

**Metropolitan Education District**  
***Proposed Budget, Fiscal Year 2005-06***  
**June 8, 2005**

## **Executive Summary**

### **The Governor's Proposed Budget**

The Governor's January budget proposal for 2005-06 was a disappointment for the education industry. The Governor failed to restore \$2 billion in Proposition 98 education funding he took in 2004-05 to help balance the state budget. In addition, K-14 education was denied an additional \$1.1 billion for 2004-05, which is due under Prop 98 as its share of increased state revenues. The impact of the revenue loss was further compounded by a proposed shift to education of \$469 million in state STRS costs, which is about 2% of certificated payroll. On the plus side, the Governor's May Revise included a revenue limit COLA of 4.23%, plus growth, for both Vocational and Adult Education, and full funding for Deferred Maintenance. Since the best information we have regarding next year's education funding comes from the Governor's May Revise, we have built our budget on his proposals, along with projections provided by School Services of California in their "Financial Projections Dartboard".

### **The Proposed 2% STRS Shift:**

The Governor's proposal to shift \$469 million of state-paid STRS costs to districts would significantly impact MetroED budgets over the next three years, and beyond. For example, cost to the General Fund would be \$238,567 for three years, and \$198,798 for the Adult Education Fund. In other terms, this equates to slightly more than a 1% salary increase for all district employees. The STRS proposal has generated considerable opposition from the education industry, and the state legislature. The Governor cannot unilaterally implement the STRS shift. He must have approval of the state legislature. Fortunately, both the Senate and Assembly Education Budget Subcommittees have rejected the idea. However, if the Governor does not get his way on the STRS shift, he may find another way to shift the nearly ½ billion dollars to education. Consequently, both the Santa Clara County Office of Education and School Services of California have advised that the projected costs be included in district budgets.

### **A Late Budget and Possible Cash Flow Problems:**

Adoption of a state budget for 2005-06 is linked to the Governor's threat to call a special election for his reform proposals. On many issues, including his proposal to weaken Proposition 98, the Governor and state legislature are polarized. These political conflicts have the potential of causing a serious delay in adoption of a state budget. Unlike K-12 districts, which receive revenue limit advance apportionments regardless of state budget status, ROC/P and Adult Education only receive advance apportionments when the budget is adopted. This can cause a serious cash flow problem for MetroED. For that reason, the MetroED Governing Board has required collective reserves of 10% (4% General Reserve and 6% Reserve for Economic Uncertainty). However, should the budget be delayed beyond August, the District will have to make temporary transfers (loans) of funds from its Capital Outlay, Asset Management and Deferred Maintenance Funds.

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**Purpose of the Budget**

The purpose of the budget is to express the educational program of the District in dollars. It is a tool to maximize the use of limited resources while implementing the District's goals and objectives.

There are three District goals for 2005-06:

1. Improve student learning through the application of research-based teaching practices, accountability data and measurement of student achievement,
2. Improve the visibility and image of MetroED programs and services, and
3. Improve the quality and professionalism of the MetroED work environment.

Specific district objectives, and related activities, for meeting these goals are detailed in a separate presentation to the Governing Board. A summary of the objectives includes the following:

- Maximize utilization of district facilities
- Increase academics in course curriculum
- Increase community college articulation agreements
- Improve student attendance at CCOC
- Expand staff development programs
- Improve partnerships with business and community organizations
- Improve partnerships with participating districts
- Increase promotional activities
- Strengthen Central Office processes to better support instructional programs
- Develop and implement clear workplace expectations
- Improve facilities to enhance quality of work and learning environments.

This proposed budget includes expenditures to support the District's achieving these goals and objectives.

**Budget Presentation**

The presentation of the proposed budget is similar to that of the district's Interim Reports. We have provided a "Budget at a Glance" that summarizes the proposed budgets for all the district's funds. The Capital Outlay Fund 400 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. Pages are numbered based on their section and page number within that section.

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For the General Fund 010 and Adult Education Fund 110, we have also provided detailed multi-year projections, with all budget assumptions and calculations for the 2003-04 Unaudited Actuals, 2004-05 Estimated Actuals, the 2005-06 budget year and two subsequent years. The last section in the budget document includes a Glossary of Terms.

The MetroED Budget Advisory Committee (BAC) reviewed the proposed budget in detail on May 13, 2004, and has unanimously recommended approval as presented.

**Fund 010: General Fund (Section V)**

Fund 010 Purpose: Fund 010 is the General Fund for the Regional Occupational Center and Programs (ROC/P).

