



January 27, 2021

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 2019-20.

On January 27, 2021, 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 2019-20. The 2019-20 auditor’s report reflected approximately \$12.4 million of revenue from Measure HH. \$4.7 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, \$350,000 of which was used to fund capital maintenance projects including residential road rehabilitation. 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 \$5.7 million (46% 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 typically updated twice a year – in April during the budget process and in October once the books have been closed for the prior fiscal period, however due to the economic uncertainty caused by COVID-19, the 20-Year Financial Plan was only recently updated in January, 2021 . That update reflected an annual operating deficit of approximately \$2.7 million in 2037-38 when HH sunsets. In comparison, the projected operating deficit in 2037-38 was \$1.4 million in 2019, which shows that the City has not made improvement on closing the projected operating deficit in 2037-38. However, the updated model does allocate an additional \$9 million over the course of twenty years to pay down unfunded liabilities and an additional \$38 million in capital improvements compared to the previous

version. The city's long-term financial goal continues to be to eliminate the structural 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 2019-20 are consistent with the intent of the Measure HH ballot measure and the Responsible Spending Pledge. We are also pleased to see that while the projected deficit in 2037-38 remains, the City has prioritized paying down debt and allocated additional funding to this goal in the current model.

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 2019-20
2. Measure HH Report Card for 2019-20

CITY OF FOUNTAIN VALLEY
Schedule of Measure HH Revenues and Expenditures
With Independent Accountant's Report Thereon
For the Year Ended June 30, 2020

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, 2020. 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 10, 2020

CITY OF FOUNTAIN VALLEY
SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES
Fiscal Year Ended June 30, 2020

Measure HH Revenues	\$ 12,364,200
Measure HH Expenditures:	
Reoccurring Expenses Incurred on Essential City Services	4,708,867
One-Time Expenses (Additional Pension Paydown)	2,000,000
Financial Stewardship: Reserves Set-Aside in 19-20	\$ 5,655,333

Measure HH provided necessary funding in Fiscal Year 2019/20 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	1,138,000
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	1,111,000
Total Public Safety	2,249,000
Senior & Youth Programs	
Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open ³	847,867
Employee Retention	
Salary and benefit increases ⁴	1,262,000
Capital Improvements	
Includes \$350,000 for residential road rehab and \$0 for park improvements (carryover)	350,000
Total Reoccurring Expenses⁵	4,708,867

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

Reserves Set-Aside in 19-20:	
Pension Reserves	
2019-20 Contribution to Pension Trust Fund	3,000,000
Increase in Capital Reserves	
Increase in Capital Reserves - Transfer to Fleet Management Internal Service Fund	2,176,026
Set-aside for Fire Apparatus	479,307
Total Reserves Set-Aside in 19-20	5,655,333

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

CITY OF FOUNTAIN VALLEY

Notes to the Schedule of Measure HH Revenues and Expenditures

Year Ended June 30, 2020

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 2019/20 in the amount of approximately \$12.4 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 2019/20 would have been \$4,708,867. Measure HH expenditures include the utilization of funds to maintain existing services for public safety and senior and youth programs in an amount totaling \$4,708,867. 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 2019/20 include the pension reserve amount of \$3,000,000 placed in a trust with PARS. The remaining reserves set-aside in Fiscal Year 2019/20, include capital reserves of \$2,655,333.

