

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

Superintendent's Comments

The Metropolitan Education District (MetroED) was established as a Joint Powers Authority (JPA) in 1983 by six Santa Clara County school districts. The Education District constitutes a public entity separate and apart from the school districts that are parties to the JPA. MetroED is the largest career-oriented organization in Santa Clara County comprised of high school and adult career-technical, academic and community programs, which include the Central County Occupational Center (CCOC) and the Metropolitan Adult Education Program (MAEP). These programs annually provide more than 30,000 diverse students with the skills to help them be productive, income earning and taxpaying contributors to Silicon Valley.

California State Financial Meltdown

On February 20, the Governor signed a budget for 2009-10, five months before the constitutional deadline. That budget included spending cuts and revenue increases for both the current (2008-09) and budget year (2009-10) totaling \$41.6 billion, and eliminated the largest budget gap in the state's history. This budget assumed \$5.8 billion from passage of five propositions in a May 19, 2009 special election.

As the global recession deepened, and state tax revenues continued to fall below projections, a new state budget deficit of \$15.4 billion emerged. California voters defeated the five propositions in the special election, which increased the deficit to \$21.3 billion. This bad news was followed almost immediately by a report from the Legislative Analyst's Office that projected revenues were overstated by \$3 billion, bringing the total "new" deficit to \$24.3 billion.

The failure of the state Governor and legislature to address the state's structural deficit with realistic solutions, has led to the very real possibility of the state being unable to pay its bills in a timely manner. Funding apportionments for schools have been postponed for months, some into next year, and there's talk of even more postponements.

As of the writing of these comments, the state Governor and legislature continue to struggle to find solutions for its budget and cash flow problems.

Budget Impacts on MetroED

The February budget applied disproportionate cuts to K-12 education. Regional Occupational Centers/Programs (ROC/P) were cut 15.85% for the current year and Adult Education was cut 15.38% for the current year (2008-09). An additional 4.46% was cut for the 2009-10 budget year for both programs.

In dollar terms, the state cut MetroED's funding by \$3.7 million for the current year with only four months left in the year, and nearly \$5 million per year for 2009-10 and subsequent years.

In anticipation of state budget deficits, MetroED has been building reserves. As a result, the district has been able to absorb the mid-year cuts without any major disruptions to district operations.

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The 20% in on-going cuts starting next year has created a more challenging problem; a district budget structural deficit that must be covered with on-going solutions. This proposed district budget incorporates a series of cuts to expenses and revenue enhancements to bring the budget into balance, while continuing to provide basic educational services to the students from our participating districts, community and partners.

There is considerable federal stimulus money for California education. Some of these dollars are dedicated to Special Education and some to Title I schools. MetroED does NOT qualify for either of these two funding sources. There are additional "Fiscal Stabilization Funds" that are to be used to restore cuts to education. We have been advised by nearly all of our participating districts that these funds will not be passed through to MetroED. Our participating districts are anticipating additional cuts to their revenue limit by the state, and these federal funds will likely be used to backfill those new cuts.

Potential cuts to two additional funding sources could negatively impact MetroED. To help close the "new" budget deficit, the Governor has proposed the elimination of the state CalWORKs program. This program provides nearly \$1 million per year in funding to the District's Adult Education program. Secondly, lottery revenue that has flowed to the District in the past was based on ADA generated by the District. Since ADA will no longer be reported, there is no mechanism for determining how much lottery funds would be generated for ROC/P and Adult Education programs, if any. The legislature and Governor's office are aware of this problem, and are working to find a legislative solution. This proposed budget includes a contingency reserve for the possibility of the loss of lottery revenue.

The New Categorical Landscape

In order to provide school districts with maximum flexibility relating to categorical (restricted) program funding, the state identified 39 categorical programs, including ROCP and Adult Education, as being 100% flexible until June 30, 2013. This means that funding from these programs may be used for "any educational purpose." The idea behind this was to allow school districts to move these dollars into their general funds to backfill cuts to their unrestricted funding.

ROCP and Adult Education programs are unique among these 39 programs in that their funding was based on average daily attendance (ADA). Both the funding rate and the ADA were limited, or "capped." The new flexibility funding model has suspended the requirement to generate ADA and fixed the amount of funding based on what the district received in 2007-08, less 20.31% (19.84% for Adult Education).

Put another way, ROCP and Adult Education funding will be provided as a grant, and these programs are no longer required to comply with the extensive Education Code requirements relating to these programs (although they may choose to do so).

Even though ADA reporting requirements to the state have been suspended, MetroED will continue to record ADA for purposes of internal accountability, contractual obligations and to determine if courses are meeting minimum attendance rates.

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At a planning retreat held May 9, 2009, the MetroED Governing Board stated their intent that MetroED's programs should continue to operate as they have in the past, with any adjustments to Board policy to be brought forward by the Superintendent for consideration as needed.

District Funding Priorities for 2009-10

Given the funding cuts, the District cannot continue to serve the same broad range of students that it has served in the past. However, since the District is no longer required to generate ADA, the new funding model allows the District considerable flexibility in how we prioritize the expenditures of funds. The MetroED administration is proposing budget strategies that emphasize quality and accountability. Unfortunately, the budget crisis has necessitated position layoffs totaling nearly \$1 million and anticipates an across the board 4% salary rollback (or its equivalent) during the budget year.