Fund 010 Certification: Staff is recommending a positive certification. This means that the General Fund 010 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 a 4% General Reserve and 6% Reserve for Economic Uncertainty, as required by Governing Board policy.

Fund 010 Budget Assumptions:

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
• Revenue Limit COLA:	4.23%	3.80%	3.10%
• ADA Cap Growth %:	2.62%	2.62%	2.62%
• ADA Cap Growth	105	108	110
• No increases in salary other than step, column and longevity advancement.			
• Transfer of the state 2% STRS contribution to district (increases employer STRS contribution from 8.25% to 10.25%)			
• Decrease in employer PERS contributions from 9.952% to 9.116%			
• Decrease in employer SUI contributions from .65% to .45%			
• 5% increase in employer paid health & welfare costs, each year. The maximum allowed per bargaining unit agreements is 5% or state COLA, whichever is greater.			
• Statutory COLA increases to appropriate expenditure accounts			
• Expenditures for Superintendent and Central Office support have been direct charged to the General and Adult Education Funds on a 65%-35% basis			

Fund 010 Revenues: For the budget year, there is an increase to the ROC/P revenue limit funding from COLA and growth in the amount of \$844,087. However this is offset by reductions from the Estimated Actuals in the amount of \$784,017 from one-time excess property taxes and prior year adjustments that are not carried forward to the budget year. The Governor's budget does not include funds for reimbursement to districts for mandated costs. Mandated cost

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reimbursements that are legally owed to school districts are projected to be repaid over a 15-year period. When those repayments will start is unknown, so they are not included in the budget. The revenue loss to MetroED is about \$30,000 per year.

Federal revenues are also negatively impacted by the projected elimination of \$123,000 in Carl Perkins grant funding. The President's proposed budget called for the elimination of Carl Perkins grants. On the plus side, Congress has indicated its intent to restore the Carl Perkins funds. If restored, the budget will be amended to include this funding.

Another, more serious, revenue loss to the district is the excess property tax. As part of the budget negotiations following Governor Schwarzenegger's election, the state shifted property tax revenues from schools to local government in order to back-fill the local government loss of vehicle license fee revenues. Although this shift in property taxes was part of a much larger local government finance reform effort, it has the potential to have serious negative consequences for the next several years by effectively eliminating any some or all of the excess property taxes. While considered "one-time" funds, excess property taxes have amounted to approximately \$500,000 per year, and have been designated for transfer to the CCOC Capital Outlay Fund for accumulation as district match for modernizing CCOC facilities.

Fund 010 Expenditures: The Central County Occupational Center will have a net increase of two classes for 2005-06. Four new classes will be added: Forensic Investigation, Video Production, Computer Technology Careers and Legal Careers. Two classes will be dropped: Network Administration and Computer Maintenance. The budget includes \$119,093 in wages and benefits for the net increase of two CCOC teachers. The budget also includes the addition of one permanent groundskeeper position. This will replace two temporary groundskeepers, for a net budget increase of \$20,307. Also included is the 2004-05 2.41% employee salary increase, \$78,309 for a new student counselor position, 5% increase in the district contribution to employee health and welfare benefits, \$75,980 for transfer of the 2% state STRS costs, COLA for applicable expense accounts, \$20,000 increase in staff development budgets and \$48,000 increase in advertising and printing budgets.

Budget savings of \$62,176 have been realized from reduction of two positions in 2004-05 in the Fiscal Services Department due to transfer of financial system support to the County Office of Education. \$62,000 in additional on-going savings per year (over 2003-04) is realized from the transfer of the attendance system from RCAP to Schoolhouse Software.

The budget also reflects year two of the ROP funding equalization model approved by the MetroED and participating district Governing Boards at the end of 2003-04.

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Fund 010 Other Financing Sources (Uses): Due to the projected loss of Excess Property Tax revenue, the corresponding \$510,136 transfer out to the Capital Outlay Fund has been eliminated. Since this transfer has been the primary funding source for accumulation of funds for modernization of the CCOC facilities, the District must now evaluate options for alternate funding sources.

See the *Summary of Budget Adjustments from Estimated Actuals* for specific details on costs and savings (page III-8).

Fund 010 Fund Balance: For the 2004-05 estimated year, ROC/P operations are expected to generate a small decrease in the fund balance of \$2,727. For the budget year, fund balance is expected to increase \$85,616. The General Reserve is maintained at the Board required 4% and the Designation for Economic Uncertainty is maintained at 6%. \$150,000 is reserved for future security projects on the Hillsdale campus.

