



Staff Report

Date: July 28, 2020

To: City Council

From: Valerie J. Barone, City Manager

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Subject: **Considering adoption of a Resolution calling for and giving notice of a November 3, 2020 election on a proposed ballot measure to extend an existing voter approved Local General Transactions and Use (Sales) Tax at a one cent (1%) rate until ended by the voters to fund general municipal services such as street repair and public safety; and establishing the policies and procedures for such an election and requesting that the County of Contra Costa conduct such an election.**

CEQA: Exempt per Public Resources Code section 21065, 21080(b)(8), CEQA Guidelines Sections 15378(b)(4), 15061(b)(3), 15273, and/or 15060.

Report in Brief

Measure Q, the existing half-cent local use and transactions (sales) tax measure, was originally passed by Concord voters in 2010 in response to one of the worst recessions in the Country's history. Voters extended Measure Q in 2014. In 2010 and 2014, Measure Q was supported by voters to help the City maintain fiscal stability through a secure source of locally-controlled funding that was used specifically to maintain the public's essential services and rebuild emergency reserve funds. With Measure Q revenues, the City has been able to preserve essential services and restore its emergency reserve funds. However, the City has not been able to fully address community priorities, such as repairing deteriorating local roads and ensuring local control over local tax dollars to support emergency response times and preparedness, community-based neighborhood police patrols, gang prevention, and park and recreation programs.

Because these important community services and infrastructure needs cannot be fully met within the resources available, the Council has been working continuously over the last decade on creating fiscal stability and prioritizing city services. The City's fiscal situation has become even more challenging due to COVID-19 and the State and County shelter-in-place orders. In fact, in response to COVID-19 fiscal impacts, in June of this year, the Council reduced expenditures by \$10.5 million, decreased City staffing by 36 positions, accepted pay and benefit reductions from employee groups, and the City still faces long-term fiscal instability and an inability to meet the community's service priorities and infrastructure maintenance needs.

With Council direction, City staff performed extensive community outreach last year on the City's fiscal challenges. In April of this year, the City commissioned independent scientifically valid public opinion research. The results of both the City staff outreach and the opinion research indicate that majorities of Concord residents are interested in extending and enhancing local revenue to maintain vital services with locally controlled funding that cannot be taken by the State, and that would continue to include accountability components.

Therefore, the purpose of this report is to present to the City Council with the necessary information to consider placing a revenue measure before the voters on the November 2020 ballot. The measure -- referred to as the "Concord City Services Measure"¹-- would let voters decide whether to extend Measure Q at a one-cent rate until ended by voters as part of the actions the City takes to make resources available to invest in the City's roadways and community's priorities.

Recommended Action

Adopt a Resolution calling for and giving notice of a November 3, 2020 election on a proposed ballot measure to extend an existing voter approved Local General Transactions and Use (Sales) Tax at a one cent (1%) rate until repealed by voters to fund general municipal services such as street repair and public safety, establishing the policies and procedures for such an election, and requesting that the County of Contra Costa conduct such an election.

Note: This resolution requires a four-fifths vote of Council to approve it.

Background

Addressing the Great Recession

The Great Recession of 2009 had a devastating effect on the City's General Fund, dramatically reducing sales and property tax revenues. In response, the City took decisive action to shrink its workforce by 25%, reduce programs and service levels in all departments, close police field offices, suspend capital projects to repair streets, reduce

¹ Contra Costa County Elections Division will announce the Measure letter assignment for this measure on August 13, 2020.

maintenance of parks and playgrounds, and partner with employees to implement personnel cost savings through pay freezes, furloughs, and benefit reductions. Even after these significant actions were taken, a sizeable structural budget deficit remained.

In 2010, to prevent further reductions in services to residents, Concord's voters passed Measure Q, a half-cent local sales tax that has helped the City maintain its financial stability, maintain services and rebuild its emergency reserve funds during one of the worst economic times in the country's history. Measure Q has helped maintain the community's quality of life and kept Concord a safe place to live, work and raise a family, supported pothole and street repairs, 911 services and emergency response times, gang prevention services, community based neighborhood police patrols, park and recreation programs, and youth and senior services.

At the State level, to address its budget issues, in 2011 the State of California eliminated redevelopment agencies and their funding statewide, including the Concord Redevelopment Agency, further undermining the City's economic recovery by effectively eliminating funds the City had utilized for blight abatement and economic development/revitalization, among other programs. Between 1990 and 2019, the State seized \$114 million in locally generated revenue from Concord to address its own budget deficit.

