



School/City Liaison Committee Final Minutes



School/City Liaison Committee Meeting Thursday, February 6, 2003

Palo Alto Unified School District
District Office Room A
25 Churchill Avenue
Palo Alto

MINUTES

Representing the City of Palo Alto

Frank Benest, City Manager
Emily Harrison, Assistant City Manager
Chris Mogensen, Assistant to City Manager
Jim Burch, Council Member
Yoriko Kishimoto, Council Member

Representing Palo Alto Unified School District (PAUSD)

Mary Frances Callan, Superintendent
Robert Golton, Deputy Superintendent
John Barton, School Board Member
John Tuomy, School Board Member

The meeting was called to order by Mr. Barton at 8:00 a.m.

1. Oral Communications

Mr. Barton opened the floor to people wishing to discuss topics not on the agenda.

Kathy Durham, PTA Council Traffic Safety Committee Chair, and Debbie Duncan, PTA Traffic Safety Rep for Terman Middle School, came to speak as advocates for the health and welfare of all children. Ms. Durham said the greatest danger children face is being injured or killed by a car. Because of this, more and more parents are driving their kids to school, thus increasing traffic congestion. She said a condition in the reopening of Terman Middle School was to develop a comprehensive trip reduction program. She went on to say that this program is still possible to accomplish, in spite of current budget problems and is adaptable to the needs of other schools in the District that might wish to participate. The PTA could not do this alone, however. She urged the District and the City to join the PTA in creating a plan by placing this item on the next School/City Liaison.

Mark Jones, PAUSD parent and resident of Mole Street in Palo, said he represented an informal group of residents who are very concerned about disproportionate budget cuts at PAUSD and the City of Palo Alto. His group plans to mobilize people to try to get the cuts reversed. He said he wanted to learn from a school district perspective what the different budget cut scenarios are and what the impact would be on local schools. He also wanted to understand what cooperation and work would be done between the City and PAUSD to solve the budget issues. He mentioned that people in the Palo Alto community are now becoming very interested in getting involved, because most people moving to Palo Alto are doing so by choice. Therefore, if it became clear how to participate in this process, large numbers of community members would come forward.

2. Approval of Minutes

The minutes from the meeting of November 26, 3003 were adopted by consensus as presented.

3. PAUSD Budget

Dr. Golton said the state has a budget problem that ranges from \$25 billion to \$35 billion. As it relates to the City and PAUSD, this budget problem will trickle down, because the state's expenditures are a part of PAUSD's revenue. The state's plan is to reduce state expenditures in 02-03 and 03-04, and add revenue enhancements and one-time measures. The longer the state waits to remedy this problem, the more severe the problem will be. If cuts are made in state expenditures, the District will be adversely affected. The Governor plans to hit PAUSD twice. First, he plans to take away the \$120 per student basic aid allocation. This would put the District on roughly equal footing with revenue limit districts. Secondly, the Governor is also proposing taking away "excess property tax dollars" and diverting them to the state. There is no precedent for this in California and if it can happen now, there is nothing keeping the State from taking away other tax money, such sales tax dollars or parcel tax dollars.

Dr. Golton then pointed out that thanks to the District's conservative budget practices, it can absorb the \$2 million hit for 2002-03 with limited use of reserves. If no cuts are made at the state level now or in 03-04, the problem will simply be postponed.

Mr. Barton asked if there was a schedule on the passage of a budget bill.

Dr. Golton replied that it was too early for a schedule.

Mr. Tuomy made the point that while the state's expenditures are the District's revenue, the state's revenue comes from the District's residents' taxes, such as income tax and sales tax. He also said that for 2003-04, the Governor is proposing

to take property taxes and make them the state's revenue too. This has never happened and does not exist in the constitution.

Ms. Kishimoto noted that when the overall state constitution and budget-making process doesn't work, the taxpayers pay for it. This means that all the taxpayers need to get together and help the state make the budget and governance processes work better.

