

Metropolitan Education District
Proposed Budget, Fiscal Year 2009-10
June 10, 2009

Executive Summary

Overview of the Governor's 2009-10 Budget

California is in the midst of its most serious recession since the great depression. Business closures, employee layoffs, home foreclosures and a declining stock market have resulted in an unprecedented decline in state revenues. This has been followed by an extraordinary and growing deficit in the state budget.

On February 20, 2009, Governor Schwarzenegger approved a revised budget that was designed to close a \$41.6 billion projected state budget deficit over the next 17 months. The budget made major mid-year revisions to the 2008-09 budget, and put into place the budget framework for 2009-10. The overall budget solution included \$15 billion in cuts, \$14.4 billion in temporary revenues and \$11 billion in borrowing. This budget also assumed \$5.8 billion from passage of five propositions in a May 19, 2009 special election.

2008-09 Mid-Year Budget Package

K-Adult Proposition 98 Funding: The budget package reduces current year Proposition 98 funding by more than \$6 billion through a mix of program reductions, deferrals and re-designation of funds. The mid-year program reductions total \$1.9 billion. This includes an elimination of the 0.68% COLA for 2008-09, with the balance of the cuts allocated equally to district's revenue limit and specified categorical programs. The reduction to the categorical programs was applied as a 15.38% cut to current year funding.

Categorical Program Flexibility: Categorical programs are divided into three tiers for purposes of protecting some and providing flexibility to others.

- **Tier 1:** No funding reduction, no program flexibility, and no statutory requirements are waived (with the exception of K-3 CSR penalty provisions).
- **Tier 2:** Funding reduction of 15.38% from current funding levels, no flexibility and programs are to be operated according to the current code requirements.
- **Tier 3:** Funding reduction of 15.38% from current funding levels, with maximum flexibility to use funding for any educational purpose.

All major MetroED funding sources (Adult Education, ROCP and Deferred Maintenance) are included in the Tier 3 flexibility.

Funding from federal sources is not affected by either the reductions or the flexibility provisions.

Other Flexibility Provisions:

- LEAs may access most 6/30/08 general fund categorical balances to be used for any educational purpose. This does not apply to Adult Education.
- Eliminates the .5% statutory match for deferred maintenance for current year through 2012-13.

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- For Tier 3, Education Code requirements, including the requirement to record and report attendance, are suspended until 6/30/13, but are then reinstated.

Apportionment Deferrals:

- Defers February 2009 apportionments to July 2009
- Defers July & August 2009 apportionments to October 2009

2009-10 Budget Package:

- Increases the deficit by 4.46%, bringing the total on-going cut to 19.84%
- Continues the flexibility provisions

State Budget Impacts on MetroED

Details of the impacts to the MetroED budget, both for the current Estimated Actuals, budget year and two subsequent years are reflected in this proposed Budget. Following is a summary of the current and budget year cuts, and discussion of those impacts:

Summary of State Cuts to Revenues	2008-09 Estimated	2009-2010 Budget
Cuts to General Fund Revenues	2,425,651	600,420
Cuts to Adult Education Revenues	1,299,248	574,432
Cuts to Deferred Maintenance Revenues	27,216	6,678
Total Revenue Cuts	3,752,115	1,181,530
Total On-going Cuts	3,752,115	4,933,645

For 2008-09: There are adequate reserves in both the General and Adult Education Funds to cover the mid-year cuts. Some of these reserves were generated from a series of position consolidations, department reorganizations, program reductions and some layoffs, effective 2008-09. Additionally during 2007-08, a number of expenditure budget accounts were “zeroed out,” with the funds swept into a “Reserve for State Budget Deficits.”

