

Metropolitan Education District
Proposed Budget, Fiscal Year 2006-07
June 14, 2006

Executive Summary

The Governor's Proposed Budget

The Governor's May Revision budget proposal to the state legislature for 2006-07 was a pleasant surprise compared to the last few years. There is no suspension of Proposition 98, there are no disputed "deals," there is real growth in education funding and there is a restoration of amounts due from the past.

This good news budget is the result of a California economy that continues to expand. Job creation in 2005 reached a five-year high with 255,000 jobs added, California's personal income growth rate exceeds the national average and California's exports grew 6.2% in 2005. State General Fund tax revenues continue to exceed expectations. For example, State General Fund revenues for the current year, 2005-06, are up \$4.8 billion from the January forecast, and \$2.7 billion for 2006-07 above January estimates. This revenue increase is the result of personal income tax growth related to capital gains and stock options. The obvious caution here is that this revenue should be considered one-time and not expected to continue into subsequent years.

CTA & O'Connell v. Schwarzenegger

The Governor has agreed to settle the *CTA & O'Connell v. Schwarzenegger* lawsuit over the "Deal" he made in 2004-05 to suspend Proposition 98. The industry will receive approximately \$5.0 billion in one-time settle-up funding over the next seven years. \$2.1 billion will be paid in 2006-07 as an one-time augmentation. The balance will be paid at the rate of \$300,000 in 2007-08 and \$450,000 per year thereafter until paid in full in 2013-2014.

The May Revision Summary

The May Revision includes the following good news for California K-12 education:

- Full funding for a 5.92% COLA (up from 5.18% in January)
- Funding for .21% statewide enrollment growth
- Elimination of the school district Revenue Limit deficit of 0.892%
- \$300 million for Revenue Limit equalization (up to 2%+ for large districts)
- \$400 million for new categorical programs
- \$933 million to fund prior year mandate reimbursements (nearly full funding); \$164 million for on-going mandated reimbursements

Both ROC/P and Adult Education, as categorical programs, receive the 5.92% COLA, plus ADA growth. However, these programs will receive no benefit from elimination of the Revenue Limit deficit or Revenue Limit equalization.

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Purpose and Development of the Budget

The purpose of the MetroED 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 vision and goals. During 2005-06, the District administration spent considerable time revising its vision for the future, and developing long and short term goals.

For purposes of developing the MetroED budget, we have relied on the Governor's May Revision, projections provided by School Services of California in their "Financial Projections Dartboard," historic spending patterns, contractual obligations and the District's vision and goals.

The Vision for Metropolitan Education District

The District's goals are designed to realize the vision of what MetroED is all about. That vision is articulated in the following three statements:

1. The Metropolitan Education District is an organization that facilitates student learning through research-based teaching practices, accountability data and continual measurement of student achievement.
2. The Metropolitan Education District programs and services are known and respected by its key constituencies, including students, educational partners, business and industry.
3. The Metropolitan Education District has a culture characterized by a high level of employee professionalism, teamwork, continual staff improvement, a supportive work environment and effective utilization of resources.

The long term goals were reviewed with the Board at the May 10, 2006 meeting. Short term, measurable goals for 2006-07 will be reviewed with the Board in a separate presentation at the June 14, 2006 meeting.

Mandated Claims

Most agree that the current mandated claim reimbursement process is broken. There continue to be long delays between imposition of a new mandate and ultimate reimbursement. Even with the proposed budget allocation of nearly \$1 billion for prior year claims, the likelihood of receiving payment for past claims remains remote. Unclear or nonexistent audit standards have resulted in too many claim denials. In fact, State Controller audits have resulted in an 80% - 90% disallowance of claims. In an attempt to address these problems, the education industry has sponsored legislation that would reform the process (AB 2846, Daucher). Because of the uncertainty of actual funding, MetroED does not budget mandated claim reimbursement revenues until they are actually received.

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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 ROC/Ps 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) sponsored AB 2107 to correct the issue. This bill died in committee and the matter continues to be unresolved.

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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 & Benefits

The MetroED administration has attempted to maintain employee salaries at levels reasonably competitive with surrounding school districts, within the limitations of ROC/P and Adult Education funding. This is expected to be particularly difficult for 2006-07 because of the revenue limit funding disparity between MetroED and surrounding districts. For example, because of elimination of the Revenue Limit deficit and equalization, these districts are expected to receive effective increases in their revenue limits of between 8-9%. MetroED's increase is limited to 5.92%. Moreover, there are additional demands on the District's available funds from its participating districts, which are looking to increase the dollars returned to them for their high school ROP programs.

