Atascadero City Council
Staff Report – Administrative Services

Consideration of Oversight Options for the Proposed 2020 Essential Services Transactions and Use Tax Measure

RECOMMENDATION:

Council provide staff direction on how public engagement and accountability should be implemented for the proposed Essential Services Sales Tax Measure Ordinance, should it be passed by Atascadero voters in the General Election in November 2020.

DISCUSSION:

During the meeting of May 26, 2020, Council voted to have staff return with a proposal for an ordinance to have a one-cent Sales Tax Measure added to the November 2020 ballot. At that meeting, Council discussed the desire to ensure both public engagement and accountability if the Sales Tax Measure were passed. While a consensus was reached at the meeting to not include an Oversight Committee in the Sales Tax Ordinance itself, Council made it clear that ensuring the intent of oversight and accountability is a priority, while eliminating the added level of bureaucracy that a formal Oversight or Advisory Committee would bring. Council asked that staff return with “recommendations on processes to formally engage the public and to develop a plan of accountability”. If the City Council decides to move forward with the proposed Sales Tax Measure, staff will need Council direction on how public engagement and accountability of the Measure should be addressed, should it be passed by voters in November.

During their May 26th meeting, Council members discussed a good number of viable options for community engagement that would allow Council and Staff to share information and gather public input related to how funding received from the Sales Tax Measure should be spent. These options include increased community outreach with widespread publication through Social Media and other local publicity outlets, additional Community Workshops, Study Sessions, Talk on the Block neighborhood meetings and Finance Committee meetings, some of which could be dedicated specifically to a discussion of the Sales Tax Measure. These meetings would be designed to engage members of the community in order to gather public opinion and input on community goals, to provide information to the public in a meaningful manner, and to provide transparency that the City is appropriately spending the revenue generated from the Sales Tax Measure. Rather than a formal Oversight or Advisory Committee, such oversight from the community at large could provide better flexibility and will help to
ensure transparency and greater public participation. The Council also made it clear that as part of that good stewardship, additional administrative costs should be minimized. Council asked staff to bring back options in order to find the right balance between accountability and cost.

In a sales tax measure like the one proposed, there are generally two phases of public engagement and accountability. The first phase of public engagement/accountability typically occurs directly after the Sales Tax Measure is passed and is directed at determining where new funds from the Measure should be spent. The second phase is more ongoing and continuous.

While there is always a need for public engagement and accountability in determining where limited City funds are to be spent, there is also a focus on ensuring that the public knows that the City is a good steward of the funds and what the funds were spent on. The Feasibility Study that was presented to Council on March 24, 2020, by True North Research, Inc. indicated that 76% of Atascadero voters surveyed were satisfied with the City’s efforts to provide municipal services, and 60% responded positively regarding the City’s fiscal management.

**Phase 1 - Public Engagement and Community Priority Goals**

The City’s process is purposely structured to continuously receive public input on where funds are spent. Members of the public can speak at City Council meetings, reach out to Councilmembers outside of the meeting setting, and talk with City staff.

In addition, there is an extensive formal public process that drives what will be included in each of the budgets. The budget process begins with taking all of the input received over the previous years and holding a two-day public Council Strategic Planning meeting devoted to determining what the Council priorities (based on input received from the community) will be for the upcoming two-year budget. That process is followed by presentation and approval at a public City Council meeting of the staff’s action plan to accomplish the Council’s priority goals. The budget is built around the action plan. Staff then allocates funds in a manner to accomplish Council’s goals. Multiple public Finance Committee meetings are held where each line item in the budget is discussed in detail. After making any adjustments as directed by the Finance Committee, the draft budget is presented for approval to Council at a public meeting. Each of the steps above is publically advertised and public comments are highly encouraged.

In spite of the numerous opportunities for public input on where City funds are spent, there has historically been very little public participation in the process. Staff believes that a large part of the lack of public participation is because there just is not a lot of “choice” left in the budget without making some very drastic changes such as reducing the number of police officers, closing a fire station, shutting down a park or otherwise reducing the critical services provided to the community, and also because many community members are satisfied overall with City’s use of its limited resources. The small amount of funds remaining after funding regular operations have historically gone to repairing or replacing critical pieces of equipment such as heart monitors, fire hose, mowers and other equipment.
Although there is always opportunity to change and adjust where funds will be spent, it is likely that at least some portion of the funds will go toward items that would be hard to re-direct in the future. For example:

- Rehabilitation of Fire Station #1: While the rehabilitation costs would be a one-time expenditure of funds, it is likely that the City would not have enough funds on hand to complete the rehabilitation and thus it would be necessary to finance the project. Once the funds are committed to debt service, the Council could not re-direct the funds until the debt is paid off.

