

MEMORANDUM

Date: February 3, 2014
To: Piedmont Unified School District Board of Education
From: School Support Tax Advisory Subcommittee, Measure A
Subject: Report and Recommendations for Levying for Fiscal Year 2014-2015, and Review of Fiscal Year 2013-2014

Executive Summary

The School Support Tax Advisory Subcommittee recommends that the District levy the Measure A School Support Tax (Parcel Tax) at its maximum level in 2014-15, including assessment of the maximum two percent (2%) increase above the rate in 2013-14. This amounts to \$9,408,025 (2013-14 amount) million plus \$188,160 (2%) for a total of \$9,596,185. Based on the latest available budget projections -- including indications that state funding will improve significantly for at least this next year -- the Subcommittee recommends that the \$188,160 raised by the 2% increase be directed to a parcel tax reserve account to be available during subsequent years during the term of Measure A (through 2020-21). Although financial trends presently are positive, considerable uncertainties cloud these projections, and the District has drawn down its reserves in recent years close to statutory minimum levels.

Background

Since 1985, Piedmont voters have repeatedly approved local parcel taxes in order to preserve our excellent school programs. On March 5, 2013, the voters of Piedmont approved Measure A with a 76% - 24% margin. Measure A presented the following question:

“To prevent local school funding from expiring and to maintain the quality of Piedmont's schools, to attract, train and retain qualified teachers, to protect programs in math, science and technology, to continue funding for music, visual and performing arts programs, and to keep textbooks and instructional technology up-to-date, shall the Piedmont Unified School District continue to levy a special tax as specified in the voter pamphlet, with all funds staying in Piedmont to benefit our schools?”

Measure A replaced the District's then-existing tax (Measure B, passed in 2009), one year before that tax's scheduled expiration date. This accelerated replacement responded to a state Court of Appeal decision (*Borikas v. Alameda Unified School District*) that California school districts must assess parcel-based taxes on a uniform basis, which indicated that Piedmont's Measure B tax was unlawful because per-parcel tax assessment varied with the size of the parcel and type of use (residential, commercial, etc.).

Measure A provides a uniform ("flat") tax of \$2,406 per parcel in 2013-14, and authorizes the District's School Board to increase the levy by up to 2% per year. Measure A also provides for the creation of this Subcommittee, as an accountability measure comparable to the "Citizen's Advisory Committee" created by earlier Measure B. The Subcommittee is to "conduct an independent examination of the District's budget and related documents prior to making formal recommendations in its annual report to the Board." The final decision on the tax level remains with the School Board.

INTRODUCTION

The Subcommittee is pleased to submit this report, providing a review of the District's fiscal year 2013-2014 revenues and expenditures, projected fiscal year 2014-2015 revenues and expenditures, and recommendations regarding the parcel tax. The following discussion summarizes our activities and recommendations.

REVIEW OF REVENUE AND BUDGET PROJECTIONS

As quoted above, Measure A and the School Board charter to this Subcommittee direct us to consider "budget and related documents." This section summarizes our review.

Review of 2013-2014 Parcel Tax Levy

In order to levy Measure A taxes in 2013-2014, the School Board was required to approve the levy before July 1, 2013. Although this Subcommittee was not formed until October 2013, we reviewed 2013-14 budgeting, revenue and expenditure documentation from the District. The District adopted a budget assuming \$31,733,656 in revenue from all sources (including \$9,408,025 from Measure A and \$1,550,000 in community contributions), and expenditures of \$32,630,183, for a deficit of \$896,527. This budget continues to include cost-containment and program preservation priorities. As of the First Interim report in December 2013, actual revenues and expenditures are close to these adopted amounts. After this review, the Subcommittee confirms the appropriateness of the Measure A levy for 2013-14.

Review of 2014-2015 District Revenue and Expense Projections

Although the 2014-2015 fiscal year does not begin until July 1, the District is developing its budget for 2014-2015 and required projections of revenues and expenses for the following two fiscal years. As of the December 2013 First Interim, budget documents project:

- Revenues: \$31,733,656. Since the School Board has not yet set the Measure A tax rate for 2014-2015, this projection includes no change from 2013-2014. The principal state funding allocation is changing to the recently-enacted "Local Control Funding Formula (LCFF)."
- Expenditures: \$32,630,747. Since the District and its unions have not yet completed negotiations for labor contracts to replace those that expire on June 30, 2014, this projection includes no structural changes from 2013-2014, and instead extrapolates changes in labor costs (such as application of "step and column" seniority increases) as though the present contract were extended.
- Result: operating deficit of \$604,913.

