



EXHIBIT 2

Measure X Citizen Oversight Committee Annual Recommendations

March 6, 2020

CITIZEN OVERSIGHT COMMITTEE ROLE

- Pursuant to Measure X adopted by the voters, the Citizen Oversight Committee is to act in an advisory role to City Council in reviewing Measure X revenue and expenditures. Pursuant to City Council resolution, the Citizen Oversight Committee shall make budget recommendations.
- Measure X was approved to maintain effective 9-1-1 response; retain firefighters and police officers; address homelessness; fix streets; maintain parks, youth and senior services
- Each Committee Member feels a sense of duty to represent and advocate for the Citizens and Residents of Santa Ana.

COMMITTEE CONCERNS

- The Citizens Oversight Committee was not able to make recommendations for the FY19-20 budget process.
- Without Measure X, expenses exceed revenues for the foreseeable future.
- Measure X revenue is temporary but contractual commitments have been made that are ongoing.
- Two-thirds (2/3) of Measure X revenue was used to balance the FY18-19 budget to maintain the existing service level.
- Ongoing Measure X revenue is largely keeping the status quo, instead of improving the quality of life for Santa Ana residents.
- Recurring expenses were added to the City budget after Measure X was approved.

COMMITTEE'S PRELIMINARY RECOMMENDATIONS

- One-time expenses should be favored above permanent additions to expenses when using Measure X revenue.
- The City's reserve levels should be re-assessed.
- The City should provide an inventory of needs for each type of service listed in Measure X.
- The Citizens Oversight Committee should recommend spending priorities in alignment with the needs identified in Measure X. Improvements to all the items listed in Measure X will improve the quality of life.
- Each Department should have a baseline of services and expected outcomes for each year so residents can track their progress.
- Since 2/3, or approx. \$10M, of the FY18-19 Measure X funds was used to fix a structural deficit, the City should work to eliminate the underlying deficit so Measure X funds can be used for their intended purpose.

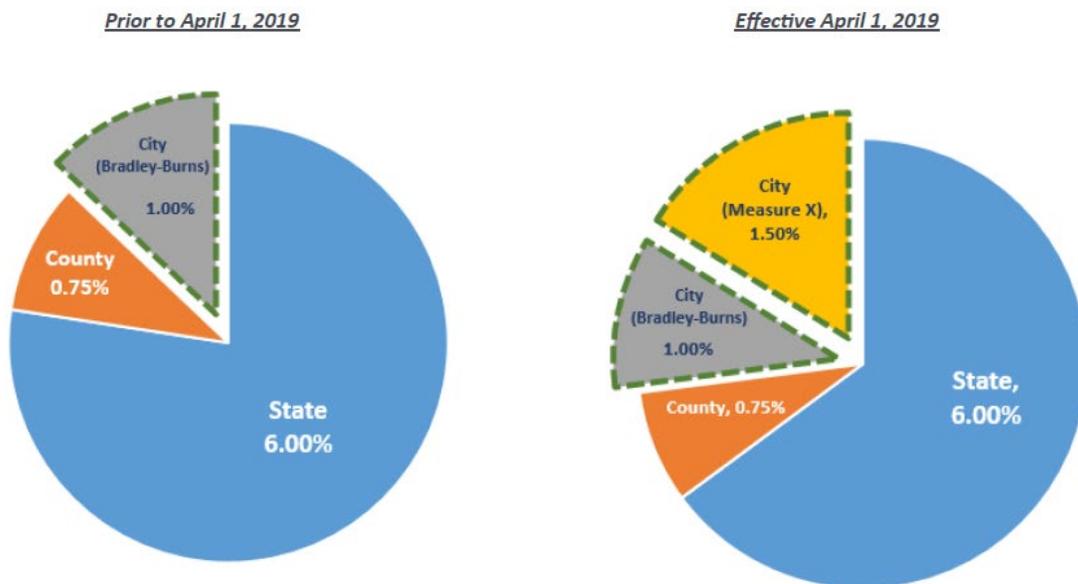
THE OVERSIGHT COMMITTEE’S ROLE

The Committee’s role per the Municipal Code is to “act in an advisory role to the City Council in reviewing the annual revenue and expenditures of funds from the tax authorized by Measure X.” In addition to that role, the Municipal Code requires an annual audit of the revenue generated and the expenditures made as well as an annual list of expenditures made for the prior year.

