

BOARD OF EDUCATION

Attachment: Discussion 5

PALO ALTO UNIFIED SCHOOL DISTRICT

Date: 11.10.15

TO: Glenn "Max" McGee, Superintendent

FROM: Cathy Mak, Chief Business Officer

SUBJECT: 2014-2015 Parcel Tax Fiscal Report

RECOMMENDATION

This report is presented for information only. No Board action is necessary.

STRATEGIC PLAN INITIATIVE

Budget Trends and Infrastructure

BACKGROUND

On May 4, 2010, the voters of Palo Alto Unified School District approved an annual tax of \$589 per parcel (Measure A), with two percent annual increases, for six years to replace the previous tax. This parcel tax allows exemptions upon application parcels owned by and used as principal residences of persons of age 65 years or older. The parcel tax also calls for independent oversight to monitor the expenditures of the taxes collected. This tax was approved by a Yes vote of 79.36 percent.

The 2010 ballot measure stated the proceeds of the tax would be used to "preserve excellence in core academic programs, including reading, writing, math, and science; reduce the impact of deep budget cuts with stable locally-controlled funding; minimize teacher layoffs and class size increases; continue teacher professional development; and help protect critical high school electives, including arts and music".

On August 23, 2011 the Board approved the parcel tax expenditure plan for Measure A from 2010-11 to 2015-16. In May 2015, the voters approved a new parcel to replace the 2010 Measure. Therefore, this will be the final expenditure report for the 2010 Measure.

This report provides income and expenditure information on the parcel tax for 2014-15.

INCOME

The parcel tax of \$638 per parcel was recorded for 2014-15. There were 22,269 available parcels. There were 2,522 exemptions on the tax roll; 253 refunds were issued after the roll was completed. A total of \$1,913 in voluntary contributions was received. The net amount received from the parcel tax in 2014-15 was \$12,313,099 which is approximately seven percent of the total revenues for the year. The table below shows the derivation of the parcel tax revenue in 2014-15.

2014-15 Parcel Tax Revenue		
	Parcels	Revenues
July 2014 Roll	22,269	\$ 14,207,622
Less Exemption	2,522	\$ (1,609,036)
Total Assessment	19,747	\$ 12,598,586
Less 1% service charge to County		\$ (125,986)
Less senior refunds applied for during 2014-15	253	\$ (161,414)
Voluntary Contributions		\$ 1,913
Net Revenue		\$ 12,313,099

EXPENDITURES

As stated in the background, the parcel tax was designated for five areas of expenditure: maintain excellence in core programs, reduce the impact of budget cuts, minimize teacher layoffs and class size increases, continue teacher professional development; and help protect high school electives. These designations are similar to the ones defined within the parcel tax passed in 2005, and we have therefore included most of the expenditures from the prior parcel tax, and added expenditures to help avoid/minimize teacher layoffs and reduce the impact of state budget cuts, which fulfill the new designations in Measure A.

The 2014-15 planned expenditure budget was \$12,345,000. The actual expenditures for these categories were \$12,313,099, which is \$31,901 less than planned.

The following table shows the expenditures from the parcel tax in 2014-15.

2014-15 Parcel Tax Expenditure Summary

Item #	Description	FTE	%	Budget	Actual	Over / (Shortfall)
1	Class Size Reduction	46	70%	5,685,600	5,682,740	(2,860)
2	Growth Teachers for Enrollment growth	31	100%	3,090,000	3,067,975	(22,025)
3	Secondary School Electives	9	(*)	1,112,400	1,111,840	(560)
4	Psychologists and Counselors	2.5	6%	309,700	309,895	195
5	Elementary Librarians, Literacy	2 3	19% 55%	618,000	637,249	- 19,249
6	Classified Staff	8	2% (**)	584,000	590,819	6,819
7	Base Allocation to Schools	N/A	24%	350,000	309,950	(40,050)
8	Professional Development	N/A	100% (***)	500,000	443,253	(56,747)
9	Backfill State Fair Share Reduction Class Size Reduction K-3	N/A		95,300	159,378	64,078
				<u>12,345,000</u>	<u>12,313,099</u>	<u>(31,901)</u>

(*) This covers 45 elective classes at the secondary schools.

(**) The percentage is based on all classified positions from General Fund.

