

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Executive Summary

Current Considerations

State Budget Outlook – Short Term

On 11/16/05 the Legislative Analyst's Office (LAO) released "*California's Fiscal Outlook: LAO Projections, 2005-06 Through 2010-11.*" The LAO concludes that the budget news has improved, for the short term. According to the projections, "The budget outlook for 2006-07 and beyond has improved considerably over the past year." The budget outlook "...has benefited from both a major increase in revenues and a significant amount of savings adopted in the 2005-06 spending plan. As a result of these developments, our current forecast indicates that:

- "The current year will end with a reserve of about \$5.2 billion, up by nearly \$4 billion from the *2005-06 Budget Act* estimate.
- "This large carryover reserve will be more than sufficient to keep the state's budget in balance in 2006-07 without any new program reductions or added revenues-even though current-law projected expenditures exceed projected revenues by \$4 billion during that year."

State Budget Outlook – Long Term

For the long term, according to the LAO, "...the state still faces major challenges in achieving an ongoing balance between revenues and expenditures and getting its fiscal house in order. Even assuming continued steady economic growth, we project that multibillion dollar operating deficits...will persist throughout most of the forecast period. Eliminating these shortfalls will require significant action."

Proposition 98 Funding

The LAO estimates assume that Proposition 98 is funded at the minimum guarantee in 2006-07 and in all subsequent years. Additional good news is that the LAO projects the K-12 statutory COLA for 2006-07 to be 5.2%. However, in order to fully fund both the COLA and growth, the legislature would have to appropriate \$731 million above the Proposition 98 minimum funding guarantee. For purposes of our multi-year projections, we are sticking to the 4.4% COLA recommended by School Services of California, for three reasons:

- The 5.2% jump in the statutory COLA is due primarily to the spike in energy prices, which have declined substantially in recent weeks. Since the index used for the COLA reflects changes for the 12-month period ending March 31, 2006, there is plenty of time for the index to change.
- The state legislature may choose not to appropriate funding in excess of the Proposition 98 minimum guarantee. The final COLA number will be released with the Governor's May Revise.
- Since ROC/P and Adult Education funding is discretionary, their funding is not tied to the same statutory COLA and growth percentages provided the rest of K-12 education. This compels us to use caution in our projections.

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Reserves for Cash Flow

Unlike K-12 education, ROC/P and Adult Education programs do not receive state advance apportionment funding until the state budget is signed into law. In recent years, adoption of the state budget has been delayed for as much as 60 days, causing the district to rely on temporary reserves to cover vendor payments and employee payrolls. During 2004-05, the Governing Board established policy to make these reserves permanent, to provide sufficient cash for vendor payments and employee wages for a 60-day period. Two reserves are combined to provide an overall 10% reserve; a 4% General Reserve and a 6% Reserve for Economic Uncertainty.

In order to address the underlying cash flow problem, the district is discussing legislative strategies with our state lobbyist (School Services of California) that would allow MetroED to received advance apportionments concurrent with the rest of K-12 education.

Employee Salaries and Benefits

The 2005-06 budget, and two projected years include step, column and longevity salary and statutory benefit increases for district employees, plus a 5% increase in the district-paid health and welfare benefits. The district is currently in negotiations with its three bargaining units for 2005-06.

1st Interim Budget Adjustments

Budget transfers and adjustments for the current year are approved by the Governing Board on a monthly basis. Consequently, there are few adjustments presented in the 1st Interim Report that have not already been approved.

Multi-Year Projection (MYP) Assumptions

For the General Fund 010 and Adult Education Fund 110, we have provided detailed multi-year projections, with all budget assumptions and calculations. Budget assumptions for the two projected years are based on School Services of California (SSC) "Dartboard" projections, historic spending patterns, COLA for applicable expenditure accounts, increases in salary accounts for step, column and longevity adjustments, health and welfare increases and district goals. Revenues and expenses are summarized at a four-digit object code level. Comparative data is provided for the following five year period:

- 2003-04 Unaudited Actuals
- 2004-05 Unaudited Actuals
- 2005-06 Budget, 1st Interim Report
- 2006-07 Projected
- 2007-08 Projected

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Budget Presentation

Presentation of the First Interim Report includes “Budget at a Glance” that summarizes the proposed budgets for all the district’s funds and “Monthly Budget Adjustments” showing all changes from the last budget update approved by the Board. The Capital Outlay Fund 400 has been divided to separately show the resources available for the Central County Occupational Center (CCOC) and the Education Programs for San Jose and Campbell. Required state forms are provided in the sections identified in the Table of Contents.

