



Agenda Report

November 19, 2018

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

RECOMMENDATION:

The following report is for information only, no City Council action is required at this time; however, staff currently intends to bring forward a recommendation to the City Council on December 3rd, 2018 based on the discussions this evening.

BACKGROUND:

On November 6th the voters of Pasadena overwhelmingly supported Measures I and J, with approval rates of 67.97% and 71.32%, 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 which 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, to local public schools.

From a timing perspective, the California Department of Tax and Fee Administration (CDTFA) is expected to begin collecting the tax and those passed by other jurisdictions from the November 6th elections, on April 1st, 2019. The City can expect to start receiving the tax proceeds in July, 2019. The City receives payments from CDTFA on a monthly basis, with two months of estimated advances followed by a "true-up" quarterly.

Given this timeline, staff had originally anticipated that sufficient time existed to determine the appropriate mechanism to accomplish the will of the voters as set forth in Measure J. However, budgetary issues currently facing the Pasadena Unified School District (PUSD) necessitate an early discussion regarding this matter, which is the basis for this evening's report.

In order to maintain local control over decision-making, PUSD is required to maintain a reserve equal to 3% of its annual appropriations and evidence this level of reserve on a three year rolling basis to the Los Angeles County Office of Education (LACOE). Failure to meet this reserve requirement will result in LACOE installing a Fiscal Advisor who would have the power to override decisions of the Board of Education.

The PUSD has made significant progress addressing its budgetary challenges, having made or identified reductions totaling \$8.5 million as of November 14th. As a result, the District's budget for the current fiscal year 2018-2019 is balanced and it meets the 3% reserve requirement. However, updated figures for projected state-mandated special education costs indicate that additional reductions will be necessary to meet reserve requirements for next fiscal year, 2019-2020. Moreover, based on current projections, unless even further actions are taken, the District is unlikely to evidence a 3% reserve for fiscal year 2020-2021 by the time it submits its fiscal plan which is required by December 17th, thus triggering intervention by LACOE.

The Board of Education is scheduled to meet the evening of November 15th, subsequent to the preparation of this report. It is anticipated that the Board will identify additional reductions necessary to meet LACOE requirements. These are likely to include substantial impacts to students and their families such as additional school closures, the elimination of various educational programs and further staff reductions. An update will be provided as part of the staff presentation.

In hopes that the passage of Measures I and J might assist the District in avoiding such reductions, on November 8th City staff joined the executive leadership of PUSD in a conversation with LACOE to determine under what conditions the District could count revenues anticipated to be received as a result of Measure J towards its reserve requirements. The only guaranteed way for PUSD to maintain local control is to maintain a 3% reserve as required by LACOE. To that end, LACOE made it clear that it would only accept either budget reductions or specific revenues that can be relied upon, such as those secured by a formal agreement with the City and that it would not accept a resolution of intent. Therefore, even if the City is willing to move expeditiously, there is no guarantee of acceptance by LACOE in lieu of further District budget reductions in time to meet the December 17th deadline. LACOE is in the "driver's seat" and ultimately will decide what is acceptable to it and what is not.

Assuming the City Council is desirous of assisting the District maintain local control, one way to attempt to satisfy LACOE, while minimizing risk to the City's General Fund, would be to enter into a multi-year agreement which would set forth the terms of revenue-sharing consistent the intent of Measure J. The basic terms of such an agreement might include the following provisions:

- City agrees to provide the District funds equal to 1/3 of the revenues received as a result of Measure I.
- District agrees to prioritize the use of the funds to meet mandatory reserve requirements.

- On or about the first day of each fiscal year during the term of the agreement, the City advances the District an initial amount of funding well within the anticipated amount of revenue, for example \$5 million.
- Following the conclusion of the fiscal year once the City receives a final accounting from CDTFA, the City provides a "true-up" payment to the District for the balance of funds.
- The agreement could have a fixed initial term of perhaps three years or could automatically renew annually unless otherwise terminated. Ultimately, once the District is in a stronger financial position and able to meet its 3% reserve requirements each year, there may not be a need for any agreement and the transfer of funds could occur annually as part of the City's normal budgetary process, similar to the manner in which annual transfers from the City's Power and Light Fund are made to the City's General Fund.

In addition to potentially establishing a formal agreement to satisfy the requirements of LACOE and to attempt to stave off dramatic reductions on the part of the District, the City Council and Board of Education may wish to establish an ad-hoc committee comprised of no more than three members from each body to meet with some regularity: monthly, bi-monthly or quarterly, to enhance coordination between the City and District for the benefit of both agencies and review the District's progress achieving fiscal stability.

Staff is seeking feedback from the Council as to whether the sort of approach outlined above is a direction the Council wishes to pursue. Based on discussion and feedback, staff would expect to return to the Council on December 3rd with a recommendation.

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 share 1/3 of this amount, approximately \$7 million, with local public school.

Respectfully submitted,


for Steve Mermell
City Manager