Concord's economy was slower to recover than those of neighboring cities. Rather than cutting even more community services and programs our public relies on, the City Council placed an extension of Measure Q on the 2014 ballot so voters could decide whether they wanted to help preserve vital city services. Voters supported the measure with 76% voting to extend the sales tax.

The extension of Measure Q has allowed the City to continue to provide essential services and maintain its reserves; however, the City has not been able to fully address deferred infrastructure maintenance projects, such as repairs to local streets and roads.

Developing a Fiscal Stability Plan

As part of the budget development process for the City's Fiscal Years 2017-18 and 2018-19 budgets, the Council directed staff to begin work on a Fiscal Stability Plan (the Plan) that would incorporate all of the City's investment needs in a 20-year financial forecast and provide options to address these investment needs.

The City retained independent financial and planning experts, Management Partners, to work with staff to develop the Plan. The first step was to update the City's long-range financial forecasting model and expand it from a 10-year forecast to a 20-year forecast in order to provide a longer-term view of the City's financial condition. The updated model incorporates all investment needs over time and assumes the termination of Measure Q in March 2025.

However, these long-range predictions did not factor in the new fiscal impacts occurring from the shelter-in-place orders issued in response to the COVID-19 pandemic. When this data is factored in, the model projected an annual deficit of \$8.5 million in the General Fund beginning in FY 2021-22, growing to an ongoing annual structural deficit of approximately \$45 million by FY 2027-28, which represents 30% of the City's overall anticipated revenues.

In 2018, the City Council considered various budget stabilization strategies, including an option to extend Measure Q at the one-cent rate. Staff commissioned an independent quality of life survey by Godbe Research – the City's long-term research firm – and the results showed that the community was overwhelmingly interested (approximately 70%) in extending Measure Q at a one-cent rate to support fiscal stability and community priorities.

At its August 7, 2018 meeting, Council considered a resolution to place a ballot measure extending Measure Q at a one-cent rate on the November 2018 ballot. It needed a fourth-fifths Council vote to be placed on the ballot to allow voters to decide. The measure received only three votes in favor, with the dissenting Councilmembers commenting that they wanted staff to do additional community outreach to inform the public about the City's financial challenges and seek input on the community's priorities.

Community Outreach/Public Input

Based on this direction from Council, staff launched an outreach program in the fall of 2019, hosting several in-person meetings, launching online engagement tools, and communicating with the public through mailed newsletters, the City's website and social media.

At the February 25, 2020 Council meeting, staff reported on these efforts, sharing that in October, November and December of 2019, Concord hosted a series of community meetings – three designed for the community at-large, one for business leaders, and two for City staff. The October 10 meeting was recorded and is available for viewing on our website at www.cityofconcord.org/budget. The meetings were promoted through a postcard that was mailed to every Concord address as well as through social media and the City's website. A press release was also issued on September 17, 2019, and an article announcing the meetings appeared in the September 30, 2019 online (October 4, 2019 print) issue of the *East Bay Times*.

During these meetings, the City Manager shared an in-depth presentation about how local government finance works, where the City receives its money, how the funds are spent, the root causes of Concord's looming financial challenges, and options to address the shortfall. In total, 76 community members, 75 employees, and 15 business leaders participated in the six meetings.

During the presentations, the City employed the use of remote voting tools, “iClickers,” so that participants could provide anonymous, real-time feedback to a series of questions, including informal survey questions about what funding categories they thought should be increased, maintained or decreased, and what kind of revenue enhancements they were most interested in having the City pursue.

While the sample size was small and the survey was informal, a majority of participants (72%) were aware that the City was having financial challenges prior to receiving information about the community meetings. The data also revealed that a majority of participants (63%) believe the City should close its budget gap through a combination of cost reductions, delivery service changes and increased revenues.

Regarding revenue adjustments, participants were asked which of two local sales tax revenue options they would use to address the budget shortfall: ½-cent, 1-cent or neither. The majority (62%) selected the 1-cent option; 34% selected the ½-cent option; and only 4% said neither.

In conjunction with the community meetings, the City also introduced new online tools to help further explain Concord’s budget challenges and allow users to drill into the City’s General Fund and all other funds through an interactive online tool. One of the online features was an “Open Town Hall” survey that was launched on November 12, 2019, and closed on January 15, 2020. The survey received 120 responses in total. Among those surveyed informally online, 88% said the solution must include some form of enhanced revenues.