Fund 010: General Fund (CCOC/P)

Fund 010 Purpose: Fund 010 is the General Fund for the Central County Occupational Center and Programs (CCOC/P).

Fund 010 Certification: The administration is recommending a positive certification. This means that the General Fund will meet its financial obligations for the budget and two subsequent fiscal years; will maintain at least the required 5% Reserve for Economic Uncertainty and will end the year with a positive cash balance. The projections include a 6% Reserve for Economic Uncertainty and 4% General Reserve, 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%	4.40%	3.20%
• Total ROC/P Revenue Limit	\$3,168.58	\$3,276.59	\$3,383.44
• ADA Cap Growth %:	2.62%	2.62%	2.62%
• ADA Cap Growth	105	108	111
• Total Projected ADA Cap	4,112	4,220	4,331
• Reserve-Economic Uncertainty	6.0%	6.0%	6.0%
• General Reserve-Cash Flow	4.0%	4.0%	4.0%
• Employer-paid benefits increase	5.0%	5.0%	5.0%
• Employer-paid benefits max	\$9,572	\$10,050	\$10,553
• No increases in salary other than step, column and longevity advancement.			
• Increase in Workers Compensation rates from 2.411% to 2.539%			
• COLA increases to appropriate expenditures for 2006-07 and 2007-08			
• General expenditures for Superintendent and Central Office support have been direct-charged to the General (ROC/P) and Adult Education Funds on a 65%/35% basis			

Fund 010 Revenues: There are no revenue adjustments from the 10/31/05 Board-approved budget update.

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Fund 010 Expenditures: See *Monthly Budget Adjustments-1st Interim Report* for detail of changes. Expenditures are increased \$17,988 for reclassification of the Assistant Principal and Dean positions at CCOC. These reclassifications were approved at the 11/9/05 Governing Board meeting with an effective date of 1/1/06.

Fund 010 Other Financing Sources/Uses: There are no changes in this category from the 10/31/05 Board-approved budget update.

Fund 010 Fund Balance: See *Monthly Budget Adjustments-1st Interim Report* for detail of changes. There is a slight increase of \$1,951 in fund balance reserves since the 10/31/05 Board-approved budget update.

Fund 010 Multi-Year Projections: The following chart summarizes the high points of operations for the 1st Interim Budget and two projected years:

GENERAL FUND - OPERATIONS	2005-2006	2006-2007	2007-2008
Total Revenues	\$14,945,852	\$15,743,957	\$16,572,683
Total Expenditures	\$14,498,934	\$14,835,970	\$15,194,971
Net Revenues/Expenses	\$ 446,918	\$ 907,987	\$ 1,377,712
Other Sources (Uses)	(\$ 324,265)	(\$ 288,107)	(\$ 616,251)
<i>Change to Fund Balance</i>	\$ 122,653	\$ 619,880	\$ 761,461

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 1st Interim Budget and two projected years:

GENERAL FUND – FUND BALANCE	2005-2006	2006-2007	2007-2008
Reserved & Designated:			
Revolving Fund, Prepaid	\$ 20,000	\$ 20,000	\$ 20,000
General Reserve (4%)	\$ 593,362	\$ 605,383	\$ 632,879
Economic Uncertainty (6%)	\$ 890,043	\$ 908,074	\$ 949,318
Campus Security Projects	\$ 120,000	\$ 0	\$ 0
PERS Reduction Liability	\$ 226,664	\$ 326,463	\$ 427,909
Total Reserves	\$ 1,850,069	\$ 1,859,920	\$ 1,980,106
Undesignated Fund Balance	\$ 217,232	\$ 827,261	\$ 1,418,536
<i>Total Fund Balance</i>	\$ 2,067,301	\$ 2,687,181	\$ 3,448,642

Increases to the fund balances are due primarily to anticipated revenue increases from COLA and growth. There are no provisions for salary increases for COLA. However, provision is made for salary increases due to step, column and longevity advancement, a 5% increase in district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts, such as materials and other operating expenses. The projections

Metropolitan Education District
First Interim Financial Report
December 14, 2005

anticipate full funding of the district's match for Deferred Maintenance. The final transfer to the Capital Outlay Fund 400 for debt service will be made in 2006-07, with no other transfers for capital outlay purposes in that year. In 2007-08, transfer to the Capital Outlay Fund for capital outlay is reinstated with an anticipated \$500,000 transfer. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow and the PERS Reduction Liability.

Fund 110: Adult Education

Fund 110 Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. MetroED administers the Adult Education programs for San Jose Unified School District and Campbell Union High School District under a Master Business Relationship Agreement.