Despite the Committee being formed to act in an advisory role for the Council, each of the members feels a sense of duty to represent, inform, and advocate for the community that we represent.

MEASURE X BASICS

Measure X was approved by the majority of Santa Ana voters in the November 2018 general election. It provides for an extra 1.5% transaction and use tax in the City of Santa Ana, bringing our city sales tax rate to 9.25%. The Measure X tax will be reduced down to 1% in On April 1, 2029 and is scheduled to be eliminated on April 1, 2039.



Ballot Language- Use of Measure X

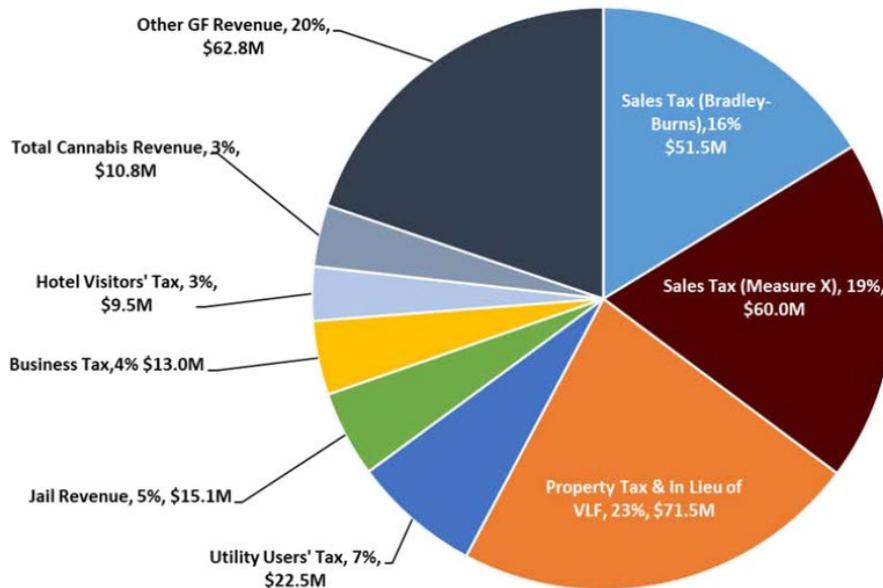
The ballot language called for the use of Measure X funds “To maintain effective 9-1-1 response; retaining firefighters and police officers; addressing homelessness; fixing streets; maintaining parks, youth and senior services, and unrestricted general revenue purposes”.

It is important to note that revenue generated by Measure X is general fund revenue, which can be used for any legal purpose.

Expected Annual Measure X Revenue Generation

When passed, Measure X was expected to generate approximately \$60M per year. This is approximately 19% of the city’s General Fund revenue. It was equivalent to the City receiving a raise of 23% for FY19/20.

Adopted FY 19-20 General Fund Revenue: \$316.7M



START UP TIMING ISSUES

The first year of any new tax is likely the most important, since once the first year is established, often future budgetary changes are based upon the prior year figures according to the priorities established of the Council. Despite Measure X being approved in November of 2018, and the Council establishing the Measure X Oversight Committee in January 2018, the Committee was not able to speak into the 2019/2020 budget because it had already been established by the time the Committee first met in June of 2019. The time lapse between the passage of Measure X and Council approving members of the Committee did not allow the Committee time to be able to meet and provide input as to the first full budget cycle containing approximately 19% of the city's general fund revenue.

The Committee believes that this is very unfortunate and the residents will be living with this decision for years to come. In the future, we believe that the city should do everything it can to coordinate timing of the formation of any oversight committees to accomplish the goals of such committee in the very first year of existence.