CCOC Facilities Modernization

MetroED has spent four years of intensive lobbying at the state capital to get Regional Occupational Centers included for state modernization funds. The State Legislature has now approved a state school facilities bond for the upcoming November election. Included in the bond is \$500 million to construct or renovate qualifying Career Technical Education facilities. Regional Occupational Centers are specifically identified as qualifying for this funding. To pass, the Bond must receive a majority vote. In order to receive the funding, the District must provide a 50% match, and funds are limited to \$1.5 million per project per site. How this limitation is ultimately applied will be the result of regulations promulgated by the Office of Public School Construction (OPSC). MetroED intends to be fully involved in this process in order to maximize the dollars available for modernization projects on the CCOC campus.

In other good news, JPA member Campbell Union High School District is moving forward with a local school facilities bond, for the November ballot, which includes \$5 million for CCOC facilities modernization. These funds can be used as match dollars for state funds, if the state bond is passed.

The Budget Presentation Format

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), the San Jose Adult Education Program and Campbell Adult Education Program. Included with the "Budget-at-a-Glance" are spreadsheets detailing the new revenues/sources of funds and expenses/uses of funds for both the General Fund 010 and Adult Education Fund 110. This format differs from prior year presentations in that it separates sources of funds into

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COLA, Growth and Savings. 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. The last section in the budget document includes a Glossary of Terms.

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, contractual obligations 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:

- 2004-05 Audited Actuals
- 2005-06 Estimated Actuals
- 2006-07 Proposed Budget
- 2007-08 Projected
- 2008-09 Projected

Note: The independent audit for the 2004-05 fiscal year is complete, and is unqualified. There were no audit findings, adjustments or restatements.

Budget Advisory Committee

The MetroED Budget Advisory Committee (BAC) reviewed the proposed budget in detail on May 23, 2006, and has unanimously recommended approval as presented.

Fund 010: General Fund (Section 5)

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 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 4% General Reserve and 6% Reserve for Economic Uncertainty, as required by Governing Board policy.

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Fund 010 Budget Assumptions

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
• Revenue Limit COLA:	5.92%	4.70%	2.70%
• ADA Cap Growth %:	2.70%	2.70%	2.70%
• ADA Cap Growth	90	92	94
• No increases in salary other than step, column and longevity advancement.			
• Increase in employer PERS contributions from 9.116% to 9.124%			
• Decrease in employer SUI contributions from .45% to .05%			
• Decrease in Workers' Compensation rate from 2.539% to 1.798%			
• 5.92% increase in employer paid health & welfare costs for the budget year, and 5.0% increase for each year thereafter. The maximum allowed per bargaining unit agreements is 5% or state COLA, whichever is greater.			
• 3.0% 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 an aggregate 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 \$1,051,282. The Governor's budget also includes funds for reimbursement to districts for prior and current year mandated costs. MetroED's un-reimbursed mandated cost claims exceed \$213,000. However, as discussed previously, MetroED does not record any mandated cost revenues until actually received.

There following two new grants have been proposed by the Governor, but not yet approved by the State Legislature. As such, there are no funds included in the proposed MetroED budget. However, if these are approved as part of the State budget, the administration will return to the Governing Board with the appropriate budget adjustments.

- The first is a \$50 million program of 2+2 grants that will go to community colleges, but must be based on Career Technical Education partnerships with high schools. CCOC/P has been very aggressive in working with our local community colleges to become the "partner of choice" for the \$20 million grant program authorized in 2005-06.
- The second grant proposed by the Governor is also \$50 million for a Career Technical Education Equipment & Materials Block Grant. These funds are to be paid out to Districts providing CTE on a per pupil basis.

Federal Carl Perkins grant funding of \$210,256 has not been continued into the budget year. Actual grant amounts will not be known until after budget adoption. Adjustments will be brought to the Board when the actual amounts are known.

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The budget also does not include Excess Property Taxes for prior years. While considered "one-time" funds, excess property taxes have amounted to approximately \$500,000 per year. These funds, when received, transferred to the CCOC Capital Outlay Fund for accumulation as district match for modernizing CCOC facilities. In 2004-05, the state shifted property tax revenues from schools to local governments in order to back-fill the local government loss of vehicle license fees. Although this shift in property taxes was part of a much larger local government finance reform effort, it has the potential of eliminating some or all of the excess property taxes for the next several years.