For 2009-10: Funding for this and the next three years will be based on a fixed grant that is about 20% less than 2007-08 funding levels. This means that funds will be received regardless of whether or not average daily attendance is generated. The solution for a 20% cut in on-going revenues is a corresponding cut in on-going expenses. Reserves can be helpful to fill some of the gaps. However, on-going structural deficits are not fiscally responsible and will ultimately precipitate a fiscal crisis for the organization. Moreover, the County Office of Education is responsible for seeing that districts maintain their fiscal health, and has the responsibility to issue either a “qualified” or “negative” certification for any budget or interim report. The flexibility portion of the budget provides some capacity to adjust programs. Consequently, staff will be proposing a series of adjustments for the next two years to eliminate the structural deficit. Included in the proposals:

General Fund Budget:

- Conversion of the CCOC Evening Program to fee-based
- Elimination of summer school programs
- Reduction of two of four hourly programs at San Jose Job Corps

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- Elimination of all cosmetology programs
- 20% reduction of Satellite ROP funding to participating districts
- Layoffs of identified support positions
- 4% salary reduction for all employees (must be negotiated)

Adult Education Budget:

- Reduction of identified class hours
- Elimination of summer school classes
- Reduction of classes with low enrollment
- Expansion of Ed2Go on-line programs (fee based)
- Conversion of some Older Adult classes to fee based
- Layoffs of identified support positions
- 4% salary reduction for all employees (must be negotiated)

Flexibility: Flexibility authority for Joint Powers Authorities (JPAs) rests with the JPA Governing Board. At a board retreat held May 9, the MetroED Governing Board reaffirmed its desire for the administration to continue to operate the organization as it has in the past. Changes to board policy should be brought to the Board for approval when the administration sees the need for a change.

Deferred Maintenance and Extreme Hardship: Deferred Maintenance (DM) will continue to be funded by the state, but after the cuts noted above. Flexibility allows the district to not fund its matching deposit to the DM Fund. However, given the increasing maintenance needs of the aging CCOC facilities, staff is recommending that the district continue to fund its full share, which is included in the budget and multi-year projections.

The state has approved an \$841,926 Deferred Maintenance Extreme Hardship project to replace deteriorating sewer lines on the CCOC campus. While funding has been approved, the funds are to be paid over a five-year period because of the state's cash flow problems. This includes a transfer of Excess Property Tax funds to the Deferred Maintenance Fund so there will be adequate funds available to commence the project this summer. This is a health and safety issue that should not be delayed. As funds are received from the state for this project, they will be transferred to the Capital Outlay Fund as District match for Proposition 1D grants.

Apportionment Deferrals: The State of California has a serious problem with its cash flow. To help solve the problem, apportionments for school districts are being "deferred." The February 2009 apportionment is deferred to July 2009. The June 2009 apportionment is deferred to July 2009, and the July/August apportionments are deferred to October 2009. MetroED has taken steps to provide 10% reserves in both its General and Adult Education Funds, which would meet the district's cash flow needs under normal circumstances. However, the extent of these deferrals is severe, and the district will need to use its Capital Outlay Proposition 1D match reserves to help cover the cash shortfalls.

The May 14, 2009 "May Revision": Since adoption of the state budget in February, state tax revenues have continued to fall below projections, creating a new state budget deficit of \$15.4 billion. California voters defeated the five propositions in the special election, thereby increasing the state budget deficit to \$21.3 billion. This bad news was followed

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almost immediately by a report from the Legislative Analyst's Office (LAO) that projected revenues were overstated by \$3 billion, bringing the total "new" deficit to \$24.3 billion.

On May 14, the Governor unveiled his May Revision of the 2009-10 state budget, which included two scenarios to address the state's projected shortfalls. Scenario #1 assumed a budget shortfall of \$15.5 billion. Scenario #2 increased the shortfall to \$21.3 billion should the five propositions be defeated. All five propositions were defeated soundly by the voters. This May Revision included reduction in Proposition 98 funding of \$1.6 billion in 2008-09 and \$4.8 billion in 2009-10. Most of these reductions are to K-12 revenue limit funding, which does not directly affect ROCP and Adult Education funding. The Revision also includes a proposal to reduce the school year by up to 7.5 days.