2018/2019 SPENDING

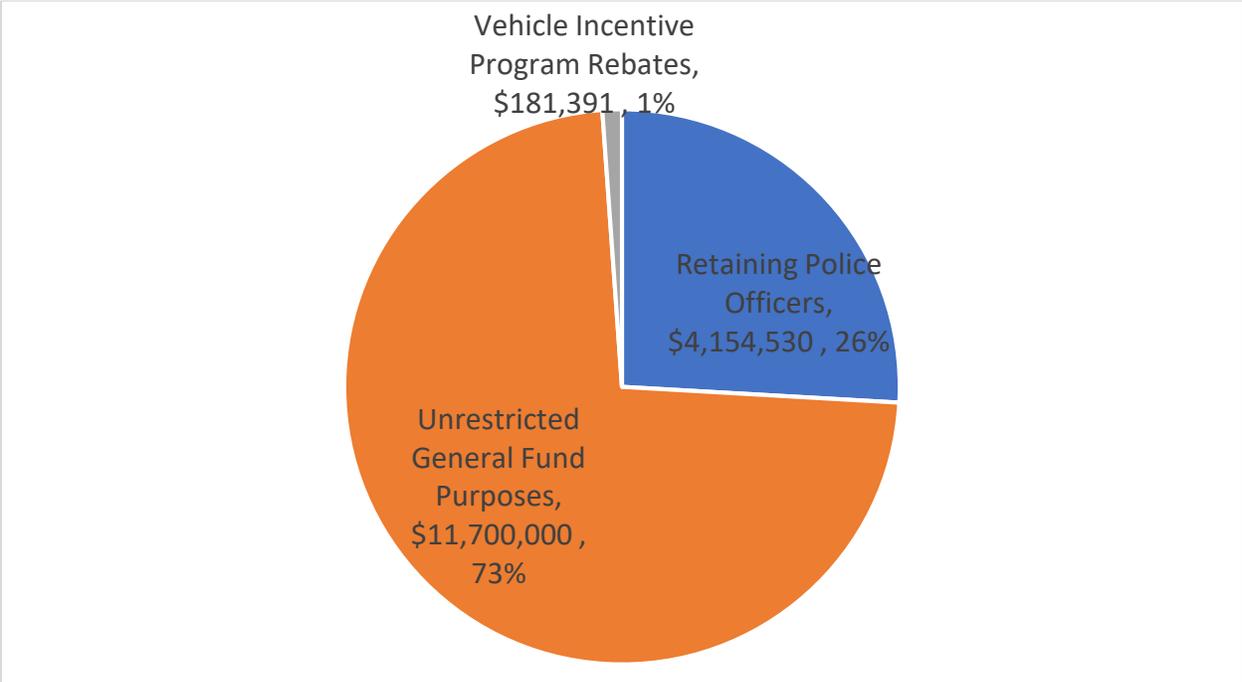
Since Measure X commenced on April 1, 2019 there was revenue generated in the 2018/2019 fiscal year. This revenue was not budgeted for in the 2018/2019 approved budget and in effect is revenue that the council could utilize. During April through June 2019, there was approximately \$15.18M of revenue generated by Measure X. The use of the Measure X revenue was determined by city staff, and reported on by the city's outside CPA firm, to be as follows:

Planned use of General Fund balance	\$10,200,000
Planned labor savings not implemented	1,500,000
Retaining police officers	<u>4,154,530</u>
Total Measure X Uses/Expenditures	\$15,854,530

It is important to note that all of the \$15.854M of FY18/19 Measure X expenditures are associated with recurring items to maintain existing levels of service and not one time use of funds. Additionally, more than two-thirds of the FY18/19 budget was used to simply maintain existing service levels.

If you recall, when the 18/19 budget was passed, it was determined that the city would utilize \$10.2M of the city's general fund balance as well as implement \$1.5M of labor savings during the year in order to balance the budget. The labor savings were not implemented during the year and due to the Measure X revenue being generated, it was not necessary to utilize the general fund balance.

It is important to note that the above uses of Measure X revenue does not account for the Vehicle Incentive Plan for the three-month period, which is an additional \$181,391 of funds for a total FY 18/19 spending of Measure X funds of \$16,035,921.