ROCP Priorities:

For our ROCP programs, accountability means not just the expectation that teachers provide high quality career technical education to our students; it also means prioritizing our six participating districts' high school students. This budget increases support for ROP classes on the participating district high school campuses at a higher rate than in the past. Programs supporting adult students have been closed, reduced or converted to fee-based. Adults attending day programs at CCOC will be charged a fee. Program priorities at the Central County Occupational Center (CCOC) are:

1. High school students from the participating district high schools
2. High school students from outside the MetroED service area
3. San Jose Job Corps students
4. Adult CalWORKs students
5. Adults who pay a fee

At CCOC there will be continued emphasis on the development and refinement of assessment and data-driven accountability measures to improve the quality of CCOC programs for our students. Outreach to industry sectors to expand partnerships and program relevance will continue to be emphasized.

Adult Education Priorities:

For our Adult Education programs, classes and schedules that were added in order to meet its ADA goals will be closed, such as summer school classes and support for independent cosmetology schools. Where it makes sense to do so, classes will be converted to fee-based. High impact mandated programs such as High School Diploma, GED, English as a Second Language, Adult Basic Skills, Career Technical Education and Adults with Disabilities will receive the priority budget allocations. A new emphasis will be placed on data-driven staff training and professional development in order to maximize attainment of "pay-points," the basis for federal grant funding.

Budget Advisory Committee:

At its May 26 final meeting for the year, the MetroED Budget Advisory Committee recommended approval of the district funding priorities that are shown here and included in the budget assumptions. Only representatives from the District's three bargaining units (CTA, AFT and CSEA) voted against the budget priorities, based on

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the proposal to reduce salaries 4% during the budget year, and the need to collectively bargain this item.

Facilities

Central County Occupational Center (CCOC):

The Central County Occupational Center is now 40 years old. The programs have grown haphazardly over the years and need to be consolidated and reconfigured, new instructional models need to be incorporated into the facilities and the buildings need to be modernized and brought into compliance with fire, safety and ADA codes.

A Facilities Assessment Report, completed in February 2006, estimated the minimum cost for a basic modernization at \$35 million. Original construction of the facilities was funded via Tax Override funds by the JPA's six participating districts. Under Proposition 13, this funding mechanism is no longer possible and, because the District is a Joint Powers Authority (JPA), the District does not qualify for the state facilities funding (with the exception of Proposition 1D CTE facilities modernization grants).

Deferred Maintenance:

Some years ago, MetroED was successful in passing legislation to qualify CCOC for the state deferred maintenance program. As a result, in addition to the annual apportionment of about \$160,000+, the District has received nearly \$2.5 million in deferred maintenance extreme hardship funds for new roofing, HVAC and transformer replacement at CCOC. For 2009-10, we have received funding approval for an \$841,926 Deferred Maintenance Extreme Hardship project to replace the CCOC sewer lines, which are showing considerable deterioration. Because of the state's cash flow problem, this funding will be paid to the District over a five year period. The budget anticipates a general fund transfer of funds from one-time Excess Property Taxes to "upfront" the dollars to start this project this summer. Regular deferred maintenance funding will continue to be used to maintain the facilities in accordance with the District's state approved five year Deferred Maintenance Plan.

Proposition 1D Facilities Funding:

Proposition 1D set aside \$500 million state-wide specifically for CTE facilities. MetroED has successfully completed two application cycles, 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 will be used 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.

The District is still accumulating its match from primarily Excess Property Taxes, which the Governing Board has designated for either match accumulation or repayment of Prop 1D loans. As a funding fallback, the State Allocation Board (SAB) has approved \$4.7 million in Proposition 1D loans to help the District meet its match requirement, should they be needed. Given the decline in property values in Santa Clara County, we do not anticipate additional excess property taxes beyond the current year. Moreover, the Legislative Analyst's Office has identified Excess Property Taxes to help the state close its budget deficit.

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Metropolitan Adult Education Program (MAEP) Facilities:

The MAEP program has struggled to accumulate funds to replace decaying facilities at both the DX (Del Mar) Center and Metro Center on Hillsdale Avenue.

This year MAEP used savings to partially pay for new administration offices and additional classrooms at the DX Center. Campbell Union High School District fronted the difference in cost, which MAEP is obligated to repay from Adult ED lottery revenue over a period of years.

Also this year, construction commenced for a new Metro Center Adult Ed Village at the back of the Hillsdale campus. There are not sufficient funds to complete this project, so it is being done in two phases. The first phase, which we expect will be completed in September, will be sufficient for the existing MC Adult program to completely move from the old facilities to the new facilities. Some of the old facilities will be torn down. Others will be used to house the Capitol High School Program.

Going Green Strategies:

For 2009-10, the District will continue its efforts to “go green” by evaluating and implementing energy cost containment strategies. This will include continued implementation of the 2005 energy audit conducted by PG&E, consideration of solar power generation, trash compaction and a water usage management system. This will be a multi-year effort that we expect will provide substantial energy cost savings.