The May 26 Revision to the May Revision: During the week of May 18, the Governor travelled to Washington looking for federal backing for the borrowing from state Revenue Anticipation Warrants in order to help the state's cash flow problem. When the feds denied the request, the Governor replaced his borrowing proposal with additional cuts in the state budget.

The "revised" May Revision includes two recommendations that could impact MetroED. The first is a proposal to allow school districts to negotiate reductions in the school year of up to 7.5 days. Since the CCOC school calendar is designed to maximize support for MetroED's six JPA participating districts, we will have to adjust that calendar consistent with calendar changes by our districts. The second is to eliminate the state CalWORKs program. Our Adult Education program receives nearly \$1 million in annual funding from CalWORKs for counseling services and to provide a bridge program for CalWORKs students waiting to enroll in certain classes. Elimination of this funding source would cause the District to terminate these two programs.

The May Revision also contains proposals to further defer the payment of apportionments to school districts, leaving districts to rely on their own resources for cash flow.

These May Revision proposals must receive approval by the state Legislature, and it is likely that the final budget revisions will be different than those proposed by the Governor. Since the final adjustments remain unknown, we have not incorporated them in this budget proposal.

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.

For purposes of developing the MetroED budget, we have relied on the Governor's 2009-10 adopted state budget, 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:

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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, education 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.

Reserves for Cash Flow

Unlike K-12 education, ROC/P and Adult Education programs do not automatically receive state advance apportionment funding at the beginning of the fiscal year. Funds are apportioned ONLY after the state budget is signed into law. This means MetroED must rely on its reserves to cover vendor payments and employee payrolls. During 2004-05, the Governing Board established policy establishing an overall 10% reserve, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, to provide sufficient cash for vendor payments and employee wages for an approximate 60-day period. An additional strain has been put on the District's cash position because of the state apportionment deferrals.

In order to meet its cash flow needs, the district will use its 10% reserves, additional reserves that have been established to help cover the projected state budget deficits and short term borrowing from the district's Capital Outlay funds.

Reserves for PERS Recapture 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 become an on-going 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

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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 matter continues to be unresolved.

The MetroED Governing Board has recognized the potential financial liability to the District, and has directed that reserves be established for both the General and Adult Education funds. The General Fund PERS reserve is held in the District Special Reserve Fund 170 "Special Reserve." As the books are closed for 2008-09, the Adult Education reserve will also be moved to the District Special Reserve Fund 170.

Employee Salaries and Benefits

The District administration has attempted to maintain employee salaries at levels reasonably competitive with surrounding school districts, within the limitations of ROCP and Adult Education funding. The 2009-10 budget, and two projected years, include step, column and longevity salary and statutory benefit increases for district employees, plus increases in the district's contribution to employee health and welfare benefits.

In order to accommodate the magnitude of the cuts to ROCP and Adult Education funding, the budget assumes a 4% reduction in salaries for all employees. This must be negotiated with the District's three bargaining units (CTA, AFT and CSEA). It is expected that these negotiations will commence early in the new school year, and will be heavily influenced by how our JPA participating districts implement the school year reduction proposed by the Governor.

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 summarized 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 and Campbell Adult Education Programs. 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.

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. Revenues and expenses are summarized at a four-digit object code level. Comparative data is provided for the following five year period:

- 2007-08 Actuals (audited)
- 2008-09 Estimated Actuals
- 2009-10 Proposed Budget
- 2010-11 Projected
- 2011-12 Projected

The MetroED Budget Advisory Committee (BAC) reviewed the proposed budget in detail on May 26, 2009, and recommended the priorities included in the budget assumptions. Only the representatives from the district's three bargaining units (CTA, AFT and CSEA)

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voted against the priorities on the basis that the proposed 4% salary reduction must be collectively bargained, and that has not yet occurred.

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), which includes the ROP programs in the high schools of the six participating districts.