The CCOC evening fee-based vocational program for adults will be converted to ADA. Tuition will be eliminated, class fees adjusted and there will be a reorganization of personnel. This reorganization is expected to strengthen the evening program and produce approximately 200 ADA that would otherwise be Cosmetology ADA. The adjustment in staffing and class fees will allow this program to cover its costs. The evening program was ADA until 2002-03 when the state budget crisis caused the District to convert to fee-based.

Fund 010 Expenditures

A high priority goal for the ROC/P program is to maximize the value of the programs to our JPA members, and their students. This is partially an outgrowth of efforts to equalize the funding and ADA for CCOC and high school ROP classes. The administration believes that the District must contribute both financially and programmatically to the equalization process. The CCOC cost per high school student needs to be reduced. Steps to move the District in that direction will be taken throughout the year. They include:

- Elimination of CCOC classes that do not pay for themselves by meeting an ADA minimum, and maintaining that level over time.
- Assure relevancy of CCOC day classes. High school students must be the CCOC priority, not adults. Classes with high adult enrollment are to be considered for replacement.
- Ancillary programs must cover their costs, and not encroach on the General Fund.
- Administrative costs must be reduced through departmental reorganization, down-sizing and implementation of efficiencies, where possible.
- Funds must be set aside by the District to help address the continued ADA & revenue limit inequity between JPA members.
- Review of high school ROP classes to assure relevancy, high levels of student enrollment and compliance with state codes.

The CCOC will start three new classes in 2006-07. These classes are already near capacity with pre-enrollment by high school students. They are Baking & Catering, Probation & Legal Careers, and Veterinary Assistant. The Administrative Assistant class will not be offered next year due to low enrollment

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and a high percentage of adult students. Five CCOC classes have been given a one-year notification that they are under review for possible elimination in the 2007-08 fiscal year, if ADA continues to be below minimum standards.

The Engineering Technology class will be offered in the afternoon only with an entirely new curriculum. This class is the focus of a partnership between CCOC, Mission College, Santa Clara Unified School District, Milpitas Unified School District and private industry. The partnership, through Mission College, has received a 2-year state grant of \$450,000 for the purpose of developing a CCOC Engineering Technology curriculum model. The model will incorporate course objectives in parallel with Mission College courses and combine applied environmental science principles with general physics, geometry, science and language curriculum standards. Following the one-year course development on the CCOC campus, a CCOC satellite Engineering Technology course will be implemented on the Mission College campus for the 2007-08 school year. While the grant funds will go to Mission College, CCOC will benefit with direct marketing support for both CCOC and the Engineering Technology Class, curriculum development, enhanced partnerships, and approximately \$40,000 in funding support for the class.

Internal reorganization will allow CCOC to reinstate the Career Placement Center without adding any new costs to the budget. The Placement Center was eliminated in 2002-03 due to state budget cuts.

Cost savings are realized within the CCOC with a reduction of one Teacher on Assignment, retirement of the Engineering Technology Teacher and shifting of the evening Personal Interest Program to Adult Education.

The District superintendent's office has realized a \$61,800 cost saving from reorganization due to the retirement of Assistant Superintendent Jan Dreier. Paul Hay has been named Assistant Superintendent, and a new position of Director of Instruction and Accountability has been created to handle Jan's responsibilities in those areas, and support the CCOC and Adult Education programs. \$30,900 of the savings is applicable to the General Fund.

Additional savings are expected throughout the year as the administration proceeds with steps to reorganize, downsize and attain efficiencies within Central Office departments.

Additional cost savings are projected with a \$47,387 savings in the groundskeeping budget, \$48,002 from a reduction in the District Workers' Compensation rate and \$26,718 from a reduction in the State Unemployment Insurance rate.

2006-07 is the third year of a 3-year equalization process approved by the MetroED and participating district Governing Boards at the end of 2003-04.

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Payment for all ROP ADA generated at participating district high schools will be at the equalized rate of \$934 per ADA.

Fund 010 Other Financing Sources (Uses)

There are transfers to the Capital Outlay Fund for debt service (\$171,600) and to the Deferred Maintenance Fund as the District match for state funding (\$125,000). Since there is no revenue projected from Excess Property Taxes, there is no transfer to the Capital Outlay Fund for modernization purposes.

Fund 010 Fund Balance

For the 2005-06 estimated year, ROC/P operations are expected to generate a small increase to the fund balance of \$79,444. For the budget year, fund balance is expected to increase \$726,380. The General Reserve is maintained at the Board required 4% and the Designation for Economic Uncertainty is maintained at 6%. \$120,000 is reserved for future security projects on the Hillside campus.

