

TO: PIEDMONT UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION
FROM: SCHOOL SUPPORT TAX ADVISORY SUBCOMMITTEE FOR 2015-2016
SUBJECT: REPORT AND RECOMMENDATIONS FOR MEASURE A TAX LEVY FOR 2015-2016
DATE: APRIL 22, 2015

Executive Summary and Recommendation

The School Support Tax Advisory Subcommittee for 2015-16 **recommends** that the District levy the Measure A School Support Tax (Parcel Tax) at its maximum level in 2015-16, including assessment of the maximum 2% increase above the rate in 2014-15. The 2% increase, if adopted by the Board, is expected to yield the District **an additional \$191,747 in revenue**, for a total expected amount of \$9,779,121. (Assumes a base School Support Tax amount for the prior year of \$9,587,374 as reflected in the PUSD Adopted Budget for 2014-15; actual tax revenue realized could vary, as it has in past years). On a per parcel basis, this increase would add **\$49.08** to the current per parcel levy of \$2,454.12, making the total tax levy per parcel **\$2,503.20 for 2015-16**.

Further, the subcommittee **strongly** recommends that after the Governor's budget revisions in mid-May and final budget adoption in the summer, to the extent that the actual LCFF and State funds received by the District are not substantially lower than the current assumed revenue from these sources in the District's projected budget for 2015-16, the **entire additional revenue raised by the increase in the School Support Tax be put into a Parcel Tax Fund Reserve account for Measure A**, as was the practice of the District in prior years. In the case that the amount of actual LCFF and State funds received are lower than the current state revenue assumptions for 2015-16, and the District needs to draw on this additional tax levy revenue to cover a portion of its projected expenditure for 2015-16, the portion that *exceeds* the amount needed to cover any shortfall in revenue be placed in the Parcel Tax Fund Reserve.

Basis of the Subcommittee's Recommendation

As it was charged, this Subcommittee reviewed the District's budget for 2014-15 and the Multi-Year Projection Report which contained budgets for 2015-16 and 2016-17, presented at the Second Interim budget presentation to the Board on March 11, 2015 (p. 32 of the Second Interim Financial Report referenced here), as well as the entire Review 2014-15 Second Interim Financial Report of the District presented by Staff to the Board on March 11, 2015 (the full text of the report is available on the PUSD website). The Subcommittee also reviewed the adopted

budgets of the District for the last ten years (Appendix A and B respectively, contain PUSD General Fund Revenue Sources and Expenditures for the years 2005-06 through 2014-15).

Further, this Subcommittee reviewed last year's School Support Tax Advisory Subcommittee's report, making particular note of the concerns raised in it and the recommendation of that Subcommittee (the full text of the report is available on the PUSD website).

As this Subcommittee approached its task this year, these words from last year's Subcommittee's report struck a chord in all of us, giving us a core principle around which to organize our thoughts. It postulated Measure A, the School Support Tax measure passed in March 2013, as "a reflection of community priorities." The report went on to state:

"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 shared the sacrifices from unpaid "furlough" days (projected to expire after 2013-14). 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."

With this theme of "shared sacrifice" in mind, and guided by the principle of prudent budgetary planning, the following factors and data points, derived from its review of the District's financials, influenced this Subcommittee's thinking and final recommendation (in no particular order):

1. At nearly 30% of the District's budget, the School Support Tax (historically referred to as the Parcel Tax), comprised the largest portion of the PUSD's revenues in 2014-15, after LCFF funding (which currently comprises 54%). This has been the case for the last seven years, commencing with the 2008-09 District budget. Clearly, this tax revenue, from the Piedmont community, forms a critical piece of the PUSD budget.

