Metropolitan Education District

Second Interim Financial Report

March 13, 2013

Executive Summary

The Metropolitan Education District

The Metropolitan Education District (MetroED) is a Joint Powers Authority (JPA) created under Government Code Sections 6500 in 1983 by six school districts in Santa Clara County. Its purpose is to provide and administer a regional occupational center and programs (ROCP) and adult education programs. The six districts are Campbell Union High School District, East Side Union High School District, Los Gatos-Saratoga Joint Union High School District, Milpitas Unified School District, San Jose Unified School District and Santa Clara Unified School District. Each of the six districts designates one of their elected board members to sit on the MetroED Governing Board.

Purpose of the Second Interim Report

The California Education Code 42130 requires the District to file two interim financial reports with the County Superintendent of Schools and the State Department of Education. The Second Interim Report covers the financial and budgetary status of the District for the period ending January 31. The Governing Board of the District must certify whether the District is able to meet its financial obligations for the remainder of the fiscal year and for the subsequent two fiscal years. The certification is classified as positive, qualified, or negative. A positive certification means the District will be able to meet its financial obligations for the current and two subsequent years; Qualified certification means the District may not meet its financial obligations for the current fiscal year or two subsequent fiscal years; Negative certification means the District will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal years.

Interim Reports are “snapshots” of the condition of the agency at a point in time. Multi-year projections are highly dependent upon projected state funding, which is correspondingly dependent upon the health of the state economy and tax revenue collections. Consequently, Interim Report projections are only as reliable as the projections provided us by the state, and local expenditure decisions, which are constantly changing. Because of this, the District’s financial condition and current year budget is reviewed on an on-going basis by the business and fiscal staff, with changes provided to the Governing Board for monthly approval.

State Budget Outlook – Summary

In the recent Common Message for County Offices, the Business and Administration Steering Committee (BASC) of the California County Superintendent’s Educational Association (CCSESA) wrote: *“While not yet law, it is clear that implementation of the Local Control Funding Formula (LCFF) is the Governor’s highest priority. It is critical for districts to prepare for the possible impact of this new funding formula beginning with 2013-14. This is especially important in light of the fact that most school districts will receive additional funding for the first time since 2007-08.”* The LCFF will impact the 2013-14 year and beyond, the second interim budget and multi-year projections are based upon 2012-13 funding mechanisms as advised by School Services of California. The budget outlook for California schools is positive, based upon both the School Services Dartboard and the LCFF there will be additional funding for schools in the coming years.

The major components of the LCFF include:

- Hold Harmless provision that no school will receive less total state revenue than it receives in the current year.
- Restoration of Base Revenue – a commitment to reduce deficits (over time).
- District Funding Targets – a unique funding target for every school district.
- Local Control Accountability Plans – districts will address how they will
    - Meet basic conditions for student achievement.
    - Provide benefits to low-income and English Language Learners.
    - How they implement the Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, and completion of college-preparatory and career technical education courses).

As of yet, there has been no mention of the impact on the LCFF when the temporary tax measures passed in Proposition 30 expire in the 2018/19 year.

Federal Sequestration is an ongoing concern for stable Federal funding. At MetroEd federal funding sources include the Carl Perkins grant and Workforce Investment Act (WIA) grant. In a letter to Congressional leaders Tom Torlakson wrote, *"After years of extensive state and federal budget cuts to education, these cuts will devastate communities across California…These automatic cuts will cause long-lasting and irreparable harm" (www.edbrief.com/budFin130228_sequestrationCuts.php).*

The Funding Model for ROCP and Adult Education

The proposed Governor's budget will change the funding formula for both programs. The proposal includes utilizing full flexibility (permanently) of ROCP funds and transferring responsibility for Adult Education to Community Colleges.

At present MetroED does not have a firm commitment from San Jose Unified School District (SJUSD) for either program in 2013/14 therefore the revenue and related expenditures have been removed from the multi-year projections to reflect the impact.

