Metropolitan Education District
Executive Summary
2013-14 First Interim Budget Report

Presented below is a summary of the 2013-14 First Interim Budget Report which encompasses all local budget revisions. The First Interim Budget Report is a "snapshot" in time of the Districts' revenue and expenditure forecasts for the current fiscal year as well as a projection of the two subsequent fiscal years. It is a good time to adjust the budget based upon any known changes. The First Interim Budget covers the period of time from July 1 through October 31 each fiscal year.

State Budget:
As you are well aware, the State Budget enacted a new funding formula for all public schools named the Local Control Funding Formula (LCFF). The LCFF included funding that was once categorical as well as the old revenue limit funding into a "base rate" that each district is allocated. There are additional funding streams for Home-to-School Transportation, Targeted Instruction Improvement Grant, and a few other remaining categorical programs. ROC/Ps and Adult Education funding was rolled in to the base rate. The budget included a caveat that districts that had utilized a JPA for ROC/P and/or that spent funds on Adult Education are required, for 2013-14 and 2014-15 to spend the same amount in the same programs as was spent in 2012-13. This is called the Maintenance of Effort (MOE) requirement. For Metropolitan Education District, this means flat funded revenue for these two years at a lower rate than the 2007/08 school year.

Additionally, the State has offered districts funding to implement the Common Core State Standards (CCSS) and Proposition 39 Energy funding which MetroED is not eligible for as a Joint Powers Authority (JPA). The district anticipated such exclusion between the January Budget Proposal and the May Revise meaning that reserves had to be sufficiently available to meet the new State Standards and Accountability measures without any new funding. At that point, spending was reduced and purchase orders cut off in order to reserve additional funds to meet the requirements of the Common Core State Standards including the technology needs.

A staff development plan has been created for all staff that will include some of the staff development needed this year to implement the CCSS and additional reserves will be used in subsequent years to meet the needs of the teaching staff in this critical reform effort. Additionally, in January a new law comes in to effect that requires districts that spend funds for certificated staff development to also spend funds for classified staff development. Ironically enough, through the strategic planning process, staff development was identified as an area of need and plans were developed that included all staff.

For the adult education programs, the deficit spending is continuing and will be an ongoing concern until expenses and revenue are more closely aligned. The costs associated with bringing the new GED program to our campus are included with basic revenue projected to cover the programs. At this point, the revenues are not keeping up with the costs, but that would be expected with the onset of any new program.

Multi-Year Projections:

Within the multi-year projection of the General Fund (ROP), there are reserves earmarked for the PERS employer contribution increase, classroom equipment replacements, technology upgrades/replacements, district signage, wireless access points, capital projects and funds to transfer our dental and income protection accounts out of the San Jose Unified Benefit pool. The estimated costs are only estimates at this point, and will be refined as needed. This budget projects sufficient reserve increases to accommodate the needs outlined above within the General Fund (ROP). As the year progresses, changes will occur with reserve projections as well as the actual costs of these items.

The multi-year projection for the Adult Education Fund indicates that the expenditures are continuing to outpace revenue and the ending balance is projected to decline by 68% in the next two years. This is a dangerously low balance in an era of unstable funding and an area of ongoing concern.

Ending Balance/Reserves:

This budget projects that the ending balance may increase by 21% over the projected budget and 15% over the prior year ending balance. This is due mainly to the increase in revenue projected. Due to the instability of funding for ROC/Ps, and to shield our JPA members from future obligations, it is prudent to be conservative in spending and in maintaining sufficient reserves. However, there are circumstances in which spending down reserves is necessary for one-time initiatives that will have long term impact on the programs. Many of the specific designated reserves are funding needed to implement the Common Core State Standards and meet the needs of the data collection for the LCAP. Many of these are indicated on the Budget At A Glance in the General Fund include:

1. A reserve for the pending PERS employer cost increase ($200,000).
2. A reserve for replacement of classroom equipment ($150,000).
3. A reserve for technology upgrades and replacements ($150,000).
4. A reserve for District signage and wireless access ($100,000).
5. A reserve for capital projects such as restroom renovation, HVAC repair/replacement, etc. ($300,000).
6. A reserve to transfer dental and income protection benefits from SJUSD to our own policy ($200,000).