(***) The parcel tax pays for 100% of the professional development in excess of the three days included in the PAEA contract

The cost of certificated teachers is calculated using average teacher cost of \$123,538 (\$98,116 average salary plus statutory and health benefit costs). Other personnel expenditures on this list were determined either by using average cost per teacher or actual costs of employees hired.

A breakdown of class size reduction teachers hired, by school, is shown in Exhibit A. These teachers have been funded by the parcel tax, state class size reduction funds, as well as the district.

The revenue and expenditure data in this report were reviewed by the district's external auditor, Vavrinek, Trine, Day and Co. and no exceptions were found. The auditor's report is available for review in the Business Office. The partner of the firm, Mr. Lenny Danna, discussed the review procedures and results with the district's Parcel Tax Oversight Committee on October 7, 2015, and the committee members were satisfied with the review. The report from the Committee is shown in Exhibit B.

PALO ALTO UNIFIED SCHOOL DISTRICT
Parcel Tax Community Oversight Committee Report to the Board of Education
For the 2014-2015 School Year
Report Completed October 15, 2015

Re: Palo Alto Unified School District
Quality Public Education Preservation Act of 2010 (the “Parcel Tax”)

BACKGROUND

On May 10, 2010, the citizens of Palo Alto approved a parcel tax in the amount of \$589 per parcel per year for six years that increased 2% per year, effective July 1, 2010. That parcel tax renewed and extended the expiring parcel tax for the Palo Alto Unified School District (“PAUSD”) passed in 2005. As stated in the ballot measure, the purpose of the renewed parcel tax is:

*“To preserve excellence in core academic programs, including reading, writing, and science;
reduce the impact of deep budget cuts with stable locally-controlled funding;
minimize teacher layoffs and class size increases; continue teacher professional
development; and help protect critical high school electives, including arts and music...”*

On November 29, 2011, the Board of Education of PAUSD appointed a Parcel Tax Oversight Committee (the “Committee”), made up of individuals who live in the School District. The current members of the Committee are:

- Anupa Bajwa
- Megan Swezey Fogarty
- George Jaquette
- Ben Lenail
- Erik Rausch
- Anne Rockhold
- Steve Schlenker
- Jeff Traum
- Sanjay Verma

The Parcel Tax Oversight Committee met on October 7, 2015, to review the parcel tax expenditures reports for 2014-2015. We have completed our review, and our conclusions are summarized below.

STUDY BASIS

PAUSD staff (Chief Business Officer, Cathy Mak, and Fiscal Services Manager, Connie Ngo) provided the Committee with background materials on the parcel tax, the district’s revenue and expenditure data for fiscal year 2015, and the use of these funds across all schools. Lenny Danna, Partner with Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants & Consultants (“VTD”), the independent CPA firm that

audits PAUSD, presented the procedures that his firm performed to assist the Committee in determining whether funds generated from the parcel tax for the year ended June 30, 2015, were, in fact, used for the purposes set out in the ballot measure.

The Palo Alto Parcel Tax Report by VTD detailed nine specific expenses representing use of the parcel tax revenues for the 2014-15 school year. The report compared forecast vs. actual expenses provided by the Board. Note that this was not an audit, but rather was a verification of the data provided by PAUSD staff. VTD performed specific procedures to test the reasonableness and logic of PAUSD's calculations and allocations of costs to the parcel tax. Furthermore, where appropriate, VTD reviewed payroll records to verify the District's calculations and the reasonableness of the parcel tax expenditures.

COMMITTEE CONCLUSIONS

The Parcel Tax Oversight Committee requested in advance that estimated actual salaries be used for the purpose of calculating the cost of teachers hired to support growth in enrollment, as those teachers most recently hired reflect the expense of increased enrollment in the district. In past years PAUSD has used the average expense for a certificated teacher, which almost always represents a higher expense due to tenure and retention. Teachers with more years of service earn more than those with less, and PAUSD enjoys very high teacher retention. This change in estimating expenses is reflected in this year's report.

Committee members discussed the school budget, the major factors influencing the budget (growth in enrollment, state funding, class size etc.), and the parcel tax budget and mechanics of its operation. The Committee members have been active, knowledgeable participants in the oversight of the parcel tax and appropriate expenditure of funds. We feel it is important for Committee members to serve as ambassadors and be able to articulate to the community the impact of, and trends related to, parcel tax collection and expenditures.