The budget continues the reserve for potential liability to the state for PERS recapture costs. In 2003-04, the California Department of Finance determined that JPAs were responsible for these costs. However, an erroneous reference in the Education Code has prohibited the state from implementing this. Until the matter is resolved, the District is reserving and accumulating the District's estimated liability for 2003-04 and each year thereafter.

A new reserve in the amount of \$300,000 is recommended to help address the ADA and revenue limit inequity between JPA members. The administration has projected that the District's contribution to this effort may need to be as high as \$1.5 million of on-going funds (\$300,000 per year, over a period of five years). This would be in addition to adjustments to be made by the JPA members. How these funds are ultimately allocated must be in accordance with a plan agreed-to by all the JPA members, and incorporated into the Master Business Relationship Agreements.

Fund 010 Multi-Year Projections (Section 6)

The following chart summarizes the high points of operations for the proposed budget and two projected years:

GENERAL FUND - OPERATIONS	2006-2007	2007-2008	2008-2009
Total Revenues	\$15,418,398	\$16,327,361	\$17,086,927
Total Expenditures	\$14,405,913	\$15,088,331	\$15,584,096
Net Revenues/Expenses	\$ 1,012,485	\$ 1,239,030	\$ 1,502,831
Other Sources (Uses)	(\$ 286,105)	(\$ 118,279)	(\$ 121,951)
<i>Change to Fund Balance</i>	\$ 726,380	\$ 1,120,751	\$ 1,380,880

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Multi-Year Projections - Fund Balances

The following chart details the projected fund balances for the budget and projected two years:

GENERAL FUND – FUND BALANCE	2006-2007	2007-2008	2008-2009
Reserved & Designated:			
Revolving Fund, Prepaid	\$ 20,000	\$ 20,000	\$ 20,000
General Reserve (4%)	\$ 588,101	\$ 608,684	\$ 628,662
Economic Uncertainty (6%)	\$ 882,151	\$ 913,026	\$ 942,993
Campus Security Projects	\$ 120,000	\$ 0	\$ 0
Reserve for Equalization	\$ 300,000	\$ 600,000	\$ 900,000
PERS Recapture Liability	\$ 324,537	\$ 428,728	\$ 535,910
Total Reserves	\$ 2,234,789	\$ 2,570,438	\$ 3,027,565
Undesignated Fund Balance	\$ 515,684	\$ 1,300,785	\$ 2,224,539
Total Fund Balance	\$ 2,750,473	\$ 3,871,223	\$ 5,252,104

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. 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. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow, the PERS Recapture Liability and a reserve for equalization.

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

Fund 110: Adult Education (Section 7)

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 will meet its financial obligations for the budget and two subsequent fiscal years; will maintain at least the required 5% Reserve for

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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>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
• Revenue Limit COLA:	5.92%	4.70%	2.70%
• ADA Cap Growth %:	2.50%	2.50%	2.50%
• ADA Cap Growth:	81.78	83.83	85.92
• No increases in salary other than step, column and longevity advancement			
• Increase in employer PERS contributions from 9.116% to 9.124%			
• Decrease in employer SUI contributions from .45% to .05%			
• Decrease in Workers' Compensation rate from 2.539% to 1.798%			
• 5.92% increase in employer paid health & welfare costs for the budget year, and 5.0% increase for each year thereafter. The maximum allowed per bargaining unit agreements is 5% or state COLA, whichever is greater.			
• 3.0% 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 an aggregate 65%-35% basis			

Fund 110 Revenues

For the budget year, revenues will increase \$658,535 from COLA and growth. However, there is a negative adjustment of \$303,673 to the revenue limit income because Adult Education is not expected to meet its Cap for 2006-07. The Adult Education program administration is working on options that could generate the ADA needed to reach its CAP. Any adjustments will be reflected in the August or September budget updates.

Federal grant revenue projections include a decline of nearly \$275,000 from 2005-06. This includes a 60% decline in funding for Adult Basic Education (ABE) and no funding for Carl Perkins. While it now appears that Carl Perkins will be continued into 2006-07, and the ABE reduction will not be as severe, we are not reflecting any changes until we receive the formal notification of the grant amounts.

Revenue from the Capital High School program is projected to increase \$45,000 as the funding model is restructured to cover the full cost of this program. This will likely require an amendment to the Master Business Relationship Agreements, which will be drafted later this summer. Virtually all the ADA generated by Capital High School comes from San Jose Unified School District students. San Jose has already included in its budget sufficient dollars to cover the increased costs of this program.

