

Metropolitan Education District
Proposed Budget, Fiscal Year 2004-05
June 2, 2004

Executive Summary

The Governor's Proposed Budget

The Governor's "May Revise" budget contained good news for the education industry. For 2004-05, the proposed budget includes a cost-of-living adjustment (COLA) 2.41% for all programs, plus funding for growth and increased funding for deferred maintenance. However, while this budget will bring some welcome relief to K-12 education, it falls short of the state's Proposition 98 legal obligation by \$2 billion. This shortfall was the result of a compromise agreement between the Governor and the Education Coalition that allowed education to avoid another year of devastating funding cuts. Under the deal, the state is able to apply \$2 billion of Prop 98 funding to reduce the 2004-05 state budget deficit, and the education industry will receive slightly more than \$2 billion in increased funding over 2003-04.

For MetroED, the financial gains of the proposed COLA and growth are off-set somewhat against the zero COLA and ADA cap reductions that occurred in 2003-04. The 2003-04 state cuts to ADA caps for the ROC/P and Adult Education are considered permanent. Consequently, the 2004-05 cap increases are on top of a lower base.

Currently, we do not have a state budget in place, and there remains the possibility that the Governor's proposal may be modified by the legislature. However, 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".

Workers' Compensation Reform

The new Workers Compensation reform package (SB 899), which is now law, is expected to generate savings of between 13%-15%. However, we do not know for sure if the savings will be passed on to employers, how much will be passed on, or when. Consequently, MetroED has taken a conservative approach in its budget, and held Workers Compensation costs at the rate determined before the reform legislation was signed into law.

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 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. All pages are numbered based on their section and page number within that section.

For the ROC/P Fund 06 and Adult Education Fund 11, we have also provided detailed multi-year projections, with all budget assumptions and calculations for the 2002-03 Unaudited Actuals, 2003-04 Estimated Actuals, the 2004-05 budget year and two subsequent years. The last section in the budget document includes a Glossary of Terms.

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The MetroED Budget Advisory Committee (BAC) reviewed the proposed budget in detail on May 18, 2004. The committee supported the budget as presented.

Fund 06: Vocational Education (Section V)

Fund 06 Purpose: Fund 06 is the General Fund for the Regional Occupational Center and Programs (ROC/P) and is considered "Restricted". For purposes of state reporting, Fund 06 is shown as "Fund 01-General Fund" on the state forms.

Fund 06 Certification: Staff is recommending a positive certification. This means that the Vocational Education Fund 06 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 6% Reserve for Economic Uncertainty, as required by Governing Board policy.

Fund 06 Budget Assumptions:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA:	2.41%	2.40%	2.70%
• ADA Cap Growth %:	3.67%	3.67%	3.67%
• ADA Cap Growth	142	146	151
• No increases in salary other than step, column and longevity advancement.			
• Decrease in employer PERS contributions from 10.42% to 9.952%			
• Increase in employer SUI contributions from .30% to .65%			
• 5% increase in employer paid health & welfare costs, the maximum allowed per bargaining unit agreements			
• Statutory COLA increases 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 60%/40% basis			

Fund 06 Revenues: For the budget year, there is an increase to the ROC/P revenue limit funding from COLA and growth in the amount of \$706,317. However this is offset by reductions from the Estimated Actuals in the amount of \$687,588 from one-time property taxes and prior year adjustments that are not carried forward to the budget year. Details of revenue changes can be seen in the revenue detail of the multi-year projections.

Fund 06 Expenditures: Expense adjustments reflect the goals of the district to maximize utilization of the CCOC facilities, include academics in the course curriculum, increase community college articulation agreements and strengthen central office support for the delivery of the education program.