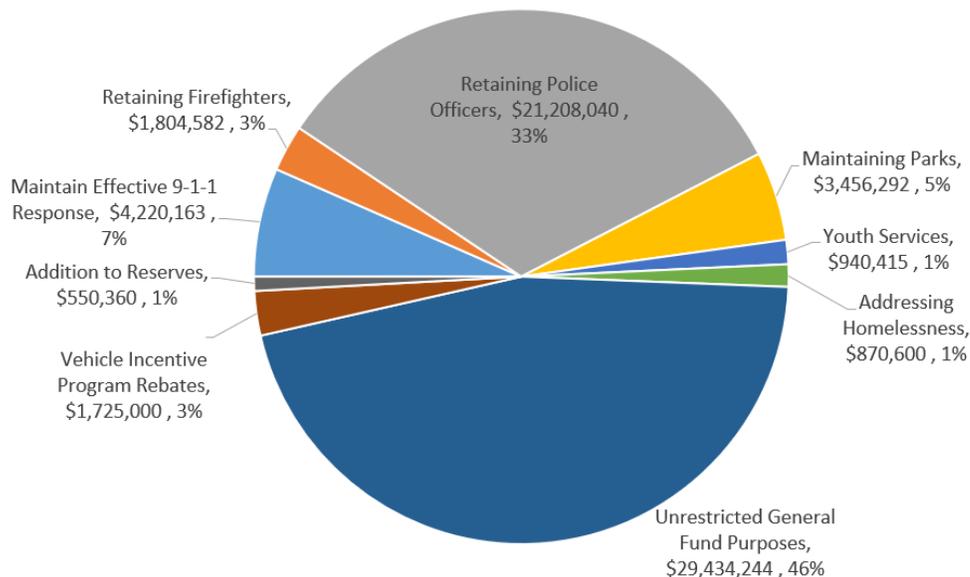
2019/2020 BUDGET (CURRENT YEAR)

The current year budget projected Measure X revenue of \$60M. Although, this revenue is general fund revenue, Measure X requires the city to provide a breakdown of the use of Measure X funds. Although, this is very difficult to do as discussed below, city staff had provided to the Committee a listing of new 19/20 spending of Measure X funds as follows:

<u>New FY19/20 Measure X Aligned Spending</u>	<u>Amount</u>	<u>Ballot Grouping</u>
Recruiting & Retaining Police Officers	8,407,885	911 Response & Retaining Police Officers
Police Dept Recruiting (HR)	79,125	911 Response & Retaining Police Officers
Add'l Traffic Collision Investigators	229,710	911 Response & Retaining Police Officers
Park Security Contract & Park Code Blue Cameras	742,048	911 Response & Retaining Police Officers
Additional Police Overtime	2,000,000	911 Response & Retaining Police Officers
2 Code Enforcement Officers	282,800	Homelessness
QOLT- Homeless Cleaning, Staffing & Vehicles	587,800	Homelessness
Improve Park Maintenance	3,014,292	Maintaining Parks
Parks Tree Replacement & Other Supply	442,000	Maintaining Parks
Additional Park & Recreation Staffing	794,800	Youth and senior services
New Allocations	16,580,460	

The above represents new spending of Measure X revenue generated. However, the entire FY19/20 Measure X aligned spending is as follows:

<u>FY19/20 Expenditures- X Aligned</u>	<u>Recurring</u>	<u>One-Time</u>	<u>Total 19/20</u>
Maintain Effective 9-1-1 Response	2,145,163	2,075,000	4,220,163
Retaining Firefighters	1,804,582	-	1,804,582
Retaining Police Officers	21,208,040	-	21,208,040
Addressing Homelessness	685,600	185,000	870,600
Maintaining Parks	3,014,292	442,000	3,456,292
Youth Services	940,415	-	940,415
Unrestricted General Revenue Purpose	27,414,644	2,019,600	29,434,244
Addition to Reserves	-	550,360	550,360
Total	57,212,736	5,271,960	62,484,696



The Committee believes that it is important to segregate the Measure X aligned spending into one-time expenditures as well as recurring expenditures. This is important for two matters

- Annual Budgeting: By knowing the one-time spending, it provides a baseline for future budgets to know what may be available for the next budget cycle assuming that the recurring expenditures stay constant.
- Sunset Provisions: By knowing the recurring spending, it provides a metric to know what needs to be planned for when Measure X tax decreases in 2029 and fully sunsets in 2039.

