

TO: PIEDMONT UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION
FROM: SCHOOL SUPPORT TAX ADVISORY SUBCOMMITTEE
SUBJECT: REPORT AND RECOMMENDATIONS FOR MEASURE A TAX LEVY FOR 2016-2017
DATE: APRIL 21, 2016

Executive Summary and Recommendation

The School Support Tax Advisory Subcommittee **recommends** that the District levy the Measure A School Support Tax (Parcel Tax) at its maximum level in 2016-17, including assessment of the maximum 2% increase above the rate in 2015-16. The 2% increase, if adopted by the Board, is expected to yield the District **an additional \$195,807 in revenue**, for a total expected amount of \$9,986,177. (Assumes a base School Support Tax amount for the prior year of \$9,790,370 as reflected in the PUSD Adopted Budget for 2015-16; actual tax revenue realized could vary, as it has in past years). On a per parcel basis, this increase would add **\$50.06** to the current per parcel levy of \$2,503.20, making the total tax levy per parcel **\$2,553.26 for 2016-17**.

Further, based on Staff's projections of the Ending General Fund Balance and Reserves for this fiscal year and the next two fiscal years out to 2017-18, the subcommittee recommends that the **entire** additional revenue raised by the recommended **2% increase** in the School Support Tax be put into the **Parcel Tax Reserve Fund**, as the District did in 2015-16 when it established this Reserve Fund. In the case that the amount of actual LCFF and State funds received are lower than the current state revenue assumptions for 2016-17, and the District needs to draw on this additional tax levy revenue to cover a portion of its projected expenditure for 2016-17, the portion that exceeds the amount needed to cover any shortfall in revenue be placed in the Parcel Tax Reserve Fund.

Basis of the Subcommittee's Recommendation

As it was charged, this Subcommittee reviewed the District's budget for 2015-16 and the Multi-Year Projection Report which contained budgets for 2016-17 and 2017-18, presented at the **Second Interim Budget presentation to the Board on March 9, 2016** (attached as Exhibit A). It is illustrative to compare the projections for the General Fund Ending Balance and Reserves in this interim budget to last year's **Second Interim Budget presented on March 11, 2015** (attached as Exhibit B). The attached table, Exhibit C, compares last year's projections versus the current projections. (Note that Staff's Second Interim for 2015-16 assumes a 4% Economic Uncertainties Reserve for 2015-16 and 2016-17 and 3% for 2017-18. However, for illustrative purposes, the Subcommittee's attached table assumes a 4% reserve for 2017-18.)

Note that the District's projections for 2016-2018 assume no increase in the School Support Tax and no salary or employer-paid health benefit increases.

Here are the conclusions that the Subcommittee drew from Exhibit C:

1. The Ending Fund Balances and the Total Reserve (as a % of Total Expense Base, which is Total Expenditures less the Deferred Maintenance and the STRS On-Behalf Contribution), increased substantially for the years 2014-15, 2015-16 and 2016-17 from the projections made last year (comparing lines 10 and 30, and lines 16 and 37). The two primary reasons for this increase were one-time expenditure savings of \$865,000 in 2014-15, a detailed breakdown of which can be found on page 6 of the budget presentation made to the Board on September 9, 2015 ("2014-15 UNAUDITED ACTUALS, 2015-16 REVISED BUDGET"), and an increase in State revenues of \$86,000 (from an increase in Lottery receipts). The corresponding increase in the Ending Fund Balance for 2014-15 carries over to subsequent years.
2. In years 2015-16 and 2016-17, if the current projections on revenues and expenses hold, the District will have Total Reserves comfortably in excess of the District's goal of a 4% Reserve for Economic Uncertainties: Total Reserves of 6.5% and 5.4%, respectively, even excluding the Parcel Tax Reserve, (line 37).
3. However, the **Total Reserve in year 2017-18 is projected to be only 2.2%, well below the District's 4% target and below the State's 3% requirement.**
4. The three major factors that cause this deficit, as noted in the Second Interim Budget presentation on Mar 9, 2016, are:
 - Cumulative CalSTRS and CalPERS contribution increases of approximately \$840k in 2016-17 and 2017-18
 - Step & Column cumulative salary increases of \$700k over the next two years
 - The compound effect of the \$155k salary and benefit increase implemented in FY 2015-16 (\$465k over the next 3 years)
5. ***All other things being equal, only if the School Support Tax was increased by the maximum 2% for each of the next two years***, i.e. for 2016-17 and 2017-18, the Total Reserves of the District ***including*** the cumulative Parcel Tax Reserve, would approach our 4% target (projected to be **3.8%** for 2017-18, line 40)
6. Therefore, on the basis of the current budget projections alone, all other things being equal, **the Subcommittee feels that it would be strongly advisable for the Board to**

implement the full 2% increase in the School Support Tax allowed under Measure A, not only for 2016-17 but barring any substantial changes in the budgets for the next two years, for 2017-18 as well, and place the increased funds raised in the Parcel Tax Reserve Fund to be available to cover the projected Total Reserve shortfall in 2017-18.

Further, it is worth reiterating, that these Multi-Year Projections assume no salary increases for District staff for the next two years except for “step-and-column” increases to the 2015-16 base.

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. As the District adapts to this constantly evolving environment, increases in Staff Development, salaries, and hiring costs cannot be ruled out.

Clearly the Board and Staff could also make program cuts to cover the deficit in 2017-18. However, 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 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. 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.

Conclusion

- Given the shortfall in Total Reserves currently projected in 2017-18 as a consequence of projected deficits in 2016-17 and 2017-18;
- given the uncertainty inherent in forecasting state funding for K-12 education in California, in an uncertain and volatile economic environment, uncertainty that could increase next year with the election of a new President;
- given that the goal of Measure A was to “maintain the quality of Piedmont’s schools” and this Subcommittee believes this would be jeopardized if we do not maintain adequate financial reserves,

this Subcommittee recommends that the Board implement the School Support Tax for 2016-2017 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 the Parcel Tax Reserve Fund to be available to cover the projected Total Reserve shortfall in 2017-18.

Respectfully submitted,

School Support Tax Advisory Subcommittee, 2016-2017

Tamra Hege, Co-Chair Gautam Wadhvani, Co-Chair

Susan Miller-Davis, Secretary Andrew Hempeck

Attachments:

- Exhibit A: Second Interim Budget 2015-16, presentation to the Board on March 9, 2016, slide 27
- Exhibit B: Second Interim Budget 2014-15, presented to the Board on March 11, 2015, p. 32
- Exhibit C: Subcommittee's Comparison of Reserve Projections