Pandemic Causes Financial Crisis

On March 13, 2020, the City of Concord declared a local emergency in response to the COVID-19 pandemic. Contra Costa County issued a shelter-in-place order and, as a result, City offices and facilities closed, programs and events were cancelled, and local businesses, which generate the bulk of the City’s general fund revenues, were shuttered. According to the League of California Cities, California cities are facing a devastating \$7 billion shortfall in general fund revenues as a result of the COVID-19 pandemic and the subsequent impact to economic activity.

As a result of the shelter-in-place orders, Concord experienced a revenue loss of \$6.2 million for FY 19-20, and is expecting to lose between \$13 million and \$24 million in general fund revenues for FY 20-21. What was already a challenging fiscal situation has been made significantly worse in just a few short months, with the future still uncertain. While the State has recently made Federal CARES Act Funding available to Cities within the State, the money may not be used to backfill for lost revenue. It is unclear what direct funding, if any beyond this, cities will receive from the state or federal government for recovery and relief efforts, and it would not be adequate to address our local challenges in the long-term.

Senator Steve Glazer sponsored Senate Bill 1349 earlier this year, which provides some flexibility to Contra Costa County and cities within Contra Costa County, including Concord, should they proceed with a future local sales tax measure. The bill was passed on the Senate Floor on June 11 and had been sent to the Assembly for consideration.

On June 23, 2020, Council adopted amendments to the FY 19-20 and FY 20-21 budgets. Overall, \$10.5 million was cut from the FY 20-21 budget, most of the savings were achieved through the elimination of 36 staff positions and employee pay and benefit give-backs. Whereas prior to the Great Recession the City of Concord employed 504 people, the staff headcount for FY 20-21 is down to 382. Through the budget process, the City was also able to find ways to generate approximately \$500,000 this fiscal year through new grants and increased fees and charges.

Community Survey Demonstrates Support for Revenue-Generating Measure

In April 2020 Godbe Research conducted a statistically-valid survey of more than 1,200 local voters to:

1. Gauge the public's perceptions of the overall quality of life in Concord;
2. Assess potential support for an extension of the current, voter-approved local funding (Measure Q) at a one-cent rate to protect and maintain City services with funding that cannot be taken by the State; and
3. Identify respondent service priorities.

The results of this survey will be presented to the public and Council at the July 28 Council meeting. The results show there is substantial support for a simple-majority local revenue extension measure at a one-cent rate until ended by voters to maintain Concord's city services, and in particular, supporting local businesses and residents through the economic recovery from the COVID-19 crisis, enhancing city street and pothole repair, and maintaining 911 emergency response times and emergency preparedness.

Based on this multiyear community outreach and feedback effort, the Council is being asked to consider placing a measure before the voters in November 2020. Doing so will give the public the opportunity to decide whether to extend Measure Q at a one-cent rate as a means to avoid additional cuts and to enable additional investment in community priorities, including roadway repairs. The average annual revenue from such a measure is anticipated to be \$27 million in locally controlled revenue.

Analysis

The budget analyses prepared by staff and presented to the City on June 9, 2020, clearly indicates that the City is facing a significant fiscal challenge. Assuming full funding of all infrastructure needs and the expiration of Measure Q, the forecast projects an annual deficit of \$8.5 million in the General Fund beginning in FY 2021-22, which

grows to an ongoing annual structural deficit of approximately \$45 million by FY 2027-28. (See long-range forecast of [June 9, 2020 staff report.](#))

The June 9, 2020 staff report states that without additional revenues within the next two years, essential services will need to be further reduced in order to maintain a minimum 17% reserve as is fiscally prudent and no general fund money would be available for roadway maintenance. The City's General Fund reserve is currently projected to be 20% at the end of FY 2020-21, and the City is projected to run out of reserves by the end of FY 2024-25 as Measure Q expires in March 2025.

When Measure Q was first enacted, the funds were used to protect vital City services, including 911 response times, roadway maintenance, and programming for youth and seniors. Four years later, the City was still struggling from a slow economic recovery when Concord was further impacted by the State's elimination of redevelopment agencies. The annual loss of redevelopment funding meant that additional service cuts would be necessary, unless the voters extended Measure Q to protect vital services and community programs.

While prior to the fiscal impacts from the COVID-19 pandemic, core City services and programs had been stabilized as a result of Measure Q, one area that continued to suffer from a lack of sufficient investment was the City's streets and roadways. Deferred maintenance on roadways and infrastructure is the most costly problem the City of Concord faces. In fact, deferred infrastructure maintenance represents a majority of the \$45 million total projected deficit in FY 2027-28. If these needs are not addressed, they become even more expensive and hazardous in the future.