Apportionment Deferrals& Reserves for Cash Flow

The State of California has attempted to resolve State cash flow shortfalls through deferring funds to schools. Apportionment deferrals now extend across budget years. MetroED has taken steps to address the deferral issue by increasing the district reserve level from ten (10) percent to fifteen (15) percent at its November, 2010 meeting.

In November 2012 the passage of Proposition 30 provided some relief for school districts. The establishment of the Education Protection Account (EPA) requires that 21.2% of school district revenue limits (including property tax amounts) are deferred until June to allow the State sufficient cash for other purposes throughout the year. The EPA funds are to be paid to school districts in June. Within the Governor's January budget proposal the EPA estimate for 2012-13 was reduced from $6.92 billion to $6.699 billion. As a result, the June 2013 EPA apportionment will decrease and result in a larger P-2 apportionment payment deferred to July. Current financial projections are that the EPA deferral will be 16% of revenue in 2013/14 and distributed quarterly (4% each).

Reserves for PERS Recapture ("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 district's revenue limit apportionment. However, this one-time reduction has become an on-going part of the revenfue 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 was confusing as to whether the PERS recapture applies to ROC/Ps operating as Joint Powers Authorities (JPAs).

The MetroED Governing Board has recognized the potential liability to the District and directed that reserves be established in the Special Reserve Fund (170) for both the General and Adult Education funds. Due to the volatility of the current budget and funding formulas, the reserve for the PERS Recapture liability has been transferred to the General Fund in the multi-year projection for the 2013/14 year to offset deficit spending.

Contingency Reserves for State Deficits

In response to the state budget crisis MetroED has reserved $1,922,640 in the General Fund ending balance as "Contingency for State Deficits." The plan is for these contingency reserves to be used to supplement the District's fifteen percent reserves during the budget year and the projected two years to off-set the declining revenues from the state and projected deficit spending.

Employee Salaries and Benefits

The 2012-13 budget, and two projected years include projected step, column and longevity salary and statutory benefit increases for district employees. 5% increases in the district's contribution to employee health benefits is also budgeted. No salary increases for COLA for 2012-13 and the two subsequent years is included in the multi-year projections.

2nd Interim Budget Adjustments

There are several budget adjustments included with the second interim budget as outlined in the detail of the Monthly Budget Adjustments worksheets. Included in the adjustments are an addition to revenue in the General Fund for increased evening class fees. Additions to expenses in the general fund include revised salary and benefit calculations, and reduced insurance premiums. Other outgo and assigned reserves were adjusted to reflect the current needs of the district. The total impact of the budget adjustments is an overall savings of $826,939. Within the adult education fund an increase to anticipated revenue as well as revised salary and benefit costs and other adjustments to assigned and committed reserves were made with a net effect of $67,416. Other funds had minor adjustments as outlined in the worksheet.

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. Budget assumptions for the two projected years are based on School Services of California's (SSC) "dartboard" projections, historic spending patterns, COLA for applicable expenditure accounts, increases in salary accounts for step, column and longevity adjustments, health and welfare increases and district goals. Revenues and expenses are summarized at a four-digit object code level. The Adult Education Fund 110 is projected, in conjunction with the Governor's proposal to shift Adult Education to Community Colleges, as if the fund will be closing and fund balance exhausted. With the Federal Sequestration and Governor's proposal to shift responsibility, the Adult Education Program is especially vulnerable. A comparative worksheet that depicts the impact of the SJUSD and Adult Education shift is included for the two subsequent years.

Comparative data is provided for the following six year period:

- 2009-10 Actuals — 2010-11 Actuals
- 2011-12 Unaudited Actuals — 2012-13 Second Interim
- 2013-14 Projected — 2014-15 Projected

Budget Presentation

Presentation of the Second Interim Report includes "Budget at a Glance" that summarizes the proposed budgets for all the district's funds and "Monthly Budget Adjustments" showing all changes from the last budget update approved by the Board. The Capital Outlay Fund 400 has been divided to separately show the resources available for the Central County Occupational Center (CCOC) and the Adult Education programs for San Jose. Required state forms are provided in the sections identified in the Table of Contents.