A separate reserve has been established for a potential liability to the state for PERS Reduction costs. In 2003-04, the California Department of Finance determined that JPAs were responsible for these costs. The California Department of Education has taken the position that ROC/P JPAs are not responsible for these costs. Until this matter is resolved, the District is reserving and accumulating the District's estimated liability for 2003-04 and each year thereafter.

Fund 010 Multi-Year Projections (Section VI): The multi-year projections for the General Fund include summary and detail data for the prior year Unaudited Actuals (2003-04), Estimated Actuals for the current year (2004-05), the budget year (2005-06) and two subsequent years. Page VI-1 is the multi-year summary. Pages VI-2 through VI-14 include the assumptions used for each of the five years. For 2006-07 and 2007-08, the fund balance is expected to increase by \$565,062 and \$1,171,822 respectively. These increases are due to projected revenue increases from COLA and growth, and there is no provision for salary increases. There are, however, provisions made for increases in step, column and longevity, a 5% increase in district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts, such as materials, supplies and other operating expenses. The projections anticipate full funding of the district's match for Deferred Maintenance, transfers for Debt Service, and include a 4% General Reserve and 6% Reserve for Economic Uncertainty.

Any funds not otherwise designated in the projected years are shown as Undesignated Fund Balance and are available for use or designation by the Board.

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**Fund 110: Adult Education (Section VII)**

Fund 110 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 110 Certification: Staff is recommending a positive certification. This means that the Adult Education Fund 110 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 a 4% General Reserve and 6% Reserve for Economic Uncertainty, as required by Governing Board policy.

Fund 110 Budget Assumptions:

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
• Revenue Limit COLA:	4.23%	3.80%	3.10%
• ADA Cap Growth %:	2.50%	2.50%	2.50%
• ADA Cap Growth:	79.84	81.84	83.89
• No increases in salary other than step, column and longevity advancement			
• Transfer of the state 2% STRS contribution to district (increases employer STRS contribution from 8.25% to 10.25%)			
• Decrease in employer PERS contribution from 9.952% to 9.116%			
• Decrease in employer SUI contributions from .65% to .45%			
• 5% increase in employer paid health & welfare costs. The maximum allowed per bargaining unit agreements is 5% or state COLA, whichever is greater			
• Statutory COLA applied to appropriate expenditures for 2006-07 and 2007-08			
• Expenditures for Superintendent and Central Office support have been direct charged to the General and Adult Education Funds on a 65%-35% basis			

Fund 110 Revenues: For the budget year, revenue adjustments show a modest increase of \$256,915 over the Estimated Actuals. State COLA and growth in mandated Adult Education funding increased \$604,954. However, much of this was off-set by projected reductions in federal grant funding. For example, the federal EI Civics grant is expected to decline \$310,993 from the estimated year, and a \$191,300 supplemental EI Civics grant is not carried over from 2004-05.

Fund 110 Expenditures: Wages and benefits are adjusted to provide for employee step, column and longevity increases, and a 5% increase in the district's contribution to the employee health and welfare costs. \$89,592 is added for one additional Assistant Principal and \$66,958 for a Certificated Program Lead to be funded from the CalWorks program.

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Other adjustments include COLA for applicable expense accounts, one garden coordinator for the Erikson Adult Center community garden, funding for an additional .5 Fte custodian for Erikson, transfer of the state 2% STRS costs to the district and continued funding for the 2004-05 2.41% employee salary increase. In order to offset the loss of federal grant funding, there have been corresponding reductions of \$132,842 and \$149,254 in Materials & Supplies and Non-Capitalized Equipment accounts.

Fund 110 Other Financing Sources (Uses): During previous years, federal grants have allowed the Adult Education to transfer substantial year end funds to the Capital Outlay fund for accumulation of monies for facilities needs in the Campbell and San Jose Adult programs. Due to the loss of federal grant funds, there are no transfers scheduled in the budget year. Should the federal grants be restored, year end transfers may be reinstated.

See the *Summary of Budget Adjustments from Estimated Actuals* for specific details on costs and savings (see page III-9)

Fund 110 Fund Balance: For the 2004-05 Estimated Actuals, we expect a \$410,716 decrease in the fund balance. This is due to a transfer of \$500,000 to the Capital Outlay Fund. For the budget year, the fund balance is expected to increase a \$213,292. The General Reserve is maintained at 4% and the Designation for Economic Uncertainty is maintained at 6%, as required by Board policy.