Total long term liabilities incurred are $1,893,716. Long term liabilities that could negatively impact the ending balance if required to be paid in one year are:

1. Other Post Employment Retirement Benefits (OPEB). According to the latest report, the Actuarial Present Value of Total Projected Benefits (APVTPB) for all current and former employees as of July 1, 2011 is $869,713. The current obligation is $634,724.
2. Compensated Absences. Cash value as of June 30, 2013 of accrued vacation and compensatory time that would be owed to employees is $258,992.
3. Qualified Zone Academy Bond (QZAB). The bond payable is $1,000,000.
4. The possibility of Los Gatos/Saratoga leaving the JPA, loss of revenue is projected to be $153,000 ongoing.

	Prior Year Actual	Original Budget	First Interim Budget
Beginning Balance	4,550,353	5,038,775	5,038,775
Ending Balance (Projected)	5,038,775	4,666,517	5,874,495

The ending balance for the adult education fund stabilizes in the current year, but as expenditures continue to outpace revenues in the multi-year projection the reserves become dangerously low for sustainability of the program.

	Prior Year Actual	Original Budget	First Interim Budget
Beginning Balance	2,142,010	1,562,277	1,562,277
Ending Balance (Projected)	1,562,277	1,263,836	1,338,503

Revenue:
General Fund revenues are projected to increase by 8% based upon the Maintenance of Effort enacted with the State Budget. The original budget anticipated a reduction in funding. For the General Fund (ROP) the revenues are outlined below:

	Original Budget	First Interim Budget
Federal Revenue	63,001	75,092
Other State	11,699,952	12,918,536
Other Local	2,050,010	2,018,283
Total Revenue	13,812,963	15,011,911

For the Adult Education Fund, the revenues are projected at a 2.5% increase from the originally anticipated State funding, and an increase in projected Workforce Investment Act (WIA) grant funding.

	Original Budget	First Interim Budget
Federal Revenue	275,081	456,471
Other Local	3,418,820	3,329,446
Total Revenue	3,693,901	3,785,917