The City is responsible for maintaining more than 60 million square feet (or 310 centerline miles) of streets. In a [February 25, 2020 presentation](#) to Council, the City's Engineering Department presented information showing that the City, due to lack of resources, is significantly underfunding road maintenance and needs to invest \$20 million more per year simply to maintain its Pavement Conditions Index (PCI), which is rated a score of 59, or "at-risk."

Prior to the fiscal impacts of COVID-19, Measure Q at a one-half cent rate was projected to generate \$13.7 million per year; it is now projected to generate \$12.1 million. Assuming an economic recovery, the City would generate \$27 million per year on average if it extended the measure at a one-cent rate. This would result in the core services that are currently funded through Measure Q being protected, and the City could immediately invest needed funds into the community's priorities, such as repairing deteriorating streets, fixing potholes and making significant infrastructure investments.

The following Community-Identified Spending Priorities Plan outlines preliminary priorities for using the voter-approved local funding if the City Council places the revenue measure on the November 2020 ballot and it passes.

Community-Identified Spending Priorities Plan

Roadway Investment

Expanded Pothole Repair and Street Maintenance

Improve maintenance of our 310 centerline miles or (60 million square feet) of publicly owned roadways by expanding our pothole repair, crack sealing and basic maintenance program.

Major Repair of Community Streets

Increase ability to invest more funding in roadway repair from the current \$6 million annually toward the needed \$26 million annual investment.

Community Safety & Well-being

911 Emergency Response Times

Maintain 911 emergency response times ensuring police officers can respond quickly to 911 calls.

Emergency Response & Recovery

Prepare and respond to natural disasters and emergencies; support residents and local businesses in responding to the economic impacts of COVID-19.

Homelessness Response

Provide resources to enable the City to effectively partner with the County, adjacent cities and nonprofit service providers to address mental health, substance abuse, and job training needs while ensuring our local businesses and public areas are safe and secure for everyone.

Mental Health Crisis Response

Provide resources to enable the City to effectively partner with the County, adjacent cities and nonprofit service providers to address mental health emergencies with trained personnel who are not law-enforcement and establish follow up and tracking protocols that help assure individuals are receiving the help they need.

Community-Based Policing

Maintain Concord's Neighborhood Policing and Community Policing Programs and continue to collaborate with community organizations to strengthen public safety for all within the Concord community, including gang and crime prevention/reduction efforts.

Parks, Open Space & Recreation

Parks & Open Space

Provide safe places for the community to gather, play and explore the outdoors, and protect and maintain recreational and natural areas including local community parks and playgrounds.

Maintain Senior Center & Programs

Retain regular Senior Center facility hours Monday-Friday and various weekends based on activities and events. Retain the Senior Nutrition program five-day-a-week operation.

Youth & Teen Recreational Programs

Maintain youth and teen recreational programs for the community including maintaining swimming pool services and hours, and maintaining youth camps and recreation classes.

Measure Q Oversight

The Measure Q Citizens' Oversight Committee, which was formed when Measure Q was passed in 2010, is responsible for reviewing the annual auditor's report and draft budget, and making findings to the City Council and community on whether the past use and proposed future use of Measure Q revenue is consistent with the community's priorities and used in a manner consistent with what the voters were told when the Measure was on the ballot. Each year, since its inception, the committee's findings have confirmed the appropriate use of Measure Q funds. The Citizens' Oversight Committee and mandatory audits will continue if Measure Q is extended.

In its annual report to Council, which was presented on June 9, the Committee commended the Council's actions to stabilize the City's budget and recognized that significant work has been done to identify the magnitude of the City's fiscal challenges, including infrastructure maintenance and the need to quickly adjust to the fiscal impacts of COVID-19 that face the City.

The Committee acknowledge that the City will need to rely on Measure Q funding for the foreseeable future, beyond the current expiration date, and said that 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.

The Committee report says: "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.”

Additionally, the Committee made the following findings:

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.

What happens if Measure Q passes?

If Measure Q is placed on the ballot at a one-cent rate and is approved by voters this November, the City would be able to continue funding community services, like supporting local businesses and residents through the economic recovery from the COVID-19 crisis, maintaining 911 emergency response times, gang prevention services, and neighborhood police patrols; maintaining city parks and playgrounds; funding after school and summer programs for youth; offering senior services and nutrition programs; and providing local services to help address homelessness. It would also allow the city to invest significantly more funds to repair streets and potholes, expediting existing projects and planning for even more in the near term, thus ensuring that the City can sustain and work toward improving its Pavement Condition Index (PCI).

