



June 20, 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 the tax 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 funds, 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
- Rebuild and maintain the City's established reserve levels; and
- Attract, develop, and retain quality staff

The purpose of this letter is to communicate that the Measure HH Oversight Committee believes that budget allocations in FY 2020-21 and FY 2021-22 was and continues to be inconsistent with and in violation of the City's Responsible Spending Pledge. Instead of using Measure HH funds to reduce debt, Measure HH funds are being used to increase unrestricted general funds. This committee considers this a violation of the promise made to voters.

Before we comment on the proposed Measure HH report card for FY2021-22 and FY2022-23 we would like to remind Council that in March of 2022 our Committee reported an unwarranted transfer of over \$4 million dollars into Capital Reserves from the FY 2020-21 budget. We have attached our letter dated March 1 for reference.

During our Measure HH Oversight Committee meeting held on Thursday, June 3, 2022 we were informed by Interim Finance Director Ernestine Jones that her office was not directed to remedy this unwarranted transfer of 2020-21 Measure HH revenue. The Measure HH Oversight Committee believes that lack of action on this recommendation represents a violation of the promises made to the residents and voters of the City in 2016 and a direct rebuke of our oversight role.

In addition to misallocating over \$4 million dollars of 2020-21 revenue, the report card for FY 2021-22 demonstrates that the City is making an unwarranted transfer of over \$12 million dollars into unrestricted reserves.

Measure HH funds were designed to help the city manage our ongoing annual structural deficits. To assure voters that they could trust the City to spend this new tax revenue on its intended purpose, residents were promised that if Measure HH funds exceeded the amount of our annual structural deficit they would be used for very specific projects. 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.

The good news is that over the last six years we have been able to rebuild and maintain the City's established reserves. In fact, as we noted in our report in March of 2022 some of those reserves are now overfunded. In the report to the Measure HH Oversight Committee on June 2, Interim Finance Director Ernestine Jones presented a schedule that showed that the Capital Reserves balance will be over the target by close to \$20 million. Measure HH funds were not designed to build our reserves beyond reserve targets. Instead, now that these targets have been met, ALL excess Measure HH funds should be used to pay down debt and unfunded liabilities.

During her report on June 3 to the Measure HH Oversight Committee Interim Director Ernestine Jones reported that for FY 2021-22 the City of Fountain Valley did not experience a structural deficit. We did so, primarily due to the infusion of COVID relief funds. Since Measure HH funds are not needed to fill a structural deficit for 2021-22 the Measure HH Oversight Committee believes that all \$12.1 million in expected Measure HH funds should be used to reduce debt.

For FY 2022-23, Interim Director Jones reported that the city will experience an almost \$12 million-dollar structural deficit. Our Committee is concerned about this report for a couple of reasons. First, this report demonstrates a significant increase in spending by the City. Because these funds have come from general fund these expenditures have not necessarily been guided by the Spending Pledge. This example demonstrates why this Committee believes it is important to keep Measure HH funds from being transferred into unrestricted capital reserves. We would also note that the FY 22-23 report card show another \$1.4 million being transferred into unrestricted reserves.

We are also concerned with the new 20-year financial forecast model. First, this model is significantly different from the 20-year financial forecast we received in February and in some ways for the last six years. First, we believe that Capital Projects and the Facility Capital Fund

should be included in the normal operating expenses for the City because the funding for these projects is coming from our reserves which are primarily funded by Measure HH.

**CONCLUSIONS:** We encourage Council to direct staff to:

1. Make an additional debt or unfunded liability payment in the amount of 4.2 million that was improperly transferred to Capital Reserves in FY 2020-21.
2. Make an additional debt or unfunded liability payment of approximately \$12.1 million (the excess HH revenue from 2021–22).
3. Make an additional debt or unfunded liability payment of approximately \$1.4 million (the excess HH revenue from 2022–23).
4. The FY 2022-23 report card demonstrates a significant reliance on Measure HH funds to balance city budgets. The goal of the Measure HH proposal was to reduce the reliance on Measure HH funds over the course of 20 years. The FY 22-23 report demonstrates the complete opposite. We, as a city, are increasing the reliance on Measure HH funds.

