

BOARD OF EDUCATION

Attachment: Discussion 11

PALO ALTO UNIFIED SCHOOL DISTRICT

Date: 11.18.14

TO: Glenn "Max" McGee, Superintendent

FROM: Cathy Mak, Chief Business Officer

SUBJECT: 2013-2014 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. This report provides income and expenditure information on the parcel tax for 2013-14.

### INCOME

The parcel tax of \$625 per parcel was recorded for 2013-14. There were 22,261 available parcels. There were 2,457 exemptions on the tax roll; 162 refunds were issued after the roll was completed. A total of \$2,900 in voluntary contributions was received. The net amount received from the parcel tax in 2013-14 was \$12,155,375 which is approximately 7 percent of the total revenues for the year. The table below shows the derivation of the parcel tax revenue in 2013-14.

<b>2013-14 Parcel Tax Revenue</b>		
	Parcels	Revenues
July 2013 Roll	22,261	\$ 13,913,125
Less Exemption	2,457	\$ (1,535,625)
<b>Total Assessment</b>	<b>19,804</b>	<b>\$ 12,377,500</b>
Less 1% service charge to County		\$ (123,775)
Less senior refunds applied for during 2013-14	162	\$ (101,250)
Voluntary Contributions		\$ 2,900
<b>Net Revenue</b>		<b>\$ 12,155,375</b>

## 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 2013-14 planned expenditure budget was \$12,124,500. The actual expenditures for these categories were \$12,155,375, which is \$30,875 more than planned.

The following table shows the expenditures from the parcel tax in 2013-14.

**2013-14 Parcel Tax Expenditure Summary**

Plan Item #	Description	FTE	%	Budget	Actual	Over / (Shortfall)
1a,b	Class Size Reduction	46	77%	5,474,000	5,504,382	30,382
1c	Growth Teachers for Enrollment growth	21	100%	2,499,000	2,512,870	13,870
2	Secondary School Electives	9	N/A (*)	1,071,000	1,076,949	5,949
3	High School Dean	1	100%	125,000	123,196	(1,804)
4	Psychologists and Counselors	2.5	7%	300,500	302,070	1,570
5	Elementary Librarians, Literacy and Math	2 3	13% 100%	595,000	617,288	- 22,288
6	Classified Support Staff	8	13%	560,000	601,029	41,029
7	Base Allocation to Schools	N/A	24%	300,000	308,475	8,475
8	Professional Development	N/A	100% (**)	600,000	603,226	3,226
9 a,b,c	Backfill State Fair Share Reduction Class Size Reduction K-3	N/A		600,000	505,890	(94,110)
				<u>12,124,500</u>	<u>12,155,375</u>	<u>30,875</u>

(\*) Total percentage for elective classes is n/a because total number of "elective classes" FTE is not available. There are several classes that are taken towards graduation requirement for one student and as an elective for another student.

(\*\*) 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 \$119,660 (\$95,432 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 13, 2014, and the committee members were satisfied with the review. The report from the Committee is shown in Exhibit B.

**CSR TEACHERS  
2013-14**

<b>SCHOOL</b>		<i>2013-14 14th day Enrollment (excluding SAI)</i>	<b>GENERAL FUND CLASSROOM TEACHERS</b>	Class Size Without CSR	<b>GENERAL FUND CLASSROOM TEACHERS WITHOUT CSR</b>	<b>ADDITIONAL TEACHERS DUE TO CSR</b>
ADDISON	K	62	3.00	27.00	2.30	0.70
	1-5	415	18.00	27.50	15.09	2.91
BARRON PARK	K	44	2.00	27.00	1.63	0.37
	1-5	290	14.00	27.50	10.55	3.45
BRIONES	K	46	2.00	27.00	1.70	0.30
	1-5	318	14.00	27.50	11.56	2.44
DUVENECK	K	61	3.00	27.00	2.26	0.74
	1-5	430	19.00	27.50	15.64	3.36
EL CARMELO	K	65	3.00	27.00	2.41	0.59
	1-5	353	15.00	27.50	12.84	2.16
ESCONDIDO	K	100	5.00	27.00	3.70	1.30
	1-5	471	21.00	27.50	17.13	3.87
FAIRMEADOW	K	81	4.00	27.00	3.00	1.00
	1-5	474	21.00	27.50	17.24	3.76
HAYS	K	65	3.00	27.00	2.41	0.59
	1-5	469	20.00	27.50	17.05	2.95
HOOVER	K	66	3.00	27.00	2.44	0.56
	1-5	347	15.00	27.50	12.62	2.38
NIXON	K	66	3.00	27.00	2.44	0.56
	1-5	416	18.00	27.50	15.13	2.87
OHLONE	K	100	4.50	27.00	3.70	0.80
	1-5	505	22.50	27.50	18.36	4.14
PALO VERDE	K	63	3.00	27.00	2.33	0.67
	1-5	350	15.00	27.50	12.73	2.27
YOUNG FIVES	TK. K	92	4.40	27.00	3.41	0.99
<b>TOTAL ELEMENTARY</b>		<i>5,749</i>	<b>255.40</b>		<b>209.67</b>	<b>45.73</b>
JORDAN		<i>1,012</i>	55.01	28.50	49.71	5.30
JLS		<i>1,015</i>	55.07	28.50	49.86	5.21
TERMAN		<i>706</i>	38.37	28.50	34.68	3.69
<b>TOTAL MIDDLE</b>		<i>2,733</i>	<b>148.45</b>		<b>134.25</b>	<b>14.20</b>
GUNN		<i>1,864</i>	82.04	28.50	79.24	2.80
PALY		<i>1,908</i>	83.93	28.50	81.13	2.80
<b>TOTAL HIGH</b>		<i>3,772</i>	<b>165.97</b>		<b>160.37</b>	<b>5.60</b>
<b>TOTAL DISTRICT</b>		<b>12,254</b>	<b>569.82</b>		<b>504.29</b>	<b>65.53</b>

