



AGENDA

MEASURE HH ADVISORY OVERSIGHT COMMITTEE

THURSDAY, MARCH 21, 2019
REGULAR MEETING – 5:00 PM

CITY HALL MAIN CONFERENCE ROOM
10200 SLATER AVENUE

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in Measure HH Advisory Oversight Committee meetings, please contact the Finance Department at 714-593-4418. Notification 72 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to the meeting.

REGULAR MEETING

CALL TO ORDER

SALUTE TO THE FLAG

ROLL CALL: John W. Briscoe, Marjorie Drilling, Michele Jensen, Evan Jorgensen, Matt Taylor, Stephen Schwarz (alternate)

ANNOUNCEMENT OF SUPPLEMENTAL COMMUNICATIONS

Anyone wishing to speak during Public Comments must fill out and submit a yellow speaker card. The Measure HH Oversight Committee can take no action on this date, unless the item is agendaized. Anyone wishing to speak on items not on tonight's agenda, may do so during Public Comments. Speakers on items scheduled for non-public hearing items will be invited to speak when those items are heard. (Three minutes per speaker)

APPROVAL OF MINUTES

1. Receive and file the Minutes of the January 24, 2019 Regular Measure HH Advisory Oversight Committee Meeting.

DISCUSSION ITEMS

2. **MEASURE HH OVERSIGHT FRAMEWORK PRESENTATION BY STEPHEN SCHWARZ**

At the Oversight Committee meeting on January 24, 2019, Stephen Schwarz requested an opportunity to present his perspective on the Measure HH Oversight Framework. Attached is an outline of his presentation.

Recommended Action: Review and Discuss.

3. **20-YEAR FINANCIAL PLAN**

The City's fiscal policy is guided by a 20-Year Financial Plan, which 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. This 20-Year Financial Plan is utilized and integrated into the City's annual budget process. The attached 20-Year Financial Plan reflects the amounts based on the original budget for Fiscal Year 2018/19, which will be reviewed and discussed during the meeting.

Recommended Action: Review and Discuss.

4. PROJECTED MEASURE HH REVENUES AND EXPENDITURES FOR 2018/19

The Responsible Spending Pledge governs how Measure HH funds are spent. Without Measure HH the City would have had an ongoing structural deficit, which would have resulted in cuts to core services. Staff identified expenditures that have been funded by Measure HH for Fiscal Years 2018/19. The Schedule of Measure HH Revenues and Expenditures reflects amounts that have been updated based on the Mid-Year Review. The schedule also incorporates additional information based on feedback from the Oversight Committee in January 2019 such as the basis for amounts identified as being funded from Measure HH and a cumulative summary of reserves set-aside utilizing Measure HH funds since April 1, 2017.

5. FUTURE COMMITTEE MEETING TOPICS & DATES

The following tentative meeting dates are proposed:

Committee Meeting	5/2/2019 at 5:00 PM	Fiscal Year 2019/20 Proposed HH Budget
Special Council Meeting	5/14/2019 at 5:00 PM	Fiscal Year 2019/20 Budget Workshop ⁽¹⁾
Council Meeting	6/4/2019 at 6:00 PM	Fiscal Year 2019/20 Budget Adoption ⁽¹⁾

⁽¹⁾ It is recommended that Oversight Committee members be present at the City Council budget workshop in May 2019 and budget adoption in June 2019.

Recommended Action: Staff recommends that the Oversight Committee discuss the proposed meeting dates.

PUBLIC COMMENTS

Anyone wishing to speak on non-agendized items may do so at this time.

COMMENTS FROM STAFF

COMMENTS FROM COMMITTEE MEMBERS

ADJOURNMENT

Adjournment to the next Measure HH Advisory Oversight Committee meeting on May 2, 2019.

MATERIAL(S) RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE MEASURE HH OVERSIGHT COMMITTEE AFTER DISTRIBUTION OF THE AGENDA PACKET IS/ARE AVAILABLE FOR PUBLIC INSPECTION IN THE FINANCE DEPARTMENT AT 10200 SLATER AVENUE, FOUNTAIN VALLEY DURING NORMAL BUSINESS HOURS.



**MINUTES OF THE
MEASURE HH OVERSIGHT COMMITTEE**

Thursday, January 24, 2019

5:00 p.m.

CALL TO ORDER

5:05 p.m.