Mr. Tuomy quoted a section of Proposition 13: "...The maximum amount of any *ad valorem* tax on real property shall not exceed 1% of the full cash value of such property. The 1% tax to be collected by the counties and apportioned according to law to the districts within the counties." Therefore that money should never leave the county.

Dr. Golton said that for next year, 2003-04, the only proposal on the table is the Governor's proposal, which would make the District's deficit approximately \$3.7 million. The diversion of local tax dollars would bring the District's deficit to \$26.8 million. He said that for the rest of the 2002-03 fiscal year, the District would monitor expenditures and make reductions where possible. A list of planned reductions would be presented at the February 25th Board meeting and that wherever possible these reductions would be ongoing. By April 4th, a list of reductions will be developed for 2003-04 amounting to \$3.7 million in ongoing cuts. This list will be presented to the Board at the April 29th study session, then brought back for action no later than May 13th. The development of this list is already being discussed with staff. Dr. Golton said Senator Jackie Speier and Assemblyman Joe Simitian have taken the leadership on the issue of the diversion of local property taxes, and that any letters written to them ought to include appreciation for this effort. The District has a basic aid reserve of \$6.7 million and a general fund reserve of \$2.7 million, along with the state-required reserve of \$3.1 million, totaling about \$12 million out of the needed \$23.1 million.

Mr. Barton added that the Superintendent has told the Board she, along with most of the other basic aid superintendents, does not want to give out layoff notices in March.

Mr. Tuomy said if the currently proposed state budget cuts were made, the legislature would possibly give an extended period to notify teachers of cuts, noting that currently layoff notices had to be given to teachers by March 15th for the next school year. So cuts may still be made later when the state budget is more definite.

4. City of Palo Alto Budget

Mr. Benest said the City's long-range financial plan, which can be found on its website (<http://www.city.palo-alto.ca.us/>), projects its revenue and expenditures for the next ten years. Chief sources of revenue are sales tax, which has dropped approximately 25%, and hotel bed tax (TOT), which has dropped at least 30%. The

City receives 9-10 cents on the dollar from collected property tax, so the one somewhat stable income source is a rather minor part of the City's revenue. He went on to explain that employee costs have gone up, with healthcare costs increasing 20-25%. This rate is projected to continue for the next four to five years.

Contributions to state retirement systems will double over the next two years, from \$5 million to \$10 million a year. Two principle areas of revenue for the City have been affected by the state's budget woes. One is the backfill for the Vehicle License Fee (VLF), with the Governor proposing to take about \$1.1 million through June 2003, plus \$2.2 for 2003-04. Secondly, the Governor also plans to raid redevelopment agency funds. While the City has no planned project at this point, the concern is that the Governor will take regular property tax revenue instead. A variety of grant programs will also be affected, such as public safety. From property tax raids, Palo Alto has lost about \$30 million since the early 1990s.

The City's general fund budget is \$125 million. A variety of measures have already been taken to deal with the existing \$11.5 million loss, including a hiring freeze, deferred projects, selling services to other communities, cutting healthcare costs, etc. Next year, the projected loss will be about \$6.5 million plus the \$2.5 million the Governor plans to take, bringing the total to nearly \$9 million. To mitigate this loss, 38-40 general fund positions have not been filled, and the City is working to reorganize around the vacancies. The City's base will now have to be permanently cut, meaning service cuts. Mr. Benest listed some of the commitments the City is trying to maintain: essential services, reserves, its investment in the CityWorks program, and creating a balanced budget which will continue payment to the District of approximately \$6.5 million. The City would then need to look at ways to preserve and enhance its economic base, while remaining sensitive to the fact that revenues are directly tied to local economic activity. Council and senior staff members are currently consulting key business people in critical economic sectors of the economy.

Mr. Tuomy restated that growth opportunity depends on sales taxes, so when the economy gets better, revenues will get better.

Mr. Benest agreed and added that the City's organization was sized to an unrealistic level because of the dot com boom.

Mr. Burch said this is a built out community. It depends on smaller businesses, such as car dealerships. So they need to be kept happy.

Mr. Tuomy said under the Governor's proposed system, with property tax growth, the District and the City would not benefit or grow.

