
City of Concord

June 9, 2020

TO: Honorable Mayor and Councilmembers

FROM: Citizen Measure Q Oversight Committee - Diane Sprouse, Chair, Brian Beckon, Vice Chair; Gregory Grassi, Brandy Leidgen and Michelle Lane

SUBJECT: Measure Q Oversight Committee's Review of the FY 2018-19 CAFR and Evaluation and Report on the City's Use of Measure Q Revenues in the Adopted Biennial Operating Budget for FY 2019-20 and FY 2020-21

The Measure Q Oversight Committee (Committee) met on April 29, 2020 to review the Fiscal Year (FY) 2018-19 Comprehensive Annual Financial Statement (CAFR), which includes the annual audit. At the same meeting, staff provided an overview of projected budgetary impacts and initial budgetary actions the City had implemented in response to the COVID-19 crisis. The Committee received an update on recommended changes to the City's General Fund budget for FYs 2019-20 and 2020-21 on May 27, 2020.

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

1. Does the FY 2018-19 Annual Audit reflect that the Measure Q tax was collected and appropriately spent?

On April 29, 2020, the Committee reviewed the FY 2018-19 Comprehensive Annual Financial Statement (CAFR) and determined that the presentation of the Measure Q Use and Transaction Tax in the financial statements (pages xi, 9, 12, 16, 25, 30, and 32) reflect the collection of the tax appropriately.

The Committee finds that usage of Measure Q tax revenue (\$13.4 million) was identified clearly in the annual audit. Further, the Committee finds that \$7.75 million of Measure Q revenue went to maintain City essential services, which allowed the City to avoid cuts to core City services in FY 2018-19, and the remaining \$5.9 million was used consistent with the City's Fiscal Sustainability Ordinance to support reserves and infrastructure investment. Consequently, the Measure Q Committee concludes that the tax was collected and appropriately utilized.

2. Does the City's proposed amendments to the General Fund biennial budget for FY 2019-20 and FY 2020-21 protect the City's core services?

The COVID-19 pandemic and related shelter in place and business closure orders are expected to have a significant impact to the City's revenues, including Measure Q. It is unknown how long this crisis will last, how deeply revenues will be impacted or how long recovery will take. As a result, the situation is fluid and will require constant review and action to continue the City's history of fiscal prudence.

Staff made presentations on April 29, 2020 and May 27, 2020 of projected impacts to the City's revenues, immediate actions the City took to stabilize the budget and recommended adjustments to FYs 2019-20 and 2020-21 to begin addressing additional fiscal challenges brought on by the COVID-19 pandemic and response.

At the time the biennial budget was adopted in 2019, Measure Q revenues were estimated in the amount of \$13.6 million for the 2019-20 fiscal year and \$13.7 million for FY 2020-21. Initial revised estimates anticipate Measure Q revenue of \$10.9-12.7 million in 2019-20 and \$9.5-12.1 million 2020-21. While revenues have declined, the City continues to use Measure Q revenues to maintain essential City services, including 911 emergency response, gang prevention and crime investigation, city street and pothole repair, and senior services, among other services.

It is critical to note that Measure Q revenues continue to protect core City services and provide a local revenue source that cannot be taken by the State of California in both FYs 2019-20 and 2020-21.

Consequently, the Committee finds that the use of Measure Q revenue in the budget for FYs 2019-20 and 2020-21 protects the City's core services.

3. Do the City's proposed amendments to the General Fund biennial budget for FY 2019-20 and FY 2020-21 maintain the City's reserves?

The Committee finds that to protect core services, the budget will need to rely on the use of reserves and reductions in expenditures. The Committee supports the City's proactive approach to implementing fiscal stability efforts now and urges that a General Fund reserve level of at least 17% be maintained to protect against future uncertainty. This is consistent with the Council's stated goals for reserve levels. It is anticipated that once the City is out of the current downturn, Measure Q funds will be used to restore reserves.

Recommendations

The Committee commends the Council's actions to stabilize the City's budget and recognizes that significant work has been done to identify the magnitude of the unfunded liabilities and infrastructure maintenance challenges and to quickly adjust to the fiscal impacts of COVID-19 that face the City.

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 fiscal challenges being faced by the City as a result of the Shelter in Place Health Order. Due to this order, the City anticipates a drop of 15-32% and 12-31% in sales tax and Measure Q Revenue for Fiscal Year 2020-21. The Measure Q committee acknowledges this will require between 10 and 20% reductions to the adopted FY 2020-21 budget and urges the City Council and City management to develop a clear roadmap to stabilize the General Fund budget.

The City will need to rely on Measure Q funding for the foreseeable future, beyond the current expiration date. An extension of Measure Q is a major component of maintaining fiscal stability and essential services but alone will not fully solve the funding challenges. In addition, funding to address our streets and roads needs should be prioritized and continue to be a component of an extension of Measure Q.

One budget stability strategy that has been identified by the community and the Council is putting a measure on the ballot for voter consideration to extend the voter-approved, locally controlled Measure Q. The Committee continues to support asking the voters to extend Measure Q at the one-cent rate until ended by voters and implores the Council to commit to placing a Measure Q extension on the November 2020 ballot. The Committee recommends continuing with an oversight committee should the measure be extended by voters.