As the Subcommittee writes this report, it is obvious that these projections may change significantly before the School Board adopts the 2014-2015 budget. Significant revenue and expense uncertainties include:

- Actual revenues may rise or fall compared to projections. The terms of the LCFF are still being debated, and changes in formulae may change Piedmont's allocations. The Governor's latest proposals may yield additional revenues, although leaders in the Legislature seem to have different priorities. And, of course, the School Board may decide to change the Measure A levy.
- Actual expenses may rise or fall. Ongoing contract negotiations are private, so this Subcommittee has no ability to predict changes in personnel costs that may result from the new contracts. However, employee representatives have been clear about their desire for increases in compensation.

Perspectives on District budgeting over the eight year term of Measure A

It is important to keep in mind that Measure A will remain in force from July 1, 2013 to June 30, 2021; therefore, it is useful to consider the 2014-2015 levy in the context of these eight years. First, it should be obvious that the significant revenue and expenditure uncertainties described above for 2014-2015 expand dramatically when attempting to consider the District's finances throughout the longer period.

It is important to keep in mind that the Governor's support for additional state funding to local school districts is occurring during one of California's periodic spikes in income tax revenue. These levels track general economic activity, but are highly influenced by the levels of initial public offerings (IPOs), particularly when companies have significant numbers of investors and employees who pay

California taxes. These spikes tend to be short-lived, so it is not reasonable to extrapolate the state's 2013-2014 revenue spike through 2021.¹

Looking ahead, the other large element in the state's robust revenue picture results from passage of state-wide Proposition 30 in November 2012. Prop 30 increases state income taxes for the highest earners for seven years, through 2019. It also surcharges the state sales tax by 0.25% for 4 years, through 2016. Both of these important state revenue enhancements expire before Piedmont's local Measure A expires.

Based on these factors, the Subcommittee believes it is prudent to consider how local Measure A revenues will fit into the District's total revenues through its eight year term. Throughout most of the history of school support parcel taxes in Piedmont, the District set aside some funds from early years in a Parcel Tax Reserve Fund and made available in later years. All revenues raised during the term of a parcel tax measure were spent within that term (typically four years), but use of a Reserve Fund made additional funds available in later years, when inflation and other factors could be anticipated to have increased revenue needs. The District suspended this sensible policy in recent years to cope with unprecedented short-term revenue reductions, but reinstating it now would be a reasonable hedge against the possibility of unfavorable changes in state funding between now and 2021.

MEASURE A AS A REFLECTION OF COMMUNITY PRIORITIES

In considering our recommendation, this Subcommittee remains mindful that District policy-makers frequently note that public education in Piedmont rests on a “three-legged stool” of overlapping interests: students and their families; District employees who serve them and are paid to do so; and taxpayers. Each group receives a share of the benefits and costs of public education, and all must remain aligned and in balance for the educational system to function effectively on our collective behalf.

Although all groups have recognized and supported these policies, annual attempts to apportion sacrifices can highlight tensions within and among all three. Program cuts and larger class sizes impose sacrifices on Piedmont's students; growing contributions represent additional voluntary sacrifices by students' families in order to maintain programs. Caps or cuts to employee salaries and/or benefits impose sacrifices on District employees. Employees and students have

¹ For example, The California Department of Finance (DOF) 2013-14 Governor's Budget Summary notes “In particular, capital gains income is concentrated among the high income earners and can fluctuate significantly from year to year. In the period from 2003 to 2007, capital gains realizations almost tripled from \$45.6 billion to \$132 billion. Over the next two years they fell to \$28.8 billion. Gains from that low point increased 92 percent in 2010 and are estimated to have increased another 23 percent to \$68 billion in 2011, just over half of what they were at the peak. Capital gains are expected to see continued growth in the coming years, rising to \$83 billion by 2014.” This document is available online at www.dof.ca.gov/documents/FullBudgetSummary_web2013.pdf.

shared the sacrifices from unpaid "furlough" days (projected to expire after 2013-2014). Meanwhile, parcel taxes impose sacrifices on all taxpayers, which can be more acute for taxpayers on fixed incomes or whose incomes have declined during the ongoing recession – and that sacrifice grows when parcel taxes are increased.

The Subcommittee considers our proposal to be consistent with this balanced perspective and apportioning of sacrifice, which we consider to reflect the community's overall views.

Levying Measure A School Support Taxes in 2014-2015

The District is required to adopt its 2014-2015 budget in June 2014, and begins formal hearings in March that will reflect the latest projections of revenues from all sources and expenses for all programs. In order to support this process, the Subcommittee is to provide our annual recommendations whether to levy Measure A taxes no later than the beginning of the public process in March.

We recommend that the District:

- (1) levy Measure A taxes at their maximum level in 2014-2015, including the maximum permissible increase of 2%;
- (2) deposit the \$188,160 increase in a parcel tax reserve account.

Respectfully submitted,

School Support Tax Advisory Subcommittee, Measure A


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