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	2009-10	2010-11	2011-12
Revenue Limit COLA	0.00%	0.90%	2.40%
Revenue Limit Reduction	(4.46%)	0.00%	0.00%
Total ROCP Revenue Limit	\$2,808.26	\$2,833.53	\$2,901.54
ADA Cap Growth	(0.55%)	0.00%	0.00%
Reserve-Economic Uncertainty	6.00%	6.00%	6.00%
General Reserve for Cash Flow	4.00%	4.00%	4.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum	\$11,737	\$12,324	\$12,940
Salary Increase COLA	(4.00%)	0.00%	0.00%
Workers Comp Rate Increase	0.00%	0.00%	0.00%
PERS Contribution Rate Increase	0.28%	0.00%	0.00%
SUI Rate Increase	0.00%	0.00%	0.00%

General expenditures for Superintendent & Central Office support have been direct-charged to the General and Adult Education Funds on a 65%-35% basis.

Fund 010 Revenues: Budgeted state revenue is reduced by \$137,057, which is due the completion of a number of SB 70 grants. SB 70 grants are a collaborative including community colleges, ROCPs and high schools for the purpose of expanding career technical education opportunities. A community college must be the fiscal agent, so most of the revenues and expenses are recorded on the community college's books. A small amount is transferred to MetroED for specific purposes.

Major adjustments to Other Local Revenues are as follows:

- \$ 95,000 from increased fees charged to adults to attend CCOC day classes
- \$188,000 from San Jose Job Corps as reimbursement for continuing duplicated Medical and Dental Assisting classes at CCOC, which will be prioritized for Job Corps students
- \$504,000 from tuition and fees from converting the CCOC evening program to a fee-based program

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- \$48,607 reduction to lottery revenue due to the decrease in the number of adults served. A contingency reserve is established in the fund balance for the possibility of loss of lottery funding, which is ADA-based
- There is no budget for Excess Property taxes, which are considered one-time money. Due to declining property values throughout the state, we are not expecting revenue from this source for the budget year.
- Transfer of apportionments from our JPA participating districts is reduced \$544,775 to reflect a state 4.46% funding reduction. This is in addition to the \$2,556,840 mid-year on-going funding reduction imposed by the state in 2008-09. Commencing 2008-09, ROCP funding is no longer based on ADA or revenue limit, it is a fixed grant amount.

Fund 010 Expenditures: During 2008-09, in response to the state budget crisis, the District froze most discretionary budgets in order to build reserves to help carry the District cover mid-year funding deficits. The 2009-10 budget continues an appropriate level of expenditures to maintain General Fund programs. Following are the major adjustments to expenses projected for the budget year:

- \$439,274 savings from salaries due to position layoffs
- \$ 96,633 savings from closure of two CCOC classes at the Job Corps Center
- \$212,816 savings from a 4% salary reduction (must be negotiated)
- \$ 75,683 savings from closure of most summer school classes
- \$ 90,000 savings from elimination of financial support for three classes at the Job Corps Center
- \$278,200 savings from phasing out contracts with four Cosmetology schools. \$160,000 has been budgeted to cover the cost of Cosmetology contracts with high school students. Once these have been completed, there will be no further support for these contracts.
- \$317,720 increase in payments to JPA participating districts to support ROP classes on the high school campuses, based on a new funding formula approved during 2008-09.

Fund 010 Other Financing Sources/Uses: Under the state flexibility program, the District is not required to provide local match for Deferred Maintenance for five years starting in 2008-09. However, the CCOC facilities are 40 years old and the maintenance needs have been increasing in a number of areas. The administration believes that it is important to keep our CCOC facilities maintained, and is recommending the District continue with our annual match. For the budget year, that amount is budgeted at \$160,000.

Fund 010 Fund Balance: For the 2008-09 Estimated Actuals, we are estimating a decline in the General Fund ending balance of \$923,768, due to the mid-year cuts in state revenues. For the budget year, the fund balance is expected to increase slightly by \$27,793. The General Reserve is maintained at the Board required 4% and the Designation for Economic Uncertainty is maintained at 6%. For cash flow purposes, and to help cover state deficits in the budget year and beyond, the District has reserved an additional \$602,822. There is also a contingency reserve of \$156,953 for the potential loss of lottery revenue.