Fund 010: General Fund (CCOC/P)

General Fund - 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.

General Fund - 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 board required 15% in reserves, and will end the year with a positive cash balance. While state revenue limit funding is now a fixed amount, MetroED continues to calculate revenue limit and ADA for internal purposes.

General Fund - Assumptions:

Fund 010 Assumptions	**2012-13**	**2013-14**	**2014-15**
Revenue Limit COLA	0.00%	0.00%	0.00%
Revenue Limit Reduction	0.00%	0.00%	0.00%
Total ROCP Revenue Limit	$2,769.96	$2,769.96	$2,769.96
Total Projected ROP ADA Cap	4,155.57	4,155.57	4,155.57
Reserve-Economic Uncertainty	10.00%	10.00%	10.00%
General Reserve for Cash Flow	5.00%	5.00%	5.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum CAP	$15,089	$15,844	$16,637
Salary Increase COLA	0.00%	0.00%	0.00%

General Fund - Revenues: General Fund - Expenditures:

See Budget Adjustments-2nd Interim Report for more detail of changes.

General Fund - Other Financing Sources/Uses:
The transfer in from Deferred Maintenance Fund in the amount of $168,385 represents the last advance payment of Deferred Maintenance Hardship Fund. The District's match for the deferred maintenance program is included for $166,466 and additional General Fund support in the amount of $67,480 is added for teacher credentialing programs. The transfers to set up the reserve in the amount of $50,000 for the mandated costs reimbursement reserve and $200,000 for Prop 1D audit reserve, which were approved by the Board as a part of the assigned fund balance in the 2011-12 Unaudited Actuals Report.

General Fund - Fund Balance: The State's habitual apportionment deferrals and the delay in approving a State budget have created a serious cash flow challenge for school districts and MetroED is no exception. The Governing Board has approved the combined reserve amount of Economic Uncertainty and General Reserve for Cash Flow from 10% to 15% in November, 2010. The Contingency for State Deficits was increased as a result of overall increase in the total revenues.

General Fund -Multi-Year Projections: The multi-year projections include zero COLAs for he projected years. There is deficit spending projected for 2012-13. However it is largely due to the expenditures of one-time nature, such as transfers out to the Capital Outlay and Deferred Maintenance Funds. There are sufficient funds in the fund balance to cover this deficit. The following chart summarizes the high points of operations for the 2nd Interim Budget and two projected years:

GENERAL FUND – OPERATIONS	**2012-13**	**2013-14**	**2014-15**
Total Revenues	14,868,742	11,921,907	11,921,291
Total Expenditures	14,669,021	12,960,964	13,123,649
Net Revenues/Expenses	199,721	(1,039,057)	(1,202,358)
Other Sources (Uses)	(308,359)	245,778	(192,335)
Change to Fund Balance	**(108,638)**	**(792,279)**	**(1,394,593)**

Through various changes to budget categories, the second interim report shows a significant reduction in projected deficit spending from the first interim budget (88%). However, the projected loss of San Jose Unified and Capital High School increase the amount of deficit spending in the two subsequent years by 26% and 85% respectively.

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

General Fund – Fund Balance	**2012-13 Budget**	**2013-14 Projected**	**2014-15 Projected**
Reserved, Restricted, & Assigned:			
Revolving Fund, Prepaid	20,000	20,000	20,000
General Reserve (5%)	757,648	657,788	666,335
Legally Restricted Balances	0	0	0
Contingency for State Deficits	1,922,640	1,428,942	8,708
Other Designated/Assigned	226,130	226,130	226,130
Total Reserved, Restricted & Assigned:	**2,926,418**	**2,332,860**	**921,173**
Economic Uncertainty (10%)	**1,515,297**	**1,315,576**	**1,332,670**
Total Fund Balance	**4,441,715**	**3,648,436**	**2,253,843**

No provisions for salary increases for COLA are included. However, provision is made for salary increases due to step, column and longevity advancement, increases in the district contribution to employee health and welfare benefits and COLA 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.