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**  
January 2021 – Present

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

**Matt Taylor**  
April 2017 – Present

**Randy Takayama**  
February 2021 – Present  
**Jeffrey Stone**  
February 2022 - Present

**Charles Hoyt**  
February 2022 – Present

CITY OF FOUNTAIN VALLEY  
 SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES  
 Estimated Fiscal Year Ended June 30, 2022

|   |                      |
|---|----------------------|
| <b>Measure HH Revenues</b>                                | \$ 15,500,000        |
| <b>Measure HH Expenditures:</b>                           |                      |
| Reoccurring Expenses Incurred on Essential City Services  | -                    |
| One-Time Expenses (Additional Pension Paydown)            | 3,000,000            |
| <b>Financial Stewardship: Reserves Set-Aside in 21-22</b> | <b>\$ 12,500,000</b> |

Measure HH provided necessary funding in Fiscal Year 2021/22 that was used for the following in accordance with the **Responsible Spending Pledge**:

| <b>Reoccurring Expenses Incurred on Essential City Services:</b>   |          |
|--|----------|
| <b>Public Safety</b>   |          |
| Maintain 911 Emergency Response Times & Keep Fire Station No. 2 open <sup>1</sup>  | -        |
| Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS and Principal and Interest on the Safety Pension Obligation Bonds <sup>2</sup> | -        |
| <b>Total Public Safety</b>   | -        |
| <b>Senior &amp; Youth Programs</b>   |          |
| Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open <sup>3</sup>  | -        |
| <b>Employee Retention</b>  |          |
| Salary and benefit increases <sup>4</sup>  | -        |
| <b>Capital Improvements</b>  |          |
| Includes \$375,000 for residential road rehabilitation   | -        |
| <b>Total Reoccurring Expenses<sup>5</sup></b>  | <b>-</b> |

| <b>One-Time Expenses:</b>   |                  |
|---|------------------|
| <b>Additional Payment to CalPERS towards unfunded pension liabilities</b> | <b>3,000,000</b> |

| <b>Reserves Set-Aside in 21-22:</b>  |                   |
|--|-------------------|
| <b>Pension Reserves</b>  |                   |
| 2021-22 Contribution to Pension Trust Fund                                   | -                 |
| <b>Increase in Reserves</b>  | 12,135,000        |
| <b>Capital Reserves - Transfer to Fleet Management Internal Service Fund</b> |                   |
| Set-aside for Fire Apparatus   | 365,000           |
| <b>Total Reserves Set-Aside in 21-22</b>                                     | <b>12,500,000</b> |

- <sup>1</sup> - 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 \$2,174,551. Approximately 0% of the staffing cost attributable to Fire Station No. 2 has been identified as being funded from Measure HH, which equates to \$0.
- <sup>2</sup> - 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 2021-22, the projected expense for police and fire pension costs for services rendered in prior years is \$4,509,770, which includes principal and interest expense paid on Pension Obligation Bonds attributable to police and fire. Approximately 0% of the increase (\$2,903,451) in pension expense over the base year equates to \$0, which has been attributed to Measure HH.
- <sup>3</sup> - 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 \$2,047,892 in Fiscal Year 2021-22. Approximately 0% of the General Fund subsidy has been identified as being funded from Measure HH, which equates to approximately \$0.
- <sup>4</sup> - 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.
- <sup>5</sup> - General Fund operating revenues are projected to be \$75,864,973 and operating expenditures are projected at \$59,210,535 (excluding Pension Trust contributions and additional payments to CalPERS). The net operating surplus is projected to be \$16,654,438. Without Measure HH, the General Fund would have had an operating surplus of \$1,154,438. The Operating Surplus is due to the receipt of ARPA funds in the amount of \$7,952,893. The City does not have an operating shortfall this year, therefore no funding is required from Measure HH for payment of reoccurring essential City services.

|                         | Cumulative Measure HH<br>Reserves Set-Aside | Reserves<br>at 6/30/22* | Short-Term/<br>Long-Term<br>Targeted<br>Reserve | % Funded by<br>Measure HH |
|-------------------------|---|-------------------------|---|---------------------------|
| OPEB Trust Reserves     | 2,463,517                                   | 15,377,761              | \$10-30 Million                                 | 16%                       |
| Pension Trust Reserves  | 13,277,792                                  | 13,277,792              | \$10-30 Million                                 | 100%                      |
| Emergency Reserves      | 4,903,421                                   | 16,883,655              | 55% Sales Tx Rv                                 | 29%                       |
| Capital Reserves        | 26,569,786                                  | 35,730,983              | \$10-15 Million                                 | 71%                       |
| Fire Apparatus Reserves | 0   | 0                       | \$2 Million                                     | 0%                        |
|                         | <u>47,214,516</u>                           |                         |   |                           |

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

CITY OF FOUNTAIN VALLEY  
 SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES  
 Budgeted Fiscal Year Ended June 30, 2023

|   |           |                  |
|---|-----------|------------------|
| Measure HH Revenues                                       | \$        | 16,153,000       |
| <b>Measure HH Expenditures:</b>                           |           |                  |
| Reoccurring Expenses Incurred on Essential City Services  |           | 11,813,650       |
| One-Time Expenses (Additional Pension Paydown)            |           | 3,000,000        |
| <b>Financial Stewardship: Reserves Set-Aside in 22-23</b> | <b>\$</b> | <b>1,339,350</b> |

