

**Metropolitan Education District**  
***Second Interim Financial Report***  
**March 9, 2005**

## **Executive Summary**

### **Current Considerations**

#### **State Budget Status**

The Governor's January budget proposal confirmed that there would be no mid-year adjustment to 2004-05 K-12 education funding. The Governor's "deal" with the Education Coalition for the 2004-05 state budget called for a reduction of \$2 billion in the Proposition 98 funding guarantee. If state revenues exceeded projections, K-12 education was to receive its share of the additional revenues. By the Governor's own estimate, K-12 education is owed an additional \$1.1 billion from state revenues that exceeded projections. While the Education Coalition has taken on this issue in a public relations and legislative battle with the Governor, we do not expect the education industry to be successful in recovering this funding stream.

#### **Federal Budget Status**

President Bush's proposed federal budget contains two provisions that would negatively impact MetroED. The first is a proposal to eliminate Federal Carl Perkins Grant funding, which will impact both ROC/P and Adult Education. The second is an approximate 63% reduction in Federal Adult Basic Education (ABE) grant funding effective with the 2006-07 fiscal year. These reductions are included in the multi-year projections.

#### **New Student Information and Attendance Accounting System**

At the February meeting, the Governing Board approved and authorized the purchase of a new student information and attendance accounting system. The 2<sup>nd</sup> Interim Report includes adjustments in both the General and Adult Education Funds for the purchase of computer hardware and software for the new system, and capital lease proceeds to finance the system.

#### **2004-05 Employee Compensation Adjustments**

The administration had delayed employee compensation negotiations for the current year pending final determination of federal grant revenue for the Adult Education program and the January release of the Governor's 2005-06 proposed budget. The good news is that the federal grant totals exceeded expectations, and the Governor's January state budget proposal did not include any unexpected mid-year impacts to ROCP and Adult Education funding. Subsequently, the administration received direction from the Governing Board for discussions with the district's unions for current year compensation adjustments. Since these discussions are still underway, there is no budget line item included in the 2<sup>nd</sup> Interim Report for these adjustments. Recommendations will be brought to the Board when details are available.

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2<sup>nd</sup> Interim Budget Adjustments

Budget transfers and adjustments for the current year are approved by the Governing Board on a monthly basis. Consequently, the only adjustments presented in the 2<sup>nd</sup> Interim Report are those that have occurred since the January 31, 2005 Board-approved budget update.

Multi-Year Projection Assumptions

For the General Fund 01 and Adult Education Fund 11, we have also provided detailed multi-year projections, with all budget assumptions and calculations for the 2002-03 and 2003-04 Actuals, the 2004-05 2nd Interim Budget and two subsequent years. Budget assumptions for the two projected years are based on School Services of California (SSC) "Dartboard" projections, historic spending patterns and district goals.

Budget Presentation Format

Presentation of the 2nd Interim Report includes a "Budget at a Glance" that summarizes the proposed budgets for all the district's funds and "Monthly Budget Adjustments" showing changes from the last budget update approved by the Board. The Capital Outlay Fund 40 has been divided to separately show the resources available for the Central County Occupational Center (CCOC) and Metropolitan Adult Education Program (MAEP). Required state forms are provided in the sections identified in the Table of Contents.

**Fund 01: General Fund (ROC/P)**

Fund 01 Purpose: Fund 01 is the General Fund for the Central County Occupational Center and Programs (CCOC/P).

Fund 01 Certification: Staff is recommending a positive certification. This means that the General Fund will meet its financial obligations for the budget and subsequent two fiscal years; will maintain at least the required 3% Reserve for Economic Uncertainty and will end the year with a positive cash balance. The projections include the Board-required 6% Reserve for Economic Uncertainty and 4% General Reserve for cash flow.