Reserves are maintained at the new minimum of 15% (10% for Economic Uncertainty, 5% General Reserve).

Contingencies for state deficits: Funds are designated (assigned) in the current and two subsequent years as contingencies for state deficits. These will be used against any unforeseen budget items of material sizes (surprises if any), possible mid-year budget cuts, and further cuts from the adoption of the 2012-13 State budget.

Fund 110: Adult Education

Adult Ed Fund - Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. Since Campbell Union High School District took back their adult education program as of July 1, 2010 and the San Jose Unified School District reduced their adult education funding by $3.5 million in December, 2010, the MAEP budget has been reduced significantly. Total Revenues for the Adult Education program have gone from $11,499,360 in 2009-10 to $3,850,175 projected for 2012-13. MetroED administers the Adult Education program for San Jose Unified School District under a Master Business Relationship Agreement. With the Governor's budget proposal to shift responsibility for Adult Education to Community Colleges, the Adult Education fund is especially vulnerable. In order to allow current students to complete their programs, the use of reserves is projected in the first year and the program completely eliminated in the second year of the multi-year projection. Expenditures have been reduced to $3,104,216 and $249,184 respectively in the two subsequent years and corresponding staff reductions are projected in the amount of $1,225,484 in the first year and an additional $2,506,353 in the second year of the multi-year projection.

Adult Ed Fund - Certification: The administration is recommending a positive certification. This means that the Adult Education Fund 110 will meet its financial obligations for the budget year and first subsequent year as we run out the reserves to continue to provide services to adults. The third year projection is that the fund will be closed and will end the year with no cash balance. The spending deficits for the current and two subsequent years are covered by the Contingency for State Deficit and the reserves. While state revenue limit funding is now a fixed amount, MetroED continues to calculate revenue limit and ADA for internal purposes.

Adult Ed Fund - Budget Assumptions:

FUND 110 ASSUMPTIONS	2012-13	2013-14	2014-15
Revenue Limit COLA	0.00%	0.00%	0.00%
Revenue Limit Reduction	0.00%	0.00%	0.00%
ADA CAP Growth	0.00%	0.00%	0.00%
Total District ADA CAP	775.19	775.19	775.19
Reserve-Economic Uncertainty	10.00%	10.00%	10.00%
General Reserve for Cash Flow	5.00%	5.00%	5.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum CAP	$15,089	$15,843	$16,635
Salary Increase COLA	0.00%	0.00%	0.00%

Adult Ed Fund - Revenues: Revenues for second interim are substantially similar to the projections at first interim with only minor adjustments. The bigger change comes in the two subsequent years as the program revenues are limited to those revenues received for specially funded programs and the credentialing program.

See Budget Adjustments, 2nd Interim Report, for detail of the adjustments.

Adult Ed Fund - Other Financing Sources/Uses: Additional General Fund support in the amount of $67,480 is included for LEA /teacher credentialing program.

Adult Ed Fund - Fund Balance:
The entire amount of fund balance is classified as “Committed.” Under the flexibility provisions of Tier III categorical programs, the adult education revenues are unrestricted. Therefore, the MetroED Board adopted a resolution on October 12, 2011 to commit the fund balance in Adult Education Fund, Fund 110, for purpose of Adult Education.

Adult Ed Fund - Multi-Year Projections:

ADULT ED FUND – OPERATIONS FUND 110	2012-13	2013-14	2014-15
Total Revenues	3,850,175	1,390,803	212,595
Total Expenditures	4,587,142	3,104,216	249,184
Net Revenues/Expenses	(736,987)	(1,713,413)	(36,589)
Other Sources (Uses)	67,480	240,890	36,589
Change to Fund Balance	(669,487)	(1,472,523)	0

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 2nd Interim Budget and two projected years. Although the entire amount is classified as “Committed Fund Balance for Adult Education Program, below is the breakdown of the committed fund balance.