SALUTE TO THE FLAG

ROLL CALL

Members Present: John W. Briscoe, Marjorie Drilling, Michele Jensen, Evan Jorgensen,
Matt Taylor, Stephen Schwarz (alternate)

Members Absent: None

1. APPROVAL OF MINUTES FROM NOVEMBER 8, 2018

ACTION: Moved to approve the minutes for the November 8, 2018 meeting.
MOTION: Jensen **SECOND:** Taylor
AYES: Drilling, Jensen, Jorgensen, Taylor, Briscoe
NOES: None
ABSENT: None
ABSTAIN: None

Motion carried: 5-0

2. SELECTION OF COMMITTEE CHAIR AND VICE CHAIR

ACTION: Moved to appoint Matt Taylor as Committee Chair.
MOTION: Jensen **SECOND:** Drilling
AYES: Drilling, Jensen, Jorgensen, Taylor, Briscoe
NOES: None
ABSENT: None
ABSTAIN: None

Motion carried: 5-0

ACTION: Moved to appoint Michele Jensen as Committee Vice Chair.
MOTION: Drilling **SECOND:** Taylor
AYES: Drilling, Jensen, Jorgensen, Taylor, Briscoe
NOES: None
ABSENT: None
ABSTAIN: None

Motion carried: 5-0

DISCUSSION ITEMS

3. MEASURE HH AUDIT REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Robert Callanan of White Nelson Diehl Evans LLP (an independent auditing firm) discussed the results of the audit of Measure HH Revenues and Expenditures for the fiscal year ended June 30, 2018.

ACTION: The Oversight Committee reviewed and discussed the audit report. No formal action was taken.

4. 2017/18 MEASURE HH REPORT CARD AND DRAFT REPORT TO CITY COUNCIL

The Oversight Committee reviewed a draft version of a letter that was prepared by City Staff to summarize the work performed by the Committee with respect to the Measure HH Revenues and Expenditures for the Fiscal Year Ended June 30, 2018.

ACTION: Moved to authorize the Chair and Vice Chair to draft a report from the Oversight Committee with the plan to present the report to the City Council on February 5, 2019.

MOTION: Briscoe **SECOND:** Drilling

AYES: Drilling, Jensen, Jorgensen, Taylor, Briscoe

NOES: None

ABSENT: None

ABSTAIN: None

Motion carried: 5-0

5. FUTURE COMMITTEE MEETING TOPICS & DATES

The Committee discussed future meeting dates and topics. The next Committee meeting will be on March 21, 2019.

ACTION: No formal action was taken.

PUBLIC COMMENTS

None.

ADJOURNMENT

Chair Taylor adjourned the Meeting.