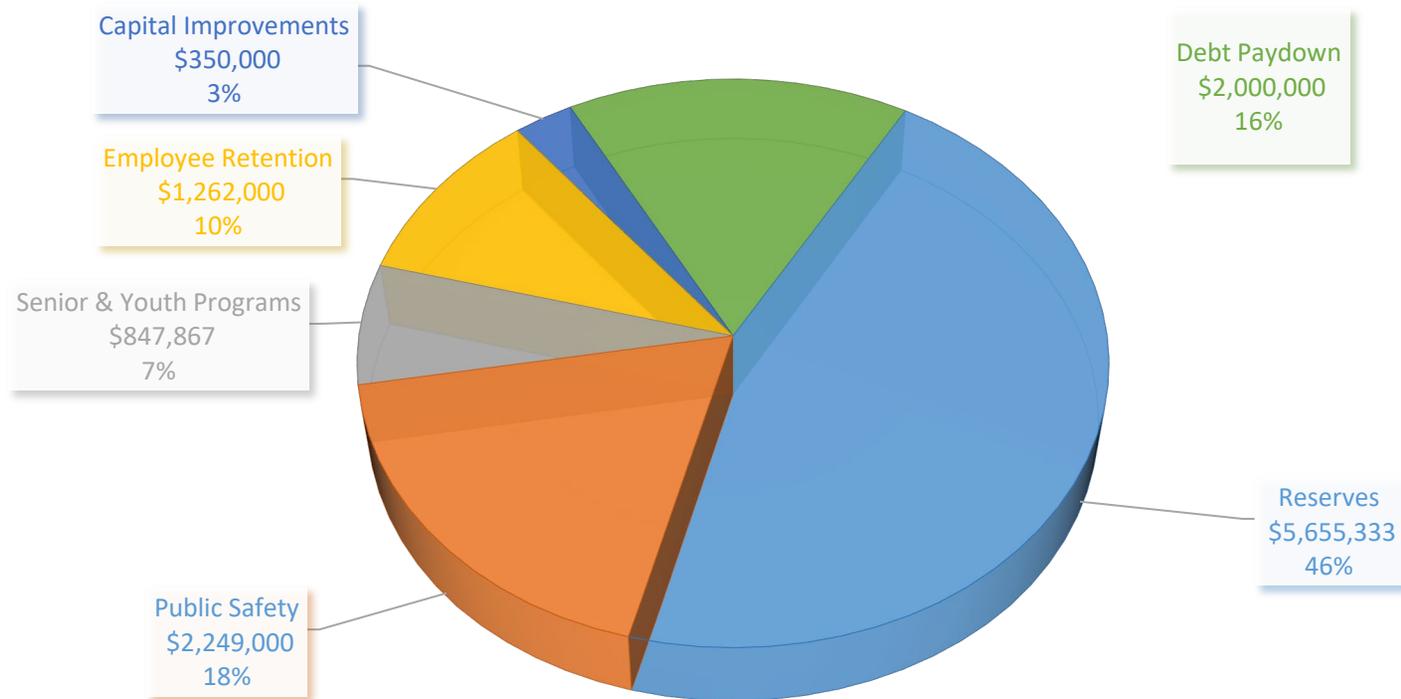
The General Fund reserves set-asides have been \$1,747,320 in Fiscal Year 2016/17, \$6,914,942 in FY 2017/18, \$9,369,018 in FY 2018/2019 and \$5,655,333 in FY 2019/20. During FY 2019/20 a prepayment was made for the purchase of a fire apparatus in which the reserves set-aside was reduced by \$1,199,307. Since the original contributions in FY 2017/18, the OPEB and Pension set-aside reserves have accumulated \$717,115 in investment earnings. As of June 30, 2020 the total reserve balance was \$23,204,421.



MEASURE HH REPORT CARD

For the Fiscal Year Ended June 30, 2020

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, 2020, which reflects that the use of Measure HH Revenues (\$12,364,200) 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.

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. Due to constant changes resulting from Covid-19, the 20 Year Financial Plan has not been updated since October 2019, when it showed a projected annual operating deficit of \$1.4 million. The recent update in January, 2021 shows an annual operating deficit of \$2.7 million in 2037-38 when Measure HH sunsets, demonstrating there is still work to be done on reducing the operating deficit by 2037. However, the updated model includes an additional \$9 million in funding of unfunded liabilities as well as \$38 million in capital projects compared to the previous version. 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.

