021

Measure HH Revenues	\$ 14,062,109
Measure HH Expenditures:	
Reoccurring Expenses Incurred on Essential City Services	2,392,690
One-Time Expenses (Additional Pension Paydown)	2,000,000
Financial Stewardship: Reserves Set-Aside in 20-21	\$ 9,669,419

Measure HH provided necessary funding in Fiscal Year 2020/21 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 ¹	447,000
Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS and Principal and Interest on the Safety Pension Obligation Bonds ²	508,000
Total Public Safety	955,000
Senior & Youth Programs	
Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open ³	365,798
Employee Retention	
Salary and benefit increases ⁴	504,000
Capital Improvements	
Includes \$375,000 for residential road rehab and \$192,892 for park improvements.	567,892
Total Reoccurring Expenses⁵	2,392,690

One-Time Expenses:

Additional Payment to CalPERS towards unfunded pension liabilities	2,000,000
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Reserves Set-Aside in 20-21:

Pension Reserves	
2020-21 Contribution to Pension Trust Fund	-
Increase in Capital Reserves	
4,188,168	
Capital Reserves - Set-aside for approved FY 2021-22 Capital Projects	
Police Locker Room/Showers Remodel	2,966,251
Fire Station No. 1 Remodel	1,000,000
Sports Park Outbuildings (Interior ADA/Renovation)	500,000
Sports Park Road Network Rehabilitation	650,000
5,116,251	
Capital Reserves - Transfer to Fleet Management Internal Service Fund	
Set-aside for Fire Apparatus	365,000
Total Reserves Set-Aside in 20-21	9,669,419

See accompanying notes to Schedule of Measure HH Revenues and Expenditures.

- ¹ - 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 \$2,098,341. Approximately 21.3% of the staffing cost attributable to Fire Station No. 2 has been identified as being funded from Measure HH, which equates to \$447,000.
- ² - Historically, pensions were funded over a rolling 30 year period in accordance with CalPERS funding policy. In 2013 CalPERS approved a change to pension funding, which resulted in shorter amortizations and significant increases in amounts required to be paid to CalPERS beginning in Fiscal Year 2015-16. The City's annual pension expense was approximately \$5 million through Fiscal Year 2015-16, which included \$1,606,319 paid for police and fire pension costs for services rendered in prior years (excluding "normal cost" related to the accrual of benefits earned in the current year). In 2020-21, the projected expense for police and fire pension costs for services rendered in prior years is \$3,992,864, which includes principal and interest expense paid on Pension Obligation Bonds attributable to police and fire. Approximately 21.3% of the increase (\$2,386,545) in pension expense over the base year equates to \$508,000, which has been attributed to Measure HH.
- ³ - The Recreation and Community Services Department generally provides services that benefit the community as whole. Therefore, user fees and revenues generated by the Recreation and Community Services Department generally do not cover the full cost of programs. Therefore, the General Fund subsidizes the difference. The General Fund subsidy is estimated at approximately \$1,715,968 in Fiscal Year 2020-21. Approximately 21.3% of the General Fund subsidy has been identified as being funded from Measure HH, which equates to approximately \$365,798.
- ⁴ - Measure HH was approved by the community to allow for continuous operating and improvement of essential City services. In response to the community needs, the City Council approved negotiated adjustments to salaries and benefits for various classifications. The increase in salary and benefit costs amounted to \$2,368,499 in 2020-21, of which approximately 21.3% has been identified as being funded from Measure HH and equates to \$504,000.
- ⁵ - General Fund operating revenues are projected to be \$66,831,525 and operating expenditures are projected at \$54,594,214 (excluding Pension Trust contributions and additional payments to CalPERS). The net operating surplus is projected to be \$12,237,310. Without Measure HH, the General Fund would have had an operating deficit of \$1,824,798. Therefore, this amount has been identified as being funded from Measure HH, which has been used for reoccurring essential City services.

	Cumulative Measure HH Reserves Set-Aside	Reserves at 6/30/21*	Short-Term/ Long-Term Targeted Reserve	% Funded by Measure HH
OPEB Trust Reserves	2,287,048	14,276,205	\$10-30 Million	16%
Pension Trust Reserves	12,762,792	12,762,792	\$10-30 Million	100%
Emergency Reserves	4,903,421	15,578,000	\$14.2 Million	31%
Capital Reserves	9,772,053	17,932,407	\$10-15 Million	54%
Capital Rsrve-Set-aside HH CIP	5,116,251	5,116,251	Shared by above	100%
Fire Apparatus Reserves	<u>365,000</u>	365,000	\$2 Million	0%
	35,206,565			

* Including Measure HH and non-HH reserves set-aside and related investment income.

CITY OF FOUNTAIN VALLEY

Notes to the Schedule of Measure HH Revenues and Expenditures

Year Ended June 30, 2021

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 2020/21 in the amount of approximately \$14.1 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 2020/21 would have been \$1,824,798. Measure HH expenditures include the utilization of funds to maintain existing services for public safety and senior and youth programs in an amount totaling \$2,392,690. 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. The reserves set-aside in Fiscal Year 2020/21 include an increase in capital reserves of \$9,669,419.

