
City of Concord

May 13, 2014

TO: Honorable Mayor and Councilmembers

FROM: Measure Q Oversight Committee - Guy Bjerke, Chair;
Richard Eber, Vice Chair; Norm Freitas, Bill Gram-Reefer; Beri Kasper;
Dr. Harmesh Kumar; Rosanne Nieto

**SUBJECT: Measure Q Oversight Committee's Review of the FY 2012-13 Audit and
Evaluation and Report on the City's Proposed Use of Measure Q Revenues in
the Fiscal Year 2014-15 General Fund Budget**

The Measure Q Oversight Committee (Committee) met on February 26, 2014 to review the Fiscal Year (FY) 2012-13 Comprehensive Annual Financial Statement (CAFR), which includes the annual audit. At this meeting, the Committee also heard a presentation from staff on the City's long-term post-employment liabilities and infrastructure backlog.

Subsequently, the Committee met on April 9, 2014 and April 16, 2014 to review and evaluate the FY 2014-15 preliminary General Fund budget and 10-year financial forecast. The purpose of these meetings was to obtain an understanding of the preliminary budget in order to advise the Council as to whether Measure Q revenues are proposed to be spent in a manner consistent with what the voters were told during the election process: to protect core services, re-build the City's reserves, and provide more time for the City to address its on-going structural budget deficit.

The Committee has made the following findings with regard to its charge in oversight of the tax:

1. Does the FY 2012-13 Annual Audit reflect that the Measure Q tax was collected and appropriately spent?

At the February 26 meeting, the Committee determined that the presentation of the Measure Q Use and Transaction Tax in the financial statements (pages x, 15, 27, 29 and 45 of the CAFR) reflect the collection of the tax appropriately.

The Committee finds that usage of Measure Q tax revenue (\$10.6 million) was identified clearly in the annual audit (pages x, 15, 27, 29 and 45 of the CAFR). Further the Committee finds that \$5.4 million of Measure Q tax revenue went to maintain City services and the remaining \$5.2 million went into the City's reserve. Consequently, the Measure Q Committee concludes that the tax was collected and appropriately utilized.

2. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 protect the City's core services?

The proposed budget estimates the collection of \$11.6 million in Measure Q revenue during the 2014-15 fiscal year and continues the City's practice, which is supported by this Committee, to use a portion of the annual Measure Q revenue to fund operations, while also allocating a portion to strengthen reserves. Of the projected Measure Q revenues for FY 2014-15, \$8.0 million will be used to maintain the City's services, including public safety, parks and recreation, infrastructure maintenance, and internal operations. In addition, the remaining \$3.6 million is allocated to reserves. Because Measure Q revenues are available no significant cuts to services are being proposed in the FY 2014-15 budget; therefore, all core services are being protected.

Consequently, the Committee finds that the use of Measure Q revenue in the FY 2014-15 budget protects the City's core services.

3. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 rebuild the City's reserves?

The Committee finds that the proposed General Fund budget for FY 2014-15 rebuilds the City's reserves. The City expects a total of \$11.6 million in Measure Q revenue in FY 2014-15. Of this amount, \$3.6 million will be placed in reserves to help stabilize the City's budget in future years. The total Measure Q reserve at the end of FY 2014-15 is projected to be \$12.3 million; this reserve, when combined with the City's 15% General Fund reserve, results in a total City Reserve of unallocated funds of \$22.6 million or 28% of the budget.

Further, the proposed 10-year financial forecast illustrates that Measure Q has been successful in continuing to rebuild reserves. However, this Committee would like to express its concern that the City's annual spending continues to be more than its annual recurring revenues. While Measure Q has and continues to cover the shortfall, Measure Q is set to expire in March 2016 and the City must take future actions to stabilize the budget.

4. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 make progress toward resolving the City's structural budget deficit within the next 10-years?

The Committee finds that, while the proposed General Fund budget provides for a status quo level of service, the expenditure budget grows by \$2.3 million and the City's reliance on Measure Q revenue increases by approximately \$1.8 million to maintain service levels. In total, the proposed budget uses approximately 70% of the

projected FY 2014-15 Measure Q revenue to fund operations and the remaining amount will be allocated to the Measure Q reserve.

The Committee is concerned that, although the City is experiencing some revenue growth as the economic recovery continues, the recovery has been slow and the City will continue to rely on Measure Q revenue and reserves. Unless significant actions are taken, the Committee is also concerned that the expiration of Measure Q in March 2016 will once again cause the City to rely on the use of reserves to fund on-going operations – causing the City's reserve levels to deplete over the long-term.

In anticipation of Measure Q expiring, the 10-year financial forecast includes unidentified budget cuts in the amount of \$4.0 million to be phased in beginning in FY 2015-16. However, even with \$4.0 million in budget cuts, projected revenues without Measure Q are not sufficient to address deferred infrastructure needs and other liabilities.

The Committee recognizes that significant work has been done over the last 12 months to transparently identify the magnitude of the unfunded liabilities and infrastructure maintenance challenges that face the City. Further, the Committee finds that the 10-year financial forecast includes costs for unfunded liabilities and infrastructure needs – something that was omitted from prior forecasts and highlighted by this Committee.

The Committee concurs that it makes sense to minimize service reductions while Measure Q is being collected from tax payers to preserve City services; however, the Committee also recognizes the significance of the challenges and urges the City Council and City management to develop a clear roadmap to stabilize the General Fund budget.

Conclusion

The Committee continues to encourage the City staff to think creatively to further enhance efficiencies, reduce spending and raise revenues and to present those solutions to the City Council. The Committee thanks the City Council for the opportunity to comment and make recommendations on the use of Measure Q revenue.