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Fund 110 Expenditures

New costs include moving the Personal Interest Program (PIP) from CCOC to MAEP (which will generate new ADA), a proportionate share of the cost of the new Director of Instruction and Accountability and additional hourly positions to generate additional ADA.

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 facilities needs in the Campbell and San Jose Adult programs. There are no transfers scheduled in the budget year. Should the federal grants be restored, year end transfers may be reinstated.

Fund 110 Fund Balance

For the 2005-06 Estimated Actuals, we expect a \$124,191 increase in the fund balance. For the budget year, the fund balance is expected to increase a modest \$165,224. The General Reserve is maintained at 4% and the Designation for Economic Uncertainty is maintained at 6%, as required by Board policy.

The budget continues the reserve for potential liability to the state for PERS recapture costs. In 2003-04, the California Department of Finance determined that JPAs were responsible for these costs. However, an erroneous reference in the Education Code has prohibited the state from implementing this. Until the 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 8)

The following chart summarizes the high points of operations for the proposed budget and two projected years:

ADULT ED FUND - OPERATIONS	2006-2007	2007-2008	2008-2009
Total Revenues	\$ 10,656,424	\$ 11,531,623	\$ 12,048,577
Total Expenditures	\$ 10,491,200	\$ 10,863,468	\$ 11,102,104
Net Revenues/Expenses	\$ 165,224	\$ 668,155	\$ 946,473
Other Sources (Uses)	(\$ 0)	(\$ 0)	(\$ 0)
<i>Change to Fund Balance</i>	\$ 165,224	\$ 668,155	\$ 946,473

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Multi-Year Projections - Fund Balances: The following chart details the projected fund balances for the budget and two projected years:

ADULT ED FUND – FUND BALANCE	2006-2007	2007-2008	2008-2009
Reserved & Designated:			
General Reserve (4%)	\$ 419,648	\$ 434,539	\$ 444,084
Economic Uncertainty (6%)	\$ 629,472	\$ 651,808	\$ 666,126
PERS Recapture Liability	\$ 318,071	\$ 436,912	\$ 555,753
Total Reserves	\$ 1,367,191	\$ 1,523,259	\$ 1,665,963
Undesignated Fund Balance	\$ 99,528	\$ 611,615	\$ 1,415,383
Total Fund Balance	\$ 1,466,719	\$ 2,134,874	\$ 3,081,346

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. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow, the PERS Recapture Liability and a reserve for equalization.

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

Fund 140: Deferred Maintenance (Section 9)

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 will be able to meet its financial obligations for the budget and two subsequent fiscal years and will end the year with a positive cash balance.

Fund 140 Revenues

The Governor's May Revision includes full funding for the deferred maintenance state match. We have estimated that amount to be \$125,000, which will be matched by MetroED. We are also projecting interest earnings of \$20,000.

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Fund 140 Expenditures

The following chart details the planned expenditures, by type of project, for the current and two subsequent fiscal years:

DEFERRED MAINTENANCE FUND	2006-2007	2007-2008	2008-2009
Revenues:			
State Funding	\$ 125,000	\$ 128,774	\$ 132,446
District Contribution	\$ 125,000	\$ 128,774	\$ 132,446
Interest Income	\$ 20,000	\$ 10,000	\$ 10,000
Total Income	\$ 270,000	\$ 267,548	\$ 274,892
Expenditures:			
Transformer Replacement	\$ 613,756	\$ 0	\$ 0
Other Electrical Projects	\$ 0	\$ 0	\$ 0
Classroom Lighting	\$ 0	\$ 50,000	\$ 50,000
Floor Covering	\$ 0	\$ 50,000	\$ 50,000
HVAC Replacement	\$ 0	\$ 50,000	\$ 25,000
Painting Projects	\$ 104,520	\$ 110,000	\$ 115,500
Paving Projects	\$ 250,000	\$ 100,000	\$ 0
Wall Systems	\$ 0	\$ 50,000	\$ 50,000
Total Expenditures	\$ 968,276	\$ 410,000	\$ 290,500
Beginning Fund Balance	\$ 963,184	\$ 264,908	\$ 122,456
Ending Fund Balance	\$ 264,908	\$ 122,456	\$ 106,848

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Fund 210: Building Fund-Asset Management (Section 10)

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 two subsequent fiscal years, and will end the year with a positive cash balance.