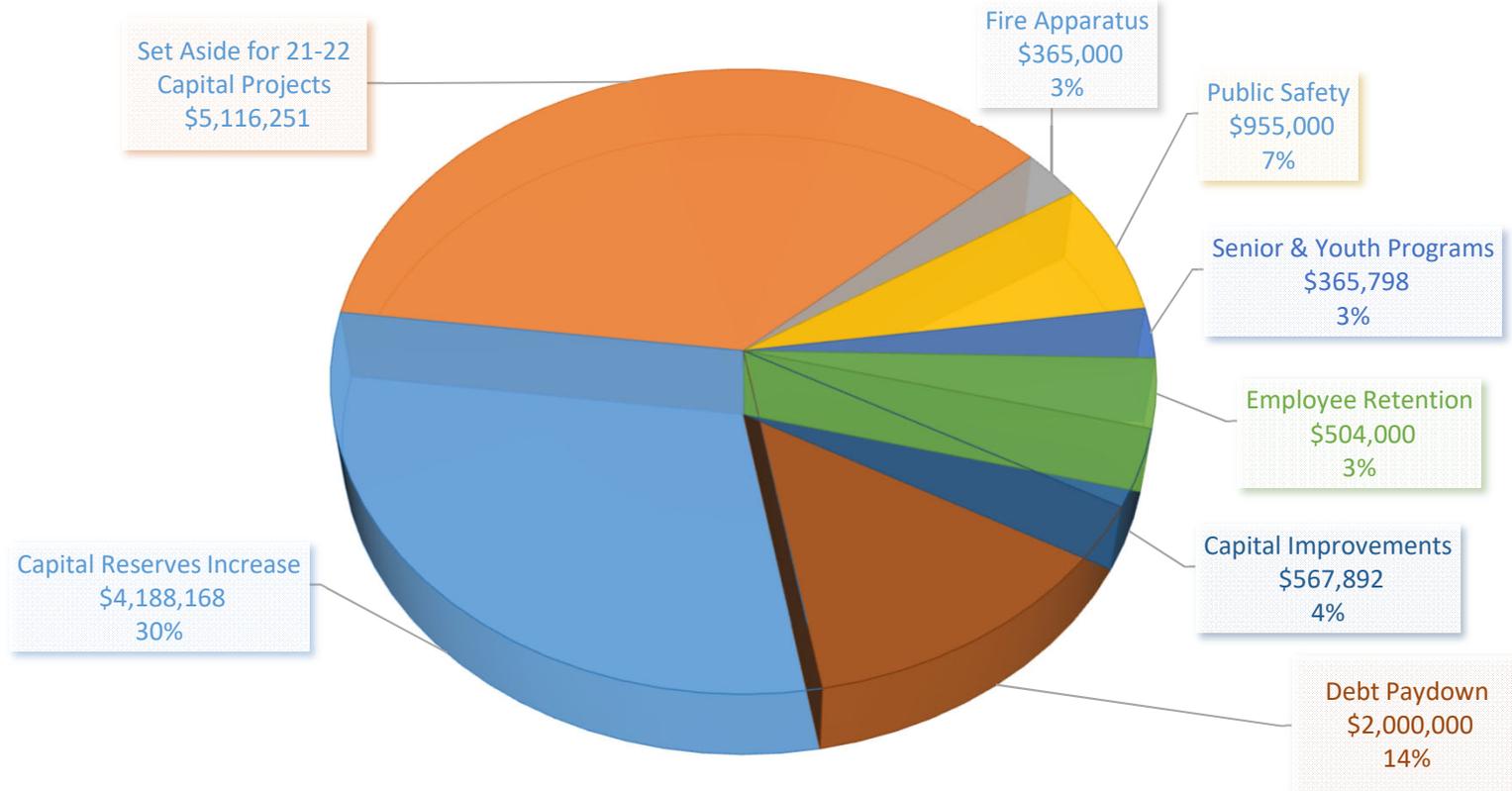
The General Fund reserves set-asides have been \$1,747,320 in Fiscal Year 2016/17, \$6,914,942 in FY 2017/18, \$9,369,018 in FY 2018/2019, \$5,655,333 in FY 2019/20 and \$9,669,419 in FY 2020/21. During FY 2019/20 a prepayment was made for the purchase of a fire apparatus in which the reserves set-aside was reduced by \$1,199,307. Since the original contributions in FY 2017/18, the OPEB and Pension set-aside reserves have accumulated \$3,049,840 in investment earnings. As of June 30, 2021 the total reserve balance was \$35,206,565.



MEASURE HH REPORT CARD

For the Fiscal Year Ended June 30, 2021

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, 2021, which reflects that the use of Measure HH Revenues (\$14,062,109) is consistent with the Responsible Spending Pledge.



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 pay down 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.