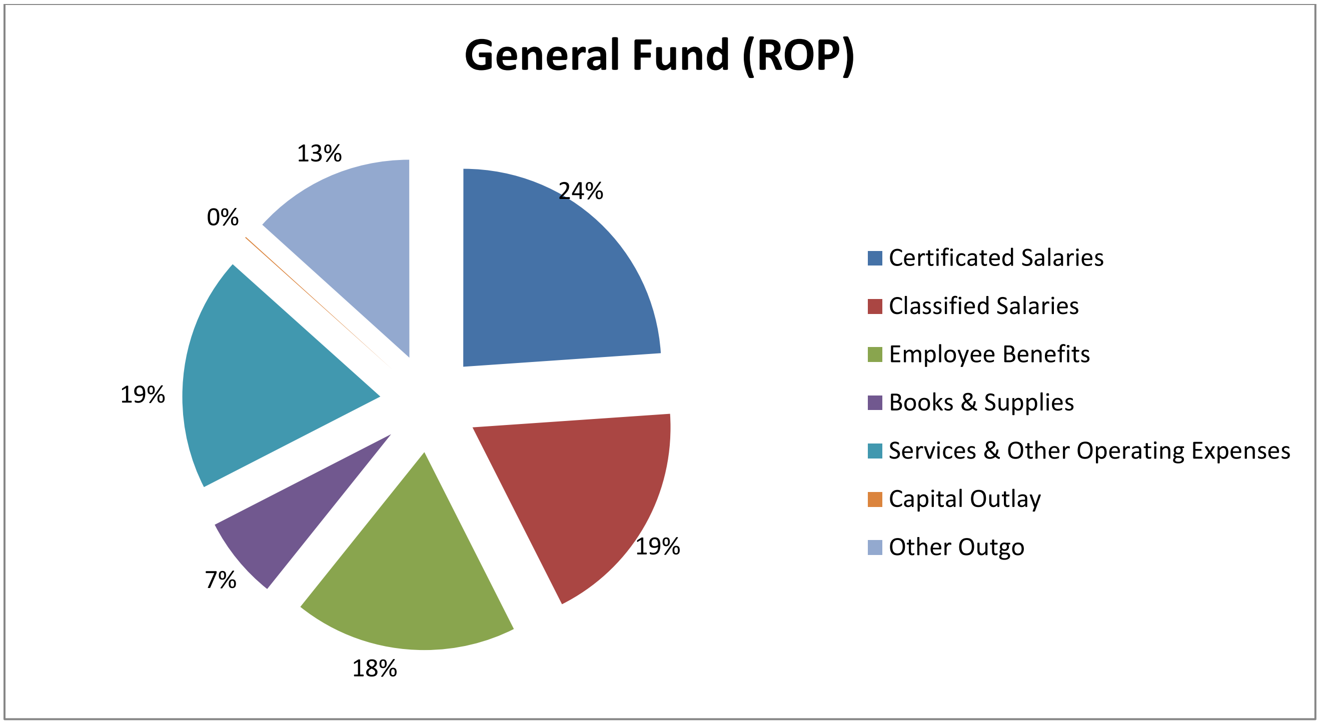
Expenditures:
Expenditures projections have not changed significantly in the General Fund (ROP) from the original budget. There are minor adjustments made to salaries and benefits due to some movement of staff and/or adjustments made as the Position Control system becomes more reliable.

	Original Budget	First Interim Budget
Certificated Salaries	3,452,154	3,485,348
Classified Salaries	2,865,097	2,714,383
Employee Benefits	2,649,778	2,653,228
Books & Supplies	953,462	978,613
Services & Other Operating Expenses	2,705,400	2,793,669
Capital Outlay	20,000	11,600
Other Outgo	1,937,482	1,937,482
Total Expenditures	14,583,373	14,574,343

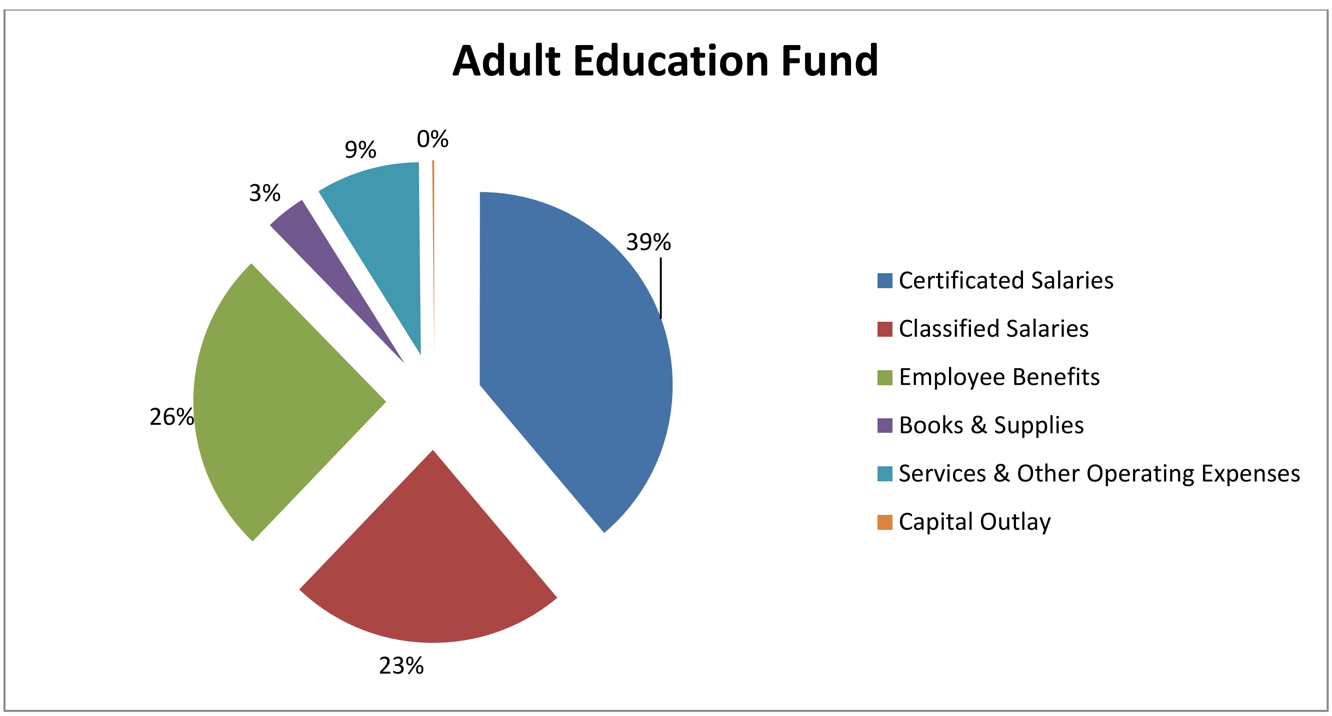
Expenditures projections have not changed significantly in the Adult Education Fund from the original budget. There are minor adjustments made to salaries and benefits due to some movement of staff and/or adjustments made as the Position Control system becomes more reliable.