2. While a distant third, the contributions from the community and the PEF (Piedmont Ed. Foundation) comprise the next largest source of revenue for the District at roughly 7% today. In as much as the source of these contributions overlap with payers of the School Support Tax, these funds also derive from the Piedmont community.
3. Post the financial crisis which severely impacted the state's funding of the District, the total revenue from the Parcel Tax has increased **23%** over seven years, which represents **an increase of 3.5% per annum** (\$9,587,374 in the 2014-15 adopted budget versus \$7,780,117 in the 2008-09 adopted budget).
4. In the same period, contributions from the community and PEF have increased **33%**, representing **an increase of 5.0% per annum**, outpacing the increase in taxes levied on Piedmont residents, at large. (\$2,134,242 in the 2014-15 adopted budget versus \$1,602,351 in the 2008-09 adopted budget).
5. While the District's funds from the state have increased under the LCFF, these increases have been more than offset by the increased contributions required of the District for the unfunded CalSTRS liability (under Assembly Bill 1469) and the increased contributions required for CalPERS. The increase in CalSTRS Employer contribution rates will impact the District's budget by approximately \$669,000 in increased costs over three years. The increase in CalPERS Employer contribution rates will cost the District approximately \$283,000 from 2014-15 through 2016-17. (So: p.3 and p.4 of the Review 2014-15 Second Interim Financial Report of the District).
6. Of particular note is the fact that the District's projected CalPERS contribution rates are expected to rise from 15.0% in 2016-17 to 20.4% in 2020-21; this is relevant in as much as a CalPERS contribution rate for employers of 13.02% was built into the LCFF base grant but there is **no increase in state funding for employer contribution rates in excess of 13.02%**. **Therefore, the costs to the District of CalPERS Employer contributions escalates commencing in 2016-17.**
7. The Multi-Year Projection Report presented at the 2014-15 Second Interim (Exhibit A) projects a positive Ending Reserve Fund balance for 2014-15 (on June 30, 2015) of **6.4%**, an Ending Reserve Fund balance for 2015-16 of **5.5%** and a **Ending Reserve Fund balance for 2016-17 of 3.6%** (as represented by positive Ending Fund Balances of \$2,298,913, \$1,894,067 and \$1,265,283 in the years 2014-15 through 2016-17, respectively). The 5.5% reserve balance in 2015-16, this being the year that we as a Subcommittee should be most focused on as we consider an increase in parcel taxes for 2015-16, is well in excess of the Board's stated goal of a 4% Economic Uncertainties Reserve, and in fact represents **surplus reserves of \$515,621**. However, we would be

remiss in our undertaking if we were not to factor in the **\$150,735 shortfall in reserves in 2016-17** (versus the Board's 4% target reserve amount of \$1,416,018). It also bears stating that **this Subcommittee agrees with the Board's policy of maintaining a 4% Economic Uncertainties Reserve, versus the statutory mandated 3% for Positive certification.**

8. Further, we note that this Multi-Year Projection Report assumes no salary increases for District staff except for "step-and-column" increases for both 2015-16 and 2016-17.
9. Salaries for District employees have been frozen, with no increases, for five years prior to the 2014-15 academic year, when a 3% increase was implemented. Further, employees' medical benefits have been capped since the beginning of the 2011-12 academic year, in an environment of rampant increase in medical costs.
10. The average starting, mid-level and high annual salary for teachers in the PUSD is \$43k, \$65k and \$91k respectively ("mid-level" representing a 10-year experienced teacher). A 1% increase in salary would represent an additional \$430 to \$910 annually for the teachers (\$280 to \$592, after-tax).
11. Concomitant with the growth in the Bay Area economy, which has significantly outpaced the economic growth in California as a whole, the cost of living in the Bay Area has exploded, pricing out individuals and shrinking the pool of available, qualified teachers. Real Personal Incomes are projected to rise 6.75% in the Bay Area in 2015, versus 4.5% for California and 3.6% for the U.S. as a whole¹. San Francisco Unified District is forecasting that it will lose [500] teachers by the end of [2015-16].
12. Meanwhile, budget deficits and cuts in education spending at the State level have meant that Districts have been forced to either layoff staff or freeze salary increases, as PUSD opted to do. The net result is that our teachers' salaries have not kept pace with the explosion in the cost of living increase in the Bay Area.
13. The adoption of the Common Core Curriculum has increased the workload on the District's teachers: it requires additional staff development, development of entirely new lesson plans, new assessment methods, including new tests, all in an environment where text books designed for the Common Core do not exist for many subjects.
14. Measure A, when it was passed by a 76% - 24% margin, was clear in its stated goal of maintaining the "quality of Piedmont's schools, to attract and retain qualified teachers, to protect programs in math, science and technology..." A significant reason for the