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Fund 010 Multi-Year Projections: The following chart summarizes the high points of operations for the proposed budget and two projected years:

General Fund - Operations	2008-09 Estimated	2009-2010 Budget	2010-2011 Projected	2011-2012 Projected
Total Revenues	15,479,475	13,943,950	14,019,370	14,316,473
Total Expenditures	14,866,001	13,629,316	13,524,499	13,661,264
Net Revenues/Expenses	613,474	314,634	494,871	655,208
Other Sources (Uses)	(1,537,242)	(286,840)	(286,840)	(286,840)
Change to Fund Balance	(923,768)	27,794	208,031	368,368

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

General Fund – Fund Balance	2008-09 Estimated	2009-2010 Budget	2010-2011 Projected	2011-2012 Projected
Reserved & Designated:				
Revolving Fund, Prepaid	20,000	20,000	20,000	20,000
General Reserve (4%)	656,550	557,066	552,873	558,344
Economic Uncertainty (6%)	984,824	835,599	829,310	837,516
Contingency for State Deficits	220,493	602,822	767,162	1,067,781
Lottery Contingency	102,780	156,953	211,126	265,299
Cosmetology Contracts	160,000	0	0	0
Total Reserves	2,144,647	2,172,440	2,380,471	2,748,840
Undesignated Fund Balance	0	0	0	0
Total Fund Balance	2,144,647	2,172,440	2,380,471	2,748,840

There is no provision made for salary increases. However, the projections include salary increases for step, column and longevity advancement, increases in the district contribution to employee health and welfare benefits.

Any funds not otherwise designated in the projected years are shown as Contingency for State Deficits. If not needed for additional state cuts to our funding, these funds are available for use or designation by the Governing Board.

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. Expenditures in this fund must be for Adult Education only.

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.

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Fund 011 Budget Assumptions	2009-10	2010-11	2011-12
Revenue Limit COLA	0.00%	0.90%	2.40%
Revenue Limit Reduction	(4.46%)	0.00%	0.00%
Total Adult Ed Revenue Limit	\$2,138.62	\$2,158.62	\$2,210.62
ADA Cap Growth	0.00%	0.00%	0.00%
Reserve-Economic Uncertainty	6.00%	6.00%	6.00%
General Reserve for Cash Flow	4.00%	4.00%	4.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum	\$11,737	\$12,324	\$12,940
Salary Increase COLA	(4.00%)	0.00%	0.00%
Workers Comp Rate Increase	0.00%	0.00%	0.00%
PERS Contribution Rate Increase	0.28%	0.00%	0.00%
SUI Rate Increase	0.00%	0.00%	0.00%

General expenditures for Superintendent and Central Office support have been direct-charged to the General and Adult Education Funds on a 65%-35% basis.

Fund 110 Revenues: The Governor has proposed total elimination of the state CalWORKs program. However, until there has been a final determination of how much and where the cuts to CalWORKs will be made, we are leaving in the budget \$613,609 CalWORKs funding for site representatives and \$319,720 CalWORKs funding for the S.T.E.P.S. (formerly Bridge) programs. Should this funding be cut, corresponding positions and expense accounts funded by these funds will also need to be cut.

The budget year reflects a \$574,432 reduction in interagency services revenue because of the 4.46% state cut to Adult Education funding. This is on top of the \$1,512,675 on going cut to revenues in 2008-09.

Other Local Revenues includes \$39,000 additional revenue from a combination of fee increases, increased fee-based classes (Community Interest and Older Adult Programs) and the Ed2Go on-line program, and \$27,000 in rental fees from Job Corps rental of space on the MC Adult Ed Center.