Adult Ed Fund – Fund Balance Fund 110	**2012-13**	**2013-14**	**2014-15**
Reserve, Restricted, & Assigned			
Reserve for Prepaid	13,573	0	0
General Reserve (5%)	229,357	0	0
Contingency for State Deficits	770,879	0	0
Total Reserve, Restricted, & Assigned	**1,013,809**	**0**	**0**
Unassigned Economic Uncertainty (10%)	**458,714**	**0**	**0**
Total Fund Balance	**1,472,523**	**0**	**0**

There is no provision made for employee salary increases. However, the projections include salary increases for step, projected column and longevity advancement, increases in the district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts such as supplies and other operating expenses.

Reserves are maintained at 15% (10% for Economic Uncertainty and 5% General Reserve) for 2012/13 and depleted in 2013/14.

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. MetroED Adult programs have been highly successful in obtaining grant funding over the years. However, continued funding is dependent on federal and state budget priorities. Consequently, grant funds should be considered "soft money" in terms of commitments to long term expenditures.

Fund 140: Deferred Maintenance

Deferred Maintenance Fund - 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 primarily at the Central County Occupational Center (CCOC), as approved under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC). Under the state's budget flexibility provisions, the requirement for a board-approved 5-year Deferred Maintenance plan has been suspended. However, MetroED has chosen to voluntarily continue with the 5-year plan. Deferred Maintenance apportionments are considered by the state to be General Fund, unrestricted. The District has also chosen to continue to fund Deferred Maintenance as it has in the past. The Board also adopted a resolution on October 12, 2011 to commit the fund balance in the Deferred Maintenance Fund, Fund 140, for purpose of Deferred Maintenance Program.

Deferred Maintenance Fund - 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.

Deferred Maintenance Fund–Revenues/Transfers In: No changes

Deferred Maintenance Fund–Expenditures/Transfers Out: The expenditure budget is increased by an additional temporary painter position, which was needed due to the frequent move/relocation of CCOC programs caused by Prop 1D modernization.

Deferred Maintenance Fund 140	**2012-13 Budget**	**2013-14 Proposed**	**2014-15 Proposed**
Revenues & Other Sources:			
State Regular DM Funding	166,466	170,461	175,063
State Extreme Hardship Funding	168,385	0	0
District Match Contribution	166,466	170,461	175,063
Interest Income	6,735	6,896	7,082
Total Income	**508,052**	**347,818**	**357,208**
Deferred Maintenance Fund 140	**2012-13 Budget**	**2013-14 Proposed**	**2014-15 Proposed**
Uses of Funds:			
Electrical Projects	50,000	50,000	50,000
Floor Covering	55,000	60,000	60,000
HVAC (Gas line replacement)	45,000	50,000	50,000
Painting Projects	184,983	117,575	118,516
Paving Projects	84,420	0	0
Wall Systems	45,000	20,000	20,000
Plumbing Projects	19,000	50,000	50,000
Sewer Project by Hardship	25,000	0	0
Building 6 Upgrades	26,292	0	0
Building 400 Upgrade	35,954	0	0
Transfer to General Fund (Loan Repayment)	168,385	0	0
Total Expenditures and Transfer Out	**739,034**	**347,575**	**348,516**
Fund Balance:			
Beginning Fund Balance	***841,064***	***610,081***	***610,324***
Ending Fund Balance	***610,081***	***610,324***	***619,016***

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

Special Reserve Fund - Purpose: The Special Reserve Fund for Other Than Capital Outlay Projects accounts for the accumulation of General Fund money for purposes other than capital outlay. Included in this fund are reserves for future legal costs and reserves for the PERS recapture liability.

Special Reserve Fund - 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.

Special Reserve Fund - Revenues: The interest is budgeted at $5,733 and the transfer from the General Fund in the amount of $50,000 is included to establish the reserve for potential liability of the prior year collective Bargaining mandated costs reimbursements.

