

**Meeting Date:** 5/12/2015

**Report Type:** Consent

**Report ID:** 2015-00461

**Title:** Policy Adoption: Measure U Financial Management Policy

**Location:** Citywide

**Recommendation:** Pass a Motion adopting the Measure U Financial Management Policy.

**Contact:** Leyne Milstein, Director, (916) 808-8491; Dennis Kauffman, Operations Manager, (916) 808-5843; Dawn Holm, Budget Manager, (916) 808-5574, Department of Finance

**Presenter:** Dennis Kauffman, Operations Manager, (916) 808-5843, Department of Finance

**Department:** Finance

**Division:** Finance

**Dept ID:** 06001011

**Attachments:**

1-Description/Analysis

2-Attachment 1-Measure U Financial Management Policy

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**City Attorney Review**

Approved as to Form  
Steve Itagaki  
5/6/2015 3:40:40 PM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 5/4/2015 11:06:29 AM

## Description/Analysis

**Issue Detail:** Voter approval of the Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of an additional one-half cent transaction and use tax effective April 1, 2013, and the establishment of a Citizens Oversight Committee. Although the City Council adopted principles for the use of Measure U revenues, the City does not currently have a Council-adopted Measure U Financial Management Policy. The proposed Measure U Financial Management Policy includes the following attributes:

- Establishes a Measure U Reserve to address unanticipated revenue reductions and the transition that will occur upon the expiration of the tax;
- Commits to allocating additional Measure U resources, above the amount needed to fund the Measure U Reserve and to accommodate growth of already-funded Measure U programs, to one-time expenditures;
- Prohibits using Measure U resources to increase General Fund non-Measure U employee compensation or to balance the General Fund budget;
- Requires performance audits by the City's external independent auditor in addition to the City's annual financial and compliance audits; and
- Requires development of a transition plan to address the expiration of the Measure U tax and the reduction or phase out of services funded by Measure U.

The proposed Measure U Financial Management Policy is modeled after Council's adopted principles for the Use of Measure U revenues adopted on February 12, 2013 (Resolution 2013-0045). Resolution 2014-0179, adopted on June 10, 2014, approving the Fiscal Year (FY) 2014/15 Operating and Capital Improvement Program Budgets, presented the Measure U principles as follows:

- a. Resources will be allocated to the protection and restoration of City programs/services specifically enumerated in the Measure U ballot question as
  - i. Essential public safety services including:
    1. 9-1-1 response
    2. police officers
    3. gang/youth violence prevention
    4. fire protection/emergency medical response
  - ii. Other essential services including:
    1. park maintenance
    2. youth/senior services
    3. libraries
- b. Resources will not be allocated for new programs/services/facilities.
- c. Restorations may not look/operate in the same manner as those that were eliminated in order to take advantage of effective and efficient means of programs/service delivery wherever possible.
- d. Resources will not be used to balance the base General Fund budget, except where funds would provide for the protection of programs/services specifically included in the Measure U ballot question as identified above.
- e. Resources will not be used to increase employee compensation.
- f. Resources will be set aside annually to be used for the following:

- i. Contingency funding should revenues fall short of estimates
  - ii. One-time funding for one-time expenses related to the delivery of the restored programs/services
  - iii. Funding to transition programs and services in FY2019/20 when Measure U resources will no longer be available
- g. The City Manager will prepare a transition plan to scale back the use of Measure U resources over time or identify alternate sources of funding for critical programs and services.
- h. Resources will be accounted for and reported separately in order to facilitate review by the Council and the Oversight Committee established by the ballot measure.

**Policy Considerations:** The proposed policy (Attachment 1) is consistent with the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability. A sustainable budget must be evaluated in a longer-term rather than a short-term context.

**Economic Impacts:** None.

**Environmental Considerations:** None.

**Sustainability:** None.

**Commission/Committee Action:** The Measure U Financial Management Policy was presented to the Budget and Audit Committee on May 5, 2015. The Committee approved a Motion to forward the policy to the City Council for adoption.