Fund 210 Revenues

Projected revenues are budgeted at \$299,217 which includes rent from the Capitol Auto Mall LLP and interest on the fund balance.

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Fund 210 Expenditures

2005-06 expenditures include \$65,000 carryover from 2004-05 that was unspent for the reconfiguration of the welding class. The costs of reconfiguring building 700 Metals for the Metals Technology and Precision Machining classes are combined under "Building 700 Facility Upgrades." For the budget year, \$200,000 is budgeted for the three new classes at CCOC. At all times, the fund must maintain a \$250,000 minimum reserve as required by Board policy.

ASSET MANAGEMENT FUND	2005-06 EST. ACTUALS	2006-07 BUDGET	2007-08 PROJECTED	2008-09 PROJECTED
Revenues:				
Lease Revenue	\$ 269,217	\$ 269,217	\$ 269,217	\$ 269,217
Interest Income	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000
Other Revenue	\$ 11,372	\$ 0	\$ 0	\$ 0
Total Revenues	\$ 305,589	\$ 299,217	\$ 299,217	\$ 299,217
Expenditures – New Classes:				
Video Production	\$ 139,167	\$ 0	\$ 0	\$ 0
Forensic Investigation	\$ 107,186	\$ 0	\$ 0	\$ 0
Computer Tech. Careers	\$ 19,215	\$ 0	\$ 0	\$ 0
New Classes (TBD)		\$ 200,000	\$ 100,000	\$ 100,000
Expenditures – Existing Classes:				
Metals Technology (welding)	\$ 97,933	\$ 0	\$ 0	\$ 0
Graphic Design	\$ 9,621	\$ 0	\$ 0	\$ 0
Bldg 700 Facility Upgrades	\$ 106,236	\$ 122,390	\$ 0	\$ 0
Other Classes (TBD)		\$ 0	\$ 300,000	\$ 100,000
Expenditures – Other:				
Health & Safety	\$ 30,642	\$ 50,000	\$ 50,000	\$ 50,000
3% District Management Fee	\$ 10,495	\$ 10,495	\$ 10,495	\$ 10,495
Legal Fees	\$ 15,000	\$ 0	\$ 0	\$ 0
Total Expenditures	\$ 535,495	\$ 382,885	\$ 460,495	\$ 260,495
Beginning Fund Balance				
	\$ 770,395	\$ 540,489	\$ 456,821	\$ 295,543
Ending Fund Balance				
	\$ 540,489	\$ 456,821	\$ 295,543	\$ 334,265

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Fund 400: Special Reserve Fund for Capital Outlay Projects (Section 11)

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 renovated Adult Education facilities in both San Jose and Campbell.

MetroED's funding options for building construction and modernization have been severely limited. As a joint powers authority, MetroED has not qualified for state building and modernization funds. For the most part, MetroED has had to generate its own funds for capital outlay internally. For 2005-06, district contributions to this fund are estimated to be \$687,212 from ROC/P and \$300,000 from Adult Education. For the budget and two subsequent years, there are no transfers, except debt service transfers in the ROC/P fund.

As noted previously, the proposed state school facilities bond, which will be considered by the voters in November, includes \$500 million for Career Technical Education facilities. Campbell Union High School District is also including \$5 million in funding for CCOC modernization in its local facilities bond, which will also be considered in November. Campbell has also included \$600,000 to help with the cost of replacing Adult Education facilities at the Del Mar Annex.

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

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The following chart summarizes the Capital Outlay Fund budget for 2006-07:

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
Revenues & Sources:			
Interest Earnings	\$ 145,000	\$ 33,000	\$ 20,000
Transfers In – Debt Service	\$ 171,600	\$ 0	\$ 0
Transfers In – Capital Outlay	\$ 0	\$ 0	\$ 0
Total Revenues & Sources	\$ 316,600	\$ 33,000	\$ 20,000
Expenditures & Uses:			
Capital Outlay Projects	\$ 469,390	\$ 0	\$ 0
Debt Service	\$ 171,600	\$ 0	\$ 0
Total Expenditures & Uses	\$ 640,990	\$ 0	\$ 0
Beginning Fund Balance	\$ 3,490,919	\$ 1,265,683	\$ 831,740
Ending Fund Balance	\$ 3,166,529	\$ 1,298,683	\$ 851,740
Components of Fund Balance:			
Cash with Fiscal Agent (QZAB)	\$ 697,865	\$ 0	\$ 0
Designated: Capital Projects	\$ 2,468,664	\$ 1,298,683	\$ 851,740