With approximately \$27 million in locally controlled revenue that is intended to support core services and infrastructure investments, the City would be able to stave off a looming budget shortfall and protect these resources from any potential raid by Sacramento.

What happens if Measure Q does not pass?

Assuming full funding of all infrastructure needs and the expiration of Measure Q, the forecast projects an annual deficit of \$8.5 million in the General Fund beginning in FY 2021-22, which grows to an ongoing annual structural deficit of approximately \$45 million by FY 2027-28. This means, not only will the City be unable to direct additional dollars toward addressing its most urgent need – repairing roadways and infrastructure – it will be forced to reduce funding for such projects and cut essential services, likely across all Departments, including parks and recreation, code enforcement, and public safety. The City has already taken extraordinary steps to reduce its FY 20-21 general fund budget by 10%. With no new revenues, Concord will deplete its reserves by FY 2024-25, which would result in more significant reduction in service levels to the community.

Alternatives

1. Put the Measure Q extension on the ballot at the half-cent rate until ended by voters.
The result: Measure Q revenues would continue to yield approximately \$13.5 million per year, and increase slowly over time according to the City's economic growth. This would cover less than one-third of the City's projected \$45 million deficit, which is projected for 2027-28. Additionally, roadway improvements and street paving projects would continue to be underfunded, resulting in further deterioration and a likely significant decline in the City's PCI rating.

2. Wait until November 2022 to place the Measure Q extension on the ballot. *The result:* The recent quality of life survey of Concord residents showed that there is significant public interest in extending the local sales tax at a one-cent rate. If we wait two years, roadway improvements and street paving projects will continue to be underfunded, resulting in further deterioration and a continuing decline in the City's PCI rating. This would also result in increased costs to address failing roadways in the future. Further, we are projected to exhaust reserves over the next two years and would need to make additional cuts to the budget resulting in significant reductions in service levels to the community.
3. Identify alternative sources of revenue and budget cuts to close the projected \$45 million deficit. *The result:* The financial planning consultants from Management Partners worked with City staff and the Council to identify several options for raising additional revenue and cutting expenses in a number of areas. No combination of cuts and other revenue sources came close to covering the projected gap to the degree that extending Measure Q at a one-cent rate will. Again, in this scenario, roadway improvements and street paving projects would continue to be underfunded, resulting in further deterioration and a continuing decline in the City's PCI rating. It would also result in a significant cuts to the budget and reductions in service levels to the community.

Financial Impact

If this proposed measure is approved by the voters, the one-cent rate would be effective April 1, 2021 and, at this rate, it is anticipated to generate approximately \$27 million annually.

While the final cost of placing an extension of Measure Q on the November ballot depends on many factors, staff estimates that the cost will be \$75,000 - \$100,000. The FY 2020-21 adopted budget can absorb this cost.

Environmental Determination

Exempt from the California Environmental Quality Act (Public Resources Code §§ 21000 et seq., "CEQA," and 14 Cal. Code Reg. §§ 15000 et seq., "CEQA Guidelines") including without limitation Public Resources Code section 21065, CEQA Guidelines section 15378(b)(4) and 15061(b)(3), as it can be seen with certainty that there is no possibility that the activity authorized herein may have a significant effect on the environment and pursuant to Public Resources Code section 21080(b)(8) and CEQA Guidelines section 15273 as the approval of government revenues to fund existing services. The local general transactions and use (sales) tax to be submitted to the voters is a general tax that can be used for any legitimate governmental purpose; to issue it is not a commitment to any particular action. As such, under CEQA Guidelines Section 15378(b)(4), the tax is not a project within the meaning of CEQA because it creates a government funding mechanism that does not involve any commitment to any specific project that may result in a potentially significant physical impact on the

environment. If revenue from the tax were used for a purpose that would have such effect, the city would undertake the required CEQA review for that particular project. Therefore, under CEQA Guidelines Section 15060 review under CEQA is not required.

Public Contact

The City Council Agenda was posted. Notice of this meeting has been published, including through e-news announcements that were sent out via email to approximately 4,000 subscribers to the City's website e-alerts.

Attachment

1. Resolution Calling for and Giving Notice of an Election on a Proposed Ballot Measure with Exhibit A, Proposed Ordinance, and Exhibit B, LAFCO Notification of Completed District Boundary Change