



Measure Q Oversight Committee

Special Meeting

Monday, June 6, 2016

6:30 p.m.

**Permit Center Conference Room, Wing D
1950 Parkside Drive, Concord, CA**

1. Roll Call

2. Public Comment Period

3. Agenda Items

- A. Discuss and formulate Committee's Recommendations and Memorandum to the City Council related to the FY 2014/15 CAFR, the Preliminary Biennial Capital Budget and the use of Measure Q revenue, and work with City Staff to prepare associated Committee Report and documents

- B. If necessary, authorize the Chair to work with staff to complete and finalize Committee's Recommendations and Memorandum to the City Council related to the FY 2014/15 CAFR, the Preliminary Biennial Capital Budget and the use of Measure Q Revenue in substantial conformance with the Committee's directions

4. Adjournment

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City of Concord

June 14, 2016

TO: Honorable Mayor and Councilmembers

FROM: Measure Q Oversight Committee - Diane Sprouse, Chair;
Greg Grassi, Vice Chair; Brian Beckon, Brandy Leidgen, Darrin Walters

SUBJECT: Measure Q Oversight Committee's Review of the FY 2014-15 Audit and Evaluation and Report on the City's Proposed Use of Measure Q Revenues in the Proposed Biennial Capital Budget for FY 2016-17 and FY 2017-18

The Measure Q Oversight Committee (Committee) met on April 18, 2016 to review the Fiscal Year (FY) 2014-15 Comprehensive Annual Financial Statement (CAFR), which includes the annual audit. At its June 1, 2016 meeting, the Committee heard a presentation from staff on the City's preliminary FY 2016-17 and FY 2017-18 Capital budget.

At this same meeting, the Committee received an update on the use of Measure Q revenues in the City's adopted Biennial Operating FY 2015-16 and FY 2016-17 General Fund Operating budget. There are no changes to the use of Measure Q Revenues in the Biennial General Fund Budget FY 2015-16 and FY 2016-17. Therefore, please refer to the attached Memorandum from the Measure Q Oversight Committee dated May 12, 2015. The memorandum outlines the Committee's recommendations on the use of Measure Q revenues in the City's Operating Budget.

The purpose of the Capital Budget presentations was to obtain an understanding of how Measure Q revenue is proposed for use in the Capital Budget in order to advise the Council. Measure Q was passed to: protect core services, maintain 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 2014-15 Annual Audit reflect that the Measure Q tax was collected and appropriately spent?

On April 18, 2016, the Committee reviewed the FY 2014-15 Comprehensive Annual Financial Statement (CAFR) and determined that the presentation of the Measure Q Use and Transaction Tax in the financial statements (pages x, 15, 26, 28 and 44) reflect the collection of the tax appropriately.

The Committee finds that usage of Measure Q tax revenue (\$11.5 million) was identified clearly in the annual audit (pages x, 15, 26, 28 and 44 of the CAFR). Further the

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Committee finds that \$10.8 million of Measure Q tax revenue went to maintain City services and the remaining \$0.7 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 biennial Capital budget for FY 2016-17 and FY 2017-18 protect the City's core services?

On June 1, 2016, the Committee reviewed the Proposed FY 2016-17 and FY 2017-18 Biennial Capital Budget and concluded that the presentation on the use of Measure Q revenue to fund capital projects protects City core services. Specifically, the revenues are being allocated to support existing infrastructure. Safe and usable infrastructure is a core City service.

Over the next two fiscal years \$5.3 million in Measure Q revenue is planned for various street improvement projects, parks facilities improvements, building maintenance, and citywide accessibility enhancements. An additional \$5 million has been set aside for repayment of the City's Lease Revenue Finance Agreement for roadway maintenance. The proposed capital projects do not create new, ongoing expenditures. The Biennial Capital Budget addresses the infrastructure backlog and allocates payments for debt service for infrastructure improvements.

Committee Recommendation

The Committee continues to be concerned that, although the City is experiencing some revenue growth as the economic recovery continues, the recovery is slow and the City will continue to rely on Measure Q revenue. In addition, it is likely another recession will occur within the next nine years that will hamper efforts to completely reduce reliance on Measure Q by the time the measure expires in March 2025.

The Committee continues to strongly support economic development as a tool to accelerate the improvement of the local economy and eliminate the City's reliance on Measure Q revenue. Growing the City's revenue base is vital to attain a budget that fully supports programs and services with regular (non-Measure Q) revenues within the next nine years.

Further, the Committee encourages the City Council to create a vision for what Concord will look like assuming success in reaching fiscal sustainability by the time Measure Q expires in March 2025. The Committee suggests the following characteristics that support a thriving, prosperous Concord:

- A walkable and bikable downtown that will attract young adults, seniors and other people that want to live in an urban environment;

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- A large city with a robust public transportation system;
- A cultural hub in the East Bay for art, music and drama;
- A community that recognizes and encourages diversity;
- A great place to eat and drink;
- A center for retail, wholesale, and manufacturing;
- Best place to start a new business; and
- A fiscally sustainable budget with strong reserves without the use of Measure Q.

Attachment 1: Memorandum From Measure Q Oversight Committee to the City Council, May 12, 2015

City of Concord

May 12, 2015

TO: Honorable Mayor and Councilmembers

FROM: Measure Q Oversight Committee - Guy Bjerke, Chair;
Diane Sprouse, Vice Chair; Brian Beckon, Greg Grassi, Matthew Hohenstreet

SUBJECT: Measure Q Oversight Committee's Review of the FY 2013-14 Audit and Evaluation and Report on the City's Proposed Use of Measure Q Revenues in the Proposed Biennial General Fund Budget for FY 2015-16 and FY 2016-17

The Measure Q Oversight Committee (Committee) met on April 29, 2015 to review the Fiscal Year (FY) 2013-14 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 preliminary FY 2015-16 and FY 2016-17 General Fund budget and 10-year financial forecast.