Fund 110 Expenditures: The following expenditure accounts represent the largest reductions in order to accommodate the cuts to Adult Education funding:

- \$266,906 savings from closure of Summer School programs
- \$200,000 savings from various class closures
- \$275,194 savings from reduction of positions
- \$251,698 savings from 4% salary reductions (must be negotiated)
- \$ 90,707 savings from reduced employee benefits costs
- \$297,674 savings from non-renewal of Cosmetology school contracts

Fund 110 Other Financing Sources/Uses: During previous years, federal grants have allowed the Adult Education program 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 budgeted for the 2009-10 fiscal year and beyond. \$137,335 is budgeted for lottery revenue transfers from Campbell Union High School District. Since it is unclear as to whether MetroED will qualify for lottery funds due to flexibility, these funds

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are reserved in the fund balance until the matter can be resolved by the State Legislature.

Fund 110 Fund Balance: For the 2008-09 Estimated Actuals, we expect a decrease of \$1,079,943 to the fund balance. For the budget year, the fund balance is expected to increase by a modest \$94,063. The General Reserve is maintained at the Board required 4% and the Designation for Economic Uncertainty is maintained at 6%. For cash flow purposes, and to help cover state deficits in the budget year and beyond, the District has reserved an additional \$527,405 in Contingency for State Deficits, plus \$274,670 contingency reserve for potential loss of lottery revenue.

Fund 110 Multi-Year Projections: The following chart summarizes the high points of operations for the proposed budget and two projected years:

Adult Ed Fund - Operations	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Total Revenues	10,836,242	10,164,466	10,237,722	10,422,991
Total Expenditures	<u>11,601,520</u>	<u>10,207,738</u>	<u>10,233,248</u>	<u>10,385,584</u>
Net Revenues/Expenses	(765,278)	(43,272)	4,474	37,407
Other Sources (Uses)	(314,665)	137,335	137,335	137,335
Change to Fund Balance	(1,079,943)	94,063	141,809	174,742

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

Adult Ed Fund – Fund Balance	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Reserved & Designated:				
General Reserve (4%)	482,141	408,310	409,330	415,423
Economic Uncertainty (6%)	723,211	612,464	613,995	623,135
Contingency for State Deficits	386,100	527,405	529,328	551,503
Contingency for Lottery	137,335	274,670	412,005	549,340
Total Reserves	1,728,787	1,822,849	1,964,658	2,139,401
Undesignated Fund Balance	0	0	0	0
Total Fund Balance	1,728,787	1,822,849	1,964,658	2,139,401

There is no provision made for salary increases. However, the projections include salary increases for step, column and longevity advancement, increases in the district contribution to employee health and welfare benefits.

Grant Funding: The ability 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 or January of the current budget year. As a result, federal grants are budgeted conservatively. 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.

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Fund 140: Deferred Maintenance

Fund 140 Purpose: The Deferred Maintenance Fund is used to account separately for state apportionments and the District's match 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 at the Central County Occupational Center (CCOC) 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: The state budget reduced Deferred Maintenance Funding by 15.38% in 2008-09 and an additional 4.46% in 2009-10. Funding in the amount of \$841,926 has been approved as an extreme hardship grant for replacement of the sewer lines at CCOC. This will be apportioned in five installments over five years. The Estimated Actuals recommend a transfer of \$633,448 from general fund Excess Property Taxes to Deferred Maintenance to "front" the balance of funds needed for this project.

Fund 140 Expenditures: The following chart details the Estimated Actuals and planned expenditures, by type of project, for the proposed budget and two projected years. The sewer line replacement project is a state-approved Deferred Maintenance Extreme Hardship project. Due to cash flow problems, the state is only able to provide the funding for this project over a period of five years. Given the health and safety nature of this project, the General Fund has advanced funds from its 2008-09 Excess Property taxes to commence this project. Since Excess Property Taxes are dedicated to Proposition 1D grant match, the state extreme hardship payments will be transferred to the districts Capital Outlay Fund for Prop 1D match purposes.