- Adding more police personnel: While Council can always reduce or change staffing, once minimum staffing is increased to a level that moves us closer to state and national police standards, it would be difficult to reduce it back down to current staffing levels as the population continues to increase. Redirecting the funds to another priority in the future would mean laying off the police personnel, which is possible, but may prove difficult to do while maintaining community safety.

- Increasing salaries: As reported in previous staff reports, wages and salaries for police personnel are the lowest in the County. In order to recruit and retain the compassionate and professional police personnel that is expected by the community, the Council may want to consider increasing police wages with a portion of the funds. Clawing back raises to re-direct the funds to another place would be difficult.

This means that if the Sales Tax Measure is passed, the first year budget after implementation will be the most critical in determining on which priorities the funds should be spent. While it is anticipated that the passage of the Measure will produce more “choice” funds for years to come, because some of the funds will be committed to ongoing operations, it is important to consider how to increase public involvement in the establishment of the 2021-2022 budget. (If passed in November, the sales tax would go into effect April 1, 2021 and the City would receive its first installment of the sales tax in June of 2021.) There are a couple of options for this phase of the Sales Tax Measure.

- **Citizen Committee**: (administrative cost level: very high) A citizen committee could be appointed to make recommendations for how the funds from the sales tax measure are spent. While citizen input is extremely important, this option is not recommended by staff. The Council is elected by the community and should retain the right and responsibility for determining where all funds are spent. Delegating that responsibility would add a layer between the voters and the decision makers. This option would also entail a lot of staff time and effort to bring the committee members’ understanding of the workings, needs and wants of the City up to the level of the Councilmembers who meet with staff often and receive constituent input on a daily basis.

- **New Public Process**: (administrative cost level: moderate) A series of very well advertised study sessions and surveys could be held to not only to hear the public’s priorities, but to also build a common understanding of the current budget, various needs and the implications of each decision. Input from those study sessions would then be brought to the Council at a special Council meeting intended to set priorities for the expenditure of funds, and to provide staff with
general direction on what the Council would like to see accomplished. This would then be followed with the standard process of public Finance Committee meetings and a budget hearing at a City Council meeting.

- **Expanded Current Process:** (administrative cost level: moderate to low) The current budget process could be expanded to seek out and receive public input on the expenditure of the funds from the Sales Tax Measure. Anticipated Talk on the Block meetings could be modified to build understanding of the City’s finances and to receive input on priorities of the community. This input along with other input received through other avenues would be brought to the regular Council Strategic Planning session for Council to determine funding priorities. The budget would then follow the normal budget process through a more publicized Finance Committee and Council adoption.

For all of the above processes, the amount of press releases, notices and social media posts would be increased in an attempt to get more people involved in the public meetings. Informal community surveys and other instruments can also be a useful tool in the process and could be integrated into any of the above processes. Staff cautions, however, not to rely too heavily on voluntary response surveys. Survey instruments tend to be more one-dimensional communication. It is often more difficult to educate the public on the menu of choices and consequences of choices using a survey instrument. It is also more difficult to understand nuances and “whys”, losing the true interest driving the request. Finally, historically and with other cities, one special interest group can rally a significant number of people to respond to the survey instrument, overwhelming the voices of those with more broad opinions. So while some sort of community survey or other instrument could be done to increase public participation, it should only be done in conjunction with other public outreach and discussion. Council would want to consider the balance between the costs of the survey with the input that is received.

In each of the processes suggested above, the Council must weigh all of the input it receives to determine where the funds should be expended.

**Phase 2 - Public Engagement and Accountability**

The second phase of the desired public engagement and accountability for the sales tax measure is demonstrating to the public that the funds were spent for the established priorities. This is similar to the role that the Citizen’s Sales Tax Oversight Committee (CSTOC) plays. The F-14 advisory measure showed that voters wanted any funds received from the F-14 sales tax measure to be spent on local roads. CSTOC does not choose the roads that will be rehabbed or maintained. Instead, the Committee meets each year to look at each dollar coming in from the sales tax measure and where it was spent, in order to verify that the funds are being spent in a manner consistent with Council and community intent.