Special Reserve Fund - Expenditures: There are no expenditures budgeted.

Special Reserve Fund - Other Financing Sources/Uses: There are no changes for the current year. In 2013-14, it is projected to transfer the reserve set aside for PERS Recapture Liability back to General Fund (Fund 10) and Adult Education (Fund 110).

Special Reserve Fund 170	2012-13 Budget	2013-14 Proposed	2014-15 Proposed
Revenues & Transfers In:			
Revenue	5,733	4,357	1,785
Transfers In	50,000	0	0
Total Revenues	**55,733**	**4,357**	**1,785**
Expenditures & Transfers Out:			
Expenditures	0	0	0
Transfers Out	0	642,314	0
Total Expenditures	**0**	**642,314**	**0**
Change to Fund Balance	55,733	(637,957)	1,785
Fund Balance:			
Beginning Fund Balance	**766,691**	**822,424**	**184,467**
Reserved & Designated:			
Legal Reserve	189,395	134,467	135,768
Mandated Costs	633,029	50,000	50,484
Ending Fund Balance	**822,424**	**184,467**	**186,252**

Fund 210: Building Fund-Asset Management

Asset Management Fund - Purpose: This is otherwise known as the 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 Capitol 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.

Asset Management Fund - 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.

Asset Management Fund - Revenues/Transfers In: There are no changes in this area.

Asset Management Fund - Expenditures/Transfers Out: The district's 50% match requirement for several Prop. 1D equipment grants are budgeted in this fund. The CTE equipment is purchased in alignment with the renovation/upgrades of each building. Therefore, the equipment expenditures budget is reduced to match the current construction timelines.

Asset Management Fund 210	2012-13 Budget	2013-14 Projected	2014-15 Projected
Revenues:			
Lease Revenue	184,788	275,797	275,797
Interest Income	8,995	9,805	9,903
Total Revenues	**193,783**	**285,602**	**285,700**

ASSET MANAGEMENT FUND 210	**2012-13 Budget**	**2013-14 Projected**	**2014-15 Projected**
Expenditures:			
Prop 1D equipment Grants-Match	327,847	0	0
3% District Management Fee	7,202	7,202	7,202
Total Expenditures, Transfers	**335,049**	**7,202**	**7,202**
Fund Balance:			
Beginning Fund Balance	**1,147,271**	**1,006,006**	**1,284,406**
Reserved & Designated:			
Health & Safety Reserve	50,000	50,000	50,000
Prop 1D Projects Match (Equip)	0	0	,0
Reserve for County Share Rent	54,171	54,171	54,171
Minimum Required Reserve	250,000	250,000	250,000
CCOC New Programs Reserve	651,835	930,235	1,208,733
Ending Fund Balance	**1,006,006**	**1,284,406**	**1,562,904**

Any unspent funds from this account revert back to the fund balance at the end of each year. The fund maintains a minimum $250,000 reserve, as required by the Joint Powers Agreement.

Fund 350: County School Facilities Funds

County School Facilities Fund - 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 are released when the District submits the funding request after Division of State Architect's approval.

County School Facilities Fund - 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.

County School Facilities Fund - Revenues: Interest only projected interest income is budgeted for $20,895 because all Prop 1D grants have been received from the State.

County School Facilities Fund - 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 or Asset Management Fund 210.

COUNTY SCHOOL FACILITIES FUND 350	**2012-13 Budget**	**2013-14 Projected**	**2014-15 Projected**
Revenues:			
Interest Earnings	20,895	0	0
Prop 1D State Apportionments	0	0	0
Total Revenues	**20,895**	**0**	**0**

Expenditures:			
Total Expenditures	**2,829,977**	**0**	**0**
Fund Balance: ***Beginning Fund Balance***	**2,928,639**	**119,557**	**119,557**
Ending Fund Balance	**119,557**	**119,557**	**119,557**

Fund 400: Special Reserve Fund for Capital Outlay

Capital Outlay Fund - Purpose: This Capital Outlay Fund exists to provide for accumulation of monies for capital outlay purposes. The only sources of revenue for this fund are interest earnings and transfers from the ROC/P and Adult Education Funds. Amounts are appropriated for expenditures as projects are planned and executed.