Mr. Burch noted that many members of the state government came from local government and should know this.

Ms. Kishimoto noted that property tax has been the one stably growing revenue, while sales tax has been volatile. So it seems unfair that the state is raiding the property taxes, rather than absorbing some of the volatility over the recent years.

Mr. Benest said that out of this situation, our leaders will be forced to provide a more predictable, stable local government system for public services.

Mr. Tuomy pointed out that as long as Proposition 13 exists, the District and the City will have no way to self-manage their finances. They should not be dependent on the state for local well-being.

Mr. Benest added that California has gotten away from local self-government, whereas in other parts of the country, local governing bodies set the tax rate based on the level of service they plan to provide.

Mr. Burch noted that with Proposition 13, when the resale of a property takes place, the property is revalued, thus raising the tax rate. On the other hand, businesses tend to stay in one place, so they reap the benefit of Proposition 13 year after year.

Mr. Barton then asked Mr. Benest whether or not the \$11 million shortfall the City is experiencing for the current year is inclusive of the VLF backfill withdrawal.

Mr. Benest replied that it did not.

Mr. Barton asked how much the VLF backfill was worth.

Mr. Benest responded that it was worth \$2.2 million. He added that if the state took six months of VLF from the City, the shortfall would rise to about \$12.6 million.

Mr. Barton and Mr. Tuomy said they believed that without the VLF, the cuts would not be enough and the Governor would veto the proposed package.

Mr. Jones said that from his experience in the software industry, he saw no economic turnaround in the near future. He also said the political situation is more difficult than people imagine, because the budget crisis has been ongoing, rather than occurring just since November 2002. The crisis should have been addressed a year ago, rather than waiting until after the Governor's reelection and that now it would be a challenge to galvanize a majority in the Legislature.

Mr. Tuomy said he did not think that would happen.

Mr. Jones continued by saying that from a school perspective, he sees two choices in terms of dealing with the \$23.1 million shortfall. The first option would be successful legal challenge by districts. The second would be influencing the Governor to eliminate the basic aid changes being proposed. Mr. Jones said that his group is highly educated and very interested in the quality of education their children

receive. They are trying to help the Governor understand the impact of his proposed cuts on this region. If the quality of education in the area drops, many people will leave the area, thus damaging the local economy even more. This area needs to prepare for the worst, because it will be affected more than other part of the state. He also stated that he believed his group could at least get a hearing on this issue.

Mr. Tuomy noted that getting venture capital for startups has gotten harder, so people are reverting back to mortgaging their houses to get the funding they need. Richard Carlson and Steve Levy, the two people most often quoted as being California economy experts, have been known to say the District's loss of \$23.1 million will mean a huge property value loss of at least \$200,000 on the value of every home. This could potentially mean \$4 billion in value being taken out of the economy, as there are approximately 20,000 residences within the PAUSD boundaries. He observed that this was very short-sited and that statewide, among the approximately 60 basic aid districts, this amount could rise to as much as \$100 billion.

Mr. Barton said the District is being looked to by other schools for leadership in this situation. The President of Schools for Sound Finance is Mary Frances Callan, who is also PAUSD Superintendent. She is leading the campaign to organize the basic aid school districts to fight the state's budget cuts. So far, her efforts have been successful. Joe Simitian has written a letter stating his opposition to the budget cuts and he and Jackie Speier are circulating a letter to the Governor among the legislature for signatures. The local group of school board members Mr. Barton assembled met most recently on Monday. They are taking directions from Joe Simitian to support him. Mr. Barton said he wants all his committee sub-fellows and the Governor to be copied on all the letters the group writes. A one-page policy summary was requested by the Governor on what these cuts would mean to a district like PAUSD. Each School Board member is working in his or her own community to get letters written. There is also potential legal action on behalf of the District, which he could not discuss in detail at this time due to client/attorney confidentiality. Legislators are reporting receiving record numbers of letters against school funding cuts.

Ms. Kishimoto asked where the District fell in regard to the size of hit its budget would be taking.

