

## MEMORANDUM

Date: March 14, 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

### 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 expiring at the end of 2011-12) during fiscal year 2012-13:

- (1) The Committee recommends that the Board authorize the maximum (5%) increase in the levy rate for Measure B (approximately \$430,000). All revenue should be spent in the 2012-13 fiscal year to address deficit spending resulting from significant cuts in state funding over the last four years as well as from possible mid-year cuts in 2012-13 if tax measures anticipated on the November 2012 state ballot do not pass. Members of the Committee have grave concerns about the impacts of further increases in the District's high parcel taxes, particularly on fixed-income and low-income residents, but reluctantly find them necessary for this year. To put this amount in perspective: in 2012-13 this increase is equivalent to roughly half of the District's best-case deficit (\$764,000 as of December 2011 First Interim); and approximately \$300,000 in seniority-based ("step-and-column") salary increases to District employees' salaries offset half of the parcel tax increase.
- (2) 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.

Since passage of Measures B and E in 2009, state funding has not just failed to keep pace with statutory formulas on which earlier projections were based, but has actually fallen. The District has made significant adjustments to its expenses in response to these changes, but its existing program and cost "footprint" continue to exceed forecast revenues. During this period, parents of District students, taxpayers (including parents and empty-nesters), and District employees have all made sacrifices to support these adjustments. Nevertheless, the District's latest forecasts project continuing deficits in each of the next three years. Clearly these structural deficits are not sustainable.

Readers should note that two Attachments accompany this report. Attachment A provides background regarding Measures B and E, and the charter and work of this Committee. Attachment B provides an historical summary of selected District revenues and expenditures, beginning in 2000-01.

### **District Finances Since 2009**

Since passage of Measures B and E in June 2009 the Board, this Committee and other stakeholders have labored to adjust to changing fiscal circumstances, evaluating the relative burdens of “shared sacrifice” among various groups in the community. 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:

- **Employee groups have experienced cuts** in their expected compensation and benefits (which comprise roughly 90% of the District’s budgeted expenditures). In 2009-10, employees agreed to a salary schedule freeze, while continuing to receive full coverage of health benefit costs by the District, and access to step-and-column increases for most employees. In 2010-11, employees further agreed to furlough days (reducing staff income and students’ access to District programs). In 2011-12, employees voluntarily agreed to continue furlough days and also accepted caps on health benefits for three years (2011-12 through 2013-2014). The District also conducted limited layoffs in 2009-10, 2010-11 and 2011-12, reducing some services and increasing some class sizes. The value of these cuts and concessions cannot be calculated precisely, but each furlough day saves approximately \$90,000 (at a non-financial cost to program delivery as well) and the District projects that employees’ costs under health premium caps will total \$2.4 million by the end of 2013-14. Each year these savings are partially offset by approximately \$300,000 for step-and-column compensation increases, which increase salary levels commensurate with seniority (“steps”) and levels of formal education (“columns”).
- **Students and their families have experienced reductions in educational services** from the program reductions and furlough days noted above. During these years, parent clubs at each school, the Piedmont Education Foundation, parent support groups (including PRAISE, PAINTS, CHIME and GPS), and individual families have also significantly increased their voluntary contributions to support the District. Voluntary contributions are among the highest in the state, on a per pupil basis. These include contributions to the District tied to specified programs, which total \$806,000 in 2011-12. They also include additional contributions that are not tied to any specified program, leaving the District full discretion to allocate those funds – beginning in 2011-12 parents clubs raised this un-tied contribution to \$300 per pupil (i.e., \$765,000 in 2011-12) from the previous \$200 per pupil (roughly

\$500,000 per year). Parent clubs also provide “program preservation” funds targeted to offset state funding cuts –they provided \$450,000 in 2010-11, and have pledged at least \$250,000 in 2012-13.

- **Taxpayers have paid steadily rising parcel taxes.** Measure B raises over \$8 million annually, and the Board levied 5% increases in 2009-10 and 2011-12 (Measure B prohibited any increase in 2010-11). During 2009-10 through 2011-12, taxpayers also paid \$941,000 per year in Measure E (“emergency”) parcel taxes (a total of nearly \$3 million), as additional offsets to cuts in state funding. These parcel taxes are among the highest in the state, and reflect the Piedmont community’s huge commitment to our schools.

The burdens of these sacrifices are inevitably unequal within each group – and many people are members of two or all three of these groups. They depend for example on an individual employee’s health costs, an individual student’s need for services, and an individual taxpayer’s parcel size, purchase date, and income. In addition, of course, many taxpayers also donate to the schools.

### **District Finances and Parcel Taxes in 2012-13**

For 2012-13, the District faces the challenge of identifying budget options to address deficit spending resulting from on-going cuts in state funding and the school community’s preservation of as much of the educational program as possible during the same period. The level of uncertainty and volatility in state funding surpasses the already high levels experienced during the last four years. The Piedmont School Board has responded with a strategy of continued cost containment within the existing program “footprint,” shared sacrifices across stakeholder groups, and moderation of those sacrifices by continued drawing down the District’s financial reserves. This approach includes a determination to rely on reserves if the anticipated state tax measures fail in November and further “trigger cuts” result, rather than implement layoffs this spring for fear of trigger cuts that may or may not happen.