Fund 110 Certification: The administration is recommending a positive certification. This means that the Adult Education Fund 110 will meet its financial obligations for the budget and two subsequent fiscal years; will maintain a 6% Reserve for Economic Uncertainty and 4% General Reserve as required by Governing Board policy; and will end the year with a positive cash balance.

Fund 110 Budget Assumptions:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA	4.23%	4.40%	3.20%
• Total Adult Ed Revenue Limit	\$2,389.26	\$2,494.26	\$2,574.26
• ADA Cap Growth %	2.50%	2.50%	2.50%
• ADA Growth-San Jose USD	53.43	54.76	56.13
• ADA Growth-Campbell UHSD	<u>26.36</u>	<u>27.02</u>	<u>27.70</u>
Total ADA Growth	79.79	81.78	83.83
• Total ADA Cap-San Jose USD	2,190.50	2,245.26	2,301.39
• Total ADA Cap-Campbell UHSD	<u>1,080.50</u>	<u>1,107.87</u>	<u>1,135.57</u>
Total ADA Cap (rounded)	3,271.00	3,353.00	3,437.00
• Reserve-Economic Uncertainty	6.0%	6.0%	6.0%
• General Reserve-Cash Flow	4.0%	4.0%	4.0%
• Employer-paid benefits increase	5.0%	5.0%	5.0%
• Employer-paid benefits max	\$9,572	\$10,050	\$10,553
• No increases in salary other than step, column and longevity advancement			
• Increase in Workers Compensation rates from 2.411% to 2.539%			
• COLA applied to appropriate expenditures for 2006-07 and 2007-08			
• Expenditures for Superintendent and Central Office support have been direct charged to the ROC/P and Adult Education on a 65%/35% basis			

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Fund 110 Revenues: There are no adjustments to Adult Education Fund revenues from the October 31, 2005 Board-approved budget.

Fund 110 Expenditures: See *Monthly Budget Adjustments-1st Interim Report* for changes from the last board-approved budget update. Expenditures are increased \$10,365 for reclassification of the Adult Education Assistant Principal positions. These reclassifications were approved at the 11/9/05 Governing Board meeting, with an effective date of 1/1/06.

Fund 110 Other Financing Sources/Uses: There are no changes in this category from the 10/31/05 Board-approved budget update.

Fund 110 Fund Balance: See *Monthly Budget Adjustments-1st Interim Report* for detail of changes. There is a slight increase of \$2,641 in the fund balance reserves since the 10/31/05 budget update.

Fund 110 Multi-Year Projections: The following chart summarizes the high points of operations for the 1st Interim Budget and two projected years:

ADULT ED FUND - OPERATIONS	2005-2006	2006-2007	2007-2008
Total Revenues	\$ 10,293,370	\$ 10,174,139	\$ 10,691,325
Total Expenditures	\$ 10,043,399	\$ 9,878,228	\$ 10,070,987
Net Revenues/Expenses	\$ 249,971	\$ 295,911	\$ 620,338
Other Sources (Uses)	(\$ 0)	(\$ 0)	(\$ 0)
<i>Change to Fund Balance</i>	\$ 249,971	\$ 295,911	\$ 620,338

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 1st Interim Budget and two projected years:

ADULT ED FUND – FUND BALANCE	2005-2006	2006-2007	2007-2008
Reserved & Designated:			
General Reserve (4%)	\$ 401,736	\$ 395,129	\$ 402,839
Economic Uncertainty (6%)	\$ 602,604	\$ 592,694	\$ 604,259
PERS Reduction Liability	\$ 201,370	\$ 313,310	\$ 425,958
Total Reserves	\$ 1,205,710	\$ 1,301,133	\$ 1,433,506
Undesignated Fund Balance	\$ 221,565	\$ 422,053	\$ 910,468
Total Fund Balance	\$ 1,427,275	\$ 1,723,186	\$ 2,343,524

Increases to the fund balance are due to revenue increases for COLA and growth. There is no provision made for salary increases. However, the projections include salary increases for step, column and longevity advancement, a 5% increase in district contribution to employee health and welfare benefits and

Metropolitan Education District
First Interim Financial Report
December 14, 2005

COLA increases for impacted expenditure accounts such as supplies and other operating expenses. For 2006-07, the projections anticipate a \$387,201 reduction in "Other Fees and Contracts" due to non-renewal of the County Bridge project grant, and a \$250,000 reduction in the Federal ESL grant. These revenue reductions result in corresponding expense reductions in subsequent years. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow and the PERS Reduction Liability.

