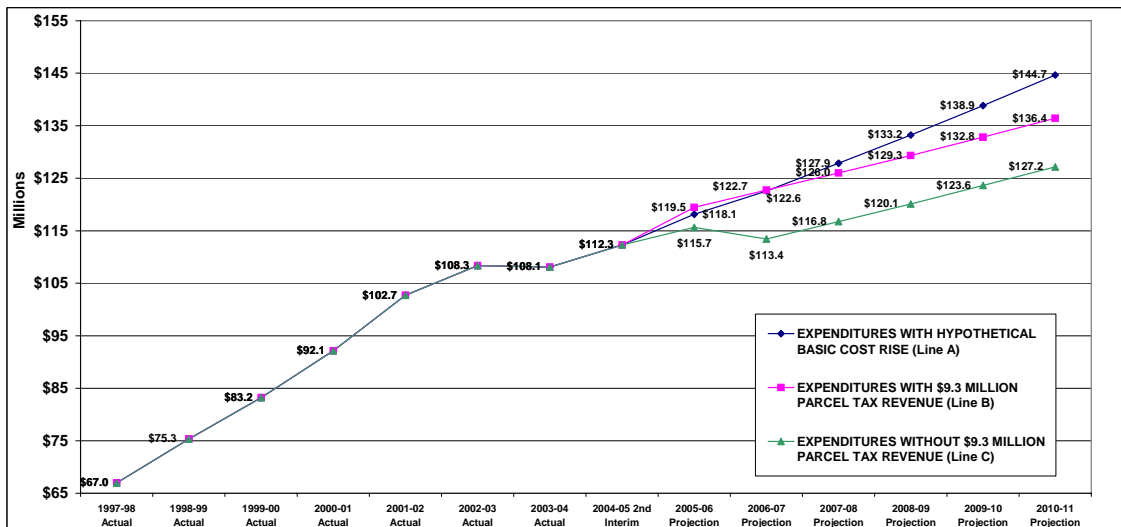


## LOOKING AT THE PARCEL TAX

PAGE's impartial analysis of Measure A, the Palo Alto Unified School District's parcel tax measure on the June 7, 2005 ballot, was researched and written by PAGE Board Members Raymond Bacchetti, Robert M. Rosenzweig and John Tarlton.

Residents of the Palo Alto Unified School District feel strongly about their schools. Not surprisingly, they also feel strongly about their taxes. When those two come together on the ballot, as they do in this June's Parcel Tax proposal, it is the responsibility of the School Board, which is asking for the taxpayer's money, to justify the need for it, and it is the responsibility of the voter to judge the validity of the explanation. The voters' task is especially difficult. The arguments for and against the tax are technical and are accompanied by reams of data and projections from the data that are really just best guesses about future events and, therefore, inherently subject to challenge. The campaign for a parcel tax last year, which failed by a narrow margin to win the needed two-thirds voter approval, demonstrated just how volatile the matter had become. This year's decision is no less difficult for the voter, and no less consequential for the future of our schools.

### Projected Expenditures With and Without New \$9.5 Million Parcel Tax Revenue



The essence of our analysis is in the graph shown here. In it we show District budgets from previous years and the actual budget for the current year. We project from the latter point, using the District's assumptions, which we have independently examined, and in some cases modified. It should be noted that the years 2002-03 through 2004-5 saw a \$6.5 million reduction in budget. Line A shows what maintenance of the present level of expenditures for program and staff would cost in future years. One way to think of this line is as the cost of staying the same. We assume no program improvements or restoration of recent cuts, but we do take account of increases in the price of goods and services for the District, salary increases consistent with inflation and negotiated contracts, increases in health benefit costs, and predicted enrollment growth averaging two percent a year.

Line B shows the estimated revenue if the proposed parcel tax passes. Other assumptions include a 3.6 percent rise in tax revenue, instead of the 2% increase that the District estimates for its budgeting purposes, and inflation-based increases in state categorical programs and lease revenue. Under the assumptions of line B, the District would need to juggle expenditures. It could do some, but not all, of the following: restore some of the recent \$6.5 million budget cuts, meet cost-rise and enrollment increases, provide cost of living salary adjustments, or keep up with the rising cost of health insurance. We assume no program additions or improvements.

Line C shows estimated revenue if the proposed parcel tax fails. It would be similar to Line A except that it would require a further \$5.5 million of budget cuts with no capacity to restore any prior cuts. If this turns out to be the actual situation, the Board of Education would need to make adjustments to keep expenditures in line with revenues.

The graph exposes two gaps. First, the gap between lines A and B shows that the likely District budget over the six year life of the proposed parcel tax revenue will not reach the level required to meet expected cost increases (line A). While some level of increased efficiency can be expected, cuts will likely be required. Second, the more severe gap between lines A and C tell us that if the tax does not pass, substantial budget reductions would be required to balance the budget between 2004-05 and 2010-11.

Increased revenues from existing tax sources do not appear to offer a secure solution to the problem. The district is heavily dependent on property tax revenues, over which it has no control. Since property assessments necessarily lag actual increases in value, no early relief seems likely, and, in any case, the assessment of commercial property, which has fallen in recent years, shows no signs of an early, large rise. There will certainly be some one-time increases as new properties come on line, but there is no bonanza in sight from the property tax rolls.

Since some budget cuts seem inevitable even with the passage of the parcel tax, the important question is, How large can those cuts be without doing serious damage to educational quality? We do not know the answer to that question. We offer, instead, a breakdown of the way in which the 2004-05 operating budget is allocated, as a guide to the categories of expenditure that must take the largest cuts in order to have a significant effect on the budget. Since more than three quarters of the budget is devoted to instruction and instruction-related costs, it is clear that no significant cost savings are available that will not affect the schools' educational programs.

Instruction	67.3%	Regular and special education
Instruction related services	11.6	Principals, curric. &instruc. support, etc.
Pupil Services	4.4	Guidance, testing, food transport, athletics
Plant Services	10.8	Maintenance and operations
General Administration	5.9	Board, Superintendent, fiscal, etc.

The decision a voter must make on the parcel tax will require balancing the amount of additional tax that will be required of each family against the extent of the reduction in the educational budget. Our purpose in putting this piece together is to step back from advocacy, and to distill from the mass of available data those relatively few pieces that we believe the voters need to understand in order to cast an informed vote. We do not claim to lack views of our own on the issue, though we have not discussed them among ourselves. We say only that what follows is not intended to advance pro or anti-tax positions. We simply believe that good decisions are produced when the voters' values are informed by the best possible information.