Additionally, we believe it is important to note:

- Without Measure X, expenses exceed revenues.
- Ongoing Measure X revenue is largely just keeping the status quo instead of improving the quality of life for Santa Ana residents.
- Recurring annual expenses were added to the City budget after Measure X was approved which will carry on well into the future.

DEPARTMENTAL UPDATES

The Committee felt that it was important to hear from each of the major city departments that were mentioned in the ballot language in order to determine what Measure X funds will mean for their department and for the future needs of their departments. Quick updates of these meetings are as follows:

Police Department (PD)

The Committee received a presentation from the PD at our September 11, 2019 meeting. The major takeaways were as follows:

- PD felt that as more officers are hired that response times will improve.
- The Committee was surprised that the PD did not have a response time goal to strive towards based upon new hiring nor did they provide a goal or a comparable standard when asked for one.
- The Committee believes that the PD should develop a response time goal in order to provide accountability to the public.
- The Committee was interested in any further spending/hiring that would be needed in order to achieve improved response times; however, the amount of money required and response time improvements should be measurable.

Parks, Recreation and Community Services Agency (PRCSA)

The Committee received a presentation from PRCSA at our December 11, 2019 meeting. The major takeaways were as follows:

- PRCSA is in the process of developing a needs assessment, to understand what is needed city wide.
- However, another \$2M would be extremely helpful for park maintenance and repairs (bringing total Measure X funds to approximately \$4M for PRCSA).
- Below are both PRCSA Measure X Funding as well as future needs as presented to the Committee.
- The Committee feels that youth and senior services needs to be highlighted as part of the PRCSA needs assessment and master plan, due to its inclusion in the Measure X ballot language; and since this was an area that appears to not have received Measure X allocations.

PRCSA Measure X Funding

▶ Park Maintenance & Repairs	\$2,024,352
▶ Park Staff (11)	\$ 989,940
▶ Tree Replacement & Supplies	\$ 442,000
▶ Zoo Staff (2) and part time recreation staff	\$ 745,615
▶ Zoo Contracts and supply enhancements	\$ 343,000
▶ Librarians (2)	\$ 194,800
TOTAL	\$4,739,707

PRCSA Future Needs

- ▶ Park Security
- ▶ Parks Master Plan – Identifies opportunities to build, enhance, rehabilitate, and maintain.
- ▶ Park and Facility Amenity Replacements – restrooms, playgrounds, picnic tables, benches, drinking fountains, bleachers, backstops, outdoor exercise equipment, synthetic turf sports fields, shade structures, safe walk ways, parking lots, park sports and security lighting,
- ▶ Staffing to accommodate increased programs and services

Public Works Agency (PWA)

The Committee received a presentation on the Pavement Management Program from PWA at our October 29, 2019 meeting. The major takeaways were as follows:

- PWA advised The Committee that another \$7.1M is needed for street paving maintenance as shown below.
- Funding for the OCTA MOE (Maintenance of Effort) requirements became an issue during the current fiscal year due to OCTA findings of non-compliance. However, recently the City has become compliant and the budget may need to be adjusted to account for any OCTA adjustments to the MOE requirement for FY20-21.
- The Committee was advised that virtually all funding for street maintenance was not derived from the general fund which would be a departure from most other city's street maintenance programs.

PMP Recommendation

Option	Action	Annual Funding
A	Status Quo PCI = 66 in 2024	\$12.9 M
B	Maintain PCI = 76	\$20.0 M
C	Raise PCI to 77 by 2024	\$25.7 M
D	Raise PCI to 80 by 2024	\$ 29.4 M

Recommended PMP Funding

Revenue/Expenditure Summary	Amount
Annual Funding Needed	\$20 Million
Available Funding Stream	-\$12.9 Million
*Shortfall	<u>\$7.1 million</u>

*Shortfall / Gap Funding Needed

Community Development Agency (CDA)

The Committee received a presentation from the CDA at our March 11, 2020 meeting. The major takeaway was that the CDA feels that additional funding for the Quality of Life Team (QOLT) would be helpful in addressing homelessness.