We submit our report for the final year of the 2010 parcel tax, which has been replaced by the passing of Measure A in May 2015. Property tax revenues are expected to continue to increase in the next few years, and the new parcel tax includes increased funding for new programs. PAUSD will pay more for pension expenses as the state shifts that unfunded liability onto school districts, and the district will see reduced rental income going forward. The committee attests that the revenue from the expiring parcel tax was spent according to the purposes spelled out by the voters, and disbands with the confidence that parcel tax revenue was used appropriately during our term of oversight. As the district introduces new programs and potentially opens new sites, the committee advises that they plan for a possible downturn in property values like those experienced twice in the last fifteen years.

The net parcel tax revenue received by PAUSD for 2014-2015 equaled \$12,313,099 based on a tax of \$638 per parcel. Parcel tax revenue for 2014-2015 was \$31,901 less than forecast (\$12,345,000) and

\$157,724 more than the 2013-2014 fiscal year. The actual expenses for the identified parcel tax expenditures were equal to the net parcel tax revenue.

The committee noted that parcel tax revenue was responsible for 70% of the funds used to preserve reduced class sizes in PAUSD schools (together with state funding for that purpose), and that this expenditure was directly responsible for helping preserve the equivalent of 46 classroom teacher positions. The committee noted that this number is conservative, as it was based on average teacher compensation. These teachers represent 46% of the parcel tax revenues.

In addition, 31 full time equivalent teacher positions were fully funded by the parcel tax to support the continued increase in student enrollment, supporting an increase of 49 students across the district in 2014-2015 -- growth of over one thousand students during the term of this parcel tax. The number of growth teachers was up from 21 positions in the 2013-2014 budget. The increased number of full time positions reflects the lower marginal cost of each new teacher represented in this expense, and thereby indicates the larger impact that this spending has in funding teachers in the classroom. These teachers represent 25% of the parcel tax revenue.

The committee discussed the challenge in calculating how many elective teachers are supported by the parcel tax, as some classes are electives for some and required for others. By estimating the number of elective hours, and dividing by a teacher's capacity, the parcel tax funds roughly 9 full-time equivalent teachers delivering electives at the secondary schools. This represents 9% of the parcel tax revenue.


The committee reviewed the categories of spending that represent the remainder of the budget. Librarians (2), literacy specialists (3) and classified staff (8 people who work at schools but do not teach) represent 10% of the total. Psychologists and counselors (2.5 FTEs) are also funded, along with support for school allocations (per student funding) and for professional development (training for teachers).

The Committee discussed the impact of the Local Control Funding Formula that guided state funding for education this fiscal year. PAUSD should expect to see continued reductions in state funding.

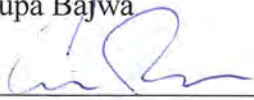
The Committee appreciates the continued support of the PAUSD business office, including (a) monitoring a dedicated e-mail address parceltax@pausd.org to accept questions and queries about the annual report of the Community Oversight Committee and the parcel tax; (b) reporting measurable criteria of the positive impact of parcel tax expenditures on number of FTEs; (c) including in its reports the parcel tax expenditure as a percent of total District expenditure; and (d) using estimated actual costs for newly hired teachers rather than the average FTE teacher expense used in earlier years.

The Committee compliments the PAUSD staff and the auditor for their earnest work on behalf of the District and tax payers.

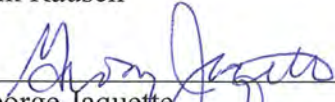
Based upon the Committee's review of the Procedures Report by VTD, the presentations of Mr. Danna and the PAUSD staff, and our review of the text of the parcel tax, the Committee believes that PAUSD spent the parcel tax revenue in fiscal year 2014-2015 entirely for the purposes set forth in the ballot measure approved by Palo Alto voters in May 2010.



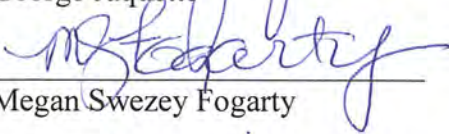
Anupa Bajwa



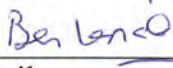
Erik Rausch



George Jaquette




Megan Swezey Fogarty



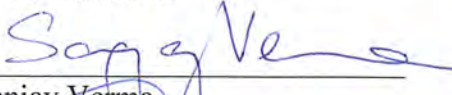
Ben Lenail



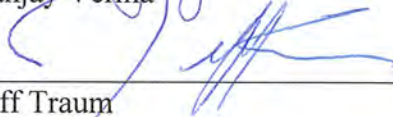
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