A separate reserve has been established for a potential liability to the state for PERS Reduction costs. In 2003-04, the California Department of Finance determined that JPAs were responsible for these costs. The California Department of Education has taken the position that ROC/P JPAs are not responsible for these costs. Until this matter is resolved, the District is reserving and accumulating the District's estimated liability for 2003-04 and each year thereafter.

Fund 110 Multi-Year Projections (Section VIII): The multi-year projections for Adult Education include summary and detail for prior year Unaudited Actuals (2003-04), Estimated Actuals for current year (2004-05), the budget year (2005-06) and two subsequent years. Page VIII-1 is the summary. Pages VIII-2 through VIII-11 include the assumptions used for each of the five years. For 2006-07 and 2007-08, the fund balance is expected to increase by \$158,876 and \$433,433 respectively. These increases are due to revenue increases for COLA and growth, and there is no provision made for salary increases. There are, however, provisions made for increases in step, column and longevity, a 5% increase in district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts such as materials, supplies and other operating expenses. The projections include a 4% General Reserve and 6% Reserve for Economic Uncertainty.

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**Fund 140: Deferred Maintenance (Section IX)**

Fund 140 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 requirement. 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 140 Certification: Staff is recommending a positive certification. This means that the Deferred Maintenance Fund 140 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 140 Revenues: One of the good news items in the Governor's May Revise is full funding for deferred maintenance state match. We have estimated that amount to be \$164,203, which will be matched by MetroED. We are also projecting deferred maintenance hardship funding from the state in the amount of \$191,262 for the replacement of seven transformers on the CCOC site.

Fund 140 Expenditures: The project to replace seven transformers is expected to cost \$514,508. In addition the District is planning deferred maintenance projects on the Hillsdale campus totaling \$400,000. The staff at the Office of Public School Construction (OPSC) has recommended approval of the transformer hardship project to the State Allocation Board (SAB), and we are expecting ultimate approval and funding.

**Fund 210: Building Fund-Asset Management (Section X)**

Fund 210 Purpose: This is 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 210 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 210 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 210 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 state budget cuts. However, for the 2004-05 budget, the Governing Board approved of a 5-year expenditure plan to start addressing the many equipment and classroom reconfiguration needs at CCOC. For 2005-06, the planned expenditures are detailed on the “*Asset Management Fund; 5-Year Expenditure Plan*” which is included in the fund 210 section of this budget (page X-1). 2005-06 expenditures include \$90,000 carryover from 2004-05 that was unspent for the reconfiguration of the welding class. At all times, the fund will retain a minimum of \$250,000 reserve.

**Fund 400: Special Reserve Fund for Capital Outlay Projects (Section XI)**

Fund 400 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 400 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 400 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 building 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 capital outlay internally, or through other means. For 2004-05, district contributions to this fund are estimated to be \$681,136 from ROC/P and \$500,000 from Adult Education. For the budget and two subsequent years, there are no transfers from either ROC/P or Adult Education, except debt service transfers in the ROC/P fund. The ROC/P contribution is anticipated to be funded by Excess Property Taxes received each year. These funds are considered “one-time” and can vary from year to year. Since there is no projected excess property tax revenue for the budget and subsequent years, there is also no General Fund transfer to Capital Outlay.

Fund 400 Expenditures: There are no expenditures planned from the Capital Outlay Fund at this time. MetroED administration is currently in discussions with the Campbell Union High School District regarding replacement of the administration building at the Campbell Adult Education Del Mar (DX) site.

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MetroED staff will recommend budget adjustments when the funding model for this project is determined.

State Legislation for Modernization: MetroED is sponsoring legislation (AB 956, Coto, *School Facilities: Regional Occupational Centers*) that would allow MetroED to qualify for state school facilities funds on a matching basis. This is the third year for this legislation. Last year's bill (AB 2035, Nakano) passed both houses of the legislature with only a single "nay" vote, but was vetoed by Governor Schwarzenegger.

Budget Advisory Committee Recommendation: At its meeting on May 24, 2005, the Budget Advisory Committee expressed serious concern regarding the limited funding resources for modernizing aging facilities on the CCOC campus. The Excess Property Tax revenue source is drying up, and it doesn't look good for state modernization legislation. The Committee recommended that MetroED and its participating districts start discussions about how the Joint Powers Agency and its partners, can address the CCOC facilities needs.