Matt Taylor, Chair



HH Oversight Framework

Stephen Schwarz



Agenda

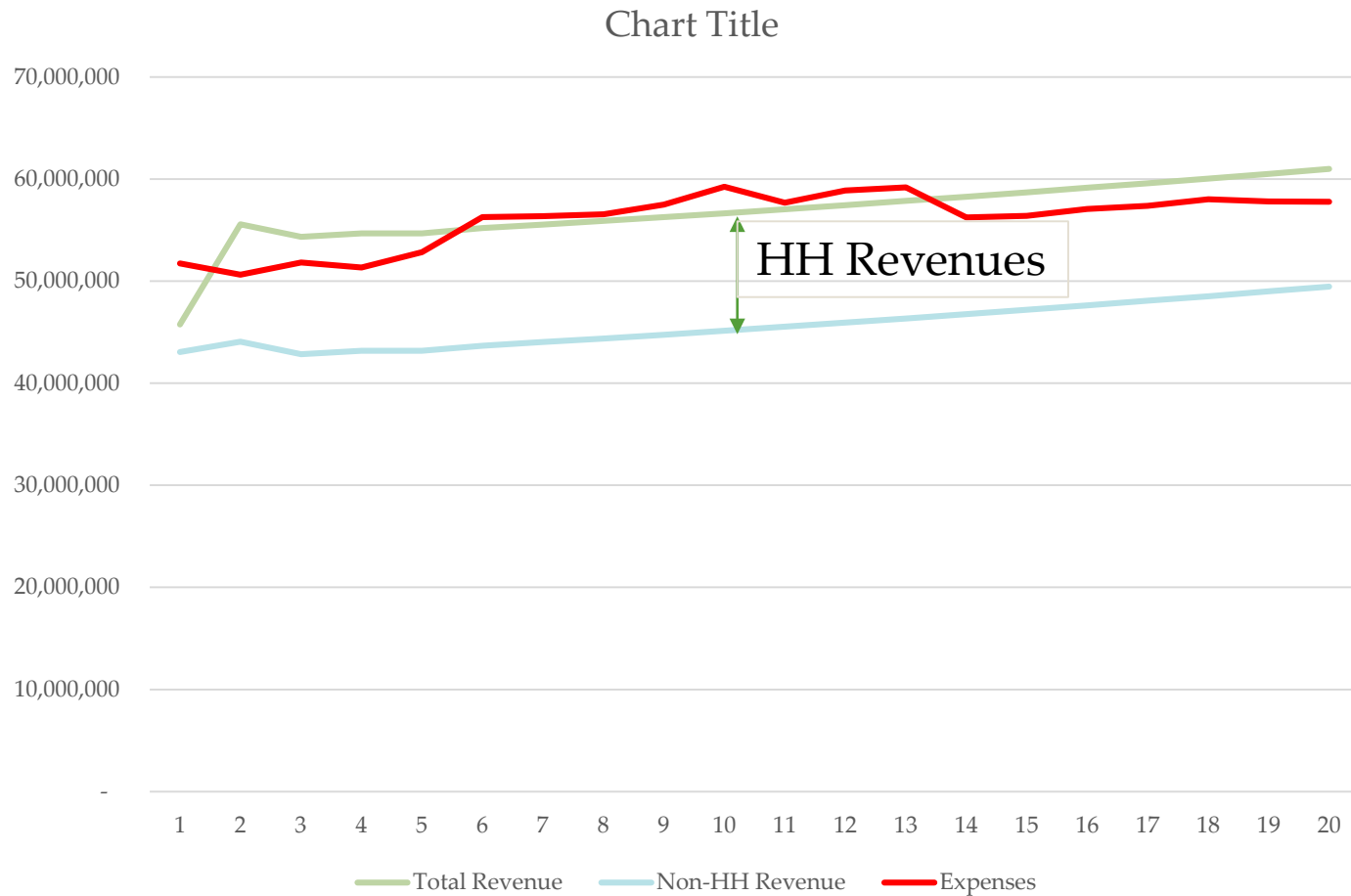
- Overview
- What's Happening
- Cause vs Effect
- Causes
- Effects
- Past One-Time Effects
- HH Rules
- Public Score Card
- Looking into the Future
- Summary

Overview

- Assumption: HH oversight committee duty is to make sure HH funds are spent appropriately on specific items and HH reserves are held securely which frees the Non-HH portion of the General Fund to maintain present services such as public safety, recreation and maintenance.
- Quick overview of what this meeting is all about
 - Look what's happening to the city budget
 - What are the causes which started in 2012 and resolved in the last half of Calendar 2017
 - What effects has it had on the ongoing budget
 - What effect did it have in the past years
 - What can we do monitor progress over the next 20 years.
 - HH spending
 - Things we need to do to eliminate the need for HH in the future.

Whats Happening

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Cause and Effect

- **Cause** changes in pension system and redevelopment money
- **Effect** is not enough money to fund ongoing position, support facilities and programs as well one-time deferral of maintenance and county wide equipment purchases and facility support.

Causes

- Payments to fully fund pension system.
- Redevelopment deal to return sales tax
- Redevelopment payment of bonds
 - Rec Center
 - Senior Center.

Effects

- Lost positions (ongoing)
- Deferred maintenance (one-time).
- Future Fire Station closure (on-going).
- Future Senior Center program reductions or charges

One-Time Past Effects

- Differed maintenance
 - Roads
 - Parks
 - Facilities
- Equipment Deferrals
 - Surveillance Equipment
- Obligation Deferrals
 - Animal Shelter
 - County communications equipment

HH Rules

- Fully fund pension system
- Pay for past deferred items
 - Deferred park maintenance
 - County communication system contribution
 - County animal shelter contribution
- Pay for Redevelopment obligations
 - Tax payback
 - Rec center bonds
 - Senior Center Bonds
- Build up the reserve

Public Scorecard

- Agreed list of HH funded items
- Simple ledger like a checkbook
 - Revenue
 - Payments to HH approved items
 - Loans for temporary short falls
 - Repayment in future years.