Fund 01 Budget Assumptions (see detail in the multi-year projections):

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA %:	2.41%	3.93%	3.20%
• Revenue Limit COLA \$:	\$73.45	\$120.08	\$101.99
• ADA Cap Growth %:	3.67%	2.62%	2.62%
• ADA Cap Growth (estimated)	142	105	107
• Employer STRS Contribution	8.25%	10.25%	10.25%
• Health & Welfare Increase (cap)	5.0%	5.0%	5.0%
• No increases in salary other than step, column and longevity advancement.			
• COLA increases to appropriate expenditures for 2005-06 and 2006-07			

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- General expenditures for Superintendent & Central Office support have been direct-charged to the ROC/P and Adult Education on a 65%/35% basis

Fund 01 Revenues: There is a net increase of \$62,716 in projected revenue due primarily to adjustments by the state to the ROC/P funded base revenue limit. While the state's calculations tend to fluctuate slightly during the year, we feel comfortable with the state funding projections, which assumes that the ROC/P program will attain the state allocated ADA cap.

Fund 01 Expenditures: Salary and benefits for the Lead Groundskeeper were incorrectly allocated 33% to ROCP and 67% to Adult Education. The allocation has been corrected to an 80%-20% split, thereby increasing the General Fund salaries and benefits by \$31,901. Books and Supplies accounts have been increased \$50,000 for the purchase of tools for the Tune-up and Electrical Systems class, and computers for the Medical Assisting class expansion. Other Operating Expenses has been increased \$10,000 to cover the cost of finishing construction of benches on the building corners of the CCOC campus. The source of funding for these two increases is the \$60,000 fund balance reserve that was designated by the Board for equipment purchases. Capital Outlay expenditures are increased \$100,563 for the hardware and software for the new student attendance accounting system.

Fund 01 Other Financing Sources (Uses):

Other Sources has been increased \$100,563 to reflect capital lease proceeds for the purchase of the new student attendance accounting system.

Fund 01 Fund Balance: Components of Fund Balance include a 4% General Reserve for cash flow and 6% Reserve for Economic Uncertainty. The dollar amounts for these reserves have been increased slightly to reflect the increases in expenditures. The Fund Balance also includes a \$70,000 contingency for a possible state mandated PERS reduction obligation, and a \$100,000 reserve that is designated for campus security projects. We are projecting an Undesignated Fund Balance of \$322,401.

Fund 01 Multi-Year Projections: The multi-year projections for General Fund (ROC/P) include summary and detail data for the two prior year Actuals, the budget year and two subsequent years. The multi-year projections include detailed assumptions used for each of the five years, ADA information and detailed data on both revenues and expenses to a four-digit object code level. For 2005-06 and 2006-07, the fund balance is expected to increase by \$834,022 and \$1,754,965, respectively. These increases are due to projected revenue increases from COLA and growth. However, Federal revenues are reduced \$123,000 starting in 2005-06 for the proposed elimination of Carl Perkins grant funds. There are no provisions for salary increases. However, there are provisions made for increases due to step, column and longevity, a 5% increase in district contribution to employee health and welfare benefits, an increase in the employer STRS contribution rate

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from 8.25% to 10.25% and COLA increases for impacted expenditure accounts, such as materials, supplies and other operating expenses. Teacher salaries and related benefits are increased by two teachers in 2005-06 for the planned expansion of a net two new classes at CCOC. The projections anticipate full funding of the district's match for Deferred Maintenance, transfers for Debt Service, transfers to the Capital Outlay Fund 40, a 6% reserve for Economic Uncertainty and 4% General Reserve for cash flow.

**Fund 11: Adult Education**

Fund 11 Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. Expenditures in this fund must be for Adult Education purposes only; money received for programs other than Adult Education shall not be expended for adult education.

Fund 11 Certification: Staff is recommending a positive certification. This means that the Adult Education Fund 11 will meet its financial obligations for the budget and subsequent two fiscal years; will maintain at least the required 3% Reserve for Economic Uncertainty and will end the year with a positive cash balance. The projections include the Board-required 6% Reserve for Economic Uncertainty and 4% General Reserve for cash flow.