Mr. Barton said PAUSD is about average in terms of percentages at about 25%, while San Mateo Union High School District is taking the biggest hit in dollars and Carmel Valley is taking the biggest hit percentage-wise at 48%.

Mr. Jones asked if the information reported by the press about the \$126 million figure was incorrect.

Mr. Benest responded that the City's general fund is \$126 million.

Dr. Golton said the media did not have very good information and that even the data received from School Services is a couple years old. So no one knows what the amount will be this year, because the year is not completed yet. He added that basic aid districts tend to be very small, with Newport Beach being the largest, but they are very close to the revenue limit, so their cut is only about \$4 million.

Mr. Jones followed up by saying that his group believed Palo Alto was disproportionately being hit by the cuts, because the state wants to take away property taxes.

Mr. Tuomy said that because of the different property tax revenues it was hard to compare the impact of cuts between different districts.

Dr. Golton said that the size of the cuts represents more of a political position than a way to balance the state budget. If the state does make these cuts, it could take local dollars in the future more easily.

5. Cooperative Action on Budget

Mr. Barton asked Mr. Benest for clarification on his cuts. Would he make the cuts, but they would just be hard? Or was he not sure he would succeed? Would the City still commit to the Cubberley lease, for example?

Mr. Benest said the City planned to live up to its agreements, including the Cubberley lease. For the first time, the City would be considering cutting services, which have grown recently due to the demand of the community.

Ms. Kishimoto asked if they should discuss the possible impact on the current cost-sharing between the District and the City, in particular the shuttles.

Mr. Benest said the District currently was contributing about \$50,000 toward the shuttle program, while the entire cost of the shuttle program was about \$250,000. He then brought up the maintenance of playing fields and said the City will determine the bare minimum that could be done. Reductions would not disproportionately affect schools or City.

Ms. Kishimoto asked whether or not school crossing guards were considered essential service by the City.

Mr. Benest responded that they were and added that he is not aware of any cuts that would affect the District, aside from ratcheting down playing field maintenance.

Mr. Benest said that any reductions in playing field maintenance would remain consistent with the level of service applied to the City's other services. No one would be disproportionately hurt.

Ms. Kishimoto asked if there was anything to be done politically in terms of lobbying together.

Mr. Mogenson responded that many of the PAUSD and City interests are interrelated. The Chamber of Commerce is sending out letters from PAUSD and the City, with an addendum showing that the City and District are working together on these issues.

Ms. Harrison emphasized that this was the first time the City and PAUSD have worked together on an issue such as this and that it sets a very positive precedent.

Mr. Benest pointed out that these efforts cannot succeed without the support of the business sector. These issues affect the total community, including business.

Ms. Kishimoto added that the neighborhood associations also needed to be included, because they represent the taxpayers.

Mr. Burch suggested that while this School/City group is working together, a third entity to be involved ought to be Stanford, since their well-being depends on the City and District.

Mr. Tuomy said the District and Stanford are already working together.

Mr. Benest said he would like to see an effort of the three entities combined, and see something in writing showing the impact of these cuts on Stanford as well.

Mr. Tuomy said Stanford wants to be as helpful as possible. He also said that Los Altos Hills is a part of this community, so they need to be included in these efforts as well. He then emphasized that the grassroots efforts such as letters, phone calls, etc., are making a big difference in situation. Now it really came down to what the Governor chose to do. The effects on the City, such as police, fire and paramedic services, needed to be made known as well.

Mr. Benest said meetings have been held with public safety and that during past problems the City has been able to help support them.

Mr. Mogenson added that the message has been brought to the representatives on the Peninsula through the League of California Cities' grass roots effort.

Mr. Barton asked if it might be appropriate to discuss what City and PAUSD can do to support each other in the future, such as sharing corporation yards. He also observed that if the \$23.1 million goes away, PAUSD becomes a revenue limit district. As a basic aid district, PAUSD did not want to grow too quickly, because it would not get additional dollars for the new children. Once the District becomes a revenue limit district, it will want to grow in order to get more money. Inter-district

transfers would then be more desirable, because they would bring dollars to us. He then added that with increased enrollment, traffic will be affected.