**Rationale for Recommendation:** The purpose of the Measure U Financial Management Policy is to guide prudent financial management of the City's voter-approved one-half cent transaction and use tax.

**Financial Considerations:** A one-year reserve has been established to provide contingency funding to address unanticipated revenue changes and financing for a transition period when Measure U is no longer available, providing funding for programs through the end of FY2019/20.

Until such time as General Fund revenues grow to a level sufficient to back-fill the loss of Measure U revenues, or the additional tax is extended beyond its current expiration date, ongoing reliance on these temporary resources will create an enormous burden on the General Fund when the tax expires in 2019.

**Local Business Enterprise (LBE):** No goods or services are being purchased as a result of this report.

# Measure U Financial Management Policy

## I. PURPOSE

The City's Measure U Financial Management Policy documents the methods the City will use to demonstrate prudent financial management over Measure U tax revenue. The policy:

- Establishes a Measure U Reserve to address unanticipated revenue reductions and the transition that will occur upon the expiration of the tax;
- Commits to allocating the additional Measure U resources, above the amount needed to fund the Measure U Reserve and to accommodate growth of already-funded Measure U programs, to one-time expenditures;
- Prohibits using Measure U resources to increase General Fund non-Measure U employee compensation or to balance the General Fund budget;
- Requires performance audits by the City's external independent auditor in addition to the City's annual financial and compliance audits; and
- Requires development of a transition plan to address the expiration of the Measure U tax and the reduction or phase out of services funded by Measure U.

## 2. BACKGROUND

Voter approval of the City of Sacramento Essential Services Protection Measure (Measure U) in November 2012 authorized the implementation of a six-year, one-half cent transaction and use tax effective April 1, 2013, which expires on March 31, 2019. The objectives of Measure U are "to restore and protect essential safety services, including 9-1-1 response, police officers, gang/youth violence prevention, fire protection/emergency medical response, and other essential services including park maintenance, youth/senior services, and libraries..."

## 3. POLICY

### 3.1 Measure U Reserve

The City shall maintain a Measure U Reserve dedicated to mitigating the effects of unanticipated revenue reductions and the transition away from Measure U revenue upon the expiration of the tax on March 31, 2019. The Measure U Reserve shall be funded equal to the estimated Measure U program/service costs in FY2020/21 to provide time and adequate funding to phase out the use of Measure U funds.

### 3.2 Use of Measure U Resources

- Measure U revenue, above the amount needed to fund the Measure U Reserve and to accommodate growth of Council-authorized Measure U

programs, will be allocated to one-time expenditures focused on investment in City infrastructure used to deliver Measure U programs/services.

- Measure U revenue shall not be allocated to fund new or expanded programs with ongoing costs after June 30, 2015, as the expiration of the tax measure in 2019 may require those new programs to be reduced or eliminated.

### 3.3 Prohibited Uses

Measure U resources shall not be used to increase General Fund non-Measure U employee compensation or to balance the General Fund budget, except where funds would provide for the protection of programs/services specifically included in the Measure U ballot language.

### 3.4 Transparency and Reporting

Measure U revenue and expenditures should be transparent to the City Council, the Measure U Citizens Oversight Committee, and Sacramento residents. In order to achieve this transparency, Measure U resources will be accounted for and reported separately in order to facilitate review by the Council and the Oversight Committee. In addition, the following information shall be available:

- The City's annual financial and compliance audit will include revenues and expenditures for the Measure U Fund.
- As requested by the Citizens Oversight Committee, the City shall engage its external independent auditors to conduct annual performance audits of Measure U spending by budget allocation.

### 3.5 Transition Plan

The City Manager will prepare a transition plan as part of the FY2018/19 Proposed Budget to address the expiration of the Measure U tax and the phase out of services funded by Measure U. The transition plan should reduce the reliance on Measure U resources over time by utilizing the Measure U Reserve and converting support for essential programs and services to any alternative sources of funding identified.