Fund 11 Budget Assumptions (see detail in the multi-year projections):

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA %:	2.41%	3.93%	3.20%
• Revenue Limit COLA \$:	\$5.18	\$90.00	\$76.00
• Equalization \$:	\$44.96	\$0	\$0
• ADA Cap Growth %:	2.50%	2.50%	2.50%
• ADA Cap Growth:	77.90	79.84	81.84
• Employer STRS Contribution	8.25%	10.25%	10.25%
• Health & Welfare Increase (cap)	5.0%	5.0%	5.0%
• No increases in salary other than step, column and longevity advancement			
• COLA applied to appropriate expenditures for 2005-06 and 2006-07			
• Expenditures for Superintendent and Central Office support have been direct charged to the ROC/P and Adult Education on a 65%/35% basis			

Fund 11 Revenues: The largest adjustments include a \$50,000 reduction in Personalized Prep (credentialing) revenue, which was over-budgeted. This reduction was partially off-set by \$39,404 in new revenue from new Cal Works apportionment from the state.

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Fund 11 Expenditures: Salary and benefits for the Lead Groundskeeper were incorrectly allocated 33% to ROCP and 67% to Adult Education. The allocation has been corrected to an 80%-20% split, thereby decreasing Adult Education salary and benefit expenses by \$31,901. Capital Outlay expenditures are increased \$81,128 for the Adult Ed fund's share of the hardware and software for the new student attendance accounting system.

Fund 11 Other Financing Sources (Uses): An additional \$165,000 is transferred from the Adult Education Fund to the Capital Outlay Fund 40 for modernization and facilities projects in both the Campbell and San Jose adult programs. This brings the total transfers to Fund 40 for facilities purposes to \$500,000 for current fiscal year. Other Financing Sources includes \$81,128, which is the Adult Education Fund's share of capital lease proceeds to purchase the new student attendance system.

Fund 11 Fund Balance: Components of Fund Balance include a 4% General Reserve for cash flow and 6% Reserve for Economic Uncertainty. The dollar amounts of these reserves have been increased slightly to reflect the increases in expenditures. The Fund Balance also includes new reserves of \$61,000 as a contingency for a possible state mandated PERS reduction obligation, and \$100,000 reserve to offset the impact of an estimated \$250,000 (63%) cut in Adult Basic Education (ABE) Funding in 2006-07. We are projecting an Undesignated Fund Balance of \$307,148. The Adult Education Fund deficit spending that was reflected in the First Interim Report has now been off-set by federal grant funding received in December.

Fund 11 Multi-Year Projections: The multi-year projections for Adult Education include summary and detail for prior year Actuals, the budget year and two subsequent years. The multi-year projections include detailed assumptions used for each of the five years, ADA information and detailed data on both revenues and expenses to a four-digit object code level. For 2005-06 and 2006-07, the fund balance is expected to increase by \$981,364 and \$1,901,976 respectively. These increases are due to revenue increases for COLA and growth. There is no provision made for salary increases. However, there are provisions for increases due to step, column and longevity, a 5% increase in district contribution to employee health and welfare benefits, an increase in the employer STRS contribution rate from 8.25% to 10.25% and COLA increases for impacted expenditure accounts such as materials, supplies and other operating expenses. The projections anticipate spend-out of the Bridge and Literature and Civics Supplemental grants in 2004-05 and 2005-06, elimination of \$36,000 of Federal Carl Perkins grant funding in 2005-06 and a \$250,000 (63%) reduction in federal Adult Basic Education funding in 2006-07. These proposed cuts in federal grant revenue are off-set with expense reductions, primarily in hourly wages and benefits. The Adult Education fund balances includes a 6% reserve for Economic Uncertainty, 4% General Reserve for cash flow, \$61,000 reserve for potential PERS reduction liability to the state and \$100,000 for contingency for federal grant reductions, which is released for the 2006-07 fiscal year.