The facilities on the CCOC campus are showing considerable wear as they near 43 years in age, and are in need of modernization. MetroED, as a ROCP JPA, was approved for $9,776,719 in Proposition 1D grants for equipment, facility modernization and program reconfiguration. The District has been saving for the required Proposition 1D grant matches in this fund.

Capital Outlay Fund - 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.

Capital Outlay Fund - Revenues/Transfers In: $200,000 is transferred in from the General Fund to set up the reserve for potential disallowed expenditures.

Capital Outlay Fund - Expenditures/Transfers Out: Changes in this category reflect changes to Capital Projects scheduling.

Capital Outlay Fund - Ending Fund Balance: Included in the Fund 400 fund balance for CCOC is $824,839 which is held on deposit by a trustee for repayment of a $1 million QZAB. The balance of the funds are designated for the match for Proposition 1D facility modernization grants.

SPECIAL RESERVE-CAPITAL OUTLAY PROJECTS FUND 400	**2012-13 Budget**	**2013-14 Projected**	**2014-15 Projected**
Revenues & Transfers In:			
Revenue	50,412	44,013	36,427
Transfers In	200,000	0	0
Total Revenues	**250,412**	**44,013**	**36,427**
Expenditures & Transfers Out:			
Expenditures	3,502,106	32,036	31,000
Transfers Out	0	0	0
Total Expenditures	**3,502,106**	**32,036**	**31,000**

Beginning Fund Balance	**4,222,163**	**970,469**	**982,446**
Reserved & Designated:			
Facilities Reserve-General	143,598	138,937	125,681
Facilities Reserve-Adult Ed	2,032	0	0
QZAB Reserve	824,839	843,509	862,192
Ending Fund Balance	**970,469**	**982,446**	**987,873**

Economic Factors Bearing on the Districts Future:

With the emphasis on the Local Control Funding Formula (LCFF) there is some anxiety over what funding will actually look like when the State does finally adopt a budget. Uncertainty like this has not been so prevalent since the passage of Proposition 13. As revenue limits will be replaced with a unique formula for each school district and the accountability and reporting requirements are yet to be defined, it is difficult to predict the final state of school funding far in to the future.

For the adult education programs, there is tension as to what will happen and who will be the responsible agency. The Legislative Analyst's Office (LAO) does not agree that Adult Education should be operated within the California Community College system. Adult Education has suffered greatly over the last several years as the funding stream was flexible and used in areas not serving the adult community. With the proposal to shift responsibility for Adult Education and the Federal Sequestration, which may impact WIA and Carl Perkins funding, the Adult Education program is especially volatile and is projected to close at MAEP in the next two years. The closure of the program will impact many families of our adult students and will require several reductions in staff.

With the LCFF proposal and knowing that the funding mechanisms we now know will probably terminate, the economic outlook for school districts is better than it has been in years. For the first time since 2007/08 and regardless of which funding program is reviewed (the current revenue limit or the new LCFF) they have in common additional funding for schools and that is welcome news.

To date, there has been no viable proposal for ROC/Ps regarding the new funding formula. As districts are given flexibility and local control, the vulnerability of ROC/Ps and JPAs may increase. MetroED's six participating districts have all been supportive of the student success seen through CCOC and have expressed interest in maintaining the programs. With the demands that will be made on general fund budgets as local control and accountability measures are defined, it is increasingly more important to develop a structure for funding MetroED to continue serving students in the most efficient and economical way. In a CASBO brief on the first of what will be many budget hearings, the brief indicated that many members of the committee "have worked locally or served their ROC/P programs and that there was public testimony focused on support. " We remain hopeful that our State legislators will continue to support ROC/Ps.