



# Agenda Report

December 10, 2018

**TO:** Honorable Mayor and City Council  
**FROM:** City Manager  
**SUBJECT:** DISCUSSION REGARDING IMPLEMENTATION OF MEASURE J

## **RECOMMENDATION:**

It is recommended that the City Council form an ad hoc committee with members of the Board of Education to develop and present to the City Council within 60 days parameters for the implementation of Measure J.

## **BACKGROUND:**

On November 6<sup>th</sup> the voters of Pasadena overwhelmingly supported Measures I and J, with final approval rates of 68.74% and 72.05%, respectively. Measure I will provide a locally-controlled source of revenue, in the form of a 0.75% sales (use) tax. These revenues will be used to maintain essential City services and provide a source of funds to undertake much needed reinvestment in the City's infrastructure.

Measure J is an advisory measure that informs the City Council as to the priorities of Pasadena voters. Specifically, the Measure asked voters to indicate that if Measure I were to pass, should the City Council allocate 1/3 of the new revenue, estimated at approximately \$7 million per year based on current sales tax levels, to support local public schools.

On November 19<sup>th</sup> staff presented a report that was intended to facilitate discussion amongst the City Councilmembers and inform direction to staff regarding: i) how to best carryout the will of the voters as evidenced by support for Measure J, and ii) whether to take immediate action, in advance of receipt of Measure I revenues, to assist the Pasadena Unified School District in meeting its budgetary reserve requirements in order to avoid losing local control of the District to the Los Angeles County Office of Education (LACOE). During the public comment period an additional issue was raised, regarding whether the City Council should consider providing funds to public charter schools serving the greater Pasadena area.

## **Responses to Council Questions**

In considering these issues, Councilmembers had several specific questions, the answers to which were not fully available at that time. With the assistance of PUSD management, the following responses are now being provided:

**Q: Is LACOE's 3% reserve requirement for PUSD based on appropriations?**

**A: Yes.** The Reserve for Economic Uncertainty, as it is deemed, is a set aside of 3% of District General Fund appropriations (i.e., anticipated expenditures). School districts are expected to maintain a 3% reserve in each year of the rolling three-year budget cycle. In the past, a district could indicate that it would not meet the requirement in any of the two "out years" and file a qualified budget and a fiscal stability plan. However, due to PUSD filing a negative budget plan in the recent past, LACOE is requiring the District evidence it will maintain the 3% reserve for a three-year period. When the District amended its three-year budget projection in August 2018 to reflect the final 2018-19 State Budget and other revisions, the District had sufficient reserves to cover the 3% requirement for school years 2018-19 and 2019-20 but not for 2020-2021.

**Q: How likely is it that the District will achieve the reductions it has adopted thus far?**

**A: The District fully expects to achieve the reductions it has adopted.** As it relates to the savings related to renegotiation of its contract for chromebook computers, which was identified as a \$1 million savings, the District has identified alternative staff reductions, which will be presented to the Board of Education on December 16<sup>th</sup>. Should the Board approve these alternative reductions as expected, they will be included in the District's submission to LACOE on December 17<sup>th</sup>.

**Q: What exactly does it mean if LACOE takes over the PUSD?**

**A: The District would remain a legal entity; however, a Fiscal Advisor would be put in place who would have the ability to override Board decisions to achieve fiscal stability.** LACOE previously installed a Fiscal Advisor in the Montebello Unified School District and this past September, warned the Los Angeles Unified School District, the second largest school district in the nation, that it was also at risk of intervention should it fail to address budgetary requirements.

In Pasadena, a takeover by LACOE and the loss of local control would create a very negative perception of the PUSD which would impact the City's image as well and potentially impact property values.

**Q: Are there other requirements that LACOE has beyond the 3% reserve that could result in its intervention into the District?**

**A: Neither City staff nor PUSD staff are aware of any additional requirements.**

**Q: How much money does the Pasadena Educational Foundation (PEF) provide PUSD annually?**

**A: The PEF raises anywhere from \$13-\$15 million annually in the form of donations and grants.** Most of the funds raised by PEF for PUSD are the result of PEF's grant-writing activities and these funds are typically restricted for specific purposes. As an example, PEF was instrumental in obtaining a \$15 million Magnet Schools Assistance Program grant for the District. PEF does not contribute any unrestricted dollars to the District's General Fund.

### PUSD Budgetary Status

In regard to the District's immediate budgetary status, as was discussed on November 19<sup>th</sup>, there was concern that it may not be able to satisfy LACOE requirements for fiscal year 2020-2021 when it submits its budgetary plan by the December 17<sup>th</sup> deadline. To assist the District, the City could enter into an agreement pledging to provide future revenues consistent with the intent of Measure J. Such an arrangement would not require the City to advance any dollars to the District at this time, however, LACOE would allow the District to count the pledged revenue which could offset the need to identify future budget reductions on a dollar for dollar basis.

While this remains an option open to the Council, in recent conversations and as indicated above, PUSD management believes it can satisfy LACOE's requirements through planned budget reductions. If that were the case, then there would be no need for immediate Council intervention to stave off intervention by LACOE and a loss of local control. So, while the District has yet to submit its final plan and LACOE act on it, based on current information, staff suggests proceeding as if the immediate issue has been addressed.

