MEMORANDUM

Date: February 28, 2012
To: Piedmont Board of Education
From: Citizens' Advisory Committee on Parcel Tax Program, Measures B and E
Subject: Report and Recommendations for Levying for Fiscal Year 2012-2013, and Review of Fiscal Year 2011-2012

Summary of Recommendations

As provided in Parcel Tax Measures B and E, the Citizen's Advisory Committee has reviewed District revenue and expense projections, and makes the following recommendations regarding the levy of Measure B taxes (Measure E having expired) during fiscal year 2012-13:

(1) The Committee recommends that the Board authorize the maximum $478,280 (5%) increase in the levy rate for Measure B.

Comment [jfe1]: Note the $478,000 is Connie's number from First Interim. We'll need to confirm – this is the basis for all my plug-in Measure B numbers for 2012-13 throughout.

FIRST APPROACH TO SET-ASIDE

(2) The Committee further recommends that the District assign all of this revenue to the Parcel Tax Reserve account, to be held for expenditure during 2013-14, unless the District suffers "trigger cuts" in presently-expected state revenues of more than $250,000. This approach is consistent with the District's determination that further adjustments to its programs and costs are not necessary during 2012-13 under the latest adopted financial projections ("First Interim" budget approved January 2012), but does provide for additional funding if state financial support is cut further.

SECOND APPROACH TO SET-ASIDE

(2) The Committee further recommends that the District allocate the increase as follows:
• $191,312 (2% of the 5% increase) of this amount to 2012-13. This increase matches the maximum increase in local property taxes (as mandated by Proposition 13).
• $286,968 (3% of the 5% increase) in the Parcel Tax Reserve account, to be held for expenditure during 2013-14, unless the District suffers "trigger cuts" in presently-expected state revenues of more than $250,000. This continues the District's policy of smoothing revenues through the lifetimes of parcel tax measures.

THIRD APPROACH TO SET-ASIDE

(2) The Committee further recommends that the District allocate the increase as follows:
• $239,140 (2.5% of the 5% increase) of this amount to 2012-13. This amount approximates the annual increase in employee expenses incurred under “step and column” and other senior-driven automatic increases to compensation.
• $239,140 (2.5% of the 5% increase) in the Parcel Tax Reserve account, to be held for expenditure during 2013-14, unless the District suffers “trigger cuts” in presently-expected state revenues of more than $250,000. This continues the District’s policy of smoothing revenues through the lifetimes of parcel tax measures.

(3) The Committee further recommends that the District continue to review its policies and programs, including those specifically identified in Measure B, and make cost-effective adjustments as appropriate.

Comment [jfe2]: A bland placeholder – if we add any concrete recommendation it can go here … or delete.

Although the District has made significant adjustments to its expenses in recent years, primarily in response to continuing cuts and uncertainties in state funding, its existing program and cost “footprint” continue to exceed forecast revenues. The District’s 2011-12 budget deficit is forecast to be approximately $800,000 even if further “trigger cuts” are avoided. Planning scenarios for 2012-13 envision continuation of the existing footprint, resulting in deficits of $1 – 2 million, depending on assumptions about state and local funding. Clearly these structural deficits are not sustainable, and cannot be fully corrected even by maximum levy of local parcel taxes.

Readers should note that three Attachments accompany this report. Attachment A provides background regarding Measures B and E, and the charter and work of this Committee. Attachment B provides details of the Committee’s review of District financial management. Attachment C provides an historical summary of District revenues and expenditures, beginning in 2000-01.

Levying Measure B Parcel Taxes in 2012-2013

The Committee recommendations are based on review of the District’s 2012-2013 budget and 2013-15 projections, the programs and staff expenditures funded by that budget, and on the highly uncertain prospects for state support.

In recent years the Board, this Committee and other stakeholders have evaluated the relative burdens on different groups within the community, and sought balanced approaches to “shared sacrifice” among various groups. However, the District’s over-riding priority has been to minimize disruptions to ongoing programs by trimming support functions and allowing class sizes to grow slightly, rather than make substantial changes in program selection or delivery. The balance and form of these sacrifices varies:

• In 2009-10 and 2010-11, the District reduced program and laid off staff rather than seek formal labor concessions, and raised parcel taxes. In 2011-12, the District made minimal additional layoffs and instituted furloughs, and the District and employee unions negotiated important concessions by employees. As a result, during 2009-10 through 2011-12:

- Staff accepted frozen base salaries and retained step-and-column and full health benefits while undergoing layoffs in 2009-10 and 2010-11, and accepted furloughs and benefit caps during 2011-12 while suffering minor additional layoffs
- School families accepted small declines in program every year, while raising voluntary contributions significantly
- Taxpayers paid steadily rising parcel taxes, including (including nearly $3 million in Measure E on top of rises in Measure B rates for the past two years).