Measure HH provided necessary funding in Fiscal Year 2022/23 that was used for the following in accordance with the **Responsible Spending Pledge**:

| <b>Reoccurring Expenses Incurred on Essential City Services:</b>   |  |                   |
|--|--|-------------------|
| <b>Public Safety</b>   |  |                   |
| Maintain 911 Emergency Response Times & Keep Fire Station No. 2 open <sup>1</sup>  |  | 2,457,886         |
| Fire Safety Salaries   |  | 886,976           |
| Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS and Principal and Interest on the Safety Pension Obligation Bonds <sup>2</sup>               |  | 3,451,596         |
| <b>Total Public Safety</b>   |  | <b>6,796,458</b>  |
| <b>Senior &amp; Youth Programs</b>   |  |                   |
| Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open <sup>3</sup>  |  | 2,325,750         |
| <b>Employee Retention</b>  |  |                   |
| Salary and benefit increases <sup>4</sup>  |  | -                 |
| <b>City's Outstanding Debt -Pay Down/Pay off, including Unfunded Liabilities</b>   |  |                   |
| Miscellaneous Employee Pension Costs that are Legally Required to be Paid to CalPERS and Principal and Interest on the Miscellaneous Pension Obligation Bonds <sup>2</sup> |  | 2,116,442         |
| <b>Capital Improvements</b>  |  |                   |
| Includes \$375,000 for residential road rehabilitation and \$200,000 for park improvements   |  | 575,000           |
| <b>Total Reoccurring Expenses<sup>5</sup></b>  |  | <b>11,813,650</b> |

| <b>One-Time Expenses:</b>  |           |
|--|-----------|
| Additional Payment to CalPERS towards unfunded pension liabilities | 3,000,000 |

| <b>Reserves Set-Aside in 22-23:</b>  |                  |
|--|------------------|
| <b>Pension Reserves</b>  |                  |
| 2022-23 Contribution to Pension Trust Fund                                   | -                |
| <b>Increase in Reserves</b>  | 1,339,350        |
| <b>Capital Reserves - Transfer to Fleet Management Internal Service Fund</b> |                  |
| Set-aside for Fire Apparatus   | -                |
| <b>Total Reserves Set-Aside in 22-23</b>                                     | <b>1,339,350</b> |

- <sup>1</sup> - 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 \$2,457,886. Approximately 100% of the staffing cost attributable to Fire Station No. 2 has been identified as being funded from Measure HH, which equates to \$2,457,886. In addition to the staffing costs of Fire Station No. 2, an additional \$886,976 of Fire safety personnel expenses has been identified as being funded from Measure HH.
- <sup>2</sup> - 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 payments of \$1,606,319 and \$836,411, respectively, for police/fire and miscellaneous employee pension costs for services rendered in prior years (excluding "normal cost" related to the accrual of benefits earned in the current year). In 2022-23, the total projected expense for police/fire and miscellaneous pension costs for services rendered in prior years is \$8,010,769 (\$5,568,038 over the base year), which includes principal and interest expense paid on Pension Obligation Bonds. Approximately \$3,451,596 of the increase is for the police/fire pension costs and \$2,116,442 is for miscellaneous employee pension costs. The total increase of \$5,568,038 in pension expense over the base year has been attributed to Measure HH.
- <sup>3</sup> - 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 \$2,325,750 in Fiscal Year 2022-23. Approximately 100% of the General Fund subsidy has been identified as being funded from Measure HH, which equates to approximately \$2,325,750.
- <sup>4</sup> - 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.
- <sup>5</sup> - General Fund operating revenues are projected to be \$71,020,512 and operating expenditures are projected at \$66,681,162 (excluding Pension Trust contributions and additional payments to CalPERS). The net operating surplus is projected to be \$4,339,350. Without Measure HH, the General Fund would have had an operating deficit of \$11,813,650. Therefore, this amount has been identified as being funded from Measure HH, which has been used for recurring essential City services.

|                         | Cumulative Measure HH<br>Reserves Set-Aside | Reserves<br>at 6/30/23* | Short-Term/<br>Long-Term<br>Targeted<br>Reserve | % Funded by<br>Measure HH |
|-------------------------|---|-------------------------|---|---------------------------|
| OPEB Trust Reserves     | 2,602,213                                   | 16,243,529              | \$10-30 Million                                 | 16%                       |
| Pension Trust Reserves  | 13,888,570                                  | 13,888,570              | \$10-30 Million                                 | 100%                      |
| Emergency Reserves      | 4,903,421                                   | 17,601,655              | 55% Sales Tx Rev                                | 28%                       |
| Capital Reserves        | 22,562,854                                  | 28,300,577              | \$10-15 Million                                 | 80%                       |
| Fire Apparatus Reserves | 0   | 0                       | \$2 Million                                     | 0%                        |
|                         | <u>43,957,058</u>                           |                         |   |                           |

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