The purpose of the budget presentation 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 2013-14 Annual Audit reflect that the Measure Q tax was collected and appropriately spent?

On April 29, 2015, the Committee reviewed the FY 2013-14 Comprehensive Annual Financial Statement (CAFR) and determined that the presentation of the Measure Q Use and Transaction Tax in the financial statements (pages x, 13, 25, 27 and 43) reflect the collection of the tax appropriately.

The Committee finds that usage of Measure Q tax revenue (\$11.4 million) was identified clearly in the annual audit (pages x, 13, 25, 27 and 43 of the CAFR). Further the Committee finds that \$9.1 million of Measure Q tax revenue went to maintain City services and the remaining \$2.3 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 biennial budget for FY 2015-16 and FY 2016-17 protect the City's core services?

The proposed biennial budget estimates the collection of Measure Q revenue in the amount of \$12.6 million during the 2015-16 fiscal year and \$12.9 million during the 2016-17 fiscal year. Since the reserves in the City's General Fund are projected to be fully restored to 30% of expenditures by the end of fiscal year 2014-15, the preliminary biennial budget uses a portion of Measure Q revenues to support operations, and a portion for uses consistent with the City's Fiscal Sustainability Ordinance which restricts use of Measure Q revenues.

Of the projected Measure Q revenues for FY 2015-16, \$7.8 million will be used to maintain the City's services, including public safety, parks and recreation, infrastructure maintenance, and internal operations; the remaining \$4.8 million is allocated to economic development and various infrastructure maintenance backlog projects. For FY 2016-17, \$7.5 million will be used to maintain the City's services and the remaining \$5.4 million is also allocated to economic development and infrastructure maintenance backlog projects. Because Measure Q revenues are available no significant cuts to services are being proposed in the FYs 2015-16 and 2016-17 biennial budget; therefore, all core services are being protected.

Consequently, the Committee finds that the use of Measure Q revenue in the budget for FYs 2015-16 and 2016-17 protects the City's core services.

3. Does the City's proposed General Fund biennial budget for FY 2015-16 and FY 2016-17 rebuild the City's reserves?

The Committee finds that the proposed General Fund biennial budget for FYs 2015-16 and 2016-17 maintains the City's reserves at 30% of expenditures. The total Measure Q reserve at the end of FY 2014-15 is projected to be \$12.4 million; this reserve when, combined with the City's 15% General Fund reserve, results in a total City Reserve of unallocated funds of \$22.8 million or 30% of the budget. The proposed biennial budget retains the 30% reserve and increases it to 34% by FY 2016-17.

Further, the proposed 10-year financial forecast illustrates that Measure Q has been successful in rebuilding reserves. However, this Committee would like to express its concern that while the 10-year forecast reduces the City's reliance on Measure Q, challenges remain and the City must take future actions to stabilize the budget to fully close the budget gap by the time Measure Q is set to expire in March 2025.

4. Does the City's proposed General Fund biennial budget for FY 2015-16 and FY 2016-17 make progress toward resolving the City's structural budget deficit within the next 10-years?

The Committee finds that while the City's reliance on Measure Q revenues decreases over the next ten years based on current forecasts, challenges remain. The General Fund budget shortfall is projected to be approximately \$3.7 million in March 2025 when Measure Q expires and the 10-year forecast does not fully address the City's other post-employment benefit (OPEB) liability.

The Committee supports the City Council's commitment to gradually reduce the amount of Measure Q revenue that funds existing services and personnel costs, so that the City is fiscally sustainable by the time Measure Q expires in March 2025. Further, the Committee wishes to emphasize that the limited term Measure Q resource is most appropriately used for activities that maintain current infrastructure and/or result in a positive return on investment to the City's General Fund.

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. In addition, it is likely another recession will occur within the next decade that will hamper efforts to reduce reliance on Measure Q revenue.

The Committee supports the economic development surge proposals included in the proposed FY 2015-16 and FY 2016-17 budget, and encourages the City Council and staff to continue to look for creative ways to leverage private sector resources to accelerate the improvement of the local economy so that the City is able to fully address service needs using regular (non-Measure Q) revenue sources, maintain its reserves, and eliminate reliance on Measure Q within the 10-year horizon.

Lastly, the proposed biennial budget allocates significant Measure Q dollars to fund infrastructure maintenance and capital projects to address the City's backlog of deferred maintenance. A total of \$1.5 million in FY 2015-16 and \$2.4 million in FY 2016-17 is allocated to this effort. The Committee supports this allocation, as it will have a direct improvement on infrastructure (roads, buildings, and parks) that the community uses each day. In addition, the Committee believes that improving infrastructure will add to the safety and quality of city services, enhance economic development efforts, and will advance the goal of achieving fiscal sustainability by addressing maintenance issues sooner rather than later (when costs are typically higher).

Conclusion

The Committee continues to encourage the staff and the City Council to think creatively to further enhance efficiencies, restrain spending and invest in the long-term economic vitality of the City. Further, the Committee recognizes that opportunities to invest in the local economy will occur outside of the budgeting cycle and encourages staff and the City Council to take advantage of such opportunities as they occur. The Committee thanks the City Council for the opportunity to comment and make recommendations on the use of Measure Q revenue.