• Looking ahead to 2012-13:

- it seems unlikely that state payments will rise, and substantial cuts in state payments are at least possible
- parent groups have committed to $250,000 increases in basic contributions to the District ($100 per student), and are contributing additional money to buy back some furlough days
- employees remain subject to base salary freezes and at least some furlough days, and are beginning to pay health and dental insurance premiums that exceed caps set in their contracts
- taxpayers have completed their 3-year commitment to pay extra parcel taxes through Measure E

Comment [jfe3]: Do we want to note that changing state policy means the non-deductability of parcel taxes will be enforced, and anybody previously not complying will now have to do so?

With these factors in mind, especially the possibility of very substantial mid-year cuts, the Committee recommends that the District raise Measure B rates by the statutory maximum of 5% (estimated revenue $478,280). [NEED SENTENCE HERE REFLECTING ANY SET-ASIDE FOR 2013-14] The District should only spend this set-aside amount during 2012-13 to the extent that the District suffers “trigger cuts” deeper than the state payments estimated as of January 24, 2012 deeper than $250,000.

Continuing Reviews and Adjustments to District Programs

As noted above, Measures B and E are the latest expression of many years of support by Piedmont voters for the quality of the District’s educational services. As shown in Attachment C, parcel taxes have risen steadily over the past decade, and now exceed $9 million per year. After recent cuts in state funding these parcel taxes provide roughly one-third of District revenues in 2011-12, compared with 12% in 2000-01. As the Committee stated in last year’s report, we do not believe that this rate of growth is sustainable. It is clear to this

Committee that the need for support and pressure for innovation will continue to be intense during 2012-13 and beyond.

Accordingly, we recommend that the District continue to review its policies and programs, including those specifically identified in Measure B, and make cost-effective adjustments as appropriate. [ARE THERE ANY SPECIFIC ITEMS THE COMMITTEE SHOULD IDENTIFY?]

Parcel Taxes in 2012-13 as Preludes to the Next Parcel Tax

In addition, the Committee notes that the Measure B levels approved for 2012-13 will be in force at the time the District and community members are designing the parcel tax which will be voted on in the spring of 2013 to replace Measure B. The Committee is concerned that historical rates of increases in parcel taxes cannot be sustained in the future, and that the next parcel tax must be designed in ways that maximize the chance that Piedmont's taxpayers – including those who are not also parents of District students – will continue to support this critical component of District revenues.

Comment [jfe4]: Should the Committee weigh in on this important issue? Or not?

The Committee's future deliberations regarding parcel tax levies will consider the District's progress on these efforts – and the sharing of benefits and sacrifices they entail.

Respectfully submitted,

Citizens' Advisory Committee on Parcel Tax Program, Measures B and E

Jerry Bucci	George Childs
Jon F. Elliott	Peter Freeman
John Hiestand	Ken Jensen
Matthew Lifschiz	Catherine Ogle

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[ANY MINORITY/DISSENTING OPINION WOULD GO HERE]

ATTACHMENT A:
BACKGROUND

Measures B and E and this Committee

Since 1985, Piedmont voters have repeatedly approved local parcel taxes in order to preserve our excellent school programs. On June 2, 2009, the voters of Piedmont overwhelmingly approved two measures:

- **Measure B** continues taxpayer support to "prevent existing school funding from expiring and maintain Piedmont's excellent quality of public education by attracting and retaining qualified teachers" for four fiscal years 2010-11 through 2013-14. The Board determines the levy rate annually, and can maintain or decrease levies without limit, or increase levies by no more than 5%. The Board levied the maximum increase in 2011-12, holding funds equivalent to 3% of the 5% increase in reserve for expenditure no later than 2013-14. **Measure B provides for $9,565,550 in 2011-12, which means that each 1% change in the assessed rate in 2011-12 amounts to $95,656.** This means a maximum increase of 5% would generate an additional $478,280.

- **Measure E** was enacted to "offset the loss of State funds by providing emergency temporary local funding" and thereby "avoid teacher and staff layoffs [and] protect programs and services" for three fiscal years 2009-10 through 2011-12, in each year in which state funding is less than specified trigger levels. This Measure was to be levied when state Revenue Limit funding falls below 2008-09 levels – this threshold was met during each of the three fiscal years. Levying Measure E provided $997,000 in revenue in each of these three fiscal years; which does not continue into 2012-13 since Measure E expires.

As an important accountability measure, Measures B and E provided for creation of a Citizen's Advisory Committee, to provide independent review of the District's revenues and expenditures, and make recommendations to the School Board on the levy of Measure B and E parcel taxes. The Board of Education chartered this Committee to perform those tasks, and may also direct the Committee to provide additional research and reporting. The final decision how much to levy each year remains with the School Board.

Sharing Sacrifices on the "3-Legged Stool"

This Committee embraces the following paradigm, which is often used by the Board and other stakeholders to characterize sets of interests within Piedmont and its educational community.

> 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 who support their efforts. Each group receives its 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.