### Considerations Regarding Implementation of Measure J

In terms of how best to operationalize Measure J, most of the discussion in November focused on what level of involvement/control/accountability the City Council wishes to have in regard to the provision of funding to the District and potentially, public charter schools in the greater Pasadena area. In considering this, staff puts forward the following thoughts for consideration, recognizing full well that these are policy decisions for the City Council to make.

- **Measure I was a general revenue and Measure J should be thought of as an extension of the same.**

Measure I was crafted as a general fund revenue, to be used for any municipal purpose ranging from support for existing City services funded by the General Fund to capital projects. Measure I was made necessary because current City revenues are not sufficient to maintain existing services and reinvest in critical infrastructure, despite tens of millions of dollars in prior budget reductions.

Similarly, the Pasadena Unified School District, facing rising state-mandated costs and reduced revenue resulting from declining student enrollment, has had to make significant budget reductions of its own. Measure J asked voters if they wanted to prioritize a portion of the general revenue generated by Measure I to support Pasadena public schools. The strong voter response indicates they do.

- **The focus of Measure J should be the Pasadena Unified School District and does not recommend providing public charter schools Measure J funds.**

The City has a compelling interest in the success of PUSD as a strong local school district promotes property values and economic development. The City's Economic Development Task Force recognized this fact in 2012. Writing in its final report the Task Force stated:

*Pasadena Unified School District's (PUSD) steady progress in increasing test scores and the quality of its efforts to prepare students for an innovation economy is critical to the city's economic success.*

*The quality of local public schools is a major factor in attracting talent to Pasadena's businesses. Although PUSD has seen its test scores rise demonstrably over the last decade, recruits to some of the city's key sectors still weigh the potential cost of private school when considering whether to accept an offer from local firms. As PUSD continues to improve student performance, the city and the business community should work to align services and internship opportunities to reinforce PUSD's efforts.*

Since that writing, the budgetary situation for PUSD has become far worse, further challenging its ability to meet the needs of Pasadena students. No similar case has been presented for area charter schools. Moreover, of the five public charter schools that have requested to be included in the allocation of Measure J dollars, only one is based in Pasadena and another has a satellite campus at a PUSD site. While certainly a number of students attending these schools are from the greater Pasadena area, no particular nexus to the City or compelling public interest to support the provision of funding charter schools by the City has been established.

- **The Pasadena City Charter sets forth the duties and responsibilities of both the City Council and the Board of Education.**

Pursuant to Section 408 of the City Charter, all powers of the City shall be vested in the City Council subject to the provisions of the Charter and to the Constitution of the State of California. The City Council is empowered to carry into effect the provisions of the Charter, to execute the powers vested in the City, and to perform all duties and obligations imposed upon the City by State law.

Section 701 establishes that the control, management, and administration of the public elementary and secondary schools of the City of Pasadena and such territory that is now or may hereafter be annexed thereto for school purposes, in accordance with the Constitution and general laws of the State of California, is vested in a Board of Education. The Board of Education is vested with all the powers and charged with all the duties provided under state law for city boards of education.

Given that the City Council and Board of Education have clearly defined roles, as established by the City Charter and are each accountable to voters through regular elections, staff recommends that the City Council avoid taking actions which may appear to usurp the role of the Board of Education.

- **Measure J furthers the partnership between the City and PUSD. As such consideration should be given to establishing a more formal structure for engagement.**

The City and PUSD have a long tradition of cooperation and coordination. Over the years numerous joint-use and other cooperative agreements have been approved between the agencies. Currently, there is a Master Joint Use agreement that provides a framework for shared facility use. Additionally, the Board of Education and the City Council meet annually to discuss issues of interest to both entities. Using Measure J as an opportunity to further this partnership, the City Council and Board of Education might wish to consider forming a standing committee consisting of representatives from each body. The primary charge for such a joint committee could be to review the progress of the District in achieving greater financial stability and review how Measure J funds are used as part of that effort. Moreover, as the District “right-sizes” the number of facilities it maintains and seeks strategic use of its properties, such as its Headquarters building, a joint committee could be useful in exploring appropriate alternative uses for these assets.

#### *Moving Forward*

There are likely other considerations that will influence the Council’s decision in this matter. It is important to note that Measure J represents a fairly unique approach to supporting public education and that the Council has latitude to alter any initial arrangements as it sees fit in the future. While the Council may reach a decision this evening, given that there appears to no longer be an urgency as it relates to maintaining local control of the District, staff recommends that the Council consider forming an ad hoc committee with members of the Board of Education to develop the suggested parameters for implementation of Measure J and return to the City Council with the same within the next 60 days.

#### **COUNCIL POLICY CONSIDERATION:**

The passage of Measures I and J will assist both the City and the PUSD in achieving the City Council’s strategic plan goals of maintaining fiscal responsibility and stability as well as supporting and promoting the quality of life and local economy.

#### **FISCAL IMPACT:**

Measure I is expected to generate approximately \$21 million annually in locally-controlled revenue. Measure J recommends to the City Council that it prioritize 1/3 of this amount, approximately \$7 million, to support local public school.

Respectfully submitted,



Steve Mermell  
City Manager