	Original Budget	First Interim Budget
Certificated Salaries	1,637,548	1,655,927
Classified Salaries	1,028,577	992,650
Employee Benefits	1,071,529	1,088,412
Books & Supplies	141,481	144,470
Services & Other Operating Expenses	354,932	372,596
Capital Outlay	9,638	7,000
Other Outgo		
Total Expenditures	4,243,705	4,261,055

In the General Fund (ROP) salaries and benefits account for 61% of overall expenditures. These expenditures include the automatic 5% increase to health and welfare benefits, all step and column movement and any new professional growth stipends being paid. As we continue to refine the Position Control system we may seem some minor adjustments to be sure we are picking up all the substitute costs and stipends as part of the budget. It is natural to experience some variances as the system is being developed. Below is a graph indicating the ratio for the various expenditure object codes:



For the Adult Education Fund the salaries and benefits account for 88% of overall expenditures. This is a very high ratio which leaves little funding available to accommodate materials and technology upgrades and staff development. As mentioned earlier in this summary, the reliance on the reserves for ongoing expenditures in the Adult Education Fund is an ongoing concern.



Critical Issues:
The most critical issue facing MetroEd is stable funding. There is motivation in Sacramento to develop a funding structure for CTE programs such as ours and we are hoping to see something come out with the Governor's Budget that will help in accurately projecting the future. For Adult Education, the South Bay Adult Education Consortium is working hard to develop a collaborative structure between multiple Adult Education Programs and Community Colleges for ongoing funding and support for these programs in the region.

The potential loss of Los Gatos students in the CTE programs is more than a funding concern, the loss of opportunity for any student to participate in these meaningful programs is sad.

For Adult Education, as previously stated the reliance on reserves for ongoing expenditures is a major concern.

Summary:
The First Interim budget is an opportunity to review revenue and expenditures as of October 31each year and make adjustments as needed. The good news was that revenues increased in both major funds and expenditures were not projected to increase significantly. The down side is that we are "guessing", using the best information we have, as to what will happen in the remainder of the current year and the next two years. For MetroED, the next two years have more uncertainty than certainty and the most we could do is project for status quo and work hard to secure additional funding sources that will assist us in meeting student needs without becoming a burden to our JPA members.

Respectfully submitted,

Debbie Fry
Chief Business Officer