To attain district goals for 2004-05, wage and benefit accounts are increased to provide for a long-term substitute to replace a teacher on special assignment, two teachers are added for expansion of the Medical Assistant and Engines/Transmissions classes and 2 classified program representative positions are added to help maximize student recruitment and enrollment in CCOC programs. Other adjustments to enhance Central Office program support include the addition of one computer technician (60%) and expansion of the student intern program to year round. Four custodians are hired as employees to replace four custodians who had been working at the district through an

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independent contractor. One classified position has been eliminated in Food Services to help reduce that program's deficit. Wages and benefits are adjusted to reflect the district's contractual obligations for step, column and longevity increases and a 5% increase in the district's contribution to employee health and welfare costs.

For the budget year, the district will implement a Storage Area Network (SAN) backup system, which will provide a district-wide network backup system for desktop computer data and strengthen user ability to quickly recover from system "crashes". Projected savings include reduction of the employer-paid PERS contribution from 10.42% to 9.952%. The district is also looking to migrate its current QSS financial system to the Santa Clara County Office of Education (SCCOE) to eliminate duplication of effort, increase efficiency and enhance system support. The 3.67% growth in the ROC/P ADA Cap amounts to 142 ADA. Of this, approximately 97 ADA have been allocated to the CCOC day program to accommodate the two new classes, with the difference allocated to the participating district satellite programs. A Fiscal Department review of all expenditure budgets has resulted in additional budget savings \$234,562.

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

Fund 06 Fund Balance: For the 2003-04 estimated year, ROC/P operations are expected to generate a small increase to the fund balance in the amount of \$60,257. For the budget year, fund balance is expected to increase \$15,615. The Designation for Economic Uncertainty is maintained at the Board required 6%. The designation for "multi-year contingency-state deficits" is retained at the original amount approved by the Board due to the continued uncertainty of a state balanced budget.

Fund 06 Multi-Year Projections (Section VI): The multi-year projections for ROC/P include summary and detail data for the prior year Unaudited Actuals (2002-03), Estimated Actuals for the current year (2003-04), the budget year (2004-05) and two subsequent years. Page VI-1 is the multi-year summary. Pages VI-2 through VI-13 include the 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 \$633,258 and \$1,187,952 respectively. These increases are due to projected revenue increases from COLA and growth, and there is no provision for salary increases. There is, however, provision made for increases due to 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, transfers to the Capital Outlay Fund 40, and retains a minimum 6% reserve for Economic Uncertainty. The designation for "multi-year contingency-state deficits" is reduced by one-half in each of the 2005-06 and 2006-07 projected years as the risk of state budget deficits is reduced.

Any funds not otherwise designated in the projected years are shown as Legally Restricted Balances and are available for use or designation by the Board.

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Fund 11: Adult Education (Section VII)

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 a 6% Reserve for Economic Uncertainty, as required by Governing Board policy.

Fund 11 Budget Assumptions:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
• Revenue Limit COLA:	2.41%	2.40%	2.70%
• ADA Cap Growth %:	2.50%	2.50%	2.50%
• ADA Cap Growth:	77.88	80.00	82.00
• No increases in salary other than step, column and longevity advancement			
• Decrease in employer PERS contribution from 10.42% to 9.952%			
• Increase in employer SUI contributions from .30% to .65%			
• 5% increase in employer paid health & welfare costs, the maximum allowed per bargaining unit agreements			
• Statutory 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 60%/40% basis			

Fund 11 Revenues: For the budget year, revenue adjustments show an increase of \$348,093 over the Estimated Actuals. This is primarily due to \$317,333 COLA and growth in mandated Adult Education funding.

Fund 11 Expenditures: Expense adjustments reflect increases in wages and benefits related to two new grants, the county-funded Bridge grant and an English Literacy & Civics Supplemental grant. Both of these grants were received at the end of the 2003-04 fiscal year. Wages and benefits are also 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.

Other adjustments include 40% of the addition of a computer technician, 40% of a Storage Area Network (SAN) backup system and modest increases in funds for non-capitalized equipment and site improvement projects. Projected savings include reduction of the employer-paid PERS contribution from 10.42% to 9.952% and migration of the district's financial system support to the Santa Clara County Office of Education. A Fiscal Department review of all expenditure budget accounts has resulted in additional budget savings totaling \$176,472.