Grant Funding

The capacity of the Adult Education program to generate a positive contribution to its fund balance is greatly dependent upon federal, state and local grants. The actual dollar amounts of Federal grants are not usually known until December of the current budget year. As a result, federal grants are budgeted conservatively. MetroED Adult programs have been highly successful in obtaining grant funding over the years. However, continued funding is dependent on Federal and State budget priorities. Consequently, grant funds should be considered "soft money" in term of commitments to long term expenditures.

Fund 140: Deferred Maintenance

Fund 140 Purpose: The Deferred Maintenance Fund is used to account separately for state apportionments and the district's contribution for deferred maintenance purposes. Primary 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 140 Certification: The administration 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: Fund 140 revenues anticipate full state funding of \$127,226 for 2005-06, plus critical hardship funding in the amount of \$191,262 for the replacement of seven transformers on the CCOC site. The critical hardship application has been approved by the State Allocation Board (SAB) as an "unfunded" project. Funding for the hardship application will be considered by the SAB in December. The budget anticipates Interest revenue of \$16,000.

Fund 140 Expenditures: The hardship project to replace seven CCOC transformers is expected to cost \$514,508. An additional \$400,000 is budgeted in 2005-06 for other projects. The following chart details the planned expenditures, by type of project, for the current and subsequent two fiscal years:

Metropolitan Education District
First Interim Financial Report
December 14, 2005

DEFERRED MAINTENANCE FUND	2005-2006	2006-2007	2007-2008
Revenues:			
State Funding	\$ 127,226	\$ 127,000	\$ 127,000
District Contribution	\$ 164,203	\$ 127,000	\$ 127,000
State Hardship Grant	\$ 191,262	\$ 0	\$ 0
Interest Income	\$ 16,000	\$ 10,000	\$ 8,000
Total Income	\$ 498,691	\$ 264,000	\$ 262,000
Expenditures:			
Transformer Replacement	\$ 514,508	\$ 0	\$ 0
Other Electrical Projects	\$ 10,492	\$ 0	\$ 0
Classroom Lighting	\$ 32,200	\$ 25,000	\$ 25,000
Floor Covering	\$ 50,000	\$ 50,000	\$ 50,000
HVAC Replacement	\$ 72,800	\$ 50,000	\$ 25,000
Painting Projects	\$ 125,000	\$ 100,000	\$ 100,000
Paving Projects	\$ 70,000	\$ 100,000	\$ 0
Wall Systems	\$ 39,508	\$ 50,000	\$ 50,000
Total Expenditures	\$ 914,508	\$ 400,000	\$ 250,000
Beginning Fund Balance	\$ 577,939	\$ 162,122	\$ 26,122
Ending Fund Balance	\$ 162,122	\$ 26,122	\$ 38,122

Fund 210: Building Fund-Asset Management

Fund 210 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 210 Certification: The administration 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 for 2005-06 are budgeted at \$283,032 which includes rent from the Capitol Auto Mall LLP and interest on the fund balance.

Fund 210 Expenditures: Included in the 1st Interim Report is detail of the proposed five year expenditure plan. The following chart shows detail, by class, for 2004-05, the current budget year and two subsequent years:

Metropolitan Education District
First Interim Financial Report
December 14, 2005

ASSET MANAGEMENT FUND	2004-05 ACTUALS	2005-06 BUDGET	2006-07 PROJECTED	2007-08 PROJECTED
Revenues:				
Lease Revenue	\$ 268,033	\$ 268,032	\$ 268,032	\$ 268,032
Interest Income	\$ 17,934	\$ 15,000	\$ 15,000	\$ 15,000
Total Revenues	\$ 285,967	\$ 283,032	\$ 283,032	\$ 283,032
Expenditures – New Classes:				
Medical Assistant	\$ 120,804	\$ 0	\$ 0	\$ 0
Auto Transmission	\$ 50,805	\$ 0	\$ 0	\$ 0
Video Production	\$ 0	\$ 140,000	\$ 0	\$ 0
Forensic Investigation	\$ 0	\$ 110,000	\$ 0	\$ 0
Computer Technology Careers	\$ 0	\$ 25,000	\$ 0	\$ 0
New Classes (TBD)	\$ 0	\$ 100,000	\$ 100,000	\$ 100,000
Expenditures – Existing Classes:				
Cabinetmaking	\$ 60,000	\$ 0	\$ 0	\$ 0
Multimedia	\$ 85,000	\$ 0	\$ 0	\$ 0
Computer Aided Design	\$ 27,000	\$ 0	\$ 0	\$ 0
Metals Technology (welding)	\$ 10,000	\$ 150,000	\$ 0	\$ 0
Graphic Design	\$ 0	\$ 12,000	\$ 0	\$ 0
Precision Machining	\$ 0	\$ 100,000	\$ 0	\$ 0
Misc. Computer Upgrades	\$ 10,000	\$ 0	\$ 0	\$ 0
Equipment/Facility Upgrades (TBD)	\$ 0	\$ 0	\$ 100,000	\$ 300,000
Expenditures – Other:				
Health & Safety	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
3% District Management Fee	\$ 10,858	\$ 10,858	\$ 10,858	\$ 10,858
Legal Fees	\$ 0	\$ 3,000	\$ 0	\$ 0
Total Expenditures	\$ 424,467	\$ 600,858	\$ 260,858	\$ 460,858
Beginning Fund Balance	\$ 908,895	\$ 770,395	\$ 452,569	\$ 474,743
Ending Fund Balance	\$ 770,395	\$ 452,569	\$ 474,743	\$ 296,917

