

Metropolitan Education District
Second Interim Financial Report
March 8, 2006

Executive Summary

Current Considerations

State Budget Status

The Governor's January budget proposal for 2006-07 is an election-year budget that includes something for just about everyone. The good news is that the budget proposal avoids any significant tax increases, and is balanced for 2006-07. The down-side of the proposal is that, while state expenditures are projected to increase 8.4%, revenues are projected to increase only 4.4%. This leaves a structural deficit of \$6.357 billion, which the Governor proposes balancing by using nearly all of the state's undesignated fund balance. The structural deficit is not addressed in this budget, and is expected to worsen in subsequent years. This has generated considerable debate within the legislature, and concern by the Legislative Analyst's Office. The final budget outcome remains cloudy.

Proposition 98 Funding

The Proposition 98 proposed budget for K-14 education includes the largest funding increase in recent years. The Governor has proposed a total of \$54.3 billion for K-14 education, which is an increase of \$4.3 billion over 2005-06. \$3.7 billion of the increase is designated for K-12 education. Approximately \$1.67 of these funds is partial restoration of the cuts from the "deal" the Governor made with the education industry in 2004-05.

For 2006-07 ROCP and Adult Education funding, the Governor has proposed a COLA of 5.18%, up substantially from the 4.4% assumed at the 1st Interim report. The proposed budget also includes growth in the Average Daily Attendance (ADA) caps of 2.7% for ROCP and 2.5% for Adult Education.

State Money Owed to K-12 Education

\$1.4 billion is owed to K-12 education for 2003-04 and prior years. This is scheduled to be repaid at the rate of \$150 million per year starting in 2006-07, and is expected to cover unfunded mandated costs that have accrued over the last number of years. An additional \$3.2 billion is owed K-12 education for funding shortfalls in 2004-05 and 2005-06 resulting from "the deal." These funds are the subject of a CTA & O'Connell v. Schwarzenegger lawsuit. The good news is that the Governor recently stated that the state owes the money. The bad news is that the state does not have it to repay at the present time.

Federal Budget Status

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

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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. Consequently, the district had to rely on temporary reserves to cover vendor payments and employee payrolls. In 2004-05, the Governing Board designated these reserves as permanent in order to provide sufficient cash for 60-days of vendor payments and employee payrolls. 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 pursuing legislative strategies with our state lobbyist (School Services of California) that would allow MetroED to receive advance apportionments along with the rest of K-12 education.

Reserve for PERS Reduction Liability

In 1982-83, the Public Employees Retirement System (PERS) employer contribution rate was reduced from 13.02% to 12.045%. The state was in financial crisis and a state law was passed requiring the recapture of the savings from the PERS rate reduction. This was to have been a one-time reduction of districts' Revenue Limit apportionment. However, this one-time reduction has been a continuous part of the Revenue Limit calculation since 1982-83. The amount recaptured is the difference between the 13.02% and the employer contribution rate for that year. In years when there has been no employer rate, the recapture rate has been the full 13.02% of qualifying classified employee wages.

The law has been confusing as to whether the PERS recapture applies to ROCPs operating as Joint Powers Authorities (JPAs). In 2000, SB 1667 was enacted that intended to include JPAs in the PERS reduction calculations. However, there was an erroneous cross reference in the legislation that kept it from being implemented. In 2003-04, the Department of Finance (DOF) attempted to unilaterally impose the PERS recapture on JPAs, without correcting the Education Code. The DOF attempt was defeated when education advocates threatened litigation. In 2004-05, legislation that would have corrected the erroneous reference, and provide a clear exemption for ROCP JPAs, was vetoed by the Governor, and the matter was referred to the California Department of Education (CDE) for interpretation. Currently, both the CDE and DOF believe that the PERS offset applies to ROCP JPAs. However, they have not imposed the recapture because of the incorrect Ed Code reference. The California Association of Regional Occupational Centers and Programs (CAROCP) has introduced AB 2107 to correct the issue, plus provide a clear exemption for ROCP JPAs.

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The MetroED Governing Board has recognized the potential financial liability to the District. Consequently, the Board has directed that reserves be established in the fund balances of both the General and Adult Education funds sufficient to pay the PERS Reduction recapture retroactive to 2003-04.

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 an increase in the district-paid health and welfare benefits. The health and welfare increase is the state revenue limit COLA or 5.0%, which ever is greater. The District is currently in negotiations with its three bargaining units for 2005-06 cost-of-living adjustments.

2nd 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 2nd Interim Report are those that have occurred since the January 31, 2006 Board-approved budget update.

Multi-Year Projection (MYP) Assumptions

For 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

Note: Independent audits are complete for the 2003-04 and 2004-05 fiscal years. Both audits were unqualified. There were no audit findings, adjustments or restatements.

Budget Presentation Format

Presentation of the 2nd 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

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Adult 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 combined 10% reserve, which is composed of a 6% Reserve for Economic Uncertainty and 4% General Reserve, as required by Governing Board policy. See *Monthly Budget Adjustments-2nd Interim Report* for detail of adjustments since the 1/31/06 Board-budget update.