The present fiscal climate highlights tensions among the three groups, and the District’s responses have imposed sacrifices on all. Program cuts and larger class sizes impose sacrifices on Piedmont’s students; growing contributions represent additional voluntary willing 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 share the sacrifices from unpaid “furlough” days. 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 state’s recent determination to actively enforce the non-deductability of parcel taxes against income beginning in 2012, will further increase previously-unconforming taxpayers’ net tax burdens.

Committee Reviews and Recommendations for Prior Years

This Committee first met late in 2009, and began its activities by reviewing the District’s budget and expenses for 2009-10 and 2010-11. Based on those reviews, this Committee expressed its agreement with the District’s decision to levy Measures B and E in 2009-10, and a majority of the Committee recommended full levying both Measures in 2010-11. With the concurrence of the School Board, this Committee also established four subcommittees to investigate and report on the following important budgetary and programmatic issues:

- Employee Health & Welfare, Benefit Packages and Providers
- Alternative Compensation Structure
- Comparables Bank and Key Metrics Analysis
- Community Outreach

The full Committee reviewed and approved reports from each of these subcommittees, which it presented to the School Board in September 2010 and is available on the District website.

Committee Review and Recommendations for 2011-12

This Committee is charged with providing its recommendations in time to help inform the Board’s adoption of the District budget for the fiscal year beginning several months after we make our recommendation. Accordingly, we must base our recommendation on the latest *projections* of revenues and expenses for upcoming year. When projections include wide uncertainties in revenues and/or expenses, the Committee's must consider those uncertainties. In early 2011, revenue projections varied widely because of uncertainties in state support, *and* expense estimates also varied widely because the District and its employee unions were in the process of negotiating labor contracts for 2011-12 through 2013-14. The Board of Education had stated a goal of reducing annual District expenditures by $1.4 million compared to 2009-10, in part through concessions and cuts being sought from employee unions.

Faced with these uncertainties, on February 1, 2011 the Committee reported the following initial recommendations:

(1) The criteria for levy of Measure E have been met, and the Committee recommends that the District levy it in 2011-12.

(2) The Committee also recommends that the Board authorize the maximum $407,250 (5%) increase in the levy rate for Measure B. This recommendation is based on the following two conditions:

- The District and its employee representatives negotiate reductions in employee-related expenses so that the significant majority of sought-after expense reductions are by expense cuts, rather than layoffs that may reduce the program offerings that the parcel taxes are intended to avoid; and
- The District allocate $162,900 of the increase to 2011-12, and set aside the remaining $244,350 in a Parcel Tax Reserve account. This renews the District's policy of smoothing revenues through the lifetimes of parcel tax measures, and will help offset the expiration of Measure E at the end of 2011-12.

After the results of negotiations with the Association of Piedmont Teachers (APT) were announced, the Committee met again to review the results of those negotiations, to hear the expectation that other unions would copy these provisions, and also to hear significant stakeholder comments, and issued a supplemental report on March 18, 2011. The Committee found that the District-APT Contract includes important concessions by APT, which did not fully meet the Committee's conditions by providing a "significant majority" of cost savings via employee concessions during 2011-12 but are likely to do so during 2011-14 as the benefit cap shields the District from escalating insurance costs, with the following summary:

> CAC has now reviewed the District's actions related to those two conditions, and finds that neither has been *fully* satisfied. However, CAC finds that both conditions are being *adequately* satisfied and reaffirms its recommendation. These reaffirmed recommendations were also adopted by 5 CAC members, with the same member dissenting.

Subsequently, the Board decided to levy Measure E, and to increase the Measure B levy by 5% setting 3% aside in reserve.

ATTACHMENT B:
DETAILS OF FINANCIAL REVIEWS

Comment [JFE5]: last year's Attachment A with text untouched so far

The Committee has conducted the reviews called for in Measures B and E, and provides the following assessments:

(1) The District has established special accounts [titled "Parcel Tax Fund"] to receive parcel tax revenues, and reports the following revenues:

- If fully collected (on a parcel-by-parcel basis), Measure B would collect $8,145,000 per year, and Measure E would collect $997,000 per year.
- The District reports that actual collections for 2009-10 have been: Measure B $8,131,108; and Measure E $941,017. The District has noted this difference but is not carrying a formal "accounts receivable" item for the shortfall.
- The District has projected the same reduced collections for 2010-11 and 2011-12. This Committee has no reason to substitute alternative projected amounts.
- The text of this report refers to the nominal amounts for Measure B ($8,145,000) and Measure E ($997,000).

(2) As of January 2011, it is projected (i.e., in the School Services of California "Dartboard" projection identified in Measure E) that the state will hold back 19.608 % of funds due to school districts under statutory "Revenue Limit" calculations. Measure E refers to this hold-back as a "deficit factor;" this non-zero "deficit factor" empowers the District to levy Measure E taxes in 2011-12.

(3) Although Measure B does not include an explicit trigger, the same revenue and expense considerations apply when considering whether to raise local revenues by levying Measure B taxes in 2011-12.

ATTACHMENT C:

Comment [JFE6]: last year's Attachment B, with text untouched so far