Looking into the Future

- After 20 years total revenues are not greater than expense by \$??million (determined by the rolling 20yr plan) so new sales tax is need after 20 years if noting done.
- Things to consider in next 20 yrs. to change that outcome. Probably not one thing will solve the problem
 - Review pension plans to make them more sustainable (statewide)
 - Older retirement age
 - Lower Percentage
 - Grow Property Tax revenue with new and revitalized development (local)
 - Crossing
 - Revitalize shopping centers
 - New development
 - Review changing revenue limiting laws (prop 13) to make them more realistic.(statewide)
 - No passing on to next generation
 - Not applied to Business
 - Have it limited to people over a certain age
 - Cut costs(local)

Summary

- This way City Council could concentrate on efficiently using the Non-HH Funds to cover ongoing needs and focus on increased those revenues.
- HH would take care of these state imposed payments and past deferred projects and Bond and sales tax payments . As well as assure public that funds held in reserve are being invested properly
- Easy for public and HH oversight members to understand and monitor the uses of HH money and easy for council to budget Non-HH money.

TWENTY YEAR REVENUE, EXPENSE & FUND BALANCE PROJECTIONS

TWENTY YEAR REVENUE, EXPENSE & FUND BALANCE PROJECTIONS

General Fund	20 Year	Original Budget																			
	Summary	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	2031-2032	2032-2033	2033-2034	2034-2035	2035-2036	2036-2037	2037-2038
General Fund Transfers In																					
32 Sewer Fund		60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330	60,330
62 Government Buildings		117,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23 Gas Tax - HUT Section 2107		413,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
25 Measure M2		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25 Measure M2 - Senior Mobility		120,476	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Total Transfers In	11,927,076	710,806	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330	590,330
General Fund Transfers Out:																					
23 Gas Tax Fund (Curb/Gutter/Sdwk)		350,000	350,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000
23 Gas Tax - Rainbow Disposal		263,000	270,890	279,017	287,387	296,009	304,889	314,036	323,457	333,161	343,155	353,450	364,054	374,975	386,224	397,811	409,745	422,038	434,699	447,740	461,172
24 Traffic Improvement Fund		205,431	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31 Drainage Fund		315,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
64 Equipment Fund		84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
66 Employee Benefit Fund - UAL Fixed Payment		4,035,413	4,856,705	5,306,853	5,723,335	5,945,118	5,977,786	6,009,848	6,041,487	6,226,221	6,420,684	6,626,304	6,844,842	7,078,469	7,329,868	7,239,589	7,154,582	6,948,684	6,680,648	5,364,820	-
66 Employee Benefit Fund - POB		975,027	1,019,244	1,061,372	1,099,772	1,147,162	1,192,690	1,242,366	1,287,944	1,342,165	1,395,028	1,444,156	1,503,214	853,219	888,359	925,547	964,563	1,005,188	1,042,313	-	-
66 Employee Benefit Fund - OPEB Charge		1,535,494	1,558,526	1,581,904	1,605,633	1,629,717	1,654,163	1,678,976	1,704,160	1,729,723	1,755,668	1,782,003	1,808,734	1,835,865	1,863,402	1,891,354	1,919,724	1,948,520	1,977,747	2,007,414	2,037,525
Total Transfers Out	188,828,178	7,763,365	8,055,366	8,604,147	9,091,127	9,393,007	9,504,528	9,620,226	9,732,048	10,006,269	10,289,536	10,580,914	10,895,844	10,517,527	10,842,854	10,829,300	10,823,614	10,699,429	10,510,407	8,194,974	2,873,697
Non Departmental																					
Mike Thompson's Sales Tax Sharing		405,000	350,000	350,000	350,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
County of Orange - Annual Animal Care		495,000	504,900	514,998	525,298	535,804	546,520	557,450	568,599	579,971	591,571	603,402	615,470	627,780	640,335	653,142	666,205	679,529	693,120	706,982	721,122
County of Orange - New Shelter Cost		89,000	89,000	89,000	89,000	89,000	89,000	89,000	89,000	-	-	-	-	-	-	-	-	-	-	-	-