Within the context of assured deficits – of uncertain size – this Committee recommends that all proceeds from raising Measure B rates be spent this year. Our approach contrasts with 2011-12, when there was reason to hope that deficits would shrink and we recommended that some of the proceeds be set aside in a Parcel Tax Reserve Fund to offset the expiration of Measure E.

### **Continuing Reviews and Adjustments to District Programs in 2012-13**

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 B, parcel taxes have risen steadily over the past decade, and exceed \$9.5 million in 2011-12 (including the last year of Measure E). After recent cuts in state funding, Measures B and E provided 32% 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 in parcel taxes is sustainable.

This Committee continues to review and refine the criteria we use to approach our annual reviews and recommendations. This year's criteria included: funding levels, including unpredictable state funding; District expenditures, including annual increases, particularly those built in to provide District employees with rising incomes through their careers (currently step-and-column); the level of ongoing deficit spending in District budget estimates; and the ongoing impacts of rising "shared sacrifices" on groups and individuals in the Piedmont community.

The Committee also recommends that the District continue to review its policies and programs, including those specified in Measure B, and make cost-effective adjustments as appropriate. In particular, the Committee notes that the Teacher Evaluation program launched after signing of the current District-APT contract is currently being piloted and may be ready for broader implementation during 2012-13. The Committee recommends that the District pursue opportunities for targeting professional development expenditures (which may raise or lower a small amount of employee expenses in the short term) and may provide insights that will allow for cost-effective adaptations in program delivery.

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

The Committee is concerned that historical rates of increases in parcel taxes cannot be sustained in the future, and that existing levels may already impose unsustainable hardships on fixed-income and low-income taxpayers. We believe that the District's "shared sacrifice" approach must continue, subject to further review and refinement that considers more explicitly how burdens are shared between groups (students' families, taxpayers and District employees), and may also affect burdens within each group (such as parcel size, family income, and position on the District's salary schedule). The next parcel tax must be designed in ways that ensure its fairness – which should also maximize the chance that Piedmont's taxpayers will continue to support this critical component of District revenues.

Respectfully submitted,

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

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Ken Jensen, Chair

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Jerry Bucci

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George Childs

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Jon F. Elliott

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Matthew Lifschiz

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Catherine Ogle

## STATEMENT OF MINORITY OPINION BY GEORGE CHILDS

While I believe that the report being submitted on behalf of the CAC is accurate and fairly represents the consensus of the committee, I cannot, in good conscience, show my full support for the overall recommendation. ("Minority opinion") I feel that the District will continue to find it mandatory to initiate more and more aggressive efforts to increase revenue sources and/or reduce expenses; at some point requiring significant cuts into the "depth and breadth" of the school program.

On pages 3-4 of this report, under the heading of "Continuing Reviews and Adjustments to District Programs", there is discussion of the increased level of parcel tax support from FY 2000-01 to the current level of District revenues, i.e.: from about 12% to about 32%. I once again concur with the belief that a continuing shift of this burden in this manner moving forward is clearly an un-supportable model. Alternatives must be found and exploited.

While I realize that it is highly unlikely that my first preference regarding Measure B parcel tax levy for FY 2012-2013, which would be to waive it all together, will be considered, I believe that the Board should **seriously** consider the following:

Limit the levy of Measure B "escalator" to **no more than 2%** (matching the mandated Prop. 13 **maximum** annual property tax escalator). Most long-time Piedmont residents are accustomed to and **resigned to** this level of annual adjustment in their property tax bills.

It is vital that the Board be mindful of the economic limitations that some Piedmont citizens who live on fixed or limited incomes face. An examination of the "Selected Economic Characteristics" data for the 2006-2010 American Community Survey 5-Year Estimates for Piedmont from the U.S. Census Bureau reveals some notable findings. (For instance: There are 134 **households** in Piedmont reporting annual income less than \$25,000; 361 reporting less than \$50,000.) Also, those living on Social Security benefits have received only one cost of living increase during the last three years. The "depth and breadth" of their living standard has certainly been curtailed as a result. Thus, even the modest increase suggested above will likely be a burden on some residents.

Thank you for your consideration,

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George Childs

## 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” during 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 was precluded from raising the rate in 2010-11, and levied the maximum 5% increase in 2011-12 but held funds equivalent to 3% of increase in reserve for expenditure no later than 2013-14. Measure B raises \$8,625,000 in 2011-12 (assuming all taxpayers pay their parcel tax), so each 1% change in the assessed rate in 2011-12 amounts to \$86,250. This means a maximum increase of 5% would generate an additional \$431,250.
- **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 ask 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. 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 do highlight tensions within and among all three. 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 expiration of Measure E will reduce total parcel tax burdens to non-emergency levels beginning in 2012-13, while the state's recent determination to actively enforce the non-deductibility of parcel taxes against income beginning in 2012, will increase the perceived tax burdens on taxpayers who previously claimed those deductions.

### **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 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 those results, to hear the expectation that other unions would copy these provisions, and to hear significant stakeholder comments. The Committee issued a supplemental report on March 18, 2011, finding 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 did decide to levy Measure E, and to increase the Measure B levy by 5% setting 3% aside in reserve.

**ATTACHMENT B:  
PUSD's Selected Revenue & Expense Items 2000-01 to 2013-14**

*Budget and projections as of 12/14/11*