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

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Fund 11 Fund Balance: For the 2003-04 Estimated Actuals, we are projecting a small increase in fund balance of \$38,627. For the budget year, the fund balance is expected to increase a slight \$9,750. The Designation for Economic Uncertainty is retained at a minimum 6% as required by Board policy. The designation for “multi-year contingency – state deficits” is retained at the original amount approved by the Board due to the continued uncertainty of a state balanced budget.

Fund 11 Multi-Year Projections (Section VIII): The multi-year projections for Adult Education Fund 40 include summary and detail for prior year Unaudited Actuals (2002-03), Estimated Actuals for current year (2003-04), the budget year (2004-05) 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, 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 \$366,426 and \$778,671 respectively. These increases are due to revenue increases for COLA and growth, and there is no provision made for salary increases. There is, however, provision made for increases due to 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 spend-out of the Bridge and Literature and Civics Supplemental grants in 2004-05 and 2005-06. This results in corresponding expense reductions in subsequent years, primarily in hourly wages and benefits. The projections also anticipate transfers of \$300,000 in each of the projected years to the Capital Outlay fund, to be used for new portable classrooms and site improvements at various campuses. The designation for “multi-year contingency – state deficits” is reduced by ½ in each of the 2005-06 and 2006-07 projected years, as the risk of state budget deficits is reduced.

Fund 14: Deferred Maintenance (Section IX)

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 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 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: One of the good news items in the Governor’s May Revise is an increase in funding to 70% for the deferred maintenance state match. We have estimated that amount to be \$114,942 to match the MetroED contribution of \$164,203. We are also projecting deferred maintenance hardship funding from the state in the amount of \$274,797 for the replacement of eight transformers on the CCOC site.

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Fund 14 Expenditures: The project to replace eight transformers is expected to cost \$439,000, which will leave this fund with a fund balance of \$379,208. Since we do not yet have state approval of the hardship grant or final adoption of the state budget, we are not budgeting expenditures for any other projects at this time. This may be amended once we are assured of receiving the state funds.

Fund 21: Building Fund-Asset Management (Section X)

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.

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 administration is recommending board approval of 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 are detailed on the “*Asset Management Fund; 5-Year Expenditure Plan*” which is included in the fund 21 section of this budget (page X-1). Of particular note is a new \$50,000 annual budget for “health and safety expenditures as identified during the year.” There is a recommendation from the Budget Advisory Committee that there should be Asset Management money budgeted for unexpected health and safety needs without having to go through a lengthy approval process. Unspent funds from this budget line will revert back to the fund balance at the end of each year. At all times, the fund will retain a minimum of \$250,000 reserve.

The Asset Management fund 5-year expenditure plan has been approved and is recommended to the Governing Board by the Asset Management Committee, the Budget Advisory Committee and the MetroED Instructional Council.

Fund 40: Special Reserve Fund for Capital Outlay Projects (Section XI)

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.

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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 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. For the 2004-05, district contributions to this fund are limited to \$150,000 each from ROC/P and Adult Education. For the two subsequent years, Adult Ed is scheduled to contribute \$300,000 per year. The ROC/P contribution is anticipated to be the equivalent of the Excess Property Taxes in each year, since these funds are considered "one-time" and can vary considerably from year to year. For budgetary purposes, we have projected a modest transfer from ROC/P of \$150,000 for 2004-05 and \$200,000 each year thereafter. These transfers will increase or decrease depending on the amount of the Excess Property Taxes.

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

State Legislation for Modernization: MetroED is sponsoring legislation (AB 2035, Nakano, *School Facilities: Regional Occupational Centers*) that would allow MetroED to qualify for state school facilities funds on a matching basis. This is the second year for this legislation, and the administration believes there is a good possibility that it will pass this year. It has already passed the state Assembly by a vote of 78-0. If it is signed into law, MetroED will be able to compete for state bond funds for modernization of the CCOC facilities. The required district matching funds are expected to come from the Capital Outlay Fund.