Deferred Maintenance Fund	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Revenues:				
State Regular DM Funding	147,455	147,455	147,455	147,455
State Extreme Hardship Funding	168,385	168,385	168,385	168,385
District Match Contribution	176,954	160,000	160,000	160,000
District Loan/Sewer Replacement	633,448	0	0	0
Interest Income	8,000	8,000	8,000	8,000
Total Income	1,134,242	483,840	483,840	483,840

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<i>Deferred Maintenance Fund</i>	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Expenditures:				
Classroom Lighting	0	50,000	50,000	50,000
Electrical Projects	0	0	50,000	50,000
Floor Covering	0	20,000	20,000	20,000
HVAC	0	0	0	0
Painting Projects	99,046	96,540	97,409	97,409
Paving Projects	36,000	70,000	50,000	50,000
Plumbing Projects	0	20,000	20,000	20,000
Sewer Line Replacement	0	841,926	0	0
Classroom Lighting Projects	0	100,000	50,000	50,000
Roofing Projects	0	20,000	20,000	20,000
Wall Systems	0	20,000	20,000	20,000
Transfer to Capital Outlay Fund	0	168,385	168,385	168,385
Storage Container Purchases	10,000	0	0	0
Clerical Project Support	0	36,294	36,294	36,294
Total Expenditures	145,046	1,443,145	582,088	582,088
Fund Balance:				
Beginning Fund Balance	415,486	1,404,682	445,377	347,129
Ending Fund Balance	1,404,682	445,377	347,129	248,881

Fund 170: Special Reserve Fund for Other than Capital Outlay Projects

Fund 170 Purpose: The Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the accumulation of General Fund money for purposes other than capital outlay. This fund was authorized by the Governing Board in October 2006 to reserve mandated cost reimbursements pending audit by the State Controllers' Office (SCO). Additional funds from the General and Adult Education Funds have been transferred here as reserves for the PERS recapture (reduction) liability.

Fund 170 Certification: The administration is recommending a positive certification. This means that the Special Reserve Fund 170 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 170 Revenues: The Estimated Actuals anticipate a \$302,000 transfer in of the Adult Education reserve for PERS liability at year end close. The only revenues expected for the budget and subsequent years are interest earnings.

Fund 170 Expenditures: There are no expenditures expected in the budget year.

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.

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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 are budgeted at \$305,000 which includes rent from the Capitol Auto Mall LLP and interest on the fund balance.

Fund 210 Expenditures: The following chart details the planned expenditures, by type of class, for the proposed budget and three projected years:

ASSET MANAGEMENT FUND	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Revenues:				
Lease Revenue	270,000	270,000	270,000	270,000
Interest Income	20,000	18,000	20,000	22,000
Total Revenues	290,000	288,000	290,000	292,000
Expenditures:				
Culinary Arts	8,000	0	0	0
Baking and Catering	1,000	0	0	0
Prop1 D equipment Grants-Match	0	644,805	100,000	0
Health & Safety	0	50,000	50,000	50,000
3% District Management Fee	10,495	10,495	10,495	10,495
Total Expenditures	19,495	705,300	160,495	60,495
Fund Balance:				
Beginning Fund Balance	664,139	934,644	517,344	646,849
Ending Fund Balance	934,644	517,344	646,849	878,354

The \$50,000 Health & 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. Any unspent funds from this account are to revert back to the fund balance at the end of each year. The fund maintains a minimum \$250,000 reserve, which is a requirement of the Joint Powers Agreement.

Fund 350: County School Facilities Funds

Fund 350 Purpose: This fund was established in 2008-09 to account separately for apportionments from the state and expenditures related to construction and modernization projects that have been approved by the State under Proposition 1D. State funds will be released when District submits the funding request after Division of State Architect's approval.

Fund 350 Certification: The administration is recommending a positive certification. This means that the County School Facilities 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.