Legislative Challenges

As the result of term limits, the turnover of legislators continues to challenge the knowledge base of California education. Very few of the new legislators understand the intricacies of education funding, and even fewer understand ROCPs, Career Technical Education and Adult Education. This lack of knowledge has already had devastating results for ROCP and Adult Education funding as our legislators try to deal with the state budget disaster.

Our focus for 2009-10 will be mostly defensive as we continue to educate our state legislators about CTE, ROCPs, Adult Education and JPAs. We will continue to oppose legislation that may weaken career technical and adult education, support legislation that is helpful and actively pursue the legislative agenda approved by the MetroED Governing Board.

This budget proposal contains funds to continue MetroED’s active participation in the California legislative process; through the Association of California School Administrators (ACSA), the California Association of Regional Occupational Centers and Programs (CAROCP), California Council for Adult Education (CCAEE) and through our own lobbying firm, School Services of California.

WASC Accreditation

During 2008-09, both the CCOC and MAEP programs completed their WASC self studies and were visited by the WASC review teams. Both programs received “rave reviews” from the visiting teams. We are convinced that both programs will continue to be WASC accredited.

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ROCP Funding Model

Approval of a New Funding Model:

After nearly 10 years of struggling to agree on an ROCP funding equalization plan between the JPA participating districts, the MetroED Executive Council (participating district superintendents) recommended that a new funding model for the ROCP programs be implemented for 2009-10. In March, the MetroED Governing Board approved that recommendation. The new plan was supported by all the Chief Business Officials, Superintendents and MetroED Board members, with the exception of Campbell Union High School District.

The funding model was a departure from the previous attempt to develop a consensus-based model utilizing state growth ROCP ADA to fund the equalization plan. When it became evident that there would be no growth ADA, the Executive Council requested extensive evaluations of CCOC through a Program Review Committee and Funding Review Committee.

Program Review Committee:

The Program Review Committee was composed of instructional administrators from the JPA participating districts, CCOC and MetroED, with an independent facilitator. The committee determined that the focus should be on the Center and center programs. The Committee concluded that the programs offered at CCOC were consistently of high quality and value for the high school students from the participating district high schools.

Funding Review Committee:

The Funding Review Committee was composed of the Chief Business Officials of the JPA participating districts and MetroED, with an independent facilitator. The committee determined that the old funding model was a disincentive to send students to the Center, and should be abandoned. The committee recommended that ROP ADA equalization using CAP growth should be restored when the state reinstates ROCP ADA CAP growth; convert the CCOC evening program to fee-based and redistribute that ADA to low ROP ADA programs, and; convert payment to districts for their high school ROP classes to a percentage of the MetroED ROCP revenue limit and increase that percentage to 31%. This was the plan adopted by the MetroED Governing Board.

In addition to removing the disincentive to send students to the Center, the new funding model also strengthens MetroED's support for high school ROP classes by more than \$317,000 from 2008-09, and will continue to increase as the state provides COLA adjustments to ROCP funding.

The District's Fiscal Health

The Structural Deficit:

The District responded aggressively in developing reserves in anticipation of state budget cuts to education. However, even our most conservative projections did not anticipate the severity of the current state financial meltdown. The 20% cut in on-going funding has created a structural deficit that must be met with cuts to on-going expenditures. Those adjustments are included in the proposed budget, and have eliminated deficit spending for the budget and two subsequent years.

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District Reserves:

The proposed budget continues the Board policy of a 10% reserve for economic uncertainty and cash flow. The contingency reserve for the PERS reduction liability is transferred to Special Reserve Fund 170. A new contingency reserve is added for the possibility of loss of state lottery revenue. This reserve will be released if and when the state solves the lottery issue for ROCP and Adult Education. Any remaining funds for the budget and two subsequent years are held in a Reserve for State Budget Deficits.

District Cash Flow:

The 10% reserves for cash flow will not be adequate for the District's cash flow needs this coming year as the state defers and delays funding apportionments. However, by judicious use of temporary interfund borrowing from the District's Capital Outlay and Asset Management Funds, we should have adequate cash to pay our employees and vendors.

The Uncertainty of Further State Cuts to Education Funding:

California has not yet resolved its structural deficit problem, and there is consideration of additional cuts to the 2009-10 education budget. There is the risk that these cuts could impact ROCP and Adult Education funding. However, given what we know now, and the assumptions contained in this budget, the Metropolitan Education District is financially sound.

I believe that the programs at MetroED, both ROCP and Adult Education, are THE premier programs of their type in Northern California. Our district goals and objectives are designed to maximize student outcomes. This proposed budget as presented to the Governing Board represents the best possible plan for expenditures within the resources that are available in order to accomplish these goals.

I would like to thank all the staff, and the Budget Advisory Committee, for their assistance in the development of this proposed 2009-10 budget. I would also like to thank the members of the Governing Board whose guidance provides us direction and support in the development of a fiscally and academically responsible budget.

I recommend this budget for approval by the Governing Board.

Professionally,

Paul Hay
Superintendent