The CSTOC review and resultant annual road report that is mailed out to the community provides a high level of accountability and assurance that funds are being spent, and will continue to be spent, as intended. There will be additional challenges for a similar
report with this sales tax measure over the F-14 Sales Tax measure. The F-14 Sales tax measure was passed to provide funds for roads projects. The projects have very specific contracts and invoices associated with the F-14 work and thus are easily tracked and kept separate from other expenditures.

The proposed Sales Tax Measure is needed to maintain existing service levels and will be used for operational costs. While some costs can be easier to separate – such as debt service on a fire station, others may prove more difficult – such as additional police personnel, salary increases to be competitive, and other items without a specific invoice.

Similar to the difficulties encountered when depositing a check into your checking account, stating exactly where the funds from that particular deposit are spent will be a challenge. Were the funds from that check spent on groceries or was it your paycheck that paid for groceries and that check was spent on gas? Perhaps you and your spouse have a different opinion on where the grocery money came from or the gas money came from. In the end you are in the exact same place monetarily, but what each dollar from the pool of dollars was spent on is dependent on your perspective and opinion.

Council and staff are continuously looking for ways to make City business more transparent and to continue to build public trust. In this case, more information might not be the easy answer to transparency and public trust. Because the revenue from this proposed sales tax measure would be used for essential services and operations, and because (as detailed above) the allocation of the approved costs can be subject to interpretation, there is a potential to lose credibility or trust amongst the community. Allocating these ongoing costs will require a significant amount of subjective opinion on the part of staff. Potentially, there could be two “right” answers as to whether or not an expense would be included in the new revenue source. The opportunity for members of the public to challenge staff’s decision on one or more of these expenses might erode public trust and their confidence in the City’s sound fiscal management. Staff is very reluctant to overpromise what can be delivered as far as “right and wrong” reporting related to this new sales tax measure revenue source. It may be more subjective than objective. Transparency, in this case, might mean pointing out to the community that there’s no perfectly objective way to allocate these costs, and that maybe “more detailed expense information” might not equate to the “best information”.

Separate accounting for these costs will take significant administrative staff time/resources. Council will need to make clear how they want the expenditures separated and set out very detailed policies on how the allocation to Sales Tax Measure Funds and other funds should be calculated, and then understand that for many expenses, there is not a clear definition of what fits where.

While there are many members of the community that are interested in fiscal oversight, the CSTOC has had some challenges since its inception in 2015. Although the meetings are not a large time commitment (typically 2-3 meetings per year), it has been difficult to find members of the community willing to serve on CSTOC. Unfortunately, in addition to the amount of time spent in meetings reviewing records and discussing the expenditures, there is also a great amount of time spent on fulfilling requirements for various trainings (prevention of sexual harassment, etc) and paperwork (i.e., Form 700
Statement of Economic Interest). Similar challenges are anticipated for an oversight or advisory committee established for this sales tax measure.

The Council has many options on how to engage the public and assure the public that funds are being spent as on priorities:

- **Community Appointed Committee and Annual Report (administrative cost level: very high to high):** There are those in the community that are skeptical that the City will spend the funds in the manner that has been stated by the City. Having a committee of Council appointees review the City expenditures may not satisfy these skeptics. As part of the F-14 sales tax ordinance, the following language was put in place to set up the CSTOC.

  \[\text{Section 14. CITIZENS' OVERSIGHT COMMITTEE. There shall be a permanent citizens' advisory committee called the “Citizens' Oversight Committee” (hereafter “Committee”) which shall annually review revenues and expenditures from the collection of the tax. The committee shall have 9 members. Seven members shall be appointed to the committee by individual Atascadero community groups. Two members shall be appointed by the City Council. Appointees shall be residents of the City; however, no member of the Committee shall be an elected official.}\]

The Council could set up a similar committee for the new Sales Tax Measure if it passes or could choose to ask the existing CSTOC to review the new sales tax measure as well as the F-14 funds. The committee need not be part of the ordinance passed by the voters, but could be done through a separate ordinance or resolution. Setting up the committee as part of a separate Council action would provide flexibility in the future to adjust if needed.