Annual Playground Equipment		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Annual Playground Rubber Resurfacing		35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Annual Sports Park Fields		75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Annual Park Project		200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Fire Department Records Management System		71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
800 MHz		70,000	70,700	71,407	72,121	72,842	73,571	74,306	75,049	75,800	76,558	77,324	78,097	78,878	79,667	80,463	81,268	82,081	82,901	83,730	84,568
Total Non Departmental	22,506,528	1,465,000	1,349,600	1,360,405	1,371,419	1,032,646	1,044,091	1,055,757	1,067,649	990,771	1,003,129	1,015,726	1,028,567	1,041,657	1,055,002	1,068,605	1,082,473	1,096,609	1,111,021	1,125,712	1,140,689
Other Ongoing Obligations																					
Pension Trust Contribution		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-	-	-	-	-	-
Total Ongoing Obligations		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-	-	-	-	-	-
Solar & Energy Project Savings:																					
Federal Subsidy (Inc. in Revenue)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy Efficiency Savings		-	(360,955)	(371,925)	(383,270)	(395,004)	(407,139)	(419,690)	(432,671)	(446,097)	(459,983)	(474,345)	(489,200)	(504,565)	(520,457)	(536,894)	(554,075)	(571,805)	(590,103)	(608,986)	(628,474)
Solar Savings		-	(130,841)	(134,362)	(137,977)	(141,689)	(145,500)	(149,414)	(153,433)	(157,560)	(161,797)	(166,148)	(170,616)	(175,204)	(179,914)	(184,751)	(189,718)	(194,817)	(200,054)	(200,054)	(200,054)
Utility Incentive		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Savings		-	(491,796)	(506,287)	(521,247)	(536,693)	(552,639)	(569,104)	(586,104)	(603,657)	(621,780)	(640,493)	(659,816)	(679,769)	(700,371)	(721,645)	(743,793)	(766,622)	(790,157)	(809,040)	(828,528)
Net Solar & Energy Project Savings		-	(491,796)	(506,287)	(521,247)	(536,693)	(552,639)	(569,104)	(586,104)	(603,657)	(621,780)	(640,493)	(659,816)	(679,769)	(700,371)	(721,645)	(743,793)	(766,622)	(790,157)	(809,040)	(828,528)
Total Other Ongoing		2,000,000	1,508,204	1,493,713	1,478,753	1,463,307	1,447,361	1,430,896	1,413,896	(603,657)	(621,780)	(640,493)	(659,816)	(679,769)	(700,371)	(721,645)	(743,793)	(766,622)	(790,157)	(809,040)	(828,528)
PARS Pension Trust (115)																					
Beginning Balance	2,800,000	2,800,000	5,928,800	7,551,525	9,248,895	11,024,344	12,881,464	14,824,011	16,855,916	18,981,288	19,854,427	20,767,731	21,723,046	22,722,307	23,767,533	24,860,839	26,004,438	27,200,642	28,451,871	29,760,658	15,244,869
Pension Inflow/Outflow		3,000,000	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000	-	-	-	-	-	-	-	-	-	-	(15,884,778)	-
Interest		128,800	272,725	347,370	425,449	507,120	592,547	681,905	775,372	873,139	913,304	955,316	999,260	1,045,226	1,093,307	1,143,599	1,196,204	1,251,230	1,308,786	1,368,990	701,264
Projected PARS Pension Trust Balance	2,800,000	5,928,800	7,551,525	9,248,895	11,024,344	12,881,464	14,824,011	16,855,916	18,981,288	19,854,427	20,767,731	21,723,046	22,722,307	23,767,533	24,860,839	26,004,438	27,200,642	28,451,871	29,760,658	15,244,869	15,946,133
OPEB Trust (115)																					
Beginning Balance	10,700,000	10,700,000	11,192,200	11,707,041	12,245,565	12,808,861	13,398,069	14,014,380	14,659,041	15,333,357	16,038,692	16,768,471	17,524,221	18,304,229	19,108,057	19,936,225	20,789,393	21,667,225	22,570,393	23,500,000	24,456,000
OPEB ARC		-	-	-	-	-	-	-	-	2,000,000	2,000,000	2,000,000	-	-	-	-	-	-	-	-	-
OPEB Funding (Additional)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest OPEB (Additional)		492,200	514,841	538,524	563,296	589,208	616,311	644,661	674,316	705,334	739,780	775,650	812,950	851,680	890,850	930,480	970,580	1,011,160	1,052,320	1,094,070	1,136,420
Projected OPEB Trust Balance	10,700,000	11,192,200	11,707,041	12,245,565	12,808,861	13,398,069	14,014,380	14,659,041	15,333,357	16,038,692	16,768,471	17,524,221	18,304,221	19,108,057	19,936,225	20,789,393	21,667,225	22,570,393	23,500,000	24,456,000	25,442,420
General Fund Capital Projects																					
Park Improvements (Non-Departmental)		200,000	200,000	200,000	200,000																