Fund 010 Budget Assumptions:

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
• Revenue Limit COLA:	4.23%	5.18%	3.40%
• Total ROC/P Revenue Limit	\$3,168.58	\$3,301.05	\$3,415.29
• ADA Cap Growth %:	2.62%	2.70%	2.70%
• ADA Cap Growth	105	111	114
• Total Projected ADA Cap	4,112	4,213	4,327
• Reserve-Economic Uncertainty	6.00%	6.00%	6.00%
• General Reserve-Cash Flow	4.00%	4.00%	4.00%
• Employer-paid benefits increase	5.00%	5.18%	5.00%
• Employer-paid benefits max	\$9,572	\$10,068	\$10,571
• No increases in salary other than step, column and longevity advancement.			
• 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 adjustments since the 1/31/06 Board-approved budget update.

Fund 010 Expenditures: The only expenditure adjustments are internal budget transfers, with no impact on the fund balance.

Fund 010 Other Financing Sources/Uses: There are no changes in this category from the 1/31/06 Board-approved budget update.

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Fund 010 Fund Balance: There is a minor increase of \$561 in the reserve for a potential PERS reduction liability.

Fund 010 Multi-Year Projections: The following chart summarizes the high points of operations for the 2nd Interim Budget and two projected years:

GENERAL FUND - OPERATIONS	2005-2006	2006-2007	2007-2008
Total Revenues	\$14,964,070	\$15,882,245	\$16,788,756
Total Expenditures	\$14,459,152	\$15,113,685	\$15,540,981
Net Revenues/Expenses	\$ 504,918	\$ 768,560	\$ 1,247,775
Other Sources (Uses)	(\$ 324,265)	(\$ 288,107)	(\$ 116,251)
Change to Fund Balance	\$ 180,653	\$ 480,453	\$ 1,131,524

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 2nd 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%)	\$ 531,771	\$ 616,491	\$ 626,719
Economic Uncertainty (6%)	\$ 947,657	\$ 924,737	\$ 940,079
Campus Security Projects	\$ 120,000	\$ 120,000	\$ 0
PERS Reduction Liability	\$ 227,225	\$ 328,176	\$ 430,936
Total Reserves	\$ 1,846,653	\$ 2,009,404	\$ 2,017,734
Undesignated Fund Balance	\$ 278,648	\$ 596,350	\$ 1,719,545
Total Fund Balance	\$ 2,125,301	\$ 2,605,754	\$ 3,737,279

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, an increase in district contribution to employee health and welfare benefits and inflation increases for impacted expenditure accounts, such as materials and other operating expenses. Projections for revenues from fee-based programs include 10% and 5% increases for 2006-07 and 2007-08. The projections 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. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow and the PERS Reduction Liability.

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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. See *Monthly Budget Adjustments-2nd Interim Report* for detail of changes from the 1/31/06 Board-approved budget update.

Fund 110 Budget Assumptions:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA	4.23%	5.18%	3.40%
• Total Adult Ed Revenue Limit	\$2,389.26	\$2,513.26	\$2,598.26
• 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
• CalWorks ADA-San Jose	25.27	0.00	0.00
• CalWorks ADA-Campbell	18.16	0.00	0.00
• Total ADA Cap-San Jose USD	2,215.77	2,245.26	2,301.39
• Total ADA Cap-Campbell UHSD	<u>1,099.01</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	6.00%	6.00%	6.00%
• General Reserve-Cash Flow	4.00%	4.00%	4.00%
• Employer-paid benefits increase	5.00%	5.18%	5.00%
• Employer-paid benefits max	\$9,572	\$10,068	\$10,571
• No increases in salary other than step, column and longevity advancement			
• 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			

Fund 110 Revenues: The most significant change is a \$103,766 increase to Other Local Revenues. This is due to additional CalWorks ADA allocated to both the San Jose and Campbell programs. This increase assumes that the programs

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will actually earn the additional ADA, and the corresponding revenue limit. If not, the programs will not receive the additional funding.

Fund 110 Expenditures: Expenditures are decreased \$33,490, primarily due to a decrease in the Assistant Principal (AP) salary budget. The AP position was unfilled for the first ½ of the fiscal year. It has since been filled.

Fund 110 Other Financing Sources/Uses: Transfer out to the Capital Outlay Fund has been increased \$105,000. There is a need to accumulate capital funds for the replacement of facilities in both the Campbell and San Jose Adult programs.

Fund 110 Fund Balance: There is a slight increase of \$7,306 in the fund balance reserves since the 1/31/06 budget update.