A report (subject to challenges previously stated) could be reviewed, approved, produced and distributed similar to the Annual F-14 Roads Report that is mailed to residents and businesses in town.

As with the CSTOC, the down side of a Community appointed committee is that it is sometimes difficult to get community members willing to serve on the committee.

A community appointed oversight committee and annual report would incur the following costs:

- Cost to print and mail report: $4,500 annually
- Costs for advertising, noticing, and miscellaneous: $1,000 annually
- Staff time costs for:
  - Advertising, recruiting and “onboarding” committee members including helping committee members to complete required training and disclosures. (Est. 30-45 hrs. annually. This cost would be eliminated for the first 5 years if the CSTOC were to review these funds also.)
Accounting and allocations associated with breaking out costs to be funded by the Sales Tax measure (dependent on activity 500-700 hours of staff time annually)
Preparation of agendas, staff reports, annual report and other information in support of the committee and community. (50-70 hrs. annually)

- Council Appointed Committee and Annual Report (administrative cost level: high): The City Council could appoint a committee similar to the Planning Commission. The responsibility for filling the vacancies would then lie with the individual Councilmembers and it is more likely that the positions will be filled. The downside of a Council appointed committee would be that some may perceive this as Council “cronies” watching over the City and thus it does not provide the same level of oversight as an “independent” committee.

The cost to administer a Council appointed committee and to issue and send the report would be similar to a Community appointed committee.

- Annual Report Only- Allocated Expenditures (administrative cost level: high): The Council could decide that a separate committee is not needed, as the funds and expenditures related to the Sales Tax Measure would be included in the annual audit of the City. In that case, the same type of report could still be produced by City staff and sent to the residents annually. This would save the administrative costs related to a committee; however, the higher costs of accounting for the expenditures separately, preparing the report and mailing the report would still be incurred.

- Finance Committee Meetings- Allocated Expenditures: (administrative cost level: high) The Council could choose to forgo both a committee and an annual report, and instead hold expanded public meetings to review the expenditure of the Sales Tax Measure Funds (or this could be done at the City Council level). This would still involve the significant staff time to track and separate costs, but the costs to produce and mail the report, along with the costs associated with establishing the committee would not be incurred.

- Annual Report Only- Budgeted Expenditures (administrative cost level: low) There is an option to do a lesser report that would not entail splitting payroll costs and invoices, but instead would be done on a more general basis – similar to budget projections. As Council approved the budget, they could identify which budgeted amounts are to come from the Sales Tax Measure and which are to come from other City general funds. This would save a considerable amount of staff time in determining allocation methodology and tracking/splitting actual expenditures. This would provide the public with a list of what was added to the budget because of the Sales Tax Measure.

- Public Input on Big Picture Priorities: (administrative cost level: low) The Council could choose to focus on including the public in the budget process similar to Phase 1, and not focus as much on separating out the costs to be funded with the new Sales Tax Measure. Like the current budget process, this would change
the focus from which dollar is spent, to a global look at the budget taking in all revenues and projected expenditures, and which priorities are being focused on. In other words, the budget includes individual revenue amounts and individual expenditure amounts, but when making budget expenditure decisions, Council looks at total revenues available and projected costs. There is no allocation that property tax pays for this item (or portion of an item) and sales tax pays for that item (or portion of an item). Increased public participation in ongoing budget decisions will provide additional oversight and transparency for all funding sources.

Transparency is a hallmark of the City’s activities, and certainly line-level detail of General Fund expenditures is available to all whom are interested. This big picture approach, however, would bring the emphasis of the conversations to the overall priorities and will help all of us to focus on where we are, how far we’ve come, and what we have yet to accomplish.

**Next Steps**

Staff is looking for direction from Council on which type of transparency and accountability measures they would like to see if a Sales Tax Measure is passed by the voters in November. Based on the direction given to staff at tonight’s Council meeting, staff will bring back an appropriate policy, resolution or ordinance that will formalize any public engagement and accountability processes.

**FISCAL IMPACT:**

There is no fiscal impact to discussing and providing staff direction on different public engagement and accountability processes. Based on the direction received from Council, future Council actions adopting specific processes for public engagement and accountability will have associated costs.

**ALTERNATIVES:**

Not Applicable.