TWENTY YEAR REVENUE, EXPENSE & FUND BALANCE PROJECTIONS

TWENTY YEAR REVENUE, EXPENSE & FUND BALANCE PROJECTIONS

General Fund	20 Year	Original Budget																			
	Summary	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	2031-2032	2032-2033	2033-2034	2034-2035	2035-2036	2036-2037	2037-2038
LONG-TERM LIABILITIES - PROJECTED BALANCES¹																					
Net Pension Liability																					
Net CalPERS Liability (CalPERS Liability - CalPERS Assets) ²	80,013,824	79,142,051	77,051,315	74,642,155	71,698,833	68,407,026	64,772,712	59,723,346	56,215,754	53,327,129	50,046,751	46,341,983	42,177,762	37,516,423	32,317,514	26,950,890	21,421,574	15,884,778	-	-	
Less PARS Pension Trust (115) Assets	(5,928,800)	(7,551,525)	(9,248,895)	(11,024,344)	(12,881,464)	(14,824,011)	(16,855,916)	(18,981,288)	(19,854,427)	(20,767,731)	(21,723,046)	(22,722,307)	(23,767,533)	(24,860,839)	(26,004,438)	(27,200,642)	(28,451,871)	(29,760,658)	(15,244,869)	(15,946,133)	
	74,085,024	71,590,526	67,802,420	63,617,811	58,817,369	53,583,015	47,916,797	40,742,058	36,361,327	32,559,398	28,323,704	23,619,676	18,410,229	12,655,584	6,313,076	(249,752)	(7,030,297)	(13,875,879)	(15,244,869)	(15,946,133)	
Net OPEB Liability																					
Total OPEB Liability ³	46,553,000	<i>Projected balances were not included within the 2017 Actuarial Valuation. However, these amounts will be included in the next valuation report, which is expected to be completed in the summer of 2019 and will be reflected in future 20-year projections.</i>																			
Less Portion Related to the Implied Subsidy ³	(8,335,000)																				
Less OPEB Trust (115) Assets	(11,192,200)																				
	27,025,800																				
2015 Pension Obligation Bonds	15,485,000	14,915,000	14,285,000	13,595,000	12,830,000	11,990,000	11,065,000	10,055,000	8,945,000	7,730,000	6,410,000	4,970,000	4,320,000	3,605,000	2,820,000	1,960,000	1,020,000	-	-	-	
2016 Lease Revenue Bonds	11,580,000	11,115,000	10,640,000	10,150,000	9,635,000	9,100,000	8,550,000	7,980,000	7,385,000	6,765,000	6,120,000	5,445,000	4,745,000	4,015,000	3,260,000	2,480,000	1,680,000	855,000	-	-	
2017 Clean Renewable Energy Bonds (CREBs)	2,721,663	2,617,682	2,508,477	2,393,870	2,273,677	2,147,709	2,015,770	1,877,659	1,733,169	1,582,087	1,424,193	1,259,261	1,087,058	907,344	719,871	524,385	320,625	108,320	-	-	

¹ Excluding claims payable, compensated absences and Water Utility Bonds.

² The Net CalPERS Pension Liability is estimated at approximately \$80 million based on the 6/30/17 Actuarial Reports that were issued by CalPERS in August 2018, which is calculated using a 7.25% discount rate. In 2016, CalPERS lowered the discount rate from 7.5% to 7.0%, which has been phased in over a 3-year period. The June 30, 2018 Actuarial Valuation Reports will reflect a 7% discount rate. The pension liability is estimated to be approximately \$88 million utilizing a 7% discount rate, which assumes CalPERS will earn on average an investment return of 7% over the long-term. If CalPERS earns on average 6.5% to 6.75% over the long-term, the pension liability is estimated to be between \$96 million and \$108 million. The pension liability is also affected by a number of other factors such as mortality, inflation, etc. The goal is to have sufficient funds set-aside in the City's Pension Trust to cover additional contributions required by CalPERS. The Pension Trust is used to mitigate against CalPERS investment return volatility through diversification where assets are managed in a customized investment strategy that balances risk and return. The Pension Trust is also designed to mitigate against pension contribution volatility since Pension Trust assets can be used to offset unanticipated increases in CalPERS rates.