Planning and Building Agency (PBA)

The Committee received a presentation from PBA at our March 11, 2020 meeting. The major takeaways were as follows:

- The PBA has a need for more code enforcement officers, planners, and building inspectors; some of which have already been budgeted for, but not yet hired.
- As a point of reference, pre-recession PBA had 110 total staff including 22 code enforcement officers, while they currently have 72 staff and 14 enforcement officers.
- PBA also feels that additional funding for technology advancements would allow for departmental and customer experience improvements.

VOTER INTENTION VERSUS IMPLEMENTATION

It is our belief that the residents believed that the Measure X revenue would be utilized primarily for maintaining effective 9-1-1 response, retaining firefighters and police officers, addressing homelessness, fixing streets, maintaining parks youth and senior services. However, the ballot language of Measure X also allowed the funds to be utilized for unrestricted general revenue purposes.

It is our belief that although Measure X revenue can be expended on a wide variety of functions, residents feel that the intended purpose of the tax revenue may be misplaced and they would like to see some adjustments in upcoming budget cycles to more align with the specific items referenced in the ballot language besides unrestricted general revenue proposes.

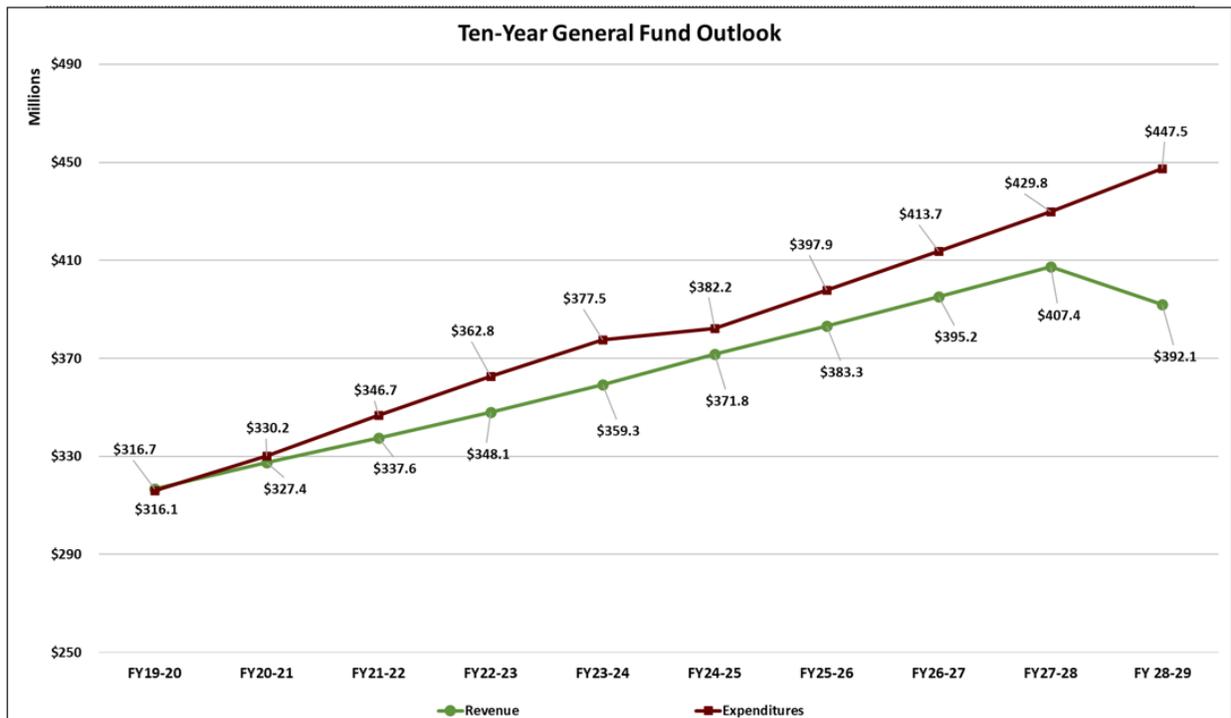
Further, we believe that the voters would like to see some tangible results, reported semi-annually, of the Measure X spending such as measurably decreased police response times, improved street pavement quality, reduced number of individuals suffering from homelessness on the streets, improved parks facilities, and more youth and senior services provided to the community.