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**Fund 14: Deferred Maintenance**

Fund 14 Purpose: The Deferred Maintenance Fund is used to account separately for state apportionments and the district's contribution for deferred maintenance purposes. Principal revenues for this fund are the state Deferred Maintenance apportionment, interest earnings and district interfund transfers for the district's match. Expenditures in this fund are intended for major repairs or replacements under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC).

Fund 14 Certification: Staff is recommending a positive certification. This means that the Deferred Maintenance Fund 14 will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

Fund 14 Revenues: Fund 14 revenues anticipate 100% state match funding and critical hardship funding from the state in the amount of \$274,797 for the replacement of eight transformers on the CCOC site. The critical hardship application has not yet been approved by the Office of Public Construction (OPSC).

Fund 14 Expenditures: The project to replace 6-7 transformers is expected to cost \$439,000, which will leave this fund with a fund balance of \$432,662. Since we do not yet have state approval of the critical hardship grant, we are not budgeting expenditures for any other projects at this time. This will be amended once we are assured of receiving the state hardship funds.

**Fund 21: Building Fund-Asset Management**

Fund 21 Purpose: This is otherwise known as the CCOC Asset Management Fund. This fund exists primarily to account separately for proceeds from the rentals and leases of real property specifically authorized for deposit into the fund by the Governing Board. Revenues include lease payments from the Capital Auto Mall LLP and interest earnings. Expenditures are allowed only for new programs, upgrading of existing programs and necessary facility upgrades as approved by the Governing Board.

Fund 21 Certification: Staff is recommending a positive certification. This means that the Asset Management fund will be able to meet its financial obligations for the budget and subsequent two fiscal years, and will end the year with a positive cash balance.

Fund 21 Revenues: Projected revenues are budgeted at \$277,672 which includes rent from the Capitol Auto Mall LLP and interest on the fund balance.

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Fund 21 Expenditures: For the last few years, expenditures from the Asset Management Fund have been limited in order to provide secondary backup to the loss of revenue from additional state budget cuts. However, with expected improvement in the state economy and balancing of the state budget, the board has approved a 5-year expenditure plan that will start to address the many equipment and classroom reconfiguration needs at CCOC. For 2004-05, the planned expenditures total \$492,000. Unspent funds from this budget will revert back to the fund balance at the end of each year. At all times, the fund must maintain a minimum of \$250,000 reserve, per board policy.

**Fund 40: Special Reserve Fund for Capital Outlay Projects**

Fund 40 Purpose: This Capital Outlay Fund exists primarily to provide for the accumulation of monies for capital outlay purposes. The only source of revenue for this fund comes from one-time revenues transferred from the ROC/P and Adult Education Funds. Monies in this fund are kept separate in their own Resource codes. Amounts are appropriated for expenditures as projects are planned and executed.

Fund 40 Certification: Staff is recommending a positive certification. This means that the Capital Outlay Fund will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

Fund 40 Revenues: The facilities on the CCOC campus are showing considerable wear as they near 40 years in age, and there is need for upgraded Adult Education facilities in both San Jose and Campbell.

MetroED's funding options for facilities construction and modernization are severely limited. As a joint powers authority, MetroED does not qualify for state building and modernization funds. Moreover, the likelihood of passing a bond or parcel tax within the areas of MetroED's six participating districts is remote. Consequently, MetroED must generate its own funds for facilities upgrades internally. For 2004-05, the General Fund is projected to contribute \$200,000, which is all its estimated excess local property taxes. Adult Education is projected to contribute \$500,000 to the Capital Outlay Fund.

Fund 40 Expenditures: There are no expenditures planned from the Capital Outlay Fund at this time.

Fund 40 Other Financing Sources/Uses: Other Financing Sources for the Adult Education programs is increased \$165,000, for a total projected transfer of \$500,000 for the current fiscal year.

State Legislation for Modernization: The MetroED administration continues to work with its legislative advocates, School Services of California, and its local legislators to qualify MetroED for state modernization funds.