³ The total liability for Other Post-Employment Benefits (OPEB) is estimated to be approximately \$47 million (excluding OPEB Trust assets) based on the January 1, 2017 Actuarial Valuation Report, which is calculated using a blended discount rate of 4.1%. Approximately \$8 million of the OPEB liability relates to an "Implied Subsidy". The City of Fountain Valley provides both active employees and retirees with access to healthcare insurance through a statewide pool administered by CalPERS. The CalPERS healthcare insurance plan blends active employees with pre-Medicare retirees and charges them the same medical premium. This is referred to as an "Implied Subsidy". The 20-Year forecast addresses the projected costs associated with the "Implied Subsidy". The balance of the OPEB liability relates to the "cash subsidy" valued at \$38 million where the City contributes towards the cost of retiree healthcare, which varies by bargaining group and hire date. The goal is to have sufficient funds set-aside in the City's OPEB Trust to cover future OPEB benefit payments associated with the "cash subsidy".

CITY OF FOUNTAIN VALLEY
 SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES
 Fiscal Year Ended June 30, 2019 (Projected)

Measure HH Revenues	\$ 12,400,000
Measure HH Expenditures:	
Reoccurring Expenses Incurred on Essential City Services	3,656,842
One-Time Expenses (Additional Pension Paydown)	2,000,000
Financial Stewardship: Reserves Set-Aside in 18-19	\$ 6,743,158

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 ¹	488,000
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	1,598,412
Staffing Costs for Additional Dispatch and Police Support Services Associated with Organizational Changes Approved by City Council on March 20, 2018	116,652
Police and Fire Training Programs	102,000
Total Public Safety	2,305,064
Senior & Youth Programs	
Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open ³	365,000
Employee Retention	
Salary and benefit increases ⁴	436,778
Capital Improvements	
Includes \$350,000 for residential road rehab and \$200,000 for park improvements.	550,000
Total Reoccurring Expenses⁵	3,656,842

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 \$683,158 Increase in Capital Reserves	1,043,158
Total Reserves Set-Aside in 18-19	6,743,158

- 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 \$2,005,236. Approximately 24% of the staffing cost attributable to Fire Station No. 2 has been identified as being funded from Measure HH, which equates to approximately \$488,000.
- 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 2018-19, the projected expense for police and fire pension costs for services rendered in prior years is \$3,204,731, which includes principal and interest expense paid on Pension Obligation Bonds attributable to police and fire. The increase in pension expense over the base year (\$3,204,731 - \$1,606,319) 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 \$1,501,058 in Fiscal Year 2018-19. Approximately 24% of the General Fund subsidy has been identified as being funded from Measure HH, which equates to approximately \$365,000.
- 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 \$1,845,909 in 2018-19, of which approximately 24% has been identified as being funded from Measure HH and equates to \$436,778.
- ⁵ - Based on the 2018/19 Mid-Year Review that was presented to City Council on March 5, 2019, General Fund operating revenues are projected to be \$58,752,817 and operating expenditures are projected at \$50,009,659. The net operating surplus is projected to be \$8,743,158. Without Measure HH, the General Fund would have had an operating deficit of \$3,656,842. Therefore, this amount has been identified as being funded from Measure HH, which has been used for reoccurring essential City services.

Note: Measure HH amounts to approximately one-fourth of general revenue within the General Fund.

	Projected Reserve Balances		
	Cumulative Measure HH Reserves Set-Aside	Including Measure HH & Non-HH Amounts	% Funded by Measure HH
OPEB Trust Reserves	1,700,000	11,192,200	16%
Pension Trust Reserves	7,300,000	7,300,000	100%
Emergency Reserves	4,903,421	14,200,000	35%
Capital Reserves	781,999	9,008,518	9%
Fire Apparatus Reserves	720,000	1,080,000	67%
	<u>15,405,420</u>		