Fund 110 Multi-Year Projections: The following chart summarizes the high points of operations for the 2nd Interim Budget and two projected years:

ADULT ED FUND - OPERATIONS	2005-2006	2006-2007	2007-2008
Total Revenues	\$ 10,609,936	\$ 10,430,107	\$ 10,974,554
Total Expenditures	\$ 10,048,845	\$ 10,118,182	\$ 10,304,953
Net Revenues/Expenses	\$ 561,091	\$ 311,925	\$ 669,601
Other Sources (Uses)	(\$ 215,000)	(\$ 0)	(\$ 0)
Change to Fund Balance	\$ 346,091	\$ 313,549	\$ 669,601

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 2nd Interim Budget and two projected years:

ADULT ED FUND – FUND BALANCE	2005-2006	2006-2007	2007-2008
Reserved & Designated:			
General Reserve (4%)	\$ 410,554	\$ 404,662	\$ 412,130
Economic Uncertainty (6%)	\$ 615,831	\$ 606,993	\$ 618,195
PERS Reduction Liability	\$ 195,492	\$ 306,922	\$ 420,133
Total Reserves	\$ 1,205,710	\$ 1,301,133	\$ 1,433,506
Undesignated Fund Balance	\$ 301,518	\$ 518,367	\$ 1,057,792
Total Fund Balance	\$ 1,523,395	\$ 1,836,944	\$ 2,508,250

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

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Inflation increases for impacted expenditure accounts such as supplies and other operating expenses. For 2006-07, the projections anticipate a \$371,251 reduction in "Other Fees and Contracts" due to non-renewal of the County Bridge project grant, a \$285,775 reduction in the Federal ESL grant and elimination of Carl Perkins funding. These revenue reductions result in corresponding expense reductions. 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 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 Governing Board and Office of Public School Construction (OPSC). Expenditures may only be made for CCOC facilities.

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 \$260,056 for the replacement of seven transformers on the CCOC site. The critical hardship application has been approved for funding by the State Allocation Board (SAB). The budget anticipates Interest revenue of \$16,000.

Fund 140 Expenditures: The transformer replacement project is expected to cost \$514,508. Project plans have been approved by the Division of the State Architect (DSA) and the project will be bid during March 2006. An additional \$418,492 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:

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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	\$ 260,056	\$ 0	\$ 0
Interest Income	\$ 16,000	\$ 10,000	\$ 8,000
Total Income	\$ 567,485	\$ 264,000	\$ 262,000
Expenditures:			
Transformer Replacement	\$ 514,508	\$ 0	\$ 0
Other Electrical Projects	\$ 28,984	\$ 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	\$ 933,000	\$ 400,000	\$ 250,000
Beginning Fund Balance	\$ 577,939	\$ 212,424	\$ 76,424
Ending Fund Balance	\$ 212,424	\$ 76,424	\$ 88,424

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 2nd 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:

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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 2nd Interim Report, the Metals Technology budget anticipates \$150,000 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

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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. Board policy requires a minimum reserve of \$250,000.

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: There are no changes in this category from the 1/31/06 Board-approved budget update. The only revenues budgeted for the current year are interest earnings. These are allocated proportionately to each of the CCOC and two Adult Education Resources.

Fund 400 Expenditures: There are no changes in this category from the 1/31/06 Board-approved budget update. Expenditures include \$971,000 for the reconfiguration and upgrade of CCOC building 700. This is the project funded primarily by QZAB bond proceeds.

Fund 400 Other Financing Sources/Uses: Included in the CCOC Resource is a Transfer-In from the General Fund of \$1 million, the proceeds from the Qualified Zone Academy Bond (QZAB). Other Uses are a combination of \$170,920 for debt service plus \$44,000 for the costs of issuance (debt service) for the QZAB. For the Adult Resources, there are Transfers-In totaling \$215,000, which is allocated proportionately to the San Jose and Adult Education programs. There is an urgent need to accumulate funds in the Adult Education Resources accounts to replace old facilities at the San Jose Hillsdale and Campbell Del Mar Adult Ed campuses.

Components of Fund Balance: In the CCOC Resource, \$697,865 is held by the District's trustee, Bank of New York, to repay the QZAB bond at maturity. The funds are invested in a Guaranteed Investment Contract (GIC) such that principal and earnings will total \$1 million at bond maturity (15 years). These funds are not available for use by the District.

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

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
Revenues & Sources:			
Interest Earnings	\$ 90,000	\$ 30,000	\$ 15,000
Transfers In – Debt Service	\$ 170,920	\$ 0	\$ 0
Transfers In – QZAB Proceeds	\$ 1,000,000	\$ 0	\$ 0
Transfers In – Capital Outlay	\$ 0	\$ 143,334	\$ 71,666
Total Revenues & Sources	\$ 1,260,920	\$ 173,334	\$ 86,666
Expenditures & Uses:			
Capital Outlay Projects	\$ 971,000	\$ 0	\$ 0
Debt Service	\$ 170,920	\$ 0	\$ 0
Cost of Issuance - QZAB	\$ 44,000	\$ 0	\$ 0
Total Expenditures & Uses	\$1,185,920	\$ 0	\$ 0
Beginning Fund Balance	\$ 2,819,706	\$ 1,158,183	\$ 591,740
Ending Fund Balance	\$ 2,894,706	\$ 1,331,517	\$ 678,406
Components of Fund Balance:			
Cash with Fiscal Agent (QZAB)	\$ 697,865	\$ 0	\$ 0
Designated: Capital Projects	\$ 2,196,841	\$ 1,331,517	\$ 678,406

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, or from its participating district partners. In recent years, CCOCP contributions to the Capital Outlay fund have come primarily from excess local property taxes, which have exceeded \$500,000 per year. 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 beyond the current year.