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Fund 350 Revenues: During 2008-09, \$269,204 was transferred in to this fund from the General Fund, which acted as fiscal agent pending approval from the County Office of Education to establish this fund. The dollars are an advance of Proposition 1D grants. During the budget year, we expect an additional advance of \$206,045 and the apportionment for two Proposition 1D projects.

Fund 350 Expenditures: Estimated expenditures are shown by project, based on the preliminary timeline for completion of each project. These represent only 50% of the cost of each project. The District's match is recorded in the Capital Outlay Fund 400.

COUNTY SCHOOL FACILITIES FUND 350	2008-09 Estimated	2009-10 Budget	2010-11 Projected	2011-12 Projected
Revenues:				
Interest Earnings	1,000	5,000	5,000	5,000
Prop 1D Grants	0	2,717,892	2,492,798	4,140,780
Prop 1D Advances	0	206,045	0	0
Prop 1D Advances (Transfer In)	269,204	0	0	0
Total Sources Available	270,204	2,928,937	2,597,798	4,145,780
Expenditures:				
Prop 1D-Equipment	0	644,805	50,000	0
Prop 1D: Bldg 300 (40360-00-01)	0	1,478,151	0	0
Prop 1D: Bldg 800 (40360-00-02)	0	0	952,534	0
Prop 1D: Bldg 200 (40360-00-03)	0	0	280,638	0
Prop 1D: Bldg 100 (40360-00-04)	0	0	0	1,404,795
Prop 1D: Bldg 100 (40360-00-05)	0	0	0	263,311
Prop 1D: Bldg 200 (40360-00-06)	0	0	1,288,476	0
Prop 1D: Bldg 600 (40360-00-07)	0	0	0	1,403,558
Prop 1D: Bldg 700 (40360-00-12)	0	0	0	919,806
Prop 1D: Bldg 300 (40360-00-13)	0	661,040	0	0
Prop 1D: Bldg 100 (40360-00-14)	0	0	0	479,605
Total Expenditures	0	2,783,996	2,571,648	4,471,075
Fund Balance:				
Beginning Fund Balance	0	270,204	414,145	341,295
Ending Fund Balance	270,204	414,145	341,295	16,000

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 ROCP and Adult Education Funds.

MetroED has received funding approval for 15 grant applications for state Proposition 1D grants, and has received funding approval for nearly \$10 million, which must be matched by the District on a dollar-for-dollar basis. This \$20 million is designated for the Central County Occupational Center to consolidate and reconfigure programs, bring the buildings into compliance with fire and ADA codes and improve classroom safety and security. It also includes funds for equipment upgrades to industry standards.

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The District is accumulating its required match in this fund primarily from Excess Property Taxes, which the Governing Board has designated for either match accumulation or repayment of Proposition 1D loans. The State Allocation Board (SAB) has approved approximately \$4 million in Proposition 1D loans that may be used for the District's project match. We expect to have accumulated our total match by the time the funds are needed, and the loans will not be necessary.

The Adult Education facilities at the San Jose Hillsdale campus are also being upgraded.

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: We are expecting interest revenue of \$120,000 for CCOC, \$5,000 for San Jose Adult and \$1,000 for San Jose Adult Education programs for the budget year. The \$168,385 Transfer In for the CCOC Resource is from the Deferred Maintenance Fund.

Fund 400 Expenditures: \$2,011,356 is budgeted for two Prop 1D building 300 projects, which are expected to commence in August, 2009. \$825,401 is budgeted for completion of Phases I and II of the San Jose MC Village project.

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
Revenues:			
Interest Earnings	120,000	5,000	1,000
Transfers In – Capital Outlay	168,385	0	0
Total Sources Available	288,385	5,000	1,000
Expenditures:			
Capital Project: Prop 1D Bldg 300	2,011,356	0	0
Capital Project: San Jose MC Village	0	825,401	0
Debt Service	20,000	0	0
Total Expenditures	2,031,356	825,401	0
Fund Balance:			
Beginning Fund Balance	7,549,490	1,092,576	151,369
Ending Fund Balance	5,806,519	272,175	152,369