For this 1st Interim Report, the Metals Technology budget has been increased by \$50,000, to cover the cost of moving welding to the NE corner of CCOC building 700, and for new equipment. The \$100,000 for Precision Machining is to cover the cost of moving that class to the area in building 700 currently occupied by welding. Both of these projects are part of the building 700 renovation project that is to be partially funded by the district's Qualified Zone Academy Bond (QZAB).

The \$50,000 health and safety budget was established by the Governing Board based on a recommendation by the district's Budget Advisory Committee. The funds are to be used for the correction of health and safety problems that are identified throughout the year. There have been no expenditures from this account so far this year. Any unspent funds from this account are to revert back

Metropolitan Education District
First Interim Financial Report
December 14, 2005

to the fund balance at the end of each year. The Legal Fees budget is related to efforts to resolve an old dispute between MetroED and the Capital Auto Mall LLC. The fund maintains a minimum \$250,000 reserve, per board policy.

Fund 400: Special Reserve Fund for Capital Outlay Projects

Fund 400 Purpose: This Capital Outlay Fund exists to provide for accumulation of monies for capital outlay purposes. The only sources of revenue for this fund are interest earnings and transfers 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: The administration 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. There is also a need for upgraded Adult Education facilities in San Jose, and replacement of the administration building at the Campbell Adult Ed DX site.

Fund 400 Expenditures: See *Budget Adjustments-1st Interim Report*. There is a \$15,000 increase in expenditures for the CCOC Resource. This is to pay for a facilities study of the CCOC Hillsdale Avenue campus. The study will be used to justify the need for state modernization funding as part of AB 58, the legislature's latest education construction and modernization ballot initiative.

Fund 400 Other Financing Sources/Uses: The only activity in these accounts is a \$170,920 transfer from the General Fund into the CCOC Resource to cover the cost of an annual lease payment.

The following chart summarizes the Capital Outlay Fund budget for 2005-06:

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
<i>Revenues:</i>			
Interest Earnings	\$ 90,000	\$ 30,000	\$ 15,000
Transfers In – Debt Service	\$ 170,920	\$ 0	\$ 0
Transfers In – Capital Outlay	\$ 0	\$ 0	\$ 0
<i>Total Sources Available</i>	\$ 260,920	\$ 30,000	\$ 15,000
<i>Expenditures:</i>			
Capital Outlay Projects	\$ 15,000	\$ 0	\$ 0
Debt Service	\$ 170,920	\$ 0	\$ 0
<i>Total Expenditures</i>	\$ 185,920	\$ 0	\$ 0
<i>Beginning Fund Balance</i>	\$ 2,819,706	\$ 1,158,183	\$ 591,740
<i>Ending Fund Balance</i>	\$ 2,894,706	\$ 1,188,183	\$ 606,740

Metropolitan Education District
First Interim Financial Report
December 14, 2005

Funding Options for Capital Outlay: MetroED's funding options for construction and modernization are limited. As a joint powers agency, MetroED does not qualify for state modernization funds, and the likelihood of passing a bond or parcel tax is remote. Consequently, MetroED must generate funds for capital outlay from internal sources. In recent years, CCOCP contributions to the Capital Outlay fund have come primarily from excess local property taxes, which have exceeded \$500,000. Because of steps taken by the state to balance its 2005-06 budget, and beyond, it is expected that there will be no further funds from this source for the foreseeable future. For Adult Education, because of the uncertainty of federal grant revenues, there are no transfers budgeted for the current or subsequent two years. This may change when the Federal grants are finalized.