**PALO ALTO UNIFIED SCHOOL DISTRICT**

**Parcel Tax Community Oversight Committee Report to the Board of Education  
For the 2013-2014 School Year  
Report Completed October 29, 2014**

**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 increases 2% per year, effective July 1, 2010. The passing of Measure A renewed and extended the expiring parcel tax for the Palo Alto Unified School District ("PAUSD"). 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 13, 2014, to review the parcel tax expenditures reports for 2013-2014. 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 2013-14, 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, 2014, 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 2013-2014 school year. The report compared forecast vs. actual expenses. 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**

Parcel Tax Oversight 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 remain committed to be active, knowledgeable participants in the oversight of the parcel tax and appropriate expenditure of funds. We feel it is important for Committee members to articulate to tax payers and other constituents the impact of, and trends related to, parcel tax collection and expenditures. As we enter the final years of this parcel tax, the committee noted continued shifts in state financing that make local control of sustainable funds important. Additional forecasted expenses from certain state legislative actions including increased local responsibility for pension expenses, possible reductions in lease income, and the new school funding model make clear that PAUSD will continue to need more revenue than property taxes can provide.

The net parcel tax revenue received by PAUSD for 2013-2014 equaled \$12,155,375 based on a tax of \$625 per parcel. Parcel tax revenue for 2013-2014 was \$30,785 more than forecast (\$12,124,500) and \$233,191 more than the 2012-2013 fiscal year. The actual expenses for the identified parcel tax expenditures were equal to the net parcel tax revenue.

The committee noted that the parcel tax revenue was responsible for 77% of the funds used to preserve reduced class sizes in PAUSD schools, and that this expenditure was directly responsible for helping save the equivalent of 46 classroom teacher positions. The committee noted even this number was probably conservative as it was based on average teacher compensation.

The committee also recognized that all literacy and math specialists were funded through the parcel tax (excluding any site-specific supplements). And 13% of the budget for librarians and 7% of the budget for school psychologists and counselors was funded through the parcel tax expenditure, areas strongly valued by the community.

In addition, 21 full time equivalent teacher positions were fully funded by the parcel tax to support the continued increase in student enrollment, which grew 87 students across the district in 2013-2014. The number of growth teachers was up from 17 positions in the 2012-2013 budget, and we were informed by district staff that this number is likely to continue to increase in 2014-2015 based on enrollment projections.

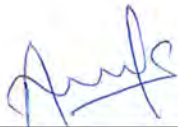
The Committee received a breakdown of district revenue by source showing funding from the state has declined since 2009 for PAUSD. The State of California began its “fair share reduction” for **Community Funded** school districts in 2009-2010, which includes PAUSD (as contrasted with **State Funded** districts that receive more funding from the state to augment lower property tax revenue). The fair share reduction for PAUSD in 2013-2014 was \$7,419,435, or 4% of the budget. With the new Local Control Funding Formula that went into effect in 2013-14, the fair share reduction amount of \$7,419,435 became permanent. Funds from the parcel tax have been used in previous years to offset those reductions. As growth teachers are hired to support increased enrollment, parcel tax expenditures are used to fund these additional positions, and less is available to backfill the loss of state funding.

The Committee recognized the positive actions taken by the PAUSD business office at our prior suggestion, including (a) establishing a dedicated e-mail address [parceltax@pausd.org](mailto: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) presenting a more detailed breakdown of parcel tax expenditures to backfill State Fair Share Reduction and (d) including in its reports the parcel tax expenditure as a percent of total District expenditure.

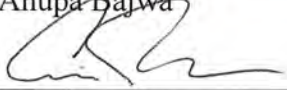
The Committee also engaged the PAUSD staff in a conversation on the value of additional ways to communicate with Palo Alto taxpayers the significant impact of the parcel tax on sustaining school excellence. The Committee suggested that the district create a “School Funding 1.01” presentation to share with the community the real and meaningful difference these funds have on students and their educational experience.

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

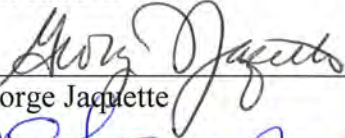
Based upon the Committee’s review of the Procedures Report by VTD, the presentations of Mr. Danna and the PAUSD staff, and our review of the text of the parcel tax, the Committee believes that PAUSD spent the parcel tax revenue in fiscal year 2013-2014 entirely for the purposes set forth in the ballot measure approved by Palo Alto voters in May 2010.



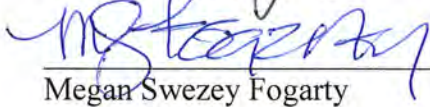
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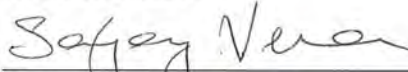
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