Ms. Kishimoto noted that since PAUSD has benefited from its basic aid status in areas such as music, art, and class size reduction, non-profits need to be brought in now to save some of these programs.

Mr. Burch noted that if class sizes grew, there would be more home schooling.

Ms. Kishimoto added that more private schooling may take place as well.

Dr. Callan said state vouchers could also become popular.

Mr. Barton said many people many feel that since the state took their property tax dollars and they want to get them back, they should support school vouchers.

Ms. Kishimoto said a large part of the national population is moving toward a permanently smaller government. The City has already acknowledged this. It has seen personnel costs jump in the past years, and long term structural changes should be discussed. PAUSD is facing similar issues.

Mr. Jones noted that the current political environment is one of sound bites, making it difficult to crystallize the issues, learn what this could potentially mean, and galvanize activity.

Mr. Barton said Dr. Golton's board enclosure attempted to do this by saying that \$23.1 million could be saved by taking out 45% of our teachers.

6. Future Meetings and Agenda Items

Mr. Tuomy said it is painfully obvious that the quality of the playing fields has gotten worse. He was impressed, however, with the playing field improvement committee members and their report, and asked that no one put a damper on this. The District cannot continue to manage the recreational facilities the way it has been. A new physical plant needs to be developed, such as was recommended by the fields group. They should get ready to implement these short- medium- and long-term plans. The City needs to add to the number of facilities and the District needs to work with the City so all can use them more of the time. He also appreciated the way the fields group understood and respected the District's reservations about giving their fields over to the City Recreation Department for management. He hoped the District would continue to move forward and not lose the energy of the fields group.

Ms. Kishimoto asked if the entire Board had been briefed on the fields report.

Mr. Barton said the Board got a copy of the report but no presentation, and suggested it be made at an upcoming School/City meeting.

Mr. Burch referred to Ms. Durham's earlier traffic discussion, adding that he is on the GoFast committee, and traffic still needs to be addressed. The City should not let this topic slide in the midst of cuts. He voiced concern about the Charleston corridor from highways 280 to 101 and suggested possibly devoting one side of the street to pedestrians, and the other to two-way bike lanes.

Mr. Barton thought it was significant that Ms. Durham came to this meeting to bring up traffic issues and asked if it would make sense to have a joint meeting.

Mr. Burch assented.

Dr. Golton said that both the City and the District have representatives at the traffic safety meetings.

Dr. Callan suggested that rather than have a meeting, the traffic group do a presentation or give a report to the School/City group.

Ms. Kishimoto said she used to be a traffic safety representative for Addison and that a lot of the traffic committee's time is spent on site-based issues. She said it would be a good idea to include the traffic group's specific ideas by getting monthly updates and possibly form a subcommittee of the School/City group to focus on traffic.

Mr. Barton brought up drug and alcohol awareness issues.

Mr. Burch said there would be a committee meeting with Terri Stromfeld and that this is an ongoing issue.

Mr. Barton asked about disaster preparedness.

Ms. Kishimoto said this is also ongoing and asked Ms. Harrison about the status of the youth master plan.

Ms. Harrison responded that it will be coming to the Policy and Services Committee the following week.

Mr. Burch said he is the Chair of that committee.

Ms. Harrison said the document is well thought-out and noted that the City's budget changes emphasized its commitment to the implementation of the plan.

Ms. Kishimoto suggested getting an update on the youth master plan at the next meeting.

Mr. Barton suggested that the group meet again in about a month.

Mr. Tuomy said if a lot of staff work was required between meetings, they should be held every other month.

Mr. Barton suggested the next meeting here include a traffic safety update.

Mr. Tuomy suggested the playing fields group give a full update at the next Board meeting, then give a brief update at the next School/City meeting.

It was agreed by all members that the next meeting would be 9:00 AM – 10:30 AM on March 6, 2003.

Mr. Johnson suggested giving sports teams a sense of ownership in maintaining sports fields.

Adjournment at 10:03 AM.