FY20/21 UPCOMING BUDGET & COVID-19 CONSTRAINTS

The Committee believes that the City's budget indicates the priorities of city leadership wherein money will be budgeted to those areas which are important to the Council.

Even before COVID-19, the Committee was very concerned about the budgeting priorities and determining if those were aligned with the community's expectations, especially as it comes to the revenue generated by Measure X.

The City's own Ten-Year General Fund Outlook shows an increasing gap where projected expenditures are exceeding projected revenue. Below is the chart showing this gap for FY19-20 forward.



It is important to note that the above Ten-Year Outlook was generated prior to considering the impact of COVID-19.

Overall, we believe that the City should strive to provide more funding to the areas identified above including improved streets and parks, homeless response, code enforcement, and measurably improved police response times. However, we are concerned that due to the economic strain that the city is under due to the COVID-19 virus that those items may actually be the items that are cut first.

As was presented at the March Community Budget Meeting, the City will be under severe financial stress for not only the current fiscal year (FY19-20) but also for the upcoming fiscal year (FY20-21) as a result of reduced sales tax, transient occupancy tax, and other revenue sources. However this is not simply a two fiscal year crisis, as the FY21-22 year there may be a very large reduction in the city's share of property taxes; and then in FY22-23 there is a strong possibility that the City's share of pension obligation will spike due to the current investment market volatility. The point is that even if the state opens back up and economic activity starts to ramp back up, this is not a short-term economic crisis but one that will take a number of years to come out of for the City. As such, long term solutions are needed to control expenditures as well as increase revenue.

We strongly urge the City to work on ways to reign in recurring spending while at the same time doing its best to utilize Measure X funds for items that the community understood they were to be used for.

PLANNING FOR THE SUNSET

Measure X is not a permanent source of revenue. The Committee believes that the City needs to take proactive steps today in order to prepare for the reduction of the Measure X tax rate as well as the ultimate sunset of the tax.

To continue to rely upon Measure X revenue annually for recurring expenses will only lead to a further budget shortfall in the future. As such, the Committee continues to suggest utilizing Measure X funds for one-time expenditures, and to look very critically at expenditures which lock the city into long term recurring spending obligations.

MEASURE X REPORTING REQUIREMENTS- SEGREGATION

As an aside, it should be noted that Measure X requires an annual audit and an annual expenditure disclosure. The Committee believes that by the nature of Measure X revenue being available for any unrestricted general revenue purpose, that identifying where the Measure X revenue is being expended is not possible under the current reporting requirements. If the Measure X revenue was to be segregated during the budget process and be allocated to specific expenditure items, it may be possible.

However, even if the expenditures sourced to Measure X revenue were to be separately stated in the budget, it would likely be a shell game where expenditures that would be incurred regardless of Measure X revenue generation would be shifted over as a Measure X expenditure so this may be a self-defeating exercise.

Regardless, we urge the council to consider providing to the residents a schedule of expenditures that are being incurred due to the generation of Measure X revenue for the FY20-21 budget cycle. This disclosure should be in the same manner as the table titled "FY19/20 Expenditures-X Aligned" in the discussion regarding the FY19/20 budget. The Committee feels that this should be part of each budget cycle prior to approval.

SUMMARY OF RECOMMENDATIONS

The Committee believes that the following summary recommendations should be considered by Council:

- One-time expenses should be favored above permanent additions to expenses when using Measure X revenue.
- The City's reserve levels should be re-assessed.
- The City should provide an inventory of needs for each type of service listed in Measure X.
- The Citizens Oversight Committee should recommend spending priorities in alignment with the needs identified. Improvements to all the items listed in Measure X will improve the quality of life.
- Each Department should have a baseline of services and expected outcomes for each year so residents can track their progress.
- Since 2/3, or approximately \$10M, of the FY18-19 Measure X funds was used to fix a structural deficit, the City should work to eliminate the underlying deficit so Measure X funds can be used for their intended purpose.