¹ Source: 2015 UCLA Anderson Forecast, January 2015

large margin of support for the Measure and the continued support among residents for the Parcel Tax is the recognition of the price support provided to property prices in Piedmont by an excellent school District.

15. Therefore, maintaining this excellence of the District was a fundamental tenet and goal of the Measure in the first place. It is our view that the 2% increase in the tax levy allowed for in the Measure affords the District precisely the revenue flexibility to do what is deemed necessary to maintain this excellence.
16. As last year's Subcommittee pointed out, throughout most of the history of school support parcel taxes in Piedmont, the District used to set aside some funds from early years of a tax measure in a Parcel Tax Reserve Fund, funds that would be available to the District in later years of economic hardship or shortfall in state funding. All revenues raised during the term of a parcel tax measure are required to be spent within the term of the measure but the Reserve Fund allowed tremendous budget planning flexibility even within that period, allowing the District to tap into these funds as unanticipated revenue needs arose in future years. The current Measure A has a term of eight years, a much longer period with its attendant uncertainty, making the need for a reserve fund all the more imperative as forecasting state funding out eight years is fraught with peril. It might behoove us all also to take into account the severe impact on the state's economy of the current drought that California is experiencing. As climate change factors intensify, such extreme weather patterns get harder to forecast, creating even more uncertainty in California's economic future, not to mention the impact on the cost of living of concomitant increases in the cost of fresh produce, dairy and livestock.
17. While the Bay Area economy seems to be booming, the national level GDP growth remains anemic even after *seven* years into the supposed recovery. Economic forecasts of a return to growth have been repeatedly stymied, even in an environment of unprecedented monetary stimulus by the Federal Reserve for seven years. A prudent conclusion to draw from this post-financial crisis economic history would be that growth, and therefore revenues, at the Federal and State level are unlikely to grow by a large extent.

Conclusion

Whereas,

- given the uncertainty inherent in forecasting state funding for K-12 education in California, in an uncertain and volatile economic environment;

- given the Board's stated desire to maintain a 4% Economic Uncertainty Reserve, rather than the statutory minimum of 3% required for *Positive* certification, currently projects a \$150,735 shortfall from this target in the Reserve account in 2016-17;
- given that staff salaries in the District have been frozen for all but one of the past six years, during a period in which the cost of living in the Bay Area has increased exponentially;
- given that the goal of Measure A was to "maintain the quality of Piedmont's schools" and this Subcommittee believes this goal could be jeopardized without timely but prudent increases in salaries and benefits;
- given that the District's CalPERS and CalSTRS employer contribution rates are expected to escalate in future years, with no current expectation of any make-whole funding increase in the LCFF to ease this burden on school Districts,

this Subcommittee recommends that the Board implement the School Support Tax for 2015-2016 at the current level *increased* by the full 2% increase in the tax levy allowed for under Measure A, provided however that except for the condition described above of a shortfall in expected state funding, the funds from the increase in this tax levy be placed in a Parcel Tax Reserve Fund.

Respectfully submitted,

School Support Tax Advisory Subcommittee, 2015-2016

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Appendices:

- A. PUSD General Fund Revenue Sources, Adopted Budgets 2005-06 through 2014-15
- B. PUSD General Fund Expenditures, Adopted Budgets 2005-06 through 2014-15